CATÓLICA-LISBON
Forecasting Lab | NECEP

Executive Summary

In the **first quarter of 2017,** according to NECEP estimates**, GDP increased 0.9% over the previous quarter** (0.7% in the fourth quarter of 2016) and **2.7% year-on-year**. This quarterly GDP growth reflects an apparent improvement in economic conditions, in particular the recovery of investment and disposable income, which grew by 2.8% last year in real terms. If this estimate materializes, it would be the **largest year-on-year growth since the fourth quarter of 2007**.

Accordingly, NECEP projects **GDP growth of 2.4% in 2017.** This upward revision of 0.7 percentage points (pp) from the January estimate follows from the good performance of the Portuguese economy in the second half of 2016. However, the **lagged effects of 2016's fiscal policy** underpin this projection as well as a carry-over effect related to the weak performance of the economy in the first half of the last year.

The Portuguese economy seems to be unequivocally going through a **phase of cyclical recovery** since the first quarter of 2013, albeit less intense when compared to other recoveries in the past, particularly in terms of investment, essentially due to current **financial constraints**. Despite the strong 5.3% chain growth in the fourth quarter of 2016, **investment** is still about 25% below the 2010 levels, so it will be necessary to observe a series of solid quarter on quarter growth rates to solidify the ongoing recovery.

Using the new fiscal data for 2016 that was made available in March under the Excessive Deficit Procedure (EDP), the general government **deficit in 2017** is calculated to be **to about 2.4% of GDP** in the absence of discretionary managerial action by the Government, which is clearly above the ambitious headline deficit of 1.6%. In addition, this year will require **extraordinary one off capital measures in the financial sector that will increase public debt** even if they do not have an accounting impact on the general government balance.

In 2018, the Portuguese economy might grow 1.9% (an upward revision of 0.5 pp) after the dissipation of the temporary effects that favours growth in the current year. For **2019**, the central point of the forecast is now **1.6%** (revised upwards of 0.2 pp) which is associated with more favourable perspectives both on the potential growth of the Portuguese economy and on the global outlook. **Unusually high uncertainty** surrounds these projections, caused mainly by the size of the Government's financial imbalances and the capital needs in the financial sector already this year and in the next, in addition to the validation of the investment recovery.

The **global risks** are also a concern, specifically the *Brexit* formal trigger on 29 March that should be viewed as a very severe geopolitical, financial and economic risk, along with the instability arising from the new US administration. The conditions in the international financial markets and the pattern of **monetary policies** could contribute to an increase in the **annual costs of the Portuguese public debt** in the medium term.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2016Q4 a)	2017Q1	2017	2018	2019
Portugal	GDP (% change on previous quarter)	0.7	0.9	-	-	-
	GDP (year on year % change)	2.0	2.7	2.4	1.9	1.6
	Private consumption (q-o-q % change)	1.1	0.7	-	-	-
	Private consumption (y-o-y % change)	3.0	2.1	2.3	2.0	1.7
	Unemployment rate (%)	10.5	10.4	9.9	9.6	9.4
	Consumer prices (annual % change)	0.6 b)	0.8 b)	1.2	1.5	1.5
Euro area	GDP (% change on previous quarter)	0.5	0.6	-	-	-
	GDP (year on year % change)	1.8	1.9	1.9	1.6	1.6

a) Official values (Statistics Portugal – INE/Eurostat); b) Values at the end of the quarter.