April 11th, 2018

# Executive Summary

In the **first quarter of 2018**, NECEP estimates that **GDP increased 0.5% over the previous quarter** (0.7% in the fourth quarter of 2017) and **2.1% year-on-year** (2.4% in the previous quarter). This growth reflects a maintenance of outlook observed since late 2017.

In fact, the Portuguese economy is ongoing a **cyclical recovery** initiated in the first quarter of 2013. **Exports** keep a positive momentum, although weaker against the fourth quarter of 2017, compensating the somewhat weaker **investment** observed since the middle of the last year, as well as the one off events (very rainy March) that may have penalized the investment in the first quarter of the year. The recovery path of **private consumption** remains moderate. Some uncertainly clouds the interpretation of investment and private consumption, either due to a rosier construction sector (which may favour investment) or to some signals (such as the robust sales of cars) that support a more intense recovery of private consumption.

NECEP projects **GDP growth of 2.4% in 2018,** unchanged from January 2018. This projection is due to a first quarter, which is normal in the current context, the good start of the year in the Euro area, and the slightly **expansionary nature of fiscal policy** inscribed in the 2018 State Budget that may favour GDP growth in the short term. The forecast range remains broad and includes the growth rate of 2.7% observed in 2017.

NECEP also maintains its previous GDP growth forecasts for 2019 (2.2%) and for 2020 (2.0%). This reflects a path toward a medium-term growth moderated by several structural factors, namely, **capital shortage** and **high public and private indebtedness**. The prospect of the **unemployment rate** remaining at 7% in the foreseeable, which is still relatively high and above what could be the natural unemployment rate, shows the slowness of the process of normalization of the Portuguese economy. Productivity developments are also atypical compared to previous recoveries, with unemployment falling more than would be expected given output growth.

The new information on the public finances of 2017, made available under the Excessive Deficit Procedure (EDP), as well as recent budgetary and economic developments allow NECEP to calculate a new central point for the **headline deficit of 0.9% in 2018**, similar to 2017 (3.0% with the inclusion of the one-off capitalization of Caixa Geral de Depósitos). Despite the potential for additional capital requirements in the financial sector, the scenario of **public debt reduction** seems plausible. Thus, 2018 could finish with a debt close to 123% of nominal GDP (125.7% at the end of 2017).

In general, the **external environment** is benign, with better prospects for the world economy. The instability stemming from US governance remains a significant risk, now with the addition of a potential trade war with China, with unpredictable consequences for the world economy. The **monetary policy** of the European Central Bank (ECB) should remain accommodative, in apparent divergence from the current normalization in the US that has not manifested itself in the appreciation of the dollar against the euro, as expected. The **moderate inflation** observed and expected for the Euro area justify the ECB's prudent stance.

## *Forecasts from Católica Lisbon Forecasting Lab – NECEP*

| Region | Indicator | 2017Q4 a) | 2018Q1 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Portugal | GDP (% change on previous quarter) | 0.7 | 0.5 | - | - | - |
| | GDP (year on year % change) | 2.4 | 2.1 | 2.4 | 2.2 | 2.0 |
| | Private consumption (q-o-q % change) | 0.4 | 0.4 | - | - | - |
| | Private consumption (y-o-y % change) | 2.1 | 1.7 | 2.3 | 2.3 | 2.0 |
| | Unemployment rate (%) | 8.1 | 8.0 | 7.6 | 7.2 | 7.0 |
| | Consumer prices (annual % change) | 1.4 b) | 1.2 b) | 1.2 | 1.5 | 1.5 |
| Euro area | GDP (% change on previous quarter) | 0.6 | 0.7 | - | - | - |
| | GDP (year on year % change) | 2.7 | 2.7 | 2.4 | 2.1 | 2.0 |

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