

2.16. PORTUGAL

Portugal's economy is on track for a sound recovery beginning in the second quarter of 2021, along with the gradual relaxation of pandemic restrictions. This can already be seen in the sharp increase in the Commission's Economic Sentiment Indicator and hard data for retail sales, industrial production and service sector turnover. The pace of recovery has been dampened by the partial re-imposition of temporary restrictions in June, which was triggered by a resurgence in infections. Nevertheless, GDP is projected to rise by 3.3% in the second quarter after a drop of 3.2% during the strict lockdown in the previous quarter. A further increase in growth is expected in the third quarter when foreign tourism in Portugal is set to rise, helped by the vaccination campaign in Europe and the rollout of the EU digital COVID certificate.

In full-year terms, domestic demand is expected to contribute the most to GDP growth in both 2021 and 2022. This reflects pent-up demand from domestic consumers as well as support to both corporate and public investment from the country's Recovery and Resilience Plan. Regarding the external sector, exports of services remain constrained by the international travel industry, which is not expected to fully recover by the end of the forecast period. However, the outlook for goods exports has improved since the previous forecast. Despite mobility restrictions, Portugal's goods exports increased substantially in the first quarter of this year, surpassing their pre-pandemic levels. Export growth continued in April alongside a further improvement in export order books in May.

Overall, GDP is forecast to increase by 3.9% in 2021 and 5.1% in 2022. The economy is thus expected to reach its pre-pandemic level by mid-2022. Risks remain tilted to the downside due to the country's large exposure to foreign tourism. At the same time, this is now largely offset by upside risks in the manufacturing sector, which could benefit further from global demand tailwinds.

Inflation picked up from 0.2% (y-o-y) in the first quarter of 2021 to 0.5% in May on the back of a surge in energy prices, which also had repercussions on transport services and some industrial goods. However, prices of accommodation and restaurants declined substantially in April and May relative to a year earlier, thus keeping the overall inflation rate well below the EU average. Prices of services are expected to gradually increase over the forecast horizon while the upward impact of energy and commodity prices is projected to subside in parallel. Overall, inflation is forecast to increase to 0.8% in 2021 and 1.1% in 2022.

Graph 2.16: Portugal- Real GDP growth and contributions

