

Executive Summary

The Portuguese economy is predicted to have expanded by **0.2% quarter over quarter** (qoq) and **2.5% year over year** (yoy) in the first quarter of 2025, after a strong growth of 1.5% in the former quarter. The eurozone is predicted to have risen 0.2% too, with 1.0% yoy.

In March, Portugal's **inflation**, total and core, was only 1.9% yoy, despite the high month over month changes of 1.4% and 1.8%, respectively, concerned with seasonal effects. In the eurozone, total inflation stood at 2.2% yoy, but core inflation remained high at 2.4% yoy. Thus, the disinflation process remains ongoing, and it is expected that price growth will remain above the 2% target in 2025, whether in Portugal or in the eurozone.

In terms of **monetary policy**, the Fed Funds Rate remained unchanged in the last quarter, and the long-term interest rate is close to 3%. In the case of the eurozone, the ECB made two cuts of 0.25 percentage points, so that the deposit facility rate is now 2.5%. Thus, the asymmetry in relation to the Fed Funds Rate (4.25%-4.50%) became more pronounced.

The midpoint estimate of **Portugal's economic growth** was revised downward by 0.2 percentage points to **2.0% in 2025**, following the disruptions caused by the **tariff policy of the new US administration** which could limit the carry-over effect of 1.4 percentage points associated with the high growth at the end of last year. For **2026**, the outlook is **2.0%** too. For **2027**, the growth scenario of **2.2%** was maintained, in line with trend growth. Forecast ranges remain abnormally wide, because of **international uncertainty**, particularly that resulting from the **US tariffs**, which could erode growth in the coming years by around one percentage point.

It is anticipated that the economy of the **eurozone** will do worse, with a midpoint GDP growth of **0.8% in 2025 and 1.2% in 2026**. Thus, there is still a chance of a mild recession, particularly in Germany and France. The financial and monetary effects of the pandemic years persist in the European and North American economies, now amplified by the likely scenario of a retraction in international trade and strong Chinese competition in several sectors, such as artificial intelligence or the production of (electric) vehicles.

Portugal's first-quarter **unemployment rate** might be **6.3%**, but the outlook remains relatively favourable with 6.2% in 2025 and 6.0% in 2026.

There are still several political **risks**. The focus now is on the outcome of the legislative elections on May 18 in terms of whether, or not, they will reinforce governmental stability in Portugal. The new US administration remains highly unpredictable, particularly in terms of tariffs and foreign policy, with the possibility of a recession this year in the US. Geopolitical risks resulting from the situation in the Middle East and Russian aggression against Ukraine, among others, remain high.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2025 Q4 ^{a)}	2025 Q1	2025	2026
Portugal	GDP (% change on previous quarter)	1.5	0.2	-	-
	GDP (year on year/annual % change)	2.9	2.5	2.0	2.0
	Unemployment rate (%)	6.7	6.6	6.2	6.0
	Consumer prices (annual % change)	3.0 ^{b)}	1.9 ^{a) b)}	2.2	2.1
Euro Area	GDP (% change on previous quarter)	0.2	0.2	-	-
	GDP (year on year/annual % change)	1.2	1.0	0.8	1.2
	Consumer prices (annual % change)	2.4 ^{b)}	2.2 ^{a) b)}	2.2	2.1

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