CATÓLICA-LISBON
Forecasting Lab | NECEP

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Executive Summary

In the **fourth quarter of 2018**, NECEP estimates that **GDP increased 0.5% over the previous quarter** (q-o-q) and **1.8% year-on-year** (y-o-y). This quarterly growth keeps the moderate recovery of the Portuguese economy from the 0.3% q-o-q and 2.1% y-o-y growth rates of the third quarter of 2018. **In the last year**, the overall growth might be **2.1% after 2.8% in 2017**, with an **unemployment rate of 7.0%** (8.9% in 2017).

The lower growth of 2018 reflects, above all, a year of 2017 above the current trend GDP growth. During the second half of the last year, the economic sentiment deteriorated slightly, but remained above the historical average.

High frequency indicators advise **care and moderation** in evaluating the current outlook. However, Portugal may be in a sound phase compared to other Euro zone economies, including Spain, Germany, France and Italy, which justifies a slightly stronger q-o-q growth estimate compared to the foreseeable 0.3% for the Euro zone in the fourth quarter of 2018.

In fact, high frequency data suggest that **investment** might rebounded at good pace in this quarter in Portugal, with **private consumption** recovering as usual. However, **exports** might have contracted again as in the third quarter, penalized by the negative climate as far as international trade is concerned.

For **2019**, NECEP projects now a GDP growth of **2.0%**, a downward revision of 0.3 percentage points (pp), which is justified, on the one hand, by a less intense trend GDP growth and, on the other hand, by the weak data from the third quarter of 2018.

In the **medium term** (2020 and 2021), NECEP decided to maintain the previous forecast of **2.1%** that corresponds to the trend growth of the Portuguese economy in the forecasting horizon. However, as in previous forecasts, this estimate covers a very wide range of values, from a scenario of near stagnation to strong recovery, even at a faster pace than in 2017 and close to the historical average. Both the external environment and the burden of public debt continue to limit the growth forecasts.

If no major surprises are expected in terms of **fiscal policy**, with the third quarter national accounts data confirming the possibility of a deficit close to the target of 0.7% in 2018, it is on the **external environment** that most of the risks the Portuguese economy still subsist.

These are **predominantly downward risks**, now more focused either on the effects on the European economy of the inability to find a pragmatic solution to the *Brexit* problem or the escalation of protectionism, although the promising ongoing negotiations between the US and China. **Monetary policy** might be more prudent in the following months, both in the US and in the Euro zone, where the inflation rate was only 1.6% in December and is still far from the 2% target.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	18Q3 a)	18Q4	2018	2019	2020	2021
Portugal	GDP (% change on previous quarter)	0.3	0.5	-	-	-	-
	GDP (year on year % change)	2.1	1.8	2.1	2.0	2.1	2.1
	Priv. consumption (q-o-q % change)	0.7	0.2	-	-	-	-
	Private consumption (y-o-y % change)	2.3	1.7	2.2	1.9	2.2	2.1
	Unemployment rate (%)	6.7	6.6	7.0	6.3	6.0	5.7
	Consumer prices (annual % change)	1.2 b)	1.0 b)	1.0	1.4	1.5	1.5
Euro Area	GDP (% change on previous quarter)	0.2	0.3	-	-	-	-
	GDP (year on year % change)	1.7	1.3	1.9	1.8	2.0	2.0

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