



Portugal



Did you know...?

Name The name Portugal is derived from the Roman name Portus Cale (Port of Cale), an ancient town in the area of today's Grande Porto.

History Portugal used to be one of the major maritime powers that spearheaded the exploration of the world. It was also a colonial empire, comprising Brazil, Angola, and parts of Malaysia and India, among others. In 1999, it handed over Macau to China.

Geography Portugal is one of the warmest European countries – the temperatures in some parts can exceed 122°F (50°C).

Culture Fado is the most renowned genre of Portuguese music. It is usually associated with Portuguese guitar and *saudade*, or longing.

Fun Fact In Portugal, parents have restrictions in naming their children. The Ministry of Justice has 39 pages of officially-sanctioned names, and 41 pages of those which are banned. The latter group includes Lolita, Maradona, and Mona Lisa.

An overview of Portugal's economy

The financial crisis highlighted Portugal's issues with low productivity, weak competitiveness and high public debt.

In 1986, Portugal joined the European Economic Community (EEC), one of the predecessors of the European Union. Together with Spain, it brought EU membership to 12 states. In 1995 Portugal joined the border-free Schengen zone, and it was a founding member of the euro area, introducing the euro on January 1, 1999. Euro notes and coins entered general use three years later, replacing the Portuguese escudo.

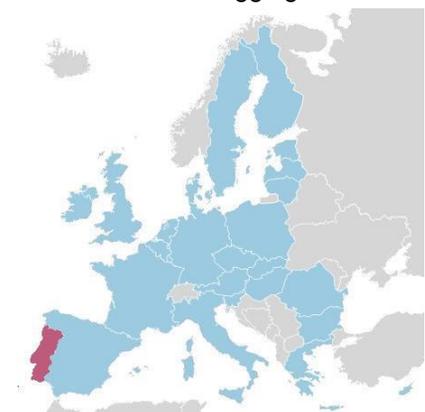
Portugal's membership in the EU contributed to stable economic growth, largely through increased trade fostered by Portugal's low labor costs and an inflow of EU funds for infrastructure projects. The country's subsequent entry into EMU brought exchange rate stability, lower inflation, and lower interest rates.

However, the process of monetary integration also brought forth a number of imbalances that have contributed to the country's poor economic performance even before the recent financial crisis.

Once the crisis hit, Portugal was forced to seek assistance from the EU, the IMF and the ECB. Portugal's government undertook a series of major reforms that included fiscal consolidation and many important structural reforms in return for €78 billion in financial support. These reforms aimed to improve imbalances, boost competitiveness, and restart growth.

By 2014, the Portuguese government had succeeded in implementing the agreed upon reforms and the country successfully exited its adjustment program. Though the country had suffered a severe recession, the reforms had greatly improved the competitiveness of the economy, reduced imbalances, and put the government's finances on a sustainable footing.

Portugal only recently, in 2016, saw a switch to a current account surplus, a change which is anticipated to continue in 2017 with a 0.1% surplus followed by 0.2% in 2018-2019. While a slowdown in 2018 and 2019 compared to 2017 is anticipated, GDP growth should remain strong and unemployment should continue to decline. As external demand strengthens, exports will increase, but imports are set to grow at similar rates. Investments are strong, but not equally strong in all sectors, with the automotive industry leading and construction lagging.





Portugal's Economy – Key Facts

- Portugal's GDP per capita is relatively low among the countries in the euro area. It has a population of around 10.3 million inhabitants.
- The World Bank's Doing Business Report for 2018 ranked Portugal 29th out of 190. Portugal is strong in contract enforcement and resolving insolvency, but it remains difficult to get credit in the country.
- In 2017/2018, the World Economic Forum (WEF) Global Competitiveness Report ranked Portugal 42nd out of 137 countries. Portugal scores well on infrastructure and health and primary education, 18th in both categories. However, the macroeconomic environment and financial market development both remain major downsides.
- According to the European Commission's Autumn 2017 forecast, GDP is forecast to grow by 2.6% in 2017 and 1.8% in 2019. Stronger external demand leading to stronger export growth and lower unemployment are set to help continue GDP growth.
- The government deficit is expected to decrease from 2.0% in 2016 to 1.4% in 2017, an improvement from a 7.2% deficit in 2014. Consequently, the general gross government debt is projected to decrease from 130.1% in 2016 to 126.4% in 2017, with further decreases in 2018-2019.

References

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Exports Portugal's degree of openness is somewhat lower than the euro area or EU averages. Furthermore, Spain accounts for a quarter of Portuguese exports. A positive tourism cycle continues to benefit the economy but is forecasted to weaken. Automotive industry expansion is further helping exports but is anticipated to dampen as well. Overall the Current Account is projected to be in a slight surplus as imports grow at a similar rate to exports.

Wages Aggregate wage growth was weak as most new jobs were in low skilled or lower than average salaried positions. Nonetheless, with unemployment projected at 9.7% in 2017, a level not seen since 2008, and 7.6% in 2019, wages may increase slightly.

Inflation is projected to remain stable around 1.5% in 2017-2019. Moderate changes from tourism and wage dynamics might push core inflation higher.

Technology Portuguese technology companies compete internationally in the field of advanced technology. The country also scores well on the amount of research carried out by small and medium-sized companies.