Portugal:
Macroeconomic and financial outlook

BPI ***Research***

September 2025

Prepared with information available by September 10th , 2025

BPI Grupo CaixaBank

Main messages

Activity

- **GDP increased 0.6% qoq in Q2 2025 (-0.4% in Q1), in line with BPI Research forecasts; on a year-on-year basis, growth reached 1.9% yoy (1.7% in Q1).** Main drivers were private consumption, GFCF and the less negative contribution of net external demand. Since Q4 19, the economy advanced 8.9%, with GFCF and Exports goring 18.4% and 13%, respectively. **We foresee GDP to advance 1.6% in 2025.** Private consumption continues to be supported by a resilient labour market and recovery of income, and investment should be stimulated by lower interest rates and the implementation of European funds. Risks to our current forecast are balanced.
- **Inflation rises for the fifth consecutive month.** The headline inflation rose 2.8% yoy in August and the core index grew 2.5%. Looking ahead to 2025, the outlook for prices looks more favorable and global inflation should approach levels close to the 2.0% target.
- **Labor market continues to surprise positively, with employment reaching new maximums.** The employed population increased 2,9% in July to a new maximum at least since 2011 (beginning of series), a pace not seen since 2017 (excluding the pandemic period) and the unemployment rate fell to 5.9%, minus 0.7 p.p. compared to Q1. **The strength of the labour market will continue to be one of the main factors supporting economic activity in 2025-26, and given this data, we consider BPI Research's forecast for the unemployment rate in 2025 to be feasible (6.3%).**
- **In Q1 2025, house prices rose 16.3% yoy and the number of transactions reached 41,358 houses, more 25% than in Q1 2024.** This, combined with moderate supply growth will continue to support further price growth in 2025. However, there are other favourable factors reinforcing prices and transactions: lower interest rates, an increase in real disposable household income, a resilient labour market and a favourable fiscal policy (tax exemptions for young people). We expect house prices' growth of 12.4% in 2025.
- **On a cash basis, the overall fiscal balance stood at 1.3% of GDP up to July, with expenditures rising 5.1% yoy and revenues 7.1%,** largely explained by indirect taxes and social security contributions. VAT continues to show remarkable momentum, (+9.3% yoy), in line with the strength of private consumption. Despite the positive performance in the first half of the year, some factors point to a small deficit in 2025: lower economic growth, as well as the new package of measures (including income tax cuts, an extraordinary payment for pensioners and the early achievement of the NATO defense spending target of 2% of GDP). In this context, it is not unlikely that the fiscal balance will register a marginal deficit this year.
- **The S&P upgraded Portugal's sovereign rating to A+ from A, with stable outlook.** Economic resilience, fiscal consolidation and lower public deficit ratio were the main drivers of the revision.
- **Execution of RRP (Recovery and Resilience Plan) appears to be accelerating but is still below desired levels.** Of the 22.2 billion euros to be implemented by 2026, only 39% of this amount has been paid to beneficiaries. A faster implementation of the funds is expected from now on. The remainder (13.6 billion euros) corresponds to 5% of national annual GDP. In August was received the 6th payment of 1.3 billion of euros, rising to 12.2 bln the amount received up to now.

Banking Sector

- **NPLs ratio declined in Q1.** The total NPL ratio stood at 2.3% in Q1 2025 (historical minimum), with the NPL of households remaining to 2.3% and the one for NFC declining to 4.0%. We are not expecting a significant deterioration of credit quality in the following months.

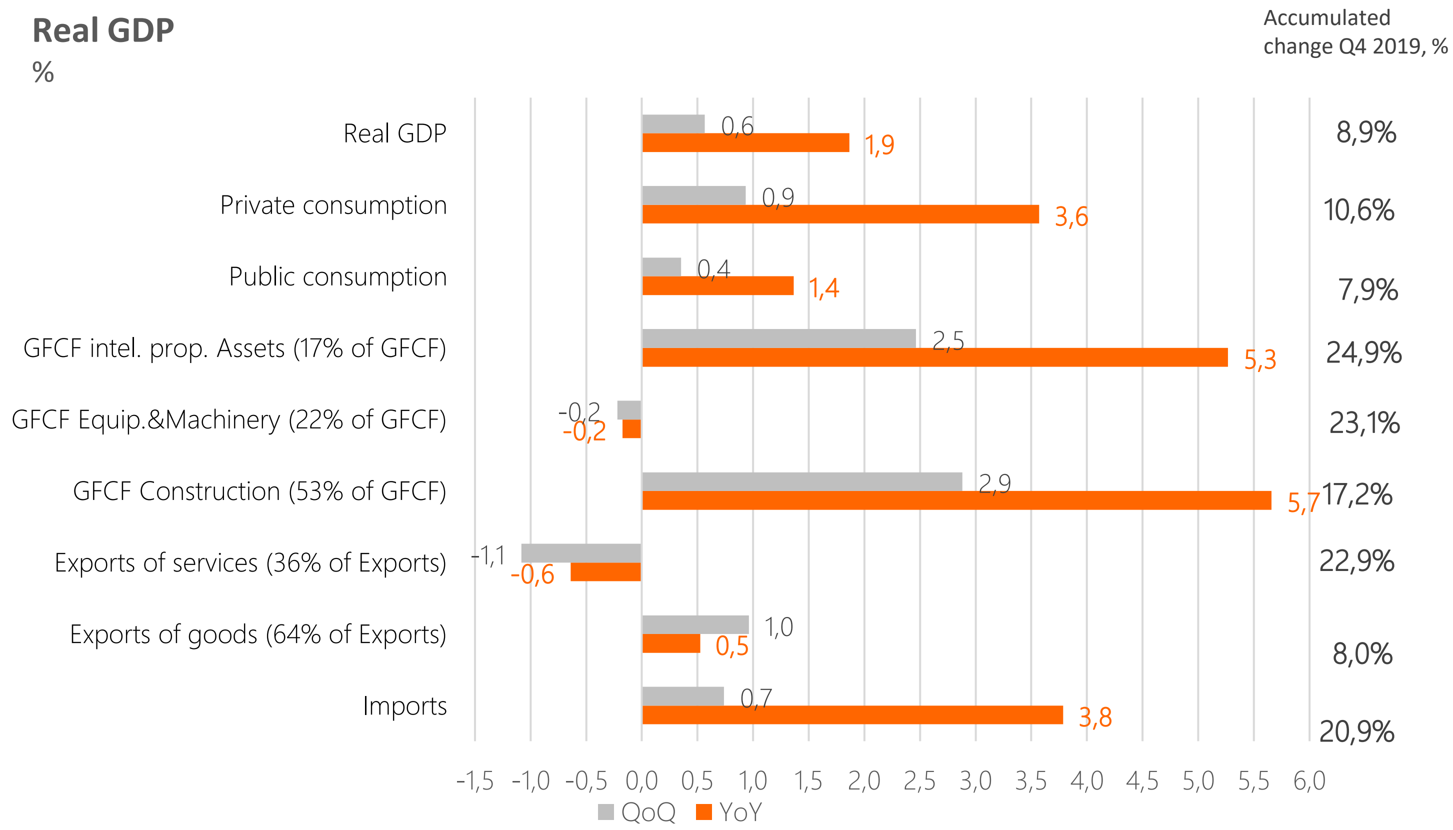
Main economic forecasts

%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	2024	Forecasts 2025	Forecasts 2026
GDP	2.0	3.3	2.9	2.7	-8.2	5.6	7.0	2.6	1.9	1.6	2.0
Private Consumption	2.4	1.8	2.6	3.5	-6.8	4.9	5.6	1.9	3.2	2.8	2.1
Public Consumption	0.9	0.1	0.5	2.1	0.4	3.8	1.7	0.6	1.1	1.3	1.1
Gross Fixed Capital Formation (GFCF)	2.7	11.6	6.2	5.5	-2.3	7.8	3.3	3.6	3.0	2.7	4.9
Exports	4.7	8.4	4.3	4.0	-18.4	12.1	17.2	3.8	3.4	0.8	2.7
Imports	5.2	8.0	4.9	5.1	-11.6	12.3	11.3	1.8	5.0	4.0	3.6
Unemployment rate	11.5	9.2	7.2	6.6	7.0	6.7	6.1	6.5	6.4	6.3	6.4
CPI (average)	0.6	1.4	1.0	0.3	0.0	1.3	7.8	4.3	2.4	2.3	2.1
External current account balance (% GDP)	1.2	1.3	0.6	0.4	-1.0	-0.8	-1.2	1.4	2.1	0.6	0.9
General Government Balance (% GDP)	-1.9	-3.0	-0.4	0.1	-5.8	-2.8	-0.3	1.2	0.7	-0.1	-1.2
General government debt (% GDP)	131.2	126.0	121.1	116.1	134.1	123.9	111.2	97.7	94.9	92.2	90.4
Housing Prices	7.1	9.2	10.3	10.0	8.8	9.4	12.6	8.2	9.1	12.4	4.1
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	54	78

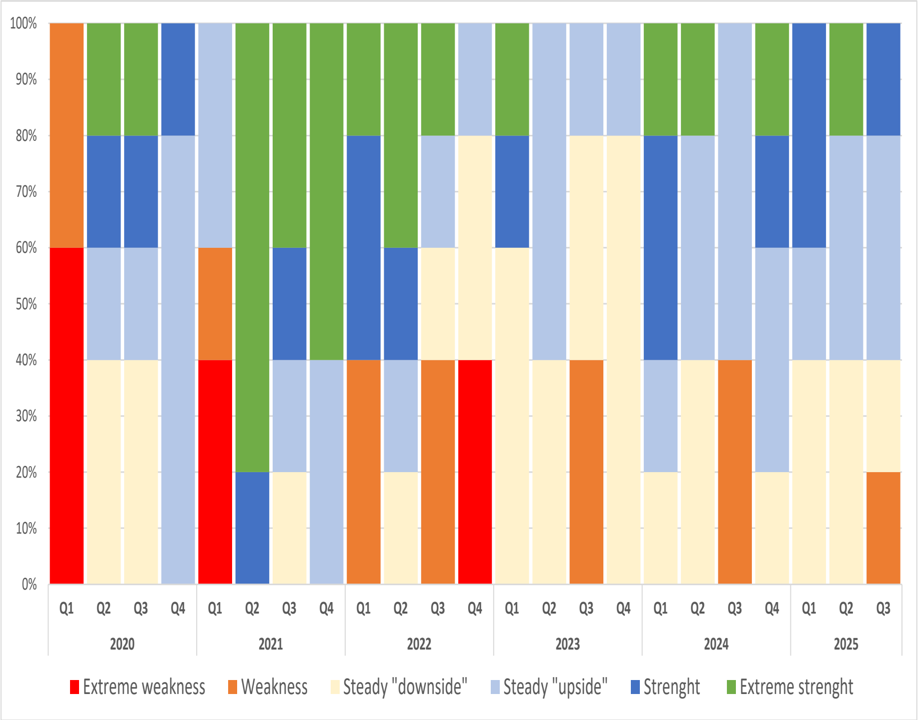
Source: *BPI Research.*

Growth in Q2 2025 confirmed

Real GDP
%



Activity traffic light – BPI Research
%



Source: BdP and INE. Note:

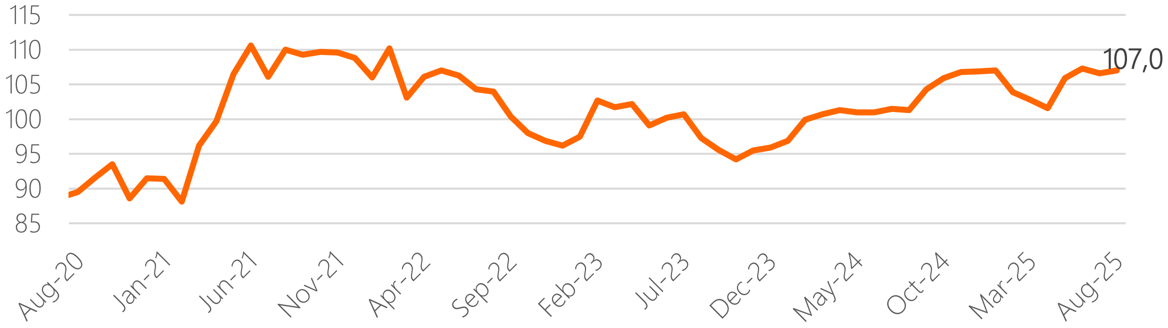
- **2Q GDP grew 0.6% qoq, an expected result.** This movement mainly reflects the return to the growth trend, offsetting the contraction of 0.4% qoq verified in Q1, associated with the correction of specific factors, present in Q4 2024. Main drivers were private consumption, GFCF and the less negative contribution of net external demand.
- The data for Q2 2025 aligns with **BPI Research's forecast for real GDP growth in 2025 (1.6%); and first indicators for Q3 suggest a strong performance in the period.** The main factors supporting our growth expectations include the robustness and resilience of the labor market (as a result of rising employment and wages); the reception of European funds, with the possibility of accelerating their implementation as we approach the end of the EU NG (2026); the signing of several investment contracts and the reduction in financing costs; the reduction in interest rates (there is some probability of another cut by ECB by the end of the year); and the reduction of income taxes, which include retroactive payments to January 2025 (received in August and September), giving a considerable boost to income in Q3, with a very likely impact on consumption.

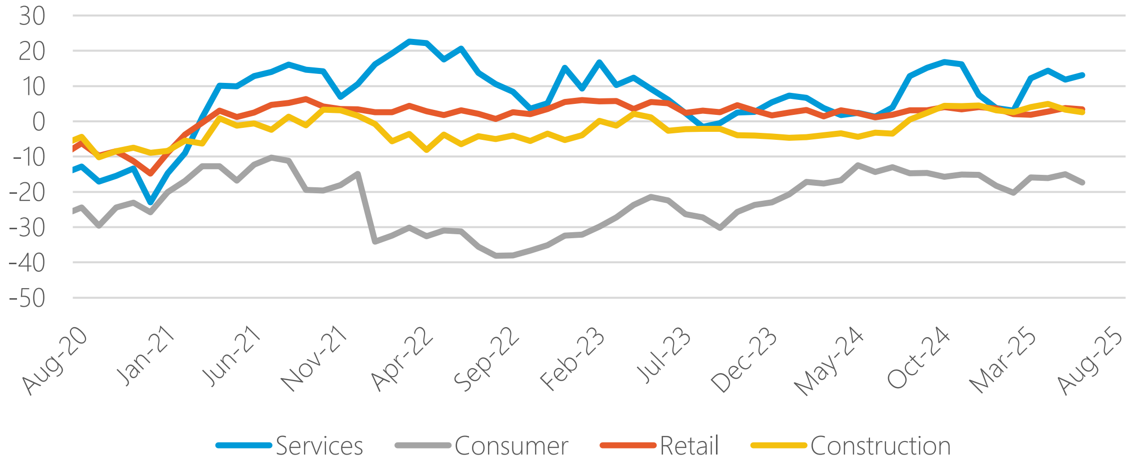
3rd quarter data points upwards

yoy, level		Q2 25	Q3 25	Jun-25	Jul-25	Aug-25	Last month available
Synthetic indicators	Economic climate indicator	2,6	2,8	2,8	2,8	-	July
	Economic sentiment indicator	104,9	106,8	107,3	106,6	107,0	August
	Daily economic indicator	1,1	-0,7	0,8	-0,5	-0,9	August
Consumption	Consumer confidence	-17,6	-15,1	-16,0	-15,1	-	July
	Wholesale and retail trade (yoy)	2,8	3,5	4,7	3,5	-	July
	Retail sales excl. fuels (yoy)	5,4	7,1	6,6	7,1	-	July
	Card withdrawals and purchases deflated (yoy)	6,7 -		6,3	-	-	June
	Car sales (yoy)	13,9	15,2	14,8	20,6	9,9	August
Investment	GFCF indicator	3,5	-	0,8	-	-	June
	Imports of capital goods	-1,2	-	2,2	-	-	June
Suply	Cement sales	-1,7	-	2,6	-	-	June
	Industrial production	1,4	2,3	3,0	2,3	-	July
Demand	Electricity consumption adjusted for temperature&working days	2,1	2,1	3,0	2,0	2,1	August
	Non-resident tourists (yoy)	4,1	3,6	2,8	3,6	-	July
	Number of flights (yoy)	5,3	4,2	4,3	4,5	3,9	August
Trade	Exports G&S (accum. Year)	1,5	-	1,7	-	-	June
	Imports G&S (accum. Years)	4,2	-	4,3	-	-	June
Labour market	Change in regist. unemployment (thousand people)	-8,5	-12,3	-11,5	-12,3	-	July
	Change in employment (thousand people)	165,2	201,9	190,9	201,9	-	July

Economic sentiment index

1990=100





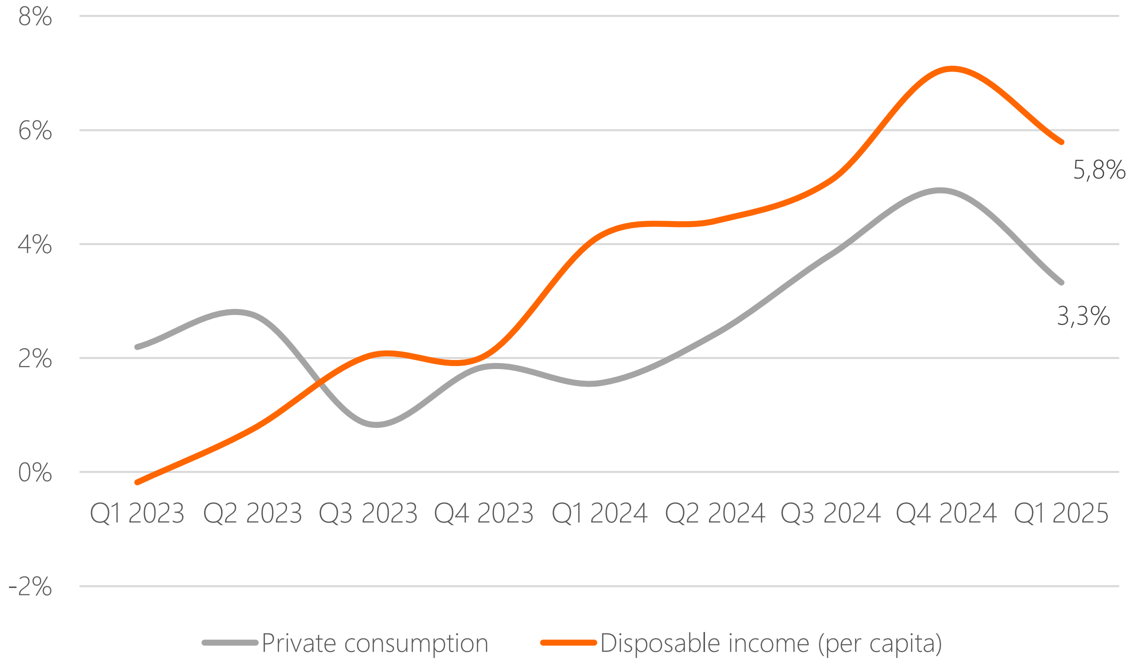
Source: BPI Research based on Portuguese INE, Bank of Portugal and European Commission.

- **In August, ESI consolidated the strength trend, rising to 107 points.** This reflects confidence improvement across sectors, including industry, construction, retail trade and services. **Consumption indicators** (around 63% of GDP) suggest an acceleration compared to Q2, supported by the robustness of the labour market (employment continues to register historical highs and the number of unemployed continues to decrease) and real increases in wages (+3.0% yoy in Q1).
- In **trade**, up to June, imports increased (supported by industrial supplies and light vehicles) and exports expanded 1.7%. **Supply side data** also point to robust growth: industrial production increased 2.3% yoy in July, with a considerable contribute from energy.

Private consumption is seen to continue to perform favorably

Families' saving rate
(% of DI)

Private consumption and household's income
Year-on-year on real terms, %



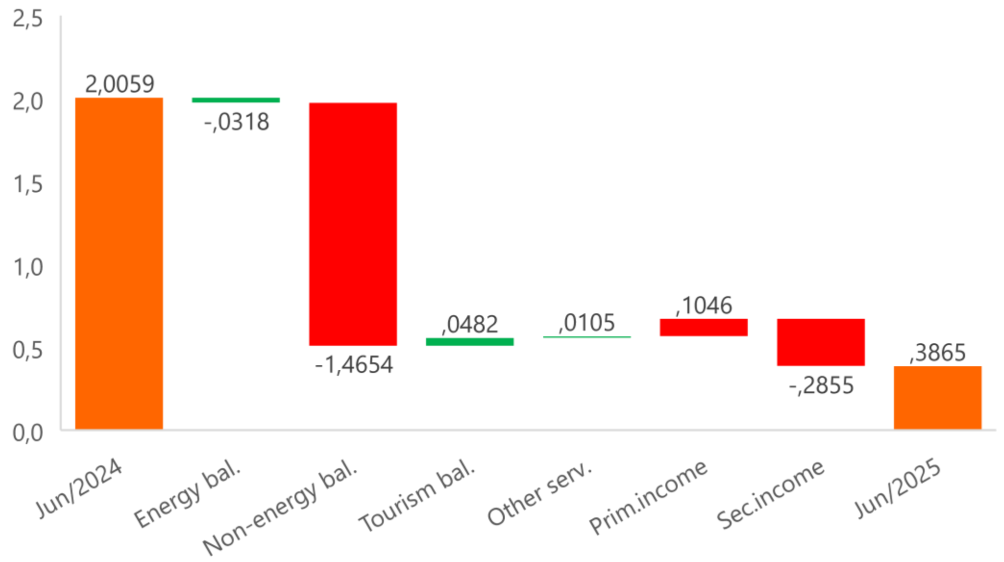
Source: BPI Research, from INE, BoP.

- **Savings rate persist at double digit levels, far higher than the historical norm**. The household's saving rate fell slightly to 12.4% in Q1 2025, minus 0.1 p.p. than Q4 2024, reaching the second highest level since 2004 excluding the adverse years of COVID pandemics.
- Additionally, real disposable income (per capita) is growing faster than consumption since the end of 2023, favouring the building up of savings, which will tend to constitute an important cushion of confidence for future consumption decisions. The high quarterly increase on the real disposable income (per capita) seen in Q4 2024 (+7.1%) was partially due to the personal tax reduction in September and October 2024. As expected, in Q1 2025, the trend became smoother, but high uncertainty (and an expected boost in disposable income again in 3Q 2025) may contribute to savings continuing high in the near future.

Current account shrank considerably up to H1

Current account H1 2025

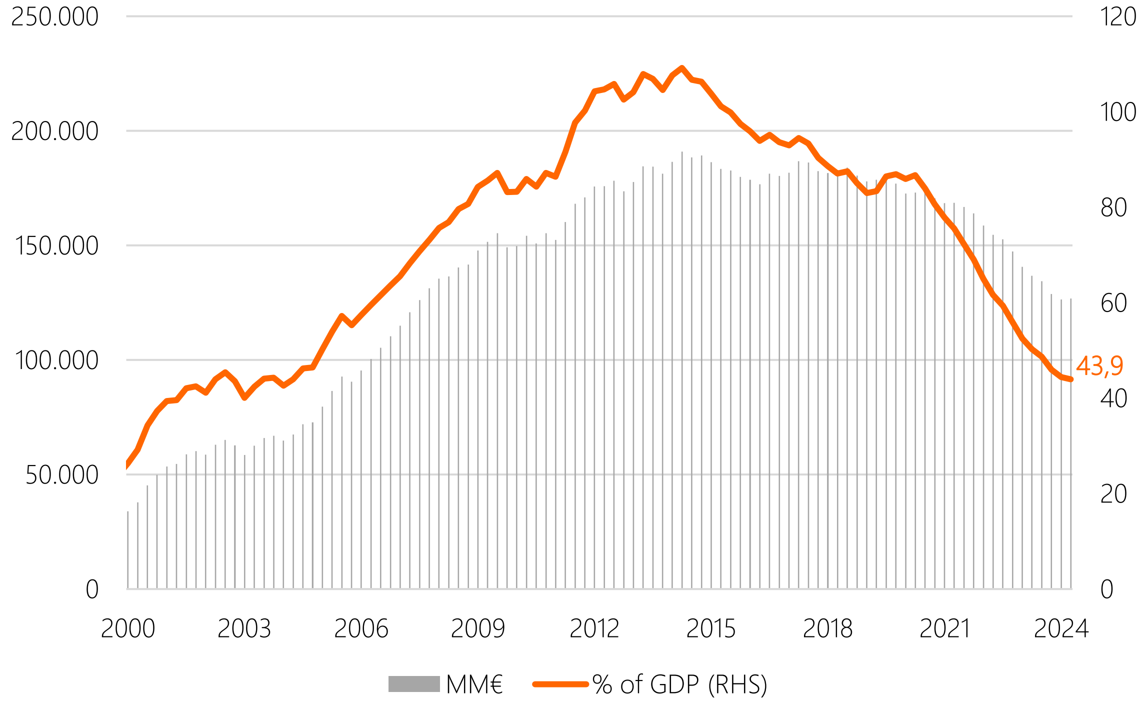
% of GDP and percentage points change



Source: BPI Research, from BoP.

Net external debt

MM € *% of GDP*



- **In the first half 2025, the current account surplus shrunk to 577 million euros**, equivalent to approximately 0.4% of GDP, a significant decline compared to the figures registered in the same period of 2024. This reduction was mainly due to the increase in the non-energy deficit (to 7.3% of GDP), which reduced to 1.5% of GDP. That means that Portugal in this period experienced a worsening of its trade in goods and services dynamics that were not related to energy products as well as a higher investment income deficit and a lower allocation of European funds to final beneficiaries through subsidies. The worsening seen so far this year might in part be related to the volatility and uncertainty associated with the trade and commercial policy of the US Government (however the uncertainty has been reduced recently due to the agreement between EU and USA). Going forward we see a recovery of the current account, by a more moderate growth on imports and by the impact of NG EU funds. **The outlook for 2025 remains positive, but we have revised downwards our forecast for the surplus in 2025 to 0.6%% of GDP.**
- The external debt keeps its downward trend, reaching 43.9% of GDP in Q1 2025, the lowest level since the beginning of 2005.

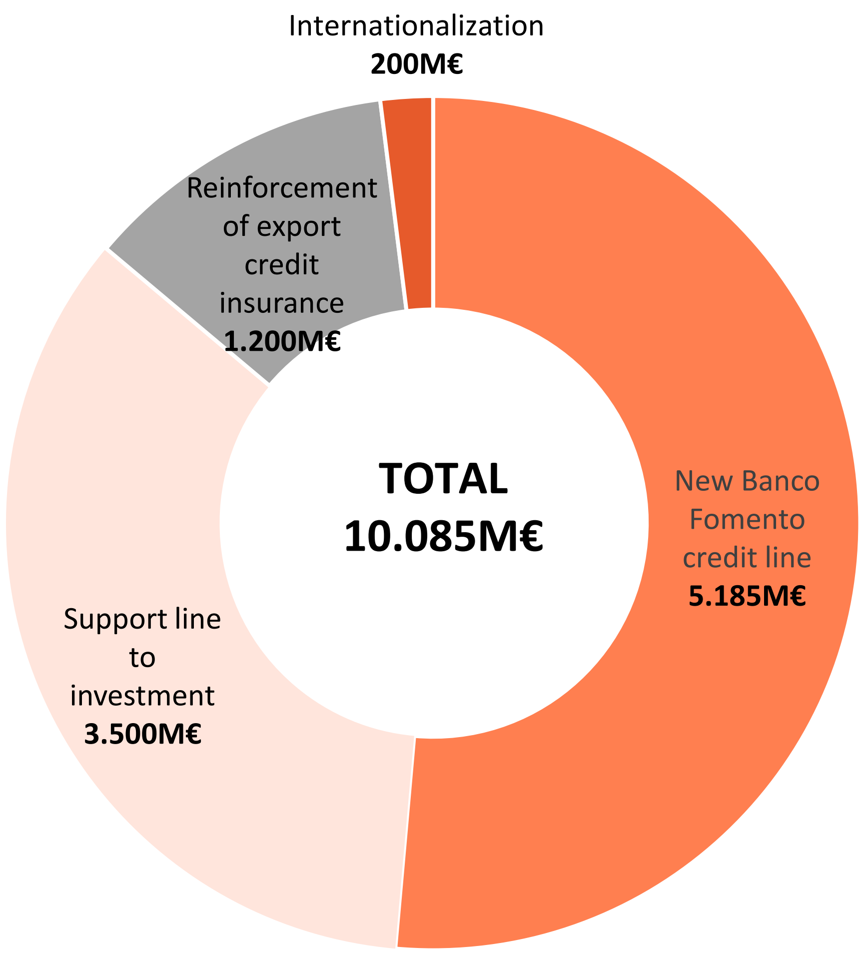
Government plan due to US tariffs

1. Reinforce Program (10 billion euros)

- **The Portuguese government announced a 10-billion-euro program (8.6 billion in credit lines) to combat the impact of tariff issues:**
  - Mitigation of the adverse effects on the competitiveness of national companies due to direct price increases via customs duties and contagion effects to other markets.
  - Limit the increase of financing costs and providing investment support to enable companies to maintain their profit margins.
  - Support the internationalization and diversification of revenue sources in order to reduce dependence on the US market.
  - Searching partnerships: ICO (Spain), KfW (Germany), BPI France (France), British Business Bank (UK).
- **Measures to support competitiveness and exports:**
  - New Banco Fomento credit line (+5.185 billion€), for companies to strengthen their working capital and investment capacity.
  - Support line to investment (€3.5 billion), including €400 million in grants, aimed at investment by exporting companies.
  - Reinforcement of export credit insurance (€1.2 billion) to promote market diversification by providing new ceilings through the BPF Export Credit Agency.
  - Incentives for internationalization (€200 million), providing for a new incentive programme under Portugal 2030, of which €150 million is allocated for SMEs (to take part in more international fairs and strengthen their strategy and presence).

2. New PRR and Portugal 2030 notices (2.640 billion euros)

  - Innovation and decarbonization (+€255M); Qualification of business models and human capital (+€70M); Internationalization (+€80M); Large-scale productive investment in key sectors for the energy transition (+€2,235M).



EU aggregated exposure to the US is marginal, but varies within sectors

Most exposed sectors to the US demand

% of Gross Value Added by sector

	TOTAL	1	2	3	4
EU27	**3.4%**	*Pharma. (22%)*	*Chemicals (10%)*	*Machinery (8%)*	*Transp. Equip. (7%)*
Germany	3.7%	*Pharma. (14%)*	*Machinery (8%)*	*Electronics (7%)*	*Transp. Equip. (6%)*
France	2.4%	*Pharma. (11%)*	*Chemicals (8%)*	*Machinery (8%)*	*Transp. Equip. (7%)*
Italy	3.4%	*Pharma. (15%)*	*Machinery (9%)*	*Metals (9%)*	*Chemicals (8%)*
Spain	2.3%	*Pharma. (9%)*	*Metals (6%)*	*Chemicals (6%)*	*Petroleum (6%)*
Portugal	2.9%	*Pharma. (13%)*	*Petroleum (11%)*	*Wood&paper (8%)*	*Electronics (7%)*
Japan	**3.1%**	*Transp. Equip. (16%)*	*Metals (9%)*	*Electricity (8%)*	*Electronics (8%)*
India	**3.9%**	*Pharma. (14%)*	*Textiles (10%)*	*Wood&paper (9%)*	*Chemicals (8%)*
China	**2.9%**	*Electronics (10%)*	*Textiles (10%)*	*Rubber&plastics (8%)*	*Wood&paper (7%)*
Mexico	**16.3%**	*Electricity (52%)*	*Transp. Equip. (46%)*	*Electronics (45%)*	*Metals (43%)*
ASEAN	**5.1%**	*Textiles (19%)*	*Pharma. (15%)*	*Rubber&plastics (15%)*	*Electronics (13%)*

Portugal: goods exports to the US and new tariffs

	Exports to the US 2024 (million €)	% of total	Average tariff	Average new tariff "liberation day"	Final tariff (15%, August)
Pharmaceutical Produts	1.168	22	0	0,2	
Generics*	389	7	0	0,2	0,2
Non generics	779	15	0	0,2	15,0
Mineral fuels	1.078	20	1	0,5	15,0
Rubber	368	6,9	1,7	20,0	15,0
Electrical machinery	303	5,7	1,2	20,0	15,0
Nuclear reactors	227	4,3	1,3	20,0	15,0
Cork and articles	185	3,5	0,7	20,0	0,7
Articles of iron and steel	182	3,4	1,2	50,0	50,0
Textil products	144	2,7	6,8	20,0	15,0
Furniture	126	2,4	1,9	20,0	15,0
Clothing	183	3,4	12,8	20,0	15,0
Beverages	111	2,1	1,8	20,0	15,0
Organical chemicals	111	2,1	2,7	20,0	15,0
Footwear	98	1,8	10,5	20,0	15,0
Ceramic products	89	1,7	4,1	20,0	15,0
Optical, photografical, cinematographic	72	1,4	0,9	20,0	15,0
Others	873	16,4	2,6	20,0	15,0
Total	**5.318**	**6,7**	**1,9**	**12,7**	**14,6**
% of GDP	**1,9**				

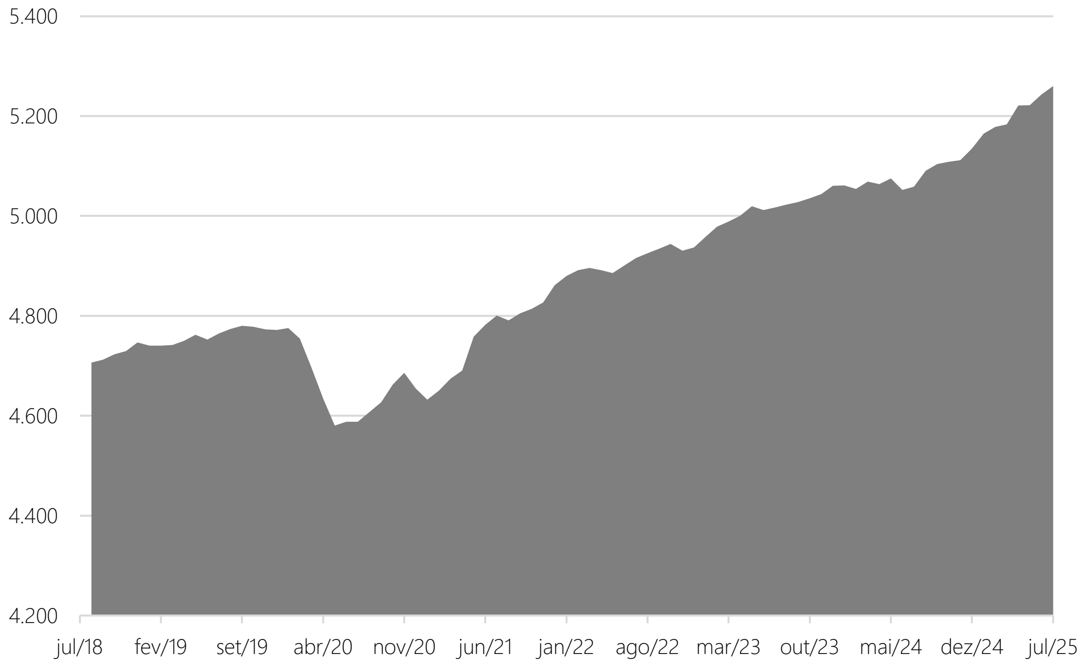
Source: BPI Research based on INE

- **US tariffs should have a moderate impact in EU.** However, sectoral impacts vary considerably, with the pharmaceutical sector particularly exposed to US demand. Other sectors with significant exposure include chemicals, machinery and transportation equipment. Asian countries, as well as US neighbors, are the most exposed, while China appears at the lower end of the ranking, although it faces a broader "trade war," which could include trade agreements with the US that specifically target Chinese value chains through indirect export restrictions.
- **The agreement made between EU and US (celebrated on 28th July) implies that the European products will be taxed at a general tariff of 15%,** which represents an increase compared to the current universal tariff of 10%, but below those of the “liberation day”. There is also a set of strategic products (to be defined) that will be subject to a 0% mutual tariff regime, including the aeronautical sector, generic medicines, agricultural products and critical raw materials. In average the new tariff for the Portuguese goods will rise to 14.5% (from 1.9% in 2024).

Labor market surprises again in July

Employed population

Number of people ('000 individuals)



Note: Not seasonally adjusted. Source: BPI Research, from INE.

Employment in Q2, by sector

- **Employed population continues to reach new highs.** In July, employment rose 2.9% yoy, reaching a new maximum. This rise was due to manufacturing, consultancy activities, accommodation & catering, health & social support activities transports and trade. There was a significant increase in the employment of individuals with secondary and post-secondary education (+127,900 people) and higher education (+106,700 people), offsetting the fall in the employment of individuals with low qualifications (-86,200 people). Additionally, we also saw an increase in full-time work and permanent employment contracts.
- **This performance led to a decline on the unemployment rate to 5.9% in July**, minus 0.7 p.p. than in Q1 and -0.2 p.p. in comparison to July 2024.
- **The strength of the labour market will continue to be one of the main factors supporting economic activity in 2025,** and given this data, we consider BPI Research's forecast for the unemployment rate in 2025 to be feasible (6.3%).

RRP: execution continues at slow pace (39% of total program)

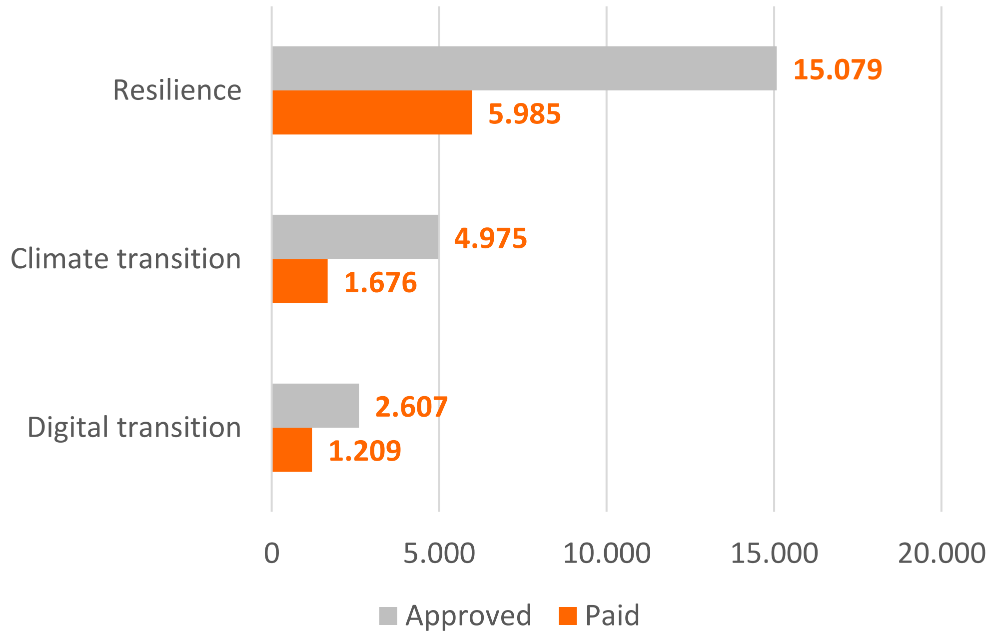
Approvals and payments to direct and final beneficiaries

(Up to September 3rd)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	317	262	82,6
Social and solidarity economy institutions	763	299	39,2
Firms	6.387	3.215	50,3
Excl. R&I System Non-firms	5.496	2.756	50,1
R&I System Non-firms in consortium wit	891	459	51,5
Institutions of the scientific and technolo	659	222	33,7
Higher Education Institutions	844	353	41,8
Schools	1.038	604	58,2
Municipalities and metropolitan areas	4.425	1.151	26,0
Public entities	5.244	1.860	35,5
Public firms	2.982	904	30,3
Total (million euros)	**22.659**	**8.870**	**39,1**
(% total RRP)	***101,6%***	***39,9%***	

Source: BPI Research, from Recuperar Portugal.

RRP: amounts approved and paid by dimension

Eur million

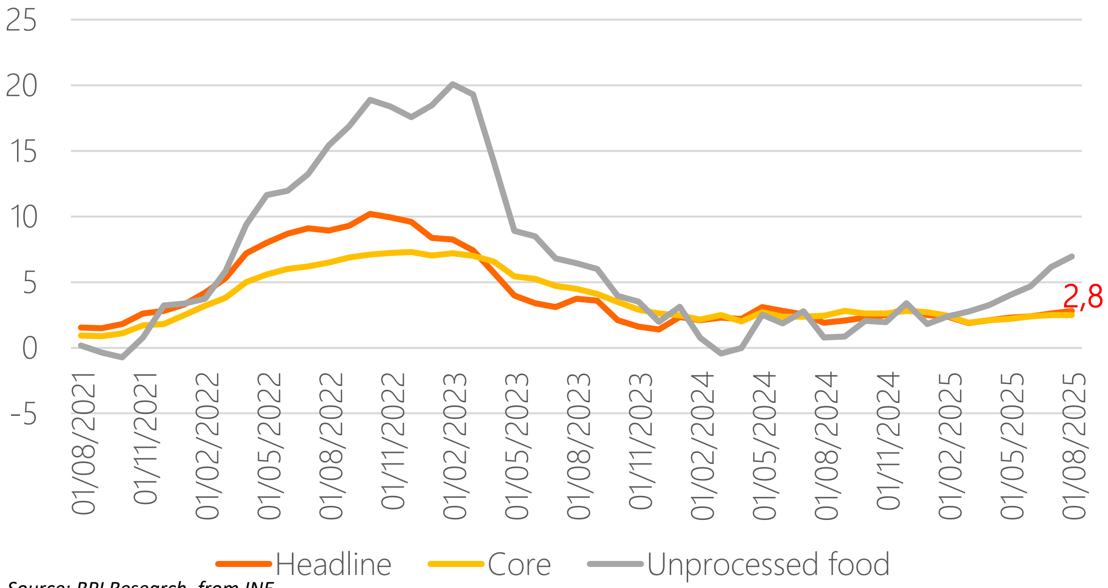


- **Up to now, Portugal received 12.7 billion euros, equivalent to 57% of the total amount of the RRP**. Last August Portugal received the 6th payment of 1.3 billion of euros.
- **Projects already approved amount to 22.3 billion euros (100% of the total amount) and payments reached 8.9 billion** (70% of the total amount received), but only 39% of the approved projects (since the end of 2024, the payment rate improved by 9 p.p.).
- The program is divided in three dimensions - resilience, climate transition and digital transition. The first will absorb 70% of the funds, the second 18% and the third 12%, in the case of the Portuguese program. In the resilience dimension, the capitalization and business innovation components stand out, with an amount paid out to the final beneficiaries of 2 527 million euros, equivalent to 56% of the approved amount; housing, with an amount already paid out of 1 272 million (31% of the approved amount); and the qualifications and skills component with an amount already executed of 915 million euros (41% of the approved amount). In the climate transition, the decarbonization of industry and sea components stand out, with amounts already paid amounting to 366 and 238 million euros, respectively, representing, in the same order, 46% and 68% of the amounts approved. And in the digital transition, the digitalization, interoperability and cybersecurity in public administration and corporations 4.0 components stand out, with projects approved amounting to 643 and 678 million euros, respectively, of which 260 and 256 million have already been paid out.

Inflation rises for the fifth consecutive month

Headline and core inflation

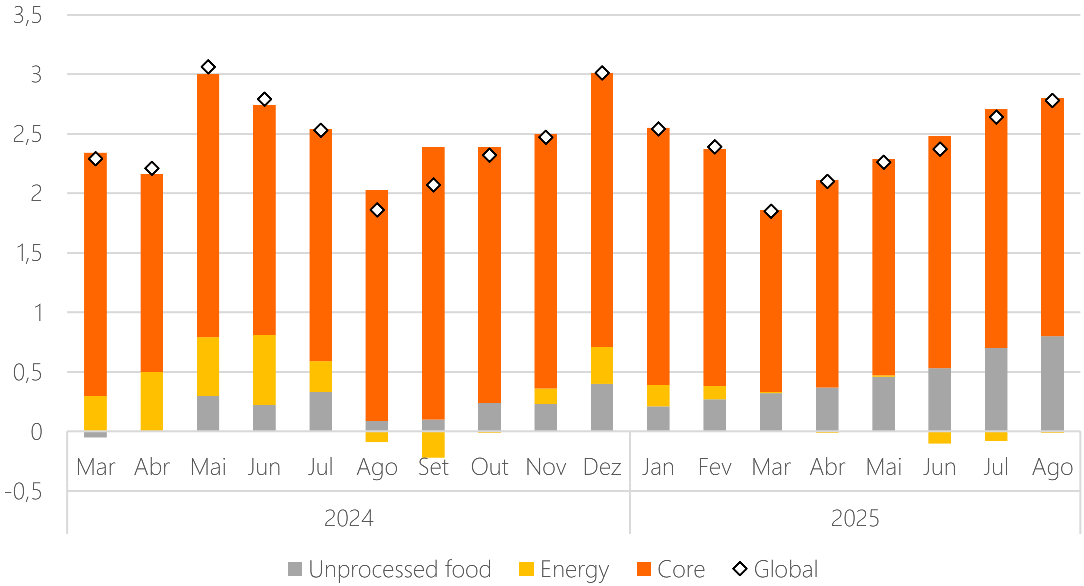
Year-on-year (%)



Source: BPI Research, from INE.

Contributions to global inflation

Year-on-year (%) and contributions (%)



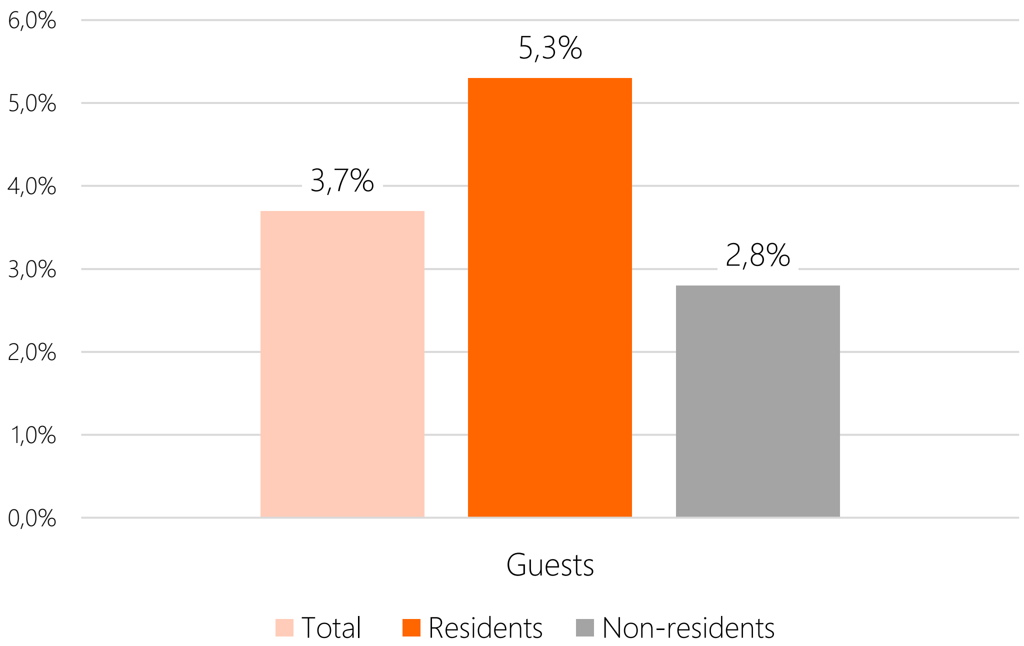
- **In August, global inflation rose to 2.8%,** 2 p.p. more than in July, and core inflation was stable at 2.5%. The rise in global inflation was not matched by the core inflation rate, which stabilized. In other words, excluding the most volatile products (unprocessed food and energy), prices increased 2.5% year-on-year (2.5% in July). Energy prices fell -0.4% year-on-year (-1.1% in July). Meanwhile, food inflation keeps increasing significantly, rising to approximately 7% (6.1% in July).
- The rise in prices of unprocessed food is mainly justified by the **wages' increase in the "Agriculture, livestock production, hunting, forestry and fishing" sector** compared to the overall economy at the end of Q1 (7.9% vs. 5.2%). Moreover, the **CPI for Meat in July registered a year-on-year increase of 7.5% (7.2% in June), while the CPI for Coffee, Tea, and Cocoa registered an increase of 12.7**%, due to pressures on international commodity markets and considering that Portugal depends strongly on foreign provisions for that products. Contrarily, prices in oils and fats decreased -14.2%.
- All in all, we increased our forecast for average annual inflation in 2025 from 2.1% to 2.3%. Although it's not yet clear, we don't rule out the possibility of a slight adjustment depending on the latest data and the prospect of Brent prices below what we expected at the beginning of the year.

Tourism: keeping its expansion through the beginning of the 2nd semester

BPI Grupo CaixaBank

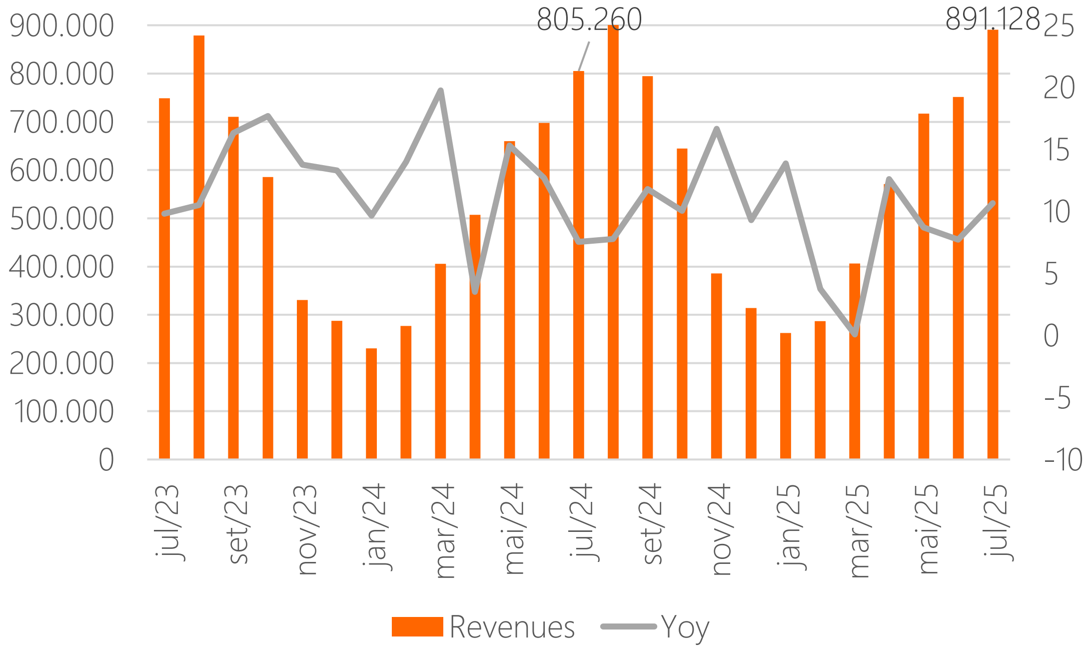
Number of guests

Jan-Jul 2025 yoy change (%)



Total revenues in tourist accommodation establishments

M€ *yoy (%)*

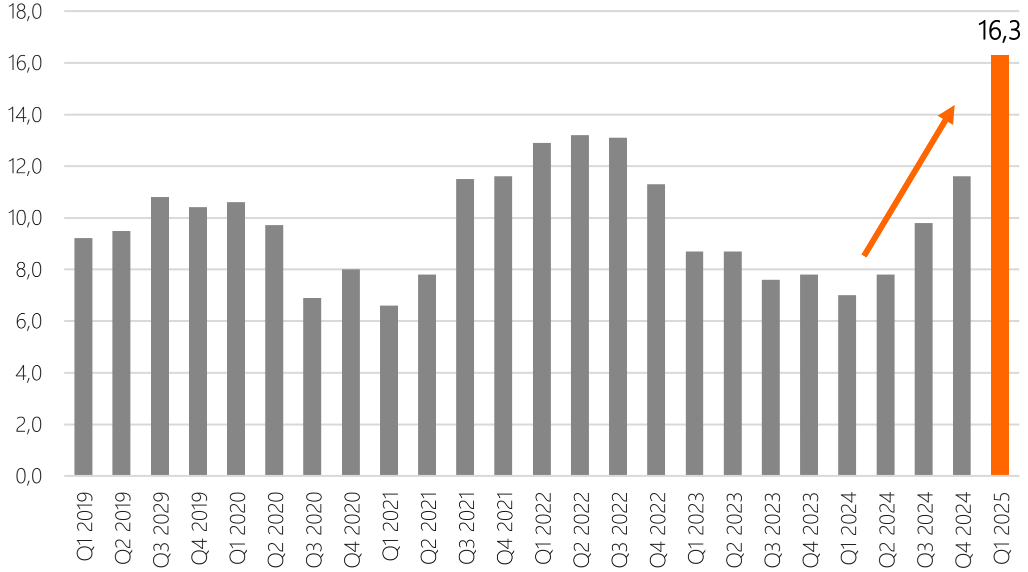


Source: BPI Research, using data from INE.

- **The tourism sector recorded a total of 18.22 million guests** (7.07 million residents and 11.15 million non-residents), as well as **45.81 million overnight stays** (13.59 million residents and 32.22 million non-residents) on the first 7 months (Jan-Jul) of the year, representing a yoy growth of 2.7% driven mainly by the growth in the resident's demand (6.2% yoy vs. 1.3% from non-residents). Focusing on the number of guests, this represented a deceleration in yoy terms compared to last year (3.7% vs. 4.9% in Jan-Jul 2024), due to the deceleration of the yoy change of non-residents (2.8% vs. 7% in Jan-Jul 2024).
- **Total revenues in accommodation establishments is higher in July 2025,** compared to the same period in 2024 (891.1M€ vs. 805.3 M€), with a yoy growth of 10.7% (7.5% in July 2024), which reinforces that tourist **activity keeps expanding in Portugal**, following the trend of increased demand in 2025 compared to the previous year.

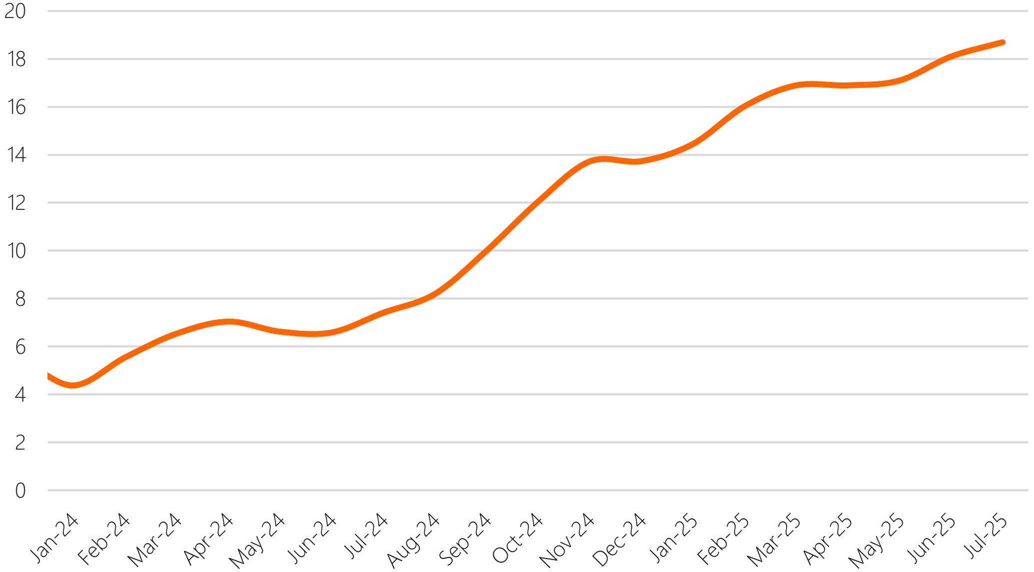
Housing with record appreciation in Q1 2025

House price index
year-on-year (%)



Source: BPI Research, using data from INE.

Bank appraisal of housing
year-on-year (%)



- **In Q1 2025, the House Price Index rose to 16.3%, the highest from the historical series, started in 2010** (above our forecast of 13.2%). Robust demand together with lower interest rates, high employment levels, positive migration balances and a shortage of supply should continue to support the market.
- **In Q1 2025, the number of transactions reached 41 358 houses, more 25.0% than in Q1 2024**. This, combined with moderate supply growth (only +4.2% of new family homes built in 2024 vs. 2023), will continue to support further price growth in 2025. However, there are other favourable factors reinforcing prices and transactions: lower interest rates and an increase in real disposable household income, resilient labour market; and favourable fiscal policy (tax exemptions for young people purchasing homes for own residence - HPP).
- **The bank appraisal of housing keeps rising in year-on-year terms**, reaching 18.7% in July (18.1% in June).

Public accounts keep their enhancing trend

Budgetary execution of Public administration

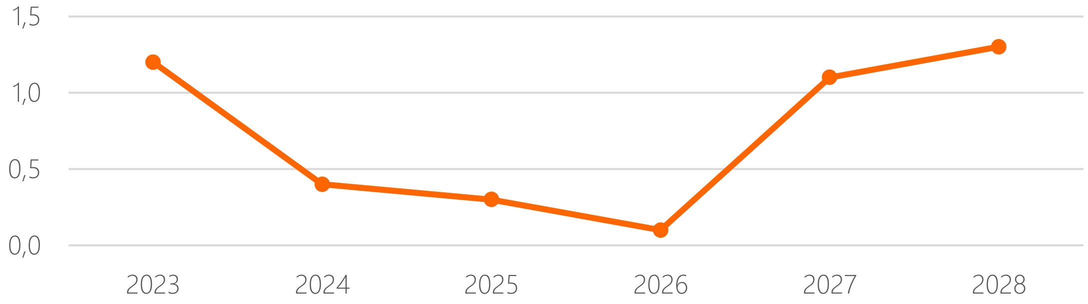
% of GDP, unless otherwise indicated

January-June	2019	2023*	2024	2025	Var. 2025 vs 2019	Var. 2025 vs 2024 (M€)
Revenues	**39,7**	**39,0**	**40,1**	**41,0**	**1,3**	**4.736**
Fiscal revenue	22,4	22,1	22,3	22,8	0,4	2.572
Social Security contributions	10,1	10,5	10,8	11,2	1,1	1.497
Expenses	**40,1**	**37,7**	**39,5**	**39,6**	**-0,4**	**3.350**
Personnel	9,7	9,5	9,5	9,9	0,2	1.401
Current transfers	17,3	16,6	17,9	17,7	0,4	1.041
Goods & Services acquisition	5,5	5,2	5,4	5,3	-0,1	247
Interest	4,3	2,7	2,8	2,6	-1,6	-47
Investment	1,8	2,1	2,0	2,3	0,5	637
Fiscal balance	**-0,4**	**1,3**	**0,6**	**1,3**	**1,7**	**1.387**

Note (*): adjusted value of the transfer of the Pension Fund from CGD to CGA.
Source: BPI Research, based on DGO data.

Overall fiscal balance in accrual basis

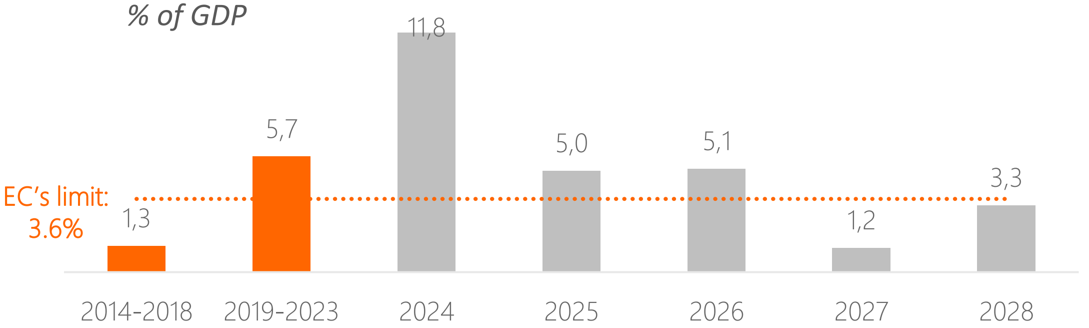
% of GDP



Source: BPI Research, based on Medium-Term Fiscal-Structural Plan 2025-2028.

Net Primary Expenditure

% of GDP



Source: BPI Research, based on Medium-Term Fiscal-Structural Plan 2025-2028.

- **Public accounts continue to improve, with revenues increasing M€ 4.736 yoy, while expenses rose only by M€ 3.350, ending up with a positive balance of 1.3%.** The revenues growth was especially due to the fiscal and contributory revenues (explain 86% of revenues growth), while for expenditure the highlight went to personnel expenditure and current transfers (in line with the improvement of public servants' salaries and pensioners, as inscribed in the State Budget for 2025).
- **2025's data suggests that fiscal accounts remain solid.** Prospects for economic activity continue positive, benefiting from labour market robustness, supporting consumption and lower financing cost. However, the risks are still lurking: GDP deceleration, geopolitical challenges (wars and tariffs), efforts to strengthen European defence, and the fragmentation of the Portuguese Parliament, with the resulting uncertainty about the economic direction of the Government policies, remind us of the importance of keeping the consolidation of public accounts as a future focus. And let's not forget that, despite the favourable trend, public debt remains at high levels, well above the 60% of GDP threshold (although lower than 95% of GDP).

Government defence spending increase program

1. Context and goals

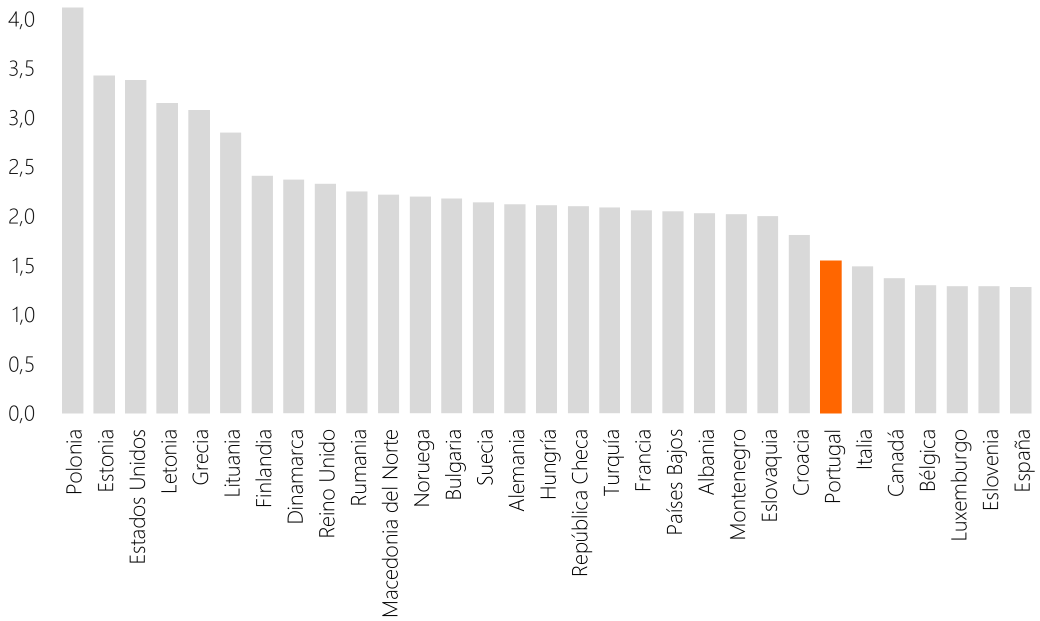
- The new Government's program marks a **significant strategic shift, making defence a central political priority**, integrating it into European and NATO initiatives, such as the "ReArm Europe/Readiness 2030 Plan" and the "European Defence Fund".
- Portugal aims to: ensure the readiness of the Armed Forces (AF); enhance cooperation and collaboration in deepening defence with the CPLP; reverse the decline in recruitment; consolidate cyber-defence capacity and **bring forward the investment of 2% of GDP in defence by 2025 (1.5% in 2024),** a target previously intended for 2029 and which symbolizes the Government's commitment to its military allies.
- However, this is below the new NATO plans, which currently require 3% and which aim to increase to 5% (3.5% in essential expenditure + 1.5% in infrastructure). The Ministry of Foreign Affairs aims to achieve this target in two different stages.

2. Main measures designated in the Program of the XXV Constitutional Government

- **Develop national industrial capacity, with 20% in goods, infrastructure and equipment.** Ensure complementary financing mechanisms.
- **Maximize the use of built heritage**, which should also occur within the Armed Forces, mainly for profitability purposes, updating the Military Infrastructure Law.
- **Simplify licensing** and review public procurement rules.
- **Recover the Alfeite Arsenal and implement a new infrastructure**, technological and environmental plan. Expand strategic training and modernize anti-aircraft equipment.
- **Improve capabilities inherent to conventional/unconventional conflicts** and coordinate the planning cycles of personnel, investment, budgets and training.
- **Strengthen cyber-defense capabilities**, in terms of education and training, resilience, combating threats and vulnerability management. Support the promotion of associated industries, as a way of attracting investment.
- **Value former combatants and disabled members of the Armed Forces**, by increasing social and complementary support and improving reintegration mechanisms.

Defence spending in 2024

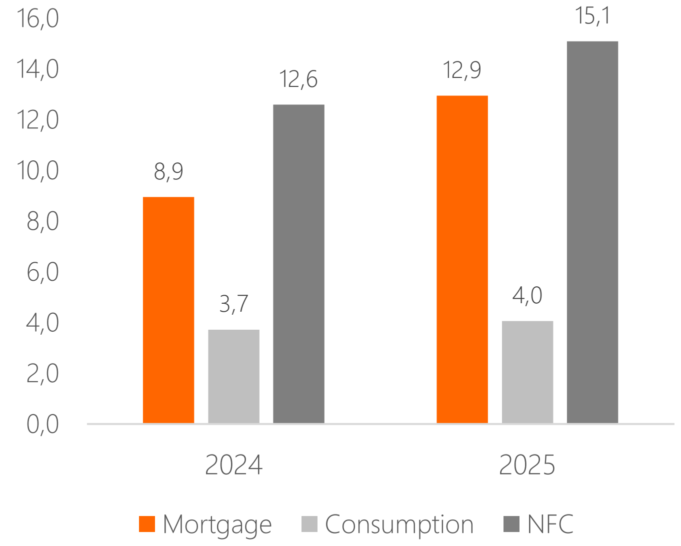
% of GDP



Banking system: a solid position to support the economy

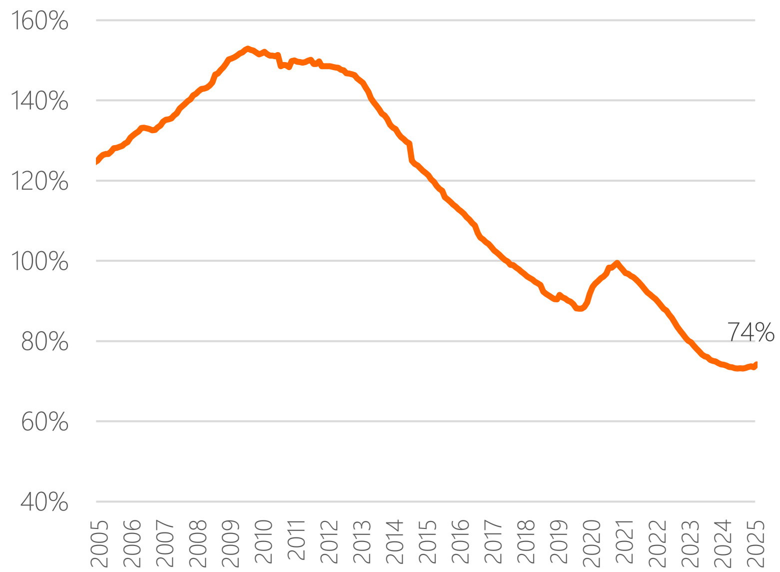
BPI Grupo CaixaBank

New lending activity by sector
Accumulated in the year up to July, billion euros



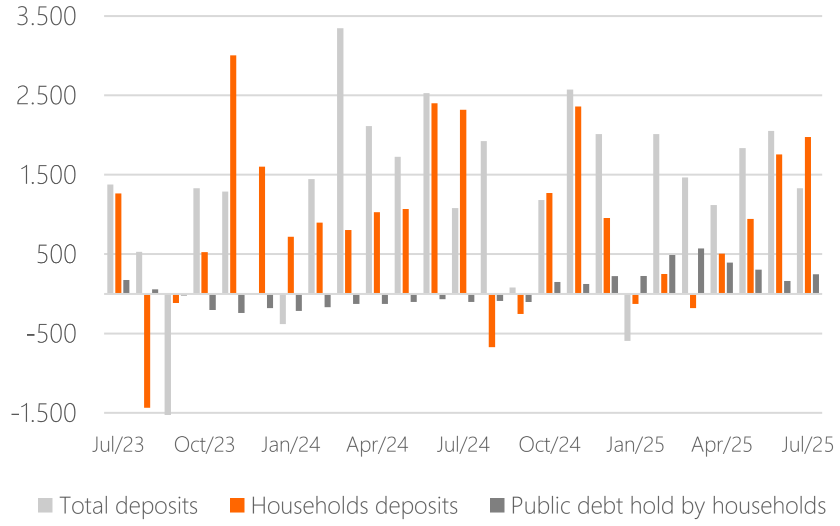
Source: BPI Research, based on data from Bank of Portugal and ECB.

Bank credit to the non-financial private sector
% GDP



Source: BPI Research, based on data from Bank of Portugal.

Deposits and public debt hold by families*
Monthly variation (M€)

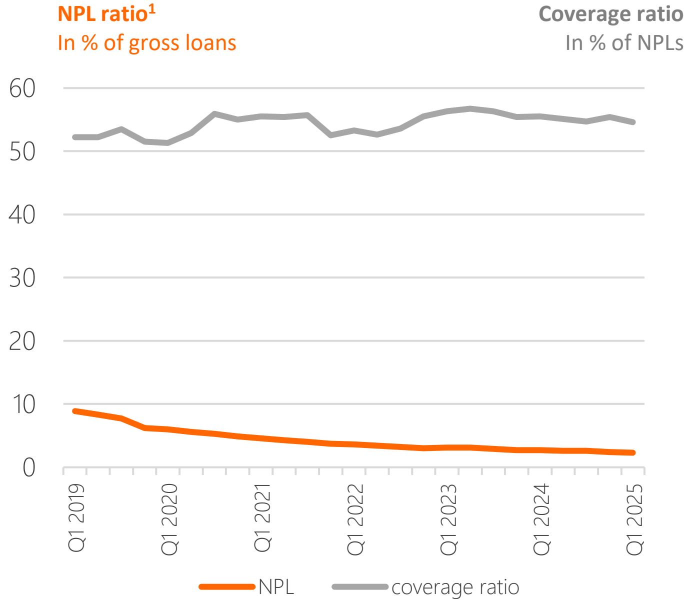


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 7 bn Eur in 2024.

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit:** stock rose 7.3% in July, with new operations still increasing at double digit levels (+44.7% yoy, including transfers among banks), indicating that the pace will continue positive in the months ahead. The decline in interest rates, as well as the impact of Government's measures (measures directed to young people with less than 35 years through a public state guarantee for 100% financing of credit, exemptions from IMT (Mortgage Property Transfer Tax) and Stamp Duty, and other support measures, such as the "You Have a Future in Portugal" plan. These measures are for young people up to 35 years old who do not own other properties, who are purchasing their first permanent home, and whose transaction value does not exceed 450,000 euros.
  - **NFC:** the outstanding credit increased by 2.2% in July, while new operations recorded expanded 19.8% yoy.
  - **Deposits:** the stock rose 6.2%. Households and NFC's deposits simultaneously increased (4.6% and 10.8% yoy, respectively). However, the actual descending trend in interest rates for new deposits (1.39% in July for new households' deposits, -1.24 p.p. in comparison to the homologous period of 2024) may restrain the increase in households' deposits in the near future; meanwhile subscriptions of Government retail products increased in July for the 10th consecutive month.

Banking system: deleveraging and high liquidity

NPLs and coverage ratios

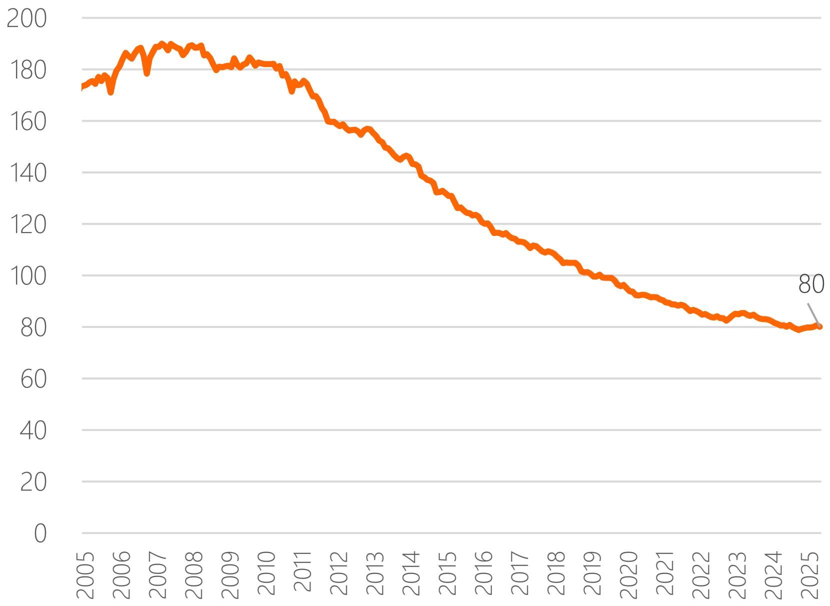


Cost of risk[1]
0.5% in Q4 2019
0.1% in Q1 2025

Notes: (1) flow of impairments to credit as a percentage of total gross loans.
Source: BPI Research, with data from Bank of Portugal.

Non-financial private sector: loan-to-deposit ratio

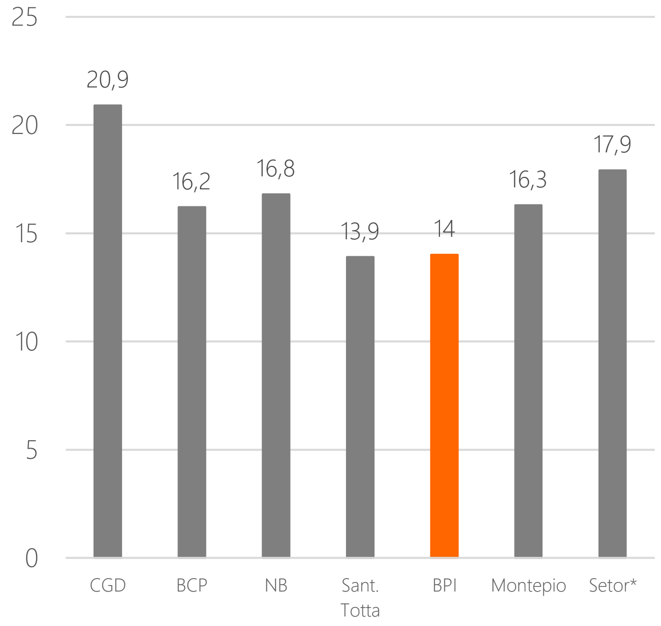
(%)



Source: BPI Research with data from Bank of Portugal.

Banks' solvency and liquidity position

In % (Q2 2025 for institutions, Q1 2025 for "Sector")



Notes: ratio for Q1 2025*
Source: Banks publications, BoP

- **NPLs ratio keep steady in Q1.** The total NPL ratio decreased to 2.3% in Q1 2025, while the one relative to households remains to 2.3%. The ratio for NFC was the one that saw the largest quarterly drop, to 4.0% (-2 pp from Q3). We are not expecting a significant deterioration of credit quality in the following months.
- **Profitability remains well above the pre-pandemic period.** According to the Bank of Portugal, ROE decreased to 13.9% in Q1 (vs 15.5% in Q1 2024).
- **The capital position of Portuguese banks provide buffers against the risks that could arise, due to geopolitical risks or any adverse unexpected event that could eventually impact NPL's.**