



# Portugal:

## Macroeconomic and financial outlook

**BPI** *Research*

June 2024

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Grupo  CaixaBank

## Activity

- ▶ **GDP advanced 0,8% qoq and 1,5% yoy in the Q1 24**, benefiting from the contribution of external demand. This added 1 percentage point (p.p.) to quarterly growth, with exports growing by 1.6%, while imports contracted by 0.6%. Domestic demand reduced quarterly growth by 0.1 p.p., due to the 3% fall in GFCF and the negative contribution (-0.2 p.p.) from inventories, maybe due to the postponement of investment decisions associated with uncertainty related to early elections in March 2024. Q1 data and the prospect that in 2024 activity will follow a trend from less to more, led us to **revise upwards the forecast for growth in 2024 from 1.6% to 1.7%**. Annual growth is driven by domestic demand, as private consumption continues to be supported by a resilient labour market, and by investment, which is likely to be stimulated by the implementation of European funds. Risks to our current forecast are balanced, but with a positive bias.
- ▶ **According to CPI flash estimate, headline inflation stood at 3.1% in May (2.2% in March) and core inflation at 2.7% (2.0% in April)**. In May, we made a **slight upward revision to the forecast for the average inflation rate in 2024, to 2.5%**. In fact, the CPI figure for May emphasises what we had already been warning about: the disinflationary process will be long and not without bumps. In this case, a large part of this behaviour is essentially the result of the base effect associated with the monthly price reduction recorded in May 2023, due to the implementation of official measures to restrain food prices.
- ▶ **In May we revised slightly upwards our forecast for the unemployment rate in 2024**; more specifically, from 6.7% to 6.8%. This adjustment reflects higher than expected unemployment rate in Q1 2024 (6.8% versus 6.7%). Also included in the rationale for this revision is the higher than expected growth in the labour force, which is not properly accompanied by an increase in employment. Nevertheless, the latest data corroborates our expectation that the labour market will continue to be a relevant support for activity, with registered unemployment falling for three consecutive months.
- ▶ **Housing market seems to gain momentum**. The data available, from alternative sources to INE, points to a positive dynamic in terms of both the number of sales and prices in the residential housing market. In this sense, we continue to expect a slowdown in the market in 2024, but with property appreciation of over 4%.
- ▶ **Portugal registered a surplus in the current account of 2,2% of GDP in Q1, continuing to support the decline of the external debt. Indeed**, foreign debt fell to 51,8% of GDP in Q1 2024, minus 2 percentage points than in the end of 2023. In nominal terms, external debt reached 139,7MM€, the lowest level since 2009.
- ▶ **On a cash basis, the public sector reached a deficit of 2,2% of GDP in the first four months of the year**, with revenues advancing 4,5% and expenses 15%. Expenses growth was due to changes in its execution profile, which particularly affected the year-on-year comparison in the first half of the year. Adjusting current expenditure for these factors, that will be diluted over the course of the year, the rise of expenses would be 11.7%, 3.3 percentage points less than that recorded, reducing the deficit to around 1,000 million euros, equivalent to 1.1% of GDP.

## Banking Sector

- ▶ **NPLs ratio declined in 2023 and exposure to commercial real estate (CRE) is low**. The resilience of the labor market and the improved position of households and firms in terms of leverage, suggest that the interest rate rise impact on credit quality should keep contained, in a context of a stronger position of the banking sector. In 2023, loans collateralized by CRE only represent 5% of total assets; and exposure related to real estate investment funds is low and mostly concentrated in closed-end funds with lower liquidity risk: 7.3% of GDP in Portugal compared to 8.9% in the eurozone; and 68% of the units issued are closed-end funds.

# Main economic forecasts

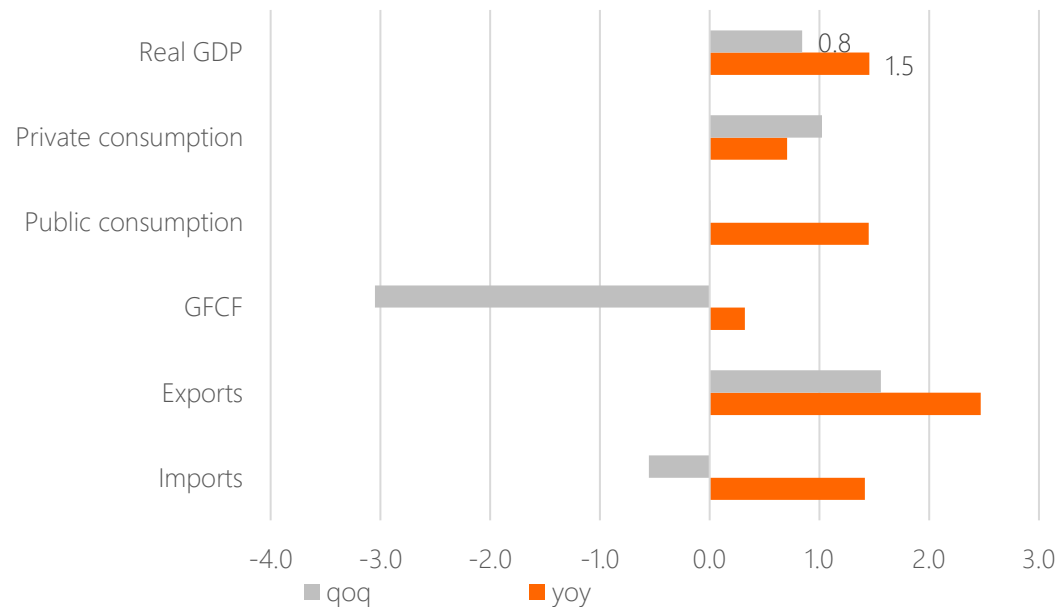
% , yoy	2016	2017	2018	2019	2020	2021	2022	2023	Forecasts	
									2024	2025
<b>GDP</b>	2.0	3.5	2.8	2.7	-8.3	5.7	6.8	2.3	1.7	2.3
<b>Private Consumption</b>	2.6	2.1	2.6	3.3	-7.0	4.7	5.6	1.7	1.7	2.2
<b>Public Consumption</b>	0.8	0.2	0.6	2.1	0.4	4.5	1.4	1.0	1.2	0.8
<b>Gross Fixed Capital Formation (GFCF)</b>	2.5	11.5	6.2	5.4	-2.2	8.1	3.0	2.5	3.6	5.1
<b>Exports</b>	4.4	8.4	4.1	4.1	-18.8	12.3	17.4	4.1	3.4	5.3
<b>Imports</b>	5.0	8.1	5.0	4.9	-11.8	12.3	11.1	2.2	4.4	5.7
<b>Unemployment rate</b>	11.4	9.2	7.2	6.6	7.0	6.7	6.2	6.5	6.8	6.5
<b>CPI (average)</b>	0.6	1.4	1.0	0.3	0.0	1.3	7.8	4.3	2.5	2.1
<b>External current account balance (% GDP)</b>	1.2	1.3	0.6	0.4	-1.0	-0.8	-1.1	1.4	1.2	1.4
<b>General Government Balance (% GDP)</b>	-1.9	-3.0	-0.3	0.1	-5.8	-2.9	-0.3	1.2	0.4	0.6
<b>General government debt (% GDP)</b>	131.5	126.1	121.5	116.6	134.9	125.5	112.4	99.1	98.6	93.7
<b>Risk premium (PT-Bund) (average)</b>	307	269	138	100	90	60	100	70	76	80

Source: BPI Research.

# Higher than expected growth in Q1

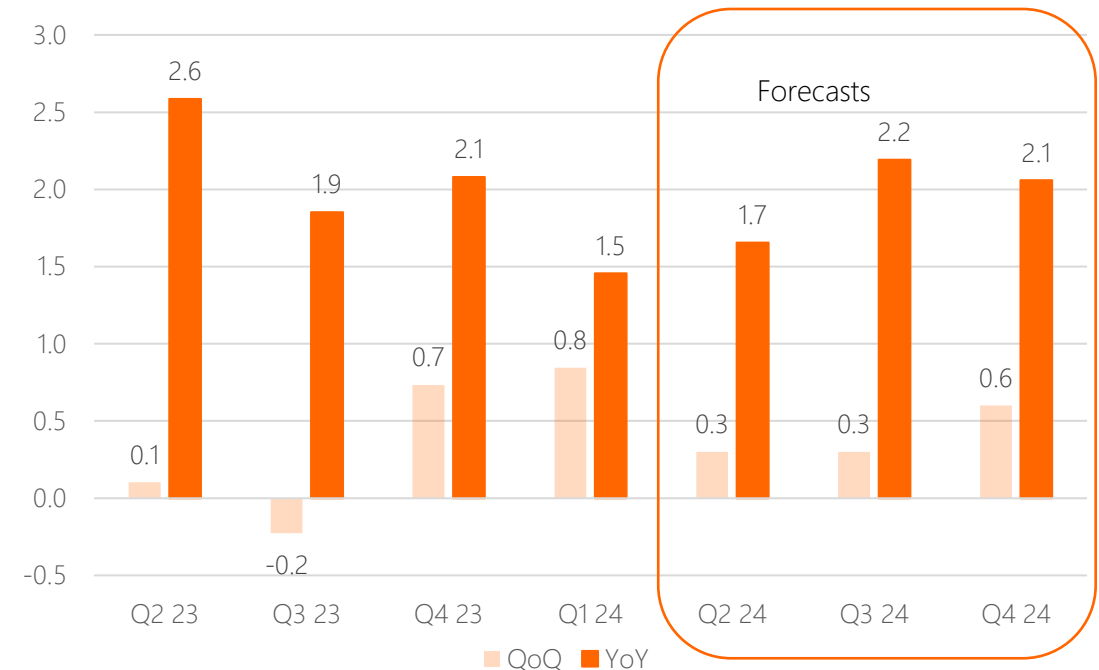
## GDP Q1 2024: demand components

%



## GDP: quarterly and homologous changes

%



Source: BPI Research, from Bank of Portugal, INE

- ▶ **GDP rose 0,8% qoq (1,5% yoy)**, an acceleration from last quarter of 2023, benefiting from the contribution of external demand. This added 1 percentage point (p.p.) to quarterly growth, with exports growing by 1.6%, while imports contracted by 0.6%. Domestic demand reduced quarterly growth by 0.1 p.p., as a result of the 3% fall in GFCF and the negative contribution (-0.2 p.p.) from inventories. The performance of GFCF is the result of two factors: i) postponement of investment decisions associated with the prospect that financing costs will soon begin to reflect the prospect of the ECB cutting interest rates; ii) a more uncertain environment associated with early elections in March 2024. With regard to the contribution of inventories, their performance in Q1 may be indicative of an increase in production in Q2, which if confirmed, would be positive for the performance of GDP in Q2 2024.
- ▶ **The Q1 data and the prospect that in 2024 activity will follow a trend from minus to plus, led us to revise upwards the forecast for growth in 2024 from 1.6% to 1.7%.** Annual growth will be driven by domestic demand, as private consumption continues to be supported by a resilient labour market, and by investment, which is likely to be stimulated by the implementation of European funds. Risks to our current forecast are balanced, but with a positive bias.

# A favorable outlook for the Portuguese economy

## GDP: Other institutions' forecasts

Annual growth

	2024	2025	2026	Cum. 24-26
<b>BPI (may-24)</b>	<b>1,7</b>	<b>2,3</b>	<b>2,2</b>	<b>6,3</b>
Bank of Portugal (jun-24)	2,0	2,3	2,2	6,6
EIU (may-24)	1,9	2,0	2,0	6,0
IMF (apr-24)	1,7	2,1	2,0	5,9
European Commission (may-24)	1,7	1,9	-	-
OECD (may-24)	1,6	2,0	-	-
CFP (apr-24)	1,6	1,9	2,1	5,7
NECEP (apr-24)	1,5	1,8	2,0	5,4
Focus Economics (may-24)	1,5	1,9	2,0	5,5
Government (oct-23)	1,5	2,0	1,9	5,5

Source: BPI Research, from INE, BoP, EC, EIU,....

## Economic indicators

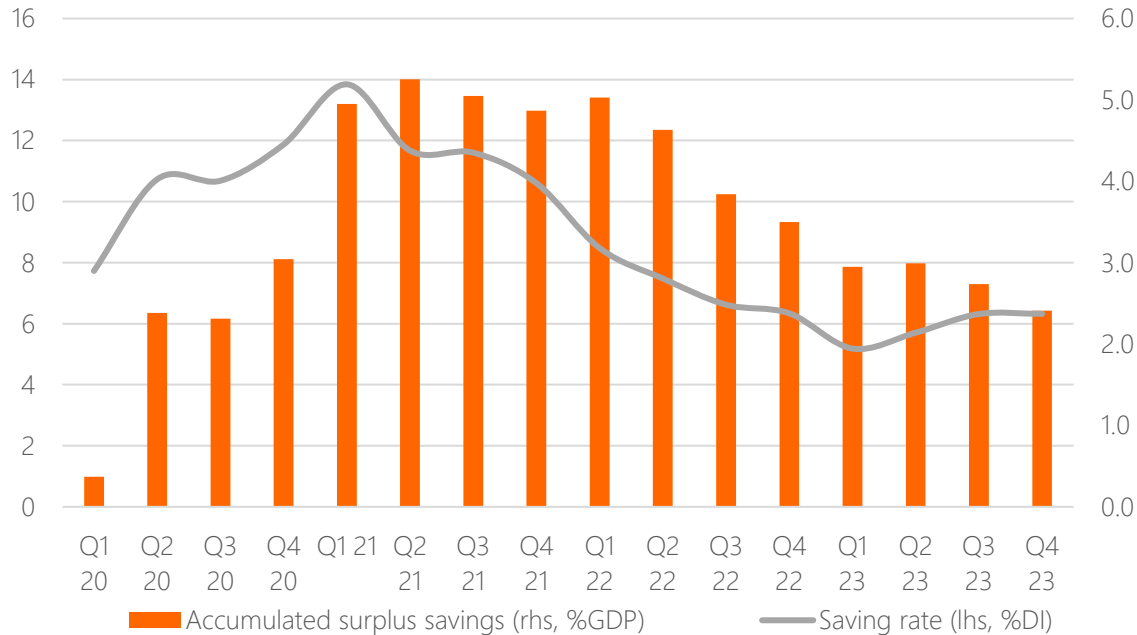
yoy %

yoy, level		Q1 24	Q2 24	Last month available
Synthetic indicators	Economic climate indicator	1.9	1.9	May
	Economic sentiment indicator	99.4	101.2	May
	Daily economic indicator	5.3	5.1	May
Consumption	Consumer confidence	-22.6	-17.5	May
	Wholesale and retail trade (yoy)	1.5	2.2	April
	Retail sales excl. fuels (yoy)	2.1	2.8	April
	Card withdrawals and purchases deflated (yoy)	7.5	5.0	April
	Car sales (yoy)	13.7	4.0	May
Supply	Cement sales	4.1	14.4	April
	Industrial production	1.1	-	March
Demand	Electricity consumption adjusted for temperature&working days	3.1	1.0	April
	Number of flights (yoy)	2.2	2.6	May
Trade	Exports G&S (accum. Year)	2.7	-	March
	Imports G&S (accum. Years)	-1.7	-	March
Labour market	Change in regist. unemployment (thousand people)	15.6	-	March
	Change in employment (thousand people)	104.1	-	March

- ▶ **The BPI's scenario is conservative compared to the most recent forecasts from other organizations, which have been revising growth expectations up, especially for 2024.** In addition, the stronger performance recorded in Q1 gives some leeway to the current forecast for 2024.
- ▶ Economic indicators for Q2 point to a positive performance, with resilient consumption and reviving investment.

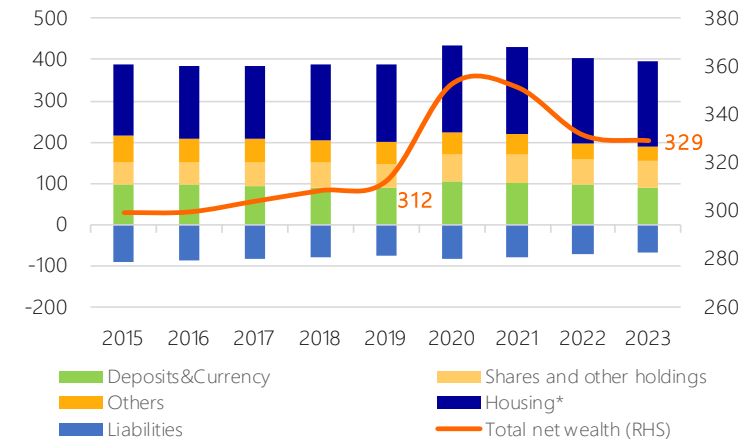
# Private consumption is seen to continue to perform well

### Families' saving rate and excess savings (% of GDP, DI)



Source: BPI Research, from INE, BoP.

### Families' wealth % of GDP

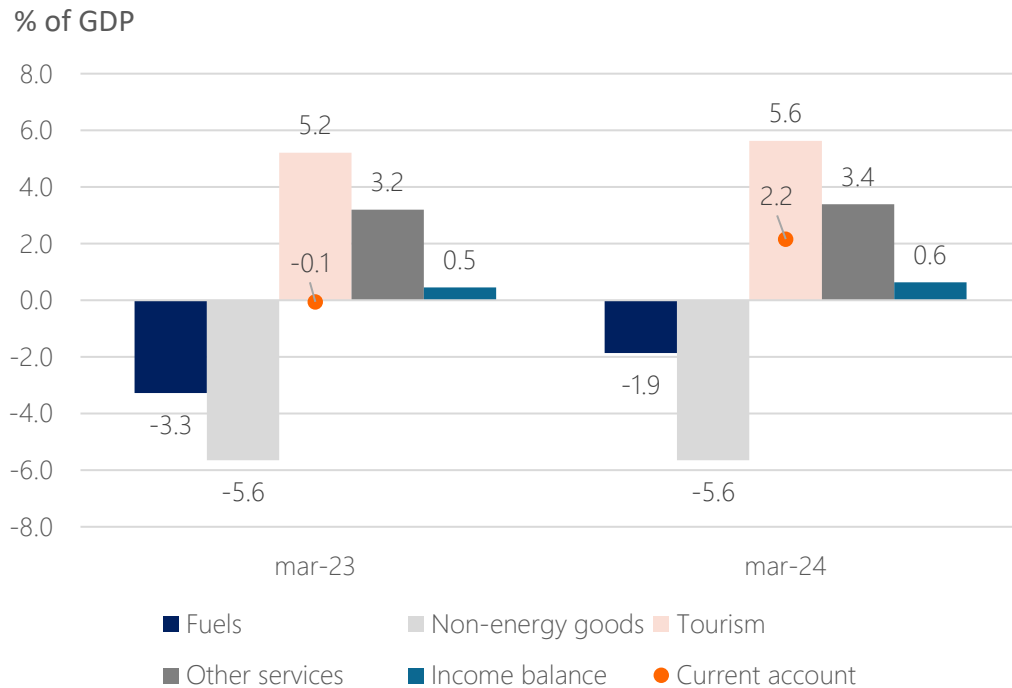


\*the amount for housing in 2023 was estimated by updating the 2022 value based on the growth in house prices in 2022 plus the investments in real assets made in 2023.

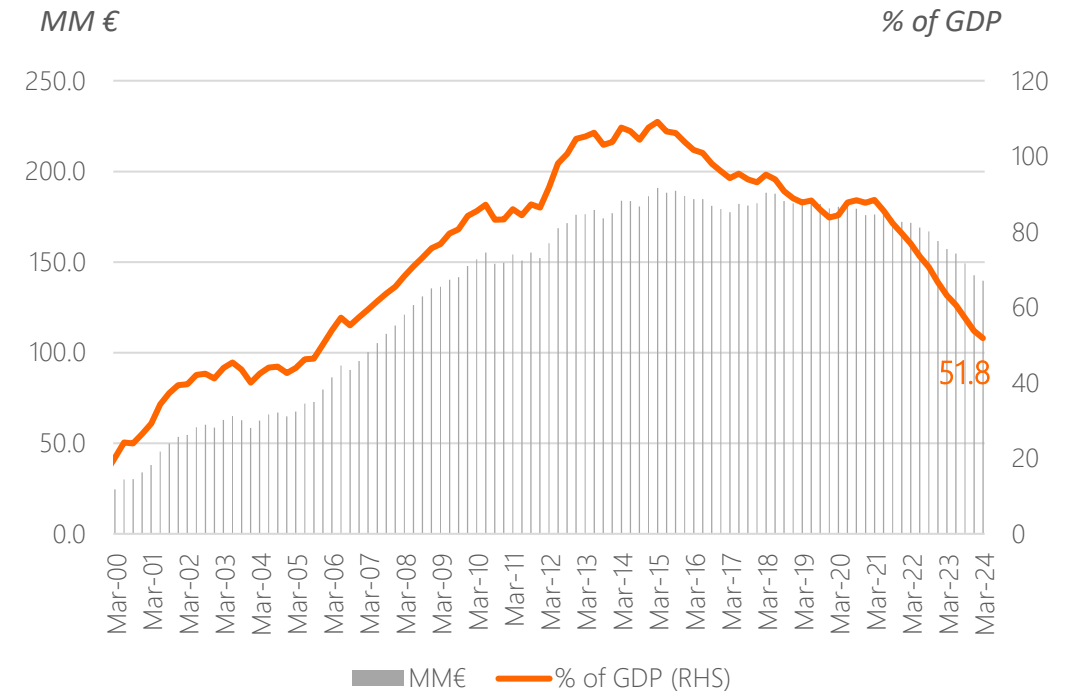
- ▶ The household's saving rate is slightly above its historic low (5.1% of GDP in Q2 08), but recently showed a small improvement; still, savings accumulated during the pandemic have not yet been spent and are estimated at 2.4% of GDP. In addition, in 2023, households repaid around 11.2 billion euros of mortgage loans, potentially freeing up funds for consumption. This movement will continue in 2024 (Q2 24 mortgages repayments amounted to 3.2 billion euros, compared to 3.3 billion in Q4 23).
- ▶ Families' wealth improved from 305% of GDP in 2015-19 to 329% in 2023, mainly due to higher housing wealth. After the reduction of extra savings accumulated during the Covid period, households net wealth seems to be stabilising.

# The external surplus will allow the continuing reduction of external debt

## Current account up to March



## Net external debt



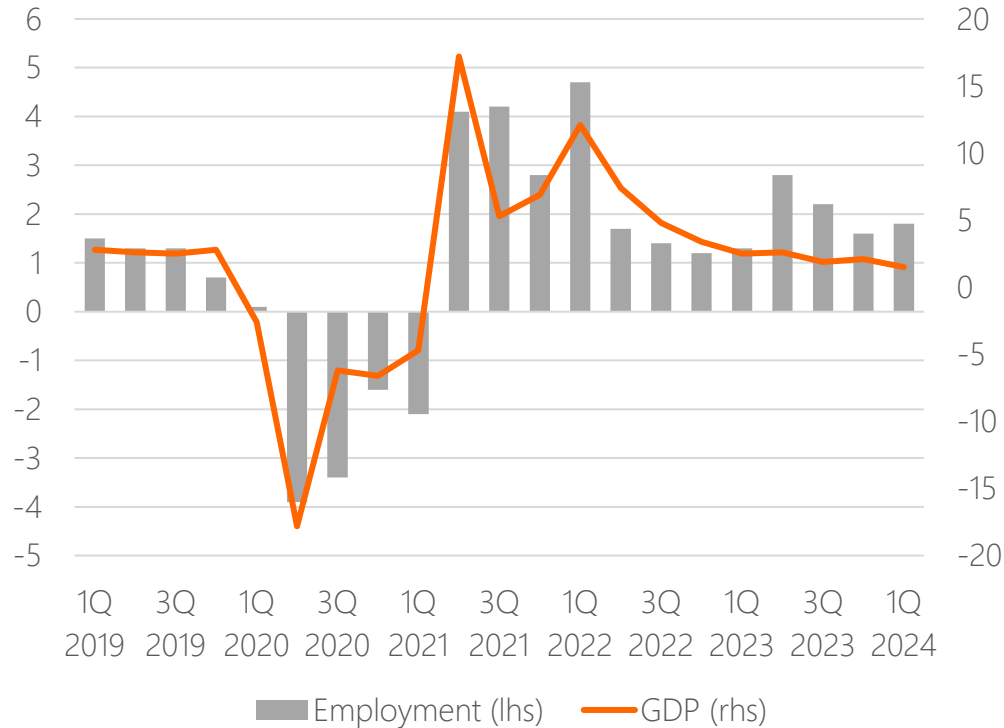
Source: BPI Research, from BoP.

- ▶ **The current account started the year with positive recordings, reaching a surplus equivalent to 2,2% of the GDP in the first quarter, an improvement from the small deficit seen in Q12023 (-0,1%).** This performance mainly reflects the decline of the deficit in the energy balance to 1,9% from 3,3% a year ago in line with the decline of the energy prices over the period; the improvement seen in services balance – both tourism and non-tourism related – added to this achievement.
- ▶ **The surplus strengthened the fall in foreign debt to 51,8% of GDP in Q1 2024, minus 2 percentage points than in the end of 2023.** Since the peak of 108% of GDP in Q1 2014, the ratio of the external debt declined 56 p.p. In nominal terms, and in the same period, the external debt fell 44MM€ since 2015, to 139,7MM€, the lowest nominal level since 2009.

# Unemployment rate declined in April

## Employment and GDP

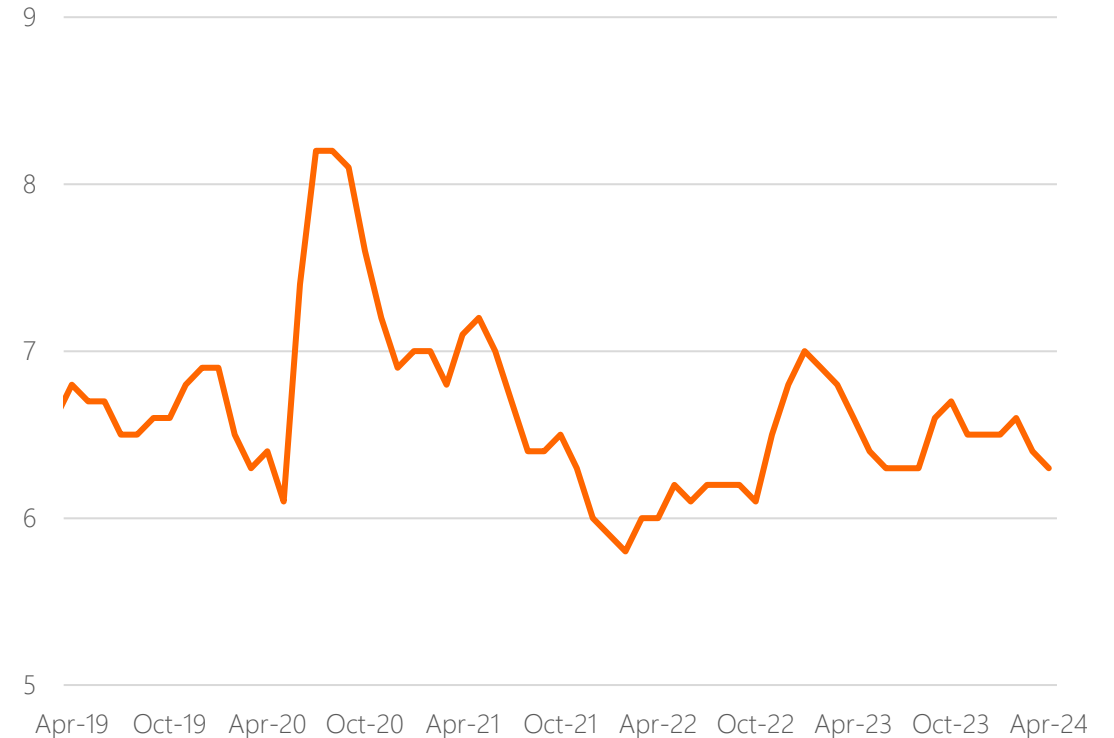
Yoy (%)



Source: BPI Research, from INE.

## Unemployment rate

% of active population

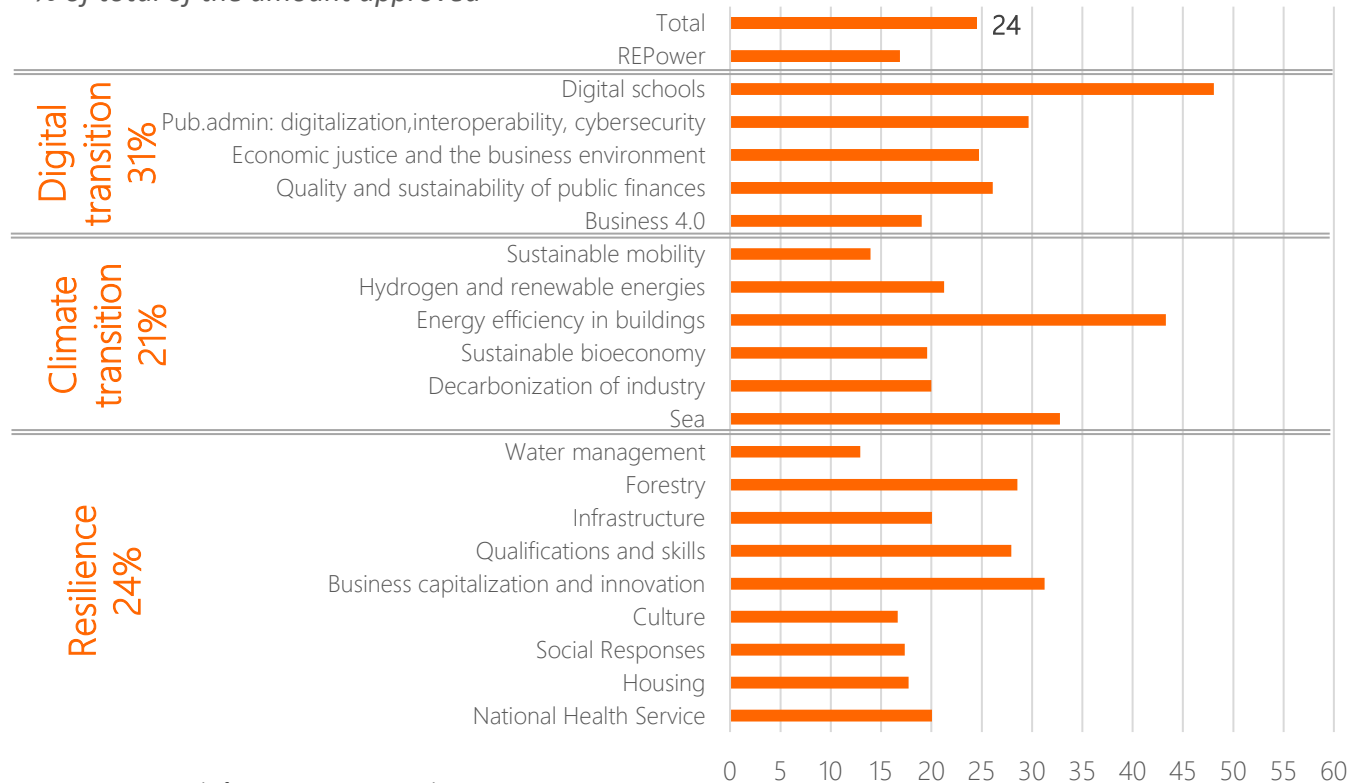


- ▶ **The latest data corroborates our expectation that the labour market will remain a relevant factor supporting activity:** employment fell very slightly in April (-0.4%) but the unemployment rate also declined to 6.3% (6.4% in March,) while registered unemployment is falling for the third consecutive month, remaining at historically low levels. Job creation in Q1 2024 was mainly explained by construction, commerce and consultancy, scientific & technical activities, with job creation among younger people standing out (the 25 to 34 age group explains more than 50 per cent of the year-on-year increase in employment) and among people with higher levels of education.
- ▶ **Nonetheless, some data seems to indicate that we are close to peak employment levels and the capacity to absorb the influx of people into the labour market is likely to be decreasing,** as evidenced by the evolution of job vacancies (around 30% below the historical average recorded in the months of April in the 5 pre-pandemic years).



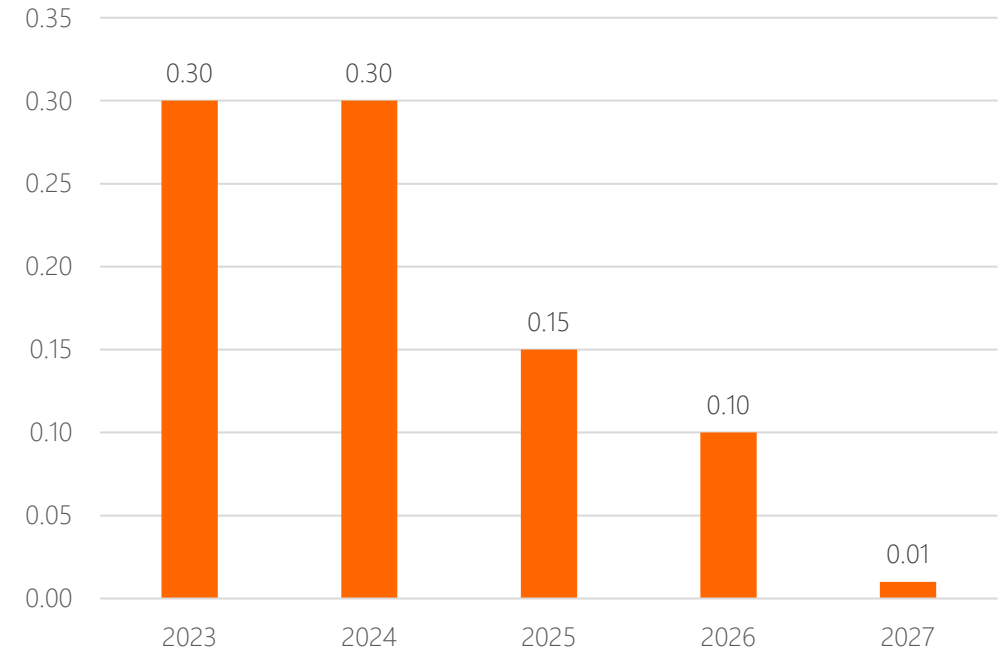
# NGEU: high rate of approved projects may accelerate transfer of funds to final beneficiaries

**Payment rate up to May 21<sup>st</sup>**  
% of total of the amount approved



Source: BPI Research, from Recuperar Portugal.

**RRP: own estimates for contribution for real GDP growth**  
p.p.

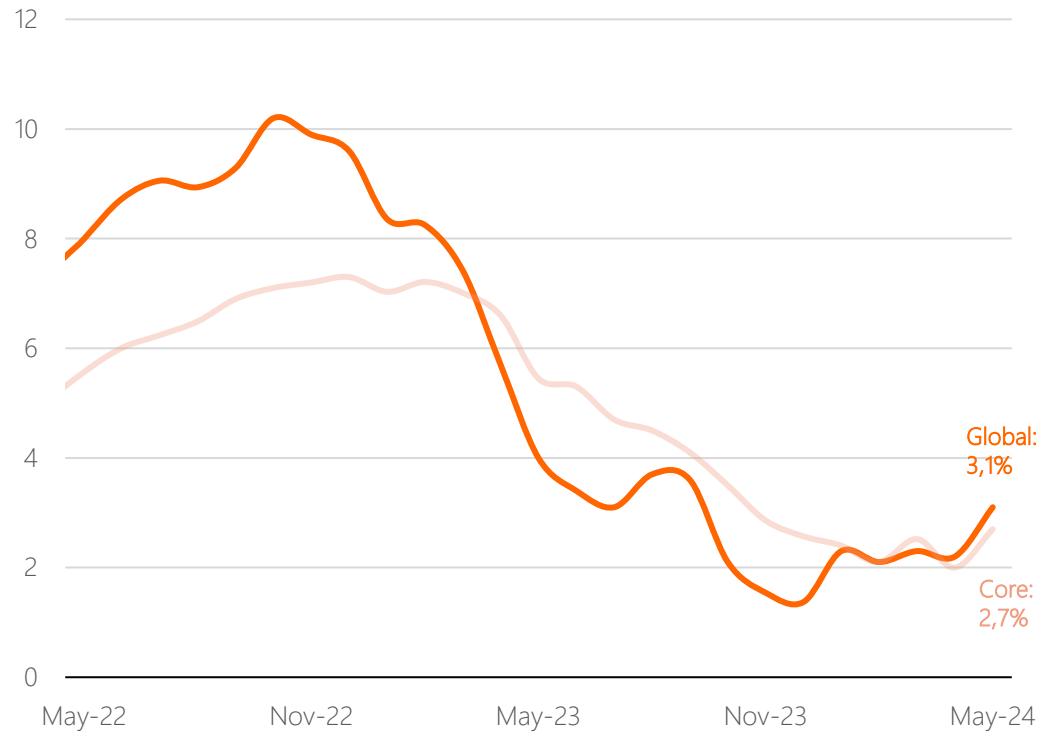


- ▶ **Up to now, Portugal received 7,7 billion euros, equivalent to 35% of the total amount of the RRP.** In 2024, it should be received an additional 4,8 billion euros, that may suffer delays due to the Government transition.
- ▶ **Projects already approved amount to 17,8 billion euros (80% of the total amount) and payments reached 4,4 billion,** representing circa 56% of the total amount received.
- ▶ **Portuguese authorities estimate that the impact of the funds currently available for the implementation of the RRP will led to an increase of 4,1% in potential GDP over the next 10 years.**

# A bump of inflation in May

## Portugal CPI: Global & Core

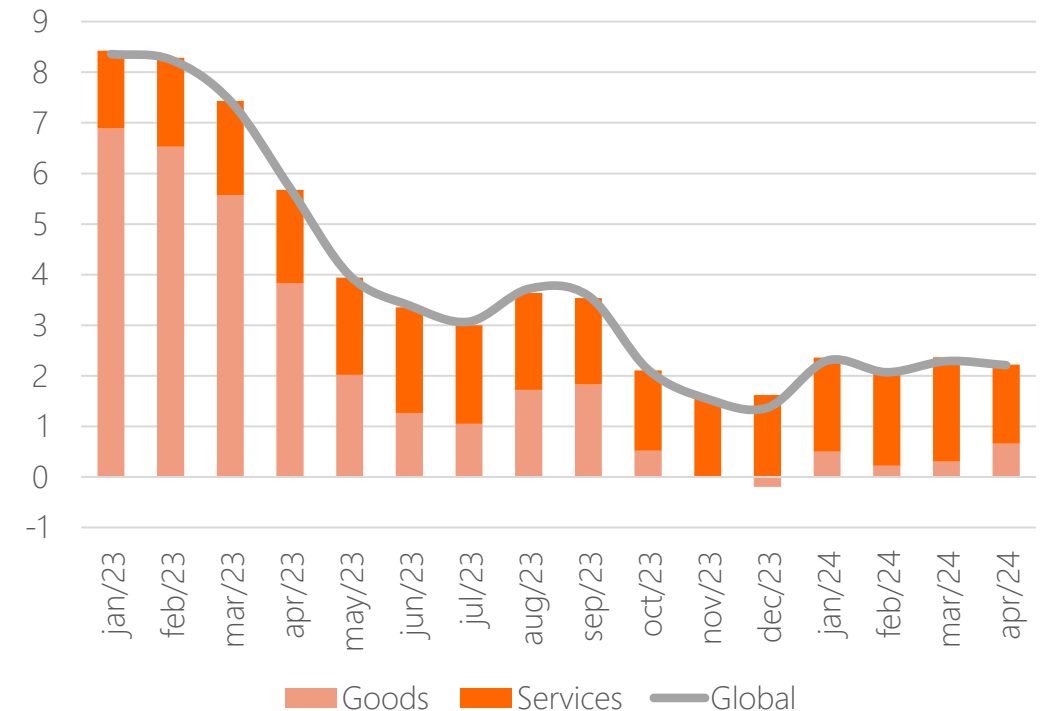
Year-on-year (%)



Source: BPI Research, using data from INE.

## Contribution to Global CPI: Goods vs Services

Year-on-year (%)

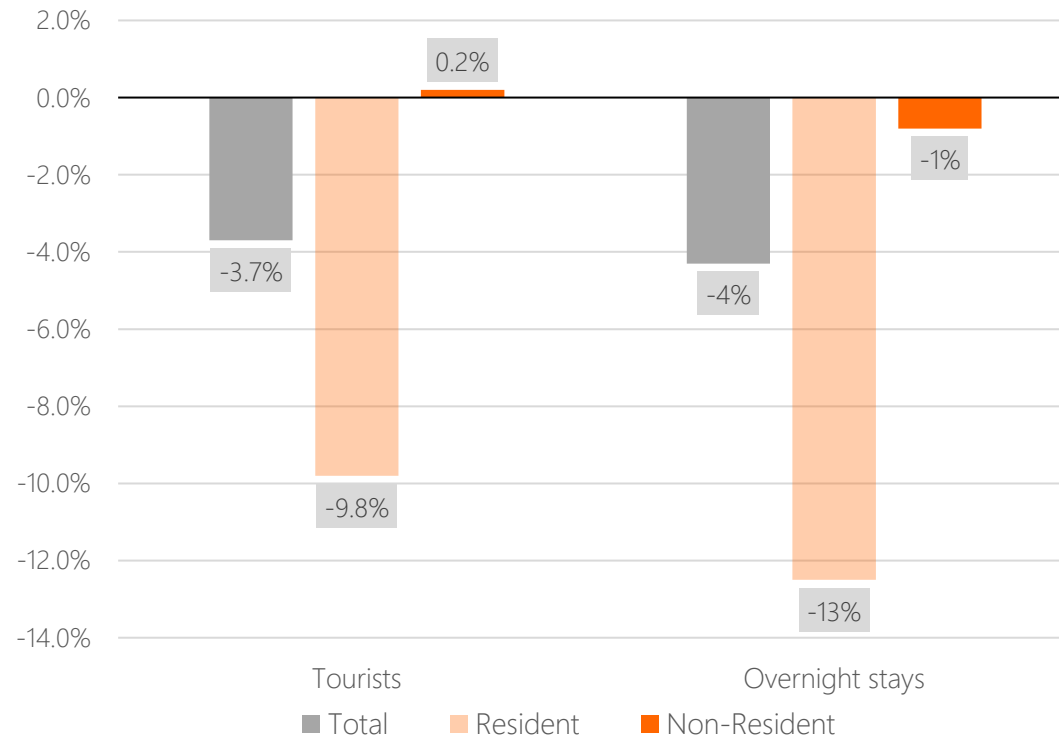


- ▶ **Inflation on the rise in May.** The Global CPI in May rose significantly to 3.1%, up 0.9 p.p. on April's figure. This is the first time since September 2023 that it has returned above 3%. In a way, this increase was already to be expected and is also the result of a base effect associated with the monthly price reduction recorded in May 2023 (-0.7%), following the VAT exemption on a number of essential food items. The underlying component also increased by +0.7 p.p. to 2.7%.
- ▶ **Inflation in the Services aggregate as a whole is currently the main support for the drag on the inflation figure.** In fact, although we still don't have this detail for May, in April the classes that are very intensive in Services (Hotels and restaurants, Communications, Health) contributed around 40 per cent to the year-on-year change in prices. In the first four months of 2024, the Services aggregate explained an average of 83% of the Overall CPI and has shown great persistence above 4 %.

# Tourism weakens after Easter Season

## Tourists and Overnight stays

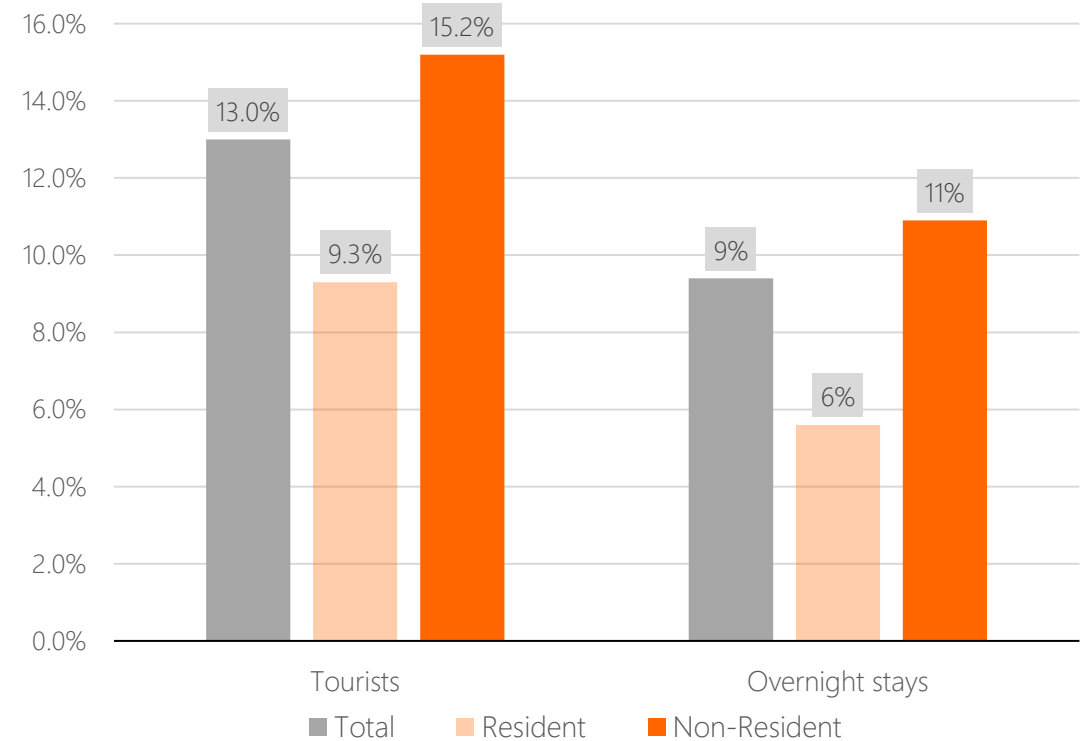
Change in April 2024 versus April 2023 (%)



Source: BPI Research, using data from INE.

## Tourists and Overnight stays

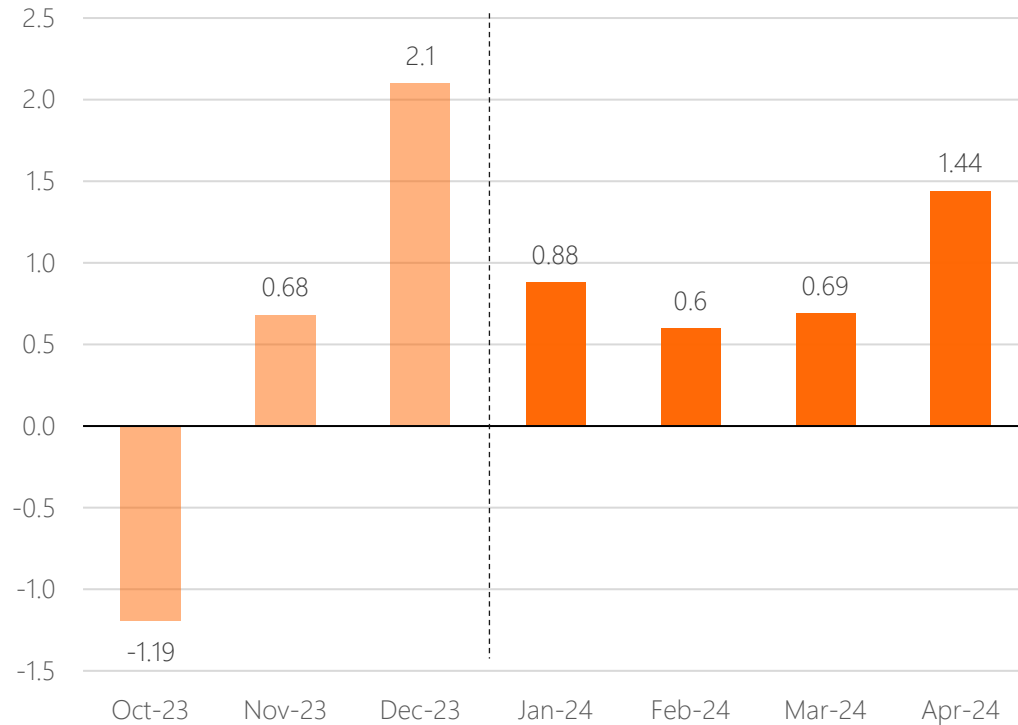
Change in April 2024 versus April 2019 (%)



- ▶ **Tourism weakens in April.** Despite the increase in the number of guests and overnight stays compared to the previous month, in absolute terms (both +14%), the modest performance of the Portuguese tourism sector in April becomes clear when we analyze the year-on-year figures. In fact, compared to April 2023, both guests and overnight stays fell: -3.7% and -4.3% respectively. Only non-resident guests recorded a positive figure, albeit an insignificant one (+0.2%). Despite this, the figures comfortably exceed pre-pandemic levels.
- ▶ **However, just as the auspicious figures for March had been positively influenced, the figures for April are negatively impacted by the moving structure of the calendar,** i.e. the effect of the holiday period associated with Easter, which last year was concentrated in April, while this year it was spread out between March and April.

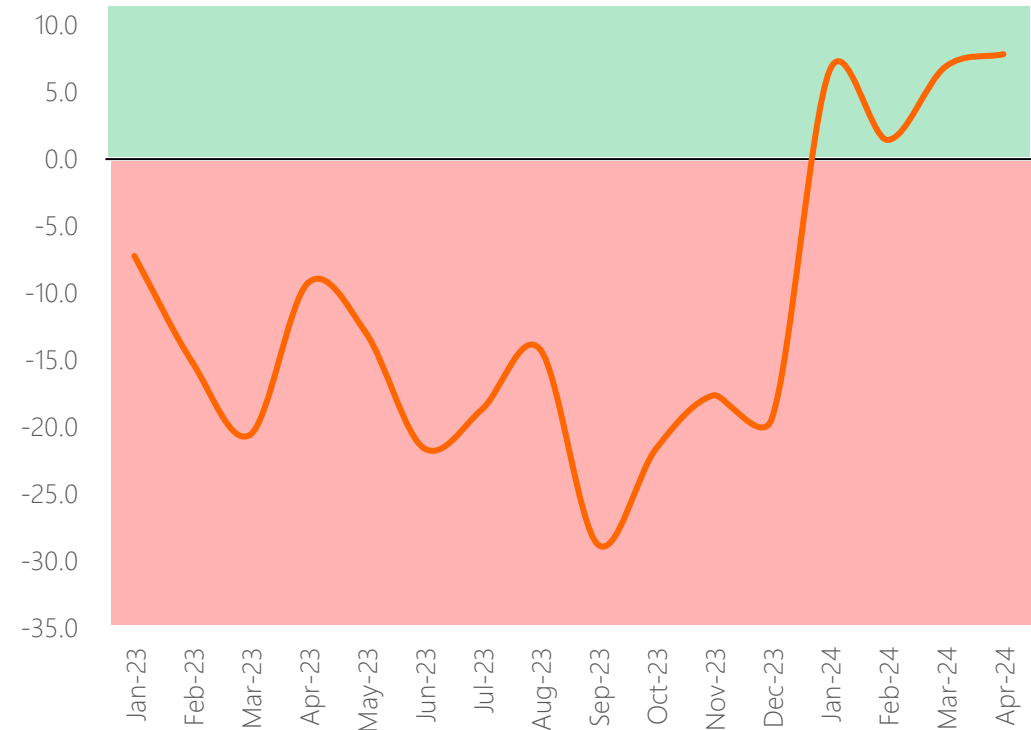
# House prices accelerated in April on the back of increased sales and better expectations

**Residential Price Index**  
Month-on-month growth(%)



Source: BPI Research, using data from Confidencial Imobiliário.

**Expectations for House Sales (in 3 months)**  
% Balance of surveyors



Source: BPI Research, using data from Confidencial Imobiliário.

- ▶ **According to Confidencial Imobiliário's (CI) Residential Price Index, house sales prices rose by 1.4% in April compared to March, reversing the stabilization trend seen over the last few months.** In the last year and a half, reflecting the slowdown in housing transactions, prices have shown greater resistance to increases, with monthly rates of change almost always below 1.0%. Over this period, this is one of the exceptions with a monthly increase above that level, reversing the cycle of residual variations that has been particularly visible since the summer of last year.
- ▶ **This new rise in prices reflects a recovery in transactions, which in the accumulated period between February and April will have accelerated again.** According to CI projections, 36,200 homes were sold in Portugal during this period. This translates into an increase of around 10% compared to the average of 33,000 homes sold per quarter in 2023 and confirms the trend of sales recovery already signaled in Q1 2024. Given this data, expectations for the number of sales over the next three months (as stated in Portuguese Housing Market Survey by CI) have been in positive territory since January.

# Fiscal balance entered 2024 in a small deficit (cash basis)

## Key items in the public accounts

% of GDP

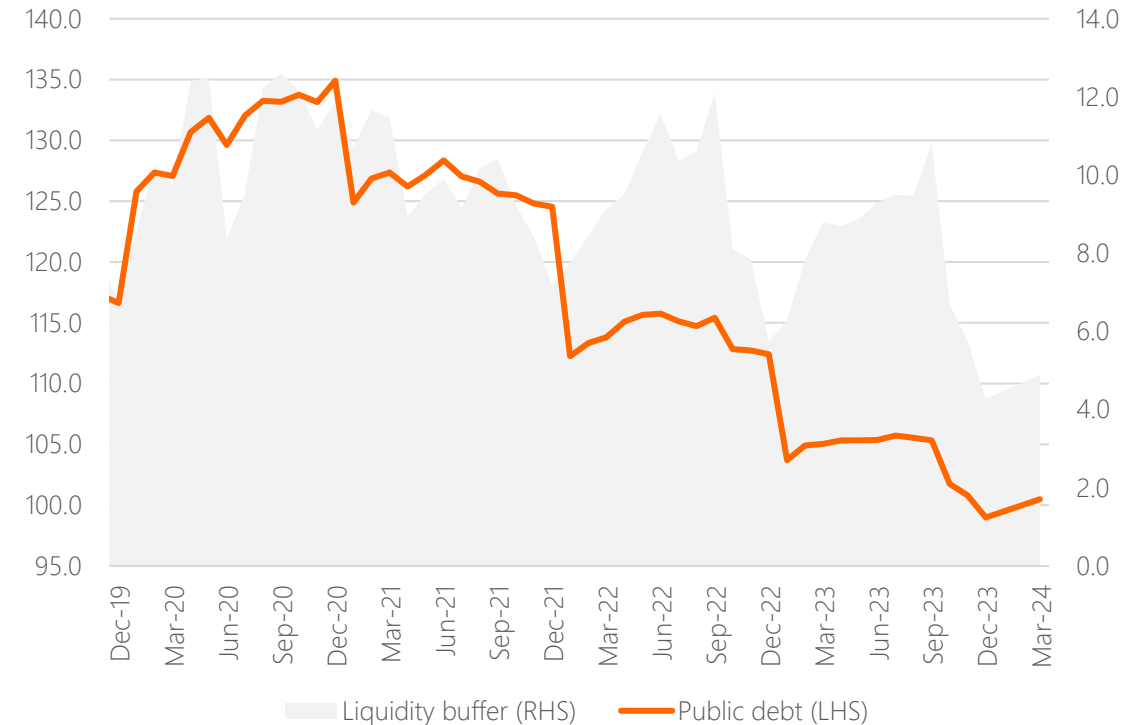
January - April	2023	2024	yoy change	
			p.p.	million euros
Current revenue	34.6	36.1	1.5	1,374
Tax and contributory revenue	29.6	30.6	1.0	880
Capital revenue	1.0	1.1	0.1	106
<b>Total revenue</b>	<b>35.6</b>	<b>37.3</b>	<b>1.7</b>	<b>1,480</b>
Personnel costs	8.4	9.1	0.7	600
Current Transfers	15.1	18.2	3.1	2,784
Acquisitions of Goods and Service	4.8	5.3	0.5	396
Interest	2.9	3.2	0.3	290
Investment	1.9	2.0	0.1	127
<b>Total expenditure</b>	<b>34.4</b>	<b>39.5</b>	<b>5.1</b>	<b>4,489</b>
<b>Primary Current Expenditure</b>	<b>31.5</b>	<b>36.2</b>	<b>4.7</b>	<b>4,200</b>
<b>Overall Balance</b>	<b>1.2</b>	<b>-2.2</b>	<b>-3.4</b>	<b>-3,009</b>

Note (\*): cash basis.

Source: BPI Research, based on INE.

## Public debt ratio and the liquidity buffer

% of GDP; bln EUR

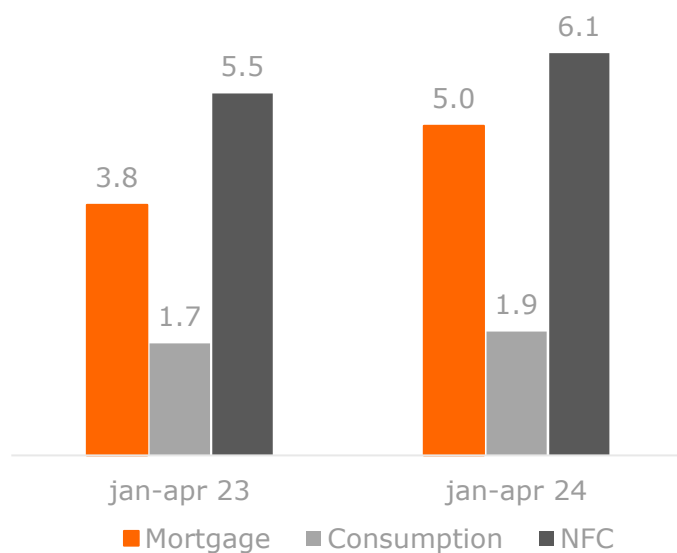


- ▶ **On a cash basis, the public sector reached a deficit of 2,2% of GDP in the first four months of the year**, with revenues advancing 4,5% and expenses 15%. Expenses growth was due to changes in its execution profile, which particularly affected the year-on-year comparison in the first half of the year. These changes include i) the mid-term update of public servants salaries from May 2023 and the 2024 salary update; ii) an increase in health costs, especially in local and regional administration; iii) and, in particular, the increase in pension costs, resulting from the ordinary updating of pensions at the beginning of the year, the increase in the number of pensioners (+1.1%) and the incorporation of the extraordinary updating carried out in July 2023. Adjusting current expenditure for these factors, which will be diluted over the course of the year, the rise of expenses would be 11.7%, 3.3 percentage points less than that recorded, reducing the deficit to around 1,000 million euros, equivalent to 1.1% of GDP.

- ▶ **1<sup>st</sup> quarter official data (accrual basis) will be published on June 24<sup>th</sup>.**

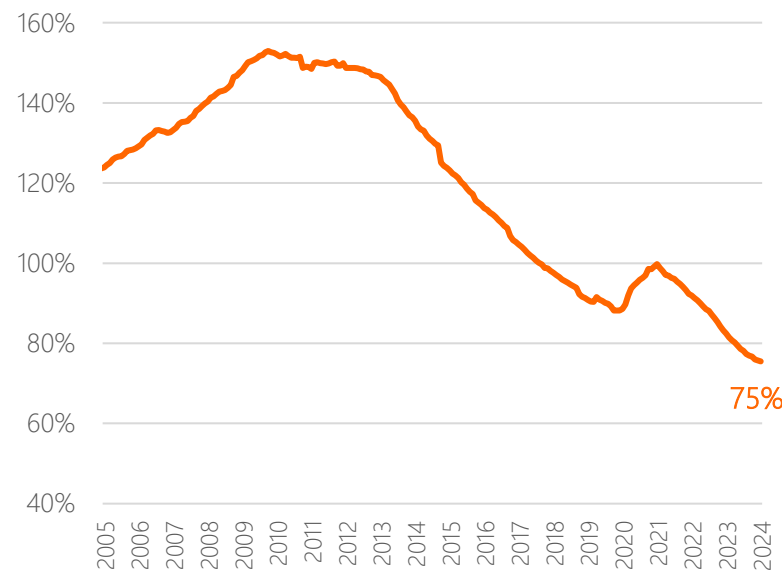
# Banking system: a solid position to face the economic slowdown (1)

**New lending activity by sector**  
Accumulated in the year, billion euros



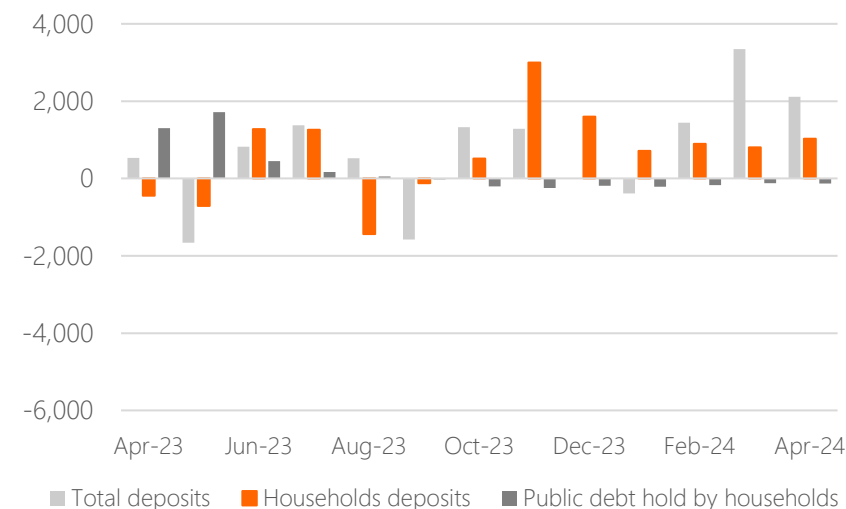
Source: BPI Research, base on data from Bank of Portugal and ECB.

**Bank credit to the private non-financial sector**  
% GDP



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

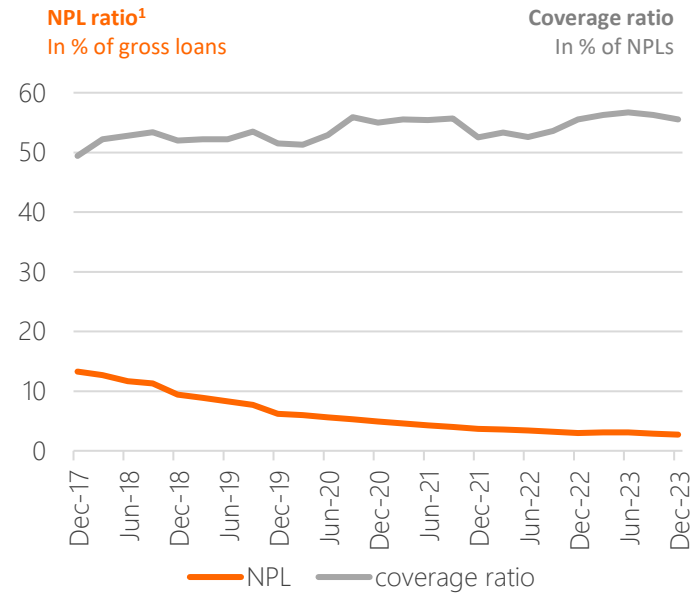
**Deposits and public debt hold by families\***  
Monthly variation (M€)



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 16.5 bn Eur in 2023.  
Source: BPI Research, base on data from Bank of Portugal and IGCP.

- ▶ **The stock of credit to companies and households has been declining since April 2023, but the pace is gradually changing:**
  - ▶ **Mortgage credit:** the stock declined 0,5% in April, but new operations accelerated in the same period by 31,5% (including transfers among banks which Banco de Portugal has been reporting at approximately 30% of total new mortgage credit), indicating that the declining path seen since July 2023 is changing. Indeed, the stock has been increasing gradually since January. Signs that the peak on interest rates should be behind us may have contributed to this.
  - ▶ **NFC:** the stock has been declining since mid-2022, due to the redemptions of COVID-credit lines (which we estimate that should be circa 80% completed), low investment, favorable level of deposits and continuing feeble new credit operations. In April 2024 the stock fell 1,9%; new loans increased by 11,2%.
- ▶ **Deposits of the private sector rose 3,5% in April.** Households' deposits rose 5,1% yoy, as interest rates for new deposits continue to be higher (2,75% in April) than the one paid by Government retail products (CA's new subscription conditions consider a maximum interest rate of 2,5%).

## NPLs and coverage ratios



### Cost of risk<sup>1</sup>

0.5% in 2019

0.4% in 2023

Notes: (1) flow of impairments to credit as a percentage of total gross loans.  
Source: Bank of Portugal.

## Banks' profitability

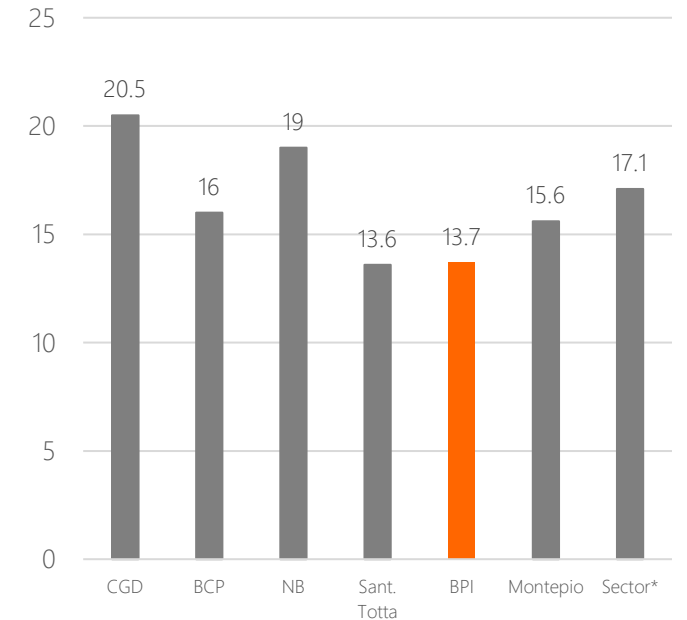
In % of average total assets (Q1 2024; trailing 12M)

	BPI	BCP	San Totta	CGD	NB	Montepio
<b>Net interest income</b>	2.5%	2.2%	3.1%	2.7%	2.9%	2.7%
Net fees	0.8%	0.9%	0.9%	-	0.6%	0.7%
Gains on financial assets	0.1%	0.0%	0.0%	-	0.2%	0.0%
Other net profits	-0.2%	0.0%	0.0%	-	-0.1%	-0.3%
<b>Gross income</b>	<b>3.3%</b>	<b>3.2%</b>	<b>4.0%</b>	<b>-</b>	<b>3.6%</b>	<b>3.1%</b>
Operating expenses	-1.4%	-1.0%	-0.9%	-1.0%	-1.2%	-1.1%
<b>Operational result</b>	<b>1.9%</b>	<b>2.2%</b>	<b>3.1%</b>	<b>-</b>	<b>2.4%</b>	<b>2.0%</b>
Impairment losses, taxes and others	-0.2%	-0.4%	-0.1%	-	0.1%	-0.3%
<b>Profit</b>	<b>1.2%</b>	<b>1.3%</b>	<b>2.1%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.7%</b>
<b>ROTE<sup>1</sup></b>	<b>17.2%</b>	<b>15.0%</b>	<b>27.2%</b>	<b>-</b>	<b>16.8%</b>	<b>17.3%</b>

Notes: 1) the values for BCP and CGD refer to ROE; calculation methodologies differ between banks.

## Banks' solvency and liquidity position

In % (2023)\*



Source: Banks publications, BoP  
Note: \*data for the end of 2023

- ▶ **NPLs ratio fell 0.3 p.p. in 2023.** The total NPL ratio stood at 2,7% in 2023, due to an improvement on the NPL ratio in the case of credit to consumption and to NFC. The ratio related to mortgage credit rose to 1,3%, +0,2 p.p. than in 2022. For NFC, the ratio decreased 1,5 p.p. to 5,0%. It is possible that these metrics will worsen slightly in the coming months, reflecting the impact of increasing interest rates and prolonged inflation in households and firms consumption and costs.
- ▶ **Profitability remains well above the pre-pandemic period.** According to the Bank of Portugal, between 2022 and 2023 it improved by 6,1 p.p., to 14,8% (ROE).
- ▶ **The capital position of Portuguese banks provides buffers against the risks that could arise, due to the conflict in Ukraine, other geopolitical risks and the impact of high interest rates on NPL's.**



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