

Economic Adjustment Program

On May 17th, the Government held a special cabinet meeting to mark the end of the 3-year period of the Memorandum of Understanding between Portugal and the EC, the ECB and the IMF.

Considering that the adjustment must proceed after the Program, the Council of Ministers approved the next steps in Portugal's reform agenda and presented "The Road to Growth: a Medium-Term Reform Strategy for Portugal". The document is available [here](#).

On the same day, EC Vice President Kallas reaffirmed that the European Commission "will continue to support and encourage Portugal's ongoing efforts to build a more solid economic basis for the future of its citizens". The statement by Vice President Kallas is available [here](#).

Fiscal Adjustment

The General Government budget deficit on a cash basis was €2,257.6M up to April. This figure is about €287M lower than the deficit in Jan-Apr 2013. The y-o-y correction results from a 2.3% increase in total revenue, which exceeded the 0.9% increase in total expenditure.

Cumulative State Tax Revenue (in net terms) grew by 5% y-o-y up to April. This performance results from the increase in direct taxes (8.4%) and indirect taxes (2.5%), including VAT (2.4%).

Cumulative Central Administration expenditure grew by 3.5% y-o-y up to April, mainly due to higher interests and other charges as well as higher transfers.

Further information is available [here](#).

Financial Markets

On May 9th, Moody's upgraded Portugal's government bond rating to Ba2 (from Ba3) and placed it on review for possible further upgrade. On the same day, Standard & Poor's improved Portugal's outlook from negative to stable. On May 23rd, DBRS changed Portugal's trend from negative to stable, while maintaining the rating unchanged.

As rating agencies acknowledge Portugal's gradual return to full bond market access, the Treasury's financing conditions in secondary markets continue to improve. On May 29th, the 2-year, 5-year and 10-year Treasury bond yields closed at 1.07%, 2.54% and 3.59%, respectively. For the same maturities, spreads vs. German bonds stood at 101 b.p., 212 b.p. and 224 b.p., respectively.

Economic activity

Official data for the first quarter of 2014 indicate that the economy continues to recover gradually.

i. GDP performance

GDP grew 1.2% y-o-y in 2014Q1 (+1.5% in 2013Q4), which is in line with the estimate for annual growth presented in the Fiscal Strategy Document. It is also the first time since 2010 that GDP grows for two consecutive quarters in year-on-year terms. Compared to the previous quarter, GDP declined by 0.7% in 2014Q1 (+0.5% in 2013Q4).

Performance in Q1 was negatively affected by several one-off factors, which have already started to reverse in early Q2:

- The temporary closing of the car factory Autoeuropa and of the Galp refinery, thereby leading exports to grow below potential;
- The delay to Q2 of the positive impact of Easter holidays in sales and tourism, whereas in 2013 these effects occurred in Q1;
- The effect of adverse weather conditions in early 2014, namely affecting construction, agriculture, fishing and exports altogether given operational difficulties in port activity.

Considering year-on-year growth, Portuguese GDP performed better than euro area average (+0.9%) and worse than European Union average (+1.4%).

INE's and Eurostat's flash estimates are available [here](#) and [here](#).

ii. Labor market developments

The unemployment rate decreased for the fourth consecutive quarter, standing at 15.1% in 2014Q1. This value is also 2.4 p.p. below the peak registered one year earlier (17.5% rate in 2013Q1). In addition, unemployed population decreased by 15.0% y-o-y, while employed population grew 1.7% y-o-y.

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

iii. Monthly economic indicators

The Industrial Production Index increased by 4.1% y-o-y in April, which is a significant improvement vis-à-vis the 0.5% decline in March. Only Energy Products registered a negative performance. INE's press release is available [here](#).

Both the Consumer Confidence Indicator and the Economic Climate Indicator continued to improve in May, thereby confirming the consistent recovery trend in place since early 2013. INE's press release is available [here](#).