GPEARI
Gabinete de Planeamento, Estratégia, Avaliação e Relações Internacionais
MINISTÉRIO DAS FINANÇAS
Office for Economic Policy and International Affairs
MINISTRY OF FINANCE

PORTUGAL

LATEST KEY DEVELOPMENTS

DEC 2019

HIGHLIGHTS

On December 16th, the Government delivered to Parliament the 2020 State Budget and the Great Options of the Plan, projecting for 2020 an economic growth of 1.9%, a positive budget balance of 0.2% of GDP and a Public Debt of 116.2% of GDP.

NATIONAL ACCOUNTS

According to INE's quarterly sectoral accounts, the Portuguese economy registered a **net lending** of 0.3% of GDP in the year ending in the third quarter of 2019, (0.5% in 2nd quarter).

In the first three quarters of 2019, the **General Government balance** was 1.0% of GDP (0.4% in the same period of the previous year).

The net **lending of Households** slightly increased– from 1.1% of GDP to 1.2% of GDP; while the balance of NFCs decreased slightly from 3.1% to 3% of GDP.

ECONOMIC ACTIVITY

In Portugal, the **economic activity indicator**, available until October, and the **economic climate indicator**, already available for November, **stabilized**. The **consumer confidence indicator also stabilised** in November. More information here.

TOURISM INDUSTRY

In October, **tourism accommodation activity** recorded **6.4 million overnight stays** (a y-o-y increase of +2.1%). The average stay was 2.55 nights per guest (a decrease y-o-y of 3.2%). Moreover, **average revenue per room** grew 2.2% when compared with the same month of 2018. INE's press release available here.

EXTERNAL ADJUSTMENT

i. International Trade

In October of 2019, nominal **exports of goods increased 8.4% y-o-y** (5.4% in September). By its turn, **imports increased by 6.5% y-o-y**, after increasing 13.3% in September. INE's press release available here.

ii. Balance of Payments

From January to October, in accumulative terms, the **current account (CA)** balance stood at -€290M; an improvement in relation to the accumulative figure of September. The deficit of the CA is mainly explained by the negative balance of goods (-14,277M). Balance of services have registered a surplus of €14,606M, leading to a small trade balance surplus. At the same time, the capital account registered a positive balance of €1,397M. BdP's data available here.

PRICE DEVELOPMENTS

The CPI annual rate estimate in November was 0.3% (+0.3p.p. that in October). At the same time, core inflation stood at 0.6%. Meanwhile, th HICP annual rate of change was 0.2% (-0.1% in October). INE's data available here.

Also according to INE's data, in October **the industrial production prices index decreased 2%** y-o-y (-1.8% in September). Excluding energy, the index also decreased 0.7% (-0.6% in September).

BUDGETARY OUTTURN

In November, the **General Government budget balance on a cash basis** recorded a surplus of €546.2M, €1,131.5M over the same period of 2018. The improvement is due to an increase of 4.5% in **revenue** that more than offset the increase of 3% in **expenditure**. The **primary surplus** reached €8,304.8M, standing €890,9M higher than same period of 2019. More information here.

It was also driven by factors without impact on national accounts, namely the extension of the tax on oil and energy and tax on tobacco payment deadline to January 2nd and the regularization of the swaps' coupons payments in 2018.[1]

The revenue increase is mainly explained by the performance of the **tax revenue** (+3.5%), namely VAT, tax on oil and energy products and PIT, and **social security contributions** (+7%).

On the expenditure side, the **compensation of employee's** increased 4.7%, reflecting the salary promotion measures and the **social security pensions** increased 5.5%. Also investment increased 6.2%. On the other hand, there was a decrease in the interest and other chargers expenditure (-3%).

TREASURY FINANCING

According to IGCP, the **State direct debt** in November amounted to €246,783M, a decrease year-on-year of €580M.

This is mainly due to the reduction in the Financial an Economic Assistance Programme loans (€6,704M) as a result of the early repayment to the EFSF and IMF.

Namely, on October 17th, IGCP made a **early redemption** of €2B of the EFSF loan. This repayment refers to EFSF principal repayment obligations that were due in August and December 2025.

On November 13th, IGCP issued €970M of the PGB 1.95% 15Jun2029 at 0.333%. In the last 10y PGB issue the placement interest rate was 0,264%.

Also, on 27th November IGCP performed an exchange offer. IGCP bought €532M of the PGB 3.85%Apr2021, selling €360M of a 9y PGB at 115.8%, and €172M of a 15y PGB at 120.3%.

GENERAL GOVERNMENT DEBT

On November 22nd, Fitch Ratings placed the credit **rating** with a positive outlook for Portugal, keeping the rating in BBB.

According to BdP, the **General Government Maastricht debt** amounted to €251,376M in October, less €920M than September.

Additionally, **public debt net of general government deposits** stood at €234,245M.

[1] Base effect, influenced by the regularization in 2018, of the payments made by Metropolitano de Lisboa and by Metro do Porto related to swaps under judicial court decision.