Portugal:
Macroeconomic and financial outlook

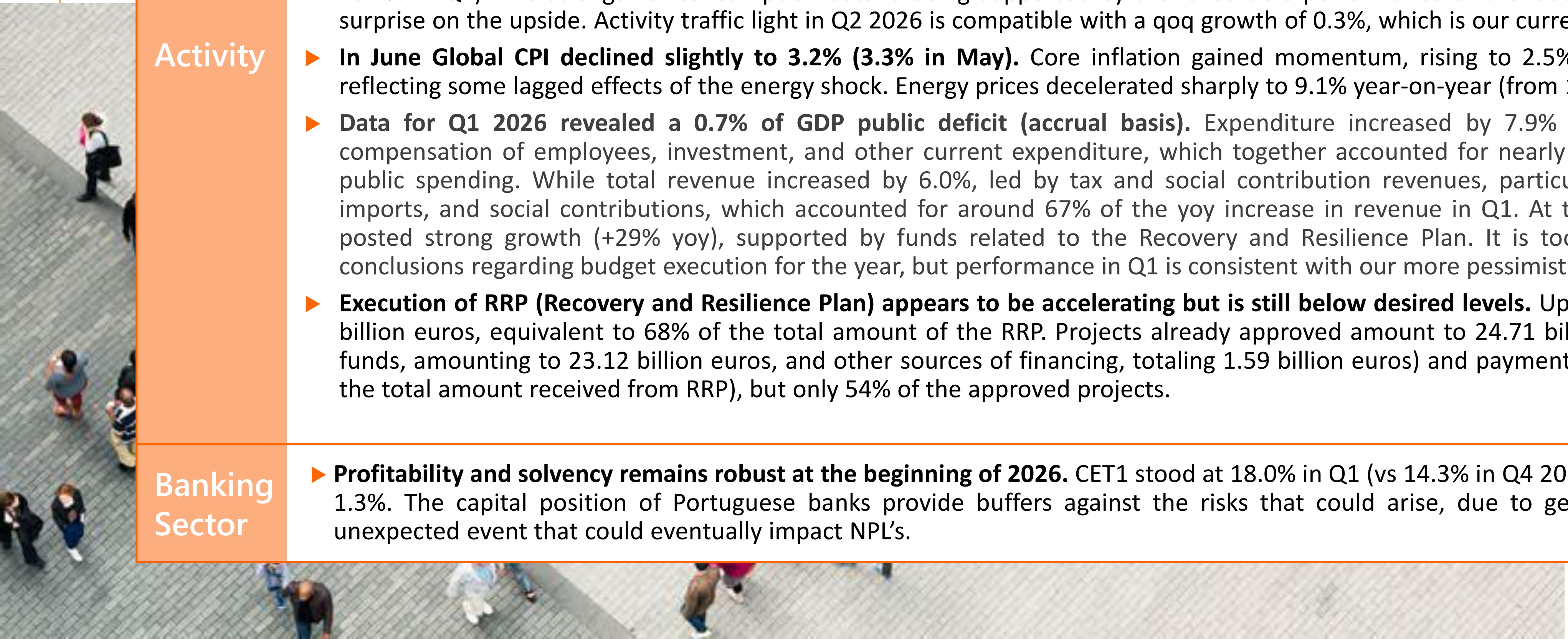
BPI ***Research***

July 2026

Prepared with information available by July 8th , 2026

Main messages

Activity	▶ Energy prices corrected rapidly after the mid-June agreement between Iran and the US was announced, returning close to pre-conflict levels. However, renewed tensions and incidents in the Strait of Hormuz in July underline that **uncertainty remains elevated and the situation remains fragile.** ▶ **ECB tightening is expected to be limited.** The ECB raised the depo rate to 2.25% in June. At the time of writing, markets expect the ECB to stay on hold in July and to deliver the next rate hike in September, taking the depo rate to 2.50% with a probability of over 80%. However, renewed bombings between the US and Iran in early July have revived some market pricing of the depo rate reaching 2.75% in 2027, after that probability had fallen to virtually zero following June's US–Iran agreement. ▶ **Activity indicators for the Portuguese economy show some signs of dynamism in Q2 2026.** indicators related to private consumption kept robust, with retail sales increasing by 4.2% in the first two months of the quarter and car sales rising by 11.8% during the quarter (compared with 10.1% in Q1). The strength of consumption data is being supported by the favourable performance of the labour market, which continues to surprise on the upside. Activity traffic light in Q2 2026 is compatible with a qoq growth of 0.3%, which is our current forecast. ▶ **In June Global CPI declined slightly to 3.2% (3.3% in May).** Core inflation gained momentum, rising to 2.5% (from 2.2% in May), possibly reflecting some lagged effects of the energy shock. Energy prices decelerated sharply to 9.1% year-on-year (from 13.1% in May). ▶ **Data for Q1 2026 revealed a 0.7% of GDP public deficit (accrual basis).** Expenditure increased by 7.9% yoy driven by social benefits, compensation of employees, investment, and other current expenditure, which together accounted for nearly 80% of the annual increase in public spending. While total revenue increased by 6.0%, led by tax and social contribution revenues, particularly taxes on production and imports, and social contributions, which accounted for around 67% of the yoy increase in revenue in Q1. At the same time, capital revenue posted strong growth (+29% yoy), supported by funds related to the Recovery and Resilience Plan. It is too early to draw more detailed conclusions regarding budget execution for the year, but performance in Q1 is consistent with our more pessimistic outlook for 2026 (-0.2%). ▶ **Execution of RRP (Recovery and Resilience Plan) appears to be accelerating but is still below desired levels.** Up to now, Portugal received 14.9 billion euros, equivalent to 68% of the total amount of the RRP. Projects already approved amount to 24.71 billion euros (which includes RRP funds, amounting to 23.12 billion euros, and other sources of financing, totaling 1.59 billion euros) and payments reached 13.33 billion (90% of the total amount received from RRP), but only 54% of the approved projects.
Banking Sector	▶ **Profitability and solvency remains robust at the beginning of 2026.** CET1 stood at 18.0% in Q1 (vs 14.3% in Q4 2019) and ROA kept unchanged at 1.3%. The capital position of Portuguese banks provide buffers against the risks that could arise, due to geopolitical risks or any adverse unexpected event that could eventually impact NPL's.



Main economic forecasts

UNDER REVIEW

%, yoy	2017	2018	2019	2020	2021	2022	2023	2024	2025	Forecasts 2026	Forecasts 2027
GDP	3,3	2,9	2,7	-8,2	5,6	7,0	3,1	2,1	1,9	1,8	1,8
Private Consumption	1,8	2,6	3,5	-6,8	4,9	5,6	2,3	3,0	3,5	2,0	1,8
Public Consumption	0,1	0,5	2,1	0,4	3,8	1,7	1,8	1,5	1,6	1,4	1,0
Gross Fixed Capital Formation (GFCF)	11,6	6,2	5,5	-2,3	7,8	3,3	6,0	3,8	3,6	4,0	1,5
Exports	8,4	4,3	4,0	-18,4	12,1	17,2	4,2	3,1	0,4	1,4	3,3
Imports	8,0	4,9	5,1	-11,6	12,3	11,3	2,3	4,8	4,3	2,0	2,8
Unemployment rate	9,2	7,2	6,6	7,0	6,7	6,1	6,5	6,4	6,0	5,9	5,9
CPI (average)	1,4	1,0	0,3	0,0	1,3	7,8	4,3	2,4	2,3	2,9	2,3
External current account balance (% GDP)	1,5	0,8	0,8	-0,7	-0,7	-2,0	0,6	2,2	1,2	0,4	0,6
General Government Balance (% GDP)	-3,0	-0,4	0,1	-5,8	-2,8	-0,3	1,1	0,6	0,7	-0,2	-0,4
General government debt (% GDP)	126,0	121,1	116,1	134,1	123,9	111,2	96,9	93,5	89,7	86,3	83,2
Housing Prices	9,2	10,3	10,0	8,8	9,4	12,6	8,2	9,1	17,6	11,7	4,6
Risk premium (PT-Bund) (average)	269	138	100	90	60	100	70	62	44	41	50

***Source**: BPI Research.*

The ECB focuses on a measured tightening

Geopolitical risk

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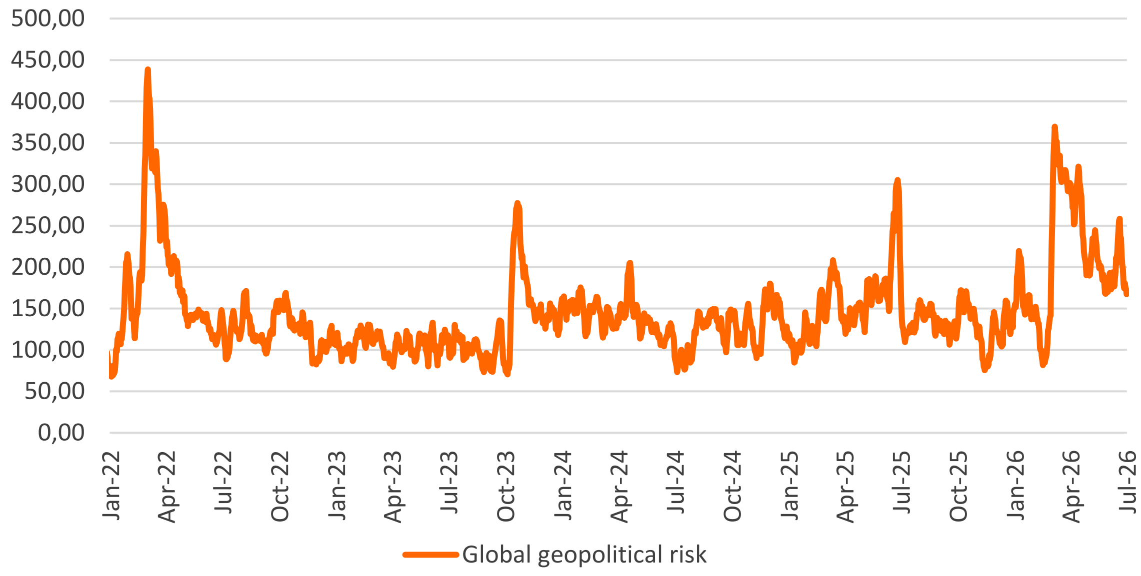
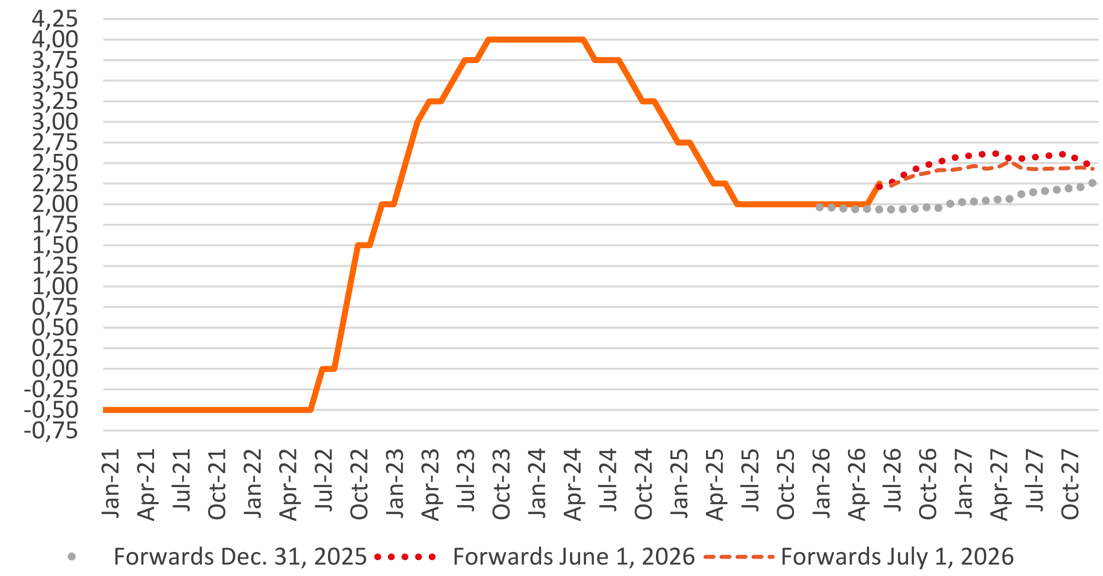


ECB deposit rate

(%)



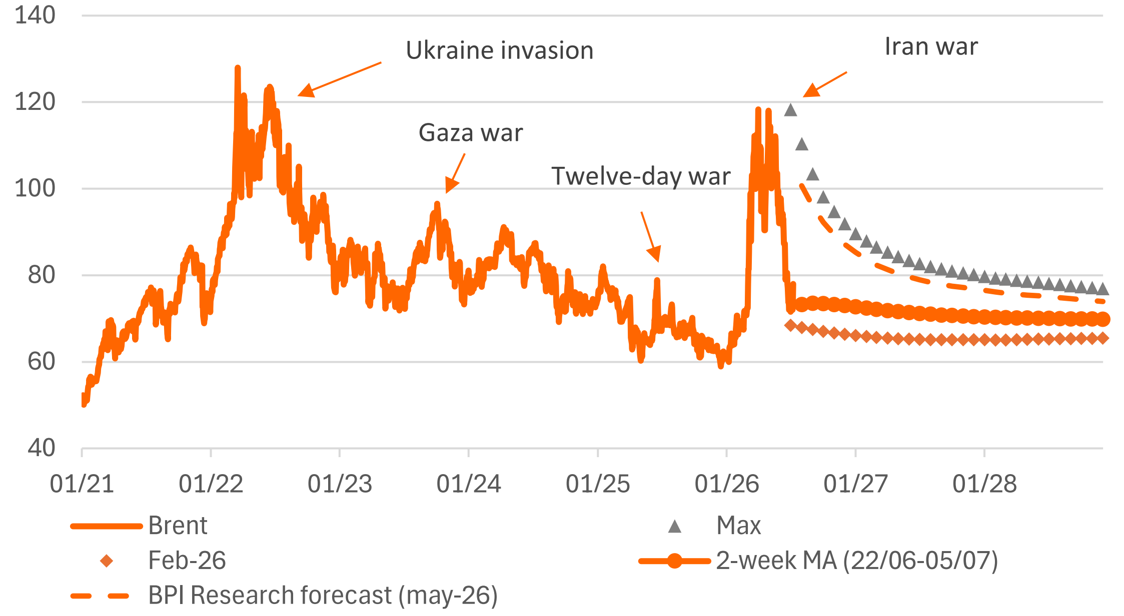
- **The ECB hiked rates in June and pointed towards a measured policy tightening.** The ECB framed the increase in its depo rate to 2.25% (+25bp) within a scenario in which the Middle East conflict triggers a large, though not too persistent, overshoot in inflation while exerting a modest drag on economic activity. ECB communication exhibited a hawkish tilt: it emphasized early signals of inflation indirect effects and supply chain impairments, and it highlighted sources of resilience in economic activity (poor headline GDP figures attributed to Ireland's volatility, a forecast of positive real income growth for workers in the years ahead, investment related to technology, defense and infrastructure as a source of growth).
- **The ECB sees "a moderate tightening" as a robust strategy across scenarios**. June baseline forecasts (inflation at 3.0% in 2026 and 2.3% in 2027) were accompanied by a "milder scenario" (inflation at 2.9% and 1.8%, with energy commodity prices relatively close to market pricing as of early July) as well as "adverse" (3.3% and 3.0%) and "severe" scenarios (4.0% and 5.3%). All scenarios incorporated a depo rate between 2.50%-2.75%, showing that a moderate increase in rates would be warranted both under the "milder" and the "baseline", while the "adverse" and "severe" scenarios would trigger a more significant policy tightening.
- **The fragile US–Iran agreement would improve the balance of risks, provided it remains in place**. The agreement reins in the adverse and severe inflation scenarios, although geopolitical uncertainty remains high and the situation in the Middle East is still fragile. If the agreement endures, Hormuz flows recover sustainably and energy commodity prices remain close to the milder scenario, the ECB could see less need for further rate hikes. At the time of writing, investors expect the ECB to stay on hold in July and to deliver the next rate hike in September, taking the depo rate to 2.50% with a probability of over 80%. However, renewed bombings between the US and Iran in early July have revived some market pricing of the depo rate reaching 2.75% in 2027, after that probability had fallen to virtually zero following June's US–Iran agreement.

Energy prices have corrected from recent peaks, but geopolitical risks remain material

BPI Grupo CaixaBank

Brent oil prices and futures

$ per barrel



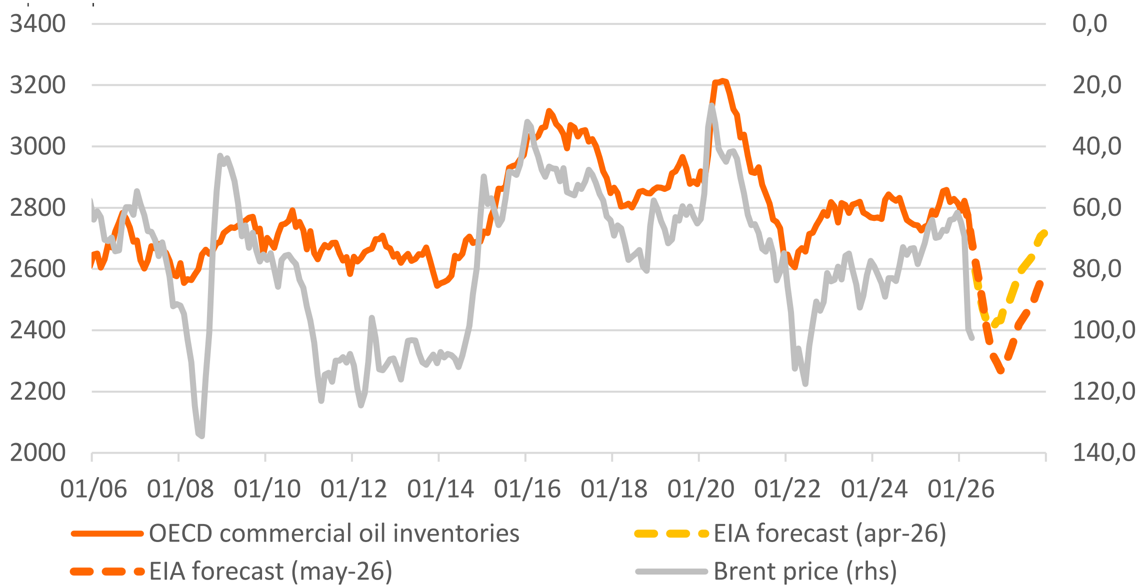
Note: Graph elaborated with data as of July 8th.

Source: CaixaBank Research, based on data from Bloomberg.

OECD comercial inventories and Brent prices

Millions of barrels

$ per



Note: We present monthly averages of Brent oil prices. Data for commercial inventories are available until May and we use EIA forecasts from June 2026 onwards, which assume a gradual resumption of SoH flows from Q3 .

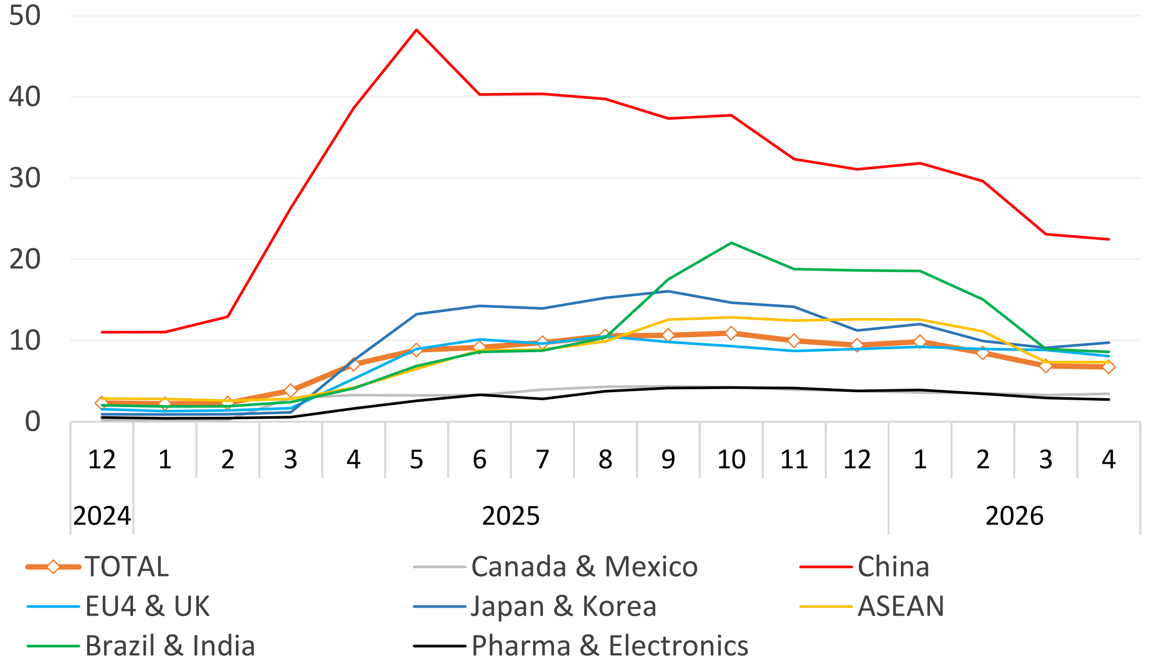
Source: CaixaBank Research, based on data from the US Energy Information Administration (EIA).

- **Oil prices** fell sharply after the US and Iran reached a preliminary agreement in mid-June that eased concerns over energy flows through Hormuz and opened a two-month negotiation window. Spot Brent declined towards 72$/b before Trump's July 8 remarks cast doubt on the agreement, but renewed US–Iran tensions have since pushed spot prices back towards levels close to 80$/b, highlighting that upside risks to energy prices remain significant. By contrast, the futures curve has reacted moderately: as of July 10, average Brent prices implied by current futures stand close to 81$/b in 2026 and 73$/b in 2027, below our May-26 forecast of around 90$/b and 79$/b, respectively.
- **Gas prices** have been less volatile than oil prices and have remained broadly within the 40–50€/MWh range over recent weeks, both before and after Trump's July 8 remarks cast doubt on the US–Iran preliminary agreement. Futures are nearly flat through the end of the 2026–27 winter season, suggesting that markets are not pricing a persistent gas shock at this stage. Using current futures, average TTF prices stand close to 45€/MWh in 2026 and 36€/MWh in 2027, broadly in line with our May-26 forecast of 43€/MWh and 36€/MWh, respectively.
- The disruption to flows through the Strait of Hormuz turned an oil market surplus of c.2 mb/d into a deficit of c.6 mb/d. Alternative routes, weaker demand and a 400mb strategic reserve release helped cushion the shock, but the adjustment has come at the cost of lower inventories, which will take time to rebuild. The pace at which Gulf energy exports normalise will be critical, while gas markets remain more exposed due to infrastructure damage, logistical constraints and regional tensions.

US tariff de-escalation accelerates in 2026

Effective US tariffs

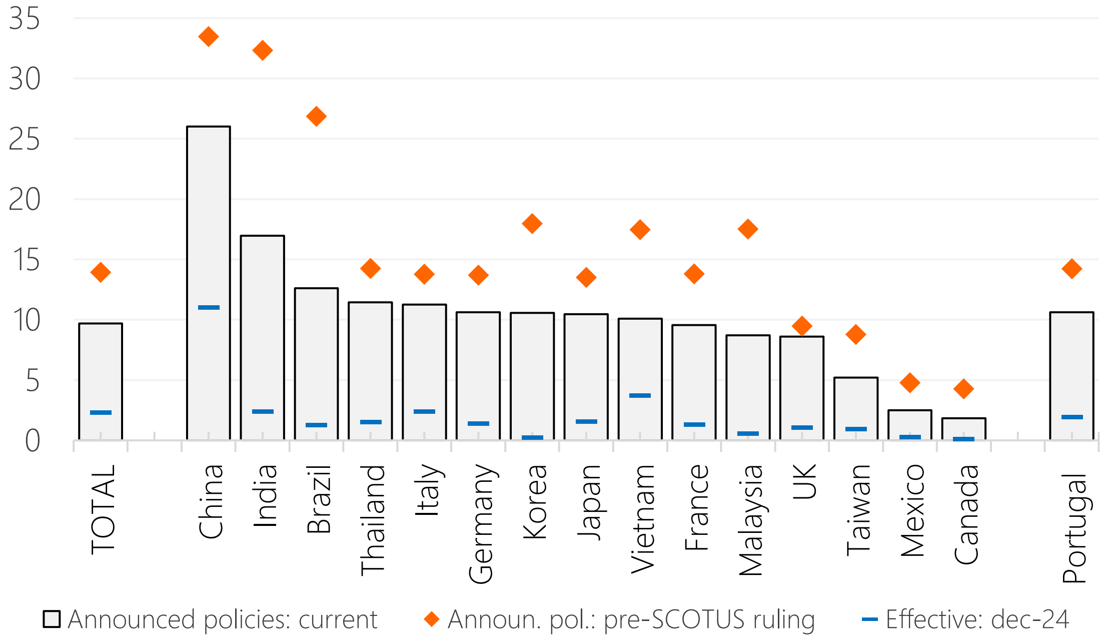
By trading partner group (%)



Note: EU4 = Germany, France, Italy and Spain. ASEAN = Cambodia, Philippines, Indonesia, Malaysia, Thailand and Vietnam. Pharmaceuticals and electronics (producers): Belgium, Ireland, the Netherlands, Switzerland, Singapore and Taiwan. Trade flows weighted using 2025 data.
Source: CaixaBank Research, based on Bloomberg data.

US tariffs based on announced policies

By main trading partner (%)



Note: The current estimate is based on 2025 trade flows. SCOTUS = Supreme Court Of The United States.
Source: CaixaBank Research, based on Bloomberg, UN COMTRADE and White House data.

- **Average effective U.S. tariffs have retraced to pre–Liberation Day levels**. Following the Supreme Court ruling in February, the average tariff rate applied to U.S. imports fell below 7% in March–April, from a peak of 11% in September–October. The adjustment has been especially pronounced for imports from Brazil and Asia, with China's effective tariff rate declining by 15 p.p. to 22%, while European goods now face tariffs that remain relatively above the average at around 8%.
- **The future tariff framework remains subject to legal clarification**. The current 10% universal tariff is due to expire on 24 July (barring an unlikely congressional extension), and the Trump administration continues to pursue a transition towards tariff measures resting on a firmer legal footing. Pending ratification, the ongoing Section 301 investigations into unfair trade practices suggest little change in current tariff levels, with a 10% rate proposed for 16 countries, including the EU, and 12.5% for a further 44 countries.

BPI's scenario broadly in line with other institutions

		2025	2026	2027	Accum. 26-27
GDP	EC, May-26	1,9	1,7	1,8	**3,5**
	OECD, Jun-26		1,8	1,7	**3,5**
	IMF, Apr-26		1,9	1,8	**3,7**
(annual growth)	BPI, May-26		1,8	1,8	**3,6**
Unemployment rate	EC, May-26	6,0	5,9	5,8	**-0,2**
	OCDE, Jun-26		5,8	5,8	**-0,2**
	IMF, Apr-26		5,9	5,9	**-0,1**
(% of labour force)	BPI, May-26		5,9	5,9	**-0,1**
Inflation rate	EC, May-26	2,3	3,0	2,3	**5,4**
	OCDE, Jun-26		3,2	2,5	**5,8**
	IMF, Apr-26		3,1	2,3	**5,5**
(annual average)	BPI, May-26		2,9	2,3	**5,3**
Budget balance	EC, May-26	0,7	-0,1	-0,4	**-1,1**
	OCDE, Jun-26		0,0	-0,1	**-0,8**
	IMF, Apr-26		-0,1	-0,2	**-0,9**
(% of GDP)	BPI, May-26		-0,2	-0,4	**-1,1**
Public debt ratio	EC, May-26	89,7	87,6	86,0	**-3,7**
	OCDE, Jun-26		86,3	83,3	**-6,4**
	IMF, Apr-26		85,6	82,2	**-7,5**
(% of GDP)	BPI, May-26		90,4	88,0	**-1,7**
Current account balance	EC, May-26	1,0	0,1	0,2	**-0,8**
	OCDE, Jun-26		-0,1	0,4	**-0,6**
	IMF, Apr-26		0,5	0,7	**-0,3**
(% of GDP)	BPI, May-26		0,4	0,6	**-0,4**

[1] EC and OECD forecasts for the HCPI; BPI forecasts for CPI

Source: BPI Research based on EC and OECD data.

- The European Commission and the OECD have recently revised down their growth outlook for Portugal. The levels now forecast by both institutions are very similar to those seen by BPI Research, and the factors behind these revisions were also largely the same: a weakening of activity driven by storms, and the impact of the conflict in the Middle East on prices and on economic agents' confidence. In 2026, the revisions amounted to -0.3 pp, -0.4 pp, and -0.5 pp for BPI, the OECD, and the European Commission, respectively.

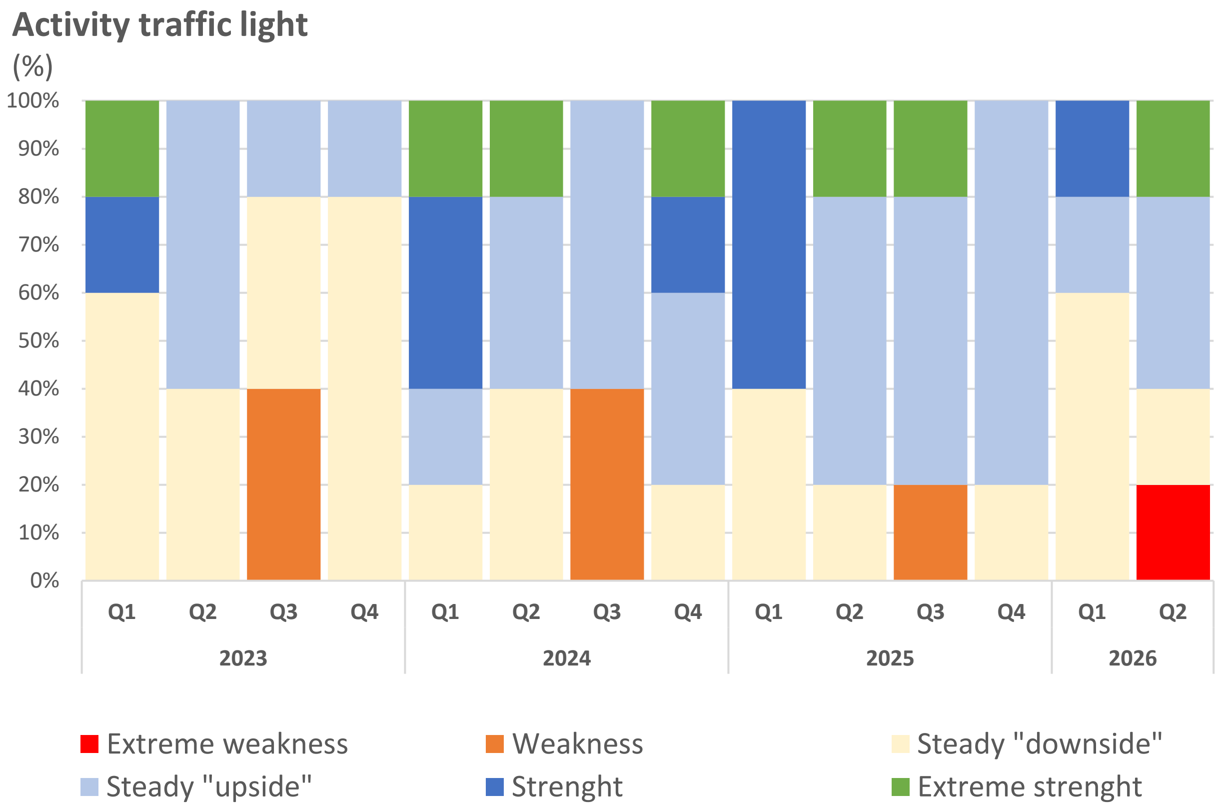
- On the other hand, the IMF outlook for Portugal is relatively optimistic, with the GDP forecast being the same of the 2025 release (1,9%), despite also being subject to a downward revision. The IMF has relatively good views for the economic development of the country compared to other institutions, namely for growth, budget deficit, public debt and current account.

- The most affected variable was inflation, approaching or slightly exceeding the 3% threshold in 2026, before resuming a deceleration path in 2027. The impact of the conflict in the Middle East on energy prices is the main driver of higher inflation.

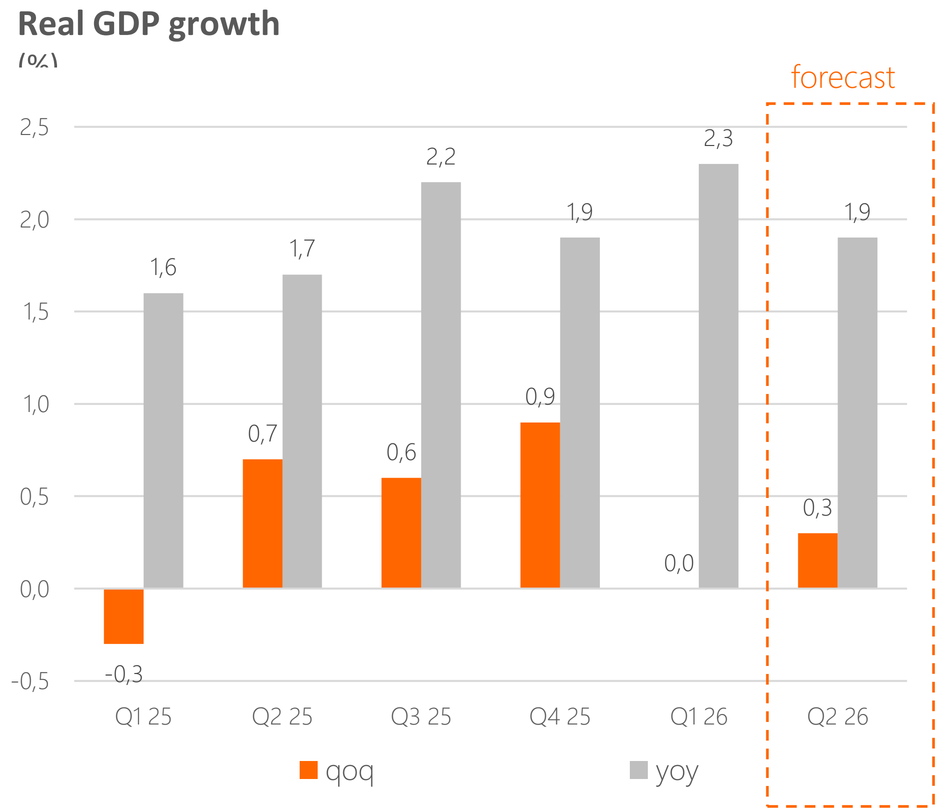
- Labour market continues very resilient, with the unemployment rate remaining at relatively low levels.

- Public finances: return to a deficit without jeopardizing the reduction in the public debt ratio. BPI slightly more conservative."

Activity indicators show some signs of dynamism for Q2 2026



Source: Caixabank Research based on Portuguese INE, Bank of Portugal and European Commission.



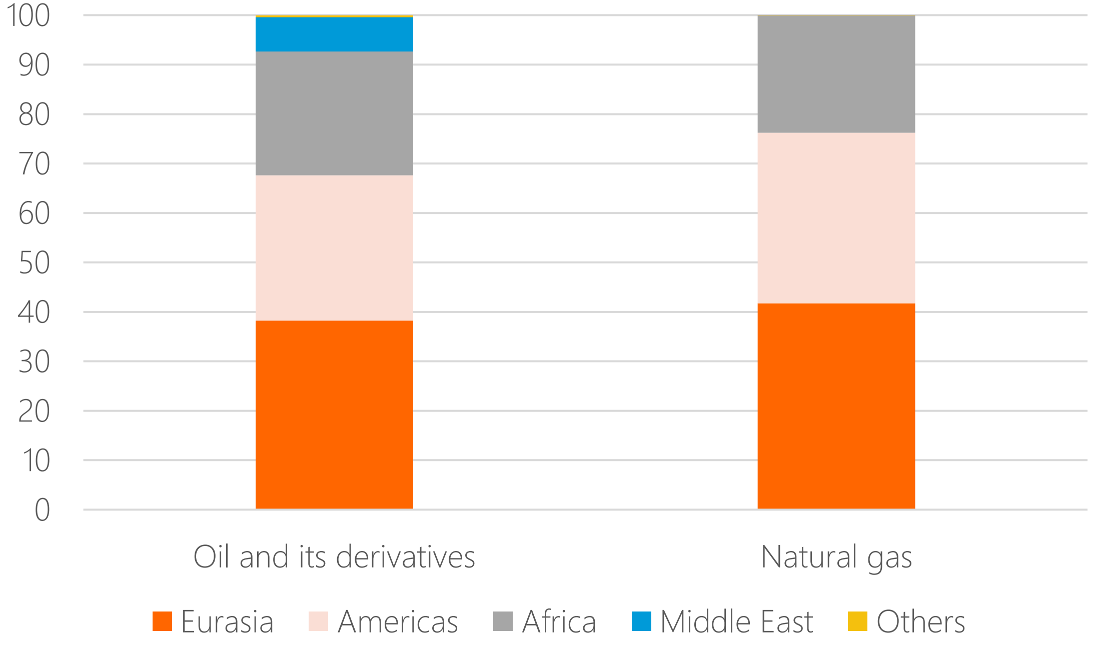
Source: Caixabank Research based on Portuguese INE.

- **GDP stagnated in Q1, driven by the deterioration of the negative contribution of external demand.** INE refers that the contribution of domestic demand became positive in the quarter, taking advantage of an acceleration of investment, while the pace of growth of private consumption decelerated from Q4 25. The acceleration of investment explains the negative contribution of external demand, given the strong component of imports incorporated in investment. Indeed, INE refers that imports accelerated further than exports.
- **Confidence indicators improved throughout the quarter**, with the European Commission's Economic Sentiment Indicator notably recovering to 103 points in June. At the same time, indicators related to private consumption remained robust, with retail sales increasing by 4.2% in the first two months of the quarter and car sales rising by 11.8% during the quarter (compared with 10.1% in Q1). The strength of consumption data is being supported by the favourable performance of the labour market, which continues to surprise on the upside. Activity traffic light in Q2 2026 is compatible with a qoq growth of 0.3%, which is our current forecast.

Portugal: limited direct exposure to the Gulf region

Oil and gas imports by region

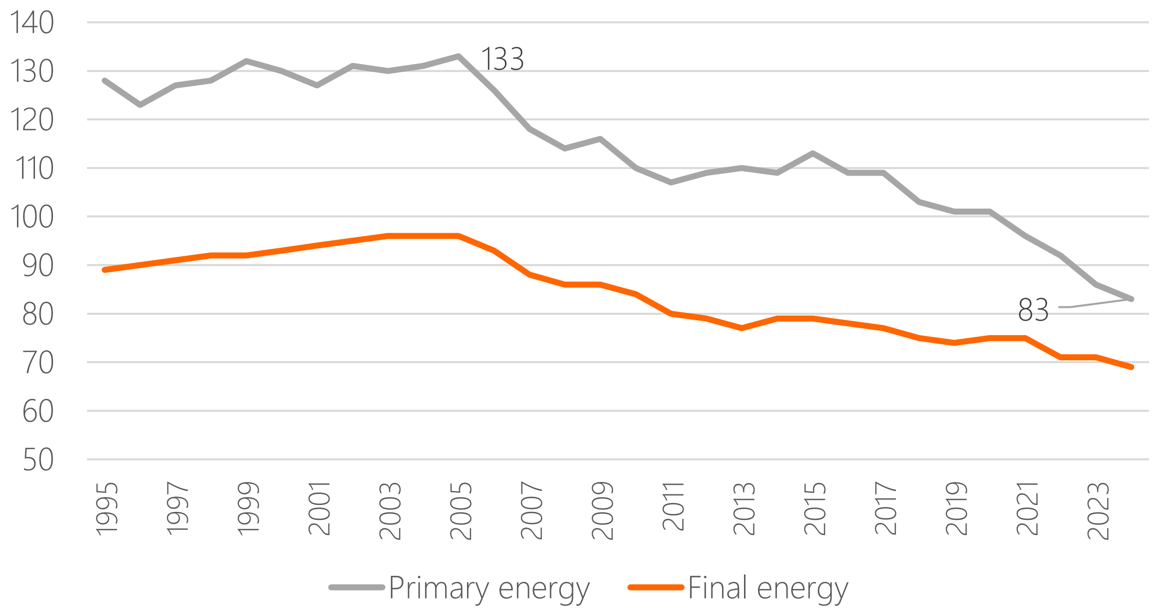
Percentage over total (%)



Note: Data from 2025.
Source: BPI Research, based on data from INE.

Energy intensity

Tonnes of oil equivalent (toe) of primary or final energy per M€ of GDP



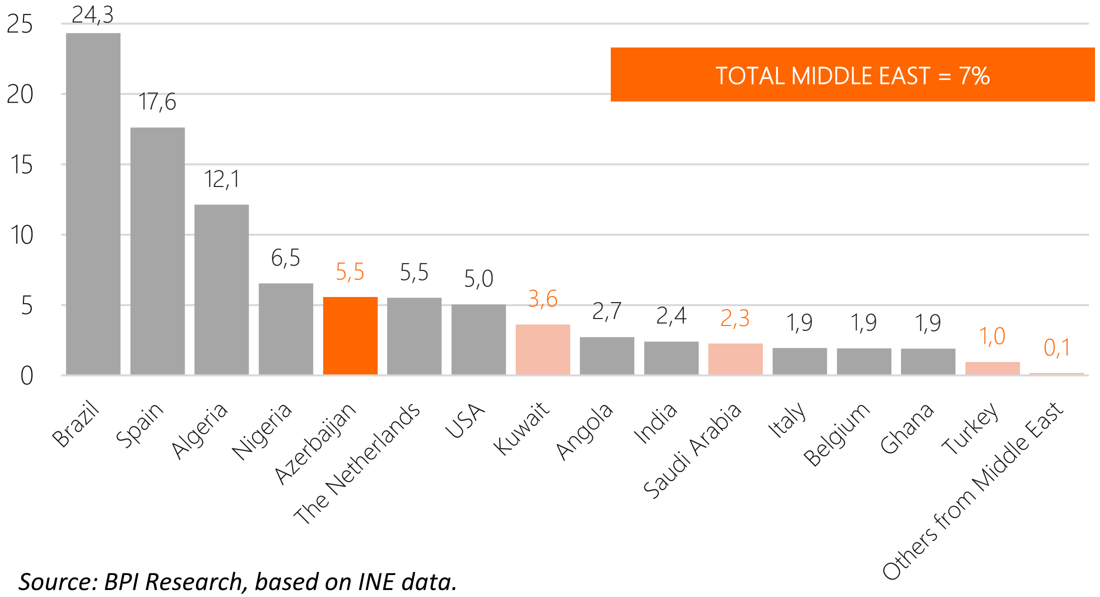
Note: Primary energy is the total raw energy source before conversion. Final energy is the energy delivered to and consumed by the end-user.
Source: BPI Research, based on data from DGEG.

- **Portugal's direct exposure to Middle East energy exports is relatively limited on both oil and gas**. Around 7% of Portugal's imported oil comes from the Middle East, while no imported gas originates from the region according to INE data (Egypt was included in Africa). In both cases, more than 65% of imports come from the Eurasia and Americas.
- **Lower energy intensity, while energy dependence remains high**. Portugal's energy intensity—measured as total energy consumption divided by GDP —has fallen by around 35% (primary energy, 27% in the case for final energy) since the early 2000s. However, Portugal continues to show a high reliance on external energy sources.
- **Limited trade exposure**. The Middle East accounts for 2.8% of Portugal's goods exports, which accounts for around 0.7% of nominal GDP. Goods exports to the region are more concentrated in wood pulps; agriculture products; transport equipment; stone, plaster, cement, etc.; leather and food & beverages. Imports' relevance from the region is even smaller—just 2.0% of total imports and around the same 0.7% of nominal GDP — and only 16% of these are mineral products, which include energy. The remainder is largely composed by transport material; metals; machines and textiles.

Portuguese energy imports by country of origin (2025)

Imports: crude and its derivatives

% of total imports of crude and its derivatives

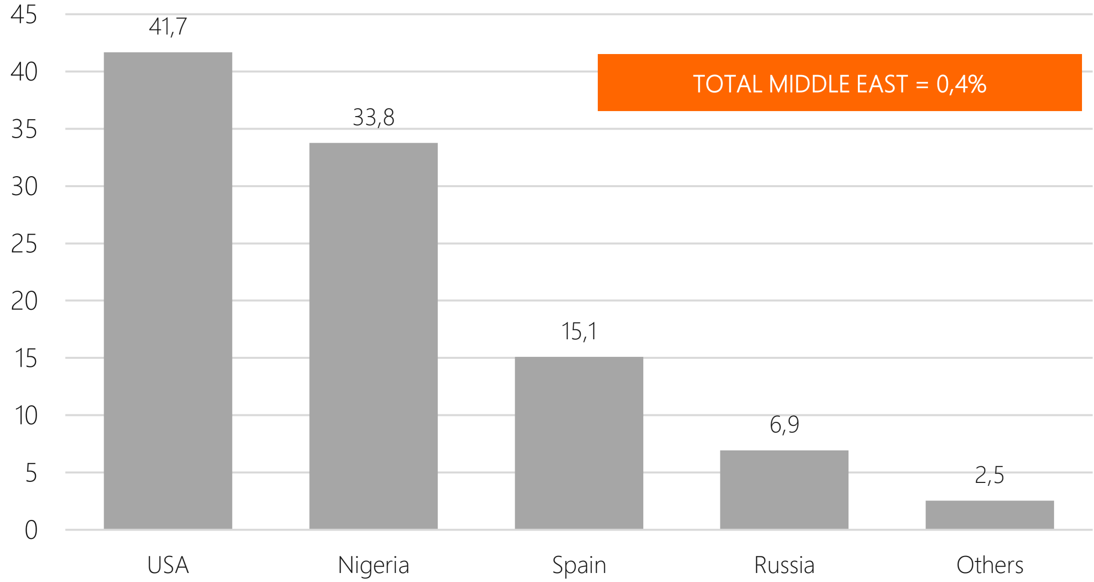


Source: BPI Research, based on INE data.

***Note:** Includes the Combined Nomenclature (CN) headings "Crude petroleum oils or oils obtained from bituminous minerals"; "petroleum oils or oils obtained from bituminous minerals (other than crude oils) and preparations not elsewhere specified or included, containing by weight as basic constituents = > 70% petroleum oils or oils obtained from bituminous minerals (other than those containing biodiesel and residues of oils)"; Vaseline; paraffin, microcrystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes and similar products obtained by synthesis or other processes, whether or not coloured"; "Petroleum coke, petroleum bitumen and other residues of petroleum oils or bituminous minerals"; "Bitumen and natural asphalts; schists and tar sands; asphaltites and asphalt rocks"; "Bituminous mastics, cut backs and other bituminous mixtures based on natural asphalt or bitumen, petroleum bitumen, mineral tar or mineral tar pitch".*

Imports: Natural gas

% of total imports of natural gas



Source: BPI Research, based on INE data. Note: Includes the Combined Nomenclature (CN) heading "Petroleum gas and other gaseous hydrocarbons".

Public measures to support higher energy costs

Support for transports companies:

- The return of the increase in VAT revenue through a reduction in the Tax on Petroleum and Energy Products whenever the price rises by more than 10 cents per litre compared with the first week of March;
- An additional refund of 10 cents per litre of diesel for passenger vehicles (over 22 seats) and freight vehicles (over 35 tonnes),up to a limit of 15,000 litres (cumulative with the ISP discount);
- Support for taxi companies amounting to €120 per vehicle, equivalent to 10 cents per litre for 400 litres per month;
- Deferral until 30 April of tax obligations;
- Support of up to €573 per person or €1,075 per household for families and individuals in need or who have lost income, which may last up to 12 months.
- **Support for agriculture and fishing:**
- Support for the agricultural, forestry, fisheries and aquaculture sectors, amounting to 10 cents per litre on coloured and marked diesel;
- Deferral until 30 April in fulfilling tax obligations.
- **Support for Volunteer firefighters:**
- Subsidies for humanitarian firefighting associations amounting to €360 per heavy vehicle (equivalent to 10 cents per litre for 1,200 litres per month) and €120 for other vehicles (equivalent to 10 cents per litre for 400 litres per month);
- **Support for Social sector:**
- Granting of a one-off payment to organisations in the social sector, amounting to €600, equivalent to 10 cents per litre for 2,000 litres per month.

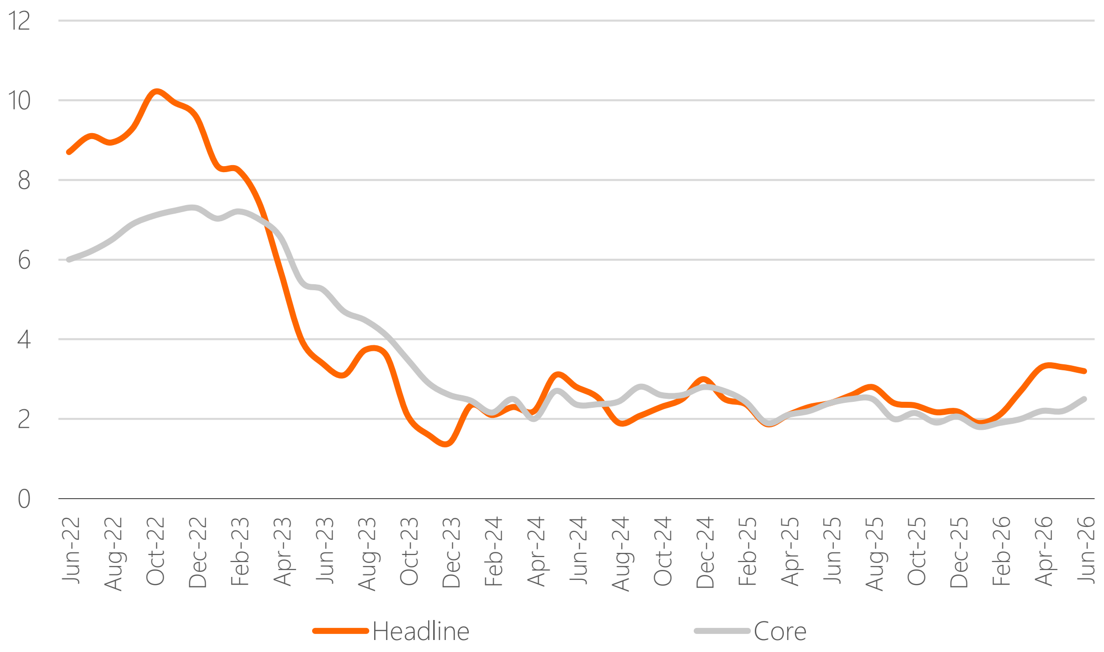
➢ **These measures are estimated to reach €450 million between April 1st and June 30th, representing c. 0.1% of GDP**

Source: BPI Research based on Government

Inflation declined slightly in June

Inflation: Headline and Core

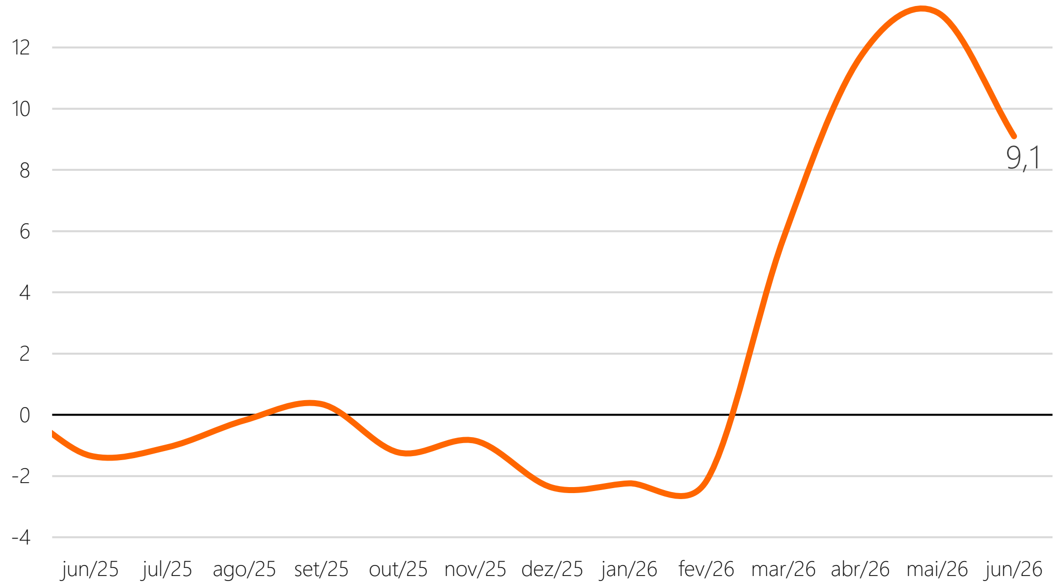
Year-on-year (%)



Source: Caixabank Research, from INE.

Energy: price index

Year-on-year (%)



Source: Caixabank Research, from INE.

- **In June Global CPI declined slightly to 3.2% (3.3% in May).** Simultaneously, core inflation gained momentum, rising to 2.5% (from 2.2% in May), possibly reflecting some lagged effects of the energy shock.
- **Energy prices decelerated sharply to 9.1% year-on-year (from 13.1% in May).** This was driven by the signing of the memorandum of understanding between the United States and Iran, which led to a rapid decline in energy prices, with both Brent crude oil and natural gas already trading at levels close to those seen before the conflict in international markets.

Employment is peaking again

Employed population
Number of people ('000 individuals)

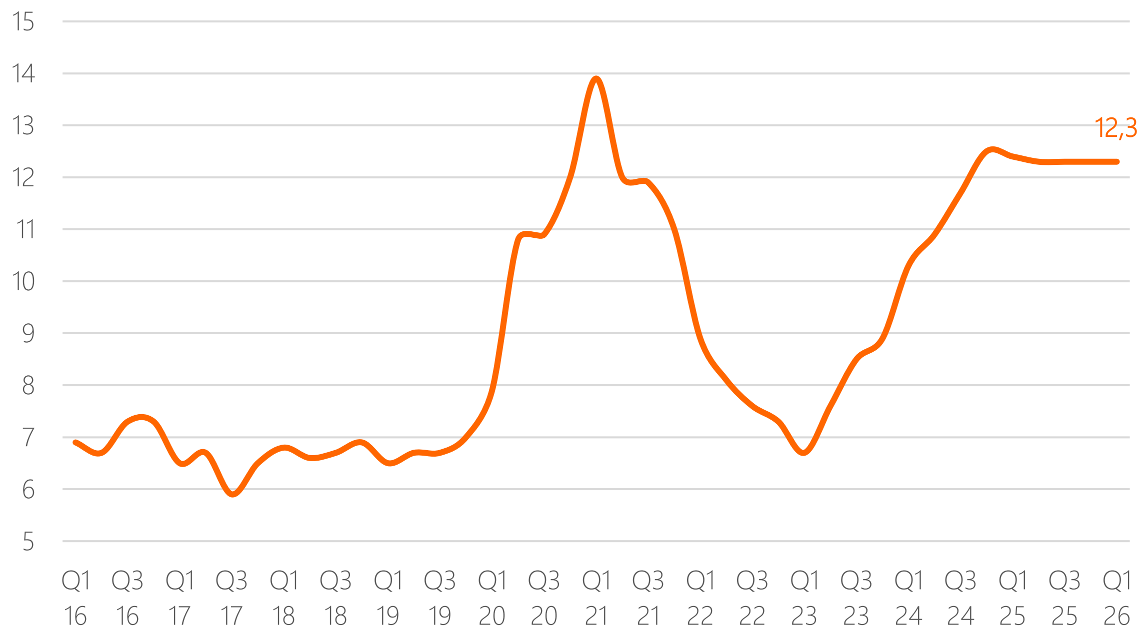
Unemployment rate
(%)

Source: Caixabank Research, from INE.

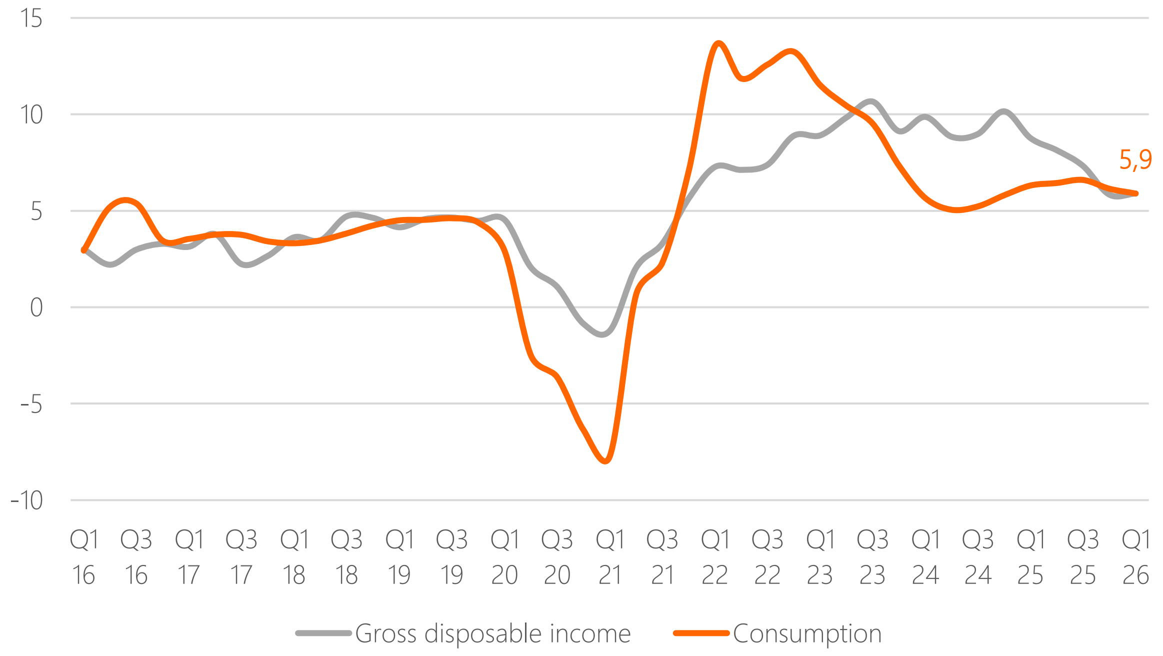
- **Employment has started to peak again, after some deceleration at the beginning of the year.** In fact, employed population accelerated in May (2.8% yoy, from 2.4% yoy on average in the previous 4 months), reaching a new maximum of 5,366,600 persons. Additionally, these numbers represent some upside risks for the employment growth in Q2: it is possible that employed population surprised on the upside in Q2, growing slightly below 3% yoy.
- **At the same time, unemployment rate decreased**, from 5.7% in April to 5.5% in May. This also represents a 0.7 p.p. reduction in comparison to the same month of 2025. It is also expected that unemployment rate stood at 5.3% in Q2; if confirmed, this will be the lowest rate since the start of this statistical series (starts at 2011).

Families’ savings are an important cushion in a highly uncertain environment

Families’ saving rate
(% of DI)



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



Source: CaixaBank Research, from INE, BoP.

- **Households’ savings rate stabilized around 12% of disposable income** since 2024. In Q1 2026 it was 12,3%, the same since Q2 2025, reflecting a consolidation between the growth rates of disposable income and consumption (both grew at a rate of 5,9% in Q1 2026). In the same period there was a considerable increase on the pace of growth of families’ investment, probably reflecting the increasing of investment in housing. In Q1 2026, families’ gross capital formation rose 16.5% (16.8% in Q4 2025 and 12.5% in Q1 2025). In the current climate of heightened uncertainty, households may adopt a more cautious approach to their consumption decisions, helping to keep the savings rate consolidated and at levels close to historic highs.
- In 2025, households continued to see a recovery in disposable income, as data on the growth of real disposable income per capita rose at a rate higher than inflation. In 2025, it grew by 3.6%, while the inflation rate stood at 2.3%. In 2026, this trend may change given the current environment of rising energy prices due to uncertainty in commodities’ markets & geopolitics, and likely multiple effects in the prices of other goods and services; however, the level of savings accumulated in recent years and the resilience of the labour market suggest that households are in a comfortable position to face the current crisis.

RRP: execution continues to increase smoothly (61% of total program)

Approvals and payments to direct and final beneficiaries

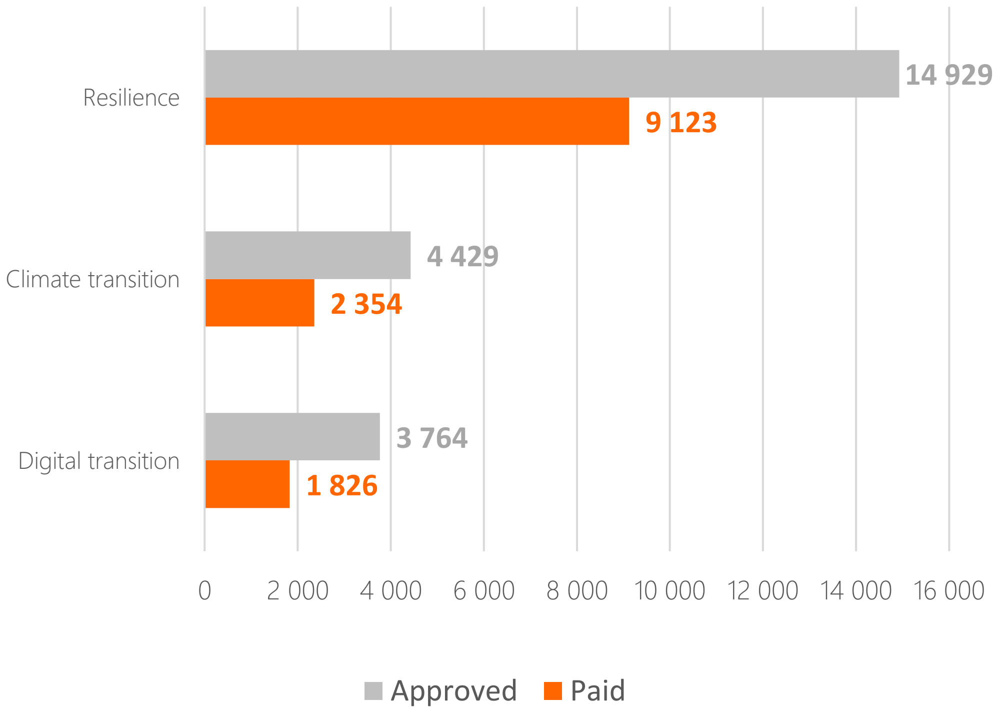
(Up to July 8th)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	481	331	68,8
Social and solidarity economy institutions	885	452	51,1
Firms	8 576	4 766	55,6
Excl. R&I System Non-firms	7 422	4 023	54,2
R&I System Non-firms in consortium with firms	1 155	693	60,0
Institutions of the scientific and technological system	731	366	50,1
Higher Education Institutions	1 006	554	55,1
Schools	992	637	64,2
Municipalities and metropolitan areas	4 704	2 082	44,3
Public entities	4 742	2 680	56,5
Public firms	2 589	1 434	55,4
Total (million euros)	**24 706**	**13 302**	**54**
(% total RRP)	***105%***	***61%***	

Note (*): *In December 2025, the Council of the EU approved the revisions regarding the Portuguese RRP program. In that way, the total cost of the national program was revised to* ***21,905 million €*** *(instead of 22.216 million €). To implement the projects, the government has now other sources for financing them, amounting to 1,640 million €.*

Source: *BPI Research, from Recuperar Portugal.*

RRP: amounts approved and paid by dimension

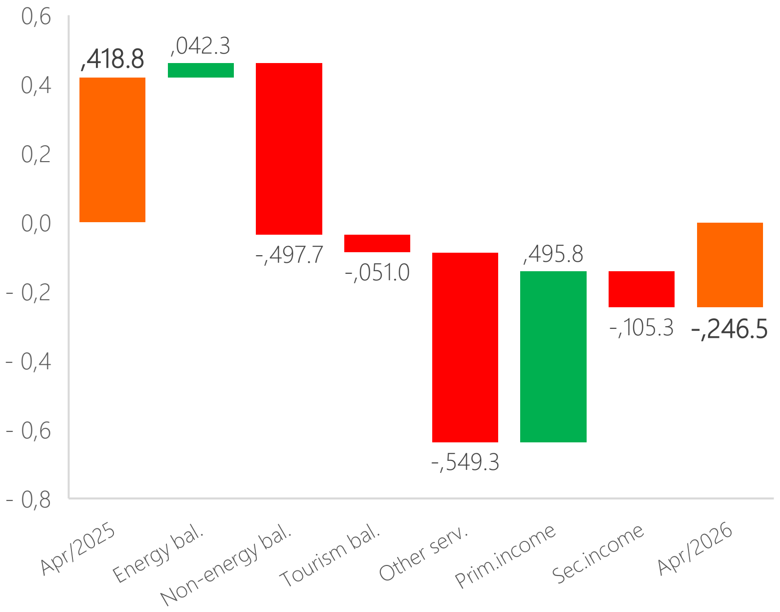
Eur million



- **Up to now, Portugal received 14.9 billion euros, equivalent to 68% of the total amount of the RRP. Projects already approved amount to 24.71 billion euros (which includes RRP funds, amounting to 23.12 billion euros, and other sources of financing, totaling 1.59 billion euros) and payments reached 13.33 billion** (90% of the total amount received from RRP), but only 54% of the approved projects.
- At the same time, the rate of implementation of the funds has been gradually accelerating and is expected to increase this year, given the approaching end of the program and its reprogramming to facilitate the transition of funds allocated to programs with a low probability of implementation by the end of 2026 to other projects. In this context, we anticipate that the implementation of the RRP could add 0.4 percentage points to growth in 2026.

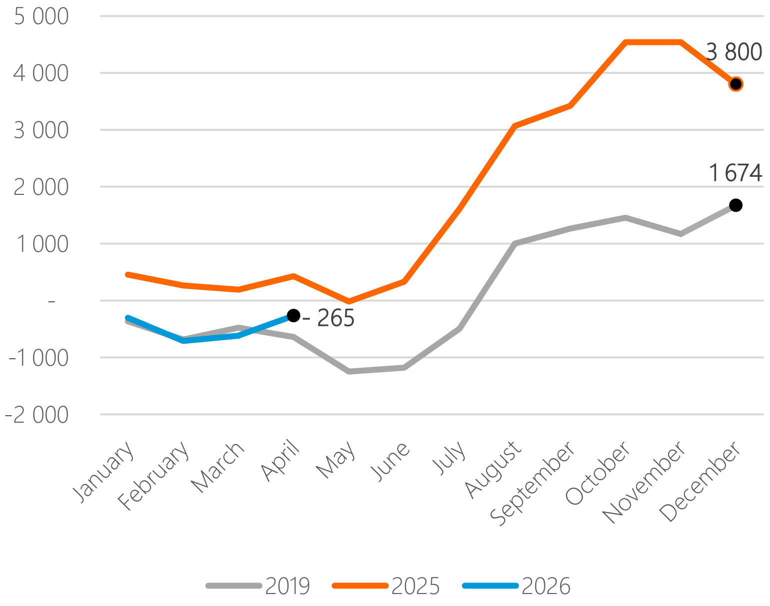
Current account balance worsened considerably up to April

Current account up to April 2026
% of GDP and percentage points change



Source: BPI Research, from BoP.

Current account up to April 2026
In million euros



Source: BPI Research, from BoP.

Portugal: exports and imports variation
Ytd April 2026

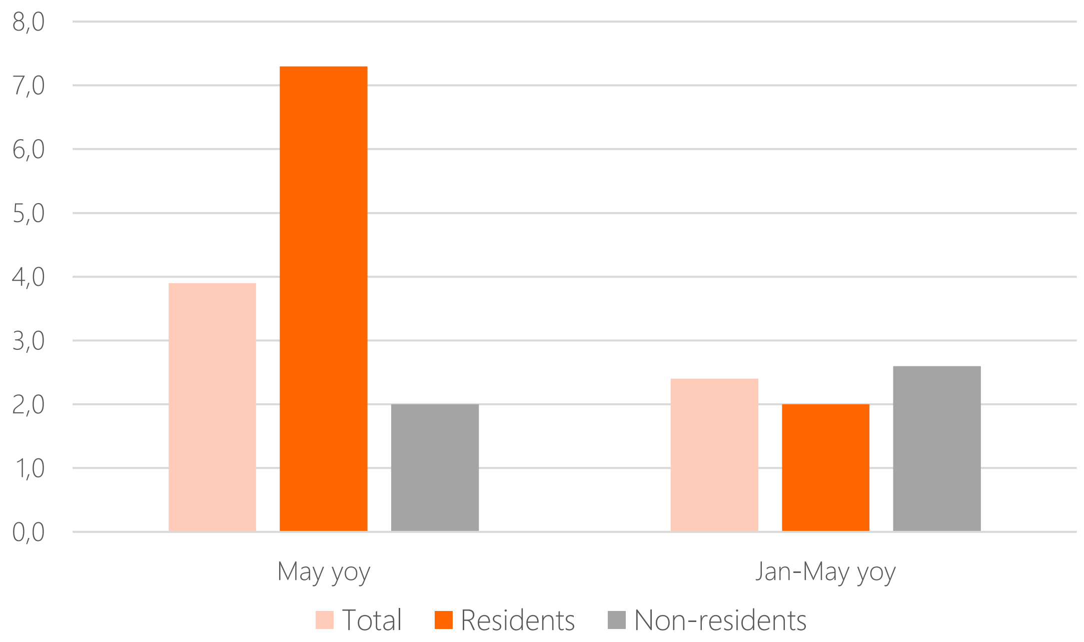
	Exports	Imports
annual change (%)	4,5	7,2
Contribute (p.p.)		
Goods	4,6	4,2
Non-energy	5,1	6,9
Energy	-2,8	0,1
Services	4,2	11,0
Tourism	4,3	4,4
Others	4,2	12,8
annual change by region/country (%)		
Euro area	3,9	7,6
Goods	4,7	6,8
Spain	3,0	5,6
Goods	0,7	5,0
Germany	5,6	9,3
Goods	6,9	8,4
US	0,8	9,6
Goods	-2,3	8,9
Asia	3,6	6,4
Goods	4,0	3,5

Source: BPI Research, from BoP.

- **In the first 4 months of 2026, the current account deficit stood at -265.1 million euros**, equivalent to –0.2% of GDP, a significant decline compared to the surplus registered in the same period of 2025 (428.2 million euros). This reduction has been mainly due to the decrease in the balance of non-energy goods (to -7.7% of GDP), as well as the decrease on the other services balance surplus (to 3.0% of GDP). Note that, to date, the impacts of the increase in energy commodity prices due to the conflict in the Middle East, which has caused the price of Brent crude to rise significantly, are not yet visible. Therefore, we anticipate a worsening of the energy goods account balance (via increased imports) in the coming months, which led us to revise our forecast for the current account balance for 2026 (from 1.2% to 0.4% of GDP).
- The current account balance reduction compared to the same period of 2025 (Jan-Apr) is justified by the increase of 10.6% in the **deficit in goods account** (to -10,140 million euros), where exports and imports grew 4.6% and 6.2%, respectively. The **surplus of services account** shrunk 1.8% (to 9,029 million euros), mainly due to the increase of other services’ imports (+12.8%).

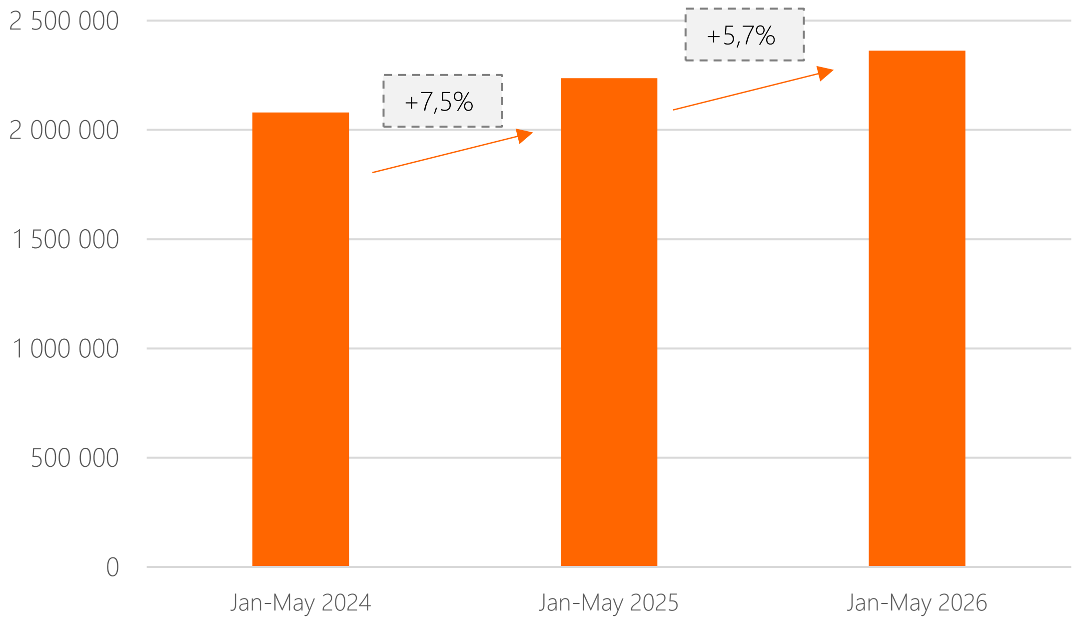
Resident tourism recovers strongly in May

Number of guests
Annual change



Source: Caixabank Research, from INE.

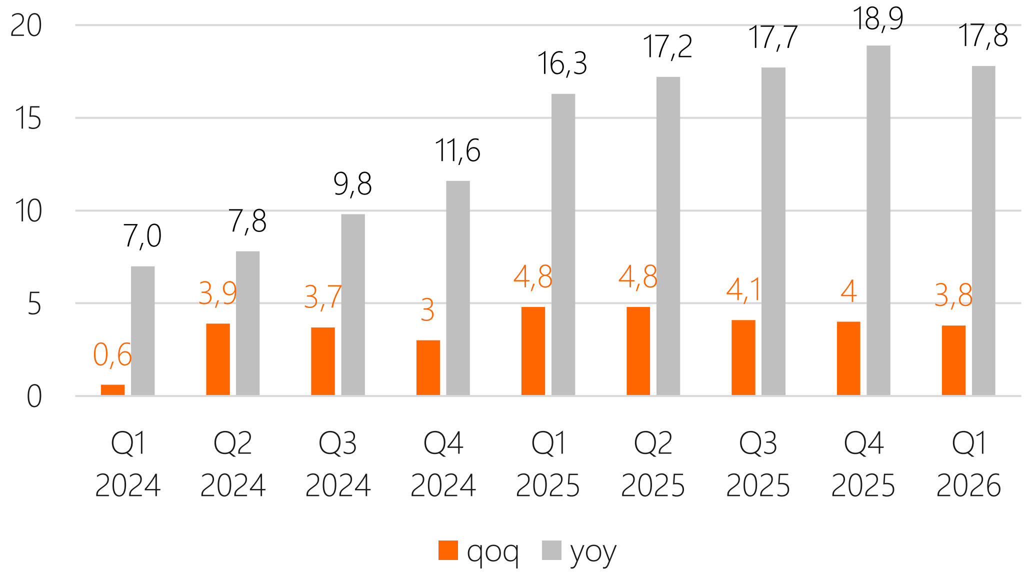
Total revenues in tourist accommodation establishments
Thousand €



- **In May 2026, the tourism sector recorded 3.3 million guests (+3.9%) and 8.0 million overnight stays (+2.8%).** It is worth noting the recovery in resident tourism growth (+7.3% yoy in terms of guests), following the decline recorded in April (-0.2%). In cumulative terms ytd, the tourism sector recorded an annual increase of 2.4% in guests, broadly consistent with our forecast of 2.8% for full-year growth. Among the ten main source markets, Brazil and Germany stood out with the strongest growth in terms of overnight stays (+9.3% and +8.6%, respectively). By contrast, the French market recorded the sharpest decline (-11.3%).
- **Total revenues in tourist accommodation establishments are growing 5.7% ytd in May**, mainly driven by the dynamism in some regions such as Alentejo (+13.1%), Madeira (+9.1%) and Algarve (+8.5%).

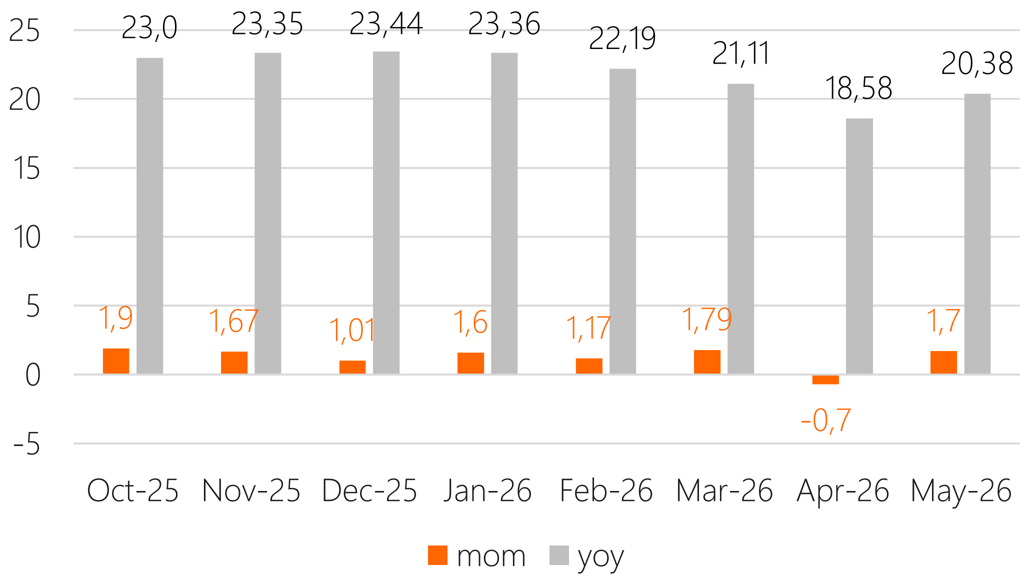
House prices decelerated in Q1 2026

House Price Index (HPI)
qoq and yoy variation (%)



Source: Caixabank Research, using data from INE .

Residential Price Index (Confidencial Imobiliário)
mom (%)

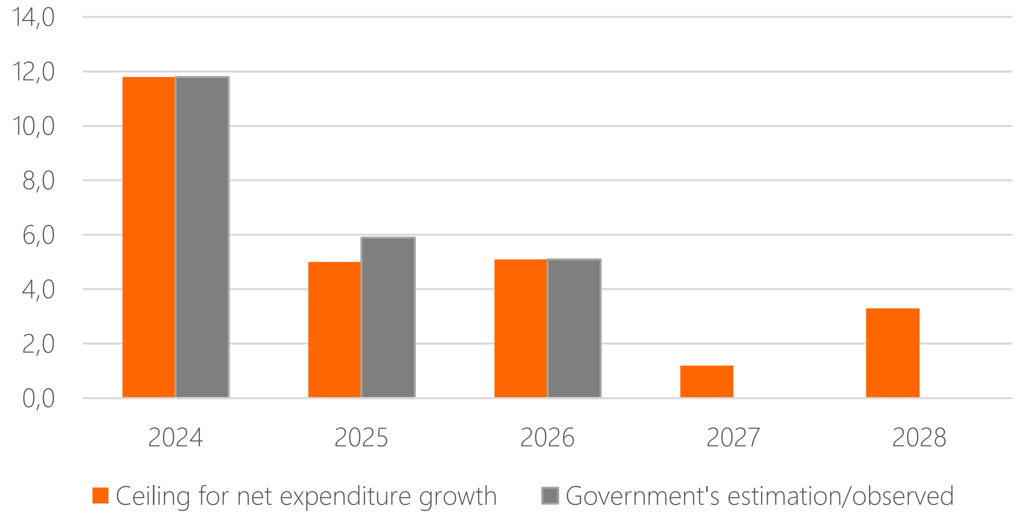


Source: Caixabank Research, using data from Confidencial Imobiliário.

- **In Q1 2026, the House Price Index recorded a year-on-year increase of 17.8%.** On a qoq basis, the index rose by 3.8%, two tenths of a percentage point less than in the previous quarter. This trend was accompanied by an increase in the average price of traded residential properties compared with the previous quarter. Given this figure, our current forecast for HPI index average growth in 2026 (11.7%) should be revised on the upside.
- **During the same period, 37,745 dwellings were traded**, 8.7% fewer than in the same period of the previous year. On a qoq basis, the number of transactions also declined markedly (-12.4%).
- **In Q2 2026**, the available data (Confidencial Imobiliário) point to a more moderate pace of house price appreciation compared with the previous quarter. The average monthly increase in Q2 2026 (April and May) was 1.0%, compared with 1.5% in Q1 2026. There was even a slight monthly decline of 0.7% in April, although this proved to be temporary, as evidenced by the rebound in May, when prices increased by 1.7% month-on-month. The environment of weaker transaction activity also remained intact.

Government is expecting a zero fiscal balance in 2026 after all the adverse effects

Net primary expenditure trajectory
Annual growth rate (%)



Source: BPI Research, based on data from Annual Progress Report.

Impact on public accounts from severe weather events and conflict in the Middle East (until this moment)
(% of GDP)

Direct impact from storms

0.4% of GDP

Direct impact related to Middle East conflict

0.3% of GDP

Source: BPI Research, based on data from Annual Progress Report and own estimations.

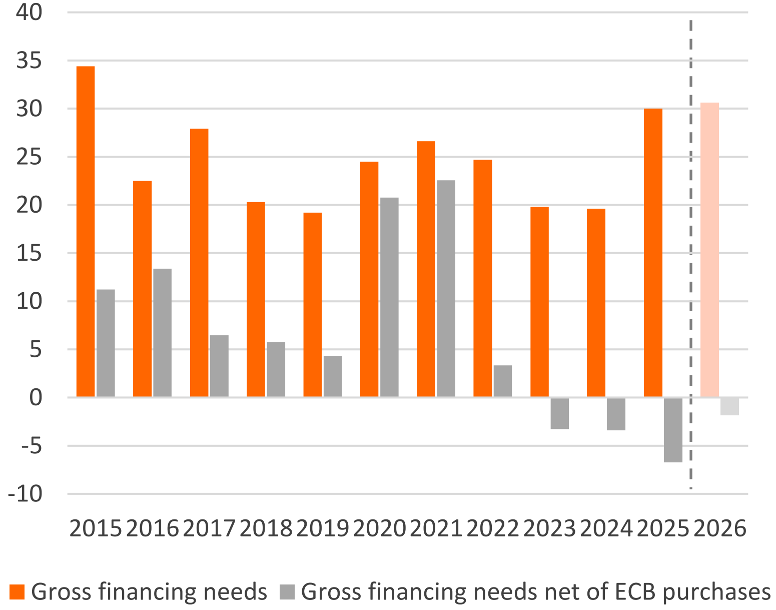
- **Government revised downwards the expectation for overall fiscal balance in 2026.** In the Annual Progress Report, the Executive is now expecting a 0% balance (0.1% of GDP in the State Budget for 2026), considering the impact of adverse climate events at the beginning of the year (with a direct impact of around 0.4% of GDP) and the measures announced to mitigate the adverse effects from the Middle East conflict. Even though this context, Government continues to expect the fulfilment of new European fiscal rules in 2026 (after a deviation of around 0.3 p.p. in 2025, the maximum permitted annually). Additionally, the public debt ratio should continue to decrease more than required (1 p.p./year): more specifically, Government is expecting a 2.1 p.p. decrease in 2026, to 87.5% of GDP.
- **2026 is clouded by significant challenges.** The storms that have devastated some regions of the country at the beginning of the year and the conflict in the Middle East add to challenges already anticipated for 2026 (existing geopolitical tensions, the volatility of US trade policies and investment in defence). Nevertheless, and in the absence of a more devastating impact from the conflict in the Middle East and/or other adverse effects, public balance is not expected to register a substantial deficit in 2026 as the Government should keep a prudent, albeit supportive, fiscal policy.
- **Data for Q1 2026 revealed a 0.7% of GDP deficit (accrual basis) .** Expenditure increased by 7.9% yoy driven by social benefits, compensation of employees, investment, and other current expenditure, which together accounted for nearly 80% of the annual increase in public spending. While total revenue increased by 6.0%, led by tax and social contribution revenues, particularly taxes on production and imports, and social contributions, which accounted for around 67% of the yoy increase in revenue in Q1. At the same time, capital revenue posted strong growth (+29% yoy), supported by funds related to the Recovery and Resilience Plan. It is too early to draw more detailed conclusions regarding budget execution for the year, but performance in Q1 is consistent with our more pessimistic outlook for 2026.

Increase in financing needs for 2026 should be manageable given the attractiveness of Portuguese public debt

BPI Grupo CaixaBank

Portugal: Gross financing needs

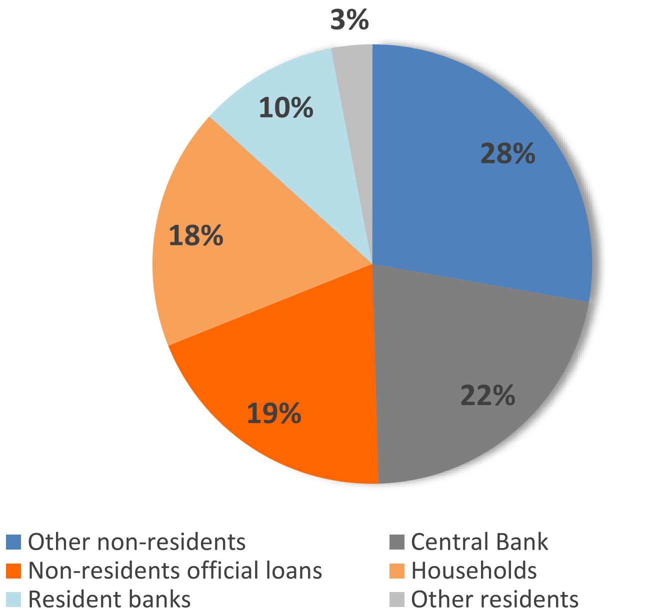
(bn€)



Source: BPI Research, based on data from IGCP and ECB.

Public debt holdings

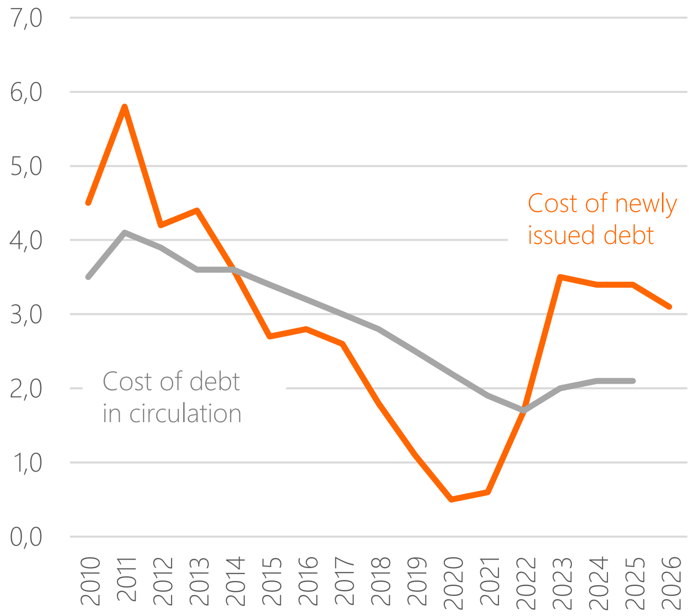
(bn€)



Note: December 2025 data. Source: BPI Research, based on data from BoP.

Cost of debt

(%)

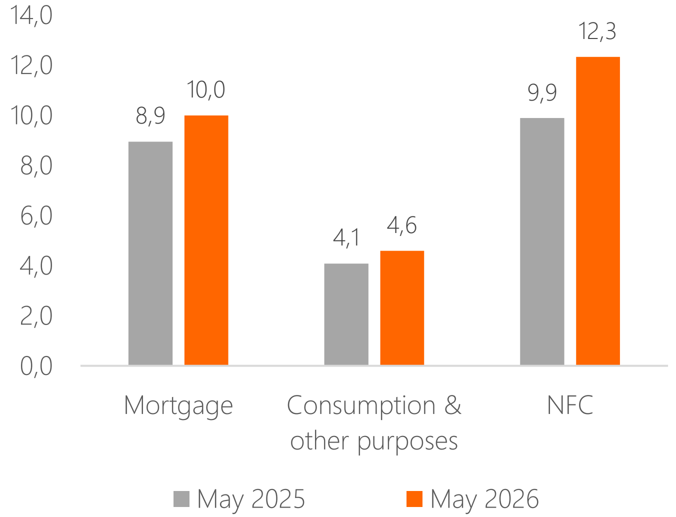


Source: BPI Research, based on data from IGCP.

- **Gross funding needs are estimated to be around 31bn€ in 2026**, a 0.6 bn€ increase from 2025, that should be covered through the issuance of medium- to long-term fixed-rate debt. The context of higher interest rates should attract investors and facilitate the absorption of Portugal's financing needs.
- **Government debt remains diversified**. At the end of 2025, around 70% were in hand of foreign institutions/investors (including official loans), with households also represent an important player (around 18% of total public debt vs 17% in 2024).
- **In 2026, the average cost of debt is expected to keep at contained levels**. The first emissions of the year pointed to a lower interest rate in comparison to previous year. The average maturity of the stock of debt is elevated (7.5 years, excluding EU-IMF loans), so the share of debt that needs to be re-financed is manageable. We estimate that the cost of interest paid on public debt will reach circa 2.0% of GDP in 2026, a similar level to that of 2025, but much lower than a decade ago (4.1% in 2016).

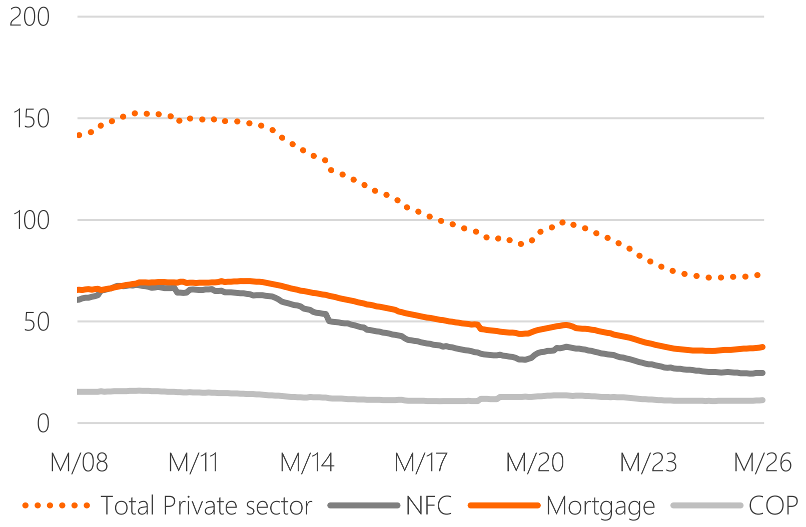
Banking system: private sector credit and deposits keep rising

New lending activity by sector
Billion euros (accumulated in the year)

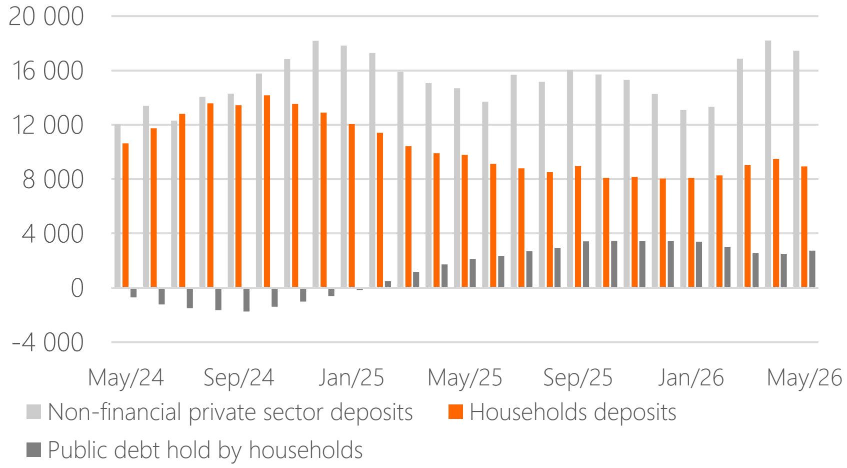


Source: Caixabank Research, based on data from Bank of Portugal and ECB.

Bank credit to the non-financial private sector
% GDP



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

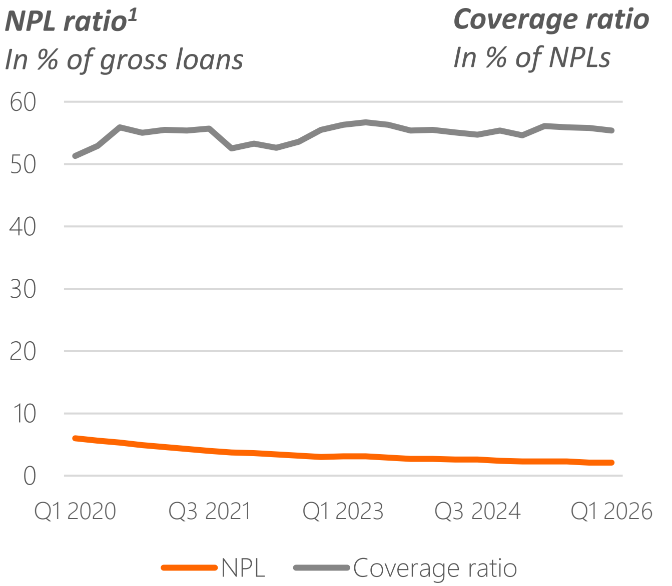


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. Source: Caixabank Research, based on data from Bank of Portugal.

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit**: stock increased by 10.2% in May, with accumulated new operations increasing 11.7%. The amount recorded in the first 5 months of 2026 was a maximum, supported by robust labour market and the impact of Government's measures for young people (measures directed to young people with less than 35 years old through a public state guarantee for 100% loan-to-value, exemptions from IMT (Mortgage Property Transfer Tax), Stamp Duty, and other support measures, such as the "You Have a Future in Portugal" plan).
  - **NFC:** the outstanding credit added 4.2% in May, while the accumulated in the year' new operations expanded by 24.7%. A relevant part can be explained by credit lines available to companies to recover from the storms at the beginning of the year.
  - **% of GDP**: credit to non-financial private sector is around 73% of GDP, clearly below past levels (≈150% maximum).
- **In May, non-financial private sector deposits reached a new historical maximum (the stock rose 6.6% yoy).** Both households' and NFC's deposits increased to new maximums (4.6% and 12.0% yoy, respectively).

Banking system: high solvency and profitability with plenty liquidity

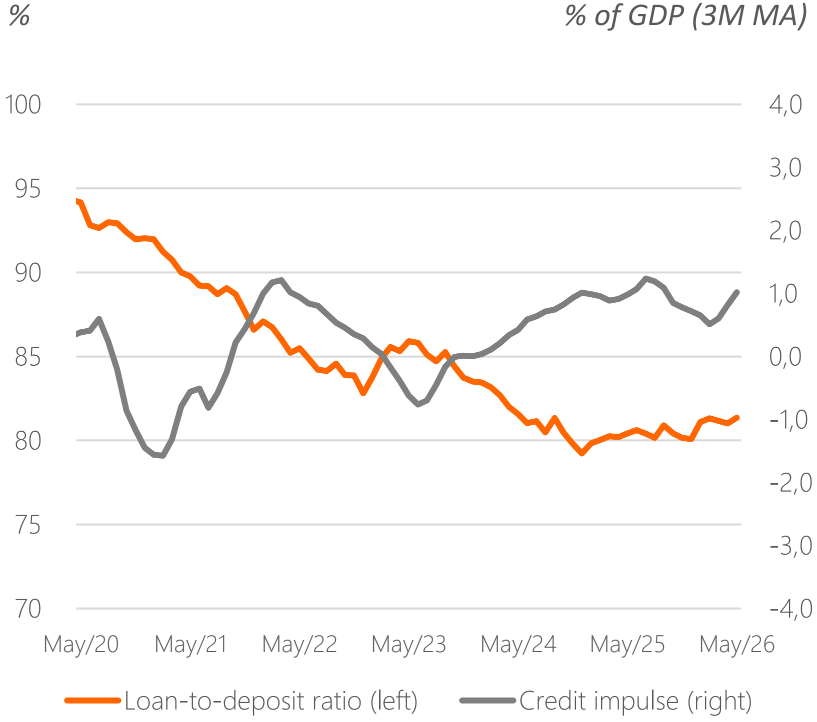
NPLs and coverage ratios



Cost of risk[1]
0.5% in Q4 2019
0.1% in Q1 2026

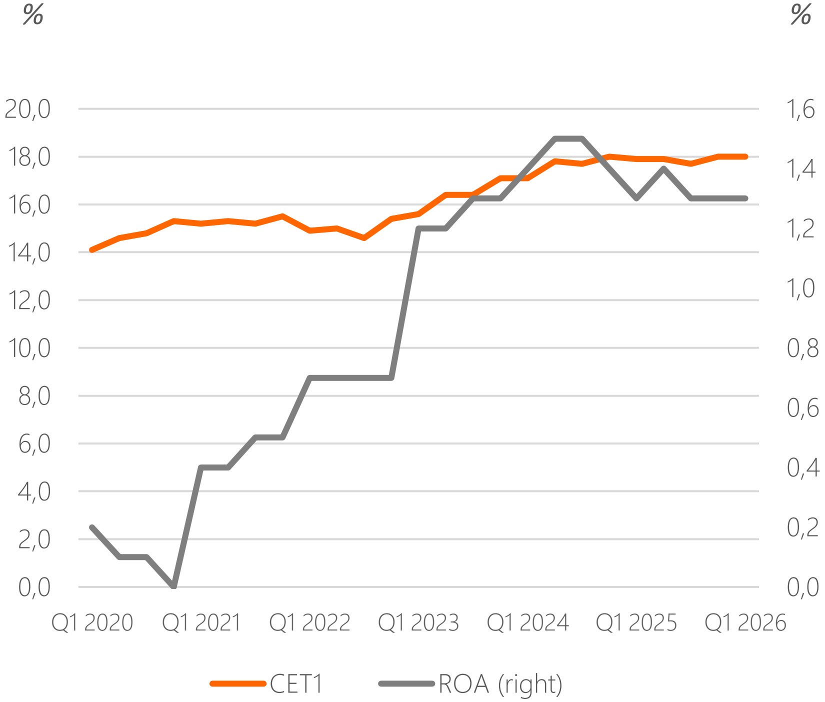
Notes: (1) flow of impairments to credit as a percentage of total gross loans.
Source: Caixabank Research, with data from Bank of Portugal.

Loan-to-deposit and credit impulse of private sector



Source: Caixabank Research with data from Bank of Portugal.

Banks' solvency and profitability



Source: Caixabank Research with data from Bank of Portugal.

- **NPLs ratio kept unchanged at 2.1% in Q1, a minimum.** Both ratios relative to NFC and households are now at the lowest levels (3.7% and 1.9, respectively). We are not expecting a deterioration of credit quality soon.
- **Deleveraging among firms and households shows signs of inverting, despite debt keeping at historically reduced levels.** Loan-to-deposit ratio remains around 81% and kept stable; the credit impulse (yoy absolute change in new operations as % of GDP) accelerated in May 2026 to 1.0%.
- **Profitability and solvency remains robust at the beginning of 2026.** CET1 stood at 18.0% in Q1 (vs 14.3% in Q4 2019) and ROA kept unchanged at 1.3%. **The capital position of Portuguese banks provide buffers against the risks that could arise, due to geopolitical risks or any adverse unexpected event that could eventually impact NPL's**.