

# PORTUGAL

## LATEST KEY DEVELOPMENTS

AUG 2020

GPEARI

Gabinete de Planeamento, Estratégia,  
Avaliação e Relações Internacionais  
MINISTÉRIO DAS FINANÇAS

Office for Economic Policy  
and International Affairs  
MINISTRY OF FINANCE

### HIGHLIGHTS AND ECONOMIC ACTIVITY

According to [INE's quarterly national accounts](#), in the 2<sup>nd</sup> quarter of 2020, GDP registered a strong contraction of 16.3% y-o-y and 13.9% q-o-q, reflecting the COVID-19 pandemic impact, after decreases of 2.3% and 3.8% in the previous quarter, respectively. The y-o-y contraction reveals the negative contribution from domestic demand, considerably more marked than in the previous quarter (from -1.2 to -11.9p.p.), reflecting the significant contraction of Private Consumption and Investment. The contribution of net external demand was also more negative in the 2<sup>nd</sup> quarter (from -1.1 to -4.4 p.p.), driven by the more significant decrease in Exports of (-39.5%) than in Imports (-29.9%), due largely to the near interruption of non-residents tourism.

According to [INE's latest information](#), in August, the consumer confidence indicator increased, continuing the recovery started in May. By its turn, the economic climate indicator increased between May and August, after reaching the minimum value of the series in April. Confidence indicators recovered in all sectors.

### LABOUR MARKET

According to [INE's latest data](#), the **unemployment rate in June stood at 7.3%**, 1.4 p.p. above the previous month rate and 0.7 p.p. more than in June 2019. In the same period, and considering the previous month, the unemployed population has increased by 28% (more 80.7 thousand people) and the employed population has increased by 0.3% (more 13.3 thousand people). The **provisional unemployment rate estimate for July stood at 8.1%**.

### TOURISM INDUSTRY

In July, **tourism accommodation activity recorded 2.6 million overnight stays**, corresponding to a y-o-y rate of change of -68% (-85.2% in June). Overnight stays from residents decreased by 31.3%, representing 65.5% of the total, while those from non-residents declined by 84.2%. [INE's press release](#) available [here](#).

### EXTERNAL ADJUSTMENT

#### INTERNATIONAL TRADE

In June, on a y-o-y basis, **nominal exports of goods** decreased by 10.1% (-38.7% in May) while **imports of goods** decreased by 23.1% (-39.8% in May). [INE's press release](#) available [here](#).

#### BALANCE OF PAYMENTS

In 2020, from January until June, **the current and capital account balance stood at -€1985M** (a deterioration of -€323M when compared to the same period of 2019). Although, there was an improvement of both the balance of goods account and the balance of primary income account, the Balance of Services account registered a significant decline, which determined the deterioration of the current and capital account. [BdP's data](#) available [here](#).

### PRICE DEVELOPMENTS

**In August**, both the estimated **CPI annual rate** and the core inflation annual rate were estimated to be nil. By its turn, the CPI 12-month average remained at 0.1%. In the same month, the HICP annual rate of change in Portugal was -0.2% (-0.1% in July). [INE's data](#) available [here](#).

**In July**, according to [INE's data](#), the **industrial production prices** index decreased on a y-o-y basis by 5.5% (-5.7% in the previous month). Excluding energy grouping, the index decreased by 1.6% (-1.8% in June).

### BUDGETARY OUTTURN

Until the end of July of 2020, the [general government budget on a cash basis](#) registered a €8,332M deficit, more €7,853M than in the same period of 2019. This evolution is due to an increase of 5.3% in expenditure combined with the decrease of 10.5% in revenue. The **primary deficit** reached €3,454M, when compared to the same period of the last year there was a surplus of 4,865M. The budget execution already highlights the effects of the Covid-19 pandemic on the economic performance as well as the mitigation policy measures.

On the revenue side, the decrease of tax revenue (13.8%) and social contributions (1.2%) is due to the extension of payment period until sixth months, namely the PIT, VAT and CIT, which has an impact on the revenue of 672M, and to the economic slowdown.

On the **expenditure** side, the COVID-19 measures explained 63% of the increase: linked to lay-off measures (€752M) and of health related expenditure like equipment's and medication (€252M). The increase of pension expenditure (3.6%), the compensation of employees (4.3%, mainly explained by the unfreezing of career progressions and the hiring of new staff on health sector) and capital expenditure (12.6%) explained the remaining.

### TREASURY FINANCING

According to the Debt Management Agency (IGCP), the Portuguese **State direct debt** increased €4,402M vis-à-vis July, [amounting](#) to €259,501M before cambial hedging. The Treasury Bills stock decreased €826M. On the other hand, the net issuing of PGB was €5,489M. On August 26<sup>th</sup>, €450M of PGB 0.7%15Oct2027 and €800M of PGB 3.875%15Feb2030 were [auctioned](#). The yields settled in 0.095% and 0.336%, respectively. Moreover, on August 19<sup>th</sup>, €300M and €950M (competitive tranche) of 3 and 12-month T-bills at weighted average yields of -0.501% and -0.473% were [issued](#), respectively.

### GENERAL GOVERNMENT DEBT

According to [BdP](#), **general government Maastricht debt** reached €259,754M in June, i.e. less €4,625M than in the previous month. Maastricht debt **net of deposits** of the general government stood at €242,831M, which represents a monthly increase of €3,617M.