



Executive Summary

In the second quarter of the year, the **Portuguese economy** may have operated at **100.3% of the pre-pandemic level**, that is, at a level slightly above to that of the fourth quarter of 2019. This synchronization in level may be like that of most **euro area** countries, where the economy may have contracted around 0.5% in the second quarter over the previous quarter (qoq). The combined effects of either the Ukrainian war or the rapid change in monetary policy to deal with the **inflation risks** created an **adverse outlook** for most developed economies. The recovery of the pre-pandemic levels of activity became common, but economic growth from this level now appears to be quite difficult and demanding in the short and medium term.

The **favourable misalignment** of the Portuguese economy in the **first quarter** of the year, whose GDP reached an unexpected level of 101.2% to that of the fourth quarter of 2019, makes it difficult to assess the performance of the usual indicators from year-on-year changes, because these variations are influenced by abnormal base effects, regardless of the period chosen as a base.

Thus, the Portuguese economy should register **significant fluctuations** in the coming months, which should not be interpreted as *contractions* or *accelerations* of GDP growth, but rather as adjustment movements typical of the present post-pandemic phase. Likewise, the occurrence of an episode of very high growth, as is expected to occur this year, should be followed by at least partial compensation in the form of weaker growth in the next year.

Therefore, NECEP anticipates that **the Portuguese economy could grow by around 0.3 percent per quarter until the end of 2023**, but with probable fluctuations around the pre-pandemic level. This behaviour should also be observed in the main economies of the euro area, in the absence of severe shocks.

Nevertheless, **the quarter-over-quarter change of GDP in the second quarter could be negative**, predictably -0.8%, in order to offset the abnormally high growth of 2.6% observed in the first quarter of the year. In this scenario, the Portuguese economy could register an **annual variation of 5.2% in 2022**, a figure amplified by the base. This would be consistent with a **growth of only 0.3% in 2023**, which incorporates an unfavourable base effect resulting from the large rebound in the first quarter.

The human and economic costs of the war in Ukraine are very high, but they are not yet unequivocally noted in the data on economic activity in Portugal. In fact, high-frequency indicators suggest a rapid improvement in **tourism** that could reach, or even surpass, the pre-pandemic levels during the summer.

Besides, **inflation rate** in Portugal could reach **7.5% in 2022**, although it is reasonable to expect it to drop to **5.0% in 2023**. The monetary policy of the European Central Bank (ECB) should contribute to a reduction in inflation in the euro area, and in Portugal, but only from next year onwards, as interest rates remain negative. Thus, in 2024, **inflation** should converge to **2.5%** in both cases (euro area and Portugal).

The **State Budgetary Plan for 2023** is quite complex to prepare, as it may coexist with a macroeconomic scenario of very modest growth, possibly interpreted as a scenario of **stagnation combined with high inflation**. There is also the risk of a severe increase in the cost of servicing the public debt (interest payments), resulting from the foresighted rise, not only in the ECB interest rates, but also in the spreads vis-à-vis Germany.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2022 Q1 a)	2022 Q2	2021	2022 scenarios (% change)		
					Downside	Central	Upside
Portugal	GDP (% change on previous quarter)	1.7	0.2	-	-	-	-
	GDP (year on year/annual % change)	5.9	9.3	4.9	3.0	4.0	5.0
	Unemployment rate (%)	6.3	6.0	6.6	6.2	6.1	6.0
	Consumer prices (annual % change)	1.3 b)	2.2 b)	1.3	7.0	5.0	3.0
Euro Area	GDP (% change on previous quarter)	0.3	-0.2	-	-	-	-
	GDP (year on year/annual % change)	4.6	4.6	5.3	2.7	3.7	4.7

a) Official values (Statistics Portugal – INE/Eurostat); b) Values at the end of the quarter.