Economic Adjustment Program

The **tenth review** mission took place between the **4th and 16th of December**. Staff teams discussed recent developments in the Program's 3 pillars.

The EC, ECB and IMF concluded that **"The program remains on track, and the authorities are determined to ensure continued programme compliance"**. The joint press release is available here.

Fiscal Consolidation

The mission determined that "with tax collections performing well, the **2013 deficit target of 5.5 percent of GDP is achievable**".

The **2014 deficit target of 4.0 percent of GDP was reaffirmed**, based on the Government's commitment to implement the necessary measures underpinning the fiscal consolidation effort.

Programs for voluntary termination of public labor contracts

The **mutual agreement scheme for contract termination of low-skilled workers ended** on November 30th. A **total of 3042 applications were received**, with a minor share still pending the employer's approval and/or the employee's final decision. This process should end in December so that compensation payments occur in January.

A **second program, open for teachers** alone, was officially launched in early November. It runs **from November 15th to February 28th**.

A **third program, targeting high-skilled workers, is under preparation.** The window for applications should open in early 2014.

Financial Markets

On December 3rd, a **successful debt exchange offer** was carried out by IGCP (Debt Management Agency):

- Investors holding **€ 2.5Bn of bonds maturing in 2014 and € 4.1Bn of bonds maturing in 2015** agreed to swap them for **new bonds maturing in October 2017 and June 2018** (issued at 4.68% and 4.96%, respectively).
- As a result, **refinancing needs in 2014-2015 arising from T-Bond redemptions decreased** from € 26Bn to € 20Bn (approximately).

This operation represents **another key step towards full bond market access**. It follows the first debt exchange offer in October 2012, the 5-year bond issue in January 2013 and the 10-year bond issue in May 2013.

Quarterly National Accounts

The **second estimate for 2013Q3 confirmed GDP grew 0.2% q-o-q** and declined by 1.0% y-o-y.

GDP recovery is underpinned by stronger domestic demand (-1.5% y-o-y, after -2.9% in Q2), which results from:

- A less pronounced reduction of private consumption (-1.1% y-o-y, after -2.5% in Q2);
- A gradual recovery in investment (-3.3% y-o-y, after -5.0% in Q2).

Exports and imports of goods and services continued to grow in Q3 (+6.6% and +5.1% y-o-y, respectively), **albeit at a slower rate than in Q2** (+7.4% and +5.2% y-o-y, respectively).

INE's press release is available here.

Evolution of Employment

In the third quarter, employment grew by 1.2% q-o-q (following 0.8% in Q2). This was **the highest growth rate in the EU**, where employment remained stable for the second consecutive quarter. In y-o-y terms, employment fell by 2.4% in Portugal, confirming its ongoing recovery (following -4.0% in Q2 and -5.2% in Q1). Eurostat's press release is available here.

Monthly Economic Indicators

Both the **economic activity indicator and the economic climate indicator continued to increase** (in October and November respectively), recording their **highest values since early 2011**.

Quantitative indicators for private consumption and gross fixed capital formation improved once again in October, both sustaining a **consistent upward trend since February 2013**.

INE's press release is available here.

External Adjustment

i. International Trade of Goods

In October, **exports grew 4.2% y-o-y** (decelerating from 9.9% in September), mainly due to Intra-EU trade; **while imports increased by 3.7%** y-o-y (following 3.5% in September), essentially due to Extra-EU trade. INE's press release is available here.

ii. Balance of Payments

In October, all key balances improved in y-o-y terms. In cumulative terms, the balance of goods and services, the current account and the capital and the current account balance remain in surplus. Banco de Portugal's data is available here.

GOVERNO DE PORTUGAL | MINISTRY OF FINANCE