



Executive Summary

In the **first quarter of 2023**, the Portuguese economy is expected to have grown by **0.5% quarter-over-quarter**, which corresponds to a **year-on-year growth of 1.4%**. Uncertainty remains very high and information available is still contradictory: the daily economic indicator (DEI) from Banco of Portugal suggests a strong expansion, but the turnover in retail trade and services signals modest growth.

The **Eurozone** may have grown **0.3% over the previous quarter**, corresponding to a **year-on-year growth of 1.5%**, after the stagnation of the fourth quarter of 2022.

In Portugal, **inflation** reached **8.0% on average** during the first quarter of 2023, with a year-on-year change of 7.4% in March, although it is reasonable to expect it to drop to around **6.0% in 2023**, more precisely in a range between 5.2 and 6.8%, as a result of the attenuation of unfavourable base effects.

The ECB's **monetary policy** shall contribute to a reduction in inflation either in the euro area, or in Portugal, but only by 2024, noting that the interest rates are still in the interval between 3.00% and 3.75%. The instability of the American and European financial systems made it more difficult to anticipate the evolution of monetary policy by the Fed and the ECB. Thus, both the Fed and the ECB may give in to the temptation of tolerating high inflation rates, clearly above 3%, for a longer period to avoid causing excessive difficulties for the sustainability of the balance sheets of the banks they regulate.

The midpoint estimate of the **Portuguese economic growth is revised upwards to 1.4% in 2023**, although with a wide range from 0% to 2.8% that reflects, above all, the unexpectedly positive signs of the first three months of the year. The second half of the year may appear to be more adverse as a result of the various pressures on the economic environment like high inflation and rising interest rates, which now adds to a probable worsening of credit availability as a result of greater turbulence in the financial system. Private consumption and investment seem to continue with a very fragile and contingent dynamic.

For **2024 and 2025**, the midpoints for annual growth are, respectively, **1.5% and 1.6%**, reflecting the probable adverse effects of the pandemic on the potential growth of the Portuguese economy.

The **Eurozone economy** is expected to perform a little worse, with GDP growth midpoint at **1.0%** and a gap between stagnation and a 2.0% expansion. Thus, the risk of a mild recession remains, but this does not seem to be the most likely scenario, given the recent developments in the European economy. The difficulties of the financial system are now a new risk that also changes the speed with which the ECB will be able to fight inflation without causing damage to that system.

In Portugal, the **unemployment rate** may rise to a midpoint of **6.5%**, a figure lower than the recent historical average, but that configures a new development in the post-pandemic period that needs to be followed carefully.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

| Region | Indicator | 2022 Q4 a) | 2023 Q1 | 2022 | 2023 scenarios (% change) | | |
|-----------|------------------------------------|---------------|------------|------|---------------------------|---------|--------|
| | | | | | Downside | Central | Upside |
| Portugal | GDP (% change on previous quarter) | 0.3 | 0.5 | - | - | - | - |
| | GDP (year on year/annual % change) | 3.2 | 1.4 | 6.7 | 0.0 | 1.4 | 2.8 |
| | Unemployment rate (%) | 6.5 | 6.9 | 6.0 | 7.0 | 6.5 | 6.0 |
| | Consumer prices (annual % change) | 9.6 b) | 7.4 b) | 7.8 | 6.8 | 6.0 | 5.2 |
| Euro Area | GDP (% change on previous quarter) | 0.0 | 0.3 | - | - | - | - |
| | GDP (year on year/annual % change) | 1.9 | 1.5 | 3.5 | 0.0 | 1.0 | 2.0 |

a) Official values (Statistics Portugal – INE/Eurostat); b) year-on-year change at the end of the quarter.