

Portugal: Swift response, but a sharp shock anyway

Portugal reacted swiftly after the first Covid-19 infection was detected around mid-March. But the subsequent lockdown has had a huge impact, even if they come soon in a pandemic. Therefore, we expect the economy to contract by 9% in 2020



Portuguese Prime Minister Antonio Costa

Source: Shutterstock

Delayed entry

Covid-19 entered Portugal later than other European countries.

For example, in Spain and Italy, Covid-19 infections were detected towards the end of January, while in Portugal it was in early March. This enabled the Portuguese government to take swift action early, as it announced the state of emergency 16 days after the outbreak began (on 18 March), while in Spain, for example, it took six weeks after the detection of the first infection.

The number of infections and deaths is therefore relatively low in Portugal. The lockdown measures, however, still had a sharp impact on economic activity. Before the official state of emergency, there were already disruption for some activities and a drop of demand for some products, such as accommodation and food service activities.

The state of emergency ended early May and the country continues to gradually reopen. The country lifted the restrictions on a sector-by-sector basis.

Since 3 May small retail shops have reopened and metro systems in Lisbon and Porto resumed at a reduced capacity. During the second phase that started on 18 May, restaurants, larger shops, and schools for some year groups reopened. In the third and final phase that started on 1 June shopping malls and cultural venues reopened, but with capacity restrictions.

Short term economic impact was still severe

GDP contracted by 3.9% in the first quarter of 2020 compared to the previous quarter, which is comparable to the worst quarters during the financial and eurozone crisis.

The growth impact in the first quarter was as severe as for the eurozone as a whole and less severe compared to neighbouring Spain. April was obviously also bad. Retail sales, excluding motor vehicles, for example, dropped by a whopping 24% compared to a year earlier. As the lockdown eased in early May, activity will also gradually resume.

To limit the economic fallout, the government announced a number of measures to combat the negative effect on the economy. [According to Bruegel](#), a European think tank, Portugal decided on an immediate fiscal impulse of 2.5% of GDP, deferrals of about 11% and 5.5% for other liquidity and guarantees.

We expect the economy to contract by 9% in 2020. This is a bit more compared to the eurozone average, mainly due to the high dependence of Portugal on tourism.

However, it is less than the 11% contraction forecasted in Spain. In 2021 and 2022, we expect Portugal to grow by 4.5% and 1.6%, respectively.

The Portuguese economy in a nutshell

	2019	2020F	2021F	2022F
GDP	2.2	-9	4.5	1.6
Private consumption	2.3	-8.2	6.0	1.5
Investment	6.5	-11	8.0	1.5
Government consumption	1.1	2.5	2.0	1.0
Net trade contribution	-0.7	-0.5	0.0	0.2
Headline CPI	0.3	0.1	0.4	0.8
Unemployment rate (%)	6.5	11	8.5	7.5
Budget balance as a % of GDP	0.2	-6.7	-3.5	-2.3
Government debt as a % of GDP	117.7	135.8	133.0	132.2

Source: Refinitiv Datastream, ING forecasts