

Fiscal Adjustment

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

For 2015, the Government maintains its firm commitment to respect this year's deadline for Portugal to exit the EDP and to place the debt-to-GDP ratio on a downward trajectory. In the required biannual notification to Eurostat:

- The deficit target for this year is reaffirmed at 2.7% of GDP.
- General Government Gross Debt is expected to reach 125.2% of GDP by end-2015 (down from 130.2% by end-2014). The revision vis-à-vis the Stability Programme's projection is entirely explained by the need to reflect the statistical authorities' recent decision to change the treatment of cash-collateral resulting from derivatives' contracts.

Regarding previous years, the statistical authorities carried out several adjustments. In particular, the impact of the capitalization of Novo Banco by the Resolution Fund was now included in the 2014 deficit, which was revised to 7.2% of GDP. Excluding this one-off impact, the 2014 deficit is 4.4% of GDP.

The EDP notification is available [here](#).

ii. Budget Outturn - national accounts basis (H1)

The General Government deficit for the first semester of 2015 stood at 4.7% of GDP, down from 6.2% in the first semester of 2014. This intra-annual profile is in line with the Government's projections.

Further information is available [here](#).

iii. Budget Outturn - cash basis (January-August)

Up to August, the primary budget surplus reached € 1334m, improving significantly in year-on-year terms. The General Government overall deficit stood at € 3957m, decreasing by € 703m vis-à-vis the same period in 2014.

State tax revenue (in net terms) increased by 5.5% y-o-y, above the 5.1% growth foreseen in the State Budget for 2015 as a whole. Both direct and indirect taxes contributed to this result, having increased by 3.2% and 7.4% y-o-y, respectively. PIT revenue continues in line with 2014 (-0.1%), CIT revenue grew substantially (+12.4%) and VAT revenue accelerated further (+8.9%). This performance is supported by the economic recovery and by the successful implementation of measures against tax fraud and evasion.

Adjusting the GG perimeter for comparability, Central Government expenditure increased by 2.1% y-o-y, namely reflecting higher investment expenditure and interest payments.

Further information is available [here](#).

Quarterly Sector Accounts

In the year ending in the second quarter of 2015:

- The net lending position of the Portuguese economy stood at 1.3% of GDP, down from 1.9% of GDP in the year ending in 2015Q1;
- The balance of good and services remained in surplus, at 0.4% of GDP, but deteriorated by 0.2 p.p. vis-à-vis the previous quarter (although exports continue to increase, imports grew at a faster pace in tandem with the recovery of domestic demand);
- The net lending position of Non-Financial Corporations remained stable at 0.5% of GDP, if the one-off impact of General Government funding to public transportation companies in 2014Q2 is excluded;
- Households (and non-profit institutions serving households) recorded a net lending position of 2.1% of GDP (down from 2.7% of GDP in the year ending in 2015Q1) and a further decline in their savings rate (to 5.0% of disposable income).

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

Financial Markets

i. Debt Issuance

On September 2nd, the Republic of Portugal performed a € 3bn syndicated issue of its new 7-year benchmark. This is the third new benchmark line of 2015, after the issue of new 10-year and 30-year bonds in January. IGCP's press release is available [here](#).

T-bill issuance continues to occur on a regular basis. The most recent auctions were held on September 16th, for lines maturing in 6 months and 12 months. Additional information is available [here](#).

ii. Rating Evaluation

On September 18th, Standard & Poor's raised the long-term sovereign credit rating on the Republic of Portugal to BB+ (from BB) and assigned a stable outlook.

On September 25th, Fitch Ratings affirmed Portugal's long-term notation at BB+ and stated the outlook is positive.

Banking System

On September 15th, Banco de Portugal announced its decision to interrupt the process of selling the Resolution Fund's participation in Novo Banco.

Banco de Portugal's press release is available [here](#) (in Portuguese only).

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