



# Portugal:

## Macroeconomic and financial outlook

**BPI** *Research*

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## Activity

- ▶ **The ECB sets off for a measured tightening.** The ECB raised rates in June (depo from 2.00% to 2.25%) as the Middle East conflict moves the euro area towards a scenario of “a meaningful but not-too-persistent rebound in inflation”. We see euro area headline inflation in the low 3% in 2026, mostly due to the direct effect of higher energy prices, followed by moderate indirect effects and a gradual easing of underlying inflation towards 2% in 2027-28 (the projection is based on May’s market pricing of oil & gas futures). We pencil a total of two ECB rate hikes, with the depo rate reaching 2.50% by Autumn 2026 and staying there until the ECB normalizes policy by end-2027. Markets have consistently priced between two and three hikes since the conflict started. Financial conditions have not tightened significantly: after an initial risk-off reaction to the Middle East conflict, stock markets have rebounded – supported by a strong earnings season and renewed investor risk appetite, with the tech sector leading gains among U.S. and European stocks. Markets see a meaningful impact on short-term inflation (while long-term expectations remain anchored) and have adopted a hawkish bias in their monetary policy expectations, triggering a jump in sovereign yields.
- ▶ **GDP stagnated in Q1 and grew 2.3% yoy. Domestic activity remained robust, benefiting from a rebound on GFCF.** External demand subtracted 1.6 p.p. from qoq growth and 1.9 p.p. from yoy growth, due to the acceleration of imports, driven by the behavior of GFCF, a component with a high import content. Going forward, the impact of the Middle East conflict will weigh on growth, reflecting higher uncertainty at international level, rising energy prices, and expectations of tightening financing conditions. Nevertheless, domestic activity is expected to remain dynamic, supported by the resilience of the labor market and the perspective that investment will be boosted by the end of the RRP (PRR). External demand will constrain growth, as imports are expected to remain strong, driven by investment expansion, while exports will keep moderate, reflecting the weakening activity in key trading partners. **All in all, we foresee economy growing 1.8% in 2026, less 0.3 p.p. than anticipated in February, by incorporation of Q1 data and signs that growth in Q2 will be more moderate than expected at the beginning of the year.**
- ▶ **The strongest impact of the Middle East crisis will be felt in the inflation rate.** Indeed, signs of this deterioration are already evident, with year-on-year inflation in May remaining above 3% (3.3%), reflecting the increase in energy prices to 13.2% yoy vs 11.7% in April.
- ▶ **Lower growth will imply lower employment growth, but not enough to change forecasts for the unemployment rate (5.9%),** as companies keep reporting lack of specialized work in several activities and the net entry of migrants is expected to reduce. In April, employment increased 0.5% qoq (2.3% yoy) and registered unemployment at job centers continues to fall quite significantly year-on-year; -9.7% yoy in April.
- ▶ **Execution of RRP (Recovery and Resilience Plan) appears to be accelerating but is still below desired levels.** Up to now, Portugal received 14.9 billion euros, equivalent to 68% of the total amount of the RRP. Projects already approved amount to 24.92 billion euros (which includes RRP funds, amounting to 23.32 billion euros, and other sources of financing, totaling 1.60 billion euros) and payments reached 12.65 billion (85% of the total amount received from RRP), but only 51% of the approved projects.

## Banking Sector

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

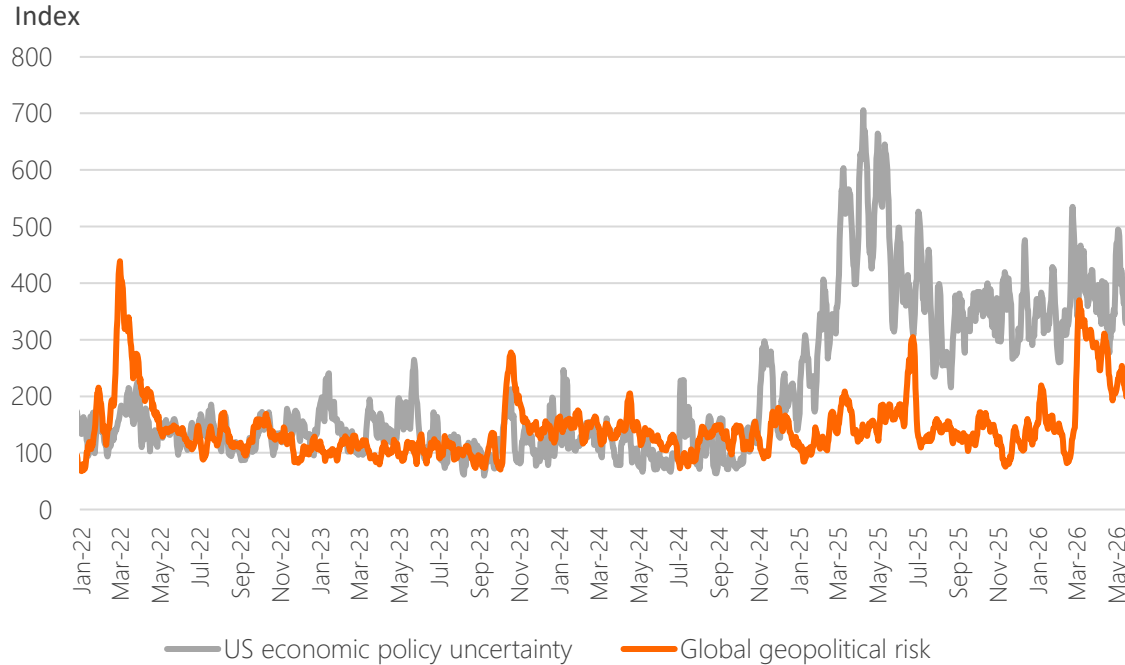
# Main economic forecasts

%, yoy	2017	2018	2019	2020	2021	2022	2023	2024	2025	Forecasts	
										2026	2027
<b>GDP</b>	3,3	2,9	2,7	-8,2	5,6	7,0	3,1	2,1	1,9	1,8	1,8
<b>Private Consumption</b>	1,8	2,6	3,5	-6,8	4,9	5,6	2,3	3,0	3,5	2,0	1,8
<b>Public Consumption</b>	0,1	0,5	2,1	0,4	3,8	1,7	1,8	1,5	1,6	1,4	1,0
<b>Gross Fixed Capital Formation (GFCF)</b>	11,6	6,2	5,5	-2,3	7,8	3,3	6,0	3,8	3,6	4,0	1,5
<b>Exports</b>	8,4	4,3	4,0	-18,4	12,1	17,2	4,2	3,1	0,4	1,4	3,3
<b>Imports</b>	8,0	4,9	5,1	-11,6	12,3	11,3	2,3	4,8	4,3	2,0	2,8
<b>Unemployment rate</b>	9,2	7,2	6,6	7,0	6,7	6,1	6,5	6,4	6,0	5,9	5,9
<b>CPI (average)</b>	1,4	1,0	0,3	0,0	1,3	7,8	4,3	2,4	2,3	2,9	2,3
<b>External current account balance (% GDP)</b>	1,5	0,8	0,8	-0,7	-0,7	-2,0	0,6	2,2	1,2	0,4	0,6
<b>General Government Balance (% GDP)</b>	-3,0	-0,4	0,1	-5,8	-2,8	-0,3	1,1	0,6	0,7	-0,2	-0,4
<b>General government debt (% GDP)</b>	126,0	121,1	116,1	134,1	123,9	111,2	96,9	93,5	89,7	86,3	83,2
<b>Housing Prices</b>	9,2	10,3	10,0	8,8	9,4	12,6	8,2	9,1	17,6	11,7	4,6
<b>Risk premium (PT-Bund) (average)</b>	269	138	100	90	60	100	70	62	44	41	50

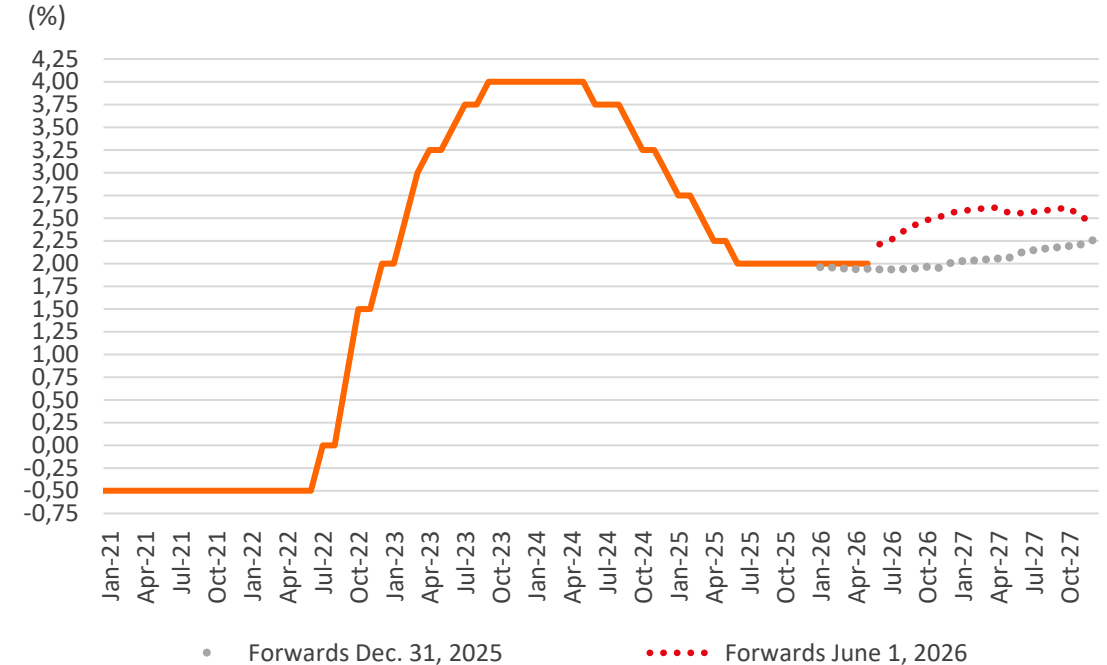
Source: BPI Research.

# The Middle East conflict will trigger a moderate ECB tightening

## Policy uncertainty and geopolitical risk



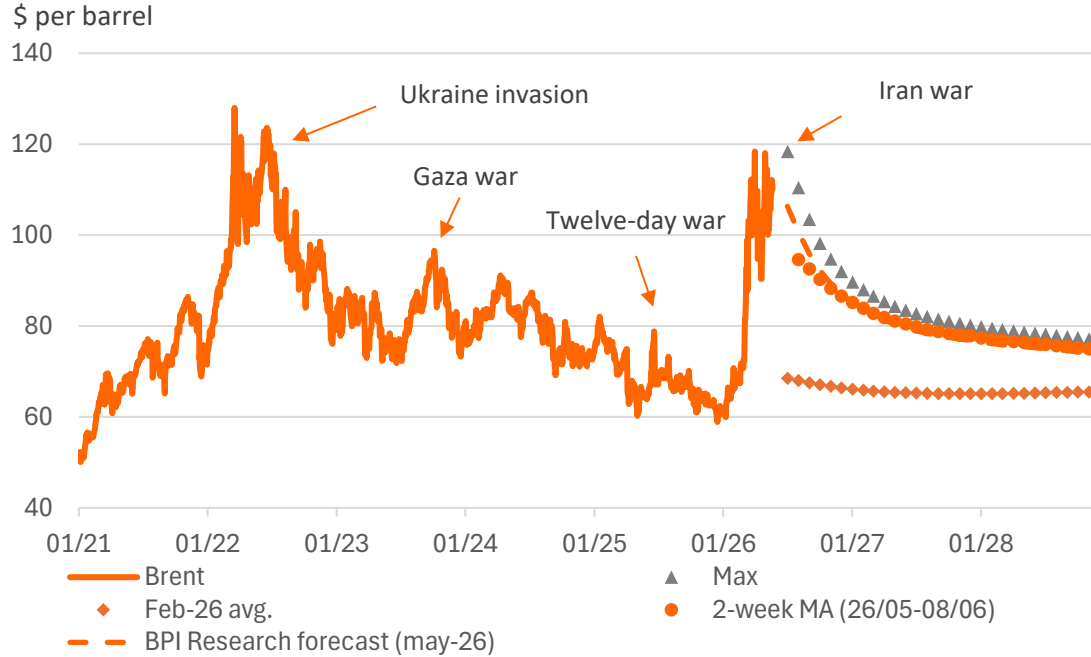
## ECB deposit rate



- ▶ **The ECB sets off for a measured tightening.** The ECB raised rates in June (depo from 2.00% to 2.25%) as the Middle East conflict moves the euro area towards a scenario of “a meaningful but not-too-persistent rebound in inflation”. We see euro area headline inflation in the low 3% in 2026, mostly due to the direct effect of higher energy prices, followed by moderate indirect effects and a gradual easing of underlying inflation towards 2% in 2027-28 (the projection is based on May’s market pricing of oil & gas futures). We pencil a total of two ECB rate hikes, with the depo rate reaching 2.50% by Autumn 2026 and staying there until the ECB normalizes policy by end-2027. Markets have consistently priced between two and three hikes since the conflict started.
- ▶ **The ECB sets off from a “good place”, mitigating the need of a forceful adjustment.** It can rely on anchored inflation expectations, a neutral monetary policy stance (vs. highly expansionary in the run-up to the Ukraine shock), moderate demand growth and decelerating wages. Yet the ECB must be cautious about amplification risks from lingering price inertia, Ukraine-inflation memories and tariff-related risks of supply disruptions.
- ▶ **Financial conditions have not tightened significantly.** After an initial risk-off reaction to the Middle East conflict, stock markets have rebounded – supported by a strong earnings season and renewed investor risk appetite, with the tech sector leading gains among U.S. and European stocks. Markets see a meaningful impact on short-term inflation (while long-term expectations remain anchored) and have adopted a hawkish bias in their monetary policy expectations, triggering a jump in sovereign yields. Although euro area peripheral spreads tightened, they remain remarkably low (at the start of the year, they reached lows not seen since 2008 [except for France]).

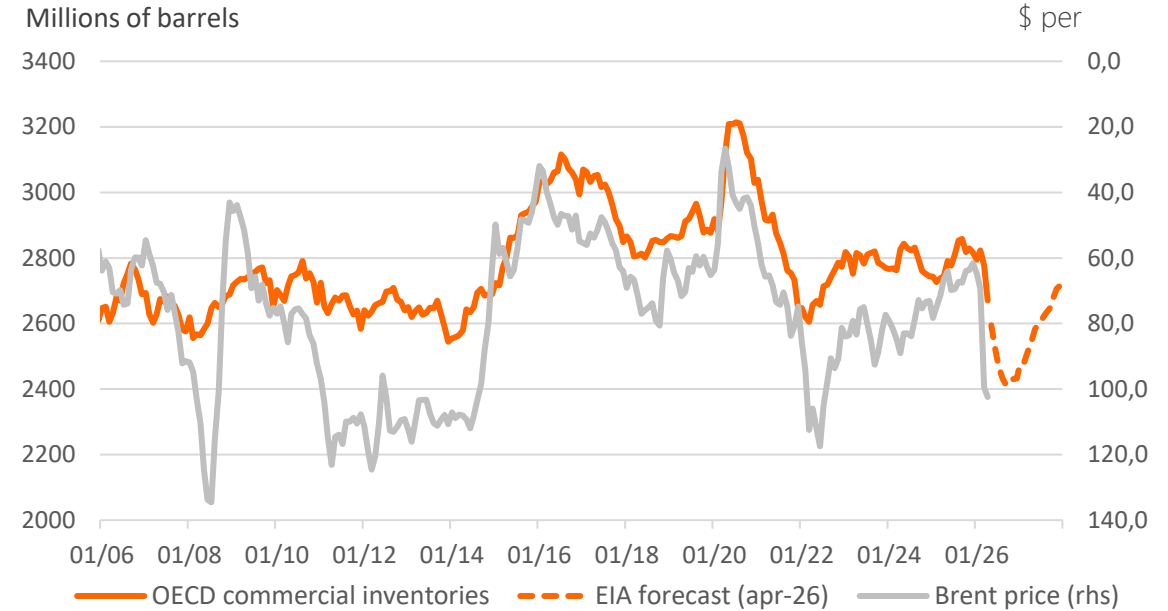
# Longer-than-expected disruption to SoH flows could mean higher-for-longer commodity prices

## Brent oil prices and futures



**Note:** Graph elaborated with data as of June 8th.  
**Source:** BPI Research, based on data from Bloomberg.

## OECD commercial inventories and Brent prices



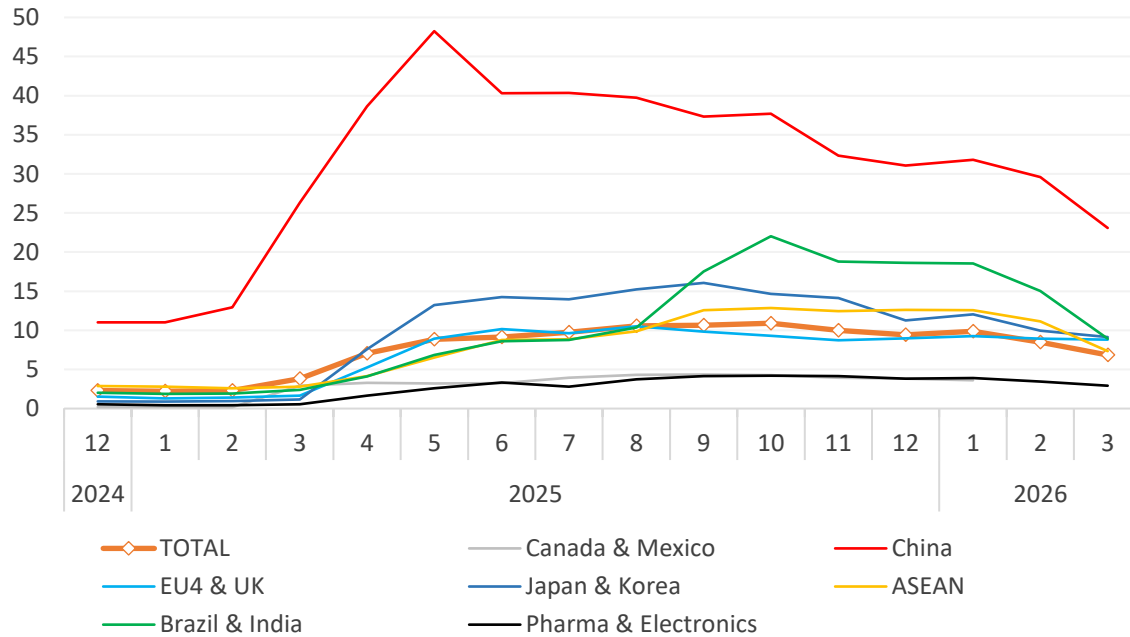
**Note:** We present monthly averages of Brent oil prices. Data for commercial inventories are available until April and we use EIA forecasts from May 2026 onwards, which assume a gradual resumption of SoH flows from June .  
**Source:** BPI Research, based on data from the US Energy Information Administration (EIA).

- ▶ **Oil prices.** Front-end oil prices (delivery in 2 months) have remained highly volatile over the past weeks, as a 2-month ceasefire endures, floating around 100\$/b. Futures' prices for delivery in December 2026 have remained above the 85\$/barrel floor, as the duration of the disruption in the Strait of Hormuz (SoH) widens and negotiation talks show limited progress. Using current futures, average Brent price for 2026 remains close to 90\$/b (vs. c. 67\$/b in Feb-26), while the average for 2027 nears 80\$/b (vs. c. 65\$/b in Feb-26), in line with our current central scenario (89.7\$/b avg. for 2026, 78.6\$/b avg. for 2027).
- ▶ **Gas prices.** Front-end prices (delivery in 1 month) have stood in the 45-50€/MWh range over the past weeks, with futures nearly flat into the end of the 2026-27 winter season. Using current futures, the average TTF price for 2026 stands slightly below 45€/MWh (vs. 31€/MWh BPI Research Feb-26 forecast), while the average price for 2027 would be close to 35€/MWh (vs. 26 €/MWh CABK Research Feb-26 forecast), in line with our current central scenario (43.4€/MWh for 2026, 36.4€/MWh for 2027).
- ▶ **Asymmetric upside risks.** The oil market has shifted into a supply-demand deficit of c. 8 mb/d (vs. c. 2 mb/d surplus pre-conflict) following the collapse of flows through SoH, largely offset by a rapid drawdown of inventories. OECD commercial stocks, though still within their historical range, are declining quickly and could approach critically low levels in Q3, even under the benign assumption of a resumption of SoH flows from June onwards. Even with a historical 400mn barrel release of strategic reserves, which has helped to absorb part of the shortfall, the erosion of inventories reduces available market buffers and increases the risk of non-linear price spikes.

# US tariff de-escalation accelerates in 2026

## Effective US tariffs

By trading partner group (%)

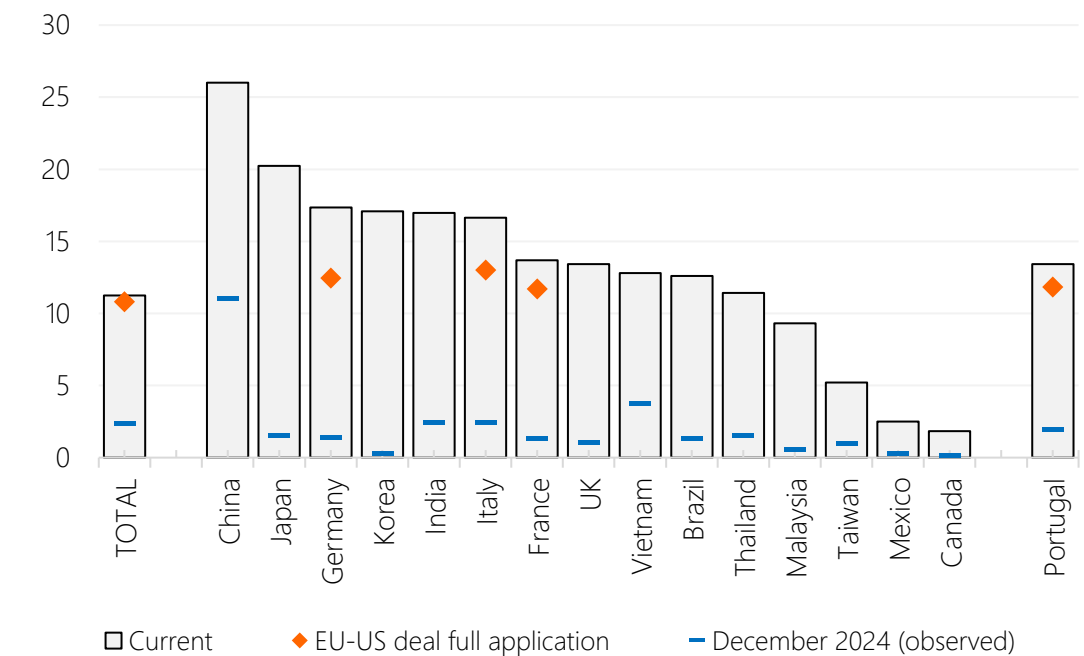


**Note:** EU4 = Germany, France, Italy and Spain. ASEAN = Cambodia, Philippines, Indonesia, Malaysia, Thailand and Vietnam. Pharmaceuticals and electronics (producers) = Belgium, Ireland, Netherlands, Switzerland, Singapore and Taiwan. Trade flow weights as of 2025.

**Source:** BPI Research, based on Bloomberg data.

## US tariffs based on announced policies

By main trading partner (%)



**Note:** The current estimate is based on 2025 trade flows and considers that legal clarifications are still pending on caps applied to S.232 tariffs.

**Source:** BPI Research, based on Bloomberg, UN COMTRADE and White House data.

- ▶ **The average effective tariff has fallen to its lowest level in a year.** Since November 2025, the agreement with China, the shift in trade towards lower-tariff products and suppliers, and the Supreme Court ruling have pushed the overall tariff on imports below 7%—the lowest since March and 4 p.p. below October. The decline is most pronounced in imports from Asia and Brazil, while European goods now face above-average tariffs (around 9%).
- ▶ **The EU is moving to implement last summer's trade agreement.** Following Trump's threats of higher tariffs on EU products, a deal between the European Parliament and the Council includes eliminating tariffs on US industrial goods and granting preferential access for selected agri-food products, alongside safeguard clauses and enforcement provisions. In return, the US committed to a 15% tariff cap on EU exports, including key sectors such as autos, aerospace and generic pharmaceuticals.
- ▶ **The composition of U.S. imports shifted towards lower-tariff goods in 2025.** Updating with last year's trade data reduces the estimated average tariff under announced policies by 1 p.p. Taiwan drives the largest adjustment, with exports increasingly concentrated in electronics, largely exempt from tariffs. Taking this into account and assuming full implementation of the US-EU agreement, the average policy tariff would fall below 11% (from 14% before the Supreme Court ruling and 2% observed in December 2024).

# Portugal: Middle East conflict pushes growth down and inflation up

## New macroeconomic scenario

		2025	2026	2027	2028	2029	Acum. 26-28
<b>GDP</b>	BPI, may-26	1.9	1.8	1.8	1.8	1.8	5.4
(annual growth)	BPI, feb-26		2.1	1.9	1.8	1.8	5.8
<b>Unemployment rate</b>	BPI, may-26	6.0	5.9	5.9	5.9	5.9	-0.1
(% labour force)	BPI, feb-26		5.9	5.9	5.9	5.9	-0.1
<b>Employment</b>	BPI, may-26	3.2	1.2	1.4	1.2	1.0	3.8
(annual growth)	BPI, feb-26		1.9	1.5	1.3	1.0	4.8
<b>Inflation rate</b>	BPI, may-26	2.3	2.9	2.3	2.0	2.0	7.3
(annual average)	BPI, feb-26		2.1	2.0	2.0	2.0	6.2
<b>Core inflation</b>	BPI, may-26	2.2	2.2	2.1	1.9	1.9	6.3
(annual average)	BPI, feb-26		2.0	1.9	1.9	1.9	5.9
<b>Housing prices</b>	BPI, may-26	17.6	11.7	4.6	2.8	2.8	20.2
(annual average)	BPI, feb-26		10.1	3.7	2.8	2.8	17.4
<b>Public budget</b>	BPI, may-26	0.7	-0.2	-0.4	-0.4	-0.4	-1.1
(% of GDP)	BPI, feb-26		-0.6	-0.5	-0.5	-0.5	-0.9
<b>Public debt</b>	BPI, may-26	89.7	86.4	83.2	81.6	80.0	-8.1
(% of GDP)	BPI, feb-26		86.4	83.4	81.7	80.1	-7.9

Source: BPI based on INE data.

- ▶ **GDP stagnated in Q1 and grew 2.3% yoy. Domestic activity remained robust**, benefiting from a rebound on GFCF. External demand subtracted 1.6 p.p. from qoq growth and 1.9 p.p. from yoy growth, due to the acceleration of imports, driven by the behavior of GFCF, a component with a high import content. **Going forward, the impact of the Middle East conflict will weigh on growth**, reflecting higher uncertainty at international level, rising energy prices, and expectations of tightening financing conditions. Nevertheless, domestic activity is expected to remain dynamic, supported by the resilience of the labor market and the perspective that investment will be boosted by the end of the RRP (PRR). External demand will constrain growth, as imports are expected to remain strong, driven by investment expansion, while exports will keep moderate, reflecting the weakening activity in key trading partners. **All in all, we foresee economy growing less 0.3 p.p. than anticipated in February, by incorporation of Q1 data and signs that growth in Q2 will be more moderate than expected at the beginning of the year.** Should a stable agreement among the parts be reached in the Middle East in the next couple of weeks, activity would strengthen along H2.
- ▶ **The strongest impact of the Middle East crisis will be felt in the inflation rate.** Indeed, signs of this deterioration are already evident, with year-on-year inflation in May remaining above 3% (3.3%), reflecting the increase in energy prices to 13.2% yoy vs 11.7% in April. This performance, together with the persistence of high Brent oil and gas prices and possible spillovers to other prices, has led to an upward revision of the inflation forecast for 2026 to 2.9%, eight tenths higher than expected in February.
- ▶ **Lower growth will imply lower employment growth**, but not enough to change forecasts for the unemployment rate, as companies keep reporting lack of specialized work in several activities and the net entry of migrants is expected to reduce.
- ▶ **Housing prices were upward revised due to the stronger carryover effect associated to a stronger than expected growth in Q4 25.** Going forward, the gap between supply and demand will continue to push up prices, but higher financing costs and the mismatch between housing prices and families' income will limit the market's capacity for appreciation.
- ▶ **Public finances, particularly the budget balance, will be impacted by support measures addressing the increase in fuel prices and following the February storms, returning to a deficit situation.** However, the worsening is less significant than expected in February due to the better-than-expected surplus in 2025 and the announcement of a more substantial dividend distribution by Caixa Geral de Depósitos. We expect public debt to continue its downward trajectory when measured as a % of GDP.

# BPI's scenario vs European Commission and OECD

		2025	2026	2027	Accum. 26-27
<b>GDP</b>	EC, May-26	1,9	1,7	1,8	<b>3,5</b>
	OECD, Jun-26		1,8	1,7	<b>3,5</b>
	(annual growth) <b>BPI, May-26</b>		<b>1,8</b>	<b>1,8</b>	<b>3,6</b>
<b>Unemployment rate</b>	EC, May-26	6,0	5,9	5,8	<b>-0,2</b>
	OCDE, Jun-26		5,8	5,8	<b>-0,2</b>
	(% of labour force) <b>BPI, May-26</b>		<b>5,9</b>	<b>5,9</b>	<b>-0,1</b>
<b>Inflation rate</b>	EC, May-26	2,3	3,0	2,3	<b>5,4</b>
	OCDE, Jun-26		3,2	2,5	<b>5,8</b>
	(annual average) <b>BPI, May-26</b>		<b>2,9</b>	<b>2,3</b>	<b>5,3</b>
<b>Budget balance</b>	EC, May-26	0,7	-0,1	-0,4	<b>-1,1</b>
	OCDE, Jun-26		0,0	-0,1	<b>-0,8</b>
	(% of GDP) <b>BPI, May-26</b>		<b>-0,2</b>	<b>-0,4</b>	<b>-1,1</b>
<b>Public debt ratio</b>	EC, May-26	89,7	87,6	86,0	<b>-3,7</b>
	OCDE, Jun-26		86,3	83,3	<b>-6,4</b>
	(% of GDP) <b>BPI, May-26</b>		<b>90,4</b>	<b>88,0</b>	<b>-1,7</b>
<b>Current account balance</b>	EC, May-26	1,0	0,1	0,2	<b>-0,8</b>
	OCDE, Jun-26		-0,1	0,4	<b>-0,6</b>
	(% of GDP) <b>BPI, May-26</b>		<b>0,4</b>	<b>0,6</b>	<b>-0,4</b>

<sup>1</sup> EC and OECD forecasts for the HCPI; BPI forecasts for CPI

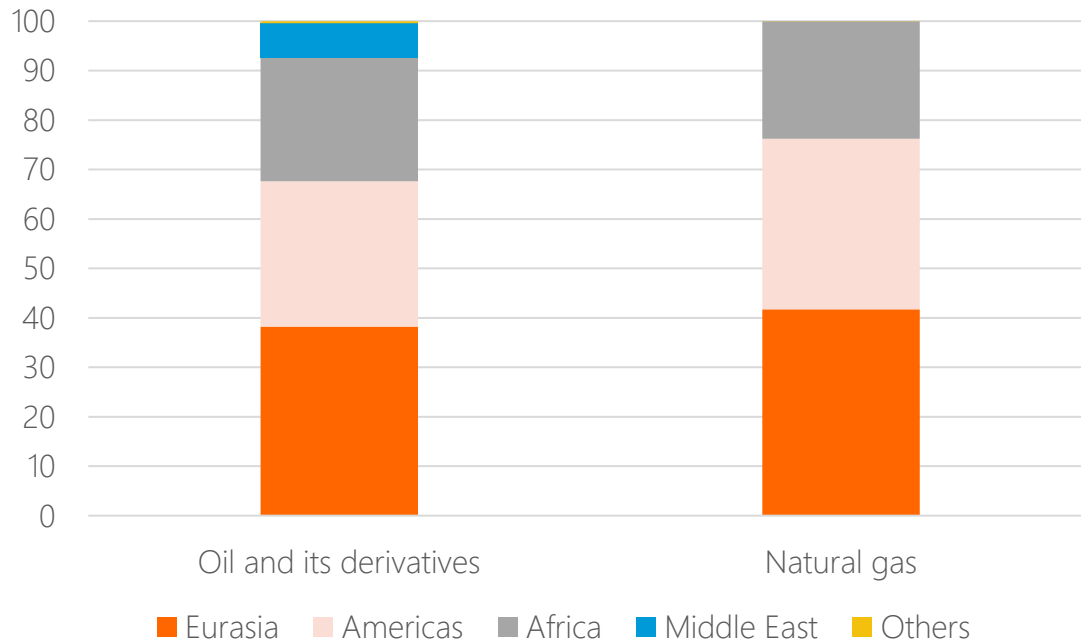
Source: BPI Research based on EC and OECD data.

- ▶ **The European Commission and the OECD have also revised down their growth outlook for Portugal.** The levels now forecast by both institutions are very similar to those of BPI Research, and the factors behind these revisions are also largely the same: a weakening of activity driven by storms, and the impact of the conflict in the Middle East on prices and on economic agents' confidence. In 2026, the revisions amounted to -0.3 pp, -0.4 pp, and -0.5 pp for BPI, the OECD, and the European Commission, respectively.
- ▶ **The most affected variable will be inflation, approaching or slightly exceeding the 3% threshold in 2026, before resuming a deceleration path in 2027.** The impact of the conflict in the Middle East on energy prices is the main driver of higher inflation.
- ▶ **Labour market continues resilient.**
- ▶ **Public finances:** return to a deficit without jeopardizing the reduction in the public debt ratio. BPI slightly more conservative."

# Portugal: limited direct exposure to the Gulf region

## Oil and gas imports by region

Percentage over total (%)

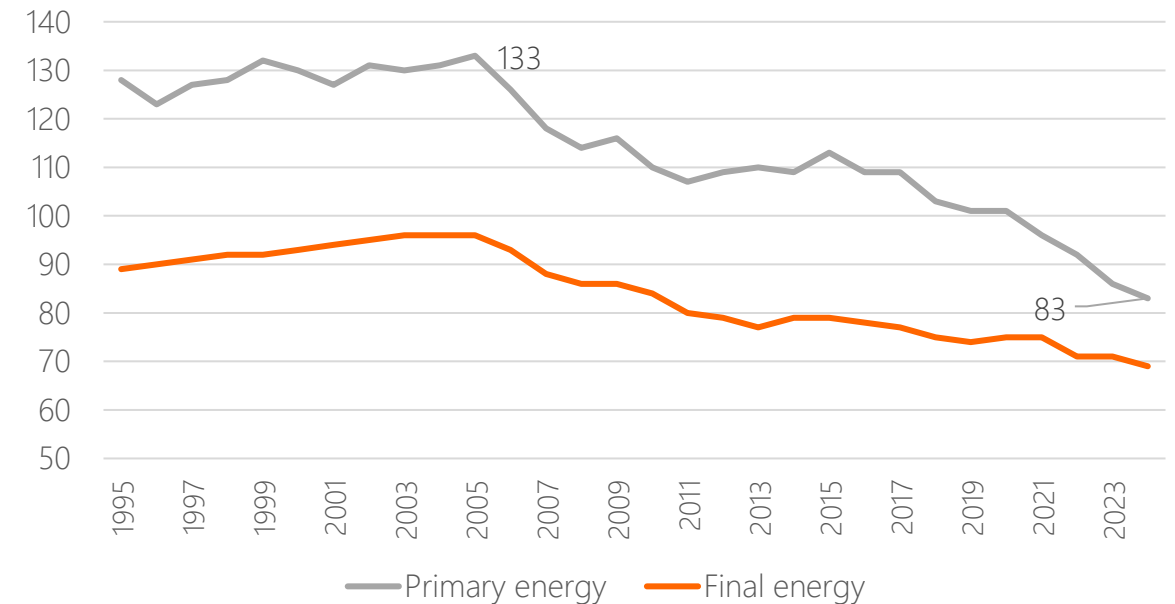


**Note:** Data from 2025.

**Source:** BPI Research, based on data from INE.

## Energy intensity

Tonnes of oil equivalent (toe) of primary or final energy per M€ of GDP



**Note:** Primary energy is the total raw energy source before conversion. Final energy is the energy delivered to and consumed by the end-user.

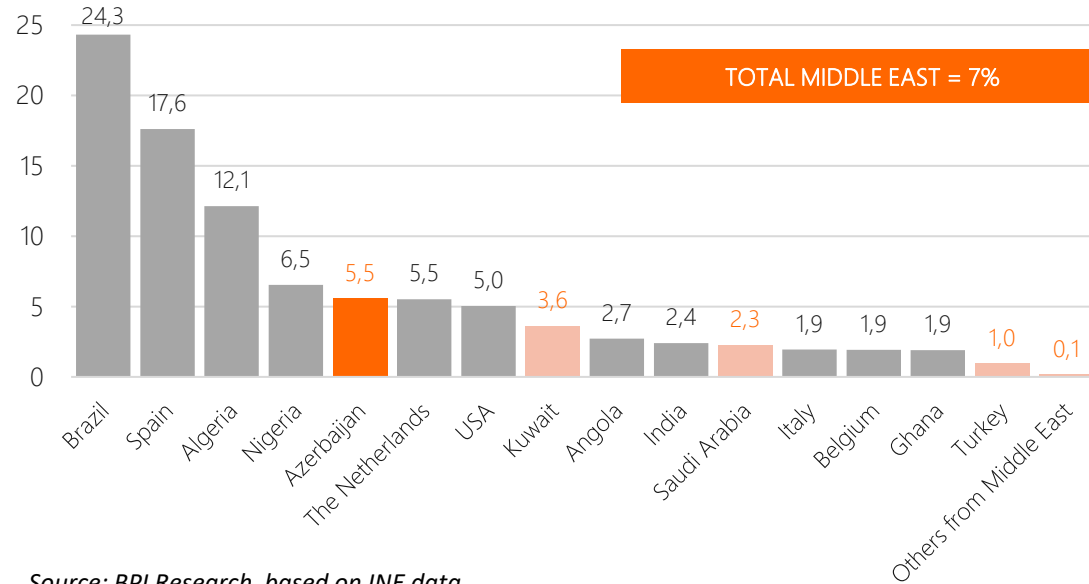
**Source:** BPI Research, based on data from DGEG.

- ▶ **Portugal's direct exposure to Middle East energy exports is relatively limited on both oil and gas.** Around 7% of Portugal's imported oil comes from the Middle East, while no imported gas originates from the region according to INE data (Egypt was included in Africa). In both cases, more than 65% of imports come from the Eurasia and Americas.
- ▶ **Lower energy intensity, while energy dependence remains high.** Portugal's energy intensity—measured as total energy consumption divided by GDP—has fallen by around 35% (primary energy, 27% in the case for final energy) since the early 2000s. However, Portugal continues to show a high reliance on external energy sources.
- ▶ **Limited trade exposure.** The Middle East accounts for 2.8% of Portugal's goods exports, which accounts for around 0.7% of nominal GDP. Goods exports to the region are more concentrated in wood pulps; agriculture products; transport equipment; stone, plaster, cement, etc.; leather and food & beverages. Imports' relevance from the region is even smaller—just 2.0% of total imports and around the same 0.7% of nominal GDP—and only 16% of these are mineral products, which include energy. The remainder is largely composed by transport material; metals; machines and textiles.

# Portuguese energy imports by country of origin (2025)

## Imports: crude and its derivatives

% of total imports of crude and its derivatives

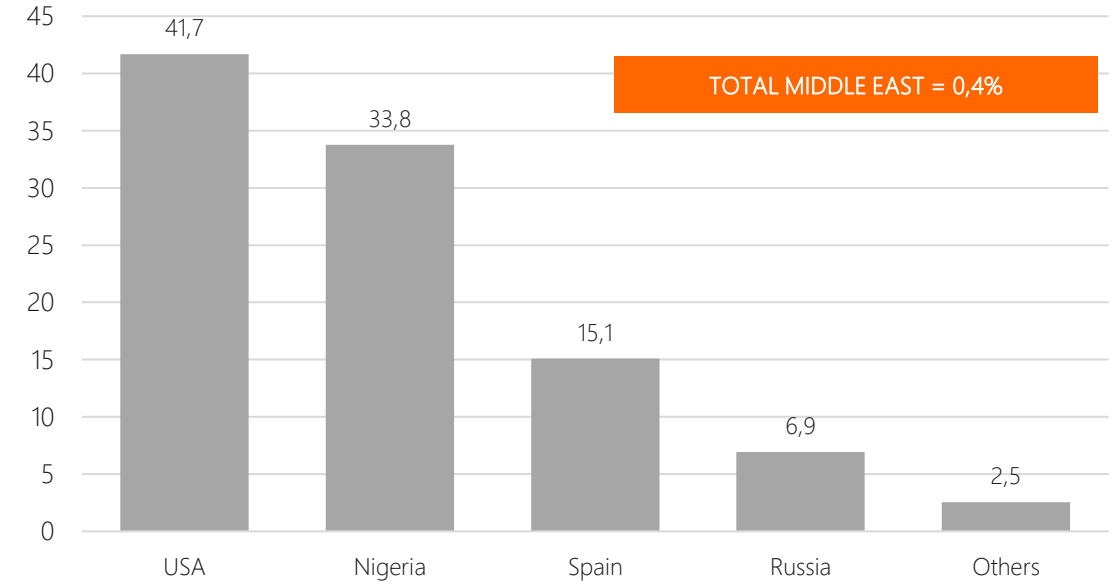


Source: BPI Research, based on INE data.

**Note:** Includes the Combined Nomenclature (CN) headings "Crude petroleum oils or oils obtained from bituminous minerals"; "petroleum oils or oils obtained from bituminous minerals (other than crude oils) and preparations not elsewhere specified or included, containing by weight as basic constituents = > 70% petroleum oils or oils obtained from bituminous minerals (other than those containing biodiesel and residues of oils)"; Vaseline; paraffin, microcrystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes and similar products obtained by synthesis or other processes, whether or not coloured"; "Petroleum coke, petroleum bitumen and other residues of petroleum oils or bituminous minerals"; "Bitumen and natural asphalts; schists and tar sands; asphaltites and asphalt rocks"; "Bituminous mastics, cut backs and other bituminous mixtures based on natural asphalt or bitumen, petroleum bitumen, mineral tar or mineral tar pitch".

## Imports: Natural gas

% of total imports of natural gas



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

# Public measures to support higher energy costs

## **Support for transports companies:**

- ❑ The return of the increase in VAT revenue through a reduction in the Tax on Petroleum and Energy Products whenever the price rises by more than 10 cents per litre compared with the first week of March;
- ❑ An additional refund of 10 cents per litre of diesel for passenger vehicles (over 22 seats) and freight vehicles (over 35 tonnes), up to a limit of 15,000 litres (cumulative with the ISP discount);
- ❑ Support for taxi companies amounting to €120 per vehicle, equivalent to 10 cents per litre for 400 litres per month;
- ❑ Deferral until 30 April of tax obligations;
- ❑ Support of up to €573 per person or €1,075 per household for families and individuals in need or who have lost income, which may last up to 12 months.

## ❑ **Support for agriculture and fishing:**

- ❑ Support for the agricultural, forestry, fisheries and aquaculture sectors, amounting to 10 cents per litre on coloured and marked diesel;
- ❑ Deferral until 30 April in fulfilling tax obligations.

## ❑ **Support for Volunteer firefighters:**

- ❑ Subsidies for humanitarian firefighting associations amounting to €360 per heavy vehicle (equivalent to 10 cents per litre for 1,200 litres per month) and €120 for other vehicles (equivalent to 10 cents per litre for 400 litres per month);

## ❑ **Support for Social sector:**

- ❑ Granting of a one-off payment to organisations in the social sector, amounting to €600, equivalent to 10 cents per litre for 2,000 litres per month.

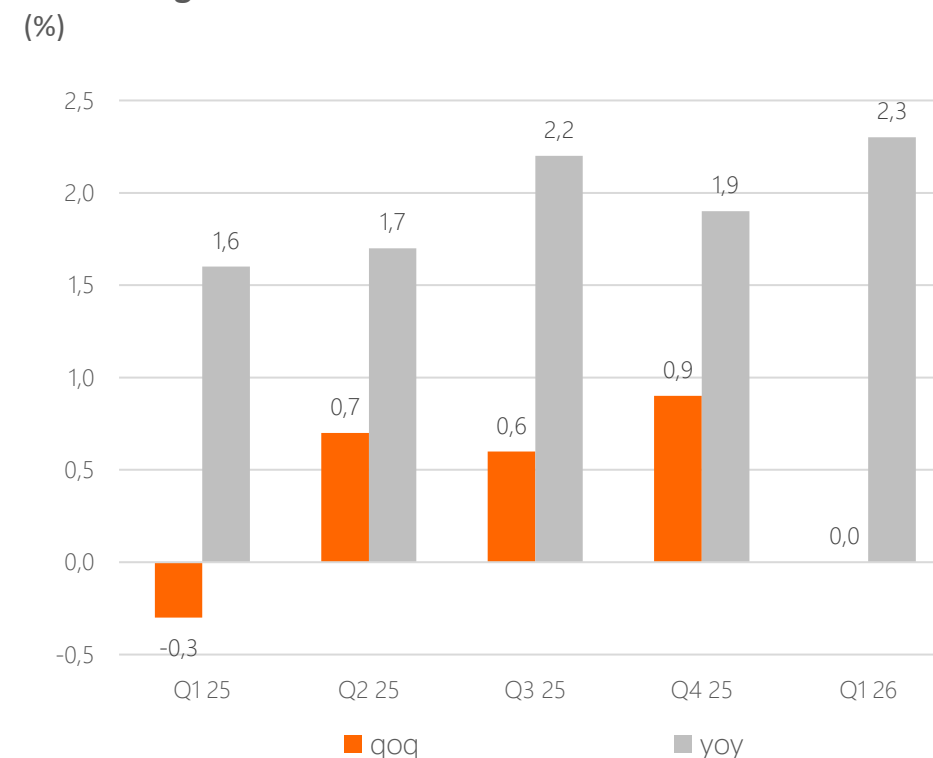
➤ **These measures are estimated to reach €450 million between April 1<sup>st</sup> and June 30<sup>th</sup>, representing c. 0.1% of GDP**

# Activity indicators show some signs of dynamism in growth for Q2 2026

yoy, level		Q1 26	Q2 26	Feb/26	Mar/26	Apr/26	May/26	
Synthetic indicators	Economic climate indicator	2,7	2,8	2,8	2,5	2,7	2,8	↑
	Economic sentiment indicator	103,7	101,0	104,2	103,5	100,4	101,6	↑
	Daily economic indicator	2,6	0,3	3,3	0,1	0,5	0,2	
Consumption	Consumer confidence	-18,7	-27,9	-17,0	-25,4	-29,4	-26,4	↑
	Wholesale and retail trade (yoy)	4,3	4,9	2,7	6,0	4,9	-	
	Retail sales excl. fuels (yoy)	4,5	5,8	2,7	6,0	5,8	-	
	Card withdrawals and purchases deflated (yoy)	4,8	8,3	1,7	7,0	8,3	-	→
Investment	Car sales (yoy)	10,1	10,8	5,5	8,5	15,1	6,5	→
	GFCF indicator	9,5	-	3,6	13,8	-	-	
	Imports of capital goods	17,8	18,9	17,5	18,3	18,9	-	
Supply	Confidence in industry	-2,5	-	-2,2	-1,7	-4,5	-4,4	↑
	Confidence in construction	2,6	-	2,6	2,0	4,2	5,1	↑
	Confidence in retail	3,2	-	3,1	2,7	3,9	3,4	
	Confidence in services	6,7	-	7,4	8,6	7,7	8,7	↑
	Sales of cement	2,1	17,9	-14,2	26,1	17,9	-	
Demand	Industrial production	0,3	0,0	-4,0	4,1	0,0	-	
	Electricity consumption adjusted for temperature&working days	3,8	2,7	4,6	1,3	1,8	3,6	↑
	Non-resident tourists (yoy)	1,8	3,8	-0,1	3,6	3,8	-	↑
Labour market	Number of flights (yoy)	3,1	1,6	1,3	4,7	1,2	2,1	
	Change in regist. unemployment (thousand people)	-35,3	-30,3	-33,6	-33,8	-30,3	-	↑
	Change in employment (thousand people)	120,7	123,4	108,4	117,1	123,4	-	↑

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

## Real GDP growth (%)

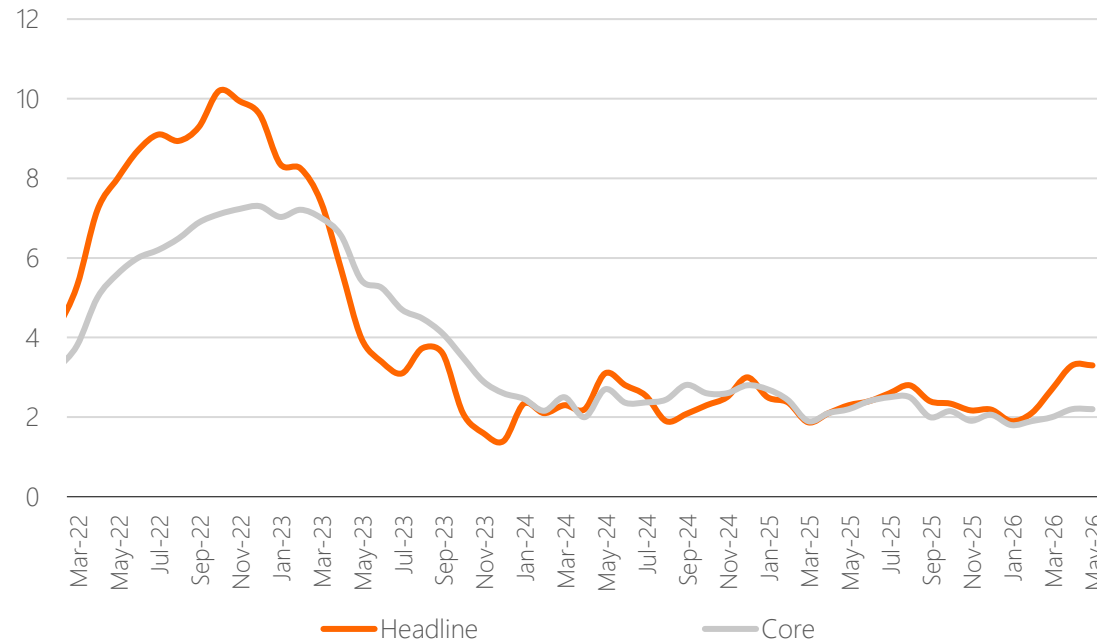


Source: BPI Research based on Portuguese INE.

- ▶ **GDP stagnated in Q1, driven by the deterioration of the negative contribution of external demand.** INE refers that the contribution of domestic demand became positive in the quarter, taking advantage of an acceleration of investment, while the pace of growth of private consumption decelerated from Q4 25. The acceleration of investment explains the negative contribution of external demand, given the strong component of imports incorporated in investment. Indeed, INE refers that imports accelerated further than exports. This less positive performance than expected along with a more unfavorable external environment is likely to lead to a downward revision of GDP growth in 2026, likely below 2% yoy.
- ▶ **The most recent activity indicators are showing mixed signals, but in the short run we see an improvement in most of them.** Economic climate and sentiment indicators increased in May, compared to April, along with confidence among consumers and in some sectors (improvement in industry, construction and services). Specific indicators suggest that demand is robust (namely electricity consumption), as well as the labor market (change in employment and unemployment).

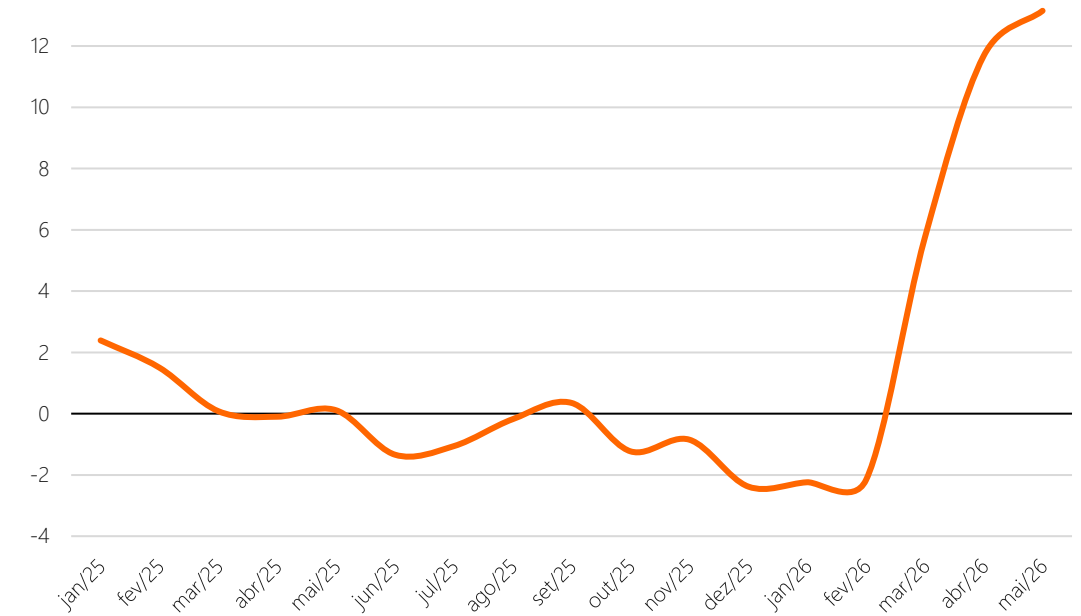
# Inflation stabilized in May, continuing to be driven by energy

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



Source: BPI Research, from INE.

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



Source: BPI Research, from INE.

- ▶ **In May, inflation levels stabilized, with the flash estimate showing no change from April figures (3,3% headline; 2,2% core in yoy terms), influenced by the 13.2% increase in energy prices.** On a monthly basis, prices advanced 0.3% mostly driven by the core inflation (0.4%), while energy (-0.3%) and unprocessed food (-0.8%) put a short-term downward pressure, signaling volatility and instability in the path of the energy market due to the geopolitical tensions in the Middle East.
- ▶ The outbreak of attacks on Iran in early March increased geopolitical risks, posing additional risks to energy commodity price behaviour and potentially limiting the downward trend in inflation this year. The extent of the movement will depend on the duration of the conflict and whether it spreads to other oil and gas producing countries in the region. Indeed, we reviewed upward our 2026 inflation forecast from 2.1% to 2.9% in the central scenario.

# Labour market kept healthy... and employment increased again

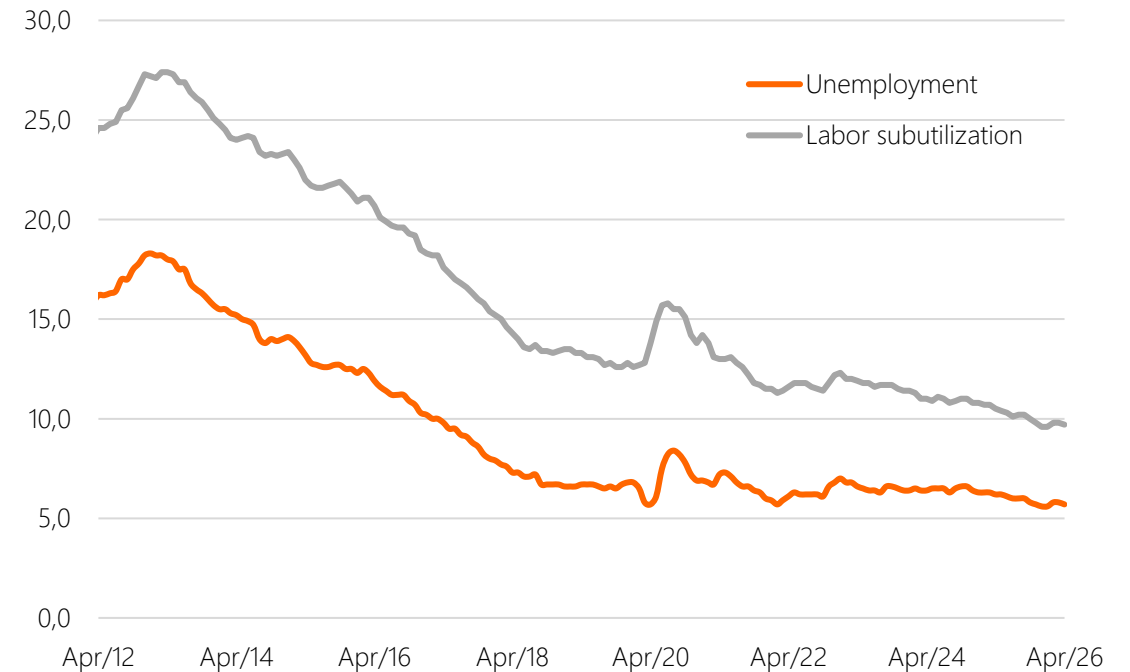
## Employed population

Number of people ('000 individuals)



## Unemployment and labour subutilization rates (%)

(%)



Source: BPI Research, from INE.

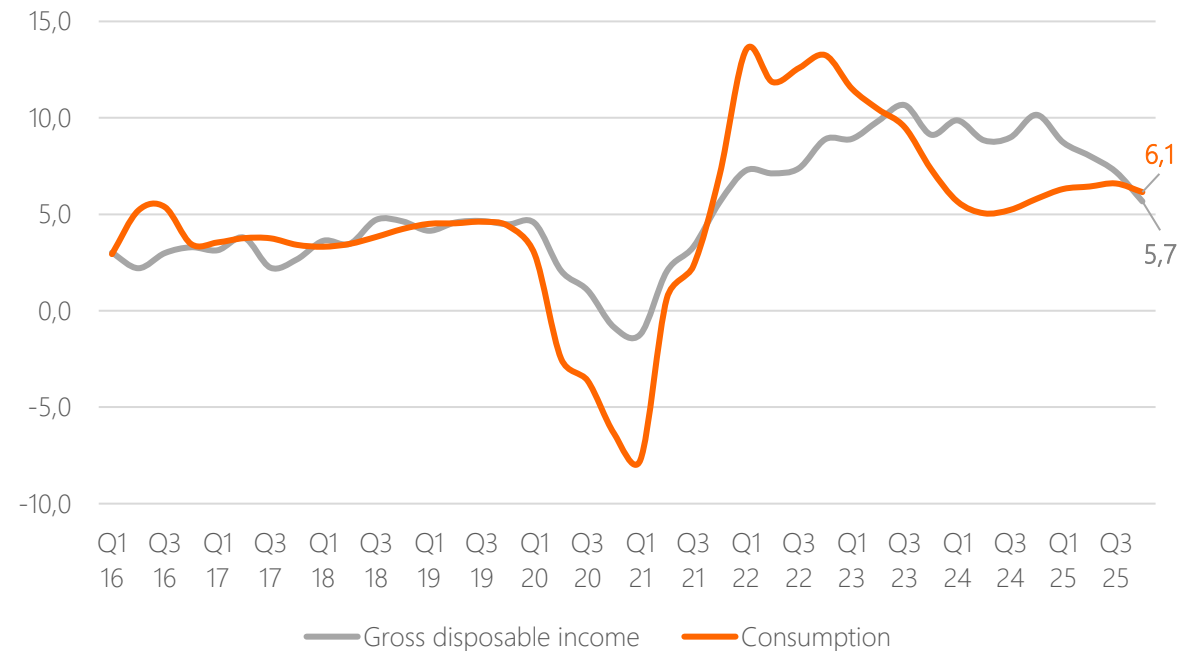
- ▶ **Employment increased 0.5% qoq (2.3% yoy) in April 2026**, with employed population reaching 5,324.7 thousand people. This suggests that the labour market keeps robust despite the slight slowdown compared to March (2.6% yoy), with the employment rate raising to 66.2% (66% in March). **The unemployment rate slightly reduced to 5.7% (-0.1 p.p.).**
- ▶ **Registered unemployment at job centres continues to fall quite significantly year-on-year**; it fell by 9.7% year-on-year (-30,333 people) and by 4.2% month-on-month (-12,466), reaching 283,290 people. In sectorial terms, from the total unemployed people registered as candidates to a new job at the end of April, we highlight that 26.7% were in real estate, administrative and support services; 6% in construction and 4.3% in agriculture (Continental Portugal Employment Services – IEFP).
- ▶ Although there are signs that the labour market is cooling, **job vacancies suggest that the market remains resilient, as they rose in qoq terms (+2.6%) despite the yoy decrease (-2.2%),** reaching 16,458.

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

**Families' saving rate**  
(% of DI)



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



Source: BPI Research, from INE, BoP.

- ▶ **Households' savings rate is stabilizing around 12% of disposable income.** In 2025, the saving rate fell to 12.1%, minus 4 tenths than a year ago, reflecting the deceleration of the growth rate of disposable income while consumption continued to expand at c. 6%. In the same period there was a considerable increase on the pace of growth of families' investment, probably reflecting the increasing of investment in housing. In 2025, families' gross capital formation rose 16.8% (10.5% in 2024). In the current climate of heightened uncertainty, households may adopt a more cautious approach to their consumption decisions, helping to keep the savings rate at levels close to historic highs.
- ▶ In 2025, households continued to see a recovery in disposable income, as data on the growth of real disposable income per capita rose at a rate higher than inflation. In 2025, it grew by 3.6%, while the inflation rate stood at 2.3%. In 2026, this trend may change given the current environment of rising energy prices and likely multiple effects in the prices of other goods and services; however, the level of savings accumulated in recent years and the resilience of the labour market suggest that households are in a comfortable position to face the current crisis.

# RRP: execution continues to increase smoothly (58% of total program)

## Approvals and payments to direct and final beneficiaries

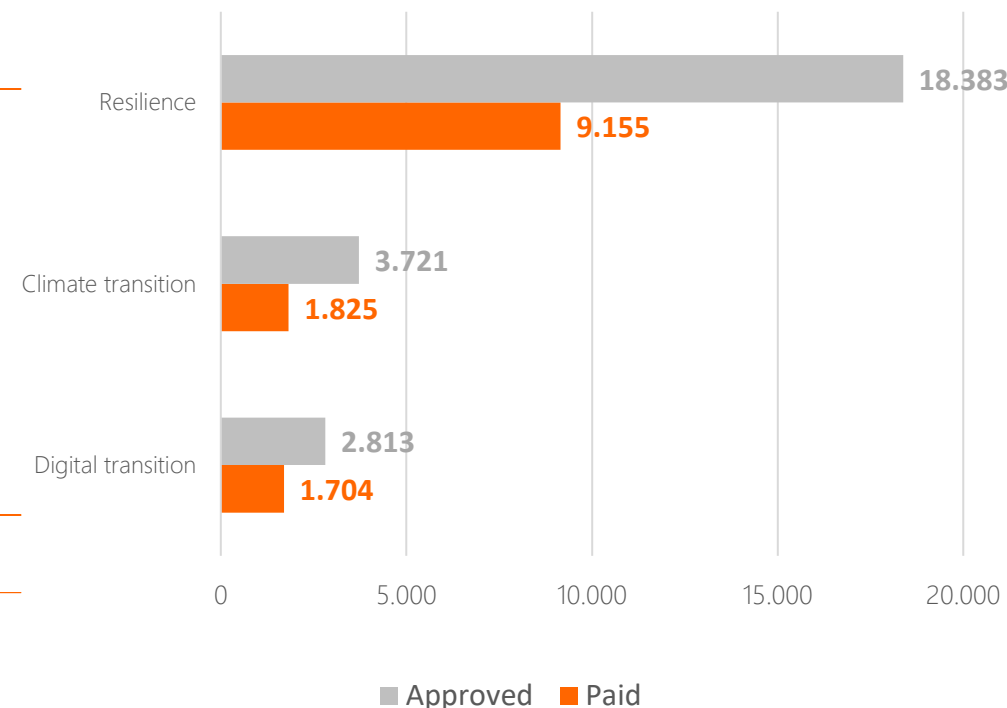
<i>(Up to May 27th)</i>	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	478	320	66,9
Social and solidarity economy institutions	867	432	49,8
Firms	8 445	4 378	51,8
<i>Excl. R&amp;I System Non-firms</i>	7 290	3 662	50,2
<i>R&amp;I System Non-firms in consortium with firms</i>	1 154	665	57,6
Institutions of the scientific and technological system	736	349	47,4
Higher Education Institutions	1 006	533	53,0
Schools	992	628	63,3
Municipalities and metropolitan areas	4 724	1 976	41,8
Public entities	4 927	2 661	54,0
Public firms	2 741	1 374	50,1
<b>Total (million euros)</b>	<b>24 916</b>	<b>12 651</b>	<b>51</b>
<b>(% total RRP)</b>	<b>106%</b>	<b>58%</b>	

*Note (\*): In December 2025, the Council of the EU approved the revisions regarding the Portuguese RRP program. In that way, the total cost of the national program was revised to **21,905 million €** (instead of 22.216 million €). To implement the projects, the government has now other sources for financing them, amounting to 1,640 million €.*

*Source: BPI Research, from Recuperar Portugal.*

## RRP: amounts approved and paid by dimension

*Eur million*

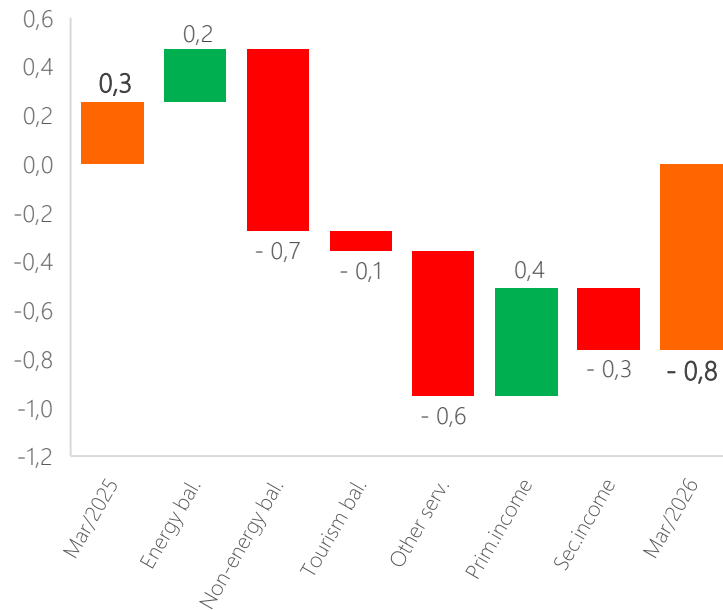


- ▶ Up to now, Portugal received 14.9 billion euros, equivalent to 68% of the total amount of the RRP. Projects already approved amount to 24.92 billion euros (which includes RRP funds, amounting to 23.32 billion euros, and other sources of financing, totaling 1.60 billion euros) and payments reached 12.65 billion (85% of the total amount received from RRP), but only 51% of the approved projects.
- ▶ At the same time, the rate of implementation of the funds has been gradually accelerating and is expected to increase this year, given the approaching end of the program and its reprogramming to facilitate the transition of funds allocated to programs with a low probability of implementation by the end of 2026 to other projects. In this context, we anticipate that the implementation of the RRP could add 0.4 percentage points to growth in 2026.

# Current account balance worsened considerably up to March

## Current account up to March 2026

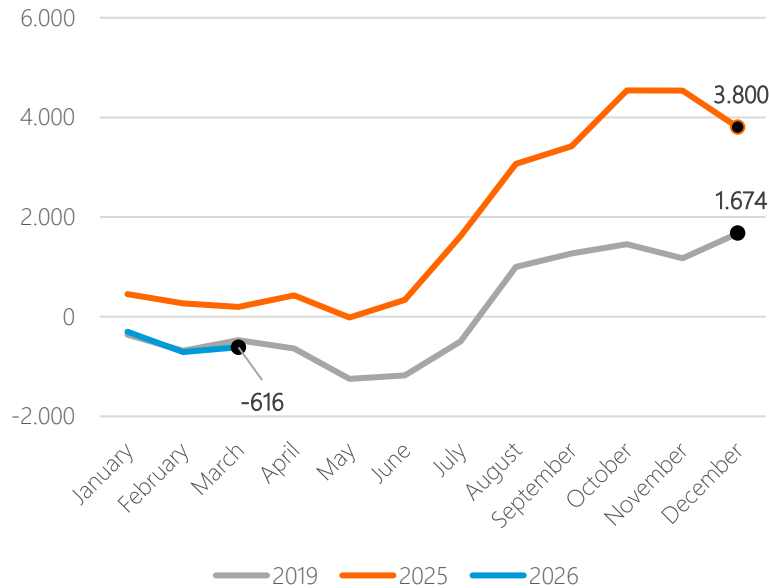
% of GDP and percentage points change



Source: BPI Research, from BoP.

## Current account up to March 2026

In million euros



Source: BPI Research, from BoP.

## Portugal: exports and imports variation

Ytd March 2026

	Exports	Imports
annual change (%)	-3,1	1,0
<i>Contribute (p.p.)</i>		
Goods	0,9	2,7
Non-energy	2,0	5,3
Energy	-15,8	-10,9
Services	2,7	9,2
Tourism	3,8	4,8
Others	2,0	10,2
annual change by region/country (%)		
Euro area	1,8	5,5
Goods	2,0	4,6
Spain	0,0	3,3
Goods	-2,7	2,4
Germany	5,2	7,2
Goods	6,9	7,0
US	-2,8	1,7
Goods	-4,4	-2,2
Asia	0,0	1,8
Goods	-0,1	-1,9

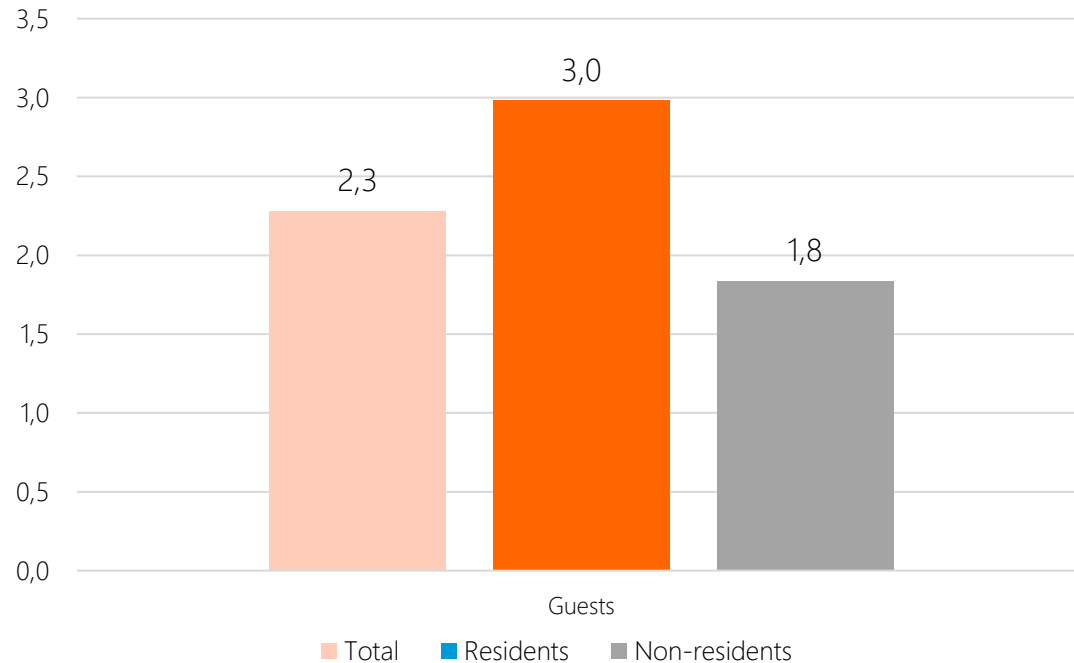
Source: BPI Research, from BoP.

- ▶ In the first quarter of 2026, the current account deficit stood at -615.5 million euros, equivalent to -0.8% of GDP, a significant decline compared to the surplus registered in the same period of 2025 (193.2 million euros). This reduction has been mainly due to the decrease in the balance of non-energy goods (to -7.7% of GDP), as well as the decrease on the other services balance surplus (to 2.9% of GDP). Note that, to date, the impacts of the increase in energy commodity prices due to the conflict in the Middle East, which has caused the price of Brent crude to rise significantly, are not yet visible. Therefore, we anticipate a worsening of the energy goods account balance (via increased imports) in the coming months, which led us to revise our forecast for the current account balance for 2026 (from 1.2% to 0.4% of GDP).
- ▶ The current account balance reduction compared to the same period of 2025 (Jan-Mar) is justified by the increase of 11.4% in the **deficit in goods account** (to -7,584 million euros), where exports and imports grew 0.9% and 3.7%, respectively. The **surplus of services account** shrunk 3.0% (to 6,425 million euros), mainly due to the increase of other services' imports (+10.2%).

# Tourism revenues rose circa 6.7% in the last 12 months

## Number of guests

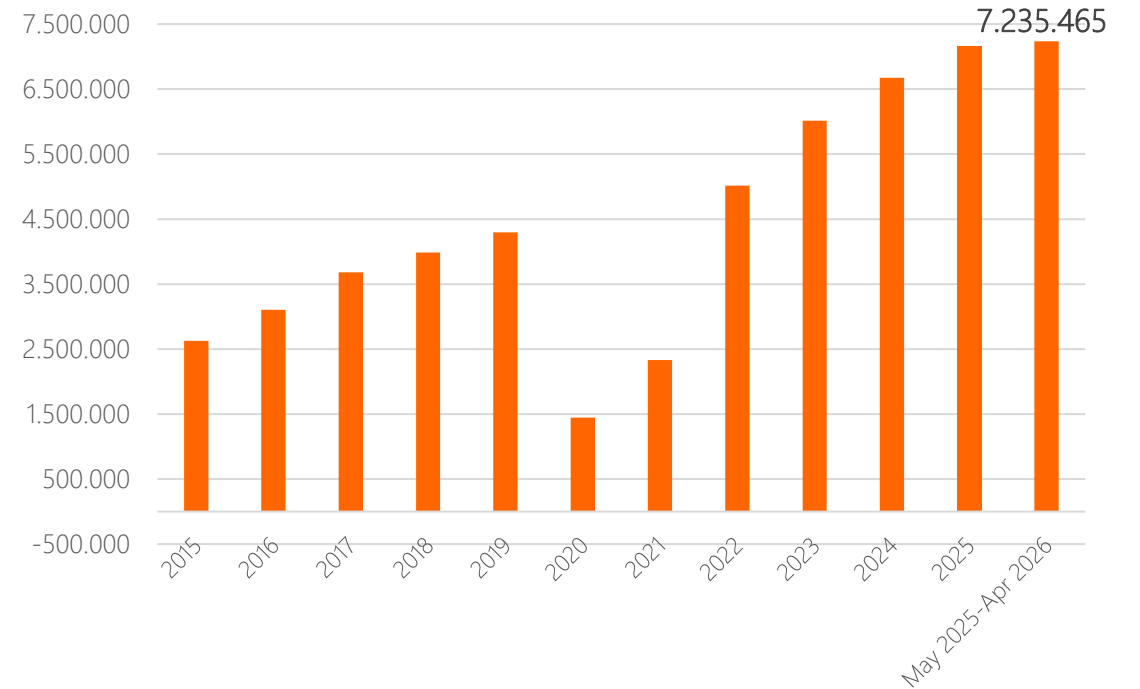
Annual change in cumulative values (May 2025-Apr 2026)



Source: BPI Research, from INE.

## Total revenues in tourist accommodation establishments

Thousand €

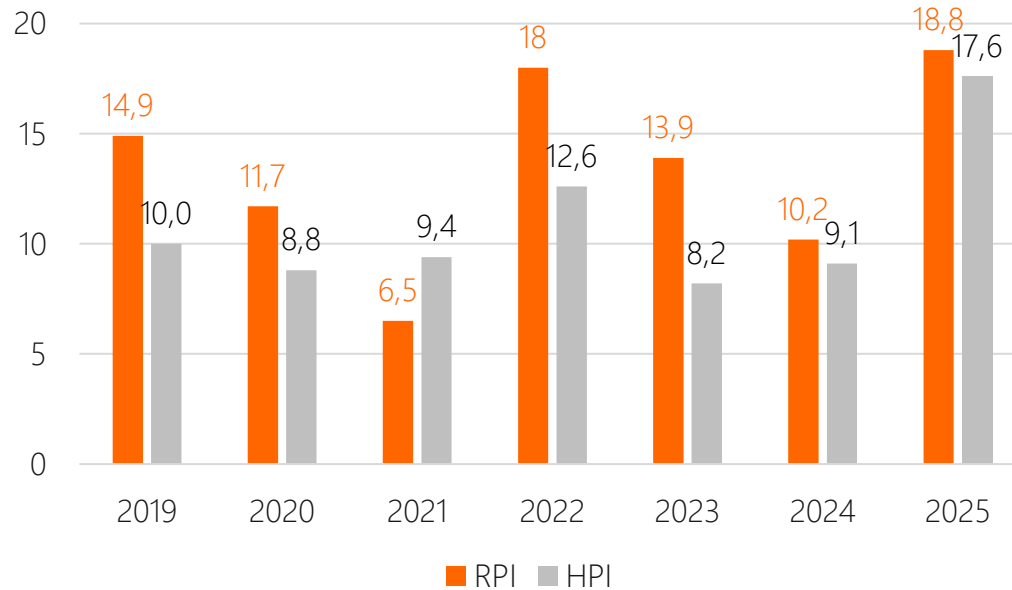


- ▶ In cumulative terms from May 2025 to April 2026, the tourism sector recorded an annual increase of 2.3% in guests, a slight slowdown. The number of tourists reached 32.7 million (12.8 million residents and 19.9 million non-residents).
- ▶ Total revenues in tourist accommodation establishments registered a historical record in 2025, surpassing 7.000 M€, and this is still being observed in 2026. Total revenue in tourist accommodation establishments grew by 6.7% compared to May/24-Apr/25, mainly driven by the dynamism in some regions such as Madeira (+14.1%), Alentejo (+10.6%) and Azores (+8.4%).

# 2025: a record rise in house prices

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

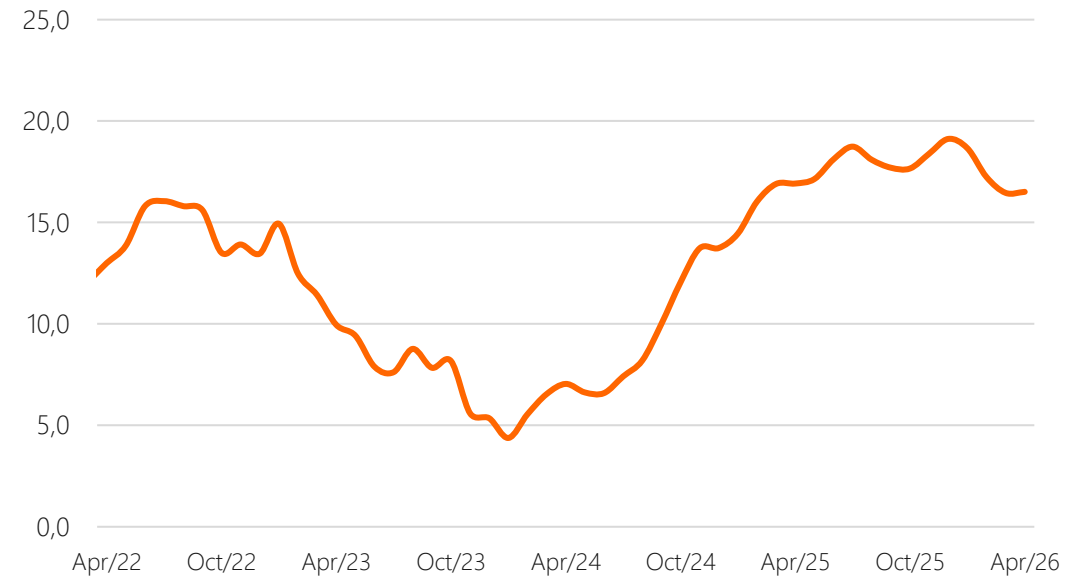
Average annual or yoy variation (%)



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

## Bank appraisal of housing

Yoy (%)



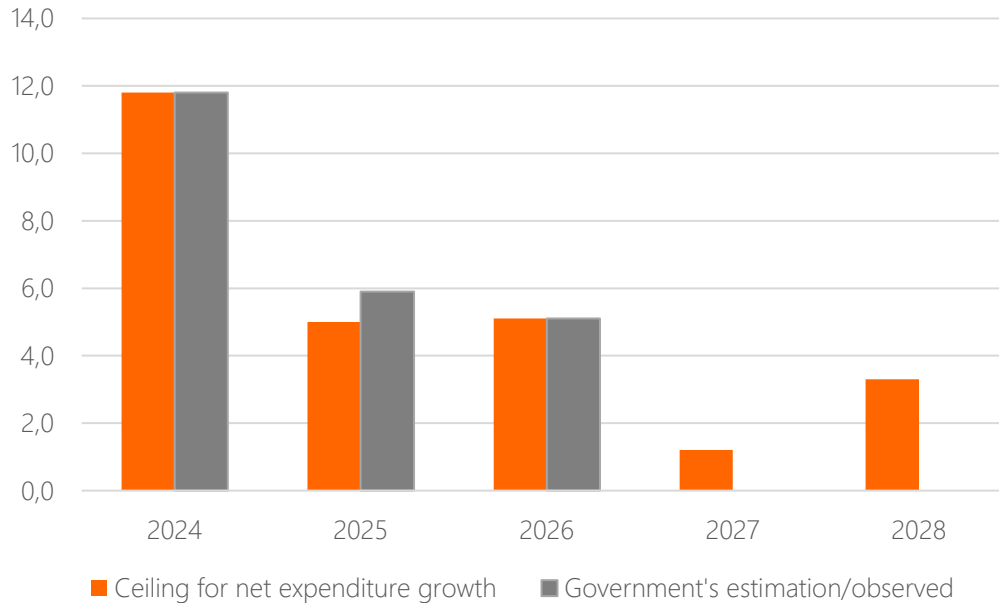
Source: BPI Research, using data from INE

- ▶ **In 2025, the House Price Index recorded a year-on-year change of 17.6%, a huge acceleration from 2024. Second hand houses saw prices increasing 18.9% a stronger pace than those registered in new hoses: 14.2%.** In 2025 were sold 169,812 houses, more 8.6% than in 2024. The RPI from CI increased on average 22.2% yoy in Q126, a slight lower figure from the 23.3% in Q425, but still considerably above the 13.8% verified in Q125.
- ▶ Bank appraisal rose 16.5% yoy in April (+0.0 p.p. from March), indicating that prices continue to expand strongly in the beginning of the year.
- ▶ Fundamentals for continued appreciation in this market remain in place: 1) economic growth; 2) robust labour market; 3) robust demand, stimulated internally by Government measures; 4) measures to expand supply will have a delayed effect; 5) in the current environment, higher interest rates may contribute to reduce somewhat demand, contributing to a more moderate house prices' growth.

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

## Net primary expenditure trajectory

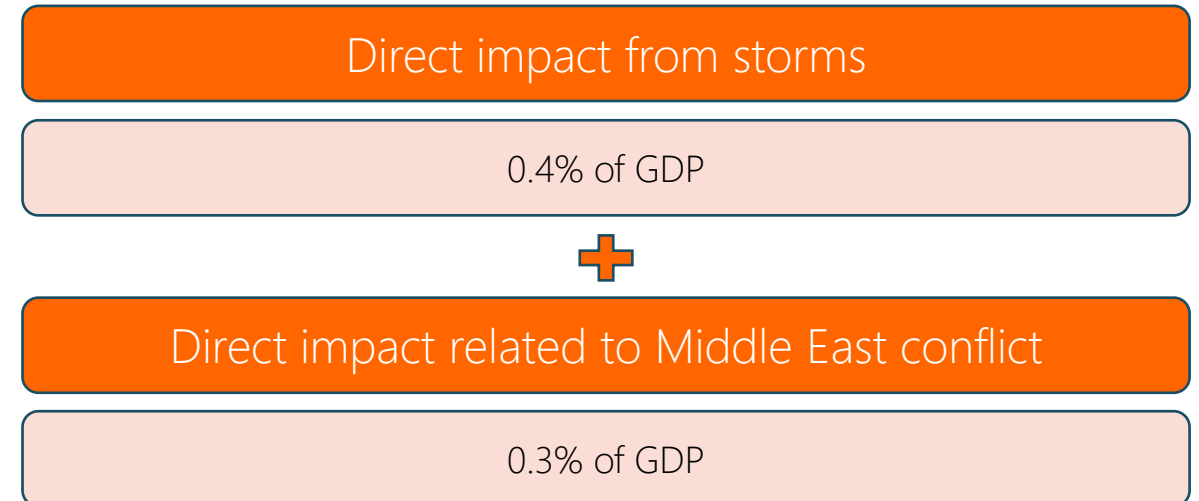
Annual growth rate (%)



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

## Impact on public accounts from severe weather events and conflict in the Middle East (until this moment)

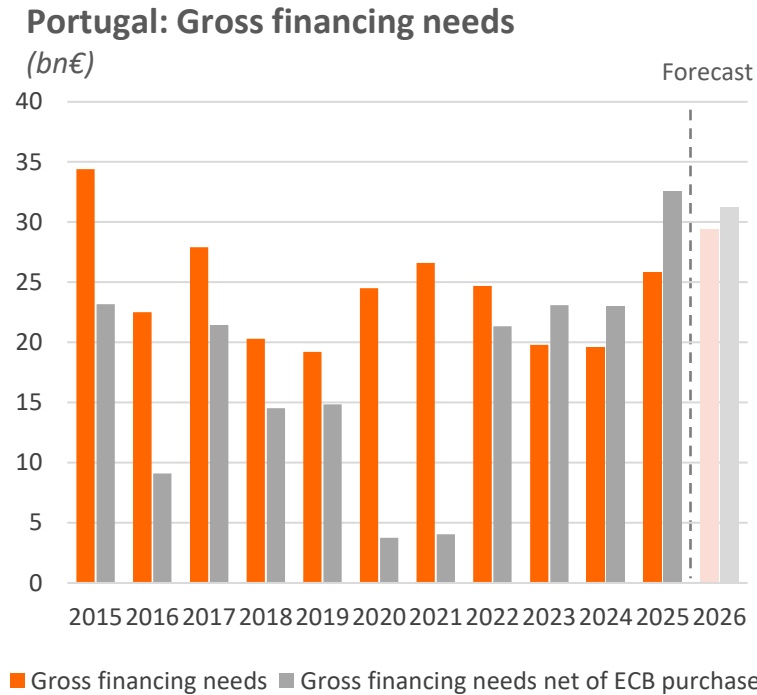
(% of GDP)



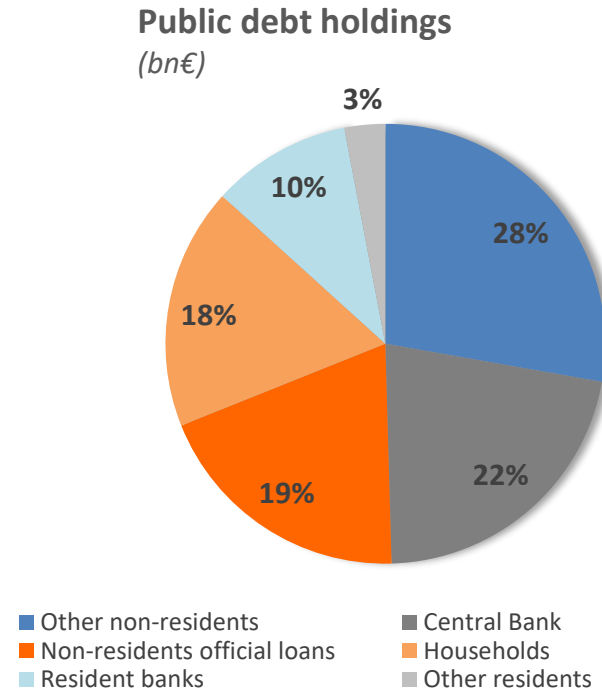
Source: BPI Research, based on data from Annual Progress Report and own estimations.

- ▶ **Government revised downwards the expectation for overall fiscal balance in 2026.** In the Annual Progress Report, the Executive is now expecting a 0% balance (0.1% of GDP in the State Budget for 2026), considering the impact of adverse climate events at the beginning of the year (with a direct impact of around 0.4% of GDP) and the measures announced to mitigate the adverse effects from the Middle East conflict. Even though this context, Government continues to expect the fulfilment of new European fiscal rules in 2026 (after a deviation of around 0.3 p.p. in 2025, the maximum permitted annually). Additionally, the public debt ratio should continue to decrease more than required (1 p.p./year): more specifically, Government is expecting a 2.1 p.p. decrease in 2026, to 87.5% of GDP.
- ▶ **2026 is clouded by significant challenges.** The storms that have devastated some regions of the country at the beginning of the year and the conflict in the Middle East add to challenges already anticipated for 2026 (existing geopolitical tensions, the volatility of US trade policies and investment in defence). Nevertheless, and in the absence of a more devastating impact from the conflict in the Middle East and/or other adverse effects, public balance is not expected to register a substantial deficit in 2026 as the Government should keep a prudent, albeit supportive, fiscal policy.

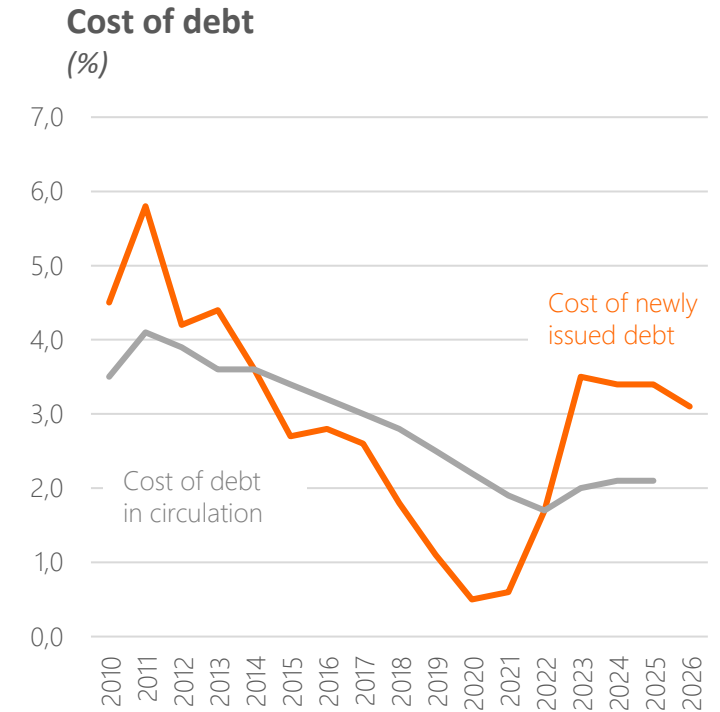
# Increase in financing needs for 2026 should be manageable given the attractiveness of Portuguese public debt



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



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



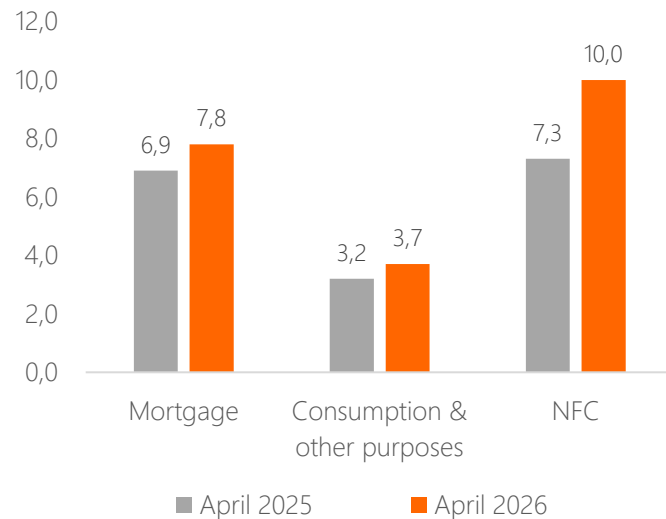
Source: BPI Research, based on data from IGCP.

- ▶ **Gross funding needs are estimated to be around 29 bn€ in 2026**, an increase of 3.6 bn€ from 2025, that should be covered through the issuance of medium- to long-term fixed-rate debt. The context of higher interest rates should attract investors and facilitate the absorption of Portugal's financing needs.
- ▶ **Government debt remains diversified.** At the end of 2025, around 70% were in hand of foreign institutions/investors (including official loans), with households also represent an important player (around 18% of total public debt vs 17% in 2024).
- ▶ **In 2026, the average cost of debt is expected to keep at contained levels.** The first emissions of the year pointed to a lower interest rate in comparison to previous year. The average maturity of the stock of debt is elevated (7.8 years, excluding EU-IMF loans), so the share of debt that needs to be re-financed is manageable. We estimate that the cost of interest paid on public debt will reach circa 2.0% of GDP in 2026, a similar level to that of 2025, but much lower than a decade ago (4.1% in 2016).

# Banking system: private sector credit and deposits keep rising

## New lending activity by sector

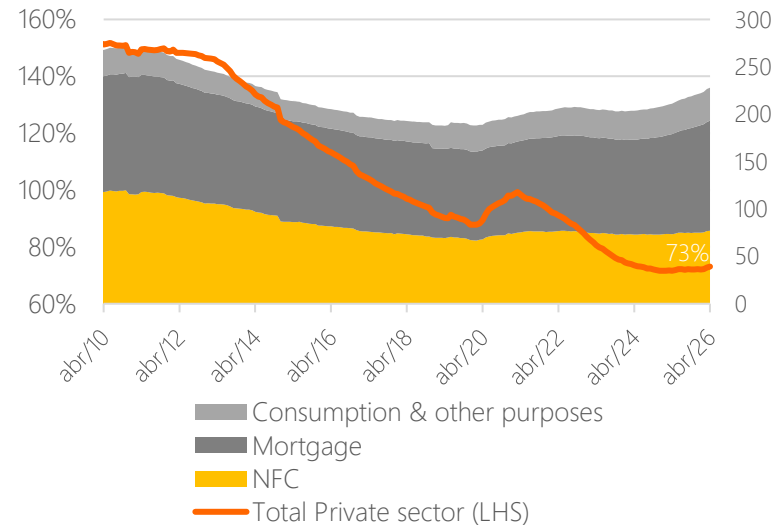
Billion euros (ytd)



## Bank credit to the non-financial private sector

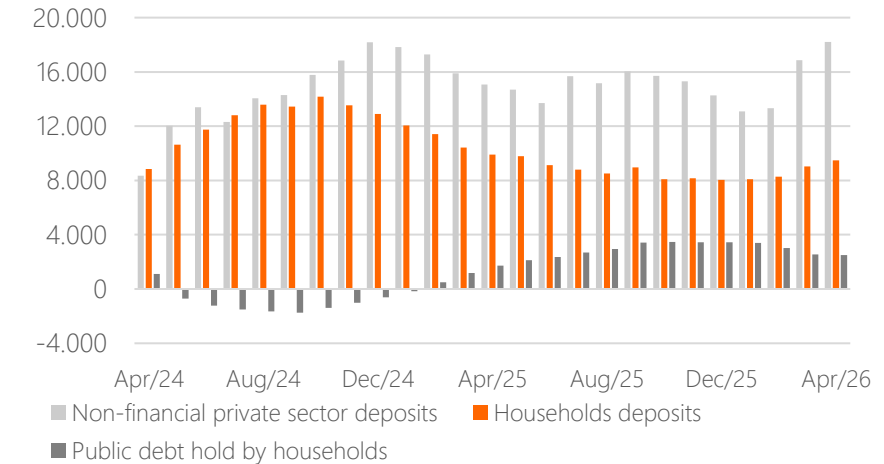
% nominal of the year GDP

Bn€



## Deposits and public debt hold by families\*

annual variation (M€)



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

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.

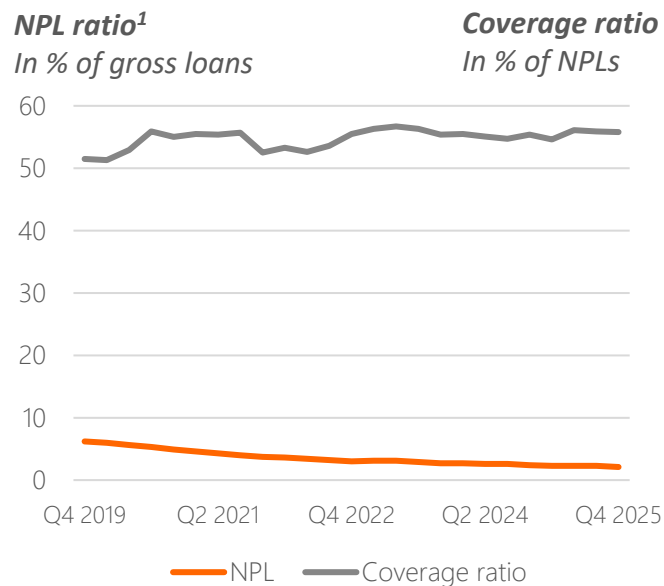
### ► The stock of credit to companies and households continues to increase:

- **Mortgage** credit: stock accelerated 10.1% in April, with accumulated new operations increasing 12.8%. The amount recorded in April was a maximum, supported by robust labour market and the impact of Government's measures for young people (measures directed to young people with less than 35 years old through a public state guarantee for 100% loan-to-value, exemptions from IMT (Mortgage Property Transfer Tax), Stamp Duty, and other support measures, such as the "You Have a Future in Portugal" plan). New mortgage credit was 7.8 billion euros in the first four months of 2026 (6.9 billion one year ago).
- **NFC**: the outstanding credit added 4.9% in April, while the accumulated in the year' new operations expanded by 36.5%. A significant part of this amount is explained by State's guarantees (for example, credit lines to help firms deal with the destruction after storms at the beginning of this year).
- **% of GDP**: credit to non-financial private sector is around 73% of GDP, clearly below past levels (~150% maximum).

- **In April, non-financial private sector deposits reached a new historical maximum (the stock rose 6.9% yoy in March).** Both households' and NFC's deposits increased (4.9% and 12.4% yoy, respectively).

# Banking system: high solvency and profitability with plenty liquidity

## NPLs and coverage ratios

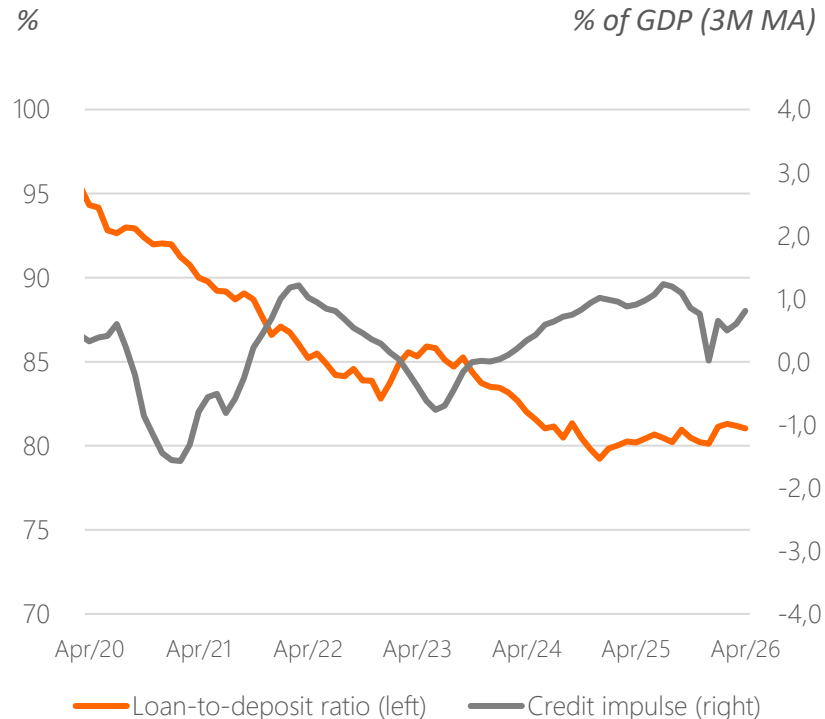


### Cost of risk<sup>1</sup>

0.5% in Q4 2019  
0.2% in Q4 2025

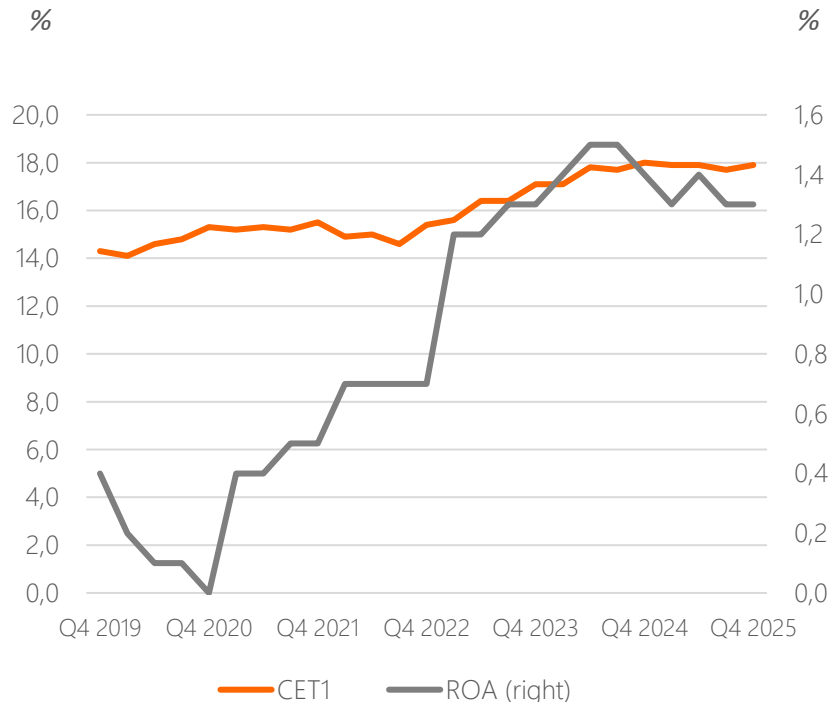
Notes: (1) flow of impairments to credit as a percentage of total gross loans.  
Source: BPI Research, with data from Bank of Portugal.

## Loan-to-deposit and credit impulse of private sector



Source: BPI Research with data from Bank of Portugal.

## Banks' solvency and profitability



Source: BPI Research with data from Bank of Portugal.

- ▶ **NPLs ratio fell to 2.1% in Q4, minus 3 tenths than in 2024.** Both ratios relative to NFC and households decreased by 0.1 p.p. to 3.7% and to 2.0% (2.2% in Q2 2025). We are not expecting a deterioration of credit quality in the future.
- ▶ **Deleveraging among firms and households shows signs of inverting, despite debt keeping at historically reduced levels.** Loan-to-deposit ratio remains around 81% and kept stable until April; the credit impulse (yoy absolute change in new operations as % of GDP) accelerated in April 2026 to 0.8% from 0.6% in March.
- ▶ **Profitability in the banking sector in 2025 was slightly lower than before due to reduced interest rates but remained well above the pre-pandemic period.** CET1 stood at 17.9% (vs 18.0% in 2024 and 14.3% in Q4 2019). The capital position of Portuguese banks provide buffers against the risks that could arise, due to geopolitical risks or any adverse unexpected event that could eventually impact NPL's. The banking system ROA ratio increased in the last years and stood at 1.3% in Q4 2025 (vs. 1.4% in 2024 and 0.4% in 2019).