Euler Hermes Economic Research

Country Report

# Portugal

## 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

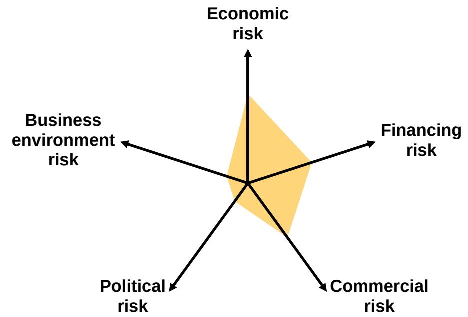
- Improving competitiveness thanks to deep structural reforms (banking sector, pensions, labour market)
- Modern infrastructure network
- Large companies with international presence
- Good performance in some industrial and innovative sectors
- Tourism potential
- Efficient system for R&D, relatively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

# 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.

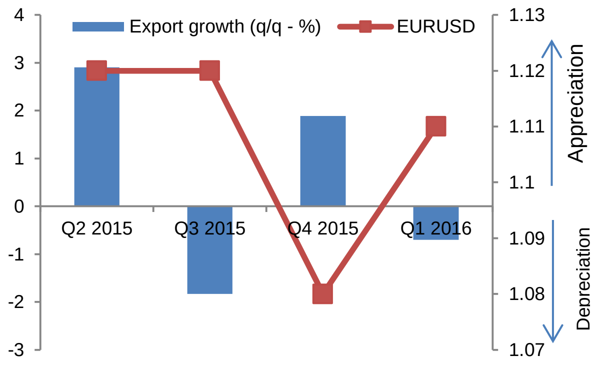
In a recent feud with Brussels, the country was accused of not meeting fiscal requirements of the European Fiscal Compact signed in 2012. Indeed, the 2015 public deficit of -4.4% of GDP fell short of the 3% of GDP target. However, the European Commission decided to not impose fine penalties on Lisbon, 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* |

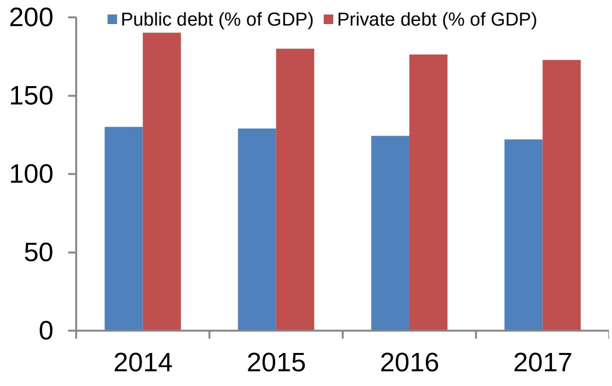
Change over the period, unless otherwise indicated:
*contribution to GDP growth

**Exports and the re-appreciation of the euro**




Sources: IHS, Euler Hermes

**Deleveraging process**




Sources: Eurostat, IHS, Euler Hermes



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