CATÓLICA-LISBON Forecasting Lab | NECEP

July 8th, 2026

Executive Summary

The Portuguese economy is predicted to have expanded by **0.6% quarter over quarter** (qoq) and **2.2% year over year** (yoy) in the second quarter of 2026, after 0.0% and 2.3%, respectively, in the previous quarter. In fact, most high-frequency indicators suggest an improvement in economic activity and sentiment in recent months, past which was the most critical phase of rising energy prices and disruptions in distribution chains driven by the conflict in the Middle East. However, this estimate has difficulty incorporating the dynamics of the active population, which grew 0.8% qoq.

In the case of the **eurozone**, the central scenario appears to be one of slight growth of GDP (0.1% qoq) in the second quarter. Therefore, a recession scenario appears to be out of the question after the 0.2% contraction in the first quarter, driven by the volatile behaviour of the Irish GDP.

In Portugal, the **year-on-year change of Index of Consumer Prices (ICP)** reached 3.3% in April and May due to the aforementioned rise in energy prices but then it decreased to 3.2% in June. Core inflation is also significant (2.5% at the end of the quarter), but there is no evidence of the energy shock being transmitted to most goods and services. In any case, ICP growth should rise this year from 2.3% to **2.5%**, remaining in line with the 2% objective of monetary policy at the horizon of 2028, with an intermediate value of 2.2% in 2027.

As a result of the upward revision of arithmetic inflation measured by the HICP in the euro zone, the ECB raised reference **interest rates** by 0.25 percentage points (pp), recognizing, however, the downside risks in terms of economic growth. With the Federal Reserve now chaired by Kevin Warsh, there is an apparent paradigm shift in monetary policy communication, with the likely abandonment of the forward guidance that characterized the Powell era; rates remained unchanged, citing the strength of economic activity and the job market in the US. The upward pressure on Treasury bond yields, both North American and European, reflects the markets' growing concern about the sustainability of public finances, pressured by social, environmental and defense spending.

The midpoint estimate for **Portuguese economic growth** is revised upward from 1.5% to **1.8%** in **2026**, following the growth now estimated for the second quarter. Projections for **2027** and **2028** were **1.5%** and **1.9%**, respectively. The **eurozone** economy may grow by only **0.4%** in **2026**, a downward revision of 0.4 pp from the previous estimate, explained by the contraction in the first quarter and the weak growth now estimated for the second quarter. For 2027 and 2028, a slight downward revision was carried out to 1.2% and 1.3%, respectively.

Problems with public finances, fiscal balances and public debt, both in the US and in Europe, could compromise growth prospects in the medium term. Portuguese **unemployment rate** might be **5.2%** in the second quarter, a drop of 0.9 pp from the previous period, with an outlook around 5.8% in 2026 and 2027.

Geopolitical risks are now more mitigated, following the memorandum of understanding between the US and Iran and subsequent talks. Still, the escalation of violence in the Middle East remains a plausible scenario, nor is the imminent end of the war in Ukraine foreseeable. Despite this persistent tension, markets have shown signs of normality with new historic highs reached on the main global stock exchanges.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2026 Q1 a)	2026 Q2	2026	2027
Portugal	GDP (% change on previous quarter)	0.0	0.6	-	-
	GDP (year on year/annual % change)	2.3	2.2	1.8	1.5
	Unemployment rate (%)	6.1	5.5	5.9	5.9
	Consumer prices (annual % change)	2.7 b)	3.2 a) b)	2.5	2.2
Euro Area	GDP (% change on previous quarter)	-0.2	0.1	-	-
	GDP (year on year/annual % change)	0.3	0.3	0.4	1.2
	Consumer prices (annual % change)	2.6 b)	2.8 a) b)	2.7	2.3

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

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