Economic Activity

In the 2nd quarter of 2015, GDP grew by 1.5% year on year and 0.4% quarter on quarter, maintaining the pace recorded in 2015Q1. Performance remains **in line with the Government's projection for annual growth** in 2015 (+1.6%).

Year on year growth was underpinned by a strong contribution from domestic demand (+3.4 p.p.), as the contribution from net exports was negative (-1.9 p.p.). **Private Consumption growth accelerated** to +3.3%. **Gross Fixed Capital Formation grew for the fifth consecutive quarter** (+3.9%), but decelerated vis-à-vis 2015Q1. **Stock accumulation was significant** and contributed to total Investment growth (+7.0%). While **export growth was stronger than in the first quarter** (+7.8%, from +6.6% in Q1), **import growth also accelerated** (to +12.3%, from +7.1% in Q1).

These figures are **in line with the Q2 flash estimate released on August 14th**, alongside initial projections for most EU countries. **Euro area GDP growth accelerated to 1.2% y-o-y in Q2**, while EU GDP rose by 1.6%. **In q-o-q terms,** GDP increased by **0.3% in the euro area** and by **0.4% in the EU**.

INE's press release is available here. Eurostat's flash estimate is available here.

Labor market developments

The **unemployment rate** stood at **11.9% in the 2nd quarter** of 2015, **declining both year on year** (-2.0 p.p.) **and quarter on quarter** (-1.8 p.p.). The unemployment rate has fallen **sharply compared to the 17.5% peak recorded in 2013Q1**, and **is now below the 12.1% level observed in 2011Q2**, at the onset of the EU-IMF Adjustment Program.

From the 1st to the 2nd quarter of 2015:

- **Unemployed population decreased** by 93 thousand people;
- **Employed population increased** by 104 thousand people, underpinned by positive net flows from unemployment (72 thousand) and inactivity (32 thousand).

INE's press release is available here.

External Adjustment

The external adjustment is proceeding in 2015, as reflected in key indicators **for the 1st semester**:

- The balance of **goods and services** recorded a **surplus of € 698.0m**, **about € 150m higher than observed in the same period of 2014**;
- The **current account balance improved by approximately € 100m year on year**, recording a deficit of € 850.5m up to June 2015;
- The **current and capital account surplus reached € 214.1m in 2015H1**, decreasing only slightly compared to 2014H1 (- € 4.5m).

Data from Banco de Portugal are available here.

Fiscal Adjustment

i. General Government Debt (2015Q2)

The public debt-to-GDP ratio decreased for the third consecutive quarter. Maastricht debt stood at **128.6% of GDP by end-June**, down from 132.2% by end-September 2014. The **ratio is expected to decrease to 124.2% by end-2015**, according to the Stability Program's projections.

Maastricht debt excluding Central Administration deposits reached 120.2% of GDP by end-June. The stock increased slightly compared to the previous quarter (+0.4 p.p.) but remains stable vis-à-vis end-2014 (-0.1 p.p.).

Data from Banco de Portugal are available here.

ii. Budget Outturn (January-July 2015)

The **General Government** (GG) **deficit on a cash basis reached € 5.4bn** up to July 2015. Comparing with the same period in 2014, the deficit **decreased by € 474m, as revenue growth** (by € 630m) **surpassed expenditure growth** (by € 156m).

The **primary balance recorded a deficit of € 431m** in the first seven months of 2015, **but continues to improve steadily year on year, by € 650m up to July**. The deterioration vis-à-vis the 1st semester is due to the specificity of the intra-annual profile.

Adjusting the GG perimeter for comparability, **Central Government expenditure increased by 1.7% year on year**, continuing the deceleration initiated in March. **Investment expenditure and interest payments continue to be the main factors** behind expenditure growth. **Compensation of employees is now contributing to offset this effect, having decreased by 0.5% year on year** up to July.

State tax revenue (in net terms) **increased by 4.9%** year on year, **standing broadly in line with the annual projection** of 5.1%. **Both direct and indirect taxes contributed to revenue growth**, having increased by 2.9% and 6.5%, respectively. While **PIT revenue remains in line with 2014** performance (-0.2% year on year), **CIT revenue growth accelerated sharply to +8.6%** year on year, despite this year's 2 p.p. decrease in the standard rate. **VAT revenue growth also accelerated further, to +8.1%. Taxes on oil products, motor vehicles and car circulation continue to contribute to the increase in revenue** (growing by 7.1%, 24.8% and 7.8%, respectively).

The Social Security surplus amounted to € 631m up to July, thus improving by € 365m compared to the same period of 2014. This **performance continues to be underpinned by expenditure reduction** (-4.6% year on year), **which is stronger than the decrease in revenue** (-2.0% year on year).

Further information is available here.

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