Portugal:
Macroeconomic and financial outlook

BPI ***Research***

July 2025

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Main messages

BPI Grupo CaixaBank

Activity

- **The Bank of Portugal updated its macroeconomic scenario last June,** and foresees GDP to advance 1.6% in 2025 and 2.2% in 2026, respectively 7 tenth less and 1 tenth more than in the March scenario. The significant downward revision of GDP growth in 2025 reflects the unanticipated activity contraction in Q1, motivated by the households' reaction to the reduction in real disposable income, leading to a decrease in private consumption (-1.2%, which was a normalization after the 2.8% increase in 4rd quarter), and to the 1.8 p.p. reduction in GFCF driven by the environment of greater uncertainty. Projections for external accounts – current and capital balances – worsened compared to March, anticipating a surplus of 3.9% of GDP in 2025, 0.6 p.p. less than in March, with a reduction of 8 tenths in the balance of goods and services. Regarding exports, there was a worsening compared to the previous scenario (-1.0 p.p.), despite the increase in trade transactions in anticipation of increases in US tariffs. On the other hand, projection for imports was revised upwards, reflecting a replenishment of inventories. Trade tensions and increased uncertainty have had a visible impact on Portugal's economic activity this year; however the easing of financial conditions, the firmness of the labor market and the expected accelerated implementation of EU funds, will be the drivers for improvements in national GDP growth in 2026.
- **Inflation rises for the third consecutive month.** In June it rose to 2.4% in both global and core indices. Looking ahead to 2025, the outlook for prices looks more favourable and global inflation should approach levels close to the 2.0% target.
- **Labor market remains resilient, with employment growing faster than in 2024.** In May, the employed population increased 2.6% yoy and the unemployment rate fell to 6.3%, minus 0.1 p.p. than in May 2024. BoP projects a stabilization of the unemployment rate at 6.4% throughout the projection period (no change compared to the previous scenario).
- **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 and an increase in real disposable household income, as well as the resilient labour market; finally, favourable fiscal policy (tax exemptions for young people). We expect house prices' growth of 9,5% in 2025.
- **On a cash basis, the overall fiscal balance stood at 0.5% of GDP up to May, with revenues advancing 12.3% and expenses 4.5%.** Fiscal revenues rose circa 13% yoy, explaining more than 50% of revenues' growth (especially due to direct taxes). Despite the positive performance in the first 5 months of the year, some factors point to a slight public deficit in 2025: the GDP contraction verified in Q1, lower tax revenues and contributions collection than initially expected announced by the Portuguese government and the early achievement of the NATO defense spending target (2% of GDP), previously intended for 2029. In this context, it is not unlikely that the fiscal balance will register a slight deficit this year.
- **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 36% of this amount has been paid to beneficiaries. A faster implementation of the funds is expected from now on. The remainder (14.1 billion euros) corresponds to 5% of national annual GDP.

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	1.7	1.9
Private Consumption	2.4	1.8	2.6	3.5	-6.8	4.9	5.6	1.9	3.2	2.0	2.1
Public Consumption	0.9	0.1	0.5	2.1	0.4	3.8	1.7	0.6	1.1	1.1	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	0.9	3.4
Exports	4.7	8.4	4.3	4.0	-18.4	12.1	17.2	3.8	3.4	1.7	3.0
Imports	5.2	8.0	4.9	5.1	-11.6	12.3	11.3	1.8	5.0	1.6	3.0
Unemployment rate	11.5	9.2	7.2	6.6	7.0	6.7	6.1	6.5	6.4	6.4	6.6
CPI (average)	0.6	1.4	1.0	0.3	0.0	1.3	7.8	4.3	2.4	2.1	2.0
External current account balance (% GDP)	1.2	1.3	0.6	0.4	-1.0	-0.8	-1.2	1.4	2.2	1.7	1.4
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	9.5	4.1
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	54	63

***Source**: BPI Research.*

Economic Outlook: European Commission, OECD and BoP forecasts

Economic forecasts

	2024	2025F				2026F			
		BPI May 25	BoP Jun 25	European Commission May 25	OECD May 25	BPI May 25	BoP Jun 25	European Commission May 25	OECD May 25
Real GDP (%, anual growth)	1.9	1.7	1.6	1.8	1.9	1.9	2.2	2.2	1.9
Inflation (%, anual change)	2.4	2.1	1.9	2.1	2.1	2.0	1.8	2.0	2.1
Unemployment (% of active population)	6.4	6.4	6.4	6.4	6.4	6.6	6.4	6.3	6.4
General government balance (% of GDP)	0.7	-0.1	-01	0.1	0.2	-1.2	-1.3	-0.6	-0.3
Gross public debt (% of GDP)	94.9	92.2	91.1	91.7	97.7	90.4	88.4	89.7	95.5
Current account balance (% of GDP)	2.2	1.7	-	1.2	1.1	1.4	-	0.9	1.1

Source: European Commission, OECD and BPI Research

- **EC, OECD, and Bank of Portugal revised their economic outlook for Portugal, placing growth below 2% in 2025.** To a large extent, the revision results from the incorporation of Q1 data.
- **According to the Bank of Portugal, the risks are predominantly negative for growth and balanced for inflation.** An escalation of trade tensions will have an unfavourable impact, and US economic policies, including fiscal policy, may also have adverse effects on confidence and financial and foreign exchange markets, reinforcing the negative impact on activity. Downside risks related to the extension of current armed conflicts remain. The possibility of non-full execution of the European funds is a downside risks to investment. Similarly, increased uncertainty may result in an increase in private savings, with a negative impact on private consumption. Positive for growth are: an end of armed conflicts, that may have a positive impact on external demand for Portuguese goods and services; higher defence spending in the context of international commitments may boost activity. In the case of inflation, downside risks are associated with the possibility of a weakening of economic activity. These risks may be stressed by the impact on the prices of imported goods of a scenario of greater penetration of Asian products in Europe as a result of barriers to entry into the US market. However, potential retaliation by the EU against US tariffs would have opposite effects on the import deflator.

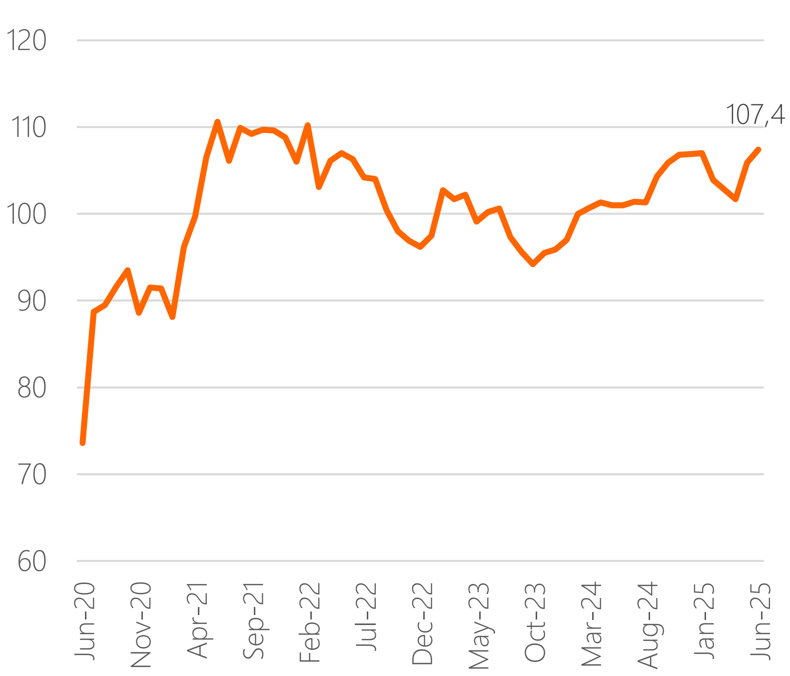
2nd quarter data points upwards

yoy, level		Q4 24	Q1 25	Q2 25	Apr/25	May/25	Jun/25	Last month available
Synthetic indicators	Economic climate indicator	2.8	2,5	2,5	*2.3*	*2.7*	*2.8*	June
	Economic sentiment indicator	106.5	104.6	103.8	*101.7*	*105.9*	*107.4*	June
	Daily economic indicator	2.3	2.2	-0.2	*-0.1*	*-0.2*	*-0.6*	June
Consumption	Consumer confidence	-15.0	-16.0	-18.3	*-20.6*	*-16.0*	*-16.0*	June
	Wholesale and retail trade (yoy)	4.5	2.9	1.8	*0.0*	*3.6*	-	May
	Retail sales excl. fuels (yoy)	6.0	5.7	4.5	*3.5*	*5.5*	-	May
	Card withdrawals and purchases deflated (yoy)	11.1	5.9	6.9	*7.1*	*6.7*	-	May
	Car sales (yoy)	11.9	-1.7	13.4	*8.2*	*18.6*	*14.8*	June
Investment	GFCF indicator	2.6	2.0	4.2	-	-	-	April
	Imports of capital goods	3.2	6.6	-5.4	*-5.4*	-	-	April
Suply	Cement sales	10.9	-2.4	-3.8	*-5.5*	*-2.0*	-	May
	Industrial production	-0.4	-2.3	0.2	*-2.1*	*2.6*	-	May
Demand	Electricity consumption adjusted for temperature & working days	0.9	1.9	1.7	*3.3*	*0.0*	*3.1*	June
	Non-resident tourists (yoy)	6.2	1.1	4.6	*7.5*	*1.7*	-	May
	Number of flights (yoy)	3.0	2.0	5.8	*6.4*	*5.3*	*4.3*	June
Trade	Exports G&S (accum. Year, yoy)	4.3	2.8	1.4	*1.4*	-	-	April
	Imports G&S (accum. Year, yoy)	2.3	5.3	4.2	*4.2*	-	-	April
Labour market	Change in regist. unemployment (thousand people)	12.5	9.0	-7.0	*-4.7*	*-9.4*	-	May
	Change in employment (thousand people)	71.6	113.8	144.5	*157.1*	*131.8*	-	May

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

Economic sentiment index

1990=100



- **In June, ESI rose to 107.4 points, the highest since February 2022.** This reflects increases across various sectors, including industry, construction, retail trade and services. **Consumption indicators** (around 63% of GDP) suggest an acceleration compared to Q1, 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**, imports contracted in April (-2.3% yoy; +4.2% since the beginning of the year) and exports contracted 1.1% (+1.4% since January). **On the supply side**, there has been volatility: industrial production contracted 2.1% in April yoy, but in May there was a significant increase (2.6% yoy). The reason for this trend reversing is related to the energy contribute, which rose 18% in May yoy.

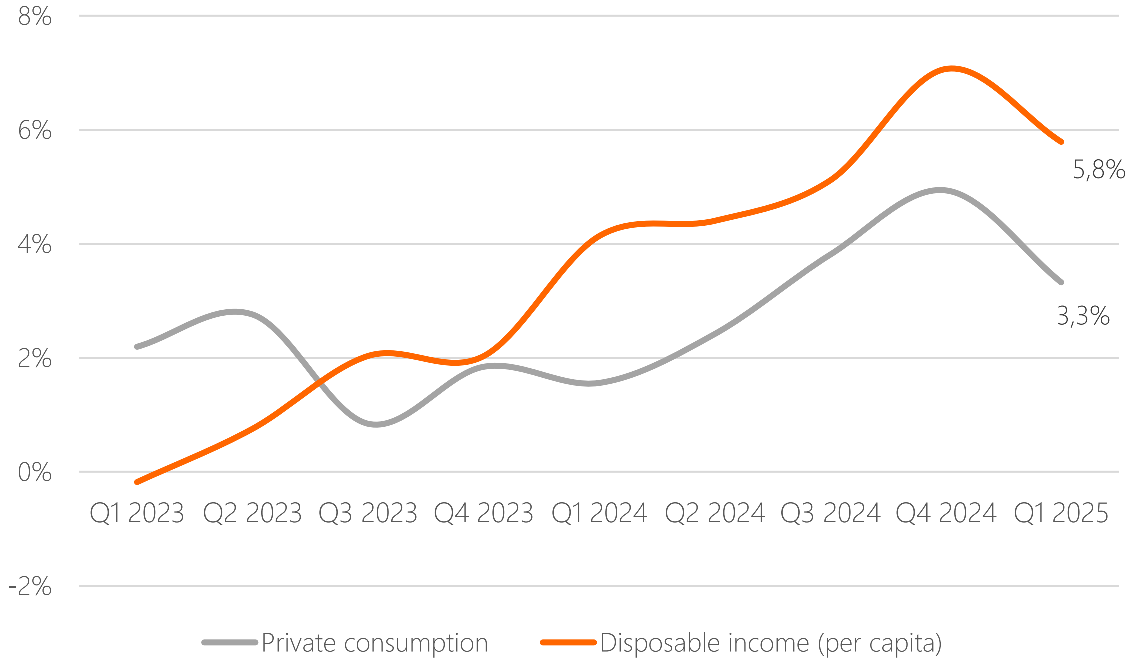
Private consumption is seen to continue to perform favorably

Families' saving rate

(% of DI)

Private consumption and household's income

Year-on-year on real terms, %



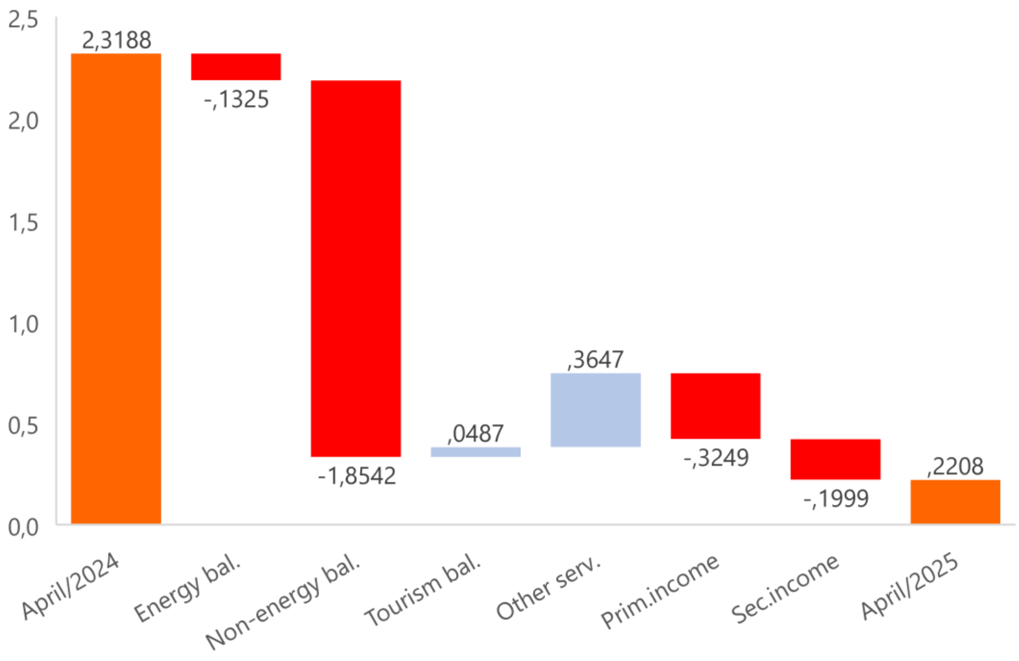
Source: BPI Research, from INE, BoP.

- **Savings growth rate has stabilized**. The household's saving rate fell to 12.4% in Q1 2025, less 0.1 p.p. than in 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 higher quarterly increase on the real disposable income (per capita) is 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 higher uncertainty may contribute to savings continuing high during the year.

Unexpected deterioration in current account until April 2025

Current account April 2025

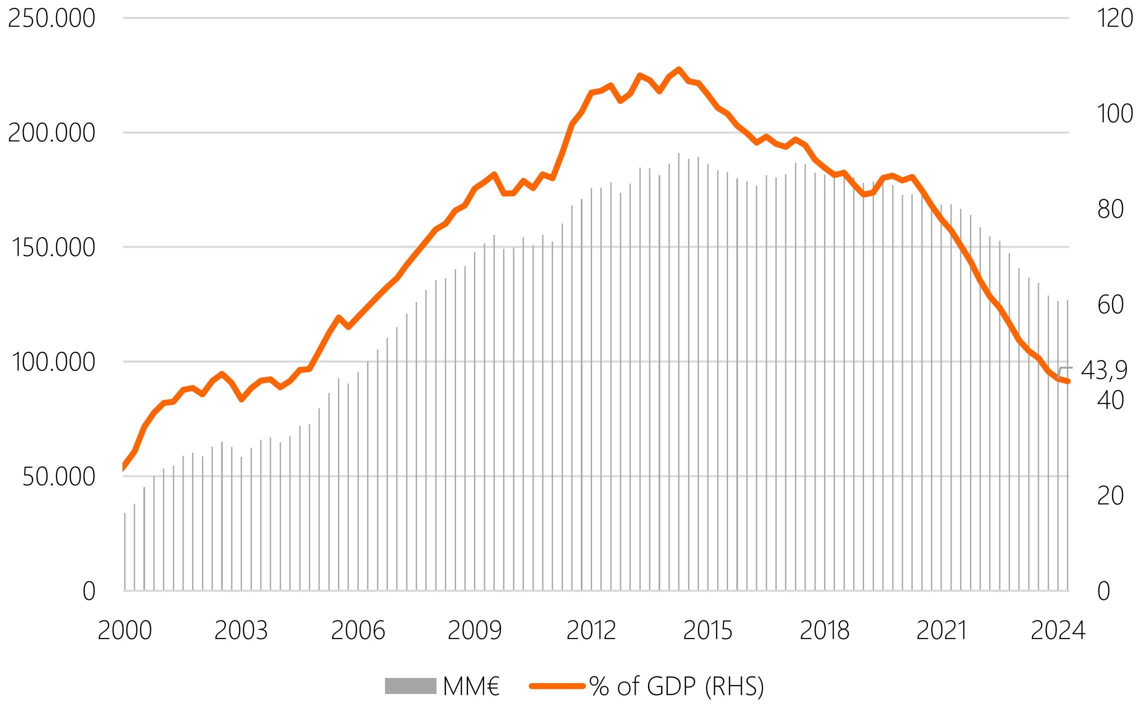
% of GDP and percentage points change



Source: BPI Research, from BoP.

Net external debt

MM € *% of GDP*



- Until April 2025, the current account balance recorded a surplus of 164.9 million euros, equivalent to approximately 0.2% of GDP, a significant fall compared to the figures registered in the first four months of 2024. This reduction has been mainly due to the increase in the non-energy and primary income deficits, which enlarged to -9.7% and -1.7%, respectively (-7.9% and -1.4% in April 2024, respectively). 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 in trade associated with the trade and commercial policy of the US Government, so it should be monitored. 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, with the surplus expected to end the year at around 1.7% 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.

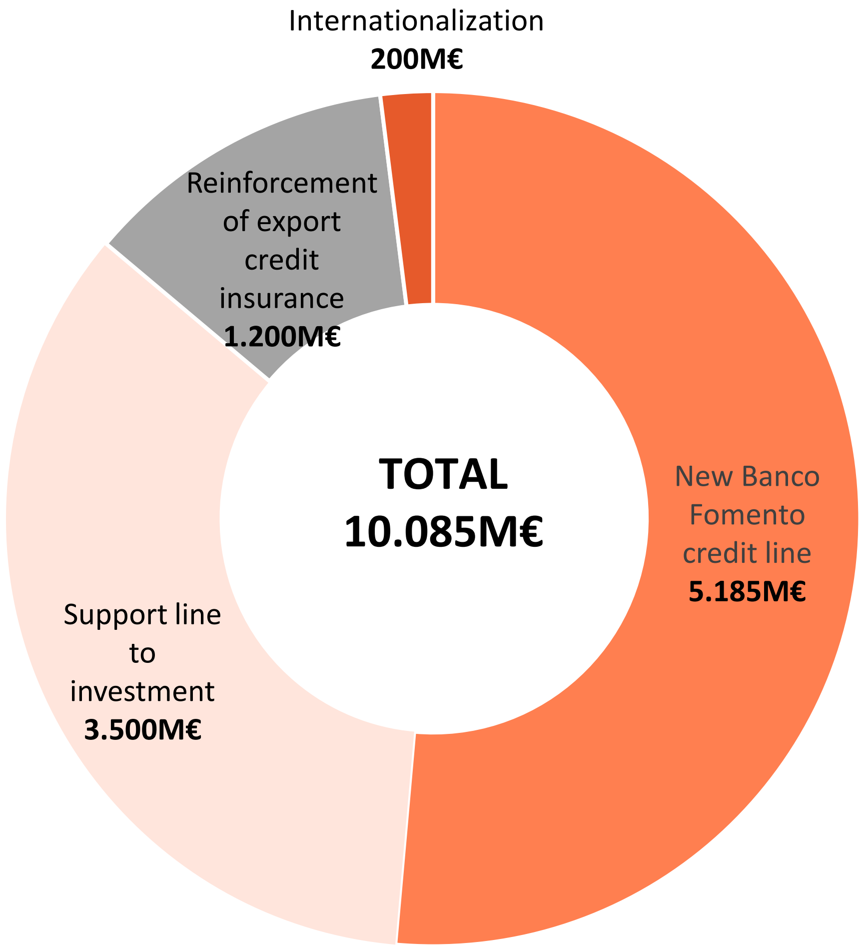
Government plan due to US tariffs

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).

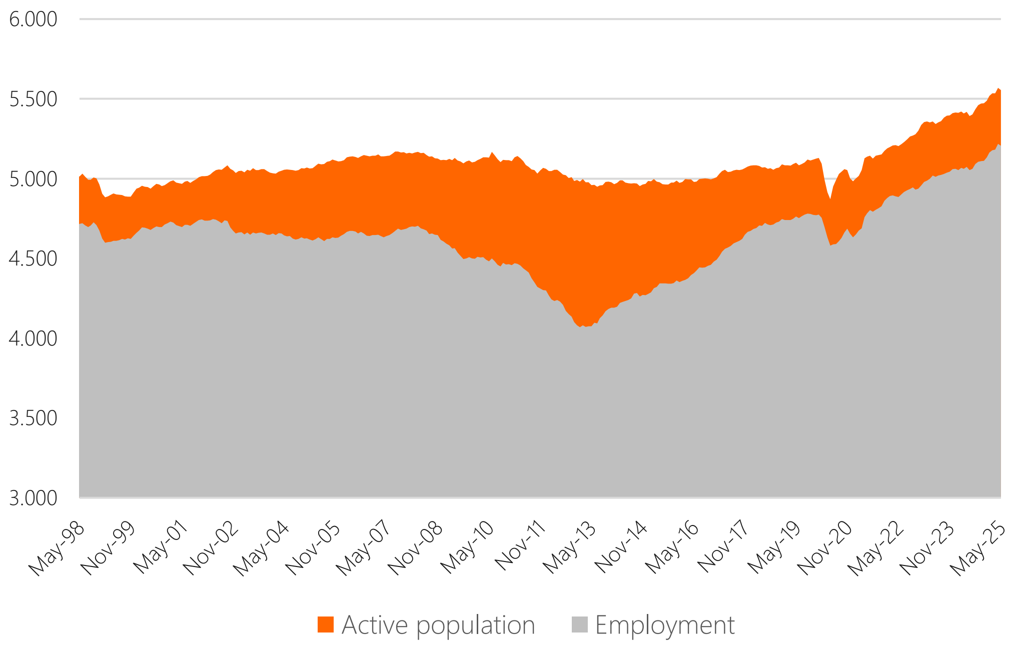
2. New PRR and Portugal 2030 notices (2.640 billion euros)

  - 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).



Employment remains robust in May 2025

Active population and employment
Number of people ('000 individuals)



Source: BPI Research, from INE.

The unemployment rate
(% of active population)

Note: The yoy changes are based on an average of the quarter that ended on each month.

- **Employed population increased 2.6% yoy in May, reaching the second highest maximum.** On a year-on-year basis for Q1 data, the rise on employment was due to retail activities, public administration and defence and health activities. There was a significant increase in the employment of individuals with secondary and post-secondary education (+108,100 people) and higher education (+101,500 people), offsetting the fall in the employment of individuals with low qualifications (-87,500 people).
- **This performance led to a decline on the unemployment rate to 6.3% in May 2025, minus 0.1 p.p. than in April 2025.**
- **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 (6.4%).

RRP: very late execution (36% of total program)

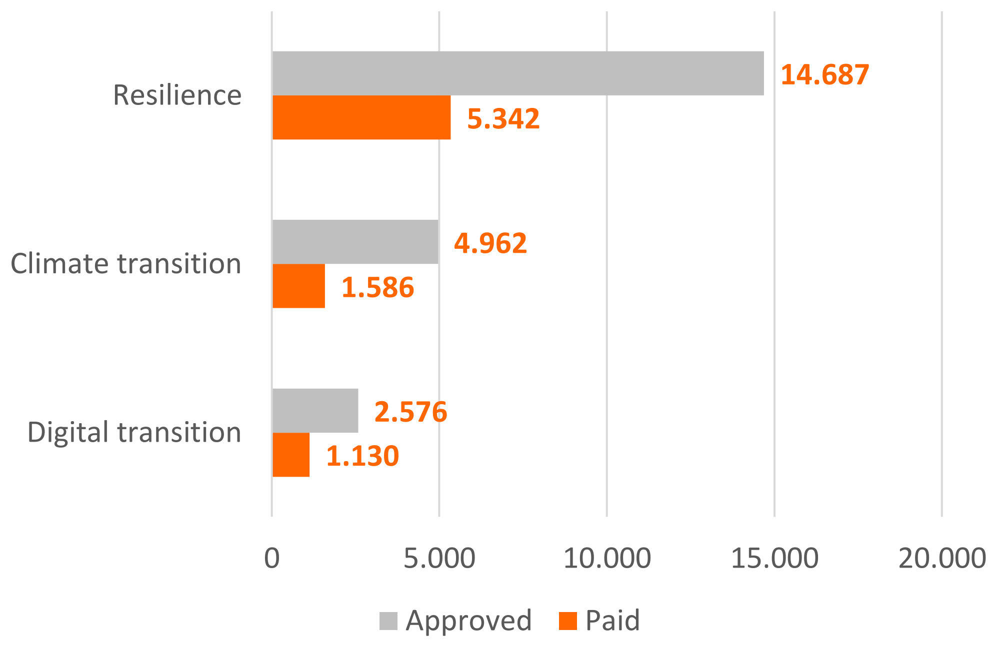
Approvals and payments to direct and final beneficiaries

(Up to June 26th)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	284	245	86,3
Social and solidarity economy institutions	716	259	36,2
Firms	6.385	2.818	44,1
Excl. R&I System Non-firms	5.494	2.417	44,0
R&I System Non-firms in consortium with firms	892	400	44,8
Institutions of the scientific and technological system	547	209	38,2
Higher Education Institutions	828	331	40,0
Schools	1.037	589	56,8
Municipalities and metropolitan areas	4.332	1.041	24,0
Public entities	5.111	1.725	33,8
Public firms	2.985	843	28,2
Total (million euros)	**22.225**	**8.060**	**36,3**
(% total RRP)	***100,0%***	***36,3%***	

Source: BPI Research, from Recuperar Portugal.

RRP: amounts approved and paid by dimension

Eur million

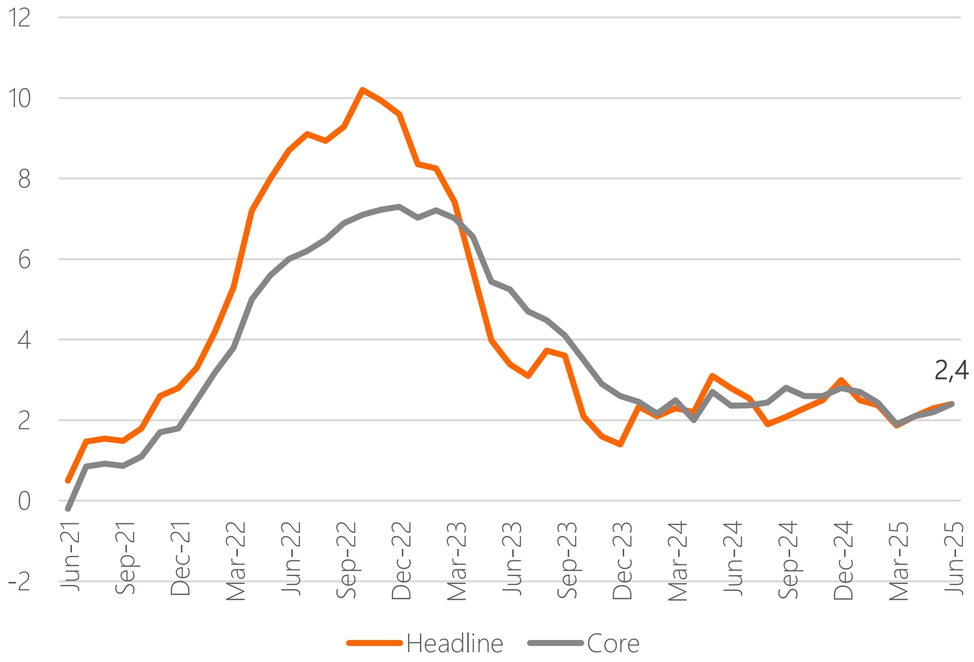


- **Up to now, Portugal received 11.4 billion euros, equivalent to 51% of the total amount of the RRP**.
- **Projects already approved amount to 22.2 billion euros (100% of the total amount) and payments reached 8.1 billion** (71% of the total amount received), but only 36.3% of the approved projects (since the end of 2024, the payment rate improved by 5.5 p.p.).
- The program is divided in three dimensions - resilience, climate transition and digital transition. The first will absorb 66% of the funds, the second 22% 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 2,179 million euros, equivalent to 49% of the approved amount; housing, with an amount already paid out of 1,102 million (28% of the approved amount); and the qualifications and skills component with an amount already executed of 887 million euros (40% of the approved amount). In the climate transition, the decarbonization of industry and sea components stand out, with amounts already paid amounting to 355 and 236 million euros, respectively, representing, in the same order, 44% and 62% of the amounts approved. And in the digital transition, the digitalization, interoperability and cybersecurity in public administration and REPowerEU components stand out, with projects approved amounting to 671 and 666 million euros, respectively, of which 241 and 93 million have already been paid out.

Disinflation proceeds gradually

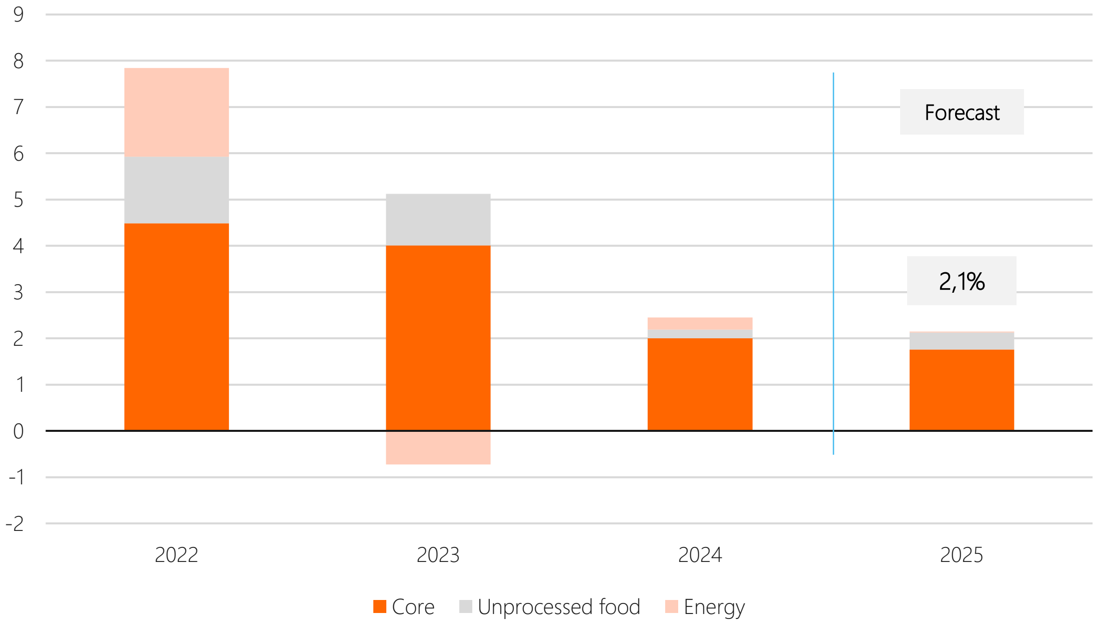
Headline and core inflation

Year-on-year (%)



Global inflation

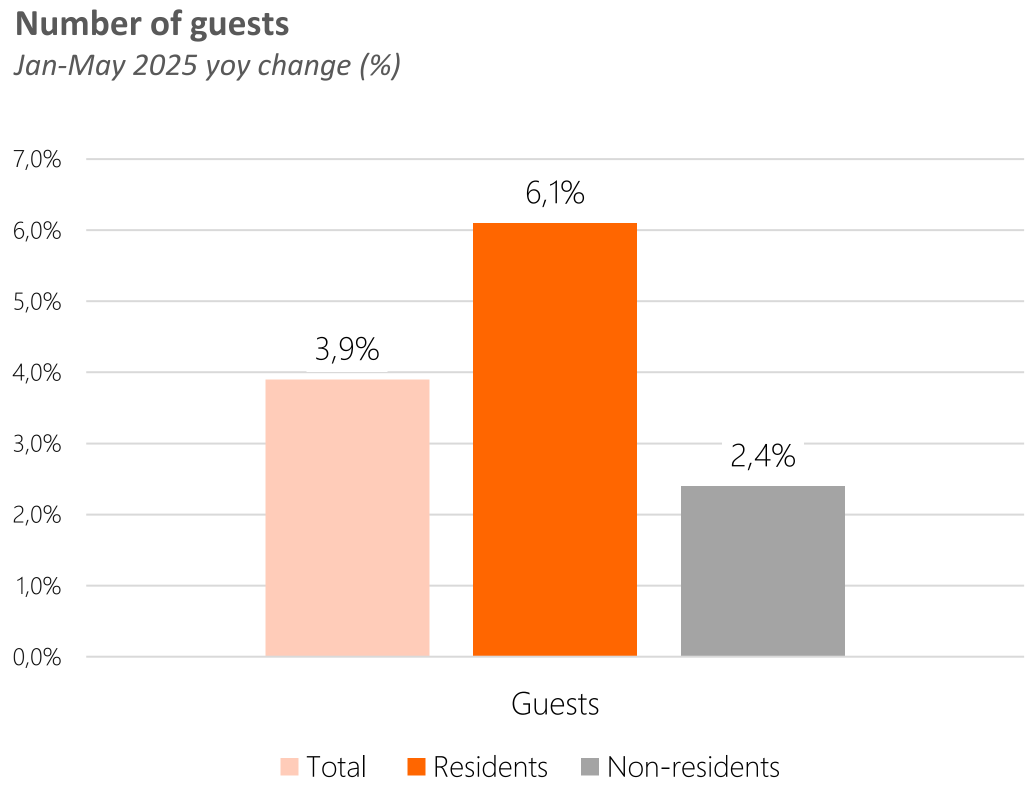
average annual inflation and contributions (%)

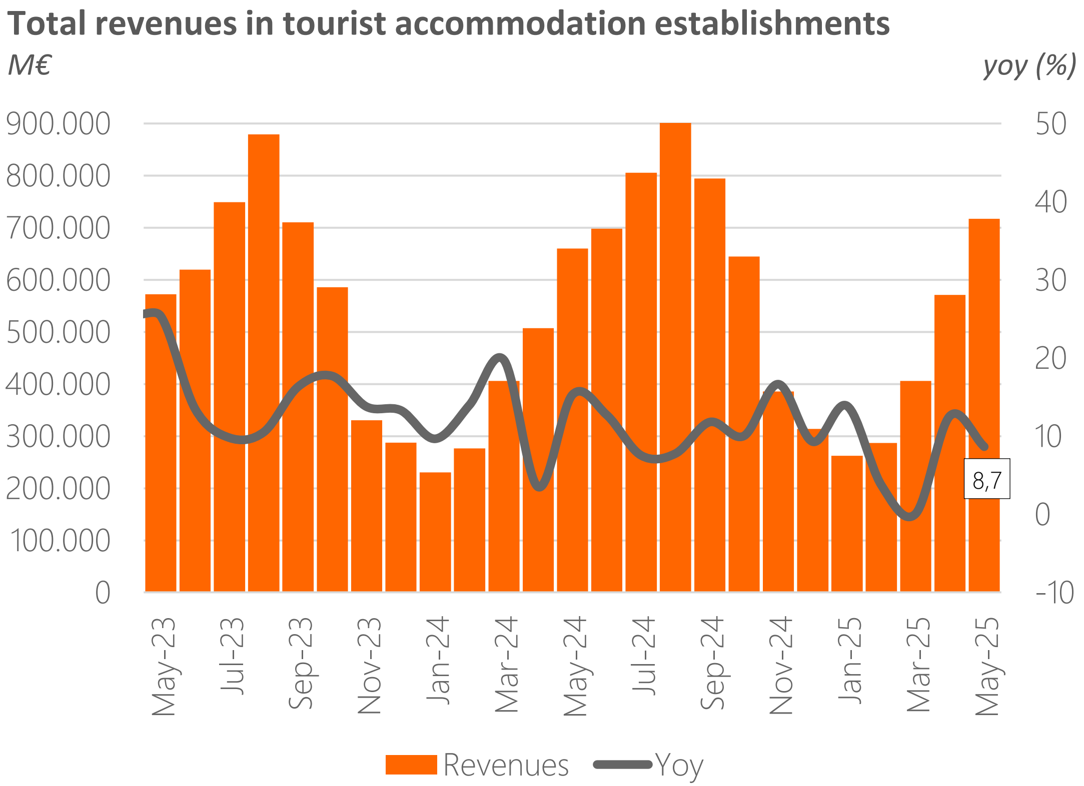


Source: BPI Research, using data from INE.

- **In June, global and core inflation rose to 2.4%,** 1 p.p. and 2 p.p. more than in May, respectively. These shows, headline and core inflation at the same level, indicating that the disinflationary process is currently mainly driven by less volatile price dynamics, and is therefore slower. The monthly changes in the underlying and overall CPI (0.00% and 0.12% respectively) were lower than the pre-pandemic historical average (0.5% in both), in line with the behaviour in the previous month.
- **The conflict between Israel and Iran led to an increase in the price of Brent**, which, since the announcement of the ceasefire on June 23, has remained at $68/barrel (compared to an average of $64 in May). As a result, average prices in the segment increased monthly by 0.9% (straight 95 gasoline) and 1.8% (diesel). The energy products index increased monthly by 0.5% in June after a negative record in May (-1.6%), but the year-on-year rate still contributed to disinflation. All in all, our current forecast for average annual inflation in 2025 (2.1%) is appropriate. 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: expanding moderately on the first 5 months of 2025



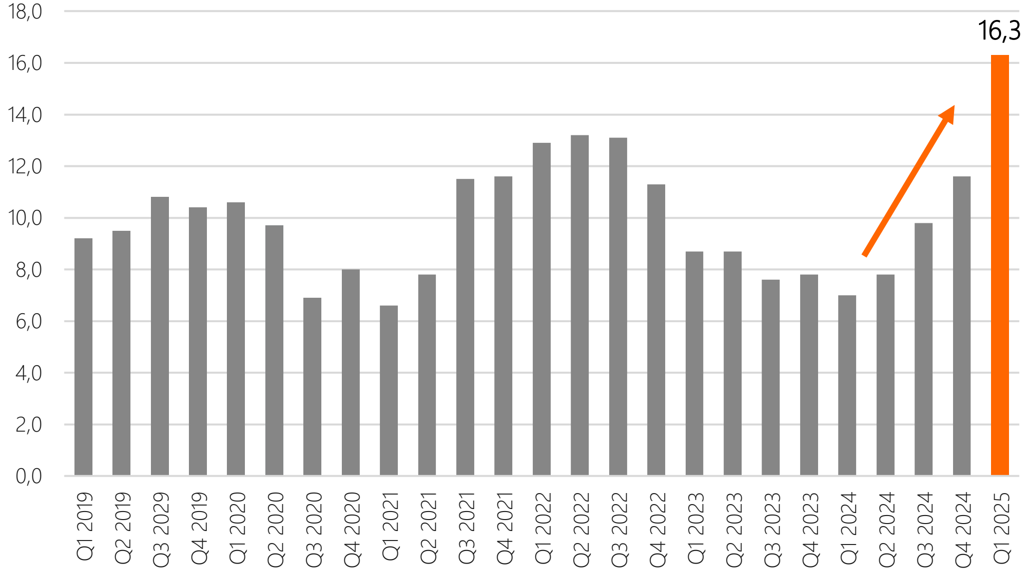


Source: BPI Research, using data from INE.

- **The tourism sector recorded a total of 11.73 million guests** (4.66 million residents and 7.07 million non-residents), as well as **28.34 million overnight stays** (8.29 million residents and 20.04 million non-residents) on the first 5 months (Jan-May) of the year, representing a yoy growth of 3.9% driven mainly by the growth in the resident's demand (6.1% yoy vs. 2.4% from non-residents). Focusing on the number of guests, this represented a deaccelerated growth in yoy terms compared to last year (5.3% in Jan-May 2024), due to the reduction of the yoy change of non-residents (7.6% in Jan-May 2024).
- **Total revenues in accommodation establishments is higher in the first 5 months of 2025**, compared to the same period in 2024, with a yoy growth of 8.7% in April (7,9% year-to-date), which reinforces that **tourist activity keeps expanding in Portugal**. We estimate that the tourism sector's weight in GDP will have risen to 17.2 per cent (from 16.5 per cent in 2023) and that it will stand at 17.9 per cent in 2025, given that the sector's growth rate is stronger than the economy's overall growth rate. Tourism is expected to contribute around 0.7 p.p. to overall GDP growth, which in 2025 is projected to be 1.7 per cent.

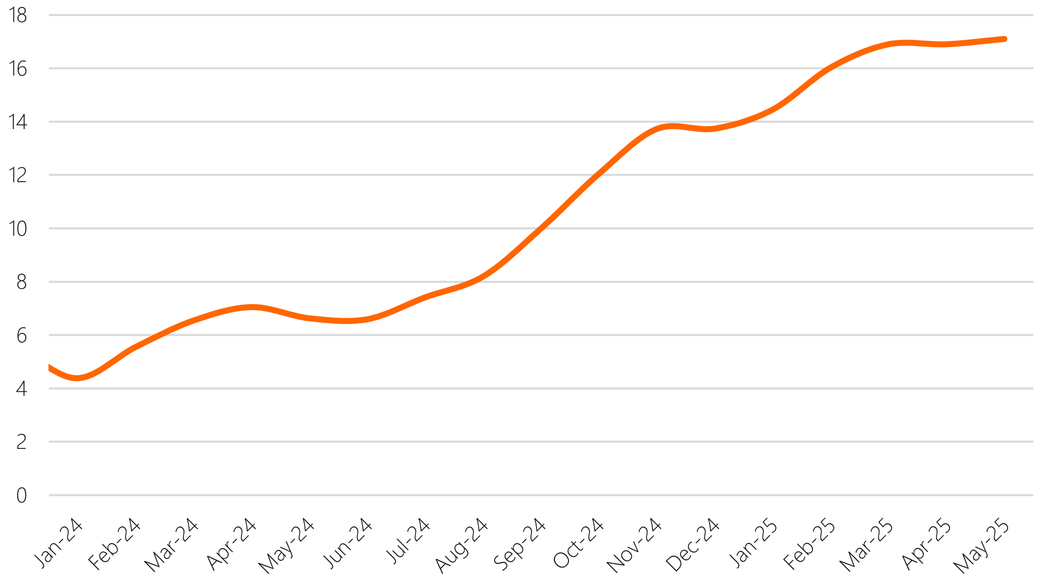
Housing with record appreciation in Q1 2025

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 forecats 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).

Public accounts keep their enhancing trend

Budgetary execution of Public administration

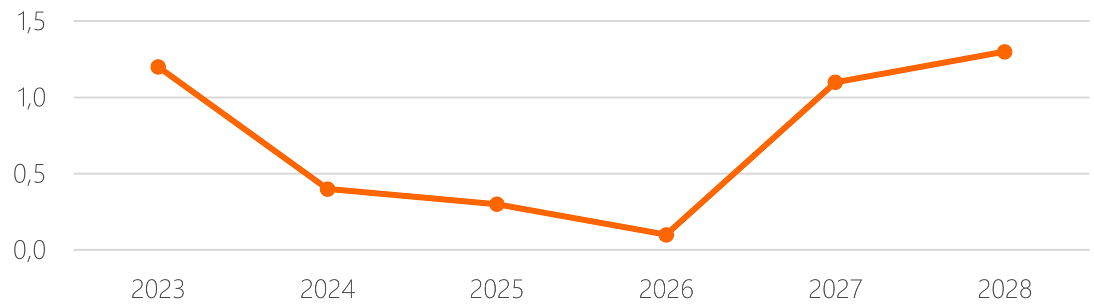
% of GDP, unless otherwise indicated

January-May	2019	2023*	2024	2025	Var. 2025 vs 2019	Var. 2025 vs 2024 (M€)
Revenues	**36.0**	**35.2**	**34.4**	**36.9**	**1.0**	**5,043**
Fiscal revenue	19.2	19.0	17.9	19.3	0.1	2,807
Social Security contributions	9.6	10.0	10.3	10.6	1.0	998
Expenses	**36.7**	**34.5**	**36.5**	**36.4**	**-0.3**	**1,948**
Personnel	8.6	8.4	8.5	8.8	0.2	872
Current transfers	15.8	15.0	16.7	16.3	0.6	456
Goods & Services acquisition	5.1	5.1	5.1	5.0	-0.1	190
Interest	4.1	2.6	2.6	2.3	-1.7	-182
Investment	1.8	2.0	1.9	2.1	0.3	333
Fiscal balance	**-0.7**	**0.7**	**-2.1**	**0.5**	**1.2**	**3,095**

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

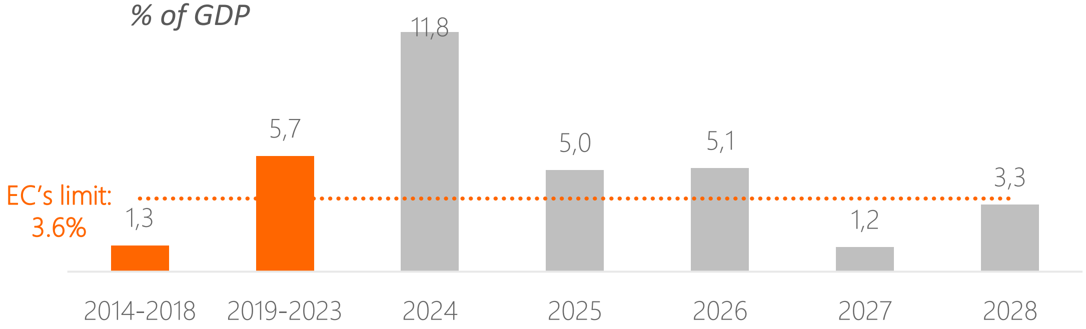
Overall fiscal balance in accrual basis

% of GDP



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 5,043 million euros in 2025, compared to the same period in 2024, while expenses only raised 1,948 million euros, ending up with a net increase of 3,095 million in the surplus.** The main drivers were the raised fiscal revenue (+1.4 p.p. yoy, a slight increase when compared to 2019), and the reduced interest expense on public debt (-0.3 p.p. yoy).
- **2024'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 contraction in Q1 2025 weighs on annual growth, 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 that 95% of GDP).

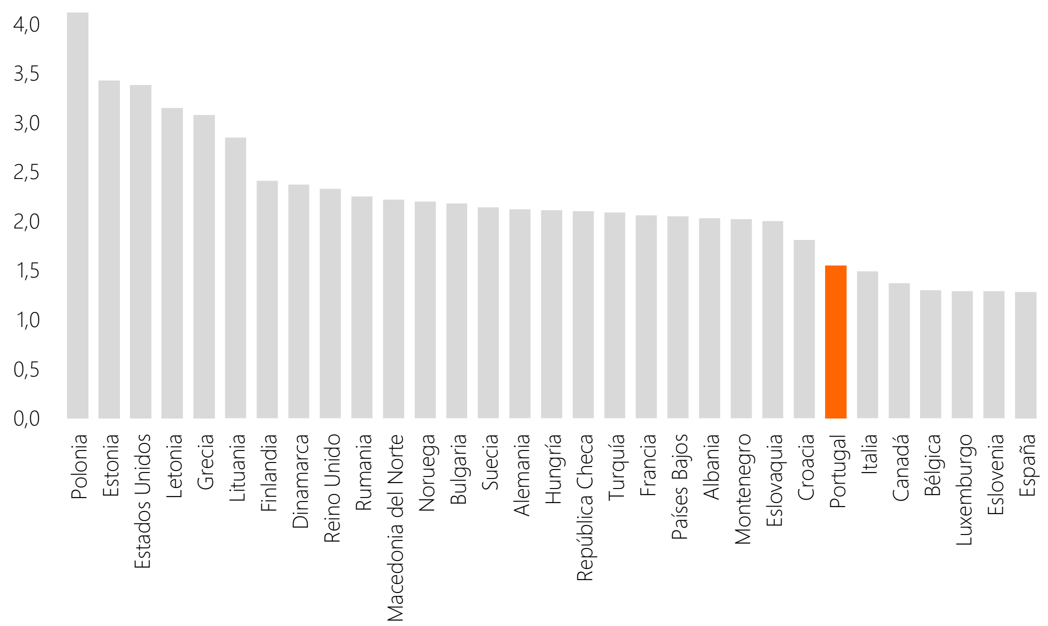
Government defence spending increase program

- **1. Context and objectives**
  - 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.
  - **To value former combatants and disabled members of the Armed Forces**, by increasing social and complementary support and improving reintegration mechanisms.

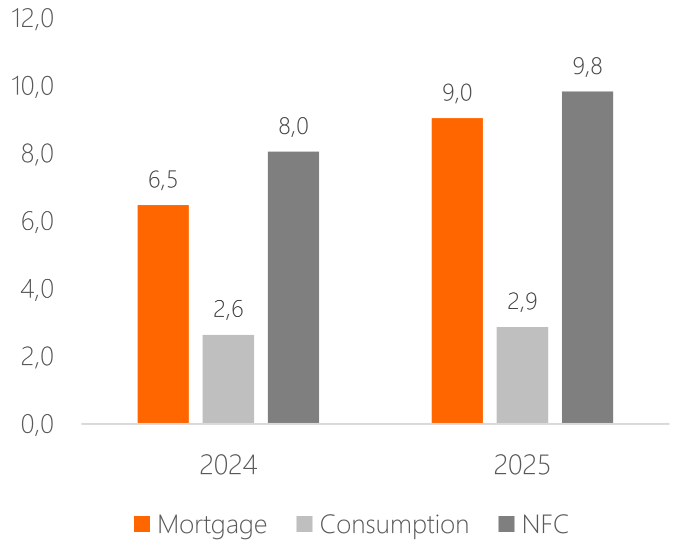
Defence spending in 2024

% of GDP



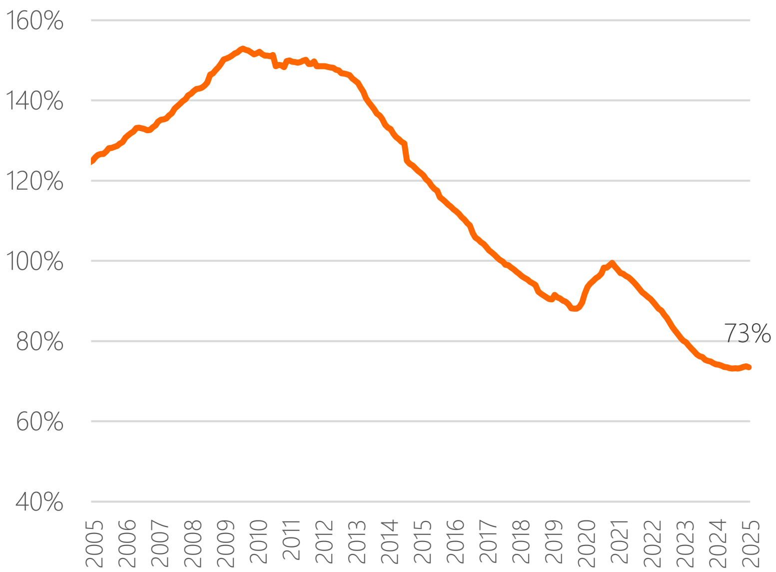
Banking system: deleveraging and high liquidity

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



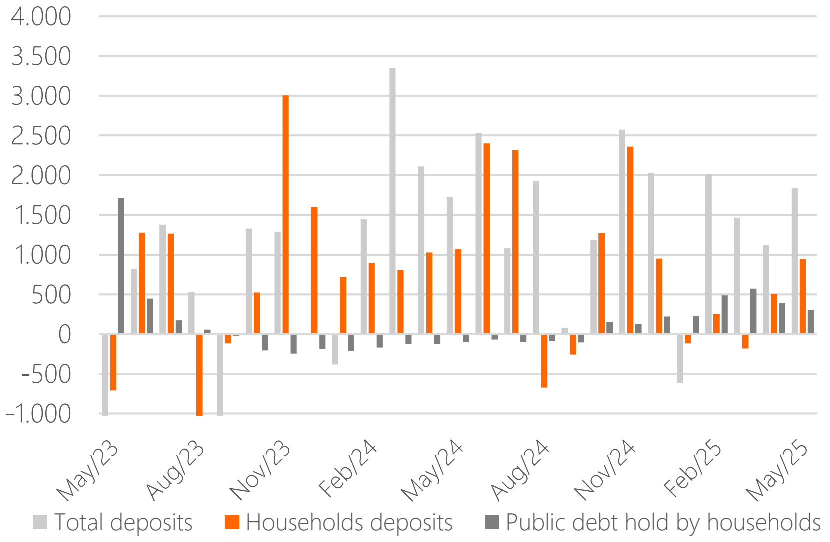
Source: BPI Research, based on data from Bank of Portugal and ECB.

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€)

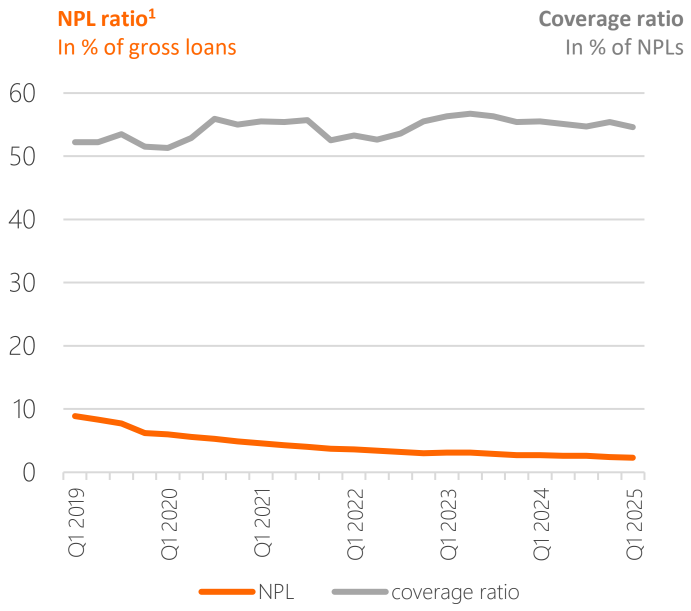


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 7 bn Eur in 2024.
Source: BPI Research, based on data from Bank of Portugal and IGCP.

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit:** stock rose 6.1% in May, with new operations still increasing at double digit levels (+39.8% yoy, including transfers among banks), indicating that the pace will continue positive in the months ahead. Signs that the peak on interest rates should be behind us may have contributed to this, as well as the impact of Government's measures (especially those related with improving access of youth people to credit and housing market).
  - **NFC:** the stock increased by 1.4% in May, while new operations recorded expanded 22.1% yoy.
  - **Deposits:** the stock rose 6.7%. Households and NFC's deposits simultaneously increased (5.3% and 7.5% yoy, respectively). However, the actual descending trend in interest rates for new deposits (1.5% in May for new households' deposits, -1.2 p.p. in comparison to the homologous period of 2024) should restrain the increase in households' deposits in the near future, probably towards Government retail products (with subscriptions increasing in April for the 8th consecutive month).

Banking system: a solid position to support the economy

NPLs and coverage ratios

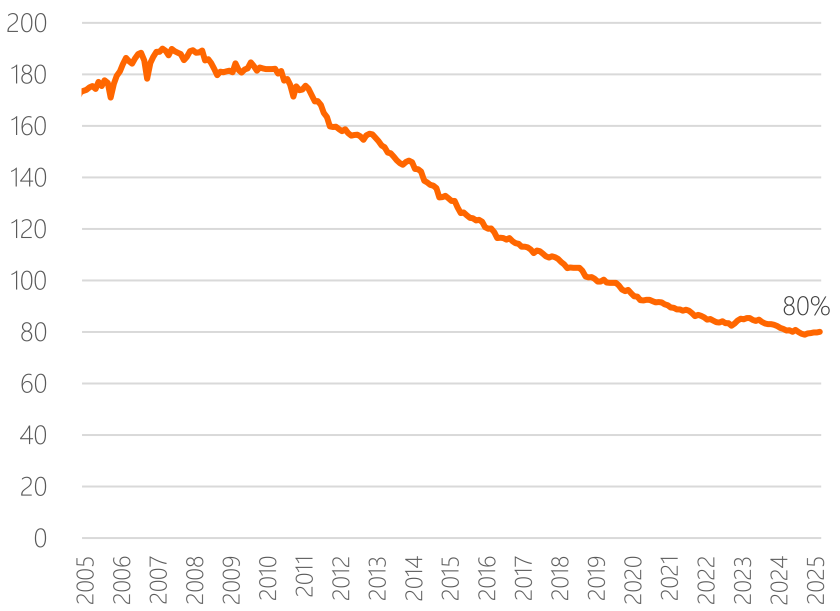


Cost of risk[1]
0.5% in Q4 2019
0.1% in Q1 2025

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

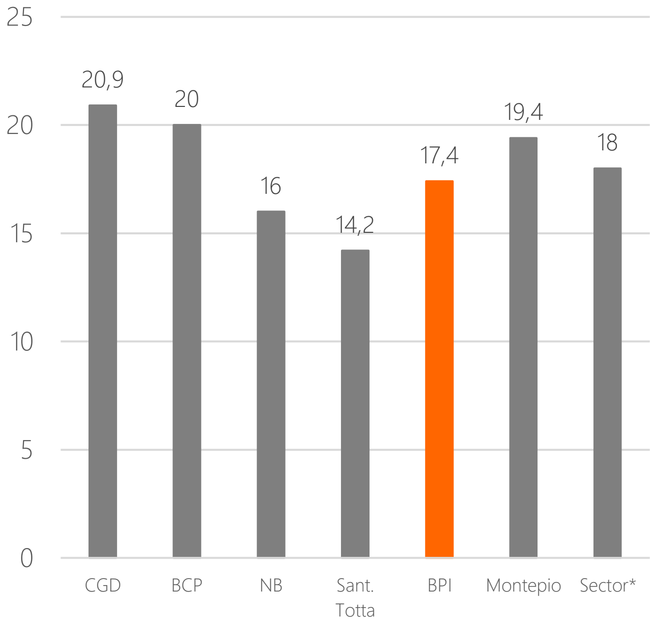
(%)



Source: BPI Research with data from Bank of Portugal.

Banks' solvency and liquidity position

In % (Q1 2025 for institutions, Q4 2024 for "Sector")



Notes: ratio for Q4 2024 (information for Q1 2025 will only be available in August, according to Bank of Portugal*
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 provides buffers against the risks that could arise, due to the conflict in Ukraine, other geopolitical risks or any adverse unexpected event that could eventually impact NPL's.**