



Executive Summary

In the **third quarter** of the current year, the Portuguese economy may have operated at around **101.5% of the pre-pandemic level**, relative to the fourth quarter of 2019. The information available is still contradictory, but the best estimate is that the Portuguese economy has **contracted around 0.5% over the second quarter**, which corresponds to a **year-on-year change of 4.0%** due to favourable base effects. In practice, the recovery of **tourism** was not enough to compensate for the losses of activity in other sectors more penalized by the rise in the prices of energy and raw materials. In any case, an almost stagnation in the third quarter, with growth close to that of the second quarter (0.1%) as Banco de Portugal conjectures, is an equally valid scenario, as is a fall close to 1%.

At the same time, the **euro zone** may have contracted **0.5% quarter-over-quarter**, reflecting the deterioration of the environment marked by the effects of the main factors that determine the economic activity nowadays: the invasion of Ukraine by Russia, the rise in energy prices, inflation and the consequent decrease in aggregate demand, as well as the prospects of rising interest rates.

Besides its weaknesses, the Portuguese economy may benefit from the effect of the abnormally low base of 2021, which allows for a **central scenario of economic growth of 6.1% in 2022**. The **forecast range between 5.8% and 6.4%** does not incorporate the estimate of Banco de Portugal (6.7%) which is based not only on the aforementioned hypothetical tenuous growth in the third quarter, but also on a recovery of 0.5% in the fourth quarter, motivated by the **temporary effect of the Government's support program** to households, which is quite difficult to quantify *ex-ante* based on the information available.

Inflation in Portugal could reach **7.6% in 2022**, although it is reasonable to expect it to drop to around **6.0% in 2023**. The ECB's monetary policy should contribute to a reduction in inflation in the euro area and in Portugal, but only by 2024, as the interest rates remain at historically low levels, although they are no longer negative. Thus, the ECB may raise benchmark **interest rates** over the next few months, following the lead of the US Federal Reserve (Fed) until interest rates approach levels that are neutral in terms of favouring the economic activity.

The **fragility of the European economy** is expected to persist in the coming year, as well as the growth of the Portuguese economy at a slower pace than its trend growth rate. In addition, specific corrections may undergo in relation with the post-pandemic period. Thus, the **central point of growth forecast for Portugal next year (2023) is 0.5%**, with a range between a contraction of 1.0% and an expansion of 2.0%. This perspective of moderation stems, on the one hand, from the depletion of the post-COVID rebounds and base effects and, on the other hand, from the increased costs of the debt service and imports of energy and other essential goods.

The **State Budgetary Plan for 2023** anticipates a deficit reduction of one percentage point compared to 2022 if the growth of the economy (1.3%) allows it. The decline in public debt is expected to be moderate, as 2023 is shrouded in great uncertainty regarding the macroeconomic scenario which, if it deteriorates substantially compared to the forecast in that document, could force the Government to take additional measures to support households and firms.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2022 Q2 ^{a)}	2022 Q3	2022	2023 scenarios (% change)		
					Downside	Central	Upside
Portugal	GDP (% change on previous quarter)	0.0	-0.5	-	-	-	-
	GDP (year on year/annual % change)	7.1	4.0	6.1	-1.0	0.5	2.0
	Unemployment rate (%)	5.7	5.7	5.9	6.0	5.9	5.8
	Consumer prices (annual % change)	4.1 ^{b)}	6.0 ^{b)}	7.6	7.5	6.0	4.5
Euro Area	GDP (% change on previous quarter)	0.6	-0.5	-	-	-	-
	GDP (year on year/annual % change)	3.9	1.4	2.9	-0.5	0.5	1.5

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