Portugal:

Macroeconomic and financial outlook

BPI ***Research***

August 2025

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BPI Grupo CaixaBank

Main messages

Activity

- **GDP increased 0.6% qoq in Q2 2025 (-0.4% in Q1), in line with BPI Research forecasts; on a year-on-year basis, growth reached 1.9% yoy (1.7% in Q1).** According to the statistical office, the acceleration on the quarterly growth reflects the increase of private consumption (in Q1, it fell 1.1% qoq) and the less negative contribution of net external demand (exports grew in Q2, after the fall registered in Q1). The yearly growth of 1.9% reflects a smaller positive contribution from domestic demand (via a slowdown in investment) and a negative, but less pronounced, contribution from net external demand (more significant slowdown in imports of goods and services when compared with their respective exports). **We foresee GDP to advance 1.6% in 2025.** Private consumption continues to be supported by a resilient labour market and recovery of income, and investment should be stimulated by lower interest rates and the implementation of European funds. Risks to our current forecast are balanced.
- **Inflation rises for the fourth consecutive month.** The headline inflation rose 2.6% yoy in July and grew 2.4% in core index. Looking ahead to 2025, the outlook for prices looks more favorable and global inflation should approach levels close to the 2.0% target.
- **Labor market surprises positively in Q2 2025, with employment reaching new maximums.** The employed population increased 2.9% yoy (the number of employed population represents the maximum since the beginning of the historical series, which started in 2011), a pace not seen since 2017 (excluding the pandemic period) and the unemployment rate fell to 5.9%, minus 0.7 p.p. compared to Q1.
- **In Q1 2025, house prices rose 16.3% yoy and the number of transactions reached 41,358 houses, more 25% than in Q1 2024.** This, combined with moderate supply growth will continue to support further price growth in 2025. However, there are other favourable factors reinforcing prices and transactions: lower interest rates, an increase in real disposable household income, a resilient labour market and a favourable fiscal policy (tax exemptions for young people). We expect house prices' growth of 12.4% in 2025.
- **On a cash basis, the overall fiscal balance stood at 1.3% of GDP up to June, with revenues advancing 13.9% and expenses 4.5%.** The fiscal and contributory revenues rose 16% yoy, explaining more than 90% of revenues' growth (especially due to direct taxes and social contributions). Despite the positive performance in the first half of the year, some factors point to a slight public deficit in 2025: the slowdown of economic activity, as well as the new package of measures (including income tax cuts, an extraordinary payment for pensioners and the early achievement of the NATO defense spending target of 2% of GDP). In this context, it is not unlikely that the fiscal balance will register a slight deficit this year.
- **Execution of RRP (Recovery and Resilience Plan) appears to be accelerating but is still below desired levels.** Of the 22.2 billion euros to be implemented by 2026, only 39% of this amount has been paid to beneficiaries. A faster implementation of the funds is expected from now on. The remainder (13.6 billion euros) corresponds to 5% of national annual GDP.

Banking Sector

- **NPLs ratio declined in Q1.** The total NPL ratio stood at 2.3% in Q1 2025 (historical minimum), with the NPL of households remaining to 2.3% and the one for NFC declining to 4.0%. We are not expecting a significant deterioration of credit quality in the following months.

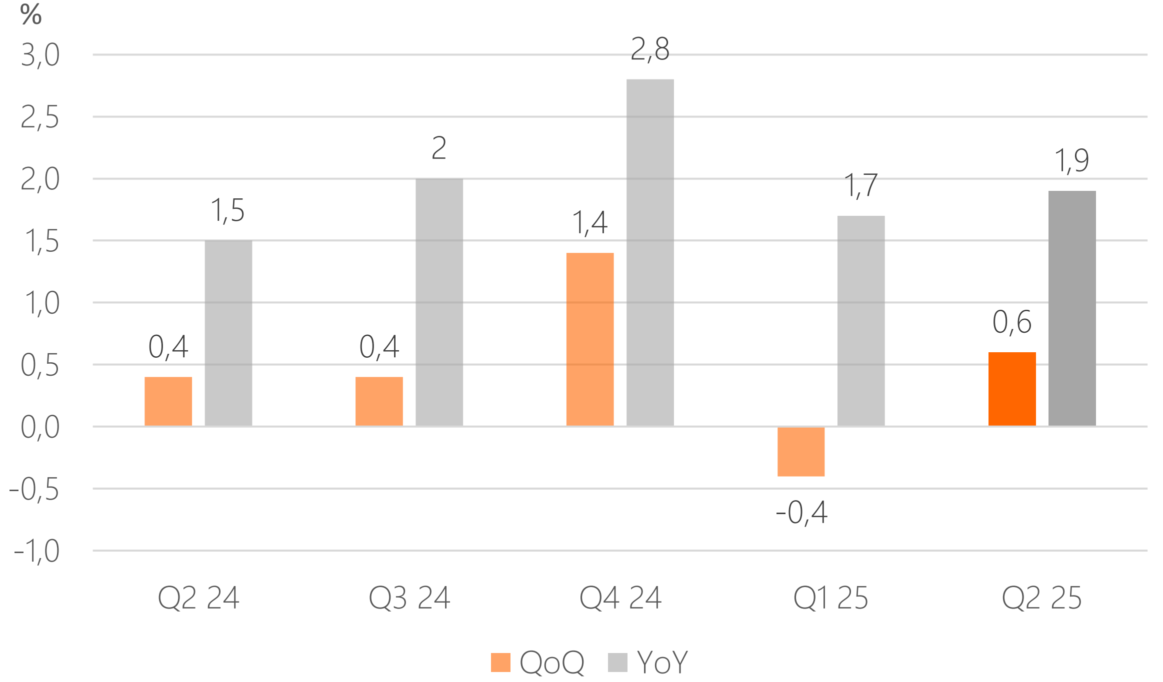
Main economic forecasts

%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	2024	Forecasts 2025	Forecasts 2026
GDP	2.0	3.3	2.9	2.7	-8.2	5.6	7.0	2.6	1.9	1.6	2.0
Private Consumption	2.4	1.8	2.6	3.5	-6.8	4.9	5.6	1.9	3.2	2.0	2.1
Public Consumption	0.9	0.1	0.5	2.1	0.4	3.8	1.7	0.6	1.1	1.1	1.1
Gross Fixed Capital Formation (GFCF)	2.7	11.6	6.2	5.5	-2.3	7.8	3.3	3.6	3.0	1.9	4.7
Exports	4.7	8.4	4.3	4.0	-18.4	12.1	17.2	3.8	3.4	1.7	3.0
Imports	5.2	8.0	4.9	5.1	-11.6	12.3	11.3	1.8	5.0	2.2	3.3
Unemployment rate	11.5	9.2	7.2	6.6	7.0	6.7	6.1	6.5	6.4	6.3	6.4
CPI (average)	0.6	1.4	1.0	0.3	0.0	1.3	7.8	4.3	2.4	2.1	2.0
External current account balance (% GDP)	1.2	1.3	0.6	0.4	-1.0	-0.8	-1.2	1.4	2.2	1.7	1.4
General Government Balance (% GDP)	-1.9	-3.0	-0.4	0.1	-5.8	-2.8	-0.3	1.2	0.7	-0.1	-1.2
General government debt (% GDP)	131.2	126.0	121.1	116.1	134.1	123.9	111.2	97.7	94.9	92.2	90.4
Housing Prices	7.1	9.2	10.3	10.0	8.8	9.4	12.6	8.2	9.1	12.4	4.1
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	54	63

Source: *BPI Research.*

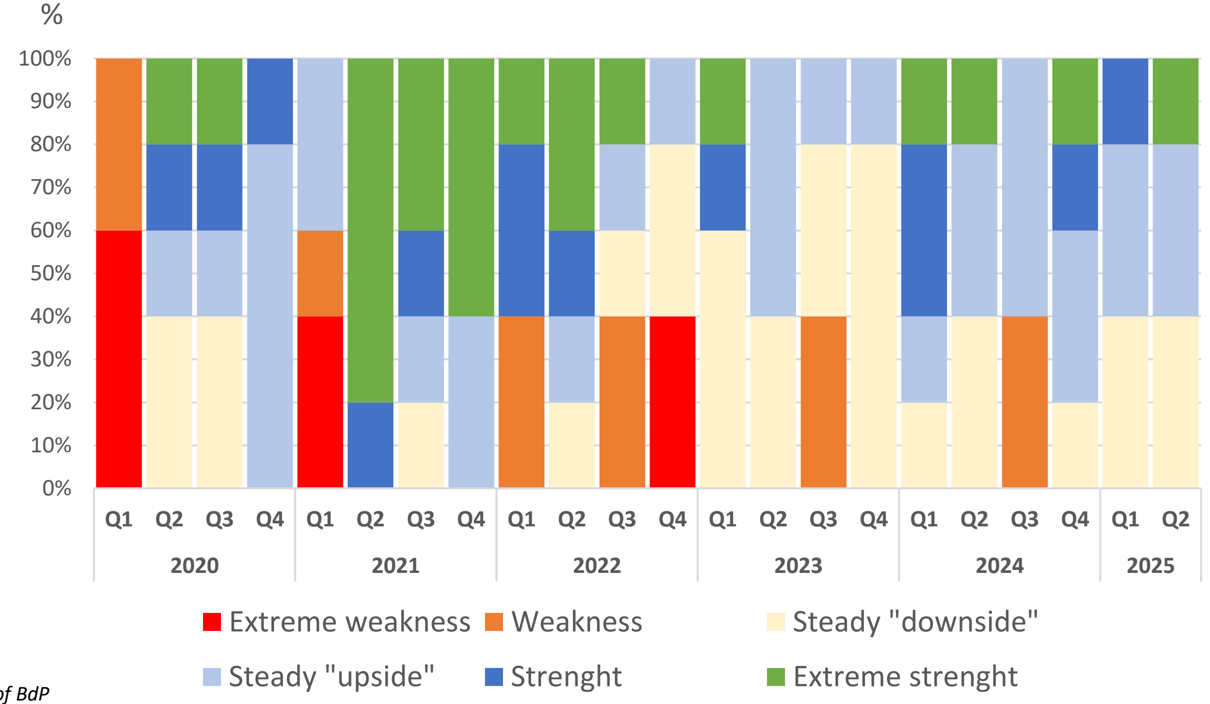
Growth in Q2 2025 offsets contraction verified in Q1

Real GDP



Source: BdP and INE. Note: The inflation rate is the annual percentage change of (i) the CPI in the case of BPI and (ii) the HCPI in the case of BdP

Activity traffic light – BPI Research



- **GDP grew 0.6% qoq, an expected result.** This movement mainly reflects the return to the growth trend, offsetting the contraction of -0.4% qoq verified in Q1, associated with the correction of specific factors, activated in Q4 2024. The acceleration on the quarterly growth reflects the increase of private consumption (in Q1, it fell 1.1% qoq) and the less negative contribution of net external demand (exports grew in Q2, after the fall registered in Q1).
- The data for Q2 2025 aligns with **BPI Research's forecast for real GDP growth in 2025 (1.6%).** The main factors supporting our growth expectations include the robustness and resilience of the labor market (as a result of rising employment and wages); the reception of European funds, with the possibility of accelerating their implementation as we approach the end of the EU NG (2026); the signing of several investment contracts and the reduction in financing costs; the reduction in interest rates (we expect another cut by the end of the year); and reduced uncertainty in international trade due to the agreement between the US and the EU.

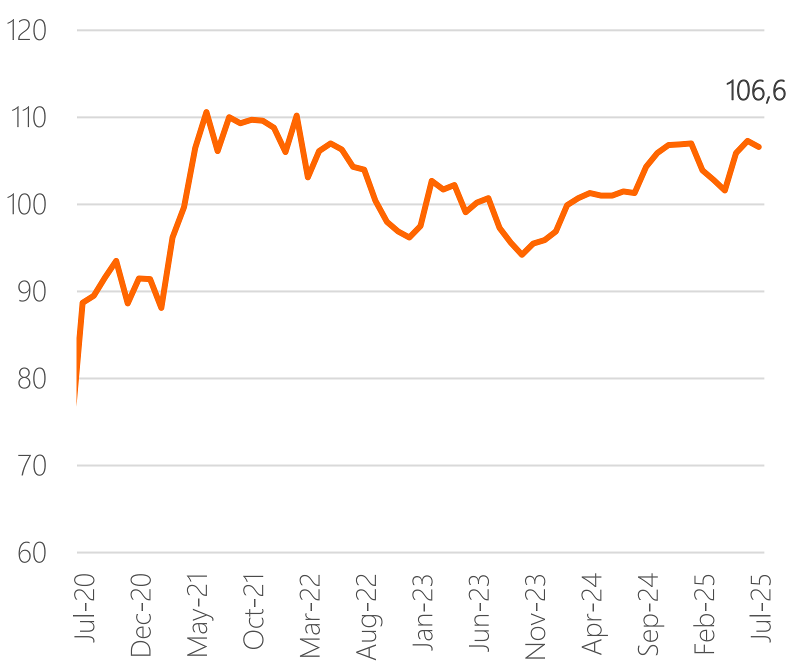
2nd quarter and available July's data points upwards

yoy, level		Q2 25	Q3 25	May/25	Jun/25	Jul/25	Last month available
Synthetic indicators	Economic climate indicator	2.6	2.8	2.7	2.8	2.8	July
	Economic sentiment indicator	104.9	106.6	105.9	107.3	106.6	July
	Daily economic indicator	1.0	-0.8	0.9	0.8	-0.8	July
Consumption	Consumer confidence	-17.6	-15.1	-16.0	-16.0	-15.1	July
	Wholesale and retail trade (yoy)	3.3	-	4.3	5.5	-	June
	Retail sales excl. fuels (yoy)	5.6	-	6.1	7.4	-	June
	Card withdrawals and purchases deflated (yoy)	6.7	-	6.7	6.3	-	June
	Car sales (yoy)	13.9	20.6	18.6	14.8	20.6	July
Investment	GFCF indicator	4.6	-	5.2	-	-	May
	Imports of capital goods	-3.1	-	0.6	-	-	May
Suply	Cement sales	-1.7	-	-2.0	2.6	-	June
	Industrial production	1.3	-	3.0	2.9	-	June
Demand	Electricity consumption adjusted for temperature & working days	2.1	2.2	0.0	3.1	2.2	July
	Non-resident tourists (yoy)	4.1	-	1.9	2.9	-	June
	Number of flights (yoy)	5.3	4.5	5.3	4.3	4.5	July
Trade	Exports G&S (accum. Year, yoy)	1.4	-	1.5	-	-	May
	Imports G&S (accum. Year, yoy)	4.1	-	4.1	-	-	May
Labour market	Change in regist. unemployment (thousand people)	-8.5	-	-9.4	-11.5	-	June
	Change in employment (thousand people)	154.7	-	131.8	175.1	-	June

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

Economic sentiment index

1990=100



- **In July, ESI slightly decreased to 106.6 points, after the June's data (107.3 points) reached the highest value since February 2022.** This reflects increases across various sectors, including industry, construction, retail trade and services. **Consumption indicators** (around 63% of GDP) suggest an acceleration compared to Q1, supported by the robustness of the labour market (employment continues to register historical highs and the number of unemployed continues to decrease) and real increases in wages (+3.0% yoy in Q1).
- In **trade**, imports increased in May (+3.7% yoy; +4.1% since the beginning of the year) and exports expanded 1.9% (+1.5% since January). **The supply side** also seems to be robust: industrial production increased 3,0% and 2.9% yoy in May and June, respectively. The highlight goes to the energy contribute, which rose 18% and 20% yoy in May and June, respectively.

Private consumption is seen to continue to perform favorably

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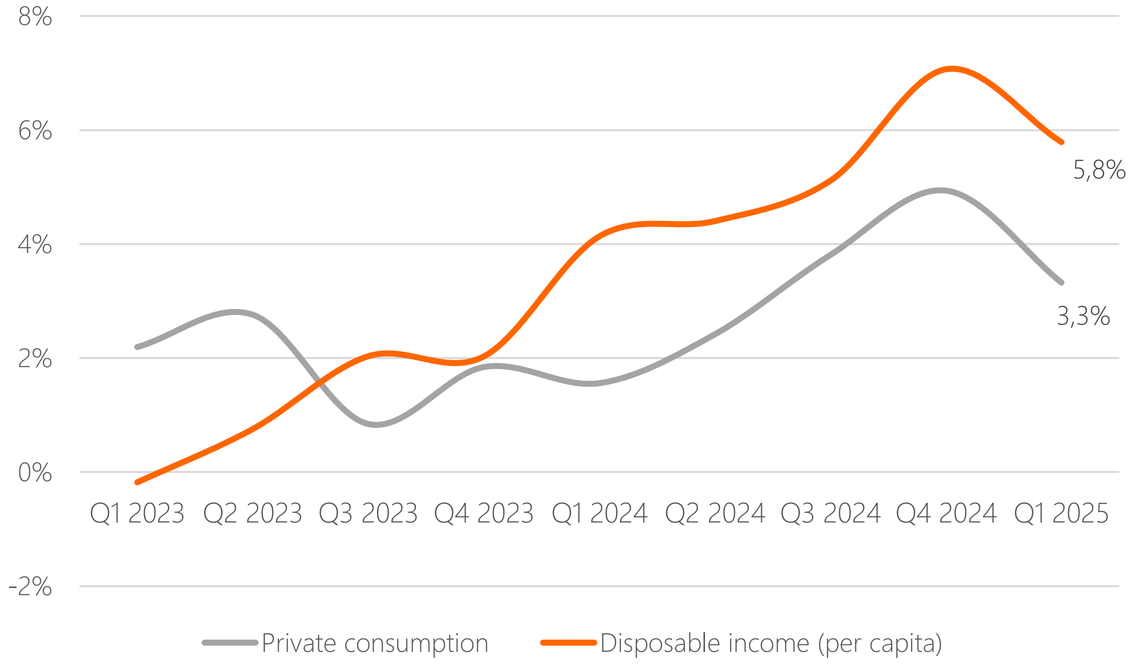
Families' saving rate

(% of DI)

Private consumption and household's income

Year-on-year on real terms, %



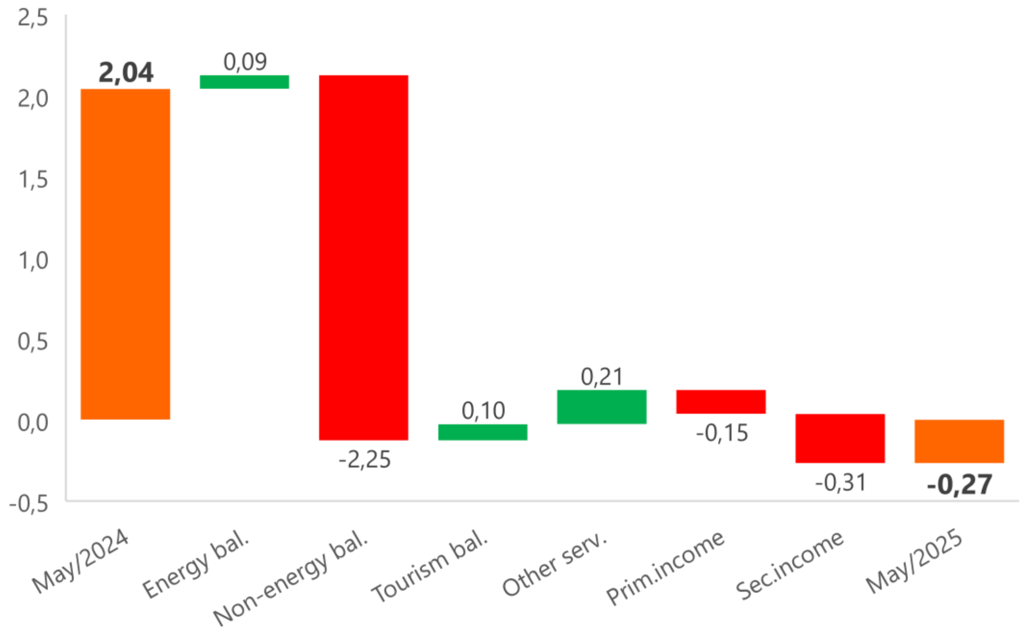
Source: BPI Research, from INE, BoP.

- **Savings growth rate has stabilized**. The household's saving rate fell to 12.4% in Q1 2025, less 0.1 p.p. than in Q4 2024, reaching the second highest level since 2004 excluding the adverse years of COVID pandemics.
- Additionally, real disposable income (per capita) is growing faster than consumption since the end of 2023, favouring the building up of savings, which will tend to constitute an important cushion of confidence for future consumption decisions. The higher quarterly increase on the real disposable income (per capita) is seen in Q4 2024 (+7.1%) was partially due to the personal tax reduction in September and October 2024. As expected, in Q1 2025, the trend became smoother, but higher uncertainty may contribute to savings continuing high during the year.

Unexpected deficit in current account until May 2025

Current account May 2025

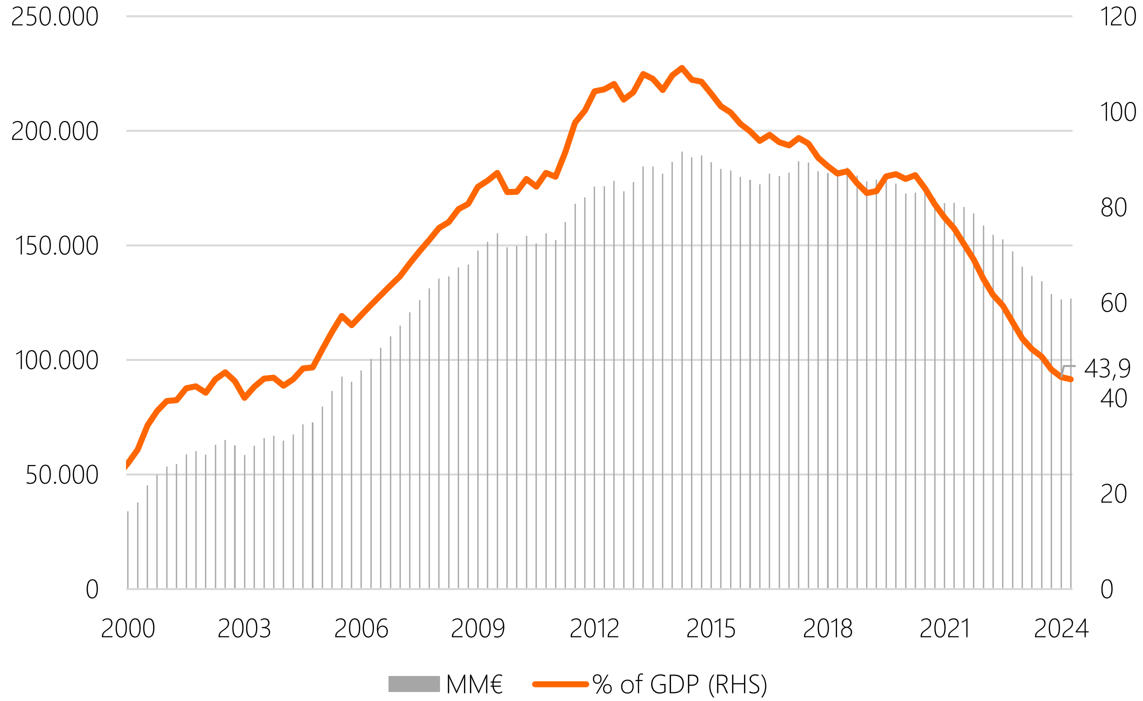
% of GDP and percentage points change



Source: BPI Research, from BoP.

Net external debt

MM € *% of GDP*



- **Until May 2025, the current account balance recorded a deficit of 200.3 million euros**, equivalent to approximately -0.3% of GDP, a significant fall compared to the figures registered in the first five months of 2024. This reduction has been not only due to the increase in the non-energy deficit, which enlarged to -12.3% (-10.1% May 2024), but also due to the decrease in the secondary income surplus, which reduced to 2,4% (2,7% in May 2024). That means that Portugal in this period experienced a worsening of its trade in goods and services dynamics that were not related to energy products as well as a higher investment income deficit and a lower allocation of European funds to final beneficiaries through subsidies. The worsening seen so far this year might in part be related to the volatility in trade associated with the trade and commercial policy of the US Government (however the uncertainty will be reduced due to the agreement stablished between EU and USA). Going forward we see a recovery of the current account, by a more moderate growth on imports and by the impact of NG EU funds. **The outlook for 2025 remains positive, with the surplus expected to end the year at around 1.7% of GDP.**
- The external debt keeps its downward trend, reaching 43.9% of GDP in Q1 2025, the lowest level since the beginning of 2005.

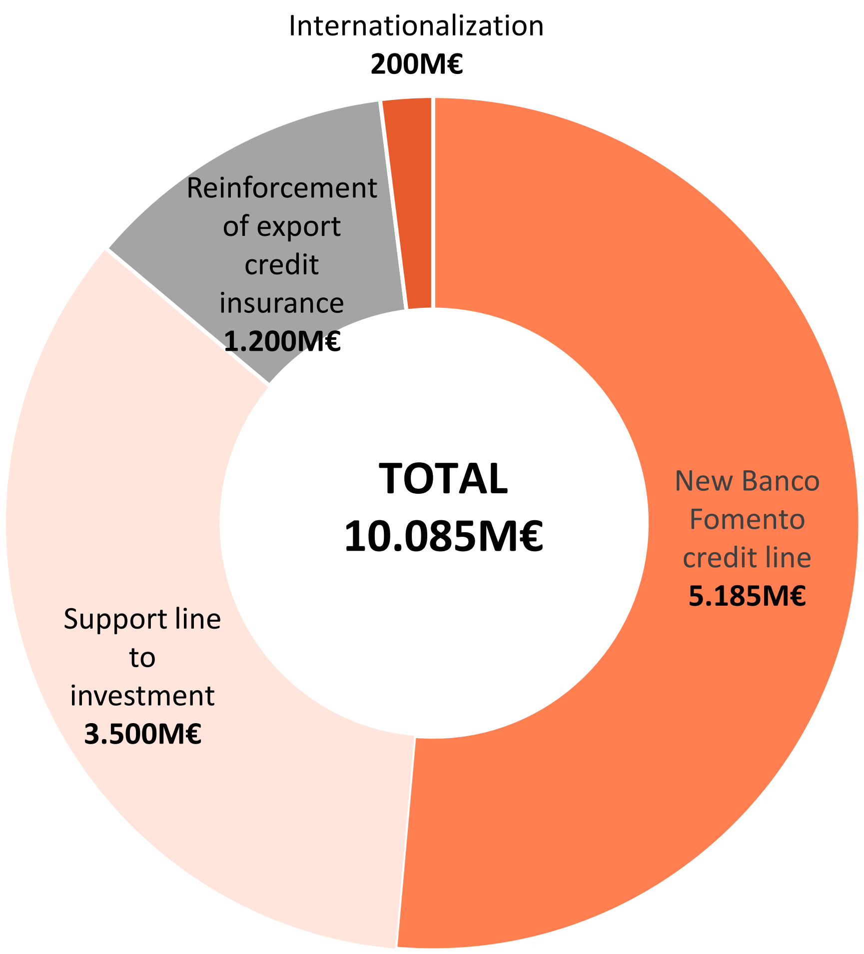
Government plan due to US tariffs

1. Reinforce Program (10 billion euros)

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

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

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



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

Most exposed sectors to the US demand
% of Gross Value Added by sector

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

Portugal: goods exports to the US in 2024

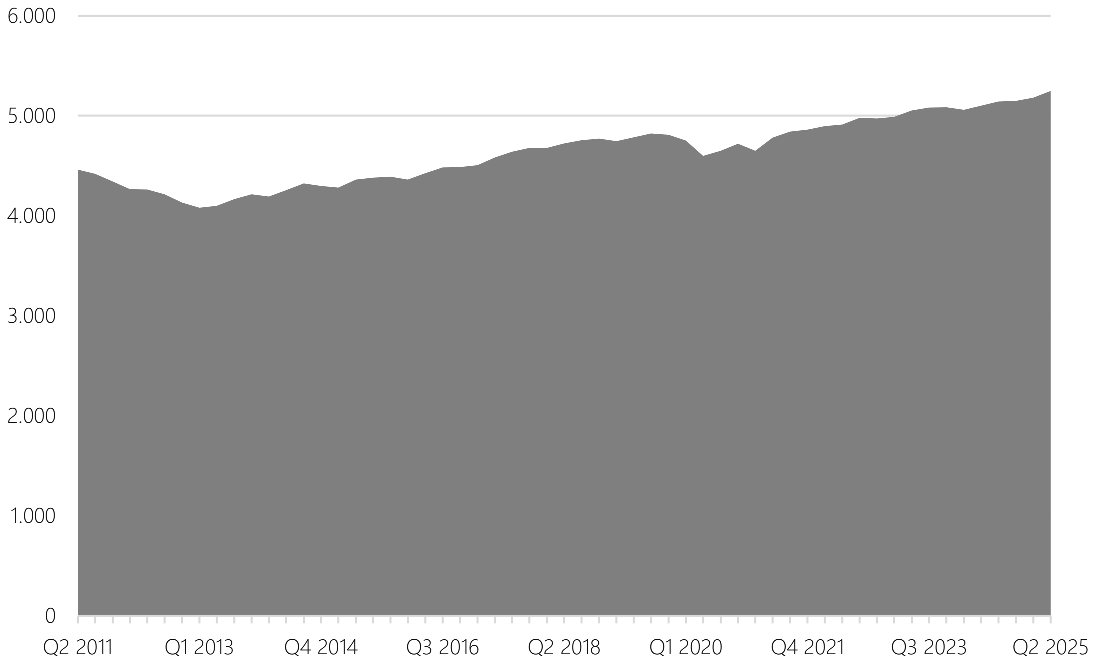
	Exports to the US in 2024 (million €)	% of total
Pharmaceutical products	1 168	22.0
Mineral fuel	1 078	20.3
Rubber	368	6.9
Electric machinery	303	5.7
Nuclear reactors	227	4.3
Cork and articles	185	3.5
Iron and steel products	182	3.4
Textiles products	144	2.7
Furniture	126	2.4
Clothing	183	3.4
Beverages	111	2.1
Organic chemical products	111	2.1
Footwear	98	1.8
Ceramic products	89	1.7
Optical, photografic and cinematographic	72	1.4
Others	873	16.4
Total	**5 318**	**6.7**
% of GDP	**1.9**	

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

Labor market surprises positively in Q2 2025

Employed population

Number of people ('000 individuals)



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

Employment in Q2, by sector

- **Employed population increased in Q2 at the fastest pace since 2017** (excluding the pandemic period). Employment rose 2.9% yoy in Q2, corresponding to the maximum of the historical series started in 2011. This rise was due to manufacturing, consultancy activities, accommodation & catering, health & social support activities transports and trade. There was a significant increase in the employment of individuals with secondary and post-secondary education (+127,900 people) and higher education (+106,700 people), offsetting the fall in the employment of individuals with low qualifications (-86,200 people). Additionally, we also saw an increase in full-time work and permanent employment contracts.
- **This performance led to a decline on the unemployment rate to 5.9% in Q2**, minus 0.7 p.p. than in Q1 and -0.2 p.p. in comparison to Q2 2024.
- **The strength of the labour market will continue to be one of the main factors supporting economic activity in 2025,** and given this data, we consider BPI Research's forecast for the unemployment rate in 2025 to be feasible (6.3%).

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

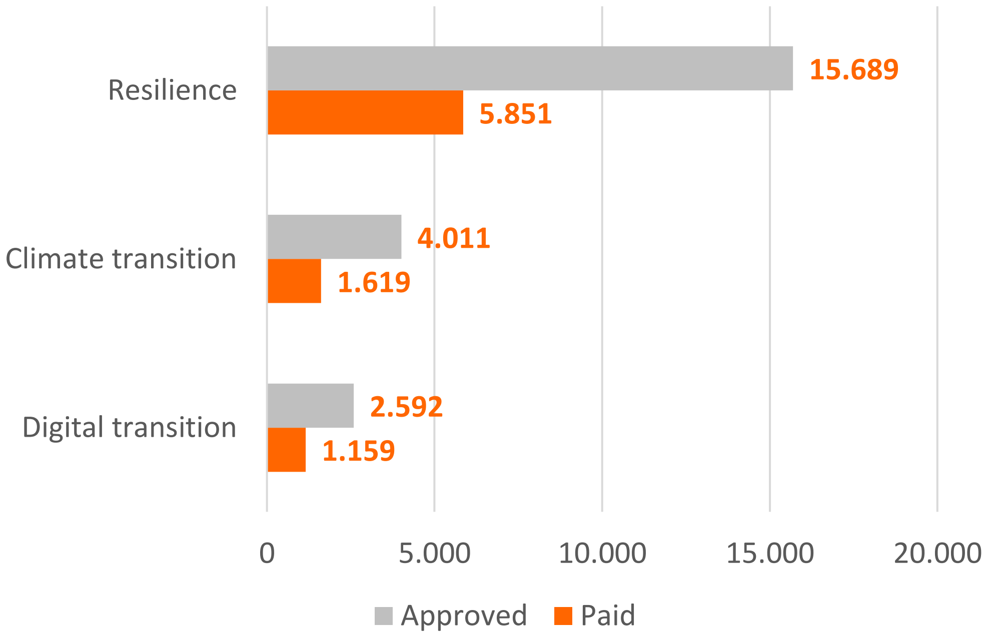
Approvals and payments to direct and final beneficiaries

(Up to July 30th)	Approved (EUR million)	Paid (EUR million)	Paid rate (%)
Families	306	259	84.6
Social and solidarity economy institutions	730	278	38.1
Firms	6 346	3 156	49.7
Excl. R&I System Non-firms	5 455	2 714	49.8
R&I System Non-firms in consortium with firms	891	442	49.6
Institutions of the scientific and technological system	549	221	40.2
Higher Education Institutions	829	348	42.0
Schools	1 038	593	57.1
Municipalities and metropolitan areas	4 437	1 101	24.8
Public entities	5 106	1 806	35.4
Public firms	2 950	868	29.4
Total (million euros)	**22 292**	**8 630**	**39**
(% total RRP)	***100%***	***39%***	

Source: BPI Research, from Recuperar Portugal.

RRP: amounts approved and paid by dimension

Eur million

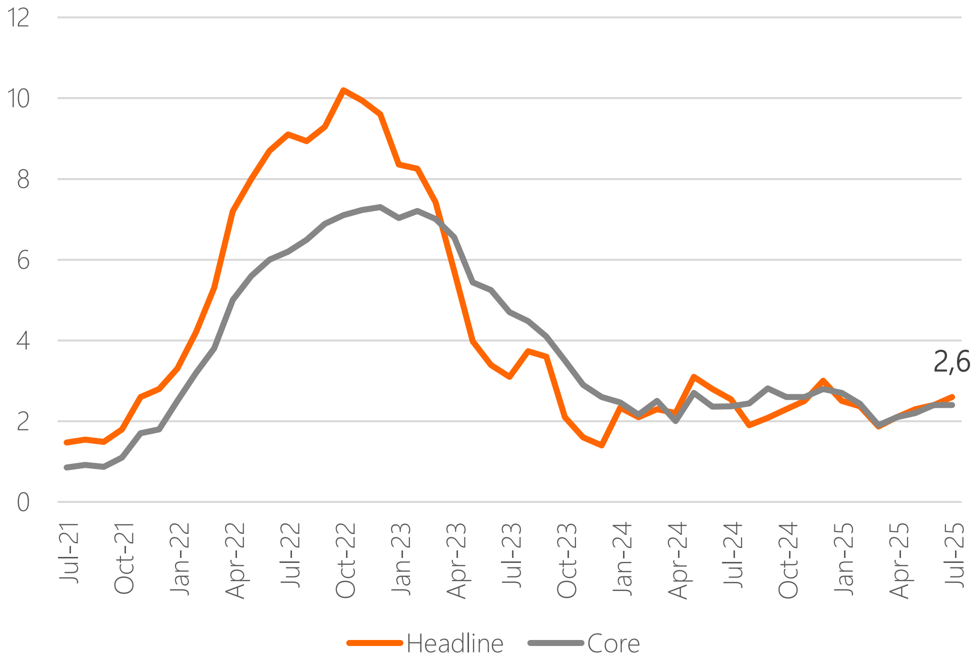


- **Up to now, Portugal received 11.4 billion euros, equivalent to 51% of the total amount of the RRP**.
- **Projects already approved amount to 22.3 billion euros (100% of the total amount) and payments reached 8.6 billion** (76% of the total amount received), but only 39% of the approved projects (since the end of 2024, the payment rate improved by 9 p.p.).
- The program is divided in three dimensions - resilience, climate transition and digital transition. The first will absorb 70% of the funds, the second 18% and the third 12%, in the case of the Portuguese program. In the resilience dimension, the capitalization and business innovation components stand out, with an amount paid out to the final beneficiaries of 2 507 million euros, equivalent to 56% of the approved amount; housing, with an amount already paid out of 1 216 million (30% of the approved amount); and the qualifications and skills component with an amount already executed of 907 million euros (41% of the approved amount). In the climate transition, the decarbonization of industry and sea components stand out, with amounts already paid amounting to 360 and 240 million euros, respectively, representing, in the same order, 45% and 63% of the amounts approved. And in the digital transition, the digitalization, interoperability and cybersecurity in public administration and corporations 4.0 components stand out, with projects approved amounting to 678 and 627 million euros, respectively, of which 244 and 245 million have already been paid out.

Inflation rises for the fourth consecutive month

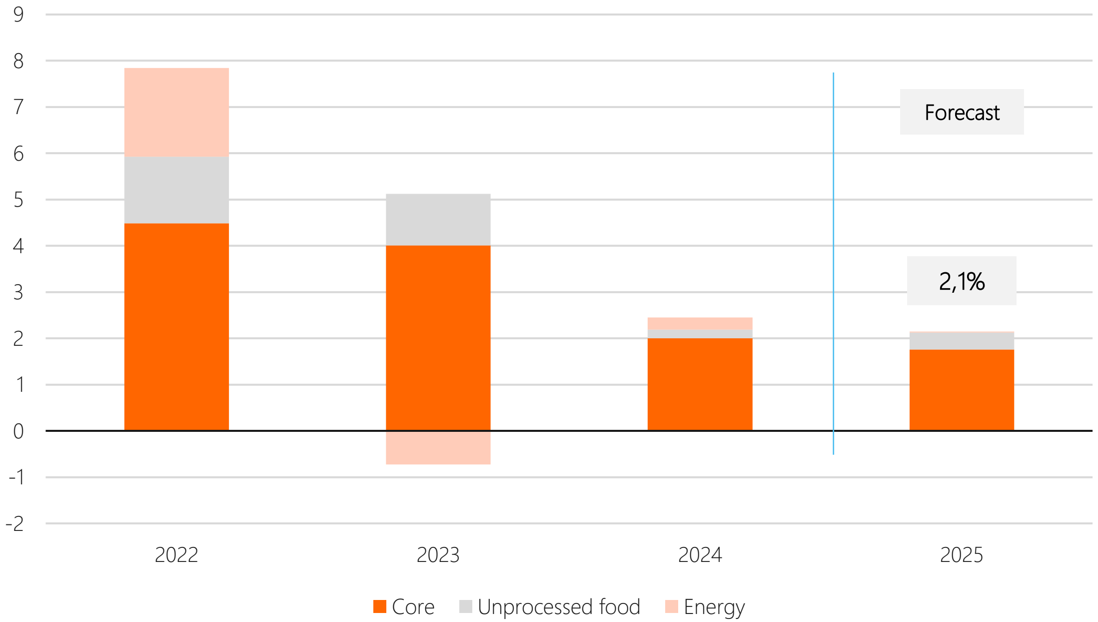
Headline and core inflation

Year-on-year (%)



Global inflation

average annual inflation and contributions (%)

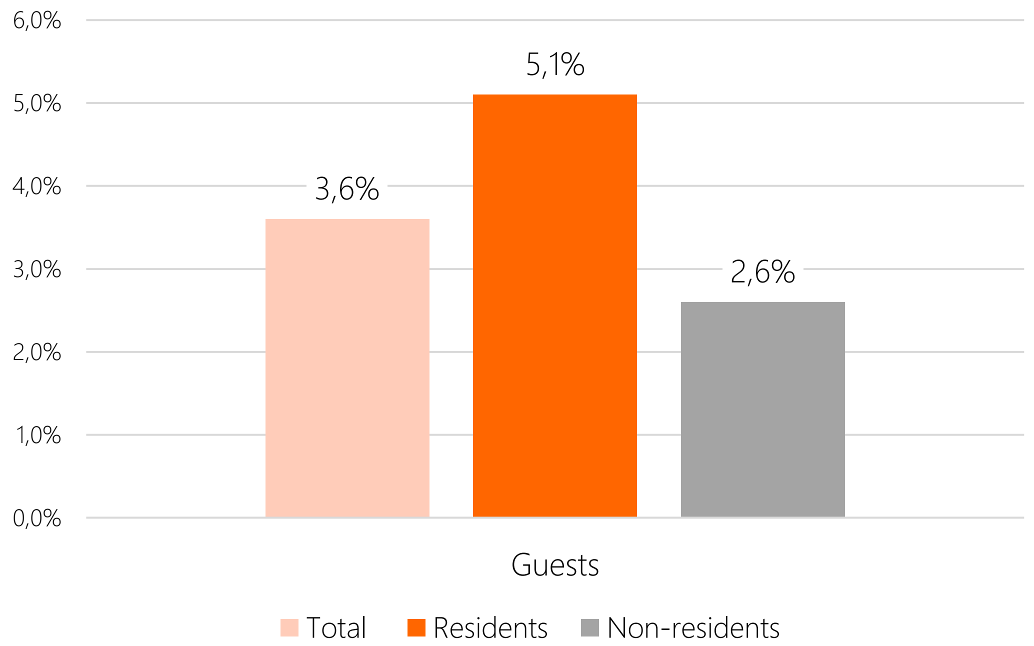


- **In July, global inflation rose to 2.6%,** 2 p.p. more than in June, and core inflation remained at 2.4%. The rise in global inflation was not matched by the core inflation rate, which stabilized. In other words, excluding the most volatile products (unprocessed food and energy), prices increased 2.4% year-on-year (2.4% also in June). Energy prices fell -1.06% year-on-year (-1.3% in June). Meanwhile, food inflation increased significantly, rising to 6.16% (4.7% in June).
- The rise in prices of unprocessed food items is mainly justified by the **wages' increase in the "Agriculture, livestock production, hunting, forestry and fishing" sector** compared to the overall economy at the end of Q1 (7.9% vs. 5.2%). Additionally, the **CPI for Meat in June registered a year-on-year increase of 7.2%,** and, according to the FAO index, beef prices in the world market reached a new high, reflecting a tighter export supply from Brazil and strong demand from the USA. Also, the **Portuguese CPI for Coffee, Tea, and Cocoa registered an increase of 12% yoy in June.**
- All in all, our current forecast for average annual inflation in 2025 (2.1%) is still appropriate. Although it's not yet clear, we don't rule out the possibility of a slight adjustment depending on the latest data and the prospect of Brent prices below what we expected at the beginning of the year.

Tourism: expanding moderately in the first semester of 2025

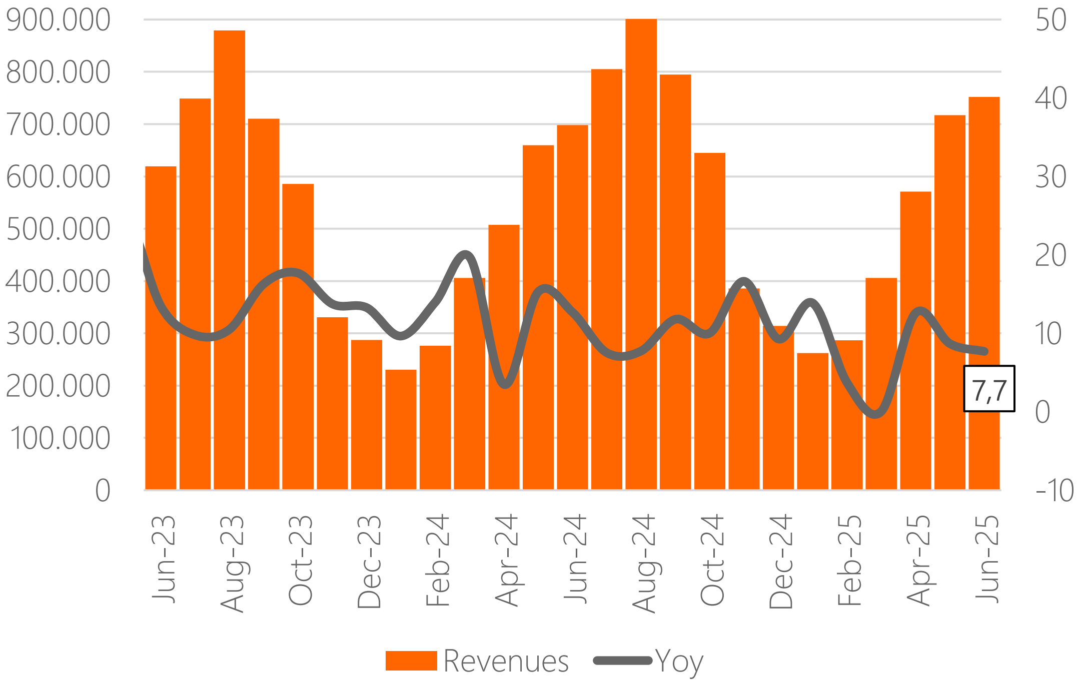
Number of guests

Jan-Jun 2025 yoy change (%)



Total revenues in tourist accommodation establishments

M€ *yoy (%)*

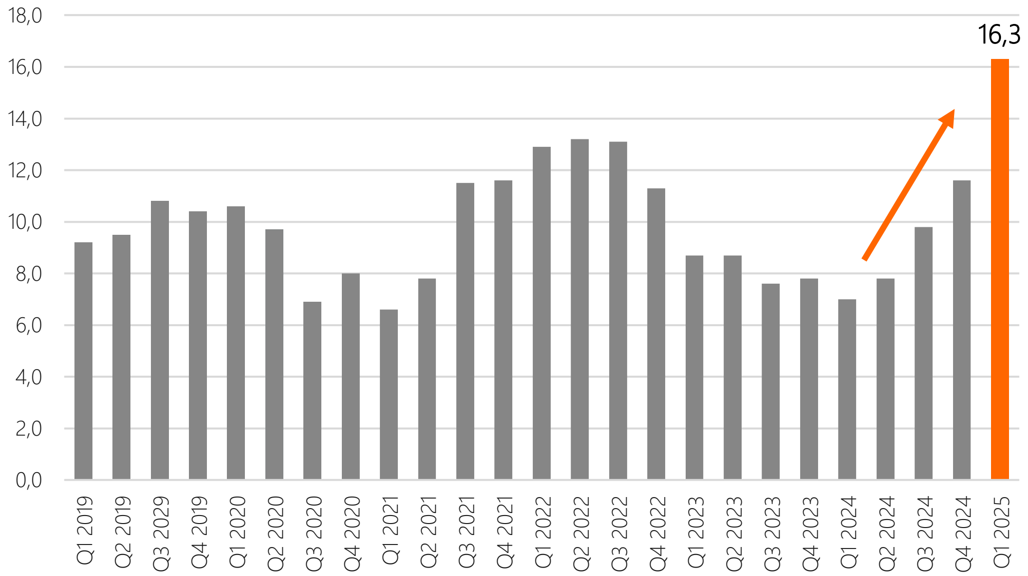


Source: BPI Research, using data from INE.

- **The tourism sector recorded a total of 14.86 million guests** (5.82 million residents and 9.04 million non-residents), as well as **36.43 million overnight stays** (10.67 million residents and 25.76 million non-residents) on the first 6 months (Jan-Jun) of the year, representing a yoy growth of 2.4% driven mainly by the growth in the resident's demand (6.0% yoy vs. 1.0% from non-residents). Focusing on the number of guests, this represented a deaccelerated growth in yoy terms compared to last year (5.7% in Jan-Jun 2024), due to the deceleration of the yoy change of non-residents (7.4% in Jan-Jun 2024).
- **Total revenues in accommodation establishments is higher in the first 6 months of 2025,** compared to the same period in 2024, with a yoy growth of 7.7% in June (7.8% year-to-date), which reinforces that tourist **activity keeps expanding in Portugal**. We estimate that the tourism sector's weight in GDP will have risen to 17.2 per cent (from 16.5 per cent in 2023) and that it will stand at 17.9 per cent in 2025, given that the sector's growth rate is stronger than the economy's overall growth rate. Tourism is expected to contribute around 0.7 p.p. to overall GDP growth, which in 2025 is projected to be 1.6 per cent.

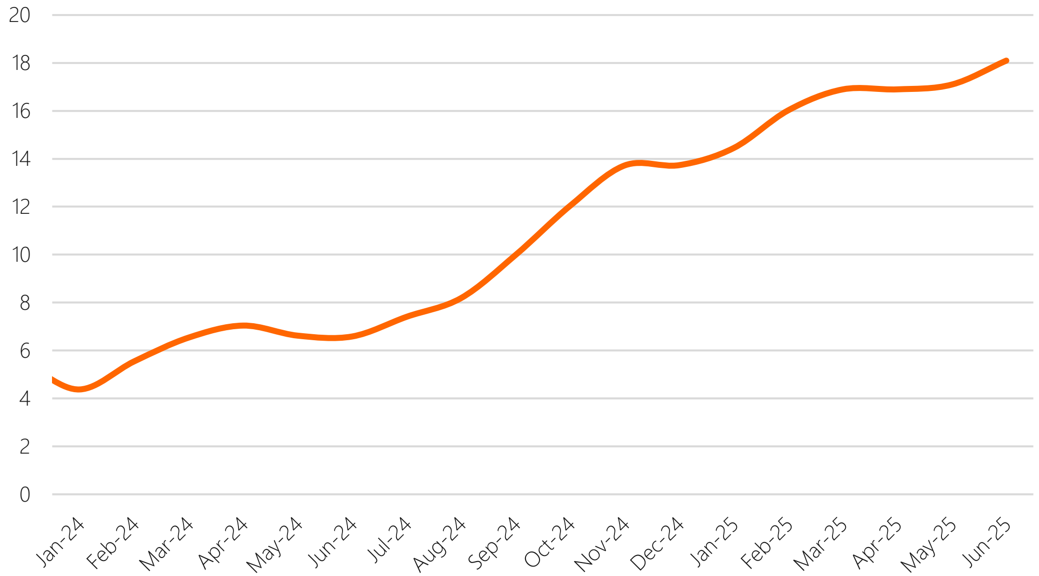
Housing with record appreciation in Q1 2025

House price index
year-on-year (%)



Source: BPI Research, using data from INE.

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



- **In Q1 2025, the House Price Index rose to 16.3%, the highest from the historical series, started in 2010** (above our forecast of 13.2%)**.** Robust demand together with lower interest rates, high employment levels, positive migration balances and a shortage of supply should continue to support the market.
- **In Q1 2025, the number of transactions reached 41 358 houses, more 25.0% than in Q1 2024**. This, combined with moderate supply growth (only +4.2% of new family homes built in 2024 vs. 2023), will continue to support further price growth in 2025. However, there are other favourable factors reinforcing prices and transactions: lower interest rates and an increase in real disposable household income, resilient labour market; and favourable fiscal policy (tax exemptions for young people purchasing homes for own residence - HPP).

Public accounts keep their enhancing trend

Budgetary execution of Public administration

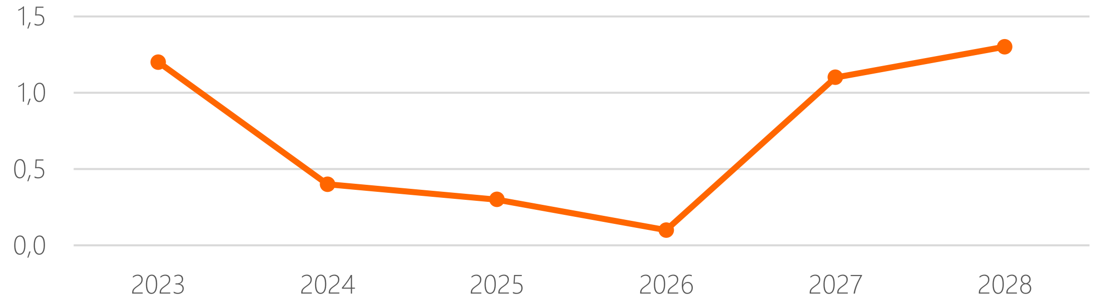
% of GDP, unless otherwise indicated

January-June	2019	2023*	2024	2025	Var. 2025 vs 2019	Var. 2025 vs 2024 (M€)
Revenues	**38.0**	**37.5**	**35.9**	**39.0**	**1.0**	**7 112**
Fiscal revenue	21.1	21.2	18.6	21.3	0.2	5 292
Social Security contributions	9.7	10.0	10.3	10.7	1.0	1 219
Expenses	**38.7**	**36.1**	**37.8**	**37.7**	**-1.0**	**2 431**
Personnel	9.6	9.4	9.4	9.8	0.1	1 150
Current transfers	15.8	15.3	16.6	16.3	0.5	654
Goods & Services acquisition	5.4	5.1	5.4	5.1	-0.3	-32
Interest	4.5	2.5	2.6	2.5	-2.0	36
Investment	1.8	2.1	2.0	2.2	0.4	447
Fiscal balance	**-0.6**	**1.4**	**-1.9**	**1.3**	**2.0**	**4 681**

Note (*): adjusted value of the transfer of the Pension Fund from CGD to CGA.
Source: BPI Research, based on DGO data.

Overall fiscal balance in accrual basis

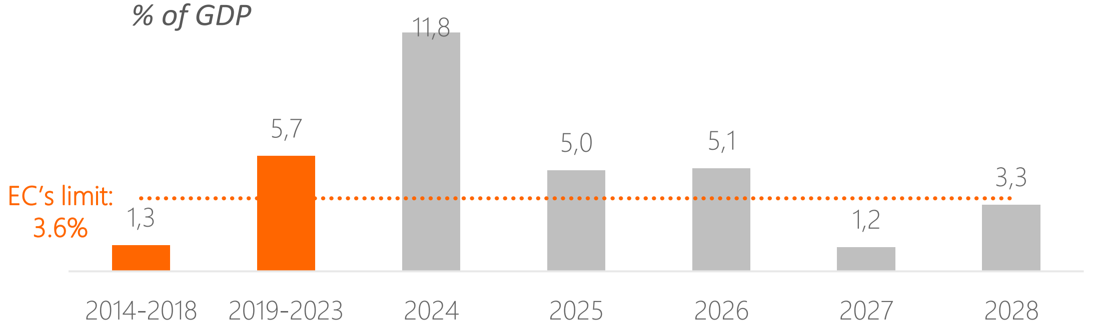
% of GDP



Source: BPI Research, based on Medium-Term Fiscal-Structural Plan 2025-2028.

Net Primary Expenditure

% of GDP



Source: BPI Research, based on Medium-Term Fiscal-Structural Plan 2025-2028.

- **Public accounts continue to improve, with revenues increasing c.14% yoy, while expenses raised by 4.5%, ending up with a positive balance of 1.3% of GDP in the first half of 2025.** The revenues growth was especially due to the fiscal and contributory revenues (explain c.90% of revenues growth), while for expenditure the highlight went to personnel expenditure and current transfers (in line with the improvement of public servants' salaries and pensioners, as inscribed in the State Budget for 2025).
- **2025's data suggests that fiscal accounts remain solid.** Prospects for economic activity continue positive, benefiting from labour market robustness, supporting consumption and lower financing cost. However, the risks are still lurking: GDP deceleration, geopolitical challenges (wars and tariffs), efforts to strengthen European defence, and the fragmentation of the Portuguese Parliament, with the resulting uncertainty about the economic direction of the Government policies, remind us of the importance of keeping the consolidation of public accounts as a future focus. And let's not forget that, despite the favourable trend, public debt remains at high levels, well above the 60% of GDP threshold (although lower that 95% of GDP).

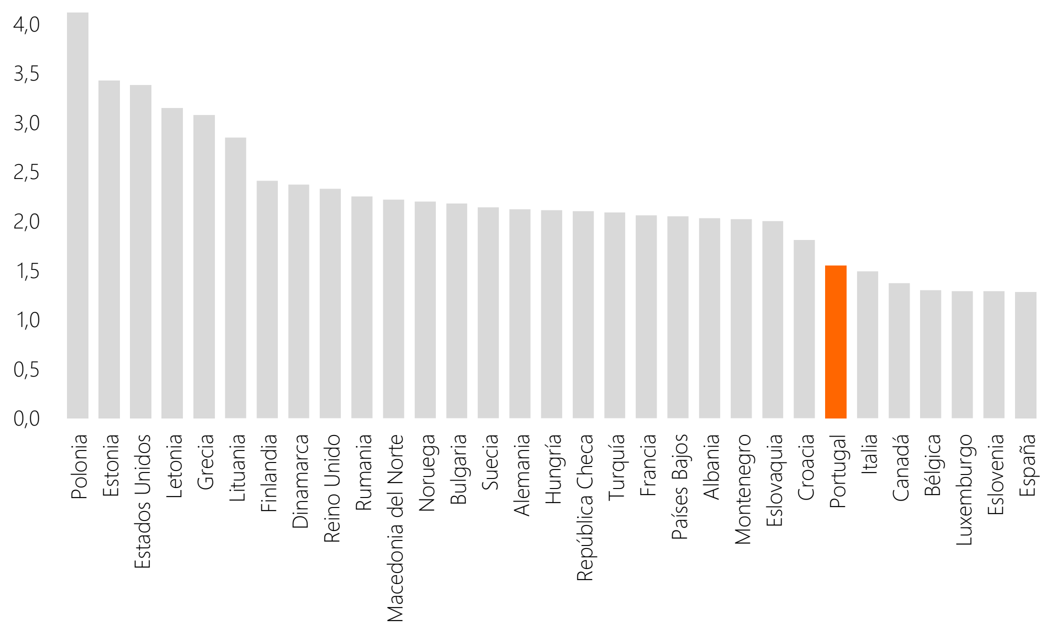
Government defence spending increase program

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

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

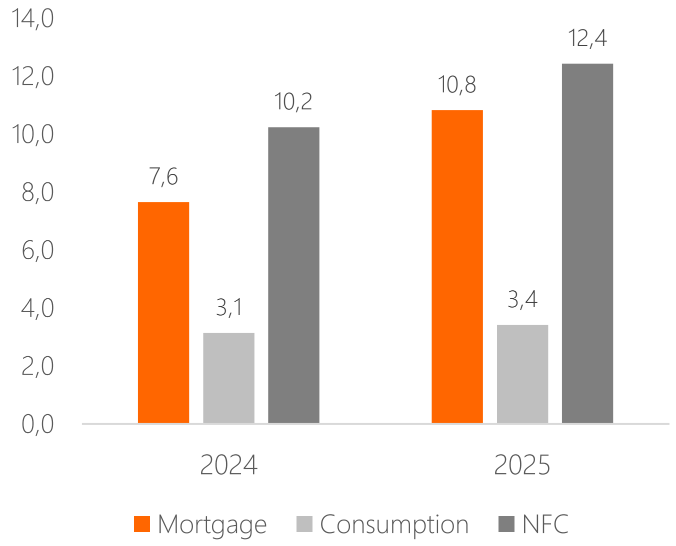
Defence spending in 2024

% of GDP



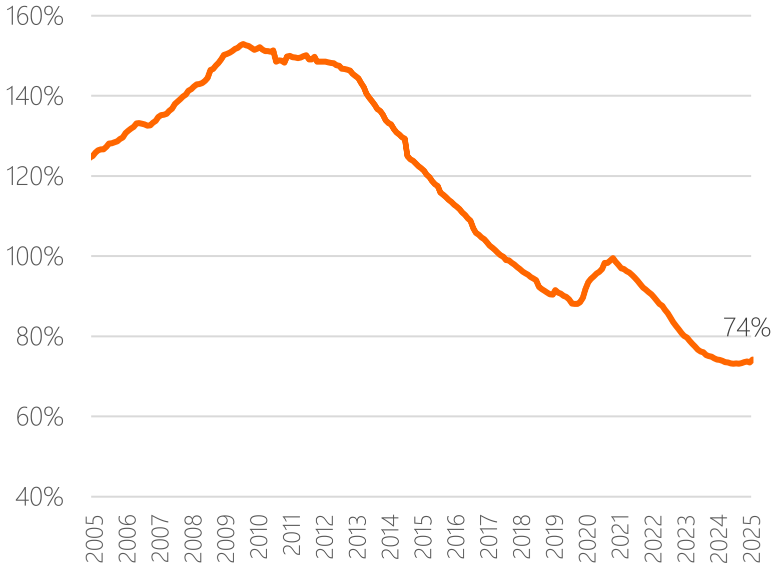
Banking system: deleveraging and high liquidity

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



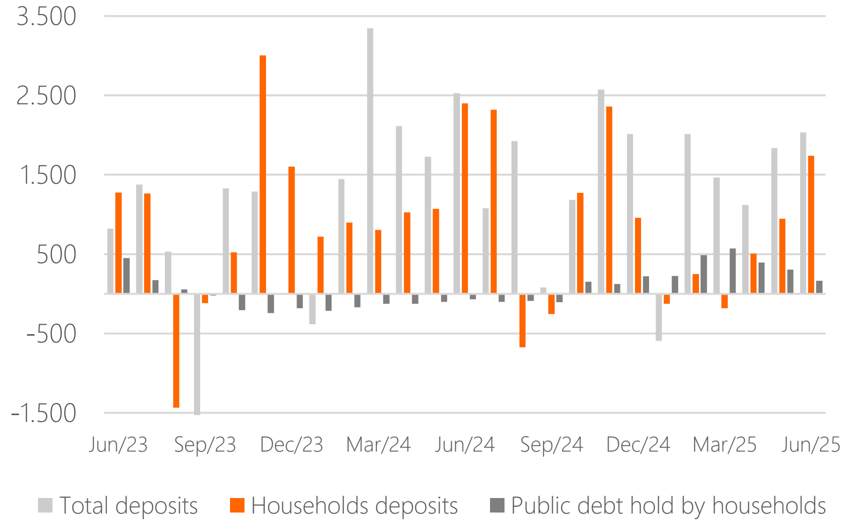
Source: BPI Research, based on data from Bank of Portugal and ECB.

Bank credit to the non-financial private sector
% GDP



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

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

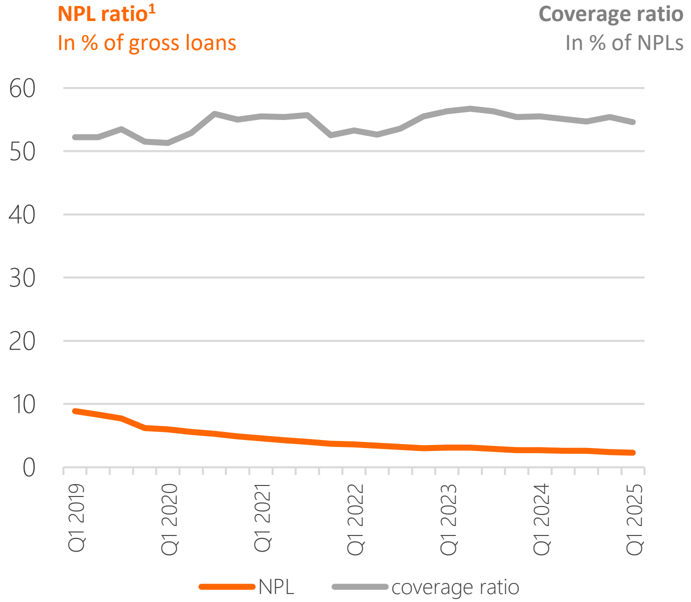


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 7 bn Eur in 2024.
Source: BPI Research, based on data from Bank of Portugal and IGCP.

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit:** stock rose 7.4% in June, with new operations still increasing at double digit levels (+41.6% yoy, including transfers among banks), indicating that the pace will continue positive in the months ahead. Signs that the peak on interest rates should be behind us may have contributed to this, as well as the impact of Government's measures (especially those related with improving access of youth people to credit and housing market).
  - **NFC:** the stock increased by 2.3% in June, while new operations recorded expanded 21.4% yoy.
  - **Deposits:** the stock rose 6.4%. Households and NFC's deposits simultaneously increased (4.9% and 6.9% yoy, respectively). However, the actual descending trend in interest rates for new deposits (1.43% in June for new households' deposits, -1.23 p.p. in comparison to the homologous period of 2024) should restrain the increase in households' deposits in the near future, probably towards Government retail products (with subscriptions increasing in June for the 9th consecutive month).

Banking system: a solid position to support the economy

NPLs and coverage ratios

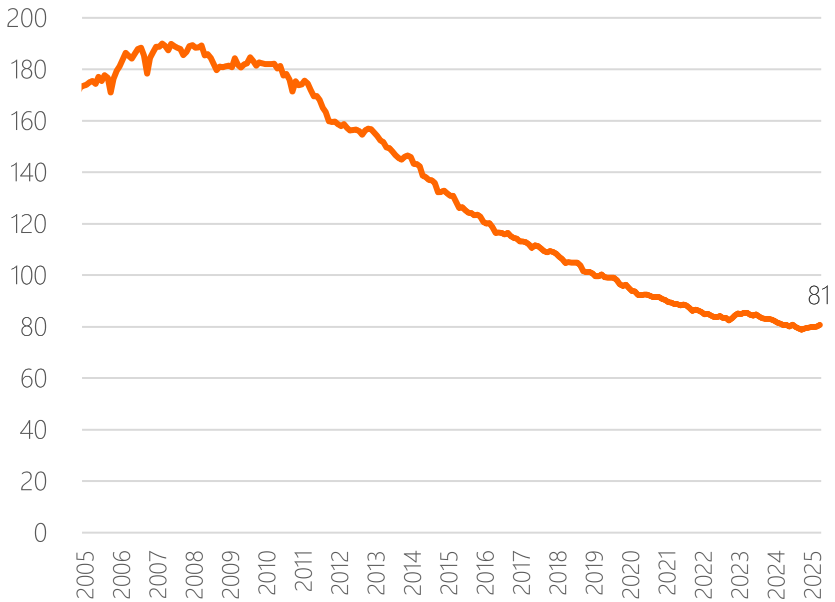


Cost of risk[1]
0.5% in Q4 2019
0.1% in Q1 2025

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

Non-financial private sector: loan-to-deposit ratio

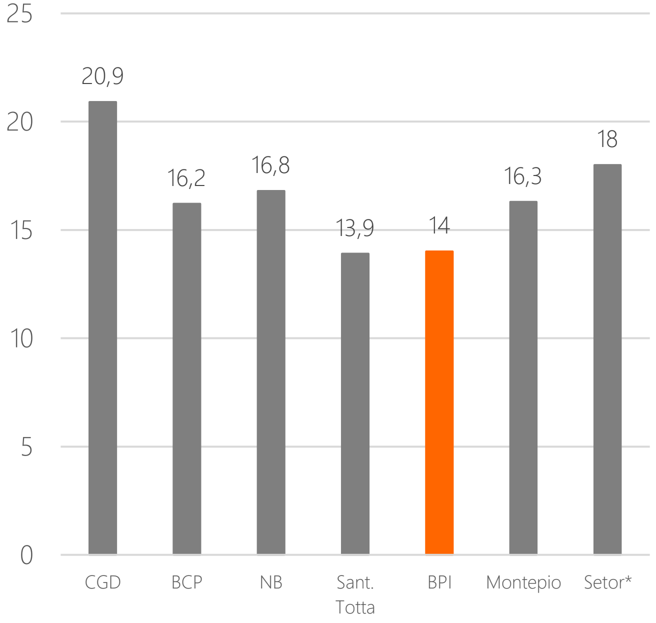
(%)



Source: BPI Research with data from Bank of Portugal.

Banks' solvency and liquidity position

In % (Q2 2025 for institutions, Q4 2024 for "Sector")



Notes: ratio for Q4 2024 (information for Q1 2025 will only be available in August, according to Bank of Portugal*
Source: Banks publications, BoP

- **NPLs ratio keep steady in Q1.** The total NPL ratio decreased to 2.3% in Q1 2025, while the one relative to households remains to 2.3%. The ratio for NFC was the one that saw the largest quarterly drop, to 4.0% (-2 pp from Q3). We are not expecting a significant deterioration of credit quality in the following months.
- **Profitability remains well above the pre-pandemic period.** According to the Bank of Portugal, ROE decreased to 13.9% in Q1 (vs 15.5% in Q1 2024).
- **The capital position of Portuguese banks provides buffers against the risks that could arise, due to the conflict in Ukraine, other geopolitical risks or any adverse unexpected event that could eventually impact NPL's.**