CATÓLICA-LISBON
Forecasting Lab | NECEP

April 10th, 2019

Executive Summary

In the **first quarter of 2019**, NECEP estimates that **GDP increased 0.7% over the previous quarter** (q-o-q) and **1.9% year-on-year** (y-o-y) after 0.4% and 1.7% in the fourth quarter of 2018. The **unemployment rate** might be **6.5%** after 6.7% in the last quarter. In general, several quantitative and qualitative indicators signal the **slight improvement** of the Portuguese economy in early 2019, but without abandoning a **moderate recovery** path.

Despite the less favourable external context, with a disappointing GDP growth in the **euro zone** (estimative of 0.3% in the first quarter of 2019 after 0.2% in the former quarter), the Portuguese economy resists, apparently with a positive dynamics in investment and a persistent recovery of private consumption. This outlook also applies to **Spain**, which is among the main economies of the euro zone, the one that recovers more consistently, despite the stagnation of the GDP in Germany and even in France, as well as the contraction in Italy.

For **2019**, NECEP projects now a GDP growth of **2.1%**, an upward revision of 0.1 percentage points, pp, which is justified, on the one hand, by the acceleration expected for the first quarter and, on the other hand, by a **trend GDP growth** estimative slightly above 0.5% per quarter. This is also the mid-point for growth in **2020 and 2021 (2.1%)**, unchanged from the last quarterly newsletter, but maintaining wider forecast intervals.

In terms of **public finance** and after the deficit of 0.5% of GDP in 2018, reported by the latest Excessive Deficit Procedure, calculations made by NECEP point to a **headline deficit of 0.3% in 2019**, excluding the recapitalization of Novo Banco (BES), which is the relevant measure to fiscal monitoring. Nevertheless, this financial operation can deteriorate either the deficit or the public debt ratio by 0.6 pp of GDP.

The Portuguese economy continues to have **predominantly downside risks**, due to the high indebtedness and fragility of the financial system, as well as the **external context**. In the latter, the moderate growth in the euro zone, the risks related to the Brexit political process and the tensions arising from international trade remain active. Finally, the world economy is experiencing a less intense growth or "synchronized deceleration" as reported by the IMF recently, which may affect the short-run behaviour of the Portuguese economy.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2018Q4 [a)]	2019Q1	2019	2020	2021
Portugal	GDP (% change on previous quarter)	0.4	0.7	-	-	-
	GDP (year on year % change)	1.7	1.9	2.1	2.1	2.1
	Private consumption (q-o-q % change)	1.2	0.4	-	-	-
	Private consumption (y-o-y % change)	2.8	2.4	2.5	2.2	2.2
	Unemployment rate (%)	6.7	6.5	6.1	5.8	5.5
	Consumer prices (annual % change)	1.0 [b)]	1.0 [b)]	0.9	1.3	1.3
Euro area	GDP (% change on previous quarter)	0.2	0.3	-	-	-
	GDP (year on year % change)	1.1	1.1	1.3	1.5	1.5

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

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