Portugal:
Macroeconomic and financial outlook

BPI *Research*

June 2025

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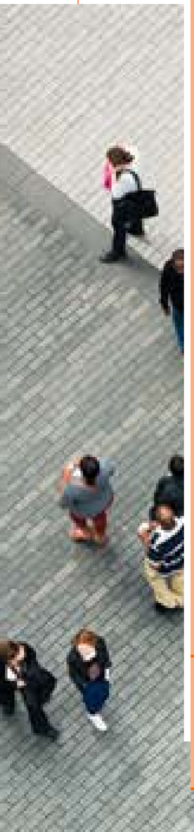
BPI Grupo CaixaBank

Main messages



Activity

- **GDP fell 0.5% qoq in Q1,** probably due to one-off factors, including a fall of 0.9% in private consumption (correcting the huge growth in Q4 2024) and a decline in external demand, with an increase of 1% in imports and a decrease of 0.4% in exports. We consider that the last two quarters must be seen together, with average growth in Q4 24 and Q1 25 of 0.45%, diluting the mentioned one-off effects. On a year-on-year basis, GDP advanced 1.6% (internal demand contributed with 3.5 p.p. while external demand took out 2 p.p.), with strong impact on the annual figure. This data has a strong carryover effect on growth in 2025, that implied a downward revision of our forecast for annual GDP in 2025 to 1.7%; however, activity is expected to remain resilient, supported by strong labour market, lower financing costs and good prospects for investment also supported by NG EU funds. And debt is low both in the private and public sector (below 95% of GDP), paving the way to more robust path ahead. This framework led to a downward revision of growth in 2025 by the EC to 1,8%, the OEDC to 1,9% and the Bank of Portugal to 1.6%.
- **Inflation continues its path to the target, but with some volatility.** In May it rose to 2.3% 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.** The employed population reached a new maximum in Q1 25, increasing 0.6% qoq and 2.4% yoy and the unemployment rate fell to 6.6% minus 0.1 p.p. than in Q4 24. The outlook for 2025 remains positive.
- **In 2024, house prices rose 9.1% and the number of transactions reached 156 325 houses, more 14.5% than in 2023.** 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, as well as the resilient labour market; finally, favourable fiscal policy (tax exemptions for young people).
- **The current account balance surprisingly decreased to 0% in 2025 Q1 (2.5% in 2024 Q1),** due to the decline in the non-energy and primary income balances, which shrank to -7.0% and -1.3%, respectively (-5.5% and -0.8% in 2024 Q1, respectively). This performance reflects higher imports due to anticipation of changes on tariffs, that we think will dilute along the year, which should led to a surplus around 1.5% of GDP by year end.
- **The Portuguese government announced a 10-billion-euro program in order to combat the effect of US tariffs on Portuguese companies more exposed to the external market,** that should be operational in May and June.
- **The parliamentary constitution changed in the legislative elections of May 18th, with a new victory for the AD (center-right) which strengthened its position, although still with a relative minority.** For the first time in democratic history, the PS (center-left) drops to the 3rd place and the dominant bipartisanship is broken, with 'Chega' (populist right) becoming the leader of the opposition. The new Government, with a similar composition than the last one, will be led by Mr Montenegro and should take office by mid June.

Banking Sector

- **NPLs ratio declined in Q4.** The total NPL ratio stood at 2.4% in Q4 2024, with the NPL of households declining to 2.3% and the one for NFC declining to 4.3%. 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	0,6	3,4
Exports	4,7	8,4	4,3	4,0	-18,4	12,1	17,2	3,8	3,4	1,8	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	0,4	0,3
General government debt (% GDP)	131,2	126,0	121,1	116,1	134,1	123,9	111,2	97,7	94,9	91,3	88,2
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	78

***Source**: CaixaBank Research.*

Economic Outlook: European Commission, OECD and BoP forecasts

BPI Grupo CaixaBank

Economic forecasts

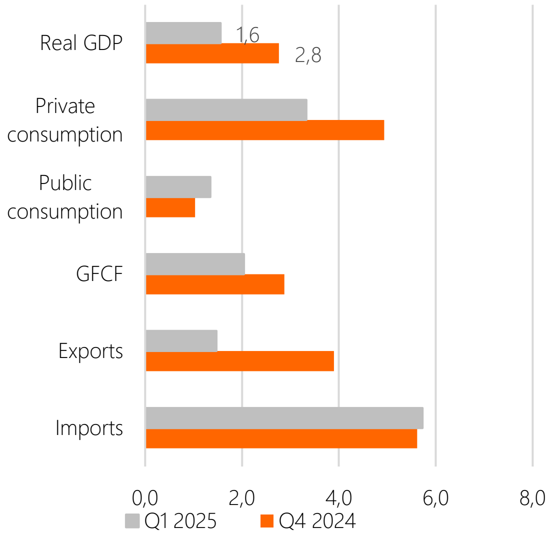
	2024	2025F				2026F			
		BPI May 25	BoP Jun 25	European Commission May 25	OECD May 25	BPI May 25	BoP Jun 25	European Commission May 25	OECD May 25
Real GDP (%, anual growth)	1,9	1,7	1.6	1,8	1,9	1,9	2.2	2,2	1,9
Inflation (%, anual change)	2,4	2,1	1.9	2,1	2,1	2,0	1.8	2,0	2,1
Unemployment (% of active population)	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	0,4	-0.1	0,1	0,2	0,3	-1.3	-0,6	-0,3
Gross public debt (% of GDP)	94,9	91,3	91.1	91,7	97,7	88,2	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: BdP and INE. Note: The inflation rate is the annual percentage change of (i) the CPI in the case of BPI and (ii) the HCPI in the case of BdP

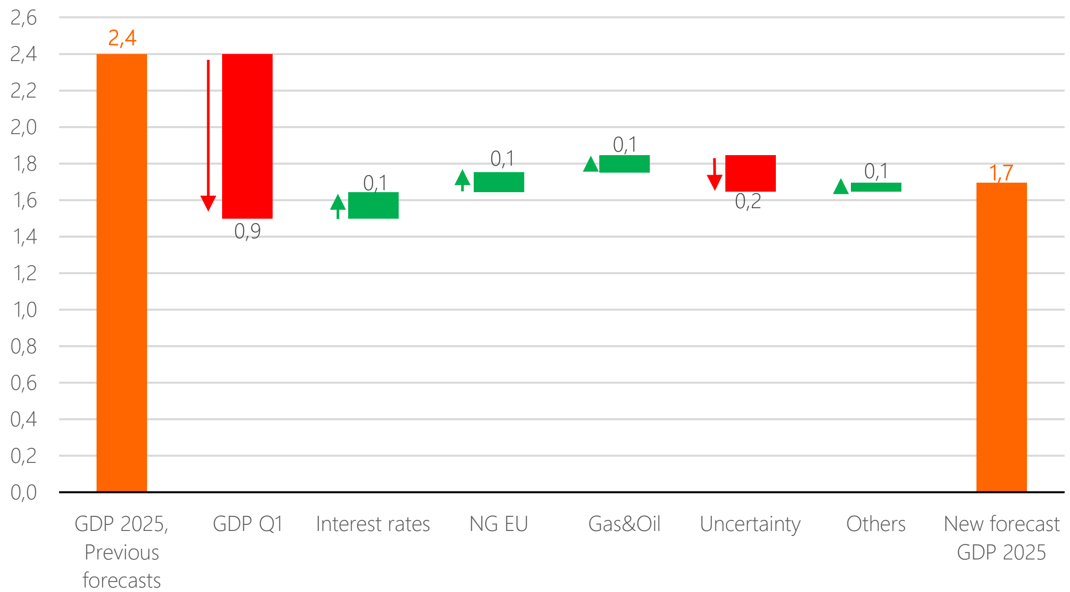
- **EC, OECD, and Bank of Portugal revised their economic outlook for Portugal, placing growth below 2% in 2025.** To a large extent, the revision results from the incorporation of Q1 data.
- **According to the Bank of Portugal, the risks are predominantly negative for growth and balanced for inflation.** 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.

One-off factors justified surprising GDP Q1 25 decline

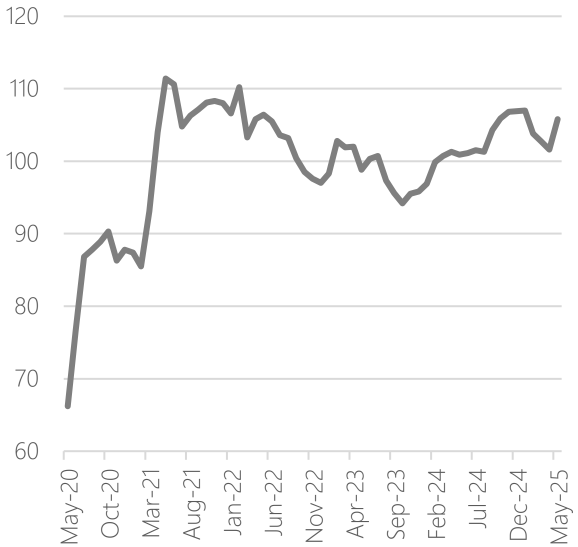
Real GDP: demand components
yoy %



GDP 2025: contribution of several factors to the revision of growth
Percentage points, yoy %



Economic sentiment index
1990=100

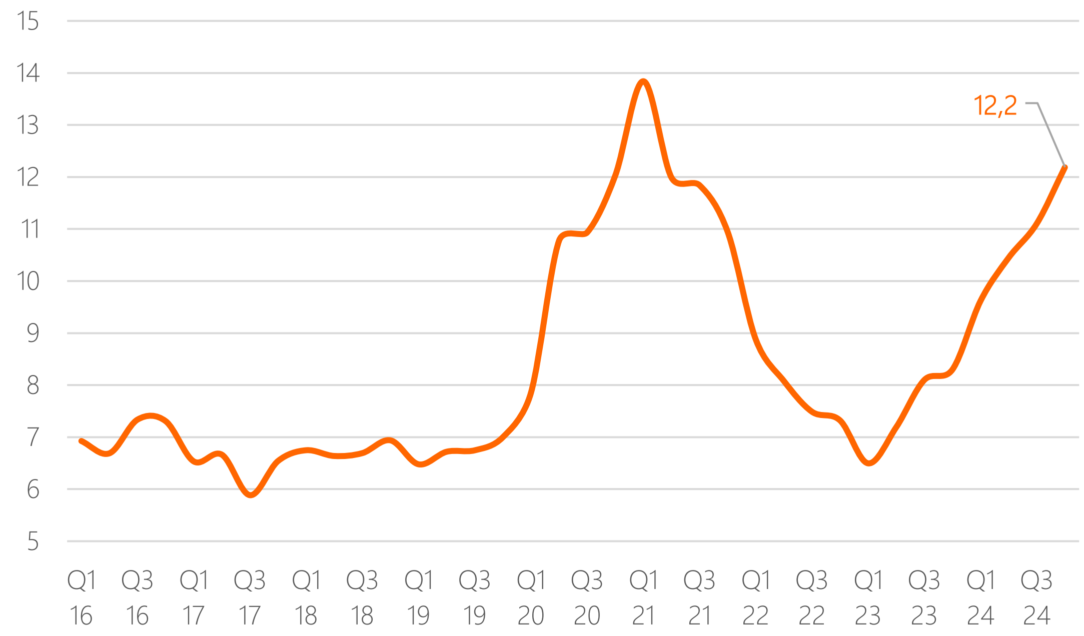


Source: BPI Research based on Portuguese INE and European Commission

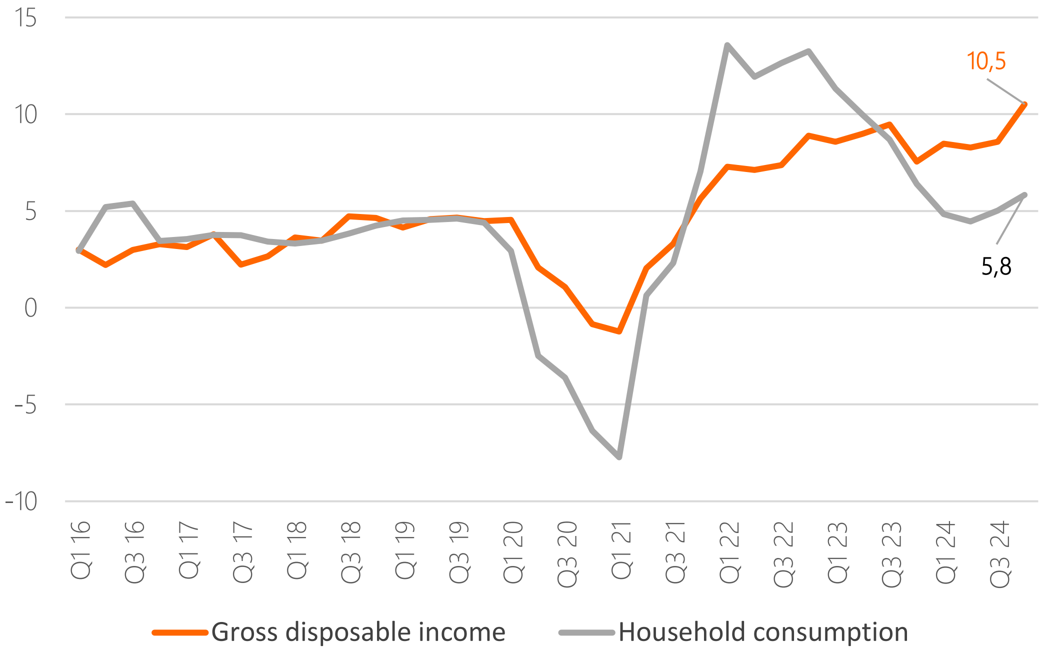
- **GDP surprised in Q1 25, contracting 0.5% qoq**, a correction following the strong growth recorded in Q4 24 in a move that should be seen as a normalization. Private demand contributed with 0.1 p.p., partially offsetting the negative contribution of the external demand (with imports advancing 1% qoq, by anticipation of higher tariffs).
- We recall that in Q4, the economy grew 1.4% qoq, due to one-off factors associated with a significant increase in household income as the result of reduction in income tax, with retroactive effects since the beginning of 2024. In fact, if we look at the two quarters together, reducing noise associated with one-off factors, quarterly growth stood at 0.45%, a slowdown compared to the historical average (observed since 2015, which stands at 0.6% quarterly), but still robust growth.
- **This data has a strong carryover effect on growth in 2025, forcing us to revise downwards our growth prediction in 2025 to 1.7%, 7 tenths less than in the previous scenario.** The size of the drop in GDP in Q1 by itself took 9 tenths to the previous forecast, mechanically; and we estimate that uncertainty around US trade policy will have a negative impact, reducing growth by 0.2 percentage points. Beyond these negative factors, there are others that will support activity in 2025: i) the impact of lower financing costs associated with the ECB's monetary policy easing, ii) the downward revision of energy prices, reflecting increased supply from producer countries and a possible reduction in demand, and iii) the expectation of accelerated implementation of European funds. In addition, other factors remain active, such as the resilience of the labor market—employment is at historic highs and real average wages increased by 3% in Q1 25—which will tend to contribute to continued robust private consumption; and tourism, although to a lesser extent than in previous years, will be a factor supporting growth.

Private consumption is seen to continue to perform favorably

Families' saving rate
(% of DI)



Household's income and consumption
Year-on-year, %



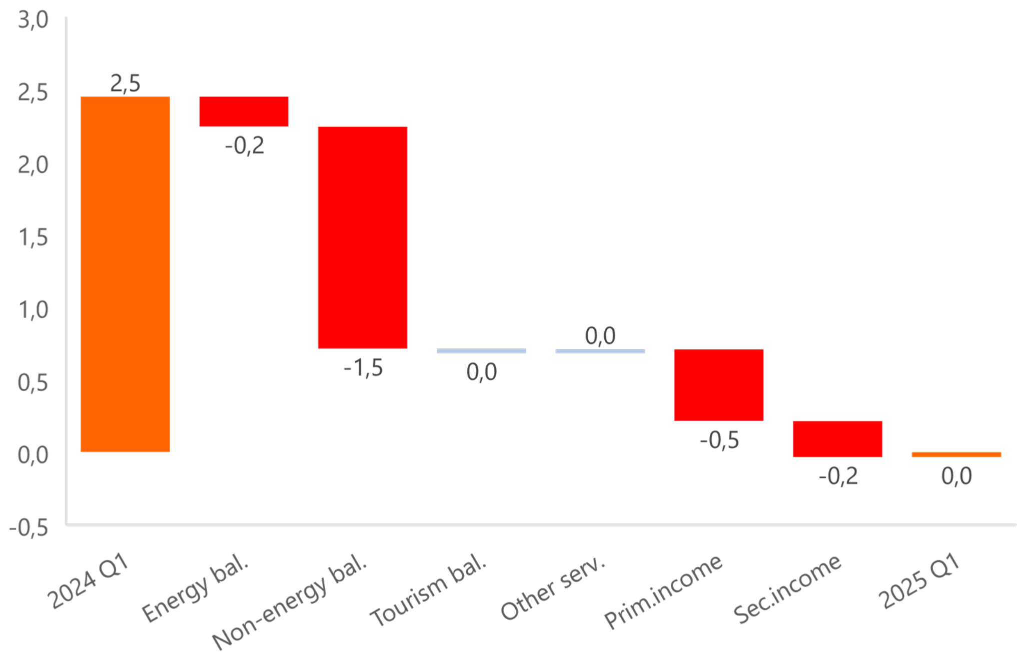
Source: CaixaBank Research, from INE, BoP.

- **Savings keep the increasing trend**. The household's saving rate rose to 12.2% in 2024, more 1.1 p.p. than in 2023, reaching the highest level since 2004 excluding the adverse years of COVID pandemics.
- Additionally, gross disposable income has been growing faster than consumption, favouring the building up of savings, which will constitute an important cushion of confidence for future consumption decisions. The higher quarterly increase on the disposable income seen in 4Q 24 was partially due to the personal tax (IRS) reduction that took place in September and October 2024. For 2025, the trend should become smoother, but higher uncertainty may contribute to the savings build up.

Unexpected deterioration in current account in 2025 Q1

Current account 2025 Q1

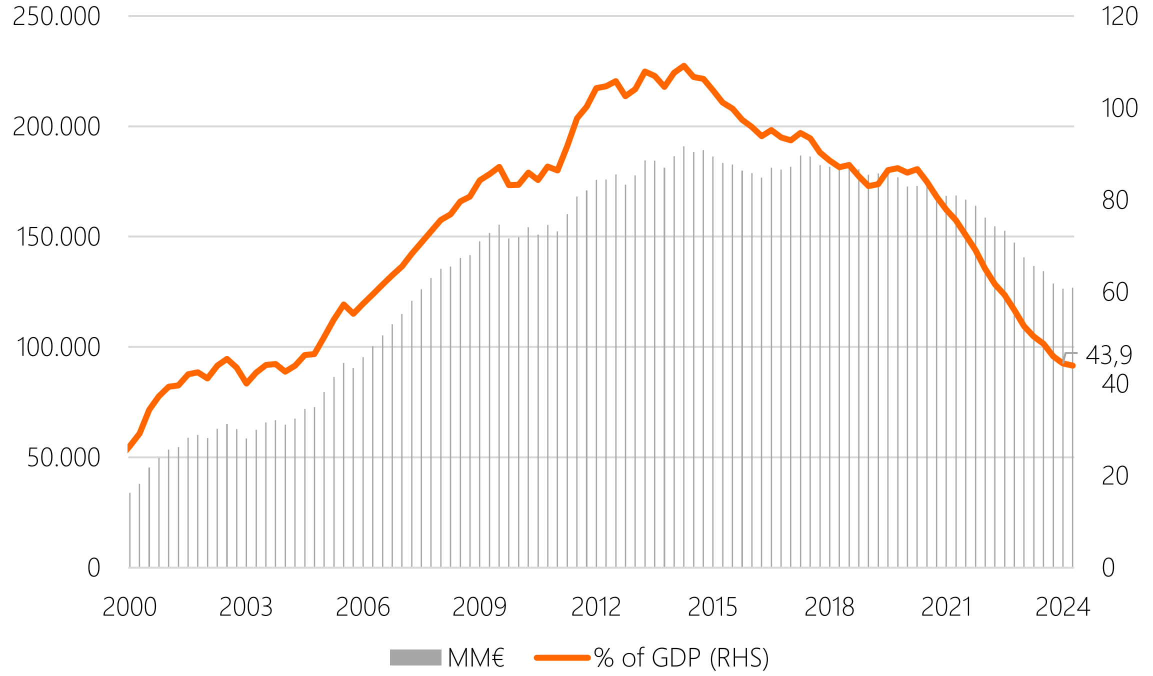
% of GDP and percentage points change



Source: CaixaBank Research, from BoP.

Net external debt

MM € *% of GDP*

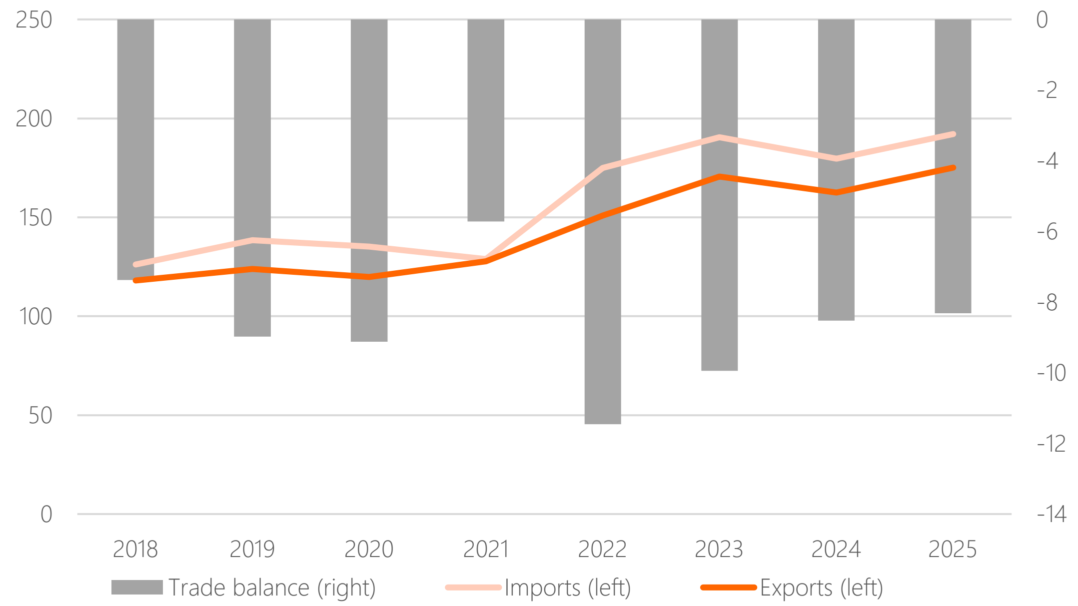


- In 2025 Q1, the current account balance recorded a deficit of -25.7 million euros, equivalent to approximately 0% of GDP, a significant fall compared to the figures from 2024 Q1. This reduction is mainly due to the increase in the non-energy and primary income deficits, which enlarged to -7.0% and -1.3%, respectively (-5.5% and -0.8% in 2024 Q1, respectively). That means that Portugal is experiencing a worsening of its trade in goods and services that are 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. 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, the lowest level since the beginning of 2005.

Exports of goods more concentrated due to a sudden increase in the German demand for pharmaceuticals

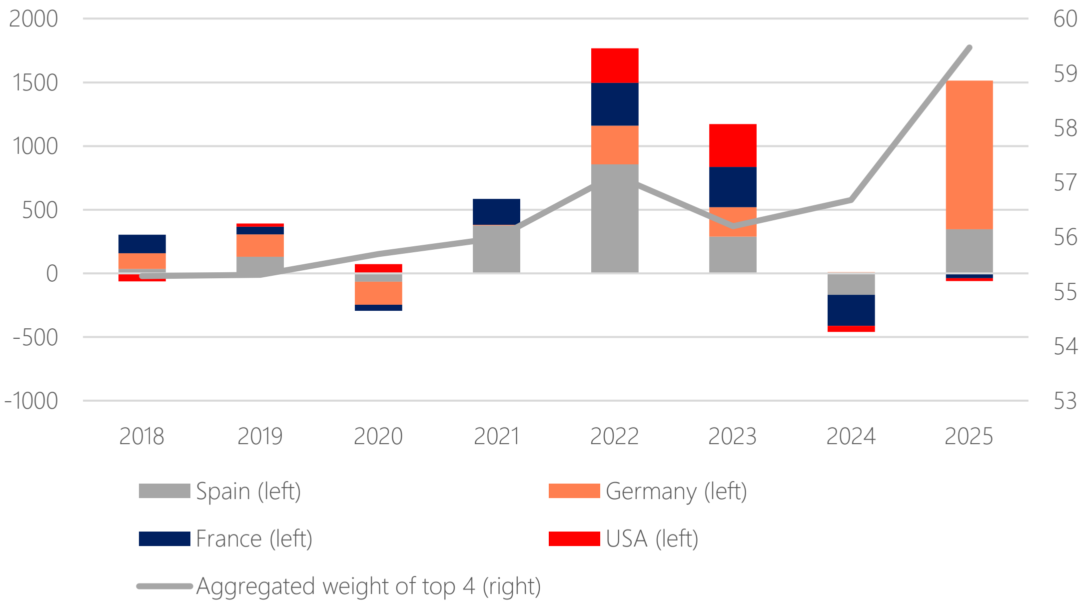
Exports and imports of goods in the Q1 2025: general

2015=100 *% Quarterly GDP*



Exports of goods in Q1 2025: main trading partners

Yoy (M€) *% Total exports*

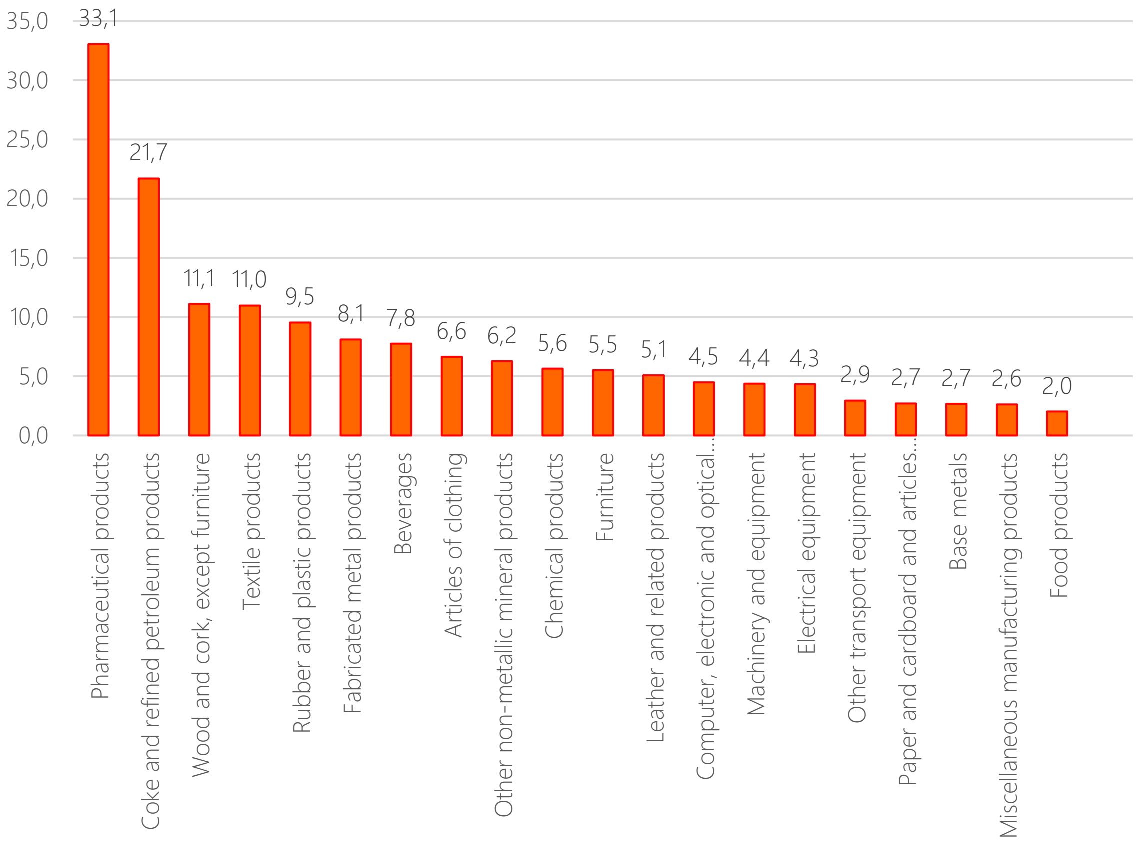


Source: CaixaBank Research based on INE data

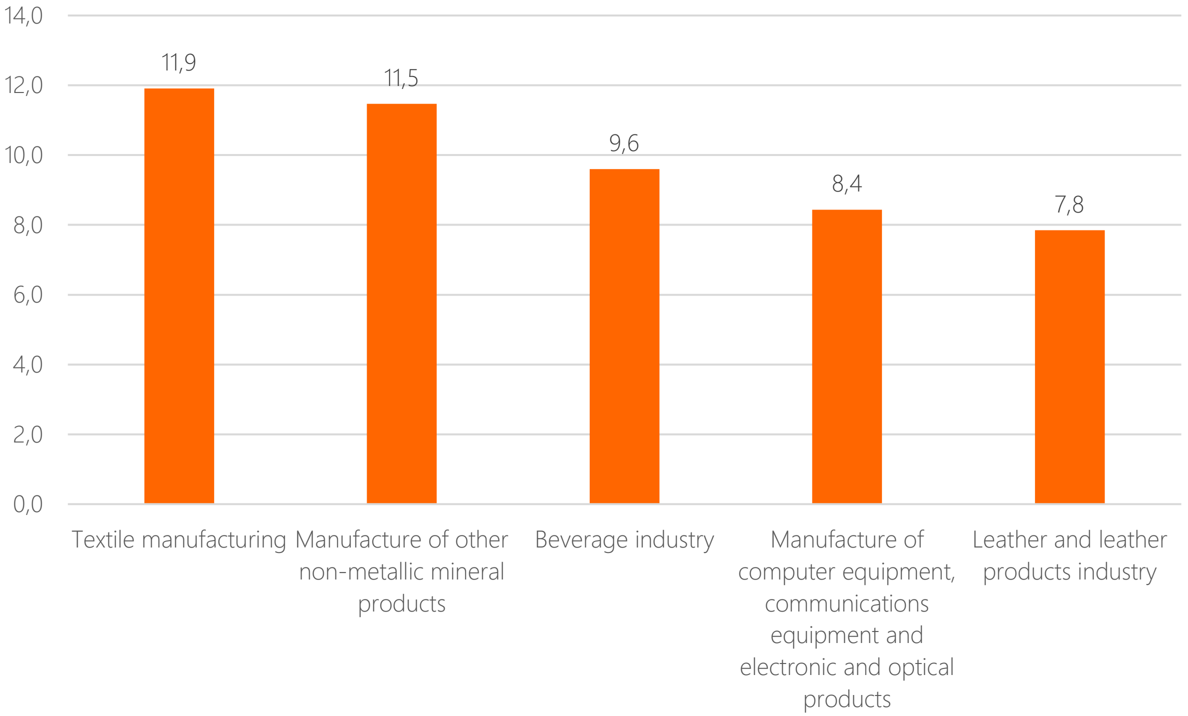
- **The Portuguese external sector is keeping its dynamic behaviour, with exports (imports) of goods increasing (decreasing) 6,9%, +1374,4 millions of euros (-2,3%, -657,6 millions) in Q1 2025,** compared to Q4 2024. Despite in the last decade the imports have been raising more than exports (6,2% vs. 5,1% average annual growth between 2014 and 2024), in year-on-year terms, exports are currently raising more (7,7% vs. 7% in Q1 2025). The significant nominal growth in Portugal on last years have contributed to dilute the increase of the trade balance measured in percentage of GDP.
- In 2025 Q1, the concentration of exports on the main trading partners according to the volume of exports of goods (Spain, Germany, France and USA) suddenly raised to approximately 60%, due to the increased exports of pharmaceutical products (+182,6% year-on-year), primarily to Germany (+1633% year-on-year). This movement worth's monitoring as it might be more structural due to increasing investment in healthcare industry in Portugal recently.

Sectors with high exposure to the US

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



Exposure of Portuguese exports to the US market
% of exporting companies in the sector



Source: BPI Research, from INE and BoP.

- Political changes in the US after the last Presidential elections, namely the imposition of tariffs, may have impact on some domestic sectors. According to the Bank of Portugal, within the manufacturing sector, the more exposed companies (whose exports of goods to the US represent more than 10 per cent of the value of sales (domestic and foreign) are in the textile and manufacturing (12% of companies in the sector), Manufacture of other non-metallic products (11,5%), Beverage Industry (9,6%). In 2023, exports of these companies represented 76%, 82%, 34%, 75% and 69% respectively of total exports to the US from each of the five sectors shown in the graph in the right.

Government plan against US tariffs

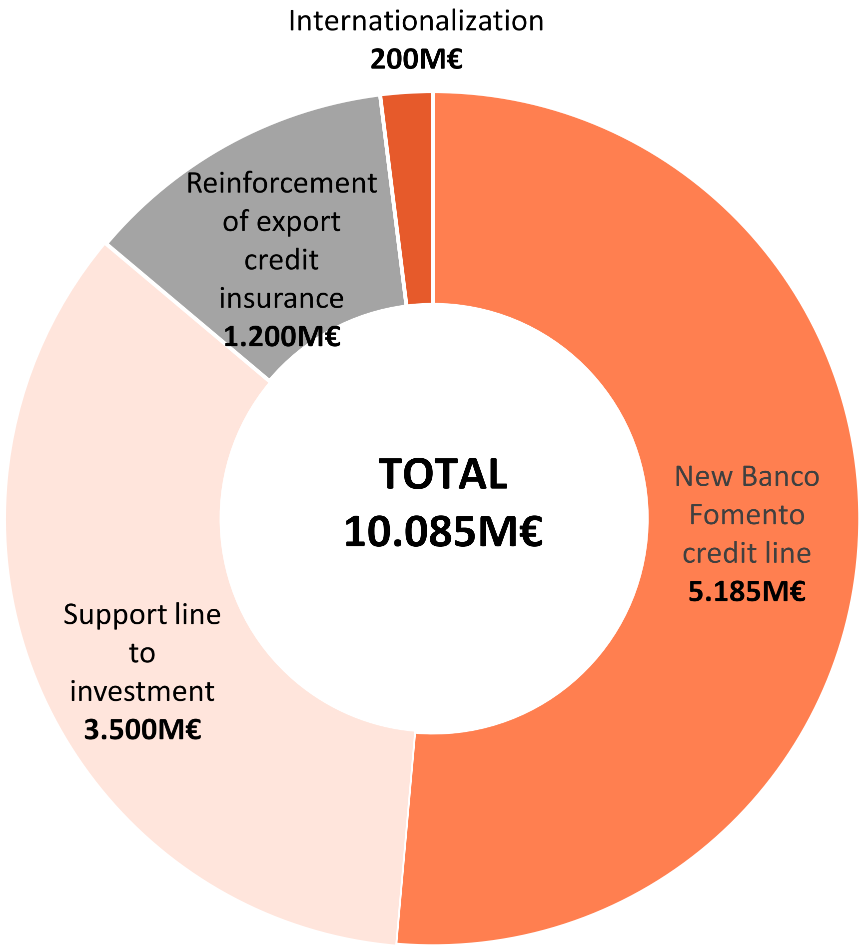
1. Reinforce Program (10 billion euros)

- **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)

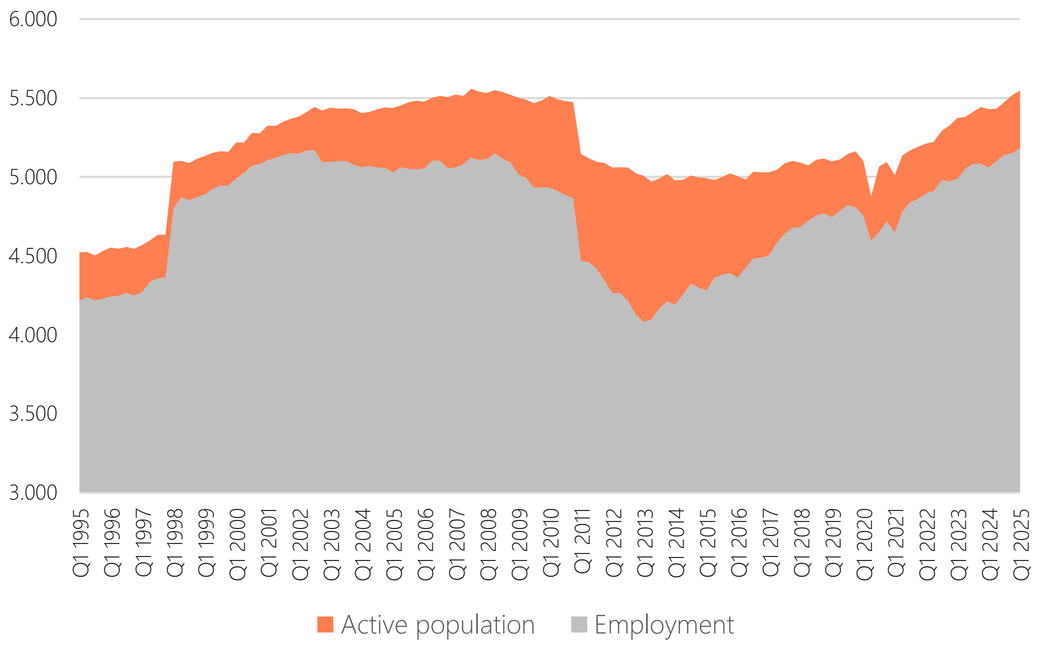
  - Innovation and decarbonization (+€255M); Qualification of business models and human capital (+€70M); Internationalization (+€80M); Large-scale productive investment in key sectors for the energy transition (+€2,235M).

These measures should be operational in May and June and cover all companies based in Portugal, regardless of their size.

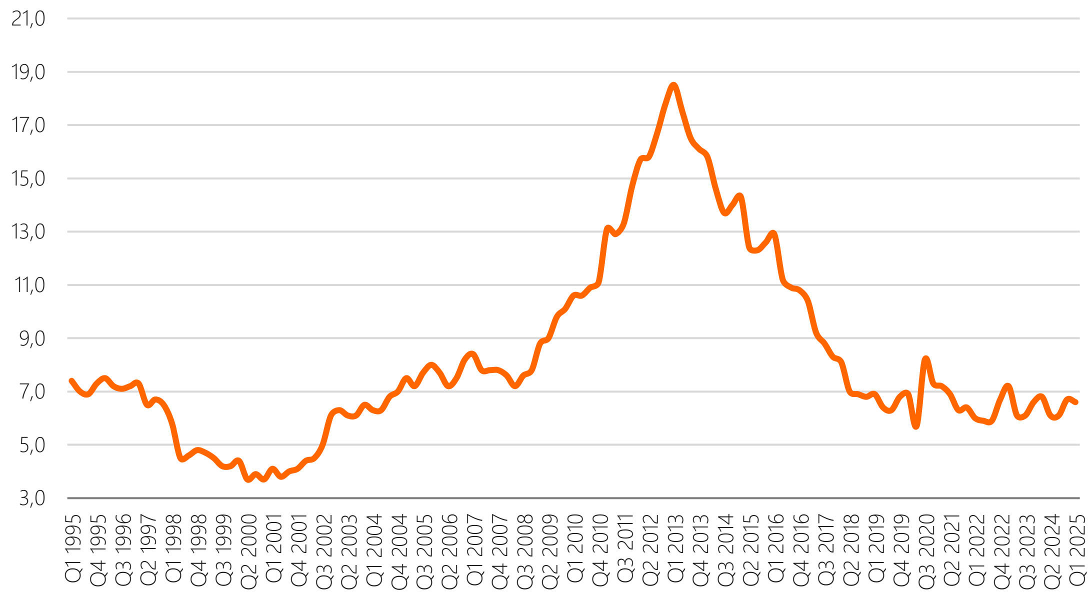


Employment remains robust in Q1 2025

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



The unemployment rate
(% of active population)



Source: CaixaBank Research, from INE.

- **The employed population reached a new maximum in Q1, increasing 0.6% qoq and 2.4% yoy** On a year-on-year basis, 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 6.6% in Q1 25, minus 0.1 p.p. than in Q4 2024
- **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%).

NGEU: 48% of payments scheduled to be received in 2025-26

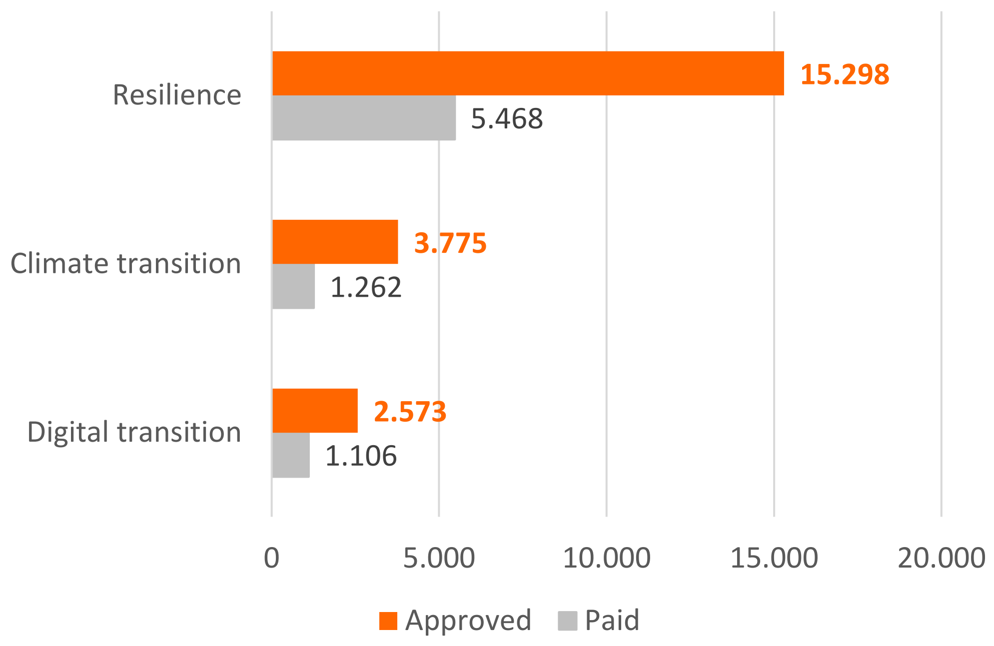
Approvals and payments to direct and final beneficiaries

(Up to May 28th)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	278	241	86,7
Social and solidarity economy institutions	685	244	35,6
Firms	6.270	2.789	44,5
Excl. R&I System Non-firms	5.352	2.377	44,4
R&I System Non-firms in consortium with firms	918	413	45,0
Institutions of the scientific and technological system	534	204	38,2
Higher Education Institutions	821	297	36,2
Schools	1.026	583	56,8
Municipalities and metropolitan areas	4.163	953	22,9
Public entities	4.984	1.689	33,9
Public firms	2.883	838	29,1
Total (million euros)	**21.644**	**7.838**	**36,2**
(% total RRP)	***97,4%***	***35,3%***	

Source: CaixaBank Research, from Recuperar Portugal.

RRP: amounts approved and paid by dimension

Eur million

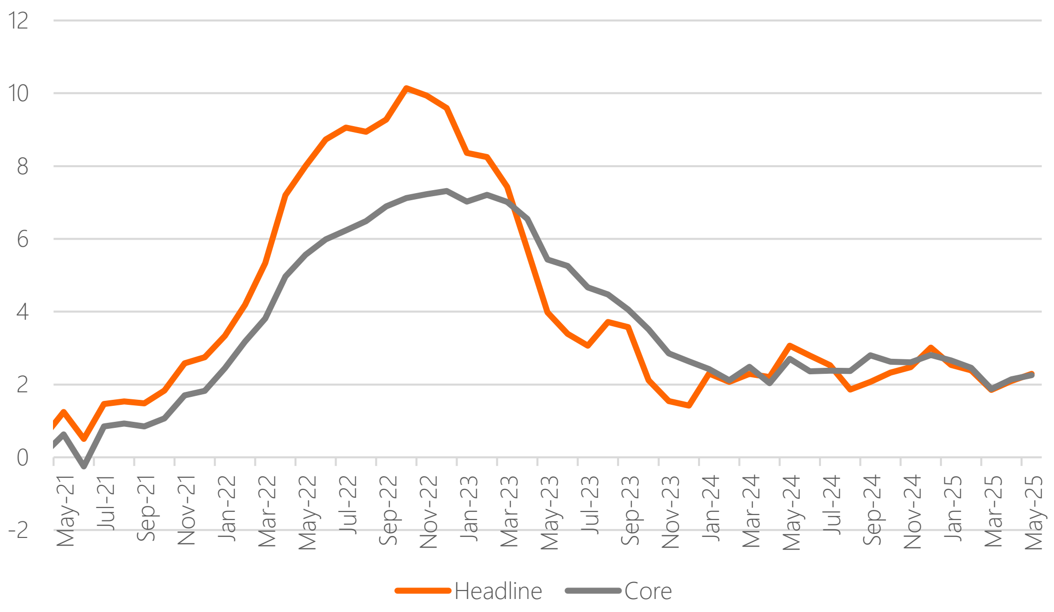


- **Up to now, Portugal received 11.4 billion euros, equivalent to 51% of the total amount of the RRP.** In December 2024 were received 2.9 bln euros.
- **Projects already approved amount to 21 billion euros (96% of the total amount) and payments reached 7.2 billion** (64% of the total amount received). Since the end of 2024, the payment rate improved by 3 p.p., to 34% of total amount approved.
- The program is divided in three dimensions - resilience, climate transition and digital transition. The first will absorb 68% of the funds, the second 20% 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 2,010 million euros, equivalent to 46% of the approved amount; housing, with an amount already paid out of 977 million (26% of the approved amount); and the qualifications and skills component with an amount already executed of 727 million euros (33% of the approved amount). In the climate transition, the decarbonization of industry and sustainable mobility components stand out, with amounts already paid amounting to 308 and 228 million euros, respectively, representing, in the same order, 38% and 18% of the amounts approved. And in the digital transition, the digitalization, interoperability and cybersecurity in public administration and Companies 4.0 components stand out, with projects approved amounting to 657 and 623 million euros, respectively, of which 231 and 193 million have already been paid out.

Disinflation proceeds gradually

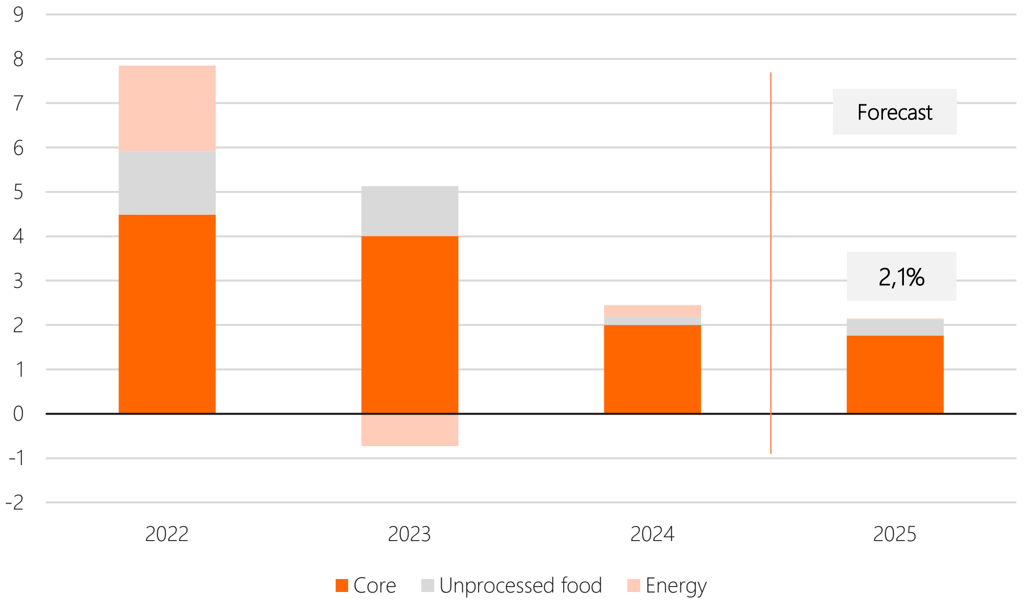
Headline and core inflation

Year-on-year (%)



Global inflation

average annual inflation and contributions (%)

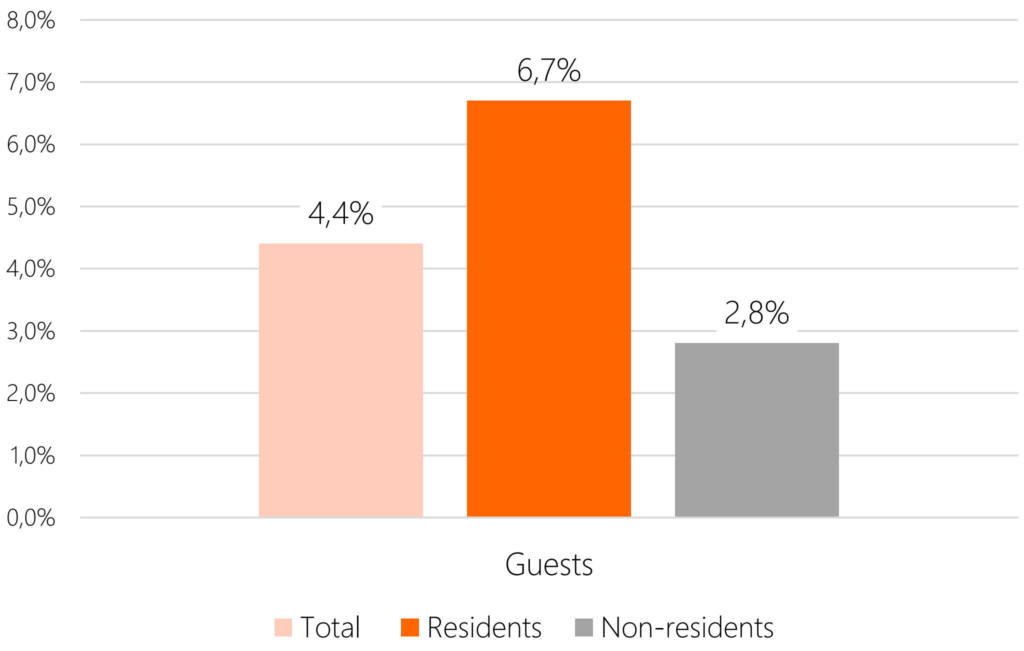


- In May, global and core inflation rose to 2.3%, 2 p.p. more than in April. These shows, as in April, headline and core inflation at the same level, indicating that the disinflationary process is currently mainly driven by less volatile price dynamics, and is therefore slower. The monthly changes in the underlying and overall CPI (0.45% and 0.35% respectively) were lower than the pre-pandemic historical average (0.5% in both), contrasting the behaviour in the previous month.
- Despite the fact that the price of Brent has been below the 2024’s close level, the contribution of the energy component to disinflation is still modest, decreasing in May compared to April. 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 4 months of 2025

Number of guests

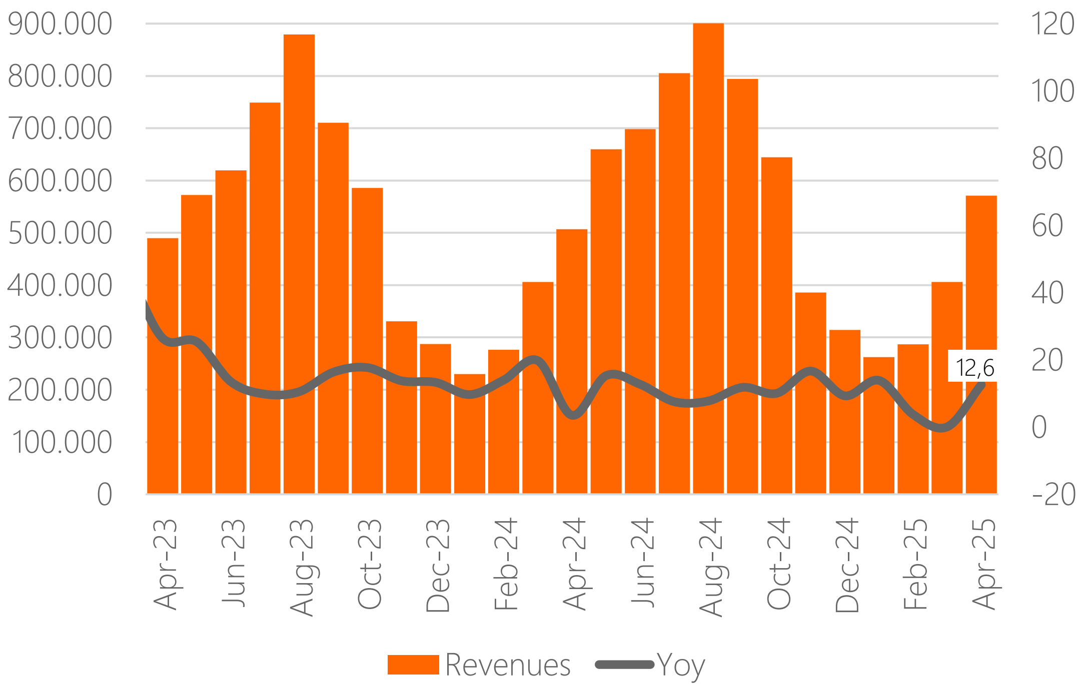
Jan-Apr 2025 yoy change (%)



***Source**: CaixaBank Research, using data from INE.*

Total revenues in tourist accommodation establishments

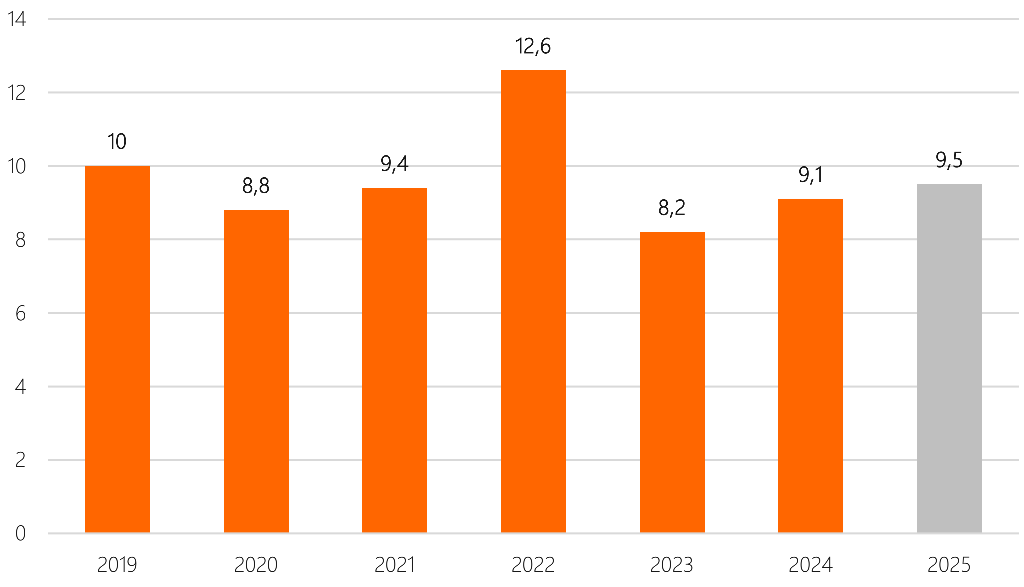
M€ *yoy (%)*



- The tourism sector recorded a total of 8.55 million guests (3.57 million residents and 4.97 million non-residents), as well as 20.55 million (6.30 million residents and 14.24 million non-residents) on the first 4 months (Jan-Apr) of the year, representing a yoy growth of 4.4% driven mainly by the growth in the resident’s demand (6.7% yoy vs. 2.8% from non-residents). Focusing on the number of guests, this represented an accelerated growth in yoy terms compared to last year (3.9% in Jan-Apr 2024), when the change was mostly motivated by non-residents (6,8%).
- Total revenues in accommodation establishments is higher in the first 4 months of 2025, compared to the same in the 2024, with a yoy growth of 12.6% in April (7,5% 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 2.4 per cent.

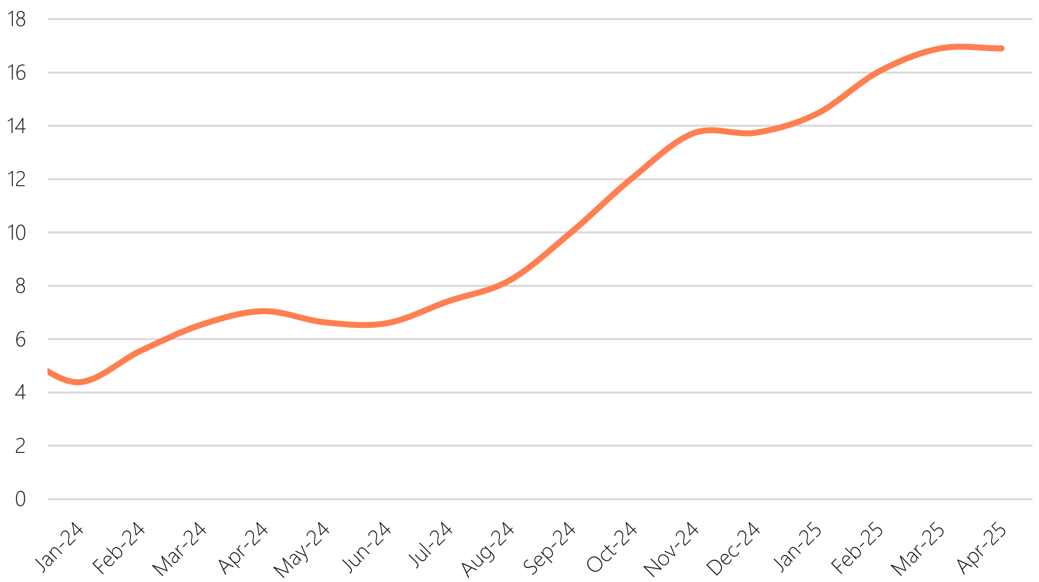
Housing with solid appreciation

House price index
year-on-year (%)



***Source**: BPI Research, using data from Confidencial Imobiliário.*

Bank appraisal of housing
year-on-year (%)



***Source**: BPI Research, using data from INE.*

- **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 2024, the number of transactions reached 156 325 houses, more 14.5% than in 2023. 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

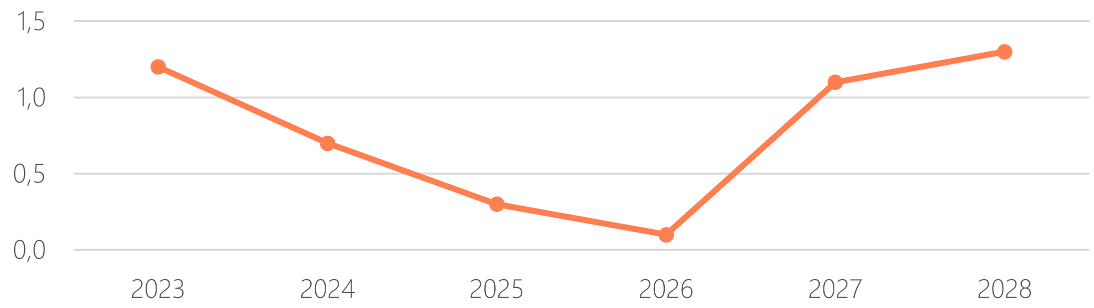
% of GDP, unless otherwise indicated

January-April	2019	2023*	2024	2025	Var. 2025 vs 2019	Var. 2025 vs 2024 (M€)
Revenues	**35,4**	**35,3**	**34,8**	**36,7**	**1,3**	**3.273**
Fiscal revenue	19,6	19,4	18,2	19,5	-0,1	2.014
Social Security contributions	9,6	9,9	10,3	10,6	1,0	789
Expenses	**37,2**	**34,1**	**36,9**	**36,6**	**-0,7**	**1.162**
Personnel	8,6	8,3	8,5	8,8	0,3	694
Current transfers	15,8	14,9	17,0	16,4	0,6	110
Goods & Services acquisition	5,0	4,8	4,9	4,8	-0,2	119
Interest	4,7	2,9	3,0	2,6	-2,1	-240
Investment	1,8	1,9	1,9	2,1	0,3	236
Fiscal balance	**-1,8**	**1,2**	**-2,1**	**0,1**	**2,0**	**2.111**

Source: BPI Research, based on INE.

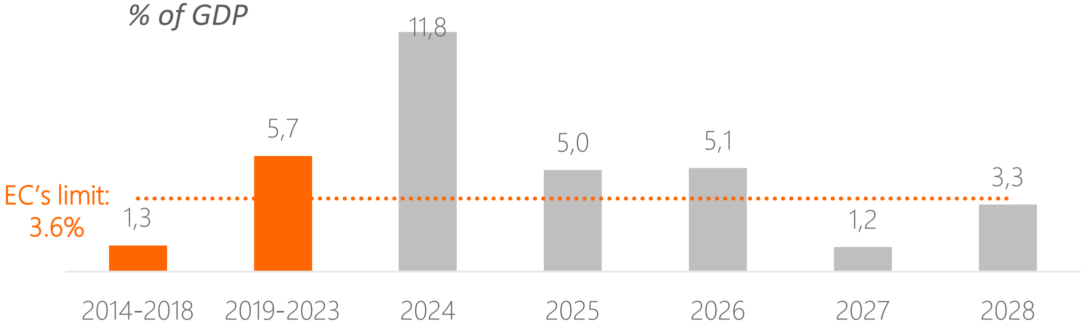
Overall fiscal balance in accrual basis

% of GDP



Net Primary Expenditure

% of GDP



Source: BPI Research, based on Medium-Term Fiscal-Structural Plan 2025-2028.

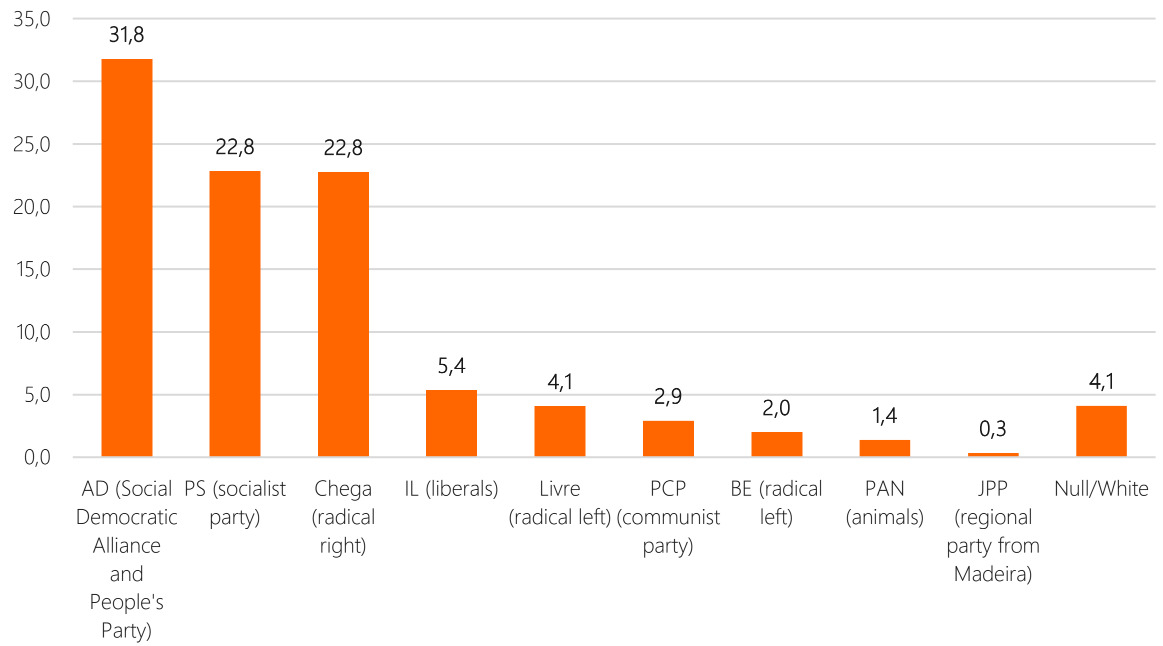
- **Public accounts continue to improve, with revenues increasing 3273 million euros in 2025, compared to the same period in 2024, while expenses only raised 1162 million euros, ending up with a net increase of 2111 million in the surplus.** The main drivers were the raised fiscal revenue (+1.3 p.p. yoy, although a slight decrease when compared to 2019), and the reduced interest expense on public debt (-0.4 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 public debt remains at high levels, well above the 60% of GDP threshold (although lower that 95% of GDP).

Historical turn in the Portuguese Parliament: Socialists step down to the 3rd place for the 1st time;

Grupo CaixaBank

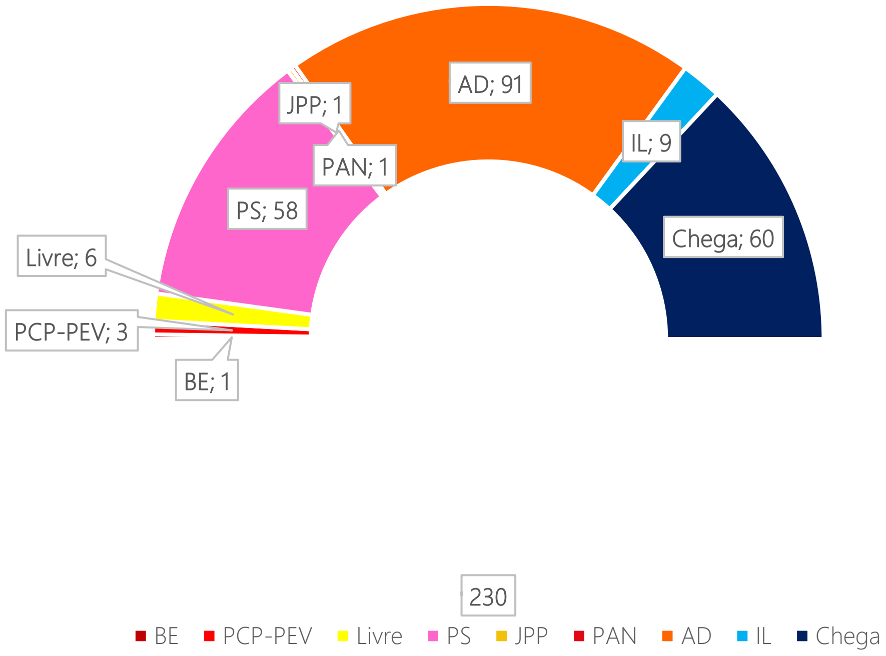
Official results from the elections

voting share (%)



New Parliament's composition resulted from May 18th elections

(number of seats)

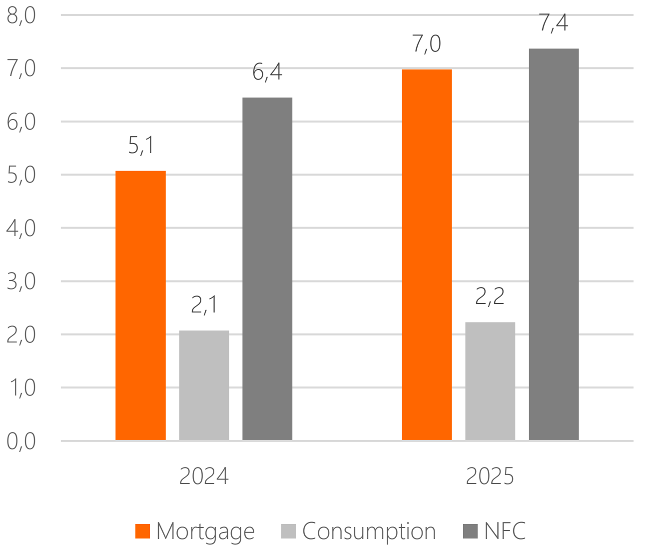


***Source**: BPI Research, , using data from MAI (Ministry of Internal Affairs)*

- **The results from 18th May general elections in Portugal were historical: for the 1st time since the democratic revolution in 1974, another party other than PS and PSD becomes the 2nd largest party in terms of seats, conquering the opposition leadership.** The growth of the right-wing 'Chega' represents a change in the dominant political mindset.
- **AD (centre-right coalition) wins again the elections, increasing its parliamentary bench but falling short to reach the absolute majority** (min. 116 seats), depending now on bilateral accords with other parties to ensure full continuity of the executive in the coming years. Nevertheless, the left recorded its biggest defeat ever, with the right (AD+IL+Chega) achieving a constitutional majority of 2/3 of parliament that allows revisions to the fundamental law.

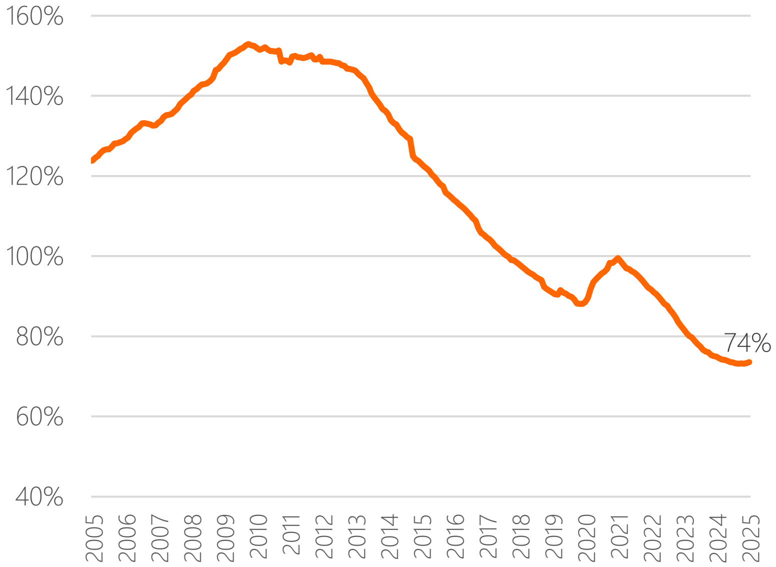
Banking system: deleveraging and high liquidity

New lending activity by sector
Accumulated in the 12 months up to April, billion euros



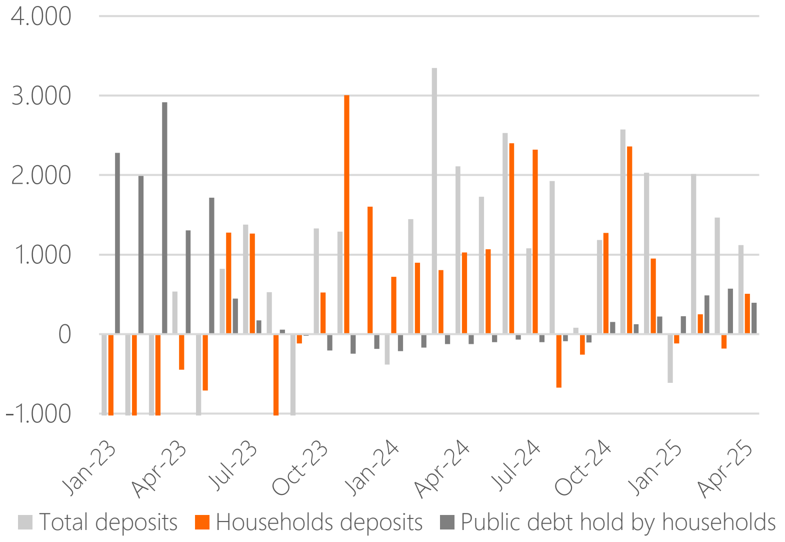
Source: Caixabank Research, based on data from Bank of Portugal and ECB.

Bank credit to the non-financial private sector
% GDP



Note: latest data available as of Nov.-2024. **Source**: Caixabank Research, based on data from Bank of Portugal.

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

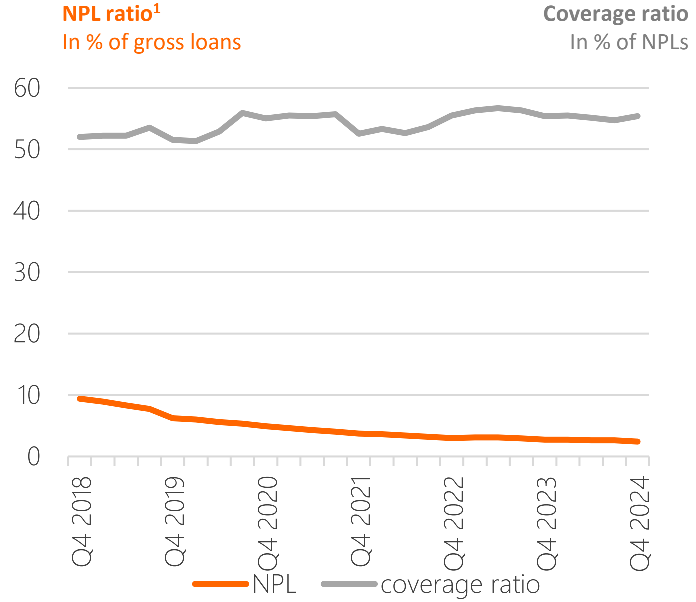


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 7 bn Eur in 2024.
Source: CaixaBank Research, based on data from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

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit: stock** rose 5.7% in April, with new operations still increasing at double digit levels (+38% 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 to improve the access of youth people to credit and housing market).
  - **NFC:** the stock increased by 0.4% in April, while new operations recorded expanded 14.3% yoy.
  - **Deposits:** the stock rose 6.1%. Households and NFC's deposits simultaneously increased (5.3% and 8.0% yoy, respectively), with both segments reaching the highest amount since, at least, 2000. However, the actual descending trend in interest rates for new deposits (1.6% in April 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 7th consecutive month).

Banking system: a solid position to support the economy

NPLs and coverage ratios

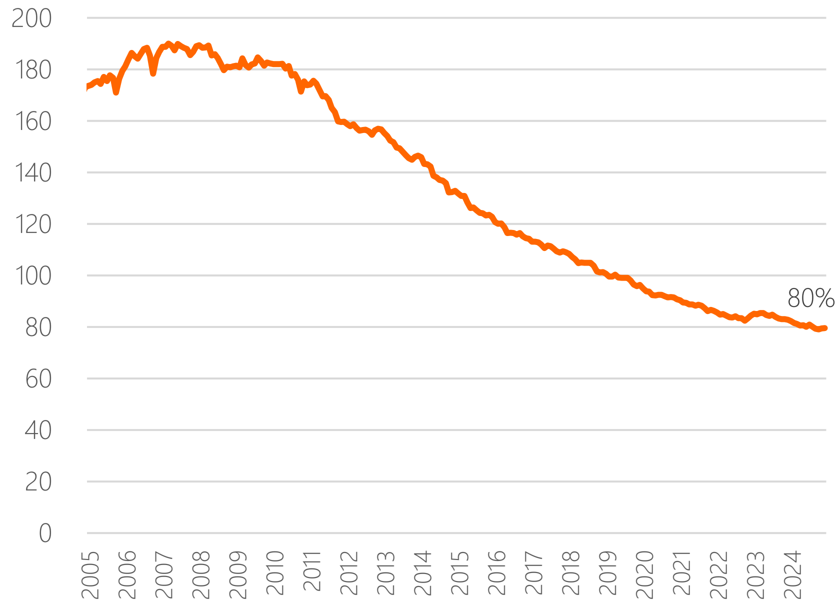


Cost of risk[1]
0.5% in Q4 2019
0.1% in Q4 2024

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

Non-financial private sector: loan-to-deposit ratio

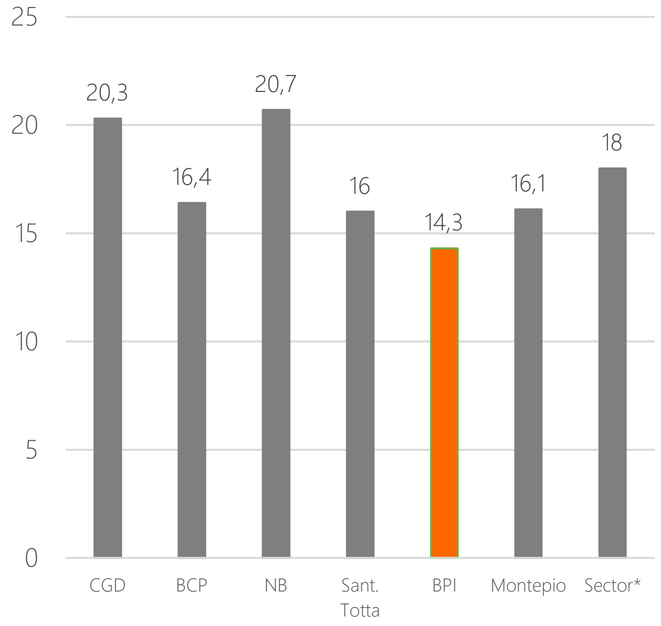
(%)



Source: Caixabank Research with data from Bank of Portugal.

Banks' solvency and liquidity position

In % (2024)



Source: Banks publications, BoP

- **NPLs ratio keep steady in Q4.** The total NPL ratio decreased to 2.4% in Q4 2024, while the one relative to households decreased to 2.3% (-2 pp from Q3). The ratio for NFC was the one that saw the largest quarterly drop, to 4.3% (-5 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 increased to 15.2% in Q3 (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 or any adverse unexpected event that could eventually impact NPL's.**