Portugal: A sharp contraction

GDP contracted by 3.9% in the first quarter of 2020 compared to the previous quarter, which implies a similar growth impact as that seen for the eurozone as a whole but a weaker negative impact compared to neighbouring Spain. Even though the health crisis is not as severe as in Spain, the lockdown measures nevertheless have had a large growth impact

Source: istock

Covid-19 entered Portugal later than other European countries. In Spain and Italy, for example, the first infections were detected in early February, while in Portugal it was in early March. This enabled the Portuguese government to take swift action early. 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 infections.

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, some activities had already been disrupted and demand for some products, such as accommodation and food service activities, had faltered.

The contribution of domestic demand dropped to -1.9 percentage points compared to -0.7 in the previous quarter. External demand also contributed negatively to growth (-2 percentage points). Exports dropped by 7.3% and imports by 2.9%.

The state of emergency ended in early May and the country is now gradually reopening. The country will lift restrictions on a sector-by-sector basis. Since 3 May, small retail shops can reopen and metro systems in Lisbon and Porto have resumed at a reduced capacity. The second phase starts this Monday when restaurants, larger shops, creches and schools for some year groups will reopen. The third and final phase is expected to be in June.

As the lockdown measures lasted longer in the second quarter and are only being lifted gradually, the growth impact in the second quarter should be harsher. At the same time, we expect Portugal's growth performance in the second quarter to be better than that of Spain and Italy. As the health crisis in Portugal was less severe than in those two countries, it seems reasonable that Portugal can lift restrictions faster, which will support economic activity.

The expected recovery from the second half of the year will, however, be dampened by the lack of tourism activity. According to the World Tourism Council, tourism and travel accounts for about 19% of GDP and 22% of employment. Assuming all lockdown measures are lifted by the third quarter and that there will be no second wave, we expect the Portuguese economy will contract by 7.5% in 2020 and recover by 2.6% in 2021.