



Executive Summary

The exercise of estimating the evolution of the Portuguese GDP in the last quarter of 2021 presents some additional difficulties due to a cumulative set of factors, namely: the erratic evolution of high frequency indicators in December; the high contribution of trade deflators to growth in the third quarter of the same year; and the imposition of new restrictions on the European and Portuguese economies since December. Therefore, different calculations place the Portuguese economy at a **level between 94.8% and 98.7% of the 4th quarter of 2019**, the last without the effect of the pandemic. Having this in mind, this economy must have **grown 0.5% in the 4th quarter of 2021 over the previous quarter (qoq) and 4.4% over the same quarter in the previous year (yoy)**. For the whole of the year of **2021**, the Portuguese economy might have grown **between 3.6% and 4.7%, with a central point at 4.3%**, an upward revision of 0.6 percentage points compared to the last forecast (October 2021).

Meanwhile, the **eurozone** economy might have grown **0.3% qoq and 4.5% yoy** in the 4th quarter of 2021. This slower pace in contrast with Portugal corresponds to a relatively faster return to the pre-pandemic levels, as a result of a lower dependence, on average, on tourism. The lower **inflation rate** observed in Portugal (**1.3%**) compared to the euro area (2.6%) in 2021 may also reflect the relative delay in the respective economic recovery.

The negative effects of health policies on economic activity in the northern hemisphere should be significantly reduced from spring onwards. In this way, a return to the level of activity prior to the pandemic is expected throughout 2022, but with a different sectoral composition and delay in Portugal.

In this **central scenario**, the estimated growth of the Portuguese economy is **4.3% in 2022**, a figure amplified by the carry-over effect associated with the lockdown of the first quarter of 2021. **Uncertainty** is still high in the sense that this forecast depends on the (always postponed) normalization of social and economic life from the spring onwards and the maintenance of support for the economy in the most vulnerable sectors. The budgetary and health policies of the government that will come out of the January 30 elections are an additional source of uncertainty. Thus, the budget for the current year may continue to operate by twelfths (of the budgetary plan 2021) and with limited oversight for a large part of the year.

The uncertainty for **2022 and 2023** is still substantial due to all the interim risks. In the central scenario, growth may be close to a relatively low potential, but still benefiting from a favourable base effect in 2023, given the current restrictions. Thus, that scenario is now of **3.1% in 2023, an upward revision from 2.0%**. The last figure has become the central estimate for **2024**, considering that there should be a complete elimination of unorthodox support measures by the beginning of that year.

The main risks for the Portuguese economy are also related to the **evolution of energy prices and inflation**, which began to reach very high levels during the second half of 2021. In the case of the eurozone, where inflationary risks are lower than in the US, the reduction in monetary support and the rise in interest rates may start to be visible throughout this year. The rise in costs and prices could have an inhibiting effect on economic activity in real terms, which could lead to a downward revision of the central scenario described above for Portugal.

It is in the US where the strongest signs of **normalization of monetary policy** emerge, with the pre-announced end of the rise in the FED's balance sheet as early as March and the possible increase in short-term interest rates three or four times during 2022. Even so, these would remain at historically low levels, but the high level of indebtedness of many economies, including Portugal, makes this normalization a double economic and financial risk. On the other hand, the **growth of the world economy** could be relatively moderate in 2022, excluding the base effects arising from the health policies of 2021.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2021 Q3 ^{a)}	2021 Q4	2021	2022 scenarios (% change)		
					Downside	Central	Upside
Portugal	GDP (% change on previous quarter)	2.9	0.5	-	-	-	-
	GDP (year on year/annual % change)	4.2	4.4	4.3	3.3	4.3	5.3
	Unemployment rate (%)	6.1	6.3	6.6	6.2	6.0	5.9
	Consumer prices (annual % change)	0.6 ^{b)}	1.3 ^{b)}	1.3	2.4	2.0	1.6
Euro Area	GDP (% change on previous quarter)	2.2	0.3	-	-	-	-
	GDP (year on year/annual % change)	3.9	4.5	5.1	3.5	4.2	4.9

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