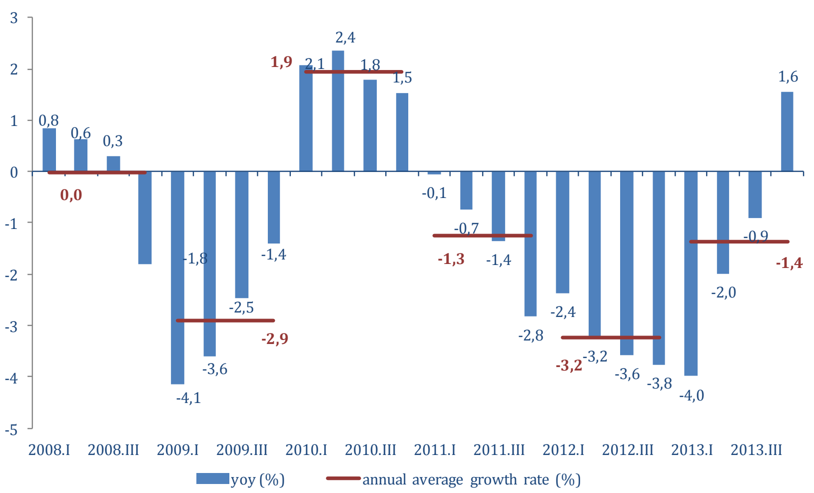
Notes on GDP performance and public accounts in 2013

- **GDP posted a positive yoy growth rate in Q4 (+1.6%) for the first time since 2010**
- **This evolution reflects a positive contribution of both domestic and external demand**
- **In 2013 GDP contracted 1.4% on average, 0.4pp lower than the estimate included in the 2014 Budget**
- **The unemployment rate declined more than 2pp since Q1, on the back of positive employment creation and lower participation rate**
- **Confidence indicators and high frequency data support a continuous improvement of the economic activity in the beginning of 2014**
- **In 2013 the overall deficit on a cash basis stood more than €1.7 bn (or about 1% of GDP) below the limit defined in the EU-IMF Program**
- **Excluding one-offs, the General Government deficit stood about €1 bn below target**
- **Fiscal revenue performed better than expected (even after excluding one-offs), as well as almost all expenditure items, setting a good standard for a positive execution in 2014**
- **A supplementary budget, to compensate the Constitutional Court decision that disallowed the convergence between public and private pension schemes, was approved in Parliament**
- **After the 5-yr and 10-yr taps in January and February, and taking into account additional financing from domestic sources, Portugal has started pre-funding 2015**
- **Portugal expects to reintroduce government bond (OT) auctions in the first half of 2014 to complete its objective of regaining full market access**

GDP posted a third consecutive quarter of qoq positive growth in Q4

In Q4 GDP increased 0.5% qoq, posting the third consecutive quarter of positive qoq growth. On a yoy basis, economic activity grew 1.6%, a very significant improvement from the bottom of -4% in Q1. This evolution reflects a positive contribution of domestic demand (for the first time since 2010) and an improvement of the positive contribution of external demand, with exports continuing to outperform (in 2013 exports represented more than 40% of GDP, from only 31% in 2010).

Real GDP growth (%)



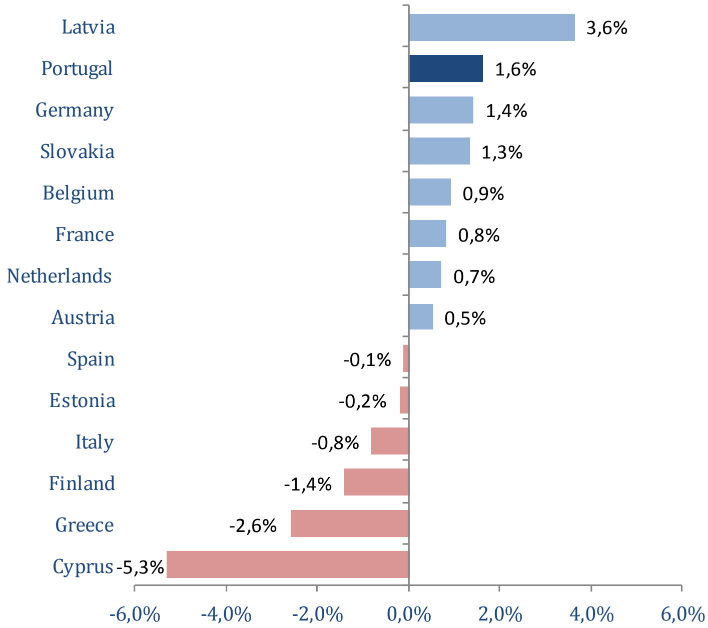
Source: Statistics Portugal

After 11 quarters of negative yoy growth, GDP grew 1.6% yoy in Q4, the highest since 2010Q3

According to the Eurostat flash estimate, during the last quarter of 2013 GDP grew 0.3% qoq and 0.5% yoy in the euro area. There is still a lot of dispersion across countries, with Portugal now comparing well with its peers, after recording the second strongest yoy growth rate in Q4.

Portugal posted the 2nd strongest yoy GDP growth rate among euro area countries

Real GDP growth in euro area countries (2013Q4, yoy %)

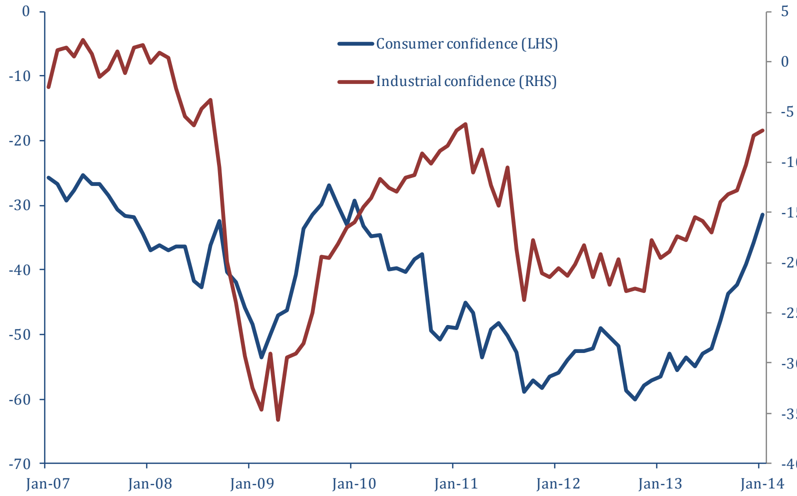


Source:Eurostat

High-frequency indicators continue suggesting that the economy may sustain a gradual recovery cycle. Industrial production grew 7.2% yoy in December and confidence indicators have reinforced the steady improvement observed since early 2013.

Most recent indicators point to a sustainable recovery in 2014

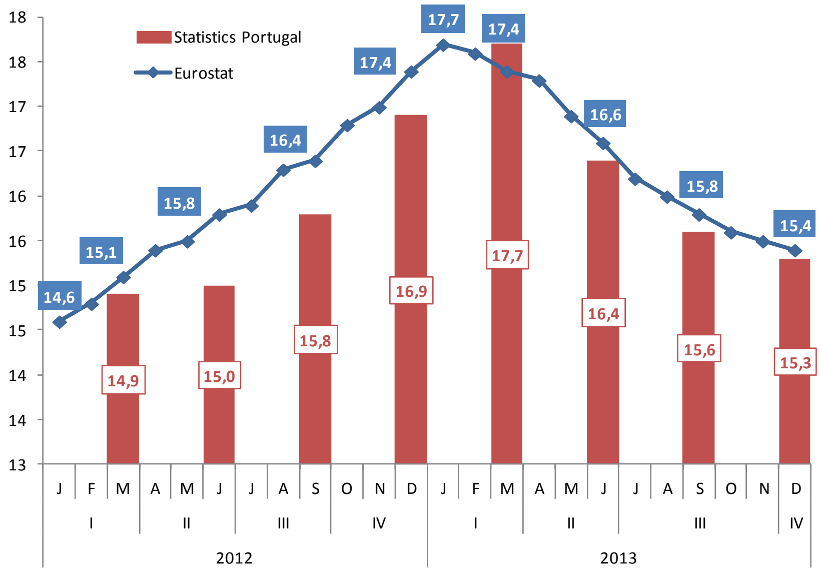
Confidence indicators (MA3m)



Source: Statistics Portugal

The labor market also showed signs of early recovery, with the unemployment rate declining from 17.7% in Q1 to 15.3% in Q4. This evolution came on the back of both employment creation (the number of employees increased 0.7% yoy in Q4, the first positive yoy growth rate since 2008Q2) and a stabilization in participation rate.

Unemployment rate (% labor force)



Source: Statistics Portugal and Eurostat

Unemployment rate declined more than 2pp of labor force in the past 3 quarters

Better than expected 2013 budget execution sets good standard for a positive execution in 2014

In 2013 the overall deficit on a cash basis stood more than €1.7bn (or about 1% of GDP) below the limit defined in the EU-IMF Program.

This was partly justified by one-off factors (in particular the regularization of fiscal debts, which amounted to more than €1 bn of extra revenue), but even after adjusting for a number of one-off effects, the General Government deficit was about €1 bn below the Supplementary budget target (according to UTAO's estimate).

Budget execution on cash basis

Overall budget balance on cash basis

(EUR million)	2012	2013 target	2013 execution	2013 vs 2012	2013 vs target
1. State	-8.896	NA	-7.688	1.208	-
2. Autonomous Funds and Services (incl SOEs)	847	NA	-655	-1.502	-
3. Central Government (1+2)	**-8.049**	**-9.997**	**-8.343**	**-294**	**1.654**
4. Social Security	431	57	479	48	422
5. Central Government + Social Security	**-7.618**	**-9.940**	**-7.864**	**-246**	**2.076**
6. Regional and Local Government	483	-1.055	-867	-1.350	188
7. General Government (5+6)	**-7.135**	**-10.995**	**-8.731**	**-1.596**	**2.264**
memo: General Government EU-IMF Program	***-8.424***	***-8.900***	***-7.152***	***1.272***	***1.748***

Deficit on cash basis was about €1.7 bn below the EU-IMF limit…

… deficit on national accounts (to be published in late-March) stood well within the target of 5.5% of GDP

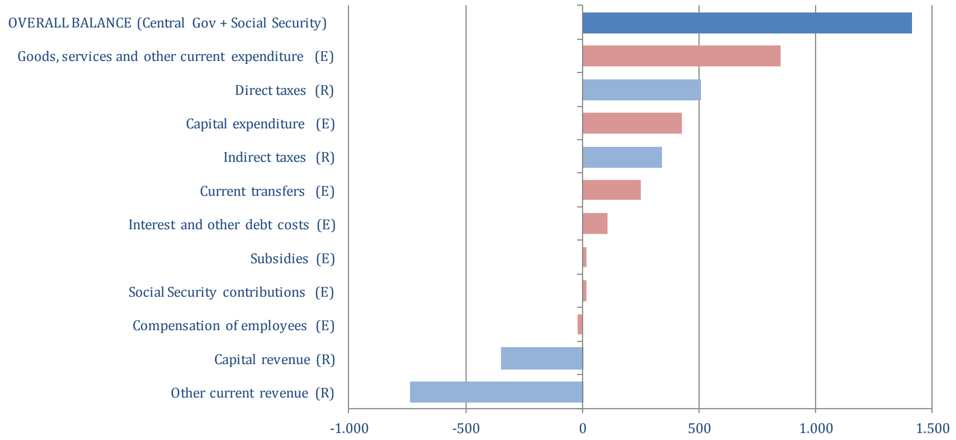
Overall budget balance on cash basis (adjusted for one-off effects)

(EUR million)	2012	2013 target	2013 execution	2013 vs 2012	2013 vs target
1. State	-9.290	NA	-8.050	1.240	-
2. Autonomous Funds and Services (incl SOEs)	-726	NA	-279	447	-
3. Central Government (1+2)	**-10.016**	**-9.462**	**-8.329**	**1.687**	**1.133**
4. Social Security	-518	-1.497	-1.221	-703	276
5. Central Government + Social Security	**-10.534**	**-10.959**	**-9.550**	**984**	**1.409**
6. Regional and Local Government	211	762	340	129	-422
7. General Government (5+6)	**-10.323**	**-10.197**	**-9.210**	**1.113**	**987**

Source: DGO and UTAO

For the Central Government + Social Security subsector, almost all expenditure items were kept below target (in particular other current expenditure) and fiscal revenue performed above target:

Difference between 2013 execution and Supplementary Budget for Central Gov + Social Security excluding one-off effects (EUR million)



Notes: (E) is used for expenditure items and (R) for revenue items. Positive values correspond to deviations that contributed to an overall balance above target and the opposite applies to negative values.
Source: UTAO

Both direct and indirect taxes were above target, setting a good standard for a positive execution in 2014

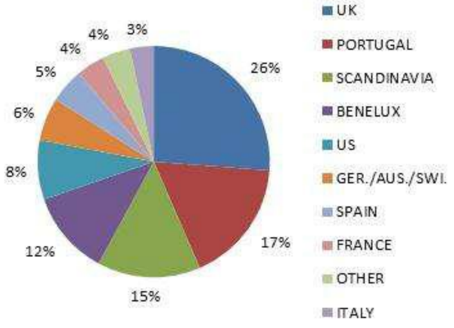
Successful 10-yr tap closed the gap for 2014 borrowing needs and sets the stage to start pre-funding 2015

On February 11, IGCP issued €3 bn on a 10-year syndicated tap of PGB Feb 2024. The pricing was fixed at midswaps +320bp (5bp lower than initially announced), corresponding to a yield of 5.112%.

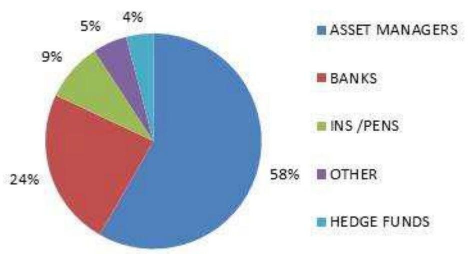
The final order book amounted to €9.8 bn from 292 accounts, with a particularly strong take-up from Scandinavia and Benelux. The final allocation has a strong presence of buy-and-hold investors and increased geographical diversification when compared with previous deals. The quality of the book is illustrated by its post-deal secondary market performance.

Results of 10-yr syndicated tap (PGB 5.65% Feb 2024) on Feb 11, 2014

Geographical distribution



Distribution by investor type



10-year transaction marked by a strong presence of buy-and-hold investors and a high geographical diversification

Taking into account the large cash position at end-2013 (close to €9 bn excluding BSSF), the EU-IMF loans to be disbursed (€7.8 bn), the 5-yr tap in January (€3.3 bn), and additional financing available from domestic sources (retail issuance was above €0.3 bn in January), the borrowing needs for 2014 are already covered. Thus, the 10-yr transaction can be seen as the beginning of the 2015 pre-funding process.

Additional financing in the year will be used to pre-fund 2015 borrowing needs

State borrowing needs and sources 2013-2017

	2013 E	2014 P	2015 P	2016 P	2017 P
State borrowing requirements	**24,5**	**22,8**	**16,1**	**14,8**	**14,3**
Net financing needs	**11,3**	**11,8**	**5,3**	**2,4**	**-0,5**
Overall deficit *	7,7	7,4	4,3	2,1	0,4
Private sector banks' recapitalizations	1,1				
Other acquisitions of financial assets **	3,9	4,5	1,0	0,3	-0,9
Privatizations (-)	-1,5	-0,1	0,0	0,0	0,0
MLT Redemptions	**13,2**	**11,0**	**10,7**	**12,4**	**14,8**
Tbonds (PGB incl exchange offer + MTN)	13,2	11,0	10,2	9,9	11,3
IMF			0,5	2,6	3,5
State financing sources	**24,5**	**22,8**	**16,1**	**14,8**	**14,3**
Use of deposits	**-0,4**	**0,8**	**8,2**	**0,0**	**0,0**
Financing in the year	**24,8**	**22,0**	**7,9**	**14,8**	**14,3**
Executed					
EU-IMF	10,0				
Tbonds	12,0	6,4			
Tbills (net)	1,3				
Retail debt (net)	1,1	0,3			
Other flows (net)	0,5				
To be executed					
EU-IMF		7,8			
Tbonds		5,6			
Tbills (net)		0,0			
Retail debt (net)		1,9			
Additional financing needs	-	-	7,9	14,8	14,3
Total additional financing needs 2015-17					**37,0**
State Treasury cash position at year-end	**15,3**	**14,6**	**6,4**	**6,4**	**6,4**
of which: deposits for bank recap	2,4	6,4	6,4	6,4	6,4

Further information on the Portuguese economy can be obtained from:

- **Ministry of Finance** www.portugal.gov.pt/en/the-ministries/ministry-of-finance
- **Banco de Portugal** www.bportugal.pt
- **Statistics Portugal** www.ine.pt
- **Portugal Economy Probe** www.peprobe.com

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