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Portugal:
Macroeconomic and financial outlook

BPI ***Research***

September 2026

BPI Grupo CaixaBank

Main messages

Activity

- **The lack of progress towards de-escalation in the Middle East and continued hostilities between the US and Iran are keeping energy markets under pressure.** Energy futures now point to higher average prices in 2026 and 2027 than at the beginning of the summer, with Brent at around 89$/b in 2026, compared with 80$/b two months ago, and 80$/b in 2027, compared with 72$/b.
- **ECB increased rates in September as expected.** The 25bp rate hike took the deposit rate to 2.50% and the markets are pricing further increases, to 2.75% in December 2026, with an 80% probability, and to 3.00% in spring 2027, with a probability of over 70%. These expectations reflect the persistence of the Middle East conflict and renewed pressure on oil and gas prices.
- **In Portugal, GDP growth in 2T 2026 surprised on the upside (+0.8% qoq and 2.5% yoy).** Domestic demand remained strong despite the weaker investment performance and the slowdown in private consumption. External demand continued to make a negative contribution to both figures, albeit less so than in the previous quarter. Growth significantly exceeded our expectations (we were forecasting 0.3% qoq growth and a 1.9% yoy growth), therefore an upward revision of our scenario is ongoing.
- **In August Global CPI increased to 3.3% (3.0% in July).** Core inflation increased slightly to 2.7% (from 2.6% in June), possibly reflecting some lagged effects of the energy shock. The acceleration of the CPI in August was almost entirely explained by the increase in fuel prices.
- **Employment slowed down in July, but it is still showing a positive dynamic.** The unemployment rate remained at 5.7%, but the number of unemployed decreased 0.8% compared to June (-1.1% compared to July 2025). The employed population also decreased compared to June but maintains a growth trend compared to 2025.
- **Public finances remain balanced, although risks are emerging.** On cash basis, the General Government budget balance recorded a surplus equivalent to 0.2% of GDP in the first 7 seven months of 2026, less 1.1 p.p. compared to the same period in 2025. This performance reflects expenditure growth (10.6%) outpacing revenue growth (7.6%). The main fiscal risk stems from the increase in rigid expenditure, especially related with pensions and personal costs. The expectation for 2027 is that this trend will persist.
- **Rating upgrade:** Portugal has regained an A+ credit rating from Fitch for the first time since March 2011, matching the grade attributed by S&P. The ratings agency upgraded Portugal from A to A+, with a stable outlook, citing stronger public finances, a sustained reduction in government debt and budgetary results "considerably stronger" than those of comparable countries.
- **Execution of RRP (Recovery and Resilience Plan) appears to be accelerating more significantly.** Up to now, Portugal received 17.2 billion euros, equivalent to 85% of the total amount of the RRP. Projects already approved amount to 25.08 billion euros (which includes RRP funds, amounting to 23.45 billion euros, and other sources of financing, totaling 1.63 billion euros) and payments reached 14.70 billion (85% of the total amount received from RRP), but only 67% of the approved projects.

Banking Sector

- **Profitability and solvency remains robust at the beginning of 2026.** CET1 stood at 18.0% in Q1 (vs 14.3% in Q4 2019) and ROA kept unchanged at 1.3%. 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.

Main economic forecasts

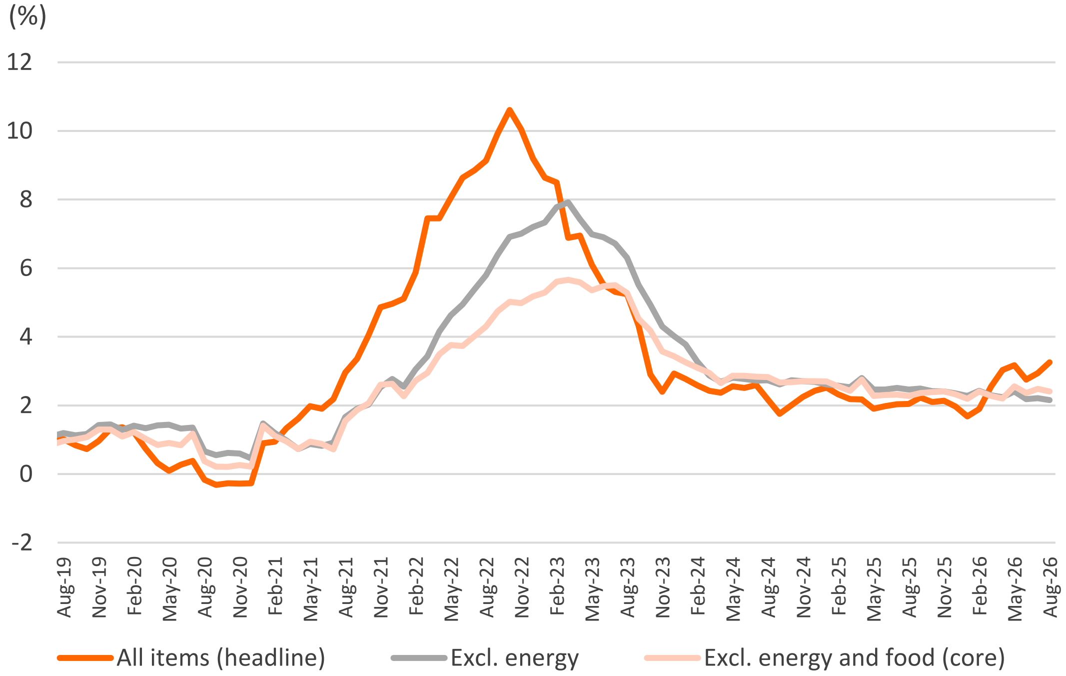
UNDER REVIEW

%, yoy	2017	2018	2019	2020	2021	2022	2023	2024	2025	Forecasts 2026	Forecasts 2027
GDP	3,3	2,9	2,7	-8,2	5,6	7,0	3,1	2,1	1,9	1,8	1,8
Private Consumption	1,8	2,6	3,5	-6,8	4,9	5,6	2,3	3,0	3,5	1,9	1,8
Public Consumption	0,1	0,5	2,1	0,4	3,8	1,7	1,8	1,5	1,6	1,4	1,1
Gross Fixed Capital Formation (GFCF)	11,6	6,2	5,5	-2,3	7,8	3,3	6,0	3,8	3,8	6,5	1,7
Exports	8,4	4,3	4,0	-18,4	12,1	17,2	4,2	3,1	0,4	2,2	2,9
Imports	8,0	4,9	5,1	-11,6	12,3	11,3	2,3	4,8	4,4	4,0	2,1
Unemployment rate	9,2	7,2	6,6	7,0	6,7	6,1	6,5	6,4	6,0	5,7	5,7
CPI (average)	1,4	1,0	0,3	0,0	1,3	7,8	4,3	2,4	2,3	2,9	2,3
External current account balance (% GDP)	1,5	0,8	0,8	-0,7	-0,7	-2,0	0,6	2,2	1,2	0,4	0,6
General Government Balance (% GDP)	-3,0	-0,4	0,1	-5,8	-2,8	-0,3	1,1	0,6	0,7	-0,2	-0,4
General government debt (% GDP)	126,0	121,1	116,1	134,1	123,9	111,2	96,9	93,5	89,7	86,3	83,2
Housing Prices	9,2	10,3	10,0	8,8	9,4	12,6	8,2	9,1	17,6	11,7	4,6
Risk premium (PT-Bund) (average)	269	138	100	90	60	100	70	62	44	41	50

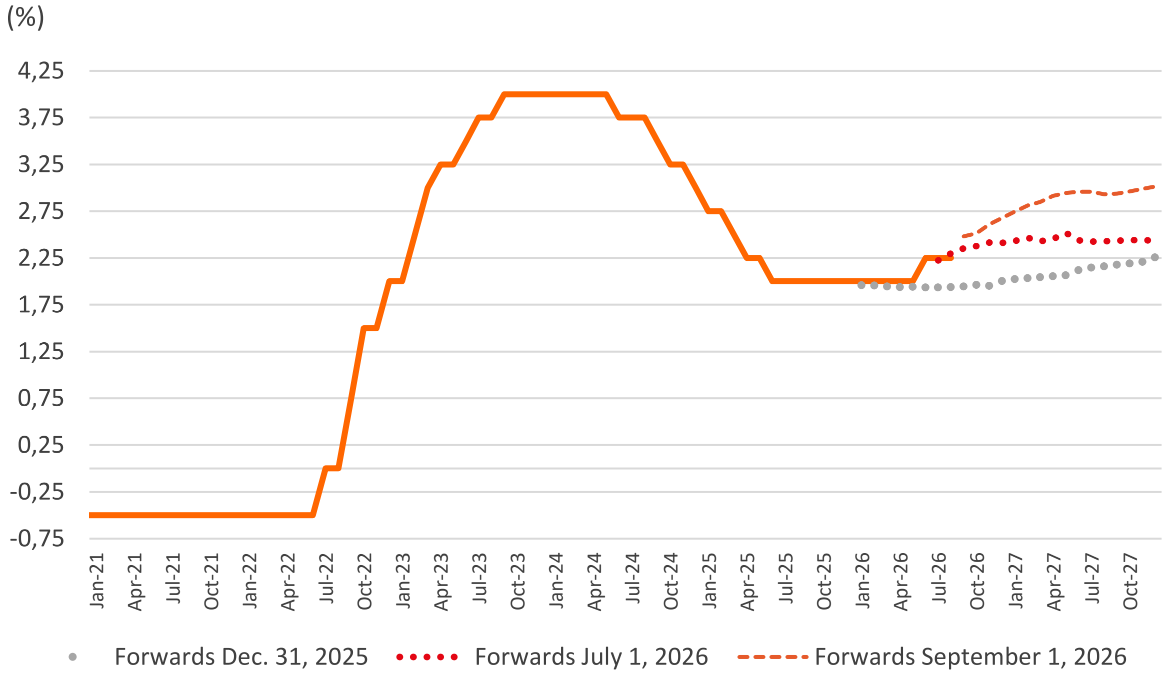
Source: *BPI Research.*

Markets price an increasingly hawkish ECB

Euro area: HICP inflation



ECB deposit rate

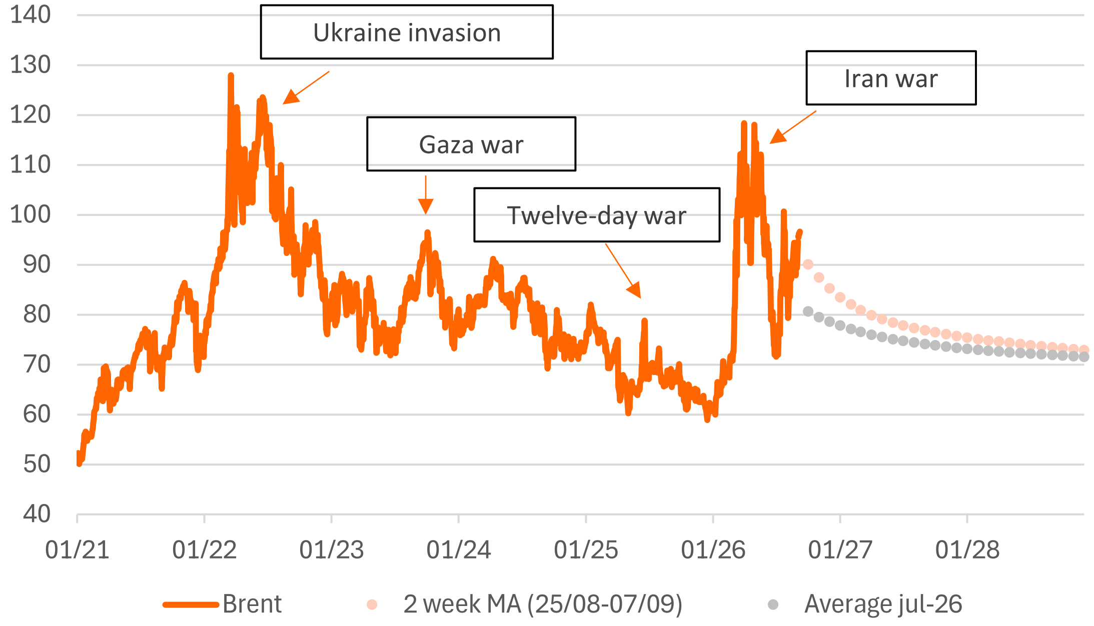


- **The ECB increased interest rates on September 10th**. The expected 25bp rate hike took the depo rate to 2.50% (vs. 2.00% prior to the Iran war). There are several factors that explain the ECB's desire for somewhat higher rates. First and foremost, the Middle East conflict lingers on and has added renewed pressure on commodity prices throughout the summer. Thus, the latest crude oil and LNG futures suggest that the inflation deviation from target could last a few quarters longer than previously expected. Second, data suggest that the indirect effects of the energy shock on nonenergy prices are limited (e.g., while headline inflation rose to 3.3% in August, inflation excl. energy stood at 2.2%), but a prolonged period of high energy prices raises risks of significant indirect effects in the future. Third, euro area activity data have proved resilient in the last months –allowing ECB officials to be relatively more concerned about inflation than growth.
- **Markets see ECB rates reaching 3.00% in 2027** (+25bp in December 2026 [depo at 2.75% with 80% market-implied odds] and spring 2027 [reaching 3.00% with over 70% market-implied probability]), **but the ECB will move step-by-step in a "data-dependent way"**. The Middle East conflict is key to the economic outlook, and it can change in fast and abrupt ways. If the current stress on energy prices persists throughout the end of the year, there is a meaningful chance that the ECB will choose to raise rates again in December. At the same time, markets have already shown that oil and gas prices can fall fast in response to (expectations of) improvements in energy flows (as they did last June with the U.S.-Iran memorandum of understanding). Thus, the scenario argues for a data-dependent ECB (as highlighted by ECB officials themselves), keeping all options open at each policy meeting instead of pre-committing with any given interest rate path.

Energy prices have rebounded as the US-Iran conflict has re-escalated

Brent oil prices and futures

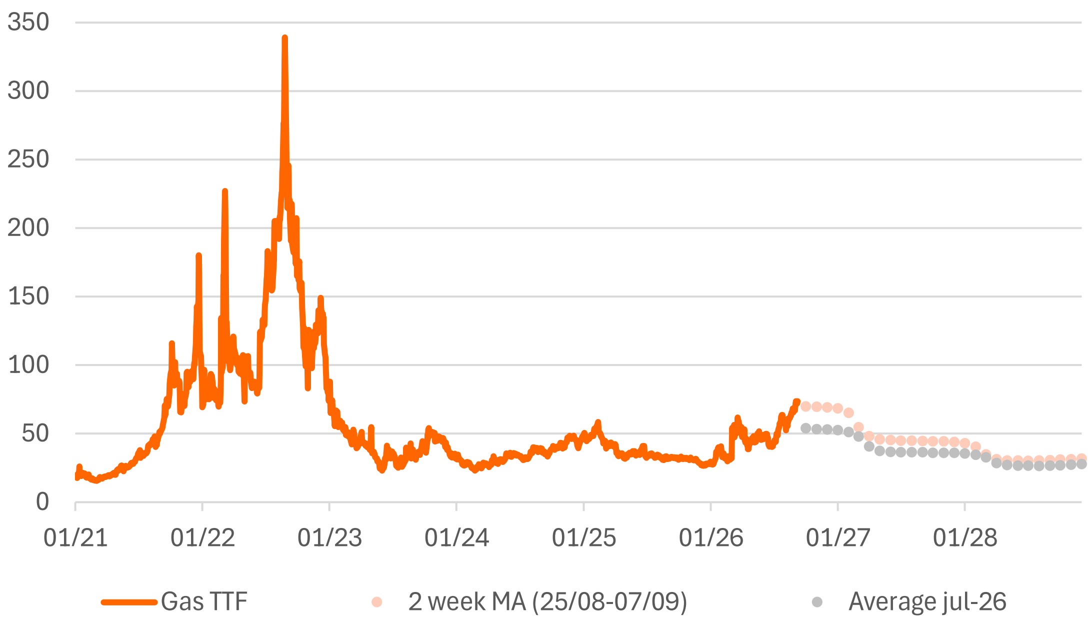
$ per barrel



Note: Graph elaborated with data as of September 7th.
Source: BPI Research, based on data from Bloomberg.

Gas prices and futures

€ per MWh



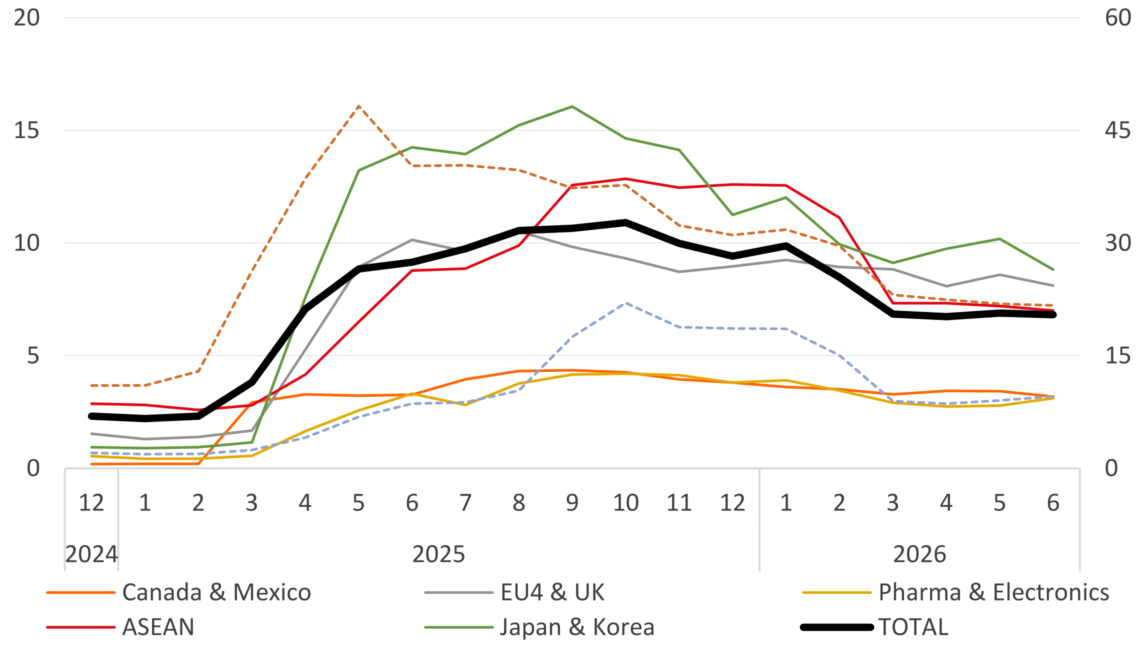
Note: Graph elaborated with data as of September 7th.
Source: BPI Research, based on data from Bloomberg.

- **The Middle East conflict continues to weigh on energy markets**. Brent prices experienced significant volatility over recent weeks, trading within a wide range and averaging close to 90 dollars per barrel in August. Front-end prices currently stand in the 95-100$/b range, while futures contracts point to an average of 89$/b in 2026 (C. 80$/b in 2027). Geopolitical uncertainty, supply risks and global inventories near record lows continue to push prices. Measuring actual oil flows from the Persian Gulf has become increasingly difficult due to the rise in "shadow" maritime shipments and increasing opacity. Refined products markets (gasoline, diesel, etc.) are facing growing strains, as reflected by refining margins in the United States, Europe, and Asia at historically high levels.
- **Gas prices have also risen sharply**, with the average TTF price in August exceeding 60€/MWh and having surpassed 70€/MWh since early September. Futures contracts currently point to an average of 55€/MWh in 2026 (C. 52$€/MWh in 2027). This increase reflects the combination of lower-than-expected LNG supplies and stronger electricity demand driven by high summer temperatures across Europe. EU gas reserves now stand close to 67%, a seasonal low (average 2023-25 c. 88%, 2017-21 c. 81%), which will keep upward pressure on the European gas market into the winter season.
- **While a reduction in geopolitical tensions could lead to some correction in oil and gas prices, risks remain tilted to the upside.** With US-Iran negotiations apparently at a standstill, further escalation could heighten uncertainty over supply security, while low global inventories and the vulnerability of key transport routes continue to pose significant upside risks to energy prices in the short to medium term.

Everything must change for tariffs to remain the same

Effective US tariffs

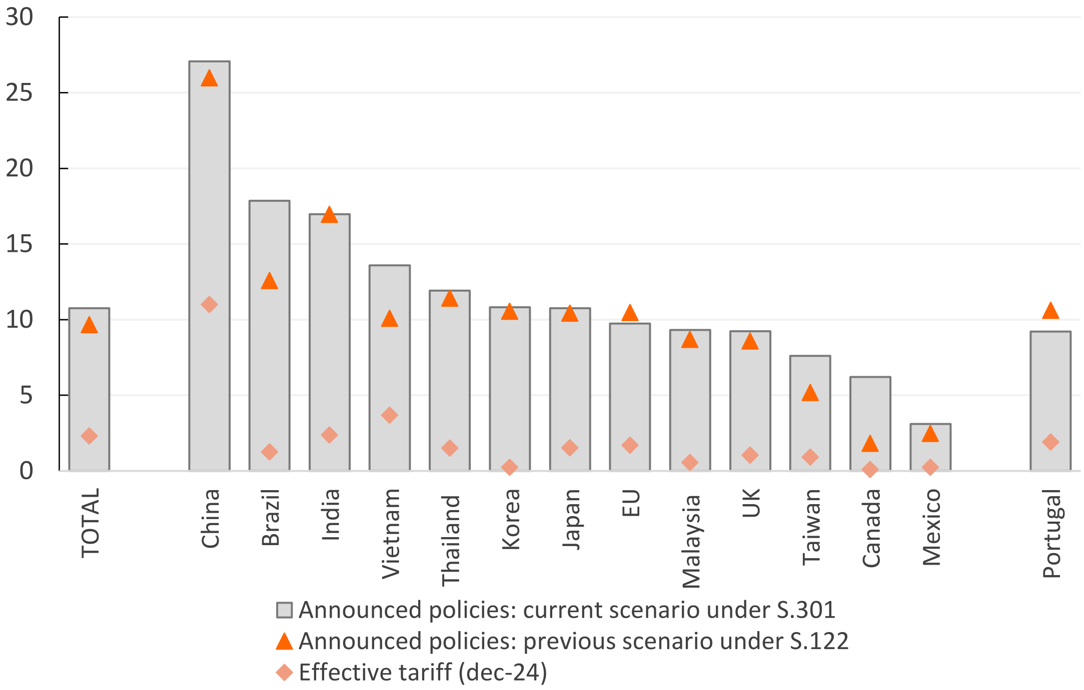
By trading partner group (%)



Note: EU4 = Germany, France, Italy and Spain. ASEAN = Cambodia, Philippines, Indonesia, Malaysia, Thailand and Vietnam. Pharmaceuticals and electronics (producers): Belgium, Ireland, the Netherlands, Switzerland, Singapore and Taiwan. Trade flows weighted using 2025 data.
Source: BPI Research, based on Bloomberg data.

US tariffs based on announced policies

By main trading partner (%)



Note: The current estimate is based on 2025 trade flows.
Source: BPI Research, based on Bloomberg, UN COMTRADE and White House data.

- **The 2026 de-escalation has brought the effective US tariff rate back close to "Liberation Day" levels,** when the Trump administration announced a 10% baseline tariff on most imports in April 2025. This followed several trade agreements, shifts in import patterns and the Supreme Court's decision to invalidate the tariffs imposed under the International Emergency Economic Powers Act (IEEPA). After the temporary 10% tariff introduced under Section 122 expired, the Administration rebuilt its policy on more specific legal grounds, combining country-specific measures against unfair trade practices under Section 301 with sectoral tariffs.
- **Despite the change in legal instruments, the overall tariff burden and cross-country differences have changed little**. The announced tariff rate averages around 11%, with lower rates for Mexico and Canada, whose qualifying trade is largely protected by the United States-Mexico-Canada Agreement (USMCA), as well as for the UK and the EU, and higher rates for China, Brazil, India and other Asian economies. However, the new framework does not rule out renewed tensions, particularly with Canada, or further tariffs linked to excess capacity. Uncertainty also remains over the future of the USMCA and the trade truce with China.

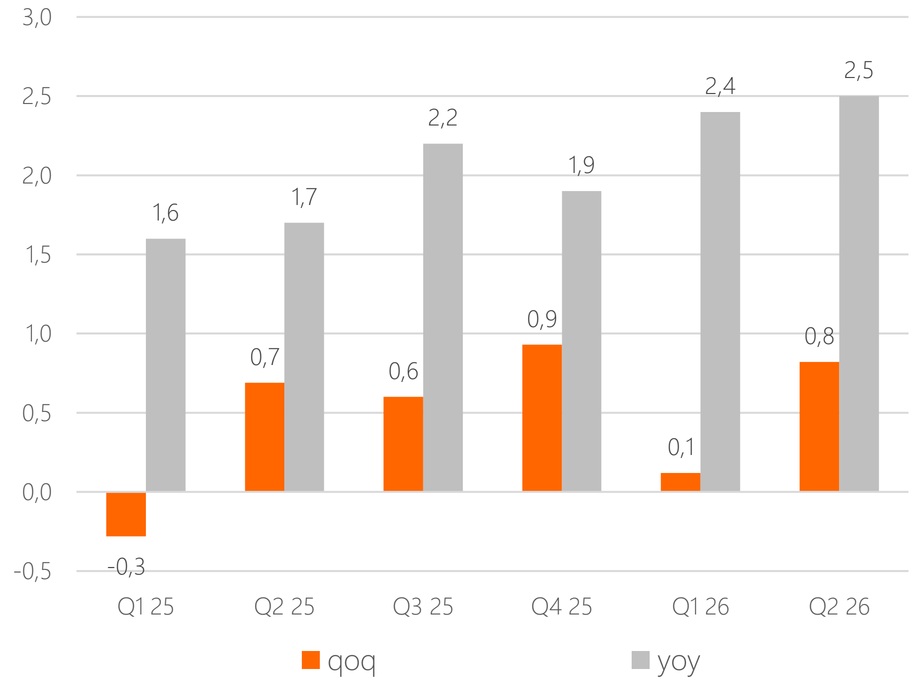
GDP growth in Q2 2026 was a positive surprise and indicators are reflecting moderate expansion

yoy, level		Q1 26	Q2 26	Q3 26	Jun/26	Jul/26	Aug/26
Synthetic indicators	Economic climate indicator	2,7	2,8	2,9	2,9	2,8	2,9
	Economic sentiment indicator	103,7	101,6	102,4	102,9	102,9	101,8
	Daily economic indicator	2,6	1,3	0,3	1,7	1,1	-0,6
Consumption	Consumer confidence	-18,7	-25,9	-19,8	-21,8	-19,5	-20,1
	Wholesale and retail trade (yoy)	4,4	3,6	3,0	2,7	3,0	-
	Retail sales excl. fuels (yoy)	4,6	4,6	3,6	3,4	3,6	-
	Card withdrawals and purchases	4,8	7,4	8,9	6,5	8,9	-
	Car sales (yoy)	10,1	11,8	6,0	13,7	3,5	8,4
Investment	GFCF indicator	11,4	6,6	-	10,1	-	-
	Imports of capital goods	17,9	16,6	-	15,7	-	-
Suply	Confidence in industry	-2,5	-4,4	-4,4	-4,4	-4,1	-4,7
	Confidence in construction	2,6	4,3	5,6	3,6	5,1	6,1
	Confidence in retail	3,2	4,2	1,9	5,3	2,3	1,5
	Confidence in services	6,7	8,5	8,0	9,2	7,4	8,6
	Sales of cement	2,1	9,7	6,8	12,2	6,8	-
	Industrial production	0,4	-0,7	-1,4	-1,1	-1,4	-
Demand	Electricity consumption adjusted for temperature&working days	3,8	2,7	1,8	2,6	1,8	-
	Non-resident tourists (yoy)	1,8	1,4	-0,9	-0,9	-0,9	-
	Number of flights (yoy)	3,1	1,1	1,7	0,0	1,5	2,0
Labour market	Change in regist. unemployment (thousand people)	-35,3	-28,5	-23,7	-29,0	-23,7	-
	Change in employment (thousand	120,7	125,6	81,6	108,9	81,6	-

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

Real GDP growth

(%)



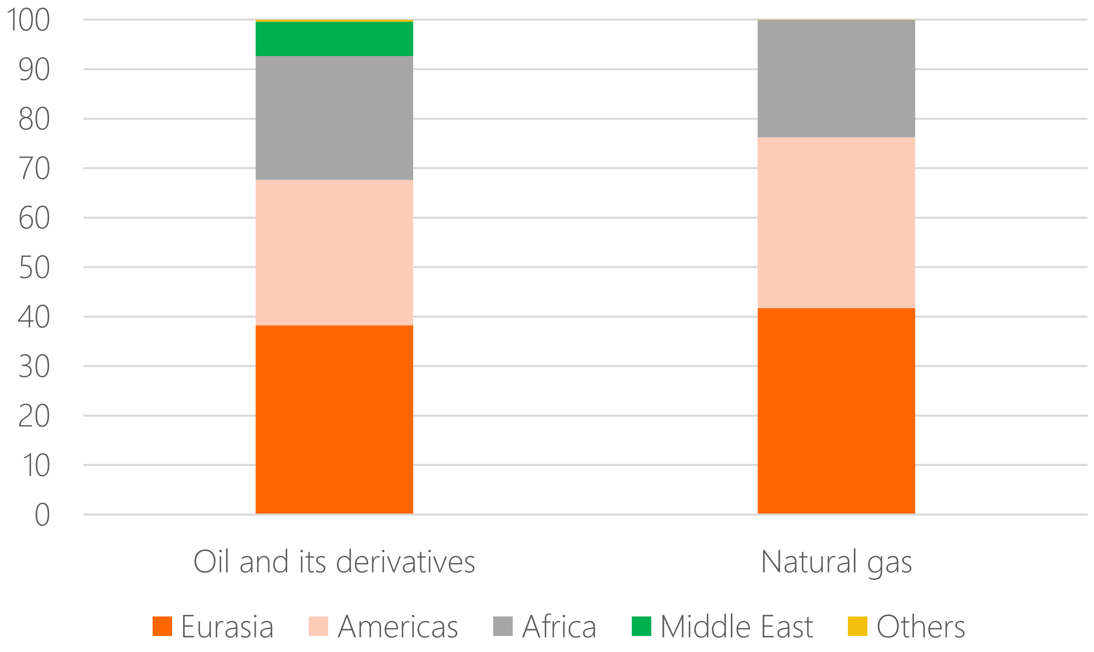
Source: BPI Research based on Portuguese INE.

- **GDP grew 0.8% qoq and 2.5% yoy in Q2, above expectations.** Domestic demand remained robust (contributing with 3.8 p.p.), despite the weaker investment performance (-1.9% quarter-on-quarter, 6.5% year-on-year) and a slowdown in private consumption (+1% qoq and +3.6% yoy). External demand continued to make a negative contribution to both figures, albeit less so than in the previous quarter. Growth significantly exceeded our expectations (we were forecasting an 0.3% qoq growth and a 1.9% yoy growth), therefore our scenario is under revision.
- **The most recent indicators are showing growth moderation but are still favorable overall.**. Consumption (accounting for over 60% of GDP) remains the primary growth driver and the trend continues to be positive, and sentiment is improving, specifically regarding confidence and data on card withdrawals and purchases. Sentiment indicators are showing positive trends in industry and construction, commerce and other services remaining more cautious. A robust labour market supports strong consumption performance, marked by declines in unemployment.

Portugal: limited direct exposure to the Gulf region

Oil and gas imports by region

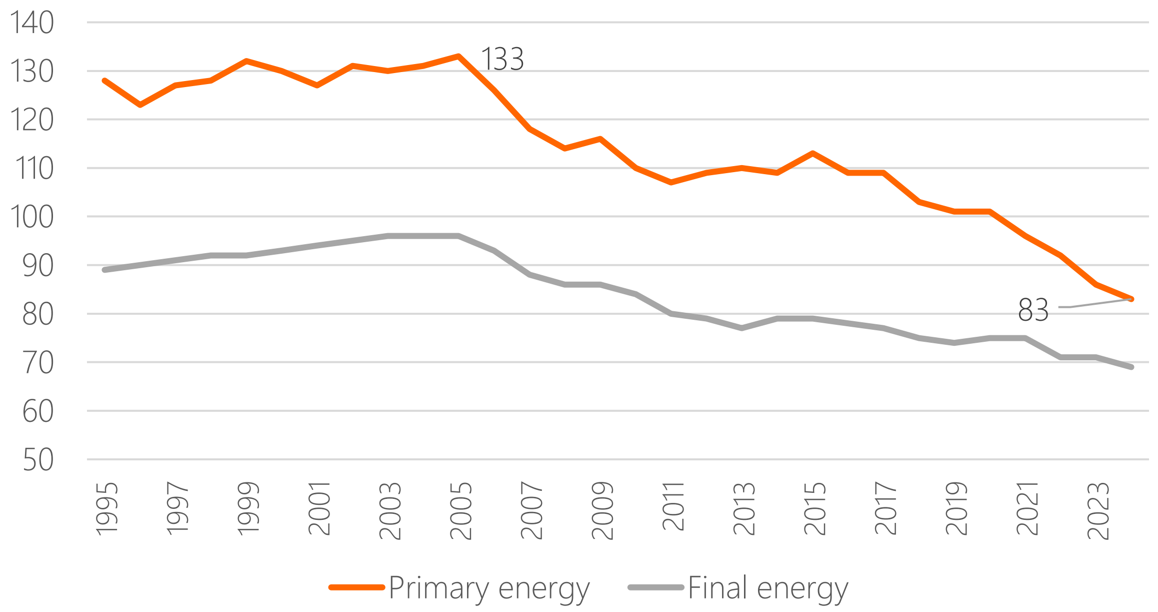
Percentage over total (%)



Note: Data from 2025.
Source: BPI Research, based on data from INE.

Energy intensity

Tonnes of oil equivalent (toe) of primary or final energy per M€ of GDP



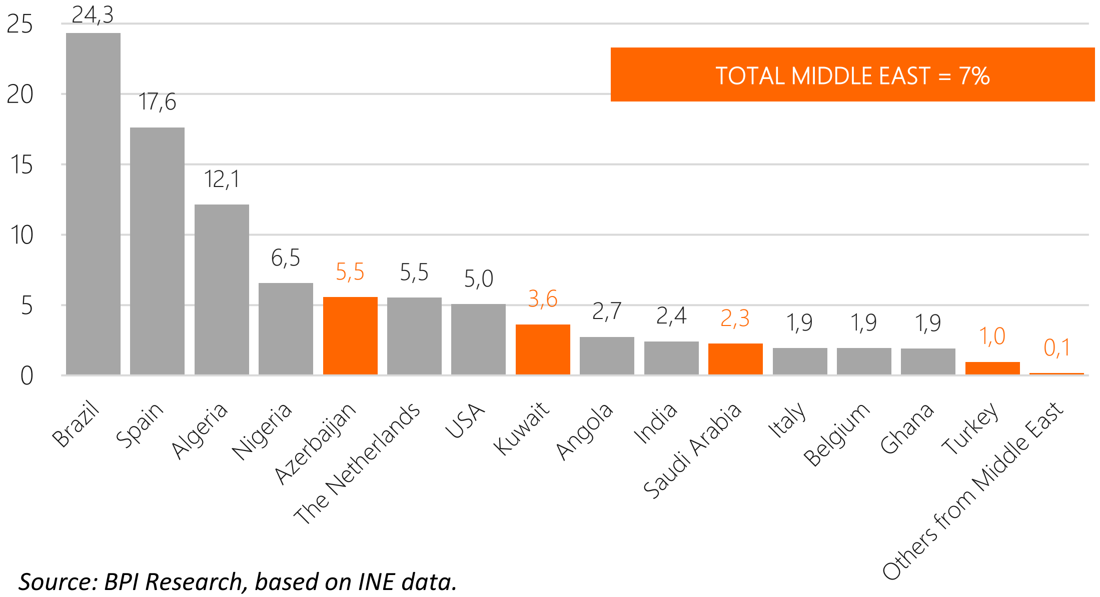
Note: Primary energy is the total raw energy source before conversion. Final energy is the energy delivered to and consumed by the end-user.
Source: BPI Research, based on data from DGEG.

- **Portugal's direct exposure to Middle East energy exports is relatively limited on both oil and gas**. Around 7% of Portugal's imported oil comes from the Middle East, while no imported gas originates from the region according to INE data (Egypt was included in Africa). In both cases, more than 65% of imports come from the Eurasia and Americas.
- **Lower energy intensity, while energy dependence remains high**. Portugal's energy intensity—measured as total energy consumption divided by GDP —has fallen by around 35% (primary energy, 27% in the case for final energy) since the early 2000s. However, Portugal continues to show a high reliance on external energy sources.
- **Limited trade exposure**. The Middle East accounts for 2.8% of Portugal's goods exports, which accounts for around 0.7% of nominal GDP. Goods exports to the region are more concentrated in wood pulps; agriculture products; transport equipment; stone, plaster, cement, etc.; leather and food & beverages. Imports' relevance from the region is even smaller—just 2.0% of total imports and around the same 0.7% of nominal GDP — and only 16% of these are mineral products, which include energy. The remainder is largely composed by transport material; metals; machines and textiles.

Portuguese energy imports by country of origin (2025)

Imports: crude and its derivatives

% of total imports of crude and its derivatives

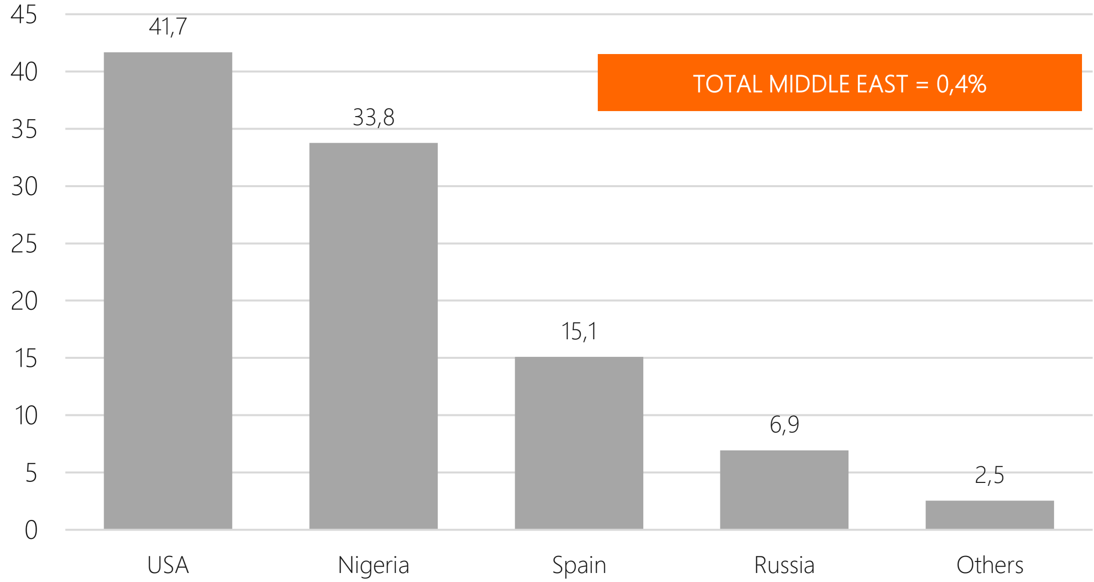


Source: BPI Research, based on INE data.

Note: *Includes the Combined Nomenclature (CN) headings "Crude petroleum oils or oils obtained from bituminous minerals"; "petroleum oils or oils obtained from bituminous minerals (other than crude oils) and preparations not elsewhere specified or included, containing by weight as basic constituents = > 70% petroleum oils or oils obtained from bituminous minerals (other than those containing biodiesel and residues of oils)"; Vaseline; paraffin, microcrystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes and similar products obtained by synthesis or other processes, whether or not coloured"; "Petroleum coke, petroleum bitumen and other residues of petroleum oils or bituminous minerals"; "Bitumen and natural asphalts; schists and tar sands; asphaltites and asphalt rocks"; "Bituminous mastics, cut backs and other bituminous mixtures based on natural asphalt or bitumen, petroleum bitumen, mineral tar or mineral tar pitch".*

Imports: Natural gas

% of total imports of natural gas



Source: BPI Research, based on INE data. Note: Includes the Combined Nomenclature (CN) heading "Petroleum gas and other gaseous hydrocarbons".

Public measures to support higher energy costs

- The return of the increase in VAT revenue through a reduction in the Tax on Petroleum and Energy Products whenever the price rises by more than 10 cents per litre compared with the first week of March;
- An additional refund of 10 cents per litre of diesel for passenger vehicles (over 22 seats) and freight vehicles (over 35 tonnes), up to a limit of 15,000 litres (cumulative with the ISP discount);
- Support for taxi companies amounting to €120 per vehicle, equivalent to 10 cents per litre for 400 litres per month;
- Support for the agricultural, forestry, fisheries and aquaculture sectors, amounting to 10 cents per litre on coloured and marked diesel;
- Subsidies for humanitarian firefighting associations amounting to €360 per heavy vehicle (equivalent to 10 cents per litre for 1,200 litres per month) and €120 for other vehicles (equivalent to 10 cents per litre for 400 litres per month);
- Granting of a one-off payment to organisations in the social sector, amounting to €600, equivalent to 10 cents per litre for 2,000 litres per month;
- Tax deferrals for 3 months (from May to July) for cargo transportation companies;
- Increase in the subsidy for the purchase of the Social Solidarity Gas Cylinder (from €15 to €25) for a period of three months;
- Credit lines: 600M€ for companies whose energy expenditure accounts for more than 20% of their production costs

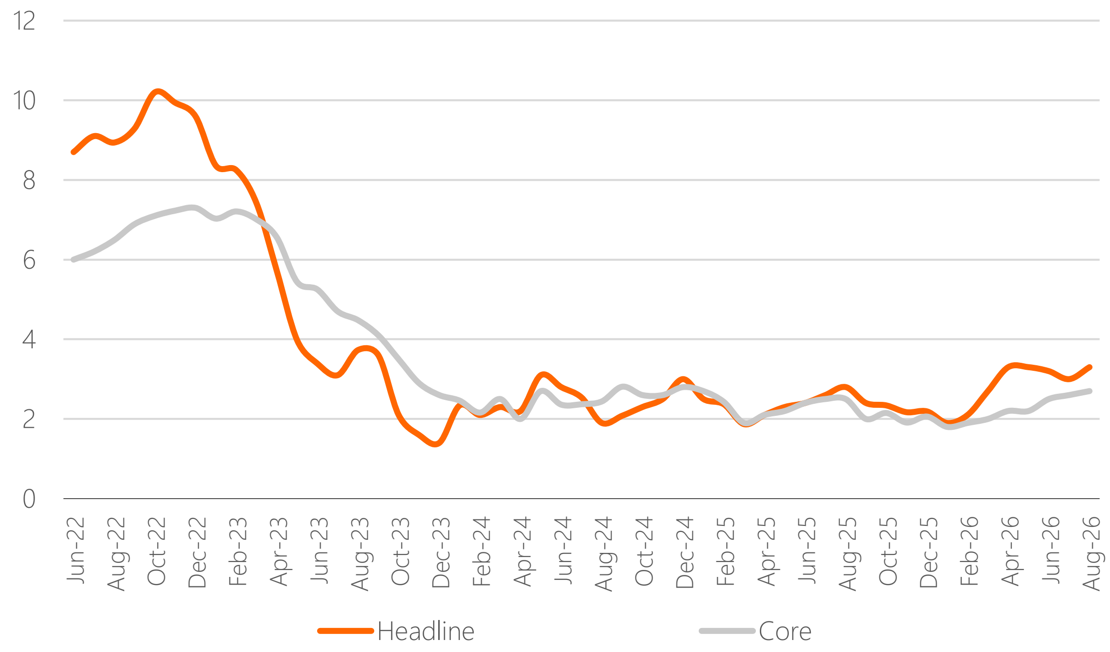
➢ **We estimate these measures should be around 1.5MM€, representing c. 0.5% of GDP** (direct impact on overall fiscal balance should be around 0.3%, without credit lines).

Source: BPI Research based on Portuguese Government and own estimations.

Energy inflation boosted global CPI in August

Inflation: Headline and Core

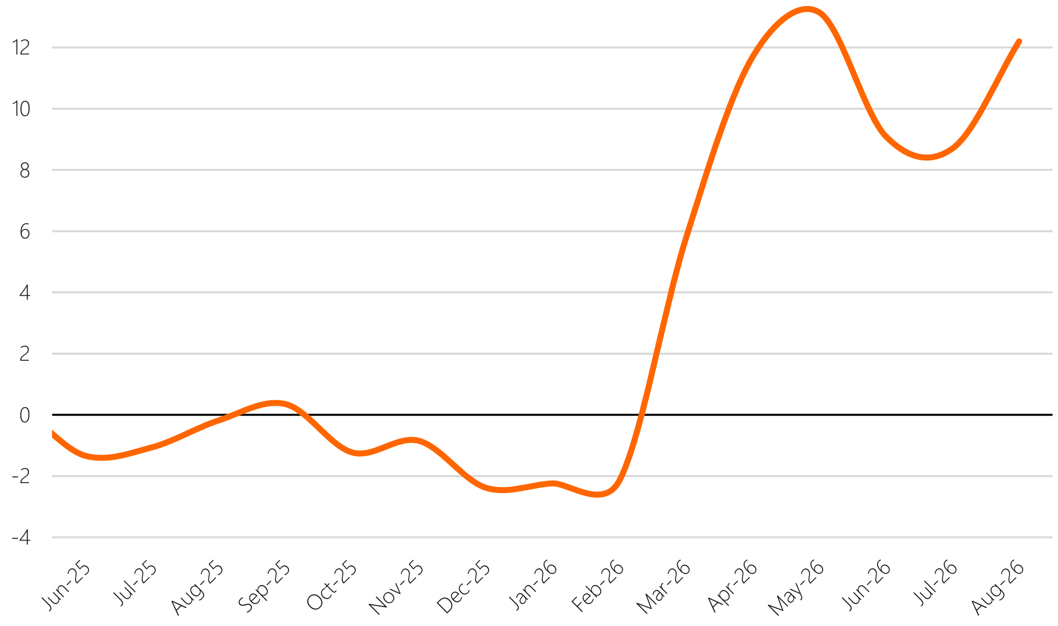
Year-on-year (%)



Source: BPI Research, from INE.

Energy: price index

Year-on-year (%)

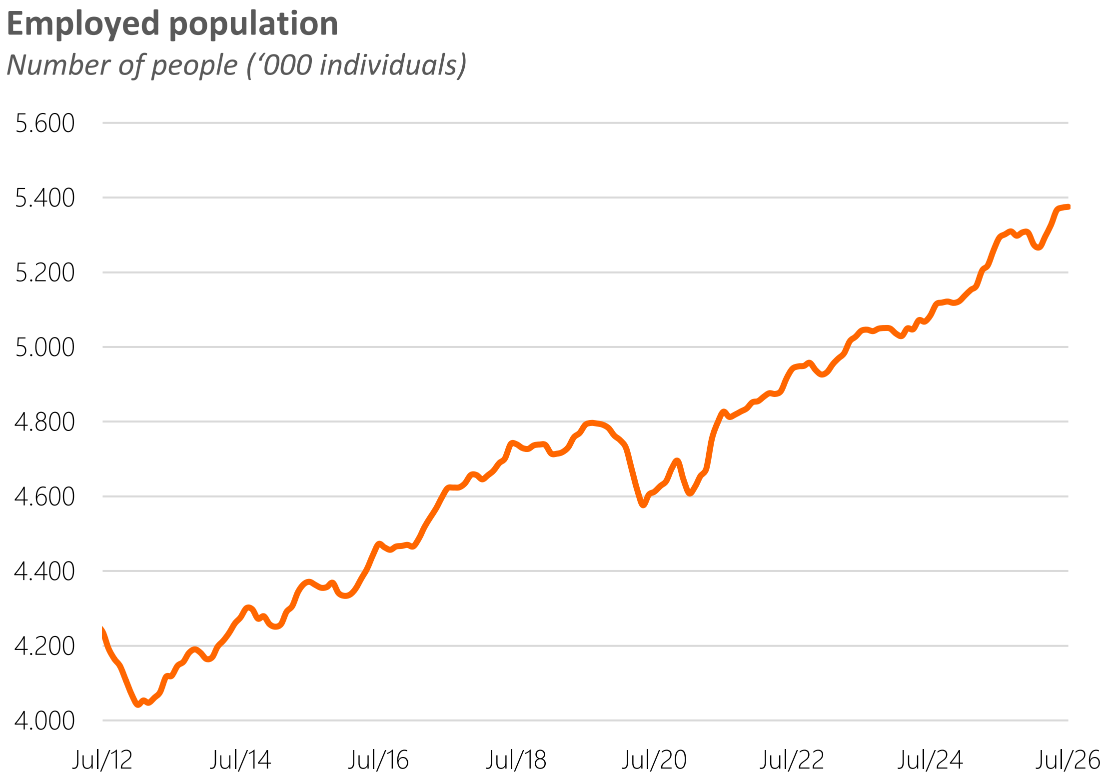


Source: BPI Research, from INE.

- **The year-on-year rate of change of the CPI estimated by INE for August is 3.3% (3.0% in July 2026).** The core inflation rate increased but more moderately: excluding the most volatile products – unprocessed food and energy – prices increased by 2.7% year-on-year (+0.1 p.p. compared to July).
- **The acceleration of CPI in august is almost entirely explained by the increase in fuel prices**. In fact, the contribution of the CPI for energy (12.2% year-on-year) to the Global CPI was 0.76 p.p. in August, accounting for 23% of the overall data.

Employment is peaking again

Grupo CaixaBank



Source: BPI Research, from INE.

- **The unemployment rate remained at 5.7% in July,** but the number of unemployed decreased to 320.3 thousand people, 0.8% less than in June and -1.1% compared to July 2025.
- **In turn, the employed population also decreased compared to June, but maintains a growth trend compared to 2025.** Thus, in July the employed population stood at 5,347 thousand people. This was the first data for Q3, suggesting that the labour market remains robust, although with signs of stabilization in the level of employment at around 5,300 thousand individuals.

RRP: execution starts to accelerate (67% of total program)

Approvals and payments to direct and final beneficiaries

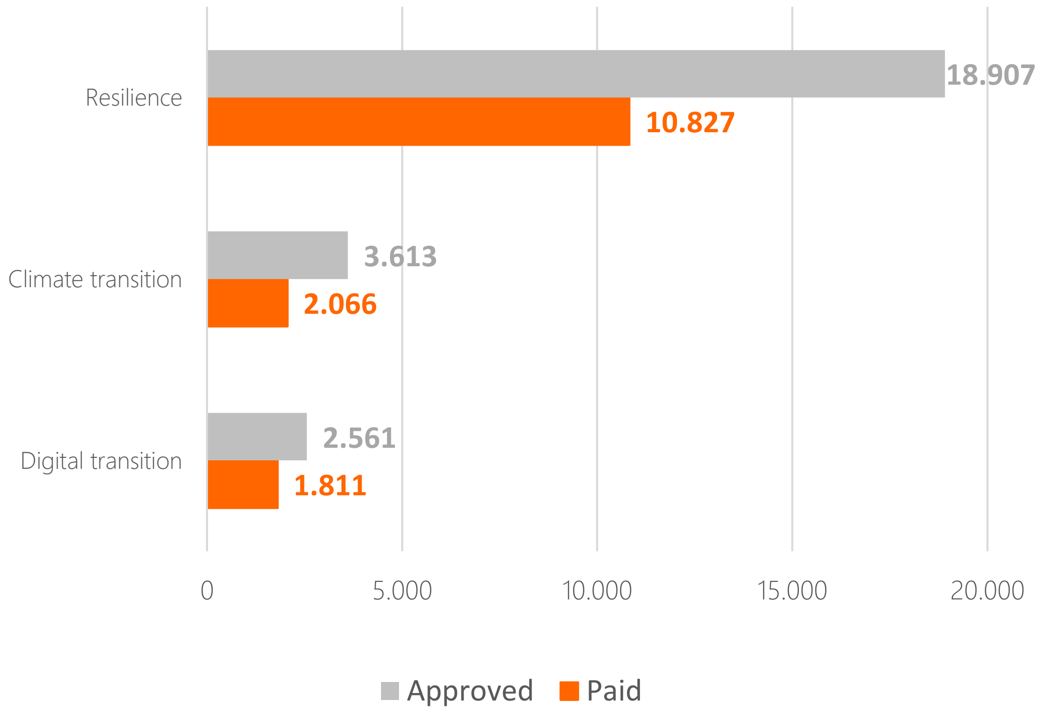
(Up to September 2nd)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	499	381	76,4
Social and solidarity economy institutions	885	502	56,7
Firms	8.926	5.331	59,7
Excl. R&I System Non-firms	7.775	4.396	56,5
R&I System Non-firms in consortium with firms	1.151	785	68,2
Institutions of the scientific and technological syster	734	432	58,9
Higher Education Institutions	996	589	59,1
Schools	992	656	66,1
Municipalities and metropolitan areas	4.701	2.363	50,3
Public entities	4.760	2.905	61,0
Public firms	2.588	1.510	58,3
Total (million euros)	**25.081**	**14.669**	**58**
(% total RRP)	***107%***	***67%***	

Note (*): *In December 2025, the Council of the EU approved the revisions regarding the Portuguese RRP program. In that way, the total cost of the national program was revised to* ***21,905 million €*** *(instead of 22.216 million €). To implement the projects, the government has now other sources for financing them, amounting to 1,640 million €.*

Source: *BPI Research, from Recuperar Portugal.*

RRP: amounts approved and paid by dimension

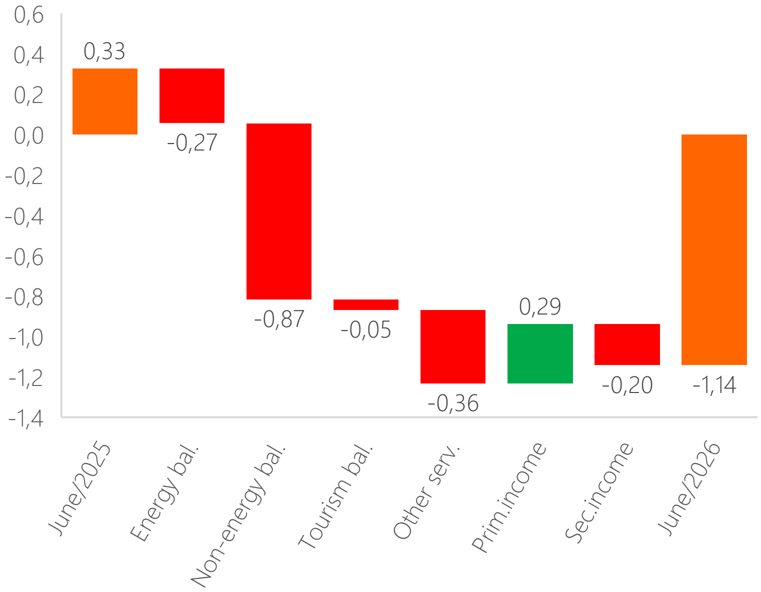
Eur million



- **Up to now, Portugal received 17.2 billion euros, equivalent to 79% of the total amount of the RRP. Projects already approved amount to 25.08 billion euros (which includes RRP funds, amounting to 23.45 billion euros, and other sources of financing, totaling 1.63 billion euros) and payments reached 14.7 billion** (85% of the total amount received from RRP), but only 67% of the approved projects.
- At the same time, the rate of implementation of the funds is starting to accelerate more significantly and is expected to increase this year, given the approaching end of the program and its reprogramming to facilitate the transition of funds allocated to programs with a low probability of implementation by the end of 2026 to other projects. In this context, we anticipate that the implementation of the RRP could add 0.4 percentage points to growth in 2026.

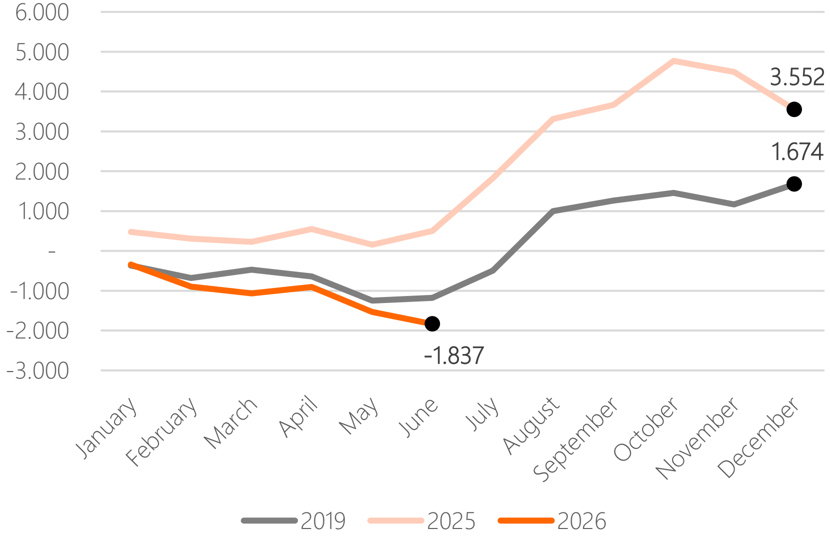
Current account balance worsened considerably up to June

Current account up to June 2026
% of GDP and percentage points change



Source: BPI Research, from BoP.

Current account up to June 2026
In million euros



Source: BPI Research, from BoP.

Portugal: exports and imports change
Ytd June 2026

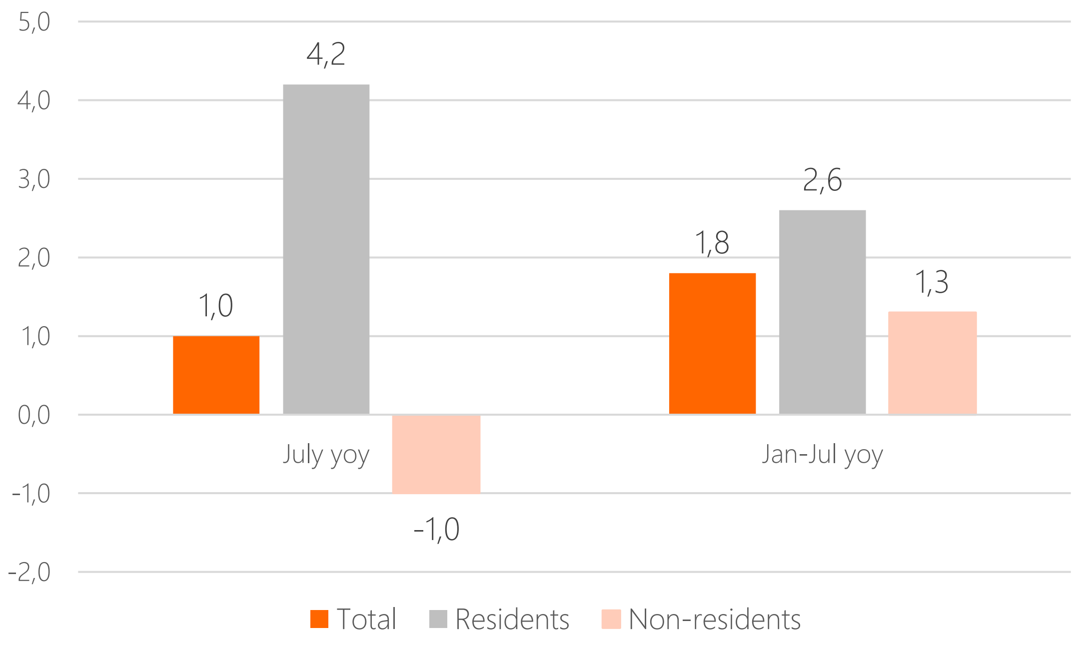
	Exports	Imports
annual change (%)	5,4	9,3
Contribute (p.p.)		
Goods	5,9	4,9
Non-energy	5,1	8,0
Energy	17,5	19,4
Services	4,9	10,1
Tourism	4,2	5,3
Others	5,4	11,5
annual change by region/country (%)		
Euro area	4,9	8,6
Goods	4,9	7,8
Spain	5,3	7,5
Goods	2,8	6,5
Germany	5,3	11,4
Goods	5,7	10,5
US	3,4	10,2
Goods	3,4	11,1
Asia	7,5	6,5
Goods	10,1	5,0

Source: BPI Research, from BoP.

- **In the first half of 2026, the current account recorded a deficit of 1,837 million euros, equivalent to -1.1% of GDP**, a significant deterioration in the external balance compared to the figures recorded in the same period of 2025 (when the current account showed a surplus of 502 million euros, or +0.3% of GDP). This decline was driven not only by the increase on non-energy goods deficit (to -8.2% of GDP) but also by a reduction on the services' surplus, which fell to 9.2% of GDP (-0.4 p.p.). Additionally, the secondary income surplus contributed to the worsening balance, dropping to 1.4% of GDP (-0.2 p.p.), which was partially offset by a reduction in the primary income deficit, which improved to -1.5% of GDP (+0.3 p.p.).
- **It is worth noting that the non-energy goods balance deteriorated by 563 million euros** due to a rise in imports (+956 million euros, or +19.4%), while exports increased by 395 million euros (+17.5%). This trend aligns with expectations of a worsening energy goods reflecting the persistence of the conflict in the Middle East.

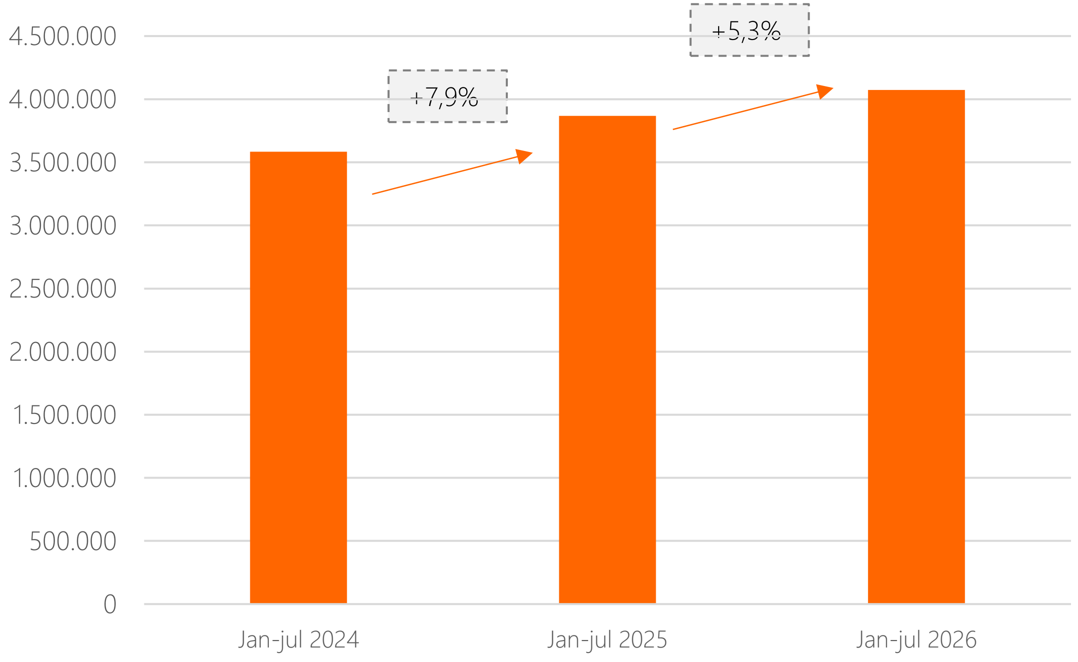
Internal tourism keep performing strongly up to July

Number of guests
Annual change



Source: BPI Research, from INE.

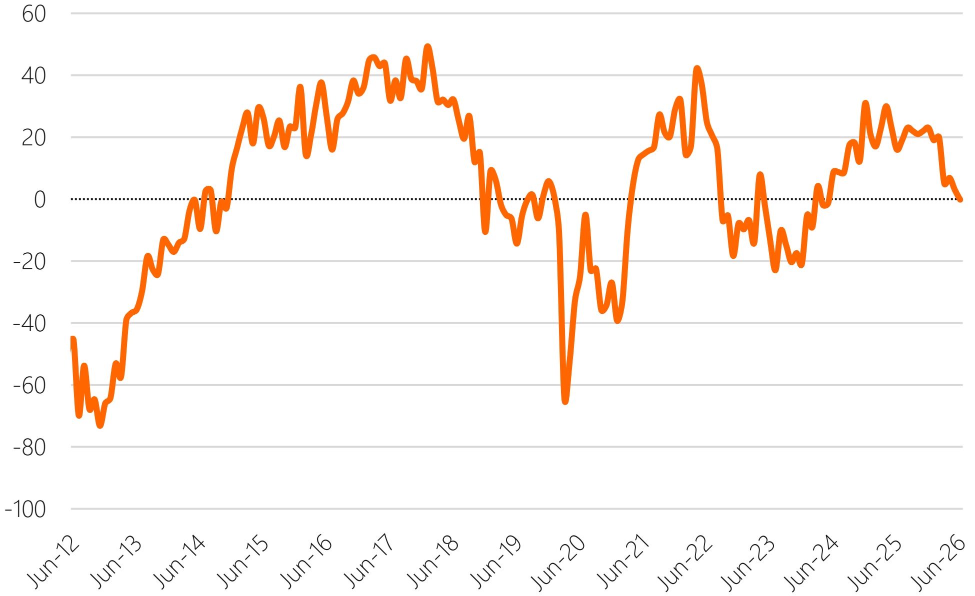
Total revenues in tourist accommodation establishments
Thousand €



- **In July 2026, tourism registered 3.4 million guests (+1%), driven by the growth in the number of resident guests (+4.2%), despite the drop in non-residents (-1.0%).** In cumulative terms in the year, the tourism sector recorded an increase of 1.8% in the number of guests compared to the same period in 2025.
- **Total revenues in tourist accommodation establishments are growing 5.3% in the year up to July,** mainly driven by dynamism in some regions such as Alentejo (9.1%), RA Madeira (7.8%) and Algarve (7.5%).

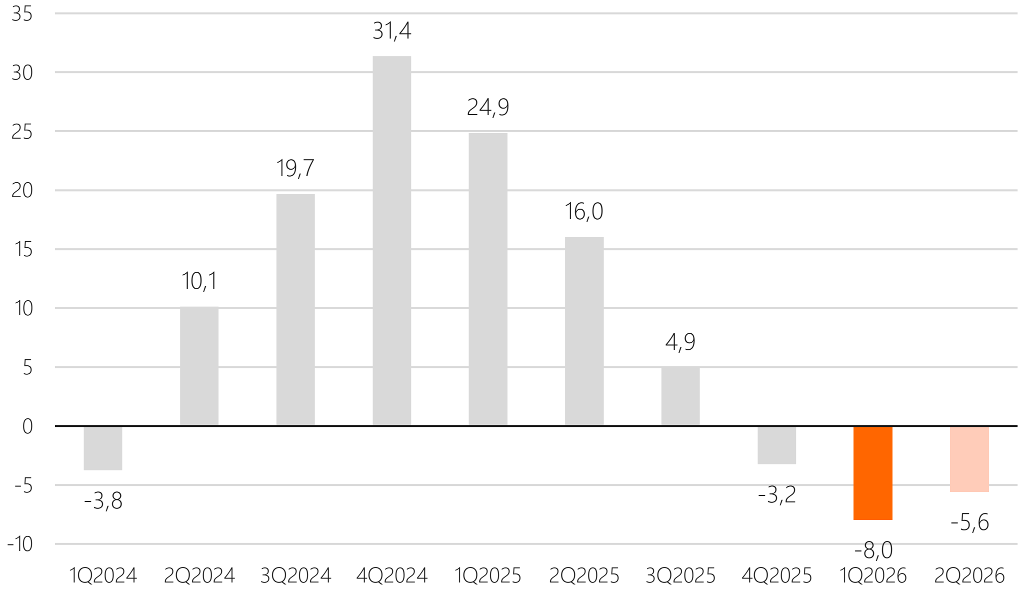
Housing market cools down

Portuguese Housing Market Survey: price expectations (3 months)
Net balance



Source: BPI Research, using data from INE .

House Sales
yoy (%)



Source: BPI Research, using data from Confidencial Imobiliário.

- **The residential market recorded a slowdown in activity (transactions) in the 1H 2026.** In Q1, 37,745 dwellings were transacted, -8.7% than in the same period of the previous year. Quarter-on-quarter, the number of transactions also fell significantly (-12.4%). According to CI (Confidencial Imobiliário), sales should have increased in Q2 2026 but still drop on a year-on-year basis (-5.6%). This performance confirms the trend of less dynamism that has been observed since the second half of last year.
- **According to the same source (CI), prices continue to show an upward trajectory**: in Q2 2026, the RHPI continues to grow (monthly var. in May of 1.7%). Market expectations (real estate agents and developers) for prices in the next 3 months have also been moderating, and now point to a stabilization trend.

Public finances remain balanced, although risks are emerging

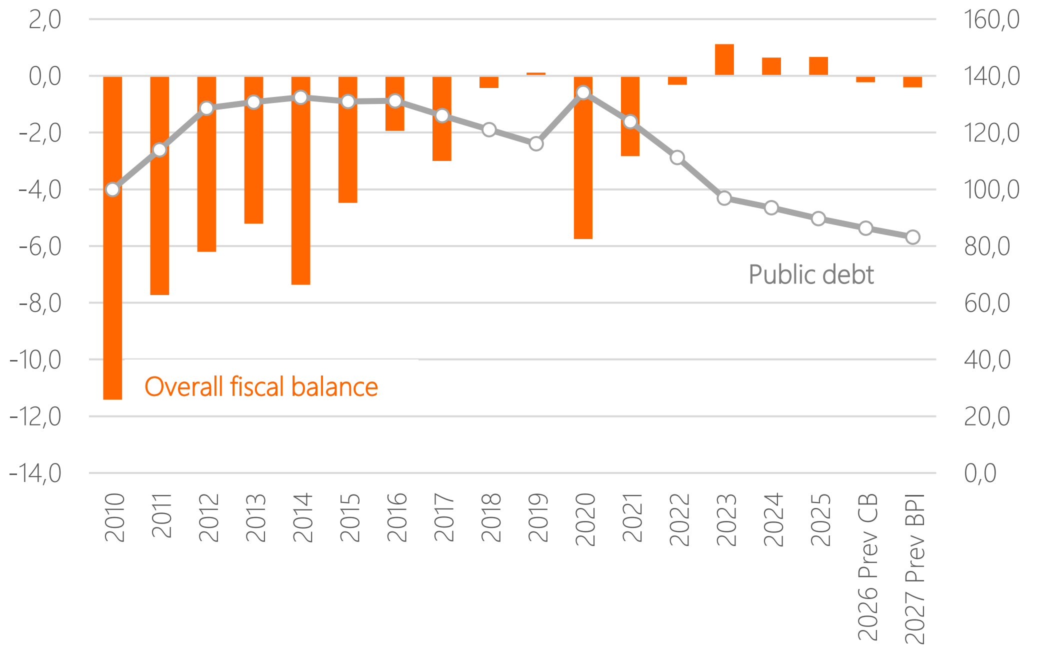
Public accounts (main items)

January-July	2019	2024	2025	2026	Var. 2026 vs 2019	Average Growth Rate 2019-2025 (%)*	Growth Rate 2025-2026 (%)
Revenues	**39,7**	**39,4**	**39,8**	**42,8**	**3,1**	**8,2**	**7,0**
Fiscal revenues	22,4	21,9	22,2	23,1	0,7	8,9	3
Social security contributions	10,1	10,7	10,9	11,6	1,5	9,0	7
Expenditure	**40,1**	**38,9**	**38,5**	**42,6**	**2,6**	**6,4**	**11**
Staff costs	9,7	9,4	9,7	10,3	0,5	7,0	6
Current transfers	17,3	17,6	17,2	18,2	0,9	7,8	6
Aquisition of goods & services	5,5	5,4	5,2	6,2	0,7	3,9	24
Interests	4,3	2,7	2,6	2,8	-1,4	0,0	12
Investment	1,8	2,0	2,2	3,2	1,3	6,1	38
Primary current expenditure	**33,4**	**33,3**	**33,1**	**35,8**	**2,3**	**-31,1**	**8**
Budget balance	**-0,4**	**0,6**	**1,3**	**0,2**	**0,5**	**0,5**	**-**

Source: BPI Research, based on data from DGO.

Overall fiscal balance and public debt

(% of GDP)



- **The General Government budget balance recorded a surplus equivalent to 0.2% of GDP in the first 7 seven months of 2026,** less 1.1 percentage points compared with the same period in 2025. This performance, reflects expenditure growth (10.6%) outpacing revenue growth (7.6%). Even excluding the settlement of NHS (SNS) arrears, expenditure would still have increased by 8.5%.
- **The main fiscal risk stems from the increase in rigid expenditure: in 2026, the increase in rigid expenditure exceeded revenue growth.** Personnel expenditure, social benefits and interest payments increased by €4.4 billion, €1.1 billion more than the increase in tax and social contribution revenues, reversing the trend observed since 2019.
- **The expectation for 2027 is that this trend will persist. The government has already indicated that budgetary measures adopted in 2026 are expected to worsen the 2027 budget balance by around €4.8 billion. The largest contribution comes from higher pension expenditure (accounting for 42% of the deterioration in the balance), followed by personnel expenditure (26%) and interest expenditure (16%).**

Increase in financing needs for 2026 should be manageable given strong economic fundamentals

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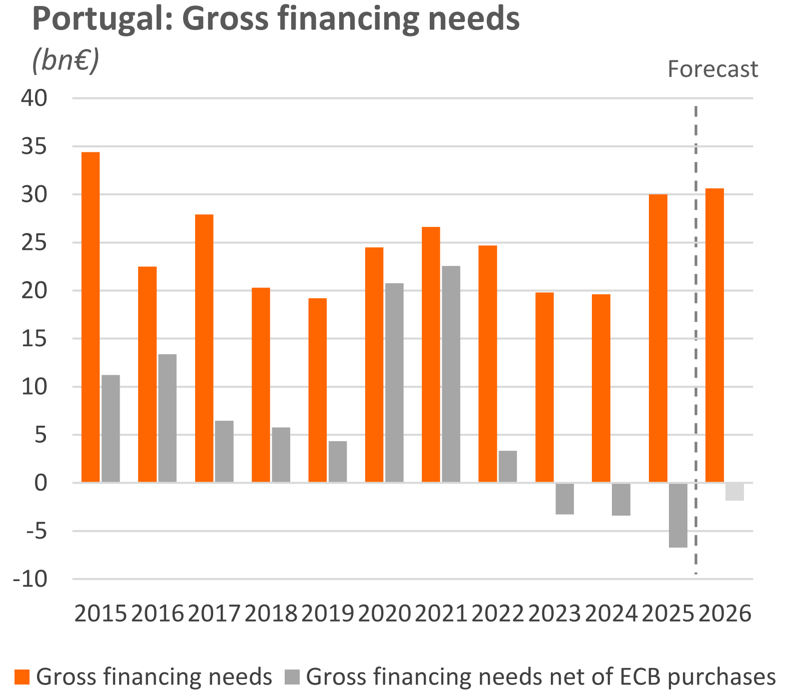
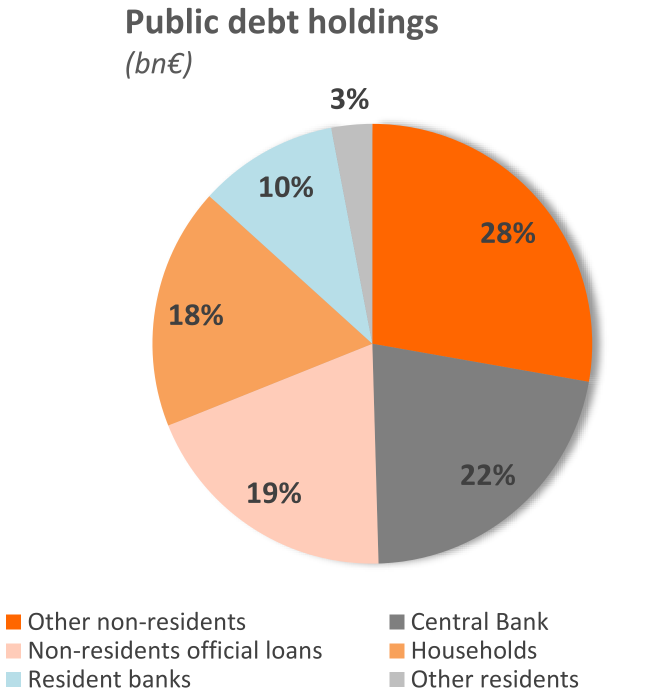
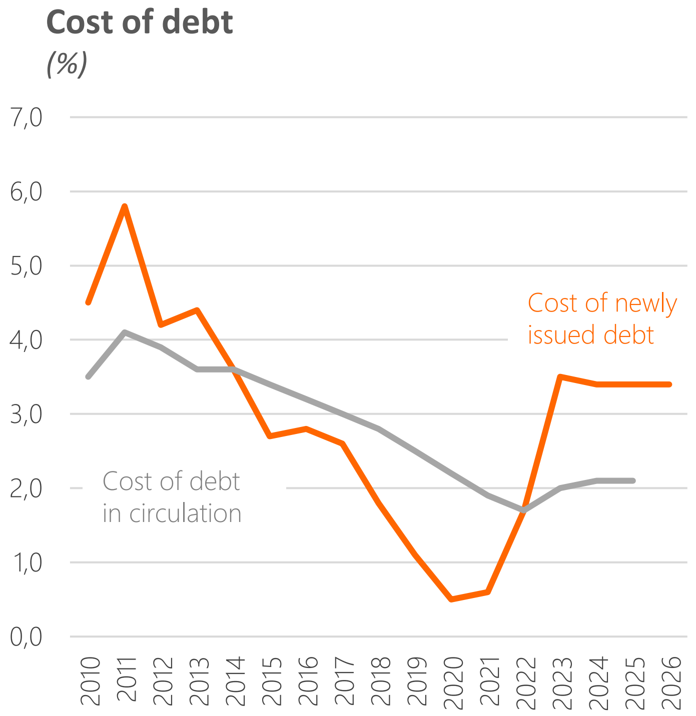


Source: BPI Research, based on data from IGCP and ECB.



Note: December 2025 data. Source: BPI Research, based on data from BoP.

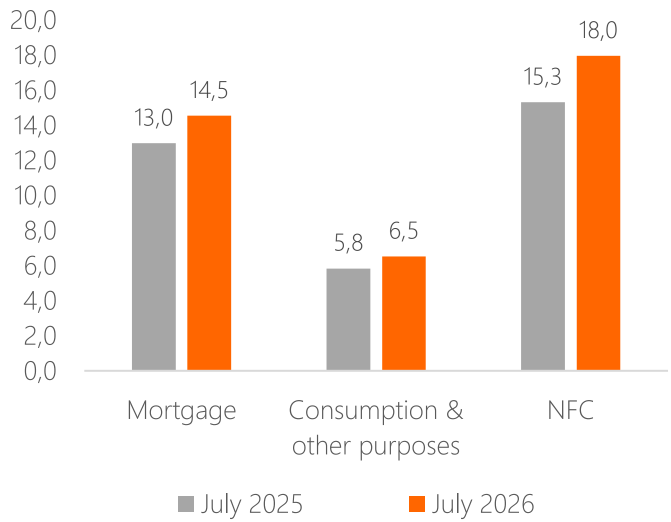


Source: BPI Research, based on data from IGCP.

- **Gross funding needs are estimated to be around 31bn€ in 2026**, a 0.6 bn€ increase from 2025, that should be covered through the issuance of medium- to long-term fixed-rate debt. The context of higher interest rates should attract investors and facilitate the absorption of Portugal's financing needs.
- **Government debt remains diversified**. At the end of 2025, around 70% were in hand of foreign institutions/investors (including official loans), with households also represent an important player (around 18% of total public debt vs 17% in 2024).
- **Higher interest rates is expected to have a relatively moderate impact on the implicit cost of the Portuguese public debt, reflecting the positive assessment of Portuguese sovereign debt by rating agencies. Fitch recently upgraded Portugal's sovereign credit rating to A+, while the sovereign risk premium has fallen to levels below those of its main peers. We estimate that the implicit interest rate on Portuguese public debt will increase by 0.2 percentage points to 2.4% in 2026, from 2.2% in 2025, and further to 2.6% in 2027.**

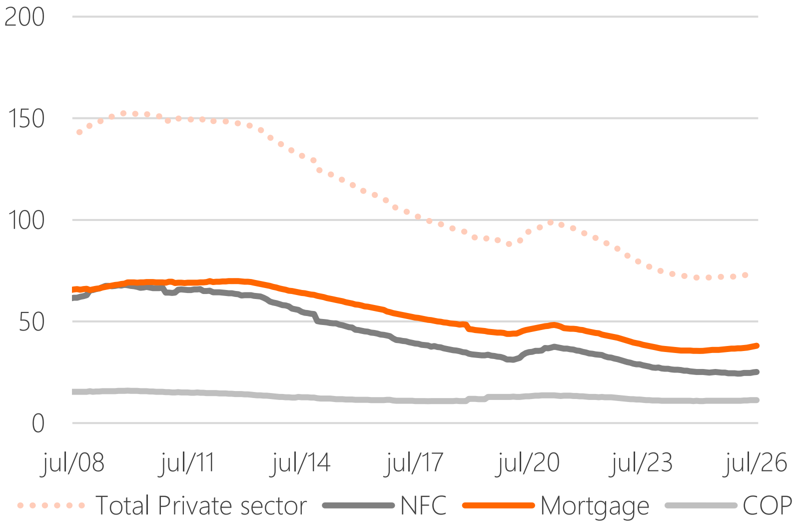
Banking system: private sector credit and deposits keep rising

New lending activity by sector
Billion euros (accumulated in the year)

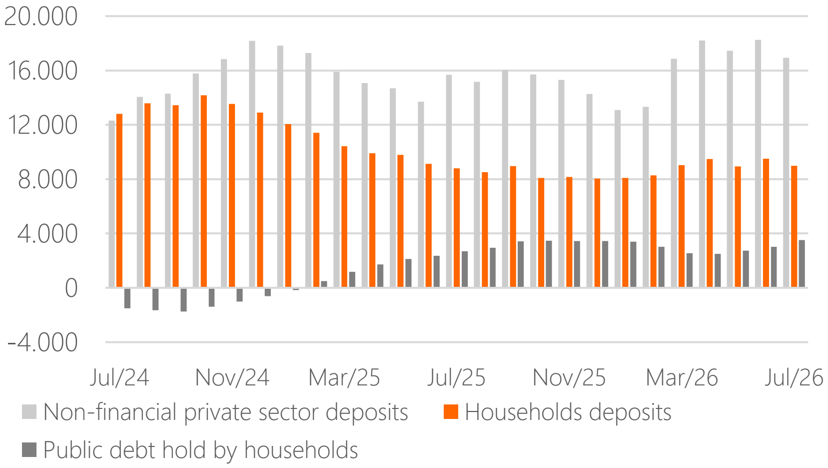


Source: BPI Research, based on data from Bank of Portugal and ECB.

Bank credit to the non-financial private sector
% GDP



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



Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. Source: BPI Research, based on data from Bank of Portugal.

- **The stock of credit to companies and households continues to increase, albeit departing from historically low levels:**
  - **Mortgage credit**: stock increased by 10.8% in July, with accumulated new operations increasing 12.1%. The amount recorded in the first 7 months of 2026 was a maximum, supported by robust labour market and the impact of Government's measures for young people (measures directed to young people with less than 35 years old through a public state guarantee for 100% loan-to-value, exemptions from IMT (Mortgage Property Transfer Tax), Stamp Duty, and other support measures, such as the "You Have a Future in Portugal" plan).
  - **NFC:** the outstanding credit added 5.2% in July, while YTD new operations expanded by 17.2%. A relevant part can be explained by credit lines available to companies to recover from the storms at the beginning of the year.
  - **% of GDP**: credit to non-financial private sector is around 74% of GDP, clearly below high historical levels (≈150% maximum).
- **In July, non-financial private sector deposits reached a new historical maximum (the stock rose 6.3% yoy).** Households' deposits increased to new maximums (4.5% yoy) and deposits from NFC's also increased (11.3% yoy). Going forward this trend should diminish as expenditure and investment are expected to increase their pace.

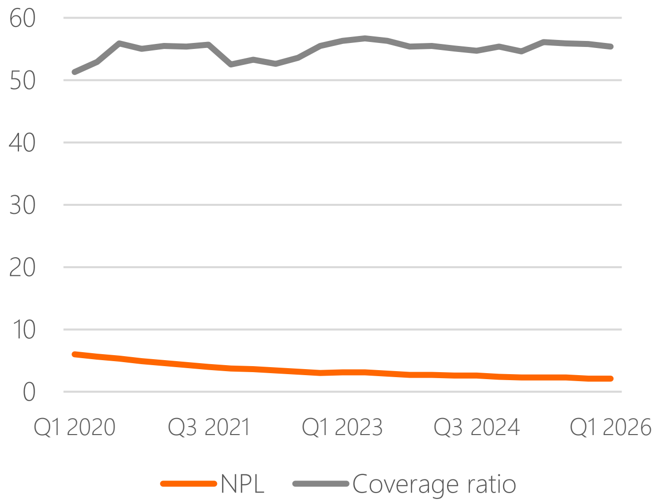
Banking system: high solvency and profitability with abundant liquidity

Grupo CaixaBank

NPLs and coverage ratios

***NPL ratio*[1]** *In % of gross loans*

Coverage ratio *In % of NPLs*

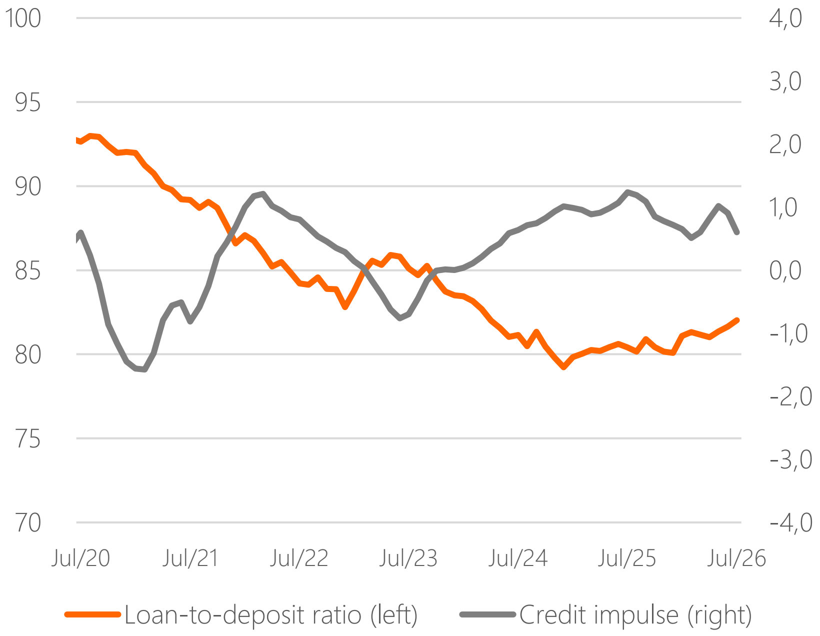


Cost of risk[1]
0.5% in Q4 2019
0.1% in Q1 2026

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

Loan-to-deposit and credit impulse of private sector

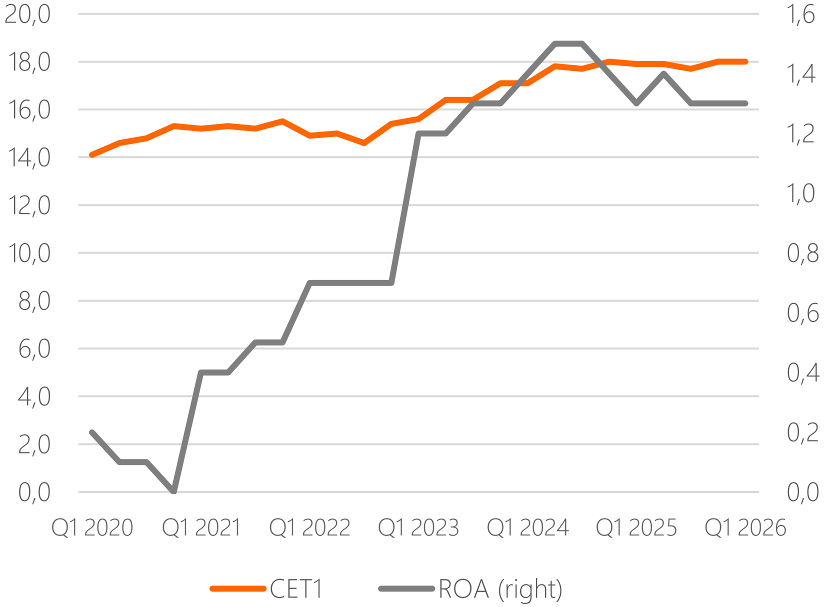
% *% of GDP (3M MA)*



Source: BPI Research with data from Bank of Portugal.

Banks' solvency and profitability

% *%*



Source: BPI Research with data from Bank of Portugal.

- **NPLs ratio kept unchanged at 2.1% in Q1, a minimum.** Both ratios relative to NFC and households are now at the lowest levels (3.7% and 1.9, respectively). We are not expecting a deterioration of credit quality soon.
- **Deleveraging among firms and households shows signs of inverting, despite debt keeping at historically reduced levels.** Loan-to-deposit ratio remains around 80% and kept stable; the credit impulse (yoy absolute change in new operations as % of GDP) decelerated in july 2026 to 0.6%.
- **Profitability and solvency remains robust at the beginning of 2026.** CET1 stood at 18.0% in Q1 (vs 14.3% in Q4 2019) and ROA kept unchanged at 1.3%. **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.**