



Portugal:

Macroeconomic and financial outlook

BPI *Research*

November 2024

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Grupo  CaixaBank

Activity

- ▶ **Q3 2024 GDP grew by 0.2% quarter-on-quarter, putting year-on-year growth at 1.9 per cent, in line with our forecasts.** The flash data released by INE indicates that the yoy growth reflects the strength of the positive contribute of domestic demand, as the private consumption accelerated; however, the contribution of foreign demand remained negative. Q3 was marked by a trend from minus to plus, which is seen to persist until the end of the year. Indicators for Q4 are giving positive signals, with the main synthetic indicators suggesting an acceleration in activity in October. We highlight the recovery in the European Commission's economic sentiment indicator, which rose to c. 106 points in October; the same happened in the INE's economic climate indicator; and car sales accelerated to 10.3% yoy also in October. We continue comfortable with our current scenario: annual GDP growth in 2024 of 1,7% and 2,3% in 2025.
- ▶ **The flash inflation estimate for October shows an increase in the overall CPI to 2.3 per cent (2.1 per cent in September).** This increase is essentially due to the monthly rise in the prices of the most volatile components - the energy index (+1.28%) and unprocessed food products (+0.92%). On the other hand, core inflation fell again (to 2.6 per cent) after the strong upward rebound recorded in September.
- ▶ **Latest data corroborate our expectation that the labor market will remain a relevant factor supporting activity.** Employment increased 0.8% qoq and 1.2% yoy, reaching a maximum since Q3 2008. The unemployment rate remained at 6.1%, as in Q2 and Q3 2023; and 0.7 p.p. below the Q4 2019 level. In view of Q3 data (unemployment rate lower than expected), our forecast for the average annual unemployment rate in 2024 (6.5 per cent) may be slightly biased upwards.
- ▶ **The growth in house demand is matched by a more intense rise in prices according to data from Confidencial Imobiliário.** In 2024 Q3, 38,050 houses were sold in Portugal, an increase of 6.7% on the previous quarter and prices increased by 2.5% in the same period (1.8% in 2024 Q2). The intensification of the quarterly indicator reflects the positive behaviour of August and September, which accelerated the monthly variations to 0.9% and 1.4% respectively.
- ▶ **Portugal registered a surplus in the current account of 2.7% of GDP in the first nine months of 2024, continuing to support the decline of the external debt.** Foreign debt fell to 50% of GDP in H1 2024, minus 3,7 p.p. than in the end of 2023. In nominal terms, external debt reached 136,9 MM€, the lowest level since 2009.
- ▶ **On a cash basis, the public sector reached a surplus of 2.8% of GDP in the first nine months of the year, with revenues advancing 8.2% and expenses 11.1%.** Current transfers rose circa 13% yoy, explaining 53% of expenses' growth, reflecting an increase in pension costs, due to the ordinary updating of pensions at the beginning of the year, the increase in the number of pensioners and the incorporation of the extraordinary updating carried out in July 2023. Personnel expenditures rose 7.9% yoy, being the second main component explaining expenses performance. We estimate that the budget surplus could reach around 0,6% of GDP in 2024, which, if it were to materialize, would be 0,3 p.p. higher than the Government's and BPI Research's forecasts.

Banking Sector

- ▶ **NPLs ratio improved in Q2.** The total NPL ratio fell to 2,6% in Q2 2024, due to an improvement in ratios of credit to consumption and NFC and stabilization of the ratio for housing credit.

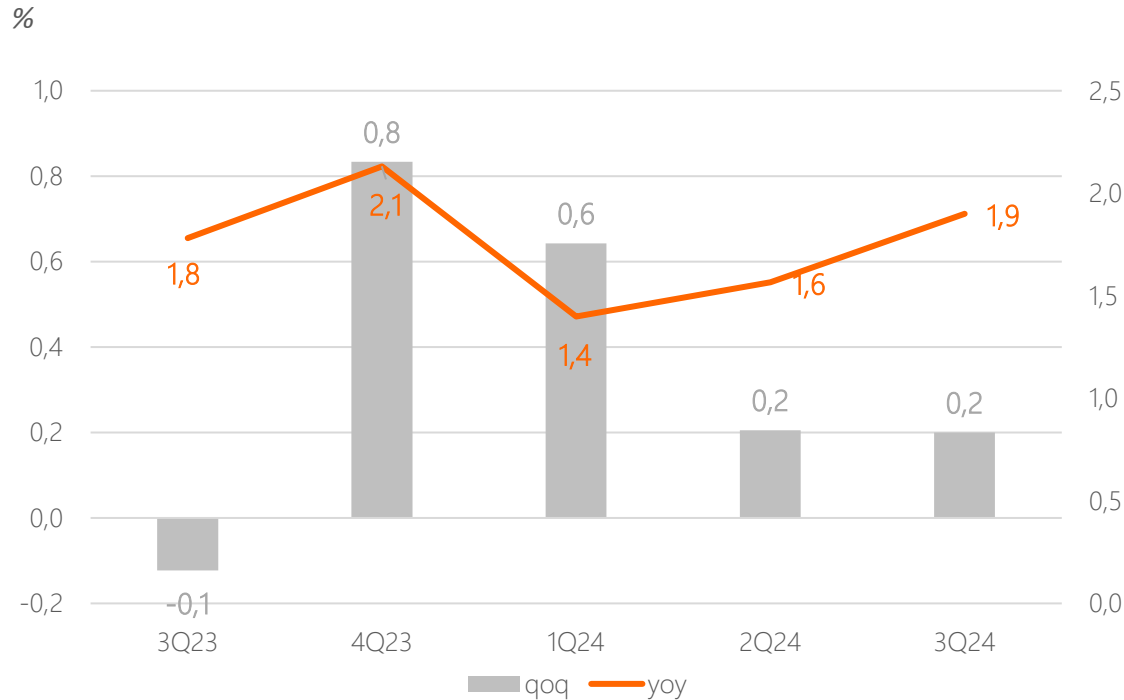
Main economic forecasts

% , yoy	Forecasts									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
GDP	2,0	3,5	2,8	2,7	-8,3	5,7	6,8	2,3	1,7	2,3
Private Consumption	2,6	2,1	2,6	3,3	-7,0	4,7	5,6	1,6	1,6	1,9
Public Consumption	0,8	0,2	0,6	2,1	0,4	4,5	1,4	1,0	1,0	0,8
Gross Fixed Capital Formation (GFCF)	2,5	11,5	6,2	5,4	-2,2	8,1	3,0	2,6	1,6	5,0
Exports	4,4	8,4	4,1	4,1	-18,8	12,3	17,4	4,1	3,7	4,6
Imports	5,0	8,1	5,0	4,9	-11,8	12,3	11,1	2,2	3,5	4,8
Unemployment rate	11,5	9,2	7,2	6,6	7,0	6,7	6,1	6,5	6,5	6,4
CPI (average)	0,6	1,4	1,0	0,3	0,0	1,3	7,8	4,3	2,4	2,1
External current account balance (% GDP)	1,2	1,3	0,6	0,4	-1,0	-0,8	-1,1	1,4	1,2	1,4
General Government Balance (% GDP)	-1,9	-3,0	-0,3	0,1	-5,8	-2,9	-0,3	1,2	0,3	0,4
General government debt (% GDP)	131,5	126,1	121,5	116,6	134,9	125,5	112,4	99,1	94,7	90,7
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	67	73

Source: BPI Research.

Activity performed in line with our forecasts in Q3 2024

GDP: quarterly and homologous changes



Daily activity indicator

yoy weekly moving average (%)



- ▶ **Q3 2024 GDP grew by 0.2% quarter-on-quarter, putting year-on-year growth at 1.9 per cent, in line with our forecasts.** The flash data released by INE indicates that the yoy growth reflects the strength of the positive contribute of domestic demand, as the private consumption accelerated; however, the contribution of the foreign demand remained negative. Q3 was marked by a trend from minus to plus, which is seen to persist until the end of the year.
- ▶ **The daily activity indicator and the EC's economic sentiment indicator accelerated in October.** This along with resilience in the labour market support a positive trend in Q4 (our forecasts points to 0.6% quarterly growth).

Convergence with EMU should continue

GDP: Other institutions' forecasts

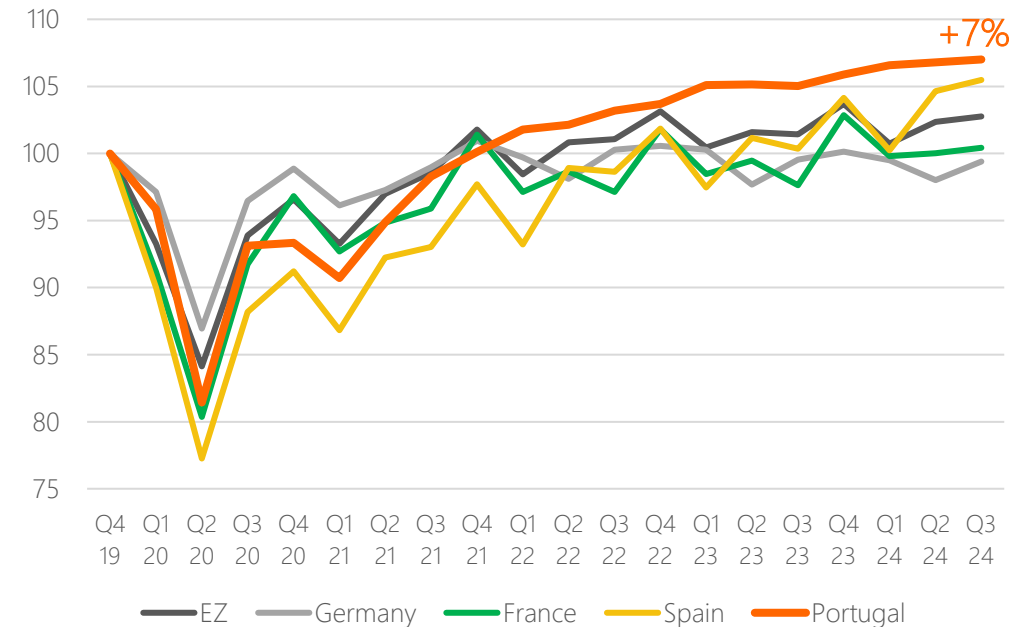
Annual growth

		2024	2025	2026	2027	Cum. 24-26
BPI	Sep-24	1.7	2.3	2.2	2.1	6.2
EIU	Nov-24	1.7	1.9	1.8	1.7	5.5
Bank of Portugal	Oct-24	1.6	2.1	2.2	-	6.1
IMF	Oct-24	1.9	2.3	2.0	1.9	6.3
Focus Economics	Oct-24	1.8	1.9	2.0	2.0	5.8
NECEP	Oct-24	1.6	1.8	2.0	-	5.5
CFP	Sep-24	1.8	2.4	2.1	1.6	6.4
European Commission	May-24	1.7	1.9	-	-	-
OECD	May-24	1.6	2.0	-	-	-
Government	Apr-24	1.5	1.9	2.0	-	5.5

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

Portugal compares favourably within EMU

GDP Q4 2019=100

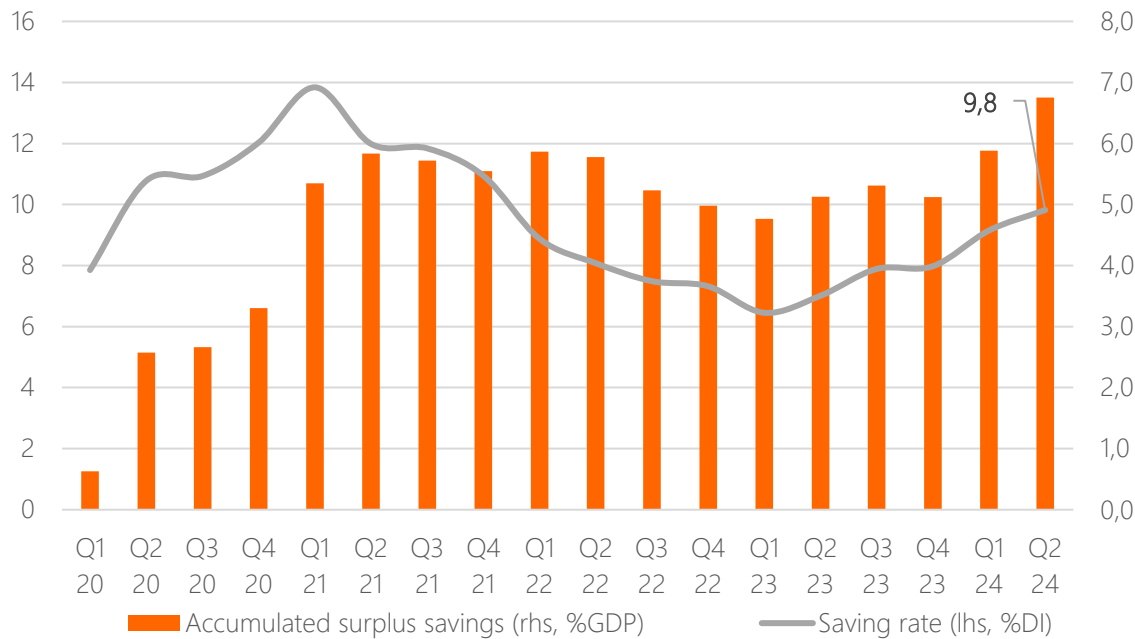


Source: BPI Research, with data from INE and Eurostat.

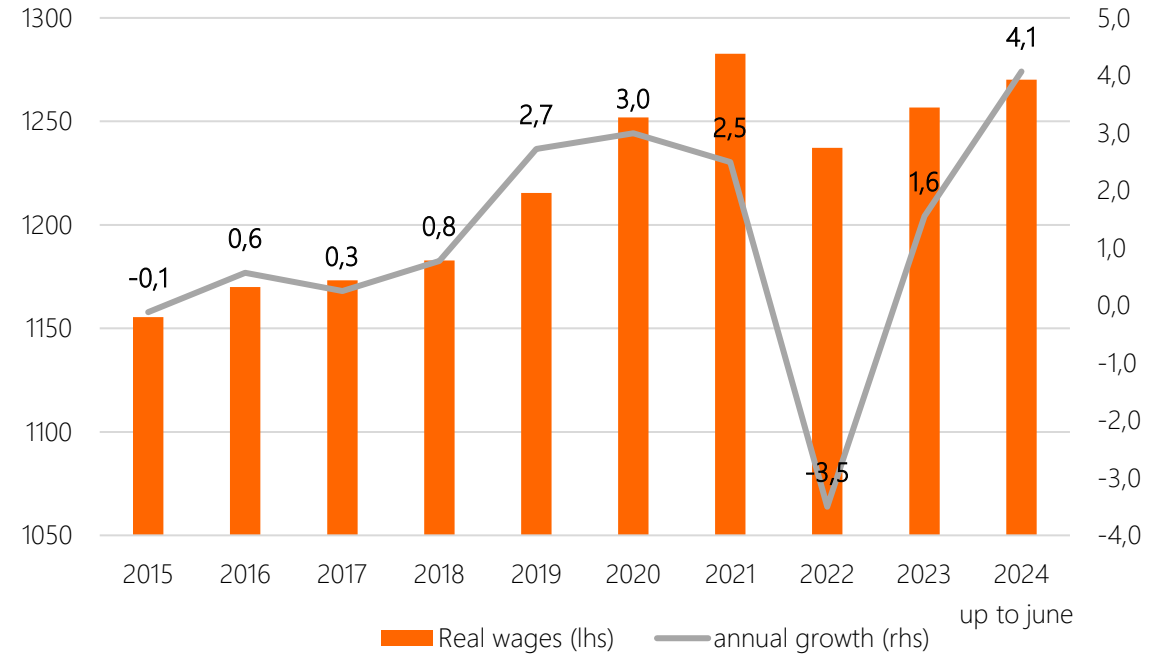
- ▶ The latest forecasts keep pointing in a positive direction for the Portuguese economy, with the IMF rising its growth forecast for 2024 to 1,9% from 1,7%; and for 2025 to 2,3% from 2,1%. According to the Fund, after a remarkable recovery from the successive shocks that hit the global economy since the pandemic, a soft landing is within reach. The IMF recognized the huge drop of public debt since 2020 (36 p.p. of GDP) and the strength of the external position due to tourism, EU funds and improved terms of trade. However, challenges persist, namely low productivity growth, population ageing and subdued investment remain key constraints to higher growth while poverty and inequality need to be addressed.

Private consumption is seen to continue to perform favourably

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



Real wages
euros, %



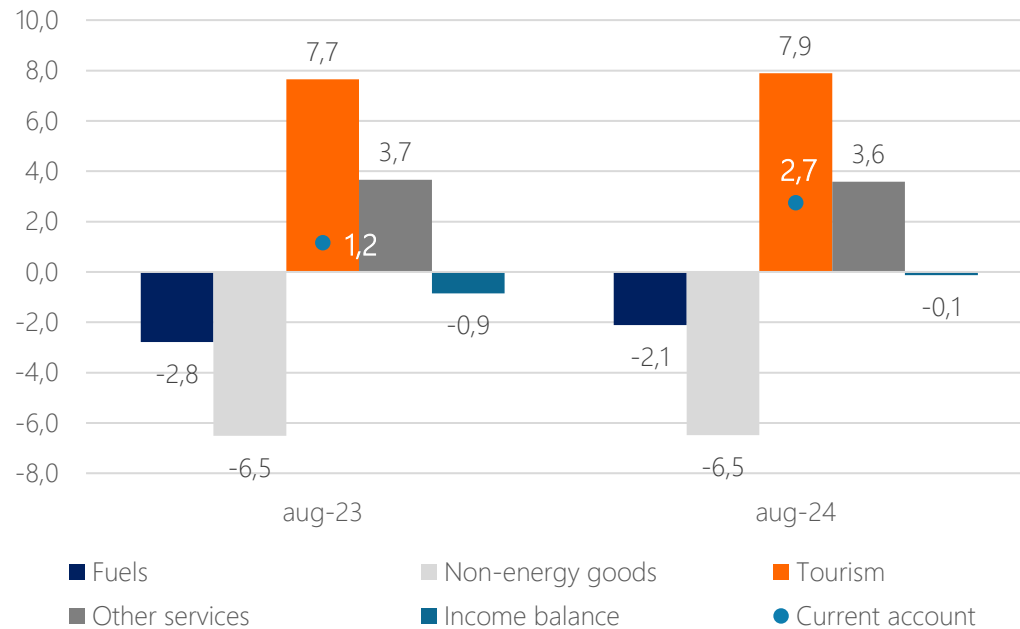
Source: BPI Research, from INE, BoP.

- ▶ The household's saving rate rose to 9,8% in Q2 2024, increasing the so-called surplus savings estimated since the pandemic. In addition, we estimate that, in the first eight months of 2024, households repaid around 4,7 billion euros of mortgage credit (EUR 8,3 bln in 2023), potentially freeing up funds for consumption in the future.
- ▶ Additionally, strong growth of real wages (4,1% in the 1st half 2024) should be an important support to consumption going forward.

The external surplus will allow the continuing reduction of external debt

Current account up to August

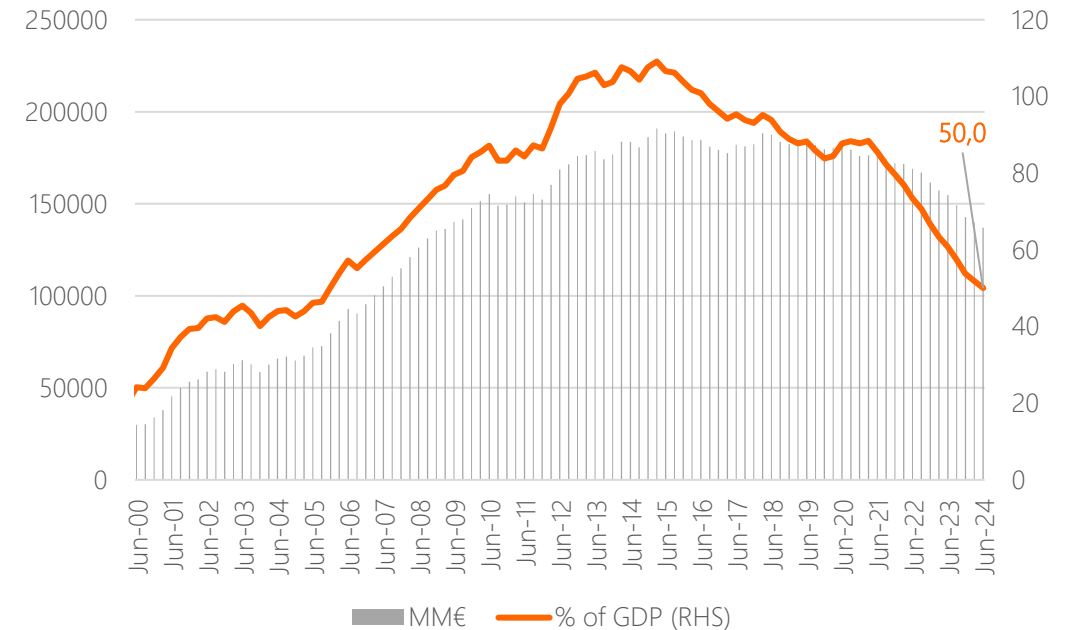
% of GDP



Net external debt

MM €

% of GDP

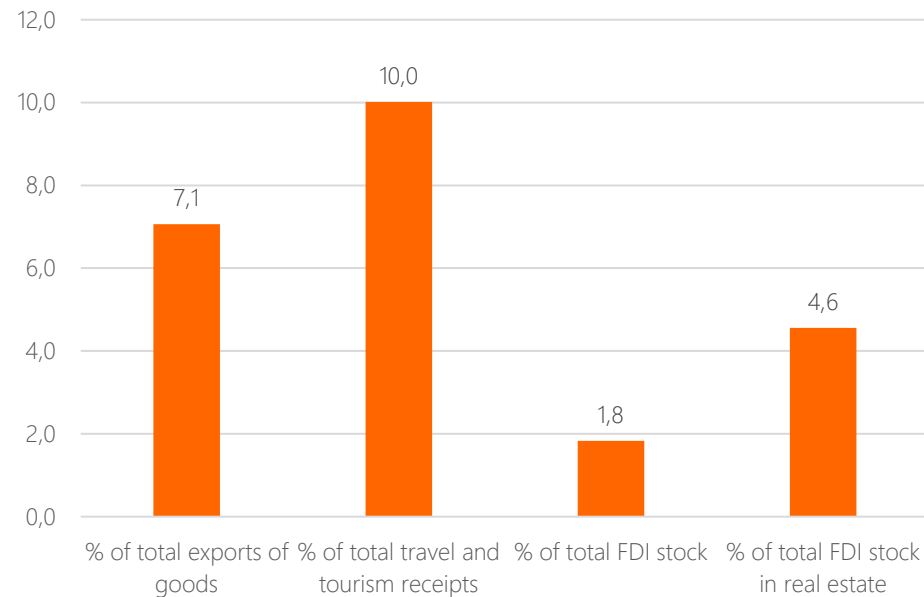


Source: BPI Research, from BoP.

- ▶ **The current account started the year with positive recordings, reaching a surplus equivalent to 2,7% of the GDP in the first eight months of the year, an improvement from the homologous period.** This performance mainly reflects the decline of the energy balance deficit to 2,1% (from -2,8% a year ago), in line with the decline of the energy prices over the period; and a wider tourism surplus.
- ▶ The CC surplus accelerated the decline seen in external debt, reaching 50% of GDP in Q2 2024, minus 3,7 p.p. than by the end of 2023. Since the peak of 109% of GDP in Q1 2015, the ratio of external debt declined 59 p.p.. In nominal terms, and in the same period, the external debt fell 53,9MM€ since Q1 2015, to 136,9 MM€, the lowest nominal level since Q2 2009.

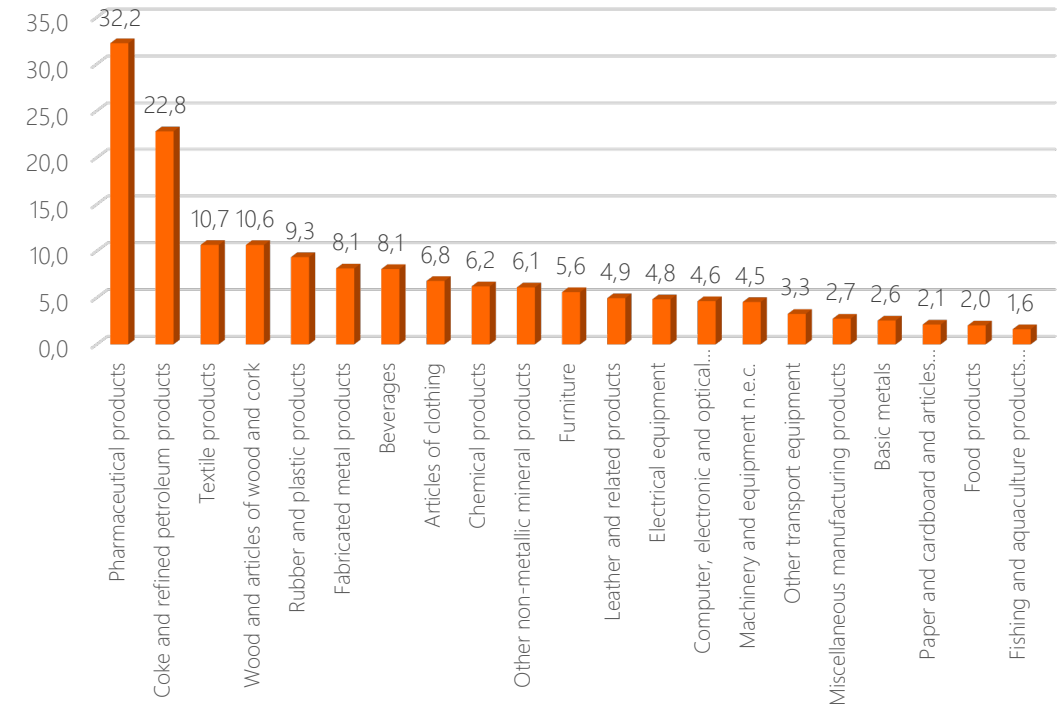
Relations between Portugal and the USA

How much USA weighs in Portugal's foreign relations
% of total (*)



Source: BPI Research, from INE and BoP.
(*) YTD untill August for Trade and tourism and 1H24 for FDI

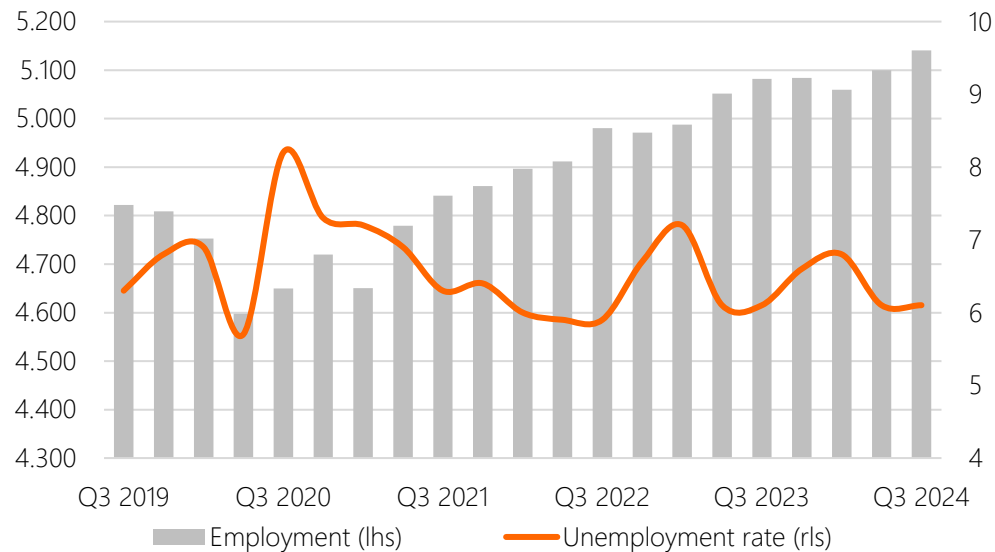
Weight of exports to the US in the sector's total export
% of total exports



- ▶ **Political changes in perspective in the US after the last Presidential elections, namely the imposition of tariffs, may have impact on some domestic sectors.** Between 3% and 3.5% of the Portuguese GDP is linked to final demand from the US, highlighting contributions from the extractive, transport, hospitality, manufacturing, trade and professional services sectors.
- ▶ **Exports of goods to the US account for 7% of total exports,** particularly pharmaceutical products (23% of total exports to the US and 32% of the sector's total exports), coke and refined petroleum products (around 21% and 23% respectively of exports to the US and the sector's exports), textiles and clothing (8% and 17%), rubber and plastic products (7% and 9%).
- ▶ **In addition to trade, relations between Portugal and the US have gained importance in recent years as far as tourism and FDI are concerned, FDI directed especially to the real estate market.** In the case of tourism, tourist receipts associated with US tourists represent 10% of total tourist receipts; and FDI in real estate represents 4.5% of the total real estate FDI stock.

The labour market keeps resilient

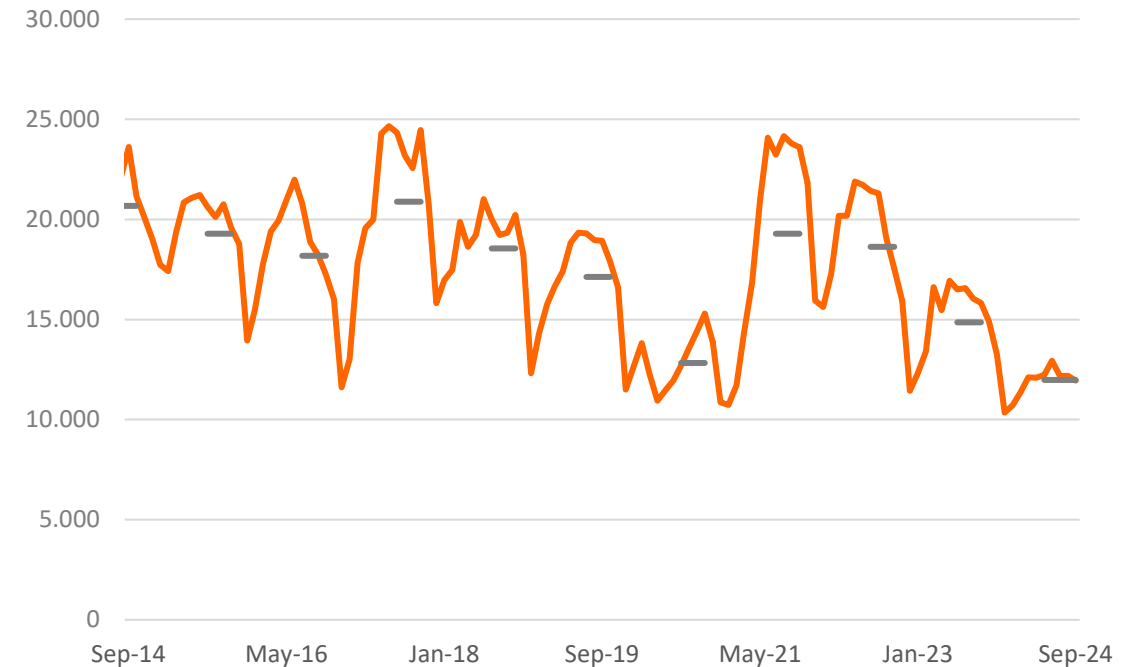
Unemployment rate and employed population
 Thousand individuals % of active population



Fonte: BPI Research, com base nos dados do INE.

Source: BPI Research, from INE.

Job offers
 number



Note: dashes represent the average for each year.

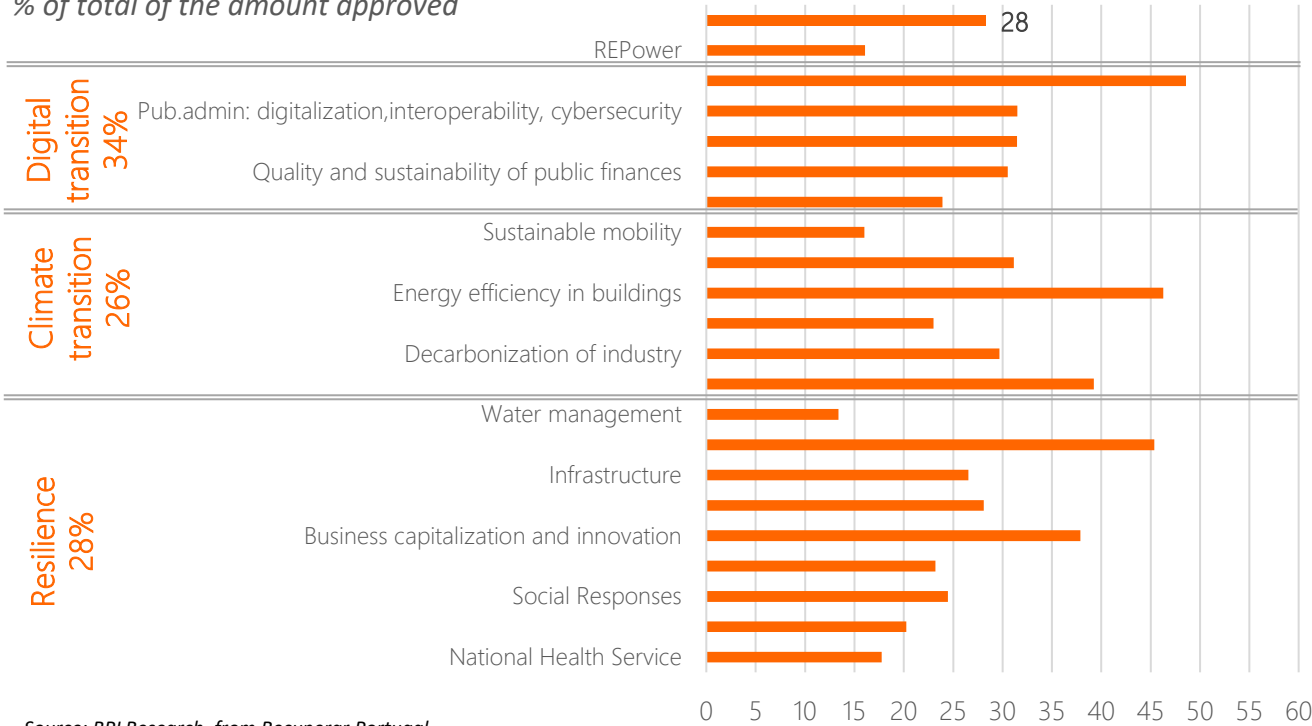
Source: BPI Research, from IEFP.

- ▶ **The latest data corroborate our expectation that the labor market will remain a relevant factor supporting activity.** Employment increased 0.8% qoq and 1.2% yoy, reaching a maximum since Q3 2008. The unemployment rate remained at 6.1%, as in Q2 and Q3 2023; and also 0.7 p.p. below the Q4 2019 level.
- ▶ **The robustness of the labour market should continue to be a factor supporting economic growth in 2024.** Employment should continue to evolve positively this year, but at a slower pace than the 2.6 per cent recorded on average over the last three years, a dynamic explained by the slowdown in the economy in 2024, uncertainty (in economic, financial and geopolitical terms) and still high costs. Even so, the context remains positive, which could continue to boost growth in the labour force (explained by positive migratory flows). In view of Q3 data (unemployment rate lower than expected), our forecast for the average annual unemployment rate in 2024 (6.5 per cent) may be slightly biased upwards.

NGEU: payment rate is improving

Payment rate up to August 28th

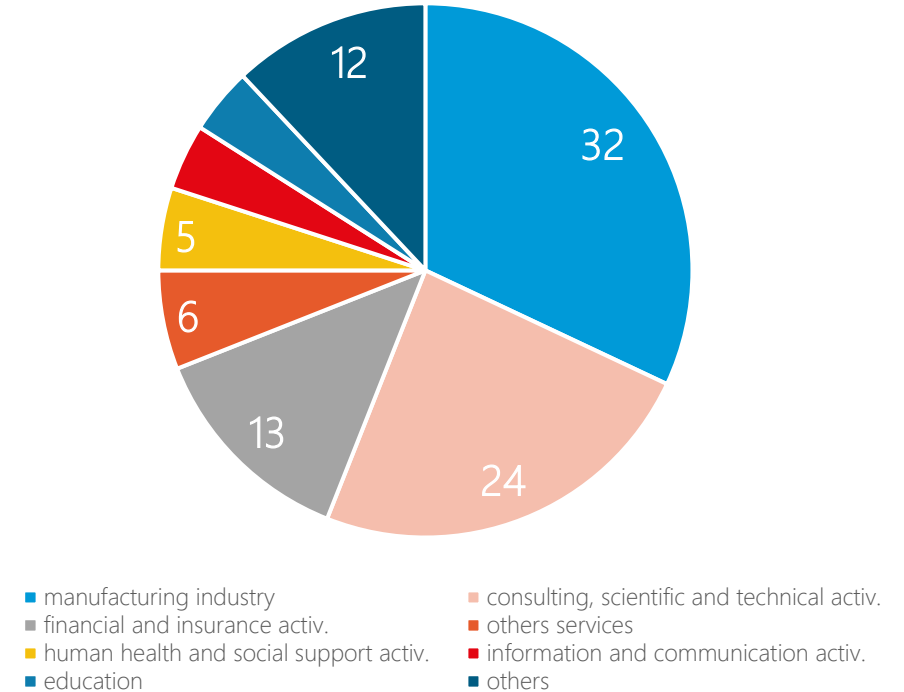
% of total of the amount approved



Source: BPI Research, from Recuperar Portugal.

RRP: breakdown of the amounts approved in the private sector (information up to July)

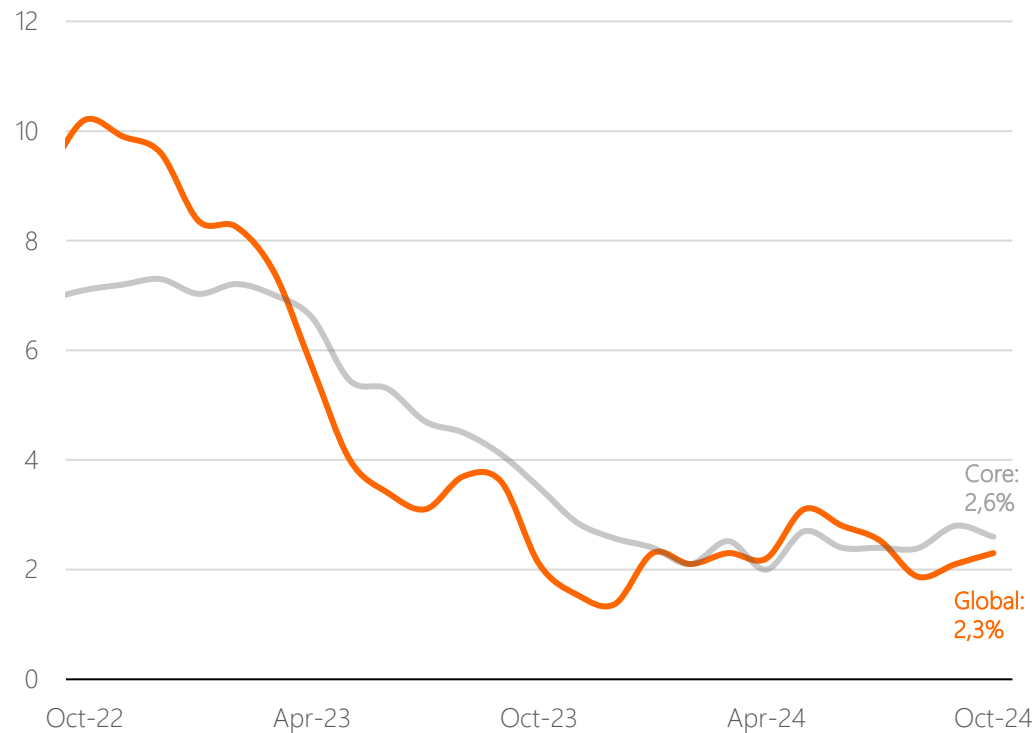
%



- ▶ **Up to now, Portugal received 8,5 billion euros, equivalent to 38% of the total amount of the RRP.** Up to the end of the year, Portugal will probably receive an additional 3,3 bln euros.
- ▶ **Projects already approved amount to 20 billion euros (90% of the total amount) and payments reached 5.6 billion,** representing circa 67% of the total amount received. Since the beginning of 2024, the payment rate improved by 6 p.p., to 28% of total amount approved. According to Bank of Portugal, **more than half of the funds approved went to the public administration, but payments are proceeding faster in the private sector.** The private sector activities with the highest weight are the production of chemical products, synthetic fibres, pulp and paper, scientific research and development activities and financial and insurance activities. These accumulate 70% of the funds approved, more than double their weight in the total economy (30%).
- ▶ To fulfil the programme, the government has set some very ambitious targets, bearing in mind developments up to now: it intends to achieve a 40% payment rate by the end of 2024 and to execute 7.8 mm in 2025.
- ▶ **Portuguese authorities estimate that the impact of the funds currently available for the implementation of the RRP will lead to an increase of 4,1% in potential GDP over the next 10 years.**

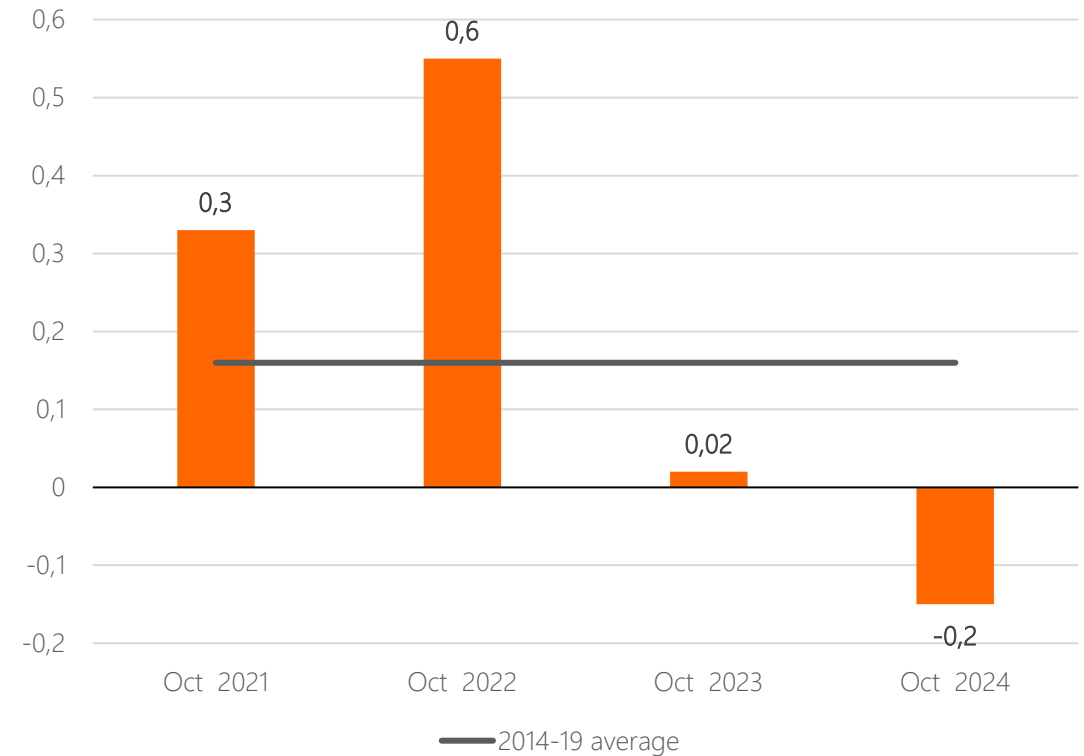
October core inflation eases

Portugal CPI: Global & Core
Year-on-year (%)



Source: BPI Research, using data from INE.

Core inflation
Month-on-month (%)

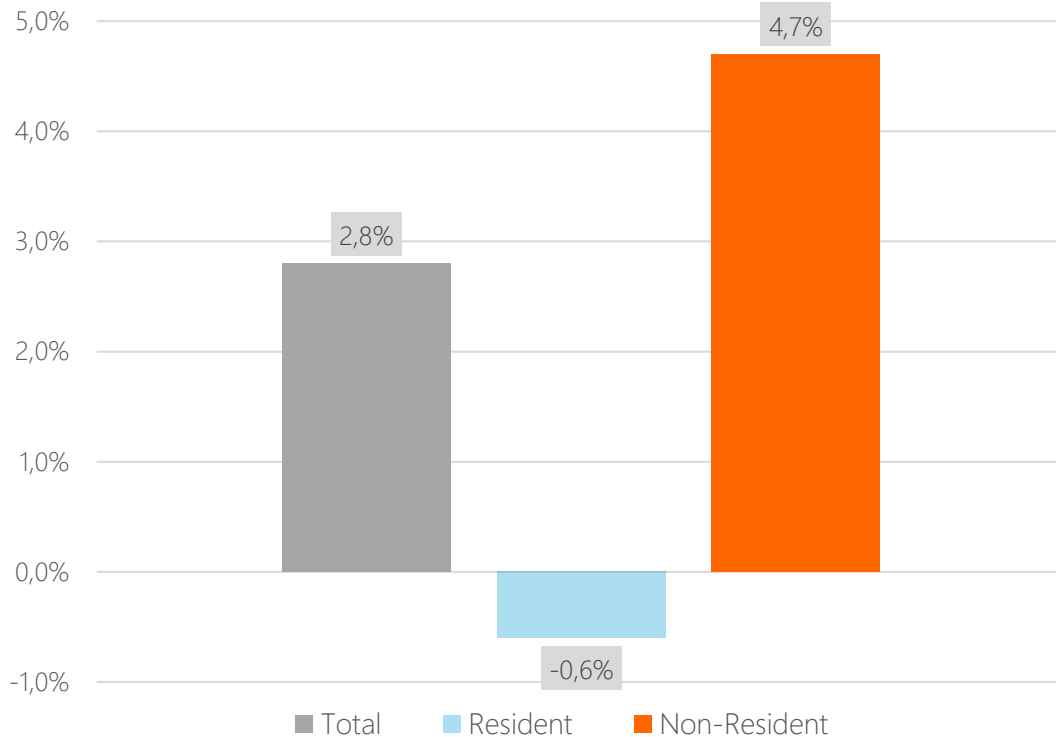


- ▶ **Inflation kept above 2% in October**, increasing to 2,3%, from 2,1% in September. Despite the Global CPI increasing by 0.2 p.p., the monthly change in prices was only 0.06%, which is much lower than the average for this parameter over the last five years pre-pandemic (0.18%). This increase is essentially due to the monthly rise in the prices of the most volatile components - the energy index (+1.28%) and unprocessed food products (+0.92%).
- ▶ **Core inflation rate fell again after the strong upward rebound it had recorded the previous month.** In September, Services inflation as a whole exceeded 4% again (4.49%), something that hadn't happened since May. It is therefore likely that Services inflation slowed down in October, something we will only be able to confirm when the details of this data are released.

Tourism: growth trajectory but signs of slowdown in September

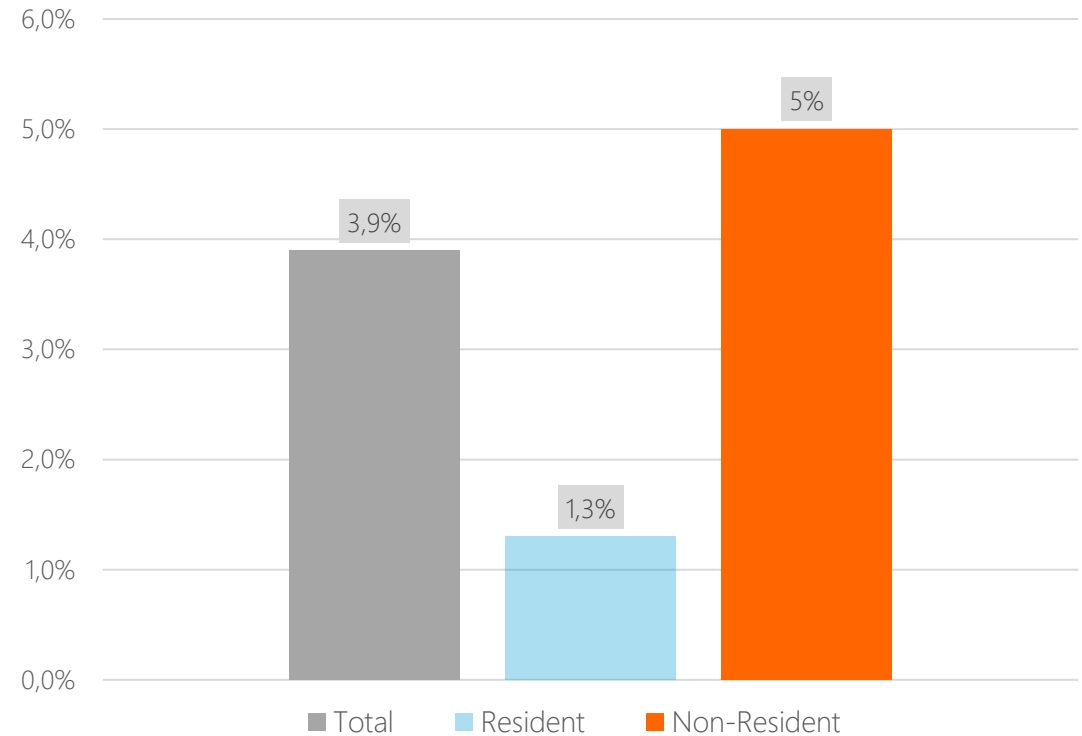
Guests

September 2024 versus September 2023 (%)



Overnight stays

Ytd September 2024 versus Ytd September 2023 (%)

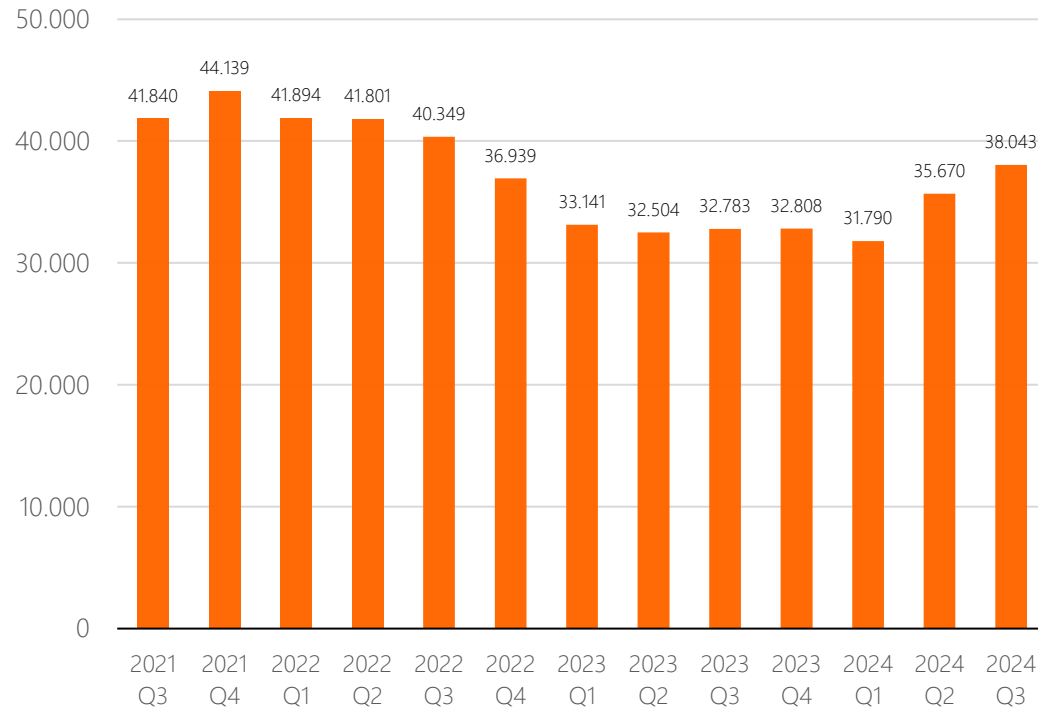


Source: BPI Research, using data from INE.

- ▶ **The tourist accommodation sector recorded 3.3 million guests and 8.4 million overnight stays in September 2024**, corresponding to year-on-year variations of +2.8% and +2.4% respectively and slowing down from +5.9% and +3.9% in August 2024, in the same order.
- ▶ **A year-on-year growth in overnight stays in the year up to September that is higher than the year-on-year growth in Q3 2024 also indicates a slight reduction in seasonality.** This performance is in line with our vision for the sector's evolution in 2024, with less exuberant growth rates and a contribution to GDP growth that we estimate at 0.7 p.p., more modest than in 2023 (1.1 p.p.).

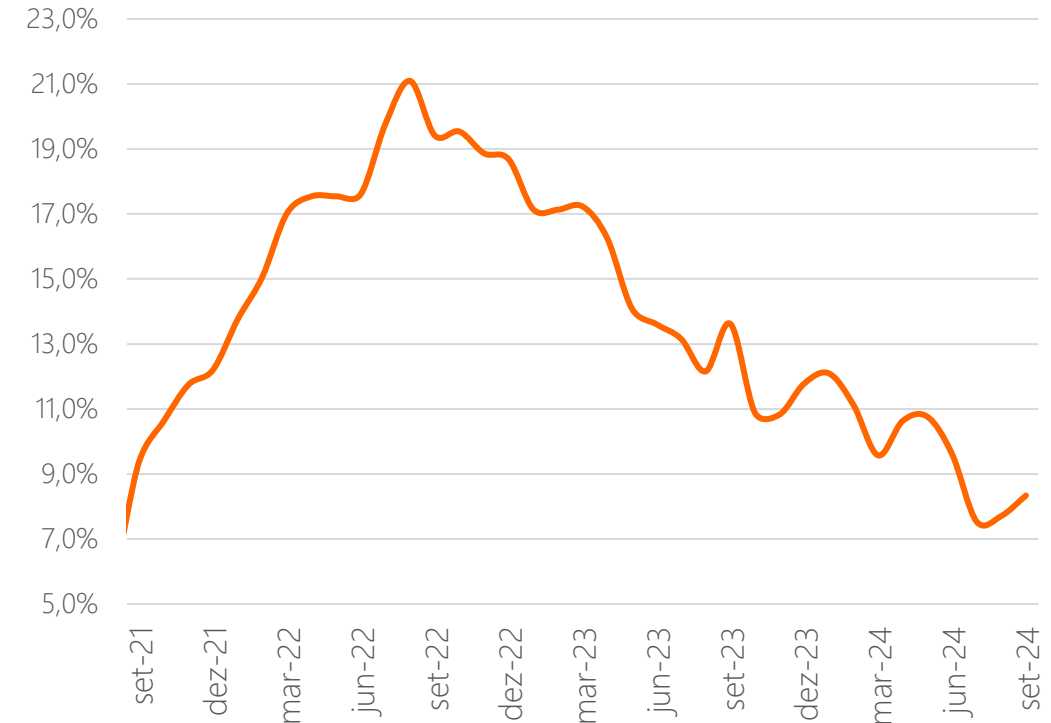
Housing market keeps posting good data

House sales
number



Source: BPI Research, using data from Confidencial Imobiliário.

Residential Price Index
Yoy change (%)



Source: BPI Research, using data from Confidencial Imobiliário.

- ▶ **In 2024 Q3, 38,050 houses were sold in Portugal, an increase of 6.7% on the previous quarter according to Confidencial Imobiliário data.** The residential market confirms the recovery trajectory of recent months, showing a new quarterly increase in the volume of transactions and faster price growth, according to data for the 3rd quarter of 2024. During this period, it is estimated that 38,050 homes will be sold in the country, an increase of 6.7% on the previous quarter and 16.0% from 2023 Q3. This is the second consecutive quarter in which transactions have grown, after more than two years marked by a loss of momentum.
- ▶ **The growth in demand is matched by a more intense rise in prices.** In 2024 Q3, there was a 2.5% increase in house sale prices compared to the previous quarter (Confidencial Imobiliário data), the biggest quarterly increase in the last year. The intensification of the quarterly indicator reflects the positive behaviour of August and September, which accelerated the monthly variations to 0.9% and 1.4% respectively.

Budget balance returned to surplus, and consolidation remains in the horizon

Key items in the public accounts*

% of GDP

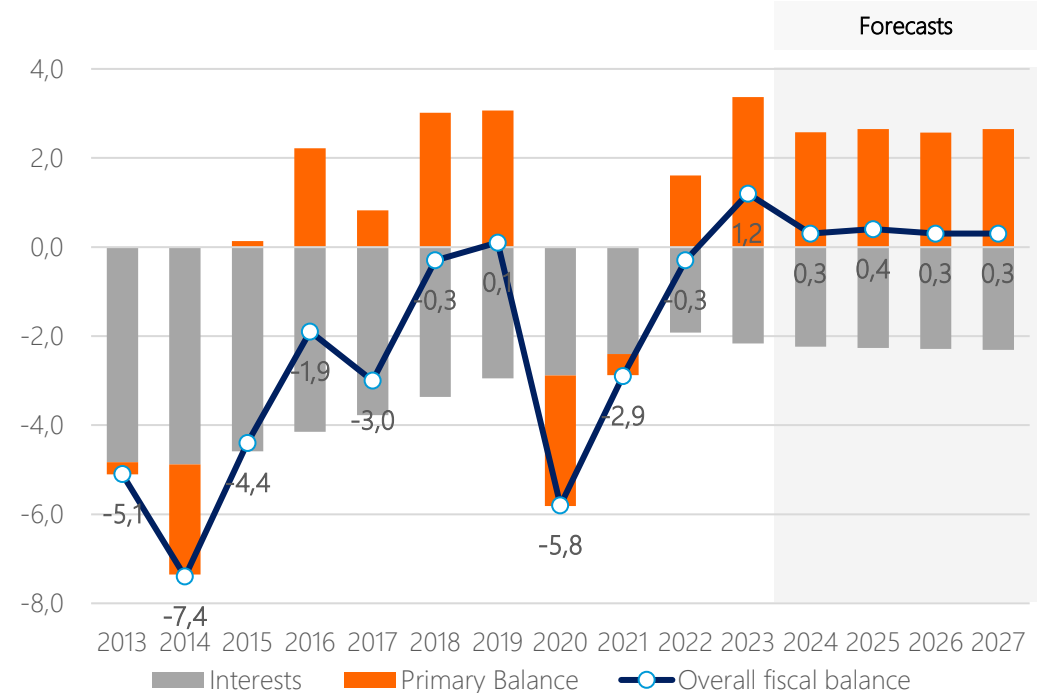
January-September	2019	2021	2022	2023	2024	Change 2024 vs 2019	Change 2024 vs 2023 (million euros)
Revenues	40.8	40.2	41.2	41.0	44.3	3.5	6,719
Fiscal revenues	23.9	22.7	24.3	24.0	25.3	1.4	2,567
Social security contributions	10.2	10.8	10.5	10.6	11.6	1.5	2,080
Expenditure	39.2	43.1	38.3	37.3	41.5	2.3	8,328
Staff costs	9.5	10.4	9.4	9.3	10.0	0.5	1,471
Current transfers	17.0	19.3	17.0	16.6	18.7	1.7	4,295
Aquisition of goods & services	5.5	5.9	5.6	5.3	5.9	0.4	1,152
Interests	3.6	2.9	2.3	2.3	2.5	-1.1	486
Investment	1.9	2.5	2.3	2.2	2.3	0.4	163
Primary current expenditure	33.1	36.8	33.1	32.1	35.7	2.6	7,263
Budget balance	1.6	-2.9	2.9	3.6	2.8	1.2	-1,609

Note (*): cash basis.

Source: BPI Research, based on DGO.

Overall fiscal balance in accrual basis

% of GDP

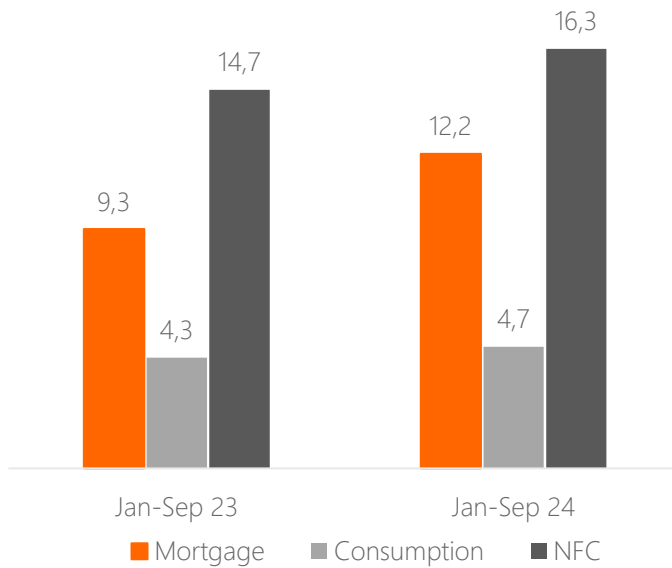


Source: BPI Research, based on INE.

- ▶ **On a cash basis, the public sector reached a surplus of 2.8% of GDP in the first nine months of the year**, with revenues advancing 8.2% and expenses 11.1%. Current transfers rose circa 13% yoy, explaining 53% of expenses' growth, reflecting an increase in pension costs, due to the ordinary updating of pensions at the beginning of the year, the increase in the number of pensioners and the incorporation of the extraordinary updating carried out in July 2023. Personnel expenses rose 7.9% yoy, being the second main component explaining expenses performance.
- ▶ **On an accrual basis, the budget balance reached a surplus equivalent to 2.5% of GDP in Q2**. According to the budget execution in H1 and considering measures that have been announced in the meantime (such as the revision of the personal income tax brackets or the revision of the careers of some public sector professions), we estimate that the budget surplus could reach around 0.6% of GDP in 2024, which, if it were to materialize, would be 0.3 p.p. higher than the government's and BPI Research's current forecast.

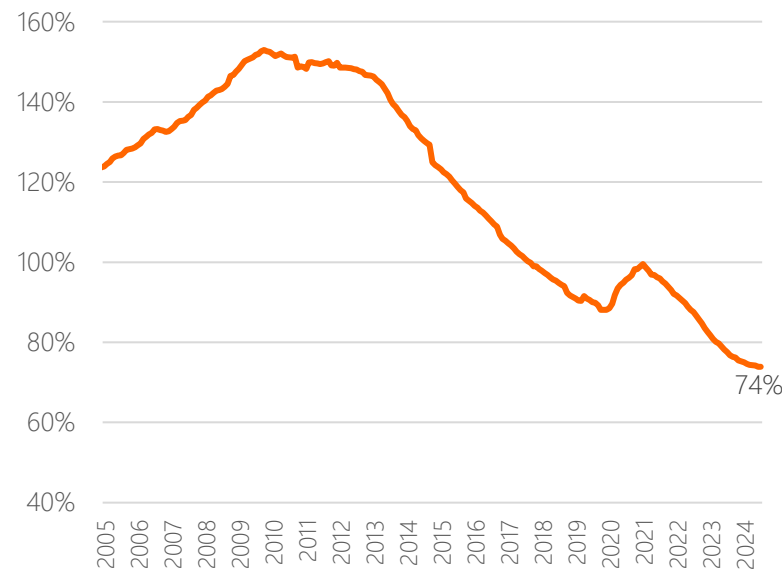
Banking system: deleveraging and high liquidity

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



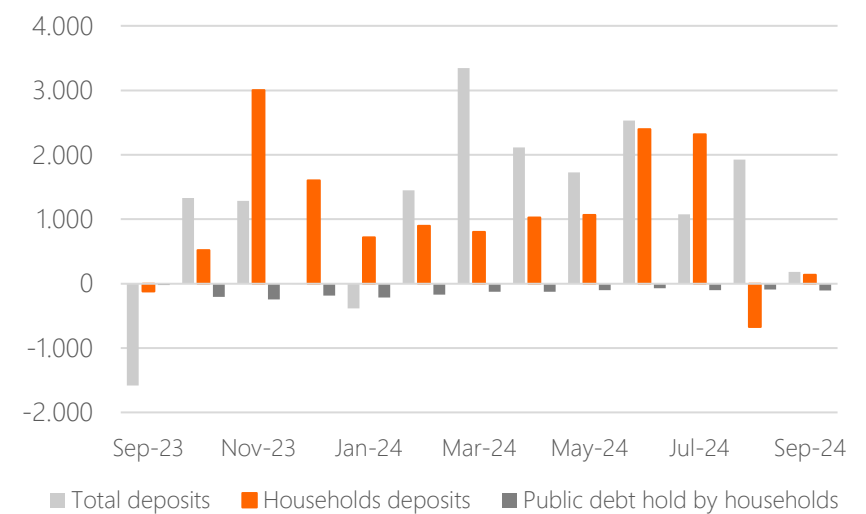
Source: BPI Research, based on data from Bank of Portugal and ECB.

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

► **The stock of credit to companies and households continues to improve:**

- **Mortgage credit:** the stock rose 1.5% in September and 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 pace of expansion will continue to accelerate in the months ahead. 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 September, the stock fell 1,2% and new loans increased by 10.8% in accumulated terms year to date.

- **Deposits of the private sector rose 6.7% in September.** Households' deposits increased 7.9% yoy, as interest rates for new deposits continued slightly higher (2.55% in September) than the one paid by Government retail products (CA's new subscription conditions consider a maximum interest rate of 2.5%).

Banking system: a solid position to support the economy

NPLs and coverage ratios



Cost of risk¹
0.5% in Q4 2019
0.1% in Q2 2024

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

Banks' profitability

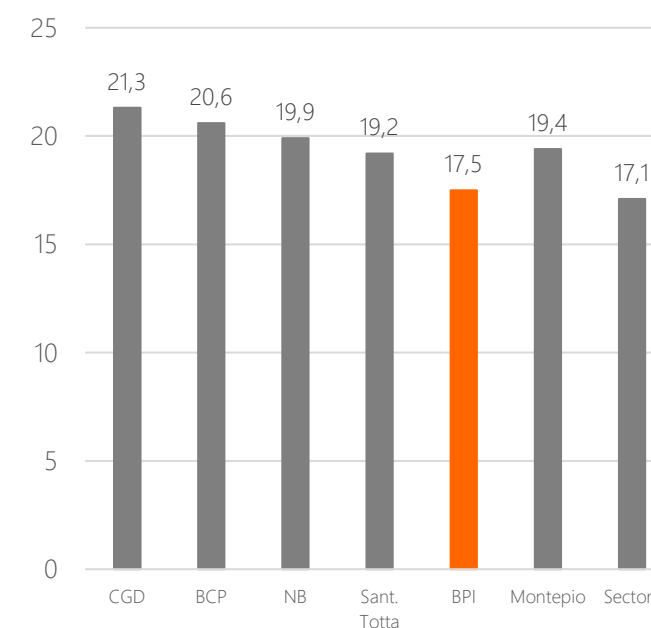
In % of average total assets (9M 2024; trailing 12M)

	BPI	BCP	San Totta	CGD	NB	Montepio
Net interest income	2,5%	2,1%	3,0%	2,6%	2,7%	2,2%
Net fees	0,8%	0,9%	0,8%	0,5%	0,7%	0,7%
Gains on financial assets	0,1%	0,1%	0,0%	-	0,0%	0,0%
Other net profits	-0,1%	0,0%	0,0%	-	-0,1%	-0,1%
Gross income	3,4%	3,1%	3,9%	-	3,4%	2,8%
Operating expenses	-1,4%	-1,0%	-0,9%	-0,9%	-1,1%	-1,5%
Operational result	2,0%	2,1%	2,9%	-	2,3%	1,3%
Impairment losses, taxes and others	-0,1%	-0,3%	-0,1%	-	-0,3%	-0,2%
Profit	1,3%	1,3%	1,9%	1,8%	1,8%	0,7%
ROTE¹	18,4%	14,9%	23,9%	-	18,9%	nd

Notes: 1) BPI: Recurrent ROTE in Portugal, 12m. BCP: Consolidated ROE, domestic. San: ROE. CGD: Consolidated net return on equity (consolidated gross return on equity = 27,1%).

Banks' solvency and liquidity position

In % (S1 2024)*



Source: Banks publications, BoP
Note: *data for the Q1 2024

- ▶ **NPLs ratio improved in Q2.** The total NPL ratio fell to 2,6% in Q2 2024, due to an improvement in ratios of credit to consumption and NFC and stabilization of the ratio for housing credit. 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 increased to 16,3% in Q2 (vs 14,8% in Q4 2023).
- ▶ **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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