CATÓLICA-LISBON
Forecasting Lab | NECEP

July 11th, 2018

Executive Summary

In the **second quarter of 2018**, NECEP estimates that **GDP increased 0.6% over the previous quarter** (0.4% in the first quarter of 2017) and **2.4% year-on-year** (2.1% in the previous quarter). This quarterly growth keeps the moderate recovery of the Portuguese economy since 2013, with occasional oscillations as in the first quarter.

In fact, the Portuguese economy is ongoing a **recovery** initiated in the first quarter of 2013. In the second quarter of the current year, **investment** rebounded at a good pace and exports continue to exhibit healthy growth, although with less intensity compared to last year. The recovery of **private consumption** remains moderate, but the estimate for the second quarter is relatively weak due to specific, including calendar, effects.

NECEP projects **GDP growth of 2.4% in 2018,** unchanged from January 2018, which is slightly better than the Government and Banco de Portugal forecasts. The projection interval remains broad and includes the growth rate of 2.7% observed in 2017, although this now seems harder to achieve. The euro zone economy continues its recovery, which helps similar developments in Portugal

NECEP also maintains its previous GDP growth forecasts for 2019 (2.2%) and 2020 (2.0%), due to the absence of surprises, both in the quarterly national accounts as well as in high frequency indicators. This reflects an approximation towards a medium-term growth influenced by several structural factors, namely, **high public and private indebtedness**. The **unemployment rate** is now close to 7%, which is still relatively high and above the natural rate, which highlights the long duration of the normalization of the Portuguese economy. As observed in other economies, productivity developments are also atypical compared to previous recoveries, with unemployment falling more than would be expected given output growth.

The Government presented the 2018 Stability Programme in April, which includes a nominal budget deficit of 0.7% of GDP. The NECEP's calculation still points a headline deficit of 0.9% of GDP in the absence of additional measures from the 2018 approved Budget. The European Commission wrote that without implementation changes, there is a risk of significant deviation from an annual structural adjustment of at least 0.6% of GDP. The NECEP concurs with this assessment and foresees a **worsening of the structural balance** of 0.2 percentage points (pp) of potential GDP, a significant deviation from the 0.4 pp improvement assumed by the Government in the 2018 Stability Program.

In general, the **external environment** remains benign, with a positive outlook for the world economy. The economic policy instability stemming from the US government remains a significant risk, now with the addition of a potential trade war with China, with unpredictable consequences for the world economy. Nevertheless, the available data does not show signs of an increase of this political risk. The **monetary policy** of the European Central Bank (ECB) should remain accommodative, in apparent divergence from the current normalization in the US. Treasury markets are beginning to signal the possibility of an inversion in the US yield curve, creating some additional uncertainty about future monetary policy and economic developments.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2018Q1 a)	2018Q2	2018	2019	2020
Portugal	GDP (% change on previous quarter)	0.4	0.6	-	-	-
	GDP (year on year % change)	2.1	2.4	2.4	2.2	2.0
	Private consumption (q-o-q % change)	0.8	0.4	-	-	-
	Private consumption (y-o-y % change)	2.1	3.0	2.4	2.2	2.0
	Unemployment rate (%)	7.9	6.9	7.2	6.9	6.6
	Consumer prices (annual % change)	1.2 b)	1.1 b)	1.2	1.5	1.5
Euro area	GDP (% change on previous quarter)	0.4	0.4	-	-	-
	GDP (year on year % change)	2.5	2.2	2.2	2.0	1.8

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

NECEP/CEA/CLSBE/UCP – Quarterly Newsletter 53 (Year XIV) – 2018, 2nd Quarter (Q2)
Next Quarterly Newsletter (54, Year XIV – 2018, 3rd Quarter) available on October 11th, 2018