

Portugal:

Macroeconomic and financial outlook

BPI *Research*

October 2025

PORTUGAL: MACROECONOMIC AND FINANCIAL OUTLOOK is a publication by Banco BPI Research that contains information and opinions from sources considered to be reliable. This document is for informative purposes only and Banco BPI is not liable in any way for any use made thereof. The opinions and estimates are those of the Banco BPI Research and are liable to change without prior notice.

© Banco BPI S.A., 2025

Prepared with information available by October 7th, 2025



Activity

- ▶ **INE revised the GDP series, bringing annual growth in 2023 and 2024 to 3.1% and 2.1%, respectively.** Revision impacted the variation of the GDP in the H1, to 0.6% qoq from 0.5% previously reported and also implied an upward revision of the accumulated growth since Q4 2019 to 9.7%, + 7 tenths than the previously estimated. **BPI's Research team decided to keep unchanged its forecasts for 2025 at 1.6%, despite acknowledging that it is a conservative view.** Private consumption continues to be supported by a resilient labour market and income recovery, and investment should be stimulated by low interest rates and the implementation of European funds. We consider risks to growth slightly biased on the upside.
- ▶ **After five consecutive months of increases, the global CPI adjusted downwards to 2.4% year-on-year in September.** Also, core inflation decelerated to 2%. We see the annual inflation reaching 2.3% in 2025 and declining to a level around 2% in 2026.
- ▶ **Labor market continues to surprise positively, with employment reaching new maximums.** The employed population increased 3.4% in August but the unemployment rate rose to 6.1%, 1 tenth above the July's level, but 2 tenth below the homologous reading. **The strength of the labour market will continue to be one of the main factors supporting economic activity in 2025-26, and given this data, we consider BPI Research's forecast for the unemployment rate in 2025 to be feasible (6.3%).**
- ▶ **In Q2 2025, house prices rose 17.2% yoy and the number of transactions reached 42,889 houses, more 16% than in Q2 2024. This performance surpasses the BPI's Research forecasts, forcing the revision of the forecast for house prices in 2025 to 15.8% from 12.4%.** Going forward we see market to decelerate driven by the reduction of the imbalances between supply and demand.
- ▶ **On an accrual basis, the budget balance showed a surplus of 1.9% of GDP in Q2, down from 2.5% in the same period of 2024.** In this context, revenue increased by 4.6%, supported by tax and social security contributions, while expenditure increased by 6.3%, with personnel costs and social benefits being the most significant (accounting for around 64% of the increase in total expenditure). As a result, the average budget balance in the first half of the year stood at 1.0% of GDP (compared to 0.9% in the first half of 2024), but the second half of the year brings greater pressure on public accounts, namely due to the decrease in personal income tax, the extraordinary payment to pensions and other additional measures, namely related to the intention of reaching the 2% of GDP target set by NATO, which may require an increase in defence expenditure.
- ▶ **In September, Fitch upgraded Portugal's sovereign rating to A from A-, with stable outlook.** Economic resilience, fiscal consolidation and lower public deficit ratio were the main drivers of the revision.
- ▶ **Execution of RRP (Recovery and Resilience Plan) appears to be accelerating but is still below desired levels.** Of the 22.2 billion euros to be implemented by 2026, only 42% of this amount has been paid to beneficiaries. A faster implementation of the funds is expected from now on. The remainder (13.6 billion euros) corresponds to 5% of national annual GDP. In August Portugal received the 6th payment of 1.3 billion of euros, rising to 12.2 bln the amount received up to now.

Banking Sector

- ▶ **NPLs ratio remained stable in Q2.** The total NPL ratio stood at 2.3% in Q2 2025 (historical minimum), as well as the one for NFC (4.0%). The NPL of households fell -0.1 p.p. on a quarterly basis to 2.2%. We are not expecting a significant deterioration of credit quality in the following months.

Main economic forecasts

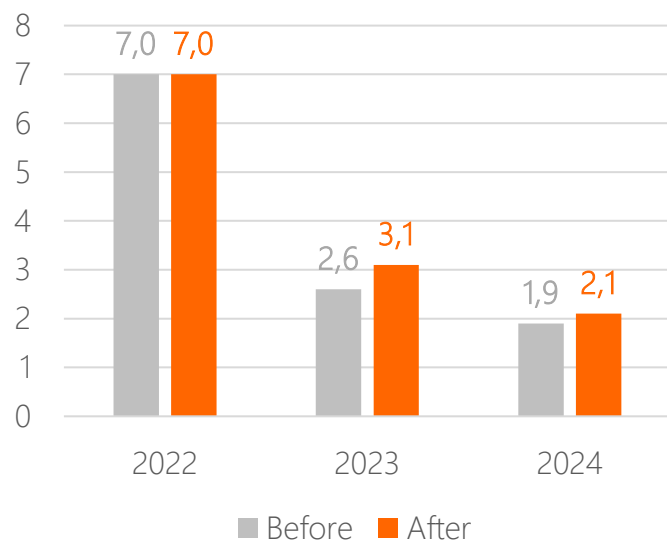
%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	2024	Forecasts	
										2025	2026
GDP	2,0	3,3	2,9	2,7	-8,2	5,6	7,0	3,1	2,1	1,6	2,0
Private Consumption	2,4	1,8	2,6	3,5	-6,8	4,9	5,6	2,3	3,0	3,2	2,2
Public Consumption	0,9	0,1	0,5	2,1	0,4	3,8	1,7	1,8	1,5	1,5	1,1
Gross Fixed Capital Formation (GFCF)	2,7	11,6	6,2	5,5	-2,3	7,8	3,3	6,0	3,8	2,6	4,9
Exports	4,7	8,4	4,3	4,0	-18,4	12,1	17,2	4,2	3,1	1,0	2,7
Imports	5,2	8,0	4,9	5,1	-11,6	12,3	11,3	2,3	4,8	4,9	3,8
Unemployment rate	11,5	9,2	7,2	6,6	7,0	6,7	6,1	6,5	6,4	6,3	6,4
CPI (average)	0,6	1,4	1,0	0,3	0,0	1,3	7,8	4,3	2,4	2,3	2,1
External current account balance (% GDP)	1,2	1,3	0,6	0,4	-1,0	-0,8	-1,2	1,4	2,1	0,6	0,9
General Government Balance (% GDP)	-1,9	-3,0	-0,4	0,1	-5,8	-2,8	-0,3	1,3	0,5	-0,1	-1,2
General government debt (% GDP)	131,2	126,0	121,1	116,1	134,1	123,9	111,2	96,9	93,6	92,2	90,4
Housing Prices	7,1	9,2	10,3	10,0	8,8	9,4	12,6	8,2	9,1	15,8	6,3
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	48	78

Source: BPI Research.

Growth revised upwards from 2023 to H1 2025

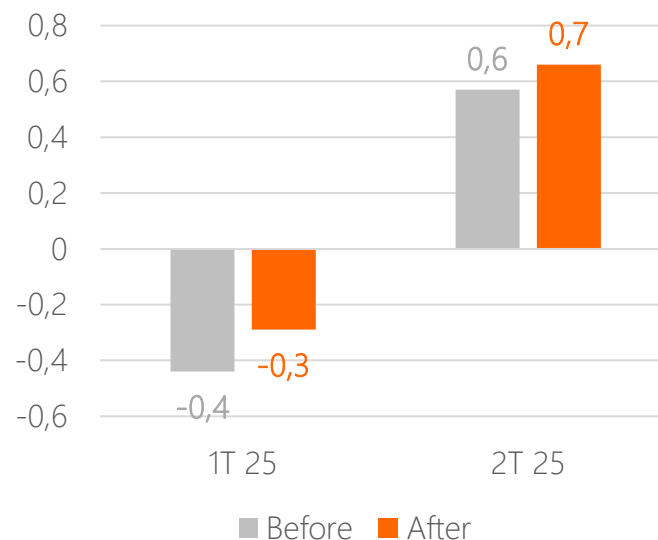
INE revised GDP growth in 2023 and 2024

Annual growth, %



And growth in H1 2025

Quarter-on-quarter growth, %



Revision of contributions to year-on-year GDP growth

Percentage points

	2023	2024	T1 2025	T2 2025
Private consumption	0,3	-0,1	0,2	0,0
Public consumption	0,2	0,1	0,0	0,0
GFCF	0,5	0,2	0,1	0,0
Exports	0,2	-0,1	0,2	0,0
Imports	-0,2	0,1	-0,6	-0,2
Stocks	-0,5	0,1	0,2	0,1
GDP	0,5	0,2	0,0	-0,1

Source: BdP and INE. Note:

- **The revision of historical GDP series was reflected in the upward revision of growth in 2023 and 2024.** Real GDP grew by 3.1% in 2023 (+0.5 p.p. compared to the previous estimate) and 2.1% in 2024 (+0.2 p.p. compared to the previous estimate). These revisions are the result of incorporating more robust, complete and detailed information. In addition, they reflect the incorporation of IES (Informação Empresarial Simplificada, detailed data of companies that Banco de Portugal receives annually in July) data for 2024. Also, the quarter-on-quarter growth in 2025 was upward revised in Q1 and Q2. All this revision pushed the accumulated growth since 2019 to 9,7%, more 7 tenths than previously.
- By components, the changes to growth in 2023 were mainly driven by upward revisions in GFCF, private consumption and public consumption; in 2024, the main reason for the upward revision to growth was mainly due to the GFCF component.

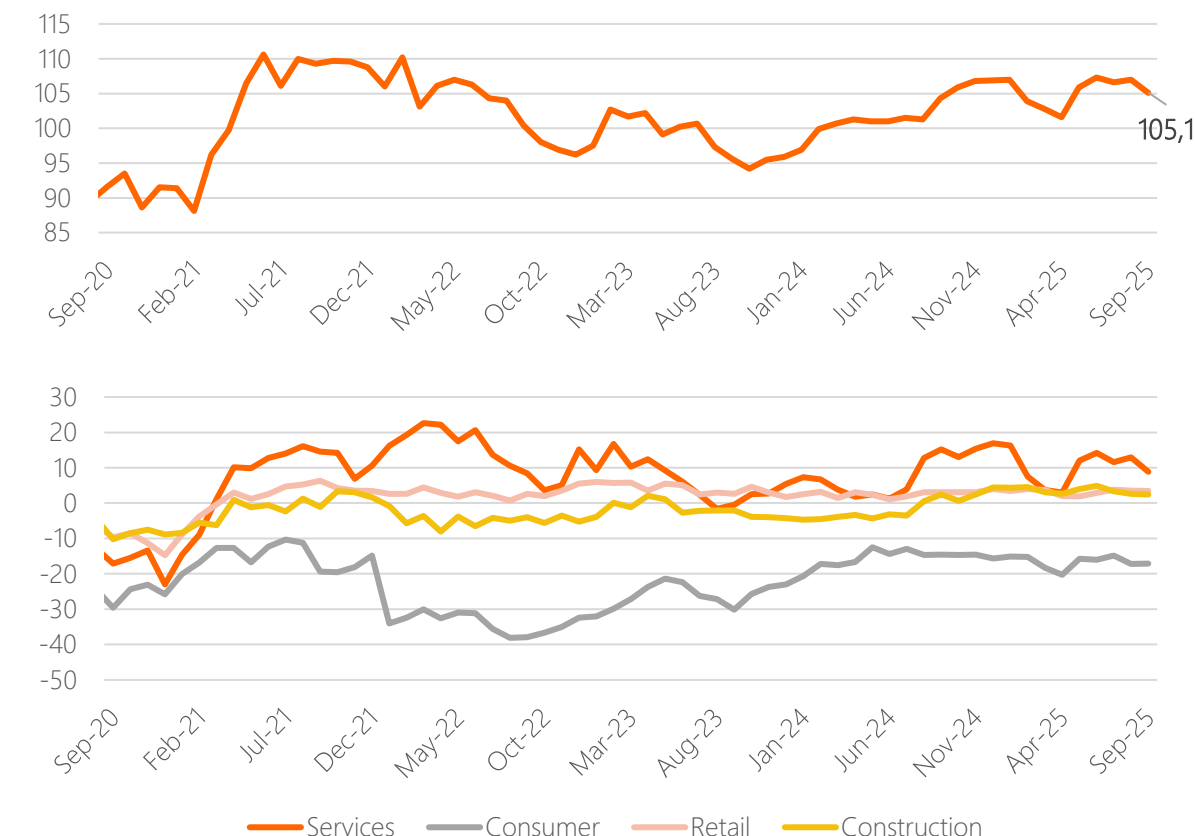
3rd quarter data points upwards

yoy, level		Q2 25	Q3 25	Aug-25	Sep-25	Last month available
Synthetic indicators	Economic climate indicator	2,6	2,9	2,9	3,0	September
	Economic sentiment indicator	104,9	106,8	107,0	105,1	September
	Daily economic indicator	2,0	0,8	0,6	-1,3	September
Consumption	Consumer confidence	-17,6	-16,3	-17,5	-17,1	September
	Wholesale and retail trade (yoy)	3,2	3,7	3,9	-	August
	Retail sales excl. fuels (yoy)	5,4	6,2	5,6	-	August
	Card withdrawals and purchases deflated (yoy)	6,7	6,3	6,0	-	August
	Car sales (yoy)	13,9	15,2	9,9	12,9	September
Investment	GFCF indicator	3,0	1,4	-	-	July
	Imports of capital goods	-1,2	-2,3	-	-	July
Suply	Cement sales	-1,7	-0,1	-2,8	-	August
	Industrial production	1,2	2,8	3,1	-	August
Demand	Electricity consumption adjusted for temperature&working days	2,2	2,0	2,0	-	August
	Non-resident tourists (yoy)	4,1	1,7	-0,2	-	August
	Number of flights (yoy)	5,3	4,2	3,9	3,9	September
Trade	Exports G&S (accum. Year)	1,6	1,8	-	-	July
	Imports G&S (accum. Years)	4,8	4,2	-	-	July
Labour market	Change in regist. unemployment (thousand people)	-8,5	-12,0	-11,8	-	August
	Change in employment (thousand people)	165,2	190,7	174,7	-	August

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

Economic sentiment index

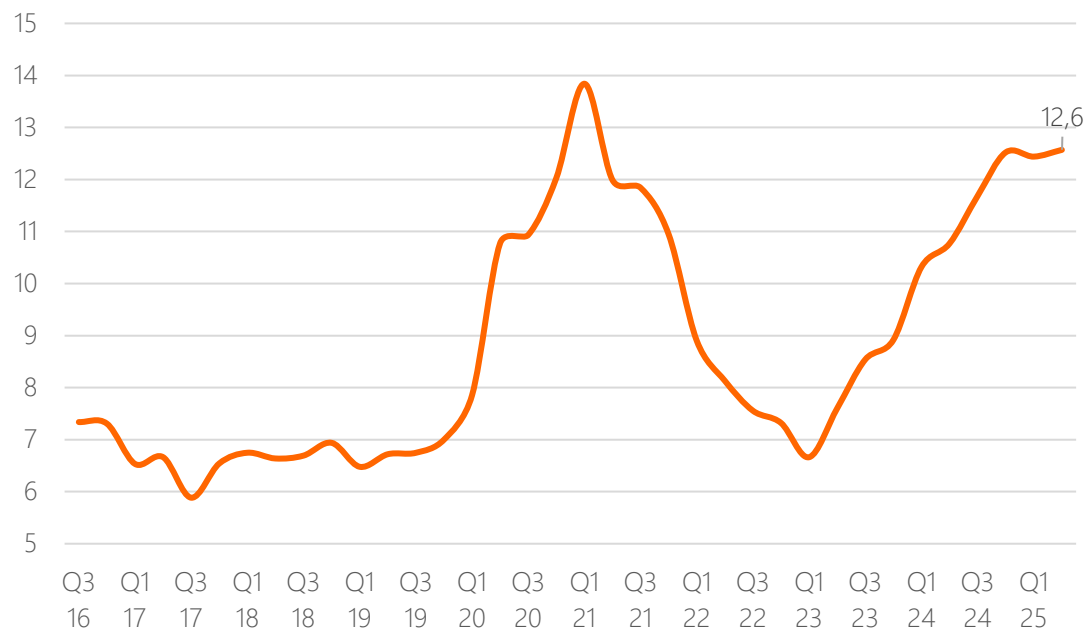
1990=100



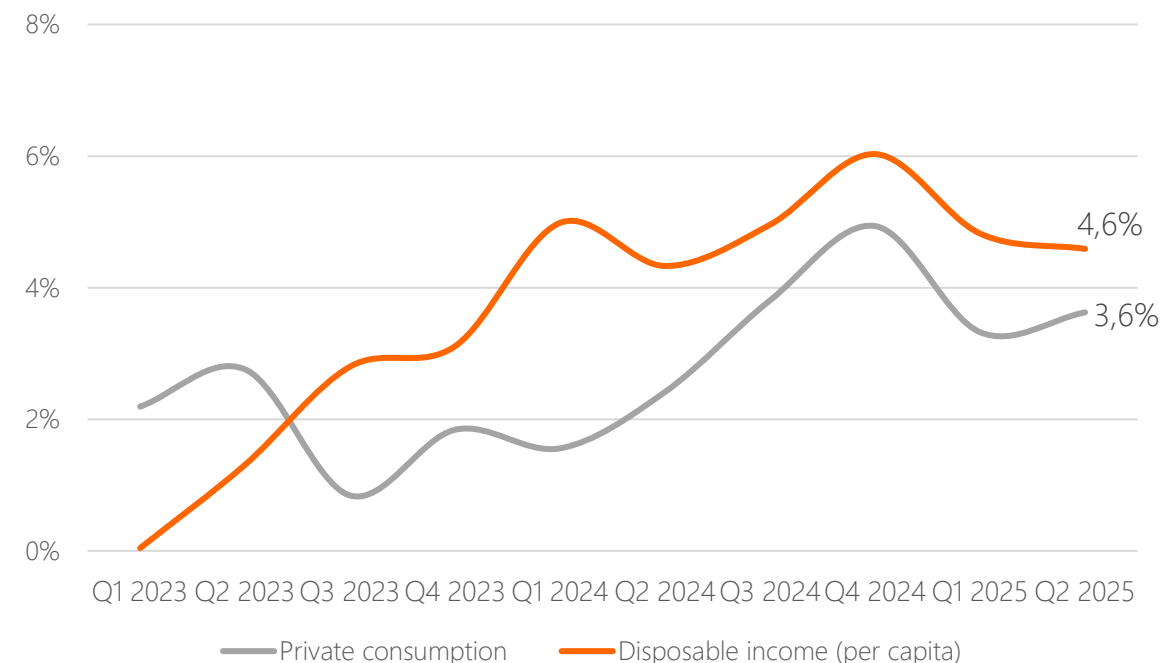
- In September, the economic sentiment index (ISE) disclosed by the European Commission, declined to 105.1 points, mainly due to lower confidence in the services sector. Consumption indicators (around 63% of GDP) suggest an acceleration compared to Q2, supported by the robustness of the labour market (employment continues to register historical highs and the number of unemployed keeps decreasing) and real increases in wages (+3.0% yoy in Q1). Also interesting is the improvement on industrial production.

Private consumption is seen to continue to perform favorably

Families' saving rate
(% of DI)



Private consumption and household's income
Year-on-year on real terms, %



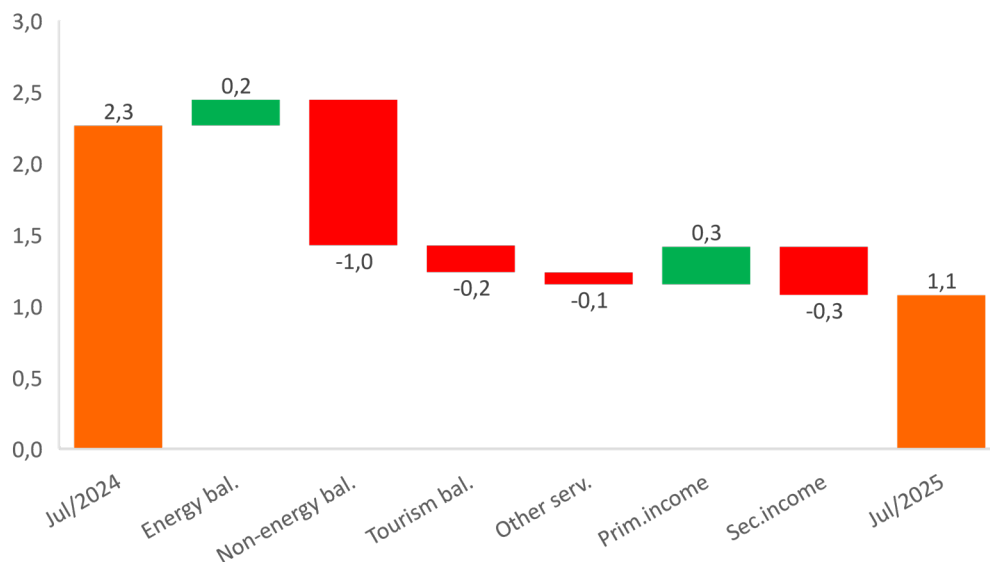
Source: BPI Research, from INE, BoP.

- ▶ **Savings rate persist at double digit levels, far higher than the historical pattern.** The household's saving rate rose to 12.6% in Q2 2025, +0.2 p.p. than Q1 2025, reaching the highest level since 2003 excluding the adverse years of COVID pandemics.
- ▶ Additionally, real disposable income (per capita) is growing faster than consumption since the end of 2023, favouring the building up of savings, which will tend to constitute an important cushion of confidence for future consumption decisions. The high quarterly increase on the real disposable income (per capita) seen in Q4 2024 (+7.1%) was partially due to the personal tax reduction in September and October 2024. As expected, in Q1 and Q2 2025, the trend became smoother, but high uncertainty (and an expected boost in disposable income again in Q3 2025) should contribute to savings continuing high in the near future.

Current account shrank considerably up to H1

Current account up to July 2025

% of GDP and percentage points change

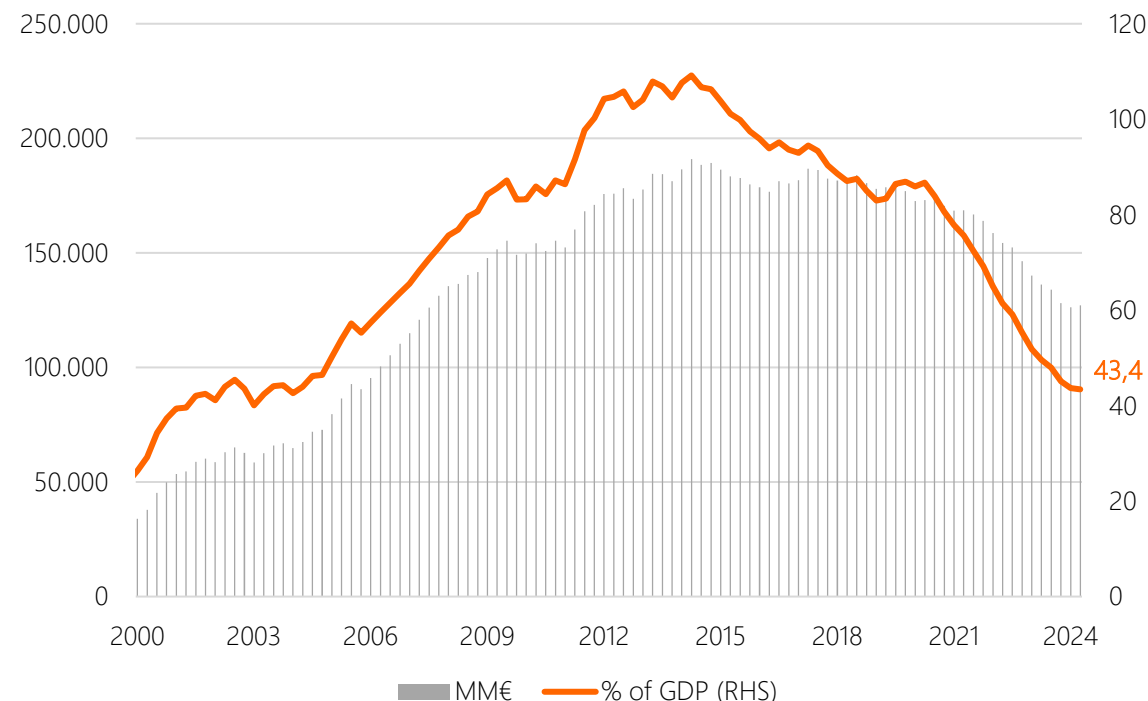


Source: BPI Research, from BoP.

Net external debt

MM €

% of GDP



- In the first half 2025, the current account surplus stood at 1,983 million euros, equivalent to 1.1% of GDP, a significant decline compared to the figures registered in the same period of 2024. This reduction has been not only due to the increase in the non-energy deficit (to 7.4% of GDP), but also due to the decrease in the secondary income surplus, which reduced to 1.5% of GDP. That means that Portugal in this period experienced a worsening of its trade in goods and services dynamics that were not related to energy products; as well as a higher investment income deficit and a lower allocation of European funds to final beneficiaries through subsidies. The worsening seen so far this year might, in part, be related to the volatility and uncertainty associated with the trade and commercial policy of the US Government (however the uncertainty has been reduced recently due to the trade agreement between EU and USA). Going forward we see a recovery of the current account, by a more moderate growth on imports and by the impact of NG EU funds. **The outlook for 2025 remains positive, but we have revised downwards our forecast for the surplus in 2025 to 0.6% of GDP.**
- The external debt keeps its downward trend, reaching 43.4% of GDP in Q2 2025, the lowest level since the beginning of 2005.

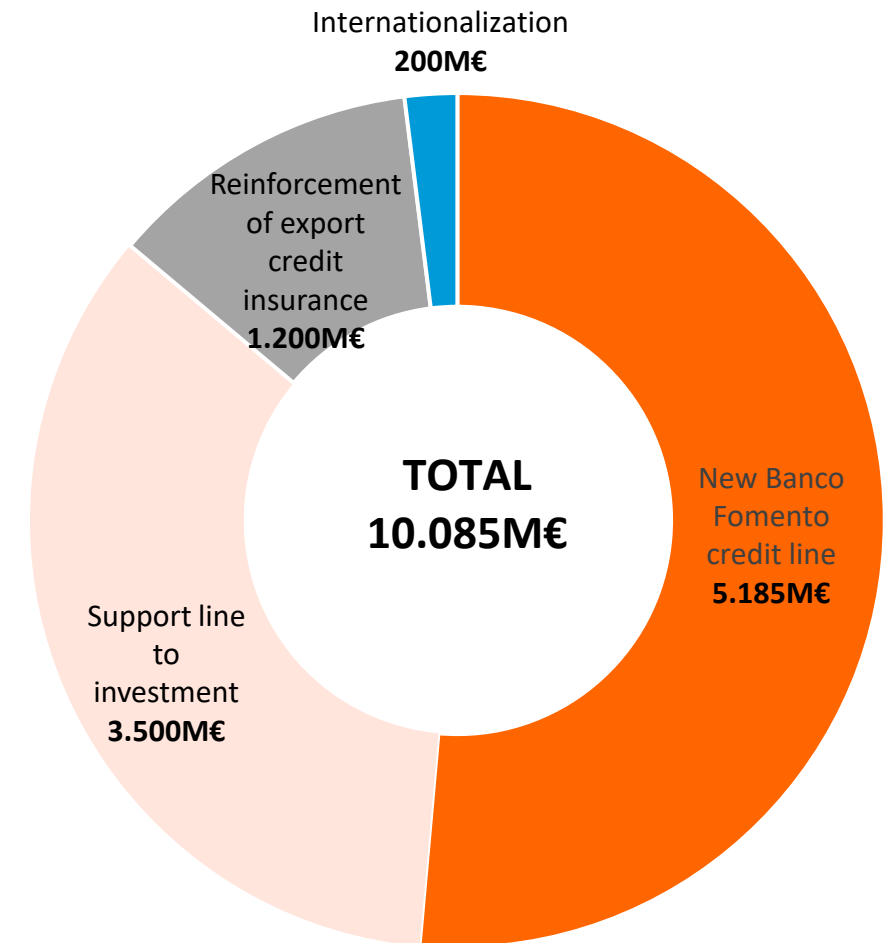
Government plan due to US tariffs

1. Reinforce Program (10 billion euros)

- The Portuguese government announced a 10-billion-euro program (8.6 billion in credit lines) to combat the impact of tariff issues:
 - Mitigation of the adverse effects on the competitiveness of national companies due to direct price increases via customs duties and contagion effects to other markets.
 - Limit the increase of financing costs and providing investment support to enable companies to maintain their profit margins.
 - Support the internationalization and diversification of revenue sources in order to reduce dependence on the US market.
 - Searching partnerships: ICO (Spain), KfW (Germany), BPI France (France), British Business Bank (UK).
- Measures to support competitiveness and exports:
 - New Banco Fomento credit line (+5.185 billion€), for companies to strengthen their working capital and investment capacity.
 - Support line to investment (€3.5 billion), including €400 million in grants, aimed at investment by exporting companies.
 - Reinforcement of export credit insurance (€1.2 billion) to promote market diversification by providing new ceilings through the BPF Export Credit Agency.
 - Incentives for internationalization (€200 million), providing for a new incentive programme under Portugal 2030, of which €150 million is allocated for SMEs (to take part in more international fairs and strengthen their strategy and presence).

2. New PRR and Portugal 2030 notices (2.640 billion euros)

- Innovation and decarbonization (+€255M); Qualification of business models and human capital (+€70M); Internationalization (+€80M); Large-scale productive investment in key sectors for the energy transition (+€2,235M).



EU aggregated exposure to the US is marginal, but varies within sectors

Most exposed sectors to the US demand

% of Gross Value Added by sector

	TOTAL	1	2	3	4
EU27	3.4%	Pharma. (22%)	Chemicals (10%)	Machinery (8%)	Transp. Equip. (7%)
Germany	3.7%	Pharma. (14%)	Machinery (8%)	Electronics (7%)	Transp. Equip. (6%)
France	2.4%	Pharma. (11%)	Chemicals (8%)	Machinery (8%)	Transp. Equip. (7%)
Italy	3.4%	Pharma. (15%)	Machinery (9%)	Metals (9%)	Chemicals (8%)
Spain	2.3%	Pharma. (9%)	Metals (6%)	Chemicals (6%)	Petroleum (6%)
Portugal	2.9%	Pharma. (13%)	Petroleum (11%)	Wood&paper (8%)	Electronics (7%)
Japan	3.1%	Transp. Equip. (16%)	Metals (9%)	Electricity (8%)	Electronics (8%)
India	3.9%	Pharma. (14%)	Textiles (10%)	Wood&paper (9%)	Chemicals (8%)
China	2.9%	Electronics (10%)	Textiles (10%)	Rubber&plastics (8%)	Wood&paper (7%)
Mexico	16.3%	Electricity (52%)	Transp. Equip. (46%)	Electronics (45%)	Metals (43%)
ASEAN	5.1%	Textiles (19%)	Pharma. (15%)	Rubber&plastics (15%)	Electronics (13%)

Portugal: goods exports to the US and new tariffs

	Exports to the US 2024 (million €)	% of total	Average tariff	Average new tariff "liberation day"	Final tariff (15%, August)	100% Pharma (September)
Pharmaceutical Products	1.168	22	0	0,2		
Generics*	389	7	0	0,2	0,2	100,0
Non generics	779	15	0	0,2	15,0	100,0
Mineral fuels	1.078	20	1	0,5	15,0	15,0
Rubber	368	6,9	1,7	20,0	15,0	15,0
Electrical machinery	303	5,7	1,2	20,0	15,0	15,0
Nuclear reactors	227	4,3	1,3	20,0	15,0	15,0
Cork and articles	185	3,5	0,7	20,0	0,7	0,7
Articles of iron and steel	182	3,4	1,2	50,0	50,0	50,0
Textil products	144	2,7	6,8	20,0	15,0	15,0
Furniture	126	2,4	1,9	20,0	15,0	15,0
Clothing	183	3,4	12,8	20,0	15,0	15,0
Beverages	111	2,1	1,8	20,0	15,0	15,0
Organical chemicals	111	2,1	2,7	20,0	15,0	15,0
Footwear	98	1,8	10,5	20,0	15,0	15,0
Ceramic products	89	1,7	4,1	20,0	15,0	15,0
Optical, fotografical, cinerr	72	1,4	0,9	20,0	15,0	15,0
Others	873	16,4	2,6	20,0	15,0	15,0
Total	5.318	6,7	1,9	12,7	14,6	34,4
% of GDP			1,9			

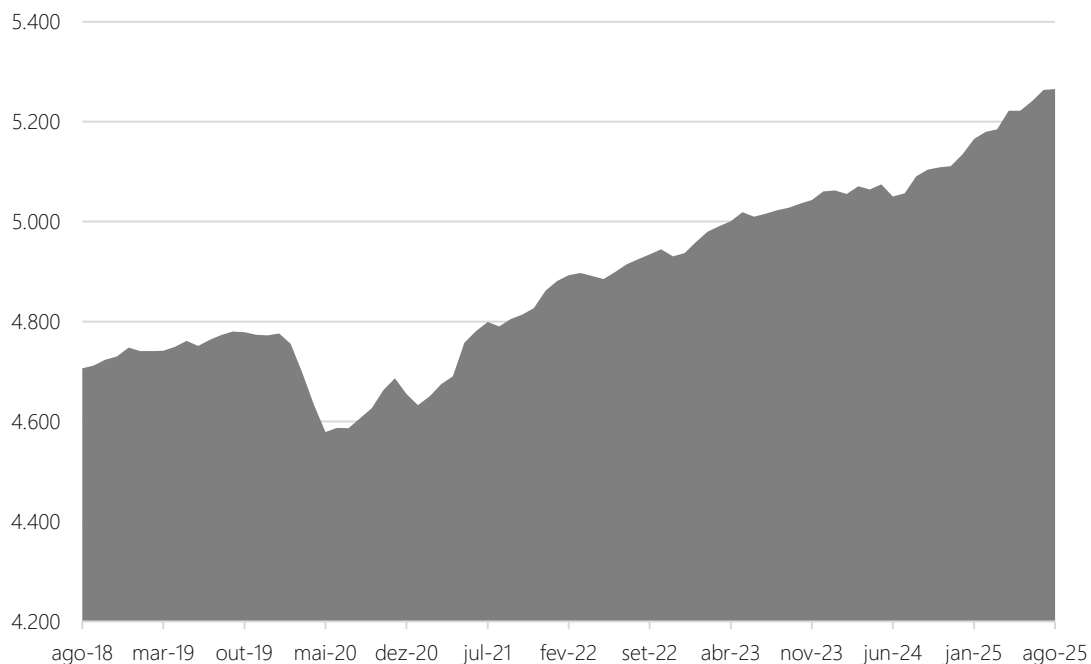
Source: BPI Research based on INE

- **US tariffs should have a moderate impact in EU.** However, sectoral impacts vary considerably, with the pharmaceutical sector particularly exposed to US demand. Other sectors with significant exposure include chemicals, machinery and transportation equipment. Asian countries, as well as US neighbors, are the most exposed, while China appears at the lower end of the ranking, although it faces a broader "trade war," which could include trade agreements with the US that specifically target Chinese value chains through indirect export restrictions.
- **The agreement made between EU and US (celebrated on 28th July) implies that the European products will be taxed at a general tariff of 15%,** which represents an increase compared to the current universal tariff of 10%, but below those of the "liberation day". There is also a set of strategic products (to be defined) that will be subject to a 0% mutual tariff regime, including the aeronautical sector, generic medicines, agricultural products and critical raw materials. In average the new tariff for the Portuguese goods will rise to 14.5% (from 1.9% in 2024).

Labor market: a new high in August

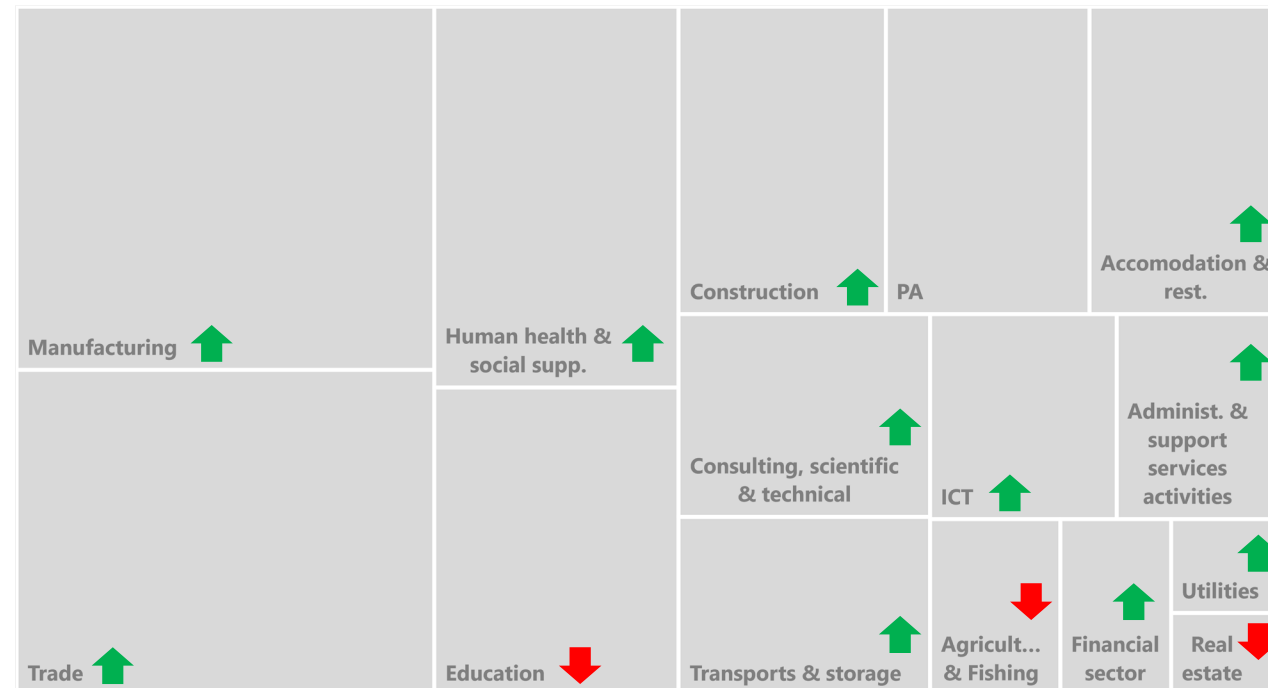
Employed population

Number of people ('000 individuals)



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

Employment in Q2, by sector



- ▶ **Employed population continues to reach new highs.** In August, employment rose 3.4% yoy, reaching a new maximum. Looking in more detail to employment by sector (available up to Q2), main increases were seen in manufacturing, consultancy activities, accommodation & catering, health & social support activities transports and trade. There was a significant increase in the employment of individuals with secondary and post-secondary education (+127,900 people) and higher education (+106,700 people), offsetting the fall in the employment of individuals with low qualifications (-86,200 people). Additionally, we also saw an increase in full-time work and permanent employment contracts.
- ▶ **The unemployment rate stood at 6.1% in August**, more 1 tenth than in July, but -0.2 p.p. in comparison to August 2024.
- ▶ **The strength of the labour market will continue to be one of the main factors supporting economic activity in 2025**, and given this data, we consider BPI Research's forecast for the unemployment rate in 2025 to be feasible (6.3%).

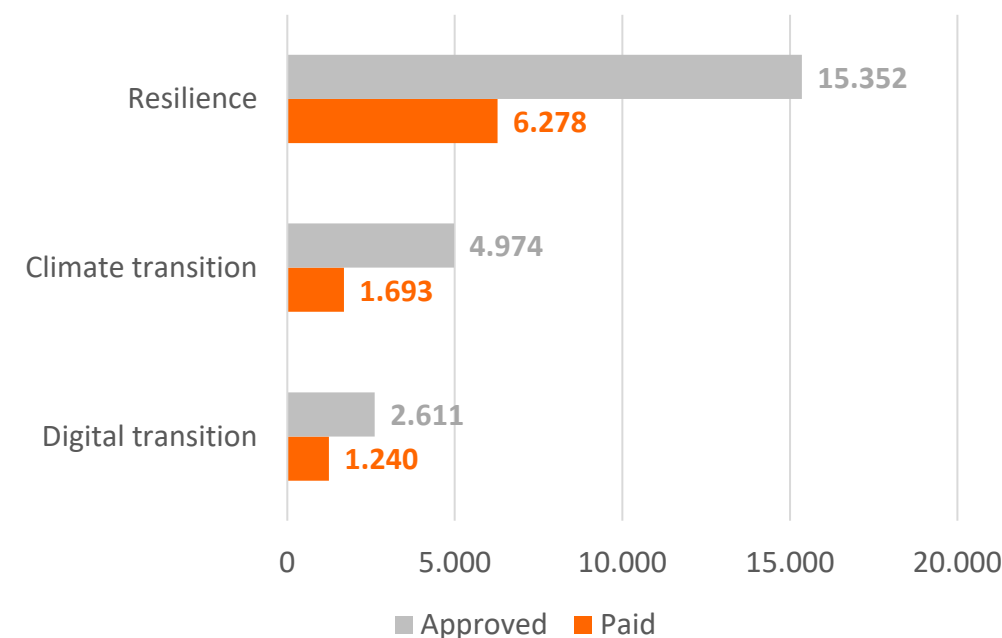
RRP: execution continues at slow pace (39% of total program)

Approvals and payments to direct and final beneficiaries

<i>(Up to October 1st)</i>	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	327	266	81,3
Social and solidarity economy institutions	826	317	38,4
Firms	6.397	3.290	51,4
<i>Excl. R&I System Non-firms</i>	5.505	2.831	51,4
<i>R&I System Non-firms in consortium with</i>	891	459	51,5
Institutions of the scientific and technological	660	232	35,2
Higher Education Institutions	844	353	41,8
Schools	1.038	607	58,5
Municipalities and metropolitan areas	4.435	1.289	29,1
Public entities	5.369	1.912	35,6
Public firms	3.042	945	31,1
Total (million euros)	22.938	9.211	40,2
<i>(% total RRP)</i>	102,9%	41,5%	

RRP: amounts approved and paid by dimension

Eur million

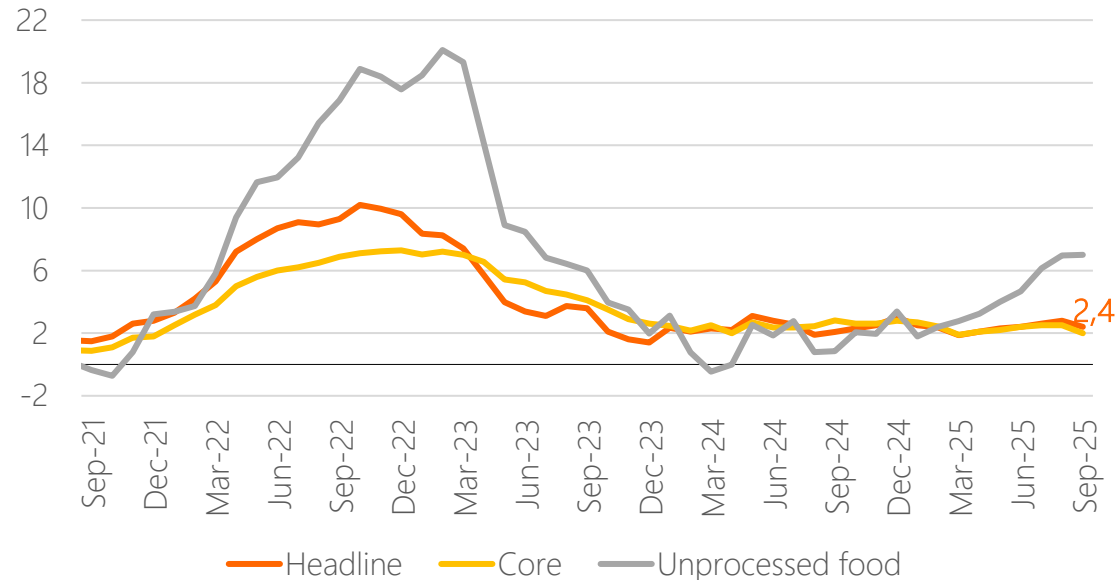


Source: BPI Research, from Recuperar Portugal.

- **Up to now, Portugal received 12.7 billion euros, equivalent to 57% of the total amount of the RRP.** Last August Portugal received the 6th payment of 1.3 billion of euros.
- **Projects already approved amount to 22.9 billion euros (100% of the total amount) and payments reached 9.2 billion** (72% of the total amount received), but only 42% of the approved projects.
- The program is divided in three dimensions - resilience, climate transition and digital transition. The first will absorb 70% of the funds, the second 18% and the third 12%, in the case of the Portuguese program. In the resilience dimension, the capitalization and business innovation components stand out, with an amount paid out to the final beneficiaries of 2 572 million euros, equivalent to 56% of the approved amount; housing, with an amount already paid out of 1 391 million (34% of the approved amount); and the qualifications and skills component with an amount already executed of 971 million euros (44% of the approved amount). In the climate transition, the decarbonization of industry and sea components stand out, with amounts already paid amounting to 366 and 239 million euros, respectively, representing, in the same order, 46% and 68% of the amounts approved. And in the digital transition, the digitalization, interoperability and cybersecurity in public administration and corporations 4.0 components stand out, with projects approved amounting to 645 and 680 million euros, respectively, of which 265 and 268 million have already been paid out.

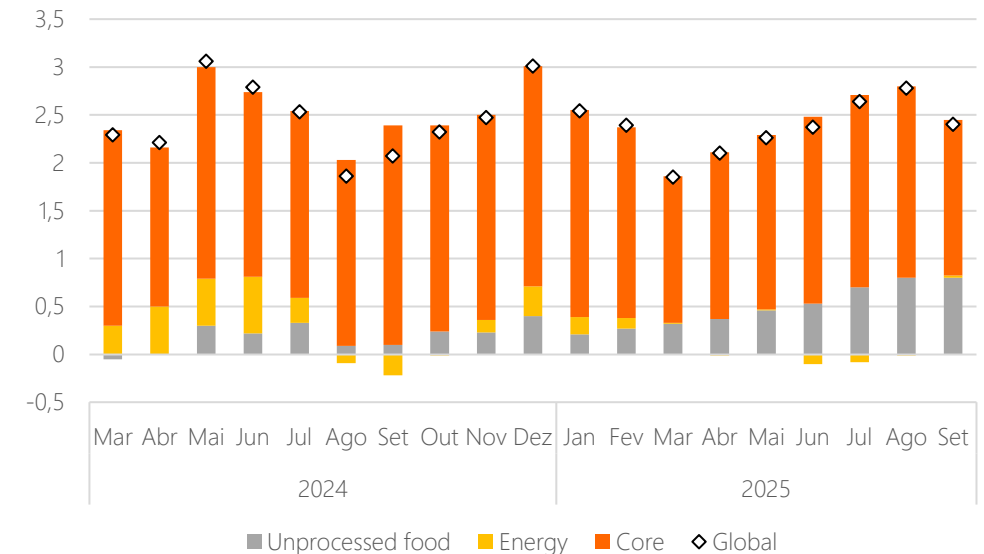
Inflation decelerated in September

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



Source: BPI Research, from INE.

Contributions to global inflation
Year-on-year (%) and contributions (%)

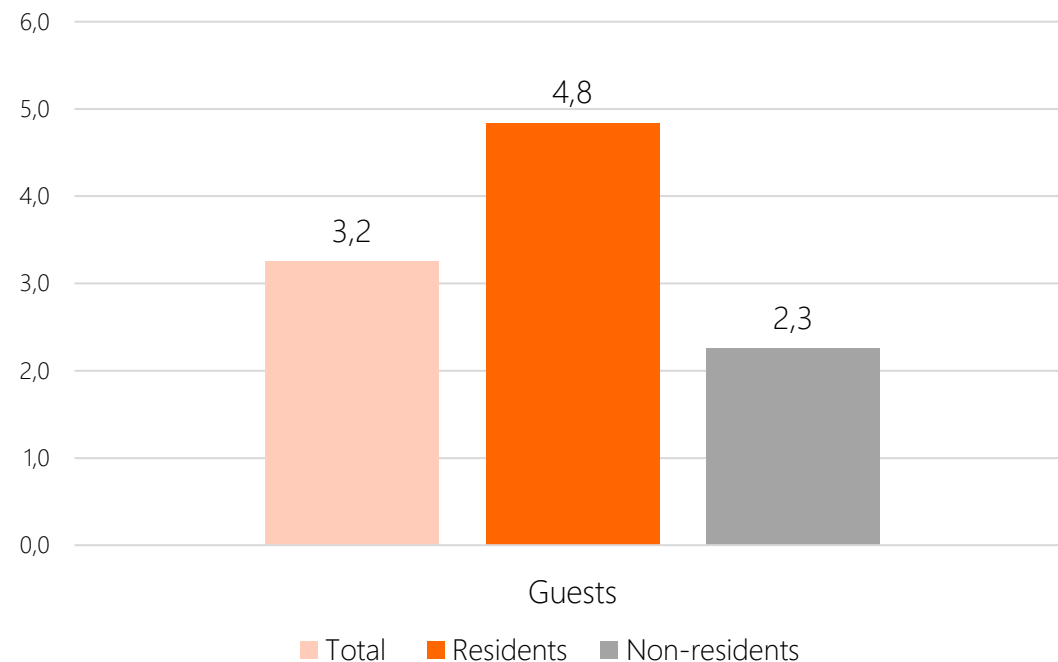


- ▶ **After five consecutive months of increases, the Global CPI adjusted downwards to 2.4% year-on-year in September**, (-0.4 p.p. compared to August) and the Core CPI slowed to 2.0% (also -0.4 p.p. compared to August). This development reflects a monthly price change more in line with the historical average for this month. The persistence of inflation in services and the recent behaviour of inflation in unprocessed food products are the main issue behind the current resistance to the slowdown in the pace of growth of consumer prices.
- ▶ The rise in prices of unprocessed food in 7% in August and September reflects higher production costs, namely on wages, but also, and more important, the increase of some food commodities in global markets, namely coffee and meat prices.
- ▶ All in all, we see the average annual inflation in 2025 at 2.3%. An upward revision from our previous forecast (2.1%) due to Service inflation stickiness and unprocessed food prices developments.

Tourism with historical maximum on revenues, despite August slowdown in guests and overnight stays

Number of guests

Jan-Ago 2025 yoy change (%)

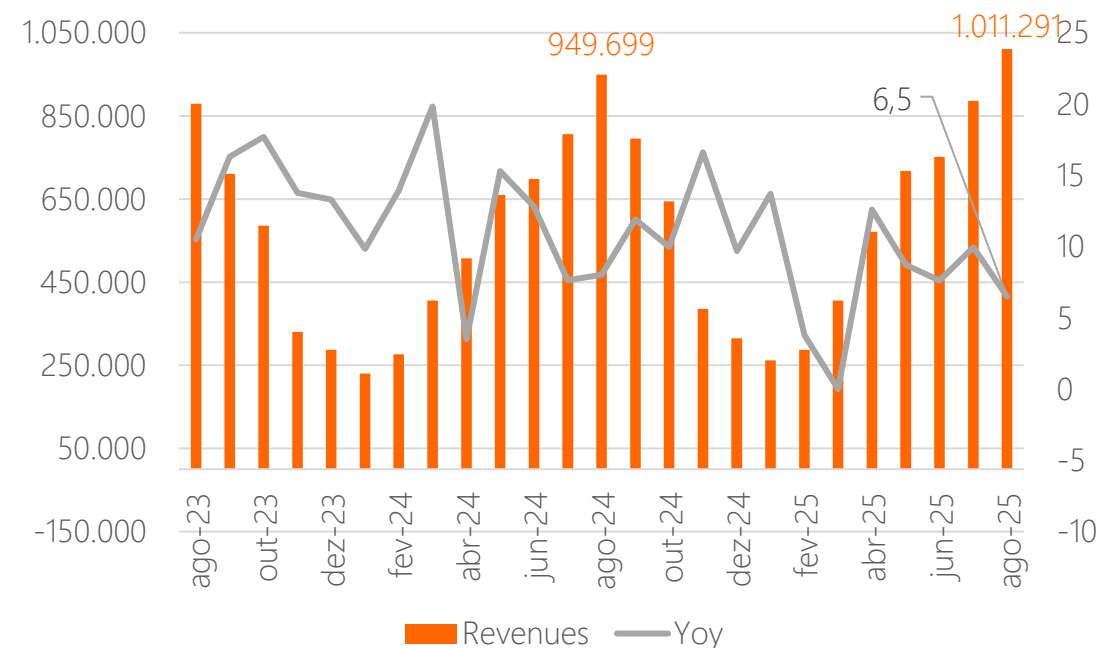


Source: BPI Research, from INE.

Total revenues in tourist accommodation establishments

M€

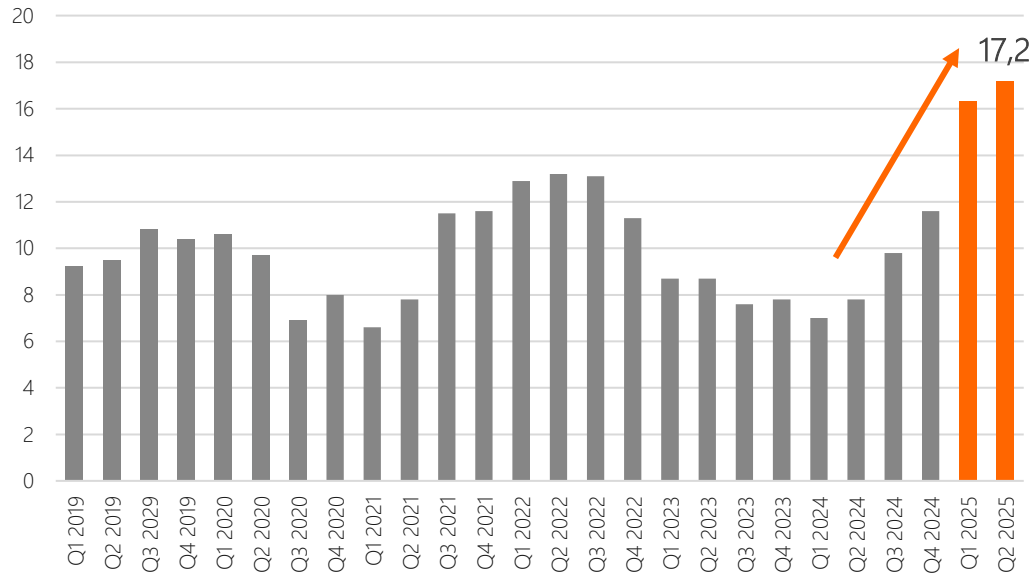
yoy (%)



- **The tourism sector recorded a total of 22.02 million guests** (8.61 million residents and 13.41 million non-residents), as well as about **56.52 million overnight stays** (17.41 million residents and 39.11 million non-residents) on the first 8 months (Jan-Aug) of the year, representing a yoy growth of 2.4% driven mainly by the growth in the resident's demand (5.7% yoy vs. 1% from non-residents). Focusing on the number of guests, this represented a deceleration in yoy terms compared to last year (3.2% vs. 5.1% in Jan-Aug 2024), due to the deceleration of the yoy change of non-residents (2.3% vs. 6.7% in Jan-Aug 2024), that did not compensate the increase from the residents' side (4.8% vs. 2.7%). Overall, the yoy trend of expansion on the number of guests slowed in August, which decreased the yoy change (%) in the year-to-date period, compared to the previous outlook (Jan-Aug vs. Jan-Jul).
- **Total revenues in accommodation establishments is higher in August 2025**, compared to the same period in 2024 (1,011.3M€ vs. 949.7 M€), with a yoy growth of 6.5% (8% in August 2024), which reinforces that tourist **activity keeps expanding in Portugal**, but that trend slowed in August, despite surpassing 1,000 M€ for the first time on a monthly basis.

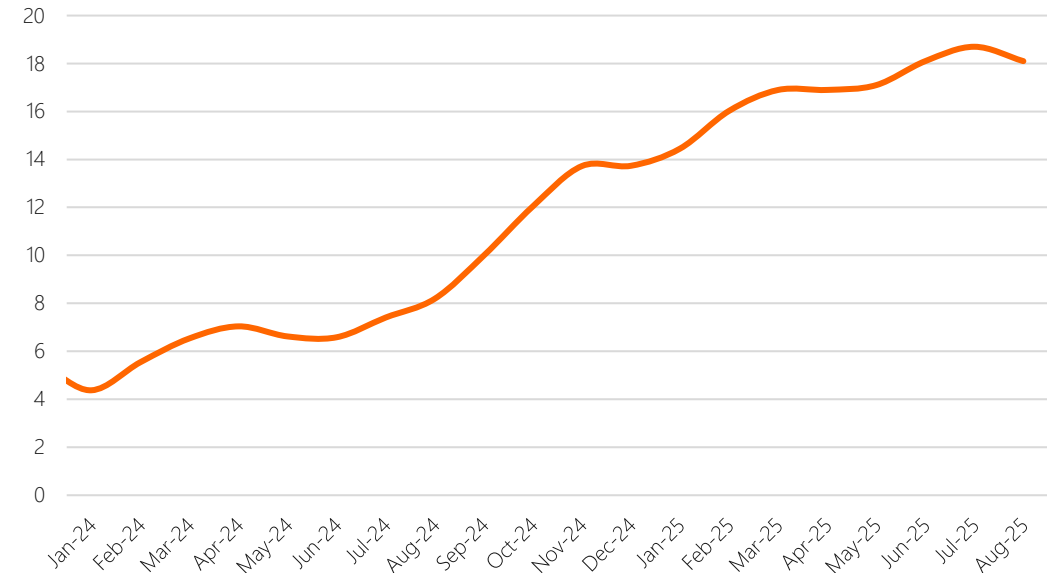
Housing renewed its record appreciation in Q2 2025

House price index
year-on-year (%)



Source: BPI Research, using data from INE.

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

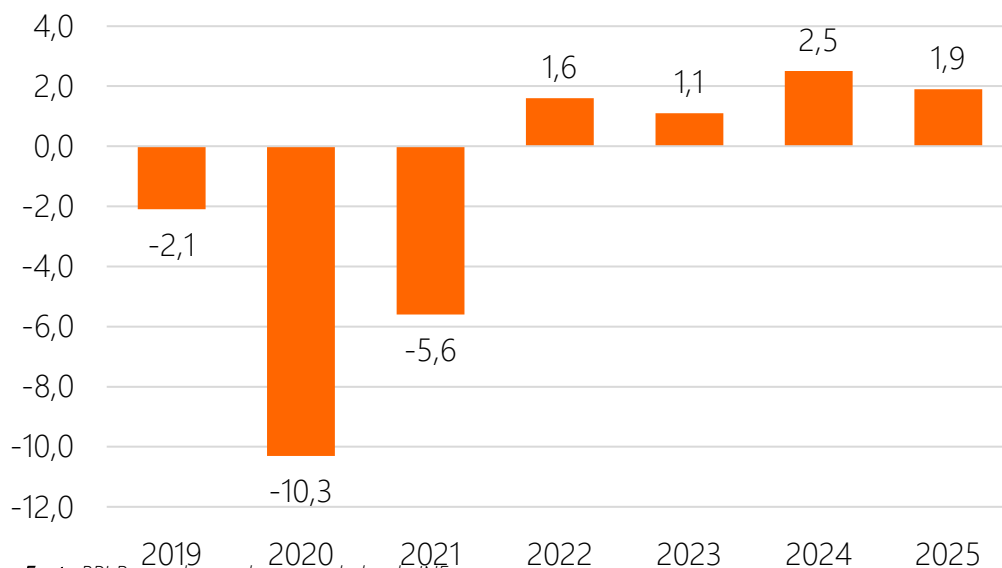


- ▶ **In Q2 2025, the House Price Index rose to 17.2% (16.3% in July), the highest from the historical series, started in 2010.** Robust demand together with lower interest rates, high employment levels, positive migration balances and a shortage of supply should continue to support the market.
- ▶ **In Q2 2025, the number of transactions reached 42 889 houses, more 15.5% than in Q2 2024.** This, combined with slowed supply growth (only +4.9% of completed dwellings built in Q1+Q2 2025 vs. Q1+Q2 2024, compared to +8.8% in Q1+Q2 2024 vs. Q1+Q2 2023), will continue to support further price growth in 2025. However, there are other favourable factors reinforcing prices and transactions: lower interest rates and an increase in real disposable household income, resilient labour market; and favourable fiscal policy (tax exemptions for young people purchasing homes for own residence - HPP).
- ▶ **The bank appraisal of housing keeps rising in year-on-year terms but at a slower pace in August.** The yoy change was 18.1% in August (18.7% in July), marking the first effective slowdown in yoy terms of the increased valuation trend since May 2024.

Public accounts keep a positive trend ahead of the 2026 Official Budget

Budgetary balance in accrual basis in Q2

% of GDP, unless otherwise indicated



Fonte: BPI Research, com base nos dados do INE.

Budgetary execution of Public administration in a cash basis

% of GDP, unless otherwise indicated

January-August	2019	2023*	2024	2025	Var. 2025 vs 2019	Var. 2025 vs 2024 (M€)
Revenues	40.0	38.7	38.8	40.0	0.1	6,007
Fiscal revenue	22.9	21.9	21.1	22.0	-0.9	3,694
Social Security contributions	10.2	10.5	10.8	11.1	0.9	1,711
Expenses	39.7	37.2	38.6	39.0	-0.6	4,520
Personnel	9.6	9.3	9.3	9.7	0.1	1,675
Current transfers	17.2	16.5	17.5	17.5	0.3	1,674
Goods & Services acquisition	5.5	5.2	5.4	5.3	-0.2	189
Interest	3.9	2.4	2.5	2.3	-1.5	-57
Investment	1.9	2.1	2.1	2.3	0.4	707
Fiscal balance	0.3	1.5	0.3	1.0	0.7	1,487

Note (*): adjusted value of the transfer of the Pension Fund from CGD to CGA.

Source: BPI Research, based on DGO data.

- ▶ **The budget balance remains positive.** On an accrual basis, the budget balance showed a surplus of 1.9% of GDP in Q2, down from 2.5% in the same period of 2024. In this context, revenue increased by 4.6%, supported by tax and social security contributions, while expenditure increased by 6.3%, with personnel costs and social benefits being the most significative (accounting for around 64% of the increase in total expenditure). **As a result, the average budget balance in the first half of the year stood at 1.0% of GDP (compared to 0.9% in the first half of 2024),** but the second half of the year brings greater pressure on public accounts, namely due to the decrease in personal income tax, the extraordinary payment to pensions and other additional measures, namely related to meeting the 2% target set by NATO, which may require an increase in defence expenditure.
- ▶ Meanwhile, public accounting data up to August continues to point to a positive scenario: fiscal balance stood at 1.0% of GDP, with revenue proving more dynamic (reflecting lower income tax refunds). The increase in public revenue (8.0%) exceeded that of expenditure (6.1%), which, from this perspective, is also supported by personnel costs and current transfers (in this case, already reflecting the extraordinary payment to lower pensions).

Government defence spending increase program

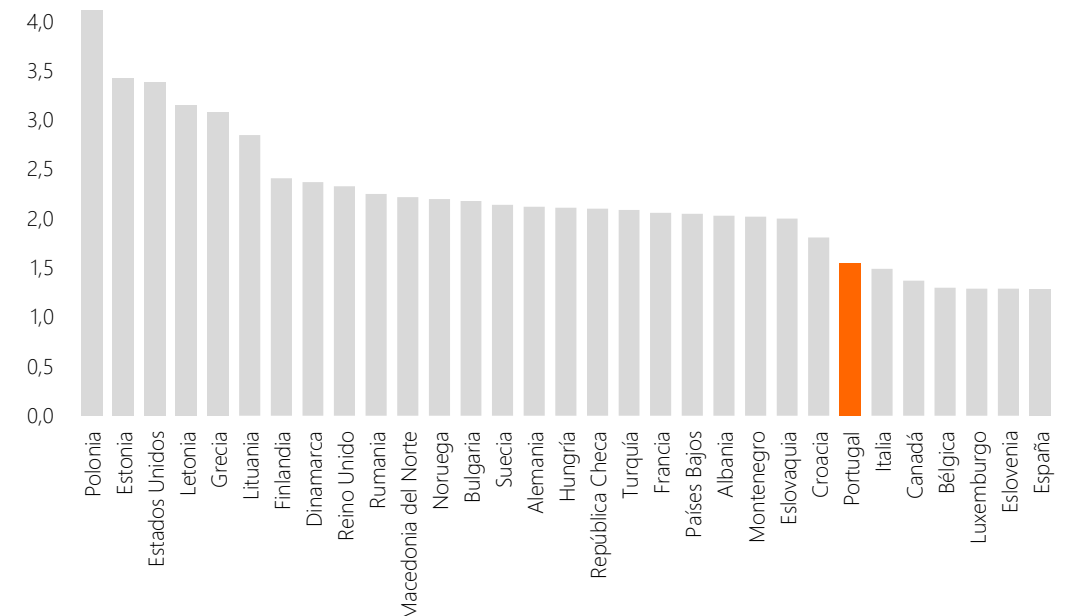
➤ 1. Context and goals

- The new Government's program marks a **significant strategic shift, making defence a central political priority**, integrating it into European and NATO initiatives, such as the “ReArm Europe/Readiness 2030 Plan” and the “European Defence Fund”.
- Portugal aims to: ensure the readiness of the Armed Forces (AF); enhance cooperation and collaboration in deepening defence with the CPLP; reverse the decline in recruitment; consolidate cyber-defence capacity and **bring forward the investment of 2% of GDP in defence by 2025 (1.5% in 2024)**, a target previously intended for 2029, and which symbolizes the Government's commitment to its military allies.
- However, this is below the new NATO plans, which currently require 3% and which aim to increase to 5% (3.5% in essential expenditure + 1.5% in infrastructure). The Ministry of Foreign Affairs aims to achieve this target in two different stages.

➤ 2. Main measures designated in the Program of the XXV Constitutional Government

- **Develop national industrial capacity, with 20% in goods, infrastructure and equipment.**
Ensure complementary financing mechanisms.
- **Maximize the use of built heritage**, which should also occur within the Armed Forces, mainly for profitability purposes, updating the Military Infrastructure Law.
- **Simplify licensing** and review public procurement rules.
- **Recover the Alfeite Arsenal and implement a new infrastructure**, technological and environmental plan. Expand strategic training and modernize anti-aircraft equipment.
- **Improve capabilities inherent to conventional/unconventional conflicts** and coordinate the planning cycles of personnel, investment, budgets and training.
- **Strengthen cyber-defense capabilities**, in terms of education and training, resilience, combating threats and vulnerability management. Support the promotion of associated industries, as a way of attracting investment.
- **Value former combatants and disabled members of the Armed Forces**, by increasing social and complementary support and improving reintegration mechanisms.

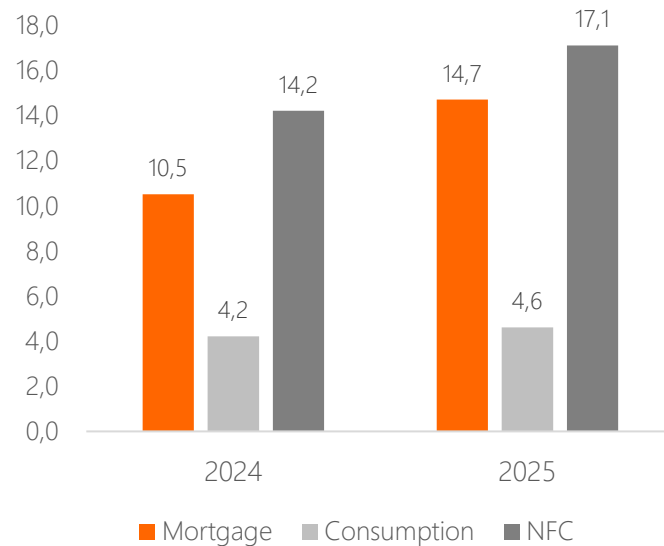
Defence spending in 2024
% of GDP



Banking system: a solid position to support the economy

New lending activity by sector

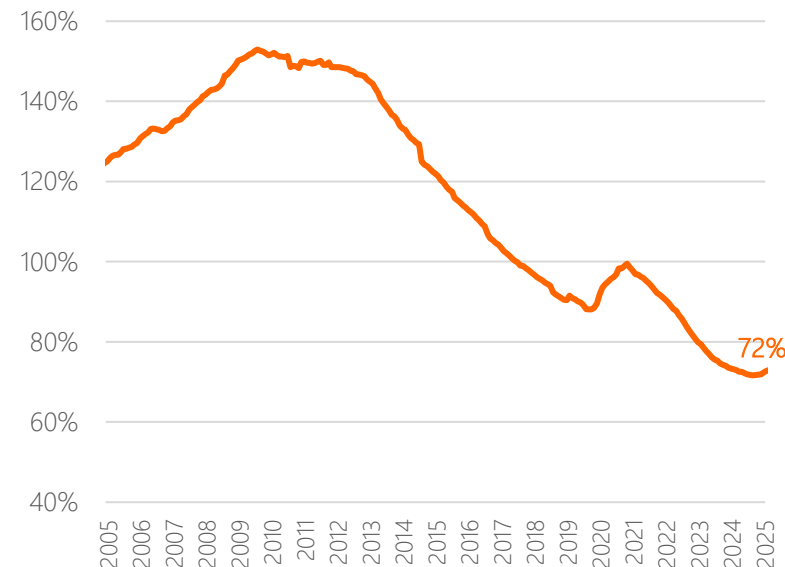
Accumulated in the year up to August, billion euros



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

Bank credit to the non-financial private sector

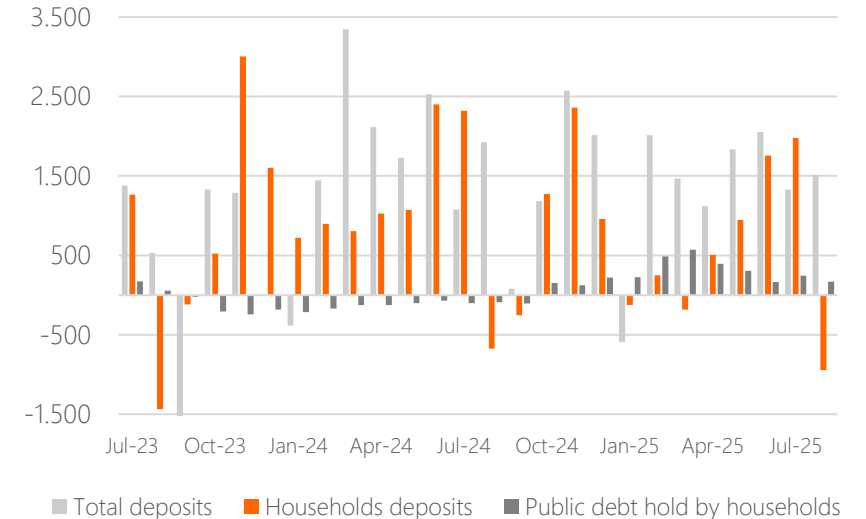
% GDP



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.

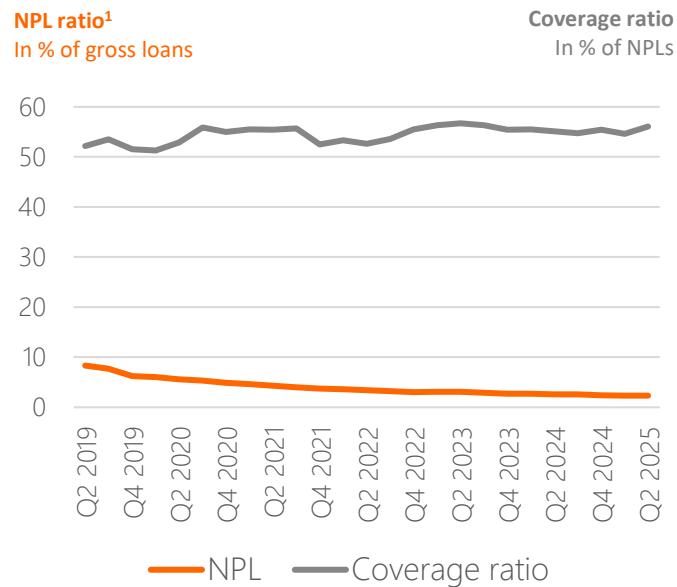
Source: BPI Research, based on data from Bank of Portugal and IGCP.

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

- **Mortgage credit:** stock rose 7.5% in August, with new operations still increasing at double digit levels (+40.2% yoy, including transfers among banks), indicating that the pace will continue positive in the months ahead. The decline in interest rates, as well as the impact of Government's measures (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) and Stamp Duty, and other support measures, such as the "You Have a Future in Portugal" plan. These measures are for young people up to 35 years old who do not own other properties, who are purchasing their first permanent home, and whose transaction value does not exceed 450,000 euros.
- **NFC:** the outstanding credit added 2.6% in August, while new operations recorded expanded 20.6% (yoy change of the year-to-date value).
- **Private sector deposits with mixed performance:** the stock rose 6%. Households and NFC's deposits simultaneously increased (4.5% and 10% yoy, respectively). However, the actual descending trend in interest rates for new deposits (1.34% in August for new households' deposits with maturity until 1 year, -1.24 p.p. in comparison to the same period of 2024) may restrain the increase in households' deposits in the near future; meanwhile subscriptions of Government retail products increased in August for the 11th consecutive month.

Banking system: deleveraging and high liquidity

NPLs and coverage ratios

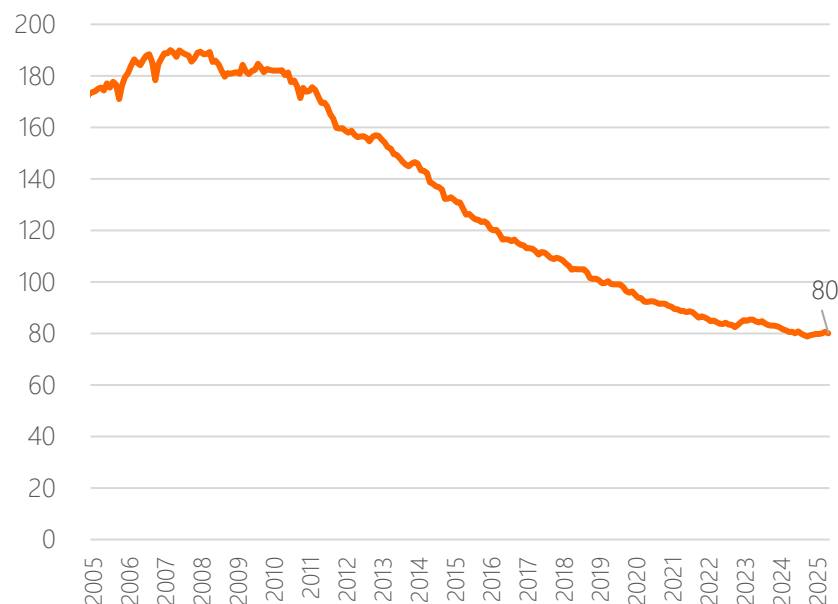


Cost of risk¹

0.5% in Q4 2019
0.1% in Q2 2025

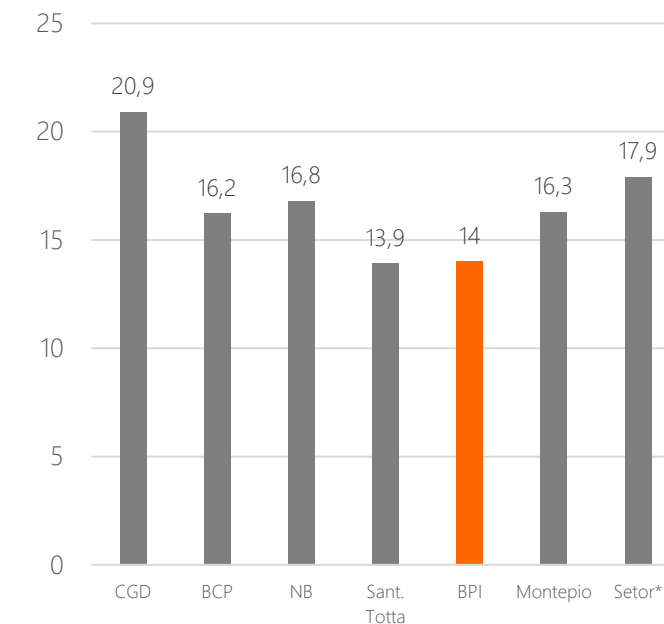
Notes: (1) flow of impairments to credit as a percentage of total gross loans.
Source: BPI Research, with data from Bank of Portugal.

Non-financial private sector: loan-to-deposit ratio (%)



Source: BPI Research with data from Bank of Portugal.

Banks' solvency and liquidity position In % (Q2 2025)



Notes*: ratio for Q1 2025
Source: Banks publications, BoP

- ▶ **NPLs ratio keep steady in Q2.** The total NPL ratio was stable at 2.3% in Q2 2025, as well as the one relative to NFC (4%), while the one relative to households slightly fell to 2.2% (2.3% in Q1 2025). We are not expecting a significant deterioration of credit quality in the following months.
- ▶ **Profitability is slightly lower due to reduced interest rates but remains well above the pre-pandemic period.** According to the Bank of Portugal, ROE was 14.9% in Q2 (vs 16.3% in Q2 2024).
- ▶ **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.**