PORTUGAL

Economic resiliency and deleveraging at a strong pace

Index

Executive Summary

- Albeit the global slowdown, the **Portuguese economy is growing** above most European peers
- **Exports and investment are the current engines of growth**, supported by a **diversified structure of the economy** and a **buoyant tourism sector**
- Travel and tourism exports fuel the services surplus, which together with a lowering goods deficit result in a **growing current and capital account surplus**
- **Public accounts are in surplus in 2023**, benefitting from economic outperformance, with tax revenues growing considerably and accommodating the adoption of policy measures to combat the rising cost of living
- **Strong primary balances**, above interest expenses, combined with economic growth have resulted in a **sharp decline of the public debt ratio**, as part of a process of **deleveraging in the entire Economy**
- **Banking sector profitability** increased considerably, with **improvement in asset quality** and rise of net interest margins
- **Prudent public debt management** has kept risks at bay, with a lower refinancing risk and a safe weighted average maturity
- **Retail savings certificates demand surged in 2023**, which made PGB net issuance to institutional investors negative in a context of end of reinvestments from the Eurosystem
- **Net issuance of PGB increases in 2024** as retail issuance revert to trend

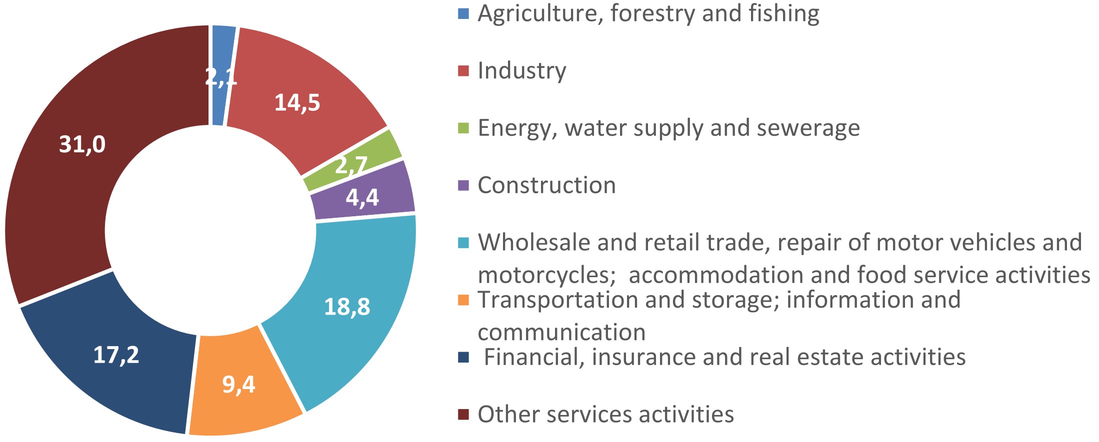
Portuguese economy snapshot

	2023 (P)
Area (sq. km ‘000)	92,2
Resident population (number, 2022)	10 467 366
GDP real growth rate (%)	2,1%
GDP per capita (€, 2022)	23.531
Savings rate (GDI %)	6,4%
Unemployment rate (%)	6,5%
General Government balance (GDP %)	1,1%
Public Debt (GDP %)	101,4%
Current and Capital account (GDP %)	3,0%
Inflation (HIPC, annual average)	5,3%

Open and diversified Economy within Euro Area

- Strong growth fundamentals and diversified economic activity

GVA decomposition by sector of activity, 2022, current prices, % of total



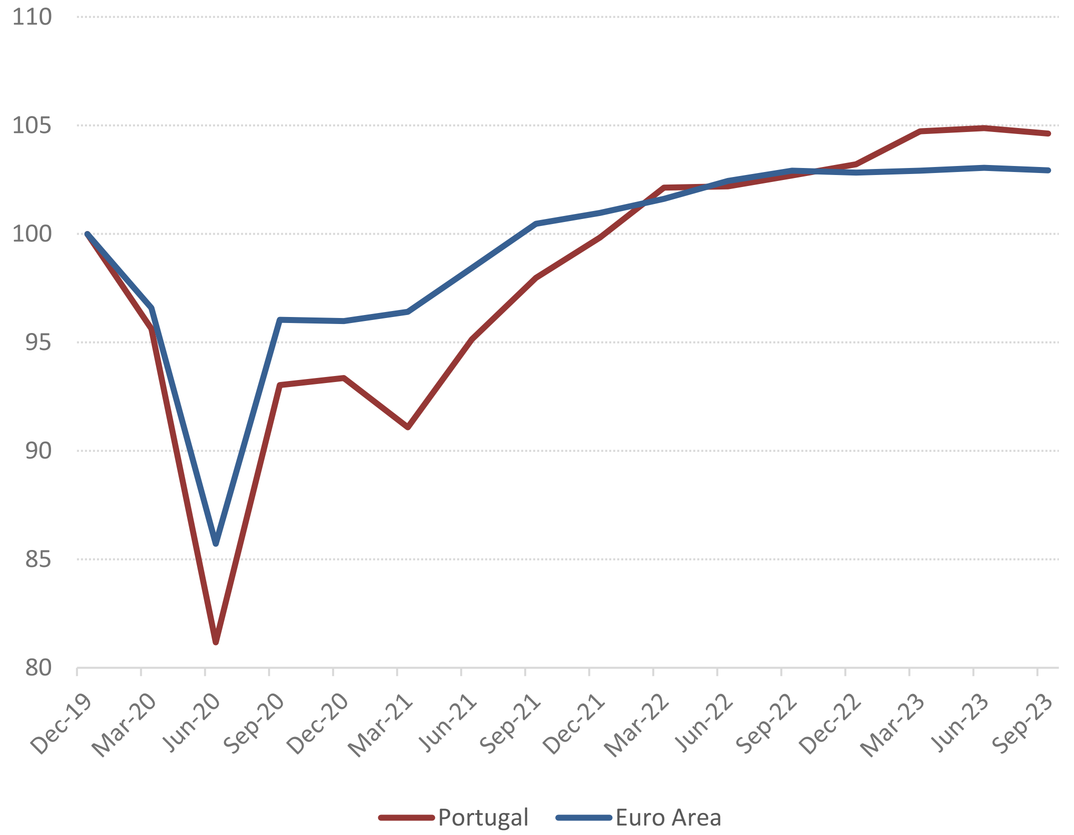
- Robust and diversified exports (both in terms of sectors and markets; accounting for over 50% of GDP)
- Solid labor market - low unemployment and high level of employment
- Strong institutions and governance
- One of the safer countries in the World
- Ratings: Moody’s (A3|Stable), S&P (BBB+|Pos), Fitch (A-|Stable), DBRS (A|stable)
- One of first countries to announce the commitment to be carbon neutral by 2050 (at the COP in 2016), with a plan to reduce 55% of GHG emissions by 2030 (vs 2005) and for renewables to cover 80% of energy production by 2026

Source(s): Statistics Portugal and Banco de Portugal (projections for 2023 – *Economic Bulletin Dec-23*)

Portugal's GDP among the EA's economies with a higher YoY growth in 2023Q3

Portugal's GDP in 2023Q3 is 4.6% higher than pre-pandemic, while EA's is 2.9% above

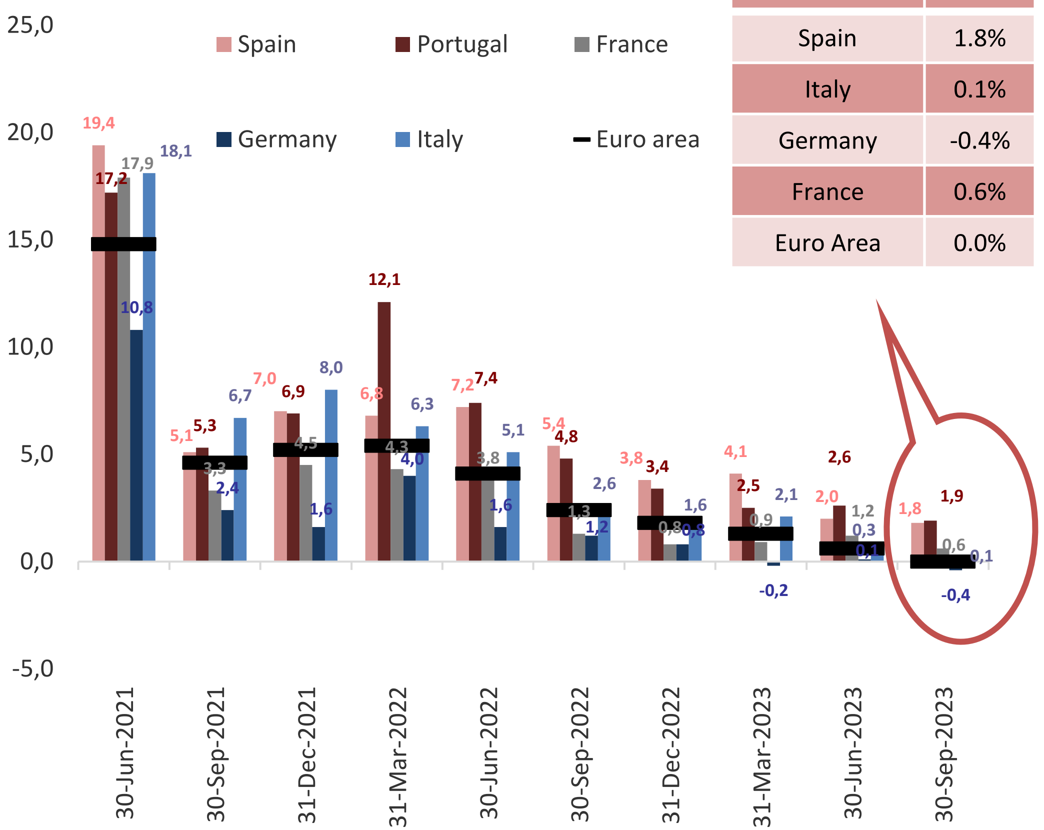
[GDP (quarterly data), Chain linked volumes, index 2019Q4=100]



After slowing down in 2023Q2, Portugal's GDP registered a -0.2% rate of change QoQ and 1.9% YoY in Q3

[Year-on-Year Change Rate, %]

Portugal	1.9%
Spain	1.8%
Italy	0.1%
Germany	-0.4%
France	0.6%
Euro Area	0.0%

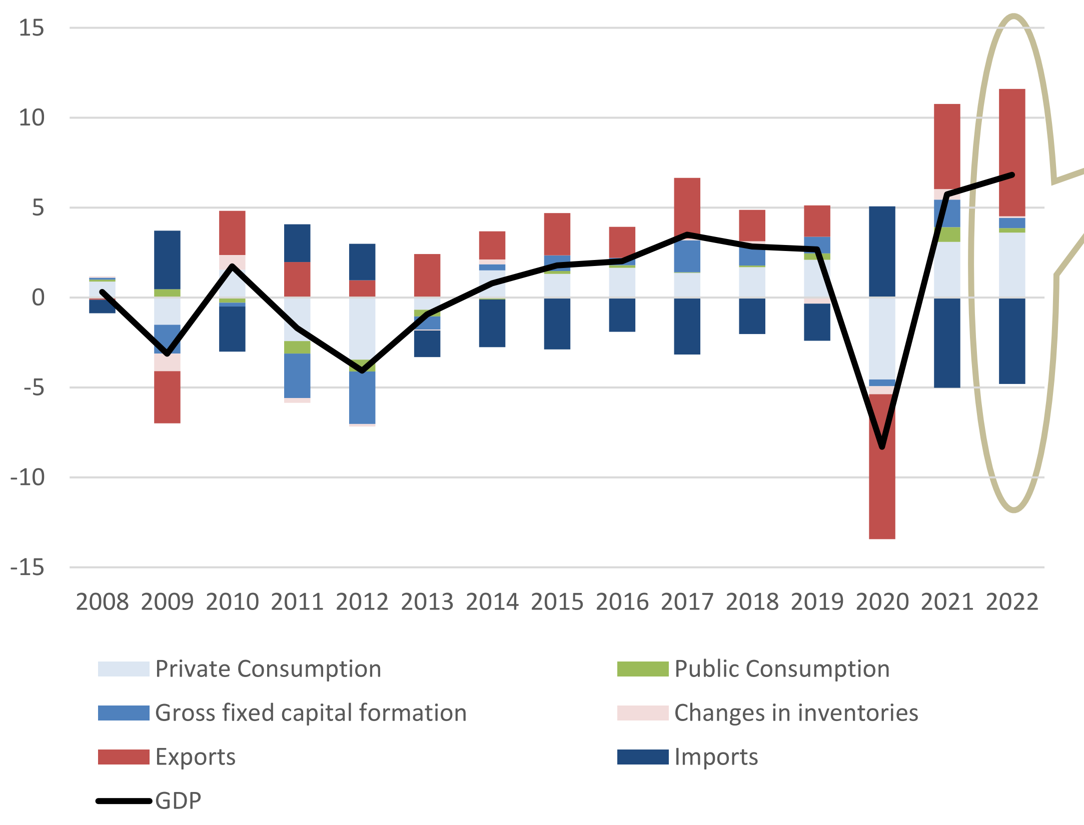


Source(s): Eurostat

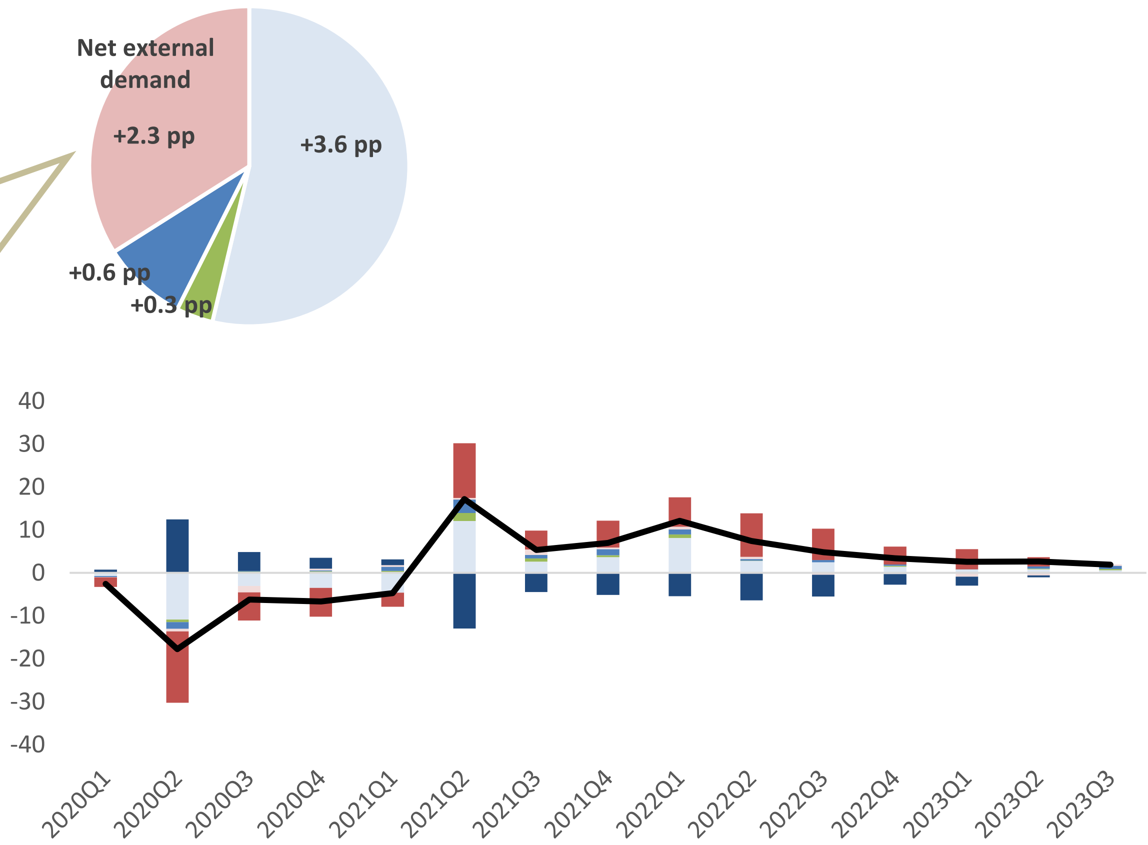
Private consumption and exports have been the main growth drivers

Despite slowing down as the year progressed, private consumption was the main contributor to GDP growth in 2022

[Real GDP (annual and quarterly) , YoY growth (%) and contributions (pp)]



[GDP 2022, contributions pp]

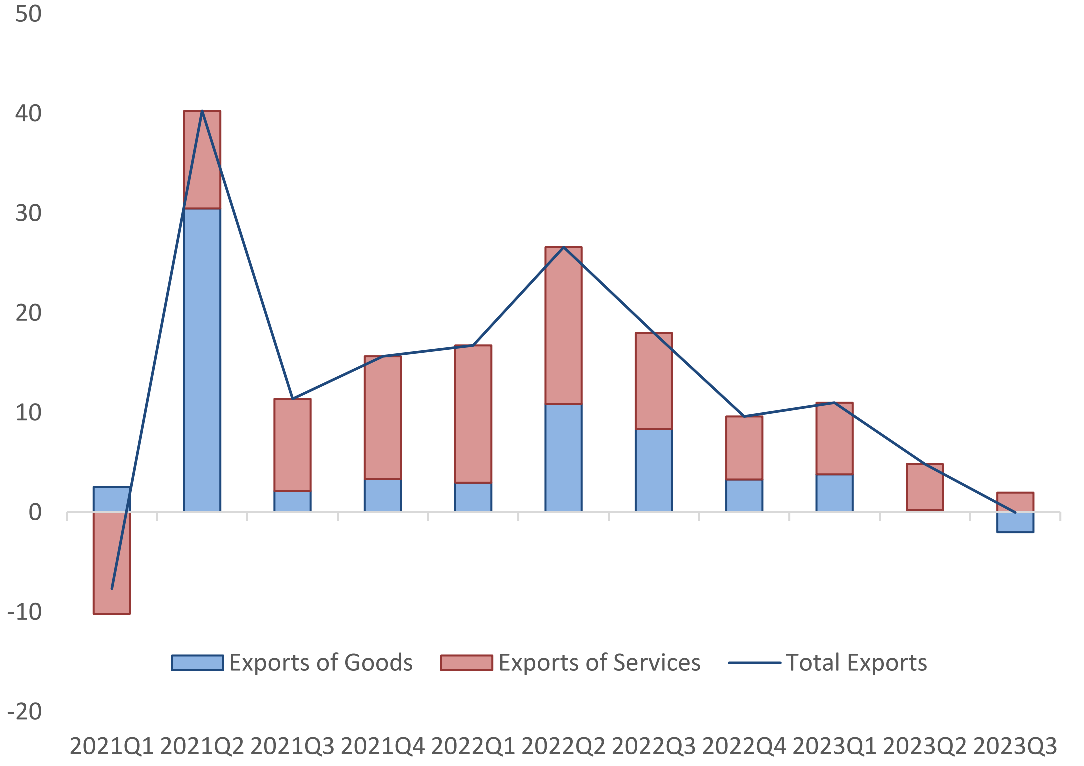


Source(s): Statistics Portugal.

Exports growth moderated and investment showed resilience

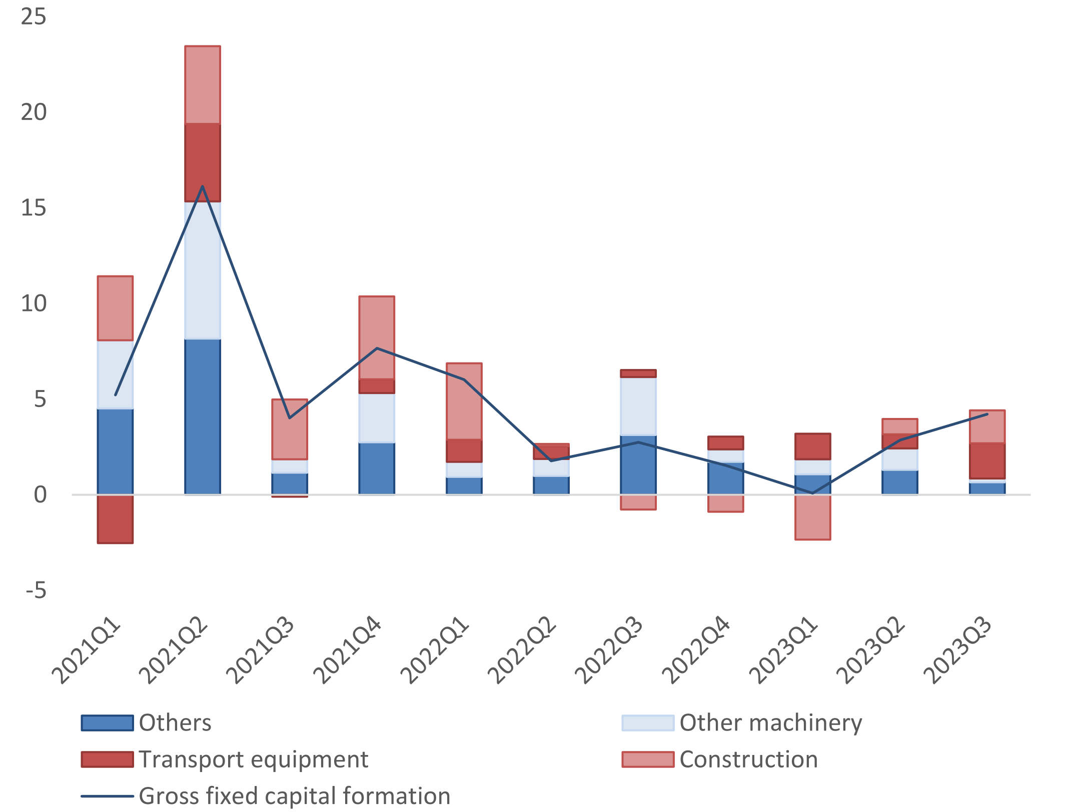
Exports continued to show signs of slowing down

[Exports, yoy growth (%) and contribution (p.p.)]



Albeit at a modest pace, investment keeps growing

[Gross fixed capital formation, yoy growth (%) and contributions (p.p.)]

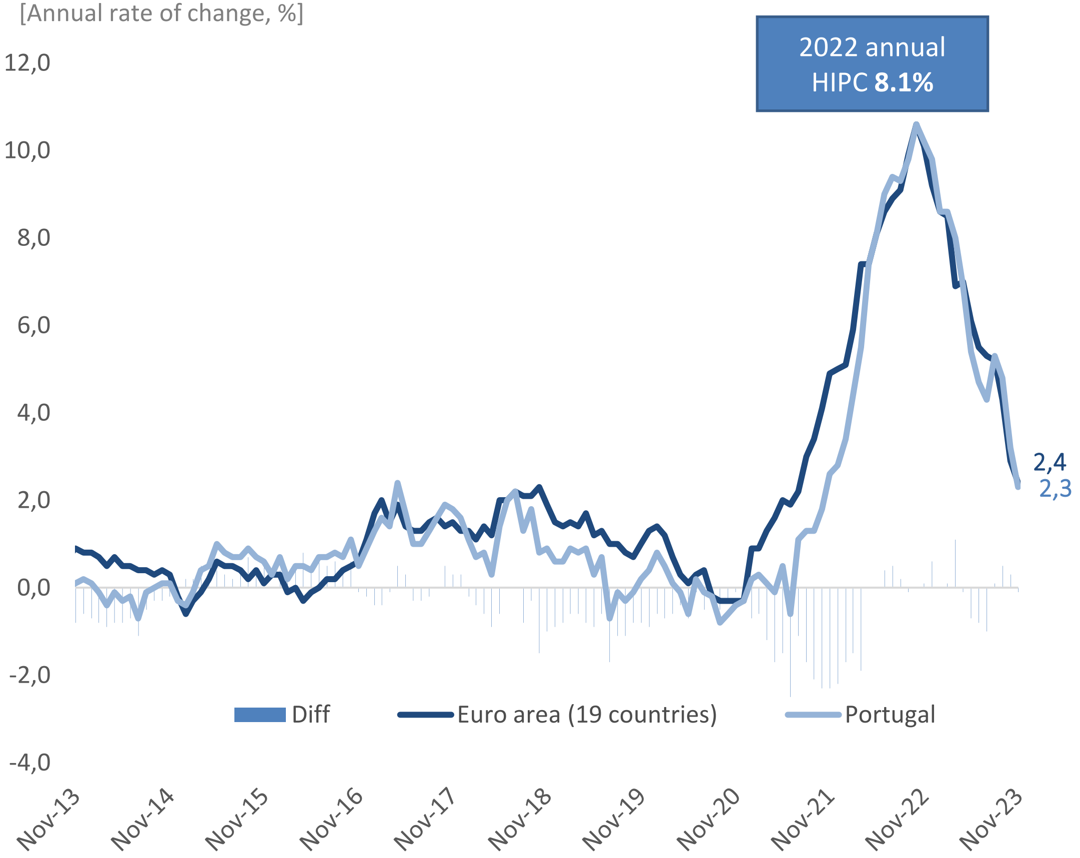


Source(s): Statistics Portugal

Inflation in Portugal has tracked the EA, decreasing to 2.3% in November 2023

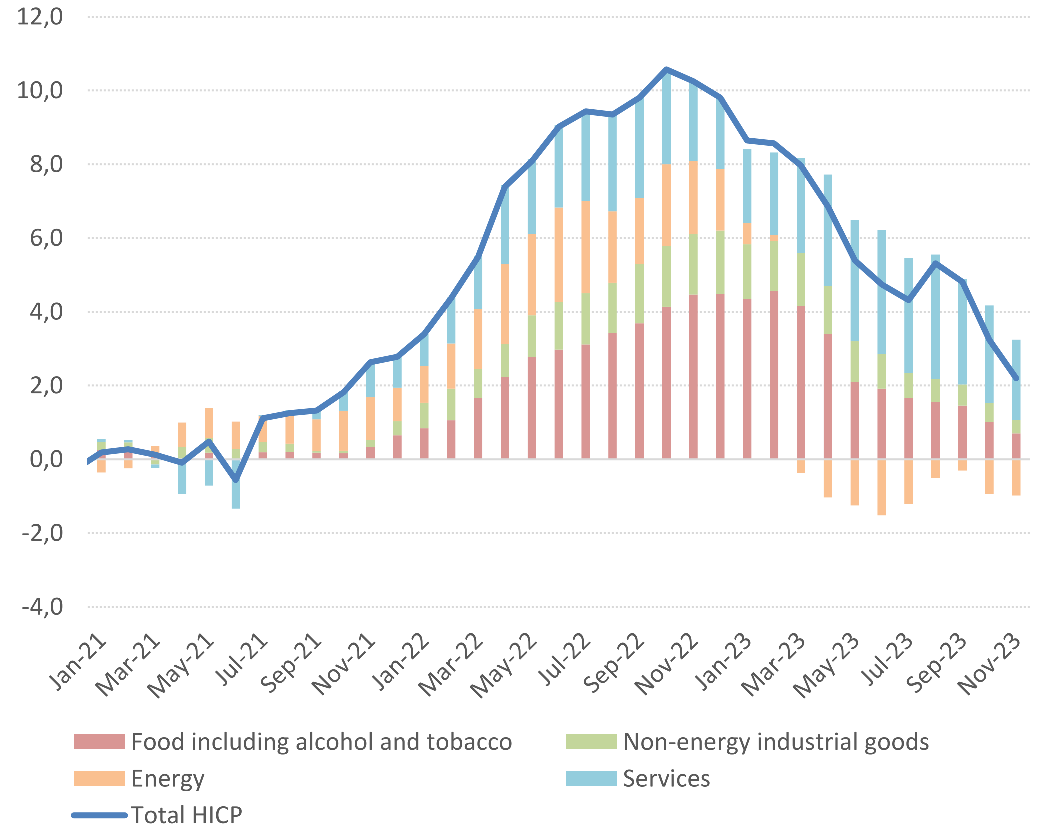
Headline inflation (HICP, monthly data)

[Annual rate of change, %]



Food and services prices continue to push up HIPC while energy prices continue to pull it down

[Contribution to HICP growth, pp]



Source(s): Statistics Portugal

Recent projections point to a slowdown in 2023 and 2024

Economic slowdown expected to persist, but projections for 2025 have GDP growth gradually recovering with inflation moderating

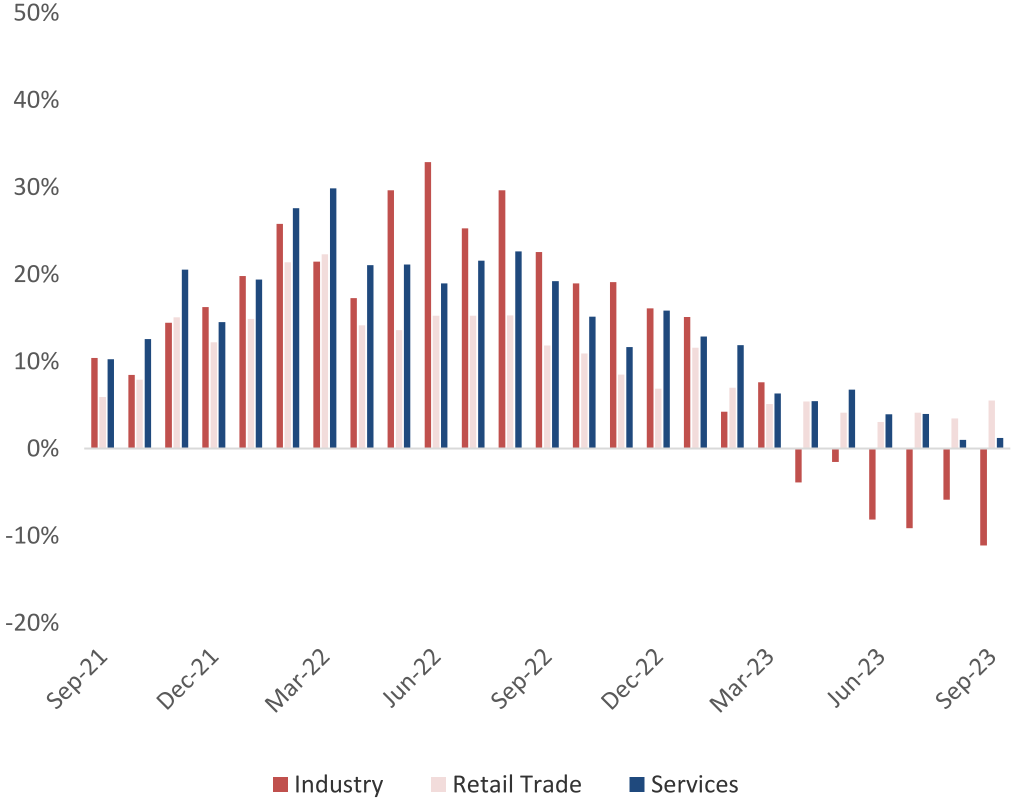
Macroeconomic projections for Portugal	Statistics Portugal			Ministry of Finance State Budget 2024 *October 2023*		IMF World Economic Outlook *October 2023*			Banco de Portugal *December 2023*			European Commission *November 2023*		
	2020	2021	2022	2023 F	2024 F	2023 F	2024 F	2025 F	2023 F	2024 F	2025 F	2023 F	2024 F	2025 F
Real GDP (yoy %)	**-8.3**	**5.7**	**6.8**	**2.2**	**1.5**	**2.3**	**1.5**	**2.1**	**2,1**	**1,2**	**2,2**	**2.2**	**1.3**	**1.8**
Private Consumption (yoy %)	-6.9	4.7	5.6	1.1	1.1	.	.	.	1,0	1,0	1,7	0.9	1.1	1.7
Public Consumption (yoy %)	0.4	4.5	1.4	2.0	2.3	.	.	.	1,1	1,0	0,9	1.9	2.3	1.7
Gross Fixed Capital Formation (yoy %)	-4.8	10.9	3.5	1.3	4.1	.	.	.	0,9	2,4	5,2	0.9	3.6	3.8
Exports of goods and services (yoy %)	-18.8	12.3	17.4	4.3	2.5	8.0	2.8	2.0	4,3	2,4	4,0	5.3	1.7	2.1
Imports of goods and services (yoy %)	-11.8	12.3	11.1	1.8	3.2	5.2	3.9	2.9	1,3	2,8	4,1	2.5	2.8	2.8
Domestic demand contribution (pp GDP growth)	**-5.3**	**6.0**	**4.6**	**1.0**	**1.8**	.	.	.	0,7	1,4	2,2	1.1	1.8	2.1
Net exports contribution (pp GDP growth)	**-3.1**	**-0.3**	**2.3**	**1.2**	**-0.3**	.	.	.	.	.	.	1.3	-0.5	-0.3
Employment growth (yoy %)	-1.9	2.2	1.7	1.1	0.4	.	.	.	0,8	0,1	0,3	1.0	0.6	0.6
Unemployment rate (% labor force)	**7.0**	**6.6**	**6.0**	**6.7**	**6.7**	**6.6**	**6.5**	**6.3**	**6,5**	**7,1**	**7,3**	**6.5**	**6.5**	**6.4**
Net lending/borrowing of the economy (% GDP)	-0.2	0.6	-0.4	3.8	1.8	.	.	.	.	.	.	.	.	.
Current account balance (% GDP)	-1.0	-0.8	-1.2	**1.4**	**0.1**	1.3	1.1	1.0	.	.	.	1.6	1.1	0.8
GDP deflator (yoy %)	2.0	1.9	5.0	6.9	2.9	3.8	2.7	2.2	.		.	6.8	2.9	2.3
Inflation (HICP. yoy %)	**-0.1**	**0.9**	**8.1**	**5.3**	**3.3**	**5.3**	**3.4**	**2.4**	**5,3**	**2,9**	**2,0**	**5.5**	**3.2**	**2.4**

Source(s): Statistics Portugal; Ministry of Finance (*State Budget 2024, Oct-23*) | IMF (WEO, *October 2023)* | Banco de Portugal (*Economic bulletin*,Dec-23) ; European Commission (*Autumn 2023 Economic Forecast*)

Economic sentiment and activity indicators show timid signs

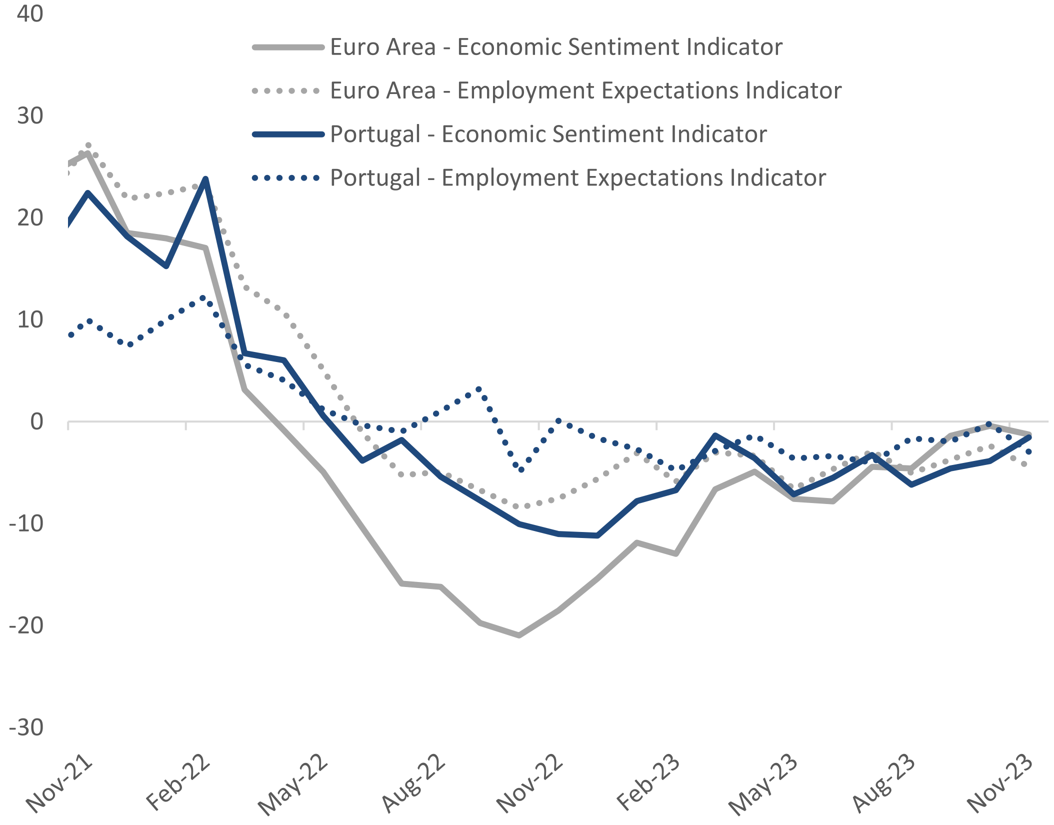
Business turnover indicators point to slower growth, while industrial turnover has become negative

[Business turnover index; year-on-year change (%)]



Economic sentiment show only timid signs of recovery

[Confidence indicators; year-on-year change (%)]

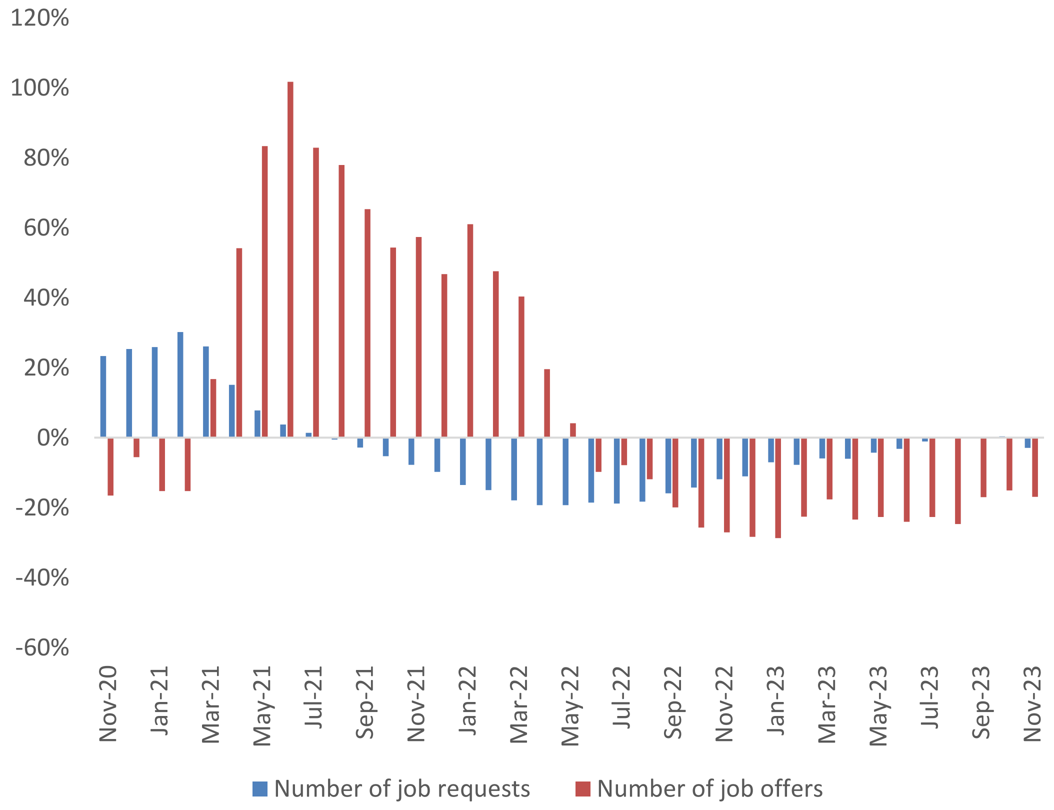


Source(s): Statistics Portugal (LHS); European Comission (RHS)

Strong labour market weathers economic slowdown in 2023

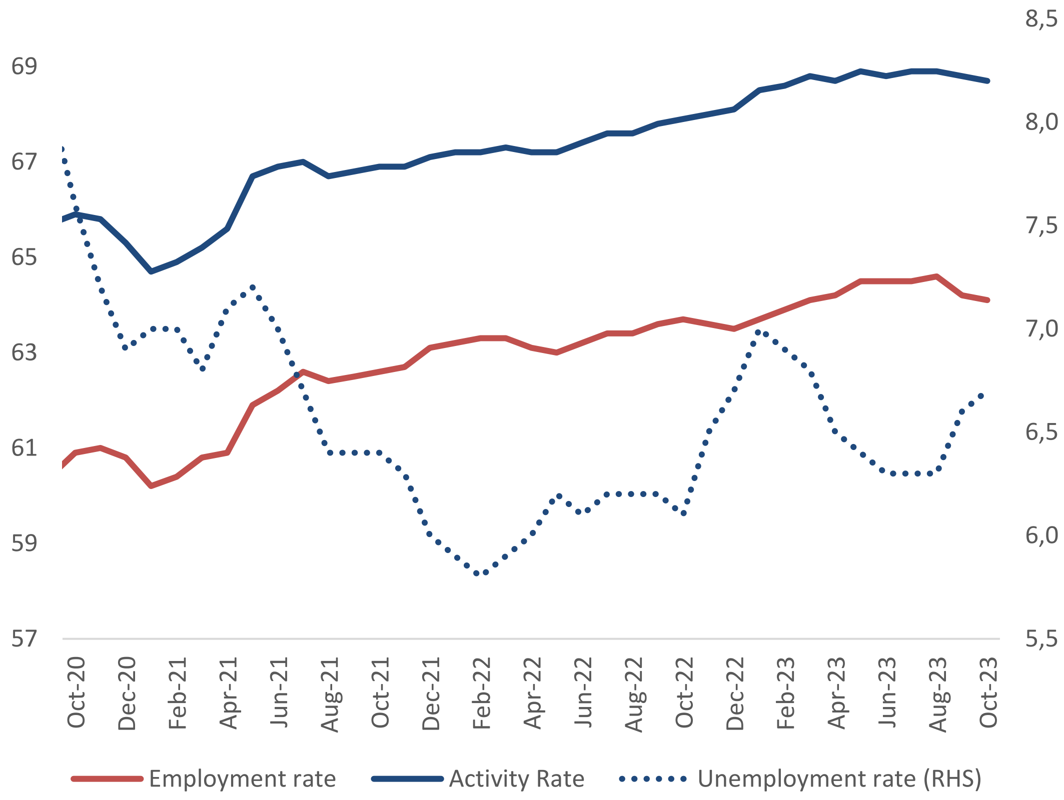
Job offers have been decreasing due to heightened economic uncertainty

[Job offers and job requests; year-on-year change (%)]



Labor market has shown signs of resilience

[Labour market indicators, seasonally adjusted (%)]

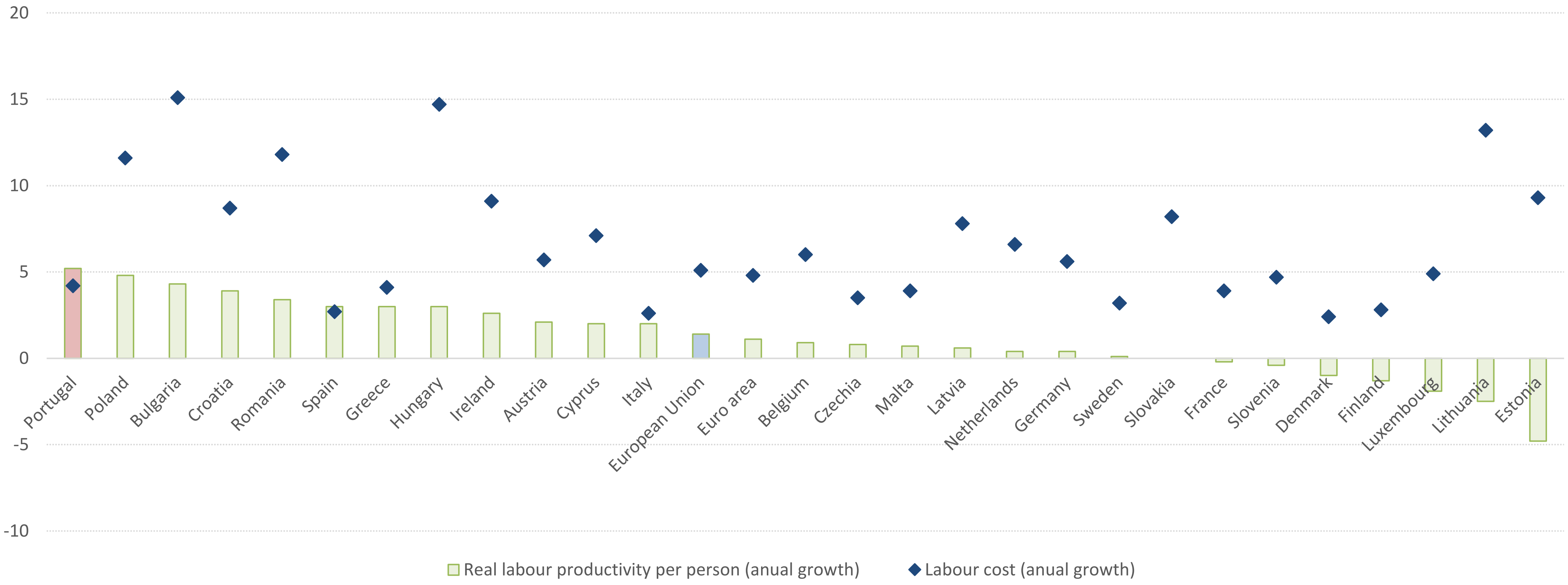


Source(s): IEFP (LHS); Statistics Portugal (RHS).

Real labor productivity growth above labor cost increases

In 2022, productivity growth in Portugal was 1st in the EU, way above the EA

[Growth of real labour productivity and labour costs, 2022 anual growth, %]



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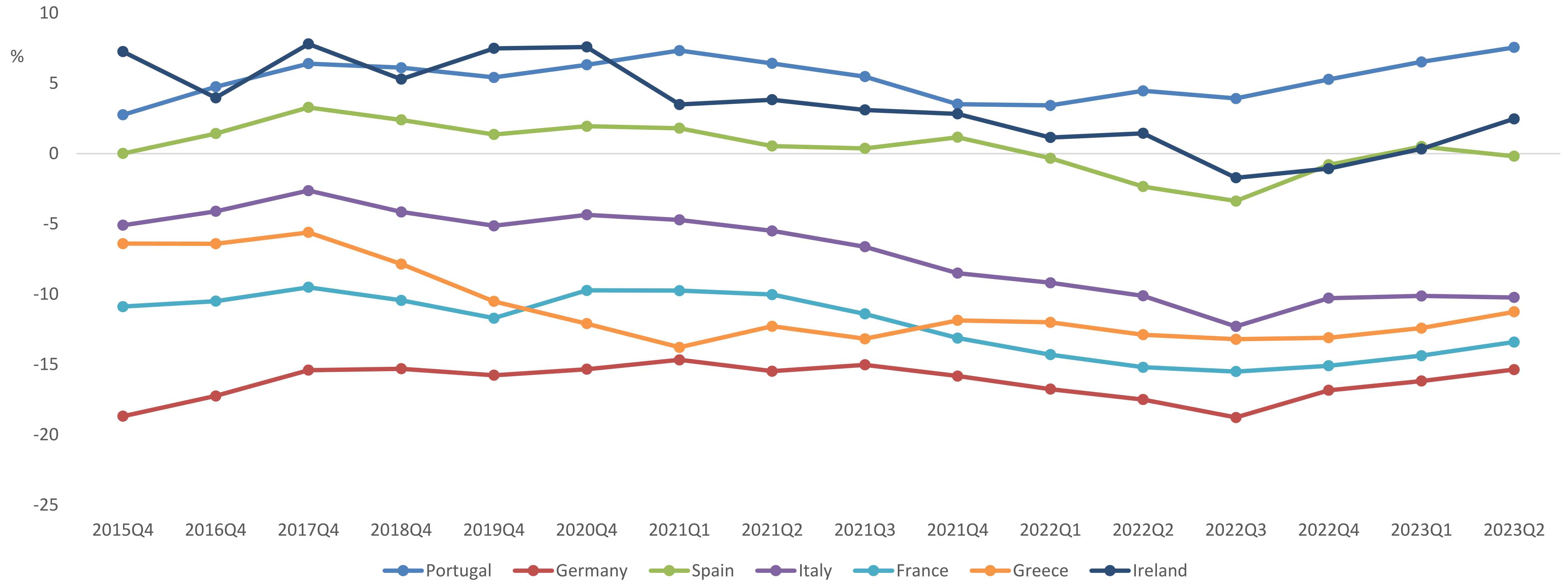
Source(s): Eurostat.

Portugal has experienced strong competitiveness gains

Unit labor costs in Portugal have been on a increasing trend

[Harmonised competitiveness indicators based on ULC % yoy annual rate of change]

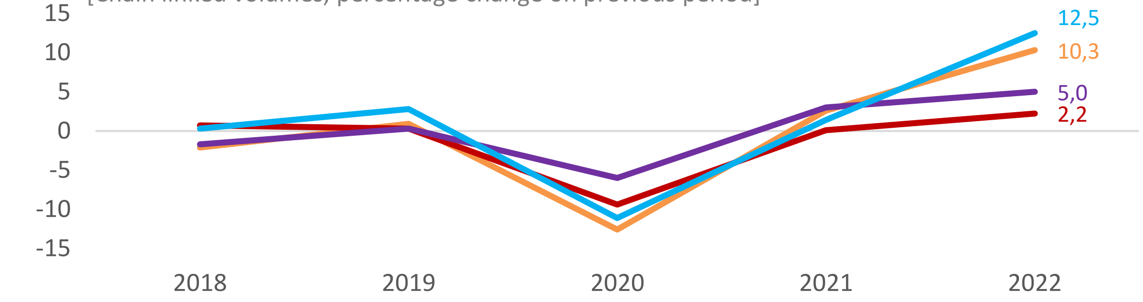


Source(s): Banco de Portugal.

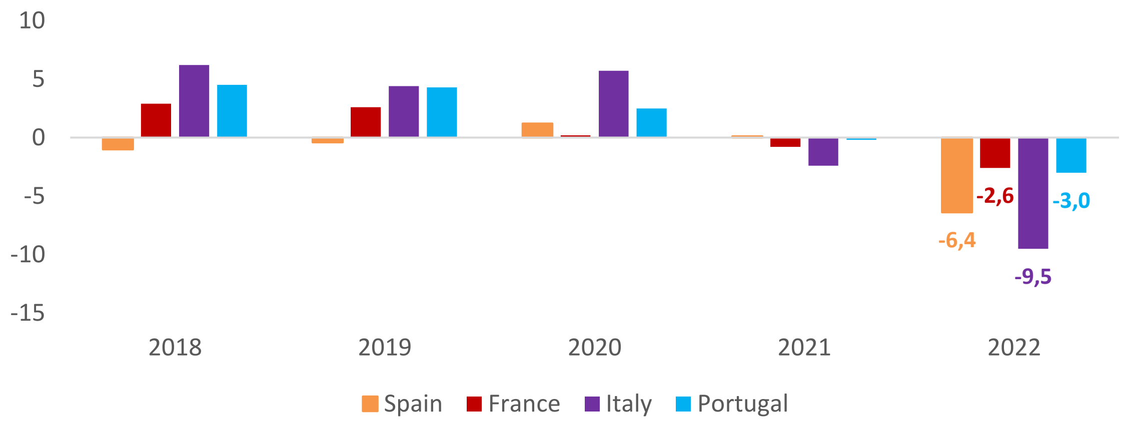
Portuguese exports have proven to be competitive

Market share gains soften effect of weakening terms of trade…

[Chain linked volumes, percentage change on previous period]

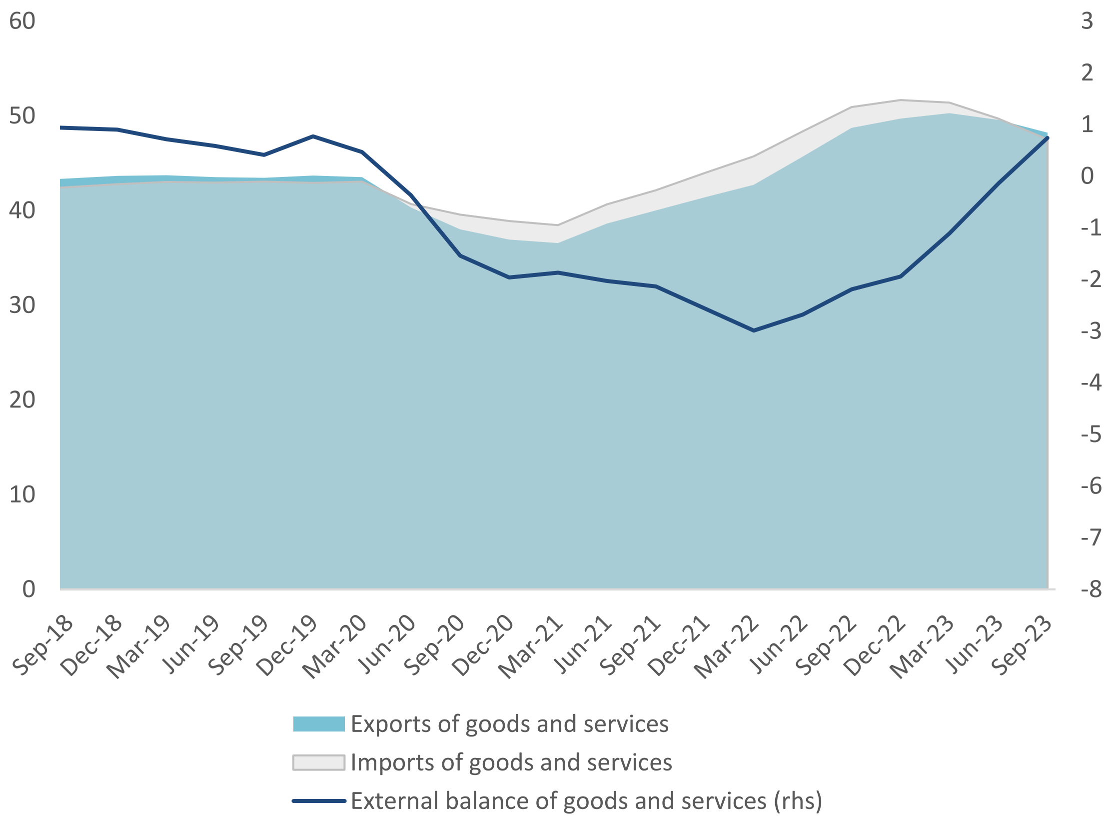


[Terms of trade of goods and services - 5 years % change]



…and keep trade broadly balanced with increasing weight of exports in Economy (50% of GDP)

[12-month cumulative External Balance of Goods and Services, % GDP]

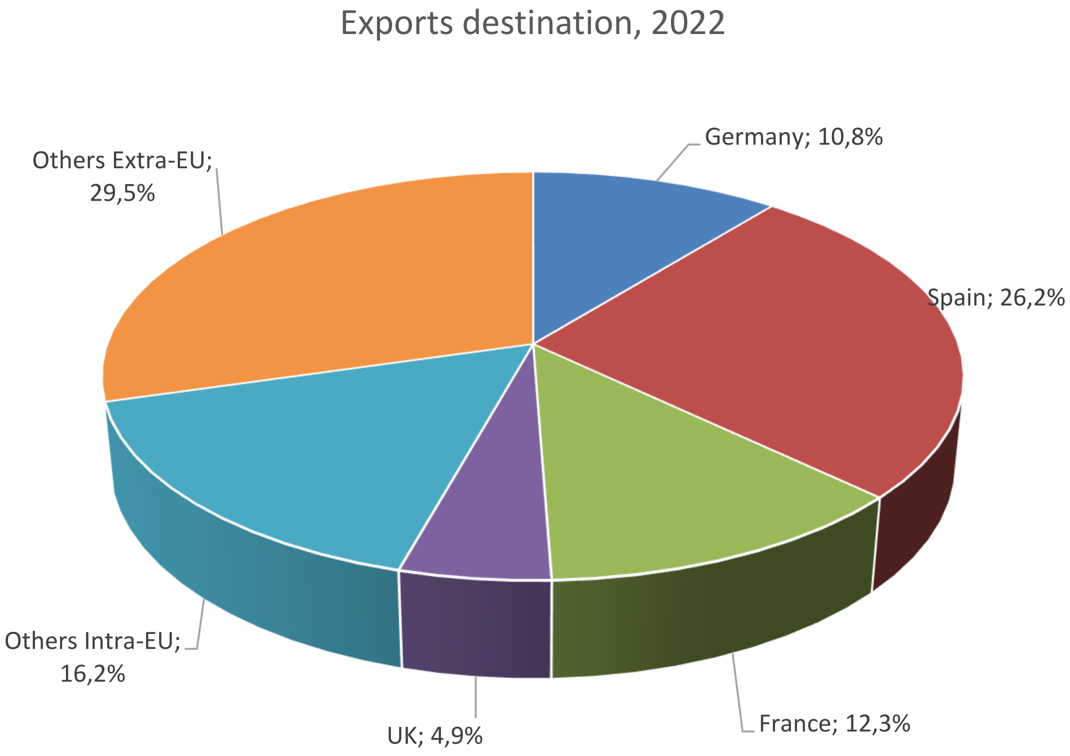


Source(s): Eurostat and Banco de Portugal

Portuguese goods exports had diversified base of destinations and product type in 2022

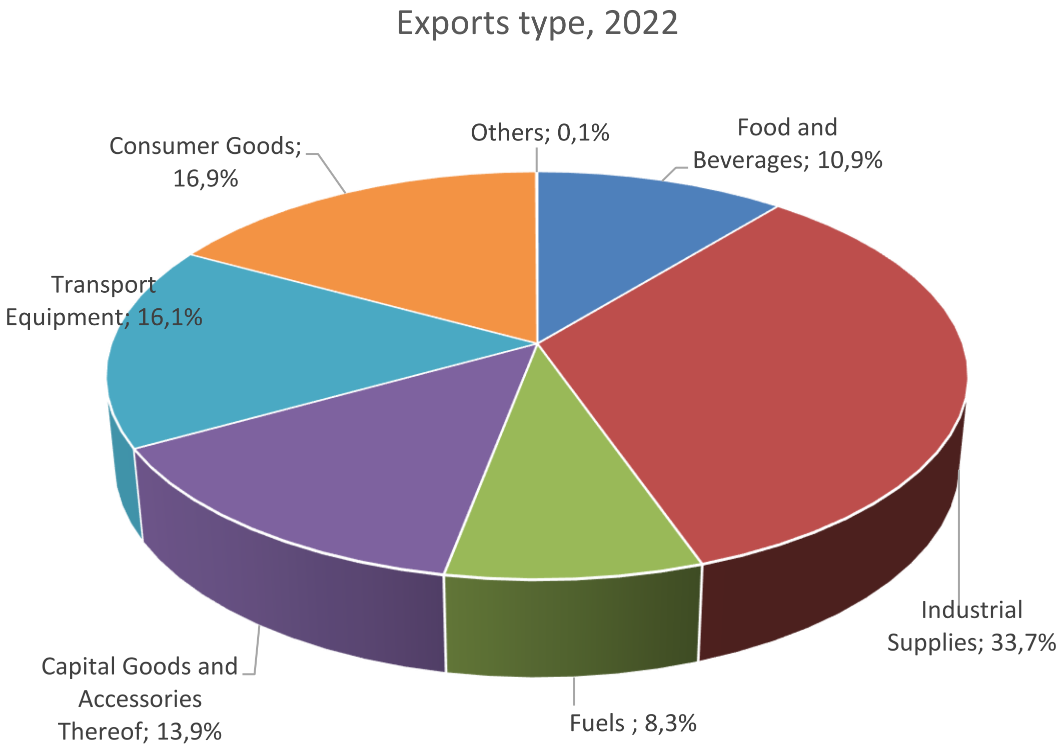
Germany, Spain, France and UK represented 54.2% of total goods exports

[% of total goods exports, 2022]



Industrial Supplies represented 33.7% of total goods exports

[% of total goods exports, 2022]

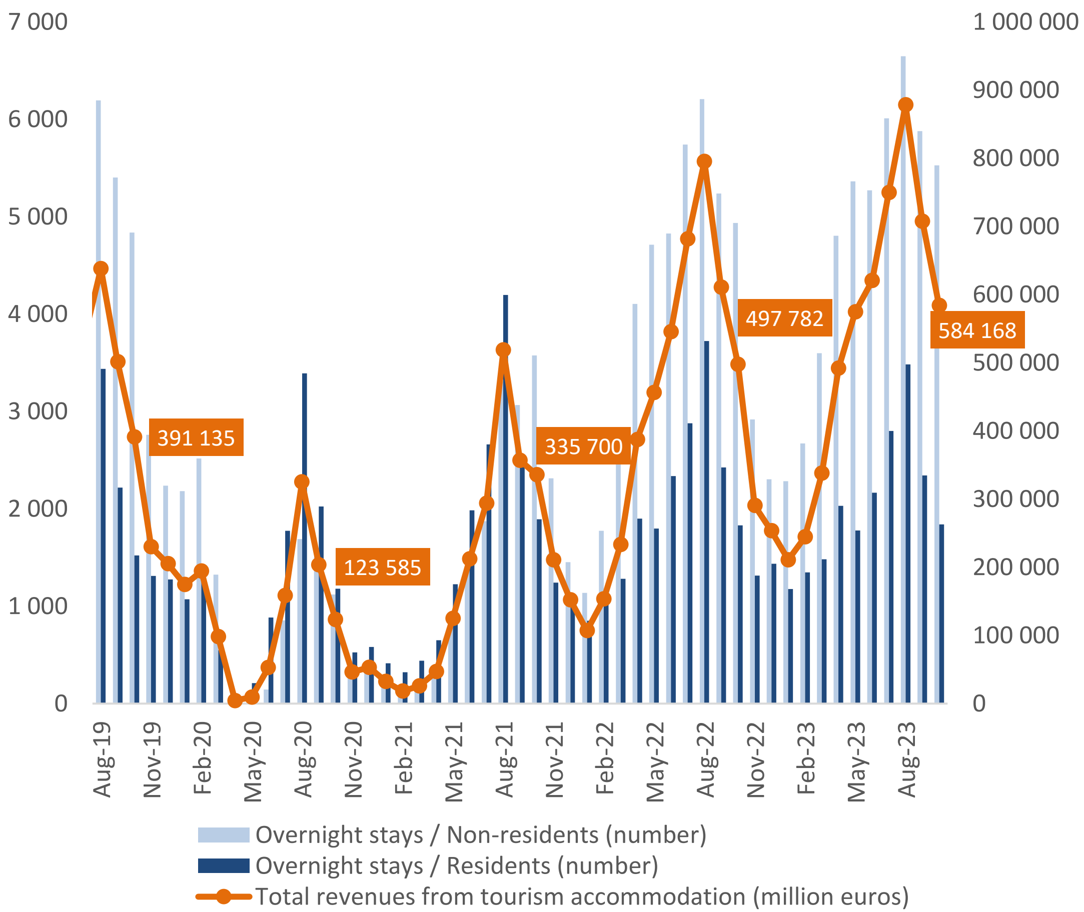


Tourism activity has surpassed pre-pandemic levels, both by resident and non-resident tourists

Tourism plays a key role in the Portuguese economy

Impact of Tourism Revenue on…	2019	2022
GDP	8,5%	8,7%
Services Exports	51,2%	47,4%
Total Exports	19,5%	17,5%

Tourism revenues and activity reached new heights this summer

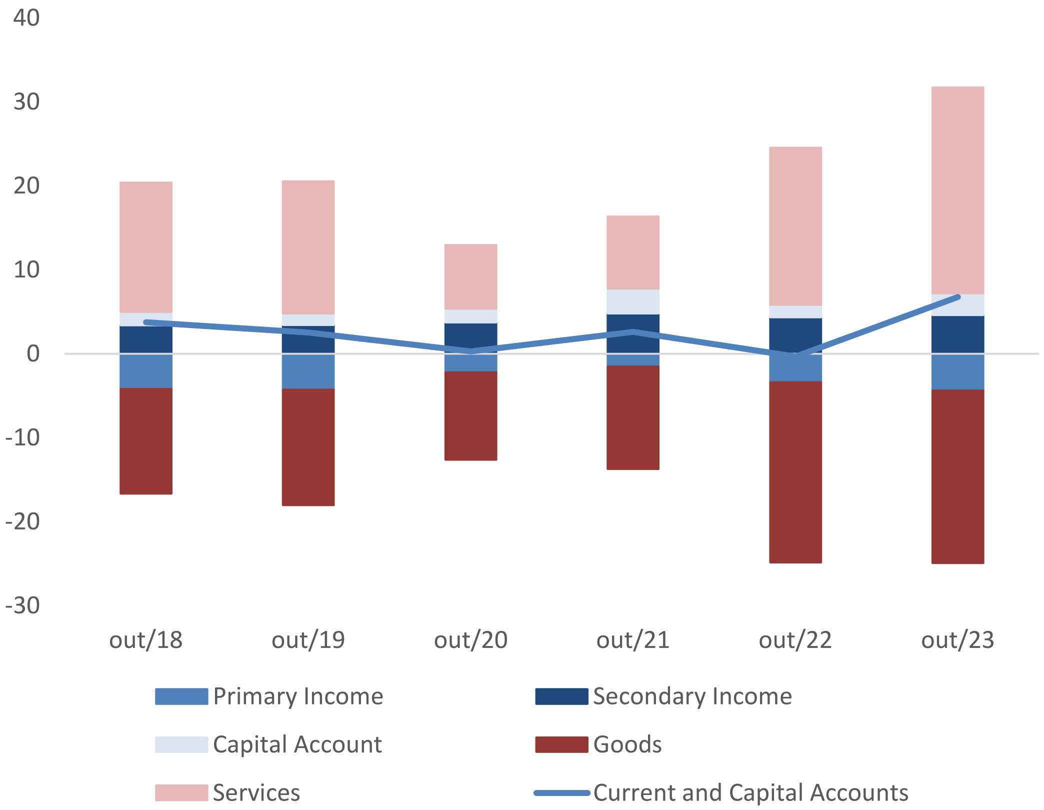


Source(s): Turismo de Portugal (link) (LHS); Statistics Portugal (RHS).

Portugal has improved its external position, confirming the positive structural change

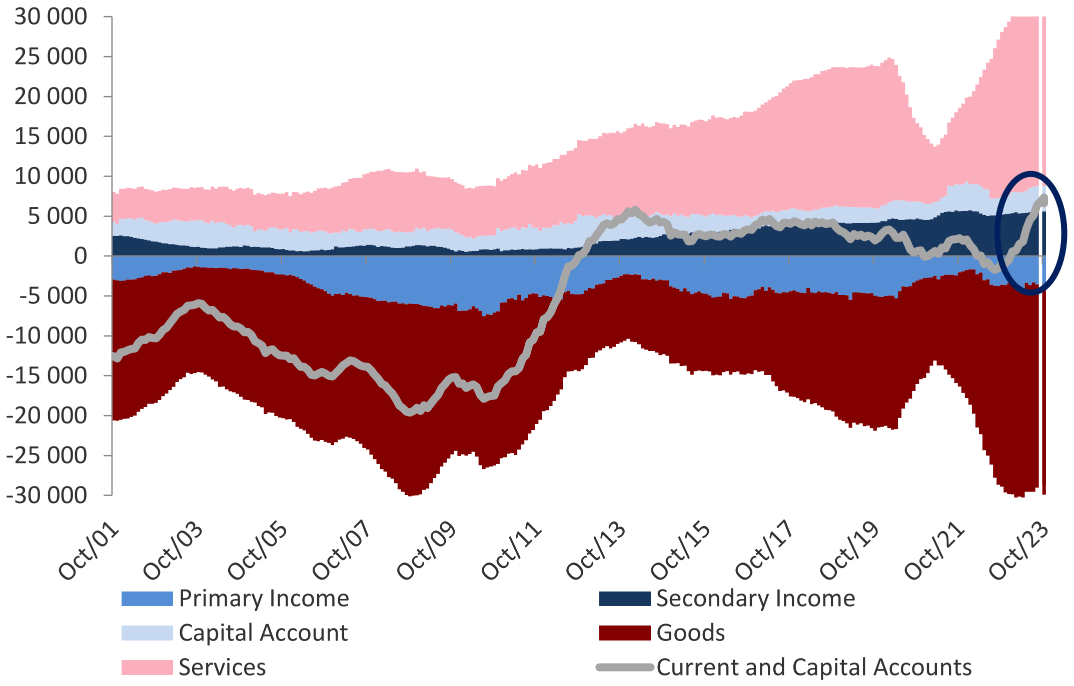
Services surplus offsets goods deficit both in pre and post Covid

[Cumulative current account balance up to October, EUR billion]



Current and capital account surplus is fast improving

[12-month cumulative Current and Capital Account, EUR billion]



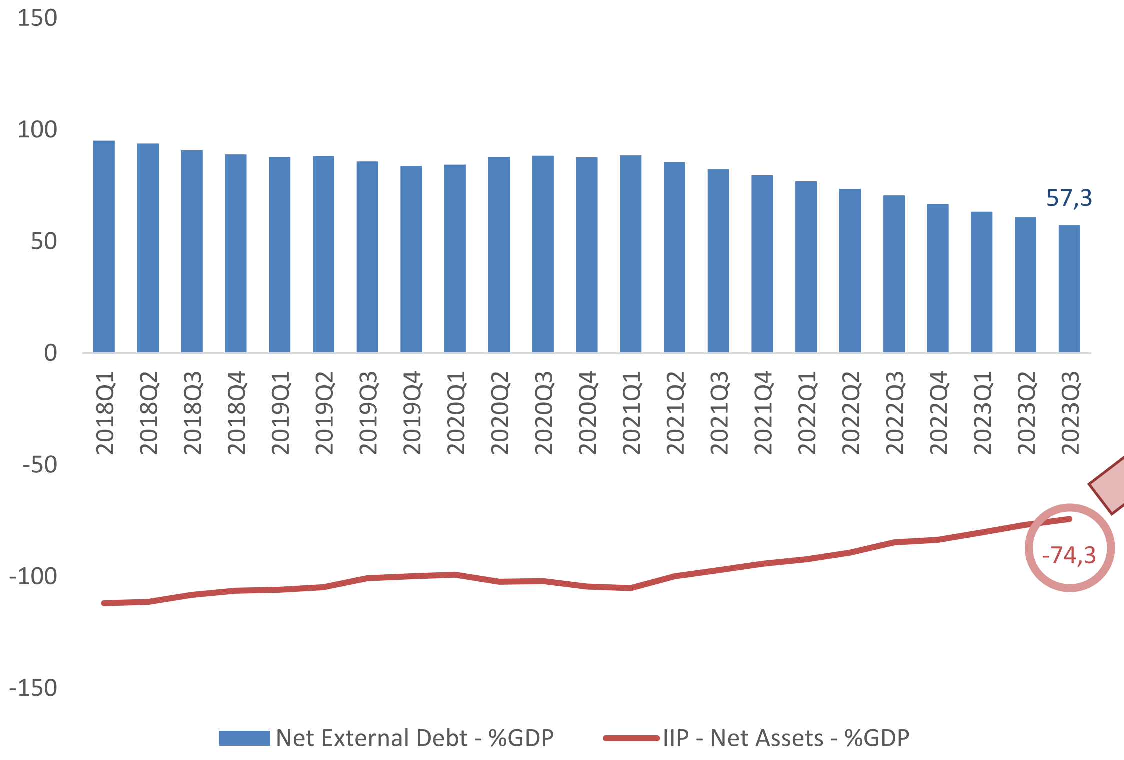
	2023	2024	2025	2026	2027	2028
Current Account (% GDP)	1.3%	1.1%	1.0%	0.7%	0.4%	0.2%

Source(s): Banco de Portugal. IMF Forecasts.

Portugal's external vulnerability has decreased significantly

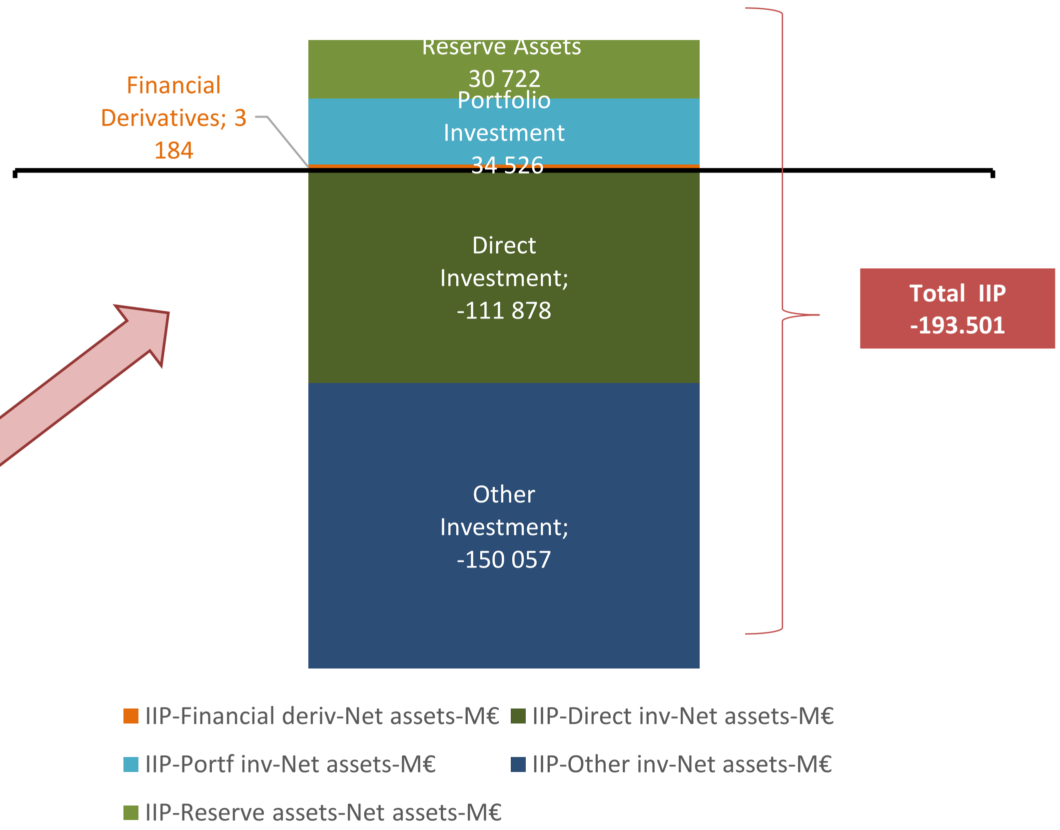
Net external debt has maintained a downward trend, reaching the lowest level since 2007

[Net External Debt and International Investment Position, % GDP]



Net International Investment Position has seen a strong improvement

[International Investment Position decomposition, M€, 2023Q3]

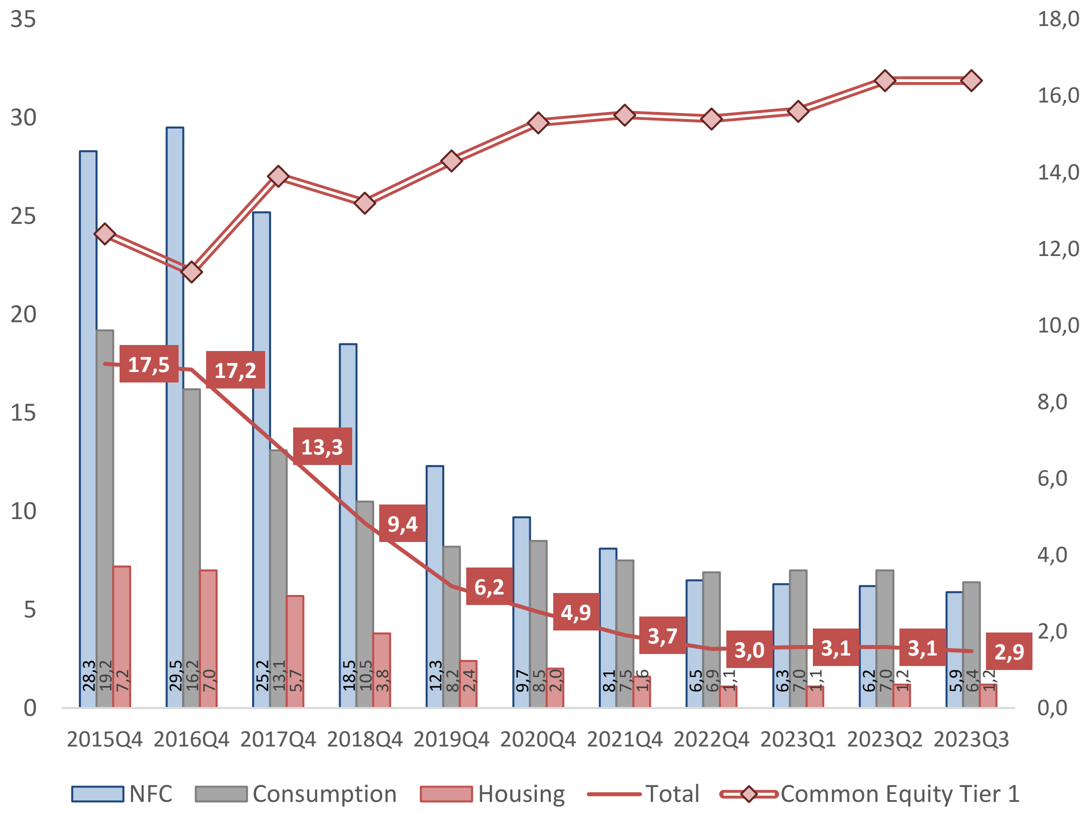


Source(s): Banco de Portugal

Stronger banking sector and favourable financial conditions have made Portugal more resilient

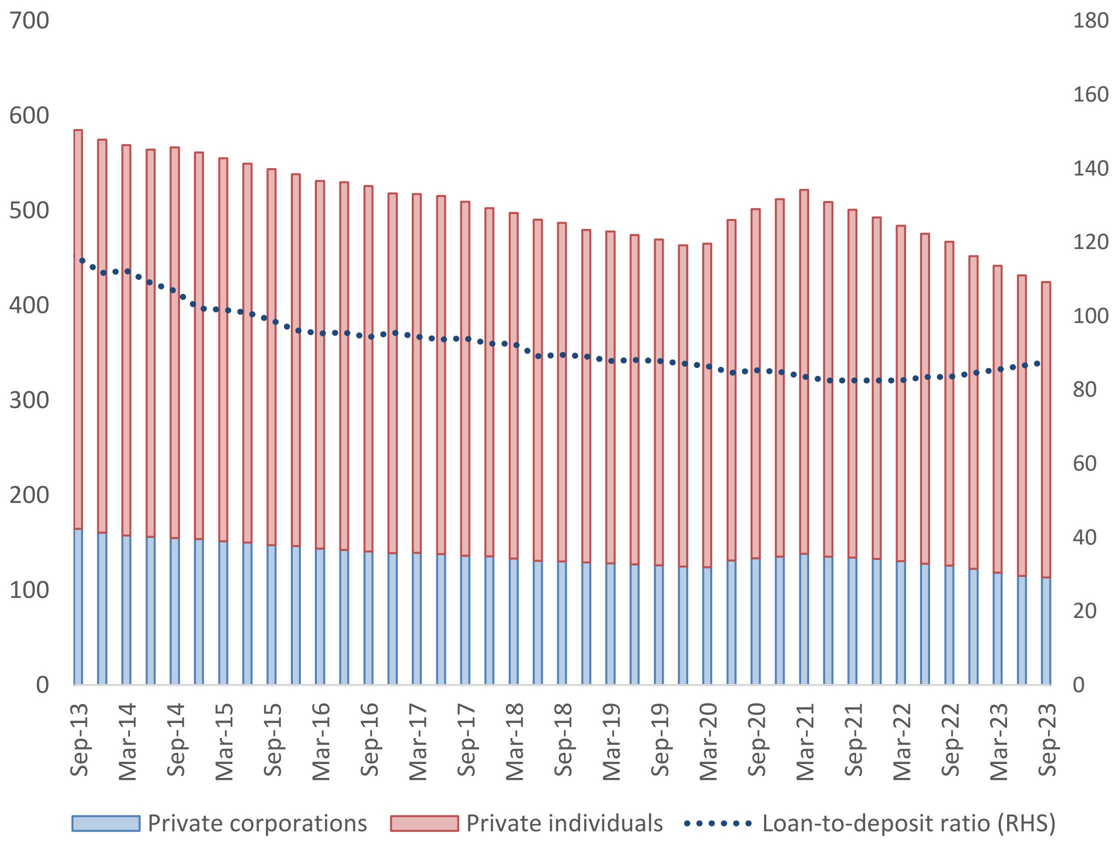
Banks recent profitability improvement builds on strengthened capital, liquidity and asset quality

[NPL ratio, as % of gross credit; end of period]



Private sector indebtedness has decreased past pre-pandemic level

[Non-financial private sector debt, % GDP]

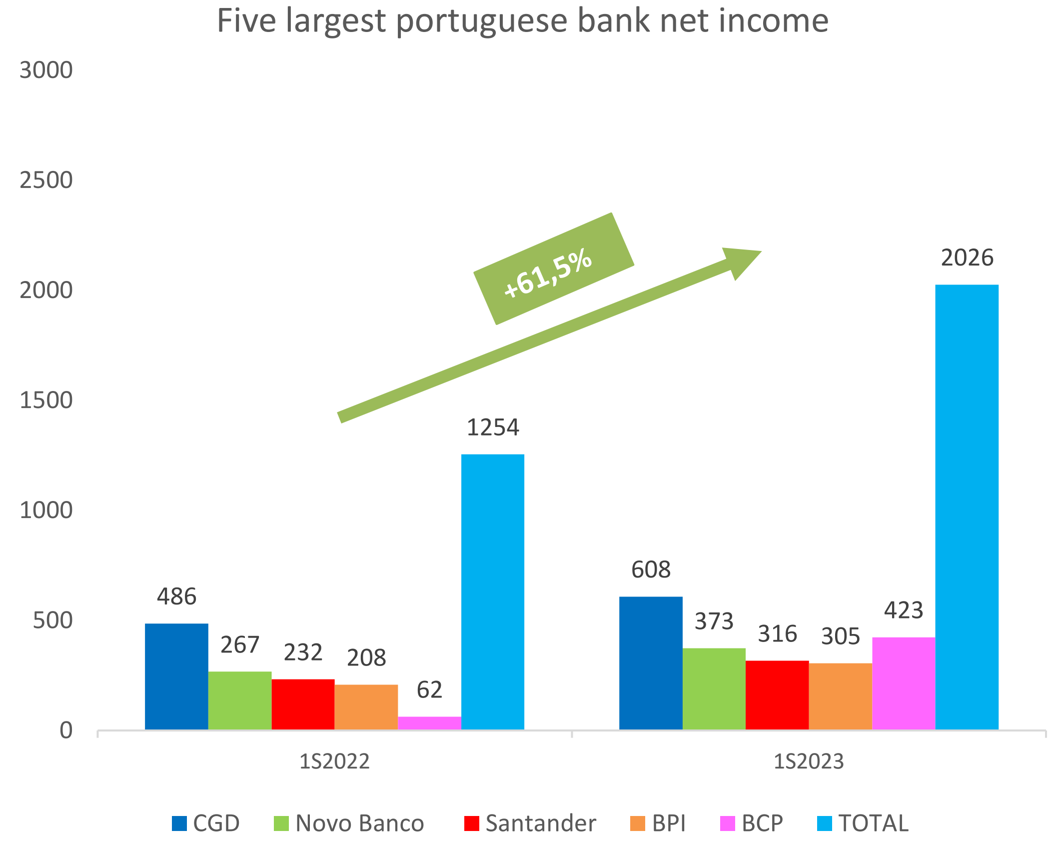


Source(s): Banco de Portugal

Recovery of net interest income pulled up profits of the banking sector

In 2023H1, the larger banks in Portugal increased their net income by 61.5% (vs. 2022H1)

[Five biggest Portuguese bank's net income, EUR million]



ROE of Portuguese banks higher than EA

[Return on Equity (ROE), %]

Source(s): Institutional websites of banks (financial statements audited and non-audited)

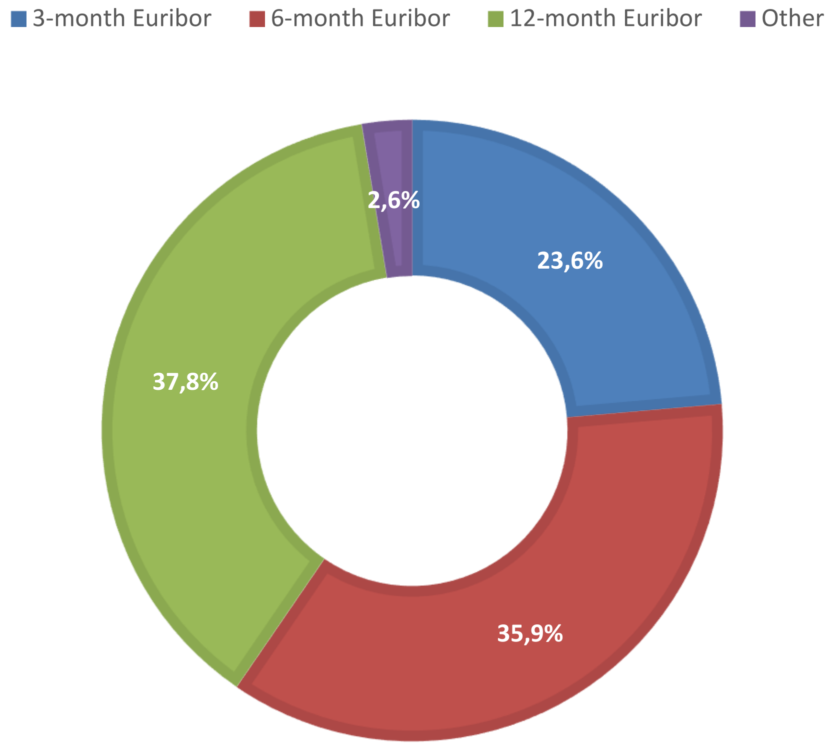
Most residential property loans in Portugal are indexed to Euribor

82.9% of contracts are indexed at variable interest rate

[Stock of loans for personal and permanent residential property with variable interest rate, by the type of interest rate,%, October 2023]

Almost all variable interest rate loans are indexed to Euribor

[Stock of loans for personal and permanent residential property with variable interest rate, by reference rate, %, October 2023]

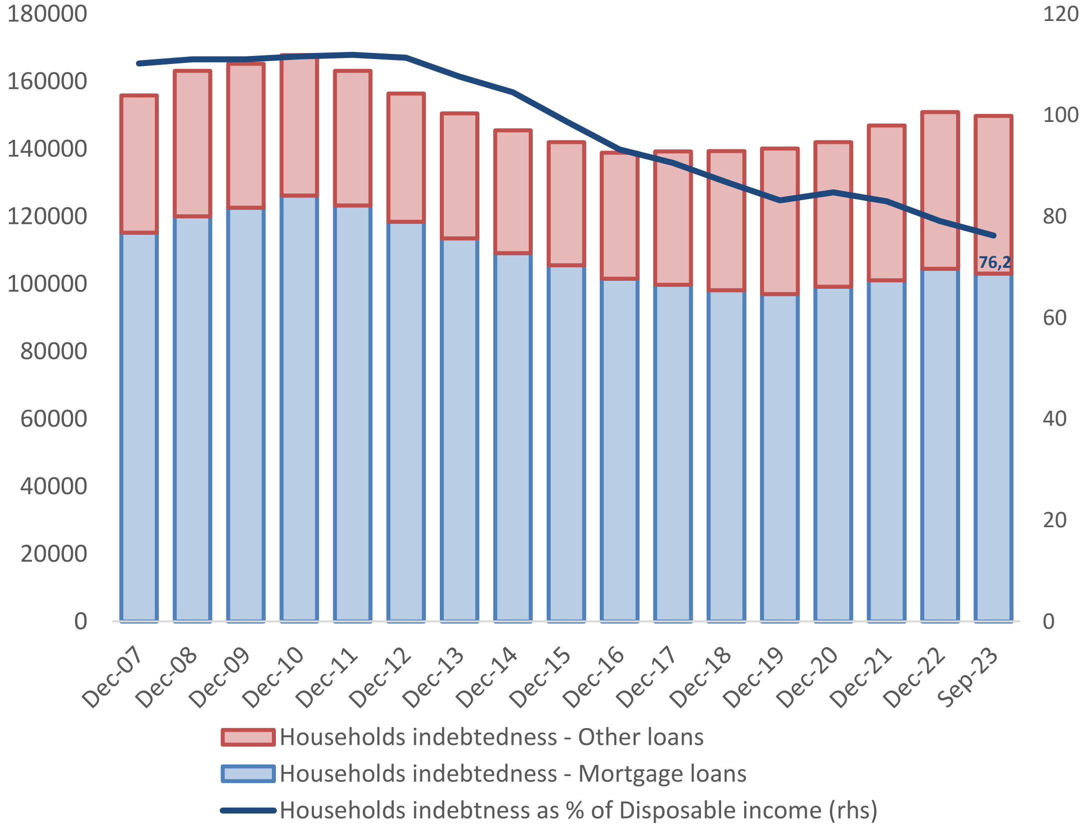


Source(s): Banco de Portugal

Growth in disposable income cushions negative impacts on Households' financial situation

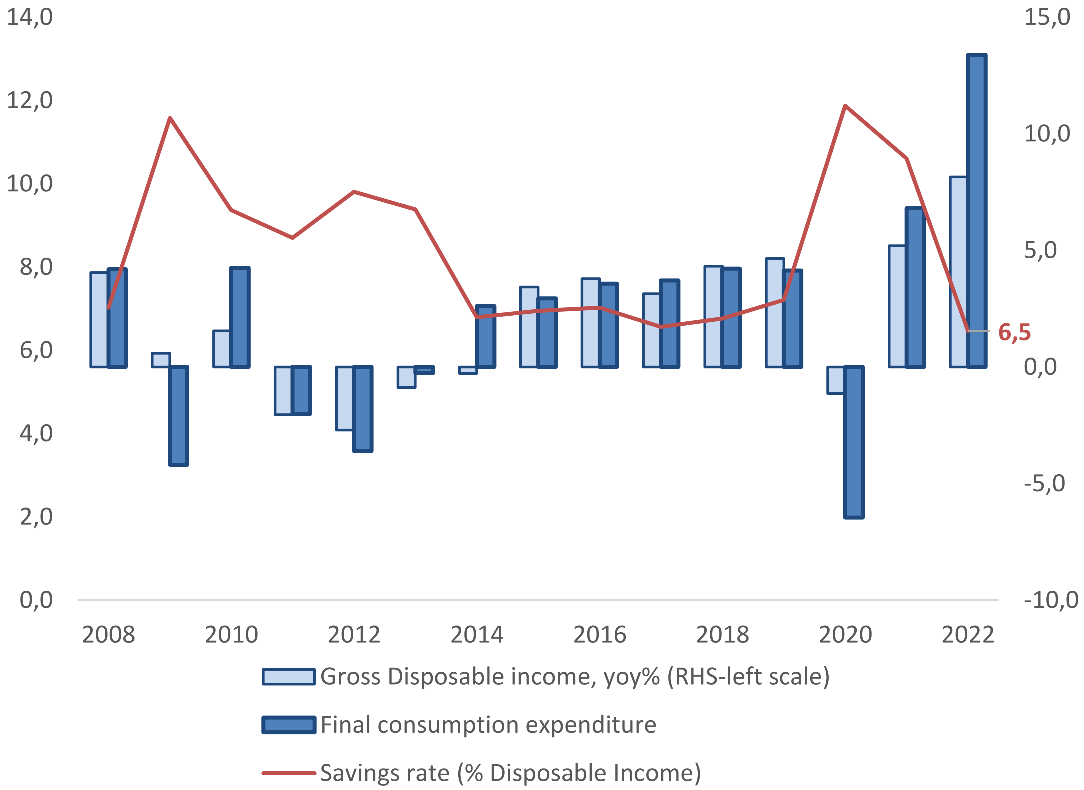
Increase in disposable income more than offsets the growth of households indebtedness

[Households indebtedness, EUR billions and % of Disposable income]



Savings rate returns to historical levels

[Gross Disposable Income (GDI) yoy %; Savings rate (% Disposable Income) and Final consumption expenditure]



Source(s): Statistics Portugal and Banco de Portugal.

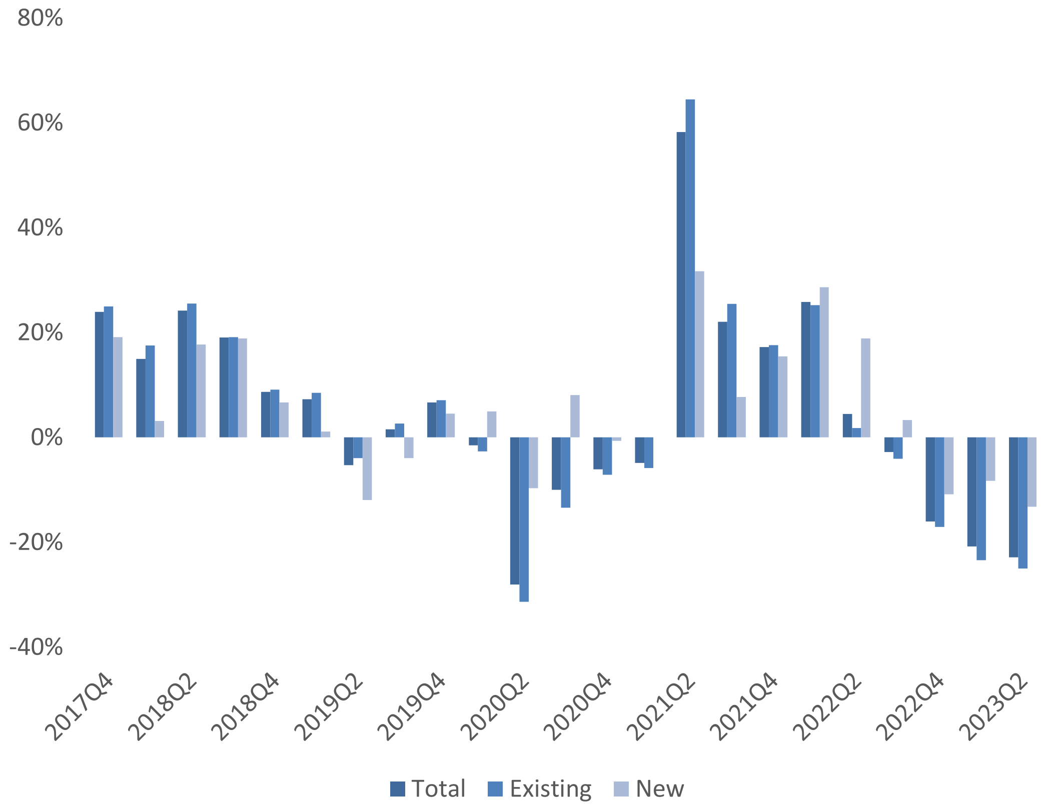
In 2023Q2, House Price Index (HPI) rose 8.7% YoY, same as in the previous quarter

Increase in prices of existent dwellings (9.0%) surpassed that of new dwellings (8.0%)

[House Price Index, YoY change]

Number of transactions in the Housing Market decreased by 22.9% (YoY)

[Number of Transactions in Housing Market, YoY change]



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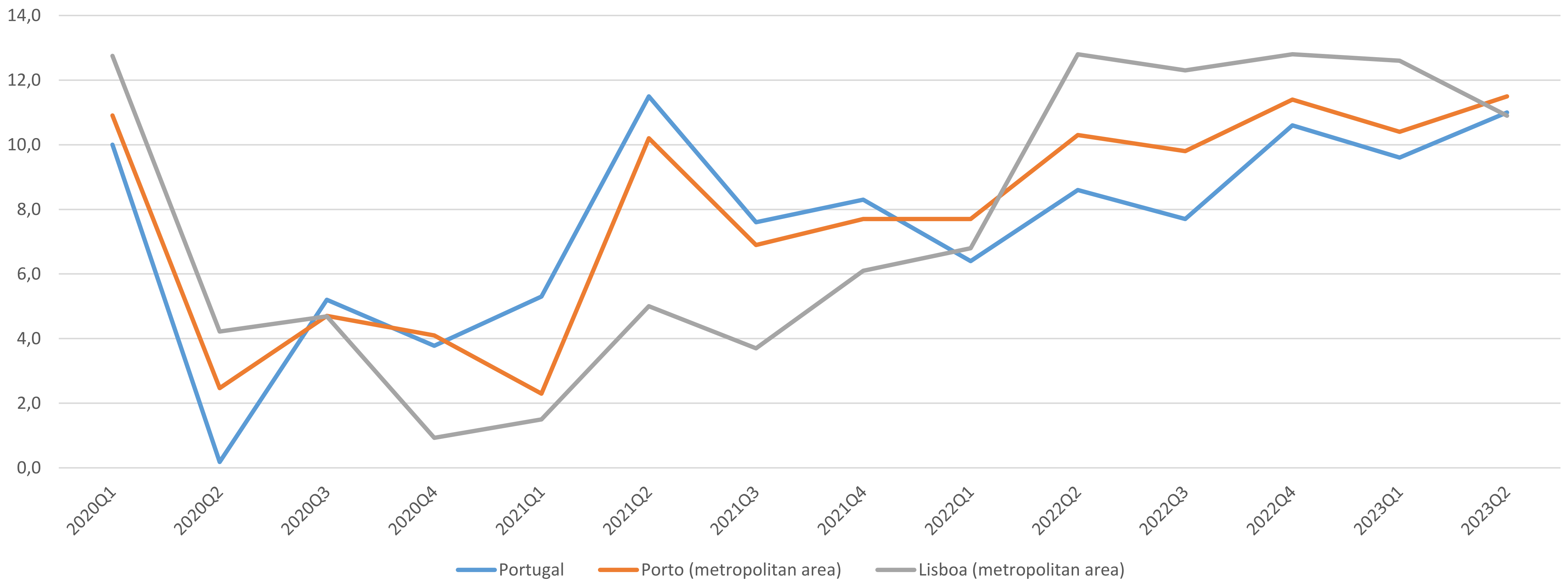
Source(s): Statistics Portugal (link)

In 2023Q2, median house rents of new lease agreements increased 11.0% (YoY)

In Metropolitan Area of Lisbon median house rents increased by 10.9% and 11.5% in the Metropolitan Area of Porto (YoY)

[Year-on-year rate of change in the Median value of rents per m2 of new rental contracts for family accommodation (%)]



Source(s): Statistics Portugal (link)

Executive Summary

Portuguese economy in numbers

Macro Outlook

Latest developments and projections

Fiscal Outlook

Fiscal balance and public debt – performance and forecasts

Debt Management and Funding Plan

Risk indicators and markets developments

ESG Outlook

Energy and climate

Growth agenda boosted by EU funds

2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029

€ 63.9 bn in EU funding (MFF & NGEU) + State Budget of which 61.2 bn in grants

PT 2020 (MFF 2014-2020)
Grants € 11.2 bn

Next Generation EU
Grants € 16.4 bn + Loans € 2.7 bn

*of which **Recovery and Resilience Facility (RRF)** » Grants € 13.9 bn + Loans € 2.7 bn (*)*
*of which **REACT EU** » Grants € 2 bn*
*of which **Rural Development & Just Transition Fund** » Grants € 0.5 bn*

Multiannual Financial Framework 2021 - 2027
Grants € 33.6 bn

Last May, **Portugal submitted a request to the Commission to modify its recovery and resilience plan.**

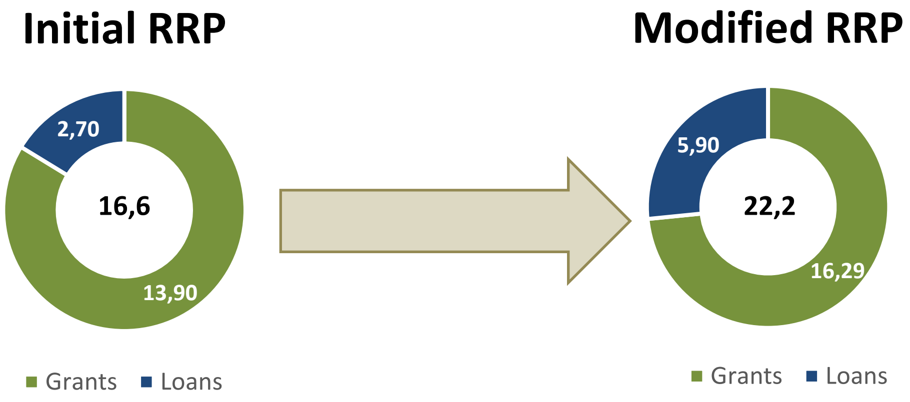
The modified plan:
- includes a new chapter on RePower EU;
- follows the upward revision of maximum RRF grant allocation and comprises the effect of supply chain disruptions and the very high inflation; and
- request for €3.2 billion in additional loans.

The changes make the submitted **overall modified plan worth €22.2 billion.**

Source(s): Portugal's Recovery and Resilience Plan (April 2021).

Revision of Recovery and Resilience Plan approved by EU

Increased total amount



Revision of RRF grants allocation
+ € 1.6 bn

RePower EU additional funds
+ € 0.8 bn

Additional loans request
+ € 3.2 bn

Further ambition: more reforms and investments

- **New REPowerEU chapter** includes **6 reforms and 18 investments,** focusing on energy efficiency in buildings, renewables and biogas, sustainable transport, the electricity grid and green industry, reinforcing the commitment with energy transition in line with the European Union's priority

- Portugal also proposes to include **31 new or scaled up investments and 5 new reforms** with focusing on:
  - i. Foster competitiveness of the Portuguese economy
  - ii. Strengthen the Welfare State; and
  - iii. Enhance of territorial cohesion

Source: Portugal’s Recovery and Resilience Plan revision request (May 2023).

Impact on GDP growth from EU funds

MoF estimates a 3.5 p.p. increase in potential GDP by 2025…

- Annual average rate of **GDP growth estimated to be 0,7 p.p. higher than on a scenario without RRP.**

	T+2	T+5
GDP (%)	1,4	3,5
Employment (p.p.)	0,7	1,4
Unemployment rate (p.p.)	-0,4	-1,6
Overall fiscal balance (p.p.)	0,5	1,5

The impact assessment of RRP in the short term on the main macro indicators was based on a model by the Ministry of Finance

… EC forecasts an increase between 1.5% and 2.4% by 2026

- "Model simulations conducted by the Commission using the QUEST model show that the **economic impact of the NGEU in Portugal could lead to an increase of GDP of between 1.5% and 2.4% by 2026. After 20 years, GDP could be 0.9% higher**. This stylised scenario does not include the possible positive impact of structural reforms, which can be substantial. A model-based benchmarking exercise shows that undertaking structural reforms that would result in halving the gap vis-à-vis best performers in terms of indicators of structural reforms could raise Portuguese GDP by up to 10% in 20 years' time, in line with findings for the EU average."

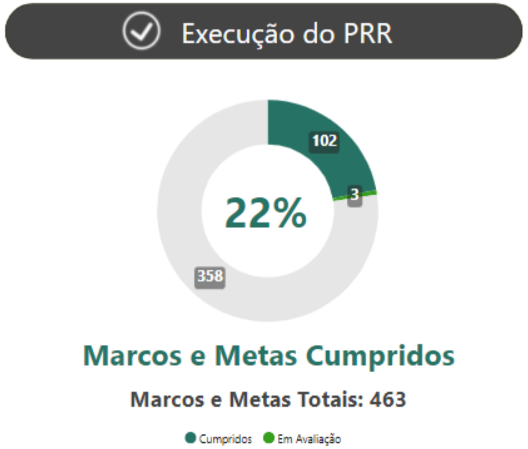
Summary of the Commission's assessment of the Portuguese recovery and resilience plan

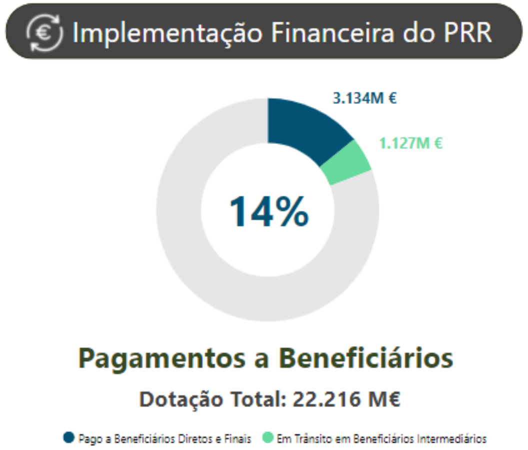
Both exercises recognize the positive effect of the plan and acknowledge that other dimensions will likely benefit from the reforms introduced, creating a positive and lasting impact on the economy and society

Source(s): Portugal's Recovery and Resilience Plan (April 2021) and Summary of the Commission's assessment of the Portuguese recovery and resilience plan (link)

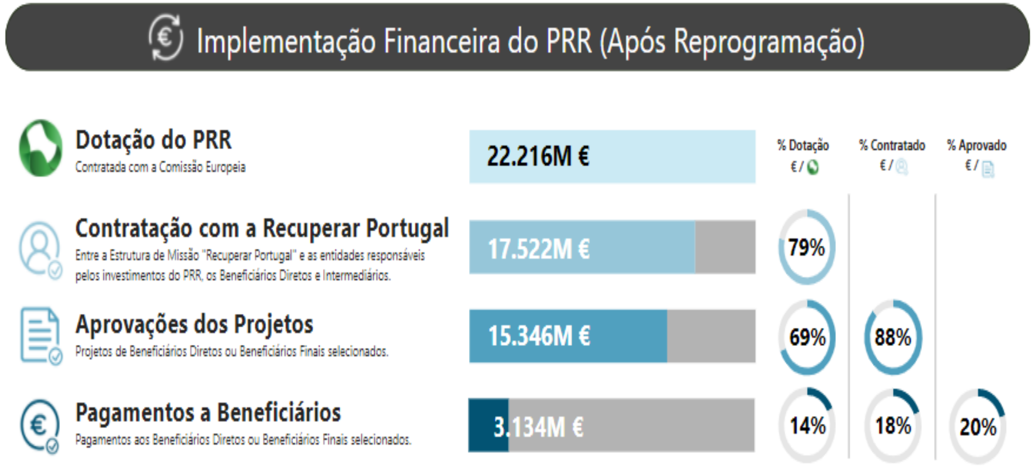
Implementation of NGEU funds is advancing

22% of the milestones have been achieved





Disbursements to final and direct beneficiaries stand at EUR 3,143 M

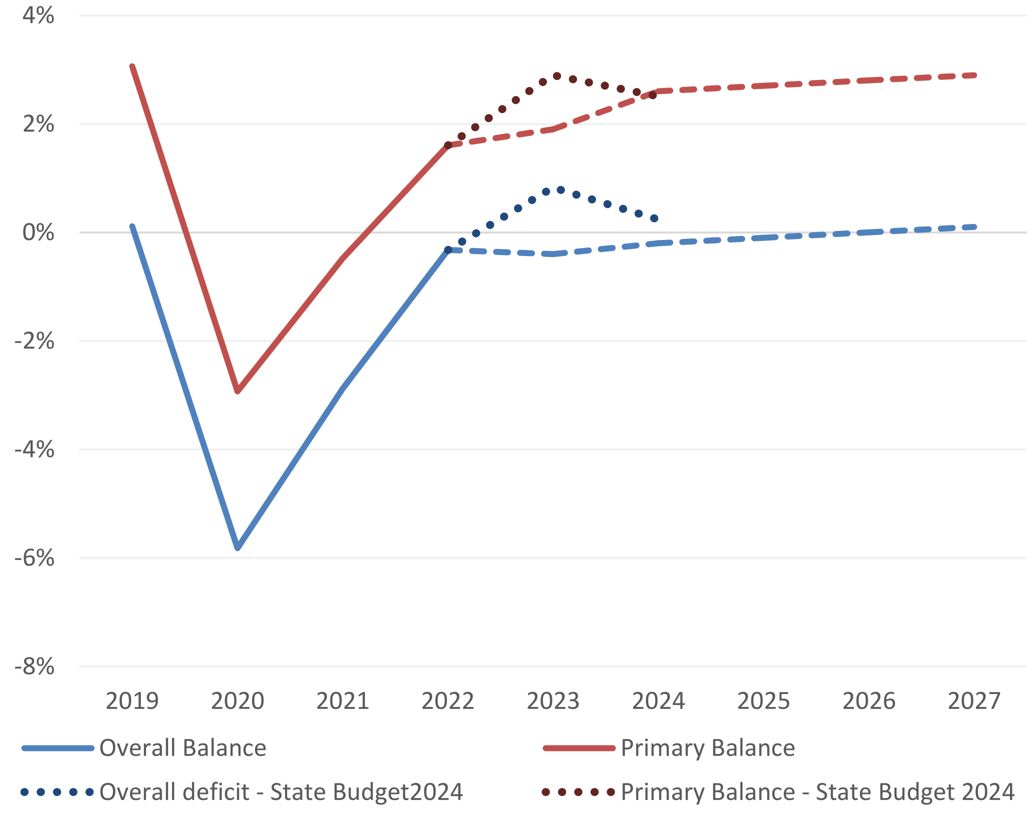


Source(s): Monitoring Report by Recuperar Portugal (link), based on data published on 13/12/2023 (link)

Fiscal consolidation expected to continue

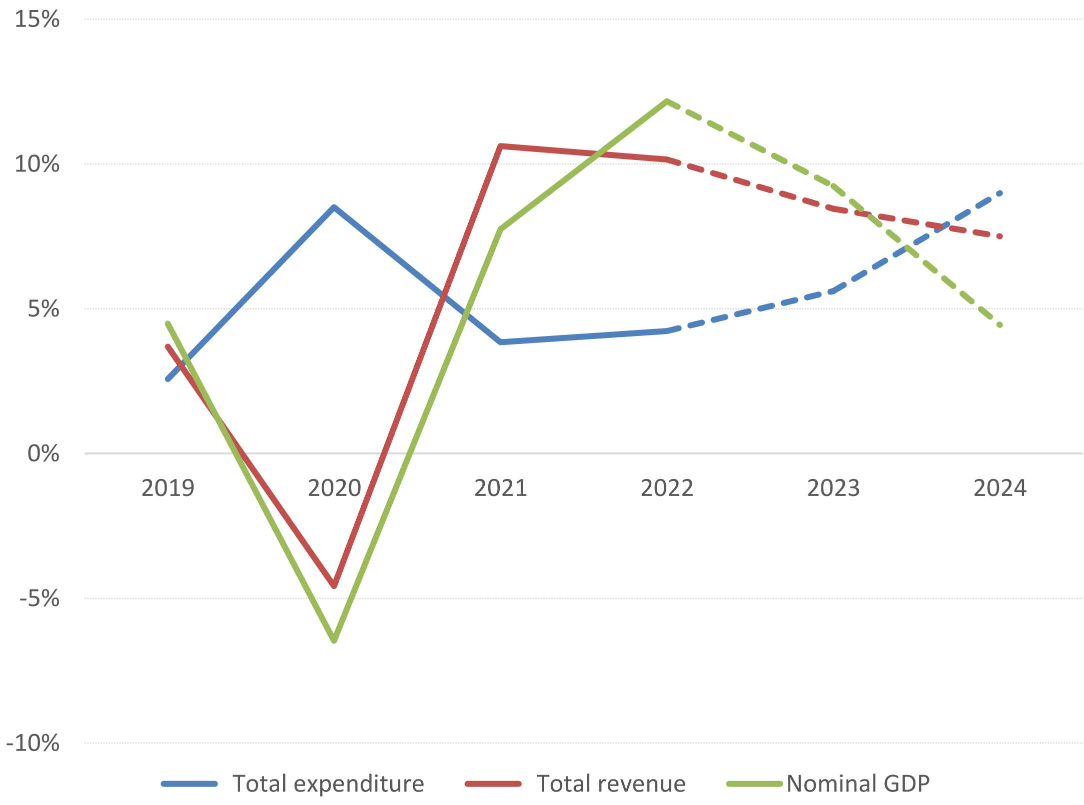
Overall balance improved significantly in 2023 to a surplus of 0.8% of GDP and reduce slightly in 2024

[Overall and Primary Balances, %GDP]



Economic resiliency and a commitment to fiscal prudence, supported by incoming EU funds, underpin further fiscal consolidation

[Expenditure and Revenue, yoy growth]



Source(s): Stability Program 2023-2027 (April 2023) and State Budget 2024 (October 2023)

Breakdown of Fiscal Balance shows improvement

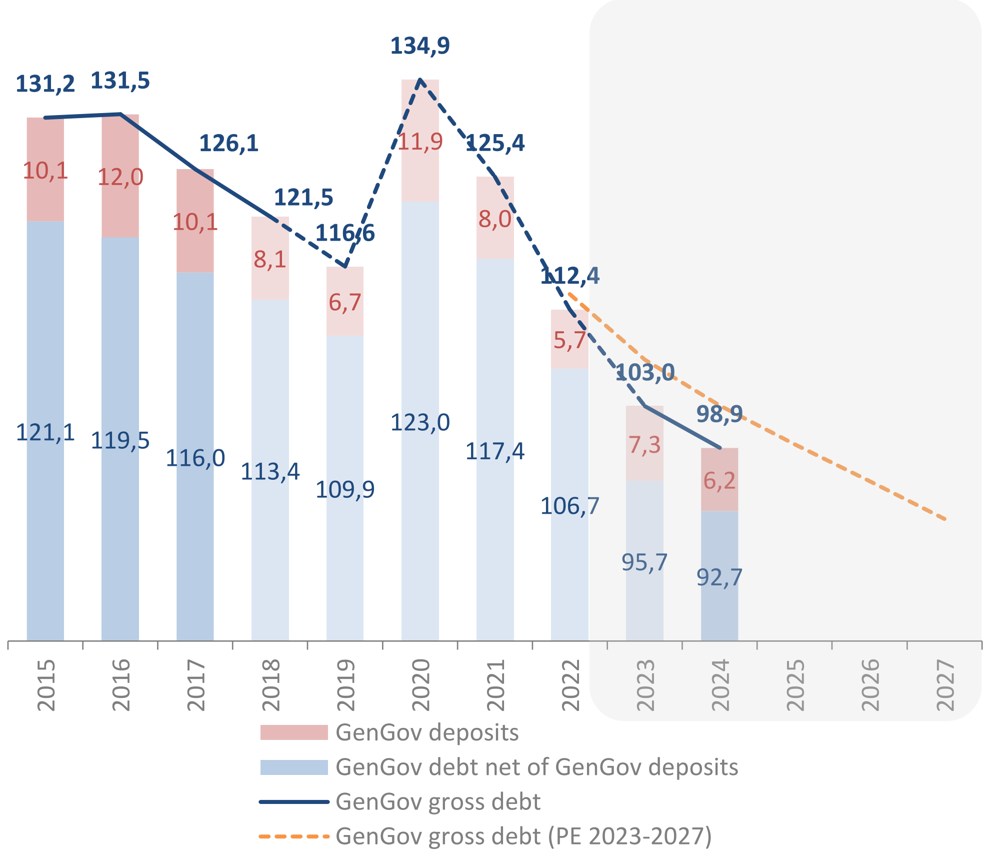
General Government Accounts (Accrual basis)	2023 F EUR bn	2024 F EUR bn	2023 F % GDP	2024 F % GDP	2024/2023 y-o-y
Total revenue	**115,1**	**123,7**	**43,5**	**44,7**	**7%**
Current revenue	**112,2**	**118,8**	**42,4**	**43,0**	**6%**
Current taxes on income and wealth	38,0	41,3	14,4	15,0	9%
Taxes on production and imports	27,9	28,0	10,5	10,1	0%
Social contributions	32,5	34,0	12,3	12,3	5%
Sales	7,9	8,2	3,0	3,0	3%
Other current revenue	5,9	7,3	2,2	2,6	24%
Capital revenue	2,9	4,9	1,1	1,8	71%
Total expenditure	**112,9**	**123,0**	**42,6**	**44,5**	**9%**
Current expenditure	103,2	110,6	39,0	40,0	7%
Social benefits	46,8	49,9	17,7	18,1	7%
Compensation of employees	27,8	29,3	10,5	10,6	6%
Interest	5,7	6,3	2,1	2,3	11%
Intermediate consumption	14,5	15,5	5,5	5,6	7%
Subsidies	2,2	2,1	0,8	0,7	-7%
Other current expenditure	6,2	7,5	2,4	2,7	21%
Capital expenditure	9,7	12,4	3,7	4,5	28%
Gross Fixed Capital Formation	7,4	9,2	2,8	3,3	24%
Other capital expenditure	2,3	3,2	0,9	1,2	38%
Overall Balance	**2,2**	**0,7**	**0,8**	**0,2**	
Primary Balance	**7,9**	**6,9**	**2,9**	**2,5**	

Source(s): Statistics Portugal (2019-2022) and Ministry of Finance (2024 State Budget).

Commitment to fiscal prudence takes public debt ratio lower than 100% in 2024

Debt-to-GDP ratio spiked to a maximum in 2020, but the pre-Covid downward trend resumed in 2021 anchored in favorable metrics

[Maastricht debt, % GDP]



[pp GDP]

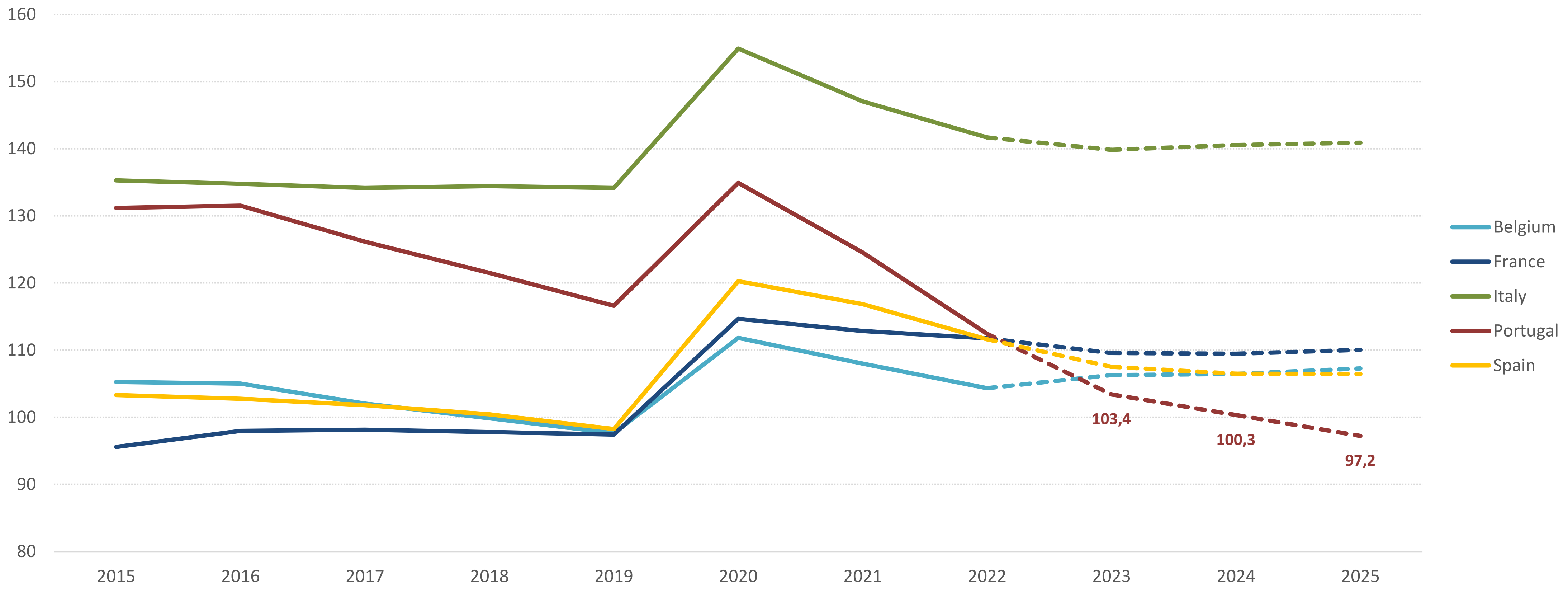
YEAR	2020	2021	2022P	2023F	2024 F
Maastricht debt (% GDP)	**134,9**	**124,5**	**112,4**	**103,0**	**98,9**
Annual change (pp GDP)	**18,3**	**-10,3**	**-12,1**	**-9,4**	**-4,2**
Primary balance effect	**2,9**	**0,5**	**-1,6**	**-3,0**	**-2,6**
Snowball effect	**10,9**	**-7,3**	**-11,6**	**-7,4**	**-2,5**
Interest costs	2,9	2,4	1,9	2,1	2,3
Nominal GDP	8,1	-9,7	-13,5	-9,5	-4,4
Real GDP	10,3	-6,9	-8,0	-2,4	-1,5
Deflator	-2,3	-2,0	-5,6	-7,1	-2,8
Stock-flow adjustments	**4,4**	**-3,5**	**1,1**	**1,0**	**0,5**
Nominal GDP growth rate (yoy)	**-6,5**	**7,7**	**12,2**	**9,2**	**4,4**
Overall fiscal balance (%GDP)	**-5,8**	**-2,8**	**-0,3**	**0,8**	**0,2**
Primary balance (%GDP)	-2,9	-0,5	1,6	2,9	2,5
Interest costs (%GDP)	2,9	2,4	1,9	2,1	2,3

Source(s): Statistics Portugal, Banco de Portugal and Ministry of Finance (2024 State Budget).

Portugal’s macro/fiscal outlook reflected in steep downward trend of public debt

Portugal’s debt ratio is projected to become lower than 100%

[Gross Public Debt, % GDP]



IGCP
Agência de Gestão da Tesouraria
e da Dívida Pública

Source(s): European Commission Economic Projections – Autumn 2023

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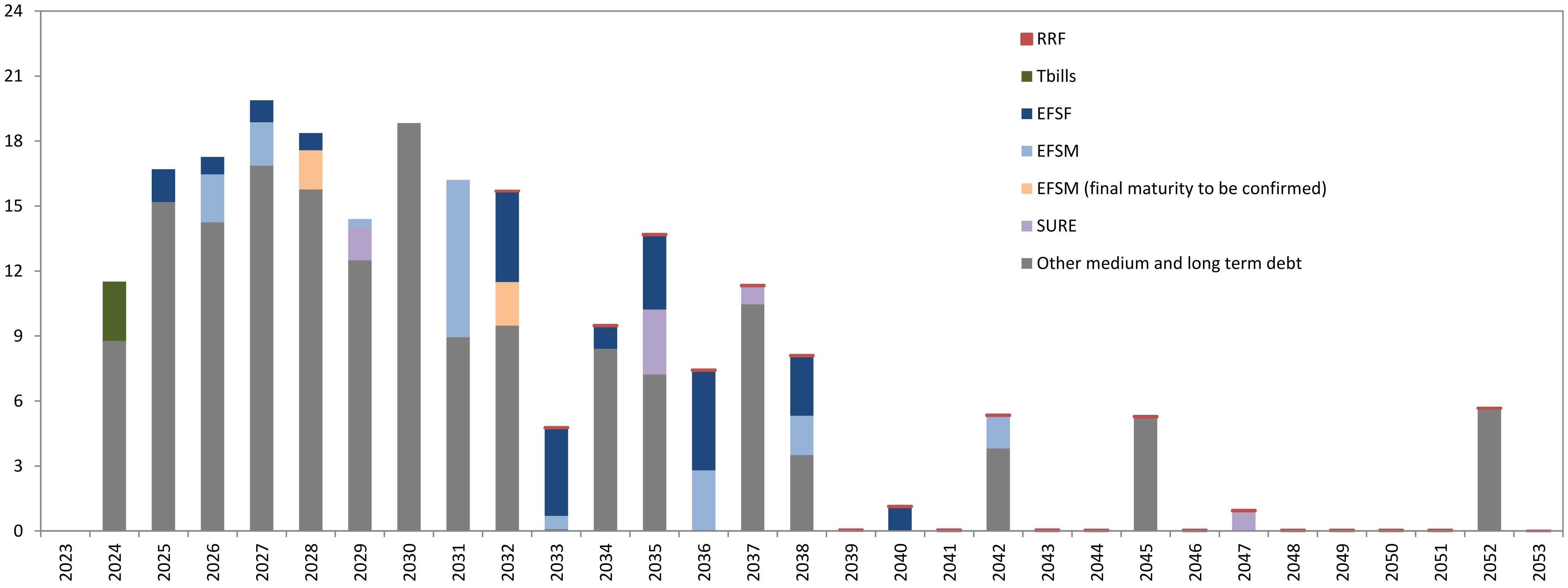
Smooth debt redemption profile

Objectives: avoid peaks of amortization, reduction of refinancing risk and flexibility in issuance plans

[Redemption calendar debt; November-2023 + rollover EFSM; EUR billion]



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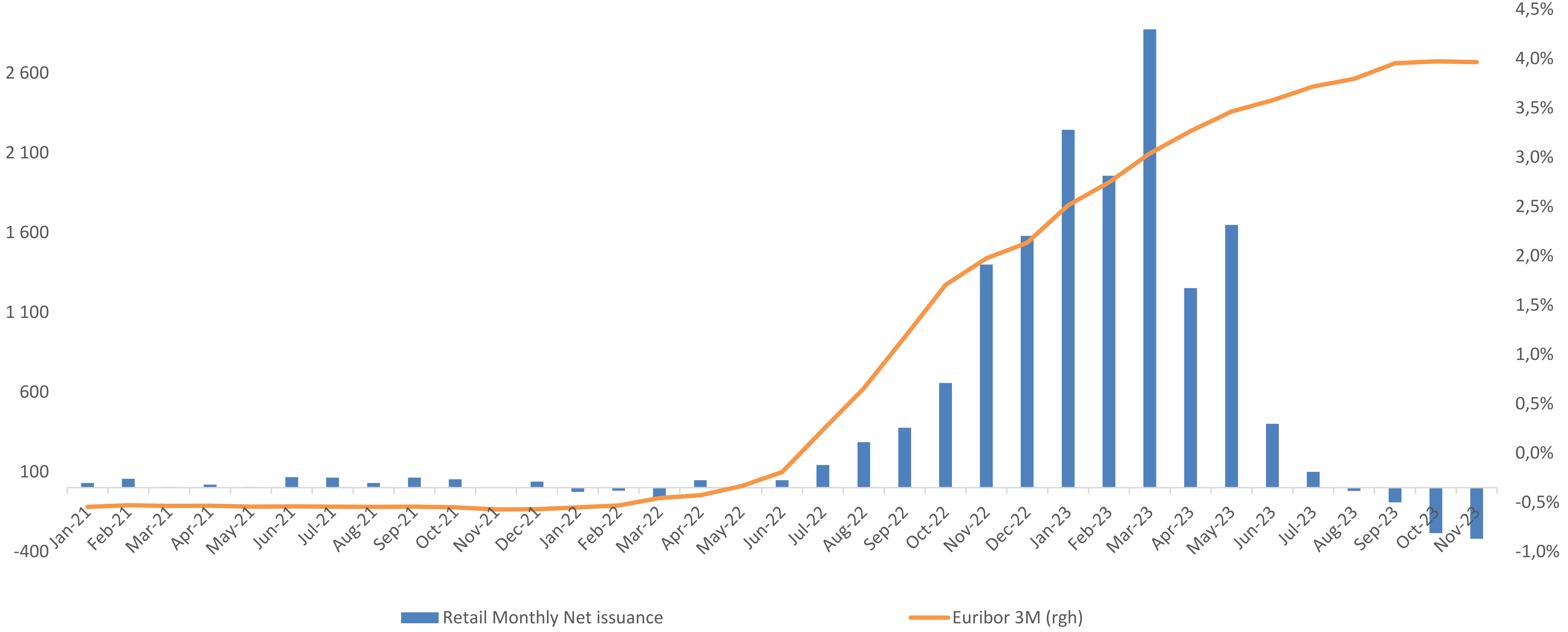
Source(s): IGCP

Net issuance of retail debt certificates revert to trend

Retail demand surged to a cumulative net issuance of EUR 10 bn in 2023

[Monthly net subscriptions; EUR million; %]

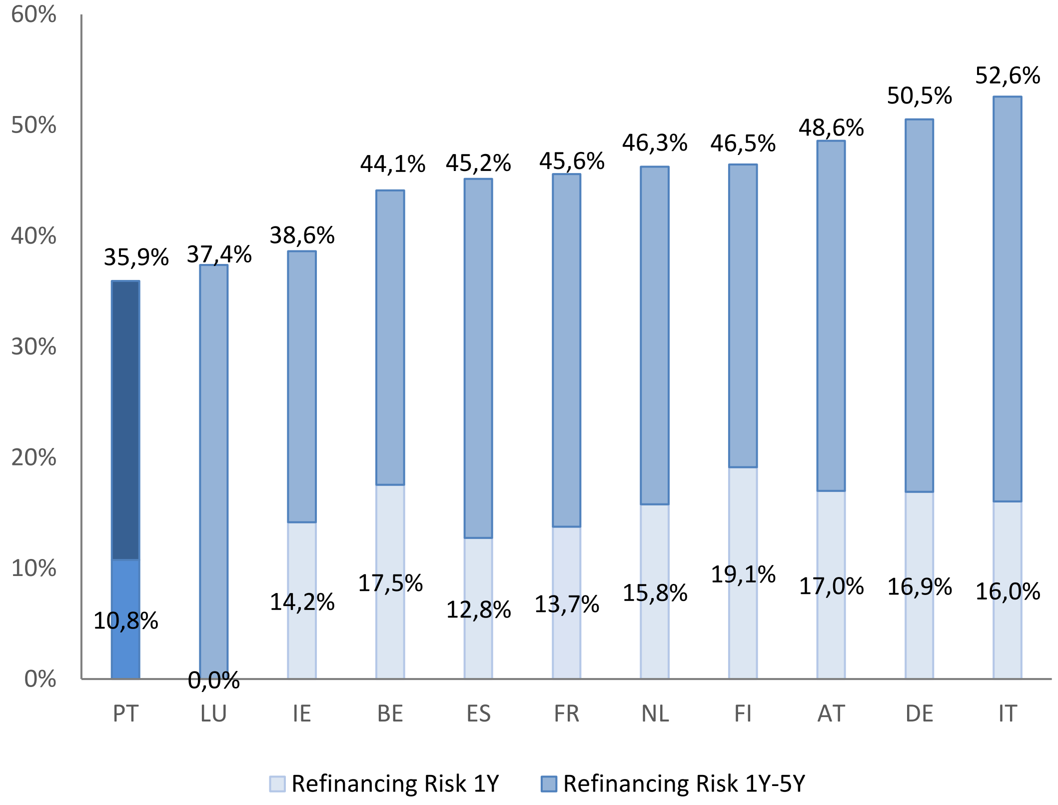


Source(s): IGCP, Bloomberg

Limited refinancing and refixing risks

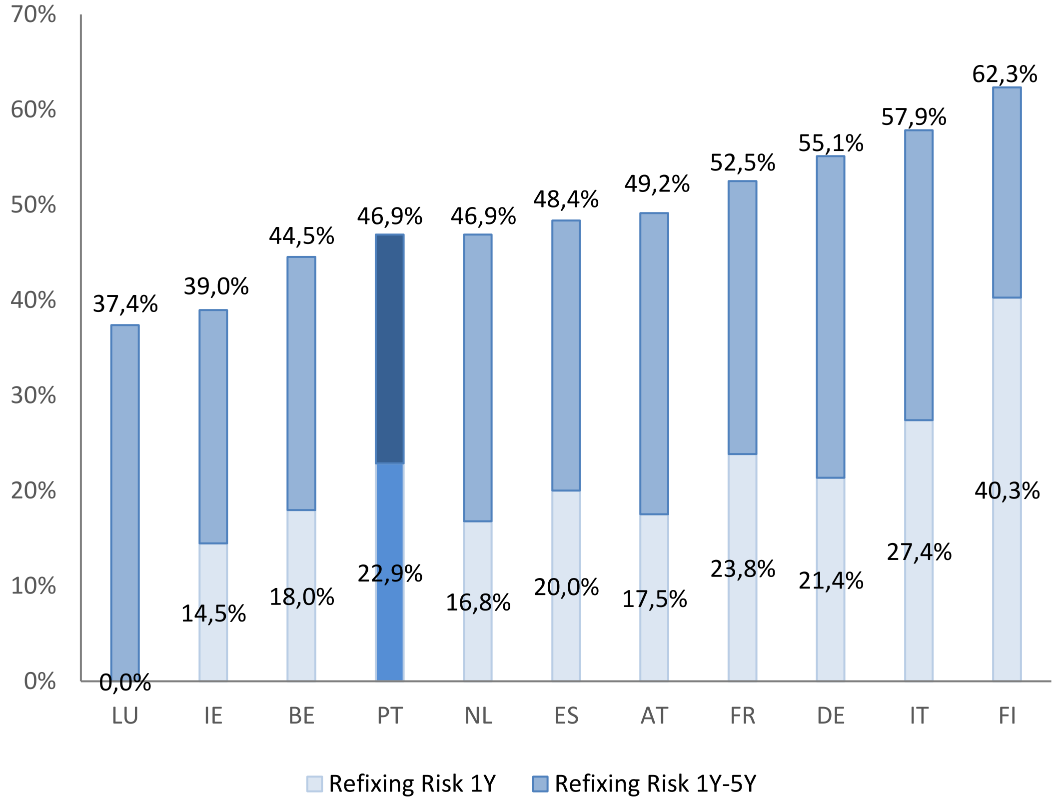
Refinancing risk low compared with peers

[% outstanding debt with reference to end September-2023]



Refixing risk increase due to high subscriptions of floating rate certificates (new series cap at 2.5%)

[% outstanding debt with reference to end September-2023]

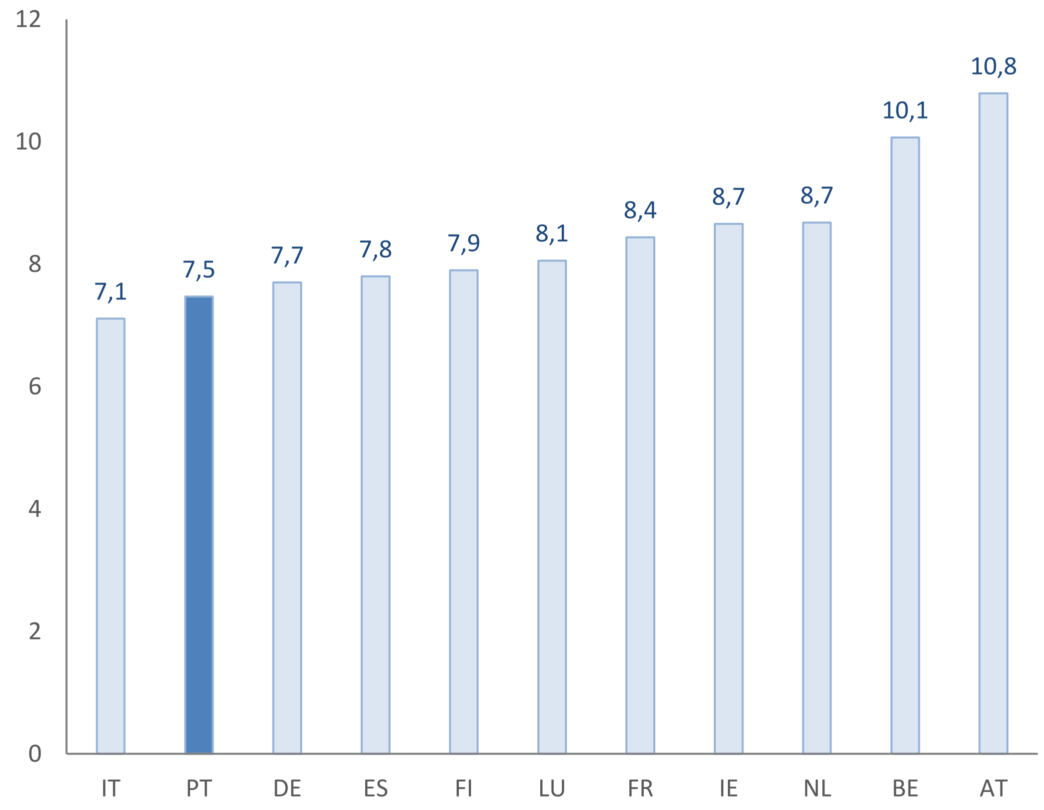


Source(s): ESDM (preliminary figures)

WAM expected to stay above 7 years

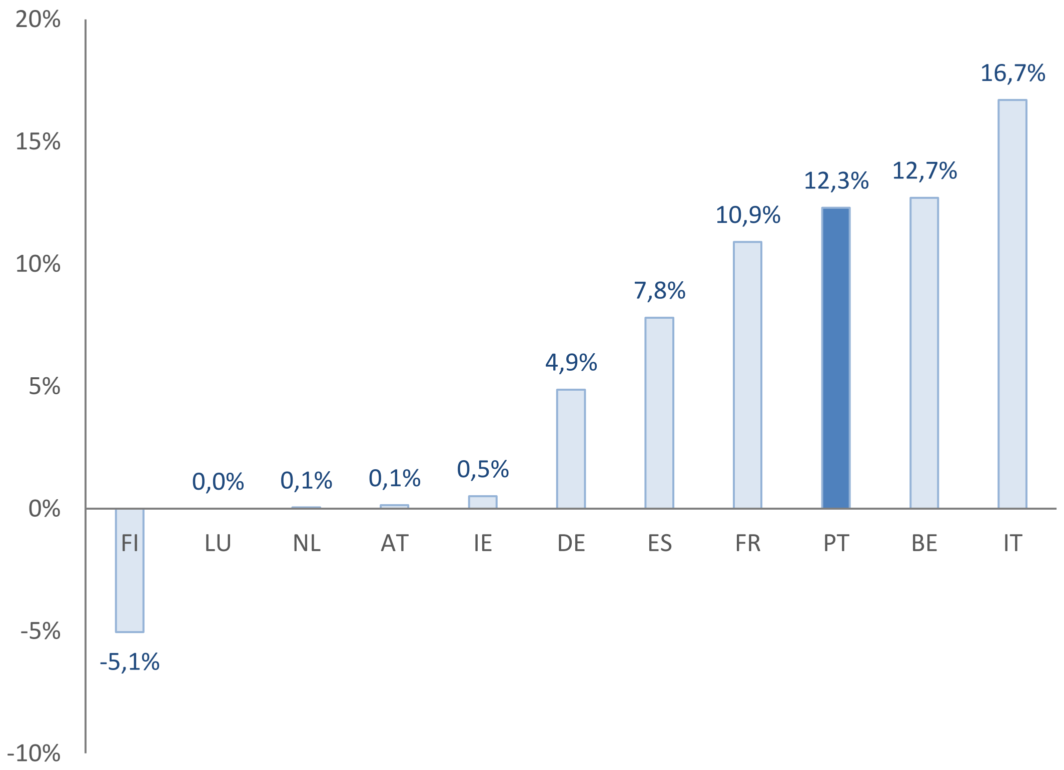
Average maturity

[in years; average residual maturity of outstanding debt with reference to end September-23]



Floating rate ratio* (new series of floating rate certificates cap at 2.5%)

[% outstanding debt with reference to September-2023; before derivatives]

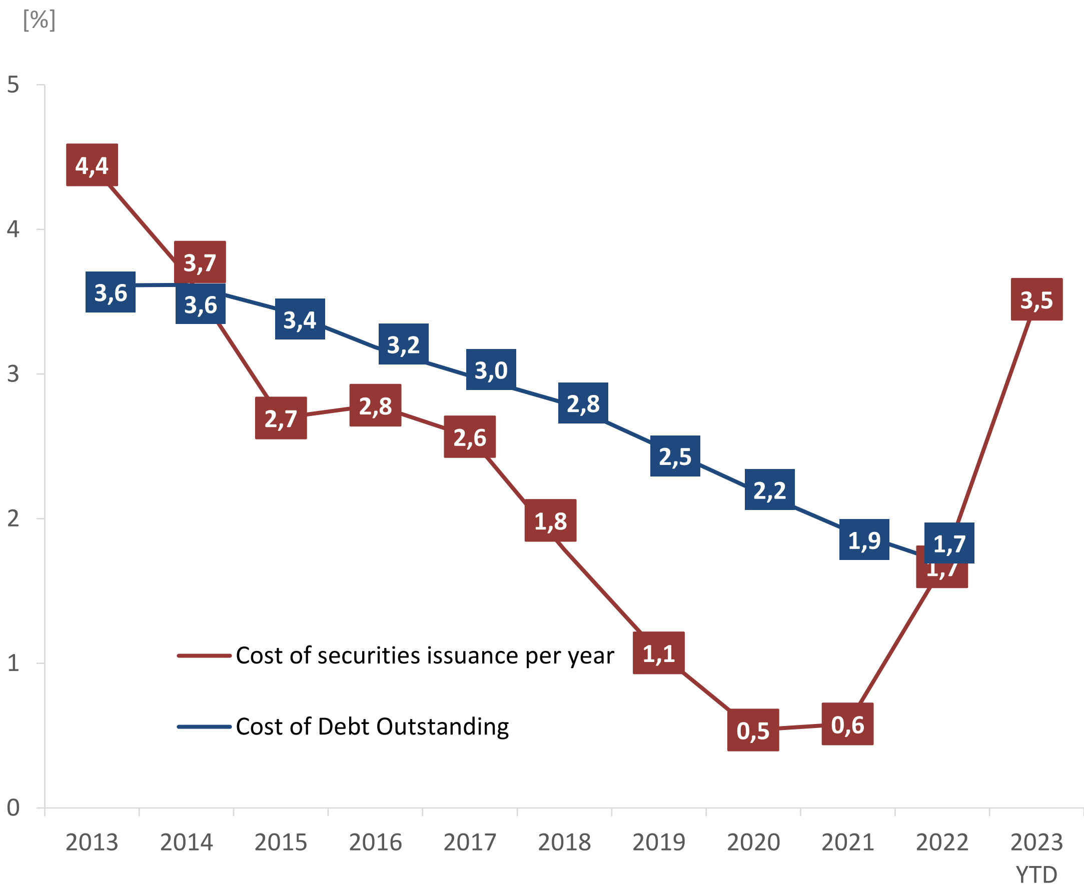


* According to ESDM methodology, floating rate debt also includes inflation linked bonds.

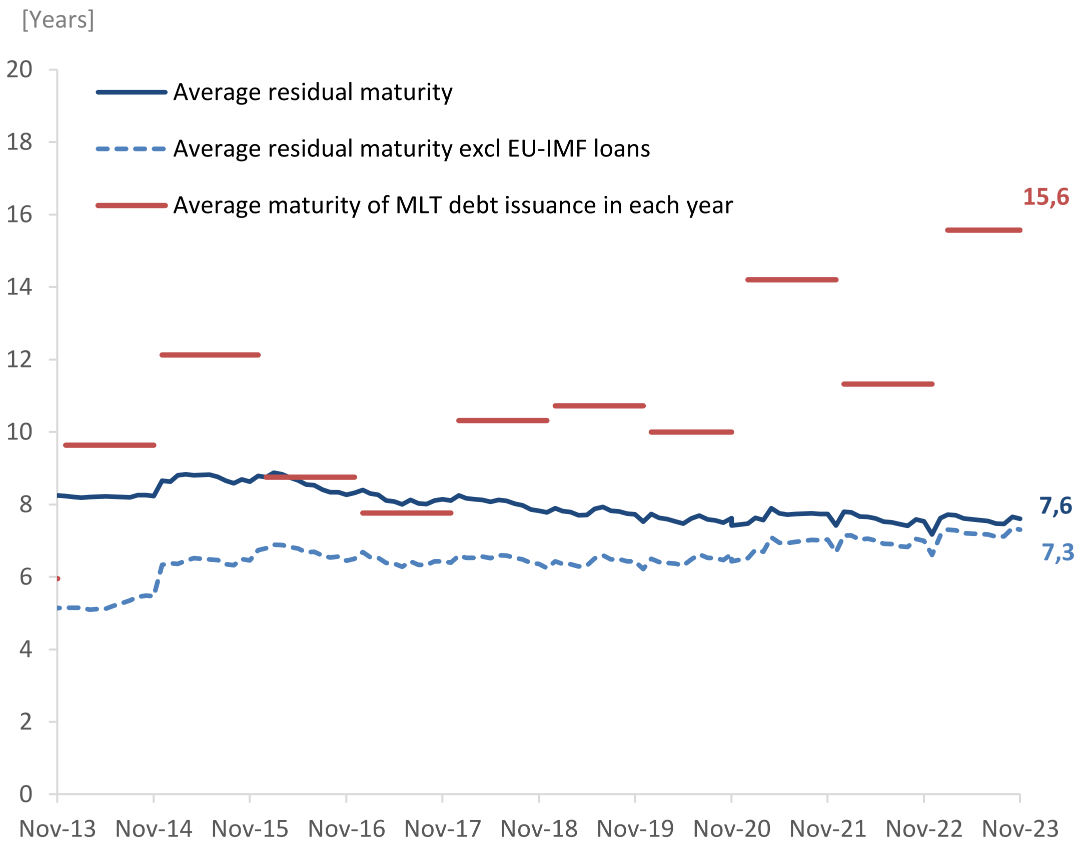
Source(s): ESDM (preliminary figures); IGCP estimates

Affordability improved significantly with a stable average maturity

Sustainable cost of debt



Stable weighted average maturity of debt

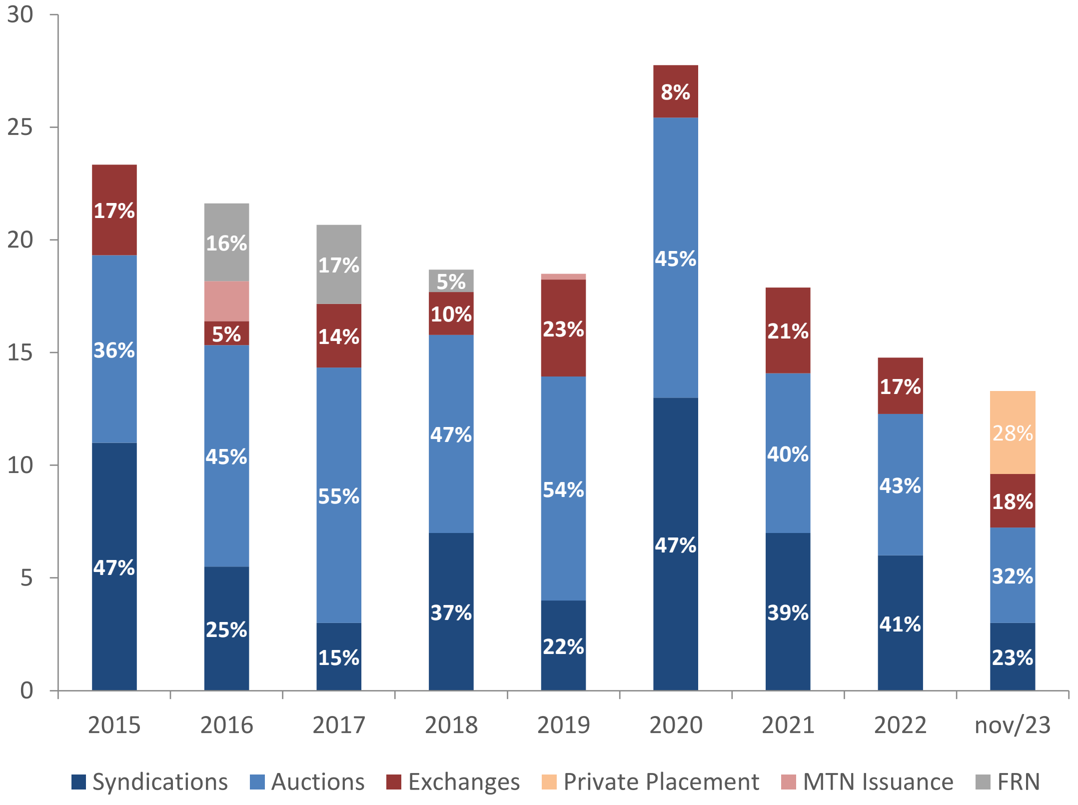


Source(s): IGCP

Regular and predictable issuance of MLT instruments

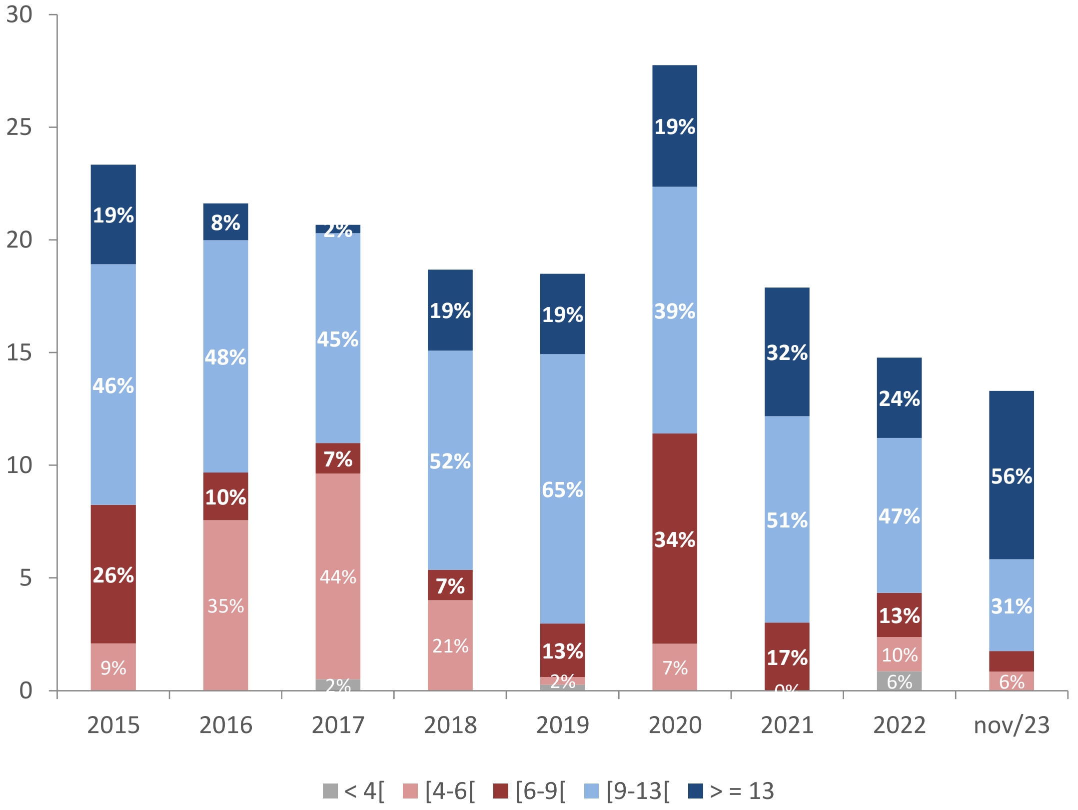
Balanced funding of auctions and syndications

[Medium- and long-term debt issuance per method of issuance; EUR billion and % of total]



Primary market issuance supports liquidity across the curve

[Medium- and long-term debt issuance per bucket; EUR billion and % of total]

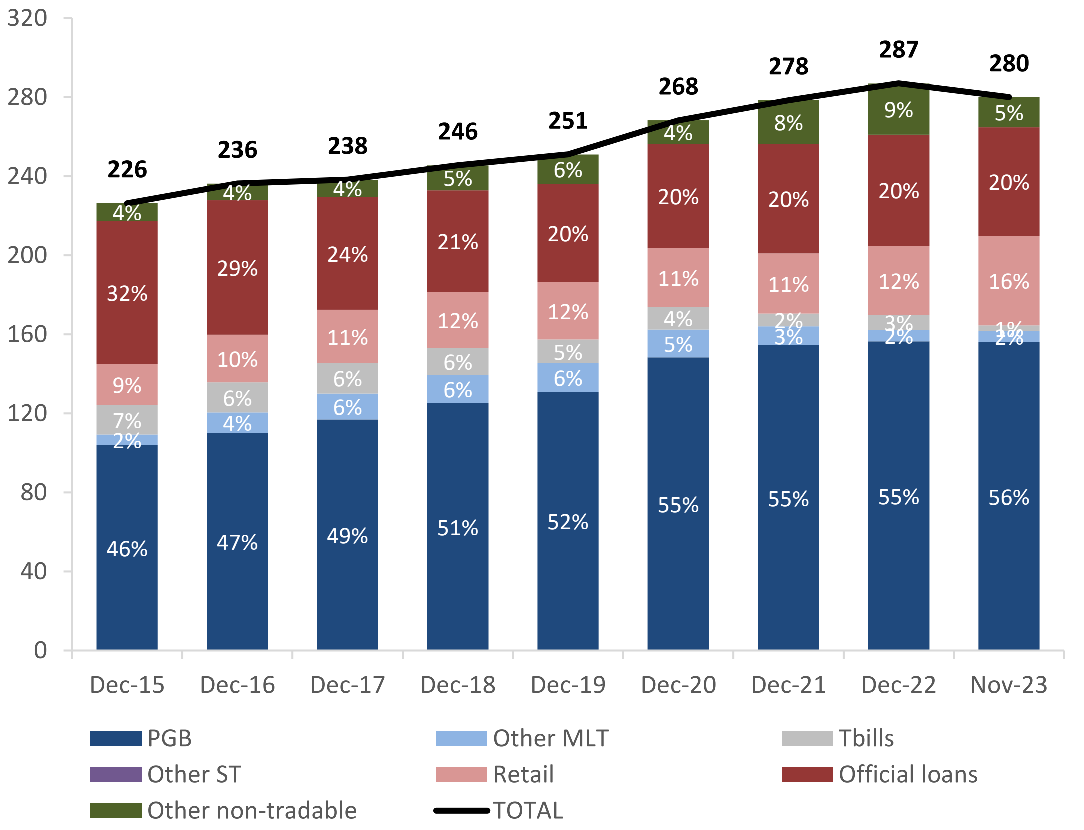


Source(s): IGCP.

Debt breakdown points to diversification and stability

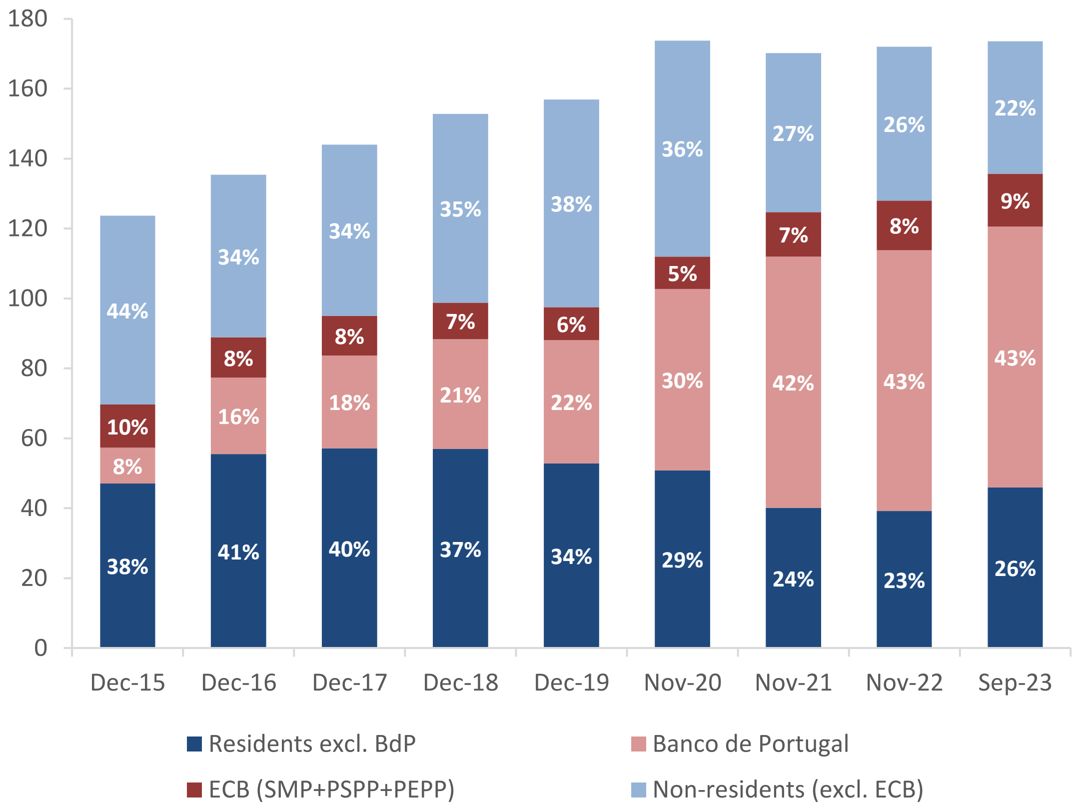
PGBs are the main funding instrument

[EUR billion and % of total State Direct Debt]



Share of Eurosystem holdings in total debt securities increased

[EUR billion and % of State direct debt securities]

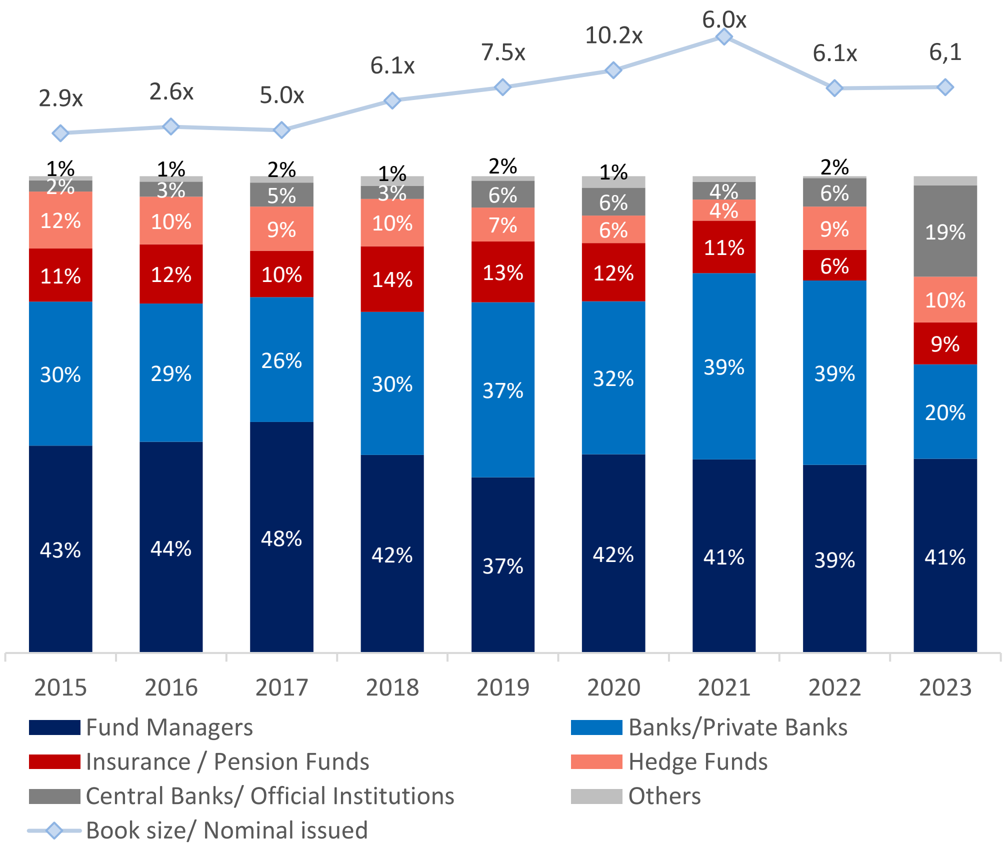


Source(s): IGCP and Banco de Portugal.

OT syndications with a diversified and stable investor base

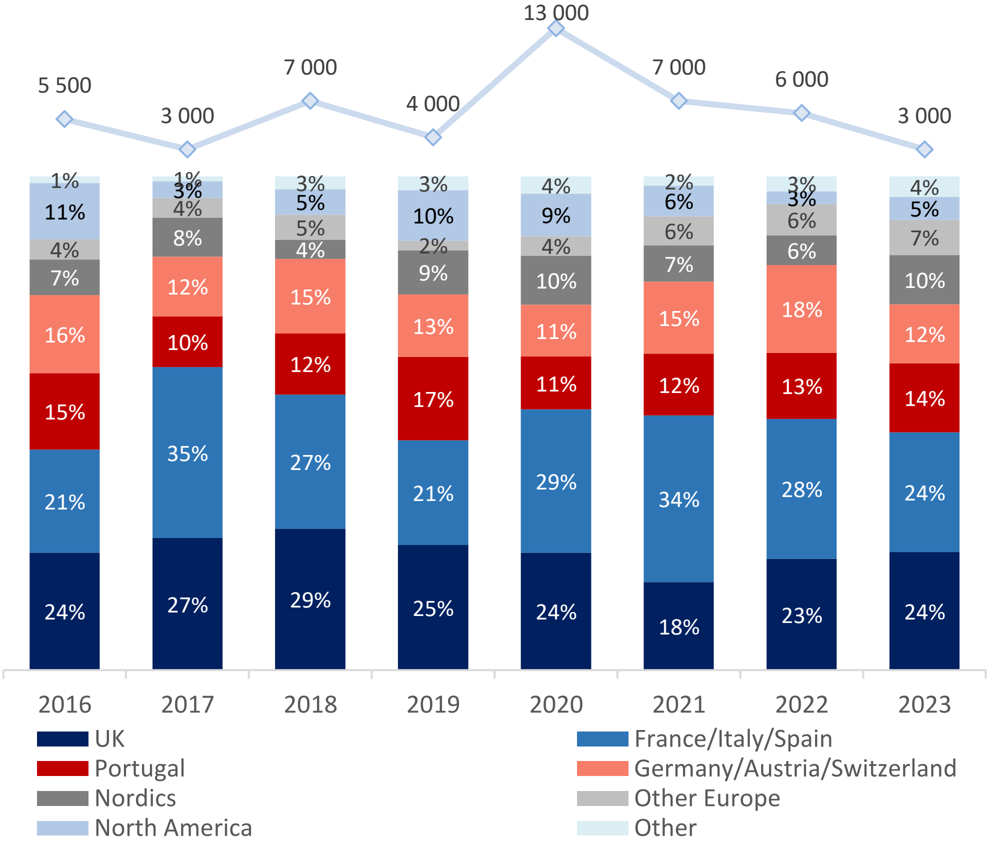
By Type

[% of total allocation; Book size/Nominal issued]



By Region

[% of total allocation; Nominal issued EUR million]

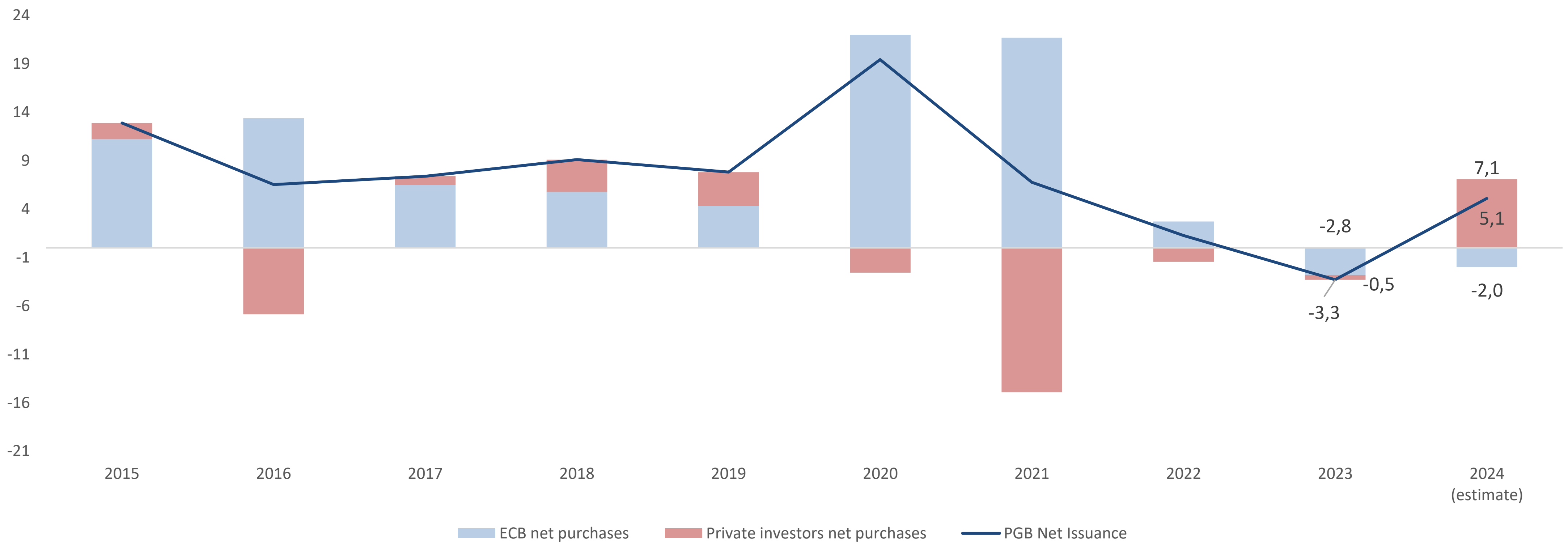


Source(s): IGCP

Even with QT in place, in 2024, net purchases of PGB by private investors is just EUR 7.1 billion

In 2024, APP is expected to reduce the net purchases of PGB by EUR 2 billion

[PGB net issuance and ECB net purchases (EUR billion)]

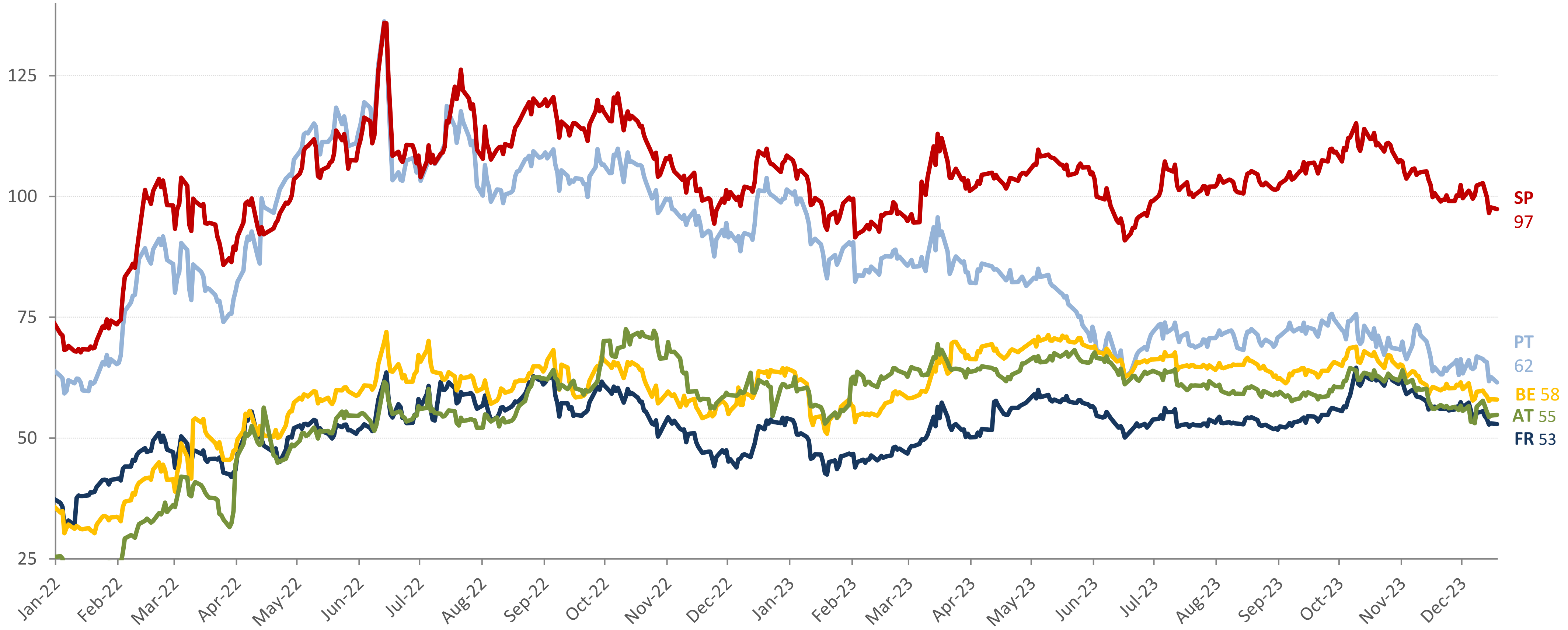


Source: BCE e IGCP

After the overperformance of PGB spreads in H1, PGB consolidated their relative value in 2023H2

PGB spreads have compressed relative to peers in 2023

[10yr spreads vs Germany, basis points]

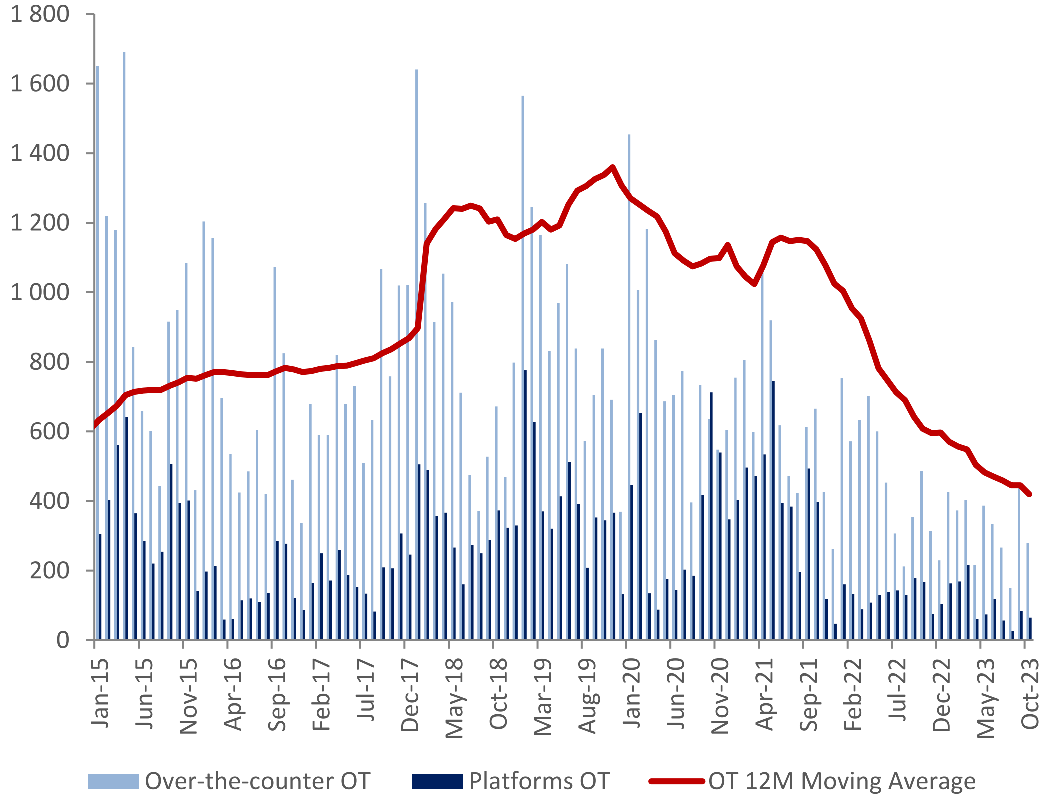


Source: Bloomberg

Lack of PGB supply has affected market liquidity

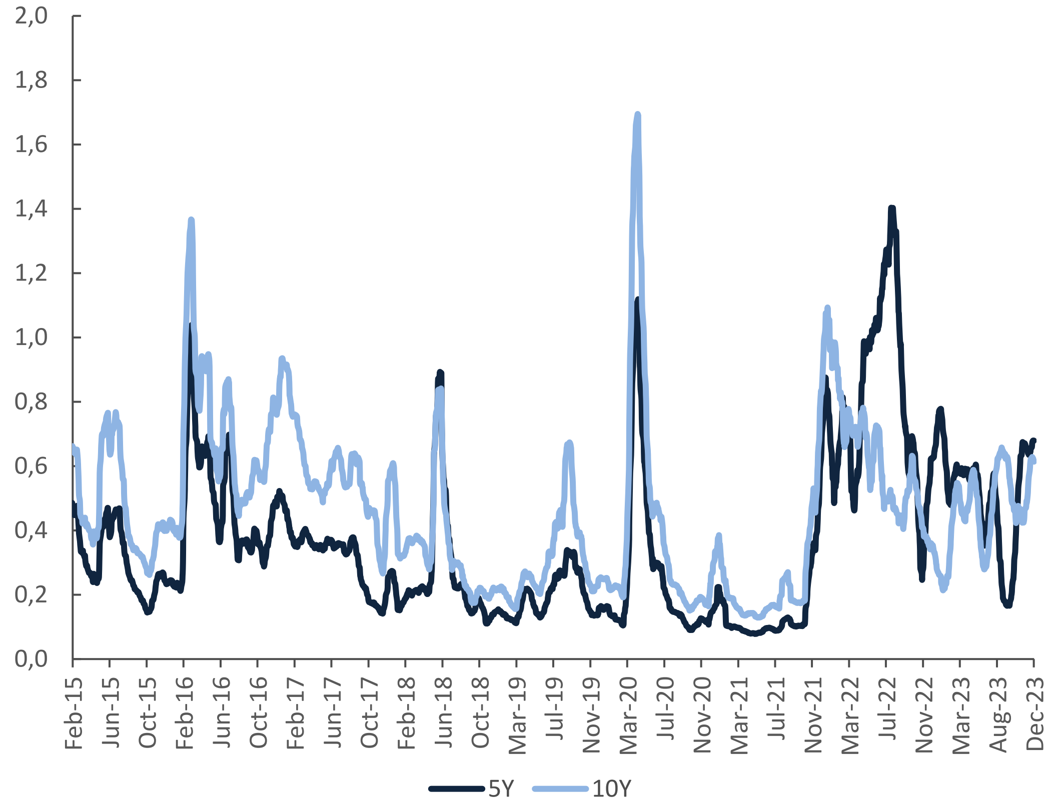
Average daily turnover continued to decrease in 2023, with significant reduction in the dealer-to-dealer platforms

[PGB trading in secondary market yields, average daily turnover in EUR million]



Bid-offer spreads tightened in 2023 from the wides seen in 2022, despite its ongoing volatility

[PGB bid-offer spreads, 1M moving average (cents)]



Source(s): BTEC, eSpeed, MTS,HRF reports, IGCP (LHS); Bloomberg (RHS).

Consistent and predictable funding plan with retained flexibility

Net financing needs and net issuance of PGBs increase in 2024 as retail issuance revert to trend

[Executed financing up to end-Nov; EUR billion]

	2021	2022	2023 P	2024 P
State borrowing requirements	**26,6**	**24,7**	**17,8**	**20,6**
Net financing needs	**13,8**	**9,3**	**3,7**	**11,9**
Overall deficit (a)	9,5	5,8	0,8	5,2
Net acquisitions of financial assets (b)	4,3	3,5	2,8	6,6
One-off operations				
MLT Redemptions	**12,8**	**15,4**	**14,2**	**8,8**
Tbonds (PGB + MTN) (c)	9,4	11,4	12,7	8,8
FRN/OTRV/Other MLT instruments	3,5	3,5		
Official loans		0,5	1,5	
State financing sources	**26,6**	**24,7**	**17,8**	**20,6**
Use of deposits	**8,3**	**2,5**	**0,3**	**-1,5**
Financing in the year	**18,3**	**22,2**	17,5	22,1
Executed	**18,3**	**22,2**	**15,4**	
EU	2,8	1,4	0,1	
Tbonds (PGB + MTN)	14,6	12,0	9,4	
FRN/OTRV				
Retail debt (net)	0,5	4,6	10,4	
Tbills (net)	-4,8	1,3	-4,5	
Other flows (net) (d)	5,2	3,0		
To be executed			**2,1**	**22,1**
EU				2,2
Tbonds (PGB + MTN)				13,9
FRN/OTRV				
Retail debt (net)			-0,4	0,0
Tbills (net)				6,1
Other flows (net) (d)			2,5	-0,1
State Treasury cash position at year-end (e)	**8,8**	**6,3**	**6,0**	**7,5**

a) State sub-sector cash deficit (2023 refers to estimates from the Ministry of Finance and 2024 is in accordance with the State Budget).

b) Includes refinancing of other public entities (namely SOEs)

c) Includes net impact of exchange offers.

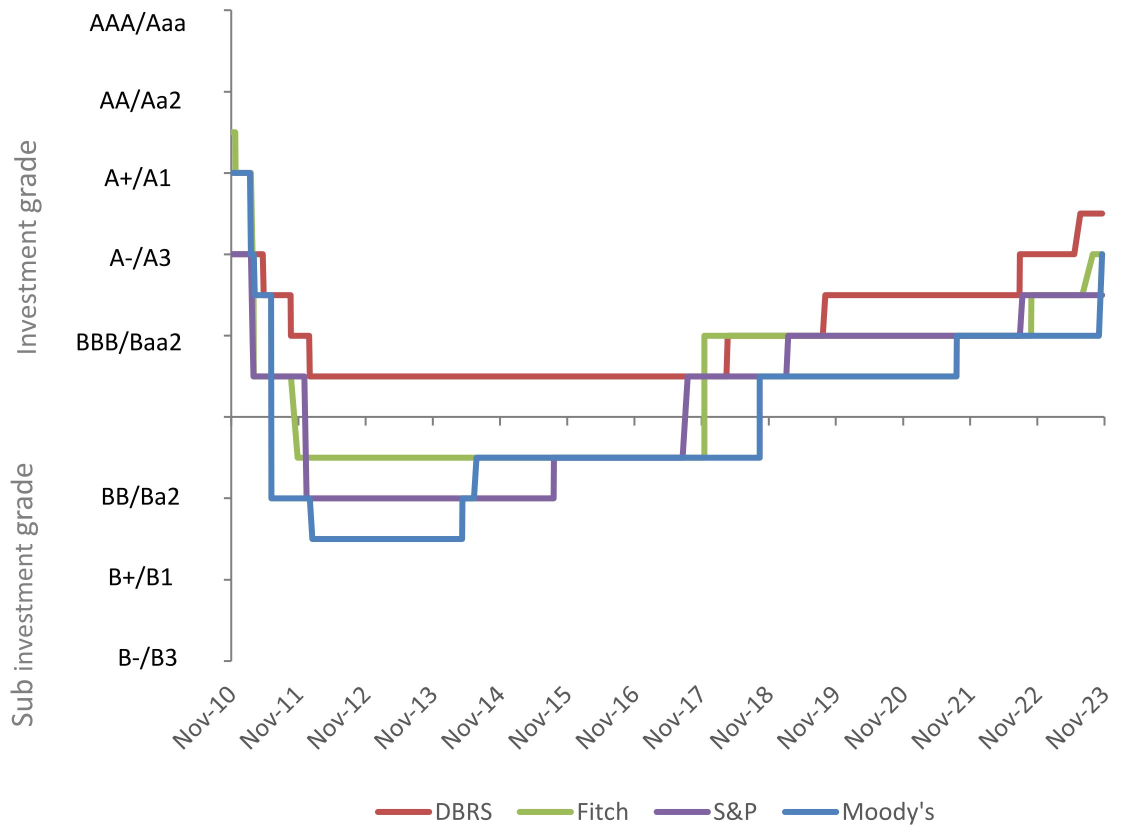
d) Includes centralization of funds of other public entities in the Single Treasury Account.

e) Excludes cash-collateral.

Source(s): IGCP and Ministry of Finance.

Rating agencies recognition

Portugal has received ratings upgrades by DBRS Morningstar (Jul. 23), S&P (Sept. 22), Fitch (Sep. 23) and Moody's (Nov. 23)



	DBRS	Fitch	Moody's	S&P
Current	**(A / Sta.)**	**(A- / Sta.)**	**(A3/ Sta.)**	**(BBB+ / Pos.)**
Sep-21			17/Sep Upgrade to Baa2	
Aug-2022	26/Aug Upgrade to A(low)			
Sep-2022				9/Sep Upgrade to BBB+
Oct-2022		28/Oct Upgrade to BBB+		
Jan-2023	27/Jan A(low) | Stable			
Mar-2023				10/Mar BBB+| Stable
Apr-2023		14/Apr BBB+| Stable		
May-2023			19/May Baa2|Positive	
Jul-2023	21/Jul Upgrade to A			
Sep-2023		27/Sep Upgrade to A-		8/Sep BBB+| Positive
Nov-2023			17/Nov Upgrade to A3	

Source(s): DBRS, Fitch, Moody's and S&P

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Sustainability Country Ranking and Rating

UN SDG Index

80.0
Ranking: 18 th/166

Environmental Performance Index

50.4
Ranking: 48 th/180

ESG Government Report

ESG Rating: BBB
Outlook: Positive

Source(s): Sustainable Development Report 2023; 2022 EPI results (link); MSCI ESG Government Report, October, 2023

Environmental and Climate transition is a top priority for Portugal

A framework for strategic action

Roadmap for Carbon Neutrality 2050

- It establishes the vision and paths for Portugal to achieve carbon neutrality by 2050, contributing to the more ambitious goals under the Paris Agreement.
- The RNC2050 demonstrates that carbon neutrality by 2050 is economically and technologically feasible and is based on a reduction in emissions between 85% and 90% by 2050, compared to 2005, and on offsetting the remaining emissions through the sink provided by forests and other land uses.

Climate Law - Lei de Bases do Clima

National Energy and Climate Plan for 2021-2030

- It is the main energy and climate policy instrument for the decade 2021-2030. It arises within the scope of the obligations established by the Regulation on the Governance of the Energy Union and Climate Action and establishes ambitious, but achievable goals, for the 2030 horizon.

National Strategy for Adaptation to Climate Change

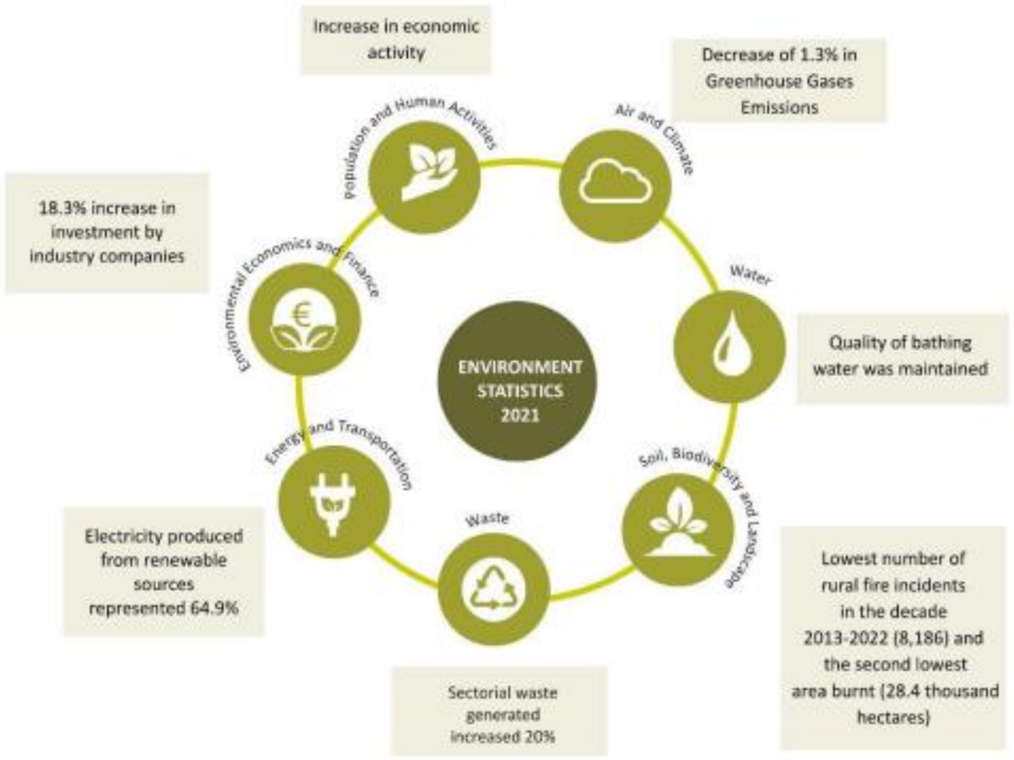
- It establishes objectives and the model for implementing solutions for adapting different sectors to the effects of climate change.

Action Program for Adapting to Climate Change

- The Action Program for Adaptation to Climate Change (P-3AC) complements and systematizes the work carried out in the context of the National Strategy for Adaptation to Climate Change (ENAAC 2020), with a view to its second objective, that of implementing measures to adaptation.

The state of environment in 2021

Improving indicators in reduction of greenhouse gas emissions but ground to cover in waste generation and treatment



- Reduction of Greenhouse Gases Emissions
- Good quality of water
- Increasing share of electricity produced from renewables sources

- Generated waste increase
- Downward trend on reuse and recycling

Source(s): Statistics Portugal – The state of environment in 2021 (link)

Portugal's National Energy and Climate Plan for 2021-2030

Ambitious, but achievable goals, for 2030*

	2020 Target	2030 Target
GHG emissions reduction [1]	-18% / -23%	-45% /-55%
Energy efficiency	25%	35%
Renewables	31%	47%
Renewables on transportation	10%	20%
Interconnections	10%	15%

[1]compared to 2005

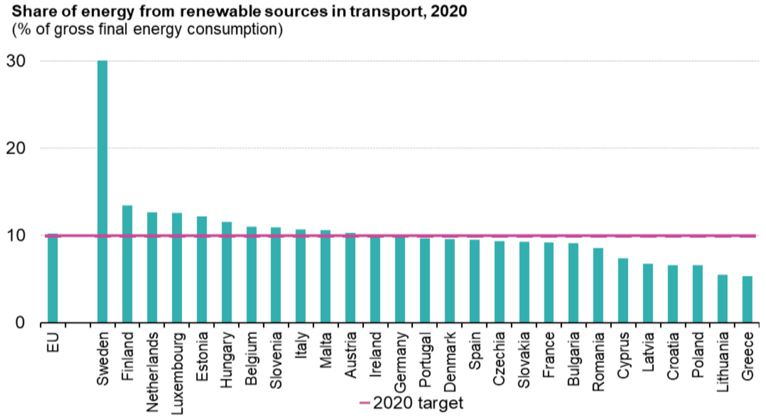
GHG variation *

2020/2005 -32.9%

Share of renewable energy in gross final energy consumption

34.0% 2020 Po

+3.4 pp than in 2019



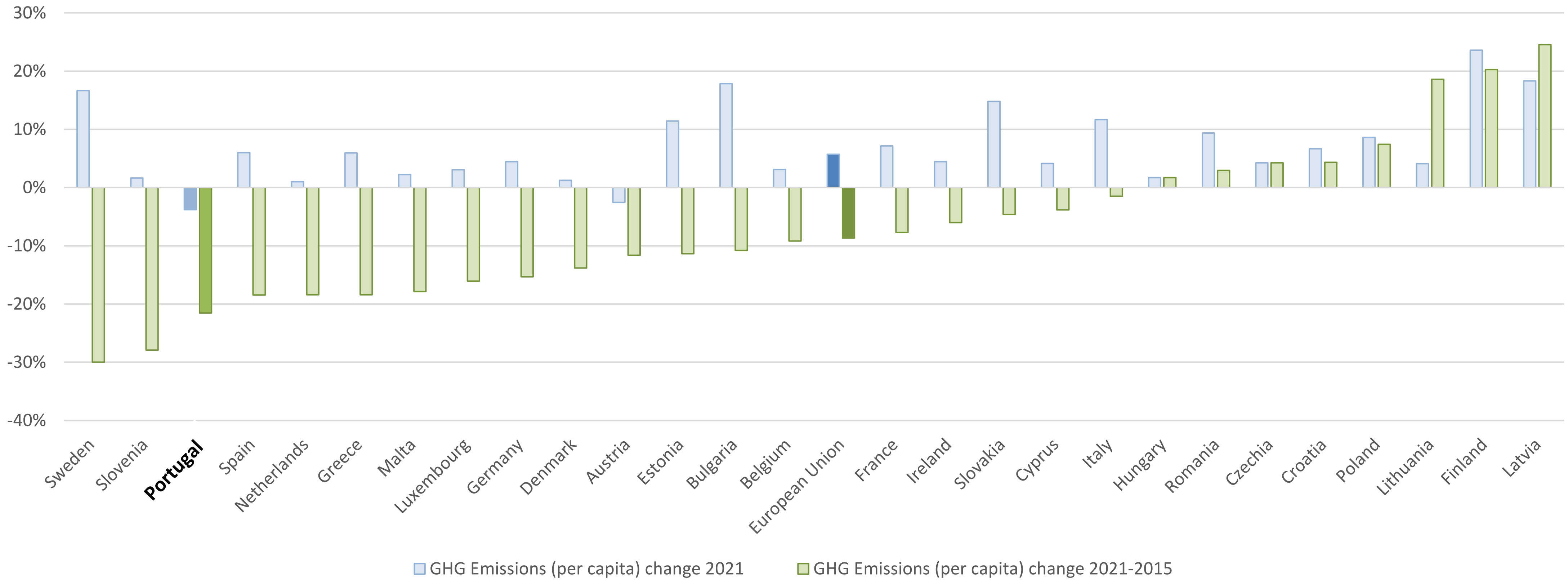
Source: Eurostat (online data code: nrg_ind_ren)

*** PNEC draft revision anticipates the goal for renewable energy incorporation and GHG emissions helping Portugal to anticipate the carbon neutrality goal to 2045.**

Source(s): National Energy and Climate Plan (link), : SDG indicators for Portugal 2015-2021, Statistics Portugal (link) and Eurostat

Portugal has shown results in reducing greenhouse gas emissions

Significant cumulative reduction of GHG emissions in Portugal

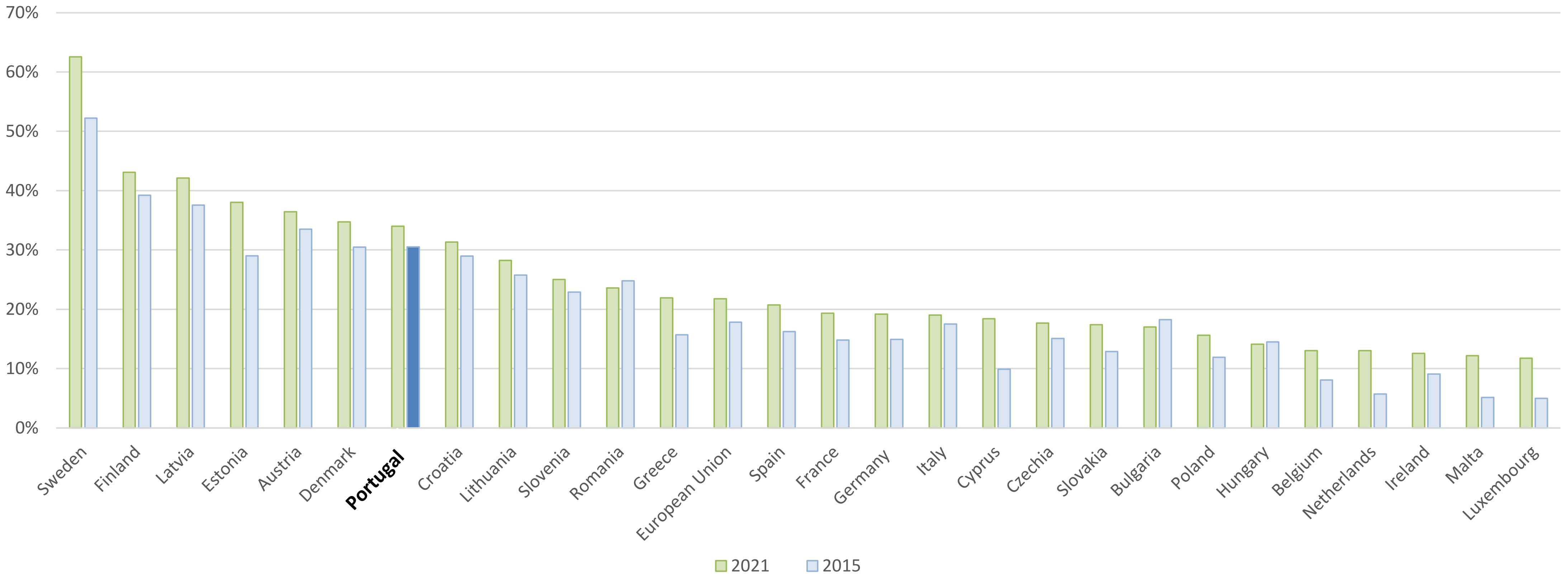


Source(s): Eurostat

Renewable energy sources gain increased weight in final energy consumption

Share of renewables in final energy consumption was 34% in 2021. This share increases to 58% when considering only electricity production

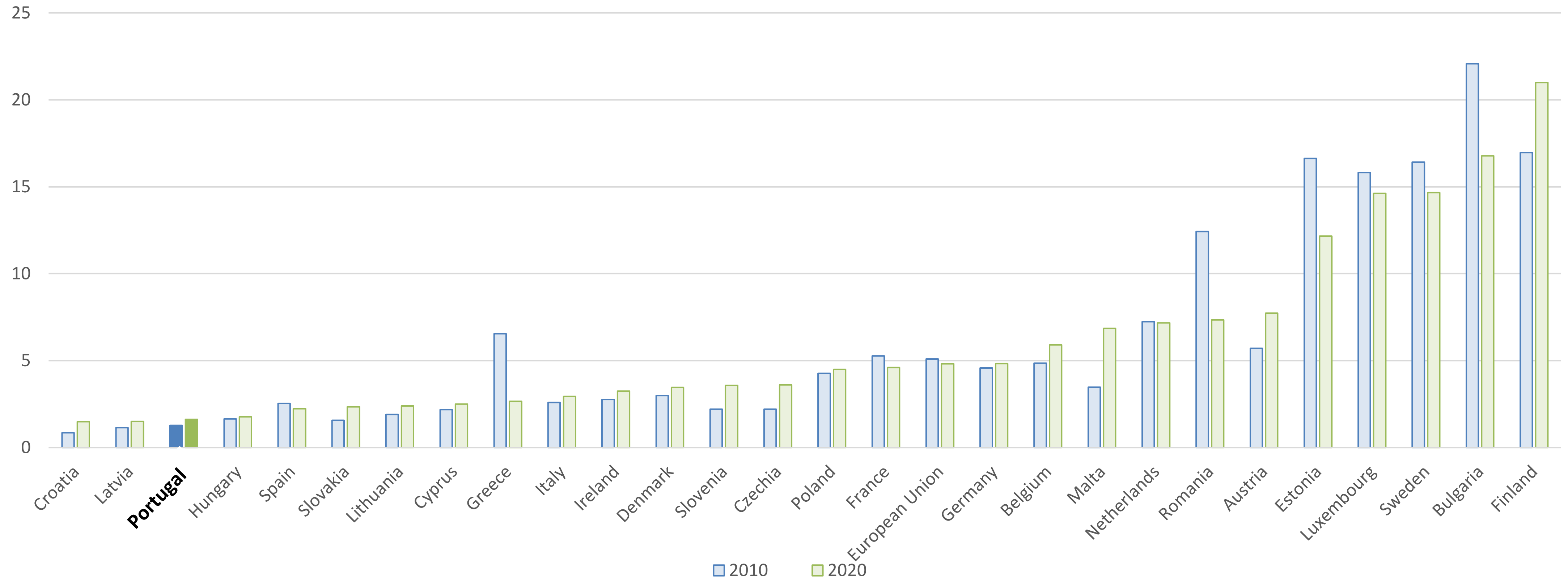
[Share of renewables sources in gross final energy consumption, %]



Source(s): Eurostat

Waste generation per capita in Portugal has stayed low

[Annual waste generation per capita, ton per capita]



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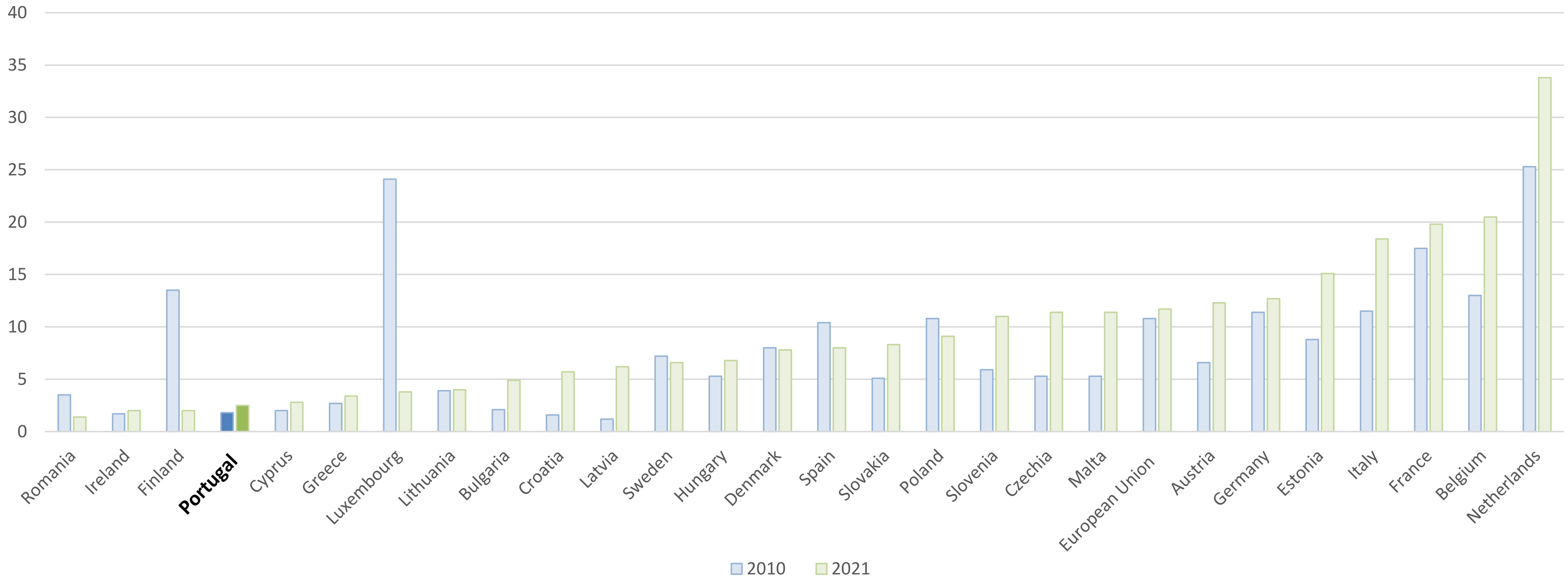
Agência de Gestão da Tesouraria e da Dívida Pública

Source(s): Eurostat

Room for improvement in waste treatment and circular economy

Use rate of circular material remains low as well as the recycling rate

[Use rate of circular material, %]]



Source(s): Eurostat

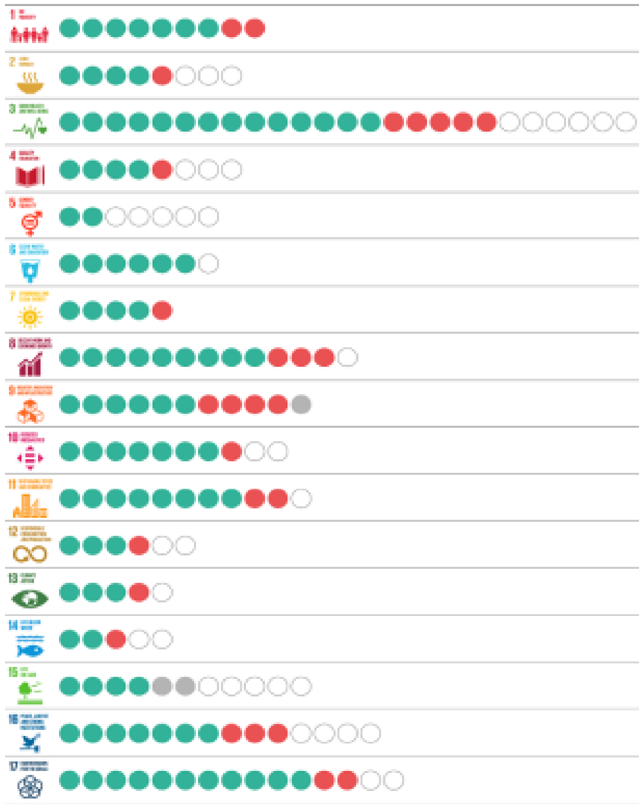
National commitment to SDG

170 of the total 248 UN indicators are available for Portugal

Availability of SDG indicators for Portugal

61% of the indicators with improvement since 2015

SDG indicators evolution in Portugal in the period 2015-2022*



Source(s): SDG indicators for Portugal 2015-2022, Statistics Portugal (link)

Thank you

Web site: www.igcp.pt
Bloomberg pages: IGCP
Reuters pages: IGCP01

Annex

Government includes 3 priorities in 2024 State Budget

Reinforce income to stabilize the contribution of domestic demand to GDP

- Increase Public Administration wages (and from Private Sector)
- Reduction of income tax
- Pensions increases
- Foster young workers income through education additional premium
- Reduction of mortgage burden and boost to rental market with affordable rents
- Support to children with increase in children social benefit and free daycare
- Reinforce of social benefits (social complement for elderly people, social inclusion income)

Promote investment to increase productivity and competitiveness

- Increase on budget allocation to Health, Housing, Science and Education
- Investment on structural areas
- Incentives to corporate capitalization

Protect the future of current and future generations

- Reinforce Social Security Stabilization Fund
- New fund for structural investment (after RRF)

Source(s): 2024 State Budget

2024 State Budget priorities

Impact of measures in 2024 fiscal budget

1. Reinforce income	M€
Wages increases for Public Administration workers	1.538
Pensions updates	2.223
Reduction in income tax (mainly for middle class)	1.327
Reduction in income tax for young people	200
Premium for year of superior education	215
Free Public Transports until 23 years old	126
Reduction of expenses with house credit	200
Reduction of rents and access to housing	888
Increase in child benefit	320
Extension of free daycare	100
Reinforcement of the Solidarity Complement for the Elderly	55
Increase of Social Integration Income	30

2. Promote Investment	M€
Budget Reinforcement	
Health	1.209
Housing	336
Education	297
Science and Superior Education	182
Structural Investment	
Climate Changes	1.577
Housing and territorial cohesion	470
Education	414
Digital society, creativity and innovation	354
Health (SNS)	216
Other	265
Promoting corporate investment	265

3. Protecting the future	M€
Reinforce Social Security fund of financial stability	2.634
Structural Investment Fund Post 2026	2.000

Source(s): 2024 State Budget