

A stylized map of Europe in shades of blue and black. The map is overlaid with a network of white lines and circles, suggesting a data-driven or analytical theme. Numerous small white dots are scattered across the map, each accompanied by a small numerical value. Three prominent white lines originate from different points on the map and converge towards the right side of the image, where the title is located. The overall aesthetic is modern and technical.

Portugal: Macroeconomic and financial outlook

CaixaBank Research

November 2025

PORTUGAL: MACROECONOMIC AND FINANCIAL OUTLOOK is a publication by CaixaBank Research that contains information and opinions from sources considered to be reliable. This document is for informative purposes only and CaixaBank is not liable in any way for any use made thereof. The opinions and estimates are those of the CaixaBank Research and are liable to change without prior notice.

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Prepared with information available by November 6th, 2025



Activity

- ▶ **The preliminary release showed that GDP rose 0.8% qoq and 2.4% yoy growth in Q3, driven by strong domestic demand.** This along with the upward revision of historic series a month ago, led us to update our forecast for annual growth to 1.8%. For 2026 we kept annual forecast at 2.0%, as economy is expected to benefit from a set of tailwinds, such as NGEU funds, fiscal policy, easing financial conditions. Still, perspectives for the labour market suggest that private consumption will continue resilient. Risks for the scenario are balanced.
- ▶ **Like in September, Global CPI adjusted downwards to 2.3% year-on-year in October, (-0.1 p.p. compared to September).** In turn, the Core CPI increased to 2.1% (also +0.1 p.p. compared September). This development shows that it was the non-core components (energy and unprocessed food) that were behind this slowdown in the CPI, falling to -1.23% and 6.09% respectively (0.3% and 6.97% in September).
- ▶ **Labor market continues to surprise positively, with employment reaching new maximums.** The employed population increased 3.7% in Q3 and the unemployment rate fell to 5.8%, 1 tenth below the Q2 level, but 2 tenth below the year-on-year reading. **The strength of the labour market will continue to be one of the main factors supporting economic activity in 2025-26, and given this data, we consider BPI Research's forecast for the unemployment rate in 2025 to be feasible (6.3%).**
- ▶ **According to the residential price index compiled by Confidencial Imobiliário (CI), house prices rose 6.9% quarter-on-quarter and 22.8% year-on-year in September,** both unprecedented variations in the history of the Residential Price Index, which has been tracking the evolution of this market since 1988. The movement of the bank appraisal curve for housing is similar to the Confidencial Imobiliário price appreciation curve, albeit with a slightly lower magnitude (17.7% year-on-year in September).
- ▶ **The fiscal budget tone for 2026 is expansionary.** The government foresees a decline of the structural fiscal balance to 2.1% of GDP, from 2.4% in 2025, with primary current expenses rising 4% from 2025, mostly explained by personnel expenses and social benefits. Government sees public budget end 2025 with a surplus of 0.3% GDP and 2026 with 0.1% of GDP. Public debt ratio will continue to fall over the period, reaching 87.3% of GDP in 2026.
- ▶ **In September, Fitch upgraded Portugal's sovereign rating to A from A-, with stable outlook.** Economic resilience, fiscal consolidation and lower public deficit ratio were the main drivers of the revision.
- ▶ **Execution of RRP (Recovery and Resilience Plan) appears to be accelerating but is still below desired levels.** Up to now, Portugal received 12.7 billion euros (57% of the total amount of the RRP) and by the end of 2025, will receive a further €1.06 billion. At the same time, the rate of implementation of the funds has been gradually accelerating and is expected to increase, given the approaching end of the programme and its reprogramming to facilitate the transition of funds allocated to programmes with a low probability of implementation by the end of 2026 to other projects, notably the initial allocation of €315 million for sectors such as innovation, science, health and digital transition. In this context, we anticipate that the implementation of the PRR could add 0.4 percentage points to inertial growth in 2026.

Banking Sector

- ▶ **NPLs ratio remained stable in Q2.** The total NPL ratio stood at 2.3% in Q2 2025 (historical minimum), as well as the one for NFC (4.0%). The NPL of households fell -0.1 p.p. on a quarterly basis to 2.2%. 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	2026
GDP	2,0	3,3	2,9	2,7	-8,2	5,6	7,0	3,1	2,1	1,8	2,0
Private Consumption	2,4	1,8	2,6	3,5	-6,8	4,9	5,6	2,3	3,0	3,2	2,3
Public Consumption	0,9	0,1	0,5	2,1	0,4	3,8	1,7	1,8	1,5	1,5	1,5
Gross Fixed Capital Formation (GFCF)	2,7	11,6	6,2	5,5	-2,3	7,8	3,3	6,0	3,8	2,6	5,5
Exports	4,7	8,4	4,3	4,0	-18,4	12,1	17,2	4,2	3,1	1,0	2,7
Imports	5,2	8,0	4,9	5,1	-11,6	12,3	11,3	2,3	4,8	4,6	4,3
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	2,3	2,1
External current account balance (% GDP)	1,2	1,3	0,6	0,4	-1,0	-0,8	-1,2	1,4	2,1	0,6	0,9
General Government Balance (% GDP)	-1,9	-3,0	-0,4	0,1	-5,8	-2,8	-0,3	1,3	0,5	-0,1	-1,2
General government debt (% GDP)	131,2	126,0	121,1	116,1	134,1	123,9	111,2	96,9	93,6	92,2	90,4
Housing Prices	7,1	9,2	10,3	10,0	8,8	9,4	0,0	0,0	9,1	15,8	6,3
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	62	47	61

Source: Caixabank Research.

Economic Outlook: BoP, IMF and Portuguese Government forecasts

Economic forecasts

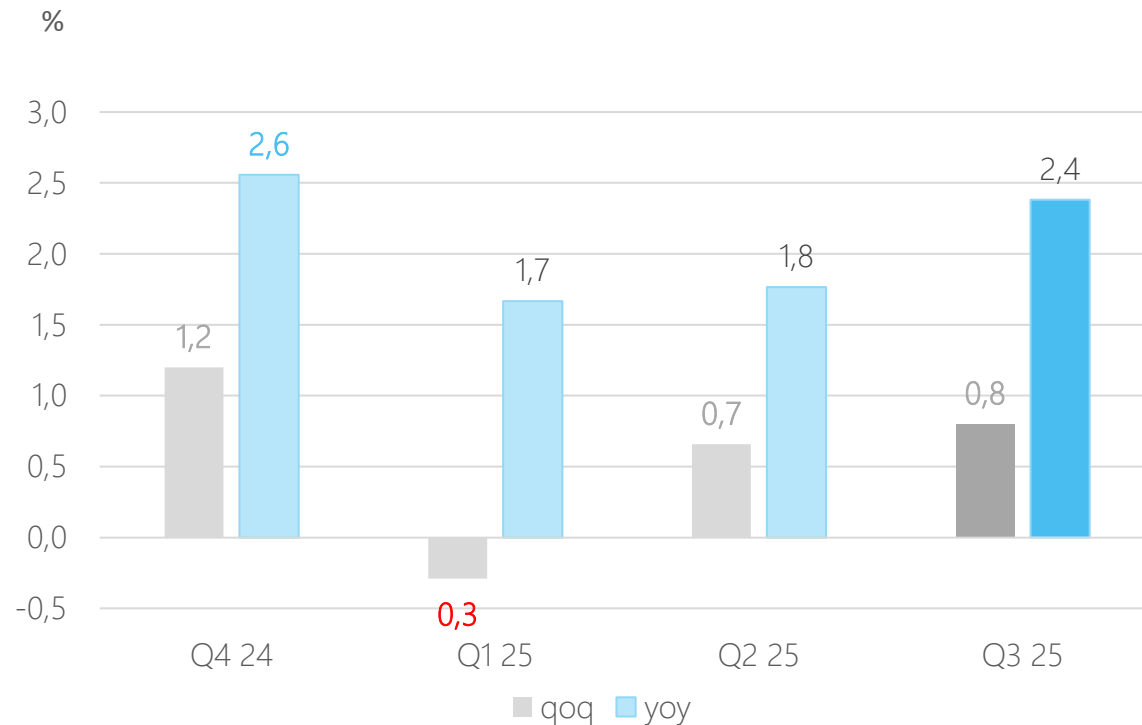
	2024	2025F				2026F			
		BPI Oct 25	BoP Oct 25	IMF Oct 25	Government Oct 25	BPI Oct 25	BoP Oct 25	IMF Oct 25	Government Oct 25
Real GDP (%, anual growth)	2,1	1,8	1,9	1,9	2,0	2,0	2,2	2,1	2,3
Inflation (%, anual change)	2,4	2,3	2,2	2,2	2,4	2,1	1,9	2,1	2,1
Unemployment (% of active population)	6,4	6,3	6,2	6,4	6,1	6,4	6,3	6,3	6,0
General government balance (% of GDP)	0,5	-0,1	-0,1	-	0,3	-1,2	-1,3	-	0,1
Gross public debt (% of GDP)	93,6	92,2	91,1	90,9	90,2	90,4	88,4	86,9	87,8
Current account balance (% of GDP)	2,1	0,6	-	1,8	1,1	0,9	-	1,9	0,7

Source: European Commission, OECD and BPI Research

- **Bank of Portugal and IMF revised their economic outlook for Portugal.** To a large extent, the revision results from the incorporation of Q2 data.
- This **upward revision for the Portuguese growth (+0,3 p.p. for 2025) made by Bank of Portugal** is justified due to the revision of the historical GDP series published by the INE, which revised the growth in 2023 and 2024, with 0.5 and 0.2 p.p. higher respectively when compared to the previous estimate. In addition to this aspect, the projected contribution of domestic demand for 2025 was also revised upwards compared to the June's scenario, due to increased growth in private consumption by 1.1 p.p. (as a result of the increase in disposable income due to new fiscal relief measures for households), gross fixed capital formation (GFCF) by 0.9 p.p. (due to the robustness of the housing market, which does not appear to be negatively affected by global uncertainty levels), and public consumption by 0.6 p.p.. Projections for external accounts – current and capital account balances – anticipate a surplus of 3.6% of GDP in 2025, 0.3 p.p. less than in June. On the export side, the growth rate was revised downwards by 0.6 p.p. to 1.1%. On the other hand, the expectation for imports' growth was revised upwards by 1.3 p.p.. Trade tensions and increased uncertainty have a visible impact on Portugal's economic activity this year; however, the easing of financial conditions, the tenacity of the labor market, and the expected accelerated execution of EU-granted funds will be the drivers for improvements in national GDP growth in 2026, which is expected to grow by 2.2% (unchanged compared to June).

GDP accelerated in Q3 and the Portuguese rebound since pandemic continues to surpass other EA partners

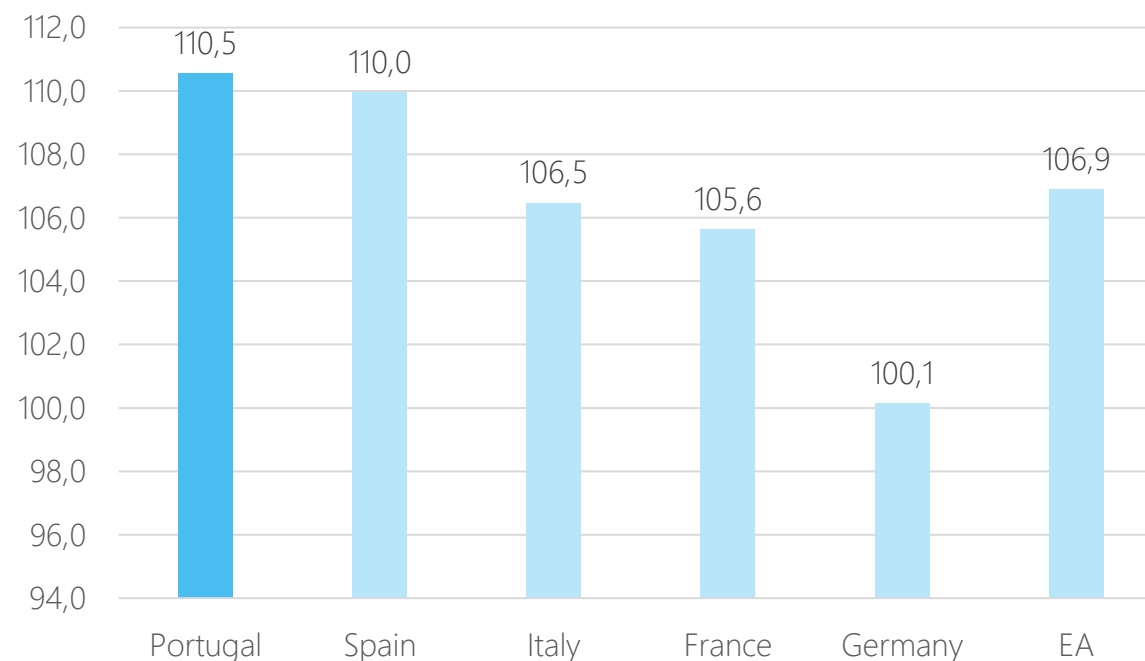
Real GDP: accelerated in Q3



Source: INE and Eurostat

Real GDP in Q3: recovery since Q4 2109

Q4 19 = 100

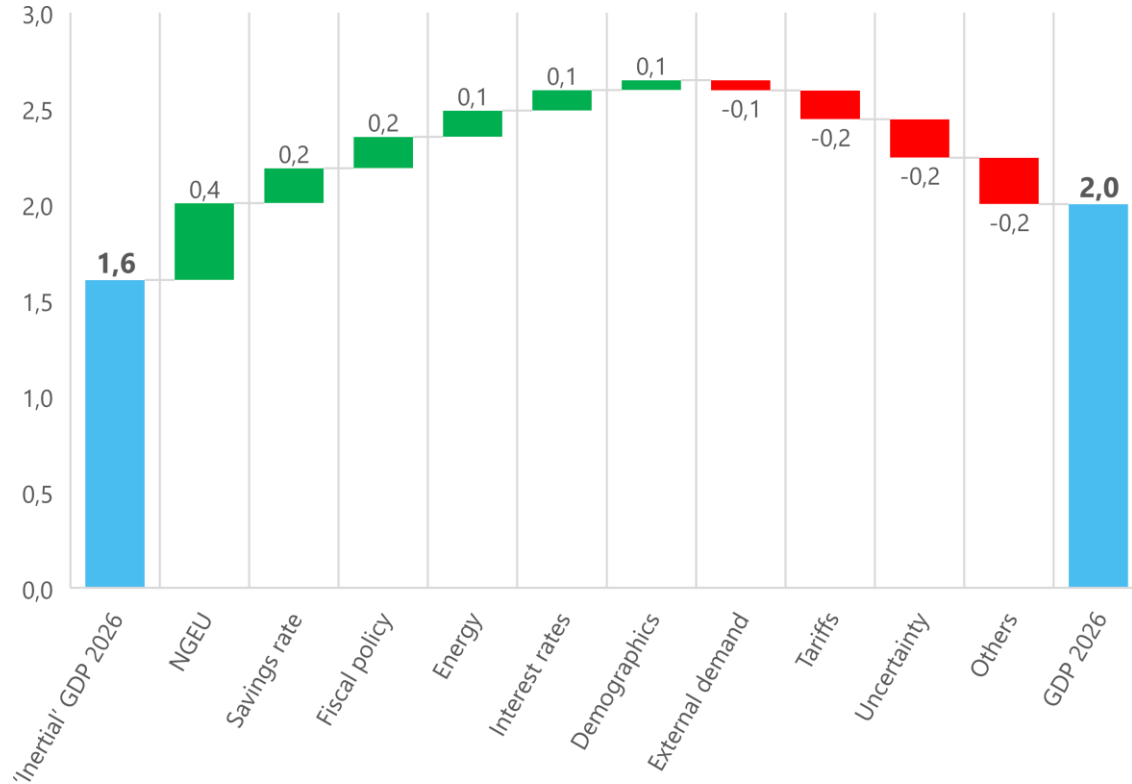


- ▶ **Real GDP in Q3 grew 0.8% qoq and 2.4% yoy, in line with BPI Research expectations and supporting our current forecast of 1.8% growth for the year as a whole.** Quarter-on-quarter growth reflects the stronger contribution from domestic demand, supported by private consumption, benefiting from one-off fiscal measures that led to an increase in household disposable income in the quarter. External demand weakened from quarter-on-quarter GDP growth, with imports growing more than exports, possibly reflecting the increase in travel abroad by residents, boosting imports of services.
- ▶ **The performance up to Q3 continues to place Portugal in a leading position in the post-pandemic recovery among eurozone countries.** In the meantime, information available for Q4 is still scarce, with the European Commission's economic sentiment indicator remaining comfortably above 100 points but in deceleration, suggesting that the economy will continue to expand, but possibly at a slower pace than in Q3. INE's revision of historical series of GDP and Q3 flash release led to an update of the expected growth for 2025

Despite risks, tailwinds will probably prevail in 2026

GDP: contributions for growth

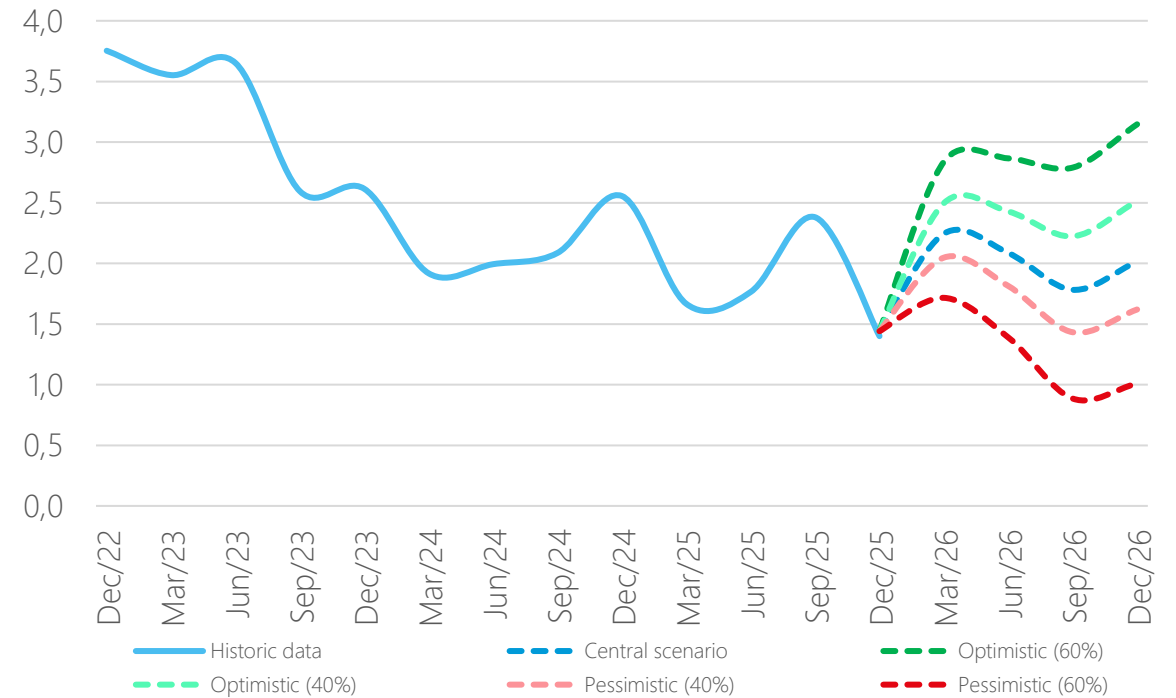
Percentage points



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

Scenarios for GDP growth in 2026

%, yoy



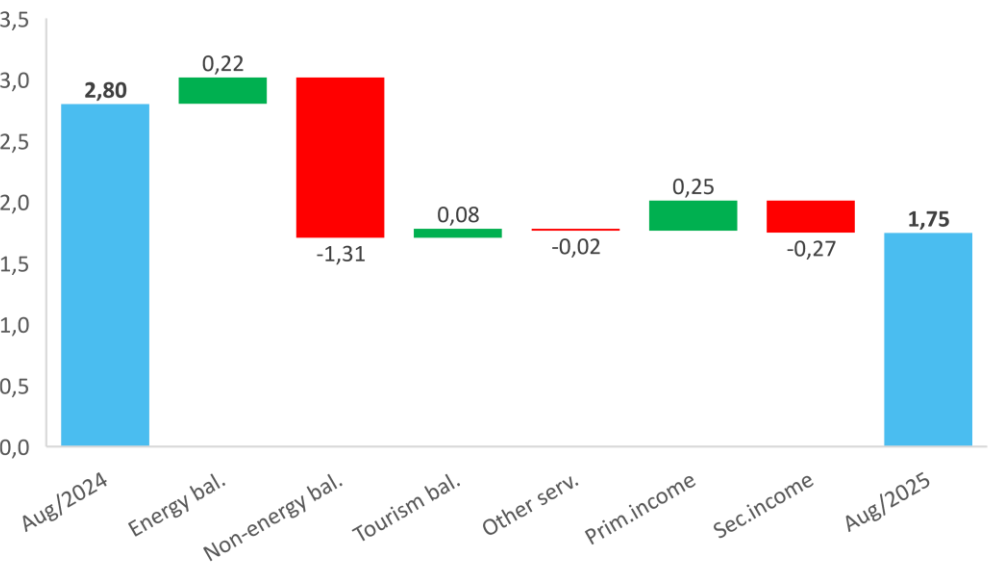
Note: the 'Optimistic' and 'Pessimistic' margins have an implied probability of 60% and 40%. This probability was calculated by applying a shock to the qoq GDP series in Q1 2026 based on the percentiles (20, 30, 70 and 80) of the residuals from an AR(2) regression to the series of quarterly GDP changes.

- For 2026, we anticipate growth of 2%, influenced by a stronger set of tailwinds (NGEU funds, families' savings, fiscal policy, energy, interest rates) than headwinds (tariffs, external demand,...). However, uncertainty is still high, rising the probability that the final reading will differ from our central scenario. Because of that we estimate ranges where the forecast may vary reaching the ranges 1.7%-2.4% with a probability of 40% and 1.3-2.9% with a probability of 60%.

Current account shrank considerably up to August

Current account up to August 2025

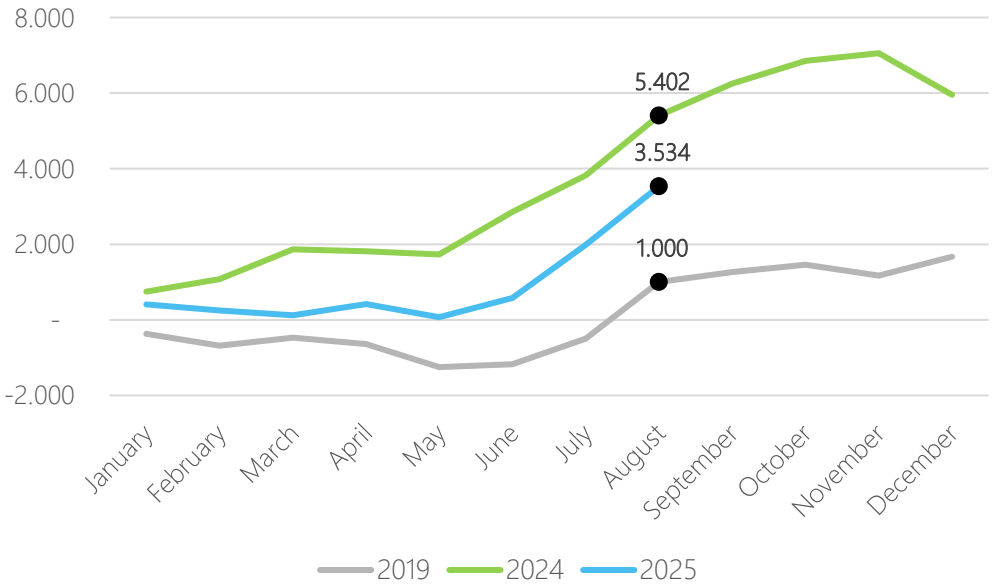
% of GDP and percentage points change



Source: Caixabank Research, from BoP.

Current account up to August 2025

% of GDP and percentage points change



Source: Caixabank Research, from BoP.

- In the first eight months of 2025, the current account surplus stood at 3,534 million euros, equivalent to 1.75% of GDP, a significant decline compared to the figures registered in the same period of 2024 (-35% in the surplus). This reduction has been not only due to the increase in the non-energy deficit (to 7.5% of GDP), but also due to the decrease in the secondary income surplus, which reduced to 1.5% of GDP. 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 and uncertainty associated with the trade and commercial policy of the US Government (however the uncertainty has been reduced recently due to the trade agreement 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, but we have revised downwards our forecast for the surplus in 2025 to 0.6% of GDP.**
- The reduction in the surplus compared to the same period of 2024 is justified due the increase of 19% in the **deficit in goods account** (to -18,824 million euros), which was partially offset by the increase of 5% in the **surplus of services account** (to 23,069 million euros). In the goods account, the highlight goes to the pharmaceutical products, where imports increased 2,272 million euros (mainly from Ireland), which offset the increase of exports (+674 million euros) mainly to Germany. The increase in the surplus of services account was motivated by the increase of tourism exports (+1,038 million euros), mainly European tourists (responsible for 64% of exports' increase), with highlight to the German and British tourists.

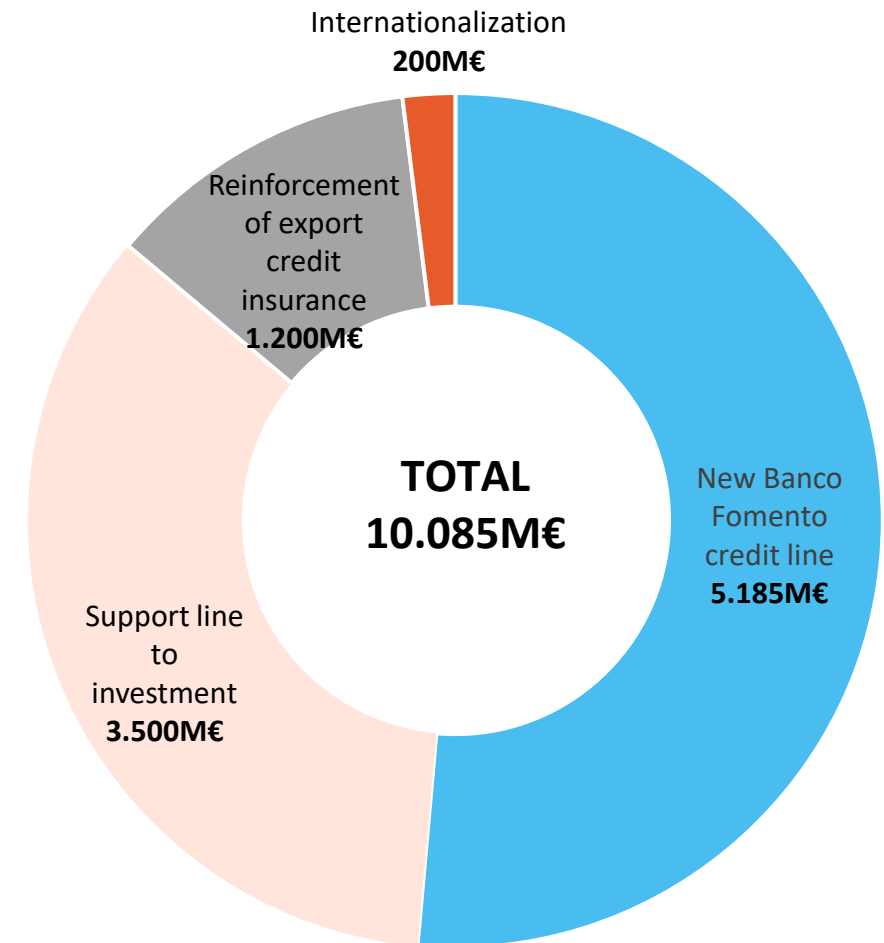
Government plan due to US tariffs

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 and new tariffs

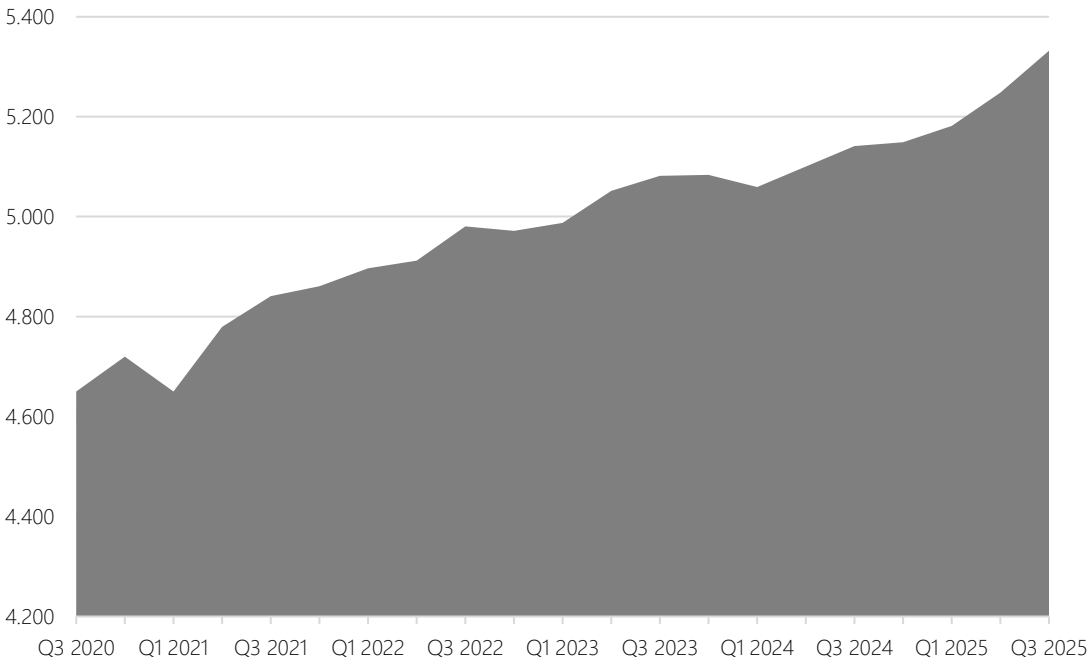
	Exports to the US 2024 (million €)	% of total	Average tariff	Average new tariff "liberation day"	Final tariff (15%, August)
Pharmaceutical Products	1.168	22,0	0,2	0,2	
Generics*	389	7,3	0,2	0,2	0,2
Non generics	779	14,6	0,2	0,2	15,0
Mineral fuels	1.078	20,3	0,5	0,5	15,0
Rubber	368	6,9	1,7	20,0	15,0
Electrical machinery	303	5,7	1,2	20,0	15,0
Nuclear reactors	227	4,3	1,3	20,0	15,0
Cork and articles	185	3,5	0,7	20,0	0,7
Articles of iron and steel	182	3,4	1,2	50,0	50,0
Textil products	144	2,7	6,8	20,0	15,0
Furniture	126	2,4	1,9	20,0	15,0
Clothing	183	3,4	12,8	20,0	15,0
Beverages	111	2,1	1,8	20,0	15,0
Organical chemicals	111	2,1	2,7	20,0	15,0
Footwear	98	1,8	10,5	20,0	15,0
Ceramic products	89	1,7	4,1	20,0	15,0
Optical, fotografical, cinematographic	72	1,4	0,9	20,0	15,0
Others	873	16,4	2,6	20,0	15,0
Total	5.318	6,7	1,9	12,7	14,6
% of GDP	1,9				

Source: CaixaBank Research based on eurostat, INE, WTO

- **US tariffs should have a moderate impact in 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%, but below those of the "liberation day". 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 average the new tariff for the Portuguese goods will rise to 14.5% (from 1.9% in 2024).

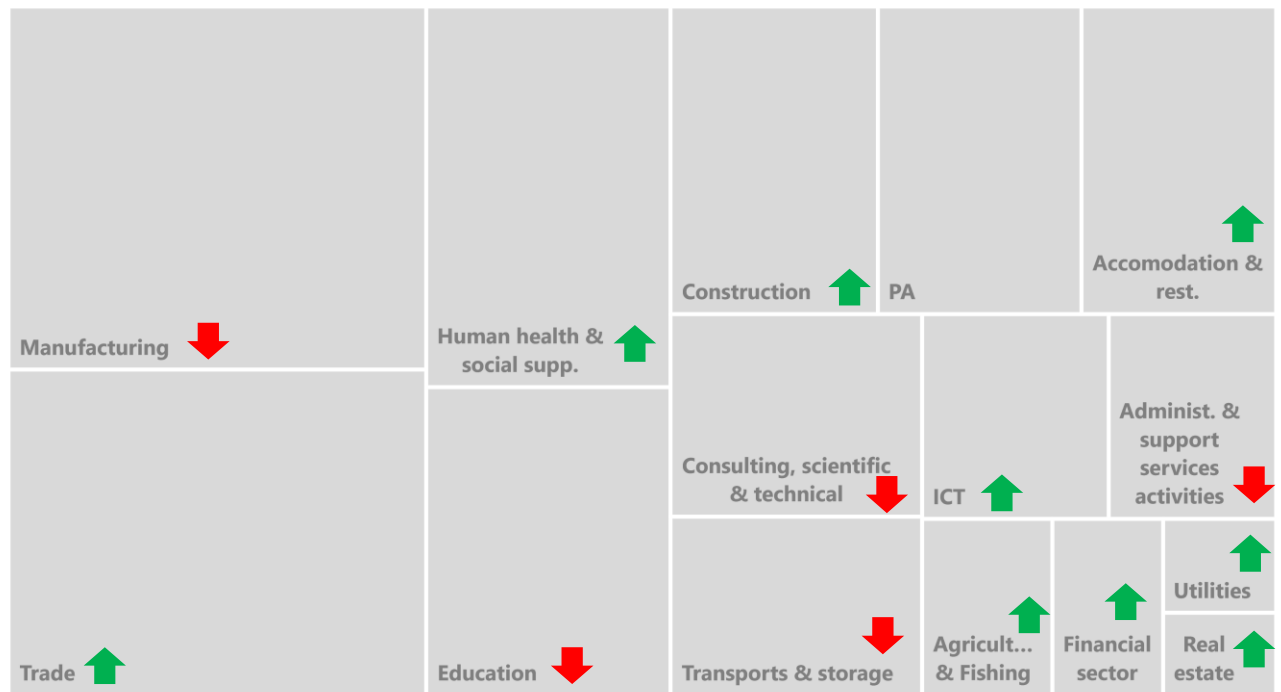
Labor market: another new high in Q3

Employed population
Number of people ('000 individuals)



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

Employment in Q3, by sector



- ▶ **Employed population continues to reach new highs.** In Q3, employment rose 1.6% qoq and 3.7% yoy, reaching a new maximum. Looking in more detail to employment by sector, main increases were seen in health & social support activities(+47,400 people), accommodation & catering (+46,200 people), ITC (+35,500 people) and public administration, defence and social security (+30,800 people), offsetting the fall in the employment of individuals with low qualifications (-39,600 people). Additionally, we also saw an increase in permanent employment contracts.
- ▶ **The unemployment rate fell to 5.8%**, less 1 tenth than in Q2, and -0.3 p.p. in comparison to Q3 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 at slow pace (43% of total program)

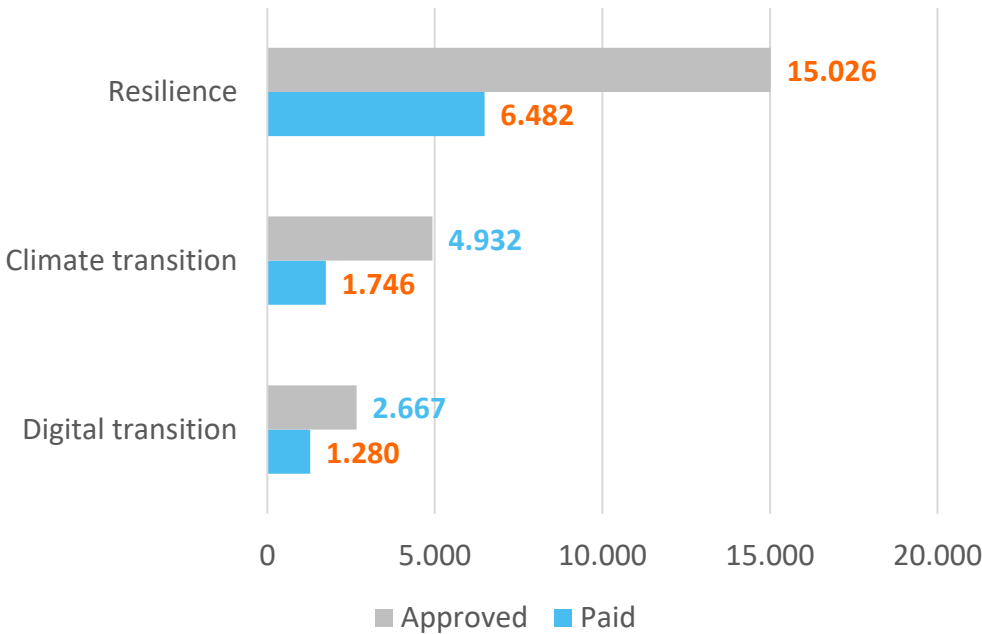
Approvals and payments to direct and final beneficiaries

(Up to October 29th)	Approved (EUR million)	Paid (EUR million)	Paid rate
Families	347	282	81,3
Social and solidarity economy institutions	824	330	40,0
Firms	6.398	3.414	53,4
Excl. R&I System Non-firms	5.477	2.931	53,5
R&I System Non-firms in consortium with	921	484	52,6
Institutions of the scientific and technological	660	234	35,5
Higher Education Institutions	844	354	41,9
Schools	1.038	609	58,7
Municipalities and metropolitan areas	4.529	1.363	30,1
Public entities	4.893	1.959	40,0
Public firms	3.092	961	31,1
Total (million euros)	22.625	9.506	42,0
(% total RRP)	101%	43%	

Source: CaixaBank Research, from Recuperar Portugal.

RRP: amounts approved and paid by dimension

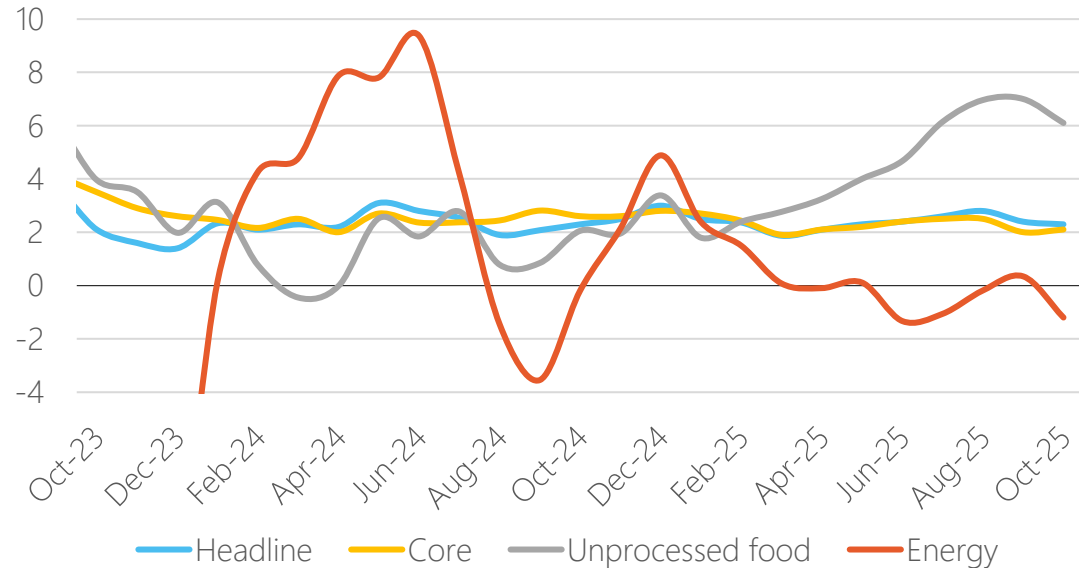
Eur million



- Up to now, Portugal received 12.7 billion euros, equivalent to 57% of the total amount of the RRP. Projects already approved amount to 22.6 billion euros (100% of the total amount) and payments reached 9.5 billion (75% of the total amount received), but only 43% of the approved projects.
- By the end of 2025, Portugal will receive a further €1.06 billion, and it is estimated that in 2026 it will receive the remaining €8.4 billion. At the same time, the rate of implementation of the funds has been gradually accelerating and is expected to increase, given the approaching end of the programme and its reprogramming to facilitate the transition of funds allocated to programmes with a low probability of implementation by the end of 2026 to other projects, notably the initial allocation of €315 million for sectors such as innovation, science, health and digital transition. In this context, we anticipate that the implementation of the PRR could add 0.4 percentage points to inertial growth in 2026.

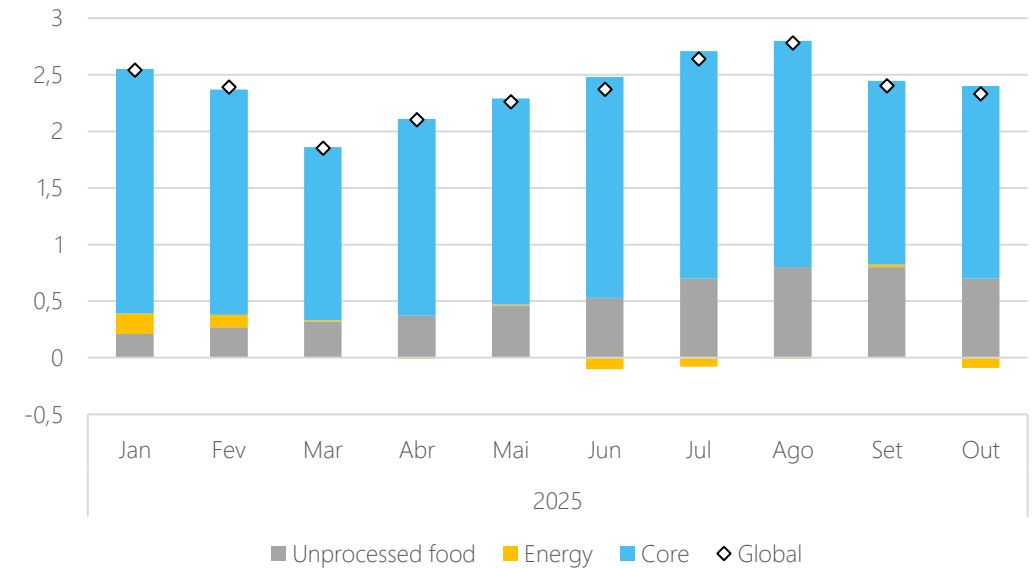
Inflation slightly down in October

Inflation: Headline, Core, Unprocessed food, Energy
Year-on-year (%)



Source: CaixaBank Research, from INE.

Contributions to global inflation
Year-on-year (%) and contributions (%)

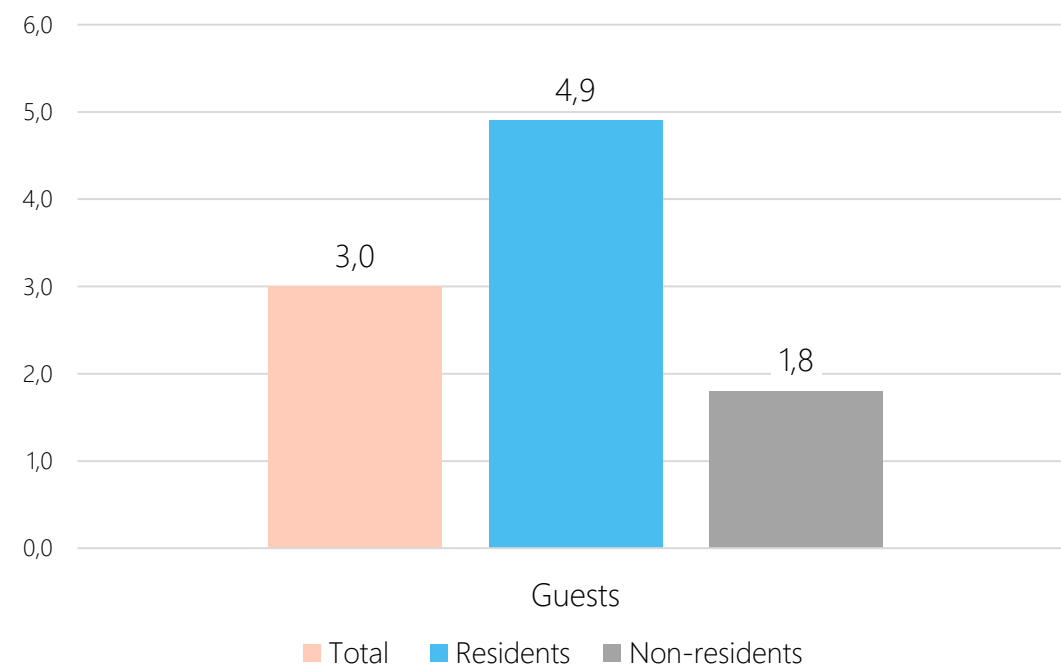


- ▶ Like in September, Global CPI adjusted downwards to 2.3% year-on-year in October, (-0.1 p.p. compared to September). In turn, the Core CPI increased to 2.1% (also +0.1 p.p. compared September). This development shows that it was the non-core components (energy and unprocessed food) that were behind this slowdown in the CPI, falling to -1.23% and 6.09% respectively (0.3% and 6.97% in September).
- ▶ The monthly dynamics in October of the Global CPI (0.0% change) and the Core CPI (0.1% change) were weaker than the historical average for the month.

Tourism at two speeds but record revenues on the way

Number of guests

Jan-sep 2025 yoy change (%)

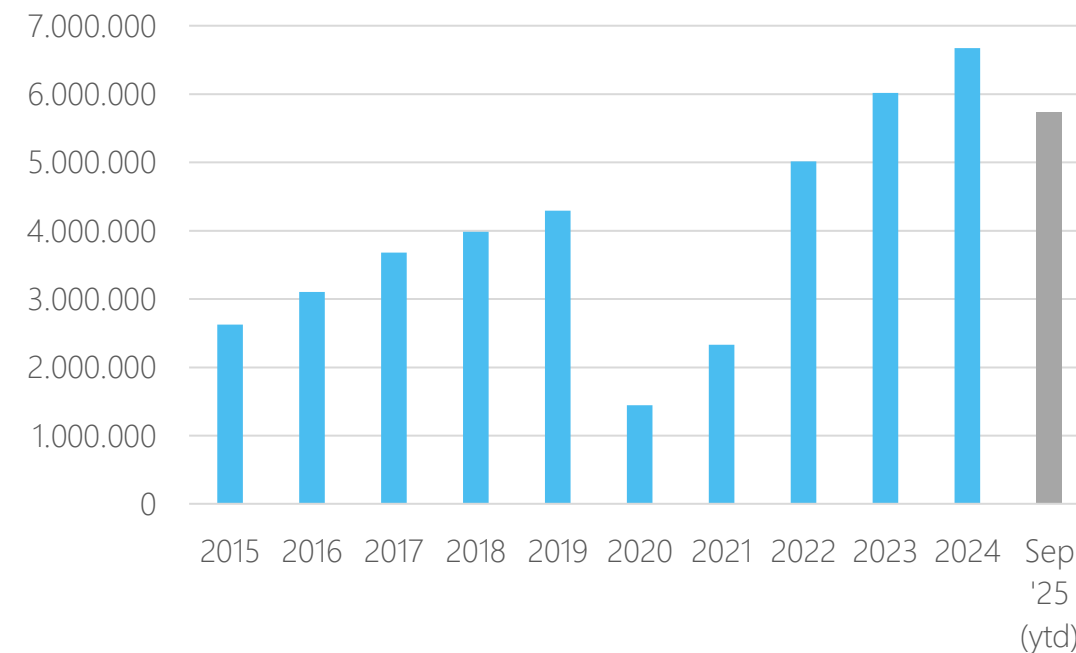


Source: CaixaBank Research, from INE.

Total revenues in tourist accommodation establishments

Thousand €

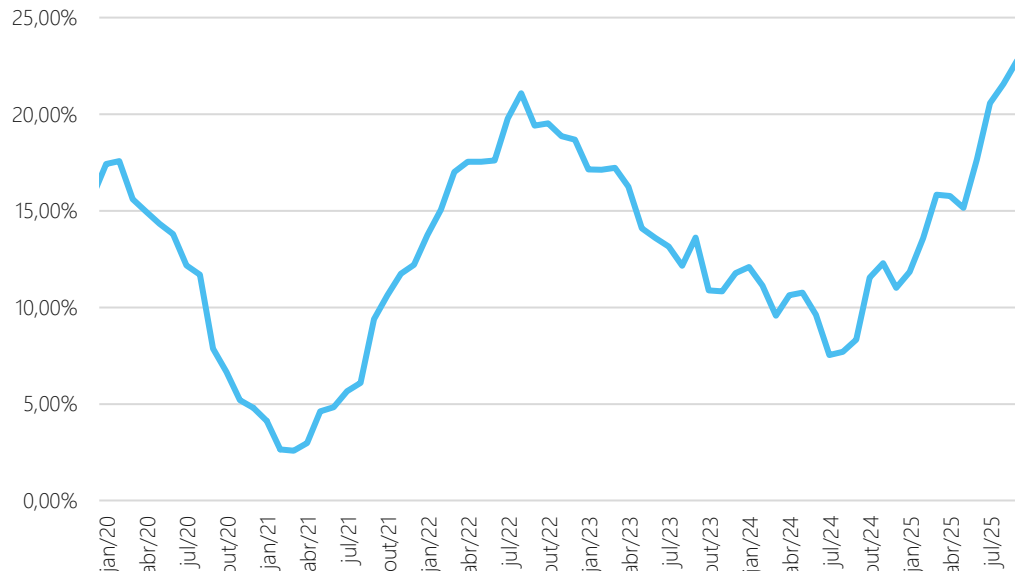
yoy (%)



- ▶ **The tourism sector recorded a total of 25.32 million guests** (9.79 million residents and 15.53 million non-residents) on the first 3 quarters of the year, representing a yoy growth of 3.0% driven mainly by the growth in the resident's demand (4.9% yoy vs. 1.8% from non-residents). In the first nine months of the year, some of the main inbound markets performed poorly, namely Spain and France (with year-on-year decline in overnight stays);
- ▶ **Total revenue in tourist accommodation establishments up to September grew by 7.6% compared to the same period in 2024.** The highest growth was recorded in 5-star hotels. Given the performance recorded up to Q3, we forecast that tourism's share of GDP (measured by CTTE - Tourism Consumption in the Economic Territory) will increase to 17.3% (16.6% in 2024).

Data suggests strong price increases in Q3 2025

Residential price index
year-on-year (%)



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



Source: Caixabank Research, using data from Confidencial Imobiliário.

- ▶ According to the residential price index compiled by Confidencial Imobiliário (CI), house prices rose 6.9% quarter-on-quarter and 22.8% year-on-year in September, both unprecedented variations in the history of the Residential Price Index, which has been tracking the evolution of this market since 1988.
- ▶ According to CI, since January of this year, prices have been rising by around 2.0% each month, a trend that was confirmed in September, when house sales values grew by 2.4%. The average sale price of houses in September (accumulated over 3 months) reached €2,885/m² in mainland Portugal. In the same period in 2020, houses were sold for an average price of €1,573/m².
- ▶ The movement of the bank appraisal curve for housing is similar to the Confidencial Imobiliário price appreciation curve, albeit with a slightly lower magnitude. The median bank appraisal value for housing was €1,995/m² in September 2025, €30 more than in the previous month. In year-on-year terms, the rate of change stood at 17.7% (18.1% in August).

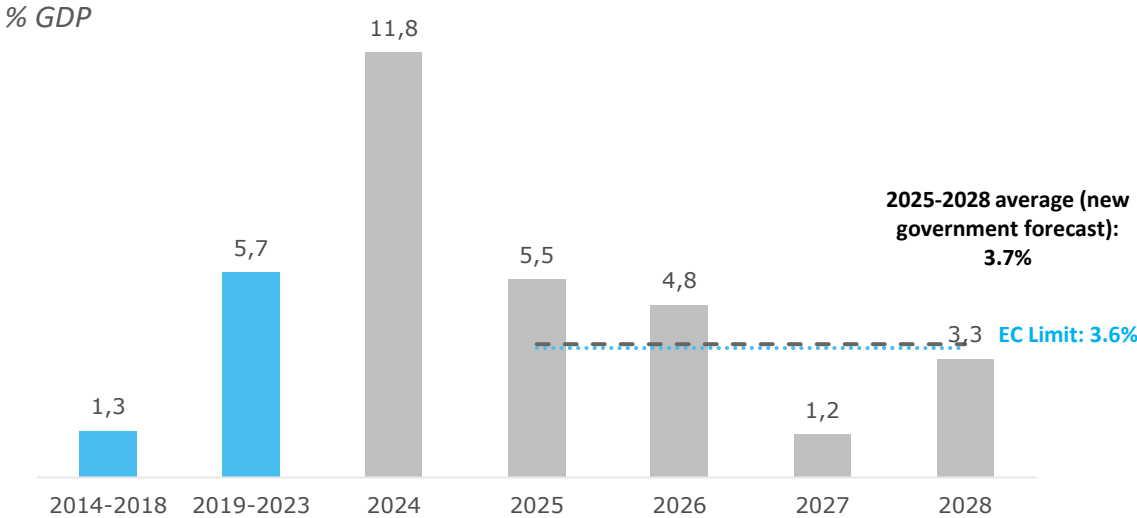
2026 State Budget: points to an expansionary fiscal policy

Categories of public accounts

(% GDP, except when otherwise specified)	2019	2025	2026	Change 2026-2019		Change 2026-2025		
				% GDP	M€	Yoy %	Contributions	M€
Fiscal and contributory revenue	36.6	36.7	36.6	0.0	38,959	4.6	3.8	5,181
Capital revenue	0.4	1.8	1.9	1.5	5,300	12.2	0.5	664
Total revenue	42.6	44.2	43.8	1.2	49,141	4.0	-	5,383
Personnel expenses	10.8	10.6	10.6	-0.1	10,990	5.1	1.2	1,644
Social benefits	18.2	18.0	18.1	-0.1	19,073	5.4	2.2	2,973
Interest	2.9	2.0	2.1	-0.9	349	4.9	0.2	305
Investment	1.9	3.3	3.4	1.6	6,949	6.8	0.5	697
Total expenditure	42.5	43.9	43.7	1.3	49,128	4.5	-	6,069
Primary current expenditure	36.7	37.3	37.1	0.3	39,996	4.1	3.5	4,665
Overall balance	0.1	0.3	0.1	0.0	14	-	-	-685
Primary balance	3.0	2.4	2.1	-0.9	363	-	-	-380
Structural primary balance	2.0	2.7	2.3	0.3	3,084	-	-	-886
Government debt	116.1	90.2	87.8	-28.3	31,518	-	-	5,551

Source: Caixabank Research, based on data from the proposal of the Portuguese 2026 State Budget 2026 and INE.

Commitment to the trajectory of net primary expenditure with the European Commission



Source: Caixabank Research, based on data from the proposal of the Portuguese 2026 State Budget and the Structural Budgetary Plan for 2025-2028.

- ▶ **The government has kept its forecasts for the fiscal balance in 2025 unchanged (0.3% of GDP) and reduced them to 0.1% of GDP in 2026**, due to the greater increase in expenditure compared to revenue. **The structural fiscal balance points to an expansionary fiscal policy**, and the increase in spending (primary current expenditure increases by around 4% compared to 2025 and 52% compared to 2019) is mainly explained by personnel expenses, social benefits, and investment.
- ▶ The budget surplus would be 0.8% in 2025 and 0.6% in 2026 without the RRP, which is explained by the negative effect that loans have on public accounts. **Nevertheless, the positive effect of the RRP on public investment stands out, which is expected to reach 3.4% of GDP (without the RRP, it would be 2.4%).**
- ▶ **Government debt levels continue to show a good trend. The debt-to-GDP ratio is expected to fall to below 90% in 2026 (87.8%, -2.4 p.p. compared to the estimate for 2025).** If confirmed, this will be the lowest figure since 2009.
- ▶ **The net primary expenditure limit is expected to exceed the level agreed with the EC in 2025, but there are currently no signs of non-compliance.** The government points to an upward revision of net primary expenditure growth in 2025 (from 5.0% to 5.5%) and a downward revision in 2026 (from 5.1% to 4.8%) compared to what was agreed in the Medium-Term Structural Budget Plan. With this new data, average growth over the four years is slightly above what was agreed with the EC (3.7% vs. 3.6%), and the cumulative annual deviation is 0.3 p.p. of GDP between 2025 and 2026. Portugal is complying with the minimum annual reduction of 1 p.p. in public debt.

Government defence spending increase program

➤ 1. Context and goals

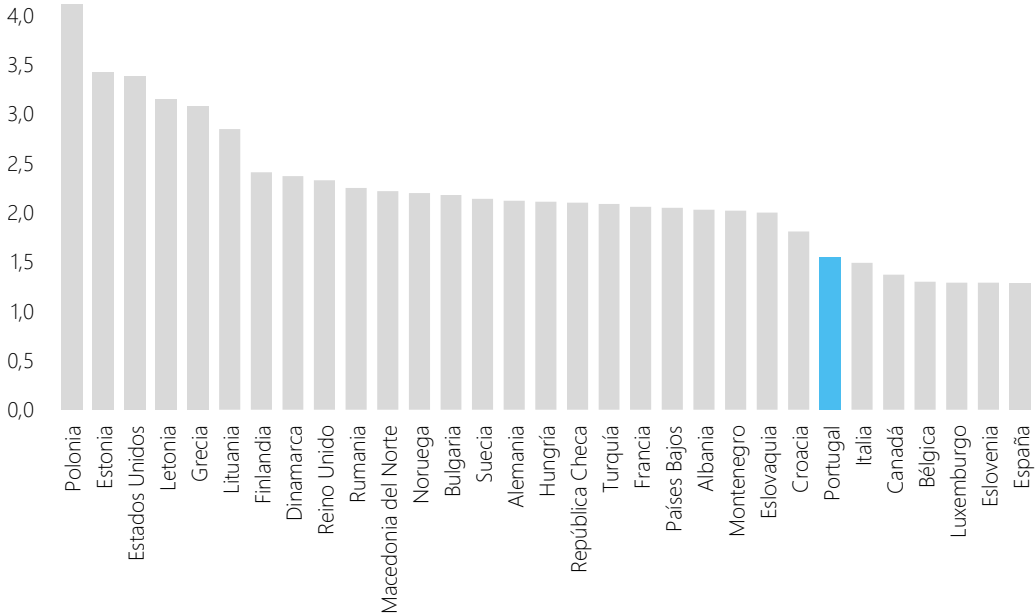
- The new Government's program marks a **significant strategic shift, making defence a central political priority**, integrating it into European and NATO initiatives, such as the "ReArm Europe/Readiness 2030 Plan" and the "European Defence Fund".
- Portugal aims to: ensure the readiness of the Armed 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.
- **Value former combatants and disabled members of the Armed Forces**, by increasing social and complementary support and improving reintegration mechanisms.

Defence spending in 2024

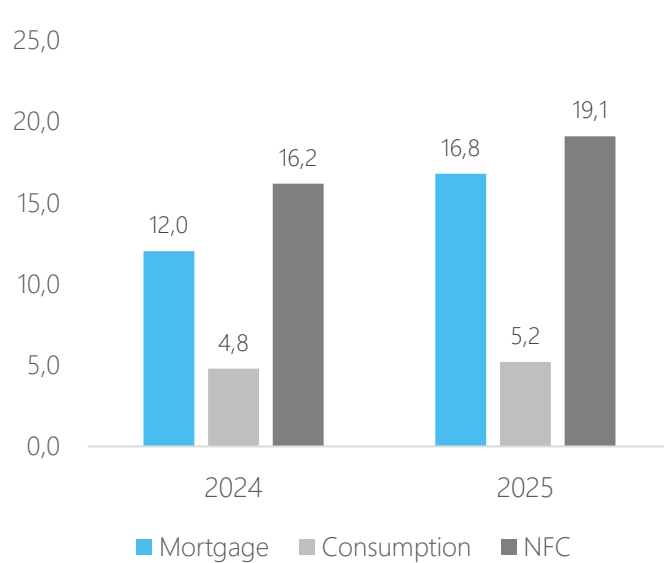
% of GDP



Banking system: a solid position to support the economy

New lending activity by sector

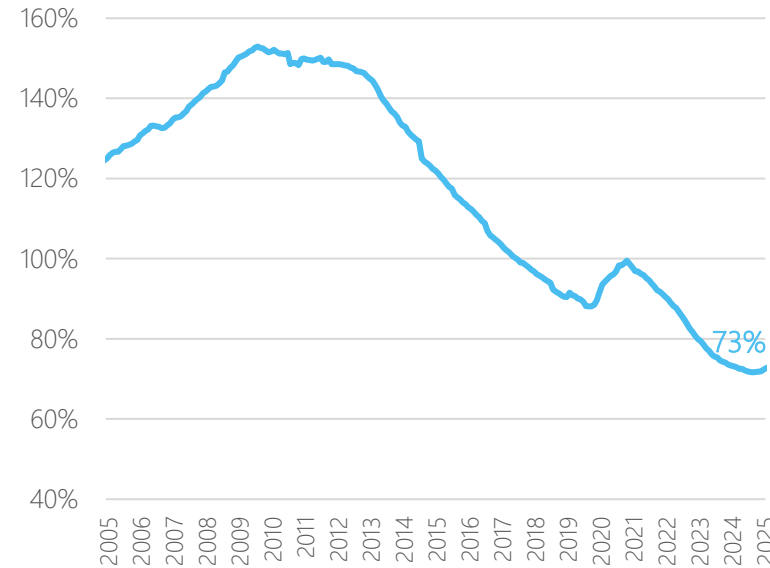
Accumulated in the year up to September, billion euros % GDP



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

Bank credit to the non-financial private sector

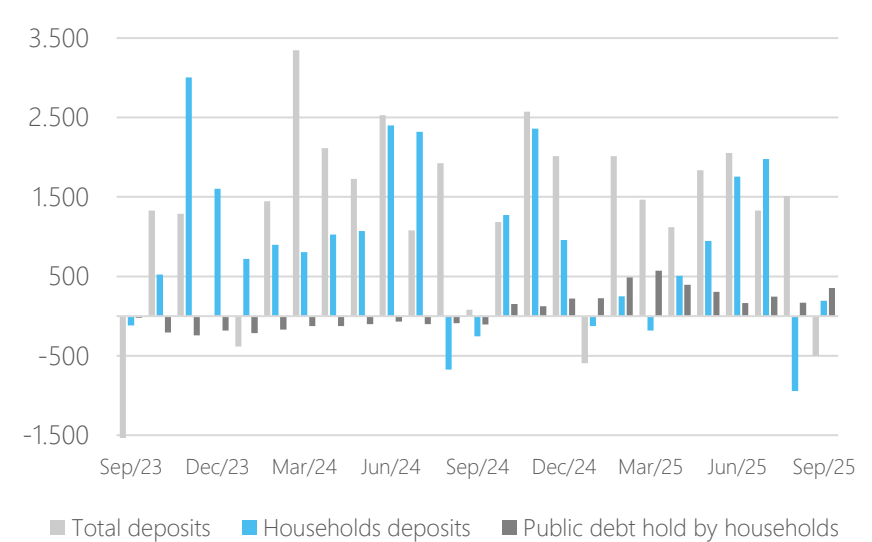
% GDP



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.

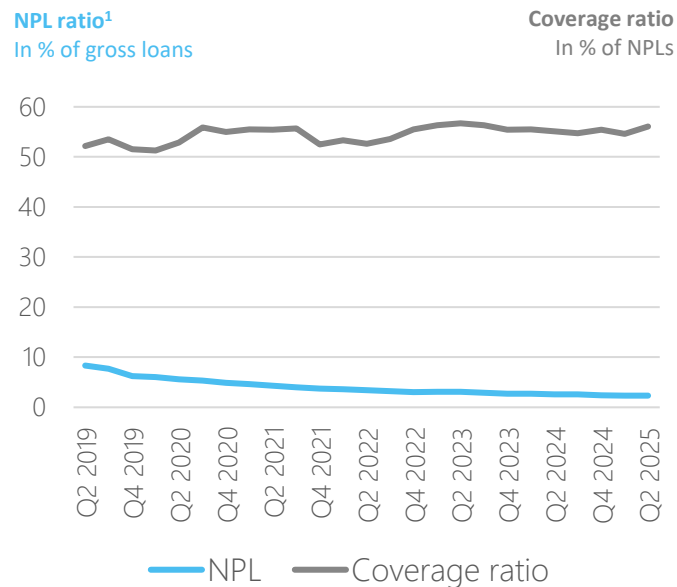
Source: CaixaBank Research, based on data from Bank of Portugal and IGCP.

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

- **Mortgage credit:** stock rose 8.0% in September, with new operations still increasing at double digit levels (+39,7% yoy, including transfers among banks), indicating that the pace will continue positive in the months ahead. The decline in interest rates, as well as the impact of Government's measures (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) and Stamp Duty, and other support measures, such as the "You Have a Future in Portugal" plan. These measures are for young people up to 35 years old who do not own other properties, who are purchasing their first permanent home, and whose transaction value does not exceed 450,000 euros.
- **NFC:** the outstanding credit added 2.3% in September, while new operations recorded expanded 18.1% (yoy change of the year-to-date value).
- **Private sector deposits with mixed performance:** the stock rose 6.3%. Households and NFC's deposits simultaneously increased (4.8% and 10.8% yoy, respectively). However, the actual descending trend in interest rates for new deposits (1.34% in September for new households' deposits with maturity until 1 year, -1.20 p.p. in comparison to the same period of 2024) may restrain the increase in households' deposits in the near future; meanwhile subscriptions of Government retail products increased again September.

Banking system: deleveraging and high liquidity

NPLs and coverage ratios

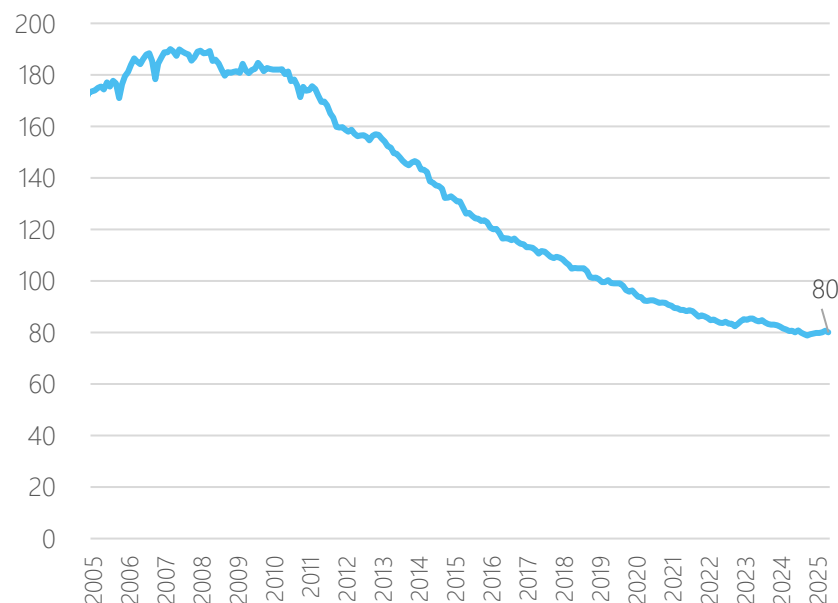


Cost of risk¹

0.5% in Q4 2019
0.1% in Q2 2025

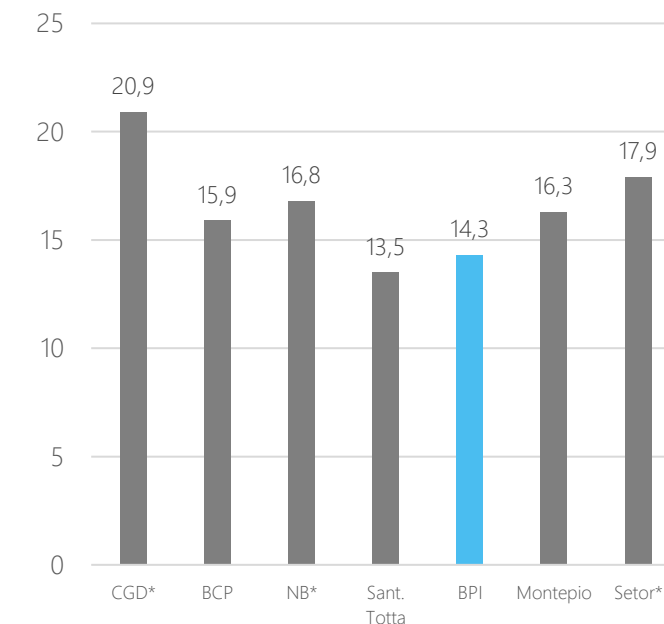
Notes: (1) flow of impairments to credit as a percentage of total gross loans.
Source: CaixaBank Research, with data from Bank of Portugal.

Non-financial private sector: loan-to-deposit ratio (%)



Source: CaixaBank Research with data from Bank of Portugal.

Banks' solvency and liquidity position In % (Q3 2025)



Notes*: ratio for Q2 2025
Source: Banks publications, BoP

- ▶ **NPLs ratio keep steady in Q2.** The total NPL ratio was stable at 2.3% in Q2 2025, as well as the one relative to NFC (4%), while the one relative to households slightly fell to 2.2% (2.3% in Q1 2025). We are not expecting a significant deterioration of credit quality in the following months.
- ▶ **Profitability is slightly lower due to reduced interest rates but remains well above the pre-pandemic period.** According to the Bank of Portugal, ROE was 14.9% in Q2 (vs 16.3% in Q2 2024).
- ▶ **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.**