

## Portugal: Economy ends 2017 on a strong note

A strong end of the year and growth story is likely to continue in 2018



Source: istock

The Portuguese economy ended the year on a stronger footing than expected, due to strong export growth. In the last quarter of 2017 the economy grew by 0.7% QoQ (2.4% YoY while we expected 2.2% YoY). This is the second acceleration in a row, after 0.2% QoQ in the second quarter and 0.5% QoQ in the third quarter.

Compared to the third quarter, the contribution of net external demand to the QoQ growth rate switched from negative to positive as exports accelerated faster than imports. The contribution of domestic demand, however, diminished in the fourth quarter, mainly due to a slowdown in private consumption.

The above figures imply that the economy grew by 2.7% in 2017, above the Eurozone's 2.5% growth pace. This is a strong performance after the 1.6% growth in 2016.

For 2018, we expect the above 2% growth momentum to continue. With capacity utilisation back to pre-crisis levels, strong private investment is to be expected. Strong employment and wage growth could continue to support private consumption, although we think this will soften over time as the current high elasticity of employment to GDP looks unsustainable. We also expect the fiscal

stance to remain mildly expansionary, although room for much laxer policy is limited as the Portuguese finance minister Mário Centeno is now heading the Eurogroup.