

Article | 26 June 2019 **Portugal** 

## Portugal: Growth remains decent, but political risks remain

Economic activity in Portugal is expected to slow in the coming months, but the pace is still decent. However, political unrest could affect growth negatively. For 2019, we believe the economy will grow by 1.6% and 1.4% in 2020



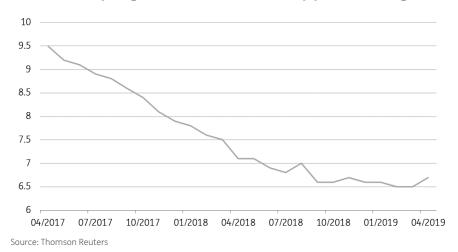
Portugal's Prime Minister Antonio Costa

Portugal's quarterly growth rate in the first quarter of 2019 came in at 0.5%, compared to 0.4% in 4Q18 and 0.3% in 3Q18. This is a slight acceleration, but we see it as a temporary phenomenon. In the first quarter of 2019, investment grew by 10.4% quarter-on-quarter, mainly due to construction and investment in machinery and equipment which is unsustainable in the long-run.

Moreover, we think consumption growth will also be softer, as we've already seen in the first quarter of 2019. Indeed a weaker labour market limits consumption growth. Unemployment has stopped its downward trend since September 2018 and even edged 0.1 percentage point higher in April to 6.7%, while employment growth keeps edging lower.

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## The unemployment rate has stopped falling



There is also some political unrest that could hurt sentiment. Recently, fuel-tanker drivers went on a strike for better pay and working conditions and unrest is also growing with public sector workers in the health and education sector as they also want higher wages. Further strikes over the summer could harm the tourism sector.

## Further political unrest could hurt sentiment

All these problems undermine the reputation of the Socialist minority government, led by Antonio Costa and backed by the Left Block, the Portuguese Communists party and the Greens. Opinion polls for the October 2019 general elections show that the Socialists would still be the largest party, but could fall short of a majority.

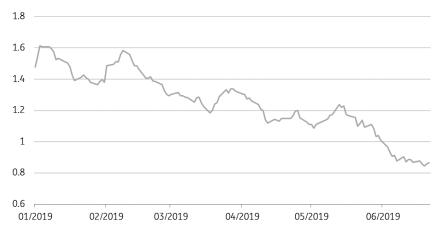
On fiscal policy, the government plans a deficit of 0.2% of GDP in 2019 and a surplus of 0.3% in 2020. Government debt will also continue its downward trend. In March, the rating agency S&P upgraded the ratings from BBB- with a positive outlook to BBB with a stable outlook while Fitch, another rating agency kept its rating fixed at BBB, but upgraded its outlook from stable to positive.

Markets have been interpreting all of this quite positively as the perceived riskiness of Portuguese government bonds reaches new lows.

This article is taken from the Eurozone Quarterly, which you can find <u>here</u>

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## Spread with the 10-year German government bond edges lower



Source: Thomson Reuters

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