

Portugal: Starting 2024 on a weaker footing after tourism recovery falters

One of the big drivers of growth, a further recovery in the tourism sector, will fall away this year. Combined with modest consumption dynamics, we assume average Portuguese growth will slow down this year.



Things are not quite so sunny for Portugal's Prime Minister, Antonio Costa and his country's economy

Portuguese economy made strong start in 2023, but growth quickly stalled

Portugal's economy started 2023 strongly but slowed down sharply afterwards. The country still benefited from a further recovery in the tourism sector in the first few months of the year, but this positive effect on growth gradually faded throughout the year as visitor numbers rose back to pre-Covid levels. A weakening of foreign demand caused by the economic slowdown in many other European countries also pulled negatively on the growth rate. The relative greater weight of the service sector in the economy, partly due to the importance of tourism, has allowed the Portuguese economy to grow faster than the eurozone average.

Weak consumption means we will not see a strong recovery

In the coming year, a recovery in real incomes through the combination of lower inflation and accelerating wage growth will support consumption, but several other factors will counter this positive effect. First, a weakening labour market. Although unemployment is still very low, business surveys show that hiring intentions among entrepreneurs are weakening. In addition, households will have to repay more on their loans due to rising interest rates, which will also dampen consumption. So, a combination of sub-par economic growth, a weakening labour market and geopolitical uncertainty is likely to encourage households to increase their savings rate again.

Measures to help to households will start to be withdrawn this year

Some government measures which were introduced to support households against high inflation, such as the application of zero VAT on a range of basic foodstuffs that benefited households last year, will be abolished in 2024. All these factors are likely to dampen the positive impact of a rise in real incomes on consumption, meaning that part will not be a strong growth driver this year.

In the second half of the year, growth is expected to rebound on the back of a gradual easing of monetary policy and a pick-up in external demand. Also, European funds will have a positive impact on the growth figures for this year. Overall, we expect the Portuguese economy to grow by 0.8% on average in 2024, which is above our euro area forecast but well below last year's 2.1% growth. In 2025, we expect growth to accelerate again to 2.2%.

Headline inflation could temporarily rebound, but it's nothing to be worried about

Inflation could rebound temporarily this year as favourable base effects due to lower energy prices last year will gradually fade away. In addition, the discontinuation of some support measures will also put upward pressure on the inflation rate. We assume an average inflation rate of 2.4% this year, which is expected to normalise further to 2.1% in 2025.

Portuguese economy in a nutshell

	2022	2023F	2024F	2025F
GDP	6.8	2.1	0.8	2.2
Private consumption	5.6	1.0	0.7	1.7
Investment	3.0	0.9	2.1	5.2
Government consumption	1.4	1.1	0.7	0.9
Exports	17.4	4.3	2.1	4.0
Imports	11.1	1.3	2.5	4.1
Headline CPI	7.8	4.4	2.4	2.1
Unemployment rate (%)	6.1	6.5	7.2	7.3
Budget balance as % of GDP	-0.3	1.1	0.2	0.2
Government debt as % of GDP	112.4	101.4	97	92.4

Source: Thomson Reuters, all forecasts ING estimates