Portugal:
Macroeconomic and financial outlook

BPI ***Research***

May 2025

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Prepared with information available by May 8th , 2025

Main messages

Activity

- **GDP fell 0.5% qoq, an unexpected result,** probably due to one-off factors, including a higher-than-expected fall in private consumption, correcting the huge growth in Q4 and an increase of imports, correcting also the decline seen in the previous quarter. 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%, with strong impact on the annual figure**. This data has a strong carryover effect on growth in 2025, that should imply a downward revision of our forecast for annual GDP in 2025 to a level below 2%;** 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 .
- **Inflation continues its path to the target, but with some volatility.** In April it rose to 2.1% 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 and capital account balance is seen to keep a positive trend (BoP anticipate a surplus of 4.5% of GDP in 2025, with an improvement of 4 tenths in the balance of goods and services).** The improvement of the external balance has been reflected in the reduction of the external debt, which in 2024 represented 44.5% of GDP, the lowest level since the beginning of 2005.
- **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 current parliamentary design is not expected to change significantly in the May 18th elections.** Political risk will remain high, limiting the government's ability to carry out reforms, but fiscal consolidation should not be jeopardized, as AD and PS remain committed to fulfilling with budgetary rules.

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

Under revision

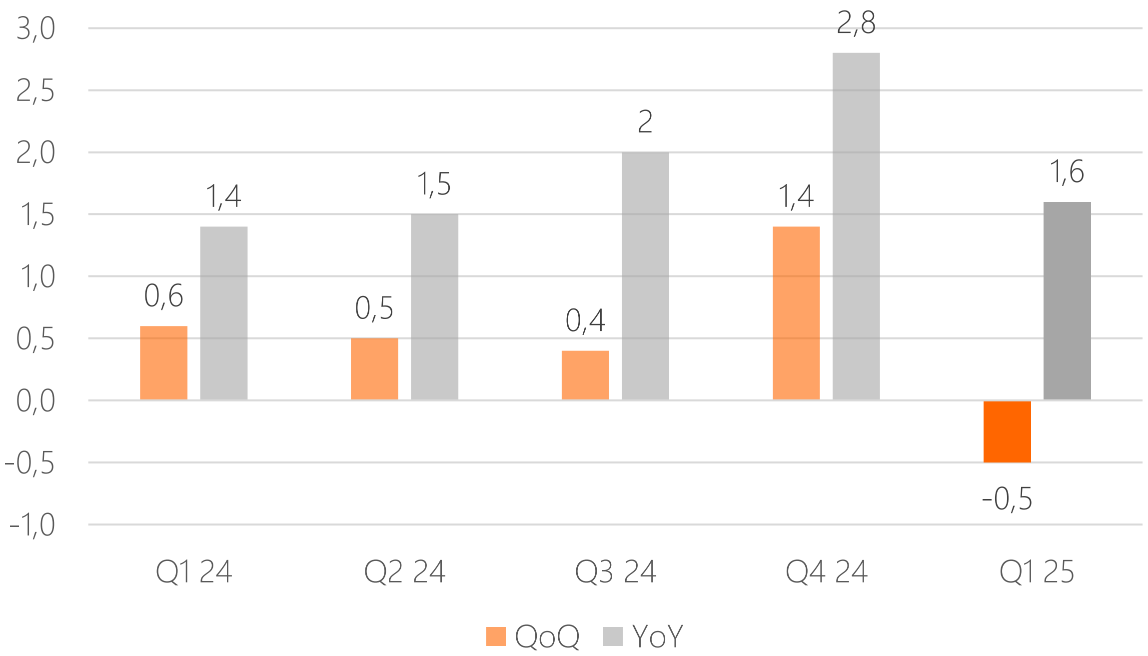
%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 (Forecasts)	2026 (Forecasts)
GDP	2,0	3,3	2,9	2,7	-8,2	5,6	7,0	2,6	1,9	2,4	2,1
Private Consumption	2,4	1,8	2,6	3,5	-6,8	4,9	5,6	1,9	3,2	2,3	1,8
Public Consumption	0,9	0,1	0,5	2,1	0,4	3,8	1,7	0,6	1,1	0,9	0,8
Gross Fixed Capital Formation (GFCF)	2,7	11,6	6,2	3,5	-4,9	10,5	3,3	2,0	3,0	5,5	5,2
Exports	4,7	8,4	4,3	4,0	-18,4	12,1	17,2	3,8	3,4	3,4	3,7
Imports	5,2	8,0	4,9	5,1	-11,6	12,3	11,3	1,8	5,0	4,0	4,1
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	0,7	0,3	0,2
General government debt (% GDP)	131,2	126,0	121,1	116,1	134,1	123,9	111,2	97,7	94,9	90,9	88,0
Housing Prices	7,1	9,2	10,3	10,0	8,8	9,4	12,6	8,2	9,1	7,0	3,8
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	67	78

***Source**: CaixaBank Research.*

One-off factors justified surprising GDP Q1 25 decline

Real GDP

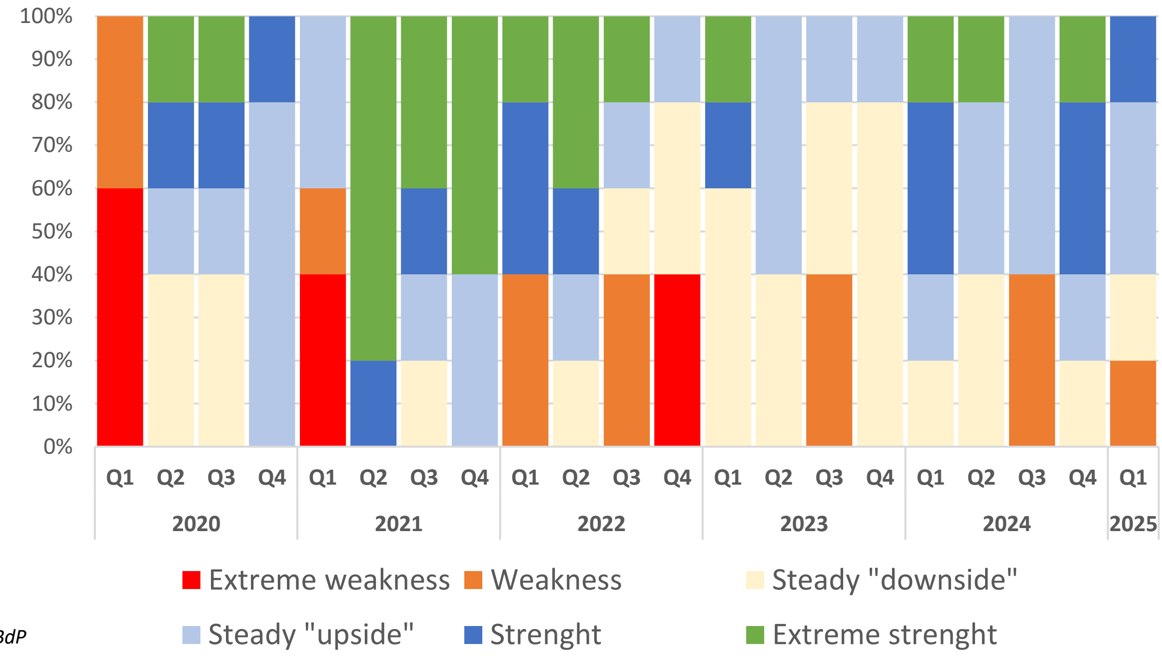
%



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

Activity traffic light – BPI Research

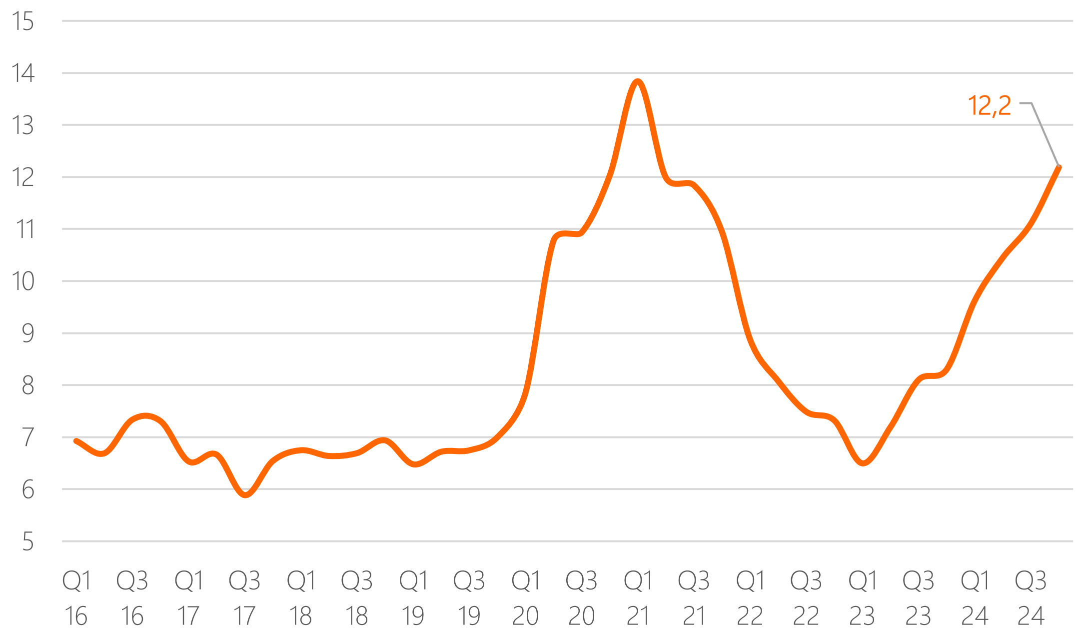
%



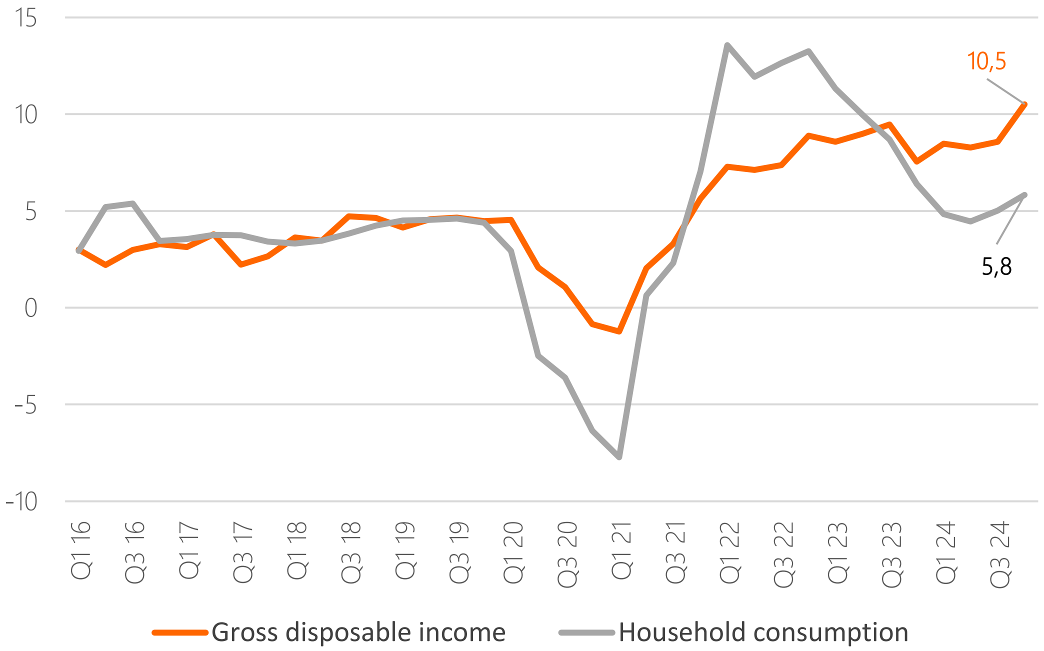
- **GDP contracted 0.5% qoq, an unexpected result,** as partial indicators released in the first three months of the year were suggesting moderation but a quarterly increase in GDP, with 60% of the embedded data in our synthetic indicator (activity traffic light) suggesting a steady upside and 40% suggesting a steady downside. The Q1 decline was probably due to a higher-than-expected fall in private consumption, correcting the huge growth in Q4 (household consumption increased 2,8% q/q that compares with 0,6% historical average), and probably an increase of imports, correcting also the decline seen in the previous quarter. We admit that investment should have had a positive evolution, which (together with positive public expenditure) would also explain the boost in imports and the null contribution of domestic demand for quarterly GDP. Having said this, we think the last two quarters have to 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%, with strong impact on the annual figure.
- **This data has a strong carryover effect on growth in 2025, that should imply a downward revision of our forecast for annual GDP in 2025 to a level below 2%.** However, activity is expected to remain resilient, supported by strong labour market (1st quarter unemployment surprised on the downside and job creation reached a new maximum), 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 .

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.

The current account strengthened its surplus in 2024

Current account 2024

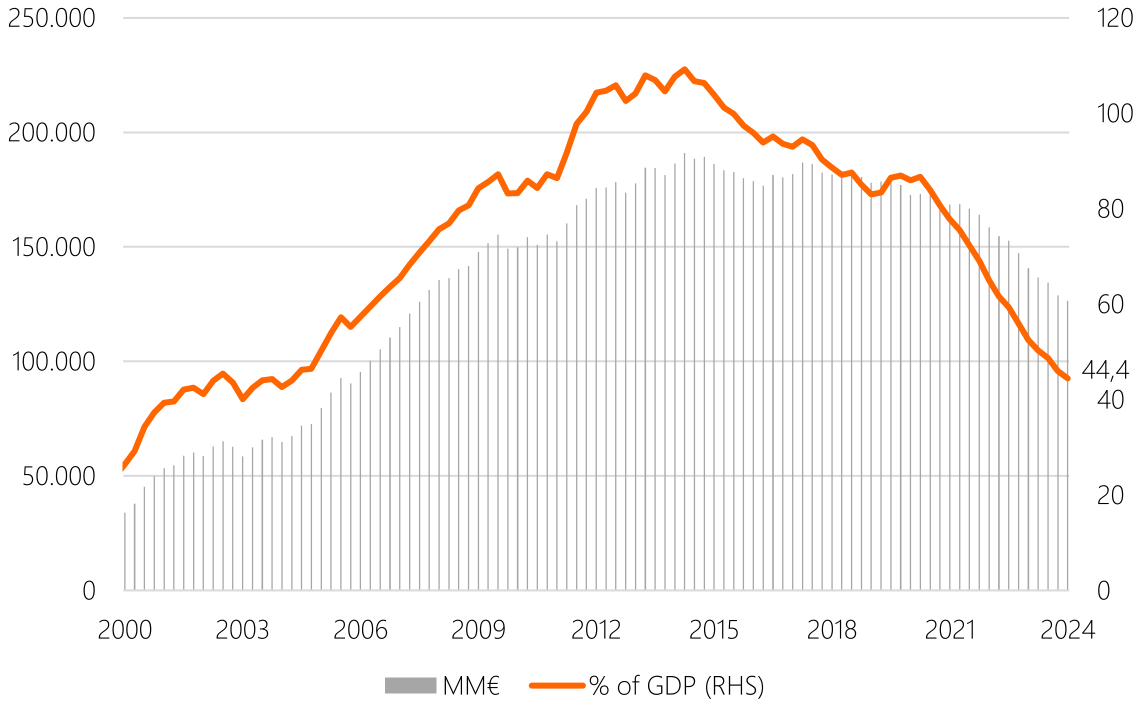
% of GDP and percentage points change

Source: CaixaBank Research, from BoP.

Net external debt

MM €

% of GDP

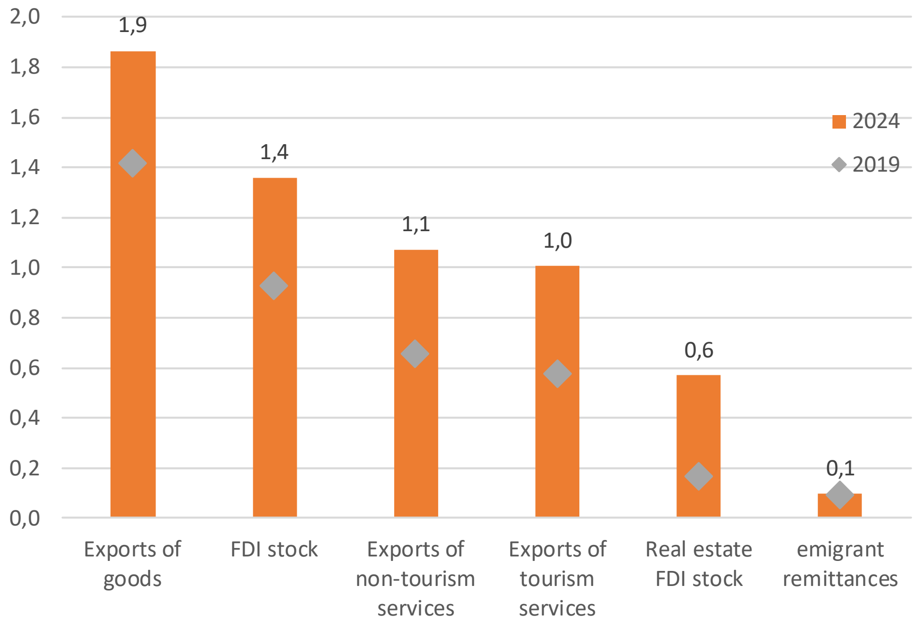


- In 2024, the current account balance recorded a surplus of 6,143.4 million euros, equivalent to 2.2% of GDP, which compares with a surplus of 0.6% of GDP in 2023. The reduction in the energy deficit and the improvement in the balance of services, both tourism and others, are mainly responsible for 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.

Portugal's exposure to the US is relatively moderate

Portugal - US Economic relationships

% of GDP



Source: BPI Research based on BoP and INE data

Portuguese exports of goods to the US

	Exports to the US 2024 (million €)	% of total
Pharmaceutical Produts	1.168	22,0
Mineral fuels	1.078	20,3
Rubber	368	6,9
Electrical machinery	303	5,7
Nuclear reactors	227	4,3
Cork and articles	185	3,5
Articles of iron and steel	182	3,4
Textil products	144	2,7
Furniture	126	2,4
Clothing	183	3,4
Beverages	111	2,1
Organical chemicals	111	2,1
Footwear	98	1,8
Ceramic products	89	1,7
Optical, photografical, cinematographic	72	1,4
Others	873	16,4
Total	**5.318**	**6,7**
% of GDP	**1,9**	

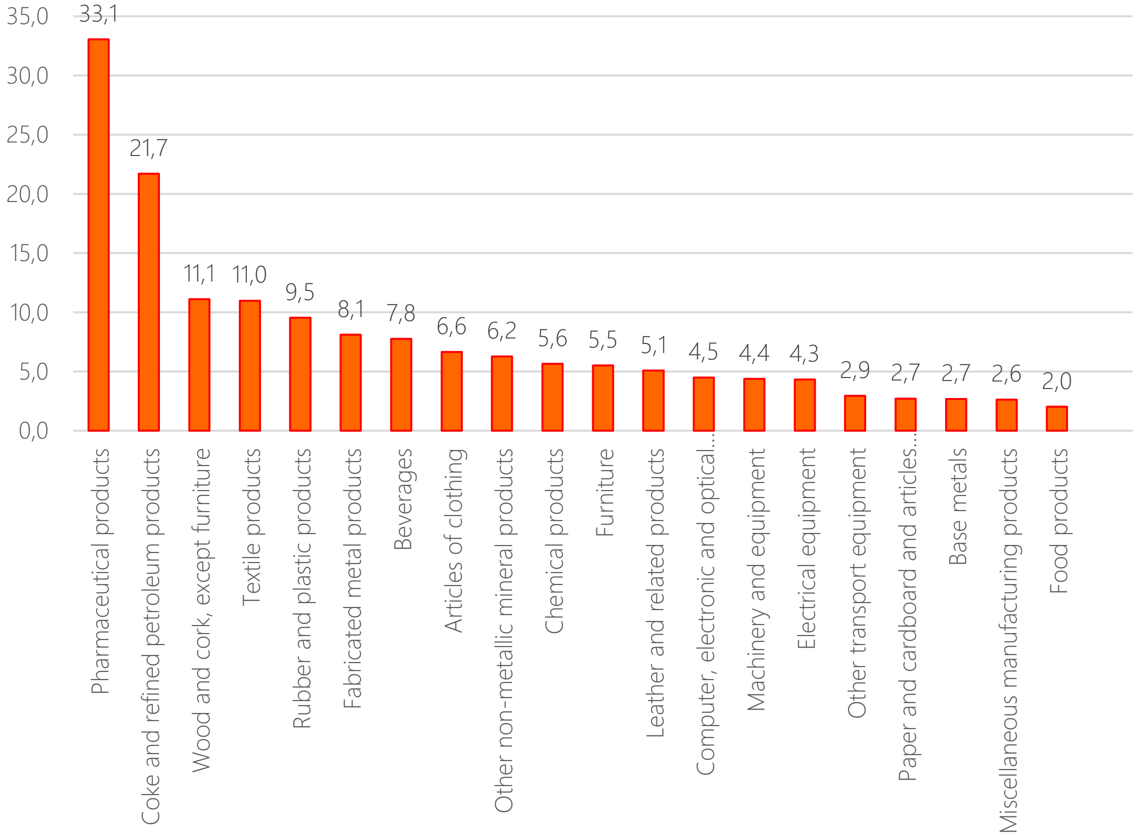
Source: BPI Research based on INE

- Portugal's exposure to the US is relatively low, it accounts for 8,4% of total exports of goods and services (tourism included) and 3,9% of GDP. In the case of goods, the numbers are: 6,7% of total exports and 1,9% of GDP.
- For now, the liberation day tariffs are suspended for 90 days and replaced by a 10% tariff, with an impact of 0,7 percentage points in the average tariff applied to Portuguese exports.
- Since Portuguese gross value added incorporated into US final demand is estimated at 2.4%, the negative effect associated with raising tariffs to 10% would be 0.24 percentage points; if tariffs were increased by 20%, the impact would be close to 0.5 percentage points.
- To support the business sector in the current context, the Portuguese government has approved a package of 10 billion euros to support competitiveness, exports and the internationalization of companies. Among the main measures are:
  - Reinforcement of Banco Português de Fomento (BPF) financing lines, with a total of 5.2 billion euros allocated for operating funds and business investment;
  - A new financing line of 3.5 billion euros, including 400 million in subsidies, aimed at investment by exporting companies;
  - Reinforcement of export credit insurance ceilings, to 1.2 billion euros, to support market diversification, through the BPF Export Credit Agency;

Sectors with high exposure to the US

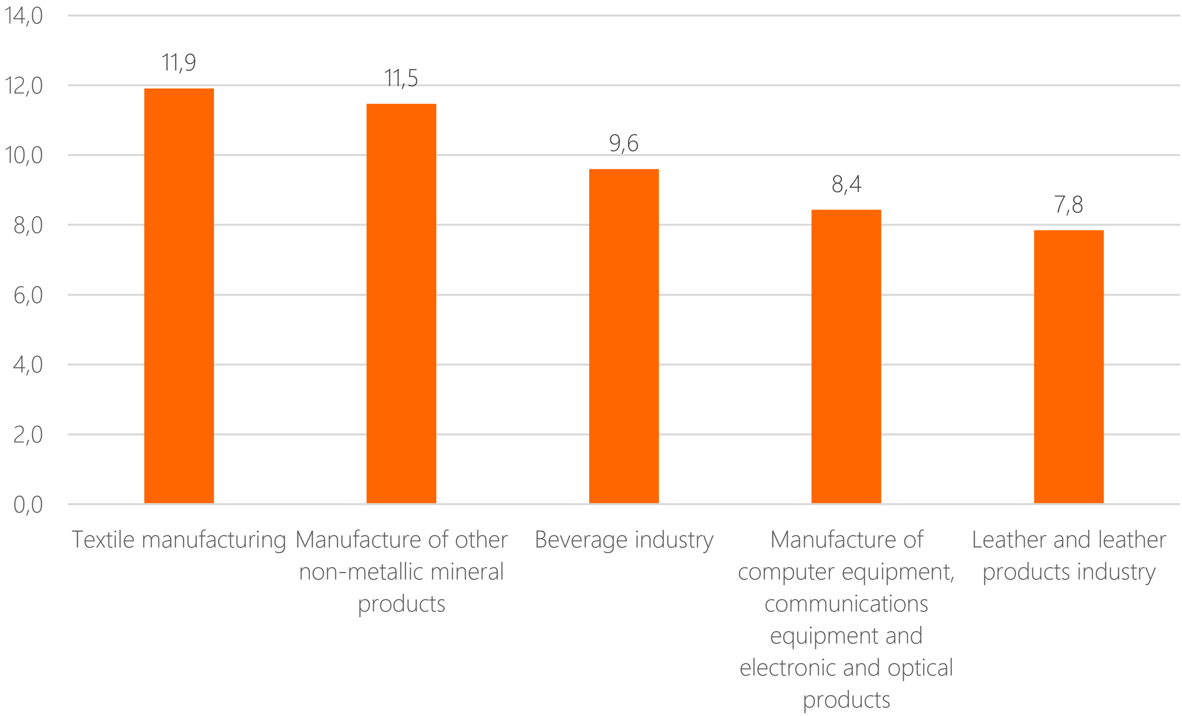
Weight of exports to the US in the sector's total export

% 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

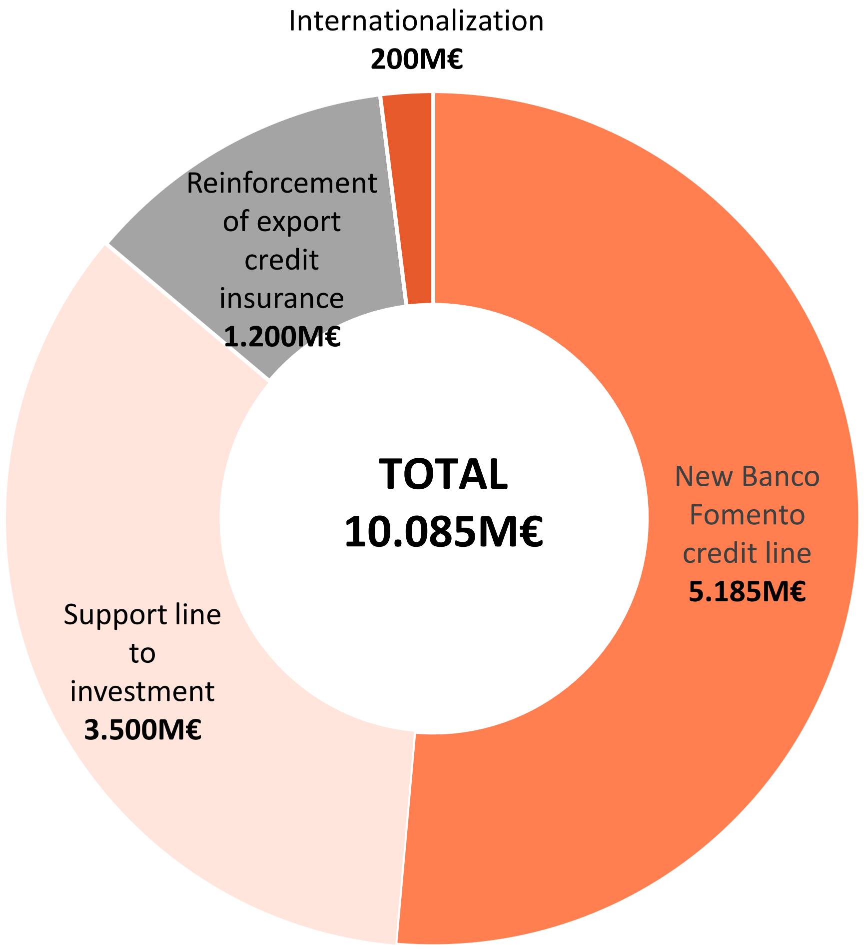
1. Reinforce Program (10 billion euros)

- **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).

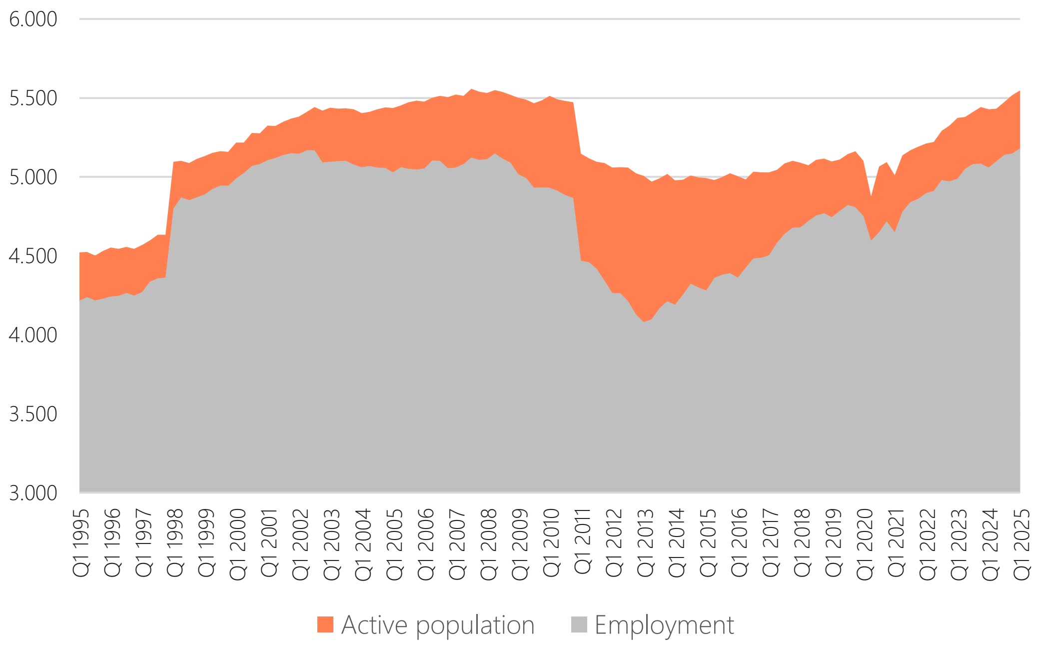
These measures should be operational in May and June and cover all companies based in Portugal, regardless of their size.



Employment remains robust in Q1 2025

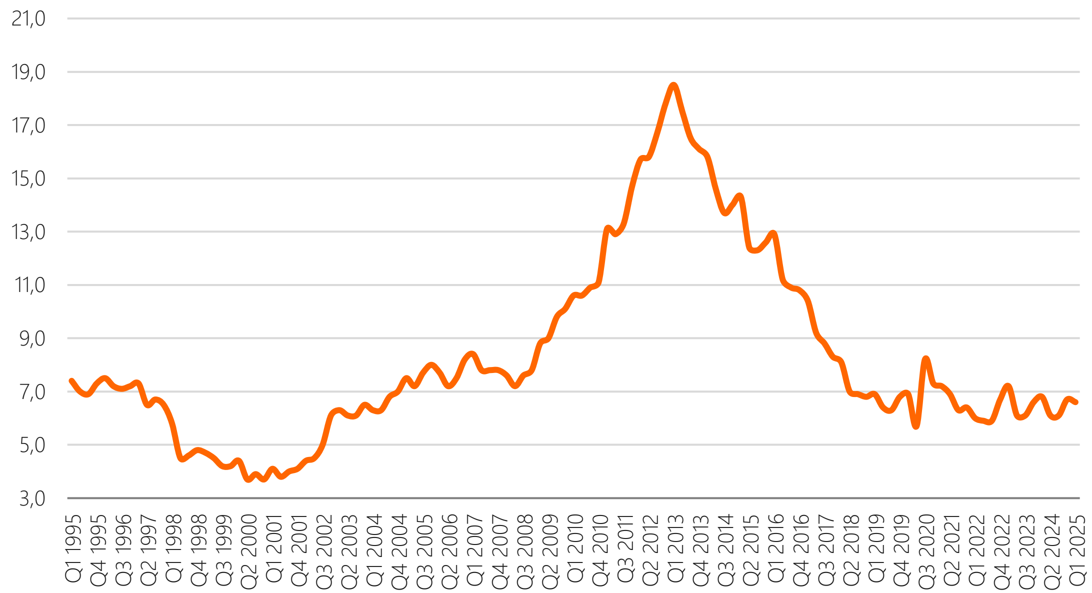
Active population and employment

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

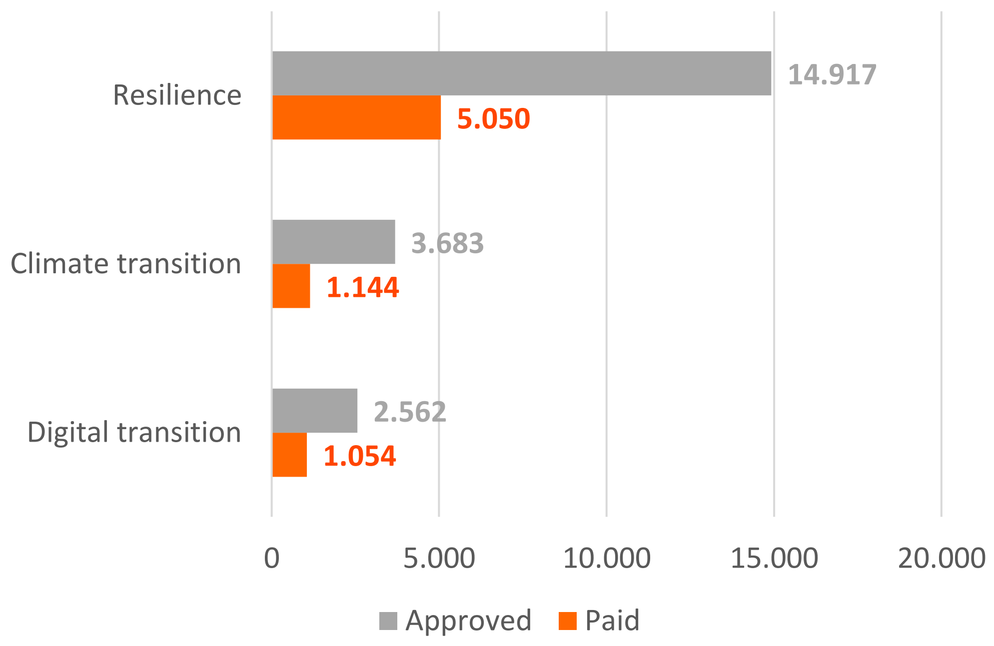
Approvals and payments to direct and final beneficiaries

(Up to April 30th)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	278	240	86,3
Social and solidarity economy institutions	590	221	37,5
Firms	6.003	2.611	43,5
Excl. R&I System Non-firms	5.122	2.254	44,0
R&I System Non-firms in consortium with firms	881	357	40,5
Institutions of the scientific and technological system	528	190	36,0
Higher Education Institutions	811	291	35,9
Schools	1.026	579	56,4
Municipalities and metropolitan areas	4.123	942	22,8
Public entities	4.983	1.648	33,1
Public firms	2.892	804	27,8
Total (million euros)	**21.234**	**7.526**	**35,4**
(% total RRP)	***95,6%***	***33,9%***	

Source: CaixaBank Research, from Recuperar Portugal.

RRP: amounts approved and paid by dimension

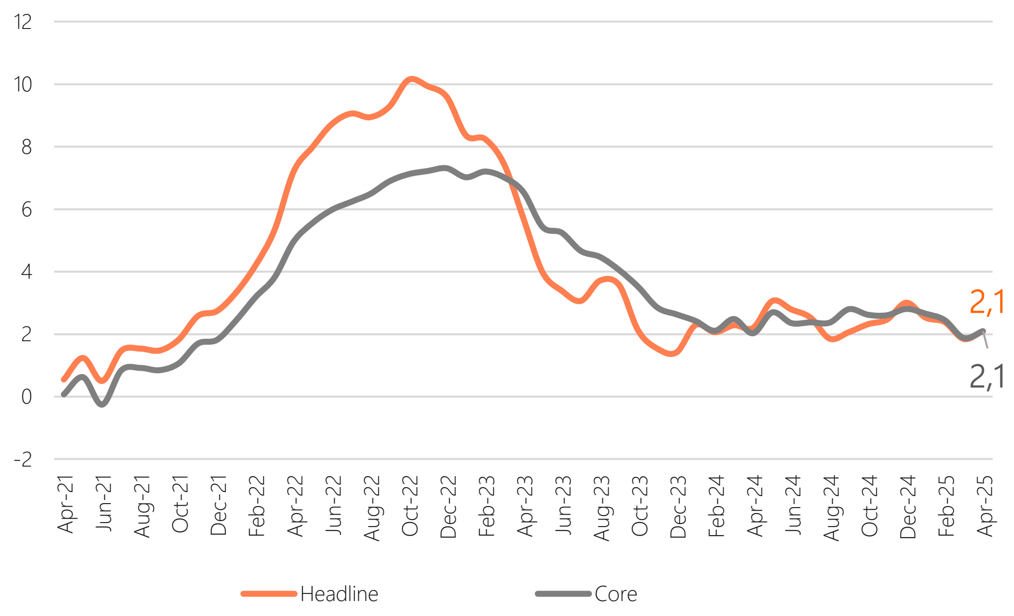
Eur million



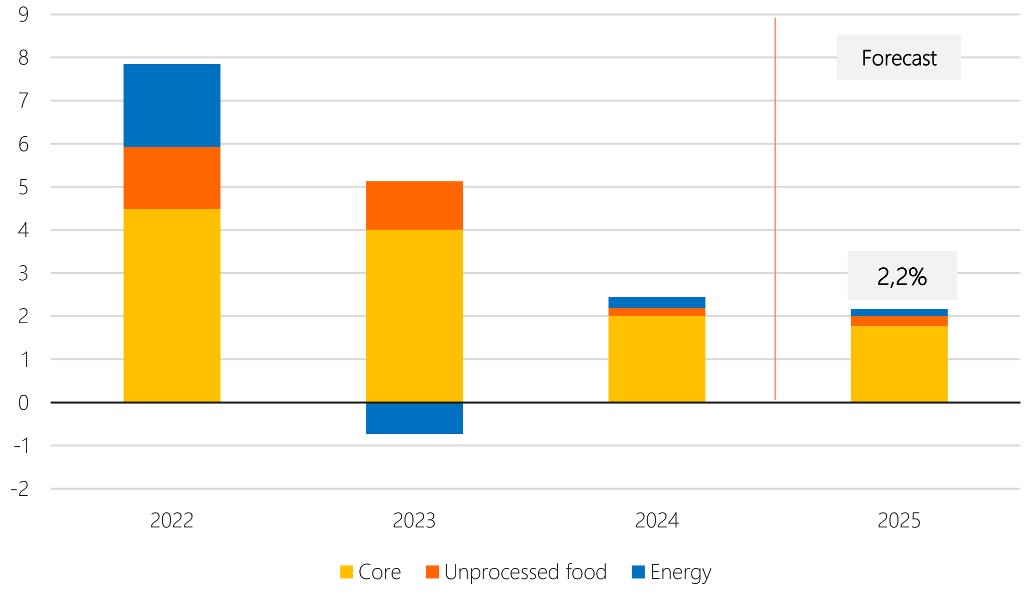
- **Up to now, Portugal received 11.4 billion euros, equivalent to 51% of the total amount of the RRP.** In December 2024 were received 2.9 bln euros.
- **Projects already approved amount to 21 billion euros (96% of the total amount) and payments reached 7.2 billion** (64% of the total amount received). 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 procceds gradually

Headline and core inflation
Year-on-year (%)



Global inflation
average annual inflation and contributions (%)

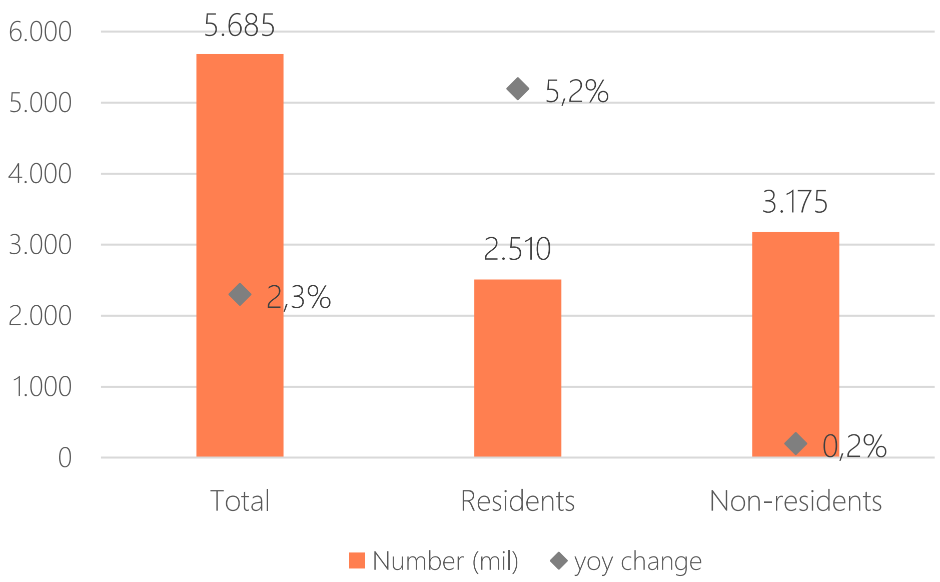


- In April, global and core inflation rose to 2.1%, 2 tenth more than in March. These shows, as in March, headline and core inflation at the same level, indicating that the disinflationary process is currently mainly driven by less volatile price dynamics, and is therefore slower. The monthly changes in the underlying and overall CPI (0.8% and 0.7% respectively) were once again higher than the pre-pandemic historical average (0.5% in both), contrasting behaviour in the previous month.
- Despite the fact that the price of Brent being below the 2024’s close level, the contribution of the energy component to disinflation is still modest (in contrast, the price of TTF Gas has risen by around 12% year-on-year). All in all, our current forecast for average annual inflation in 2025 (2.2%) 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 at a slower pace (near the cruse speed)

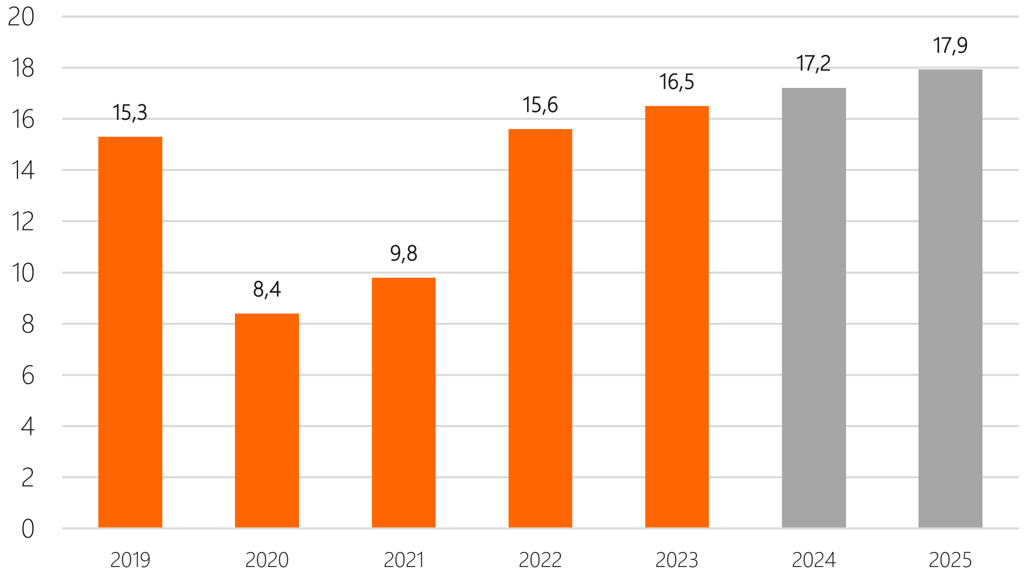
Growth in the number of tourists

%



Weight of the Tourism Sector

% of GDP

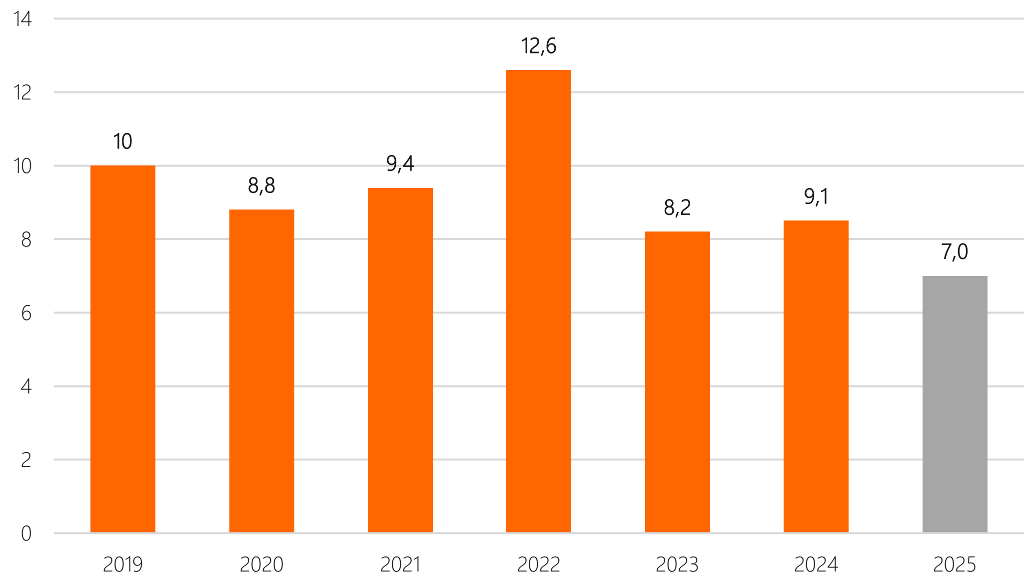


***Source**: CaixaBank Research, using data from INE.*

- The tourism sector recorded 5.7 million guests and 13.4 million overnight stays in Q1 2025, corresponding to variations of +2.3% and -0.5% respectively. non-resident tourism slowed down in Q1, probably reflecting seasonal effects related to the celebration of Easter, which in 2025 was in April and in 2025 had been in March. On the other hand, the residents' tourists performed well, growing 5.2%, in line with a more comfortable financial situation (employment is in highest level and wages are improving on real terms).
- 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 in 2025.

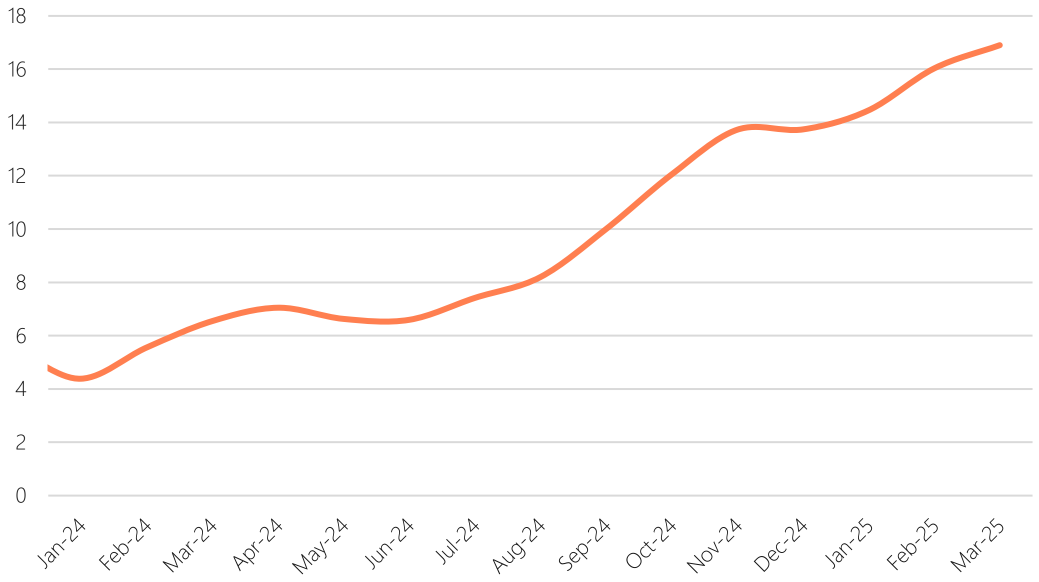
Housing with solid appreciation

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.**
- 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 HPP).

Public accounts have surprised again in 2024

Budgetary execution of Public administration

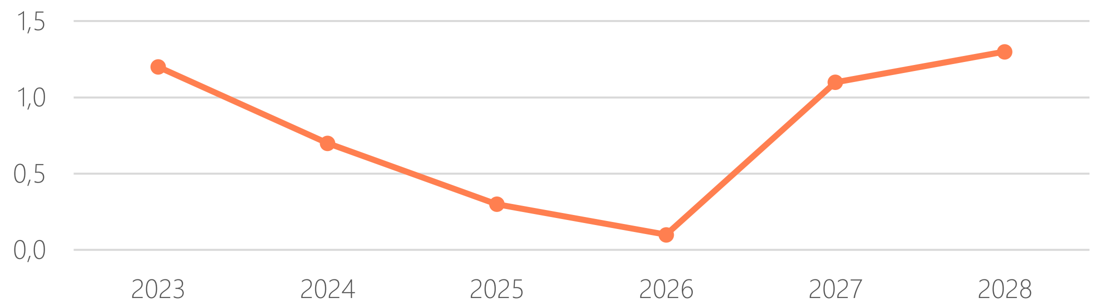
% of GDP, unless otherwise indicated

(% of GDP)	2019	2023	2024	Change 2024-2019 % of GDP	Change 2024-2023 yoy %	Change 2024-2023 Contributions
Current revenue	42.2	42.4	42.6	0.4	7.0	6.9
Tax and contributory revenue	36.6	37.3	37.5	0.9	6.9	5.9
Capital revenue	0.4	1.2	0.9	0.5	-20.9	-0.6
Total revenue	**42.6**	**43.5**	**43.5**	**0.9**	**6.3**	**-**
intermediate consumption	5.1	5.2	5.2	0.1	7.3	0.9
Personnel costs	10.8	10.4	10.6	-0.2	8.5	2.1
Social benefits	18.2	17.5	18.2	0.0	10.4	4.3
Interest	2.9	2.1	2.1	-0.8	6.3	0.3
Subsidies	0.4	0.8	0.8	0.3	-0.4	0.0
Investment	1.9	2.6	2.7	0.9	10.9	0.7
Total expenditure	**42.5**	**42.3**	**42.8**	**0.3**	**7.6**	**-**
Primary Current Expenditure	**36.7**	**36.3**	**37.3**	**0.5**	**9.2**	**7.9**
Overall Balance	**0.1**	**1.2**	**0.7**	**0.6**	**-**	**-**
Primary Balance	**3.0**	**3.3**	**2.8**	**-0.3**	**-**	**-**
Public Debt	**116.1**	**97.7**	**94.9**	**-21.2**	**-**	**-**

Source: BPI Research, based on INE.

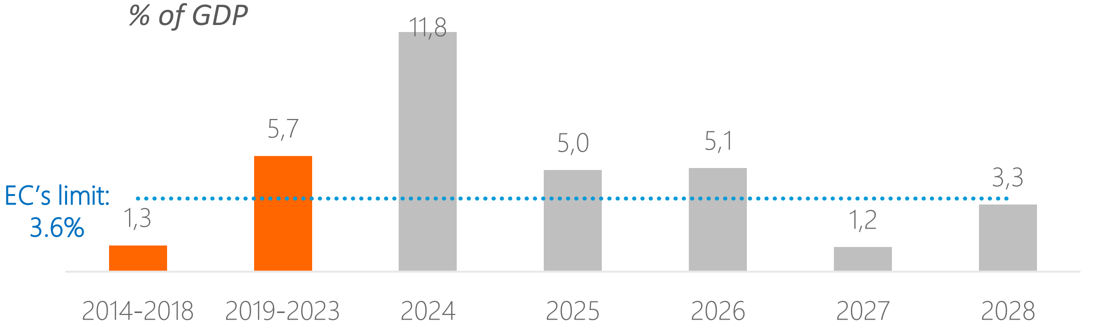
Overall fiscal balance in accrual basis

% of GDP



Net Primary Expenditure

% of GDP

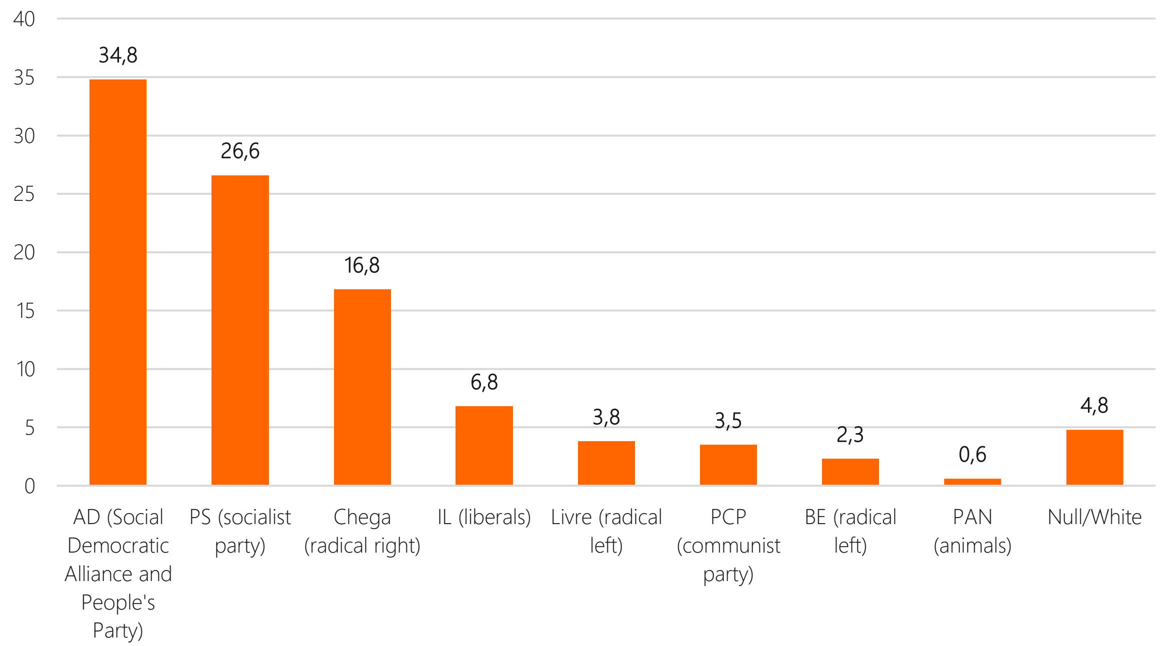


Source: BPI Research, based on Medium-Term Fiscal-Structural Plan 2025-2028.

- **Public accounts registered a surplus equivalency to 0.7% of GDP,** surpassing the Government's estimate of 0.4% of GDP. Revenues increased by 6.3%, driven by the positive performance of fiscal revenues and contributions to social security.. Expenditures increased by 7.6%, with higher contributions from personal spending and social benefits. In this environment, the public debt ratio declined to 94.9% of GDP, -3.2 p.p. than IN 2023.
- **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, along with the upcoming electoral cycle, with the resulting uncertainty about policies and future parliamentary composition, 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).

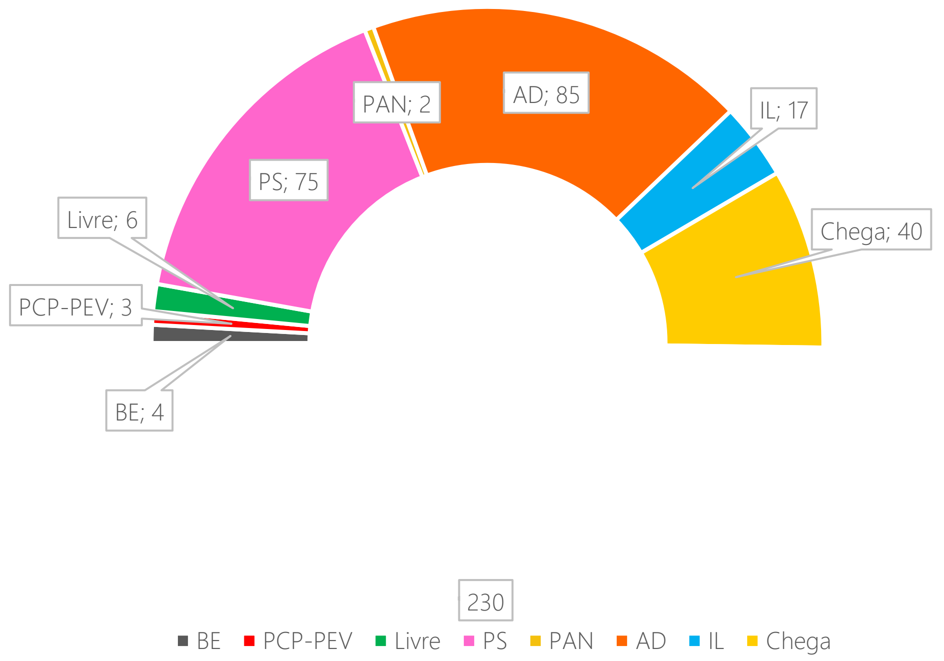
Elections in May should not alter significantly the Parliament

Result of the last poll
voting intention (%)



***Source**: BPI Research, using data from Marktest*

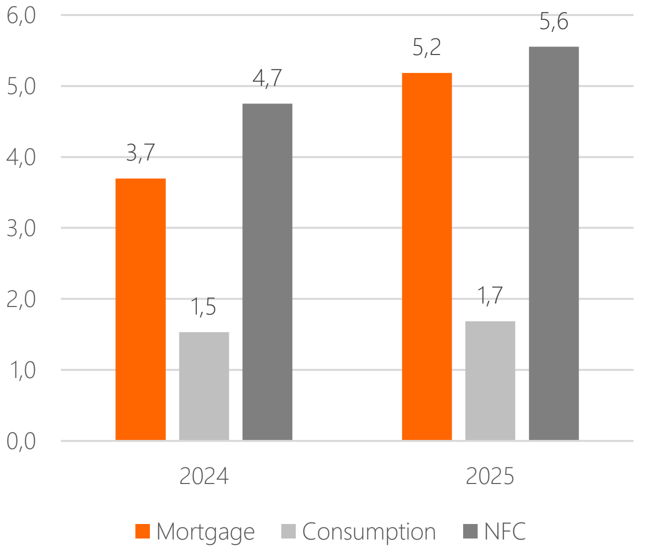
Estimate of the Portuguese Parliament's composition, based on the latest poll
(number of seats)



- **Polls for the May 18th elections suggest that parliament will continue to have a right-wing majority.** However, the new government is likely to remain in a relative minority position, since an alliance with Chega (radical right) will not happen and a possible alliance with the Liberals will be insufficient to achieve an absolute majority.
- Political risk will remain high, limiting the government's ability to carry out reforms, but fiscal consolidation should not be jeopardized, as AD and PS remain committed to fulfilling with budgetary rules.

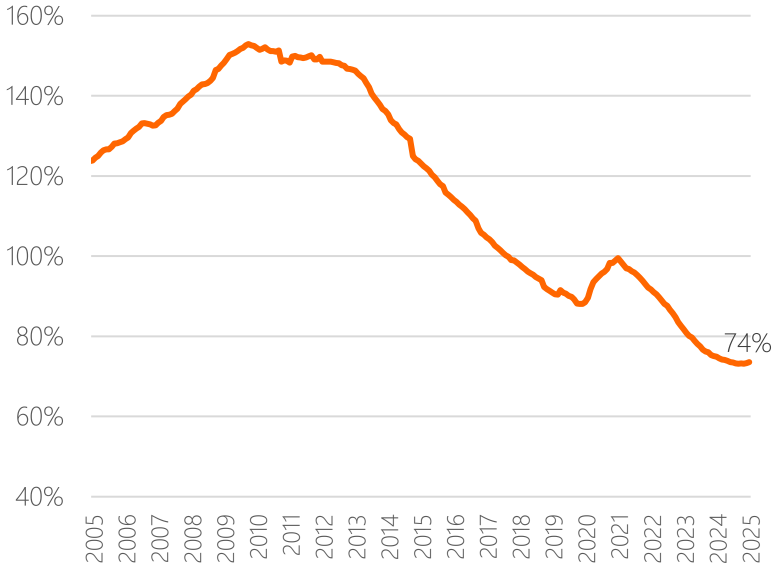
Banking system: deleveraging and high liquidity

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



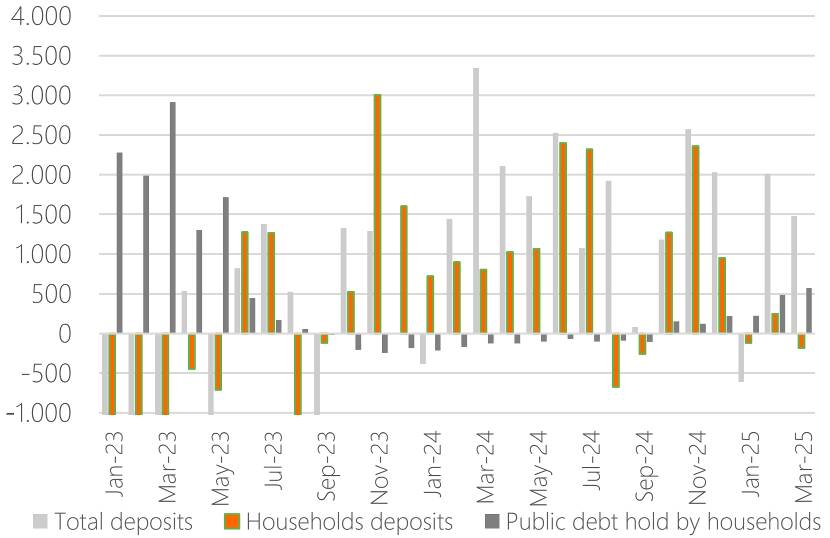
Source: Caixabank Research, based on data from Bank of Portugal and ECB.

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€)

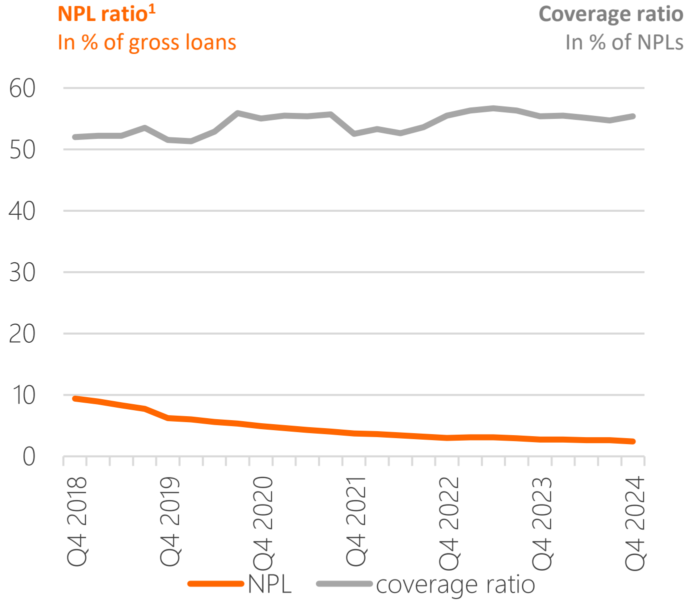


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 7 bn Eur in 2024.
Source: CaixaBank Research, based on data from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

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit:** stock rose 5.1% in March, with new operations increasing at double digit levels (+40%, 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 0.1%, while new operations recorded expanded 16.9% yoy.
  - **Deposits of the private sector rose 6.5% March**. Both Households and NFC's deposits increased (5.7% and 4.6% 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 (1.7% in March, -1 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 March for the sixth consecutive month).

Banking system: a solid position to support the economy

NPLs and coverage ratios

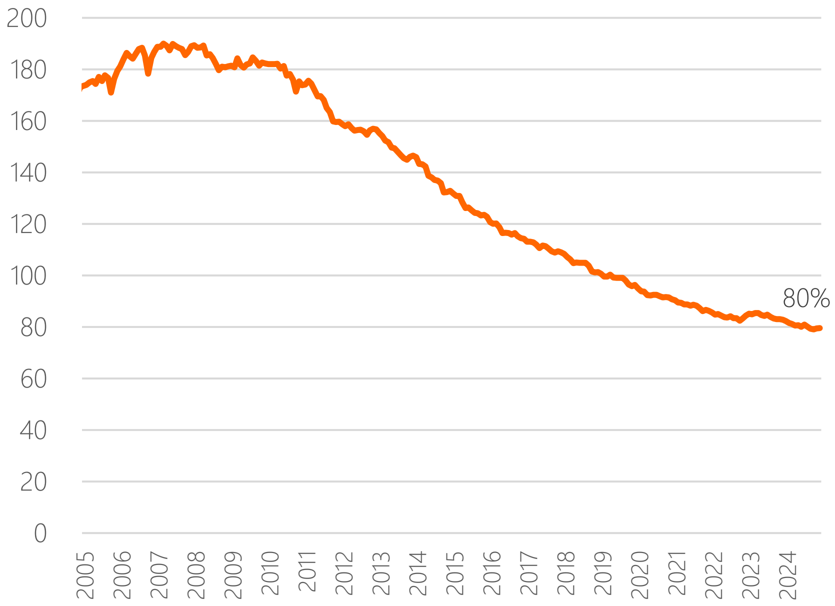


Cost of risk[1]
0.5% in Q4 2019
0.1% in Q4 2024

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

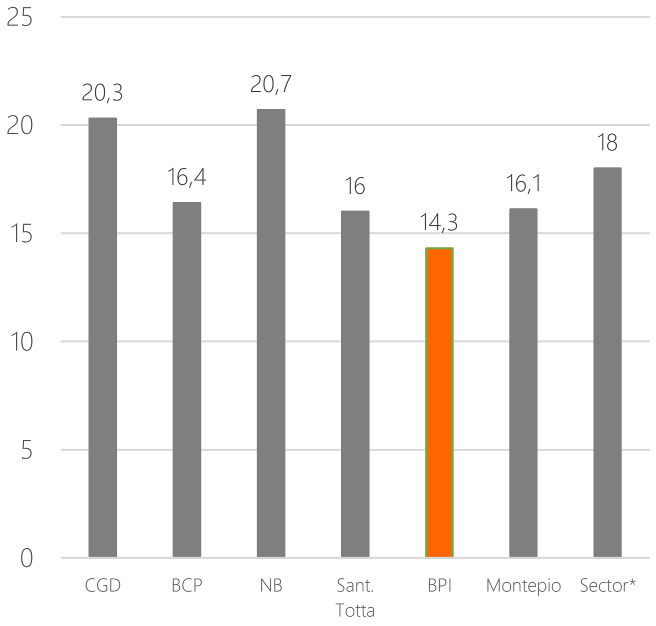
(%)



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.**