AN ANALYSIS OF THE ECONOMY OF PORTUGAL

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GDP and Economic Growth

According to OECD (2022) projections, the GDP of Portugal should grow by at least 4.8% and as such surpass the pre-pandemic GDP in June of 2022. The GDP growth will be driven by the rise in the domestic demand, and also the absorption of EU funds (OECD, 2022). In retrospect, the nominal GDP of Portugal in 2021 was $257,391 billion. The GDP per capita of the economy of Portugal is averagely $22, 176. This is indicative that the Portuguese economy has seen a steady moderate growth from 2014 to 2019, and a resumption of positive growth after the Covid-19 crisis. The initial cause of economic slump as noted in the early years, 2012-2014, is the underdevelopment of the credit markets which rendered the foreign capital or inflows ineffective in spurring growth in the economy. As such, while the nation accumulated debt, it did not have a significant increase in the capital injection at the basic level as would be expected of a developed bank. In 2019, the economy was growing with an average rate of 2.5% even though this was interrupted in 2020 by the Covid-19 pandemic. In 2021, the Portuguese economy resumed a positive growth rate, with a 3.9% growth rate, and 4.8% as projected in 2022 (OECD, 2022).

Notwithstanding, the economy of Portugal has experienced a business cycle of contraction between 2010 and 2013, and then a marked economic growth or expansion from 2014 to 2019. However. The economy shrank due to the disruption of global supply chain and economies resulting in a -7.6% growth rate in 2020 (OECD, 2022). Nevertheless, the Portuguese economy is expanding as it is marked by a higher growth rate than during the Covid-19 pandemic. Noteworthy is that the economy of Portugal tends to contract whenever there is a mismatch in the monetary and fiscal policy approaches which lead to reduced FDI and normal capital resource utilization.

Unemployment

The business environment in Portugal is however uncertain, with an unpredictable unemployment growth behavior. For it occurs that while the economy experienced growth, the country faced an increase in the rate of un employment (Statista, 2022). The unemployment level is moderate with at least 7.2% of the viable workforce being unemployed. This number has oscillated between 4.5 million to 5.1 million, between 2011 and 2022, with the highest unemployment rate or level being experienced in 2019 due to the Covid-19 crisis (Statista, 2022). Unfortunately, the post-Covid-19 economic policy has not been effective in reducing the unemployment level, as the unemployment data shows that in 2022 at least 5.1 million Portuguese are unemployed (Statista, 2022). The consequence of unemployment to the economy is low standards of living, and an increase in the social welfare burden. Notable, some of the unemployment problems can be attributed to the fall of the FDI in Portugal in December of 2021 by 3.3 billion, which had significant impact on the overall employment opportunities in the country (Ceicdata.com, 2022).

In order to reduce the unemployment levels, and increase employment, the Portuguese government ought to take expansionary measures. This includes lowering the overall taxation rates for companies, and also lowering the rates charged on bank loans. This move shall be useful in stimulating local consumption, and the overall demand of goods – and thus an increase in the demand for labor as an input of production. Further, employment can be increased by the government by encouraging foreign direct investments by creating business policies that favor the international investors. This includes offering subsidies for companies that hire a given number of locals, as well as international branding of the country as a viable destination for FDI.

Inflation and Balance of Payment

The inflation rate in Portugal has remained relatively low, oscillating between 0.44 in 2012 to 1.6 in 2021, an indication of a stable internal economic policy

(Tradingeconomics.com, 2022). However, observations of the last few months show that there has been a significant inflation often driven by the external forces such as borrowed inflation and the global oil crisis which has pushed the cost of living as well as inflation high. The Portuguese government has managed to keep inflation at bay through use of monetary policies. Perhaps it is time that the government intervened by using fiscal policy measures such as offering supplementary budget to cushion the citizenry from a hike in costs of living considering that this inflation does not lead to increase in employment opportunities.

According to Trading Economics (2022), the balance of payment (BoP) in Portugal reached a record high of EUR 116 million in July, 2021. This was a remarkable rise from the lowest BoP in history of the country, as the BoP was EUR -799 million in April, 2021. In January, 2022, the BoP had slumped to a -137 million. Thus, the observation of the BoP shows that it is not consistent, and that the import-export variability is relatively high (Trading Economics, 2022). Nevertheless, it can be noted that in the last one decade, Portugal has made tremendous steps to reduce its external imbalances. For it is notable that in the post 2011 crisis, the BoP was at least a deficit amounting to 10% of the GDP (LA et al., 2020, p. 12). However, with a strategic adjustment to the trade deficit with approximately 5.8% per year, and a reduction in the income account deficit at 1.7%, Portugal made a trade surplus amounting to 0.8% of the GDP in 2016 (LA et al., 2020, p. 12). The key factors in the BoP of Portugal is the balance of trade on energy goods. The rise of the negative BoP in 2022 can be attributed to a hike in the energy goods, which create an imbalance.

Economic Policy

In order to solve some of the structural challenges that exist in the Portuguese economy, including inequality and unemployment, the country should consider implementing the following policies. In order to stir investments, the government ought to reduce corporate taxes to encourage domestic investments which ultimately lead to employment opportunities.

Further, to improve the BoP competitiveness, the country should consider strengthening manufacturing by encouraging FDI and local investments through direct and private public partnerships (Padhi, 2020, p. 449). This will play a key role. Besides, in order to create a sustainable labour market, the country has to improve the quality of education as this will lead to better employability and spur competitiveness in the global service economy.

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