



Executive Summary

In the second quarter of 2016, the Portuguese economy grew 0.1% over the previous quarter (0.7% when compared with the same quarter of the previous year). This estimate suggests that economy has essentially stagnated since the second semester of 2015. In the last official data from the national statistical office (INE) relative to the first quarter of 2016, GDP grew 0.2% over the previous quarter (0.9% from the same quarter of the previous year).

The risks to growth are predominantly to the down side, highlighting a **strong concern with investment**, which has again declined in the beginning of this year, suggesting that **the Portuguese recovery has been interrupted**.

Therefore, NECEP revises down to **0.9%** the growth forecast for **2016**, a downward revision of 0.4 percent points (p.p.) from the last forecast, which embodies a noticeable deceleration from 2015 (growth of 1.5% and below expectations). For **2017**, the central projection is now a growth rate of **1.1%**, also revised down (by 0.6 p.p.), considering the postponing of investments, lower growth outlook for the euro zone (1.2%) and fiscal adjustment needs in the coming two years. Therefore the new growth projection for **2018** is around **1.4%** (revised down by 0.6 p.p.)

The **main risks** to the Portuguese economy are financial, either from capital needs by the banking industry or the fiscal consolidation requirements, which are no longer an economic policy priority for the current Government. The fiscal deficit of 2016, in NECEP calculations, will exceed 3%, which will likely force the adoption of substantial fiscal consolidation measures in the next two years in order to comply with the April Stability Program 2016-2020. These developments explain, partially, the darkening outlook for future growth.

The results of the *Brexit* referendum of June 23rd have increased significantly the uncertainty surrounding the British economy, with a sharp decline in its growth outlook for this year, which places several euro zone economies at the risk of a recession. The decisions by the British authorities on its future within the euro zone have become the single most important risk to the global economy.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2016Q1 ^{a)}	2016Q2	2016	2017	2018
Portugal	GDP (% change on previous quarter)	0.2	0.1	-	-	-
	GDP (year on year % change)	0.9	0.7	0.9	1.1	1.4
	Private consumption (q-o-q % change)	1.3	0.1	-	-	-
	Private consumption (y-o-y % change)	2.9	1.9	2.2	1.1	1.4
	Unemployment rate (%)	12.4	11.2	11.6	11.4	11.2
	Consumer prices (annual % change)	0.6 ^{b)}	0.6 ^{b)}	0.7	1.2	1.5
Euro area	GDP (% change on previous quarter)	0.6	0.3	-	-	-
	GDP (year on year % change)	1.7	1.6	1.5	1.2	1.6

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