CATÓLICA-LISBON Forecasting Lab | NECEP

Executive Summary

In the first quarter of 2016, the Portuguese GDP (gross domestic product) **grew just 0.1%** over the previous quarter (0.8% over the same quarter of previous year). This estimate suggests a continuation of the slowdown observed in the second semester of 2015. According to the official statistical office (INE), GDP growth was 0.2% in the fourth quarter of 2015 over the previous quarter and 1.3% over the same quarter of previous year.

The Portuguese economy is in a "wait and see" mode that shows itself in a **delayed investment recovery**. Exports are growing less vigorously as a result of a worsening outlook for the global economy and, possibly, the euro appreciation observed in the first quarter of 2016.

The estimates from the Católica Lisbon Forecasting Lab (NECEP) for the Portuguese GDP growth in 2016 and 2017 have changed from last January due to the following factors: a larger than anticipated structural budget deficit in 2015, a weaker growth in the second half of 2015 and a fiscal policy less expansionary than previously announced by the new government. Thus, the **GDP growth projection for 2016 is 1.3%**, revised down by 0.7 percentage points (p.p.), which is a small deceleration from growth in 2015 (1.5%). For **2017**, the central scenario is a growth of **1.7%**, also revised down from the previous forecast (by 0.5 p.p.). The first projection for **2018** is a growth around **2.0%** if it follows a recovery path similar to the previous cycles.

The **main risks** faced by the Portuguese economy are still of a financial nature and connected either with the **fiscal consolidation policy** or with the **capital requirements** that the financial system must fulfill. The authorities may be forced to adopt discretionary measures that in the short run will weigh down on growth prospects. However, the mere possibility of such measures is already contributing to delaying investment and consumption. The credibility of the fiscal policy and financial stability decisions is the main trait of the current economic developments. The calculations of NECEP suggest that the measures included in the budget are not sufficient to attain an overall deficit of 2.2% of GDP, which are more likely to reach 3.1% in 2016. Nevertheless, it is still feasible for the government to avoid new fiscal measures for the current year that would reduce growth prospects.

The Portuguese economy is highly sensitive to quick changes in several external variables such as the euro zone **interest rates**, the **dollar exchange rate** or the **oil price**. Moreover, political uncertainty in Spain may hurt its economy health and provide an additional brake to the Portuguese growth. Finally, the critical macro variable to follow-up in 2016 is **investment** which has stagnated and is ever delaying a rebound. NECEP estimates that trend GDP growth of the Portuguese economy is slightly less than was anticipated during last year.

NECEP's forecasts

Region	Indicator	15:Q4 a)	16:Q1	2016	2017	2018
Portugal	GDP (% change on previous quarter)	0.2	0.1	-	-	-
	GDP (year on year % change)	1.3	0.8	1.3	1.7	2.0
	Private consumption (q-o-q % change)	0.2	0.5	-	-	-
	Private consumption (y-o-y % change)	2.4	2.2	2.0	1.6	1.9
	Unemployment rate (%)	12.2	12.6	12.0	11.8	11.5
	Consumer prices (annual % change)	0.5 b)	0.6 b)	0.7	1.2	-
Euro Area	GDP (% change on previous quarter)	0.3	0.5	-	-	-
	GDP (year on year % change)	1.6	1.5	1.4	1.6	1.8

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