

Portugal: expansion, with issues to resolve

La Voz de Galicia (Spain)

Miguel Cardoso

29 Jan 2018

The prospects for the Portuguese economy are positive, although the country still has significant imbalances that could slow the pace of recovery if the reforming zeal shown in the past few years is not maintained.

In particular, activity shows strong momentum, with growth rates averaging between 2.5 and 3% YoY over the last three quarters of 2017. Behind this is the consolidation of household spending, which has been showing the positive effects of various tailwinds since the beginning of 2016. Furthermore, exports of goods have performed particularly well, thanks to growth in demand from Spain and the good performance of sectors such as machinery and equipment and the production of motor vehicles. Similarly invisible exports are gaining in importance, thanks to the positive performance of tourism. In particular, factors such as the fall in prices and the perception of competing alternative destinations as unsafe have led to overnight stays showing a rising trend and for now with few signs of saturation. This has also been one of the reasons for the recovery in investment in construction observed in the past few quarters, given the support deriving from the increase in foreign demand in the housing sector. All this is against a backdrop in which the public sector has had to continue its efforts to reduce the imbalance in its accounts, mainly by limiting increases in spending.

Looking ahead, expectations are positive, underpinned by a favourable international environment and the improvement in the external perception of domestic prospects. In particular, we expect the global recovery to continue and to be more synchronised. Also, the European Central Bank's monetary policy will hold interest rates at historically low levels, at least until the second half of 2019, when it will start a process of gradual normalisation. Additionally, Portugal's risk premium is benefiting from the improved growth prospects for the next few years, the reforms implemented, the reduced uncertainty about economic policy and an environment of abundant liquidity and the search for yield. Thus, the Portuguese Treasury's cost of financing fell by more than 200 bps over the course of last year. This should lead to an improvement in competitiveness, given the reduction in financing costs.

Nonetheless, certain risks remain. For example, the sustainability of the growth in household spending, given that their savings rate is at an all-time low. Additionally, it is necessary to make even more progress on strengthening the balance sheet of part of the financial system so that the reduction in financing costs is transferred to the private sector. Apart from this, labour productivity has remained practically stagnant since 2013, and this could weigh on competitiveness. Finally, the high level of public debt will require the implementation of additional measures to reduce it. In the short term, these risks will not be such as to prevent the recovery from continuing, but it is crucial that the reform efforts be maintained in order for a virtuous reduction of the persistent imbalances to come about.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.