

Executive Summary

The Portuguese economy is predicted to have expanded by **1.0% quarter over quarter** (qoq) and **2.1% year over year** (yoy) in the fourth quarter of 2024, with an **annual average of 1.7%**. The European economy is becoming more fragile, and the euro area is predicted to have risen only by 0.0%, 0.9% and 0.7%, respectively.

In December, Portugal's **inflation** was 3.0% yoy, and the core indicator rose to 2.8%. While core inflation in the euro area remained high at 2.8%, overall inflation was 2.4%. Therefore, it is still unclear whether this episode of global inflation has been fully resolved, with 2024 closing at 2.4% in Portugal and 2.3% in the euro zone, i.e. above the 2% target.

The Fed Funds Rate's 0.25 percentage points decline in November and December meetings, as well as the high outlook for long-term interest rates, are the most noteworthy **monetary policy** development of the latest quarter. In the case of the euro zone, in addition to the accumulated fall in reference rates also of 0.50 percentage points, the ECB stopped acquiring bonds under the special asset purchase programs (PEPP and APP), which had not happened since 2014.

The midpoint estimate of **Portugal's economic growth** was revised upward by 0.4 percentage points to **2.2% in 2025**, following the high growth at the end of last year and the associated carry-over effect for this year. For **2026**, the outlook now is to maintain this growth rate of **2.2%**, that is, 0.2 percentage points above the trend growth, which is estimated at 2.0%.

It is anticipated that the economy of the **euro area** will do worse, with a midpoint GDP growth of **1.0% in 2025 and 1.3% in 2026**. Thus, there is still a chance of a mild recession, particularly in Germany. The economies of North America and Europe continue to bear the consequences of the excesses in monetary policy and financial obligations during the pandemic years.

Portugal's fourth-quarter **unemployment rate** might be **6.7%**, but the outlook remains relatively favourable with 6.2% in 2025 and 6.0% in 2026.

There are still several political **risks**. Attention is now moving to the result of the German elections in February and the unpredictability of the new US administration, which is showing strong protectionist tendencies and could lead to the development of new trade wars, especially with Europe and China. The globe is experiencing a tremendous deal of uncertainty, though there is now some hope of resolving the main armed conflicts, whether in Gaza or Ukraine.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2024 Q3 ^{a)}	2024 Q4	2025	2026
Portugal	GDP (% change on previous quarter)	0.2	1.0	-	-
	GDP (year on year/annual % change)	1.9	2.1	2.2	2.2
	Unemployment rate (%)	6.1	6.7	6.2	6.0
	Consumer prices (annual % change)	2.1 ^{b)}	3.0 ^{a) b)}	2.2	2.1
Euro Area	GDP (% change on previous quarter)	0.4	0.0	-	-
	GDP (year on year/annual % change)	0.9	0.9	1.0	1.3
	Consumer prices (annual % change)	1.7 ^{b)}	2.4 ^{a) b)}	2.2	2.1

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