October 11th, 2017

# Executive Summary

In the **third quarter of 2017**, NECEP estimates that **GDP increased 0.8% over the previous quarter** (0.3% in the second quarter) and **2.8% year-on-year** (3.0% in the previous quarter). This quarterly GDP growth reflects an improvement in economic conditions across the board, including the recovery of investment. There is an unusually **high uncertainty** to this estimate due to a collection of specific effects.

Accordingly, NECEP projects **GDP growth of 2.7% in 2017,** unchanged from June 2017. This projection is due to good first half of the year, the improvement in the Eurozone, as well as the lagged effects of the 2016 fiscal policy, now more mitigated.

The Portuguese economy seems to be unequivocally going through a **phase of cyclical recovery** since the first quarter of 2013. Despite the subdued growth in private consumption, investment and **exports** might grow nicely this year, while the current and capital account should remain positive, although small. **Investment** still stands about 22% below 2010 levels, so it will be important to continue to see strong growth in this aggregate, to trust the quality of the ongoing recovery.

The general government **deficit in 2017** is calculated by NECEP to be about **1.7% of GDP,** in the absence of discretionary managerial action by the Government, which is close to the headline deficit of 1.5%, which includes the information for 2017 provided under the Excessive Deficit Procedure (EDP) and the remaining fiscal and economic developments,. Despite large operations in the financial sector, the scenario of a **stabilizing public debt ratio** this year seems plausible.

**In 2018, the Portuguese economy might grow 2.3%** (an upward revision of 0.2 pp) after the dissipation of the temporary effects that favours growth in the current year. The trend growth of the Portuguese economy is now estimated to be stronger than it was just three months ago. In addition, government ambiguity on fiscal policy intentions for the coming year makes it difficult to assess its short-term contribution to growth. For **2019**, the central point of the forecast is now **2.1%** (revised upwards by 0.2 pp) which is associated with more favourable perspectives both on the potential growth of the Portuguese economy as well as on the global economic outlook.

**Unusually high uncertainty** surrounds these projections, due mainly to **structural fiscal imbalances** and the **capital requirements** of the financial sector already this year but potentially in the coming. On the **external front**, the challenges associated with the delays of government formation in Germany, the Brexit process and the instability stemming from the US administration are important risks that might interrupt the economic recovery. The dysfunctional Catalonia developments have also become a relevant economic risk for Spain and Portugal. The favourable economic conditions makes a **less accommodating monetary policy** by the US Federal Reserve (FED) and the European Central Bank (ECB) more plausible, which constitutes an increased risk for a highly indebted country like Portugal.

*Forecasts from Católica Lisbon Forecasting Lab – NECEP*

| Region | Indicator | 2017Q2 a) | 2017Q3 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| | GDP (% change on previous quarter) | 0.3 | 0.8 | - | - | - |
| | GDP (year on year % change) | 3.0 | 2.8 | 2.7 | 2.3 | 2.1 |
| | Private consumption (q-o-q % change) | -0.5 | 0.7 | - | - | - |
| | Private consumption (y-o-y % change) | 1.9 | 1.9 | 1.9 | 2.2 | 2.2 |
| | Unemployment rate (%) | 8.8 | 8.8 | 9.2 | 8.8 | 8.4 |
| | Consumer prices (annual % change) | 1.1 b) | 1.2 b) | 1.3 | 1.5 | 1.7 |
| | GDP (% change on previous quarter) | 0.6 | 0.7 | - | - | - |
| | GDP (year on year % change) | 2.3 | 2.5 | 2.3 | 1.9 | 1.7 |

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

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