

Portugal: Recovery continues but political pressures increase

GDP growth in the third quarter came in at 0.5%, but internal and external pressures continue to build on the minority government



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2.5%

GDP growth in third quarter

Year-on-year

The recovery continues

Compared to a year ago, the economy grew by 2.5%. The breakdown of GDP components shows that domestic demand contributed 3.3 percentage points to the year-on-year growth rate. There was a slight slowdown in investment, but this was more than compensated by strong consumption. External demand contributed -0.8 percentage points, as exports growth slowed and import growth accelerated.

Recent data shows the recovery of the Portuguese economy is likely to continue in the fourth

quarter and consumer confidence is rising again after a decline in the third quarter. Business confidence is stable but at a high level.

The cost of financing in Portugal recently declined quite significantly and could stimulate private investment. Bond yields dropped as rating agencies' assessment of the Portuguese economy became more positive. Standard and Poor's upgraded the Portuguese sovereign debt to investment grade. The rating agencies Moody's and Fitch still regard Portugal as non-investment grade but have already upgraded their outlook to positive. Admittedly, Portugal still has a very high public debt/GDP ratio, still at 130.4% in 2016, which is a credit handicap, but it is set to decline in the years to come.

Pressures on minority government are building

The 2018 budget was recently approved by parliament, and the deficit is set to decrease to 1.1% of GDP, even lower than the projected 1.4% in 2017. But it is not all roses. The European Commission forecasts the budget deficit at 1.4% and has expressed concern that the structural deficit cuts do not go far enough.

The current Socialist minority government is also confronted with pressures from within the country. Up until a few weeks ago, the combined impact of growth-induced employment and unwinding of some past austerity at the cost of public investment has boosted PM Costa's popularity. But in recent weeks he has been severely criticised for the handling of the forest fires. His Socialist government survived a vote of no confidence last week, but recent polls show that support is declining.

1.1%

Deficit target for 2018

as % of GDP

For now, we do not see an immediate threat to the strong recovery, which certainly helps the government. Nevertheless, the criticism from Europe and from the opposition should be handled with care.

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