

Executive Summary

The Portuguese economy is predicted to have expanded by **0.4% quarter over quarter** (qoq) and **2.0% year over year** (yoy) in the second quarter of 2024. The European economy is becoming more fragile, and the euro area is predicted to have risen only by 0.2% qoq and by 0.8% yoy.

In September, Portugal's **inflation** was 2.1% yoy, but the core indicator rose to 2.8%. While core inflation in the euro area remained high at 2.7%, overall inflation dropped to 1.8%. Therefore, it is still unclear whether this episode of global inflation has been fully resolved, even though the disinflation process is still underway.

The Fed Funds Rate's 0.50 percentage point decline at the September meeting, which indicates both some concern about the trajectory of unemployment and the relative success in containing US inflation, is the most noteworthy **monetary policy** development of the third quarter. Monetary policy actions in the euro area are still based on the stability of the financial system, the status of the economy, and the evolution of the referenced disinflation process. The monetary authorities are still on guard in this regard.

Following the weak growth seen in the second quarter (0.2% qoq) and the most recent data revision from INE – Statistics Portugal, the midpoint estimate of **Portugal's economic growth** was revised downward by 0.2 percentage points to **1.6% in 2024**. This is because economic activity is still evolving in an apparently stable manner, with growth coming slightly below the potential. High interest rates and the brittleness of the euro area's economy, especially in Germany and France, remain the most important issues. Second-quarter investment growth was only 0.6% qoq, and moderate expectations for the third quarter are similarly indicative of the current external climate.

The midpoints of annual growth for **2025 and 2026** are **1.8%** (-0.1 percentage points) and **2.0%** (no change), respectively. These represent the return to the Portuguese economy's historical potential growth at the end of the forecasting horizon, when the favourable effects of the post-pandemic economic recovery and the potentially negative effects of high inflation and rising interest rates will have subsided.

It is anticipated that the economy of the **euro area** will do worse, with a midpoint GDP growth of **0.8% in 2024**. Thus, there is still a chance of a mild recession, particularly in Germany. The economies of North America and Europe continue to bear the consequences of the excesses in monetary policy and financial obligations during the pandemic years.

Portugal's third-quarter **unemployment rate** was **6.2%**, and the outlook for 2024 remains relatively favourable at 6.4%.

There are still several political and geopolitical **risks**. Attention is now moving to the result of the US elections in November, which could have a major impact on the management of the world economy. The French economy may remain vulnerable due to the parliamentary fragmentation and the new government's budgetary policies. China's series of stimulus programs show how fragile its internal economy is and serve as a catalyst for trade disputes. The globe is experiencing a tremendous deal of uncertainty, and the major military conflicts that are intensifying and widening have no sign of ending soon.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2024 Q2 ^{a)}	2024 Q3	2024	2025
Portugal	GDP (% change on previous quarter)	0.2	0.4	-	-
	GDP (year on year/annual % change)	1.6	2.0	1.6	1.8
	Unemployment rate (%)	6.1	6.2	6.4	6.3
	Consumer prices (annual % change)	2.8 ^{b)}	2.1 ^{a) b)}	2.5	2.2
Euro Area	GDP (% change on previous quarter)	0.2	0.2	-	-
	GDP (year on year/annual % change)	0.6	0.8	0.8	1.3
	Consumer prices (annual % change)	2.5 ^{b)}	1.8 ^{a) b)}	2.5	2.2

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