Notes on recent political and economic developments in Portugal

- The Constitutional Court recently announced that it deemed constitutional the 40-hour workweek in the public sector

- On Nov 23, the President of the Republic requested the Constitutional Court’s pre-emptive assessment on the convergence between public (CGA) and private sector (SS) pension systems: decision to be announced until Dec 19

- 2013 budget deficit target of 5.5% is within reach, with early signs of economic recovery sustaining a positive execution of fiscal revenue

- GDP posted a second consecutive growth rate in Q3 and unemployment rate dropped to 15.6% (16.4% in Q2)

- The new IGCP retail product launched in end-October has gathered considerable public interest: subscriptions in the first month reached more than €4.50 mln, setting a very positive standard for the overall objective of €2.5bn by end 2014

- Postal services (CTT) will be privatized in December through an IPO of 70% of its capital: Government announced a price range that places total privatization proceeds between €410mln and 580mln, above 2014 budget estimate of €340mln

- Discussions with the EU-IMF mission for the 10th review of the Program are set to start on Dec 4

Recent political/institutional decisions

A number of decisions of the political institutions have been made public in the recent days:

- On Nov 23, the President requested the Constitutional Court’s (CC) pre-emptive assessment on the convergence between public (CGA) and private sector (SS) pension systems. The CC will have 25 days to announce a decision (deadline on Dec 19).

- On Nov 25, the CC announced that it deemed constitutional the law on the convergence of working rules between the public and private sectors, which mainly establishes an increase of weekly working hours in public sector from 35 to 40 hours. This law had already entered into force on Sep 28.

- On Nov 26, the Parliament approved the budget for next year. The law will now follow for the President’s assessment.

- On Nov 28, the redrafted law on the requalification scheme was published (the initial draft was deemed unconstitutional in August). The law entered into force on Dec 1.
Execution until October signals that deficit target of 5.5% is within reach

Budgetary outturn until October confirms that the budget execution on a public accounts basis is on track. Until October, the General Government (GG) balance relevant for Program targets reached € 6.4bn. In Q3, the balance was more than € 3.0bn below the target set for end-September.

When compared with 2012, the deficit in the first 10 months of this year was slightly larger (€ 6.9bn in 2013 vs € 6.7bn in 2012) for the Central Government and Social Security (CG+SS). However, excluding one-off effects that significantly reduced the deficit in 2012, there would have been an improvement of € 1.2bn.

The breakdown of the CG+SS account shows that total expenditure increased 4.3% until October, excluding one-off effects. The increase is nonetheless well below the target of 6.4% anticipated in the Supplementary Budget, suggesting the expenditure execution is on track.

Total expenditure excluding the 2012 one-off effects increased 7.5% up to October, 1.0pp below the target implicit in the Supplementary Budget.

The main factor behind this performance is the strong increase of direct taxes (+20.5%, mainly due to the significant growth of revenue from personal income tax, partly resulting from the reinstatement of the 2 monthly wages of public servants). Indirect taxes are still declining, but at a slower pace comparing to previous months (-4.0% vis-à-vis -5.5% until September), and VAT in particular is already posting a positive contribution.
Notes on recent developments in Portugal

December 2, 2013

GDP posted a second consecutive growth rate in Q3

According to a flash estimate released by Statistics Portugal on Nov 14, the Portuguese GDP increased 0.2% in Q3 over the previous quarter. The reading came after a strong 1.1% rise in Q2, thus representing the second consecutive qoq expansion. From a year ago, GDP contracted 1.0%, which marked an improvement over the 2.0% decline recorded in Q2 and over the -4.1% bottom in Q1.

Domestic demand presented a less negative contribution for the year-on-year change rate of GDP, determined mainly by a smaller decline in private consumption. On the contrary, the contribution of net external demand decreased, mainly due to rising imports. Detailed and more complete data will be published on Dec 9.

Source: Statistics Portugal

The labor market continued showing encouraging signs in Q3, with the unemployment rate decreasing from 16.4% in Q2 to 15.6% (17.7% in Q1). This value is down 0.2pp from the same quarter of 2012 and the lowest level since 2012 Q2.

The employed population increased 48k (or 1.1%) in Q3 from the previous quarter, following an increase of 72k in Q2 (or 1.6%). The Q3 quarterly change came mostly from an increase in the employment in the tourism sector.

Source: Statistics Portugal and Eurostat

GDP increased 0.2% qoq in Q3 (after 1.1% in Q2)

Unemployment rate declined for the second consecutive quarter

Source: Statistics Portugal

Unemployment rate

(% labor force)

Employment variation

(qoq, %)

Source: Statistics Portugal and Eurostat

Source: Statistics Portugal
Notes on recent developments in Portugal

Annex: Calendar of upcoming benchmark events

<table>
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<th>Date</th>
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<tr>
<td>Dec 4, 2013</td>
<td>Start date for 10th EU-IMF review</td>
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<tr>
<td>Dec 19, 2013</td>
<td>Deadline for Constitutional Court decision on pension schemes convergence law</td>
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Further information on the Portuguese economy can be obtained from:

- Banco de Portugal [www.bportugal.pt](http://www.bportugal.pt)
- Statistics Portugal [www.ine.pt](http://www.ine.pt)
- Portugal Economy Probe [www.peprobe.com](http://www.peprobe.com)

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