

2.16. PORTUGAL

Portugal's GDP grew by 1.9% (year-on-year) in the third quarter of 2019, the same pace as in the previous quarter but moderating from 2.1% in the first quarter of the year. Domestic demand maintained strong growth of around 3%, reflecting a steady increase in private consumption and a pronounced rebound in investment at the beginning of the year, followed by some moderation thereafter. Imports continued growing faster than exports, resulting in a more negative net contribution to growth. However, exports recovered somewhat in the third quarter and their share of GDP increased. On the supply side, construction increased substantially by 8.4% in the first three quarters of 2019. The agriculture and service sectors also supported growth while industry contracted by 0.9% over the same period.

The Commission's Economic Sentiment Indicator shows a small improvement in activity in the last quarter of 2019. The foreign trade data also improved, helped by some recovery in the industrial sector. Overall, economic growth is estimated to have averaged 2% in 2019 and is forecast at 1.7% in both 2020 and 2021. Domestic demand is projected to remain the main growth driver over the forecast period while net trade is expected to have a broadly stable negative influence.

Inflation dropped from 1.2% in 2018 to 0.3% in 2019, significantly below the euro area average. This reflected the fall in energy prices, including fluctuations in the prices of crude oil but also various regulatory changes affecting electricity bills. In addition, inflation was dampened by the prices of tourism-related activities, mainly accommodation, as well as further regulatory constraints in the prices of public transportation, education and telecommunications. Meanwhile, house prices continued to grow at a fast rate of about 10%. Although wage growth is estimated to have reached around 3% in 2019, its impact on core inflation remained limited due to the slowdown in employment growth. Taking into account the gradual disappearance of the aforementioned regulatory effects and the expected moderate pace of wage growth, headline inflation is forecast to recover to 1.0% in 2020 and 1.3% in 2021.

