CATÓLICA-LISBON
Forecasting Lab | NECEP

October 10th, 2018

Executive Summary

In the **third quarter of 2018**, NECEP estimates that **GDP increased 0.6% over the previous quarter** and **2.4% year-on-year** as in the previous quarter. This quarterly growth keeps the moderate recovery of the Portuguese economy since 2013, with occasional oscillations as in the first quarter.

In fact, the Portuguese economy is ongoing a **recovery** initiated in the first quarter of 2013. High-frequency data suggest that **investment** might rebound at good pace in the third quarter, with **private consumption** growing similarly to GDP. **Exports** are expected to maintain a healthy recovery in year-on-year terms, even if this could mean a bump in the quarter-over-quarter change. The dynamics installed in this aggregate remain strong, which supports the continuation of the recovery of the Portuguese economy.

Thus, NECEP projects **GDP growth of 2.4% in 2018,** unchanged from the previous three editions of the Quarterly Newsletter, which is slightly better than the Government and Banco de Portugal forecasts. The projection interval is narrower, and no longer includes the 2.8% growth recorded in 2017. The euro zone economy might continue its recovery at a pace of 0.5% in the third quarter, which will allow an annual growth above 2%, while helping the Portuguese economy.

According to public statements by members of the Government about the Budgetary Plan 2019, the fiscal stance is expected to be expansionary, which combined with the continued economic recovery this year justifies a slight revision (+0.1 percentage points, pp) of the NECEP's forecast for **2019**, from 2.2% to **2.3%.** The forecast for **2020** was revised in the same fashion, from 2.0% to **2.1%**, although in this case motivated only by the improvement in the trend growth of the Portuguese economy.

The medium-term growth is conditioned by several structural factors, namely, **high public and private indebtedness**. The **unemployment rate** is now between 6% and 7%, still above the natural rate, which highlights the long duration of the normalization of the Portuguese economy.

According to publicly available information, the NECEP still calculates a **headline deficit of 0.9%** of GDP, above the Government's 0.7% target recently confirmed in the notification of the Excessive Deficit Procedure. To these effects are added risks from the financial sector and public companies that may require specific measures of capitalization with an appreciable size, not only in the execution of this year, but also in the next. However, the Government has the necessary instruments to meet the deficit targets if it so wishes.

Although the robust growth of the world economy, the **external environment** continues to be marked by a high level of uncertainty and risks. The difficulties surrounding the Brexit process add to the instability stemming from US governance, which has manifested itself in an explicit trade war with China and other blocs, including the euro zone. In addition, the normalization of US **monetary policy**, where the 10-year Government bonds show implicit interest rates close to 3.2%, is also having an impact on the foreign exchange markets and creates pressure for the financing of emerging economies. Nevertheless, the monetary policy of the European Central Bank (ECB) remains accommodative. It is also worth noting the significant increase in the price of **Brent oil**, which is around US $ 85.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2018Q2 a)	2018Q3	2018	2019	2020
Portugal	GDP (% change on previous quarter)	0.6	0.6	-	-	-
	GDP (year on year % change)	2.4	2.4	2.4	2.3	2.1
	Private consumption (q-o-q % change)	0.1	0.5	-	-	-
	Private consumption (y-o-y % change)	2.7	2.1	2.3	2.2	2.2
	Unemployment rate (%)	6.7	6.6	7.0	6.6	6.3
	Consumer prices (annual % change)	1.1 b)	1.2 b)	1.2	1.5	1.5
Euro area	GDP (% change on previous quarter)	0.4	0.5	-	-	-
	GDP (year on year % change)	2.1	1.9	2.1	2.0	2.0

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

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