CATÓLICA-LISBON
Forecasting Lab | NECEP

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Executive Summary

In the **first quarter of 2021**, the Portuguese economy should have **contracted 5% over the previous quarter (qoq) or 7% over the same quarter in previous year (yoy)**. Uncertainty is high because some indicators, such as industrial production or cement sales, suggest relatively small losses, while others, such as card (ATM) operations, fuel consumption or turnover in services, point to substantial losses. The reason for the prospect of a sharp drop in GDP, the biggest ever in quarterly data except the second quarter of 2020, is the state of emergency and the strict lockdown that prevented the regular functioning of society. Thus, the Portuguese economy must have operated at about 90% of the level of the fourth quarter of 2019, the last "normal" period before the pandemic. Additionally, NECEP estimates an increase in the **unemployment rate** from the previous 7.1% to **7.3%** in the first quarter, a limited increase, partly due to the speed with which the Government had applied measures to support the maintenance of employment from November 2020 and more intensively from January of the current year.

For **2021**, the **central scenario** is now a **GDP growth around 1%**, an upward revision of 3 percentage points compared to the previous forecast (-2%). The main reason for this review is the new information from Statistics Portugal (INE) on the national accounts for 2020, with a contraction of GDP less than previously forecasted, and because the estimate of GDP contraction in the first quarter is close to the upper threshold of the previous NECEP's simulations.

The hypothesis of stronger growth cannot be ruled out, given that the third quarter of last year illustrates well the possibility of a rapid recovery when lockdown measures are eased. The forecast uncertainty is very high, although lower than that faced in the second quarter of 2020, which is reflected in a less wide forecast range. In any case, diversified scenarios are configured, ranging from a contraction of 2% to a growth of 4% in 2021. The **unemployment rate** is likely to rise to a figure between **7.2% and 8.0%** with a central point of 7.6%.

There is also a risk of severe deterioration of public accounts and the need for an **amending budget for 2021**. Loans under public or private **moratoriums** are a significant added risk on the Portuguese economy and financial system, noting that they correspond to almost 25% of GDP in 2019. In the short-run, moratoriums have helped to mitigate the shock of lockdown by reducing companies' cash flow requirements, while also alleviating the budget of many families. But in the medium term, they can become a credit risk that will weigh on the balance sheet of financial institutions and on public expenditure and debt.

Part of households' income has migrated to **savings** and reinforcement of bank deposits, a phenomenon with a different nature from previous crises. The return of savings and deposits to normal levels would help the recovery of private consumption and economic activity when the lockdowns end definitively.

For 2022 and 2023, the return to economic growth is expected, although, in NECEP's view, less than what would allow, even in 2023, to attain the GDP level of the fourth quarter of 2019, the last peak. Thus, the central growth scenario for **2022** is **4.5%**, given the low probability of lockdown in the next year, and **3.5%** in **2023**, with GDP returning to the level of 2019 in that time horizon.

In conclusion, the Portuguese economy is still in an environment of **high uncertainty** associated with the evolution of the **pandemic**, **administration of vaccines** and **lockdown** measures. Short-term forecasts depend, above all, on the strictness of the lockdowns adopted or still to be adopted in 2021. The disparity in forecasts of the different entities that monitor the Portuguese economy reflects the different probabilities associated with the possibility of strict lockdowns in the following months. From the perspective of NECEP, the political and social environment as well as in the mass media is favourable to strict lockdowns in the case of a significant deterioration in the daily health indicators of the pandemic, with the central scenario of a **weak GDP growth in 2021** reflecting the expected value of that effect.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	**Indicator**	**2020 Q4 a)**	**2021 Q1**	**2020**	**2021 scenarios (% change)**		
					Downside	**Central**	**Upside**
Portugal	GDP (% change on previous quarter)	0.2	-5.0	-	-	-	-
	GDP (year on year/annual % change)	-6.1	-7.0	-7.6	-2.0	1.0	4.0
	Unemployment rate (%)	7.1	7.3	6.8	8.0	7.6	7.2
	Consumer prices (annual % change)	0.0 b)	0.0 b)	0.0	0.2	0.7	1.0
Euro Area	GDP (% change on previous quarter)	-0.7	0.1	-	-	-	-
	GDP (year on year/annual % change)	-4.9	-1.1	-6.8	1.0	3.0	5.0

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

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