GDP

2003 GDP -1.3%; Expected to Rise 1.0% in 2004E

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- The Portuguese economy contracted by 1.3% in 2003 following growth of 0.5% in 2002. All domestic demand components were negative, particularly investment (-9.5%) and private consumption (-0.7%). Net exports made a positive contribution to GDP, although imports contracted less than expected.
- Public expenditure was down 0.6%, reflecting the government's efforts to contain the fiscal deficit.
- 2H03 GDP was down 0.6% versus 1H03, which in turn was down 0.1% versus 2H02. However, these numbers mask the 0.5% improvement in 2H03 domestic demand relative to the first half which was underpinned by the recovery in private consumption (+0.9%) and investment (+0.5%).
- Investment in the equipment and transportation sectors was higher but construction spending continued to contract. However, things are looking up for in this area in 2004E, with an improvement in building permits, particularly residential.
- Exports grew 3.9% in 2003, showing that Portuguese exporters gained market share (80% of Portuguese exports are to the EU, of which 20% are to Spain). This improvement gives exporters a good base from which to fully benefit from the expected recovery in the European economy in 2004E.
- 4Q03 GDP fell for the second quarter in a row, but it should be noted that the 3Q03 figures had shown a large increase in most domestic demand components, particularly in private consumption and investment.
- Early 2004 indicators remain positive: consumer confidence shows signs of improvement, and industrial confidence is also improving. Sectors like construction and services, despite unchanged or deteriorating confidence, also show more optimistic views on employment.
- We estimate that GDP will grow by 1.0% in 2004E, confirming our prediction of a gradual recovery, which should become fully established in 2005F, when we expect growth of 2.2%. Our outlook is based on expected improvements in private domestic demand.

Portugal – GDP Growth (YoY)

(%)	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03
GDP	**2.7**	**0.9**	**1.8**	**1.8**	**1.9**	**-0.1**	**-1.5**	**-1.4**	**-2.2**	**-1.0**	**-0.5**
Private consumption	2.3	1.2	0.5	1.5	0.4	0.6	-0.4	-1.6	-1.5	-0.7	0.8
Public expenditure	3.2	3.3	3.4	3.4	3.2	2.6	1.7	0.6	-0.3	-1.1	-1.6
Investment	2.2	2.6	2.7	2.0	-2.6	-8.4	-11.1	-13.4	-12.1	-6.9	-5.2
Exports	4.8	-0.9	0.7	-1.3	4.9	5.1	1.6	6.0	0.6	4.2	5.2
Imports	3.7	2.2	0.3	-0.3	-0.2	0.5	-2.1	-2.5	-4.1	0.0	2.9

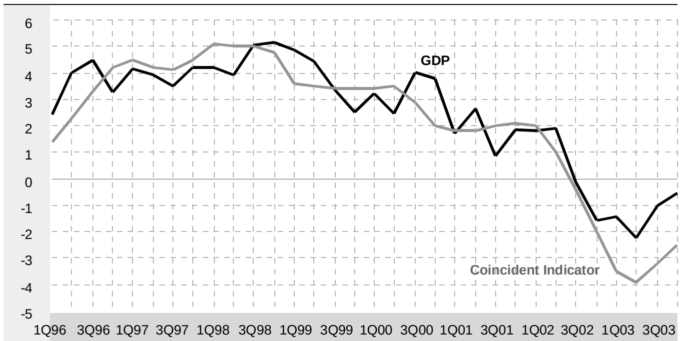
Source: INE (National Statistics Institute).

Figure 1. GDP Estimates and Forecasts (YoY)

(%)	2003	2004E	2005F
GDP	**-1.32**	**1.0**	**2.2**
Private consumption	-0.7	1.2	1.6
Public expenditure	-0.6	-1.4	-0.4
Investment	-9.5	-1.2	2.8
Exports	3.9	5.9	7.1
Imports	-1.0	2.9	4.8

Source: INE and BSN Dealer, S.A. estimates and forecasts.

Figure 2. GDP vs Coincident Indicator



Source: Bank of Portugal, INE.

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Key to Investment Codes[1]

Buy	Upside of more than 20%.
Hold	Upside of 15%-20%.
Underweight	Upside of less than 15%.

(1) Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.