

Tiptoeing growth

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

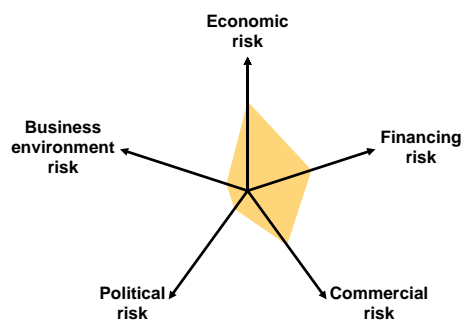
- Improving competitiveness thanks to deep structural reforms (banking sector, pensions, labour market)
- Modern infrastructure network
- Large companies with international presence
- Good performance in some industrial and innovative sectors
- Tourism potential
- Efficient system for R&D, relatively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

B2



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



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Economic Overview

Still slow growth

The economy grew by +1.5% in 2015 supported notably by domestic demand. Consumption was up by +2.6%, helped by near-to-zero retail sales prices (+0.5% in 2015). The pick-up in investment (+4.1%) was mainly due to a surge of capital formation in transportation equipment (+25.6%) and in construction (+4.1%). Going into 2016, the negative figure for investment can be explained by base effects as the rise in 2015 was particularly significant.

2016 should experience a small deceleration, with GDP expanding by +1.4%. A timid Q1 growth (+0.2% q/q) symbolizes this. Exports should not grow as much as they did in 2015 because of the current appreciation of the euro against the dollar which has caused Portuguese manufacturers to lose on price competitiveness, namely in textile manufacturing against Asian and American textile exports priced in USD. Consumption will strengthen further (+2.7%), still benefiting from low prices (+0.4% inflation), decreasing unemployment rate and expanding wages.

High levels of debt remain important hurdles to recovery

Even if fiscal consolidation efforts achieved over past years will contribute to a decrease in public debt from 2016 on, the latter is expected to remain above 120% until 2017. The ECB's quantitative easing program, launched in 2015 and extended to EUR80bn per month, has contributed to a decline in the average yield on Portuguese bonds (3.3% today against 7.1% three years before) and to ease debt servicing.

The private sector debt at 180.1% of GDP is also a considerable burden on domestic demand. A deleveraging process has been going on since 2013 when it stood at 202.2% and actors will continue to seek to reduce their debt burdens, thus restraining demand and growth.

Calm at home, but clashes with Brussels

If the elections of October 2015 led to a hung Parliament, an agreement was reached between parties and a broad coalition of leftist parties was formed under the leadership of the now acting Prime Minister, Antonio Costa.

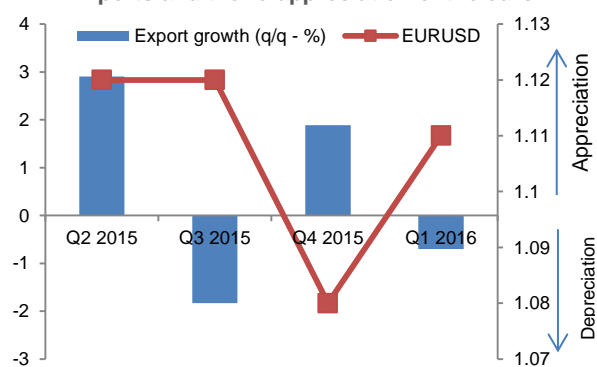
In a recent feud with Brussels, the country was accused of not meeting fiscal requirements of the European Fiscal Compact signed in 2012. Indeed, the 2015 public deficit of -4.4% of GDP fell short of the 3% of GDP target. However, the European Commission decided to not impose fine penalties on Lisbon, and the country was given an extra year to bring its budget back into line, which we expect it to do, with -2.9% of GDP in 2016.

Portugal: Key economic forecasts

	Weights	2014	2015	2016	2017
GDP	100%	0.9	1.5	1.3	1.6
Consumer Spending	64%	2.3	2.6	2.6	2.3
Public Consumption	20%	-0.5	0.6	0.5	0.4
Investment	18%	2.8	4.1	-0.9	2.0
Stocks	* 2%	0.4	0.1	0.1	0.0
Exports	34%	3.9	5.2	2.8	4.1
Imports	39%	7.2	7.6	3.6	4.5
Net exports	* -4%	-1.3	-1.1	-0.5	-0.3
Current account (% of GDP)		0.1	0.5	0.4	0.4
Unemployment rate		14.1	12.6	12.0	11.7
Inflation		-0.1	0.5	0.4	1.3
Fiscal balance (% of GDP)		-7.2	-4.4	-2.9	-2.7
Public debt (% of GDP)		130.2	129.0	124.6	122.1

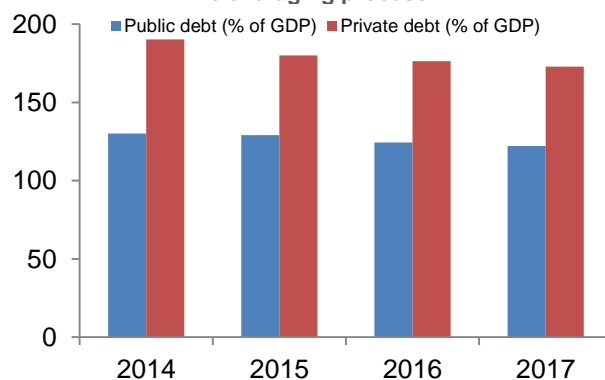
Change over the period, unless otherwise indicated.
*contribution to GDP growth

Exports and the re-appreciation of the euro



Sources: IHS, Euler Hermes

Deleveraging process



Sources: Eurostat, IHS, Euler Hermes

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