

Economic Adjustment Program

The 12th and final EC-ECB-IMF review mission of the Economic Adjustment Program is expected to take place in April 2014.

Fiscal Adjustment

i. Excessive Deficit Procedure (first notification 2014)

The ESA95 General Government deficit was 4.9% of GDP in 2013. This represents a reduction of 1.5 percentage points vis-à-vis 2012.

According to the Program's definition, the deficit was 4.5% of GDP, as it excludes the BANIF recapitalization costs of 0.4%. The annual deficit target of 5.5% of GDP was thus met.

General Government Gross Debt stood at 129.0% of GDP at the end of 2013. It is expected to decline to 126.8% in 2014.

The main notification figures are available [here](#).

ii. Budget Outturn (January-February 2014)

The General Government budget deficit on a cash basis, according to the Program's definition, was €30.8M up to February. This figure is about €150M lower than the deficit in Jan-Feb 2013 and stands below the Program target for 2014Q1.

Cumulative State Tax Revenue (in net terms) grew by 7.2% y-o-y up to February. This performance results from the increase in direct and indirect taxes. It reflects both the ongoing recovery of economic activity and the continuous fight against fraud and tax evasion.

Cumulative Central Administration expenditure grew by 6.4% y-o-y up to February, mainly due to:

- Higher interests and other charges (mostly explained by differences in the annual profile);
- Higher transfers, namely to Social Security (as foreseen in the State Budget) and to Local Administration (given new accounting rules for municipalities' participation in PIT revenue).

Further information is available [here](#).

Financial Markets

The strategy to regain full bond market access is advancing as financing conditions to improve.

In the secondary market, Treasury Bond yields maintain a downward trend. On March 28th, the 10-year yield closed at 4.03% (the lowest value since early 2010) and the spread vs. Bund stood at 248 basis points.

T-bill auctions continue to occur on a regular basis. On March 19th, 6-month and 12-month T-bills were issued at 0.438% and 0.602% respectively (the lowest yields in recent years).

Quarterly National Accounts

i. GDP growth

GDP growth in 2013Q4 was revised upwards in INE's second estimate. The q-o-q and the y-o-y growth rates were both revised by 0.1 percentage points, to 0.6% and 1.7% respectively. Annual GDP performance remained unchanged vis-à-vis the flash estimate (1.4% decline).

The evolution of GDP components confirms that the private sector started to recover and the economy is turning to an export-oriented growth model. The contribution of domestic demand to GDP growth was -2.6 p.p. in 2013 (vs. -6.9 p.p. in 2012 and -5.5 p.p. in 2011). This is mostly explained by the recovery of private consumption and investment. While the contribution of net exports decreased to 1.2 p.p. in 2013, export growth accelerated to 6.1%.

ii. Labor Market Developments

INE's figures on the labor market are also encouraging. Besides the gradual decrease in the unemployment rate since 2013Q1, employment is also recovering. Total employment decreased by 2.8% in 2013, which compares to a 4.2% fall in 2012.

iii. External Adjustment

2013 was an important landmark in Portugal's external adjustment process:

- The External Balance of Goods and Services increased to 1.1% of GDP (compared to a deficit of 0.6% in 2012);
- Portugal registered a net lending position of 2.0% of GDP (compared to a net borrowing position of 0.1% in 2012).

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

Quarterly Sector Accounts

In 2013, all institutional sectors improved their net lending/borrowing position, except for financial corporations. In particular:

- Households improved their net lending position to 6.8% of GDP (6.4% in 2012) and their savings rate increased to 12.6% (12.0% in 2012);
- Non-financial corporations improved their net borrowing position to 2.1% of GDP (3.9% in 2012).

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

Monthly Economic Indicators

BdP's coincident indicators (available [here](#)) continued to perform well in February. The indicator for private consumption accelerated to +1.3% y-o-y (+1.0% in January), while the indicator for economic activity stabilized at +1.0% y-o-y.