# Portugal:

## Macroeconomic and financial outlook

**BPI** *Research*

May 2023


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BPI Grupo CaixaBank

# Main messages

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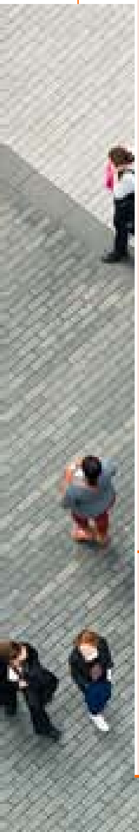


## Activity

- **Growth in Q1 23 far exceeded expectations.** The flash release for Q1 showed GDP advancing 1,6% qoq and 2,5% yoy, meaning that it will be unavoidable to revise our annual forecast up (1%). Indeed, in the absence of an adverse chock, this performance points to an annual growth above 2% and indicates that the Portuguese economy stands 4,3% above the pre-pandemic level. Early Q2 data shows that confidence continues to improve; nevertheless, we expect a deceleration going forward, due to the impact of higher financing costs and persistent inflation in families' and corporates' spending and investment decisions.
- **Inflation decelerated again in April and does not reflect yet the impact of 0% VAT in same food items.** The yoy rate fell to 5,5% from 7,4% and the core inflation declined to 6,6% from 7% in March. The predominant sentiment continues to be that the disinflationary process will be very gradual, reflecting the contagion of high energy prices to other products. Our forecast for 2023 (5,5%) is currently under watch for a possible slight downward adjustment.
- **Labor market remains robust but there are some warning signals**. Monthly data points to a maximum of employment at the beginning of 2023, in a favorable labor market which continues to attract discouraged people (inactive population is at minimums) and job vacancies remain at high levels. However, the deceleration of the economy and the high costs have started to impact labor market, with unemployment rate above pre-pandemic levels and above the average seen in 2022 (6,9% in March).
- **High frequency indicators related to the tourism sector confirm strong recovery.** Q1 figures shows that guests are 31% and 10% above the same period of 2022 and 2019, respectively. The same regarding overnight stays: +27% and 10% from the same period of 2022 and 2019, respectively.
- **Housing market is showing signs of deceleration, but prices still show no signs of slowing down.** New mortgage loans declined at the beginning of 2023 and transactions declined 21% yoy in Q1 (Confidencial Imobiliário data), but prices rose 4,2% on a quarterly basis in Q1, more than in two previous quarters. In the months ahead, we see tighter financial conditions undermining demand, reason why we expect a small decline on prices this year and also significantly less number of transactions.
- **Fiscal deficit ended 2022 substantially below the expected by the Government (-0.4% vs -1.9%, respectively) and first data for 2023 shows strong commitment with fiscal consolidation. In 2022,** the performance was especially due to high inflation and the significant economic recovery, with impact on an exceptional increase of fiscal and contributory revenues (≈14%); expenditure increased 4.4%. In this context, **the public debt ratio reached the lowest level since 2011, decreasing to 113.9% of GDP**, -11 p.p. in comparison to 2021 and -3 p.p. in comparison to 2019. Q1 data continues the same path: on a cash basis, public budget reached a surplus of 3% of GDP excluding one-off effects (1,3% in Q1 2022). Strong economic growth and inflation continues to support strong expansion of revenues (c. 21% yoy), while spending continues very contained (2,4%); public debt remained stable at 114% of GDP in Q1.

## Banking Sector

- **Credit quality indicators improved further in Q4 2022 and we evaluate risks related with higher interest rates as contained.** Indeed**,** macroprudential measures are relatively tight: banks should reduce gradually average maturity of housing loans to 30 year; institutions have to communicate the impact on the debt service of an hypothetical increase of interest rates by 300 basis points on mortgages loans. Additionally, the strong position of the labour market, expected to worsen only moderately, and the improved position of households and firms in terms of leverage, also suggest that the interest rate impact on credit quality might be moderate, in a context of a strong position of the banking sector.

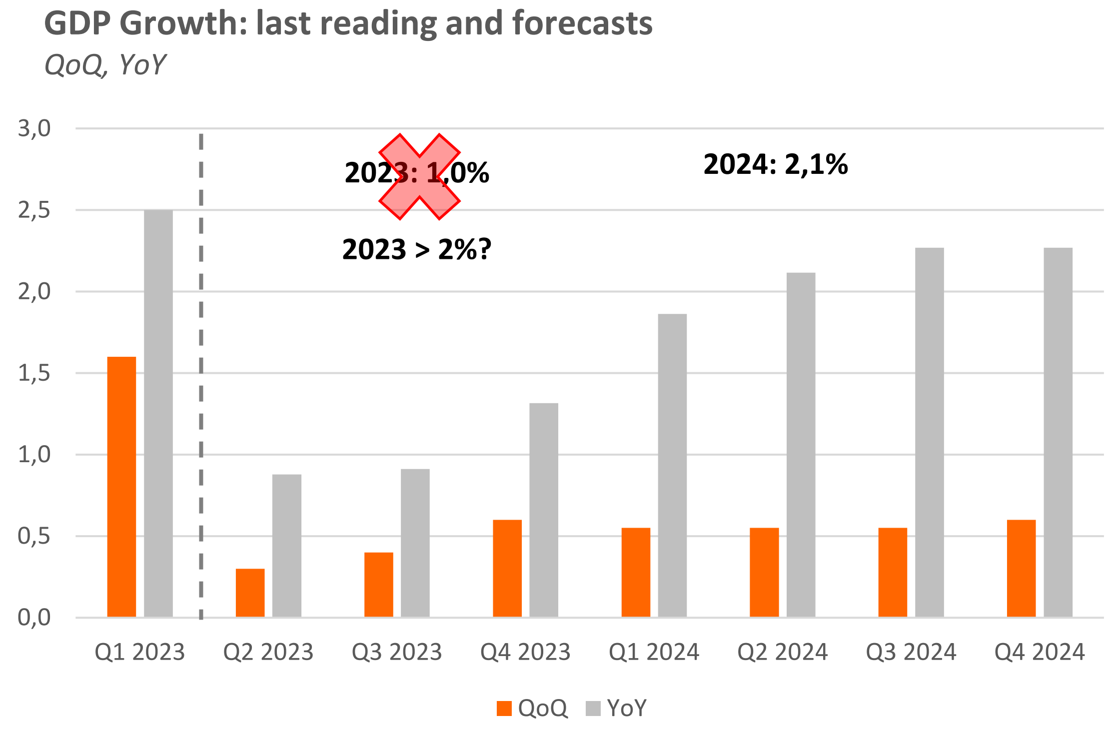
# Main economic forecasts

BPI's scenario under revision

| %, yoy | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Forecasts 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| GDP | 2.0 | 3.5 | 2.8 | 2.7 | -8.3 | 5.5 | 6.7 | 1.0 | 2.1 |
| Private Consumption | 2.6 | 2.1 | 2.6 | 3.3 | -7.0 | 4.7 | 5.7 | 0.4 | 0.9 |
| Public Consumption | 0.8 | 0.2 | 0.6 | 2.1 | 0.4 | 4.6 | 2.4 | 1.0 | 1.0 |
| Gross Fixed Capital Formation (GFCF) | 2.5 | 11.5 | 6.2 | 5.4 | -2.2 | 8.7 | 2.7 | 4.4 | 8.2 |
| Exports | 4.4 | 8.4 | 4.1 | 4.1 | -18.8 | 13.4 | 16.7 | 4.3 | 6.1 |
| Imports | 5.0 | 8.1 | 5.0 | 4.9 | -11.8 | 13.2 | 11.0 | 4.7 | 6.3 |
| Unemployment rate | 11.4 | 9.2 | 7.2 | 6.6 | 7.0 | 6.6 | 6.0 | 6.4 | 6.1 |
| CPI (average) | 0.6 | 1.4 | 1.0 | 0.3 | 0.0 | 1.3 | 7.8 | 5.5 | 2.8 |
| External current account balance (% GDP) | 1.2 | 1.3 | 0.6 | 0.4 | -1.2 | -0.8 | -1.4 | -0.4 | -0.2 |
| General Government Balance (% GDP) | -1.9 | -3.0 | -0.3 | 0.1 | -5.8 | -2.9 | -0.4 | -0.9 | -0.8 |
| General government debt (% GDP) | 131.5 | 126.1 | 121.5 | 116.6 | 134.9 | 125.5 | 113.9 | 109.7 | 106.2 |
| Risk premium (PT-Bund) (average) | 307 | 269 | 138 | 98 | 89 | 60 | 98 | 103 | 102 |

***Source***: *BPI Research*

# GDP: exceptional growth in Q1 2023




*Source: BPI Research, from INE*

| yoy, level | jan-23 | fev-23 | mar-23 | abr-23 | Last month available |
|---|---|---|---|---|---|
| Economic climate indicator | 1.6 | 2.2 | 2.3 | 2.5 | April |
| Economic sentiment indicator | 98.6 | 103.1 | 102.2 | 102.4 | April |
| Retail sales (yoy) | 3.7 | 0.4 | - | - | February |
| Retail sales excl. fuels (yoy) | -1.7 | 3.4 | - | - | February |
| Car sales (number) | 14,519 | 15,974 | 21,244 | 15,875 | April |
| Car sales (yoy) | 47.7 | 38.1 | 58.9 | 27.8 | April |
| Imports of capital goods (accum. year) | 7.2 | 9.1 | - | - | February |
| Cement sales | -8.2 | -12.2 | -2.6 | - | February |
| Electricity consumption | 4.1 | 3.0 | -1.1 | -5.6 | April |
| Non-resident tourists (thousand) | 768.8 | 874.2 | - | - | February |
| Number of flights | 28,482 | 27,143 | 32,108 | - | March |
| Change in regist. unemployment (thousand people) | -33.8 | -28.6 | - | - | February |
| Change in employment (thousand people) | 10.6 | 18.0 | - | - | February |

- **Q1 2023**: preliminary figures from INE showed GDP advancing 1,6% qoq and 2,5% yoy, much better than our expectation (0% qoq; 0,7% yoy) of a stagnation. Foreign demand was the main driver of this exceptional performance, with exports accelerating and imports decelerating. Further details will be release on May 31st. **After the release of Q1 data, risks to our current forecast of an annual growth of 1% in 2023 are skewed on the upside. Even assuming a stagnation in next three quarters, the carry over would led the economy to advance 2,1%.**
- In the rest of the year we see quarterly growth to moderate, reflecting the impact of higher interest rates and inflation, but not to stagnate as activity should continue supported by tourism and consumption of durable goods (supported by increase in disposable income and strong labour market, while savings keep at confortable levels).
- Growth should be supported by signs of deceleration of prices, higher resilience of European economies and the stimuli coming from the execution of NGEU. But the scenario continues subject to a high degree of uncertainty due to global issues, namely related with the behavior of the energy market, the severity of the coming winter and the uncertainty regarding the conflict in Ukraine.

# Households: savings are declining but also due to debt reduction

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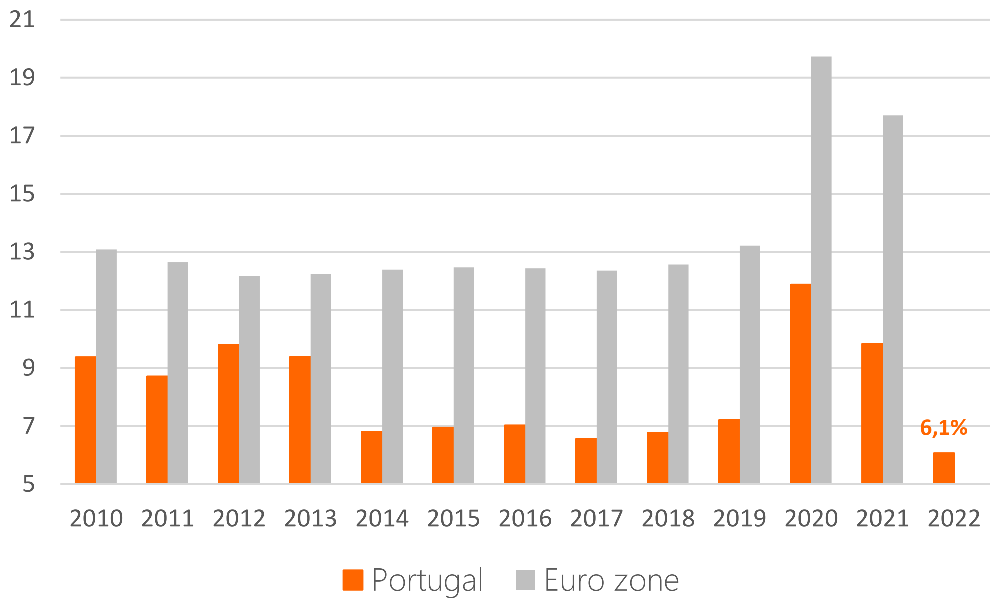
### Saving rate (annual average)

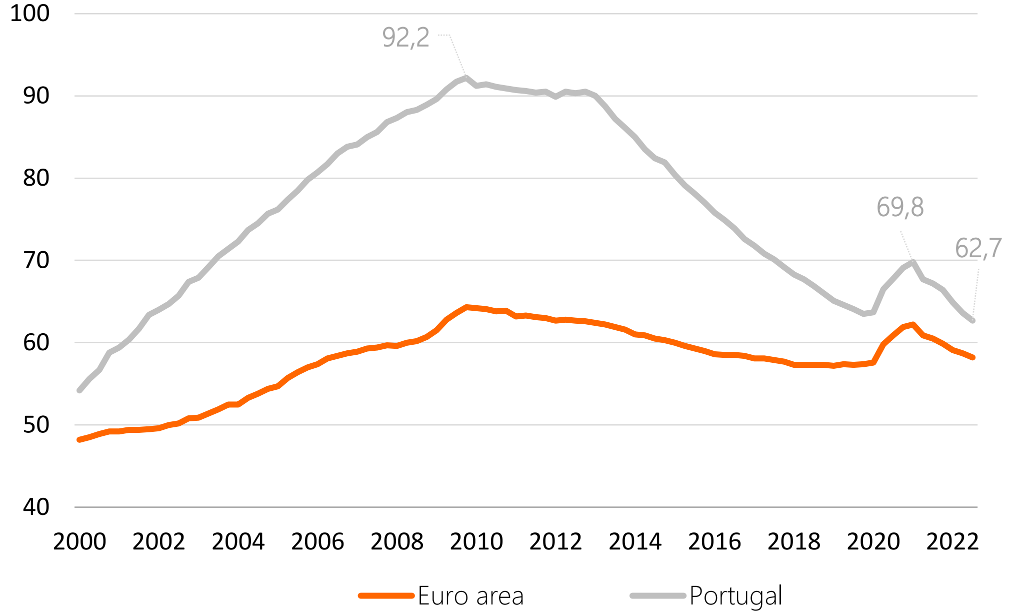
*% of Disposable income*




*Source: BPI Research, from INE and Eurostat*

### Households debt

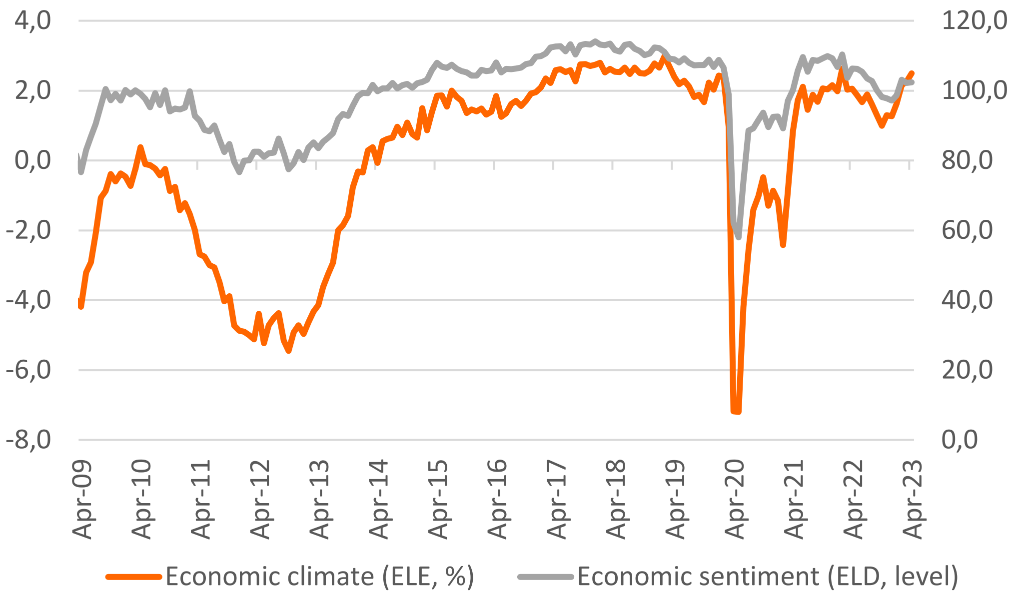
% of GDP



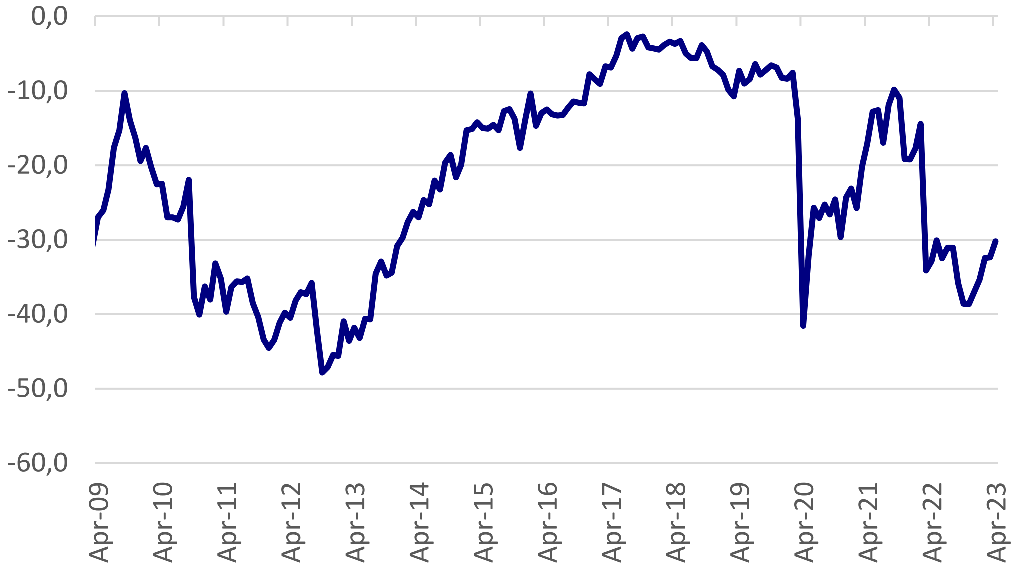

- **Last year, the savings rate declined markedly from the levels seen in 2020-21, and reached 6,1% of disposable income (DI), on average. However, according to our calculations, extra savings during the pandemic were not yet completely depleted, but they are now much lower and should be concentrated in higher income households: by the end of 2022, we estimate that these extra accumulated savings still amount to circa EUR 6,6 bln, ie ~3% of GDP .**
- **Worth to mention the reduction in households debt levels since the maximums reached during the pandemic: less 7 p.p. of GDP to 62,7%. Indeed, according to the Bank of Portugal, early repayments of home loans have been increasing: in February, they represented 0,85% of the credit stock, a figure similar to that recorded in January, but higher than the monthly average of 0,54% recorded in 2022.**

# The sentiment at the beginning of Q2 continues positive

**Synthetic sectoral sentiment indicators**
*% yoy, level*




**Consumer confidence**
*Level*



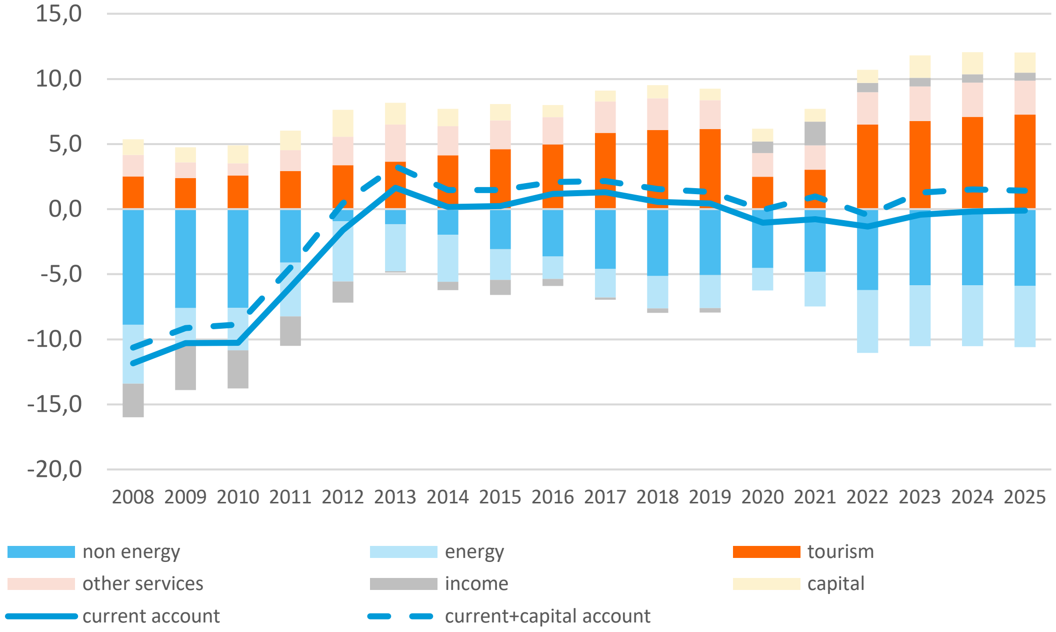

*Source: BPI Research, from INE, EC*

- **INE's economic climate and EC economic sentiment indicators continued their upward trend in April.** The former recovered 2 tenths to 2.5% year-on-year, reflecting better sentiment in the construction and services sectors. In industry, sentiment worsened due to greater uncertainty about the evolution of production in the coming months.
- **The EC economic sentiment indicator also recovered 2 tenths from March, standing at 102.4 points.**
- **Among consumers there was also an improvement in confidence, result of a better outlook for price developments and less uncertainty about the financial situation of the family.**

# External accounts: structural improvements support return to surplus

## Current & capital account by components

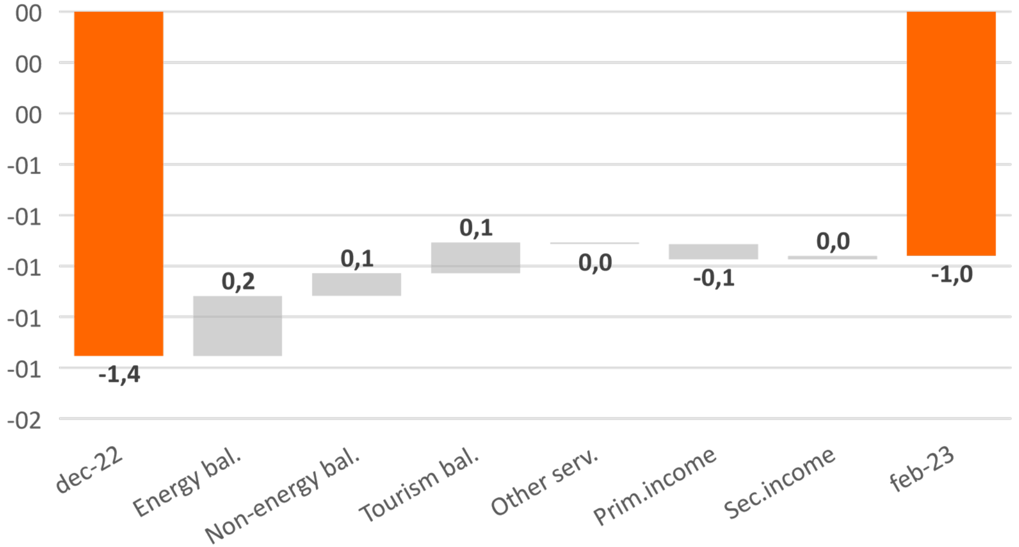
*% of GDP*




*Source*: *BPI Research, from INE*

## Current account evolution in the last 12 months

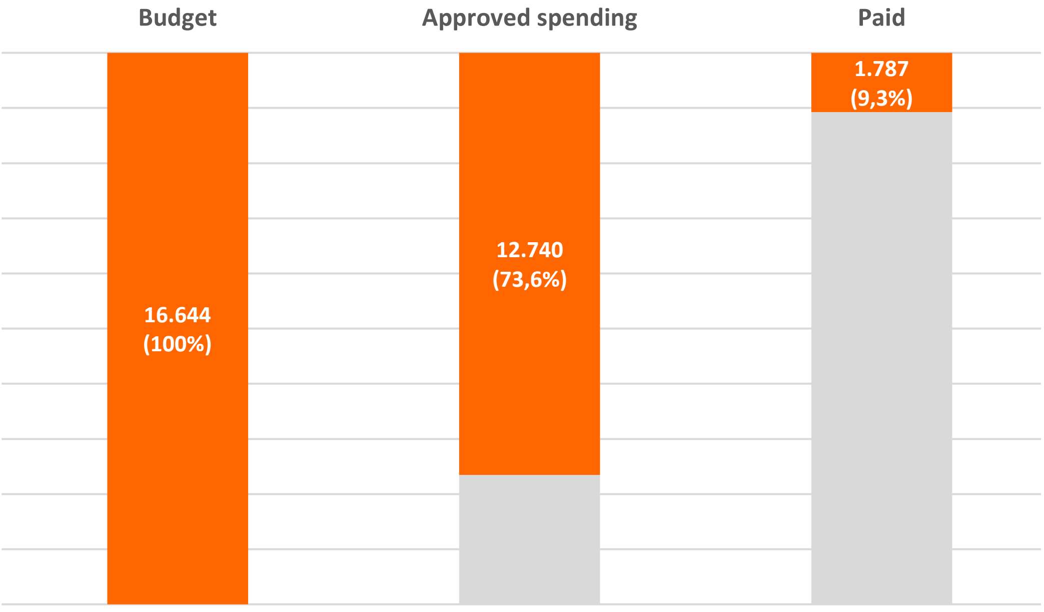
% of GDP, p.p




- **In 2022, the current account balance deficit widened to -1,4% of GDP** from -0,8% of GDP in 2021. This movement reflects the impact of the pandemic and also of the Ukraine war on global value chain imbalances and in particular, energy markets. The balance of goods – both non energy and energy – were the aggregates more impacted by the strong increase in international prices, specially those of food and energy.
- On the other hand, with the end of Covid related restrictions, tourism recovered and the respective external surplus (6,5% of GDP) surpassed levels seen in 2018-19. However, this improvement was not enough to compensate the worsening in the Goods Balance. The deterioration of the current account was the main reason why Portugal registered external funding needs in 2022 for the first time since the beginning of the century.
- **However, this is expected to be corrected in the years ahead**, first with the gradual normalization between global supply and demand; then because we believe the domestic productive structure has become more competitive, driving export growth. Data for the first two months of the year points on this direction with some improvements on the balance of goods and a sustained good performance on services.

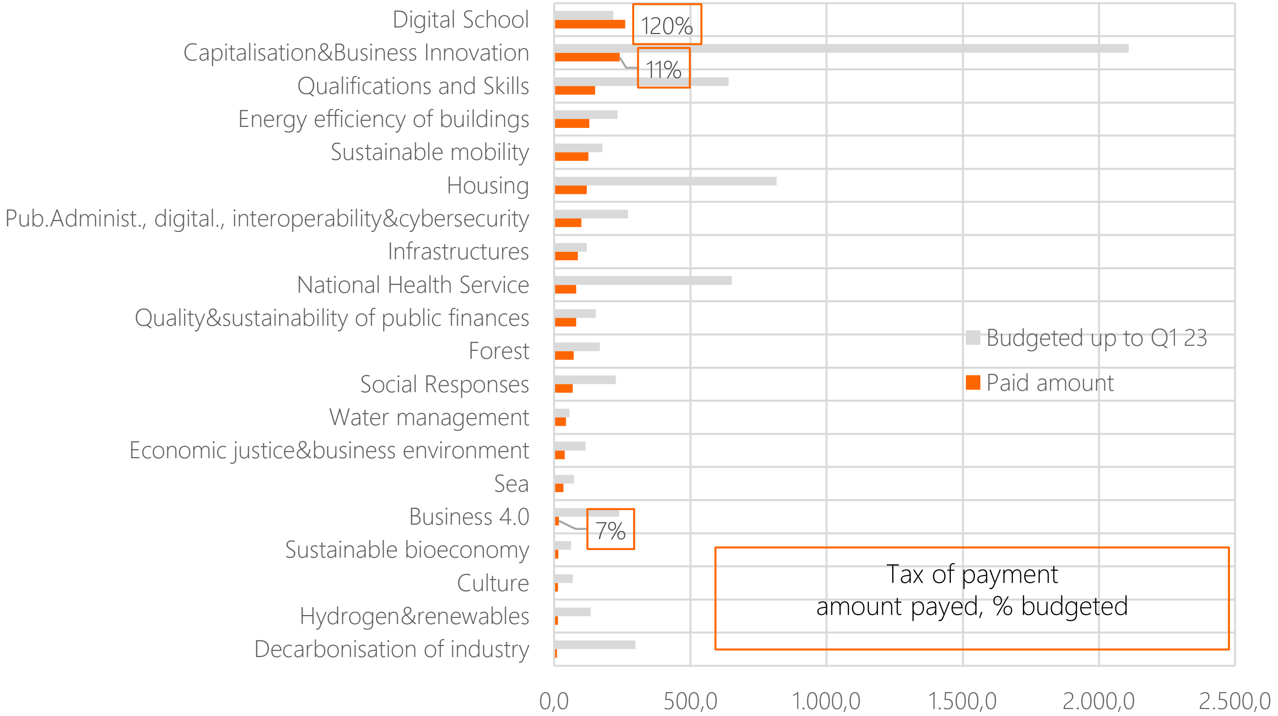
# NGEU: a lot of projects in the pipeline

### Q1 23: NGEU Funds)
EUR million




*Source: BPI Research, from Recuperar Portugal*

### Amounts budgeted and implemented (up to Q1 23)
EUR million




- **Investments have been fully contracted since April 2022. And the investments already approved amount to 12,249 million, equivalent to an approval rate of 74%, which looks promising for the use of the funds Portugal will receive until 2026.**
- **The rate of payment of the amounts budgeted up to Q1 amounts to 25%; payments are centered in investment related with improvements in residential efficiency and the digital transition of schools.**
- **First data for 2023 show signs of a slight acceleration in approvals and payments.** By sectors, the average monthly payments in the case of business investments increased to € 44 million (13 million in 2022), which may indicate an increase in the rate of investment, since the receipt of funds is dependent on the submission of expenses by beneficiaries.

# Despite the challenges ahead, forecasts have been improving

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BPI's scenario under revision

## Macroeconomic scenarios for Portugal

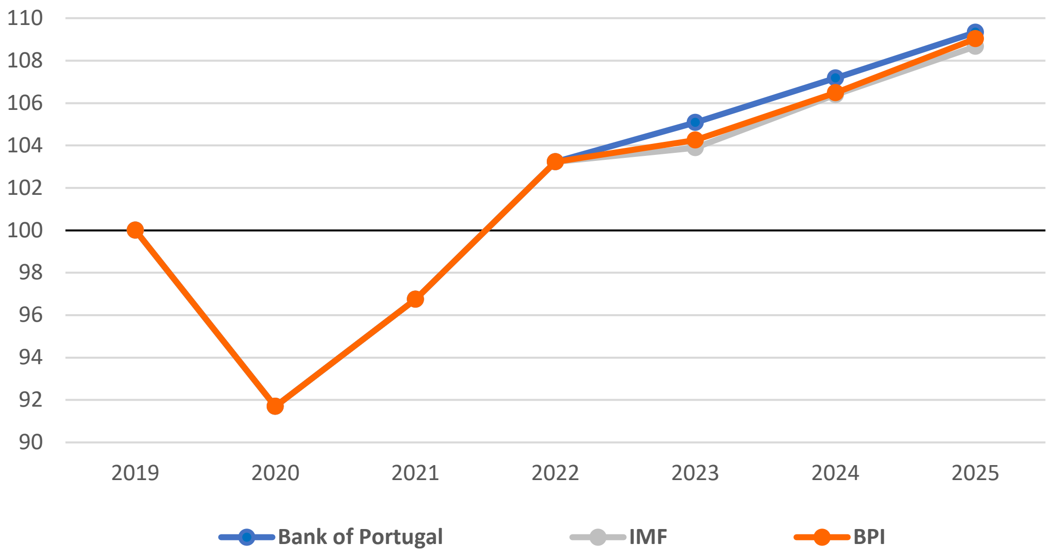
*%*

| Portugal | | 2022 | 2023 | 2024 | 2025 | Accum. 23-25 |
|---|---|---|---|---|---|---|
| **GDP** | BdP Mar-23 | 6.7 | 1.8 | 2.0 | 2.0 | 5.9 |
| (annual, %) | FMI Apr 23 | | 1.0 | 1.7 | 2.2 | 4.9 |
| | ***BPI Jan-23*** | | ***1.0*** | ***2.1*** | ***2.4*** | ***5.6*** |
| **Unemployment rate** | BdP Mar-23 | 6.0 | 7.0 | 6.9 | 6.7 | 0.7 |
| (annual average, %) | FMI Apr 23 | | 6.6 | 6.5 | 6.3 | 0.3 |
| | ***BPI Jan-23*** | | ***6.4*** | ***6.1*** | ***5.9*** | ***-0.1*** |
| **Inflation rate** [1] | BdP Mar-23 | 8.1 | 5.5 | 3.2 | 2.1 | 11.2 |
| (annual average, %) | FMI Apr 23 | | 5.7 | 3.1 | 2.5 | 11.7 |
| | ***BPI Jan-23*** | | ***5.5*** | ***2.8*** | ***1.8*** | ***10.4*** |
| **Housing prices** | EBA - Mar 23 | 12.6 | 2.5 | 3.0 | 2.7 | 8.5 |
| (annual average, %) | ***BPI Jan-23*** | | ***-0.2*** | ***0.1*** | ***2.4*** | ***2.3*** |

*Note: [1] BoP forecasts are for the HCPI; BPI forecasts for the CPI; for unemployment, the cumulative 22-25 is computed as the difference between unemployment in 2025 vs unemployment in 2021*

## GDP Growth

*Level, 2019=100*

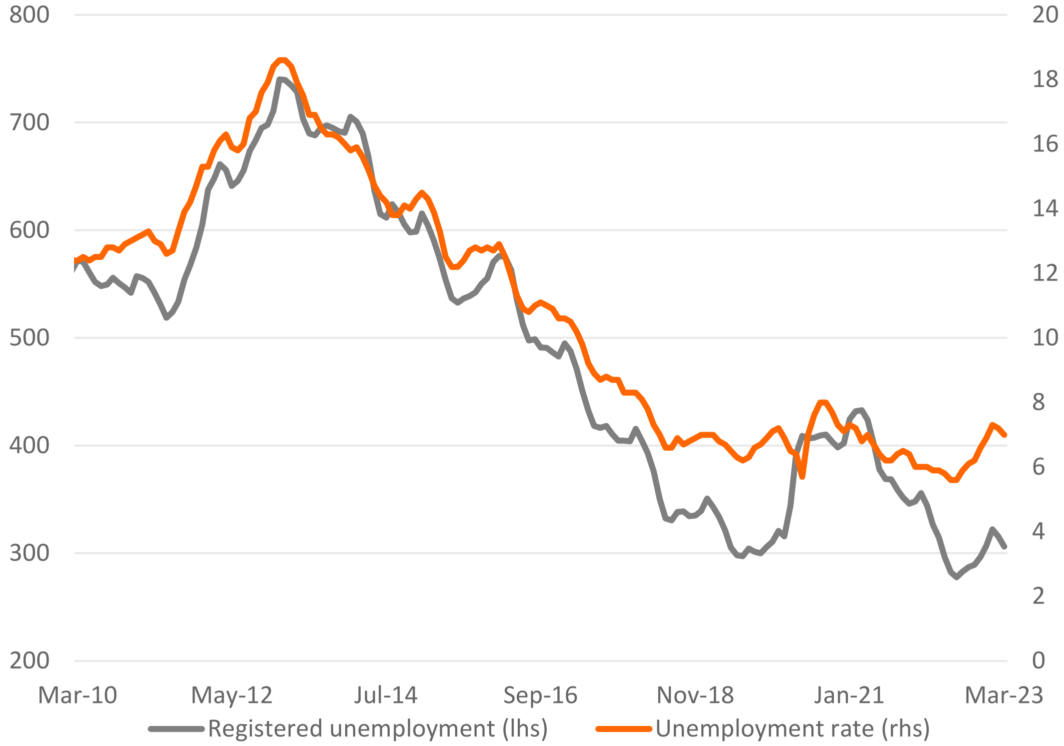



- **First data for 2023 suggests that deceleration may be more moderate than previously predicted.** Risks to our scenario continue to be biased on the upside.
- **According to the Bank of Portugal scenario:**
  - GDP will advance 1,8% in 2023 (+0,3 percentage point than forecasted in December). Risks for this scenario are biased on the downside and are related with a higher than expected impact due to a possible stronger deterioration of financing costs for families and corporates than implicit on this scenario. Geopolitical issues continues to be a downside risk.
  - Inflation will stay higher for longer; return to 2% postponed to 2025. The accumulation of global shocks and spillover effects from energy and food prices to most components of the basket will translate to higher levels of inflation during more time. Risks for the scenario designed for inflation are on the upside.
  - Labour market is predicted to remain resilient, despite the strong deceleration of growth, reflecting difficulties in hiring.
- IMF revised growth on the positive side (2023: from 0,7% to 1%) but is globally more cautious.

# Labor market remains robust but there are some warning signals

### Registered unemployment and unemployment rate*

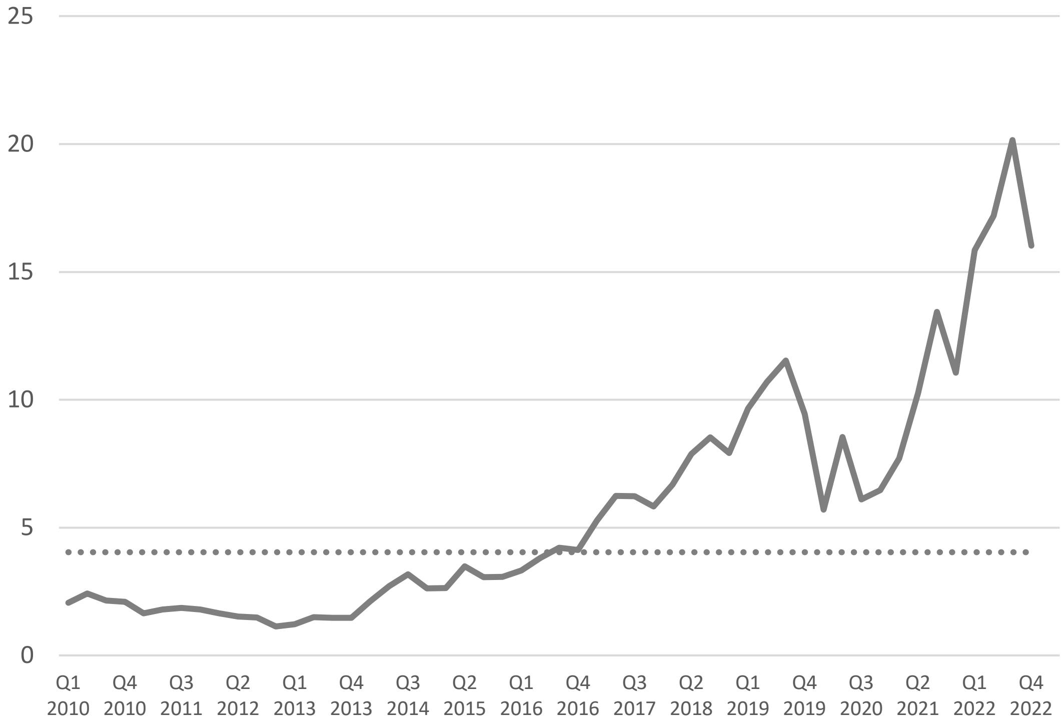
*Thousand people* (%)




*Notes: (*) not seasonally adjusted.*
*Source: BPI Research, from IEFP and INE.*

### Job vacancies by unemployed person

*Ratio*



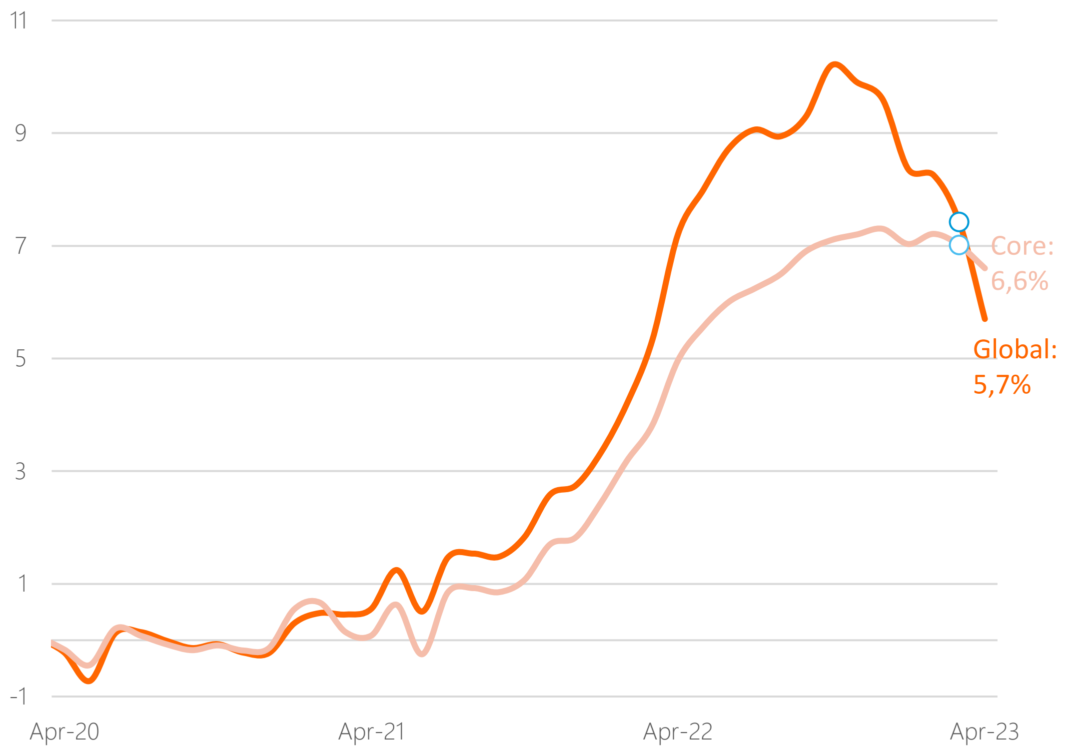

*Source: BPI Research, from Eurostat.*

- **Labor market remains robust and attracting the discouraged people.** Employed population is at maximum levels (considering the monthly data) and the ratio of job vacancies to unemployed person is considerably above the average recorded between 2010-2019. This should be an important buffer in a context of lower hiring intentions (at least initially) and the expected economic deceleration. Additionally, the labor market continues attracting the discouraged people: the inactive population reached a new minimum in March since the start of the series (1998).
- **However, there are some warning signals and we should look to the labor market indicators with prudence.** The unemployment rate is above the pre-pandemic level and the average recorded in 2022, and the registered unemployment has started to increase since end-2022, even though both indicators revealed an improvement in last two months in comparison to January.

# Inflation: Global and Core CPI down in March

### Portugal CPI: Global & Core

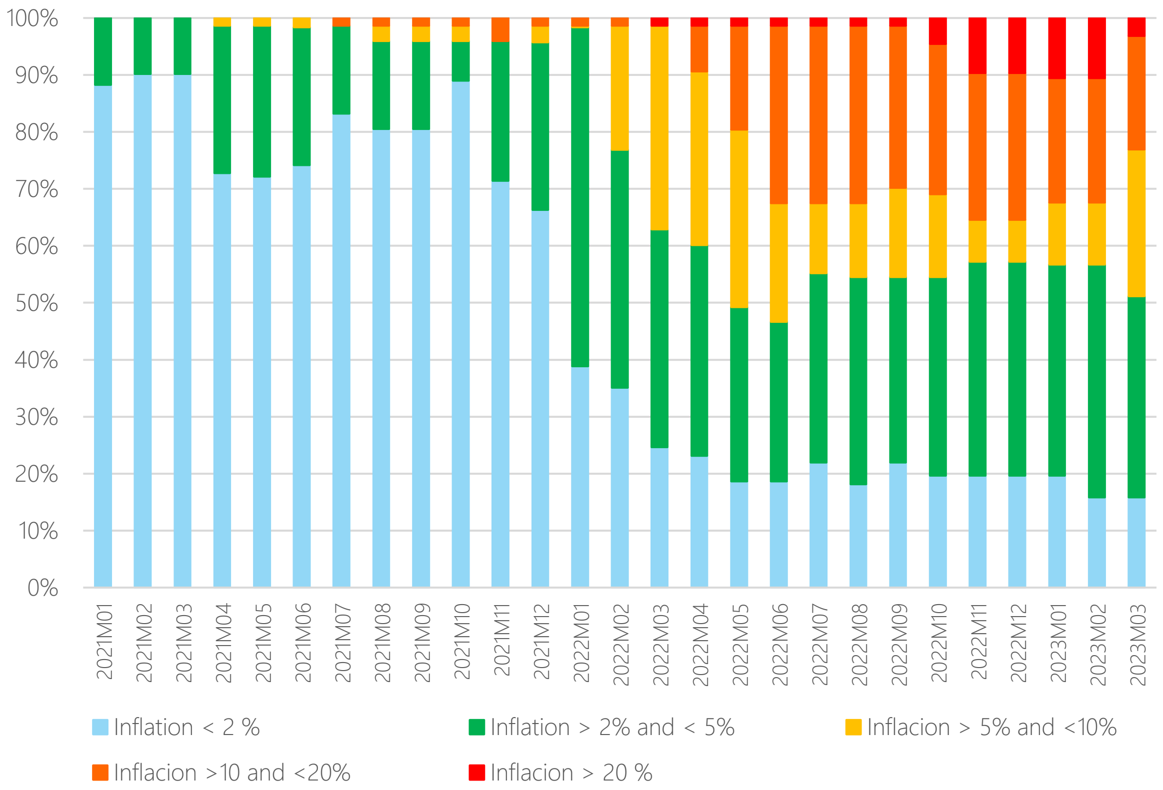
*Year-on-year (%)*




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

### Core inflation traffic light

*% of Core inflation basket*



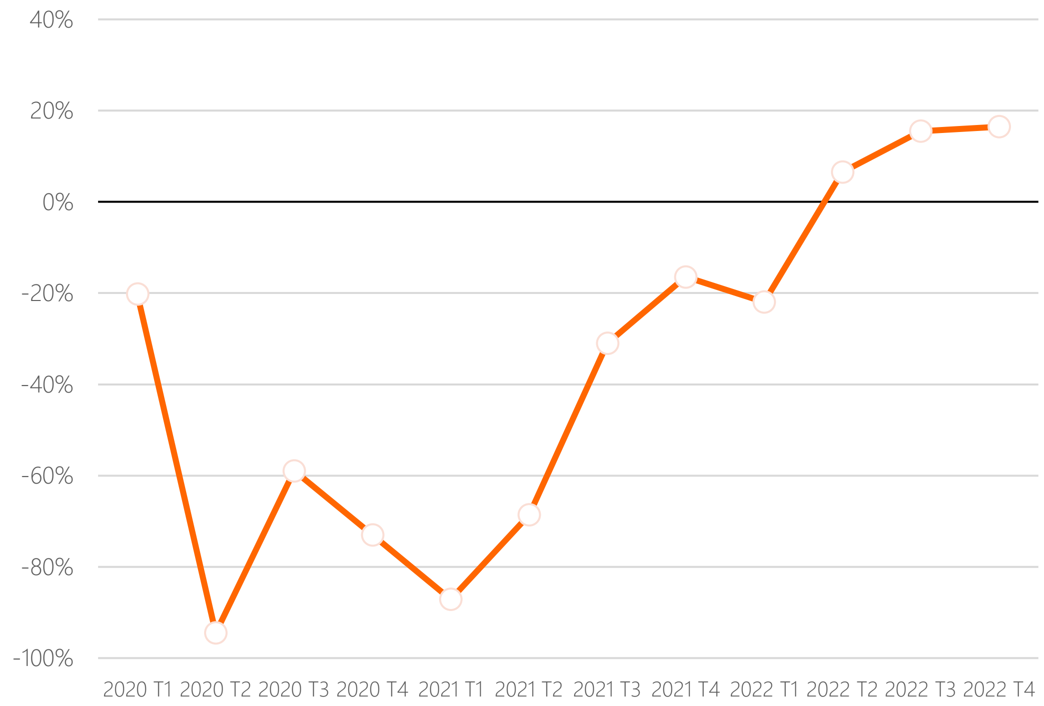

- **The yoy rate of change of the Consumer Price Index (CPI) slowed down to 5,6% in April from 7,4% in March.** The core inflation rate decelerated too, but for the first time stood above the global inflation: 6,6% (7,0% in March).
- **Energy prices declined at a strong pace (-12.7% year-on-year, down from -4,4 in March).** Unprocessed food prices also decelerated to 14.1%, 5.2 p.p. less than in March.
- **Sticky core inflation.** Since May 2022, without interruption and until March, the core inflation basket has recorded inflation rates above 5% in over 40% of its composition.

# Tourism: good start in 2023



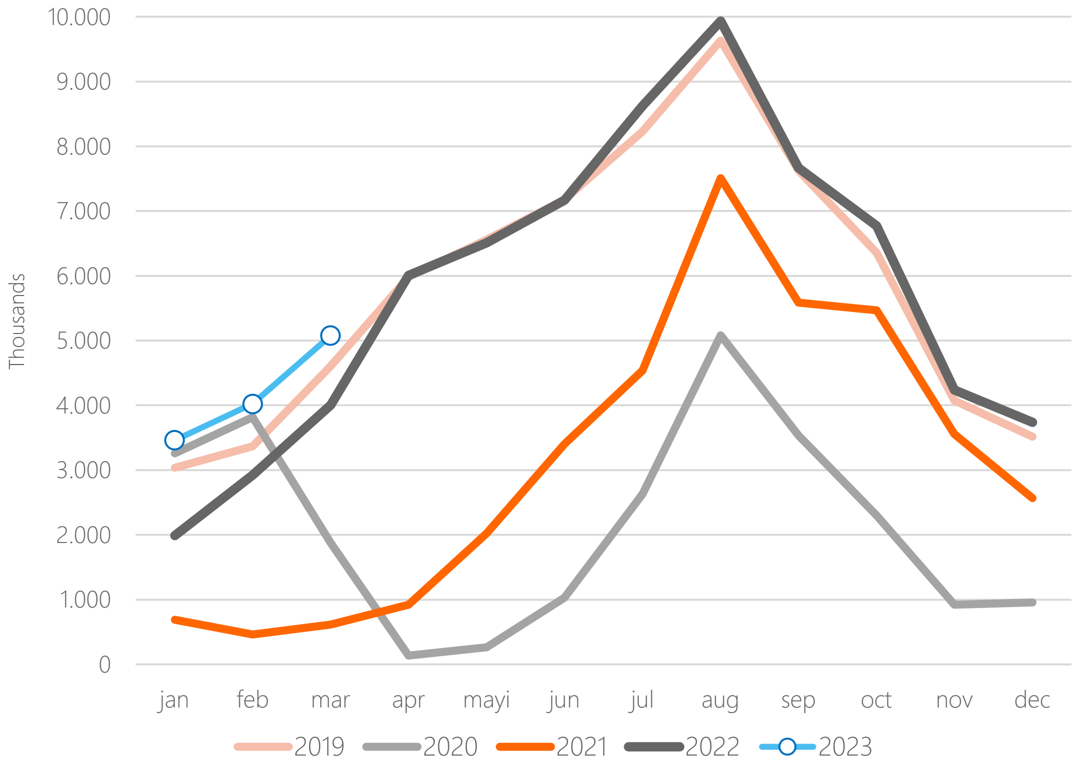
## Revenue from Tourist Accommodation VS 2019 (in real terms)

*% change versus same month of 2019*




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

## Number of guests

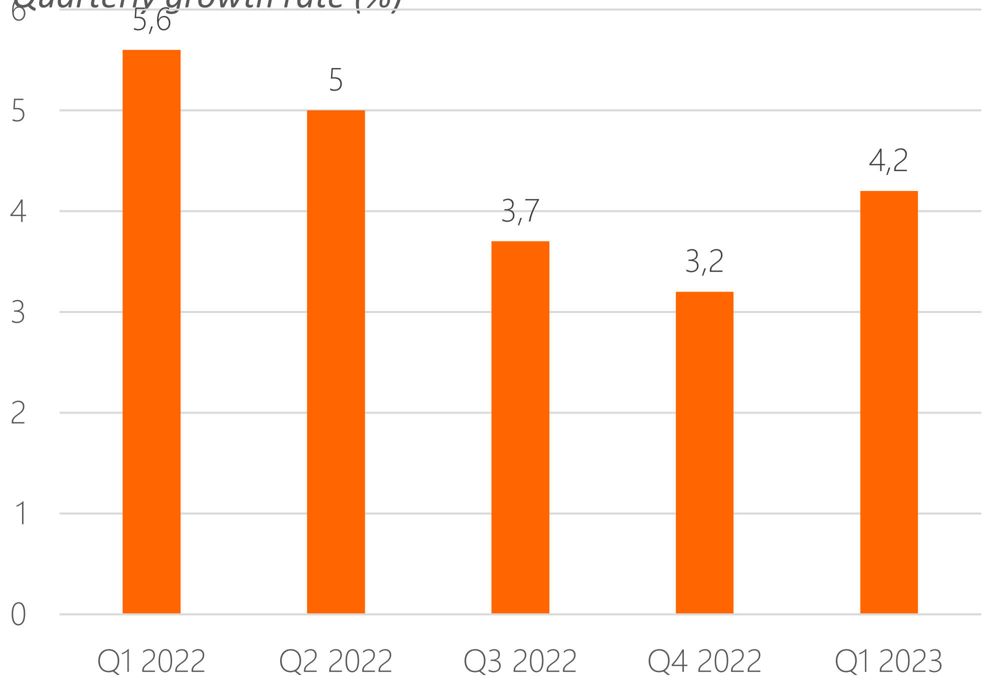



- **In the whole of 2022, tourist accommodation establishments recorded 26.5 million guests and 69.5 million overnight stays**, translating into increases of 83.3% and 86.3% y/y. Compared to 2019, guests declined by 2.3% and overnight stays by 0.9%. However, behaviour was different between residents and non-residents: +8.6% for residents and -5.0% for non-residents.
- **In terms of sector revenues (in real terms) the 2019 figures were exceeded from the second quarter of 2022 onwards**.
- **We believe that 2023 will mark the surpassing of the pre-pandemic figures both globally and also with regard to non-residents. In Q1 2023 figures point to a good start:** guests are 31% and 10% above the same period of 2022 and 2019, respectively. The same regarding overnight stays: +27% and 10% from the same period of 2022 and 2019, respectively.

# Housing market: strong 2022, but slowing down

**House Price Index**

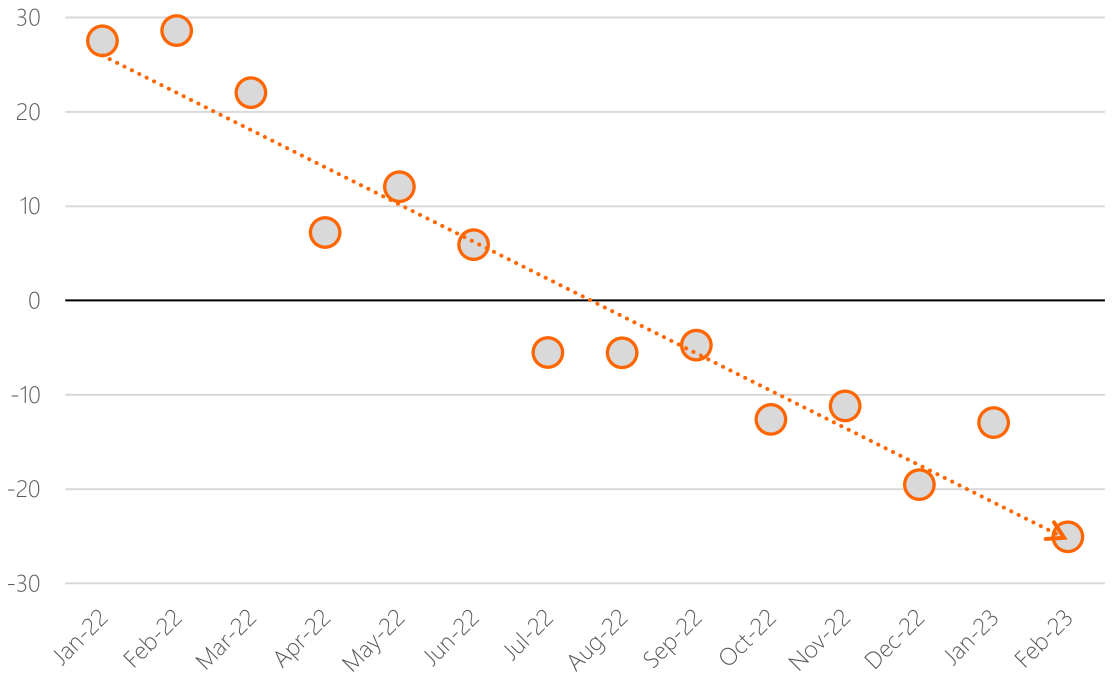
*Quarterly growth rate (%)*




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

**New loans for house purchase**

*Yoy change of the monthly amount (%)*




*Source: BPI Research, using data from Banco de Portugal .*

- **House Price Index (HPI) grew 12,6% in 2022.** Also, the number of property transactions reached 167.900, +1,3% compared to 2021. Nonetheless, quarter-on-quarter movements on prices (+1,1% in Q4 2022) and transactions (-8,8% in Q4 2022) are loosing momentum.
- **The slowdown in the housing market is clear when we look at the values of new mortgage loans:** -25% yoy in February 2023. Other data also confirms this view: the number of house appraisals decreased in February 2023 for the ninth consecutive month, standing at about 20.000. This represents 29% less compared to February 2022. Also, transactions in Q1 2023 (data from Confidencial Imobiliário), fell 15% compared to Q1 2022 and 3,6% from Q4 2022.
- **Despite the market's loss of steam, we see 2023 as a year of soft landing in housing market.** First data seems to confirm this prediction, as according Confidencial Imobiliário, housing prices continue resilient.

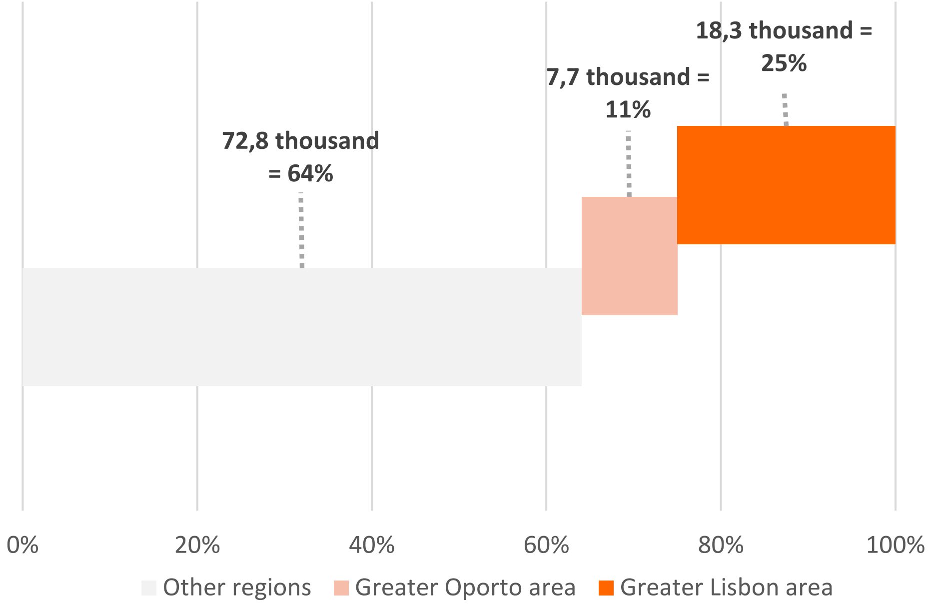
# Housing market: The "Mais Habitação" program

### The "Mais Habitação" program main measures

- Possibility of automatically changing the use of commercial or service properties into residential properties.
- Architectural and specialty projects will now be approved based on the terms of responsibility of the authors of the projects.
- The State rents available houses from private owners at market prices for a period of five years, as long as it can sublet them. The sublease will be made for the value corresponding to 35% of the tenant's effort rate.
- Incentive to return to the housing market to dwellings that are currently dedicated to "Alojamento local": "zero" taxation on property income until 2030 for owners.
- Current "Alojamento local" licenses in force until 2030. In 2030, the municipalities will decide whether or not to renew the licenses.
- Coercive lease. Only applies to flats that have been vacant for more than two years and does not apply to low density territories.
- The tax rate on income from property will fall from the current 28% to 25%, and will be lower in contracts of longer duration.
- New appliances to Golden Visa licenses will end and those that exist will have a limited renewal. The renewal of visas already granted, every two years, will only occur if the property is allocated to the owner's own residence or that of their children; or if it is rented as a permanent dwelling for no less than 5 years.

### "Alojamento Local" by region (2021)

*Number / %*



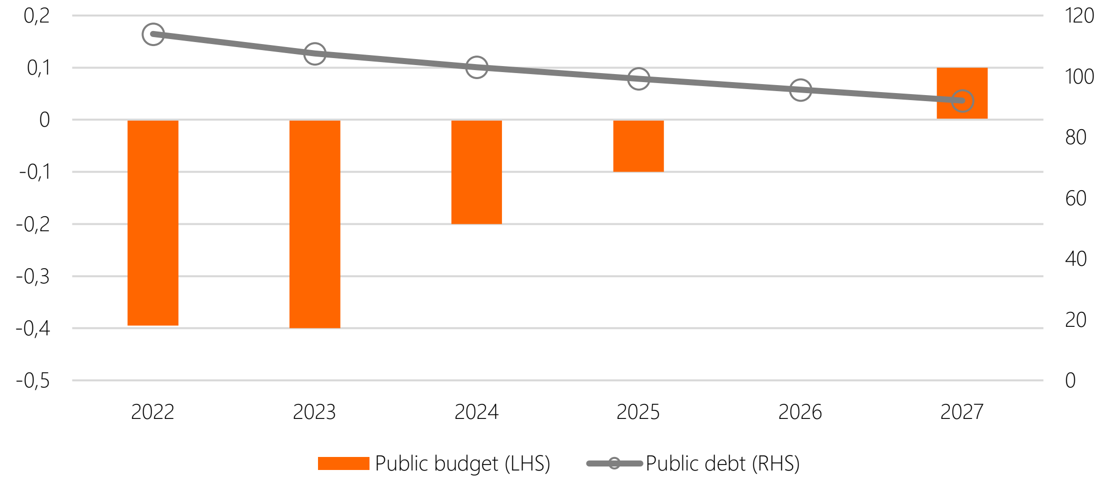

*Source: BPI Research, using data from INE. Note: "Alojamento Local" refers to short-term rental houses for tourism purposes.*

- **The "Mais Habitação" program:** The Government approved a set of measures that aim to achieve the goal of having a housing stock capable of guaranteeing decent housing for the entire population through a balance between a structural reform, based on the promotion of new public housing and on the qualification of existing ones, and a cyclical response that allows more immediate answers to deal with the urgency of ensuring access to decent housing and adequate to the income and size of different family units.
- In our view the measures linked to licensing can speed up the business cycle of construction activity and ultimately reduce the time between project start and completion, lowering construction costs. On the other hand, measures regarding "Alojamento local" (short-term rental service) may also have the side effect of reducing the number of overnight stays by tourists if there is no hotel supply to compensate for the withdrawal of installed capacity. It may also result in a greater number of unused houses or short-term rentals moving to the informal economy.
- The measures regarding Coercive lease can still raise legal disputes due to property law issues. The Plan is still under discussion/approval, so it is possible that it will suffer some adjustments until plein implementation.

# Committed with fiscal consolidation, but at a slower pace

## Stability programme – public deficit & public debt

*(% GDP)*



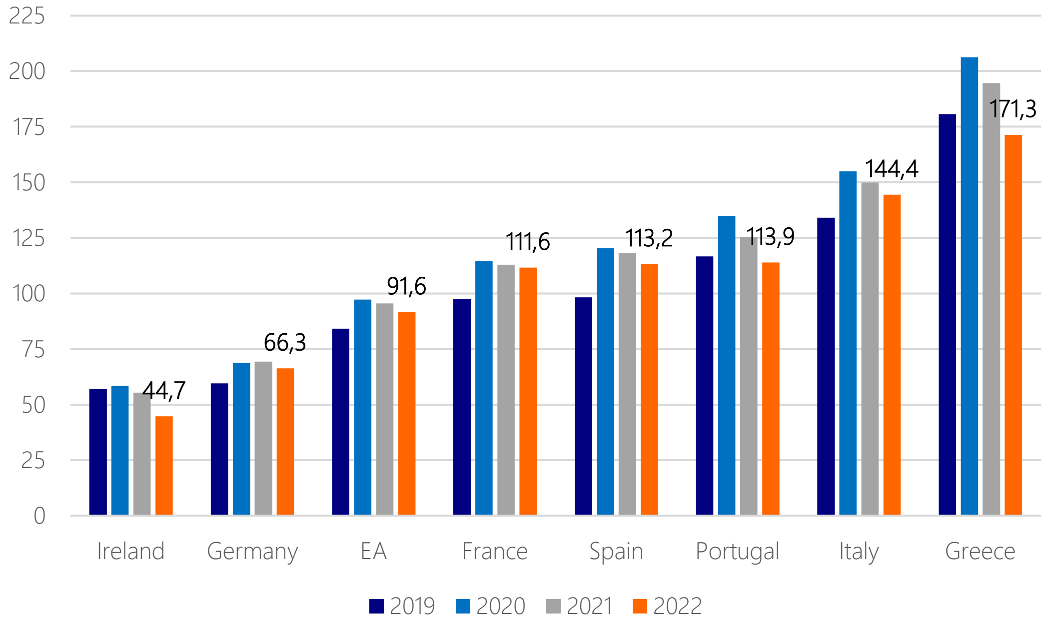

Macroeconomic scenario (Stability programme 2023-2027)

| (%) | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| GDP | 1,8 | 2,0 | 2,0 | 1,9 | 1,8 |
| Unemployment rate | 6,7 | 6,4 | 6,2 | 6,0 | 5,8 |
| HICP | 5,1 | 2,9 | 2,1 | 2,0 | 2,0 |

*Source: BPI Research, based on INE.*

## Public debt ratio – international comparison

*(% of GDP)*



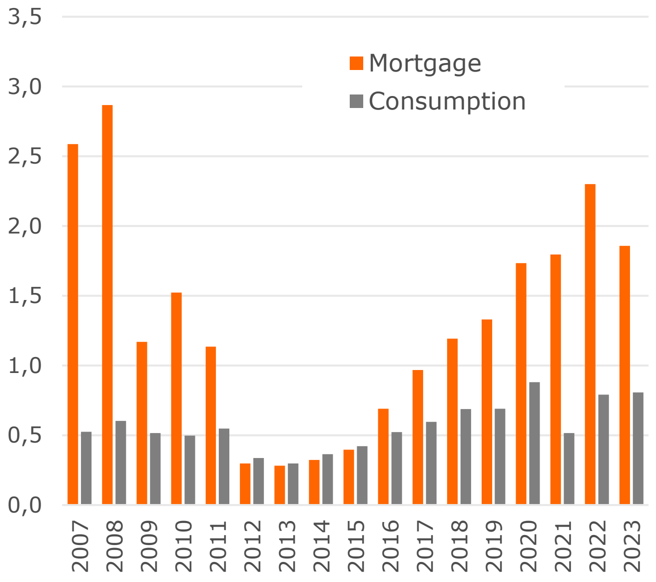

*Source: BPI Research, based on state budget 2023 and INE.*

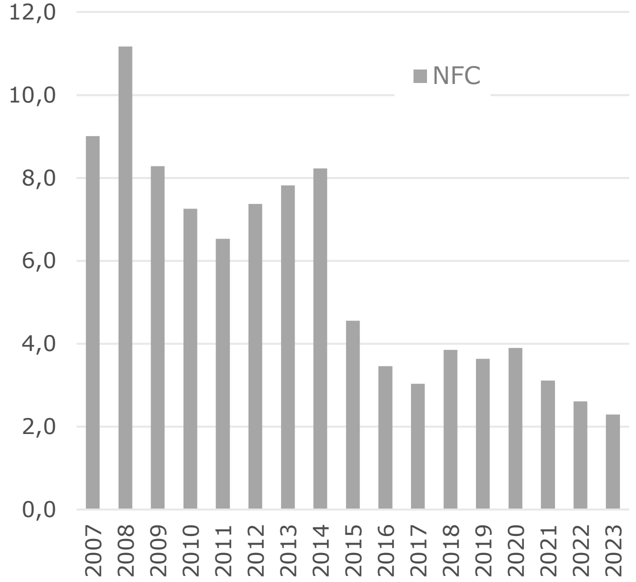
- **Balanced public accounts is the medium term target:** The budget balance is expected to remain at -0.4% of GDP in 2023, without changes from 2022, suggesting moderate support to economic activity (but the Government's estimates the reduction of the structural balance from -0.5% to -0.4%). In the medium term, excluding the impact of the measures implemented to help families and companies to deal with higher inflation, the Government expects a slight surplus in 2027 (0.1% of GDP). This includes a projected adjustment to household taxes (income-related taxes) and an upward revision to pensions.
- In a scenario of economic growth around 2% and lower inflation, the public debt ratio is projected to fell below 100% of GDP in 2025 and a primary surplus is expected . Nevertheless, the increase in financing costs will contribute to a worsening of the amount spent on interest; in fact, with a cautious view, the government expects this item to reach levels close to 3% of GDP in 2025.
- Given the evolution of the public debt since 2019, in comparison with European peers, **Portugal (113,9%) is one of the countries that registers debt levels already below 2019**, whereas the distance from Spain and France has been reduced (as both countries registered debt to GDP ratios above 100% by end 2022).

# Banking system: a solid position to face the economic slowdown (1)

### New lending activity by sector

*Accumulated in the year until February, million euros*

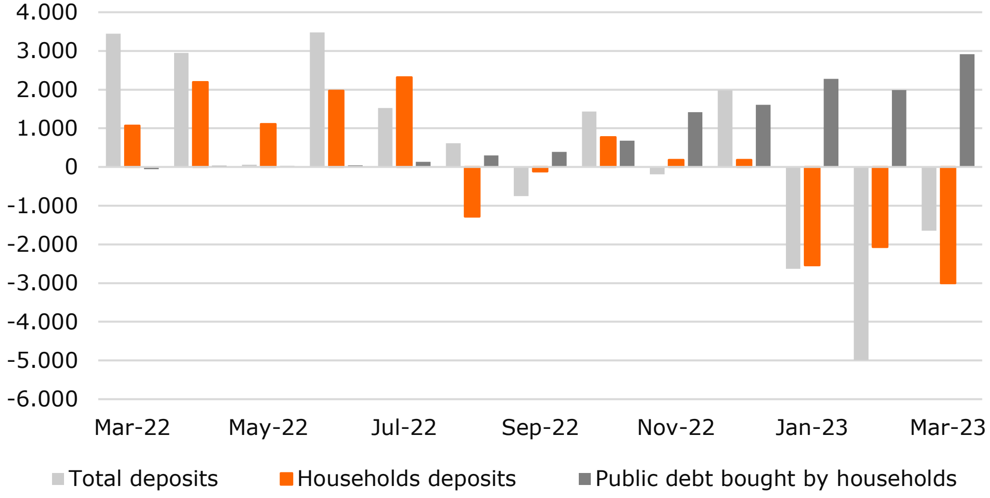



*Source: BPI Research, base on data from Bank of Portugal and ECB.*

### Deposits and public debt hold by families*

*Monthly variation (M€)*

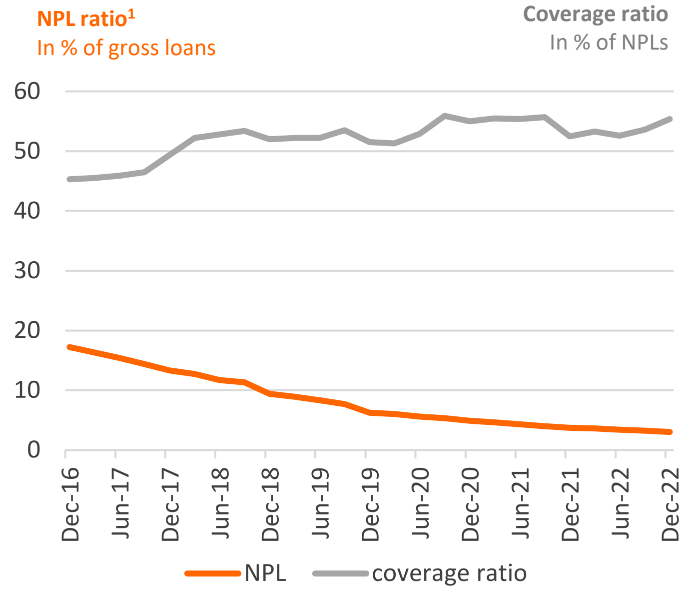



*Notes: (*) **Public debt by households includes** Certificados de Aforro, which can only be subscribed by resident households. The interest rate is calculated as Euribor 3M+1%, with a cap at 3,5%; to this return, CAs can have a holding premium of 0.5% from the 2nd to the 5th year or 1% from the 6th to 10th year (ending). The interests are capitalized. The maximum amount that Government can issue for these retail instruments (CA and CT) is 7bnEur in 2023.*
*Source: BPI Research, base on data from Bank of Portugal.*

- **The stock of credit is declining since mid 2022.**
  - **Mortgage credit:** significant deceleration (2.1% yoy in February, vs 2.6% in January), in line with the drop in new operations (-19.3% yoy accumulated in the first two months of 2023). High levels of interest rates, inflation and increasing housing prices explained this decline and this context should constrain this segment during next months. However, the absolute amount of mortgage new operations remains high by historical standards, above the one recorded in February 2020.
  - **NFC**: the stock has been declining since mid-2022, due to the redemptions of credit lines related with COVID. Additionally, new operations for the first two months of 2023 were the lowest value since the beginning of the series (2003).
- Since December, **deposits in the banking system have been declining** (-9.9bnEur since December); the pursuit for alternative applications (especially in the case of households, which can subscribe Treasury products directed to the retail segment - Certificados de Aforro and Certificados do Tesouro, for instance), the early repayment of debt (mortgage credit early repayments has been increasing) or higher expenditure needs due to the impact of higher inflation and interest rates, are some of the reasons behind this evolution.
- Deposits of the private sector decelerated the pace of growth to 0,5% yoy in March and those of families contracted 0,2%y; Meanwhile, the interest rate for new deposits has been increasing (last February, household's deposit interest rate reached 0.65%, in comparison to 0.04% in February 2022), a trend which may probably limit the recent movements to retail instruments.

# Banking system: a solid position to face the economic slowdown (2)

## NPLs and coverage ratios




**Cost of risk[1]**
0.5% in 2019
0.3% in Q4 2022

*Notes: (1) flow of impairments to credit as a percentage of total gross.*
*Source: Bank of Portugal*

## Banks' profitability

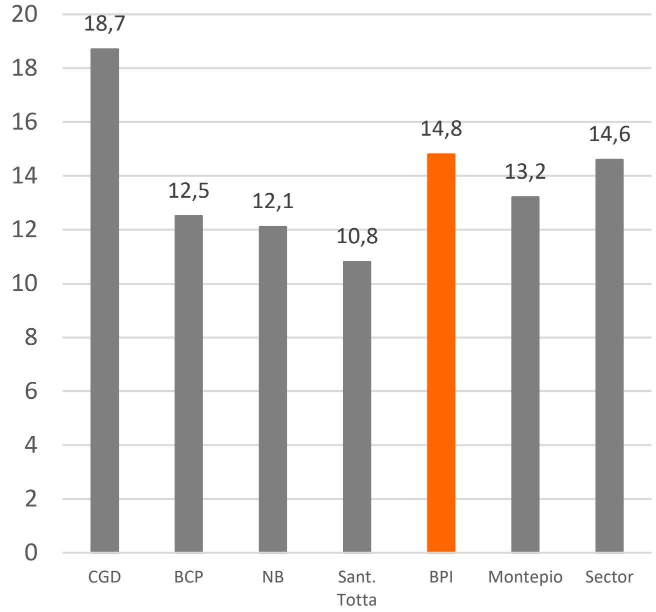
*In % of average total assets (Q4 22; trailing 12M)*

| | BPI | BCP | San Totta | CGD | NB* | Montepio |
|---|---|---|---|---|---|---|
| **Net interest income** | **1.3%** | **1.4%** | **1.3%** | **1.0%** | **1.4%** | **1.3%** |
| Net fees | 0.7% | 0.8% | 0.8% | 0.5% | 0.6% | 0.6% |
| Gains on financial assets | 0.1% | 0.1% | 0.1% | 0.2% | 0.1% | 0.1% |
| Other net profits | -0.1% | -0.1% | 0.0% | 0.0% | 0.3% | -0.1% |
| Gross income | **2.1%** | **2.3%** | **2.2%** | **1.8%** | **2.4%** | **1.9%** |
| Operating expenses | -1.1% | -0.9% | -0.8% | -1.0% | -1.0% | -1.3% |
| **Operational result** | **0.9%** | **1.4%** | **1.4%** | **0.8%** | **1.4%** | **0.6%** |
| Impairment losses, taxes and others | -0.2% | -0.6% | 0.0% | 0.2% | -0.2% | -0.2% |
| Profit | **0.6%** | **0.5%** | **1.0%** | **0.7%** | **1.2%** | **0.2%** |
| **ROTE[1]** | 8.0% | 4.0% | 12.3% | 9.8% | ver nota | nd |

*Notes: 1) the values for BCP and CGD refer to ROE; calculation methodologies differ between banks.*
** NB reports only 14.4% annualized pre-tax ROTE.*

## Banks' solvency and liquidity position

*In % (Q4 22)**




*Source: Banks publications, BoP*
*Notes: *Q3 for Novo Banco and Sector*

- **NPLs continue to decline, despite the fact that debt moratoria have already expired.** The total NPL ratio declined by 2 tenths to 3.0% in Q4 2022. The decrease is widespread to all segments, with especial focus on NFC (-0.7 p.p. to 6.5%). In relation to housing, the NPL ratio decreased by 0.1 p.p. to 1.1%. Nonetheless, it is possible that these ratios will gradually increase in the coming months, due to the increasing interest rates.
- **Profitability remains well above the pre-pandemic period,** in Q4 it improved 5 tenths to 8,8% (ROE). Profitability is expected to benefit from higher interest rates.
- **The capital position of Portuguese banks provides buffers against the risks that could arise due to the conflict in Ukraine and the impact of high interest rates on NPL's.** The CET1 ratios remain above the regulatory minimum.

BPI

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