

# PORTUGAL

## LATEST KEY DEVELOPMENTS

NOV 2020

### ECONOMIC ACTIVITY

In the third quarter of 2020, Real GDP decreased 5.7% on a y-o-y basis, after the significant contraction in the previous quarter (-16.4%). This evolution reflected the negative contribution from both domestic demand (-4pp.) and net external demand (-1.6pp.), which were less pronounced than in the previous quarter. On a quarter-on-quarter basis, real GDP grew by 13.3%. INE's release available [here](#).

The economic climate indicator decreased in November, interrupting the recovery trend observed after reaching the minimum value in April. The consumer confidence indicator also decreased in November, after remaining relatively stable in the last five months. More information [here](#).

According to INE's survey, the majority of the enterprises enquired reported a negative or very negative impact on the current evolution of turnover due to the reduction in orders/customers (59%) and the new containment measures (56%). A relevant proportion of enterprises still benefit from State support measures (between 19% and 30% of the total).

### LABOUR MARKET

According to INE's estimate, in the 3<sup>rd</sup> quarter of 2020, the unemployment rate stood at 7.8%, more 2.2 pp than in the previous quarter and an additional 1.7 pp on a y-o-y basis. Considering the previous quarter, the unemployed population has increased by 45.1% (more 125.7 thousand people), and the employed population has increased by 1.5% (68.7 thousand people).

### TOURISM INDUSTRY

In October, tourism accommodation activity recorded 2.4 million overnight stays, corresponding to a decrease of 63.0% on a y-o-y (-53.4% in September), while 29.9% of the tourist accommodation establishments were closed or had no movement of guests (24.0% in September). INE's press release available [here](#).

### EXTERNAL ADJUSTMENT

#### i. International Trade

In September of 2020, in nominal terms, exports and imports of goods decreased 0.4% and 9.9% on y-o-y basis, respectively, after a y-o-y change of -1.9% and -10.4%, in August. INE's press release available [here](#).

#### ii. Balance of Payments

From January to September, in accumulative terms, the current account (CA) balance stood at -€2,244M; a deterioration in relation to the accumulative figure of 2019. The deficit of the CA is mainly explained by the balance of goods of -8,777M (-€12,665M in the same period of 2019) while the balance of services registered a surplus of €6,300M (€14,033 in the same period of 2019). At the same time, the capital account registered a positive balance of €1,536M. BdP's data available [here](#).

### PRICE DEVELOPMENTS

The CPI annual rate in November was -0.2%, while the core inflation stood also at -0.2% (-0.1% in October). In the same period, the HICP annual rate of change was -0.4% (-0.6% in the previous month). INE's data available [here](#).

Also according to INE's data, in October the industrial production prices index decreased 4.6% y-o-y (the same variation of the previous month). Excluding energy, the index decreased 1% (-1.3% in September).

### BUDGETARY OUTTURN

Until the end of September of 2020, the general government budget on a cash basis registered a €7,197M deficit, which compared with a surplus of 999M in the same period of 2019. This evolution is due to an increase of 5.1% in expenditure combined with the decrease of 6.4% in revenue. The primary deficit reached €91M, when compared to the same period of the last year the surplus was €8,563M. 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 (7.6%) and social contributions (0.5%) 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 1508M, and to the economic slowdown.

On the expenditure side, the COVID-19 measures explained 65.4% of the increase: linked to lay-off measures (€819M) and of health related expenditure like equipments and medication (€368M). The increase of pension expenditure (3.4%), 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 (8.8%) explained the remaining.

### TREASURY FINANCING

According to the Debt Management Agency (IGCP), the Portuguese State direct debt increased €997M vis-à-vis September, amounting to €263,908M before cambial hedging. To this result, it had contributed the increase of the PGB on €1,000M. On October 14<sup>th</sup>, €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 €267,002M in September, i.e. less €112M than in the previous month. Maastricht debt net of deposits of the general government stood at €241,771M, which represents a monthly decrease of €860M.