

GDP

Portuguese GDP up 1% in 2004

Rui Constantino
(351) 21-389-3626
rui.constantino@bsnp.pt

- In 2004, the Portuguese economy grew by 1.0%, slightly below the 1.1% expected by the Bank of Portugal and by us. Domestic demand was the main driver of economic growth, with both private consumption and investment increasing by 2.3% and 2.1%, respectively. In 2003, these components of domestic demand contracted by 0.3% and 9.8%, respectively.
- Government spending was much stronger than expected, particularly in the second half of 2004. The bringing forward of some expenditures in preparation for the local elections (due in autumn 2005) may have contributed to this increase. The higher-than-expected public spending also goes some way to explaining the government's actions to raise extraordinary revenue in late 2004 (when it incorporated part of the pension fund from Caixa Geral de Depósitos into the civil service pension fund). This allowed it to meet the Maastricht budget deficit criteria of 3.0% of GDP, with a deficit of 2.9% of GDP.
- In terms of 4Q04, we would highlight the resilience of private consumption, despite a drop in confidence and some political instability towards the end of 2004 ahead of the general election (in February 2005). While overall investment fell in 4Q04, this was mainly due to a contraction in the construction sector. In general, investment in products and equipment added 0.2pp to GDP growth. We continue to see this as a sign of restructuring in the tradable sector.
- Net exports made a negative contribution to GDP, in both FY04 and 4Q04. Strong import growth was probably due to strong domestic demand and also to higher oil prices. Exports underperformed, in line with the slowdown in the broader Euro zone. FY04 exports increased 5.1% vs 5.0% in 2003. Imports rose by 7%, following a fall of 0.1% in 2003. The current account deficit increased to 6.0% of GDP in 2004, from 3.9% in 2003.
- The developments in late 2004 may lead us to make some changes to our 2005F growth forecast of 1.8% (possibly a minor downward revision). We continue to expect a recovery in investment related to public works (in view of the upcoming local elections), and also to higher public expenditure. The risks, however, are more on the downside.

Portugal – GDP Growth (YoY)

(% YoY)	2002	1Q03	2Q03	3Q03	4Q03	FY03	1Q04	2Q04	3Q04	4Q04	FY04	BSNP FY04E estimates
GDP	0.4	-1.4	-2.2	-1.0	0.0	-1.1	0.7	1.8	0.9	0.6	1.0	1.1
Private consumption	1.1	-1.3	-0.9	-0.2	1.2	-0.3	1.7	2.9	2.2	2.6	2.3	2.2
Public expenditure	2.3	0.7	0.2	0.0	0.2	0.3	0.6	1.1	1.5	1.8	1.2	0.8
Investment	-5.1	-12.8	-12.8	-8.2	-4.9	-9.8	0.5	3.6	2.0	2.2	2.1	3.0
Exports	2.0	7.3	1.8	4.8	6.2	5.0	5.3	8.2	4.1	3.0	5.1	6.2
Imports	-0.2	-1.2	-3.1	0.4	3.4	-0.1	5.8	9.4	6.1	6.7	7.0	7.7

Source: INE (National Statistics Institute) and BSNP estimates.

Local Offices

Madrid

Tel: 34-91-257-2309
Fax: 34-91-257-1811

Lisbon

Tel: 351-21-389-3400
Fax: 351-21-387-9133

London

Tel: 44-207-332-6900
Fax: 44-207-332-6909

New York

Tel: 212-692-2550
Fax: 212-407-4540

Bogotá

Tel: 571-644-8006
Fax: 571-592-0638

Buenos Aires

Tel: 54114-341-1052
Fax: 54114-341-1226

Caracas

Tel: 582-401-4306
Fax: 582-401-4219

Lima

Tel: 511-215-8100
Fax: 511-215-8185

Mexico City

Tel: 5255-5629-5040
Fax: 5255-5629-5846

Santiago

Tel: 562-336-3300
Fax: 562-697-3869

São Paulo

Tel: 5511-5538-8226
Fax: 5511-5538-8407

Tokyo

Tel: 813-3211-0356
Fax: 813-3211-0362

Key to Investment Codes¹

Buy	Upside of more than 15%.
Hold	Upside of 10%-15%.
Underweight	Upside of less than 10%.

(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.

This report has been prepared by Banco Santander de Negócios Portugal, S.A. ("BSNP") and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy. Any decision by the recipient to buy should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with the CMVM (Portuguese National Securities Market Commission) and available from the CMVM, the company governing the related market and the company issuing the security. This report is issued in the United States by Santander Investment Securities Inc. ("SIS"), in Spain by Santander Central Hispano Bolsa, Sociedad de Valores, S.A. ("Santander Central Hispano Bolsa") and in the United Kingdom by Santander Central Hispano S.A., London Branch ("SCH London"), which is regulated by the Financial Services Authority in the conduct of its business in the UK. BSNP, SIS, SCH London and Santander Central Hispano Bolsa are members of Grupo Santander. This report is not being issued to private customers.

The information contained herein has been compiled from sources believed to be reliable, but while all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgement as at the date of this report and are subject to change without notice. From time to time, Grupo Santander, its affiliates and/or any of its officers or directors may have a position, or otherwise be interested in, transactions in securities which are directly or indirectly the subject of this report.

Grupo Santander, or its affiliates may from time to time perform services for or solicit business from any company mentioned in this report. Grupo Santander, its affiliates or any other person do not accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose.

Any US recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with the company distributing the research, SIS at (212) 692-2550, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the US Securities Exchange Act of 1934) under this report and its dissemination in the United States. US recipients of this report should be advised that this research has been produced by a non-member affiliate of SIS and, therefore, by rule, not all disclosures required under NASD Rule 2711 apply.

© Banco Santander de Negócios Portugal, S.A., 2005. All Rights Reserved.

