Portugal:
Macroeconomic and financial outlook

CaixaBank Research

October 2024

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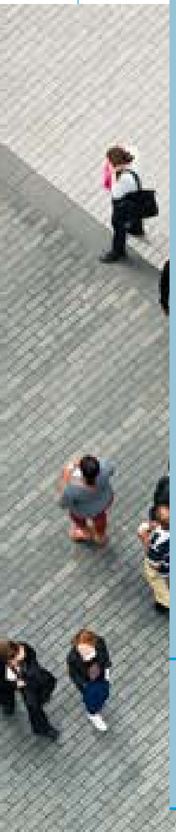
Main messages



Activity

- **The national accounts base year was changed to 2021, resulting in upward revisions of real growth in 2022 and 2023, bringing accumulated GDP growth since Q4 2019 to 6,8%, 4 tenths more than in the previous series.** In 2024, there were slight adjustments, but they had no impact in our forecasts. Indicators for Q3 are giving mixed signals, with the main synthetic indicators suggesting an acceleration in activity in September. We highlight the recovery in the European Commission's economic sentiment indicator, which rose to 104 points in September, 2,9 points more than in August, and the improvement in consumer sentiment and in the other sectors of activity, with the exception of construction. Despite this more recent signs that activity may have accelerated in September, we continue comfortable with our current scenario: annual GDP growth in 2024 of 1,7% and 2,3% in 2025.
- **In a move contrary to that of the Eurozone and its main countries, inflation in Portugal rose again in September to 2,1% (1,9% in August) and 2,8% in core inflation (2,4% in August).** The dynamics of the core component, traditionally strong this month, exceeded our forecasts with a monthly increase of 1,6% (we forecasted 1,2%). On the other hand, the behaviour of unprocessed food and energy prices was more benign (year-on-year inflation of 0,9% and -3,5% respectively).
- **In the labor market, latest data support our expectation that it will remain a relevant factor supporting activity, but the pace of job creation is seen to moderate.** Employment increased year-on-year for the 41st consecutive month in August and remains near the monthly maximum (recorded in May). The unemployment rate remains considerably below the historical figures, having declined to 6,4% in August (vs 9,3% on average in the months of August of 5 pre-pandemic years).
- **In Q2 2024, the House Price Index recorded a year-on-year change of 7,8%.** On a quarterly basis, the house price index grew by 3,9%, 3,3 p.p. more than in the previous quarter; this was the highest quarterly change in the series. This behaviour was accompanied by a quarter-on-quarter increase in the average price of houses sold. The announcement of Government measures for the sector may have had the effect of repositioning some market players, with an impact on price behaviour. In particular, the exemption from paying IMT for people up to the age of 35 (which only came into force in August) may have influenced the anticipation of other buyers outside this age group. The expectation of monetary easing by the ECB (which was confirmed in June) is also contributing to this performance.
- **Portugal registered a surplus in the current account of 2,5% of GDP in the first seven months of 2024, continuing to support the decline of the external debt.** 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.
- **On an accrual basis, budget balance registered a surplus of 2,5% of GDP in the 2Q 2024.** According to the budget execution in H1 and considering measures that have been announced in the meantime (such as the revision of the personal income tax brackets or the revision of the careers of some public sector professions), we estimate that the budget surplus could reach around 0,6% of GDP in 2024, which, if it were to materialize, would be 0,3 p.p. higher than the Government's and BPI Research's forecasts.

Banking Sector

- **NPLs ratio improved in Q2.** The total NPL ratio fell to 2,6% in Q2 2024, due to an improvement in ratios of credit to consumption and NFC and stabilization of the ratio for housing credit.

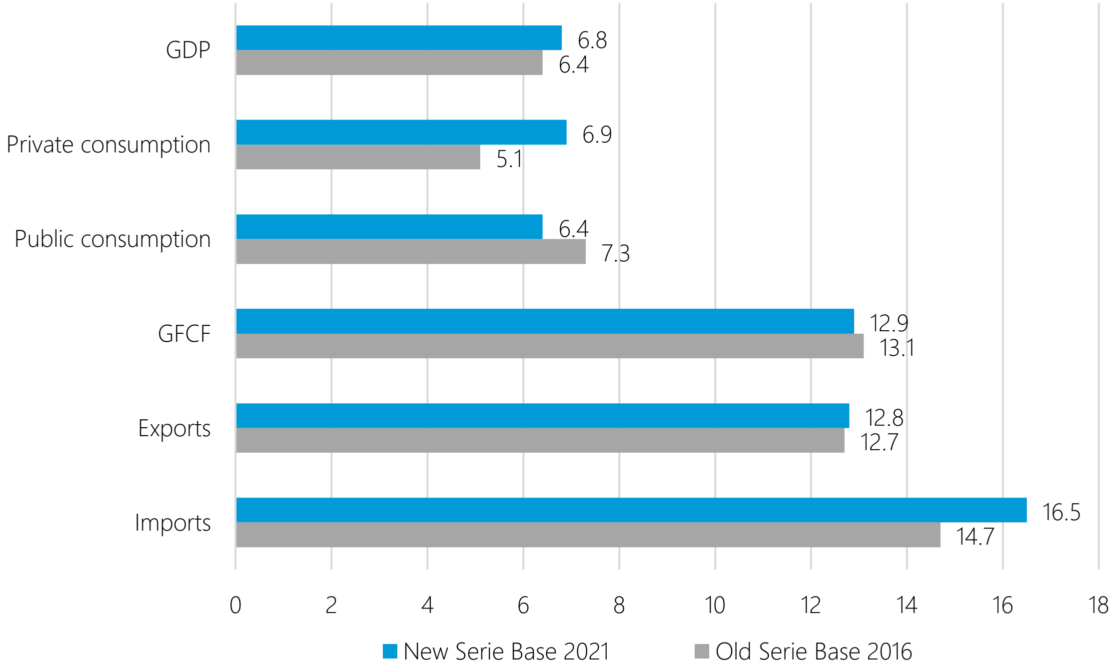
Main economic forecasts

%, yoy	2016	2017	2018	2019	2020	2021	2022	2023	Forecasts 2024	Forecasts 2025
GDP	2.0	3.5	2.8	2.7	-8.3	5.7	6.8	2.3	1.7	2.3
Private Consumption	2.6	2.1	2.6	3.3	-7.0	4.7	5.6	1.6	1.6	1.9
Public Consumption	0.8	0.2	0.6	2.1	0.4	4.5	1.4	1.0	1.0	0.8
Gross Fixed Capital Formation (GFCF)	2.5	11.5	6.2	5.4	-2.2	8.1	3.0	2.6	1.6	5.0
Exports	4.4	8.4	4.1	4.1	-18.8	12.3	17.4	4.1	3.7	4.6
Imports	5.0	8.1	5.0	4.9	-11.8	12.3	11.1	2.2	3.5	4.8
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	-1.1	1.4	1.2	1.4
General Government Balance (% GDP)	-1.9	-3.0	-0.3	0.1	-5.8	-2.9	-0.3	1.2	0.3	0.4
General government debt (% GDP)	131.5	126.1	121.5	116.6	134.9	125.5	112.4	99.1	94.7	90.7
Risk premium (PT-Bund) (average)	307	269	138	100	90	60	100	70	67	73

***Source**: CaixaBank Research.*

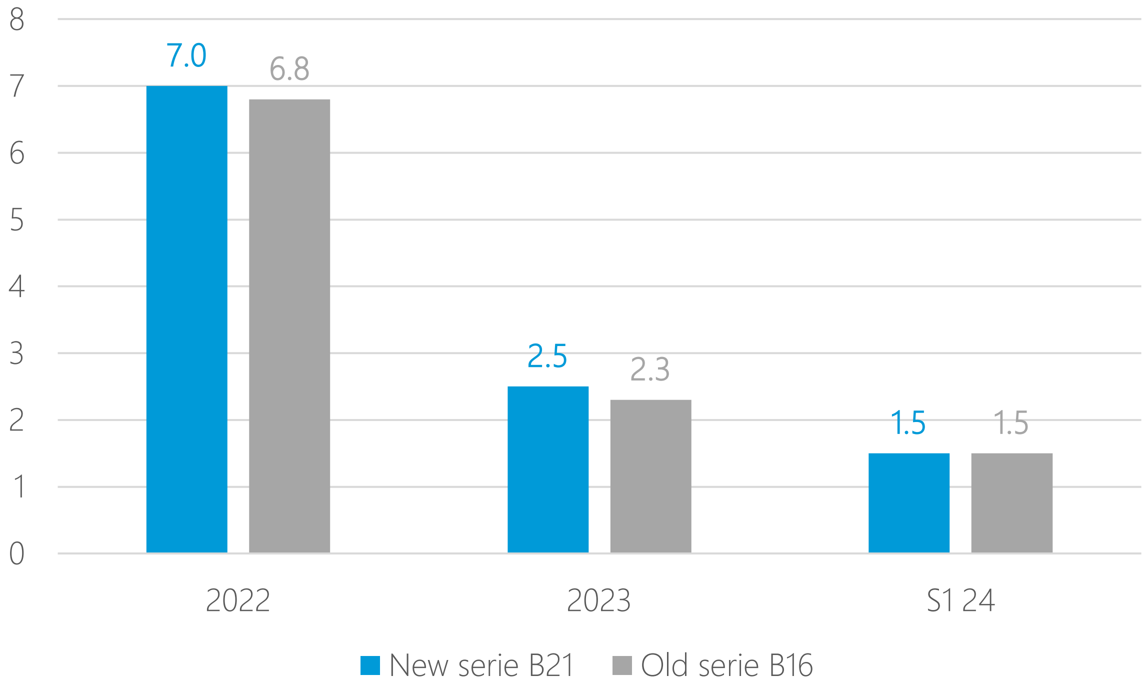
New National Accounts series shows a more resilient economy

GDP and components: year-on-year growth between Q2 24 and Q4 19
(%)



Fonte: CaixaBank Research com base em dados do INE

GDP growth in the new and old series
yoy (%)



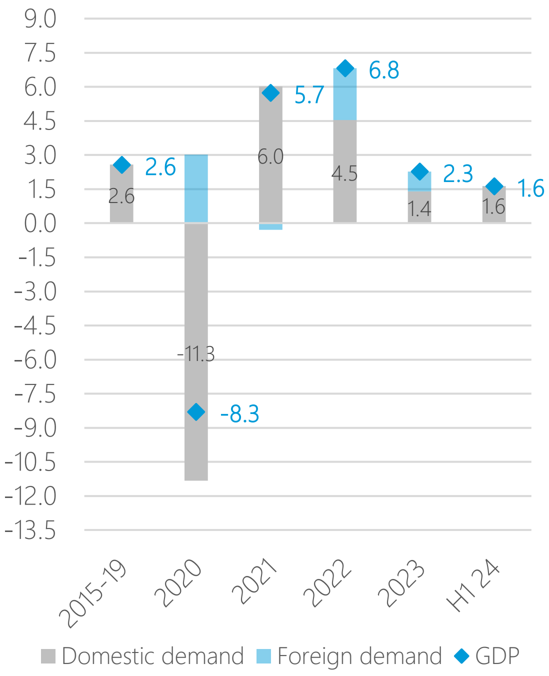
- **Main revisions to real GDP**: Real GDP grew 7% and 2,5% in 2022 and 2023, respectively, but growth in S1 2024 remained at 1,5% y/y.
- **Recovery since the pandemic was stronger than previously reported.** Between Q4 2019 and Q2 2024 economy grew 6,8%, 4 tenths more than in the old series, benefiting from the stronger contribution from domestic demand – 8,2 p.p. in the 2021 base vs. 7,1 p.p. in the 2016 base - was due to the stronger behaviour of private consumption, which grew by 6,9% in the same period. By its side, the contribution from net external demand was more negative than in the previous series, taking 1,4 p.p. off growth between Q2 2024 and Q4 2019, the result of stronger growth in imports over the same period of 16,5% (14,7% on the 2016 base) and only a revision of 1 tenth of the growth in exports (in the previous series the contribution was -0,7 p.p., half than now reported). Even without significant revisions, the expansion of GFCF and exports performance is this period was expressive.

Domestic demand should continue supporting growth

GDP and components: comparison new and old series

%

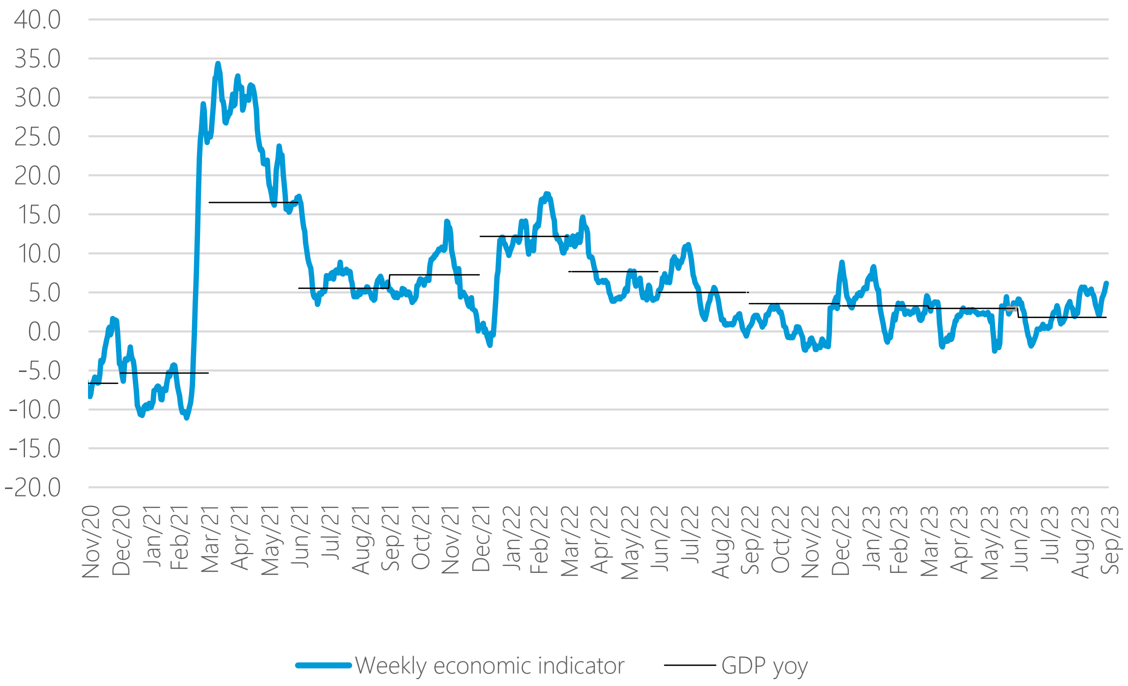
Old series, base 2016



New series, base 2021

Daily activity indicator

yoy weekly moving average (%)



- **There was small adjustments in GDP growth, but the contribution of domestic demand was stronger than previously released, mainly in the most recent years.**
- **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.

Convergence with EMU should continue

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GDP: Other institutions' forecasts

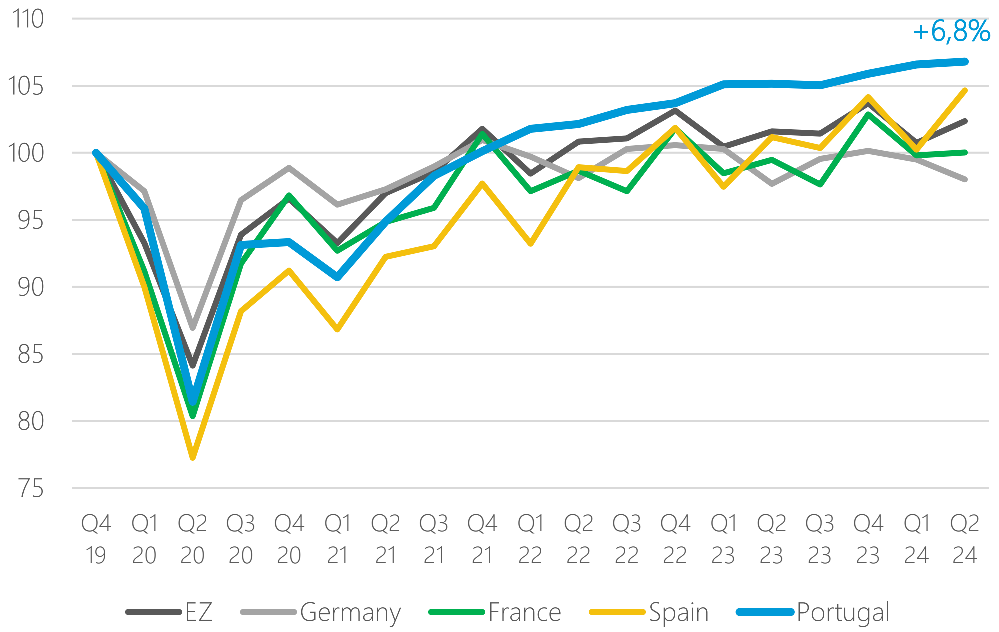
Annual growth

		2024	2025	2026	2027	Cum. 24-26
BPI	**Sep-24**	**1.7**	**2.3**	**2.2**	**2.1**	6.2
IMF	**Oct-24**	1.9	2.3	2.0	1.9	6.3
Focus Economics	**Oct-24**	1.8	1.9	2.0	2.0	5.8
CFP	**Sep-24**	1.8	2.4	2.1	1.6	6.4
EIU	**Aug-24**	1.7	1.9	1.8	1.8	5.5
Bank of Portugal	**Jun-24**	2.0	2.3	2.2	-	6.6
European Commission	**May-24**	1.7	1.9	-		-
OECD	**May-24**	1.6	2.0	-		-
NECEP	**Jul-24**	1.8	1.9	2.0		5.8
Government	**Apr-24**	1.5	1.9	2.0		5.5

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

Portugal compares favourably within EMU

GDP Q4 2019=100



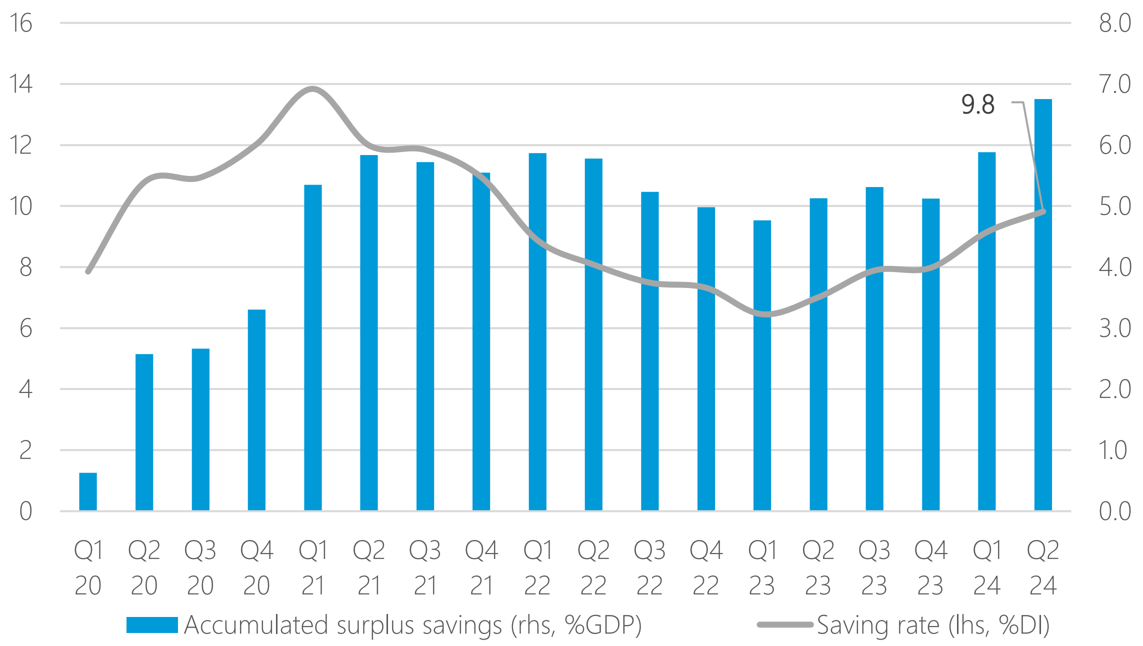
Source: CaixaBank Research, with data from INE and Eurostat.

- The latest forecasts keep pointing in a positive direction for the Portuguese economy, with the IMF rising its growth forecast for 2024 to 1,9% from 1,7%; and for 2025 to 2,3% from 2,1%. 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.

Private consumption is seen to continue to perform favourably

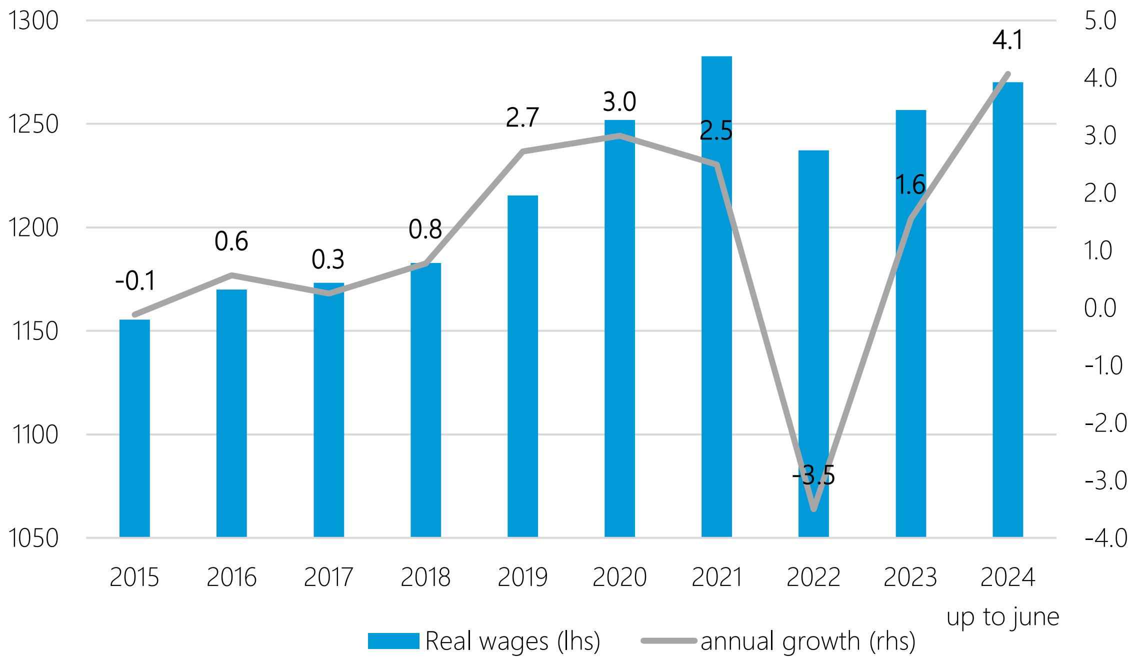
Families' saving rate and excess savings

(% of GDP, DI)



Real wages

euros, %



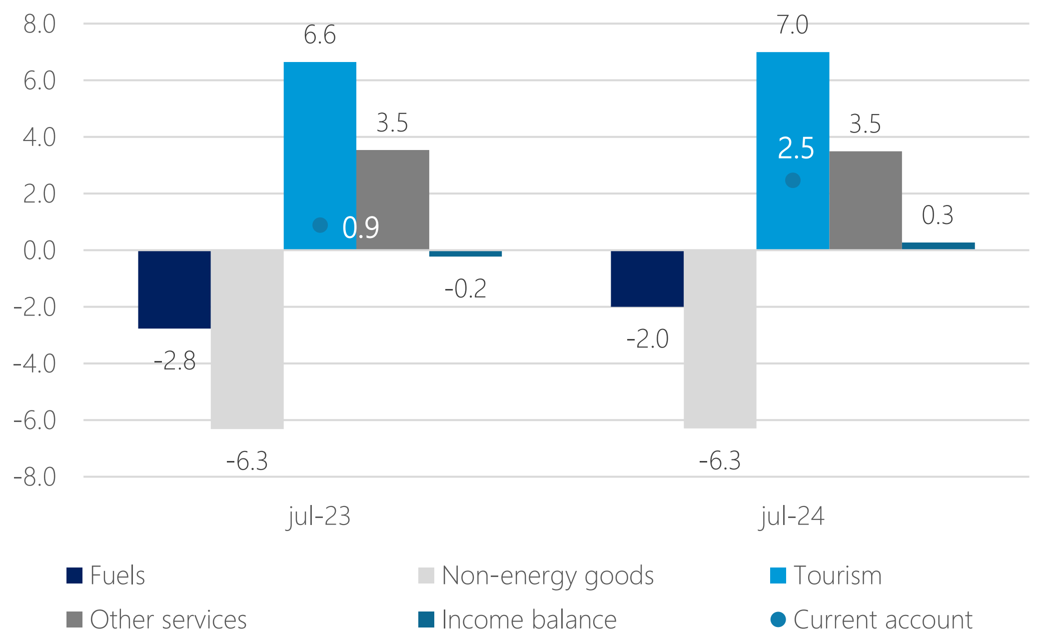
Source: CaixaBank Research, from INE, BoP.

- The household's saving rate rose to 9,8% in Q2 2024, increasing the so-called surplus savings estimated since the pandemic. In addition, we estimate that, in the first eight months of 2024, households repaid around 4,7 billion euros of mortgage credit (EUR 8,3 bln in 2023), potentially freeing up funds for consumption.
- Additionally, strong growth of real wages (4,1% in the 1st half 2024) should be an important support to consumption.

The external surplus will allow the continuing reduction of external debt

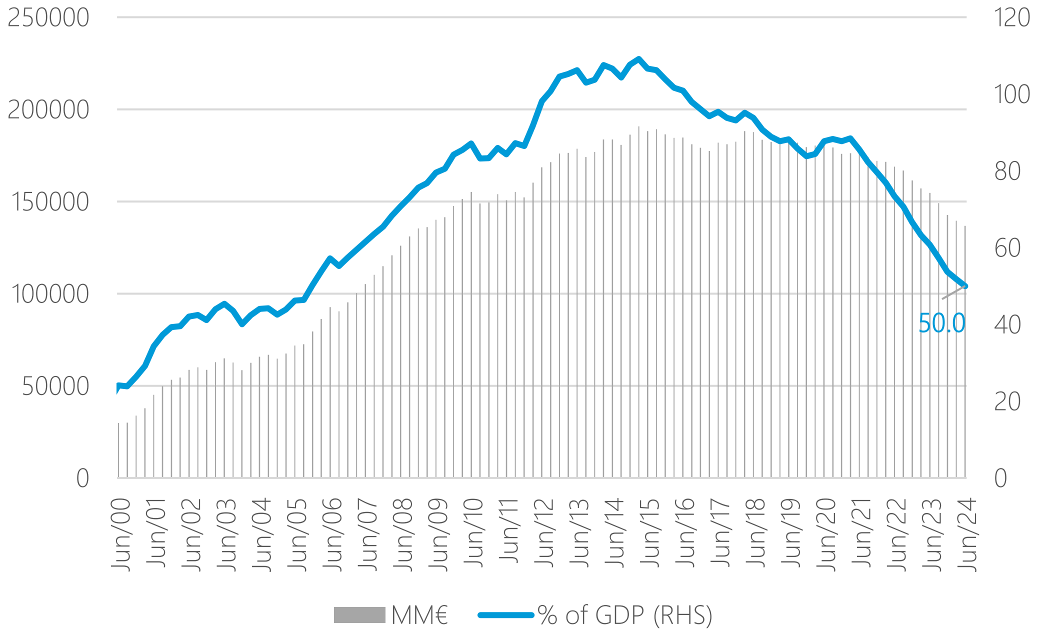
Current account up to July

% of GDP



Net external debt

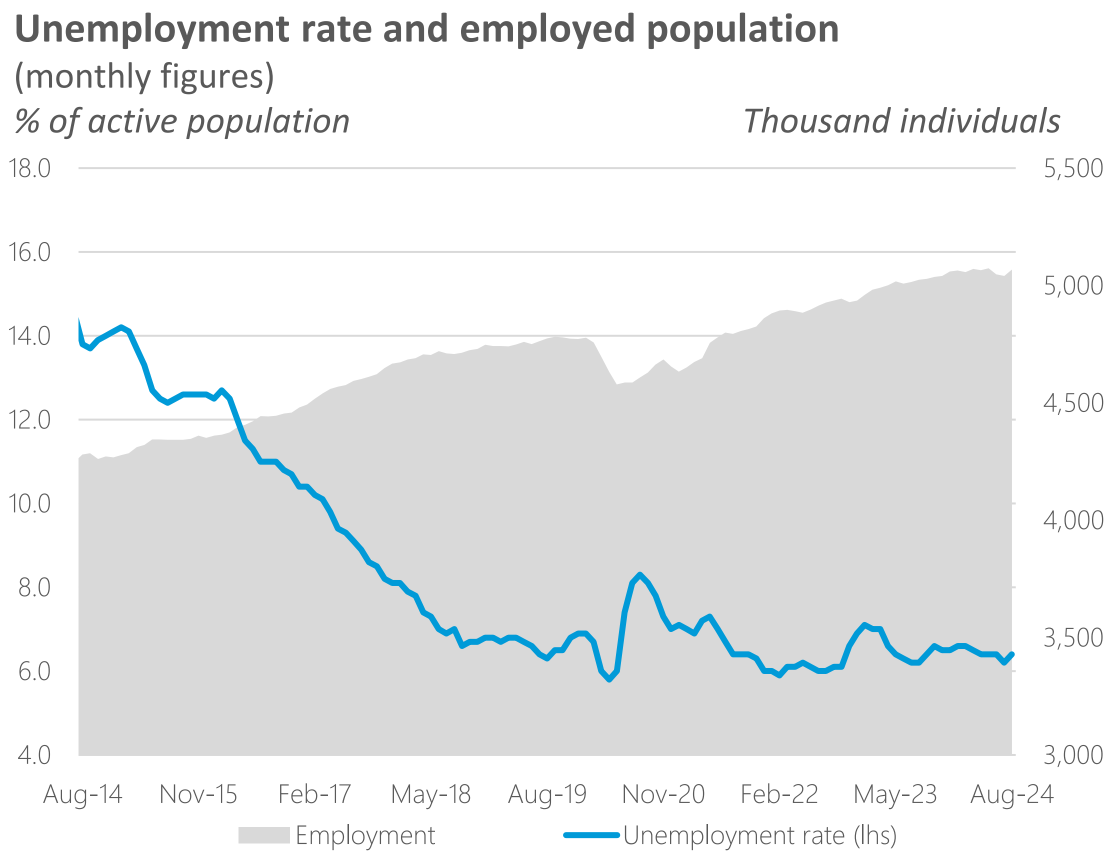
MM € *% of GDP*



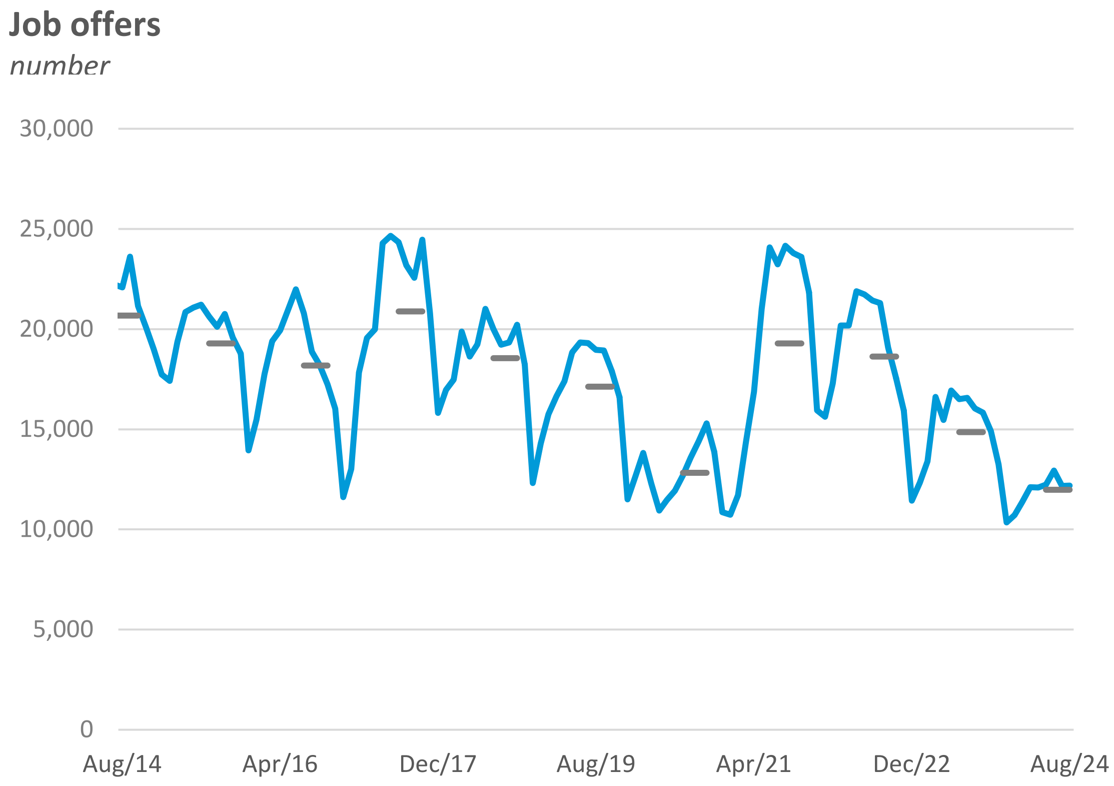
Source: CaixaBank Research, from BoP.

- **The current account started the year with positive recordings, reaching a surplus equivalent to 2,5% of the GDP in the first seven months of the year, an improvement from the homologous period.** This performance mainly reflects the decline of the deficit in the energy balance to 2,0%, from 2,8% 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 reached a plateau



Source: CaixaBank Research, from INE.



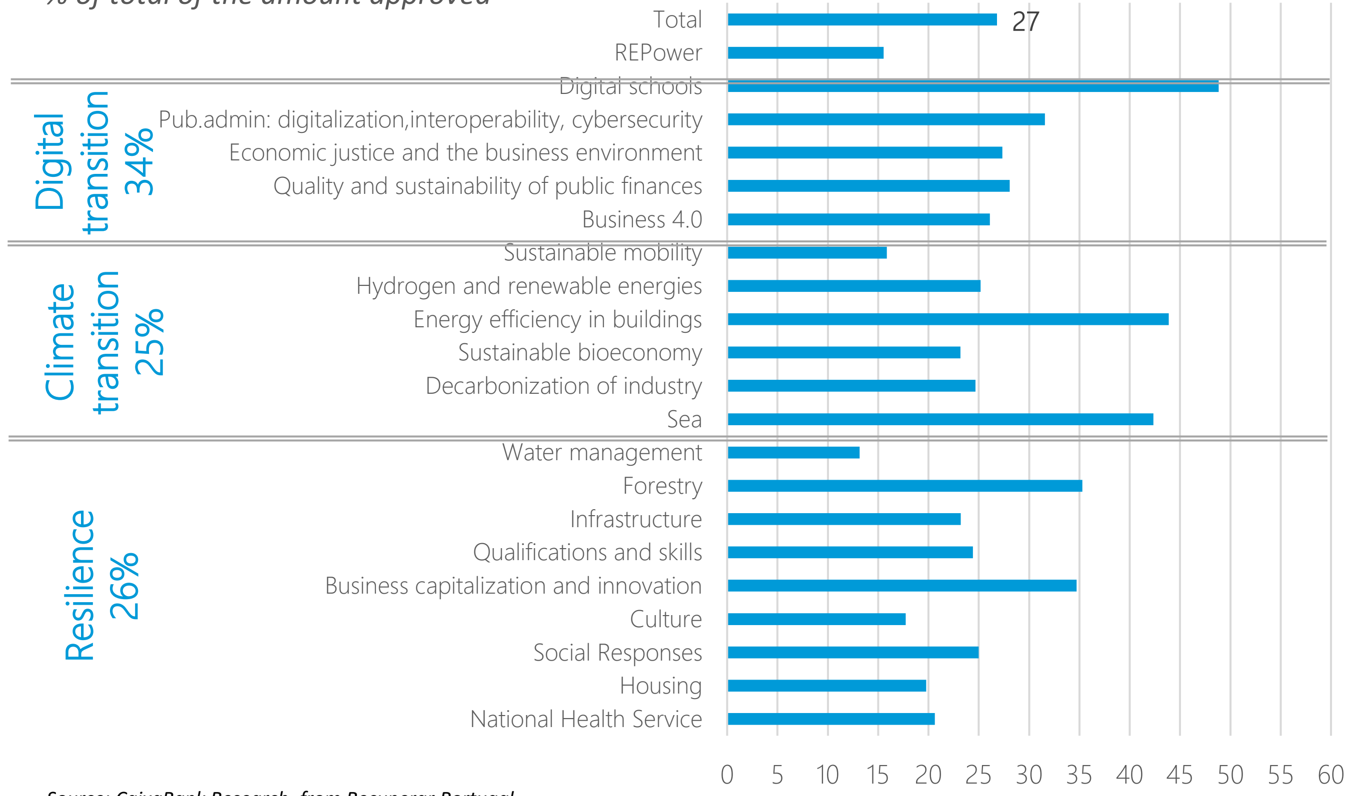
Note: dashes represent the average for each year.
Source: CaixaBank Research, from IEFP.

- **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 41st consecutive month in August and remains near the monthly maximum (recorded in May). The unemployment rate fell to 6,4% in in August (6,5% in July), remaining considerably below the historical figures (in the 5 pre-pandemic months of August, the unemployment rate reached 9,3%).
- **The evolution of the job offers ratio seems to confirm that a plateau was reached**. The number of job offers stood at 12,190 in August, below the 5 pre-pandemic months of August level of around 20.000 and less than the 14.850 job offers registered in 2023, **suggesting that the capacity of the economy to absorb the influx of people into the labor market is decelerating.**

NGEU: payment rate is improving

Payment rate up to August 28th

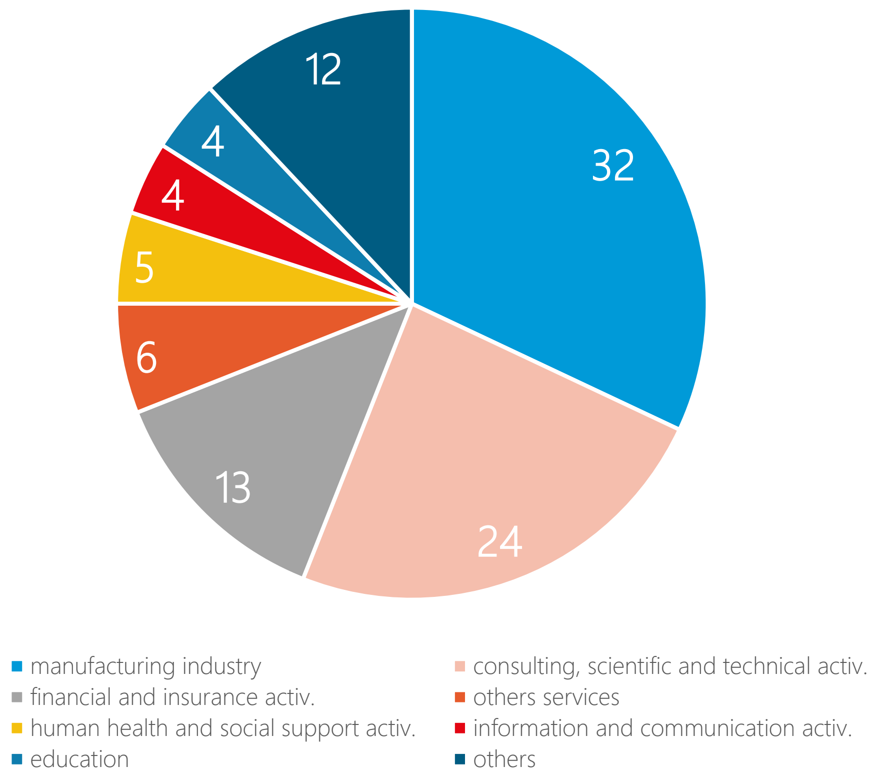
% of total of the amount approved



Source: CaixaBank Research, from Recuperar Portugal.

RRP: breakdown of the amounts approved in the private sector (information up to July)

%

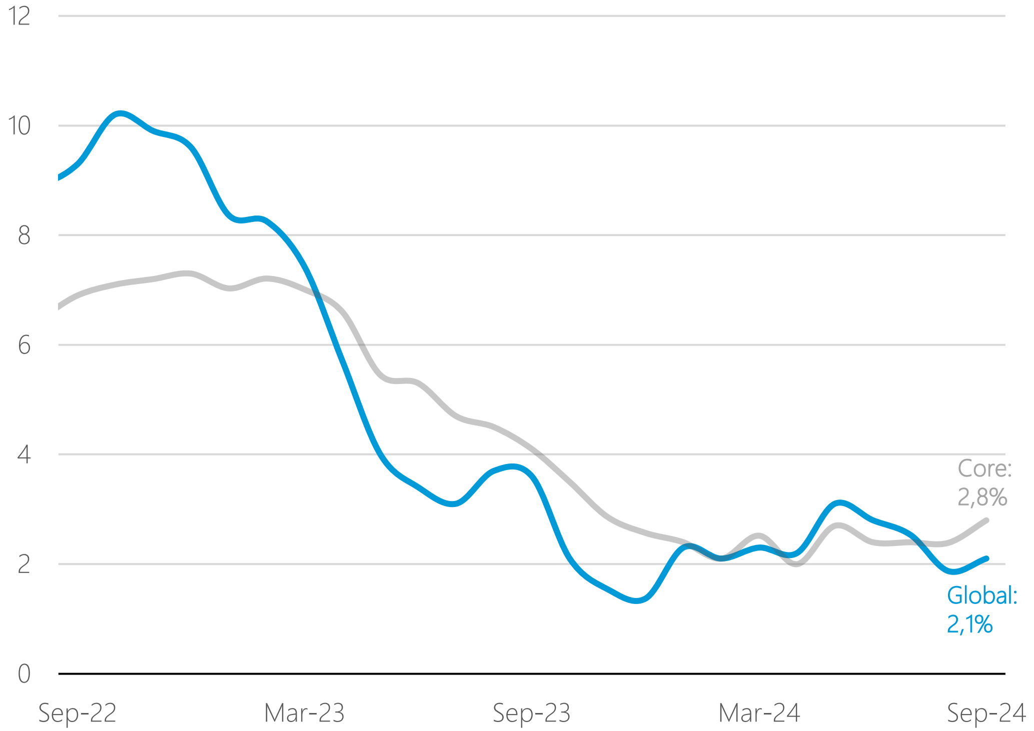


- **Up to now, Portugal received 8,5 billion euros, equivalent to 38% of the total amount of the RRP**.
- **Projects already approved amount to 19 billion euros (87% of the total amount) and payments reached 5 billion,** representing circa 67% of the total amount received. Since the beginning of 2024, 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. According to Bank of Portugal, **more than half of the funds approved went to the public administration, but payments are proceeding faster in the private sector**. The private sector activities with the highest weight are 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%).
- **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 returns to above 2% in September

Portugal CPI: Global & Core

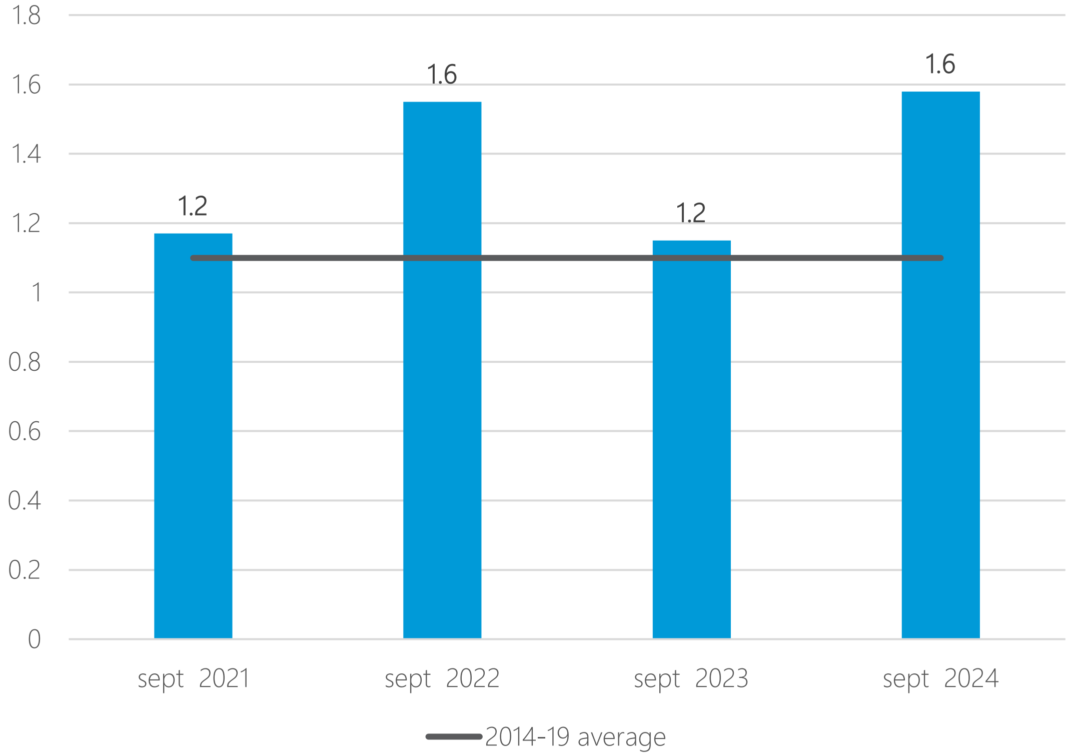
Year-on-year (%)



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

Core inflation

Month-on-month (%)

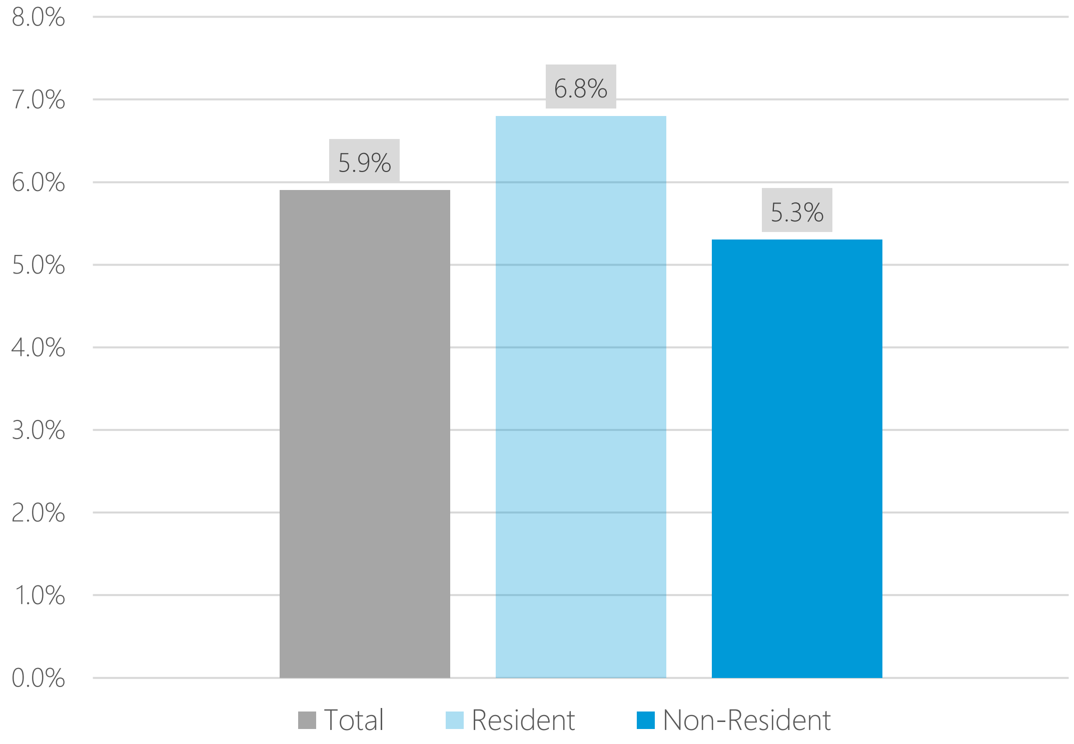


- **Inflation moved back to above 2% in September,** to 2,1%, from 1,9% in August. The main contribute for this behavior came from the core component, increasing to 2,8% after three months of stickiness in 2,4%.
- **Usually, September is a month in which the dynamics of the core component are strong, influenced by the end of the clothing and footwear summer sales.** We don't rule out the possibility that categories such as Education and Healthcare also contributed to this movement, although we won't be able to judge this until the full details of the data are published.

Tourism in August with record numbers of guests and overnight stays

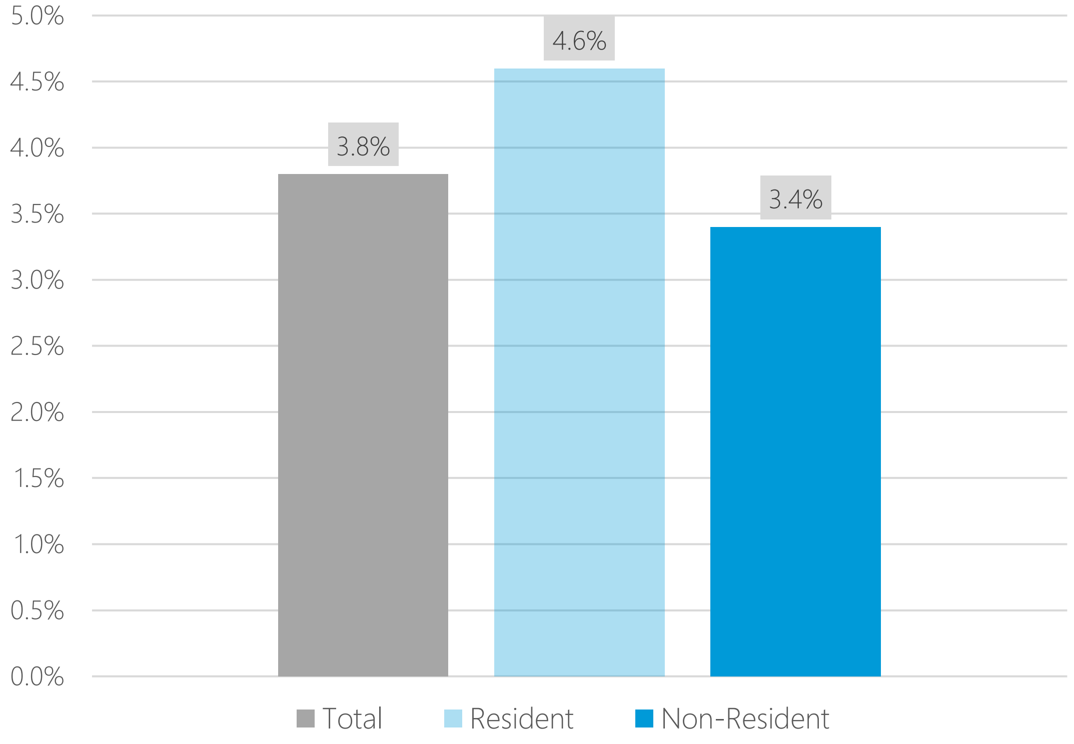
Guests

August 2024 versus August 2023 (%)



Overnight stays

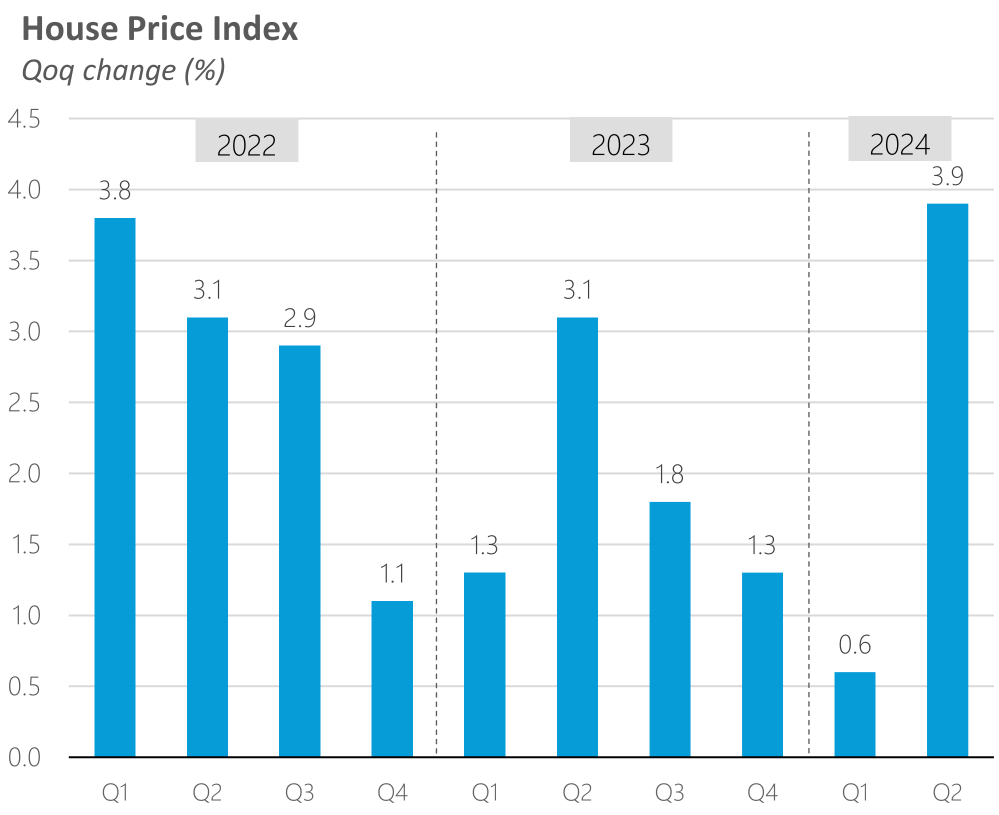
August 2024 versus August 2023 (%)



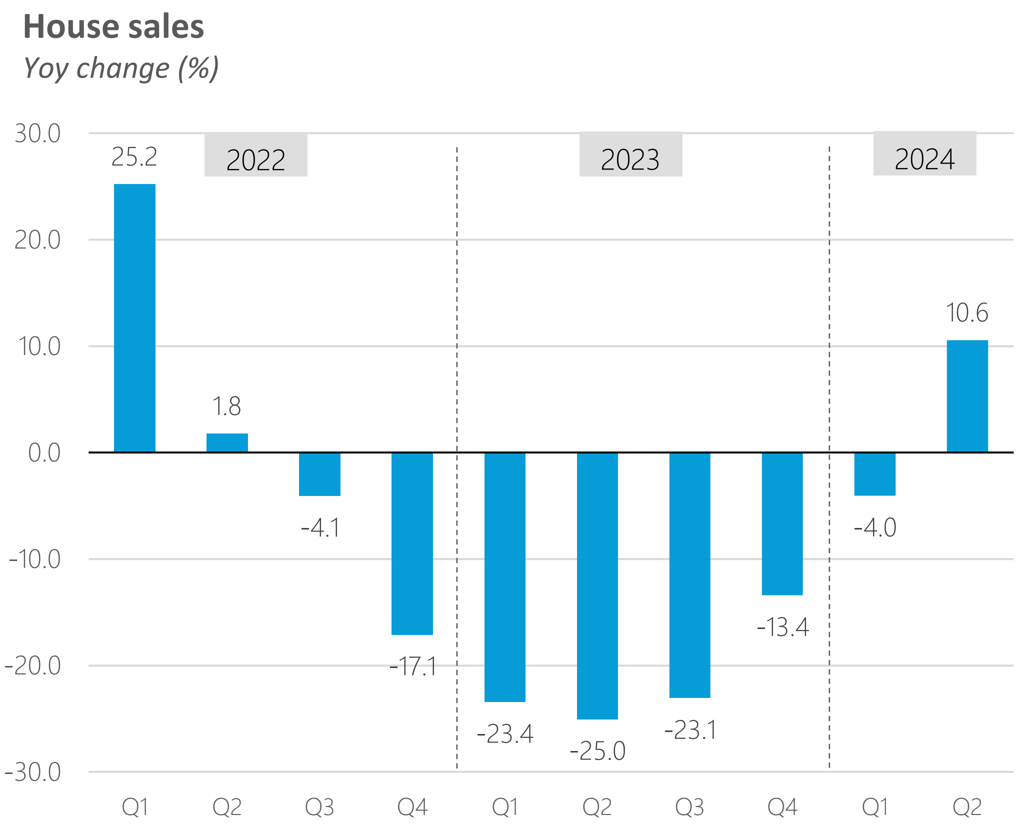
***Source**: CaixaBank Research, using data from INE.*

- **The tourist accommodation sector recorded 3,8 million guests and 10,5 million overnight stays in August 2024.** This corresponds to year-on-year variations of +5,9% and +3,8% respectively (+1,7% and +2,6% in July 2024), thus setting series highs (the previous highs were set in the same month last year).
- **In August, the average stay in tourist accommodation establishments (2,80 nights) fell by 2,0% (+0,9% in July).** The average stay of residents (2,45 nights) fell by 2,1% and that of non-residents (3,03 nights) decreased by 1,8%, and, by region, the biggest decreases were in Madeira (-3,9%), Greater Lisbon (-2,7%) and the Algarve (-2,5%).

House prices surprised on the upside in Q2 2024



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



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

- **In Q2 2024, the House Price Index (HPI) recorded the strongest quarterly rise in the series: 3,9%.** This figure was much higher than the dynamics of previous quarters (+1,3% and +0,6% in Q4 2023 and Q1 2024, respectively), which reflected a slowdown in the market as a result of the monetary tightening process. Given the strength of this data and other complementary information, we have revised our forecasts and now expect house prices to rise by an average of 6,8% in 2024.
- **Sales also recovered after seven quarters of falls (year-on-year).** The announcement of Government measures for the sector may have had the effect of repositioning some market players, with an impact on price behavior.

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

Key items in the public accounts*

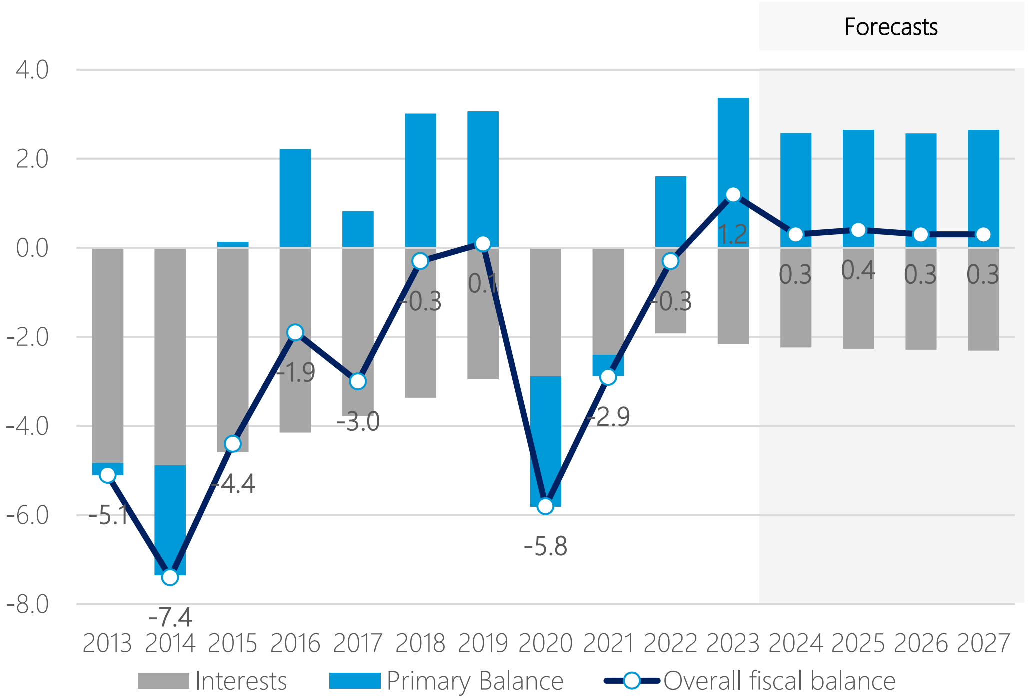
% of GDP

January-August	2019	2021	2022	2023	2024	Change 2024 vs 2019	Change 2024 vs 2023 (million euros)
Revenues	**40.0**	**38.7**	**40.2**	**39.1**	**42.0**	**2.1**	**5,193**
Fiscal revenues	22.9	21.2	23.1	22.1	22.8	-0.1	1,189
Social security contributions	10.2	10.7	10.4	10.6	11.6	1.5	1,836
Expenditure	**39.7**	**43.5**	**38.6**	**37.6**	**41.7**	**2.1**	**7,339**
Staff costs	9.6	10.5	9.5	9.4	10.1	0.4	1,245
Current transfers	17.2	19.5	17.1	16.7	18.9	1.7	3,980
Aquisition of goods & services	5.5	5.8	5.5	5.3	5.9	0.4	1,044
Interests	3.9	3.2	2.5	2.4	2.7	-1.2	437
Investment	1.9	2.4	2.2	2.2	2.2	0.3	104
Primary current expenditure	**10.2**	**10.7**	**10.4**	**10.6**	**11.6**	**1.5**	**1,836**
Budget balance	**0.3**	**-4.8**	**1.6**	**1.5**	**0.3**	**0.0**	**-2,146**

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

Overall fiscal balance in accrual basis

% of GDP

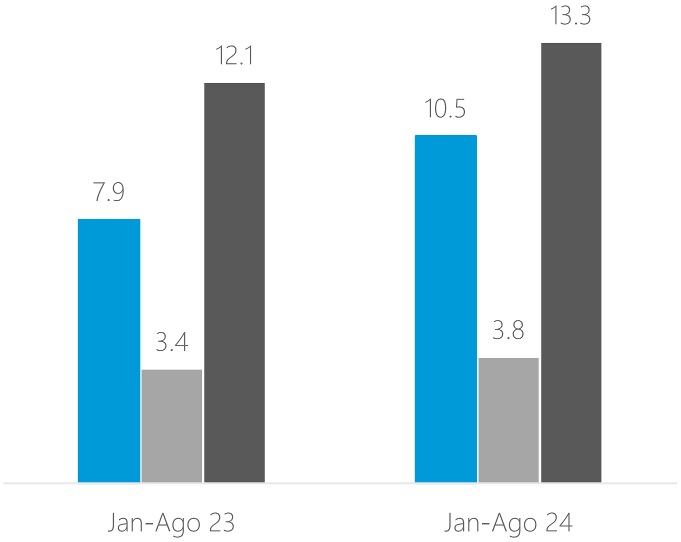


Source: BPI Research, based on INE.

- **On a cash basis, the public sector reached a surplus of 0,3% of GDP in the first eight months of the year,** with revenues advancing 7,5% and expenses 10,9%. Current transfers rose circa 13% yoy, explaining 54% of expenses' growth, reflecting an increase in pension costs, due to the ordinary updating of pensions at the beginning of the year, the increase in the number of pensioners and the incorporation of the extraordinary updating carried out in July 2023. Personnel expenses rose 7,4% yoy, being the second main component explaining expenses performance.
- **On an accrual basis, the budget balance reached a surplus equivalent to 2,5% of GDP in Q2.** According to the budget execution in H1 and considering measures that have been announced in the meantime (such as the revision of the personal income tax brackets or the revision of the careers of some public sector professions), we estimate that the budget surplus could reach around 0,6% of GDP in 2024, which, if it were to materialize, would be 0,3 p.p. higher than the government's and BPI Research's current forecast.

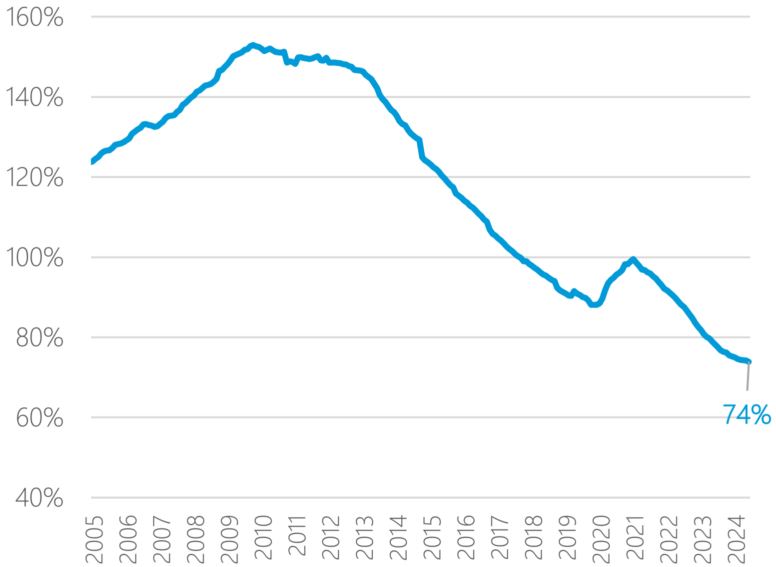
Banking system: deleveraging and high liquidity

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



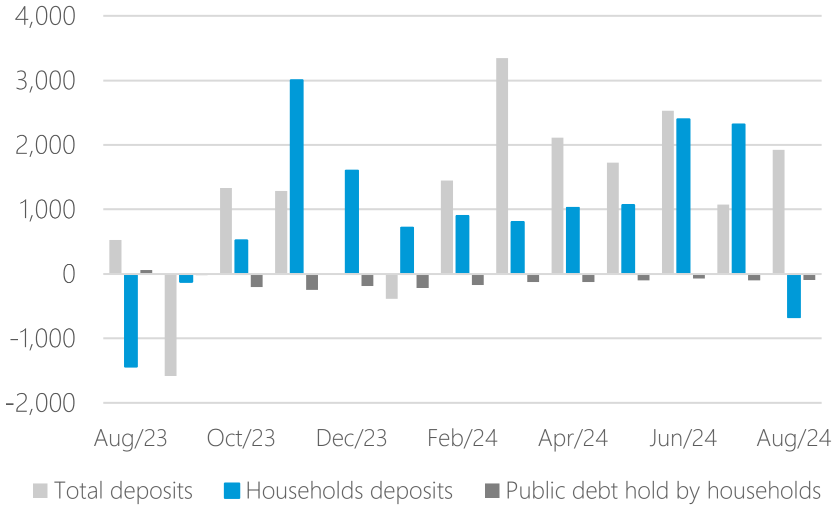
Source: BPI Research, base on data from Bank of Portugal and ECB.

Bank credit to the non-financial private sector
% GDP



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

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

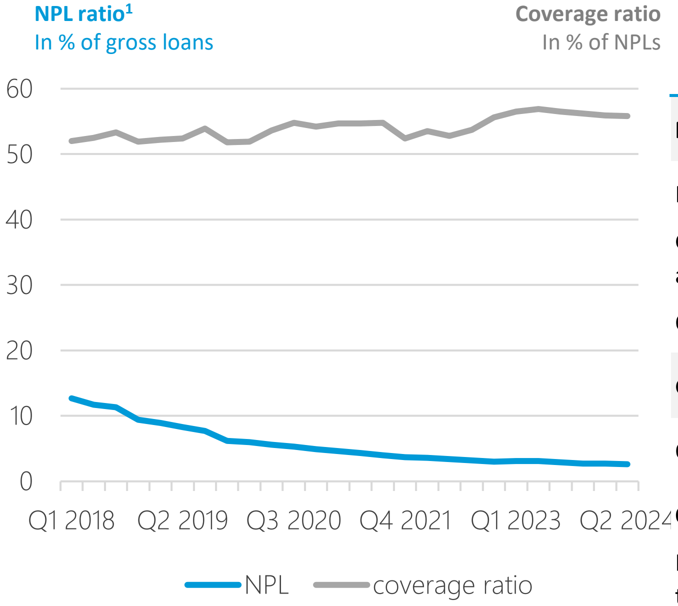


Notes (*): Public debt by households includes Certificados de Aforro and Certificados do Tesouro, which can only be subscribed by resident households. The maximum amount that Government can issue for these retail instruments (CA and CT) is 16.5 bn Eur in 2023.
Source: BPI Research, base on data from Bank of Portugal and IGCP.

- **The stock of credit to companies and households continues to improve:**
  - **Mortgage credit:** the stock rose 0,9% in August and new operations accelerated in the same period by 31,7% (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 August, the stock fell 1,2% and new loans increased by 10% in accumulated terms year to date.
- **Deposits of the private sector rose 5,8% in August**. Households' deposits increased 7,8% yoy, as interest rates for new deposits continue slightly higher (2,57% in August) 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[1]
0.5% in Q4 2019
0.1% in Q2 2024

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

Banks' profitability

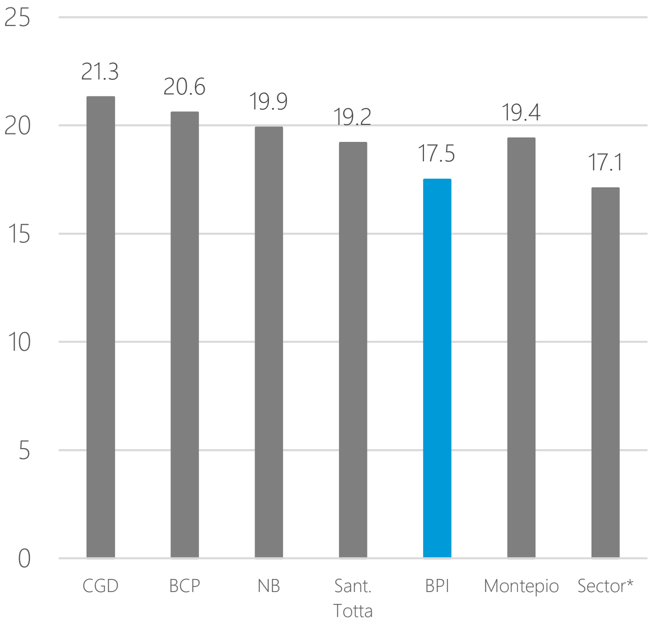
In % of average total assets (S1 2024; trailing 12M)

	BPI	BCP	San Totta	CGD	NB	Montepio
Net interest income	**2.5%**	**2.1%**	**3.1%**	**2.7%**	**2.7%**	**2.2%**
Net fees	0.9%	0.9%	0.8%	0.5%	0.7%	0.7%
Gains on financial assets	0.1%	0.0%	0.0%	-	0.0%	0.0%
Other net profits	-0.1%	-0.1%	0.0%	-	-0.2%	-0.1%
Gross income	**3.4%**	**3.0%**	**4.0%**	-	**3.2%**	**2.9%**
Operating expenses	-1.4%	-1.0%	-0.9%	-0.9%	-1.1%	-1.5%
Operational result	**2.0%**	**2.0%**	**3.0%**	-	**2.1%**	**1.4%**
Impairement losses, taxes and others	0.0%	-0.3%	-0.1%	-	-0.4%	-0.1%
Profit	**1.4%**	**1.3%**	**2.0%**	**1.8%**	**1.7%**	**0.8%**
ROTE[1]	19.0%	15.4%	25.3%	-	17.4%	nd

Notes: 1) BPI: Recurrent ROTE 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 improved in Q2.** The total NPL ratio fell to 2,6% in Q2 2024, due to an improvement in ratios of credit to consumption and NFC and stabilization of the ratio for housing credit. 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 16,3% in Q2 (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.**