

## Portugal: A postponed recovery

An extension of the lockdown does not bode well for economic activity in the short run, but we still think that economic activity will pick up from the second quarter onwards. A lot, however, will depend on how consumers respond and whether international tourism ramps up



Portugal's Prime Minister Antonio Costa at the beginning of the vaccination against COVID-19 in health centers in Lisbon, Portugal

Source: Shutterstock

### A terrible start

It was a terrible start to the year for Portugal. The number of new infections moved from about 3,000 at the beginning of January to more than 16,000 by the end of January. A new lockdown was inevitable and came into force on 15 January. Non-essential services were closed, remote work was made compulsory where possible and schools were shut. During February, the number of new infections came down and the latest figures show less than 600 daily new cases.

The current lockdown will last at least until mid-March and so this implies that the lockdown applied at least for two thirds of the first quarter. The Portuguese economy managed to avoid another contraction in the fourth quarter of 2020 (it grew by 0.2% quarter-on-quarter), while the number of infections rose. It is unlikely, however, that this will be repeated in the first quarter of 2021 given the harsher confinement measures. We think that the economy will contract by 1.5% quarter-on-quarter.

The impact of the second lockdown, in our view, will not be as strong as the first, as consumers and businesses have adapted to this new situation. Indeed, consumer and business confidence remains low, but was not impacted as strongly as during the first lockdown. Consumer confidence even rose in January and February. Obviously, retail sales dropped significantly in January due to the lockdown measures that were applied mid-month, but to a lesser extent than in March 2020, a month which also saw two weeks of lockdown. In January, retail trade turnover (seasonally and calendar adjusted) dropped by 4.8%, while it dropped by a whopping 12% in March 2020.

## A recovery starting in the second quarter

From the second quarter onwards, we expect growth to pick up as the confinement measures will gradually be loosened. The strength of the recovery will largely depend on consumers and international tourists. For now, we think that consumption will recover in 2021 (+3.6% in 2021 compared to -6% in 2020), but it will not go straight to pre-Covid levels. Consumer confidence hasn't really edged higher since the vaccine news. And on top of that, we think that not all of the extra savings built up during 2020 will be spent in 2021 as consumers remain cautious.

### *Recovery will not go straight to pre-Covid levels*

As for tourism, a lot will depend on the vaccination programme and the existence of a vaccine passport in Europe. Health minister Marta Temido recently said that Portugal aims to reach herd immunity by some point in the summer, as the vaccination programme accelerates in the second quarter. This implies that the tourism sector will not have a normal summer season. A European vaccination passport could help and is supported by Portuguese authorities, but it is uncertain whether it will be introduced. Indeed, it might seem unfair to those who want to get vaccinated but aren't yet able due to supply issues. During the second half of the year, we expect public investment to grow on the back of the Next Generation EU fund.

We think the most likely scenario is that the economy will start to recover from the second quarter onwards. For 2021 and 2022, we expect growth to be around 4% and 4.5%, respectively, which would imply that the pre-crisis level of GDP is reached at the end of 2022.

## The Portuguese economy in a nutshell (%YoY)

|                               | 2022  | 2023F | 2024F | 2025F |
|-------------------------------|-------|-------|-------|-------|
| GDP                           | 6.7   | 2.6   | 1.1   | 2.0   |
| Private Consumption           | 5.8   | 1.0   | 1.1   | 1.5   |
| Investment                    | 3.0   | 2.6   | 3.4   | 4.4   |
| Government consumption        | 1.7   | 1.4   | 1.0   | 0.8   |
| Exports                       | 16.7  | 7.0   | 2.9   | 3.7   |
| Imports                       | 11.1  | 4.2   | 3.9   | 3.5   |
| Headline CPI                  | 7.8   | 4.6   | 2.3   | 2.1   |
| Unemployment rate (%)         | 6.0   | 6.9   | 6.8   | 6.6   |
| Budget balance as a % of GDP  | -0.4  | -0.2  | 0     | 0.1   |
| Government debt as a % of GDP | 113.9 | 106.2 | 102.4 | 98.4  |

Source: Refinitiv, all forecasts ING estimates

