

Economic Adjustment Program

The 11th review mission started on February 20th and was concluded on February 28th. The EC-ECB-IMF staff stated that “the program remains on track, as also reflected in improved market sentiment”. The joint press release is available [here](#).

Economic Activity

Official data for 2013 confirmed the ongoing recovery of economic activity.

i. Continued GDP growth

GDP increased by 0.5% in 2013Q4, having now grown for three consecutive quarters. The q-o-q performance of the Portuguese economy was better than the euro area’s (0.3% growth) and the European Union’s (0.4% growth). Compared to 2012Q4, GDP grew by 1.6%, underpinned by the upturn of domestic demand. It is the first positive y-o-y rate in three years.

In annual terms, GDP declined by 1.4% in 2013, recovering from a 3.2% fall in 2012 and exceeding previous expectations (projected decrease of 1.6% in the 10th review scenario).

Press releases from INE and Eurostat are available [here](#) and [here](#).

ii. Lower unemployment rate

The unemployment rate stood at 15.3% in 2013Q4, which represents a y-o-y decline of 1.6 p.p. and a q-o-q decline of 0.3 p.p.. The unemployment rate has thus fallen for three consecutive quarters. In 2013, the average unemployment rate was 16.3%, falling below the 10th review projection of 16.5%.

INE’s press release is available [here](#).

iii. External adjustment

According to Banco de Portugal, the Balance of Goods and Services turned positive in 2013, having registered a € 2845M surplus (following a € 148M deficit in 2012). Additionally, the Current and Capital Account surplus increased to € 4293M last year (from € 539M in 2012).

BdP’s figures are available [here](#).

Monthly Economic Indicators

Coincident indicators of economic activity and private consumption from INE and BdP continue to show a sustained rise, having recently recorded the highest values since late 2010. Additional information is available [here](#) and [here](#).

INE’s Consumer confidence indicator has just recorded the maximum value since early 2010. INE’s press release is available [here](#).

Macroeconomic Scenario

The updated macroeconomic scenario reflects an improvement in the economic outlook.

GDP growth was revised upwards. It is now projected to increase by 1.2% in 2014, compared to the 10th review estimate of 0.8%. Investment growth and export growth were also revised upwards, to 3.1% and 5.5% respectively. Furthermore, the domestic demand contribution to growth is expected to become positive.

The unemployment rate in 2014 was revised downwards to 15.7% (from 16.8% at the time of the 10th review). This figure indicates that unemployment has peaked in 2013 and begins a declining path this year.

Fiscal Adjustment

Preliminary data indicate that the 2013 budget deficit stood at around 4.5% of GDP (excluding the recapitalization of Banif), standing below previous projections and the annual Program target.

The Government reinforced its commitment to comply with the 4.0% of GDP deficit target in 2014 and to continue the fiscal consolidation effort so as to reach a deficit of 2.5% of GDP in 2015.

In January, the General Government budget balance on a cash basis according to the Program’s registered a surplus of € 638.7M, which reflects an improvement of € 509M vis-à-vis January 2013.

Financial Markets

On February 11th, IGCP issued a 10-year syndicated tap of the OT due 15 Feb 2024, raising € 3.0Bn at a yield of 5.112%. This operation follows the debt exchange offer in December 2013 and the 5-year issue in January. It also marks the beginning of prefunding for 2015. The IGCP press release is available [here](#).

On February 27th, IGCP bought back about € 1320M in debt maturing in 2014 and 2015. Two buyback auctions were held: one regarding OT 3.6% Oct 2014, the other referring to OT 3.35% Oct 2015. Additional information is available [here](#).

Structural Transformation

The 11th review represented an important landmark in the reform agenda, as the judicial reform foreseen in the Adjustment Program was deemed successfully concluded. The Government also reaffirmed its commitment to move forward with the structural transformation of the economy and to continue to monitor the impacts of the reforms already in place.