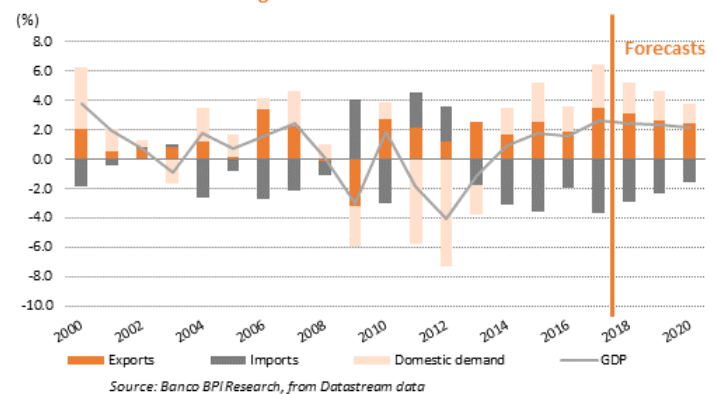


Portugal: Robust growth in 2017 and bright prospects for 2018

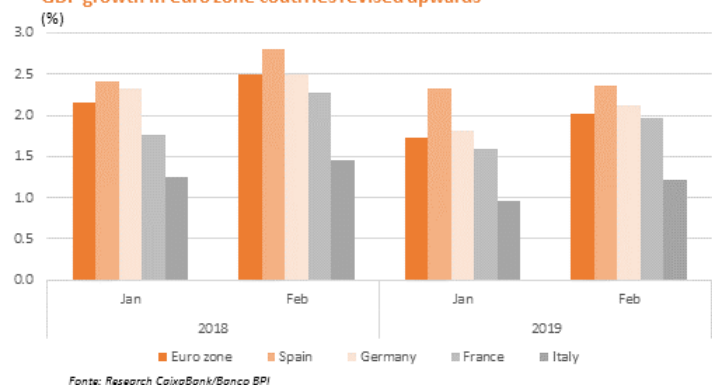
In 2017, the Portuguese economy posted the highest pace of growth since 2000. Exports were the main driver of growth. Also domestic demand grew stronger than in previous year, benefiting from higher investment. For 2018 the BPI Research forecasts GDP to advance 2.4%, taking advantage of better prospects for global demand and benefiting from gradual reduction of main imbalances. In this scenario, the GDP level will finally exceed the levels prior to the international financial crisis.

- In 2017, the Portuguese economy grew 2.7%, supported by exports and investment. The former rose 7.9%, contributing with 3.5 percentage points (p.p.) to annual growth; and the latter advanced 9.1%, adding 1.5 p.p. to growth. We highlight that the contribution of exports and investment was the stronger since 1996 and 1999, respectively. Furthermore, the contribution of private consumption was similar to those seen in the years between 2014-16, circa 1.5 p.p., highlighting the moderate pace of growth of household expenditure. At last, growth in 2016 was revised to 1.6%, more 0.1 p.p. than previously reported.
- The pattern of growth in 2017 was boosted by the strengthening of global activity, especially by the better performance of economic activity in the euro area, (the main trading partners of Portugal); the very accommodative financing conditions has also been an important driver of growth. Global demand (including euro area economy) is expected to remain robust during 2018 supporting the reinforcement of a more robust pattern of growth for the Portuguese economy, determinant to empower the correction of external and internal imbalances.
- Due to the more optimistic scenario for growth in the euro zone, the BPI Research decided to revise upwards the growth forecast for 2018 – 2019 by 0.1 p.p., to 2.4% and 2.3%, respectively. Risks for this scenario are balanced, with a slight bias on the upside. On the downside, the most significant risk relates to the reduction of monetary stimuli by the ECB at the end of the year. However we believe the economy is now more robust, which should limit the increase of financing costs. Another negative risk relates with the behaviour of the oil price, an increase may curb domestic demand. But this seems to be a limited risk, as a possible rise in the price of crude will be offset by the stronger euro. Risks that could lead to a stronger growth this year are linked to a possible better than expected performance of exports, benefiting from the activity in the automotive sector, the strength of tourism, the strengthening competitiveness in the traditional export sectors and the possibility that domestic demand grows than predicted.

GDP: Contribution to annual growth



GDP growth in euro zone countries revised upwards



- Available data for 2018 is still very reduced, but the high-frequency indicators, already released, support the view that growth will remain solid, although less strong than in 2017. The economic sentiment indicator decelerated in January and February, but remains close to the highest levels observed last year; the sentiment indicators of services and manufacturing industry deteriorated a little at the beginning of the year. On the other hand, among consumers, there was a recovery of confidence in the first two months of the year while the labour market continues to show improvements, with the January unemployment rate falling to 7.9%.

Annual rates of change (%), in volume

Portugal: Economic forecasts	Average 2000-2009	Average 2010-2016	2017	2018	2019
Households	1.3	-0.2	2.2	2.1	1.8
Public consumption	2.1	-1.3	0.1	0.2	0.7
GFCF	-1.0	-3.6	9.1	4.2	3.9
Internal demand (cc)	0.9	-1.0	2.9	2.2	2.0
Exports	3.2	6.0	7.9	6.6	5.5
Imports	2.2	3.0	8.0	5.9	4.6
Foreign demand (cc)	0.1	0.9	-0.2	0.2	0.3
Stocks (cc)	-0.1	0.1	-0.1	0.1	0.0
GDP	0.9	-0.1	2.7	2.4	2.3

Source: BPI Research using Datastream data, Forecasts by BPI research

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