CATÓLICA-LISBON
Forecasting Lab | NECEP

Executive Summary

In the third quarter of 2016, the Portuguese economy likely grew 0.2% over the previous quarter (1.0% when compared with the same quarter of the previous year). This estimate suggests that growth has been weak since the second semester of 2015. In the second quarter of 2016, GDP grew 0.3% 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 second quarter, suggesting that **the Portuguese recovery process has been interrupted**.

Therefore, NECEP maintains a GDP growth forecast of **0.9%** for **2016**, which embodies a deceleration from 2015 (updated growth of 1.6%). There is some uncertainty for the remainder of the year related to fiscal policy: the increase in civil servants wage bill could support private consumption but the Portuguese Government compensate that extra expenditure with cuts in investment in order to reach an overall budget deficit of 2.5% of GDP.

For **2017**, the central projection for growth is kept at **1.1%** reflecting lower trend growth, fiscal policy uncertainty and slightly weaker world economy outlook. The growth forecast for **2018** is revised down to **1.3%** (by 0.1 percentage points, p.p.) as result of a slight reduction in estimates of potential GDP growth.

The **main risks** to the Portuguese economy are still financial, either from capital needs by the banking sector or the fiscal consolidation requirements. The key budgetary indicators for 2016 and 2017 are unknown as of today, including the general government balance, structural adjustment and specific measures to achieve those goals. Considering the Government's public statements, it is hard to anticipate the fiscal policy for next year as well as the European Commission assessment of that policy. From NECEP's point of view, public information is not sufficient to guarantee a budget deficit of 3% this year, which may also affect markets verdict on the budgetary proposal for next year.

The **weakness in investment** is a matter of concern in that it can signal the slowdown of both real and potential growth. The external outlook could affect negatively the Portuguese economy through two processes that should be closely monitored: the evolving British Government's position about the European Union and the pace of the Federal Reserve (FED) interest rate increases. Additionally, the political and economical developments in Spain are a serious risk for the Portuguese economy, namely in a hypothetical scenario of restrictive measures to be taken by a future Spanish government that would slowdown the economy.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2016Q2 [a]	2016Q3	2016	2017	2018
Portugal	GDP (% change on previous quarter)	0.3	0.2	-	-	-
	GDP (year on year % change)	0.9	1.0	0.9	1.1	1.3
	Private consumption (q-o-q % change)	-0.1	0.1	-	-	-
	Private consumption (y-o-y % change)	1.6	1.5	1.8	1.0	1.3
	Unemployment rate (%)	10.8	10.7	11.3	10.9	10.8
	Consumer prices (annual % change)	0.6 [b]	0.6 [b]	0.7	1.2	1.6
Euro area	GDP (% change on previous quarter)	0.3	0.3	-	-	-
	GDP (year on year % change)	1.6	1.6	1.6	1.3	1.4

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