



## Executive Summary

In the **fourth quarter of 2023**, the Portuguese economy is expected to have **grown 0.3% quarter-over-quarter (qoq)**, which would correspond to a **year-on-year (yoy) growth of 1.7%**, as well as an **annual growth of 2.2%**, slightly better than anticipated in the last newsletter. Uncertainty is very high as the available information, although scarce, suggests a significant improvement in December. The **euro area** is expected to have **contracted 0.1% qoq**, corresponding to **yoy growth of 0.5%**, with still no signs of an increase in unemployment.

In Portugal, **average inflation** in the fourth quarter was **1.7%**, clearly lower than the 2.7% recorded in the euro area in the same period. Core inflation remains high with an annual rate of 3.9% in the euro area in December, but the second half of the year exhibited chain changes consistent with the medium-term objective of 2%.

The improvement in inflation data in the USA and Europe significantly changed expectations about **monetary policy**. The capital market seems to believe that this episode of inflation is under control. Despite this, the monetary authorities maintain a discourse of prudence and the possibility of a further increase in interest rates. Nevertheless, either in the euro area or in the USA, those authorities recognize the possibility of reductions in the key interest rates during this year.

The midpoint estimate of the **Portuguese economic growth remains at 1.0% in 2024**, as a result of a greater level of the first half of 2023 and not so much of a further deterioration in the outlook. The fall of the Government last November and the calling of elections for March this year do not change the baseline of the macroeconomic scenario. The most relevant factors continue to be rising interest rates and the fragility of economic activity in the euro area, particularly in Germany. The possible improvement in investment, after a poor performance in 2023, may be insufficient to compensate for low export growth, now that tourist activity appears to have returned to its pre-pandemic trajectory.

For **2025 and 2026**, the midpoints for annual growth are, respectively, **1.5% and 2.0%**, reflecting the return to the historical potential growth of the Portuguese economy at the end of the forecasting horizon, when the positive effects of the post-pandemic economic recovery and the adverse effects of high inflation and rising interest rates may have dissipated.

The **euro area economy** is expected to perform worse, with a midpoint GDP growth of **0.7% in 2024**. Thus, the risk of a mild recession is still present. Geopolitical risks remain high with uncertain consequences in the current situation. And the North American elections in November, as well as the European ones in June, could worsen the crisis management by the international community.

In Portugal, the **unemployment rate** remains at historically low values with 6.6% in the fourth quarter and 6.5% in the whole year of 2023, a positive sign despite the weakness of the economy.

The Portuguese elections in March, combined with a relatively generous **Budgetary Plan for 2024**, pose a certain risk to public finances, particularly in the context of a possible fragmentation of the Parliament and difficulties in setting up a new government.

### Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2023 Q3 <sup>a)</sup>	2023 Q4	2023	2024 scenarios (% change)		
					Downside	Central	Upside
Portugal	GDP (% change on previous quarter)	-0.2	0.3	-	-	-	-
	GDP (year on year/annual % change)	1.9	1.7	2.2	0.2	1.0	1.8
	Unemployment rate (%)	6.1	6.6	6.5	7.0	6.7	6.4
	Consumer prices (annual % change)	3.5 <sup>b)</sup>	1.7 <sup>b)</sup>	4.3	4.0	3.0	2.0
Euro Area	GDP (% change on previous quarter)	-0.1	-0.1	-	-	-	-
	GDP (year on year/annual % change)	0.5	0.5	1.0	0.1	0.7	1.3
	Consumer prices (annual % change)	5.0 <sup>b)</sup>	2.7 <sup>b)</sup>	5.4	4.5	3.5	2.5

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