October 9th, 2019

Executive Summary

In the **third quarter of 2019**, the Portuguese economy might have grown by **0.5% over the previous quarter** (q-o-q) and **2.1% year-on-year** (y-o-y), roughly at the same pace of the previous quarter (0.6% and 1.9%, respectively). In fact, most high frequency indicators point to the stabilization of GDP growth compared to the second quarter of the year. For now, maintaining the indicators at absolute levels above the historical average allows us to conclude that the economic recovery, which began in 2013, is still ongoing. Additionally, NECEP estimates a further decline in the **unemployment rate** from the previous 6.3% to **6.1%.**

The performance of the Portuguese economy in 2019 will depend on investment developments and external demand. In this sense, the latest **world trade** data does not support a confident outlook. Nevertheless, NECEP maintains its previous projection of a **central growth scenario of 2.1% in 2019**. This estimate carries **predominantly downside risks** as uncertainty intensifies, notably in the **euro area economy** where the third quarter might have been quite weak, with a q-o-q growth of only 0.1%.

Maintaining the NECEP estimate for growth in 2019 took into account, on the one hand, the effect resulting from the **new information** in the national accounts that led to upward revisions in GDP growth, not only in 2019 but also in 2017 and 2018. On the other hand, it reflects the relative stability of the chain (q-o-q) growth observed in the last quarters.

The revision of INE's national accounts data, the fragility of the euro area economy, as well as the weakness of international trade justify greater prudence in the **central growth scenario for 2020**, which now points to **1.9%** instead of 2.1%, a lower pace than expected at the same time horizon in previous years. The **forecast interval (1.2% to 2.6%)** is relatively broad due to the mentioned uncertainty factors. This interval includes scenarios of significant acceleration and deceleration in growth, driven largely by international geopolitical risks, a sharp slowdown in the euro area and Germany prospects and, to a lesser extent, the **political risks of the new fiscal policy** for Portugal. The risks arising from the possible rise in interest rates do not appear to be significant to the Portuguese economy next year.

For **2021**, there was a **substantive downward revision** (-0.4 percentage points) **of the central growth scenario to 1.7%.** Uncertainty is very high in this time horizon as a result largely of either the environment surrounding the world economy nowadays, where the relative stability of growth in the developed countries coexists with the slowing growth in emerging economies, or the significant reversal of the **monetary policies** from either ECB or Fed, now much more accommodative. These events suggest the deep concern about geopolitical, commercial and financial developments for the next two years and an half.

There is still some additional uncertainty associated with the behaviour of the Government in the post-election period. If, on the one hand, the results of the October 6, 2019 election reinforced the political weight of the Socialist Party (PS), the main Government party in Parliament, on the other hand, the **political risks** seem to have increased since it is not yet clear what will be the next government solution, not even when it could be attained.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2019Q2 a)	2019Q3	2019	2020	2021
Portugal	GDP (% change on previous quarter)	0.6	0.5	-	-	-
	GDP (year on year % change)	1.9	2.1	2.1	1.9	1.7
	Private consumption (q-o-q % change)	0.7	0.7	-	-	-
	Private consumption (y-o-y % change)	2.2	2.1	2.2	2.1	1.7
	Unemployment rate (%)	6.3	6.1	6.4	6.0	5.8
	Consumer prices (annual % change)	0.9 b)	0.5 b)	0.4	1.2	1.3
Euro area	GDP (% change on previous quarter)	0.2	0.1	-	-	-
	GDP (year on year % change)	1.2	1.1	1.1	1.2	1.4

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

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