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Economic Watch

Portugal

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Economic Analysis

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Though weak, recovery continues in the third quarter

The MICA-BBVA model for Portugal estimates marginal GDP growth in 3Q13 (up 0.2% q/q)

- **The business and confidence data increasingly suggest a stabilization of the economy in 3Q13**

  The European Commission confidence indicator (ESI) maintained the trend started in 2Q13 in September, with an upturn of 4.6% in its quarterly average with respect to the average for the previous quarter. Though, as we already anticipated in the previous Economic Outlook, it remains at historically low levels (with a standard deviation below the historical average) and suggests more of a stabilization or timid growth than the maintenance of the strong rate of GDP growth observed in the second quarter (1.1% q/q) (Chart 1).

  By components, consumer confidence continued to rise in 3Q13, as reflected in the quarter's retail sales, which, up to August, marked an upturn of 5% with respect to the 2Q13 average and have picked up speed following the mild growth observed in the previous period (Chart 2). Moreover, the confidence data for the manufacturing industry also improved. This effect corresponds to improved industrial output in 3Q13, which registered growth of 1.9% in the July and August average with respect to 2Q13 (Chart 3).

- **Our MICA-BBVA model estimates that the economy will grow slightly in 3Q13 (up 0.2% q/q)**

  With two-thirds of the quantitative data and all of the qualitative data for the quarter, our short-term MICA-BBVA model estimates that GDP could grow 0.2% q/q in 3Q13 (Chart 4). This forecast for GDP could be slightly lower upon revising some of the real data used for the estimate. Moreover, though it is true that the confidence data for manufacturing has performed well in 3Q13, the real industrial output data could be less positive in September following the August rebound.

- **The economy should shrink at a slower rate in 2013 than estimated in July**

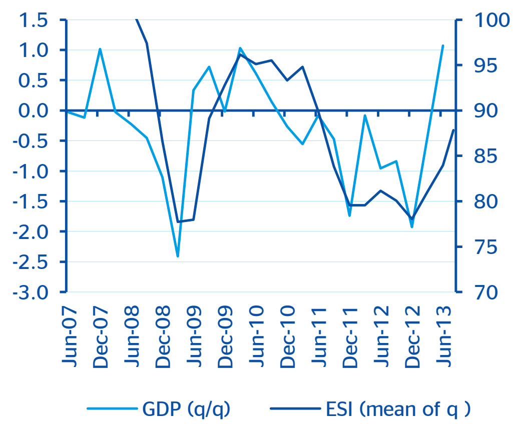
  As we already announced in our previous economic outlook, data from the National Accounts for the second quarter and the more recent available data point to improved growth perspectives for the year, which, according to our calculations, would be in line with our forecasts presented by the Bank in Portugal (down 1.6% y/y versus a previous estimate of down 2% y/y) and very similar to those presented by the Troika (down 1.8% y/y versus a previous estimate of down 2.3% y/y). In both cases, the revision is based on the domestic demand contracting less than initially expected.

- ## The Troika believes the reforms and adjustments program is on the right track

The primary conclusions of the Troika's last revision are: a) the most recent budget execution data (up to August) indicate that the deficit target of 5.5% (revised in Spring) can be achieved, in line with our forecasts published in the previous Economic Outlook; b) the government continues to uphold its commitment to meet the deficit target of 4% for 2014; c) the levels of reserves in banks is adequate, though the operational environment remains a challenge (still-weak data on income and credit); and d) the structural reform agenda has advanced greatly and its implementation has been effective, and will be key to gaining in competitiveness.

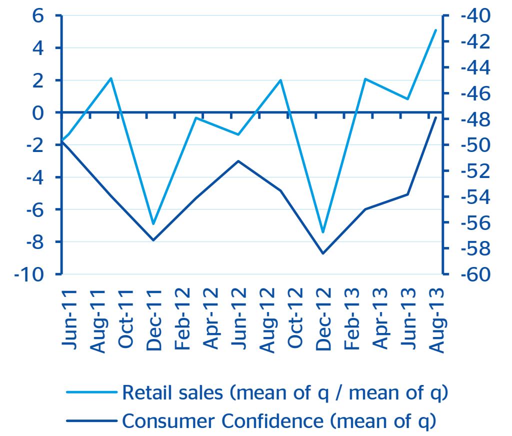
With the inclusion of the new budget execution data, now available up to August, we continue to predict that the government will meet the deficit target set at 5.5% of GDP, coinciding with the forecasts recently presented by the Troika (Chart 5). The public administrations, which include the local, regional and central government, as well as social security, have recorded an accrued balance of -5,457 million euros (approximately 3.3% of GDP) up to August. The deficit limit that could accumulate up to September is set at -7,300 million euros (approximately 4.4% of GDP). This margin, as well as the progress observed up to August, indicates that the Portuguese authorities are steadfast in their determination to meet the objectives agreed upon in the Structural, Economic and Financial Adjustment Program.

Chart 1
GDP and Economic Sentiment Indicator evolution



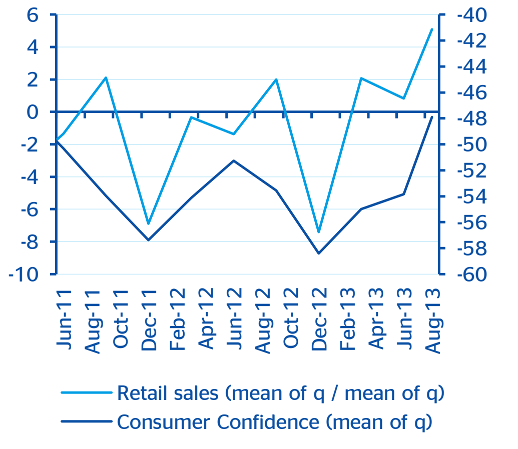
Source: Haver Analytics and BBVA

Chart 2
Retail Sales and Consumer Confidence evolution



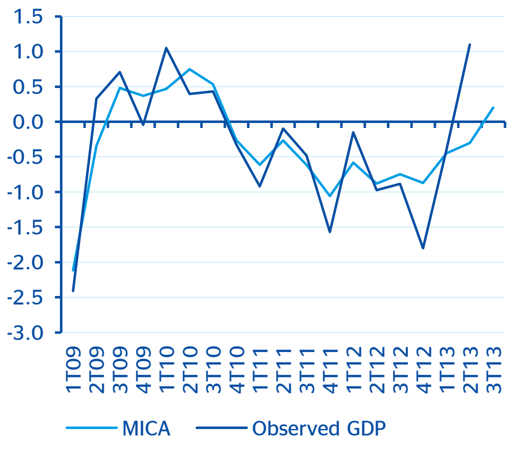
Source: Haver Analytics and BBVA Research

Chart 3
Industrial Production and Industrial Confidence evolution



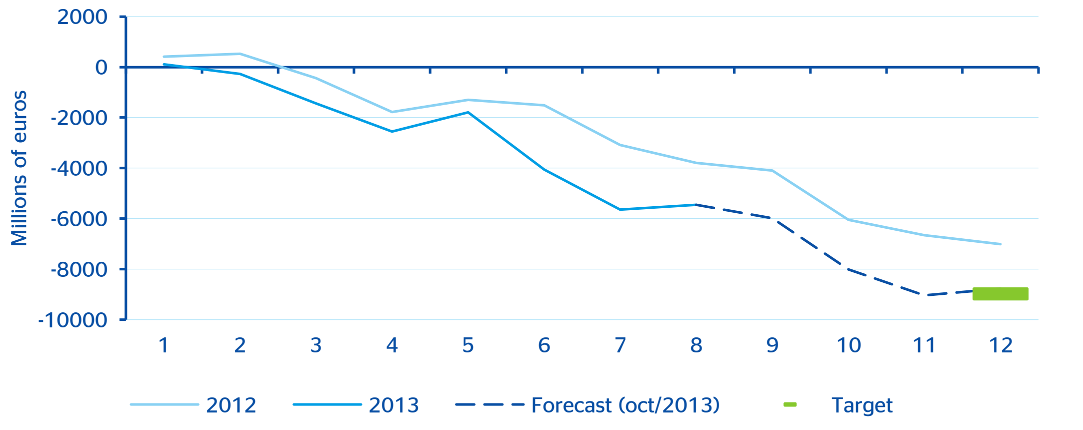
Source: Haver Analytics and BBVA Research

Chart 4
MICA y GDP observed (% q/q)



Source: BBVA Research

Chart 5
Public deficit ferecasts



Source: DGO and BBVA Research

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