Portugal:
Macroeconomic and financial outlook

BPI *Research*

December 2025

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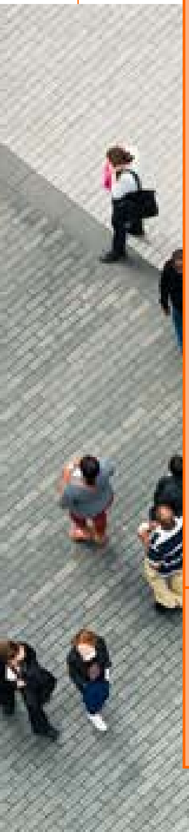
BPI Grupo CaixaBank

Main messages



Activity

- **The detailed release confirmed that Q3 GDP rose 0,8% qoq and 2,4% yoy, driven by strong domestic demand, mainly private consumption and GFCF in transport equipment.** This along with the upward revision of historic series last September, led us to update our forecast for 2025 annual growth to 1,8%. For 2026 we kept annual forecast of 2,0%, as the economy is expected to benefit from a set of tailwinds, such as NGEU funds, fiscal policy and easing financial conditions. Still, perspectives for the labour market suggest that private consumption will continue resilient. Risks for the scenario are balanced.
- **Like in October, global inflation reduced to 2,2% yoy in November, -0,1 p.p. compared to October.** Core CPI also fell to 1,9% (-0,2 p.p.). This development shows that it was the non-core components (energy and unprocessed food) that were behind this slowdown in the CPI, increasing (but still negative) to -0,9% in the case of energy and falling to 6% in the case of unprocessed food (-1,2% and 6,1% respectively in October).
- **Labor market continues to surprise positively, with employment near maximums and increasing at considerable growth rates**. Employed population increased 3,3% in October, growth rates not seen since the post-pandemic period. Additionally, the unemployment rate continues at considerable low levels, having declined to 5,9% in October (vs 6,0% in September).
- **According to the residential price index compiled by Confidencial Imobiliário (CI), house prices rose 6,9% quarter-on-quarter and 22,8% year-on-year in September,** both unprecedented variations in the history of the Residential Price Index, which has been tracking the evolution of this market since 1988. The movement of the bank appraisal curve for housing is similar to the Confidencial Imobiliário price appreciation curve, albeit with a slightly lower magnitude. The median bank appraisal value for housing was €2.025/m² in October 2025.
- **Budget execution up to October remains positive: fiscal balance stood at 1,6% of GDP or 4.154 M€ (1,4% or 3.324 M€ in 2024),** as revenue is increasing faster than expenditure (6,2% or +6.100 M€ vs. 5,6% or +5.270 M€). The main revenue drivers were social contributions (+2.180 M€), VAT (+1.730 M€) and personal income tax (+567 M€), despite this last one slowed in last months due to reductions in retention rates in August and September. Relative to expenditure, we highlight personnel (+1.788 M€, due to public wages updates) and current transfers (+1.790 M€).
- **Execution of RRP (Recovery and Resilience Plan) appears to be accelerating but is still below desired levels.** Up to now, Portugal received 13,8 billion euros (62% of the total amount of the RRP),that includes the new tranche of €1,06 billion received in November. At the same time, the rate of implementation of the funds has been gradually accelerating and is expected to increase, given the approaching end of the programme and its reprogramming to facilitate the transition of funds allocated to programmes with a low probability of implementation by the end of 2026 to other projects, notably the initial allocation of €315 million for sectors such as innovation, science, health and digital transition. In this context, we anticipate that the implementation of the PRR could add 0.4 percentage points to inertial growth in 2026.

Banking Sector

- **Profitability is slightly lower due to reduced interest rates but remains well above the pre-pandemic period.** CET1 was 17,9% in Q2 (vs. 18% in Q4 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**. ROA ratio increased in the last years and stood at 1,4% in Q2 2025 (vs. 1,5% in Q2 2024 and 0,4% in Q4 2019).

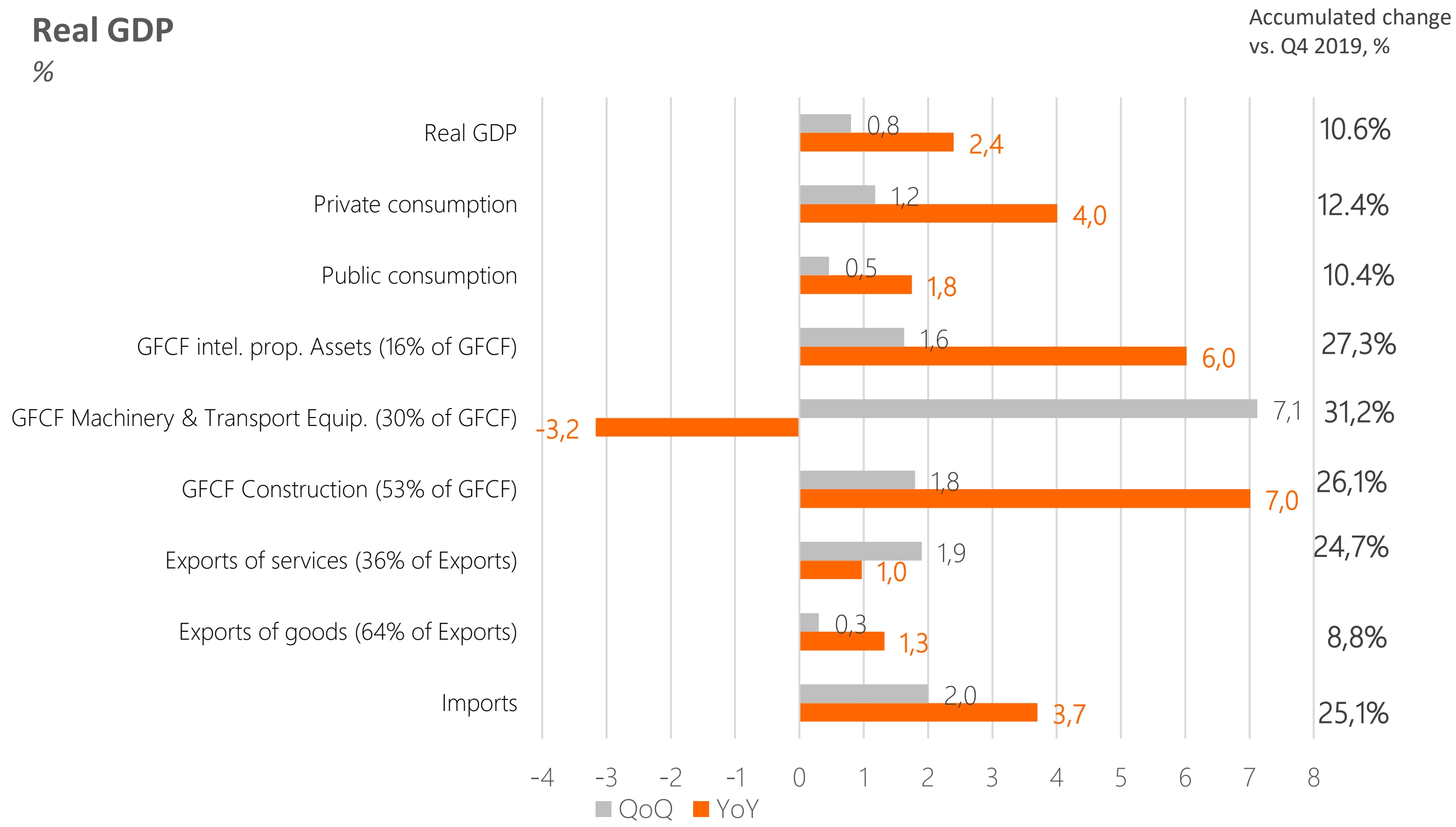
Main economic forecasts

%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	2024	Forecasts 2025	Forecasts 2026
GDP	2,0	3,3	2,9	2,7	-8,2	5,6	7,0	3,1	2,1	1,8	2,0
Private Consumption	2,4	1,8	2,6	3,5	-6,8	4,9	5,6	2,3	3,0	3,2	2,3
Public Consumption	0,9	0,1	0,5	2,1	0,4	3,8	1,7	1,8	1,5	1,5	1,5
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	5,5
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	4,6	4,3
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	0,0	0,0	9,1	15,8	6,3
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	47	61

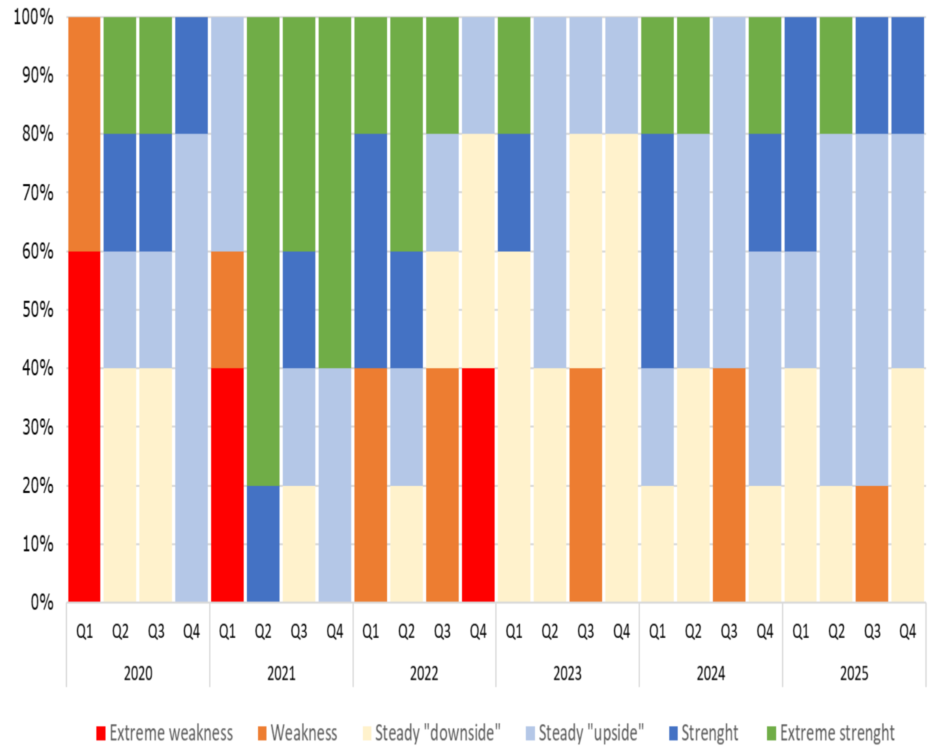
Source: *BPI Research.*

Growth in Q3 2025 confirmed and driven by domestic demand

Real GDP
%



Activity traffic light – BPI Research
%



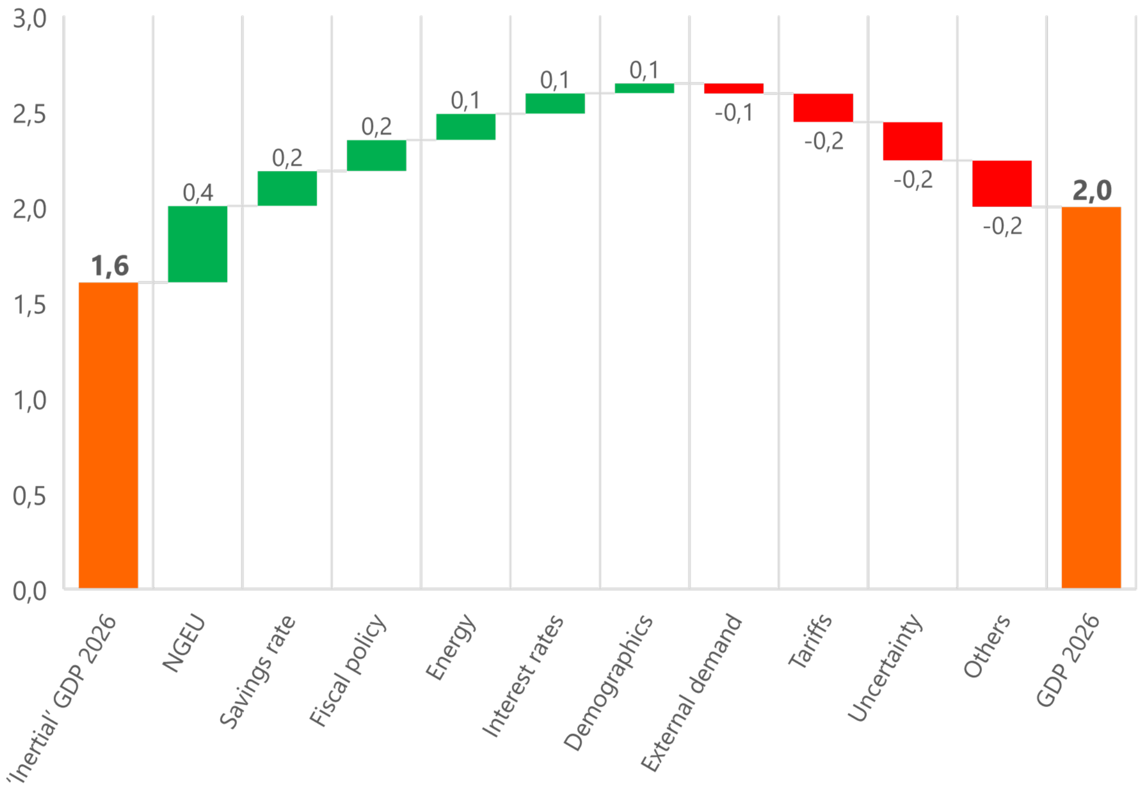
Source: BdP and INE.

- **Q3 GDP grew 0,8% qoq (+0,1 p.p.) as expected.** This movement mainly consolidates the growth trend and was boosted by domestic demand. The main growth drivers were private consumption and GFCF in transport equipment, while net external demand keeps its negative contribution to economic growth. In yoy terms, Q3 GDP grew 2,4% (+0,6 p.p.) supported by private consumption and exports. The unusual growth of GFCF in transport equipment (28,8% qoq) is not justified by INE, which brings some uncertainty about whether it is or not a structural shift.
- **The strong performance of domestic demand in Q3 2025 aligns with BPI Research's forecast for real GDP growth in 2025 (1,8%).** The main factors supporting our growth expectations include the robustness and resilience of the labor market (as a result of rising employment and wages); the reception of European funds, with the possibility of accelerating their implementation as we approach the end of the NGEU (2026); the signing of several investment contracts and the reduction in financing costs; the low level of interest rates; and the reduction of income taxes, which include retroactive payments to January 2025 (received in August and September), giving a considerable boost to income in Q3, with a visible impact on consumption.

The economy should accelerate slightly in 2026

GDP: contributions for growth

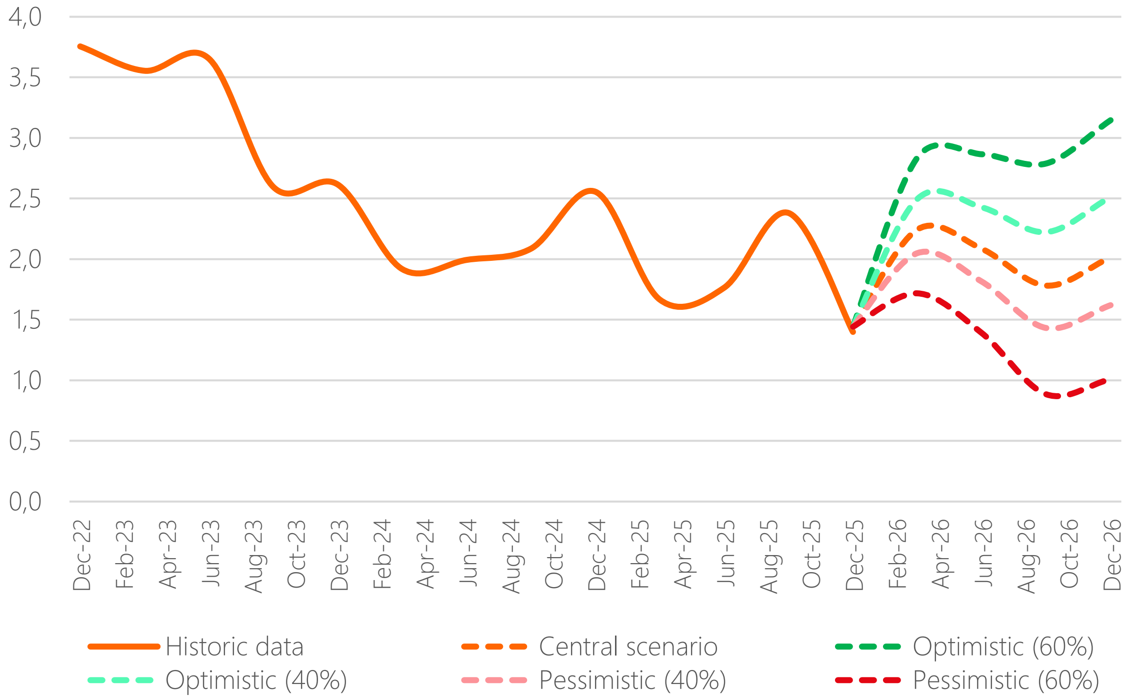
P.p.



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

Scenarios for GDP growth in 2026

Yoy (%)

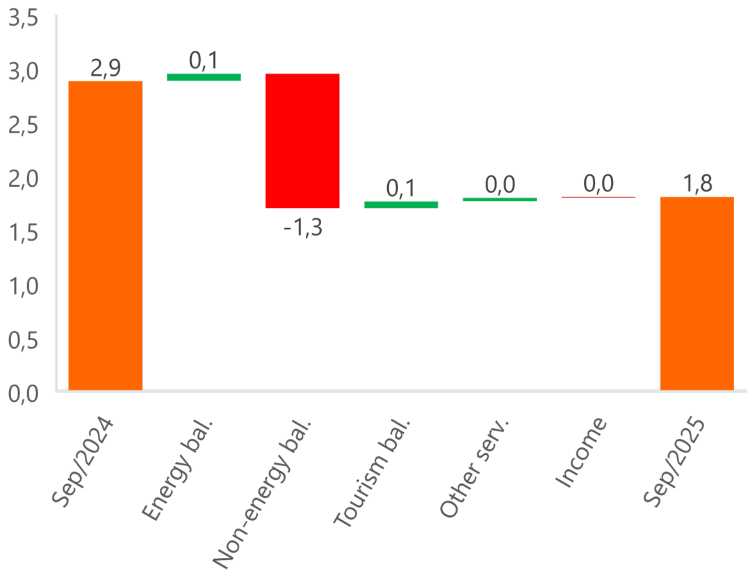


Note: the 'Optimistic' and 'Pessimistic' margins have an implied probability of 60% and 40%. This probability was calculated by applying a shock to the qoq GDP series in Q1 2026 based on the percentiles (20, 30, 70 and 80) of the residuals from an AR(2) regression to the series of quarterly GDP changes.

- **For 2026, we anticipate growth of 2%, influenced by a stronger set of tailwinds** (NGEU funds, families' savings, fiscal policy, energy, interest rates) **than headwinds** (tariffs, external demand,…). However, uncertainty is still high, rising the probability that the final reading will differ from our central scenario. Because of that we estimate ranges for the forecast, which may oscillate between 1,7%-2,4% with a probability of 40% and 1,3-2,9% with a probability of 60%.

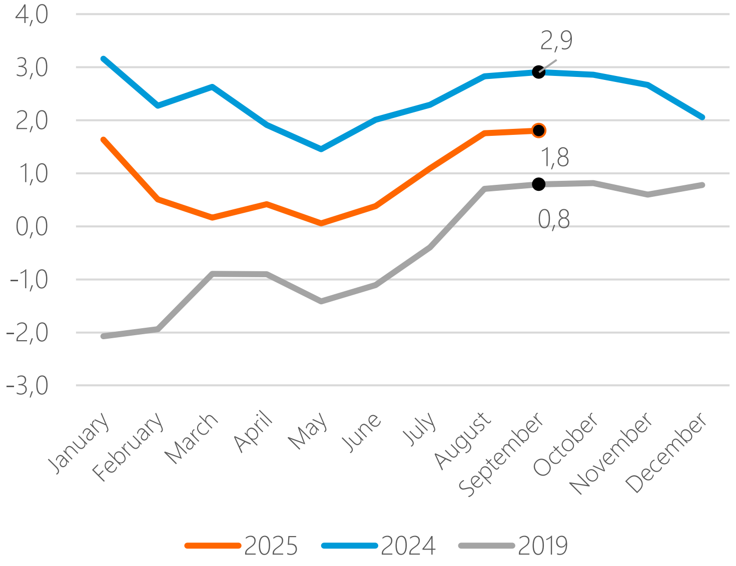
Current account shrank considerably up to September

Current account up to September 2025
% of GDP and percentage points change



Source: BPI Research, from BoP.

Current account up to September 2025
% of nominal GDP



Source: BPI Research, from BoP. Note: the values of current account and nominal GDP correspond to the accumulated figures in the year.

Portugal: exports and imports variation
Ytd September 2025

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

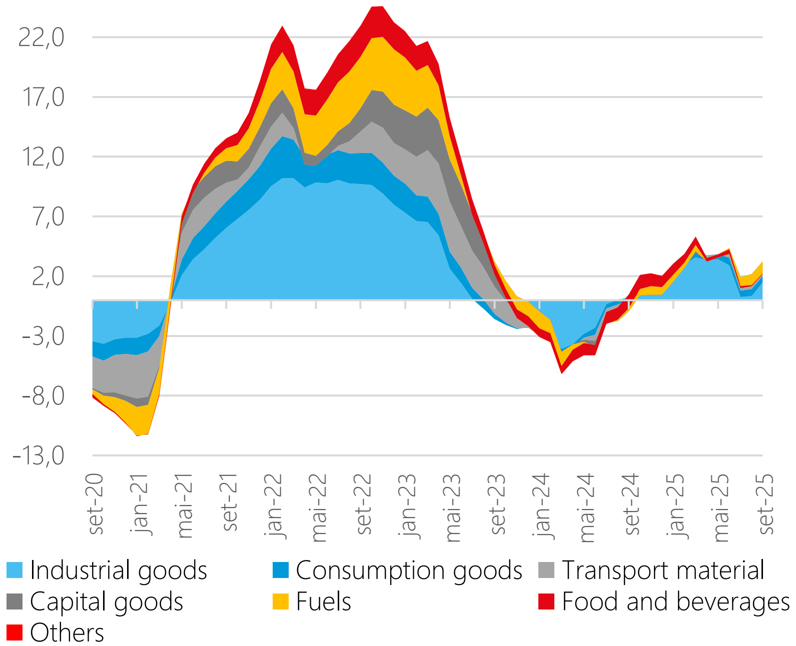
Source: BPI research, based on BoP data

- **In the first nine months of 2025, the current account surplus stood at 4.114 million euros**, equivalent to 1,81% of GDP, a significant decline compared to the figures registered in the same period of 2024 (-34%). This reduction has been mainly due to the increase in the non-energy deficit (to 7,6% 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. 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 reduction in the surplus compared to the same period of 2024 is justified due the increase of 20% in the **deficit in goods account** (to -21.599 million euros), which was partially offset by the increase of 6% in the **surplus of services account** (to 26.400 million euros). In the goods account and considering the cumulative values in the respective year, the highlight goes to the pharmaceutical products, where exports increased 1.282 million euros; and to the organic chemicals, where imports increased to 1.894 million euros.

International trade of goods: positive outlook for Portuguese exports

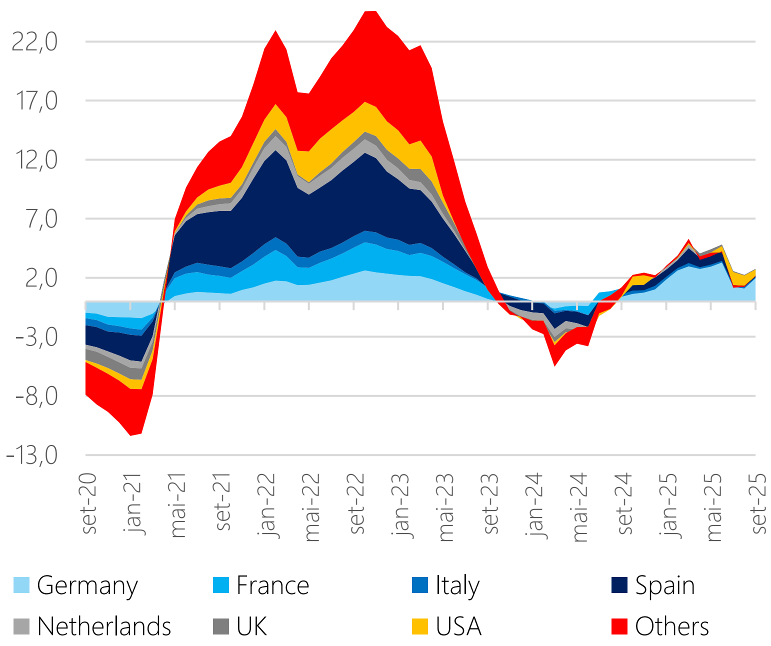
Exports of goods by economic category (*CGCE*)

Contributions for the yoy change (%) of the dynamic cumulative values over 12 months



Exports of goods by country of destination

Contributions for the yoy change (%) of the dynamic cumulative values over 12 months



Main countries of destination (2025 vs. 2020)

Cumulative exports up to September and respective weight

	Exports Jan-Sep 2025 (M€)	Weight Jan-Sep 2025 (%)	Weight Jan-Sep 2020 (%)
Spain	15545,8	25,8	25,2
Germany	8643,7	14,3	12,1
France	7170,4	11,9	13,8
USA	3741,3	6,2	5,1
UK	2672,4	4,4	5,5
Italy	2634,6	4,4	4,3
Netherlands	2074,6	3,4	3,8

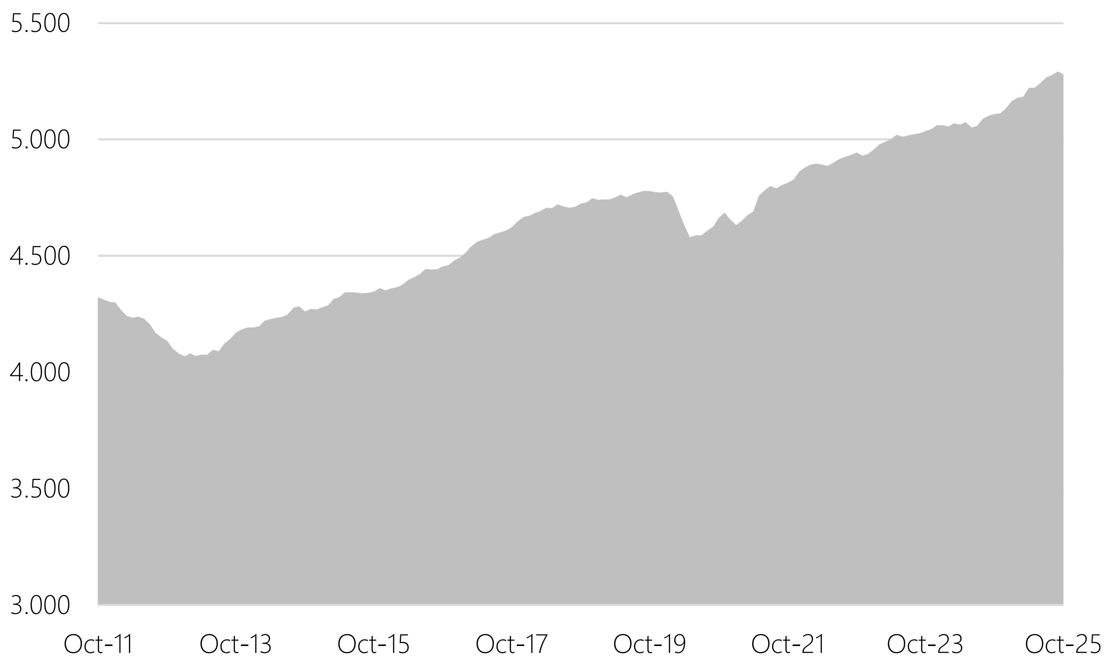
Source: BPI Research, from INE.

- **Exports of goods are increasing despite increased uncertainty in international trade, totaling 60.318,6 M€ in year-to-date terms through September 2025 (+1,9% compared to the same period of 2024).** Considering the dynamic cumulative values over the last 12 months, exports raised 2,2% in September (0,5% in September 2024) and in terms of economic category, they have been mainly motivated by industrial goods (4,5% yoy) and transport material (4,6% yoy), while fuels are limiting the growth (-15,6% yoy), a trend that has been verified in the last months.
- **By country of destination, Spain keeps its leading position as main trade partner (cumulative exports from Jan-Sep 2025 were 15.545,8 M€)** and reinforced that position over the medium term (25,8% weight in Jan-Sep 2025, +0,6 p.p. compared to 2020), followed by Germany (8.643,7 M€ and a weight of 14,3%, +2,2 p.p. compared to 2020) and France (7.170,4 M€ and a weight of 11,9%, -1,9 p.p), which lost relevance on the structure of destinations.
- **The exports to Germany are boosting external demand considering the dynamic 12-month cumulative amounts (growth of 18,3%, and this double-digit figures have been systematic since September 2024).** On the other hand, countries like France (-1,7%), UK (-1,2%) and USA (-7,8%) are losing relevance.

Labor market: employment continues to increase at considerable growth rates

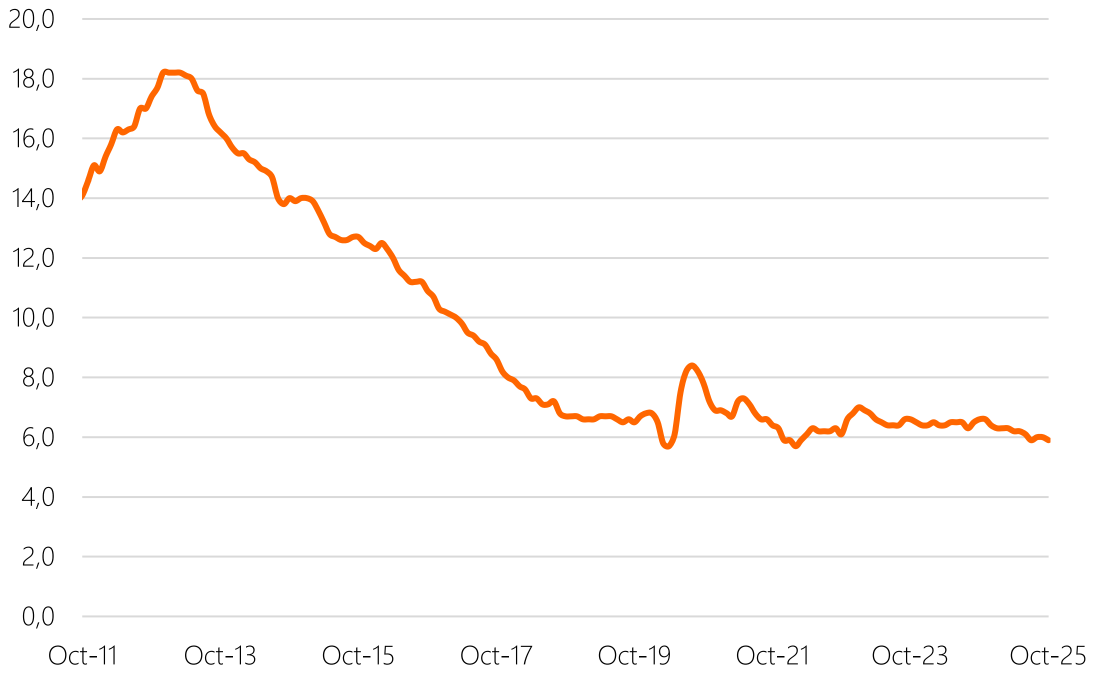
Employed population

Number of people ('000 individuals)



Unemployment rate

(%)



Note: Not seasonally adjusted. Figures for October are preliminary. Source: BPI Research, from INE.

- **Employment is increasing at growth rates not seen since the post-pandemic period.** In October, employed population reached 5.279,4 thousand people, a 3,3% yoy growth rate. Even though it represents a deceleration in comparison to the previous months (3,8% on average in last 4 months), it continues to be an impressive performance. Additionally, other data is remarkable: the number of job offers is above the 18.000 for the 6th consecutive month, in line with the number recorded, on average, for 2022 (the post-pandemic year).
- **The unemployment rate remains at considerably low levels.** In fact, the rate decreased to 5,9% in October, from 6,0% in September, levels like the ones recorded at the beginning of 2002. Despite increasing number of collective dismissals (+21% yoy in accumulated terms until September), it seems that the people can find employment more easily than in the past.
- **To sum up, the strength of the labour market will continue to be one of the main factors supporting economic activity in the following quarters**.

RRP: execution continues at slow pace (45% of total program)

Approvals and payments to direct and final beneficiaries

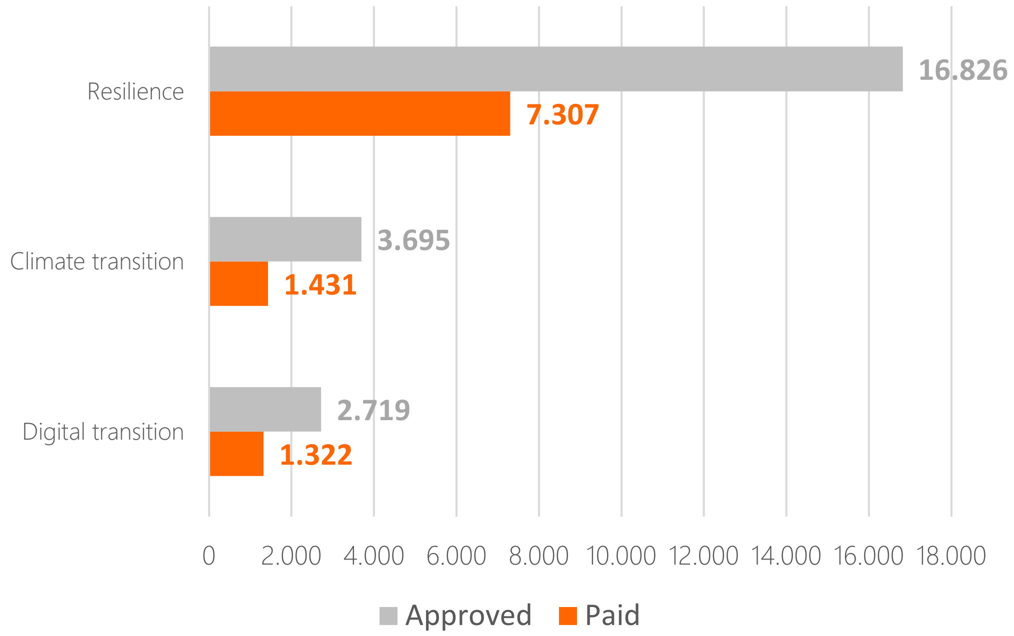
Approvals and payments to direct and final beneficiaries

(Up to November 26th)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	354	286	80,8
Social and solidarity economy institutions	822	339	41,2
Firms	7.304	3.672	50,3
Excl. R&I System Non-firms	6.157	3.073	49,9
R&I System Non-firms in consortium wit	1.148	549	47,8
Institutions of the scientific and technolo	660	261	39,5
Higher Education Institutions	844	414	49,1
Schools	1.038	606	58,4
Municipalities and metropolitan areas	4.573	1.403	30,7
Public entities	4.900	2.050	41,8
Public firms	2.743	1.029	37,5
Total (million euros)	**23.238**	**10.060**	**43,3**
(% total RRP)	***104,2%***	***45,3%***	

Source: BPI Research, from Recuperar Portugal.

RRP: amounts approved and paid by dimension

Eur million

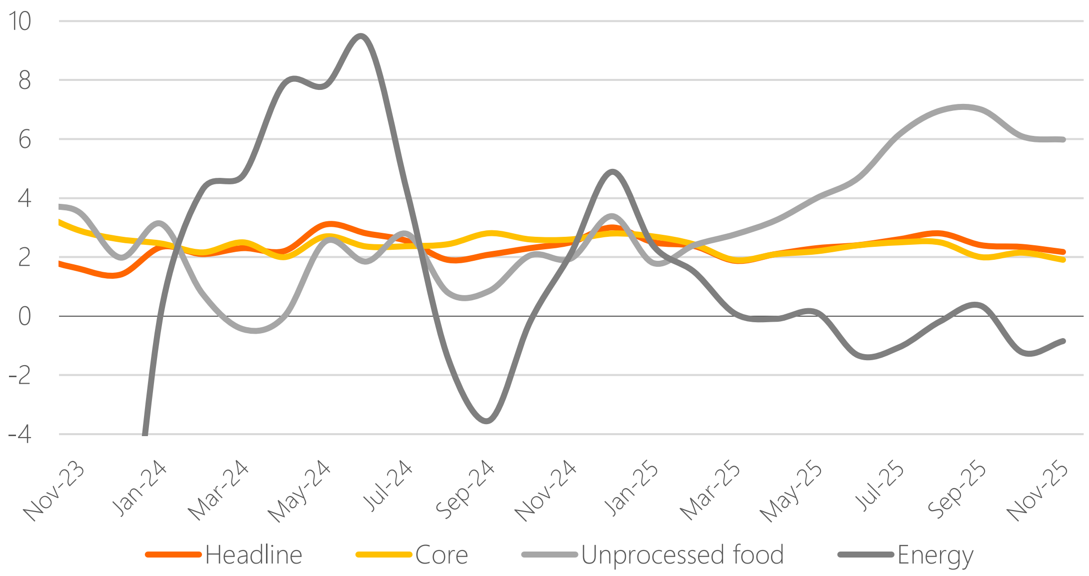


- **Up to now, Portugal received 13,8 billion euros, equivalent to 62% of the total amount of the RRP. Projects already approved amount to 22,2 billion euros (100% of the total amount) and payments reached 10,06 billion** (73% of the total amount received), but only 45% of the approved projects.
- By the end of 2025, Portugal will receive a further €1,06 billion, and it is estimated that in 2026 it will receive the remaining €7,3 billion. At the same time, the rate of implementation of the funds has been gradually accelerating and is expected to increase, given the approaching end of the programme and its reprogramming to facilitate the transition of funds allocated to programmes with a low probability of implementation by the end of 2026 to other projects, notably the initial allocation of €315 million for sectors such as innovation, science, health and digital transition. In this context, we anticipate that the implementation of the PRR could add 0,4 percentage points to inertial growth in 2026.

Inflation keeps its slowing pace in November

Inflation: Headline, Core, Unprocessed food, Energy

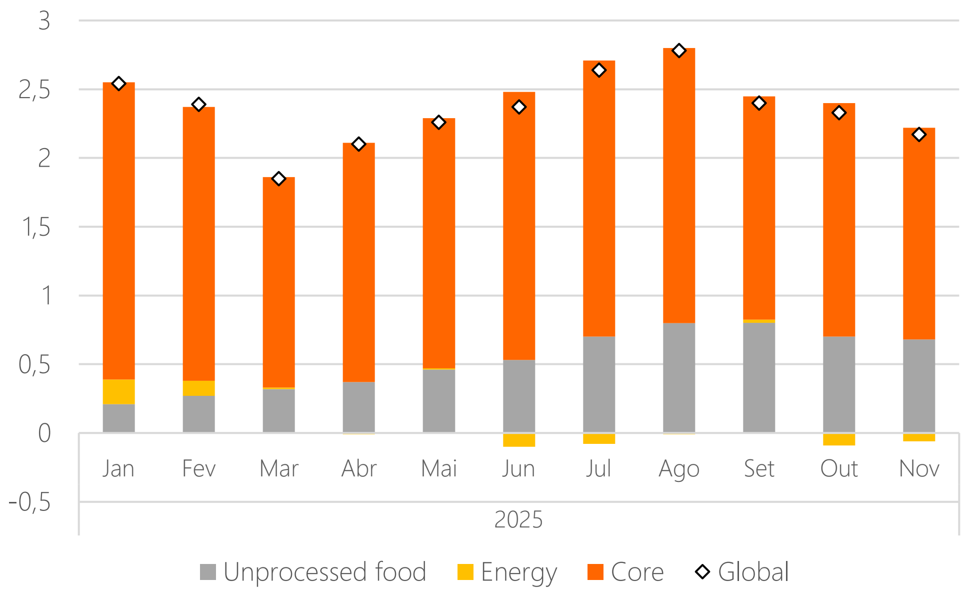
Year-on-year (%)



Source: BPI Research, from INE.

Contributions to global inflation

Year-on-year (%) and contributions (%)

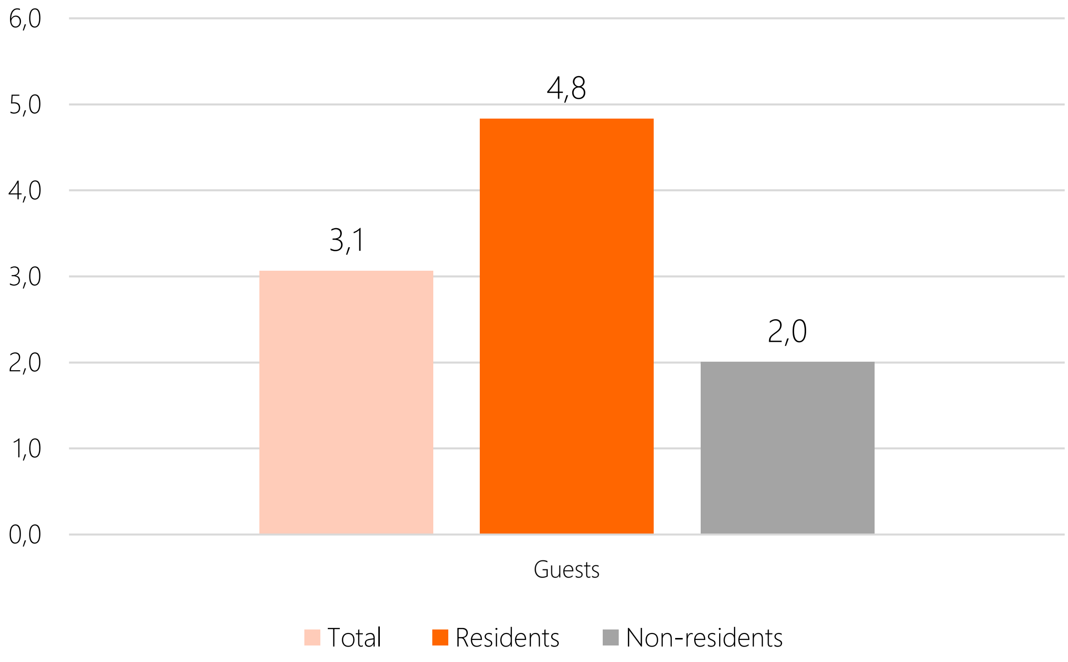


- **Like in September and October, global inflation adjusted downwards, to 2,2% year-on-year in November, -0,1 p.p. compared to October.** Core CPI also fell to 1,9% (-0,2 p.p. compared to October). This development shows that it was the non-core components (energy and unprocessed food) that were behind this slowdown in the CPI, raising (but still negative) to -0,9% in the case of energy and falling to 6% in the case of unprocessed food (-1,2% and 6,1% respectively in October).
- The monthly dynamics in November of the Global CPI (-0,3% change) and the Core CPI (-0,5% change) were aligned with the historical average.

Tourism at two speeds but record revenues on the way

Number of guests

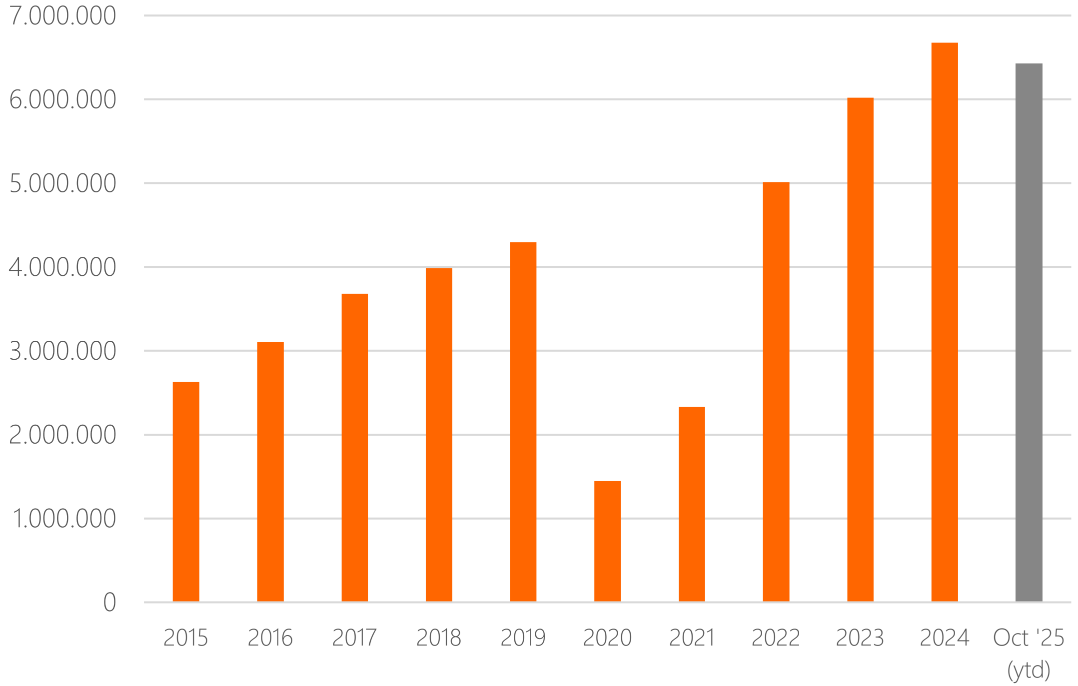
Jan-Oct 2025 yoy change (%)



Source: BPI Research, from INE.

Total revenues in tourist accommodation establishments

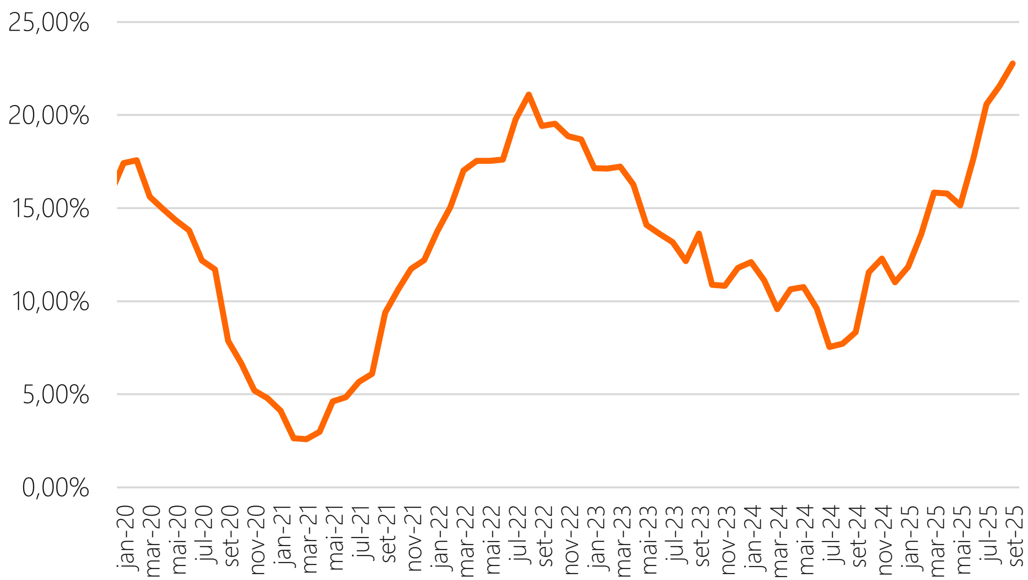
Thousand €



- **The tourism sector recorded a total of 28,42 million guests** (10,84 million residents and 17,58 million non-residents) on the first 10 months of the year, representing a yoy growth of 3,1% driven mainly by the growth in the resident's demand (4,8% yoy vs. 2,0% from non-residents). In this period, some of the main inbound markets performed poorly, namely UK, Spain, France, Netherlands and Brazil (with year-on-year decline in overnight stays).
- **Total revenue in tourist accommodation establishments up to October grew by 7,6% compared to the same period in 2024,** mainly driven by the dynamism in Madeira (18,9%), Azores (10,9%), Alentejo (10,7%) and North (9,4%) regions. In terms of type of accommodation, the highest growth was recorded in 2 & 3-star hotels, followed by guesthouses.

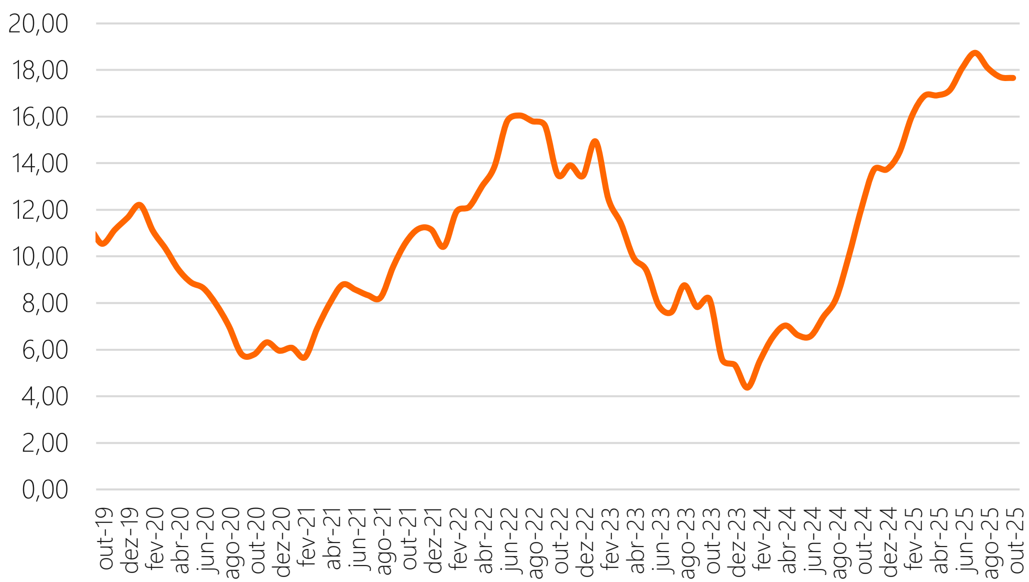
Data suggests strong price increases in Q3 2025

Residential price index
Yoy (%)



Source: BPI Research, using data from Confidencial Imobiliári0.

Bank appraisal of housing
Yoy (%)



Source: BPI Research, using data from INE

- **According to the residential price index compiled by Confidencial Imobiliário (CI), house prices rose 6,9% quarter-on-quarter and 22,8% year-on-year in September,** both unprecedented variations in the history of the Residential Price Index, which has been tracking the evolution of this market since 1988.
- **According to CI, since January of this year, prices have been rising by around 2.0% each month**, a trend that was confirmed in September, when house sales values grew by 2,4%. The average sale price of houses in September (accumulated over 3 months) reached €2.885/m² in mainland Portugal. In the same period in 2020, houses were sold for an average price of €1.573/m².
- **The movement of the bank appraisal curve for housing is similar to the Confidencial Imobiliário price appreciation curve**, albeit with a slightly lower magnitude. The median bank appraisal value for housing was €2.025/m² in October 2025, €30 more than in the previous month. In year-on-year terms, the rate of change keeps unchanged at 17,7%.

Budgetary execution up to October points to a positive scenario

Budgetary execution of Public administration in cash basis

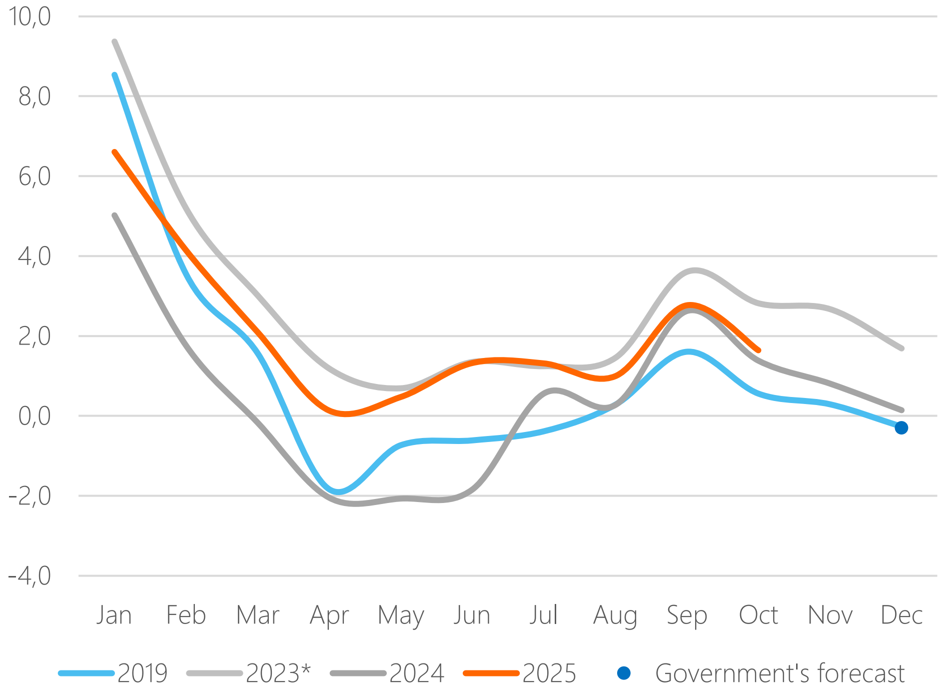
% of GDP, unless otherwise indicated

January-October	2019	2023*	2024	2025	Var. 2025 vs 2019	Average growth rate 2019-2025 (%)**	Growth rate 2025 vs 2024 (%)
Revenues	**40,3**	**40,3**	**40,5**	**41,0**	**0,7**	6,8	**6,2**
Fiscal revenue	23,4	23,5	22,8	22,9	-0,5	5,6	5,5
Social Security contributions	10,1	10,4	10,7	11,1	1,0	9,1	8,4
Expenses	**39,8**	**37,4**	**39,1**	**39,4**	**-0,4**	**6,4**	**5,6**
Personnel	9,5	9,1	9,2	9,5	0,0	7,2	8,0
Current transfers	17,0	16,3	17,5	17,4	0,4	6,6	4,2
Goods & Services acquisition	5,6	5,4	5,6	5,6	0,0	6,1	5,0
Interest	4,2	2,7	2,6	2,4	-1,8	-0,9	-3,1
Investment	1,9	2,2	2,2	2,5	0,6	9,6	18,5
Fiscal balance	**0,6**	**2,8**	**1,4**	**1,6**	**1,1**	**-**	-

Note: (*) adjusted by the transfer from the CGD Pension Fund to the CGA; (**) excludes 2020-2022, years affected by the pandemic. For 2023, revenue adjusted for the effect referred to in note. Source: BPI Research, from EO.*

Budgetary execution in cash basis

(% of GDP)

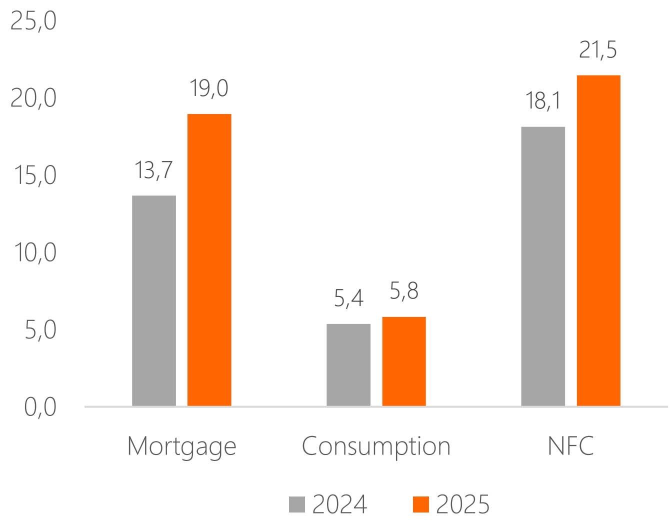


Note: (*) Data for 2023 is adjusted by the transfer from the CGD Pension Fund to the CGA. Source: BPI Research, from EO.

- **Execution up to October remains positive: fiscal balance stood at 1,6% of GDP or 4.154 M€ (1,4% or 3.324 M€ in the same period of 2024),** with revenue increasing faster than expenditure (6,2% or +6.100 M€ vs. 5,6% or +5.270 M€). The main drivers of revenue were social contributions (+2.180 M€), VAT (+1.730 M€) and personal income tax (+567 M€), despite this last one slowed in comparison to last months, due to lower retention rates in August and September. Relative to expenditure, we highlight personnel (+1.788 M€, due to public wages updates) and current transfers (+1.790 M€).
- **We expect that the budgetary balance may end the year above the Government forecast of 0,3% of GDP (in accrual basis)**, although there are still factors putting pressure on public finances in the last months of the year (such as the payment of the Christmas bonus to public sector workers and the execution of investments).

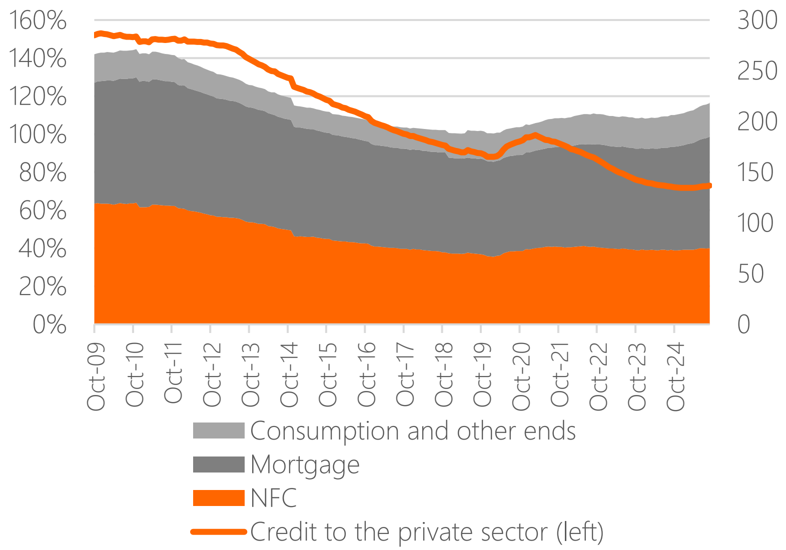
Banking system: private sector credit and deposits keep rising, and credit in % of GDP begins showing signs of recovery

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

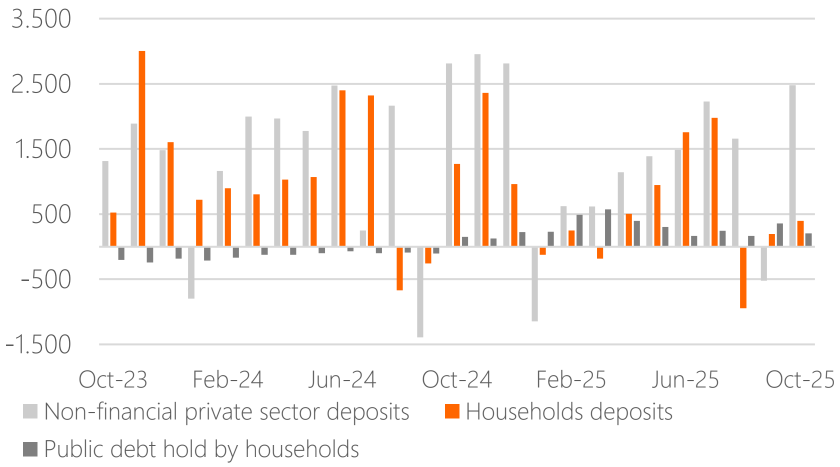


Source: BPI Research, based on data from Bank of Portugal and ECB.

Bank credit to the non-financial private sector
% GDP *Bn€*



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

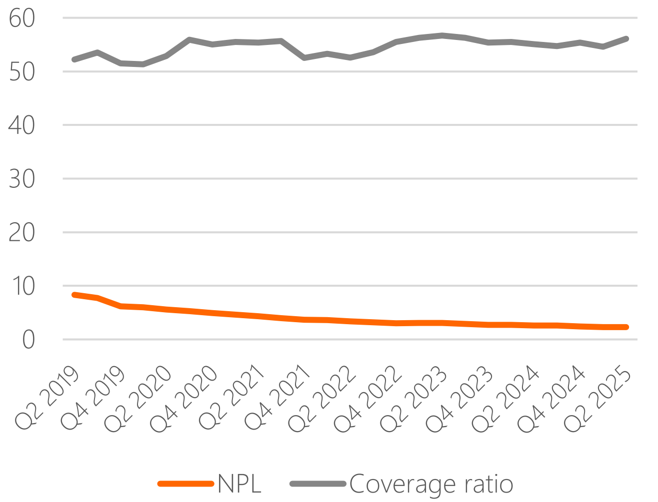


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. Source: BPI Research, based on data from Bank of Portugal.

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit:** stock rose 8,5% in October, with new operations still increasing at double digit levels (+38,7% yoy compared to 39,8% until September, including transfers among banks). The amount recorded in October was the maximum of the series (started in December 2014). 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 - which represent 61% of the total amount of new contracts for permanent own housing, in line with the observed in the last 8 months - 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). 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 2,4% in October, while new operations expanded by 18,3% yoy until October.
  - **% of GDP:** it is the 6th consecutive month that credit to non-financial private sector increases in % of GDP, reaching 73,0% in October, but clearly below past levels (≈150%).
- **Non-financial Private sector deposits with mixed performance:** the stock rose 6,4% yoy in October, reaching a new maximum. Both households' and NFC's deposits increased (4,3% and 11,4% yoy, respectively), with the first ones showing a small slowdown, while NFC accelerated. This can be explained by the possibility of other savings instruments, especially Certificados de Aforro, with a better interest in comparison to time deposits (even though the interest rate increased slightly, from 1,34% in September to 1,37% in October).

Banking system: deleveraging with high solvency and profitability

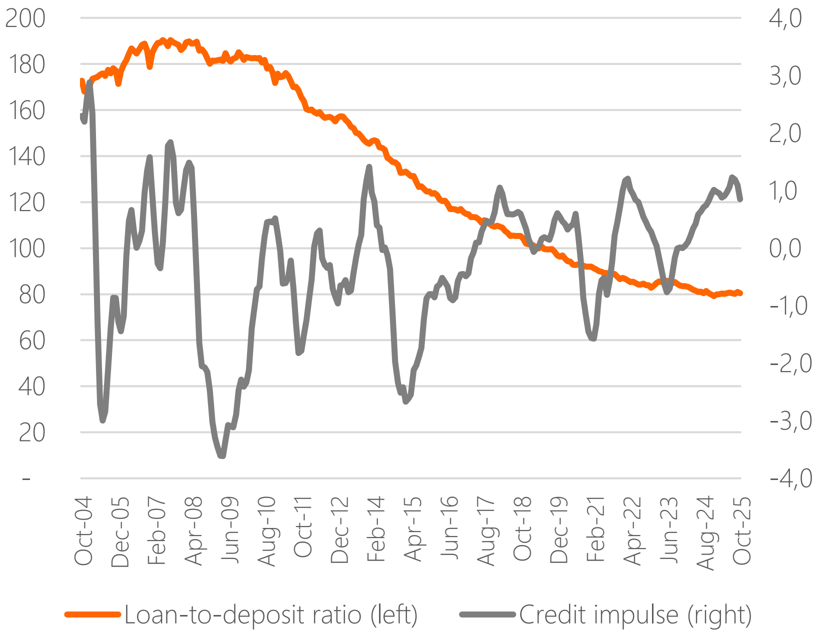
NPLs and coverage ratios



Cost of risk[1]
0,5% in Q4 2019
0,1% in Q2 2025

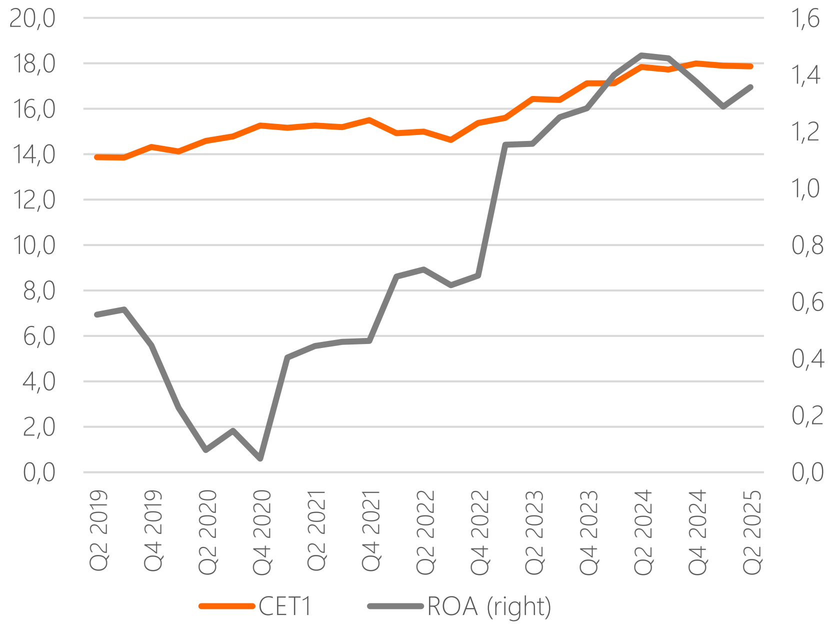
Notes: (1) flow of impairments to credit as a percentage of total gross loans.
Source: BPI Research, with data from Bank of Portugal.

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 keep steady in Q2.** The total NPL ratio was stable at 2,3% in Q2 2025, as well as the one relative to NFC (4,0%), while the one relative to households slightly fell to 2,2% (2,3% in Q1 2025). We are not expecting a deterioration of credit quality in the future.
- **Firms and households are deleveraging although at a slower pace.** Loan-to-deposit ratio keeps stable at levels around 80% and the credit impulse (yoy absolute change in new operations as % of GDP) decreased slightly in the last two months, but within a general increasing trend since 2024.
- **Profitability is slightly lower due to reduced interest rates but remains well above the pre-pandemic period.** CET1 stood at 17,9% in Q2 (vs. 18,0% in Q4 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 1,4% in Q2 2025 (vs. 1,5% in Q2 2024 and 0,4% in Q4 2019).