Euler Hermes Economic Research

Country Report

# Portugal

## Tiptoeing growth and reduced deficits

## General Information

| | |
|---|---|
| **GDP** | USD229.584bn (World ranking 46, World Bank 2014) |
| **Population** | 10.4mn (World ranking 87, World Bank 2014) |
| **Form of state** | Parliamentary Democracy |
| **Head of government** | Antonio COSTA |
| **Next elections** | 2019 legislative, 2021 Presidential |

## Strengths

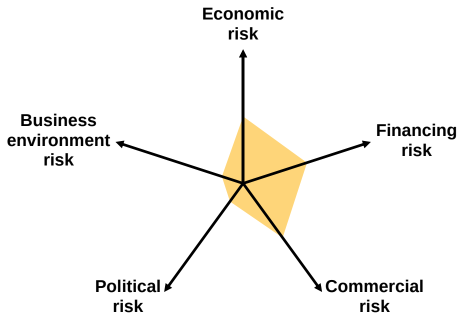
- Improving competitiveness thanks to deep structural reforms (banking sector, pensions, labour market)
- Modern infrastructure network
- Large companies with international presence
- Good performance in some industrial and innovative sectors
- Tourism potential
- Efficient system for R&D, relatively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

## Weaknesses

- High fiscal deficit and public debt
- High private sector debt
- Weak banking system
- Downside pressures on prices
- Very high unemployment

## 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 |
| LDCs in Africa | 8% | 4 | 5% | Netherlands |
| United Kingdom | 6% | 5 | 5% | Italy |

By product (% of total)

| Exports | | Rank | | Imports |
|---|---|---|---|---|
| Petroleum Products | 8% | 1 | 10% | Crude Oil |
| Miscellaneous Hardware | 5% | 2 | 5% | Cars And Cycles |
| Cars And Cycles | 5% | 3 | 4% | Plastic Articles |
| Plastic Articles | 5% | 4 | 4% | Pharmaceuticals |
| Paper | 5% | 5 | 3% | Meat |

*Sources: Chelem, UNCTAD*

# Economic Overview

## Still slow growth

The economy grew by +1.5% in 2015 supported by domestic demand. Consumption was up +2.6%, helped by near-zero retail sales prices (+0.5% in 2015). The pick-up in investment (+4.1%) was related to a surge in capital formation in transportation equipment (+25.6%) and construction (+4.1%).

GDP should expand by a more modest +1.1% in 2016. Negative investment is explained to a large extent by base effects as in 2015 increase was particularly significant. Although the improvement in labor market will continue and the unemployment rate should fall to 11% by 2017, private consumption is expected to slow down along with a diminished "oil dividend". Exports will also decline as the euro is not expected to depreciate much further. Smaller price-competitiveness gains affect textile manufacturing, which faces strong competition from Asian and American exports (priced in USD).

## Financing the (high) public debt does not seem to be a problem anymore

After years of austerity, the fiscal deficit has narrowed impressively. It should stand at -2.9% of GDP this year, down from -4.4% in 2015. This means that Portugal will miss again the fiscal target set by the European Commission (revised to -2.5% of GDP in August). However, the EC has so far been lenient. It did not sanction Portugal for missing budget-deficit targets last year and saved the country up to 0.2% of GDP in fines.

Thanks to these fiscal efforts, in 2016 public debt should stabilize just below 128% of GDP, still a worrying level. However, financing the public debt and the fiscal deficit does not seem to be an issue anymore. This positive development can be attributed at least in part to the ECB's quantitative easing program, launched in 2015 and extended to EUR80bn per month. This contributed to reducing the average yield on Portuguese bonds. It now stands below 3% for 10Y bonds against 7.1% three years ago and 16% in 2012. The move also eased debt servicing.

## End of the political deadlock

The October 2015 elections led to a hung Parliament. Yet negotiators managed to reach an agreement. A host of left-leaning parties formed a coalition government under the leadership of acting Prime Minister, Antonio Costa of the Socialist party. Political deadlock, for the time being, seems to be over.

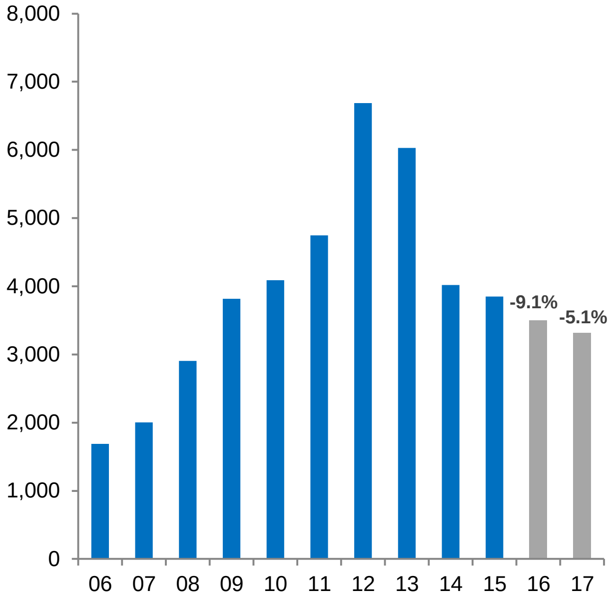
**Portugal: Key economic forecasts**

| | | Weights | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| GDP | | 100% | 0.9 | 1.5 | 1.1 | 1.3 |
| Consumer Spending | | 64% | 2.3 | 2.6 | 1.9 | 1.9 |
| Public Consumption | | 20% | -0.5 | 0.6 | 0.7 | 0.4 |
| Investment | | 18% | 2.8 | 4.1 | -1.0 | 1.9 |
| *Stocks* | * | 2% | 0.4 | 0.1 | 0.1 | 0.0 |
| Exports | | 34% | 3.9 | 5.2 | 3.4 | 3.6 |
| Imports | | 39% | 7.2 | 7.6 | 3.7 | 4.1 |
| *Net exports* | * | | -1.3 | -1.1 | -0.2 | -0.3 |
| Current account (% of GDP) | | | *0.1* | *0.4* | *0.0* | *0.3* |
| Unemployment rate | | | 14.1 | 12.6 | 11.4 | 11.0 |
| Inflation | | | -0.1 | 0.5 | 0.6 | 1.3 |
| Fiscal balance (% of GDP) | | | *-7.2* | *-4.4* | *-2.9* | *-2.7* |
| Public debt (% of GDP) | | | *130.2* | *129.0* | *127.7* | *127.6* |

Change over the period, unless otherwise indicated;
*contribution to GDP growth

*Sources: Eurostat, National sources, IHS, Euler Hermes*

**Corporate insolvencies**




*Sources: Eurostat, IHS, Euler Hermes*






**Last review: 2016-09-26**
**Country Risk Analyst:**
Daniela Ordóñez, Thomas Cardiel
daniela.ordonez@eulerhermes.com