

Executive Summary

High-frequency indicators for the **third quarter** send **mixed signals** about the recent evolution of the Portuguese economy. Indeed, indicators such as vehicle sales or ESI (Economic Situation Index) suggest a recovery in private consumption and overall economic activity. However, retail sales and diesel fuel supply at gas stations indicate a possible contraction in private consumption in real terms. Furthermore, the employed population fell by 0.8% compared to the second quarter, excluding seasonal effects.

Despite the contradictory signs, which justify some ambiguity, the **central point** of the NECEP estimate points to **stagnation** after the strong growth of 0.9% in the second quarter. The annual variation should have been 2.2% after 2.6%.

In the case of the **eurozone**, the central scenario points to slight GDP growth of 0.2% quarter-over-quarter (qoq), following the robust growth of 0.6% in the second quarter, driven by the volatile performance of Irish GDP.

In Portugal, **year-on-year (yoy) change of Consumer Prices Index (CPI)** reached 3.6% in September, resulting from a very high chain-linked change (1.2%) driven by an increase in energy prices. The transmission of this latter effect to most goods and services is now more evident, with core inflation growing 1.1% chain-linked and 2.7% yoy. Thus, CPI growth should be **close to 3%** this year, remaining aligned with the 2% **monetary policy** target at the threshold of 2028, with an intermediate value of 2.4% in 2027.

The ECB raised its benchmark **interest rates** again by 0.25 percentage points (pp), a decision motivated by inflationary pressures caused by the energy price shock. The US Federal Reserve (Fed) also raised its benchmark rate by 0.25 pp, anticipating the possibility of one or two more similar increases later this year. 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, investment (e.g. datacenters) and defense spending.

The midpoint estimate for **Portuguese economic growth** is revised upward from 1.8% to **2.2%** in **2026**, following the high growth of the second quarter, despite the weak outlook until the end of the year. The projection for **2027** remained at **1.5%**, reflecting, on the one hand, the unsustainability of the growth trajectory of the active population in recent years and, on the other hand, the expected slowdown in investment resulting from the end of the PRR / Next Generation EU. The **eurozone** economy may grow by **1.0%** in **2026**, an upward revision of 0.6 pp from the previous estimate, explained by the robust growth of the second quarter. For 2027 and 2028, the projections were 1.2% and 1.3%, respectively.

Portuguese **unemployment rate** might fluctuate from 5.3% to **5.4%** in the third quarter, with an outlook around 5.7% in 2026 and 2027.

Geopolitical risks have intensified with the resumption of the war between the US and Iran and with developments in Yemen. Despite these conflicts in the Middle East, as well as the escalation of the war in Ukraine and the tension in Eastern Europe, geopolitical risk has evolved towards moderation, but with a very recent increase.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2026 Q2 ^{a)}	2026 Q3	2026	2027
Portugal	GDP (% change on previous quarter)	0.9	0.0	-	-
	GDP (year on year/annual % change)	2.6	2.2	2.2	1.5
	Unemployment rate (%)	5.3	5.4	5.7	5.7
	Consumer prices (annual % change)	3.2 ^{b)}	3.6 ^{a) b)}	3.0	2.4
Euro Area	GDP (% change on previous quarter)	0.6	0.2	-	-
	GDP (year on year/annual % change)	1.2	1.1	1.0	1.2
	Consumer prices (annual % change)	2.8 ^{b)}	3.8 ^{a) b)}	2.9	2.4

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