Portugal

Outlook

	Average 11-15	2016	2017	2018	2019	2020	2021	Forecasts 2022	2023
GDP growth (%)	-0.8	2.0	3.5	2.8	2.7	-8.3	5.5	6.7	0.5
CPI inflation (%)*	1.4	0.6	1.4	1.0	0.3	0.0	1.3	7.9	5.7
Fiscal balance (% of GDP)	-6.2	-1.9	-3.0	-0.3	0.1	-5.8	-2.9	-1.5	-1.3
Public debt (% of GDP)	127.8	131.5	126.1	121.5	116.6	134.9	125.5	115.6	113.4
Reference rate (%)*	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.6	2.9
Exchange rate (EUR/USD)	1.3	1.1	1.1	1.2	1.1	1.1	1.2	1.0	1.0
Current balance (% of GDP)	-1.1	1.2	1.3	0.6	0.4	-1.0	-1.2	-2.7	-2.3
External debt (% of GDP)	225.3	203.6	197.9	193.0	189.1	199.3	183.5	185.4	193.1

Note: * annual average. BPI Research forecasts for all variables except external debt (Datastream).
Source: BPI Research, from data of Thomson Reuters Datastream.

- **The economy advanced strongly in 2022 and GDP is expected to increase by 6,7%**. In Q3, GDP performed better than expected advancing 0,4% quarterly and 4,9% year-on-year. Private consumption remained resilient, benefiting from a tight labour market and extra savings accumulated during the lockdowns. Exports performed very well too, growing 16,8% year-on-year. Tourism was an important driver of exports, recovering strongly during the year. By the end of Q3, GDP was 2,4% above the pre-covid level, with private consumption and exports being 2,9% and 6,9% above Q4 2019, respectively. Economic indicators for Q4 are suggesting a deceleration, but do not point to contraction of activity.

- **Inflation rate surged in 2022 but there are some signals of trend reversal**. Bottlenecks on production and higher energy and food prices in the wake of the war in Ukraine, pushed inflation for levels not seen since the first years of 90's. Going forward, inflation is seen to decelerate on a moderate way with high energy prices spreading to other categories of goods and services. If the withdrawal of the zero covid policy materializes in China, the deceleration of the inflation rate may be a bit stronger than we expect, benefiting from the reduction of bottlenecks. Oil and gas prices will also be key going forward.

- **Public accounts are performing very positively**. Government is focused on the reduction of the deficit and of the ratio of public debt, which should be positively assessed by investors, avoiding a marked deterioration of the spread of the Portuguese sovereign debt. By the end of 2022 S&P and Fitch rose the rating to BBB+ and DBRS to A. The ECB new anti-fragmentation tool - Transmission Protection Instrument (TPI) – together with a prudent management of public debt – the treasury has been swapping debt with shorter maturity for debt with longer maturity and its liquidity cushion amounts to circa €20 bln (≈8% of GDP) – should also add support to Portuguese debt, avoiding excessive increases in financing costs. The State Budget for 2023 keeps the focus on fiscal consolidation and is based on prudent macro assumptions. Pubic deficit is expected to decline to 0,9% of GDP from 1,9% in 2022 and the public debt ratio should decline to 110,5% of GDP from 115% in 2022. Still, according to IMF in a scenario of unchanged policies, public debt is seen to fell below 100% in the medium term.

- **Outlook**. 2023 should be marked by a sharp growth slowdown, reflecting the impact of the energy crisis and tighter financing conditions. Considering this scenario, inflation will remain high, although diminishing, eroding families' disposable income and rising production costs. Additionally, external demand should be negatively impacted by the energy crisis that will hurt some of the main important commercial partners of Portugal, namely EU countries. The reception of European Funds will mitigate partially the negative factors, but investment may remain subdued due to the still high uncertainty that involves economic activity, more intense in the first part of the year. Risks seem to be balanced at the moment, given the country's less exposition to the gas market. However, worse scenarios - GDP contraction – could not be ruled out if a colder winter and worsening of energy crisis materializes.

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