# PORTUGAL

## LATEST KEY DEVELOPMENTS

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

Office for Economic Policy and International Affairs
MINISTRY OF FINANCE

MAR 2020

## HIGHLIGHTS

The world economy is currently experiencing a severe shock, the extent and effects of which are not yet possible to assess, as a result of the pandemic COVID-19, enacted by the World Health Organization on 11th March, which began in China in December 2019. The time lag in most indicators does not yet allow us to visualize such a shock, which however will be visible in the coming months. In this sense, and following the best practices, Portugal declared the **State of Emergency** on the 18th of March, having taken several measures in order to contain the spread of the virus.

According to INE's quarterly sectoral accounts, in 2019 general government recorded a net lending of 0.2% of GDP (€440M), the first time since democracy. The primary surplus improved by 0.3 p.p., reaching 3.2% of GDP (€6,783.2M).

## ECONOMIC ACTIVITY

The consumer confidence indicator decreased between December and March (profoundly in the last month), reaching a minimum value since December 2016 and interrupting the upward path that started in April. After stabilizing in the previous month, the economic climate indicator decreased significantly in March, retreating to a value similar to the one observed in end 2016. INE's press release available here.

## LABOUR MARKET

According to INE, in January 2020 the unemployment rate stood at 6.7% (unchanged from December). The provisional unemployment rate estimate for February 2019 was 6.5%.

## TOURISM INDUSTRY

According to the flash estimate, in February 2020, tourism accomodations should have recorded a y-o-y increase of 15.3% in overnight stays (+7.6% in January), influenced by the effect of the Carnival period and the fact that February had, this year, one more day. INE's press release available here.

## EXTERNAL ADJUSTMENT

### i. International Trade

In January 2020, exports and imports of goods recorded a nominal y-o-y growth rate of +4.2% (+5.5% in December 2019) and -1.9% (+1.7% in December 2019), respectively. INE's press release available here.

### ii. Balance of Payments

In January, the current and capital account balance stood at -€313M (-€365M in January 2019). While the capital account balance was €145M, the current account balance was -€458M. In fact, the negative balance of goods account (-€1302M) was not fully compensated by the positive balance of services account (€944M) leading to a negative current account balance. BdP's data available here.

## PRICE DEVELOPMENTS

The CPI 12-month average was estimated at 0.3% in March 2020 (the same value of February). In the same month, the CPI annual rate was 0.1% (0.3 p.p. lower than in February). The core inflation index was nil (0.1 p.p. lower than in the previous month). In March, the estimated HICP annual rate of change in Portugal was 0.1% (0.5% in February). According to INE, this information already reflects some of the impact of the current situation due to the pandemic COVID-19, but it is possible that the analysed trends will change substantially. INE's data available here.

According to INE's data, in January the industrial production prices index increased 1% y-o-y (2.3% in the previous month).

## BUDGETARY OUTTURN

In February 2020, the general government budgetary execution on a cash basis stood at a surplus of €1,273.9M, €4M higher than in the same period of 2019.This evolution is due to an increase in revenue (3.5%) in line with growth in expenditure (3.8%). The **primary surplus** reached €2,723.1M, (€2,785.6M in the same period of 2019).

The **revenue** increases is mainly explained by the economic performance as social contributions grow (7.4%), other current revenue (8.8%), due to the increase of rents paid by public services and entities by the use of public spaces, and of European Union transfers to Social Security for vocational training (8.5%). The tax revenue increases 1.3% fueled by PIT and VAT revenues.

On the **expenditure** side, the increase of pension expenditure (4.7%), and the compensation of employees growth (5.3%), were mainly explained by the unfreezing of career progressions and the hiring of new staff on health sector.

## TREASURY FINANCING

According to the Debt Management Agency (IGCP), in February the Portuguese **State direct debt** amounted to €253,452M, increasing €3,214M vis-à-vis January (+1.3%) before exchange rate hedging. The evolution is mainly explained by net issuance of PGB (€1,471M), of Treasury Bills (€1,255M) and Treasury Certificates (€402M).

In March 11th, €681M of PGB 2.875%Oct2025 and €506M of PGB 0.475%Oct2030 were auctioned. The yields settled in 0.059% and 0.426%, respectively. Moreover, on March 18th, €595M and €405M (competitive tranche) of 6 and 12-month T-bills at weighted average yields of -0.089% and -0.101% were issued, respectively.

In March (20th and 13th) DBRS and Standard & Poor's reaffirmed the **credit rating** and the outlook for Portugal (BBB (high), outlook stable and BBB and positive outlook, repectively).

## GENERAL GOVERNMENT DEBT

According to BdP, **general government Maastricht debt** reached €252,051M in January, i.e. plus €2,311M than in the previous month. Maastricht debt **net of deposits** of the general government stood at €234,704M, which represents a monthly decrease of €546M.