PORTUGAL

THE WORST IS OVER

Portugal was one of the European countries hit hardest by the third wave of the coronavirus pandemic this winter. The government reinstated a "strict" lockdown that drastically reduced the spread of the virus. A very gradual reopening plan was launched on 15 March and will end on 3 May. Hopes for a solid economic recovery hinge on the vaccination campaign currently underway, but like elsewhere in the European Union, it is progressing at a slow pace. The success of the UK vaccination programme nonetheless raises promising prospects for the recovery of Portugal's tourism sector, which is highly dependent on British tourists. Real GDP could rebound by as much as 5-5.5% in 2021, after contracting by 7.6% in 2020.

Prime Minister António Costa unveiled a very gradual reopening plan – similar to the one in the UK – which began on 15 March and will end on 3 May with the opening of restaurants and cafés, among other businesses. From an economic perspective, the government announced a new EUR 7 bn fiscal package on 12 March. The big challenge in the weeks ahead will be to restart tourism activities. Important measures have already been taken: starting on 17 May, British tourists will be authorised to enter Portugal if they have a Covid-19 vaccination certificate or a document showing that they have recently had a negative PCR test. This announcement follows the UK government's decision to take Portugal off its red list, which means that travellers returning from Portugal will no longer have to observe a quarantine period. These encouraging prospects are reflected in the confidence indices, notably in the European Commission's economic sentiment index (ESI), which improved markedly in March (+7.6 points to 93.1). Even so, the ESI is far below its pre-crisis level, and consumer confidence is still extremely fragile.

In terms of employment, the government's job support measures have undoubtedly helped reduce the damages of the crisis on the labour market: employment fell by 1.9% in 2020, which is far less than the 7.6% decline in GDP in volume. Yet these gross employment figures mask important disparities. Young workers have been hit disproportionately harder by the crisis, a phenomenon that is illustrated by the sharp decline in the employment rate for the 15-24 age group in 2020 (see chart 2). The coronavirus crisis will leave deep scars on the insertion of young people in the labour market.

As to public finances, the 2020 fiscal deficit of 5.7% of GDP is relatively small compared to those of its European neighbours, as Portugal benefited from a fiscal surplus before the crisis. Even so, this is still a very significant deficit, and public debt swelled by nearly 16 points of GDP in 2020, bringing the debt ratio to 133.6%. Yet the short-term risks of Portuguese debt are very limited. After rising significantly in February, 10-year sovereign bond yields slipped back, close to the levels observed prior to the Covid-19 crisis (around 2%).

One last point: the decline in the number of real-estate transactions due to the health crisis does not seem to have reversed any upward momentum in Portuguese house prices, which continued to report very solid growth in 2020 (+8.4%)[1]. The sharp price increases can be attributed to the ongoing decline in mortgage rates coupled with a supply shortage of homes.

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GROWTH AND INFLATION (%)

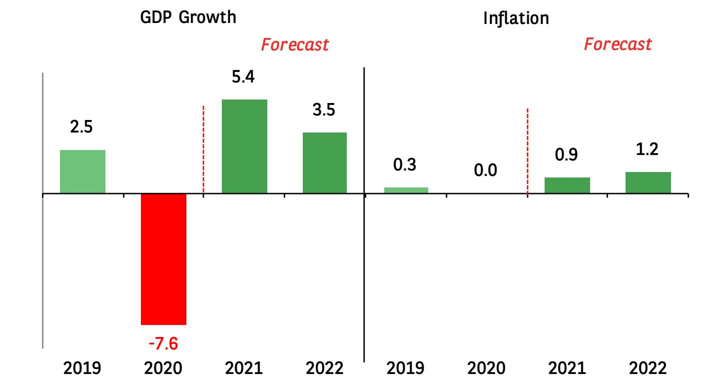

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

EMPLOYMENT RATE FOR THE 15-24 AGE GROUP (%)

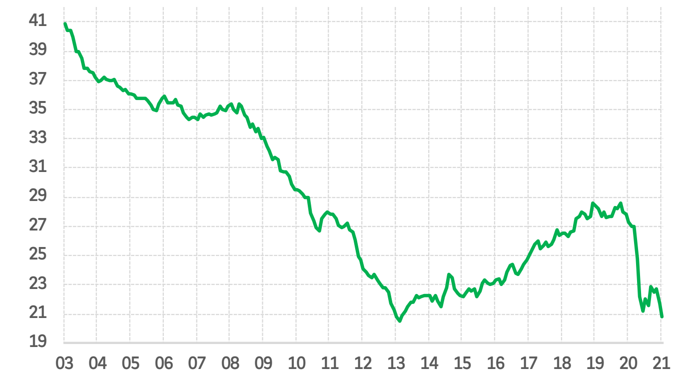

CHART 2 SOURCE: PORTUGAL STATISTICAL OFFICE (INE)

1 Portugal statistical office (INE)