

Executive Summary

The Portuguese economy is predicted to have expanded by **0.6% quarter over quarter** (qoq) and **2.2% year over year** (yoy) in the third quarter of 2025, after 0.7% and 1.8%, respectively. The eurozone GDP is predicted to have risen 0.3%, slightly above the previous 0.1%, with 1.4% yoy.

In Portugal, annual **inflation** was once again 2.4% at the end of the trimester, but with a core figure of 2.0%. The qoq change was high in September (0.9%), so the phenomenon does not yet appear to be completely under control. Therefore, the inflation estimate for **2025** was revised slightly upward from 2.3% to **2.4%**, in line with September's yoy inflation. In the euro area, overall inflation stood at 2.2% at the end of the quarter. Therefore, the medium-term target of 2% seems achievable in the coming months.

In terms of **monetary policy**, the most relevant fact was the decrease of the Fed Funds Rate in 0.25 percentage points, a somewhat polemic decision due to the “challenging situation” of the US economy, accordingly with the Fed's president, Jerome Powell. With inflation more controlled in the eurozone, the ECB maintained its benchmark interest rates, with the deposit facility aligned with expected medium-term inflation (2.0%) and clearly below the Fed Funds Rate (4.00%-4.25%). Nevertheless, the dollar continues to show marked depreciation against the euro, reflecting inflationary pressures.

The midpoint estimate of **Portugal's economic growth** was revised upward by 0.1 percentage points to **1.8% in 2025**, in the wake of the robust growth seen in the second quarter, as well as the estimate now advanced for the third quarter. For **2026 and 2027**, the growth scenarios of 2.0% and 2.2%, respectively, were maintained. Forecast ranges remain abnormally wide, as result of **uncertainty surrounding the evolution of the global and European economy**, in a context (still) marked by the potential impact of the enormous volatility of the US administration's trade policy since the beginning of the year.

The **eurozone** economy could grow by **1.4% in 2025 and 2026**, but prospects remain weak in the medium term, with **1.5% in 2027**. The financial and monetary effects of the pandemic years persist in the European and North American economies. In the case of Europe, there will be increases in spending on security and defence because of geopolitical risks, combined with spending resulting from demographic and environmental pressures, with the depletion of public finances, especially in the case of France. In the United States, public deficit and debt remain a concern.

Portugal's third-quarter **unemployment rate** might be **5.8%**, with an outlook of 6.3% in 2025 and 6.1% in 2026.

Geopolitical risks remain active in Ukraine and Eastern Europe, but strong mediation initiatives have emerged in the Middle East. Despite the geopolitical and trade tensions, markets continue to show some normality, with limited episodes of volatility followed by strong appreciation. In Portugal, attention is now focused on the presentation and discussion of the 2026 Budgetary Plan, as well as the upcoming elections.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2025 Q2 ^{a)}	2025 Q3	2025	2026
Portugal	GDP (% change on previous quarter)	0.7	0.6	-	-
	GDP (year on year/annual % change)	1.8	2.2	1.8	2.0
	Unemployment rate (%)	5.9	5.8	6.3	6.1
	Consumer prices (annual % change)	2.4 ^{b)}	2.4 ^{a) b)}	2.4	2.2
Euro Area	GDP (% change on previous quarter)	0.1	0.3	-	-
	GDP (year on year/annual % change)	1.5	1.4	1.4	1.4
	Consumer prices (annual % change)	2.0 ^{b)}	2.2 ^{a) b)}	2.2	2.1

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