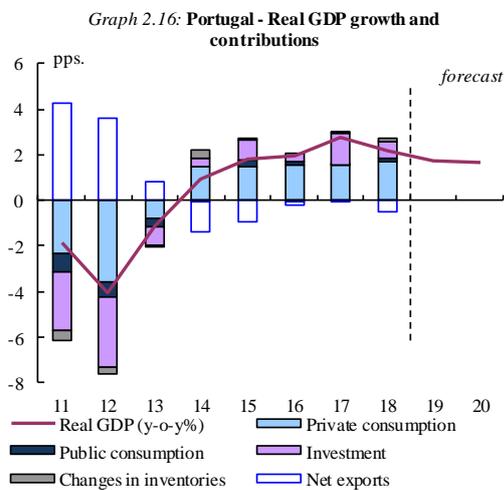


2.16. PORTUGAL

Portugal's GDP grew by 1.8% (year-on-year) in the first quarter of 2019, as strong domestic demand more than offset weak net exports. Private consumption growth slowed down slightly but investment rebounded strongly, supported by all main components. At the same time, this pushed up imports and contributed to the more negative contribution of net exports. The Commission's Economic Sentiment Indicator (ESI) rebounded somewhat towards the end of the second quarter of 2019 but remained below the level from a year earlier. Available hard data meanwhile suggest that the services sector, notably tourism, continues to support growth while industrial performance is suffering from lower external demand.

GDP growth is projected to ease marginally over the forecast horizon reflecting mainly a less supportive external environment. Growth in private consumption is also set to weaken, while investment is forecast to accelerate, maintained by the absorption cycle of EU funds. Overall, GDP growth is estimated at 1.7% in both 2019 and 2020. Risks to the outlook remain on the downside, reflecting the recent increase in the volatility of the country's industrial output and foreign trade balance.



Inflation remains significantly below the EU average, slowing further to 0.7% in June. Apart from the continuous decrease in prices of industrial goods, inflation is dampened by lower oil prices and regulatory constraints in the prices of energy and public transportation. Wage growth is higher than inflation but its impact on aggregate demand is partly offset by the recent slowdown in employment growth. Overall, annual inflation is projected at 0.9% in 2019 and 1.5% in 2020. The expected rebound in 2020 is set to be mainly demand-driven with core inflation hovering slightly above the headline rate. Meanwhile, house prices continued growing at a fast rate, above 9% (year-on-year) in the first quarter of 2019, slowing only marginally in comparison with the last two years. The gradual increase in housing supply is expected to contribute to some moderation in house prices but the pace of adjustment is likely to remain slow.