An overview of Portugal’s economy

The financial crisis heightened 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 became a founding member of the euro area, introducing the currency 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 though 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.

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 sustainable footing.

Having achieved a current account surplus in 2016, the surplus is projected to switch to a small deficit of 0.1% in 2019 as imports outperform exports. While domestic demand remains strong, the declining trade balance is expected to slow GDP growth from 2.2% in 2018 to 1.8% in 2019.

However, the process of monetary integration also brought forth a number of imbalances that have contributed to the country’s poor economic performance since before the start of the 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.

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.
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 Economic Forum (WEF) Global Competitiveness Report ranked Portugal 34th out of 140 countries in terms of national competitiveness for 2018. Portugal scores well on infrastructure and health; however, the country scores relatively low on macroeconomic stability and financial market development.

- The World Bank’s Doing Business Report for 2019 ranked Portugal 34th out of 190 countries. Portugal is strong at cross-border trade and resolving insolvency, but it is difficult to get credit in the country.

- According to the European Commission’s Autumn 2018 Forecast, GDP is forecast to grow by 2.2% in 2018 and 1.8% in 2019. Stronger export growth, driven by stronger external demand, and lower unemployment will help GDP growth to continue.

- The government deficit is expected to decrease from 0.7% in 2018 to 0.2% in 2020. The general gross government debt is set to continue decreasing to around 117% by 2020.

References


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.

Wages  Increasing labor productivity and the unfreezing of career progression in the public sector should help wage growth. Unemployment is set to decrease from 7.1% in 2018 to 6.3% in 2019 to 5.9% in 2020.

Inflation  showed significant volatility during 2018 due to hotel and accommodation price changes. However, year-over-year inflation is projected to remain stable for 2018 at 1.5%. The rate will increase slightly to 1.6% in 2019.

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.