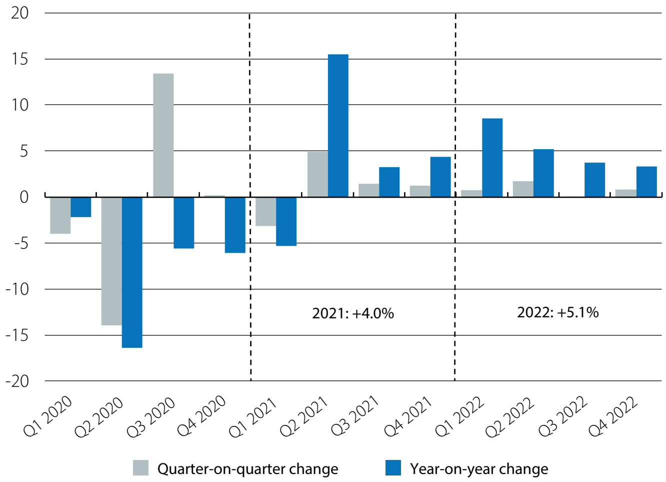
The Portuguese economy reacts to the lifting of the lockdown and approaches pre-pandemic levels

The gradual return to normality stimulates the economy in Q2. Despite the predominance of the more contagious Delta variant, the number of new infections remained controlled in Q2. This, together with progress in the vaccination campaign, allowed the gradual reopening of the economy to continue without further shocks. In this context, GDP grew by 4.9% quarter-on-quarter in Q2 (15.5% year-on-year), reducing the gap compared to pre-pandemic levels (4.6% below the level of GDP at the end of 2019). The recovery was boosted by domestic demand, especially private and public consumption, which on the whole have already slightly exceeded pre-pandemic levels. Investment, in contrast, fell by 2.1% quarter-on-quarter, although in the context of the pandemic this is not all bad news, since investment still exceeds the levels of 2019 by 2.3%. Finally, the less negative contribution from external demand facilitated the improvement in growth in Q2, although exports and imports remain well below those recorded at the end of 2019 (18.3% and 6.8%, respectively).

The available indicators confirm that the economy continues to perform well in Q3. The Bank of Portugal's daily activity indicator suggests that economic activity grew by around 4.0% year-on-year up until mid-August, while the coincident economic activity indicator accelerated in July to 2.8%. In the same month, electronic payments and cash withdrawals at ATMs increased to 86 billion euros, up 3.6% versus July 2019 and equalling the value of December 2019. On the other hand, there were 9,961 aircraft departures from Portuguese airports, far above the average of 6,100 registered in July and August 2020. We expect the economy to continue to grow over the coming months, albeit at a more contained rate than in Q2, placing growth for the year as a whole at 4.0%, a revision of 3 decimal points up from our previous forecast.

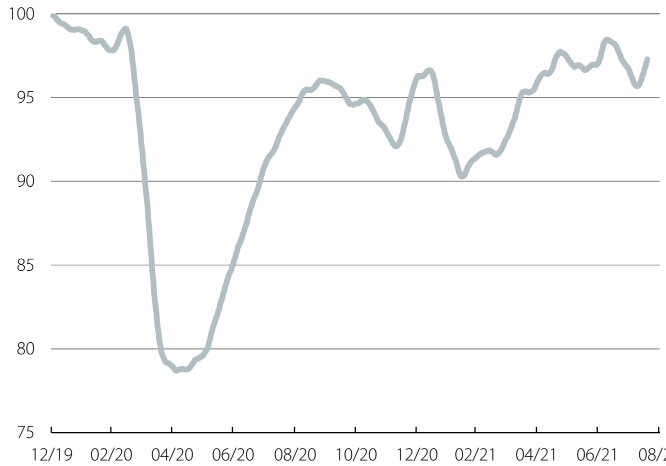
Driven by the public sector, employment surpasses pre-pandemic levels in Q2. Employment increased by 2.8% quarter-on-quarter in Q2, exceeding the levels of the end of 2019. However, the recovery in employment was uneven between sectors: for instance, in education, public administration and ICT, it exceeded the level of Q4 2019 (+147,400 jobs), while in the accommodation and catering sector it remained substantially below the level recorded before the pandemic (–83,800 jobs). The impact of public employment is particularly relevant: not counting the more than 731,000 civil servants, employment remains 0.2% below the levels of the end of 2019. Despite this, the signs are still

Portugal: evolution of GDP
Change (%)



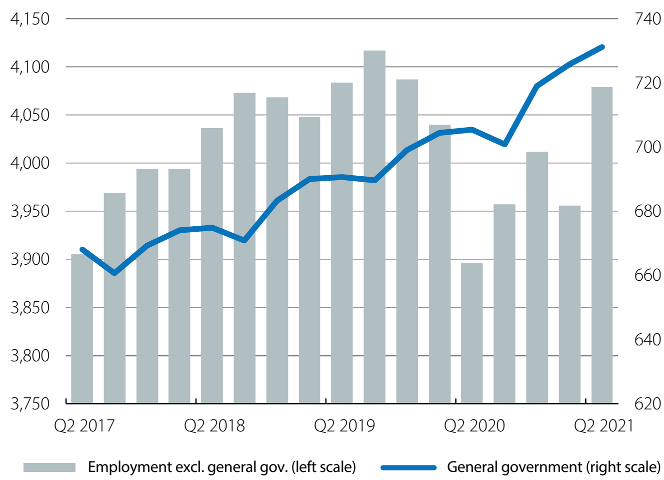
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal and own forecasts.*

Portugal: daily economic activity indicator
Index (100 = December 2019)



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

Portugal: employed population
(Thousands of people) *(Thousands of people)*



Source: *CaixaBank Research, based on data from the DGAEP and the National Statistics Institute of Portugal.*

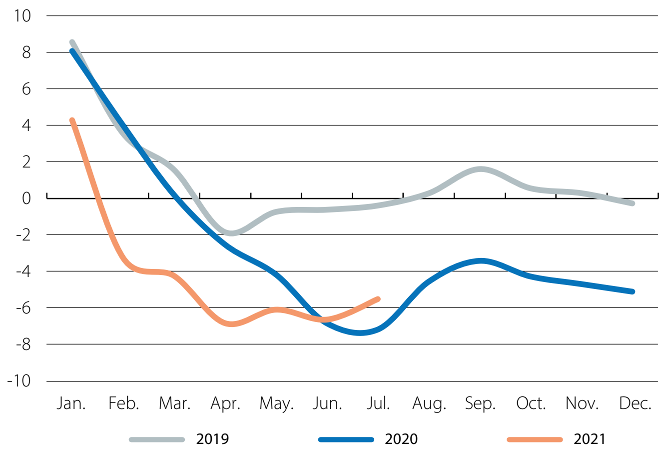
positive: in July, the unemployment rate reached 6.6% and employment exceeded the levels of July 2019. However, uncertainty will persist in the second half of the year, and much will depend on the success of tourism activity in the summer and the resumption of activity in the various economic sectors in a context which is still marked by the pandemic, a shortage of some commodities and a rise in the price of inputs.

The public accounts improve thanks to the normalisation of economic activity and base effects. In the year to date up until July, the general government deficit has stood at 5.5% of GDP, compared to 7.2% over the same period of the previous year. This improved performance is due to the normalisation of economic activity and the reduced impact of the deferral of tax payments. In this context, revenues increased 8.0% year-on-year, while expenditure rose 3.7%. Current transfers continued to account for much of the increase in spending, owing to the support being provided to businesses and employment. In all, the measures aimed at combating the COVID-19 crisis accounted for 2.9% of GDP up to July, with those aimed at supporting the resumption of economic activity, employment and health standing out.

The external accounts marginally deteriorated in June. The current account deficit deteriorated to –0.7% of GDP (–0.6% in May). This was due to the increased deficit in the balance of goods, driven by the non-energy component. The tourism balance, meanwhile, continued to recover despite still being far from its pre-pandemic levels (–67.7% compared to June 2019). For 2021, we estimate an annual growth of 25% in tourism, while the pre-pandemic tourism levels for non-resident tourists visiting from Europe are not expected to be recovered until 2022.

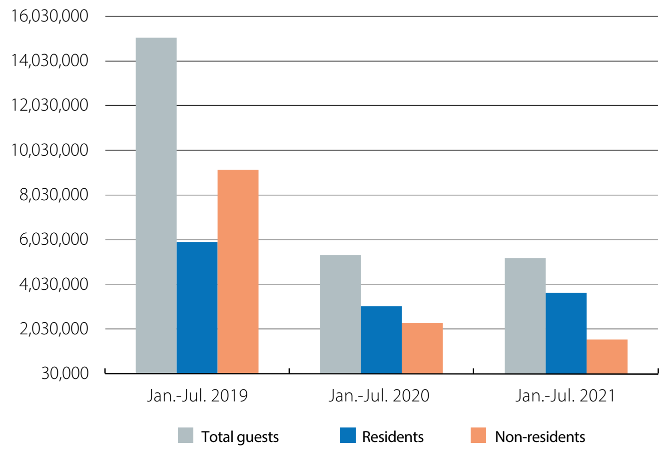
The stock of non-financial private sector credit continues to grow, largely due to moratoria. The stock of loans to private individuals grew by 3.0% in July. This improvement is explained by the buoyancy of housing credit, as consumer credit is recovering more gradually. Loans to businesses, meanwhile, grew by 6.9% year-on-year. The moratoria in place in this segment are key. Specifically, in July there were 36,801 million euros in loans under moratorium, more than 18% of the stock of loans to the non-financial private sector. Moratoria are particularly relevant in the case of non-financial firms, where they represented 28.8% of the stock of loans. Among sectors, accommodation and catering, the processing industry, and construction and real estate activities stand out. In order to mitigate the potential negative impact of the moratoria coming to an end, the state will guarantee 25% of the loans under moratorium that were initially renegotiated with the banks. Their end on September 30, in a context still marked by uncertainty and an incomplete resumption of economic activity, could increase the risk of defaults.

Portugal: general government balance *
(% of GDP)



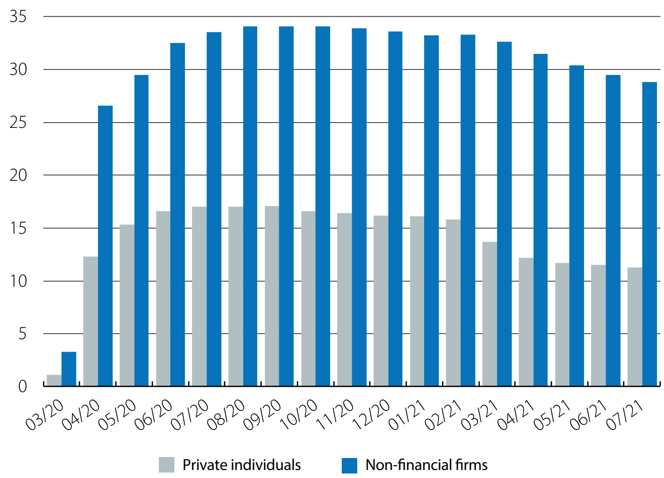
*Note: * Public accounting data.*
Source: CaixaBank Research, based on data from the General Comptroller of the State Administration (DGO).

Portugal: number of guests versus before the pandemic
(Number of guests, year to date)



Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

Portugal: loans under moratorium
(% of the total loans of each segment)



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