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Portugal:
Macroeconomic and financial outlook

CaixaBank Research

January 2025

CaixaBank

Main messages

Activity

- **Economic indicators continue to suggest that activity remained strong in the last quarter of 2024.** BoP coincident indicators accelerated, in particular private consumption synthetic indicator accelerated to 3.0% yoy in November; and the EC's economic sentiment indicators performed better than in Q3 months. **For 2025, the economy is seen to remain resilient,** driven by private consumption supported by strong gains in disposable income and robust labour market; investment that should accelerate taking advantage of the acceleration of RRP and news that a huge amount of investments have been contracted between AICEP (Agency for Investment and Foreign Trade of Portugal) and private companies. More specifically, contracts worth 420 million euros were signed, and are scheduled to begin in 2025 and extending over the next 10 years. Other growth supporters are tourism and exports, as Spain (the main trade partner of Portugal) is expected to show a robust growth.
- **The year-on-year global CPI estimated by INE for December reached 3.0% and core inflation stood at 2.8%, confirming our forecast of average inflation of 2.4% in 2024.** Looking ahead to 2025, our current forecast for average inflation is 2.1% and the outlook for prices looks more favourable: in the food sector, the futures markets for the main agricultural products point to prices closer to those prevailing before the start of the war in Ukraine. In services, in telecommunications for example, the increase in competition and the announcement by some operators that they will keep prices at the same level also predicts contained inflation in this area after two years of rising at the rate of the overall CPI.
- **Labour market will remain a relevant factor supporting activity as employed population reached record highs in November.** Even so, unemployment registered at job centres continues to rise, accelerating yoy in November (3.3%, i.e. +10,238 people). Despite this, the total number of unemployed registered in November (of 322,548 individuals) remains at comparatively lower levels than in the past. Given the expectation that the economy will accelerate in 2025, employment is likely to pick up again this year, although with a moderation trend.
- **In Q3 2024, the house price index recorded a year-on-year change of 9.8%, 3.1 p.p. more than our estimate of a 6.7% increase.** With the release of this data, the average increase in house prices over the last 12 months stood at 8.1%. As a result, the expectation of average price increase in 2024 is much closer to the 2023 figure than we initially anticipated and may even exceed it. Our current forecast (average appreciation of 6.8%) is already heavily tilted downwards.
- **The surplus of the current account reached 2.9% of GDP in the first ten months of 2024, and continues to support the decline of the external debt.** Foreign debt fell to 46% of GDP in Q3 2024, minus 7 p.p. than in the end of 2023.
- **On a cash basis, the overall fiscal balance stood at 0.9% of GDP up to November, with revenues advancing 5.3% and expenses 10.4%.** Current transfers rose circa 13% yoy, explaining more than 50% of expenses' growth (especially due to pensions). **Fiscal policy will remain slightly expansionary in 2025-2026**, but this will not jeopardize the expectation of a slight surplus and a reduction in public debt in the coming years.

Banking Sector

- **NPLs ratio stabilized in Q3.** The total NPL ratio stood at 2.6% in Q3 2024, with the NPL of households stabilizing at 2.5% and the one for NFC declining 1 tenth to 4.8%. We are not expecting a significant deterioration of credit quality in the following months.

Main economic forecasts

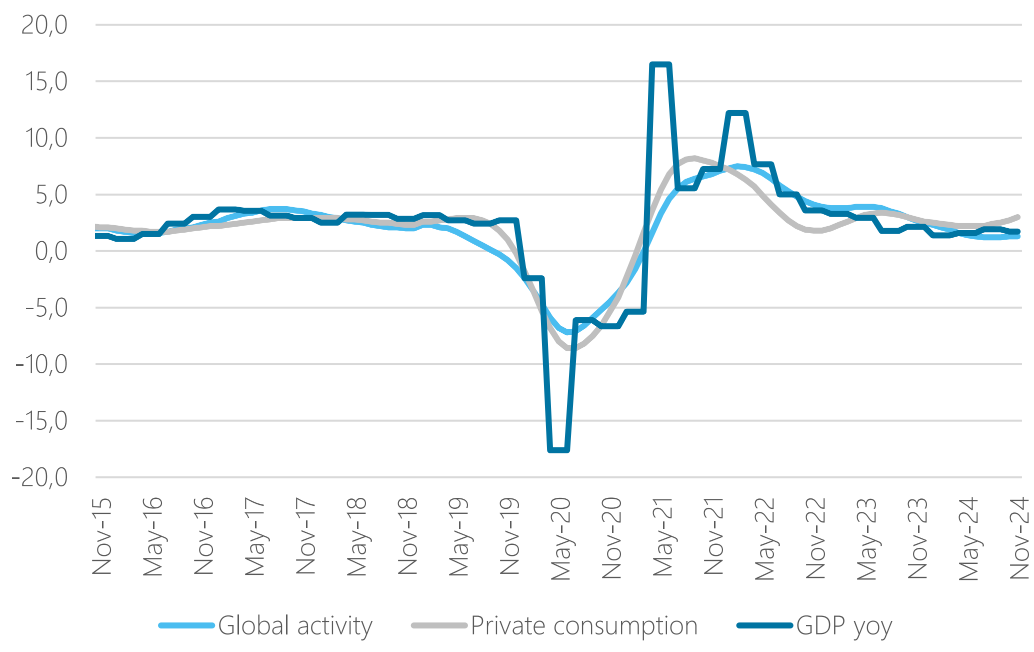
%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	Forecasts 2024	Forecasts 2025
GDP	2,0	3,3	2,9	2,7	-8,2	5,6	7,0	2,5	1,7	2,3
Private Consumption	2,4	1,8	2,6	3,5	-6,8	4,9	5,6	2,0	2,2	1,7
Public Consumption	1,0	0,1	0,5	2,1	0,4	3,8	1,7	0,6	1,0	0,8
Gross Fixed Capital Formation (GFCF)	2,7	11,6	6,2	5,5	-2,3	7,8	3,3	3,6	1,3	5,7
Exports	4,7	8,4	4,3	4,0	-18,3	12,0	17,2	3,5	4,2	5,0
Imports	5,2	8,0	4,9	5,1	-11,6	12,3	11,3	1,7	4,6	5,0
Unemployment rate	11,5	9,2	7,2	6,6	7,0	6,7	6,1	6,5	6,5	6,4
CPI (average)	0,6	1,4	1,0	0,3	0,0	1,3	7,8	4,3	2,4	2,1
External current account balance (% GDP)	1,2	1,3	0,6	0,4	-1,0	-0,8	-1,2	1,4	1,2	1,4
General Government Balance (% GDP)	-1,9	-3,0	-0,4	0,1	-5,8	-2,8	-0,3	1,2	0,5	0,3
General government debt (% GDP)	131,2	126,0	121,1	116,1	134,1	123,9	111,2	97,9	94,3	90,9
Housing Prices	7,1	9,2	10,3	10,0	8,8	9,4	12,6	8,2	6,8	3,2
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	73

Source*: CaixaBank Research.*

Activity indicators suggest that the economy remains resilient

Coincident indicators and GDP growth

%



Activity indicators

yoy, level		Q3 24	Q4 24	Last month available
Synthetic indicators	Economic climate indicator	1,8	2,7	December
	Economic sentiment indicator	102,4	106,5	December
	Daily economic indicator	3,9	2,8	December
Consumption	Consumer confidence	-13,1	-15,0	December
	Wholesale and retail trade (yoy)	4,6	6,6	November
	Retail sales excl. fuels (yoy)	4,1	6,4	November
	Card withdrawals and purchases deflated (yoy)	7,0	12,0	November
	Car sales (yoy)	-4,0	11,9	December
Investment	GFCF indicator	2,2	2,1	October
	Imports of capital goods	3,9	2,1	October
Suply	Cement sales	1,8	3,8	November
	Industrial production	-0,8	1,2	November
Demand	Electricity consumption adjusted for temperature & working days	2,1	0,9	December
	Non-resident tourists (yoy)	15,2	22,3	November
	Number of flights (yoy)	1,4	3,0	December
Trade	Exports G&S (accum. Year)	3,5	4,6	October
	Imports G&S (accum. Years)	1,2	2,0	October
Labour market	Change in regist. unemployment (thousand people)	16,5	9,7	November
	Change in employment (thousand people)	62,1	69,4	November

- **Economic indicators continue to suggest that the activity remained strong in the last quarter of 2024.** The coincident indicators accelerated, mainly the one referring to private consumption that in November accelerated to a yoy growth of 3%. Other synthetic indicators point in the same direction: the economic sentiment indicators performed better than in Q3, retail sales and payments with cards accelerated and tourism data also performed well in the last period of 2024.
- **For 2025, the economy is seen to remain resilient,** supported by private consumption, due to strong disposable income gains and stable labour market; investment, that should accelerate taking advantage of the speeding up of RRP and news that a huge amount of investments have been contracted between AICEP (Agency for Investment and Foreign Trade of Portugal) and private companies. More specifically, contracts worth 420 million euros were signed, and are scheduled to begin in 2025 and extending over the next 10 years. Other growth supporters are tourism and exports, as Spain (the main trading partner of Portugal) is expected to show a robust growth; and also taking advantage of competitiveness gains that have been leading to increased market share.

Convergence with EMU should continue

GDP: Other institutions' forecasts

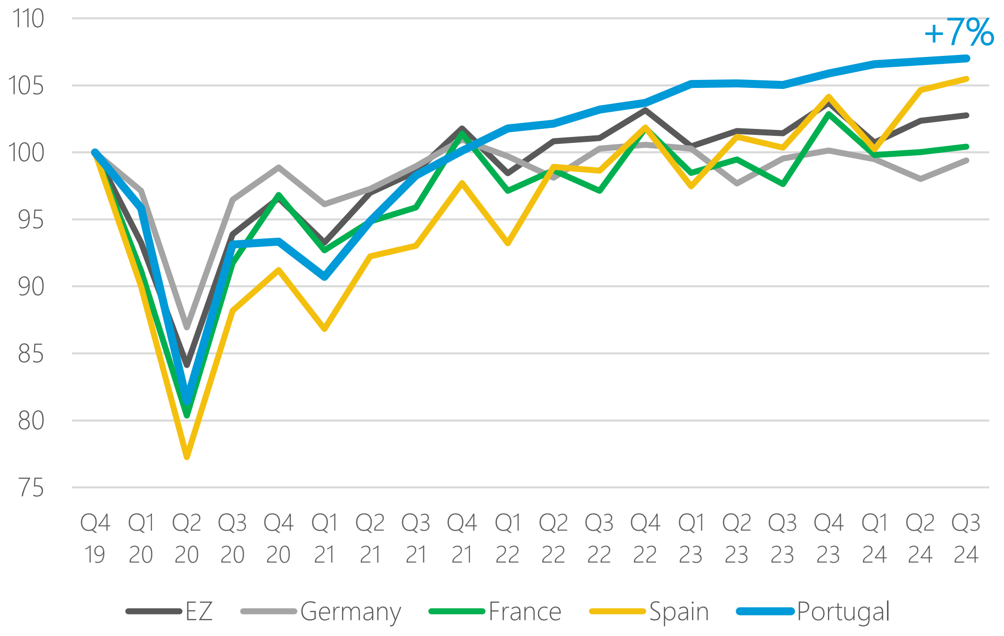
Annual growth

		2024	2025	2026	2027	Cum. 24-26
BPI	**Sep-24**	**1,7**	**2,3**	**2,2**	**2,1**	6,2
Bank of Portugal	**Dec-24**	1,7	2,2	2,2	1,7	6,2
OECD	**Dec-24**	1,7	2,0	2,0	-	5,8
Focus Economics	**Dec-24**	1,7	1,9	2,0	2,0	5,7
European Commission	**Nov-24**	1,7	1,9	2,1	-	5,8
EIU	**Nov-24**	1,7	1,9	1,8	1,7	5,5
IMF	**Oct-24**	1,9	2,3	2,0	1,9	6,3
NECEP	**Oct-24**	1,6	1,8	2,0	-	5,5
Government	**Oct-24**	1,8	2,1	2,2	1,7	6,2
CFP	**Sep-24**	1,8	2,4	2,1	1,6	6,4

Source: CaixaBank Research, from INE, BoP, EC, EIU,….

Portugal compares favourably within EMU

GDP Q4 2019=100

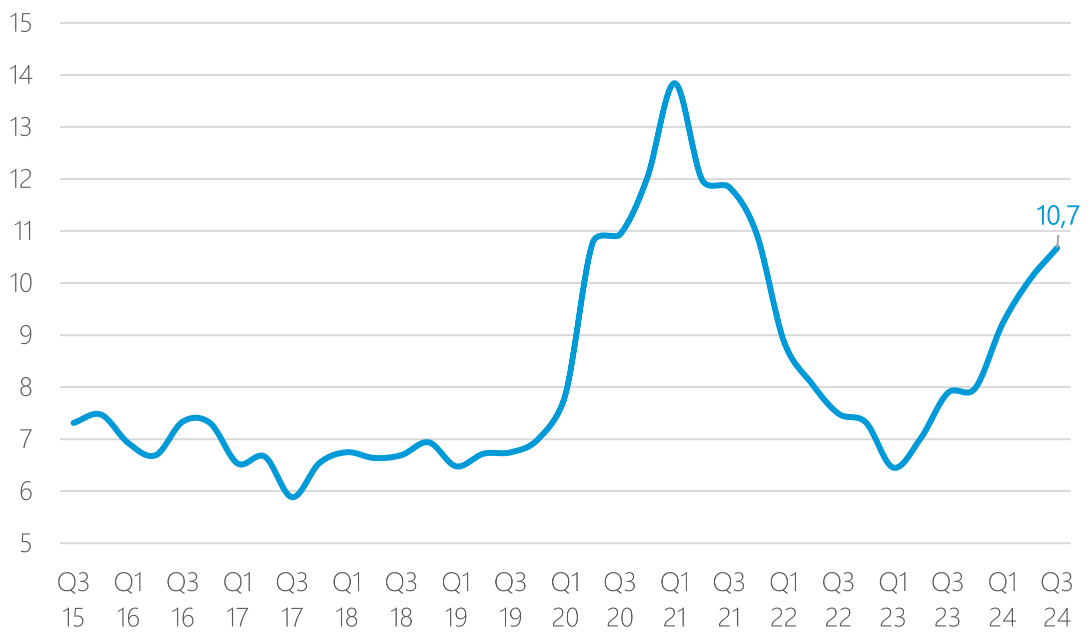


Source: CaixaBank Research, with data from INE and Eurostat.

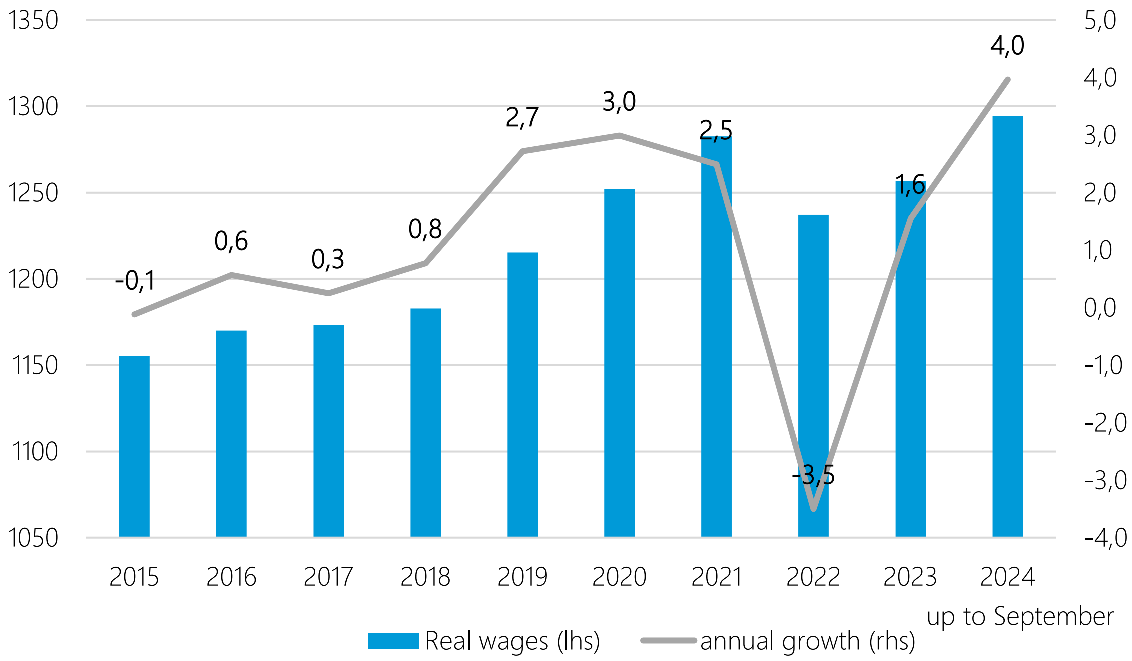
- **The latest forecasts keep pointing in a positive direction for the Portuguese economy**, with Bank of Portugal rising its growth forecast for 2024 to 1.7% from 1.6%; and for 2025 to 2.2% from 2.1%. According to the BoP, the stronger dynamism of activity reflects improved financial conditions, an expected acceleration in external demand and a greater inflow of funds from the European Union. The labour market remains robust, with increases in employment and real wages, along with low unemployment. The expansionary and pro-cyclical orientation of fiscal policy also contributes to the greater dynamism of activity. However, the external environment is subject to significant downside risks of an economic and geopolitical nature.

Private consumption is seen to continue to perform favorably

Families' saving rate
(% of DI)



Real wages
euros, %



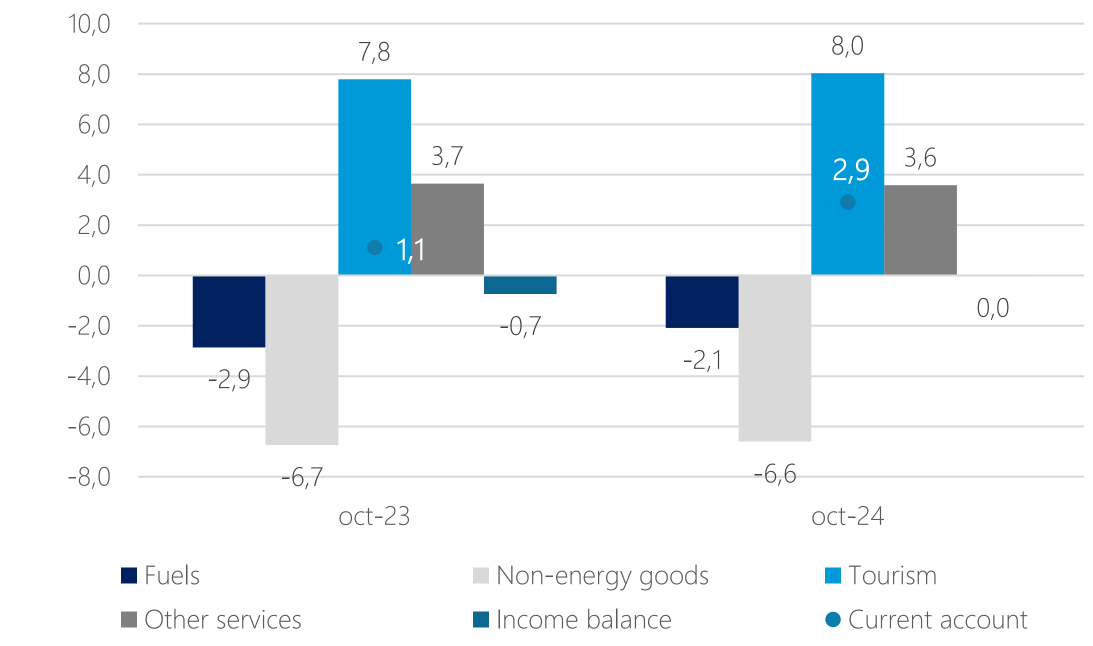
Source: CaixaBank Research, from INE, BoP.

- The household's saving rate rose to 10.7% in Q3 2024, more 1.9 p.p. than in Q2, reaching the highest level since 2010. In addition, we estimate that, in the first ten months of 2024, households repaid around 7.5 billion euros of mortgage credit (EUR 8.3 bln in 2023), potentially freeing up funds for consumption in the future.
- Additionally, strong growth of real wages (4.0% up to September 2024) should be an important support to consumption going forward.

The external surplus continues to help to reduce external debt

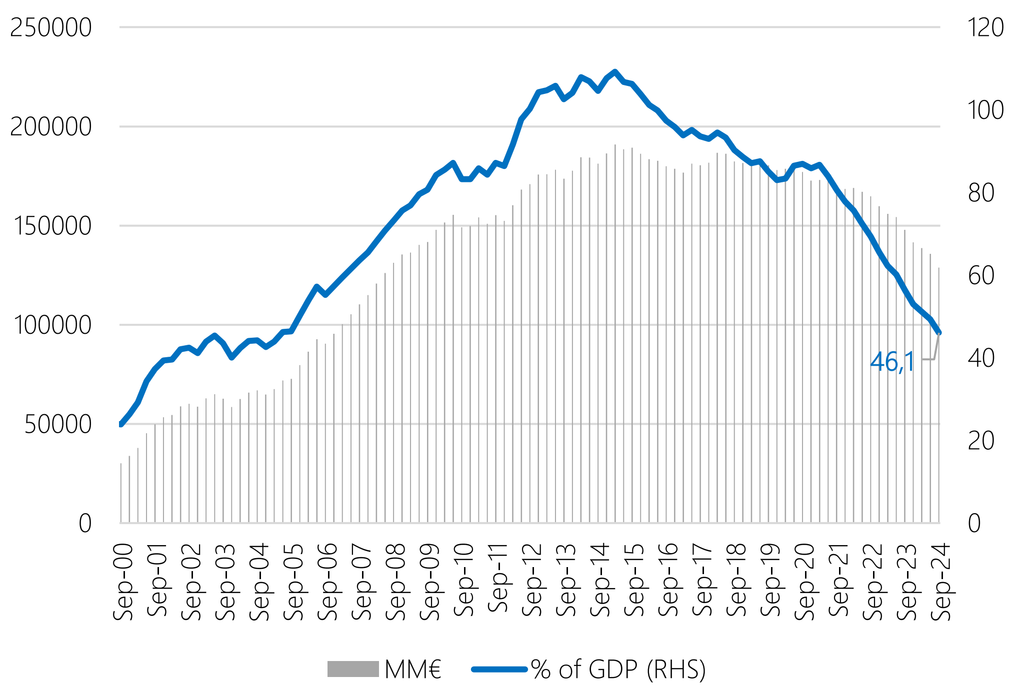
Current account up to October

% of GDP



Net external debt

MM € *% of GDP*



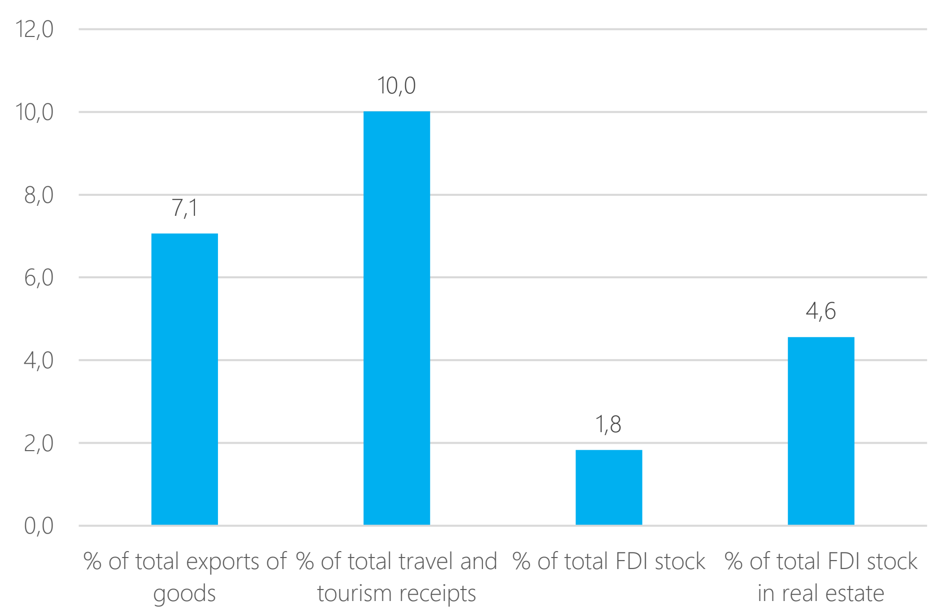
Source: CaixaBank Research, from BoP.

- **The current account kept a positive trend during 2024, reaching a surplus equivalent to 2.9% of GDP up to October, a significant improvement from the homologous period.** This performance mainly reflects the decline of the energy balance deficit to 2.1% (from -2.9% a year ago), in line with the decline of the energy prices over the period; and a wider tourism surplus.
- The CC surplus accelerated the decline seen in external debt, reaching 46% of GDP in Q3 2024, -7 p.p. than by the end of 2023. Since the peak of 109% of GDP in Q1 2015, the ratio of external debt declined 63 p.p.. In nominal terms, and in the same period, the external debt fell 62.2MM€ since Q1 2015, to 128.8 MM€, the lowest nominal level since Q2 2008.

Relations between Portugal and the USA

How much USA weighs in Portugal's foreign relations

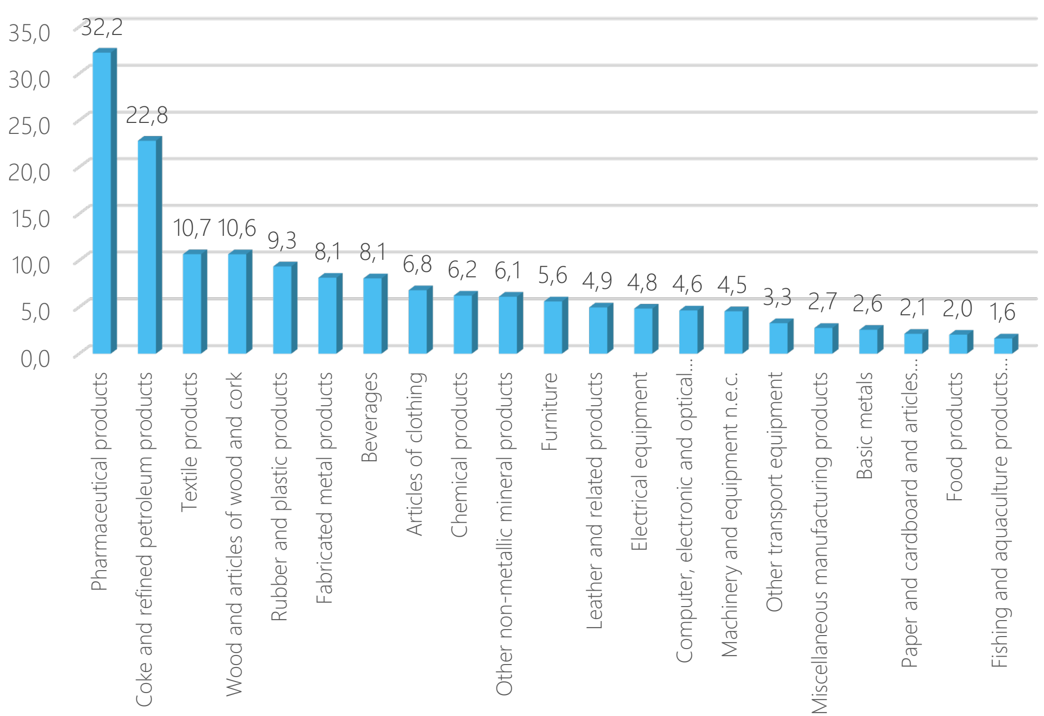
% of total (*)



Source: CaixaBank Research, from INE and BoP.
(*) YTD untill August for Trade and tourism and 1H24 for FDI

Weight of exports to the US in the sector's total export

% of total exports

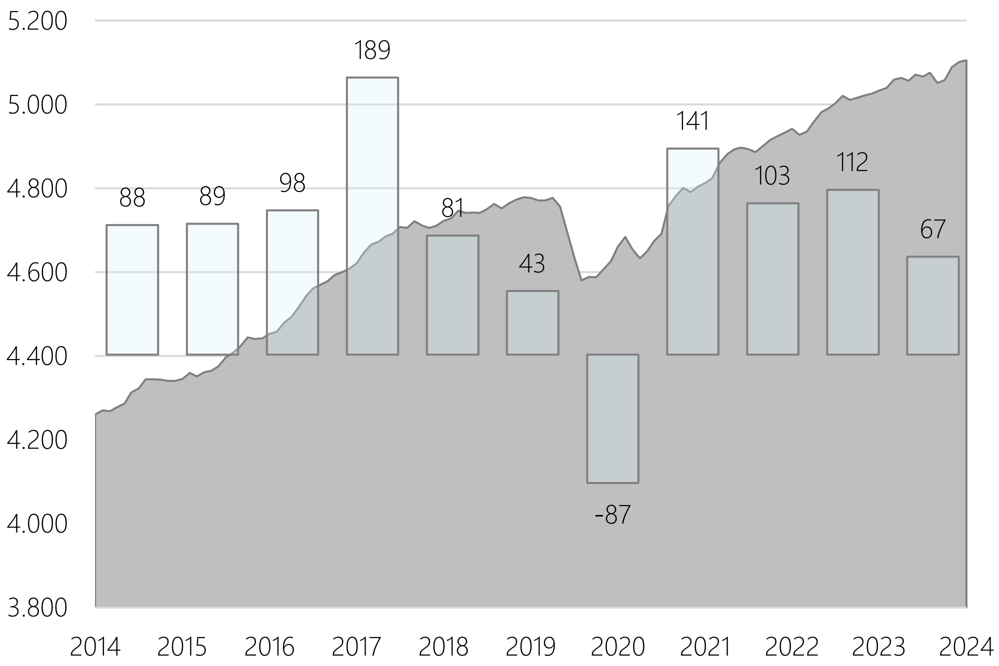


- **Political changes in perspective in the US after the last Presidential elections, namely the imposition of tariffs, may have impact on some domestic sectors.** Between 3% and 3.5% of the Portuguese GDP is linked to final demand from the US, with important contributions from the pharmaceutical, extractive, transport, hospitality, manufacturing, trade and professional services sectors.
- **Exports of goods to the US account for 7% of total Portuguese exports,** particularly pharmaceutical products (23% of total exports to the US and 32% of the sector's total exports), coke and refined petroleum products (around 21% and 23% respectively of exports to the US and the sector's exports), textiles and clothing (8% and 17%), rubber and plastic products (7% and 9%).
- **In addition to trade, relations between Portugal and the US have gained importance in recent years as far as tourism and FDI are concerned, in particular FDI directed to the real estate market.** In the case of tourism, tourist receipts associated with US tourists represent 10% of total tourist receipts; and FDI in real estate represents 4.5% of the total real estate FDI stock.

November saw a new high in the number of people employed

Employed population and year-on-year change

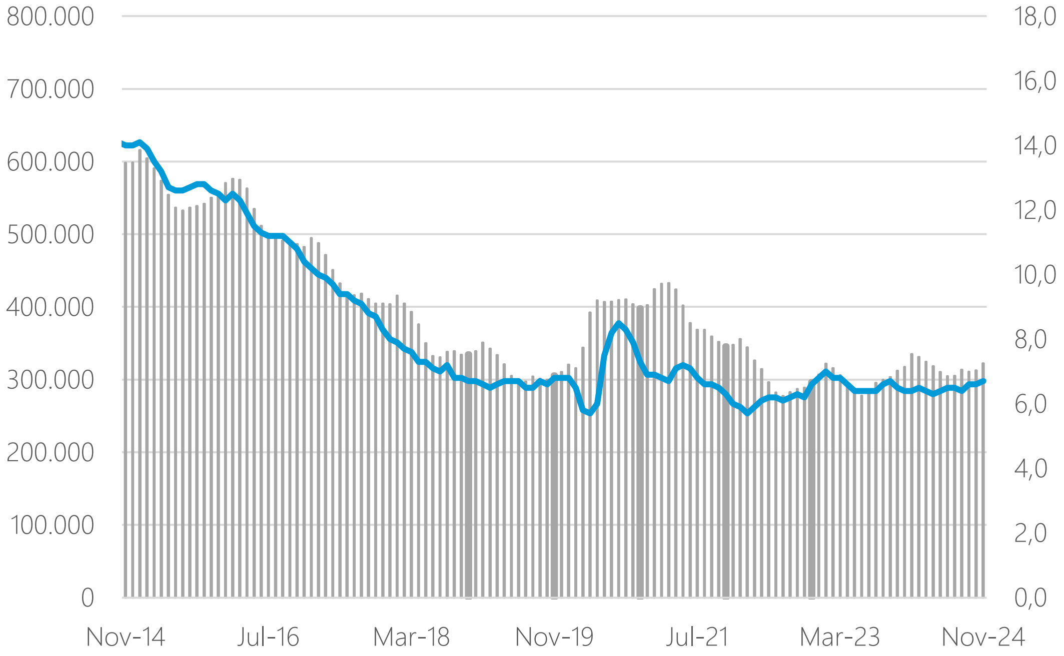
Number of people ('000 individuals)



Note: the area chart represents the amount of people employed; the bar chart represents the year-on-year change in November each year. Figures seasonally adjusted. **Source**: CaixaBank Research, from INE.

Registered unemployment and unemployment rate

Number *(%)*



Source: CaixaBank Research, from INE.

- **The total of 5,107,000 employed individuals represents a new all-time high in the monthly series.** In fact, the provisional estimate points to a year-on-year increase of 1.3% in November, extending the positive trend in employment (44th consecutive month of positive year-on-year change).These figures seem to point to employment growth of around 1.4% for the whole of 2024, thus exceeding our expectations for the year (around 1%).
- **The unemployment rate rose slightly to 6.7% in November.** This rate represents an increase of 0.2 p.p. compared to the same month last year but remains clearly below the historical record (the average unemployment rate for the months of November in the 5 pre-pandemic years is 9.0%). In this context, the number of unemployed rose in both month-on-month (0.3%) and year-on-year (3.1%) terms.

NGEU: 48% of payments scheduled to be received in 2025-26

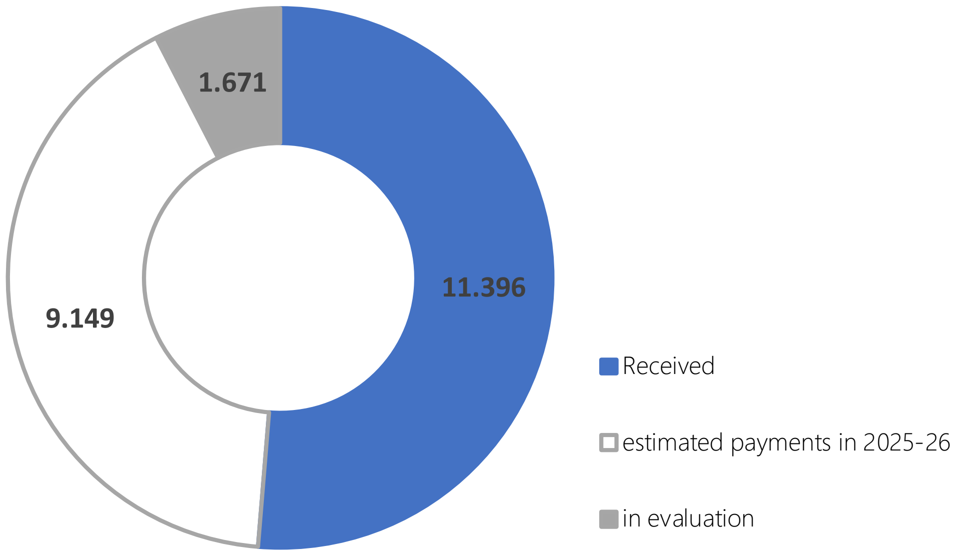
Approvals and payments to direct and final beneficiaries

(Up to December 31st)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	241	198	82,2
Social and solidarity economy institutions	559	181	32,4
Firms	5.819	2.216	38,1
Excl. R&I System Non-firms	4.668	1.802	38,6
R&I System Non-firms in consortium with firms	1.151	414	36,0
Institutions of the scientific and technological system	405	141	34,8
Higher Education Institutions	804	252	31,3
Schools	1.026	448	43,7
Municipalities and metropolitan areas	3.808	754	19,8
Public entities	4.835	1.431	29,6
Public firms	2.891	650	22,5
Total (million euros)	**20.388**	**6.271**	**30,8**
(% total RRP)	***91,8%***	***28,2%***	

Source: CaixaBank Research, from Recuperar Portugal.

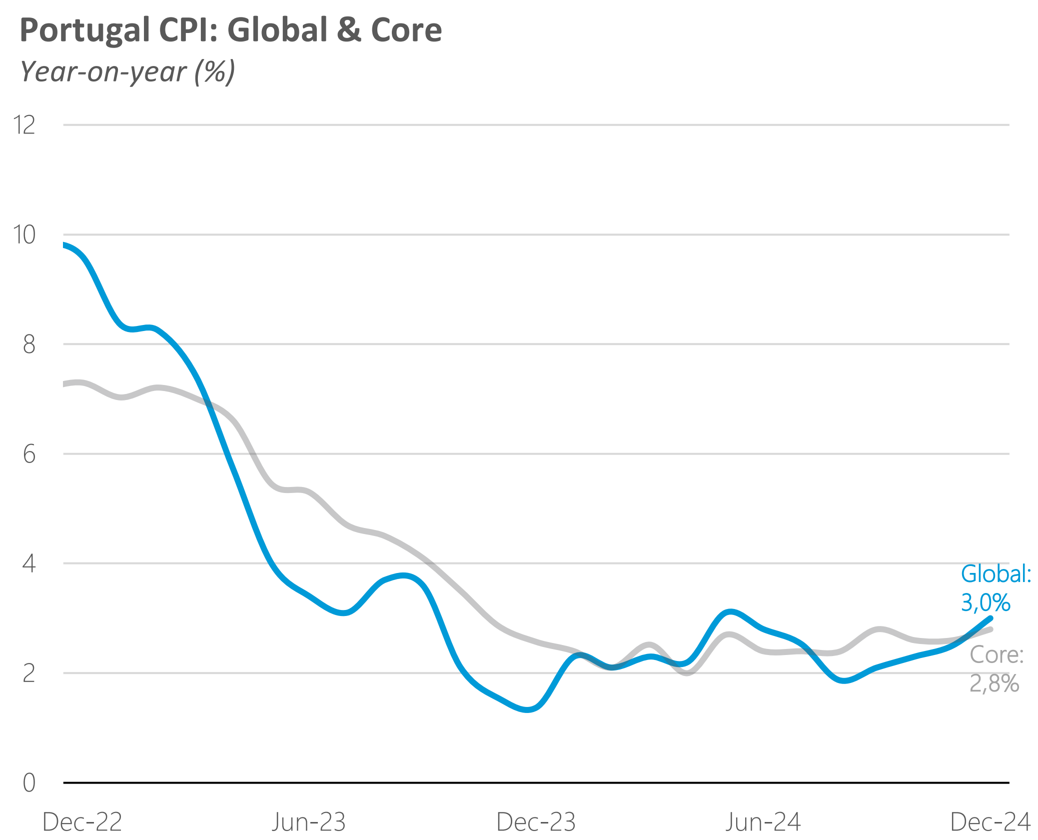
RRP: payments situation
(information up to November)

Eur million

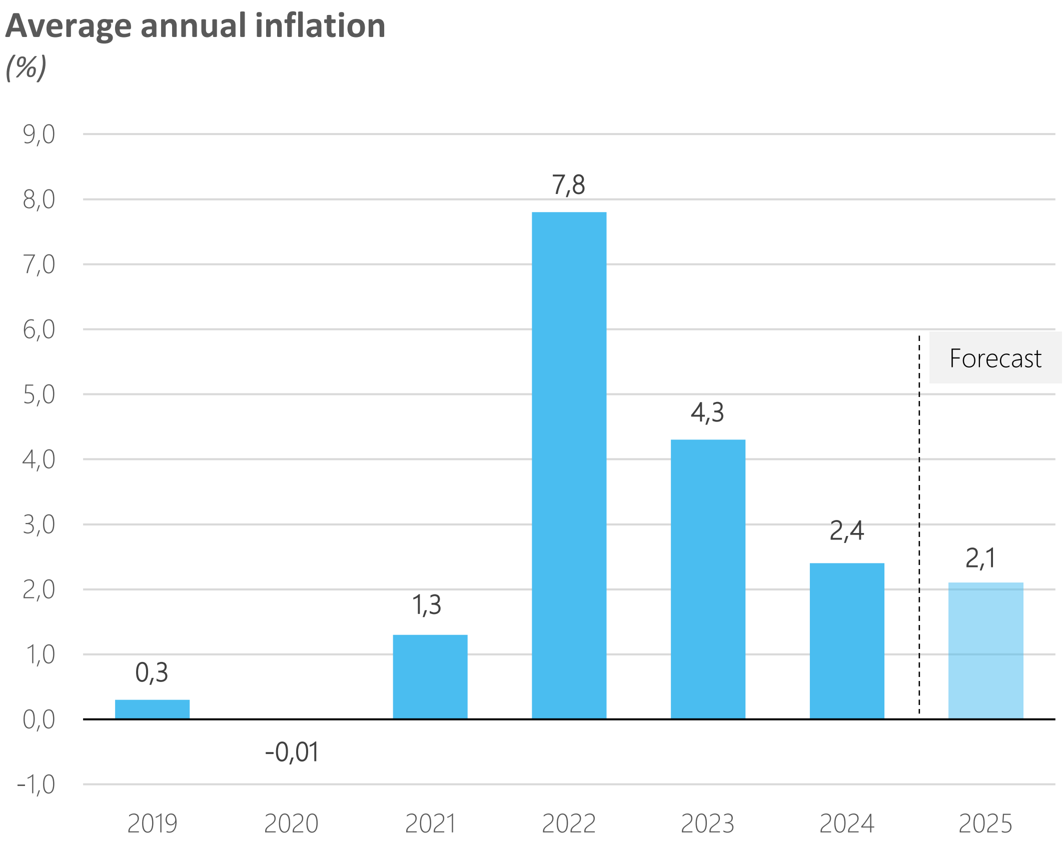


- **Up to now, Portugal received 11.4 billion euros, equivalent to 51% of the total amount of the RRP.** In December 2024 were received 2.9 bln euros.
- **Projects already approved amount to 20 billion euros (92% of the total amount) and payments reached 6.3 billion** (55% of the total amount received). Since the beginning of 2024, the payment rate improved by 9 p.p., to 31% of total amount approved.
- **Payments to the private sector are proceeding faster, led by payments to households; the payment rate to companies exceeds the average for payments, but remains below 40%.** According to the Bank of Portugal, the highest weight are on the production of chemical products, synthetic fibres, pulp and paper, scientific research and development activities and financial and insurance activities. These accumulate 70% of the funds approved, more than double their weight in the total economy (30%).
- To fulfil the programme, the Government has set some very ambitious targets: 40% payment rate (an ambitious target) by the end of 2024 and to execute 7.8 mm in 2025.
- **Portuguese authorities estimate that the impact of the funds currently available for the implementation of the RRP will lead to an increase of 4.1% in potential GDP over the next 10 years.**

Average inflation in 2024 stood at 2.4%



Source: BPI Research, using data from INE.



- **The year-on-year global CPI estimated by INE for December is 3.0% (2.5% in November) and core inflation also increased to 2.8% (2.6% in November).** The energy index (4.9% yoy) and the unprocessed food index (3.4% yoy) were the two aggregates that made the most significant contributions to the acceleration of the total CPI in December.
- **The December figure confirms our forecast of average inflation of 2.4% in 2024.** Nevertheless, the monthly price dynamics in December were stronger than we anticipated, especially in the energy index and unprocessed food products. It should be noted, however, that processed food products fell by -0.48% monthly. Services inflation remains very persistent, with the latest known data (November) showing a year-on-year rate above 4% for the third month in a row (4.3%).

Tourism: improved performance in November

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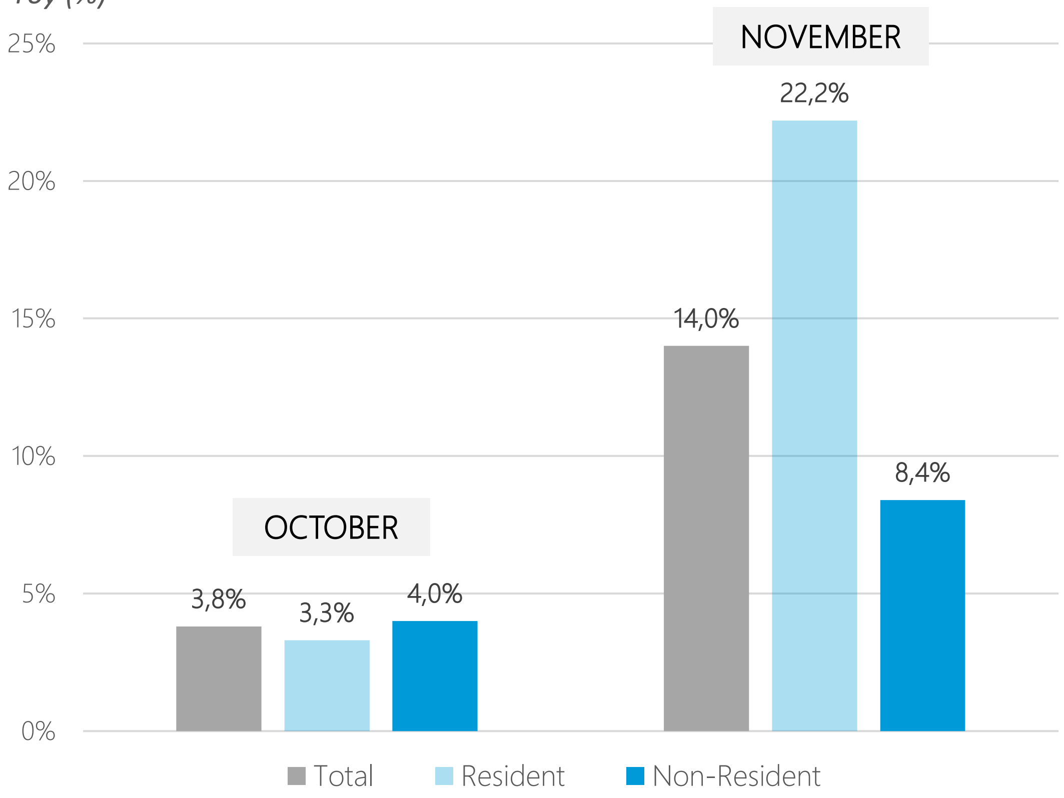
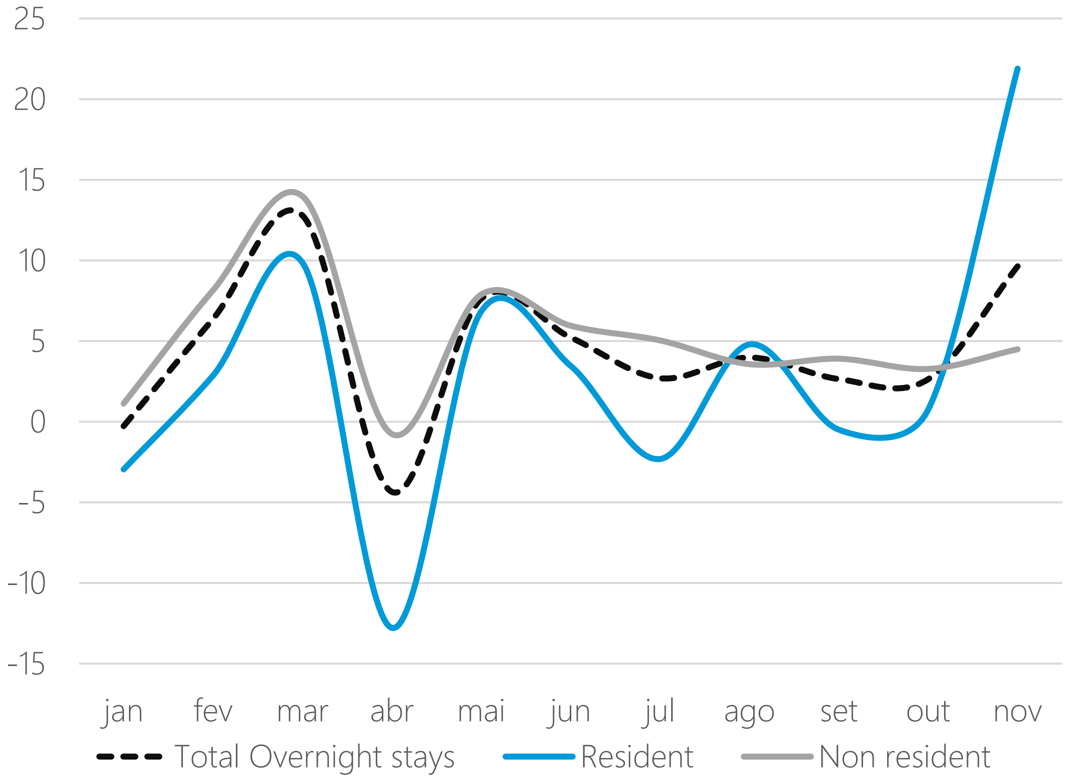
Guests

Yoy (%)



Overnight stays

Yoy (%)



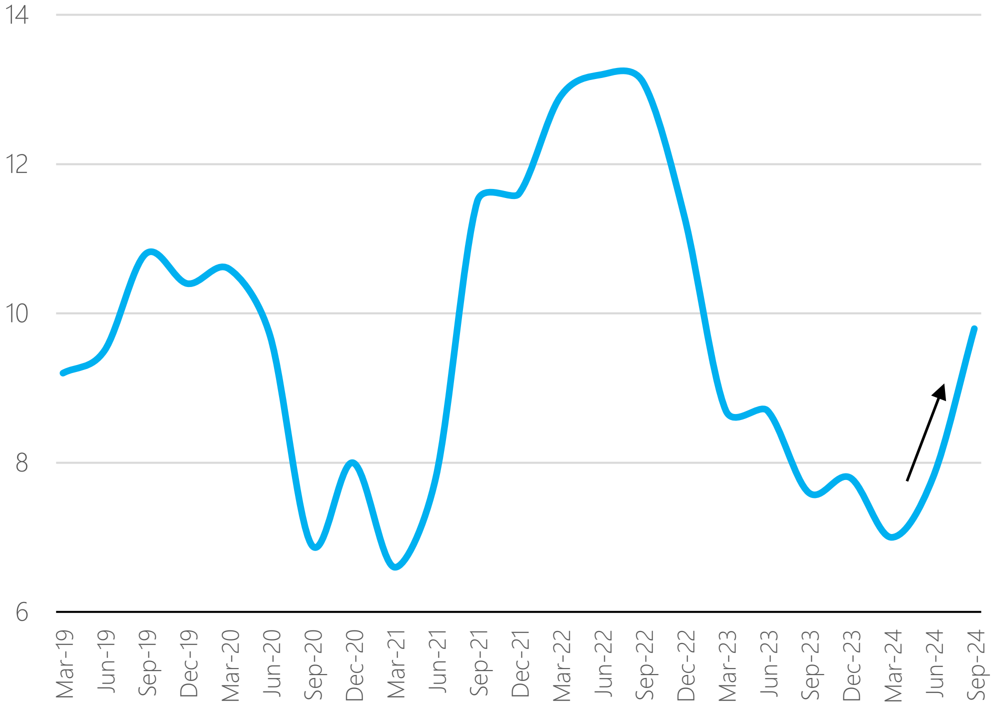
***Source**: CaixaBank Research, using data from INE.*

- **The tourism sector recorded 2.2 million guests and 5.0 million overnight stays in November,** corresponding to variations of +14.0% and +9.8% respectively (+3.8% and +2.5% in October). Overnight stays from residents recorded a significant increase (+22.2%), corresponding to 1.7 million.
- **In foreign markets, the UK remained the main source market (14.7% share), followed by Germany (12.5% share).** Among the top 10 source markets in November, the Polish market stood out for the biggest increase (+15.9%). All regions recorded an increase in overnight stays, the most significant being in the Centre (+24.6%), the Setúbal Peninsula (+19.3%), the North (+18.3%) and the Azores (+16.4%).

House prices remained strong in Q3 2024

House price index

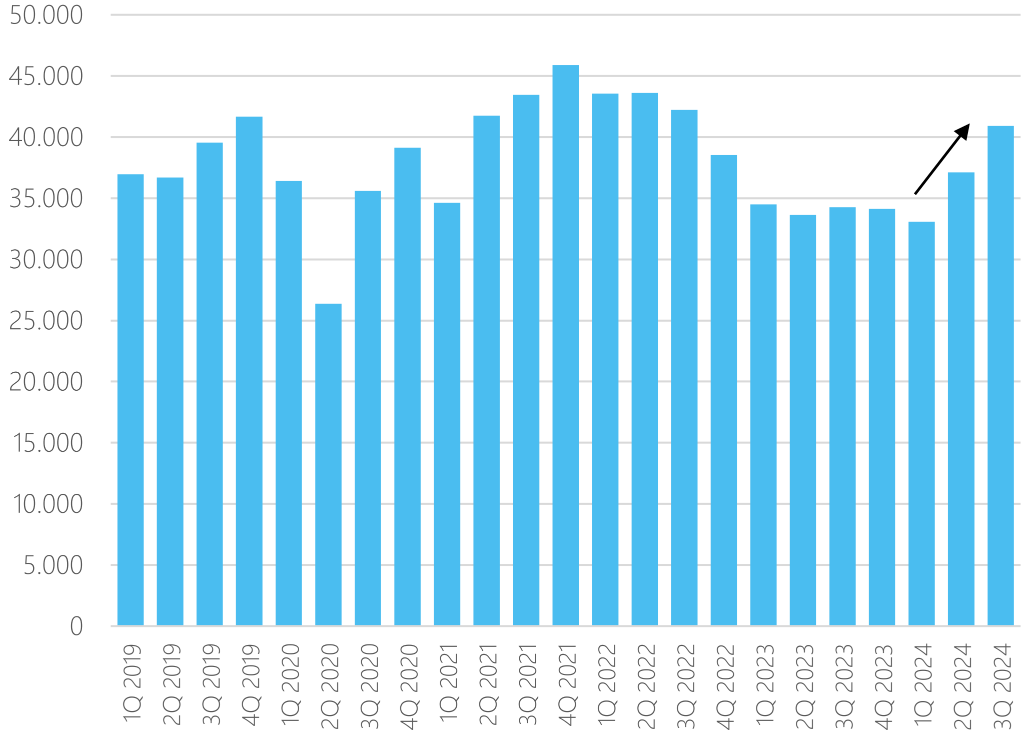
Yoy (%)



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

House sales

Number



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

- **The HPI figures released at the end of December were strong:** +3.7% quarter-on-quarter (+3.9% in Q2 2024) and +9.8% year-on-year (+7.8% in Q2 2024). A total of 40,909 homes were sold, 19.4% more than in Q3 2023 and a year-on-year increase of 10.2%.
- **Improvements also seem to be reflected in the sentiment captured by the Portuguese Housing Market Survey (CI),** where real estate agents and developers' expectations for sales and prices (over the next 3 months) are in positive territory. Thus, the 3-month price expectations were positive in November for the sixth month in a row, capturing the good market dynamics in the second half of this year and the possibility of their extension.

The consolidation of public accounts remains in the horizon

Key items in the public accounts*

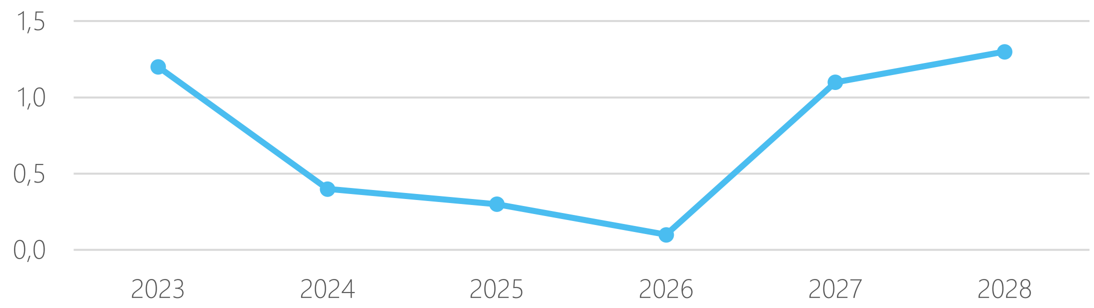
% of GDP, unless otherwise indicated

January-November	2019	2023	2024	Change 2024 vs 2019	Change 2024 vs 2023 (million euros)
Revenues	**40.5**	**41.4**	**43.6**	**3.1**	**5,406**
Fiscal revenues	23.6	23.9	24.5	0.9	1,500
Social security contributions	10.1	10.5	11.6	1.4	2,538
Expenditure	**40.2**	**38.7**	**42.7**	**2.5**	**9,896**
Staff costs	10.0	9.7	10.5	0.5	1,919
Current transfers	17.3	16.9	19.1	1.9	5,480
Aquisition of goods & services	5.6	5.5	6.1	0.5	1,341
Interests	3.9	2.6	2.7	-1.2	227
Investment	1.9	2.3	2.4	0.5	301
Primary current expenditure	**33.8**	**33.0**	**36.7**	**2.9**	**9,189**
Budget balance	**0.3**	**2.7**	**0.9**	**0.6**	**-4,490**

Note (*): cash basis.
Source: BPI Research, based on DGO.

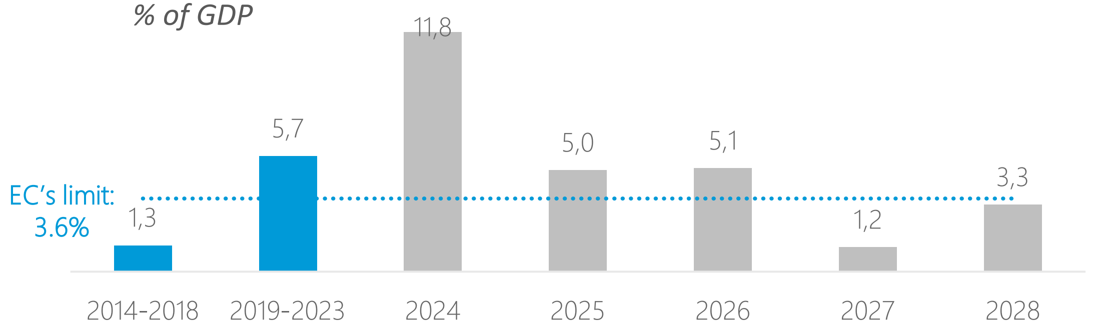
Overall fiscal balance in accrual basis

% of GDP



Net Primary Expenditure

% of GDP

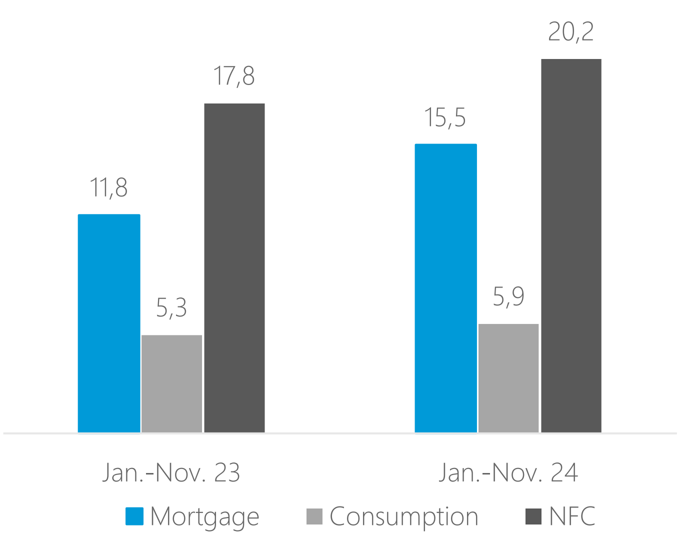


Source: BPI Research, based on Medium-Term Fiscal-Structural Plan 2025-2028.

- **On a cash basis, the public sector reached a surplus of 0.9% of GDP up to November,** with revenues advancing 5.3% and expenses 10.4%. Current transfers rose 13.2% yoy, explaining more than 50% of expenses' growth, reflecting an increase in pension costs (exacerbated by the extraordinary payment made to low pensions in October, as well as the ordinary updating of pensions at the beginning of the year and the increase in the number of pensioners).
- **Fiscal policy will be expansionary** (supporting activity) **in 2025-2026** (less so than in 2024 when the structural primary balance fell by 0.8 p.p. of GDP), but this will not jeopardize the expectation of a slight surplus and a reduction in public debt ratio in the coming years. However, the budgetary rules will be enforced: budget surpluses throughout the projection horizon, a reduction in the public debt ratio of 3 p.p. per year (minimum requirement: 1 p.p./year) and average growth in net primary expenditure in line with the EC (3.6%).The increase in net primary expenditure exceeds the 3.6% required by the EC in 2025 and 2026, justified by the measures adopted in the 2025 State Budget and the implementation of the RRP (greater weight of loans).

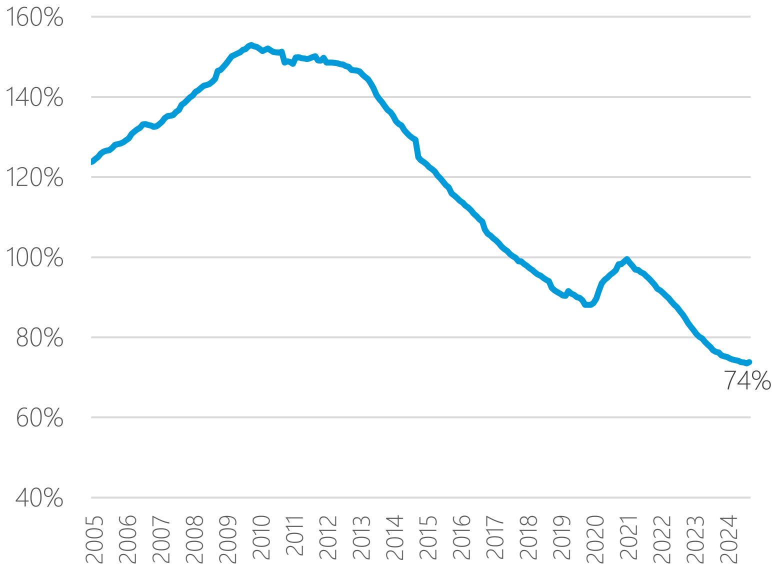
Banking system: deleveraging and high liquidity

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



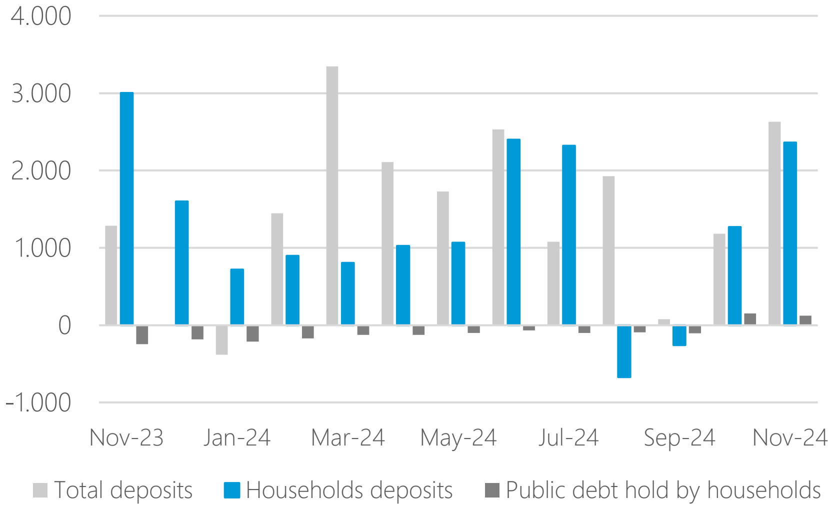
Source: Caixabank Research, based on data from Bank of Portugal and ECB.

Bank credit to the non-financial private sector
% GDP



Note: latest data available as of Nov.-2024. **Source**: Caixabank Research, based on data from Bank of Portugal.

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

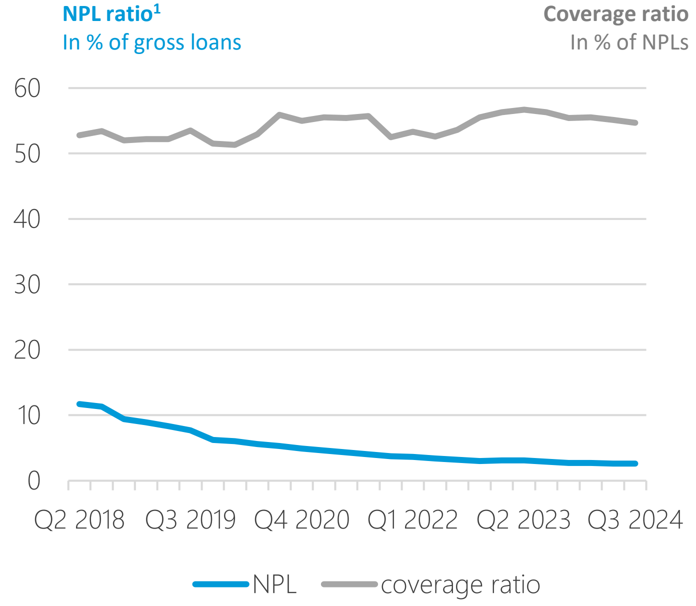


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 7 bn Eur in 2024.
Source: CaixaBank Research, based on data from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

- **The stock of credit to companies and households continues to increase:**
  - **Mortgage credit:** stock rose 2.6% in November and new operations 32% (including transfers among banks, which BoP has been reporting at approximately 30% of total new mortgage credit), indicating that the pace of expansion will continue to accelerate 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 to improve the access of youth people to credit and housing market).
  - **NFC:** the stock increased in November, for the first time since mid-2022. In November, the stock rose 0.3% and new loans increased by almost 13.5% in accumulated terms year to date.
  - **Deposits of the private sector rose 7.0% in November**. Households' deposits increased 7.6% yoy, less than in previous months, a trend that should continue as interest rates for new deposits (2.3%) are now below those paid by Government retail products (2.5%).

Banking system: a solid position to support the economy

NPLs and coverage ratios

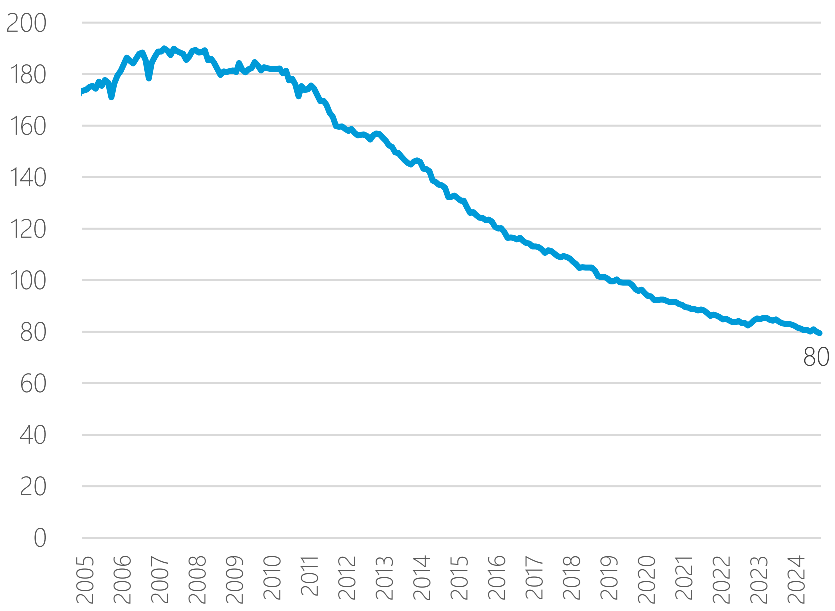


Cost of risk[1]
0.5% in Q4 2019
0.1% in Q3 2024

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

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

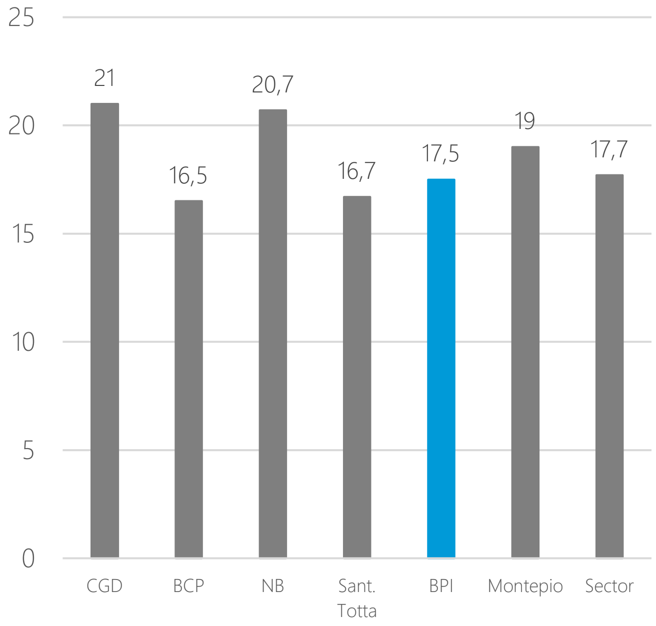
(%)



Source: Caixabank Research with data from Bank of Portugal.

Banks' solvency and liquidity position

In % (Q3 2024)



Source: Banks publications, BoP

- **NPLs ratio stabilized in Q3.** The total NPL ratio stood at 2.6% in Q3 2024, with the NPL of households stabilizing at 2.5% and the one for NFC declining 1 tenth to 4.8%. 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 increased to 16.1% in Q3 (vs 14.8% in Q4 2023).
- **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.**