

PORTUGAL

LATEST KEY DEVELOPMENTS

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MINISTRY OF FINANCE

HIGHLIGHTS AND ECONOMIC ACTIVITY

Real GDP registered a **5.8% y-o-y decrease in the third quarter of 2020** (after decreasing 16.4% in the previous quarter), reflecting the progressive reopening of the economic activity. The evolution of GDP was mainly due to the behaviour of domestic demand, mainly reflecting the lower contraction in private consumption. The negative contribution of net external demand was less pronounced, as a result of the more significant recovery in Exports than in Imports. Comparing with the 2nd quarter, GDP grew by 13.2% in real terms. INE's release available [here](#).

According with INE, in Portugal, **the economic activity indicator, available until October, increased**, resuming the recovery profile started in July. At the same time, **the economic climate indicator continued to increase**, more moderately in the last two months. Moreover, **the Consumer confidence indicator increased**, resulting from positive contributions of all components. More information [here](#).

LABOUR MARKET

According to INE's estimate, **the unemployment rate in August stood at 8.1%**, 0.2 p.p. above the previous month rate and 1.7 p.p. more than in August 2019. In the same period, and considering the previous month, the unemployed population has increased by 2.6% (more 10.4 thousand people) and the employed population has increased by 0.5% (more 23.5 thousand people). The **provisional unemployment rate estimate for September stood at 7.7%**.

TOURISM INDUSTRY

In September, **tourism accommodation activity recorded 3.6 million overnight stays** (a y-o-y decrease of 53.4%). The average stay was 2.88 nights per guest (a decrease y-o-y of 2.7%). 24.3% of tourist accommodation establishments would have been closed or did not received guests (21.2% in August). INE's press release available [here](#).

EXTERNAL ADJUSTMENT

INTERNATIONAL TRADE

In August of 2020, nominal **exports of goods decreased 1.4% y-o-y** (-7.1% in July). By its turn, **imports decreased by 11.6% y-o-y** (-20.4% in July). INE's press release available [here](#).

BALANCE OF PAYMENTS

From January to August, in accumulative terms, **the current account (CA) balance stood at -€2,268M**, a deterioration in relation to the accumulative figure of 2019. As usual, the deficit of the CA is mainly explained by the negative balance of goods (-€7,959M) while the balance of services registered a surplus of €5,567M. At the same time, the capital account registered a positive balance of €1,381M. BdP's data available [here](#).

PRICE DEVELOPMENTS

The **provisional CPI annual rate estimate for October was -0.1%** (the same value of September). At the same time, core inflation was also -0.1%. Meanwhile, the HICP annual rate of change was -0.6% (-0.8% in September). INE's data available [here](#).

Also according to [INE's data](#), in September **the industrial production prices index decreased 4.6% y-o-y** (-5.0% in August). Excluding energy, the index decreased 1.3% (it decreased 1.5% in August).

BUDGETARY OUTTURN

Until the end of August of 2020, the **general government budget on a cash basis** registered a €5,179M deficit, which compared with a surplus of €2,588M in the same period of 2019. This evolution is due to an increase of 5.2% in expenditure combined with the decrease of 6.9% in revenue. The **primary surplus** reached €139M, when compared to the same period of the last year the surplus was €8,432M. 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 (8.2%) and social contributions (0.8%) 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 €832M, and to the economic slowdown.

On the **expenditure** side, the COVID-19 measures explained 66.9% of the increase: linked to lay-off measures (€818M) and of health related expenditure like equipment and medication (€332M). The increase of pension expenditure (3.5%), the compensation of employees (4.2%, mainly explained by the unfreezing of career progressions and the hiring of new staff on health sector) and capital expenditure (9.6%) explained the remaining.

TREASURY FINANCING

According to the Debt Management Agency (IGCP), the Portuguese **State direct debt** increased €4,402M vis-à-vis August, **amounting** to €262,912M before cambial hedging. To this result, it had contributed the increase of the PGB on €1,211M, which was partially offset by decrease of the Treasury Bills stock on €912M. On October 14th, €654M of PGB 2.125%17Oct2028 and €346M of PGB 4.1%15Apr2037 were **auctioned**. The yields settled in -0.085% and 0.472%, respectively.

GENERAL GOVERNMENT DEBT

According to [BdP](#), **general government Maastricht debt** reached €267,114M in August, i.e. more €2,444M than in the previous month. Maastricht debt **net of deposits** of the general government stood at €242,571M, which represents a monthly decrease of €2,938M.