



Executive Summary

The Portuguese economy, like most economies, is experiencing **unusual fluctuations** in year-over-year (yoy) and quarter-over-quarter (qoq) change rates. The absence of persistence in the variation of the key indicators recommends that there is no mention of recovery or interruption of recovery, and that the assessment should be made, instead, on the losses accumulated since the beginning of the pandemic and subsequent lockdowns.

In the **fourth quarter of 2020**, the Portuguese economy should have **contracted 9% yoy** which corresponds to a change of **-2.8% qoq**. This less than expected fall in economic activity was associated with the partial (or mild) lockdown declared in November. Thus, the **GDP** might have **contracted 8.4% in 2020**, the worst record ever in the modern series of the Portuguese economy. The fall would have been even worse in the absence of the measures to support the economy introduced in April and beyond, with emphasis on support for employment in situations of furlough, reduction or resumption of activity, credit default, granting of new subsidized credits and the ECB's monetary stimulus.

In general, **economic activity** is evolving in a very asymmetric way. Construction, industry and agriculture are resisting relatively well. Activities related with tourism and hospitality are experiencing very significant losses. In retail trade and services there are still significant asymmetries. The food retail, excluding catering, resists, as does the retail of technological goods. The rest of the retail sector, including clothing and footwear, or proximity services are facing severe losses, although not as pronounced as in tourism row.

For **2021**, the **central scenario** is now a **2% contraction of GDP**, a strong downward revision of 4.5 percentage points compared to the previous forecast (2.5%). Its main reason is the entry into force of a **severe lockdown** announced by the Government on January 13. What was an important, but low probability event became a certainty. This forecast assumes that the economy in 2021 is expected to move to the level of the third or fourth quarters of 2020 if it would be possible to ease the lockdown measures, but will fall to values not much better than those observed in the second quarter of last year in future general lockdowns like the one in effect. However, this may be insufficient to ensure economic growth during this year, especially in a scenario of a long lockdown such as is currently anticipated.

The introduction of **new forecasting methods** due to the uniqueness of recent economic developments and unconventional government decisions recommends prudence. Thus, a scenario of GDP growth cannot be ruled out for 2021, given the rapid recovery of the third quarter of 2020 when containment measures were eased. The forecast uncertainty is very high, although lower than that faced in the second quarter of 2020, and there are heterogeneous scenarios ranging from -4% to +3% for 2021. Likely to happen is the increase in the **unemployment rate** to an interval between **7% and 8%**, as well as the deterioration of public accounts and the need for an **amending or supplementary budget for 2021**.

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 level of GDP in the fourth quarter of 2019, the last peak. 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 remaining 3% below the level of 2019.

In conclusion, the Portuguese economy started 2021 in an environment of **high uncertainty** associated with the evolution of the **pandemic**, the **administration of vaccines** and the **severe lockdown** measures, quite different from what was anticipated a few weeks ago. The Government is expected to add some uncertainty to this complex picture due to its unpredictable and hesitant behaviour.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

| Region | Indicator | 2020 Q3 a) | 2020 Q4 | 2020 | 2021 scenarios (% change) | | |
|-----------|------------------------------------|---------------|------------|------|---------------------------|---------|--------|
| | | | | | Downside | Central | Upside |
| Portugal | GDP (% change on previous quarter) | 13.3 | -2.8 | - | - | - | - |
| | GDP (year on year/annual % change) | -5.7 | -9.0 | -8.4 | -4.0 | -2.0 | 3.0 |
| | Unemployment rate (%) | 7.8 | 7.2 | 6.8 | 8.1 | 7.6 | 6.5 |
| | Consumer prices (annual % change) | 0.1 b) | 0.0 b) | 0.0 | 0.0 | 0.6 | 1.1 |
| Euro Area | GDP (% change on previous quarter) | 12.5 | -2.7 | - | - | - | - |
| | GDP (year on year/annual % change) | -4.3 | -8.6 | -7.5 | 0.0 | 3.0 | 6.0 |

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