

Portugal

Renewed confidence

The economic slowdown has been very gradual so far, but it is expected to progressively spread during the second half of 2019 and in 2020. With unemployment at the lowest rate since 2002, households remain confident and have just renewed their confidence in Prime Minister Costa's administration. After winning the legislative elections of 6 October with more than 36% of the vote, the Socialist party is preparing to form a new government with the support of the other left-wing parties.

■ Slowdown underway

The economic slowdown in the eurozone continues to progress. The Portuguese economy has no chance of escaping this widespread movement and is caught up in the same uncertainties (spread of global trade tensions, Brexit, oil pricing trends...) that are currently creating downside risks for economic growth in the quarters ahead. Faced with this tough environment, Portuguese growth has proven to be very resilient so far, and we have barely had to revise our estimates. After two buoyant years, annual GDP growth did not slip back below 2% until year-end 2018. At 1.8% y/y, it has been resilient throughout H1 2019, with strong domestic demand, and investment spending in particular, offsetting a good bit of the negative effects of the slowdown in foreign trade. The slowdown is nonetheless expected to spread very gradually in H2 2019 and in 2020, driven notably by the easing of job creations and private consumption growth. At this point, we expect GDP growth to end up around 1.8% this year before slowing to 1.3% in 2020. That would bring next year's growth more or less in line with current estimates of Portugal's long-term growth potential, and for the fourth consecutive year, Portuguese growth would surpass the eurozone average (estimated at 0.7% in 2020).

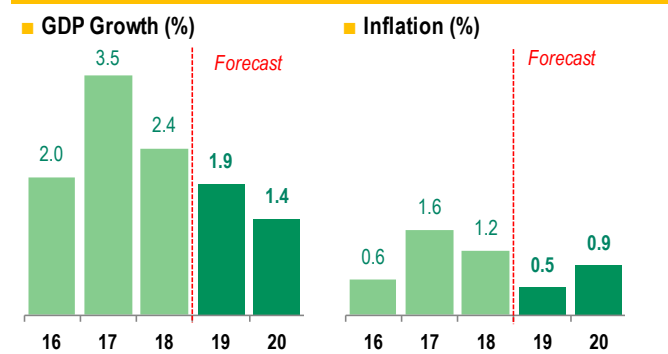
Particularly job-rich growth in 2017 and 2018 helped lower the unemployment rate to 6.5% in early 2019, the lowest level since 2002. In the first half of the year, the unemployment rate has more or less levelled off due to a slowdown in job creations (+0.7% y/y in Q2 2019, compared to +2.7% y/y in the year-earlier period), before resuming a downward trend in July and August. For the moment, this easing of employment growth has not really strained household confidence, and household spending continues to outpace GDP growth. At 4.5% of gross disposable income in Q2, the household savings rate is among the lowest in the eurozone.

■ Political continuity

Under this positive economic environment, the outcome of the 6 October legislative elections was no big surprise. Credited with successfully pursuing a social policy in recent years without disrupting the country's economic recovery, the incumbent party came out on top. The Socialist party won above 36% of the vote, and its leader, Antonio Costa, will be reappointed to head the government for a second mandate.

As in the previous legislation, he hopes to renew the past agreement with the other, more radical parties of the left: without

1- Growth and inflation



Source: National Accounts, BNP Paribas

participating in the minority government, they will nonetheless support its policies in the Assembly.

If this scenario is confirmed, we can assume that Portugal will maintain a prudent fiscal policy in the years ahead, even though the spreading economic slowdown is bound to put more pressure on the government. For the moment, in any case, fiscal consolidation continues. The fiscal deficit was trimmed to 0.5% of GDP in 2018 and should narrow further in 2019 (0.2% of GDP). Public finances will benefit not only from the support of economic growth, but also from the current fiscal discipline and from the ongoing effects of the very sharp drop in sovereign spreads in 2017. Under the current environment (further decreases in rates and spreads in H1, resumption of the ECB's net securities purchases as of November 2019), the expected reduction in debt servicing charges, estimated at ½ point of GDP over the next two years, could be surpassed. Moreover, the banking system's gradual recovery¹ reduces the risks looming over public finances. Based on current trends, the IMF recently estimated that the country could reach a fiscal equilibrium in 2020, and the public debt ratio could drop below the threshold of 100% of GDP by 2024.

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¹ The banking sector's non-performing loan ratio dropped back below 9% in Q1 2019, which is still poor, but much closer than in the past to the levels of the eurozone's other poor performers (with the exception of Greece and Cyprus).

