

Economic Adjustment Program

The formal conclusion of the joint 8th and 9th reviews allowed for the € 5.6Bn disbursement from the EU and the IMF. Official statements are available at the [EFSF](#) and [IMF](#) websites.

The 10th review will start on December 4th.

State Budget for 2014

The State Budget for 2014 was approved in Parliament on November 26th. While some amendments were made to the Government's original proposal, the key fiscal consolidation objectives for 2014 were preserved:

- General Government deficit of 4.0% of GDP;
- Majority of measures on the expenditure side.

Some of the measures for 2014 rely on separate pieces of legislation:

- The 40h work-week law entered into force on September 28th. Its constitutionality was recently confirmed by the Constitutional Court.
- The requalification law will enter into force on December 1st. The rules which had been deemed unconstitutional were revised.
- The law establishing the alignment of public pension scheme rules with general pension scheme rules was approved in Parliament. The President requested a prior review of its constitutionality.

Fiscal Adjustment

Budget execution over January-October is in line with the annual target for 2013.

The General Government budget deficit on a cash basis according to the Program's definition was € 6409.1M up to October. This figure is lower than the deficit in Jan-Oct 2012 (€ 8068.5M) and remains below the Program target for 2013Q3.

State Tax Revenue growth continues to accelerate: 8.4% y-o-y in the period January-October. This results from the recovery of all taxes, including VAT revenue (which was 0.4% higher than in Jan-Oct 2012). This outcome is not affected by revenues from the debt recovery scheme, which entered into force in November.

Public debt

General Government Gross Debt fell to 128.8% of GDP by end-September (131.4% by end-June). Maastricht Debt net of Central Government Deposits also declined in the third quarter to 117.9% of GDP (118.4% by end-June). Banco de Portugal data available [here](#).

Economic Activity

Official data for the third quarter suggest that economy activity may in fact have bottomed out in mid-2013.

GDP rose for the second consecutive quarter in 2013Q3. The 0.2% q-o-q growth rate for Q3 was higher than the euro area's (0.1%) and equal to the EU's. In y-o-y terms, GDP declined by 1.0%, continuing a gradual recovery (-2.0% in Q2; -4.1% in Q1). Eurostat flash estimate available [here](#).

The unemployment rate fell to 15.6% in 2013Q3. This represents a 0.8 p.p. decline vis-à-vis the previous quarter and a 0.2 p.p. decline vis-à-vis 2012Q3. INE press release available [here](#).

Confidence indicators (CI) maintain a steady upward trend. The consumer CI registered the highest value since October 2010. The economic climate indicator (which aggregates CI for industry, trade, construction and services) has been recovering for 11 consecutive months. INE press release available [here](#).

External Adjustment

External adjustment proceeds at a fast pace, as can be confirmed from 2013Q3 data from Banco de Portugal (available [here](#)).

Key cumulative balances up to September:

- Balance of goods and services: € 2430M.
- Current account balance: € 1016M.
- Current and capital account balance: € 3641M.

All balances have increased vis-à-vis end-June 2013 and end-September 2012. The improvement in the current account is the most impressive, given that cumulative balances for 2013Q2 and 2012Q3 were both negative (€ -142M and € -2545M, respectively).

Financial Markets

Treasury Bond yields in the secondary markets have been decreasing since mid-September. 10-year yields remain below 6% since early November.

Treasury Bill auctions have continued at a monthly frequency. On November 20th, the weighted average yields for 3-month and 12-month T-Bills issued declined with respect to previous auctions.

Portuguese Banking System

In the second quarter, the loan-to-deposit ratio decreased further to 123% and the Core Tier 1 ratio remained at 11.9%, above the minimum requirement from Banco de Portugal (10%).

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