Portugal: Europe's growth champion plagued by uncertainty

While first-quarter growth was among the highest in the eurozone, Portuguese people feel very concerned about the economic consequences of the war in Ukraine

Portuguese Prime Minister, Antonio Costa

Uncertainty caused by the war bites harder in Portugal

Thanks to strong domestic demand and a revival of tourism, GDP surpassed its pre-pandemic level in the first quarter of the year. However, the economy is suffering from high inflation, supply chain disruptions, and uncertainty related to the war in Ukraine. A special survey conducted by the European Commission between the middle of April and the middle of May reveals that Portuguese people are more concerned about the war than the European average and feel less prepared to deal with the consequences of the conflict. Although its direct links to Russia and Ukraine are limited, the barometer ranks Portugal as the second country in the European Union (after Bulgaria) to "most feel the economic consequences of the war in Ukraine" while many other countries said they "haven't felt any yet".

Hot tourism season underpinning economic growth

Portugal will experience a hot tourism season as flight bookings have already surpassed pre-pandemic levels according to data provider ForwardKeys, with Portugal the fourth most popular holiday destination in Europe. The recovery of tourism is a substantial factor in underpinning economic growth for this year, as the sector's total contribution to GDP accounted for 17.1% of GDP in 2019. Exports are expected to grow by more than 13% this year, thanks to a strong recovery in services exports linked to tourism. Tourism is expected to remain buoyant over the next few years, growing at a much faster pace than the rest of the economy.

First-quarter momentum is losing ground

Household consumption was one of the major pillars of support at the start of the year, but this is expected to slow down due to war uncertainty and the drop in purchasing power, driven by high inflation. Nevertheless, the Portuguese economy is still projected to grow by 6.6% in 2022, thanks to a strong carry-over effect from 2021 and an accelerating economy in the first quarter of the year. However, the strong momentum of the first quarter is likely to deteriorate over the remainder of the year. In 2023 and 2024, real GDP is forecast to grow by 1% and 1.4%, respectively.

The Portuguese economy in a nutshell (% YOY)

	2021	2022F	2023F	2024F
GDP	4.9	6.6	1.0	1.4
Private Consumption	4.5	5.5	-0.4	0.9
Investment	6.4	5.3	6.0	4.4
Government consumption	4.1	2.5	-2.5	-0.8
Net trade contribution	-0.9	0.5	2.3	-0.4
Headline CPI	0.9	5.9	2.7	2.0
Unemployment rate (%)	6.6	5.7	5.7	5.5
Budget balance as a % of GDP	127.4	119.2	115.4	112.1
Government debt as a % of GDP	-2.8	-1.8	-1.3	-0.6

Source: Refinitiv, all forecasts ING estimates

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