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Portugal Business Forecast Report Q2 2014

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Abstracts

Core Views

We maintain our view that Portugal's centre-right coalition government will maintain its mandate in the face of high public discontent and increasing unease with official austerity measures among members of the coalition. This is predicated on a strong parliamentary majority and a lack of credible alternatives for the electorate, given that it was the opposition Socialist Party that first requested the bailout.

We are forecasting real GDP growth to return to positive territory in 2014 – of 0.4% – following three years of negative economic growth. Nevertheless, we maintain that Portugal will see subdued growth rates for the foreseeable future owing to the continuous structural impediments facing the economy, restricted access to credit and slow progress with reform.

Weaker-than-expected growth will undermine the government's revenue-raising ability. We believe that the troika of international lenders will issue a precautionary credit line when the current financial programme ends in May.

Major Forecast Changes

The above-consensus real GDP growth reading in Q413 in Portugal surprised expectations – both our's and the market's – to the upside, and has prompted us to revise upwards our 2014 growth forecast to 0.4%, from -0.5% previously. Nevertheless, we maintain our forecast for subdued economic growth in Portugal for the foreseeable future, as the country is unlikely to substantially enhance its export competitiveness.

Key Risks To Outlook

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Downside Risks To Growth Forecast: The biggest immediate danger for Portugal is a deepening of the sovereign debt crisis, either in Portugal or another eurozone country. This would depress domestic confidence and external demand.

Upside Risks To Economic Outlook: At present, we do not envisage long-term real GDP growth rising above 1.5% in the later years of our long-term forecasts to 2023. However, we would upgrade our forecasts upon evidence that the government's structural economic reform package is making headway.

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seen over the past few years, the momentum behind the current account surplus expansion will wane.

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