

NOVO BANCO¹

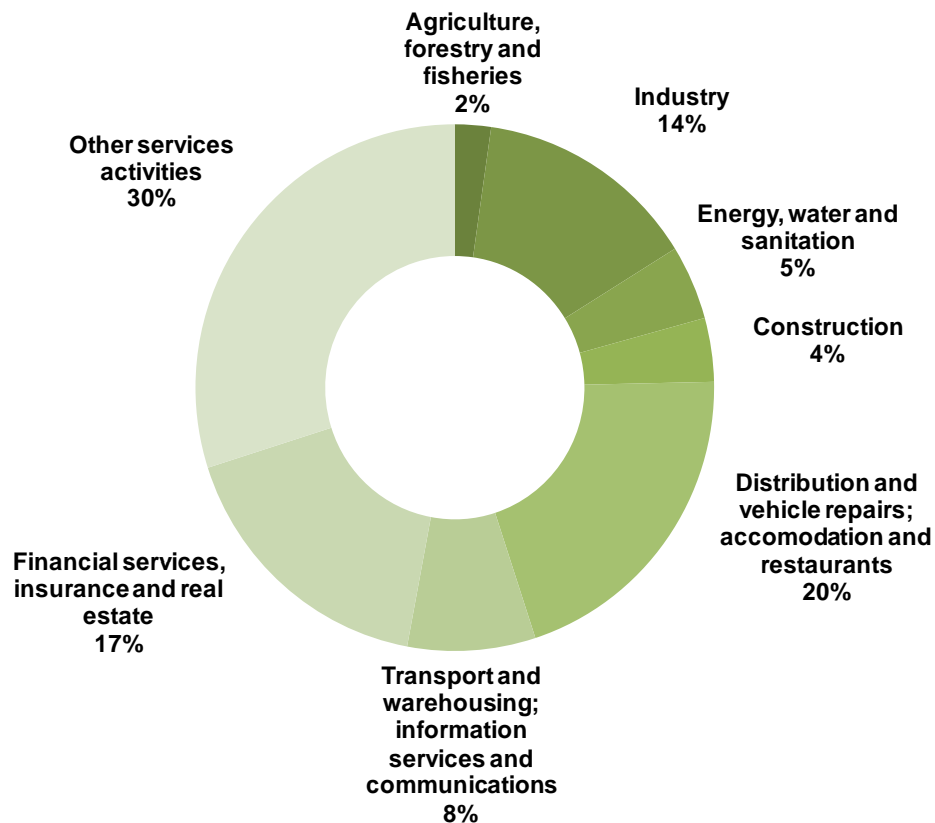
The Portuguese Economy

October 2017

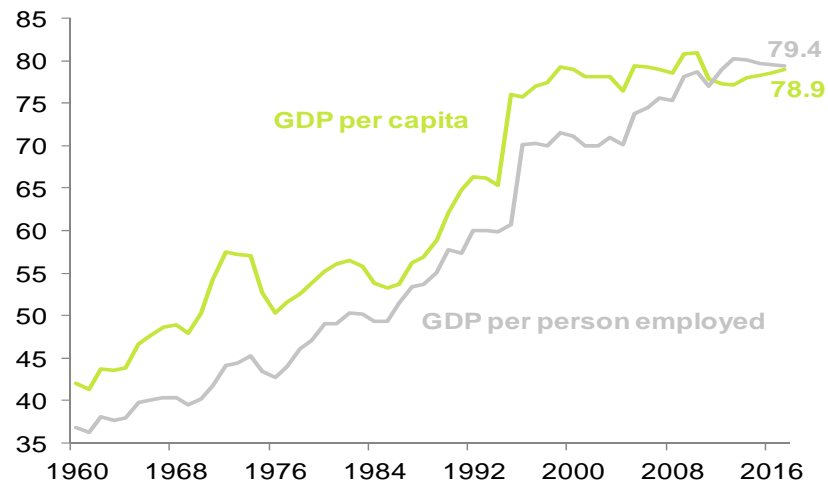
Carlos Andrade
Chief Economist, Novo Banco

The Portuguese economy, with a nominal GDP close to EUR 192 billion, has its activity mainly (but not exclusively) focused on services.

Gross Value Added by sector, 2016 (%).



GDP per capita and GDP per person employed (PPS, EU average = 100).



Global well being index (2004 = 100).



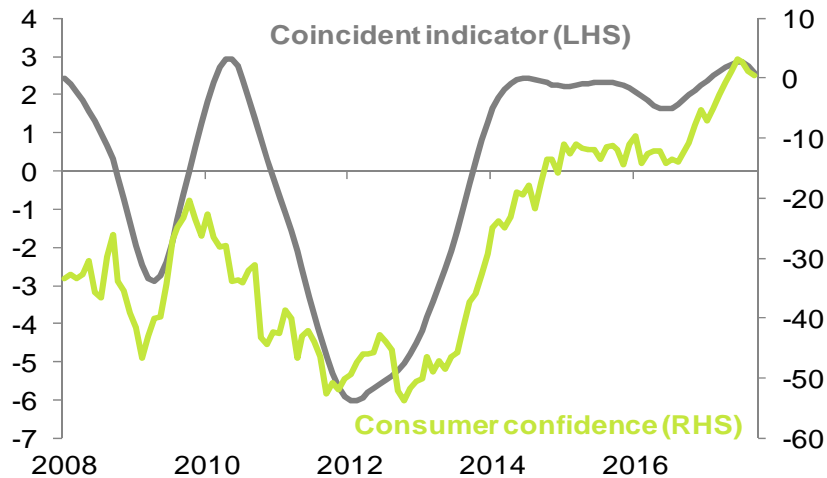
Sources: INE, PORDATA, AMECO, NB Economic Research.

A sustained recovery is under way. GDP increased 3% YoY in Q2 2017, with strong YoY growth in exports and fixed investment.

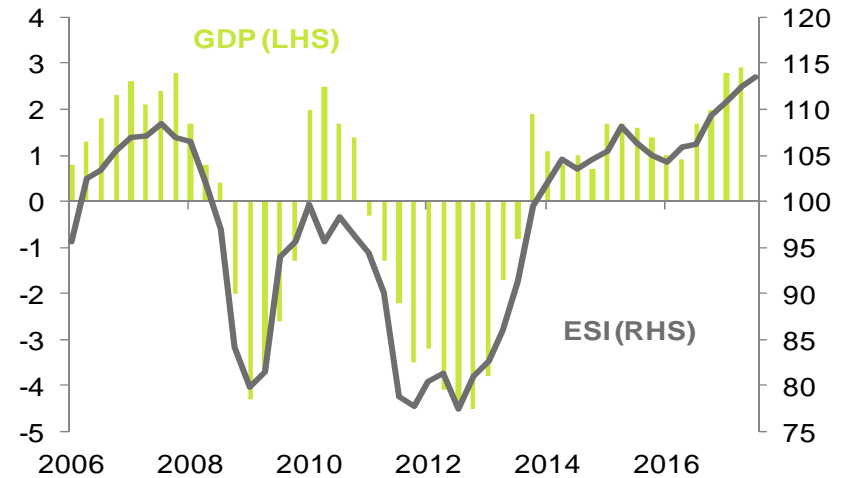
GDP growth (% QoQ and YoY).

	QoQ				YoY			
	Q3'16	Q4'16	Q1'17	Q2'17	Q3'16	Q4'16	Q1'17	Q2'17
Private Consumption	0.4	1.1	0.9	-0.5	1.9	3.0	2.3	2.1
Public Consumption	-0.8	0.1	0.0	0.0	0.2	0.0	-0.4	-0.9
Investment	-2.8	6.1	0.0	4.5	-1.8	3.6	7.7	9.3
Exports	2.5	2.7	2.9	-0.1	5.5	6.6	9.5	8.2
Imports	-0.1	4.8	1.9	0.1	3.9	7.7	8.8	7.5
GDP	0.8	0.8	1.0	0.3	1.7	2.0	2.8	3.0

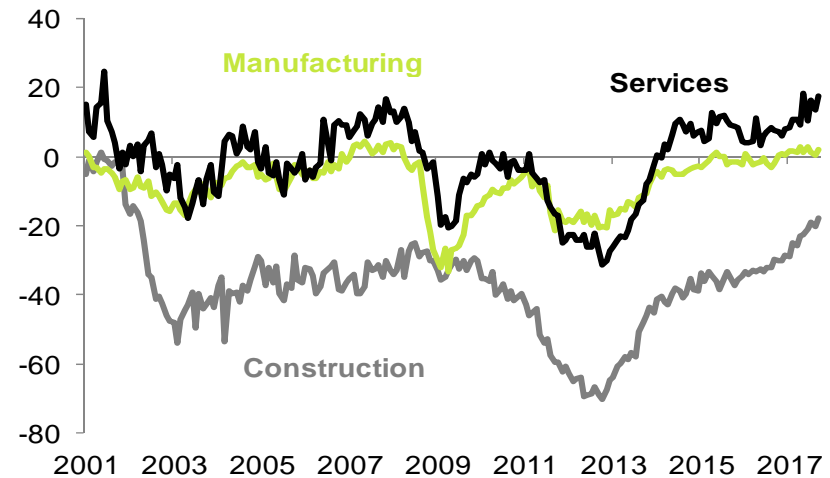
Consumer confidence (net balances) and private consumption coincident indicator (% YoY).



Economic Sentiment Indicator vs. GDP growth (points and % YoY).



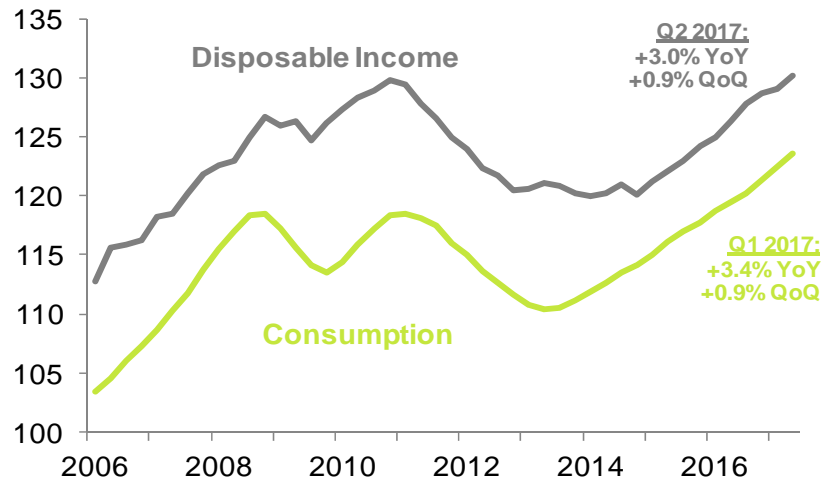
Business confidence indicators (net balances).



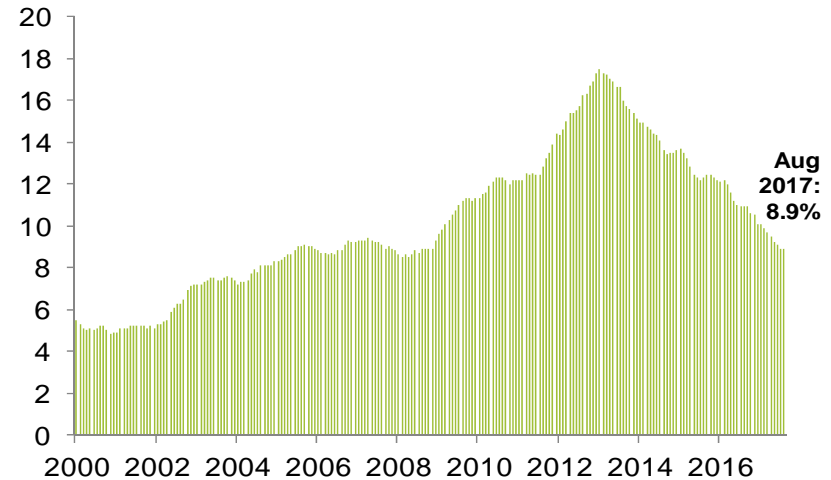
Sources: INE, European Commission, Bank of Portugal, NB Economic Research.

Private consumption growth supported by rising disposable income (with higher wages and lower unemployment).

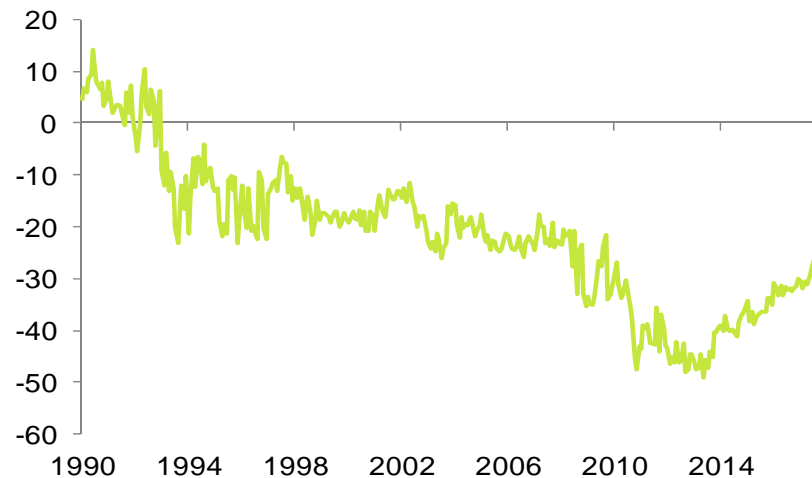
Household disposable income vs. consumption
(EUR billion and % change, nominal values).



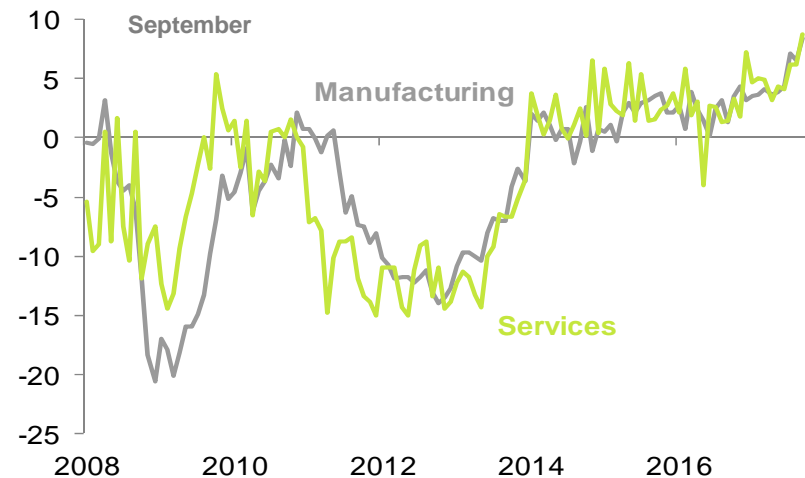
Unemployment rate (% of labour force, monthly data).



Consumer Survey
Major purchases over the next 12 months (net balances).



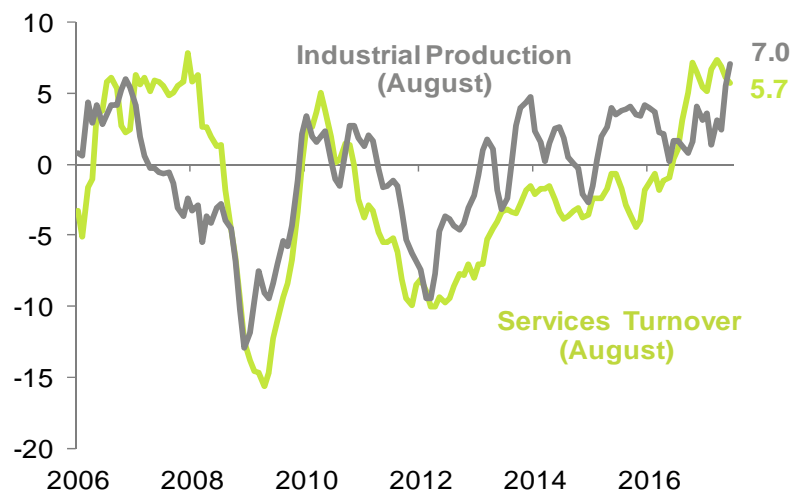
Employment expectations in manufacturing and services (net balances).



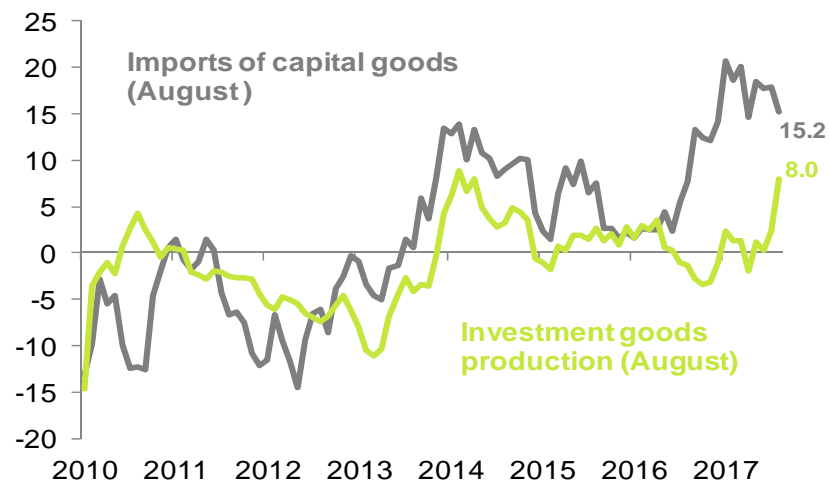
Sources: INE, GPEARI, European Commission, NB Economic Research.

Business fixed investment is supporting the ongoing recovery.

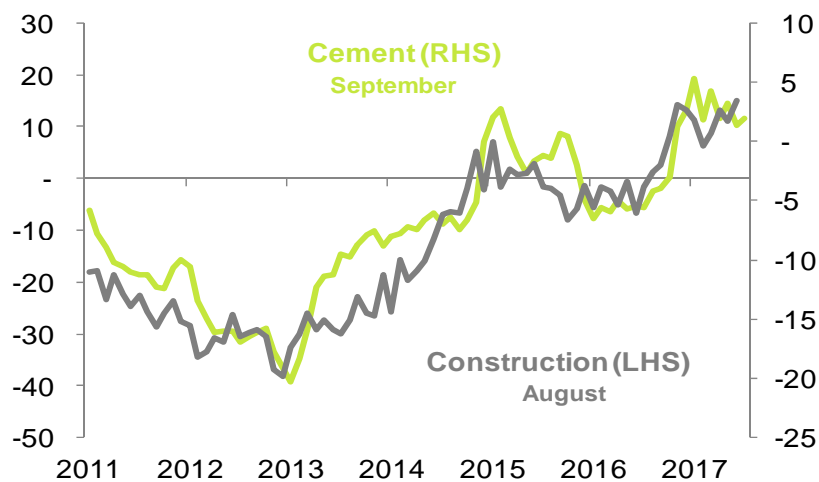
Industrial production and services turnover
(% YoY, 3m MA).



Production and imports of investment goods (% YoY).



Construction activity indicator and cement sales
(% YoY, 3m MA).



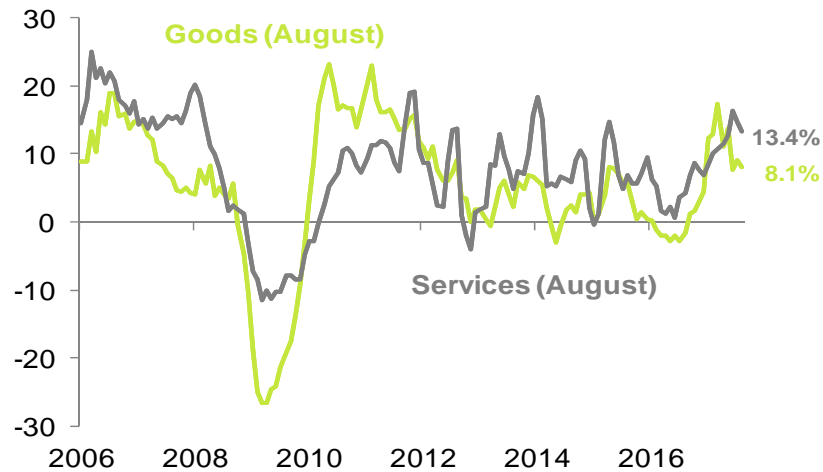
Gross fixed capital formation (% YoY).

	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
GFCF	-2.2	-0.1	5.2	9.6	10.3
<i>Of which:</i>					
Transportation equipment	3.4	0.6	14.6	10.6	33.1
Machinery & equipment	-2.4	7.0	12.3	17.6	12.7
Construction	-3.9	-3.4	1.5	8.6	9.5
Intellectual property	-0.3	-1.8	1.4	0.3	-2.3

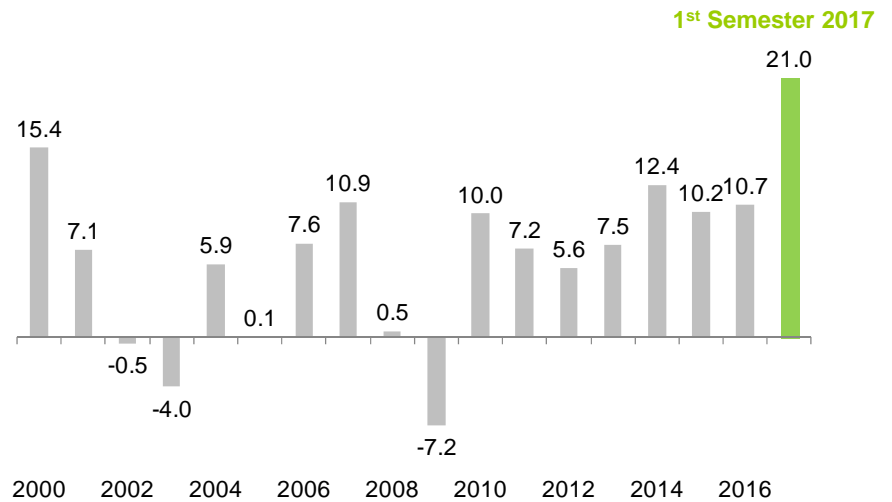
Sources: INE, GPEARI, European Commission, NB Economic Research.

Strong growth in exports of tourism services is giving a significant contribution to economic activity.

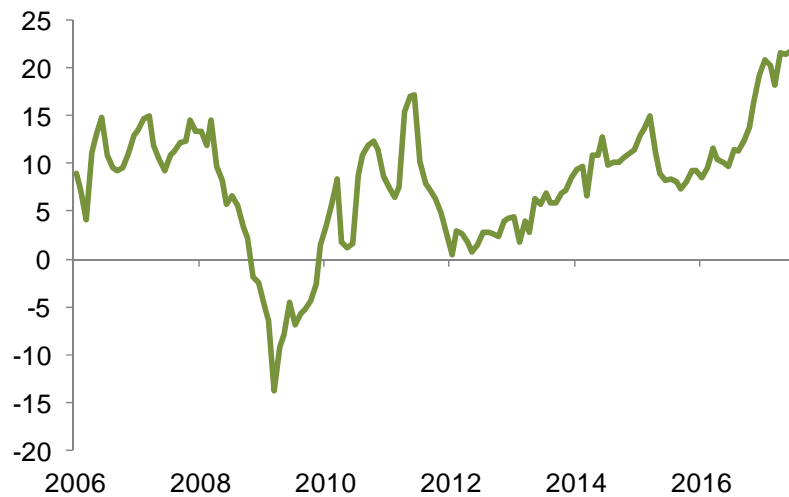
Goods and Services exports (% YoY, 3m MA).



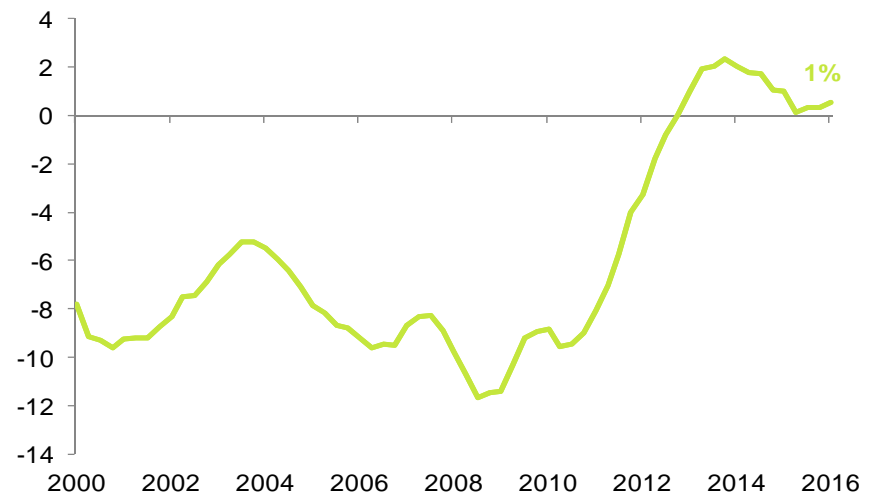
Exports of tourism services (% YoY, nominal growth).



Tourists arrivals, by plane (% YoY, 3m MA).

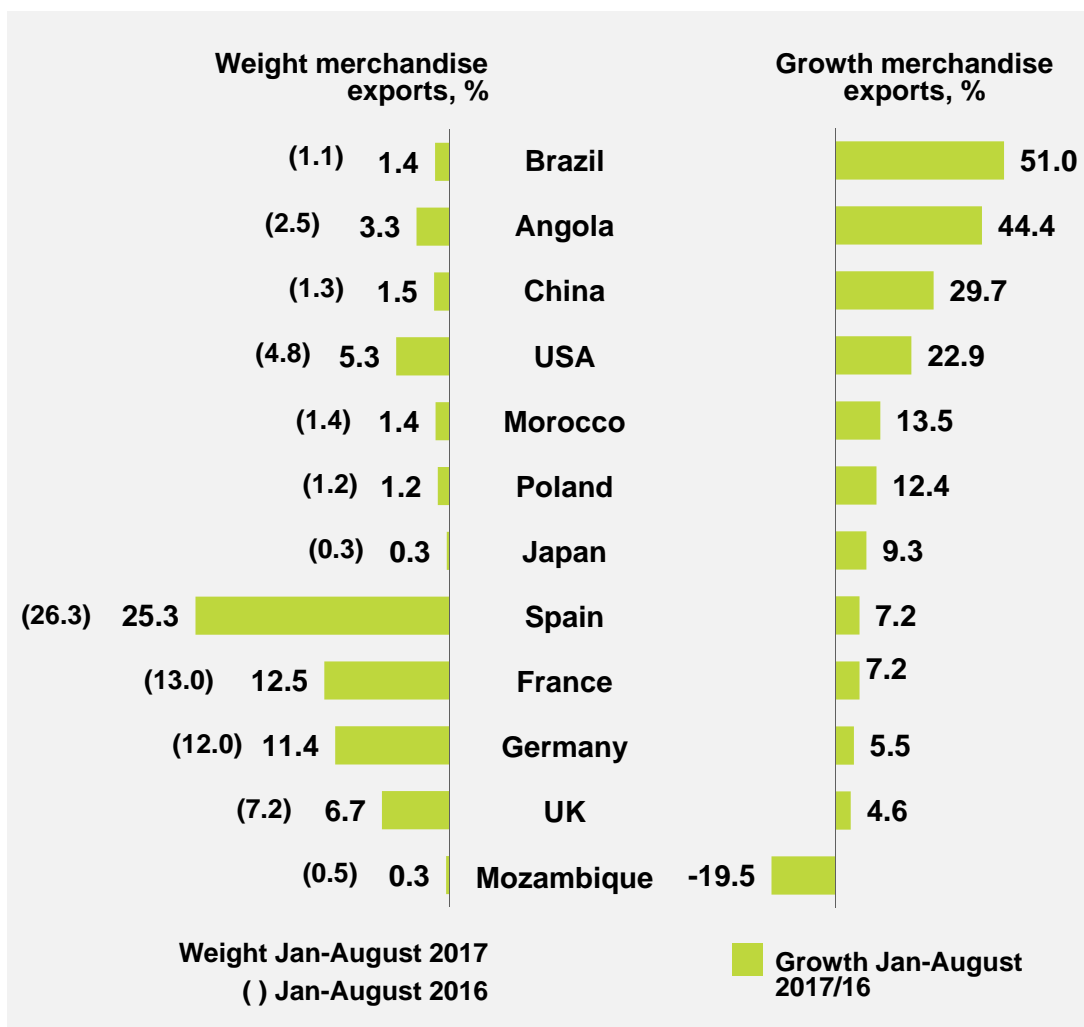


Current and Capital Account Balance (% GDP, data for year ending in each quarter).

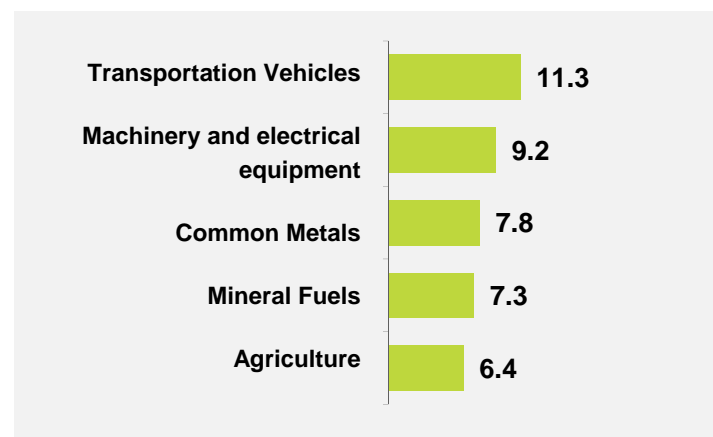


Contributions to exports growth have been broad-based, both in terms of geography and sector of activity.

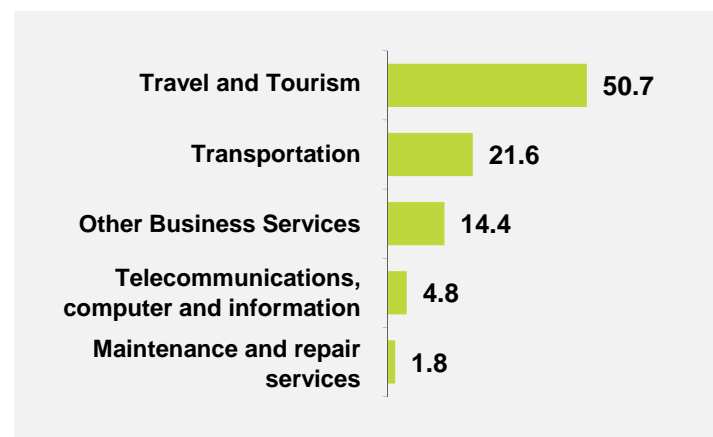
Portuguese merchandise exports to selected countries.



Top 5 goods exports (Jan-August 2017, % of total).

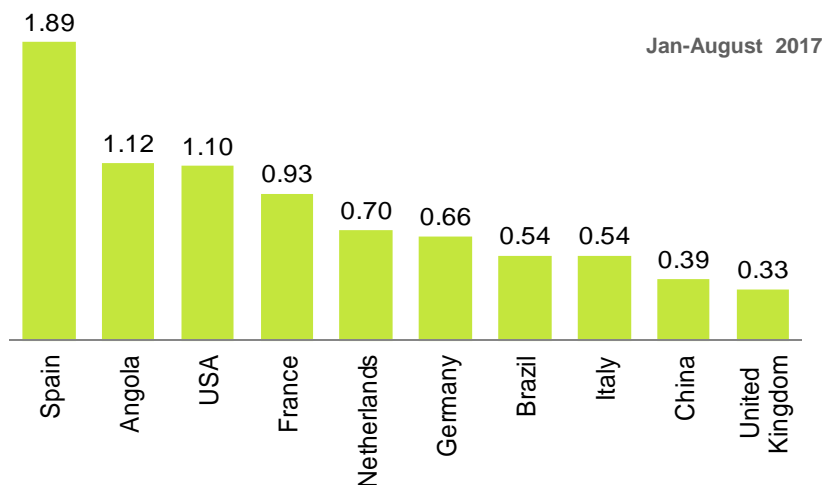


Top 5 services exports (Jan-August 2017, % of total).

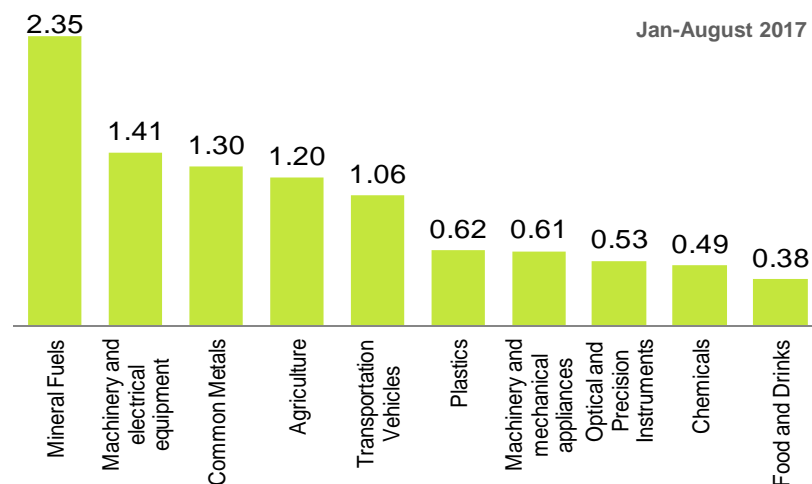


Contributions to exports growth have been broad-based, both in terms of geography and sector of activity.

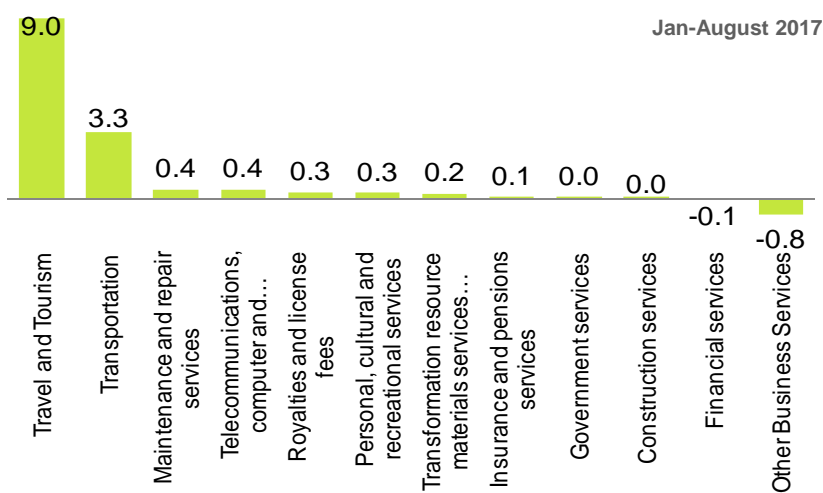
Main contributions to merchandise exports growth, by country (p.p.)



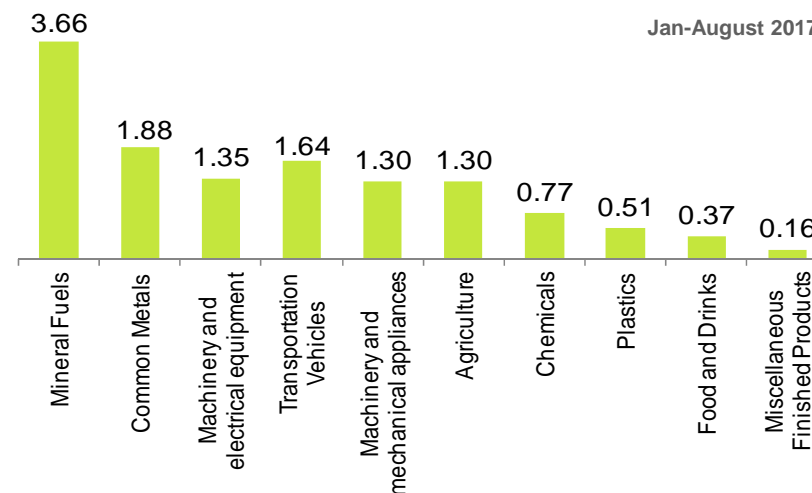
Main contributions to merchandise exports growth, by sector (p.p.)



Main contributions to services exports growth, by sector (p.p.)



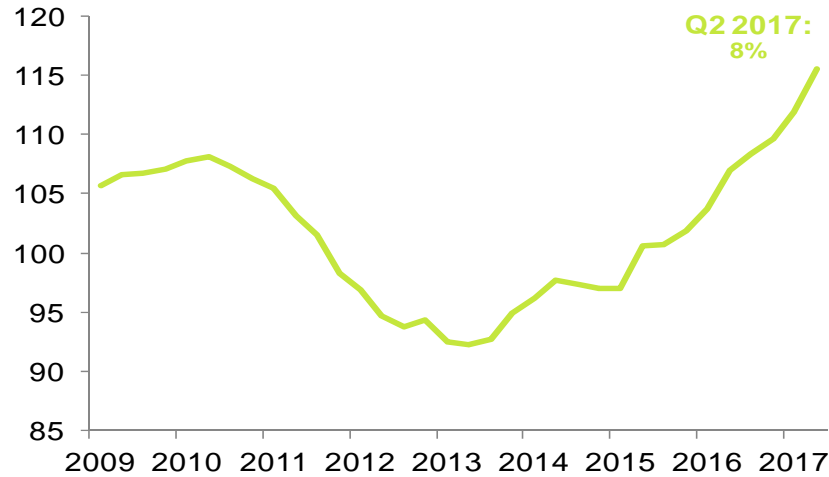
Main contributions to merchandise imports growth, by sector (p.p.)



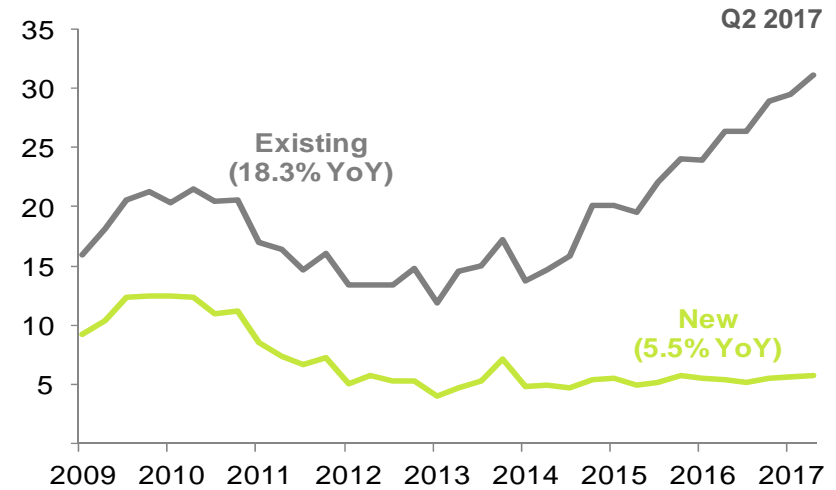
Sources: INE, Bank of Portugal, NB Economic Research.

The housing market is benefiting from stronger tourism activity and from stronger non-resident demand.

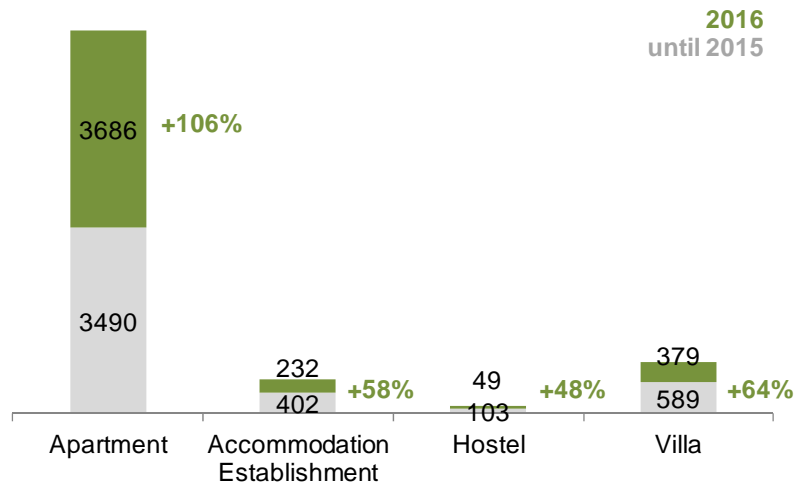
INE house price index (market prices, 2010=100 and % YoY).



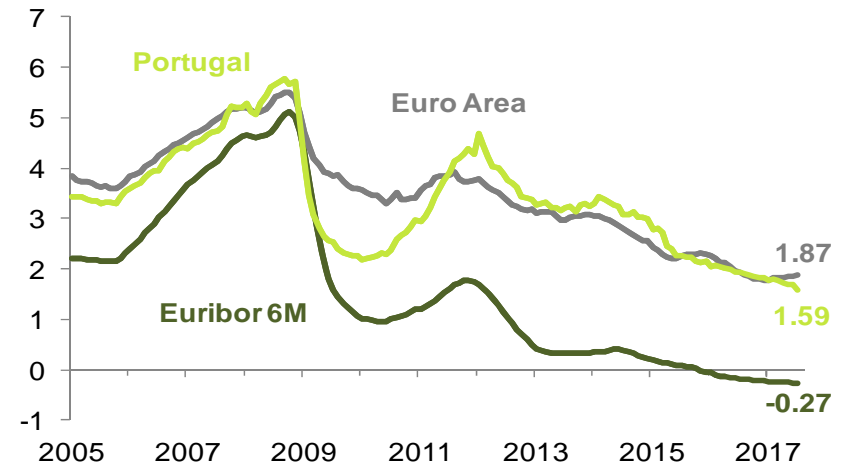
Number of housing transactions (thousands and % YoY).



Number and growth of local lodging establishments (%).



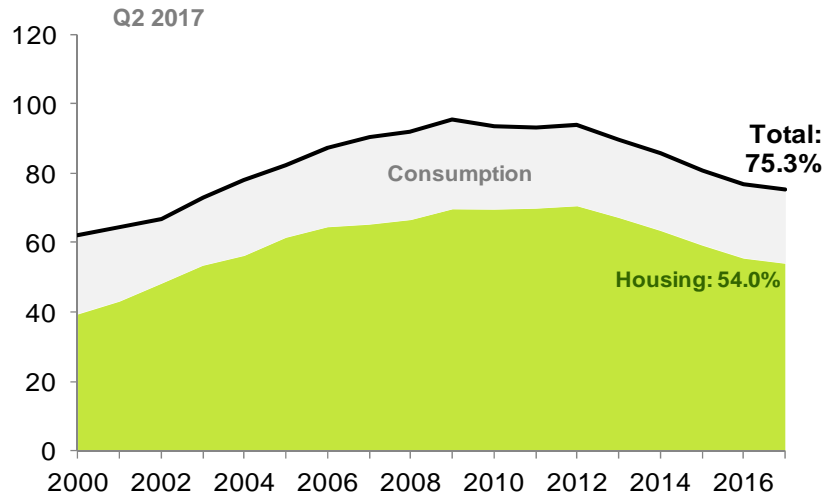
Interest rate in mortgage loans (%).



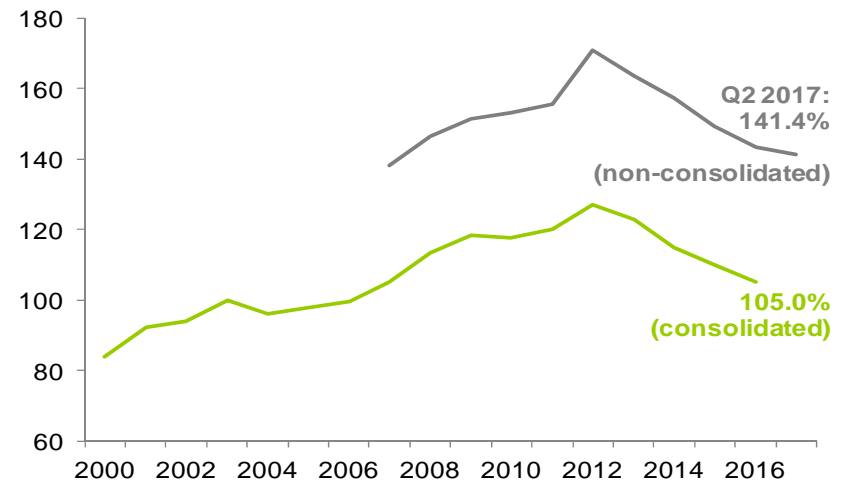
Sources: INE, Bank of Portugal, NB Economic Research.

The economic recovery is taking place while households, firms and the Government are lowering their debt levels.

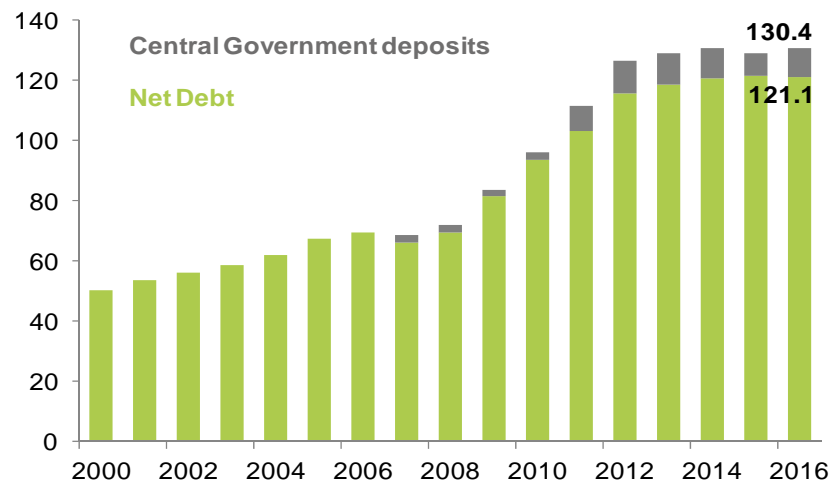
Household indebtedness (% GDP).



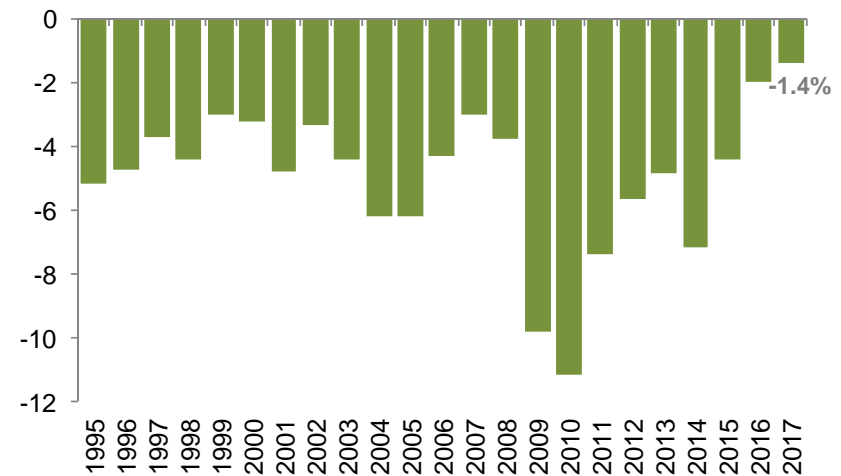
Non-financial corporation indebtedness (% GDP).



Public debt (% GDP).

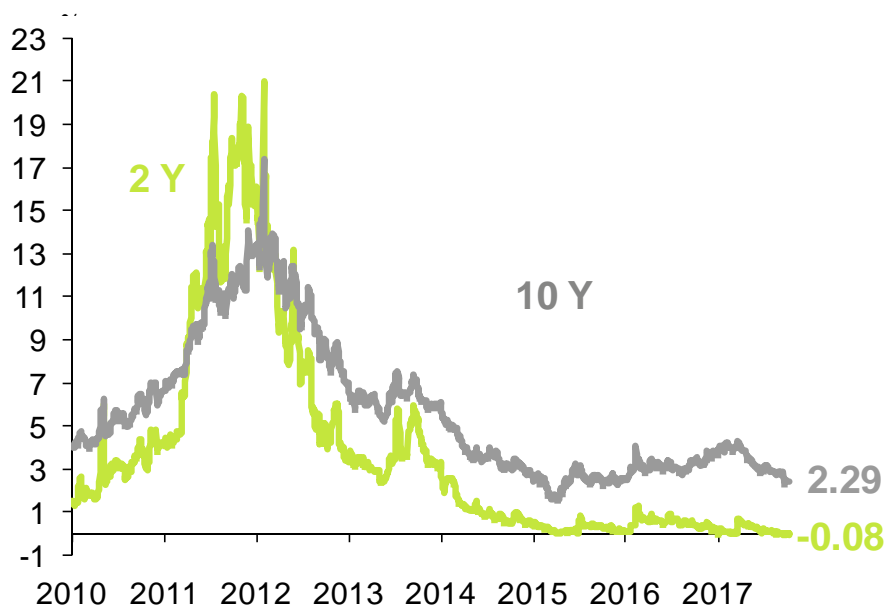


Budget Balance (% GDP).



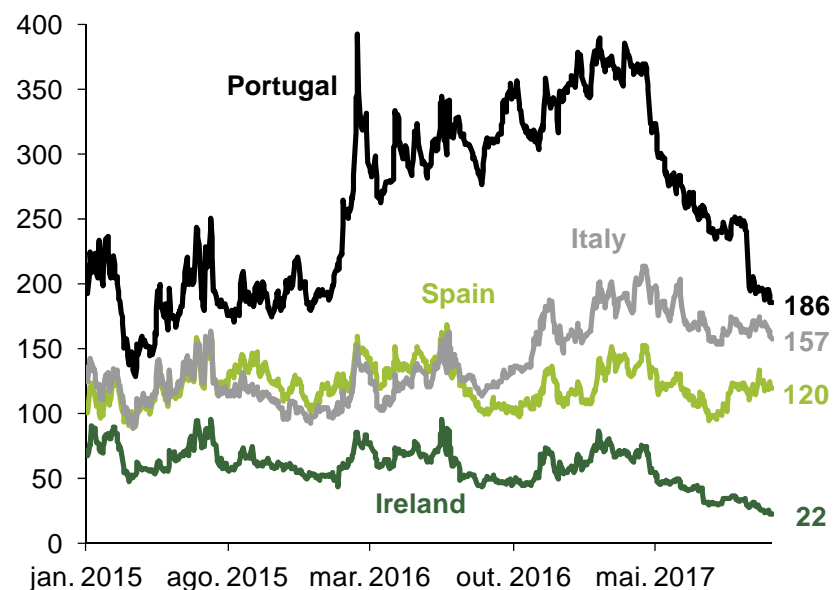
With a brighter economic outlook and a lower budget deficit (estimated at 1.4% of GDP in 2017), Portugal was upgraded by S&P in September, from BB+ to BBB-. The improved perception of the economy from investors is being translated into lower sovereign yields and spreads.

PGB yields in the secondary market (%).



Latest data for July 4th.

Spread between 10-Year Government Bonds and German Bund yields (%).



Sources: Bloomberg, NB Economic Research.

Portuguese Economy – Main economic indicators 2010-2018

Annual growth rates (%), except where indicated	2010	2011	2012	2013	2014	2015	2016	2017F	2018F
GDP	1.9	-1.8	-4.0	-1.1	0.9	1.6	1.4	2.6	2.0
Private Consumption	2.4	-3.6	-5.5	-1.2	2.3	2.6	2.3	2.2	1.9
Public Consumption	-1.3	-3.8	-3.3	-2.0	-0.5	0.8	0.5	0.5	0.7
Investment	3.4	-14.0	-18.1	-5.1	5.1	4.6	-0.6	8.4	5.1
Exports	9.5	7.0	3.4	7.0	4.3	6.1	4.4	8.8	6.4
Imports	7.8	-5.8	-6.3	4.7	7.8	8.2	4.5	8.7	6.6
Inflation (%)	1.4	3.7	2.8	0.3	-0.3	0.5	0.6	1.4	1.4
Budget Balance (% GDP)	-11.2	-7.4	-5.7	-4.8	-7.2*	-4.4**	-2.0***	-1.4	-1.0
Public Debt (% GDP)	96.2	111.4	126.2	129.0	130.6	129.0	130.4	126.0	124.1
Unemployment (% Labour Force) ¹	10.8	12.7	15.6	16.2	13.9	12.4	11.1	9.1	8.2
Current & Capital Account Balance (% GDP)	-9.1	-4.0	0.0	2.3	1.0	0.3	1.0	1.2	1.0

* Excluding one-off operations (e.g. Recapitalisation of Novo Banco (EUR 4.9 bn), SOE financing, BPN Crédito write-offs, tax credits to investment , severance payments to public sector workers), the deficit in 2014 stood at 3.6% of GDP. ** Excluding one-offs (e.g. recapitalisation of Banif), the deficit reached 3.2% of GDP. *** Includes one-off measures.

F: Forecast.

Sources: INE, Bank of Portugal, NB Economic Research.

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Lisbon has the architecture, but be a fan of port to relish the drink, cabbage soups, to spicy sausage



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