Portugal: growth pickup after a challenging year

2024 was challenging for the Portuguese economy, with growth slowing throughout the year. However, the economy is still outpacing the eurozone, driven by the service sector and tourism. In 2025, private consumption and investment are set to improve, supported by increasing income, more affordable credit, and funds from the EU's Recovery and Resilience Plan

Portuguese Prime Minister Luís Montenegro

A challenging year for the Portuguese economy...

2024 was a challenging year for the Portuguese economy. Like 2023, the year began strongly, supported by a robust fourth quarter in 2023, with 0.6% quarter-on-quarter growth in the first quarter of 2024. However, economic activity gradually weakened, with only 0.2% growth in the third quarter.

Despite yearly growth expected to fall slightly below the pre-Covid trend growth rate of 1.8%, the Portuguese economy is projected to grow faster than the eurozone in 2024. This can largely be attributed to the significant weight of the service sector, particularly tourism.

...but growth will pick up in 2025

A positive takeaway from 2024 heading into 2025 is the steadily increasing contribution of private consumption to GDP growth. Lower inflation and accelerating wage growth have led to a recovery in real income. However, consumption has not yet fully responded, reflecting the typical smoothing of consumer spending in response to income increases. This smoothing is evident in the gross saving rate rising to a historical high of 11.9% in 2024, 3.9 percentage points above its pre-Covid level.

Combined with a robust labour market, the unemployment rate is expected to decrease to 6.5% by the end of 2025, suggesting that money can be put back to work in 2025 to support consumption. Services sentiment is already improving due to the strong evolution of demand, a trend that is expected to continue.

Another driver of growth for 2025 is investment which remained subdued in 2024 but is expected to benefit from more affordable credit due to the ECB's easing policy and the EU's Recovery and Resilience Fund. Portugal, having been allocated a total of €22.2bn of this fund, can still disburse €10.8bn across 2025 and 2026. This will positively impact investment, particularly in the construction sector. Construction sentiment has been improving, with order books and business activity trending upward in recent months.

Forecasts for the Portuguese economy

	2023	2024F	2025F	2026F
GDP	2.5	1.7	2.2	2.2
Private consumption	2	2.8	2.7	2
Investment	3.6	1.9	5.4	4
Government consumption	0.6	1	0.9	0.8
Exports	3.5	3.6	2.6	3.7
Imports	1.7	5.1	4.2	3.5
Headline CPI	5.3	2.7	2.1	2.2
Unemployment rate (%)	6.5	6.7	6.5	6.3
Budget balance as % of GDP	1.2	0.4	0.2	0.2
Government debt as % of GDP	112.4	101.4	97	92.4

Source: Thomson Reuters, all forecasts ING estimates

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