



## Executive Summary

In the **second quarter of 2024**, 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%**. The **euro area** is expected to have **grown 0.3% qoq and 0.6% yoy**, despite the slightly improvement in the economic outlook.

In Portugal, **inflation** was **2.8%** in June, above the record at the end of the previous quarter (2.3%), as well as the figure for the euro zone in the same month (2.5%). Core inflation remains high with 2.8% yoy and 0.4% qoq in the euro area, which postpones the possibility of achieving the 2% inflation target to 2025 or even 2026.

In terms of **monetary policy**, there was a decoupling between the United States and the euro area. As a result of confidence in the degree of inflation control in the euro area, the ECB decided to reduce reference interest rates by 0.25 percentage points at the June meeting. The Fed, in the USA, remains more prudent, with the most likely scenario currently being a decline of 0.50 pp throughout the year. In the case of the ECB, the scenario of a pause in the following months appears credible. Monetary authorities remain vigilant and monetary policy decisions continue to depend on the evolution of the disinflation process and the state of the economy, as well as on the stability in the financial system.

The midpoint estimate of the **Portuguese economic growth was revised upward in 0.3 percentage points from 1.5% to 1.8% in 2024**, following the robust growth observed in the first quarter (0.8%) and now forecasted for the second quarter. The most relevant factors continue to be high interest rates and the fragility of economic activity in the euro area, particularly in Germany and France. Investment fell in the first quarter and exports lost last year's shine, so it is difficult for the Portuguese economy to continue to surprise positively as it has done over the last few quarters.

For **2025 and 2026**, the midpoints for annual growth are, respectively, **1.9%** (+0.1 percentage points) **and 2.0%** (no change), reflecting the return to the historical potential growth of the Portuguese economy at the end of the forecasting horizon, when the positive impact 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 **0.8% in 2024**. Thus, the risk of a mild recession is still present. This risk also remains for the US economy. In both cases, the excesses in terms of financial commitments and monetary policy of the pandemic years subsist in the economy.

In Portugal, the **unemployment rate** might decrease from 6.8% to 6.2% in the second quarter, and the outlook for 2024 is still relatively favourable in historical terms (6.3%).

In the short term, the risks of instability for the European economy and the financial system appear result from several cases of political instability, particularly in France, where the budgetary policy stance of a new government is still unclear. In global terms, attention is now turning to the result of the US elections in November, which could have a relevant impact on the management of the world economy. **Geopolitical risks** remain high, with no end in sight to major armed conflicts.

### Forecasts from Católica Lisbon Forecasting Lab – NECEP

| Region    | Indicator                          | 2024 Q1 <sup>a)</sup> | 2024 Q2              | 2024 | 2025 |
|-----------|------------------------------------|-----------------------|----------------------|------|------|
| Portugal  | GDP (% change on previous quarter) | 0.8                   | 0.3                  | -    | -    |
|           | GDP (year on year/annual % change) | 1.5                   | 1.7                  | 1.8  | 1.9  |
|           | Unemployment rate (%)              | 6.8                   | 6.2                  | 6.3  | 6.2  |
|           | Consumer prices (annual % change)  | 2.3 <sup>b)</sup>     | 2.8 <sup>a) b)</sup> | 2.5  | 2.2  |
| Euro Area | GDP (% change on previous quarter) | 0.3                   | 0.3                  | -    | -    |
|           | GDP (year on year/annual % change) | 0.4                   | 0.6                  | 0.8  | 1.5  |
|           | Consumer prices (annual % change)  | 2.4 <sup>b)</sup>     | 2.5 <sup>a) b)</sup> | 2.5  | 2.2  |

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