



January 21st, 2026

Executive Summary

The Portuguese economy is predicted to have expanded by **0.6% quarter over quarter** (qoq) and **1.8% year over year** (yoY) in the fourth quarter of 2025, after 0.8% and 2.4%, respectively, in the previous quarter. This slight slowdown stems from less intense growth in the working-age population and employment, as well as weak export performance, while private consumption continues to show robust growth. The eurozone GDP is predicted to have risen 0.3%, repeating the last record, with 1.3% yoY. Thus, the Portuguese economy is expected to have grown by 1.9% in 2025, above the eurozone average of 1.5%.

In Portugal, year-on-year **inflation** remained above 2%, reaching 2.2% in December and averaging 2.3% annually in 2025. This phenomenon now appears to be under control, both in the eurozone and in Portugal, as forecasts for 2026 are close to that figure.

In terms of **monetary policy**, the most relevant fact was the decrease of the Fed Funds Rate by 0.5 percentage points, pp (two cuts of 0.25 pp), as well as the introduction of a mechanism for managing US bank reserves that, in practice with increases in the purchase of Treasury bills, will lead to a further increase in the Fed's balance sheet, even before it has reached pre-pandemic levels. With inflation more controlled in the eurozone, the ECB maintained its benchmark interest rates, with the deposit facility aligned with expected medium-term inflation (2.0%) and clearly below the Fed Funds Rate (3.50%-3.75%). Nevertheless, the dollar continues to show marked depreciation against the euro, reflecting inflationary pressures and the structural problems of the US economy.

The midpoint estimate of **Portugal's economic growth** was revised downward by 0.2 pp to **1.8% in 2026**, following the expected impact of the end of the Recovery and Resilience Plan (PRR) in the middle of the year. This effect will be even more intense in **2027**, which prompted a revision of the previous estimate from 2.2% to **1.6%** (-0.6 pp). Additionally, NECEP now reveals a first estimate of **1.9% for 2028**, more in line with the trend growth of the Portuguese economy.

The **eurozone** economy is projected to grow by **1.1% and 1.3% in 2026 and 2027**, respectively, with a similarly weak outlook of **1.4% for 2028**. The financial and monetary effects of the pandemic years persist in the European and North American economies, downsizing the economic perspectives. In the case of Europe, there will be increases in spending on security and defence because of geopolitical risks, combined with spending resulting from demographic and environmental pressures, with the depletion of public finances, especially in France and Germany. In the United States, public deficit and debt remain a concern.

Portugal's fourth-quarter **unemployment rate** might be **5.9%**, a slight increase from the previous figure of 5.8%, with an outlook of 6.0% in 2026 and 2027.

Geopolitical risks remain active in Ukraine and Eastern Europe, as well as in the Middle East and Latin America. Despite the geopolitical and trade tensions, markets continue to show some normality, with sovereign bond yields stable and new all-time highs reached in equity markets, amid the inherent risks of a possible "bubble" among US technology companies.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2025 Q3 ^{a)}	2025 Q4	2026	2027
Portugal	GDP (% change on previous quarter)	0.8	0.6	-	-
	GDP (year on year/annual % change)	2.4	1.8	1.8	1.6
	Unemployment rate (%)	5.8	5.9	6.0	6.0
	Consumer prices (annual % change)	2.4 ^{b)}	2.2 ^{a) b)}	2.1	2.0
Euro Area	GDP (% change on previous quarter)	0.3	0.3	-	-
	GDP (year on year/annual % change)	1.4	1.3	1.1	1.3
	Consumer prices (annual % change)	2.2 ^{b)}	2.0 ^{a) b)}	2.0	2.0

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