Portuguese Banking Outlook 2025

On Solid Footing

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S&P Global
Ratings

This report does not constitute a rating action

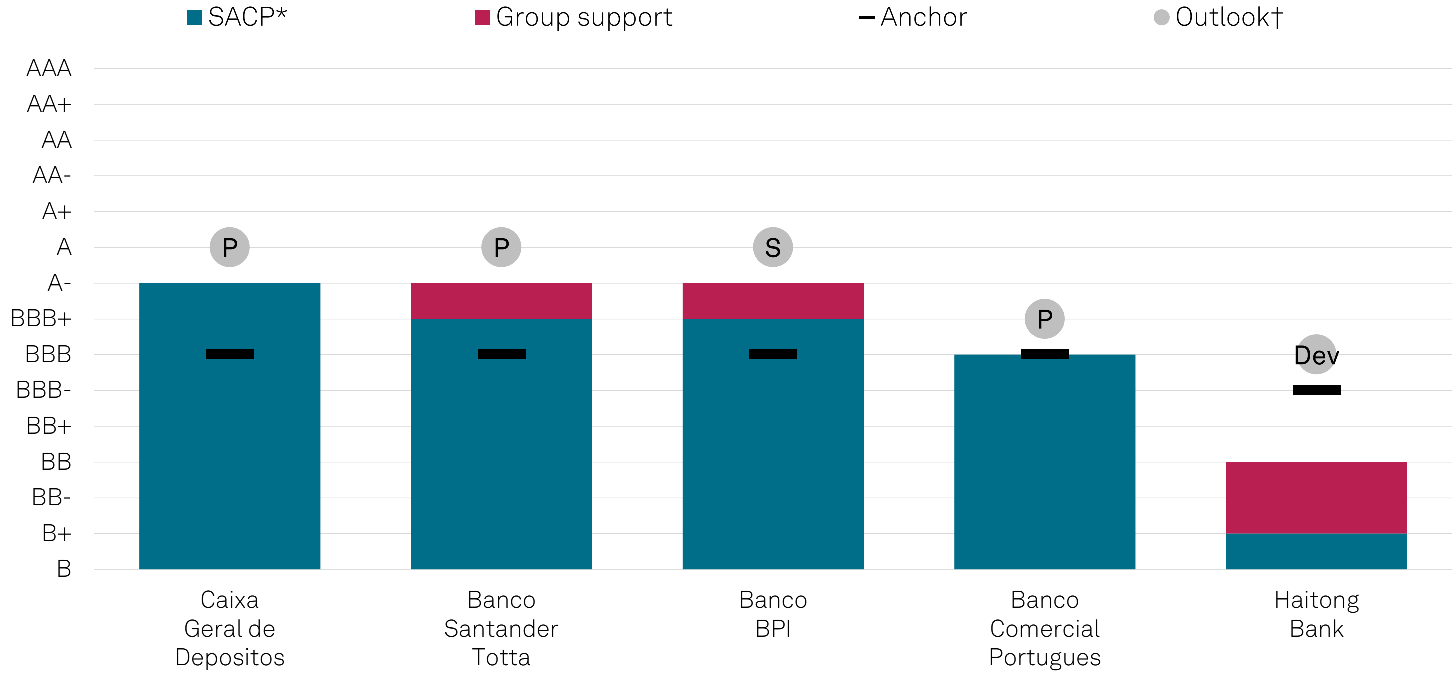
Key Takeaways

- Portugal's economic growth will exceed that of the eurozone average. The coalition government will likely maintain its commitment to fiscal discipline and public debt reduction.
- Banks will maintain solid profitability in 2025, even if it will be lower than over 2023-2024. Revenues are set to decline as banks' net interest margins compress amid lower interest rates.
- Portuguese banks will remain more efficient than peers, given their streamlined operating structures.
- Asset quality will remain resilient, while credit costs will remain fairly stable, thanks to the supportive economic environment and borrowers' manageable debt levels.
- Regulatory capital is now aligned with the eurozone average and should consolidate at current levels. Banks will prepare to comply with the new 0.75% countercyclical buffer applicable from Jan. 1, 2026.
- Banks will remain mostly deposit-funded and maintain ample liquidity.
- A larger player could emerge if Novo Banco is put on sale and acquired by a domestic competitor.

Our Ratings On Portuguese Banks: Positive Outlooks Dominate

The ratings outlook on Portugal and our trend on economic risks in the country are positive

Portuguese bank ratings



Note: Data reflects ratings and outlooks as of Jan. 20, 2025. *Stand-alone credit profile or unsupported group credit profile for rated groups.
†Outlook labels: Dev--Developing. P--Positive. S--Stable.
Source: S&P Global Ratings.

- Positive momentum remains for several rated banks.
- We assigned our 'A-/A-2' ratings to CGD in early 2025, with a positive outlook.
- Our main rating actions in 2024 include:

- March: We upgraded Totta to 'A-/A-2' from 'BBB+/A-2'. The outlook is positive.
- September: We affirmed the 'BB/B' ratings on Haitong Bank and revised the outlook to developing from negative.
- October: We upgraded BCP to 'BBB/A-2' from 'BBB-/A-3'. The outlook is positive.
- October: We revised upward our stand-alone credit profile (SACP) on Totta and BPI to 'bbb+' from 'bbb'.
- November: We upgraded BPI to 'A-/A-2' from 'BBB+/A-2. The outlook is stable.

2025 Forecast

Worsening		Neutral		Improving

Revenues	Revenues will decline by mid-single digits due to lower net interest income (NII) as net interest margins compress amid lower interest rates. Anticipated loan growth and higher fee income will not offset the decline in NII.
Expenses	Expenses will likely increase modestly on the back of further investments in banks' business and technology, with inflation now under control. Banks will continue reporting superior efficiency, with the system's cost-to-income ratio slightly above 40%.
Profitability	We forecast the banking industry's domestic return on common equity will be about 12% in 2025, below the close to 14% levels over 2023-2024.
Credit quality	While some problem loans could emerge, we anticipate asset quality will remain resilient, given the supportive economic environment and borrowers' manageable debt levels. We forecast credit losses will stand at 50 basis points (bps) in 2025, in line with those of 2024.
Capital	Capital will likely consolidate at current levels, supported by resilient profitability and moderate growth of risk-weighted assets. Some banks could increase their dividend pay-outs slightly.
Funding and liquidity	Deposits will remain banks' main funding source, exceeding their loan books, while liquidity will remain ample.

Forecast for the next 12 months.
Source: S&P Global Ratings.

Key Risks

Worse-than-anticipated economic growth and rapid escalation of geopolitical tensions

Both would likely lead to higher unemployment, weaker business prospects for banks, and a more rapid build-up of problem loans.

Housing prices increasing significantly beyond our expectations

This could lead to the build-up of imbalances in banks' balance sheets and additional provisioning efforts, ultimately weighing on banks' capitalization.

Intensifying competition

Banks' inability to lower time deposits' remuneration amid high competition could eat up their margins and weigh on their net interest income.

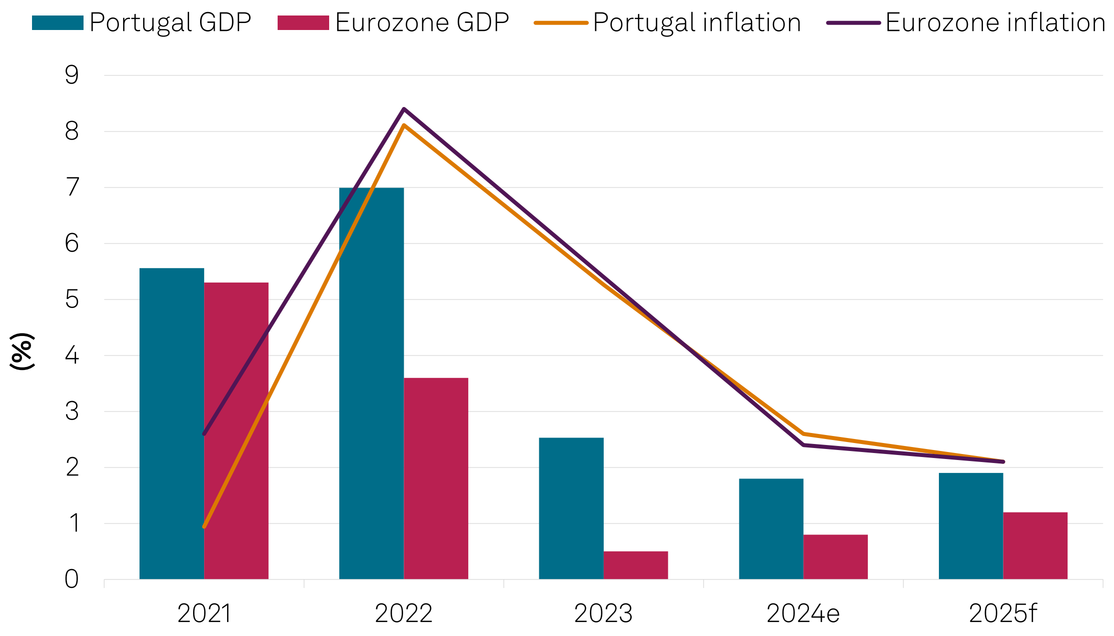
Failure to tackle evolving risks efficiently and timely

Evolving risks, such as cyber attacks or extreme weather events, could lead to significant financial and reputational losses for the least prepared banks.

The Economy Will Remain Supportive

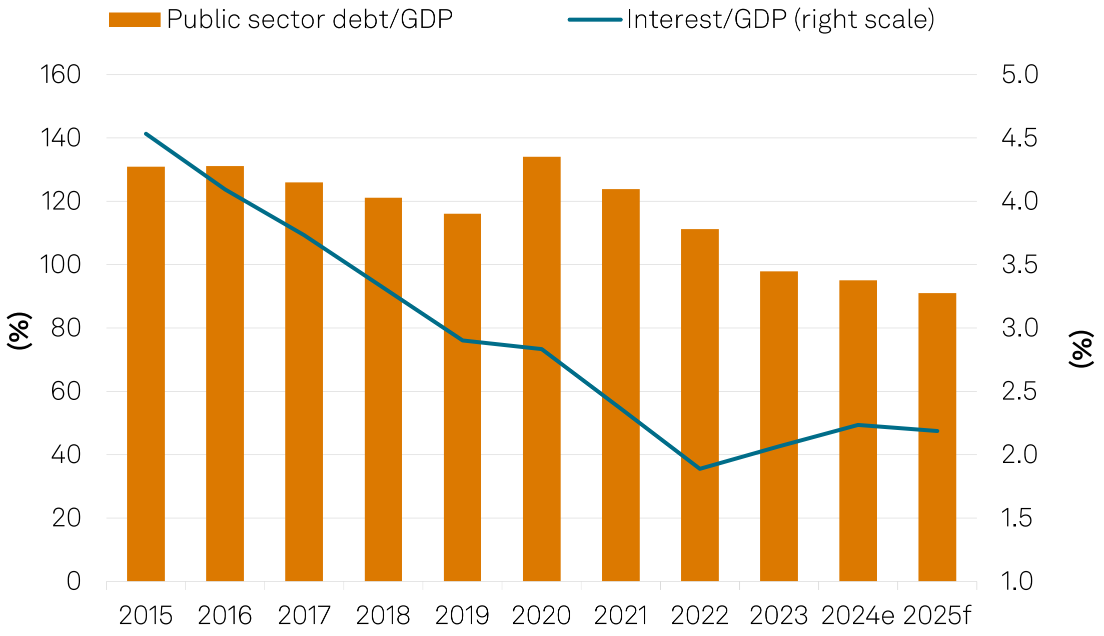
- Robust net exports, a rebound in private consumption, and the boost from large projects financed by the Next Generation EU fund will support Portugal's economic growth in 2025, while the labor market will remain solid.
- The coalition government will likely maintain its commitment to fiscal discipline and public debt reduction.

Economic growth will slow but remain above the EU average



e--Estimate. f--Forecast.
Source: S&P Global Ratings.

Portugal will continue to cut government debt at one of the fastest paces in the eurozone

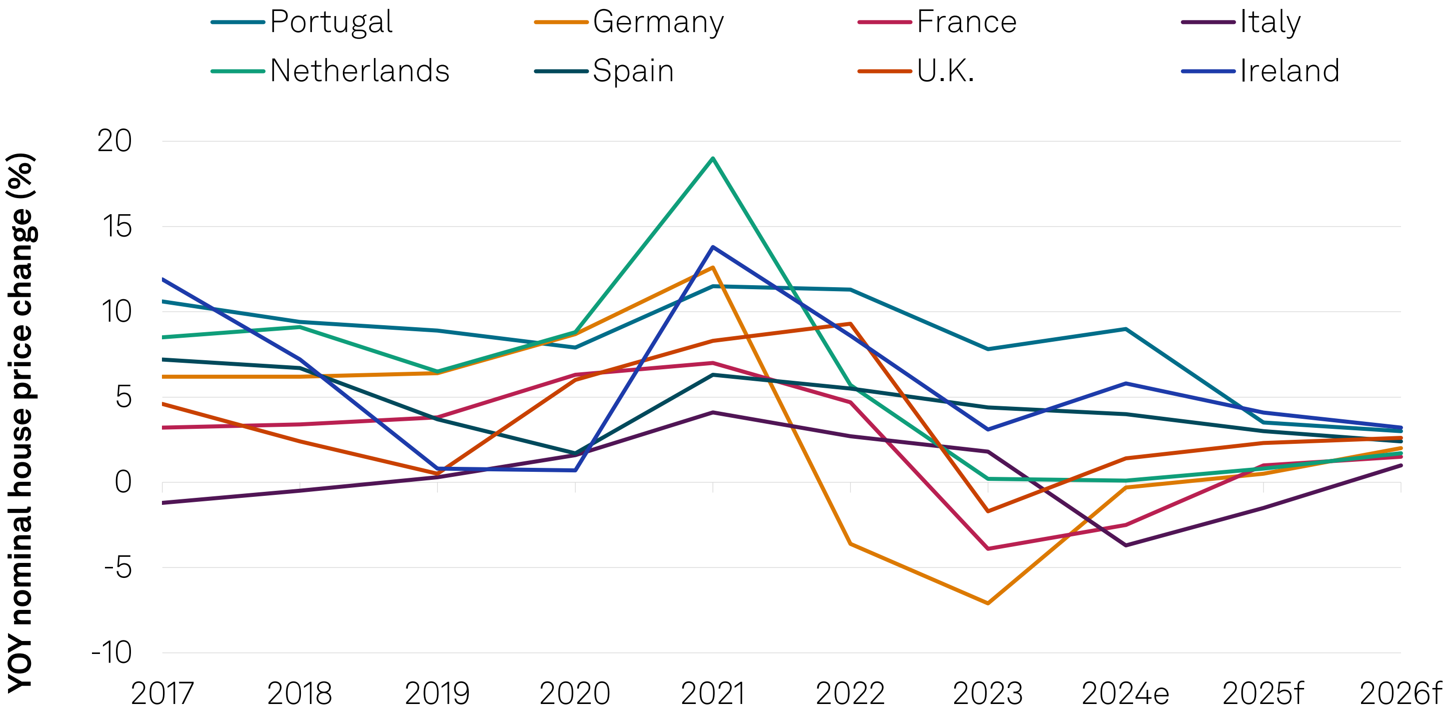


e--Estimate. f--Forecast.
Source: S&P Global Ratings.

The Housing Market Will Remain Dynamic

Even if price growth is set to decelerate, it will remain above that of peers and require continuous monitoring

Portugal's housing prices will rise more slowly



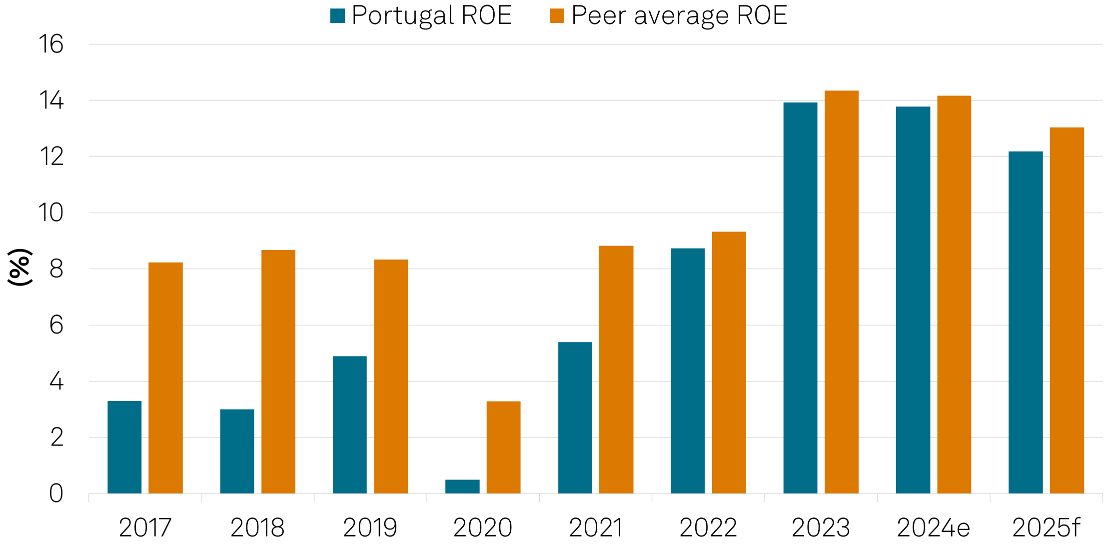
e--Estimate. f--Forecast. YOY--Year on year.
Source: S&P Global Ratings.

- While the housing market will remain dynamic, the pace of the increase in nominal prices will slow to an expected 3.5% in 2025, versus an average 10% in 2017-2022. This is due to the still tight financing conditions and government measures to improve housing affordability.
- The expected share of residential real estate transactions financed by domestic loans will remain considerably lower than before (less than 50% in 2025 versus 66% in 2009). This is due to high foreign demand.
- As long as the labor market remains resilient, we do not expect mortgage performance to be affected significantly.

While Declining, Profitability Will Remain Solid

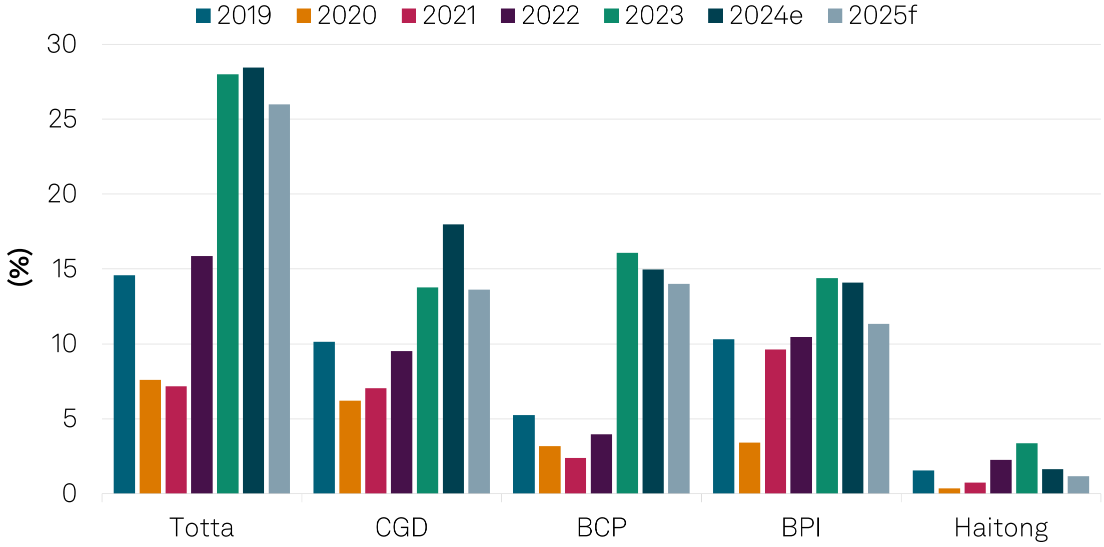
- Banks' net interest margins and revenues will decline by mid-single digits. That said, banks will benefit from streamlined operating structures and contained credit losses, which will contribute to lower, but still solid, profitability.
- Previous significant differences in performance among peers will likely continue to reduce, not least because Novo Banco has now completed its restructuring.

Portuguese banks' bottom-line profits will decline but remain resilient



Peers include Hungary, Iceland, Ireland, Italy, New Zealand, Poland, Slovenia, Spain, and Taiwan. e--Estimate. f--Forecast. ROE--Return on equity.
Source: S&P Global Ratings.

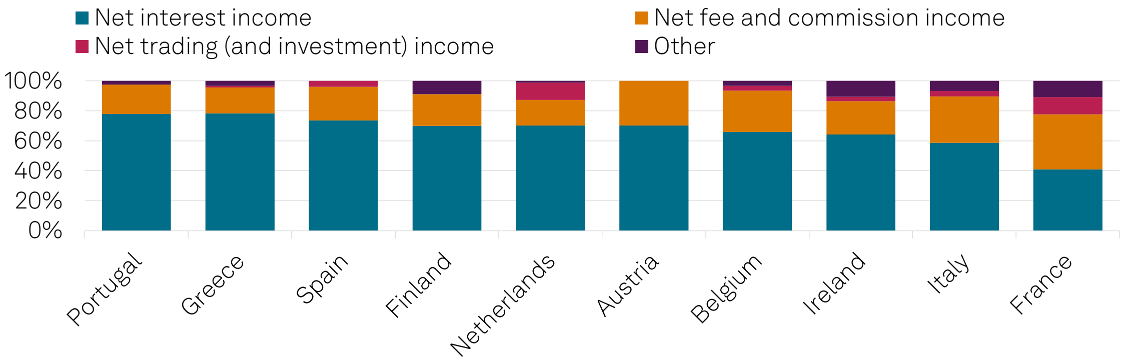
Largest rated banks' ROE will remain above 10%



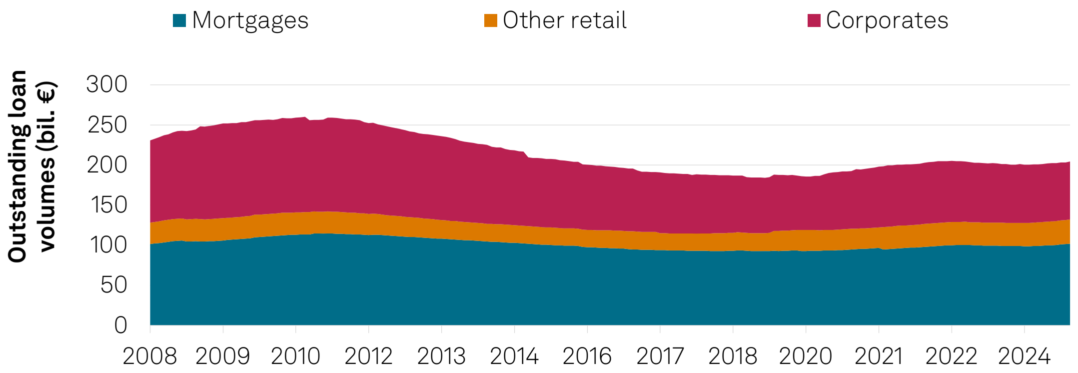
e--Estimate. f--Forecast. ROE--Return on equity.
Source: S&P Global Ratings.

Net Interest Margins Will Compress Amid Lower Interest Rates

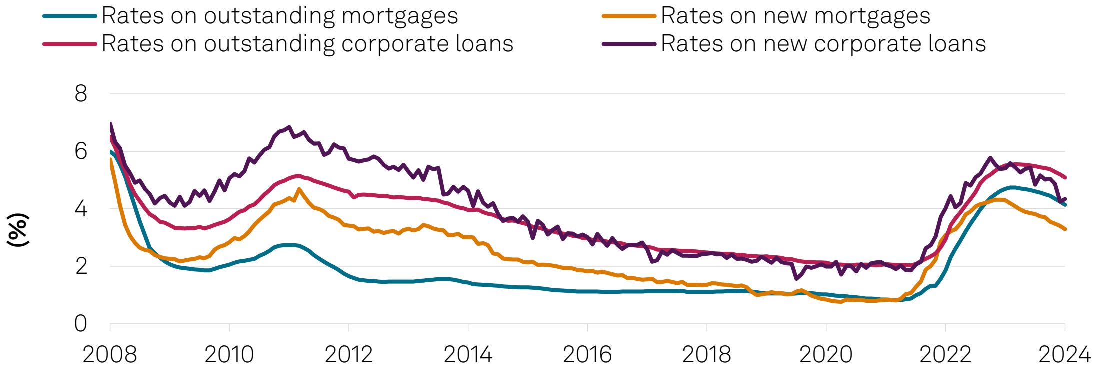
Portuguese banks' reliance on net interest income is higher than that of peers...



...and loan growth will likely increase

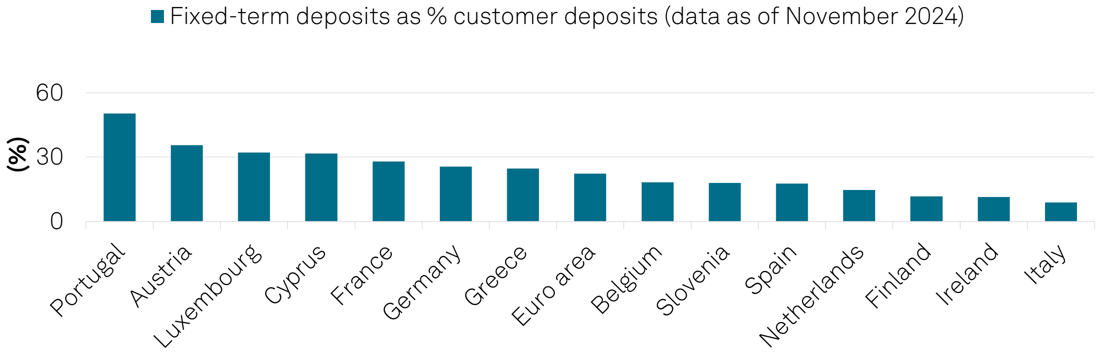


Yet assets will continue repricing down...



Sources: ECB, Bank of Portugal, S&P Global Ratings.

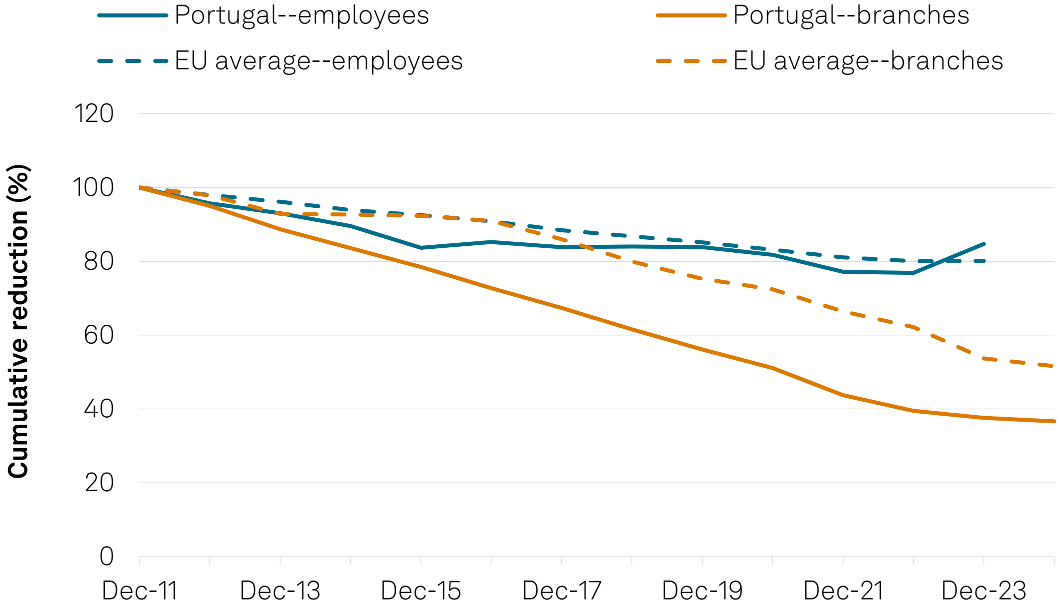
...with Portuguese banks having a relatively higher share of remunerated deposits than peers



Efficiency Will Remain Key To Support Bottom-Line Profitability

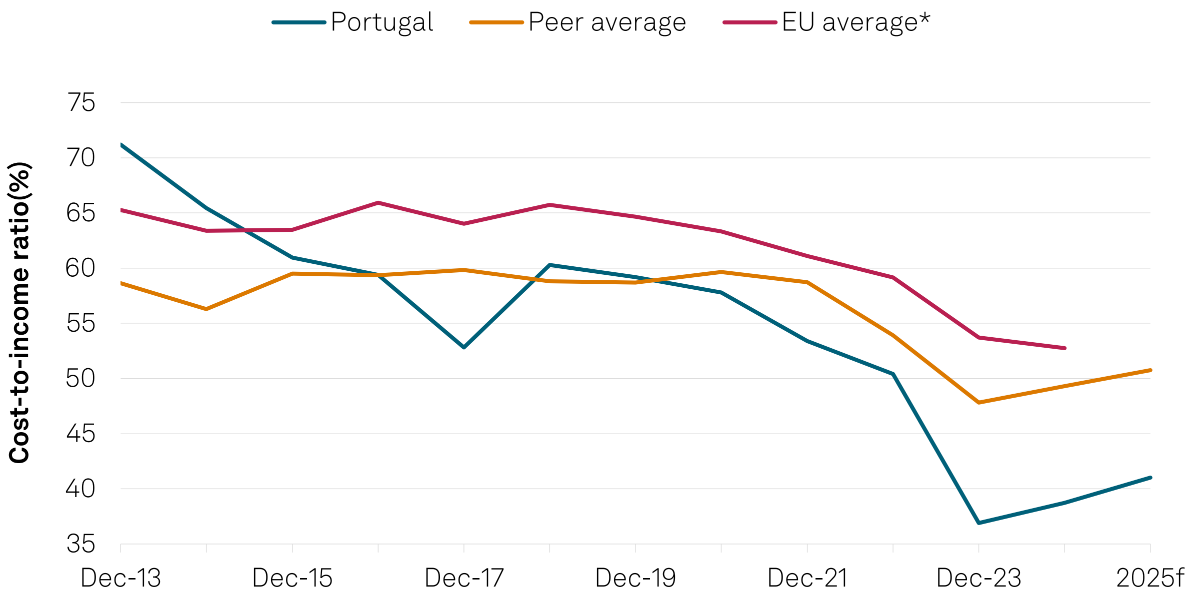
Banks will continue to reap the rewards from significant restructuring and downsizing efforts over the past decade. Even if deteriorating slightly from the record-low of 37% in 2023, the system's cost-to-income ratio will hover around a healthy 40%.

Portuguese banks have been more active on downsizing branches and employees...



Employee data for first-half 2024 not available.
Sources: ECB Statistical Data Warehouse, S&P Global Ratings.

...demonstrating superior efficiency to peers

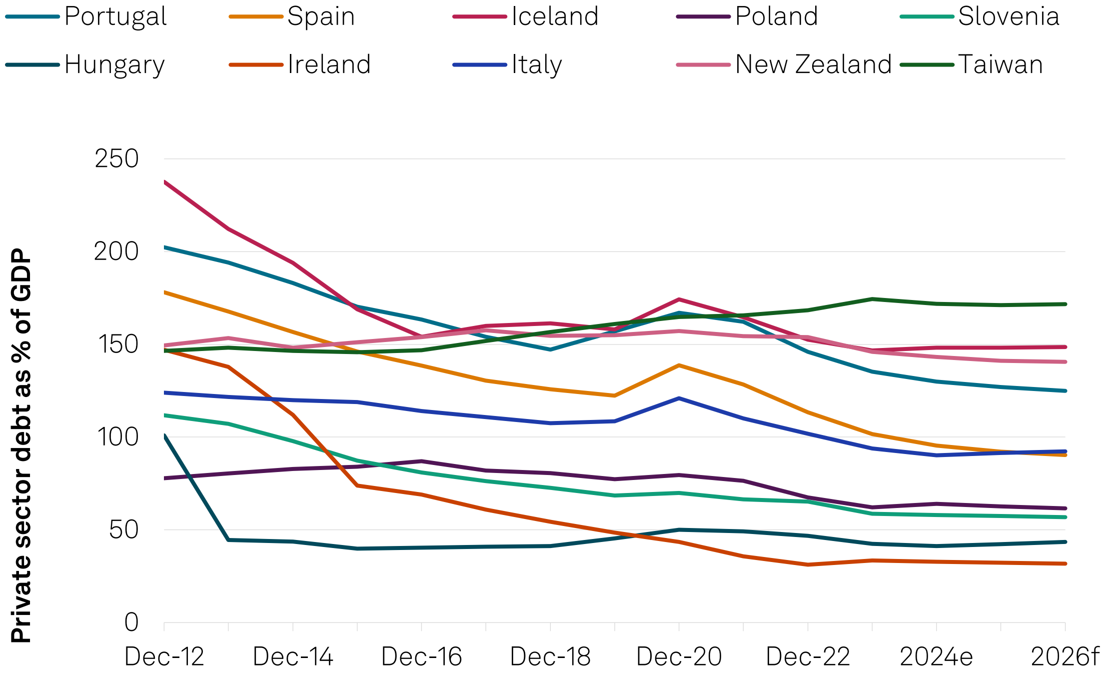


Peers include Hungary, Iceland, Ireland, Italy, Poland, Slovenia, Spain, Taiwan. *Data as of June 2024. f--Forecast.
Sources: ECB Data Warehouse, S&P Global Ratings.

Credit Losses Will Remain Contained

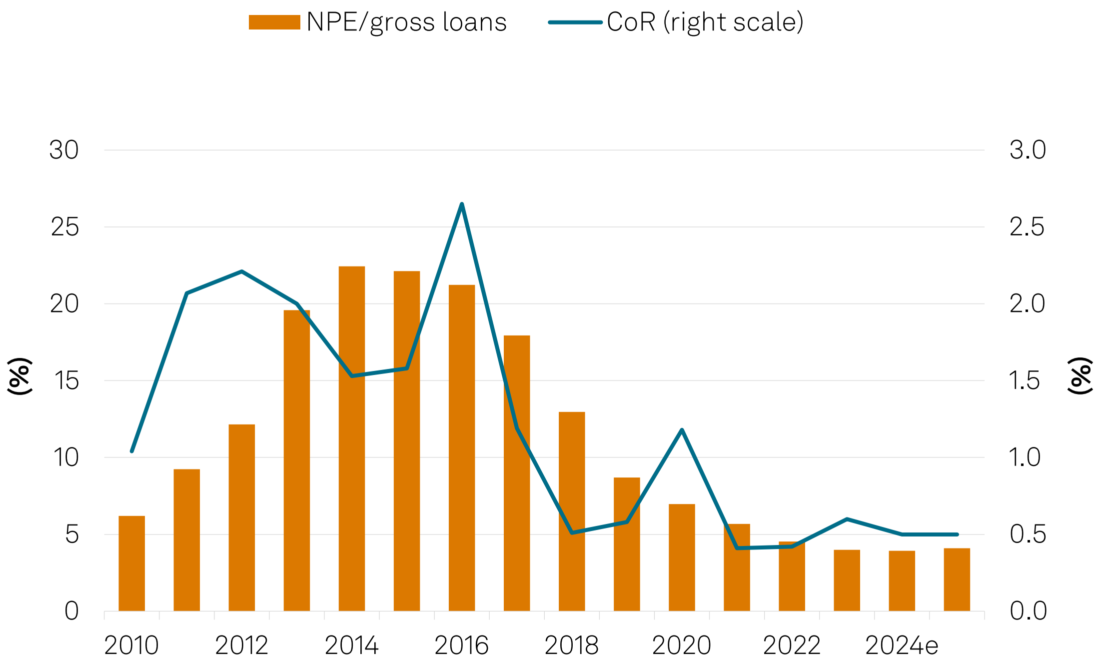
Economic growth will continue supporting employment, debt levels are more aligned with borrowers' repayment capacity, and financing costs are declining. This will result in a manageable asset quality deterioration.

Portugal's private sector leverage will continue to reduce



e--Estimate. f--Forecast.
Source: S&P Global Ratings.

Asset quality deterioration will be manageable



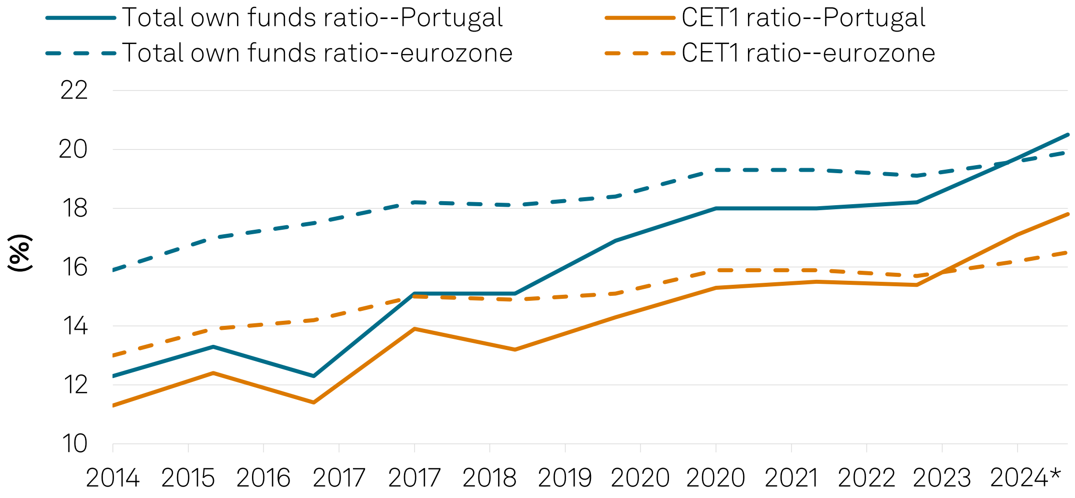
e--Estimate. NPE--Non-performing exposures. CoR--Cost of Risk.
Source: S&P Global Ratings.

S&P Global Ratings

Capital Should Remain Resilient

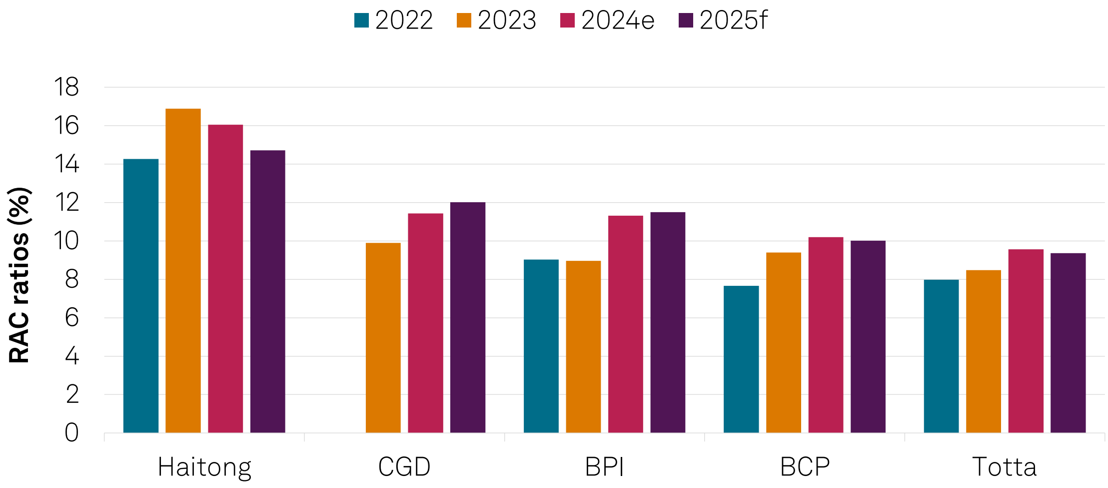
- After lagging behind for a decade, Portuguese banks' regulatory capital ratios are now on par with the eurozone average, driven by increasing organic capital generation and capital enhancing measures.
- Capital will likely consolidate at current levels, supported by resilient profitability and moderate growth of risk-weighted assets. Easing economic risks could support capital further. The risk-adjusted capital (RAC) ratios of three out of five banks are currently strong.

Regulatory capital has caught up with the eurozone average



*As of June 2024. CET1--Common equity tier 1.
Sources: Bank of Portugal, S&P Global Ratings.

Banks' capitalization will consolidate at higher levels



2023 RAC ratios based on year-end parameters. 2023 RAC ratios would be 130 bps higher on average, pro forma Portugal's upgrade in March 2024 and easing economic risks in the country. e--Estimate. f--Forecast. RAC--Risk-adjusted capital.
Source: S&P Global Ratings.

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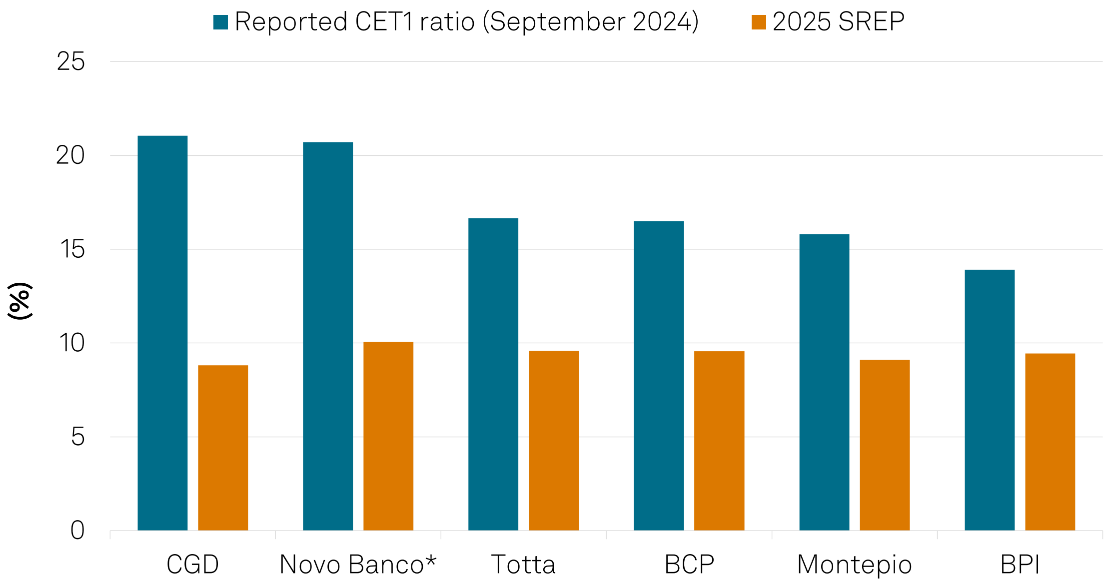
Banks Operate With Large Capital Buffers But Do Not Benefit From ALAC Uplift

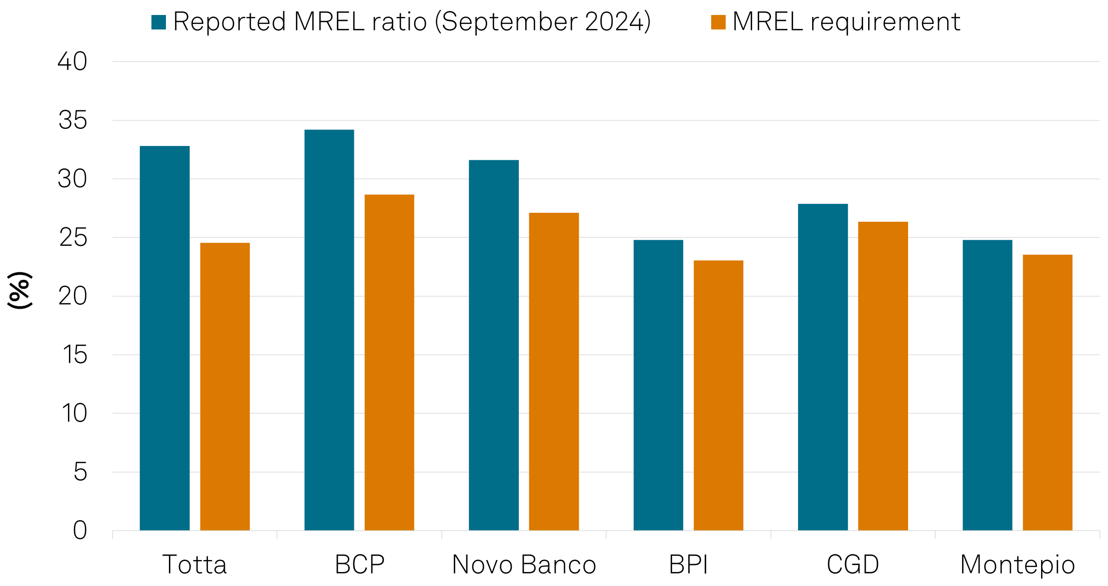
None of our rated Portuguese banks benefit from additional loss-absorbing capacity (ALAC), nor do we anticipate that they will in 2025. This is not least because of the lack of a subordination requirement. Two of the largest banks fall under their parents' resolution perimeter.

Banks' CET1 capital is well above the minimum requirement



*Requirement for 2024. CET1--Common equity tier 1. SREP--Supervisory Review and Evaluation Process.
Sources: Banks' reporting, S&P Global Ratings.

All banks comply with MREL, but with a more limited buffer

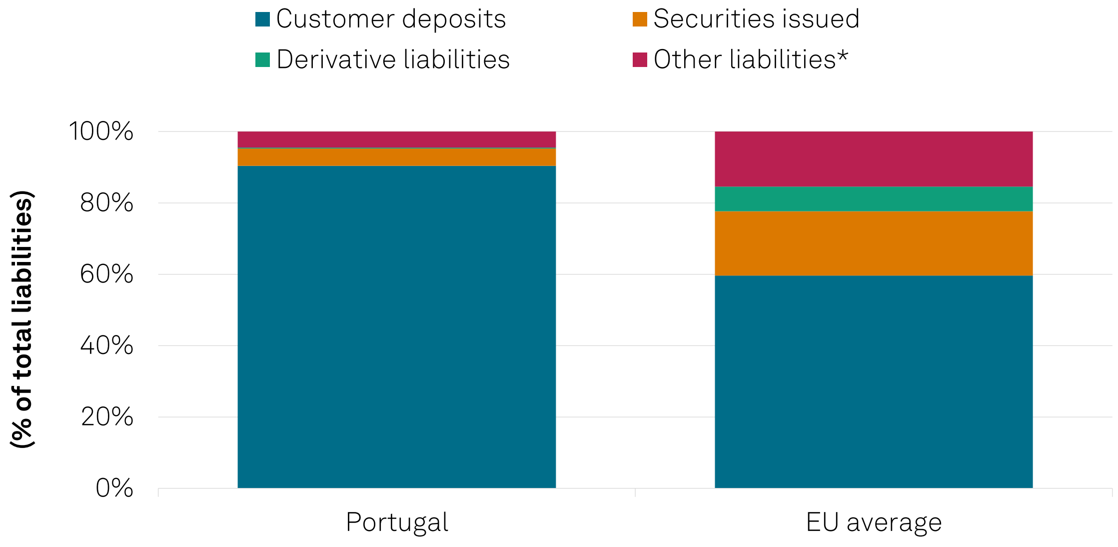


MREL--Minimum requirement for own funds and eligible liabilities.
Sources: Banks' reporting, S&P Global Ratings.

Banks Will Remain Mostly Deposit-Funded And Maintain Ample Liquidity

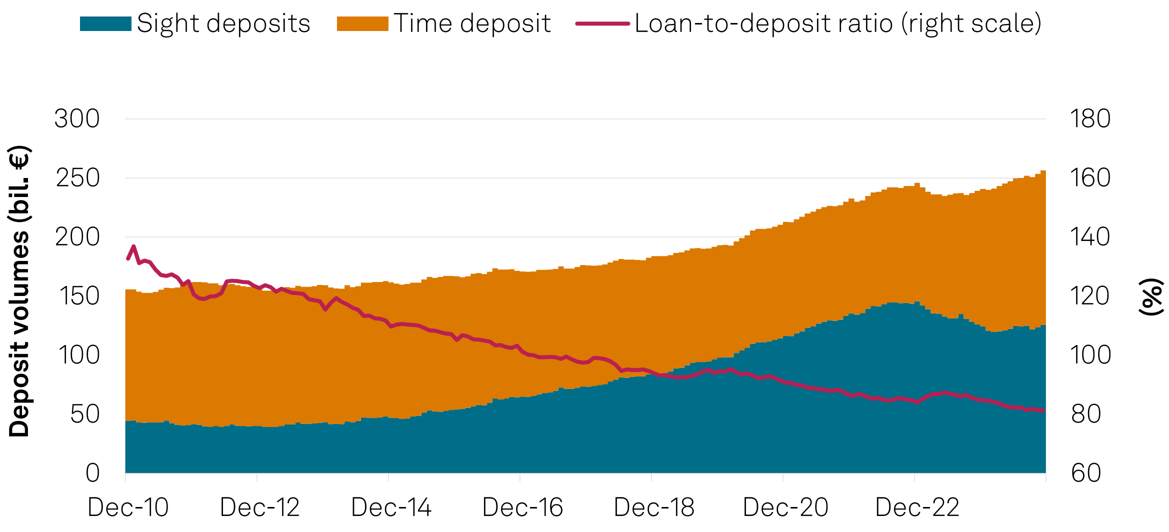
- Deposits will continue to account for the bulk of funding and fully finance banks' loan books, resulting in ample liquidity. The proportion of remunerated time deposits versus sight deposits will remain higher than that of peers.
- The ongoing improvement of the sovereign's creditworthiness and banks' financials will continue to support positive market sentiment toward Portuguese banks.

Portuguese banks are mostly deposit-funded



*Includes central bank and interbank funding.
Sources: ECB Prudential Statistics (data as of third-quarter 2024), S&P Global Ratings.

Deposits more than fully fund loan books



Sources: Bank of Portugal, S&P Global Ratings.

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