Highlight

In 2017, the **headline budget deficit stood at 0.9% of GDP**, lifting the net lending of the Portuguese economy to 1.4%, according to INE's press release. [1] These developments guaranteed a **structural adjustment of +1.0p.p,** in 2017.

Economic Activity

The economic climate indicator has increased in March, after three months unshaken. This positive trend was followed by the consumers' confidence indicator. INE's press release available here.

Anyhow, the economic activity indicator, available until January, decreased. Both quantitative indicator of private consumption and GFCF indicator decreased; the former due to a less intense contribution of durable and non-durable consumption and the latter reflecting a weaker contribution of the machinery, equipment and construction components. More information available here.

Tourism Industry

In January, **tourism accommodation activity** recorded **2.5 million overnight stays** (an increase y-o-y of 5.1%). The average stay also increased by 1.4% to 2.47 nights per tourist. Meanwhile, **average revenue per room** grew 11.6%, below the 18.4% recorded in December. INE's press release available here.

External Adjustment

i. International Trade

In January, nominal **exports of goods** increased 9.6% y-o-y (0.0% in December) and more than half of this increase was due to exports of Transport Equipment. Imports increased by 12.4% y-o-y, an acceleration from the -0.5% recorded in December). INE's press release available here.

ii. Balance of Payments

In January, the **current and capital account** balance stood at -€482M (-€176M in January 2017). While the capital account remained positive (€71M), the current account decreased €262M vis-à-vis January of last year. This reduction was mainly due to the deterioration of the balance of goods which decreased by €267M. On the other hand, in the same month, balance of services has improved by €84M. BdP's data available here.

Price Developments

The CPI 12-month average was 1.3% in February, the same value as in the previous month. By its turn, the **CPI annual rate** was 0.6%, down from 1.0% in January, whilst core inflation stood at 0.6% (-0.3p.p. than in the previous month).

[1] Considering state recapitalization of CGD, the headline stood at 3.0% - still below the excessive deficit procedure.

In February, the **HICP** annual rate of change in Portugal was 0.7% (1.1% in the December), a figure 0.5p.p. below the Euro Area average. INE's data available here.

According to INE's data, in February the **industrial production prices** index grew 1.4% y-o-y (1.2% in January). Excluding energy, the index registered a 1.6% growth rate (1.8% in the previous month).

Budgetary Outturn

Until February, the general government budget on a cash basis stood at a surplus of €258.2M, €231.4M higher than in the same period of 2017. This evolution is explained by higher increase in **revenue** (4.7%) than in **expenditure** (2.8%).

The revenue increase is mostly explained by fiscal revenue (7.1%), with a 4.5% increase in direct taxes and 8.6% in indirect ones, and social security contributions (5.9%). From the former, while PIT's variation of 4.0% contributed more to the increase, CIT continues to have the largest upsurge (99.0%). Nevertheless, it was the rise in VAT (5.5%) which had the greatest contribution (+2.3p.p.).

On the other hand, the growth in expenditure arises almost entirely (+2p.p.) from the upsurge in interest payments (16.8%) – *swaps* of Metropolitano de Lisboa (€269.5M) – and in EU transfers (+€70M). These are partially offset by lower compensation of employees and intermediate consumption (-1.6p.p. together).

The **primary surplus** continues to increase, reaching €1,998.5M and improving by €482.3M (31.8%) when compared to the same period of 2017.

Treasury Financing

According to the Debt Management Agency (IGCP), in February the Portuguese **State direct debt** amounted to €240,460M, increasing 0.7% vis-à-vis January before cambial hedging. This evolution is explained by the issuance of two PGB and two T-Bills amounting to €1,354M and €1,103M, respectively. In this month, the Total issuance of €4,117M was partially offset by the redemption of €2,511M.

On March 14th, another €975M were auctioned on the PGB 2.125% Oct2028 plus €275M on the PGB 4.1% Feb2045, with a yield of 1.778% and 2.8%, respectively. Moreover, a total of €1,250M in two T-bills lines were auctioned with an average yield of -0.424% (€350M) and -0.394% (€900M).

General Government Debt

According to BdP, **general government Maastricht debt** reached €243,606M in January (+€986M than in the previous month). Maastricht debt **net of deposits** of the general government stood at €223,099M which amounts to 115.6% of GDP.