



Executive Summary

In the **second quarter of 2023**, the Portuguese economy might **stagnate quarter-over-quarter**, which would correspond to a **year-on-year growth of 2.3%**. Uncertainty is very high, namely, because growth was unexpectedly strong in the first quarter. An eventual chain contraction is quite likely and will not be cause for concern if it is relatively small. The **Eurozone GDP** is expected to have **contracted by 0.5% quarter-over-quarter**, corresponding to a **year-on-year drop of 0.3%**, after the slight contraction (-0.1%) in the first quarter of 2023, as well as in the fourth quarter of 2022.

In Portugal, **inflation** reached **4.4% on average** during the second quarter of 2023, with a year-on-year change of 3.4% in June. The annual average is revised downwards to **5.1% in 2023**, more precisely in a range between 4.1% and 6.1%, as a result of a relatively rapid decline in the second quarter, although signs persist that the phenomenon is not under control.

The ECB's **monetary policy** shall contribute to a reduction in inflation either in the euro area, or in Portugal, but only by 2024, noting that the interest rates are still in the interval between 3.5% and 4.25%. The instability of the American and European financial systems made it more difficult to anticipate the evolution of monetary policy. Thus, both the Fed and the ECB may give in to the temptation of tolerating high inflation rates, clearly above 3%, for a longer period to avoid causing excessive difficulties for the sustainability of the balance sheets of the banks they regulate.

The midpoint estimate of the **Portuguese economic growth is revised upwards to 2.4% in 2023**, although with a wide range from 1.8% to 3.0% that reflects, above all, the numeric effect of the first quarter positive surprise. The trend growth of the economy remains fragile and technical corrections that give rise to chain contractions are possible. The second half of the year may appear to be more adverse as a result of the various pressures on the economic environment like high inflation and rising interest rates, which now adds to a probable worsening of credit availability as a result of greater turbulence in the financial system. Private consumption and investment seem to continue with a very fragile and contingent dynamic.

For **2024 and 2025**, the new midpoints for annual growth are, respectively, **1.4% and 1.6%**, reflecting the probable adverse effects of the pandemic on the potential growth of the Portuguese economy, as well as the economic costs of high inflation and interest rates.

The **Eurozone economy** is expected to perform a little worse, with GDP growth midpoint at **0.1%** and a gap between a contraction of 0.5% and an expansion of 0.7%. Thus, the risk of a mild recession is now the most likely scenario, given the recent developments in the German and French economies. The difficulties of the financial system are a new risk that also changes the speed with which the ECB will be able to fight inflation without causing damage to that system.

In Portugal, the **unemployment rate** may rise to a midpoint of **6.7%**, a figure lower than the recent historical average, but that configures a new development in the post-pandemic period that needs to be followed carefully.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2023 Q1 a)	2023 Q2	2022	2023 scenarios (% change)		
					Downside	Central	Upside
Portugal	GDP (% change on previous quarter)	1.6	0.0	-	-	-	-
	GDP (year on year/annual % change)	2.5	2.3	6.7	1.8	2.4	3.0
	Unemployment rate (%)	7.2	6.2	6.0	6.9	6.7	6.6
	Consumer prices (annual % change)	7.4 b)	3.4 b)	7.8	6.1	5.1	4.1
Euro Area	GDP (% change on previous quarter)	0.1	-0.5	-	-	-	-
	GDP (year on year/annual % change)	1.3	-0.3	3.5	-0.5	0.1	0.7
	Consumer prices (annual % change)	6.9 b)	5.5 b)	8.4	6.5	5.5	4.5

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