PORTUGAL

Economic growth is projected to strengthen to around 2% in 2017 before easing slightly in 2018. Exports will continue to support growth, benefitting from the structural reforms of recent years. Nevertheless, domestic demand is not projected to rebound strongly given persistently high private sector indebtedness. Underlying inflation will pick up in 2018, owing to supply constraints, including a declining working-age population.

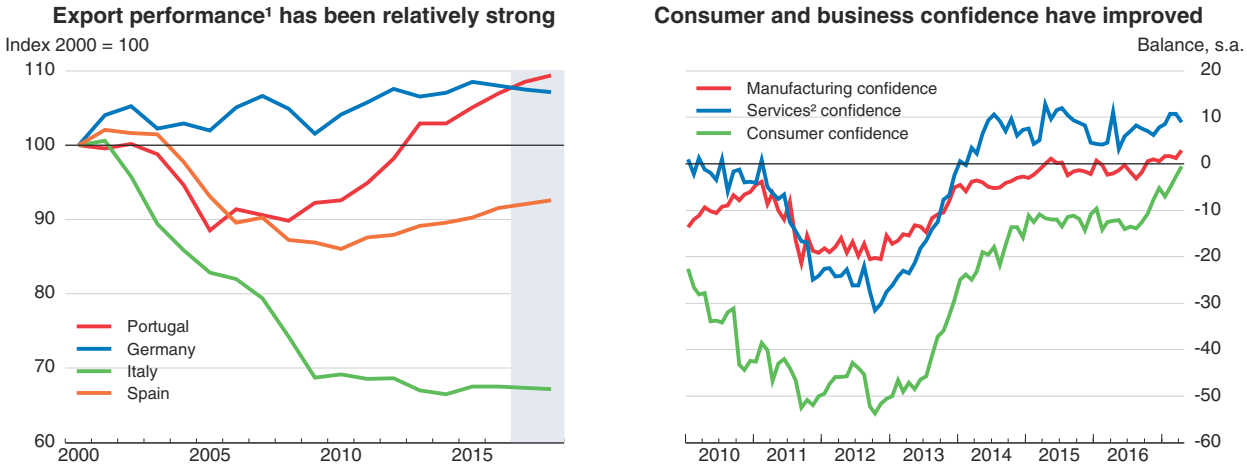
Accommodative euro area monetary policy will support growth, but the fiscal stance is projected to be broadly neutral. Investment activity could be further spurred by measures to restore the health of the banking sector, notably regulatory incentives for banks to implement a credible plan for restructuring non-performing loans. Stronger growth would yield a much needed benefit in terms of better fiscal sustainability.

Portugal has benefitted significantly from globalisation, not least during the post-crisis period. Exports are now at 40% of GDP, up from 27% in 2005. Nevertheless, the gains could be greater if the skills of the workforce were raised: the share of the working-age population with upper-secondary education remains one of the lowest in the OECD. This would also benefit inclusiveness, given that the wage premium for high-skilled workers remains high. Reform priorities include a greater emphasis on vocational education, improving teacher training and increasing the resources for pre-primary and primary education.

Strong export performance has been supporting growth

The gradual recovery in GDP growth continues to be supported by rising exports, with goods exports to destinations outside the European Union, including Angola, Brazil and China, having rebounded particularly strongly. The unemployment rate has eased further, underpinning stable growth in private consumption. Both public and private residential investment have been subdued, though the former has recently been buoyed by EU fund disbursements.

Portugal



1. Ratio of export volumes to trade-weighted import volumes in the country's export markets.
2. Excluding retail trade.

Source: OECD Economic Outlook 101 database; and OECD Main Economic Indicators database.

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Portugal: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices EUR billion	Percentage changes, volume (2011 prices)				
GDP at market prices	170.3	0.9	1.6	1.4	2.1	1.6
Private consumption	111.1	2.3	2.6	2.3	2.0	1.5
Government consumption	32.5	-0.5	0.7	0.5	-1.0	-0.8
Gross fixed capital formation	25.1	2.3	4.5	-0.1	6.5	2.3
Final domestic demand	168.8	1.8	2.5	1.6	2.1	1.3
Stockbuilding[1]	- 0.2	0.4	0.0	-0.1	-0.1	0.0
Total domestic demand	168.6	2.2	2.5	1.5	2.0	1.3
Exports of goods and services	67.3	4.3	6.1	4.4	5.5	4.5
Imports of goods and services	65.6	7.8	8.2	4.4	5.2	3.9
Net exports[1]	1.7	-1.3	-0.8	0.0	0.2	0.3
Memorandum items						
GDP deflator	_	0.8	2.1	1.6	1.1	1.5
Harmonised index of consumer prices	_	-0.2	0.5	0.6	1.6	1.4
Private consumption deflator	_	0.3	0.7	1.1	1.3	1.4
Unemployment rate	_	13.9	12.4	11.0	9.7	8.9
Household saving ratio, gross[2]	_	5.2	4.5	4.4	4.3	4.1
General government financial balance[3,4]	_	-7.2	-4.4	-2.0	-1.5	-1.0
General government gross debt[3]	_	153.0	150.7	148.0	146.2	144.2
General government debt, Maastricht definition[3]	_	130.6	129.0	130.4	128.6	126.5
Current account balance[3]	_	0.1	0.1	0.8	0.4	0.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
4. Based on national accounts definition.

Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933506075

Poor access to finance is holding back investment

Despite the highly expansionary stance of euro area monetary policy, investment activity is being held back by weak profitability and the strong deleveraging needs of many corporations. In order to further reduce the uncertainty surrounding the banking sector and improve credit supply and pricing, policy measures that encourage a reduction in the stock of non-performing loans on bank balance sheets are necessary. The transmission to economic activity may be particularly strong at present given rising business confidence.

The fiscal stance is expected to be broadly neutral in 2017 and 2018. While an expansionary fiscal stance may be warranted given that the economy is still recovering, it risks undermining fiscal sustainability. While budget deficits have fallen substantially since 2010, public debt remains very high. An increase in the statutory minimum wage that took effect in January 2017 should support demand. However, care should be taken that higher minimum wages do not result in rising low-skill unemployment or further wage compression for those low-wage employees who earn above the minimum.

Globalisation has been highly beneficial for Portugal, in part by raising wages for high-skilled workers. But with the share of the working-age population with upper-secondary education still one of the lowest in the OECD area, the benefits may not spread

very widely. The benefits of globalisation can be more broadly shared through measures that better equip low wage workers with relevant skills and that reduce the large gap in employment protection between those on permanent and temporary work contracts to promote more jobs.

Growth will continue to be supported by rising exports

Growth is projected to strengthen. While consumption growth will be supported by rising wages and confidence, private investment will be partly constrained by the continued deleveraging needs of some firms. Export volumes will rise strongly given continued improvements in cost competitiveness.

The decline in public debt could be derailed by the need for greater public support for the banking sector or an increase in government bond yields. At the same time, a sovereign rating upgrade by one of the major agencies may help lower debt servicing costs. Furthermore, a stronger-than-expected recovery in Portugal's trading partners may lead to a larger boost in exports and investment than is currently projected.