Portugal's external accounts show reassuring vital signs

- **The pandemic dragged the current account balance into negative territory. The sharp contraction in exports and the collapse of tourism drove the current account into a 2.4-billion-euro deficit (1.2% of GDP) in 2020, something not seen since 2012.**
- **Part of the exceptional losses recorded in 2020 will be recovered this year. The revival of global demand and the start of the recovery of tourism, especially in the second half of the year, will be key to the improvement of the current account balance in 2021.**

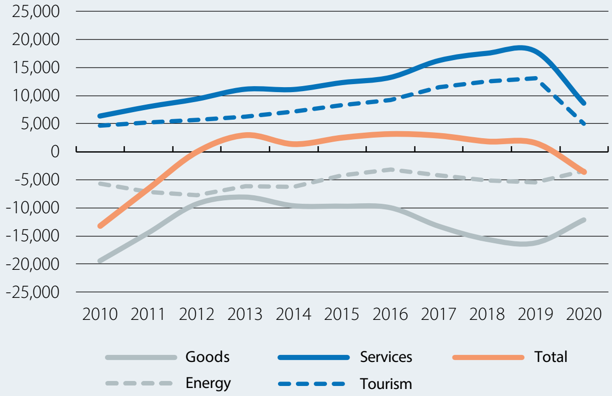
In 2020, both exports and imports of goods and services recorded historic declines of 20.4% and 15.1%, respectively, but the dynamics were different in the balance of goods and services.

The balance of services closed the year in positive territory but well below the level of 2019 (8.6 billion euros, a decline of 9.2 billion). The bulk of the collapse was due to an 8.15-billion-euro drop in the tourism surplus (tourism exports fell by 57.6% and imports by 46.1%). In contrast, non-tourism services showed positive signals about the resilience of Portuguese exports. Overall, the balance of non-tourism services fell by some 1 billion euros to 3.65 billion, but this was due to the fall in the transportation surplus, which is closely linked to tourism activity. Without the transportation component, the balance of non-tourism services would have increased by 340 million, with an increase of 0.7% in exports and a contraction of 3.2% in imports. Among the subsectors with positive performance, the balance of ICT services increased by around 140 million euros, driven by stronger growth of exports than imports: 8.6% and 3.6% respectively. Thus, in a year heavily marked by the weakness of tourism, there were some encouraging signs for the international competitiveness of other services in Portugal.[1]

The balance of goods, meanwhile, offset some of the losses in services. In Portugal, the balance of trade in goods has historically been in deficit. This has not changed with the pandemic, but the greater contraction of imports of goods (–13.3%, versus –10% in the case of exports) caused the deficit to moderate in 2020 by 4.1 billion euros, bringing it to 12.2 billion. In nominal terms, there was an improvement in both the energy balance and the non-energy balance, and in similar quantities: approximately 2 billion euros each. The energy deficit fell to 3.4 billion euros (5.4 billion in 2019) due to the collapse of the oil price in 2020.[2]

Portugal: balance of goods and services

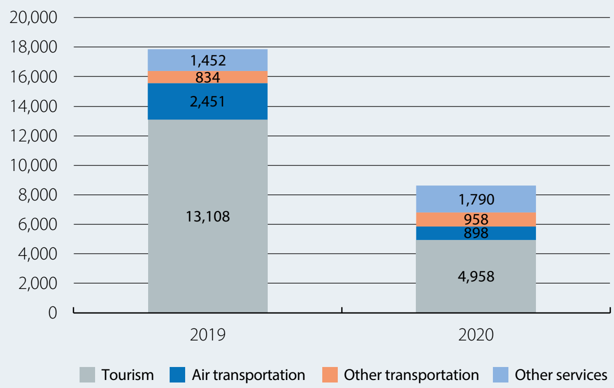
(EUR millions)



Source: *CaixaBank Research, based on data from the Bank of Portugal.*

Portugal: components of the balance of services

(EUR millions)



Source: *CaixaBank Research, based on data from the Bank of Portugal.*

In turn, the balance of non-energy goods fell to 8.8 billion euros, with a stronger contraction in imports (–10.2%) than in exports (–8.6%). By sector, there were improvements in the balances of transportation equipment (mostly cars), electrical machinery and equipment, and that of the food industry.[3]

1. In the European Innovation Scoreboard 2020, Portugal was ranked among the most innovative countries, performing above the EU average. Notably, it ranked better than the EU in entrepreneurship, the creation of new companies and the entry of foreign direct investment.
2. In average annual terms, the price of a barrel of Brent in euros fell by 30% in 2020. In nominal terms, energy exports declined by 32% and imports by 36%, while the quantity of mineral product exports fell by 6.4% and imports by 16.5%.

3. Transportation equipment and electrical machinery and appliances account for around 15% of the total exports of goods, respectively, while the food industry accounts for some 7%.

Transportation equipment reduced its deficit by 2.5 billion euros, while in the sale of electrical machinery and equipment the deficit improved by around 860 billion euros. The food industry went from a deficit to a surplus, with a balance of 226 million euros, as exports increased by 6.8% and imports fell by 1.7%. All in all, a study by the Bank of Portugal shows that Portugal's exports of goods gained 1% market share in 2020.[4] Also, exports to outside the EU performed particularly well, increasing by 1.5 billion euros in a year marked by the pandemic, exemplifying export firms' efforts to diversify in a year with significant restrictions.

Finally, the income balance went from a deficit to a surplus (1.2 billion euros, 1.94 billion more than in 2019), as a result of the decline in the payment of dividends to non-residents.

Thus, the loss of 8.15 billion euros in the tourism balance was partially offset by the improvement in the income balance as well as in the balance of goods, which benefited from the effect that the contraction of domestic demand had on imports and from a certain resilience in the export sector.

In 2021, the foreign sector will be characterised by opposing dynamics. On the one hand, tourism is expected to begin to recover, albeit with a gradual recovery that will take time to reach completion. On the other hand, Portugal's exports of goods and non-tourism services will benefit from stronger global demand, but imports will also increase due to the revival of domestic demand and higher energy prices. The income balance, meanwhile, should make a positive contribution, since 2021 is still marked by a low-interest-rate environment and Portugal will benefit from a temporary element (the return of 1,088 million euros, 0.5% of GDP, by the European Financial Stability Facility, previously paid by Portugal under the Financial Assistance Programme). Overall, all these forces lead us to project a current account balance of around –0.5% of GDP in 2021, with tourism exports still around 50% below 2019 levels.

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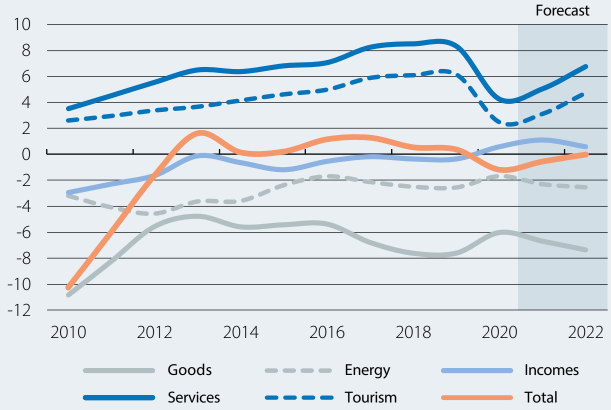
Portugal: current account balances

(% of GDP)



Source: *CaixaBank Research, based on data from the Bank of Portugal and internal forecasts.*

4. See the Bank of Portugal's Economic Bulletin of May. Within the EU, this quota gain was concentrated in food products, common minerals and metals, and electrical machinery and appliances. By geographical market, Portugal made notable gains in market share in Spain and France.