

2.22. PORTUGAL

Portugal's GDP growth slowed to 2.1% (y-o-y) in 2018-Q1, mainly due to weaker net exports. Part of the moderation is explained by temporary factors, such as bad weather conditions affecting construction activities and port services. Following a soft patch at the beginning of the year, economic sentiment improved in May and June pointing to a more favourable performance in the second quarter. This is also confirmed by the latest available hard data.

Private consumption continues to benefit from improving labour market conditions but is nevertheless projected to decelerate somewhat over the second half of 2018 as the pace of job creation slows and, to a lesser extent, as a result of the impact of higher oil prices on real disposable incomes. Equipment investment remains strong and the outlook is also favourable, reflecting the improved financial health of the corporate sector, favourable lending conditions and a steady rise in capacity utilisation. In addition, construction investment is expected to rebound after the heavy rainfalls in March, as suggested by improved data on cement sales in 2018-Q2.

Both exports and imports are projected to continue expanding at high rates, with a slightly negative overall contribution to growth due to a less favourable external environment. Overall, real GDP growth is expected to rise by 2.2% in 2018 and 2.0% in 2019.

Following a significant slowdown early in the year, inflation began to pick up in May, driven mainly by the surge in oil prices. Inflation (HICP) is therefore expected to average 1.4% in 2018 and 1.6% in 2019. Wage growth has been subdued but is projected to gradually pick up over the forecast horizon, pushing service prices above the headline inflation rate. House prices, meanwhile, rose by 12.2% (y-o-y) in 2018-Q1, driven by tourism-related activities and foreign capital inflows. The ongoing recovery in residential construction is expected to gradually rein in house prices but the gap relative to the headline inflation rate is set to remain substantial over the forecast horizon.

