



Portugal:

Macroeconomic and financial outlook

BPI *Research*

May 2026

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Activity

- ▶ **The Middle East war continues to weigh on the global economic outlook, although the recent fragile ceasefire between the US and Iran has reduced the likelihood of the most adverse scenarios.** Markets are pricing in a relatively swift resolution and a largely transitory shock. However, uncertainty remains high while energy prices are likely to stay above early-year expectations, reflecting instability in flows through the Strait of Hormuz and damage to energy infrastructure that will take time to fully recover. In the euro area, markets have shifted towards pricing three rate hikes in 2026, compared with a pre-conflict situation in which no hikes were contemplated.
- ▶ **The Portuguese economy faces the current context of geopolitical uncertainty from a position of relative strength.** This reflects its resilient recent performance and several factors that should continue to support the internal demand (such as a strong financial situation, the ongoing deployment of NGEU funds, healthy balance sheets in the private and public sector and high households' savings rate). The exposure of Portugal to the energy imports that pass through the Strait of Hormuz is relatively small: around 7% for oil and less than 1% for natural gas. **However, it is important to have in mind that our current forecast scenario was prepared before the beginning of the Middle East conflict, which has increased downside risks to growth and upward risks to inflation. Our next scenario update is scheduled for this month.**
- ▶ **Last March, the Bank of Portugal updated the macroeconomic scenario,** already considering potential impacts of the storms (that took place in February) and the beginning of the Middle East conflict. Growth was revised from 2.3% to 1.8% in 2026 and inflation rate from 2.1% to 2.8%.
- ▶ **Real GDP stagnated in 1T 2026 (0.0% growth).** The contribution of domestic demand was positive, benefiting from the acceleration of investment, while private consumption should have slowed down. The conflict in the Middle East is expected to negatively impact households' disposable income and increase financing costs, which puts downside risks to our current forecast for real GDP growth in 2026 (2.1%).
- ▶ **Inflation accelerated in April to 3.4% and the core index rose to 2.2%.** This hike on inflation was mostly driven by an increase in energy prices, which performance puts considerable upside risks to our forecast (2.1% for 2026, forecasted in February), which will be reviewed this month.
- ▶ **Employment slowed down in Q1 2026, but it is still showing a positive dynamic.** Employed population fell 0.7% qoq and increased 2.3% yoy in Q1. Additionally, the unemployment rate continues at considerable low levels, but increased to 6.1% in the Q1, plus 3 tenths than in Q4 2025.
- ▶ **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 24.59 billion euros (which includes RRP funds, amounting to 22.98 billion euros, and other sources of financing, totaling 1.61 billion euros) and payments reached 11.95 billion (80% of the total amount received from RRP), but only 48% of the approved projects.

Banking Sector

- ▶ **Profitability reduced slightly due to diminishing interest rates but remains well above the pre-pandemics.** CET1 reached 17.9% in 2025 (vs. 18% in 2024 and 14.3% in 2019). **Capital position of Portuguese banks provide buffers against risks that could arise, due to geopolitical or any adverse unexpected event that could eventually impact NPL's.** ROA increased last year and stood at 1.3% in 2025 (vs. 1.4% in 2024 and 0.4% in 2019).

Main economic forecasts

UNDER REVIEW

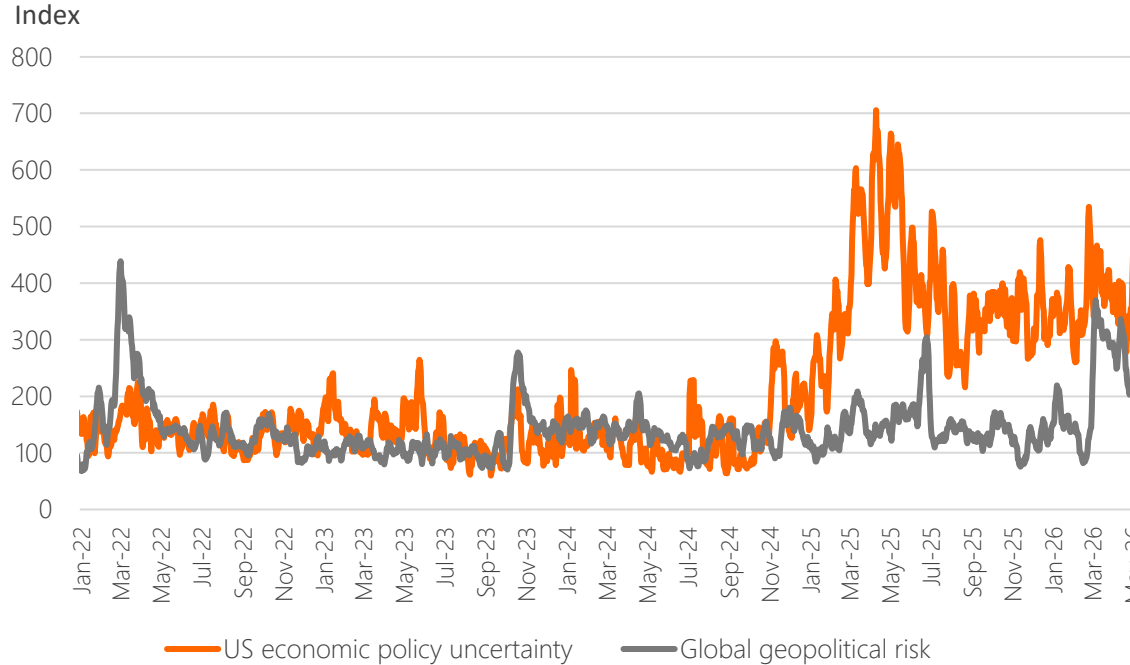
Forecasts have not been updated after the Middle East war.

% , yoy										Forecasts	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
GDP	3,3	2,9	2,7	-8,2	5,6	7,0	3,1	2,1	1,9	2,1	1,9
Private Consumption	1,8	2,6	3,5	-6,8	4,9	5,6	2,3	3,0	3,5	2,6	2,1
Public Consumption	0,1	0,5	2,1	0,4	3,8	1,7	1,8	1,5	1,6	1,5	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	5,4	2,2
Exports	8,4	4,3	4,0	-18,4	12,1	17,2	4,2	3,1	0,4	2,2	4,1
Imports	8,0	4,9	5,1	-11,6	12,3	11,3	2,3	4,8	4,3	3,4	3,9
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	2,3	3,3
External current account balance (% GDP)	1,3	0,6	0,4	-1,0	-0,8	-1,2	1,4	2,1	1,2	1,1	1,2
General Government Balance (% GDP)	-3,0	-0,4	0,1	-5,8	-2,8	-0,3	1,1	0,6	0,7	-0,6	-0,5
General government debt (% GDP)	126,0	121,1	116,1	134,1	123,9	111,2	96,9	93,5	89,7	86,4	83,4
Housing Prices	9,2	10,3	10,0	8,8	9,4	12,6	8,2	9,1	17,6	10,1	3,7
Risk premium (PT-Bund) (average)	269	138	100	90	60	100	70	62	44	61	75

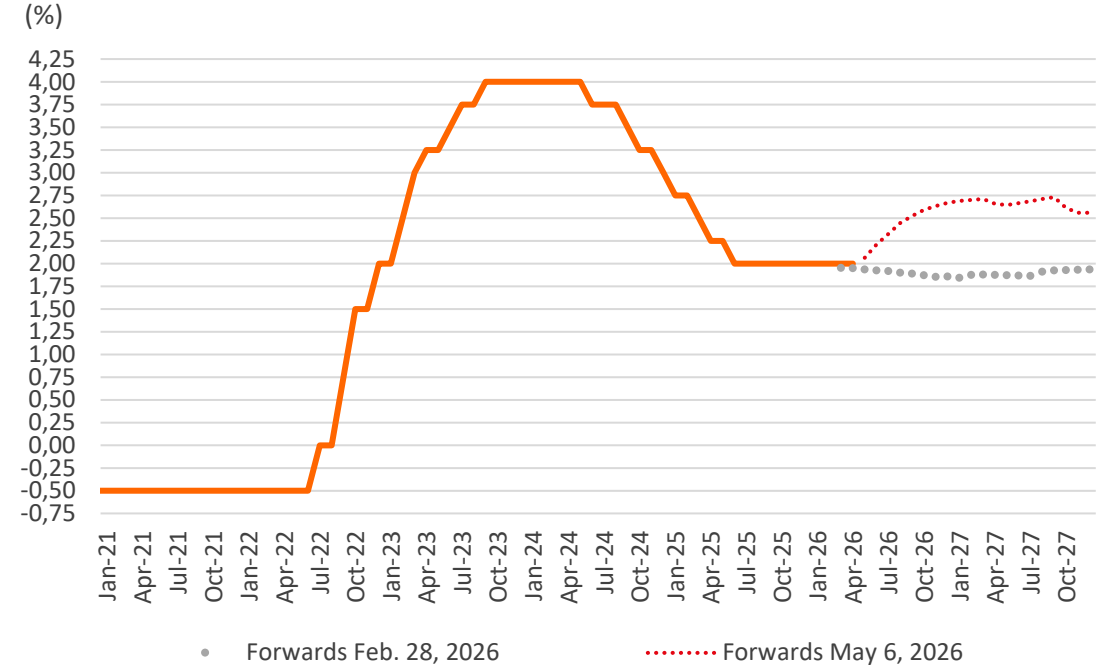
Source: BPI Research.

Markets eye a measured ECB hiking cycle due to the Middle East conflict

Policy uncertainty and geopolitical risk



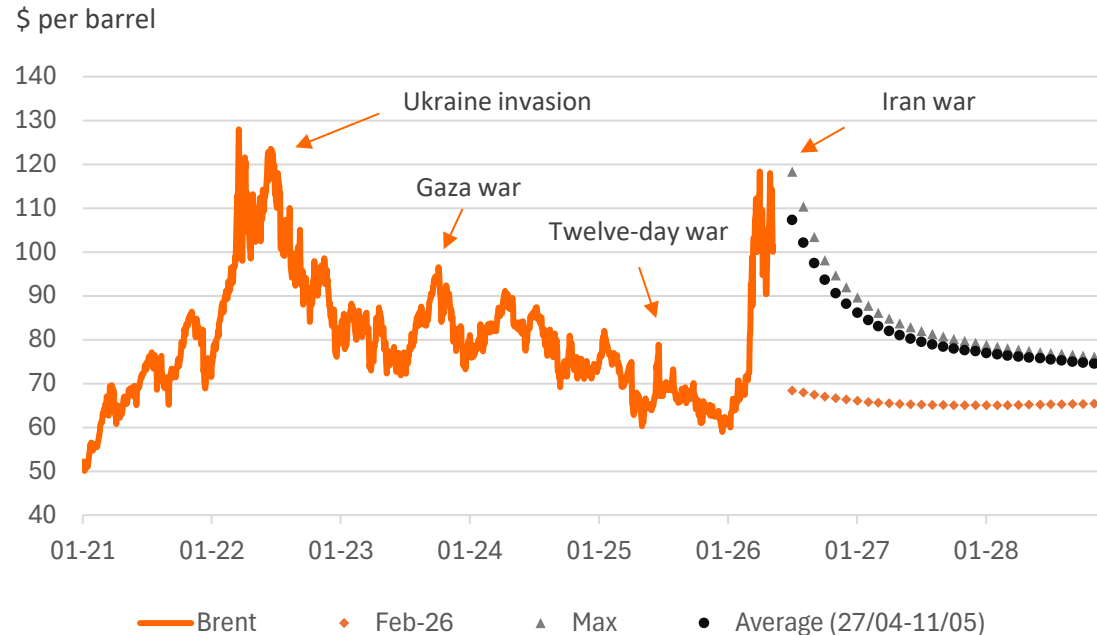
ECB deposit rate



- ▶ **The ECB signals a measured increase in interest rates.** At its April meeting, the ECB kept policy unchanged (depo at 2.00%) but started moving towards a scenario of “a meaningful but not-too-persistent rebound in inflation” due to the Middle East conflict – a scenario that would warrant a measured tightening of policy. Officials even discussed the possibility of an April rate hike but opted to wait for a comprehensive reassessment of the outlook in June (when new economic projections are due). Market pricing has fluctuated between two and three ECB hikes in 2026, with early-May forward rates eyeing a depo rate at 2.25% in June with 90% probability and reaching 2.50% by September and 2.75% by end-2026 (vs. a pre-conflict pricing of stable rates at 2.00% with a dovish tilt [market-implied 30% probability of one cut]).
- ▶ **The ECB sets off from a “good place”, mitigating the need of a forceful adjustment.** It can rely on anchored inflation expectations, a neutral monetary policy stance (vs. highly expansionary in the run-up to the Ukraine shock), moderate demand growth and decelerating wages. Yet the ECB must be cautious about amplification risks from lingering price inertia, Ukraine-inflation memories and tariff-related risks of supply disruptions.
- ▶ **Financial conditions have not tightened significantly.** After an initial risk-off reaction to the Middle East conflict, stock markets rebounded throughout April – supported by a strong earnings season and renewed investor risk appetite, with the tech sector leading gains among U.S. and European stocks. Markets see a meaningful impact on short-term inflation (while long-term expectations remain anchored) and have adopted a hawkish bias in their monetary policy expectations, triggering a jump in sovereign yields. Although euro area peripheral spreads tightened, they remain remarkably low (at the start of the year, they reached lows not seen since 2008 [except for France]).

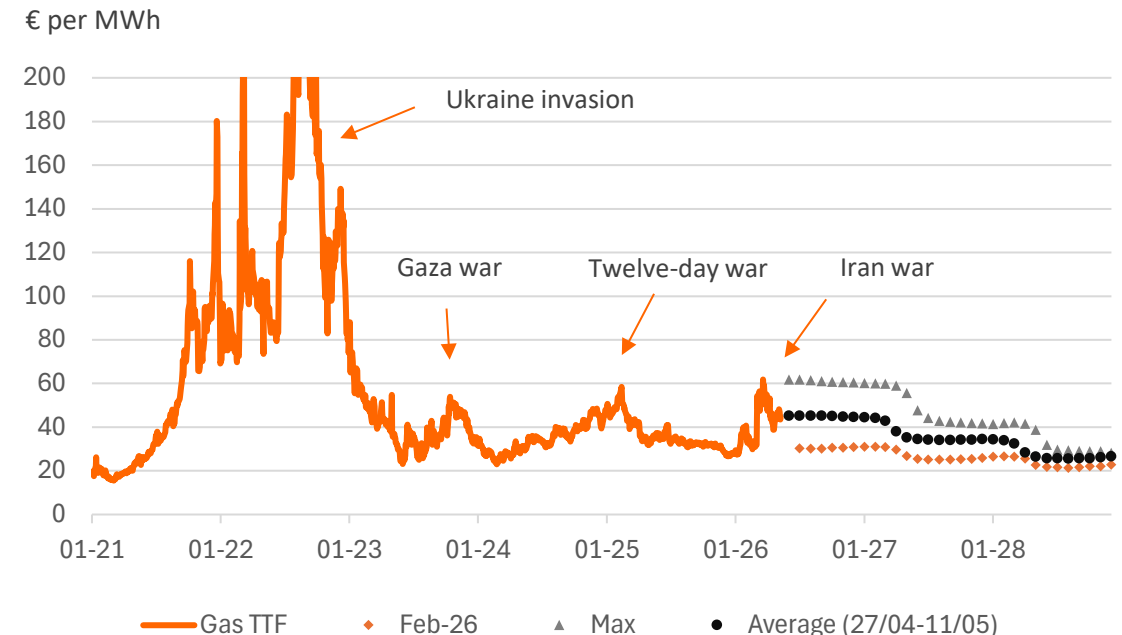
The Middle East war is having a significant impact on energy prices

Brent oil prices and futures



Note: Graph elaborated with data as of May 11th. Source: BPI Research, based on data from Bloomberg.

TTF gas prices and futures



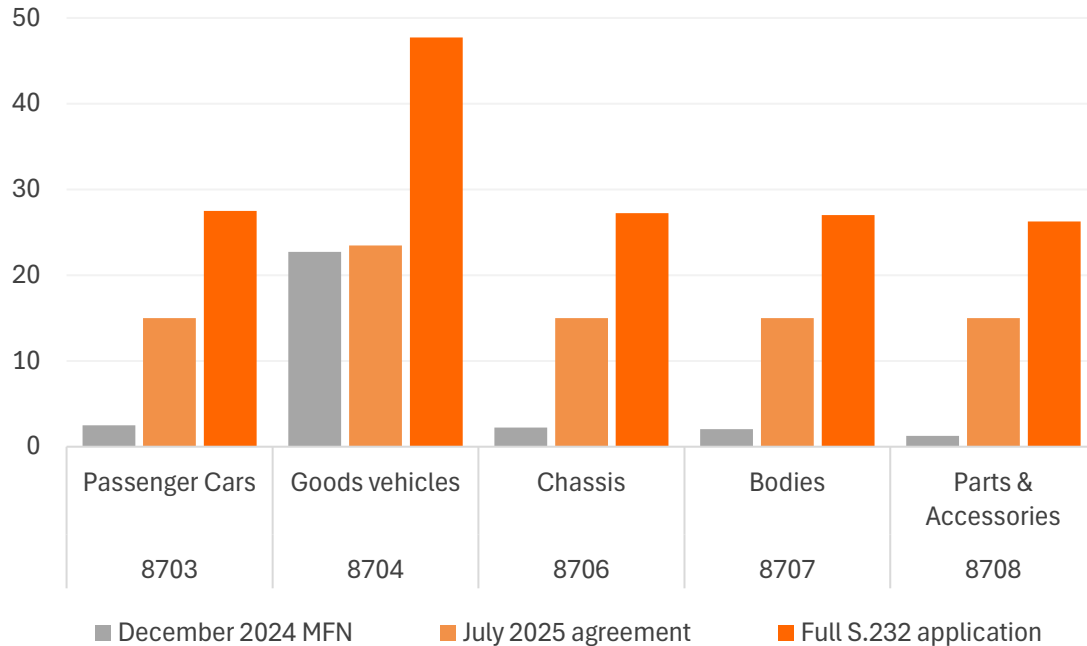
Note: Graph elaborated with data as of May 11th. Source: BPI Research, based on

- ▶ **Oil prices.** Front-end oil prices (delivery in 2 months) have remained highly volatile over the past weeks, as a fragile ceasefire holds, within the 90-110\$/b range. Futures' prices for delivery in December 2026 have remained above the 85\$/barrel floor (vs. avg. 66\$/b in Feb-26), as the duration of the disruption in the Strait of Hormuz widens and hopes of a fast recovery of energy flows have abated. This would point to an average Brent for 2026 close to 90\$/b (vs. 67.2\$/b CABK Research Feb-26 forecast), while the average for 2027 nears 80\$/b (vs. 65.4\$/b CABK Research Feb-26 forecast).
- ▶ **Gas prices.** Front-end prices (delivery in 1 month) have stood around 45€/MWh over the past weeks, with futures into the end of the 2026-27 winter season above 40€/MWh (vs. avg. c. 30€/MWh in Feb-26). Using current futures, the average TTF price for 2026 would stand slightly below 45€/MWh (vs. 31€/MWh CABK Research Feb-26 forecast), while the average price for 2027 would be close to 35€/MWh (vs. 26 €/MWh CABK Research Feb-26 forecast).
- ▶ **Asymmetric upside risks.** While stocks have helped absorb the energy shock so far, current demand and supply conditions point to a persistent 6mb/d deficit. Absent a significant resumption of global oil supplies, particularly of flows via SoH, this imbalance eventually will have to be met with further demand destruction, as stocks approach critical levels. Furthermore, an increase in perceived geopolitical risks could increase risk-premia and inventory build-up incentives post-conflict, adding further upside pressure on prices over the medium-term. While infrastructure damage appears so far limited, the speed of recovery of production once the geopolitical context stabilises, of oil and natural gas as well as of other commodities such as aluminium and fertilisers, remains uncertain.

New tariff threats on EU exports, amid ongoing legal setbacks for Trump

Tariff rates on motor vehicles and parts

Percentage average by 4-digit HS product group

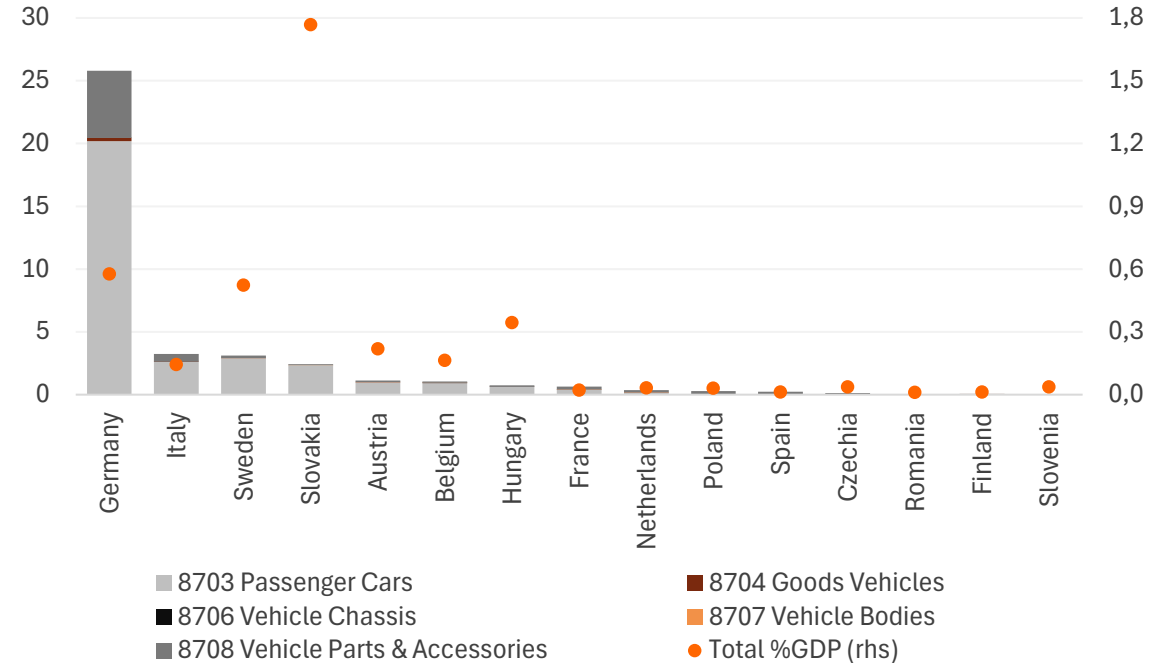


Note: MFN = Most Favoured Nation. S.232 = Section 232 of the Trade Expansion Act.

Source: BPI Research, based on data from the WTO and the White House.

EU exports to the US of motor vehicles and parts (2025)

Top 15 exporters, in billions of euros and percentage of GDP



Note: Total is the sum of 8703, 8704, 8706, 8707 and 8708.

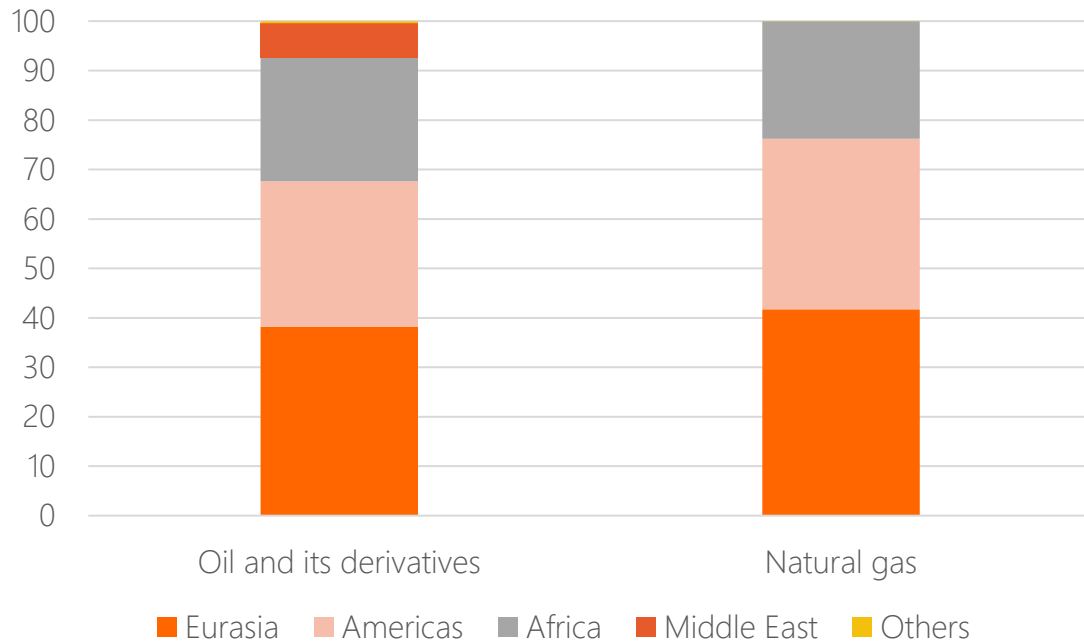
Source: BPI Research, based on data from Eurostat.

- ▶ **New tariff threats mainly target EU auto exports.** Following delays in the European Parliament’s approval of tariff elimination for U.S. industrial products under the July 2025 agreement, Trump has threatened to raise duties on EU motor vehicles and parts under Section 232. The move would breach the 15% cap agreed last summer, lifting tariffs on passenger cars to 27.5% and on vehicle bodies —the group’s second main product line— to 27%.
- ▶ **Central-Eastern Europe’s auto value chain would be the most affected.** Germany is by far the largest auto exporter to the U.S., with around €20bn in passenger cars and over €5bn in vehicle bodies, amounting to 0.6% of GDP. Italy, Sweden and Slovakia follow, each exporting €2.5–3bn, with Slovakia showing the highest relative exposure (1.8% of GDP). Among large economies, France and Spain are the least directly exposed.
- ▶ **Trade tensions with partners and renewed legal uncertainty return to the fore.** Beyond autos, Trump issued a two-month ultimatum for the EU to advance the July 2025 agreement, also citing the lack of progress on reducing non-tariff barriers. Separately, the U.S. Court of International Trade —the same court that initially ruled IEEPA tariffs illegal before the Supreme Court reversal— has struck down the new 10% tariffs approved in late February, reinforcing ongoing legal setbacks.

Portugal: limited direct exposure to the Gulf region

Oil and gas imports by region

Percentage over total (%)

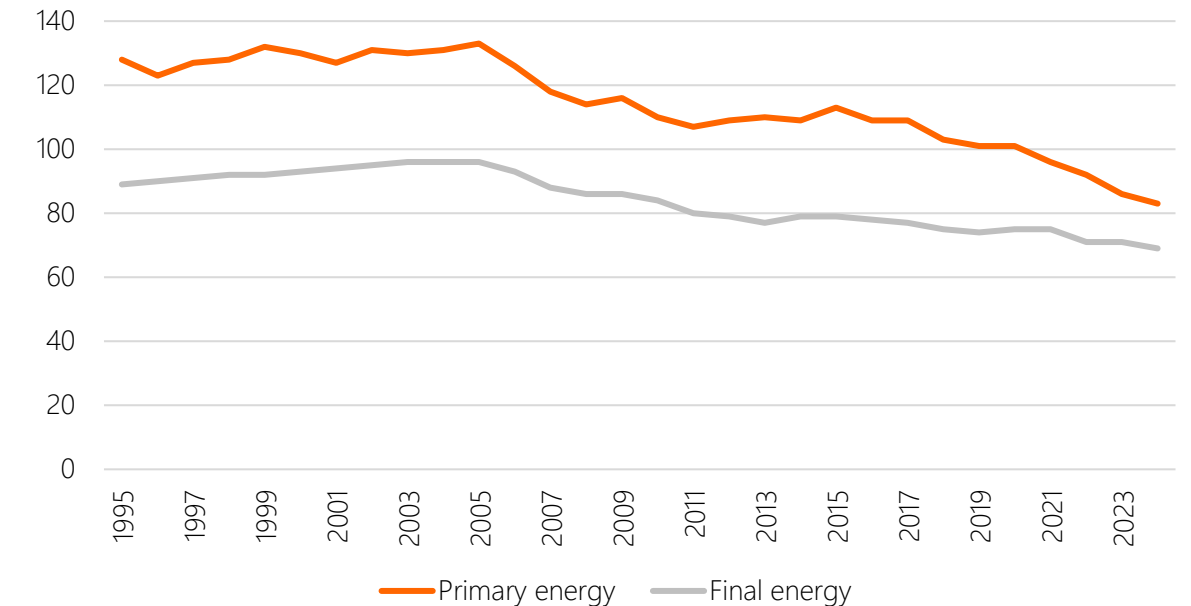


Note: Data from 2025.

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.

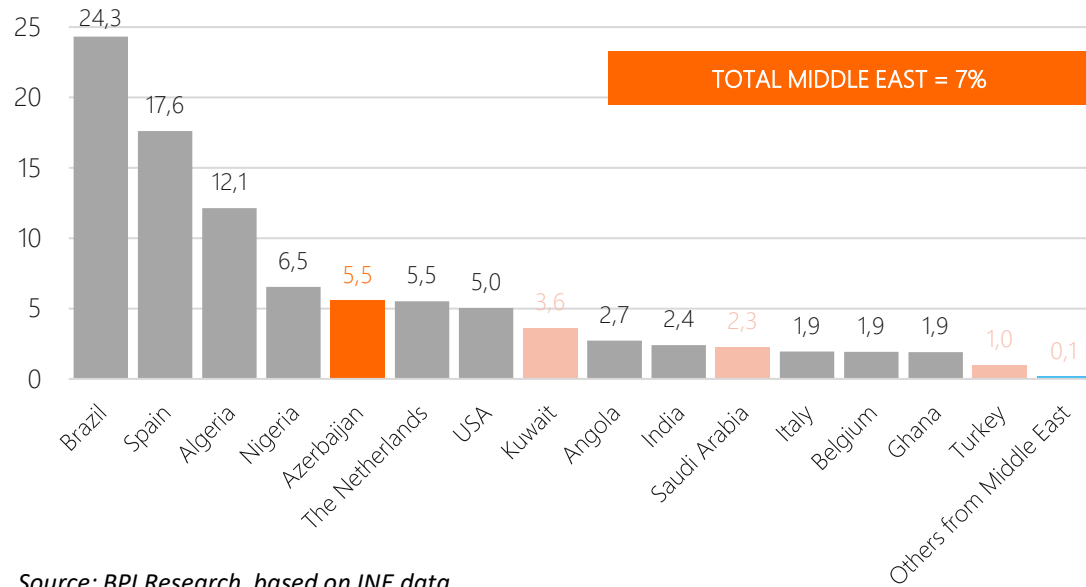
Source: BPI Research, based on data from DGEG.

- ▶ **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

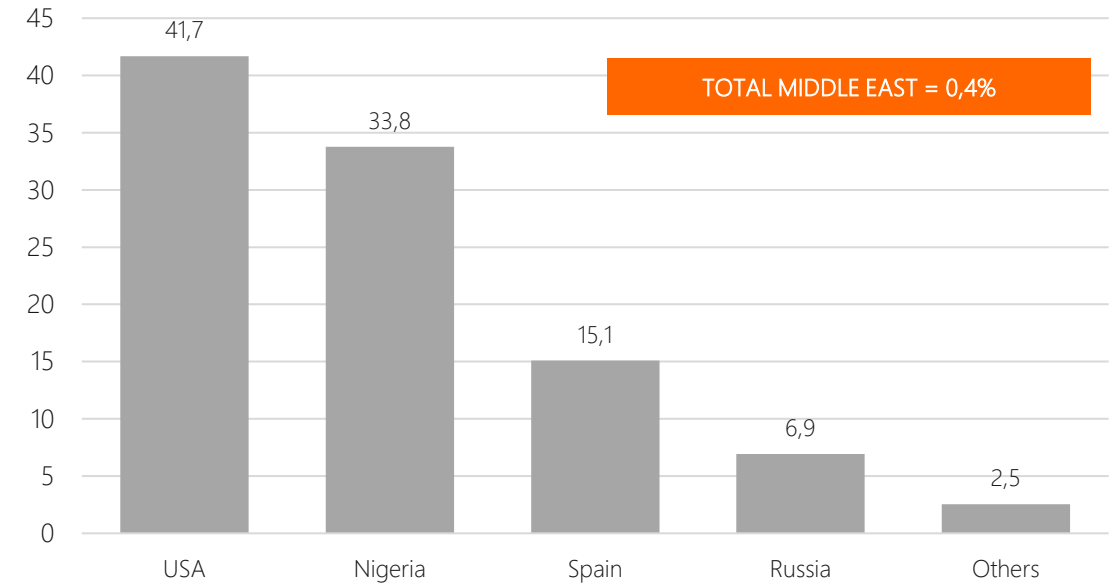


Source: BPI Research, based on INE data.

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

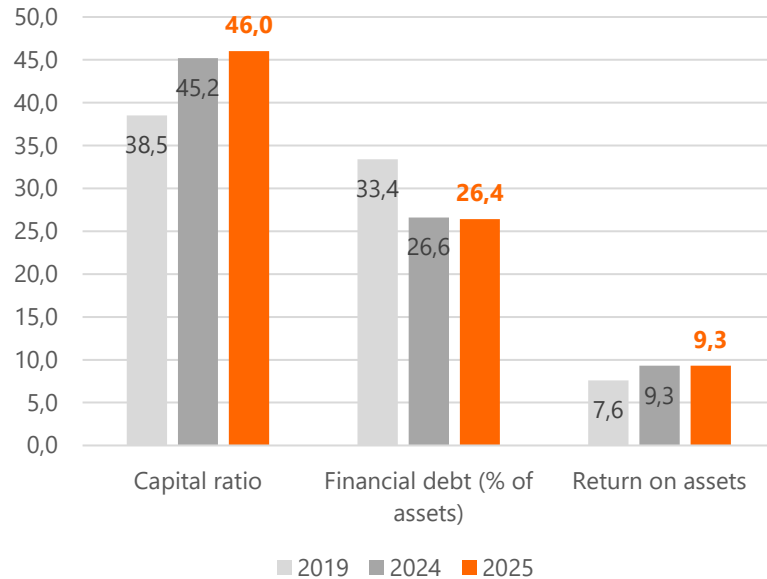
% of total imports of natural gas



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

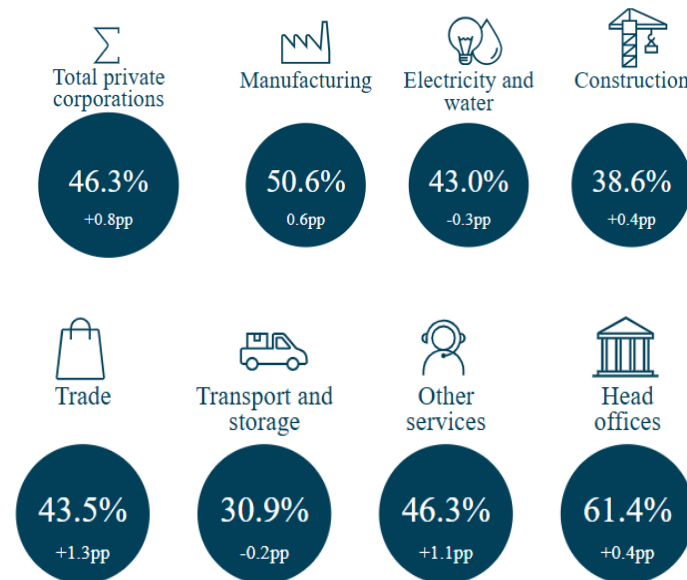
Non-Financial Corps face the current crisis with better financial situation

Financial autonomy, financial debt and ROA (%)

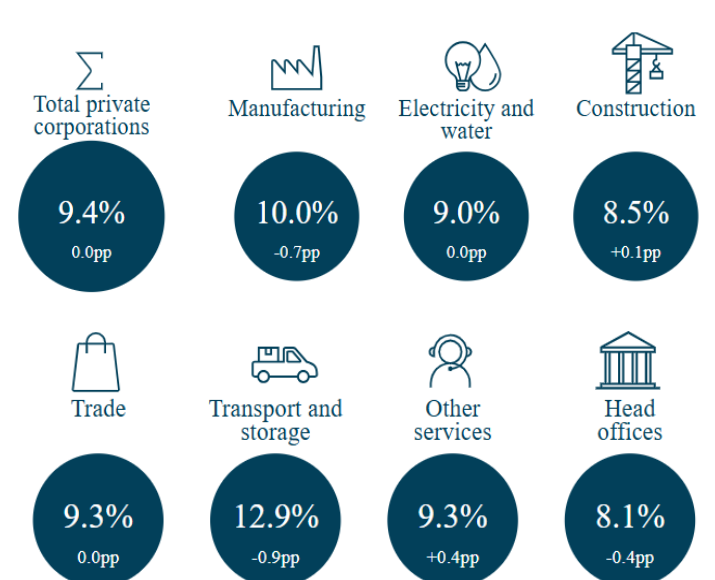


Source: BPI Research, from BoP.

Financial autonomy by sector Equity/total assets (%), yoy (p.p.)



ROA by sector EBITDA/total assets (%), yoy (p.p.)



- ▶ **In 2025 NFC improved their financial autonomy (capital ratio) due to the incorporation of earnings of the year in the capital.** This indicator rose in most sectors of activity. The sharpest increases were seen in the trade sector (+1.3 pp) and in other services (1.1 pp). In the electricity, gas and water sector, the decline in financial autonomy (-0.2 pp) resulted from an increase in assets that exceeded the growth in equity, mainly due to the impact of cash management operations between group companies. In the transport and storage sector, the reduction also reflected the sharper increase in assets, particularly in trade receivables. The improvement of the financial debt ratio is explained by a lower growth in financial debt than in assets.
- ▶ **In 2025, ROA remained unchanged at 9.3%, an historical high since 2006.** The only sectors to see an improvement in profitability were other services and construction. The decline in transport and storage reflects a fall in EBITDA and an increase in assets; in industry, the reduction in EBITDA reflects both a narrowing of the refining margin and an increase in external supplies and services, and in staff costs.

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**

Public measures to support reconstruction after severe weather

Support for families:

- ❑ Support of up to €10,000 for the reconstruction of own homes;
- ❑ Elimination of prior controls on reconstruction;
- ❑ Possibility of requesting a 90-day suspension of mortgage payments; this may be extended to 12 months in more serious cases;
- ❑ 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:

- ❑ Covering expenses related to infrastructure, equipment, animals, crops, animal feed, equipment immobilisation and soil stabilisation, among others;
- ❑ Deferral until 30 April in fulfilling tax obligations.

❑ Support for companies:

- ❑ Credit lines for reconstruction and cash flow financing granted by Banco Português de Fomento:
 - ❑ Reconstruction support line (investment): €1 billion. Covers 100% of damages not covered by insurance, has a maturity of 10 years and a 12-month grace period;
 - ❑ Reconstruction support line (cash flow): €1 billion. Amount per company between €100,000 and €2,500,000, depending on size of the company.
- ❑ Exemption from administrative controls during reconstruction;
- ❑ Exemption from social security contributions;
- ❑ Simplified layoff scheme;
- ❑ Extraordinary financial incentive IEFP: support for salary costs and loss of income for self-employed workers. Equivalent to one month's costs/income up to a maximum of €1,840 per person;
- ❑ Mobilising and Green Agendas: extension of deadlines for submitting payment requests;
- ❑ COMPETE 2030 support measures: extension of deadlines for the execution of operations; priority given to operations in affected areas;
- ❑ Postponement until 30 April of compliance with tax obligations 3-month moratorium on loans, with the possibility of extension up to 12 months.

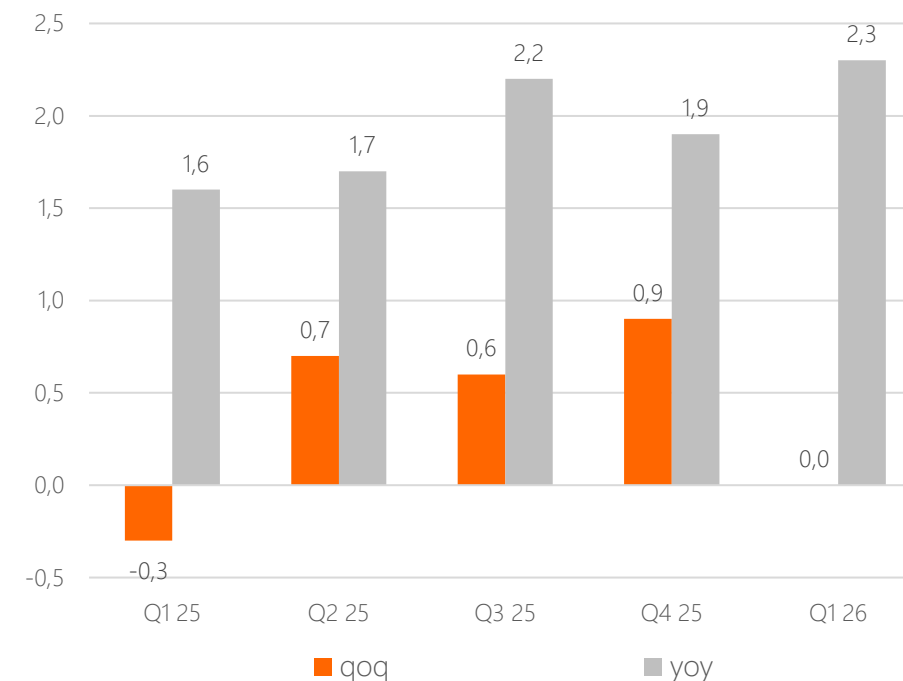
➤ **These measures are estimated to reach €3.5 billion, covering around 60% of losses estimated up to now, representing c. 1% of GDP**

GDP stagnated in Q1 2026 and indicators are showing mixed signals

yoy, level Q1 26 Q2 26 Jan/26 Feb/26 Mar/26 Apr/26

yoy, level		Q1 26	Q2 26	Jan/26	Feb/26	Mar/26	Apr/26
Synthetic indicators	Economic climate indicator	2,6	2,6	2,7	2,8	2,4	2,6
	Economic sentiment indicator	103,9	100,4	103,5	104,4	103,7	100,4
	Daily economic indicator	2,6	-0,5	4,3	3,2	0,2	-0,5
Consumption	Consumer confidence	-18,7	-29,4	-13,7	-17,0	-25,4	-29,4
	Wholesale and retail trade (yoy)	4,1	-	4,1	2,8	5,5	-
	Retail sales excl. fuels (yoy)	4,4	-	4,8	2,8	5,6	-
	Card withdrawals and purchases deflated	6,0	-	4,4	4,1	9,4	-
Investment	Car sales (yoy)	10,1	15,1	16,1	5,5	8,5	15,1
	GFCF indicator	-1,7	-	1,3	-4,7	-	-
	Imports of capital goods	2,0	-	1,8	2,1	-	-
Supply	Confidence in industry	-2,4	-	-3,8	-1,9	-1,6	-4,7
	Confidence in construction	2,6	-	3,2	2,6	2,0	4,2
	Confidence in retail	3,3	-	4,2	3,3	2,3	3,9
	Confidence in services	5,0	-	1,4	6,3	7,2	5,2
	Sales of cement	2,1	-	-5,5	-14,2	26,1	-
Demand	Industrial production	0,0	-	0,9	-3,9	3,2	-
	Electricity consumption adjusted for temperature&working days	3,8	1,7	5,6	4,6	1,3	1,7
	Non-resident tourists (yoy)	1,8	-	1,9	-0,1	3,6	-
Trade	Number of flights (yoy)	3,1	1,2	3,3	1,3	4,7	1,2
	Exports G&S (accum. Year)	-3,6	-	-3,8	-3,3	-	-
Labour market	Imports G&S (accum. Years)	-0,6	-	0,0	-1,2	-	-
	Change in regist. unemployment (thousand people)	-35,3	-	-38,6	-33,6	-33,8	-
	Change in employment (thousand people)	120,7	-	136,7	108,4	117,1	-

Real GDP growth (%)



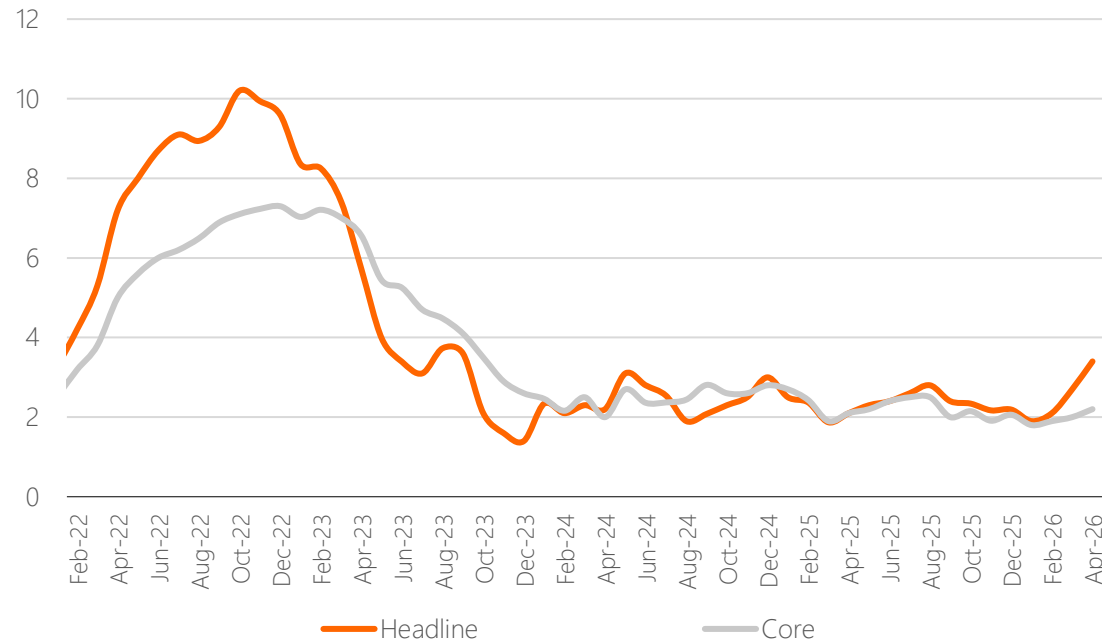
Source: BPI Research based on Portuguese INE.

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

- ▶ **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. This less positive performance than expected along with a more unfavorable external environment is likely to lead to a downward revision of GDP growth in 2026, likely below 2% yoy.
- ▶ **The most recent indicators are showing mixed signals.** Composite indicators suggest a slowdown in economic activity in March and April; however, indicators related to the labour market and consumption continue to show positive trends; and sentiment in construction, retail and services improved in April, suggesting that economic activity in these sectors may improve. External data, however, is unfavorable, with exports showing weak performance in both goods and services. The deceleration in the pace of growth of flights, suggest a slowdown on exports of tourism in April.

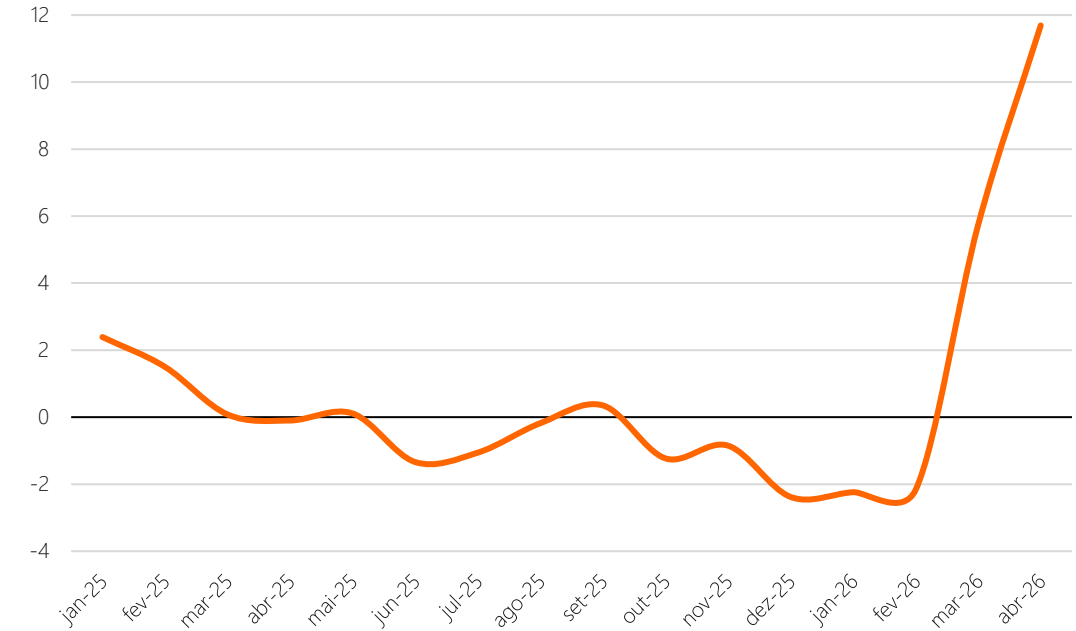
Inflation accelerated in April driven by energy prices

Inflation: Headline and Core
Year-on-year (%)



Source: BPI Research, from INE.

Energy: price index
Year-on-year (%)



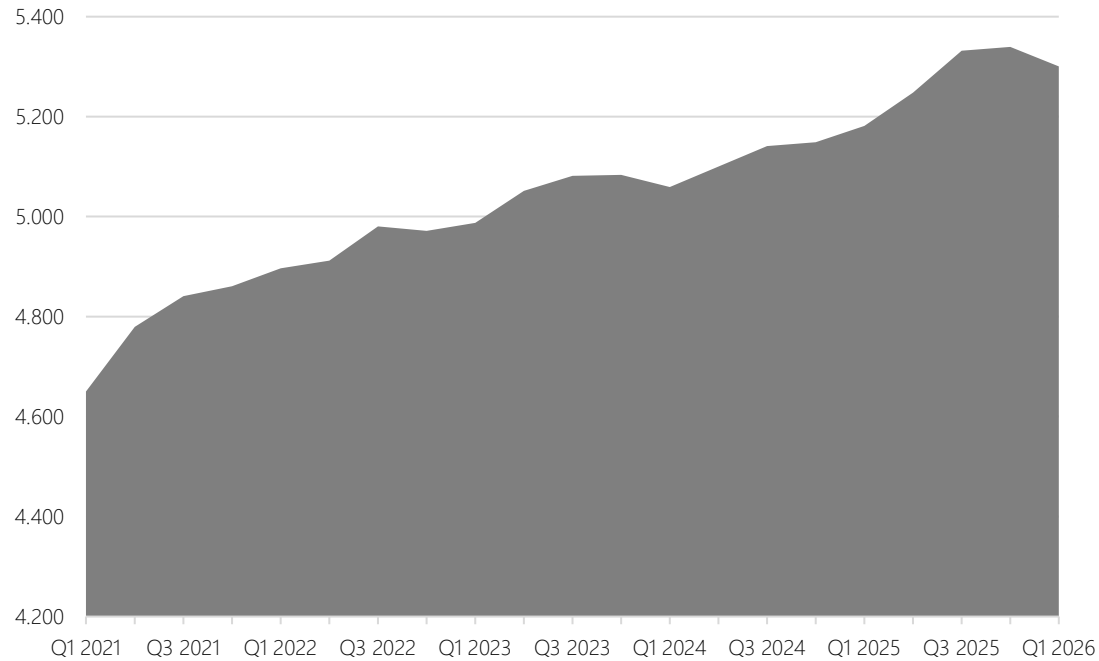
Source: BPI Research, from INE.

- ▶ **In March, inflation accelerated to 3.4% from 2.7% in March and the core indicator rose 2 tenths to 2.2%.** On a monthly basis, prices advanced 1.4% driven by an increase of 5.1% on energy. This movement on energy prices was due to the increase of tensions between US and Iran that pushed the Brent to a price above 120 USD/barrel.
- ▶ The outbreak of attacks on Iran in early March increased geopolitical risks, posing additional risks to energy commodity price behaviour and potentially limiting the downward trend in inflation this year. The extent of the movement will depend on the duration of the conflict and whether it spreads to other oil and gas producing countries in the region. We will review our forecast for inflation (currently at 2.1% for 2026) this month likely close to 3%, given that the risks are skewed upwards.

Labor market: employment slowed down in Q1 2026

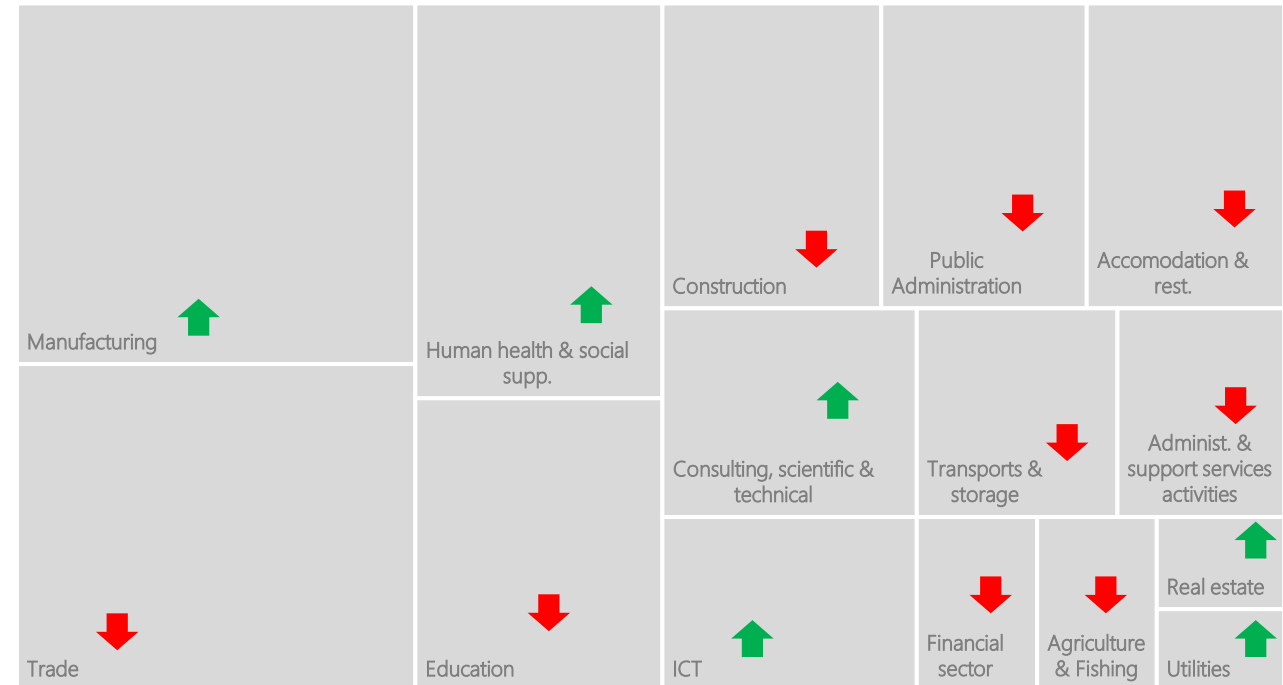
Employed population

Number of people ('000 individuals)



Note: Not seasonally adjusted. Source: BPI Research, from INE.

Employment in Q1 2026, by sector

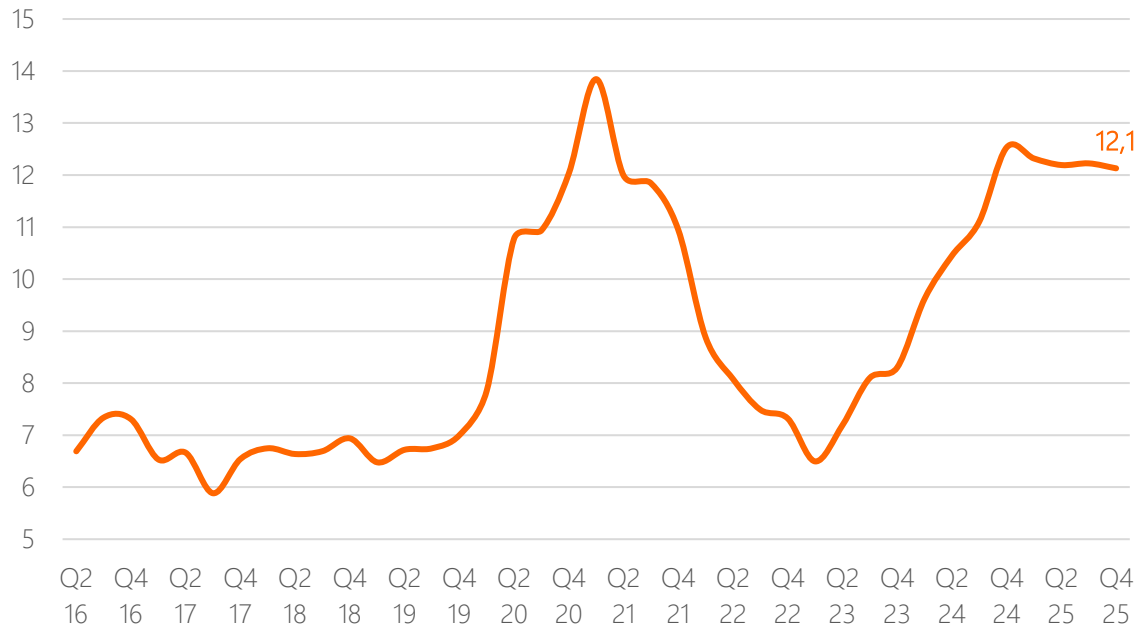


Note: indication of quarterly increase (green) or decrease (red) on employed people for each sector.

- ▶ **Employed population slowed down in Q1, but the behaviour remains dynamic.** In Q1, employment fell 0.7% qoq and increased 2.3% yoy. Looking in more detail to employment by sector, main homologous increases were seen in ITC (+42,400 people), human health & social support (+32,600 people), consulting, scientific & technical activities (+26,300 people) and accommodation & catering (+26,400 people), offsetting the fall in the employment in manufacturing (-23,300 people) and trade sectors (-19,700 people).
- ▶ **The unemployment rate rose to 6.1%**, more 3 tenths than in Q4 2025, and -0.5 p.p. in comparison to Q1 2025.
- ▶ **The strength of the labour market will continue to be one of the main factors supporting economic activity in 2026**, and given this data, we consider BPI Research's forecast for the unemployment rate in 2026 to be feasible (6.1%).

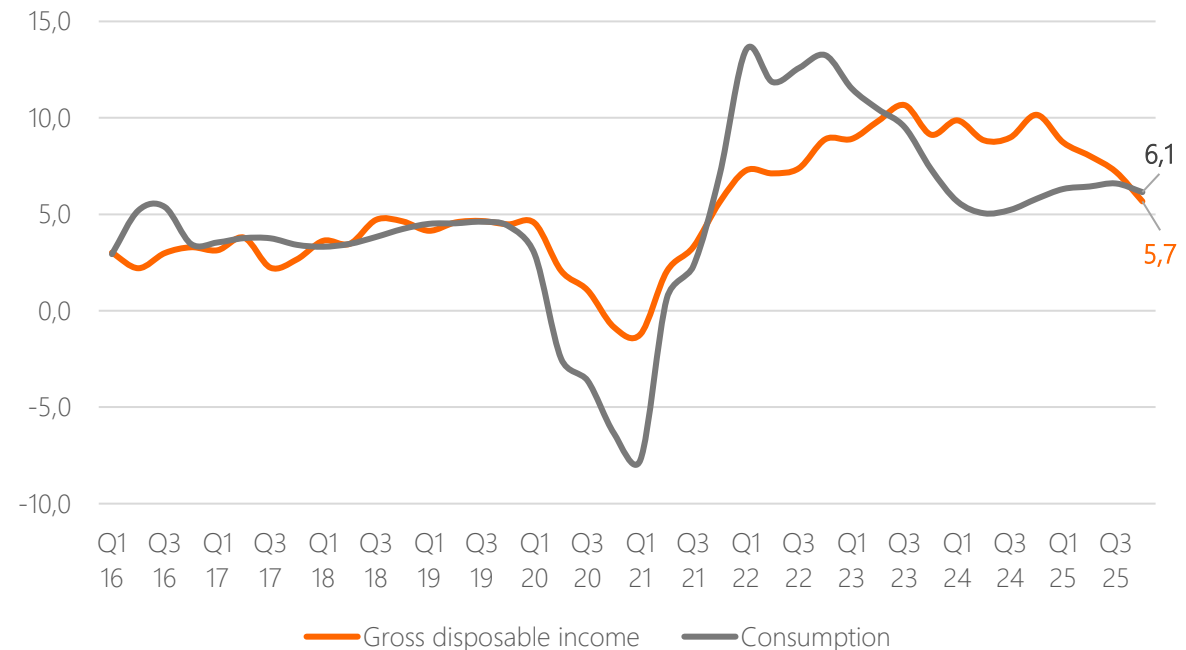
Families' savings are an important cushion in a highly uncertain environment

Families' saving rate
(% of DI)



Source: BPI Research, from INE, BoP.

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



- ▶ **Households' savings rate is stabilizing around 12% of disposable income.** In 2025, the saving rate fell to 12.1%, minus 4 tenths than a year ago, reflecting the deceleration of the growth rate of disposable income while consumption continued to expand at c. 6%. At 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 2025, families' gross capital formation rose 16.8% (10.5% in 2024). In the current climate of heightened uncertainty, households may adopt a more cautious approach to their consumption decisions, helping to keep the savings rate 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 and likely second-round 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 (56% of total program)

Approvals and payments to direct and final beneficiaries

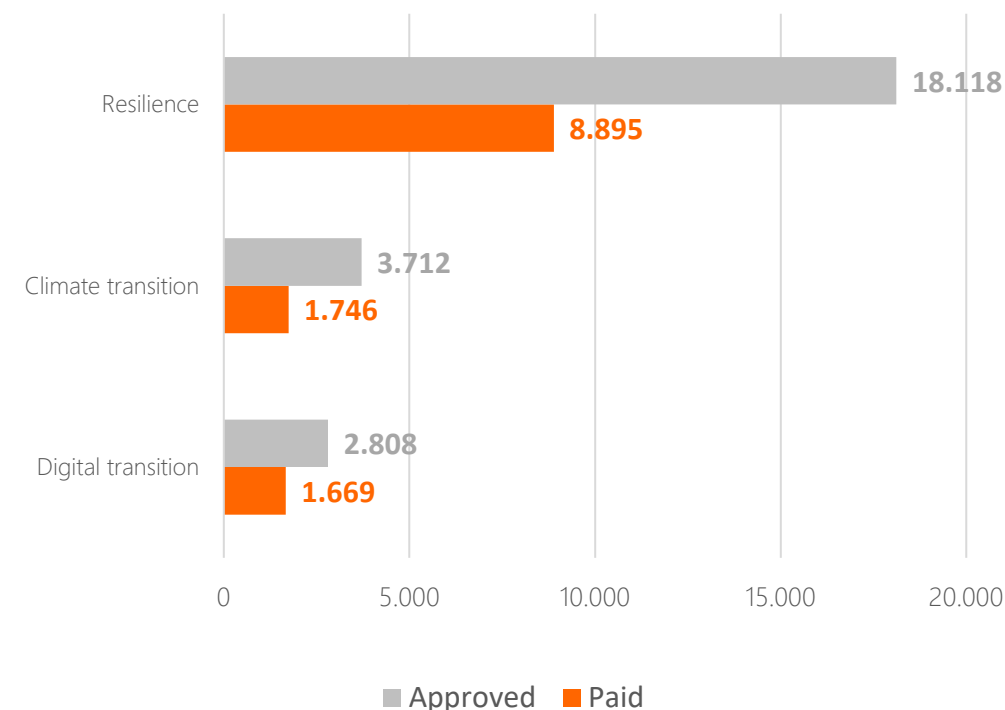
<i>(Up to April 29th)</i>	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	475	314	66,1
Social and solidarity economy institutions	840	414	49,3
Firms	8.084	4.260	52,7
<i>Excl. R&I System Non-firms</i>	6.842	3.508	51,3
<i>R&I System Non-firms in consortium with firms</i>	1.242	703	56,6
Institutions of the scientific and technological system	750	343	45,7
Higher Education Institutions	1.006	475	47,2
Schools	992	628	63,3
Municipalities and metropolitan areas	4.735	1.932	40,8
Public entities	4.965	2.590	52,2
Public firms	2.789	1.318	47,3
Total (million euros)	24.636	12.274	50
(% total RRP)	105%	56%	

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

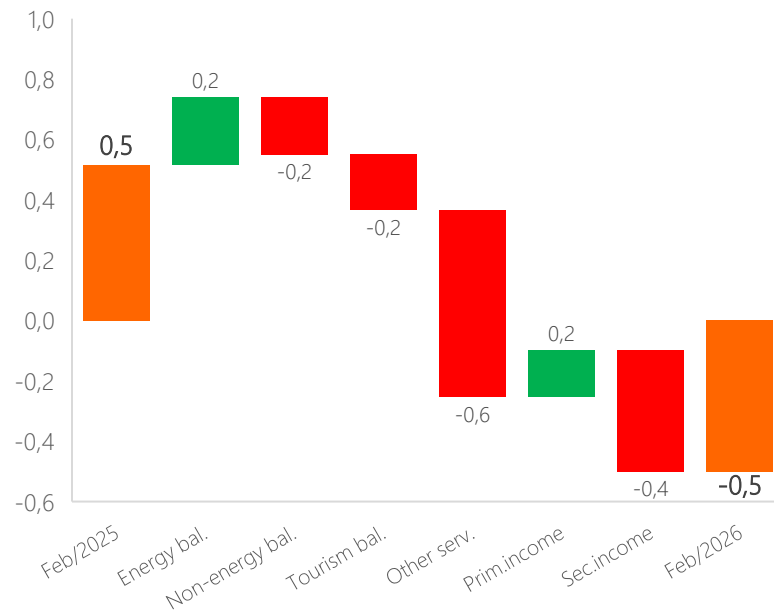


- ▶ Up to now, Portugal received 14.9 billion euros, equivalent to 68% of the total amount of the RRP. Projects already approved amount to 24.64 billion euros (which includes RRP funds, amounting to 23.03 billion euros, and other sources of financing, totaling 1.61 billion euros) and payments reached 12.31 billion (83% of the total amount received from RRP), but only 50% 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 February

Current account up to February 2026

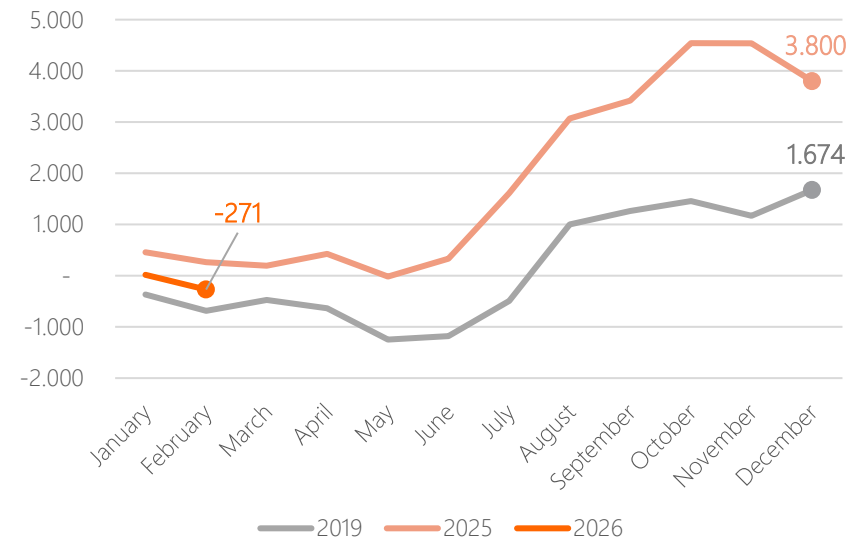
% of GDP and percentage points change



Source: BPI Research, from BoP.

Current account up to February 2026

% of nominal GDP



Source: BPI Research, from BoP.

Portugal: exports and imports variation

Ytd February 2026

	Exports	Imports
annual change (%)	-3,3	-1,2
<i>Contribute (p.p.)</i>		
Goods	-5,9	0,8
Non-energy	-4,0	-1,2
Energy	-33,7	-20,0
Services	0,8	7,1
Tourism	2,0	5,1
Others	0,0	7,6
annual change by region/country (%)		
Euro area	-2,5	0,6
Goods	-3,2	-0,6
Spain	-3,8	-0,6
Goods	-7,5	-1,4
Germany	0,6	6,4
Goods	0,9	5,5
US	-15,1	-13,3
Goods	-20,9	-25,8
Asia	-4,5	-3,8
Goods	-7,0	-9,3

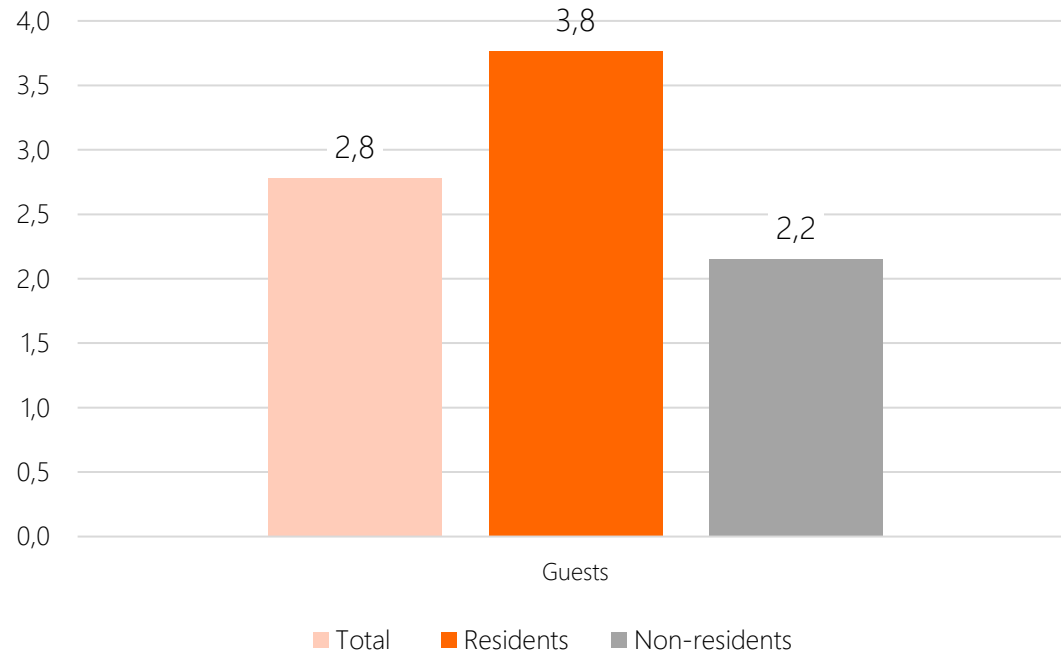
Source: BPI Research, from BoP.

- ▶ In the first two months of 2026, the current account deficit stood at **-271.3 million euros**, equivalent to **-0.5% of GDP**, a significant decline compared to the surplus registered in the same period of 2024 (263.8 million euros). This reduction has been mainly due to the decrease in the balance of services surplus (to 7.2% of GDP), as well as the decrease on the secondary income balance surplus (to 1.2% 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 could compromise our current forecast for the current account balance, currently at 1.2% of GDP.
- ▶ The current account balance reduction compared to the same period of 2025 (Jan-Feb) is justified by the increase of 4.9% in the **deficit in goods account** (to -4,490 million euros), where exports and imports fell 5.9% and 3.2%, respectively. The **surplus of services account** shrunk 5.2% (to 3,890 million euros), mainly due to the increase of other services' imports (+7,6%).

Tourism revenues rose circa 7% in the last 12 months

Number of guests

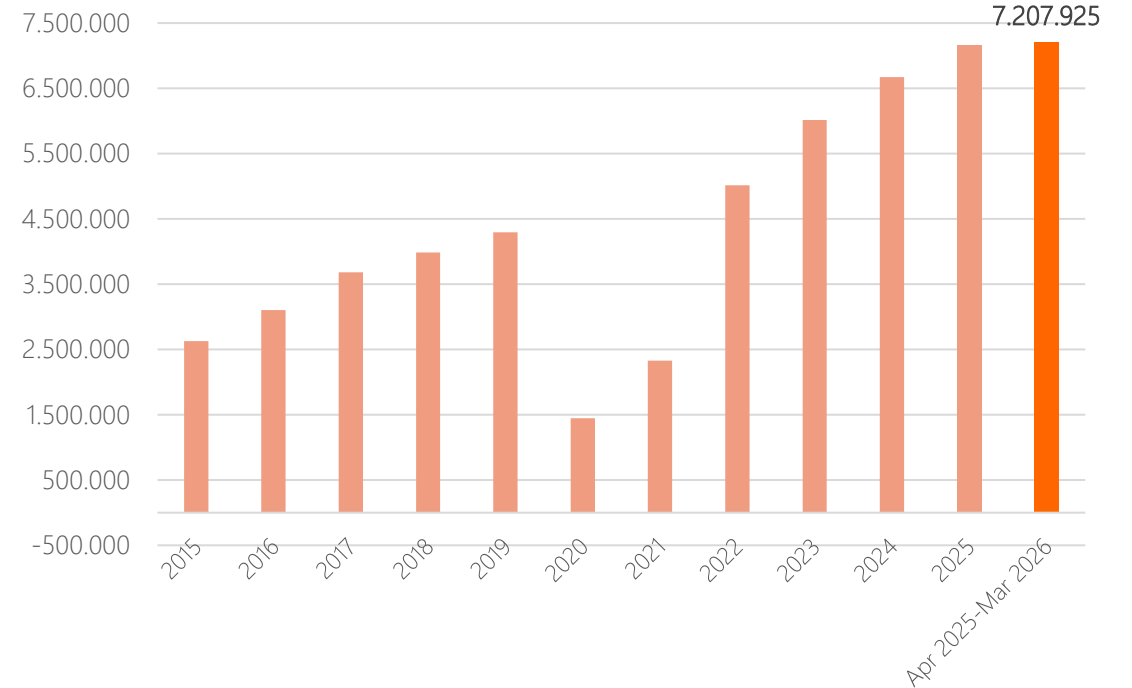
Annual change in cumulative values (Apr 2025-Mar 2026)



Source: BPI Research, from INE.

Total revenues in tourist accommodation establishments

Thousand €

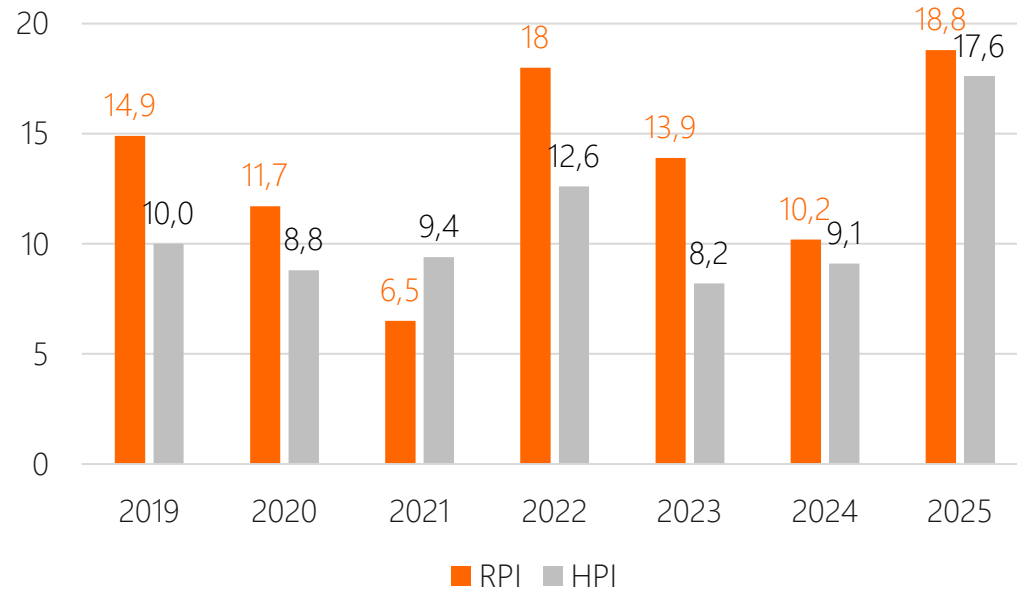


- ▶ **In cumulative terms from April 2025 to March 2026, the tourism sector recorded an annual increase of 2.8% in guests.** The number of tourists reached 32.6 million (12.8 million residents and 19.8 million non-residents).
- ▶ **Total revenues in tourist accommodation establishments registered a historical record in 2025, surpassing 7.000 M€, and this is still being observed in 2026.** Total revenue in tourist accommodation establishments grew by 7.3% compared to Apr/24-Mar/25, mainly driven by the dynamism in some regions such as Madeira (+15.4%), Alentejo (+11.0%) and Azores (9.6%).

2025: a record rise in house prices

House Price Index (HPI) and Residential Price Index (RPI)

Average annual or yoy variation (%)



Source: BPI Research, using data from INE and CI.

Bank appraisal of housing

Yoy (%)



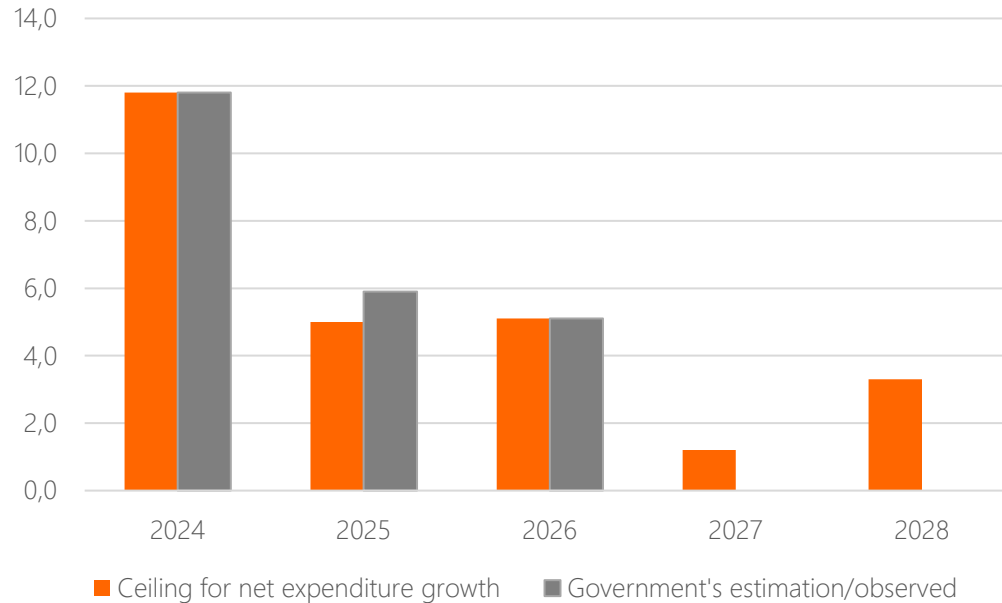
Source: BPI Research, using data from INE

- ▶ In 2025, the House Price Index recorded a year-on-year change of 17.6%, a huge acceleration from 2024. Second hand houses saw prices increasing 18.9% a stronger pace than those registered in new hoses: 14.2%. In 2025 were sold 169,812 houses, more 8.6% than in 2024.
- ▶ Bank appraisal rose 16.5% yoy in March, marginally below the pace of growth in February, indicating that prices continue to expand strongly in the beginning of the year.
- ▶ Fundamentals for continued appreciation in this market remain in place: 1) economic growth; 2) robust labour market; 3) robust demand, stimulated internally by Government measures; 4) measures to expand supply will have a delayed effect; 5) in the current environment, higher interest rates may contribute to reduce somewhat demand, contributing to a more moderate house prices' growth.

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

Net primary expenditure trajectory

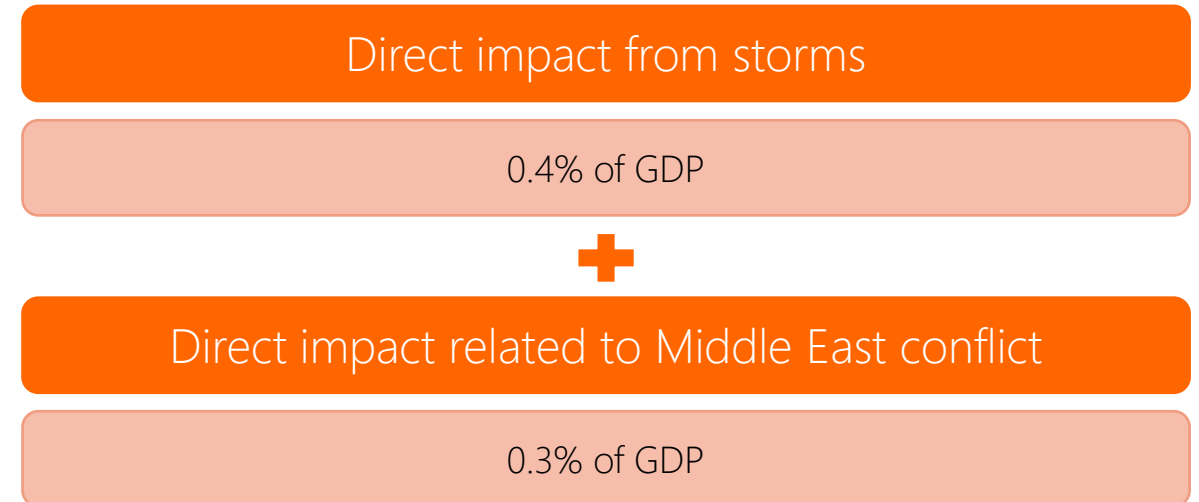
Annual growth rate (%)



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)

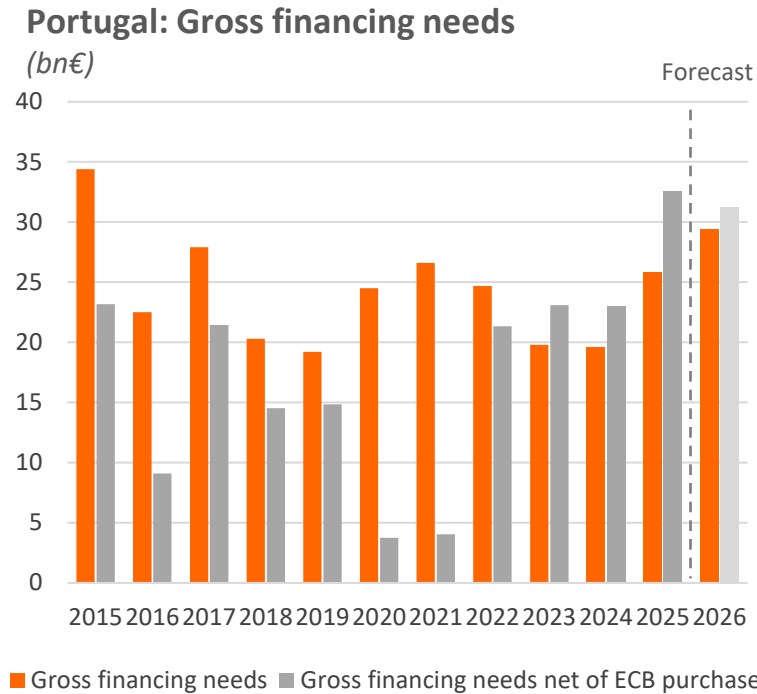
(% of GDP)



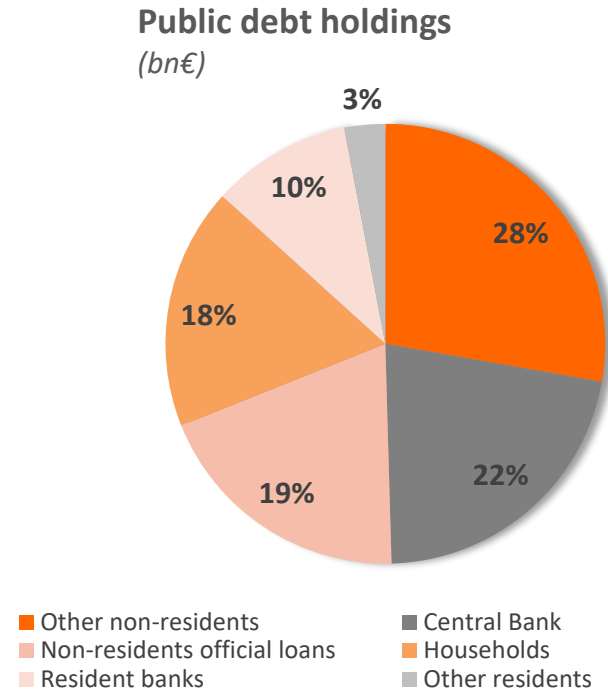
Source: BPI Research, based on data from Annual Progress Report and own estimations.

- ▶ **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.

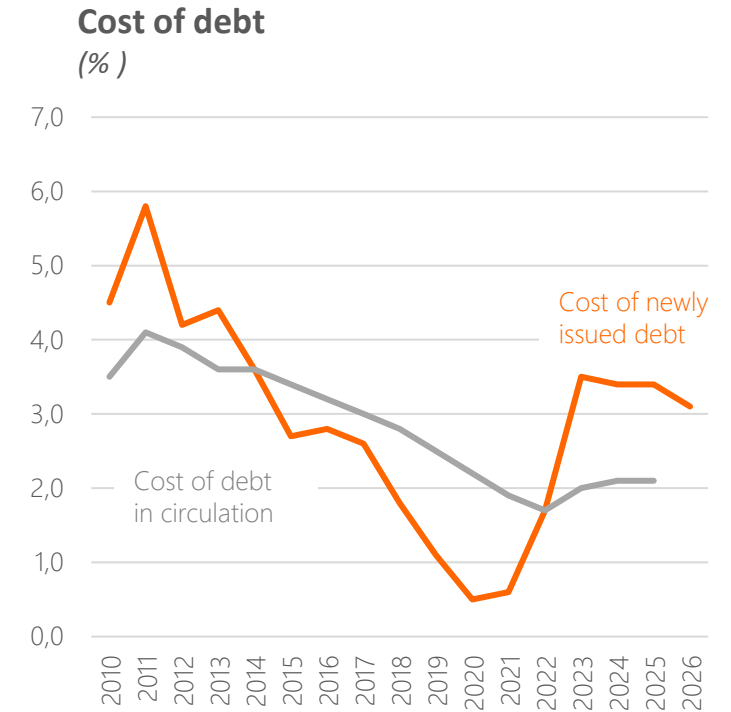
Increase in financing needs for 2026 should be manageable given the attractiveness of Portuguese public debt



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



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



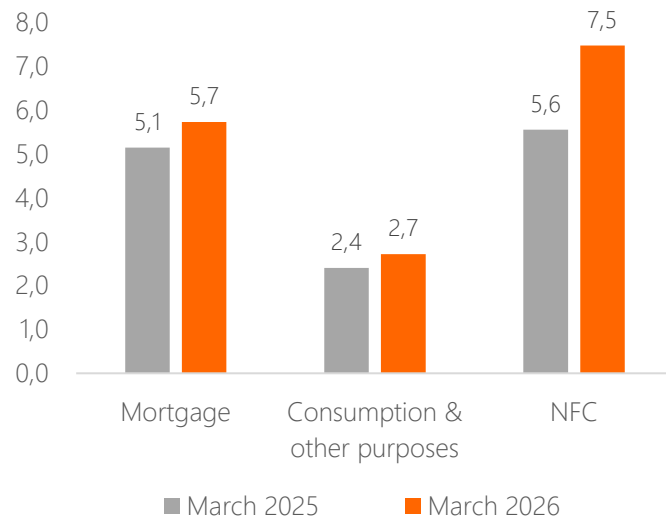
Source: BPI Research, based on data from IGCP.

- ▶ **Gross funding needs are estimated to be around 29 bn€ in 2026**, an increase of 3.6 bn€ 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 (7.8 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

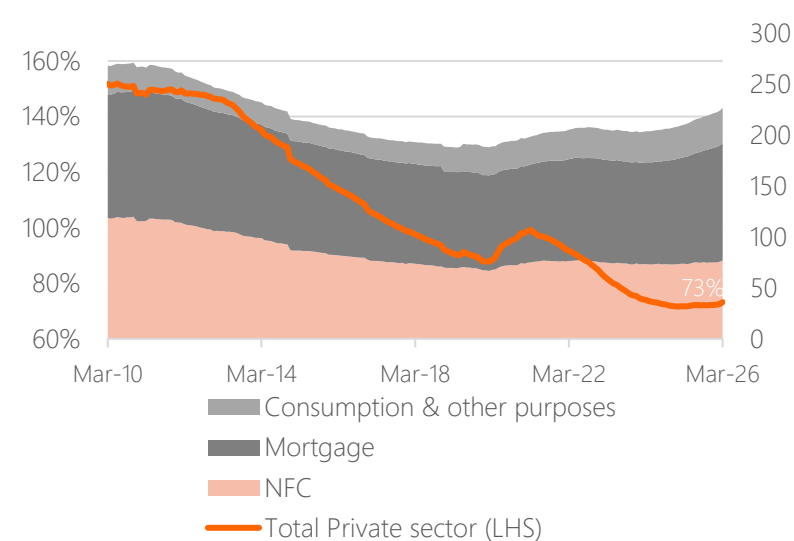
Billion euros (ytd)



Bank credit to the non-financial private sector

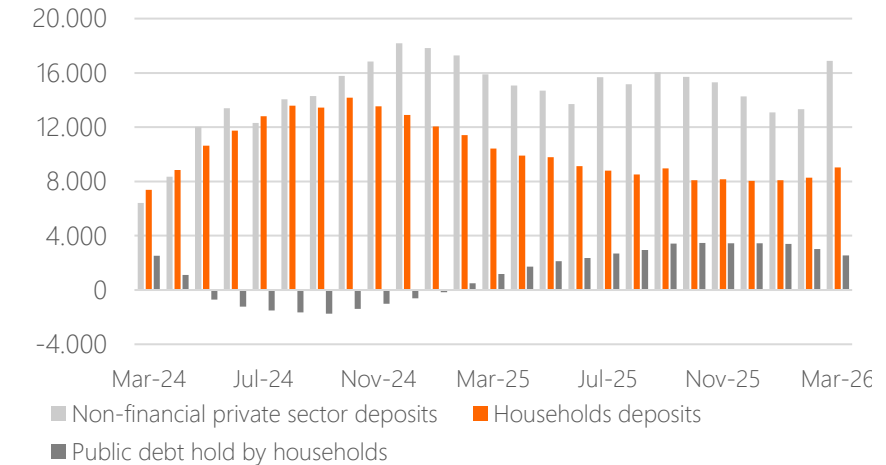
% nominal of the year GDP

Bn€



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: BPI Research, based on data from Bank of Portugal.

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

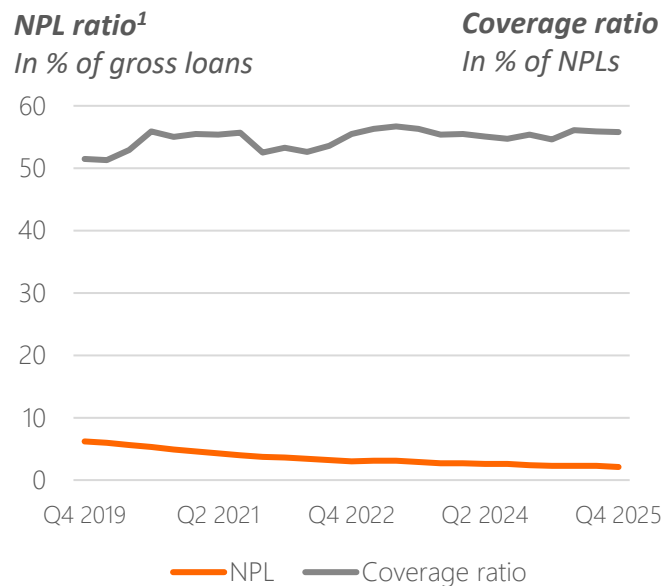
► The stock of credit to companies and households continues to increase:

- **Mortgage** credit: stock accelerated 9.9% in March, with accumulated new operations increasing 11.3%. The amount recorded in March 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). New mortgage credit was 5.7 billion euros in the first three months of 2026 (5.1 billion one year ago), with credit demand by young-adults justified around 26% of this amount.
- **NFC**: the outstanding credit added 4.3% in March, while the accumulated new operations expanded by 34.5%. Around 23% of this amount is explained by State's guarantees (for example, credit lines to help firms deal with the destruction after storms at the beginning of this year).
- **% of GDP**: credit to non-financial private sector is around 73% of GDP, clearly below past levels ($\approx 150\%$ maximum).

- **In March, non-financial private sector deposits reached a new historical maximum (the stock rose 6.4% yoy in March).** Both households' and NFC's deposits increased (4.7% and 11.3% yoy, respectively).

Banking system: deleveraging with high solvency and profitability

NPLs and coverage ratios

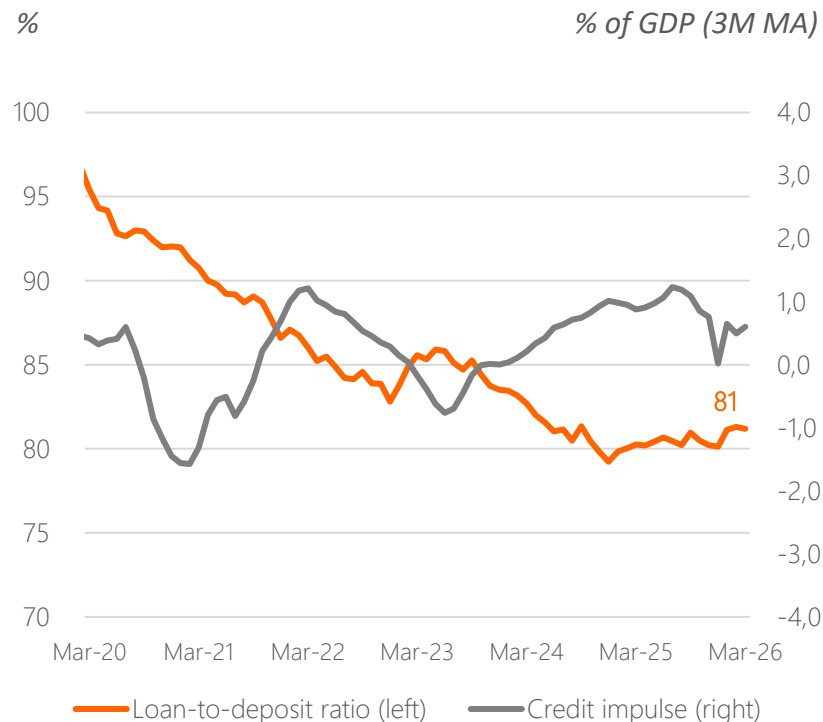


Cost of risk¹

0.5% in Q4 2019
0.2% in Q4 2025

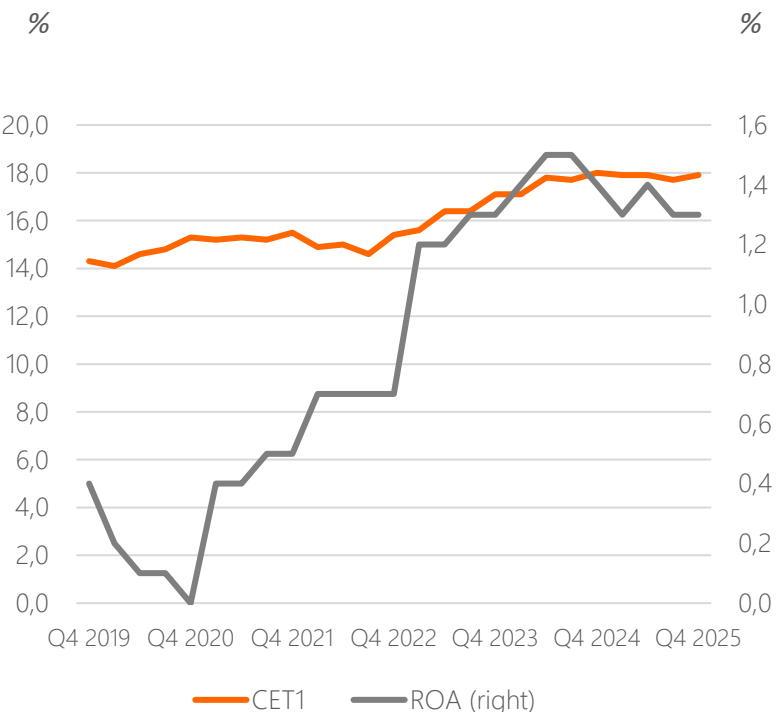
Notes: (1) flow of impairments to credit as a percentage of total gross loans.
Source: BPI Research, with data from Bank of Portugal.

Loan-to-deposit and credit impulse of private sector



Source: BPI Research with data from Bank of Portugal.

Banks' solvency and profitability



Source: BPI Research with data from Bank of Portugal.

- ▶ **NPLs ratio fell to 2.1% in Q4, minus 3 tenths than in 2024.** Both ratios relative to NFC and households decreased by 0.1 p.p. to 3.7% and to 2.0% (2.2% in Q2 2025). We are not expecting a deterioration of credit quality in the future.
- ▶ **Deleveraging among firms and households shows signs of inverting slightly, despite still historically reduced levels.** Loan-to-deposit ratio increased in January to 81% and kept stable until March; the credit impulse (yoy absolute change in new operations as % of GDP) accelerated in March 2026 to 0.6% from 0.5% in February.
- ▶ **Profitability in the banking sector in 2025 was slightly lower than before due to reduced interest rates but remained well above the pre-pandemic period.** CET1 stood at 17.9% (vs 18.0% in 2024 and 14.3% in Q4 2019). 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. The banking system ROA ratio increased in the last years and stood at 1.3% in Q4 2025 (vs. 1.4% in 2024 and 0.4% in 2019).