

## Fiscal Adjustment

### i. Excessive Deficit Procedure (EDP) - first notification of 2015

The 2014 General Government deficit stood at 4.5% of GDP (€ 7.882bn), falling below the 2013 General Government deficit of 4.8% of GDP (€ 8.181bn).

Excluding one-off operations, the 2014 General Government deficit stood at 3.4% of GDP (which compares with 5.1% of GDP in 2013). This represents the actual starting point for adjustment in 2015, and falls below the estimate considered in the 2015 State Budget by 0.3 p.p..

Portugal recorded a primary surplus for the second consecutive year. Following the 0.1% of GDP surplus observed in 2013, the primary balance increased to 0.4% of GDP in 2014 (around € 758m).

General Government Gross Debt stood at 130.2% of GDP at the end of 2014 (129.7% of GDP in 2013). The debt-to-GDP ratio is expected to decline in 2015, to 125.4% of GDP by end-year.

The notification is available [here](#).

The ratios expressed as percentage of GDP in the notification incorporate INE's final results for the 2012 Annual National Accounts (which are available [here](#)).

### ii. Budget Outturn (January-February 2015)

Up to February, the General Government (GG) deficit on a cash basis stood at € 240m. The primary balance recorded an overall surplus of € 930m, increasing by € 240m compared to the previous month.

Adjusting the GG perimeter for comparability, Central Government expenditure grew by 6.1% in y-o-y terms, mainly due to investment expenditure (given the PPP payments' calendar) and interest charges (which are highly concentrated in February).

State tax revenue (in net terms) up to February increased by 2.1% in y-o-y terms. Both PIT and CIT revenue decreased, albeit at a slower pace than recorded in January. VAT revenue grew by 7.8%, reflecting the continued economic recovery and increased effectiveness of new measures against tax fraud and evasion.

Social Security recorded a surplus of € 382m. Compared to January-February 2014, the balance improved by € 287m, underpinned by higher revenue and lower expenditure. In particular, social contributions grew by 2.5% and expenditure with unemployment benefits decreased by 22.5%.

## Quarterly Sector Accounts

In 2014, the Portuguese economy registered a net lending position of 1.9% of GDP. The positive performance recorded through this indicator since late 2012 contrasts with a history of consecutive net borrowing positions.

Households (and non-profit institutions serving households) and Non-financial corporations also recorded a net lending position in 2014, albeit of a smaller magnitude than in 2013.

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

## Monthly Indicators

In March, the consumers' confidence indicator reached the highest value since April 2002, continuing the upward trend initiated in early 2013.

The confidence indicator for manufacturing industry also increased, reaching the highest value since May 2008. This performance contributed to the improvement recorded in the economic climate indicator (which aggregates confidence indicators for manufacturing industry, construction and public works, trade and services).

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

## Labor Market Developments

According to INE's monthly and seasonally adjusted figures for those aged 15-74 (available [here](#)), in February 2015:

- The unemployment rate was estimated at 14.1%, reflecting a monthly increase (0.3 p.p.) and a y-o-y decrease (-0.8 p.p.);
- The employment rate was estimated at 56.1%, deteriorating in monthly terms (-0.2 p.p.) but comparing favorably in y-o-y terms (+0.4 p.p.).

## IMF early repayment

Portugal initiated the early repayment of part of its IMF loan facility. A total tranche of SDR 5.108 bn was repaid over three dates (March 13<sup>th</sup>, 16<sup>th</sup> and 18<sup>th</sup>), discharging all scheduled IMF principal repayment obligations that were originally to fall due from November 2015 to October 2017. This first tranche represents 22% of Portugal's SDR 22.942 bn IMF loan facility, associated to the 2011-2014 Economic Adjustment Program.

## Financial Markets

On March 20<sup>th</sup>, Standard & Poor's improved Portugal's outlook to positive from stable, while maintaining the rating unchanged. On March 27<sup>th</sup>, Fitch affirmed Portugal's rating and confirmed a positive outlook.