Portugal:
Macroeconomic and financial outlook

BPI ***Research***

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BPI Grupo CaixaBank

Main messages

Activity

- **According to INE flash estimates, the GDP grew 0.8% qoq in Q425 motivated by a fall in imports.** Domestic demand gave a negative contribution to growth due to a sudden decrease in investment at the end of the year (we suspect that it could have been due to a decline in stocks, after accumulation in previous quarters; also due to some delay in strategic decisions by the private sector). GDP grew 1.9% in 2025 (0.1 p.p. above our estimate). Risks to 2026 are marginally skewed to the upside given the robust carryover effect (circa 1.1 p.p.) and the persistence of favorable factors supporting growth (healthy balance sheets in the private and public sector, low interest rates, high households' savings rate, robust labour market…); however, we have also to consider recent damage to fixed assets and infrastructure caused by adverse weather conditions that affected mainly the West and Center regions of the country, in addition to renewed international geopolitical uncertainty.
- **Average inflation forecasted at 2.1% for 2026 (2.3% in 2025), suggesting a continued slowdown in prices supported by expected lower energy prices.** Global CPI registered a yoy change of 1.9% in January 2025 (-0.6 p.p. compared to January 2024), while core inflation stood at 1.8% (-0.9 p.p.). In addition to lower oil and energy prices, other factors support our forecast for 2026 inflation in Portugal, including the appreciation of the euro, lower inflation from Euro Area and **a slower services inflation**.
- **Labor market continues to surprise positively, with employment again in maximums and increasing at considerable growth rates.** Employed population increased 0.1% qoq and 3.7% yoy in Q4. Additionally, the unemployment rate continues at considerable low levels, having declined to 6.0% in 2025, minus 4 tenths than in 2024.
- **The Residential Price Index from CI supports the increased upward pressure on residential real estate market in 2025,** with an average change of 18.8% (10.2% in 2024), which is the highest figure since 2019**.** Also, after a moderate slowdown on the increase of bank valuations in the context of mortgage lending, the magnitude of its yoy change surpassed historical highs in December (19.1%).
- **The 2025 budget execution in cash basis reveals that the budget balance may be above the Government's official expectations, standing at 0.4% of GDP (gov. est. of -0,3%). Revenue:** the main support was social contributions, VAT and IRS. Tax and contributory revenues were 465 M€ above the Government's last estimate. **Expenditure**: more than half of the increase is explained by personnel expenses and current transfers. Personnel expenses were the only item above the Government's estimate; on the negative side, the under-execution of investment stands out (-1,750 million euros against the Government's estimate).
- **Execution of RRP (Recovery and Resilience Plan) appears to be accelerating but is still below desired levels.** Up to now, Portugal received 13.8 billion euros, equivalent to 63% of the total amount of the RRP. Projects already approved amount to 23.63 billion euros (which includes RRP funds, amounting to 22.12 billion euros, and other sources of financing, totaling 1.52 billion euros) and payments reached 11.07 billion (80% of the total amount received from RRP), but only 47% of the approved projects.

Banking Sector

- **Profitability is slightly lower due to reduced interest rates but remains well above the pre-pandemics.** CET1 reached 17.7% in Q3 (vs. 18% in Q424 and 14.3% in Q419). **Capital position of Portuguese banks provide buffers against risks that could arise, due to geopolitical or any adverse unexpected event that could eventually impact NPL's.** ROA increased last years and stood at 1.3% in Q325 (vs. 1.5% in Q324 and 0.4% in Q419).

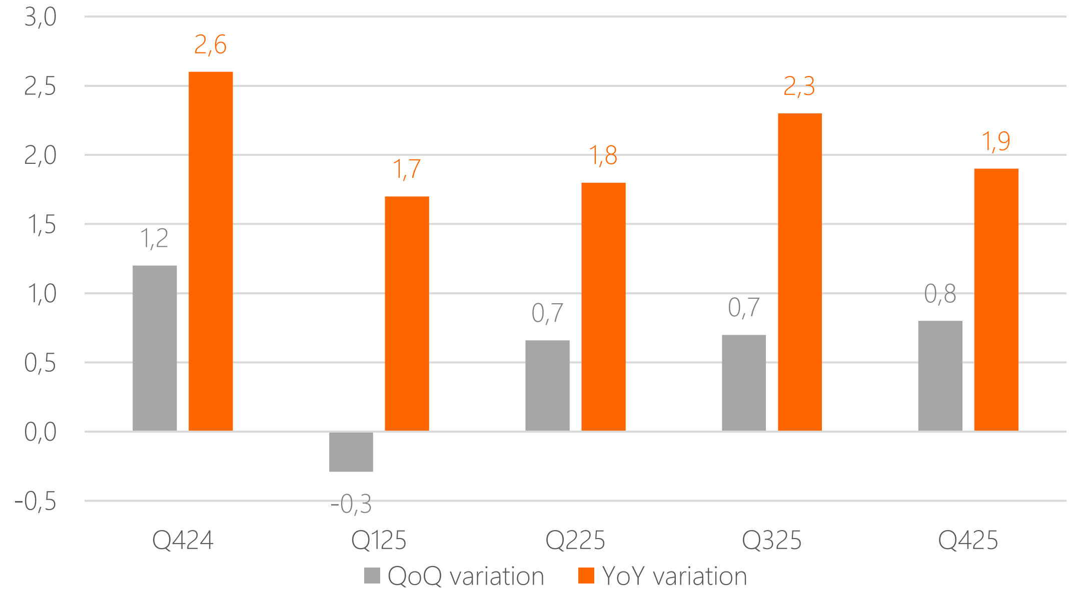
Main economic forecasts

%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	2024	Forecasts 2025	2026
GDP	2,0	3,3	2,9	2,7	-8,2	5,6	7,0	2,6	1,9	1,9	2,0
Private Consumption	2,4	1,8	2,6	3,5	-6,8	4,9	5,6	1,9	3,2	3,2	2,0
Public Consumption	0,9	0,1	0,5	2,1	0,4	3,8	1,7	0,6	1,1	1,5	1,1
Gross Fixed Capital Formation (GFCF)	2,7	11,6	6,2	5,5	-2,3	7,8	3,3	3,6	3,0	2,6	5,0
Exports	4,7	8,4	4,3	4,0	-18,4	12,1	17,2	3,8	3,4	1,0	2,4
Imports	5,2	8,0	4,9	5,1	-11,6	12,3	11,3	1,8	5,0	4,6	3,2
Unemployment rate	11,5	9,2	7,2	6,6	7,0	6,7	6,1	6,5	6,4	6,0	6,4
CPI (average)	0,6	1,4	1,0	0,3	0,0	1,3	7,8	4,3	2,4	2,3	2,1
External current account balance (% GDP)	1,2	1,3	0,6	0,4	-1,0	-0,8	-1,2	1,4	2,1	0,6	0,9
General Government Balance (% GDP)	-1,9	-3,0	-0,4	0,1	-5,8	-2,8	-0,3	1,2	0,7	0,4	-0,6
General government debt (% GDP)	131,2	126,0	121,1	116,1	134,1	123,9	111,2	97,7	94,9	89,7	86,4
Housing Prices	7,1	9,2	10,3	10,0	8,8	9,4	12,6	8,2	9,1	12,4	4,1
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	44	61

***Source**: BPI Research.*

Grew 1.9% in 2025; 2026 begins with strong carryover effect and impacted by storms

Real GDP
%



Source: BdP, INE and European Commission.

Leiria region most affected by storm Kristin, but much of the centre and south of the country affected by flooding
% of total in 2024

Regions most affected: Centro, Vale do Tejo e Península de Setúbal
- 25% of GDP
- 27% of employment
- 15% of enterprises

Região de Leiria: 3% of GDP, 4.6% of exporting companies, 2.9% of goods exports

- **According to INE flash estimates, the GDP grew 0.8% qoq in Q425, motivated by a fall in imports.** Domestic demand gave a negative contribution because of the sudden decrease In investment at the end of the year (perhaps because of reduction in stocks, which previous accumulation was relevant; and some delay in strategic decisions by the private sector).
- **GDP grew 1.9% in 2025 (0.1 p.p. above our estimate).**
- **Risks to our forecast for GDP in 2026 (2%) are marginally skewed to the upside** given the significant carryover effect (circa 1.1 p.p.) from the impulse seen at the end of last year. And also due to the persistence of favorable factors supporting growth: healthy balance sheets in the private and public sector, low interest rates, high households' savings rate, robust labour market, the accelerated execution of PRR…); however, we have also to consider, on the negative side, recent damage to fixed assets and infrastructure caused by adverse weather conditions with impact mainly on the West and Center regions of the country, in addition to renewed international geopolitical uncertainty.
- **Uncertainty about the impact of storms is still high,** but assuming that 10% of the GDP of the most damaged regions are negatively affected, the impact on the year growth could reach 0.2 p.p., however part of this destruction should be offset by the reconstruction efforts in quarters ahead, that at least may add 0.1 p.p. to growth. All in all, annual growth in 2026 may marginally exceed 2%.

Private consumption is seen to continue to perform favorably, but disposable income is slowing

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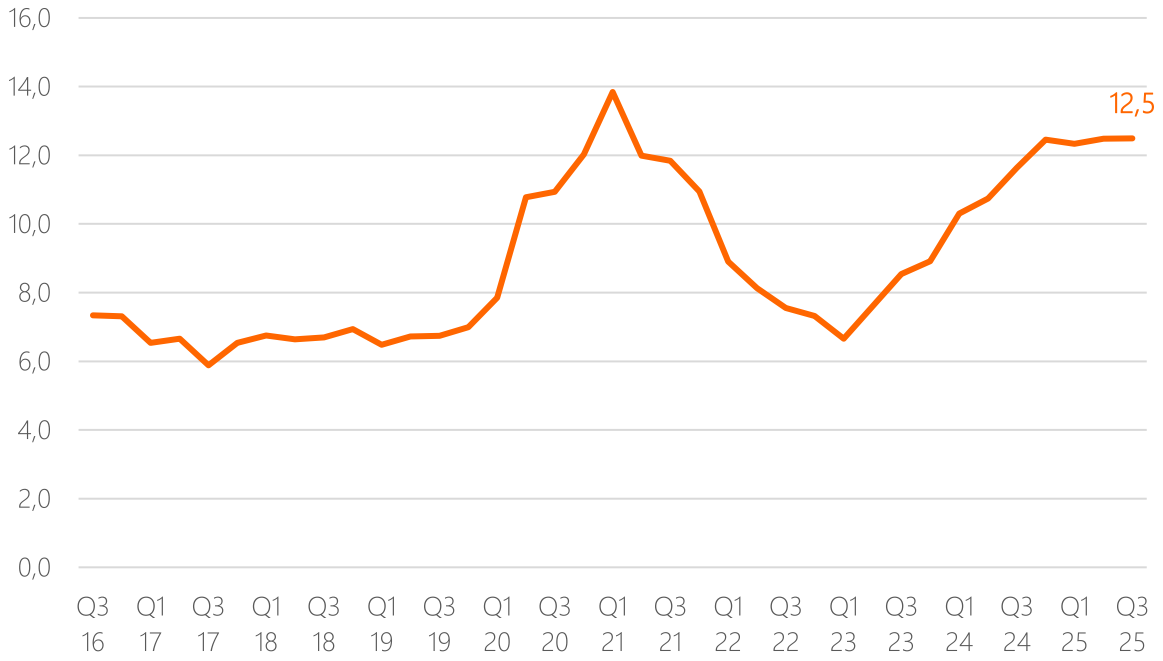
Household's saving rate

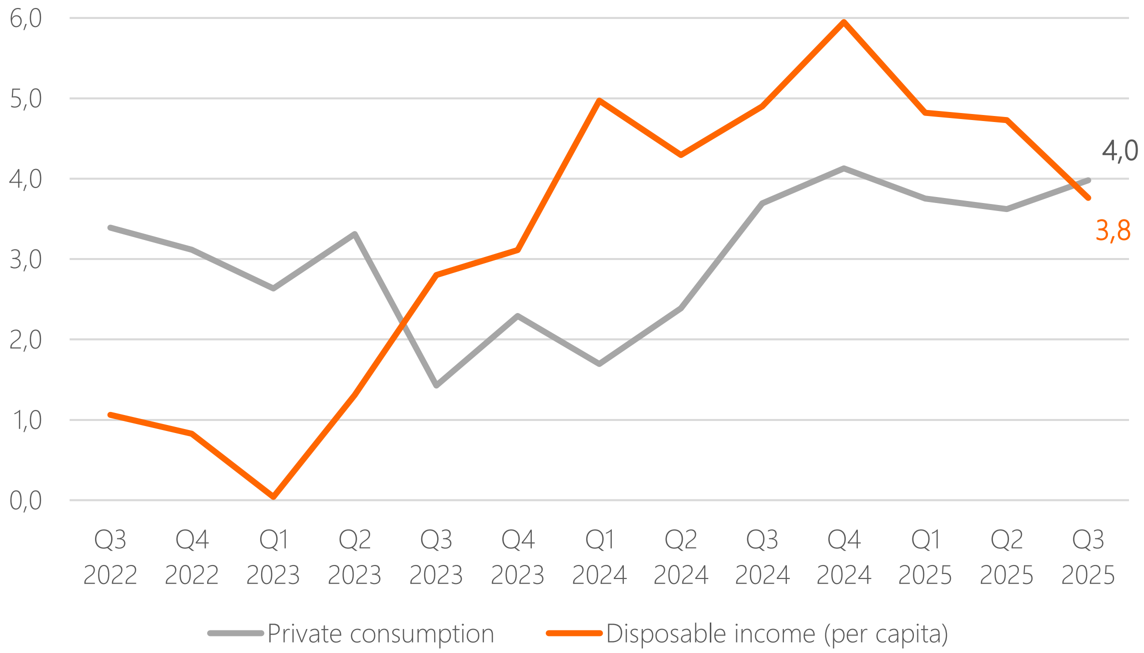
(% of DI)



Source: BPI Research, from INE, BoP.

Private consumption and household's income

Year-on-year on real terms, %



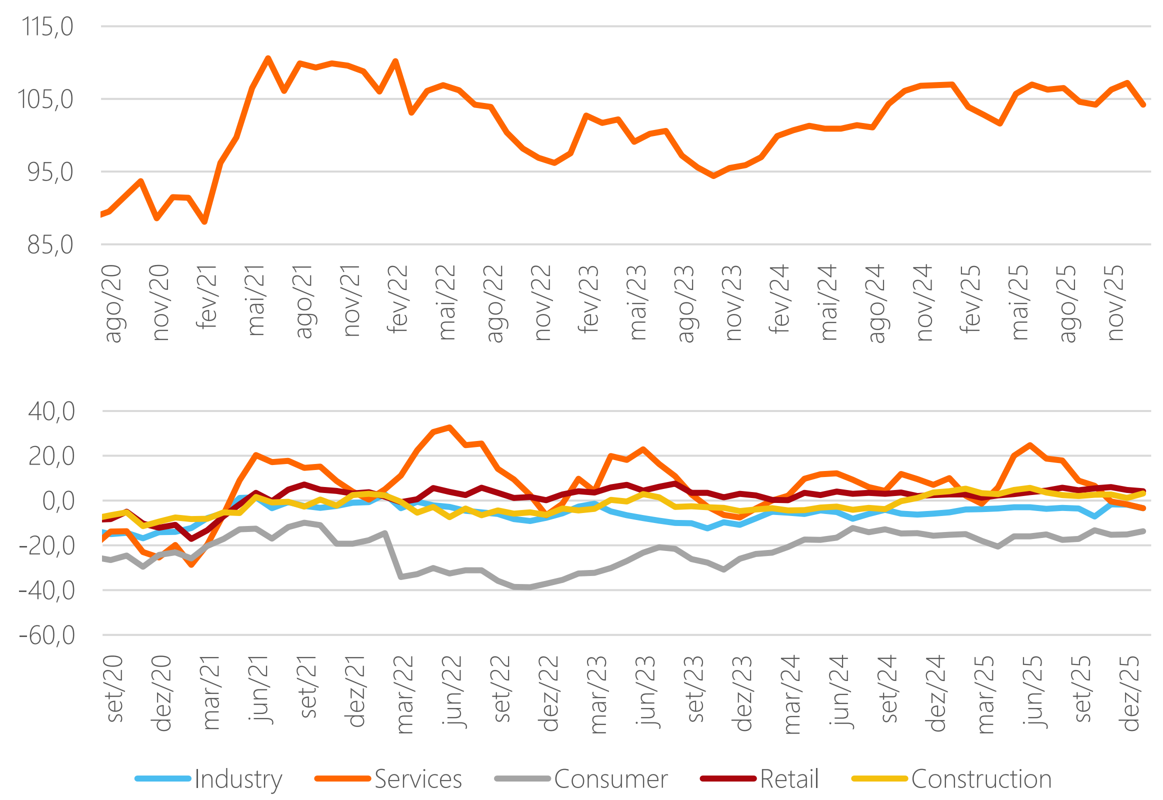
- **Savings rate persist at double digit levels, far higher than the historical pattern.** The household's saving rate kept stable at 12.5% in Q3 2025, the highest level since 2003 excluding the adverse years of COVID pandemics.
- However, real disposable income (per capita) grew slower than consumption in Q3 2025, stopping the trend verified since the end of 2023 (when it grew faster than consumption), which might compromise the maintenance of the high levels of savings verified, despite these can be boosted by economic policy and geopolitical uncertainty.

First readings for 1Q26 are positive, boosted by consumer confidence & industry

yoy, level		Q2 25	Q3 25	Q4 25	Jan-26	Trend	Last month available
Synthetic indicators	Economic climate indicator	2,6	2,9	3,1	*2,7*	▲	January
	Economic sentiment indicator	104,8	105,8	105,9	*104,2*	=	January
	Daily economic indicator	2,0	1,7	2,1	*2,7*	▲	January
Consumption	Consumer confidence	-17,5	-16,6	-14,5	*-13,7*	▲	January
	Wholesale and retail trade (yoy)	3,2	3,5	2,9	-	▼	December
	Retail sales excl. fuels (yoy)	5,4	6,2	5,3	-	▼	December
	Card withdrawals and purchases deflated (yoy)	6,7	6,2	4,7	-	▼	December
	Car sales (yoy)	13,9	14,5	3,1	*16,1*	▲	January
Investment	GFCF indicator	3,6	5,6	3,5	-	▼	November
	Imports of capital goods	2,3	1,2	0,3	-	=	November
Suply	Cement sales	-1,7	4,9	6,3	-	▲	November
	Industrial production	0,3	-0,5	-0,8	-	▼	December
Demand	Electricity consumption adjusted for temperature&working days	2,2	1,8	2,9	*5,9*	▲	January
	Non-resident tourists (yoy)	4,1	0,9	1,7	-	▲	December
	Number of flights (yoy)	5,3	4,1	3,5	-	▼	December
Trade	Exports G&S (accum. Year)	1,6	1,7	1,6	-	=	October
	Imports G&S (accum. Years)	4,8	4,1	3,3	-	▼	October
Labour market	Change in regist. unemployment (thousand people)	-8,5	-10,7	-24,7	-	▲	November
	Change in employment (thousand people)	165,1	192,1	180,9	-	▼	November

Economic sentiment index

1990=100

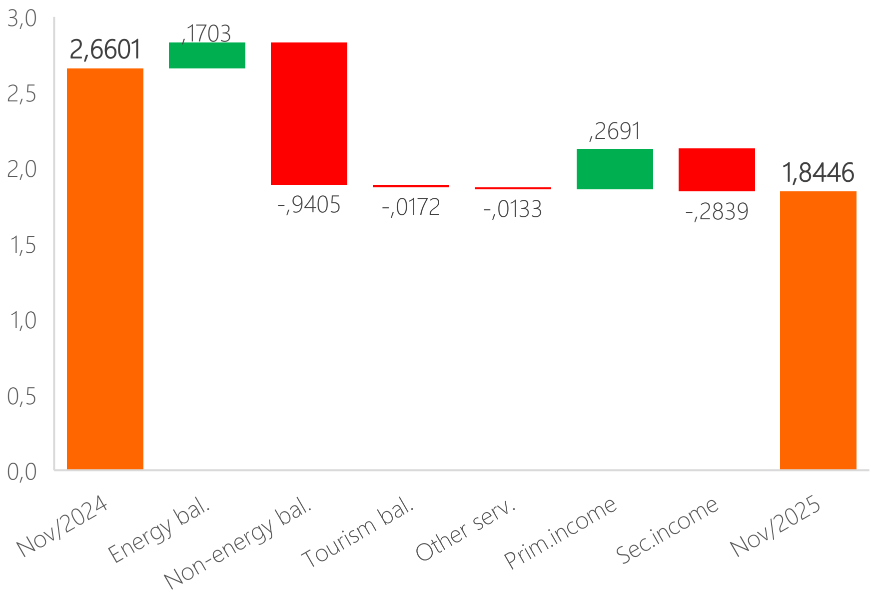


- **In Q425, the economic sentiment index (ISE) disclosed by the European Commission, increased slightly to 105,9 points, motivated by December data (107,2).** This was mainly due to a surge in the confidence of the industry, while services were constrained. **The robustness of the labor market (employment continues to register historical highs and the number of unemployed keeps decreasing) contributed to the boost in consumer confidence** (-13,7 in January 2026, +1,4 p.p. from December and +1,5 p.p. from January 2025), due to the lower international/trade policy uncertainty and the increase in employment and salaries.
- **As for first readings in 1Q26, they are very scarce yet and do not reflect recent negative weather conditions**. Nevertheless, we point out the very positive evolution of car sales, with a yoy change of 16% in January, reinforcing the good perspectives.

Current account shrank considerably up to November

Current account up to November 2025

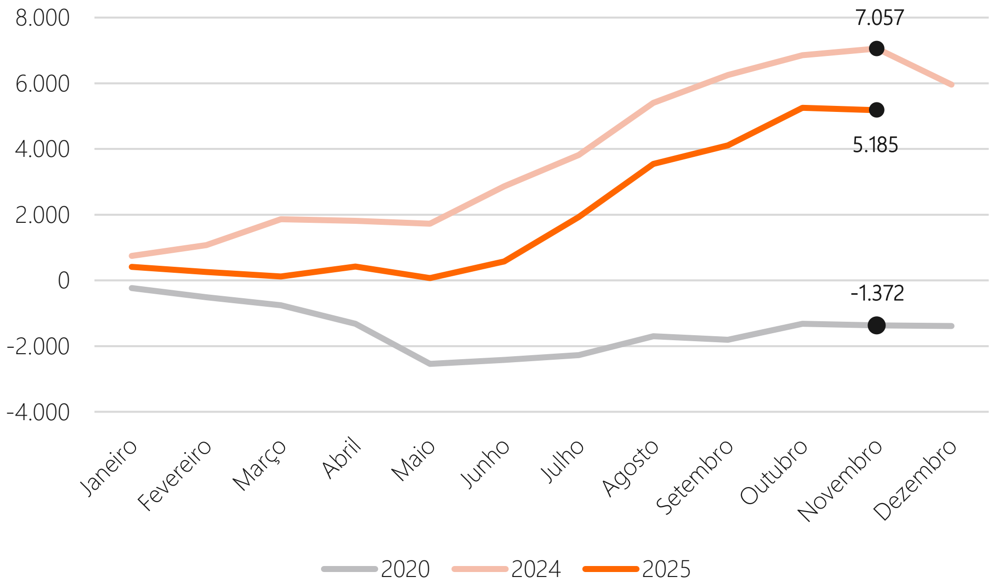
% of GDP and percentage points change



Source: BPI Research, from BoP.

Current account

Million euros



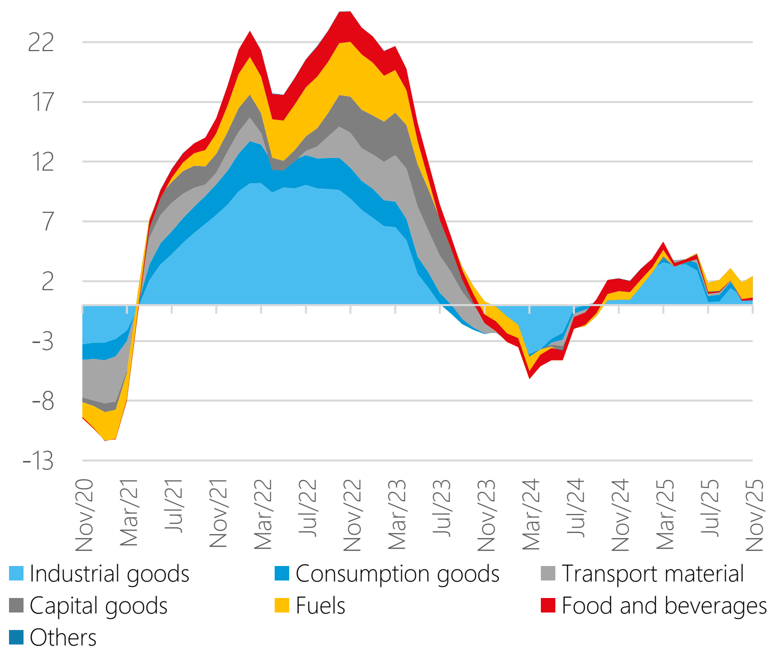
Source: BPI Research, from BoP.

- **In the first eleven months of 2025, the current account surplus stood at 5,185 million euros,** equivalent to 1.8% of GDP, a significant decline compared to the figures registered in the same period of 2024 (-26.5%). This reduction has been mainly due to the increase in the non-energy deficit (to 7.5% of GDP). That means that Portugal in this period experienced a worsening of its trade in goods dynamic not related to energy products. The worsening seen so far this year might, in part, be related to the volatility and uncertainty associated with the trade and commercial policy of the US Government (however the uncertainty has been reduced due to the trade agreement between EU and USA). Going forward we see a recovery of the current account, by a more moderate growth on imports and by the impact of NG EU funds. **We foresee a surplus of 1.2% of GDP in 2025 and a small decrease to 1.1% in 2026, being the EU-US tension around Greenland one of the main geopolitical risks now.**
- The reduction in the surplus compared to the same period of 2024 is justified by the increase of 15.5% in the **deficit in goods account** (to -26,103 million euros), which was partially offset by the increase of 5.7% in the surplus of services account (to 31,327 million euros).

International trade of goods: a slowdown in exports

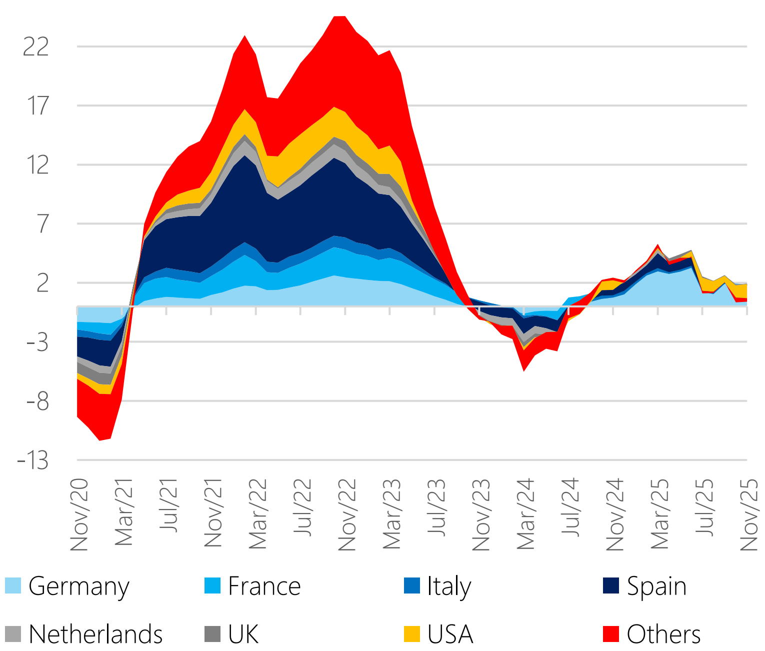
Exports of goods by economic category (*CGCE*)

Contributions for the yoy change (%) of the dynamic cumulative values over 12 months



Exports of goods by country of destination

Contributions for the yoy change (%) of the dynamic cumulative values over 12 months



Source: BPI Research, from INE.

Main countries of destination (2025 vs. 2019)

Cumulative exports up to November and respective weight

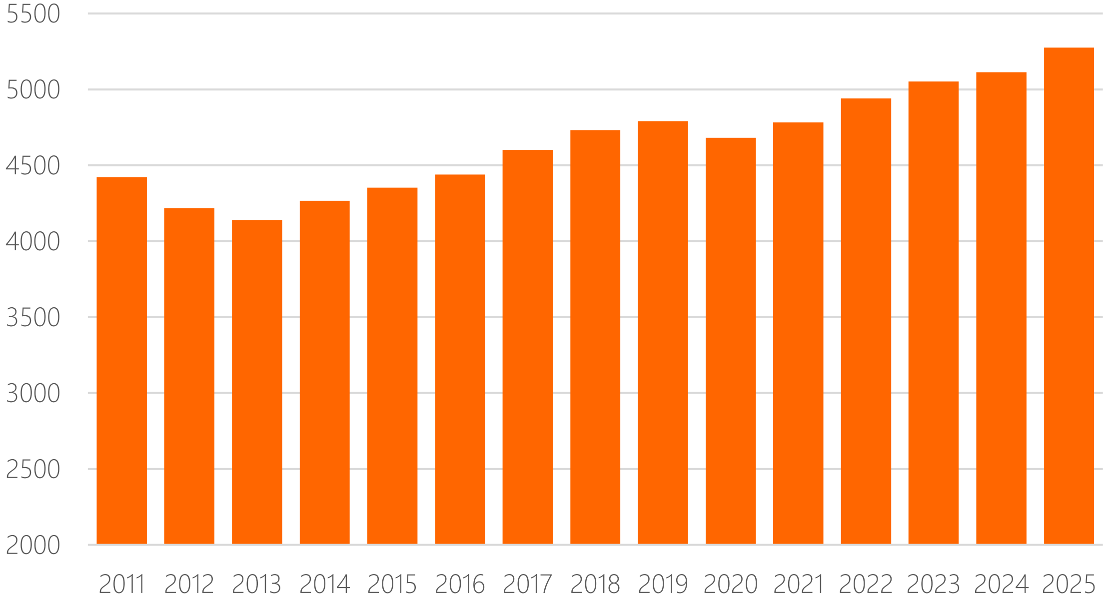
	Exports Jan-Nov 2025 (M€)	Weight Jan-Nov 2025 (%)	Weight Jan-Nov 2019 (%)
Spain	19.039,8	25,8	24,7
Germany	10.463,2	14,2	12,1
France	8.824,2	12,0	13,0
USA	4.316,4	5,9	5,0
UK	3.336,9	4,5	6,1
Italy	3.261,8	4,4	4,5
Netherlands	2.467,7	3,3	3,9

- **Exports of goods are increasing at a slower pace than what was verified last year (0.5% yoy in November 2025 vs. 2.5% yoy on average since November 2024) due to uncertainty in international trade, totaling 73.705,1 M€ in year-to-date terms through November 2025 (+0.6% compared to the same period of 2024)**. Considering the dynamic cumulative values over the last 12 months, exports raised 0.4% (2.2% in November 2024) and in terms of economic category, they have been mainly stimulated by industrial goods and transport material (respective contributions of 0.9 and 0.6 p.p. to yoy change) while fuels are limiting the growth at an increasing magnitude (contribution of -1.8 p.p.), a trend that has been verified in the last months and is becoming more severe.
- **By country of destination, Spain keeps its leading position as main trade partner (cumulative exports from Jan-Nov 2025 were 19,039.8 M€)** and reinforced that position over the medium term (25.8% weight in Jan-Nov 2025, +1.1 p.p. compared to 2020), followed by Germany (10,463.2 M€ and a weight of 14.2%, +2.1 p.p. compared to 2020) and France (8,824.2 M€ and a weight of 12%, -1 p.p), which lost relevance on the structure of destinations. **Exports to Germany are boosting external demand considering the dynamic 12-month cumulative amounts (growth of 15.4%, and this double-digit figures have been systematic since September 2024).** On the other hand, countries like France (-0.4%), Italy (-0.7%), Netherlands (-3.6%) and USA (-16.7%) are losing relevance.

Labor market: in 2025 employment advanced 3.2% and unemployment rat fell to 6%

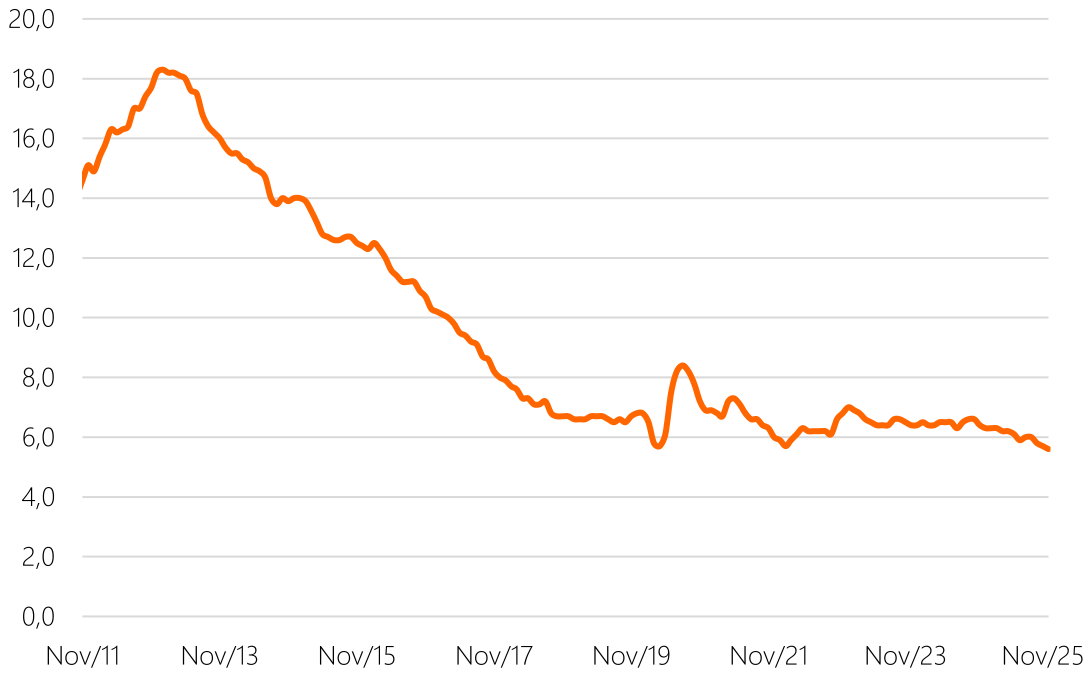
Employed population

Number of people ('000 individuals)



Unemployment rate

(%)



Source: BPI Research, from INE.

- **Employment is increasing at growth rates not seen since the post-pandemic period.** In 2025, employed population reached 5,275.3 thousand people, a 3.2% annual growth, pushing up the employment rate to 57.3% from 56.4% in 2024. In the same period, the labour force rose by 2.7%. **The unemployment rate fell to 6.0%.**
- **Looking at the last quarter 2025,** the unemployment rate remained at 5.8%, but employment rose by 0.1% qoq and 3.7% yoy. The end of the year also reflects lower degree of job precariousness. Job creation in Q4 was mainly through permanent contracts (+192,100 compared to Q4 2024) and full-time contracts (+195,200). At the same time, the employed population with higher levels of education has increased at the expense of lower levels, also in line with employment growth in certain sectors (such as the increase in consulting, scientific, technical, and similar activities).
- **To sum up, the strength of the labor market will continue to be one of the main factors supporting economic activity in the following quarters.**

RRP: execution continues at slow pace (51% of total program)

Approvals and payments to direct and final beneficiaries

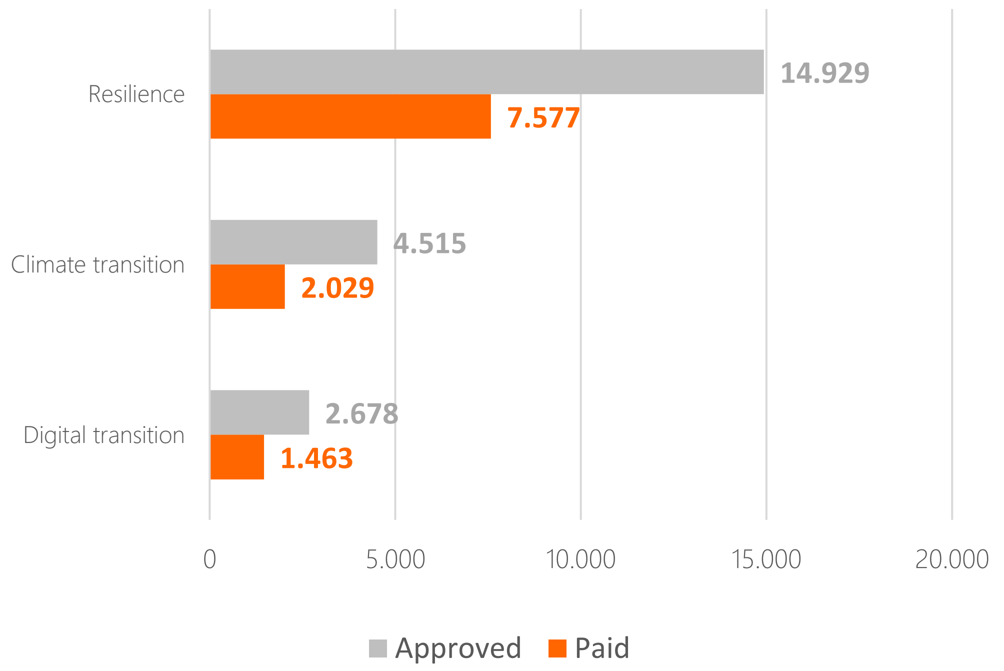
(Up to January 28th)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	389	311	79,9
Social and solidarity economy institutions	853	355	41,6
Firms	7.272	3.964	54,5
Institutions of the scientific and technological system	744	306	41,1
Higher Education Institutions	997	456	45,7
Schools	986	610	61,9
Municipalities and metropolitan areas	4.643	1.600	34,5
Public entities	4.961	2.292	46,2
Public firms	2.780	1.174	42,2
Total (million euros)	**23.625**	**11.068**	**46,8**
(% total RRP)	***100,0%***	***51%***	

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

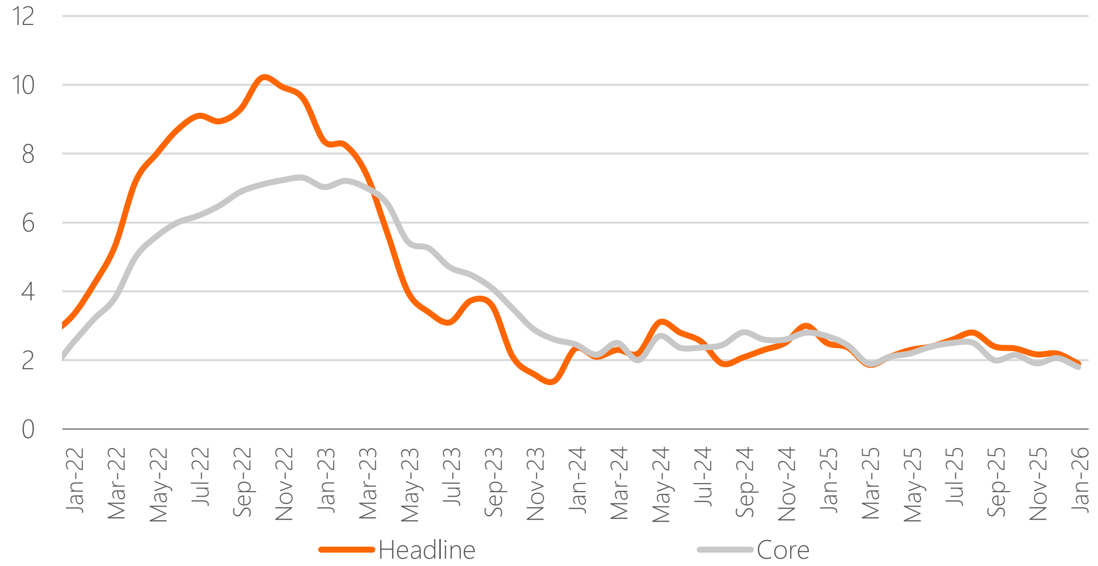


- **Up to now, Portugal received 13.8 billion euros, equivalent to 63% of the total amount of the RRP. Projects already approved amount to 23.63 billion euros (which includes RRP funds, amounting to 22.12 billion euros, and other sources of financing, totalling 1.52 billion euros) and payments reached 11.07 billion** (80% of the total amount received from RRP), but only 47% of the approved projects.
- At the same time, the rate of implementation of the funds has been gradually accelerating 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.

2026 inflation forecast of 2.1% as we expect a continued slowdown

Inflation: Headline and Core

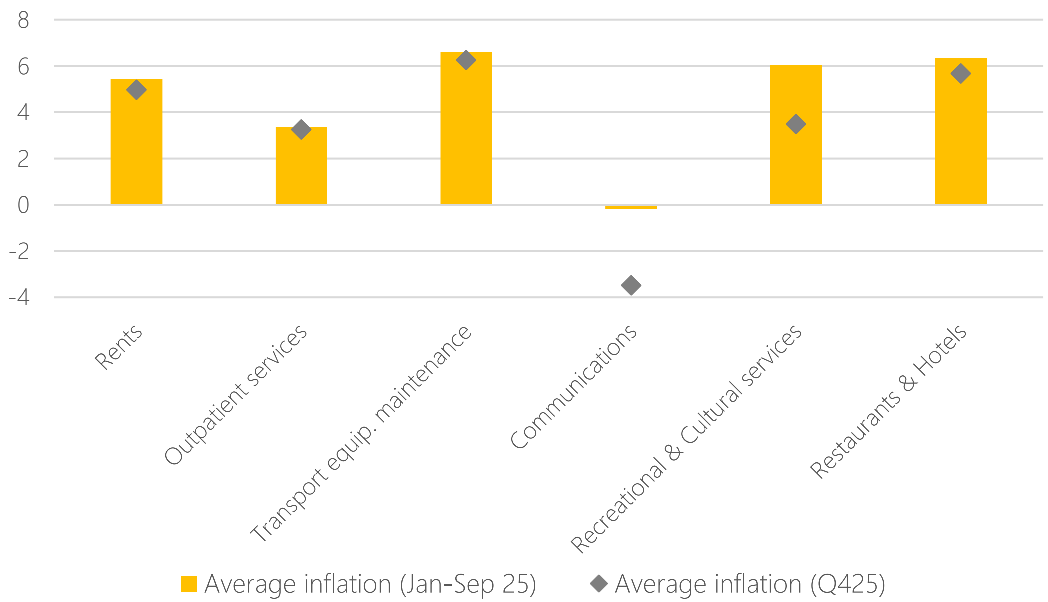
Year-on-year (%)



Source: BPI Research, from INE.

Main categories of inflation in services

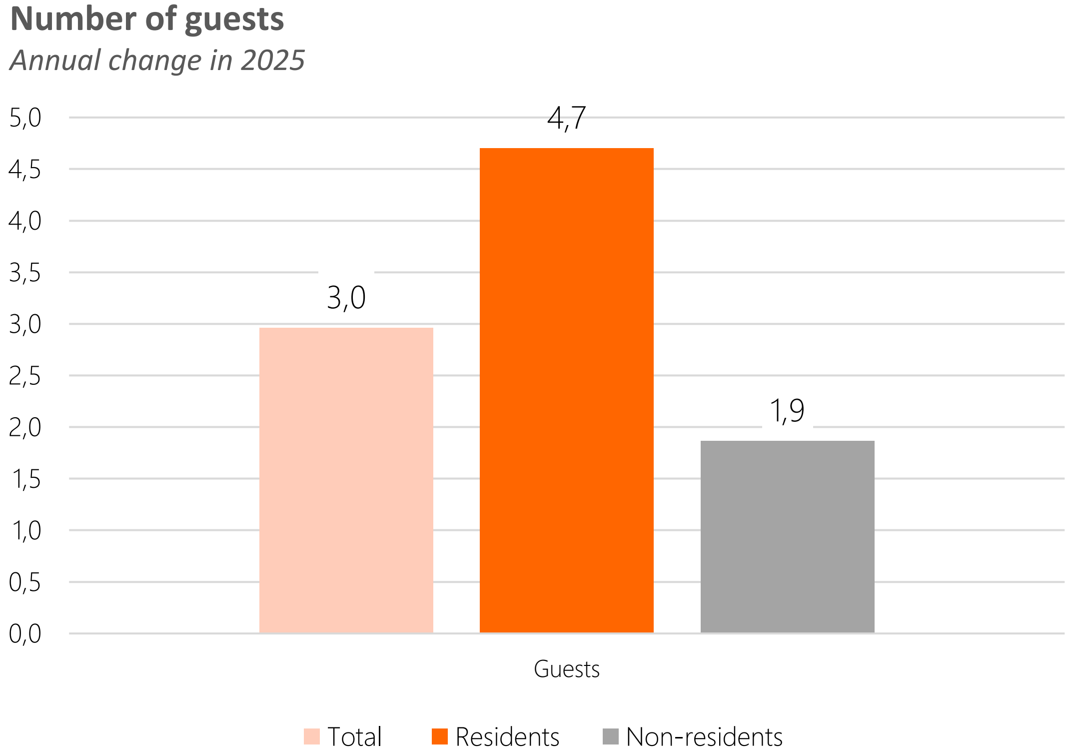
%



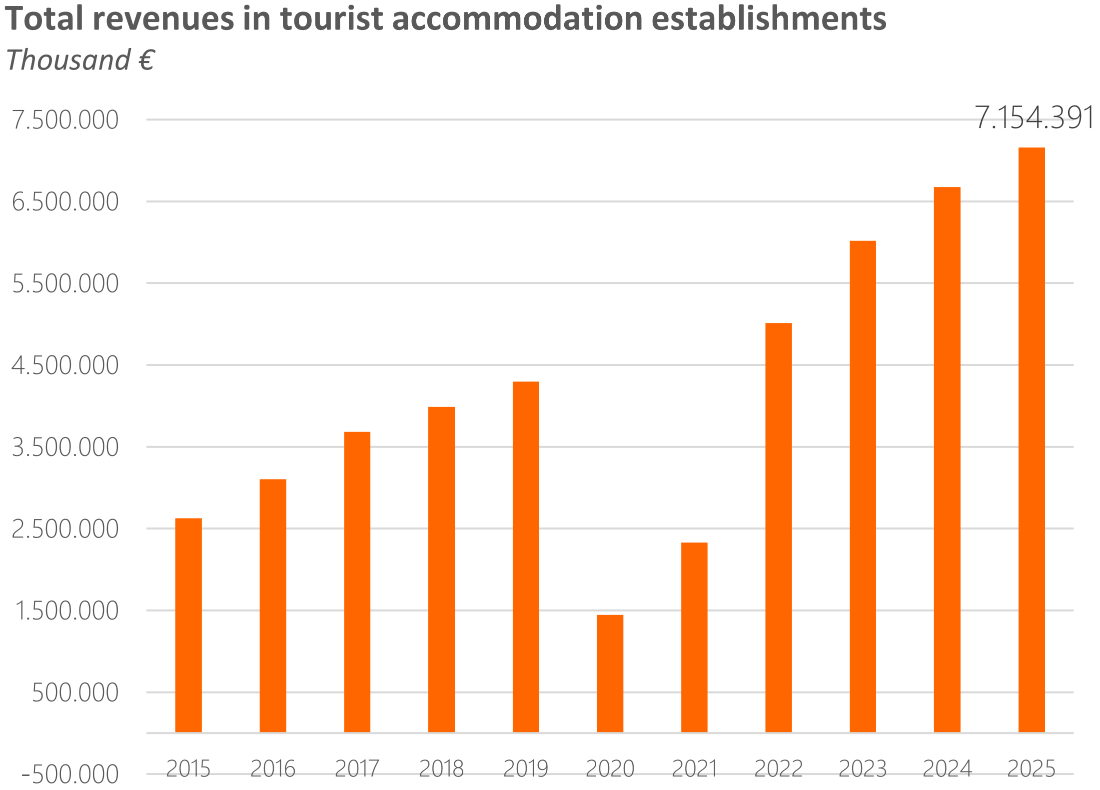
Source: BPI Research, from INE.

- **Average inflation forecasted at 2.1% for 2026 (2.3% in 2025), suggesting a continued slowdown in prices supported by expected lower energy prices.** Global CPI registered a yoy change of 1.9% in January 2025 (-0.6 p.p. compared to January 2024), while core inflation was 1.8% (-0.9 p.p.). In 2025, core inflation contributed with 1,8 p.p. for global inflation (2,0 p.p. in 2024), which is positive since excluding the most volatile components, prices are slowing. However, this was not enough to reach the objective of 2% for global inflation, due to the significant higher contribution of unprocessed food (0.6 p.p., +0,4 p.p. from 2024).
- **In addition to lower oil and energy prices, other factors support our forecast for 2026 inflation in Portugal, including the appreciation of the euro relatively to the dollar, lower inflation from Euro Area and a decrease in services inflation.** In 2025, Services CPI presented an average annual variation of 3.9% (1.1% in goods), which also explains why Portuguese price levels are not in the target yet. Nevertheless, in Q425 we already noticed slight lower values for some of the main categories that contribute to services inflation, namely communications (-3.5% on Q4 vs. -0.2% on average between Jan-Sep 25) and recreational & cultural services (3.5% vs. 6.0%). Besides these factors, the robustness of the labor market might continue to put upward pressures on prices.

Tourism revenues in 2025 surpassed 7.000 M€ for the first time



Source: BPI Research, from INE.



- **In 2025, the tourism sector recorded an annual increase of 3% in guests and 2.2% in overnight stays**. The number of tourists reached 32.5 million (12.8 million residents and 19.7 million non-residents).
- **Total revenues in tourist accommodation establishments registed a historical record, surpassing 7.000 M€.** Total revenue in tourist accommodation establishments grew by 7.2% compared to 2024, mainly driven by the dynamism in some regions such Madeira (17.4%), Azores (10.4%) and Alentejo (10.3%).

Q4 and year-end data suggest stronger house appreciation

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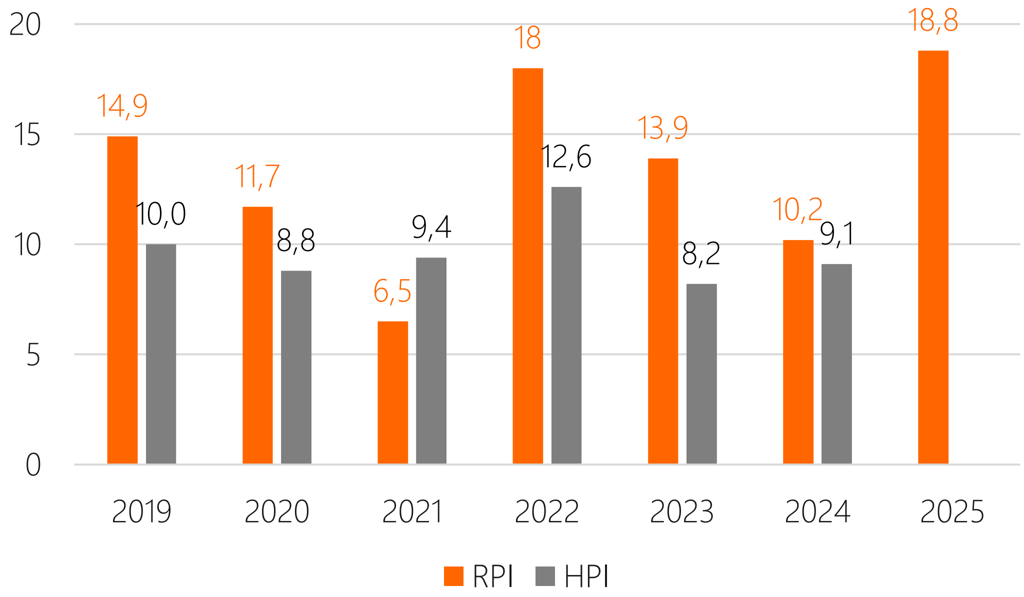
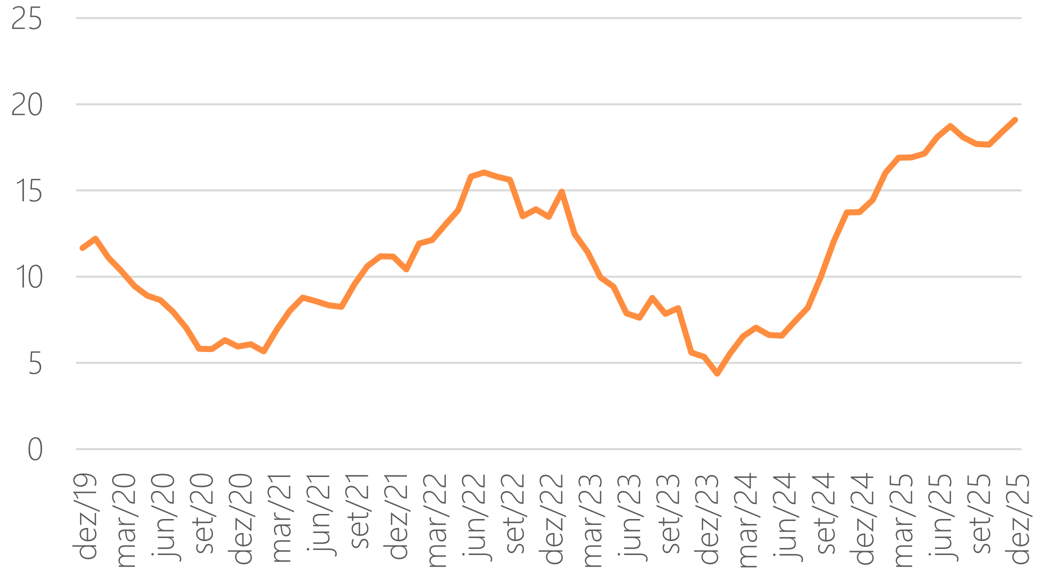
House Price Index (HPI) and Residential Price Index (RPI)
Average annual or yoy variation (%)



Source: BPI Research, using data from INE and CI.

Bank appraisal of housing
Yoy (%)



Source: BPI Research, using data from INE

- **The RPI from CI supports the increased upward pressure on residential real estate market in 2025, with an average change of 18.8% (10.2% in 2024), which is the highest figure since 2019.** Also, after a moderate slowdown on the increase of median bank valuations in the context of mortgage lending, the magnitude of its yoy change surpassed historical highs in December (19.1%), complementing the excessive exuberance in house transaction values.
- **New mortgage lending also grew strongly, with a total of 23.3 billion € in 2025 (+33,9% compared to 2024).** This was supported by the robustness in the labor market and the policy measures to make it easier for young people to buy the first home.
- **During the first 3 quarters of 2025, 126,728 homes were sold, 14.1% more than in the same period in 2024 and 12% more than in 2019.** In qoq terms, the number of transactions fell slightly (-1.0%), and the average price of homes sold rose to €247,100, up 3.2% on Q2 2025.

Budget execution in 2025 above government expectations

Budgetary execution of Public administration (main intems)

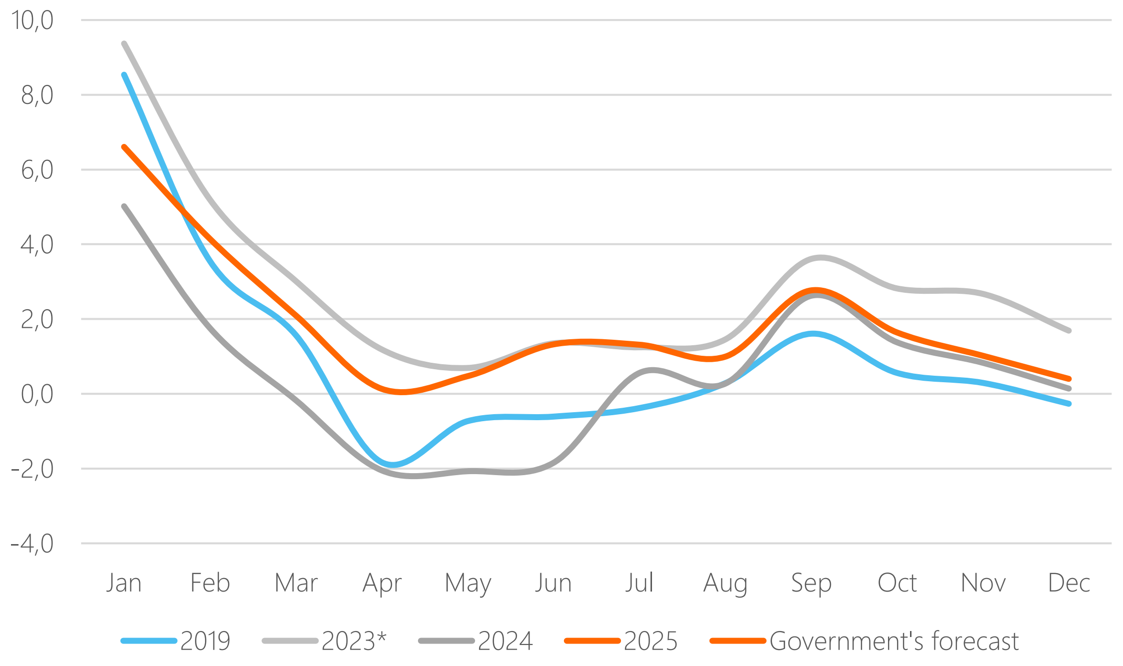
January-December	2019	2023*	2024	2025	Var. 2025 vs 2019	Average var. 2019-2025 (%)**	Var. 2024-2025 (%)
Revenues	**41,5**	42,6	41,8	42,9	1,3	7,4	7,6
Fiscal revenues	24,2	24,4	23,5	23,9	-0,3	6,4	7,1
Social security contributions	10,4	10,8	11,1	11,5	1,0	8,9	8,3
Expenditure	41,8	40,9	41,7	42,4	0,6	5,7	6,9
Staff costs	10,1	9,7	9,8	10,1	0,0	7,2	8,3
Current transfers	17,9	17,5	18,4	18,4	0,5	5,5	4,8
Aquisition of goods & services	6,2	6,4	6,4	6,5	0,3	5,9	6,3
Interests	3,8	2,5	2,4	2,2	-1,5	0,0	-2,2
Investment	2,3	2,7	2,7	3,1	0,9	12,1	22,5
Budget balance	-0,3	1,7	0,1	0,4	0,7	-	-

Note (*): adjusted value for pension fund transfer from CGD to CGA; (**) excludes 2020-2022, years affected by the pandemics. For 2023, adjusted revenue from the effect referred in the note*. Source: BPI Research, based on EO data.

Source: BPI Research, based on data from INE.

Budgetary execution pf Public Administration (cash basis)

(% of GDP)



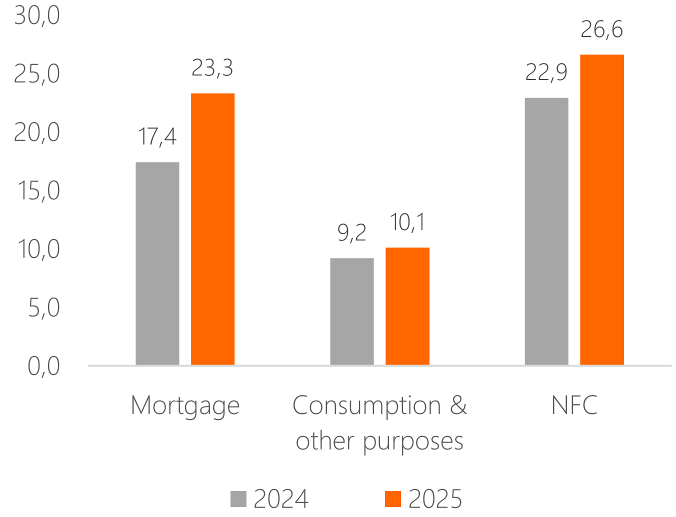
Note: (*) Data for 2023 is adjusted by the transfer from the CGD Pension Fund to the CGA. Source: BPI Research, from EO.

- **The 2025 budget execution in cash basis reveals that the budget balance may be better than the Government's expectations, standing at 0.4% of GDP (against 0.1% in 2024 and the government estimate of -0,3%).** Applying the difference estimated by the Executive between cash and accrual basis, it would result in a surplus of 1% of GDP in 2025 in the national accounts.
- **Revenue:** the main support was social contributions, VAT and IRS. Tax and contributory revenues were 465 M€ above the Government's last estimate; **expenditure:** more than half of the increase is explained by personnel expenses and current transfers; Investment and acquisition of goods and services also stood out, although to a lesser extent. Personnel expenses were the only item above the Government's estimate; on the negative side, the under-execution of investment stands out (-1,750 million euros against the Government's estimate).
- **The budget execution known so far makes a deficit scenario in 2025 practically unlikely, as we anticipated in July.** Analyzing the execution in cash basis and assuming the difference between methods included in the 2026 State Budget, it would give a surplus of ≈1% of GDP. However, the difference between cash and accrual basis is always quite uncertain and volatile.

Banking system: private sector credit and deposits keep rising, and credit in % of GDP begins showing signs of recovery

New lending activity by sector

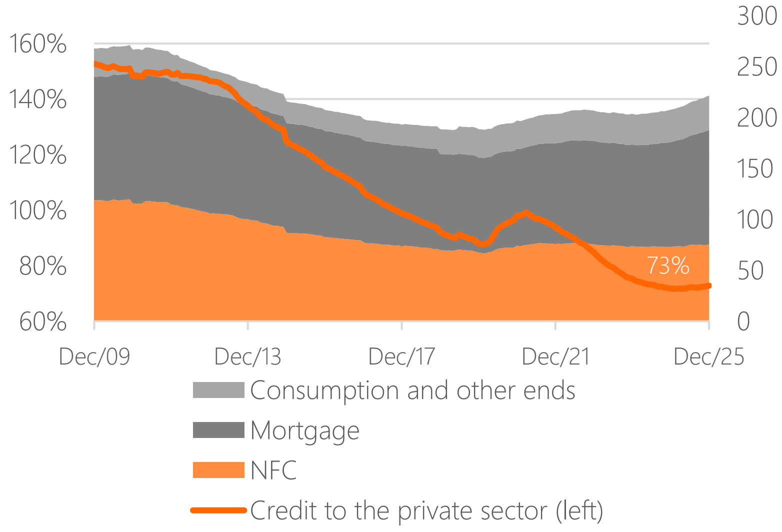
Total in the year (January-December), billion euros



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

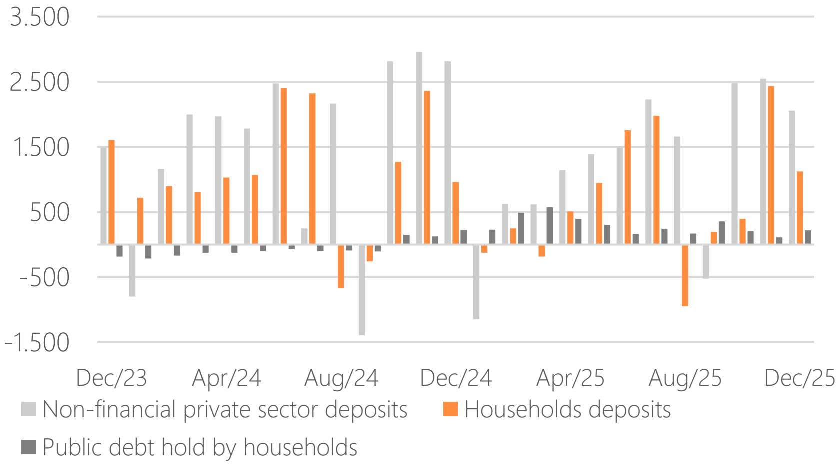
Bank credit to the non-financial private sector

% nominal of the year GDP *Bn€*



Deposits and public debt hold by families*

Monthly variation (M€)



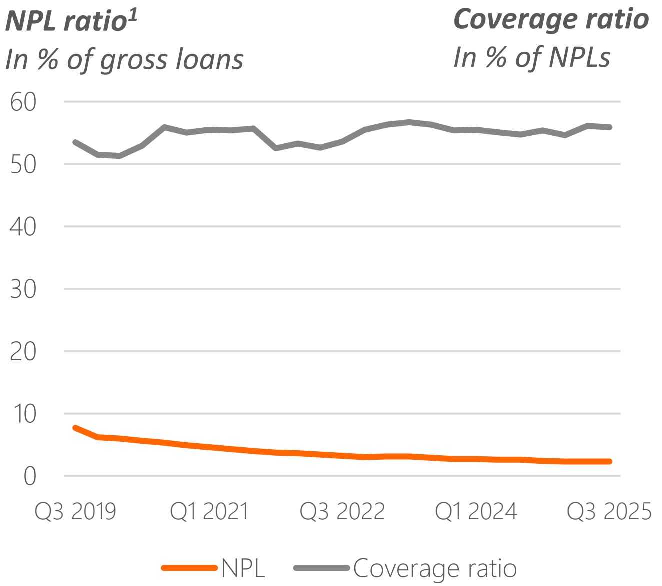
Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. Source: BPI Research, based on data from Bank of Portugal.

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit:** stock rose 9.4% in December, with new operations still increasing at double digit levels (+33.9% yoy until December). The amount recorded in December was the maximum of the series (begins in December 2014). The decline in interest rates, as well as the impact of Government's measures since 2024 (measures directed to young people with less than 35 years old - which represent ≈60% of the total amount of new contracts for permanent own housing - 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). These measures are for young people up to 35 years old who do not own other properties, who are purchasing their first permanent home, and whose transaction value does not exceed 450,000 euros. **New mortgage credit increased to 23.3 billion euros (+5.9 billion yoy), renewing the record.** Credit demand by young-adults justified mostly this figure, accounting for 60% of the amount of new contracts for own permanent home.
  - **NFC:** the outstanding credit added 2.9% in December, while new operations expanded by 16.2% in 2025 compared to 2024.
  - **% of GDP:** credit to non-financial private sector is now around 73% of GDP, clearly below past levels (≈150%).
- **Non-financial private sector deposits reached a new maximum: the stock rose 5.6% yoy in December.** Both households' and NFC's deposits increased (4.3% and 9.0% yoy, respectively), and both are now at their highest level.

Banking system: deleveraging with high solvency and profitability

BPI Grupo CaixaBank

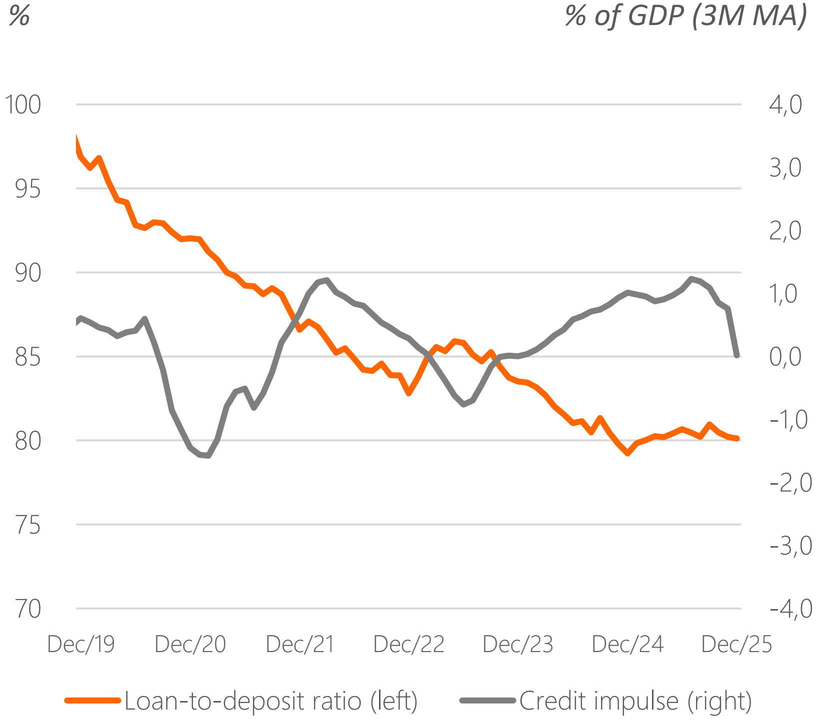
NPLs and coverage ratios



Cost of risk[1]
0.5% in Q4 2019
0.1% in Q3 2025

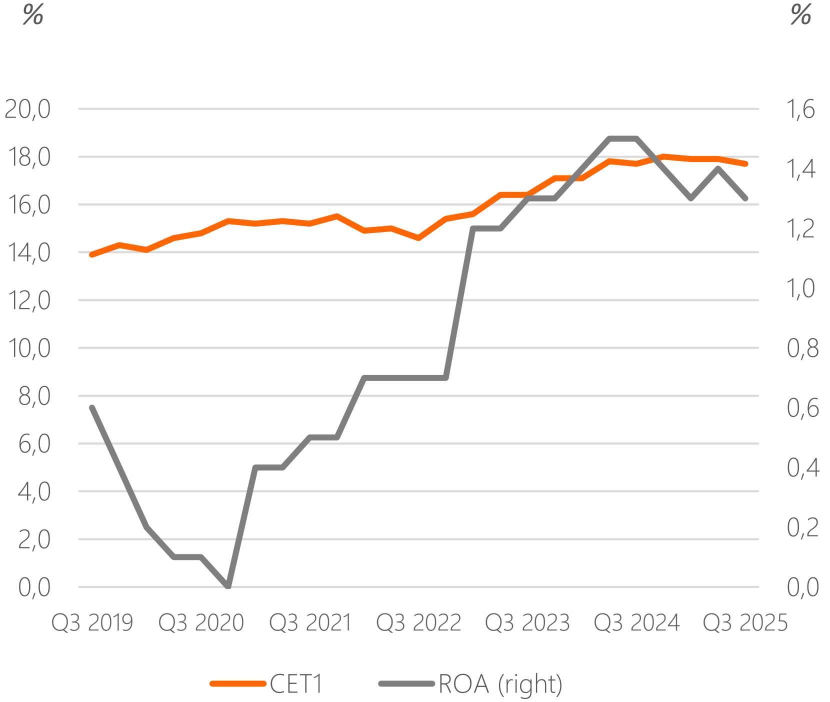
Notes: (1) flow of impairments to credit as a percentage of total gross loans.
Source: BPI Research, with data from Bank of Portugal.

Loan-to-deposit and credit impulse of private sector



Source: BPI Research with data from Bank of Portugal.

Banks' solvency and profitability



Source: BPI Research with data from Bank of Portugal.

- **NPLs ratio keep steady in Q3 for the 3rd consecutive quarter.** The total NPL ratio was stable at 2.3% in Q3 2025, while the ratio relative to NFC decreased by 0.2 p.p. to 3.8% and the one relative to households slightly fell to 2.1% (2.2% in Q2 2025). We are not expecting a deterioration of credit quality in the future.
- **Firms and households are deleveraging although at a slower pace.** Loan-to-deposit ratio keeps is increasing slightly but remains at levels around 80%. On the other hand, the credit impulse (yoy absolute change in new operations as % of GDP) considerably decreased in December 2025 to 0%, keeping the trend of the last 3 months.
- **Profitability is slightly lower due to reduced interest rates but remains well above the pre-pandemic period.** CET1 decreased slightly to 17.7% (vs 17.9% in Q2 and 14.3% in Q4 2019). **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**. The banking system ROA ratio increased in the last years and stood at 1.3% in Q3 2025 (vs. 1.5% in Q3 2024 and 0.4% in Q4 2019).