ANNUAL REPORT

The Portuguese Economy in 2011

Banco de Portugal

EUROSYSTEM

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REPORT AND FINANCIAL STATEMENTS

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THE PORTUGUESE ECONOMY IN 2011

I

OVERVIEW

The year 2011 was marked by the request for international financial assistance and by the notable adjustment of the macroeconomic imbalances previously accumulated in the Portuguese economy, which is likely to continue over the coming years, under the framework of the Economic and Financial Assistance Programme for Portugal. In the beginning of the year, in the context of a new outbreak of the sovereign debt crisis in the euro area, there was a significant build-up of international investors' concerns over the sustainability of the public finances and the intertemporal dynamics of the Portuguese external debt. Deteriorating access conditions to international funding markets made the recourse to external financial assistance unavoidable, which was confirmed in the beginning of April. The Economic and Financial Assistance Programme for Portugal, agreed with the European Union (EU), the International Monetary Fund (IMF) and the European Central Bank (ECB) guaranteed the financing of the Portuguese economy for a period that allows implementing a gradual and structural correction of the imbalances in public finances and external accounts, in addition to preparing and implementing the structural reforms required to reverse the main structural impediments to the economy's growth potential. In parallel the ECB's non-conventional monetary policy measures ensured the regular financing of the domestic banking system. Notwithstanding the above, the monetary and financial conditions of the Portuguese economy deteriorated over the course of 2011.

In this global framework, the Portuguese economy recorded a strong contraction of activity which intensified during the course of the year, reflecting an adjustment of public and private sector balance sheets, notwithstanding robust export growth. In the beginning of 2012, the pace of the downturn in economic activity showed signs of stabilising. This recessionary framework of the Portuguese economy translated into a particularly marked reduction of employment and an increase in the unemployment rate to an historical maximum. This was accompanied by a significant decline in external borrowing requirements. These dynamics will tend to reinforce in the near future as the economic adjustment process is still far from completion. The risks surrounding the implementation of the Programme remain significant and include not only domestic elements – associated *inter alia* with the expectable resistance of several economic agents to the vast set of structural reforms foreseen in the structural area – but also external factors, visible in the recurrent intensification of tensions associated with the sovereign debt crisis in the euro area. These risks require a rigorous implementation of the Programme and the strict compliance with the agreed objectives and reinforce the importance of a broad social and political support for the Programme. In this context, it should be underlined that the correction of the macroeconomic imbalances is not an end in itself, but is unavoidable to enable the creation of the bases for balanced and sustained growth, the sole source of improving economic welfare over the long term.

The external environment of the Portuguese economy was characterised by a high level of heterogeneity in economic growth on a global scale, by important non-conventional monetary policy measures by the ECB and by notable institutional innovations in the euro area

The recovery of the global economic activity, following the great recession of 2009, has been slower than in former recessionary episodes. This weak performance stems from a combination of various factors such as the fact that recessions deriving from financial and banking crises tend to be characterised by slow recoveries of economic activity, the need for households and corporations to continue with their balance sheet adjustment process and the synchronisation of fiscal consolidation efforts in a large number of European countries. There persists a high level of heterogeneity in terms of economic growth between regions, with the advanced economies being particularly affected by the above structural features, while most emerging market economies maintained strong economic growth in 2011. Further, the heterogeneity of economic growth between euro area countries reached maximum levels since monetary unification.

In intra-annual terms, and as a result of the intensifying financial turmoil associated with the sovereign debt crisis in the euro area, global economic activity recorded a slowdown over the course of 2011.

In this framework of weak dynamism of economic activity in the euro area the ECB's monetary policy remained accommodative in 2011. In addition, given the high level of segmentation of the money market in the area and the exacerbated turmoil in financial markets, the ECB's Governing Council decided to reinforce its set of non-conventional monetary policy measures, in particular with the decision to conduct fixed rate tenders with full allotment over particularly long maturities, in addition to the broadening of the collateral eligible for banks' financing from the Eurosystem (see "Box 1.2 *Non-conventional monetary policy measures in the euro area and their impact on financial markets*" of this Report). These measures contributed not only to smoothen the functioning of the monetary transmission mechanism in the area, but also to diminish liquidity risk in the banking system. It should, however, be stressed that such interventions did not diminish the need to reinforce the dynamics of structural reform and fiscal consolidation in several euro area countries and the agenda towards greater institutional integration on a European level. Reference should herein be made to the fact that important changes in the institutional design of the European Union were introduced in 2011, particularly regarding the financial supervision architecture and the reinforcement of economic governance (see "Box 1.1 *Developments in the economic governance of the EU: supervision of macroeconomic imbalances*" and "Box 3.2 *Developments in the fiscal supervisory framework of the European Union*" of this Report).

Deterioration of the monetary and financial conditions of the Portuguese economy over the course of 2011, notwithstanding the favourable contribution of the ECB's non-conventional monetary policy measures

Over the course of 2011 and at the beginning of 2012, financing conditions in Portugal continued to be conditioned by the persistence of tensions in the international financial markets and by the ongoing adjustment process in the Portuguese economy. Portuguese banks, given the virtual absence of external market funding, began a deleveraging process designed to achieve a stable funding position in the medium term. It should be noted that the ECB's non-conventional monetary policy measures made a decisive contribution in ensuring that this process would be gradual and orderly. In such a framework, Portuguese banks continued to significantly increase their degree of lending restrictiveness, particularly at the end of 2011 and at the beginning of 2012. Regarding interest rates on loans there was a continued increase in 2011 and some stabilisation at the beginning of 2012. This evolution was essentially associated with two factors: on the one hand, banking institutions transmitted the intensification of credit risk and the high levels of uncertainty on their interest rate spreads; on the other hand, and more importantly, in a context of virtual absence of access to wholesale international debt markets, banks significantly increased their rates on deposits with the objective of maximising this source of funding. To ensure the maintenance of the interest rate margin, most institutions transmitted this movement in deposit rates to their loan rates.

In such a restrictive financing framework credit aggregates to corporations and households continued to display a declining trend over the course of 2011 and at the beginning of 2012. Given the strong contraction in economic activity and the increase in the risk premium, this evolution of credit does not represent, in aggregate terms, a case of abrupt quantitative constraints on the supply side. There is, however, a high level of heterogeneity at the level of corporations/sectors, given that credit risk tends to be greater in companies in several non-tradable sectors, which are more penalised by the contraction of domestic demand and by the ongoing structural adjustment. Reference should also be made to the fact that corporations with a better financial position and with foreign links reinforced their use of external financing at the end of 2011, in a context of a large increase in lending rates, which was particularly marked in the case of large corporations. Further, corporations without access to the external credit market – usually smaller and higher risk firms – recorded a more significant drop in total credit, with the situation intensifying by the end of the year. In this context, it is important to assess the relative contribution to credit developments stemming from supply side constraints and from the credit demand dynamics. Finding an adequate level of support for the gradual deleveraging of the economy, consistent with the financing of the most productive and dynamic firms, is a fundamental goal of the Economic and Financial Assistance Programme.

Fiscal policy in 2011 was highly restrictive and pro-cyclical

In 2011 there were unprecedented fiscal consolidation efforts. These were based on an increase of revenue – essentially tax increases deriving from changes to legislation – and particularly on a strong contraction of expenditure – mainly in the public sector wage bill and in investment. The nature of fiscal policy was highly restrictive, with a change of 3.3 percentage points of GDP in the primary balance adjusted for cyclical developments, for temporary measures and for other special extraordinary factors. In a context of unavoidable correction of the imbalances in the public finances, fiscal policy was also pro-cyclical in nature, as was the case in most years since the introduction of the euro. Notwithstanding, the fiscal deficit target announced and defined in the Programme was only fulfilled with the recourse to a very substantial amount of temporary measures, in particular the partial transfer of the banks' employees pension funds to the Social Security (see "Box 3.3 *Transfers of pension funds and their impact on public accounts in Portugal: 1997-2011*" of this Report). In turn, the public debt ratio maintained an upward trend, reaching a historically high level at the end of the year. However, in contrast with previous years, the main contribution to the debt increase in 2011 was not the primary deficit but deficit-debt adjustments. The latter reflected an increase in deposits from general government, related in particular to unused funds received in the context of the Programme, as well as to the part of the pension funds transfer which was undertaken in 2011. Globally, the fiscal consolidation effort will intensify in 2012 and continue in the following years, in order to achieve the medium term objectives set in the Programme and agreed in the context of the European Union's fiscal supervisory context. Reference should herein be made to the fact that important legislative measures relating to fiscal governance in Portugal were approved in Portugal in 2011, particularly the changes to the Budgetary Framework Law and the creation of the Fiscal Policy Council (see "Box 3.1 *Institutional framework of the public finances in Portugal: recent developments*" of this Report).

Significant adjustment of external imbalances in 2011 deriving from the combination of a sharp contraction of domestic demand with robust export growth

The need to adjust the public and private sectors' balance sheets implied a sharp fall in domestic demand. In particular, private consumption recorded the highest fall of the last decades, in line with the strong reduction of real disposable income and the increased restrictiveness of access to credit, in a framework of deteriorating labour market conditions. The behaviour of households – in particular the sharp fall in the consumption of non-durable goods and services and the slight fall in the saving rate – is consistent not only with the context of high uncertainty and greater liquidity restrictions but also with the perception that the fall in disposable income will have a permanent nature (see "Box 5.1 *The recent evolution of household savings rates in Portugal*" of this Report). In turn, investment declined markedly, reinforcing the accumulated falls over the last decade. In such a framework, domestic inflationary pressures have been highly mitigated. Higher consumer prices in 2011 were essentially conditioned by tax changes and increases in administered prices of several goods and services, in the framework of the fiscal consolidation process.

In contrast to the strong contraction of domestic demand, exports of goods and services displayed robust growth, with a high level of diversification in terms of products and geographical destinations (see "Box 5.3 *The evolution of Portuguese exports of goods in 2011 by main products and geographical destinations*" of this Report). Such dynamism was also broad-based in terms of degree of technological intensity. It should also be noted that export growth was higher than external demand and that there was an increase in the market share of Portuguese exports both in intra and in extra-EU markets. The significant gain of market share, which intensified at the beginning of 2012, was *inter alia* associated with a greater diversification and with a re-orientation of supply to the most dynamic markets, in the context of a major contraction of domestic demand. It should also be noted that, as observed in 2010, relative unit labour costs declined in 2011, contributing to improve the economy's international competitiveness in terms of prices/costs (see "Box 5.2 *The recent evolution of the international competitiveness of the Portuguese economy at the level of unit labour costs*" of this Report).

The combination of a strong contraction in domestic demand with a remarkable robustness of exports implied a significant adjustment of the goods and services account and accordingly of the current and capital account. This decline in external borrowing requirements reflected a reduction of the rate of investment in the economy and an increase in the domestic savings rate. The data show a highly marked profile of reduction of borrowing requirements over the year, particularly after the inception of the Programme. Reference should also be made to the fact that the external financing profile was substantially different from that observed since the inception of the euro area, with the financial account having been funded through a reduction of financial assets vis-à-vis the rest of the world, in contrast to the usual funding through an increase in external liabilities. This profile accentuates the trends observed since the onset of the international financial crisis in 2007, reflecting the increasingly lower international financial integration of the Portuguese economy.

The challenge of the decline of structural unemployment in Portugal

In the framework of a worsening economic situation in Portugal, employment fell sharply in 2011, particularly at the end of the year. Employment creation recorded in 2011 the lowest levels of the last decade and the unemployment rate rose to a new historical maximum. The composition of unemployment continues to mainly comprise individuals with low levels of qualifications and older people, who have been having greater difficulty in finding a job over the last few years. Structural unemployment has also continued to increase and its reduction has become an even more pressing challenge.

The evolution of unemployment in the Portuguese economy has occurred in a context of labour market segmentation in which the dynamics of the creation and destruction of employment are closely associated with fixed-term contracts, particularly in the case of younger people. This strong labour market segmentation in Portugal is likely to be the main explanatory factor behind the high levels of labour market flows, in comparison to other European countries (see "Box 4.1. *Employment and worker flows in the labour market*" of this Report).

The economic and social cost of the economic restructuring process can only be alleviated if it is based on a set of market mechanisms to stimulate job growth. In particular the reduction in labour market segmentation should fuel productivity and expand employment possibilities for all workers, even if this involves greater rotation between jobs over the short term. However, such restructuring may not be sufficient to guarantee the return of less qualified workers to the labour market and a supplementary effort is therefore required to re-qualify the available workforce. It is also important to ensure the maintenance of an efficient public safety net.

The challenge of the return to financial markets from mid-2013

The financing constraints facing the Portuguese economy stem from the high indebtedness levels accumulated throughout more than a decade, in a particularly benign financial context. The accumulated external indebtedness – made possible by the Portuguese participation in the euro area – arose from the behaviour of private agents and of public policies deeply inappropriate to the demands of the new regime arising from the adoption of the single currency. The interruption of market access in the beginning of 2011 made urgent the adjustment of public and private balance sheets, including the banking sector. The Economic and Financial Assistance Programme allows avoiding an abrupt and disorderly adjustment, which would otherwise be the case.

Given the highly negative international investment position of the Portuguese economy, a return to market financing is a *sine qua non* condition for the Programme's success. The full reopening of funding markets to national agents requires that the intertemporal solvency conditions of the various institutional sectors, particularly general government, are previously ensured. In this regard, the effective implementation of structural reforms aiming to increase the level and the growth of productivity over the medium term should play a prominent role (see "Box 4.2 *Competition in the Portuguese economy over the period 2000 - 2009*" of this Report). This adjustment, without recent precedent in the Portuguese economy, implies a simultaneous deleveraging of the public and private sectors with the aim of eliminating the gap between savings and investment of the institutional sectors as a whole. Strict compliance with the Programme represents an opportunity to achieve these objectives in a gradual and balanced manner and accordingly regain the confidence of international investors over time. It should, however, be noted that there are substantial risks attached to this process, not only associated with achieving the macroeconomic stabilisation in Portugal, but also with the evolution of the Portuguese economy's external environment. In this context, it should also be noted that the euro area Member States have already declared they stand ready to support Portugal until market access is regained provided the authorities persevere with strict programme implementation.

Written with information available until 11 May 2012.

Table 1

PORTUGAL – MAIN ECONOMIC INDICATORS, 2008-2011

		Units	2008	2009	2010	2011
I.	**Prices, wages and unit labour costs**					
	Inflation (HICP)	arc %	2.7	-0.9	1.4	3.6
	Goods	arc %	2.4	-2.4	1.7	4.4
	Services	arc %	3.1	1.3	1.0	2.4
	Inflation (CPI)	arc %	2.6	-0.8	1.4	3.7
	GDP Deflator	arc %	1.6	0.9	1.1	0.7
	Private consumption deflator	arc %	2.6	-2.2	1.6	3.7
	Goods and services export deflator	arc %	2.5	-5.0	4.2	5.5
	Goods and services import deflator	arc %	5.0	-9.2	4.8	8.0
	Nominal compensation per employee, total economy[(a)]	arc %	3.0	2.8	1.4	-0.8
	Nominal compensation per employee, private sector[(b)]	arc %	3.3	1.6	1.8	1.0
	Unit labour costs, total economy[(a)]	arc %	3.5	3.1	-1.5	-0.8
	Unit labour costs, private sector[(b)]	arc %	3.6	1.7	-1.6	1.1
II.	**Expenditure, income and savings**					
	Gross domestic product (GDP)	rrc %	0.0	-2.9	1.4	-1.6
	Total domestic demand	rrc %	0.8	-3.3	0.8	-5.7
	Private consumption	rrc %	1.3	-2.3	2.1	-3.9
	Public consumption	rrc %	0.3	4.7	0.9	-3.9
	Gross fixed capital formation	rrc %	-0.3	-8.6	-4.1	-11.4
	Exports of goods and services	rrc %	-0.1	-10.9	8.8	7.4
	Imports of goods and services	rrc %	2.3	-10.0	5.4	-5.5
	Household disposable income (DI)	rrc %	1.7	1.8	1.5	-4.5
	Household disposable income, excluding external transfers	rrc %	1.8	2.3	1.4	-4.6
	Domestic savings rate	% of GDP	10.6	9.4	9.9	10.8
	Private sector[(c)]	% of GDP	11.9	16.4	16.8	15.7
	Households	% of DI	7.1	10.9	10.2	9.7
	Households, excluding external transfers	% of DI	4.8	9.2	8.5	7.8
	Corporations	% of GDP	6.8	8.4	9.3	8.6
	General government	% of GDP	-1.3	-6.9	-6.9	-4.9
III.	**Employment and unemployment**					
	Total employment[(d)]	arc %	0.5	-2.7	-1.5	-1.5
	Employees[(d)]	arc %	0.3	-2.6	-0.4	-0.3
	Unemployment rate[(e)]	annual average; %	7.6	9.5	10.8	12.7
IV.	**Balance of payments**					
	Current account + Capital account	% of GDP	-11.1	-10.1	-8.9	-5.2
	Current account	% of GDP	-12.6	-10.9	-10.0	-6.4
	Goods account	% of GDP	-13.4	-10.6	-10.5	-7.7
	Capital account	% of GDP	1.5	0.8	1.1	1.2
V.	**Exchange rates**					
	Nominal effective exchange rate index[(f)]	arc %	0.9	0.4	-1.5	-0.1
	Real effective exchange rate index					
	Adjusted for the relative unit labour costs[(g)]	arc %	0.4	0.2	-2.2	-1.4
	Adjusted for the relative consumer price index	arc %	-0.1	-0.9	-1.9	0.6
VI.	**Interest rates**					
	3-month Euribor	%, Dec.	3.3	0.7	1.0	1.4
	10-year fixed rate Treasury bond yields	%, Dec.	4.0	3.9	6.5	13.1
	Interest rates on outstanding amounts of credit granted by MFIs[(h)]					
	Loans to households for house purchase	%, Dec.	5.9	2.0	2.1	2.7
	Loans to non-financial corporations	%, Dec.	6.1	3.3	3.8	5.1
	Deposits and deposit-like instruments up to 2 years	%, Dec.	4.0	1.7	2.2	3.7
VII.	**Stock price index (PSI-Geral)**	y-o-yrc 31-Dec.	-49.7	40.0	-6.2	-20.4
VIII.	**Bank deposits and loans to the resident sector[(i)]**					
	Deposits of non-financial private sector	y-o-yrc Dec.	10.6	2.1	5.4	5.5
	Loans[(j)]					
	Non-monetary financial institutions	arc Dec.	17.4	4.5	2.5	-7.2
	Non-financial corporations	arc Dec.	9.9	1.8	1.0	-1.6
	Households	arc Dec.	4.6	2.3	2.0	-2.2
IX.	**Public finances**					
	General government overall balance[(k)]	% of GDP	-3.6	-10.2	-9.8	-4.2
	General government primary balance	% of GDP	-0.6	-7.3	-7.0	-0.4
	Consolidated gross public debt	Dec., % of GDP	71.6	83.1	93.3	107.8

Notes: (a) Compensation per employee including: collective bargaining aggreements, additional benefits and employers' social contributions; Consistent series calculated using data and methodology from National Accounts base 2006. For more details see "Box 2 *Relative unit labour costs in Portugal: methodological issues and developments in the last decade*", Banco de Portugal, *Economic Bulletin* – Summer 2010. **(b)** Private sector – economy as a whole excluding general government and corporate hospitals. **(c)** Aggregate savings for all economic agents excluding the general government. **(d)** Data from INE National Accounts. **(e)** In 2011 the unemployment rate is influenced by a break in the Labour Force Survey series. **(f)** A positive change denotes an appreciation in effective terms; a negative change denotes a depreciation. **(g)** Relative unit labour costs in the total economy. A positive change denotes an increase in the relative costs of Portuguese producers. **(h)** Calculated as the average of interest rates on outstanding amounts of credit granted and deposits taken by MFIs, denominated in euro, to/from euro area residents, broken down by sector and/or purpose, in every maturity, weighted by the respective end-of-month amounts outstanding. **(i)** End-of-month balances. **(j)** Annual rates of change are calculated on the basis of the ratio of end-of-month outstanding amounts of bank loans adjusted for securitisation operations to monthly transactions derived from outstanding amounts adjusted for reclassifications, write-offs and exchange rate and price revaluations. Whenever relevant, the figures are additionally adjusted for credit portfolios sales, as well as for other operations with no impact in the sectors' effective financing. **(k)** According to the excessive deficit procedure rules. **arc**: Annual rate of change; **rrc**: Real rate of change; **y-o-yrc**: Year-on-year rate of change.

1. International Environment

World economic activity continued to recover in 2011 from the deep recession of 2009 following the onset of the financial crisis at the end of 2007. Economic growth, however, was lower in 2011 than in 2010, particularly on account of the progressive and significant slowdown in economic activity starting from the middle of the second quarter. This deceleration was the result of a combination of factors of a persistent nature, particularly the intensification of the financial turmoil associated with the sovereign debt crisis in the euro area.

In fact, international investors' concerns over the sustainability of public finances and the possibility of the banking sector suffering losses, initially only in the case of countries who requested external financial assistance - Greece, Ireland and Portugal - began to spread to other euro area countries, notably Spain and Italy. These tensions resulted in abrupt falls in stock markets which translated into a generalised increase in risk aversion. In this context, liquidity difficulties began to emerge in money markets, with higher borrowing costs for countries considered to be more vulnerable by financial market players. The uncertainty over the capacity of European leaders to adopt concrete and sufficient measures to resolve the sovereign debt crisis in the euro area and, in particular, the uncertainty over the need for a second financial assistance package for Greece, mainly after July, helped to fuel turmoil in financial markets.

The sovereign debt crisis helped to weaken a still fragile world economic recovery. A series of additional factors helps to explain the weakness of the current recovery in comparison to past episodes. Firstly, recessions originated by financial and banking crises are usually characterised by significant contractions of GDP and slower recoveries of activity. Secondly, domestic demand in the main advanced economies has remained relatively weak, owing to households' and corporations' needs to continue to adjust balance sheets and reduce debt. Thirdly, the public finances consolidation process has also helped to maintain growth of domestic demand at relatively reduced levels across most economies. The weakening of domestic demand has been reflected in a relative stagnation of labour and housing markets at very reduced levels, compared to historical norms, mainly in the United States of America (US). Finally, the slowdown in world economic activity also derives from the natural disaster in Japan, in March, and from a strong increase in commodity prices, particularly oil, in the first half of the year, mainly fuelled by geopolitical tensions in the Middle East and North Africa.

World economic recovery at the beginning of 2012 appeared to be benefiting from a certain softening in tensions in financial markets, as a result of the approval of the second financial assistance package to Greece, together with the introduction of additional unconventional monetary policy measures by the European Central Bank (ECB). In fact, the measures implemented by the ECB helped to reduce liquidity risk and eliminate the possibility of the occurrence of a systemic banking crisis in the euro area. However, the resurgence of international investors' suspicion over the sustainability of public finances in Spain and Italy and the prevailing uncertainty over the resolution of the sovereign debt crisis in the euro area were reflected in rises in sovereign debt yields of several countries in the euro area starting mid-March 2012, particularly in Spain and Italy.

The world economy continued to recover in 2011, albeit at a slower rate and in a context of elevated uncertainty

The world economy recorded average annual growth of 3.9 per cent in 2011, following growth of 5.3 per cent in 2010 (Table 1.1).[1] The heterogeneity in growth patterns between regions on a global

1 Values based on GDP assessed on purchasing power parities. Based on market exchange rates, the annual rate of change of world GDP was 2.8 per cent, in comparison to the preceding year's 4.2 per cent.

scale persisted, with the advanced economies being significantly more affected than emerging market economies by the contagion effect of the sovereign debt crisis in the euro area. GDP in the advanced economies as a whole grew 1.6 per cent in 2011, at more or less half of the preceding year's rate of change. Domestic demand remained relatively conditioned in these economies in 2011, in a context of weak household wealth and disposable income growth and of a significant worsening of private sector funding conditions. Households' and corporations' needs to continue to adjust their balance sheets, particularly the need to reduce private debt, also conditioned the recovery of both private consumption and investment. In addition, the poor performance of the housing market in the major advanced economies, coupled with the reduced level of job creation and the persistence of high unemployment rates also continued to have a negative effect on consumer confidence. The ongoing fiscal consolidation in most countries also penalised economic activity over the short term.

The rate of economic growth of the advanced economies ran out of steam as the year advanced. In the first quarter of 2011 GDP growth was especially strong in these economies, confirming the positive signs evidenced at the end of 2010. This growth, however, turned out to be short-lived. The evolution of economic activity in the advanced economies was gradually conditioned by several global supply shocks. The disruption of global supply chains, as a result of the earthquake in Japan, caused considerable damage to the auto and electronic components industries, as Japan plays a leading role in the supply of materials, components and final goods in these industries. The new industrialised Asian economies were particularly affected by these problems owing to their strong trade linkages with Japan. This was accompanied by generalised increases in commodity prices in the first half of the year as a result of geopolitical tensions in several Middle Eastern and North African countries and higher demand from emerging market economies, whose growth has been highly intensive in several commodities. This rapid rise in prices constrained the growth of private consumption through a reduction of real disposable household income in the advanced economies.

Table 1.1

GDP | REAL RATE OF CHANGE, IN PERCENTAGE

	Weight in world GDP in 2011 [(a)]	2009	2010	2011
World	100.0	-0.6	5.3	3.9
Based on market exchange rates		-2.2	4.2	2.8
Advanced economies	51.1	-3.6	3.2	1.6
USA	19.1	-3.5	3.0	1.7
Japan	5.6	-5.5	4.5	-0.7
Euro area	14.2	-4.3	1.9	1.5
Germany	3.9	-5.1	3.7	3.0
France	2.8	-2.6	1.4	1.7
Italy	2.3	-5.5	1.8	0.5
Spain	1.8	-3.7	-0.1	0.7
United Kingdom	2.9	-4.4	2.1	0.7
New industrialized Asian economies[(b)]	3.9	-0.7	8.5	4.0
Emerging and developing economies	48.9	2.8	7.5	6.2
Central and Eastern Europe	3.5	-3.6	4.5	5.3
Commonwealth of Independent States	4.3	-6.4	4.8	4.9
Russia	3.0	-7.8	4.3	4.3
Developing Asia	25.1	7.1	9.7	7.8
China	14.3	9.2	10.4	9.2
India	5.7	6.6	10.6	7.2
Latin America	8.7	-1.6	6.2	4.5
Brazil	2.9	-0.3	7.5	2.7
Middle East and North Africa	4.9	2.7	4.9	3.5
Sub-Saharan Africa	2.5	2.8	5.3	5.1

Sources: Eurostat, IMF and Thomson Reuters.

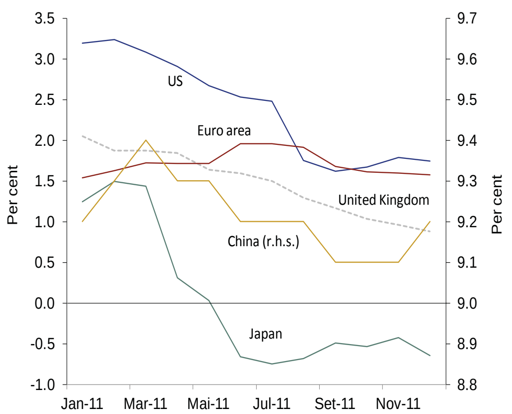
Notes: (a) Based on the purchasing-power-parity valuation of GDP. **(b)** Korea, Hong Kong, Taiwan and Singapore.

In the second half of the year, the sovereign debt crisis in the euro area experienced new developments, which contributed to increase the uncertainty worldwide, leading to consecutive downward reductions in growth prospects for major world economies (Chart 1.1) and to a significant fall in economic agents' confidence (Chart 1.2 and Chart 1.3). Two specific types of episodes that led to an increase of financial turmoil on a worldwide level can be identified. The first episode was related to growing speculation over the possibility of a second financial assistance package for Greece, which would imply additional austerity measures and a fresh commitment from European leaders to reach agreement on this new financial assistance plan. It was obvious, at the beginning of July, that Greece would not be able to return to a sustainable public debt growth trajectory without further external assistance, which led Greece to request a second financial assistance package to the European Union (EU) and the International Monetary Fund (IMF). At the same time, signs of contagion of the crisis, hitherto limited to other countries under external financial assistance, to other euro area economies, notably Spain and Italy, began to emerge. The second significant event was in November with an intensification of contagion regarding sovereign debt, spreading to the major euro area economies with triple A credit ratings. The confidence of economic agents was always conditioned by persistent investor uncertainty over the European authorities' capacity to adopt measures to resolve the sovereign debt crisis in the euro area.

Emerging and developing market economies posted average annual growth of 6.2 per cent in 2011, following the preceding year's expansion of 7.5 per cent (Chart 1.1). Domestic demand remained relatively robust in the first half of the year, while exports benefited from the positive impetus of favourable economic sentiment in the first quarter. The second half of the year witnessed a moderate slowdown of domestic demand, deriving from increases in commodity prices and the lagged effect of more restrictive monetary policies and also reflecting the impact of financial instability associated with sovereign debt in the euro area. Deceleration was particularly marked at the end of the year, with the main emerging market economies, such as China, India and Brazil, reversing some of the restrictive monetary policy measures which had previously been taken. Exports, as the main driver of growth in many of the emerging markets, decelerated in the second half of the year following a significant slowdown of demand in the advanced economies. In several developing Asian countries and in Latin America, worsening financial turmoil on a global scale led to the flight of considerable capital flows at the end of the year, in several cases leading to marked currency depreciations, as it was the case of the Brazilian real.

Chart 1.1

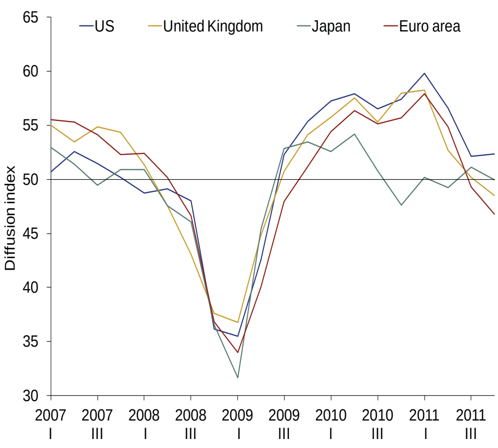
CONSENSUS **FORECASTS FOR REAL GDP GROWTH IN 2011**

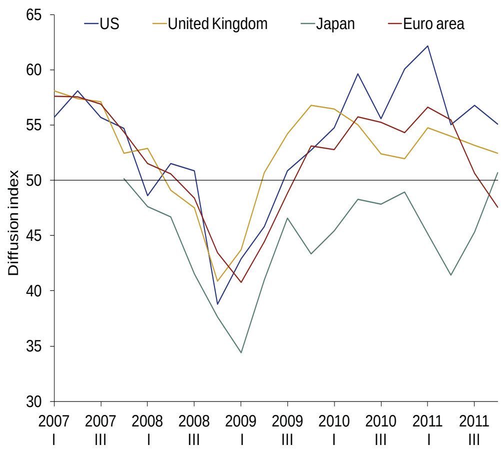


Source: Consensus Economics.

Chart 1.2

BUSINESS CONFIDENCE PMI INDICATORS



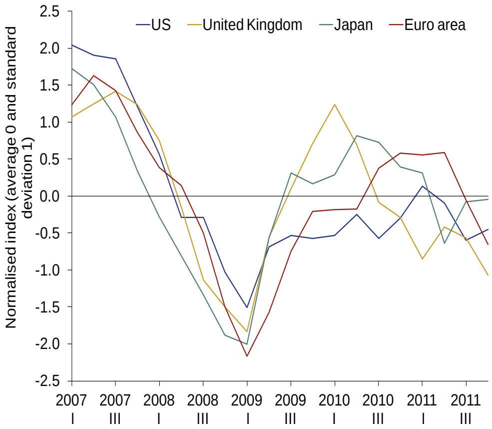


Source: Markit.

Note: Diffusion index seasonally adjusted, where values above 50 indicate an economic expansion while values below 50 represent an economic contraction.

Chart 1.3

CONSUMER CONFIDENCE INDICATORS IN MAIN ADVANCED ECONOMIES



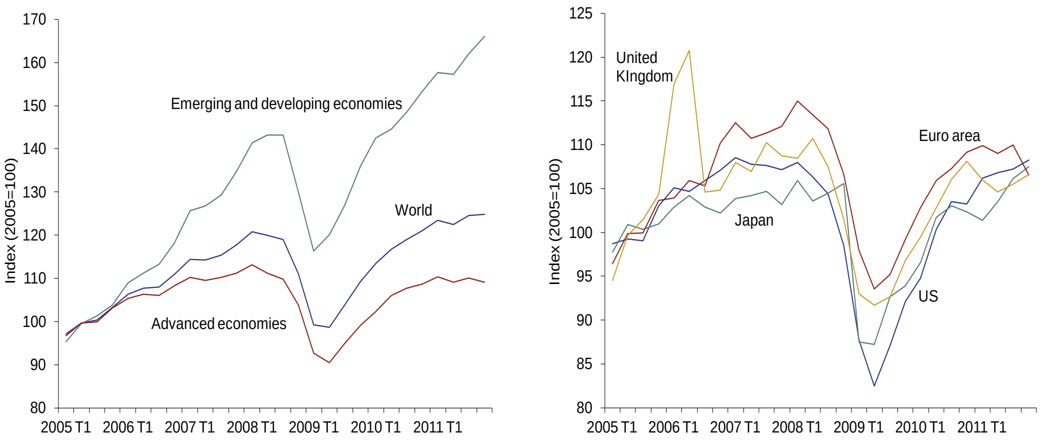
Sources: European Commission,Thomson Reuters and Banco de Portugal calculations.

Continued recovery of international trade with a significantly reduced rate of growth in the second half of the year

International trade continued to grow in 2011, albeit at a substantially more moderate rate than in 2010. World imports of goods increased by an average of 5.3 per cent in 2011, against a rate of growth of more than 14 per cent in 2010 (Chart 1.4). The slowdown in the volume of imports was more marked in the case of the advanced economies in which the maximum levels of the pre-crisis period have still not been reached. In terms of the intra-annual profile, world imports in 2011 were marked by a major slowdown in the second half of the year, following the resurgence of financial turmoil on a global level and the earthquake in Japan, which particularly affected the advanced economies (year-on-year rate of change of 1.3 per cent in the second half, in comparison to 5.4 per cent in the first). In contrast, emerging and developing markets kept the imports growth profile relatively robust (8.7 per cent in the second half, following 9.7 per cent in the first half).

Chart 1.4

VOLUME OF IMPORTS OF GOODS



Sources: : CPB Netherlands Bureau for Economic Policy Analysis, Thomson Reuters and Banco de Portugal calculations.

Slower recovery of the main advanced economies in comparison to past recessions

The recovery of economic activity in the advanced economies following the international financial crisis has been slower than in past recessions. This is in line with economic theory and empirical evidence that state that recessions originated by financial and banking crises are characterised by more pronounced GDP contractions and slower recoveries of activity. GDP recovery in the four largest advanced economies was lower than the average for past economic recoveries (Chart 1.5). In the case of the United Kingdom and the euro area, the current recovery is also lower than the minimum levels recorded in past recoveries. In this context, only the US ended 2011 with slightly higher GDP levels than those from the pre-crisis peak levels. In the case of the other economies, GDP in the United Kingdom and in Japan, at the end of 2011, remained around 4 per cent below the maximum levels reached in the preceding cycle, whereas GDP in the euro area was around 2 per cent below. As regards employment, the current recovery has been marked by a slow rate of growth of job creation in the major advanced economies, in line with the minimums recorded in past episodes. The United Kingdom is the exception, to the extent that employment has recovered at an unprecedented rate since 1970 (Chart 1.6).

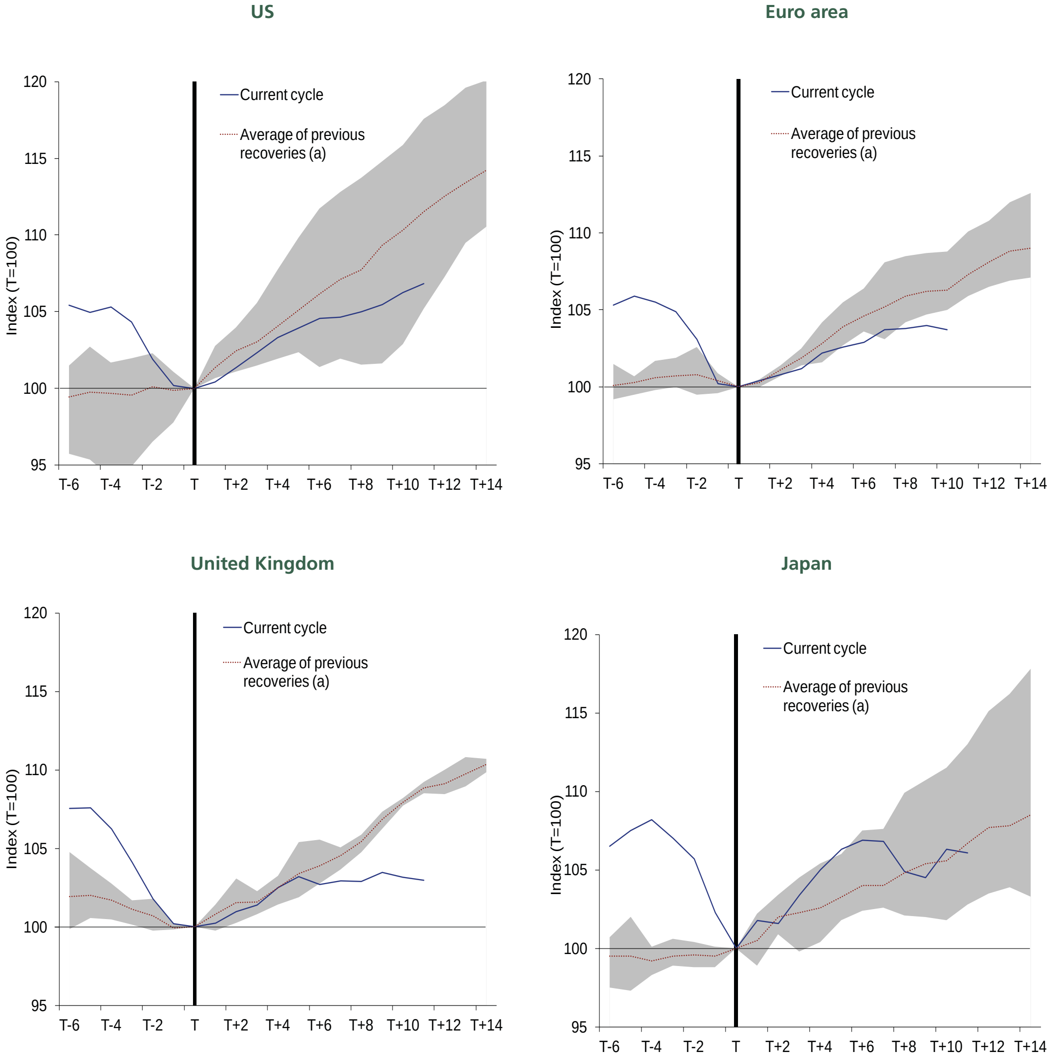
Most of the advanced economies, at the end of 2011, had lower GDP levels than in 2007, when the first signs of the financial crisis began to emerge (Chart 1.7). Reference should be made to the cases of Greece and Ireland which were around 13 and 10 per cent down over 2007 values, respectively. Germany, on the other hand, whose economic recovery has been based on the marked dynamism of its exports, is one of the few advanced economies to have already fully recovered its real GDP levels registered in 2007. GDP figures for the emerging markets economies, particularly China, India and Brazil, were considerably higher than the values recorded in 2007.

In 2011 the US economy grew at a slower pace than in the preceding year

Economic activity in the US continued to grow in 2011 albeit at a slower pace than in the preceding year (with an average annual rate of real GDP growth of 1.7 per cent, in comparison to 3 per cent in 2010). Growth in 2011 derived almost exclusively from the contribution made by domestic demand, as the contribution of net exports to growth was residual. The 6.7 per cent increase in exports and 4.9 per cent increase in imports allowed a relative stabilisation of the current account deficit, at around 3 per

Chart 1.5

REAL GDP - COMPARISON OF BUSINESS CYCLES SINCE 1970



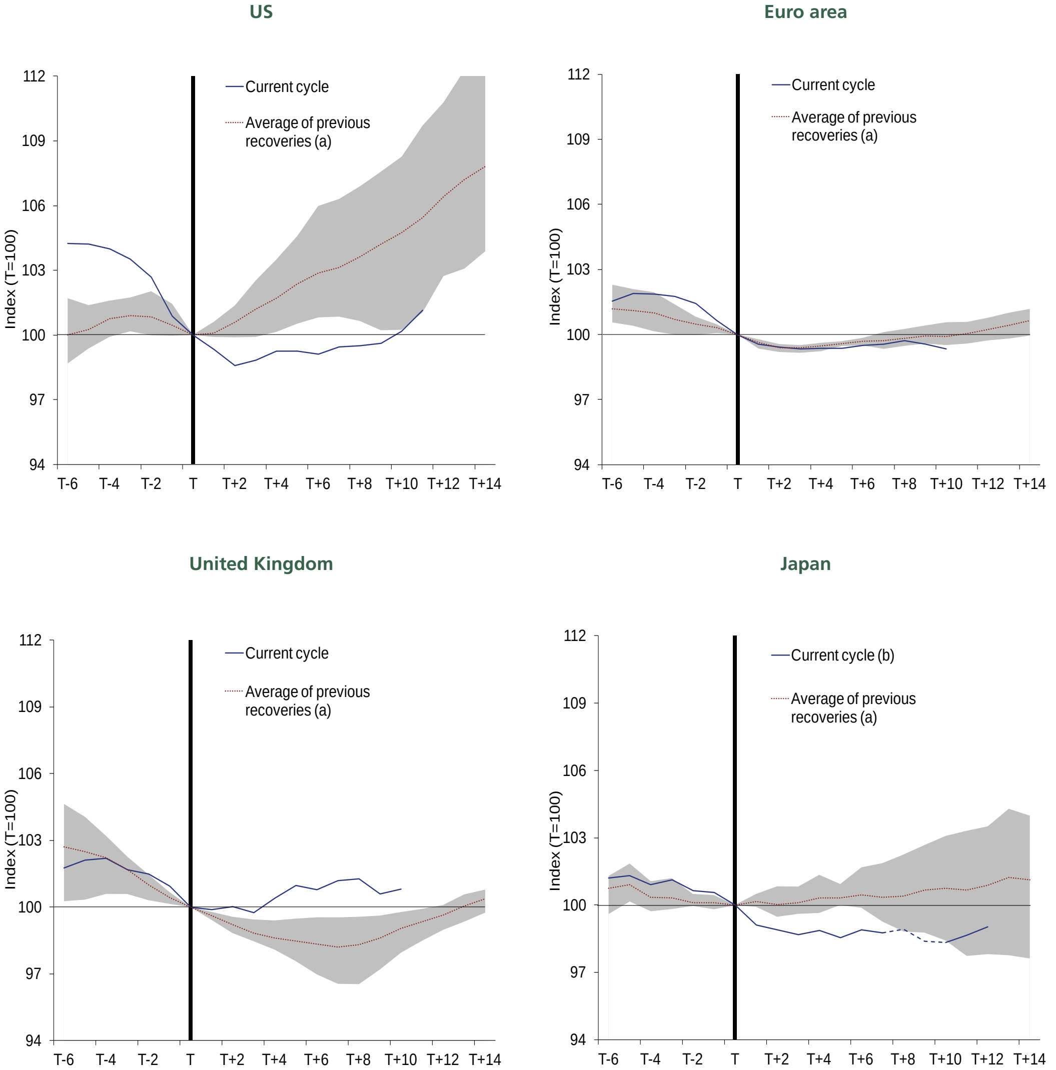
Sources: CEPR, Economic Cycle Research Institute, Eurostat, NBER and Thomson Reuters.

Notes: T corresponds to the trough of the respective recessions, according to the dating defined by the NBER for the US, by the CEPR for the euro area and by the ECRI for the United Kingdom and Japan. According to that dating and excluding the previous recession, the US has 6 recessions since 1970, Japan 4, and the United Kingdom and the euro area 3 each. The trough of the current cycle is 2009 Q1 for Japan, and 2009 Q2 for the US, the euro area and the United Kingdom. **(a)** Average level of recoveries since 1970. The shaded area represents the interval between the maximum and the minimum of previous recoveries.

cent of GDP. On the domestic demand side, reference should be made to the contribution of private consumption which grew 2.2 per cent (2.0 per cent in 2010), in an environment of virtual stagnation or fall in real household disposable income and deteriorating consumer confidence. There was a reduction of the savings rate over the year, reaching its lowest level of the last 2 years in the fourth quarter of 2011 (4.5 per cent of disposable income in comparison to 5.2 per cent in the same period last year). The maintenance of unfavourable conditions in the labour market over the course of the year prevented private consumption from growing at more robust rates. Although the rate of job creation was stronger than in 2010, it was insufficient to make up for the job destruction recorded in 2008 and 2009 (Chart 1.8). The unemployment rate in average annual terms was down from 9.6 per cent in 2010 to 9.0 per cent in 2011. Although the unemployment rate was on a downward trajectory over the course of 2011, particularly at the end of the year, it remained at historically high levels. A large part of the reduction in the unemployment rate also derived from a retraction of the workforce's participation rate.

Chart 1.6

EMPLOYMENT - COMPARISON OF BUSINESS CYCLES SINCE 1970



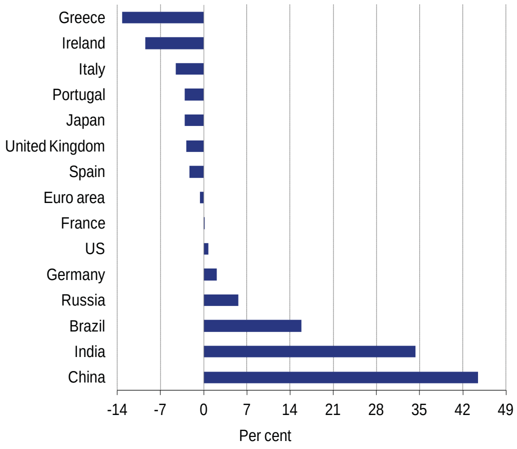
Sources: CEPR, Economic Cycle Research Institute, Eurostat, NBER and Thomson Reuters.

Notes: : T corresponds to the trough of the respective recessions, according to the dating defined by the NBER for the US, by the CEPR for the euro area and by the ECRI for the United Kingdom and Japan. According to that dating and excluding the previous recession, the US has 6 recessions since 1970, Japan 4, and the United Kingdom and the euro area 3 each. The trough of the current cycle is 2009 Q1 for Japan, and 2009 Q2 for the US, the euro area and the United Kingdom. **(a)** Average level of recoveries since 1970. The shaded area represents the interval between the maximum and the minimum of previous recoveries. **(b)** Employment in Japan includes a break in the series from March 2011 to August 2011, for which there are no data available for the prefectures of Iwate, Miyagi and Fukushima, following the earthquake in Japan in March 2011.

As regards other domestic demand items, private investment also played an important role in the increase of economic activity in the US in 2011. The maintenance of low interest rates and better than expected corporate results were factors favouring the expansion of almost 9 per cent in non-residential investment in 2011 (4.4 per cent in 2010). Residential investment, however, remained weak owing to the relatively unfavourable outlook for the housing market. The poor performance of the housing market translated into lower sales prices in comparison to 2010, remaining at around 30 per cent below the 2007 levels. Sales of new and existing houses were also relatively anaemic. Finally, public expenditure made a negative contribution to GDP growth in 2011, after having fallen by 2.1 per cent (growth rate of 0.7 per cent in 2010), in an environment of political tensions over the course of the year which created uncertainty over the public finances consolidation process.

Chart 1.7

REAL GDP | CHANGE BETWEEN 2007 AND 2011



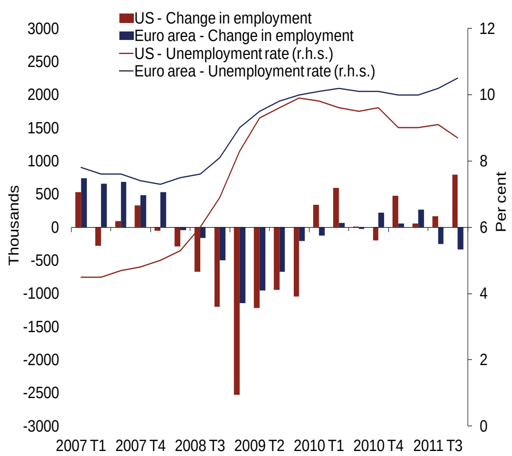
Sources: Eurostat and IMF.

Slowdown of euro area economy in 2011

Euro area GDP recorded a moderation in its average annual growth, from 1.9 per cent in 2010, to 1.5 per cent in 2011. The main growth drivers in 2011 were exports and investment. Exports grew at a faster pace than imports (at 6.3 per cent and 3.9 per cent, respectively), determining a 1 percentage point (p.p.) contribution of net external demand to GDP growth (0.7 p.p. in 2010). The growth of exports was more evident in markets outside the euro area, notably Asian and Latin American countries. Gross fixed capital formation (GFCF) in turn, grew 1.5 per cent in 2011, partly recovering from the accumulated fall of around 14 per cent over the last three years. Private consumption grew only 0.2 per cent, at a much lower rate than in 2010 (0.9 per cent), as a reflection of unfavourable developments in real disposable income, particularly the combination of wage moderation and higher inflation than in the preceding year. Household consumption was also conditioned by the low level of job creation, translating into the persistence of high unemployment rates (10.2 per cent in 2011, practically unchanged from 2010) (Chart

Chart 1.8

US AND EURO AREA | QUARTERLY CHANGE IN EMPLOYMENT AND UNEMPLOYMENT RATE



Sources: Eurostat and Thomson Reuters.

1.8). Finally, public consumption remained weak, as a result of the fiscal consolidation process undertaken in most euro area countries, exemplified by major restrictions on the evolution of civil servants' wages.

In terms of the intra-annual profile, GDP in the euro area was characterised by a progressive slowdown. The rate of growth of GDP in the first quarter was relatively strong (quarter-on-quarter change of 0.7 per cent), having been particularly influenced by highly dynamic exports and by the recovery of the construction sector which had been badly affected by a harsh winter in 2010 in several euro area countries. The occurrence of unanticipated adverse events, mentioned before, on the world economy, led to a marked slowdown of GDP in the second and third quarters (quarter-on-quarter change of 0.1 per cent). GDP contracted by 0.3 per cent, in the fourth quarter of 2011, the first quarter-on-quarter negative change registered since the first quarter of 2009.

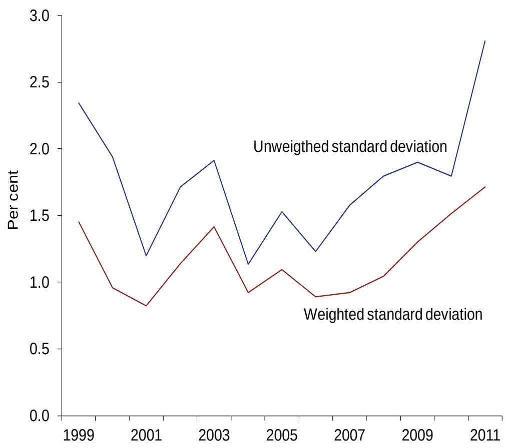
Accentuation of heterogeneity in growth of euro area countries in 2011

GDP growth in the euro area in 2011 concealed a significant level of heterogeneity in the performance of member states. An analysis of the dispersion of real GDP growth rates in euro area countries, measured as the unweighted or weighted standard deviation, shows that the level of dispersion in 2011 increased significantly against 2010, to its highest level since 1999 (Chart 1.9). A part of this result derives from the fact that several countries proved to be more resilient to the external shocks caused by the financial crisis, enabling them to enjoy a speedier recovery of economic activity over the last few years and accentuating the heterogeneity recorded in GDP growth rates in euro area countries, particularly in 2011 (Chart 1.10).

Among the four major economies in the euro area, Germany stood out with growth of 3.0 per cent in 2011, following 3.7 per cent in the preceding year. Domestic demand contributed with more than two thirds to GDP growth, as a reflection of the evolution of GFCF (6.6 per cent) and of private consumption (1.4 per cent). The favourable conditions in the labour market, in which the unemployment rate reached its minimum levels of the last 20 years, significantly below the euro area average, were particularly important to support the expansion of private consumption. The contribution of net external demand remained positive but was down over the preceding year. Exports grew by around 10 per cent in the first half of the year, but then slowed to around 7 per cent in the second half, in an environment of decelerating world demand. In terms of the intra-annual profile, following a quarter-on-quarter change of 1.3 per cent in the first quarter, German GDP slowed and recorded a fall of 0.2 per cent in the fourth

Chart 1.9

DISPERSION IN REAL GDP GROWTH ACROSS EURO AREA COUNTRIES

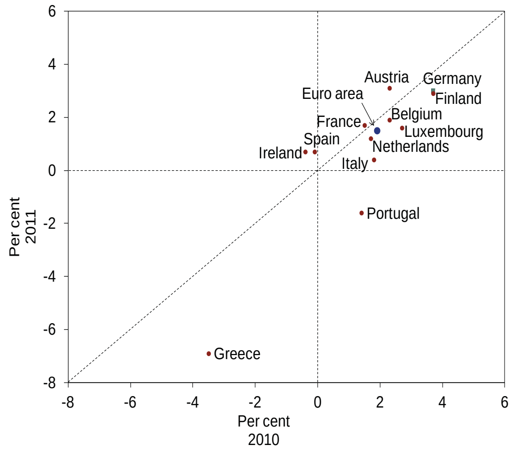


Sources: Eurostat and Banco de Portugal calculations.

Note: Standard deviations calculated on the basis of a changing composition of the euro area.

Chart 1.10

REAL GDP IN THE EURO AREA | AVERAGE ANNUAL RATE OF CHANGE



Source: Eurostat.

quarter. Notwithstanding this quarterly contraction, GDP in the last quarter of 2011 stood above peak levels reached in the previous economic cycle (first quarter of 2008).

Growth in France was, in turn, more moderate than in Germany but higher than recorded in 2010 (1.7 per cent in 2011, after 1.4 per cent in 2010). This growth was based on the expansion of domestic demand, notably inventory changes and investment. Private consumption remained relatively weak (average rate of change of 0.4 per cent, in comparison to 1.3 per cent in 2010), given the prevalence of high unemployment rates and anaemic growth of disposable income. In the external accounts, exports grew in line with imports (annual rate of change of 5.0 and 4.8 per cent, respectively).

Economic activity in Italy recorded a strong deterioration in 2011 (average rate of change of 0.5 per cent in comparison to 1.8 per cent in the preceding year). Net exports were responsible for the full growth of GDP in 2011 (exports grew 6.3 per cent, in comparison to 1.0 per cent of imports), given the fall in domestic demand. The negative contribution of domestic demand derived from the negative evolution of investment (including inventory changes) and public consumption. The growth of private consumption was incipient, given the low growth of disposable income and high unemployment.

Economic activity in Spain recovered in 2011, after consecutive falls of GDP in 2009 (-3.7 per cent) and 2010 (-0.1 per cent). The growth of 0.7 per cent in 2011 was boosted by export dynamics which grew by 9 per cent. Imports stagnated as a reflection of the negative evolution of domestic demand. There was a significant contraction of investment, particularly in the construction sector, as a result of the abrupt downturn in the housing market, and of public consumption following the adoption of fiscal consolidation measures. The growth of private consumption turned negative in 2011, largely on account of the deteriorating economic conditions, in a context of higher taxes and reduction of public expenditure. The unemployment rate reached a historical maximum in 2011, the highest level in the euro area (21.7 per cent).

As regards countries with external economic and financial assistance programmes, economic activity in 2011 contracted significantly in Greece (-6.9 per cent, against -3.5 per cent in 2010) and more moderately in Portugal (-1.6 per cent, compared to a 1.4 per cent increase in 2010). Ireland, in turn, recorded GDP growth of 0.7 per cent, following a fall of 0.4 per cent in 2010, although with an accumulated fall of almost 10 per cent in real GDP since 2007 (Chart 1.7). Economic activity in these countries continued to be strongly conditioned by the need to continue to implement adjustment programmes. Such adjustments entailed the adoption of significant fiscal consolidation measures and structural reforms, which tend to have recessionary effects in the economy over the short run. The fact that unemployment in these economies has reached historical maximums has contributed to accentuating the loss of confidence and drop in private consumption. Exports, on the other hand, with the exception of Greece, have helped to partly offset the negative impact of the fall in domestic demand on economic activity.

The United Kingdom recorded a marked deceleration in economic activity, whereas the contraction registered in Japan was influenced by the occurrence of adverse exogenous events

The average rate of change of GDP in the United Kingdom was down from 2.1 per cent in 2010 to 0.7 per cent in 2011. The contraction in private consumption (rate of change of -1.2 per cent, in comparison to 1.2 per cent in 2010) and in fixed capital investment (-1.2 per cent in 2011, in comparison to 3.1 per cent in 2010) contributed significantly to the slowdown. The evolution of private consumption in 2011 was influenced by households' needs to continue to implement their balance sheet adjustment processes, in an environment of limited disposable income growth, owing to increases in taxes and elevated inflation rates. Reference should also be made to weak job creation and the maintenance of high unemployment rates. Net exports made a positive contribution to GDP growth, as average annual export growth (4.6 per cent) was higher than that of imports (1.2 per cent). Such evolution was particularly the result of the strong growth rates recorded in the first half of the year, as the pronounced deceleration of the world economy in the second half strongly conditioned the British economy's export capacity.

The drop in economic activity in Japan in 2011 was largely influenced by the earthquake in March 2011, followed by the nuclear accident at the Fukushima power plant. GDP fell 0.7 per cent in comparison to the preceding year's growth of 4.5 per cent, particularly owing to the negative contribution made by net exports and inventory changes. Exports were seriously affected in the first half of the year by the disruption in global supply chains in key sectors of the Japanese economy, as a result of the earthquake felt in the Tohoku region followed by the tsunami and problems in several nuclear reactors. On the contrary, imports increased significantly to meet the country's reconstruction requirements. Following the resolution of most of the problems associated with the earthquake and crisis in the nuclear power plants in the third quarter of the year, a combination of diverse factors restricted exports again at the end of the year, notably the deceleration of world demand, the yen's appreciation and supply shocks caused by the floods in Thailand. For the year as a whole, the marked drop in exports coupled with the acceleration of imports translated into the first annual deficit on the trade balance since 1980. Public consumption grew 2.1 per cent in 2011, enabling a part of the negative contribution made by net exports to economic growth to be offset.

China continued to grow at robust rates, unlike Brazil which recorded a highly significant slowdown in 2011

Economic activity in China, although slowing, continued to progress at rates of change close to two digits, with average annual growth of 9.2 per cent in 2011, in comparison to 10.4 per cent in 2010. This behaviour reflected the expansion of GFCF, followed by final consumption expenditure. Net exports made a negative contribution to GDP growth, the second time this has occurred in the last 10 years, with the trade balance surplus decreasing to 2.1 per cent of GDP in 2011, compared to 3.1 per cent in 2010. In terms of the intra-annual profile, there was a progressive slowdown of activity over the course of 2011, similar to what was observed in most of the other economies. From growth of 9.7 per cent in the first quarter of 2011, the Chinese economy slowed down to a year-on-year change of 8.9 per cent in the fourth quarter.

In Brazil 2011 was marked by a strong deceleration of economic activity. The average annual rate of growth of GDP was 2.7 per cent, significantly lower than that in 2010 (7.5 per cent). This slowdown was largely the result of a less positive contribution of domestic demand in a more restrictive monetary policy scenario, whereas the contribution of net exports was less negative. The reduction of the rate of economic growth was highly visible in the second half of the year, leading the central bank to reverse a part of the previous increases in interest rates. On the domestic demand side, reference should be made to the highly marked deceleration of GFCF, from an average annual growth rate of around 20 per cent in 2010, to less than 5 per cent in 2011. Private consumption also decelerated from 6.9 to 4.1 per cent in 2011, owing to continued high inflation rates which limited the expansion of real disposable income. Public consumption, in the context of a slight correction to the public deficit, decelerated from 4.2 to 1.9 per cent in 2011. As regards the external sector, the slowdown of world demand and increase in capital inflows which led to the real's appreciation fuelled a pronounced drop in exports. This movement was interrupted at the end of the year, as the intensification of the financial turmoil was the cause of considerable capital flight and also led to an expressive depreciation of the real. The decrease was more pronounced on the imports side, reflecting not only the economic slowdown but also the government's implementation of several protectionist measures, such as the introduction of a temporary tax on imported vehicles.

External demand for Portuguese exports continued to grow in 2011, albeit with a marked deceleration in the second half of the year

External demand for exports of Portuguese goods and services grew 3.9 per cent in 2011, at a substantially lower rate than last year (10.1 per cent) (Table 1.2). In an analysis of the evolution of the imports of Portugal's main partners special reference should be made to the case of Spain which recorded a marginal drop in imports in 2011, following growth of almost 9 per cent in 2010, and therefore making a decisive contribution to the slowdown of external demand for Portuguese exports. The United Kingdom, albeit taking in a lower proportion of Portuguese exports, also evidenced a deceleration profile similar to Spain's. In turn, the dynamism of the German economy in 2011 translated into a substantial growth of its imports, albeit with some deceleration. In terms of the intra-annual profile, the slowdown of the external demand indicator in the second half of the year was highly visible, following the economic deceleration recorded by most of Portugal's main partners (year-on-year rate of change of 1.8 per cent in the second half, in comparison to 6.0 per cent in the first half). At the beginning of 2012, external demand for Portuguese exports continued to decelerate, owing to the contraction of the imports of most of Portugal's main trading partners, particularly Spain.

Table 1.2

EXTERNAL DEMAND DIRECTED TO PORTUGAL AND IMPORTS OF GOODS AND SERVICES BY SOME OF THE MAIN DESTINATION COUNTRIES OF PORTUGUESE EXPORTS | REAL RATE OF CHANGE

	Weights 2011[(a)]	2009	2010	2011	2011[(b)] 1st half	2nd half
External demand directed to Portugal	-	-11.9	10.1	3.9	6.0	1.8
Spain	24.8	-17.2	8.9	-0.1	2.2	-2.5
Germany	13.6	-9.2	11.5	7.5	7.8	7.2
France	12.0	-10.6	8.3	4.8	8.0	1.9
United Kingdom [(c)]	5.1	-12.3	8.8	1.2	3.7	-1.1
Italy	3.7	-13.6	12.4	1.0	6.1	-3.7
USA	3.5	-13.6	12.5	4.9	7.1	2.8
Brazil	1.4	-7.6	35.8	9.7	14.1	6.1

Sources: ECB, Eurostat, Instituto Brasileiro de Geografia e Estatística, Thomson Reuters and UK-Office for National Statistics.

Notes: (a) Weight in portuguese exports of goods; **(b)** Year-on-year rate of change; **(c)** Excluding the effects of the VAT fraud, according to estimates of the United Kingdom's Statistical Institute.

Slight reduction in global imbalances in 2011, although remaining at significant levels

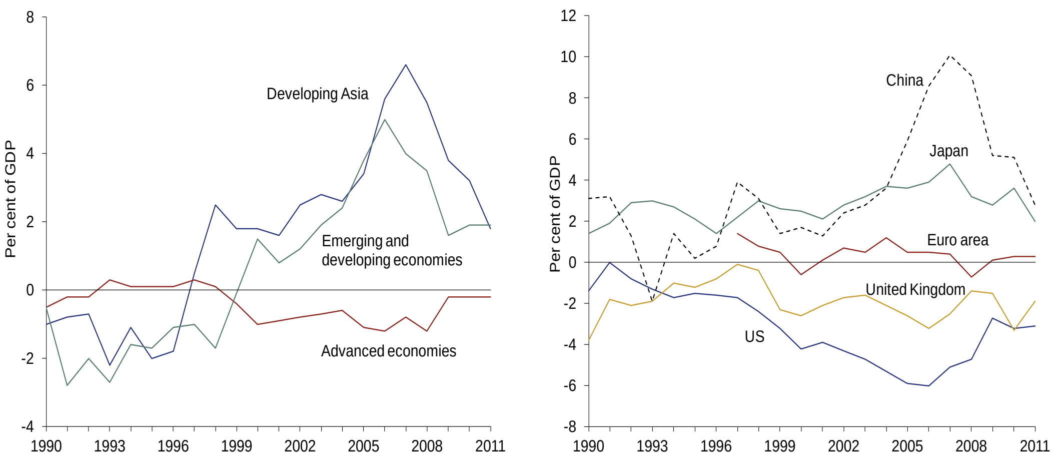
There was another correction to global imbalances in 2011, after the adjustment initiated in 2009 was interrupted in 2010 (Chart 1.11). These imbalances are the result of the coexistence of economies with systematically high external deficits as opposed to others which run significant surpluses in their external accounts.

The current economic recovery has been characterised by a certain downwards adjustment of domestic demand in countries with high external account deficits, as opposed to an increase in exports. In parallel, a gradual expansion of domestic demand in economies with external account surpluses was witnessed, whereas such economies' exports enjoyed less robust growth than in past years. The combination of such factors led to a correction of the current account surpluses of several emerging and developing market economies, particularly developing Asian countries, as well as a reduction, or at least a stabilisation, of the external deficits of the main advanced economies, particularly the United Kingdom (Chart 1.11). The earthquake in Japan had the effect of significantly reducing its external surplus (from 3.6 per cent of GDP in 2010, to 2 per cent of GDP in 2011), therefore helping to reduce global imbalances.

Global imbalances, however, remained at significant levels in 2011 and, in addition, the recent correction will have largely resulted from cyclical factors. A large number of structural factors originating such imbalances are still in force, particularly the low levels of domestic savings in the advanced economies, the significantly undervalued currencies of several Asian countries, particularly China, and the pronounced increase in commodity prices which particularly benefited Middle Eastern and North African countries. In such a context, the maintenance of such high global imbalances creates risks to sustained world economic growth. The attenuating of such risks requires concerted actions by countries. Countries with external surpluses, notably China, should implement policies to enable an increase in domestic demand and accordingly reduce high savings levels and increase the flexibility of exchange rates for the purpose of a gradual and orderly appreciation of their currencies. In contrast, it is expected that those economies with chronic external deficits, especially the US, endeavour to continue to achieve fiscal consolidation and implement structural reforms to promote domestic savings and diminish their reliance on external savings.

Chart 1.11

CURRENT ACCOUNT BALANCE



Sources: Eurostat, IMF and Thomson Reuters

Measures taken by the G20 and the legislative package proposed by the European Commission help to reduce economic imbalances

Several important steps were taken in 2011 to resolve global economic imbalances. The group of the twenty main world economies (G20) reached agreement on the monitoring of a series of economic indicators in several economies, for the purpose of reducing excessive economic imbalances and maintaining external imbalances at sustainable levels. Indicators designed to identify economic imbalances are divided up into three groups: (i) debt and public deficit levels; (ii) savings rates and the private debt levels; and (iii) the external deficit and investment flows and international transfers, which should also take into account the exchange rate and macroeconomic policies, including monetary and fiscal policy. The evolution of these indicators should be accompanied, on a multilateral level, based on reference values for each indicator, taking each economy's specifics into account.

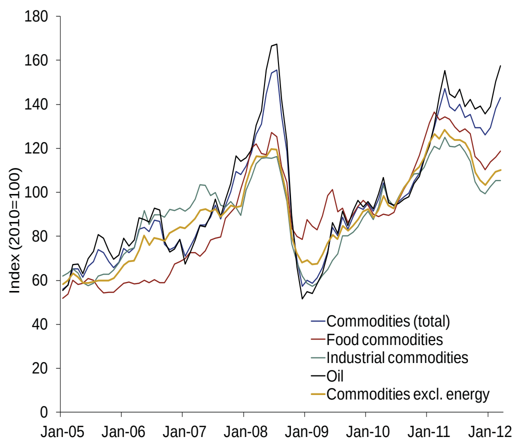
On a European level, a legislative package proposed by the European Commission was approved in September 2010, setting out a collection of measures designed to reinforce economic governance in the EU. This package, which came into force on 13 December 2011, has two main objectives: on the one hand, more prevention and corrective actions to guarantee fiscal sustainability and, on the other, the reduction of macroeconomic imbalances and promotion of competitiveness.[2]

Considerable increase in commodity prices in average annual terms, albeit slowing in the second half of the year

Commodity prices in international markets continued to increase considerably in 2011, after having already risen significantly in the preceding year. Considering the average annual rate of change, commodity prices increased 34 per cent in 2011, after having increased by around 29 per cent in 2010. Reference should be made, in the case of this evolution, to the contributions made by oil prices and foodstuffs with average annual rates of change of, respectively, 40 and 27 per cent in 2011, whereas increases in the prices of industrial goods was less marked (Chart 1.12). Reference should also be made to the price of gold, which continued to reach historical maximums with an average annual increase of almost 30 per cent, reflecting the attractiveness of this asset as an investment alternative, in a context of high risk aversion and low interest rates on a world level.

Chart 1.12

INTERNATIONAL COMMODITY PRICES IN USD



Source: *Hamburgisches Weltwirschafts Institut (HWWI).*

2 See "Box 1.1 *Developments in the economic governance of the EU: supervision of macroeconomic imbalances*", of this Report.

The behaviour of most commodity prices was largely determined by the coexistence of a series of special factors in the first half of the year, which put strong pressures on these prices. On the demand side, reference should be made to the pressure brought by several emerging market economies, especially developing Asian countries, as a result of both their economic dynamism and highly intensive growth in terms of their consumption of such commodities. On the supply side, political tensions and social upheavals in several countries in the Middle East and North Africa led to the interruption of oil supplies from some oil-producing countries, especially Libya. In the second half of the year, commodity prices tended to decrease as a reflection of the deceleration of the world economy. However, the continuation of tensions in the Middle East and North Africa and the existence of several supply side constraints in several countries continued to put upwards pressure on oil prices. Oil prices, therefore, remained, on average, practically unchanged in the second half of the year, at 107.62 dollars per barrel at 30 December 2011 (93.49 dollars at 31 December 2010). At the beginning of 2012, concerns over the possible occurrence of interruptions to the oil supply from Iran, following the intensification of geopolitical tensions, led oil prices to increase to more than 120 dollars. At 20 April 2012, oil prices were at 118.7 dollars per barrel, up by around 10 per cent over the end of 2011.

The inflation rate increased on a global scale in 2011, particularly deriving from higher commodity prices

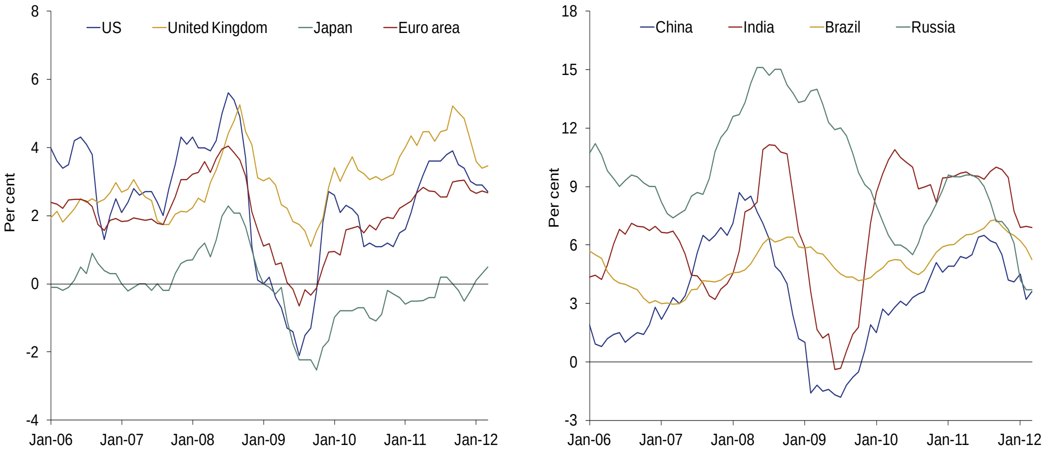
Rising commodity prices in 2011, particularly energy and foodstuffs, made a marked contribution to higher inflation rates, as measured by the consumer price indices of most countries. The increase in commodity prices in international markets influenced the inflation rate through the materialisation of direct and indirect effects. The direct effects translated into almost immediate increases in the prices of energy goods and foodstuffs. The indirect effects referred to the impact of the prices of intermediate goods in the manufacturing process and increases in prices and wages associated with the efforts to pass on the increase in costs and reverse the loss of purchasing power. As opposed to the direct effects, indirect effects take some time to materialise and depend on various factors, such as the economy's cyclical position and the flexibility of the labour market. The indirect effects are likely to have been contained given that, mainly in the advanced economies, high unemployment and low levels of capacity utilisation translated into limited wage pressures. In such a scenario, the advanced economies posted an average inflation rate of 2.7 per cent in 2011, in comparison to 1.5 per cent in 2010.

In addition to higher commodity prices, the evolution of inflation in the main advanced economies was also influenced by the increase in indirect taxes and administered prices in several countries. The annual rate of change of the consumer price index in the euro area remained above 2 per cent over the year, ending with an average annual rate of 2.7 per cent in 2011, against 1.6 per cent in 2010 (Chart 1.13). The intra-annual profile of inflation in the US was similar, posting an average annual rate of change of 3.2 per cent in 2011, twice the rate of the preceding year. In the United Kingdom, in addition to the increase in commodity prices, the increase in the VAT rate and import prices, following past depreciations of the pound sterling, also helped to keep the inflation rate at high levels (annual rate of change of 4.5 per cent in 2011, in comparison to 3.3 per cent in 2010). In Japan, 2011 was the third consecutive year in which the inflation rate remained at negative values, with an average annual rate of change of -0.3 per cent in 2011, after the preceding year's -0.7 per cent.

In turn, the increases in consumer prices in emerging and developing market economies were clearly higher than in the advanced economies, standing at 7.1 per cent in 2011, in comparison to 6.1 per cent in 2010. The impact of higher commodity prices in the consumer price index was felt more sharply than in the advanced economies. This is particularly due to the fact that the proportion of foodstuffs in the consumer goods basket in such economies is significantly higher than in the advanced economies. On the other hand, strong economic expansion in several of these economies originated constraints in manufacturing capacity, fuelling inflationary pressures. In the specific case of China, inflation continued

Chart 1.13

CONSUMER PRICE INDEX | YEAR-ON-YEAR RATE OF CHANGE



Sources: CEIC, Eurostat and Thomson Reuters.
Note: Harmonised Index of Consumer Prices for the euro area and the United Kingdom.

to post an upwards trend up to July 2011 (6.5 per cent) followed by a gradual decline up to the end of the year, to 4.1 per cent in December (Chart 1.13). The average annual rate of change was 5.4 per cent in 2011, above the preceding year's 3.3 per cent.

Notwithstanding the increase in inflation, monetary policies have remained globally accommodative

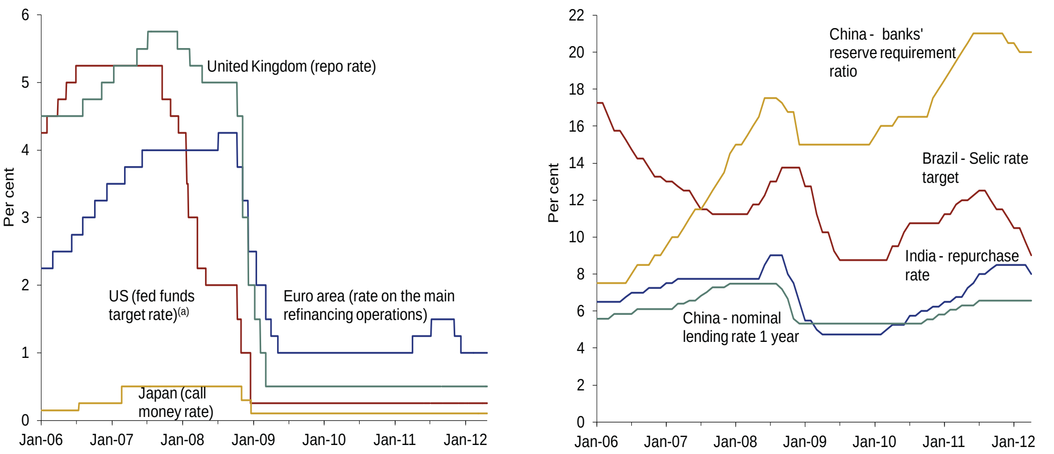
In an environment of anchored inflation expectations, the persistence of high inflation rates in 2011 did not prevent the monetary authorities of the main advanced economies from maintaining a considerably accommodative monetary policy. This decision was associated with worsening global financial instability and the effects of an increase in systemic risk in the euro area, on the international economy, together with the fact that labour and product markets continued to show considerable weaknesses. In this context, official interest rates remained at historical minimums, in several cases close to zero, while, at the same time, new unconventional monetary policy measures were being announced (Chart 1.14).

The Federal Reserve of the US kept its official interest rate unchanged at between 0 and 0.25 per cent over the course of 2011, basing its decision on the fact that the levels of capacity utilisation remained low and unemployment high, in a scenario of a moderate growth projection for prices over the medium term and of continued anchored inflation expectations. At its August 2011 meeting, the Federal Reserve announced that the prevailing economic conditions would guarantee that official interest rates would remain at exceptionally low levels until at least mid-2013. Later, at its February 2012 meeting, the period was extended until at least the end of 2014, while, at the same time, an explicit long-term objective of a 2 per cent inflation rate was announced. As regards unconventional measures, after the completion of the asset purchasing programme for the amount of 600 billion dollars in June 2011, the Federal Reserve announced the "Operation Twist", in September, in which it proposed to increase the average maturity period on public debt held by it through the sale of short-term and purchase of long-term securities. This operation, involving a total amount of 400 billion dollars, which is expected to be performed by the end of 2012, has been designed to support economic growth through lower long-term interest rates and more accommodative financial conditions. As regards the Bank of England and the Bank of Japan, official interest rates remained unchanged in 2011 and at historically minimum levels, whereas unconventional monetary policy measures were expanded.

Chart 1.14

OFFICIAL INTEREST RATES

Official interest rates in main advanced economies	Reference interest rates and banks reserve requirement ratio in emerging market economies



Source: Bloomberg.	**Source:** CEIC.

Note: (a) Since December 2008 the objective for this rate was set between 0 and 0.25 per cento.

In the euro area, the Council of the ECB changed its official interest rates four times in 2011, with the two initial increases being cancelled out by decreases at the end of the year (Chart 1.14).[3] After almost two years without changes, the Council of the ECB increased its key reference rates by 25 basis points each, to 1.5 per cent in April and July 2011. With the deterioration of the economic situation in a context of growing tensions in the financial markets, associated with the resurgence of the sovereign debt crisis in the euro area in the second half of the year, and due to a more optimistic outlook for inflation, the Council of the ECB decided to reverse the upwards movements to interest rates in November and December. In terms of unconventional measures, the Council of the ECB decided to adopt a substantial number of measures after August 2011, with special focus to two three-year longer-term refinancing operations at fixed rates with full allotment. These measures aimed at guaranteeing a larger supply of bank credit and more liquidity in the euro area money market.

As regards other advanced economies, Canada kept its interest rates unchanged in 2011, interrupting the upward trend initiated in 2010, whereas Sweden, Australia and Norway re-initiated processes to lower their official interest rates, reacting to the scenario of global economic deterioration following the increases recorded in 2010.

In most emerging market economies, mainly those enjoying strong economic growth, a more restrictive movement in terms of monetary policy conditions was recorded in the first half 2011. This greater tightening was justified by signs that several such economies were overheating, notably translating into a strong increase in inflation and banking credit, which made it possible to support a marked expansion of demand. However, following the deterioration of the outlook for the world economy, some of the interest rate hikes were reversed in the second half of the year. The People's Bank of China increased its banks' reserve requirement ratio by six times, totalling 300 basis points and its key lending rate by 75 basis points up to July 2011 (Chart 1.14). At the end of 2011, the Chinese monetary authority decided to reduce the reserve requirement ratio for the banks by 50 basis points, and by an additional 50 basis

3 For more details see "Chapter 2 *Monetary Policy of the ECB and Monetary and Financial Conditions of the Portuguese Economy*", of this Report.

points in February 2012. The Central Bank of Brazil, in turn, continued its cycle of interest rate hikes, with an increase of 175 basis points between January and July 2011. Afterwards, in the context of a marked slowdown of economic activity, the central bank practically reversed all of the former hikes up to the end of the year. The movement towards the reduction of the key reference rate continued through the beginning of 2012, with reductions of 75 basis points in March and April.

Reduction of fiscal deficits in the advanced economies, although public debt continued to grow as a percentage of GDP

In their response to the financial crisis and consequent economic recession, the performance of the automatic stabilisers and fiscal stimulus packages implemented by governments in a generalised and synchronised manner, led to the rapid deterioration of the public accounts. In this context, 2010 was the turning point in fiscal policy management, characterised by progressive restrictiveness leading to a certain correction of public deficits. This trend continued through 2011, particularly in the advanced economies.

In 2011, the public sector borrowing needs as a percentage of GDP in the advanced economies were reduced by around 1 p.p., from 7.6 per cent in 2010 to 6.5 per cent in 2011 (Chart 1.15). In terms of the cyclically adjusted budget deficit the reduction was less significant, of 0.6 p.p. (from 5.8 to 5.2 per cent of potential GDP). The US corrected its deficit by 1 p.p., but continued to run a high deficit of 9.6 per cent of GDP. The euro area recorded a more significant adjustment (2.1 p.p. of GDP), with Germany standing out with a 3.3 p.p. correction of its fiscal deficit, to 1 per cent of GDP in 2011. In the opposite direction, the high reconstruction costs associated with the natural catastrophe in Japan had the effect of increasing the Japanese fiscal deficit in 2011, from 9.4 to 10.1 per cent of GDP. In a scenario of still high primary deficits, weak economic growth and, in several countries, high interest rates in the primary public debt market, gross public debt in the advanced economies as a whole increased again in 2011, remaining above 100 per cent of GDP (105 per cent of GDP, up by around 4 p.p. relative to 2010).

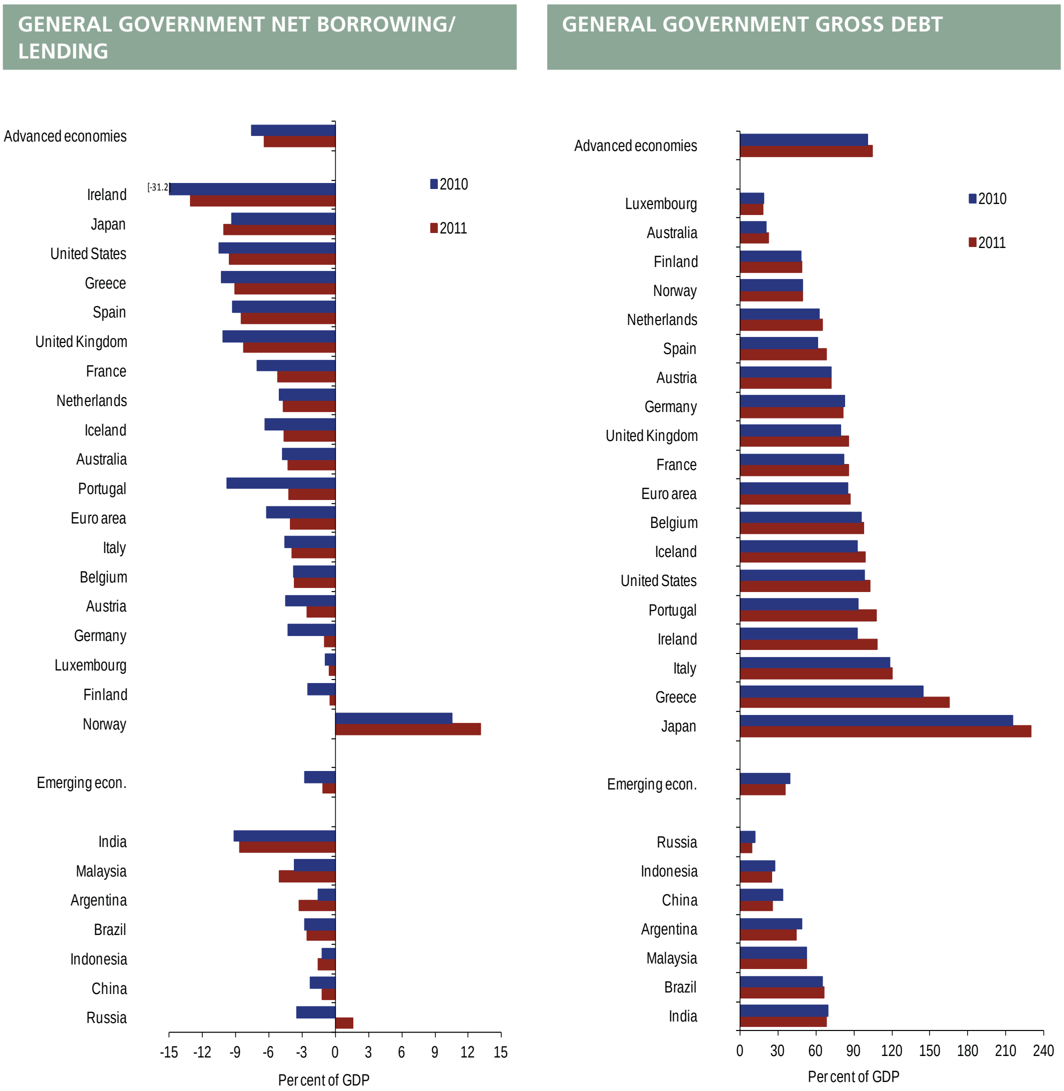
The generalised decrease in fiscal deficits in emerging market economies, combined with robust rates of economic growth, higher than the implicit interest rates on the debt service, enabled public debt stock to be reduced in 2011. Emerging market economies as a whole improved their fiscal balance from -2.8 to -1.1 per cent of GDP (improvement of the cyclically adjusted budget balance from -3.5 to -2.3 of potential GDP), whereas the public debt to GDP ratio improved by around 3 p.p., to 36 per cent of GDP in 2011.

A series of adverse events, in March 2011, changed the relative stability of financial markets on a global scale

Following 2010 which was marked by periods of major turmoil in sovereign debt markets, culminating in requests for external financial assistance by Greece and Ireland in May and November 2010, respectively, the beginning of 2011 was characterised by a certain easing in financial market tensions. However, this relative stabilisation of market players' risk aversion levels turned out to be temporary. The occurrence of a series of negative factors, in March, had a deteriorating effect on the sentiment of international investors. Firstly, the earthquake in Japan and intensification of geopolitical conflicts in the Middle East and North Africa contributed to the downwards revision of the outlook for world growth. Secondly, the main rating agencies downgraded their ratings on long-term sovereign debts and banks in Greece, Portugal and Spain. These movements increased such countries' borrowing costs, fuelling fears over the sustainability of their public finances. This was accompanied by the intensification of rumours over a possible restructuring of Greek debt. Finally, the conclusions reached at the March 2011 meeting of euro area Heads of State or Government, for the revision of euro area countries' financial stability mechanisms, were considered to be insufficient to resolve the sovereign debt crisis.

At this meeting in March, European leaders reached agreement on several issues: (i) to increase the

Chart 1.15



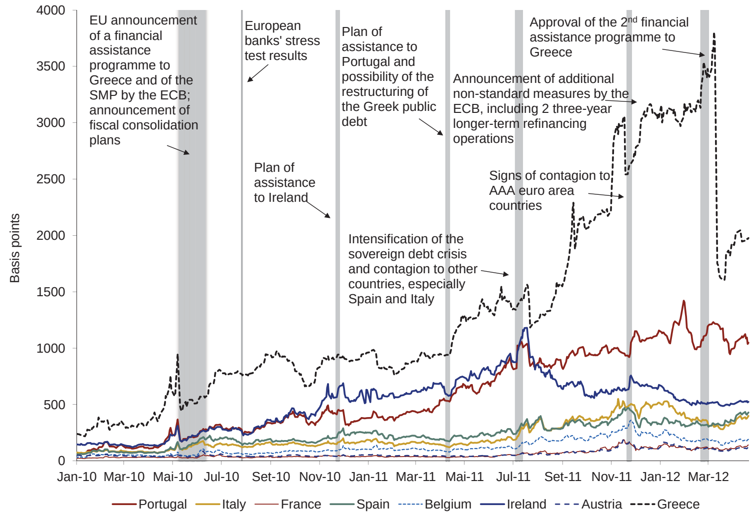
Sources: Eurostat and IMF.

Note: Data for the EU countries are based on information published by the Eurostat on 23 April 2012, whereas for the remaining countries it is based on data published by the IMF on 17 April 2012.

effective financial capacity of the European Financial Stability Facility (EFSF) to EUR 440 billion and its future replacement, the European Stability Mechanism (ESM), to EUR 500 billion (scheduled to come into force on 1 January 2013); (ii) the possibility of the exceptional intervention of the EFSF and ESM in the primary debt market of countries entering into macroeconomic adjustment programmes subject to very strict conditions; (iii) the interest rate on loans to Greece would be reduced by 100 basis points and the maturity period of all loans would be increased by 7.5 years. Notwithstanding the announcement of this set of measures, the market players considered that, not only would the measures be insufficient to stem the crisis, but that there were also many doubts concerning the form and means of implementation of the expansion of the EFSF's and ESM's effective financing capacity. In such a scenario, there was a pronounced widening of spreads on Portugal's, Greece's and Ireland's 10-year public debt yields in comparison to Germany (Chart 1.16). In light of such developments and the progressive increase of the yields on Portuguese debt, the Portuguese government, which had, in the meantime, resigned, submitted a request for external financial aid on 6 April 2011.

Chart 1.16

10-YEAR GOVERNMENT BOND YIELD SPREADS AGAINST GERMANY



Source: Thomson Reuters.

Fears over the possible restructuring of Greek debt and contagion to other countries in the euro area caused a fresh wave of financial turmoil since July 2011

Uncertainty regarding the sustainability of the public finances of countries in the euro area intensified more sharply in July 2011, owing to growing fears that Greece would have to restructure its debt. This was accompanied by rumours over Greece's need for a second financial assistance package. The first loan to Greece of EUR 110 billion from the EU and IMF, approved on 9 May 2010, appeared to be insufficient to provide for the country's borrowing requirements, in a context of a reduced capacity to secure market funding. In such a context, it was clear, at the beginning of July, that it would not be possible for Greece to return to a sustainable public debt growth trajectory without additional external assistance. In July 2011, a second package of financial support was requested to the EU and IMF.

In a context of consecutive downwards revisions of the outlook for world economic growth and worsening sovereign debt crisis, the objectives defined for the consolidation of the public finances in several euro area countries started to appear to be a highly difficult goal. These fears, which were particularly marked in countries with higher deficit and public debt levels, led to a situation in which the sovereign debt crisis, hitherto confined to countries with external financial assistance programmes, spread to other countries in the euro area considered by international investors as appearing to have frailties in terms of their public finances and weak economic growth, notably Spain and Italy. This contagion resulted in a substantial deterioration of the funding conditions of the public sector and the banks in these countries.

European leaders' commitment in July to contain the sovereign debt crisis had positive effects in financial markets, but they were short-lived

In light of the increase in the general contagion risk to euro area countries, European authorities, on 11 July, agreed on a series of measures designed to increase the flexibility and scope of intervention of the financial stability mechanisms in situations which put financial stability at risk. The ESM, which will replace the current financial mechanism, the EFSF, should permit: (i) preventative intervention in financial markets; (ii) recapitalisation of financial institutions through lines of credit to governments even in countries which are not included in financial support programmes; (iii) interventions in secondary debt markets provided that the ECB recognises the existence of exceptional conditions in the financial markets and risks to financial stability.

On 21 July, Heads of State or Government of the euro area and EU institutions presented an agreement on the new financial assistance programme for Greece with a second loan for an estimated amount of EUR 109 billion, reduction of the interest rate charged and extension of maturity. An extension of the maturities on such loans to Portugal and Ireland, as well as the reduction of the interest rate charged was also agreed. The maturities on the loans to these countries were extended by 7.5 years to a minimum of 15 and maximum of 30, with a grace period of 10 years on interest. The interest rates to be charged on EU loans should be equivalent to the interest rates on loans made by the financial support mechanism over the medium term to the balance of payments of member states, which is currently around 3.5 per cent. These new measures were designed to improve the sustainability of the public debt in countries funded by the EU. An agreement was also reached on the private sector's voluntary involvement in the reduction of Greek public debt, in which it was estimated that private investors would contribute EUR 135 billion up to the end of 2020. This contribution would take the form of a programme, which included various bond swap modalities.

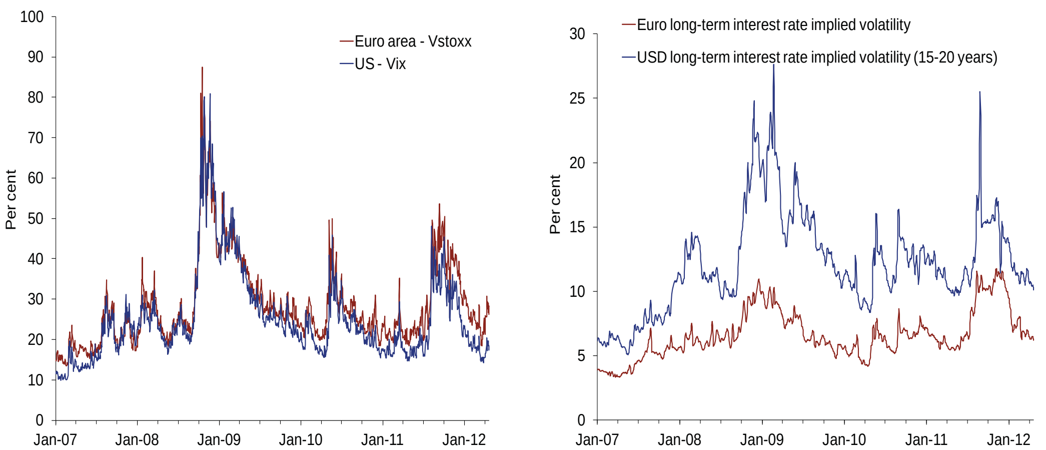
The compression of spreads of public debt yields vis-à-vis Germany in the countries most affected by the financial crisis and a slight improvement in the sentiment of international investors proved to be, however, short-lived (Chart 1.16). In August, fears over the capacity of euro area countries to implement the measures agreed at the July summits implied the resurgence of tensions in the financial markets on a global level. This was accompanied by the continuation of world economic deceleration and political tensions involving the increase of the public debt ceiling in the US which culminated with a downgrade of the long-term rating on US debt, from AAA to AA+, by Standard and Poor's, which exacerbated the negative sentiment prevailing in the financial markets. In this period, volatility in equity and bond markets in the euro area and US reached very high levels, especially in the bond market, with levels close to those following the collapse of Lehman Brothers in September 2008 (Chart 1.17).

This context witnessed a greater spread of contagion to Spain and Italy, leading the ECB at the beginning of August to announce that it would be reactivating its securities market programme (SMP), broadening its scope of purchases to Italian and Spanish debt in the secondary market. The objective involved the restoring of liquidity in such dysfunctional markets and the normal functioning of the monetary policy transmission.

Chart 1.17

STOCK AND BOND MARKET IMPLIED VOLATILITY

Stock market | **Bond market**



Source: Bloomberg.

Measures taken in Autumn 2011 comprised fresh endeavours by the European authorities to contain the sovereign debt crisis in the euro area

Owing to the intensification of the sovereign debt crisis in the euro area, which was reflected in contagion to the sovereign debt of Spain and Italy and to the banking systems, in the Autumn, European leaders submitted comprehensive plans designed to resolve the crisis. At the Euro Summit of 26 October, the Heads of State or Government of the EU presented a series of measures involving three pillars: (i) the objective of reducing Greek public debt to 120 per cent of GDP by 2020, involving private sector involvement; (ii) the agreement relative to the leveraging of available EFSF resources which could multiply current resources by a factor of 4 or 5; (iii) the agreement regarding a series of measures to re-establish confidence in the banking system.

Firstly, the participation of the private sector assumed the voluntary exchange of bonds at a nominal discount of 50 per cent on notional Greek debt held by private investors. Euro area member states would contribute with an amount of up to EUR 30 billion to the package relative to the private sector's involvement. An additional financial package for Greece of up to EUR 100 billion by 2014 was agreed. This second aid package to Greece, which had previously been agreed at the summit of 21 July, had still not been implemented as the Greek government had shown reluctance to assume a commitment to adopt additional measures to contain expenditure. These measures were viewed by European leaders as essential to unblock the second financial assistance package. Secondly, as regards the various measures proposed for the banking sector, reference should be made to the measure relative to bank capitalisation requiring the banks to achieve a Core Tier 1 capital ratio of 9 per cent by June 2012, in order to create temporary reserve buffers to reinforce resilience to adverse shocks and particularly to account for exposure to sovereign debt. Each institution's capital requirements would be assessed on the basis of the plans agreed with the national supervisors and coordinated by the European Banking Authority. To achieve the referred capital increases, on banks should only use public funding after their private capital sources had been exhausted.

The positive impetus in global sentiment deriving from the meeting of European leaders once again proved to be short-lived. International investors remained sceptical over the capacity of countries in the euro area to implement the measures agreed in October. This negative sentiment in the financial markets was exacerbated in November owing to the occurrence of three types of adverse events. The first was related with the evident deterioration of the outlook for global economic growth. The second appeared following changes in government of three countries in the euro area, two of which, Greece and Italy, resulting from political crises leading to the fall of the governments. Finally, the rating downgrades on sovereign debt and on banks started to spread to several countries in the euro area.

In this context of high uncertainty, the sovereign debt crisis in the euro area entered a new stage in November. There was an abrupt increase in contagion pressures, with international investors also centring their attention on the debt markets of countries with Triple A credit ratings, considered, hitherto, as being immune to the crisis. The risk of contagion, in this period, reflected in increased yields on public debt, spread to France, Finland, The Netherlands and Austria. This was accompanied by a sharp increase in the borrowing costs of Italy and Spain, with spreads on 10-year public debt yields relative to Germany reaching historical maximums. In this adverse context, at the European Council meeting of 9 December, the Heads of State or Government of the euro area decided to advance in the direction of a stronger economic union involving a new fiscal compact and reinforced coordination between economic policies.[4] The coming into effect of the ESM was also brought forward to July 2012. The EFSF would remain active up to mid-2013, whereas the adequacy of the maximum global limit of the EFSF/ESM of EUR 500 billion would be revised in March 2012.

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4 See "Box 3.2 *Developments in the budgetary surveillance mechanism of the European Union*", of this Report.

Beginning of 2012 marked by the approval of the second financial assistance package to Greece

There were no marked changes in the negative sentiment prevailing in the financial markets at the beginning of 2012, largely explained by the possibility of a Greek default if not receiving a new tranche of financial assistance enabling it to honour its commitments. After Greece had committed to austerity measures and additional structural reforms allowing it to fulfil the goals agreed with the "Troika" (ECB, IMF and European Commission), the Eurogroup reached agreement on a second package of financial assistance for Greece, on 21 February 2012. This package totalled EUR 130 billion up to 2014.[5] Its main aspects are: (i) the participation of the private sector assumes the voluntary exchange of bonds at a nominal discount of 53.5 per cent on notional Greek debt held by private investors; (ii) the income on Greek debt securities held by the Eurosystem would be transferred to the Member States, which could pass them on to the Greek state in order to improve the sustainability of Greece's public debt; (iii) a retroactive reduction of around 200-300 basis points to 150 basis points on the interest rate spread of the loans. The implementation of these measures would allow Greece to achieve a public debt ratio of 120.5 per cent of GDP by 2020.

At the beginning of March 2012, the operation involving the voluntary participation of private investors in the restructuring of Greek public debt was successfully completed. The participation encompassed 83.7 per cent of the debt to be restructured, leading the Greek government to activate the collective action clauses (CAC). The activation of the CAC made it possible to enforce the additional participation of investors in the operation, leading the total amount of debt to be restructured to 95.7 per cent of the total of private investors' eligible debt. The Greek debt stock of around EUR 350 billion should accordingly be reduced by more than EUR 100 billion. After the completion of this process, the member states of the euro area formally approved the second adjustment programme for Greece on 14 March 2012.

At their meeting of 30 March 2012, the ministers of finance of the euro area reassessed the adequacy of the global capacity of the euro area's financial support mechanisms, as initially agreed at the European Council meeting of 9 December 2011. This took the form of an agreement for the expansion of the global maximum EFSF/ESM limit to EUR 700 billion, comprising a combination of EUR 500 billion for the ESM, available from July 2012, with an amount of EUR 200 billion from the EFSF already allocated to the financial assistance programmes for Greece, Ireland and Portugal. Starting July 2012, the ESM will be the mechanism of choice for funding the new financial assistance programmes, transitorily coexisting with the EFSF, which shall remain active to fund programmes beginning prior to that date. The transition period will last up to mid-2013, from which date the ESM will be the only financial stability mechanism, totalling a maximum loan capacity of EUR 500 billion.

Over the course of 2011, public debt yields of the major advanced economies remained low in a context of major financial turmoil

International investors' fears over the credit risk on sovereign debt appear to have been confined to the euro area. Yields on the public debt of the major advanced economies remained at low levels over the course of the year. Two periods may be distinguished. The first occurred up to around March 2011, in which the increase in yields was being determined by the favourable outlook for global economic growth. However, starting March, the outlook for the world economy deteriorated in a context of the intensification of the sovereign debt crisis and worsening of geopolitical tensions in the Middle East and North Africa. This second period, characterised by an interruption of the upwards trend on interest

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5 It should be remembered that the second package of financial assistance to Greece had been under negotiation since the summit of 21 July 2011. However, final agreement was only reached in March 2012, following the Greek government's commitment to a series of expenditure containment measures and additional structural reforms.

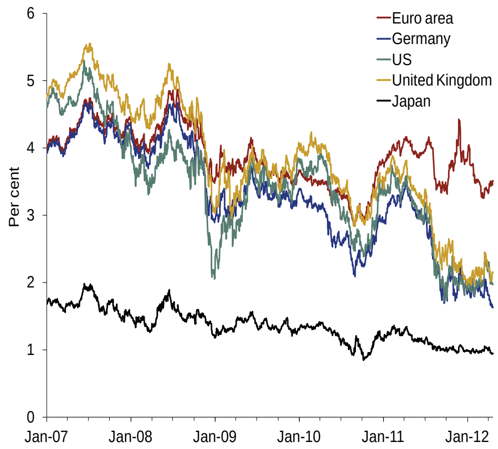
rates in a context of high levels of risk aversion, implied an increase in demand for safe assets, resulting in pronounced decreases of yields in the US, United Kingdom and Germany (Chart 1.18). This trend continued through the rest of the year, particularly in the US, in which the effects of the safe-haven flows prevailed over the credit downgrades on long-term US debt by Standard and Poor's.

Regarding euro area countries, 2011 was marked by a divergent evolution of public debt yields. This heterogeneity reflected differences in international investors' perceptions of credit risk on sovereign debt. Greece, Portugal and Italy were particularly penalised with annual increases of around 20, 7 and 2 p.p. on 10-year public debt yields respectively, ending 2011 with levels of 32.3, 13.4 and 7.0 per cent (Chart 1.19). On the other hand, public debt yields recorded negative changes in several countries, in 2011, particularly Germany, with a decline of 1.1 p.p..

Up to mid-March 2012, the approval of the second assistance package to Greece and the additional unconventional monetary policy measures adopted by the ECB allowed a momentary easing in the tensions related with the sovereign debt crisis, translating into practically unchanged public debt yields in several countries in the euro area, as opposed to other countries in which there were marked falls, especially Greece, Ireland, Italy and Portugal. However, starting mid-March 2012, turmoil returned to the financial markets, in a context of economic forecasts pointing to a recession in the euro area in 2012 and owing to the prevailing uncertainty regarding the resolution of the sovereign debt crisis in the euro area. This was accompanied by an increase in international investors' doubts regarding the sustainability of the public finances of Spain and Italy, insofar as they considered that the measures announced by the respective governments to contain the fiscal deficit and public debt were insufficient to restore the sustainability of the public finances in such countries. In addition, the fact that Spain failed to achieve its fiscal deficit target for 2011 (8.5 per cent of GDP as opposed to the initial agreement of 6 per cent of GDP with the European Commission) and commitment of the Spanish government to the fiscal deficit goal for 2012 being higher than initially established (5.3 per cent of GDP, vis-à-vis the initial commitment of 4.4 per cent of GDP), contributed not only to an increase in Spanish public debt yields in the secondary market but also to a situation in which public debt securities were placed in the primary market at higher interest rates than was previously the case.

Chart 1.18

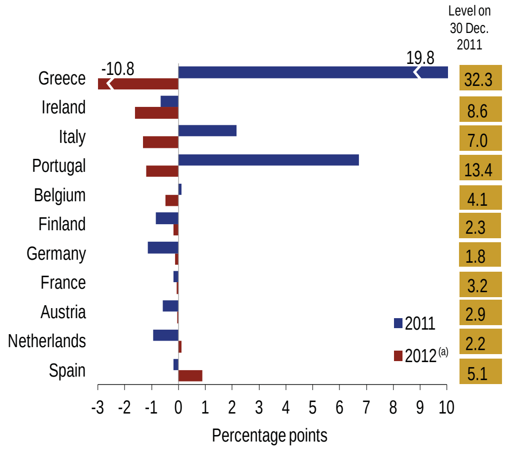
10-YEAR GOVERNMENT BOND YIELDS



Source: Bloomberg.

Chart 1.19

10-YEAR GOVERNMENT INTEREST RATES | ANNUAL CHANGE



Source: Thomson Reuters.

Notes: (a) The change in 2011 corresponds to the difference between 30 December 2011 and 31 December 2010. The change in 2012 covers the period up to 20 April.

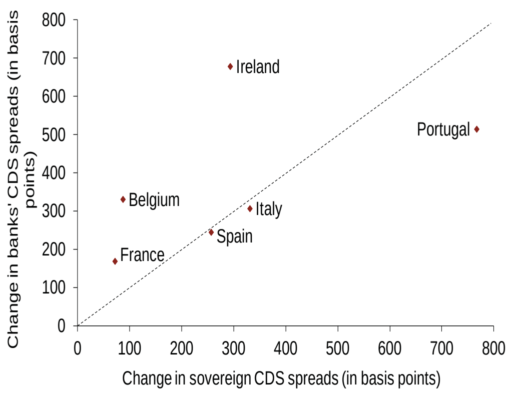
Banking sector severely affected by the sovereign debt crisis

The banking sector continued to be heavily penalised in 2011, by the deteriorating perception of the sovereign credit risk of several countries in the euro area. A direct link has been established between credit risk on the public sector and credit risk on the banking sector, especially evident in Greece, Portugal, Ireland, Italy and Spain (Chart 1.20). In addition, yields on financial sector and banking sector debt, in particular, have remained at high levels, accompanying the increases in sovereign debt yields in the euro area (Chart 1.21).

The interaction between public sector and banking sector risks operates through diverse channels. Firstly, the most visible direct effect derives from the fact that the banking sector has public debt portfolios,

Chart 1.20

DEVELOPMENTS IN CREDIT RISK PREMIA ON GOVERNMENT DEBT AND BANKING SECTOR DEBT BETWEEN APRIL 2010 AND APRIL 2012

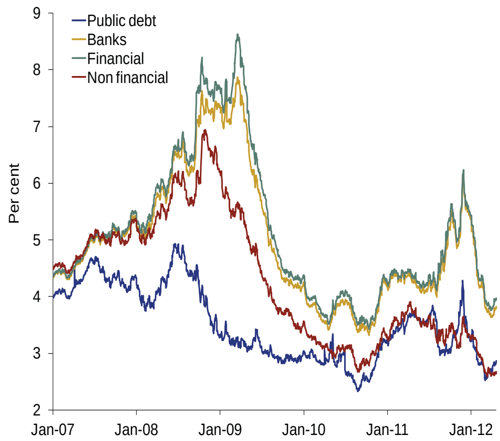


Sources: Thomson Reuters and Banco de Portugal calculations.

Note: Greece was excluded from the chart due to scale issues.

Chart 1.21

PRIVATE AND PUBLIC DEBT YIELDS IN THE EURO AREA



Source: Thomson Reuters (Merryll Lynch).

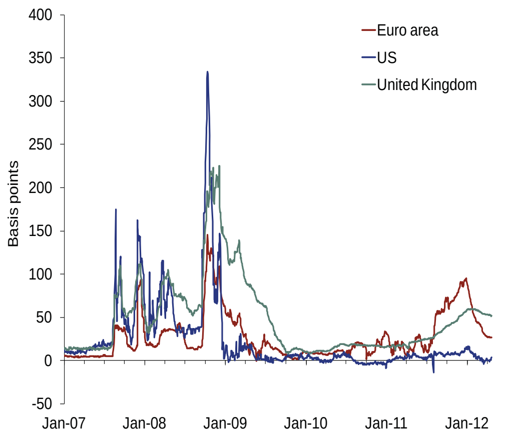
which makes them more vulnerable in the event of pronounced decreases in the values of such securities. Secondly, the decrease in the value of the guarantees and collateral associated with the increase in sovereign risk increase banks' difficulties in securing funding from the financial markets. Finally, the need for government intervention in banks with financial difficulties increases credit risk on sovereign debt. In this context, the European Banking Authority carried out financial resilience stress tests on a series of European banks in order to assess the need to reinforce their capital to provide for adverse macroeconomic scenarios. The results, announced in July 2011, evidenced a high level of resilience of most European banks, although it was recommended that several banks should be recapitalised with the aim of improving their capital ratios. The intensification of the contagion of the sovereign debt crisis to the banking system led to various credit downgrades on the banks in 2011, especially in euro area countries. This series of events conditioned the evolution of money markets in the euro area and to a lesser extent in the United Kingdom, but not in the US (Chart 1.22). In particular, the widening of spreads between non-collateralised and collateralised interest rates in the euro area was especially noteworthy in the second half of 2011, as a reflection of a considerable increase in liquidity and credit risk.

In this environment of a substantial deterioration in the financial situation of the banks, the Council of the ECB announced additional unconventional measures, in December, to support banking credit and liquidity in the euro area money market.[6] In particular, the conduct of the two 3-year longer-term refinancing operations, on 21 December 2011 and 29 February 2012, led to a significant reduction of risk aversion levels making it possible to reduce banks' liquidity risks and improve the monetary policy transmission mechanism. This effect translated into a significant reduction of volatility in the money market on the spread between non-collateralised and collateralised interest rates in the euro area at the beginning of 2012 (Chart 1.22). In the case of the United Kingdom, however, the spread remained practically unchanged at high levels.

6 For more details see "Box 1.2 *Non-standard monetary policy measures in the euro area and their impact in the financial markets*" and "Chapter 2 *Monetary Policy of the ECB and Monetary and Financial Conditions of the Portuguese Economy*", of this Report

Chart 1.22

3-MONTH INTEREST RATES - DIFFERENTIAL BETWEEN NON-COLLATERALISED AND COLLATERALISED INTEREST RATES



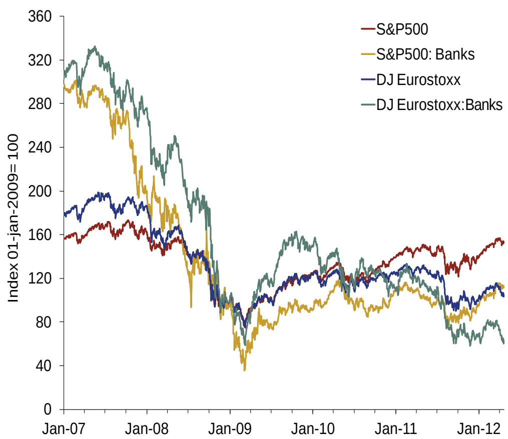
Sources: Bloomberg and Thomson Reuters.

Abrupt falls in equity markets in the main world economies, especially in the euro area

The evolution of equity markets in 2011, was to a large extent determined by the development of the sovereign debt crisis in the euro area and gradual deterioration of the outlook for world growth. In this context, following a first half year in which equity markets remained relatively unchanged relative to the end of 2010, the second half of 2011 was extremely unfavourable, particularly for the banking sector (Chart 1.23). In comparison to 2010, equity prices remained practically unchanged in the US, but fell by around 18 per cent in the euro area, 17 per cent in Japan and 6 per cent in the United Kingdom. The banking sector, as already mentioned, was more significantly affected with more marked falls in the euro area (around 38 per cent, following a decline of 27 per cent in 2010). In mid-April 2012, most equity markets in the advanced economies were recovering from their losses of 2011, but only partly so and with the exception of the European banking sector which continued to be penalised by the uncertainty related to the sovereign debt crisis in the euro area.

Chart 1.23

EQUITY INDICES IN THE US AND THE EURO AREA



Source: Thomson Reuters.

Neither were the emerging market economies immune from the progressive increase of financial turmoil, with the MSCI Composite Index recording losses of around 15 per cent in equity prices in 2011. The equity markets of the two largest economies, China and India, were down by more than 20 per cent. In the first few months of 2012, the reduction in the levels of risk aversion, in conjugation with an improvement of the sentiment of international investors, also favoured the equity markets of emerging market economies. In mid-April 2012, the MSCI Composite Index made up for almost all of its losses recorded in 2011.

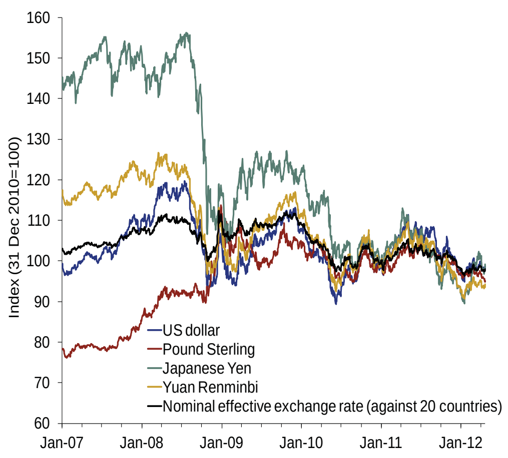
Transmission of sovereign debt crisis to foreign exchange markets, translating into a depreciation of the euro in nominal effective terms

The euro was affected by the financial turmoil associated with international investors' concerns over the relatively unfavourable outlook for economic growth and the frailties of the public finances in several euro area countries. Two major stages can be distinguished in relation to the euro's time profile over the course of 2011. The first took place up to April 2011, in which period the euro appreciated by around 5 per cent in nominal effective terms. This evolution translated significant appreciations of more than 11 per cent against the US dollar and the yen and more than 9 per cent against the renminbi (Chart 1.24). On the other hand, in the same period, the euro depreciated against most Central and Eastern European countries' currencies, particularly the Hungarian forint and the Czech crown (depreciations of around 5 and 3 per cent, respectively). The intensification of the tensions related to the sovereign debt crisis in the euro area, however, began to penalise the euro since April and lasting up to the end of December 2011, notwithstanding its temporary appreciation in October. This stage, characterised by high levels of risk aversion, translated into an increase in the demand for safe assets by investors, who preferred securities denominated in US dollars, yen, sterling and Swiss francs.

The euro, in this context, depreciated 2.1 per cent in nominal effective terms between the end of 2011 and 2010, after having depreciated 8.2 per cent in the preceding year. In bilateral terms, this evolution comprised depreciations of 3.2, 3.0, 7.8 and 7.5 per cent against the US dollar, sterling, the renminbi and yen, respectively. On the other hand, the euro appreciated expressively against the Central and Eastern European currencies, particularly 13 and 12 per cent against the Hungarian forint and Polish zloty, respectively. Up to mid-April 2012, the euro remained practically unchanged in nominal effective terms. In this period, the euro appreciated, in bilateral terms, by around 2 per cent against the US dollar and the renminbi and 7.6 per cent against the yen, having depreciated 2.0 and 1.1 per cent against sterling and the Swiss franc, respectively, and by around 6 per cent against the Hungarian forint and Polish zloty.

Chart 1.24

EURO EXCHANGE RATES



Source: ECB.

BOX 1.1 | EU ECONOMIC GOVERNANCE DEVELOPMENTS: THE MACROECONOMIC IMBALANCE PROCEDURE

One key lesson from the economic and financial crisis is that the building of large imbalances such as large external deficits, sustained losses in competitiveness and the build up of public and private indebtedness not only affects the welfare of the countries concerned, but may also jeopardise the proper functioning of an economic and monetary union. The accumulation of such macroeconomic imbalances within the European Union (EU) over the past decade highlighted the need for broader and tighter economic policy coordination at the European level in order to prevent the emergence of such imbalances and to ensure that recommendations are appropriately taken into account at national level. This has prompted important changes in the EU economic governance framework over the last two years, including a reinforcement of previously existing surveillance procedures, the introduction of new ones and a new cycle of economic, fiscal and structural policy coordination - the European semester – during which the main economic priorities for the EU and Member States are discussed.[1]

The cornerstone of the EU response to the economic governance fragilities exposed by the crisis is the so-called "six-pack", a legislative package of five regulations and one directive that entered into force on 13 December 2011. This new set of rules entails a significant reinforcement of the preventive and corrective arms of the Stability and Growth Pact (SGP)[2] and introduces a new element of the EU's economic governance, the Macroeconomic Imbalance Procedure (MIP). The main goal of this new surveillance procedure is to detect early on risks of emergence of macroeconomic and external competitiveness imbalances, especially within the euro area. Moreover, the MIP also aims at the correction of imbalances already in place by ensuring that the appropriate policy responses are adopted in Member States.[3] The process is similar to that of the SGP, as it includes both a preventive and a corrective arm.

The preventive arm

Given the emphasis on tracking and correcting imbalances at an early stage, the preventive arm relies on an alert mechanism that is the starting point for the European Commission's annual assessment of risks of macroeconomic and competitiveness imbalances, published in the Alert Mechanism Report. This alert mechanism is based on a scoreboard of 10 simple, measurable and available indicators of internal and external imbalances (Table 1).[4] A potential imbalance is said to exist when previously defined thresholds are breached. However, the assessment reported in the Alert Mechanism Report goes beyond the sheer mechanical interpretation of the scoreboard indicators. Countries are assessed by looking at the overall

1 This new cycle corresponds to the first six months of each year and is launched by the presentation of the European Commission's Annual Growth Survey and Alert Mechanism Report. These two documents form the basis of the discussion of the main economic challenges facing the EU in the March European Council that sets the general economic policy priorities for the EU and the Member States. Taking this into account, Member States draw up their stability/convergence and national reform programmes to be presented in April/May. In June, the Commission assesses these programmes and, if deemed necessary, issues country-specific recommendations that will be discussed and adopted in the European Council in early July, which ends the European semester.

2 On December, the euro area Heads of State or Government agreed on a new fiscal compact that was signed by all EU Member States (except the UK and the Czech Republic) at the European Council on 1 March, as part of the Treaty on Stability, Coordination and Governance. For further details, see "Box 3.2 *Developments in the budgetary surveillance mechanism of the European Union*" of this Report.

3 The MIP rests on two pieces of legislation, the Regulations (EU) No 1176/2011 and 1174/2011 of 16 November 2011. The first regulation sets out the details of the new surveillance procedure and covers all EU countries. The second regulation is related to the enforcement measures to correct excessive macroeconomic imbalances in euro area countries, including the use of sanctions.

4 Note that the set indicators may change over time. For a detailed description of the background and rationale for the current scoreboard design see "Scoreboard for the surveillance of macroeconomic imbalances", European Commission, *Occasional Paper* 92, February 2012.

Table 1

THE ALERT MECHANISM SCOREBOARD

Indicator	Measure	Threshold
External imbalances and competitiveness		
Current account balance	3 year average (% of GDP)	+6% and -4%
Net international investment position	Percentage of GDP	-35%
Export market shares	5 year percentage change	-6%
Real effective exchange rate[(a)]	3 year percentage change	± 5% for euro area countries ± 11% for non-euro area countries
Nominal unit labour cost[(a)]	3 year percentage change	+9% for euro area countries +12% for non-euro area countries
Internal imbalances		
House prices relative to consumer prices	Year-on-year rate of change	6%
Private sector debt	Percentage of GDP	160%
Private sector credit flow	Percentage of GDP	15%
Public sector debt	Percentage of GDP	60%
Unemployment rate	3-year average	10%

Source: European Commission.
Note: (a) The threshold is narrower for euro area countries due to a higher risk of contagion effects between them.

number of breaches of thresholds and its combinations, the severity of individual breaches as well as the evolution of indicators over time and the most recent economic developments and outlook.

Based on the assessment entailed in the Alert Mechanism Report, the European Commission identifies the Member States whose macroeconomic situation needs to be more thoroughly scrutinized through the use of a wider set of country-specific indicators and analytical tools to determine the origin of potential or existing imbalances. Note that an in-depth review does not automatically lead to a recommendation. If the situation is considered unproblematic, the MIP ends (Chart 1). If, instead, it turns out that an imbalance risks emerging or already exists, the Commission will make a recommendation for its prevention/correction, aligned with the European semester. In the cases deemed as severe, namely when existing balances jeopardise the functioning of the economic and monetary union, the Commission will declare the existence of an excessive imbalance and recommend placing the Member State under the corrective arm of the MIP.

The corrective arm

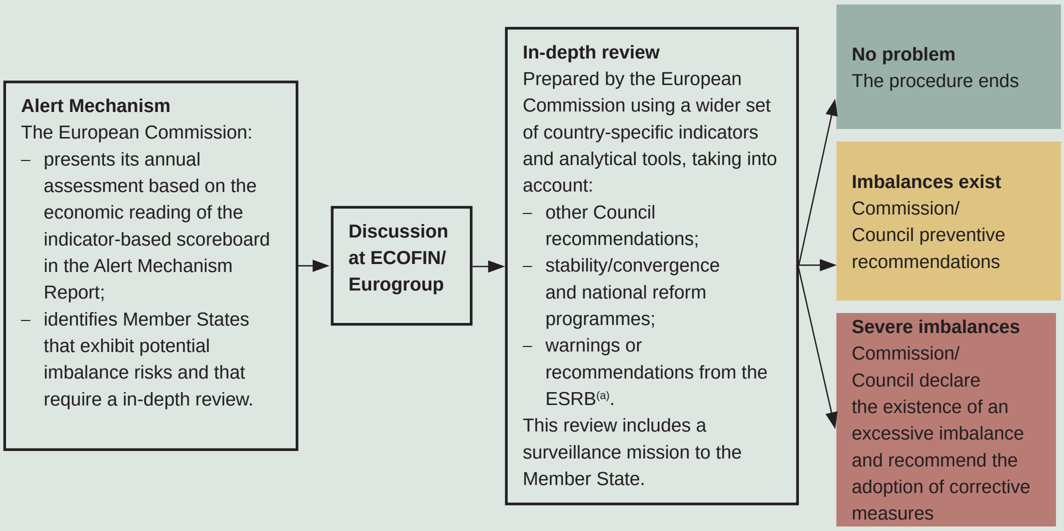
Countries under an excessive imbalance procedure will have to submit a corrective action plan setting up a roadmap and timeline to implement the appropriate policy measures, which is later assessed by the European Commission and the European Council.[5] Provided that the corrective plan is deemed as sufficient, a surveillance timetable is set up.[6] In this stage, countries face increased regular reporting duties on the progresses made to correct imbalances, which will be closely monitored by the Commission. If it is considered that the country concerned has not taken the agreed corrective measures, new deadlines will be established for their implementation. Moreover, if the country concerned belongs to the euro area, an interest-bearing deposit of 0.1 per cent of previous year GDP will be imposed. This

5 The corrective arm of the MIP rests on Regulation (EU) No 1174/2011 of 16 November 2011, in line with Article 121 of the Treaty on the Functioning of the European Union.

6 Otherwise, the country has to present a new corrective plan in the next two months.

Chart 1

OVERVIEW OF THE MACROECONOMIC IMBALANCE PROCEDURE (MIP)



Sources: European Commission and Banco de Portugal.
Note: (a) European Systemic Risk Board.

deposit can be converted into a fine, if a country fails to comply a second time.[7] The procedure ends when, following a recommendation by the Commission, the Council considers that the Member State concerned is no longer experiencing an excessive imbalance.

The first Alert Mechanism Report

On 14 February, the European Commission published its annual Alert Mechanism Report for the first time.[8] On the basis of the economic reading of the 2010 (the last complete year)[9] scoreboard, the Commission considers that risks of imbalances warrant further investigation of the macroeconomic situation in 12 out of 23 Member States.[10] Seven of these countries belong to the euro area, including three of its largest economies, namely France, Italy and Spain (the other euro area countries are Belgium, Cyprus, Slovenia and Finland). The group of Member States identified in the Alert Mechanism Report exhibit different risks and face distinct challenges. Some countries need to correct accumulated imbalances on both the internal and external side through the reduction of high levels of overall indebtedness and the improvement of external competitiveness to enhance their growth prospects and export performance. Others exhibit tensions in some asset markets, in particular housing, and an excessive build-up of private indebtedness.

The first implementation of the MIP takes place against particularly unusual circumstances dominated

7 This fine can also be imposed for failing twice to submit a sufficient corrective action plan. According to the regulations that entered into force in December, sanctions under the MIP and the SGP are decided by reverse qualified majority voting (*i.e.*, they are approved unless a majority of Member States votes against) thereby making the decision semi-automatic.

8 The full report is available at http://ec.europa.eu/economy_finance/economic_governance/documents/.

9 These indicators are publicly available on a dedicated section of the Eurostat website (http://epp.eurostat.ec.europa.eu/portal/page/portal/excessive_imbalance_procedure/imbalance_scoreboard) and will be regularly updated as the data become available.

10 In-depth reviews have not been proposed for Greece, Ireland, Portugal and Romania as these countries are already subject to enhanced economic surveillance in the context of their financial assistance programmes by the EU and IMF.

by the turbulence associated with the euro area sovereign debt crisis. On the other hand, the large contraction in economic activity during the crisis resulted already in significant macroeconomic adjustments in many countries, especially those with high external deficits and public and private sector indebtedness, which still have some way to go. Thus, the European Commission assesses the risks of emergence of new demand-led imbalances as generally low, although recognizing that pressures could resurface once growth resumes.

BOX 1.2 | Non-standard monetary policy measures in the euro area and their impact in the financial markets

Since the onset of the financial crisis in 2007 and especially after the fallout of the investment bank Lehman Brothers in September 2008, central banks expanded their degree of intervention of monetary policy, aiming both at stabilizing financial markets and providing economic stimulus. Since then, the Eurosystem extended its liquidity provision to the euro area banking system, established and then generalized the fixed rate tender procedure with full allotment for refinancing operations and began the covered bond purchase programme. When turbulance focused on sovereign debt markets of the euro area, the Eurosystem established in 2010 a programme to purchase public debt (securities market programme), which effect would be sterilized with weekly operations, as a way to restore the monetary policy transmission mechanism.

Following the intensification of tensions in the financial markets, at the end of 2011, the ECB Governing Council decided, at its December meeting, to implement further non-standard monetary policy measures. Such measures were designed to ensure enhanced access of the banking sector to liquidity and facilitating the functioning of the euro area money market, and were expected to support the provision of credit to households and non-financial corporations in the euro area. Four main measures were taken:

- to conduct two longer-term refinancing operations (LTRO), with a maturity of 3 years and the option of early repayment after one year;
- to increase collateral availability by i) reducing the rating threshold for certain asset-backed securities (ABS)[1] and ii) allowing national central banks (NCBs), as a temporary solution, to accept as collateral additional performing credit claims (e.g. bank loans) that satisfy specific eligibility criteria;[2]
- to reduce the reserve ratio from 2 to 1 per cent;[3]
- to discontinue for the time being the fine-tuning operations carried out on the last day of each maintenance period.[4]

These measures followed a series of expansionary measures taken since the Summer of 2011, including the maintenance of the fixed-rate tender procedure with full allotment for all refinancing operations, up until at least the middle of 2012, the provision of liquidity in US dollars, the implementation of a new covered bond purchase programme (CBPP2) and a coordinated action with other central banks to enhance the supply of liquidity to the global financial system.

On 21 December, the ECB conducted the first 3-year maturity LTRO. There were 523 participating institutions which received 489.2 billion euro, above market expectations. The second LTRO, held on 29 February 2012, involved 800 participating institutions which obtained 529.5 billion euro, once again more than expected (Chart 1). Both operations took the form of fixed-rate tender procedure with full allotment, with the rate equal to the average rate of the main refinancing operations over the life of the respective operation.

The non-standard monetary policy measures announced in December succeeded in containing the rising tensions in the international financial markets and avoiding a systemic crisis. In particular, such operations indicated the Eurosystem's commitment and capacity to take the necessary measures to avoid a banking crisis in the euro area. Immediately after the operations were carried out, especially the first

1 On July 2011, the ECB suspended the application of the minimum credit rating threshold in the collateral eligibility requirements in the case of marketable debt instruments issued or guaranteed by the Portuguese government.

2 These two measures would come into effect as soon as the relevant legal acts would have been published.

3 As of the reserve maintenance period starting on 18 January 2012.

4 As of the reserve maintenance period starting on 14 December 2011.

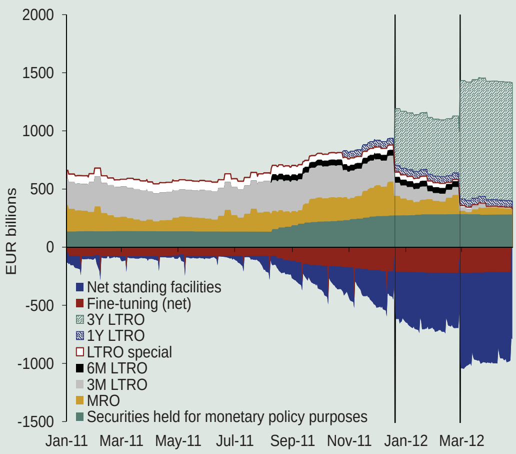
one, euro area money market participants reported a significant improvement in liquidity conditions, with the re-emergence of some activity, particularly on shorter maturities, notwithstanding the fact that institutions in the more vulnerable countries remained subject to more restrict access to the market. Money market spreads, which were reaching levels close to those recorded at the end of 2008, stabilised after the announcement of the measures and began to fall after the first 3-year LTRO and after the end-of-year effect (Chart 2). At the end of April 2012, the spread between collateralised and non--collateralised 3-month interest rates was around 60 basis points, half the level recorded in December. The spread corresponds to a 3-month EURIBOR rate of 0.74 per cent, the lowest value since June 2010.

Public debt markets also reacted positively to the Eurosystem's long-term liquidity provision. Most 10-year interest rate spreads against Germany either stabilised or fell slightly at the beginning of the year, amid an increase in the holdings of national public debt by some countries' banks, namely from Spain and Italy (Chart 1.16 of main text). The developments in the credit risk premium implicit on sovereign debt CDS spreads were similar (Chart 3). However, mid-March 2012 witnessed a fresh upsurge of tensions in sovereign debt markets, particularly centered on the capacity of Spain and Italy to meet their public accounts objectives in a environment of weak economic growth. This situation underscored the fact that the problems in the euro area which led to the sovereign debts crisis still require structural responses, whereas the non-standard measures taken by the Eurosystem comprise temporary measures aiming at, on the one hand, ensuring the adequate working of the monetary transmission mechanism and, on the other, limiting the excessive increase of risk and avoid a systemic crisis.

The indirect objective behind the Eurosystem's intervention was to guarantee the supply of credit to the private sector, since credit institutions were under funding stress on account of risk aversion and high liquidity risk. ECB data on bank loans to households and non-financial corporations pointed to a significant drop in the pace of loans granted at the end of 2011 (Chart 4). In the first few months of 2012, bank loans monthly flows did not maintain the falls recorded in December, notwithstanding the fact that the growth of loans remained at highly reduced levels. Two factors related to the efficacy of the non-standard measures on the growth of bank loans should, however, be pointed out. Firstly, there is a time lag between liquidity injections in the primary market and their effects on lending. Secondly, it is difficult to assess what would have been the extent of the market tensions on credit to the non-financial private sector had not been Eurosystem's intervention in containing liquidity risk.

Chart 1

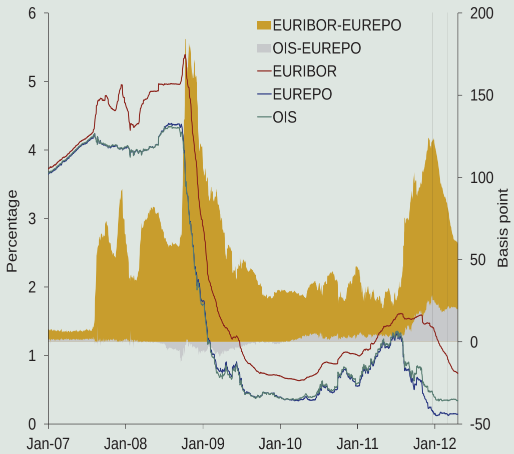
MONETARY POLICY OPERATIONS OUTSTANDING AMOUNTS



Source: ECB.
Note: The vertical bars represent the two 3-year operations.

Chart 2

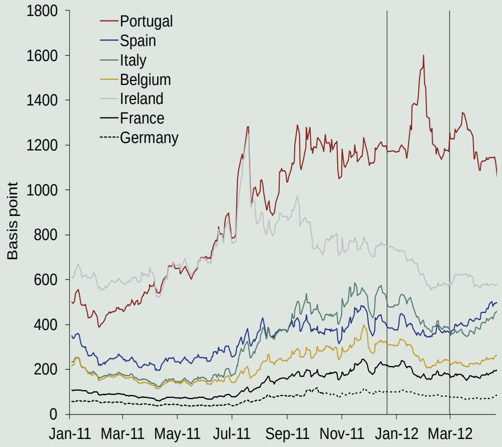
3-MONTH MONEY MARKET INTEREST RATES



Source: *Thomson Reuters.*
Note: The vertical bars represent the two 3-year operations.

Chart 3

5-YEAR CDS SPREADS ON SOVEREIGN DEBT

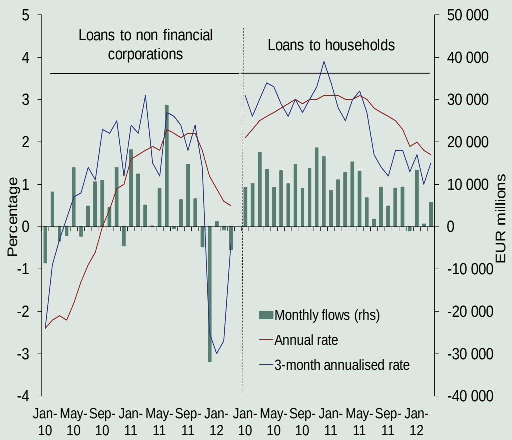


Source: *Thomson Reuters.*
Note: The vertical bars represent the two 3-year operations.

All in all, the Eurosystem's intervention at the end of 2011 has been overall successful in limiting an increase of tensions in the markets, especially on liquidity risk, and in providing a leeway for national governments to enable them to define structural and institutional policies contributing towards the resolution of the euro area sovereign crisis.

Chart 4

EURO AREA GROWTH OF BANK LOANS



Source: ECB.

2. Monetary Policy of the ECB and Monetary and Financial Conditions of the Portuguese Economy

2.1 Monetary Policy of the ECB

The monetary policy of the ECB continued to be accommodative, in 2011, in a context of major instability in the financial markets associated with the sovereign debt crisis in the euro area

The Council of the ECB maintained a globally accommodative monetary policy in 2011. The Council of the ECB increased its official interest rates two times by 25 basis points each, in April and July 2011. After the July meeting, the interest rate on the main refinancing operations was at 1.5 per cent and rates on the deposit and marginal lending facilities were at 0.75 and 2.25 per cent, respectively. The Council considered these rises fundamental to ensure price stability in the euro area and to guarantee that price evolution would not originate generalised inflationary pressures over the medium term. With the deterioration of the economic situation, in a context of growing tensions in financial markets associated with the resurgence of the sovereign debt crisis in the euro area after the summer and, of a more benign outlook for inflation, the Council of the ECB decided to reverse the previous upwards movements in interest rates in November and December. The period after the summer was also characterised by the adoption of highly significant additional non-conventional monetary policy measures which, inter alia, aimed at stabilising financial markets and restoring the normal functioning of the monetary policy transmission mechanism.

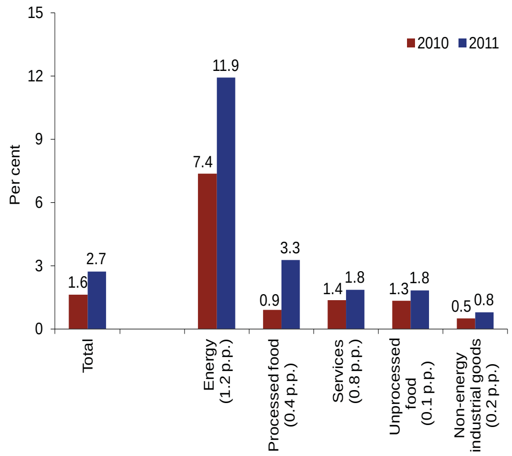
The annual inflation rate, measured by the HICP (Harmonised Index of Consumer Prices), remained at high levels during the course of the year, always higher than 2 per cent, particularly fuelled by increases in the prices of energy goods and foodstuffs. Taking 2011 as a whole, the average rate of change of the HICP was 2.7 per cent, in comparison to 1.6 per cent in 2010. The main contributors to this evolution were energy goods, which grew by almost 12 per cent in 2011, in comparison to the preceding year's 7.4 per cent, and services (rate of change of 1.8 per cent, after 1.4 per cent in 2010) (Chart 2.1.1). Processed food contributed with 0.4 p.p. to the inflation rate (rate of change of 3.3 per cent, in comparison to 0.9 per cent in 2010).

The Council of the ECB made adjustments to its highly accommodative monetary policy stance up to July 2011

The persistence of upwards risks to price stability, particularly deriving from continued increases in commodity prices and in indirect taxes and administered prices amid the budgetary consolidation process in several countries, led to an adjustment of the highly accommodative monetary policy stance. The Council of the ECB decided to increase official interest rates in two steps, in April and July 2011, to a total of 50 basis points, setting the interest rate applicable to the main refinancing operations at 1.5 per cent and the rates on the deposit and marginal lending facilities at 0.75 and 2.25 per cent, respectively (Chart 2.1.2). These changes came out after almost two years of official interest rates at historically low levels. According to the Council, the rise in interest rates warranted that inflation expectations in the euro area would remain anchored at levels compatible with the definition of price stability, which was fundamental to ensure that the increase in inflation would not translate into second-order effects and inflationary pressures over the medium term. Even after these decisions, interest rates remained low

Chart 2.1.1

INFLATION IN THE EURO AREA | AVERAGE ANNUAL RATE OF CHANGE

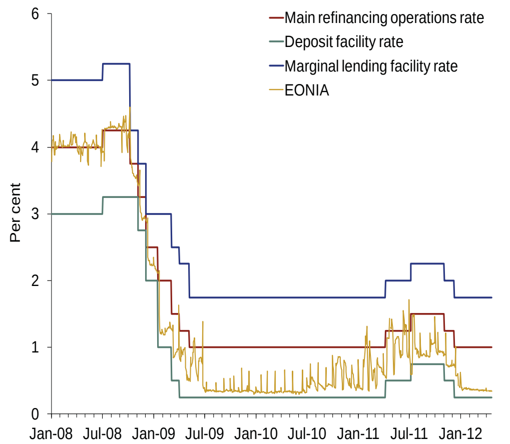


Source: Eurostat.

Note: Percentage contribution to overall HICP inflation in 2011 in parenthesis.

Chart 2.1.2

EURO AREA - ECB OFFICIAL INTEREST RATES AND EONIA



Source: ECB.

across all maturities, thus the monetary policy stance remained accommodative and continued to provide considerable support to economic activity and job creation.

Data on price evolution and economic activity in the first half corroborated the Council's assessment of the need for an adjustment to the highly monetary policy accommodative stance. The first quarter of 2011 was marked by dynamic growth of economic activity in the euro area (quarter-on-quarter change in GDP of 0.7 per cent). In this context, the Council of the ECB revised upwards its forecasts for GDP growth in the euro area in March and June. The forecasts pointed to continued economic recovery, with exports gradually being replaced by domestic demand as the main growth driver. According to June forecasts, real GDP in the euro area, in average annual terms, was projected to grow between 1.5 and 2.3 per cent in 2011 and between 0.6 and 2.8 per cent in 2012. As regards the outlook for inflation, the unexpected increases in the prices of energy goods and food over the course of the first half determined an upwards revision. According to June forecasts, the average annual inflation rate would be between 2.5 and 2.7 per cent in 2011 and decline to between 1.1 and 2.3 per cent in 2012. The Council considered that risks to inflation over the medium term had intensified.

The intensification of the sovereign debt crisis from August 2011 led the Council of the ECB to adopt several additional non-conventional measures and to reduce its official interest rates at the end of the year

From the summer 2011, there was a substantial deterioration of market sentiment owing to fears over the sustainability of the public finances in several euro area countries and due to the slowdown in the world economy. Another factor playing a relevant role in the resurgence of risk aversion levels refers to international investors' growing uncertainties over the form and means of implementing the expansion of financial stability mechanisms to support euro area countries hardest-hit by the crisis. In this context, the turmoil in the financial markets intensified, leading the Council of the ECB to adopt a series of additional non-conventional monetary policy measures from August 2011.

At its August meeting, the Council of the ECB decided to continue to provide liquidity to the euro area banking system along the lines in force until then. Such modalities involved the maintenance of fixed-rate tender procedures with full allotment for as long as needed and at least up to the beginning of 2012. It was also decided to conduct a 6-month longer-term operation, which also took the form of a fixed-rate tender with full allotment. The Council of the ECB also announced that it would actively implement the Securities Markets Programme (SMP). This programme was created in May 2010 with the objective of restoring liquidity to dysfunctional debt markets and repairing the functioning of the monetary policy transmission mechanism. The SMP's characteristics were maintained, to the extent that purchases were limited to secondary sovereign debt markets, being fully sterilised by reverse liquidity absorption operations.

In September, following pressures on US dollar funding by the European banking system, the Council of the ECB decided, in coordination with other major central banks, to carry out three liquidity providing operations in dollars with a maturity of three months. At the end of November, the Council also announced a coordinated action with other major central banks to increase the capacity to provide liquidity to the global financial system. This action involved continuing to carry out liquidity swaps in dollars at lower prices (a reduction of 50 basis points). These operations were designed to diminish tensions in the financial markets and mitigate negative effects on lending to households and corporations.

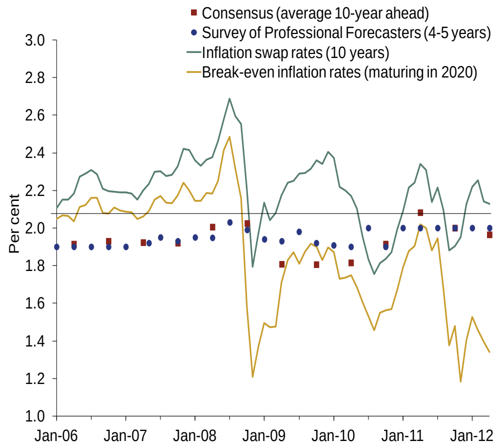
At its October meeting, faced with the resurgence of tensions related to sovereign debt crisis in the euro area, the Council of the ECB decided to expand its non-conventional monetary policy measures. Firstly, the Council decided to organise two supplementary longer-term operations, of 12 and 13 months. These operations, as well as all refinancing operations up to the end of first half 2012, would take the form of fixed rate tenders with full allotment. Secondly, the Council decided to launch a new Covered Bond Purchase Programme (CBPP2), beginning in November 2011 and ending in October 2012. The amount of the purchases could amount to as much as EUR 40 billion, and could be performed in the primary and secondary markets.

In November, the sovereign debt crisis in the euro area entered a new stage, with a significant increase in contagion pressures, with international investors also centring their attention on the debt markets of countries with the highest credit ratings, which had, hitherto, been considered immune to the crisis. This fact, in a scenario of a deteriorating outlook on economic activity and reduction of inflation in the euro area, led the Council of the ECB to a decision to reverse the previous rises in interest rates in November and December. At the December meeting, the interest rate applicable to the main refinancing operations was set at 1 per cent and the rates for the deposit and marginal lending facilities at 0.25 and 1.75 per cent, respectively (Chart 2.1.2). The forecasts published in December by the Eurosystem pointed to substantially lower economic growth in the euro area in 2012 than forecast in September. The revision particularly reflected the impact of waning confidence and increased funding difficulties resulting from the sovereign debt crisis on domestic demand, as well as the downwards revisions of external demand. In addition, the outlook for economic activity also remained subject to high levels of uncertainty and substantial downside risks. In this environment, pressures on costs, wages and prices in the euro area should remain contained for the whole relevant projection horizon. Although inflation was likely to remain above 2 per cent in the following months, the Eurosystem projections pointed to a reduction to values close to this threshold in 2012. With these decisions, the Council of the ECB ensured that inflation expectations in the euro area would remain anchored, in line with the objective of keeping inflation below, but close to, 2 per cent over the medium term (Chart 2.1.3).

In December, in addition to the decline in the main reference rate, the Council of the ECB decided to adopt a series of new non-conventional measures, with the objective of continuing to support the liquidity situation of banks in the euro area (see "Box 1.2 *Non-standard monetary policy measures in the euro area and their impact in the financial markets*" of this Report). Firstly, two 3-year longer-term refinancing operations at fixed rates with full allotment were announced. Secondly, the reserves ratio was reduced from 2 to 1 per cent. Thirdly, the collateral availability eligible for refinancing operations with the Eurosystem was increased. Finally, it was decided to discontinue the fine-tuning operations carried out on the last day of each maintenance period. According to the Council of the ECB, this set of measures

Chart 2.1.3

EURO AREA - LONG-TERM INFLATION EXPECTATIONS



Sources: : Bloomberg, Consensus Economics, ECB, Thomson Reuters (ICAP) and Banco de Portugal calculations.

would help to improve the banking system's access to liquidity and would facilitate the functioning of the money market, which would support lending to households and non-financial corporations.

The Eurosystem's balance sheet expanded significantly in the second half of the year

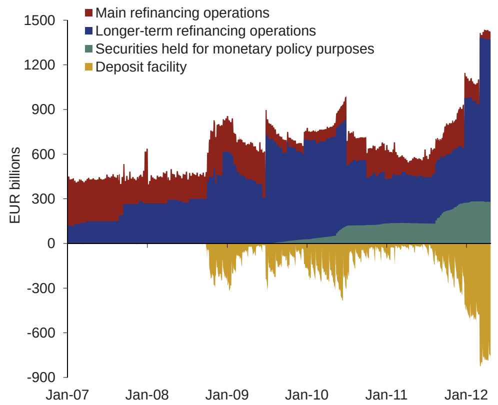
The Eurosystem's provision of liquidity through its monetary policy operations remained relatively stable in the first half of 2011, having even declined slightly (Chart 2.1.4). This trend, however, changed significantly from August, following the implementation of additional non-conventional monetary policy measures by the ECB, as a response to the intensification of the sovereign debt crisis in the euro area. The banking system's demand for liquidity from the Eurosystem indeed increased gradually from then on, reflected in the expansion of its balance sheet.

In the second half of the year, whereas the balance on the main refinancing operations remained practically unchanged, there was a highly marked increase in balances on longer-term refinancing operations and on securities held for monetary policy purposes. In the case of longer-term refinancing operations, reference should be made to the operation with a maturity of 3 years, carried out on 21 December, involving an amount of EUR 489.2 billion and the participation of 523 institutions. In addition, the increase in the balance of the securities held for monetary policy purposes particularly derived from purchases of sovereign debt securities on the secondary market, following the reactivation of the SMP in August 2011. In 2011, securities purchased under the SMP totalled around EUR 145 billion to an outstanding amount of approximately EUR 215 billion at the end of 2011.

There was a fresh increase in the banking system's demand for liquidity from the Eurosystem at the beginning of 2012. This was mainly associated with the second longer-term refinancing operation with a maturity of 3 years, on 29 February 2012. In this second operation, the amounts allotted were higher than in the first, at EUR 529.5 billion, involving the participation of 800 institutions.

Chart 2.1.4

OUTSTANDING AMOUNTS OF THE EUROSYSTEM MONETARY POLICY OPERATIONS



Source: ECB.

Conditions in the euro area money market continued to be affected by financial turmoil over the course of 2011, albeit with some signs of improvement at the beginning of 2012

Conditions in the money market, in 2011, were characterised by high levels of volatility, particularly in the second half of the year as a result of the resurgence of financial turmoil. There was a temporary improvement in money market conditions in the first half of the year, with a slight reduction of the spread between non-collateralised and collateralised interest rates in the euro area. However, in the second half, collateralised interest rates embarked upon a downwards trajectory, suggesting a certain change in the expectations over the future evolution of official interest rates. This fall was less significant in the non-collateralised market, so that the spread between the two rates increased substantially (Chart 2.1.5). Another underlying factor behind the widening of this spread was the considerable increase in liquidity and credit risk. This led the banks to secure funding from the Eurosystem as opposed to the money market, given that, in a context of high counterparty risk, liquidity was limited. The three-month Euribor rate was 1.4 per cent at the end of 2011, in comparison to 1 per cent at the end of 2010. The spread between rates on non-collateralised and collateralised operations at the end of 2011 was 121 basis points, compared to around 45 basis points over the end of 2010.

At the beginning of 2012, as a result of the previously mentioned implementation of non-conventional measures by the ECB, there was a significant reduction in the levels of risk aversion, enabling banks to reduce their liquidity risk and improve the monetary policy transmission mechanism. This effect translated into a reduction of the interest rate on non-collateralised operations, inducing a significant reduction in the spread between rates on non-collateralised and collateralised operations. In mid-April 2012, the spread between interest rates on non-collateralised and collateralised operations was 59 basis points (down by 62 basis points relative to the end of 2011), although still at historically high levels. In parallel, excess liquidity in the banking system, particularly after the conduct of the two longer-term refinancing operations with a maturity of 3 years, translated into a substantial increase in banks' use of the Eurosystem's deposit facility (Chart 2.1.4). The fact that this facility reached successively high historical maximums starting December 2011 suggests that risk aversion remains high and that the functioning of the money market has still not been normalised.

The evolution of monetary and credit aggregates suggests moderate monetary expansion in 2011

Over the course of 2011, the annual rate of growth of the M3 monetary aggregate remained moderate, at 1.5 per cent in December, in comparison to 1.7 per cent in December of the preceding year. The first half of the year was characterised by stable growth of around 2 per cent, largely reflecting the recovery of economic activity (Chart 2.1.6). The intensification of turmoil in the financial markets associated with the sovereign debt crisis in the euro area led to a deceleration of monetary expansion from September on. At the beginning of 2012, the M3 monetary aggregate started recovering again, posting an annual rate of change of 3.2 per cent in March.

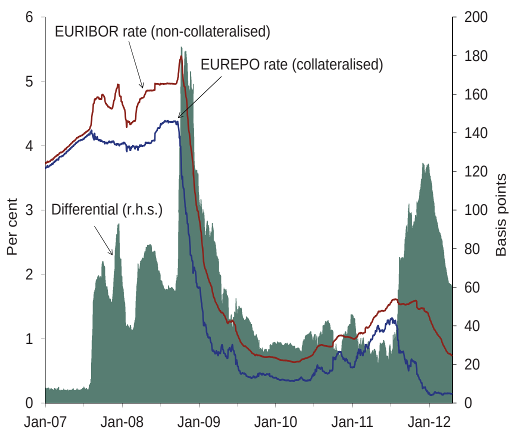
As regards the evolution of M3 in the first half of 2011, reference should be made to a decrease of the contribution made by the growth of the more restricted monetary aggregate, M1, offset by an increase in other short-term deposits (M2-M1). This effect was explained by the widening of the spread between interest rates paid on other short-term deposits and sight deposits. During the course of the second half, intensifying tensions in the financial markets led to a movement of major risk aversion, evidenced in greater preference for more liquid assets, leading to an increase in M1 as opposed to marketable instruments (M3-M2).

As regards the counterparts of M3, loans made by Monetary Financial Institutions (MFI) to the private sector in the euro area were also affected by the resurgence of financial turmoil, mainly since October 2011. In this context, loans to the private sector, following annual rates of change of around 2.8 per cent up to the end of October (amounts adjusted for sales of credit and securitisation operations), decelerated markedly at the end of the year. In December 2011, the rate of change was 1.3 per cent, in comparison to 2.4 per cent at the end of the preceding year (Chart 2.1.7).

The rates of growth of loans to households remained relatively stable in the first half of the year, at around 3 per cent (amounts adjusted for sales of credit and securitisation operations), decelerating, however, up to the end of the year. At the end of 2011, the annual rate of growth of loans to households was 1.9 per cent, in comparison to 3.1 per cent for the same period of the preceding year (Chart 2.1.8). The deceleration was highly visible across all components of loans to households. In particular, the slowdown of economic activity coupled with a continued deterioration of the housing market gave rise

Chart 2.1.5

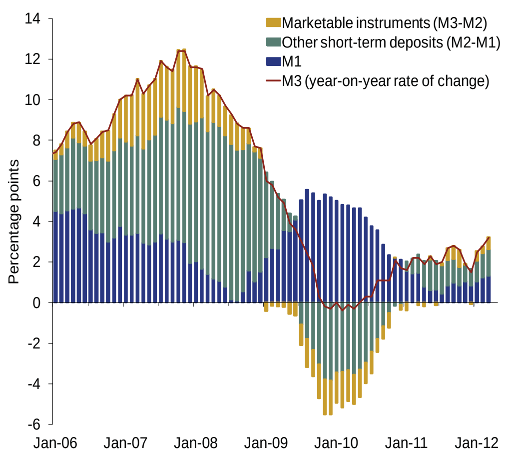
EURO AREA - 3-MONTH MONEY MARKET INTEREST RATES



Source: Thomson Reuters.

Chart 2.1.6

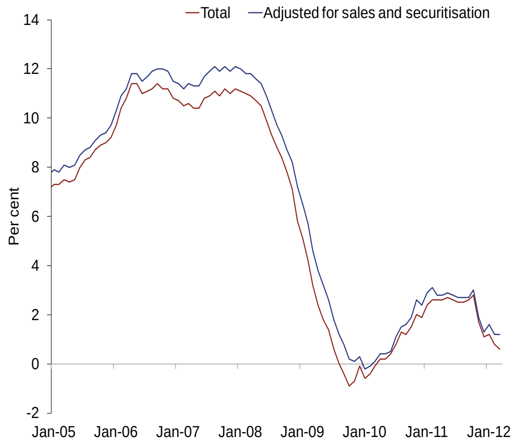
EURO AREA - CONTRIBUTIONS FOR THE YEAR-ON-YEAR CHANGE OF THE MONETARY AGGREGATE M3



Source: ECB.

Chart 2.1.7

LOANS TO THE EURO AREA PRIVATE SECTOR | ANNUAL GROWTH RATE



Source: ECB.

to a pronounced deceleration of housing loans, from 3.8 per cent in December 2010 to 2.3 per cent in December 2011. On the other hand, the rate of change on loans for consumption turned more negative.

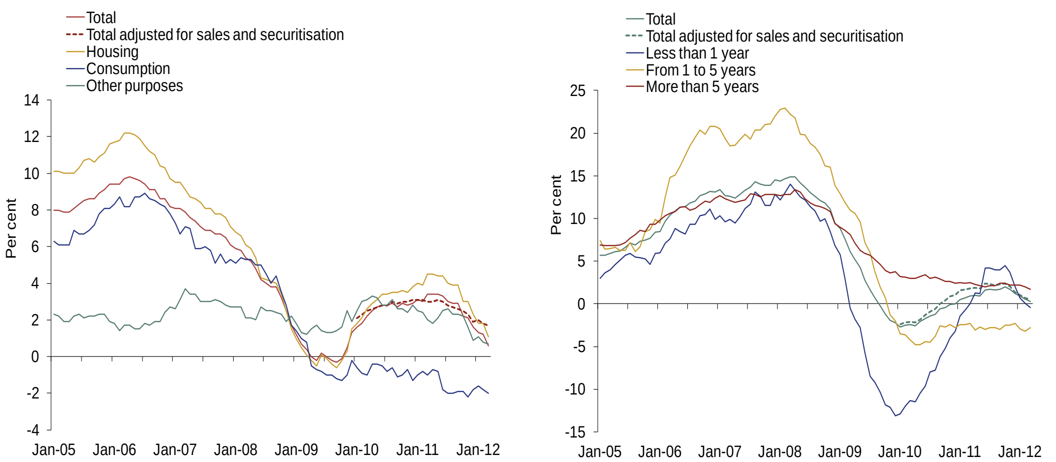
The dynamics of loans to non-financial corporations were similar to those of loans to households. Following an annual rate of change of 1 per cent in December 2010, loans to non-financial corporations (adjusted for loan sales and securitisation) grew by 2.4 per cent in June 2011 (Chart 2.1.8). This evolution largely reflected the expansion of loans with a maturity of less than 1 year. In the second half of the year, with the deceleration of economic activity and deterioration in the levels of business confidence together with the need for corporations to continue the process of adjusting their balance sheets, loans decelerated to a growth rate of 1.4 per cent in December 2011.

The beginning of 2012 suggests a continuation of the deceleration trend on MFI loans to the private sector, with an annual rate of change of 1.2 per cent in March 2012 (1.3 per cent at the end of 2011). This evolution mainly reflected developments in loans to non-financial corporations, which decelerated

Chart 2.1.8

BANK LOANS TO THE EURO AREA HOUSEHOLDS | ANNUAL GROWTH RATE

BANK LOANS TO THE EURO AREA NON-FINANCIAL CORPORATIONS | ANNUAL GROWTH RATE



Source: ECB.

from 1.4 per cent at the end of 2011 to 0.5 per cent in March 2012. Loans to households decelerated slightly (rate of change of 1.7 per cent in March 2012, in comparison to 1.9 per cent in December 2011), but with greater strength on the housing component (annual rate of change of 1.1 per cent in March 2012, in comparison to 2.3 per cent in December 2011). Qualitative information suggests an inversion of this trend over the short term. According to the Bank Lending Survey for the fourth quarter of 2011, MFI reported that the recent non-conventional measures adopted by the ECB should have a positive impact on the supply of credit over a 6-month horizon, particularly on loans to non-financial corporations.

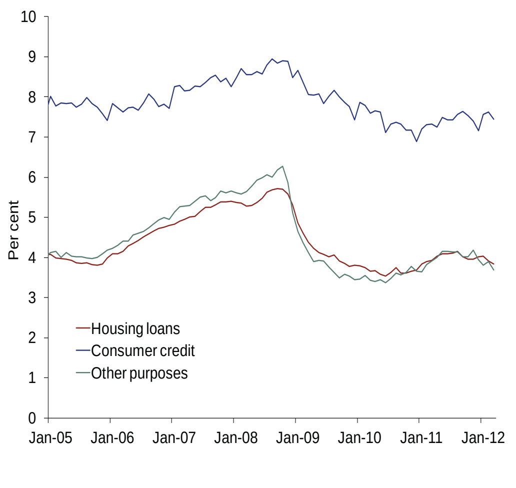
There was a moderate increase in interest rates on new loans to the private sector in a context of greater tightening credit standards

There was a moderate increase in interest rates on new bank loans to the private sector in 2011, in line with the evolution of benchmark interest rates. Interest rates on new bank loans to households increased 33 basis points in the housing component and 27 basis points for consumption purposes (Chart 2.1.9). There was a more marked increase in interest rates on new short-term loans to non-financial corporations (67 basis points), as opposed to long-term loans (33 basis points). As regards the spreads between banking and benchmark interest rates in 2011, reference should be made to a slight reduction in spreads on loans for house purchase as opposed to the spreads on short-term loans to non-financial corporations which increased slightly. Both spreads, however, remained at high levels as a reflection of financial turmoil and high levels of risk aversion. It is worth mentioning that the relative stabilisation of money market benchmark rates in the second half of the year did not translate into the same profile of evolution of short-term interest rates on loans to non-financial corporations. This was related with banks' difficulties in securing funding in the wholesale debt markets at reduced rates and the need to continue to deleverage their balance sheets. Similarly, the decrease in money market benchmark rates at the end of the year also failed to translate into reductions of the same magnitude in interest rates on bank loans.

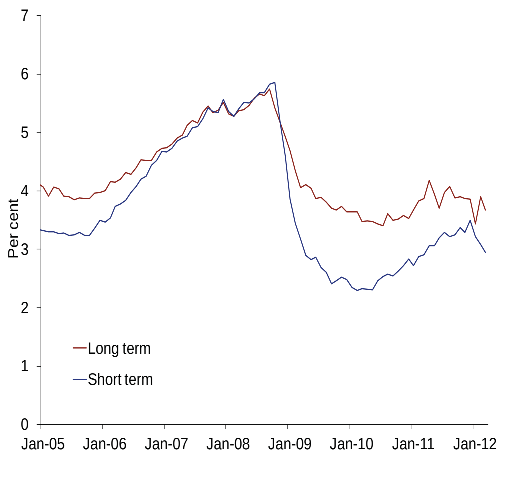
At the beginning of 2012, interest rates on loans to households for house purchase began to trend downwards, as opposed to the interest rates on consumer credit that recorded an increase. The fact that interest rates on loans to non-financial corporations declined significantly over the shorter maturities appears to be directly associated with the conduct of two 3-year longer-term refinancing operations by

Chart 2.1.9

INTEREST RATES ON NEW BANK LOANS TO HOUSEHOLDS



INTEREST RATES ON NEW BANK LOANS TO NON-FINANCIAL CORPORATIONS



Source: ECB.

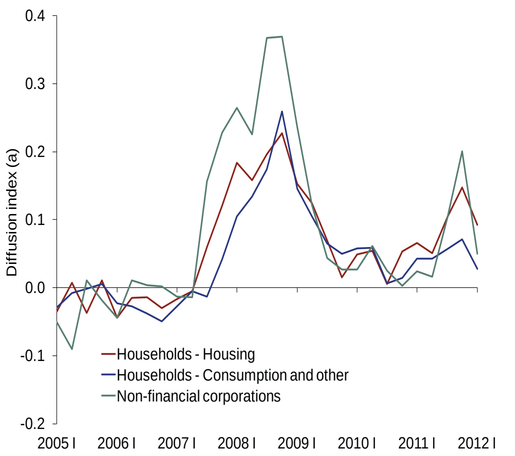
the ECB, which allowed the banks to reduce liquidity risk and improve the functioning of the monetary policy transmission mechanism.

According to the results of the Bank Lending Survey, the banks applied more stringent credit standards on loans to households and euro area corporations through 2011, particularly in the second half of the year (Chart 2.1.10). The main factors behind the increased tightening in the case of loans to non-financial corporations were the deterioration of risk perception regarding expectations on the overall economic activity and the outlook for sectors of activity or specific corporations. Equally important were banks' references to constraints affecting access to market funding and their liquidity position. In the case of loans to households, more restrictive credit standards adopted by the banks particularly derived from their high borrowing costs and balance-sheet restrictions, coupled with a significant deterioration of the outlook for economic activity and the housing market. As regards credit demand, the results of the survey indicated a continued decline in demand over the course of 2011. In the case of non-financial corporations, following an increase in demand in the first quarter, the reduction of investment financing and corporate restructuring needs explained the marked reduction in demand for credit up to the end of the year. In turn, the contraction in credit demand from households largely derived from the fall in consumer confidence and the deterioration of their outlook for the housing market. It is worth mentioning that these results for the euro area reflect significant heterogeneity between countries.

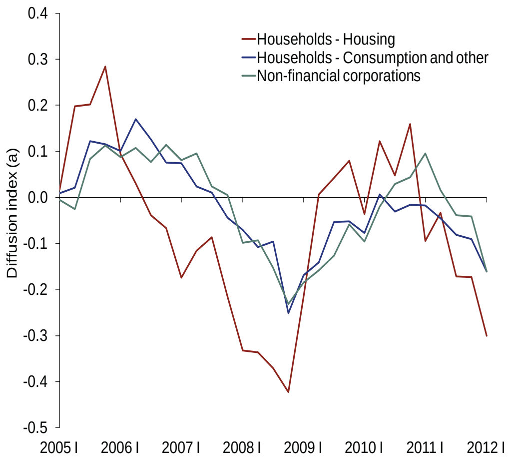
The results of the Bank Lending Survey for the first quarter of 2012 showed that banks in the euro area applied slightly less restrictive credit standards to corporations and households, in comparison to the fourth quarter of 2011 (Chart 2.1.10). In the case of loans to non-financial corporations, the main factors indicated by the banks participating in the survey as being determinants in the slight decline in the levels of restrictiveness were the improvement of risk perception regarding expectations over the overall economic activity, as well as better access conditions to market funding and the liquidity position. As regards lending to households, both for the house purchase and for consumption and other purposes, the banks' less restrictive approach particularly derived from improvements in borrowing costs and banks' balance sheet restrictions. As regards credit demand, the results of the survey pointed to a continued decline. In the case of non-financial corporations, the reduction of investment financing needs

Chart 2.1.10

EURO AREA - BANK LENDING SURVEY | BANKS' CREDIT STANDARDS



EURO AREA - BANK LENDING SURVEY | CHANGES IN DEMAND



Source: ECB (Bank Lending Survey).

Note: (a) The aggregation of the individual replies is made using a scale (varying between -1 and 1) according to the intensity and direction of the reply. In the case of credit supply, values above (below) 0 indicate a tightening (easing) of credit standards. With respect to credit demand, values above (below) 0 indicate an increase(decrease) in demand. In both cases, the value of 0.5 (-0.5) corresponds to a "slight" change and the value 1 (-1) to a "considerable" change.

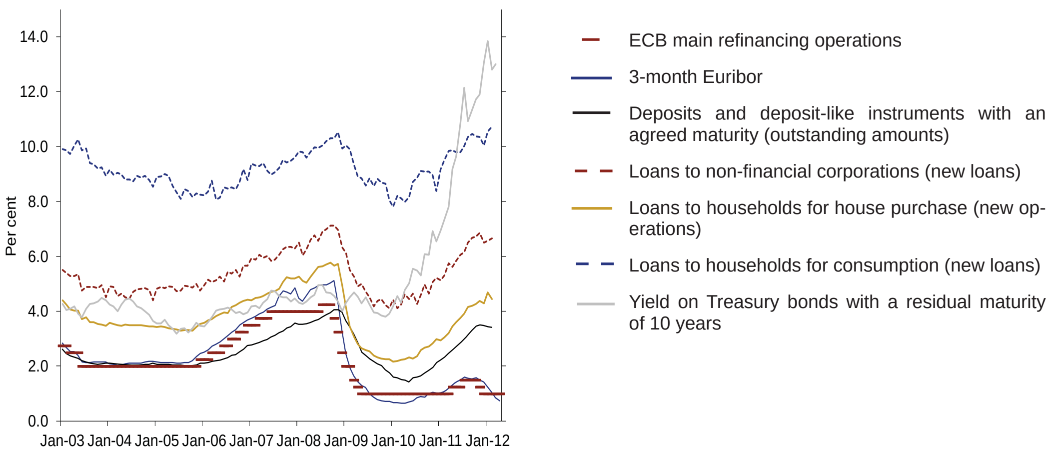
was indicated as the main factor behind the decline in the demand for credit, whereas the contraction in household credit demand derived from a deterioration of consumer confidence and retrenchment of expenditure on durable consumer goods.

2.2 Monetary and Financial Conditions of the Portuguese Economy

In 2011, the financial conditions of the Portuguese economy continued to deteriorate. The persistence of tensions in international financial markets and the increasing uncertainty regarding external debt sustainability lead to the interruption of financial markets funding and to the unavoidable Portuguese government's request for international financial assistance. In this context the adjustments of public and external balances and the banking system deleveraging process became inevitable. The Economic and Financial Assistance Programme and the ECB unconventional monetary policy measures have prevented the abrupt and disorderly adjustment that would occurred as a consequence of the absence of access to international wholesale financial markets. Additionally, the reduction of banks non-residents financial assets and the strong increase in households' deposits also mitigate the impact on credit and on Euro-system's funding of a sharp drop in non-residents deposits. Nevertheless, credit conditions to the private sector change significantly. Interest rates on loans increased which reflected, in particular, the increase in banks funding related to higher interest rates on deposits (Chart 2.2.1), the strengthening of capitalization requirements, and the increase of banks sensibility to credit risk in a context of economic activity deterioration. Banks also tightened conditions non related to prices such as collateral requirements. The strengthened of credit conditions other than prices and the major level of economic activity contraction lead to a fall in aggregate credit to the private sector (Chart 2.2.2). As regards finance to the productive sector, it should be noted that the evolution of aggregates, which did not recorded a strong and general credit restriction, hides a high heterogeneity between corporations and sectors (non-tradable and small and medium corporations face very active financing conditions).

Chart 2.2.1

INTEREST RATES



Sources: Bloomberg, ECB and Banco de Portugal.

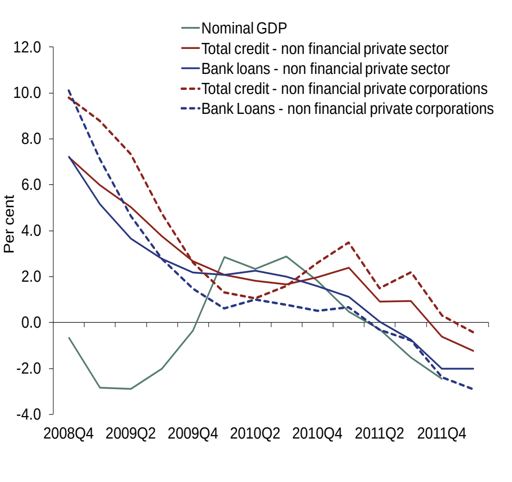
2011 was marked by the request for economic and financial assistance, translating into a significant change in the structure and cost of general government borrowing

During the course of 2011, the issue of treasury bonds was relatively inexpressive, with this source of funding being replaced, starting mid May, by loans obtained under the Economic and Financial Assistance Programme. In line with the agreed schedule, an amount of approximately one half of the full amount of the Programme's total funding was received in 2011. For the year as a whole, interest expenditure on Programme loans has been associated with an equivalent annual interest rate close to 3 per cent. It should be noted that these costs were considerably reduced in comparison to the initial amounts following the elimination of financial margins, on the loans made by the European Financial Stability Facility and the European Financial Stability Mechanism. As regards short-term debt instruments, treasury bills continued to be issued over the course of 2011, although a reduction of their respective maturities was noted. In terms of cost, the interest rate on issues starting from the inception of the Programme was close to 5 per cent.[1] 2012 witnessed the issue of treasury bills for maturities of between 12 and 18 months, accompanied by a significant reduction of the respective rates associated with the growing participation of non-residents in primary market issues (Chart 2.2.3). Acquisitions of treasury bills by non-residents in first quarter 2012 represented around 46 per cent of total issues (37 per cent for 2011 as a whole).

The yield spread in the secondary market for 10-year Portuguese treasury bonds vis-à-vis German public debt, recorded an upward evolution since the end of 2009 to a maximum in February 2012. Reference should also be made to the fact that the increase in the yield spread between Portuguese and German public debt was also influenced by the reduction in the level of interest demanded by investors for holding German securities, as a reflection of an escape to quality. Recently evidenced a significant reduction, albeit maintaining a very high level (Chart 2.2.4). There was a more pronounced increase in the spread starting mid March 2011, following a series of rating downgrades on the Portuguese Republic – which aggravated the liquidity restrictions on the Portuguese economy – and the formalization of the Economic and Financial Stability Programme. Reference should also be made to the marked reduction, observed over the last few months of 2011 of the yield spread on the two year Portuguese public debt in comparison to German public debt, to a level identical to that noted at the time of the Programme's inception, in April 2012 (Chart 2.2.5). The extending of the maturities on ECB lending operations will have contributed towards the recent fall in yield on Portuguese public debt.

Chart 2.2.2

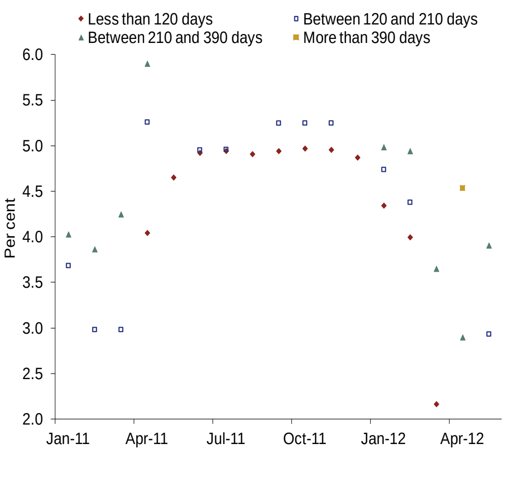
CREDIT TO NON-FINANCIAL PRIVATE SECTOR AND NOMINAL GDP | YEAR-ON-YEAR RATE OF CHANGE



Source: *INE* and Banco de Portugal.
Note: Last observation: February 2012.

Chart 2.2.3

INTEREST RATE ON TREASURY BILLS ISSUANCES

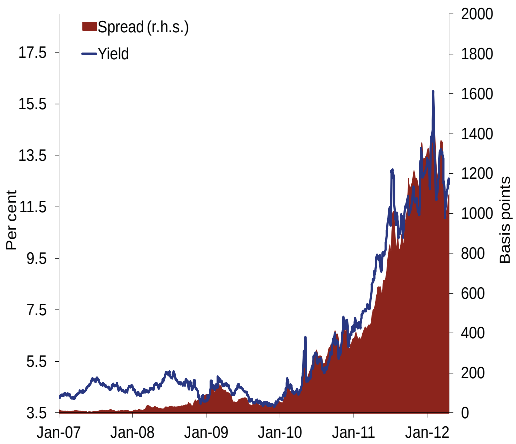


Source: Instituto de Gestão do Crédito Público (IGCP*)*.

1 Less than 5 per cent on issues of 3-month treasury bills and higher on 6-month issues.

Chart 2.2.4

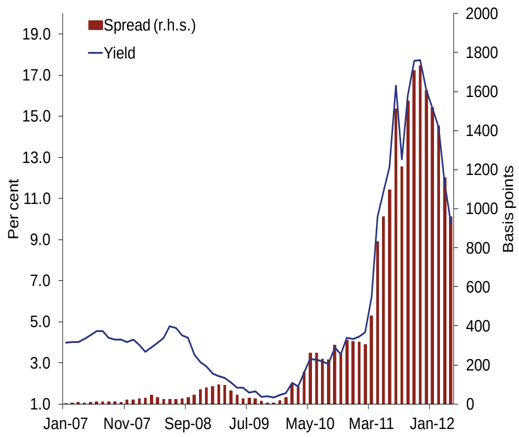
PORTUGUESE PUBLIC DEBT YIELS AND SPREAD *VIS-À-VIS* GERMAN PUBLIC DEBT (10 YEARS)



Sources: Thomson Reuters and Banco de Portugal
Notes: Yields obtained at close of business. The spread was calculated by interpolating the German yield curve, so as to ensure that the yield of the Portuguese 10-year benchmark bond is compared to a German bond off a similar maturity. The calculation of the spread was based on 5-day moving averages. Last observation: 17 April 2012.

Chart 2.2.5

PORTUGUESE PUBLIC DEBT YIELS AND SPREAD *VIS-À-VIS* GERMAN PUBLIC DEBT (2 YEARS)



Sources: Thomson Reuters and Banco de Portugal.
Note: Last observation: April de 2012.

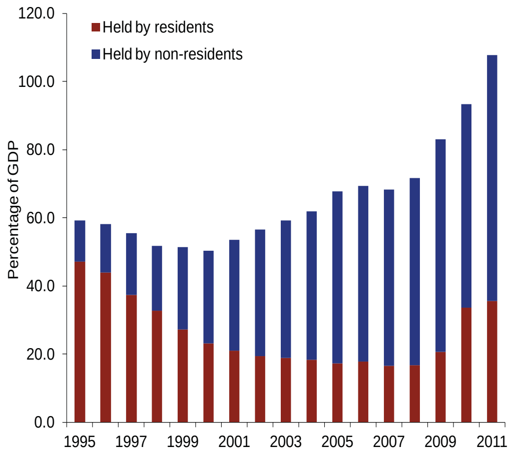
It should, however, be pointed out that in the current circumstances, the evolution of long term yields on Portuguese debt in the secondary market does not have a direct impact on the cost of the state's borrowing. Based on the fulfilment of the objectives drawn up in the Economic and Financial Assistance Programme, general government's medium and long term borrowing requirements are globally ensured up to mid 2013, at which time it is assumed that the state will return to the international funding markets. Reference should, however, be made to the fact that, by contrast, short term funding is only partly covered by the Programme which only covers 50 per cent of the refinancing of treasury bills, in 2011. The marked increase in yields on treasury bonds to economically unsustainable levels and added difficulties in access to market funding by the public sector translated into a significant increase in gross funding from domestic banks in the first half of 2011 followed by a marked reduction in the second half of the year. In any event, at the end of 2011, most Portuguese public debt continued to be held by non-residents and increased in comparison to the end of the preceding year (Chart 2.2.6).

Perception of the risk attached to the Portuguese economy, in a context of the sovereign debt crisis in the euro area, continued to make a significant contribution to the assessment of the risk associated with Portuguese banks, albeit easing to a certain extent following the ECB's three years maturity operations

During the course of 2011, the significant increase in the risk premium associated with Portuguese public debt – in the context of significant disturbances in the sovereign debt markets in the euro area – was reflected in a major increase of Credit Default Swaps (CDS) for the Portuguese Republic and the main Portuguese banking groups. Reference should be made to the fact that Credit Default Swaps (CDS) of the main Portuguese banking groups declined considerably in first quarter 2011 following the strong increase recorded in 2010, coming into line with the CDS on treasury bonds with a comparable maturity (Chart 2.2.7). However, after the request for financial assistance was formalised, the risk associated with domestic banks' debts resumed its upward trend. As a result, the average spread on national CDS in comparison to the index representing the euro area (Dow Jones iTraxx Financials) increased from around

Chart 2.2.6

GENERAL GOVERNMENT DEBT



Sources: *INE* and Banco de Portugal.

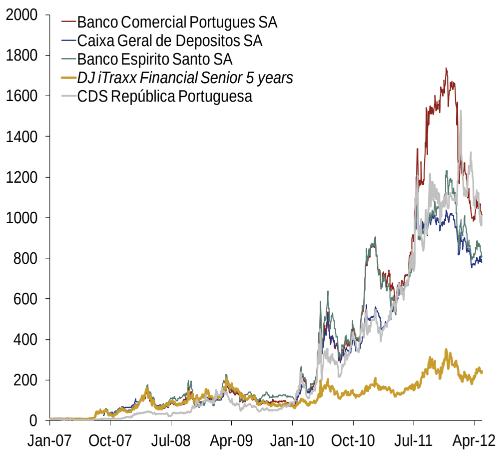
20 basis points, at the beginning of 2010, to a maximum of around 1000 basis points in mid December. More recently, this spread witness a reduction which is likely to be associated with the extending of the maturities of the ECB's lending operations. On the other hand, the PSI Serviços Financeiros (Financial Services) Index accumulated a loss of 62.4 per cent, in 2011, much higher than the fall of 20.4 per cent of the PSI Geral index and the decrease of 37.6 per cent registered by the index in relation to euro area banks (Dow Jones Euro Stoxx Financials).

Strong deceleration in total bank assets, during the course of 2011, declining to a certain extent starting in November, in the context of a continuous fall in assets held by non-residents consentaneous with the banks' usual pattern of adjustment to major restrictions in the international financial markets

During the course of 2011, there was a marked deceleration of assets growth in the Portuguese banking system, which culminated with negative year-on-year rates of change from November (-2.4 per cent in February 2012; Chart 2.2.8). This evolution of Portuguese banks' assets contrasts with the situation in the

Chart 2.2.7

CREDIT DEFAULT SWAP SPREADS OF PORTUGUESE BANKS (5 YEARS SENIOR)



Sources: Bloomberg and Thomson Reuters.

Note: Last observation: 4 May 2012.

euro area, although it should be pointed out that, since the onset of the economic and financial crisis, in 2007, the growth of the Portuguese banking system's balance sheet was, on average, clearly higher than observed for the euro area (Chart 2.2.9). An analysis of the balance sheet by account headings shows that assets held by non-residents fell by 10.0 per cent in February 2012, which represents a negative contribution of 2.2 percentage points to the growth of total assets. This evolution is consentaneous with the usual pattern of bank adjustments in a context of strong funding restrictions in international financial markets and reflects, inter alia, endeavours to conciliate deleveraging with the funding of domestic sectors, based on the disposal of non-strategic assets. In line with the Portuguese state's funding difficulties in the international markets, securities issued and loans made to general government continued to make a significant contribution to the year-on-year expansion of assets, albeit progressively less pronounced since the end of first half 2011, moving into the red starting November. Since December 2009 this account heading almost doubled its proportion of the balance sheet total, representing around 8 per cent of banking assets in February 2012. Loans to the resident private sector accentuated the slowdown trend, making a virtually nil contribution to the annual change of assets over the last few months.

In the sphere of the Economic and Financial Stability Programme and taking into account the proposed measures for ensuring the medium term adjustment of the financial system, it is to be expected that the banks will maintain moderately negative rates of balance sheet growth, over the coming quarters. Reference should, however, be made to the existence of safeguard mechanisms to enable the deleveraging process to occur gradually, without excessively conditioning the economy's funding, in particular corporations with the best growth prospects. In global terms, the financial system's orderly, gradual deleveraging process should be accompanied by the improvement of capital and liquidity ratios and a reduction of external borrowing requirements. The specific funding and deleveraging plans, on a level of each bank, should therefore make it possible to conciliate the tension between the need for the gradual reduction of the banking system's leveraging levels and the importance of maintaining a sufficiently high credit flow to ensure the funding of the economy's most productive companies/sectors, on an aggregate level.

Chart 2.2.8

ASSETS OF THE PORTUGUESE BANKING SECTOR | CONTRIBUTION TO THE YEAR-ON-YEAR RATE OF CHANGE

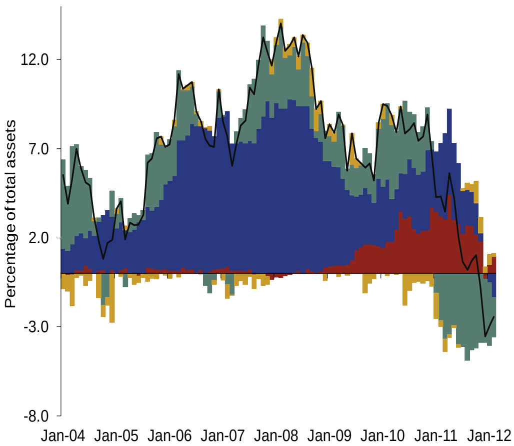
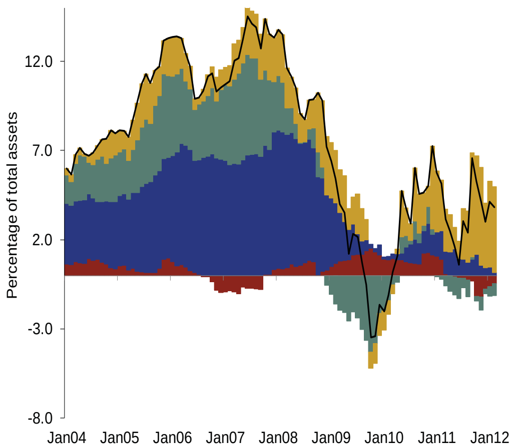


Chart 2.2.9

ASSETS OF THE EURO AREA BANKING SECTOR | CONTRIBUTION TO THE YEAR-ON-YEAR RATE OF CHANGE



Other assets
Claims on non-residents
Securities issued by and loans granted to the resident non-monetary sector excluding general government
Securities issued by and loans granted to the general government
Total assets (year-on-year rate, per cent)

Source: Banco de Portugal.
Note: Last observation: February 2012.

Source: ECB.
Note: Last observation: February 2012.

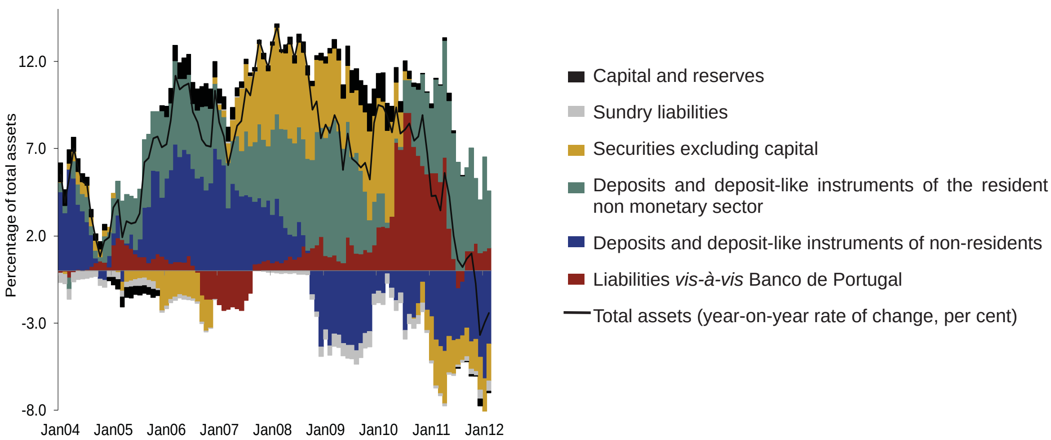
Funding of the Portuguese banking system largely dependent on Eurosystem lending operations and deposit-taking from customers, owing to access difficulties to the international wholesale debt markets

During the course of 2011, the funding of the banking system was largely dependent upon the increase in deposit taking from the resident non-monetary sector, which account heading recorded an year-on-year growth of 7.0 per cent in February 2012 (Chart 2.2.10). In turn, non-residents' deposits continued to make a highly negative contribution to the evolution of Portuguese banks' balance sheets declining 16.3 per cent over the same period, reflecting an increase in the perception of risk associated with the Portuguese economy, with negative consequences for financial institutions. Similarly, as a consequence of the major restrictions in banks' access to international wholesale debt markets, debt securities maintained the negative contribution to growth observed since fourth quarter 2010. Use of the ECB's lending operations remained relatively stable, at high levels, to around 10 per cent of the banking system's balance sheet at the end of February 2012. Eurosystem long term funding operations (3 years) enabled Portuguese banks to extend the maturity of their funding and consequently reduce uncertainty over its future availability. Reference should also be made to the increase of bank funding from the Eurosystem in the second three-year maturity operation, largely reflecting the increase in funding from foreign banks located in Portugal.

In the framework of the Economic and Financial Assistance Programme for Portugal, it was agreed that the eight largest banking groups would achieve an indicative credit to deposits ratio of 120 per cent at the end of 2014.[2] At the end of 2011, the credit to deposits ratio of the eight largest Portuguese banks on a consolidated basis was around 135 per cent, down by around 30 percentage points from the maximum in June of 2010 (Chart 2.2.11). This ratio's reduction process has particularly benefited from growth of deposits, as the main adjustment vector and representing around three quarters of the total adjustment. Given the environment and the incentives that result from it, the fact that the banks have promoted and succeeded in significantly broadening their customer resources base, reflects depositors' confidence in institutions and the financial system in general and has alleviated endeavours to adjust

Chart 2.2.10

LIABILITIES OF THE PORTUGUESE BANKING SECTOR | CONTRIBUTION TO THE YEAR-ON-YEAR RATE OF CHANGE

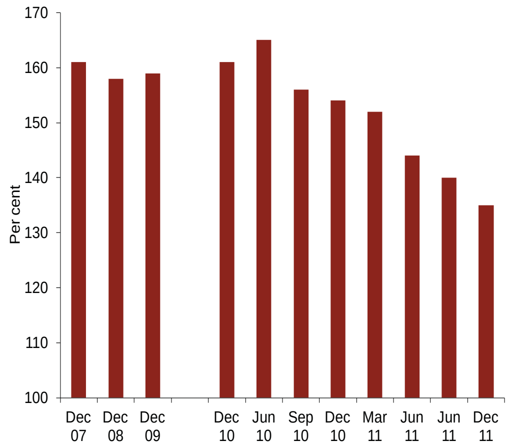


Source: Banco de Portugal.
Note: Last observation: February 2012.

2 The credit concept used is net of impairment, includes securitised and non-derecognised loans and other exposures to third parties deriving from credit transfers. The deposits concept excludes securities issued by the banks and sold to customers and considers stable lines of credit with parent companies, qualified shareholders or multilateral institutions.

Chart 2.2.11

LOAN TO DEPOSIT RATIO OF THE EIGHT MAJOR RESIDENT BANKING GROUPS



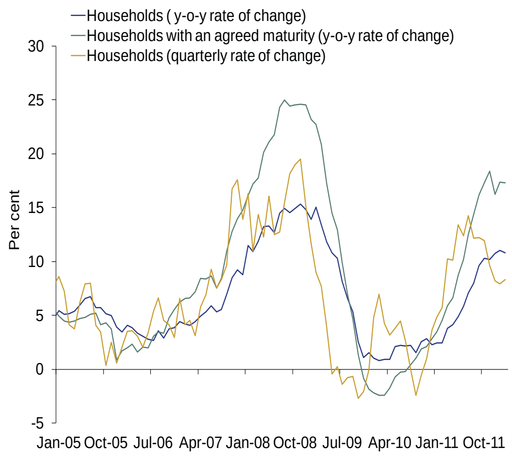
Source: Banco de Portugal.

the gap via the reduction of credit, which is characteristically more of a burden for the economy. Therefore was witnessed a dynamic recomposition of households financial assets portfolio, translated in an increase of deposits and a generalized reduction of other saving instruments. Contributory factors to the evolution of households' deposits were both higher interest paid by the banks on deposits, in a context of households' preference for assets not subject to market risk, and by financial institutions' incentives to include resources such as investment funds or groups' insurance companies, which are outside the consolidation perimeter, in their balance sheets.

In fact, deposits taken from the resident non-financial private sector, especially from households, increased during the course of 2011 and at the beginning of 2012 maintaining the trend observed since the second half of 2010. The year-on-year rate of change of households' deposits evidenced an upward trend, denoting a certain stabilization in the most recent months (Chart 2.2.12). The strong growth of households' deposits is especially relevant on account of their greater stability. However, is to anticipate a slowdown of these deposits, as its strong growth has underlying, in part, as already referred, portfolio shifts. The disaggregation of the bank deposits by institutional sector also evidences a deceleration of the

Chart 2.2.12

HOUSEHOLDS DEPOSITS | RATES OF CHANGE



Source: Banco de Portugal.

Note: Last observation: February 2012.

deposits of non-financial corporations,[3] a significant decline in non-residents' deposits and an increase in general government deposits, sectors in which the evolution of such deposits tends to be more volatile (Chart 2.2.13). Reference should also be made to the fact that the positive contribution of general government deposits is related with the management of tranches of financial assistance.

A strong adjustment of investment funds' securities portfolios has consequently been observed. According to available information, this adjustment has essentially been made on the reduction of the debt securities of non-residents as opposed to the stock of securities issued by resident entities, which has remained stable (Chart 2.2.14). Exposure to the resident sector in insurance companies' and pension funds' portfolios, has inclusively increased over the last two years (Chart 2.2.15). This is a normal adjustment mechanism in the current environment in which resident sectors dispose of the assets held by non-residents, offsetting the retraction of foreign capital available to fund the economy.

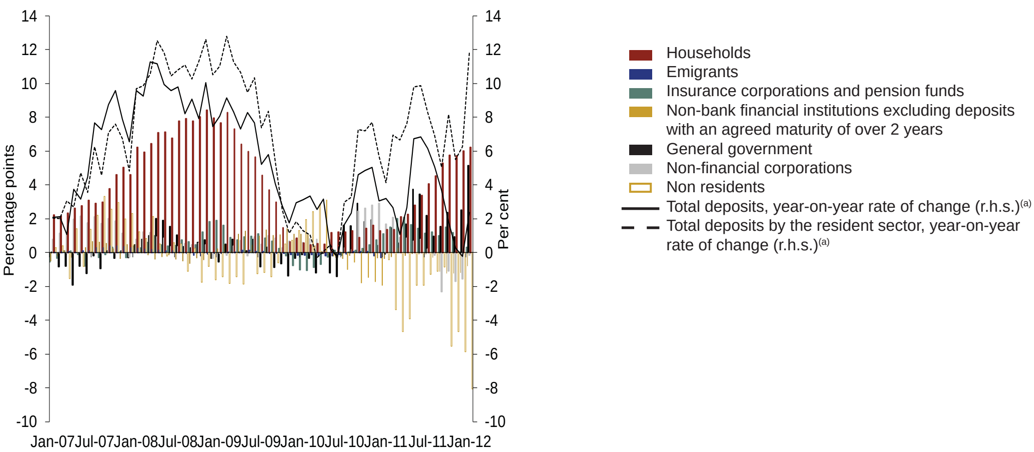
Across the board application of higher spreads was general to new loans granted by banks, reflection of a more restrictive credit policy and a higher risk aversion, along with an increase in interest rates on deposits as a way to capture resources

In a context of an increase in banks' funding costs, high level of materialisation of credit risk and in which Portuguese banks' access to the international wholesale funding market was virtually cut off, there was an increase in the restrictiveness of most banks' credit policies, translating, inter alia, into more restrictive covenants, higher collateral requirements, reduction in loan-to-value loan ratio and higher spreads, both on loans to households and to non-financial corporations.

There was a continued increase in interest rates on loans to non-financial corporations, since mid 2010 (from 4.6 per cent in June 2010 to 6.7 per cent in February 2012, in the case of new operations), with spreads on Euribor reaching their maximum levels at the end of 2011. Based on micro information relative to the main banking institutions, it may be concluded that this increase was noted over the whole of the interest rate distribution range, although it was clearly more significant in the lower interest rates, normally associated with major corporations (Chart 2.2.16). The increase was also general, albeit marked by a certain heterogeneity, to all of the main banking institutions.

Chart 2.2.13

BANK DEPOSITS | YEAR ON YEAR RATES OF CHANGE AND CONTRIBUTIONS BY INSTITUTIONAL SECTOR



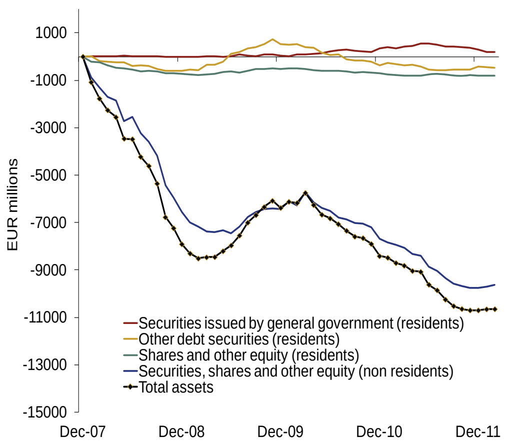
Source: Banco de Portugal.

Notes: (a) Excluding deposits with an agreed maturity of over 2 years of non-bank financial institutions. Last observation: February 2012.

3 Non-financial corporations' deposits recorded a very high value in 2010 due essentially to an extraordinary deposit made by *Portugal Telecom (PT)* following the sale of its capital participation in *Vivo*.

Chart 2.2.14

ASSETS OF MUTUAL FUNDS IN SECURITIES | CUMULATIVE TRANSACTIONS SINCE 2008

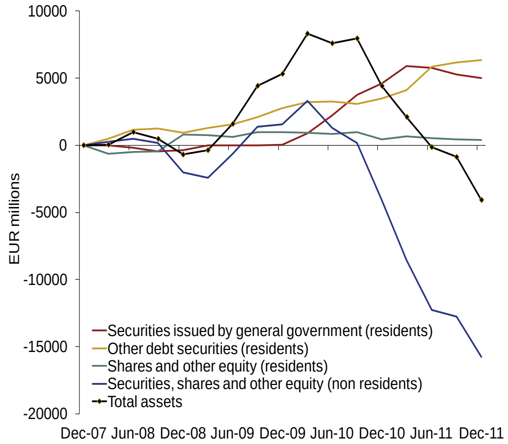


Source: Banco de Portugal.

Note: Last observation: February 2012.

Chart 2.2.15

ASSETS OF INSURANCE CORPORATIONS AND PENSION FUNDS IN SECURITIES | CUMULATIVE TRANSACTIONS SINCE 2008



Source: Banco de Portugal.

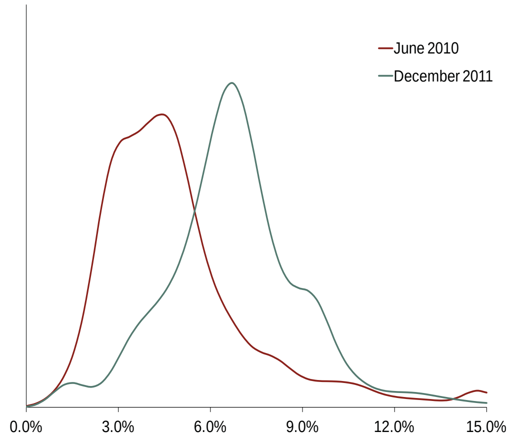
Note: Last observation: December 2011.

It should be noted that the in the increase in non-financial corporations costs was also evident in the evolution of yields on bonds issued by this sector, which increased significantly over the last few months (Chart 2.2.17). During the course of 2011 a considerable increase in the financing costs of corporations in real terms can be observed.[4] This increase was visible in various sources of financing making up the index, namely capital and long-term debt securities and bank loans (Chart 2.2.18).

In what concerns liabilities bank operations, spreads on deposit interest rates became more negative as the trade policy favoured the collection of deposits (Chart 2.2.19). In such a context, reference should be made to the fact that interest rates on term deposits came under careful scrutiny from Banco de Portugal.

Chart 2.2.16

DISTRIBUTION OF INTEREST RATES OF LOANS TO NON-FINANCIAL CORPORATIONS



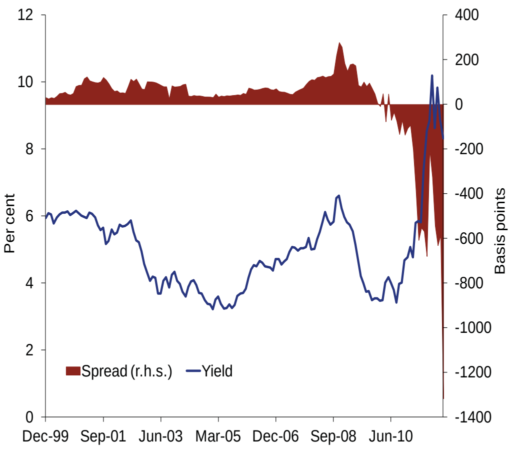
Source: Banco de Portugal.

Note: Kernel gaussiano of interest rates weighted by the amount of loans.

4 For methodological information see Gameiro, I. and Ribeiro, N., (2007)"Borrowing costs of Portuguese companies", Banco de Portugal, *Economic Bulletin* - October.

Chart 2.2.17

PORTUGUESE NON-FINANCIAL CORPORATE BOND YIELD AND SPREAD VIS-À-VIS GOVERNMENT DEBT SECURITIES OF A COMPARABLE MATURITY

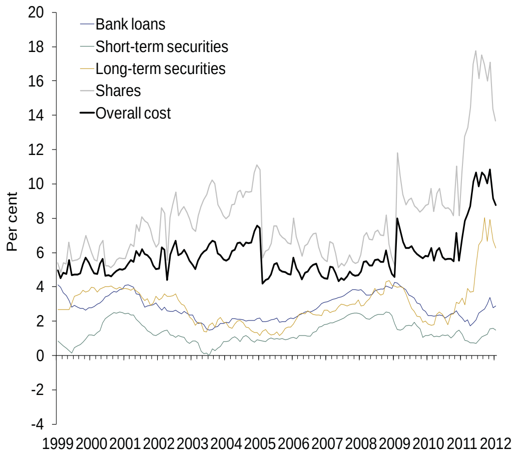


Sources: Barclays Capital and Banco de Portugal.

Note: Last observation: January 2012.

Chart 2.2.18

DEVELOPMENTS IN FINANCING COSTS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL , IN REAL TERMS

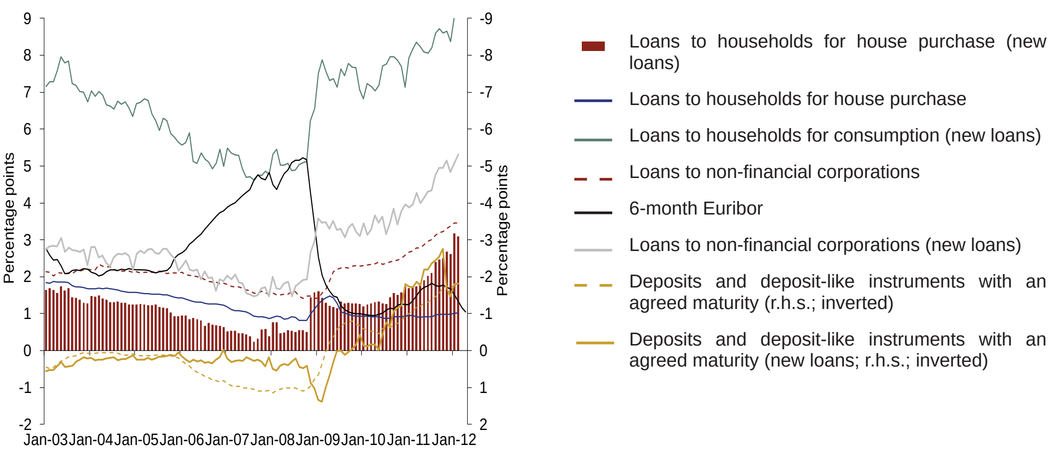


Sources: Barclays Capital, Consensus Economics, ECB, Thomson Reuters and Banco de Portugal calculations.

Note: Last observation: January 2012.

Chart 2.2.19

BANK INTEREST RATE MARGINS *VIS-À- VIS* MONEY MARKET INTEREST RATES



Sources: ECB and Banco de Portugal.

Notes: The interest rate margin in outstanding amounts of loans is calculated as the difference between the interest rate on outstanding amount and the 6-month moving average of the 6-month Euribor. In the case of new loans, the interest margin is the difference between the interest rate on new loans and the 6-month Euribor. The margin on lending operations is defined by the spread between interest rates on loans and the Euribor rate, while for deposit operations it is defined by the spread between the Euribor rate and the interest rate on deposits. Last observation: February 2012.

In November last, Banco de Portugal introduced a penalty in terms of additional capital requirements for banks paying interest on deposits at a rate of 300 basis points higher than Euribor. In such a context, the information available for the eight major resident banking groups suggests that the decision made in November had a significant impact in the period immediately following the announcement (fall of around 1 pp in the average interest rate on new operations), but afterwards the amplitude between the maximum and minimum interest rates once again increased (Chart 2.2.20). Banco de Portugal put a fresh squeeze on interest rates on deposits at the start of April 2012, increasing the penalty in the case of short term deposits.[5] These measures aim to mitigate bank risks, contributing therefore to financial stability.

Marked deceleration of loans to the private non-financial private sector during the course of 2011 and beginning of 2012

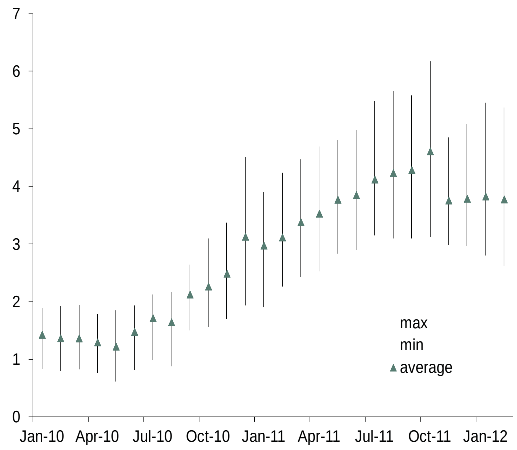
Following a period of slight acceleration, in the second half 2010, loans to households for house purchases resumed their slowdown trend (Chart 2.2.21). The annual rate of change declined consistently from the second half of 2010, with negative values from August 2011 (-2.2 per cent in February 2012). This evolution contrasts with the euro area as a whole, whose upward profile continued up to May 2011, with a respective rate of change of 1.8 per cent in February.[6]

Reduction of prices in the residential market

As property assets are used as loan guarantees, property valuations may affect the evolution of the credit market and respective financing conditions. In addition, property comprises a significant proportion of household wealth, for which reason changes in value may have some impact on expenditure decisions. In the context of a decline in household disposable income – as a consequence of adverse conditions in the labour market and increase in the fiscal burden – the prices of property assets were more sensitive to the evolution of the credit market. Therefore, notwithstanding the non-existence of signs of overvalued residential market prices in Portugal,[7] the need for financial deleveraging by households, the deterioration of the situation of corporations in the construction sector and banks' increased restrictiveness in terms

Chart 2.2.20

INTEREST RATES APPLIED ON NEW OPERATIONS OF DEPOSITS WITH AN AGREED MATURITY TO THE NON-FINANCIAL PRIVATE SECTOR BY THE EIGHT MAJOR RESIDENT BANKING GROUPS



Source: Banco de Portugal.

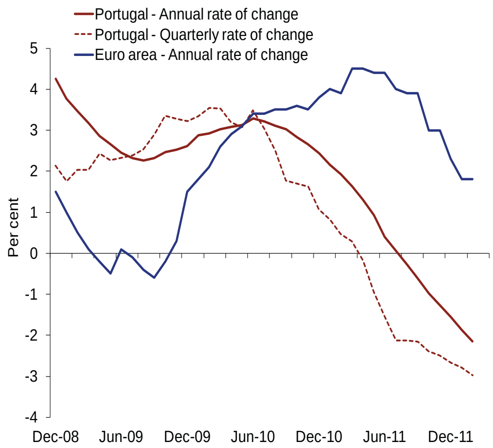
5 For further details see Banco de Portugal's "Instructions" n°28/2011 and n°15/2012.

6 For further details on the evolution of loans in the euro area see "Chapter 1 *International framework*", of this Report.

7 For further details see "Box 1.1 *Housing markets in the euro area*" Banco de Portugal, *Annual Report* - 2010.

Chart 2.2.21

LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE



Source: Banco de Portugal.

Notes: Series shown refer to loans granted by resident monetary institutions. The annual and quarterly rates of change are calculated on the basis of the relationship between the outstanding amounts of bank loans at the end of the month, adjusted for securitisation operations and monthly transitions, which are calculated from outstanding amounts adjusted for reclassifications, write-offs/write-downs and exchange rate and price revaluations. The quarterly rate of change is calculated from seasonal adjusted figures. Whenever relevant, the figures are additionally adjusted for credit portfolio sales, as well as for other operations with non impact in the households' effective financing. Last observation: February 2012.

of credit policy should condition the evolution of the property market. According to the *Confidencial Imobiliário* Index, year-on-year prices changes in the residential market were slightly negative in March 2012 (-1.8 per cent), in line with the deceleration trend noted since August 2010 (Chart 2.2.22). In turn, the bank assessment index, published by INE, recorded a negative year-on-year change of 8.6 per cent in March 2012 (Table 2.2.1).

In turn, the slowdown trend in loans to households for consumption continued, with the respective annual rate of change turned negative in March 2011 (Chart 2.2.23). Up to mid 2011, the evolution of this aggregate in Portugal was similar to that of the euro area. Starting July, the fall in the annual rate of change for Portugal was particularly marked, having remained relatively stable in the euro area. In February 2012, the annual rate of change was -7.3 per cent in Portugal, in comparison to -1.8 per cent for the euro area as a whole in February 2012.

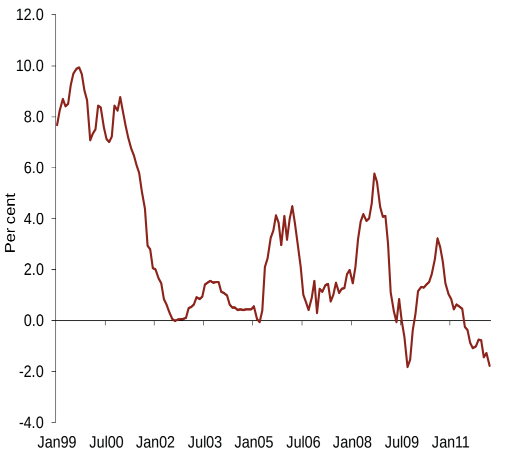
As regards funding conditions for corporations, the available evidence suggests that there have not been any aggregate abrupt, quantitative restrictions on the supply side. There are, however, major differences between corporations and sectors. In the framework of a strong contraction of domestic demand, credit risk has tended to increase in corporations in several non-tradable goods sectors, as well as smaller corporations. On the other hand, in contrast to the sovereign and banks' situation, a collection of private corporations, in better financial shape and with external connections, have managed to increase their use of external funding.

During the course of 2011, loans granted to non-financial corporations accentuated the slowdown trend, starting to record negative values from September. Albeit in aggregate terms, deceleration of the financing of non-financial corporations is being performed gradually, there are asymmetries in the distribution of such evolution, and reference should be made to the discrepancy between the growth of loans made by resident banks to public corporations (not included in general government) and private sector corporations (annual rates of change of 17.3 and -2.9 per cent, respectively in February 2012; Chart 2.2 24).

However, when we analyse total credit to these sectors the differentiation tends to attenuate (the rate of change of credit to non-financial corporations in the private sector was -0.4 per cent, with a 2.2 per cent rate on public corporations). Contributing to the decrease of the said discrepancy was particularly

Chart 2.2.22

CONFIDENCIAL IMOBILIÁRIO INDEX | YEAR-ON-YEAR RATES OF CHANGE

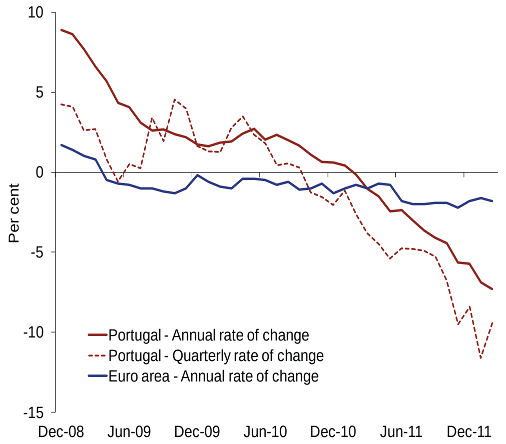


Source: Banco de Portugal.

Note: *Imométrica*. Last observation: March 2012.

Chart 2.2.23

LOANS TO HOUSEHOLDS FOR CONSUMPTION

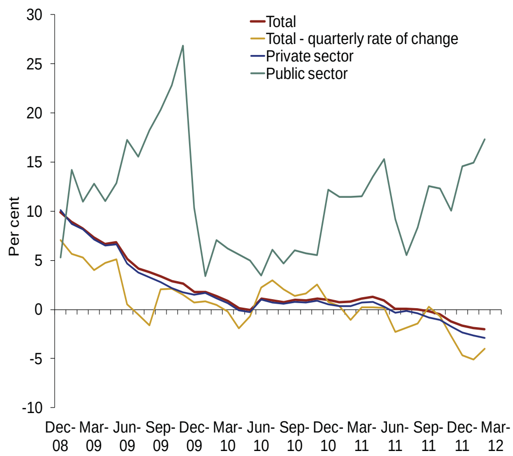


Source: Banco de Portugal.

Notes: Series shown refer to loans granted by resident monetary institutions. The annual and quarterly rates of change are calculated on the basis of the relationship between the outstanding amounts of bank loans at the end of the month, adjusted for securitisation operations and monthly transitions, which are calculated from outstanding amounts adjusted for reclassifications, write-offs/write-downs and exchange rate and price revaluations. The quarterly rate of change is calculated from seasonal adjusted figures. Whenever relevant, the figures are additionally adjusted for credit portfolio sales, as well as for other operations with non impact in the households' effective financing. Last observation: February 2012.

Chart 2.2.24

LOANS TO NON-FINANCIAL CORPORATIONS | ANNUAL RATE OF CHANGE



Source: Banco de Portugal.

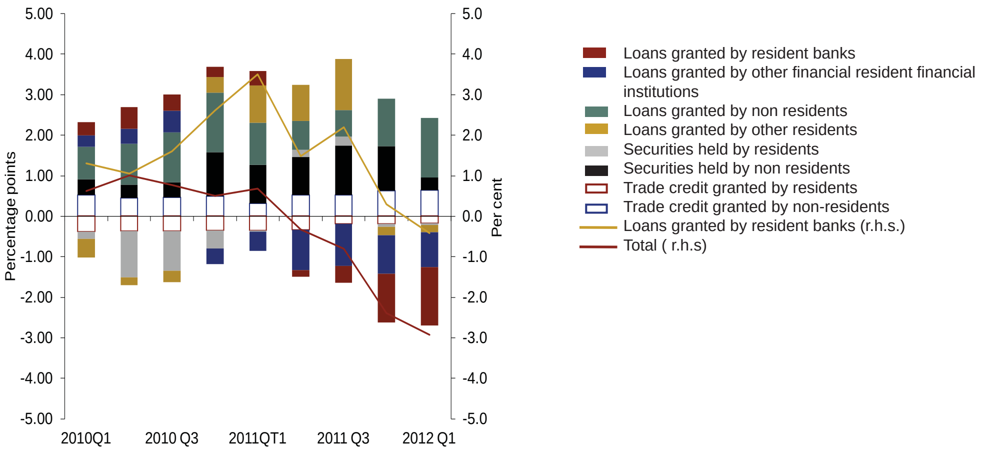
Notes: Series shown refer to loans granted by resident monetary institutions. The annual and quarterly rates of change are calculated on the basis of the relationship between the outstanding amounts of bank loans at the end of the month, adjusted for securitisation operations and monthly transitions, which are calculated from outstanding amounts adjusted for reclassifications, write-offs/write-downs and exchange rate and price revaluations. The quarterly rate of change is calculated from seasonal adjusted figures. Whenever relevant, the figures are additionally adjusted for credit portfolio sales, as well as for other operations with non impact in the corporations' effective financing. Last observation: February 2012.

the funding from non-residents, which has been making a positive contribution to the funding of non-financial corporations in the private sector either in the form of loans or securities and commercial credits (Chart 2.2.25). This behavioural pattern of non-resident agents was not observed in the case of public corporations in which they made a virtually nil contribution to credit growth (Chart 2.2.26).

The different funding profile of non-financial corporations in the public and private sectors is also clearly visible in an analysis of credit by the dimension of corporations (Chart 2.2.27). It should be noted, in this respect, that the large corporations, in which most public corporations are concentrated and holding corporations are those with the highest rate of growth of total credit. However, whereas in the case of

Chart 2.2.25

CREDIT TO PRIVATE NON-FINANCIAL CORPORATIONS | CONTRIBUTIONS TO THE ANNUAL RATE OF CHANGE

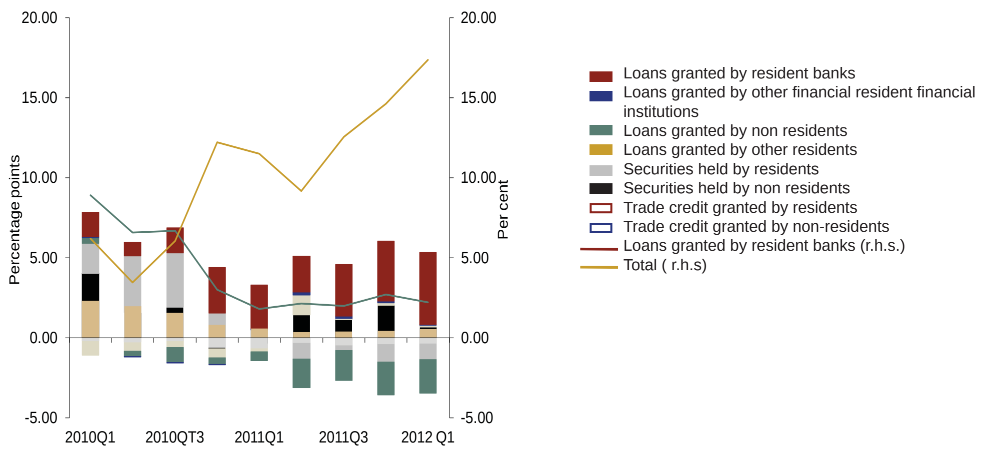


Source: Banco de Portugal.

Notes: Annual rates of change on outstanding amounts at end-of-period. The series are adjusted for securitisation operations, reclassifications, write-offs/write-downs and exchange rate and price revaluations. Whenever relevant, the figures are additionally adjusted for credit portfolio sales, as well as for other operations with non impact in the corporations' effective financing. Last observation: February 2012.

Chart 2.2.26

CREDIT TO PUBLIC NON-FINANCIAL CORPORATIONS NOT INCORPORATED IN THE GENERAL GOVERNMENT | CONTRIBUTIONS TO THE ANNUAL RATE OF CHANGE



Source: Banco de Portugal.

Notes: Annual rates of change on outstanding amounts at end-of-period. The series are adjusted for securitisation operations, reclassifications, write-offs/write-downs and exchange rate and price revaluations. Whenever relevant, the figures are additionally adjusted for credit portfolio sales, as well as for other operations with non impact in the corporations' effective financing. Last observation: February 2012.

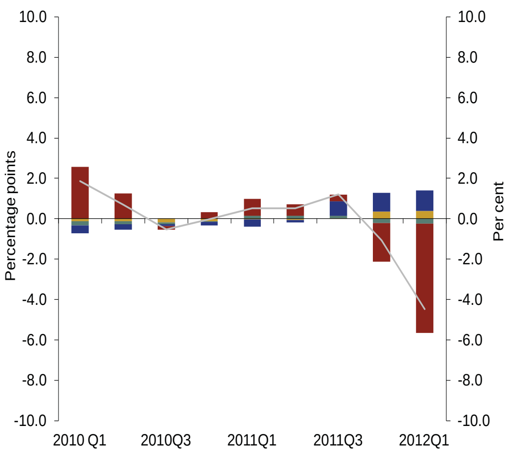
the large corporations, the growth noted particularly derived from the highly significant contribution made by loans from resident banks, in the case of holding companies a strong contribution was made by other sectors in the form of securities, particularly from the non-resident sector. All other dimensions posted significantly lower total credit levels, with, in the case of micro and medium-sized enterprises a slight positive contribution made by other institutional sectors other than resident banks being noted.

By branches of activity, there was a reduction in heterogeneity between growth rates in bank loans, with almost all sectors posting negative values in February 2012 (Table 2.2.2). Contributing to such an approximation was the fact that the lowest rates of change, in 2010, associated with sectors such as "construction" and "property activities" recorded a certain stabilisation, in contrast to most other sectors which, in general, had been posting positive growth rates up to the end of first half 2011, having recorded negative growth rates, in February 2012. Notwithstanding this approximation between growth rates, reference should be made to two exceptions. Accordingly, the "wholesale commerce and retail, motor vehicles and motorbike repairs" sector accentuated the deceleration trajectory beginning at the end of first half 2011 and the "transport and warehousing" sector maintained a positive growth rate. In this latter case, the fact that the sector posted a positive growth rate may be related with the high proportion of public corporations, which, in general, have a higher rate of growth of bank loans than the others.

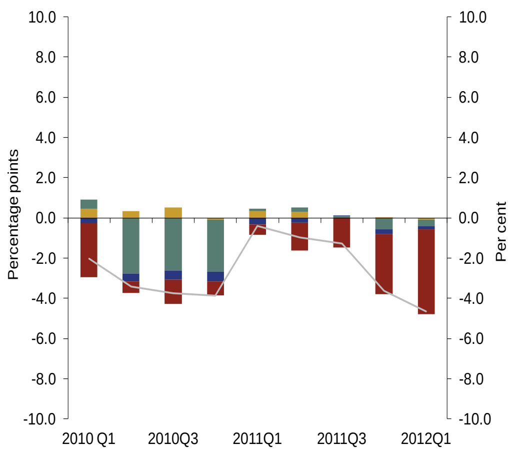
Chart 2.2.27

CREDIT TO NON - FINANCIAL CORPORATIONS | CONTRIBUTIONS TO THE ANNUAL RATE OF CHANGE

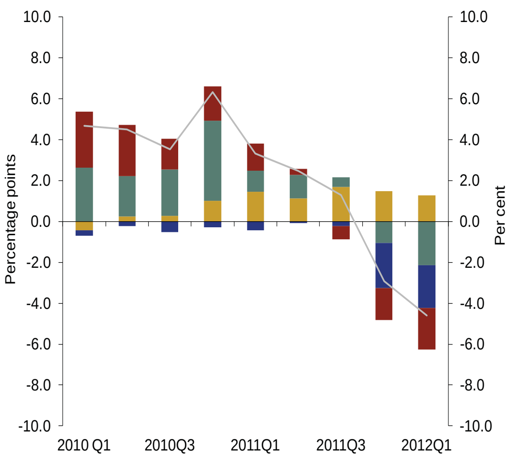
MICRO CORPORATIONS



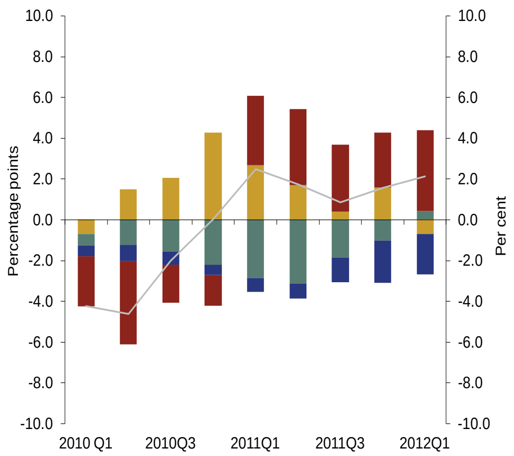
SMALL CORPORATIONS



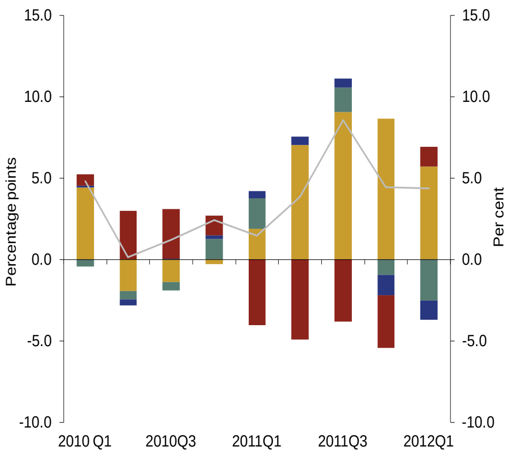
MEDIUM CORPORATIONS

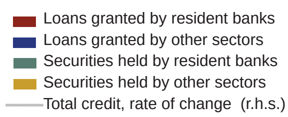


LARGE CORPORATIONS



NON-FINANCIAL HOLDINGS





Source: Banco de Portugal.

Note: Annual rates of change on outstanding amounts at end-of-period. The series are adjusted for reclassifications. Whenever relevant, the figures are additionally adjusted for credit portfolio sales, as well as for other operations with non impact in the corporations' effective financing. Last observation: February 2012.

Table 2.2.1 (to be continued)

MONETARY AND FINANCIAL CONDITIONS OF THE PORTUGUESE ECONOMY	2008	2009	2010	2011	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	Jan11	Fev11	Mar11	Apr11	May11	Jun11	Jul11	Aug11	Sep11	Oct11	Nov11	Dec11	Jan12	Feb12	Mar12	Apr12
Nominal interest rates - period averages (per cent)																												
3-month Euribor	4.6	1.2	0.8	1.4	0.7	0.7	0.9	1.0	1.1	1.4	1.6	1.5	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.6	1.5	1.6	1.5	1.4	1.2	1.0	0.9	0.7
12-month Euribor	4.8	1.6	1.4	2.0	1.2	1.3	1.4	1.5	1.7	2.1	2.1	2.1	1.5	1.7	1.9	2.1	2.1	2.1	2.2	2.1	2.1	2.1	2.0	2.0	1.8	1.7	1.5	1.4
10-year fixed rate Treasury bond yields	4.5	4.2	5.4	10.2	4.3	5.1	5.6	6.5	7.4	9.9	11.5	12.2	6.9	7.3	7.8	9.2	9.6	10.9	12.2	10.9	11.3	11.7	11.9	13.1	13.8	12.8	13.0	
Bank interest rates																												
On outstanding amounts of loans																												
Non-financial corporations	6.3	4.2	3.4	4.5	3.3	3.3	3.4	3.7	4.0	4.3	4.8	5.1	3.9	3.9	4.1	4.2	4.3	4.5	4.6	4.8	4.9	5.0	5.1	5.1	5.1	5.1		
Households for house purchase	5.7	3.3	1.9	2.5	1.9	1.9	1.9	2.1	2.2	2.4	2.6	2.7	2.2	2.2	2.2	2.3	2.4	2.4	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.6		
Households for consumption and other purposes	9.0	8.0	7.6	8.3	7.3	7.5	7.7	7.9	8.1	8.2	8.4	8.7	8.1	8.1	8.1	8.2	8.2	8.3	8.3	8.5	8.5	8.6	8.7	8.7	8.7	8.7		
On outstanding amounts of deposits with an agreed maturity																												
Households	3.5	2.6	1.6	2.7	1.6	1.5	1.6	1.8	2.1	2.5	3.0	3.3	2.0	2.1	2.3	2.4	2.6	2.7	2.8	3.0	3.1	3.3	3.3	3.4	3.4	3.4		
On new loans																												
Households for house purchase	5.4	2.7	2.5	3.8	2.2	2.3	2.5	2.8	3.1	3.6	4.1	4.3	2.9	3.0	3.2	3.4	3.6	3.8	3.9	4.2	4.2	4.3	4.4	4.3	4.7	4.4		
Households for consumption (excluding overdrafts)	10.0	8.9	8.5	10.0	8.0	8.3	9.0	8.8	9.5	9.8	10.3	10.3	9.2	9.5	9.8	9.9	9.8	9.8	10.0	10.3	10.5	10.4	10.4	10.0	10.6	10.7		
Exchange rate - period averages[(a)]																												
Nominal effective exchange rate index	101.9	102.3	100.7	100.6	101.6	100.4	100.2	100.7	100.5	101.1	100.7	100.3	100.2	100.4	100.8	101.2	101.0	101.0	100.8	100.8	100.5	100.5	100.4	100.0	99.6	99.7	99.8	99.7
Nominal effective exchange rate index - percentage change from the previous corresponding period	0.9	0.4	-1.5	-0.1	-1.1	-1.2	-0.2	0.5	-0.2	0.6	-0.4	-0.4	-0.1	0.2	0.4	0.4	-0.2	0.0	-0.2	0.0	-0.3	0.0	-0.1	-0.4	-0.4	0.2	0.1	-0.1
Srock market - Percentage change from the previous corresponding period																												
PSI Geral index	-49.7	40.0	-6.2	-20.4	-4.4	-9.1	5.2	2.5	2.5	-0.5	-17.4	-5.4	2.9	1.7	-2.1	-0.5	1.6	-1.6	-4.8	-7.8	-5.8	0.8	-6.0	-0.2	-2.4	4.1	-0.6	-4.1
Broad Dow Jones Euro Stock	-46.3	23.4	-0.1	-17.7	0.8	-11.1	7.3	3.8	3.6	-1.7	-23.1	5.1	4.4	1.9	-2.6	3.1	-3.6	-1.1	-6.0	-12.9	-6.1	8.4	-2.6	-0.4	5.3	4.3	-0.4	-5.7
Housing market prices - end of period year-on-year rate of change																												
Confidencial Imobiiliário index[(b)]	4.1	0.2	1.0	-0.8	1.3	1.8	2.9	1.0	0.6	-0.3	-1.1	-0.8	0.9	0.5	0.6	0.6	0.5	-0.3	-0.4	-0.9	-1.1	-1.0	-0.7	-0.8	-1.4	-1.3	-1.8	
Bank assessment (*INE*)[(c)]	-6.3	0.2	-3.2	-5.1	3.8	1.8	-0.3	-3.2	-1.8	-2.8	-3.2	-5.1	-3.3	-2.8	-1.8	-1.6	-2.0	-2.8	-4.1	-4.0	-3.2	-3.5	-3.8	-5.1	-6.2	-7.4	-8.6	

Table 2.2.1 (continued)

MONETARY AND FINANCIAL CONDITIONS OF THE PORTUGUESE ECONOMY	2008	2009	2010	2011	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	Jan11	Fev11	Mar11	Apr11	May11	Jun11	Jul11	Aug11	Sep11	Oct11	Nov11	Dec11	Jan12	Feb12	Mar12	Apr12
Deposits in resident banks																												
Deposits by the private non-monetary sector[(d)]		3.5	2.8	1.5	3.9	1.3	1.8	2.8	0.6	3.5	2.4	1.5	3.3	1.3	0.6	1.1	3.1	3.5	4.1	4.4	2.4	4.6	4.4	1.5	1.4	2.9		
Households' deposits (includes emigrants)		1.3	2.0	9.8	0.9	2.2	1.4	2.0	3.3	5.2	9.2	9.8	2.0	2.0	3.3	3.6	4.3	5.2	6.4	7.4	9.2	9.7	9.7	9.8	9.8	9.5		
Loans to residents by resident banks[(e)]																												
Loans to non-financial private sector	7.2	2.2	1.6	-2.0	2.1	2.3	2.0	1.6	1.1	0.0	-0.7	-2.0	1.3	1.2	1.1	1.1	0.7	0.0	-0.1	-0.4	-0.7	-1.1	-1.6	-2.0	-2.3	-2.6		
Loans to non-financial corporations	9.9	1.8	1.0	-1.6	0.8	1.1	1.0	1.0	1.1	0.1	-0.2	-1.6	0.8	0.8	1.1	1.3	0.9	0.1	0.1	0.0	-0.2	-0.5	-1.2	-1.6	-1.9	-2.0		
Loans to households (includes emigrants)	4.6	2.3	2.0	-2.2	2.9	3.0	2.6	2.0	1.1	0.0	-1.1	-2.2	1.7	1.4	1.1	0.9	0.5	0.0	-0.3	-0.7	-1.1	-1.5	-1.8	-2.2	-2.5	-2.8		
Loans to households for house purchase	4.3	2.6	2.4	-1.6	3.0	3.3	3.0	2.4	1.6	0.4	-0.6	-1.6	2.2	1.9	1.6	1.3	0.9	0.4	0.1	-0.3	-0.6	-1.0	-1.3	-1.6	-1.9	-2.2		
Loans to households for consumption and other purposes	6.2	0.9	0.0	-4.9	2.3	1.8	0.9	0.0	-1.4	-1.8	-3.3	-4.9	-0.4	-0.8	-1.4	-1.1	-1.7	-1.8	-2.0	-2.7	-3.3	-3.6	-4.3	-4.9	-5.5	-5.8		
of which: consumption	8.9	1.7	0.6	-5.7	1.9	2.0	1.7	0.6	-1.1	-2.4	-4.1	-5.7	0.4	-0.2	-1.1	-1.5	-2.4	-2.4	-3.0	-3.6	-4.1	-4.4	-5.6	-5.7	-6.9	-7.3		
Total credit granted to residents by resident and non-resident entities[(f)]																												
Credit to non-financial private sector	7.2	2.7	2.0	-0.6	2.1	1.8	1.7	2.0	2.4	0.9	0.9	-0.6	2.1	2.3	2.4	2.4	2.2	0.9	1.0	1.1	0.9	0.5	0.1	-0.6	-0.9	-1.2		
Credit to non-financial corporations	9.5	3.1	2.6	0.5	1.9	1.5	2.0	2.6	3.4	1.5	2.2	0.5	3.1	3.5	3.4	3.4	3.2	1.5	1.9	2.3	2.2	1.7	1.1	0.5	0.1	-0.2		
Credit to non-financial private corporations	9.8	2.6	2.6	0.3	1.3	1.0	1.6	2.6	3.5	1.5	2.2	0.3	3.2	3.6	3.5	3.6	3.2	1.5	1.9	2.3	2.2	1.6	1.0	0.3	-0.1	-0.4		
of which: loans granted by resident banks	10.2	2.2	2.2	-1.3	1.2	2.2	2.4	2.2	2.3	0.6	0.6	-1.3	2.0	2.0	2.3	2.4	2.4	0.6	1.1	0.8	0.6	0.4	0.2	-1.3	-1.3	-1.2		
Credit to non consolidated state owned enterprises[(g)]	5.6	9.3	3.0	2.7	8.9	6.6	6.7	3.0	1.8	2.1	2.0	2.7	2.3	2.5	1.8	2.0	2.9	2.1	1.9	2.2	2.0	1.8	2.9	2.7	2.7	2.2		
of which: loans granted by resident banks	9.2	2.5	2.9	3.2	1.2	-0.4	0.0	2.9	2.7	3.0	2.6	3.2	2.5	2.9	2.7	3.7	4.6	3.0	2.2	3.5	2.6	1.9	3.0	3.2	3.0	4.1		

Table 2.2.1 (continued)

MONETARY AND FINANCIAL CONDITIONS OF THE PORTUGUESE ECONOMY	2008	2009	2010	2011	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	Jan11	Fev11	Mar11	Apr11	May11	Jun11	Jul11	Aug11	Sep11	Oct11	Nov11	Dec11	Jan12	Feb12	Mar12	Apr12
Credit to households	4.4	2.1	1.1	-2.1	2.3	2.3	1.2	1.1	1.1	0.0	-0.7	-2.1	0.8	0.6	1.1	1.1	0.8	0.0	-0.2	-0.5	-0.7	-1.0	-1.3	-2.1	-2.4	-2.6		
Credit to hgouseholds for house purchase	4.1	1.8	2.4	-1.5	2.3	2.4	2.2	2.4	1.6	0.4	-0.5	-1.5	2.1	1.9	1.6	1.3	0.9	0.4	0.1	-0.2	-0.5	-0.9	-1.2	-1.5	-1.8	-2.0		
Credit to households for consumption and other purposes	5.4	2.7	-2.0	-3.6	2.3	2.1	-1.0	-2.0	0.0	-0.9	-1.2	-3.6	-2.2	-2.4	0.0	0.7	0.5	-0.9	-0.9	-1.3	-1.2	-1.3	-1.8	-3.6	-3.8	-4.0		
of which: consumption	7.8	0.9	-0.3	-6.1	1.0	0.5	0.2	-0.3	-1.9	-2.3	-4.2	-6.1	-0.6	-1.2	-1.9	-1.1	-1.6	-2.3	-3.2	-3.8	-4.2	-4.7	-5.9	-6.1	-6.9	-7.4		
Memo:																												
HICP - End-of-period annual average rate of change	2.7	-0.9	1.4	3.6	-0.8	-0.3	0.6	1.4	2.2	2.9	3.2	3.6	1.7	2.0	2.2	2.5	2.7	2.9	3.0	3.1	3.2	3.3	3.5	3.6	3.5	3.5	3.5	
Nominal GDP -year-on-year rate of change	1.6	-2.0	2.5	-1.0	2.8	2.3	2.9	1.8	0.5	-0.3	-1.5	-2.5																

Sources: ECB, Euronext Lisboa, EUROSTAT, *Imométrica*, *INE*, Reuters and Banco de Portugal.

Notes: (a) A positive change corresponds to an appreciation of the effective exchange rate index. **(b)** The Confidencial Imobiliário index tracks developments in the residential market in Portugal, in particular in the Lisbon and Oporto metropolitan areas. In October 2006 this index adopted a new methodology and broadened its background information. It uses data available at www.lardocelar.com, which in 2005 contained around 280,000 real estate registers. For further details on the methodology used see the article "*Índice Confidencial Imobiliário: procedimentos metodológicos*", by Isabel Fonseca and Ricardo Guimarães, in the October 2006 issue of the Newsletter *Imobiliária Portuguesa - Confidencial Imobiliário*. **(c)** In January 2010 *INE* changed the method for the calculation of the bank assessment indicator for housing, which now includes information from a broader set of banks and is compiled on a monthly basis. *INE* published backward-looking data as of September 2009, and the new series comprises information starting from this date. **(d)** Includes deposits by non-residents. Excludes deposits with agreed maturity over 2 years by other resident financial intermediaries and financial auxiliaries. **(e)** The annual growth rates are obtained from the relation between outstanding amounts of bank loans, adjusted for securitisation operations, and the monthly transactions, which are calculated from the outstanding amounts corrected of reclassifications,write-offs/write-downs, exchange rate and price revaluation. Whenever relevant, the figures are adjusted for credit portfolio sales, as well as for other operations with no impact in the sectors' financing. **(f)** Year-on-year rates of change of outstanding ammounts , on a consolidated basis , *i.e.* operations between entities of the same institutional sector are excluded. Includes loans, debt securities and trade credits. The figures are not adjusted for securitisation operations, reclassifications, write-offs/write-downs, exchange rate and price revaluation. Whenever relevant, the figures are adjusted for credit portfolio sales, as well as for other operations with no impact in the sectors' financing. **(g)** State owned enterprises that do not consolidate in the general government are included in the statistical aggregate of non-financial operations and, therefore, in the statistical aggregate of non-financial private sector.

Table 2.2.2

LENDING BY OTHER MONETARY FINANCIAL INSTITUTIONS TO NON-FINANCIAL CORPORATIONS[(a)] | BY SECTOR[(b)], ANNUAL RATE OF CHANGE, END-OF-PERIOD, PER CENT

	2008	2009	2010	2011	2012 February	
						Weight
Total	**9.9**	**1.8**	**1.0**	**-1.6**	**-2.0**	**100.0**
By branch of activity:						
Agriculture, livestock and fishing	23.4	5.6	6.1	-1.1	-3.6	1.8
Mining and quarrying	9.4	1.4	-3.8	-2.9	-6.0	0.4
Manufacturing	9.2	3.2	1.0	-2.0	-3.6	12.9
Electricity, gas and water	49.6	9.6	9.3	0.3	-0.4	4.3
Construction	3.1	0.7	-5.8	-3.8	-4.2	20.3
Trade	4.2	-2.6	1.4	-5.3	-7.5	12.8
Transport	20.8	5.0	11.8	5.1	5.9	7.0
Restaurants and hotels	12.9	11.2	16.6	-3.7	0.0	5.1
Media	10.3	6.1	19.4	2.5	-3.4	1.1
Non-financial holdings	15.5	2.3	7.9	0.4	1.8	9.9
Real state activities	13.8	1.4	-5.1	-0.8	-2.8	13.5
Consultancy	8.7	-7.4	-1.9	-4.1	-2.2	6.6
Education, health and other social care activities	13.7	15.7	5.0	0.9	7.4	4.3
Other services activities	149.7	96.1	870.7	378.8	355.8	0.1

Source: Banco de Portugal.

Notes: (a) Rates of change are calculated on the basis of the relationship between outstanding bank loans amounts at the end of the period and transactions calculated on the basis of outstanding amounts adjusted for reclassifications. They are also adjusted for securitisation operations, asset write-offs/write-downs and foreign exchange and price revaluations. Whenever relevant, the figures are additionaly adjusted for credit portfolio sales, as well as for other operations with no impact in enterprises' effective financing. **(b)** Loans for the monetary and financial institutions, with the allocation of loans by sector of activity being estimated on the basis of the structure of Central Credit Register.

3. Fiscal policy and situation

3.1. Overview

2011 was marked by the request for economic and financial assistance. In that context, a comprehensive adjustment programme was designed to correct the structural imbalances of the Portuguese economy, including a public finances consolidation plan intended to ensure a sustainable evolution path. The objective established in the Programme for the 2011 deficit was achieved, albeit with a highly significant amount of temporary measures. Notwithstanding, the year as a whole witnessed an unprecedented consolidation effort, comprising a revenue increase and particularly a major contraction of expenditure, which translated into a pro-cyclical tightening of fiscal policy. The debt ratio maintained its upwards trend, reaching a historically high level at the end of the year.

According to the first Excessive Deficit Procedure notification of 2012, in 2011, the general government deficit in National Accounts stood at 4.2 per cent of GDP, after having reached 9.8 per cent in 2010 (Table 3.1.1). This evolution was highly influenced by a significant amount of temporary measures and special factors, both in 2010 and 2011. At the end of 2011, the public debt ratio reached 107.8 per cent of GDP, in comparison to 93.3 per cent in 2010. Reference should be made to the fact that the strong upward trend recorded by the debt ratio over the last few years worsened in 2011, particularly on account of a large amount of deficit-debt adjustments.

The Programme set at 5.9 per cent of GDP the objective for the general government deficit in National Accounts, which represented an upward revision of the target established in the State Budget (4.6 per cent of GDP). Quarterly targets and an annual limit for the deficit on a public accounts basis were also defined. The 2011 budgetary execution enabled these performance criteria to be met. The Programme also established a limit on the stock of public debt which was also respected in 2011.[1]

Table 3.1.1

MAIN FISCAL INDICATORS | PERCENTAGE OF GDP

	2007	2008	2009	2010	2011	2011-2010 change[d]
Overall balance	**-3.1**	**-3.6**	**-10.2**	**-9.8**	**-4.2**	**5.6**
Cyclical component	1.0	1.5	0.9	1.7	0.7	-1.0
Temporary measures[a]	0.1	1.1	0.0	1.7	4.0	2.3
Structural balance[b]	**-4.3**	**-6.2**	**-11.0**	**-13.2**	**-8.9**	**4.3**
Interest expenditure	2.9	3.0	2.8	2.9	3.9	1.0
Structural primary balance[b]	**-1.4**	**-3.2**	**-8.2**	**-10.3**	**-5.1**	**5.3**
Special factors[c]				-2.9	-0.9	2.0
Structural balance excluding special factors				**-10.3**	**-8.0**	**2.3**
Structural primary balance excluding special factors				**-7.5**	**-4.1**	**3.3**
Public debt	**68.3**	**71.6**	**83.1**	**93.3**	**107.8**	**14.4**

Sources: *INE* and Banco de Portugal.

Notes: (a) According to the definition adopted in the Eurosystem, temporary measures refer to discretionary measures or other one--off factors affecting the general government balance in the same direction during a limited period of time (3 years, at most). This definition includes factors with positive and negative impact on the fiscal balance, but a cautious approach is adopted as regards measures contributing to its deterioration. The annual impact of a temporary measure must exceed 0.1 per cent of GDP. See Table 3.1.2. **(b)** Structural values are adjusted for the impact of the economic cycle and temporary measures. The cyclical component and temporary measures are computed by Banco de Portugal according to the methodologies adopted by the Eurosystem. **(c)** See Table 3.1.2. **(d)** Changes do not necessarily correspond to differences in values as a ratio to GDP due to rounding.

1 The definition of public debt relevant for the assessment of the performance criteria in the context of the Programme does not coincide with the definition of Maastricht debt used in the Excessive Deficit Procedure. According to the latter, public debt, at the end of 2011, amounted to EUR 184,291 million. The stock of public debt compiled in accordance with the criteria defined in the Programme is EUR 168,901 million, which compares to the EUR 175,900 million limit.

In 2011, important changes were made as far as fiscal governance is concerned, comprising, in particular, the definition of fiscal rules, the establishing of a medium term budget planning framework and the creation of an independent fiscal council (see "Box 3.1 *Institutional framework of the public finances in Portugal: recent developments*", of this Report). These modifications occurred in parallel with very significant changes to the budgetary surveillance mechanism in the European Union (see "Box 3.2 *Developments in the budgetary surveillance mechanism of the European Union*", of this Report) and are very demanding in terms of their implementation, requiring an important investment in specialized human resources and the full understanding of the new rules and procedures by all entities and agents involved.

The 2011 fiscal developments should be analysed taking into account the impact of several temporary measures and special factors. Nevertheless, the consolidation effort reached an unprecedented magnitude.

The 2011 fiscal developments are underpinned by several temporary measures with a 4.0 percentage points (p.p.) of GDP overall impact on revenue and other special factors[2] whose impact on expenditure amounted to 0.9 p.p. of GDP (Tables 3.1.1 and 3.1.2).

According to the definition adopted by the Eurosystem, it is considered a temporary measure the transfer to the State of assets of the pension funds of several financial institutions, as a counterpart for the assumption by Social Security of the liabilities related to old age and survivors' pensions of the banking sector retirees and pensioners (see "Box 3.3 *Pension fund transfers and their impact on public accounts in Portugal: 1997-2011*", of this Report). This operation implied the recording of capital revenue amounting to 3.5 per cent of GDP on a National Accounts basis. The revenue obtained with a Personal Income Tax surcharge on the Christmas bonus, corresponding to 0.5 per cent of GDP, is also classified as a temporary measure.

As in 2010, 2011 fiscal developments were affected by an additional set of special factors with a negative impact on the fiscal balance and that, as a whole, implied its deterioration by 0.9 per cent of GDP (Table

Table 3.1.2

TEMPORARY MEASURES AND SPECIAL FACTORS | PERCENTAGE OF GDP

	2010	2011
Temporary measures	**1.7**	**4.0**
Pension funds' transfer	1.6	3.5
Proceeds from concessions	0.1	-
Personal Income Tax surcharge	-	0.5
Special Factors	**2.9**	**0.9**
Delivery of two submarines	0.5	-
Reclassification of PPP contracts	0.5	0.1
BPN effect[(a)]	1.0	0.4
BPP effect[(b)]	0.3	-
Madeira effect	0.6	0.4
Reclassification of Via Madeira	-	0.2
SESARAM - calling of guarantees	-	0.2
Regional Government debt	0.6	0.1
Impact on revenue	**1.6**	**4.0**
Impact on expenditure	**2.9**	**0.9**
Impact on the fiscal balance	**-1.2**	**3.1**

Sources: *INE* and Banco de Portugal.

Notes: (a) In 2010, the "BPN effect" reflects the assumption of Banco Português de Negócios impairments by special purpose vehicles classified within general government. In 2011, it refers to the recapitalisation of Banco Português de Negócios, under the scope of the respective reprivatisation process. **(b)** The "BPP effect" reflects the calling of a guarantee granted by the State to a loan to Banco Privado Português.

2 Special factors are considered to be transactions that have an one-off effect on the general government deficit but that cannot be treated as temporary measures in conformity with the Eurosystem definition. See Table 3.1.2 for a detailed list of special factors and temporary measures.

3.1.2). In particular, the general government capital expenditure was affected by the recording of the amount spent on the recapitalisation of *Banco Português de Negócios*, in the context of the respective reprivatisation process (0.4 per cent of GDP), and of the total stock of debt guaranteed by the Regional Government of Madeira to *SESARAM* (0.2 per cent of GDP). In addition, the reclassification of the corporation *Via Madeira* into general government sector and the consequent assumption of the respective impairments entailed a 0.2 per cent of GDP deterioration of the fiscal balance, essentially through an increase in investment. This latter item was also affected by the recording of the investment made in the Via do Infante motorway under a public-private partnership arrangement (0.1 per cent of the GDP). Lastly, reference should also be made to the recording of debt contracted by the Regional Government of Madeira, which translated into a 0.1 per cent of GDP increase in the deficit.

In a context of unavoidable correction of the Portuguese economy's structural imbalances, fiscal policy was highly restrictive.

According to Banco de Portugal estimates, based on the cyclical adjustment methodology adopted by the Eurosystem[3], the cyclical component of the structural balance recorded in 2011 a 1.0 p.p. of GDP decrease, thus giving a negative contribution to the fiscal balance change. This development essentially reflects the fact that, in 2011, the decline in private consumption, in real terms, was sharper than the respective trend.[4]

The Banco de Portugal estimate points to a 4.3 p.p. of trend GDP improvement in the structural deficit[5], with its level standing at 8.9 per cent of GDP. In the context of a highly significant increase in interest expenditure, the fiscal stance, measured by the change in the structural primary balance, was clearly restrictive and pro-cyclical (Chart 3.1.1). In fact, in 2011 the change in the structural primary balance was 5.3 p.p. of trend GDP. The change in the structural primary balance between 2010 and 2011 corrected for the impact of factors which, albeit extraordinary, are not covered by the definition of temporary measures used in the Eurosystem, was 3.3 p.p. of GDP.

Notwithstanding a considerable increase in the structural fiscal burden, the reduction of the structural primary deficit derives, to a greater extent, from the reduction of structural primary expenditure, particularly on compensation of employees and investment.

The 2011 fiscal consolidation derived from a decrease in primary structural expenditure and to a lesser extent an increase in structural revenue (Chart 3.1.2). Indeed, primary structural expenditure, corrected also for the impact of other special factors, declined by 2.0 p.p. of trend GDP, confirming the downward trend that was already clear in 2010. This development is essentially explained by the strong reduction of compensation of employees and the contraction of public investment. In turn, structural revenue as a percentage of trend GDP increased by 1.4 p.p.. This evolution derived from the performance of the structural fiscal burden which, after a relative stabilisation in 2010, increased by 1.5 p.p. in 2011[6] (Chart 3.1.3), though remaining at a level below the maximum reached in 2007.

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3 For more detail on the cyclical adjustment methodology adopted by the Eurosystem, see Braz, C. (2006), "The calculation of cyclically adjusted balances in Banco de Portugal: an update", Banco de Portugal, *Economic Bulletin* - Winter.

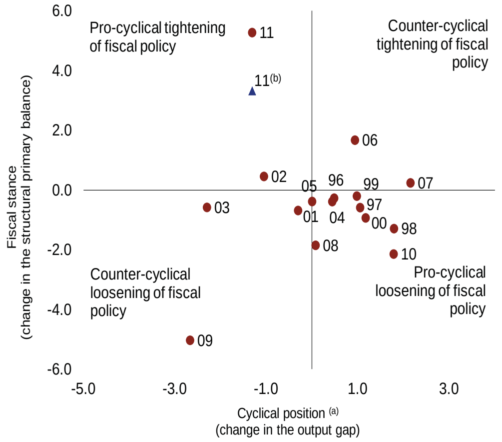
4 Reference should be made to the fact that the estimate obtained for the change in the cyclical component of the deficit is more negative than the estimate obtained without taking into account the effects of the composition of economic growth (-0.7 p.p.). In the case of the cyclical adjustment methodology adopted by the Eurosystem, more adequate macroeconomic bases for each budgetary item are considered, whereas most methodologies only take into account the real effects of GDP on the budget balance in aggregate terms.

5 Nominal trend GDP is defined as real trend GDP (calculated in accordance with the cyclical adjustment methodology adopted by the Eurosystem) multiplied by the observed GDP deflator. After recording a growth of 0.7 per cent in 2010, nominal trend GDP decelerated, recording a 0.3 per cent growth in 2011.

6 The structural tax burden includes revenue from taxes on income and wealth, taxes on production and imports, capital taxes and social contributions, cyclically adjusted and excluding the impact of temporary measures.

Chart 3.1.1

FISCAL POLICY AND CYCLICAL POSITION: 1996-2011

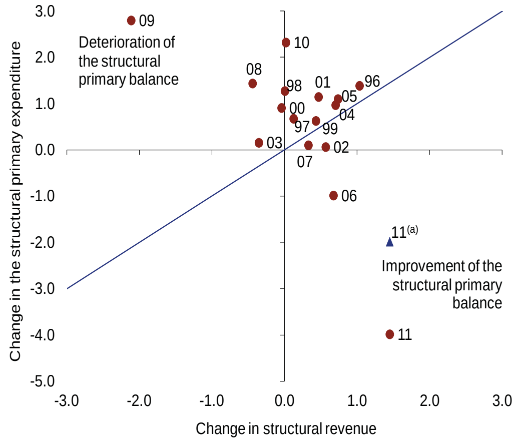


Sources: *INE* and Banco de Portugal.

Notes: (a) The cyclical position of the economy is assessed by the change in the output gap, which represents the difference between GDP and trend GDP growth rates. **(b)** Change in the structural primary balance excluding special factors.

Chart 3.1.2

CHANGE IN STRUCTURAL REVENUE AND PRIMARY EXPENDITURE: 1996-2011 | PERCENTAGE POINTS OF TREND GDP

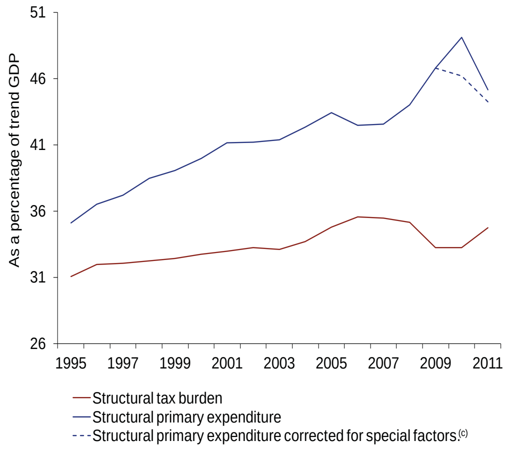


Sources: *INE* and Banco de Portugal.

Note: (a) Change in the structural primary expenditure excluding special factors.

Chart 3.1.3

STRUCTURAL TAX BURDEN[(a)] AND PRIMARY EXPENDITURE[(b)]: 1995-2011



Source: Banco de Portugal.

Notes: (a) The tax burden includes taxes and social contributions, adjusted for the impact of the economic cycle and the effect of temporary measures. **(b)** Primary expenditure is adjusted for the impact of the economic cycle and the effect of temporary measures. **(c)** Primary expenditure corrected for special factors is adjusted for the impact of the economic cycle, the effect of temporary measures and the impact of special factors in 2010 and 2011 (see Table 3.1.2).

The 2011 fiscal outturn benefited from the impact of consolidation measures implemented in the preceding year, included in the State Budget for 2011 or announced during the course of the year.

In 2011 the changes to the tax system with an effect on revenue from taxes and social contributions led to a very significant increase of taxation in Portugal. Within the scope of the Personal Income Tax there was a rise in the taxation on higher incomes, on pension and capital income and a decline in tax benefits. As regards the Corporate Income Tax, there was also an increase in the taxation of higher profits and a reduction of tax benefits. Moreover, the State Budget for 2011 introduced a new tax on the banking sector, classified in National Accounts as revenue from taxes on income and wealth. Regarding VAT, after 1 p.p. increases of all tax rates, in force since July 2010, it is also worth emphasizing, in 2011, the 2 p.p. increase in the standard rate, starting in January, and, in October, the increase of VAT on gas and electricity (with a small impact on revenue in 2011).

Also as regards measures on the revenue side, reference should be made to the increase from 10 to 11 per cent of the contribution rate payable by Caixa Geral de Aposentações (CGA) subscribers, the integration of the banking sector social contributions in the general Social Security regime and the coming into force of the new Contributory Code, affecting the general government revenue from social contributions, in addition to the introduction of tolls on motorways previously toll-free.

On the expenditure side, it is worth mentioning the 5 per cent average reduction of wages of civil servants, as foreseen in the State Budget for 2011, and the control of admissions. As regards social payments, the outturn of the year was influenced by the freezing of pensions, by the implementation of means-testing procedures required for the recognition and maintaining of the right to the social programme for the support of poor households, unemployment benefits and family allowances, announced in 2010, and by the changes to the rules governing the eligibility and calculation of unemployment benefits. Moreover, several measures in the healthcare sector also made a non-negligible contribution to fiscal consolidation.

3.2. Fiscal developments in 2011

Revenue

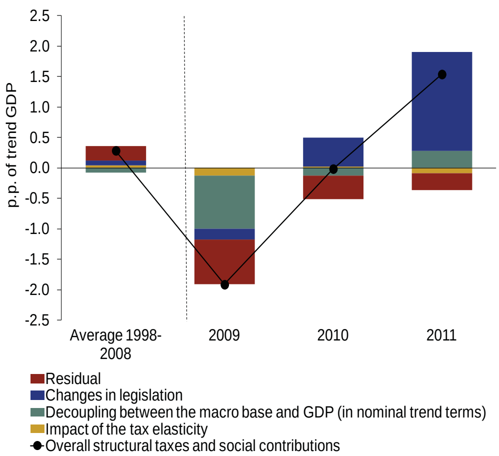
The increase in the structural tax burden in 2011 essentially derived from the legislative changes in force since mid-2010 or included in the State Budget for 2011.

In 2011, the tax burden as a percentage of trend GDP recorded an increase of 0.9 p.p.. The impact of the economic cycle made a negative contribution of 1.1 p.p. to this change, whereas the effect of temporary measures made a positive contribution of 0.5 p.p.. Accordingly, the structural component of the fiscal burden increased by 1.5 p.p. of trend GDP, particularly reflecting changes in legislation with an impact on the 2011 revenue (Chart 3.2.1). The discrepancy between the nominal rates of trend growth of the macroeconomic bases and GDP made only a slightly positive contribution to the structural change of the overall receipts from taxes and social contributions. The residual component, by contrast, made a negative contribution which essentially reflects effects related with refunds and the lower revenue from social contributions deriving from the wage cut implemented in general government.

Chart 3.2.2 illustrates the evolution of structural revenue associated with the main taxes and social contributions in 2011. The structural receipts from taxes on households' income went up by 4.9 per cent, corresponding to a change by 0.3 p.p. of trend GDP. The growth of structural revenue was considerably lower than recorded by actual revenue (10.0 per cent), whose evolution is highly influenced by the receipts resulting from the extraordinary Personal Income Tax surcharge on the part of the Christmas bonus exceeding the minimum wage. Given the pro-cyclical behaviour of the macroeconomic base adopted for the Personal Income Tax (private sector wage bill), the cyclical component of revenue from the collection of these taxes recorded a decrease. The respective impact was more than offset by the effect of changes in legislation. The latter particularly reflect a series of measures in force since the middle of 2010: the creation of an extraordinary tax on taxpayers with higher income levels (through an increase in the marginal rates applicable to the higher tax brackets), the introduction of a new tax bracket with a marginal rate of 45 per cent on taxable income exceeding EUR 150 thousand and an increase in the

Chart 3.2.1

BREAKDOWN OF THE OVERALL CHANGE IN STRUCTURAL TAXES AND SOCIAL CONTRIBUTIONS(a)

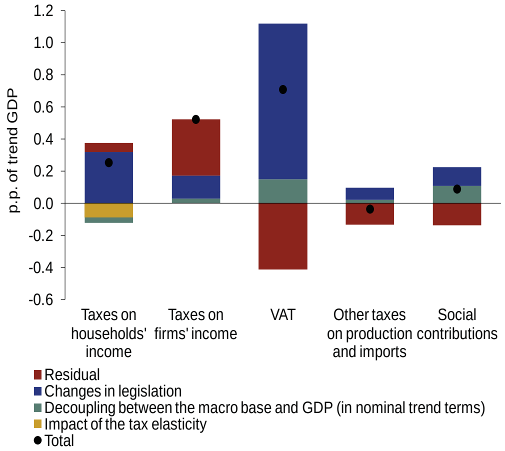


Sources: *INE* and Banco de Portugal.

Note: (a) For more details on the methodology underlying the calculation of these contributions see Kremer et al. (2006), "*A disaggregated framework for the analysis of structural developments in public finances*", ECB *Working paper* no.579; Braz, C. (2006), "*The calculation of cyclically adjusted balances at Banco de Portugal: an update*", Banco de Portugal *Economic Bulletin* - Winter.

Chart 3.2.2

BREAKDOWN OF THE CHANGE IN STRUCTURAL TAXES AND SOCIAL CONTRIBUTIONS IN 2011[(a)]



Sources: *INE* and Banco de Portugal.

Note: (a) For more details on the methodology underlying the calculation of these contributions see Kremer et al. (2006), "*A disaggregated framework for the analysis of structural developments in public finances*", ECB *Working paper* no.579; Braz, C. (2006), "*The calculation of cyclically adjusted balances at Banco de Portugal: an update*", Banco de Portugal *Economic Bulletin* - Winter.

final withholding rates on interest income. The State Budget for 2011 also introduced overall ceilings for tax benefits and deductions in the two higher income brackets, reduced the deduction applicable to pensions' income above EUR 22,500 per annum and increased the taxation of capital gains. In 2011, the residual relating to taxes on households' income was approximately nil, reflecting the impact of two effects with opposite signs that approximately cancelled each other out: on the one hand, there was an increase in revenue from the taxation of interest income, arising from the increase in the final withholding rates and from the growth of capital income due to higher interest rates; on the other, there was an increase in Personal Income Tax refunds due to the fact that the changes introduced in mid-2010 were not adequately reflected in the withholding tables, leading to excessive amounts withheld in that year. This effect has a negative impact on the residual component of taxes on households' income.

The structural revenue from taxes on firms' income went up by 18.6 per cent in 2011 (13.4 per cent in actual terms). The growth of this variable largely exceeded the growth of nominal private trend GDP which is the macroeconomic base considered for cyclical adjustment, contributing with 0.5 p.p. of trend GDP for the improvement of the structural balance. Two measures contributed to this evolution: the 2.5 p.p. Corporate Income Tax surcharge applicable on taxable profit above EUR 2 million, introduced in the middle of 2010; and the imposition of a new tax on the banking sector, included in the State Budget for 2011. In addition, the residual component was also significant, reflecting the return of refunds to a normal level (following a more marked growth in 2010) and, mainly, the fact that the macroeconomic base does not adequately capture the performance of taxable profits.

In structural terms, VAT revenue recorded a 10.2 per cent increase in 2011 (0.7 p.p. of trend GDP), corresponding to a 4.7 per cent rise in actual terms. The growth of this variable largely exceeded that of the respective macroeconomic base (nominal private consumption). The main contribution to the increase in the structural revenue from VAT is attributed to the revisions of the rates implemented in July 2010 (1 p.p. for all rates) and January 2011 (2 p.p. for the standard rate) and, to a lesser extent, the increase in the rate applicable on electricity and gas starting in October 2011. The highly significant negative residual is almost completely explained by the strong growth of refunds, partly justified by administrative changes that accelerated its processing.

Structural revenue from the remaining taxes on production and imports went slightly down. In actual terms, the Tax on Oil Products receipts declined by 4.0 per cent. This evolution was more favourable than what would derive from developments in fuel sales[7], as there was a reduction of tax expenditure owing to the elimination of tax benefits on bio-fuels. In turn, the pronounced fall in motor vehicle sales (31.9 per cent in the case of light passenger vehicles) was not fully reflected in the collection of the Tax on Vehicles Sales (that decreased 22.6 per cent). In fact, in 2011, revenue from this tax benefited from the strong increase in sales recorded in December 2010 which only translated into revenue in January of the following year. The collection of the Tax on Tobacco and the Municipal Tax on Real Estate recorded positive changes (1.3 and 4.3 per cent, respectively). Lastly, reference should be made to the decreases in proceeds from the Stamp Duty (-3.6 per cent) and the Municipal Tax on Property Transactions (-27.9 per cent), which reflect a reduction in the volume of financial and real estate transactions, respectively.

In 2011, revenue from social contributions went down 0.3 per cent, with actual contributions having increased 3.3 per cent while imputed contributions decreased 10.7 per cent. In structural terms, social contributions increased 1.1 per cent, which translates into a minor change as a percentage of trend GDP (0.1 p.p.). To a large extent, this evolution is explained by the fact that the nominal trend wage bill of the private sector recorded a much higher growth than nominal trend GDP and by the impact of changes in legislation: the increase from 10 to 11 per cent in the rate of contribution of CGA subscribers, the integration of banking sector social contributions in the general social security regime and the coming into force of the new Contributory Code. This was counterbalanced by a reduction of revenue resulting from the civil servants' wage cut, which has an impact on imputed contributions and is captured by the residual component. It should be recalled that, in National Accounts, employers' contributions referring to general government workers who are CGA subscribers are obtained by applying a rate of 28.43 per cent on their wages and recorded as imputed contributions. This item went down 7.7 per cent in 2011.

Notwithstanding the drop in dividends (-44.2 per cent), in 2011 the remaining components of current revenue recorded, as a whole, a 7.1 per cent increase. Contributing factors for this evolution are the growth of interest received by the general government (122.1 per cent) and, to a lesser extent, of sales of goods and services (3.6 per cent).

The increase in actual capital revenue reflects the use of a significant amount of temporary measures. In structural terms, this item recorded a marked decrease.

Capital revenue recorded a substantial increase in actual terms (61.5 per cent). However, this evolution is mostly due to the impact of the transfers of assets from the Portugal Telecom (PT) and banking sector pension funds (respectively in 2010 and 2011), which are covered by the definition of temporary measures adopted by the Eurosystem. Therefore, in structural terms, capital revenue declined by 17.6 per cent, which translates into a slightly negative change as a percentage of trend GDP (-0.2 p.p.). It should be noted that this rate of growth of structural revenue is underpinned by a base effect associated with the 2010 Exceptional Tax Settlement Regime, which led to the repatriation of capital held abroad and the respective fiscal regularisation, resulting in an unusual increase in capital tax revenue in that year.

7 In 2011, petrol sales declined by 9.5 per cent and diesel sales went down by 6.6 per cent.

Primary expenditure

In 2011, for the first time since 1995[8], primary current expenditure recorded a considerable decline, which was common to its main components.

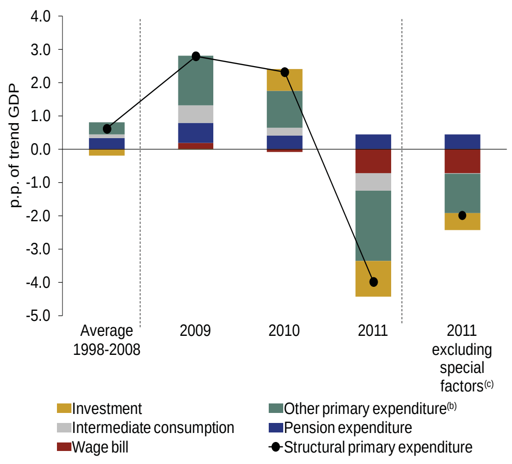
In 2011 structural primary current primary expenditure recorded a decline (-4.1 per cent), decreasing by 1.9 p.p. as a percentage of trend GDP (Chart 3.2.3). This evolution was common across its main items, particularly intermediate consumption and compensation of employees. The evolution of expenditure on intermediate consumption (-10.1 per cent) was highly conditioned by a base effect resulting from the delivery of a non-negligible amount of military equipment, in 2010, as well as by the recording in 2011 of debt previously contracted by the Regional Government of Madeira. Adjusting for these effects the reduction would have been 0.1 per cent.

As regards the expenditure with compensation of employees, the reduction (-8.2 per cent) is essentially explained by the 7.8 per cent decrease in wages and salaries. This evolution is mirroring the public sector wage cuts in force since January 2011, in addition to the decline in the number of civil servants (-2.7 per cent). These effects were reinforced by the already mentioned fall in imputed social contributions.

Social benefits in cash were the only primary current expenditure item to record a positive, albeit relatively minor, change in 2011. The 1.4 per cent growth of this item is essentially derived from the performance of pension expenditure, notwithstanding the fact that they were frozen (with the exception of minimum pensions). In fact, pension outlays increased 3.1 per cent in the case of Social Security and 5.4 per cent in the case of CGA. Vis-à-vis the preceding year, there was a slight deceleration in pension expenditure in the Social Security subsystem, in a context of quasi-stabilisation of the average rate of change in the number of pensioners (1.4 per cent in 2011). The evolution of pension expenditure by CGA is influenced by the payment of pensions to former workers of *PT Comunicações, S.A.*, following the transfer to this subsystem of the assets allocated to the respective pension fund in 2010. Adjusting for this effect, the growth of this expenditure would have been 3.4 per cent (still representing a deceleration vis-à-vis 2010),

Chart 3.2.3

BREAKDOWN OF THE CHANGE IN STRUCTURAL PRIMARY EXPENDITURE[(a)]



Sources: *INE* and Banco de Portugal.

Notes: (a) The composition of primary expenditure is corrected for the effects of the several transformations of public hospitals into corporations in the 2002-2010 period, according to estimates by Banco de Portugal. **(b)** Other primary expenditure includes social payments excluding pensions, general government social contributions, subsidies and other current and capital expenditure. **(c)** Change in the structural primary expenditure corrected for the impact of special factors in 2010 and 2011.

8 Date since which compatible data are available.

whereas the average rate of the change in the number of CGA pensioners would have been 2.5 per cent (in comparison to an unadjusted rate of 4.2 per cent).

Regarding expenditure on other social payments in cash, a substantial decline was recorded. Reflecting the impact of the changes made to the rules governing access and maintenance of the right to non--contributory social payments, the amounts spent on the social programmes for the support of poor households' and senior citizens and family allowances recorded sharp falls. In the latter case, the decrease was also affected by the elimination of the payments made to the 4th and 5th brackets, as well as of the 25 per cent supplement for the first brackets, included in the State Budget for 2011. Sickness allowances remained essentially unchanged between 2010 and 2011. In turn, unemployment subsidies grew 0.7 per cent in structural terms, whereas in actual terms there was a 5.3 per cent reduction. Also in this case the decrease is explained by the revision of access conditions and the calculation of this social payment, implemented in 2010. Note that the average number of subsidised unemployed individuals fell 14.1 per cent in 2011.

Social payments in kind recorded an overall 4.7 per cent decline. This evolution was essentially explained by the decreases of 12.4 per cent and 2.2 per cent, respectively in expenditure on pharmaceutical co-payments and conventions and payments of services provided by corporate hospitals. In the first case, it should be mentioned that the evolution of expenditure reflects measures adopted in the healthcare sector, in particular the reductions of prices of co-financed medicines and several co-payment rates.

Lastly, reference should be made to the fact that, in 2011, expenditure on subsidies remained at a level close to that of the preceding year, recording a -0.9 per cent change, particularly owing to the 5.6 per cent decrease of expenditure on compensatory payments to State-owned enterprises classified outside the general government sector.

Capital expenditure recorded a sharp decline as a result of reductions in both public investment and capital transfers.

In actual terms, capital expenditure went down 34.4 per cent in 2011, following a growth of 45.9 per cent in 2010. Although public investment declined 28.8 per cent, this evolution largely derived from the effect of special factors affecting the level of this variable in 2010 and 2011. In particular, the 2010 budget execution reflects the recording in National Accounts of investment expenditure made for the construction and operation of road infrastructures within the scope of contracts previously classified as public private partnerships, as well as of debt contracted by the Regional Government of Madeira. In 2011, investment made under a public-private partnership and investment expenditure of the public company Via Madeira were also reclassified in the general government accounts. Excluding the impact of these factors and the sharp decline in revenue from the sale of buildings (recorded in National Accounts as negative capital expenditure), the decrease in general government investment would have stand at 25.2 per cent. This evolution derived, to a large extent, from the drop in investment expenditure made by Estradas de Portugal (-66.1 per cent) and Parque Escolar (-32.0 per cent), as well as that by local government entities (-9.9 per cent).

There was also a reduction in capital transfers (-40.1 per cent). However, the evolution of capital transfers is highly influenced by a base effect deriving from the recording in 2010 of the amounts related to the call of a guarantee granted by the State to a loan to Banco Privado Português and the assumption of Banco Português de Negócios impairments by entities classified in the general government sector. In addition, in 2011, expenditure incurred on the recapitalisation of Banco Português de Negócios and the stock of debt of the company SESARAM guaranteed by the Regional Government of Madeira are also included in this item, as well as the effect of the rescheduling of debt repayment arrangements referring to football clubs from the Autonomous Region of Madeira. The decrease in capital transfers adjusted for these factors is much less marked than their actual decrease, which stood at -1.0 per cent. This evolution is also mirroring the growth of investment aids (11.1 per cent) and the decrease in equity injections in State-owned enterprises classified outside the general government sector which are reclassified in this expenditure item (-45.1 per cent).

Adjusting for the impact in the level of investment and capital transfers of the above mentioned special factors in 2010 and 2011, as well as for the base effect associated with proceeds from concessions related to the energy sector in 2010 (that is in accordance with the definition of temporary measures adopted by the Eurosystem), the decline in capital expenditure, as a whole, would have been 19.9 per cent.

Interest expenditure and public debt

The increase of the stock of public debt and the respective implicit interest rate resulted in a marked growth of interest expenditure.

Interest expenditure, as defined in the context of the Excessive Deficit Procedure, recorded a substantial increase (34.2 per cent) in 2011, corresponding to a rise by 1.0 p.p. of trend GDP. This outcome derives from a combination of the strong growth of the stock of public debt and a very significant increase in the respective implicit interest rate[9] (from 2.9 per cent, in 2010, to 3.9 per cent, in 2011). The evolution of the implicit interest rate is essentially explained by developments regarding short term debt. Indeed, the implicit interest rate computed on the basis of the stock of Treasury Bills increased considerably in 2011 whereas the implicit interest rate on Treasury Bonds remained at a level similar to that recorded in the previous year.

During the course of 2011 the issue of Treasury Bonds was not significant, with this source of funding being replaced since the middle of May by the instalments of the loans received in the context of the Economic and Financial Assistance Programme. Therefore, in line with the arranged schedule, an amount roughly equivalent to half of the Programme's total funding was received in 2011. For the year as a whole, the annual equivalent interest rate referring to the Programme's loans was approximately 3 per cent. Note that these costs were considerably lower in comparison to the initial forecast following the elimination of financial margins on loans granted by the European Financial Stability Facility and the European Financial Stabilisation Mechanism.

In a context of primary deficit reduction, the strong increase in the public debt ratio is essentially explained by deficit-debt adjustments and, to a lesser extent, by the snowball effect.

In 2011, the gross public debt to GDP ratio, as defined in the context of the Excessive Deficit Procedure, recorded a very substantial increase (14.4 p.p.), having reached 107.8 per cent at the end of the year (Table 3.1.1 and Chart 3.2.4). Given the strong improvement in the primary balance (which, in 2011, stood at -0.4 per cent of GDP, after -7.0 per cent in the preceding year), the respective contribution to the increase in public debt was very small. The effect of the increase in interest expenditure was reinforced by the negative evolution of nominal GDP, with the impact of the snowball effect on debt standing at 4.8 per cent of GDP. Therefore, more than half of the change recorded by the public debt ratio resulted from deficit-debt adjustments amounting to 9.3 per cent of GDP in 2011.

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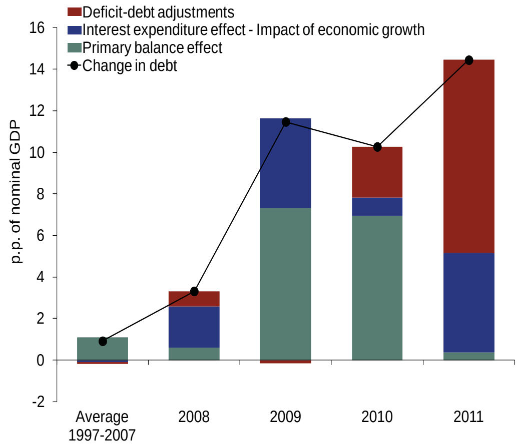
9 The implicit interest rate on public debt is defined as the ratio between interest expenditure for the year and the simple average of the stock of debt at the end of the same and preceding years.

Chart 3.2.4

BREAKDOWN OF THE CHANGE IN THE PUBLIC DEBT RATIO



Sources: *INE* and Banco de Portugal.

The magnitude of the deficit-debt adjustments essentially mirrored the major contribution of the accumulation of general government deposits amounting to 6.0 per cent of GDP. Therefore, excluding the impact of the increase in these assets, public debt would have recorded an increase by 8.4 p.p. of GDP vis-à-vis 2010. In particular, the accumulation of deposits is largely explained by the part of the instalments received under the Programme yet to be used and, to a lesser extent, by the part of the assets from banking sector pension funds that was transferred in 2011 (1.9 per cent). The deficit-debt adjustments also reflected the accumulation of other financial assets, mostly referring to the amount of the pension funds' assets still to be transferred (1.6 per cent of GDP), in addition to the recording of loans of the Portuguese State to Greece and Ireland, in the context of the respective international assistance programmes (0.4 per cent of GDP) and of the equity injection in *Banco Português de Negócios*, within the scope of its reprivatisation process (0.4 per cent). Reference should also be made to the impact of valuation effects on debt (1.1 per cent), generated, in particular, by the difference between interest paid and interest recorded in National Accounts, as well as by the issuance and redemption value of debt not at par.

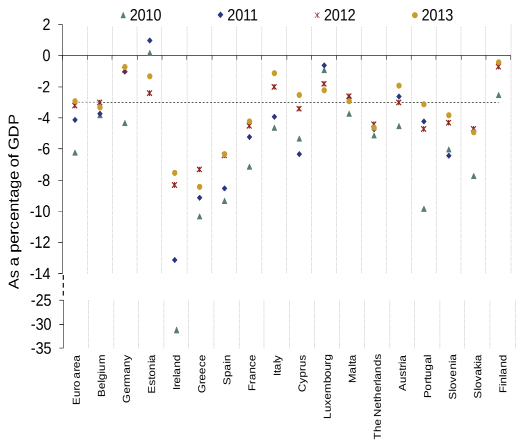
3.3. Euro area

The general government deficit in the euro area as whole stood, at the end of 2011, at 4.1 per cent of GDP, representing an improvement by 2.1 p.p. of GDP vis-à-vis de previous year (Chart 3.3.1). Note that, in 2011, only six Member-states recorded fiscal deficits below the 3 per cent of GDP reference value. The European Commission forecasts a gradual improvement of the general government deficit in the two following years, to 3.2 and 2.9 per cent of GDP in 2012 and 2013, respectively. At the end of the projection horizon the general government deficit is expected to stand below the 3 per cent of GDP threshold in eight euro area countries. It should also be highlighted that, according to the European Commission's Spring Economic Forecasts, among the Member-states subject of an Excessive Deficit Procedure whose deadline for correction is 2012, only Cyprus is not expected to achieve such goal. Regarding the countries for which the deadline is 2013, the forecasts suggest that it will be respected only in the cases of Germany and Austria.

At the end of 2011, the public debt ratio in the euro area rose to 87.2 per cent of GDP, after standing at 85.6 per cent in 2010 (Chart 3.3.2). The European Commission foresees that the rising trend recorded in the last years will continue to be observed in most Member-states, with the euro area public debt as a ratio to GDP expected to stand at 91.8 and 92.6 per cent of GDP in 2012 and 2013, respectively. The

Chart 3.3.1

FISCAL BALANCE IN THE EURO AREA



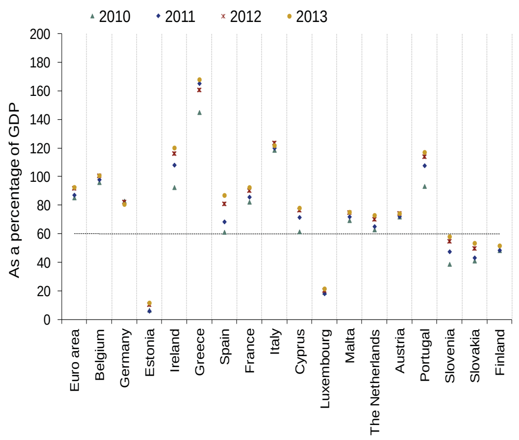
Source: European Comission.

Commission's forecasts imply that, at the end of 2013, only five Member-states are expected to record public debt ratios below the 60 per cent of GDP reference value.

The economic and financial crisis exposed several of the fragilities of the European Union's multilateral fiscal surveillance mechanism. As a consequence, in 2011 and at the beginning of 2012, new rules designed to reinforce economic governance in the European Union and particularly in the euro area, were introduced. In November 2011 six legal texts aiming at reinforcing the preventive and corrective arms of the Stability and Growth Pact, establishing minimum requirements for national fiscal frameworks and the prevention and correction of macroeconomic imbalances and competitiveness were approved. More recently, on 1 March 2012, all Member-states with the exception of the United Kingdom and the Czech Republic signed the new Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, incorporating the fiscal compact. The main element of this document is the transposition of a balanced budget rule with automatic correction mechanisms into national legislation (see "Box 3.2 *Developments in the budgetary surveillance mechanism in the European Union*", of this Report).

Chart 3.3.2

PUBLIC DEBT IN THE EURO AREA



Source: European Comission.

BOX 3.1 | INSTITUTIONAL FRAMEWORK OF PUBLIC FINANCES IN PORTUGAL: RECENT DEVELOPMENTS

An essential aspect of the European authorities' efforts to contain and resolve the sovereign debt crisis has been based on the reinforcement of multilateral and national mechanisms designed to ensure fiscal discipline (see "Box 3.2 *Developments in the budgetary surveillance mechanism of the European Union*" of this Report). As regards national fiscal frameworks, the guidelines incorporate the main results of the literature produced over the last few years on the relevance of rules and institutions as a means of ensuring sustainable public finances.[1] Therefore, based on an analysis of best international practices, it is recommended a basic architecture comprising the following: i) fiscal rules; ii) a medium term budgetary framework; iii) independent fiscal institutions; and, iv) budgetary procedures, particularly centralisation (both at the planning and approval as at the implementation stages), top down budgeting, assessments of the efficiency of expenditure and use of an accrual based accounting system. Notwithstanding the fact that Portugal has made some progress over the last few years, it was, in 2011, still very far from this paradigm. The main vulnerabilities that have been pointed out in the case of the Portuguese budgetary system can be summed up in five points: i) the absence of effective fiscal rules; ii) the absence of a binding medium term framework, to anchor budgetary decisions; iii) the high level of budgetary fragmentation; iv) the lack of a comprehensive accounting framework; and v) focus on the resources used, and not on the public sector output, and its effect on social welfare.

The main legislative measures relating to fiscal governance in Portugal, approved in 2011, comprised a series of changes to the Budgetary Framework Law and the creation of the Public Finance Council, as set out in the revised Budgetary Framework Law following the concerns expressed by several EU instances and systemised in Council Directive 2011/85/EU of 8 November 2011.[2] Several measures designed to tighten control over budgetary execution were also adopted.

As regards **fiscal rules** the Budgetary Framework Law establishes that the general government structural balance (adjusted by the effects of the cycle and temporary measures) shall not be lower than the medium term objective set in the Stability and Growth Pact (currently -0.5 per cent of GDP). This formulation has the advantage of being essentially in conformity with the dispositions of the Treaty of the European Union, the Stability and Growth Pact and the recently signed Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Its main shortcomings *vis-à-vis* developments occurring on a EU level derive from the fact that it has not been complemented by rules on the debt ratio and public expenditure and does not specify a correction mechanism for potential deviations and a transition rule.

The Budgetary Framework Law also introduces a medium term dimension for the design and execution of fiscal policy by defining a **multi-annual budget framework** to be jointly approved with the first annual budget of each parliament term and updated every year at the same time as the assessment, in year *T*, of the State Budget for *T*+1.[3] This document will set limits on central government expenditure funded by general revenue, binding for each programme at *T*+1, for groups of programmes at *T*+1 and *T*+2 and for the whole set of programmes from *T*+1 to *T*+4. In this context, the aggregate subject to control includes expenditure deriving from laws on the financing of Social Security, the autonomous regions and local government. The positive aspects of this multi-annual framework essentially result from

1 For a summary, see European Commission (2010), "National fiscal frameworks", Part II, chapter 3 of *Public Finances* in EMU 2010.

2 Directive that establishes the requirements applicable to the Member-states' budgetary frameworks.

3 The presentation and consideration of this document were brought forward this year in the context of the Economic and Financial Assistance Programme for Portugal.

the broad coverage of expenditure and the definition of binding ceilings. Reference should, however, be made to the non-explicit consideration of developments on the revenue side and the timing of its presentation and updates, not consistent with a top down budget programming, which requires the approval of the multi-annual framework just after the approval of the Stability Programme update at the EU level, *i.e.* in the second quarter of the year.

The creation of an **independent fiscal council** is generally contemplated in the Budgetary Framework Law. The statutes of the Public Finance Council were later defined in a law approved in the Parliament. The Council is made up of five members, of which a maximum of two may be non-nationals. They are appointed by the Council of Ministers under a proposal of the President of the Court of Auditors and the Governor of Banco de Portugal. Their mandate is very broad and includes, *inter alia*, the assessment of the macroeconomic scenarios used by the government, the verification of compliance with current fiscal rules, the analysis of the sustainability of the public finances in their various dimensions and the monitoring of budgetary execution. The Public Finance Council is currently at its set-up stage.

As regards the **control of budgetary execution**, reference should be made to the reinforced role of budget programme coordinators and the approval of a new law on public expenditure commitments control. The first derives from the Budgetary Execution Decree Law of 2012 and aims to reduce the fragmentation of the budgetary process in Portugal, making each ministry responsible for compliance with its budget ceilings and the correction of any deviations. In turn the legislation on expenditure commitments and arrears, approved last February, aims to ensure that the budgetary execution does not lead to an accumulation of arrears, forcing public entities not to commit to expenditure in excess of the funds available.

The Economic and Financial Assistance Programme for Portugal fully accepted the changes to the Budgetary Framework Law which had already been approved by the Parliament and the creation of the Public Finance Council, based on the report of the commission mandated to produce a proposal for its statutes. The emphasis was placed on the implementation of the Budgetary Framework Law, including the revision of the local and regional finances laws.

The success of the reform of the public finances institutional framework is now crucially dependent upon the scheduling and fulfilment of the actions required for its implementation.

BOX 3.2 | DEVELOPMENTS IN THE BUDGETARY SURVEILLANCE MECHANISM OF THE EUROPEAN UNION

The economic and financial crisis has exposed several of the weaknesses of the European Union's multilateral surveillance mechanism. Following the proposals submitted by the European Commission in September 2010 and the recommendations of the Van Rompuy Task Force, a collection of six legal texts designed to reinforce the European Union's economic governance, particularly in the euro area, was approved in November 2011.

The legislation included two regulations deriving from the need to broaden the supervision of the economic policies of Member States. In addition to budgetary supervision, it was established a more formal and detailed framework in order to avoid excessive macroeconomic imbalances and assist affected Member States to implement corrective measures prior to the worsening of such conditions. **European Parliament and Council Regulation (EU) 1176/2011 of 16 November 2011 on the prevention and correction of macroeconomic imbalances** establishes a warning mechanism to facilitate the early identification and surveillance of situations of imbalance. In accordance with this regulation, the Commission produces an annual report containing a qualitative economic and financial assessment, based on a panel of indicators. This report, including the values of the indicators of the panel, is made public. The Council may, on the basis of a Commission recommendation following a detailed analysis, declare the existence of an excessive imbalance and recommend that the Member State in question adopts corrective measures. **European Parliament and Council Regulation (EU) 1174/2011 of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area** establishes a sanction regime on the effective correction of excessive macroeconomic imbalances in the euro area. The regulation considers an interest-bearing deposit or annual fine, on the basis of a recommendation by the Commission, equivalent to 0.1 per cent of the previous year GDP of the Member State in question. (see "Box 1.1 *Developments in EU economic governance: supervision of macroeconomic imbalances*", of this Report).

The remaining four legal texts aim to reinforce European Union budgetary supervision mechanisms and national fiscal frameworks. **European Parliament and Council Regulation (EU) 1173/2011 of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area** introduces changes in both the preventive and the corrective arms of the Stability and Growth Pact. As regards the preventive arm, the participating Member States which, even if presenting a deficit lower than the reference value of 3 per cent of GDP, significantly diverge from the medium term budgetary objective or the defined adjustment path and which fail to correct the deviation, must make an interest--bearing deposit with the Commission equivalent to 0.2 per cent of its preceding year's GDP. As regards the corrective arm of the Stability and Growth Pact, if the Council decides that there is an excessive deficit in a Member State which has made an interest-bearing deposit or if the Commission identifies particularly serious infringements of its fiscal policy obligations under the Stability and Growth Pact, the Commission recommends that the Council should impose a non-interest bearing deposit of 0.2 per cent of its GDP in the preceding year on the Member State in question. If the Council notes that the Member State has not taken effective action to correct its excessive deficit, the Commission recommends that the Council applies to the Member State a fine amounting to 0.2 per cent of the previous year GDP. These decisions are considered to have been adopted by the Council, unless it decides, on the basis of a qualified majority, to reject the Commission's recommendations (reversed qualified majority voting). This regulation also provides for the application of a fine on a Member State which, either intentionally or through serious negligence, misrepresents data on the deficit or the public debt. The fines should be proportionate to the nature, seriousness and duration of the violation of good statistical practices and the amount can not exceed 0.2 per cent of the GDP of the Member State in question. The Council may reduce or cancel out the sanctions imposed on participating Member States on the basis of a recommendation of the Commission issued following the occurrence of exceptional economic circumstances or a grounded request submitted by the Member State.

European Parliament and Council Regulation (EU) 1175/2011 of 16 November 2011 amending Council Regulation (EC) 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1] defines in greater detail the procedures under the scope of the European Semester. The policy surveillance and coordination cycle starts early in the year with a horizontal review in which the European Council, based on input from the Commission and the Council, identifies the main challenges facing the Union and the euro area and gives strategic guidance on the policies to be followed. The Member States should take into account the European Council's general guidelines for the production of the respective stability or convergence programmes and national reform programmes which should be submitted in April of each year, preferably by mid April and no later than 30 April. Sufficient progress towards the medium term objective should be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of the impact of discretionary measures on the revenue side. The improvement of the structural balance required to achieve the medium term objective should be adequate, with 0.5 per cent of GDP as a benchmark. For Member States with a debt ratio exceeding 60 per cent of GDP or with pronounced risks in terms of overall debt sustainability, the improvement of the structural balance should be higher than 0.5 per cent of GDP. The rate of change in public expenditure should not normally exceed a reference medium term rate of potential GDP growth unless the excess is matched by discretionary increases in revenue, and discretionary reductions of revenue have to be matched by cuts in expenditure. The expenditure aggregate shall include interest expenses, expenditure on European Union programmes fully matched by Union funds and non-discretionary changes in unemployment benefit expenditure.

The assessment of whether the deviation from the medium term objective or the appropriate adjustment path is significant is based on the following criteria:

a. For Member States which have not reached the medium term budgetary objective, when assessing the change in the structural balance, whether the deviation is at least 0.5 per cent of GDP in a single year or at least 0.25 per cent of GDP on average per year in two consecutive years.

b. When assessing expenditure developments, net of discretionary revenue measures, whether the deviation has a total impact on the general government balance of at least 0.5 per cent of GDP in a single year or cumulatively in two consecutive years.

Council Regulation (EU) 1177/2011 of 8 November 2011 amending Regulation (EC) 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[2] determines the bringing forward of deadlines and increase in the value of fines previously established. It also operationalises the debt criterion by considering that the debt ratio is sufficiently diminishing and is approaching the reference value at a satisfactory pace, if the differential with respect to the reference value has decreased over the previous three years at an average rate of one twentieth per year as a benchmark. The requirement under the debt criterion shall also be considered to be fulfilled if the budgetary forecasts of the Commission indicate that the necessary reduction of the differential will occur over the three-year period encompassing the two years following the last year for which data are available. The assessment of the effect of the cycle and the composition of the stock-flow adjustment may be sufficient to abrogate an excessive deficit based on the debt criterion. **Council Directive 2011/85/EU**

1 This regulation was amended in 2005 by Council Regulation (EC) 1055/2005 of 27 June 2005.
2 This regulation was amended in 2005 by Council Regulation (EC) 1056/2005 of 27 June 2005.

of 8 November 2011 on the requirements for budgetary frameworks of the Member States defines several general rules on fiscal frameworks in Member States, particularly as regards information relating to public and national accounts (quality, disclosure dates and reconciliation between the two), fiscal and macroeconomic projections (assessment and sensitivity analysis), budgetary rules, medium term fiscal frameworks and coordination between the different general government subsectors.

In November 2011, the European Commission proposed two new regulations designed to improve budgetary surveillance in euro area Member States experiencing or threatened with serious difficulties with respect to their financial stability and establishing common provisions for monitoring and assessing national budgetary plans. In the first case, it was proposed that a Member State experiencing actual or potential severe difficulties with regard to its financial stability is subject to enhanced surveillance. In this situation, it may be recommended to the Member State the adoption of preventive measures or the submission of an adjustment programme designed to correct the imbalances, to be approved by a qualified majority of the Council. It should be noted that in accordance with the proposed text, a Member State would remain under post programme surveillance up to the moment when a minimum of 75 per cent of the financial assistance received from other Member States or the Union's support mechanisms has been repaid. In the second case, the Commission proposes to complement the European Semester by a common schedule for the submission of national annual budgets. Accordingly, the draft budgets should be annually made public by 15 October, and sent to the European Commission and the Eurogroup, and approved by 31 December. If the Commission identifies any non-compliance with the fiscal obligations defined under the Stability and Growth Pact it may, within a two week period, request the Member State in question to undertake a revision. Member States should also establish independent bodies to monitor the implementation of the national fiscal rules. Lastly, the proposed Regulation reinforces the monitoring of Member States in an excessive deficit situation.

In a context of uncertainty over the sustainability and credibility of fiscal policies, important tensions in financial markets and considerable short term refinancing needs both by euro area Member States and financial institutions, euro area Heads of State and Government reached agreement in December 2011 on the main elements of the fiscal compact. Later, at the European Council meeting of 1 March 2012, all Member States except for the United Kingdom and the Czech Republic signed the new Treaty on Stability, Coordination and Governance in the Economic and Monetary Union which incorporated the fiscal compact. The main innovation of this document comprised the need to transpose the balanced budget rule into national legislation, preferably on a constitutional level. This rule is considered to have been complied with if the annual structural deficit is lower than 0.5 per cent of GDP. For Member States with a debt ratio significantly lower than 60 per cent of GDP and with low risk in terms of the sustainability of their public finances, the upper limit for the structural deficit will be 1 per cent of GDP. Convergence will be in accordance with the revised Stability and Growth Pact and there will be an automatic correction mechanism if a deviation occurs. In addition, the new treaty introduces the vote by a qualified reversed majority on the proposals and recommendations of the Commission on an excessive deficit procedure to which a participating Member State is subject, provided that it is based on the deficit criterion.

Recent developments in the European Union's budgetary surveillance framework are very substantial. This process will be completed over the next few months, as several legislative proposals are still under discussion and there continues to be a need for more specific regulation on the practical implementation of some of the already approved texts. Although the changes introduced have significantly reinforced fiscal surveillance mechanisms at the European Union level, the correct implementation thereof will be crucially dependent upon the transposition of the new rules into national frameworks and the European Commission's ability to meet the new requirements on the supervision and monitoring of developments in Member States.

BOX 3.3 | TRANSFERS OF PENSION FUNDS AND ITS IMPACT ON PUBLIC ACCOUNTS IN PORTUGAL: 1997-2011

Under the SEC95 framework, amounts received by general government in the context of the transfers of liabilities for pension payments are classified as capital transfers, with a positive impact on the fiscal balance in the years in which the transactions occur.[1] This is offset by an increase in public expenditure on pensions for long periods, with a negative effect on the fiscal balance. From the viewpoint of the sustainability of the public finances, the essential question is whether the value of the assets transferred equals the present value of the pension payment liabilities assumed by general government. This assessment involves a high level of uncertainty and is crucially dependent upon five factors: (i) assumptions concerning the evolution of wages up to retirement, to the extent they are relevant to determining the initial pensions; (ii) assumptions concerning pension updates; (iii) the mortality tables used; (iv) the considered discount rate; and, (v) criteria for the valuation of the assets transferred.

The transfers of pension funds to general government related with the latter's assumption of liabilities for the payment of the pensions has played a significant role in the fiscal outcomes in Portugal in various recent periods. Owing to their respective importance, reference should be made to the following transfers: BNU and Territory of Macau, in 1997 (0.4 per cent of GDP); CTT, in 2003 (0.9 per cent of GDP); Caixa Geral de Depósitos, ANA – Aeroportos de Portugal, Navegação Aérea de Portugal and Imprensa Nacional – Casa da Moeda, in 2004 (2.0 per cent of GDP); PT Comunicações, in 2010 (1.6 per cent of GDP); and various banking sector pension funds in 2011 (3.5 per cent of GDP).

In the case of the transaction involving banking sector pension funds, in 2011, the liabilities transferred correspond exclusively to the payment of the banking sector pensions of retirees and pensioners up to 31 December 2011, for the component comprising the first pillar (deriving from Collective Labour Agreements Regulation Instruments). Given the difference between the update rules on banking sector employees' pensions in comparison to those in force in Social Security, the liabilities transferred assume nil indexation, with the payment of future increases being the responsibility of banking sector pension funds. The value of the assets to be transferred to the state (cash and, additionally, public debt at market value) should be equal to the liabilities assumed by Social Security, presuming a discount rate of 4 per cent and the most critical assumption for the valuation of pension funds liabilities with pension already in payment. In accordance with the supplementary State Budget for 2012, the amount of the pensions to be paid by Social Security in the context of the special banking scheme totals around 0.3 per cent of GDP in 2012.

In the sphere of the EU's multilateral fiscal supervision a highly relevant role is afforded to the structural balance, *i.e.* the balance adjusted for the cycle and temporary measures. In this context, a particularly negative assessment is made of self-reversing measures such as transfers of pension funds which improve the balance of a given year and are, in a best case scenario. neutral in terms of the sustainability of the public finances. This view is shared by the international institutions involved in the Economic and Financial Assistance Programme for Portugal. Indeed, having exceptionally accepted the 2011 transaction in the second assessment of the Programme, last November, it was clearly established that, starting 2012, any transfers of pension funds will not be eligible for the purposes of complying with the fiscal targets.

1 However, according to the Eurostat's Manual on Government Deficit and Debt, if the payment is higher than the present value of liabilities, the difference must be considered as a financial operation.

4. Supply

4.1 Gross value added

Gross value added (GVA) in the Portuguese economy fell by 1.3 per cent in 2011, in comparison to a growth rate of 1.4 per cent in the preceding year (Chart 4.1.1 and Table 4.1.1). Contributory factors to this evolution were the process of correction of macroeconomic imbalances accumulated by the Portuguese economy and the evolution of external demand, conditioned by the moderate growth of activity in commercial partners, namely in the context of the euro area (see "Chapter 1 *International Environment*"). GVA in the euro area recorded an increase of 1.5 per cent in 2011, lower than the 2.0 growth recorded in the preceding year. However, there was a significant gain in the market share of Portuguese exports in international markets.

Significant contraction of activity during the year

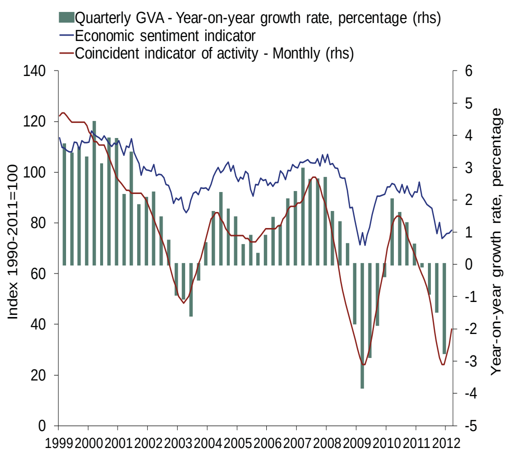
Underpinning the decline of economic activity in Portugal in 2011 was an intra-annual profile characterised by growing contractions during the course of the year. This intra-annual profile was substantially more marked than in the rest of the euro area, given the adjustment process in progress in the Portuguese economy. The intra-annual profile of Portuguese economic activity in 2011 is also reflected both in the European Commission's economic sentiment indicator and in the Banco de Portugal's coincident activity indicator, though the latter evidenced a certain recovery in the first few months of 2012 (Chart 4.1.1).

Particularly negative evolution in the construction sector

In sectoral terms, GVA evolution in the construction sector remained particularly negative, down 9.2 per cent in 2011. This evolution represents the continuation of the trend observed over the last few years, translating into an accumulated loss of around one third of the level of activity in this sector since 1999 (Chart 4.1.2). Although the construction sector's proportion of total GVA is currently similar to the EU-15

Chart 4.1.1

GVA, COINCIDENT INDICATOR OF ACTIVITY AND ECONOMIC SENTIMENT INDICATOR



Sources: European Commission, *INE* (Quarterly accounts) and Banco de Portugal.

Table 4.1.1

GROSS VALUE ADDED | REAL GROWTH RATE, PERCENTAGE

	Weights 2010[(a)]	2006	2007	2008	2009	2010	2011
Agriculture, hunting, forestry and fishing	2.2	2.4	-4.6	3.1	-3.8	-1.0	2.8
Industry	13.1	0.9	3.0	-1.5	-9.8	2.2	0.4
Electricity, gas and water	3.5	11.0	1.1	4.0	-5.6	3.6	-1.4
Construction	6.7	-2.6	2.0	-4.9	-10.7	-4.3	-9.2
Services	74.5	1.9	3.1	1.1	0.3	1.7	-1.1
Trade repair, hotels and restaurants	19.4	1.9	1.3	-1.3	0.6	2.6	-1.3
Transports and communication	8.6	4.8	6.8	2.7	-2.3	2.6	-0.9
Financial and real estate activities	15.1	5.1	4.8	2.8	1.2	2.0	-0.2
Other services	31.3	-0.3	2.3	1.2	0.3	0.7	-1.5
GVA[(b)]	100.0	1.7	2.7	0.4	-2.2	1.4	-1.3
Memo							
GDP at market prices[(c)]	--	1.4	2.4	0.0	-2.9	1.4	-1.6

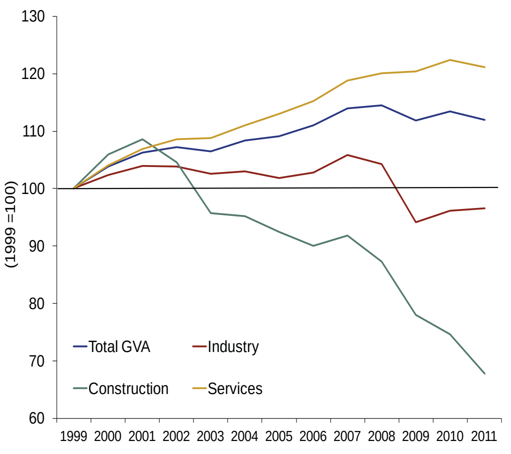
Sources: *INE* and Banco de Portugal.

Notes: (a) As a percentage of total GVA at current prices. **(b)** GVA is registered at base prices and differs from GDP at market prices because the latter includes, besides GVA of the various sectors, taxes on production and imports net of subsidies. **(c)** Estimates of Banco de Portugal from information made available by *INE* for the period 2007 to 2009.

average, evolution over the last few years has been significantly different (Chart 4.1.3). The services and electricity, gas and water sectors were down 1.1 and 1.4 per cent, respectively. The negative evolution recorded in the services sector was across-the-board to all subsectors, in contrast to the growth recorded in 2010. Activity in the industry and agriculture sectors recorded growth rates of 0.4 and 2.8 per cent, respectively. The industry sector recorded lower growth of activity in comparison to the preceding year, with an accumulated loss of less than 4 per cent since 1999. Over the last two years, activity in the industrial sector has benefited from positive sales performance in external markets, in contrast to the less favourable evolution of turnover in the domestic market (Chart 4.1.4).

Chart 4.1.2

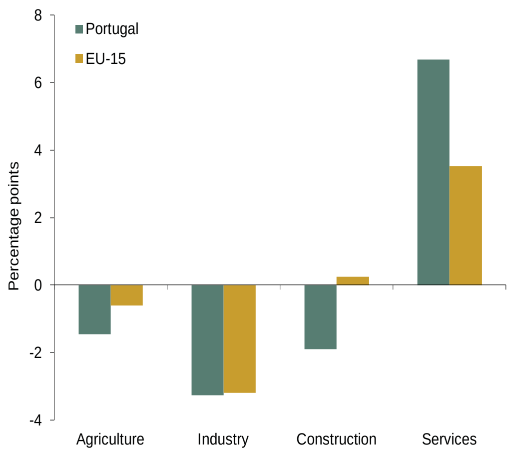
GROSS VALUE ADDED PER SECTOR | IN REAL TERMS



Sources: *INE* and Banco de Portugal.

Chart 4.1.3

VARIATION OF GROSS VALUE ADDED PER SECTOR BETWEEN 2000 AND 2011

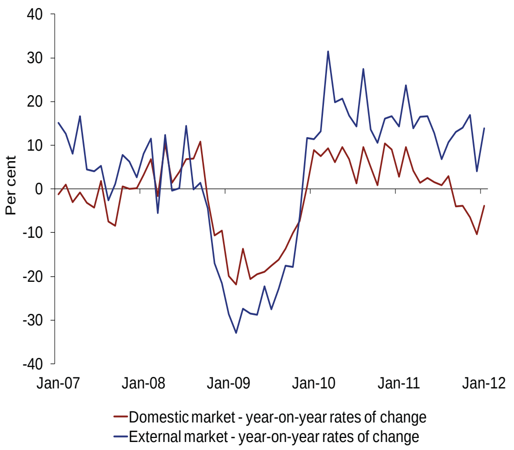


Source: Eurostat.

The sectoral evolution of activity in the Portuguese economy in 2011 and its intra-annual profile translate into the evolution of confidence indicators in all productive sectors (Chart 4.1.5). The construction sector confidence indicator fell to historically low levels, accompanied by a sharp deterioration of confidence in retail trade over the course of 2011, in clear contrast to the rapid recovery noted after the second half of 2009. This was the only sector in which confidence had recovered to levels close to those recorded prior to the crisis of 2008. The confidence indicator in the services sector also recorded a highly unfavourable evolution, reaching a historical minimum. The decline in confidence in manufacturing was significantly less pronounced, benefiting from activity geared to the external market. In any event, the beginning of 2012 witnessed a certain stabilisation of sectoral confidence indicators, except for the construction sector in which the decline was even greater.

Chart 4.1.4

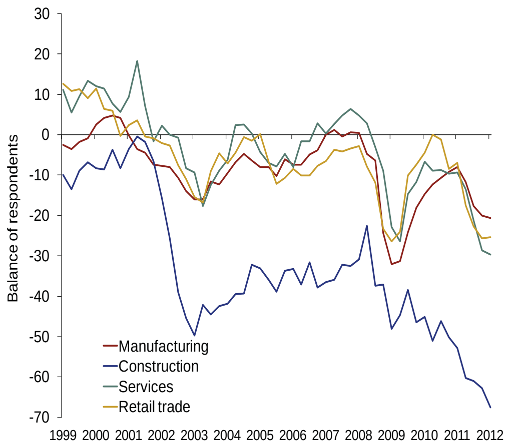
INDUSTRIAL TURNOVER INDEX | DOMESTIC AND EXTERNAL MARKETS



Source: *INE*.

Chart 4.1.5

SECTORAL CONFIDENCE INDICATORS | QUARTERLY AVERAGE



Source: European Commission.

4.2 Employment and unemployment

The analysis of the evolution of employment and unemployment, in 2011, was strongly conditioned by the change in methodology adopted by the *INE* in its quarterly employment survey.[1] The break in the series introduced in the quarterly employment survey makes it impossible to perform a detailed analysis of year-on-year rates of change in the main Portuguese labour market variables. In this context, the analysis in this chapter is geared to the evolution of ratios which were admittedly less affected by the referred to methodological change. The exception to these guidelines relates with unemployment and employment variables. In this case, given the need to maintain compatible time series for the estimation and calibration of macroeconomic models, the levels of employment and unemployment were backdated on the basis of the levels of the new employment survey in the first quarter of 2011, using quarter-on-quarter rates of change obtained from the previous methodology. The employment and unemployment series resulting from this calculation also imply changes to the unemployment rate series for the years preceding 2011.

1 According to the *INE*, the main changes brought in by the new information collection method comprised telephone interviews, the adapting of the questionnaire to this new form of enquiry and use of new technologies in the fieldwork development and supervision process. This situation represents a break in the series and prevents the calculation of year-on-year rates of change and a comparison with historical levels. *INE* estimates that the unemployment rate obtained using the old collection methodology would be 1 percentage point lower. For further information see "Measure of the impact of the change in the information collection model in the Employment Survey for first quarter 2011", in Employment Statistics – 1st quarter 2011", chapter 6 (pp 31-40), *INE*.

In 2011 the unemployment rate recorded a very high level, in a context in which the output gap was close to zero. A comparison between the periods 1999-2005 and 2007-2011 shows that, for similar levels of the output gap, there was a clear increase in unemployment rates, which is in line with an increase in the natural unemployment rate (Chart 4.2.1a). On the other hand, the strong dynamics of job destruction at the end of the year implied a reduction of the proportion of long term unemployment (Chart 4.2.1b). The year 2011 also witnessed a slight reduction of productivity, in a context in which the decline in activity was greater than the reduction of employment (Chart 4.2.1c). In turn, real wages in the private sector, calculated on the basis of the private consumption deflator were down, in line with the high increase in the unemployment rate (Chart 4.2.1d).

Decrease in labour force and employment

The total population (series not affected by the referred break in the employment survey) recorded a growth rate of 0.1 per cent, whereas the labour force fell 0.2 per cent in 2011 (Chart 4.2.2). This reduction in the labour force was part of a deceleration trend noted over the last few years, deriving from the cyclical position of the economy and the gradual ageing process of the population, with highly significant consequences for the future evolution of economic activity and the public finances in Portugal.

The dynamics of emigration flows also contribute to the evolution of the labour force. Although there are no precise statistics for the annual number of emigrants, information on the issue of visas by countries of destination suggests an increase in the intensity of these flows in 2011. The intensification of emigration is fuelled by higher unemployment in Portugal, growth of several economies in the Lusophone area and freedom of movement in the European area. In addition, emigration tends to be a self-sustaining phenomenon as the costs associated with relocation and establishment abroad decline with the growth of the emigrant community. Therefore, the flow of Portuguese emigrants is expected to remain high over the next few years. In parallel, the net inflow of immigrants, which in the past contributed towards an increase in the labour force, is also in reverse.

In 2011, the labour market participation rate in the 15 to 64 years age bracket was 74.1 per cent, with the rate for men being 8.7 p.p. higher than for women (Table 4.2.1). The participation rate for the total

Chart 4.2.1a

OUTPUT GAP AND UNEMPLOYMENT RATE

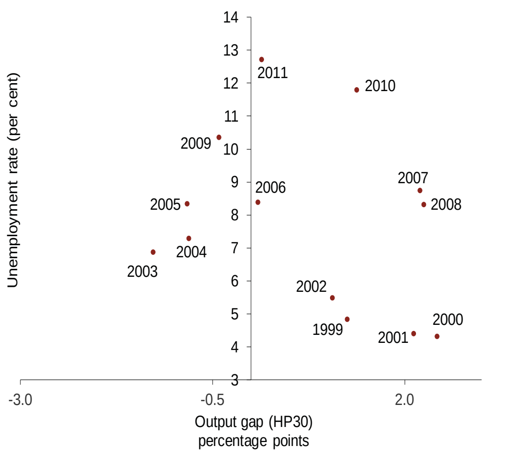
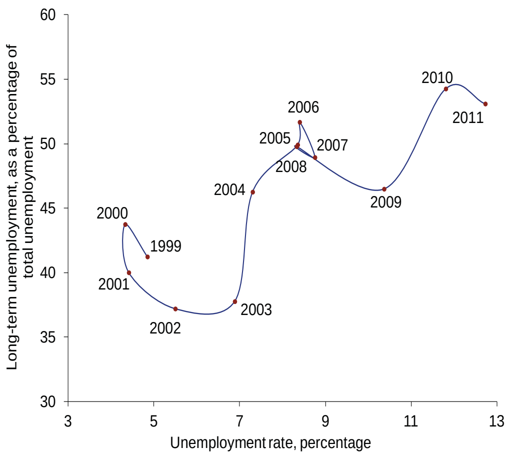


Chart 4.2.1b

TOTAL UNEMPLOYMENT AND LONG-TERM UNEMPLOYMENT[(a)]

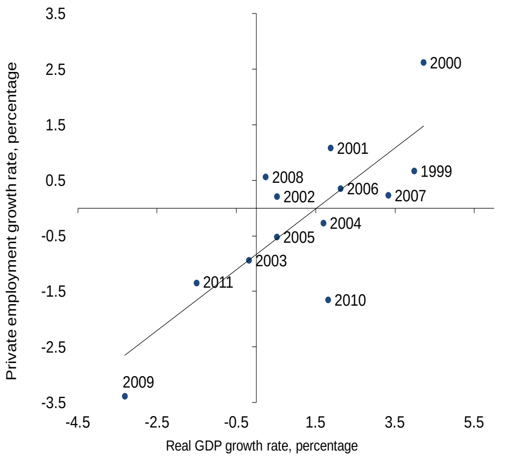


Sources: *INE* and Banco de Portugal.

Note: Unemployment rate corrected for the series break of 2011.

Chart 4.2.1c

GROWTH OF PRIVATE GDP AND PRIVATE EMPLOYMENT (FULL-TIME EQUIVALENT)

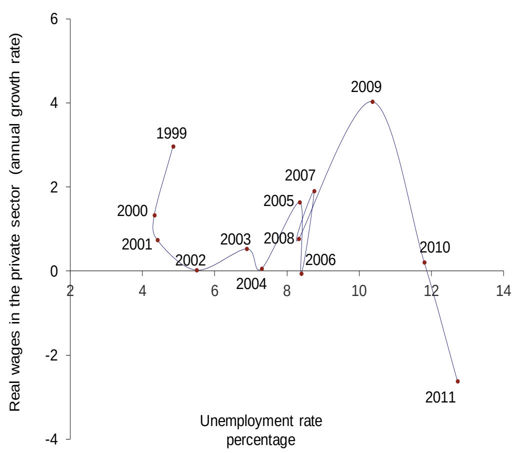


Sources: *INE* and Banco de Portugal.

Notes: Private sector employment is defined as total employment excluding estimates by Banco de Portugal for employment in the general government and public hospitals converted into public corporate entities. Private GDP is calculated as total GDP less compensation and fixed capital consumption of the general government and public hospitals converted into public corporate entities. From 2007 to 2011, the private employment series is based on the assumption that the average number of hours worked per worker remained unchanged.

Chart 4.2.1d

UNEMPLOYMENT RATE AND REAL WAGES IN THE PRIVATE SECTOR

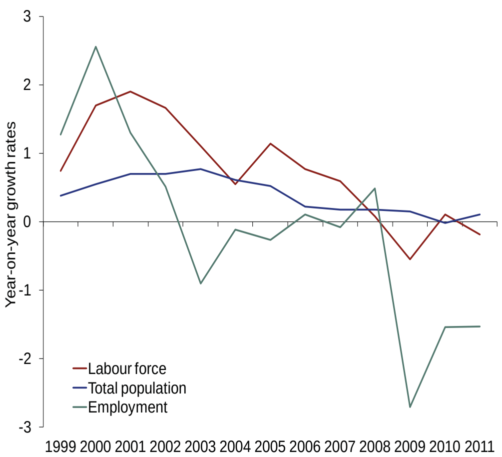


Sources: *INE* and Banco de Portugal.

Note: Unemployment rate corrected for the series break of 2011.

Chart 4.2.2

EMPLOYMENT, TOTAL POPULATION AND LABOUR FORCE | YEAR-ON-YEAR RATE OF CHANGE



Source: *INE* (Employment survey).

Note: Employment and labour force are corrected for the series break of 2011.

Table 4.2.1

POPULATION, EMPLOYMENT AND UNEMPLOYMENT[(a)]

	2004	2005	2006	2007	2008	2009	2010	2011
Population (rate of change %)	0.6	0.5	0.2	0.2	0.2	0.1	0.0	0.1
Participation rate 15-64 years (% of population)	72.9	73.4	73.9	74.1	74.2	73.7	74.0	74.1
Male	79.0	79.0	79.5	79.4	79.5	78.5	78.2	78.5
Female	67.0	67.9	68.4	68.8	68.9	69.0	69.9	69.8
Unemployment rate (% of labour force)	6.7	7.6	7.7	8.0	7.6	9.5	10.8	12.7
Male	5.8	6.7	6.5	6.6	6.5	8.9	9.8	12.4
Female	7.6	8.7	9.0	9.6	8.8	10.1	11.9	13.1
Age 15-24	15.3	16.1	16.3	16.6	16.4	20.1	22.4	30.1
Long-term unemployment (% of total unemployment)[(b)]	46.2	49.9	51.7	48.9	49.8	46.4	54.3	53.1

Sources: *INE* and Banco de Portugal.

Notes: (a) Data presented in the table correspond to the Employmenr Survey, without correction for the series break in 2011. **(b)** A long-term unemployed is an individual searching for work for 12 months or more.

population stood at 52.1 per cent in 2011, a figure higher than that recorded for the euro area as a whole, which was slightly under 50 per cent.

According to data from the employment survey, after the previously mentioned series adjustment, employment in the Portuguese economy was down 1.5 per cent in 2011, following declines of 2.7 and 1.5 per cent, in 2009 and 2010, respectively.

Apparent labour productivity in the private sector declined 0.2 per cent in 2011 (Chart 4.2.1c). Underlying this evolution were, in particular, the dynamics of private GDP, which moved from a growth of 1.8 per cent in 2010 to a contraction of 1.5 per cent in 2011. The reduction of apparent labour productivity in the private sector is an unusual phenomenon in the Portuguese economy, which also occurred in 2008, though in a context of GDP stabilisation. However, the evolution noted in 2011 came after a period in which employment failed to keep pace with the positive evolution of activity. A joint analysis of the last two years shows that the average change in apparent labour productivity in 2010 and 2011 was 1.7 per cent, close to the historical average. It is natural that employment adjusts with a certain time lag relatively to changes in GDP, especially if the drop in the latter is abrupt. According to this interpretation, the extension of the recessionary economic context may lead to new significant declines in employment.

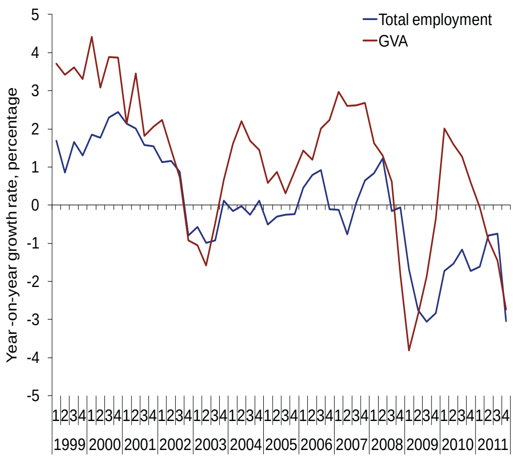
This analysis is corroborated by the intra-annual profile of employment. In the fourth quarter of 2011, total employment was down year-on-year by 3.0 per cent, in line with the figures recorded over the last three quarters of 2009 and the second highest quarterly decline since the beginning of the series in 1998 (Chart 4.2.3).

The composition of employment by professional status and type of contract is a structural element, thus it changes slowly over the course of time. A significant increase in the proportion of fixed-term labour contracts and service contracts has, nevertheless, been visible over the last few years (Chart 4.2.4). In 2011, the overall proportion of these two types of employment contracts was 17.5 per cent of the total, in comparison to 12.2 per cent in 1998. However, in 2011, the proportion of fixed-term labour and services contracts was marginally down over 2010 (around 0.3 pp). The proportion of the self-employed (either with or without employees) in total employment was also significantly down over the preceding year (1.3 pp). In contrast, the proportion of non-fixed term contracts increased from 59.5 per cent of total employment in 2010 to 61.3 per cent in 2011.

This is a natural evolution in the context of a worsening economic situation in Portugal and it is not the result of a fundamental change in the factors determining the choice of the contractual regime by workers and employers. On the one hand, deteriorating conditions in the labour market tend to imply a higher level of job destruction in more flexible contractual regimes. On the other hand, the decline in activity in

Chart 4.2.3

TOTAL EMPLOYMENT AND GVA | YEAR-ON-YEAR RATE OF CHANGE

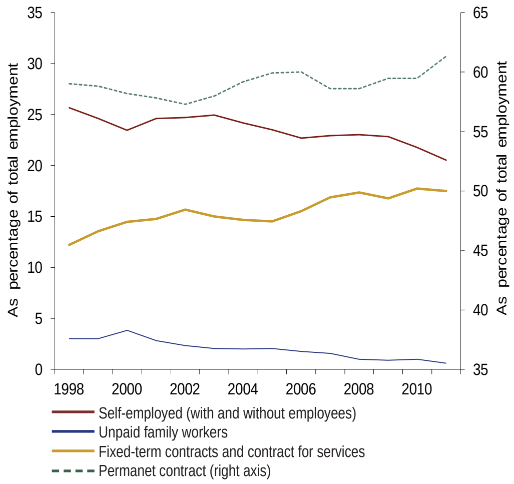


Source: *INE* (Quarterly accounts and employment survey).

Note: Total employment corrected for the series break in the first quarter of 2011.

Chart 4.2.4

EMPLOYMENT STRUCTURE BY TYPE OF CONTRACT



Source: *INE* (Employment survey).

the services and construction sectors, in which the proportion of self-employed workers is typically higher, naturally implied a reduction of the proportion of this type of employment in the economy as a whole.

The evolution of the sectoral structure of employment in 2011 maintains the trend of the last few years (Chart 4.2.5). The exception is the slight increase in the proportion of manufacturing in terms of total employment (0.2 pp), following several years of reductions. On the one hand, the evolution of the sectoral structure of employment is in line with the sectoral evolution of GVA. On the other hand, the lower prevalence of more flexible contractual regimes tends to mitigate job destruction in this sector. In 2011 the agriculture and construction sectors reduced their share in employment by 1.0 and 0.6 pp, respectively.

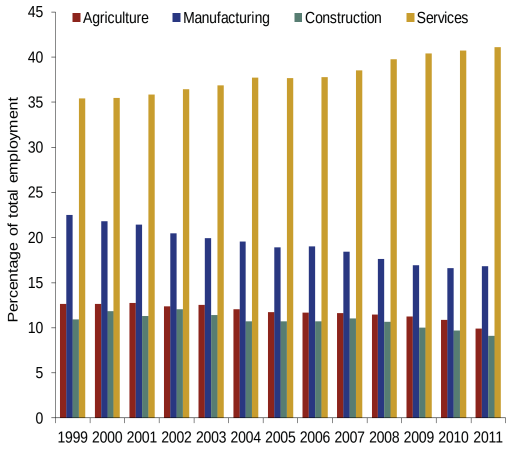
Significant increase in the number of unemployed

According to information from the employment survey, based on the new methodology, the unemployment rate for 2011 was 12.7 per cent. The decline in employment contributed towards the significant growth in the number of unemployed in the Portuguese economy (Chart 4.2.6). The rate of growth in the number of unemployed was 7.7 per cent in 2011 in comparison to 14.2 per cent in 2010. However, the progressive deceleration in the number of unemployed registered over the course of 2011 was abruptly reversed in the last quarter of the year, in line with the decline in economic activity and employment.

The evolution of unemployment in the Portuguese economy has occurred in a context of labour market segmentation where the dynamics of job creation and destruction are closely linked with fixed-term work contracts, which are more prevalent in the younger segments of the population. An analysis of unemployment rates by age bracket relatively to the total unemployment rate indicates higher prevalence of unemployment in the 15 to 24 year age bracket, which worsened during 2011 (Chart 4.2.7). The phenomenon of unemployment among young people is also very significant in other European countries such as Spain and Greece. Unemployment levels in the 25 to 34 year age bracket were down slightly in 2011, whereas the older age brackets continued to have unemployment rates lower than the national average.

Chart 4.2.5

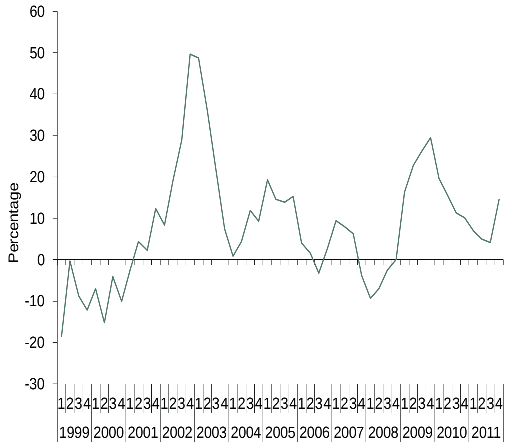
STRUCTURE OF TOTAL EMPLOYMENT BY SECTOR



Source: *INE* (Employment survey).

Chart 4.2.6

NUMBER OF UNEMPLOYED | YEAR-ON-YEAR RATE OF CHANGE



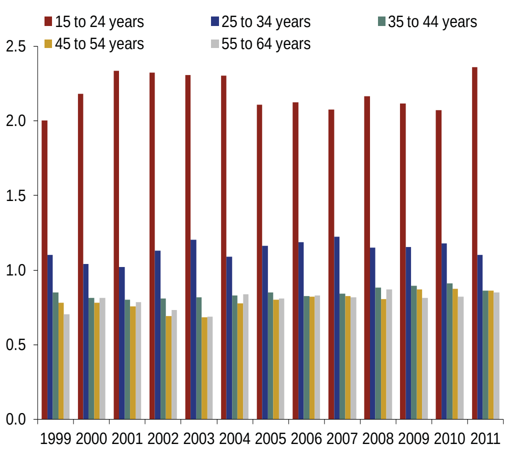
Source: *INE* (Employment survey).

Note: The number of unemployed was corrected for the series break in the first quarter of 2011.

The educational level of individuals is also an important factor in the explanation of unemployment prevalence. The analysis of the ratio of the unemployment rate by level of academic qualification relatively to the total unemployment rate shows a higher incidence of this phenomenon in the case of individuals with basic education (3rd cycle), a situation that has been worsening since 2009 (Chart 4.2.8). In turn, in 2011, the unemployment rate for graduates as a whole remained significantly lower than the national average. On the one hand, higher levels of human capital allow for the execution of more differentied tasks, which are potentially less sensitive to declines in the level of economic activity. On the other hand, a higher level of human capital increases workers' reconversion capacities in a scenario of job extinction.

Chart 4.2.7

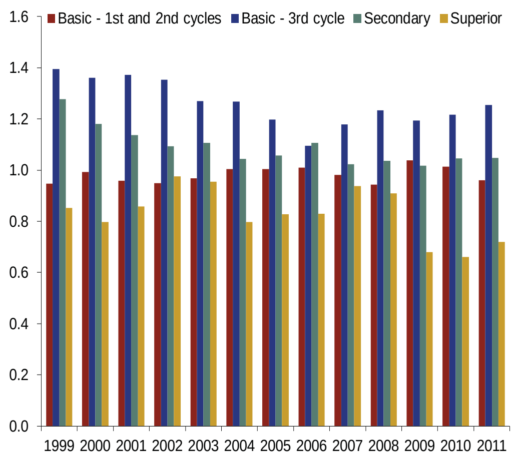
RATIO OF THE UNEMPLOYMENT RATE BY AGE BRACKET RELATIVELY TO TOTAL UNEMPLOYMENT RATE



Source: *INE* (Employment survey).

Chart 4.2.8

RATIO OF THE UNEMPLOYMENT RATE BY LEVEL OF EDUCATIONAL ATTAINMENT RELATIVELY TO TOTAL UNEMPLOYMENT RATE



Source: *INE* (Employment survey).

Regional unemployment levels are associated with the interaction between the sectoral structure of activity, characteristics of the resident population and its level of mobility. The year 2011 witnessed substantial changes in regional unemployment in Portugal (Chart 4.2.9). The Lisbon and Azores regions recorded higher rates of unemployment than the national average. In the case of the Azores this evolution was highly marked, from a deviation of -3.9 pp in 2010 to 1.1 pp in 2011. The Northern and Alentejo regions improved their relative position, with unemployment rates of close to the national average, in 2011. The Algarve region recorded a 2.9 pp deviation of its unemployment rate from the national average in 2011, while the positions of Central Portugal and Madeira worsened in comparison to 2010, with deviations of -2.4 and -1.3 pp, respectively.

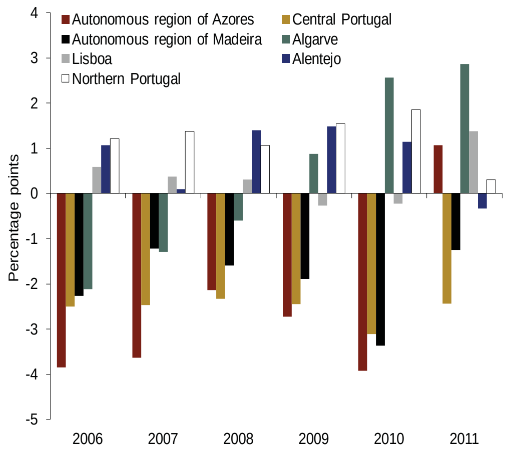
Increase in the average number of months in unemployment, despite the strong flow of new unemployed

The duration of unemployment has important effects on productivity and the future evolution of the labour market because long periods of unemployment tend to cause a strong depreciation of human capital and loss of personal competencies. The proportion of long term unemployment (12 months or more) in total unemployment was 53.1 per cent in 2011, close to the 54.3 per cent recorded in 2010 (Chart 4.2.1b). Contributory factors were the dynamics underlying flows between labour market states, notably the occurrence of marked job destruction at the end of 2011. This situation implied a strong wave of new unemployment, i.e. individuals recently unemployed, thus reducing the proportion of long term unemployment in total unemployment. In 2011, the average duration of unemployment, expressed in months, stabilised in the 15 to 24 years age bracket and was reduced in the 25 to 34 year age bracket, which is related with the above referred dynamics (Chart 4.2.10). However, as in 2010, the average number of months of unemployment increased for the unemployed as a whole.

The duration of unemployment is heavily reliant upon the dynamics of flows between labour market states – inactivity, employment and unemployment. The magnitude of these flows, calculated on the basis of the common component of the employment survey sample in two consecutive quarters, is normally mentioned in Banco de Portugal's annual report. However, the methodological change implemented in the employment survey in 2011 renders a comparison with preceding years impossible (see "Box 4.1 *Job and worker flows in the labour market*" of this Report).

Chart 4.2.9

DEVIATION OF THE UNEMPLOYMENT RATE RELATIVELY TO THE NATIONAL AVERAGE



Source: *INE* (Employment survey).

Chart 4.2.10

UNEMPLOYMENT DURATION | NUMBER OF MONTHS

Source: *INE* (Employment survey).

4.3 Productivity and potential growth

The evolution of productivity is a key factor in the correction of the macroeconomic imbalances of the Portuguese economy. Productivity is, to a large extent, an endogenous variable in the economy and is affected by cyclical events as well as structural aspects related with the quantity and quality of productive factors and institutional aspects associated with the functioning of labour and product markets. For example, the existence of competition in most markets, in order to encourage corporate efficiency and avoid distortions in the sectoral allocation of resources, is an important driver productivity (see "Box 4.2 *Competition in the Portuguese economy in the period 2000-2009*" of this Report).

The level of labour utilization has negatively contributed to per capita GDP growth

Per capita GDP was down 1.7 per cent in 2011. This evolution mainly resulted from the negative contribution of labour utilization, associated with a decline in the employment rate and, to a lesser extent, in the activity rate (Table 4.3.1 and Chart 4.3.1). The negative contribution of labour utilization to per capita GDP growth over the last three years has been significant, with values of -1.8, -1.0 and -1.1 pp in 2009, 2010 and 2011, respectively.

The contribution of capital to per capita GDP growth was nil in 2011. This historically low result derived from the strongly negative evolution of gross fixed capital formation in 2011 (see "Chapter 5 *Demand*" of this Report). The contribution of total factor productivity to the growth of GDP per capita was -0.7 pp in 2011, in comparison to -1.5 and 2.2 pp in 2009 and 2010, respectively. This evolution is, inter alia, related with the typically pro-cyclical evolution of the rate of use of installed capacity, which was slightly down in 2011 (Chart 4.3.2).

It should be noted that total factor productivity is the residual of a growth accounting equation, which is strongly reliant on hypotheses over the functional form of the production function considered for the economy and on the value of its parameters. Notwithstanding these limitations, this computation is a complement to the analysis of apparent labour productivity, measured on the basis of the number of workers or on total hours worked.

In 2011, apparent labour productivity, measured by the evolution of employment in the overall economy, recorded a growth rate of 0.1 per cent, which compares with a growth rate of 3.0 per cent in 2010. However, as referred to in respect of the evolution of employment and activity in the private sector, the evolution of productivity in 2011 was affected by a profile of job destruction less intense than the decline of activity. Apparent labour productivity, calculated on the basis of the number of hours worked, was down 2.4 per cent in 2011, in contrast to the growth recorded in 2010 (1.0 per cent), but it is in line with the value recorded in 2009 (-3.1 per cent) (Chart 4.3.3).

Table 4.3.1

CONTRIBUTIONS TO THE REAL CHANGE IN GDP *PER CAPITA*

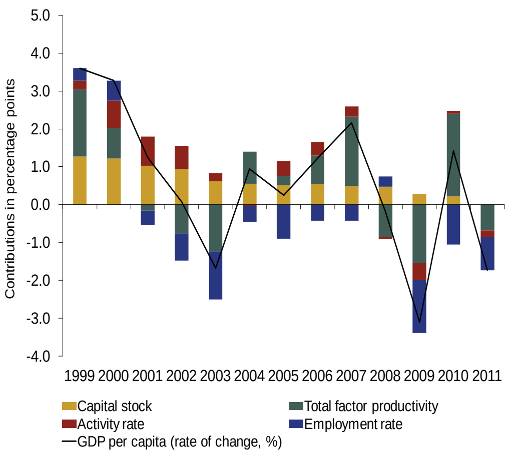
	2004	2005	2006	2007	2008	2009	2010	2011
GDP *per capita*	0.9	0.3	1.2	2.2	-0.2	-3.1	1.4	-1.7
Contributions, in percentage points:								
Labour utilization	-0.5	-0.5	-0.1	-0.2	0.2	-1.8	-1.0	-1.1
Participation rate	0.0	0.4	0.4	0.3	-0.1	-0.4	0.1	-0.2
Employment rate[(a)]	-0.4	-0.9	-0.4	-0.4	0.3	-1.4	-1.1	-0.9
Capital stock *per capita*	0.6	0.5	0.5	0.5	0.5	0.3	0.2	0.0
Total factor productivity	0.8	0.2	0.8	1.8	-0.9	-1.5	2.2	-0.7

Sources: *INE* and Banco de Portugal.

Note: (a) Employment equivalent to full time. Employment rate in percentage of the labour force.

Chart 4.3.1

BREAK-DOWN OF THE REAL RATE OF CHANGE OF GDP *PER CAPITA*



Sources: *INE* and Banco de Portugal.

Chart 4.3.2

PRIVATE EMPLOYMENT IN THE ECONOMY (EQUIVALENT TO FULL TIME) AND CAPACITY UTILISATION

Sources: *INE* and European Commission

Notes: Private sector employment is defined as total employment excluding estimates by Banco de Portugal for employment in the general government and public hospitals converted into public corporate entities, adjusted for the number of hours worked. Therefore, the number of hours worked equivalent to full time corresponds to one job. From 2007 to 2011, the series for total employment is based on the assumption that the average number of hours worked per worker remained unchanged.

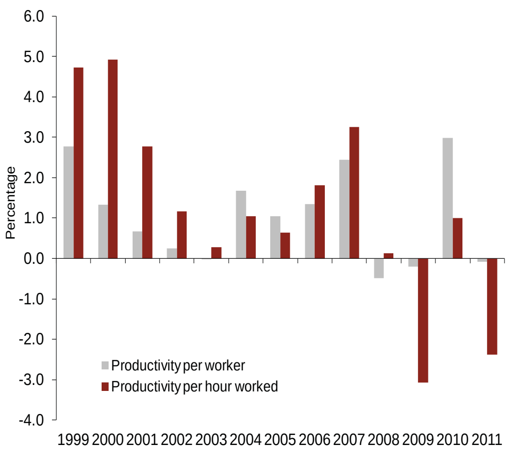
Reduction of real wages in the private sector, deflated on the basis of the evolution of consumption prices

In 2011, the evolution of real wages in the private sector, deflated on the basis of private consumption prices, was highly negative, down 2.6 per cent (Chart 4.3.4). A comparison between the evolution of real wages and productivity shows a negative differential over the last two years. This evolution is in line with the evolution observed in activity and in the labour market and is part of the process of correction of macroeconomic imbalances, which have characterized the Portuguese economy. However, in 2011 the private consumption deflator was much higher than the GDP deflator (3.7 and 0.7 per cent, respectively), implying a smaller real reduction of wages for companies than for workers. In nominal terms, growth in wages per worker in the private sector (1.0 per cent) was higher than the growth of productivity, leading to a growth rate of 1.1 per cent in unit labour costs (see "Chapter 6 *Prices*" of this Report). For the economy as a whole, as a result of the wage evolution recorded in general government, unit labour costs were reduced by 0.8 per cent in nominal terms, in comparison to a growth rate of 0.9 per cent for the euro area as a whole.

The cyclical and structural evolutions of the economy may be summarised by the evolution of the output gap and potential GDP growth. These indicators may be calculated on the basis of statistical filters and different formulations for the production function (Charts 4.3.5 and 4.3.6). According to the various methodologies, 2001 witnessed a reduction of the output gap, in comparison to a positive change recorded in 2010. In turn, in 2011 the rate of growth of potential GDP generally stabilised at nil or slightly negative values. This situation occurs after a visible deceleration since 1998. The evolution of the rate of growth of potential GDP derives from the application of statistical filters and different formulations for the production function, mostly reflecting the economy's structural characteristics, as well as cyclical developments. Therefore, this type of indicator does not allow for conclusions on the future evolution

Chart 4.3.3

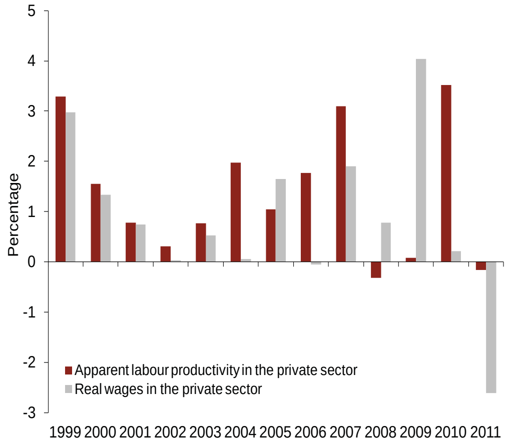
PRODUCTIVITY PER HOUR WORKED AND PER WORKER - TOTAL ECONOMY | RATE OF CHANGE



Sources: *INE* and Banco de Portugal.

Chart 4.3.4

CHANGE IN REAL WAGES AND APPARENT LABOUR PRODUCTIVITY - PRIVATE SECTOR | RATE OF CHANGE

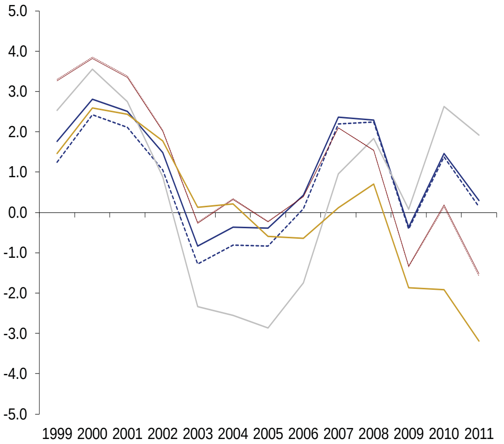


Sources: *INE* and Banco de Portugal.

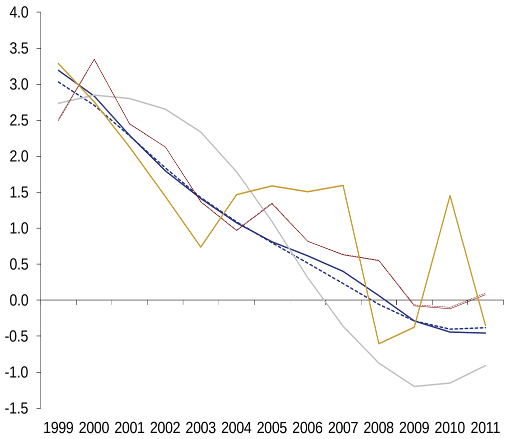
Note: Nominal wages in the private sector are deflated basing on the evolution of prices in private consumption.

Chart 4.3.5

OUTPUT GAP | PERCENTAGE POINTS



POTENTIAL GDP GROWTH | PERCENTAGE



Sources: *INE* and Banco de Portugal.

Notes: For more details on output gap computation methods see, Almeida, V. and R. Félix (2006), "*Computing Potential Output and the Output Gap for the Portuguese Economy*", Banco de Portugal, *Economic Bulletin Autumn* and Valle e Azevedo (2007), "*A Multivariate Band-Pass Filter*", Banco de Portugal, *Working Paper* 17.

of the economy, especially in a context of structural transformation. Although the continuation of the process of correction of the macroeconomic imbalances in the Portuguese economy may tendentially entail unfavourable cyclical developments, effective implementation of a broad set of structural reforms will create the conditions for a recovery of potential growth. These reforms, several of which are already in progress under the economic and financial assistance programme, are a necessary condition for the recommencement of the Portuguese real convergence process.

4.4 Structural reforms

The idea that the implementation of structural reforms, leading to the increase of potential output, is a sine qua non condition for the success of the process of correction of the macroeconomic imbalances existing in the Portuguese economy, is consensual. In this context, the economic and financial assistance programme includes a set of structural reforms aimed at liberalising labour and goods and services markets, improving the performance of state institutions and, indirectly, reallocating productive factors to the tradable sector.

4.4.1 Labour market

One of the most visible structural reforms in 2011 focused on the labour market legislation. These reforms essentially aim to create jobs and reduce existing segmentation. It is also essential to ensure that the evolution of labour costs is compatible with market conditions at the corporate level.

The main reforms up to the present have been centred on the revision of the Labour Code, which is still at its legislative approval stage, and on the law regulating the unemployment subsidy. The revision of the Labour Code is centred on four essential aspects: increase in the number of working hours, a reduction of overtime pay, increased flexibility in the management of working hours and a reduction of the severance payments to laid-off workers. The draft law on the revision of the Labour Code, which is being discussed in the Portuguese parliament, provides for a reduction of the number of public holidays to nine, thus eliminating four public holidays, corresponding to an additional 32 hours of work per annum. There is also an increase in the number of working hours based on a reduction of three days to the annual holiday entitlement, from the current level of 25 to 22 days. This reduction allows for an increase of 24 working hours per annum. These two measures, taken together, enable the average number of working hours to be increased by around 3 per cent.

The increase in the number of normal working hours enables the cost of each unit produced by workers to be reduced, adding to the savings associated with the reduction of overtime costs. The increase in overtime payment is reduced to a half. This enables employers to use a higher number of hours of overtime as opposed to a higher level of employment. Given that labour is a quasi-fixed production factor, a reduction in the cost of its variable component will lead to the non-hiring of new workers and to an increase in the intensive employment margin, i.e. the number of hours. Nevertheless, reference should be made to the fact that the reduction of the hourly labour factor cost may lead to the creation of employment in the long term.

The draft law also includes an increase in labour management flexibility, with the introduction of new time bank schemes to be defined not only in collective wage bargaining negotiations, as provided for by law, but also by individual or group agreements, negotiated directly with workers.

Lastly, the proposal includes a substantial reduction of severance payments in the event of redundancy. These payments varied between 15 and 45 days for workers on permanent contracts and will, under the new regime, comprise an amount in line with the average for European countries. The same amount will also be used for fixed-term employment contracts. This amount has still not been defined and is only expected to come into force by the end of 2012.

The revision of the unemployment subsidy law has four fundamental aspects: a reduction of the guarantee period; an across-the-board reduction of the unemployment subsidy's payment period; a highly significant increase in the payment period of the subsequent unemployment subsidy; a reduction of the amount of the subsidy after six months.

The new rules regulating the payment of unemployment subsidies will come into force on 1 April, but will only apply to new contracts. All workers who have entered into employment contracts before this date and who are entitled to an unemployment subsidy will have their payments calculated under the old legislation. The guarantee period is reduced from 15 months of employment over the last two years to 12 months of employment over the same time period. The reduction of the payment period multiplies the subsidy payment scales, as a function of age, global experience in the labour market and experience over the last few years. The maximum period of the subsidy was reduced from 38 to 26 months. The payment period of the subsequent unemployment subsidy was doubled for workers over the age of 45, and its maximum duration will be equal to that of the unemployment subsidy. Finally the amount of the subsidy is reduced by 10 per cent after six months of subsidised unemployment.

Labour market reforms aim to increase its flexibility. The next challenge is to ensure that the implementation of these reforms translates into higher flexibility in corporations' operating conditions.

4.4.2 Other structural areas

In the remaining structural areas, reference should be made to the approval of the new competition law, which improves the transparency and reinforces the powers of the Competition Authority in terms of investigation and inquiry. The new law also harmonises the definition of abuse of dominant position with European legislation.

Efforts made to increase competition in the services market in 2011 were associated with the reduction of the number of regulated professions and the beginning of a reform in the operation of professional orders. There have also been changes to domestic legislation in order to bring it into line with the European Services Directive. Several delays regarding the periods initially established in the memorandum of understanding have been noted in these areas.

The sale of State's participations in corporations, as set out in the memorandum of understanding, should help to liberalise the operation of goods and services markets. In terms of privatisations, in 2011, reference should be made to the sale of the Portuguese State's participation in EDP (21.35 per cent of the capital) and the agreement for the sale of the participation in REN (40 per cent of the capital).

Another important reform in progress is that of the rental market. The proposal for a change in the law regulating urban rents was submitted to the Assembly of the Republic, establishing the end of the minimum duration of contracts (5 years in the case of current legislation), setting a rents renegotiation mechanism involving landlords and tenants and facilitating the eviction process if tenants fail to pay rents. A parliamentary vote will be taken on the new legislation.

There are still many important problems in the energy sector, to which international institutions have repeatedly made reference, namely the excessively high rents for diverse electricity generating modes, e.g. renewable energies and cogeneration. These rents prevent the reduction of tariff deficits, have an impact on the evolution of consumer prices and increase the economy's borrowing requirements. The voluntary renegotiation mechanisms and announced reductions of support mechanisms to such producers have, to-date, proved insufficient.

A strategic plan for the transport area has been produced, preparing the reorganisation of public transport corporations in the major metropolitan areas, taking into account their financial equilibrium and making a significant contribution to fulfilling fiscal targets. Special reference should also be made to the process of revision of ports' legislation. The objective consists of creating mechanisms to improve the efficiency of domestic ports as a fundamental element for domestic exporting capacity, reducing labour conflicts.

Important progress has been made on reforming the judicial system, notably in terms of the territorial reorganisation of the courts and reduction of the number of outstanding cases, by encouraging extra-judicial settlements. Reference should also be made to the coming into operation of a court specialised in competition, regulation and supervision.

The set of reforms envisaged in the structural area is extremely vast and its execution involves different types of difficulties, namely in terms of completion periods and resistance of several economic agents. Delays in the preparation and approval of the reforms may be justified in a context in which such reforms present hight quality and are considered to be lasting. It is fundamental that the reforms now being introduced are not considered transitory. On the one hand, the implementation of successive reforms frequently implies that practical results are not observed, preventing an assessment of the merits of the different regulatory options. On the other hand, the stability of the legal framework has an intrinsic value, as it reduces economic agents' uncertainties. Another type of difficulty is associated with the resistance to change of those benefiting from existing rents and distortions. Such resistance tends to be stronger when the distortions concentrate the benefits in a limited group of agents, able to apply social and political pressure, while the costs are dispersed among economic agents as a whole. Therefore, the reforms in progress require strong negotiating skills and may, in some cases, involve the establishing of transition periods and safeguard clauses.

BOX 4.1 | JOB AND WORKER FLOWS IN THE LABOUR MARKET

Market conditions change permanently. Such modifications are incorporated at different frequencies and assume diverse forms, depending on the type of technological changes, the evolution of consumer preferences or the changes in international market conditions. However, they always imply new operating conditions for a small open economy such as the Portuguese, requiring specific economic adjustments to each shock. In this context, job and worker flows play a central role in the functioning of the labour market, which should always allocate efficiently human resources.

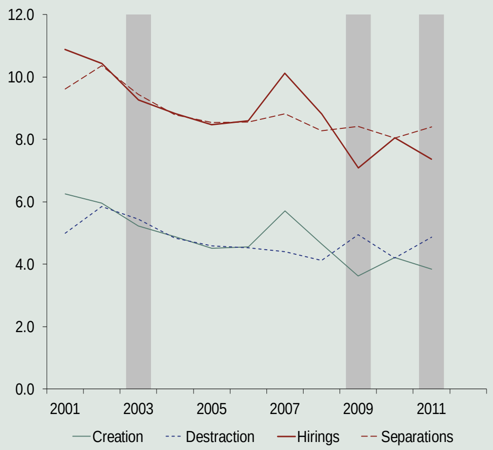
Job and worker flows

Job flows capture the decisions of firms to create and destroy employment. The Social Security comprehensive employer-employee dataset enables the computation of these flows in a prompt and accurate way. By registering all employer-employee pairs in the private and public sectors (excludes only firms with individual pension funds and civil servants registered with the *Caixa Geral de Aposentações*), the database identifies all worker hires and separations in the economy. The fact that it registers wages subject to mandatory contributions guarantees its accuracy, making it a unique source of information for the labour market.

Chart 1 depicts rates of job and worker flows based on the Social Security database. The results show that the Portuguese job market engaged in constant changes in the 2001-2011 period. The rates of job creation and destruction hovered around 5 per cent of total salaried employment in the economy. However, each job created involved more than one hire. Firms and workers are involved in a quest for the best pair, resulting in multiple hires and separations until a long-lasting labour relationship is established. The hiring rate of firms in each quarter was on average 8.9 per cent of total salaried employment. This represents around twice the job creation rate (1.8 times), *i.e.*, for each job created there are two hires

Chart 1

JOB AND WORKER FLOWS | IN PERCENTAGE OF TOTAL SALARIED WOKERS



Sources: Social Security and Banco de Portugal.

Notes: The reported data represent annual averages of quarterly flows. The hirings/separations in quarter *t* are defined as the number of workers that were in the firm in quarter *t* / *t*-1 and not in quarter *t*-1 / *t*, respectively. The job creation / destruction in quarter *t* represents the net creation/destruction of jobs in firms that are expanding/contracting their labor force in quarter *t*. All flows in quarter *t* are normalized by the average of total salaried workers in quarter t and *t*-1. The number of quarterly observations is around 3 million employees. The calculations for 2010 and 2011 exclude the financial sector, which was progressively incorporated into Social Security during 2010. The shaded areas represent periods in which there was a drop in GDP.

in the economy, implying consequently worker separations. A similar ratio is obtained between the separation rate (8.8 per cent) and the job destruction rate (4.8 per cent). As noted for other economies, such as the U.S., flows decreased during the period under analysis. However, partly because the period is characterised by a slowdown of the domestic economy, the greater fall occurs in the hiring rate (-3.5 percentage points). The strongest and most robust correlation with GDP growth is registered with employment expansion decisions, in particular the change in the annual rate of job creation or in the hires rate. The higher stability of job destruction rates and worker separations results in a lower level of correlation with the evolution of the economic cycle.

Labour market transitions

In the continuous process of the adjustment of the economy, workers go through different labour market states, namely employment, unemployment and inactivity. The formal concept of unemployment requires the use of the Labour Force Survey. This survey is obtained with a sample of households. The information regards household's members, but the survey does not follow the individuals if they change household. In terms of labour market flows, changes of household result in a loss of information. On the contrary, the Social Security employer-employee does not have such attrition problems.

Chart 2 represents worker flows for the period 2001-2011 based on two series of the Labour Force Surveys – the 1998-2010 and the current series –, using different collection methods and questionnaires. For comparability with Social Security data, the flows considered represent transitions between employment and non-employment, which aggregates the unemployment and inactivity status. Chart 3 presents the same concepts calculated for the Social Security data. In the Labour Force Survey, up to 2010, the entry and exit rates to and from employment, as a percentage of salaried workers (open-ended and fixed-term contracts), are close to 2.3 per cent. However, these values underestimate substantially labour market flows. The values calculated based on the Social Security database are close to 5.7 per cent, on average, 2.5 times higher. Probably related with this underestimation, and contrary to the Social Security results, it was not possible to detect any significant and robust correlation between any of the flows calculated with the Labour Force Survey and the cyclical evolution of the economy.

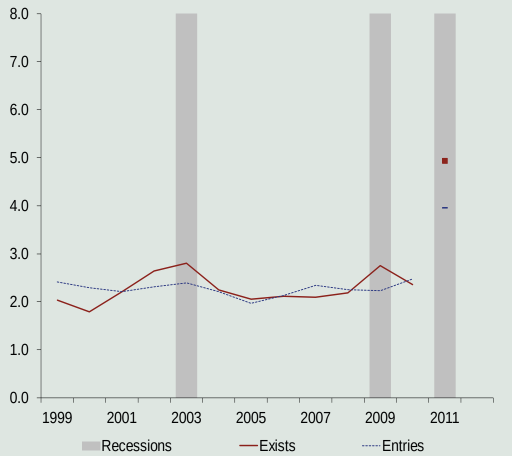
The most noticeable fact of the flows obtained from the Labour Force Survey is the clear change recorded in 2011 (Chart 2). Exit rates from employment more than doubled (5 per cent) and entry rates to employment almost doubled (4 per cent). Although 2011 was marked by the request of external economic and financial assistance, there were no changes in the economy from a microeconomic viewpoint justifying the sharp increase in flows. In particular, it is not plausible that the entry rate doubled in a year in which the unemployment rate increased from 12.4 per cent to 14 per cent and the level of employment dropped 2.7 per cent. Note that there was no significant break in the series of flows calculated with Social Security data (Chart 3) in 2011. The values are in line with previous values, indicating a reduction in transitions into employment and a slight increase in the exit rate from employment.

The explanation for the sharp increase in the flows of the current Labour Force Survey series can be found in the methodological changes. The collection of information ceased to be only personal (Computer Assisted Personal Interviewing, CAPI), to be also based on contact by telephone after the first interview (Computer Assisted Telephone Interviewing, CATI). The new collection process is based on a computerised script and interviews are monitored, resulting in a more uniform information collection process among the six interviews of each household and between interviewers.

Notwithstanding the fact that the comparisons are preliminary due to the fact that they are based on the comparison of one year of information, they suggest that the methodological change was beneficial to the quality of the information on labour market flows. The approximation of the magnitude of

Chart 2

EXIT AND ENTRY RATES FROM AND TO EMPLOYMENT – LABOUR FORCE SURVEY | IN PERCENTAGE OF TOTAL EMPLOYEES

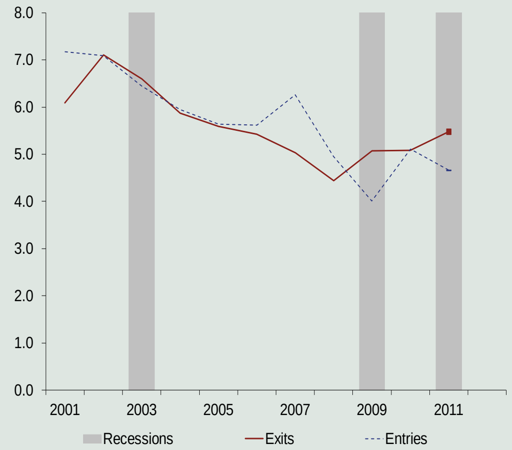


Sources: *INE* and Banco de Portugal.

Notes: Between 1999 and 2010, the reported data represent annual averages of quarterly flows of the Labour Force Survey initiated in 1998. For 2011, using the new survey, the annual average is based on the last three quarters. Total employees include only workers on open-ended or fixed-term contracts. Entries and exits refer to transitions between employment and non-employment, the latter including unemployed and inactive. The shaded areas represent periods in which there was a drop in GDP.

Chart 3

EXIT AND ENTRY RATES FROM AND TO EMPLOYMENT – SOCIAL SECURITY | IN PERCENTAGE OF TOTAL EMPLOYEES



Sources: Social Security and Banco de Portugal.

Notes: The reported data represent annual averages of quarterly flows. The shaded areas represent periods in which there was a drop in GDP.

flows calculated from the two statistical sources confirms that Portugal has a dynamic labour market, as recently identified in the literature (Centeno, Machado and Novo, 2007 and 2008), in sharp contrast with past evidence using other sources of information (Blanchard and Portugal, 2001).

International comparison

The accumulated evidence points to strong labour market dynamics in Portugal. In international terms, the most recent data show that the Portuguese reality is closer to that of Slovakia, Spain or Finland, countries also using the CATI interview method. The former Labour Force Survey methodology placed Portugal closer to Malta and Cyprus, countries using the CAPI collection method (gray bars in Charts 4 and 5). The evidence gather in the literature points to the sharp segmentation of the labour market as an explanatory factor for the high level of flows, concentrated in those workers with fixed-term contracts. In Portugal, the growing trend in the number of workers with fixed-term contracts was only interrupted with the severity of the current crisis because net job destruction was concentrated on this type of contract (Boeri 2010, Centeno and Novo 2012a, 2012b). Notwithstanding, workers on a fixed-term contract represent around one fifth of total salaried workers.

Chart 4

TRANSITIONS FROM EMPLOYMENT TO NON-EMPLOYMENT | IN PERCENTAGE OF THE LABOUR FORCE

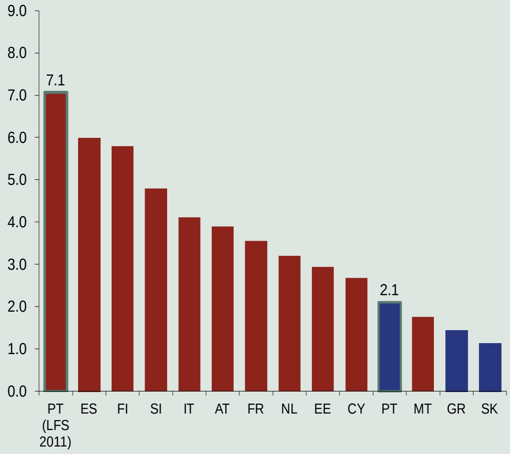
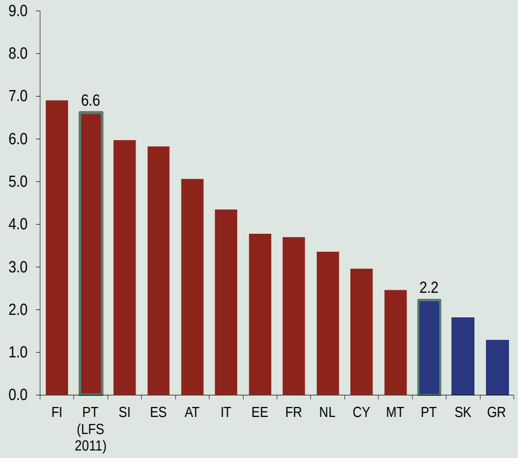


Chart 5

TRANSITIONS FROM EMPLOYMENT TO EMPLOYMENT NON- | IN PERCENTAGE OF THE LABOUR FORCE



Source: Eurosystem.

Notes: The reported data are based on 2010 quarterly flows, with the exception of France, which refer to 2009. The data for 2011 for Portugal identified as "PT (LFS 2011)" represent the average of the last three quarters of the year. The countries where the survey is based on CAPI methodology are shown in gray.

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BOX 4.2 | COMPETITION IN THE PORTUGUESE ECONOMY IN THE PERIOD 2000-2009

Economic theory considers competition as an important driver of productivity growth. From a theoretical point of view, competition prevents firms from sustaining prices significantly above marginal costs. In empirical terms, the assessment of competition is an extremely complex task, mainly on account of two factors. Firstly, it is difficult to define the relevant markets for a correct analysis of competition. Secondly, classical competition measures lack theoretical robustness, i.e., they can not unequivocally provide a correct competition assessment.

This box establishes the global evolution of competition in the portuguese economy in the period 2000-2009, based on a classical competition measure in the empirical literature: the price-cost margin (PCM).[1] It should be noted that this analysis differs from the in-depth analysis carried out by competition authorities, allowing only global assessments.

In sectoral terms, the box focuses on the manufacturing and non-manufacturing sectors as approximations to the tradable and non-tradable sectors. The latter sector is less exposed to international trade, thus it is less susceptible to competition pressures. These issues also have macroeconomic impacts. In fact, if competition reductions occur in the non-tradable sector, there is a potential distortion in the allocation of resources, which may have contributed to the current macroeconomic imbalances and low potential GDP growth in the portuguese economy. In this box, the tradable sector (manufacturing sector) includes all manufacturing activities, whereas the non-tradable sector (non-manufacturing sector) includes "Electricity and water supply", "Construction", "Trade", "Transport and communications" and "Other services".

Data and definition

The Lerner index (1934), also referred to as mark-up ratio, is a market power indicator which conveys approximate information on competition. It is defined as the difference between the price and the marginal cost divided by the price. One of the problems in the empirical use of the Lerner index is that prices are usually unavailable and marginal costs are unobservable. For this reason, the PCM is used as an approximation and it is defined as the ratio between sales of goods and services less variable costs relative to sales of goods and services. The variable costs consist of labour costs (wage bill, including other compensations and pensions) along with cost of goods and services.[2]

The definition of the relevant market for competition assessment purposes is highly complex. For this reason, the standard approach is to use an economic activity classification such as CAE (Classification of Economic Activities). In this box, the market segmentation criterion is based on a 3 digit-level in CAE-Rev. 2.1, summing a total of 166 markets (100 manufacturing markets and 66 non-manufacturing).[3] Furthermore, in order to obtain market aggregates, firm's PCM are weighted according to their respective market shares.

1 Additional results and more details on this issue can be found in Amador, J. and Soares, A. C. (2012) "Competition in the portuguese economy: a view on the tradables and non-tradables sectors", Banco de Portugal, *Economic Bulletin*, Spring.

2 Capital is assumed to be a fixed factor, thus the cost of capital should not be included in variable costs. However, data constraints do not allow for the exclusion of the component "rents".

3 In 2006, there was a change from CAE-Rev. 2.1 to CAE-Rev. 3. In order to ensure comparability an equivalence table was used. In addition, as significant reclassification of firms was prevalent in the database in the years before 2005, when possible, the classification resulting from the conversion from CAE-Rev. 3 to CAE-Rev. 2.1 was applied backwards.

The computation of the PCM at firm-level requires data, which was drawn from two distinct surveys: Central de Balanços (CB) for the 2000-2004 period and Informação Empresarial Simplificada (IES) for 2005-2009.[4] Both surveys provide highly detailed information on balance sheet account headings and income statements. However, the two surveys have different coverage as IES is universe based whereas CB is sample based, thus it has a lower coverage in terms of gross value added (GVA) and number of firms.[5]

Price-cost margin level

Chart 1 reports PCM kernels for both manufacturing and non-manufacturing sectors in 2009. Panel a) depicts unweighted PCMs across markets and panel b) weighted PCMs according to average GVA for the period 2005 - 2009.

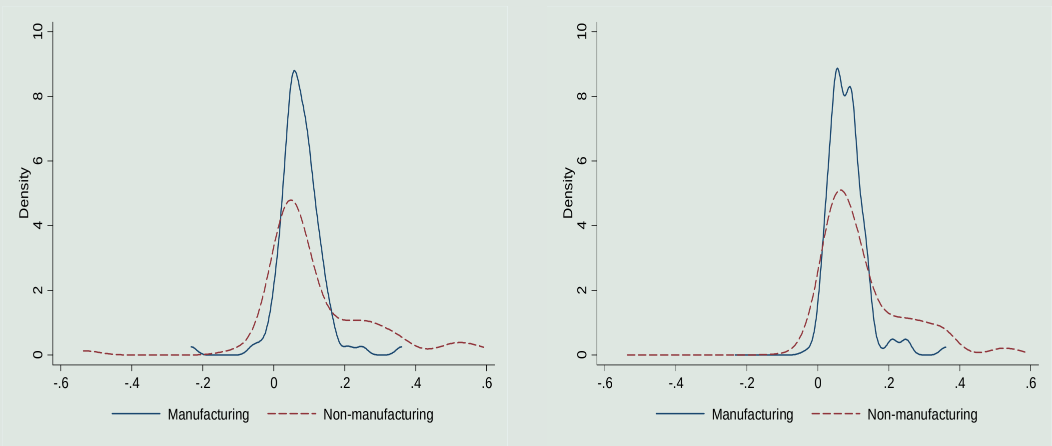
Unweighted PCM in the portuguese non-manufacturing markets is higher than in manufacturing. In 2009, the average PCM in the manufacturing sector was 7.3 per cent, whereas the PCM of the non-manufacturing sector (excluding financial services) reached 11.4 per cent. Moreover, there is significant heterogeneity between the markets in both sectors, particularly in the non-manufacturing sector. The tails of the distribution are heavier in the non-manufacturing sector, suggesting higher PCM dispersion. Around 92 per cent of markets in the manufacturing sector have a PCM in the 0 to 20 per cent range opposed to 68 per cent of markets in the non-manufacturing sector. The introduction of market weights based on GVA does not substantially change the shape of the PCM distributions of the manufacturing and non-manufacturing sector.

There are several biases in the use of market PCM as a measure of market power. Firstly, the inexistence of constant returns to scale implies that average costs are an inaccurate proxy of marginal costs. Secondly, PCM also reflects product quality and efficiency levels. In fact, more efficient firms or those producing higher quality goods present higher PCM, albeit not necessarily higher market power. Furthermore, the

Chart 1

PRICE-COST MARGIN DISTRIBUTION ACROSS MARKETS IN 2009

a) Unweighted | **b) Weighted according to GVA**



Notes: Markets are defined according to CAE - Rev 2.1 at 3 digit. The total number of markets considered is 166.

4 Although IES began in 2006, there was a report including information for 2005, which was taken into account in the analysis.

5 Activities such as "Financial intermediation", "Public administration and defence; compulsory social security" e "Extra-territorial organizations and bodies" are not part of the CB or IES universe.

PCM is sensitive to the business cycle developments. Lastly, the market PCM, measured as a weighted average of firms' PCM, is not monotone in competition and hence may convey incorrect information regarding competition. The reason is the inability to correctly capture reallocation and selection effects. If efficient incumbents adopt more aggressive pricing strategies, there is a market share transfer towards those firms (reallocation effect), which may force inefficient firms to exit the market (selection effect). In this case, the market PCM may increase due to transfer of market share between firms, suggesting that there was a competition reduction, when, in reality, there has been an increase in competition. Given that the level of PCM is a market power indicator with some limitations, its trends are generally used as a more robust measure of competition.

Price-cost margin trends

Chart 2 reports the positive changes of the PCM for the overall economy, manufacturing and non-manufacturing sectors, for the periods 2000-2004 and 2005-2009. The charts evaluate market competition in terms of the percentage of markets in each sector where the PCM has increased and also their relevance measured according to respective GVA, sales and employment shares.

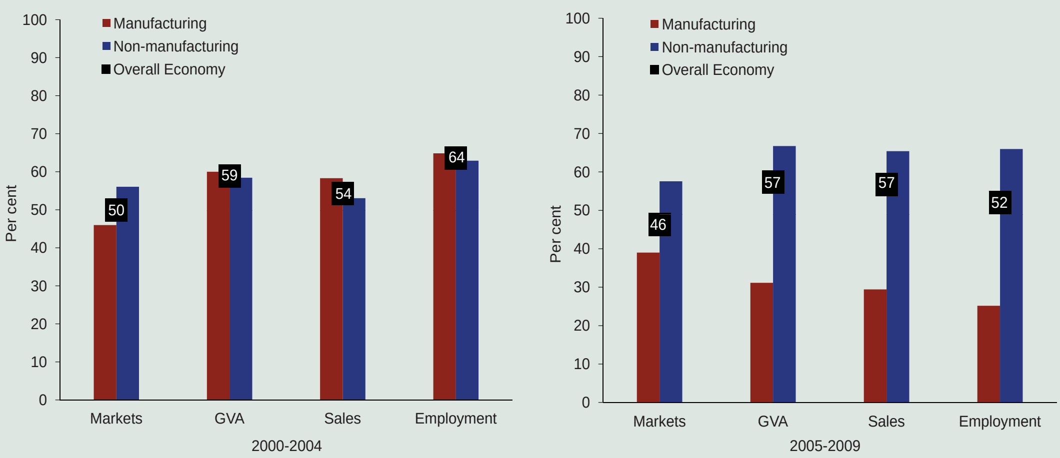
Increases in the PCM are present in 46 per cent of markets in 2005-2009 and in 50 per cent of markets in 2000-2004, suggesting that competition reductions were relatively generalized across markets. When considering their relevance in terms of GVA, sales and employment, competition reductions become more significant in both sub-periods.

In both sub-periods, increases in the PCM are more generalized across markets in the non-manufacturing sector than in the manufacturing. Moreover, in the period 2005 to 2009, these reductions are substantially more significant in terms of GVA, sales and employment in the non-manufacturing sector than in the manufacturing sector.

Chart 3 presents the estimated PCM trends for the period 2000-2009, differentiating between manufacturing and non-manufacturing markets.[6] The chart shows that the vast majority of non-manufacturing

Chart 2

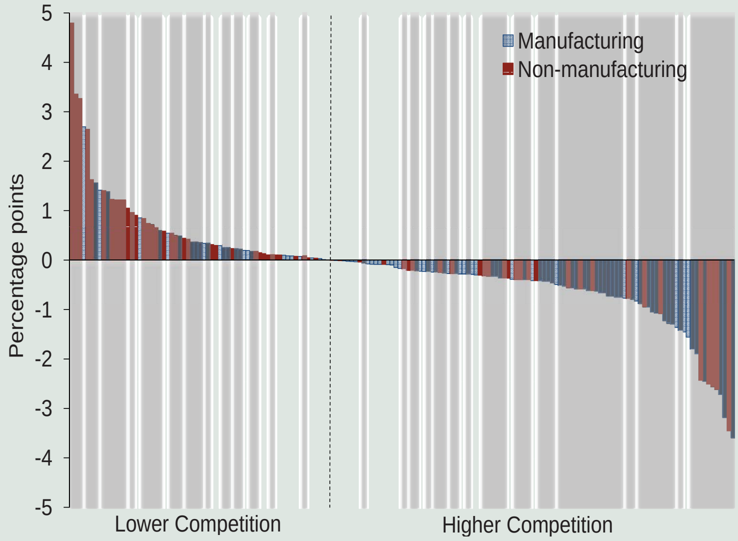
PRICE-COST MARGIN INCREASES IN 2000-2004 AND 2005-2009



6 PCM trends were computed using Newey-West standard errors assuming first order autocorrelation. It should be noted that PCM series may be non-stationary, but the reduced number of degrees of freedom does not allow for the test of this hypothesis.

Chart 3

PRICE-COST MARGIN TRENDS ACROSS MARKETS IN 2000-2009



Notes: Markets are defined according to CAE - Rev 2.1 a 3 digits. The total number of markets is 166. Grey bars signal significant estimates at 10 per cent.

markets present positive PCM trends. This result suggests that, although there is a significant heterogeneity across markets within each sector, the non-manufacturing sector has generally faced lower competition.

Sectoral aggregates

Apart from assessing competition in broad sectoral categories, it is important to perform a less aggregated analysis. Note however, that PCM levels are not directly comparable across sectors because they reflect not only market power, but also technology, sunk costs and demand elasticity. For this reason conclusions on sectoral aggregates should be based in PCM variations rather than in levels.

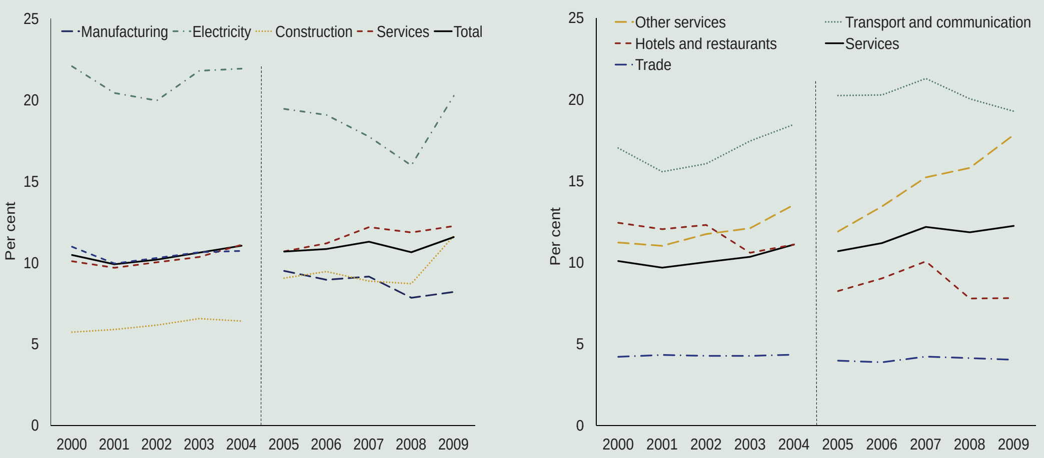
Chart 4 assesses competition developments at a more detailed sectoral level, aggregating market PCMs according to their respective GVA. In this case, it is assumed that the relevance of each of the markets is directly related to its GVA weight in the economy. In both sub-periods, market weights are based on average GVA between 2005 and 2009, thus eliminating the structure effect.

The overall economy PCM was around 11 per cent in the 2005-2009 period, showing a slight upward trend mainly in the "Services" sector. In contrast, "Manufacturing" presented a decreasing trend. Within the "Services" sector, there is a significant heterogeneity in the PCM evolution. The increasing trend in "Services" was mainly associated to developments in "Other services" which includes activities like "Real estate", "Renting of machinery and equipment", "Computer and related activities", "Architectural and engineering activities" and "Accounting, consulting and legal activities". The "Trade" sector presents the lowest PCM within the set of non-manufacturing markets, with a stable path around 5 per cent. In contrast, "Transports and communications" was the sector with the highest PCM in the non-manufacturing sector, recording figures around 20 per cent and displaying a relatively stable evolution in the 2005-2009 period. Therefore, the trends towards an increase of PCM occurred in sectors of a markedly non-tradable nature.

In conclusion, there is some empirical evidence of lower competition intensity in the non-tradable sector in the period analysed. Therefore, there is margin for higher competition in the non-tradable sector,

Chart 4

PRICE-COST MARGIN EVOLUTION IN 2000-2009



which would allow for a more efficient allocation of resources in the portuguese economy, favouring economic growth and the correction of existing macroeconomic imbalances.

5. DEMAND

Economic activity declined 1.6 per cent, in real terms, in 2011, with a downwards profile during the course of the year. Following the growth in 2010, mainly driven by domestic demand, the Portuguese economy once again faced a recessionary period, marked by the unpostponable need to correct its macroeconomic imbalances and structural vulnerabilities. Within the framework of the Economic and Financial Assistance Programme (EFAP), the correction of macroeconomic imbalances entails a prolonged adjustment of the levels of expenditure of public and private sectors. This need for deleveraging, which extends to the banking sector, is a consequence of the accumulated high level of indebtedness since the beginning of the nominal convergence process for participation in the euro area. In this context, domestic demand – public and private – declined significantly, with special reference to the strong decline in private consumption and a further decline in investment. Owing to the need to correct high public indebtedness, the public finances consolidation process intensified in 2011. In a framework of a reduction of household disposable income levels, increased restrictiveness in households' and corporations' access to credit and a low savings rate, the outlook for the reduction of permanent income, in addition to uncertainty over the evolution of demand, were reinforced by the worsening labour market situation.

Imports decreased significantly in 2011, in line with the evolution of global demand weighted by imported contents. In contrast with domestic demand, exports were significantly dynamic, making a positive contribution to the evolution of economic activity, in 2011. The fact that export growth was higher than external demand implied a significant increase in the market share of Portuguese exports, across-the-board to intra and extra-community markets.

Contraction of economic activity in 2011 differs from the recession of 2009

Economic activity declined by 1.6 per cent, in 2011, following a strong recession in 2009 (-2.9 per cent) and a growth of 1.4 per cent in 2010 (Table 5.1). The temporary recovery in 2010 was mainly fuelled by domestic demand, translating into the absence of any correction to the macroeconomic imbalances of the Portuguese economy. Similarly, the reduction of economic activity in 2011 essentially reflected a strong decline in domestic demand, with a contribution of -6.2 percentage points (pp) to the annual rate of change of GDP, which was the most negative contribution recorded since 1975. Decreasing 3.9 per cent in 2011, the change in private consumption was, for the first time since 2001, lower than GDP.

Table 5.1

GDP AND MAIN EXPENDITURE COMPONENTS | REAL RATE OF CHANGE, PER CENT

	2007	2008	2009	2010	2011
GDP	2.4	0.0	-2.9	1.4	-1.6
Private consumption	2.5	1.3	-2.3	2.1	-3.9
Public consumption	0.5	0.3	4.7	0.9	-3.9
Investment	2.1	-0.1	-13.3	-3.6	-14.0
Gross formation of fixed capital	2.6	-0.3	-8.6	-4.1	-11.4
Change in inventories[(a)]	-0.1	0.0	-1.1	0.1	-0.5
Domestic demand	2.0	0.8	-3.3	0.8	-5.7
Exports	7.5	-0.1	-10.9	8.8	7.4
Imports	5.5	2.3	-10.0	5.4	-5.5
Domestic demand contribution[(a)]	2.2	0.9	-3.6	0.9	-6.2
Net external demand contribution[(a)]	0.1	-1.0	0.6	0.5	4.6

Sources: *INE* and Banco de Portugal.

Note: (a) Contribution for the GDP real rate of change in percentage points.

Investment fell again, for the third consecutive year, decreasing 14.0 per cent. Reflecting the efforts being made to consolidate the public finances, public consumption decreased by 3.9 per cent in 2011, in contrast to the increase of previous years. Exports, in turn, increased 7.4 per cent in 2011. This evolution is in contrast to the recession of 2009, particularly as the economic and financial crisis on a global scale implied the collapse of international trade flows (exports declined by around 11 per cent in 2009).

Underlying the evolution of economic activity in 2011 was a downwards profile during the course of the year (Chart 5.1). The progressively worsening levels of economic activity reflected the marked difference between domestic demand and export dynamics, particularly in the fourth quarter. Domestic demand decelerated significantly in comparison to the preceding year with a reinforcement of this trend in the second half of the year. The evolution was across-the-board to all components and reference should be made to the strong reduction in private consumption, as well as the pronounced drop in investment. This profile was reflected in the dynamics of imports, in line with global demand weighted by imported contents.

In turn, exports were the most dynamic component of global demand, making a positive contribution of 2.4 pp to the real rate of change of GDP, in 2011 (2.6 pp in 2010). Exports decelerated in second half 2011, reflecting the slowdown of the world economy, particularly in the euro area, in which Portugal's main economic partners are to be found. This deceleration was, however, less pronounced than that of external demand for Portuguese exports, translating into a greater increase in the market share of Portuguese exports in the second half of the year.

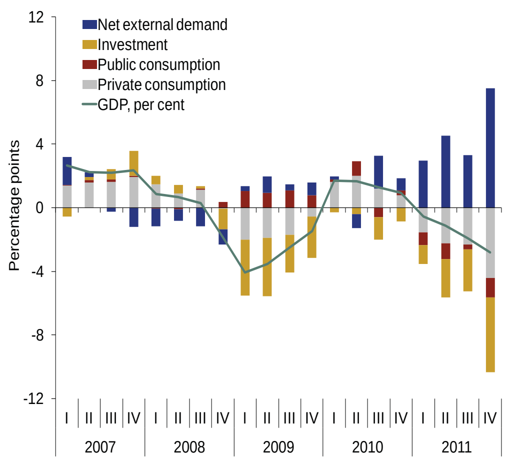
Heterogeneity of economic growth in the euro area and correction of structural imbalances in Portugal

Following the strong contraction of activity in 2009, reflecting the occurrence of a severe economic and financial global crisis, economic activity in the euro area grew once again by 1.9 per cent in 2010 and 1.5 per cent in 2011. However, this recovery was not common to all economies in the euro area (see "Chapter 1 *International Environment*", of this Report).

In the particular case of the Portuguese economy, the evolution of economic activity was conditioned by the presence of significant internal and external imbalances, accumulated over the course of the last decade. In the period between monetary union and the onset of the financial crisis (1999-2007), GDP in Portugal (effective and potential) recorded very low growth rates (1.8 per cent on average, in the

Chart 5.1

BREAKDOWN OF THE REAL RATE OF CHANGE OF GDP | YEAR-ON-YEAR RATE OF CHANGE AND CONTRIBUTIONS



Sources: *INE* and Banco de Portugal calculations.

case of actual GDP), accompanied by historically low savings rates, a growing deficit in the current and capital account and high levels of public and private indebtedness. The existence of structural fragilities, notably as regards the quality of factors of production, has translated into low levels of productivity, compromising the evolution of potential GDP and the country's international competitiveness.

Given the sovereign debt crisis in the euro area, the vulnerability of the Portuguese economy, associated with the existence of such structural imbalances, contributed to the loss of access to funding in regular conditions from external markets by the public and banking sectors and for the subsequent request for international financial assistance.

The contraction of the Portuguese economic activity in 2011 was conditioned by the need to correct structural imbalances. In this context, the negative GDP growth differential between Portugal and the euro area increased significantly, reaching -3.1 pp (Chart 5.2). This differential remained relatively stable during the course of the year, reflecting an across-the-board deceleration of economic activity in the euro area, including Portugal (see "Chapter 1 *International Environment*", of this report). Notwithstanding the contractionary impact of the adjustment process, efforts to correct the accumulated imbalances are unpostponable in the current economic and financial situation and are considered central to achieving the sustained growth of the Portuguese economy over the medium term. The adjustment of the fragilities of the Portuguese economy requires structural reforms enabling substantial improvements to the quality of the factors determining potential growth, contributing to the recommencement of a real convergence with the euro area average over the medium term.

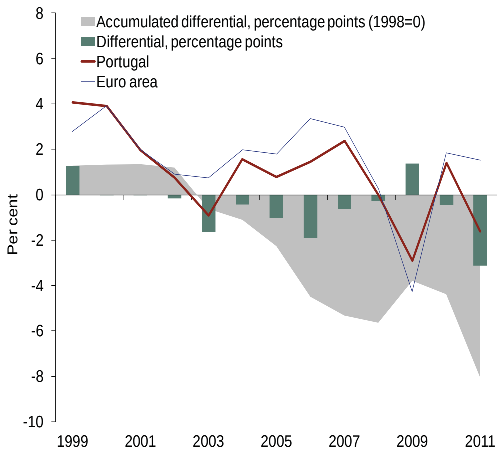
Very sharp decline in private consumption

In 2011, private consumption declined very sharply, particularly in the fourth quarter (Table 5.1 and Chart 5.1). The fall of 3.9 per cent, in real terms, was the most pronounced since 1975, as opposed to the relative stabilisation of private consumption in the euro area (0.2 per cent). The decline in private consumption is in line with the reduction of real disposable income and also reflects greater restrictions in access to credit and the impact of tax-related measures in the context of progressively deteriorating consumer confidence.

In 2011 disposable income declined 1.0 per cent, in nominal terms (changes of 3.1 per cent in 2010 and -0.4 per cent in 2009) (Table 5.2). The reduction was much more marked in real terms (-4.5 per cent), reflecting price increases in 2011 (see "Chapter 6 *Prices*", of this report). This evolution is in contrast to

Chart 5.2

GROWTH DIFFERENTIAL *VIS-À-VIS* EURO AREA, IN REAL TERMS | ANNUAL RATE OF CHANGE



Sources: Eurostat, *INE* and Banco de Portugal calculations.

Table 5.2

HOUSEHOLDS' DISPOSABLE INCOME | NOMINAL RATE OF CHANGE, PER CENT

	2007	2008	2009	2010	2011
Households disposable income	5.0	4.3	-0.4	3.1	-1.0
Compensation of employees[a]	4.2	3.4	0.1	1.1	-1.2
Corporate and property income	5.0	4.7	-6.3	4.7	2.4
Current transfers	6.4	7.0	4.9	3.5	-0.2
Domestic transfers	5.9	7.5	7.0	3.1	-0.5
External transfers	12.2	2.1	-20.6	8.6	3.9
Direct taxes (-)	9.5	3.6	0.7	-1.0	10.0
Social contributions (-)	2.8	5.8	0.1	0.7	-0.1
Disposable income adjusted for the change in net equity of households in pension fund reserves[b]	4.4	4.0	-0.4	3.1	-1.0
Memo:					
Nominal private consumption	5.6	3.9	-4.5	3.8	-0.4
Real private consumption	2.5	1.3	-2.3	2.1	-3.9
Saving ratio	7.0	7.1	10.9	10.2	9.7
Real disposable income[c]	1.9	1.7	1.8	1.5	-4.5
Private consumption deflator	3.0	2.6	-2.2	1.6	3.7

Sources: *INE* and Banco de Portugal.

Notes: (a) The compensation received by the households includes employer social contributions, of both the private and the public sector. **(b)** Since in financial and wealth accounts households are considered as owners of equity in private funds reserves, to calculate the saving ratio is necessary to previously adjust the disposable income according to the change in net equity of households in pension fund reserves. **(c)** Disposable income deflated with the private consumption deflator.

2009, when was registered a less pronounced reduction of disposable income in nominal terms than the reduction of prices, originating an increase in disposable income in real terms.

The reduction of disposable income, in 2011, largely reflected the decrease in compensation of employees, as a result of the reduction of the compensation of civil servants and the deceleration of compensation in the private sector (see "Chapter 6 *Prices*", of this Report), as well as an increase in income tax and a decrease of net internal transfers under the public finances consolidation process (see "Chapter 3 *Fiscal Policy and Situation*", of this Report).

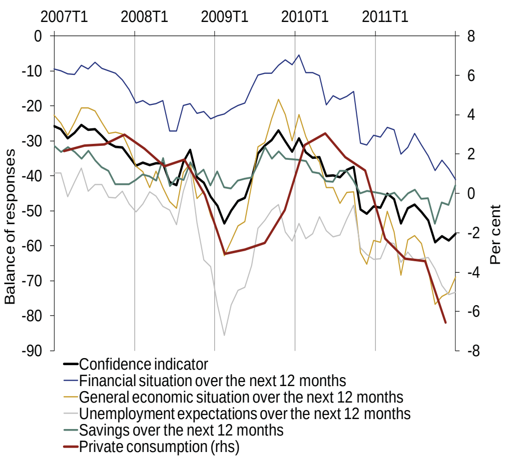
In turn, corporate and property income increased in 2011, essentially reflecting the increase in effective net interest. The increase in interest rates on deposits was slightly higher than the interest rates on loans to households in 2011 and the deposits increased significantly, whereas loans declined, particularly in the second half of the year. In addition to the reduction in the demand for credit, loans made by domestic banking institutions are being negatively affected by banks' difficulties in securing funding from the international financial markets, in the context of the sovereign debt crisis and need to deleverage their respective balance sheets (see "Section 2.2 *Monetary and Financial Conditions of the Portuguese Economy*", of this Report).

In this context, the decline in consumer confidence was the result of a more negative assessment of the prospective economic and financial situation as well as expectations of higher unemployment (Chart 5.3). The deceleration of world economic activity and the unavoidable adjustment process on the Portuguese economy led to a progressive deterioration of confidence over the course of 2011. This deterioration was common to the assessment of the situation in the labour market, in which unemployment rates reached historically high levels (see "Chapter 4 *Supply*", of this Report), contributing to greater levels of uncertainty over future income.

The strong decline in private consumption, in 2011, was more pronounced than in 2009 (-2.3 per cent) and was more marked than the contraction of GDP for the first time since 2002. 2011 witnessed a reduction in the consumption of both durable goods and non-durable goods and services (Chart 5.4). Given that is typically a more cyclical component, the decline in the consumption of durable goods was particularly marked. In 2011, the consumption of durable goods decreased 18.7 per cent in a fall of

Chart 5.3

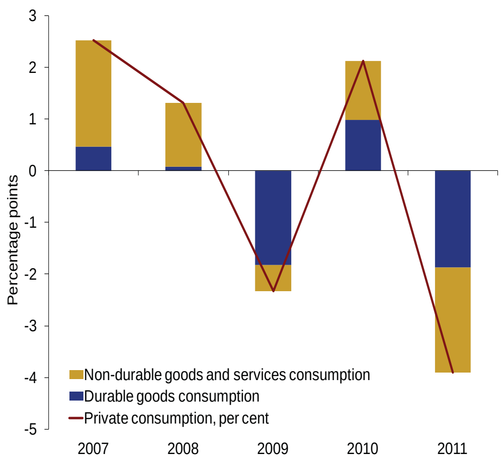
PRIVATE CONSUMPTION AND CONSUMERS' CONFIDENCE



Sources: European Commission and *INE*.

Chart 5.4

BREAKDOWN OF THE REAL VARIATION IN PRIVATE CONSUMPTION | ANNUAL RATE OF CHANGE



Sources: *INE* and Banco de Portugal calculations.

a magnitude close to that observed in 2009 (-16.9 per cent). The drop in the consumption of durable goods, in 2011, was also affected by the fact that purchases of several durable goods, notably motor vehicles, were brought forward at the end of 2010.

In turn, the consumption of non-durable goods and services, accounting for around 90 per cent of private consumption, declined 2.3 per cent, in 2011, in a more pronounced reduction than noted in 2009 (-0.6 per cent). The decline in the consumption of non-durable goods and services was particularly marked, taking into account that this component is characterised by a smoother intertemporal profile, indicating a more structural adjustment of the level of private consumption, in 2011, in line with the reduction of real disposable income (notably compensation of employees) and expectations of a reduction of permanent income (Chart 5.5). The evolution of consumption of non-durable goods and services translated, on the one hand, nil growth of foodstuffs consumption (0.8 per cent in 2009), with such a low rate of change not having been noted since 1983. There was, on the other hand, a significant reduction of non-foodstuff consumption of non-durable goods and services in 2011 (-2.8 per cent in 2011, in comparison to -0.9 per cent in 2009), the most pronounced since 1975.

In light of the marked reduction of real disposable income, high household debt levels, the existence of more restrictive financing conditions and the low savings rate limited consumers' capacity to smooth their consumption in intertemporal terms. In 2011 the savings rate was down once again to 9.7 per cent, albeit remaining higher than the levels noted since the onset of the financial crisis (Table 5.2). The evolution of savings reflected, inter alia, the maintenance of high forced savings levels associated with loan repayments, households' need to restructure their balance sheets – in an environment of growing liquidity restrictions – as well as the outlook for a reduction of permanent income tending to incentivise higher savings as a precautionary measure (see "Box 5.1 *The recent evolution of household savings*", of this Report).

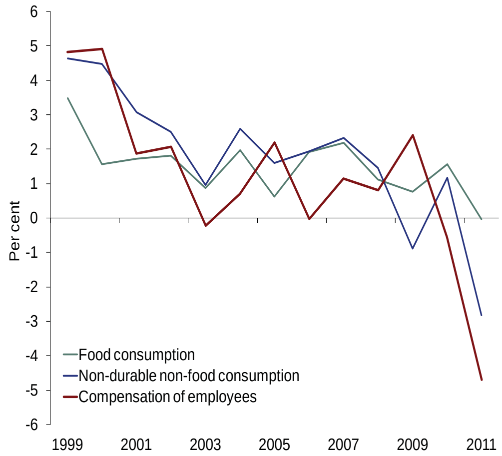
Across-the-board decline in investment, more marked in the case of public investment

2011 witnessed the sharpest decline in gross fixed capital formation (GFCF) (-11.4 per cent), since 1984. The negative evolution of GFCF was further accentuated by the cyclical pattern of inventories whose change made a negative contribution of 0.5 pp to the real rate of change of GDP (Table 5.1).

The contraction of public GFCF, in 2011, was particularly expressive as a reflection of the fiscal consoli-

Chart 5.5

COMPENSATION OF EMPLOYEES AND PRIVATE CONSUMPTION | REAL RATE OF CHANGE



Sources: *INE* and Banco de Portugal calculations.
Note: Compensation of employees deflated by the private consumption deflator.

dation process (-30.3 per cent in 2011, following increases of 6.0, 1.7 and 17.9 per cent between 2008 and 2010, respectively). However, also the private GFCF, representing around 82 per cent of the total in 2010, decreased markedly (-7.3 per cent, after reductions of 10.1 and 7.8 per cent in 2009 and 2010, respectively), with a sharper decline in the corporate as opposed to the household component (Table 5.3). Households once again reduced their investment in housing, a fact generally observed since 2001. This evolution is associated with the high levels of uncertainty over the future economic situation, particularly in a framework of deteriorating labour market conditions, lower confidence, adjustment of permanent income levels and an increase in the restrictiveness of access to credit (either in the form of higher costs or more demanding contractual terms, as referred to in the Bank Lending Survey).

Corporate GFCF declined 7.8 per cent in 2011, at a lower rate than noted in 2009 and 2010. This evolution was across-the-board to all components, notably construction, machinery and metal products and transport equipment. Corporate investment decisions were affected by lower expectations over the evolution of demand, both domestic and external, and, to a lesser extent, the more restrictive access to funding for companies. In addition, the assessment of current production capacity by manufacturing companies was at a low level (74 per cent), lower than the values recorded in the period 1987-2008 (an average of 80 per cent) and close to the minimum level of 73 per cent recorded in 2009.

In contrast to the preceding decade, the growth trend on domestic bank loans to non-financial corporations has been downwards, with slightly negative values in second half 2011. This evolution simultaneously reflects a decline in the demand for credit, as well as more restrictive conditions on the supply side in a context of banks' increasing funding difficulties in the international financial markets. A more restrictive access to domestic bank credit was mitigated in the case of companies which secured funding from the

Table 5.3

GFCF BY INSTITUTIONAL SECTOR | REAL RATE OF CHANGE, PER CENT

	Weights 2010	2007	2008	2009	2010	2011
GFCF - Total	100.0	2.6	-0.3	-8.6	-4.1	-11.4
General government	18.2	-2.1	6.0	1.7	17.9	-30.3
Private sector	81.8	3.3	-1.2	-10.1	-7.8	-7.3
Households	23.3	-6.0	-9.0	-12.0	-4.3	-6.0
Corporations	58.5	7.7	2.0	-9.5	-9.0	-7.8

Source: *INE*.

non-resident sector, reflecting a less pronounced deceleration of total credit (including loans made and securities issued by residents and non-residents), with a nil change at the end of 2011 (see "Section 2.2 *Monetary and Financial Conditions of the Portuguese Economy*", of this Report).

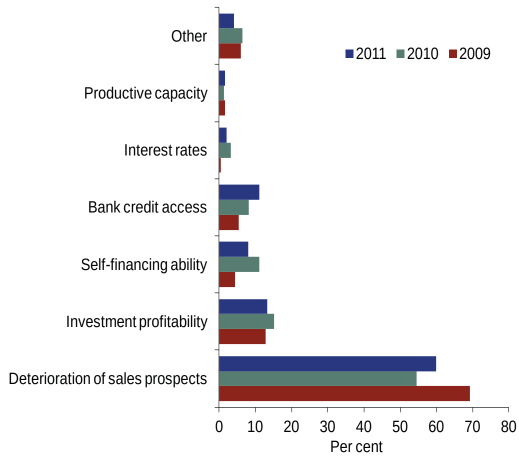
According to information taken from the Investment Survey, published by the INE, around 60 per cent of the companies surveyed pointed out the existence of obstacles to their investment decisions, a higher percentage than in 2009 (around 50 per cent), when the Portuguese economy underwent a sharper contraction than recorded in 2011. The deteriorating outlook on sales continues to be identified by most companies as the main obstacle, albeit to a lesser extent than recorded in 2009, followed by returns on investments (Chart 5.6). Notwithstanding the significant increase in its importance in 2011 (around 7 pp, in comparison to the average for the period 2005-2010), the difficulty in obtaining credit is only the third main obstacle to investment, referred to as such by around 11 per cent of companies (around 5 per cent in 2009).

In addition to the impact of the international crisis and the current adjustment process of the Portuguese economy, growth of GFCF over the last decade has been determined both by cyclical and structural factors. In 1999, GFCF's share of economic activity in Portugal was around 6 pp higher than that of the euro area. Since then, GFCF in Portugal has declined progressively (around 22 per cent between 1999 and 2011), reflected in the successive reduction of this differential, which was negatively signed in 2011 (-1.1 pp). This evolution was determined, to a large extent, by the continued decline of GFCF in construction, around 32 per cent between 1999 and 2011 (Chart 5.7). With a more cyclical evolution, corporate GFCF excluding construction, which comprises around 85 per cent of GFCF excluding construction, recorded a very low growth between 1999 and 2011 (0.4 per cent). This is an area of concern, particularly when the essential role of corporate GFCF for the potential growth of the economy is considered. In this context, external demand growth prospects are considered essential to the recovery of corporate investment, given the limitation of the evolution of domestic demand.

Between 1999 and 2011, construction represented an average of around 62 per cent of total GFCF in Portugal, in comparison to approximately 58 per cent in the euro area. The decline of GFCF in construction was particularly marked in the case of housing construction. Following the dynamism noted in the second half of the 90s, housing investment fell by around 51 per cent between 1999 and 2011, notwithstanding strong growth of credit and low borrowing costs during most of the period.

Chart 5.6

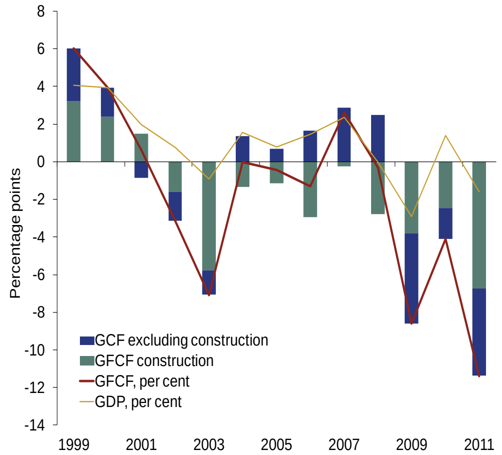
MAIN OBSTACLE TO INVESTMENT



Source: *INE*.

Chart 5.7

BREAKDOWN OF THE RATE OF CHANGE OF GFCF, IN REAL TERMS | ANNUAL RATE OF CHANGE

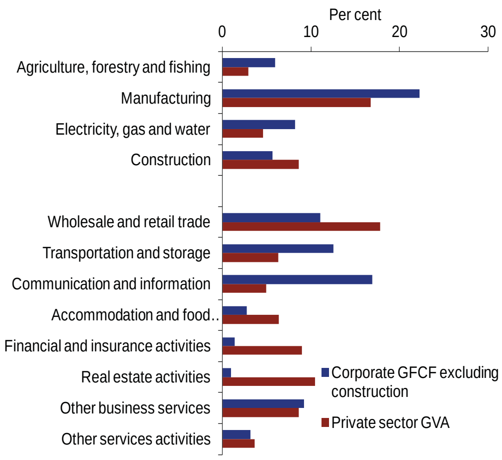


Sources: *INE* and Banco de Portugal calculations.

As regards corporate investment excluding construction, using information taken from the annual national accounts published by the INE, in 2009 (the most recent available period) most such investment was channelled into activities associated with services (58 per cent), notably wholesale and retail trade, transportation, communication and other business services (legal, management, engineering and consultancy, inter alia) (Chart 5.8). Between 1995 and 2009, the most significant changes in the share of each industry were recorded in financial and insurance activities (down 5.4 pp), communication and information, transportation and storage, and electricity, gas and water (up 8.9, 2.3 and 2.1 pp, respectively) (Chart 5.9). In this period the share of the manufacturing industry declined slightly (1 pp), to approximately 22 per cent in 2009.

Chart 5.8

CORPORATE GFCF EXCLUDING CONSTRUCTION BY INDUSTRY, 2009 WEIGHTS | PER CENT

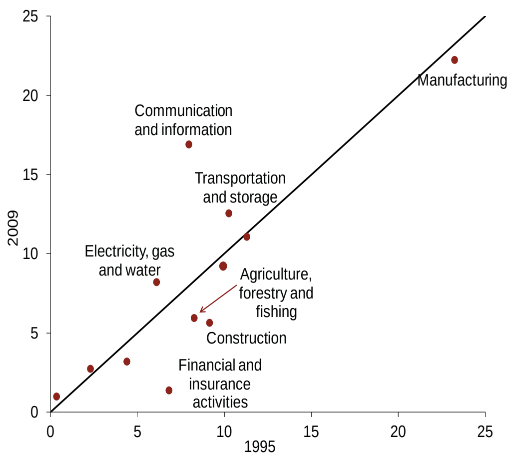


Sources: *INE* and Banco de Portugal calculations.

Note: Corporate GFCF excluding construction includes GFCF of all industries except Public administration, Education and Health, and all assets except for construction. Private sector GVA includes the GVA of all industries except Public administration, Education and Health.

Chart 5.9

DEVELOPMENTS IN THE WEIGHT OF THE INDUSTRIES IN TOTAL CORPORATE GFCF EXCLUDING CONSTRUCTION | PER CENT



Sources: *INE* and Banco de Portugal calculations.

Note: Corporate GFCF excluding construction includes GFCF of all industries except Public administration, Education and Health, and all assets except for construction. For example, the GFCF of the "Construction" activity includes GFCF in all assets except for construction (for instance, includes the GFCF in machinery and equipment, and transport equipment).

The evolution of corporate investment over the next few years will be conditioned by expectations of growth in domestic demand, the evolution of external demand and the need to adjust corporate balance sheets owing to their high levels of indebtedness. In this context and as observed following the contraction of economic activity in 2003, the recovery of investment may not be as dynamic as is usually seen in post recessionary periods. In addition, the factors conditioning corporate investment decisions also include the human capital, owing to its complementary nature with investment in physical capital, the existing institutional framework, particularly the flexibility of markets, and the predictability of the fiscal system. Given that investment decisions are assessed globally and that there are prospects of significant reallocations of resources in the Portuguese economy, the framework of investment decisions will also be influenced by how the imbalances in the economy will be corrected and by the implementation of the structural reforms needed to increase productivity.

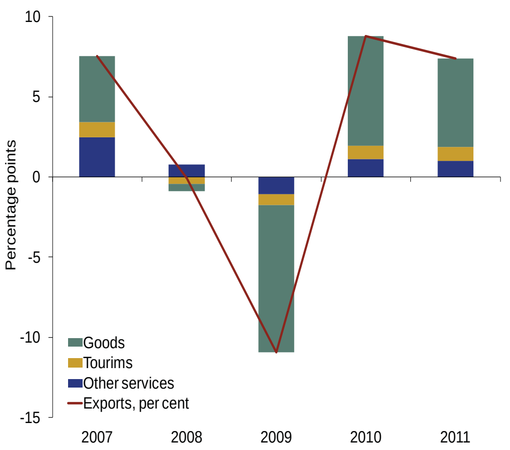
Significant growth of exports, associated with gains in market share

Exports of goods and services grew 7.4 per cent in 2011, in comparison to an average of 4.9 per cent between 1999 and 2007, around 1 pp more than in the euro area. This evolution was common to the goods (7.9 per cent, in comparison to an average of 4.7 per cent between 1999 and 2007), tourism (7.3 per cent, against an average of 1.8 per cent between 1999 and 2007) and other services (5.6 per cent against an average of 9.8 per cent between 1999 and 2007) (Chart 5.10). Portuguese exports of goods and services, in 2011, grew faster than the imports from several of the main markets of destination, notably Spain, France, United Kingdom and United States (Table 1.2 of "Chapter 1 *International Environment*", of this report). The growth in exports of goods and services was higher than the increase in external demand, i.e. there was an increase in the market share of Portuguese exports, common to intra and extra-community markets (Chart 5.11). Moreover, relative unit labour costs decreased in 2011, by a similar magnitude as in the euro area (see "Box 5.2 *Recent developments in the international price/cost competitiveness of the Portuguese economy measure by the relative unit labour costs*", of this Report).

The favourable evolution of exports of goods and services, in 2011, enabled the impact of the significant contraction of domestic demand on economic activity to be mitigated. However, given a similar

Chart 5.10

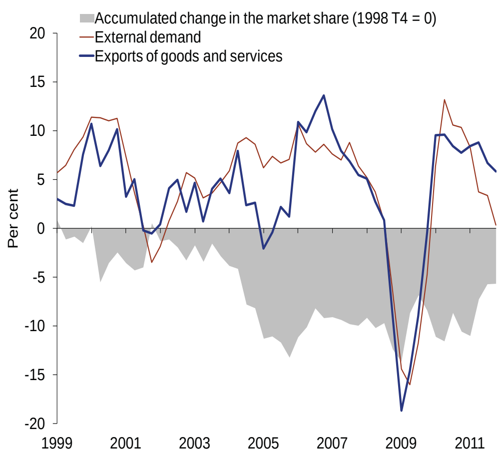
BREAKDOWN OF THE RATE OF CHANGE OF EXPORTS, IN REAL TERMS | ANNUAL RATE OF CHANGE



Sources: *INE* and Banco de Portugal calculations.

Chart 5.11

PORTUGUESE EXPORTS OF GOODS AND SERVICES AND EXTERNAL DEMAND | QUARTER-ON-QUARTER REAL RATE OF CHANGE



Sources: ECB, *INE,* UK Office for National Statistics and Banco de Portugal.

Note: The external demand was corrected for the impact of the tax fraud in the United Kingdom.

external environment, the lesser extent of Portugal's openness in comparison to the average of euro area countries made the positive impulse of exports less significant in the case of Portugal (Chart 5.12). Notwithstanding the fact that the Portuguese economy has increased its level of economic integration, over the last ten years, the share of exports was around 9 pp of GDP less than the euro area average (-8.3 pp of GDP in 2011).

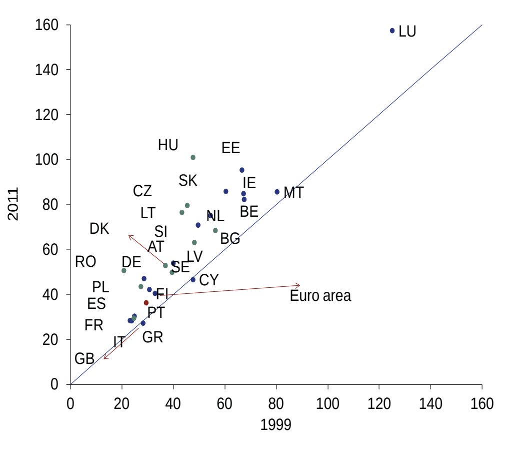
Exports decelerated in second half 2011, reflecting the slowdown of economic activity in the world economy, particularly in the euro area. However, this slowdown was less marked than in the average of the euro area (Chart 5.13). This evolution, together with a more marked deceleration of external demand in the second half of the year, resulted in an upwards profile of Portuguese exports' market share over the course of 2011 (Chart 5.11).

The nominal growth of exports of goods, in 2011, was not homogeneous as regards the main export products and main geographical destinations (Table 5.4). In nominal terms, intra-community exports of goods decelerated (13.6 per cent, in comparison to 15.4 per cent in 2010) with a downwards trend during the course of the year. A major contribution to such evolution was the marked deceleration of exports to Spain - the main destination market for Portuguese exports - reflecting the slowdown of economic activity in that country. Notwithstanding a pronounced deceleration in the fourth quarter, exports to Germany - the second most relevant market, - accelerated in 2011 (20.3 per cent, in comparison to 16.5 per cent in 2010) particularly reflecting the evolution of the exports of motor vehicles and other transport equipment. The contribution made by exports to France - the third most relevant market - also increased (2.0 pp in 2011, in comparison to 1.3 pp in 2010), essentially reflecting the evolution of exports of motor vehicles and other transport equipment, and machinery and equipment. In turn, extra-community exports of goods accelerated (19.5 per cent, in comparison to 17.7 per cent in 2010) with an upwards intra-annual profile. As regards countries of destination, reference should be made to the acceleration of exports to Angola (essentially foodstuffs and tobacco), China (particularly motor vehicles and pulp and paper) and Algeria (iron and steel products). In the last decade the share of extra-community exports increased by around 10 pp, to 26 per cent in 2011.

By technology intensity, the increase in exports of motor vehicles and other transport equipment, and of machinery and equipment contributed to the strong growth of exports of high and medium-high techno-

Chart 5.12

DEGREE OF OPENNESS | CONSTANT PRICES OF 2005, PER CENT

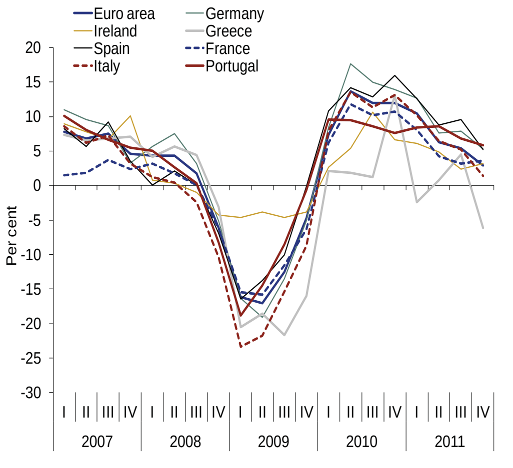


Sources: European Commission, Eurostat, *INE* and Banco de Portugal calculations.

Note: The degree of openness is calculated as follows: [(Exports + Imports) / 2]/PIB*100. Euro area countries in blue.

Chart 5.13

EXPORTS OF GOODS AND SERVICES | QUARTER-ON-QUARTER REAL RATE OF CHANGE



Source: Eurostat.

Note: Series not seasonally adjusted.

Table 5.4

PORTUGUESE EXPORTS OF GOODS | NOMINAL VALUES

By group of products

	CN Chapters	Weights 2010	Rate of change (per cent)					Contributions (percentage points)				
				2008	2009	2010	2011	2007	2008	2009	2010	2011
Total	01-99	100.0	7.4	1.4	-18.4	16.0	15.1	7.4	1.4	-18.4	16.0	15.1
Agriculture	01-15	5.3	14.4	25.0	-10.4	14.1	12.7	0.5	1.0	-0.5	0.8	0.7
Food	16-23	5.3	18.3	9.2	-2.1	2.8	12.3	0.8	0.4	-0.1	0.2	0.6
Mineral fuels	27	6.7	-8.6	25.1	-28.4	59.5	24.8	-0.5	1.1	-1.6	2.9	1.7
Chemicals	28-38	5.0	11.9	1.4	-16.0	17.1	29.7	0.6	0.1	-0.8	0.9	1.5
Plastics, rubber products	39-40	6.9	11.7	0.5	-13.4	27.7	14.2	0.7	0.0	-0.8	1.7	1.0
Leather, leather products	41-43	0.3	-4.1	4.1	-18.3	23.1	32.6	0.0	0.0	-0.1	0.1	0.1
Wood, cork	44-46	3.5	6.3	-4.4	-23.0	7.6	10.9	0.3	-0.2	-0.9	0.3	0.4
Pulp, paper	47-49	5.7	-12.9	9.2	-0.9	40.7	4.8	-0.6	0.3	0.0	1.9	0.3
Textile products	50-60; 63	4.1	4.6	-6.6	-16.1	13.0	10.3	0.2	-0.3	-0.7	0.6	0.4
Clothing	61-62	6.0	1.5	-5.8	-13.2	3.0	6.9	0.1	-0.4	-0.8	0.2	0.4
Footwear	64	3.7	2.7	2.6	-8.2	5.1	15.2	0.1	0.1	-0.3	0.2	0.6
Minerals, ores	25-26; 68-70	5.5	13.9	-3.0	-15.9	13.0	6.1	0.8	-0.2	-0.9	0.7	0.3
Basic metals	72-83	7.9	10.2	-0.2	-25.9	17.3	17.3	0.9	0.0	-2.2	1.4	1.4
Machinery, equipment	84-85	14.9	7.6	-0.8	-31.0	6.3	11.6	1.5	-0.2	-6.0	1.0	1.7
Motor vehicles, other transport equipment	86-89	12.4	2.8	-2.7	-21.4	22.2	23.4	0.4	-0.3	-2.6	2.6	2.9
Optical and precision instruments	90-92	1.1	14.3	6.5	2.9	18.3	8.9	0.1	0.1	0.0	0.2	0.1
Other products	24; 65-67; 71; 93-99	5.6	41.2	-2.5	-3.3	6.8	19.1	1.7	-0.1	-0.2	0.4	1.1

By technology intensity[(a)]

	Weights 2010	Rate of change (per cent)					Contributions (percentage points)				
		2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
High technology	7.3	6.3	-5.6	-36.7	10.4	15.5	0.7	-0.6	-3.6	0.8	1.1
Aircraft and spacecraft	0.4	76.4	58.2	-55.7	56.7	21.4	0.2	0.2	-0.3	0.2	0.1
Pharmaceuticals	1.5	29.9	2.4	11.8	1.2	29.9	0.3	0.0	0.1	0.0	0.4
Office, accounting and computing machinery	0.3	-27.1	-39.1	-28.6	-41.2	5.2	-0.5	-0.5	-0.2	-0.3	0.0
Radio, TV and communciations equipment	3.9	6.2	-5.8	-50.6	14.5	10.7	0.4	-0.4	-3.3	0.6	0.4
Medical, precision and optical instruments	1.2	36.4	3.9	2.7	25.7	14.2	0.3	0.0	0.0	0.3	0.2
Medium-high technology	28.6	10.7	0.5	-21.9	19.8	18.7	3.0	0.1	-6.3	5.5	5.4
Electrical machinery and apparatus, n.e.c.	4.6	23.7	6.6	-22.4	17.4	14.2	0.9	0.3	-1.1	0.8	0.7
Motor vehicles, trailers and semi-trailers	11.8	-1.6	-3.6	-20.1	24.8	24.0	-0.2	-0.4	-2.3	2.7	2.8
Chemicals excluding pharmaceuticals	6.1	22.1	-3.3	-27.3	40.0	21.1	1.2	-0.2	-1.6	2.0	1.3
Railroad equipment and transport equipment, n.e.c.	0.5	45.2	-6.9	-21.7	12.4	4.1	0.2	0.0	-0.1	0.1	0.0
Machinery and equipment, n.e.c.	5.6	15.9	7.9	-19.8	-1.8	10.2	0.9	0.5	-1.3	-0.1	0.6
Medium-low technology	22.6	9.0	6.0	-17.0	18.9	21.8	1.8	1.2	-3.7	4.2	4.9
Building and repairing of ships and boats	0.1	102.8	-26.0	-20.7	-47.4	-21.0	0.2	-0.1	-0.1	-0.1	0.0
Rubber and plastics products	4.9	13.9	3.5	-7.1	16.0	19.2	0.6	0.1	-0.3	0.8	0.9
Coke, refined petroleum products and nuclear fuel	5.7	-13.2	26.6	-20.9	51.2	28.0	-0.6	1.0	-0.9	2.2	1.6
Other non-metallic mineral products	4.1	14.7	0.8	-13.1	6.1	4.2	0.6	0.0	-0.5	0.3	0.2
Basic metals	4.1	11.1	-2.8	-27.3	32.8	42.0	0.4	-0.1	-1.1	1.2	1.7
Fabricated metal products, excl. machinery	3.7	16.4	8.1	-16.9	-3.2	14.3	0.6	0.3	-0.7	-0.1	0.5
Low technology	33.1	9.3	1.2	-10.1	11.3	14.8	2.9	0.4	-3.2	3.9	4.9
Manufacturing, n.e.c.; recycling	3.1	13.1	-0.9	-4.6	6.9	10.2	0.4	0.0	-0.1	0.2	0.3
Pulp, paper, paper products, printing and publishing	4.1	11.0	10.8	1.5	57.7	41.8	0.2	0.2	0.0	1.7	1.7
Food products, beverages and tobacco	9.3	19.6	13.0	-7.5	8.3	12.8	1.4	1.0	-0.7	0.8	1.2
Textiles, textile products, leather and footwear	13.7	4.3	-3.9	-12.6	6.2	10.4	0.7	-0.6	-1.8	0.9	1.4
Wood and products of wood and cork, excl . furniture	3.0	5.8	-8.1	-19.8	5.5	9.3	0.2	-0.3	-0.7	0.2	0.3
Residual	8.4	-10.2	3.7	-19.8	20.4	-14.3	-1.0	0.3	-1.6	1.7	-1.2

By destination country

	Weights 2010	Rate of change (per cent)					Contributions (percentage points)				
		2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Intra-community	75.0	6.0	-2.1	-17.3	15.4	13.6	4.7	-1.6	-12.9	11.6	10.2
of which:											
Spain	26.6	8.3	-1.4	-20.3	13.2	7.5	2.4	-0.4	-5.7	3.6	2.0
Germany	13.0	6.7	-0.1	-17.1	16.5	20.3	0.9	0.0	-2.2	2.1	2.6
France	11.8	8.0	-5.0	-14.2	10.3	17.4	1.0	-0.6	-1.7	1.3	2.0
United Kingdom	5.5	-5.8	-8.1	-15.8	12.6	6.8	-0.4	-0.5	-0.9	0.7	0.4
Italy	3.8	9.4	-9.4	-17.1	17.4	11.0	0.4	-0.4	-0.6	0.7	0.4
Extra-community	25.0	12.6	13.4	-21.5	17.7	19.5	2.8	3.1	-5.5	4.4	4.9
of which:											
Angola	5.2	39.2	34.3	-0.8	-14.6	22.0	1.3	1.5	0.0	-1.0	1.1
United States of America	3.6	-15.1	-25.0	-24.5	31.1	12.9	-0.9	-1.2	-0.8	1.0	0.5
Brazil	1.2	1.4	23.9	-7.9	49.5	32.9	0.0	0.2	-0.1	0.5	0.4
China	0.6	-15.3	1.6	20.5	6.0	69.7	-0.1	0.0	0.1	0.0	0.4
Algeria	0.6	9.6	126.9	9.0	8.9	66.8	0.0	0.3	0.0	0.1	0.4

Sources: GEE, *INE* and Banco de Portugal calculations.

Note: (a) Data released by the Office for Strategy and Studies of the Ministry of Economy and Employment (GEE), obtained from the international trade data released by the INE and the classification of manufacturing industries by technology intensity, based on R&D intensities, released by the OECD. For more details, see http://www.oecd.org/dataoecd/43/41/48350231.pdf. The residual category refers to products that cannot be included in the technology intensity classification, namely agriculture and mining and quarrying products, as well as product for which INE does not release fully detailed data, for confidentiality reasons, preventing the use of the classification by technnology intensity.

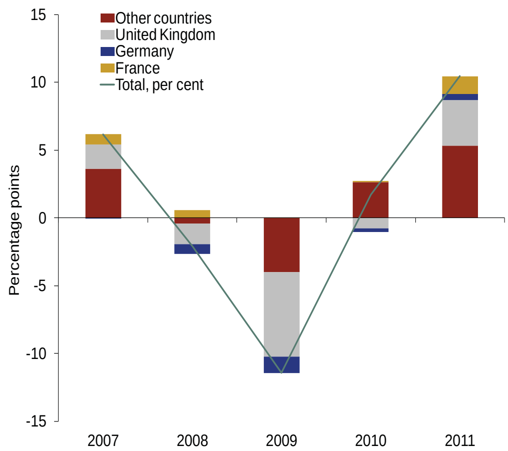
logy in 2011. In the case of high technology reference should also be made to the marked acceleration in exports of pharmaceuticals. Exports of medium-low and low technology also increased significantly in 2011. Regarding medium-low technology, the highest contributions were registered in basic metals and refined petroleum products, although smaller than in 2010 in the latter case. In low technology exports, textile, textile products and footwear, and food products registered the highest acceleration when compared with 2010. A more detailed analysis of the nominal evolution of Portuguese exports of goods in 2011 can be found in "Box 5.3 *The evolution of Portuguese exports in 2011 – main products and geographical destinations*", of this Report.

In the context of a relatively favourable external environment, tourism exports increased 7.3 per cent, in real terms, with overnight stays by non-residents recording a growth of 10.4 per cent in comparison to 1.7 per cent in 2010. This evolution reflected essentially tourist inflows from the United Kingdom, France and Germany (Chart 5.14). Portugal may have benefited from the diversion of tourists from destinations in the Middle East and North Africa, marked by socio-political tensions. According to information from the World Tourism Organisation, these were the only two regions with a negative rate of change in tourist arrivals in 2011.[1] With exports of tourism in volume up by 0.7 pp over 2010, the deceleration of around 3 pp in nominal revenue from tourism may have reflected a possible reduction of amounts spent per tourist, as well as a decline in prices, which, in the case of Portugal, was the most marked of European Union countries with the exception of Cyprus (see "Chapter 6 *Prices*", of this Report).

Exports of other services grew in real terms 5.6 per cent in 2011, which compares with an increase of 6.0 per cent in 2010. According to information on the balance of payments released by Banco de Portugal, the main contributions to the nominal growth of these exports were associated with transportation services, particularly to the United Kingdom, computer and information, and other business services (Table 5.5). Construction and financial services also made a positive contribution. However, in the case of transportation services, the nominal evolution is likely to be strongly influenced by the increase in the prices of passenger transport by air services.

Chart 5.14

OVERNIGHT STAYS OF FOREIGNERS | CONTRIBUTIONS BY ORIGIN COUNTRY, PERCENTAGE POINTS



Sources: *INE* and Banco de Portugal calculations.

1 For further details see UNWTO World Tourism Barometer, Volume 10, March 2012.

Table 5.5

PORTUGUESE EXPORTS OF SERVICES | NOMINAL VALUES

By type of service	Weights 2010	Rate of change (per cent) 2007	2008	2009	2010	2011	Contributions (percentage points) 2007	2008	2009	2010	2011
Total	100.0	15.7	5.3	-8.7	7.7	9.0	15.7	5.3	-8.7	7.7	9.0
Travel	43.2	10.9	0.5	-7.2	10.0	7.2	5.0	0.2	-3.0	4.2	3.1
Transportation	26.6	18.9	10.4	-12.6	13.0	10.9	4.7	2.6	-3.3	3.3	2.9
Other business services	18.8	19.5	10.2	-5.9	1.7	8.7	3.5	1.9	-1.1	0.3	1.6
Construction services	2.9	40.9	8.3	-21.9	-1.9	13.9	1.2	0.3	-0.8	-0.1	0.4
Communications services	2.7	16.4	4.7	-15.6	-2.9	0.5	0.5	0.2	-0.5	-0.1	0.0
Computer and information services	1.6	36.8	15.3	1.0	1.1	37.7	0.4	0.2	0.0	0.0	0.6
Personal, cultural and recreational services	1.5	-6.3	7.1	10.7	20.7	-11.6	-0.1	0.1	0.1	0.3	-0.2
Financial services	0.9	25.8	-4.7	-32.7	4.4	41.6	0.3	-0.1	-0.4	0.0	0.4
Government services	1.1	10.3	0.5	-2.4	17.6	3.7	0.1	0.0	0.0	0.2	0.0
Insurance services	0.5	5.9	5.1	3.3	-9.1	11.1	0.0	0.0	0.0	-0.1	0.1
Royalties and license fees	0.2	10.0	-29.8	150.5	-71.7	41.2	0.0	-0.1	0.4	-0.5	0.1
By destination country	**Weights 2010**	**Rate of change (per cent) 2007**	**2008**	**2009**	**2010**	**2011**	**Contributions (percentage points) 2007**	**2008**	**2009**	**2010**	**2011**
Total	100.0	15.7	5.3	-8.7	7.7	9.0	15.7	5.3	-8.7	7.7	9.0
United Kingdom	14.3	12.8	-3.0	-19.0	4.1	10.4	2.4	-0.6	-3.2	0.6	1.5
Spain	14.2	15.6	6.4	-12.3	2.9	1.0	2.4	1.0	-1.9	0.4	0.1
France	13.8	15.1	8.1	-4.4	6.9	10.6	2.0	1.1	-0.6	1.0	1.5
Germany	10.2	12.2	2.4	-9.3	8.6	5.5	1.3	0.3	-0.9	0.9	0.6
Brazil	5.0	22.0	8.2	-1.9	48.4	13.1	0.7	0.3	-0.1	1.8	0.7
United States of America	4.9	22.1	7.3	-11.3	5.5	4.4	1.1	0.4	-0.6	0.3	0.2
Angola	4.6	33.8	39.3	0.3	19.1	32.9	0.8	1.1	0.0	0.8	1.5
Switzerland	4.3	20.1	-2.9	10.5	-3.7	-8.9	0.8	-0.1	0.4	-0.2	-0.4
Netherlands	4.3	4.8	9.2	3.7	11.4	8.0	0.2	0.3	0.1	0.5	0.3
Italy	3.5	14.9	-8.7	-11.5	1.1	9.7	0.7	-0.4	-0.4	0.0	0.3
Other countries	20.8	17.6	10.3	-7.4	8.1	12.6	3.4	2.0	-1.5	1.7	2.6

Source: Banco de Portugal.

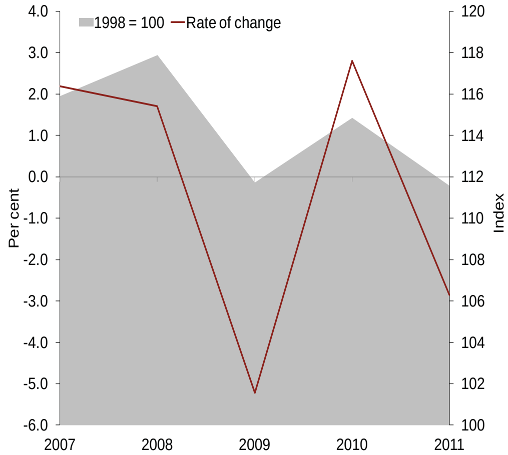
Decrease of imports in line with global demand weighted by imported contents

In 2011, the volume of imports of goods and services fell 5.5 per cent, reflecting the decrease in goods imports (-7.0 per cent), the decline in tourism imports (-2.1 per cent) and the increase in imports of other services (3.7 per cent) which was slightly higher than in 2010 (3.2 per cent). Given the high cyclicality of imports, the import penetration in global demand declined in 2011 (2.9 per cent, in real terms) as is usually the case in periods of a contraction of economic activity (Chart 5.15).

With the exception of 2009, when there was a collapse of world trade, the decline in imports in 2011 was the most pronounced of the last decade. This evolution was in line with the decrease in global demand weighted by imported contents (Chart 5.16), with an across-the-board decline of imports, in real terms, common to the energy and non-energy component, albeit more marked in this latter case (-4.1 and -5.7 per cent, respectively). In particular, the decline in goods imports was more marked in the case of several components with a higher level of imported contents, such as the consumption of durable goods and GFCF in machinery and transport equipment. In nominal terms, imports of machinery and equipment decreased by 7.4 per cent and imports of motor vehicles and other transport equipment fell 23.9 per cent (Table 5.6). The decrease in imports of these products was reflected in the reduction of imports of high and medium-high technology goods. The evolution of imports of motor vehicles and other transport equipment was also significantly affected by the impact of general government acquisitions of military equipment, in 2010, resulting in the reduction of imports of medium-low technology goods. In turn, the imports of low technology goods increased in 2011, mainly reflecting the evolution of imports of food products, which accelerated vis-à-vis the previous year. This acceleration in nominal terms is partially influenced by the increase in import prices of food (see "Chapter 6 *Prices*", of this Report).

Chart 5.15

IMPORT PENETRATION IN GLOBAL DEMAND | IN REAL TERMS



Sources: *INE* and Banco de Portugal calculations.

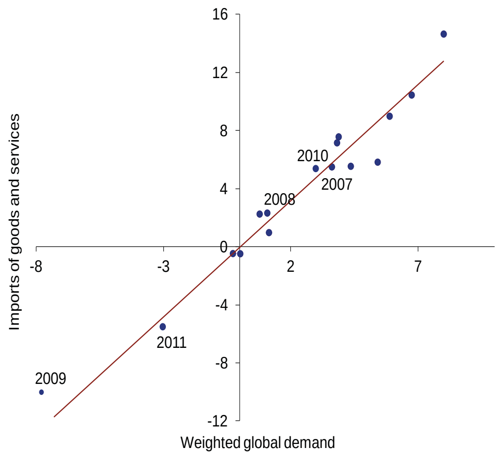
Note: The penetration of imports assesses the growth of imports of goods and services against the growth in global demand. An increase indicates a gain in the market share of foreign producers.

By geographical area there was a significant, across-the-board slowdown in imports of goods. In the case of intra-community markets, goods imports decreased, in nominal terms (-2.6 per cent), in particular in some of the most important markets such as the United Kingdom, Germany, Italy and France. In the case of Spain, Portugal's main trading partner, imports decelerated in nominal terms from 5.7 per cent in 2010 to 2.3 per cent in 2011. Notwithstanding the fact that they also decelerated, imports from extra-community countries remained highly dynamic, growing 12.5 per cent, particularly from Angola, Algeria, Brazil and Saudi Arabia and were essentially associated with fuel imports.

Given the decrease of real disposable household income, increased restrictions on access to credit and progressively deteriorating consumer confidence levels, tourism imports declined 2.1 per cent in 2011, in real terms. The destinations with the most marked decreases were Spain, Brazil and United States, with negative rates of change in 2011. Portuguese tourism on domestic territory also decreased with overnight stays by residents decreasing by 1.9 per cent in 2011.

Chart 5.16

IMPORTS OF GOODS AND SERVICES AND THE WEIGHTED GLOBAL DEMAND | REAL RATE OF CHANGE



Sources: *INE* and Banco de Portugal.

Note: Estimation sample up to 2008.

Table 5.6

PORTUGUESE IMPORTS OF GOODS | NOMINAL VALUES

	CN Chapters	Weights 2010	Rate of change (per cent)					Contributions (percentage points)				
By group of products			2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Total	01-99	100.0	6.5	7.1	-20.0	11.0	1.1	6.5	7.1	-20.0	11.0	1.1
Agriculture	01-15	9.5	14.2	9.8	-11.6	5.1	10.4	1.2	0.9	-1.1	0.5	1.0
Food	16-23	4.1	12.6	11.2	0.6	-2.1	6.9	0.4	0.4	0.0	-0.1	0.3
Mineral fuels	27	14.6	-0.8	28.0	-37.3	28.8	23.4	-0.1	3.8	-6.0	3.6	3.4
Chemicals	28-38	10.0	1.3	7.1	-4.1	9.4	4.6	0.1	0.6	-0.3	1.0	0.5
Plastics, rubber products	39-40	5.1	10.6	2.6	-16.5	16.4	9.8	0.5	0.1	-0.8	0.8	0.5
Leather, leather products	41-43	1.0	10.8	-0.7	-14.3	14.2	5.2	0.1	0.0	-0.1	0.1	0.1
Wood, cork	44-46	1.2	12.7	-2.0	-25.0	15.8	6.1	0.2	0.0	-0.3	0.2	0.1
Pulp, paper	47-49	2.3	6.2	0.4	-8.8	5.0	-0.8	0.1	0.0	-0.2	0.1	0.0
Textile products	50-60; 63	2.8	-0.1	-8.3	-16.2	14.6	0.4	0.0	-0.2	-0.4	0.4	0.0
Clothing	61-62	3.0	7.9	1.6	0.5	3.4	0.5	0.2	0.0	0.0	0.1	0.0
Footwear	64	0.9	10.8	2.9	-7.5	4.2	5.4	0.1	0.0	-0.1	0.0	0.0
Minerals, ores	25-26; 68-70	1.4	2.9	3.2	-17.9	0.8	-7.1	0.0	0.1	-0.3	0.0	-0.1
Basic metals	72-83	7.9	8.7	2.9	-34.4	15.1	4.1	0.8	0.3	-3.2	1.2	0.3
Machinery, equipment	84-85	16.4	7.7	5.2	-22.8	-4.7	-7.4	1.5	1.1	-4.5	-0.9	-1.2
Motor vehicles, other transport equipment	86-89	14.1	8.0	0.6	-20.7	29.2	-23.9	1.0	0.1	-2.5	3.5	-3.4
Optical and precision instruments	90-92	2.2	1.8	1.5	-5.5	6.8	-8.7	0.0	0.0	-0.1	0.2	-0.2
Other products	24; 65-67; 71; 93-99	3.3	5.7	2.0	-3.2	8.8	-6.9	0.2	0.1	-0.1	0.3	-0.2
By technology intensity[(a)]		**Weights 2010**	**Rate of change (per cent)**					**Contributions (percentage points)**				
			2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
High technology		12.6	2.9	1.5	-15.8	-4.1	-8.0	0.4	0.2	-2.2	-0.6	-1.0
Aircraft and spacecraft		0.6	5.9	12.0	-9.6	-48.3	-32.8	0.1	0.1	-0.1	-0.6	-0.2
Pharmaceuticals		4.1	1.7	6.3	7.4	2.0	-0.4	0.1	0.2	0.2	0.1	0.0
Office, accounting and computing machinery		1.8	-2.5	6.5	-15.7	-9.7	-19.6	-0.1	0.1	-0.3	-0.2	-0.3
Radio, TV and communciations equipment		3.9	1.8	-4.2	-35.2	0.0	-7.1	0.1	-0.3	-1.9	0.0	-0.3
Medical, precision and optical instruments		2.3	12.7	-0.5	-7.0	6.3	-7.7	0.3	0.0	-0.1	0.2	-0.2
Medium-high technology		30.9	9.9	4.2	-18.7	11.5	-3.3	3.0	1.3	-5.6	3.5	-1.0
Electrical machinery and apparatus, n.e.c.		3.4	14.1	14.3	-17.5	5.2	-4.3	0.4	0.5	-0.6	0.2	-0.1
Motor vehicles, trailers and semi-trailers		11.8	7.4	-1.9	-28.4	30.3	-10.8	0.9	-0.2	-3.2	3.0	-1.3
Chemicals excluding pharmaceuticals		8.7	6.8	2.9	-13.9	21.5	10.2	0.5	0.2	-1.0	1.7	0.9
Railroad equipment and transport equipment, n.e.c.		0.4	21.8	9.1	65.8	-44.9	-5.6	0.1	0.0	0.3	-0.4	0.0
Machinery and equipment, n.e.c.		6.6	15.4	10.8	-14.0	-12.0	-6.8	1.1	0.8	-1.1	-1.0	-0.4
Medium-low technology		16.3	8.4	5.7	-25.7	20.6	-4.3	1.4	0.9	-4.1	3.1	-0.7
Building and repairing of ships and boats		1.9	26.6	-24.5	140.5	465.8	-96.3	0.0	0.0	0.2	1.7	-1.8
Rubber and plastics products		2.8	9.1	4.2	-11.0	4.7	2.3	0.2	0.1	-0.3	0.1	0.1
Coke, refined petroleum products and nuclear fuel		2.8	9.3	18.0	-25.2	9.1	37.3	0.2	0.5	-0.8	0.3	1.0
Other non-metallic mineral products		1.3	2.2	2.1	-16.2	-0.6	-6.8	0.0	0.0	-0.2	0.0	-0.1
Basic metals		5.4	9.4	-1.5	-38.7	21.5	2.2	0.6	-0.1	-2.5	1.1	0.1
Fabricated metal products, excl. machinery		2.2	6.5	18.7	-21.9	-2.8	-1.4	0.1	0.4	-0.6	-0.1	0.0
Low technology		22.3	8.5	2.9	-6.9	3.8	3.7	1.8	0.6	-1.4	0.9	0.8
Manufacturing, n.e.c.; recycling		2.2	6.4	5.9	-7.8	1.3	-6.2	0.1	0.1	-0.2	0.0	-0.1
Pulp, paper, paper products, printing and publishing		2.5	9.3	0.0	-11.6	2.1	-0.5	0.2	0.0	-0.3	0.1	0.0
Food products, beverages and tobacco		9.3	10.1	8.0	-3.6	1.4	10.3	0.8	0.7	-0.3	0.1	1.0
Textiles, textile products, leather and footwear		7.3	6.7	-1.9	-7.1	7.4	0.2	0.5	-0.1	-0.5	0.6	0.0
Wood and products of wood and cork, excl . furniture		0.9	11.1	-3.6	-22.2	13.9	0.8	0.1	0.0	-0.2	0.1	0.0
Residual			-0.7	24.6	-34.2	26.0	16.6	-0.1	4.0	-6.5	4.1	3.0
By origin country		**Weights 2010**	**Rate of change (per cent)**					**Contributions (percentage points)**				
			2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Intra-community		75.7	5.9	4.6	-15.9	7.0	-2.6	4.5	3.5	-11.9	5.5	-2.0
of which:												
Spain		31.2	7.1	6.3	-14.9	5.7	2.3	2.2	1.9	-4.6	1.9	0.7
Germany		13.9	3.9	2.7	-21.0	16.5	-10.0	0.6	0.4	-2.8	2.2	-1.4
France		7.3	8.7	-0.2	-17.5	-3.5	-4.3	0.7	0.0	-1.4	-0.3	-0.3
Italy		5.7	-1.0	4.6	-13.4	8.6	-5.0	-0.1	0.3	-0.7	0.5	-0.3
United Kingdom		3.8	-5.2	-4.1	-20.6	27.6	-10.7	-0.2	-0.2	-0.7	0.9	-0.4
Extra-community		24.3	8.5	15.3	-32.0	25.9	12.5	1.9	3.6	-8.1	5.5	3.0
of which:												
Brazil		1.8	12.0	-1.3	-34.9	17.9	39.7	0.3	0.0	-0.7	0.3	0.7
Angola		1.0	600.3	10.5	-63.0	272.9	109.0	0.6	0.1	-0.4	0.8	1.1
Saudi Arabia		0.9	-19.5	56.3	-39.8	30.0	73.4	-0.2	0.4	-0.4	0.2	0.7
Algeria		0.5	-35.6	22.4	-61.1	-2.0	188.2	-0.6	0.2	-0.7	0.0	0.9

Sources: *GEE*, *INE* and Banco de Portugal calculations.

Note: (a) Data released by the Office for Strategy and Studies of the Ministry of Economy and Employment (GEE), obtained from the international trade data released by the INE and the classification of manufacturing industries by technology intensity, based on R&D intensities, released by the OECD. For more details, see http://www.oecd.org/dataoecd/43/41/48350231.pdf. The residual category refers to products that cannot be included in the technology intensity classification, namely agriculture and mining and quarrying products, as well as product for which INE does not release fully detailed data, for confidentiality reasons, preventing the use of the classification by technnology intensity.

Imports of other services recorded an increase of 3.7 per cent, in real terms, largely reflecting strong growth in the financial services component (117.6 per cent, in nominal terms), associated with the payment of fees and service charges under the financial assistance programme (EFAP) (Table 5.7).[2]

Table 5.7

PORTUGUESE IMPORTS OF SERVICES | NOMINAL VALUES

	Weights 2010	Rate of change (per cent)					Contributions (percentage points)				
		2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Total	100.0	8.2	8.0	-8.3	5.2	5.0	8.2	8.0	-8.3	5.2	5.0
Transportation	29.6	9.8	6.7	-14.1	6.0	4.2	3.1	2.1	-4.4	1.8	1.2
Travel	27.2	7.9	2.4	-7.7	8.9	0.7	2.2	0.7	-2.0	2.3	0.2
Other business services	21.2	7.4	18.1	-4.1	-0.3	4.6	1.5	3.5	-0.9	-0.1	1.0
Personal, cultural and recreational services	4.5	-1.0	10.1	17.5	1.1	-2.0	0.0	0.4	0.6	0.1	-0.1
Communications services	4.0	25.1	4.1	-13.6	-2.4	-3.6	1.0	0.2	-0.6	-0.1	-0.1
Royalties and license fees	3.8	5.7	2.3	9.8	11.7	-6.1	0.2	0.1	0.3	0.4	-0.2
Computer and information services	3.4	11.6	17.3	7.1	0.6	19.4	0.3	0.5	0.2	0.0	0.7
Financial services	2.2	-2.7	28.3	-30.3	34.0	117.6	-0.1	0.5	-0.7	0.6	2.6
Insurance services	2.2	0.5	6.6	-4.6	23.3	-5.6	0.0	0.1	-0.1	0.4	-0.1
Government services	1.1	-7.2	-21.9	-24.3	-2.0	-23.8	-0.2	-0.4	-0.3	0.0	-0.3
Construction services	0.9	15.8	28.2	-24.4	-21.5	23.9	0.2	0.3	-0.3	-0.3	0.2

Source: Banco de Portugal.

2 For further details see "*Impact on the statistics disseminated by the Banco de Portugal of the first operations in the context of the Financial Assistance Programme to Portugal*" published with *Statistical Bulletin* - July 2011.

Box 5.1 | Recent evolution of the household saving rate in Portugal

The household saving rate is one of the relevant macroeconomic elements in the analysis of the Portuguese economy developments, particularly in the current context involving the structural correction of macroeconomic imbalances. The household saving rate showed a sharp drop in the period prior to monetary union and remained relatively stable up to 2005. Between 2006 and 2008, the saving rate declined to historical minimums, being this trajectory fully reversed in 2009. More recently, the saving rate slightly decreased in 2010 and in 2011 (Chart 1).

This box represents an attempt to understand the latest developments in the household savings rate in the light of its main macroeconomic determinants, using the time series model presented in Alves and Cardoso (2010)[1].

Empirical relationship between the saving rate and its main determinants

The long term equation estimated for the household savings rate is set out below:

$$SvRate_t = \propto_0 + \propto_1 Interest_t + \propto_2 BGov_t + \propto_3 GDPvrc_t + \varepsilon_t \qquad (1)$$

where SvRate is the household saving rate (as a percentage of disposable income), Interest is a representative interest rate of deposits (measured in terms of annual average), BGov is the government fiscal balance excluding temporary measures and other special effects (as a percentage of GDP) and GDPvrc is the volume rate of change of GDP.

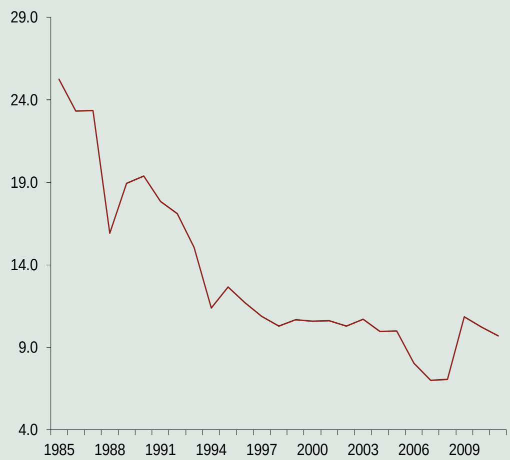
In turn, the short term dynamics of the change in the saving rate is set out below:

$$\Delta SvRate_t = \beta_0 + \beta_1 \Delta SvRate_{t-1} + \gamma_1 \Delta BGov_t + \gamma_2 \Delta GDPvcr_t + \gamma_3 \Delta Wealth_t - \tau ECM_{t-1} + u_t \qquad (2)$$

where Δ represents the first difference of the respective variable, Wealth is the value of total net worth of households (measured as the value of financial assets and housing minus debt) as a percentage of disposable income and ECM is the error correction mechanism, that is, the vector of residuals from equation (1).

Chart 1

HOUSEHOLD SAVING RATE IN PORTUGAL | AS A PERCENTAGE OF DISPOSABLE INCOME



Sources: *INE* and Banco de Portugal.

1 For a more detailed description of the model used and interpretation of the estimated relationships see Alves and Cardoso (2010), "Household savings in Portugal: micro and macroeconomic evidence", Banco de Portugal, *Economic Bulletin* - Winter.

Since part of the statistical information was revised after the publication of the mentioned study, the equations were re-estimated consistently with the most recent information. In particular, a new national accounts series, in 2006 basis (starting in 1995) and annual national accounts for 2008 and 2009 were published which translated into new saving rate and disposable income series and new household wealth estimates (see: Banco de Portugal. Annual Report, Box 5.1 Update on household wealth: 1980-2010). It should, however, be noted that the revisions, particularly of household saving rates series, were not significant.

The estimation period coincided with that of the above referred study (1985-2009). The re-estimated coefficients do not differ significantly from those previously obtained[2]. Chart 2 displays the series of observed values for the change in the saving rate and those estimated in accordance with the dynamic short term equation (2). The model's estimates for 2010 and 2011 are based on the explanatory variables' effectively observed data.

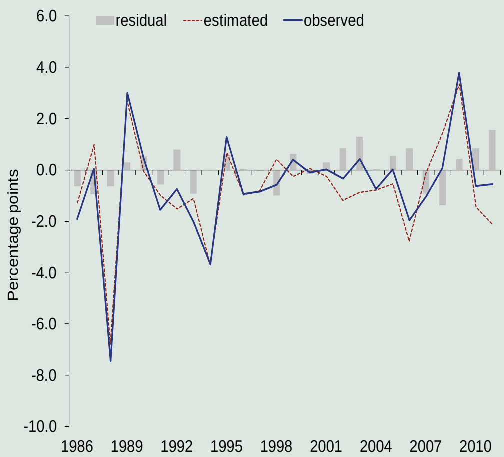
Explanatory factors for the evolution of the saving rate in 2011

The estimated model indicates that, in accordance with the macroeconomic determinants considered, a decline in household saving rates in 2010 and 2011 was to be expected. The values estimated by the model point, however, to a sharper reduction in the saving rate than the one observed in 2010 and particularly, in 2011.

Centring the analysis specifically on 2011, the factors presenting highest contribution to the projection of the decline in savings rate are the reduction of the government fiscal deficit and downturn of economic activity (and consequent reduction of disposable income). As regards the impact of the fiscal consolidation process, empirical evidence suggests some substitution effect between public and private savings. This substitution is particularly marked in the case of measures having an impact on household disposable income as happened in 2011. By its turn, the significant decline in real household disposable income tend to be reflected in lower saving rates, centred on households with an intertemporal consumption smoothing capacity.

Chart 2

CHANGES IN SAVING RATE - OBSERVED AND ESTIMATED



Sources: *INE* and Banco de Portugal.

2 In the same way, re-estimating the model up to 2011, the coefficients obtained are similar, reflecting the model's stability in the most recent period.

The fact that the decline in the savings rate, in 2011, was significantly lower than estimated by the econometric model suggests that other factors not considered in the econometric specification will have made an important contribution to such evolution. In this context, three factors merit special reference. Firstly, the marked drop of disposable income, in 2011, has been largely perceived as permanent. In this case, households tend to adjust their respective consumption levels in an equivalent manner, keeping their savings levels unchanged. Secondly, a framework of more restrictive access to bank financing have been accompanied by an increase in the proportion of households with active liquidity restrictions over the course of the past year, leading to a situation in which the drop in disposable income translates into a drop in private consumption. Finally the major uncertainty over economic developments in general and particularly as regards future earnings, have also contributed to an increase in savings for precautionary reasons. These three factors have thus mitigated the fall in the saving rate in 2011 and have continued to play a decisive role in its evolution at the beginning of 2012.

BOX 5. 2 | RECENT DEVELOPMENTS IN THE INTERNATIONAL PRICE/ COST COMPETITIVENESS OF THE PORTUGUESE ECONOMY MEASURED BY THE RELATIVE UNIT LABOUR COSTS

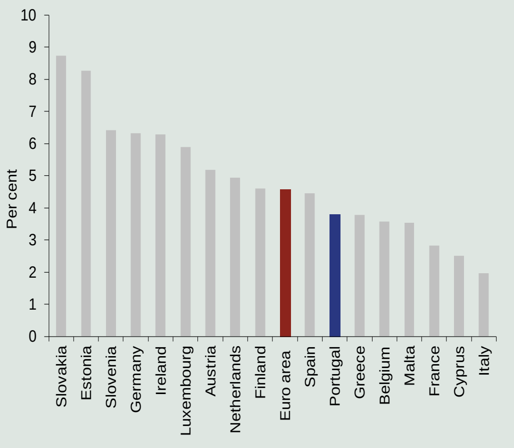
Over the last decade, the performance of the exports of goods and services between different euro area countries has been highly heterogeneous (Chart1). Several countries, such as Slovakia, Estonia, Slovenia, Germany and Ireland, recorded export growth rates of more than 6 per cent, in real terms, on average, for the period 1999-2011. In the same period, countries such as France, Cyprus and Italy recorded export growth of less than 3 per cent. The average rate of export growth in Portugal was 3.8 per cent, 0.8 percentage points (pp) less than the euro area average. In the most recent period, between 2006 and 2011, Portuguese exports recorded an average rate of growth of 4.1 per cent, 0.5 pp more than the average for the euro area (Chart 2). In 2011, Portuguese exports grew 7.4 per cent, 1.3 pp more than the average for the euro area (see "Chapter 1. International Environment", of this Report).

The evolution of exports in different countries is influenced by a broad range of factors, which include international price/cost competitiveness, domestic and external macroeconomic developments, namely in terms of demand, and the capacity to adapt in a context of openness and growing participation of new countries in international trade. Over the long term, reference should be made to the quality of factors of production, technological progress and the institutional framework which affect global competitiveness and the sectoral specialisation of exports.

This box focuses on the issue of international cost competitiveness and particularly in one of the indicators most commonly used to evaluate this concept, the effective exchange rate deflated by the relative unit labour costs. This index corresponds to a relative production cost – relative unit labour costs – of domestic producers in comparison to producers in the main international trading partners, defined in a common currency. An increase (decrease) in this index signifies an increase (decrease) in the relative unit labour costs of domestic producers, which can be interpreted as a loss (gain) of international labour cost competitiveness.

Chart 1

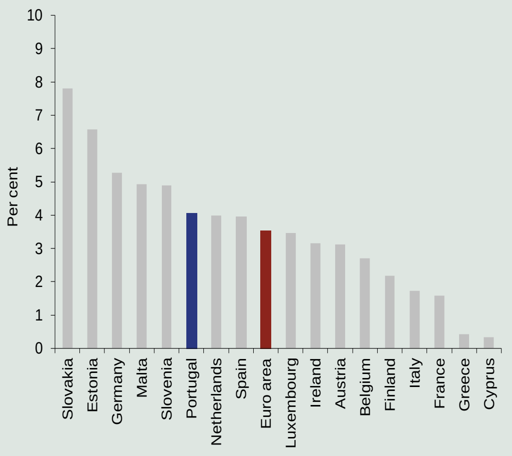
EXPORTS OF GOODS AND SERVICES | RATE OF CHANGE IN VOLUME, AVERAGE 1999-2011



Sources: European Commission and *INE*.

Chart 2

EXPORTS OF GOODS AND SERVICES | RATE OF CHANGE IN VOLUME, AVERAGE 2006-2011



Sources: European Commission and *INE*.

Methodological issues

The European Central Bank (ECB) releases series of effective exchange rate indices deflated by the relative unit labour costs for the euro area and for individual countries, the so-called Harmonised Competitiveness Indicators (HCI). The effective exchange rate indices deflated by the relative unit labour costs correspond to the weighted average of bilateral exchange rates vis-à-vis the currencies of the main trading partners, deflated by the relative unit labour costs. The weights are based on a 3 year average of imports (simple weights) and exports (double weights) of various countries and are updated on every three years.[1]

Banco de Portugal also releases effective exchange rate indices deflated by the relative unit labour costs for Portugal. These series are calculated on the basis of a methodology similar to the one used by the ECB.[2] There are, however, a few differences between the two series, which are essentially associated with the set of trading partners (and therefore the weights used in the aggregation) and with the calculation of unit labour costs in Portugal. The Banco de Portugal series considers a set of 21 trading partners (euro area 12, Denmark, United States, Hungary, Japan, Norway, Poland, United Kingdom, Czech Republic, Sweden and Switzerland), whereas the ECB series includes 36 countries (16 euro area countries and a set of 20 countries including the remaining 10 European Union countries plus Australia, Canada, China, South Korea, United States, Hong Kong, Japan, Norway, Singapore and Switzerland).

As regards unit labour costs in Portugal, both ECB and Banco de Portugal use the information from the national accounts produced by INE to perform this calculation, with both series coinciding from 2006 onwards.[3] However, for the period prior to 2006, Banco de Portugal constructed a consistent series for the compensation of employees, using the current national accounts calculation methodology (base 2006). In short, with the updating of the national accounts base in 2006, the registration of transfers to Caixa Geral de Aposentações (CGA)[4] was changed, being assumed that general government, as an employer, pays contributions to the CGA according to an agreed fixed rate, as in the private sector. Up to 2006, these contributions represented the amount required to guarantee CGA's financial equilibrium, which, notwithstanding being a cost associated with the labour factor in the public sector, is not directly related with the compensation.[5] The impact of this question in the unit labour costs series was 2.4 pp in accumulated terms over the period 1999-2006 (Chart 3).

Recognising that the use of a harmonised methodology for the calculation of the HCI for the various countries facilitates international comparisons, Banco de Portugal will, in the future, publish the series of effective exchange indices deflated by the relative unit labour costs produced by the ECB. However, for the period prior to 2006, Banco de Portugal will adjust the unit labour costs series in Portugal, using the current methodology of calculation of the social contributions to the CGA (Chart 4).

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1 The ECB, in January 2012, updated its information on weights for the period 2007-2009. For further details on the calculation methodology of these indicators, see http://www.ecb.europa.eu/stats/exchange/hci/html/index.en.html.

2 The international trade weights refer to the period 2001-2003. For further details on the effective exchange index's calculation methodology see Gouveia, A. and Coimbra, C. (2004) "New Effective Exchange Rate Index for the Portuguese Economy", Banco de Portugal, *Economic Bulletin - December*.

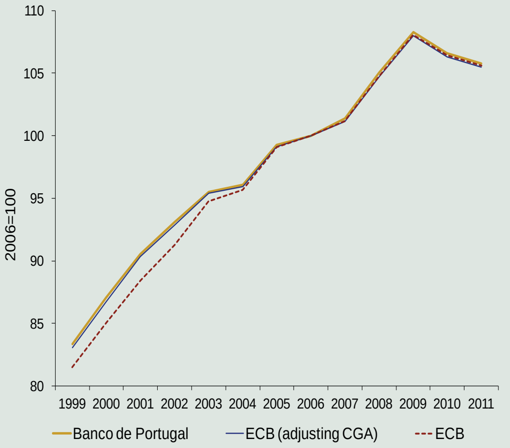
3 The unit labour costs series calculated by Banco de Portugal considers employment measured in full time equivalents (whereas the ECB measures employment by the number of individuals) and adjusts compensation of employees by the direct effects of tax credits issued by general government, in 2003. Such differences, however, have a reasonably insignificant impact and are negligible in accumulated terms.

4 *Caixa Geral de Aponsentações* – civil servants' pension scheme.

5 For further details on the changes to the method for processing social contributions to the CGA see "Box 2: *Relative unit labour costs in Portugal: methodological issues and evolution over the last decade*", Banco de Portugal, *Economic Bulletin* - Summer 2010.

Chart 3

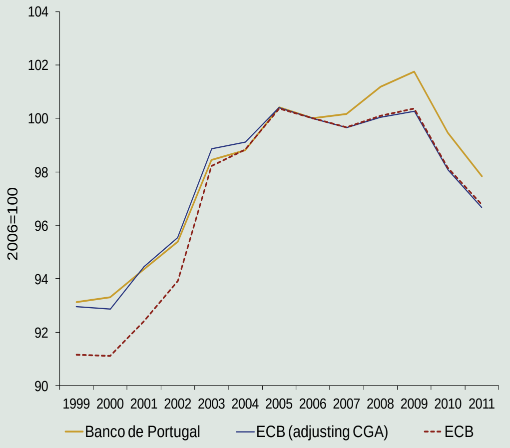
UNIT LABOUR COSTS IN PORTUGAL | INDEX 2006=100



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

Chart 4

REAL EFFECTIVE EXCHANGE RATE DEFLATED BY THE RELATIVE UNIT LABOUR COSTS | INDEX 2006=100



Sources: ECB and Banco de Portugal.

Recent evolution and international comparison

Since 1999, countries in the euro area have shared a common currency, eliminating the existence of exchange rate differentials among each other. However, international cost competitiveness may vary between countries in the euro area. These changes are, inter alia, related with differences in intra and extra-community trade patterns, the degree of openness to international trade and the evolution of each country's unit labour costs.

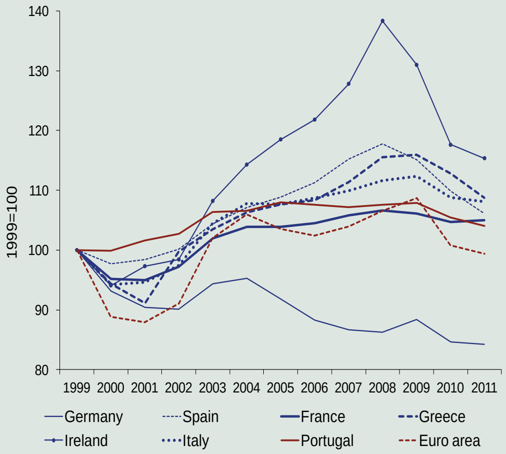
Between 1999 and 2011, the effective exchange index deflated by relative unit labour costs for Portugal increased 4 per cent in accumulated terms, in contrast with a -0.7 per cent change registered in average terms in the euro area. In comparison with other euro area countries, the deterioration of Portuguese international cost competitiveness based on relative unit labour costs was less than that noted for Spain (6.1 per cent), France (5.0 per cent), Greece (8.7 per cent), Ireland (15.4 per cent) and Italy (8.1 per cent). In turn, in Germany the effective exchange rate index deflated by relative unit labour costs decreased by around 16 per cent, in accumulated terms (Chart 5).

The 4 per cent increase of the Portuguese effective exchange rate index deflated by the relative unit labour costs in accumulated terms, in the period 1999-2011 reflected a growth of 7.6 per cent between 1999 and 2006 and a reduction of 3.3 per cent between 2006 and 2011, which was particularly marked in 2010 and 2011 (-2.2 and -1.4 per cent, respectively). The decline in the effective exchange rate index deflated by the relative unit labour costs, in 2011, was similar to the average decline noted in the euro area. This decline was recorded both in the case of unit labour costs relative to euro area countries (-0.9 per cent) and, more markedly, in comparison to the remaining 20 trading partners (-3.0 per cent) (Chart 6). Given the virtually nil change in the nominal effective exchange rate for Portugal (-0.1 per cent), the evolution of the relative unit labour costs essentially reflected a reduction of unit labour costs in Portugal (-0.8 per cent), in comparison to an approximately nil change, in average, for euro area countries and an average increase of around 2 per cent, in the other 20 trading partners.

The decline in Portuguese relative unit labour costs in the most recent period may have contributed to export dynamism. Since exports are expected to continue to make a decisive contribution to sustaining economic activity, gains in international cost competitiveness, based on relative unit labour costs, in the most recent period may contribution positively to the future evolution of Portuguese exports.

Chart 5

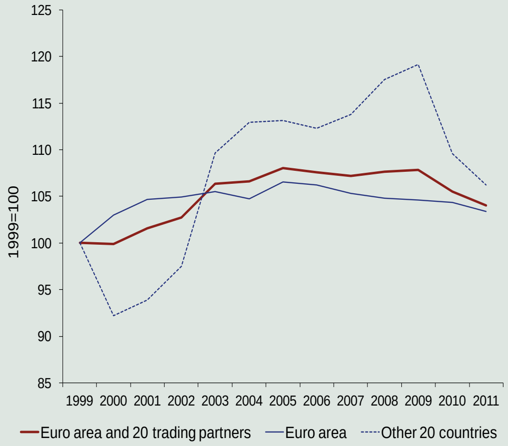
DEVELOPMENTS IN THE REAL EFFECTIVE RATE OF CHANGE DEFLATED BY THE RELATIVE UNIT LABOUR COSTS - INTERNATIONAL COMPARISON | INDEX 1999=100



Sources: ECB and Banco de Portugal.

Chart 6

REAL EFFECTIVE EXCHANGE RATE DEFLATED BY THE RELATIVE UNIT LABOUR COSTS - BREAKDOWN BY EURO AREA AND OTHER COUNTRIES | INDEX 1999=100



Sources: ECB and Banco de Portugal.

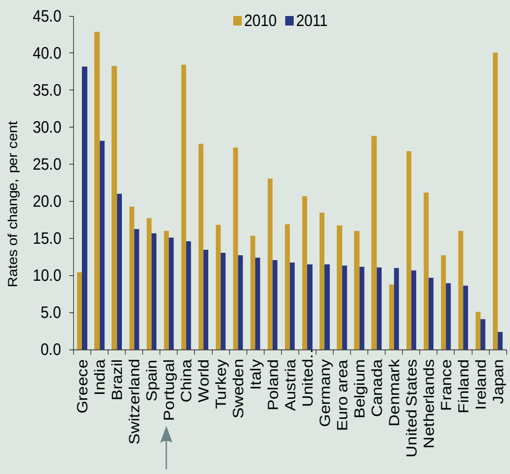
BOX 5.3 | THE EVOLUTION OF PORTUGUESE EXPORTS OF GOODS IN 2011 BY MAIN PRODUCTS AND GEOGRAPHICAL DESTINATIONS

Portuguese exports of goods recorded a nominal growth of 15.1 per cent in 2011, only slightly lower than in 2010 (16.0 percent). However, although globally positive, this evolution was not homogenous in terms of the main products exported and the main geographical destinations of exports. This Box analyses in detail the product composition and the geographical distribution of Portuguese exports of goods in 2011, using information on international trade released by the INE.

In 2011, world exports of goods continued to recover from the marked decline recorded in 2009, albeit at a much more moderate rate than in 2010. World exports of goods grew 13.5 per cent in 2011 in nominal terms (27.7 per cent in 2010) whereas nominal exports of the euro area increased 11.3 per cent in 2011 (16.8 per cent in 2010). This deceleration of exports in relation to 2010 was common to most economies, both advanced and developing (Chart 1). Hence, the nominal growth of Portuguese exports in 2011 compares favourably with what happened on a global level.

Chart 1

WORLD EXPORTS OF GOODS | IN NOMINAL TERMS



Sources: *INE* and CPB Netherlands Bureau for Economic Policy Analysis.
Note: The evolution of nominal exports of Greece in 2011 is very influenced by the strong growth of exports of energy goods.

All groups of products recorded positive rates of change in 2011, but with differentiated behaviours in comparison to 2010

The most significant contribution to the nominal growth of Portuguese exports in 2011 resulted from exports of transport equipment, which maintained a growth rate above 20 per cent (Table 1 and Chart 2).[1] Exports of electrical and mechanical machinery and appliances accelerated markedly in 2011, leading to a strong increase in their contribution to total export growth. In turn, exports of fuels decelerated sharply in comparison to the preceding year, but continued to contribute substantially to the total change in exports. Other important contributions to the increase in exports in 2011 resulted from exports of chemicals and base metals. In the case of chemicals, there was even a strong acceleration in relation to the previous year, while base metals maintained the high growth rates observed in 2010. In 2011, there

1 The sectoral analysis made in this Box uses a breakdown based in the chapters of the Combined Nomenclature (CN) defined at the 2-digit level.

Table 1

PORTUGUESE EXPORTS OF GOODS BY MAIN PRODUCTS | IN NOMINAL TERMS, WEIGHTS AND RATES OF CHANGE IN PER CENT AND CONTRIBUTIONS TO THE RATES OF CHANGE IN PERCENTAGE POINTS

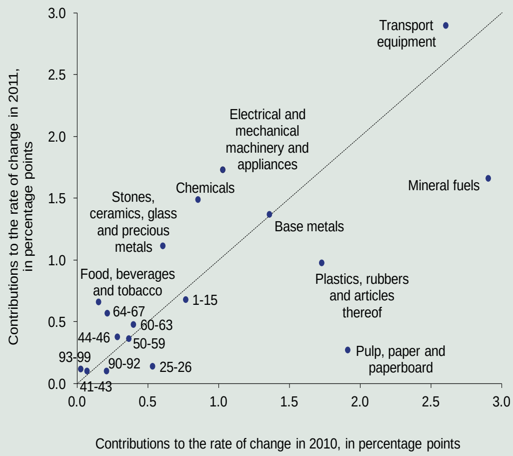
	Code CN	Weights			Rates of change			Contributions		
		2009	2010	2011	2009	2010	2011	2009	2010	2011
Animal and vegetable products	01-15	5.4	5.3	5.2	-10.4	14.1	12.7	-0.5	0.8	0.7
Foodstuffs, beverages and tobacco	16-24	7.2	6.3	6.1	-0.5	2.1	10.5	0.0	0.1	0.7
Mineral products, excluding fuels	25-26	1.6	1.8	1.7	-25.5	33.7	7.7	-0.4	0.5	0.1
Mineral fuels	27	4.9	6.7	7.3	-28.4	59.5	24.8	-1.6	2.9	1.7
Chemicals and allied Industries	28-38	5.0	5.0	5.7	-16.0	17.1	29.7	-0.8	0.9	1.5
Plastics, rubbers and articles thereof	39-40	6.2	6.9	6.8	-13.4	27.7	14.2	-0.8	1.7	1.0
Raw hides, skins, leather and furs	41-43	0.3	0.3	0.4	-18.3	23.1	32.6	-0.1	0.1	0.1
Wood, cork and straw	44-46	3.7	3.5	3.3	-23.0	7.6	10.9	-0.9	0.3	0.4
Pulp, paper and paperboard	47-49	4.7	5.7	5.2	-0.9	40.7	4.8	0.0	1.9	0.3
Textiles and textile fibres	50-59	2.5	2.5	2.5	-19.1	14.6	14.8	-0.5	0.4	0.4
Apparel and clothing accessories	60-63	8.5	7.7	7.1	-12.8	4.6	6.2	-1.0	0.4	0.5
Footwear and headgear	64-67	4.1	3.7	3.7	-8.4	5.1	15.3	-0.3	0.2	0.6
Stones, ceramics, glass and precious metals	68-71	4.5	4.4	4.8	-7.0	13.4	25.3	-0.3	0.6	1.1
Base metals	72-83	7.8	7.9	8.1	-25.9	17.3	17.3	-2.2	1.4	1.4
Electrical and mechanical machinery and appliances	84-85	16.3	14.9	14.5	-31.0	6.3	11.6	-6.0	1.0	1.7
Transport equipment	86-89	11.7	12.4	13.3	-21.4	22.2	23.4	-2.6	2.6	2.9
Optical, precision, medical and musical instruments	90-92	1.1	1.1	1.1	2.9	18.3	8.9	0.0	0.2	0.1
Miscellaneous manufactured articles	93-99	4.3	3.7	3.4	-9.8	0.6	3.2	-0.4	0.0	0.1
Total		100	100	100	-18.4	16.0	15.1	-18.4	16.0	15.1
Total excluding fuels		95.1	93.3	92.7	-17.8	13.7	14.4	-16.8	13.1	13.4

Source: *INE*.

Note: CN refers to the Combined Nomenclature.

Chart 2

CONTRIBUTIONS TO THE CHANGE OF PORTUGUESE EXPORTS OF GOODS BY MAIN PRODUCTS | IN NOMINAL TERMS



Source: *INE*.

Note: The CN codes used in this chart are the same as in table 1, where the respective description is included .

was also an increase in the contribution of Portuguese exports of stones and precious metals (mainly non-monetary gold) and of foodstuffs, beverages and tobacco. On the contrary, the contributions of Portuguese exports of pulp, paper and paperboard and of plastics and rubbers were much lower than in the previous year. It should be noted, however, that Portuguese exports of paper had recorded particularly high growth rates in 2010, coinciding with the implementation in late 2009 of a highly relevant export-oriented investment project.

There was a positive change of Portuguese exports to most geographical destinations, but with distinct evolutions in comparison to the previous year

Intra-community exports, as a whole, decelerated from 15.4 per cent in 2010 to 13.6 per cent in 2011 (Table 2). In contrast, extra-community exports grew 19.5 per cent in 2011 (17.7 per cent in 2010), reinforcing the trend towards an increase in the share of these markets in Portuguese exports observed over the last decade.

As in 2010, the main contributions to the nominal growth of Portuguese exports of goods derived from their three main destination countries: Spain, Germany and France. However, these markets had very different evolutions in 2011. Contributions of the German and French markets increased in 2011, whereas the growth of Portuguese exports to Spain was much lower than in 2010 (Chart 3).

In contrast to the sharp reduction observed in 2010, Portuguese exports to Angola registered a very strong growth, becoming the fourth largest destination of Portuguese exports of goods in 2011. Exports to China and Algeria also accelerated substantially in 2011, with growth rates above 60 per cent, translating into an increase in the respective contributions to the total change in exports. In the case of China, the marked acceleration of exports in 2011 largely reflected sales of motor vehicles, although

Table 2

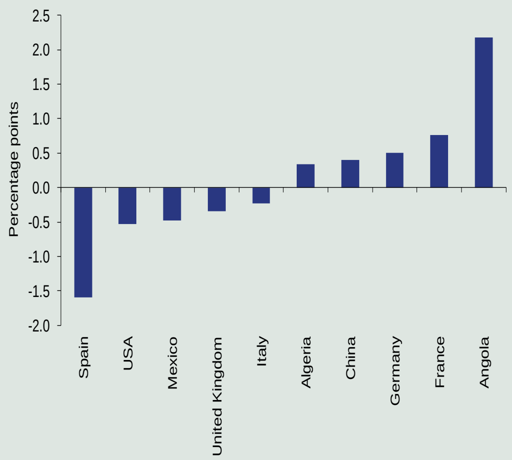
PORTUGUESE EXPORTS OF GOODS BY MAIN COUNTRIES OF DESTINATION | IN NOMINAL TERMS, WEIGHTS AND RATES OF CHANGE IN PER CENT AND CONTRIBUTIONS TO THE RATES OF CHANGE IN PERCENTAGE POINTS

	Weights			Rates of change			Contributions		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Germany	13.0	13.0	13.6	-17.1	16.5	20.3	-2.2	2.1	2.6
France	12.4	11.8	12.0	-14.2	10.3	17.4	-1.7	1.3	2.0
Spain	27.2	26.6	24.8	-20.3	13.2	7.5	-5.7	3.6	2.0
Angola	7.1	5.2	5.5	-0.8	-14.6	22.0	0.0	-1.0	1.1
Belgium	2.5	2.9	3.2	-18.9	34.7	26.4	-0.5	0.9	0.8
Netherlands	3.6	3.8	3.9	-10.2	22.4	18.5	-0.3	0.8	0.7
USA	3.2	3.6	3.5	-24.5	31.1	12.9	-0.8	1.0	0.5
China	0.7	0.6	0.9	20.5	6.0	69.7	0.1	0.0	0.4
Italy	3.7	3.8	3.7	-17.1	17.4	11.0	-0.6	0.7	0.4
Brazil	0.9	1.2	1.4	-7.9	49.5	32.9	-0.1	0.5	0.4
Algeria	0.6	0.6	0.8	9.0	8.9	66.8	0.0	0.1	0.4
United Kingdom	5.6	5.5	5.1	-15.8	12.6	6.8	-0.9	0.7	0.4
Poland	0.9	0.9	1.0	-13.2	17.6	27.2	-0.1	0.1	0.2
Morocco	0.7	0.8	0.9	-21.2	40.4	28.1	-0.1	0.3	0.2
Japan	0.3	0.3	0.5	-51.9	47.8	50.0	-0.2	0.1	0.2
Total of these 15 countries	82.4	80.6	80.8	-16.3	13.5	15.4	-13.1	11.1	12.4
Total	100	100	100	-18.4	16.0	15.1			
Total intra-community	75.4	75.0	74.0	-17.3	15.4	13.6	-12.9	11.6	10.2
Total extra-community	24.6	25.0	26.0	-21.5	17.7	19.5	-5.5	4.4	4.9

Source: *INE*.
Note: Countries ordered according to their contribution to the growth of Portuguese exports in 2011.

Chart 3

TEN COUNTRIES OF DESTINATION WITH GREATER VARIATION OF THEIR CONTRIBUTION TO THE GROWTH OF PORTUGUESE EXPORTS IN 2011 | IN NOMINAL TERMS, VARIATION IN THE CONTRIBUTIONS TO THE GROWTH RATES OF EXPORTS BETWEEN 2010 AND 2011, IN PERCENTAGE POINTS



Source: *INE*.

exports of wood pulps and of copper products also made an important contribution to the growth of Portuguese exports to that country. On the contrary, exports to the US and Mexican markets decelerated significantly in comparison to 2010. In 2011, there was also a decline of the contribution of exports to the United Kingdom and Italy.

The ten country/product individual markets with the largest contribution to the increase in Portuguese exports in 2011 were very diversified

Considering the previously used sectoral breakdown and the diverse countries of destination, table 3 includes the country/product individual markets that contributed the most to the increase in Portuguese exports in 2011 and table 4 provides the same information for 2010, highlighting the ten main contributions in each year. The ten individual markets with the largest contributions represented around 30 per cent of the total growth of Portuguese exports in both 2010 and 2011. However, the observation of these two tables shows significant differences in the composition of the most important contributions to export growth. In 2010, the Spanish market included five of the ten individual markets with the highest contribution, while in 2011 it only comprises two and with different products than in 2010. In fact, the only country/product individual markets remaining among the ten largest in the two years are transport equipment for Germany and France.

In addition, exports of transport equipment to France and, especially, to Germany also comprised the two highest individual contributions in 2011. Exports of stones, plaster, ceramics, glass and precious metals to Belgium gave the third most important individual contribution in 2011. These exports were essentially composed of non-monetary gold. Portuguese exports of electrical and mechanical machinery and appliances to the German and French markets also made a significant contribution to total export growth. Sales of mineral fuels and chemicals to Spain also gave a strong contribution to the total change in Portuguese exports in 2011. Other important positive contributions resulted from exports of chemicals to the Netherlands, foodstuffs, beverages and tobacco to Angola and base metals to Algeria, more specifically iron and steel products.

Table 3

CONTRIBUTION OF EACH COUNTRY/PRODUCT INDIVIDUAL MARKET TO THE TOTAL GROWTH OF PORTUGUESE EXPORTS OF GOODS IN 2011 | IN NOMINAL TERMS, CONTRIBUTIONS TO THE RATES OF CHANGE IN PERCENTAGE POINTS

	Code CN	Germany	France	Spain	Angola	Belgium	Netherlands	USA	China	Italy	Brazil	Algeria	United Kingdom	Poland	Morocco	Japan	Total
Animal and vegetable products	01-15	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.7
Foodstuffs, beverages and tobacco	16-24	0.0	0.1	0.2	0.3	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Mineral products, excluding fuels	25-26	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Mineral fuels	27	0.0	0.0	0.3	0.1	0.1	0.0	0.1	0.0	-0.2	0.1	0.0	-0.1	0.0	0.0	0.0	1.7
Chemicals and allied Industries	28-38	0.1	0.1	0.3	0.1	0.1	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.5
Plastics, rubbers and articles thereof	39-40	0.1	0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	1.0
Raw hides, skins, leather and furs	41-43	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Wood, cork and straw	44-46	0.0	0.0	0.1	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
Pulp, paper and paperboard	47-49	0.1	0.1	0.0	0.1	-0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Textiles and textile fibres	50-59	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Apparel and clothing accessories	60-63	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.5
Footwear and headgear	64-67	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Stones, ceramics, glass and precious metals	68-71	0.1	0.0	0.1	0.0	0.5	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	1.1
Base metals	72-83	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	1.4
Electrical and mechanical machinery and appliances	84-85	0.4	0.3	0.0	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.0	1.7
Transport equipment	86-89	1.5	0.7	0.2	-0.1	0.1	0.0	0.1	0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0	2.9
Optical, precision, medical and musical instruments	90-92	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Miscellaneous manufactured articles	93-99	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total		2.6	2.0	2.0	1.1	0.8	0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.2	0.2	0.2	15.1

Source: *INE*.

Notes: CN refers to the Combined Nomenclature. The values for the total of each country may not match the sum of various components due to questions related to the treatment of confidentiality by the *INE*.

Table 4

CONTRIBUTION OF EACH COUNTRY/PRODUCT INDIVIDUAL MARKET TO THE TOTAL GROWTH OF PORTUGUESE EXPORTS OF GOODS IN 2010 | IN NOMINAL TERMS, CONTRIBUTIONS TO THE RATES OF CHANGE IN PERCENTAGE POINTS

	Code CN	Germany	France	Spain	Angola	Belgium	Netherlands	USA	China	Italy	Brazil	Algeria	United Kingdom	Poland	Morocco	Japan	Total
Animal and vegetable products	01-15	0.0	0.0	0.4	0.0	0.0	0.1	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.8
Foodstuffs, beverages and tobacco	16-24	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Mineral products, excluding fuels	25-26	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Mineral fuels	27	0.0	0.0	0.3	0.0	0.0	0.2	0.5	0.0	0.2	0.0	0.0	0.0	0.0	0.0		2.9
Chemicals and allied Industries	28-38	0.2	0.0	0.3	0.0	0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.9
Plastics, rubbers and articles thereof	39-40	0.2	0.2	0.5	0.0	0.1	0.2	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	1.7
Raw hides, skins, leather and furs	41-43	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Wood, cork and straw	44-46	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.3
Pulp, paper and paperboard	47-49	0.2	0.1	0.4	0.0	0.4	0.0	0.2	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0	1.9
Textiles and textile fibres	50-59	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Apparel and clothing accessories	60-63	0.0	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Footwear and headgear	64-67	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.2
Stones, ceramics, glass and precious metals	68-71	0.0	0.0	0.2	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Base metals	72-83	0.2	0.0	0.7	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	1.4
Electrical and mechanical machinery and appliances	84-85	0.4	0.2	-0.1	-0.6	0.1	0.0	0.1	0.1	0.1	0.1	-0.1	0.1	0.1	0.0	0.1	1.0
Transport equipment	86-89	1.0	0.5	0.5	-0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	2.6
Optical, precision, medical and musical instruments	90-92	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Miscellaneous manufactured articles	93-99	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total		2.1	1.3	3.6	-1.0	0.9	0.8	1.0	0.0	0.7	0.5	0.1	0.7	0.1	0.3	0.1	16.0

Source: *INE*.

Notes: CN refers to the Combined Nomenclature. The values for the total of each country may not match the sum of various components due to questions related to the treatment of confidentiality by the *INE*.

The sectoral composition of exports to the four main countries of destination confirms the diversity that characterized the evolution of Portuguese exports of goods in 2011

It is important to provide a more detailed analysis of the sectoral composition of Portuguese exports to each of the four main geographical destinations (Spain, Germany, France and Angola). Chart 4 shows the five products at the 2-digit level of the Combined Nomenclature (CN) with the highest contribution to the change of Portuguese exports to each of these countries in 2011.

Motor vehicles gave the main contribution to the growth of Portuguese exports to Germany and France and the second highest contribution to Spain. However, using data at a more detailed level (4-digit), we observe that those exports are composed of different products in each of these geographical markets (Table 5). In the case of Germany, Portuguese exports of motor vehicles are mainly of passenger cars. On the contrary, in the case of France, the highest contribution to the increase in exports of motor vehicles resulted from the very strong growth of exports of vehicles for the transport of goods, although the parts and accessories for automobiles also contributed significantly in 2011. In the Spanish market, exports of parts and accessories for automobiles provided the most important positive contribution, in contrast to exports of passenger cars that fell in 2011.

As regards the other products included in chart 4, exports of fuels contributed substantially to the increase in Portuguese exports to Spain and Angola. Sales of various agricultural products and foodstuffs to Angola stand out for the high contribution to the total growth of Portuguese exports to this geographical destination in 2011. Iron, steel and articles thereof were relevant to the increase in Portuguese exports to Angola, Spain and France in 2011, while the products of chemical industries contributed positively to the change of exports to Spain and Germany. In the German market, there was also a strong contribution of exports of electrical machinery and equipment, while machinery and mechanical appliances were more important in Portuguese exports to France in 2011.

Portuguese exports had a favourable evolution in 2011 with signs of some sectoral and geographical diversification

In 2011, nominal exports of goods recorded a worldwide deceleration, common to the generality of the countries. In this context of slowdown, Portuguese exports maintained, however, a remarkable growth, only slightly lower than in 2010. The various groups of products analysed showed positive rates of change in 2011 and there was also an increase in Portuguese exports to the generality of geographical destinations. However, the country/product individual markets that contributed the most to the growth of Portuguese exports in 2011 were very heterogeneous and different from those observed in the previous year. This evolution points to a diversification effort of Portuguese exporters, mainly in geographical terms, in a context of reduced growth of economic activity in Portugal and in several of the major traditional markets of destination of Portuguese exports.

In recent years, some restructuring of the Portuguese exporting sector appears to be taking place, particularly in the case of low technology industries more affected by international competition, visible in the increase in the average concentration in most of these sectors.[2] This restructuring seems to have resulted mainly from the increased competition from new players in international trade with low production costs and strong comparative advantages in some products still with relevant weight in Portuguese

2 See Amador, J. and Soares, A. C, (2012), “Competition in the Portuguese Economy: An overview of classical indicators”, Banco de Portugal, *Working Paper* 8.

Table 5

COMPOSITION OF PORTUGUESE EXPORTS OF MOTOR VEHICLES TO THE MAIN COUNTRIES OF DESTINATION IN 2011 | IN NOMINAL TERMS, WEIGHTS AND RATES OF CHANGE IN PER CENT AND CONTRIBUTIONS TO THE RATES OF CHANGE IN PERCENTAGE POINTS

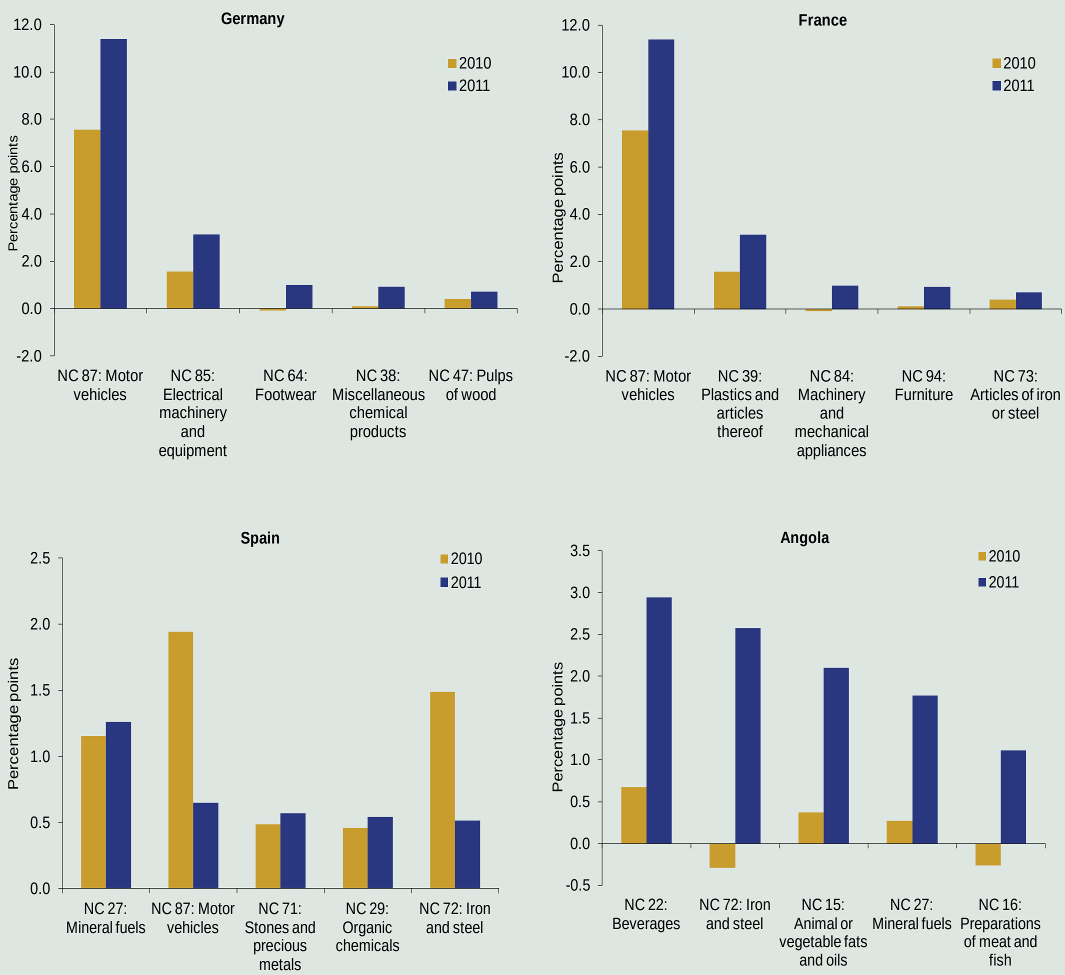
		World			Germany			France			Spain		
	Code CN	Weight 2010	Change 2011	Contribution 2011	Weight 2010	Change 2011	Contribution 2011	Weight 2010	Change 2011	Contribution 2011	Weight 2010	Change 2011	Contribution 2011
Motor vehicles	87	100.0	23.9		100.0	38.8		100.0	34.7		100.0	6.4	
of which:													
Passenger motor vehicles	8703	40.7	37.1	15.1	77.0	47.7	36.8	18.8	9.6	1.8	16.1	-1.8	-0.3
Motor vehicles for transport of goods	8704	9.7	37.0	3.6	2.0	16.3	0.3	15.2	150.5	22.8	2.8	26.2	0.7
Parts and accessories for motor vehicles	8708	40.9	10.6	4.3	18.9	11.8	2.2	58.5	14.5	8.5	66.2	8.1	5.4
By memory:													
Weight of CN87 in total exports		11.8			29.3			16.0			10.1		
Contribution of CN87 to total exports				2.8			11.4			5.6			0.6

Source: *INE*.

Note: CN refers to the Combined Nomenclature.

Chart 4

FIVE PRODUCTS WITH THE HIGHEST CONTRIBUTION TO THE GROWTH OF PORTUGUESE EXPORTS TO EACH GEOGRAPHICAL DESTINATION IN 2011 | IN NOMINAL TERMS, CONTRIBUTIONS TO THE RATES OF CHANGE IN PERCENTAGE POINTS



Source: *INE*.
Note: CN refers to the Combined Nomenclature.

exports, mainly products with low technological content.[3] Additionally, the available evidence at the microeconomic level points to the existence of a high level of reallocation of resources within Portuguese exporting firms, both in terms of the decision to participate in export markets and in terms of the decisions involving the products to export and the respective countries of destination.[4] These changes of product and destination, which are expected to continue in the near future, reflect adjustments of firms to changes in underlying market conditions and tend to contribute to a more efficient resource allocation.

3 See Amador, J. and Cabral, S. (2008), "The Portuguese export performance in perspective: a constant market share analysis", Banco de Portugal, *Economic Bulletin* - Autumn; Cabral, S. and Esteves, P. S. (2006), "Portuguese export market shares: an analysis by selected geographical and product markets", Banco de Portugal, *Economic Bulletin* - Summer.

4 See Amador, J. and Opromolla, L. D. (2008), "Product and destination mix in export markets", Banco de Portugal, *Working Paper* 17.

6. Prices

In 2011, the inflation rate in Portugal, measured by the average change in the Harmonised Index of Consumer Prices (HICP), was up 2.2 percentage points (pp) over 2010 to 3.6 per cent. The acceleration of consumer prices, in 2011, was strongly conditioned by the coming into force of diverse measures associated with the fiscal consolidation process, particularly increases in VAT and in the administered prices of several goods and services. These fiscal changes largely conditioned the inflation differential between Portugal and the euro area, which was positive in 2011, following three consecutive years of negative values. In addition, there was an increase in the prices of imports in annual average terms, particularly marked in the case of energy goods and foodstuffs, in line with the evolution of commodity prices in the international markets, notwithstanding deceleration in the second half of the year, reflecting world economic slowdown. However, the deepening of the strong contraction of domestic demand and the deceleration in demand for Portuguese exports over the course of 2011 helped to mitigate inflationary pressures. Amid the unpostponable process for the correction of the macroeconomic imbalances of the Portuguese economy, unit labour costs declined, with a drop in real wages, both in the public and private sectors. Excluding the marked increases in January and October 2011, associated with fiscal changes, the price growth had a downward trend over the course of 2011. Portuguese consumers kept expectations of inflation anchored at around 2 per cent, having correctly perceived the evolution of prices over the course of 2011.

Price acceleration in 2011 strongly conditioned by measures associated with the fiscal consolidation process

Following a period of strong price deceleration in Portugal, starting at the end of 2008 and extending through to the following year, translating into an annual average negative inflation rate in 2009, the inflation rate returned to positive territory in 2010, remaining above 3 per cent over the course of 2011. This price evolution in 2011 was transversal to the main HICP aggregates, with industrial goods (energy and non-energy) and services making a more expressive contribution to such price growth (Table 6.1 and Chart 6.1).

Consumer price acceleration was largely conditioned by the coming into force of diverse fiscal consolidation measures, particularly the VAT increase and increased administered prices of several goods and services (see "Chapter 3 *Fiscal Policy and Situation*", of this report). Following the 1 pp increase in all VAT rates starting 1 July 2010, the highest VAT rate was increased by 2 pp in January 2011 (from 21 to 23 per cent) and in October of the same year VAT on electricity and natural gas increased from 6 to 23 per cent. Assuming that these fiscal changes are fully passed through to consumer prices, based on data of the HICP at constant tax rates, released by Eurostat, a mechanical impact of the increase in indirect taxes of 1.4 pp is obtained for 2011 (Chart 6.2)[1].

In addition to the impact of VAT, the administered prices of several goods and services also increased significantly, notably public transport, sewerage collection and pharmaceutical products. In this latter case and notwithstanding the reduction of reference prices, consumer prices increased in 2011, as a result of the change in the rules of state co-financing.

1 For further details on the HICP at constant tax rates, see http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/methodology/hicp_constant_tax_rates.

Table 6.1

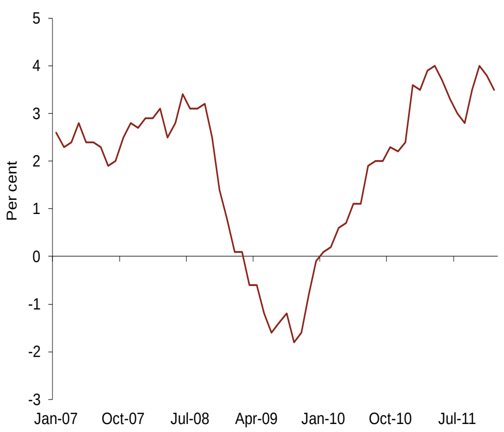
HICP -MAIN AGGREGATES | PER CENT

	Rate of change					Contributions (in p.p.)					Change in contributions (in p.p.)			
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	2008	2009	2010	2011
Total	2.4	2.7	-0.9	1.4	3.6	2.4	2.7	-0.9	1.4	3.6	0.3	-3.6	2.3	2.2
Total excluding energy	2.3	2.2	-0.2	0.3	2.3	2.1	2.0	-0.2	0.3	2.0	-0.1	-2.2	0.5	1.7
Total excluding unprocessed food and energy	2.2	2.5	0.3	0.3	2.2	1.8	1.9	0.3	0.2	1.7	0.1	-1.6	-0.1	1.5
Goods	2.2	2.4	-2.4	1.7	4.4	1.4	1.5	-1.4	1.0	2.6	0.1	-2.9	2.4	1.6
Food	2.8	4.2	-2.5	0.4	3.0	0.6	0.9	-0.5	0.1	0.6	0.3	-1.4	0.6	0.5
Unprocessed	3.0	0.6	-4.3	0.7	2.9	0.3	0.1	-0.4	0.1	0.3	-0.2	-0.5	0.5	0.2
Processed	2.6	8.1	-0.9	0.2	3.1	0.3	0.8	-0.1	0.0	0.3	0.5	-0.9	0.1	0.3
Industrial	1.9	1.4	-2.3	2.4	5.2	0.8	0.6	-0.9	0.9	1.9	-0.2	-1.5	1.8	1.0
Non-energy	1.4	-0.2	-0.8	-0.7	1.4	0.4	-0.1	-0.2	-0.2	0.4	-0.5	-0.1	0.0	0.6
Energy	3.5	6.6	-8.0	9.5	12.8	0.3	0.6	-0.7	1.1	1.6	0.3	-1.3	1.8	0.5
Services	2.8	3.1	1.3	1.0	2.4	1.0	1.2	0.5	0.4	1.0	0.2	-0.7	-0.1	0.6
Memo:														
Euro area HICP	2.1	3.3	0.3	1.6	2.7									
Differential between Portugal and the euro area (in p.p.)	0.3	-0.6	-1.2	-0.2	0.9									

Sources: Eurostat and Banco de Portugal calculations.

Chart 6.1

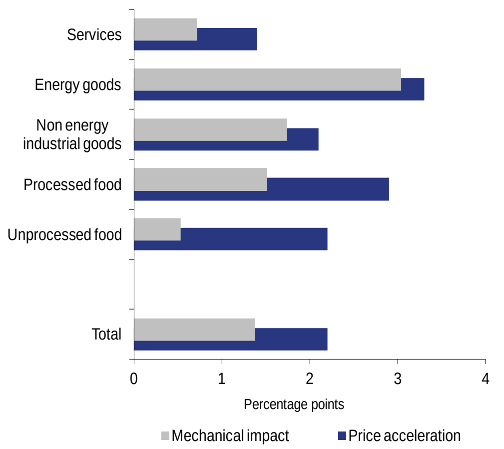
HARMONIZED INDEX OF CONSUMER PRICES | YEAR-ON-YEAR RATE OF CHANGE



Source: Eurostat.

Chart 6.2

MECHANICAL IMPACT OF CHANGES IN INDIRECT TAXES ON HICP IN 2011



Sources: Eurostat and Banco de Portugal calculations.

Note: The mechanical impact is obtained from data on the HICP at constant tax rates, released by the Eurostat. These figures can be interpreted as the upper bound for the actual direct impact of tax changes on consumer prices, as tax changes are assumed to be passed on to consumers fully and immediately and everything else remains constant.

Increase in import prices, particularly commodities, with deceleration in the second half of the year

In the context of a virtually nil change in the nominal effective exchange index for Portugal, prices of the imports of goods and services grew 8.0 per cent in 2011, following an increase of 4.8 per cent in 2010. The price acceleration of imports was significantly more marked in the case of goods (8.9 per cent in 2011, in comparison to 5.2 per cent in 2010) as opposed to services (3.1 per cent in 2011, in comparison to 2.8 per cent in 2010).

Increases in the import prices of goods mainly reflected a significant growth of the prices of imports of foodstuffs and energy goods, in line with the evolution of commodity prices in the international markets (Table 6.2). The rates of change of import prices of non-foodstuffs consumer goods were close to zero in 2011, following the falls recorded since 2007, largely associated with the growing integration of low unit labour cost countries in world trade.

The increase in energy and non-energy commodity prices in the international markets, in 2011, reflected the gradual recovery of international trade flows following the strong contraction noted in 2009. In addition, the growth of economic activity in various emerging and developing economies, which increased and changed their commodities consumption pattern, particularly oil, also contributed to such price increases. In addition to these factors, the maintenance of high growth in oil prices, in 2011, albeit slightly lower than recorded in 2010, also translated supply-side factors such as geopolitical tensions in the Middle East and North Africa since January 2011, as well as the insufficient response in terms of OPEC production.

Most import prices, however, in line with commodity prices in the international markets, displayed a decelerating profile during the course of the year and more markedly so in second half 2011. This evolution reflected a downward revision of growth expectations for the world economy, largely conditioned by the deceleration of economic activity in advanced economies, which was particularly more marked in the euro area, in second half 2011 (see "Chapter 1 *International Environment*", of this report).

Moderate wage evolution in the private sector, in the context of a deterioration of the labour market situation

Unit labour costs in Portugal, in 2011, decreased vis-à-vis the preceding year (-0.8 per cent in nominal terms). On the one hand, the contraction of economic activity was of a similar magnitude to the reduc-

Table 6.2

MAIN INTERNATIONAL PRICE INDICATORS | YEAR-ON-YEAR RATE OF CHANGE, PER CENT

	2007	2008	2009	2010	2011	2011			
						1º Q	2º Q	3º Q	4º Q
Import prices of goods [(a)]									
Total	1.0	5.5	-10.7	5.2	8.9	11.5	9.4	8.3	6.9
Total excluding fuel	1.0	1.6	-7.3	1.8	5.2	8.6	5.5	4.3	2.3
Consumer goods	-0.3	0.5	-4.7	-1.8	5.4	7.9	6.0	5.2	2.9
Food	3.7	6.6	-5.5	-0.3	12.7	17.9	16.4	11.0	5.9
Non-food	-2.1	-2.3	-4.3	-2.5	0.4	1.6	-1.0	0.6	0.5
International commodity prices									
Oil prices (Brent Blend), EUR	0.4	26.6	-33.2	35.4	31.7	37.7	29.8	33.7	26.0
Non-energy commodity prices, EUR	8.5	4.8	-18.8	34.0	13.8	38.7	17.2	9.4	-5.0
Memo:									
Nominal effective exchange rate index for Portugal[(b)]	0.7	0.9	0.4	-1.5	-0.1	-1.1	0.7	0.5	-0.3

Sources: ECB, HWWI, *INE*, Thomson Reuters and Banco de Portugal.

Notes: (a) Calculations by Banco de Portugal based on information provided by INE. The classification by main economic categories in this table is different from the one used by INE, given that light passenger vehicles are included in consumer goods rather than in capital goods. **(b)** A positive change corresponds to an appreciation.

tion of employment and translated into a virtually nil rate of change of output per worker. On the other hand, compensation per employee decreased (-0.8 per cent) (Table 6.3).

The evolution of compensation per employee in the economy as a whole reflected the reduction of 5 per cent, on average, in civil servants' compensation, in line with the fiscal consolidation process. In addition, the minimum wage increased 2.1 per cent, though the increase required to meet the objective of the minimum wage's convergence to a threshold of EUR 500 in 2011 would have been 5.3 per cent. The effective increase in the minimum wage was less than the inflation rate and significantly less than the increases of the last 3 years (above 5 per cent). In a framework of deteriorating labour market conditions, with unemployment rising to historically high levels (see "Chapter 4 *Supply*", of this Report), and anchored inflation expectations, the evolution of compensation per employee in the private sector was lower than inflation, having decelerated significantly in comparison to the preceding year (1.0 per cent in 2011, in comparison to 1.8 per cent in 2010). The slight increase in compensation per employee in the private sector also reflected a positive bias in aggregate compensation, associated with a composition effect deriving from the change in the employment structure, which typically occurs in the downward phase of the cycle and results in the decrease of the share of workers with lower compensation and possibly less qualified. In conjunction with a virtually nil change in productivity, this nominal increase in compensation per employee translated into an increase of 1.1 per cent in unit labour costs in the private sector in 2011, as opposed to a decrease of 1.6 per cent in 2010. The positive change in unit labour costs, in the private sector, in 2011 corresponds to around half of the average growth of such costs in the period 1999-2009.

There was a nominal increase in unit labour costs in the total economy in the euro area, in 2011, reflecting a smaller increase in output per worker than that of compensation per employee (Table 6.3). In contrast to the Portuguese situation, the euro area recorded an increase in economic activity, albeit of a smaller magnitude than in 2010, acceleration of compensation per employee and stable employment. The differential between the growth of unit labour costs in Portugal and the euro area remained negative in 2011 (-1.7 pp). Since 2007, the evolution of unit labour costs in Portugal has been lower than in the euro

Table 6.3

UNIT LABOUR COSTS IN PORTUGAL AND THE EURO AREA | RATE OF CHANGE, PER CENT

	2006	2007	2008	2009	2010	2011
Portugal[(a)]						
Total economy						
Compensation per employee	1.8	3.6	3.0	2.8	1.4	-0.8
Productivity	0.9	2.4	-0.5	-0.3	3.0	-0.1
Nominal unit labour costs	0.9	1.1	3.5	3.1	-1.5	-0.8
Private sector						
Compensation per employee	2.7	4.6	3.3	1.6	1.8	1.0
Productivity	1.3	3.1	-0.3	-0.1	3.5	-0.2
Nominal unit labour costs	1.4	1.5	3.6	1.7	-1.6	1.1
Euro area						
Total economy						
Compensation per employee	2.3	2.5	3.2	1.4	1.6	2.3
Productivity	1.7	1.2	-0.5	-2.5	2.4	1.4
Nominal unit labour costs	0.6	1.3	3.8	4.0	-0.8	0.9
Differencial						
Compensation per employee	-0.5	1.1	-0.2	1.4	-0.2	-3.1
Productivity	-0.8	1.2	0.0	2.2	0.6	-1.5
Nominal unit labour costs	0.3	-0.2	-0.3	-0.9	-0.7	-1.7
Memo:						
Accumulated differential of unit labour costs (1998 = 0)	11.6	11.5	11.6	10.9	9.8	7.7
Accumulated differential of unit labour costs (2006 = 0)	0.0	-0.2	-0.5	-1.4	-2.3	-4.0

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

Note: (a) Compensation per employee is consistent with data and methodology from National Accounts base 2006. Employment is measured in number of individuals.

area, resulting in an accumulated differential of -4.0 pp, in contrast to the differential of around 12 pp accumulated between 1999 and 2006. This evolution points to the existence of a particularly important adjustment of unit labour costs in the current context of correction of the Portuguese economy's accumulated imbalances. In addition, the relative unit labour costs between the Portuguese economy and its main trading partners declined in 2011 (see "Box 5.2 *Recent developments in the international price/cost competitiveness of the Portuguese economy measure by the relative unit labour costs*", of this Report).

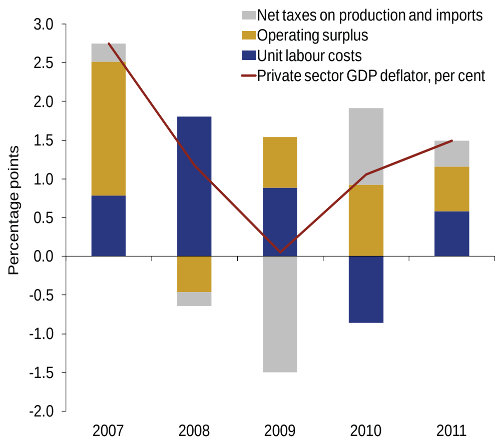
Moderate growth of private sector production prices

In Portugal, the evolution of domestic production prices in the private sector has been moderate, increasing 1.5 per cent, in comparison to 1.1 per cent in 2010 (Chart 6.3). With the exception of 2009, a year in which a marked contraction of economic activity was recorded, this growth of the private GDP deflator is the lowest of the last three decades.[2] The evolution in 2011 translated the increase of unit labour costs in the private sector (1.1 per cent), indirect taxes and profit margins. Notwithstanding the increase of indirect taxation, in 2011 the contribution of taxes to the private GDP deflator declined compared to 2010, largely reflecting the negative impact of the contraction of economic activity on tax revenue (see "Chapter 3 *Fiscal Policy and Situation*", of this Report). The contribution of the gross operating surplus in 2011 was also smaller than in 2010.

Given a marked fall in demand, companies may initially moderate or reduce their profit margins, as part of a contained price evolution strategy in response to an increase in commodity prices, increases in both direct and indirect taxation and higher borrowing costs. Companies will also tend to contain other costs, including wage costs, in order to mitigate the impact on profit margins. As in the case of aggregate compensation of employees, aggregate profit margins may also be influenced by a positive bias associated with a composition effect deriving from the change in the structure of companies, which may occur in the downward phase of the cycle, with the closure of companies with worse performance and lower profit margins.

Chart 6.3

CONTRIBUTIONS TO THE ANNUAL RATE OF CHANGE OF PRIVATE SECTOR GDP DEFLATOR



Sources: *INE* and Banco de Portugal calculations.

Note: Private sector GDP corresponds to total GDP excluding compensation fo civil servants and the consumption of fixed capital by the general government. The contributions are calculated as in ECB (2003)"Inflation differentials in the euro area".

2 Private GDP is considered to be GDP for the total economy, excluding compensation of civil servants and general government's consumption of fixed capital.

Mitigation of price transmission mechanisms

The strong contraction of domestic demand in 2011, as well as the deceleration of the world economy and lower demand for Portuguese exports in the second half of the year, helped to dampen inflationary pressures, in a context of marked tax increases, higher import prices and moderate growth of wages in the private sector. Excluding the significant increases in January and October 2011, associated with fiscal changes, the trend in the growth of consumer prices was downwards during the course of the year[3].

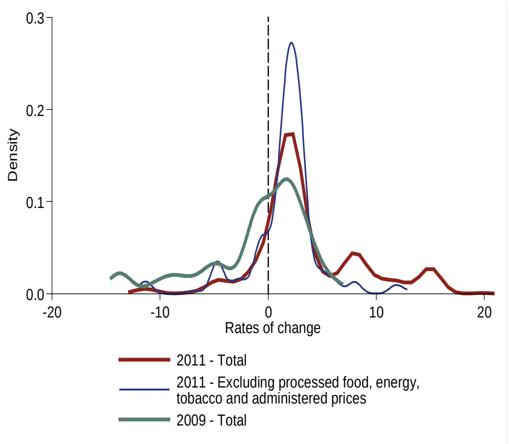
Price transmission mechanisms, whose magnitude and speed vary in line with market structures (elasticity of supply and demand, regulation and competition levels), were mitigated. The vast majority of the largest price increases are concentrated in the goods and services most affected by fiscal consolidation measures, notably energy goods, administered prices and tobacco (Chart 6.4). In the case of the energy goods and notwithstanding the high growth in oil prices in 2011, consumer prices accelerated 3.3 pp in 2011, largely reflecting tax hikes (mechanical impact of 3 pp – Chart 6.2 and Chart 6.5).

2011 witnessed an increase in consumer prices of processed and unprocessed food, translating an increase in the import prices of foodstuff and energy goods. However, as opposed to past events, the magnitude of the consumer price increases was much lower than the growth of prices of imported products (Chart 6.6). The increase in prices of processed food in 2011 (3.1 per cent, in comparison to 0.2 per cent in 2010) mainly translated the strong growth in tobacco prices (associated with the fiscal change).

The significant reduction in private consumption, both on durable and non-durable goods and services and the progressively worsening evolution of external demand (see "Chapter 5 *Demand*", of this Report) were also reflected in the evolution of consumer prices. The prices of motor vehicles, notwithstanding the increase of 2.9 per cent in 2011 (largely owing to the tax increase) declined successively during the course of the year in comparison to the levels recorded in the first few months of 2011. Moreover, the prices of several services associated with the tourism sector declined. In particular, accommodation prices were down 11.3 per cent in comparison to a growth of 7.1 per cent in 2010.

Chart 6.4

EMPIRICAL DISTRIBUTION OF THE ANNUAL RATE OF CHANGE OF HICP COMPONENTS

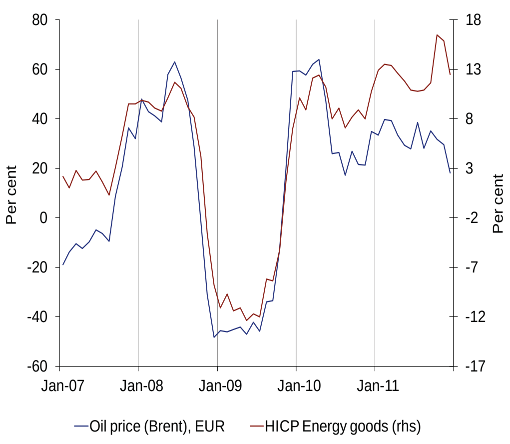


Sources: Eurostat and Banco de Portugal calculations.

Note: Empirical distribution obtained using non-parametric methods, namely a gaussian kernel weighting the various components according to the respective weight in the total basket.

Chart 6.5

ENERGY PRICES | **YEAR-ON-YEAR RATE OF CHANGE**



Sources: Eurostat and Thomson Reuters.

3 The intra annual profile of consumer prices, particularly non-energy industrial goods, was affected by the methodological changes on seasonal items, due to the implementation of European Commission Regulation (EC) 330/2009. For further details see INE's press release published on 10 February 2011 (http://www.ine.pt/ngt_server/attachfileu.jsp?look_parentBoui=109195311&att_display=n&att_download=y) or "Box 3 *Methodological changes in the compilation of the HICP and their impact on recent data*", Monthly Bulletin, April 2011, European Central Bank.

Positive inflation differential in comparison to the euro area, strongly conditioned by the fiscal changes in Portugal

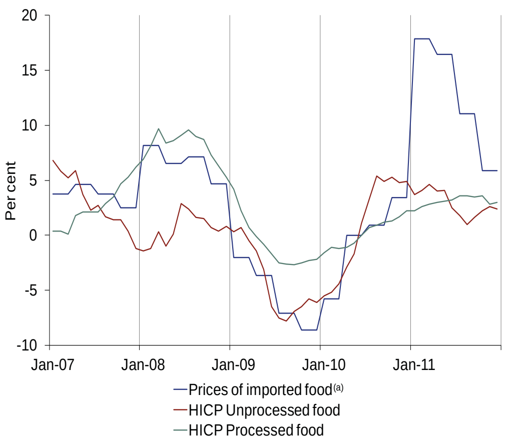
The annual rate of change of the HICP in the euro area in 2011 was 2.7 per cent, in comparison to 1.6 per cent in 2010. The inflation differential between Portugal and the euro area, measured by the year-on-year rate of change of the HICP, was positive in 2011 (0.9 pp) after three consecutive years of negative values (Chart 6.7). This evolution was strongly conditioned by several of the measures associated with the fiscal consolidation process, notably the increase in VAT rates and several administered prices, as well as the reduction of expenditure on the National Health Service, particularly in medicines. These measures, more concentrated in January and October 2011, translated into a positive differential of 1.9 pp in administered prices, the highest of the last 4 years, for which contributed the significant increases in the prices of electricity, pharmaceutical products, sewerage collection services and public transport.[4]

As in Portugal, the fiscal consolidation measures implemented in some countries in the euro area included increases in indirect taxes, which had a direct effect on consumer prices (mechanical impact of 0.2 pp on the euro area average). Based on the tax rates applied to the diverse goods comprising the HICP basket, it was estimated that the impact for Portugal was one of the highest in the euro area.[5] Using the HICP at constant tax rates, released by Eurostat, if the mechanical impact of the increase of indirect taxes is excluded, the inflation differential between Portugal and the euro area would remain slightly negative (-0.3 pp).[6]

Excluding the marked increases in January and October 2011, the inflation differential displayed a downward trend during the course of the year, common to the main HICP components. This evolution occurred in the context of a negative growth differential between Portugal and the euro area, which was particularly marked in the case of domestic demand and was aggravated over the course of 2011. As regards products with progressively smaller differentials reference should be made to services asso-

Chart 6.6

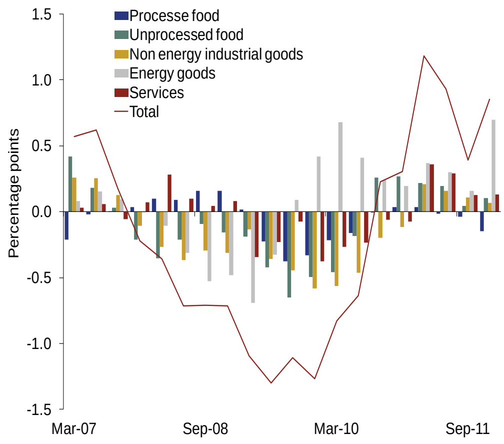
FOOD PRICES | YEAR-ON-YEAR RATE OF CHANGE



Sources: Eurostat, *INE* and Banco de Portugal.
Note: (a) Quarterly series.

Chart 6.7

INFLATION DIFFERENTIAL BETWEEN PORTUGAL AND THE EURO AREA | QUARTER-ON-QUARTER RATE OF CHANGE OF THE HICP



Sources: Eurostat and Banco de Portugal calculations

4 This result is based on the administered prices series, released by Eurostat (for further details on this series, see: http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/methodology/administered_prices).

5 For further details see "Box 6: *The impact of recent changes in indirect taxes on the HICP*", Monthly Bulletin, March 2012, European Central Bank.

6 For further details on the HICP at constant tax rates, see http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/methodology/hicp_constant_tax_rates.

ciated with the tourism sector (hotels, restaurants and cafés, and holiday packages), motor vehicles and several foodstuffs.

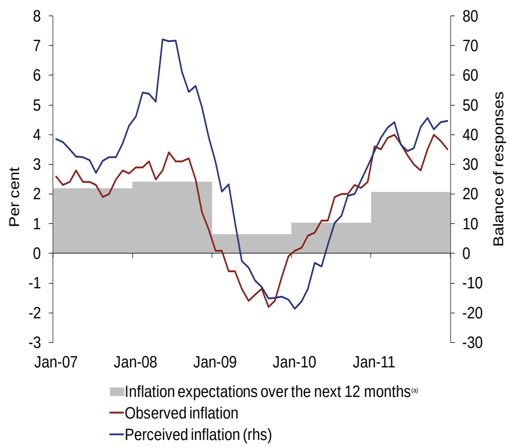
Acceleration of prices correctly perceived by consumers, but inflation expectations remained anchored

Although consumers correctly perceived the evolution of prices over the course of 2011, economic agents' inflation expectations for a 12 months horizon remained anchored (an average of 2.1 per cent, during the course of the year, both in Portugal and in the euro area) (Chart 6.8). The maintenance of expectations of inflation at levels close to 2 per cent shows that Portuguese and European consumers in general have interpreted the annual average acceleration of prices as a phenomenon not likely to extend over the medium term.

Notwithstanding discretionary fiscal measures having a significant impact on price levels in 2012, expectations of world economic deceleration (particularly in the euro area), as well as the Portuguese economy's adjustment process, accompanied by a worsening situation in the labour market helped to moderate inflation expectations in Portugal.

Chart 6.8

INFLATION PERCEPTION AND EXPECTATIONS IN PORTUGAL



Sources: European Commission, Consensus Economics and Eurostat.
Note: (a) Annual average.

7. BALANCE OF PAYMENTS

In 2011 witnessed a significant adjustment of the external deficit, with a decline of the deficit on the current and capital account of 3.7 percentage points (pp), to 5.2 per cent of GDP. The decline of borrowing requirements reflected the reduction of the rate of investment in the economy and the increase in the domestic saving rate (Table 7.1 and Chart 7.1). For these developments contributed, to a large extent, the reduction of general government borrowing requirements owing to fiscal consolidation measures. The intra-annual data show a highly marked reduction of deficit profile, over the course of the year and more sharply so since the inception of the economic and financial adjustment programme. In the second half of 2011, deficit on the current and capital account was significantly down to values only historically comparable to those observed in 1996 (Chart 7.2). The economic and financial adjustment programme, to which the government committed in May 2011, embodied in a set of measures aimed at correcting macroeconomic imbalances, was offset, as expected by a contractionary effect on domestic demand. This translated into a significant drop in imports which, allied with the maintenance of relatively high export growth rates reflected favourably on the evolution of the external deficit over the course of 2011. The values for the second half of the year, in addition to a substantial reduction of the goods and services deficit, reflected an increase in net capital transfers received by the economy, especially transfers from the European Union, with particularly high values at the end of the year.

In 2011, the external financing profile differed substantially from the one observed since the beginning of the euro area. In fact, there was a reduction in financial liabilities to non-residents, and funding of the balance was made through the reduction of financial assets with the rest of the world. Underlying these changes are disturbances in the Portuguese sovereign debt markets and other countries of the euro area, which primarily reflected a sharp tightening of financing conditions in the Portuguese banking system in the international wholesale debt markets.

Reference should, however, be made to the fact that the levels of indebtedness reached, require the continuation of the adjustment process on the external accounts. Note that, in average annual terms, the deficit on the Portuguese current account for 2011 as a whole remained relatively high, in compa-

Table 7.1

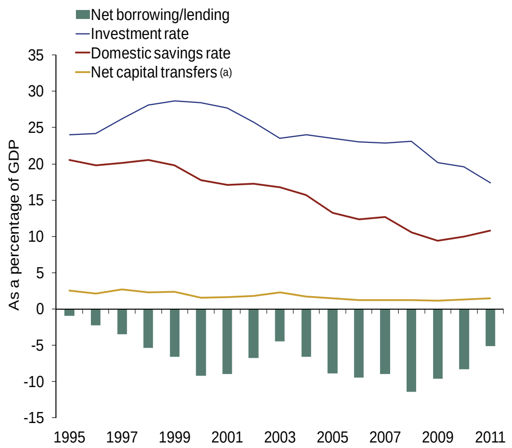
CURRENT AND CAPITAL ACCOUNT | BALANCES AS A PERCENTAGE OF GDP

	2005	2006	2007	2008	2009	2010	2011	2011 S1	2011 S2
Current and capital account	-9.2	-9.9	-8.9	-11.1	-10.1	-8.9	-5.2	-8.3	-2.1
Current account	-10.3	-10.7	-10.1	-12.6	-10.9	-10.0	-6.4	-9.1	-3.8
Goods and Services	-9.3	-8.3	-7.5	-9.5	-7.0	-6.7	-3.2	-5.4	-1.0
Goods	-11.8	-11.4	-11.3	-13.4	-10.6	-10.5	-7.7	-8.8	-6.6
Energy goods	-3.8	-3.8	-3.7	-4.7	-2.9	-3.3	-4.2	-4.2	-4.0
Excluding energy	-8.0	-7.6	-7.6	-8.7	-7.7	-7.2	-3.5	-4.6	-2.6
Services	2.5	3.1	3.9	3.8	3.6	3.9	4.5	3.4	5.7
of which:									
Travel and tourism	2.4	2.5	2.7	2.6	2.5	2.7	3.0	2.0	4.0
Income	-2.5	-3.9	-4.2	-4.5	-5.2	-4.6	-5.0	-5.8	-4.2
Current transfers	1.5	1.6	1.5	1.4	1.3	1.3	1.8	2.1	1.4
of which:									
Emmigrant/immigrant remittances	1.1	1.1	1.2	1.1	1.0	1.1	1.1	1.0	1.2
Capital account	1.1	0.8	1.2	1.5	0.8	1.1	1.2	0.8	1.7
Memo:									
Current transfers account + capital account	2.6	2.3	2.8	3.0	2.1	2.4	3.0	2.9	3.1
Current+capital account excluding income account	-6.7	-6.0	-4.7	-6.6	-4.9	-4.3	-0.2	-2.5	2.1

Sources: *INE* and Banco de Portugal.

Chart 7.1

NET BORROWING/LENDING



Sources: *INE* and Banco de Portugal.
Note: (a) Includes the aquisitions less disposals of non-financial non-produced assets.

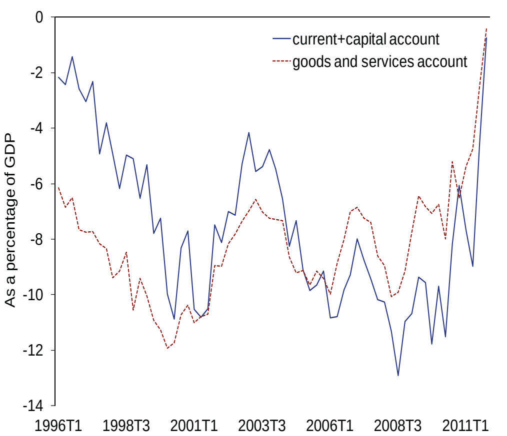
rison to other European economies (Chart 7.3), although there has been an improvement in the relative position vis-à-vis the preceding year.

Significant decline in the borrowing of general government and slight reduction in the private sector's lending

The lower Portuguese economy's borrowing requirements, in 2011, translate a significant reduction in the general government's borrowing requirements (Chart 7.3). This evolution derived from less negative public sector savings, reduction of investment and a very sharp increase in net capital transfers, associated with the transfer of a part of the pension funds of several financial institutions to the general

Chart 7.2

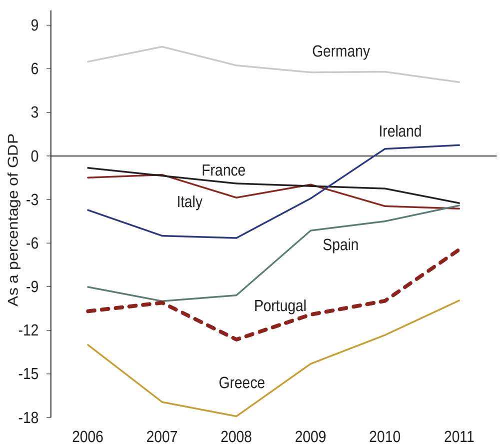
QUARTERLY BALANCE OF PAYMENTS | SEASONALLY ADJUSTED FIGURES



Sources: *INE* and Banco de Portugal.

Chart 7.3

CURRENT ACCOUNT BALANCE | AS A PERCENTAGE OF GDP



Sources: European Commission and Banco de Portugal.

government sector.[1] Correcting for such effects, a clear, albeit less marked, decline in the public sector's borrowing requirements continues to be noted. In turn, the private sector's net lending considering the corrected amounts of transfers of pension funds, slightly decreased as the reduction in the saving rate (both households and corporations) was more marked than the reduction in investment. In any event, both in the case of the corporations and particularly in the case of households, saving rates, in 2011, were higher than the minimums observed in the recent past.

Reduction of deficit on the current and capital account, largely reflecting the evolution of the goods and services account

The combined deficit on the current and capital account, which roughly corresponds to the net borrowing of the economy, declined by 3.7 pp of GDP faced to 2010, to 5.2 per cent of GDP. A decisive contributory factor to this evolution was the current account deficit, particularly the goods and services component (whose deficit declined 3.5 pp of GDP), as the surplus on the capital account was up by no more than 0.1 pp. To improve the current account in 2011, contributed further the increase in surplus in current transfers, by 0.5 percentage points of GDP, which resulted mainly from balance transfers with the EU. On contrary, the deficit on the income account increased from 4.6 to 5.0 per cent of GDP (Table 7.1).

Substantial reduction of the deficit on the goods and services account reflecting a highly positive volume effect

The deficit on the goods and services account was 3.2 per cent of GDP, in 2011, (6.7 per cent in 2010). The improvement of goods and services balance derived from the favourable evolution of the non--energy goods account (with the largest contribution) and services, which largely offset the increase in the energy deficit (Chart 7.5).

The smaller deficit on the goods and services account reflected a positive and highly substantial volume effect, associated with the high rate of growth in the volume of exports, in contrast to the decline (in real terms) of imports, in line with lower domestic demand. Both in the case of goods and services (particularly tourism), the volume rate of change in exports was clearly higher than in imports. The volume effect was positive in the three main components (energy goods, non-energy goods and services), particularly the non-energy goods component. This positive volume effect more than offset the negative price and terms of trade effects (Chart 7.6).

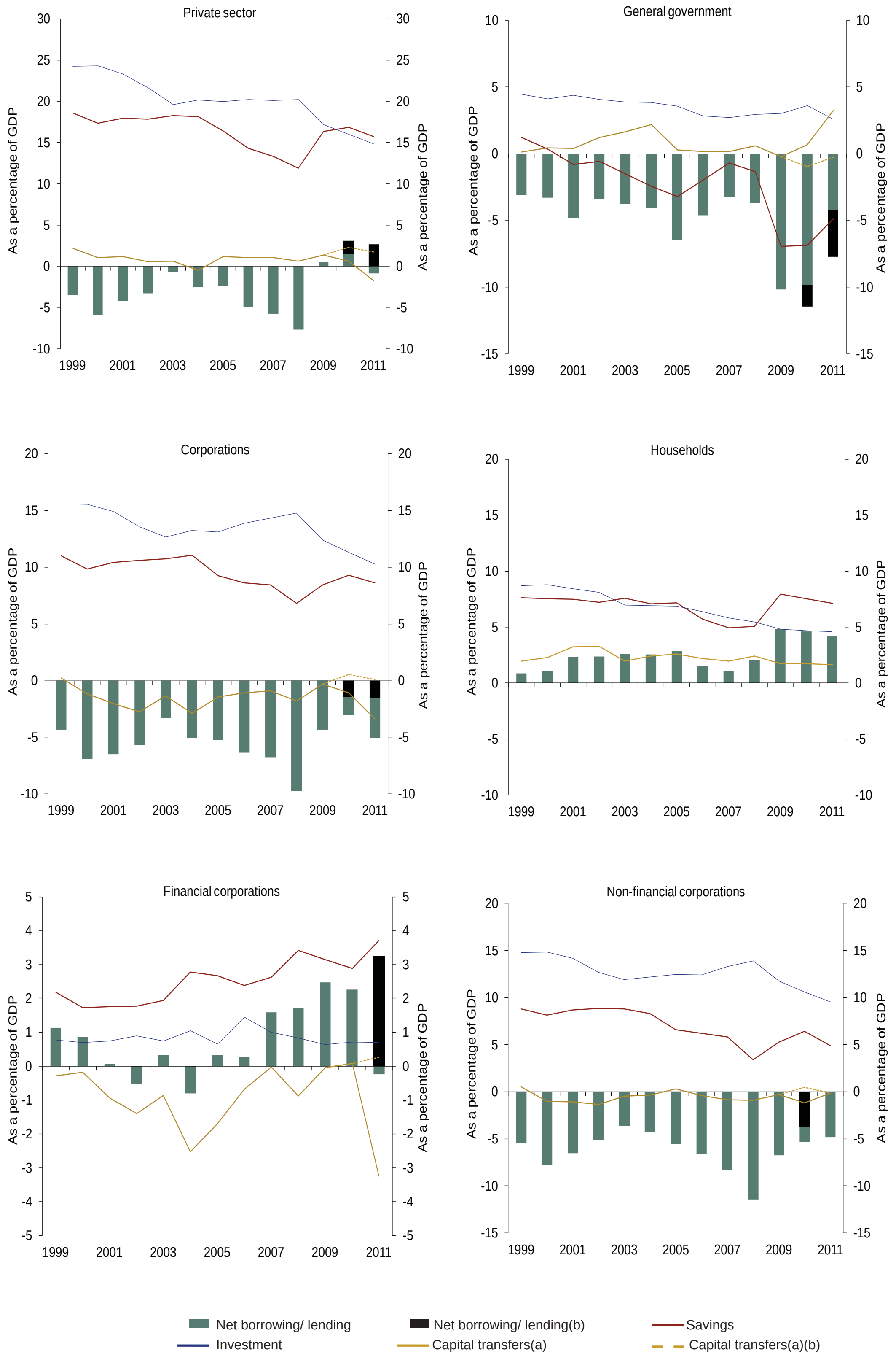
Effects of price and terms of trade negatively affected by higher oil prices

In 2011, both the prices of exports and imports accelerated, with stronger growth in imports, translating into negative price and terms of trade effects. The high growth in the prices of energy goods contributed negatively to those effects, and resulted in a negative evolution of the energy account, notwithstanding a positive volume effect associated with the reduction of fuel consumption (and therefore the amounts imported). As regards non-energy goods, price evolution translated into a slightly positive terms of trade effect (reinforcing the positive evolution of the last few years) and a negative price effect, given the deficit position on this account (Charts 7.7 and 7.8).

1 Transfers of pension funds from the private to the public sector translate into a reduction of net capital transfers and the private sector's net lending, in 2010 (in respect of the Portugal telecom (PT) Pension fund) and in 2011 (in respect of the banking sector pension funds) as a charge to an increase in net capital transfers received by the public sector and, ipso facto, a reduction of its respective borrowing requirements in the said two years.

Chart 7.4

SAVINGS, INVESTMENT AND NET LENDING/BORROWING | AS A PERCENTAGE OF GDP

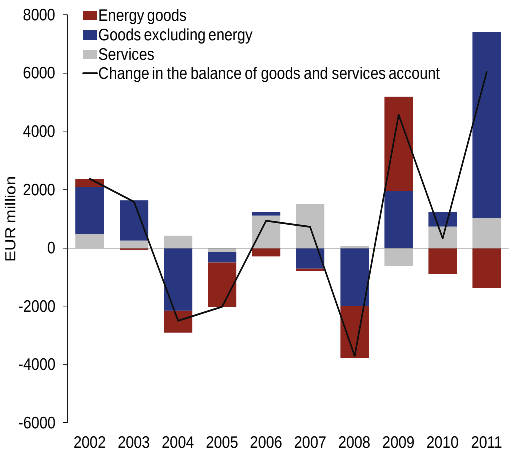


Source: *INE*.

Notes: (a) Net values, including the aquisitions less disposals of non-financial non-produced assets. **(b)** These figures are adjusted for the direct effect of the transference of reserves from Portugal Telecom (in 2010) and from financial institutions (in 2011) to the general government.

Chart 7.5

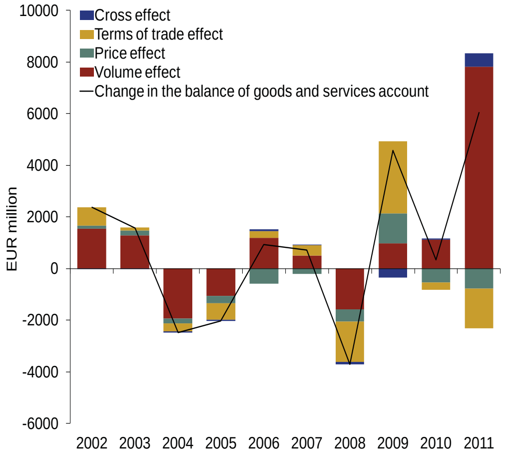
CHANGE IN THE GOODS AND SERVICES ACCOUNT BALANCE | BREAKDOWN INTO SERVICES, ENERGY GOODS AND GOODS EXCLUDING ENERGY



Sources: *INE* and Banco de Portugal.

Chart 7.6

CHANGE IN THE BALANCE OF THE GOODS AND SERVICES ACCOUNT | 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 of the goods and services account. The change in the balance of goods and services account can be broken down into four effects:

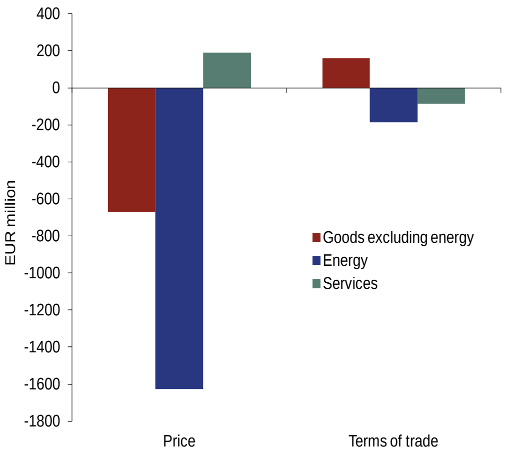
- volume effect - effect of the change in imported and exported volumes;
[Xt-1.vxt] - [Mt-1.vmt]
- price effect - effect of average growth of external trade prices;
(Xt-1.pt)-(Mt-1.pt)
- effect terms of trade - effect of the relative change in of export and import prices;
[Xt-1.(pxt - pt)] - [Mt-1.(pmt - pt)]
- cross effect - effect of the interaction between changes in volumes and prices of exports and imports. [Xt-1.vxt.pxt] - [Mt-1.vmt.pmt]. where Xt-1 and Mt-1 are the exports and imports in year t-1 at current prices; vxt and vmt are the rates of change in volume for exports and imports in t; pxt and pmt are the rates of change of export and import prices in t; pt is the average rate of change of xternal trade prices in year t ((pxt + pmt)/2).

Rise in the income account deficit

The deficit on the income account increased 0.4 pp, to 5.0 per cent of GDP in 2011, with overall declines (as a percentage of GDP), both in the income paid and received. The deterioration of the income account essentially derived from the evolution of the other investment component, reflecting the increase in external payments of interest on loans, with the net income on portfolio investments and foreign direct investment components stabilising as a percentage of GDP (Chart 7.9). The reduction of the external balance between interest received and paid concerning other investment reflected the significant increase of the volume (stocks) of external loans. The high amount of external financing of the Portuguese republic under the Programme translated into a highly significant increase in liabilities (considered in the other investment account), giving rise to the payment of interest. The increase in the amount of loans was partly offset by a reduction of other liabilities held by non-residents (considered as portfolio investment). It should be noticed that the stock of public debt held by non-residents increased compared to 2010, which resulted in an increase in interest costs. In addition, the average implicit interest rate on total public debt, even considering funding under the financial assistance programme for the Portuguese state, increased in 2011 in comparison to 2010 (see "Chapter 3 *Policy and Fiscal Situation*", of this Report).

Chart 7.7

PRICE AND TERMS OF TRADE EFFECT IN THE GOODS AND SERVICES ACCOUNT IN 2011

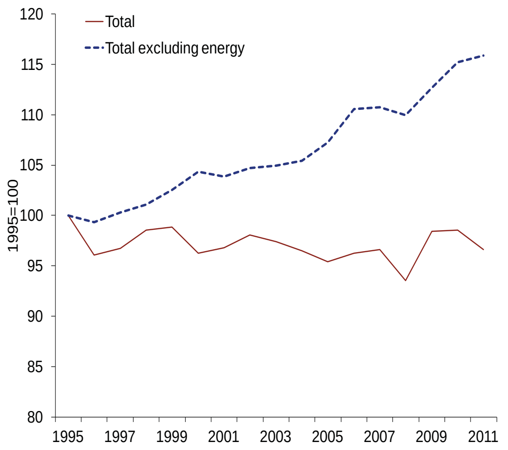


Sources: *INE* and Banco de Portugal.

Note: A positive (negative) change means an increase (decrease) in the balance of the goods and services account. For a description of the methodology used for calculating the volume effect see the note in Chart 7.6.

Chart 7.8

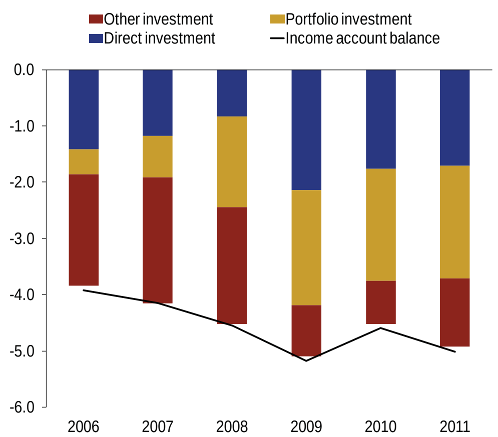
DEVELOPMENTS IN THE TERMS OF TRADE OF GOODS



Sources: *INE* and Banco de Portugal.

Chart 7.9

INCOME ACCOUNT AND MAIN COMPONENTS



Sources: *INE* and Banco de Portugal.

Sharp reduction in the Portuguese economy's external borrowing requirements and significant change in its structure

In 2001 the strong reduction in external financing funding was followed by a significant change in the funding profile that differed substantially from that observed since the beginning of the euro area. The year 2011 witnessed a reduction of financial liabilities to non-residents, with the balance having been funded through the reduction of financial assets held by the rest of the world. Underlying this change were the turmoil in the Portuguese sovereign debt market and in other countries in the euro area, particularly reflected in a sharp increase in the restrictiveness of funding for Portuguese banks in the international wholesale debt markets. In this context, the information available indicates that banks embarked on a deleveraging process, in the second half of 2010, notably by reducing their lending, selling off assets and, particularly in their resource-taking from residents, *i.e.* deposits. In turn, the increase in deposits largely derived from the adjustment of the households' portfolio, with a reduction of its investments in investment funds and insurance companies, leading to such institutions' sales of assets held by non--residents. This situation was reflected in a change in the direction and dimension of financial flows with the rest of the world (Chart 7.10).

Major external net fund inflows for general government associated with the loan obtained under the international financial assistance programme in the context of a decline in net portfolio investment liabilities in this sector

2011 witnessed a sharp reversal of the funding flow of general government with non-residents, i.e. net inflows of 10.4 per cent of GDP against net outflows of -1.2 per cent of GDP, in 2010. Contributory factors to this evolution were the first disbursements of the loan obtained under the international financial and economic assistance programme (Table 7.2).[2] From a viewpoint of registration in the financial account, these disbursements translated into an increase in other investment liabilities of this sector. On the contrary there was a significant reduction of general government portfolio investment liabilities. This derived from the significant increase in the risk premium demanded by international investors for holding Portuguese public debt securities and those of other countries affected by the sovereign debt crisis, in a framework of growing risk differentiation in euro area sovereign debt markets, which strongly conditioned the capacity to sell Portuguese public debt securities to non-resident entities.

Marked reduction of banks' liabilities to non-residents, partly offset by the significant decline in external assets

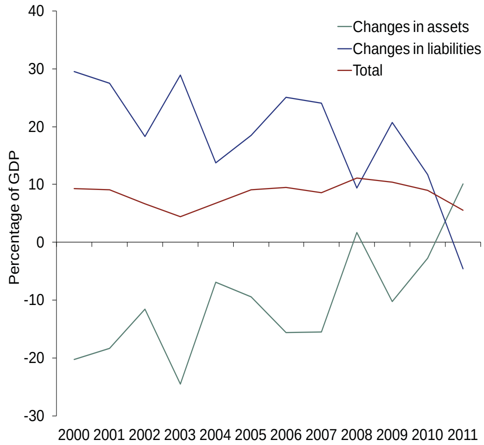
As regards the banks (other monetary financial institutions), there was a strong reduction in their investment and portfolio liabilities and particularly in their other external investment. This evolution reflected Portuguese banks' already referred to difficulties in access to funding from the international wholesale debt markets, particularly over the medium and long-term maturities and the significant reduction of non-resident's deposits in the resident banking system. This period also witnessed a strong decline of Portuguese banking system assets held by non-residents, namely bonds and other medium and long--term debt securities.

The evolution noted in terms of external liabilities and assets flows of the resident banking system is consentaneous with the expected reaction in a context of the strong limitation in access to international wholesale debt markets, *i.e.* it is expectable that resident sectors should endeavour to compensate for

2 For further details, see "Box: *The Economic and Financial Adjustment Programme under the request for financial assistance to the European Union, Member Countries of the Euro Area and the International Monetary Fund*", Banco de Portugal, Annual Report 2010.

Chart 7.10

FINANCIAL ACCOUNT | BALANCE AND CHANGES IN ASSETS AND LIABILITIES



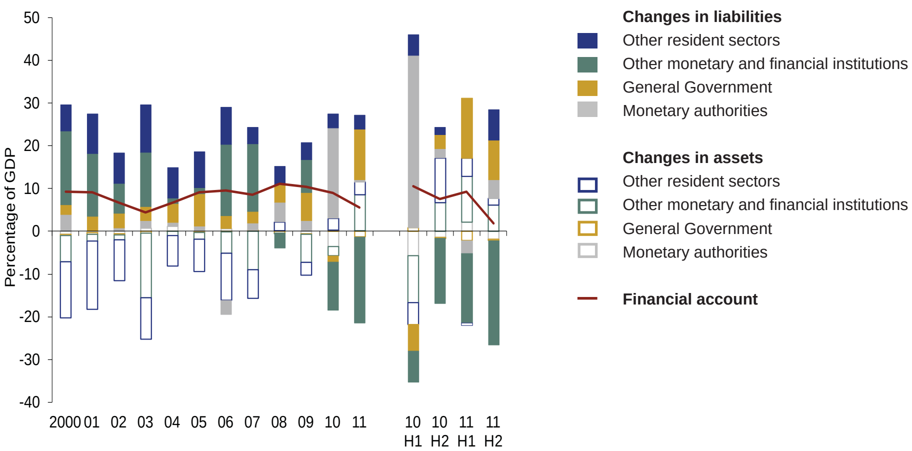
Sources: *INE* and Banco de Portugal.

Notes: A (+) sign means an increase in foreign liabilities or a decrease in foreign assets, *i.e.* a financial inflow. A (-) sign means decrease in foreign liabilities or an increase in foreign assets, *i.e.* a financial outflow. Figures for "Other investment" of monetary authorities and other monetary and financial institutions are adjusted for temporary end-of-year operations between these two sectors, which were reversed in the first days of the following year. The change in assets includes financial derivatives net of liabilities.

the reduction of funding from non-residents through a decrease of their foreign assets.[3] Reference should also be made to the slight reduction of the Target[4] position of the monetary authorities, reflecting the virtual stabilisation of bank funding from the Eurosystem, in contrast to the strong increase noted in 2010[5] (Chart 7.11). This evolution reflects the adjustment to banks' balance sheets, on the one hand,

Chart 7.11

FINANCIAL ACCOUNT | BALANCE AND CHANGES IN ASSETS AND LIABILITIES BY INSTITUTIONAL SECTOR



Sources: *INE* and Banco de Portugal.

Notes: A (+) sign means an increase in foreign liabilities or a decrease in foreign assets, *i.e.* a financial inflow. A (-) sign means decrease in foreign liabilities or an increase in foreign assets, *i.e.* a financial outflow. Figures for "Other investment" of monetary authorities and other monetary and financial institutions are adjusted for temporary end-of-year operations between these two sectors, which were reversed in the first days of the following year. The change in assets includes financial derivatives net of liabilities.

3 For further details, on the funding conditions of the Portuguese economy see "Chapter 2 *Monetary Policy of the ECB and the Monetary and Financial Conditions of the Portuguese Economy*", of this Report.

4 Trans-European Automated Real-time Gross Settlement Express Transfer System for the euro, *i.e.* a system for payments and receipts by Banco de Portugal to/from central banks belonging to ESCB.

5 From the viewpoint of registration in the financial account and the international investment position, banks' use of Eurosystem funding translates into an increase of other investment liabilities of the monetary authorities associated with Target intra-system liabilities.

Table 7.2

FINANCIAL ACCOUNT | PERCENTAGE OF GDP

	Jan-Jun 2010 Changes			Jul-Dec 2010 Changes			Jan-Jun 2011 Changes			Jul-Dec 2011 Changes			Jan-Dec 2010 Changes			Jan-Dec 2011 Changes		
	Liabil-ities	Assets	Net	Liabil-ities	Assets	Net	Liabil-ities	Assets	Net	Liabil-ities	Assets	Net	Liabil-ities	Assets	Net	Liabil-ities	Assets	Net
Current plus capital accounts			**-11.0**			**-6.7**			**-8.3**			**-2.1**			**-8.9**			**-5.2**
Financial account	**13.3**	**-2.8**	**10.5**	**-18.6**	**26.1**	**7.5**	**-16.7**	**25.9**	**9.2**	**-13.9**	**15.7**	**1.9**	**-2.7**	**11.7**	**9.0**	**-15.3**	**20.8**	**5.5**
Direct investment	2.2	-2.2	0.0	0.1	8.7	8.8	1.7	-4.7	-3.0	7.0	-5.9	1.1	1.2	3.3	4.4	4.4	-5.3	-1.0
excluding Madeira and St. Maria (Azores) offshores	*1.8*	*-1.7*	*0.1*	*0.1*	*8.2*	*8.3*	*2.1*	*-4.9*	*-2.8*	*6.6*	*-5.5*	*1.2*	*1.0*	*3.3*	*4.2*	*4.4*	*-5.2*	*-0.8*
Portfolio investment	-8.5	-11.8	-20.3	0.1	8.9	9.0	-16.7	18.8	2.1	-16.1	8.3	-7.8	-4.2	-1.4	-5.6	-16.4	13.6	-2.8
Financial derivatives	-18.2	18.6	0.4	-10.7	10.7	0.0	-11.0	11.9	0.8	-10.3	10.0	-0.3	-14.5	14.7	0.2	-10.7	11.0	0.3
Other investment	37.8	-6.6	31.2	-8.0	-1.9	-10.0	9.3	-0.6	8.8	5.6	2.3	7.9	14.8	-4.2	10.5	7.5	0.9	8.3
Reserve assets		-0.8	-0.8		-0.3	-0.3		0.4	0.4		1.0	1.0		-0.6	-0.6		0.7	0.7
By institutional sector of resident investor:																		
Monetary authorities	**40.3**	**-5.6**	**34.7**	**2.1**	**-1.4**	**0.7**	**-3.1**	**2.2**	**-1.0**	**4.3**	**-1.7**	**2.5**	**21.1**	**-3.5**	**17.6**	**0.5**	**0.2**	**0.8**
Portfolio investment	0.0	-5.7	-5.7	0.0	0.0	0.0	0.0	1.7	1.7	0.0	-4.3	-4.3	0.0	-2.8	-2.8	0.0	-1.3	-1.3
Financial derivatives	-0.1	0.0	0.0	-0.1	0.1	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0
Other investment	40.3	0.8	41.2	2.2	-1.1	1.1	-3.1	0.0	-3.1	4.3	1.5	5.8	21.2	-0.1	21.0	0.6	0.8	1.3
Reserve assets		-0.8	-0.8		-0.3	-0.3		0.4	0.4		1.0	1.0		-0.6	-0.6		0.7	0.7
General government	**-14.9**	**9.4**	**-5.5**	**-1.2**	**4.2**	**3.0**	**10.1**	**1.8**	**11.9**	**5.8**	**3.2**	**9.0**	**-8.0**	**6.8**	**-1.2**	**8.0**	**2.5**	**10.4**
Direct investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
excluding Madeira and St. Maria (Azores) offshores	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Portfolio investment	-6.3	0.1	-6.1	3.6	-0.3	3.4	-9.5	0.4	-9.2	-8.7	-0.5	-9.2	-1.3	-0.1	-1.4	-9.1	-0.1	-9.2
Financial derivatives	-8.6	9.3	0.7	-4.5	4.3	-0.2	-4.0	4.2	0.2	-3.6	3.6	0.0	-6.5	6.8	0.2	-3.8	3.9	0.1
Other investment	0.0	0.0	0.0	-0.4	0.2	-0.2	23.6	-2.8	20.9	18.1	0.1	18.2	-0.2	0.1	-0.1	20.9	-1.4	19.5
Other monetary and financial institutions	**-15.0**	**-3.5**	**-18.4**	**-20.2**	**11.8**	**-8.5**	**-21.5**	**16.0**	**-5.5**	**-29.7**	**11.5**	**-18.2**	**-17.6**	**4.2**	**-13.4**	**-25.6**	**13.8**	**-11.8**
Direct investment	0.0	-0.5	-0.5	0.1	-1.5	-1.4	0.1	-0.1	-0.1	0.1	-0.2	-0.2	0.1	-1.0	-1.0	0.1	-0.2	-0.1
excluding Madeira and St. Maria (Azores) offshores	*0.0*	*-0.5*	*-0.5*	*0.1*	*-1.5*	*-1.4*	*0.1*	*-0.1*	*-0.1*	*0.1*	*-0.2*	*-0.2*	*0.1*	*-1.0*	*-1.0*	*0.1*	*-0.2*	*-0.1*
Portfolio investment	-2.3	-4.6	-6.9	-5.2	4.5	-0.7	-5.6	6.2	0.6	-6.0	7.4	1.4	-3.8	0.0	-3.8	-5.8	6.8	0.9
Financial derivatives	-7.6	7.5	-0.2	-5.1	5.1	-0.1	-5.3	5.8	0.5	-5.4	5.5	0.1	-6.4	6.3	-0.1	-5.4	5.7	0.3
Other investment	-5.0	-5.8	-10.8	-10.1	3.7	-6.3	-10.6	4.1	-6.4	-18.4	-1.2	-19.6	-7.5	-1.0	-8.6	-14.4	1.5	-13.0
Non-monetary financial institutions	**-3.4**	**-0.5**	**-3.9**	**-0.7**	**5.5**	**4.8**	**-4.7**	**8.8**	**4.1**	**-2.5**	**5.0**	**2.5**	**-2.0**	**2.5**	**0.5**	**-3.6**	**6.9**	**3.3**
Direct investment	-0.2	0.0	-0.2	-0.1	0.0	-0.1	0.1	-0.6	-0.5	0.3	0.0	0.3	-0.1	0.0	-0.2	0.2	-0.3	-0.1
excluding Madeira and St. Maria (Azores) offshores	*-0.2*	*0.0*	*-0.2*	*-0.1*	*0.0*	*-0.1*	*0.0*	*-0.6*	*-0.6*	*0.3*	*0.0*	*0.3*	*-0.1*	*0.0*	*-0.2*	*0.2*	*-0.3*	*-0.1*
Portfolio investment	-2.7	-0.5	-3.2	-0.3	5.9	5.6	-4.5	9.4	5.0	-2.8	5.3	2.5	-1.5	2.8	1.2	-3.7	7.4	3.7
Financial derivatives	-0.5	0.3	-0.2	-0.3	0.5	0.2	-0.3	0.4	0.1	-0.7	0.4	-0.4	-0.4	0.4	0.0	-0.5	0.4	-0.1
Other investment	0.0	-0.4	-0.4	0.0	-0.9	-0.9	0.0	-0.4	-0.4	0.7	-0.7	0.1	0.0	-0.7	-0.6	0.4	-0.5	-0.2
Non-financial corporations	**6.6**	**-1.3**	**5.3**	**1.7**	**5.8**	**7.5**	**2.7**	**-2.9**	**-0.2**	**8.5**	**-1.8**	**6.7**	**4.1**	**2.3**	**6.4**	**5.6**	**-2.4**	**3.2**
Direct investment	2.5	-1.7	0.8	0.0	10.3	10.3	1.6	-4.0	-2.3	6.6	-5.7	0.9	1.3	4.3	5.6	4.1	-4.8	-0.7
excluding Madeira and St. Maria (Azores) offshores	*2.1*	*-1.2*	*0.9*	*0.0*	*9.8*	*9.8*	*2.1*	*-4.2*	*-2.1*	*6.3*	*-5.2*	*1.1*	*1.1*	*4.3*	*5.4*	*4.1*	*-4.7*	*-0.5*
Portfolio investment	2.8	-0.5	2.2	2.0	-1.0	1.0	3.0	1.2	4.2	1.5	0.2	1.7	2.4	-0.8	1.6	2.2	0.7	2.9
Financial derivatives	-1.1	1.2	0.1	-0.5	0.6	0.1	-1.1	1.2	0.1	-0.3	0.3	-0.1	-0.8	0.9	0.1	-0.7	0.7	0.0
Other investment	2.5	-0.2	2.2	0.2	-4.0	-3.9	-0.7	-1.4	-2.1	0.8	3.4	4.2	1.3	-2.1	-0.8	0.0	1.0	1.0
Households	**-0.3**	**-1.3**	**-1.7**	**-0.3**	**0.2**	**0.0**	**-0.3**	**0.1**	**-0.2**	**-0.2**	**-0.4**	**-0.6**	**-0.3**	**-0.5**	**-0.8**	**-0.2**	**-0.1**	**-0.4**
Direct investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
excluding Madeira and St. Maria (Azores) offshores	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Portfolio investment	0.0	-0.7	-0.7	0.0	-0.2	-0.2	0.0	-0.1	-0.1	0.0	0.2	0.2	0.0	-0.5	-0.5	0.0	0.1	0.1
Financial derivatives	-0.3	0.3	0.0	-0.3	0.3	0.0	-0.3	0.3	0.0	-0.2	0.2	0.0	-0.3	0.3	0.0	-0.2	0.2	0.0
Other investment	0.0	-0.9	-0.9	0.0	0.2	0.2	0.0	-0.1	-0.1	0.0	-0.8	-0.8	0.0	-0.4	-0.4	0.0	-0.4	-0.4
Errors and omissions			**0.5**			**-0.8**			**-0.9**			**0.2**			**-0.2**			**-0.3**

Sources: *INE* and Banco de Portugal.
Note: A (+) sign means an increase in foreign liabilities or a decrease in foreign assets, *i.e.* a financial inflow. A (-) sign means a decrease in foreign liabilities or an increase inn foreign assets, *i.e.* a financial outflow.

through the referred reduction of external assets and, on the other, the decline in the credit to customer deposits' ratio, largely on account of the strong increase in resident households' deposits, notwithstanding the significant drop in non-residents' deposits in Portugal.

Change in the funding of non-monetary financial institutions with non-residents, dominated by strong reduction of external assets

2011 witnessed a net inflow of external funds in non-monetary financial institutions of 3.3 per cent of GDP in comparison to a virtual stabilisation in 2010 (0.5 per cent of GDP). Contributory factors to this reversal were disinvestment in long term debt securities by insurance companies and pension funds and, to a lesser extent, investment funds, in line with the change in the households' portfolio, to the benefit of bank deposits. This net funds inflow was partly offset by the early redemption of investment units.

Reduction in net inflows of external funds through non-financial corporations

In 2011, the external funding of non-financial corporations was essentially associated with investment portfolio inflows. There was an increase in this instrument's liabilities, largely deriving from non-residents' acquisitions of the commercial paper of a major domestic corporation in the energy sector in the first half of the year. On the other hand, the slight reduction noted in investment portfolio assets also contributed to the funds inflow in this sector and was, in first half 2011, mainly associated with disinvestment in equity shares by a corporation belonging to one of the main banking groups. In the opposite direction, *i.e.* contributing to a net outflow of funds from the non-financial corporations sector in the first half of the year, reference should be made to the increase in net direct investment assets, reflecting an equity investment in a non-resident corporation of a considerable size. This operation involved two corporations in the telecommunications sector. In the second half of the year, reference should be made to the relocation of the headquarters of a large corporation in the distribution sector with a relevant level of international activity, which had an impact on direct investment assets and liabilities flows in this sector. Reference should also be made to the fact that loans made and securities acquired by non-residents recorded an increase owing to the evolution of funding to private corporations (2.6 per cent of GDP), as a virtual stabilisation of external credit to public corporations whose accounts are not consolidated with general government, was noted.

Decline in the international debt position of the Portuguese economy in the first half of 2011 owing to strong fluctuations in the value of financial instruments in international markets, notwithstanding the deficit on the current and capital account

There was a reduction to 103.7 per cent of GDP in the (net) debt position of the Portuguese economy vis-à-vis the rest of the world, at the end of 2011 (Table 7.3 and Chart 7.12). This reduction derived from the strong depreciation of portfolio investment liabilities, particularly the reduction of the value of Portuguese public debt securities and especially treasury bonds, reflecting the fall in their respective prices in the secondary market, which coexisted with a current and capital account deficit. 2011 witnessed a significant decline of banks' net external debt and a virtual stabilisation of general government debt, co-existing with a significant change in its structure by financial instruments (Chart 7.13).

Table 7.3
INTERNATIONAL INVESTMENT POSITION

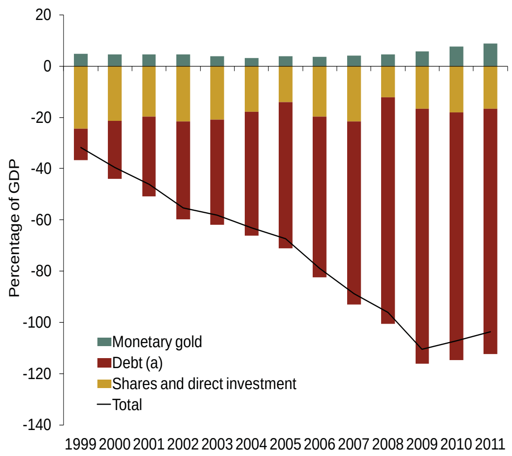
	EUR millions							As a percentage of GDP		
	2009	2010	2011					2009	2010	2011
	End-of-period positions		Transactions	Price changes	Exchange rate changes	Other adjustments	End-of-period positions	End-of-period positions		
International investment position	**-186 315**	**-185 149**	**-9 491**	**20 316**	**-1 011**	**-1 988**	**-177 323**	**-110.6**	**-107.2**	**-103.7**
Direct investment [(a)]	-32 097	-33 643	1 651	2 119	-148	-1 652	-31 674	-19.0	-19.5	-18.5
Portfolio investment	-70 050	-51 311	4 769	16 472	-44	500	-29 614	-41.6	-29.7	-17.3
Financial derivatives	-444	-1 131	-451	-257	0	0	-1 838	-0.3	-0.7	-1.1
Other investment [(b)]	-94 822	-114 782	-14 250	0	-820	-836	-130 687	-56.3	-66.5	-76.4
Reserve assets	11 096	15 717	-1 211	1 982	2	0	16 490	6.6	9.1	9.6
By institutional sector of resident investor:										
Monetary authorities	**3 822**	**-24 232**	**-1 293**	**536**	**-17**	**31**	**-24 975**	**2.3**	**-14.0**	**-14.6**
Portfolio investment	13 589	17 151	2 188	-1 413	24	0	17 950	8.1	9.9	10.5
Financial derivatives	3	1	32	-33	0	0	0	0.0	0.0	0.0
Other investment [(b)]	-20 867	-57 101	-2 302	0	-43	31	-59 415	-12.4	-33.1	-34.7
Reserve assets	11 096	15 717	-1 211	1 982	2	0	16 490	6.6	9.1	9.6
General government	**-100 931**	**-88 014**	**-17 871**	**18 749**	**-428**	**-95**	**-87 660**	**-59.9**	**-51.0**	**-51.3**
Direct investment [(a)]	-173	-174	0	0	0	0	-174	-0.1	-0.1	-0.1
Portfolio investment	-96 403	-83 986	15 725	18 236	2	-98	-50 121	-57.2	-48.6	-29.3
Financial derivatives	-47	112	-217	513	0	0	408	0.0	0.1	0.2
Other investment [(b)]	-4 308	-3 966	-33 380	0	-430	3	-37 773	-2.6	-2.3	-22.1
Other monetary and financial institutions	**-77 893**	**-54 739**	**20 219**	**-728**	**-402**	**421**	**-35 230**	**-46.2**	**-31.7**	**-20.6**
Direct investment [(a)]	3 001	6 131	214	304	-110	-3	6 536	1.8	3.6	3.8
Portfolio investment	-1 328	6 102	-1 621	-538	-81	335	4 196	-0.8	3.5	2.5
Financial derivatives	-382	-1 146	-555	-493	0	0	-2 194	-0.2	-0.7	-1.3
Other investment [(b)]	-79 184	-65 827	22 181	0	-211	89	-43 768	-47.0	-38.1	-25.6
Non-monetary financial institutions	**6 053**	**5 445**	**-5 672**	**-2 583**	**-6**	**-296**	**-3 111**	**3.6**	**3.2**	**-1.8**
Direct investment [(a)]	-11 435	-10 630	165	0	20	-1	-10 446	-6.8	-6.2	-6.1
Portfolio investment	18 271	15 660	-6 367	-2 369	-27	-321	6 576	10.8	9.1	3.8
Financial derivatives	-1	-103	249	-214	0	0	-68	0.0	-0.1	0.0
Other investment [(b)]	-782	517	282	0	1	26	827	-0.5	0.3	0.5
Non-financial corporations	**-36 481**	**-44 523**	**-5 541**	**5 308**	**-182**	**-2 050**	**-46 988**	**-21.6**	**-25.8**	**-27.5**
Direct investment [(a)]	-23 508	-29 047	1 243	1 815	-46	-1 648	-27 683	-14.0	-16.8	-16.2
Portfolio investment	-15 798	-18 877	-5 044	3 502	-8	584	-19 843	-9.4	-10.9	-11.6
Financial derivatives	3	4	6	-9	0	0	1	0.0	0.0	0.0
Other investment [(b)]	2 821	3 397	-1 747	0	-128	-986	537	1.7	2.0	0.3
Households	**19 114**	**20 914**	**667**	**-966**	**24**	**0**	**20 639**	**11.3**	**12.1**	**12.1**
Direct investment [(a)]	18	77	29	0	-12	0	94	0.0	0.0	0.1
Portfolio investment	11 620	12 639	-112	-946	46	0	11 627	6.9	7.3	6.8
Financial derivatives	-21	1	33	-20	0	0	14	0.0	0.0	0.0
Other investment [(b)]	7 497	8 197	717	0	-9	0	8 904	4.4	4.7	5.2

Sources: *INE* and Banco de Portugal.

Notes: (a) Includes quarterly estimates by Banco de Portugal based on the accumulation of monthly flows and the latest annual data obtained from Direct Investment Surveys. **(b)** Includes in some components quarterly estimates by Banco de Portugal based on accumulated of monthly flows.

Chart 7.12

INTERNATIONAL INVESTMENT POSITION

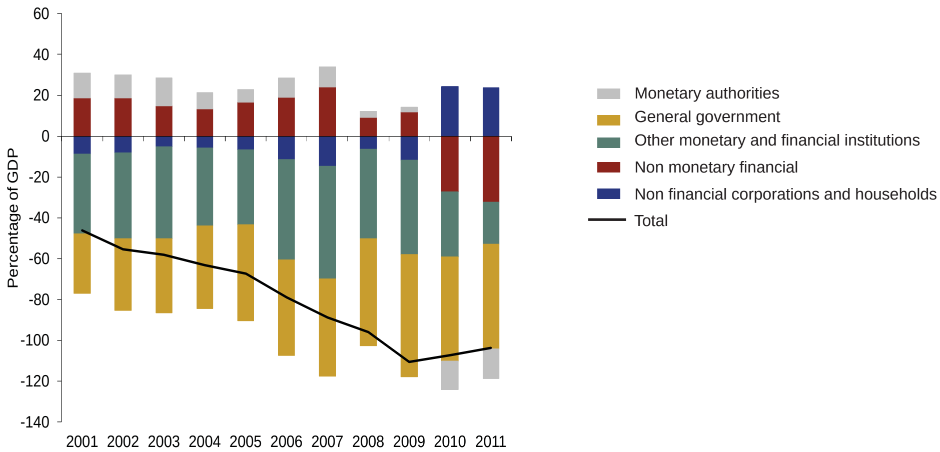


Sources: *INE* and Banco de Portugal.

Note: (a) Includes debt securities, other investment, financial derivatives, participation units in investment funds, securitisation units and other. This debt concept is different from the one published in Table A.3.2. of the Statistical Bulletin of Banco de Portugal, since participation units in investment funds, securitisation units and other participation securities are recorded as debt. Additionally, the debt concept used here does not include the difference between direct investment assets and liabilities, presented as other capital, regarding available funds and liabilities over subsidiaries and direct investors. In this chart these elements are included in "Shares and direct investment". This way, this different treatment does not change the total value of the International Investment Position.

Chart 7.13

INTERNATIONAL INVESTMENT POSITION | BY INSTITUTIONAL SECTOR



Source: *INE* and Banco de Portugal.

SUPPLEMENTARY TABLES

Table A.1.1

WORLD ECONOMY – GROSS DOMESTIC PRODUCT | REAL RATE OF CHANGE, PER CENT

	Weight in world GDP in 2011[a]	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World[b]	100.0	2.9	3.7	4.9	4.5	5.2	5.4	2.8	-0.6	5.3	3.9
Advanced economies	51.1	1.8	2.0	3.1	2.6	3.0	2.8	0.0	-3.6	3.2	1.6
USA	19.1	1.8	2.5	3.5	3.1	2.7	1.9	-0.3	-3.5	3.0	1.7
Japan	5.6	0.3	1.7	2.3	1.3	1.7	2.2	-1.1	-5.5	4.5	-0.7
United Kingdom	2.9	2.7	3.5	3.0	2.1	2.6	3.5	-1.1	-4.4	2.1	0.7
Newly industrialized Asian economies	3.9	5.8	3.2	5.9	4.8	5.8	5.9	1.8	-0.7	8.5	4.0
Euro area	14.2	0.9	0.7	2.2	1.7	3.3	3.0	0.4	-4.3	1.9	1.5
Germany	3.9	0.0	-0.4	1.2	0.7	3.7	3.3	1.1	-5.1	3.7	3.0
France	2.8	0.9	0.9	2.5	1.8	2.5	2.3	-0.1	-2.7	1.5	1.7
Italy	2.3	0.5	0.0	1.7	0.9	2.2	1.7	-1.2	-5.5	1.8	0.4
Spain	1.8	2.7	3.1	3.3	3.6	4.1	3.5	0.9	-3.7	-0.1	0.7
Netherlands	0.9	0.1	0.3	2.2	2.0	3.4	3.9	1.8	-3.5	1.7	1.2
Belgium	0.5	1.4	0.8	3.3	1.8	2.7	2.9	1.0	-2.8	2.2	1.9
Greece	0.4	3.4	5.9	4.4	2.3	5.5	3.0	-0.2	-3.3	-3.5	-6.9
Austria	0.4	1.7	0.9	2.6	2.4	3.7	3.7	1.4	-3.8	2.3	3.1
Portugal	0.3	0.8	-0.9	1.6	0.8	1.4	2.4	0.0	-2.9	1.4	-1.6
Finland	0.2	1.8	2.0	4.1	2.9	4.4	5.3	0.3	-8.4	3.7	2.9
Ireland	0.2	5.9	4.2	4.5	5.3	5.3	5.2	-3.0	-7.0	-0.4	0.7
Slovakia	0.2	4.6	4.8	5.1	6.7	8.3	10.5	5.8	-4.9	4.2	3.3
Slovenia	0.1	3.8	2.9	4.4	4.0	5.8	6.9	3.6	-8.0	1.4	-0.2
Luxembourg	0.1	4.1	1.5	4.4	5.4	5.0	6.6	0.8	-5.3	2.7	1.6
Cyprus	0.0	2.1	1.9	4.2	3.9	4.1	5.1	3.6	-1.9	1.1	0.5
Malta	0.0	2.8	0.1	-0.5	3.7	2.9	4.3	4.1	-2.7	2.3	2.1
Estonia	0.0	6.6	7.8	6.3	8.9	10.1	7.5	-3.7	-14.3	2.3	7.6
Emerging and developing economies	48.9	4.7	6.3	7.5	7.3	8.2	8.7	6.0	2.8	7.5	6.2
Developing Asia	25.1	6.8	8.1	8.5	9.5	10.3	11.4	7.8	7.1	9.7	7.8
China	14.3	9.1	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.2
Latin America	8.7	0.3	2.1	6.0	4.7	5.7	5.8	4.2	-1.6	6.2	4.5
Brazil	2.9	2.7	1.1	5.7	3.2	4.0	6.1	5.2	-0.3	7.5	2.7
Commonwealth of Independent States	4.3	5.2	7.7	8.2	6.7	8.8	9.0	5.4	-6.4	4.8	4.9
Central and Eastern Europe	3.5	4.3	4.8	7.3	5.9	6.4	5.4	3.2	-3.6	4.5	5.3
Sub-Saharan Africa	2.5	7.2	4.8	7.1	6.2	6.4	7.1	5.6	2.8	5.3	5.1
Middle East and North Africa	4.9	3.8	7.5	6.2	5.6	6.1	5.6	4.7	2.7	4.9	3.5
Memo:											
European Union (EU27)	20.1	1.3	1.4	2.5	2.0	3.3	3.2	0.3	-4.3	2.0	1.5

Sources: Eurostat, IMF, *INE* and Thomson Reuters.

Notes: **(a)** Based on the purchasing-power-parity valuation of GDP. **(b)** Details about country aggregates and aggregation method can be found at www.imf.org.

Table A.1.2

WORLD ECONOMY – CONSUMER PRICES | RATE OF CHANGE, PER CENT	Weight in world GDP in 2011[(a)]	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World[(b)]	100.0	3.5	3.7	3.6	3.7	3.7	4.0	6.0	2.5	3.7	4.8
Advanced economies	51.1	1.5	1.9	2.0	2.3	2.4	2.2	3.4	0.1	1.5	2.7
USA	19.1	1.6	2.3	2.7	3.4	3.2	2.9	3.8	-0.4	1.6	3.2
Japan	5.6	-1.0	-0.2	0.0	-0.3	0.3	0.0	1.4	-1.4	-0.7	-0.3
United Kingdom[(c)]	2.9	1.3	1.4	1.3	2.0	2.3	2.3	3.6	2.1	3.3	4.5
Newly industrialized Asian economies	3.9	1.0	1.5	2.4	2.2	1.6	2.2	4.5	1.3	2.3	3.6
Euro area[(c)]	14.2	2.3	2.1	2.2	2.2	2.2	2.1	3.3	0.3	1.6	2.7
Germany	3.9	1.4	1.0	1.8	1.9	1.8	2.3	2.8	0.2	1.2	2.5
France	2.8	1.9	2.2	2.3	1.9	1.9	1.6	3.2	0.1	1.7	2.3
Italy	2.3	2.6	2.8	2.3	2.2	2.2	2.0	3.5	0.8	1.6	2.9
Spain	1.8	3.6	3.1	3.1	3.4	3.6	2.8	4.1	-0.2	2.0	3.1
Netherlands	0.9	3.9	2.2	1.4	1.5	1.7	1.6	2.2	1.0	0.9	2.5
Belgium	0.5	1.6	1.5	1.9	2.5	2.3	1.8	4.5	0.0	2.3	3.5
Greece	0.4	3.9	3.4	3.0	3.5	3.3	3.0	4.2	1.3	4.7	3.1
Austria	0.4	1.7	1.3	2.0	2.1	1.7	2.2	3.2	0.4	1.7	3.6
Portugal	0.3	3.7	3.3	2.5	2.1	3.0	2.4	2.7	-0.9	1.4	3.6
Finland	0.2	2.0	1.3	0.1	0.8	1.3	1.6	3.9	1.6	1.7	3.3
Ireland	0.2	4.7	4.0	2.3	2.2	2.7	2.9	3.1	-1.7	-1.6	1.2
Slovakia	0.2	3.5	8.4	7.5	2.8	4.3	1.9	3.9	0.9	0.7	4.1
Slovenia	0.1	7.5	5.7	3.7	2.5	2.5	3.8	5.5	0.9	2.1	2.1
Luxembourg	0.1	2.1	2.5	3.2	3.8	3.0	2.7	4.1	0.0	2.8	3.7
Cyprus	0.0	2.8	4.0	1.9	2.0	2.2	2.2	4.4	0.2	2.6	3.5
Malta	0.0	2.6	1.9	2.7	2.5	2.6	0.7	4.7	1.8	2.0	2.4
Estonia	0.0	3.6	1.4	3.0	4.1	4.4	6.7	10.6	0.2	2.7	5.1
Emerging and developing economies	48.9	6.8	6.6	5.9	5.7	5.6	6.5	9.2	5.2	6.1	7.1
Developing Asia	25.1	2.2	2.6	4.1	3.7	4.2	5.4	7.4	3.0	5.7	6.5
China	14.3	-0.8	1.2	3.9	1.8	1.5	4.8	5.9	-0.7	3.3	5.4
Latin America	8.7	8.5	10.3	6.6	6.3	5.3	5.4	7.9	6.0	6.0	6.6
Brazil	2.9	8.5	14.7	6.6	6.9	4.2	3.6	5.7	4.9	5.0	6.6
Commonwealth of Independent States	4.3	14.0	12.3	10.4	12.1	9.4	9.7	15.6	11.2	7.2	10.1
Central and Eastern Europe	3.5	18.3	10.9	6.6	5.9	5.9	6.0	8.1	4.7	5.3	5.3
Sub-Saharan Africa	2.5	11.0	10.8	7.6	8.9	6.9	6.9	11.7	10.6	7.4	8.2
Middle East and North Africa	4.9	4.9	5.5	6.6	5.6	7.6	10.1	13.6	6.6	6.9	9.6
Memo:											
European Union (EU27)[(c)]	20.1	2.5	2.1	2.3	2.3	2.3	2.4	3.7	1.0	2.1	3.1

Sources: Eurostat, IMF, *INE* and Thomson Reuters.

Notes: (a) Based on the purchasing-power-parity valuation of GDP. **(b)** Details about country aggregates and aggregation method can be found at www.imf.org. **(c)** Harmonized Index of Consumer Prices.

Table A.1.3

WORLD ECONOMY - CURRENT ACCOUNT | AS A PERCENTAGE OF GDP

	Weight in world GDP in 2011[(a)]	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World[(b)]											
Advanced economies	51.1	-0.8	-0.7	-0.6	-1.1	-1.2	-0.8	-1.2	-0.2	-0.2	-0.2
USA	19.1	-4.3	-4.7	-5.3	-5.9	-6.0	-5.1	-4.7	-2.7	-3.2	-3.1
Japan	5.6	2.8	3.2	3.7	3.6	3.9	4.8	3.2	2.8	3.6	2.0
United Kingdom	2.9	-1.7	-1.6	-2.1	-2.6	-3.2	-2.5	-1.4	-1.5	-3.3	-1.9
Newly industrialized Asian economies	3.9	5.1	7.0	6.5	5.5	5.9	7.0	5.0	7.7	7.2	6.5
Euro area[(c)]	14.2	0.7	0.5	1.2	0.5	0.5	0.4	-0.7	0.1	0.3	0.3
Germany	3.9	2.0	1.9	4.7	5.1	6.3	7.5	6.2	5.9	6.1	5.7
France	2.8	1.2	0.7	0.5	-0.5	-0.6	-1.0	-1.7	-1.5	-1.7	-2.2
Italy	2.3	-0.4	-0.8	-0.3	-0.8	-1.5	-1.2	-2.9	-2.1	-3.5	-3.2
Spain	1.8	-3.3	-3.5	-5.3	-7.4	-9.0	-10.0	-9.6	-5.2	-4.6	-3.7
Netherlands	0.9	2.6	5.5	7.6	7.4	9.3	6.7	4.3	4.2	6.6	7.5
Belgium	0.5	4.5	3.4	3.2	2.0	1.9	1.6	-1.6	-1.7	1.5	-0.1
Greece	0.4	-6.5	-6.6	-5.9	-7.4	-11.2	-14.4	-14.7	-11.0	-10.0	-9.7
Austria	0.4	2.7	1.7	2.2	2.2	2.8	3.5	4.9	2.7	3.0	1.2
Portugal[(d)]	0.3	-6.8	-4.6	-6.9	-9.2	-9.9	-8.9	-11.1	-10.1	-8.9	-5.2
Finland	0.2	8.5	4.8	6.2	3.4	4.2	4.3	2.6	1.8	1.4	-0.7
Ireland	0.2	-1.0	0.0	-0.6	-3.5	-3.5	-5.3	-5.7	-2.9	0.5	0.1
Slovakia	0.2	-7.9	-5.9	-7.8	-8.5	-7.8	-5.3	-6.6	-3.2	-3.5	0.1
Slovenia	0.1	1.1	-0.8	-2.6	-1.7	-2.5	-4.8	-6.9	-1.3	-0.8	-1.1
Luxembourg	0.1	10.5	8.1	11.9	11.5	10.4	10.1	5.1	6.5	7.7	6.9
Cyprus	0.0	-3.8	-2.3	-5.0	-5.9	-7.0	-11.8	-15.6	-10.7	-9.9	-8.5
Malta	0.0	2.4	-3.0	-5.9	-8.7	-10.0	-5.3	-5.3	-8.3	-6.4	-3.2
Estonia	0.0	-10.6	-11.3	-11.3	-10.0	-15.3	-15.9	-9.7	3.7	3.6	3.2
Emerging and developing economies	48.9	1.2	1.9	2.4	3.8	5.0	4.0	3.5	1.6	1.9	1.9
Developing Asia	25.1	2.5	2.8	2.6	3.4	5.6	6.6	5.5	3.8	3.2	1.8
China	14.3	2.4	2.8	3.6	5.9	8.6	10.1	9.1	5.2	5.1	2.8
Latin America	8.7	-0.9	0.5	1.0	1.3	1.6	0.4	-0.7	-0.6	-1.1	-1.2
Brazil	2.9	-1.5	0.8	1.8	1.6	1.3	0.1	-1.7	-1.5	-2.2	-2.1
Commonwealth of Independent States	4.3	6.5	6.2	8.2	8.7	7.4	4.2	5.0	2.5	3.7	4.6
Central and Eastern Europe	3.5	-3.0	-4.1	-5.6	-5.2	-6.8	-8.3	-8.3	-3.1	-4.7	-6.0
Sub-Saharan Africa	2.5	-3.7	-2.8	-1.5	-0.1	4.3	1.5	0.1	-3.1	-2.4	-1.8
Middle East and North Africa	4.9	4.0	6.7	9.6	16.0	18.1	14.6	15.2	2.5	7.8	13.2
Memo:											
European Union (EU27)[(c)]	20.1	0.2	0.2	0.5	0.0	-0.2	-0.4	-1.0	-0.1	-0.2	0.1

Sources: Eurostat, IMF, *INE,* Thomson Reuters and Banco de Portugal.

Notes: (a) Based on the purchasing-power-parity valuation of GDP. **(b)** Details about country aggregates and aggregation method can be found at www.imf.org. **(c)** Adjusted by discrepancies in intra-area trade. **(d)** Current account + Capital account.

Table A.1.4

ADVANCED ECONOMIES - UNEMPLOYMENT RATE | PER CENT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Advanced economies[(a)]	6.5	6.7	6.5	6.3	5.8	5.4	5.8	8.0	8.3	7.9
USA	5.8	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.6	8.9
Japan	5.4	5.2	4.7	4.4	4.1	3.8	4.0	5.1	5.0	4.6
United Kingdom	5.0	4.8	4.7	5.1	5.5	5.2	6.6	7.8	7.9	8.4
Newly industrialized Asian economies	4.2	4.4	4.2	4.0	3.7	3.4	3.4	4.3	4.1	3.6
Euro area	8.5	9.0	9.3	9.2	8.5	7.6	7.6	9.6	10.1	10.2
Germany	8.7	9.8	10.5	11.3	10.3	8.7	7.5	7.8	7.1	5.9
France	8.3	8.9	9.3	9.3	9.2	8.4	7.8	9.5	9.8	9.7
Italy	8.5	8.4	8.0	7.7	6.8	6.1	6.7	7.8	8.4	8.4
Spain	11.4	11.4	10.9	9.2	8.5	8.3	11.3	18.0	20.1	21.7
Netherlands	3.1	4.2	5.1	5.3	4.4	3.6	3.1	3.7	4.5	4.4
Belgium	7.5	8.2	8.4	8.5	8.3	7.5	7.0	7.9	8.3	7.2
Greece	10.3	9.7	10.5	9.9	8.9	8.3	7.7	9.5	12.6	17.7
Austria	4.2	4.3	4.9	5.2	4.8	4.4	3.8	4.8	4.4	4.2
Portugal	5.7	7.1	7.5	8.6	8.6	8.9	8.5	10.6	12.0	12.9
Finland	9.1	9.0	8.8	8.4	7.7	6.9	6.4	8.2	8.4	7.8
Ireland	4.5	4.6	4.5	4.4	4.5	4.6	6.3	11.9	13.7	14.4
Slovakia	18.7	17.6	18.2	16.3	13.4	11.1	9.5	12.0	14.4	13.5
Slovenia	6.3	6.7	6.3	6.5	6.0	4.9	4.4	5.9	7.3	8.2
Luxembourg	2.6	3.8	5.0	4.6	4.6	4.2	4.9	5.1	4.6	4.8
Cyprus	3.5	4.1	4.6	5.3	4.6	3.9	3.7	5.3	6.2	7.8
Malta	7.4	7.7	7.2	7.3	6.9	6.5	6.0	6.9	6.9	6.5
Estonia	10.3	10.0	9.7	7.9	5.9	4.7	5.5	13.8	16.9	12.5
Memo:										
European Union (EU27)	8.9	9.1	9.2	9.0	8.3	7.2	7.1	9.0	9.7	9.7

Sources: Eurostat, IMF, *INE* and Thomson Reuters.

Note: (a) Details about country aggregates and aggregation method can be found at www.imf.org.

Table A.1.5

ADVANCED ECONOMIES - PUBLIC FINANCE INDICATORS | AS A PERCENTAGE OF GDP

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government Balance										
Advanced economies[(a)]	-3.5	-4.0	-3.4	-2.3	-1.4	-1.1	-3.5	-8.8	-7.6	-6.5
USA	-3.9	-4.9	-4.4	-3.2	-2.0	-2.7	-6.7	-13.0	-10.5	-9.6
Japan	-7.7	-7.8	-5.9	-3.4	-3.7	-2.1	-4.1	-10.4	-9.4	-10.1
United Kingdom	-2.1	-3.4	-3.5	-3.4	-2.7	-2.7	-5.0	-11.5	-10.2	-8.3
Newly industrialized Asian economies	0.6	0.2	-0.5	0.9	1.4	3.1	1.0	-1.1	1.1	1.6
Euro area	-2.6	-3.1	-2.9	-2.5	-1.3	-0.7	-2.1	-6.4	-6.2	-4.1
Germany	-3.8	-4.2	-3.8	-3.3	-1.6	0.2	-0.1	-3.2	-4.3	-1.0
France	-3.1	-4.1	-3.6	-2.9	-2.3	-2.7	-3.3	-7.5	-7.1	-5.2
Italy	-3.1	-3.6	-3.5	-4.4	-3.4	-1.6	-2.7	-5.4	-4.6	-3.9
Spain	-0.2	-0.3	-0.1	1.3	2.4	1.9	-4.5	-11.2	-9.3	-8.5
Netherlands	-2.1	-3.1	-1.7	-0.3	0.5	0.2	0.5	-5.6	-5.1	-4.7
Belgium	-0.1	-0.1	-0.3	-2.7	0.1	-0.3	-1.0	-5.6	-3.8	-3.7
Greece	-4.8	-5.6	-7.5	-5.2	-5.7	-6.5	-9.8	-15.6	-10.3	-9.1
Austria	-0.7	-1.5	-4.4	-1.7	-1.5	-0.9	-0.9	-4.1	-4.5	-2.6
Portugal	-2.9	-3.0	-3.4	-5.9	-4.1	-3.1	-3.6	-10.2	-9.8	-4.2
Finland	4.1	2.6	2.5	2.8	4.1	5.3	4.3	-2.5	-2.5	-0.5
Ireland	-0.4	0.4	1.4	1.7	2.9	0.1	-7.3	-14.0	-31.2	-13.1
Slovakia	-8.2	-2.8	-2.4	-2.8	-3.2	-1.8	-2.1	-8.0	-7.7	-4.8
Slovenia	-2.4	-2.7	-2.3	-1.5	-1.4	0.0	-1.9	-6.1	-6.0	-6.4
Luxembourg	2.1	0.5	-1.1	0.0	1.4	3.7	3.0	-0.8	-0.9	-0.6
Cyprus	-4.4	-6.6	-4.1	-2.4	-1.2	3.5	0.9	-6.1	-5.3	-6.3
Malta	-5.8	-9.2	-4.7	-2.9	-2.8	-2.4	-4.6	-3.8	-3.7	-2.7
Estonia	0.3	1.7	1.6	1.6	2.5	2.4	-2.9	-2.0	0.2	1.0
Memo:										
European Union (EU27)	-2.6	-3.2	-2.9	-2.4	-1.5	-0.9	-2.4	-6.9	-6.5	-4.5
General Government Gross Debt										
Advanced economies[(a)]	73.5	75.6	79.7	79.3	76.7	74.0	81.0	94.7	100.7	104.8
USA	57.1	60.4	68.3	67.9	66.6	67.2	76.1	89.9	98.5	102.9
Japan	164.0	169.6	180.7	186.4	186.0	183.0	191.8	210.2	215.3	229.8
United Kingdom	37.5	39.0	40.9	42.5	43.4	44.4	54.8	69.6	79.6	85.7
Newly industrialized Asian economies	29.2	31.7	34.1	36.3	37.0	37.0	38.4	43.0	43.1	44.0
Euro area	67.9	69.1	69.5	70.1	68.5	66.3	70.1	79.9	85.3	87.2
Germany	60.7	64.4	66.3	68.6	68.1	65.2	66.7	74.4	83.0	81.2
France	58.8	62.9	64.9	66.4	63.7	64.2	68.2	79.2	82.3	85.8
Italy	105.1	103.9	103.4	105.4	106.1	103.1	105.7	116.0	118.6	120.1
Spain	52.6	48.8	46.3	43.1	39.6	36.2	40.2	53.9	61.2	68.5
Netherlands	50.5	52.0	52.4	51.8	47.4	45.3	58.5	60.8	62.9	65.2
Belgium	103.4	98.4	94.0	92.0	88.0	84.1	89.3	95.8	96.0	98.0
Greece	101.7	97.4	98.6	100.0	106.1	107.4	113.0	129.4	145.0	165.3
Austria	66.2	65.3	64.7	64.2	62.3	60.2	63.8	69.5	71.9	72.2
Portugal	53.8	55.9	57.6	62.8	63.9	68.3	71.6	83.1	93.3	107.8
Finland	41.5	44.5	44.4	41.7	39.6	35.2	33.9	43.5	48.4	48.6
Ireland	31.9	30.7	29.4	27.2	24.7	24.8	44.2	65.1	92.5	108.2
Slovakia	43.4	42.4	41.5	34.2	30.5	29.6	27.9	35.6	41.1	43.3
Slovenia	27.8	27.2	27.3	26.7	26.4	23.1	21.9	35.3	38.8	47.6
Luxembourg	6.3	6.1	6.3	6.1	6.7	6.7	13.7	14.8	19.1	18.2
Cyprus	65.1	69.7	70.9	69.4	64.7	58.8	48.9	58.5	61.5	71.6
Malta	59.1	67.6	71.7	69.7	64.1	62.1	62.3	68.1	69.4	72.0
Estonia	5.7	5.6	5.0	4.6	4.4	3.7	4.5	7.2	6.7	6.0
Memo:										
European Union (EU27)	60.4	61.9	62.3	62.8	61.5	59.0	62.5	74.8	80.0	82.5

Sources: Eurostat, IMF and *INE*.

Note: (a) Details about country aggregates and aggregation method can be found at www.imf.org.

Table A.2.1

INTEREST RATES OF THE EUROPEAN CENTRAL BANK | PER CENT

Date of the decision		Main refinancing operations	Marginal lending facility	Deposit facility	Change in the rate on the main refinancing operations (b.p.)
2000	03-Feb	3.25	4.25	2.25	25
	16-Mar	3.50	4.50	2.50	25
	27-Apr	3.75	4.75	2.75	25
	08-Jun[(a)]	4.25	5.25	3.25	50
	31-Aug	4.50	5.50	3.50	25
	05-Oct	4.75	5.75	3.75	25
2001	10-May	4.50	5.50	3.50	-25
	30-Aug	4.25	5.25	3.25	-25
	17-Sep	3.75	4.75	2.75	-50
	08-Nov	3.25	4.25	2.25	-50
2002	05-Dec	2.75	3.75	1.75	-50
2003	06-Mar	2.50	3.50	1.50	-25
	05-Jun	2.00	3.00	1.00	-50
2005	01-Dec	2.25	3.25	1.25	25
2006	02-Mar	2.50	3.50	1.50	25
	08-Jun	2.75	3.75	1.75	25
	03-Aug	3.00	4.00	2.00	25
	05-Oct	3.25	4.25	2.25	25
	07-Dec	3.50	4.50	2.50	25
2007	08-Mar	3.75	4.75	2.75	25
	06-Jun	4.00	5.00	3.00	25
2008	03-Jul	4.25	5.25	3.25	25
	08-Oct[(b)]	3.75	4.25	3.25	-50
	06-Nov	3.25	3.75	2.75	-50
	04-Dec	2.50	3.00	2.00	-75
2009	15-Jan	2.00	3.00	1.00	-50
	05-Mar	1.50	2.50	0.50	-50
	02-Apr	1.25	2.25	0.25	-25
	07-May	1.00	1.75	0.25	-25
2011	07-Apr	1.25	2.00	0.50	25
	07-Jul	1.50	2.25	0.75	25
	03-Nov	1.25	2.00	0.50	-25
	08-Dec	1.00	1.75	0.25	-25

Source: ECB.

Notes: (a) From this date onwards, the interest rate on the main refinancing operations is the minimum bid rate in variable rate tenders. **(b)** From this date onwards, the interest rate on the main refinancing operations is fixed.

Table A.2.2

MONETARY AND FINANCIAL CONDITIONS OF THE PORTUGUESE ECONOMY	2003	2004	2005	2006	2007	2008	2009	2010	2011
Interest rates (average values)									
3-month Euribor	2.3	2.1	2.2	3.1	4.3	4.6	1.2	0.8	1.4
Yield on fixed-rate Treasury bonds - 10 years	4.2	4.1	3.4	3.9	4.4	4.5	4.2	5.4	10.2
Interest rates on outstanding amounts of loans to non-financial corporations	4.6	4.4	4.3	4.9	5.8	6.3	4.2	3.4	4.5
Interest rates on outstanding amounts of loans to households for house purchase	4.3	3.8	3.7	4.3	5.1	5.7	3.3	1.9	2.5
Interest rates on outstanding amounts of loans to households for consumption and other purposes	7.9	7.8	7.7	8.0	8.6	9.0	8.0	7.6	8.3
Stock market									
PSI Geral index (percentage change of end of period values)	17.4	18.0	17.2	33.3	18.3	-49.7	40.0	-6.2	-20.4
Exchange rate (percentage change of average values)									
Nominal effective exchange rate index [(a)]	2.8	0.8	-0.3	0.0	0.7	0.9	0.4	-1.5	-0.1
EUR/USD exchange rate	19.6	10.0	0.0	0.9	9.2	7.3	-5.2	-5.0	5.0
Loans granted by resident financial institutions to the non-financial private sector (annual growth rate at end-of-period) [(b)]	6.4	6.1	7.7	8.7	9.9	7.2	2.2	1.6	-2.0
Households	9.6	9.2	9.8	9.9	9.0	4.6	2.3	2.0	-2.2
For house purchase	11.8	10.5	11.1	9.9	8.5	4.3	2.6	2.4	-1.6
For consumption	6.8	0.3	1.9	10.1	13.7	8.9	1.7	0.6	-5.7
Non-financial corporations	2.7	2.5	5.0	7.1	11.2	9.9	1.8	1.0	-1.6
Memo:									
CPI average rate of change	3.3	2.4	2.3	3.1	2.5	2.6	-0.9	1.4	3.7

Sources: *INE* and Banco de Portugal.

Notes: (a) A positive change corresponds to an appreciation of the effective exchange rate index. **(b)** The annual growth rates are obtained from the relation between outstanding amounts of bank loans, adjusted for securitisation operations, and the monthly transactions, which are calculated from the outstanding amounts corrected of reclassifications, write-offs/write-downs, exchange rate and price revaluation. Whenever relevant, the figures are adjusted for credit portfolio sales, as well as for other operations with no impact in the sectors' financing.

Table A.2.3

LOANS GRANTED BY OTHER MONETARY FINANCIAL INSTITUTIONS TO NON-FINANCIAL CORPORATIONS | BREAKDOWN BY SECTOR; ANNUAL RATE OF CHANGE AT END-OF-PERIOD

	Weight in total loans in 2010	2007	2008	2009	2010	2011
Total	**100.0**	**11.2**	**9.9**	**1.8**	**1.0**	**-1.6**
By branch of activity:						
Agriculture, livestock and fishing	1.8	17.6	23.4	5.6	6.1	-1.1
Mining and quarrying	0.4	4.6	9.4	1.4	-3.8	-2.9
Manufacturing	13.0	10.6	9.2	3.2	1.0	-2.0
Electricity, gas and water	4.2	11.8	49.6	9.6	9.3	0.3
Construction	21.0	10.8	3.1	0.7	-5.8	-3.8
Trade	13.3	4.8	4.2	-2.6	1.4	-5.3
Transport	6.4	9.9	20.8	5.0	11.8	5.1
Restaurants and hotels	5.0	21.0	12.9	11.2	16.6	-3.7
Media	1.2	11.2	10.3	6.1	19.4	2.5
Non-financial holdings	9.7	21.5	15.5	2.3	7.9	0.4
Real state activities	13.9	15.0	13.8	1.4	-5.1	-0.8
Consultancy	6.3	3.5	8.7	-7.4	-1.9	-4.1
Education, health and other social care activities	3.9	11.0	13.7	15.7	5.0	0.9
Other services activities	0.1	110.7	149.7	96.1	870.7	378.8

Source: Banco de Portugal.

Notes: (a) Rates of change are calculated on the basis of the relationship between outstanding bank loans amounts at the end of the period and transactions calculated on the basis of outstanding amounts adjusted for reclassifications. They are also adjusted for securitisation operations, asset write-offs/write-downs and foreign exchange and price revaluations. Whenever relevant, the figures are additionaly adjusted for credit portfolio sales, as well as for other operations with no impact in enterprises' effective financing. **(b)** Loans for the monetary and financial institutions, with the allocation of loans by sector of activity being estimated on the basis of the structure of Central Credit Register.

Table A.3.1

GENERAL GOVERNMENT ACCOUNTS | NATIONAL ACCOUNTING, EUR MILLIONS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
TOTAL REVENUE	**48 765**	**51 562**	**55 702**	**58 732**	**61 789**	**61 820**	**65 293**	**69 674**	**70 697**	**66 707**	**71 506**	**76 369**
Current revenue	**47 583**	**49 667**	**53 500**	**55 250**	**56 937**	**59 769**	**63 935**	**68 356**	**69 447**	**65 461**	**66 853**	**68 852**
Tax revenue	42 032	44 163	47 476	49 170	50 037	53 402	56 762	60 260	61 361	57 664	59 474	61 272
Taxes on income and wealth	12 086	12 202	12 651	12 035	12 401	12 662	13 852	16 084	16 644	15 146	15 189	16 887
Taxes on households	6 989	7 470	7 619	7 839	7 748	8 197	8 778	9 626	9 964	10 059	10 044	11 053
Taxes on corporations	5 097	4 732	5 032	4 196	4 653	4 466	5 074	6 459	6 680	5 088	5 145	5 835
Taxes on production and imports	16 490	17 472	19 204	20 455	20 402	22 384	23 902	24 527	24 214	21 487	23 154	23 327
of which:												
Value added tax	8 723	9 144	10 576	11 665	11 342	12 783	13 514	14 064	14 173	11 740	13 241	13 869
Tax on oil products	2 011	2 456	2 922	3 105	3 125	3 134	3 187	3 328	3 191	3 108	3 077	2 954
Tax on vehicles sales	1 233	1 193	1 150	985	1 121	1 173	1 166	1 187	918	693	809	627
Social contributions	13 456	14 490	15 620	16 679	17 234	18 356	19 008	19 648	20 503	21 031	21 130	21 058
Actual	10 168	11 107	11 743	12 366	12 344	12 994	13 552	14 423	15 138	15 204	15 579	16 100
Social Security subsystem	8 871	9 664	10 230	10 543	10 510	11 143	11 725	12 449	13 109	13 201	13 566	14 051
Caixa Geral de Aposentações subsystem	1 298	1 442	1 513	1 822	1 834	1 851	1 827	1 974	2 029	2 003	2 013	2 050
Imputed	3 288	3 383	3 877	4 313	4 890	5 363	5 456	5 225	5 365	5 827	5 551	4 957
Sales of goods and services	3 510	3 466	3 598	3 558	3 697	3 892	3 873	4 052	4 171	4 069	4 125	4 271
Other current revenue	2 042	2 038	2 426	2 522	3 203	2 475	3 301	4 045	3 915	3 728	3 255	3 309
Capital revenue	**1 182**	**1 895**	**2 202**	**3 482**	**4 853**	**2 051**	**1 357**	**1 318**	**1 250**	**1 246**	**4 653**	**7 517**
Capital taxes	103	91	105	105	27	69	23	10	8	0	85	1
Transfers from the European Union	1 023	1 564	1 822	1 666	1 354	1 852	1 304	1 249	1 096	1 107	1 675	1 149
Other capital transfers	55	240	275	1 711	3 472	130	31	59	146	139	2 893	6 368
TOTAL EXPENDITURE	**52 926**	**57 963**	**60 459**	**64 007**	**67 778**	**71 890**	**72 701**	**75 006**	**76 933**	**83 810**	**88 456**	**83 632**
Current expenditure	**47 077**	**50 706**	**54 264**	**57 313**	**60 513**	**64 778**	**67 069**	**69 406**	**71 632**	**77 123**	**78 704**	**77 232**
Compensation of employees	17 478	18 645	19 935	19 579	20 328	21 523	21 009	20 473	20 677	21 386	21 093	19 370
Intermediate consumption	5 733	6 108	6 247	5 864	6 311	6 973	6 987	7 380	7 637	8 390	8 745	7 862
Interest on public debt	3 728	3 918	3 913	3 797	3 873	3 935	4 455	4 978	5 188	4 775	4 936	6 622
Current transfers	20 137	22 035	24 168	28 072	29 999	32 346	34 618	36 575	38 130	42 573	43 930	43 378
To households	16 584	18 076	19 711	23 462	25 337	27 415	29 306	31 311	33 184	37 008	37 830	37 844
In cash	14 302	15 526	16 990	19 082	20 571	22 209	23 399	24 638	25 992	28 659	29 357	29 773
In kind	2 282	2 550	2 721	4 381	4 766	5 205	5 908	6 673	7 193	8 348	8 472	8 071
To corporations (subsidies)	1 530	1 659	1 564	1 747	1 369	1 447	1 448	1 349	1 168	1 271	1 193	1 183
Other transfers	2 023	2 300	2 893	2 863	3 294	3 485	3 864	3 915	3 778	4 294	4 907	4 350
Capital expenditure	**5 849**	**7 257**	**6 195**	**6 694**	**7 265**	**7 112**	**5 632**	**5 600**	**5 300**	**6 687**	**9 753**	**6 400**
Investment	5 227	5 911	5 718	5 565	5 703	5 510	4 565	4 588	5 068	5 071	6 229	4 434
Other capital expenditure	622	1 346	478	1 129	1 562	1 601	1 066	1 012	232	1 615	3 524	1 966
OVERALL BALANCE	**-4 161**	**-6 400**	**-4 757**	**-5 274**	**-5 988**	**-10 070**	**-7 408**	**-5 333**	**-6 236**	**-17 103**	**-16 950**	**-7 262**
Overall balance excluding temporary measures	-4 560	-6 400	-6 579	-8 532	-9 040	-9 868	-7 408	-5 528	-8 089	-17 103	-19 887	-14 046
Memo:												
Primary current expenditure	43 348	46 788	50 350	53 515	56 639	60 843	62 614	64 429	66 444	72 348	73 768	70 610
Primary balance	-432	-2 483	-844	-1 477	-2 115	-6 135	-2 953	-355	-1 047	-12 328	-12 014	-640
Public debt	64 158	71 970	79 551	84 998	92 465	104 423	111 467	115 587	123 108	139 945	161 135	184 291

Sources: *INE* and Banco de Portugal.

Table A.3.2

GENERAL GOVERNMENT ACCOUNTS | NATIONAL ACCOUNTING, AS A PERCENTAGE OF GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
TOTAL REVENUE	**38.3**	**38.3**	**39.6**	**40.9**	**41.4**	**40.1**	**40.6**	**41.1**	**41.1**	**39.6**	**41.4**	**44.7**
Current revenue	**37.4**	**36.9**	**38.1**	**38.5**	**38.1**	**38.7**	**39.7**	**40.4**	**40.4**	**38.8**	**38.7**	**40.3**
Tax revenue	33.0	32.8	33.8	34.3	33.5	34.6	35.3	35.6	35.7	34.2	34.4	35.8
Taxes on income and wealth	9.5	9.1	9.0	8.4	8.3	8.2	8.6	9.5	9.7	9.0	8.8	9.9
Taxes on households	5.5	5.6	5.4	5.5	5.2	5.3	5.5	5.7	5.8	6.0	5.8	6.5
Taxes on corporations	4.0	3.5	3.6	2.9	3.1	2.9	3.2	3.8	3.9	3.0	3.0	3.4
Taxes on production and imports	13.0	13.0	13.7	14.3	13.7	14.5	14.9	14.5	14.1	12.8	13.4	13.6
of which:												
Value added tax	6.9	6.8	7.5	8.1	7.6	8.3	8.4	8.3	8.2	7.0	7.7	8.1
Tax on oil products	1.6	1.8	2.1	2.2	2.1	2.0	2.0	2.0	1.9	1.8	1.8	1.7
Tax on vehicles sales	1.0	0.9	0.8	0.7	0.8	0.8	0.7	0.7	0.5	0.4	0.5	0.4
Social contributions	10.6	10.8	11.1	11.6	11.5	11.9	11.8	11.6	11.9	12.5	12.2	12.3
Actual	8.0	8.3	8.4	8.6	8.3	8.4	8.4	8.5	8.8	9.0	9.0	9.4
Social Security subsystem	7.0	7.2	7.3	7.3	7.0	7.2	7.3	7.4	7.6	7.8	7.9	8.2
Caixa Geral de Aposentações subsystem	1.0	1.1	1.1	1.3	1.2	1.2	1.1	1.2	1.2	1.2	1.2	1.2
Imputed	2.6	2.5	2.8	3.0	3.3	3.5	3.4	3.1	3.1	3.5	3.2	2.9
Sales of goods and services	2.8	2.6	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.5
Other current revenue	1.6	1.5	1.7	1.8	2.1	1.6	2.1	2.4	2.3	2.2	1.9	1.9
Capital revenue	**0.9**	**1.4**	**1.6**	**2.4**	**3.3**	**1.3**	**0.8**	**0.8**	**0.7**	**0.7**	**2.7**	**4.4**
Capital taxes	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers from the European Union	0.8	1.2	1.3	1.2	0.9	1.2	0.8	0.7	0.6	0.7	1.0	0.7
Other capital transfers	0.0	0.2	0.2	1.2	2.3	0.1	0.0	0.0	0.1	0.1	1.7	3.7
TOTAL EXPENDITURE	**41.6**	**43.1**	**43.0**	**44.6**	**45.4**	**46.6**	**45.2**	**44.3**	**44.7**	**49.7**	**51.2**	**48.9**
Current expenditure	**37.0**	**37.7**	**38.6**	**39.9**	**40.5**	**42.0**	**41.7**	**41.0**	**41.7**	**45.8**	**45.6**	**45.2**
Compensation of employees	13.7	13.9	14.2	13.6	13.6	14.0	13.1	12.1	12.0	12.7	12.2	11.3
Intermediate consumption	4.5	4.5	4.4	4.1	4.2	4.5	4.3	4.4	4.4	5.0	5.1	4.6
Interest on public debt	2.9	2.9	2.8	2.6	2.6	2.6	2.8	2.9	3.0	2.8	2.9	3.9
Current transfers	15.8	16.4	17.2	19.6	20.1	21.0	21.5	21.6	22.2	25.3	25.4	25.4
To households	13.0	13.4	14.0	16.4	17.0	17.8	18.2	18.5	19.3	22.0	21.9	22.1
In cash	11.2	11.5	12.1	13.3	13.8	14.4	14.5	14.6	15.1	17.0	17.0	17.4
In kind	1.8	1.9	1.9	3.1	3.2	3.4	3.7	3.9	4.2	5.0	4.9	4.7
To corporations (subsidies)	1.2	1.2	1.1	1.2	0.9	0.9	0.9	0.8	0.7	0.8	0.7	0.7
Other transfers	1.6	1.7	2.1	2.0	2.2	2.3	2.4	2.3	2.2	2.5	2.8	2.5
Capital expenditure	**4.6**	**5.4**	**4.4**	**4.7**	**4.9**	**4.6**	**3.5**	**3.3**	**3.1**	**4.0**	**5.6**	**3.7**
Investment	4.1	4.4	4.1	3.9	3.8	3.6	2.8	2.7	2.9	3.0	3.6	2.6
Other capital expenditure	0.5	1.0	0.3	0.8	1.0	1.0	0.7	0.6	0.1	1.0	2.0	1.1
OVERALL BALANCE	**-3.3**	**-4.8**	**-3.4**	**-3.7**	**-4.0**	**-6.5**	**-4.6**	**-3.1**	**-3.6**	**-10.2**	**-9.8**	**-4.2**
Overall balance excluding temporary measures	-3.6	-4.8	-4.7	-5.9	-6.1	-6.4	-4.6	-3.3	-4.7	-10.2	-11.5	-8.2
Memo:												
Primary current expenditure	34.0	34.8	35.8	37.3	37.9	39.4	38.9	38.1	38.6	42.9	42.7	41.3
Primary balance	-0.3	-1.8	-0.6	-1.0	-1.4	-4.0	-1.8	-0.2	-0.6	-7.3	-7.0	-0.4
Public debt	50.4	53.5	56.6	59.2	61.9	67.7	69.3	68.3	71.6	83.1	93.3	107.8

Sources: *INE* and Banco de Portugal.

Table A.3.3

GENERAL GOVERNMENT ACCOUNTS | NATIONAL ACCOUNTING, RATE OF CHANGE, PER CENT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
TOTAL REVENUE	**7.1**	**5.7**	**8.0**	**5.4**	**5.2**	**0.0**	**5.6**	**6.7**	**1.5**	**-5.6**	**7.2**	**6.8**
Current revenue	**7.6**	**4.4**	**7.7**	**3.3**	**3.1**	**5.0**	**7.0**	**6.9**	**1.6**	**-5.7**	**2.1**	**3.0**
Tax revenue	8.4	5.1	7.5	3.6	1.8	6.7	6.3	6.2	1.8	-6.0	3.1	3.0
Taxes on income and wealth	12.7	1.0	3.7	-4.9	3.0	2.1	9.4	16.1	3.5	-9.0	0.3	11.2
Taxes on households	12.0	6.9	2.0	2.9	-1.2	5.8	7.1	9.7	3.5	1.0	-0.2	10.0
Taxes on corporations	13.8	-7.2	6.3	-16.6	10.9	-4.0	13.6	27.3	3.4	-23.8	1.1	13.4
Taxes on production and imports	3.3	6.0	9.9	6.5	-0.3	9.7	6.8	2.6	-1.3	-11.3	7.8	0.7
of which:												
Value added tax	10.9	4.8	15.7	10.3	-2.8	12.7	5.7	4.1	0.8	-17.2	12.8	4.7
Tax on oil products	-21.7	22.1	19.0	6.2	0.6	0.3	1.7	4.4	-4.1	-2.6	-1.0	-4.0
Tax on vehicles sales	-0.3	-3.2	-3.6	-14.4	13.8	4.6	-0.6	2.5	-19.8	-19.5	16.7	-16.7
Social contributions	11.1	7.7	7.8	6.8	3.3	6.5	3.5	3.4	4.4	2.6	0.5	-0.3
Actual	9.4	9.2	5.7	5.3	-0.2	5.3	4.3	6.4	5.0	0.4	2.5	3.3
Social Security subsystem	9.3	8.9	5.9	3.1	-0.3	6.0	5.2	6.2	5.3	0.7	2.8	3.6
Caixa Geral de Aposentações subsystem	9.9	11.1	4.9	20.4	0.6	0.9	-1.3	8.0	2.8	-1.3	0.5	1.8
Imputed	16.9	2.9	14.6	11.3	13.4	9.7	1.7	-4.2	2.7	8.6	-4.7	-10.7
Sales of goods and services	10.0	-1.3	3.8	-1.1	3.9	5.3	-0.5	4.6	2.9	-2.4	1.4	3.6
Other current revenue	-9.2	-0.2	19.0	4.0	27.0	-22.7	33.4	22.5	-3.2	-4.8	-12.7	1.7
Capital revenue	**-9.4**	**60.4**	**16.2**	**58.1**	**39.4**	**-57.7**	**-33.8**	**-2.9**	**-5.1**	**-0.3**	**273.4**	**61.5**
Capital taxes	9.5	-11.7	15.5	-0.1	-74.4	156.1	-66.5	-58.2	-14.3	-96.7	30 992.7	-99.1
Transfers from the European Union	-7.4	52.8	16.5	-8.6	-18.7	36.8	-29.6	-4.2	-12.2	1.0	51.3	-31.4
Other capital transfers	-47.5	335.3	14.7	522.1	102.9	-96.2	-76.5	93.0	146.1	-4.7	1 983.4	120.1
TOTAL EXPENDITURE	**7.6**	**9.5**	**4.3**	**5.9**	**5.9**	**6.1**	**1.1**	**3.2**	**2.6**	**8.9**	**5.5**	**-5.5**
Current expenditure	**10.1**	**7.7**	**7.0**	**5.6**	**5.6**	**7.0**	**3.5**	**3.5**	**3.2**	**7.7**	**2.0**	**-1.9**
Compensation of employees	11.0	6.7	6.9	-1.8	3.8	5.9	-2.4	-2.6	1.0	3.4	-1.4	-8.2
Intermediate consumption	14.5	6.5	2.3	-6.1	7.6	10.5	0.2	5.6	3.5	9.9	4.2	-10.1
Interest on public debt	8.3	5.1	-0.1	-3.0	2.0	1.6	13.2	11.7	4.2	-8.0	3.4	34.2
Current transfers	8.5	9.4	9.7	16.2	6.9	7.8	7.0	5.7	4.3	11.7	3.2	-1.3
To households	10.5	9.0	9.0	19.0	8.0	8.2	6.9	6.8	6.0	11.5	2.2	0.0
In cash	11.2	8.6	9.4	12.3	7.8	8.0	5.4	5.3	5.5	10.3	2.4	1.4
In kind	6.5	11.7	6.7	61.0	8.8	9.2	13.5	12.9	7.8	16.1	1.5	-4.7
To corporations (subsidies)	-5.8	8.4	-5.7	11.7	-21.6	5.7	0.1	-6.8	-13.5	8.8	-6.1	-0.9
Other transfers	4.9	13.7	25.8	-1.1	15.1	5.8	10.9	1.3	-3.5	13.7	14.3	-11.3
Capital expenditure	**-9.0**	**24.1**	**-14.6**	**8.0**	**8.5**	**-2.1**	**-20.8**	**-0.6**	**-5.4**	**26.2**	**45.9**	**-34.4**
Investment	-1.1	13.1	-3.3	-2.7	2.5	-3.4	-17.1	0.5	10.5	0.1	22.8	-28.8
Other capital expenditure	-45.5	116.4	-64.5	136.4	38.3	2.5	-33.4	-5.1	-77.1	596.3	118.1	-44.2
Memo:												
Primary current expenditure	10.2	7.9	7.6	6.3	5.8	7.4	2.9	2.9	3.1	8.9	2.0	-4.3

Sources: *INE* and Banco de Portugal.

Table A.3.4

TEMPORARY MEASURES IN THE GENERAL GOVERNMENT ACCOUNTS[(a)] | NATIONAL ACCOUNTING, EUR MILLIONS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
TOTAL REVENUE	**0**	**0**	**1 169**	**3 257**	**3 052**	**0**	**0**	**0**	**0**	**0**	**2 804**	**6 783**
Current revenue	**0**	**0**	**1 169**	**1 957**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**790**
Tax revenue			1 169	1 957								790
Taxes on income and wealth			634	641								790
Taxes on households			206	214								790
Taxes on corporations			428	427								
Taxes on production and imports			392	963								
of which:												
Value added tax			243	894								
Tax on oil products												
Tax on vehicles sales												
Social contributions			143	353								
Actual			143	353								
Social Security subsystem			143	353								
Caixa Geral de Aposentações subsystem												
Imputed												
Sales of goods and services												
Other current revenue												
Capital revenue	**0**	**0**	**0**	**1 300**	**3 052**	**0**	**0**	**0**	**0**	**0**	**2 804**	**5 993**
Capital taxes												
Transfers from the European Union												
Other capital transfers				1 300	3 052						2 804	5 993
TOTAL EXPENDITURE	**-399**	**0**	**-653**	**0**	**0**	**202**	**0**	**-195**	**-1 853**	**0**	**-133**	**0**
Current expenditure	**0**	**0**	**0**	**0**	**0**	**202**	**0**	**0**	**0**	**0**	**0**	**0**
Compensation of employees												
Intermediate consumption												
Interest on public debt												
Current transfers						202						
To households												
In cash												
In kind												
To corporations (subsidies)												
Other transfers						202						
Capital expenditure	**-399**	**0**	**-653**	**0**	**0**	**0**	**0**	**-195**	**-1853**	**0**	**-133**	**0**
Investment												
Other capital expenditure	-399		-653					-195	-1 853.1		-133	
OVERALL BALANCE	**399**	**0**	**1 822**	**3 257**	**3 052**	**-202**	**0**	**195**	**1 853**	**0**	**2 937**	**6 783**
As a percentage of GDP	0.3		1.3	2.3	2.0	-0.1		0.1	1.1		1.7	4.0
Memo:												
Primary balance	399	0	1 822	3 257	3 052	-202	0	195	1 853	0	2 937	6 783
As a % of GDP	0.3		1.3	2.3	2.0	-0.1		0.1	1.1		1.7	4.0

Sources: *INE* and Banco de Portugal.

Note: (a) Temporary measures are in accordance with the Eurosystem definition.

Table A.3.5

GENERAL GOVERNMENT DEBT BY INSTRUMENTS AND HOLDING SECTORS | EUR MILLIONS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Classification by instruments												
Currency and deposits	9 358	10 082	10 659	11 080	10 921	11 185	13 013	13 679	12 925	12 288	11 793	10 200
of which: Savings certificates	8 921	9 639	10 171	10 293	10 214	10 394	11 136	11 584	10 644	10 200	9 150	6 582
Short-term securities	571	2 311	431	3 969	10 018	13 035	9 574	10 225	16 435	20 405	20 835	11 080
Bonds	47 046	50 747	58 265	57 752	56 419	64 936	73 476	75 063	78 170	89 947	107 258	105 907
of wich:												
Treasury bonds - fixed rate	33 677	40 142	49 604	51 115	51 472	60 556	68 323	70 570	74 693	84 539	97 717	95 261
Treasury bonds - variable rate	4 395	2 995	1 324	337	0	0	0	0	0	0	0	0
Short-term loans	1 127	1 548	1 330	1 732	2 886	2 330	2 781	3 257	2 214	1 726	3 821	3 958
Medium- and long-term loans	6 055	7 282	8 866	10 464	12 221	12 937	12 622	13 363	13 365	15 579	17 428	53 145
Total	**64 158**	**71 970**	**79 551**	**84 998**	**92 465**	**104 423**	**111 467**	**115 587**	**123 108**	**139 945**	**161 135**	**184 291**
as a percentage of GDP	50	54	57	59	62	67.7	69.3	68.3	71.6	83.1	93.3	107.8
Memo:												
General government deposits	8 214	6 423	7 968	6 643	6 472	7 354	8 218	7 775	7 231	6 785	7 645	17 932
Classification by holding sectors												
Domestic sectors	29 388	28 279	27 374	27 151	27 280	26 656	28 790	27 974	28 668	34 762	58 050	60 863
Banco de Portugal	12	15	30	25	29	34	30	31	31	21	1 202	1 577
Other monetary financial institutions	9 284	9 825	8 996	8 908	9 825	10 745	11 550	10 326	12 334	18 592	34 683	37 169
Other financial institutions	8 440	6 868	6 389	5 885	4 932	4 546	4 326	4 223	3 580	4 274	9 349	10 548
Other residents	11 652	11 572	11 958	12 333	12 494	11 331	12 884	13 394	12 723	11 875	12 815	11 569
Non-residents	34 769	43 690	52 177	57 847	65 184	77 768	82 677	87 613	94 441	105 183	103 085	123 428
Total	**64 158**	**71 970**	**79 551**	**84 998**	**92 465**	**104 423**	**111 467**	**115 587**	**123 108**	**139 945**	**161 135**	**184 291**

Source: Banco de Portugal.

Table A.3.6

STOCK-FLOW ADJUSTMENT | EUR MILLIONS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government overall balance (Excessive Deficit Procedure)	**-4 161**	**-6 400**	**-4 757**	**-5 274**	**-5 988**	**-10 070**	**-7 408**	**-5 333**	**-6 236**	**-17 103**	**-16 950**	**-7 262**
Impact of swap and forward rate agreements operations	-58	-69	-68	-98	-45	60	-35	-106	-123	-32	-46	17
General government overall balance (ESA95)	**-4 218**	**-6 469**	**-4 825**	**-5 373**	**-6 033**	**-10 010**	**-7 443**	**-5 439**	**-6 358**	**-17 135**	**-16 996**	**-7 246**
Statistical discrepancy	0	0	0	0	0	0	0	0	0	0	0	0
Net transactions in financial assets and liabilities	-4 218	-6 469	-4 825	-5 373	-6 033	-10 010	-7 443	-5 439	-6 358	-17 135	-16 996	-7 246
Transactions in assets	-884	-729	4 164	-144	966	803	-243	-163	1 249	1 059	4 876	14 846
Currency and deposits	-678	-1 826	1 575	-1 290	-196	880	919	-400	-589	-506	713	10 247
Securities	274	570	286	132	-146	491	289	143	-610	418	-82	362
Loans	168	332	341	497	103	304	61	-2 047	672	-192	1 283	876
Shares and other equity	-494	-377	1 199	409	-164	-525	-1 678	1 504	1 992	1 001	1 592	-321
Privatisations	-2 313	-415	-406	-8	-1 081	-403	-1 505	-700	0	0	0	2
Equity injections	1 115	362	1 115	411	884	155	40	2 209	428	1 000	560	0
Other	704	-324	490	6	33	-277	-213	-5	1 564	1	1 032	-323
Other short-term assets [(a)]	-155	573	764	108	1 368	-347	166	638	-216	338	1 370	3 682
Transactions in liabilities	3 334	5 741	8 989	5 229	6 999	10 813	7 200	5 277	7 608	18 195	21 872	22 092
Debt instruments	3 431	8 126	8 544	4 322	6 785	12 118	7 261	4 161	7 955	17 328	20 504	21 202
Currency and deposits	1 157	1 089	1 185	671	-143	538	2 051	928	-527	-532	-835	-3 110
Short-term securities	-346	1 780	-1 924	3 562	5 880	2 949	-3 492	619	6 238	4 067	177	-9 638
Medium- and long-term securities	1 810	3 612	7 666	-1 228	-1 415	8 482	8 675	1 377	3 213	12 153	17 588	-1 542
Loans	810	1 645	1 616	1 318	2 463	150	27	1 236	-970	1 640	3 575	35 492
of which:												
loans from Banco de Portugal	-39	0	0	0	0	0	0	0	0	0	0	0
Other short-term liabilities [(b)]	-97	-2 386	445	906	214	-1 305	-61	1 116	-348	867	1 368	890
Valuation effects in debt instruments	-44	-289	-273	-224	-105	-231	-48	-195	-253	-543	774	1 858
Exchange rate changes	211	-20	101	-185	-135	-18	-11	-26	-113	24	96	638
Other valuation effects	-254	-268	-374	-40	30	-213	-37	-169	-141	-567	678	1 220
Other changes in volume in debt instruments	-234	-25	-689	1 348	787	71	-170	155	-180	51	-88	97
Change in debt	**3 153**	**7 812**	**7 582**	**5 446**	**7 467**	**11 959**	**7 043**	**4 120**	**7 521**	**16 836**	**21 190**	**23 156**

Sources: *INE* and Banco de Portugal.

Notes: (a) Includes the difference between revenue considered in the calculation of the deficit, in national accounts, and the revenue actually collected (cash basis) **(b)** Includes the difference between the expenditure recorded in national accounts, and the amounts actually paid on a cash basis.

Table A.3.7

STOCK-FLOW ADJUSTMENT | AS A PERCENTAGE OF GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government overall balance (Excessive Deficit Procedure)	**-3.3**	**-4.8**	**-3.4**	**-3.7**	**-4.0**	**-6.5**	**-4.6**	**-3.1**	**-3.6**	**-10.2**	**-9.8**	**-4.2**
Impact of swap and forward rate agreements operations	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0
General government overall balance (ESA95)	**-3.3**	**-4.8**	**-3.4**	**-3.7**	**-4.0**	**-6.5**	**-4.6**	**-3.2**	**-3.7**	**-10.2**	**-9.8**	**-4.2**
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net transactions in financial assets and liabilities	-3.3	-4.8	-3.4	-3.7	-4.0	-6.5	-4.6	-3.2	-3.7	-10.2	-9.8	-4.2
Transactions in assets	-0.7	-0.5	3.0	-0.1	0.6	0.5	-0.2	-0.1	0.7	0.6	2.8	8.7
Currency and deposits	-0.5	-1.4	1.1	-0.9	-0.1	0.6	0.6	-0.2	-0.3	-0.3	0.4	6.0
Securities	0.2	0.4	0.2	0.1	-0.1	0.3	0.2	0.1	-0.4	0.2	0.0	0.2
Loans	0.1	0.2	0.2	0.3	0.1	0.2	0.0	-1.2	0.4	-0.1	0.7	0.5
Shares and other equity	-0.4	-0.3	0.9	0.3	-0.1	-0.3	-1.0	0.9	1.2	0.6	0.9	-0.2
Privatisations	-1.8	-0.3	-0.3	0.0	-0.7	-0.3	-0.9	-0.4	0.0	0.0	0.0	0.0
Equity injections	0.9	0.3	0.8	0.3	0.6	0.1	0.0	1.3	0.2	0.6	0.3	0.0
Other	0.6	-0.2	0.3	0.0	0.0	-0.2	-0.1	0.0	0.9	0.0	0.6	-0.2
Other short-term assets [(a)]	-0.1	0.4	0.5	0.1	0.9	-0.2	0.1	0.4	-0.1	0.2	0.8	2.2
Transactions in liabilities	2.6	4.3	6.4	3.6	4.7	7.0	4.5	3.1	4.4	10.8	12.7	12.9
Debt instruments	2.7	6.0	6.1	3.0	4.5	7.9	4.5	2.5	4.6	10.3	11.9	12.4
Currency and deposits	0.9	0.8	0.8	0.5	-0.1	0.3	1.3	0.5	-0.3	-0.3	-0.5	-1.8
Short-term securities	-0.3	1.3	-1.4	2.5	3.9	1.9	-2.2	0.4	3.6	2.4	0.1	-5.6
Medium- and long-term securities	1.4	2.7	5.5	-0.9	-0.9	5.5	5.4	0.8	1.9	7.2	10.2	-0.9
Loans	0.6	1.2	1.1	0.9	1.6	0.1	0.0	0.7	-0.6	1.0	2.1	20.8
of which:												
of which: loans from Banco de Portugal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term liabilities [(b)]	-0.1	-1.8	0.3	0.6	0.1	-0.8	0.0	0.7	-0.2	0.5	0.8	0.5
Valuation effects in debt instruments	0.0	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	-0.1	-0.1	-0.3	0.4	1.1
Exchange rate changes	0.2	0.0	0.1	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.1	0.4
Other valuation effects	-0.2	-0.2	-0.3	0.0	0.0	-0.1	0.0	-0.1	-0.1	-0.3	0.4	0.7
Other changes in volume in debt instruments	-0.2	0.0	-0.5	0.9	0.5	0.0	-0.1	0.1	-0.1	0.0	-0.1	0.1
Change in debt	**2.5**	**5.8**	**5.4**	**3.8**	**5.0**	**7.8**	**4.4**	**2.4**	**4.4**	**10.0**	**12.3**	**13.5**

Sources: *INE* and Banco de Portugal.

Notes: (a) Includes the difference between revenue considered in the calculation of the deficit, in national accounts, and the revenue actually collected (cash basis) **(b)** Includes the difference between the expenditure recorded in national accounts, and the amounts actually paid on a cash basis.

Table A.4.1

GROSS VALUE ADDED BY SECTOR OF ACTIVITY| REAL RATE OF CHANGE, IN PERCENTAGE

	Weights 2010[(a)]	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Agriculture, animal production, hunting, forestry and fishing	2.2	-9.1	-4.1	5.0	-4.7	-3.5	3.0	-2.4	5.7	-5.5	2.4	-4.6	3.1	-3.8	-1.0	2.8
Industry	13.1	6.4	2.2	1.5	2.4	1.5	-0.1	-1.2	0.4	-1.1	0.9	3.0	-1.5	-9.8	2.2	0.4
Electricity, gas and water supply	3.5	3.4	7.2	4.5	10.0	3.4	0.9	8.7	3.1	-2.1	11.0	1.1	4.0	-5.6	3.6	-1.4
Construction	6.7	6.7	5.2	2.4	6.0	2.5	-3.7	-8.6	-0.4	-2.9	-2.6	2.0	-4.9	-10.7	-4.3	-9.2
Services	74.5	4.2	5.0	4.0	4.0	2.7	1.6	0.2	2.1	1.8	1.9	3.1	1.1	0.3	1.7	-1.1
Trade, repair, hotels and restaurants	19.4	6.6	5.2	3.7	5.6	1.3	-0.2	-1.8	2.9	0.7	1.9	1.3	-1.3	0.6	2.6	-1.3
Transport and communication	8.6	2.4	5.1	8.7	7.5	4.5	4.1	0.8	5.5	1.9	4.8	6.8	2.7	-2.3	2.6	-0.9
Financial and real estate activities	15.1	7.2	8.0	7.7	1.1	6.2	2.5	3.4	1.3	1.7	5.1	4.8	2.8	1.2	2.0	-0.2
Other services	31.3	2.0	3.6	1.7	3.6	1.7	1.6	-0.1	1.0	2.5	-0.3	2.3	1.2	0.3	0.7	-1.5
GVA[(b)]	100.0	4.2	4.3	3.5	3.8	2.4	0.9	-0.6	1.7	0.7	1.7	2.7	0.4	-2.2	1.4	-1.3
Memo:																
GDP at market prices [(c)]	-	4.4	5.1	4.1	3.9	2.0	0.8	-0.9	1.6	0.8	1.4	2.4	0.0	-2.9	1.4	-1.6

Sources: INE and Banco de Portugal.

Notes: **(a)** In percentage of total GVA at current prices. **(b)** The GVA is registered a base prices and differs from the GDP at market prices because this one includes, besides the GVA of the various sectors, taxes on production and imports net of subsidies. **(c)** Estimates of Banco de Portugal from information made available by the INE for 2007 to 2011.

Table A.4.2

POPULATION, EMPLOYMENT AND UNEMPLOYMENT | IN THOUSANDS

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[d]
Total resident population	10167	10223	10294	10366	10445	10509	10563	10586	10604	10623	10638	10636	10647
Male	4904	4934	4971	5009	5052	5087	5115	5125	5133	5141	5149	5147	5152
Female	5263	5289	5323	5357	5393	5421	5448	5461	5471	5471	5489	5489	5495
Labour force	5136	5226	5325	5408	5460	5488	5545	5587	5618	5625	5583	5581	5543
Male	2818	2855	2901	2938	2948	2957	2964	2984	2986	2991	2949	2932	2941
Female	2318	2372	2424	2470	2512	2531	2581	2603	2632	2633	2634	2649	2603
Total employment	4910	5021	5112	5137	5118	5123	5123	5159	5170	5198	5054	4978	4837
Male	2709	2765	2810	2816	2787	2784	2765	2790	2789	2797	2688	2645	2575
Female	2201	2256	2302	2321	2331	2339	2357	2370	2380	2401	2367	2334	2262
Employees	3556	3650	3711	3748	3736	3782	3814	3898	3902	3950	3856	3845	3815
Permanent contract	2891	2922	2957	2942	2968	3032	3071	3097	3030	3047	3007	2961	2967
Fixed-term contract[a]	466	501	556	597	581	570	580	634	685	727	694	738	707
Contract for services	53	59	60	60	48	54	57	64	73	74	82	73	141
Other dependent labour[b]	146	168	138	148	139	126	106	103	115	101	73	72	-
Self-employed	1210	1179	1258	1271	1278	1239	1204	1171	1187	1198	1154	1085	992
Without workers	912	880	943	954	953	910	904	891	900	910	880	829	744
With workers	298	300	315	317	325	329	300	280	287	287	273	256	248
Total employment by sector of activity													
Agriculture and fishing	623	635	653	637	642	618	606	604	601	596	565	542	479
Manufacturing, construction, energy and water	1692	1734	1729	1728	1653	1596	1567	1577	1578	1488	1426	1378	1323
Manufacturing	1107	1094	1096	1052	1019	1002	969	980	988	917	852	827	813
Construction	537	594	579	618	584	548	554	553	571	554	506	482	440
Services	2601	2652	2730	2773	2823	2909	2950	2978	2990	3081	3064	3058	3036
General government, education and health	835	851	878	880	910	951	989	1003	999	1014	1014	1031	1047
Other services	1765	1801	1852	1893	1913	1957	1961	1976	1991	2067	2049	2027	1989
Total unemployment	226	206	214	271	342	365	422	428	449	427	529	603	706
Male	109	89	92	121	161	173	198	195	197	194	261	287	366
Female	117	116	122	149	181	192	224	233	252	233	267	315	340
Unemployed by duration													
Up to one month	21	17	19	22	22	21	24	23	26	28	30	28	30
1-3 months	46	42	50	70	77	70	74	73	82	84	98	92	133
4-6 months	33	28	27	39	53	47	50	50	55	45	70	65	82
7-11 months	33	29	29	36	59	57	62	59	63	55	83	89	86
12-18 months	30	27	29	33	48	51	69	59	59	59	70	96	95
19-24 months	16	13	13	16	22	30	36	35	37	33	35	56	58
More than 25 months	48	50	43	51	59	88	106	128	124	120	140	175	222
Long-term unemployment[c]	93	90	85	101	129	169	211	221	220	213	246	327	375

Sources: INE (Labour Force Survey) and Banco de Portugal.

Notes: (a) Includes fixed-term contracts and contracts with temporary work agencies. **(b)** Includes seasonal work without written contract and occasional or seasonal work. **(c)** Long-term unemployed is an individual seeking job for 12 months or more. **(d)** Series break in 2011 due to the change in the methodology of the Employment Survey, except in the series relative to population.

Table A.4.3

POPULATION, EMPLOYMENT AND UNEMPLOYMENT | PER CENT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[d]
Participation rate[a]	50.5	51.1	51.7	52.2	52.3	52.2	52.5	52.8	53.0	53.0	52.5	52.5	52.1
Aged 15-64	70.6	71.2	72.0	72.6	72.8	72.9	73.4	73.9	74.1	74.2	73.7	74.0	74.1
Male	78.7	78.9	79.4	79.8	79.4	79.0	79.0	79.5	79.4	79.5	78.5	78.2	78.5
Female	62.7	63.8	64.8	65.6	66.5	67.0	67.9	68.4	68.8	68.9	69.0	69.9	69.8
Youth (aged 15-24)	46.1	45.7	47.0	47.4	45.1	43.6	43.0	42.7	41.0	40.1	39.2	36.7	38.8
Employment rate[a]	48.3	49.1	49.7	49.6	49.0	48.7	48.5	48.7	48.8	48.9	47.5	46.8	45.4
Male	55.2	56.0	56.5	56.2	55.2	54.7	54.1	54.4	54.3	54.4	52.2	51.4	50.0
Female	41.8	42.6	43.2	43.3	43.2	43.1	43.3	43.4	43.5	43.9	43.1	42.5	41.2
Youth (aged 15-24)	42.1	41.8	42.6	41.9	38.5	36.9	36.1	35.8	34.2	33.5	31.3	28.5	27.2
Unemployment rate[b]	4.4	3.9	4.0	5.0	6.3	6.7	7.6	7.7	8.0	7.6	9.5	10.8	12.7
Male	3.9	3.1	3.2	4.1	5.5	5.8	6.7	6.5	6.6	6.5	8.9	9.8	12.4
Female	5.0	4.9	5.0	6.0	7.2	7.6	8.7	9.0	9.6	8.8	10.2	11.9	13.1
Youth unemployment rate (15-24)	8.8	8.6	9.4	11.6	14.5	15.3	16.1	16.2	16.6	16.4	20.1	22.4	30.1
By level of education													
Primary education	7.7	8.3	8.0	11.2	13.5	17.6	19.3	17.9	19.6	18.7	22.8	25.9	37.9
Lower secondary education	9.4	8.1	9.9	11.4	13.4	13.4	12.9	13.3	13.8	14.2	19.2	20.5	30.9
Upper secondary education	9.8	9.3	9.3	9.8	14.2	13.5	15.3	15.9	14.8	14.3	18.0	21.2	27.2
Tertiary education	12.8	10.3	13.4	17.3	23.8	20.5	23.7	28.4	25.3	27.1	24.4	26.1	29.0
Unemployment rate by regions													
North	4.4	4.1	3.7	4.9	6.8	7.7	8.8	8.9	9.4	8.7	11.0	12.6	13.0
Center	2.2	1.9	2.4	3.0	3.4	3.9	4.8	5.2	5.5	5.3	7.0	7.7	10.3
Lisbon	5.5	4.9	5.2	6.4	7.4	7.3	8.3	8.2	8.4	7.9	9.2	10.6	14.1
Alentejo	6.4	5.3	5.9	6.5	9.0	9.7	9.1	8.7	8.1	9.0	10.9	11.9	12.4
Algarve	4.7	3.5	3.8	5.2	6.1	5.5	6.2	5.5	6.7	7.0	10.3	13.4	15.6
Azores	3.1	2.9	2.3	2.6	2.9	3.4	4.1	3.8	4.3	5.5	6.7	6.9	13.8
Madeira	2.7	2.5	2.5	2.5	3.4	3.0	4.5	5.4	6.8	6.0	7.6	7.4	11.5
Long-term unemployment[c]	41.2	43.8	40.0	37.3	37.7	46.2	49.9	51.7	48.9	49.8	46.5	54.3	53.1

Sources: INE (Labour Force Survey) and Banco de Portugal.

Notes: **(a)** As a percentage of total population. **(b)** As a percentage of the labour force. **(c)** Long-term unemployed is an individual seeking job for 12 months or more. As a percentage of total unemployment. **(d)** Series break in 2011 due to the change in the methodology of the Employment Survey.

Table A.4.4

STRUCTURAL INDICATORS – PORTUGAL AND EUROPEAN UNION | PER CENT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP per capita adjusted for PPP, as a percentage of the average of the European Union (EU15)[(a) (b)]	69.8	69.7	69.6	68.1	70.4	70.2	70.6	70.4	72.9	73.4	71.3
GDP per capita adjusted for PPP, as a percentage of the average of the European Union (EU27)[(a) (b)]	80.1	79.6	79.1	77.0	79.3	78.7	78.6	77.9	80.4	80.9	78.4
Labour productivity, as a percentage of the average of the European Union (EU15)[(b) (c)]	63.0	63.1	63.7	62.9	65.7	66.0	67.3	67.0	69.7	70.9	69.6
Labour productivity, as a percentage of the average of the European Union (EU27)[(b) (c)]	71.1	70.5	70.9	69.6	72.7	72.9	74.0	73.4	76.2	77.4	75.8
Employment rate 15-64 years (as a percentage of total population aged 15-64) [(d)]	69.0	68.8	68.1	67.8	67.5	67.9	67.8	68.2	66.3	65.6	64.2
European Union (EU15)	64.1	64.2	64.5	64.8	65.3	66.1	66.8	67.1	65.8	65.4	65.5
European Union (EU27)	62.6	62.4	62.6	63.0	63.4	64.4	65.3	65.8	64.5	64.1	64.3
Percentage of the population aged 20-24 having completed secondary education	44.4	44.4	47.9	49.6	49.0	49.6	53.4	54.3	55.5	58.7	-
European Union (EU15)	73.6	73.7	74.3	74.6	74.7	75.1	75.3	75.8	76.0	76.6	-
European Union (EU27)	76.6	76.7	77.1	77.3	77.5	77.9	78.1	78.5	78.6	79.0	-
Early leavers[(e)]	44.2	45.0	41.2	39.4	38.8	39.1	36.9	35.4	31.2	28.7	-
European Union (EU15)	18.8	18.6	18.1	17.6	17.5	17.3	16.9	16.6	15.9	15.4	-
European Union (EU27)	17.2	17.0	16.5	16.0	15.8	15.5	15.1	14.9	14.4	14.1	-
Lifelong learning[(f)]	3.3	2.9	3.2	4.3	4.1	4.2	4.4	5.3	6.5	5.8	-
European Union (EU15)	8.0	8.1	9.8	10.5	11.1	11.0	10.7	10.8	10.7	10.4	-
European Union (EU27)	7.1	7.2	8.5	9.2	9.6	9.5	9.3	9.4	9.3	9.1	-
Expenditure on R&D as a percentage of GDP	0.8	0.7	0.7	0.8	0.8	1.0	1.2	1.5	1.6	1.6	-
European Union (EU15)	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.0	2.1	2.1	-
European Union (EU27)	1.9	1.9	1.9	1.8	1.8	1.9	1.9	1.9	2.0	2.0	-
Percentage of expenditure on R&D financed by government	61.0	60.5	60.1	57.5	55.2	48.6	44.6	43.7	45.3	-	-
European Union (EU15)	33.7	34.1	34.9	34.8	34.1	33.1	32.7	33.3	34.4	-	-
European Union (EU27)	34.1	34.5	35.3	35.1	34.5	33.5	33.2	33.8	34.9	-	-
Share of science and technology graduates (per thousand - pop. aged 20-29)	6.6	7.4	8.2	11.0	12.0	12.6	18.1	20.7	14.6	-	-
European Union (EU15)	11.9	12.4	13.3	13.6	-	-	-	-	-	-	-
European Union (EU27)	10.7	11.3	12.3	12.5	13.3	13.5	13.8	14.5	14.3	-	-
Home access to the Internet (percentage of households)	-	15.0	22.0	26.0	31.0	35.0	40.0	46.0	48.0	54.0	58.0
European Union (EU15)	-	39.0	43.0	46.0	53.0	54.0	59.0	64.0	68.0	73.0	-
European Union (EU27)	-	-	-	41.0	48.0	49.0	54.0	60.0	65.0	70.0	73.0
Total investment rate[(g)]	27.0	25.7	23.7	23.3	23.0	22.4	22.2	22.5	19.9	19.0	17.3
European Union (EU15)	20.1	19.5	19.3	19.4	19.8	20.5	20.9	20.7	18.7	18.4	18.5
European Union (EU27)	20.2	19.6	19.4	19.6	19.9	20.7	21.2	21.1	19.0	18.6	18.7
Private sector investment rate[(h)]	23.2	22.2	20.5	20.1	20.0	20.0	19.5	19.5	16.9	15.4	14.9
European Union (EU15)	17.7	17.2	17.0	17.1	17.6	18.1	18.5	18.1	16.0	15.8	16.2
European Union (EU27)	17.8	17.3	17.0	17.2	17.7	18.2	18.6	18.3	16.1	15.8	16.2

Sources: Eurostat (Structural Indicators) and European Commission (AMECO).

Notes: **(a)** GDP per capita at current market prices and corrected for purchasing power parity (PPP). **(b)** PPP data present a structural break in 2005, due to changes in the methodology **(c)** GDP per person employed at current market prices and corrected for PPP. **(d)** Series break in 2011 due to the change in the methodology of the Employment Survey. **(e)** Percentage of the population aged 18-24 with at most lower secondary education and not in further education or training. **(f)** Percentage of the population aged 25-64 participating in education or training over the month prior to the EU Labor Force Survey. **(g)** Gross fixed capital formation in the whole economy as a percentage of GDP (current prices). **(h)** Gross fixed capital formation in the private sector as a percentage of GDP (current prices).

Table A.5.1

GROSS DOMESTIC PRODUCT - EXPENDITURE SIDE | CURRENT PRICES, EUR MILLION

	Weights 2010 (per cent)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Private consumption	66.0	88393	90800	95598	99847	104748	110635	114957	109774	113914	113486
Public consumption	21.6	27663	28729	30324	32618	33002	33579	34532	37160	37292	34360
Investment	19.6	36183	33700	35810	36325	37078	38652	39817	34051	33839	29802
Gross formation of fixed capital	19.8	35978	33847	34700	35413	35890	37629	38634	34629	34124	30884
Machinery and metallic products	4.3	7728	7259	7691	7823	8062	8679	9535	8106	7501	6646
Transport equipment	1.6	3315	2997	2954	3084	3288	3602	3494	2694	2762	2148
Construction	12.4	22914	21536	21900	22351	22295	22902	22998	21274	21341	19563
Other	1.5	2020	2055	2155	2155	2245	2446	2608	2556	2520	2527
Change in inventories	-0.2	205	-146	1111	913	1188	1023	1183	-579	-285	-1082
Domestic demand	107.2	152239	153229	161732	168790	174828	182866	189306	180985	185046	177649
Exports	31.0	38798	39631	41875	42669	49713	54498	55802	47236	53561	60660
Goods	21.4	28538	29373	30814	31163	35974	38539	39118	31968	37011	42634
Tourism and other services	9.6	10260	10258	11060	11506	13739	15959	16684	15268	16550	18026
Global demand	138.2	191037	192860	203607	211459	224541	237364	245108	228221	238607	238309
Imports	38.2	50470	49388	54294	57191	63685	68045	73125	59717	65937	67293
Goods	32.0	43433	42620	46928	49143	54368	57896	62349	49723	55268	56011
Tourism and other services	6.2	7037	6768	7366	8048	9317	10149	10776	9994	10670	11283
GDP	100.0	140567	143472	149313	154269	160855	169319	171983	168504	172670	171016

Source: *INE*.

Table A.5.2

GROSS DOMESTIC PRODUCT - EXPENDITURE SIDE | REAL RATE OF CHANGE, PER CENT	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Private consumption	1.3	-0.2	2.7	1.7	1.8	2.5	1.3	-2.3	2.1	-3.9
Public consumption	1.9	0.4	2.4	3.4	-0.6	0.5	0.3	4.7	0.9	-3.9
Investment	-5.1	-7.9	3.7	-0.9	-0.6	2.1	-0.1	-13.3	-3.6	-14.0
Gross formation of fixed capital	-3.2	-7.1	0.0	-0.5	-1.3	2.6	-0.3	-8.6	-4.1	-11.4
Machinery and metallic products	-5.9	-2.0	7.0	3.3	5.4	7.9	11.2	-9.9	-6.3	-10.1
Transport equipment	-11.2	-10.2	-1.8	2.4	4.6	8.0	-3.8	-21.8	1.7	-22.9
Construction	-2.4	-8.6	-2.0	-1.8	-4.6	-0.4	-4.6	-6.6	-4.2	-11.5
Other	12.6	-0.8	2.9	-2.9	1.6	5.9	2.9	-2.5	-2.1	-1.9
Change in inventories[(a)]	-0.4	-0.2	0.8	-0.1	0.2	-0.1	0.0	-1.1	0.1	-0.5
Domestic demand	-0.2	-1.9	2.9	1.4	0.8	2.0	0.8	-3.3	0.8	-5.7
Domestic demand contribution for the GDP[(a)]	-0.2	-2.0	3.1	1.5	0.9	2.2	0.9	-3.6	0.9	-6.2
Exports	2.8	3.6	4.1	0.2	11.6	7.5	-0.1	-10.9	8.8	7.4
Goods	3.3	6.0	3.7	-0.6	10.0	5.7	-0.6	-13.0	9.9	7.9
Tourism and other services	1.3	-2.6	5.3	2.5	15.8	12.4	1.3	-6.0	6.3	6.3
Global demand	0.4	-0.8	3.1	1.2	3.0	3.3	0.6	-5.1	2.5	-2.7
Imports	-0.5	-0.5	7.6	2.3	7.2	5.5	2.3	-10.0	5.4	-5.5
Goods	-0.1	0.3	7.8	1.8	6.4	5.4	2.1	-10.6	5.7	-7.0
Tourism and other services	-2.3	-5.1	6.0	5.3	12.0	5.9	3.9	-6.4	3.8	2.6
Net external demand contribution for the GDP[(a)]	0.9	1.1	-1.5	-0.8	0.6	0.1	-1.0	0.6	0.5	4.6
GDP	0.8	-0.9	1.6	0.8	1.4	2.4	0.0	-2.9	1.4	-1.6

Sources: *INE* and Banco de Portugal calculations.

Note: (a) Contribution for the GDP rate of change in percentage points.

Table A.5.3

GROSS DOMESTIC PRODUCT - EXPENDITURE SIDE | RATE OF CHANGE OF THE IMPLICIT DEFLATORS, PER CENT	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Private consumption	2.8	3.0	2.5	2.7	3.0	3.0	2.6	-2.2	1.6	3.7
Public consumption	4.0	3.4	3.0	4.0	1.8	1.3	2.5	2.7	-0.6	-4.2
Investment	2.3	1.1	2.5	2.4	2.7	2.1	3.1	-1.4	3.1	2.4
Gross formation of fixed capital	2.4	1.2	2.5	2.5	2.7	2.2	3.0	-1.9	2.8	2.1
Machinery and metallic products	-1.3	-4.2	-1.0	-1.5	-2.2	-0.2	-1.2	-5.7	-1.3	-1.4
Transport equipment	2.3	0.7	0.4	1.9	1.9	1.5	0.8	-1.4	0.9	0.8
Construction	4.0	2.8	3.8	3.9	4.6	3.1	5.3	-0.9	4.7	3.5
Other	3.8	2.5	1.9	2.9	2.5	2.8	3.6	0.6	0.7	2.2
Change in inventories	-	-	-	-	-	-	-	-	-	-
Domestic demand	2.8	2.6	2.6	2.9	2.7	2.5	2.7	-1.1	1.4	1.8
Exports	0.0	-1.4	1.5	1.7	4.4	1.9	2.5	-5.0	4.2	5.5
Goods	-0.9	-2.9	1.2	1.7	4.9	1.4	2.2	-6.1	5.3	6.8
Tourism and other services	2.5	2.7	2.4	1.5	3.1	3.3	3.2	-2.7	2.0	2.5
Global demand	2.3	1.8	2.4	2.6	3.1	2.4	2.6	-1.9	2.0	2.7
Imports	-1.6	-1.7	2.2	3.0	3.9	1.3	5.0	-9.2	4.8	8.0
Goods	-2.2	-2.2	2.1	2.9	4.0	1.0	5.5	-10.7	5.2	8.9
Tourism and other services	2.0	1.3	2.7	3.8	3.4	2.8	2.2	-0.9	2.8	3.1
GDP	3.7	3.0	2.5	2.5	2.8	2.8	1.6	0.9	1.1	0.7

Source: *INE.*

Table A.5.4

EXTERNAL DEMAND OF GOODS, PORTUGUESE EXPORTS AND MARKET SHARE | REAL RATE OF CHANGE, PER CENT

	Weights 2010	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
External demand[(a)]	100.0	2.1	4.6	8.7	6.4	9.2	6.3	-1.4	-14.7	12.2	4.7
Intra-euro area external demand (17 countries)	79.5	2.2	4.8	8.8	6.4	9.4	6.3	-1.5	-14.7	12.4	4.6
of which imports from:											
Spain	33.7	4.2	6.7	9.7	7.3	10.2	7.7	-6.0	-18.6	11.3	1.7
Germany	16.0	-0.4	6.8	8.7	6.9	13.7	5.7	3.7	-9.8	12.8	9.5
France	15.3	2.3	1.2	7.4	6.1	5.6	5.7	1.3	-12.0	9.5	6.7
Italy	4.6	-0.1	2.6	6.0	3.3	7.9	4.3	-3.5	-13.3	15.4	3.1
Netherlands	4.5	0.4	3.1	8.1	5.9	10.0	6.8	1.9	-9.7	12.6	5.5
Belgium	3.0	1.1	0.9	7.3	5.9	5.8	5.2	3.0	-12.9	8.4	5.5
Extra-euro area external demand	20.5	2.3	4.9	8.8	6.5	9.3	6.3	-1.6	-14.7	12.3	4.6
of which imports from:											
United Kingdom[(b)]	7.1	3.6	4.4	7.5	4.5	8.4	3.3	-1.3	-12.6	11.4	-0.3
United States of America	3.9	3.7	4.9	11.1	6.8	5.9	2.6	-3.8	-15.6	14.8	6.6
Portuguese exports of goods		3.3	6.0	3.7	-0.6	10.0	5.7	-0.6	-13.0	9.9	7.9
Market share		1.2	1.3	-4.6	-6.6	0.8	-0.5	0.8	2.0	-2.1	3.1

Sources: European Comission (AMECO database), *INE,* UK Office for National Statistics and Banco de Portugal.

Notes: (a) Calculated as a weighed average of the real growth of the imports of goods from 35 important trading partners. Each country was weighted according to its weight in Portuguese exports in the previous year. As a whole, these countries represent about 80 percent of the Portuguese exports of goods. **(b)** Excludes the impact of the VAT fraud, according to estimates from the UK Office for National Statistics.

Table A.5.5

PORTUGUESE EXPORTS OF GOODS BY GEOGRAPHICAL AREAS AND COUNTRIES OF DESTINATION	Exports structure - weights, per cent											
	2001	2010	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Intra - EU27	81.9	75.0	2.4	2.5	5.3	-0.8	11.4	6.0	-2.1	-17.3	15.4	13.6
Intra - EU15	80.5	71.0	2.2	2.3	5.3	-1.2	10.9	5.7	-2.8	-18.1	14.6	13.1
Spain	20.4	26.6	11.0	15.1	11.6	6.2	18.1	8.3	-1.4	-20.3	13.2	7.5
Germany	18.7	13.0	-5.0	-13.6	-2.8	-6.5	19.8	6.7	-0.1	-17.1	16.5	20.3
France	12.7	11.8	8.2	0.7	10.6	-1.5	6.2	8.0	-5.0	-14.2	10.3	17.4
United kingdom	10.1	5.5	3.5	2.1	-2.4	-11.6	-4.6	-5.8	-8.1	-15.8	12.6	6.8
Italy	4.4	3.8	4.7	7.7	-2.9	0.2	6.6	9.4	-9.4	-17.1	17.4	11.0
Netherlands	4.1	3.8	-3.4	0.9	13.4	-1.0	6.8	-0.6	-3.6	-10.2	22.4	18.5
Belgium/Luxembourg	5.4	3.0	-16.5	5.5	2.9	-7.2	-7.5	-6.4	-5.2	-18.7	32.5	25.5
Sweden	1.5	1.0	-0.2	-6.5	-8.4	-3.2	14.1	20.1	-6.5	-18.3	2.2	15.9
Denmark	1.1	0.7	-4.1	-7.8	-6.3	0.6	-1.9	14.0	1.0	-15.6	6.7	1.9
Finland	0.5	0.7	-5.5	6.3	50.2	8.2	11.6	-9.6	7.5	-46.3	77.5	1.7
Austria	0.7	0.6	-8.0	0.5	1.9	-4.1	8.0	5.8	-1.8	-6.4	12.7	11.9
Ireland	0.5	0.3	8.6	1.4	14.2	-8.9	10.7	-0.2	27.2	-49.5	-10.9	16.5
Greece	0.4	0.3	-2.1	21.7	2.6	-5.1	2.0	10.5	6.2	-27.9	-2.8	22.3
Intra - euro area[(a)]	68.0	64.3	2.2	2.7	7.0	0.3	12.8	6.6	-2.1	-18.3	15.2	13.7
Extra - euro area	32.0	35.7	2.1	3.0	2.9	1.6	18.0	9.2	8.7	-18.6	17.4	17.7
Extra - EU15	19.5	29.0	1.8	5.0	7.0	8.4	27.5	13.0	13.9	-19.3	19.6	20.0
Extra - EU27	18.1	25.0	1.2	4.3	7.4	7.4	26.8	12.6	13.4	-21.5	17.7	19.5
OPEC	0.8	7.1	-8.1	1.6	16.2	38.7	-21.3	674.9	44.8	-0.4	-7.6	22.5
PALOP	2.7	6.6	10.3	7.6	2.6	17.1	43.8	35.3	29.9	-1.2	-9.1	20.9
United States of America	5.5	3.6	2.1	1.9	9.2	-5.3	27.4	-15.1	-25.0	-24.5	31.1	12.9
Brazil	0.8	1.2	-27.0	-21.4	19.7	15.3	43.0	1.4	23.9	-7.9	49.5	32.9
EFTA	2.1	1.1	-13.2	3.1	-29.4	-5.3	10.6	-4.6	10.3	-9.0	11.5	11.2
Canada	0.5	0.5	-5.0	19.0	6.8	-20.8	9.3	-5.4	29.5	-27.0	29.7	15.0
Japan	0.4	0.3	-13.3	-0.2	-4.0	-3.7	25.1	173.9	-39.8	-51.9	47.8	50.0
Other	5.3	4.5	9.0	7.2	18.5	15.1	27.7	-37.3	5.3	-79.0	301.9	14.8
Total	100.0	100.0	2.2	2.8	5.7	0.7	14.5	7.4	1.4	-18.4	16.0	15.1

Source: *INE* (International Trade Statistics).
Note: (a) Euro area 17 countries (fixed composition).

Table A.5.6

PORTUGUESE IMPORTS OF GOODS BY GEOGRAPHICAL AREAS AND COUNTRIES OF DESTINATION

	Imports structure - weights, per cent											
	2001	2010	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Intra - EU27	78.0	75.7	0.6	-1.9	9.2	1.8	8.8	5.9	4.6	-15.9	7.0	-2.6
Intra - EU15	76.4	73.4	0.3	-1.6	9.3	1.4	8.8	5.8	4.3	-16.3	7.0	-2.9
Spain	28.0	31.2	3.3	1.8	12.0	2.8	10.2	7.1	6.3	-14.9	5.7	2.3
Germany	14.4	13.9	2.3	-2.3	6.3	3.5	9.0	3.9	2.7	-21.0	16.5	-10.0
France	10.3	7.3	-3.1	-5.9	4.9	-2.2	6.7	8.7	-0.2	-17.5	-3.5	-4.3
Italy	6.9	5.7	-4.7	-5.3	5.1	-1.0	10.6	-1.0	4.6	-13.4	8.6	-5.0
Netherlands	4.9	5.1	-8.1	1.2	11.1	-1.1	16.1	5.8	6.6	-9.5	7.1	-6.0
United Kingdom	5.0	3.8	-0.9	-6.9	6.6	-2.6	5.2	-5.2	-4.1	-20.6	27.6	-10.7
Belgium/Luxembourg	3.2	2.9	-2.0	-5.1	9.1	5.1	7.3	10.4	6.1	-23.0	7.3	-6.2
Sweden	1.1	1.0	1.3	-0.4	20.7	-6.7	-7.7	24.1	2.8	-22.0	11.3	2.4
Ireland	0.6	1.0	9.1	7.2	25.6	12.2	9.9	-6.0	24.0	-13.2	6.8	10.1
Denmark	0.6	0.6	8.1	-13.9	33.8	5.3	-3.7	-8.8	19.6	-18.8	3.1	-4.2
Austria	0.7	0.5	-1.9	7.1	12.4	-15.3	8.0	44.9	-27.1	7.7	-29.1	-2.0
Finland	0.5	0.3	4.0	-0.7	1.7	18.0	-26.8	20.8	45.4	-2.1	-58.3	-15.4
Greece	0.2	0.2	-4.9	-10.6	-3.7	4.0	4.3	21.8	10.7	-12.9	2.5	15.0
Intra - euro area[(a)]	69.9	68.3	0.3	-1.1	9.0	1.8	9.5	6.5	4.6	-15.9	6.0	-2.5
Extra - euro area	30.1	31.7	-11.4	-2.3	15.9	10.5	9.8	6.5	12.8	-28.7	23.7	8.7
Extra - EU15	23.6	26.6	-14.4	-0.7	16.7	14.4	11.8	8.6	15.4	-29.9	24.1	11.9
Extra - EU27	22.0	24.3	-16.7	0.6	17.5	14.1	12.3	8.5	15.3	-32.0	25.9	12.5
OPEC	4.3	6.7	-18.3	8.1	24.0	51.0	7.4	8.4	42.9	-46.1	28.3	20.8
Brazil	1.2	1.8	17.9	0.5	29.8	14.8	25.3	12.0	-1.3	-34.9	17.9	39.7
EFTA	2.9	1.6	-31.8	2.3	-7.5	1.4	21.4	5.3	-1.6	-16.1	-2.6	-12.3
United States of America	3.4	1.5	-44.8	-10.6	34.0	1.0	-26.9	22.2	8.1	-16.1	-2.4	30.2
PALOP	0.4	1.1	-34.0	-56.8	-23.1	64.7	37.9	345.7	12.0	-55.0	196.0	104.7
Japan	1.7	0.6	-11.4	-7.1	-2.8	-10.5	-5.6	3.9	3.1	-51.6	27.3	-6.1
Canada	0.2	0.4	-18.4	127.1	-41.9	-2.9	-12.6	25.6	95.8	-49.0	97.0	-3.0
Other	7.8	10.6	-3.3	0.0	22.5	4.5	23.1	1.1	4.8	-19.6	27.5	-3.6
Total	100.0	100.0	-3.2	-1.4	10.8	4.3	9.6	6.5	7.1	-20.0	11.0	1.1

Source: *INE* (International Trade Statistics).

Note: (a) Euro area 17 countries (fixed composition).

Table A.5.7

PORTUGUESE EXPORTS OF GOODS BY GROUP OF PRODUCTS | NOMINAL RATE OF CHANGE, PER CENT

	Weights 2010	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	100.0	2.2	2.8	5.7	0.7	14.5	7.4	1.4	-18.4	16.0	15.1
Agriculture	5.3	7.1	1.1	13.9	5.8	12.4	14.4	25.0	-10.4	14.1	12.7
Food	5.3	11.4	5.3	1.2	0.6	15.0	18.3	9.2	-2.1	2.8	12.3
Mineral fuels	6.7	18.7	4.8	16.3	50.6	49.0	-8.6	25.1	-28.4	59.5	24.8
Chemicals	5.0	7.7	9.0	0.8	14.2	11.3	11.9	1.4	-16.0	17.1	29.7
Plastics, rubber products	6.9	12.2	15.2	26.8	9.8	14.6	11.7	0.5	-13.4	27.7	14.2
Leather, leather products	0.3	0.1	-18.2	-6.6	-1.0	28.2	-4.1	4.1	-18.3	23.1	32.6
Wood, cork	3.5	2.2	1.3	1.8	-2.5	10.2	6.3	-4.4	-23.0	7.6	10.9
Pulp, paper	5.7	0.1	5.2	-2.0	2.8	12.2	-12.9	9.2	-0.9	40.7	4.8
Textile products	4.1	-0.7	-18.5	-2.3	-4.1	5.3	4.6	-6.6	-16.1	13.0	10.3
Clothing	6.0	-4.0	1.8	-5.0	-12.9	2.2	1.5	-5.8	-13.2	3.0	6.9
Footwear	3.7	-6.0	-8.8	-6.9	-7.3	2.2	2.7	2.6	-8.2	5.1	15.2
Minerals, ores	5.5	1.4	5.2	18.1	5.1	24.5	13.9	-3.0	-15.9	13.0	6.1
Basic metals	7.9	8.1	7.4	25.6	10.2	28.8	10.2	-0.2	-25.9	17.3	17.3
Machinery, equipment	14.9	3.7	3.1	5.6	-0.1	16.1	7.6	-0.8	-31.0	6.3	11.6
Motor vehicles, other transport equipment	12.4	-2.7	5.1	6.1	-6.6	9.2	2.8	-2.7	-21.4	22.2	23.4
Optical and precision instruments	1.1	12.3	13.0	-1.6	-19.2	7.3	14.3	6.5	2.9	18.3	8.9
Other products	5.6	7.3	22.5	8.1	0.2	12.1	41.2	-2.5	-3.3	6.8	19.1

Source: *INE (Estatísticas de Comércio Internacional).*

Table A.5.8

PORTUGUESE IMPORTS OF GOODS BY GROUP OF PRODUCTS | NOMINAL RATE OF CHANGE, PER CENT

	Weights 2010	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	100.0	-3.2	-1.4	10.8	4.3	9.6	6.5	7.1	-20.0	11.0	1.1
Agriculture	9.5	-1.6	-0.1	5.9	2.2	11.0	14.2	9.8	-11.6	5.1	10.4
Food	4.1	3.7	0.7	5.8	-3.2	6.0	12.6	11.2	0.6	-2.1	6.9
Mineral fuels	14.6	-4.0	2.2	19.3	40.8	11.8	-0.8	28.0	-37.3	28.8	23.4
Chemicals	10.0	7.5	2.0	8.8	1.6	12.6	1.3	7.1	-4.1	9.4	4.6
Plastics, rubber products	5.1	5.9	-1.0	9.0	2.6	11.0	10.6	2.6	-16.5	16.4	9.8
Leather, leather products	1.0	-8.8	-10.8	-2.4	-8.1	9.8	10.8	-0.7	-14.3	14.2	5.2
Wood, cork	1.2	-1.4	-7.1	3.3	0.2	3.9	12.7	-2.0	-25.0	15.8	6.1
Pulp, paper	2.3	-1.2	-1.0	3.7	-2.3	5.3	6.2	0.4	-8.8	5.0	-0.8
Textile products	2.8	-7.8	-7.1	-3.4	-12.8	6.4	-0.1	-8.3	-16.2	14.6	0.4
Clothing	3.0	7.5	0.9	6.0	-1.4	13.0	7.9	1.6	0.5	3.4	0.5
Footwear	0.9	2.3	-3.3	4.2	-3.7	13.1	10.8	2.9	-7.5	4.2	5.4
Minerals, ores	1.4	-1.3	-2.6	1.9	6.7	4.2	2.9	3.2	-17.9	0.8	-7.1
Basic metals	7.9	1.5	-1.7	28.4	0.6	23.0	8.7	2.9	-34.4	15.1	4.1
Machinery, equipment	16.4	-9.2	0.6	10.2	0.8	7.0	7.7	5.2	-22.8	-4.7	-7.4
Motor vehicles, other transport equipment	14.1	-9.3	-7.1	16.6	-0.2	4.3	8.0	0.6	-20.7	29.2	-23.9
Optical and precision instruments	2.2	0.7	-3.9	3.2	3.5	8.5	1.8	1.5	-5.5	6.8	-8.7
Other products	3.3	2.1	0.4	4.5	1.1	1.6	5.7	2.0	-3.2	8.8	-6.9

Source: *INE (Estatísticas de Comércio Internacional).*

Table A.5.9

HOUSEHOLDS DISPOSABLE INCOME | EUR MILLION	2002	2003[(a)]		2004[(a)]		2005	2006	2007	2008	2009	2010	2011
Households disposable income	98 110	101 369	(101522)	105807		109614	112795	118384	123499	122959	126786	125552
Nominal rates of change, per cent	3.9	3.3	(3,5)	4.4	(4,2)	3.6	2.9	5.0	4.3	-0.4	3.1	-1.0
Compensation of employees[(b)]	69315	71204	(70913)	73530		77198	79520	82857	85661	85757	86665	85629
Corporate and property income	29944	31630	(31614)	32720		34116	34055	35756	37451	35095	36759	37642
Current transfers	26561	27359		28767		29776	32599	34675	37118	38931	40276	40187
Domestic transfers	23800	24951		26335		27628	30086	31856	34240	36646	37794	37609
External transfers	2761	2408		2432		2148	2512	2818	2878	2285	2482	2578
Direct taxes (-)	7771	7865	(7711)	7913		8310	8876	9723	10077	10142	10044	11053
Social contributions (-)	19938	20960	(20653)	21297		23167	24503	25181	26654	26682	26870	26854
Disposable income adjusted for the change in net equity of households in pension fund reserves	98521	101677	(101831)	106174		110921	113896	118952	123692	123148	126920	125662
Nominal rate of change, per cent	3.7	3.2	(3,4)	4.4	(4,3)	4.5	2.7	4.4	4.0	-0.4	3.1	-1.0
Memo:												
Nominal private consumption	88393	90800		95598		99847	104748	110635	114957	109774	113914	113486
Saving rate (in % of the disposable income)	10.3	10.7	(10,8)	10.0		10.0	8.0	7.0	7.1	10.9	10.2	9.7

Sources: *INE* and Banco de Portugal.

Notes: (a) In brackets, values adjusted for the direct effects of the sale of tax credits by the general government. **(b)** The compensation received by the households includes employer social contributions, of both the private and the public sector.

Table A.6.1

PRICE AND NON-WAGE COST INDICATORS | ANNUAL AVERAGE RATE OF CHANGE, PER CENT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Consumer Price Index[(a)]	3.6	3.3	2.4	2.3	3.1	2.5	2.6	-0.8	1.4	3.7
GDP Deflator	3.7	3.0	2.5	2.5	2.8	2.8	1.6	0.9	1.1	0.7
Industrial production price index[(b)]										
Manufacturing	0.4	0.4	2.9	3.5	4.2	2.5	5.3	-5.6	3.5	5.7
Manufacturing excluding fuel	0.4	0.3	1.7	1.3	2.7	2.6	3.1	-2.7	1.1	3.2
Prices of goods imports[(c)]										
Total	-2.2	-2.2	2.1	2.9	4.0	1.0	5.5	-10.7	5.2	8.9
Consumer goods	-0.5	-2.9	-1.7	-2.9	0.8	-0.3	0.5	-4.7	-1.8	5.4
Food	-1.8	-3.9	1.1	-0.9	2.3	3.7	6.6	-5.5	-0.3	12.7
Non-food	-0.5	-3.4	-3.9	-4.4	-0.6	-2.6	-2.0	-5.4	-3.4	0.2
Passenger vehicles	2.4	1.0	0.3	-1.6	2.6	-0.3	-2.5	0.6	0.0	-0.1
Capital goods	-1.0	-3.3	-0.3	-2.3	-0.7	-0.6	-2.3	-5.5	0.3	-1.4
Transport equipment	1.3	0.5	0.1	-1.6	1.4	3.3	-1.2	-4.7	0.6	1.1
Other capital goods	-2.1	-4.9	-0.5	-2.6	-1.6	-2.4	-2.7	-5.9	0.0	-1.8
Fuel	-7.1	5.4	15.1	31.5	21.7	0.7	31.5	-28.8	31.2	29.6
Intermediate goods	-2.5	-2.6	2.4	0.7	2.2	2.8	2.8	-7.4	4.3	7.6
International commodity prices										
Oil prices (Brent Blend), USD	0.4	13.6	33.5	45.0	20.1	9.5	35.8	-36.7	28.7	38.3
Oil prices (Brent Blend), EUR	-4.9	-5.0	21.4	45.0	19.0	0.4	26.6	-33.2	35.4	31.7
Non-energy commodity prices, USD	2.9	12.6	22.1	6.2	26.9	18.2	13.3	-23.4	27.1	19.6
Food	14.0	9.8	12.6	-5.5	7.5	32.8	33.7	-15.7	9.6	27.0
Industrial	-3.9	14.7	28.8	13.4	36.9	12.4	3.6	-28.1	39.8	15.4
Non-energy commodity prices, EUR	-2.4	-5.9	11.2	6.0	25.5	8.5	4.8	-18.8	34.0	13.8
Food	7.8	-8.1	2.7	-5.8	6.3	21.3	24.3	-10.4	15.0	20.9
Industrial	-8.7	-4.3	17.1	13.3	35.4	3.3	-4.4	-23.9	47.7	9.7
Memo:										
Nominal effective exchange rate index for Portugal[(d)]	0.6	2.8	0.8	-0.3	0.0	0.7	0.9	0.4	-1.5	-0.1

Sources: ECB, Eurostat, HWWI, *INE*, Thomson Reuters and Banco de Portugal.

Notes: (a) Up to December 2002, the rates of change were calculated using the CPI 1997=100. Between January 2003 and December 2008, the rates of change were calculated using the CPI 2002=100. From January 2009 onwards, the rates of change were calculated using the CPI 2008=100. **(b)** Up to December 2005, the rates of change were calculated using the PPI series 2000=100. From January 2006 onwards, the rates of change were calculated using the PPI series 2005=100. The PPI series 2005=100 use the Classification of Economic Activities (CAE) Rev. 3. **(c)** Calculations by Banco de Portugal using information made available by the INE. The classification by main economic categories presented in this table differs from the one used by INE because passenger vehicles are included in consumer goods and not in capital goods. **(d)** A positive variation corresponds to an appreciation of the index.

Table A.6.2

LABOUR COSTS | ANNUAL AVERAGE RATE OF CHANGE, PER CENT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Compensation per employee[(a)]										
Total Economy[(b)]										
Nominal	3.0	2,8 (2,4)	1,8 (2,2)	4.4	1.8	3.6	3.0	2.8	1.4	-0.8
Real[(c)]	0.2	-0,2 (-0,6)	-0,7 (-0,3)	1.7	-1.2	0.5	0.5	5.1	-0.2	-4.4
Private sector										
Nominal	2.7	3,3 (2,7)	2,5 (3,1)	4.5	2.7	4.6	3.3	1.6	1.8	1.0
Real[(c)]	-0.1	0,3 (-0,3)	-0,1 (0,5)	1.7	-0.3	1.6	0.7	3.9	0.2	-2.6
Collective bargaining										
Total excluding general government	3.6	2.8	2.9	2.7	2.7	2.9	3.1	2.8	2.1	1.2
Industry	3.6	2.7	2.9	2.8	2.8	3.0	3.5	3.2	3.5	1.9
Services	3.0	3.0	2.9	2.6	3.0	3.0	2.8	2.8	1.8	1.5

Sources: *INE*, Ministério da Economia e do Emprego/ Ministério do Trabalho e da Solidariedade Social and Banco de Portugal.

Notes: (a) In brackets are the vales adjusted for the direct effects of the sale of tax credits by the general government. For more details see "Box 6.1 *Budgetary effects of the temporary measures implemented from 2002 to 2004*" in the Annual Report of 2004. **(b)** Average compensation per employee, gross of social contributions and taxes on income, consistent with data and methodology of National Accounts base 2006. **(c)** Deflated using the private consumption deflator.

Table A.6.3

CPI -MAIN CATEGORIES AND AGGREGATES[(a)] | ANNUAL AVERAGE RATES OF CHANGE, PER CENT

	Weights 2010	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	100.0	3.6	3.3	2.4	2.3	3.1	2.5	2.6	-0.8	1.4	3.7
Total excluding unprocessed food and energy	78.3	4.4	3.2	2.4	1.8	2.5	2.2	2.4	0.4	0.3	2.3
Aggregates											
Goods	60.0	2.4	2.7	1.6	1.9	3.2	2.2	2.3	-2.3	1.7	4.4
Food	21.1	1.9	2.9	1.4	0.2	3.7	2.8	4.2	-2.5	0.4	3.0
Unprocessed	9.5	0.3	2.6	0.0	-0.5	3.2	3.0	0.6	-4.3	0.7	2.9
Processed	11.6	3.8	3.1	2.9	0.8	4.2	2.6	8.1	-0.9	0.2	3.1
Industrial	38.9	2.7	2.6	1.7	2.8	2.9	1.9	1.3	-2.2	2.4	5.1
Non-energy	26.7	3.1	2.0	0.8	1.0	1.5	1.4	-0.3	-0.9	-0.8	1.4
Energy	12.2	1.2	4.9	5.4	9.9	8.0	3.5	6.5	-7.8	9.5	12.7
Services	40.0	6.0	4.5	3.8	3.0	2.9	2.9	3.0	1.7	1.0	2.6
COICOP Classification[(b)]											
Food and non-alcoholic beverages	18.0	1.5	2.6	1.1	-0.6	2.7	2.4	3.7	-3.4	-0.2	2.1
Alcoholic beverages and tobacco	3.1	4.8	4.6	3.0	4.8	9.7	4.9	7.5	3.3	4.4	7.9
Clothing and footwear	5.1	2.5	1.3	-1.1	-1.1	0.5	2.2	1.6	-1.7	-1.7	-3.9
Housing, water, electricity, gas and other fuels	11.0	2.9	4.0	3.0	4.4	3.9	3.6	3.9	2.1	4.4	6.7
Furnishings, household equipment and routine maintenance of the house	6.2	3.1	2.6	1.6	1.3	1.0	1.6	1.7	1.7	1.6	1.2
Health	8.2	4.8	1.9	1.7	0.9	1.5	7.4	1.4	-1.4	-1.3	4.5
Transport	16.7	5.0	4.3	3.5	5.8	5.5	1.6	1.5	-3.6	4.6	8.9
Communication	3.3	0.8	-1.3	-1.0	-0.2	-0.9	-1.8	-2.1	-1.0	-1.9	3.0
Recreation and culture	6.6	2.2	1.7	2.8	1.6	1.2	0.3	0.6	-1.6	-0.2	1.0
Education	2.4	5.8	5.6	9.3	7.0	5.2	3.7	4.2	3.5	2.8	2.1
Restaurants and hotels	10.9	5.7	5.7	4.6	2.4	2.3	2.6	3.7	2.4	1.2	1.4
Miscellaneous goods and services	8.5	5.8	4.0	2.6	2.2	3.3	2.4	2.5	1.9	0.5	1.8

Sources: *INE* and Banco de Portugal.

Notes: (a) Up to December 2002, the rates of change were calculated using CPI 1997=100. Between January 2003 and December 2008, the rates of change are calculated using the CPI 2002=100. From January 2009 onwards, rates of change were calculated using the CPI 2008=100. **(b)** COICOP - Classification of Individual Consumption by Purpose.

Table A.6.4

PORTUGAL AND EURO AREA - MAIN HICP AGGREGATES | ANNUAL AVERAGE RATES OF CHANGE, PER CENT

	Weights 2010	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Portugal											
Total	100.0	3.7	3.3	2.5	2.1	3.0	2.4	2.7	-0.9	1.4	3.6
Aggregates											
Goods	57.9	2.4	2.4	1.6	1.9	3.2	2.2	2.4	-2.4	1.7	4.4
Food	20.6	1.9	2.6	1.4	0.1	3.6	2.8	4.2	-2.5	0.4	3.0
Unprocessed	9.3	0.2	2.1	0.0	-0.5	3.2	3.0	0.6	-4.3	0.7	2.9
Processed	11.3	3.8	3.1	2.8	0.8	4.1	2.6	8.1	-0.9	0.2	3.1
Industrial	37.3	2.7	2.4	1.8	2.8	3.0	1.9	1.4	-2.3	2.4	5.2
Non-energy	25.6	3.1	1.8	0.8	1.0	1.5	1.4	-0.2	-0.8	-0.7	1.4
Energy	11.7	1.2	4.9	5.4	10.0	8.1	3.5	6.6	-8.0	9.5	12.8
Services	42.1	5.9	4.6	3.9	2.5	2.7	2.8	3.1	1.3	1.0	2.4
Euro area											
Total	100.0	2.2	2.1	2.1	2.2	2.2	2.1	3.3	0.3	1.6	2.7
Aggregates											
Goods	58.0	1.7	1.8	1.8	2.1	2.3	1.9	3.8	-0.9	1.8	3.3
Food	19.2	3.1	2.8	2.3	1.6	2.4	2.8	5.1	0.7	1.1	2.7
Unprocessed	7.3	3.1	2.1	0.6	0.8	2.8	3.0	3.5	0.2	1.3	1.8
Processed	11.9	3.1	3.3	3.4	2.0	2.1	2.8	6.1	1.1	0.9	3.3
Industrial	38.9	1.0	1.2	1.6	2.4	2.3	1.4	3.1	-1.7	2.2	3.7
Non-energy	29.3	1.5	0.8	0.8	0.3	0.6	1.0	0.8	0.6	0.5	0.8
Energy	9.6	-0.6	3.0	4.5	10.1	7.7	2.6	10.3	-8.1	7.4	11.9
Services	42.0	3.1	2.5	2.6	2.3	2.0	2.5	2.6	2.0	1.4	1.8

Source: Eurostat.

Table A.7.1

NET LENDING/BORROWING BY INSTITUTIONAL SECTOR[(a)] | AS A PERCENTAGE OF GDP

	2002	2003		2004		2005	2006	2007	2008	2009	2010		2011	
Households														
Savings	7.2	7.6	(7.7)	7.1		7.2	5.7	4.9	5.1	7.9	7.5		7.1	
Capital transfers[(b)]	3.3	2.0		2.4		2.6	2.2	1.9	2.4	1.7	1.7		1.7	
Investment	8.1	7.0		6.9		6.9	6.4	5.8	5.5	4.8	4.7		4.6	
Net lending/borrowing	2.4	2.6	(2.7)	2.6		2.9	1.5	1.0	2.0	4.8	4.6		4.2	
Corporations														
Savings	10.6	10.7	(11.8)	11.1		9.3	8.6	8.4	6.8	8.4	9.3		8.6	
Capital transfers[(b)]	-2.7	-1.3	(-0.4)	-2.9	(-0.8)	-1.4	-1.1	-0.9	-1.8	-0.3	-1.1	(0.5)	-3.4	(0.1)
Investment	13.5	12.7		13.2		13.1	13.9	14.3	14.7	12.4	11.3		10.2	
Net lending/borrowing	-5.7	-3.3	(-1.3)	-5.1	(-3.0)	-5.2	-6.4	-6.8	-9.7	-4.3	-3.1	(-1.5)	-5.0	(-1.5)
General government														
Savings	-0.6	-1.5	(-2.7)	-2.4		-3.2	-2.0	-0.7	-1.3	-6.9	-6.9		-4.9	
Capital transfers[(b)]	1.2	1.6	(0.7)	2.2	(0.2)	0.3	0.2	0.2	0.6	-0.2	0.7	(-1.0)	3.2	(-0.3)
Investment	4.1	3.9		3.8		3.6	2.8	2.7	2.9	3.0	3.6		2.6	
Net lending/borrowing	-3.4	-3.7	(-5.9)	-4.0	(-6.1)	-6.5	-4.6	-3.2	-3.7	-10.2	-9.8	(-11.5)	-4.2	(-7.7)
Rest of the world														
Savings	8.5	6.7		8.3		10.3	10.7	10.2	12.6	10.8	9.7		6.6	
Capital transfers[(b)]	-1.8	-2.3		-1.7		-1.5	-1.3	-1.2	-1.2	-1.2	-1.3		-1.5	
Net lending/borrowing	6.7	4.4		6.5		8.8	9.5	8.9	11.4	9.6	8.3		5.1	
Memo:														
Domestic savings	17.2	16.8		15.7		13.2	12.3	12.7	10.6	9.4	9.9		10.8	
Investment	25.7	23.5		24.0		23.5	23.1	22.8	23.2	20.2	19.6		17.4	

Sources: *INE* and Banco de Portugal.

Notas:(a) In 2003 and 2004, figures in brackets are adjusted for the direct effects of the sale of tax credits and transference of reserves from companies with public capital to the general government. For more details see "Box 6.1 *Budgetary effects of the temporary measures implemented from 2002 to 2004*" in "Chapter 6 - *Public finances*" Banco de Portugal, *Annual Report* - 2004. In 2010 and 2011, figures in brackets are adjusted for the direct effect of the transference of reserves from Portugal Telecom (in 2010) and from some financial institutions (in 2011) to the general government. **(b)** Net values, *i.e.*, difference between transfers received from other sectors and transfers paid to other sectors, including acquisitions less disposals of non-financial non-produced assets.

Table A.7.2

BALANCE OF PAYMENTS | EUR MILLION	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Current account	-11574	-9230	-12433	-15924	-17187	-17105	-21736	-18402	-17225	-11024
Goods	-14766	-13441	-16344	-18226	-18406	-19206	-22985	-17794	-18195	-13190
Services	3387	3637	4051	3912	5019	6533	6602	5985	6712	7744
Transportation	-365	-152	-174	-72	589	975	1201	1104	1461	1833
Travel	3847	3718	3971	3744	4014	4533	4501	4196	4648	5172
Insurance	-74	-71	-88	-88	-96	-91	-99	-86	-140	-116
Royalties and licence fees	-308	-244	-262	-235	-255	-267	-293	-260	-381	-343
Other services	306	393	586	563	832	1417	1280	985	1046	1084
Government services	-19	-8	17	0	-67	-35	11	46	79	114
Income	-3166	-2307	-2977	-3880	-6316	-7035	-7817	-8728	-7939	-8573
Compensation of employees	-59	-19	-118	-161	-143	-5	-31	-131	-120	-145
Investment income	-3107	-2289	-2858	-3720	-6172	-7030	-7786	-8597	-7820	-8427
Direct investment	-869	-717	-787	-1263	-2271	-1995	-1426	-3603	-3041	-2919
Portfolio investment	-808	-592	-603	-667	-726	-1241	-2785	-3452	-3449	-3430
Other investment	-1430	-979	-1468	-1790	-3176	-3794	-3575	-1542	-1330	-2078
Current transfers	2971	2881	2837	2270	2516	2603	2464	2135	2198	2995
Official transfers	400	662	646	422	274	35	-175	75	-29	621
Vis-à-vis the EU	471	765	694	521	371	150	59	327	142	542
Private transfers	2571	2220	2191	1848	2243	2568	2638	2059	2227	2374
Emmigrants/immigrants remittances	2382	1967	1957	1717	1810	2018	1905	1723	1859	1845
Capital account	1996	2623	2202	1721	1234	2097	2650	1393	1941	2124
Capital transfers	1994	2609	2164	1672	1226	1937	2227	1407	1955	1987
Offical transfers	2049	2692	2275	1775	1324	2096	2282	1481	2039	2060
Vis-à-vis the EU	1950	2743	2323	1844	1483	2148	2439	1566	2163	2130
Private transfers	-55	-83	-111	-102	-98	-159	-55	-74	-84	-73
Acquisitions less disposals of non-financial non-produced assets	2	13	38	48	7	160	422	-14	-14	136
Financial account[(a)]	9390	6327	10073	14004	15300	14454	19139	17486	15554	9490
Errors and omissions[(b)]	189	281	157	200	653	554	-53	-477	-270	-590
Memo:										
Current account + capital account	-9578	-6608	-10230	-14204	-15953	-15008	-19086	-17009	-15284	-8900

Sources: *INE* and Banco de Portugal.

Notes: (a) A more detailed breakdown of the Financial Account can be found in the Supplementary Table A.7.5. **(b)** A positive (negative) figure represents a credit (debit) not registered in any other account of the balance of payments.

Table A.7.3

BALANCE OF PAYMENTS | AS A PERCENTAGE OF GDP	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Current account	-8.2	-6.4	-8.3	-10.3	-10.7	-10.1	-12.6	-10.9	-10.0	-6.4
Goods	-10.5	-9.4	-10.9	-11.8	-11.4	-11.3	-13.4	-10.6	-10.5	-7.7
Services	2.4	2.5	2.7	2.5	3.1	3.9	3.8	3.6	3.9	4.5
Transportation	-0.3	-0.1	-0.1	0.0	0.4	0.6	0.7	0.7	0.8	1.1
Travel	2.7	2.6	2.7	2.4	2.5	2.7	2.6	2.5	2.7	3.0
Insurance	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Royalties and licence fees	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other services	0.2	0.3	0.4	0.4	0.5	0.8	0.7	0.6	0.6	0.6
Government services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Income	-2.3	-1.6	-2.0	-2.5	-3.9	-4.2	-4.5	-5.2	-4.6	-5.0
Compensation of employees	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1
Investment income	-2.2	-1.6	-1.9	-2.4	-3.8	-4.2	-4.5	-5.1	-4.5	-4.9
Direct investment	-0.6	-0.5	-0.5	-0.8	-1.4	-1.2	-0.8	-2.1	-1.8	-1.7
Portfolio investment	-0.6	-0.4	-0.4	-0.4	-0.5	-0.7	-1.6	-2.0	-2.0	-2.0
Other investment	-1.0	-0.7	-1.0	-1.2	-2.0	-2.2	-2.1	-0.9	-0.8	-1.2
Current transfers	2.1	2.0	1.9	1.5	1.6	1.5	1.4	1.3	1.3	1.8
Official transfers	0.3	0.5	0.4	0.3	0.2	0.0	-0.1	0.0	0.0	0.4
Vis-à-vis the EU	0.3	0.5	0.5	0.3	0.2	0.1	0.0	0.2	0.1	0.3
Private transfers	1.8	1.5	1.5	1.2	1.4	1.5	1.5	1.2	1.3	1.4
Emmigrants/immigrants remittances	1.7	1.4	1.3	1.1	1.1	1.2	1.1	1.0	1.1	1.1
Capital account	1.4	1.8	1.5	1.1	0.8	1.2	1.5	0.8	1.1	1.2
Capital transfers	1.4	1.8	1.4	1.1	0.8	1.1	1.3	0.8	1.1	1.2
Offical transfers	1.5	1.9	1.5	1.2	0.8	1.2	1.3	0.9	1.2	1.2
Vis-à-vis the EU	1.4	1.9	1.6	1.2	0.9	1.3	1.4	0.9	1.3	1.2
Private transfers	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Acquisitions less disposals of non-financial non-produced assets	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.0	0.0	0.1
Financial account[(a)]	6.7	4.4	6.7	9.1	9.5	8.5	11.1	10.4	9.0	5.5
Errors and omissions[(b)]	0.1	0.2	0.1	0.1	0.4	0.3	0.0	-0.3	-0.2	-0.3
Memo:										
Current account + capital account	-6.8	-4.6	-6.9	-9.2	-9.9	-8.9	-11.1	-10.1	-8.9	-5.2

Sources: *INE* and Banco de Portugal.

Notes: (a) A more detailed breakdown of the Financial Account can be found in the Supplementary Table A.7.5. **(b)** A positive (negative) figure represents a credit (debit) not registered in any other account of the balance of payments.

Table A.7.4

TRANSFERS WITH THE EUROPEAN UNION | EUR MILLIONS	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
PAYMENTS	**1 299**	**1 253**	**1 365**	**1 404**	**1 325**	**1 462**	**1 776**	**1 628**	**1 642**	**1 855**	**1 936**	**1 869**
Financial contribution	1 095	1 066	1 220	1 270	1 159	1 280	1 592	1 400	1 420	1 631	1 726	1 626
Customs duties and agricultural levelling rights	199	182	143	130	162	144	157	183	179	157	164	186
Other payments	5	5	3	4	3	38	26	44	43	67	46	58
RECEIPTS	**3 216**	**2 775**	**3 787**	**4 913**	**4 342**	**3 826**	**3 631**	**3 926**	**4 140**	**3 748**	**4 240**	**4 541**
Current receipts	**1 544**	**1 515**	**1 836**	**2 170**	**2 018**	**1 982**	**2 147**	**1 778**	**1 701**	**2 182**	**2 078**	**2 411**
Refunds	21	9	95	6	24	6	81	99	76	153	47	8
EAGGF - Guarantee	653	875	758	850	823	892	946	659	721	724	743	752
EAGGF - Guidance	63	8	53	58	72	50	45	118	150	73	91	105
ERDF	222	139	234	393	299	240	190	207	272	142	230	282
ESF	509	444	654	765	732	696	753	535	324	1 010	897	1 151
Other receipts	76	41	42	99	68	98	131	160	158	80	69	114
Capital receipts	**1 672**	**1 259**	**1 950**	**2 743**	**2 323**	**1 844**	**1 483**	**2 148**	**2 439**	**1 566**	**2 163**	**2 130**
Cohesion Fund	116	442	395	266	316	270	204	490	288	457	475	103
EAGGF - Guidance	253	32	212	233	290	202	180	471	599	292	364	418
ERDF	1 260	786	1 328	2 225	1 696	1 362	1 076	1 175	1 543	803	1 305	1 598
Other receipts	43	0	15	20	21	10	24	11	9	14	18	11
BALANCE	**1 917**	**1 521**	**2 421**	**3 509**	**3 017**	**2 364**	**1 855**	**2 298**	**2 498**	**1 893**	**2 305**	**2 672**
as a percentage of GDP	1.5	1.1	1.7	2.4	2.0	1.5	1.2	1.4	1.5	1.1	1.3	1.6

Source: Banco de Portugal.

Table A.7.5

FINANCIAL ACCOUNT | PERCENTAGE OF GDP (TO BE CONTINUED)

	Jan-Dec 2000			Jan-Dec 2001			Jan-Dec 2002			Jan-Dec 2003		
	Changes			Changes			Changes			Changes		
	Liabilities	Assets	Net	Liabilities	Assets	Net	Liabilities	Assets	Net	Liabilities	Assets	Net
Current plus capital Account			**-9.0**			**-9.4**			**-6.8**			**-4.6**
Financial Account	**26.7**	**-17.5**	**9.2**	**25.1**	**-16.0**	**9.1**	**15.4**	**-8.7**	**6.7**	**20.5**	**-16.1**	**4.4**
Direct Investment	5.7	-6.9	-1.3	5.2	-5.2	0.0	1.4	0.1	1.5	4.4	-4.1	0.3
excluding Madeira and St. Maria (Azores) offshores	*5.5*	*-4.7*	*0.8*	*2.3*	*-2.2*	*0.1*	*1.3*	*-2.7*	*-1.3*	*0.3*	*0.4*	*0.7*
Portfolio Investment	3.0	-4.0	-0.9	9.9	-6.5	3.4	8.2	-5.4	2.9	9.6	-13.2	-3.6
Financial Derivatives	-2.8	3.1	0.3	-2.4	2.7	0.3	-2.8	2.8	0.0	-2.8	2.8	0.0
Other Investment	20.9	-9.4	11.5	12.4	-6.2	6.2	8.7	-5.5	3.2	9.3	-5.7	3.6
Reserve Assets		-0.3	-0.3		-0.7	-0.7		-0.8	-0.8		4.0	4.0
By resident institutional sector:												
Monetary Authorities	**3.9**	**-0.7**	**3.2**	**0.1**	**-0.3**	**-0.2**	**0.7**	**-0.6**	**0.1**	**-3.9**	**0.7**	**-3.2**
Portfolio Investment	0.0	-0.4	-0.4	0.0	0.4	0.4	0.0	0.4	0.4	0.0	-3.6	-3.6
Financial Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	3.9	0.0	3.9	0.1	0.0	0.1	0.7	-0.2	0.5	-3.9	0.2	-3.7
Reserve Assets		-0.3	-0.3		-0.7	-0.7		-0.8	-0.8		4.0	4.0
General Government	**2.1**	**-0.3**	**1.9**	**2.9**	**0.1**	**3.0**	**2.9**	**0.3**	**3.2**	**2.9**	**0.1**	**3.0**
Direct Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
excluding Madeira and St. Maria (Azores) offshores	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Portfolio Investment	2.1	-0.4	1.8	2.9	-0.2	2.7	2.9	-0.3	2.5	2.5	-0.2	2.3
Financial Derivatives	-0.1	0.2	0.2	-0.5	0.6	0.1	-0.6	0.7	0.1	-0.5	0.4	-0.1
Other Investment	0.1	-0.1	0.0	0.4	-0.2	0.2	0.6	-0.1	0.5	0.8	-0.1	0.7
Other Monetary Financial Institutions	**14.9**	**-3.6**	**11.3**	**13.1**	**0.0**	**13.1**	**5.2**	**0.8**	**6.0**	**10.9**	**-7.8**	**3.1**
Direct Investment	0.9	-0.8	0.1	0.1	-0.3	-0.2	0.1	0.0	0.2	0.3	-0.1	0.2
excluding Madeira and St. Maria (Azores) offshores	*0.9*	*-0.8*	*0.1*	*0.1*	*-0.3*	*-0.2*	*0.2*	*0.0*	*0.2*	*0.2*	*-0.1*	*0.1*
Portfolio Investment	0.9	0.8	1.6	2.6	-0.6	2.0	0.2	-0.5	-0.3	0.2	-3.8	-3.6
Financial Derivatives	-2.5	2.7	0.2	-1.6	1.8	0.2	-1.9	1.8	-0.1	-1.7	1.8	0.1
Other Investment	15.6	-6.2	9.3	12.0	-0.9	11.0	6.7	-0.5	6.3	12.2	-5.6	6.5
Non-Monetary Financial Institutions	**0.7**	**-1.9**	**-1.2**	**1.0**	**-5.4**	**-4.4**	**2.8**	**-3.4**	**-0.6**	**6.1**	**-2.6**	**3.6**
Direct Investment	1.0	-0.2	0.8	0.2	-0.1	0.1	0.4	-0.6	-0.2	-0.8	0.2	-0.6
excluding Madeira and St. Maria (Azores) offshores	*1.0*	*-0.2*	*0.9*	*0.2*	*-0.1*	*0.2*	*0.3*	*-0.6*	*-0.3*	*-0.4*	*0.2*	*-0.2*
Portfolio Investment	-0.3	-3.0	-3.3	0.8	-4.2	-3.4	2.0	-3.0	-1.1	7.3	-3.4	3.9
Financial Derivatives	-0.2	0.2	0.0	-0.2	0.2	0.0	-0.2	0.2	0.0	-0.4	0.5	0.0
Other Investment	0.1	1.1	1.2	0.1	-1.2	-1.1	0.6	0.1	0.7	0.0	0.2	0.3
Non-Financial Corporations and Households	**5.1**	**-11.0**	**-5.9**	**8.0**	**-10.4**	**-2.3**	**3.8**	**-5.8**	**-2.0**	**4.5**	**-6.6**	**-2.0**
Direct Investment	3.7	-6.0	-2.2	4.8	-4.9	0.0	0.8	0.7	1.5	5.0	-4.1	0.8
excluding Madeira and St. Maria (Azores) offshores	*3.6*	*-3.7*	*-0.1*	*2.0*	*-1.9*	*0.1*	*0.9*	*-2.1*	*-1.2*	*0.5*	*0.3*	*0.8*
Portfolio Investment	0.3	-1.0	-0.6	3.6	-1.8	1.8	3.2	-1.9	1.3	-0.4	-2.2	-2.6
Non-Financial Corporations	0.3	-0.5	-0.2	3.6	-0.6	3.0	3.2	-0.4	2.8	-0.4	0.0	-0.4
Households	0.0	-0.4	-0.4	0.0	-1.2	-1.2	0.0	-1.5	-1.5	0.0	-2.2	-2.2
Financial Derivatives	-0.1	0.0	-0.1	-0.2	0.2	0.0	-0.2	0.2	0.0	-0.1	0.1	0.0
Other Investment	1.1	-4.1	-3.0	-0.3	-3.9	-4.1	0.0	-4.8	-4.8	0.1	-0.4	-0.2
Errors and Omissions			**-0.2**			**0.3**			**0.1**			**0.2**

Sources: *INE* and Banco de Portugal.

Note: A (+) sign means an increase in foreign liabilities or a decrease in foreign assets, *i.e.* a financial inflow. A (-) signal means a decrease in foreign liabilities or an increase in foreign assets, *i.e.* a financial outflow.

Table A.7.5

FINANCIAL ACCOUNT | PERCENTAGE OF GDP (CONTINUED)

	Jan-Dec 2004			Jan-Dec 2005			Jan-Dec 2006			Jan-Dec 2007		
		Changes			Changes			Changes			Changes	
	Liabilities	Assets	Net	Liabilities	Assets	Net	Liabilities	Assets	Net	Liabilities	Assets	Net
Current plus capital Account			**-6.9**			**-9.2**			**-9.9**			**-8.9**
Financial Account	**14.6**	**-7.8**	**6.7**	**17.4**	**-8.3**	**9.1**	**21.1**	**-11.6**	**9.5**	**17.3**	**-8.7**	**8.5**
Direct Investment	1.0	-4.0	-3.0	2.0	-1.1	0.9	5.4	-3.5	1.9	1.3	-2.4	-1.0
excluding Madeira and St. Maria (Azores) offshores	*1.5*	*-2.2*	*-0.8*	*2.2*	*-1.4*	*0.8*	*3.8*	*-2.6*	*1.2*	*1.4*	*-2.3*	*-0.9*
Portfolio Investment	7.8	-7.3	0.5	10.2	-10.4	-0.2	6.5	-4.1	2.4	10.6	-4.7	5.9
Financial Derivatives	-2.3	2.2	0.0	-2.6	2.5	-0.1	-3.5	3.4	-0.1	-4.8	4.9	0.1
Other Investment	7.9	0.3	8.2	7.8	-0.3	7.5	12.7	-8.5	4.2	10.1	-7.0	3.1
Reserve Assets		1.0	1.0		0.9	0.9		1.2	1.2		0.4	0.4
By resident institutional sector:												
Monetary Authorities	**4.0**	**1.1**	**5.1**	**2.7**	**-0.1**	**2.6**	**-3.7**	**0.6**	**-3.1**	**-0.3**	**0.0**	**-0.3**
Portfolio Investment	0.0	0.6	0.6	0.0	-0.7	-0.7	0.0	0.1	0.1	0.0	0.6	0.6
Financial Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	4.0	-0.5	3.4	2.7	-0.4	2.3	-3.7	-0.7	-4.4	-0.3	-1.1	-1.4
Reserve Assets		1.0	1.0		0.9	0.9		1.2	1.2		0.4	0.4
General Government	**4.1**	**0.2**	**4.4**	**7.1**	**0.2**	**7.3**	**2.3**	**0.5**	**2.8**	**2.3**	**0.7**	**2.9**
Direct Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
excluding Madeira and St. Maria (Azores) offshores	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Portfolio Investment	3.6	-0.1	3.5	7.8	-0.1	7.7	3.0	-0.2	2.8	1.9	-0.1	1.8
Financial Derivatives	-0.3	0.3	0.0	-0.4	0.4	0.0	-0.8	0.7	-0.1	-0.5	0.6	0.1
Other Investment	0.9	0.0	0.9	-0.3	-0.1	-0.4	0.1	0.0	0.1	0.8	0.2	1.0
Other Monetary Financial Institutions	**-0.1**	**-2.7**	**-2.8**	**-0.1**	**-1.5**	**-1.6**	**14.7**	**-2.5**	**12.1**	**12.5**	**-3.6**	**8.9**
Direct Investment	0.0	-0.2	-0.1	0.0	-0.3	-0.3	0.2	-0.2	0.0	0.3	-0.3	0.0
excluding Madeira and St. Maria (Azores) offshores	*0.0*	*-0.2*	*-0.1*	*0.0*	*-0.3*	*-0.3*	*0.2*	*-0.2*	*0.0*	*0.3*	*-0.3*	*0.0*
Portfolio Investment	-0.6	-3.2	-3.8	-3.4	-2.1	-5.6	0.9	2.0	2.9	7.0	-2.9	4.2
Financial Derivatives	-1.4	1.4	0.0	-1.6	1.5	-0.1	-1.9	1.7	-0.2	-3.3	3.2	-0.1
Other Investment	1.9	-0.7	1.2	4.9	-0.6	4.3	15.4	-6.1	9.4	8.4	-3.7	4.8
Non-Monetary Financial Institutions	**3.3**	**-3.3**	**0.0**	**4.9**	**-6.0**	**-1.1**	**3.0**	**-5.5**	**-2.5**	**2.5**	**-1.6**	**0.9**
Direct Investment	0.0	-0.1	-0.1	0.7	-0.3	0.5	1.1	-0.8	0.2	0.4	-0.2	0.1
excluding Madeira and St. Maria (Azores) offshores	*0.0*	*-0.1*	*-0.1*	*0.7*	*-0.2*	*0.5*	*0.8*	*-0.8*	*-0.1*	*0.4*	*-0.2*	*0.1*
Portfolio Investment	3.6	-3.4	0.1	4.6	-6.3	-1.8	2.3	-5.9	-3.6	2.5	-1.8	0.8
Financial Derivatives	-0.5	0.4	0.0	-0.6	0.5	0.0	-0.6	0.7	0.0	-0.8	0.8	0.0
Other Investment	0.2	-0.2	0.0	0.2	0.0	0.2	0.3	0.5	0.8	0.3	-0.4	-0.1
Non-Financial Corporations and Households	**3.2**	**-3.2**	**0.0**	**2.8**	**-0.8**	**1.9**	**4.9**	**-4.7**	**0.3**	**0.3**	**-4.1**	**-3.8**
Direct Investment	1.0	-3.8	-2.8	1.3	-0.6	0.7	4.1	-2.5	1.6	0.6	-1.8	-1.2
excluding Madeira and St. Maria (Azores) offshores	*1.4*	*-2.0*	*-0.5*	*1.5*	*-0.9*	*0.6*	*2.8*	*-1.5*	*1.3*	*0.7*	*-1.8*	*-1.1*
Portfolio Investment	1.3	-1.3	0.0	1.3	-1.1	0.1	0.4	-0.1	0.3	-0.9	-0.6	-1.4
Non-Financial Corporations	1.3	-0.3	1.0	1.3	0.1	1.3	0.4	0.4	0.7	-0.9	-0.3	-1.1
Households	0.0	-1.0	-1.0	0.0	-1.2	-1.2	0.0	-0.5	-0.5	0.0	-0.3	-0.3
Financial Derivatives	-0.1	0.1	0.0	-0.1	0.1	0.0	-0.2	0.2	0.0	-0.3	0.3	0.1
Other Investment	1.0	1.7	2.7	0.3	0.7	1.0	0.6	-2.3	-1.7	0.8	-2.0	-1.2
Errors and Omissions			**0.1**			**0.1**			**0.4**			**0.3**

Sources: *INE* and Banco de Portugal.

Note: A (+) sign means an increase in foreign liabilities or a decrease in foreign assets, *i.e.* a financial inflow. A (-) signal means a decrease in foreign liabilities or an increase in foreign assets, *i.e.* a financial outflow.

Table A.7.5

FINANCIAL ACCOUNT | PERCENTAGE OF GDP (CONTINUED)

	Jan-Dec 2008 Changes			Jan-Dec 2009 Changes			Jan-Dec 2010 Changes			Jan-Dec 2011 Changes		
	Liabilities	Assets	Net	Liabilities	Assets	Net	Liabilities	Assets	Net	Liabilities	Assets	Net
Current plus capital Account			**-11.1**			**-10.1**			**-8.9**			**-5.2**
Financial Account	**-1.0**	**12.1**	**11.1**	**7.1**	**3.3**	**10.4**	**-2.7**	**11.7**	**9.0**	**-15.3**	**20.8**	**5.5**
Direct Investment	1.9	-1.1	0.8	1.2	-0.3	0.8	1.2	3.3	4.4	4.4	-5.3	-1.0
excluding Madeira and St. Maria (Azores) offshores	*1.3*	*-0.7*	*0.6*	*1.0*	*-0.8*	*0.2*	*1.0*	*3.3*	*4.2*	*4.4*	*-5.2*	*-0.8*
Portfolio Investment	15.6	-7.1	8.5	18.6	-9.6	8.9	-4.2	-1.4	-5.6	-16.4	13.6	-2.8
Financial Derivatives	-13.3	13.4	0.1	-13.8	13.9	0.1	-14.5	14.7	0.2	-10.7	11.0	0.3
Other Investment	-5.2	6.9	1.7	1.2	-0.7	0.5	14.8	-4.2	10.5	7.5	0.9	8.3
Reserve Assets		0.0	0.0		0.0	0.0		-0.6	-0.6		0.7	0.7
By resident institutional sector:												
Monetary Authorities	**7.4**	**0.1**	**7.5**	**2.6**	**-0.6**	**2.1**	**21.1**	**-3.5**	**17.6**	**0.5**	**0.2**	**0.8**
Portfolio Investment	0.0	-2.2	-2.2	0.0	0.0	0.0	0.0	-2.8	-2.8	0.0	-1.3	-1.3
Financial Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0
Other Investment	7.4	2.4	9.8	2.7	-0.6	2.0	21.2	-0.1	21.0	0.6	0.8	1.3
Reserve Assets		0.0	0.0		0.0	0.0		-0.6	-0.6		0.7	0.7
General Government	**0.4**	**3.3**	**3.6**	**2.5**	**3.9**	**6.4**	**-8.0**	**6.8**	**-1.2**	**8.0**	**2.5**	**10.4**
Direct Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
excluding Madeira and St. Maria (Azores) offshores	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Portfolio Investment	5.2	-0.5	4.7	6.2	-0.3	5.8	-1.3	-0.1	-1.4	-9.1	-0.1	-9.2
Financial Derivatives	-3.7	3.9	0.2	-4.1	4.1	0.1	-6.5	6.8	0.2	-3.8	3.9	0.1
Other Investment	-1.1	-0.2	-1.2	0.4	0.1	0.4	-0.2	0.1	-0.1	20.9	-1.4	19.5
Other Monetary Financial Institutions	**-11.9**	**5.5**	**-6.4**	**-0.3**	**1.3**	**1.0**	**-17.6**	**4.2**	**-13.4**	**-25.6**	**13.8**	**-11.8**
Direct Investment	0.3	-0.1	0.2	0.0	-0.5	-0.5	0.1	-1.0	-1.0	0.1	-0.2	-0.1
excluding Madeira and St. Maria (Azores) offshores	*0.3*	*-0.1*	*0.2*	*0.1*	*-0.5*	*-0.4*	*0.1*	*-1.0*	*-1.0*	*0.1*	*-0.2*	*-0.1*
Portfolio Investment	7.3	-8.1	-0.8	10.1	-5.4	4.7	-3.8	0.0	-3.8	-5.8	6.8	0.9
Financial Derivatives	-8.4	8.3	-0.1	-8.1	8.2	0.1	-6.4	6.3	-0.1	-5.4	5.7	0.3
Other Investment	-11.1	5.4	-5.7	-2.4	-0.9	-3.2	-7.5	-1.0	-8.6	-14.4	1.5	-13.0
Non-Monetary Financial Institutions	**3.3**	**3.9**	**7.1**	**2.4**	**-2.9**	**-0.5**	**-2.0**	**2.5**	**0.5**	**-3.6**	**6.9**	**3.3**
Direct Investment	0.2	0.0	0.2	1.2	0.0	1.2	-0.1	0.0	-0.2	0.2	-0.3	-0.1
excluding Madeira and St. Maria (Azores) offshores	*0.2*	*0.0*	*0.2*	*1.1*	*-0.1*	*1.0*	*-0.1*	*0.0*	*-0.2*	*0.2*	*-0.3*	*-0.1*
Portfolio Investment	3.4	3.5	7.0	1.5	-3.4	-2.0	-1.5	2.8	1.2	-3.7	7.4	3.7
Financial Derivatives	-0.3	0.3	0.0	-0.3	0.2	0.0	-0.4	0.4	0.0	-0.5	0.4	-0.1
Other Investment	-0.1	0.0	0.0	0.0	0.3	0.3	0.0	-0.7	-0.6	0.4	-0.5	-0.2
Non-Financial Corporations and Households	**-0.1**	**-0.7**	**-0.8**	**-0.1**	**1.5**	**1.5**	**3.8**	**1.7**	**5.6**	**5.4**	**-2.5**	**2.9**
Direct Investment	1.4	-1.0	0.3	0.0	0.1	0.1	1.2	4.3	5.5	4.1	-4.8	-0.7
excluding Madeira and St. Maria (Azores) offshores	*0.8*	*-0.6*	*0.2*	*-0.2*	*-0.2*	*-0.4*	*1.1*	*4.3*	*5.4*	*4.1*	*-4.7*	*-0.6*
Portfolio Investment	-0.3	0.2	-0.1	0.9	-0.5	0.4	2.4	-1.2	1.1	2.2	0.8	3.0
Non-Financial Corporations	-0.3	-0.2	-0.4	0.9	0.0	0.8	2.4	-0.8	1.6	2.2	0.7	2.9
Households	0.0	0.4	0.4	0.0	-0.4	-0.4	0.0	-0.5	-0.5	0.0	0.1	0.1
Financial Derivatives	-0.9	0.9	0.0	-1.4	1.4	0.0	-1.1	1.2	0.1	-1.0	1.0	0.0
Other Investment	-0.3	-0.7	-1.0	0.5	0.5	1.0	1.3	-2.5	-1.2	0.0	0.6	0.6
Errors and Omissions			**0.0**			**-0.3**			**-0.2**			**-0.3**

Sources: *INE* and Banco de Portugal.

Note: A (+) sign means an increase in foreign liabilities or a decrease in foreign assets, *i.e.* a financial inflow. A (-) signal means a decrease in foreign liabilities or an increase in foreign assets, *i.e.* a financial outflow.

Table A.7.6

INTERNATIONAL INVESTMENT POSITION | END-OF-PERIOD POSITIONS, EUR MILLIONS	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
International Investment Position	-50 279	-62 211	-77 817	-83 512	-94 189	-103 945	-126 813	-150 499	-165 281	-186 315	-185 149	-177 323
Direct Investment[(a)]	-13 165	-15 611	-22 229	-20 698	-16 908	-18 118	-26 179	-32 339	-26 560	-32 097	-33 643	-31 674
Portfolio Investment	-16 086	-21 067	-25 752	-23 223	-23 180	-20 854	-25 786	-36 840	-53 432	-70 050	-51 311	-29 614
Financial Derivatives	575	845	479	-28	-613	-64	181	82	163	-444	-1 131	-1 838
Other Investment[(b)]	-36 892	-43 490	-47 194	-49 710	-62 066	-73 694	-82 533	-89 245	-94 036	-94 822	-114 782	-130 687
Reserve Assets	15 289	17 112	16 879	10 146	8 578	8 785	7 504	7 843	8 585	11 096	15 717	16 490
By resident institutional sector:												
Monetary Authorities	15 352	16 490	15 693	19 718	12 052	9 658	15 370	16 894	4 787	3 822	-24 232	-24 975
Portfolio Investment	6 621	6 189	5 690	10 809	9 828	10 822	10 692	9 656	13 645	13 589	17 151	17 950
Financial Derivatives	0	-2	7	4	0	0	0	0	0	3	1	0
Other Investment[(b)]	-6 559	-6 810	-6 884	-1 242	-6 354	-9 949	-2 826	-605	-17 442	-20 867	-57 101	-59 415
Reserve Assets	15 289	17 112	16 879	10 146	8 578	8 785	7 504	7 843	8 585	11 096	15 717	16 490
General Government	-32 954	-39 309	-49 363	-52 408	-60 630	-72 632	-75 486	-81 213	-90 105	-100 931	-88 014	-87 660
Direct Investment[(a)]	260	203	135	105	113	99	72	56	55	-173	-174	-174
Portfolio Investment	-32 047	-39 968	-48 549	-51 621	-57 746	-70 987	-73 354	-75 476	-86 597	-96 403	-83 986	-50 121
Financial Derivatives	353	429	79	234	-262	-309	-59	-57	-69	-47	112	408
Other Investment[(b)]	-1 520	28	-1 028	-1 127	-2 735	-1 434	-2 146	-5 735	-3 494	-4 308	-3 966	-37 773
Monetary Financial Institutions	-35 749	-52 644	-59 295	-64 492	-57 032	-56 425	-78 756	-93 162	-75 332	-77 893	-54 739	-35 230
Direct Investment[(a)]	-1 721	-1 543	-2 255	-2 802	872	1 315	1 450	1 865	4 796	3 001	6 131	6 536
Portfolio Investment	-4 229	-6 500	-4 225	545	6 514	13 524	7 496	219	5 136	-1 328	6 102	4 196
Financial Derivatives	221	416	393	-266	-342	306	296	186	204	-382	-1 146	-2 194
Other Investment[(b)]	-30 019	-45 018	-53 208	-61 969	-64 076	-71 570	-87 998	-95 433	-85 469	-79 184	-65 827	-43 768
Non-Monetary Financial Institutions	19 747	24 921	26 445	21 074	19 801	25 769	30 967	27 229	4 262	6 053	5 445	-3 111
Direct Investment[(a)]	-3 603	-4 119	-3 250	-2 001	-3 874	-4 961	-4 987	-5 776	-10 317	-11 435	-10 630	-10 446
Portfolio Investment	23 148	27 449	28 999	22 766	23 400	30 640	36 584	32 831	14 797	18 271	15 660	6 576
Financial Derivatives	1	1	0	0	-9	-62	-55	-50	0	-1	-103	-68
Other Investment[(b)]	201	1 590	697	308	285	152	-575	224	-218	-782	517	827
Non-Financial Corporations	-21 344	-20 475	-22 733	-21 920	-24 634	-28 291	-39 504	-42 969	-27 218	-36 481	-44 523	-46 988
Direct Investment[(a)]	-8 320	-10 422	-17 149	-16 333	-14 401	-15 055	-23 109	-29 004	-21 370	-23 508	-29 047	-27 683
Portfolio Investment	-12 857	-12 980	-14 073	-15 148	-16 358	-18 233	-21 426	-18 485	-10 728	-15 798	-18 877	-19 843
Financial Derivatives	0	1	0	0	0	1	-1	3	1	3	4	1
Other Investment[(b)]	-167	2 926	8 489	9 562	6 125	4 996	5 032	4 517	4 879	2 821	3 397	537
Households	4 669	8 806	11 436	14 516	16 253	17 975	20 595	22 721	18 324	19 114	20 914	20 639
Direct Investment[(a)]	219	269	291	334	382	484	395	520	276	18	77	94
Portfolio Investment	3 278	4 743	6 405	9 426	11 182	13 380	14 221	14 415	10 314	11 620	12 639	11 627
Financial Derivatives	0	0	0	0	0	0	0	0	27	-21	1	14
Other Investment[(b)]	1 171	3 794	4 740	4 757	4 689	4 112	5 979	7 787	7 707	7 497	8 197	8 904

Sources: *INE* and Banco de Portugal.

Notes: (a) Includes quarterly estimates calculated by Banco de Portugal based on the accumulation of monthly flows and the latest annual data obtained from Direct Investment Surveys. **(b)** Includes, in some components, quarterly estimates calculated by Banco de Portugal based on the accumulation of monthly flows.

Table A.7.7

INTERNATIONAL INVESTMENT POSITION | PERCENTAGE OF GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
International Investment Position	-39.5	-46.3	-55.4	-58.2	-63.1	-67.4	-78.8	-88.9	-96.1	-110.6	-107.2	-103.7
Direct Investment[a]	-10.3	-11.6	-15.8	-14.4	-11.3	-11.7	-16.3	-19.1	-15.4	-19.0	-19.5	-18.5
Portfolio Investment	-12.6	-15.7	-18.3	-16.2	-15.5	-13.5	-16.0	-21.8	-31.1	-41.6	-29.7	-17.3
Financial Derivatives	0.5	0.6	0.3	0.0	-0.4	0.0	0.1	0.0	0.1	-0.3	-0.7	-1.1
Other Investment[b]	-29.0	-32.3	-33.6	-34.6	-41.6	-47.8	-51.3	-52.7	-54.7	-56.3	-66.5	-76.4
Reserve Assets	12.0	12.7	12.0	7.1	5.7	5.7	4.7	4.6	5.0	6.6	9.1	9.6
By resident institutional sector:												
Monetary Authorities	12.1	12.3	11.2	13.7	8.1	6.3	9.6	10.0	2.8	2.3	-14.0	-14.6
Portfolio Investment	5.2	4.6	4.0	7.5	6.6	7.0	6.6	5.7	7.9	8.1	9.9	10.5
Financial Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment[b]	-5.2	-5.1	-4.9	-0.9	-4.3	-6.4	-1.8	-0.4	-10.1	-12.4	-33.1	-34.7
Reserve Assets	12.0	12.7	12.0	7.1	5.7	5.7	4.7	4.6	5.0	6.6	9.1	9.6
General Government	-25.9	-29.2	-35.1	-36.5	-40.6	-47.1	-46.9	-48.0	-52.4	-59.9	-51.0	-51.3
Direct Investment[a]	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1
Portfolio Investment	-25.2	-29.7	-34.5	-36.0	-38.7	-46.0	-45.6	-44.6	-50.4	-57.2	-48.6	-29.3
Financial Derivatives	0.3	0.3	0.1	0.2	-0.2	-0.2	0.0	0.0	0.0	0.0	0.1	0.2
Other Investment[b]	-1.2	0.0	-0.7	-0.8	-1.8	-0.9	-1.3	-3.4	-2.0	-2.6	-2.3	-22.1
Monetary Financial Institutions	-28.1	-39.1	-42.2	-45.0	-38.2	-36.6	-49.0	-55.0	-43.8	-46.2	-31.7	-20.6
Direct Investment[a]	-1.4	-1.1	-1.6	-2.0	0.6	0.9	0.9	1.1	2.8	1.8	3.6	3.8
Portfolio Investment	-3.3	-4.8	-3.0	0.4	4.4	8.8	4.7	0.1	3.0	-0.8	3.5	2.5
Financial Derivatives	0.2	0.3	0.3	-0.2	-0.2	0.2	0.2	0.1	0.1	-0.2	-0.7	-1.3
Other Investment[b]	-23.6	-33.5	-37.9	-43.2	-42.9	-46.4	-54.7	-56.4	-49.7	-47.0	-38.1	-25.6
Non-Monetary Financial Institutions	15.5	18.5	18.8	14.7	13.3	16.7	19.3	16.1	2.5	3.6	3.2	-1.8
Direct Investment[a]	-2.8	-3.1	-2.3	-1.4	-2.6	-3.2	-3.1	-3.4	-6.0	-6.8	-6.2	-6.1
Portfolio Investment	18.2	20.4	20.6	15.9	15.7	19.9	22.7	19.4	8.6	10.8	9.1	3.8
Financial Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Other Investment[b]	0.2	1.2	0.5	0.2	0.2	0.1	-0.4	0.1	-0.1	-0.5	0.3	0.5
Non-Financial Corporations	-16.8	-15.2	-16.2	-15.3	-16.5	-18.3	-24.6	-25.4	-15.8	-21.6	-25.8	-27.5
Direct Investment[a]	-6.5	-7.8	-12.2	-11.4	-9.6	-9.8	-14.4	-17.1	-12.4	-14.0	-16.8	-16.2
Portfolio Investment	-10.1	-9.7	-10.0	-10.6	-11.0	-11.8	-13.3	-10.9	-6.2	-9.4	-10.9	-11.6
Financial Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment[b]	-0.1	2.2	6.0	6.7	4.1	3.2	3.1	2.7	2.8	1.7	2.0	0.3
Households	3.7	6.5	8.1	10.1	10.9	11.7	12.8	13.4	10.7	11.3	12.1	12.1
Direct Investment[a]	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.0	0.0	0.1
Portfolio Investment	2.6	3.5	4.6	6.6	7.5	8.7	8.8	8.5	6.0	6.9	7.3	6.8
Financial Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment[b]	0.9	2.8	3.4	3.3	3.1	2.7	3.7	4.6	4.5	4.4	4.7	5.2

Sources: *INE* and Banco de Portugal.

Notes: (a) Includes quarterly estimates calculated by Banco de Portugal based on the accumulation of monthly flows and the latest annual data obtained from Direct Investment Surveys. **(b)** Includes, in some components, quarterly estimates calculated by Banco de Portugal based on the accumulation of monthly flows.