



# Portugal:

## Macroeconomic and financial outlook

**CaixaBank Research**

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## Activity

- ▶ **GDP performed worse than expected in Q2 24, advancing only 0.1% qoq. On a year-on-year basis, growth stabilized at 1.5% yoy.** According to the statistical office, the deceleration reflects the moderation of private consumption and the worse contribution of exports. Despite this, investment behaved positively, but the contribution of net external demand returned to negative territory, with exports of goods and services stagnating. Going forward, private consumption continues to be supported by a resilient labour market and a 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. **After the release of Q1 data, BPI Research sees GDP expanding around 1.7% in 2024.**
- ▶ **In August, inflation decelerated.** The global CPI fell to 1.9%, but core CPI stabilized at 2.4%. Although we still expect fluctuations in the trajectory in 2024, we anticipate a more benign path throughout the rest of the year, with annual inflation ending 2024 at 2.4%.
- ▶ **Latest labor market data support our expectation that it will remain a relevant factor supporting activity, but the pace of job creation is moderating.** Employment increased year-on-year for the 39<sup>th</sup> consecutive month in June and remains near the monthly maximum (recorded in March). The unemployment rate remains considerably below the historical figures, having declined to 6.2% in July (vs 9.2% on average in the months of July of 5 pre-pandemic years).
- ▶ **Housing prices continue to appreciate in 2024, but the rate of growth has declined (0.6% qoq compared to 1.3% in Q4 2023).** We now believe in a dynamic of greater appreciation in the second half of the year. This is consistent with the process of monetary easing that will take place towards the end of the year.
- ▶ **Portugal registered a surplus in the current account of 2.0% of GDP in H1 24, continuing to support the decline of the external debt.** Indeed, foreign debt fell to 50% of GDP in H1 2024, minus 3.7 p.p. than in the end of 2023. In nominal terms, external debt reached 136.9 MM€, the lowest level since 2009.
- ▶ **Public accounts registered a surplus equivalent to 0.7% of GDP in the first seven months of 2024 (cash basis).** Revenues rose by 9.5% year-on-year up to July, driven by tax revenues, which increased by more than 7% year-on-year, with significant growth in corporate income tax, the payment deadline for which had been extended. In the months ahead the extraordinary factors that had an impact on both expenditure and revenue in the first half of the year will continue to be diluted, allowing the year to end with a slight surplus. Even so, public accounts deserve to be closely monitored as several factors add to negative fiscal pressure: higher financing costs, lower nominal growth and higher pressures on the expenditure side.

## Banking Sector

- ▶ **NPLs ratio stabilized close to minima in 1Q24 while exposure to commercial real estate (CRE) remains low.** The resilience of the labor market and the improved position of households and firms in terms of leverage suggest that the interest rate rise impact on credit quality should keep contained, in a context of a stronger position of the banking sector. The non-performing loans ratio of the private sector stabilized at 3.4% in Q1 24; and the ratio of stage 2 loans fell to 10.6%, totally due to an improvement on the quality of loans to NFC (between families there was a small deterioration). Also main Portuguese banks have robust solvency ratios. Regarding CRE exposure, loans collateralized by CRE only represented 5% of total banking assets in 2023; and exposure related to real estate investment funds is low and mostly concentrated in closed-end funds with lower liquidity risk: 7.3% of GDP in Portugal compared to 8,9% in the eurozone; and 68% of the units issued are closed-end funds.

# Main economic forecasts

% , yoy	2016	2017	2018	2019	2020	2021	2022	2023	Forecasts	
									2024	2025
<b>GDP</b>	2.0	3.5	2.8	2.7	-8.3	5.7	6.8	2.3	1.7	2.3
<b>Private Consumption</b>	2.6	2.1	2.6	3.3	-7.0	4.7	5.6	1.6	1.6	1.9
<b>Public Consumption</b>	0.8	0.2	0.6	2.1	0.4	4.5	1.4	1.0	1.0	0.8
<b>Gross Fixed Capital Formation (GFCF)</b>	2.5	11.5	6.2	5.4	-2.2	8.1	3.0	2.6	1.6	5.0
<b>Exports</b>	4.4	8.4	4.1	4.1	-18.8	12.3	17.4	4.1	3.7	4.6
<b>Imports</b>	5.0	8.1	5.0	4.9	-11.8	12.3	11.1	2.2	3.5	4.8
<b>Unemployment rate</b>	11.5	9.2	7.2	6.6	7.0	6.7	6.1	6.5	6.5	6.4
<b>CPI (average)</b>	0.6	1.4	1.0	0.3	0.0	1.3	7.8	4.3	2.4	2.1
<b>External current account balance (% GDP)</b>	1.2	1.3	0.6	0.4	-1.0	-0.8	-1.1	1.4	1.2	1.4
<b>General Government Balance (% GDP)</b>	-1.9	-3.0	-0.3	0.1	-5.8	-2.9	-0.3	1.2	0.3	0.4
<b>General government debt (% GDP)</b>	131.5	126.1	121.5	116.6	134.9	125.5	112.4	99.1	94.7	90.7
<b>Risk premium (PT-Bund) (average)</b>	307	269	138	100	90	60	100	70	70	73

Source: CaixaBank Research.

# Convergence with EMU should continue

## GDP: Other institutions' forecasts

Annual growth

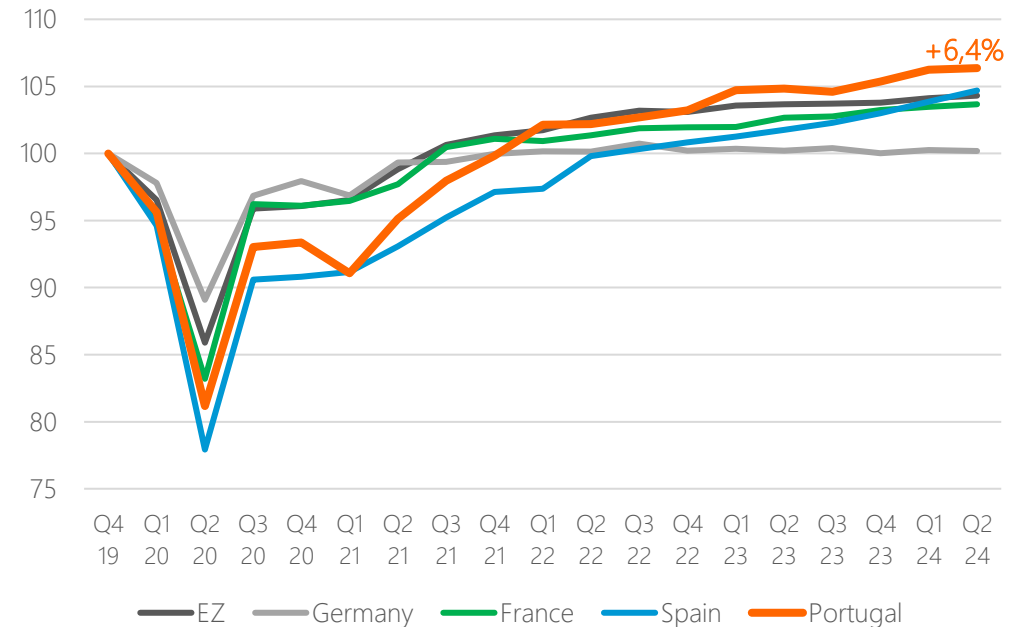
		2024	2025	2026	2027	Cum. 24-26
<b>BPI</b>	<b>Sep-24</b>	1.7	2.3	2.2	6.2	6.2
<b>Focus Economics</b>	<b>Sep-24</b>	1.7	1.9	2.0	5.7	5.7
<b>EIU</b>	<b>Aug-24</b>	1.7	1.9	1.8	5.5	5.5
<b>Bank of Portugal</b>	<b>Jun-24</b>	2.0	2.3	2.2	-	6.6
<b>European Commission</b>	<b>May-24</b>	1.7	1.9	-	-	-
<b>OECD</b>	<b>May-24</b>	1.6	2.0	-	-	-
<b>IMF (apr-24) (jun-24, article IV)</b>	<b>Apr-24</b>	1,7 (2,0)	2,1 (2,25)	2.0	1.9	-
<b>CFP</b>	<b>Apr-24</b>	1.6	1.9	2.1	2.0	5.7
<b>NECEP</b>	<b>Apr-24</b>	1.5	1.8	2.0	-	5.4
<b>Government</b>	<b>Apr-24</b>	1.5	1.9	2.0	1.5	5.5

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

IMF forecasts in () were disclosed in July within the presentation of the July 2024 Article IV and are still not known in detail.

## Portugal compares favourably within EMU

GDP Q4 2019=100



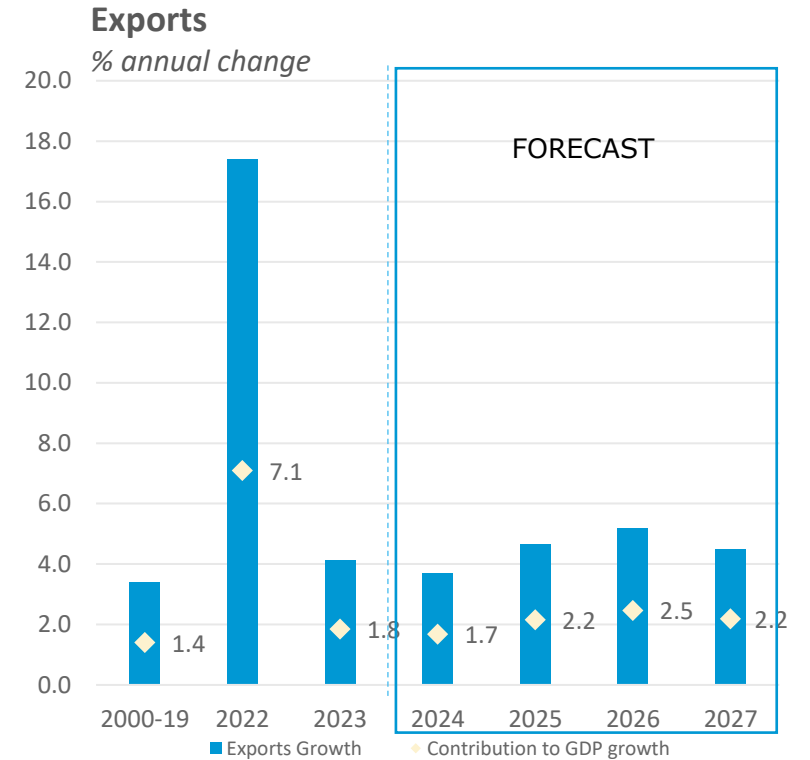
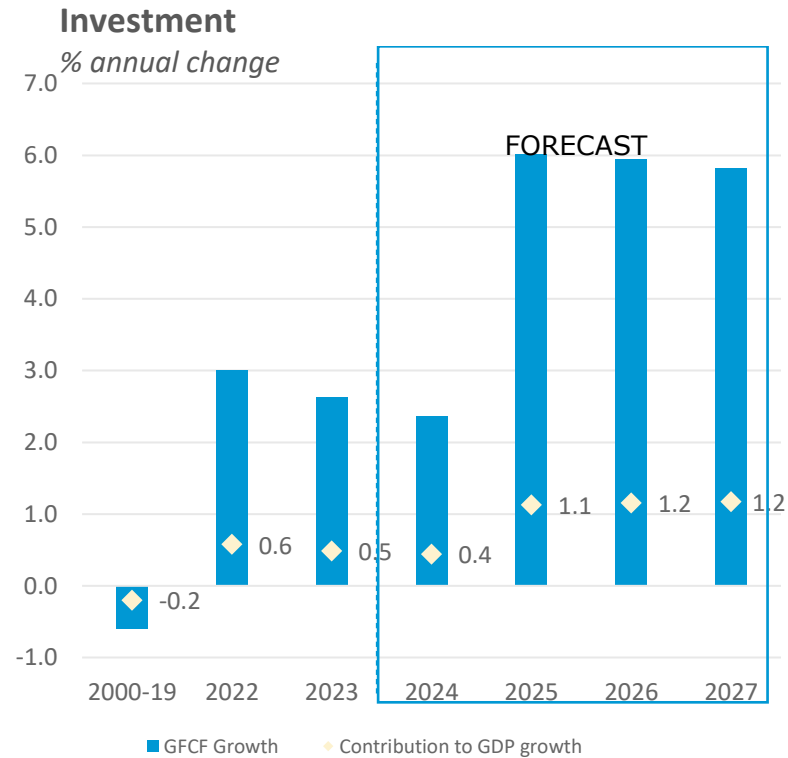
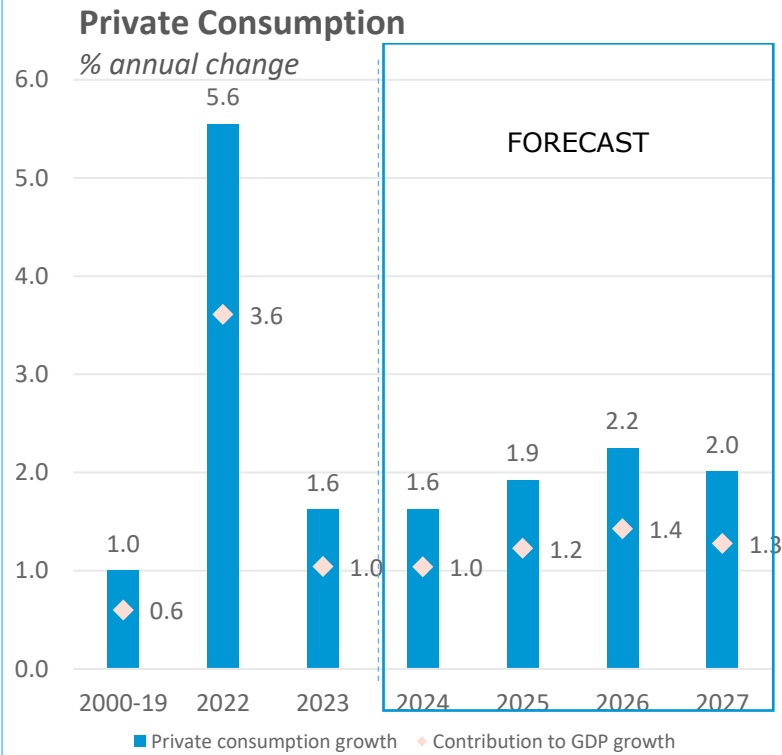
Source: CaixaBank Research, with data from INE and Eurostat.

- ▶ The latest forecasts keep pointing in a positive direction for the Portuguese economy, as the Bank of Portugal kept the scenario unchanged last June (2% growth expected in 2024 and 2,3% in 2025) and the IMF apparently revised the forecasts up within the release of the Article IV, in the first days of July. According to the Fund, after a remarkable recovery from the successive shocks that hit the global economy since the pandemic, a soft landing is within reach. The IMF recognized the huge drop of public debt since 2020 (36 p.p. of GDP) and the strength of the external position due to tourism, EU funds and improved terms of trade. However, challenges persist, namely low productivity growth, population aging and subdued investment remain key constraints to higher growth while poverty and inequality need to be addressed.

# Consumption, investment and exports will be the main growth drivers

## BPI Forecasts for GDP growth and consumption, GFCF and exports contributions

Annual, p.p (%)



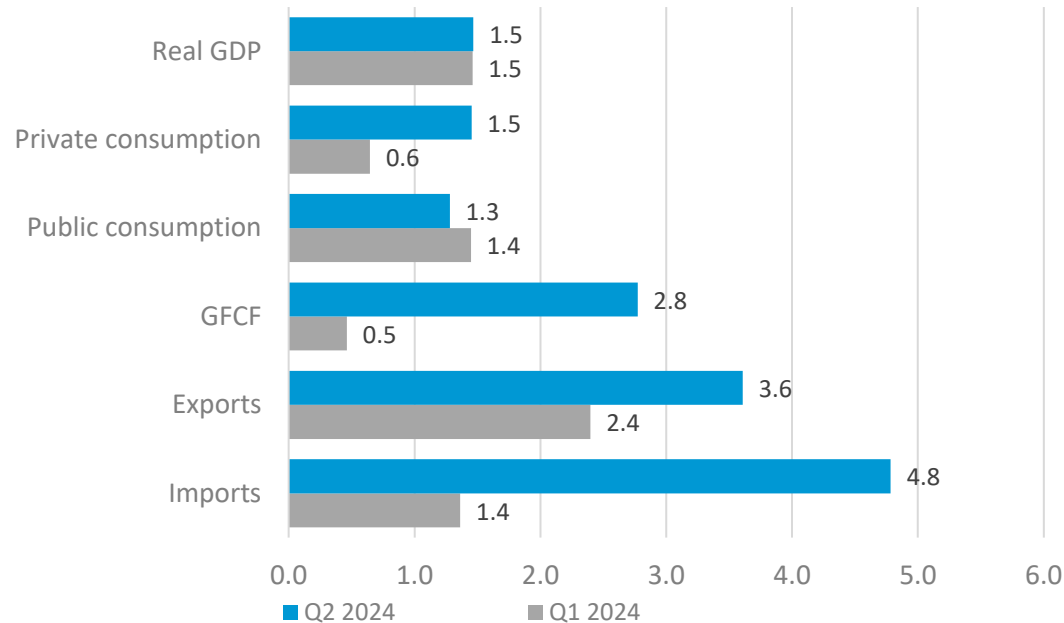
Source: CaixaBank Research, with data from Bank of Portugal and own forecasts

- ▶ Private consumption should continue the favourable performance in the middle run, continuing to be an important contributor for GDP growth. This view is supported by a robust labour market, low debt levels and real income gains. The decline seen in financing costs and the execution of EU funds should also support investment, that should also take advantage of higher leeway of the Government to foster public investment.
- ▶ Exports are also seen to behave positively on the back of the recovery seen in external markets and also due to market share gains, with tourism, other services and also some goods behaving very positively.

# GDP disappointed in Q2, as imports accelerated more than expected

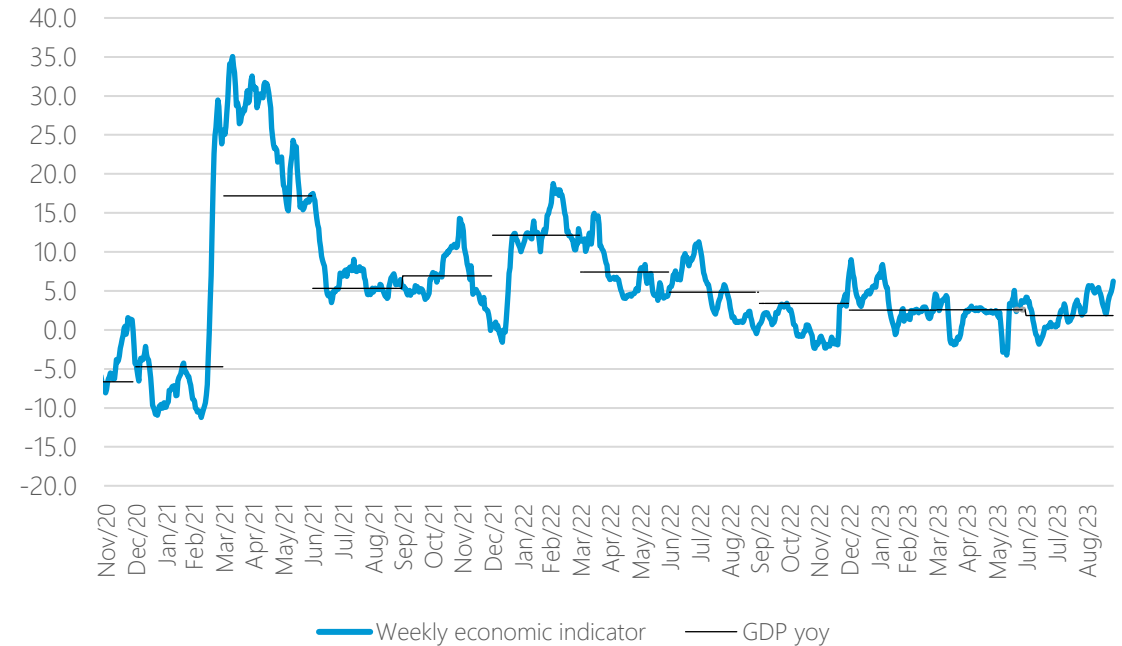
## GDP: demand components

%



## Daily activity indicator

yoy weekly moving average (%)

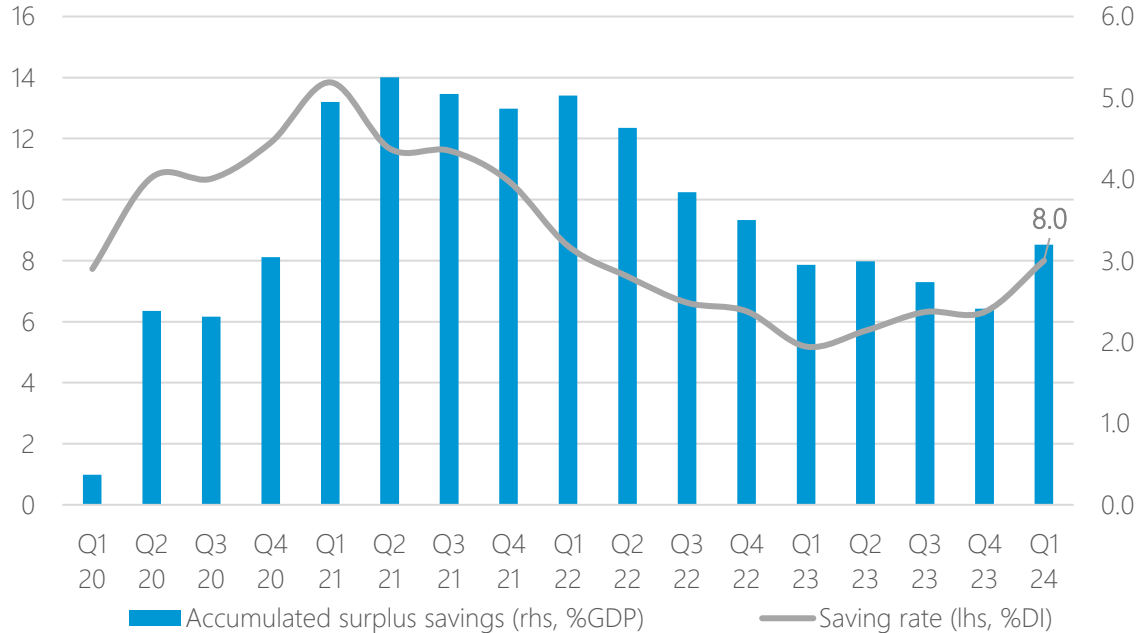


Source: CaixaBank Research, from Datastream data

- ▶ **In Q2, GDP advanced 0,1% qoq and 1,5% yoy.** The less positive performance than expected by the BPI Research was determined by the acceleration of imports, related with the acceleration of the investment. Domestic demand contributed with 1,2 p.p. to homologous growth, but foreign demand took off 0,5 p.p.; on a quarter-on-quarter basis, contributions was 0,5 p.p. and -,0,4 p.p., respectively.
- ▶ **The behaviour of the daily economic indicator suggests that growth will remain contained in the Q3.** However, we continue to expect an acceleration of the yoy growth, benefiting from the reduction of the financing costs and an expected acceleration of the RRP execution, supporting GFCF; consumption is seen to remain resilient and exports will benefit from an acceleration in some of the main external partners.

# Private consumption is seen to continue to perform well

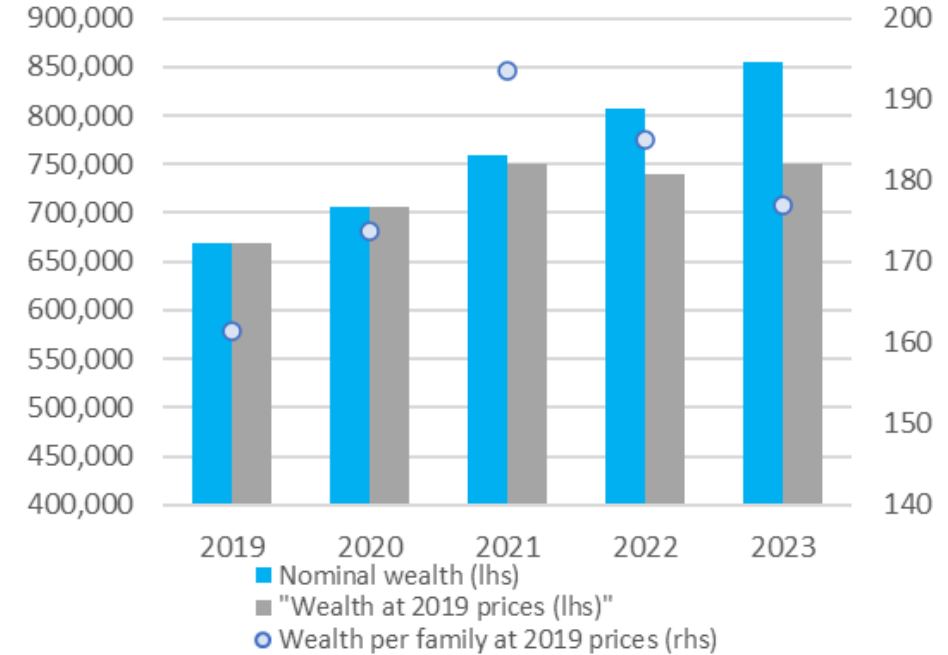
**Families' saving rate and excess savings**  
(% of GDP, DI)



Source: CaixaBank Research, from INE, BoP.

**Families' wealth**

Million of euros, thousand of euros



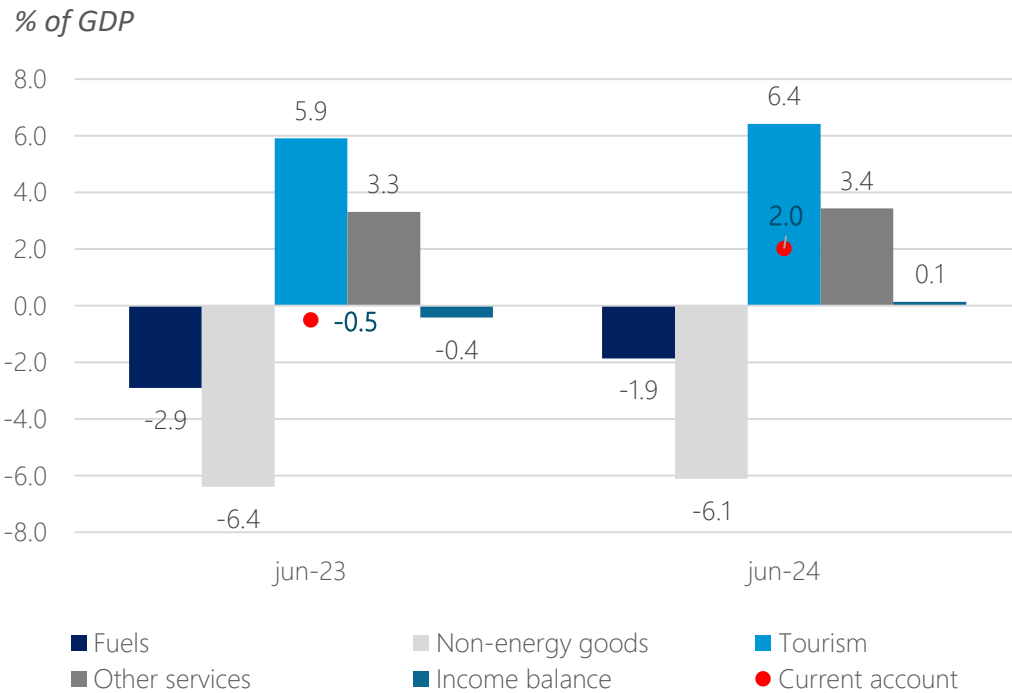
Source: CaixaBank Research, from Bank of Portugal and INE

- ▶ The household's saving rate rose to 8% in Q1 24, increasing the so-called surplus savings formed during the pandemic. In addition, we estimate that, in the first half of 2024, households repaid around 4,2 billion euros of mortgage credit (EUR 8,3 bln in 2023), potentially freeing up funds for consumption.
- ▶ Families' wealth suffered with the inflationary period lived in 2022-23, but since 2019 real wealth is growing at an average annual rate of 2,3%, supported by the valorisation of real estate wealth, but also by the improvement in salaries.

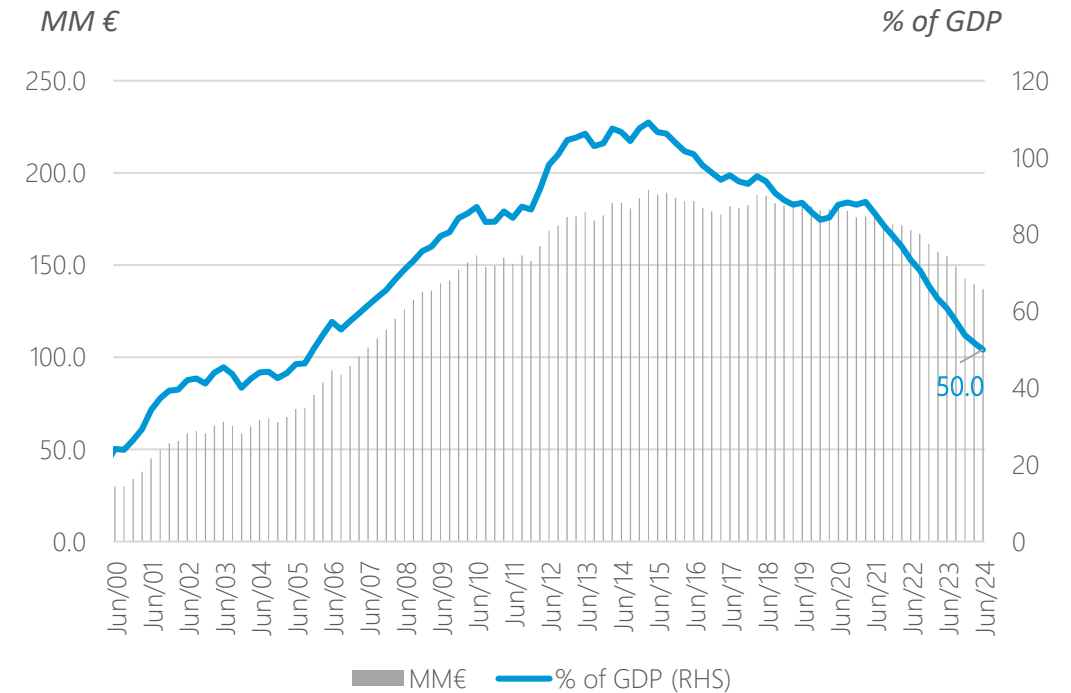


# The external surplus will allow the continuing reduction of external debt

## Current account in the H1 2024



## Net external debt



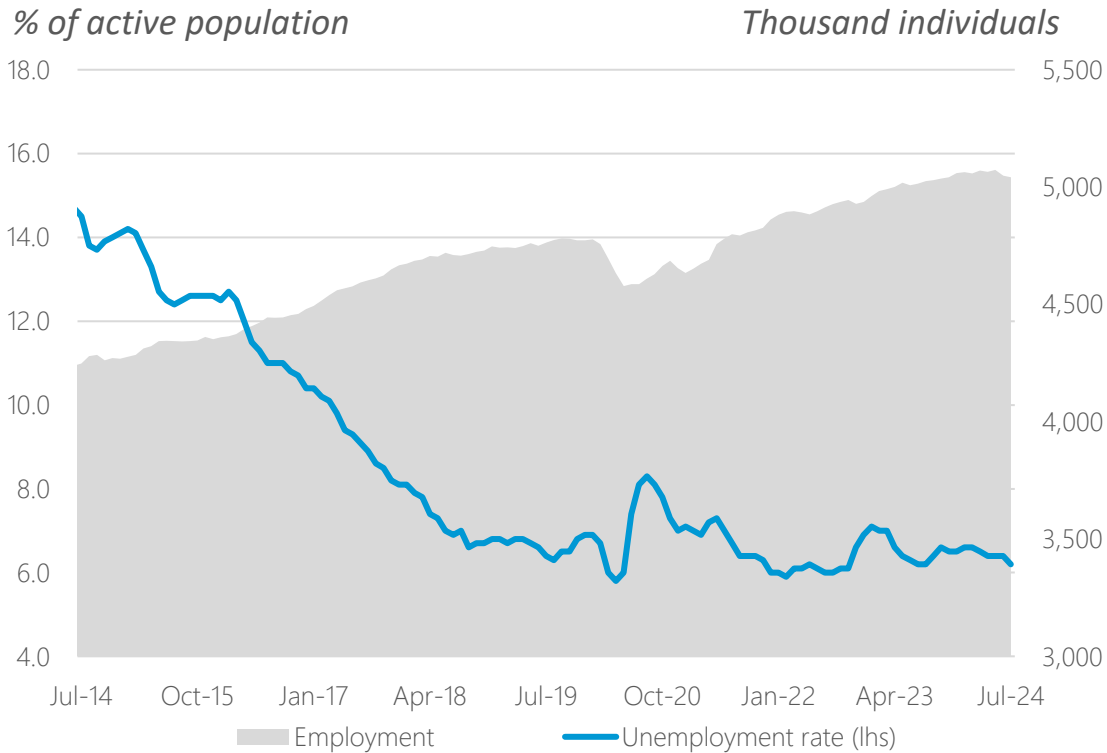
Source: CaixaBank Research, from BoP.

- ▶ **The current account started the year with positive recordings, reaching a surplus equivalent to 2,0% of the GDP in the first semester of the year, an improvement from the small deficit seen in homologous period.** This performance mainly reflects the decline of the deficit in the energy balance to 1,9% from 2,9% a year ago, in line with the decline of the energy prices over the period; the improvement seen in services balance – both tourism and non-tourism related – added to this achievement.
- ▶ The surplus accelerated the decline seen in external debt to 50% of GDP in Q2 2024, minus 3,7 p.p. than by the end of 2023. Since the peak of 109% of GDP in Q1 2015, the ratio of the external debt declined 59 p.p.. In nominal terms, and in the same period, the external debt fell 53,9MM€ since Q1 2015, to 136,9 MM€, the lowest nominal level since Q2 2009.



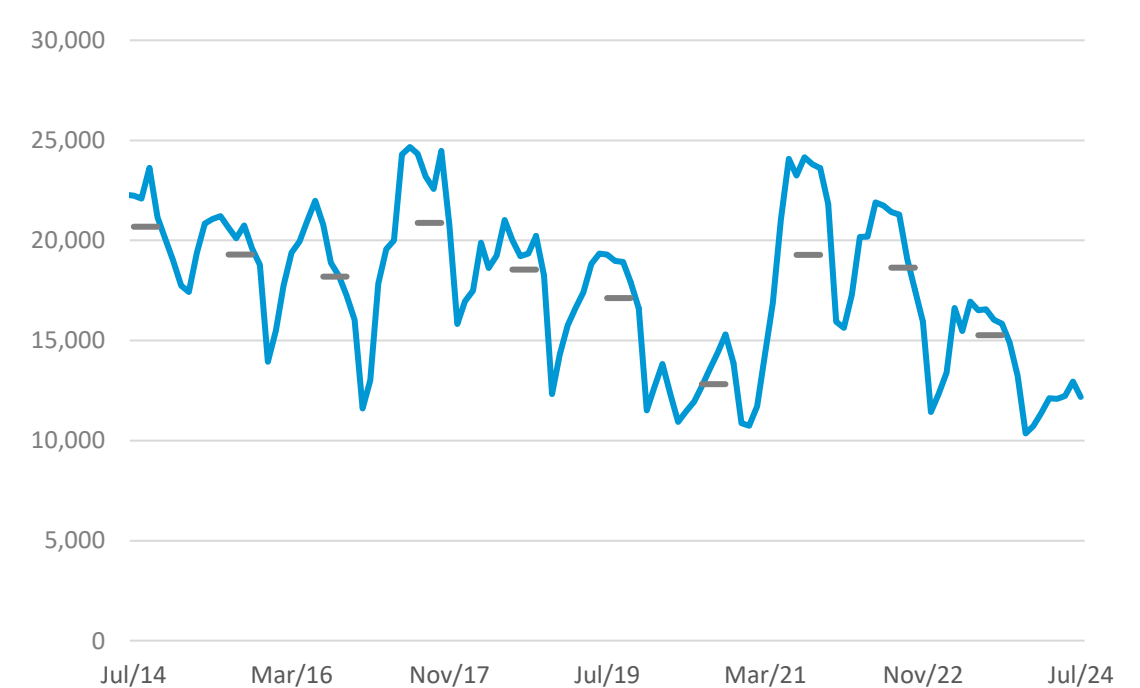
# The labour market keeps resilient, but a plateau seems to be arriving

**Unemployment rate and employed population** (monthly figures)



Source: CaixaBank Research, from INE.

**Job offers number**

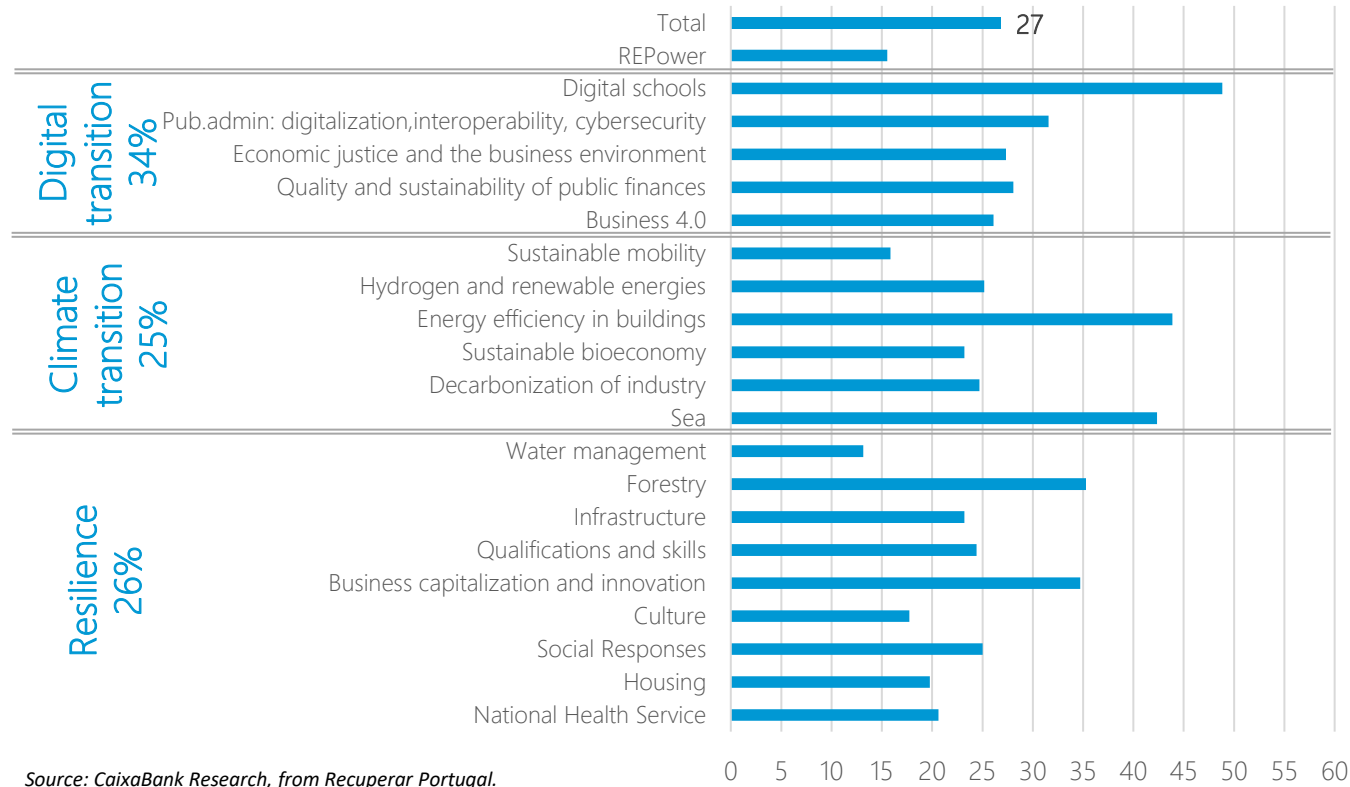


Source: CaixaBank Research, from IEFP.

- ▶ **The latest data corroborate our expectation that the labor market will remain a relevant factor supporting activity.** Employment increased on year-on-year terms for the 40<sup>th</sup> consecutive month in July and remains near the monthly maximum (recorded in March). The unemployment rate fell 2 tenths, to 6,2% in July, remaining considerably below the historical figures; in the 5 pre-pandemic months of July, the unemployment rate reached 9,2%.
- ▶ **However, the evolution of the job offers ratio suggests that the capacity of the economy to absorb the influx of people into the labor market is decelerating.** In July, the number of job offers stood at 12.178, well below the 5 pre-pandemic months of July level of around 21 thousand people; and less than the 14.850 job offers registered in 2023.

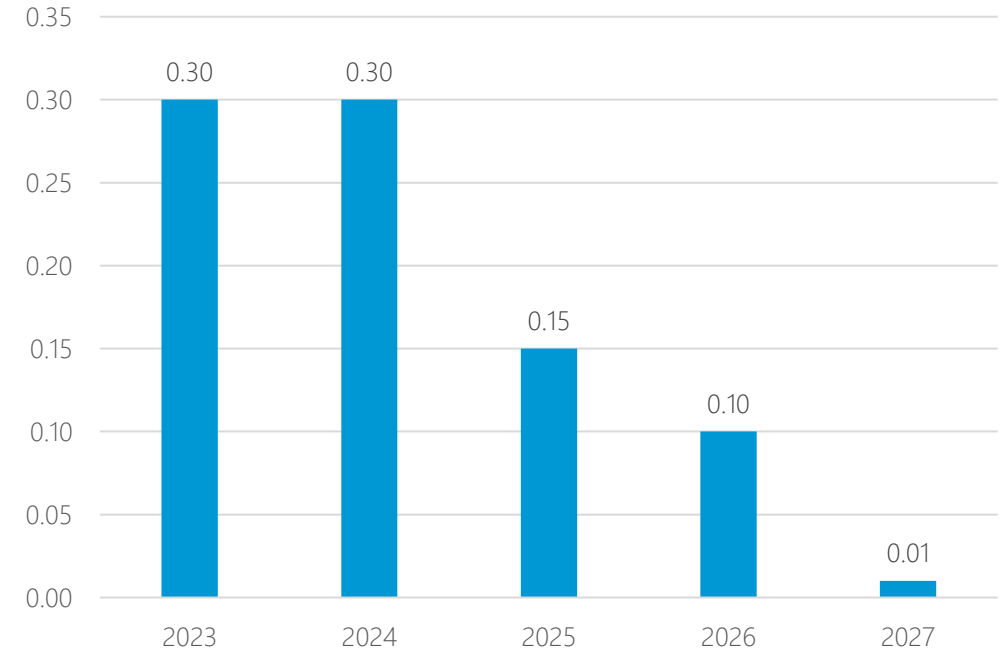
# NGEU: payment rate is improving

## Payment rate up to August 28<sup>th</sup> % of total of the amount approved



Source: CaixaBank Research, from Recuperar Portugal.

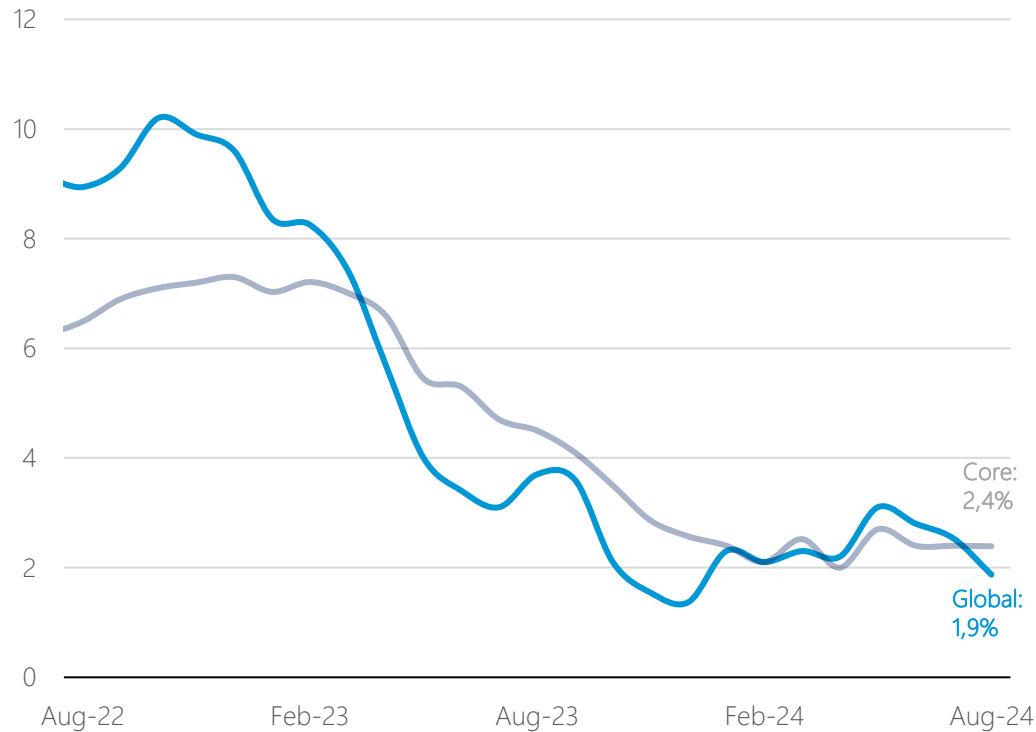
## RRP: own estimates for contribution for real GDP growth p.p.



- ▶ Up to now, Portugal received 8,5 billion euros, equivalent to 38% of the total amount of the RRP.
- ▶ Projects already approved amount to 19 billion euros (87% of the total amount) and payments reached 5 billion, representing circa 67% of the total amount received. Since the beginning of 2024, the payment rate improved by 5 p.p., to 27% of total amount approved. We highlight improvements in the payment rates for the sea (+24 p.p.) and decarbonization of industry (+11 p.p.) components.
- ▶ Portuguese authorities estimate that the impact of the funds currently available for the implementation of the RRP will led to an increase of 4,1% in potential GDP over the next 10 years.

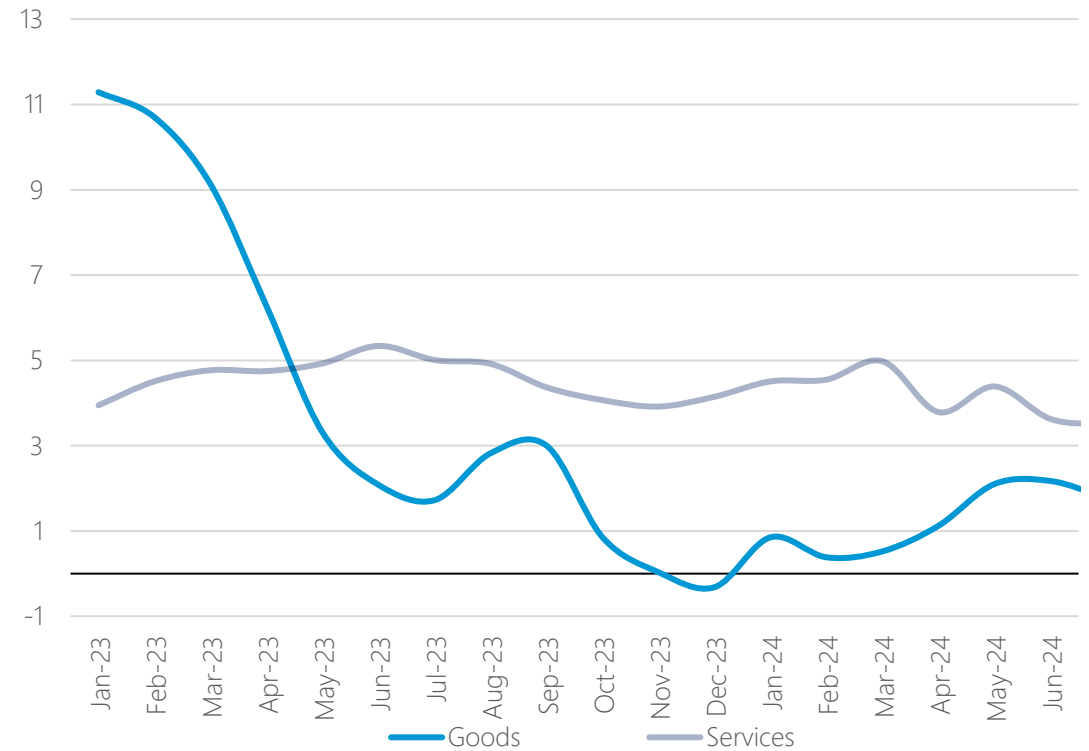
# Inflation keeps decelerating at a moderate pace

**Portugal CPI: Global & Core**  
Year-on-year (%)



Source: CaixaBank Research, using data from INE.

**Goods inflation vs Services inflation**  
Year-on-year (%)

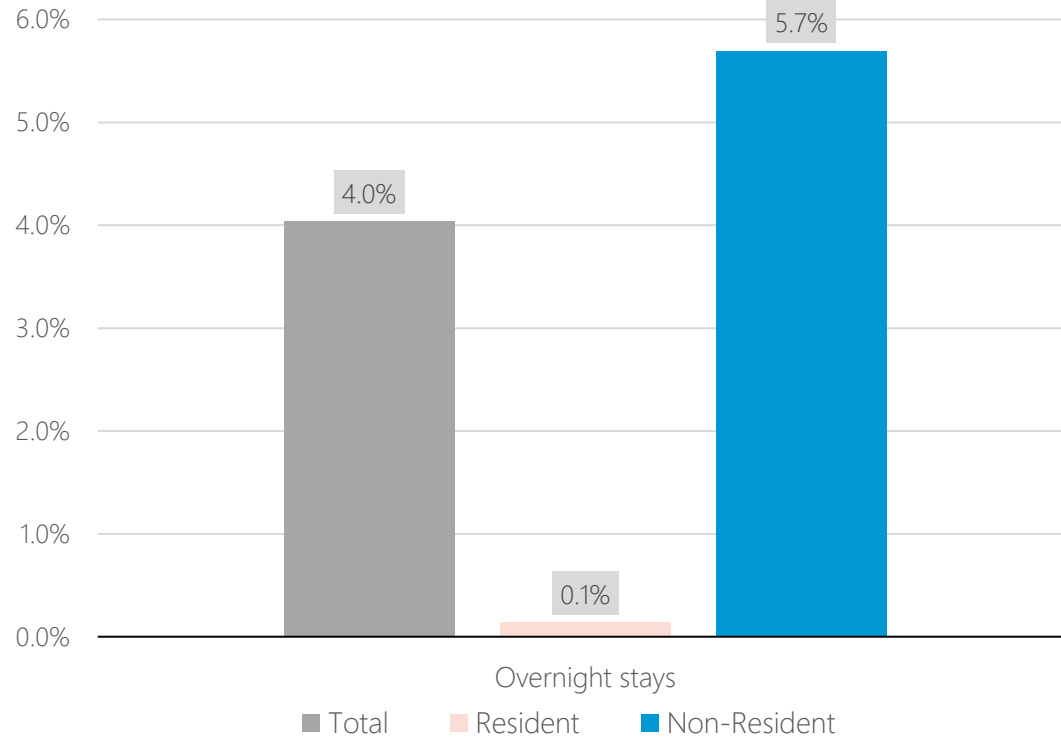


- ▶ **Inflation slowed markedly in August**, to 1,9%, from 2,4% in July. But the core CPI is showing a more inertial behavior, stabilizing in 2,4% with prices of energy decreasing 1,5% yoy from 4,2% in July and prices of unprocessed food slowing to 0,8% from 2,8% in July.
- ▶ **In June, the services inflation decelerated to 3,5% yoy**. We believe that the disinflation movement will probably strengthen in the second half of the year.

# Tourism at cruising speed

## Overnight stays

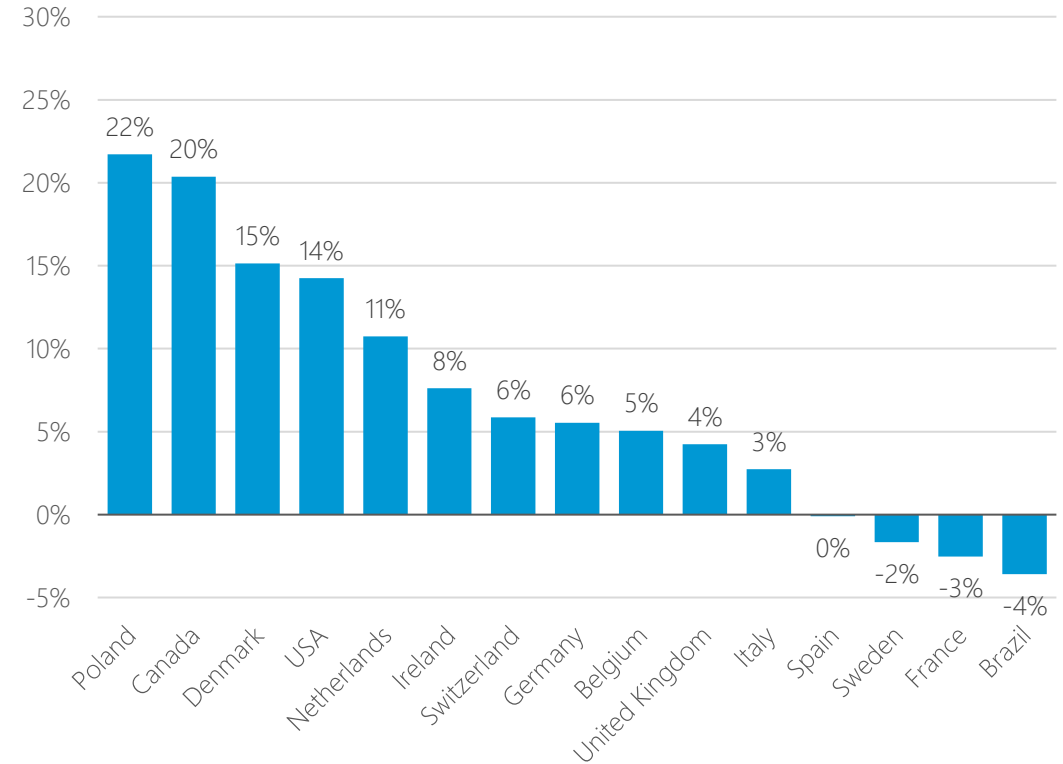
Ytd July 2024 versus Ytd July 2023 (%)



Source: CaixaBank Research, using data from INE.

## Non-resident guests

Ytd July 2024 versus Ytd July 2023 (%)

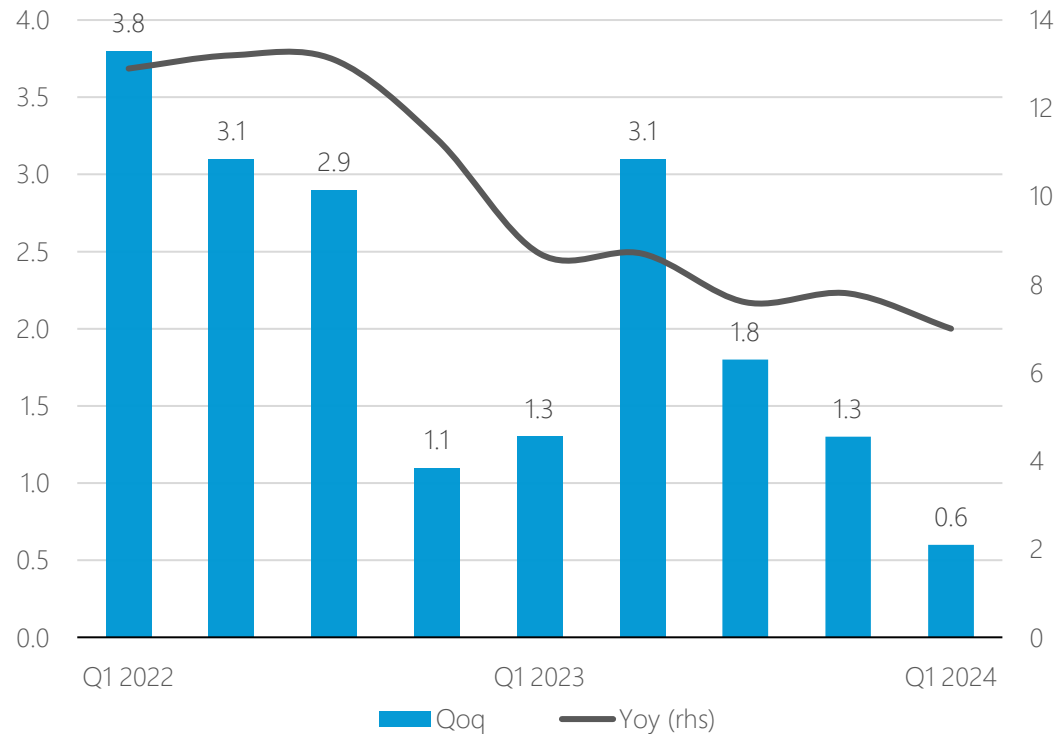


- ▶ **This year, the tourism sector is expected to behave less exuberantly.** Having lost the momentum of the post-pandemic rebound, the performance of this year is in line with what we projected: an overall increase in guests of around 5% (+4% until July).
- ▶ **Non-resident tourism has grown more vigorously in the first seven months and the pre-pandemic guest mix has been resumed: circa 70% non-resident tourists and 30% resident tourists.** By origin, the strongest growth is in markets of origin that have less weight in absolute terms, such as Poland, Canada, Denmark and others. Some important markets, such as France and Spain, performed poorly and the high pace of tourism from the United States currently places them as the second most important source market (fifth in the same period of 2023).

# House prices continue to rise in 2024 despite a loss of momentum

## House Price Index

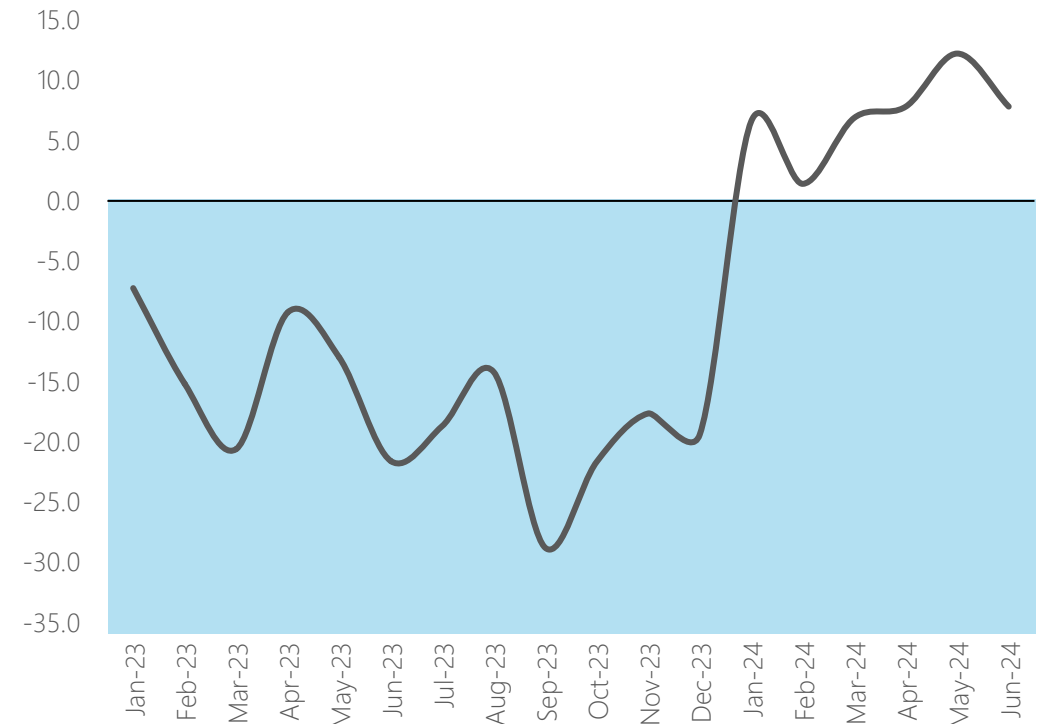
Qoq and Yoy change (%)



Source: CaixaBank Research, using data from INE.

## Expectations for House Sales (in 3 months)

% Balance of surveyors



Source: CaixaBank Research, using data from Confidencial Imobiliário.

- ▶ **Houses continue to appreciate in 2024.** Q1 2024 was the third in a row in which the quarterly increase in the House Price Index slowed down (0,6% compared to 1,3% in Q4 2023), but house prices are still 7% higher than a year ago. The number of homes transacted also fell compared to the last quarter of 2023 (-3,1%) and the same quarter of the previous year (-4,1%), although the trend points to stabilization at around 30.000 properties/quarter (above the pre-pandemic average of 25.300/quarter).
- ▶ **This Q1 figure does not jeopardize our overall vision for 2024:** a slowing market with an appreciation in the value of homes more in line with the series' history. We now believe in a dynamic of greater appreciation in the second half of the year, which is also consistent with the process of monetary easing that will take place until the end of the year. In the meantime, the legislative measures approved ("IMT" tax exemption for young people up to the age of 35), which should only come into force after August, also supports the idea of a more dynamic second half of the year.

# Budget balance returned to surplus in July and consolidation remains in the horizon

## Key items in the public accounts\*

% of GDP

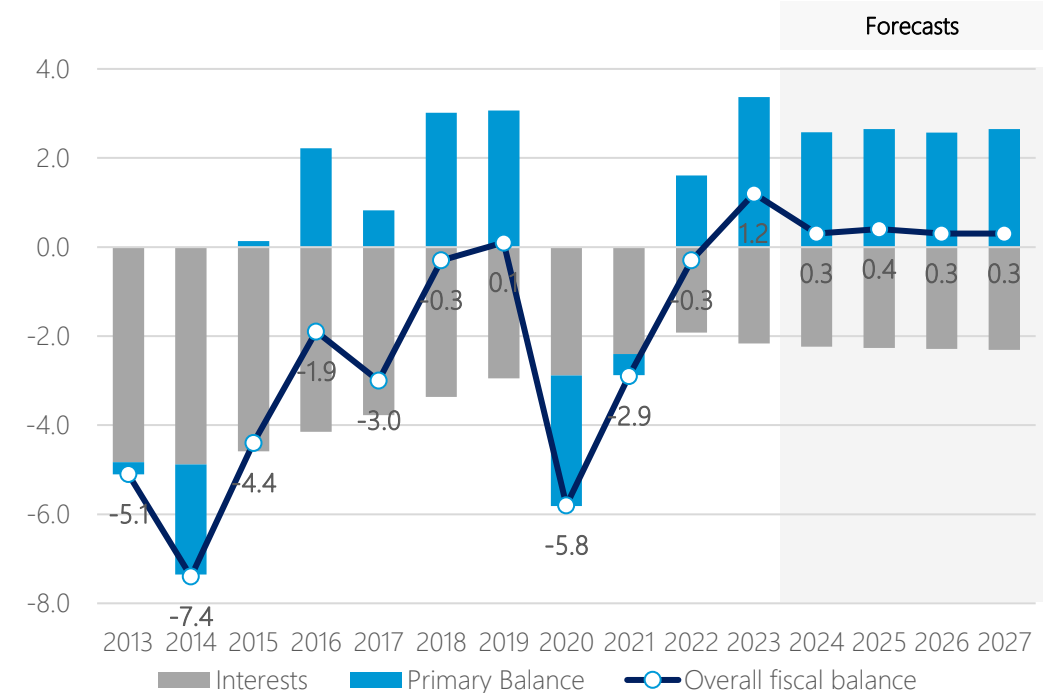
January-July	2019	2021	2022	2023	2024	Change 2024 vs 2019	Change 2024 vs 2023 (million euros)
<b>Revenues</b>	<b>39,7</b>	<b>38,2</b>	<b>39,7</b>	<b>39,3</b>	<b>43,0</b>	<b>3,3</b>	<b>5.773</b>
Fiscal revenues	22,4	20,6	22,4	22,3	23,9	1,5	2.482
Social security contributions	10,1	10,6	10,4	10,6	11,6	1,5	1.638
<b>Expenditure</b>	<b>40,1</b>	<b>43,9</b>	<b>39,2</b>	<b>38,0</b>	<b>42,4</b>	<b>2,3</b>	<b>6.677</b>
Staff costs	9,7	10,6	9,7	9,5	10,2	0,5	1.028
Current transfers	17,3	19,7	17,3	16,8	19,2	1,9	3.729
Aquisition of goods & services	5,5	5,5	5,5	5,3	5,8	0,3	844
Interests	4,3	3,4	2,8	2,7	3,0	-1,3	453
Investment	1,8	2,5	2,3	2,1	2,2	0,3	117
<b>Primary current expenditure</b>	<b>10,1</b>	<b>10,6</b>	<b>10,4</b>	<b>10,6</b>	<b>11,6</b>	<b>1,5</b>	<b>1.638</b>
<b>Budget balance</b>	<b>-0,4</b>	<b>-5,7</b>	<b>0,4</b>	<b>1,3</b>	<b>0,7</b>	<b>1,1</b>	<b>-904</b>

Note (\*): cash basis.

Source: CaixaBank Research, based on DGO.

## Overall fiscal balance in accrual basis

% of GDP

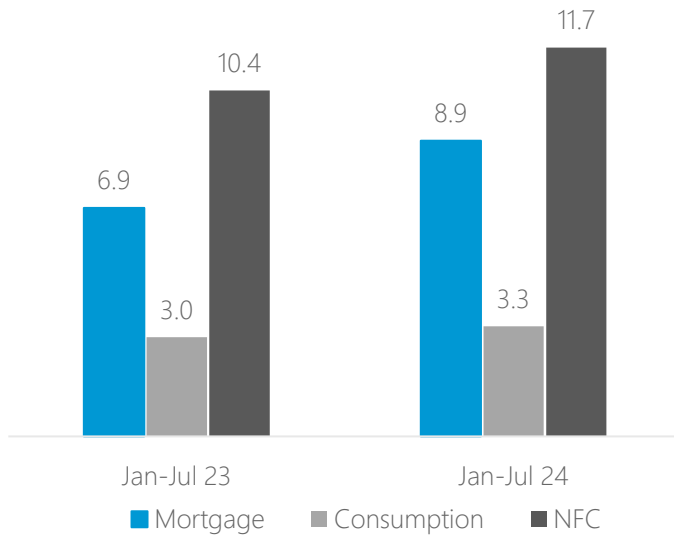


Source: CaixaBank Research, based on INE.

- ▶ **On a cash basis, the public sector reached a surplus of 0,7% of GDP in the first seven months of the year**, with revenues advancing 9,5% and expenses 11,3%. Expenditure growth was due to changes in its execution profile, which particularly affected the year-on-year comparison. These changes include i) the mid-term update of public servants salaries from May 2023 and the 2024 salary update; ii) an increase in current transfers, in particular, the increase in pension costs, resulting from the ordinary updating of pensions at the beginning of the year, the increase in the number of pensioners (+1,2%) and the incorporation of the extraordinary updating carried out in July 2023. Adjusting current expenditure for these factors, the surplus would be around 1,1% of GDP.
- ▶ **On an accrual basis, the deficit reached 0,2% of GDP in Q1**. In line with the cash basis's figures, expenditure increased above revenue (11% and 7,3%, respectively), with the yoy comparison adversely affected by the factors mentioned in the previously. Additionally, this performance does not mean that public accounts entered again in a negative trend, considering that Q1 has typically an unfavourable seasonality. We continue to expect a slight surplus in the following years, even though we are not considering the eventual implementation of new fiscal measures.

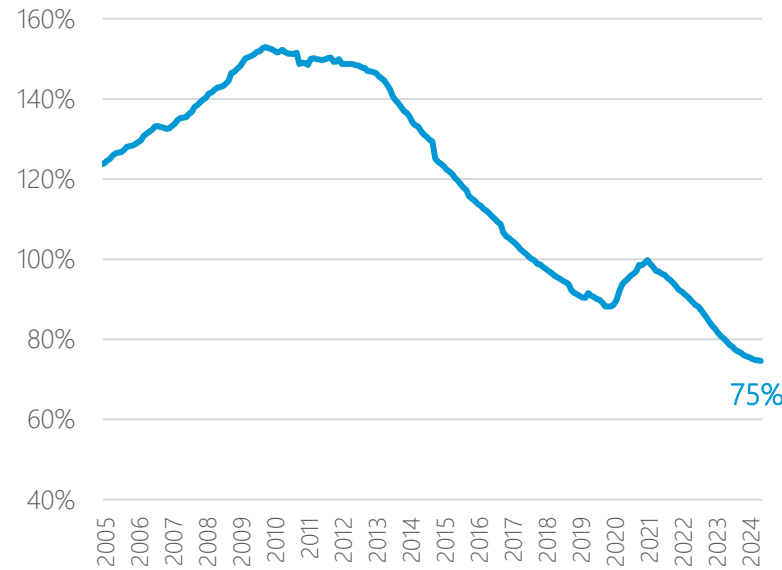
# Banking system: deleveraging and high liquidity

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



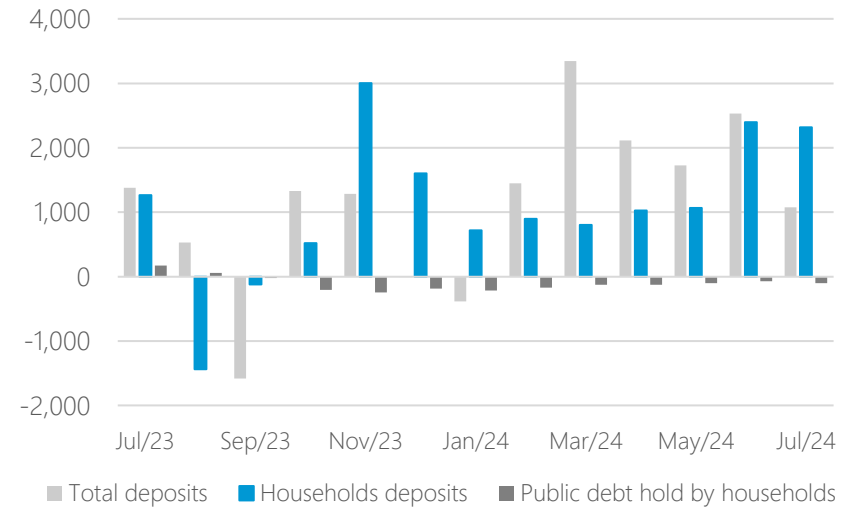
Source: CaixaBank Research, base on data from Bank of Portugal and ECB.

**Bank credit to the non-financial private sector**  
% GDP



Source: CaixaBank Research, base 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 16.5 bn Eur in 2023.  
Source: CaixaBank Research, base on data from Bank of Portugal and IGCP.

► **The stock of credit to companies and households rose in July:**

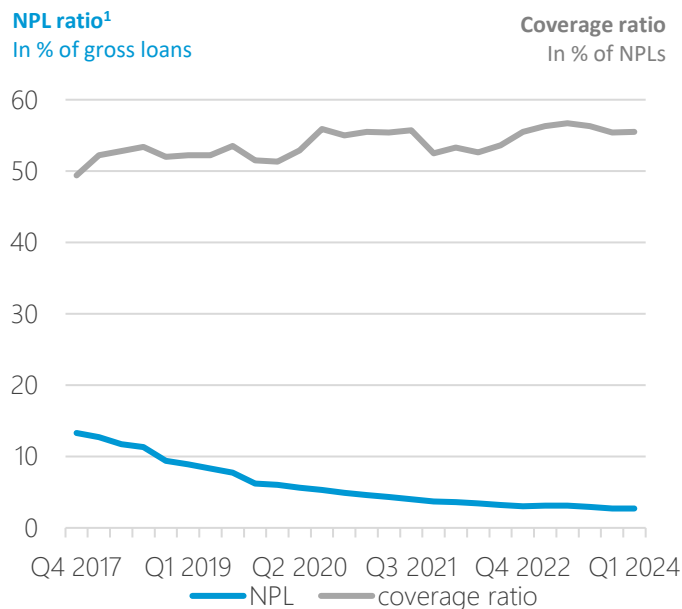
- **Mortgage credit:** the stock rose 0,4% in July and new operations accelerated in the same period by 29,3% (including transfers among banks which Banco de Portugal has been reporting at approximately 30% of total new mortgage credit), indicating that the pace of expansion may accelerate in the months ahead. Signs that the peak on interest rates should be behind us may have contributed to this.
- **NFC:** the stock has been declining since mid-2022, due to the redemptions of COVID-credit lines (which we estimate that should be circa 80% completed), low investment, favorable level of deposits and continuing feeble new credit operations. In July, the stock fell 0,6% and new loans increased by 12,3% in accumulated terms year to date.

- **Deposits of the private sector rose 5,4% in July.** Households' deposits increased 7,3% yoy, as interest rates for new deposits continue to be higher (2,63% in July) than the one paid by Government retail products (CA's new subscription conditions consider a maximum interest rate of 2,5%).



# Banking system: a solid position to support the economy

## NPLs and coverage ratios



**Cost of risk<sup>1</sup>**  
0.5% in Q4 2019  
0.2% in Q1 2024

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

## Banks' profitability

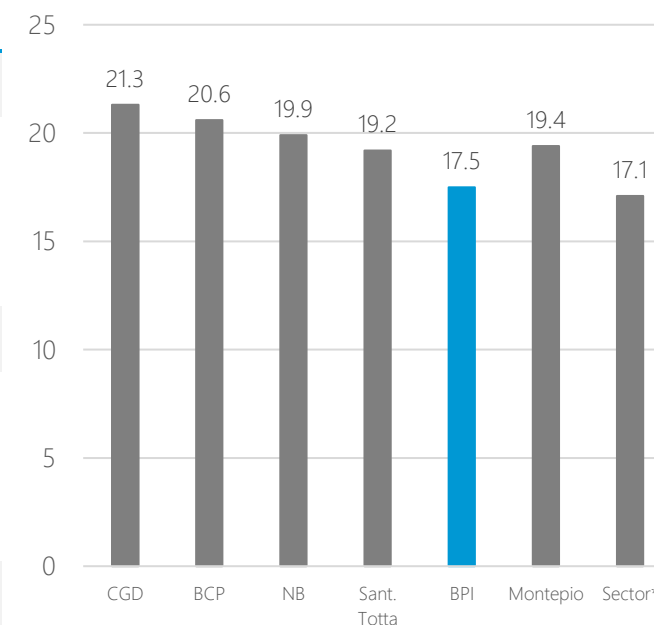
In % of average total assets (S1 2024; trailing 12M)

	BPI	BCP	San Totta	CGD	NB	Montepio
<b>Net interest income</b>	2.5%	2.2%	3.1%	2.7%	2.9%	2.7%
Net fees	0.8%	0.9%	0.9%	-	0.6%	0.7%
Gains on financial assets	0.1%	0.0%	0.0%	-	0.2%	0.0%
Other net profits	-0.2%	0.0%	0.0%	-	-0.1%	-0.3%
<b>Gross income</b>	<b>3.3%</b>	<b>3.2%</b>	<b>4.0%</b>	-	<b>3.6%</b>	<b>3.1%</b>
Operating expenses	-1.4%	-1.0%	-0.9%	-1.0%	-1.2%	-1.1%
<b>Operational result</b>	<b>1.9%</b>	<b>2.2%</b>	<b>3.1%</b>	-	<b>2.4%</b>	<b>2.0%</b>
Impairment losses, taxes and others	-0.2%	-0.4%	-0.1%	-	0.1%	-0.3%
<b>Profit</b>	<b>1.2%</b>	<b>1.3%</b>	<b>2.1%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.7%</b>
<b>ROTE<sup>1</sup></b>	<b>17.2%</b>	<b>15.0%</b>	<b>27.2%</b>	-	<b>16.8%</b>	<b>17.3%</b>

Notes: 1) BPI: Recurrent ROE in Portugal, 12m. BCP: Consolidated ROE, domestic. San: ROE. CGD: Consolidated net return on equity (consolidated gross return on equity = 27.1%).

## Banks' solvency and liquidity position

In % (S1 2024)\*



Source: Banks publications, BoP  
Note: \*data for the Q1 2024

- ▶ **NPLs ratio kept unchanged in Q1.** The total NPL ratio stood at 2,7% in Q1 2024, but there was a slight deterioration in NPL ratio for housing credit (+0,1 p.p., to 1,4%, still considerably below the maximum seen in Q1 2016, of 7,4%) and a stabilization in the case of NFC (at 5%). It is possible that these metrics will worsen slightly in the coming months, reflecting the impact of increasing interest rates and prolonged inflation in households and firms consumption and costs, but we are not expecting a huge deterioration of credit quality.
- ▶ **Profitability remains well above the pre-pandemic period.** According to the Bank of Portugal, ROE increased to 15,5% in Q1 (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.**