Euler Hermes Economic Research

Country Report

Portugal

Economic revival, but the road ahead is fraught with challenges

General Information

GDP	USD199.11bn (World ranking 46, World Bank 2015)
Population	10.4mn (World ranking 87, World Bank 2015)
Form of state	Parliamentary Democracy
Head of government	Antonio COSTA
Next elections	2019 legislative, 2021 Presidential

Strengths

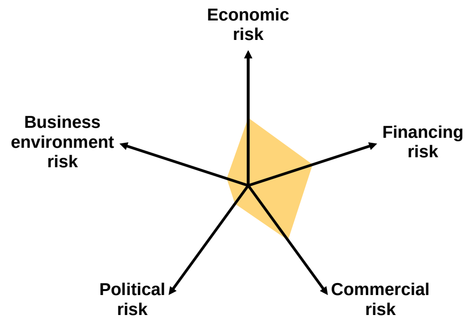
- Improving competitiveness thanks to deep structural reforms (banking sector, pensions, labour market)
- Modern infrastructure network
- Large companies with international presence
- Good performance in some industrial and innovative sectors
- Tourism potential
- Efficient system for R&D, relatively high-skilled labour

Weaknesses

- High public debt (among the highest in the world) despite fiscal consolidation efforts
- High private sector debt
- Weak banking system preventing the financing of the economy
- High unemployment rate, although rapidly declining

Country Rating

BB2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Spain	24%	1	33%	Spain
France	12%	2	13%	Germany
Germany	11%	3	7%	France
United Kingdom	7%	4	5%	Italy
United States	6%	5	5%	Netherlands

By product (% of total)

Exports		Rank		Imports
Refined Petroleum Products	7%	1	8%	Crude Oil
Miscellaneous Hardware	5%	2	6%	Cars And Cycles
Cars And Cycles	5%	3	5%	Plastic Articles
Paper	5%	4	4%	Pharmaceuticals
Plastic Articles	5%	5	3%	Vehicles Components

Sources: Chelem (2015)

EULER HERMES
Our knowledge serving your success

Economic Overview

Activity picks up amid persistently high public debt and fragile banking system

In 2016, the Portuguese real GDP growth rate slowed down to +1.4% (after +1.6% in 2015) because of stalling investment and subdued private consumption. Yet, Q1 2017 GDP growth exceeded expectations, at +1% q/q (after +0.7% in Q4 2016). In y/y terms, the economy accelerated to +2.8%, the fastest rate since 2007. International trade drove growth up. Despite a slowdown in private consumption, domestic demand remained vigorous thanks to robust investment. The decrease in unemployment rate – falling below 10% in February 2017 for the first time in 8 years – has been impressive. Industrial production has recovered by +6% since the last low of Q2 2013 but remains 13% below the pre-crisis peak. Strong tourism activity also contributed.

Going forward, private consumption should moderate due to a base effect after 3 years of strong growth and a decline in real wages as inflation recovers. Yet, as investment and net exports should accelerate, we expect growth to reach +2.2% in 2017. Economic growth struggles to exceed +2% per year due to low productivity. Moreover, real GDP has not returned yet to pre-crisis levels.

Meeting and exceeding the fiscal target sets by the European Commission allowed Portugal to exit from the "excessive deficit procedure". The budget deficit fell to a 40-year low at -2.0% in 2016, from -4.4% in 2015. The anti-austerity government managed to cut current spending and public investment without affecting social security spending. In the medium term, however, lack of public investment could affect the quality of public services and infrastructure, thus dampening economic growth. In addition, public debt continued to rise and reached 130.4% of GDP in 2016. Although expected to decrease progressively in 2017, it remains among the highest in the world.

Portugal has yet to address the challenge of financing its economy. Its banking system is fragile, with a non-performing loan ratio of 19.5% and a still contracting distribution of credit. Despite taking emergency monetary steps, the cost of credit for SMEs remains well above European peers.

Structural reforms enhance competitiveness

Portugal ranks 25th out of 190 countries in the World Bank 2017 Doing Business Survey, and 1st in the "trading across borders" category. Portugal has become one of the most cost-competitive countries in the Eurozone, as unit labor cost decreased by -11% since 2009. Key structural reforms have been adopted to lessen the corporate tax burden, better enforce contracts, liberalize the labor market and deregulate several services and professions. The Portugal 2020 strategy should also help step up the efforts to make growth more inclusive and sustainable.

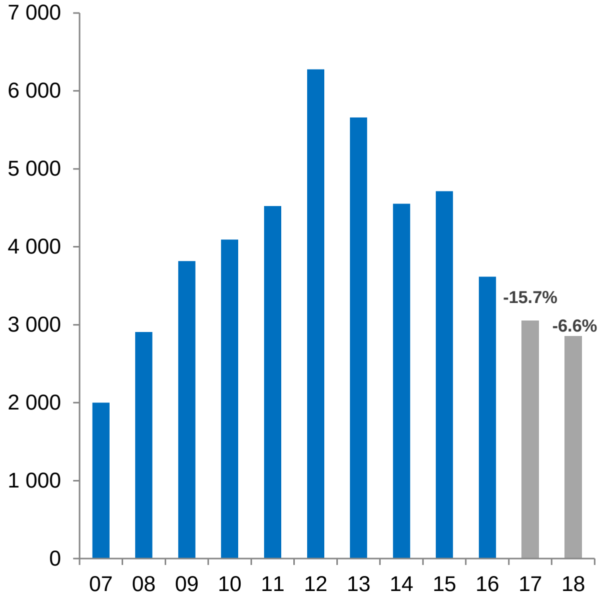
After decreasing in 2016 (-23.3%), the number of corporate insolvencies is projected to further decrease given the more favorable business cycle. Still in 2018 bankruptcies would remain 42% above 2007 level.

Portugal: Key economic forecasts

	2015	2016	2017	2018
GDP (real, %)	1.6	1.4	2.2	1.8
Private consumption (%)	2.6	2.3	2.1	1.2
Public consumption (%)	0.7	0.5	0.0	0.8
Investment (%)	4.5	0.1	5.9	3.3
Trade balance (% of GDP)	-1.0	-0.1	0.5	0.0
Exports (%)	6.1	4.4	8.6	3.9
Imports (%)	8.2	4.5	7.1	3.7
Current account balance (% of GDP)	0.1	0.8	0.3	0.3
Fiscal balance (% of GDP)	-4.4	-2.0	-1.5	-1.7
Public debt (% of GDP)	129.0	130.4	128.7	126.3
Inflation (average, %)	0.5	0.6	1.1	1.8
Unemployment rate (%)	12.6	11.2	10.5	10.3

Sources: Eurostat, National sources, IHS, Euler Hermes

Change in number of corporate insolvencies (%)



Sources: Eurostat, IHS, Euler Hermes

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Last review: 2017-06-22
Country Risk Analyst:
Daniela Ordóñez, Georges Dib
georges.dib@eulerhermes.com