PORTUGAL

LATEST KEY DEVELOPMENTS

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

ECONOMIC ACTIVITY

Real GDP registered a **1.9% y-o-y increase in the third quarter of 2019** (same rate as in the previous quarter). Private consumption accelerated to 2.3% and investment grew 8.8%(+2% and +10.5% in 2nd quarter, respectively) while both exports and imports of goods and services accelerated (2.6% and 5.8%, respectively). Comparing with the 2nd quarter, GDP grew by 0.3% in volume. INE's release available here.

In Portugal, **the economic activity indicator**, available until September, **decelerated.** In same month, the quantitative indicator of private consumption stabilized, and the Gross Fixed Capital Formation (GFCF) indicator decelerated. In November, the **economic climate indicator stabilized**. To this outcome, contributed the improvement in Consumer, Retail Trade and Service confidence indicators, which was offset by the less favorable behavior of confidence in Manufacturing Industry and Construction. More information here and here.

LABOUR MARKET

According to INE's estimate, **the unemployment rate in September was 6.5%,** the same value for the provisional rate for October. Furthermore, in October, the estimation for the unemployed population is 340 thousand people in a labour force of about 5,2 million people (15 to 74 years).

TOURISM INDUSTRY

In September, **tourism accommodation activity** recorded **7.6 million overnight stays** (a y-o-y increase of +3.3%). The average stay was 2.64 nights per guest (a decrease y-o-y of 1.8%). Moreover, **average revenue per room** grew 1.2% when compared with the same month of 2018. INE's press release available here.

EXTERNAL ADJUSTMENT

i. International Trade

In September of 2019, nominal **exports of goods increased 5.8% y-o-y** (-4.5% in August). By its turn, **imports increased by +13.2% y-o-y**, after decreasing 4.5% in September 2019. INE's press release available here.

ii. Balance of Payments

From January to September of 2019, in accumulative terms, the current and capital account had a financing capacity of €689M (compared with +€3,167M in the same period of 2018). This is mainly explained by the negative balance of goods (-€12,796M).while Balance of services have registered a surplus of €13,236M, leading to a small trade balance surplus. At the same time, the capital account registered a positive balance of €1,222M. BdP's data available here.

PRICE DEVELOPMENTS

The CPI annual rate estimate in November was 0.3% (+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 October, the **General Government budget balance on a cash basis** recorded a surplus of €997.5M, €726.5M over the same period of 2018. The improvement is due to an increase of 4.2% in **revenue** that more than offset the increase of 3.2% in **expenditure**. The **primary surplus** reached €8,561.6M, standing €511,9M greater 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** (+3.3%), namely VAT, tax on oil and energy products and PIT, and **social security contributions** (+7%).

On the expenditure side, the **compensation of employee's** increase 4.7%, reflecting the salary promotion measures and the **social security pensions** increase 5.4%. Also investment increase 6,7%. On the other hand, there was a decrease in the interest and other chargers expenditure (-2.8%).

TREASURY FINANCING

According to IGCP, the **State direct debt** in October amounted to €246,658M (less €164M than August). This is mainly due to the decrease in the Economic Assistance Program loan.

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 issuance the placement interest rate was 0,264%.

Also, on 27th November IGCP performed an exchange offer. It 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

According to BdP, the **General Government Maastricht debt** amounted to €252,296M in September, more €3,153M than in the end of 2018. The latest information released by Statistics Portugal estimates a public debt of 120,6% of GDP.

Additionally, **public debt net of general government deposits** stood at €232,383M, less 739M than August and €136M below the end of 2018.

On November 22nd, Fitch Ratings maintained the credit **rating** for Portugal to BBB with a positive outlook.

[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.