Portugal:
Macroeconomic and financial outlook

BPI *Research*

March 2025

Prepared with information available by March 11th , 2025

BPI Grupo CaixaBank

Main messages

Activity

- **The economy surprised on the upside in 2024 and the prospects for 2025 improved**. GDP grew 1.9% in 2024, after the 1.5% qoq increase in the last quarter of 2024. **For 2025, the economy is seen to remain resilient:** in a scenario of zero growth in all quarters of 2025, the economy will move forward by 1.3%, but this is not a likely scenario, given the existing growth support factors - NG EU funds, robust labour market, income recovery - so we have revised the growth forecast for 2025 from 2.3% to 2.4%. This revision was followed by a downward revision of qoq average growth to 0.45% (previously 0.65%), incorporating a more conservative stance, because of the international environment presents some risk factors with a potentially unfavourable impact on activity.
- **Inflation continues its path to the target.** In February inflation rate decelerated to 2.4%, with energy moderating the pace of growth, but with unprocessed food prices accelerating. Looking ahead to 2025, the outlook for prices looks more favourable, but the disinflation process may prove to be slower than earlier expected, so we update our forecast for global inflation to 2.2%, 1 tenth more than the September's forecast.
- **Labour market will remain a relevant factor supporting activity as employed population continues to increase.** In January employment rose 2.1% year-on-year, bringing the unemployment rate to 6.2%, minus 2 tenths than in December and in January 2024. The outlook for 2025 remains positive, being expected the stabilization of the unemployment rate at 6.4%, the same than in 2024.
- **In Q3 2024, the house price index recorded a year-on-year change of 9.8%, 3.1 p.p. more than our estimate of a 6.7% increase.** With that in mind and also taking into account other recent data we revised the forecast for 2024 HPI increase to 8,5% (previously 6,8%) and 7,0% for 2025 (previously 3,2%).
- **The current account balance recorded a surplus equivalent to 2.2% of GDP, (0.6% of GDP in 2023**). The reduction in the energy deficit and the improvement in the balance of services, both tourism and others, are responsible for this improvement. The outlook for 2025 remains positive, with the surplus expected to end the year at a level close to that recorded in 2024. **The improvement of the external balance is reflected in the reduction of the external debt, which in 2024 represented 44.5% of GDP, the lowest level since the beginning of 2005.**
- **On a cash basis, the overall fiscal balance stood at 0.1% of GDP in 2024, a positive surprise in comparison to the Government's forecast (-0.4%) despite the decrease in comparison to the 1.7% recorded in 2023.** This evolution is favourable for the official figures: we estimate that surplus will be around 1% of GDP in accrual basis. If confirmed, the fiscal balance will exceed the Government's and BPI's forecasts (0.4% and 0.5% of GDP, respectively). **Fiscal policy will remain slightly expansionary in 2025-2026**, but this will not jeopardize the expectation of a slight surplus and a reduction in public debt in the coming years.

Banking Sector

- **NPLs ratio stabilized in Q3.** The total NPL ratio stood at 2.6% in Q3 2024, with the NPL of households stabilizing at 2.5% and the one for NFC declining 1 tenth to 4.8%. We are not expecting a significant deterioration of credit quality in the following months.

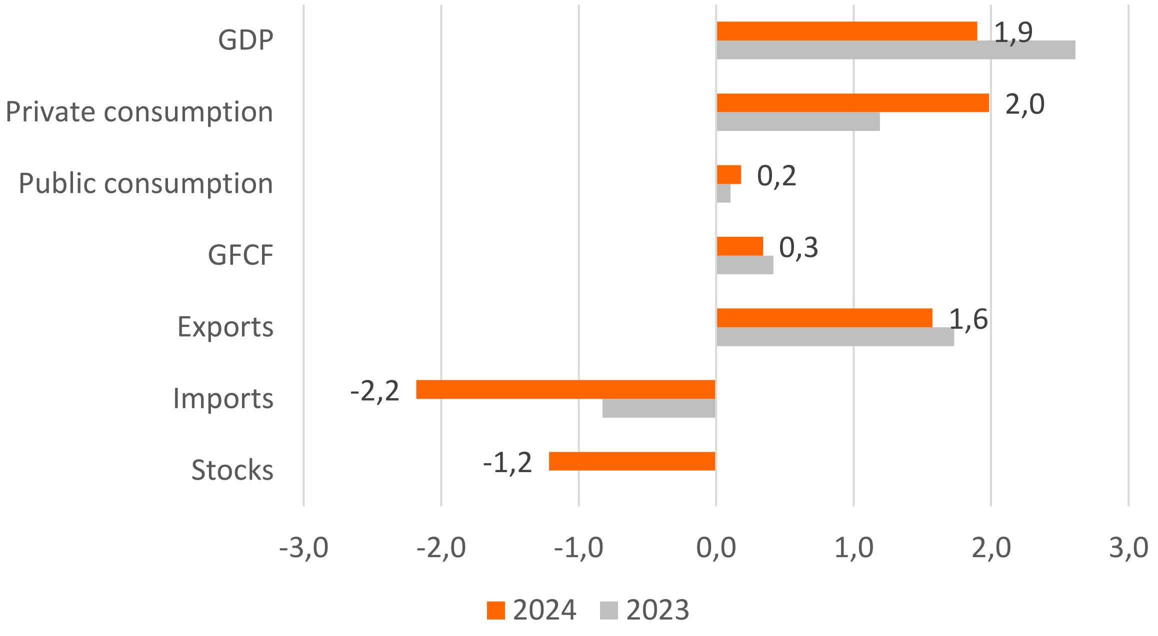
Main economic forecasts

%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	Forecasts 2024	2025	2026
GDP	2,0	3,3	2,9	2,7	-8,2	5,6	7,0	2,6	1,9	2,4	2,1
Private Consumption	2,4	1,8	2,6	3,5	-6,8	4,9	5,6	1,9	2,2	1,7	2,2
Public Consumption	0,9	0,1	0,5	2,1	0,4	3,8	1,7	0,6	1,0	0,8	0,8
Gross Fixed Capital Formation (GFCF)	2,7	11,6	6,2	3,5	-4,9	10,5	4,9	2,0	1,3	5,7	5,9
Exports	4,7	8,4	4,3	4,0	-18,4	12,1	17,2	3,8	4,2	5,0	5,2
Imports	5,2	8,0	4,9	5,1	-11,6	12,3	11,3	1,8	4,6	5,0	6,3
Unemployment rate	11,5	9,2	7,2	6,6	7,0	6,7	6,1	6,5	6,4	6,4	6,4
CPI (average)	0,6	1,4	1,0	0,3	0,0	1,3	7,8	4,3	2,4	2,2	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	2,3	2,2
General Government Balance (% GDP)	-1,9	-3,0	-0,4	0,1	-5,8	-2,8	-0,3	1,2	0,5	0,3	0,2
General government debt (% GDP)	131,2	126,0	121,1	116,1	134,1	123,9	111,2	97,9	95,3	90,9	88,0
Housing Prices	7,1	9,2	10,3	10,0	8,8	9,4	12,6	8,2	8,5	7,0	3,8
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	73	78

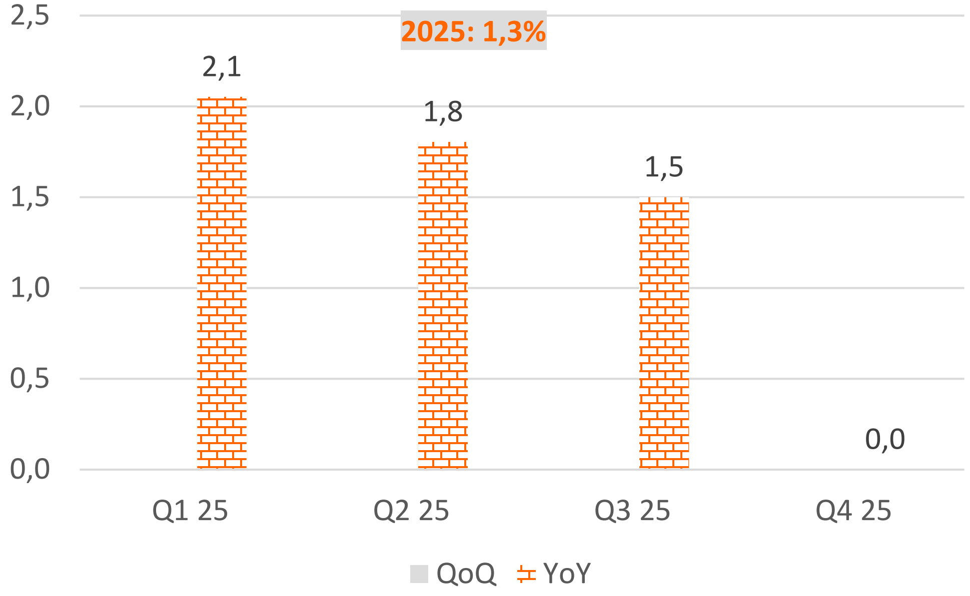
***Source**: CaixaBank Research.*

Better than expected growth in 2024 gives strength to GDP in 2025

GDP and components' contribution
annual change and contribution in p.p.



Real GDP in 2025 with zero quarterly growth
Points

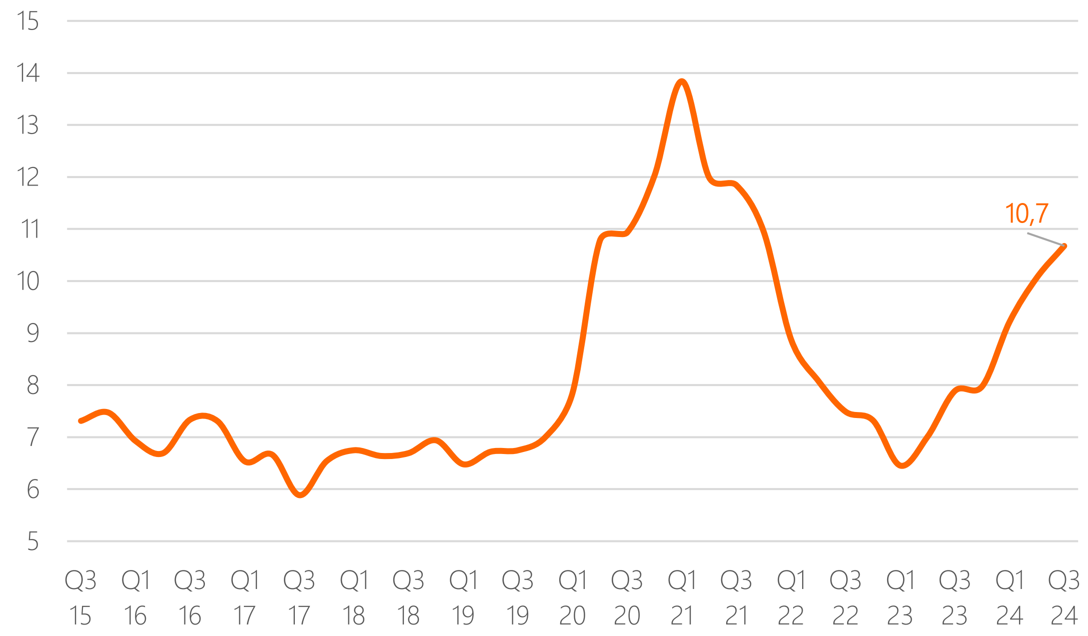


Source: CaixaBank Research, with data from INE.

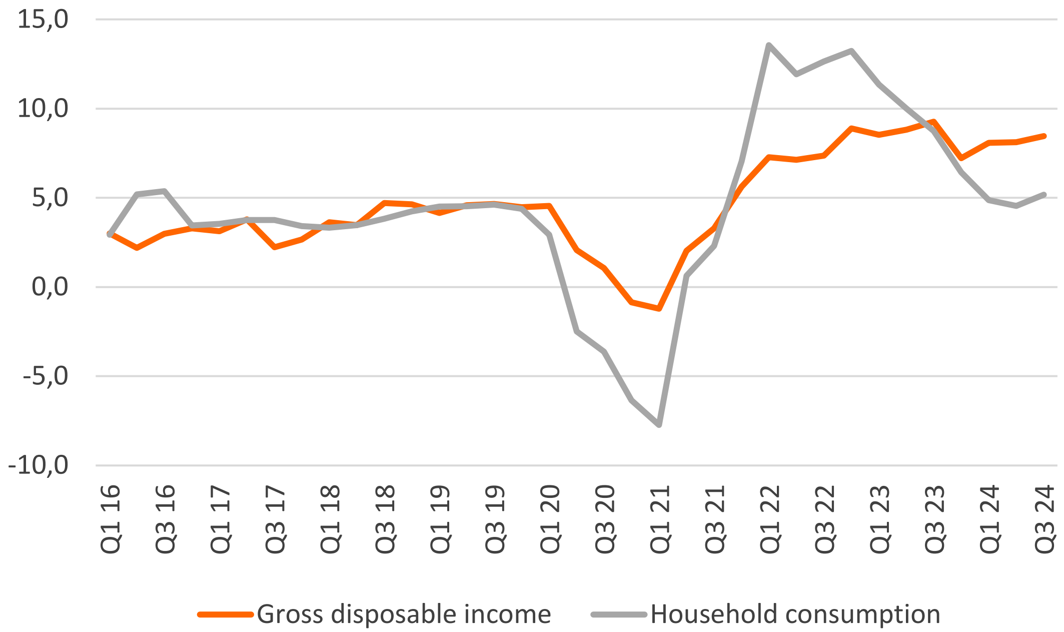
- **Growth of 1.9% in 2024 confirmed, with a positive contribution from domestic demand and a negative contribution from external demand.** Domestic demand added 2.5 percentage points to growth, reflecting the strength of private consumption. GFCF decelerated compared to 2023, reflecting more moderate growth in all components, except for intellectual property products, showing the gradual change in the production structure of the Portuguese economy towards a model that generates greater value added.
- **Growth in 2024 took advantage of a much better than expected performance in Q4 (1.5% qoq; 2.8% yoy), providing an important boost to growth in 2025**: even in a scenario of zero growth in all quarters of 2025, the economy will move forward by 1.3%. As this is not a likely scenario, given the existing growth support factors - NG EU funds, robust labour market, income recovery - we have revised the growth forecast for 2025 from 2.3% to 2.4%. This revision was followed by a downward revision of qoq average growth to 0.45% (previously 0.65%), incorporating a more conservative stance, as a result of the international environment that presents some risk factors with a potentially unfavourable impact on activity.

Private consumption is seen to continue to perform favorably

Families' saving rate
(% of DI)



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



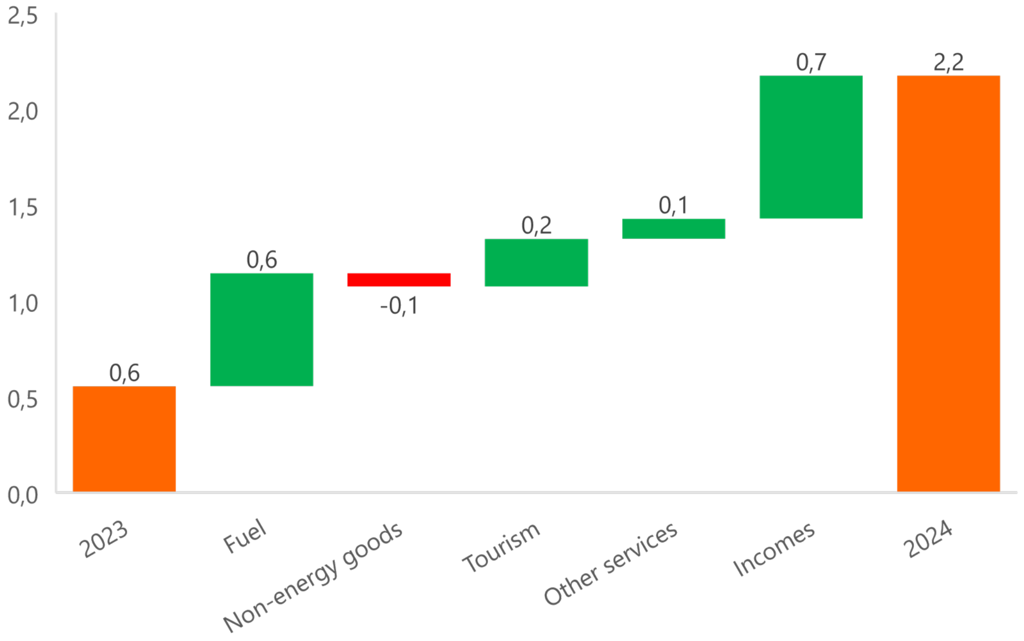
Source: CaixaBank Research, from INE, BoP.

- **Savings are increasing considerably**. The household's saving rate rose to 10.7% in Q3 2024, more 1.9 p.p. than in Q2, reaching the highest level since 2010. In addition, we estimate that households repaid around 7.4 billion euros of mortgage credit in 2024 (EUR 8.6 bln in 2023), potentially freeing up funds for consumption in the future.
- Additionally, gross disposable income is growing faster than consumption, favouring the building up of savings, which will tend to constitute an important cushion of confidence for future consumption decisions.

The current account strengthened surplus in 2024

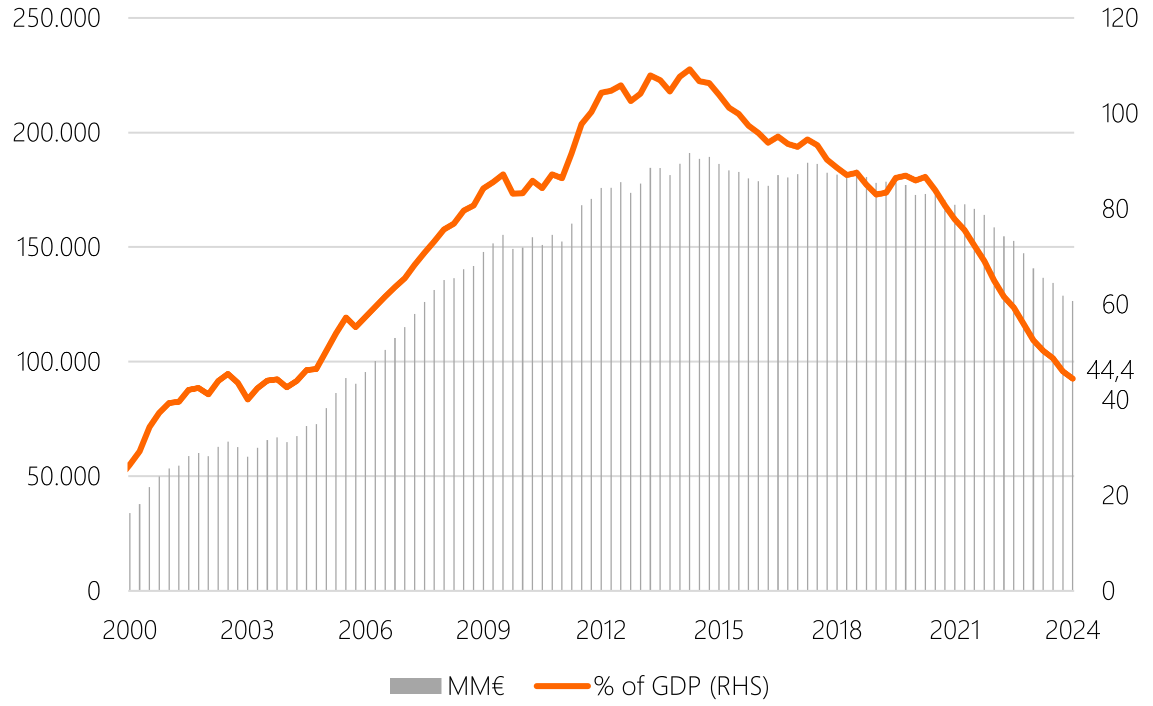
Current account 2024

% of GDP and percentage points change



Net external debt

MM € *% of GDP*



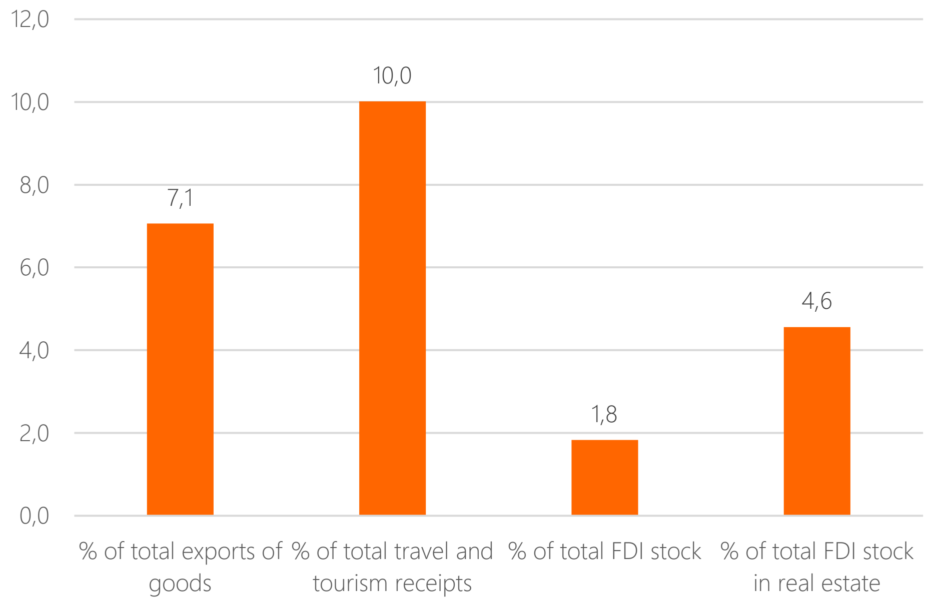
Source: CaixaBank Research, from BoP.

- The current account balance recorded a surplus of 6,143.4 million euros, equivalent to 2.2% of GDP, which compares with a surplus of 0.6% of GDP in 2023. The reduction in the energy deficit and the improvement in the balance of services, both tourism and others, are mainly responsible for this improvement. The income balance deficit shrank in 2024, to 1.8% of GDP (2.6% in 2023), reflecting a smaller investment income deficit and the greater allocation of European funds to final beneficiaries in the form of subsidies. **The outlook for 2025 remains positive, with the surplus expected to end the year at a level close to that recorded in 2024**
- The improvement of the external balance is reflected in the reduction of the external debt, which in 2024 represented 44.5% of GDP, the lowest level since the beginning of 2005.

Relations between Portugal and the USA

How much USA weighs in Portugal's foreign relations

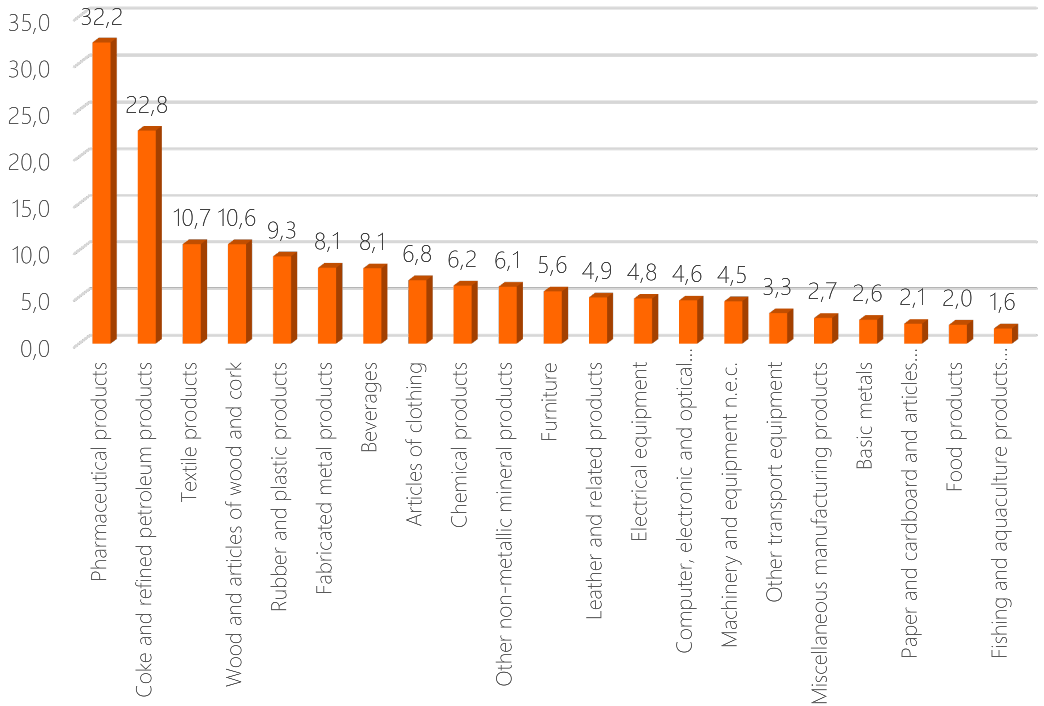
% of total (*)



Source: CaixaBank 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

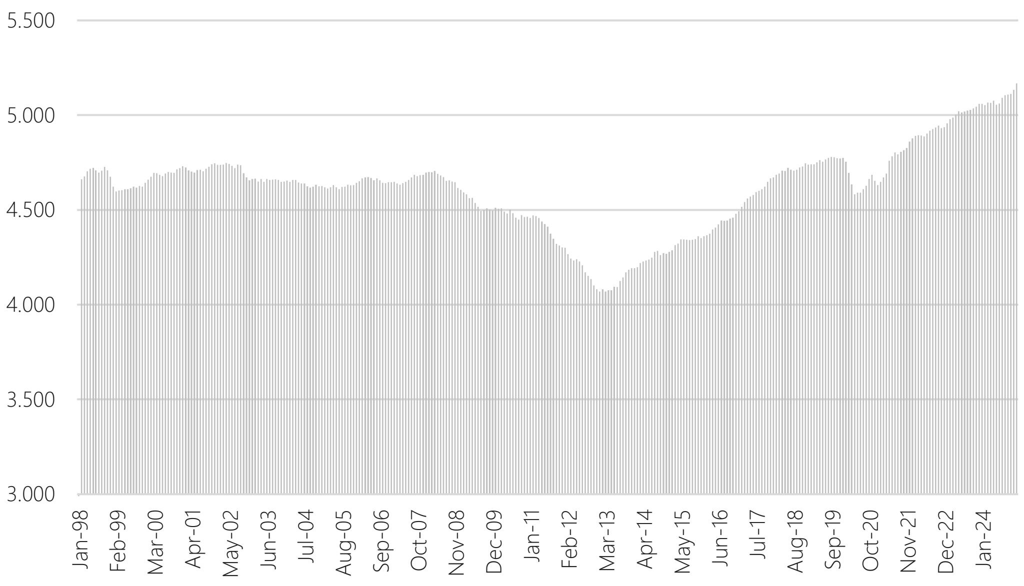
% of total exports



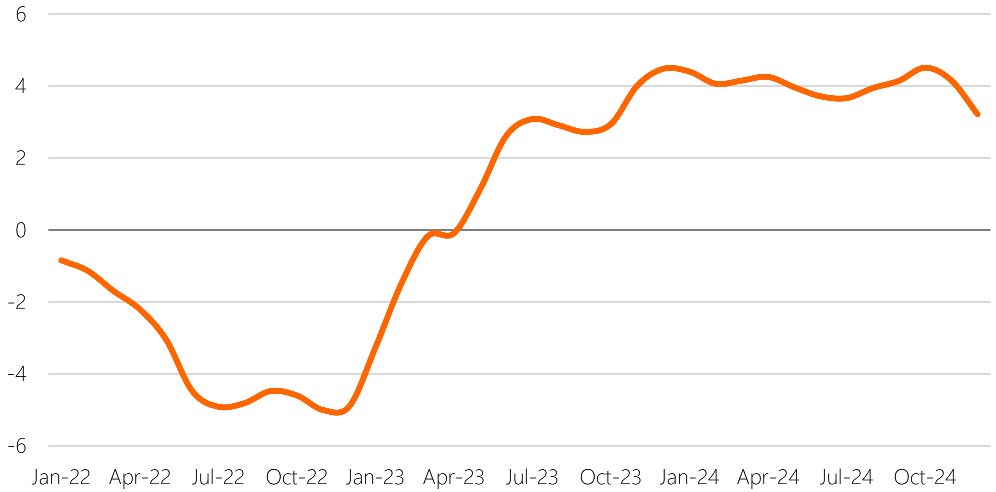
- **Political changes in perspective in the US after the last Presidential elections, namely the imposition of tariffs, may have impact on some domestic sectors.** Between 3% and 3.5% of the Portuguese GDP is linked to final demand from the US, with important contributions from the pharmaceutical, extractive, transport, hospitality, manufacturing, trade and professional services sectors.
- **Exports of goods to the US account for 7% of total Portuguese 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, in particular FDI directed 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.

Employment remains robust in early 2025

Employed population
Number of people ('000 individuals)



Real monthly earnings per worker
Year-on-year (%)



Source: CaixaBank Research, from INE.

- The employed population grew by more than 2% yoy again at early 2025. This figure extends the positive trend in employment (46th consecutive month of positive year-on-year growth).
- The employed population is at an all-time high and real wages are growing by over 3%.

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

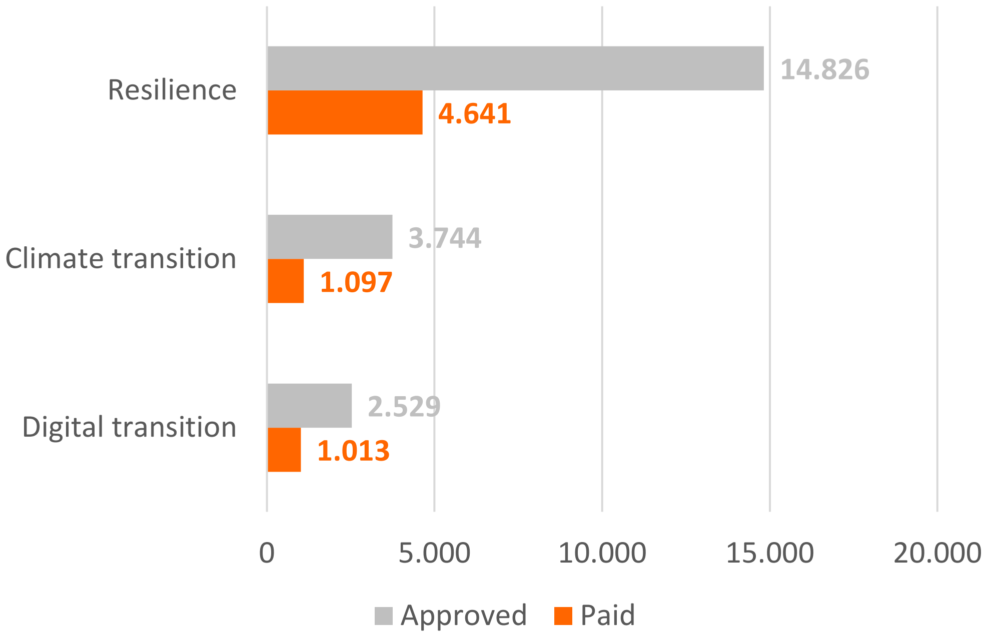
Approvals and payments to direct and final beneficiaries

(Up to January 29th)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	257	218	84,8
Social and solidarity economy institutions	587	194	33,0
Firms	6.036	2.349	38,9
Excl. R&I System Non-firms	4.950	1.917	38,7
R&I System Non-firms in consortium with firms	1.086	432	39,8
Institutions of the scientific and technological system	538	159	29,6
Higher Education Institutions	804	256	31,8
Schools	1.026	499	48,6
Municipalities and metropolitan areas	4.038	834	20,7
Public entities	4.929	1.547	31,4
Public firms	2.886	696	24,1
Total (million euros)	**21.101**	**6.752**	**32,0**
(% total RRP)	***95,0%***	***30,4%***	

Source: CaixaBank Research, from Recuperar Portugal.

RRP: amounts approved and paid by dimension

Eur million

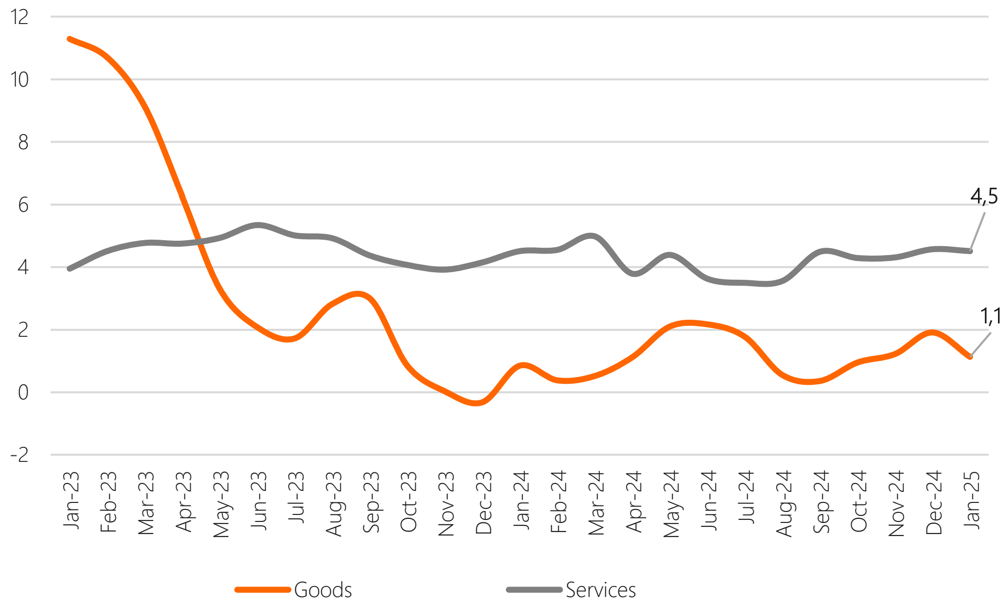


- **Up to now, Portugal received 11.4 billion euros, equivalent to 51% of the total amount of the RRP.** In December 2024 were received 2.9 bln euros.
- **Projects already approved amount to 21 billion euros (95% of the total amount) and payments reached 6.8 billion** (59% of the total amount received). Since the beginning of 2024, the payment rate improved by 10 p.p., to 32% 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 1,850 million euros, equivalent to 42% of the approved amount; housing, with an amount already paid out of 892 million (25% of the approved amount); and the qualifications and skills component with an amount already executed of 683 million euros (32% of the approved amount). In the climate transition, the decarbonization of industry and sustainable mobility components stand out, with amounts already paid amounting to 275 and 228 million euros, respectively, representing, in the same order, 31% 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 618 and 629 million euros, respectively, of which 222 and 176 million have already been paid out.

A slow walk towards 2% inflation

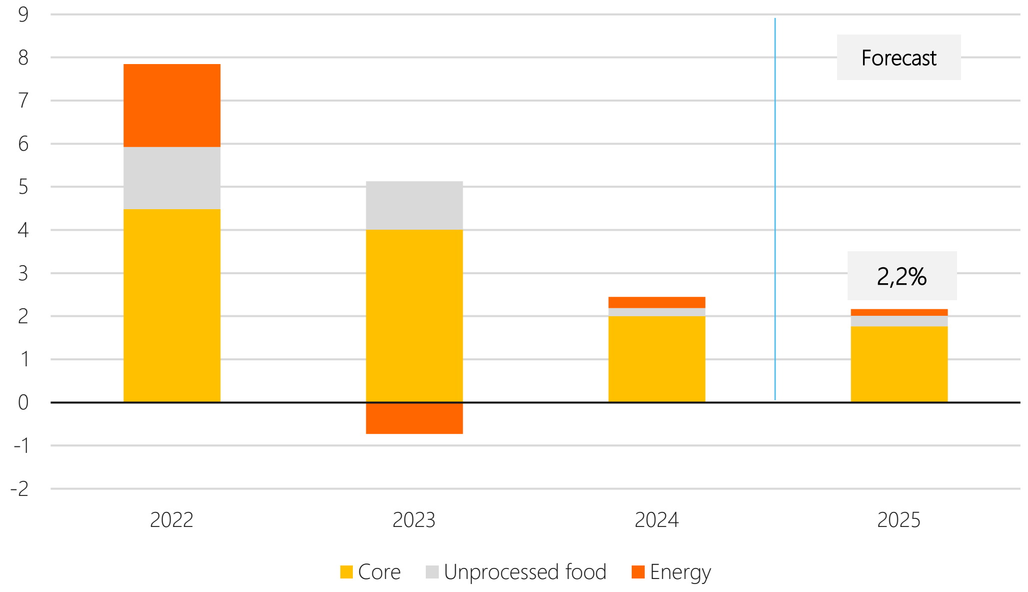
Goods & Services inflation

Year-on-year (%)



Global inflation

average annual inflation and contributions (%)



Source: Caixabank Research, using data from INE.

- Goods inflation is below 2% threshold and is supported by negative yoy inflation in Industrial Production Price Index.
- Momentum of demand makes it stickier to adjust inflation for categories associated with services (like Travel, Accommodation and Catering). Greater stability in energy and food prices should allow for lower inflation in 2025, but only in 2026 will it return to the 2% average.

Tourism: to set new records in 2025

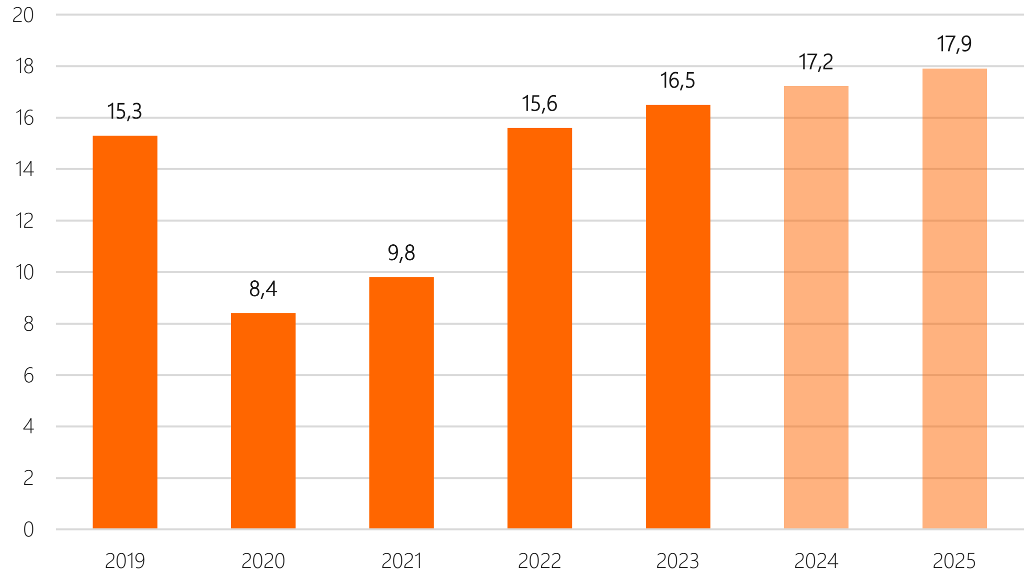
Growth in the number of tourists

%

Tourists	2024 VS 2023	Last 3 months VS yoy	Trend
Resident	3,5%	10,5%	
Non Resident	6,3%	7,4%	
UK	4,3%	2,2%	
Germany	6,6%	7,7%	
Spain	0,8%	3,8%	
France	-3,0%	-1,5%	
USA	11,8%	9,9%	
Brasil	-1,0%	0,0%	
Other	21,5%	24,4%	

Weight of the Tourism Sector

% of GDP

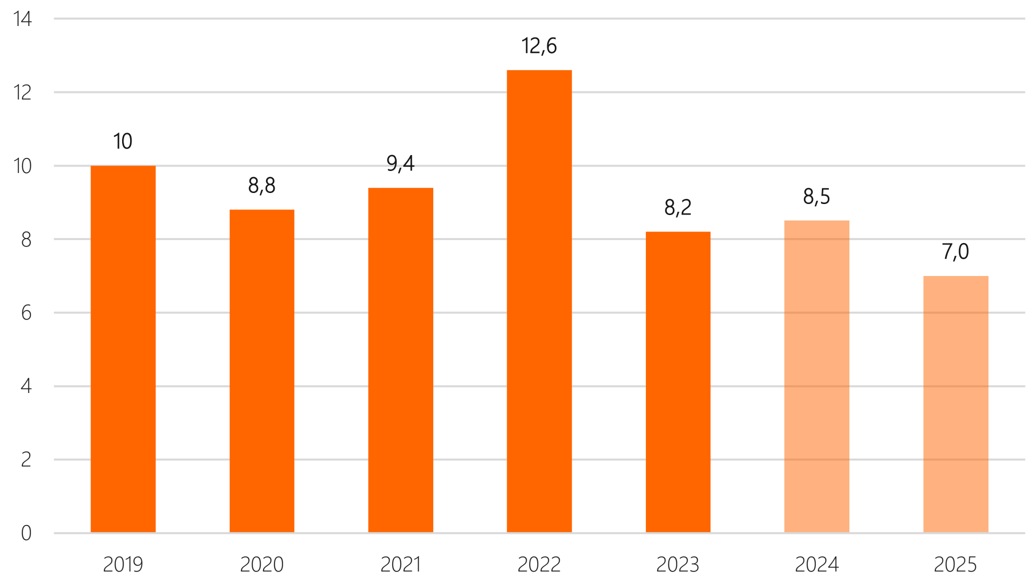


***Source**: CaixaBank Research, using data from INE.*

- We forecast a growth in guests very similar to 2024 (around 5%). In eurozone countries we foresee a recovery in real wages, with inflation returning close to the 2% target, which will be reflected in the willingness to travel in the main source countries.
- 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.

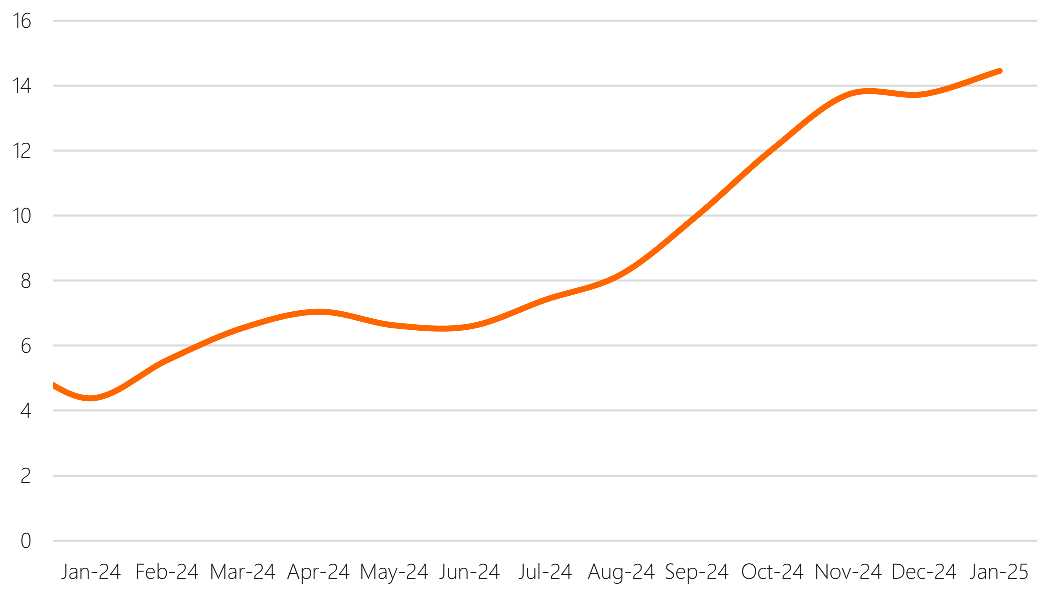
Housing with solid appreciation

House price index
year-on-year (%)



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

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



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

- **Robust demand coupled with lower interest rates, high employment levels, positive migration balances and a shortage of supply should continue to support the market.**

Public accounts should have surprised again in 2024

Key items in the public accounts*

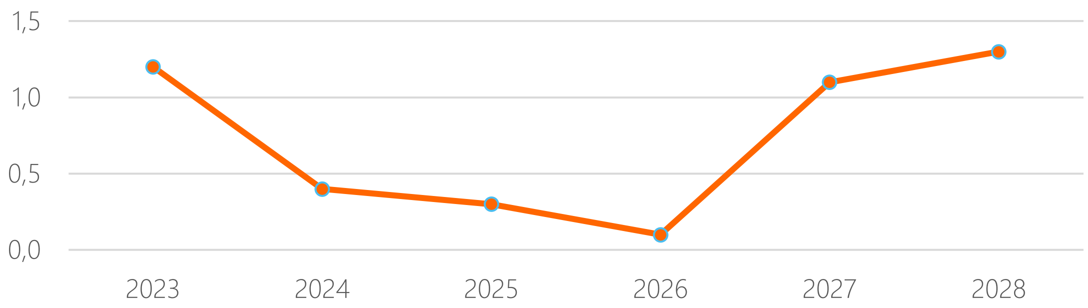
% of GDP, unless otherwise indicated

January-December	2019	2021	2022	2023	2024	Change 2024 vs 2019	Change 2024 vs 2023 (million euros)
Revenues	**41.5**	**42.5**	**41.9**	**43.0**	**45.2**	**3.7**	**5,900**
Fiscal revenues	24.2	23.8	24.1	24.6	25.4	1.2	1,969
Social security contributions	10.4	11.2	10.8	11.0	12.0	1.6	2,858
Expenditure	**41.8**	**46.5**	**43.3**	**41.3**	**45.1**	**3.3**	**10,114**
Staff costs	10.1	10.9	10.0	9.8	10.6	0.5	2,053
Current transfers	17.9	20.2	19.2	17.7	19.9	2.0	5,985
Aquisition of goods & services	6.2	6.8	6.6	6.5	7.0	0.8	1,250
Interests	3.8	3.2	2.7	2.5	2.6	-1.2	251
Investment	2.3	2.9	2.7	2.8	2.9	0.6	352
Primary current expenditure	**35.2**	**39.4**	**37.1**	**35.2**	**38.6**	**3.4**	**9,272**
Budget balance	**-0.3**	**-4.0**	**-1.4**	**1.7**	**0.1**	**0.4**	**-4,214**

Note (*): cash basis.
Source: BPI Research, based on DGO.

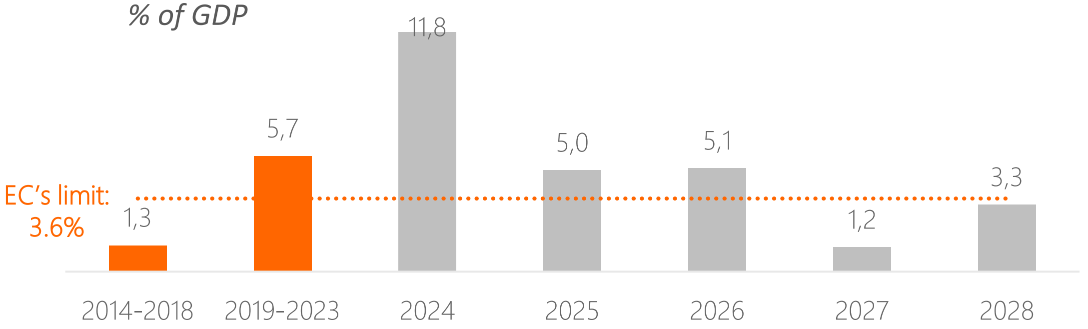
Overall fiscal balance in accrual basis

% of GDP



Net Primary Expenditure

% of GDP

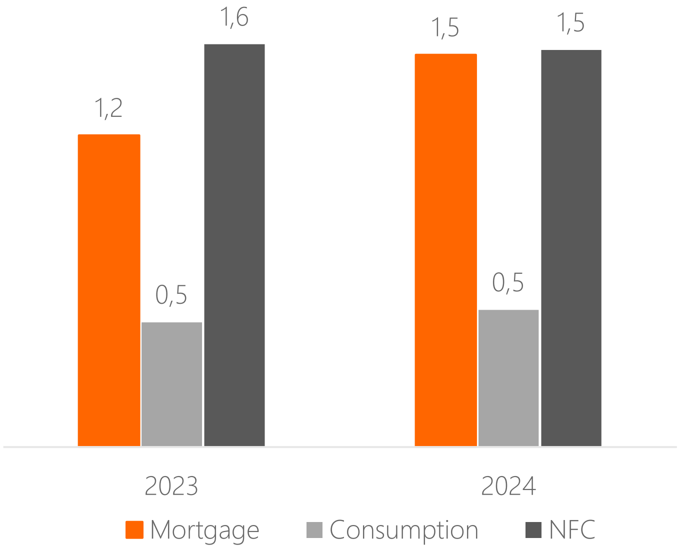


Source: BPI Research, based on Medium-Term Fiscal-Structural Plan 2025-2028.

- **On a cash basis, the public sector reached a surplus of 0.1% of GDP in 2024**, which compares with a surplus of 1.7% in 2023. In fact, expenditure increased more than revenues (9.2% and 5.1%, respectively), highlighting the sub-execution in fiscal revenues and in the majority of expenditures (excluding staff expenditure and current transfers). The figures in cash basis reveal that official overall fiscal balance may have ended the year at around 1% of GDP, which, if confirmed, would surpass the Government's estimate (0.4% of GDP) and BPI's forecasts (0.5%).
- **Fiscal policy will be expansionary** (supporting activity) **in 2025-2026** (less so than in 2024 when the structural primary balance fell by 0.8 p.p. of GDP), but this will not jeopardize the expectation of a slight surplus and a reduction in public debt ratio in the coming years. However, the budgetary rules will be enforced: budget surpluses throughout the projection horizon, a reduction in the public debt ratio of 3 p.p. per year (minimum requirement: 1 p.p./year) and average growth in net primary expenditure in line with the EC (3.6%).The increase in net primary expenditure exceeds the 3.6% required by the EC in 2025 and 2026, justified by the measures adopted in the 2025 State Budget and the implementation of the RRP (greater weight of loans).

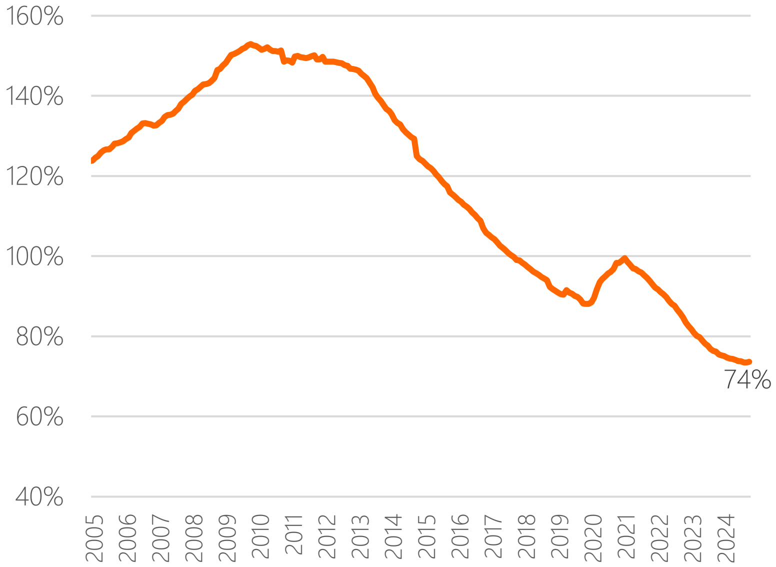
Banking system: deleveraging and high liquidity

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



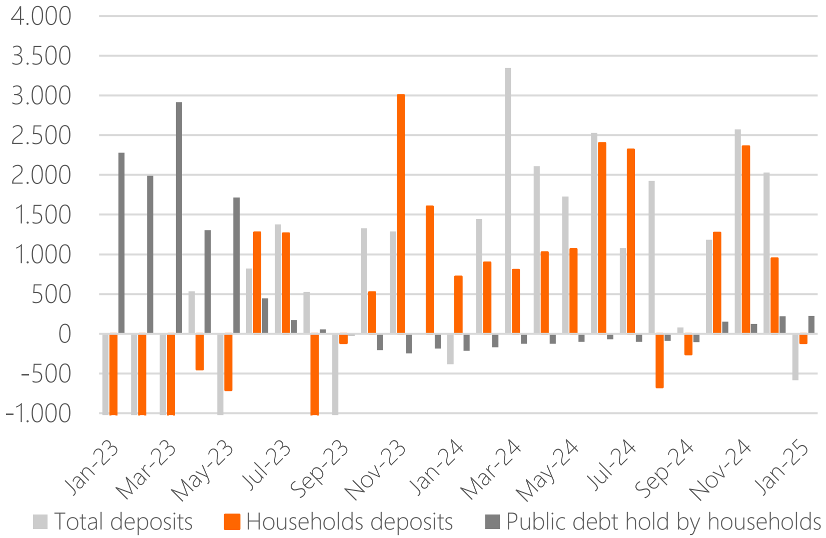
Source: Caixabank Research, based on data from Bank of Portugal and ECB.

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€)

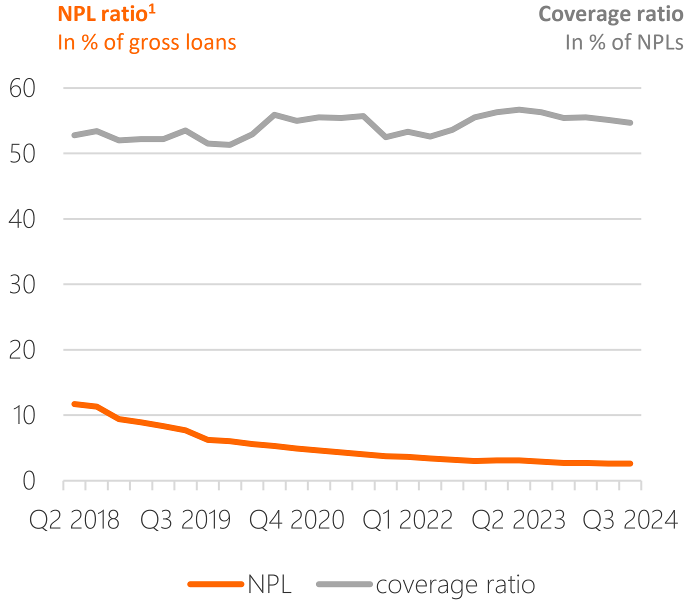


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 7 bn Eur in 2024.
Source: CaixaBank Research, based on data from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

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit:** stock rose 4.0% in January, with new operations increasing at double digit levels (+26%, including transfers among banks, which BoP has been reporting at approximately 30% of total new mortgage credit), 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 0.9%, while new operations recorded contracted 1.4% in the first month of the year.
  - **Deposits of the private sector rose 7.3% in January**. Both Households and NFC's deposits increased (6.7% and 9.3% yoy, respectively), with both segments reaching the highest amount since, at least, 2000. However, the descending trend in interest rates for new deposits for the following months (2.0% in January, -0.9 p.p. in comparison to the homologous period) should restrain the increase in households' deposits in the future, probably towards Government retail products (with subscriptions increasing in January for the third consecutive month).

Banking system: a solid position to support the economy

NPLs and coverage ratios

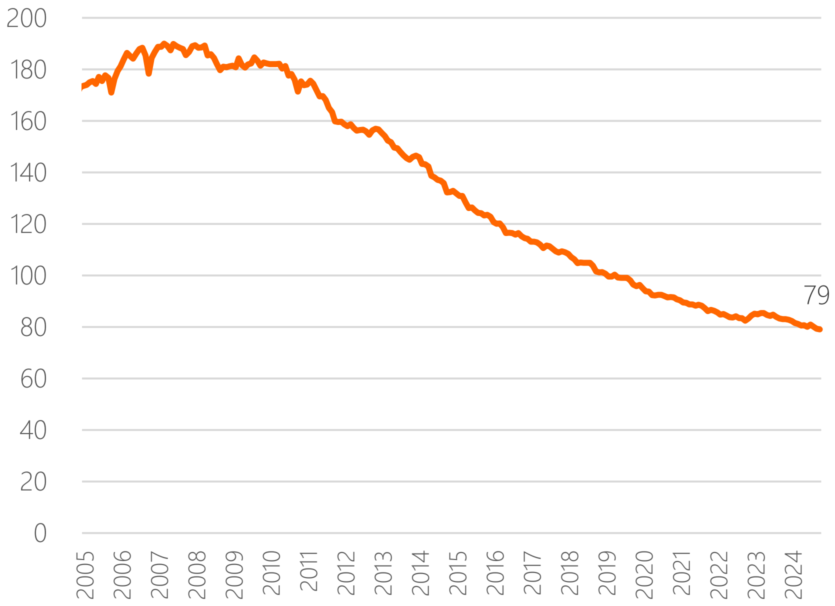


Cost of risk[1]
0.5% in Q4 2019
0.1% in Q3 2024

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

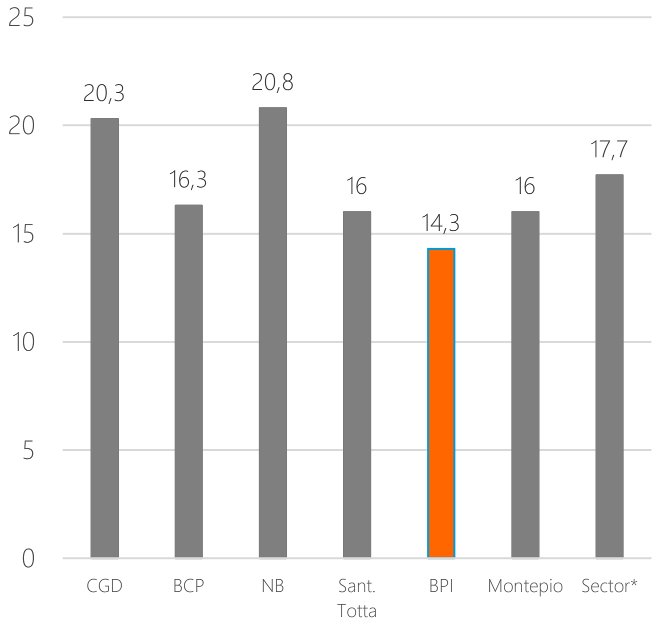
(%)



Source: Caixabank Research with data from Bank of Portugal.

Banks' solvency and liquidity position

In % (2024)



** For the sector the latest value available is Q3*
Source: Banks publications, BoP

- **NPLs ratio stabilized in Q3.** The total NPL ratio stood at 2.6% in Q3 2024, with the NPL of households stabilizing at 2.5% and the one for NFC declining 1 tenth to 4.8%. 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 16.1% 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.**