January 17th, 2018

Executive Summary

In the **fourth quarter of 2017**, NECEP estimates that **GDP increased 0.7% over the previous quarter** (0.5% in the third quarter) and **2.4% year-on-year** (2.5% in the previous quarter). Thus, **annual growth in 2017** was **2.7%**, the largest since 2000 when it reached 3.8%. The demand components that contributed most to this growth were investment and exports. The former contributed 1.5 percentage points (pp), especially through machinery and equipment. Exports contributed 3.2 pp from industrial supplies, vehicles and services, including tourism.

According to the NECEP calculations, the general government **deficit in 2017** might have been about **1.5% of GDP**, although the specialized press reports that the Government believes it is below 1.3%. Available data indicate that public debt fell in 2017, which is an important milestone in the recovery of Portugal's external credibility.

In 2018, GDP growth is forecast to be **2.4%** (central scenario), a slight upward revision of 0.1 percentage points (pp) from last October. This projection reflects the continuation of the economic recovery after the dissipation of the effects that favored GDP in 2017. **Budgetary policy** has a small positive contribution due to the negative change in structural balance implicit in the Government Budget for 2018.

The Portuguese economy continues its cyclical recovery since the first quarter of 2013. The external outlook remains favorable: the **Eurozone** should have grown 2.4% last year with a forecast of 2.3% for 2018. Current and capital accounts should remain positive, contributing to the reduction of the Portuguese external debt. Exports and investment should be the most dynamic variables once again in 2018, although the latter will remain about 23% of 2010 levels. The recent improvement in Portuguese Republic's credit rating by two agencies can contribute both to the reduction of sovereign bond yields and to a faster recovery of investment.

For **2019**, GDP is forecast to grow **2.2%** (revised upwards by 0.1 pp) which reflects favourable perspectives on the potential growth of the Portuguese economy and on the global economic outlook. The first forecast for 2020 is 2.0%, but there is uncertainty around this figure. In fact, this embodies the idea of a central scenario for **annual growth around 2% in the medium term** (three years), but the possibility of stronger growth remains open.

High uncertainty surrounds these projections, due mainly to **structural fiscal imbalances** and **capital requirements** for the financial sector. On the **external front**, the government formation in Germany seems to be on good track but the situation in Catalonia remains politically cloudy. Additionally, the Brexit process and the instability of the US policies remain key risks of the current economic situation. For Portugal, the most critical risk is the **rapid rise of interest rates** in the US and the Eurozone, given the high debt. Thus, it will be important to follow closely inflation as the main driver of the interest rates/monetary policy decisions from the US Federal Reserve (FED) and the European Central Bank (ECB).

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	17Q3 a)	17Q4	2017	2018	2019	2020
Portugal	GDP (% change on previous quarter)	0.5	0.7	-	-	-	-
	GDP (year on year % change)	2.5	2.4	2.7	2.4	2.2	2.0
	Priv. consumption (q-o-q % change)	1.4	0.5	-	-	-	-
	Private consumption (y-o-y % change)	2.5	2.1	2.2	2.5	2.2	2.0
	Unemployment rate (%)	8.5	8.4	9.0	8.2	7.9	7.6
	Consumer prices (annual % change)	1.2 b)	1.4 b)	1.4	1.5	1.6	1.7
Euro Area	GDP (% change on previous quarter)	0.6	0.8	-	-	-	-
	GDP (year on year % change)	2.6	2.7	2.4	2.3	2.1	2.0

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

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