

2.16. PORTUGAL

Economic recovery continued in the final quarter of 2021 with GDP growth of 1.6% (quarter-on-quarter), but at a slower rate than in the third quarter, as the boost from pent-up demand gradually waned. Portugal's economy grew by 4.9% in 2021, recovering slightly more than half of the output level lost in 2020, when GDP dropped by 8.4% due to the outbreak of the COVID-19 pandemic. Across demand components, investment and exports of goods rebounded to above pre-pandemic levels in 2021. Private consumption recovered at a somewhat slower pace as contact-intensive services faced continuous restrictions for most of the year. Exports of services picked up substantially in the second half of the year, but remained well below their pre-pandemic level as the country's large foreign tourism sector was still constrained by international travel conditions.

The resurgence of COVID-19 infections in early 2022, as well as a renewed drop in international travels, is expected to slow economic growth in Portugal to 0.5% in the first quarter of 2022. However, assuming improvement in the pandemic conditions, growth is projected to pick up again in the second quarter, when the economy is set to reach its pre-pandemic level.

In full-year terms, growth is forecast at 5.5% in 2022 and 2.6% in 2023. Domestic demand is set to contribute substantially to growth in both years, helped by the implementation of the Recovery and Resilience Plan. The external sector is projected to have a positive net contribution to growth in 2022, reflecting the recovery in tourism, followed by a broadly neutral impact in 2023. The balance of risks remains somewhat on the downside as foreign tourism would suffer a setback should the pandemic cause further disruptions over the forecast horizon.

Inflation increased from -0.1% in 2020 to 0.9% in 2021 amid significant volatility in energy prices. Consumer energy prices rose by 13.2% (year-on-year) in the last quarter of 2021, mainly driven by crude oil prices, while changes to the regulated components of electricity shielded households from the steep increase in wholesale prices. However, the energy component of producer prices rose at a much higher rate, triggering pass-through effects to a broad range of goods and services in the consumer basket. Overall, headline HICP inflation reached 2.4% (year-on-year) in the last quarter of 2021 compared to a core inflation rate of 1.6% for the same period. Although energy price inflation is expected to decline over the forecast horizon, base effects and a further recovery in service prices are set to push up inflation to 2.3% in 2022 before moderating to 1.3% in 2023.

