Portugal:
Macroeconomic and financial outlook

BPI *Research*

November 2023

Prepared with information available by November 6th , 2023

BPI Grupo CaixaBank

Main messages

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Activity

- **In Q3, GDP contracted 0,2% (preliminary release), due to a negative contribution from external demand.** Detail is not yet known, but this performance may be influenced by temporary issues related with the shutdown on production in an important car factory (Auto Europa) during 2 weeks; and a volatile behavior of import and export deflators. **On annual basis, y/y growth decelerated to 1,9% from 2,5% in the previous quarter.** More recent economic indicators point to deceleration, but not contraction of activity; hence, we expect that the economy expands again in Q4. Moderation comes in line with the path of ECB monetary policy in order to combat inflation. The full impact of higher interest rates (internally and also on the activity of the main trading partners of Portugal) will be mainly felt in H2 2023 and H1 2024, limiting the capacity of growth in this period. We are keeping unchanged forecasts for annual growth in 2023 and 2024: 2,4% and 1,8%, respectively, but risks are slightly biased on the negative side.
- **The CPI flash estimate for October was encouraging with Global CPI at 2,1%.** This downward trend is positive and in line with what has happened in other eurozone countries. Although it was boosted by base effects, the 1.5 p.p. drop compared to September's figure was also due to negative or zero monthly price movements for the main components other than energy.
- **Labor market remains robust, but the unemployment rate rose to 6,5% in September.** Employed population fell on a monthly basis, but increased 1,2% yoy. All in all, there are signs that employment reached its peak, but our projection for an unemployment rate of 6,6% in 2023 accommodates this trend.
- **Tourism continues to perform well with the 3rd consecutive month with more than 3 million guests.** Even so, there is a slowdown in resident tourism, which practically stalled in September compared to the same period the previous year.
- **In housing market we revised upwards our forecast for average price change in 2023 (to 7,1% from 4%) and 2024 (to -0,1% from -2,1%).** This was due to the surprise on the upside in Q2 and the available data regarding price dynamics in Q3. Overall, supply side tightness keeps supporting valuations.
- **Fitch upgraded the Portuguese sovereign rating to A- from BBB+.** Strong commitment with fiscal consolidation, an expected surplus in the fiscal balance between 2023-25, the return of the external accounts to surpluses and reduction of indebtedness levels were the main factors supporting this decision.
- **Up to September, the fiscal balance registered a surplus equivalent to 3,7% of GDP** (cash basis and adjusted by the transfer of the Caixa Geral de Depósitos Employees Pension Fund to Caixa Geral de Aposentações, of about EUR 3.0 billion, an one-off that will have no impact on the official final figure). Given this very positive performance we revised our forecasts for the fiscal balance to a surplus of 0,7% of GDP in 2023 and of 0,4% in 2024. This performance will permit the decline of the public debt ratio to below 100% of GDP for the first time since 2009. These forecasts are in line with the targets included in the proposal for the official budget 2024 (SB24), that the Government presented in mid-October.

Banking Sector

- **NPLs ratio stable in Q2 2023.** The strong position of the labor market, expected to worsen only moderately, and the improved position of households and firms in terms of leverage, suggest that the interest rate impact on credit quality might be contained, in a context of a stronger position of the banking sector. Additionally, macroprudential measures continue to be relatively tight and should also help to avoid major worsening of credit quality data: banks should reduce gradually average maturity of housing loans to 30 years; before mortgage loans decisions, institutions have to apply an interest rate shock (depending on the maturity, it can reach 150 bp) to assess the impact on the debt service of an hypothetical increase of interest rates.

Main economic forecasts

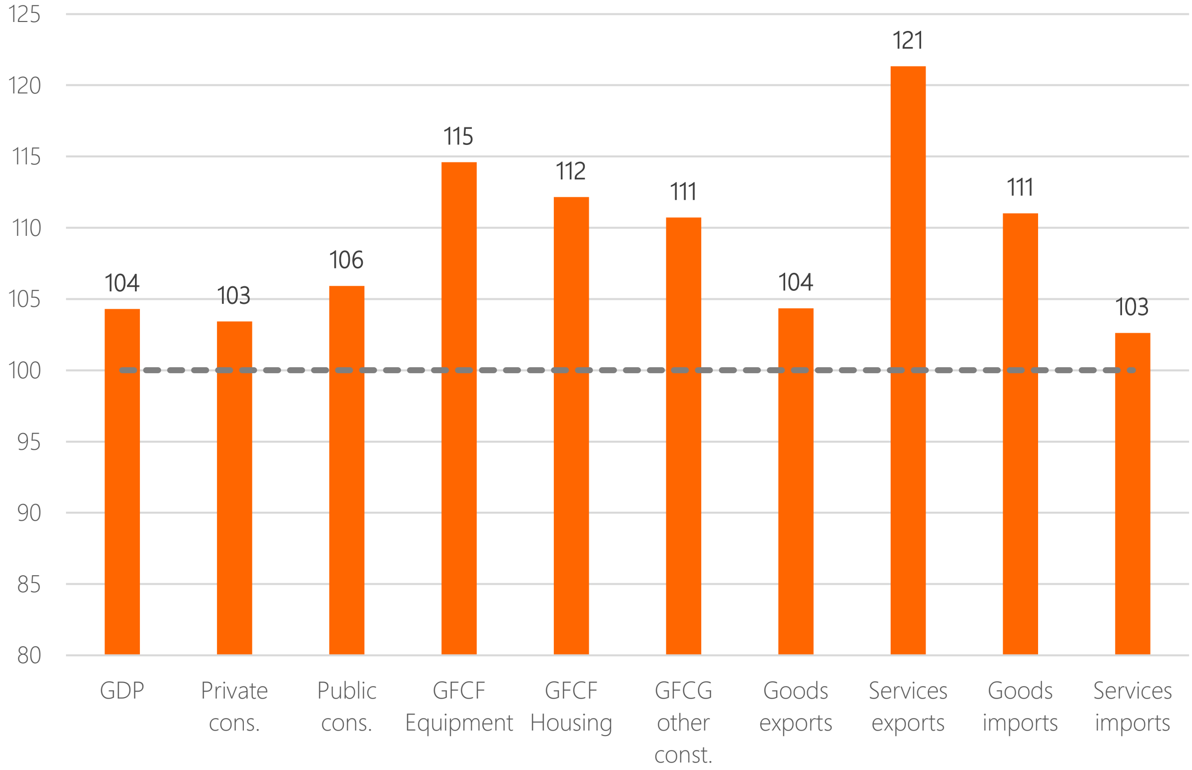
%, yoy	2016	2017	2018	2019	2020	2021	2022	Forecasts 2023	Forecasts 2024
GDP	2,0	3,5	2,8	2,7	-8,3	5,7	6,8	2,4	1,8
Private Consumption	2,6	2,1	2,6	3,3	-7,0	4,7	5,6	0,9	0,7
Public Consumption	0,8	0,2	0,6	2,1	0,4	4,5	1,4	1,2	1,3
Gross Fixed Capital Formation (GFCF)	2,5	11,5	6,2	5,4	-2,2	8,1	3,0	1,3	5,0
Exports	4,4	8,4	4,1	4,1	-18,8	12,3	17,4	5,5	2,7
Imports	5,0	8,1	5,0	4,9	-11,8	12,3	11,1	1,6	2,5
Unemployment rate	11,4	9,2	7,2	6,6	7,0	6,6	6,0	6,6	6,5
CPI (average)	0,6	1,4	1,0	0,3	0,0	1,3	7,8	4,6	2,4
External current account balance (% GDP)	1,2	1,3	0,6	0,4	-1,2	-0,8	-1,4	1,2	1,2
General Government Balance (% GDP)	-1,9	-3,0	-0,3	0,1	-5,8	-2,9	-0,3	0,7	0,4
General government debt (% GDP)	131,5	126,1	121,5	116,6	134,9	125,5	112,4	103,0	98,6
Risk premium (PT-Bund) (average)	307	269	138	98	89	60	97	83	87

Source: *BPI Research*

GDP recovered swiftly since pandemic

GDP components: Q2 2023 vs Q4 2019

Real Index (Q4 19 = 100)



Source: BPI Research, from INE

Services exports (in real terms) are (much) more than tourism

Index in real terms (Q4 2019 = 100)

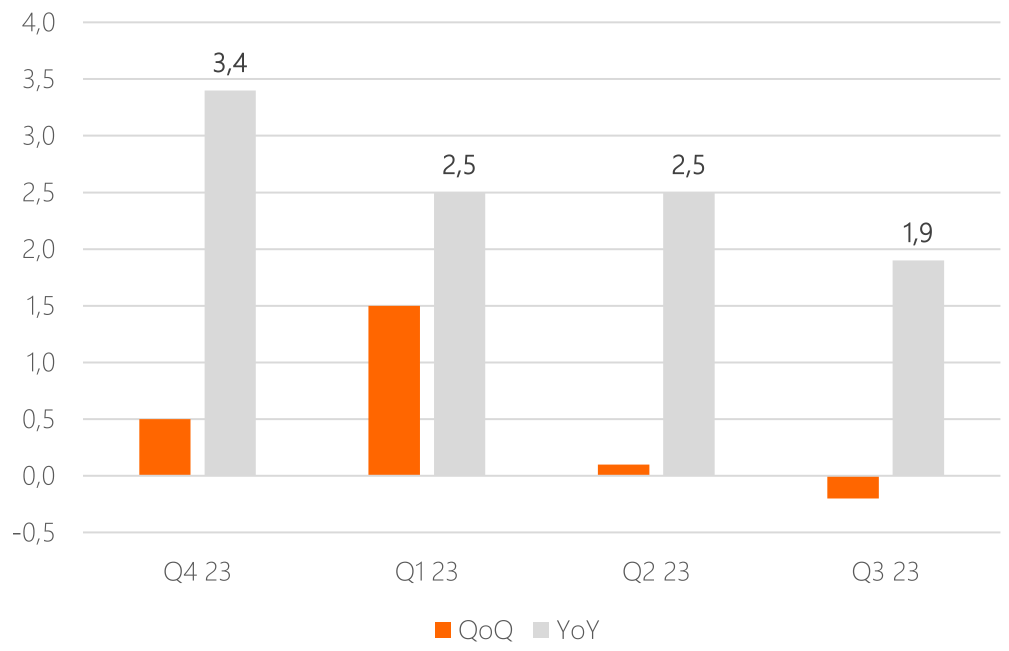
Million euros at constant prices (base year 2019, acumulated data up to August)	2019	2022	2023	Average annual growth
Total	23.425	25.688	28.914	5,4
Tourism, including passenger transport	14.772	14.900	17.167	3,8
Non-tourist services	11.035	13.101	14.492	7,1
ICT	1.295	2.069	2.235	14,6

- Available detailed data up to Q2 shows that the economy recovered very well since the pandemic. All components are above 2019 year end, and we should highlight investment and exports as the best performers.
- Tourism is important for this achievement, but other services exports (apart from tourism) are also playing an important role, mainly exports of high value added services, for instance the ones related with information and communication technologies (ICT).

GDP: contraction in Q3 due to weakness of foreign demand and one-off factors

GDP: contracted in Q3 (on a quarterly basis)

% qoq, yoy



Economic indicators from + to -

% annual growth

yoy, level		Q1 23	Q2 2023	Q3 2023	Q4 2023	Last month available
Synthetic indicators	Economic climate indicator	2,0	1,8	1,3	0,8	October
	Economic sentiment indicator	101,0	100,1	97,5	94,6	October
	Daily economic indicator	2,6	1,6	2,7	3,3	October
Consumption	Consumer confidence	-33,4	-26,8	-22,9	-27,7	October
	Retail sales (yoy)	1,7	3,0	1,6	-	September
	Retail sales excl. fuels (yoy)	1,6	2,5	1,9	-	September
	Car sales (yoy)	48,2	41,4	12,2	9,8	October
Investment	GFCF indicator	0,5	2,9	3,3	-	August
	Imports of capital goods (accum. year)	8,6	8,8	7,2	-	August
Suply	Cement sales	-7,6	4,2	8,8	-	August
	Industrial production	1,0	-5,0	-3,6	-	August
Demand	Electricity consumption	1,9	-2,2	-1,3	3,1	October
	Non-resident tourists (yoy 2019)	13,5	10,0	9,7	-	September
	Number of flights (yoy 2019)	12,5	5,6	6,6	11,9	October
Labour market	Change in regist. unemployment (thousand people)	-27,5	-11,4	10,8	-	September
	Change in employment (thousand people)	20,0	62,3	63,1	-	September

Source: BPI Research, from Bank of Portugal, EC, IMF

- **GDP contracted 0,2% qoq in Q3**. Detail will be available by the end of November, but INE's explanations suggest some temporary factors explain this behavior: the two-week shutdown of production in Auto Europa and huge volatility in the deflators of external components led to a negative contribution of foreign demand. Domestic demand continued to grow, supported by consumption and investment. **The Q3 result puts average quarterly growth for 2023 (Jan.-Sept) at 0.5%.**
- Available data for Q4 is still very scarce, but point to the materialization of the expected deceleration, as higher financing costs keeps weighing on demand. Nevertheless, data available so far continue to indicate that activity is expanding, although probably more supported on domestic demand.

2024: structural improvements will help to avoid a strong deceleration

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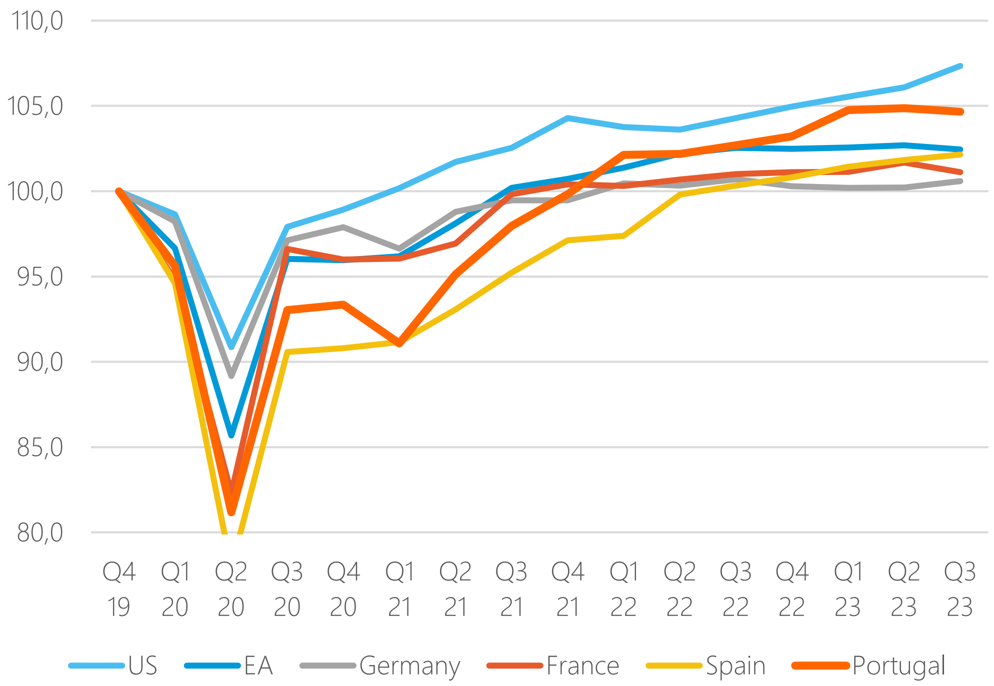
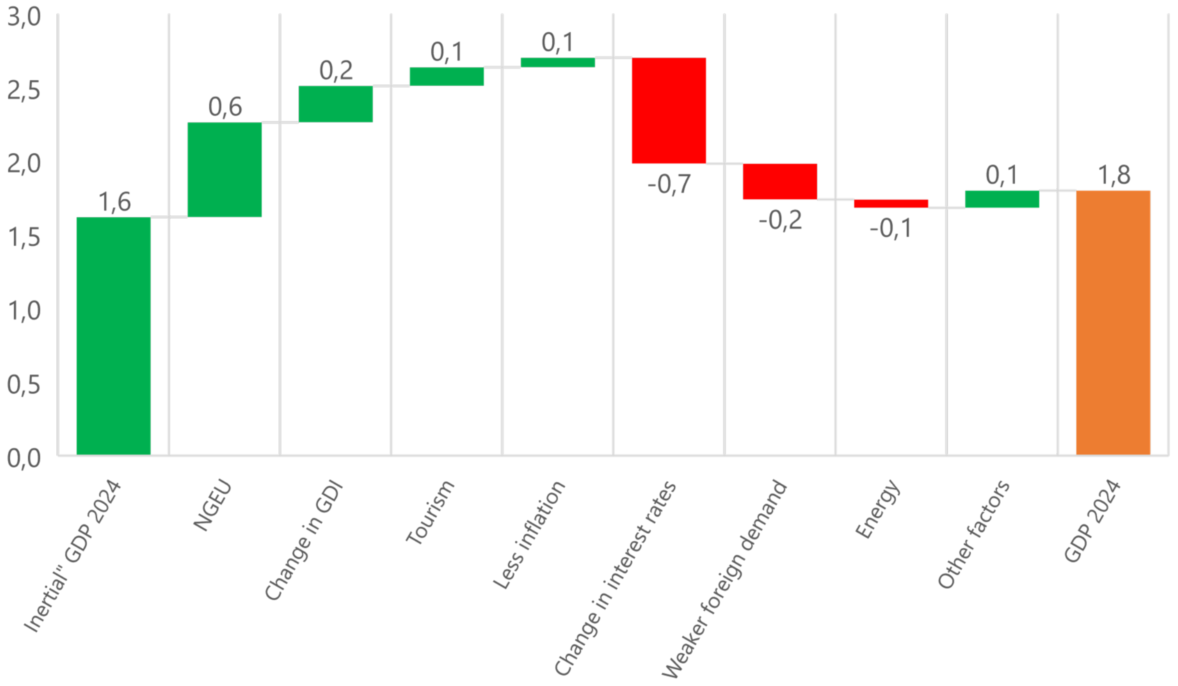
Portuguese recovery compares well with other economies

GDP Q4 19=100



GDP 2024: tail and headwinds

Percentage points

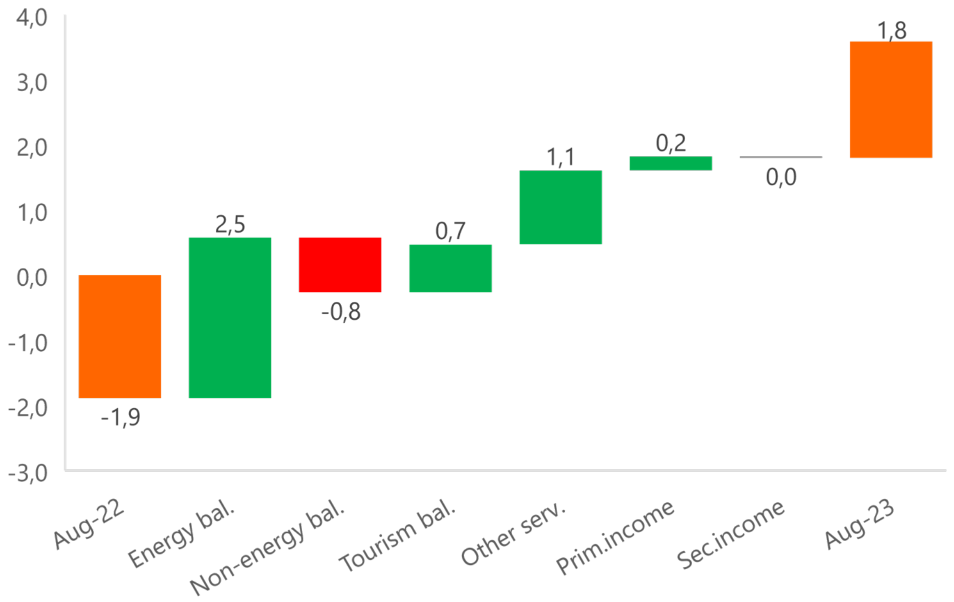


Source: *BPI Research, from IMF, INE, BoP*

- **For 2024, we predict slower growth than in 2023.** GDP is expected to advance 1.8%, -0.5 pp than in 2023, with the first half of the year being particularly penalized, reflecting the full impact of the increase in interest rates.
- **The headwinds and tailwinds seem almost balanced, but 2024 will begin dominated by great uncertainty which could lead to a deterioration in the headwinds.** The risk of an intensification of the Israeli-Palestinian conflict, with an impact on the price of energy commodities, would imply more inflation and probably more tightening by the ECB, with a considerable impact on growth. In this alternative scenario (whose probability looks small, for now), the already negative impact of the expected increase in the price of oil would worsen; the positive contribution associated with a more benign scenario for inflation would disappear (or become more of a headwind...); and the negative impact associated with the slowdown in trading partners would be greater than estimated in the central scenario. In other words, our forecast of 1.8% growth would be compromised. **All in all, there are conditions for the Portuguese economy to remain resilient in 2024, but the risks and external factors are significant, once again generating high uncertainty in the scenario.**

Lower energy prices, more tourism and structural improvements brought external accounts to surplus again

Current account evolution up to August2023
% of GDP and p.p. changes



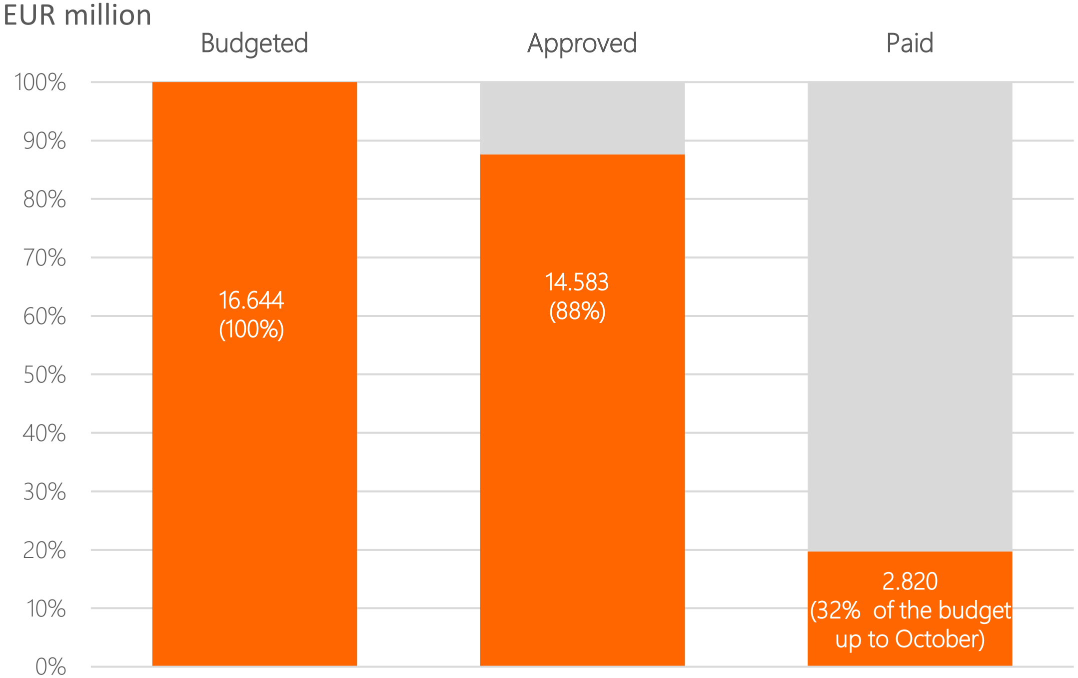
Source: BPI Research, *from INE*

Balance of services
% of GDP

- **The current account posted a surplus in the H1 2023 equivalent to 0,4% of GDP.** Compared to the same period a year ago, the main contributions for this improvement came from the energetic balance and balance of services, both tourism and other services.
- **Worth to mention the increase in the market share of services. Tourism continues to be the main contributor to growth of exports of services, but other services are gaining importance.** In 2019 the latter weighed 6,2% in GDP and in 2023 increased to 8,1%. TIC and technical and business consultancy services, including R&D services, are among those with better performance, with annual growth since 2019 of 20% and 16%, respectively.

NGEU: 30% paid up to October

NGEU Funds up to October2023



Source: BPI Research, from Recuperar PortugalPI

Approvals and payments to direct and final beneficiaries

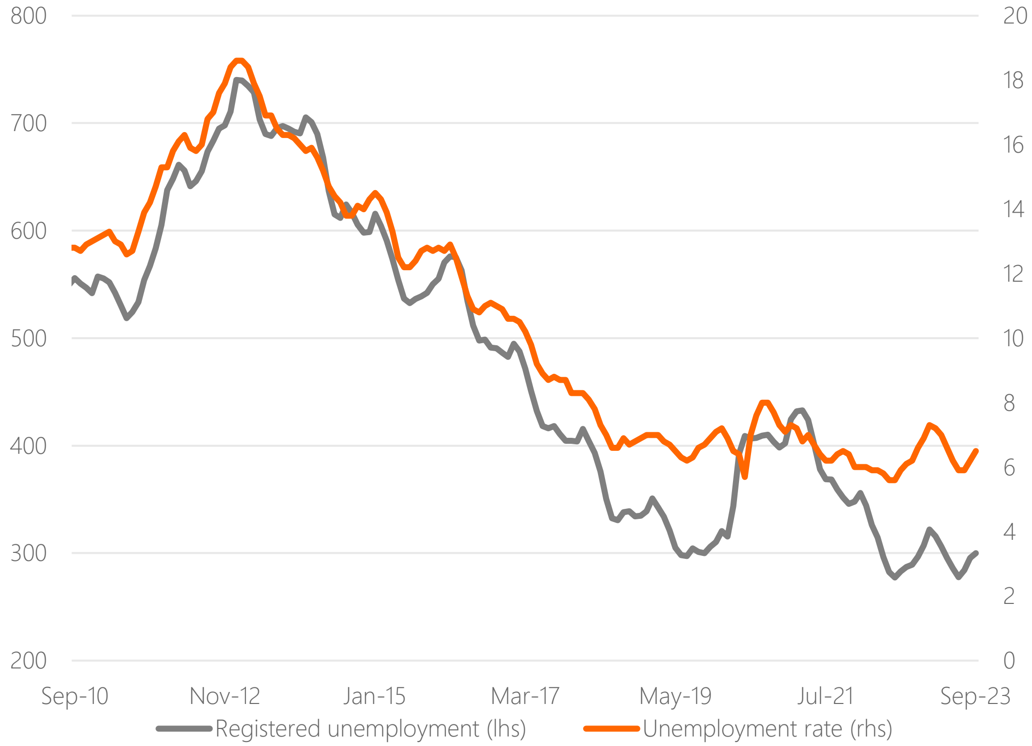
(Up to November 1st)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	188	151	80,3
Social and solidarity economy institutions	378	67	17,7
Firms	4.567	843	18,5
Institutions of the scientific and technological system	330	52	15,8
Higher Education Institutions	624	143	22,9
Schools	385	258	67,0
Municipalities and metropolitan areas	1.525	196	12,9
Public entities	4.335	743	17,1
Public firms	2.251	367	16,3
Total (million euros)	**14.583**	**2.820**	**19,3**
(% total RRP)	***87,6%***	***16,9%***	

- **Up to the end of October the approval rate stood at 88%, which looks promising for the use of the funds that Portugal will receive until 2026.** The payment rate remains below the approvement rate but is recovering. Since September, payment rates to firms, institutions of the scientific and technological system and social and solidarity institutions were those that accelerated further.
- The Regulation of the Resilience and Recovery Mechanism foresees adjustments in the distribution of NGEU funds among the various countries according to the accumulated growth of real GDP in 2020-21, which **in the case of Portugal led to an increase of the funds to be received from 16,6 billion euros to 22,2 billion euros (2,4 billion grants and 3,2 billion loans).** Some priorities for these additional of grants and loans are the increase of the amounts available for companies, for the STEAM program (intended to strengthen labor force skills) and for the reinforcement of social equipment's. **The Portuguese authorities estimate that the impact of the funds currently available for the implementation of the RRP will led to an increase of 4,1% in potential GDP over the next 10 years.**

Labor market continues robust but it's reaching a plateau

Registered unemployment* and unemployment rate

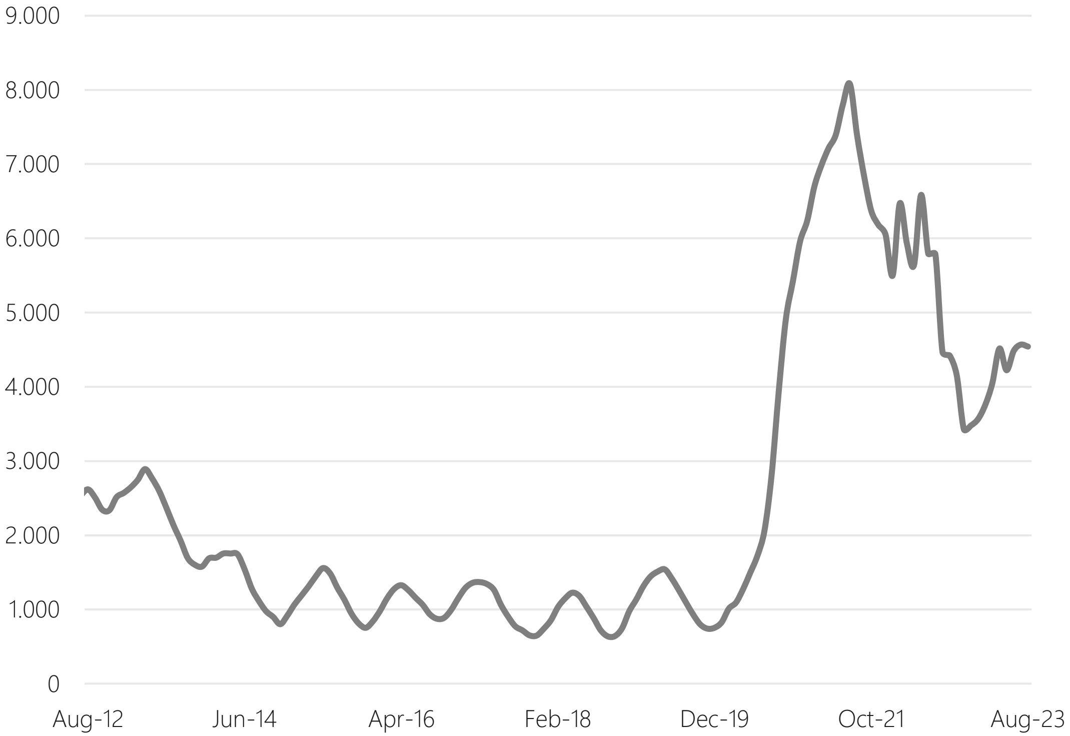
Thousand people (%)



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

Layoff*

6-months moving average (Number of individuals)



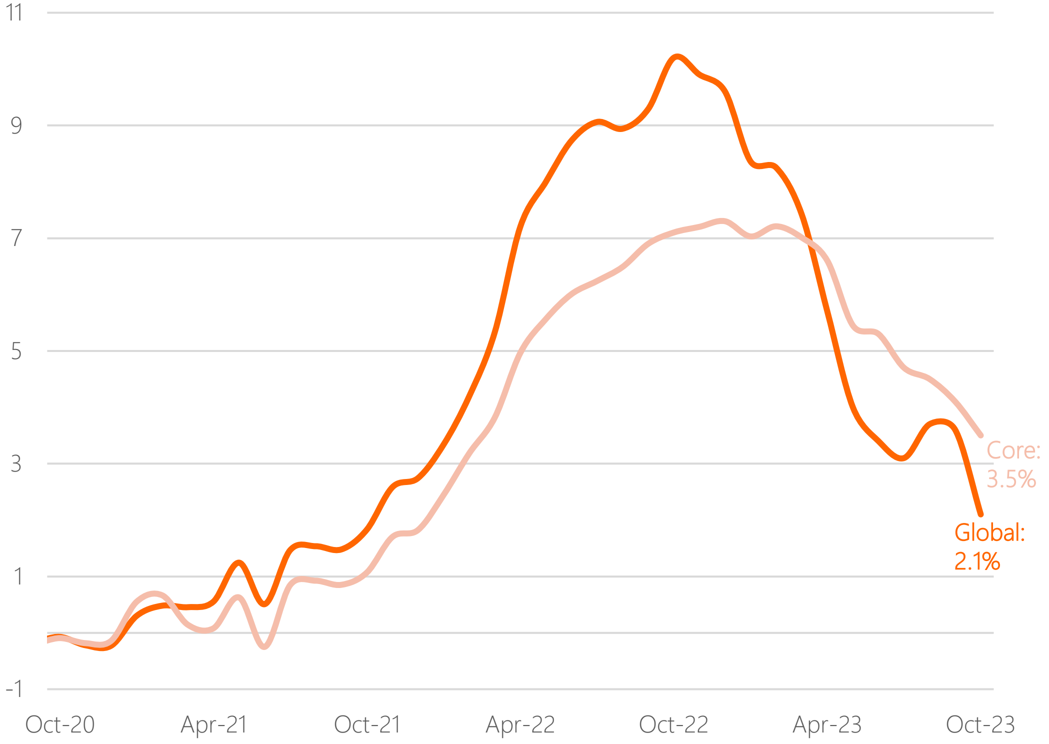
Note (*): Labor code regime.
Source: BPI Research, from Social Security data.

- **The labor market appears to have reached a plateau, and there are some risks in the more recent data.** The unemployment rate rose to 6.5% in September and the employed population declined 0,1% mom, although still 1,2% above the level of September 2022. **Still, uncertainty issues arouse in September:** the number of registered unemployed people increased on a monthly and yearly basis; the number of workers on a situation of layoff is above the long term average.
- **Despite these less positive signs, risks for BPI current forecast for the unemployment rate in 2023 (6,6%) are low, as it already incorporates an increase of unemployment in the H2 2023.**

Inflation: October came with good news

Portugal CPI: Global & Core

Year-on-year (%)



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

CPI : Montlhy dynamics

month-on-month (%)

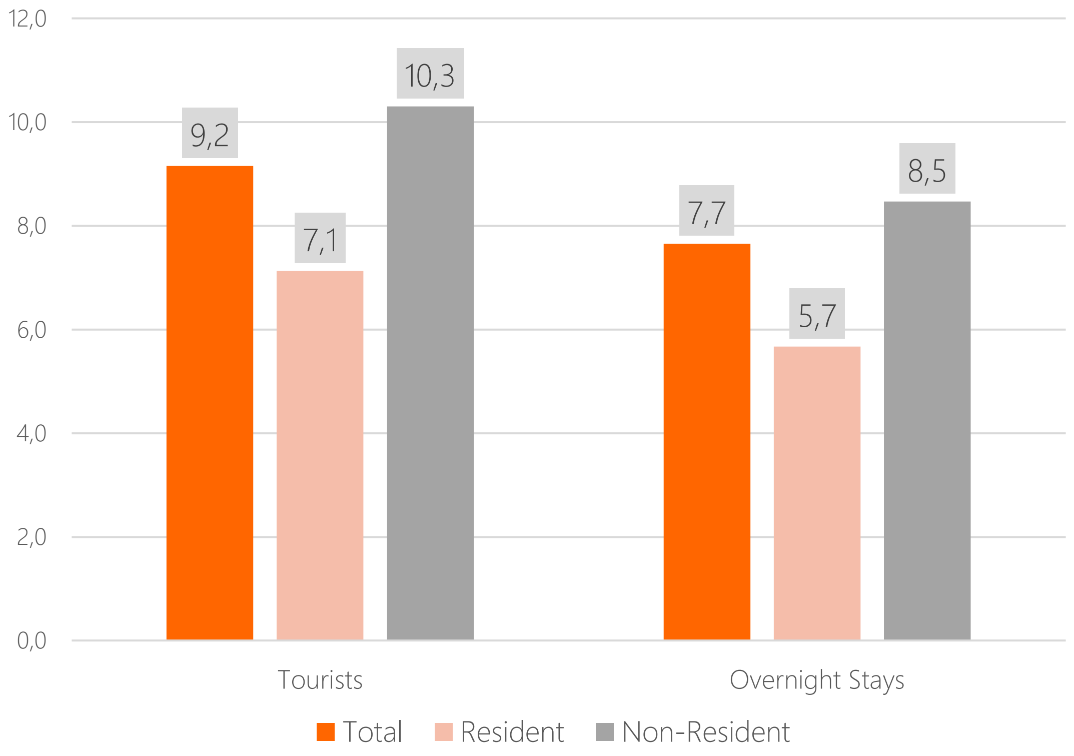
Aggregate	Monthly Change (%) Sep-23	Oct-23	October average (2015-2019)
Global CPI	1,09	-0,17	0,14
Core CPI	1,15	0,04	0,13
Energy CPI	1,74	-2,10	0,29
Non Processed food CPI	0,24	-0,28	0,04

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

- **Inflation in October with strong downward trend, to 2,1%, 1,5 p.p. down from September figure.** The core CPI also followed the trend, moderating to 3,5% (4,1% in September). It should be emphasized that this is the first record of inflation below 3% since December 2021. We don't rule out the possibility of higher inflation by the end of the year, as this was a figure boosted by base effects, mainly in the energy index, whose monthly prices rose by almost 7 per cent in October 2022.
- **In monthly terms, the dynamics was one of disinflation.** All the main aggregates showed price decrease or stagnation, and behaved bellow historical patterns. In fact, if we look at the monthly change in the Global CPI for October (in annualized and seasonally adjusted terms), the inflation would be 1,8%.

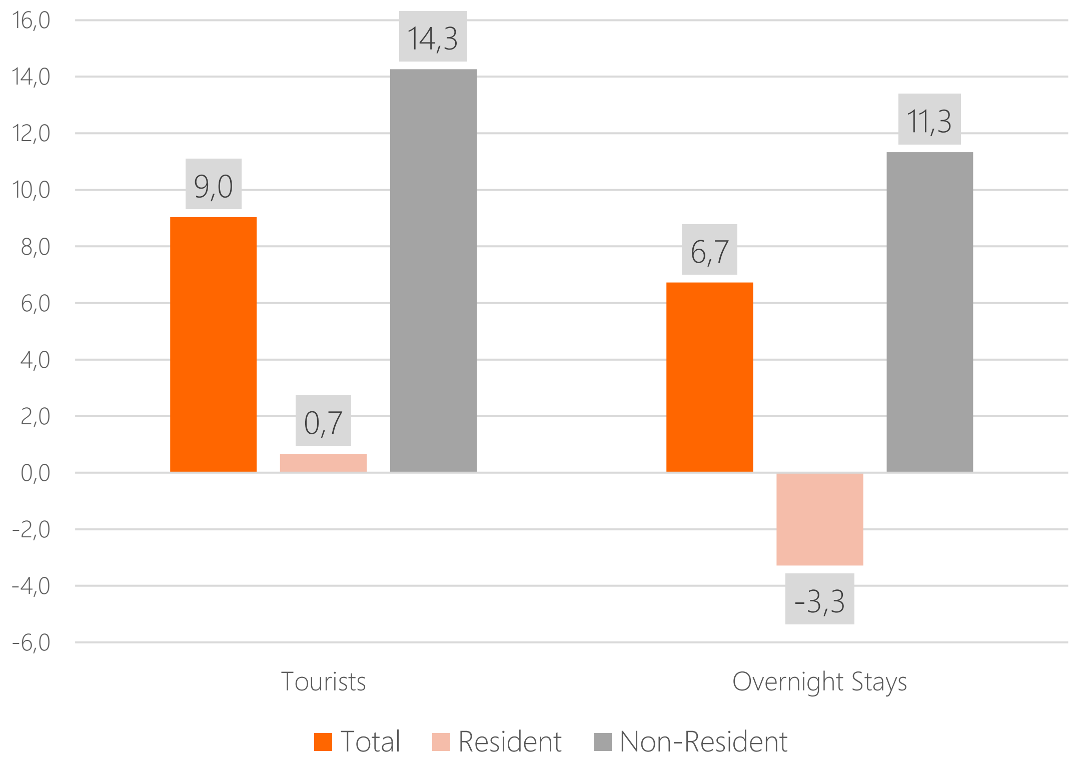
Tourism: above 3 million guests in September

Tourists & Overnight stays: Sep. 2023 *vs* Sep 2019
Change (%)



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

Tourists & Overnight stays: Sep. 2023 *vs* Sep 2022
Change (%)

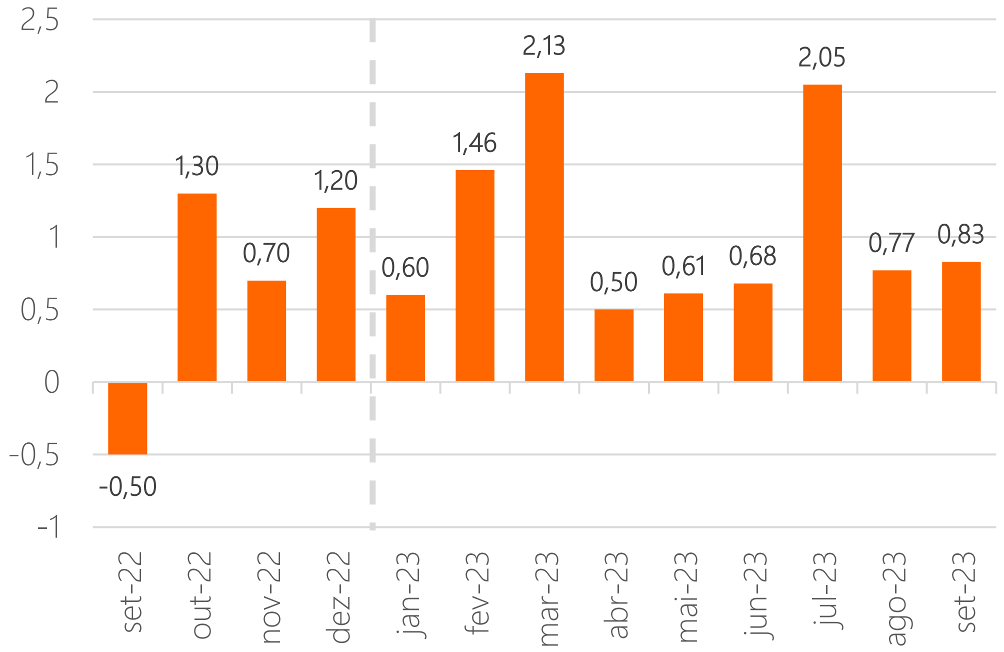


***Source**: BPI Research, using data from INE.*

- **In September, for the first time since records began, the number of guests exceeded 3 million for the third month in a row.** Overall number of guests and overnight stays was above pre-pandemic levels and with stronger numbers by non-residents.
- **When compared to the same month in 2022, we see that it is non-resident guests who are supporting growth.** Despite the good overall figures, some important aspects should be noted: Compared to September 2022, the growth in resident tourists was residual (+0,7%) and overnight stays fell (-3,3%), with the Algarve being the region that contributed most to this figure (-17% of overnight stays from residents).

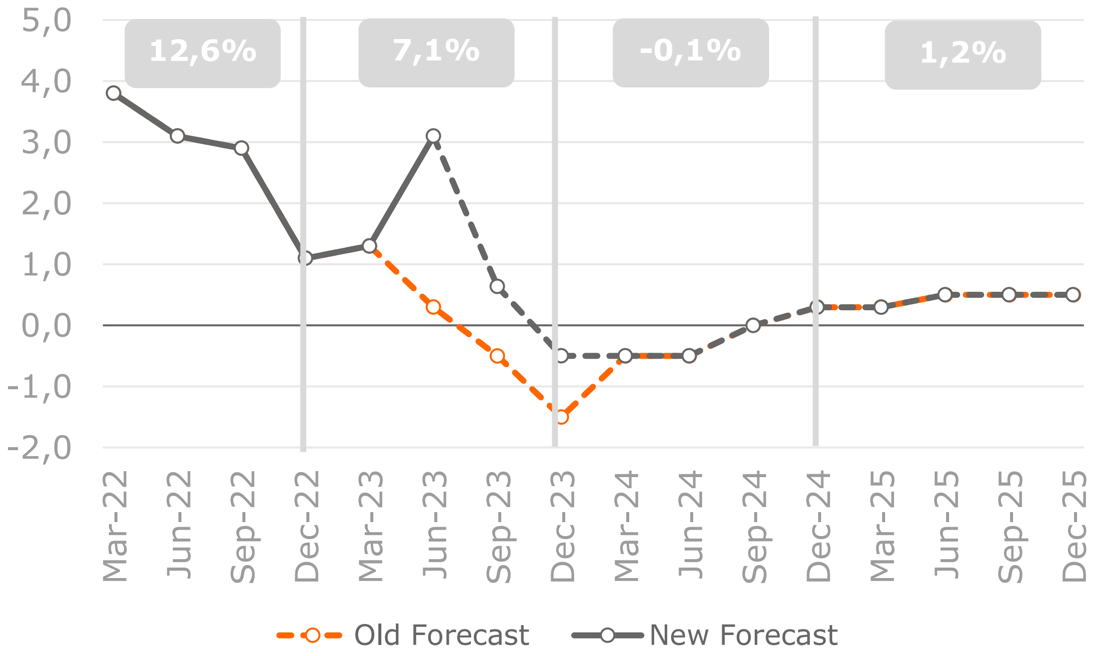
Housing market: forecast for prices reviewed on the upside

Residential house prices: index from C. Imobiliário
mom change (%)



***Source:** BPI Research from data of Confidencial Imobiliário.*

House prices: real and forecasted
qoq change (%), in boxes avg. annual growth



***Source:** BPI Research from data of INE.*

- **Given the surprise in the strength of the Q2 2023 Housing Price Index data, we have revised our forecast upwards:** we now expect residential property to appreciate by an average of 7,1% in 2023, compared to 4,0% previously. Despite the overall reduction in the number of transactions (-22,9 per cent compared to the same quarter in 2022), the market continues to be supported by low levels of unemployment, strong demand from non-residents and budgetary measures aimed at accommodating increases in the interest rates of mortgage loans, thus limiting defaults and forced sales**.**
- **The data released for Q3 from Confidencial Imobiliário suggests that prices continued to rise.** In any case, the effect of prolonged monetary tightening, on the one hand, and government measures aimed at increasing the supply of property on the market, on the other, should contribute to greater price stabilization in the medium term.

State Budget 2024 sees public debt ratio below 100%

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SB 2024: macroeconomic scenario

%

	2022	2023 BoP oct.23	2023 IMF oct.23	2023 Min.Fin. oct.23	2023 BPI sep.23	2024 BdP oct.23	2024 FMI oct.23	2024 Min.Fin. oct.23	2024 BPI sep.23
Real GDP (annual growth, %)	6.8	2.1	2.3	2.2	2.4	1.5	1.5	1.5	1.8
Private consumption	5.6	1.0	-	1.1	1.1	1.3	-	1.1	0.8
Public consumption	1.4	1.2	-	2.0	1.1	1.2	-	2.3	1.2
GFCF	3.0	1.5	-	1.3	1.3	5.0	-	4.1	5.0
Exports	17.4	4.1	8.0	4.3	5.5	2.1	2.8	2.5	2.4
Imports	11.1	1.3	5.2	1.8	1.5	3.4	3.9	3.2	2.4
HCPI	8.1	5.4	5.3	4.6	4.6	3.6	3.4	2.9	2.4
Unemployment rate (%)	6.0	6.5	6.6	6.7	6.6	6.7	6.5	6.7	6.5
Employment (anual change, %)	1.5	0.8	0.7	1.1	1.1	0.2	0.6	0.4	0.4
Current account (% GDP)	-1.3	-	1.3	1.4	1.2	-	1.1	0.1	1.2

Source: BPI Research, from SB 2024

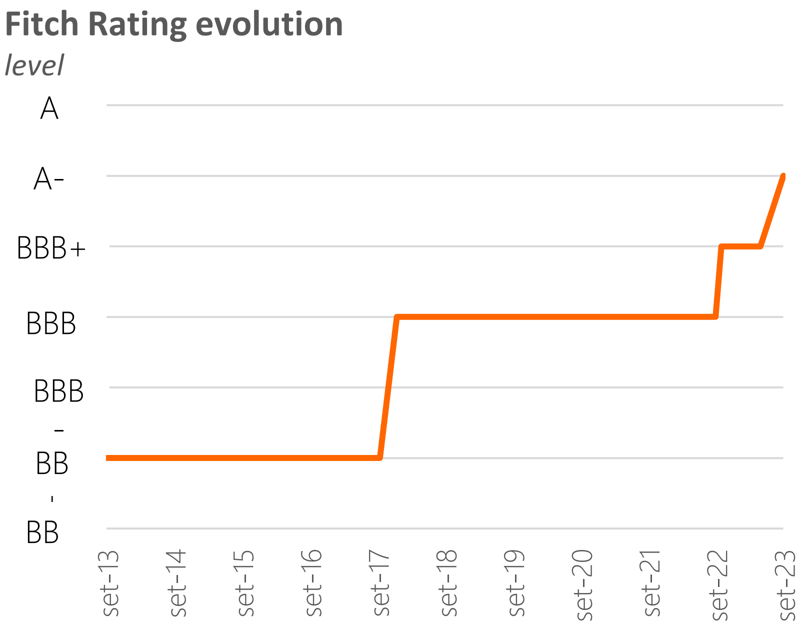
Main items of the public accounts

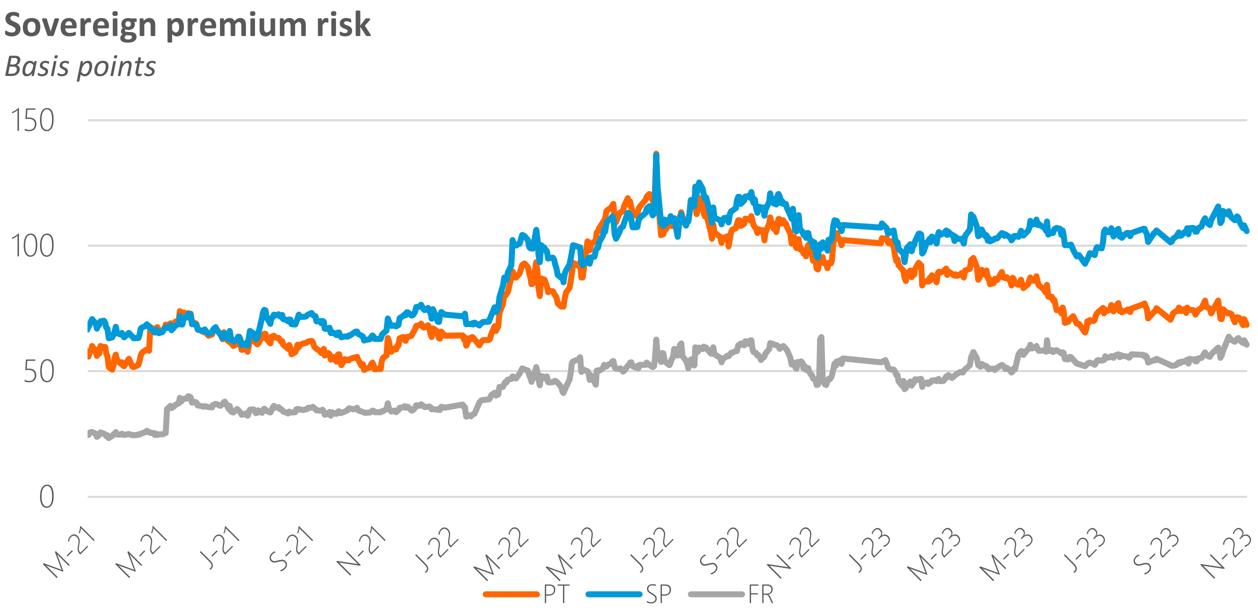
%

(% GDP	2019	2020	2021	2022	2023	2024	change 2024-2019 % GDP	change 2024-2023 YoY %	change 2024-2023 Contribution
Current revenues	42.2	42.9	43.4	43.2	42.4	43.0	0.8	5.9	5.7
Fiscal & Contributory revenues	36.6	37.3	37.3	37.8	37.2	37.4	0.8	4.9	4.2
Capital revenues	0.4	0.5	1.2	0.6	1.1	1.8	1.4	71.2	1.8
Total revenues	**42.6**	**43.4**	**44.6**	**43.8**	**43.5**	**44.8**	**2.2**	**7.5**	-
Acquisition of goods & services	5.1	5.5	5.6	5.5	5.5	5.6	0.5	7.4	1.0
Personnel expenses	10.8	11.9	11.6	10.7	10.5	10.6	-0.2	5.5	1.4
Social benefits	18.1	20.0	19.3	18.5	17.7	18.1	0.0	6.6	2.8
Interests	3.0	2.9	2.4	1.9	2.1	2.3	-0.7	10.6	0.5
Investment	1.8	2.4	2.6	2.4	2.8	3.3	1.5	24.2	1.6
Total expenditures	**42.5**	**49.2**	**47.5**	**44.1**	**42.6**	**44.5**	**2.1**	**9.0**	-
Primary current expenditure	36.7	41.9	41.2	38.4	36.8	37.8	1.1	7.1	6.1
Budget balance	**0.1**	**-5.8**	**-2.9**	**-0.3**	**0.8**	**0.2**	**0.1**	-	-
Primary budget	3.1	-2.9	-0.5	1.6	3.0	2.5	-0.6	-	-
Public debt	**116.6**	**134.9**	**124.5**	**112.4**	**103.0**	**98.9**	**-17.7**	-	-

- **The macroeconomic scenario behind the 2024 State Budget** is in line with recent forecasts from international institutions and Bank of Portugal; and more conservative than the BPI's scenario. In addition, the inflation rate is assumed to decelerate more gradually than our forecast and the unemployment rate is expected to stabilize at 6.7%. **In short, this is a prudent macroeconomic scenario.**
- **The budget balance for 2023 was revised to +0.8%, from -0.4% of GDP in the Stability Program (presented in April).** Main explanations for this upward revision are: higher tax and contributory revenues (+1% GDP) and lower expenditure (-0.9% GDP, of which 0.4% related to lower public investment).
- **The government is strongly committed to consolidating public accounts:**
  - **Budget balance is seen to remain in positive territory in 2024 (0.2% of GDP),** lower than the forecast for 2023 due to a greater increase in expenditures than in revenues
  - **Revenues:** reduction in personal income tax, offset by indirect taxes (updating of rates, end of "zero VAT" measure).
  - **Expenditure:** updating of pensions and civil servants' salaries with a major impact (0.8% and 0.3% of GDP, respectively); current primary expenditure will increase

Commitment with fiscal consolidation pushes up the sovereign rating





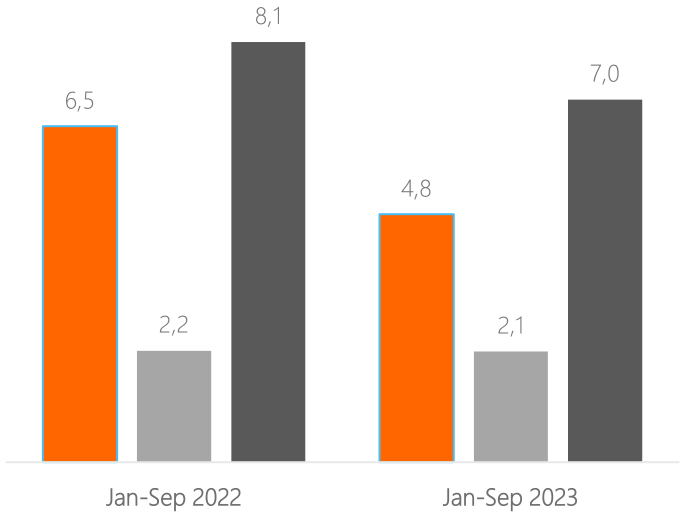
Source: BPI Research, from Fitch Ratings and Refinitiv

Fitch upgraded the Portuguese sovereign rating to A- from BBB+ (best classification since 2011) with main drivers being:

- **Strong commitment to fiscal consolidation.** Fitch expects public debt to fell to 104,3% in 2023, keeping the downward trend up to 2025 to 96,5%. The level forecasted for 2025 is still well above the average of countries rated with A, but risks to debt sustainability are mitigated by a moderate debt amortization schedule.
- **An expected budget surplus in 2023.** Fitch foresees a surplus equivalent to 0,5% of GDP, due to the impact on expenditure of the end of pandemic and energy measures implemented to support economic agents activity. For 2024-25, it is also expected surpluses of 0,4% and 0,3 of GDP, respectively.
- **Return of current account to surpluses:** lower import prices and strong dynamic of exports (mainly services) will push the current account balance to +0,8% of GDP in 2023. For 2024-25, current account will maintain surpluses, but less strong than in 2023.
- **Financial stability risks** related with the impact of higher interest rates on families, are mitigated by the decline of indebtedness, concentration of debt in higher income families; and also by the implementation of measures to alleviate debt services stress for some families.
- **Resilient banking system:** Q2 2023 data shows NPL ratio at 3,1%; Tier 1 capital ratio in 16,4%.
- **Fitch sees GDP to grow 2,1% in 2023 (1,3% in April) and 1,8% in 2024**, due to the expected slowdown of activity in the main Portuguese trade partners and an expected slowdown on the pace of NGEU funds distribution.
- **Annual inflation** is forecasted to average 5,3% in 2023, slowing to 3,1% in 2024 and to 2,2% in 2025.

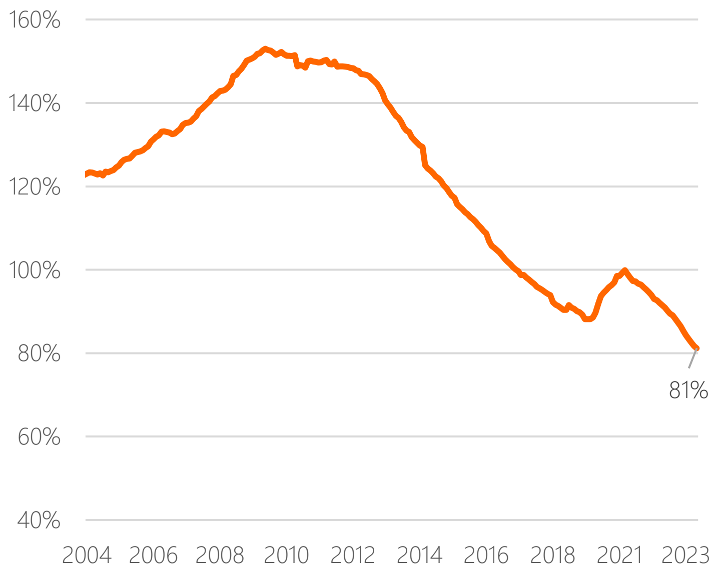
Banking system: a solid position to face the economic slowdown (1)

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



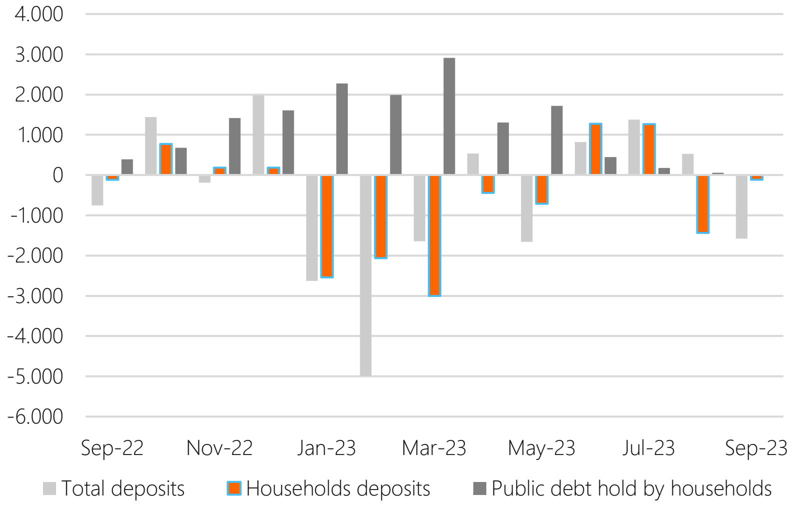
Source: BPI Research, base on data from Bank of Portugal and ECB.

Bank credit to the private non-financial sector
% GDP



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

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

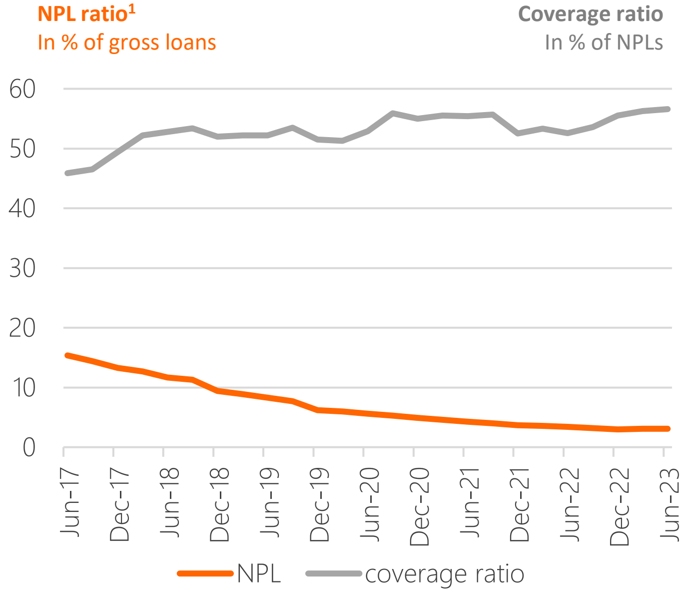


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 16.5 bn Eur in 2023.
Source: BPI Research, base on data from Bank of Portugal and IGCP.

- **The stock of credit is decelerating since mid-2022:**
  - **Mortgage credit:** declined 0,9% yoy in September, in line with the drop in new operations (-20,3% yoy accumulated in the first nine months of 2023) and the amount of early redemptions. High levels of interest rates, inflation and housing prices explain this decline, which should continue next months. However, the absolute amount of new mortgage operations remains high by historical standards.
  - **NFC:** the stock has been declining since mid-2022, due to the redemptions of COVID-credit lines, lower investment, favorable level of deposits and continuing weak new credit operations.
- Deposits of the private sector decreased in September (-2,4% yoy) for the sixth month in a row, especially due to households' deposits (-3,7% yoy). Meanwhile, interest rates for new deposits have been increasing (last September, household's deposit interest rate reached 2,29%, the highest rate since May 2013), which together with the recent change in CA's new subscription conditions (maximum interest rate of 2,5%), may limit futures declines in deposits.

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

NPLs and coverage ratios



Cost of risk[1]
0.5% in 2019
0.5% in Q2 2023

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

Banks' profitability

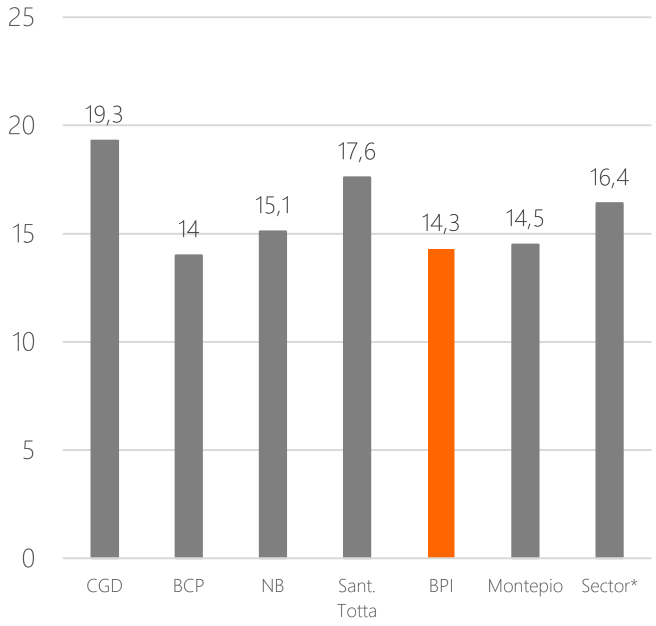
In % of average total assets (H1 23; trailing 12M)

	BPI	BCP	San Totta	CGD	NB	Montepio
Net interest income	**2.2%**	**2.2%**	**2.0%**	**2.6%**	**2.3%**	**2.0%**
Net fees	0.7%	0.9%	0.8%	0.6%	0.6%	0.7%
Gains on financial assets	0.1%	0.0%	0.0%	0.3%	0.2%	-0.2%
Other net profits	-0.2%	-0.2%	0.0%	-0.1%	-0.3%	-0.2%
Gross income	**2.8%**	**2.9%**	**2.8%**	**3.4%**	**2.9%**	**2.4%**
Operating expenses	-1.2%	-0.9%	-0.9%	-1.1%	-1.0%	-1.3%
Operational result	**1.6%**	**2.0%**	**1.9%**	**2.3%**	**1.9%**	**1.1%**
Impairement losses, taxes and others	-0.1%	-0.5%	-0.2%	-0.5%	-0.2%	-0.2%
Profit	**1.0%**	**1.1%**	**1.1%**	**1.2%**	**1.6%**	**0.7%**
ROTE[1]	11.6%	16.8%	17.6%	13.5%	ver nota	nd

Notes: 1) the values for BCP and CGD refer to ROE; calculation methodologies differ between banks. In the case of CGD and NB indicators refer to consolidated activity

Banks' solvency and liquidity position

*In % (H1 23)**



Source: Banks publications, BoP
*Note: *Q2 for the whole sector*

- **NPLs ratio kept unchanged in Q2.** The total NPL ratio stood at 3,1% in Q2 2023, even though the ratio related to mortgage operations increased slightly (0.1 p.p. to 1.2%). For NFC, the ratio continued to decrease (-0,1 p.p., to 6,2%). It is possible that these metrics will worsen slightly in the coming months, reflecting the impact of increasing interest rates and prolonged inflation in households and firms consumption and costs.
- **Profitability remains well above the pre-pandemic period.** In Q2, it decreased by 0.2 p.p., to 13,7% (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, other geopolitical risks and the impact of high interest rates on NPL's.**

BPI

Grupo CaixaBank