

## 4. Demand and external accounts

### 4.1. Demand

According to Banco de Portugal estimates, the Portuguese economy stagnated in 2008 after recording a growth of 1.8 per cent in the preceding year, thus interrupting the trajectory of moderate and gradual recovery in force since 2006 (Table 4.1.1). The marked deceleration in economic activity in 2008 happened in a context of interaction between an unprecedented financial crisis in international financial markets – which intensified in the second half of the year – and a major slowdown in global economic activity. Notwithstanding the significant deceleration of GDP in the euro area, Portugal posted, for the seventh consecutive year, a negative growth differential in comparison to the area as a whole, and continued to have one of the lowest euro area and European Union growth levels (Chart 4.1.1 and “Chapter 1 *International Environment*”, of this Report).

The deceleration of economic activity in 2008 was a result of the virtual stabilisation of growth in private consumption and the lower growth in other global demand components, particularly exports and GFCF, which were down *vis-à-vis* the preceding year, in a context of a growing deterioration in demand prospects in the domestic and external markets. The deceleration of goods and services exports in 2008 was more marked than the estimated slowdown in external demand, which was reflected in a market share loss for the year as a whole. In turn, GFCF registered a decrease in 2008 after the recovery noted in 2007, with a particular emphasis to the marked fall observed in construction. As stated, private consumption – countering the trend of the other expenditure components – recorded a rate of change similar to that of 2007, thus continuing to show a smoothing behaviour, notwithstanding the adverse economic and financial context, and the high level of household debt, despite improvement in their funding capacity, reflecting the interruption in 2008 of the downward trend observed in the savings ratio. In a context of major deceleration in economic activity and weighted global demand, imports of goods and services were also significantly down *vis-à-vis* 2007.

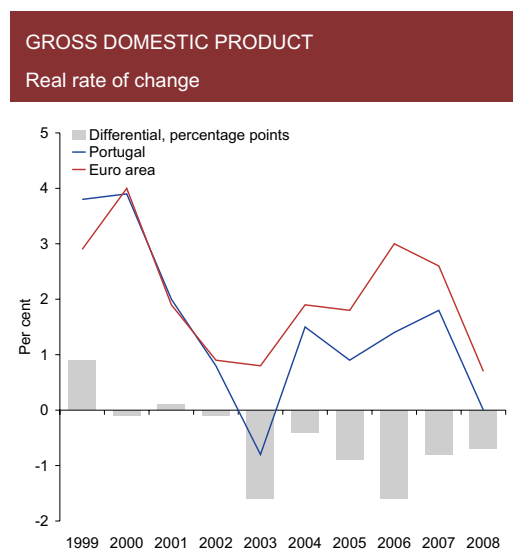
**Table 4.1.1**

GDP AND MAIN EXPENDITURE COMPONENTS <sup>(a)</sup>						
Real rate of change, per cent						
	2003	2004	2005	2006	2007	2008
GDP	-0.8	1.5	0.9	1.4	1.8	0.0
Private consumption	-0.2	2.5	1.9	1.9	1.6	1.7
Public consumption	0.2	2.6	3.2	-1.4	0.0	0.5
Investment	-8.3	2.5	-1.5	-0.3	2.7	-0.9
GFCF	-7.4	0.2	-0.9	-0.7	2.8	-1.7
Change in inventories <sup>(b)</sup>	-0.3	0.5	-0.1	0.1	0.0	0.2
Domestic demand	-2.0	2.5	1.5	0.8	1.5	0.9
Exports	3.9	4.0	2.1	8.7	7.5	-0.4
Imports	-0.9	6.7	3.5	5.2	5.6	2.1
Contribution of domestic demand <sup>(b)</sup>	-2.2	2.7	1.6	0.9	1.7	1.0
Contribution of net external demand <sup>(b)</sup>	1.4	-1.2	-0.7	0.5	0.2	-1.0

Sources: INE and Banco de Portugal.

Notes: (a) Banco de Portugal estimates based on INE National Accounts for the years 2007 and 2008 (ESA95). (b) Contribution for the GDP rate of change in percentage points.

Chart 4.1.1



Sources: Eurostat, INE and Banco de Portugal.

The intra-annual GDP growth profile in 2008 was characterised by a clearly downward path, with a particular reference to the sharp and abrupt fall in the last quarter (Chart 4.1.2). The deceleration of GDP in the last quarter of the year (from 0.4 per cent in the third quarter to a change of -1.8 per cent, in year-on-year terms) was common to all of its main components, with a particular emphasis on the marked fall of goods and services exports in volume (-8.9 per cent) and GFCF (-8.6 per cent). Even though estimates point to a major fall in external demand at the end of the year, the market share of national exports may have decreased significantly in the last quarter of 2008. Private consumption was also down in the last quarter, particularly the component relating to durables, which was 0.7 per cent down in year-on-year terms. The available quantitative and qualitative indicators point towards a continuation of the downward trajectory of GDP growth in the first quarter of 2009.

Growth of private consumption in 2008 was similar to the preceding year's and clearly higher than that of GDP, in line with the trend of latter years, which was only interrupted in 2007. The rate of growth of private consumption in 2008 was also higher than that of the euro area as a whole, in which this expenditure component went sharply down.<sup>1</sup> Still, and unlike what happened in the previous years, private consumption grew at a pace below that of disposable income, which caused a slight increase in the savings ratio, after the sharp fall (of about 2 p.p.) registered in the previous year (Table 4.2). After adjusting both the disposable income and savings for the net participation of household in pension funds, the savings ratio presents an increase of 0.3 p.p. to 6.5 per cent.<sup>2</sup>

The greater buoyancy of households' disposable income, in nominal terms, reflected the higher growth of wages *vis-à-vis* 2007, which was associated with a more favourable behaviour in the employees' compensation (Chart 4.1.3). The evolution of disposable income was also associated with the significant deceleration of social contributions and direct taxes paid by households, as well as with the strong growth in corporate and wealth income, especially deposit yields, which reflects an intensification in the demand of this type of financial applications, in a context of both increased risk aversion by investors and devaluation of financial assets more sensitive to market risk. In the opposite direction, there

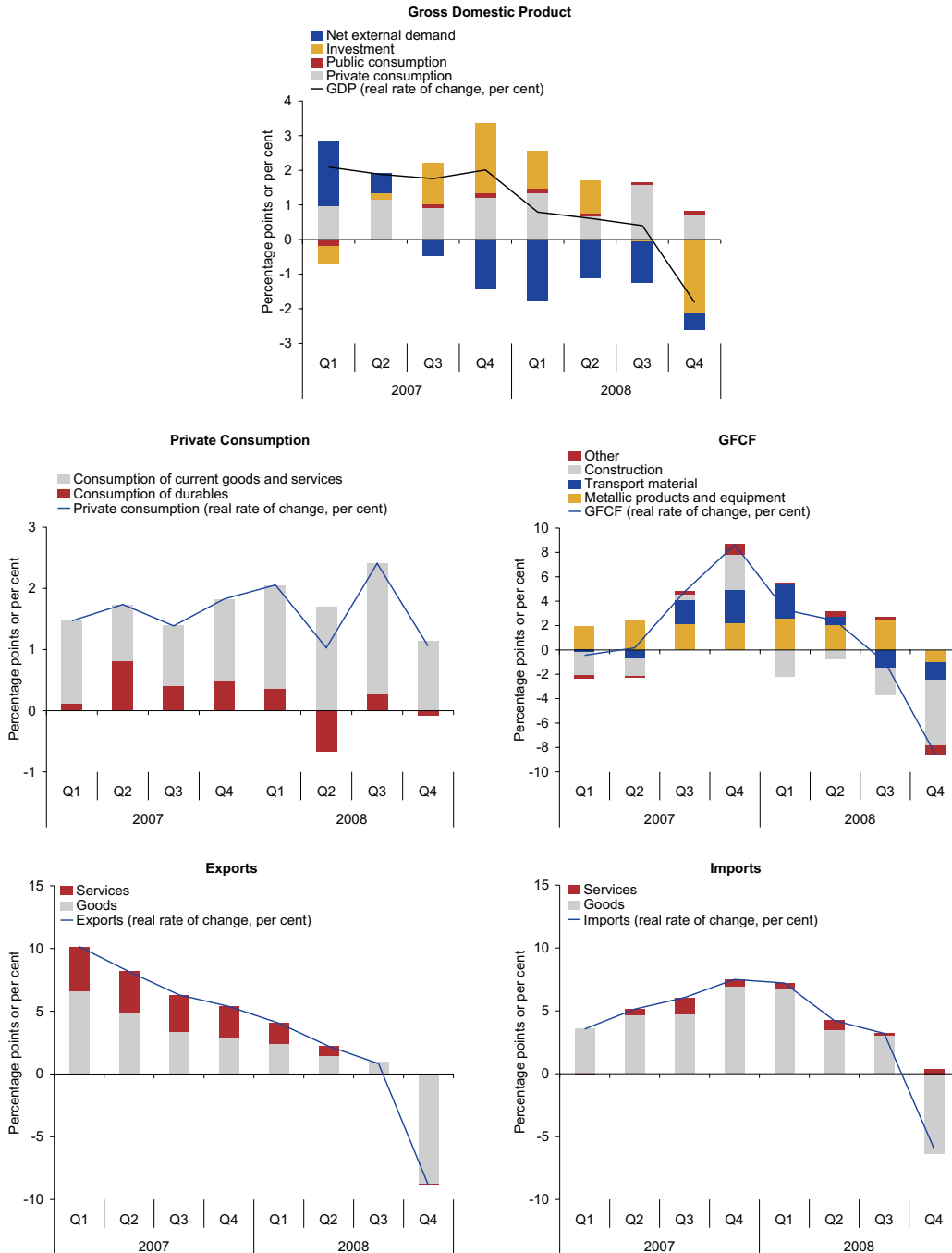
(1) In 2008, private consumption in the euro area registered a growth in real terms of 0.3 per cent, after a change of 1.6 per cent in 2007.

(2) Since in financial and net worth accounts households are considered as owners of private regimes' provisions with setting of funds, to calculate the savings ratio it is necessary to include in the disposable income the change in net household participation in pension funds.

Chart 4.1.2

## QUARTERLY PROFILE OF GDP AND ITS MAIN COMPONENTS

Contributions, percentage points, except when otherwise indicated



Source: INE (Quarterly National Accounts).

was a deceleration of transfers to households which, unlike other years, showed a growth similar to that of disposable income.

Private consumption, particularly the component regarding the consumption of current goods is typically characterised by a smoother inter-temporal profile, in comparison to other expenditure components. One of the contributors to this smooth behaviour in 2008 was the significant growth of real

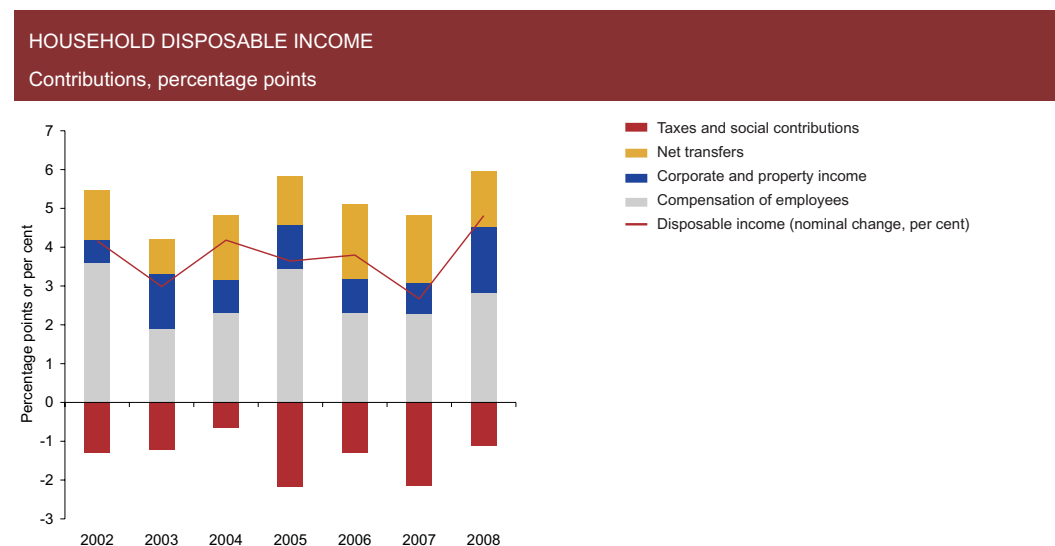
Table 4.1.2

HOUSEHOLD DISPOSABLE INCOME <sup>(a) (b)</sup>								
Nominal rates of change, per cent								
	2003 <sup>(b)</sup>		2004 <sup>(b)</sup>		2005	2006	2007	2008
Household disposable income	3.0	(3.2)	4.2	(4.0)	3.6	3.8	2.7	4.8
Compensation of employees <sup>(c)</sup>	2.7	(2.2)	3.3	(3.7)	4.9	3.2	3.2	4.0
Corporate and property income	4.7		2.8		3.7	2.9	2.6	5.6
Current transfers	3.3		6.1		4.5	6.9	6.0	4.7
Domestic transfers	5.2		6.6		6.0	6.1	5.5	5.0
External transfers	-12.8		1.0		-11.7	16.9	12.2	2.1
Direct taxation (-)	1.0	(-1.0)	0.6	(2.6)	4.9	6.7	9.6	3.7
Social security contributions (-)	5.6	(4.0)	2.9	(4.4)	8.6	3.6	6.4	3.6
Disposable income adjusted for the change in net equity of households in pension fund reserves <sup>(d)</sup>	2.8	(3.0)	4.2	(4.0)	4.2	3.7	2.2	4.6
<i>Memo:</i>								
Nominal private consumption	2.9		5.1		4.7	5.1	4.3	4.3
Real private consumption	-0.2		2.5		1.9	1.9	1.6	1.7
Saving rate <sup>(e)</sup>	10.5	(10.7)	9.7		9.2	8.1	6.2	6.5
Private consumption deflator	3.1		2.5		2.7	3.1	2.7	2.6

Sources: INE and Banco de Portugal.

Notes: (a) Banco de Portugal estimates based on INE National Accounts for the years 2007 and 2008. (b) In brackets, figures adjusted for the direct effects regarding the sale of tax credits by the general government. (c) Remuneration received by resident households. It includes employers' social security contributions and State transfers to *Caixa Geral de Aposentações*. (d) Given that, in financial and wealth accounts, households are considered to be holders of equity in private funds reserves, the disposable income – in the calculation of the savings rate – must be previously adjusted regarding change in net equity of households in pension fund reserves. (e) As a percentage of Household disposable income.

Chart 4.1.3



Sources: INE and Banco de Portugal.

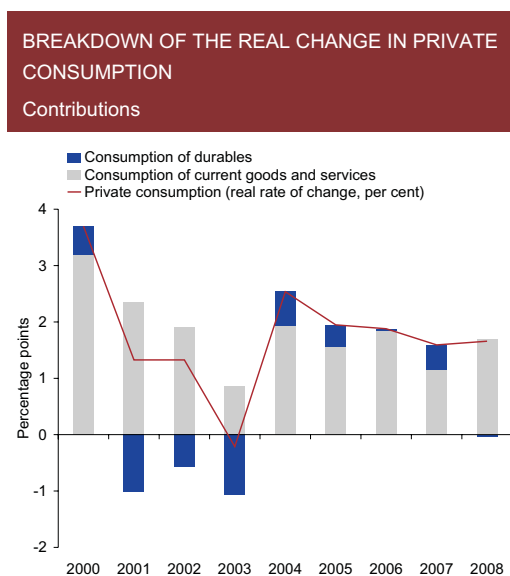
disposable income, in the context of some improvement in labour market conditions. Total employment in the economy increased by 0.5 per cent for the year as a whole, whereas the unemployment rate declined by 0.4 p.p. to 7.6 per cent. However, reference should be made to the fact that employment growth in 2008 was concentrated in the first half of the year, with a slight contraction in the second half, resulting from an increase in the number of workers with fixed-term contracts or services provider contracts, in the context of a continuation of the trend towards a decrease in the share of permanent contracts in total employment. Simultaneously, the continued significant growth of bank lending to

households – although easing during the course of the year – also operated as a private consumption smoothing factor. It is, however, expected that the current economic and financial crisis, both on account of the uncertainty generated in relation to household earnings and wealth prospects, and of an eventual deterioration of labour market conditions, will tend to limit future consumer expenditure. Accordingly, households' demand for credit is expected to be down, in a context in which, notwithstanding the downward path of interest rates, lending conditions are more restrictive. In particular, greater difficulty in getting access to credit in international markets, in comparison to the period preceding the appearance of turbulence in the those markets, should result in less capacity in terms of the supply of banking products that make it possible to adapt debt servicing to households' capacity to pay, notwithstanding the strong growth in customer deposits. According to the Bank Lending Survey, released in April of 2009, most institutions tightened their restrictions on *vis-à-vis* the approval of loans to households, for consumption and other purposes, with this trend having continued during the first quarter of 2009. In December of 2008, seasonally-adjusted bank loans to households had an annualised quarterly growth rate of 2.2 per cent, in comparison to changes of 8.6 per cent in December of 2007. Particular reference should be made to the strong deceleration in the consumption and other purposes segment, after the highly dynamic levels noted up to mid-2008. This trend remained in force in the first months of 2009.

Unlike 2007, the growth of private consumption was essentially supported by the behaviour of the component relating to the consumption of current goods, in a context of a strong deceleration in durables consumption (Chart 4.1.4). The consumption of durables in 2008 was down by 0.3 per cent, in comparison to a growth of 4.0 per cent in the preceding year, in line with the usual pro-cyclical behaviour of this component. By way of contrast, the consumption of current goods, which represents around 90 per cent of total household consumer expenditure was up by 0.6 p.p., to 1.9 per cent.

The profile of current goods consumption remained relatively stable in the first three quarters of 2008, with growth rates of around 2 per cent, recording a significant deceleration in the last quarter of the year (to 1.3 per cent, in year-on-year terms). The intra-annual profile of private consumption in 2008 also reflected the irregular pattern of durables consumption, whose behaviour was conditioned by a number of tax changes in 2007 and 2008, particularly on motor vehicles. Accordingly, after a very

**Chart 4.1.4**

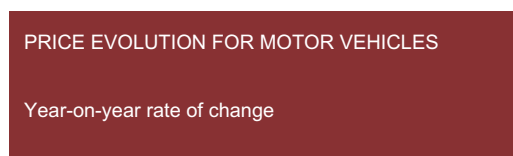


Sources: INE and Banco de Portugal.

sharp reduction in year-on-year terms, in the second quarter, there was a significant growth in the consumption of durables in the following quarter. This behaviour reflected both the base effects associated with the July of 2007 tax changes on motor vehicles - which led to an anticipation in its purchase in the second quarter of 2007 - and the reduction of the standard rate of VAT in July 2008, which is likely to have originated the postponement of several consumption decisions to the third quarter. Sales of light passenger vehicles, adjusted for the quality effect, were down by 1.2 per cent in 2008 as a whole, reflecting a marked reduction in the sales of top of the range motor vehicles, particularly at the end of the year, accompanied by a new decrease in the average annual passenger vehicles' prices (Chart 4.1.5).<sup>3,4</sup> Sales of light passenger vehicles were particularly significant in December of 2008, for which a contributory factor was the change in motor vehicle taxes, in force since January of 2009.<sup>5</sup> Reference should be made, in this context, to the continued high rate of growth of motor vehicle sales under the Tax Incentives Program for the Retirement of End-of-Life Vehicles, which represented 27 per cent of the total sales of light passenger vehicles in December of 2008 (Chart 4.1.6).<sup>6</sup>

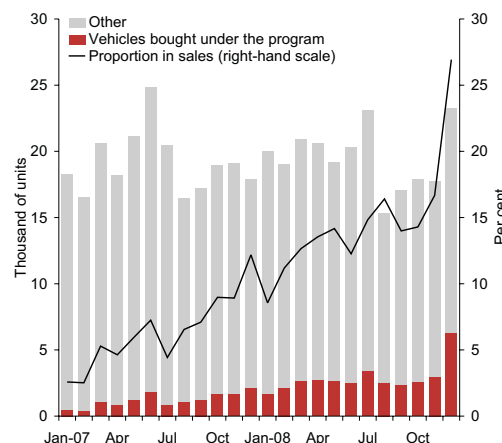
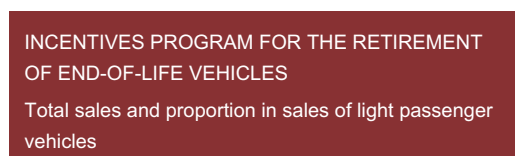
Public consumption is estimated to have recorded a real growth of close to zero in 2008. This estimate is based on an expected decrease in the number of civil servants, though less marked than in the previous year. This was offset by the positive change in the expenditure on goods and services, which to a large extent reflects the behaviour of intermediate consumption and social payments in kind, particularly the component relating to the share in the payment of medical medicines and conventions.

Chart 4.1.5



Source: INE.

Chart 4.1.6



Source: ACAP.

- (3) These values exclude light passenger vehicles' purchases by rent-a-car companies, which are considered corporate investment. In 2008, purchases of this type of vehicles registered a growth of 13.0 per cent, after a fall of 6.1 per cent in the previous year. Accordingly, sales of light passenger vehicles, excluding purchases by rent-a-car companies, presented an increase similar to the one seen in 2007 (4.9 per cent).
- (4) The quality effect tries to adjust vehicle sales volume according to their respective segments. A zero quality effect indicates a uniform distribution of vehicle sales by the different segments, while a positive (negative) effect implies a bias of that distribution towards sales of more vehicles from top (bottom) of the range segments.
- (5) From these changes we should highlight: i) the increase in the Tax on Motor Vehicles rates; ii) the elimination of the 500 euros tax deduction regarding purchases of diesel fuelled vehicles with particle emissions under 5 milligrams per kilometre; and iii) the change made to the Tax Incentives Programme for the Retirement of End-of-Life Vehicles, that eliminates the possibility of purchase of vehicles with carbon dioxide emissions higher than 140 grams per kilometre under this program.
- (6) In December, sales of light passenger vehicles, excluding purchases by rent-a-car companies, registered a growth of 29.7 per cent – a behaviour followed by a strong correction in the first quarter of 2009.

After having recorded in 2007 one of the highest growth levels of the decade, although clearly lower than at the same stage of the preceding cycle, GFCF fell once again in 2008, with Banco de Portugal estimates pointing to a change of -1.7 per cent. After the strong dynamics observed at the end of the past decade, GFCF in Portugal registered an accumulated reduction in volume of 10 per cent since 2000, increasing the divergence towards the euro area as a whole, were GFCF presented an accumulated changed of 17 per cent in the same period (Chart 4.1.7).<sup>7</sup> The recent weak performance of GFCF *vis-à-vis* the euro area is particularly noticeable in the case of GFCF in “Construction”, in particular in the component regarding house purchase by households, after the strong expansion registered in the second half of the 90s. As for GFCF in “Transport Material”, it showed an identical profile to the GFCF in “Construction”, with a strong divergence regarding the euro area do euro, regardless of some convergence in the most recent period. In turn, GFCF in “Machinery and equipment” evolved in line with the euro area as a whole.

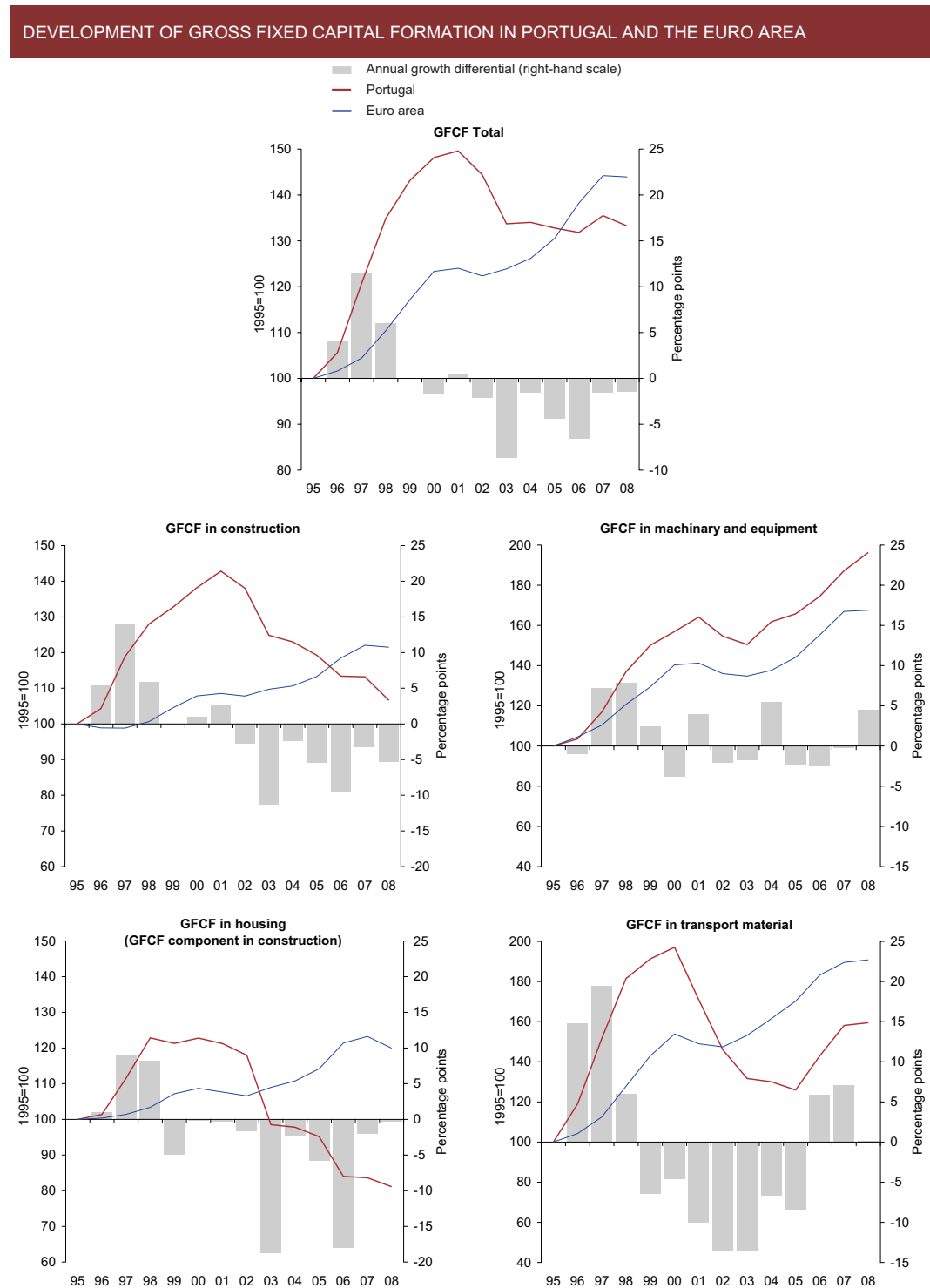
The behaviour of GFCF in 2008 was characterised by a clearly decelerating intra-annual profile, with a particular emphasis on the significant year-on-year fall in the last quarter, in line with the evolution of confidence indicators in services and manufacturing. These indicators suggest a continued weak performance by GFCF in the first months of 2009.

Uncertainty over the evolution of the international financial situation and its interaction with the significant deterioration of world economic activity conditioned corporate investment decisions in 2008. Estimates point to a strong deceleration of corporate GFCF with a close to zero growth. According to INE's Investment Survey, published in January of 2009, the percentage number of companies in various sectors indicating the existence of investment limitations in 2008 was 48.6 per cent, which represents a significant reassessment in comparison to the value obtained in the July of 2008 survey (42.5 per cent). The upward revision of the percentage of companies having limitations on investment is likely to be associated with the intensification of the economic and financial crisis in the second half of the year and, particularly, its impact on the prospects for demand, in a context of continued high levels of uncertainty. Indeed, there has been a considerable increase in the number of companies identifying the deterioration of sales prospects as the main limiting factor on investment (Chart 4.1.8). Simultaneously, there has been an increase in the relative importance of difficulties in obtaining credit as a limiting factor on investment, in contrast with the decrease in the relevance of interest rates, in the context of a general decrease in interest rates worldwide in the last quarter of the year. According to the Bank Lending Survey, published in April of 2009, the five major banking institutions tightened the level of restrictions applied to the approval of corporate loans in the last quarter of 2008, with such increased restrictions having resulted from the difficulty in getting access to financing in international wholesale markets, and from the deterioration of risks associated with expectations over developments in economic activity in general. Reference should, however, be made to the fact that corporate demand for loans has not changed significantly in the last quarter of the year. Debt restructuring and, to a lesser extent, inventory and working capital financing continue to be the main factors behind the increase in credit demand, as opposed to the needs for investment financing, which remained as a the main factor contributing to its decrease. In such a context, it should be noted that bank loans to non-financial corporations, although continuing to have high growth rates, tended to gradually decelerate during the course of 2008, a trend that continued in the first quarter of 2009. In December of 2008, these loans presented an annualised quarterly growth rate of 7.1 per cent, a value clearly inferior to the very high changes registered in 2007 and during the first half of 2008.

The deceleration of GFCF in 2008 reflects an across-the-board slowdown of its components. GFCF in “Machinery and equipment” was the most dynamic component of investment, despite of showing a de-

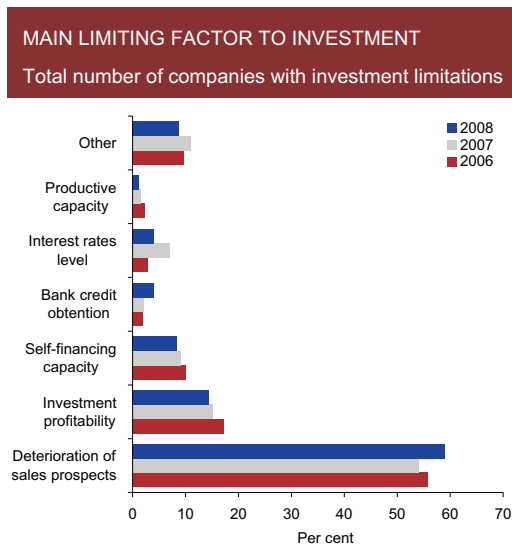
(7) In 2008, the GFCF in the euro area registered a decrease of 0.1 per cent.

Chart 4.1.7



celeration of 2.4 p.p. to 4.9 per cent, in line with the evolution of confidence indicators and in a context of deteriorating order books. After a practically nil change in 2007, GFCF in “Construction” recorded a fall of 5.8 per cent, which was consistent with the evolution of confidence indicators in the sector and of cement sales by national companies to the domestic market (Chart 4.1.9). GFCF in “Construction” in 2008 continued to be influenced by the behaviour of the component regarding house purchases by

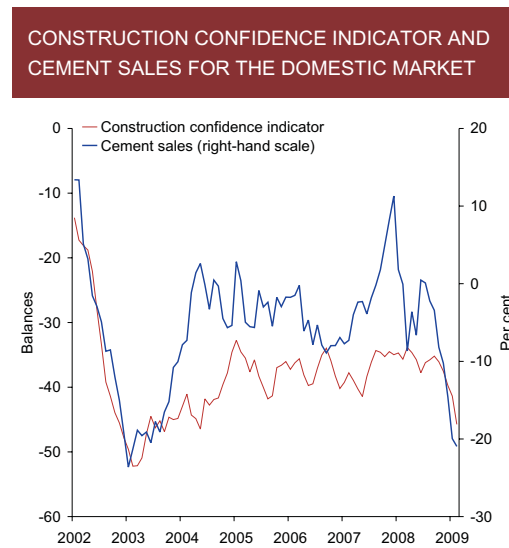
Chart 4.1.8



Source: INE (Investment Survey).

Note: The results for each year are based on the first Investment Survey published in the subsequent year.

Chart 4.1.9



Sources: Cimpor, European Commission and Secil.

Note: Confidence indicator calculated based on the quarterly moving average of the balance of respondents; cement sales calculated based on the quarterly year-on-year change in cement sales by national corporations to the domestic market.

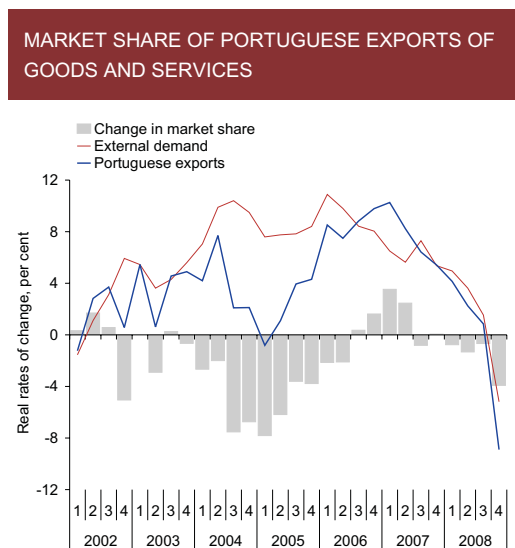
households, which fell for the eighth consecutive year. The evolution of this component in 2008 is consistent with the behaviour of bank credit to households for house purchase, whose growth reached historic low levels at the end of 2008. Available information points to a continued loss of dynamism in construction in the first quarter of 2009. GFCF in “Transport material” – the most dynamic investment component over the last two years – recorded a major deceleration in 2008, particularly in the second half of the year. The deceleration occurring in this component, for the year as a whole, reflects to a large extent the behaviour of investment regarding the acquisition of light commercial vehicles. In 2008, sales of this type of vehicle were 19.0 per cent down, after an increase of 6.1 per cent in the preceding year, with a very sharp fall in the first months of 2009. Reference should be made to the fact that the intra-annual profile of GFCF was strongly influenced by the evolution of GFCF in “Other transport material”, associated with the acquisitions of air transport material. Such acquisitions, however, failed to influence the magnitude of the slowdown of GFCF over the year as a whole.

In a context of a growing deterioration in the international outlook, notably in Portugal’s main trading partners, exports of goods and services recorded a very pronounced deceleration in 2008. The real rate of change in exports was -0.4 per cent (7.5 per cent in 2007), which represents a deceleration considerably sharper than in the euro area as a whole.<sup>8</sup> This behaviour reflects a less dynamic performance of both goods exports - with a significant deceleration (from 5.6 per cent, in 2007, to -1.3 per cent) - and of services exports, with a real growth rate of 1.7 per cent, after the high-growth rates posted in 2006 and 2007, with changes of, 11.7 and 12.6 per cent, respectively. The deceleration of exports of goods and services was more marked in 2008 than the slowdown estimated for external demand, which was reflected in a loss in the market share for the year as a whole (Chart 4.1.10).<sup>9</sup> The decrease in market share in 2008 was similar to the one observed when considering only exports of goods (Chart 4.1.11). We should highlight that the usual relative cost indicators continue to point, in general, to a deterioration in the competitiveness of Portuguese exports (Chart 4.1.12). However, the growing integra-

(8) Exports of goods and services in the euro area registered, in 2008, a real growth of 1.1 per cent, after a change of 5.9 per cent in 2007.

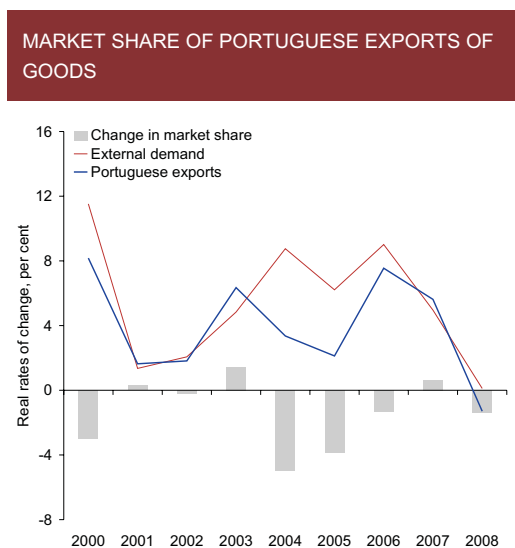
(9) The behaviour of exports in the most recent period has been strongly influenced by the strong growth in some markets, namely Angola, but because they were not included in the external demand indicator – due to statistical limitations – this makes it hard to analyse market shares.

Chart 4.1.10



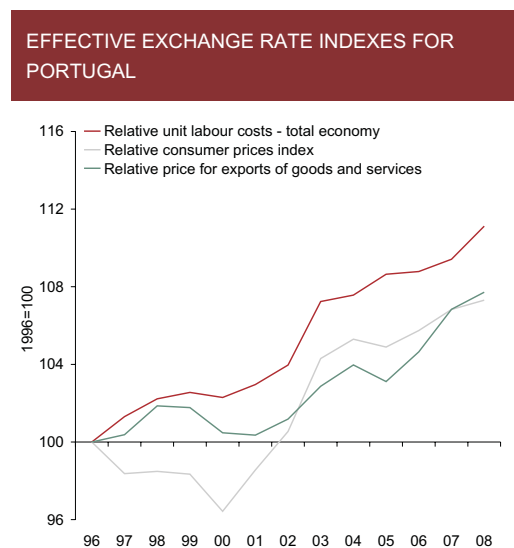
Sources: ECB, UK Office for National Statistics and Banco de Portugal calculations.  
 Note: External demand adjustment for the effect of the fiscal fraud in the United Kingdom.

Chart 4.1.11



Sources: European Commission, UK Office for National Statistics and Banco de Portugal calculations.  
 Note: External demand calculation based on the growth of imports from 34 important markets of destination for Portuguese exports of goods, adjusted for the effect of the fiscal fraud in the United Kingdom. Together, these countries accounted for about 80 per cent of Portuguese exports of goods in 2008.

Chart 4.1.12



Sources: European Commission, INE, OECD and Banco de Portugal.  
 Note: Costs/prices with respect to the 13 major trading partners up to 1999, and to the 22 major trading partners from 1999 onwards, both adjusted for changes in the nominal exchange rate. A positive change denotes an increase in relative costs/prices of Portuguese exports.

tion of international markets makes it particularly difficult to form a connection between these indicators and the performance of national exports.

According to the available information, related to the international trade of goods, and published by *INE*, the declining trend of nominal exports of goods, which began in the second quarter of 2007, was sharply accentuated in the last quarter of 2008. For the year as a whole, medium to high technology goods, namely “Machinery and equipment”, were the highest contributors to the deceleration of exports, compared with the previous year. Reference should also be made, in contrast, to the strong growth in fuel exports, after the fall observed in 2007 (Table 4.1.3). However, the fall in exports in the last quarter of 2008 was transversal by groups of goods.

Table 4.1.3

## PORTUGUESE EXPORTS OF GOODS BY GROUPS OF PRODUCTS, MAJOR ECONOMIC CATEGORIES AND LEVEL OF TECHNOLOGICAL INTENSITY

Year-on-year rate of change and respective contribution; nominal values

	Weights 2007	Year-on-year rate of change (per cent)										Contribution to the year-on-year rate of change (p.p.)									
		2007					2008					2007					2008				
		2007	Q1	Q2	Q3	Q4	2008	Q1	Q2	Q3	Q4	2007	Q1	Q2	Q3	Q4	2008	Q1	Q2	Q3	Q4
Total	100.0	8.9	13.6	9.8	6.4	6.0	1.0	5.2	4.6	5.4	-11.0	8.9	13.6	9.8	6.4	6.0	1.0	5.2	4.6	5.4	-11.0
<i>Classification by group of products</i>																					
Agriculture	3.9	16.1	13.0	8.3	18.7	23.7	19.4	20.7	31.6	24.4	4.8	0.6	0.5	0.3	0.7	0.9	0.8	0.8	1.1	0.9	0.2
Food products	4.6	19.0	18.5	19.7	18.9	18.9	10.2	13.1	11.7	12.3	5.1	0.8	0.7	0.8	0.8	0.9	0.5	0.5	0.5	0.6	0.3
Mineral fuels	4.5	-9.6	-20.3	-22.7	2.7	4.1	30.3	63.6	58.6	28.0	-17.6	-0.5	-1.0	-1.4	0.1	0.2	1.4	2.3	2.6	1.5	-0.9
Chemicals	5.0	7.6	-2.9	9.0	5.0	21.5	-7.6	-2.7	-2.0	-2.8	-22.9	0.4	-0.2	0.4	0.3	0.9	-0.4	-0.1	-0.1	-0.1	-1.1
Plastics, rubber products	5.7	17.0	16.5	11.9	16.0	24.0	5.1	14.7	10.2	10.8	-14.2	0.9	0.9	0.6	0.9	1.2	0.3	0.8	0.6	0.6	-0.8
Leather, leather products	0.3	1.3	7.7	3.5	0.0	-5.7	-0.3	-3.1	-0.2	7.5	-4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Wood, cork	4.3	10.1	11.6	12.7	12.0	3.9	-5.1	-0.4	-2.4	-5.2	-13.6	0.4	0.5	0.6	0.5	0.2	-0.2	0.0	-0.1	-0.2	-0.5
Cellulose, pulp and paper	4.4	6.5	6.5	3.1	4.1	12.4	0.5	7.6	3.1	2.7	-10.3	0.3	0.3	0.1	0.2	0.5	0.0	0.3	0.1	0.1	-0.5
Textile products	4.5	3.3	6.9	2.7	4.1	0.0	-6.9	-2.4	-6.7	-5.6	-12.8	0.2	0.3	0.1	0.2	0.0	-0.3	-0.1	-0.3	-0.2	-0.6
Clothing	6.9	5.2	4.4	3.6	1.9	11.0	-7.4	-4.3	-5.8	-9.2	-10.6	0.4	0.4	0.2	0.1	0.7	-0.5	-0.3	-0.4	-0.6	-0.7
Footwear	3.5	3.8	2.4	5.8	3.6	4.1	2.1	0.0	-0.3	7.9	-0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.0	0.0	0.3	0.0
Minerals, ores	5.7	14.8	17.7	16.5	15.9	9.7	-1.0	6.0	4.5	4.4	-18.3	0.8	0.9	0.9	0.8	0.5	-0.1	0.3	0.3	0.3	-1.0
Common metals	8.8	14.1	20.0	18.8	10.1	7.2	1.1	0.7	8.9	9.0	-14.9	1.2	1.7	1.6	0.8	0.6	0.1	0.1	0.8	0.8	-1.2
Machinery, equipment	19.8	8.7	22.2	18.9	-0.8	-2.5	-2.5	-1.5	-1.9	5.1	-11.1	1.7	4.2	3.5	-0.2	-0.5	-0.5	-0.3	-0.4	1.0	-2.2
Vehicles, other transport equipment	12.7	5.0	25.7	6.2	1.3	-9.8	-2.7	4.3	-5.6	1.3	-11.2	0.7	3.1	0.9	0.2	-1.4	-0.3	0.6	-0.8	0.2	-1.3
Optical and precision instruments	0.9	8.0	6.8	12.0	3.0	9.6	1.3	11.0	12.6	0.7	-16.3	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.0	-0.2
Other products	4.6	23.5	25.6	20.1	23.6	25.1	4.5	7.5	10.7	7.2	-7.3	1.0	1.1	0.9	0.9	1.0	0.2	0.3	0.5	0.3	-0.3
<i>Classification by major economic category</i>																					
Intermediate goods	33.6	13.0	15.0	13.5	10.0	13.1	-1.7	3.6	4.8	3.6	-19.1	4.3	5.1	4.7	3.3	4.2	-0.6	1.2	1.7	1.2	-6.6
Capital goods	26.7	14.1	23.5	24.3	6.5	3.7	-0.9	3.7	-1.0	5.7	-11.7	3.8	6.2	6.2	1.8	1.0	-0.3	1.1	-0.3	1.5	-3.2
Consumer goods <sup>(a)</sup>	33.6	4.5	10.0	1.6	4.1	2.4	0.5	1.4	0.9	2.5	-2.6	1.5	3.3	0.5	1.4	0.8	0.2	0.4	0.3	0.8	-0.8
Fuels	5.1	-12.8	-22.6	-27.7	2.6	-1.6	36.7	71.1	70.3	32.0	-13.0	-0.7	-1.1	-1.6	0.1	-0.1	1.5	2.3	2.7	1.6	-0.6
Others	1.1	-2.4	-1.2	5.5	-11.1	-1.6	20.6	5.2	4.6	5.4	-11.0	0.0	0.0	0.1	-0.1	0.0	0.2	0.1	0.2	0.2	0.2
<i>Classification by technological intensity <sup>(b)</sup></i>																					
High technology	9.8	6.9	4.3	14.0	-3.0	12.5	3.2	17.6	6.4	3.8	-13.9	0.7	0.4	1.4	-0.3	1.2	0.3	1.7	0.6	0.4	-1.4
Medium to high technology	31.4	8.4	24.3	12.6	3.8	-4.4	-4.4	-3.7	-4.8	3.2	-12.0	2.7	7.3	4.0	1.2	-1.5	-1.4	-1.2	-1.6	1.0	-3.6
Medium to low technology	24.8	9.3	9.7	6.7	10.5	10.4	7.0	15.0	17.0	12.5	-15.9	2.3	2.4	1.7	2.6	2.5	1.7	3.5	4.3	3.2	-4.0
Low technology	34.0	9.7	9.9	8.5	8.7	11.7	0.9	3.5	3.7	2.4	-5.6	3.3	3.5	2.8	2.9	3.9	0.3	1.2	1.2	0.8	-2.0
<i>Memo: Total excluding fuels</i>	94.9	10.1	15.4	12.2	6.6	6.4	-0.5	3.0	2.0	4.0	-10.9	9.6	14.7	11.4	6.3	6.1	-0.5	2.9	1.9	3.8	-10.4

Sources: INE (International Trade Statistics) and Banco de Portugal.

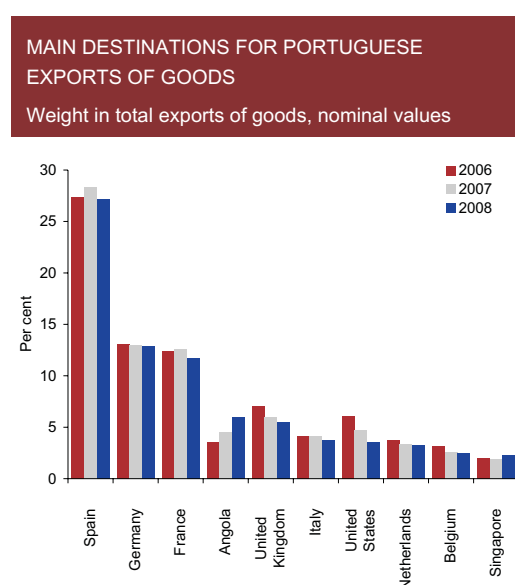
Notes: (a) Including passenger vehicles. (b) Breakdown of exports by level of technological intensity, according to the following correspondence with the two-digit Combined Nomenclature classification: High Technology (30; 84; 88; 90 and 91); Medium to High Technology (28; 29; 31-38; 85-87; 89 and 92-95); Medium to Low Technology (25-27; 39-40; 68-83); Low Technology (1-24; 41-67; and 96-99).

In terms of destination, it should be highlighted the fall of intra-Community exports, particularly in the leading markets for national exports, such as Spain, France and, to a lesser extent, Germany (Table 4.1.4). The lesser dynamics of exports to the Spanish market was generalised to the various groups of goods, excepting fuel. On the other hand, deceleration in exports to France and Germany was particularly marked regarding sales of vehicles and other transport material, products that typically assume a greater weight in the structure of exports towards these markets (Tables 4.1.5 and 4.1.6). This was offset by non-Community exports which were slightly up in 2008, reinforcing the trend noted in the most recent years towards an increase in the share of these markets in total Portuguese exports. Reference should be made that the relative increase in importance of extra-Community exports is transversal to various group of products. In such a context, it should be stressed continued high dynamism of goods exports to Angola, with a nominal growth of 34.8 per cent (39.2 per cent in 2007), which made this country the fourth largest export market for national goods and the most important in non-Community terms (Chart 4.1.13).<sup>10</sup>

After the highly substantial growths of the last two years, exports of services were sharply down in 2008, with a nominal growth of 5.6 per cent, in comparison to 16.0 per cent in 2007. The dynamics of the Portuguese services exports allowed the increase in the respective share in world exports, in the last few years (see “Box 4.1 *The structural evolution of services exports in the Portuguese economy*”, of this Report).

This evolution of services exports in 2008 reflects a deceleration in both tourism exports and exports of other services, particularly transport services (Table 4.1.7). According to the balance of payments information, the decelerating trajectory of nominal exports of services, recorded since the beginning of 2008, was heightened in the last quarter of the year and continued during the first quarter of 2009. An analysis by market of destination shows the strong deceleration of services exports towards the main markets of destination, with special mention to the fall seen in exports to the United Kingdom (Table 4.1.8). In 2008, besides the significant deceleration of tourism exports towards these markets, it

**Chart 4.1.13**



Source: INE (International Trade Statistics).

(10) Besides Angola, we should register the high exports dynamics towards other extra-Community markets, with a special mention to Singapore, whose exports present a growth of 22.2 per cent in 2008.

Table 4.1.4

## PORTUGUESE EXPORTS OF GOODS BY GEOGRAPHICAL AREAS

Year-on-year rate of change and respective contribution; nominal values

	Weights 2007	Year-on-year rate of change (per cent)										Contribution for the year-on-year rate of change (p.p.)									
		2007	2007				2008	2008				2007	2007				2008	2008			
			Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
Total	100.0	8.9	13.6	9.8	6.4	6.0	1.0	5.2	4.6	5.4	-11.0	8.9	13.6	9.8	6.4	6.0	1.0	5.2	4.6	5.4	-11.0
Intra-community	76.7	7.8	12.1	8.3	6.3	4.7	-2.8	3.3	1.5	0.2	-16.4	6.1	9.6	6.5	4.7	3.6	-2.2	2.6	1.1	0.2	-12.4
of which:																					
Spain	28.3	12.5	14.8	9.8	13.1	12.6	-3.0	3.9	5.3	0.8	-21.8	3.4	4.2	2.8	3.4	3.4	-0.8	1.1	1.5	0.2	-6.2
Germany	13.0	8.2	28.9	9.7	2.8	-5.0	-0.3	2.6	-0.5	4.4	-7.7	1.1	3.5	1.3	0.4	-0.7	0.0	0.4	-0.1	0.6	-1.0
France	12.6	11.1	14.6	11.3	9.7	8.6	-6.5	-2.2	-1.1	-5.2	-18.1	1.4	2.0	1.4	1.1	1.0	-0.8	-0.3	-0.1	-0.6	-2.2
United Kingdom	6.0	-7.4	-7.4	-0.3	-8.7	-13.1	-7.7	-3.7	-8.7	-3.0	-15.3	-0.5	-0.5	0.0	-0.6	-0.9	-0.5	-0.2	-0.6	-0.2	-0.9
Italy	4.1	9.6	10.6	6.7	4.6	16.9	-7.7	1.3	-3.5	-10.3	-18.4	0.4	0.5	0.3	0.2	0.6	-0.3	0.1	-0.1	-0.4	-0.8
Extra-community	23.3	12.6	19.3	15.3	6.9	10.2	13.5	12.2	15.0	21.2	6.0	2.8	4.0	3.3	1.7	2.4	3.2	2.6	3.4	5.2	1.5
of which:																					
United States	4.8	-15.1	8.2	-17.3	-29.0	-16.8	-25.0	-24.2	-19.1	-16.3	-39.9	-0.9	0.4	-1.1	-2.0	-1.0	-1.2	-1.2	-0.9	-0.7	-1.9
PALOP	5.5	35.3	40.9	35.8	34.7	31.5	30.4	20.2	23.9	36.6	38.2	1.6	1.6	1.5	1.6	1.6	1.7	1.0	1.2	2.1	2.4

Sources: INE (International Trade Statistics) and Banco de Portugal.

Table 4.1.5

## PORTUGUESE EXPORTS OF GOODS IN 2008

Contribution to growth of exports of goods *vis-à-vis* 2007 by group of product to geographical areas (percentage points); nominal values

	Agriculture	Food products	Fuels	Chemicals	Plastic, rubber products	Wood, cork	Pulp, paper	Textile products	Clothing	Footwear	Minerals, ores	Basic metals	Machinery, equipment	Motor vehicles, other transport equipment	Other products	Total
Total	0.8	0.5	1.4	-0.4	0.3	-0.2	0.0	-0.3	-0.5	0.1	-0.1	0.1	-0.5	-0.3	0.2	1.0
Intra-community	0.3	0.3	1.0	-0.3	0.0	-0.4	-0.1	-0.3	-0.6	0.0	-0.4	-0.7	-0.9	-0.7	0.8	-2.2
of which:																
Spain	0.2	0.3	0.3	-0.1	-0.1	-0.2	0.1	-0.1	-0.3	0.0	-0.2	-0.8	-0.4	-0.1	0.5	-0.8
Germany	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.1	0.0	-0.1	-0.2	0.2	0.0
France	0.0	0.0	0.0	0.0	0.0	-0.1	0.1	0.0	0.0	-0.1	-0.1	0.0	-0.1	-0.5	0.1	-0.8
United Kingdom	0.0	0.0	0.2	-0.1	0.0	0.0	0.0	-0.1	-0.2	0.0	-0.1	0.0	-0.1	0.0	0.1	-0.5
Italy	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.2	-0.3
Extra-community	0.5	0.2	0.4	-0.1	0.3	0.2	0.1	0.0	0.1	0.1	0.3	0.8	0.4	0.4	-0.6	3.2
of which:																
United States	0.0	0.0	-0.8	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-0.3	0.0	-0.1	-1.2
Angola	0.1	0.2	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.3	0.4	0.2	0.1	1.6
Singapore	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.4

Sources: INE (International Trade Statistics) and Banco de Portugal.

Note: Countries ranked according to the respective proportion in exports of goods in 2007.

**Table 4.1.6**

**PORTUGUESE EXPORTS OF GOODS IN 2008**

Change in the contribution to growth of exports of goods *vis-à-vis* 2007 by group of product to geographical areas (percentage points); nominal values

	Agriculture	Food products	Fuels	Chemicals	Plastic, rubber products	Wood, cork	Pulp, paper	Textile products	Clothing	Footwear	Minerals, ores	Basic metals	Machinery, equipment	Motor vehicles, other transport equipment	Other products	Total
TOTAL	0.2	-0.3	1.9	-0.8	-0.6	-0.6	-0.3	-0.5	-0.9	-0.1	-0.9	-1.1	-2.2	-1.0	-0.8	-7.9
Intra-community	-0.1	-0.2	1.6	-0.7	-0.7	-0.7	-0.4	-0.4	-1.0	-0.2	-1.2	-1.6	-1.5	-1.0	-0.1	-8.2
<i>of which:</i>																
Spain	0.0	0.0	0.8	-0.2	-0.5	-0.4	0.1	-0.1	-0.7	0.0	-0.6	-1.2	-0.8	0.0	-0.7	-4.3
Germany	0.0	0.0	0.0	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	-0.2	0.0	-1.0	0.1	-1.1
France	0.0	0.0	0.0	0.0	-0.1	-0.1	0.3	-0.1	0.0	-0.2	-0.3	-0.1	-0.2	-0.9	-0.4	-2.2
United Kingdom	-0.1	-0.2	0.1	-0.1	0.0	-0.1	0.1	-0.1	-0.1	0.0	-0.2	-0.1	0.0	0.5	0.3	0.1
Italy	0.0	0.0	0.2	0.0	-0.1	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0	-0.2	-0.2	-0.3	-0.7
Extra-community	0.3	-0.1	0.3	-0.1	0.1	0.1	0.1	0.0	0.1	0.2	0.3	0.5	-0.7	0.0	-0.7	0.3
<i>of which:</i>																
United States	0.0	0.0	-0.6	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.5	0.0	-0.3	-0.3
Angola	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	-0.1	0.0	0.0	0.2
Singapore	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.4

Sources: *INE* (International Trade Statistics) and Banco de Portugal.

Note: Countries ranked according to the respective proportion in exports of goods in 2007.

Table 4.1.7

PORTUGUESE EXPORTS OF SERVICES							
Year-on-year rate of change and respective contribution; nominal values							
	Weights 2007	Year-on-year rate of change (per cent)			Contribution to the year-on-year rate of change (p.p.)		
		2006	2007	2008	2006	2007	2008
Total	100.0	19.4	16.0	5.6	19.4	16.0	5.6
Tourism services	43.6	7.6	10.9	0.5	3.9	5.0	0.2
Transportation services	25.4	40.7	18.8	10.5	8.6	4.7	2.7
Other business services	18.1	26.4	21.8	10.7	4.3	3.8	1.9
Communication services	3.4	6.5	15.9	8.8	0.2	0.5	0.3
Construction services	3.6	45.8	40.9	8.3	1.1	1.2	0.3
Financial services	1.4	14.5	25.0	-4.0	0.2	0.3	-0.1
Computer and information services	1.4	40.7	36.6	15.3	0.4	0.4	0.2
Personal, cultural and recreational services	1.1	22.2	-6.2	7.2	0.3	-0.1	0.1
Government operations	1.0	17.7	10.3	0.5	0.2	0.1	0.0
Insurance services	0.6	14.1	5.9	5.4	0.1	0.0	0.0
Royalties and license fees	0.4	34.1	9.3	-22.8	0.1	0.0	-0.1

Source: Banco de Portugal (Balance of Payments).

Table 4.1.8

PORTUGUESE EXPORTS OF SERVICES BY COUNTRIES OF DESTINATION							
Year-on-year rate of change and respective contribution; nominal values							
	Weights 2007	Year-on-year rate of change (per cent)			Contribution to the year-on-year rate of change (p.p.)		
		2006	2007	2008	2006	2007	2008
Total	100.0	19.4	16.0	5.6	19.4	16.0	5.6
United Kingdom	18.2	19.6	12.9	-4.6	3.7	2.4	-0.8
Spain	15.4	16.1	15.7	5.2	2.6	2.4	0.8
France	13.0	13.9	15.4	6.7	1.9	2.0	0.9
Germany	10.5	19.0	12.1	4.4	2.1	1.3	0.5
United States	5.1	11.0	23.2	3.4	0.6	1.1	0.2
Italy	4.4	13.8	14.2	-3.2	0.6	0.6	-0.1
Switzerland	4.3	22.9	21.5	-2.6	0.9	0.9	-0.1
Netherlands	3.5	19.6	5.5	10.2	0.8	0.2	0.4
Brazil	3.3	28.6	23.4	7.5	0.8	0.7	0.2
Belgium	2.9	20.4	16.3	7.3	0.6	0.5	0.2
Rest of the World	19.4	28.4	20.4	18.2	4.9	3.8	3.5

Source: Banco de Portugal (Balance of Payments).

should highlighted the lesser dynamics in transport services exports, particularly towards markets that presented a high growth in 2007, like the United Kingdom and Brazil (Tables 4.1.9 and 4.1.10).

A contributory factor to the poorer performance of exports of services in the most recent period was the particularly unfavourable performance of the tourism sector, in line with the significant slowdown in world tourism demand.<sup>11</sup> In the last quarter of 2008, this sector's revenues registered a fall of 4.2 per

(11) The publication of the Survey on the Movement of Persons across Borders was discontinued in 2008, making it impossible to calculate the evolution of Portugal's market share based on this indicator.

**Table 4.1.9**

**PORTUGUESE EXPORTS OF SERVICES IN 2008**

Contributions to the change by type of services to geographical areas (percentage points); nominal values

	Weight 2007	Transportation services	Travel and tourism	Communication services	Construction services	Insurance services	Financial services	Computer and information services	Royalties and license fees	Other business services	Personal, cultural and recreational services	Government operations (n.e.c.)	Total
Total	100.0	2.7	0.2	0.3	0.3	0.0	-0.1	0.2	-0.1	1.9	0.1	0.0	5.6
United Kingdom	18.2	0.0	-0.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.8
Spain	15.4	0.7	-0.1	-0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.8
France	13.0	0.2	0.4	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.9
Germany	10.5	0.3	0.1	-0.1	-0.1	0.0	0.0	-0.1	0.0	0.4	0.0	-0.1	0.5
United States	5.1	0.4	-0.5	0.0	0.1	0.0	0.0	0.0	0.0	0.3	0.0	-0.2	0.2
Italy	4.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.1
Switzerland	4.3	0.1	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	-0.2	-0.1	0.0	-0.1
Netherlands	3.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.4
Brazil	3.3	-0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2
Belgium	2.9	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Rest of the World	19.4	1.0	0.7	0.3	0.1	0.0	0.0	0.2	0.0	0.9	0.1	0.1	3.5

Source: Banco de Portugal (Balance of Payments).

Table 4.1.10

## PORTUGUESE EXPORTS OF SERVICES IN 2008

Change of contribution for the growth in exports of services *vis-à-vis* 2007 by type of services to geographical areas (percentage points); nominal values

	Transportation services	Travel and tourism	Communication services	Construction services	Insurance services	Financial services	Computer and information services	Royalties and license fees	Other business services	Personal, cultural and recreational services	Government operations (n.e.c.)	Total
Total	-2.0	-4.8	-0.2	-0.9	0.0	-0.4	-0.2	-0.1	-1.8	0.2	-0.1	-10.4
United Kingdom	-1.0	-2.1	0.1	-0.1	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	-3.2
Spain	0.5	-1.0	-0.2	-0.7	0.1	0.0	0.0	0.0	-0.5	0.1	0.0	-1.6
France	0.0	-0.6	0.0	0.0	0.0	-0.1	0.0	0.0	-0.5	0.1	0.0	-1.1
Germany	-0.4	0.5	-0.3	-0.4	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0	-0.9
United States	0.0	-0.6	-0.1	0.0	0.0	-0.1	-0.1	0.0	0.2	0.0	-0.3	-0.9
Italy	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	-0.1	-0.3	0.0	0.0	-0.8
Switzerland	-0.2	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0	-0.7	-0.1	0.0	-1.0
Netherlands	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Brazil	-1.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	-0.5
Belgium	0.0	-0.2	0.0	0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.3
Rest of the World	0.1	-0.5	0.0	0.1	0.0	-0.2	0.1	0.0	-0.2	0.1	0.1	-0.3

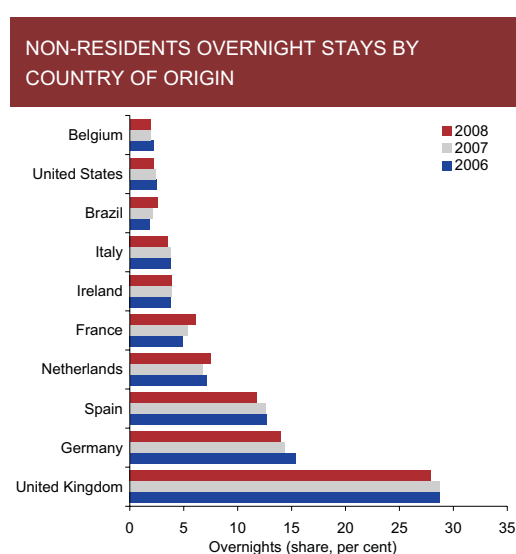
Source: Banco de Portugal (Balance of Payments).

cent, comparing to a growth of 0.5 per cent, for 2008 as a whole, and 10.9 per cent in 2007. The loss in dynamics in the tourism sector can also be seen in the behaviour of non-resident tourist overnight stays, that registered a fall of 1.6 per cent in 2008, after a growth of 5.8 per cent in 2007 (Chart 4.1.14). It should be noted, however, that the number of passengers from regular flights – with a special mention for the maintenance of a growing proportion of passengers from low cost flights – increased again in 2008 (5.6 per cent), although significantly less than what was seen in the previous two years (Chart 4.1.15).

In 2008, imports of goods and services showed a growth markedly below that of the previous year. According to current estimates, imports of goods and services recorded a growth rate of 2.1 per cent (5.6 per cent in 2007), a value that was still higher than the estimated growth for domestic demand (and also for the weighted global demand), resulting in another increase in the penetration rate of imports in the Portuguese economy. The smaller dynamism in terms of imports, in 2008, essentially reflects the behaviour of imports of goods that showed a significant deceleration (of 5.7 per cent, in 2007, to 1.9 per cent). This deceleration occurred in a context of a loss of dynamism in several domestic demand components with high imported content, such as the consumption of durables and the investment in machinery and transport material (Chart 4.1.16). In nominal terms, goods imports were slightly down in 2008 (from 7.4 to 7.2 per cent), notwithstanding the significant growth of fuel imports which, for the year as a whole, was 30.2 per cent up, after a slight decrease in the preceding year (Table 4.1.11). Excluding fuels, nominal import growth stood at 3.6 per cent (9.1 per cent in 2007). The available information points to a continuation of the downward trajectory of goods imports in the first months of 2009. The deceleration of goods imports reflected the lower growth of intra-Community imports, particularly in several of the main markets of origin, such as Spain and France. This was offset by an acceleration of non-Community imports, particularly from oil producing countries.

Imports of services, in turn, presented a growth trend slightly below to that of 2007. According to the balance of payments' information, in 2008, nominal imports of services showed a growth of 8.6 per cent, against 9.1 per cent in 2007, in which particular reference should be made to the significant de-

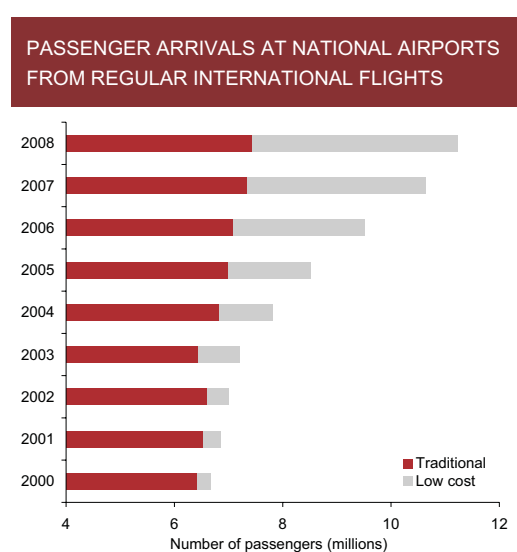
Chart 4.1.14



Source: INE.

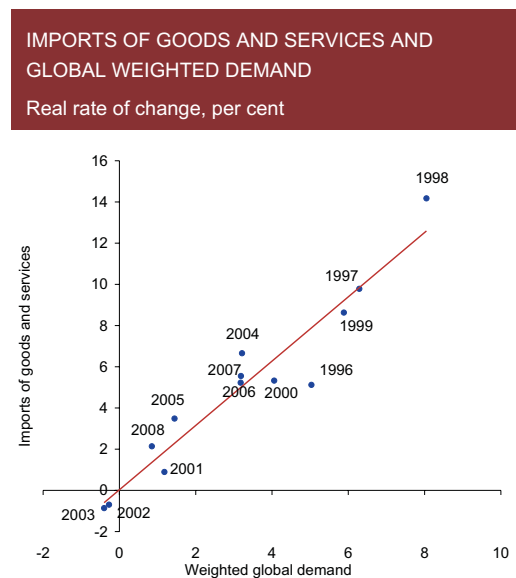
Note: Total non-resident overnight stays: 26,205.2 thousand (2008), 26,626.8 thousand (2007) and 25,158.7 thousand (2006).

Chart 4.1.15



Source: ANA.

Chart 4.1.16



Sources: INE and Banco de Portugal.

Table 4.1.11

**PORTUGUESE IMPORTS OF GOODS BY GROUPS OF PRODUCTS. MAIN ECONOMIC CATEGORIES**  
Year-on-year rate of change and respective contribution; nominal values

	Weights 2007	Year-on-year rate of change (per cent)			Contribution to the year-on-year rate of change (p.p.)		
		2006	2007	2008	2006	2007	2008
Total	100.0	8.1	7.4	7.2	8.1	7.4	7.2
<i>Classification by group of products</i>							
Agriculture	8.9	9.2	14.9	9.5	0.8	1.2	0.9
Food products	3.6	5.5	13.8	11.2	0.2	0.5	0.4
Mineral fuels	14.0	12.0	-1.5	29.1	1.8	-0.2	4.1
Chemicals	8.7	10.7	2.6	6.7	1.0	0.2	0.6
Plastic, rubber products	5.0	6.1	15.3	0.2	0.3	0.7	0.0
Leather, leather products	1.0	2.5	14.2	-1.9	0.0	0.1	0.0
Wood, cork	1.3	-1.8	17.3	-6.1	0.0	0.2	-0.1
Pulp, paper	2.4	5.0	6.8	0.2	0.1	0.2	0.0
Textile products	3.1	3.1	0.6	-8.2	0.1	0.0	-0.2
Clothing	2.8	3.6	17.2	1.6	0.1	0.4	0.0
Footwear	0.9	7.0	15.2	4.1	0.1	0.1	0.0
Minerals, ores	1.6	-2.0	4.6	1.8	0.0	0.1	0.0
Basic metals	9.9	23.7	10.8	0.7	2.0	1.0	0.1
Machinery, equipment	19.7	7.9	6.7	3.6	1.6	1.3	0.7
Motor vehicles, other transport equipment	11.9	1.0	9.5	5.8	0.1	1.1	0.7
Optical and precision instruments	2.1	3.8	5.4	1.2	0.1	0.1	0.0
Other products	3.1	-0.4	8.0	1.2	0.0	0.2	0.0
<i>Classification by main economic categories</i>							
Intermediate goods	30.9	9.6	11.3	2.3	2.8	3.4	0.7
Capital goods	26.2	5.5	7.0	4.1	1.5	1.8	1.1
Consumer goods	28.9	6.9	8.8	4.2	2.0	2.5	1.2
Fuels	13.6	13.2	-2.2	30.2	1.9	-0.3	4.1
Other	0.5	-20.5	14.6	23.1	-0.1	0.1	0.1
<i>Memo: Total excluding fuels</i>	86.4	7.2	9.1	3.6	6.2	7.8	3.1

Sources: INE (International Trade Statistics) and Banco de Portugal.

celeration of imports of tourism and transport services, which, when taken together, represent around one half of the total imports of services (Table 4.1.12).

**Table 4.1.12**

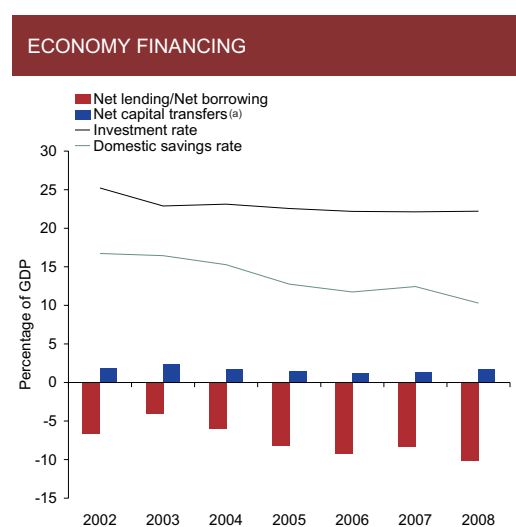
PORTUGUESE IMPORTS OF SERVICES							
Year-on-year rate of change and respective contribution; nominal values							
	Weights 2007	Year-on-year rate of change (per cent)			Contribution to the year-on-year rate of change (p.p.)		
		2006	2007	2008	2006	2007	2008
		Total	100.0	15.1	9.1	8.6	15.1
Tourism services	27.2	8.3	7.9	2.4	2.4	2.2	0.7
Transportation services	30.8	14.9	10.6	6.4	4.5	3.2	2.0
Other business services	20.2	11.7	9.7	17.8	2.4	1.9	3.6
Communication services	5.5	39.4	29.2	15.5	1.5	1.3	0.8
Construction services	1.2	22.4	15.8	28.2	0.2	0.2	0.3
Financial services	1.9	12.9	-2.7	29.0	0.3	-0.1	0.6
Computer and information services	2.8	29.7	11.4	17.4	0.7	0.3	0.5
Personal, cultural and recreational services	3.5	37.1	-1.0	10.1	1.2	0.0	0.4
Government operations	2.0	67.7	-7.2	-21.9	1.1	-0.2	-0.4
Insurance services	1.8	11.0	0.8	6.5	0.2	0.0	0.1
Royalties and license fees	3.1	13.7	5.7	2.4	0.4	0.2	0.1

Source: Banco de Portugal (Balance of Payments).

## 4.2. External accounts

Unlike 2007, a year when the worsening of Portugal's external imbalance was interrupted, in 2008 there was an increase in the net external borrowing of the Portuguese economy, as a percentage of GDP (Chart 4.2.1). This evolution reflected mainly the significant deterioration of the goods and services account deficit. This resulted, on the one hand, from the plunge in exports, especially at the end of the year, contrasting with a smaller deceleration of imports, amid an environment of virtual stabilisa-

**Chart 4.2.1**



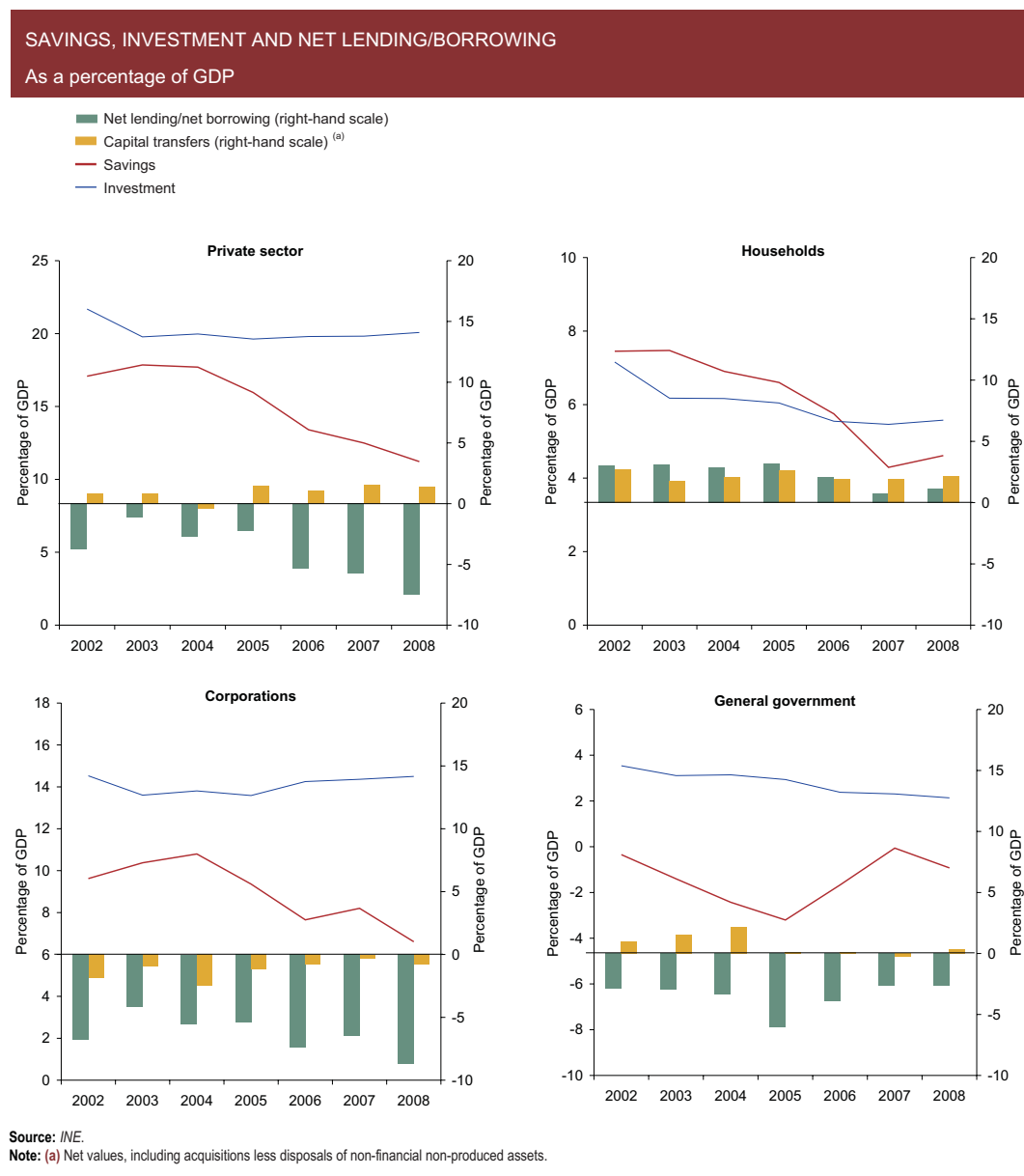
Sources: INE and Banco de Portugal.

Note: (a) Includes the acquisitions less disposals of non-financial non-produced assets.

tion regarding private consumption growth in Portugal. On the other hand, the terms of trade evolved unfavourably, due to the sharp increase, in annual average terms, of commodity prices in international markets, in particular oil prices.

In macro-economic terms, the above-mentioned evolution reflected the reduction in the domestic savings rate, a slight increase in net capital transfers and the maintenance of investment rate for the economy, at a level close to the one registered in 2007. The increase in the Portuguese economy's net external borrowing was a result of the private sector's behaviour – whose net borrowing increased in 1.8 percentage points (p.p.) of Gross Domestic Product (GDP) - and the stabilization of general government net borrowing (Chart 4.2.2 and Supplementary Table A.4.14). In the case of general government, the relative stability of its net borrowing resulted from the convergence of an increase in current deficit (corresponding to a savings value more negative in 2008 than in 2007) together with a slight reduction in the investment rate and a significant increase in net capital transfers, associated to temporary fiscal measures (see "Chapter 6 *Public Finances*", of this Report).

**Chart 4.2.2**



Regarding the private sector, the increase in its net borrowing as a percentage of GDP reflected, on one hand, the stabilization of the financial sector's net lending and, on the other hand, the increase in the net borrowing of the non-financial private sector. In turn, the worsening of the net borrowing of the non-financial private sector was caused by the behaviour of non-financial corporations, since households registered a slight increase of its net lending in 2008.

Given that investment remained at a level close to that of 2007, the increase in non-financial corporations' net borrowing was essentially caused by a decrease in savings. In this case, the reduction in savings was conditioned by the decrease of the gross operating surplus, mainly reflecting the significant increase in wages. This increase in wages paid by non-financial corporations reflected the combination of the relative growth stabilization of compensation per employee (see "Chapter 5 Prices", of this Report) with the increase in the number of employees (see "Chapter 3 Supply", of this Report). On the other hand, a bigger proportion of generated income was distributed as interests – resulting from the raise in the annual average level of interest rates and in indebtedness – and, to a lesser degree, as corporate earnings distributed as dividends (see "Chapter 7 Financial Situation", of this Report).

In turn, the slight increase in the households' net lending, contrasting with the continued decrease seen since 2004, reflected the relative stabilization of investment rate and net capital transfers and the slight increase in savings. The increase in household savings resulted from disposable income growing faster than private consumption.<sup>12</sup> In 2008, disposable income grew faster than in 2007, while private consumption maintained its nominal growth, at a level similar to the previous year's. In this context, there was also a virtual stabilization of the households' indebtedness ratio *vis-à-vis* its disposable income, after a long period where it increased (see "Chapter 7 Financial Situation", of this Report).

Net external borrowing regarding total economy, corresponding generally to the current plus capital account deficit, stood at 10.5 per cent of GDP, which represents an increase of 2.4 p.p. of GDP *vis-à-vis* the previous year (Table 4.2.1).<sup>13</sup> In what regards the components of the current and capital account, the slight increase in the capital account surplus, in 2008, partly reflected the component of public

**Table 4.2.1**

CURRENT AND CAPITAL ACCOUNT							
Balances as a percentage of GDP							
	2002	2003	2004	2005	2006	2007	2008
Current and capital account	-6.6	-4.2	-6.1	-8.3	-9.2	-8.1	-10.5
Current account	-8.1	-6.1	-7.6	-9.5	-10.0	-9.4	-12.1
Goods and services	-7.9	-6.5	-7.5	-8.4	-7.6	-6.8	-8.9
Goods	-10.4	-9.1	-10.3	-11.0	-10.8	-10.8	-12.9
Services	2.5	2.6	2.8	2.6	3.2	4.0	3.9
of which:							
Travel and tourism	2.8	2.7	2.8	2.5	2.6	2.8	2.7
Income	-2.3	-1.7	-2.1	-2.6	-4.1	-4.2	-4.7
Current transfers	2.2	2.1	2.0	1.5	1.6	1.6	1.5
of which:							
Migrants' remittances	1.8	1.4	1.4	1.2	1.2	1.2	1.1
Capital account	1.5	1.9	1.5	1.2	0.8	1.3	1.7
<i>Memo:</i>							
Current transfers account + capital account	3.7	4.0	3.5	2.7	2.4	2.9	3.1

Sources: INE and Banco de Portugal.

(12) For a more detailed discussion on the evolution of consumption and households' disposable income, see "Section 4.1 Demand", of this Report.

(13) The discrepancy between the economy's net lending/borrowing and the current and capital account balance is due to methodology differences in its calculation, regarding treatment and accounting of some operations. For more details, see Balance of Payments Manual (<http://www.imf.org/external/pubs/cat/longres.cfm?sk=157.0>) and the European System of National and Regional Accounts (ESA) of 1995 (<http://circa.europa.eu/irc/dsis/nfaccount/info/data/esa95/esa95-new.htm>).

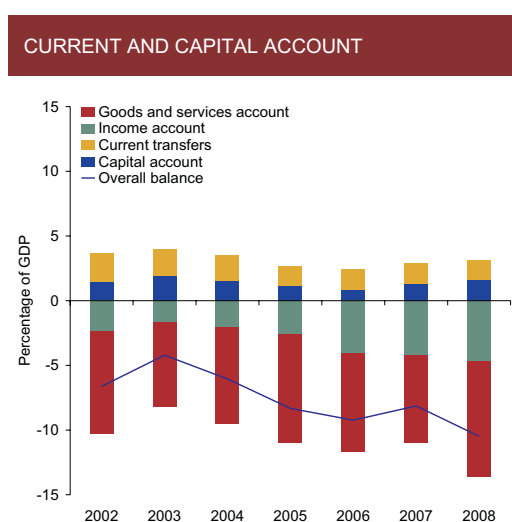
transfers, which may have been influenced by the temporal overlapping of projects still being financed under the 3<sup>rd</sup> Community Support Framework with projects already included in the National Strategic Reference Framework. The deficit on the current account increased, in turn, from 9.4 per cent of GDP, in 2007, to 12.1 per cent of GDP in 2008, offsetting the favourable evolution of the capital account surplus.

The deterioration of the current account deficit resulted from the unfavourable evolution of the goods and services account balance and, to a lesser extent, of income and current transfers accounts (Chart 4.2.3). The income account deficit increased for the fifth consecutive year, from 4.2 per cent of GDP in 2007 to 4.7 per cent of GDP in 2008, reflecting to a large extent the evolution of the deficit on the portfolio investment income account (Chart 4.2.4). This increase in the deficit of the portfolio investment income account is consistent with the continued deterioration of the Portuguese international investment position, and reflects the increase in the deficit of the portfolio and others investments income component as well as a decrease in the direct investment income deficit, associated essentially to a fall in external payments regarding dividends and distributed profits much sharper than in external receipts.

In 2008, the surplus in the current transfers balance, essentially reflecting the private transfers component, stood at 1.5 per cent of GDP (1.6 per cent of GDP in 2007 and 2006). Also in what regards migrants' remittances there was a slight reduction in the surplus in 2008, resulting from a reduction in emigrants' remittances (which, to a large extent, determines a deceleration of transfers to households – see "Section 4.1 Demand", of this Report), which decreased by 0.1 p.p. of GDP in 2008 (a fall of 4.0 per cent), since immigrants' remittances remained stable as a percentage of GDP (Chart 4.2.5). In the case of emigrants' remittances, it is important to note that, excepting Switzerland and Spain, remittances from countries of traditional destiny for Portuguese emigrants have been slowing down, in general, presenting a negative contribution for the change in emigrants' remittances in 2008 (Chart 4.2.6). Also, note that emigrants' remittances from Angola have gained weight in the total of remittances, especially in the last four years, with a positive contribution for change in remittances in 2008.

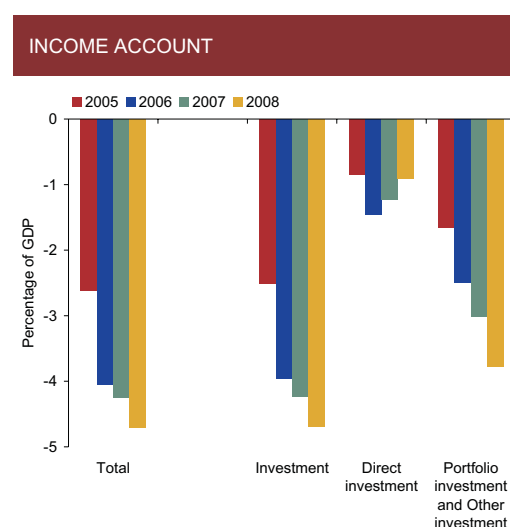
In the case of the goods and services account, the deficit increased by 2.1 p.p. of GDP as a result of the deterioration of the goods account deficit, while the surplus on the services account remained stable. The breakdown of the change in the balance of the goods and services account shows that all the effects considered in the breakdown contributed to increasing the deficit in 2008, namely volume, terms of trade

Chart 4.2.3



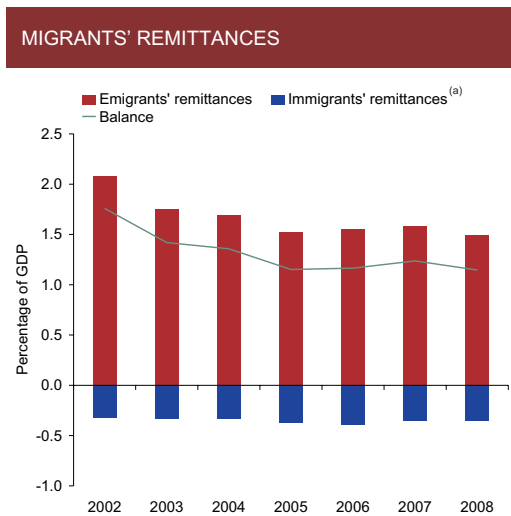
Sources: INE and Banco de Portugal.

Chart 4.2.4



Sources: INE and Banco de Portugal.

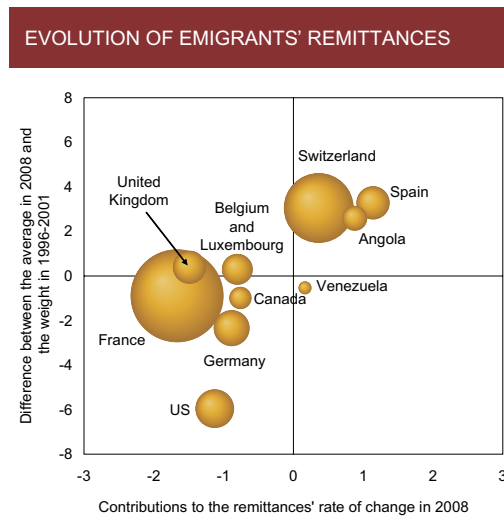
Chart 4.2.5



Sources: INE and Banco de Portugal.

Note: (a) Immigrants' remittances (debits) with negative sign.

Chart 4.2.6



Source: Banco de Portugal.

Note: Bubble size refers to country's weight on total remittances in 2008. The 10 countries with the biggest weight in 2008 are presented, corresponding to about 95 per cent of total remittances. A positive (negative) sign in the difference between the weight in 2008 and the average from 1996-2001 indicates that the weight in 2008 was higher (lower) than the average over the period 1996-2001.

and, to a lesser extent, price and cross effects (Chart 4.2.7). There was a significant decrease in the volume effect, *vis-à-vis* the previous year, being negative in 2008. This evolution reflected, on the one hand, the non-energy goods component, as a result of the major deceleration in the volume of exports of goods excluding fuel, which fell by 1.3 per cent in 2008, together with a less marked deceleration of imports excluding fuel, which grew by 2.9 per cent (Chart 4.2.8). There was, on the other hand, also a significant decrease in the volume effect associated with the services account, which was virtually nil in 2008. As in the case of goods excluding fuel, exports of services also decelerated in volume, in 2008 (in particular, exports of tourism and transport services), having grown at a lower rate than imports, which decelerated more slightly (again, there was a greater slowdown in imports of tourism and transport services).

The marked worsening of the volume effect of the goods and services account reflected, therefore, a fall in volume of exports of goods and services (which was particularly significant in the last quarter of 2008), associated with a contraction in global consumption and investment, in the context of the economic and financial international crisis and the high level of uncertainty over future developments in world economic activity. Additionally, and despite the adverse international context, there was a less marked deceleration of imports of goods and services in volume, reflecting the virtual stabilisation of private consumption growth, in real terms, in Portugal.<sup>14</sup>

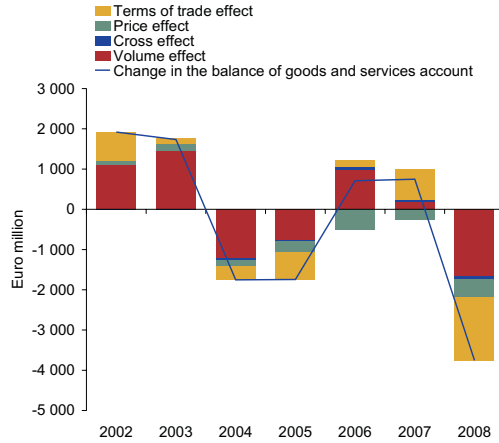
The evolution of export prices of goods and services was close to the one registered in 2007, while import prices of goods and services accelerated in 2008, growing at a higher rate than export prices. This evolution led to a more negative price effect than in 2007 and to a loss in the terms of trade, which contrasts with the gain in 2007 (Chart 4.2.7). In line with the evolution of oil prices in international markets (see "Chapter 5 Prices", of this Report), there was a particularly significant acceleration in the prices of fuel exports and imports, resulting in a strong negative price effect in the energy account.

Notwithstanding the fact that, in nominal terms, the deficit on the energy account continued to be higher than the one of the non-energy component of the goods and services account, net energy transactions between Portugal and abroad and other goods and services transactions made an equally important con-

(14) For a more detailed analysis regarding consumption, exports and imports evolution in 2008, see "Section 4.1 Demand", of this Report.

Chart 4.2.7

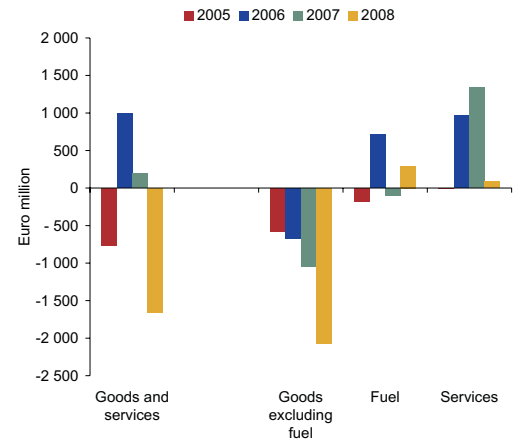
**CHANGE IN THE GOODS AND SERVICES ACCOUNT BALANCE**  
Breakdown in volume, price and terms of trade effect



**Sources:** INE and Banco de Portugal.  
**Note:** A positive (negative) change means an increase (decrease) in the balance on the goods and services account. The change in the goods and services account balance may be broken down into four effects:  
 - volume effect - effect of the change in imported and exported volumes;  
 $[X_{t-1} \cdot vx_t] - [M_{t-1} \cdot vm_t]$   
 - price effect - effect of average growth of external trade prices;  
 $[X_{t-1} \cdot p_t] - [M_{t-1} \cdot p_t]$   
 - terms of trade effect - effect of the relative change in export and import prices;  
 $[X_{t-1} \cdot (px_t - p_t)] - [M_{t-1} \cdot (pm_t - p_t)]$   
 - cross effect - effect of the interaction between changes in volume and prices of exports and imports.  
 $[X_{t-1} \cdot vx_t \cdot px_t] - [M_{t-1} \cdot vm_t \cdot pm_t]$   
 where:  $X_{t-1}$  and  $M_{t-1}$  denote the exports and imports in year t-1 at current prices;  $vx_t$  and  $vm_t$  denote the rates of change in export and import volume in t;  $px_t$  and  $pm_t$  denote the rates of change of export and import prices in t;  $p_t$  is the average rate of change of external trade prices in year t  $((px_t + pm_t)/2)$ .

Chart 4.2.8

**BREAKDOWN OF THE VOLUME EFFECT IN THE CHANGE OF GOODS AND SERVICES ACCOUNT BALANCE**

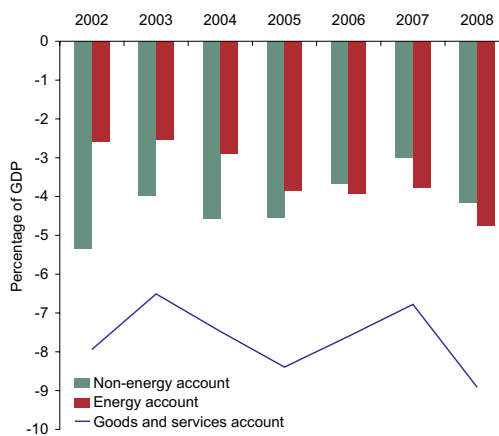


**Sources:** INE and Banco de Portugal.  
**Notes:** A positive (negative) change means an increase (decrease) in the goods and services account balance. For a description of the methodology used, see note to Chart 4.2.7.

tribution to the worsening of the goods and services account deficit (Chart 4.2.9). However, underlying these contributions were disparate dominant effects. The contribution of the energy account was essentially determined by the evolution of its prices, whereas in the case of the non-energy component, its contribution was dominated by the volume effect.

Chart 4.2.9

**GOODS AND SERVICES ACCOUNT**  
Breakdown in energy and non-energy account



**Sources:** INE and Banco de Portugal.