2.22. PORTUGAL

Portugal's GDP growth moderated to 2.1% (y-o-y) in the third quarter of 2018, influenced by less dynamic external demand. Despite some slowdown, private consumption growth remained strong, supported by sustained job creation and moderate wage growth. Investment also performed strongly, driven by equipment purchases. At the same time, export growth slowed substantially, albeit from a high base, reflecting weaker demand from trading partners and production halts in some industrial sectors. The Commission's Economic Sentiment Indicator (ESI) rebounded towards the end of 2018 and dropped marginally at the beginning of 2019 showing a mixed picture across sectors. The main weakness appears in the industrial sector while sentiment in services and retail trade are still improving.

The economic expansion is expected to moderate further due mainly to a weaker contribution from net exports. Growth in private consumption is set to decrease only marginally while investment is forecast to accelerate slightly, supported by increased absorption of EU funds. Overall, GDP growth is estimated at 2.1% in 2018 and is forecast to stabilise at 1.7% in both 2019 and 2020 amid a slowdown in exports of goods and services. Risks to the outlook appear on the downside, as the projected deterioration in external demand and increased global uncertainty could have negative repercussions on business investment decisions.

Inflation averaged 1.2% in 2018 amid significant volatility throughout the year. The rate peaked to 1.8% (y-o-y) in the third quarter of 2018 but dropped abruptly to 0.8% in the last quarter due mainly to downward corrections in the prices of energy and tourist accommodation. As domestic demand continues to benefit from favourable labour market conditions, inflation is projected to increase slightly to 1.3% in 2019 and 1.6% in 2020. Accordingly, core inflation is set to move marginally above the headline rate, supported by a pick-up in wage growth. The recent recovery in residential construction expectedly contributed to some moderation in house price inflation to 8.5% (y-o-y) in the third quarter of 2018 after a peak of 12.2% early in the year. House prices are expected to moderate further over the forecast period reflecting a gradual recovery in supply along with some slowdown in external demand.

Graph 2.22: **Portugal - Real GDP growth and contributions**