Portugal:

Macroeconomic and financial outlook

BPI *Research*

February 2025

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BPI Grupo CaixaBank

Main messages

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Activity

- **The economy surprised on the upside in 2024 and the perspectives 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,** driven by private consumption supported by strong gains in disposable income and robust labour market; investment, that should accelerate taking advantage of the acceleration of RRP and news that a significant amount of investments have been contracted between AICEP (Agency for Investment and Foreign Trade of Portugal) and private companies. More specifically, contracts worth 420 million euros were signed, and are scheduled to begin in 2025 and extending over the next 10 years. Other growth supporters are tourism and exports, as Spain (the main trade partner of Portugal) is expected to show a robust growth.
- **Inflation continues the way to the target.** In January, inflation rate decelerated to 2.5%, with energy and unprocessed food prices moderating the pace of growth. Looking ahead to 2025, our current forecast for average inflation is 2.1% and the outlook for prices looks more favourable: in the food sector, the futures for the main agricultural products point to prices closer to those prevailing before the start of the war in Ukraine. In services, in telecommunications for example, the increase in competition and the announcement by some operators that they will keep prices at the same level also predicts contained inflation in this area after two years of rising at the rate of the overall CPI.
- **Labour market will remain a relevant factor supporting activity as employed population reached record highs in the last quarter of the year.** Even so, the unemployment rate increased in the last quarter, but in a typical movement of seasonality. For whole 2024, the rate stood at 6.4% (a slight decrease in comparison to the 6.5% rate recorded in 2023). Given the expectation that the economy will accelerate in 2025, employment is likely to pick up again this year, although with a moderation trend.
- **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 the release of this data, the average increase in house prices over the last 12 months stood at 8.1%. As a result, the expectation of average price increase in 2024 is much closer to the 2023 figure than we initially anticipated and may even exceed it. Our current forecast (average appreciation of 6.8%) is already heavily tilted downwards.
- **The surplus of the current account reached 2.7% of GDP in the first 11 months of 2024, and continues to support the decline of the external debt.** Foreign debt fell to 46% of GDP in Q3 2024, minus 7 p.p. than in the end of 2023.
- **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.

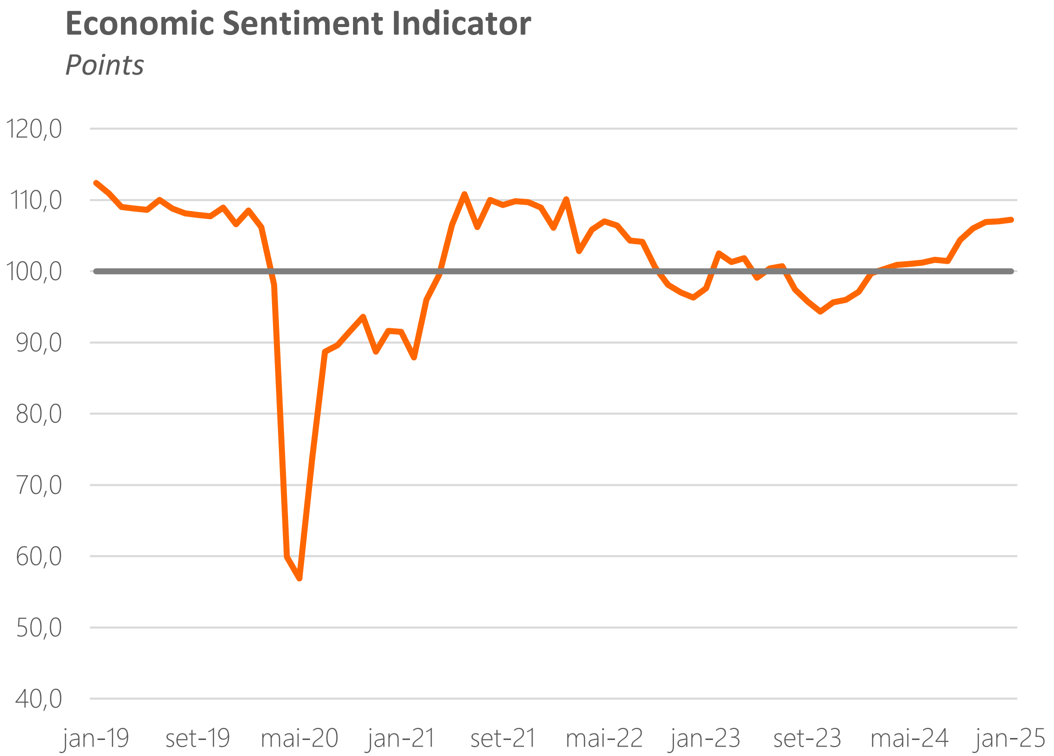
Main economic forecasts

%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	Forecasts 2024	Forecasts 2025	Forecasts 2026
GDP	2,0	3,3	2,9	2,7	-8,2	5,6	7,0	2,5	1,9	2,3	2,2
Private Consumption	2,4	1,8	2,6	3,5	-6,8	4,9	5,6	2,0	2,2	1,7	2,2
Public Consumption	1,0	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	5,5	-2,3	7,8	3,3	3,6	1,3	5,7	5,9
Exports	4,7	8,4	4,3	4,0	-18,3	12,0	17,2	3,5	4,2	5,0	5,2
Imports	5,2	8,0	4,9	5,1	-11,6	12,3	11,3	1,7	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	2,1	2,0
External current account balance (% GDP)	1,2	1,3	0,6	0,4	-1,0	-0,8	-1,2	1,4	1,2	1,4	1,4
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	6,8	3,2	2,5
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	73	78

Source: *BPI Research.*

GDP surprised on the upside in the last quarter of 2024

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



***Source**: BPI Research, with data from European Commission (via LSEG).*

- **GDP increased considerably in the last part of the year.** In fact, GDP rose 1.5% qoq (2.7% yoy), supported by private consumption and a positive contribution from external demand (with a qoq drop in imports). On the other hand, the investment decreased. With all year known, the annual economic growth stood at 1.9% in 2024 (vs 2.5% in 2023) and above our forecast (1.7%).
- **Considering this and maintaining all other assumptions, the perspectives for 2025 are optimistic.** The carry-over effect points to a 1.3% increase this year and the risks are tilted to the upside. In fact, private consumption should remain the main driver of growth, due to strong disposable income gains and robust labour market, while investment should accelerate taking advantage of the speeding up of RRP; additionally, news that a huge amount of investments have been contracted between AICEP (Agency for Investment and Foreign Trade of Portugal) and private companies should also contribute to a positive dynamic in 2025. Other growth supporters are tourism and exports, as Spain (the main trading partner of Portugal) is expected to show a robust growth, as well as competitiveness gains, that have been leading to increased market share.

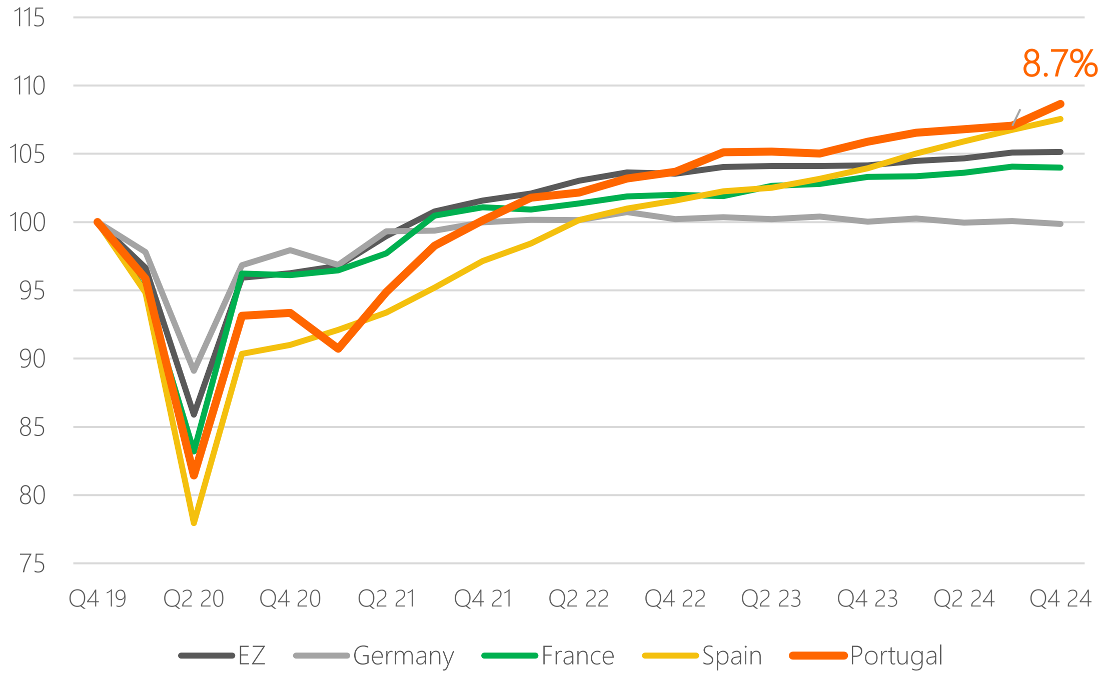
Convergence with EMU should continue

GDP: Other institutions' forecasts
Annual growth

		2024	2025	2026	2027	Cum. 25-27
BPI	**Sep-24**	**1.9**	**2.3**	**2.2**	**2.1**	6.7
EIU	**Jan-25**		1.9	1.8	1.7	5.5
NECEP	**Jan-25**		2.2	2.2	2.2	6.7
Bank of Portugal	**Dec-24**		2.2	2.2	1.7	6.2
OECD	**Dec-24**		2.0	2.0	-	-
Focus Economics	**Dec-24**		1.9	2.0	2.0	6.0
European Commission	**Nov-24**		1.9	2.1	-	-
IMF	**Oct-24**		2.3	2.0	1.9	6.3
Government	**Oct-24**		2.1	2.2	1.7	6.1
CFP	**Sep-24**		2.4	2.1	1.6	6.2

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

Portugal compares favourably within EMU
GDP Q4 2019=100



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

- **The latest forecasts keep pointing in a positive direction for the Portuguese economy**, with Bank of Portugal rising its growth forecast for 2024 to 1.7% from 1.6%; and for 2025 to 2.2% from 2.1%. According to the BoP, the stronger dynamism of activity reflects improved financial conditions, an expected acceleration in external demand and a greater inflow of funds from the European Union. The labour market remains robust, with increases in employment and real wages, along with low unemployment. The expansionary and pro-cyclical orientation of fiscal policy also contributes to the greater dynamism of activity. However, the external environment is subject to significant downside risks of an economic and geopolitical nature.

Private consumption is seen to continue to perform favorably

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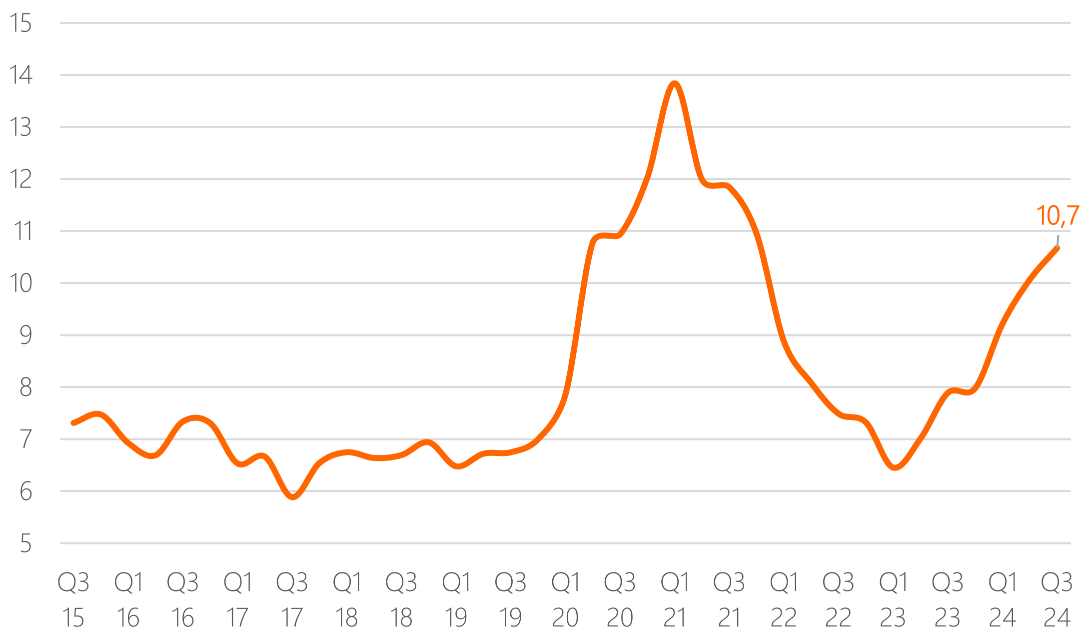
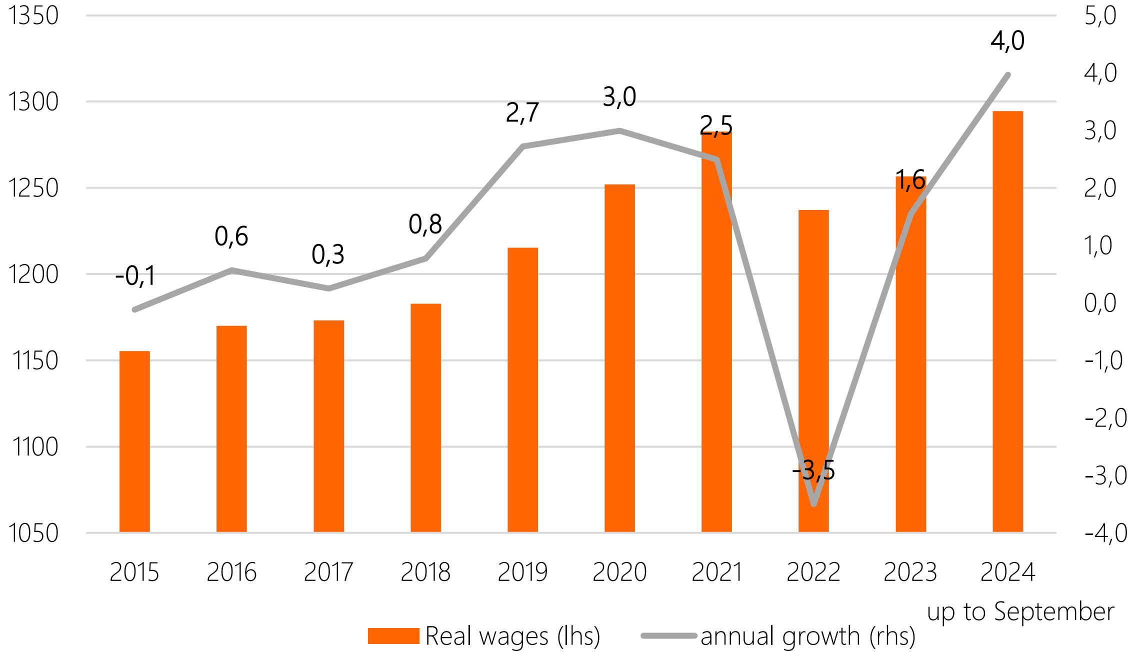
Families' saving rate
(% of DI)



Real wages
euros, %



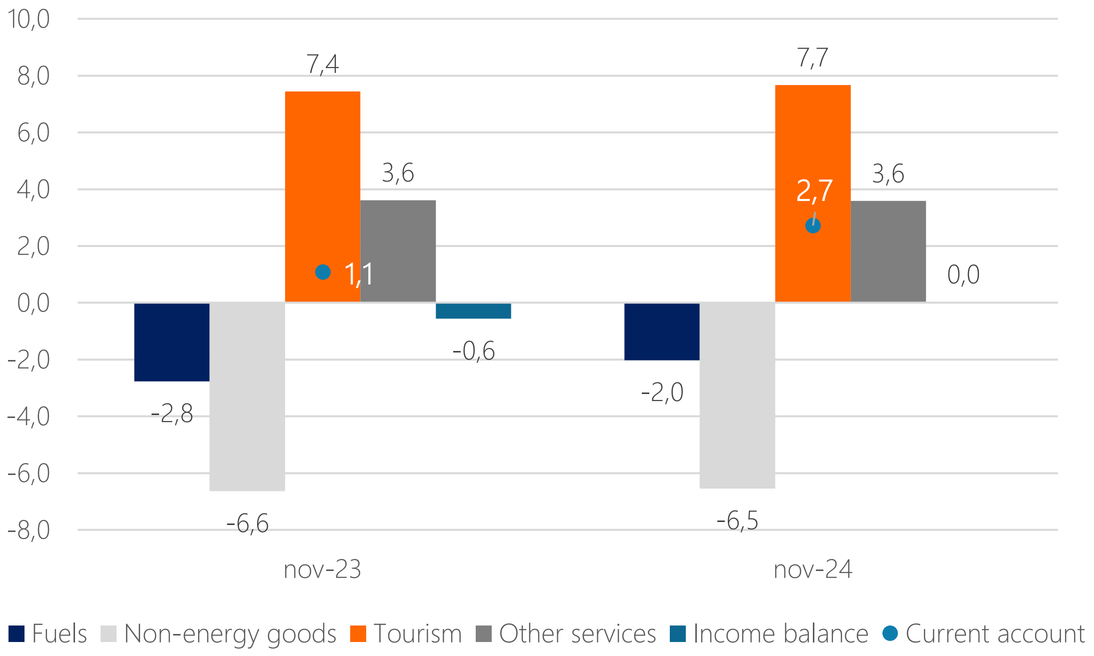
***Source**: BPI Research, from INE, BoP.*

- **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, strong growth of real wages (4.0% up to September 2024) should be an important support to consumption going forward.

The external surplus continues to help to reduce external debt

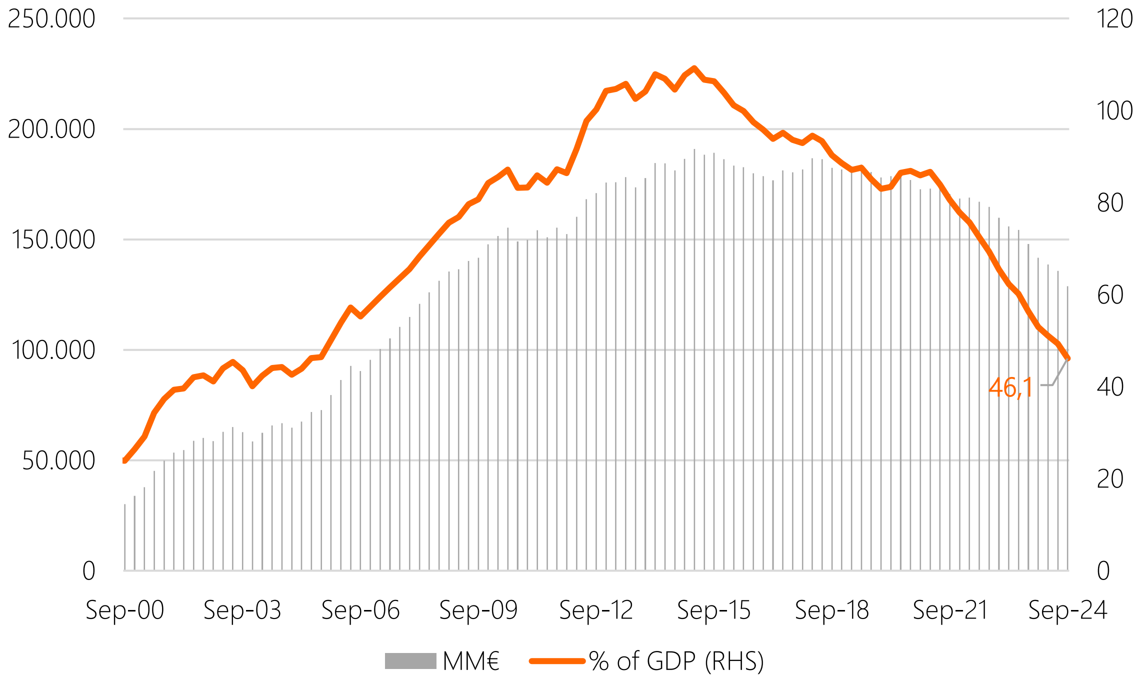
Current account up to November

% of GDP



***Source**: BPI Research, from BoP.*

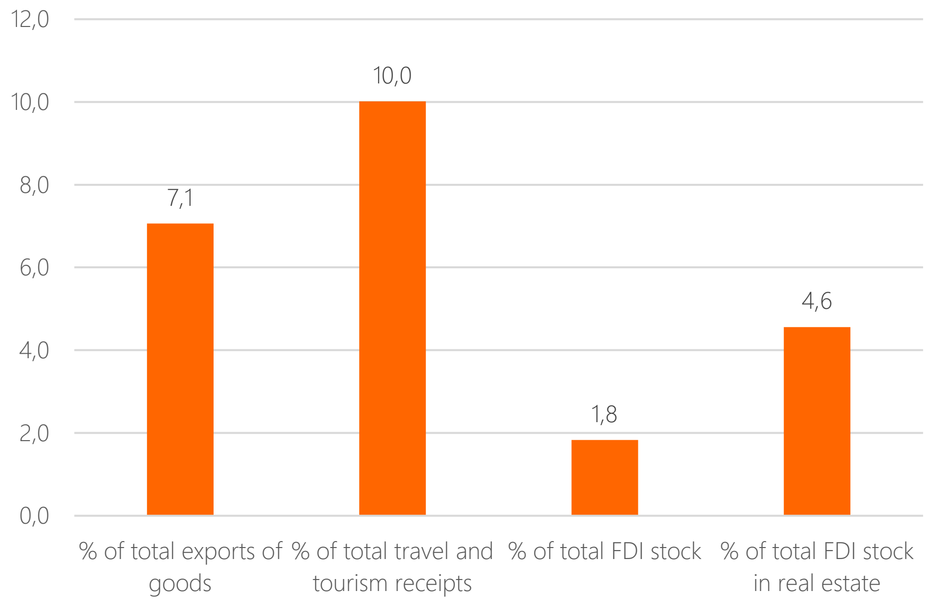
Net external debt



- **The current account kept a positive trend during 2024, reaching a surplus equivalent to 2.7% of GDP up to November, a significant improvement from the homologous period.** This performance mainly reflects the decline of the energy balance deficit to 2.0% (from -2.8% a year ago), in line with the decline of the energy prices over the period, as well as a wider tourism surplus.
- The CC surplus accelerated the decline seen in external debt, reaching 46% of GDP in Q3 2024, -7 p.p. than by the end of 2023. Since the peak of 109% of GDP in Q1 2015, the ratio of external debt declined 63 p.p.. In nominal terms, and in the same period, the external debt fell 62.2MM€ since Q1 2015, to 128.8 MM€, the lowest nominal level since Q2 2008.

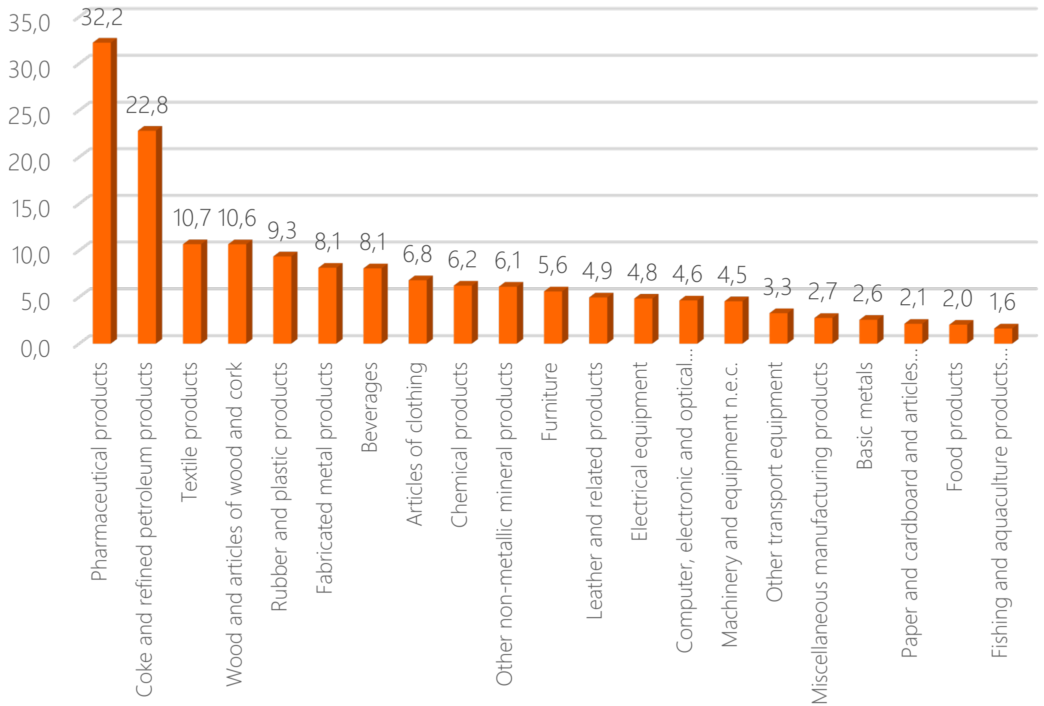
Relations between Portugal and the USA

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



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

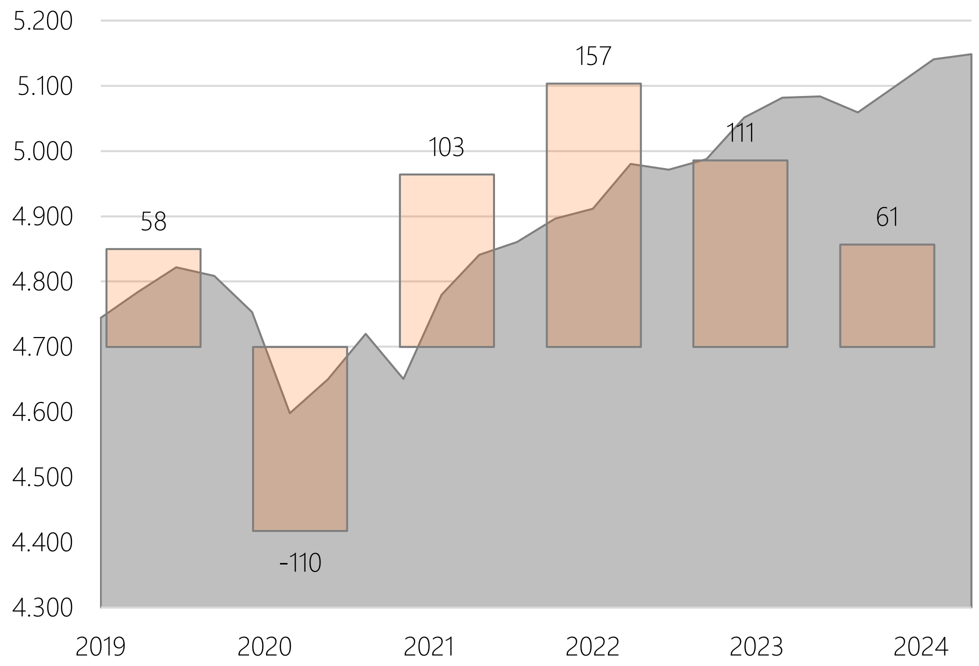
Weight of exports to the US in the sector's total export
% of total exports



- **Political changes in perspective in the US after the last Presidential elections, namely the imposition of tariffs, may have impact on some domestic sectors.** Between 3% and 3.5% of the Portuguese GDP is linked to final demand from the US, 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.

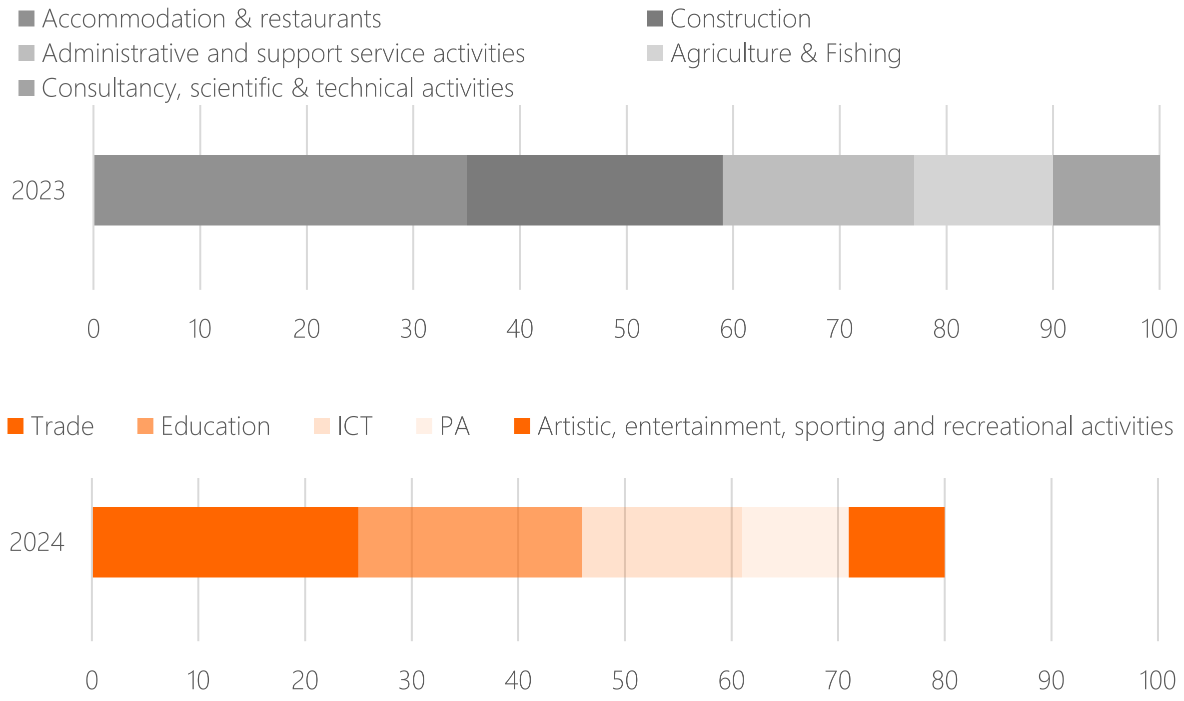
Employment at maximums and with a remarkable resilience

Employed population and year-on-year change
Number of people ('000 individuals)



***Note**: the area chart represents the amount of people employed; the bar chart represents the year-on-year change in each year. Figures not seasonally adjusted.*
***Source**: BPI Research, from INE.*

Annual variation of employed population, by main sectors
Annual variation ('000 individuals)



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

- **Employed population reached a new record in the last quarter of 2024.** The total of 5,148,800 employed individuals represents a new all-time high since 2011, with employment increasing 1.2% in whole 2024. By sector, the main drivers of annual employment growth were trade, education and ICT, in contrast with observed in 2023 (accommodation & restaurants and construction).
- **The unemployment rate rose in Q4 (a typical movement in the last quarter of each year).** However, the 6.7% rate represents a small rate compared to the Portuguese historical series. For whole year, the unemployment rate decrease 0.1 p.p., to 6.4%, the second lowest annual rate since the start of this series (2011).

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

Approvals and payments to direct and final beneficiaries

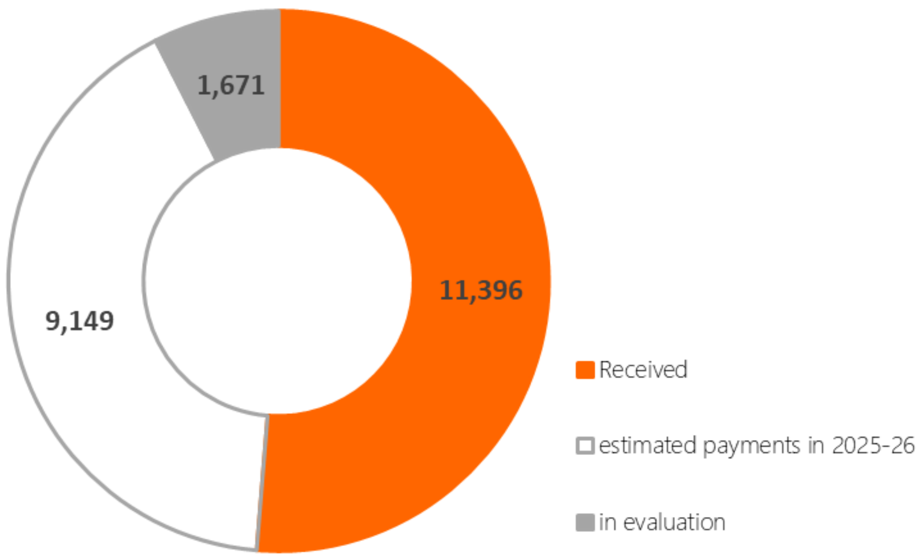
(Up to January 29th)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	256	217	84.8
Social and solidarity economy institutions	560	185	33.0
Firms	5,959	2,277	38.2
Excl. R&I System Non-firms	4,966	1,921	38.7
R&I System Non-firms in consortium with firms	993	356	35.9
Institutions of the scientific and technological system	543	160	29.5
Higher Education Institutions	804	254	31.6
Schools	1,027	499	48.6
Municipalities and metropolitan areas	3,969	773	19.5
Public entities	4,855	1,511	31.1
Public firms	2,905	658	22.7
Total (million euros)	**20,878**	**6,534**	**31.3**
(% total RRP)	***94.0%***	***29.4%***	

***Source**: BPI Research, from Recuperar Portugal.*

RRP: payments situation

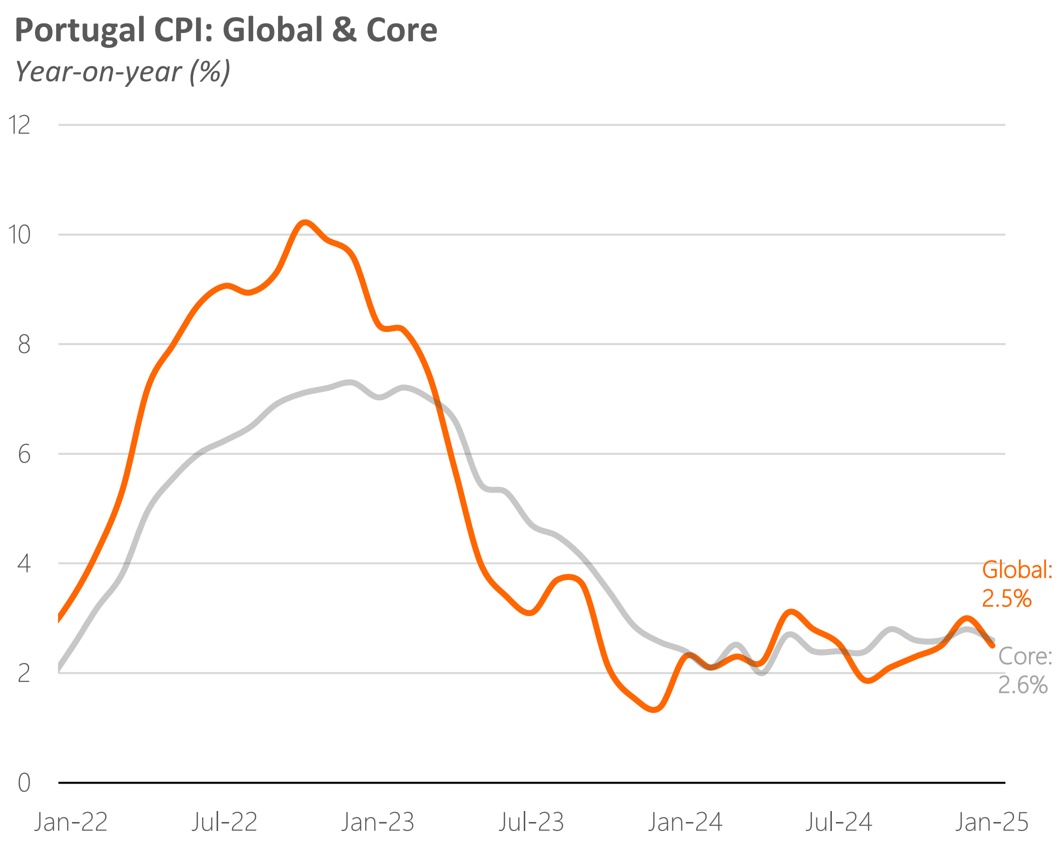
(information up to November)

Eur million

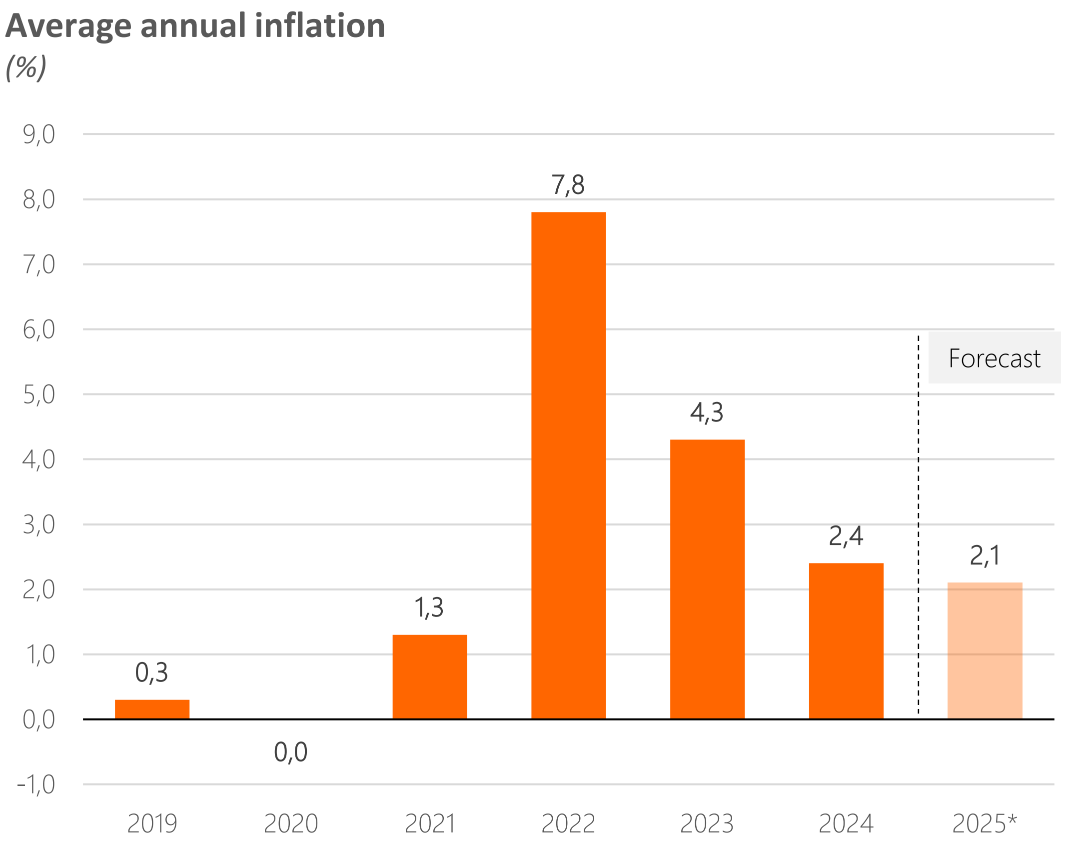


- **Up to now, Portugal received 11.4 billion euros, equivalent to 51% of the total amount of the RRP.** In December 2024 were received 2.9 bln euros.
- **Projects already approved amount to 21 billion euros (94% of the total amount) and payments reached 6.5 billion** (57% of the total amount received). Since the beginning of 2024, the payment rate improved by 9.5 p.p., to 31.3% of total amount approved.
- **Payments to the private sector are proceeding faster, led by payments to households; the payment rate to companies exceeds the average for payments, but remains below 40%.** According to the Bank of Portugal, the highest weight are on the production of chemical products, synthetic fibres, pulp and paper, scientific research and development activities and financial and insurance activities. These accumulate 70% of the funds approved, more than double their weight in the total economy (30%).
- To fulfil the programme, the Government has set some very ambitious targets: 40% payment rate (an ambitious target) by the end of 2024 and to execute 7.8 mm in 2025.
- **Portuguese authorities estimate that the impact of the funds currently available for the implementation of the RRP will lead to an increase of 4.1% in potential GDP over the next 10 years.**

Inflation rate goes ahead to the target



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

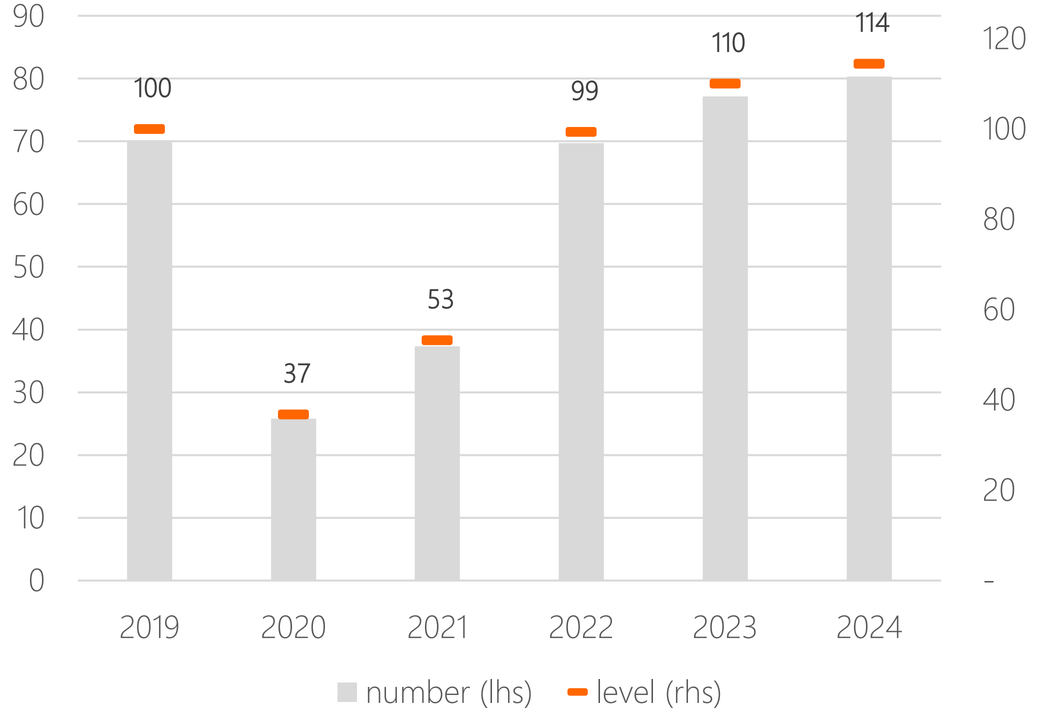


***Note (*)**: Forecasts under revision.*
***Source**: BPI Research, using data from INE.*

- **The year-on-year global CPI estimated by INE for January decelerated to 2.5% (3.0% in December) and core inflation also decreased to 2.6% (2.8% in December).** The energy index (2.4% yoy) and the unprocessed food index (1.8% yoy) were the two aggregates that made the most significant contributions to the deceleration of the total CPI in the first month of 2025.
- **The January figure confirms our expectation for the evolution of inflation rate during 2025.** In fact, we continue to expect thar consumer prices will continue to decelerate this year, expecting an inflation rate near the target of 2%. However, the way to the target will be spiky: the robust internal demand and the recovery in real wages should continue to pressure prices (for example, in services).

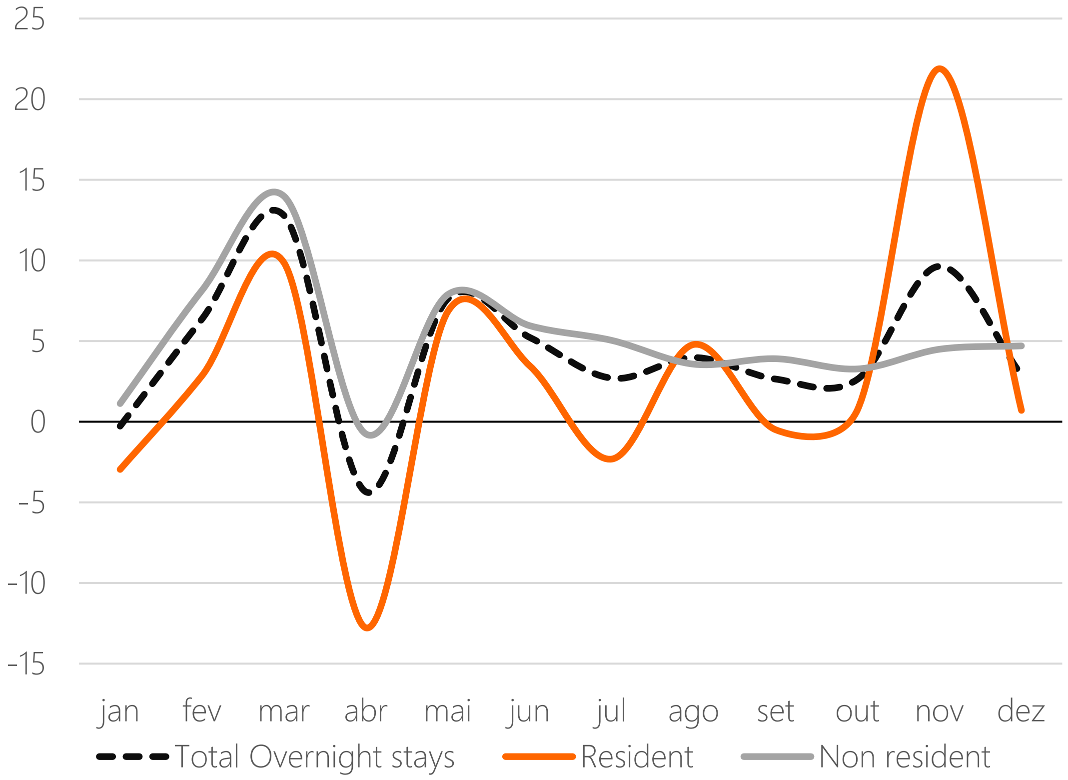
Tourism: 2024 repeats new highs

Overnight stays
Number (millions) / level (2019=100)



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

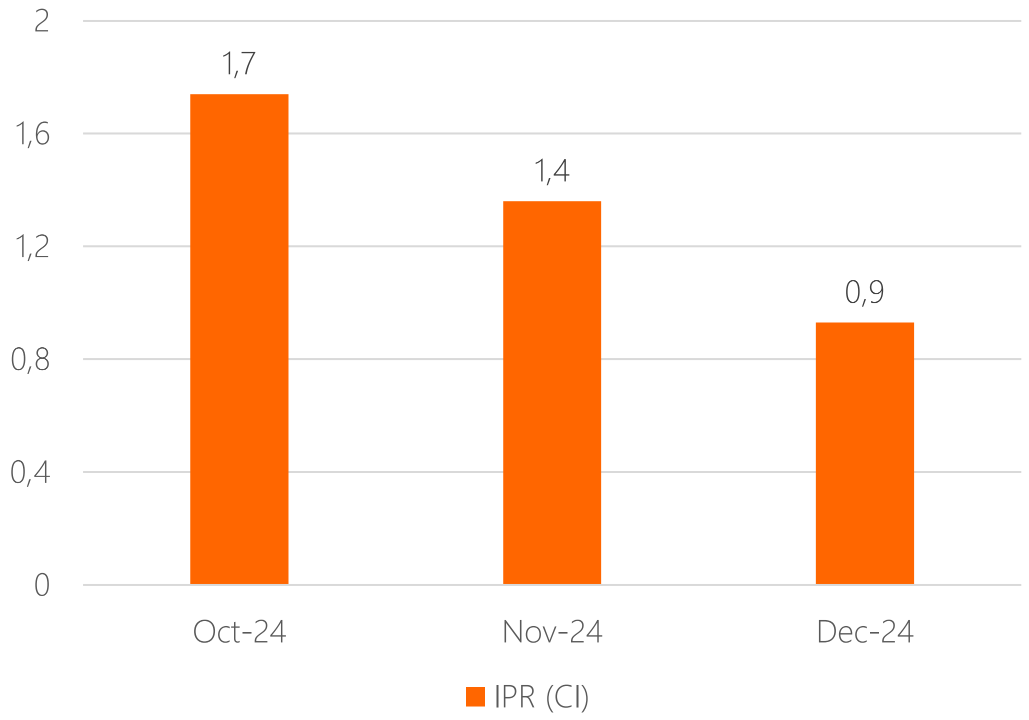
Overnight stays
Yoy (%)



- **2024 marked new records for national tourism.** Last year the sector recorded 31.6 million guests and 80.3 million overnight stays, corresponding to year-on-year increases of 5.2% and 4.0% respectively. This result was in line with BPI Research's forecast for an increase in guests (+5.5%).
- **The increase in the number of overnight stays was greater among foreign tourists (+4.8%) than among resident tourists (+2.4%).** In terms of inbound markets, the United Kingdom continues to lead the way, although the most significant increases in overnight stays came from tourists from the American continent, namely from Canada and the United States of America (+17.1% and +12.1% respectively).

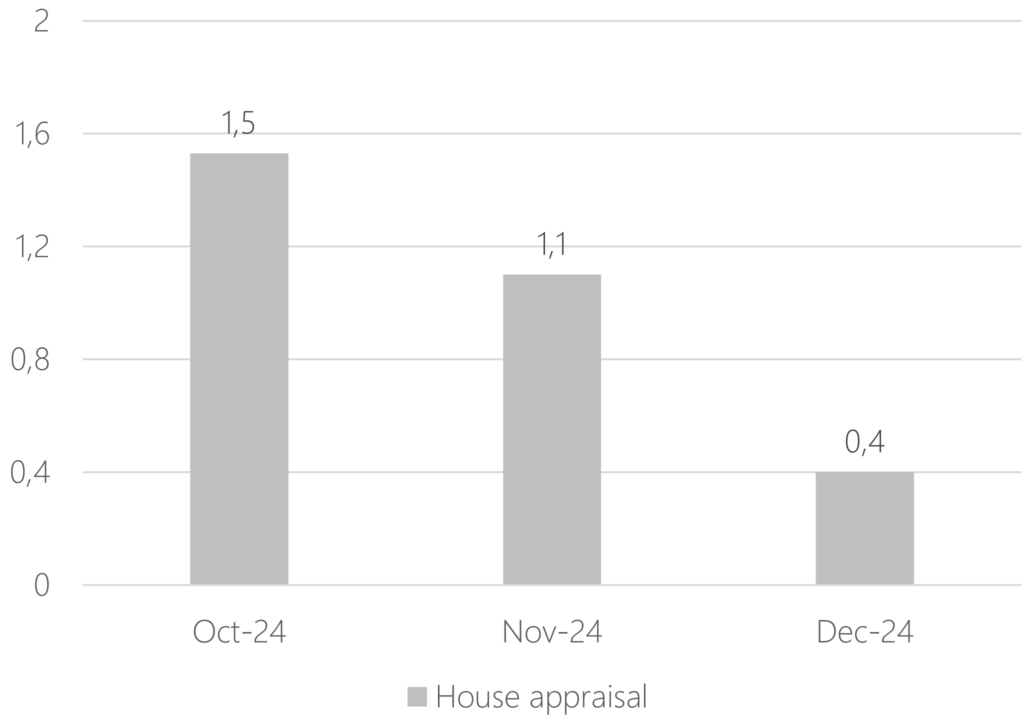
Available data signals increase in house prices in Q4 2024

Residential price index (IPR)
Month-on-month (%)



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

bank appraisal of housing
Month-on-month (%)



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

- **House prices should increase in Q4 2024.** The market showed greater momentum than we anticipated in Q3 2024 (3.7% qoq after 3.9% qoq in Q2 2024, the series' all-time high). Available Q4 data also shows strength. Specifically, the residential price index (Confidencial Imobiliário) and the bank appraisal of housing registered successive monthly increases and year-on-year averages increases of 11.6% and 13.1%, respectively.

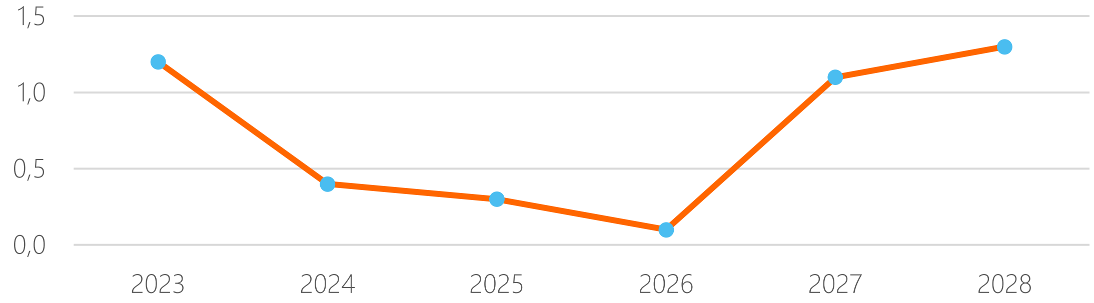
Public accounts should have surprised again in 2024

Key items in the public accounts*
% of GDP, unless otherwise indicated

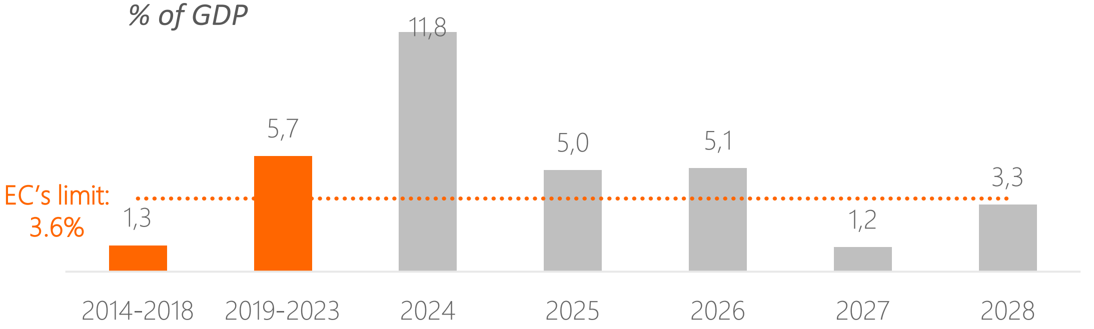
January-December	2019	2021	2022	2023	2024	Change 2024 vs 2019	Change 2024 vs 2023 (million euros)
Revenues	**41.5**	**42.5**	**41.9**	**43.0**	**45.2**	**3.7**	**5,900**
Fiscal revenues	24.2	23.8	24.1	24.6	25.4	1.2	1,969
Social security contributions	10.4	11.2	10.8	11.0	12.0	1.6	2,858
Expenditure	**41.8**	**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

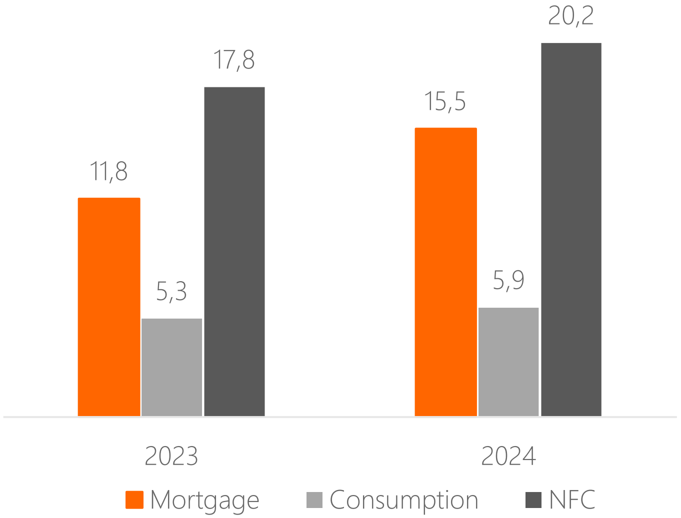


Source: *BPI Research, based on Medium-Term Fiscal-Structural Plan 2025-2028.*

- **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).

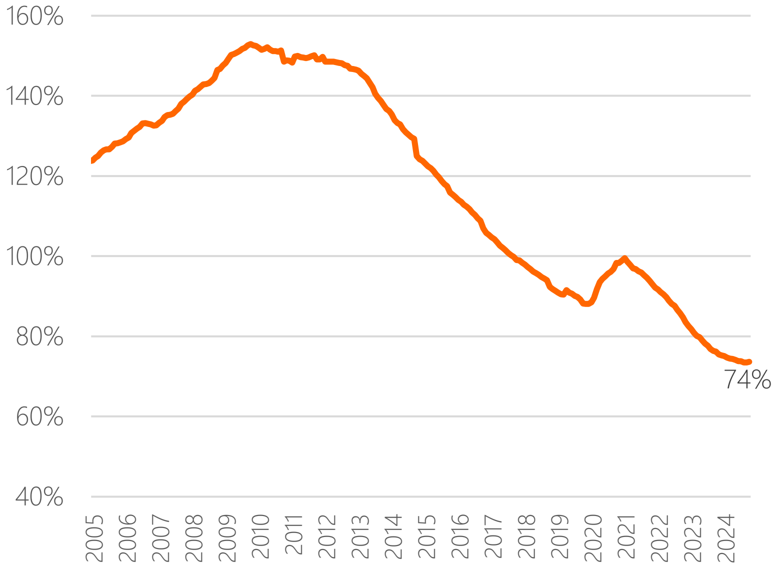
Banking system: deleveraging and high liquidity

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



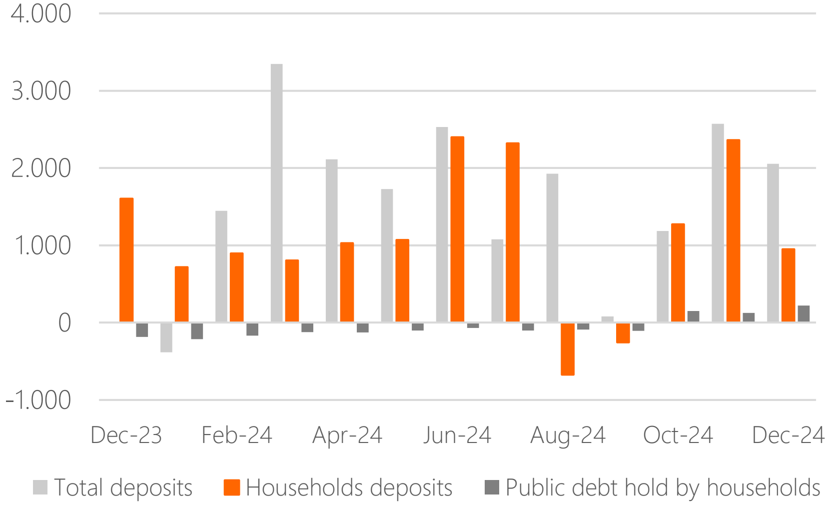
***Source**: BPI Research, based on data from Bank of Portugal and ECB.*

Bank credit to the non-financial private sector
% GDP



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

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

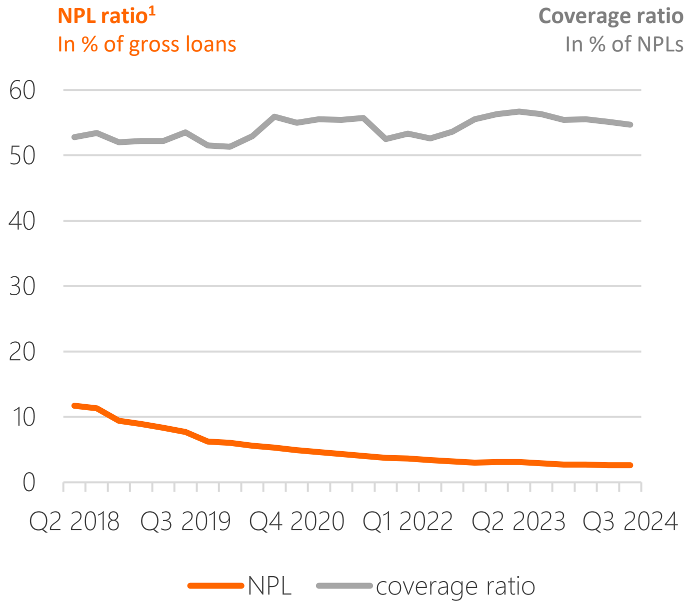


***Notes (*)**: Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 7 bn Eur in 2024.*
***Source**: BPI Research, based on data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

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit:** stock rose 3.3% in December, with new operations increasing at double digit levels (+34%, 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 decreased slightly in the last month of the year (related to the peak in amortizations that typically is observed in the last part of the year), while new operations recorded the best year since 2019 (-8% in comparison to the pre-pandemic), even including the pandemic years (characterized by the huge amount of Covid credit lines).
  - **Deposits of the private sector rose 7.5% in December**. Both Households and NFC's deposits increased (7.2% and 8.3% 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 (2.2% in December, -0.9 p.p. in comparison to the end of 2023) should restrain the increase in households' deposits in the future, probably towards Government retail products (with subscriptions increasing in December for the second consecutive month).

Banking system: a solid position to support the economy

NPLs and coverage ratios

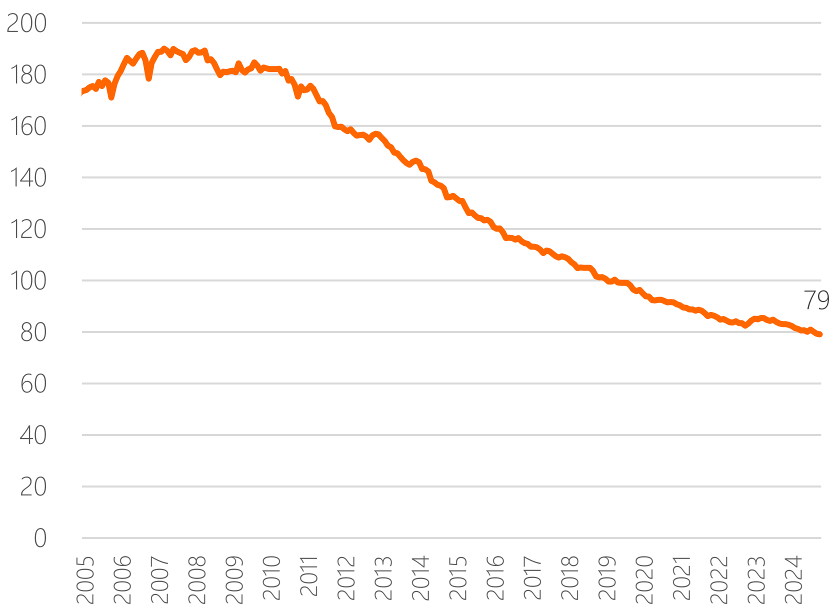


Cost of risk[1]
0.5% in Q4 2019
0.1% in Q3 2024

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

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

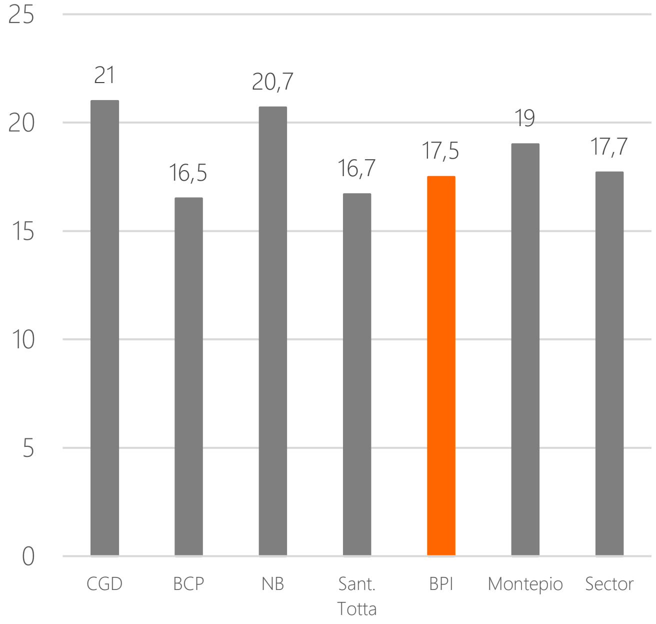
(%)



***Source**: BPI Research with data from Bank of Portugal.*

Banks' solvency and liquidity position

In % (Q3 2024)



***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.**

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