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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
JANUARY 2024

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BPI

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

January 2024

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Soft landing in times of political uncertainty

After the intense adjustment in monetary policy expectations since the second week of November last year, leading to one of the strongest revaluation movements of financial assets in recent decades (+9% for fixed income in the last two months of 2023, a two-month high since 1990), it is time to adjust economic forecasts and assess whether investors have rushed into discounting an idyllic scenario in which the resilience of the economic cycle to monetary tightening will be accompanied by a rapid return of inflation to 2%. For now, the consensus of forecasts has definitely shifted towards a soft landing for the world economy in 2024, with average growth similar to that of 2023, in which sectoral divergences and those between economic regions remain. But this has a completely different profile to last year, with a first half of the year characterised by a marked softness in activity before an improvement in the second half of the year, as the effects of falling inflation and easing financial conditions begin to emerge. The intensity of both processes will determine when potential growth rates, which have been affected by successive negative supply shocks in recent years, can be recovered, pending the positive effects of investments in the energy transition, as well as the expected increase in productivity that can be fuelled by state-of-the-art innovation (AI, etc.).

December US employment data (+216, 000 jobs created for a total of 2.7 million in 2023) and the maintenance of the oil price below 80 dollars per barrel in the first trading sessions of the year mean that two of the main factors underlying the resilience of the business cycle over the last year remain in place. Specifically, these are the solidity of labour markets and the containment of tensions in energy prices, all in an unfavourable context marked by the monetary tightening accumulated over the last two years and the increase in geopolitical tensions in the Middle East. In this sense, the start of winter in Europe is subject to much less uncertainty, given the prices and levels of gas reserves compared to a year ago, although the trend of weak activity will continue in the coming months, given the sluggish expectations exhibited by economic agents, the negative inertia of data from the industrial sector and retail trade, and the effects of an expected turn in fiscal policy.

However, it is on the inflation front that the picture remains more open, despite the positive surprises of the last six months. December's data in Europe was in line with forecasts and foreshadows some of the trends to be expected in the short term: moderation of the base effects of energy, mixed dynamics in food inflation (better performance in «processed» than in «unprocessed»), and divergent behaviour in the main underlying inflation items, with a relatively rapid normalisation of industrial (non-energy) goods and greater downward resistance in services. This is why, although the signals derived from the measures that try to capture the short-term dynamics of the underlying price component (*momentum*) are positive, there are still doubts (and risks) regarding price dynamics that will unfold in the coming months. These doubts thus extend to when inflation will stabilise again at levels close to 2%. In this respect, the message from central banks at their December meetings seem fairly coherent, trying to deflate expectations of lower interest rates while emphasising the dependence of their decisions on the data that will emerge in the coming months. It is in this context that inconsistencies arise between the new interest rate expectations that the markets are discounting in the prices of financial assets and forecasts for a soft landing, as it seems difficult to believe that, without a further sharp weakening of activity with direct implications for inflation, central banks will be in a hurry to cut interest rates as early as the first quarter of the year. This is especially so in view of the effects of geopolitical risk and the global fiscal stance of the challenging electoral calendar that awaits us in 2024, starting with the Taiwanese elections on 13 January and ending with the US presidential elections on 5 November. And we know from recent experience how political risk can change the behaviour of the main assumptions in economic forecast scenarios.

Chronology

DECEMBER 2023

13 COP28 (United Nations Climate Change Conference) ends with a commitment to transition away from fossil fuels.
20 The European Council approves the reform of EU fiscal rules.

OCTOBER 2023

7 A new war breaks out between Hamas and Israel.
20 Greece regains an investment grade sovereign rating after S&P raises it to BBB–.

AUGUST 2023

14 The United Nations declares July 2023 the hottest month since records began (174 years ago).

NOVEMBER 2023

10 The EU's Copernicus programme reports that 2023 saw the hottest January-October period on record globally, 1.43°C above the 1850-1900 average, and records in the months of June, July, August, September and October.

SEPTEMBER 2023

14 The ECB raises rates by 25 bps, placing the depo rate at 4.00% and the refi rate at 4.50%.

JULY 2023

26 The Fed raises rates by 25 bps, placing the target rate in the 5.25%-5.50% range.
27 The ECB raises rates by 25 bps, placing the depo rate at 3.75% and the refi rate at 4.25%.

Agenda

JANUARY 2024

3 Spain: registration with Social Security and registered unemployment (December).
5 Euro area: CPI flash estimate (December).
8 Portugal: employment and unemployment (November).
9 Portugal: international trade (November).
10 Spain: financial accounts (Q3).
17 China: GDP (Q4).
22 Spain: loans, deposits and NPL ratio (November).
25 Governing Council of the European Central Bank meeting.
US: GDP (Q4 and 2023).
26 Spain: labour force survey (Q4).
30 Spain: GDP flash estimate (Q4).
Spain: CPI flash estimate (January).
Portugal: GDP flash estimate (Q4).
Euro area: GDP (Q4).
Euro area: economic sentiment indicator (January).
30-31 Federal Open Market Committee meeting.
31 Portugal: CPI flash estimate (January).
Portugal: budget execution (December).

FEBRUARY 2024

1 Portugal: industrial production (December).
Euro area: CPI flash estimate (January).
2 Spain: registration with Social Security and registered unemployment (January).
7 Portugal: employment and unemployment (Q4).
9 Portugal: turnover in the services sector (December).
12 Portugal: labour costs (Q4).
15 Japan: GDP (Q4).
19 Spain: foreign trade (December).
23 Spain: loans, deposits and NPL ratio (December).
28 Euro area: economic sentiment index (January).
29 Spain: CPI flash estimate (February).
Spain: balance of payments (December).
Portugal: GDP breakdown (Q4).

2024: from less to more

2024 begins with a relatively favourable outlook. While various indicators suggest that the pace of growth is slowing in the main developed countries and the tone is likely to remain weak for a few more months, all indications are that the factors slowing down the pace of growth will gradually dissipate over the next few quarters, which should give way to growing dynamism in the economy, both globally and in the Portuguese economy. Behind this scenario, five key assumptions must be met.

Firstly, the inflation cycle is expected to practically close in 2024. Recent months have already seen a reduction in inflationary pressures and the containment of energy and raw material prices, together with limited second-round effects, allow for some optimism. Thus, in the US, inflation is expected to stand at around 2.0% in the middle of the year and to continue to fall in the second half of the year, to close 2024 below the Fed's target. In the euro area, the pattern could be similar, though moderation will probably be a little slower and the year could end with a rate slightly above 2.0%.

The second fundamental assumption of the scenario, which is closely related to the first, is that financial conditions will ease over the course of the year. So far, the Fed and the ECB have been very cautious, emphasising the need to ensure that inflation is kept under control. But the improved outlook in this dimension has already led to a notable correction in the expectations of interest rates being discounted by the financial markets at the end of 2023. In the coming months, as inflation rates get closer to the 2.0% target, we can expect the main central banks to start lowering their benchmark interest rates. This will ease the pressure on many companies and families and help the economy to start gaining traction in the second half of the year.

Another factor supporting the resistance of activity to the downturn is the positive evolution of the labour market. The labour market tends to react with some delay to the evolution of economic activity. Only when the economic recession is prolonged do companies adjust their workforce. This may give rise to fears that the current situation, if it continues, will lead to some job destruction in coming quarters.However, as long as expectations remain that the economic slowdown will be moderate and transitory, and that demand will soon begin to gain strength, the labour market should remain favourable. Companies are unlikely to adjust their workforces for a short period of time, given the reported difficulties in finding workers in many sectors.

One of the main risks in the global economic scenario, however, comes from China. Most analysts, including BPI Research, assume that the profound adjustment taking place in their property sector, with a drop in sales volume of more than 40%, will take place without the other sectors being excessively affected. So far, measures taken by the Chinese government have been effective and the economy as a whole has continued to grow at a good pace. This scenario is expected to continue throughout the year, but the challenge ahead is significant and any setback could have global repercussions.

Finally, the main question mark for the global economic outlook comes from geopolitics. It is generally assumed that active conflicts, such as the war in Ukraine and between Israel and Hamas, will not escalate. This is extremely important, not only because of the human tragedy such conflicts entail, but also because of the repercussions they can have on the world economy, putting pressure on the prices of raw materials and hindering the main trade routes.

As has been customary in recent years, the uncertainty surrounding the forecast scenario is very high, but the working hypotheses that currently appear most reasonable allow us to be cautiously optimistic. Although the year begins with several indicators that point to a moderation in the pace of growth, 2024 should go from «less to more».

Average for the last month in the period, unless otherwise specified

Financial markets

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.77	0.25	4.50	5.50	4.25	2.50
3-month SOFR	3.62	0.99	0.21	4.74	5.37	3.85	2.40
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.15	2.80
2-year government bonds	3.70	0.99	0.66	4.30	4.46	2.80	2.50
10-year government bonds	4.69	2.44	1.46	3.62	4.01	3.10	3.00
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.50	2.50
ECB refi	3.05	0.69	0.00	2.27	4.50	4.00	3.00
€STR	–	–0.55	–0.58	1.57	3.90	3.45	2.55
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	3.19	2.48
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.94	2.40
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	3.00	2.43
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	3.06	2.45
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	2.50	2.25
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.60	2.50
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.82	2.67
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.99	2.83
10-year government bonds	4.42	2.96	0.42	3.18	3.09	3.60	3.30
Risk premium	11	158	73	105	98	100	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	3.04	2.93
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	3.14	3.03
10-year government bonds	4.49	4.35	0.34	3.10	2.74	3.45	3.30
Risk premium	19	297	65	97	63	85	80
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.06	1.09	1.12	1.15
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.87	0.86	0.89	0.90
OIL PRICE							
Brent ($/barrel)	42.3	77.3	74.8	81.3	77.4	79.0	73.0
Brent (euros/barrel)	36.4	60.6	66.2	76.8	71.0	70.5	63.5

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

International economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
GDP GROWTH							
Global	4.5	2.9	6.3	3.5	2.8	2.9	3.1
Developed countries	*2.7*	*1.0*	*5.6*	*2.6*	*1.4*	*1.1*	*1.7*
United States	2.7	1.5	5.8	1.9	2.0	0.8	1.7
Euro area	2.2	0.3	5.6	3.4	0.5	0.7	1.6
Germany	1.6	0.8	3.1	1.9	–0.4	0.3	1.4
France	2.2	0.3	6.4	2.5	0.8	0.7	1.4
Italy	1.5	–1.0	7.0	3.8	0.7	0.6	1.7
Portugal	1.5	–0.2	5.7	6.8	2.4	1.8	2.4
Spain	3.7	–0.3	6.4	5.8	2.4	1.4	2.0
Japan	1.4	0.1	2.3	1.1	1.3	1.1	1.1
United Kingdom	2.7	0.3	8.7	2.5	0.6	0.5	0.0
Emerging and developing countries	*6.5*	*4.4*	*6.9*	*4.1*	*3.9*	*4.2*	*4.1*
China	10.6	7.5	8.5	3.0	5.2	4.6	4.4
India	7.2	5.7	9.0	7.3	6.0	6.7	5.5
Brazil	3.6	1.2	5.0	2.9	3.0	1.8	1.8
Mexico	2.3	0.7	5.7	4.0	3.2	2.1	2.1
Russia	–	1.0	5.6	–2.1	2.7	1.5	1.3
Türkiye	5.5	4.3	11.4	5.5	4.3	2.6	3.5
Poland	4.2	3.2	6.9	5.5	0.3	2.6	3.2
INFLATION							
Global	4.2	3.7	4.7	8.7	6.9	5.2	4.0
Developed countries	*2.1*	*1.5*	*3.1*	*7.3*	*4.6*	*2.6*	*1.9*
United States	2.8	1.7	4.7	8.0	4.2	2.4	1.7
Euro area	2.2	1.3	2.6	8.4	5.4	3.1	2.1
Germany	1.7	1.4	3.2	8.7	6.0	3.3	2.2
France	1.9	1.3	2.1	5.9	5.7	2.9	2.0
Italy	2.4	1.3	1.9	8.7	5.9	2.9	2.0
Portugal	3.1	1.0	1.3	7.8	4.3	2.4	2.1
Spain	3.2	1.2	3.1	8.4	3.5	3.6	2.2
Japan	–0.3	0.4	–0.2	2.5	2.5	1.5	1.5
United Kingdom	1.6	2.2	2.6	9.1	7.5	3.6	2.3
Emerging and developing countries	*6.7*	*5.5*	*5.9*	*9.8*	*8.5*	*7.1*	*5.4*
China	1.7	2.6	0.9	2.0	0.7	2.0	1.6
India	4.5	7.3	5.1	6.7	5.3	5.0	4.5
Brazil	7.3	5.5	8.3	9.3	4.8	4.3	3.7
Mexico	5.2	4.1	5.7	7.9	5.6	4.5	3.9
Russia	14.2	7.5	6.7	13.8	5.8	5.4	4.5
Türkiye	22.6	9.8	19.6	72.3	53.9	52.6	29.0
Poland	3.2	2.0	7.3	15.9	7.3	4.2	3.1

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

Portuguese economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	1.7	–0.1	4.7	5.6	0.9	0.7	1.8
Government consumption	2.3	–0.2	4.5	1.4	1.2	1.3	1.0
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	1.3	5.0	6.4
Capital goods	3.2	2.0	15.3	5.5	–	–	–
Construction	–1.5	–2.3	7.4	1.3	–	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	4.7	0.7	1.6	2.5
Exports of goods and services	5.3	2.2	12.3	17.4	5.5	2.7	4.5
Imports of goods and services	3.6	1.5	12.3	11.1	1.6	2.5	4.8
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.4**	**1.8**	**2.4**
Other variables							
Employment	0.4	–0.6	2.7	2.0	1.1	0.4	0.3
Unemployment rate (% of labour force)	6.1	11.0	6.6	6.0	6.6	6.5	6.3
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.4	2.1
Current account balance (% GDP)	–9.2	–2.7	–0.8	–1.4	1.2	1.2	1.6
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.4	2.3	2.6	3.0
Fiscal balance (% GDP)	–4.6	–5.1	–2.9	–0.3	0.7	0.4	0.6

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	3.6	–0.9	7.2	4.8	2.2	1.9	2.2
Government consumption	5.0	1.3	3.4	–0.2	2.6	1.4	1.2
Gross fixed capital formation	5.6	–2.0	2.8	2.4	1.9	2.5	3.0
Capital goods	4.9	–0.8	4.4	1.9	–0.1	3.7	3.1
Construction	5.7	–3.4	0.4	2.6	3.1	1.5	3.0
Domestic demand (vs. GDP Δ)	0.2	0.1	0.3	0.1	0.0	0.1	0.1
Exports of goods and services	4.7	1.1	13.5	15.2	0.6	–1.6	1.8
Imports of goods and services	7.0	–1.0	14.9	7.0	–0.7	–0.7	2.4
Gross domestic product	**3.7**	**–0.3**	**6.4**	**5.8**	**2.4**	**1.4**	**2.0**
Other variables							
Employment	3.2	–0.9	6.6	3.8	2.2	1.4	1.6
Unemployment rate (% of labour force)	10.5	19.2	14.8	12.9	12.1	11.8	11.4
Consumer price index	3.2	1.2	3.1	8.4	3.5	3.6	2.2
Unit labour costs	3.0	1.1	0.3	0.4	3.9	3.1	2.6
Current account balance (% GDP)	–5.9	–0.2	0.8	0.6	1.8	1.7	1.9
External funding capacity/needs (% GDP)	–5.2	0.2	1.9	1.5	1.5	2.0	2.4
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.8	–4.7	–4.2	–3.6	–3.0

Note: *1. Excludes losses for assistance provided to financial institutions.*

Forecasts

2023: a year of widespread gains in fixed-income and equity markets

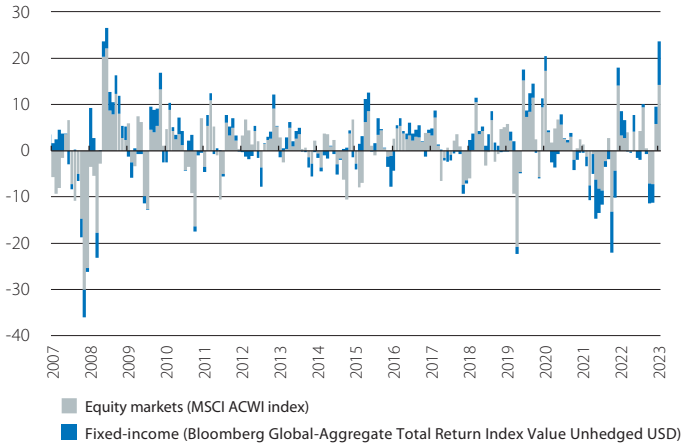
Investors maintain a strong risk appetite in December. The intense market movement unleashed at the end of October, after investors shifted from expecting high interest rates for longer to anticipating rate cuts as early as 2024, continued in December. That said, the momentum seemed to fade towards the end of the month, with investors closing their positions in order to avoid tarnishing their good annual results and to leave for the Christmas break with peace of mind, resulting in a market with low trading volumes and which remained quite flat in the last two weeks of the year. 2023 thus ended with gains in most of the global stock markets, with the global MSCI ACWI up 20%, and with the Chinese indices as the main – and almost exclusive – markets to record losses. In terms of fixed-income securities, the global aggregate bond indices (which encompass both sovereign and corporate bonds) closed the year with gains, with the Bloomberg Global-Aggregate bond index up around 6% thanks to the rally at the end of the year. This index recorded its biggest bi-monthly increase since 1990 in December (above 9%) and the performance in these last two months has made the year a very positive one for these two main asset classes.

The central banks seek to contain expectations of lower market rates. The Fed and the ECB showed a clear divergence at their December meetings: while the Fed announced the end of the rate hike cycle and the dot-plot revealed expectations of three rate cuts (i.e. 75 bps) in 2024 for the median FOMC voter, at the ECB Lagarde was less explicit and stated that, for now, the ECB has not discussed rate cuts. Despite this divergence, after their respective meetings the statements issued by various monetary policymakers from both central banks focused on controlling investors' expectations of rate reductions, which were reflecting significant cuts (of as much as 120 bps between 31 October and 31 December in the case of forwards on the effective fed funds rate for the next 12 months). However, at the year end, money market futures were pricing in a first rate cut in the US in March, and in the euro area in April, with between five and six rate reductions (i.e. of between 125 and 150 bps) anticipated in 2024 in both regions.

Sharp fall in sovereign debt yields, attenuated towards the end of the month. As with all other corners of the market, towards the end of December sovereign rates also experienced a relaxation of the sharp bearish trend unleashed in November, as investors reassessed their expectations of lower interest rates in 2024, in view of both the sharp correction in prices and the resilience of the US economy. Nevertheless, December's movements in public debt were still significant, with 10-year benchmark rates on both sides of the Atlantic yielding between 40 and 50 bps in the month. This led to US treasuries closing the year flat, while in the case of the European benchmarks the falls in yields for the year as a whole were

Bi-monthly returns in global fixed-income securities and equities

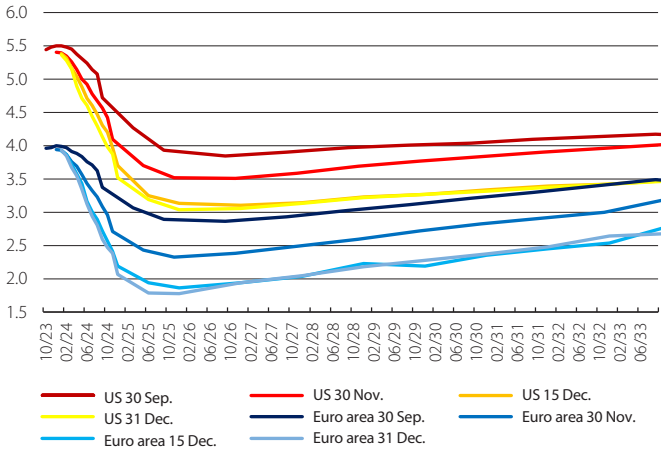
(%)



Source: *BPI Research, based on data from Bloomberg.*

Expectations for Fed and ECB reference interest rates

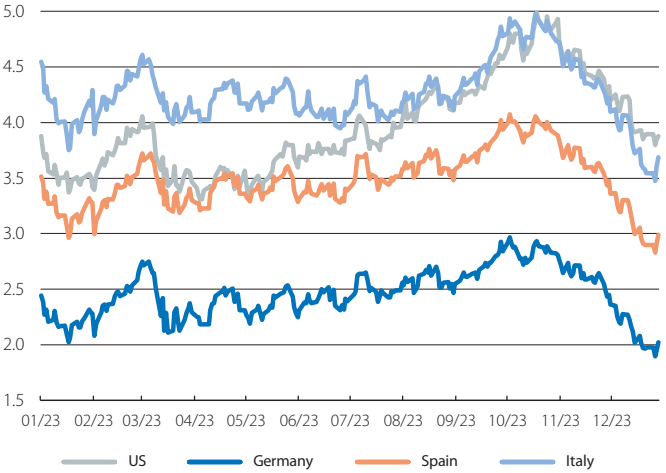
(%)



Note: *Forwards on the EFFR and the OIS of the euro area based on market yield curves.*
Source: *BPI Research, based on data from Bloomberg.*

Yield on 10-year sovereign debt

(%)



Source: *BPI Research, based on data from Bloomberg.*

significant. This, coupled with the intense narrowing of spreads, allowed the 10-year benchmark rates of the euro area periphery to end the year between 70 and 100 bps below the level at which they closed 2022.

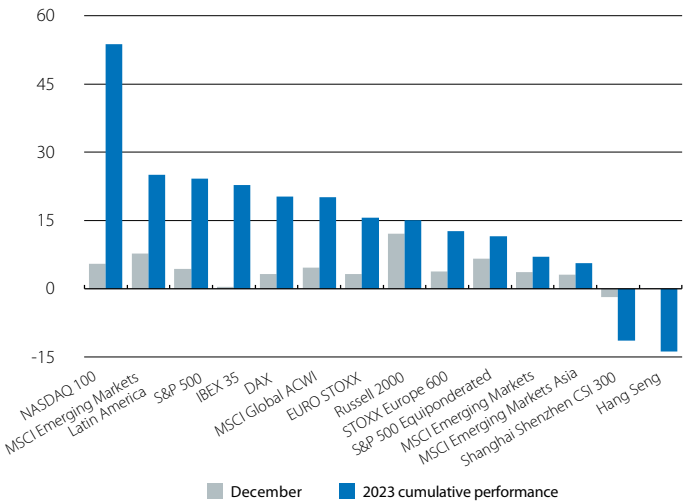
The November stock market rally is still felt in December. Also in the stock market, November's strong investment rally began to lose steam towards the middle of the month, especially on European trading floors. Despite this, December closed with widespread gains in the major indices, with the main exception once again being China. On the upside, the US indices, particularly Nasdaq and the Rusell 2000 index, stood out. The buoyancy of the US economy and expectations of lower interest rates favoured tech firms in the month, as well as smaller companies, which had performed relatively poorly during the year compared to the tech giants. The exceptional performance of these companies meant that in 2023, the year of the emergence of artificial intelligence, the biggest advances among the major international indices were recorded by the Nasdaq index, following the sharp declines registered in 2022. The year has thus ended with widespread gains in the main stock market indices, in both developed and emerging markets, while Chinese stocks have performed the worst, with the Shanghai CSI 300 index and Hong Kong's Hang Seng index sliding more than 10% each.

Expectations of lower rates for the Fed weigh down the dollar at the end of the year. If rate expectations and the correlative spreads between economies have been the main factors driving the foreign exchange market throughout the year, December was no exception. Thus, the dollar ended the year with a slight depreciation in its nominal effective exchange rate (just over 2%), although since mid-November it has undone much of the marked appreciation it had amassed in the summer (of over 7%). As a result, the euro closed the year up more than 3%, both against the dollar and in its nominal effective exchange rate. On the other hand, December saw the yen enjoy a significant appreciation. This movement was concentrated in the first few weeks of the month in the lead up to the Bank of Japan's meeting, which turned out to be more dovish than expected among investors, who continue to anticipate early rate hikes. The Japanese currency ended December up almost 5% against the dollar, thus partially correcting the significant depreciation (of almost 8%) it had accumulated in the year.

Energy prices close the year with losses. The Brent barrel benchmark price in Europe continued to decline in December, which meant that it closed 2023 10% below the level at which it started the year (almost 10 dollars less per barrel). Despite the outbreak of the conflict in the Middle East, which in December intensified with attacks on vessels in the Red Sea, as well as the production cuts by OPEC members, oil prices were weighed down by a slowdown in global demand and increased production outside OPEC, especially in the US (which reached a record production in December of 13.3 million barrels per day). On the other hand, although the European benchmark gas price is still higher than prior to the pandemic, it currently stands well below the highs observed in 2022 and has plunged more than 50% in the year, thanks to a high level of reserves and lower demand in a milder than usual autumn.

Performance of the main stock market indices

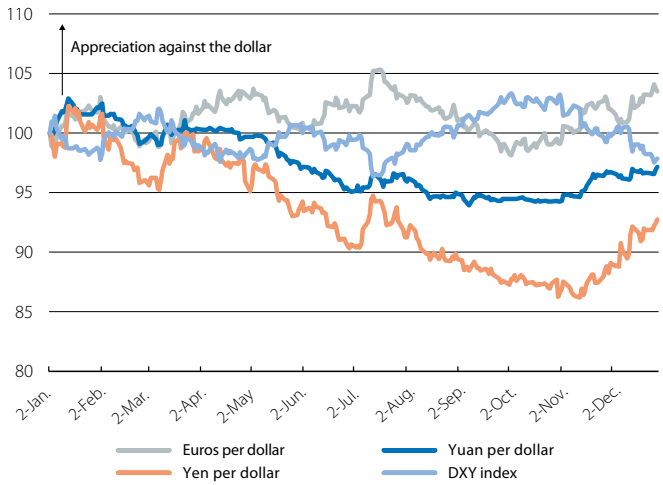
(%)



Source: *BPI Research, based on data from Bloomberg.*

Fluctuation of select currencies against the dollar

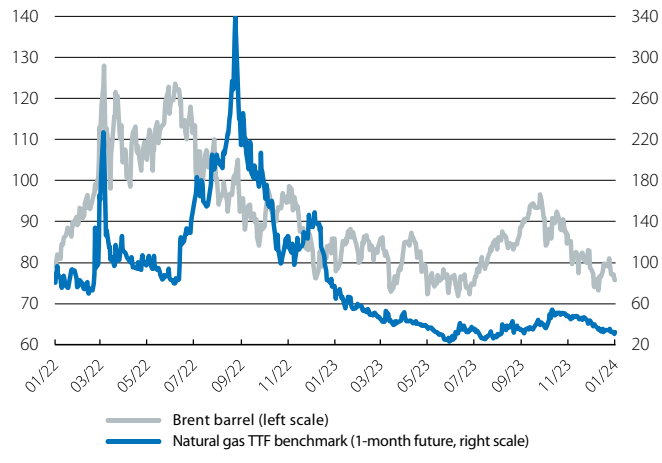
Index (100 = 1 January 2023)



Source: *BPI Research, based on data from Bloomberg.*

Oil and gas: fluctuation of energy prices

($/barrel) *(€/MWh)*



Source: *BPI Research, based on data from Bloomberg.*

US monetary policy and stock market performance

With the major developed economies at the peak of a restrictive monetary policy cycle, we wonder how the US stock market has digested it.

How are interest rates and stock markets related?

In recent years, the major advanced economies have shifted from a long period of accommodative monetary policy to a sharp monetary tightening, prompted by the need to curb inflation. Beyond the desired effect on the real economy, these changes in monetary policy have an impact on other financial assets which, in fact, occurs much faster than the effects on the real economy. In the case of fixed-income markets there is a direct link with monetary policy: interest rates and bond prices have an inverse relationship, such that when rates rise (fall), prices fall (rise).

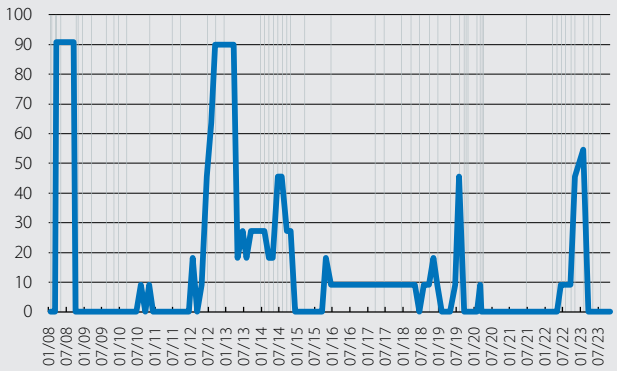
In equity markets, the link is neither as direct nor as obvious. On the one hand, rates are a reflection of the macroeconomic context: high rates are associated with an inflationary economy and/or strong economic growth, while low rates tend to reflect weak economic activity and/or low inflation. Rates are also key in company valuation since the present value of a share is calculated as the flow of expected future earnings, discounted by the interest rate, such that if rates change so does the present value reflected in the share price. Additionally, interest rates determine the cost of financing, so they directly impact companies' profitability. To this we can add that, eventually, rates affect demand (whether that of companies, intermediaries or households) and, therefore, sales. Thus, the effect of rates differs depending on which sector a company operates in, as well as on the wider macroeconomic context.

Who is sensitive to monetary policy and who is not?

Traditionally, in financial markets, we talk about cyclical and defensive sectors to refer to those that are more or less sensitive to the business cycle. However, business cycles come in different shapes and sizes, so the role of monetary policy in each cycle and its relationship to the stock market can vary. To answer our question more precisely, we focused our analysis on the sensitivity of the various sectors that make up the S&P 500 to monetary policy surprises.[1] In the periods studied, 6 out of the 11 sectors that make up the S&P 500 are shown to be sensitive to changes in monetary policy, together accounting for 65% of the index: technology, consumer discretionary, consumer staples, financials, utilities and real estate. This sensitivity is not constant over time, that is, these sectors are not always sensitive to surprises in monetary policy, and not always to the same degree (see first chart).

S&P 500: sectoral proportion of the index sensitive to monetary policy surprises

(%)



Note: *The grey bars indicate Fed meetings where a rate change was announced.*
Source: *BPI Research, based on data from Bloomberg and the Federal Reserve.*

Of the six, the financial sector shows a positive sensitivity, i.e. its response tends to go in the same direction as monetary policy surprises.[2] The other five sectors, however, show a negative sensitivity, i.e. their response tends to move in the opposite direction to rates. Technology is a growth sector whose valuation largely depends on estimated flows of future profits, duly discounted at current interest rates: the higher (lower) the discount rate, the lower (higher) the valuation. The sensitivity of the consumption sectors, on the other hand, can be understood because of their dependence on consumers' purchasing power and, consequently, business sales. Similarly, the activity of the real estate sector is sensitive to mortgage prices and, therefore, interest rates. Finally, utilities are known to be mature companies that offer stable dividend payments, so in the world of equities, they resemble bonds (from where they inherit their «negative» sensitivity to interest rates).

What happened during the two years of monetary tightening?

During 2022, when the Federal Reserve began raising interest rates, the S&P 500 experienced its worst year since 2008, and all sectors, regardless of their sensitivity (positive or negative sensitivity, or no sensitivity), registered

1. We estimate the relationship of the price fluctuation $(P_t^i - P_{t-1}^i)$ for each sub-index of the S&P 500 (11 sectors) with the change in the yield of the 2-year treasury $(Y_t - Y_{t-1})$, which we use as a proxy for monetary policy surprises, in a sample which only includes days on which the outcome of a Fed meeting is announced. The analysis is conducted in rolling 24-month windows, each including 16 Fed meetings, from 2000 to 2023. Thus, the sensitivity is given by the estimate of β in the regression $(P_t^i - P_{t-1}^i) = \alpha + \beta (Y_t - Y_{t-1}) + \varepsilon_t$. We identify a sector as being «sensitive» to monetary policy if the β is significant at the 95% level.

2. A positive surprise would imply an increase in the 2-year sovereign interest rate, and one would expect it to reflect a more hawkish decision from the Fed than expected.

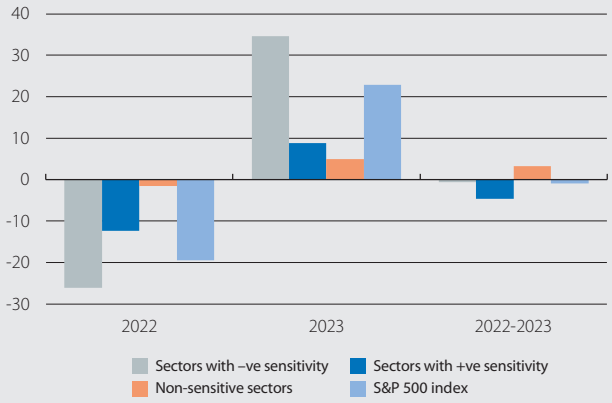
significant losses that reached up to –30% for technology companies and –38% for consumer discretionary firms. However, the group of sectors with negative sensitivity performed relatively poorer, while those with positive sensitivity showed much smaller declines (see second chart). As for the better performance of the non-sensitive sectors, this was entirely due to the energy sector, driven by the high prices of energy commodities (oil and gas).

In 2023, however, the same pattern was not repeated. While the utilities and real estate sectors continued to see their performance weighed down by the high-rate environment, technology and consumer discretionary firms enjoyed significant gains.[3] This suggests that, in 2023, there were other dynamics that offset the interest rate burden. On the one hand, sales in these sectors performed well despite facing high rates. In fact, they were among the sectors with the highest earnings growth in 2023 up to Q3, and moreover they exceeded expectations.[4] The second reason is that these two sectors, together with the communications sector, contain the seven largest US companies by capitalisation, colloquially referred to as the «Magnificent Seven», which had a successful year in terms of earnings growth. Together, these companies (Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia and Tesla) account for 30% of the S&P 500, and with the good performance they have enjoyed in the year due to the strength of their earnings, they have exerted a significant pull effect on the rest of the market (see third chart).

With respect to the other sectors, the financial sector (with positive sensitivity) suffered from the Silicon Valley Bank crisis earlier this year.[5] The non-sensitive sectors showed mixed results and mainly reflected their business earnings for the year to date. On balance, the impact of the recent monetary policy changes on the stock market has been mixed. At first, tight monetary policy was the dominant narrative, but later a confluence of factors, including the high concentration of the index in a handful of stocks and the positive results in a better-than-expected macroeconomic environment, outweighed the more direct impact of the high interest rates.

S&P 500: sensitivity groups

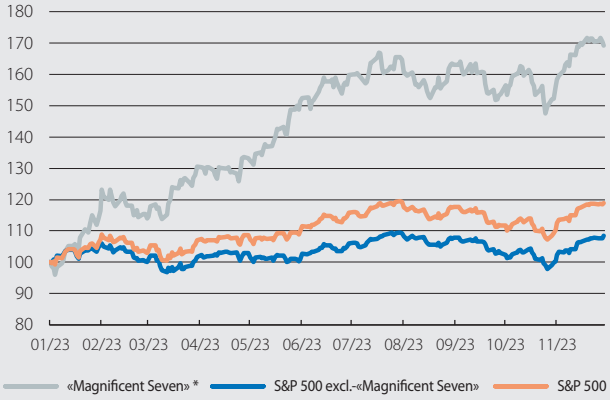
Cumulative change in the year (%)



Note: *Sensitivity is identified as described in footnote 1 of the body of the article.*
Source: *BPI Research, based on data from Bloomberg (data as of 15 December 2023).*

S&P 500: performance of select indices

Index (100 = 1 January 2023)



Note: ** The «Magnificent Seven» are: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.*
Source: *BPI Research, based on data from Bloomberg.*

3. When in November the markets assumed the end of the rate hike cycle had been reached and changed their expectations to anticipate rate cuts in 2024, the utilities and real estate sectors once again reacted with negative sensitivity to the expected lower rates, thus recording gains in the closing stages of the year, while the technology and consumption sectors extended their gains.
4. The S&P 500 accumulated a 24% rise in the year, while its EPS rose by 15%, indicating that 65% of its increase in value was due to higher multiples and 35% due to earnings growth.
5. The financial sector fell as much as 16% from its peak in February to the year's low in March. From that low point, it has already erased the losses and closed the year up 10%.

Interest rates (%)

	31-December	30-November	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.50	4.50	0	200.0	200.0
3-month Euribor	3.91	3.96	–6	177.7	177.7
1-year Euribor	3.51	3.93	–41	22.2	22.2
1-year government bonds (Germany)	3.26	3.43	–17	66.2	66.2
2-year government bonds (Germany)	2.40	2.82	–41	–36.0	–36.0
10-year government bonds (Germany)	2.02	2.45	–42	–54.7	–54.7
10-year government bonds (Spain)	2.99	3.47	–48	–67.0	–67.0
10-year government bonds (Portugal)	2.66	3.14	–48	–93.0	–93.0
US					
Fed funds (upper limit)	5.50	5.50	0	100.0	100.0
3-month SOFR	5.33	5.37	–4	74.4	74.4
1-year government bonds	4.76	5.12	–36	7.5	7.5
2-year government bonds	4.25	4.68	–43	–17.6	–17.6
10-year government bonds	3.88	4.33	–45	0.4	0.4

Spreads corporate bonds (bps)

	31-December	30-November	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	59	68	–9	–32.0	–32.0
Itraxx Financials Senior	67	78	–11	–32.3	–32.3
Itraxx Subordinated Financials	123	142	–20	–49.4	–49.4

Exchange rates

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.104	1.089	1.4	3.1	3.1
EUR/JPY (yen per euro)	155.720	161.370	–3.5	10.9	10.9
EUR/GBP (pounds per euro)	0.867	0.863	0.5	–2.1	–2.1
USD/JPY (yen per dollar)	141.040	148.200	–4.8	7.6	7.6

Commodities

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	510.3	529.9	–3.7	–8.0	–8.0
Brent ($/barrel)	77.0	82.8	–7.0	–10.3	–10.3
Gold ($/ounce)	2,063.0	2,036.4	1.3	13.1	13.1

Equity

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	4,769.8	4,567.8	4.4	24.2	24.2
Eurostoxx 50 (euro area)	4,521.4	4,382.5	3.2	19.2	19.2
Ibex 35 (Spain)	10,102.1	10,058.2	0.4	22.8	22.8
PSI 20 (Portugal)	6,396.5	6,474.6	–1.2	11.7	11.7
Nikkei 225 (Japan)	33,464.2	33,486.9	–0.1	28.2	28.2
MSCI Emerging	1,023.7	987.1	3.7	7.0	7.0

A better 2023 and a worse 2024 for the international economy?

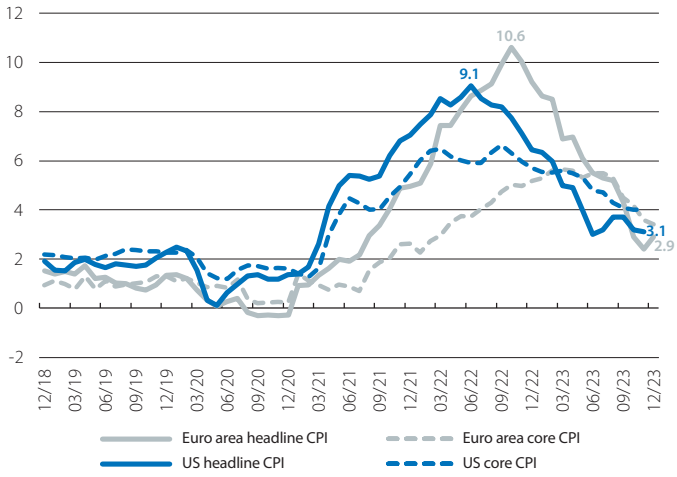
A year ago, we were talking about stagflation... and now, normalisation? After a 2023 with disparate growth between the major economies, the data for Q4 reflect a widespread cooling among the biggest economies and suggest we will see a landing of the global economy in the coming months. On the other hand, in recent months disinflation has come as a positive surprise. Whereas headline inflation at the end of 2022 stood at 9.2% in the euro area and at 6.4% in the US, the situation at the end of 2023 is very different. In the euro area, headline inflation stood at 2.9% in December, helped by base effects in energy, but with the core components also experiencing a slowdown. In the US in November, headline inflation stood at 3.2%. The coming months will be key to unveiling how easy the final path to the 2% inflation target, and how difficult the famous landing of advanced economies, will be. In anticipation of these questions, in recent months the markets read the economic activity and inflation data for Q4 2023 as a sign of a soft landing, leading investors to bring forward their expected timing for the first rate cuts by the Fed and the ECB to the spring.

The EU kicks off 2024 with full gas reserves, moderate energy prices... and agreement on a new fiscal framework. A year ago, the energy crisis was considered one of the main determining factors for the economic scenario and, at that time, futures contracts were indicating that gas prices would persistently be at or above €100/MWh. However, prices moderated to €40-50/MWh relatively quickly, so despite initially anticipating that euro area GDP growth in 2023 would be around 0.2%, this figure is likely to be comfortably exceeded. However, risks such as the persistent weakness of European industry and the materialisation of the impact of interest rate hikes have extended into 2024, a year in which we expect the euro area to grow by 0.7% (versus the 1.6% forecast of a year ago). On another battle front, the EU has managed to reach an agreement on the new fiscal rules. The 27 Member States concluded a political agreement at the European Council for the reform of fiscal rules just before the Christmas break, and it now needs to be negotiated with the European Parliament. The new rules maintain the formal limits of 3% and 60% of GDP for deficits and public debt, but allow fiscal adjustment paths to be «tailored» for each country, with four-year plans that can be expanded to a maximum of seven years. The new fiscal framework, which will not be binding until the 2025 budgets, foresees a transition period lasting until 2027 (intended for countries that have fiscal deficits above 3.0% and which would automatically enter the excessive deficit procedure) with interest on debt being temporarily excluded from the calculation.

The slowdown of the economy in Q4 suggests a sluggish start to the year in advanced economies. In Europe, December's PMIs remained in contractionary territory (below the 50-point threshold) for the seventh consecutive month, reflecting the persistent weakness in European industry and

US and euro area: CPI

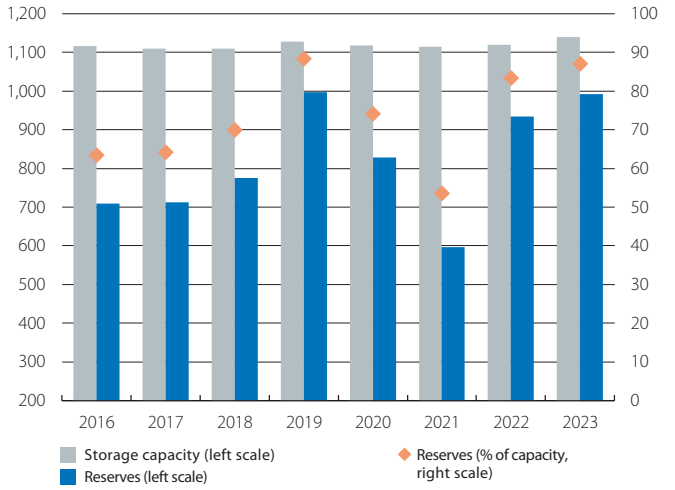
Year-on-year change (%)



Source: *BPI Research, based on data from Eurostat and the Bureau of Labor Statistics.*

EU-27: natural gas reserves

Total (GWh) *(%)*



Source: *BPI Research, based on data from Gas Infrastructure Europe.*

Euro area: economic sentiment and employment expectations

Index

Source: *BPI Research, based on data from the European Commission.*

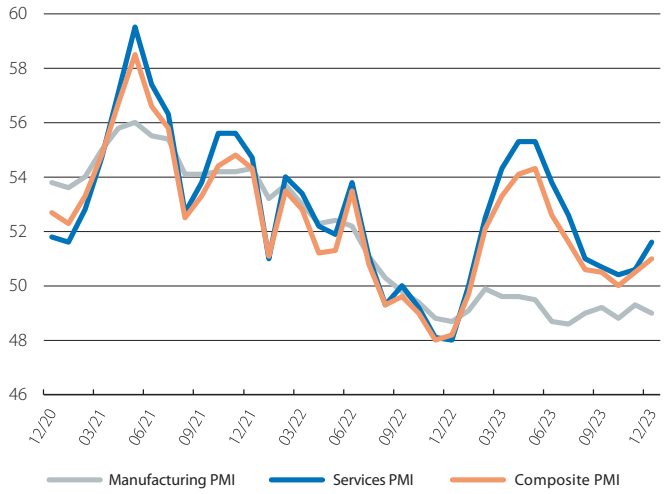
the gradual depletion of the cyclical boost in the services sector. On the other hand, the labour market remains solid with unemployment rates at rock bottom, although some leading indicators, such as the employment expectations indicator, hint at a gradual cooling of the labour market over the coming months. In the US, there is a slowdown in economic activity compared to Q3, although GDP growth remains buoyant at around 0.6% quarter-on-quarter, according to the Atlanta and New York Feds' nowcasting models. The labour market, meanwhile, showed mixed dynamics in December (with 216,000 jobs created, a strong figure that is higher than expected, although most of the jobs were created in less cyclical sectors, such as education and health and general government).

The global economy, between the slowdown of advanced economies and the weakening pull from China. At the same time as we expect a slowdown among advanced economies in 2024, there is another driver of the global economy which appears to be losing steam. In the post-financial crisis period and up until the pandemic, China had partially offset the rather subdued performance of advanced economies (which grew by an average of 1.0% in the period 2008-2020, compared to 7.5% in China). However, a mix of internal and external factors make a scenario in which the Asian giant's growth remains above 5% unlikely. Some of these factors were highlighted during 2023, with the reduction in exports and a domestic confidence crisis, aggravated by a prolonged decline in the real estate sector. In addition, in recent months, the problems of overcapacity in China's manufacturing sector are becoming apparent. The latest business confidence data are a good witness to these trends. On the one hand, the official composite PMI fell to 50.3 points in December, marking its lowest level in the year and substantially below its all-time average. By components, the services PMI remained at 49.3 points (its lowest level since the reopening), while the construction PMI rose to 56.9 points, well below the pre-pandemic average, signalling a lukewarm recovery in the sector. The manufacturing PMI fell from 49.4 to 49.0 points, amid signs of a cooling in foreign demand and falling production prices.

The new year is once again overshadowed by geopolitical tensions. A series of simultaneous crises remain active at the turn of the year, and in addition to the war in Ukraine there has recently been a revival of the Israeli-Palestinian conflict and the war in Sudan, making 2023 one of the years with the most active conflicts since World War II. In the midst of this increased conflict and defence spending, and with the role of multilateral institutions degrading, in 2024 over half of the world's population will be called to the polls for national elections. Moreover, many of these elections have the potential to affect, in turn, the current global geopolitical balance. In addition to elections in countries such as Taiwan, India and the United Kingdom, all eyes are on the US presidential elections. In Spain, «polarisation» was named word of the year in 2023. The Collins English Dictionary and *The Economist* have preferred expressions related to artificial intelligence. Both themes will continue to mark world affairs this year.

Global: PMI

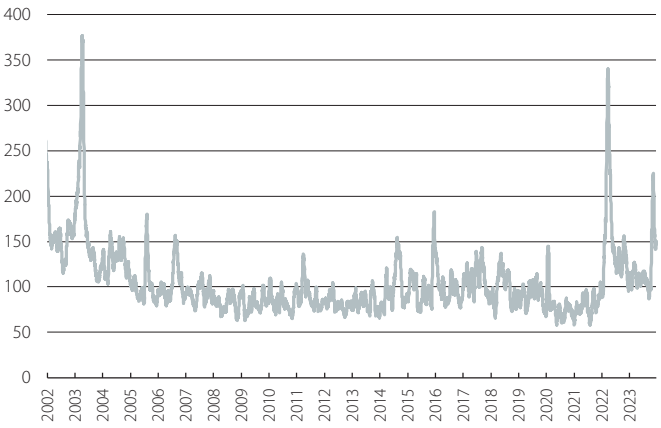
Index



Source: *BPI Research, based on data from S&P Global PMI.*

Global: geopolitical risk

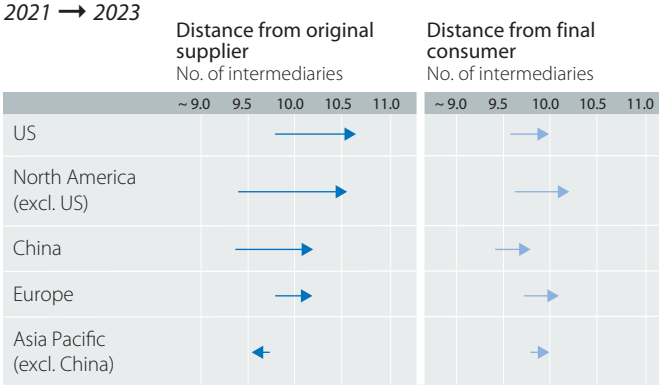
Index



Source: *BPI Research, based on data from D. Caldara and M. Iacoviello (2022). «Measuring Geopolitical Risk», American Economic Review, April, 112(4), pages 1,194-1,225 (data downloaded from https://www.matteoiacoviello.com/gpr.htm).*

Global: average length of global supply chains

2021 ⟶ 2023



Note: *Evolution of the average distance between the original supplier/final consumer (measured based on the number of intermediate suppliers) between 2021 and 2023, for each region.*
Source: The Economist *(based on Qiu, H. et al. (2023) «Mapping the realignment of global value chains»).*

Is there «early» evidence of de-risking? (part I): the US and China

Since 2008, global trade flows have virtually stagnated. At the same time, the significant rise in trade tensions between countries, mainly since 2018 and with the US-China axis at the epicentre, is leading to a redesign of trade flows. The key question is whether, in the face of rhetoric and policies more focused on bolstering «economic security», there is any evidence that trade ties (or «dependencies») between the major economic blocs have systematically diminished.

The importance of the triangle: from Ancient Greece to international trade in the 21st century

Since the end of 2018, China's exports to the US have suffered a zigzag pattern, with contractions in 2019 and 2022-2023, but reaching all-time highs in between (see first chart). However, since 2018 China has lost almost 5 pps in its share of total US imports, while countries such as Mexico and Vietnam, and even the euro area, have seen their share increase.

For instance, between 2018 and 2021, Vietnam's annual exports to the US have more than doubled (increasing by over 50 billion dollars per year). Looking at the breakdown by sector, while the proportion of exports of electronic products from China to the US fell by 2 points in the period, exports of these products from Vietnam to the US rose by 13 points (see first table).[1] China's exports to Vietnam have grown by almost 70% (also around 50 billion dollars per year) and flows within the electronics sector have intensified in both directions.

The «trade triangle» between these countries reveals that, despite direct trade ties between China and the US having steadily weakened over the period, indirect ties may have increased significantly.[2] If we understand the objective of de-risking (i.e. minimising risks in value chains through the diversification of trade flows) to be a reduction in the effective trade dependence between countries, and this depends on both direct and indirect trade ties, it is not clear to what extent there has really been a decoupling between the US and China since 2018, despite the significant increase in tariffs imposed by the two countries.[3] This is also shown by is demonstrated by one of the most famous theorems of Euclidean geometry, attributed to the Greek philosopher and mathematician Pythagoras, in the 6th century BC: the square of the length of the hypotenuse is equal to the sum of the squares of the length of the other two sides.

1. In contrast, between 2018 and 2021, US exports to China have increased by almost 30%, and to Vietnam, by 10%.
2. Although China has seen its share of total US imports decline, it remains the US' biggest trading partner in terms of imports, accounting for one fifth of the total. On the other hand, China is also the main source of Vietnam's imports. While in 2018, 31% of Vietnam's total imports of goods came from China, in 2021 this figure stood at 39%. The main product imported by Vietnam is integrated circuits (12% of total imports). In 2018, 23% of the integrated circuits imported by Vietnam came from China (compared to 46% from South Korea and 6% from the US and from Japan). In 2021, China's share rose to 33% (33% from South Korea, 7% from Japan and 4% from the US).

China: exports

USD billions (12-month cumulative volume) — *USD billions (12-month cumulative volume)*

Note: *The chart shows monthly data.*
Source: *BPI Research, based on data from China Customs, via Bloomberg.*

Trade flows between China, the US and Vietnam

Annual imports and exports (USD millions)

	2018	Δ%	2021
China → US	504,000	+5%	530,000
	Electronics (26%)		Electronics (24%)
	Machinery (22%)		Machinery (22%)
US → China	119,000	+27%	151,000
	Aeronautical transp. (14%)		Electronics (13%)
	Electronics (11%)		Optical & photogr. equipment., etc. (11%)
Vietnam → US	48,000	+106%	99,000
	Electronics (21%)		Electronics (34%)
	Clothing accessories (17%)		Furniture (11%)
US → Vietnam	10,000	+10%	11,000
	Electronics (18%)		Electronics (21%)
	Cotton (14%)		Cotton (9%)
Vietnam → China	41,000	+41%	58,000
	Electronics (48%)		Electronics (54%)
	Fruit (7%)		Cotton (5%)
China → Vietnam	77,000	+68%	129,000
	Electronics (30%)		Electronics (36%)
	Machinery (11%)		Machinery (11%)

Note: *The table shows the two most important sectors (as a % of the total) in the bilateral flows between countries, for each year, at the HS2 product level.*
Source: *BPI Research, based on data from the Observatory of Economic Complexity (OEC) and Comtrade.*

Changes in global trade flows: a variable geometry

While on the one hand the intensification of Vietnam's trade flows with China and the US will have countered, at least in part, the relative weakness of the direct flows between China and the US, it remains to be seen whether these trade flow deviations spread to other countries. Focusing on the Asian region and other large emerging economies, in the same period we see more rapid growth in US trade flows with other ASEAN countries (such as Indonesia, Malaysia and Thailand), as well as with South Korea and Taiwan, all registering growth in excess of 30%. Trade flows with India have also grown by more than 30%, while flows with Mexico and Brazil stagnated between 2018 and 2021.

Various nuances in these cases help us to understand the challenges and complexity of the de-risking process between major economic powers. On the one hand, although we see a reduction in US imports coming from China and an increase in those coming from other countries, these countries have increased their own imports originating in China. Therefore, we cannot decisively conclude that the US' indirect trade links with China have not increased. In virtually all of the cases mentioned above, the growth of these countries' imports coming from China has practically matched, or even surpassed, the growth of their exports to the US (see second table). On the other hand, in the case of India, which has registered a 34% increase in its exports to the US in the period, although the country's imports from China have grown by 24%, it is not clear that this channel has led to a de-risking for the US relative to China. Firstly, the annual flows of exports from India to the US are only one seventh of those from China to the US (and they are even inferior to those from Vietnam to the US). Secondly, India and China have very different sectoral specialisations. Whereas almost 50% of China's exports to the US (and to India) are electronics and machinery, India's main exports to the US include precious stones and metals (20%) and pharmaceuticals (10%), while electronics and machinery together account for just over 10% of the total.

3. In order to clearly identify «dependencies» between economies through global value chains, international value-added data must be used, which are available, for example, in the OECD TiVA database. Such data make it possible to identify the true origin of the goods and services that arrive, are consumed and are exported in a given country, taking into account that the gross flows of imports and exports between countries incorporate content originating in multiple locations. However, due to the complexity of this data, they are published with a lag of several years.

4. See, for example, H. Utar *et al.* (2023), «The US-China Trade War and the Relocation of Global Value Chains to Mexico», CESifo Working Paper nº 10638. China-US tariff barriers are currently at levels three to six times higher than those observed up until 2018, according to the Peterson Institute for International Economics (PIIE).

Trade flows between China, the US and major emerging economies

Annual imports and exports (USD millions)

	2018	Δ%	2021
Mexico → US	348,000	+4%	361,000
	Land transp. (27%)		Land transp. (24%)
	Electronics (21%)		Electronics (21%)
India → US	53,000	+34%	71,000
	Precious stones, etc. (21%)		Precious stones, etc. (21%)
	Pharmaceuticals (11%)		Pharmaceuticals (11%)
Indonesia → US	20,000	+30%	26,000
	Non-textile clothing access. (12%)		Textile clothing access. (10%)
	Textile clothing access. (11%)		Fats, oils... (9%)
China → Mexico	64,000	+31%	84,000
	Electronics (37%)		Electronics (32%)
	Machinery (23%)		Machinery (21%)
China → India	76,000	+24%	94,000
	Electronics (30%)		Electronics (28%)
	Machinery (18%)		Machinery (21%)
China → Indonesia	45,000	+33%	60,000
	Electronics (21%)		Machinery (19%)
	Machinery (19%)		Electronics (19%)

Note: *The table shows the two most important sectors (as a % of the total) in the bilateral flows between countries, for each year, at the HS2 product level.*
Source: *BPI Research, based on data from the Observatory of Economic Complexity (OEC) and Comtrade.*

What will the future bring: more multi-polar geopolitics and less multilateral geo-economics?

The use of «defensive» trade policies such as tariffs, unilaterally and as a weapon for negotiating with trading partners, has marked the «first wave» of trade tensions, beginning in 2018.[4] These have led to a first redesign of global value chains. Although we have seen cases of «friendshoring», or the relocation of parts of the value chains to so-called friendly countries (either to avoid tariff costs or to protect against a potential further deterioration of the geopolitical situation), the resulting deviations of trade flows, as well as China's growing importance and degree of specialisation in global value chains, make it difficult to conclude that the trade links between the US and China have indeed lost importance.

On the other hand, the protectionist shift in the US has not only led to a deterioration of multilateralism (as is evident, for example, with the US blocking appointments to the WTO's Appellate Body, the main mechanism for resolving trade disputes between countries, since 2017), but it has also driven other countries to change their trade policies. What new geo-economics will the «second wave» of trade tensions bring us?

Luís Pinheiro de Matos

Is there «early» evidence of de-risking? (part II): the EU

Between 2018 and 2021, we experienced a first wave of trade tensions in a conflict that was concentrated in the US-China axis. In that period, EU imports from China increased by almost 40% (see first table),[1] but since 2021 the tensions have spread and the EU has been adopting a more assertive stance towards China, particularly following Russia's invasion of Ukraine.

How is the EU positioning itself on de-risking?

In 2021, 22% of imports of goods from outside the EU came from China (around 550 billion dollars), up from 18% between 2015 and 2018 and marking a record level. In the electronics sector, China's share of EU imports in 2021 stood at 47%, compared to 38% up until 2018.

In these same years, not only did the growth of imports from China exceed the growth of imports from the other large emerging and Asian countries (see second table), but the growth of exports from China to these countries increased significantly.[2] In other words, the importance of the EU's direct trade links with China has increased (contrary to what happened between the US and China during the same period), as have the indirect links through other countries due to those countries also having increased their exposure to China.

On the other hand, following a period of rapid expansion of European imports during 2022, with more than 40% growth in imports coming from outside the EU (over 30% from China), there are some signs of contraction of direct trade ties between the European bloc and the Asian giant. In 2023, EU imports from China have been falling by more than 10% year-on-year (see chart).[3] At the same time, European imports coming from the US have grown by 7%, while those coming from other Asian countries have increased by 3%.[4] As a result, since 2021 China has lost 2 pps in its share of the EU's total external imports, placing its share at 20%, while the share of other Asian countries and the US has increased and intra-EU trade has been strengthened.

De-risking or a new globalisation «with Chinese characteristics»?

Two additional trends have also marked recent years. On the one hand, as China has assumed a more prominent role in global value chains, it has also reduced its economic dependence on foreign countries, mainly in terms of goods and services produced in more advanced economies.[5] On the other hand, since the end of 2019 China's main export destination is no longer advanced economies. In fact, in recent years, the Chinese export destinations that have grown the most have been the BRICS countries, the rest of Asia, the Middle East and Africa. For instance, China's exports to ASEAN countries have grown by 70%, while exports to advanced economies have grown by 20%.

But will the ongoing redesign of trade flows lead to a minimisation of trade risks, whether through direct political intervention or due to fears among businesses of a deterioration in the geopolitical situation that would

Trade flows between China and the EU

Annual imports and exports (USD millions)

	2009	2012	2015	2018	2021
China → EU	225,000	335,000	337,000	395,000	550,000
	Electronics (23%)	Electronics (23%)	Electronics (24%)	Electronics (24%)	Electronics (27%)
	Machinery (22%)	Machinery (23%)	Machinery (21%)	Machinery (22%)	Machinery (21%)
	Non-textile clothing access. (6%)	Non-textile clothing access. (5%)	Non-textile clothing access. (5%)	Non-textile clothing access. (4%)	Furniture (5%)
EU → China	109,000	166,000	158,000	218,000	261,000
	Machinery (29%)	Machinery (23%)	Machinery (21%)	Machinery (19%)	Machinery (17%)
	Electronics (15%)	Land transp. (18%)	Land transp. (16%)	Land transp. (17%)	Land transp. (15%)
	Land transp. (10%)	Electronics (10%)	Electronics (11%)	Electronics (12%)	Electronics (14%)

Note: *The table shows the three most important sectors (as a % of the total) in the bilateral flows between countries or blocs, for each year, at the HS2 product level.*
Source: *BPI Research, based on data from the Observatory of Economic Complexity (OEC) and Comtrade.*

1. In this period, US imports from the EU have grown by 12% (to around 450 billion dollars per year). Also see the Focus «Is there «early» evidence of de-risking? (part I): the US and China», in this same report.
2. Between 2018 and 2021, the increase in exports from China to these countries exceeded 50% in several cases (Turkey, +52%; Vietnam, +68%; Brazil, +50%, and Malaysia, +54%).
3. US imports from China have been falling by almost 20% in the same period.
4. Of particular note is the growth of European imports from South Korea (+13%), Taiwan (+7%), Japan (+6%) and India (+4%), while imports from ASEAN countries fell slightly (–1%), albeit with differences between countries (from Malaysia, –7%, from Vietnam and Singapore, +3%). As for other regions, of particular note is the growth of imports from the United Arab Emirates (+38%) and Mexico (+12%), and the fall in imports from Russia (–66%) and Norway (–15%).
5. See the Focus «EU and China: mapping out a strategic interdependence II» in the MR01/2023.

lead to the use of «economic dependencies» as a diplomatic weapon? Some nuances observed in recent years invite some caution. On the one hand, we have underlined the importance of analysing indirect trade (and investment) ties between blocs, or the so-called «back doors».[6] Moreover, given the magnitude of the trade flow deviations observed in recent years and the upturn in uncertainty surrounding trade, we may see an increase in the complexity of global value chains in the coming years, driven by geopolitical considerations. This would likely result in greater opacity – and reduced efficiency – in production processes, as well as in real economic dependencies between blocs.

Whether de-risking turns out to be the end result of this reallocation of resources or not, we may be entering a new era of (de-)globalisation «with Chinese characteristics».[7] At the moment, there is a redefinition of the balance towards a global economy that is more dominated by geopolitical concerns, with states playing a more active role through industrial policies and an imminent redefinition of trade policies and of the free trade consensus built in the post-war period. In the first phase of this process, we have witnessed a dominance of «defensive» trade policies, resulting in increased tariffs as well as non-tariff barriers, such as export restrictions or investment control mechanisms. In order to ensure that this process does not lead to a costly and disorderly fragmentation between blocs, it is essential to consider so-called «offensive» trade policies[8] and that a detailed understanding of global value chains is achieved. The EU appears to be taking some encouraging steps in this regard, as evidenced by the recent discussion (based on a more pragmatic view of value chains) around critical technologies and progress in trade agreements with countries such as New Zealand, Chile, Kenya, Mexico and India. No less important in this process will be the construction of effective channels for dialogue between the various blocs: the US, China and, in an increasingly multi-polar world, all the rest.

Luís Pinheiro de Matos

6. For a recent and detailed analysis, see, for example, L. Alfaro and D. Chor (2023). «Global Supply Chains: The Looming 'Great Reallocation'», Working Paper 31,661, NBER Working Paper Series, NBER.
7. After years of leadership under Mao Zedong, Deng Xiaoping was one of the great reformist leaders who has modernised China's economy, beginning in the 1980s, and has brought the country into a new era of globalisation. One of the fundamental ideas introduced by Xiaoping was the concept of «socialism with Chinese characteristics», which aimed to redefine the balance between a state-dominated economy and the capitalist world to which it was opening up. In the following decades, China became the world's second largest economy and the biggest exporter of goods globally, and was the single biggest driver of the latest wave of globalisation.
8. «Defensive» trade policies, such as tariffs, quotas or restrictions on imports or exports, contrast with so-called «offensive» trade policies, such as the establishment of trade and cooperation agreements between countries.

Trade flows between the EU and major Asian and emerging economies

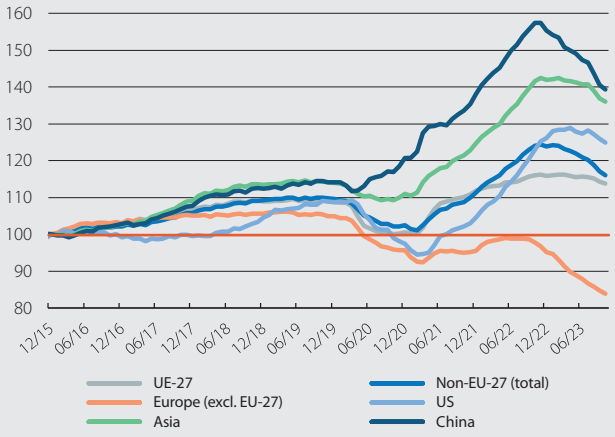
Annual imports and exports (USD millions)

	2018	Δ%	2021
Turkey → EU	81,000	+21%	98,000
	Land transp. (24%)		Land transp. (17%)
	Machinery (11%)		Machinery (10%)
Japan → EU	74,000	–4%	71,000
	Machinery (25%)		Machinery (24%)
	Land transp. (25%)		Land transp. (22%)
South Korea → EU	56,000	+18%	66,000
	Land transp. (19%)		Electronics (18%)
	Electronics (18%)		Land transp. (17%)
India → EU	52,000	+17%	61,000
	Fuels, etc. (13%)		Fuels, etc. (10%)
	Machinery (8%)		Organic chemicals (9%)
Vietnam → EU	39,000	+15%	45,000
	Electronics (40%)		Electronics (39%)
	Footwear (12%)		Footwear (10%)
Brazil → EU	36,000	+6%	38,000
	Minerals, etc. (15%)		Minerals, etc. (15%)
	Food products (10%)		Fuels, etc. (14%)
Malaysia → EU	27,000	+11%	30,000
	Electronics (42%)		Electronics (40%)
	Machinery (15%)		Fats, oils, etc. (12%)

Note: *The table shows the two most important sectors (as a % of the total) in the bilateral flows between countries, for each year, at the HS2 product level.*
Source: *BPI Research, based on data from the Observatory of Economic Complexity (OEC) and Comtrade.*

EU-27: imports

Index (100 = 2015)



Note: *The chart shows monthly data.*
Source: *BPI Research, based on data from Eurostat.*

Year-on-year (%) change, unless otherwise specified

UNITED STATES

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Activity									
Real GDP	5.8	1.9	0.7	1.7	2.4	2.9	–	–	–
Retail sales (excluding cars and petrol)	15.8	9.3	7.5	5.8	3.3	2.2	3.3	5.2	...
Consumer confidence *(value)*	112.7	104.5	104.2	105.5	106.1	104.5	99.1	101.0	110.7
Industrial production	4.4	3.4	1.8	1.3	1.0	0.9	–1.0	–0.4	...
Manufacturing activity index (ISM) *(value)*	60.7	53.5	49.1	48.3	47.8	47.1	46.7	46.7	47.4
Housing starts *(thousands)*	1,606	1,551	1,405	1,375	1,378	1,385	1,359	1,560	...
Case-Shiller home price index *(value)*	267	307	304	303	302	302	320.3	...	...
Unemployment rate *(% lab. force)*	5.4	3.6	3.6	3.5	3.5	3.5	3.8	3.7	3.7
Employment-population ratio *(% pop. > 16 years)*	58.4	60.0	60.0	60.1	60.2	60.3	60.3	60.4	60.1
Trade balance [1] *(% GDP)*	–3.6	–3.7	–3.7	–3.6	–3.5	–3.3	–2.9	...	...
Prices									
Headline inflation	4.7	8.0	7.1	6.7	6.3	5.8	3.2	3.1	...
Core inflation	3.6	6.2	6.0	5.7	5.6	5.6	4.0	4.0	...

JAPAN

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Activity									
Real GDP	2.6	1.0	0.5	2.5	2.2	1.5	–	–	–
Consumer confidence *(value)*	36.3	32.2	30.4	30.7	31.2	32.2	35.7	36.1	37.2
Industrial production	5.8	0.0	0.7	–1.8	–1.8	–2.0	–0.6	–1.4	...
Business activity index (Tankan) *(value)*	13.8	9.5	7.0	1.0	5.0	9.0	–	–	–
Unemployment rate *(% lab. force)*	2.8	2.6	2.5	2.5	2.5	2.6	2.5	2.5	...
Trade balance [1] *(% GDP)*	–0.3	–3.7	–3.8	–4.0	–4.0	–4.0	–2.1	–1.9	...
Prices									
Headline inflation	–0.2	2.5	3.9	4.1	3.9	3.6	3.3	2.9	...
Core inflation	–0.5	1.1	2.8	3.0	3.2	3.5	4.0	3.8	...

CHINA

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Activity									
Real GDP	8.4	3.0	2.9	4.5	6.3	4.9	–	–	–
Retail sales	12.4	–0.8	–2.7	5.8	10.7	4.2	7.6	10.1	...
Industrial production	9.3	3.4	2.8	3.2	4.5	4.2	4.6	6.6	...
PMI manufacturing *(value)*	50.5	49.1	48.1	51.5	49.0	49.7	49.5	49.4	49.0
Foreign sector									
Trade balance [1,2]	681	899	899	948	946	900	873.8	871.0	...
Exports	30.0	7.1	–6.8	0.1	–5.4	–10.8	–7.9	–1.4	...
Imports	30.0	0.7	–6.9	–7.2	–6.9	–8.5	3.0	–0.6	...
Prices									
Headline inflation	0.9	2.0	1.8	1.3	0.1	–0.1	–0.2	–0.5	...
Official interest rate [3]	3.8	3.7	3.7	3.7	3.6	3.5	3.5	3.5	3.5
Renminbi per dollar	6.5	6.7	7.1	6.8	7.0	7.2	7.3	7.2	7.1

Notes: *1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.*
Source: *BPI Research, based on data from the Department of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Standard & Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Refinitiv.*

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Retail sales *(year-on-year change)*	5.4	1.0	–2.8	–2.7	–1.9	–1.8	–0.9	–1.1	...
Industrial production *(year-on-year change)*	9.9	2.2	2.0	0.4	–1.2	–4.7	–6.7	...	...
Consumer confidence	–7.5	–21.9	–26.9	–26.9	–26.9	–26.9	–17.8	–16.9	–15.0
Economic sentiment	110.7	101.9	96.5	96.5	96.5	96.5	93.7	94.0	96.4
Manufacturing PMI	60.2	52.1	47.1	48.2	44.7	43.2	43.1	44.2	44.4
Services PMI	53.6	52.1	49.0	52.8	54.4	49.2	47.8	48.7	48.8
Labour market									
Employment (people) *(year-on-year change)*	1.5	...	1.6	1.6	1.3	...	–	–	–
Unemployment rate *(% labour force)*	7.7	6.7	6.7	6.6	6.5	6.5	6.5	...	...
Germany *(% labour force)*	3.6	3.1	3.0	2.9	2.9	3.0	3.1	...	...
France *(% labour force)*	7.9	7.3	7.2	7.1	7.3	7.4	7.3	...	...
Italy *(% labour force)*	9.5	8.1	7.8	7.9	7.7	7.6	7.8	...	...
Real GDP *(year-on-year change)*	6.1	3.5	1.8	1.3	0.6	0.0	–	–	–
Germany *(year-on-year change)*	3.3	1.9	0.8	–0.2	0.1	–0.4	–	–	–
France *(year-on-year change)*	6.8	2.6	0.8	0.9	1.2	0.6	–	–	–
Italy *(year-on-year change)*	8.6	3.9	1.6	2.1	0.3	0.1	–	–	–

Prices

Year-on-year change (%), unless otherwise specified

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
General	2.6	8.4	10.0	8.0	6.2	5.0	2.9	2.4	2.9
Core	1.5	3.9	5.1	5.5	5.5	5.1	4.2	3.6	3.4

Foreign sector

Cumulative balance over the last 12 months as % of GDP of the last 4 quarters, unless otherwise specified

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Current balance	3.1	–0.7	–0.7	–0.5	0.3	2.0	3.8	...	...
Germany	7.7	4.4	4.4	4.6	5.3	8.6	13.3	...	...
France	0.4	–2.0	–2.0	–1.9	–1.8	–2.0	–3.2	...	...
Italy	2.4	–1.5	–1.5	–1.4	–1.1	–0.1	0.2	...	...
Nominal effective exchange rate [1] *(value)*	**94.3**	**90.9**	**91.9**	**93.4**	**94.6**	**95.9**	**95.0**	**95.3**	**94.9**

Credit and deposits of non-financial sectors

Year-on-year change (%), unless otherwise specified

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Private sector financing									
Credit to non-financial firms [2]	3.5	6.7	7.8	5.7	3.9	1.0	–0.3	0.0	...
Credit to households [2,3]	3.8	4.4	4.0	3.2	2.1	1.0	0.6	0.5	...
Interest rate on loans to non-financial firms [4] *(%)*	1.2	1.8	2.9	3.8	4.5	5.0	5.2	5.1	...
Interest rate on loans to households for house purchases [5] *(%)*	1.3	2.0	2.9	3.7	4.3	4.7	4.8	4.9	...
Deposits									
On demand deposits	12.8	6.3	1.4	–3.9	–8.1	–11.3	–11.5	–10.9	...
Other short-term deposits	–0.8	4.5	12.0	17.6	22.5	23.2	21.4	20.8	...
Marketable instruments	11.6	3.7	7.5	19.4	22.0	20.5	22.9	17.9	...
Interest rate on deposits up to 1 year from households *(%)*	0.2	0.5	1.1	1.9	2.5	3.0	3.3	3.3	...

Notes: *1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated. 2. Data adjusted for sales and securitization. 3. Including NPISH. 4. Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. 5. Loans with a floating rate and an initial rate fixation period of up to one year.*

Source: *BPI Research, based on data from the Eurostat, European Central Bank, European Commission, national statistics institutes and Markit.*

New year starts with some uncertainty, but with positive signs

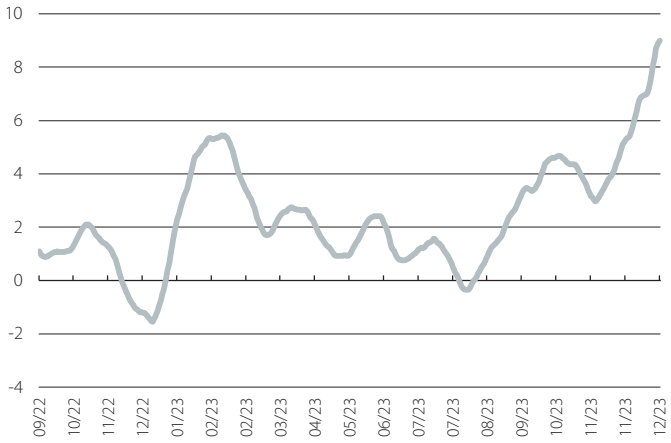
At the end of the year, the indicators showed a trend towards recovery.Six days before the end of Q4, the daily activity indicator showed year-on-year activity growth of just over 6% (close to 2% in Q3). On the demand side, consumption indicators accelerated towards the end of the year: non-fuel retail sales rose 2.3% in November and car sales accelerated towards the end of the year, contributing to a 7.9% advance in Q4 as a whole. This was accompanied by an improvement in household sentiment, via the more benign behaviour of inflation and its positive impact on income. The tourism sector, measured by the number of flights and purchases made with non-resident cards, showed favourable developments. The former grew by 7.2% year-on-year in Q4 and the latter accelerated in October and November compared to Q3, suggesting that the sector will continue to contribute to strengthening the economy's external financing capacity (2.7% of GDP in Q3, the highest level since 2013). Finally, electricity consumption, corrected for the effects of temperature and working days, accelerated in the last 3 months of the year, putting quarterly growth above 3.5%. This data supports the idea that the economy in Q4 may have grown by around 0.3%, which, if this is the case, will put annual growth at 2.2%, in line with our forecast of growth above 2%. 2024 begins with some factors of uncertainty, but also with some supporting factors, namely the recovery of the household savings rate (6.6% of DI in Q3), the improvement in household income associated with the relief from personal income tax, the stabilisation of financing costs signalling the end of the rate hike cycle in the EMU, and the possibility of acceleration in the implementation of the RRP, insofar as, in the last days of 2023, Portugal received almost all of the 2 tranches planned for 2023.

Inflation in general decline.The CPI flash estimate for December was 1.4% (1.5% in November), putting average inflation for 2023 at 4.3%, 0.3% less than our forecast (4.6%). This is the second month with inflation below the 2% benchmark and this moderation was even more widespread in December, due to the monthly price drops in the basket's main aggregates. Specifically: energy products (–2.17%); unprocessed food products (–0.93%); processed food products (–0.26%); and underlying (–0.23%). Looking ahead to 2024, our forecast for average inflation is 2.4%. On the one hand, at the beginning of the year we will have the seasonal effect of the sales. On the other, the end of the «Zero VAT» measure and increases already announced in housing rents, the regulated electricity market, and some services such as telecommunications. At the beginning of the year, we anticipated a greater stabilisation of inflation and expect to adjust our forecast for average inflation in the first few months of this year.

The labour market is slowly worsening.Unemployment registered at job centres rose in November for the fifth month running, although it remains at historically low levels (+3.0% quarterly; +5.3% year-on-year), reaching the highest value since February 2023. The monthly increase in unemployment is mainly due to two sectors, accommodation & catering, and real estate, administrative & support services. Job vacancies registered at job centres also evolved unfavourably (–11.1% quarterly, –17% year-on-year), with around 13,240 vacancies (compared to more than 18,000 on average in the months of November in the five years pre-pandemic). Similarly, the *layoff* figures continue to surprise on the downside: +51% in November (132% year-on-year), which,

Daily economic activity indicator: monthly moving average

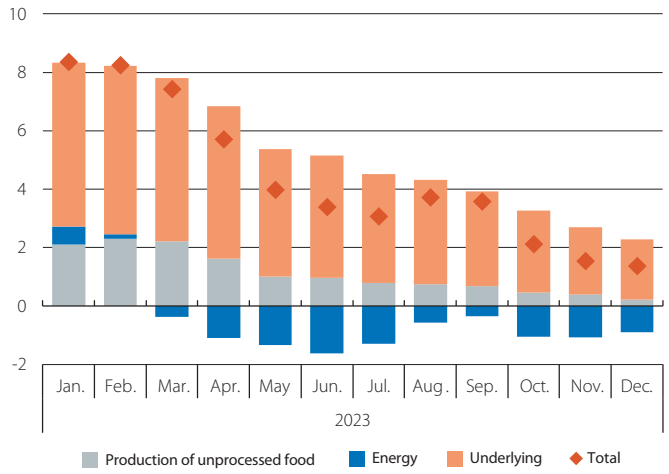
Rate of change (%)



Source: *BPI Research, based on data from BdP.*

CPI: contributions for year-on-year variation

(%)



Source: *BPI Research, based on data from INE.*

Unemployment as recorded at employment centres

(Thousands of individuals)

Source: *BPI Research, based on data from the IEFP (Institute for Employment and Vocational Training).*

despite not being a very significant figure (it represents around 0.3% of the employed population), is nonetheless a warning sign. In the same vein, the number of recipients of unemployment benefits rose by 3.9% in November (+8.1 per cent year-on-year), while the number of collective redundancies rose by 10.6% year-on-year in the first 11 months of the year.

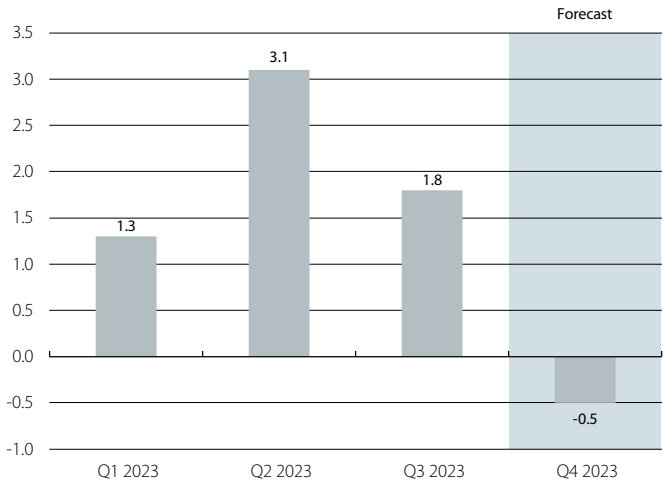
Data from Q3 2023 extends the appreciation of the Housing Price Index (HPI). In fact, prices rose consistently, by 1.8% year-on-year and 7.8% year-on-year; but in more moderate terms than in the second quarter. Transactions were also up (+2%), driven by an increase in new property sales (+12%) and a slight drop in used properties (–1%), although the latter continue to account for almost 80% of transactions. With this data, we continue to expect an average house price appreciation in 2023 of more than 7%, but less than 10%, and weaker than in recent years. The data we have for Q4 points to a sustained number of transactions, but negative monthly variations in the bank valuation of properties in October and November. The last time something similar happened was at the end of 2014 and coincided with a drop in the HPI (–0.3%). We'll have to wait until the end of March to validate this trend.

The public accounts continue in positive territory without any major mishaps. The budget execution of public accounts shows a budget surplus of 2.7% of GDP up to November (excluding the transfer from the CGD Pension Fund to CGA). Revenue continues to evolve very positively (+10.4% year-on-year), mainly explained by tax and social security revenue, while expenditure increased to a lesser extent (+5.8%), with particular emphasis on the increase in staff costs and current transfers. Interest costs also increased, essentially reflecting the increase in Savings Certificates subscriptions (an increase of almost 500 million euros compared to the same period in 2022). Meanwhile, public debt fell in November for the fourth month in a row, reaching the lowest level since November 2020. As a percentage of GDP, we estimate that the ratio stood at 102% in November, lower than the government's expectations for the end of the year (103%). In this context, it is not unlikely that there will be a positive surprise and that the public debt ratio will fall closer to 100% of GDP. This could be achieved by reducing the liquidity cushion (which represented around 6% of GDP in November) and in a similar way to what has been happening in recent months.

The rise in interest rates continues to have no significant impact on default levels. In fact, the non-financial private sector's NPL ratio fell by 0.3% to 3.6% in 3Q 2023, a reduction explained by the improvement in the ratio allocated to Individuals and NFCs. Although the amount of *non-performing* loans relating to mortgages has increased for the third consecutive quarter, it is still lower than before the pandemic (–45%). Similarly, overdue loans continue to fall year-on-year in all credit segments, even though they rose in October and November, but remain close to historic lows, reflecting the solidity shown by households and companies in dealing with recent sharp rise in interest rates. Meanwhile, the implicit interest rate on mortgage loans continues to rise, but at a substantially slower rate: in November, it stood at 4.52%, according to INE, the highest figure since March 2009 and almost three times higher than a year ago (1.60%). In this context, the credit portfolio for the non-financial private sector fell by 2.0% year-on-year in November, a development that cuts across the various credit segments, except for the consumer credit portfolio, which continues on a positive path.

Quarterly change in HPI

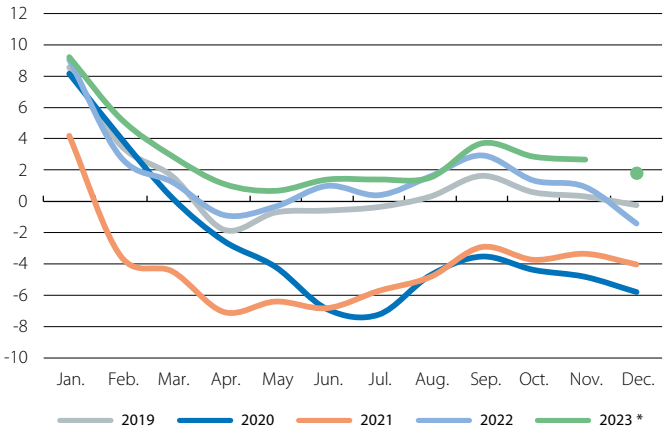
(%)



Source: *BPI Research, based on data from INE.*

Budget implementation (public accounting)

(% GDP)



Note: ** Corrected for the transfer of the CGD Pension Fund to CGA. The point represents the government's estimate for the end of the year.*
Source: *BPI Research, based on data from INE.*

Ratio of NPLs in the non-financial private sector

(%)

Source: *BPI Research, based on data from Banco de Portugal.*

Portuguese tourism in high season: between records and setbacks

In the three years prior to the pandemic, overnight stays in the third quarter accounted for an average of almost 40% of annual overnight stays. As such, the question of whether national tourism will surpass pre-pandemic levels in 2023 depends to a large extent on performance in this period.[1] It is the performance of Portuguese tourism in (and up to) the third quarter, in all its various nuances, that we intend to address in this article.

Looking primarily at the number of guests in tourist accommodation establishments (i.e. number of tourists), by September 2023 the pre-pandemic level had already been comfortably surpassed for both resident and non-resident tourists (see first graph). There were more than 23 million holidaymakers, putting BPI Research's forecast for the 2023 figure (29.8 million guests, 12% above the 2019 level) on perfectly achievable ground. All that is needed is for performance in the last quarter to be in line with 2022.

Focusing in particular on the third quarter of 2023, one fact stands out: August saw a record monthly number of overnight stays in Portuguese hotels - over 10 million. Despite these auspicious figures, if we compare the figures for this period with the same period in 2022, we can't be optimistic across the board. This is particularly the case with regard to tourism by residents, as the number of overnight stays stagnated compared to the previous year and even fell by 4%.

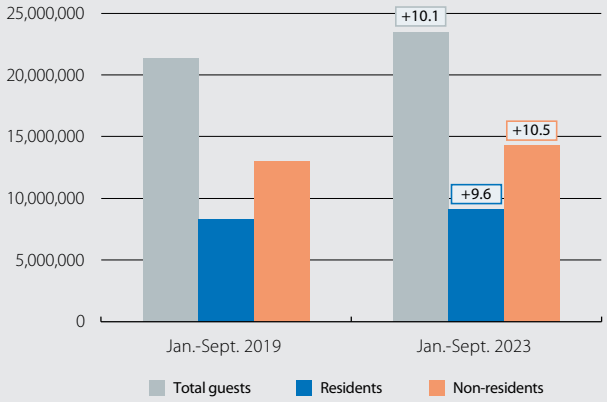
However, it is necessary to break these numbers down. Firstly, there is a certain base effect in the resident tourism figures for 3Q 2023: in Q3 2022 resident guests had already surpassed the pre-pandemic period, but this was not yet the case for non-residents. In other words, as the pace of recovery among non-resident guests was slower, it is natural that growth rates in 2023 will be higher than for resident guests. Secondly, resident overnight stays are still higher than in the pre-pandemic period (by 6%), therefore, still at high levels. Finally, when we look at the breakdown of this drop in overnight stays compared to Q3 2022 by region, we see that it wasn't transversal to the whole country - the Centre, Alentejo and North recorded a higher number of overnight stays, while the Azores, Lisbon, Madeira and Algarve were the regions with drops (third graph). What's more, it's the fall in overnight stays in the Algarve that largely explains the drop, with 359,000 fewer overnight stays (accounting for almost 90% of the drop).

This breakdown of different performances by region gives us additional clues to understanding the drop in overnight stays from residents in Q3 2023 and defining a more global trend underway. In our view, there are behavioral and financial factors behind the decline and asymmetric behaviour between regions. In behavioural terms, we believe that there is a continuation of a movement to develop tourism in rural and residential

1. At the time of writing, tourism data for the entire year is not yet known.

Number of guests

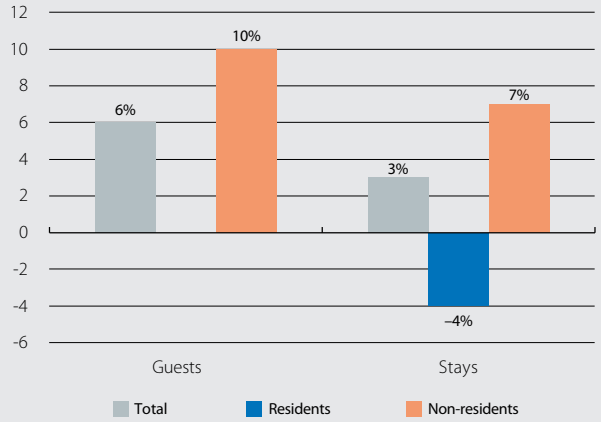
YTD comparison Sept. 2023 vs Sept. 2019



Source: *BPI Research, based on data from INE.*

Guests and overnight stays

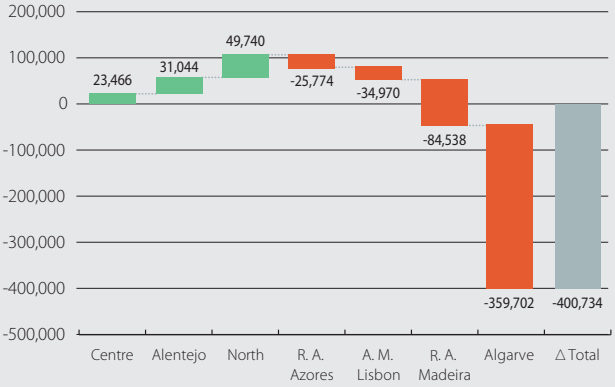
Variation 3Q 2023 vs 3Q 2022



Source: *BPI Research, based on data from INE.*

Variation in resident overnight stays by region: 3Q 2023 vs 3Q 2022

Number



Source: *BPI Research, based on data from INE.*

areas, which continues to grow and consolidate, and which was boosted by the pandemic at a time when greater social isolation was being sought. This seems to be corroborated by the fact that revenue from this type of accommodation increased in Q3 2023 compared to Q3 2022, and that the regions where overnight stays grew are more representative of this type of tourism (because they are more inland regions of the country). In financial terms, it should be noted that the 3Q 2023 RevPar of the regions where overnight stays grew (64.8 euros) is significantly lower than the RevPar of the regions where overnight stays fell (109.6 euros). This, together with the increase in income from local accommodation, will signal a shift in domestic tourists towards cheaper options or, in some cases, staying in destinations and hotels but reducing the length of their stay. In fact, in August 2023, the Algarve recorded the highest RevPar on record in national tourism statistics: 157.9 euros.[2] In other words, the number of overnight stays by residents in this region shrank, but hotel operators didn't feel the need to lower prices because of the *trade-off* between domestic and foreign guests, positioning themselves in higher segments.

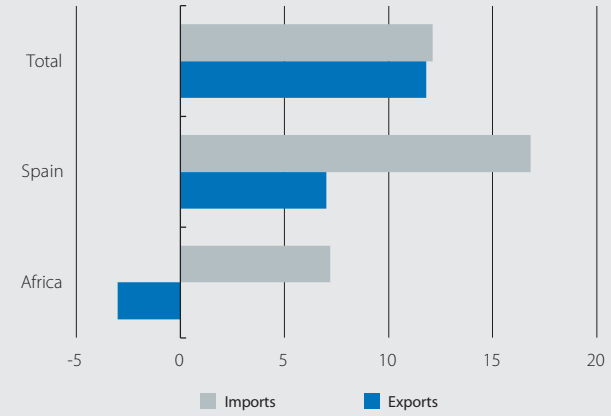
In addition to what we have highlighted above, we can hypothesise that the diversion of resident tourists during Q3 to foreign destinations will act as a substitute for holidays in Portugal. To try to address this issue, we analysed the balance of payments for travel and tourism in order to understand the rate of growth of exports and imports of these services. In fact, there is data to suggest that this may already have happened (although we don't have the details of these monthly payments for all countries and these figures are at current prices). In addition to the fact that the overall growth in imports compared to Q3 2022 (12.1%) was higher than that of exports (11.8%), this became more apparent when we analysed certain geographies in particular. In particular, Spain (a country that is geographically and culturally close, has a wide range of beach destinations and is more competitive in terms of price)[3] and the African continent (we're thinking of countries like Morocco, Tunisia and Cape Verde, for example).As we can see in the fourth graph, in these geographies the stronger growth rate of imports is clear, giving some strength to the thesis that (at least part of) the overnight stays made by residents in Portugal in 2022 will be diverted to overnight stays made abroad.

Although this may mean that Portuguese tourists are less likely to spend holidays in certain hotels and regions, for the sector the balance is definitely positive. If not, let's take a look at total revenue in tourist accommodation establishments in Q3 2023: in real terms (deflated by CPI),

2. The average Revpar between June and August in the Algarve was 124.7 euros (92.8 euros for the country as a whole) and grew by 5% yoy. In Europe, the average RevPAR for the same period of the year was 117 euros (data from the specialised website airdna.co). The fact that the occupancy rate in Portugal was the highest in Europe in the summer, also according to AirDNA, is not insignificant.
3. See the Travel & Tourism Development Index drawn up by the World Economic Forum.

Travel & tourism balance of payments

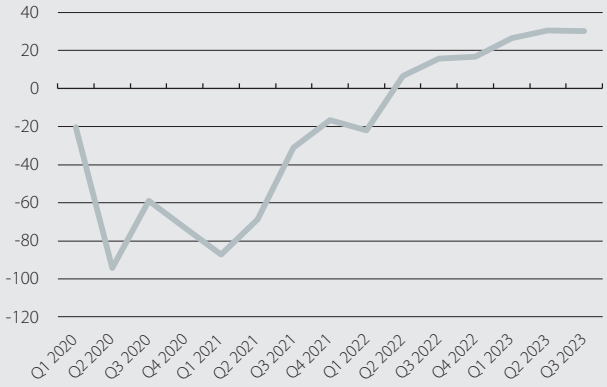
Variation 3Q 2023 vs 3Q 2022 (%)



Source: *BPI Research, based on data from Banco de Portugal.*

Income from tourist accommodation establishments

Change from the same quarter of 2019 (%)



Source: *BPI Research, based on data from INE.*

revenues were 30% higher than the same quarter in 2019 (last graph) and 13% higher than the same quarter in 2022. In other words, revenue is growing more than guests, meaning there is more added value. Furthermore, in the case of the Algarve, with a slightly lower average bed occupancy rate in the third quarter of this year, it is possible to provide a better service with the same resources, providing a more satisfactory experience for guests and increasing the likelihood of a return visit. Finally, the significant growth rates of tourists from the USA[4] (+62% compared to Q3 2019), Canada (+49%) and Switzerland (+27%) are particularly notable.

For 2024 we expect growth in the sector, but this will be conditioned (among other factors) by the slowdown in economic activity. In any case, this will be a topic to revisit in the coming months.

Tiago Belejo Correia

4. In this regard, read the Focus 2Back to the future: the new wave of tourists from the USA" in IM07 from 2023.

PRR: how 2023 ended

In the case of Portugal, the adjustments to the distribution of NGEU funds, in line with the accumulated growth of real GDP in 2020-21 provided for in the Regulation of the Recovery and Resilience funding, were reflected in the increase of funds allocated in the form of grants by 1.6 billion euros. To this figure must be added i) 3.2 billion euros in the form of loans, requested by the government in May 2023 to update the PRR; ii) the funds relating to REPowerEU (704 million euros); and iii) the 81 million euros relating to the Brexit Adjustment Reserve. Together, these funds represent an additional 5.6 billion euros to the initial RRP, made up of around 2.4 billion euros in non-repayable grants and 3.2 billion euros in loans, bringing the funds available to 22.2 billion euros. The reprogramming implies 12 more reforms and 34 more investments compared to the original, for a total of 44 and 117 respectively.

This additional amount was redistributed among the three dimensions - resilience, climate transition, and digital transition - but in proportional terms, the strengthening of the first two was more significant, with the resilience dimension highlighting the strengthening of the capitalisation and business innovation and qualifications and skills components, which aim to increase the competitiveness and resilience of the economy. Also important is the fact that the reprogramming of the RRP includes a further component, the purpose of which is to implement the REPower EU programme,[1] reinforcing investments in energy saving, energy diversification and supply, and the development of renewable energies.

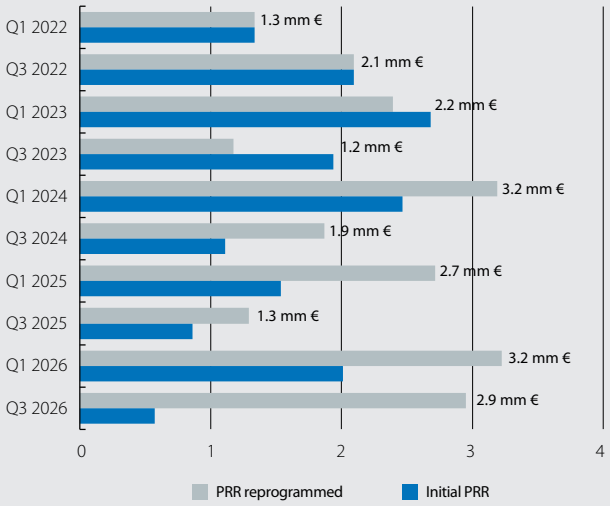
There was also an adjustment to the amounts of the funding tranches to be disbursed over the course of the programme. While in the initial programme, around 70% of the funds were scheduled to be disbursed by the end of 2024, in the new programme, Portugal is only expected to receive 54% of the new package, which represents the postponement of a significant portion of the funds to be received until the final years of the programme.

By the end of 2023, Portugal had received 7.772 billion euros, equivalent to around 35% of the total package.

With regard to the implementation of the funds, while there are high levels of contracting and approval of projects, there is still a low level of implementation of the funds. By 13 December, approved projects totalled 15.369 billion euros, but the amounts paid out to beneficiaries amounted to 3.134 billion, or only 20% of what had already been approved. The digital transition dimension is the one with the highest payment rate compared to the projects already approved, reflecting the investments already made in schools and in the public sector. In the resilience dimension, the components related to qualifications and business development are of particular note.

For 2024, the challenge remains to accelerate the implementation of the funds already received and those expected to be received under the new reprogramming: 5.1 billion and 800 million relating to the 2023 instalments, which were withheld due to non-compliance with all the reforms agreed with the European Commission.

Expected expenditure throughout the programme



Source: *BPI Research, com base em dados de Recuperar Portugal.*

1. The REPower Program aims to: i) reduce Europe's dependence on imports of gas, oil and coal from Russia; ii) reinforce energy autonomy through the transition to clean energy, ie, reduce net greenhouse gas emissions by at least 55% by 2023 and achieve carbon neutrality in 2050.

Recovery and Resilience Plan: update and implementation by dimension and component

Status on 12/13/2023

Dimension		Component	Initial value	% of total	New value	% of total	Variation	Approved	Payment	Payment rate compared to approvals
Resilience			**11,125**	**67**	**15,092**	**68**	**3,967**	**10,379**	**1979**	**19**
Climate transition			**3,059**	**18**	**4,405**	**20**	**1,346**	**2,777**	**502**	**18**
Digital transition			**2,460**	**15**	**2,719**	**12**	**259**	**2,190**	**635**	**29**
Resilience	C01	National Health Service	1,383	8	1,745	8	362	1,043	203	19
	C02	Housing	2,733	16	3,226	15	493	1,940	286	15
	C03	Social responses	833	5	1,045	5	212	699	98	14
	C04	Culture	243	1	319	1	76	225	35	16
	C05	Capitalisation and business innovation	2,914	18	4,912	22	1998	4,171	848	20
	C06	Qualifications and skills	1,324	8	1979	9	655	908	269	30
	C07	Infrastructures	690	4	790	4	100	690	119	17
	C08	Forestry	615	4	615	3	-	337	86	26
	C09	Water management	390	2	461	2	71	365	52	14
Climate transition	C10	Mar	252	2	389	2	137	253	41	16
	C11	Industry decarbonisation	715	4	737	3	22	630	97	15
	C12	Sustainable bioeconomy	145	1	145	1	-	138	22	16
	C13	Energy efficiency in buildings	610	4	610	3	-	343	151	44
	C14	Hydrogen and renewable energies	370	2	406	2	36	287	49	17
	C15	Sustainable mobility	967	6	1,263	6	296	1,016	142	14
Digital transition	C16	Companies 4.0	650	4	763	3	113	399	67	17
	C17	Quality and sustainability of public finances	406	2	406	2	-	406	95	23
	C18	Economic justice and business environment	267	2	267	1	0	267	48	18
	C19	Public administration - digitalisation, interoperability and cybersecurity	578	3	678	3	100	559	142	25
	C20	Digital schools	559	3	605	3	46	559	283	51
	C21	REPower		0	855	4	855	110	0	0
		Total	16,644		22,216		5,572	15,345	3,133	20

Source: *Banco BPI based on data from Recuperar Portugal.*

Employment in Public Administrations: what changes have there been in the last decade?

The number of people employed in public administrations has been increasing since 2016, surpassing 745,000 individuals in the first half of 2022.[1] Despite the recent decrease to levels of around 743,000 in the first nine months of 2023, the number of civil servants is higher than 10 years ago. More specifically, there are currently 60,000 more public sector employees than in 2013. However, the proportion of public employment among the total employed population even fell over this period (from 16.5% to around 15% in 2023). This weight compares with much higher levels in Nordic countries such as Sweden, where public employment reaches levels close to 30% and, on the other hand, with a much more residual weight in countries such as Japan, below 5%.

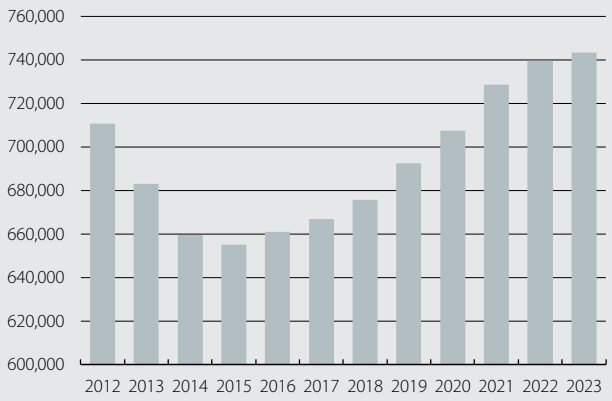
Public employment is characterised by a higher number of women (62%, compared to 59% in 2013), a higher percentage than the total employed population in Portugal (50%). In addition, people employed in the public sector tend to be older than the labour force as a whole, and this structure has worsened over the last 10 years. More specifically, people over the age of 55 went from accounting for around 19% of public employment at the end of 2013 to around 32% at the end of 2022, a trend that also occurred in the economy as a whole, but to a lesser extent (from 17% to 24%). The ageing of public sector employees is exacerbated by the lower prevalence of younger individuals: analysing individuals under 34, the numbers over 10 years fell by 4% to stand at around 13% of public employment, in line with that which took place in employment as a whole, though in the latter case younger people represent a higher proportion (around 25%). In fact, employment of younger people in the public sector has fallen by around 15% in the last 10 years, in contrast to the more than 2% growth in total employment. In this context, the estimated average age in the civil service was 48.1 years at the end of 2022 (44.8 years at the end of 2013), higher than the 44.2 years for the employed population as a whole (down 2.8 years in 10 years),[2] a clear sign of the ageing of civil service workers and of the public sector's difficulty in attracting younger talent.

On the other hand, people employed in the public sector is typically more educated. More than half of the people employed in public administrations had higher education by the end of 2022 (compared to 49% at the end of 2013) and substantially more than in total employment (around 32%). In contrast, less than 20% of people employed in Public Administration had only primary level education, compared to 36% in the case of total employment.[3]

The majority of employees in Public Administrations are on open-ended contracts, over 70%, with the remainder almost equally distributed between fixed-term contracts and other types of contract (including service commissions, political posts and appointments). In this case, the last 10 years have brought virtually no change.

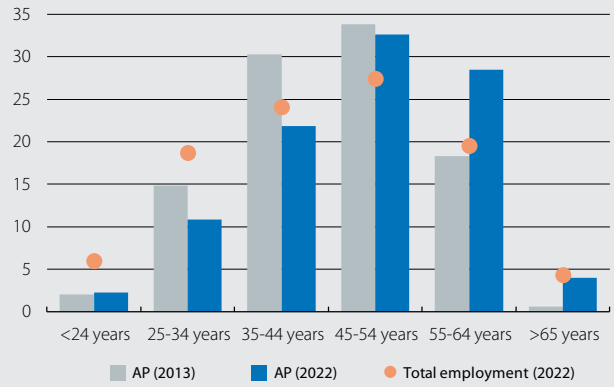
The more than 743,000 civil servants in Portugal are practically employed in three sectors: Public Administration itself, defence & social security, education and human health & social support activities, with no

Employment in Public Administrations
(Number of persons)



Source: *BPI Research, based on DGAEP data.*

Distribution of employment by age group
(% employment)



Note: *The dots represent the distribution of total employment in the economy by age group.*
Source: *BPI Research, based on data from DGAEP and INE.*

1. According to the Directorate-General for Administration and Public Employment (DGAEP).
2. This information relates to the 2021 Census, compared to the 2011 Census.
3. According to the INE, and based on the indicators in the Personnel Charts, the percentage of workers in the private sector with higher education was 24.9% in 2021, reaching 42.7% with at most basic education.

major changes in the last 10 years, as would be expected given the nature of public services (services based especially on social support, defence, public schools, the National Health Service, among others).

Similarly, the vast majority (around 75%) of civil servants are in the Central Administration, followed by Local Administrations (18%) and the remainder working in the regional administrations of Madeira and the Azores and the Social Security Funds. In terms of areas of government, the largest sector relates to Education and Health (which cover 46% of civil servants), followed by Internal Administration (around 7%) and Science, Technology & Higher Education (6%). In the last 10 years, there have been no substantial changes in these proportions, with the only highlights being an increase in the weight of employment in Health (from 18% in 2013 to 21% in 2023) and a reduction in the weight of employment in National Defence (from 6% to 4%).

In this context, it is not surprising to see that a significant proportion work in public corporate entities (EPE) of the NHS (for example, in public hospitals) and in primary and secondary education establishments. On a much smaller scale, but also with notable percentages, are the Security Forces and organic teaching and research units. In this case too, there have been no major changes in the last 10 years, although the increase in the weight of the NHS's EPEs is noteworthy.

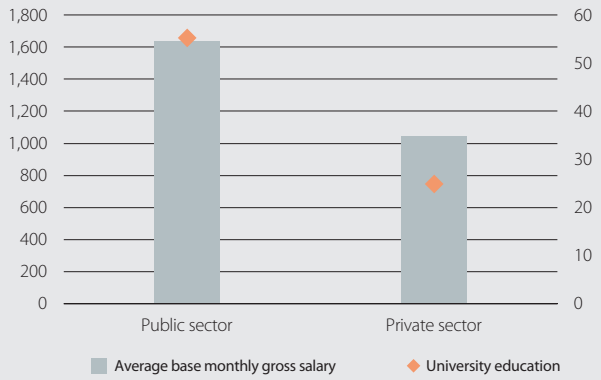
There are several careers in Public Administrations, but four of them stand out from the rest: the careers of operational/worker/auxiliary assistant, nursery school teacher & primary/secondary school teacher, technical/administrative assistant, and senior technician. Altogether, these represent more than 60% of public sector employees. In the past 10 years, the career of senior technician has contributed most to the increase in public employment, followed by nurses, doctors and kindergarten & primary/secondary teachers. On the other hand, the drop in workers in the armed forces has been quite significant: –29% compared to 2013, a reduction of almost 9,500 employees.

Among the various careers, that of registry and notary officers is the one with the highest estimated average age (56.9 years), with the «youngest career» being that of firefighter (40.1 years). This age structure stands out from 10 years ago, when the career with the highest age was that of senior manager (50.8 years) and the lowest was in the Armed Forces (31.6 years). Also worrying is the worsening of the average age in the case of some careers, namely nursery school teachers and primary/secondary school teachers (which went from an average age of 43.8 years to 51.8 years).

As far as pay is concerned, data from the DGAEP shows that the average basic monthly pay has risen by around 20% in the last 10 years, compared to around 28% in the private sector.[4] Even so, the pay *gap* in the two sectors

Remuneration by institutional sector (2023)

Euros/month *(% of the employed population)*



Note: *Average remuneration recorded for the first 3 quarters of 2023. The schooling figures are for 2022 for the public sector and 2021 for the private sector.*
Source: *BPI Research, based on data from the National Institute of Statistics and the Directorate-General for Public Administration and Employment.*

remains quite significant: despite a reduction of around 10%, it is still around 50%, a difference that can be explained by the higher level of qualifications in the case of public sector employment, the type of work, age structure (i.e. seniority) and the different way of managing human resources and career progression.[5] The average monthly basic salary in the public sector would thus be around 1,640 euros in 2023, a figure that exceeds 1,930 euros per month if we consider the average monthly salary.[6]

This is reflected in a weight of personnel costs in terms of GDP of 10.7% in 2022, a reduction of 1% compared to 10 years ago, and placing Portugal in 12th place of the countries with the highest costs among the 27 EU countries (the first place is occupied by Denmark, with 13.6% of GDP, (for all EU countries, personnel expenses stand at 10.1%).

In short, an analysis of public employment in Portugal reveals a complex and challenging landscape, exacerbated by its ageing and lack of attractiveness in terms of attracting younger talent. Ultimately, this context can hinder the modernisation of public administrations and, ultimately, the ability to provide certain public services. Against this backdrop, it is crucial that the state adopts proactive measures to address this challenge and promote a more attractive environment for young people.

Vânia Duarte

4. For the private sector, we used the average gross monthly wage data provided by INE.
5. The Bank of Portugal, incorporating different factors between the two sectors in terms of gender, experience and education, estimates that the wage premium is lower, at 11% (2018-19 data), around 6% higher than the Eurozone average and 3% lower than in 2008-09. For more information, see Banco de Portugal (2023). "Diferencial salarial entre os setores público e privado em Portugal". Economic Report – June 2023.
6. This includes, in addition to basic pay, bonuses and regular allowances or supplements and overtime pay.

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	10/23	11/23	12/23
Coincident economic activity index	3.6	5.8	3.7	3.7	3.4	...	2.9	2.6	...
Industry									
Industrial production index	4.5	0.4	1.0	–5.0	–4.6	...	–1.1	–1.1	...
Confidence indicator in industry *(value)*	–5.3	–3.4	–5.0	–5.6	–9.4	–9.5	–10.2	–9.1	–9.2
Construction									
Building permits - new housing (number of homes)	13.5	6.2	9.3	0.5	7.5	...	4.6	...	...
House sales	20.5	1.3	–20.8	–22.9	–18.9	...	–	–	–
House prices *(euro / m² - valuation)*	8.6	13.8	12.9	9.1	8.1	...	8.2	5.6	...
Services									
Foreign tourists *(cumulative over 12 months)*	51.5	158.9	117.2	52.6	24.9	...	22.1	21.1	...
Confidence indicator in services *(value)*	0.1	15.1	11.1	13.4	5.8	–0.2	–0.8	–1.0	1.1
Consumption									
Retail sales	4.9	4.8	1.7	3.0	1.5	...	0.7	2.3	...
Coincident indicator for private consumption	4.9	3.9	2.1	2.8	2.7	...	2.1	1.6	...
Consumer confidence index *(value)*	–17.2	–29.7	–35.1	–29.4	–22.8	–27.2	–25.1	–28.2	–28.2
Labour market									
Employment	2.2	2.3	1.4	2.8	2.2	...	1.1	...	...
Unemployment rate (*% labour force*)	6.7	6.2	7.2	6.1	6.1	...	6.7	...	...
GDP	**5.7**	**6.8**	**2.5**	**2.6**	**1.9**	**...**	**–**	**–**	**–**

Prices

Year-on-year change (%), unless otherwise specified

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	10/23	11/23	12/23
General	1.3	7.8	8.0	4.4	3.5	1.8	2.1	1.5	1.4
Core	0.8	5.6	7.1	5.7	4.4	3.2	3.5	2.9	2.6

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	10/23	11/23	12/23
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	18.3	23.2	21.6	11.8	3.0	...	1.2	...	...
Imports *(year-on-year change, cumulative over 12 months)*	22.0	31.7	24.5	12.5	1.0	...	–1.0	...	...
Current balance	**–1.6**	**–2.8**	**–1.2**	**1.5**	**4.1**	**...**	**3.2**	**...**	**...**
Goods and services	–5.5	–4.7	–2.8	–0.3	2.1	...	2.0	...	...
Primary and secondary income	3.9	1.9	1.6	1.9	2.0	...	1.2	...	...
Net lending (+) / borrowing (–) capacity	**2.1**	**–0.5**	**1.5**	**4.5**	**7.3**	**...**	**6.6**	**...**	**...**

Credit and deposits in non-financial sectors

Year-on-year change (%), unless otherwise specified

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	10/23	11/23	12/23
Deposits [1]									
Household and company deposits	9.3	6.4	0.5	–2.1	–2.6	...	–2.7	–1.9	...
Sight and savings	16.3	7.3	–3.1	–9.0	–9.4	...	–11.4	–12.0	...
Term and notice	1.2	5.2	5.4	7.5	6.9	...	9.3	11.9	...
General government deposits	–4.1	12.4	11.1	1.4	5.5	...	8.3	0.4	...
TOTAL	**9.0**	**6.5**	**0.8**	**–2.0**	**–2.4**	**...**	**–2.4**	**–1.8**	**...**
Outstanding balance of credit [1]									
Private sector	2.9	1.8	0.0	–1.2	–1.8	...	–2.1	–2.0	...
Non-financial firms	2.2	–0.4	–2.1	–3.5	–3.5	...	–3.9	–3.8	...
Households - housing	3.3	3.2	1.5	0.1	–0.9	...	–1.1	–1.2	...
Households - other purposes	3.0	2.9	0.0	0.4	–0.8	...	–0.6	–0.2	...
General government	3.8	–2.7	–2.0	0.6	–1.4	...	–3.1	–0.5	...
TOTAL	**2.9**	**1.7**	**–0.1**	**–1.1**	**–1.8**	**...**	**–2.1**	**–2.0**	**...**
NPL ratio *(%)* [2]	**3.7**	**3.0**	**3.1**	**3.1**	**2.9**	**...**	**–**	**–**	**–**

Notes: *1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.*
Source: *BPI Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.*

The Spanish economy closes 2023 with a better rating than expected

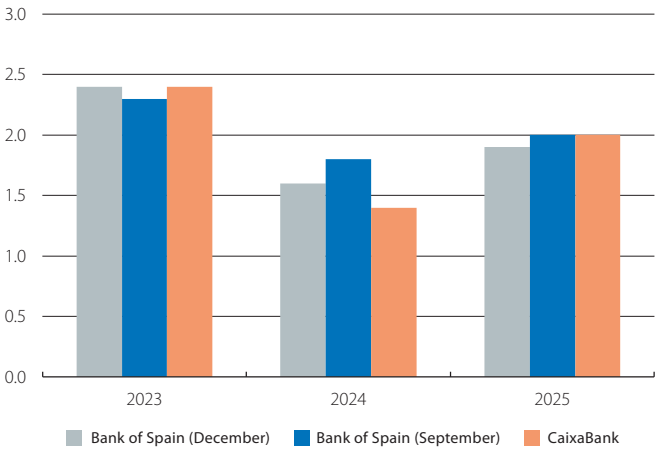
The Spanish economy ended 2023 with a better tone than had been anticipated at the beginning of the year. While it is true that there was a slowdown in growth during the second half of the year, this began later than expected and is proving more moderate than had been feared a year ago. Whereas at the beginning of 2023 the analyst consensus placed GDP growth for the year as a whole at 1.3% (FUNCAS Panel), today it places it at around 2.4%, a figure consistent with CaixaBank Research's own estimate. Moreover, all indicators suggest that in 2024, especially during the second half of the year, the economy could regain some momentum, and this should allow the pace of GDP growth in Q4 2024 to approach 2.0% year-on-year.

The growth rate slowed in Q3 2023, but moderately. In its second estimate of GDP for Q3, the National Statistics Institute confirmed that growth stood at 0.3% quarter-on-quarter, 0.1 pps below the rate recorded in Q2 and 0.2 pps below the average quarterly growth for the last year. Thus, GDP stood 2.1% above the level of Q4 2019. By components, the rate of progress in household consumption and public consumption stand out, both in excess of 1% quarter-on-quarter. In the opposite direction, of particular concern is the poor evolution of investment, which registered a fall of 1.0%, and above all exports of goods and services, which are down 4.1% due to the weakness of our main trading partners.

Following the moderation of growth in Q3 2023, the latest indicators suggest that the growth rate has stabilised in the closing stages of the year. In December, the Purchasing Managers' Index (PMI) for the services sector remained in expansionary territory and stood at 51.5 points (0.5 points above the November figure). Meanwhile, the PMI for the manufacturing sector remains in contractionary territory and was down 0.1 points, at 46.2. Thus, the Composite PMI increased slightly and stood at 50.4 points (49.8 in November), placing the average for the quarter at 50.1, the same level as in the previous quarter. On the other hand, the main driver of growth of the Spanish economy, consumption, is also offering encouraging signals. Specifically, the CaixaBank Research consumption tracker shows that spending conducted with Spanish cards on CaixaBank POS terminals plus cash withdrawals grew by 5.9% year-on-year in Q4 (with data up to the third week of December), representing a 0.4-pp acceleration compared to the figure for Q3.

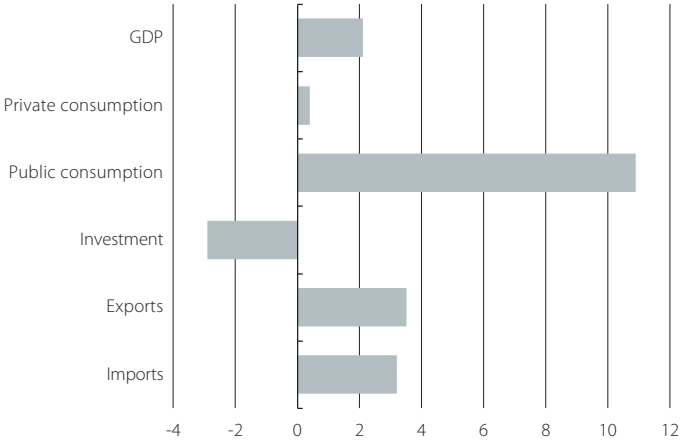
The labour market holds up well and continues to create jobs, albeit at a more moderate rate. In December, the number of people affiliated with Social Security increased by 29,937, beating last year's figure of 12,640, although this remains below the average for the period 2014-2019.

Spain: GDP forecasts (Bank of Spain vs. CaixaBank)
Year-on-year change (%)



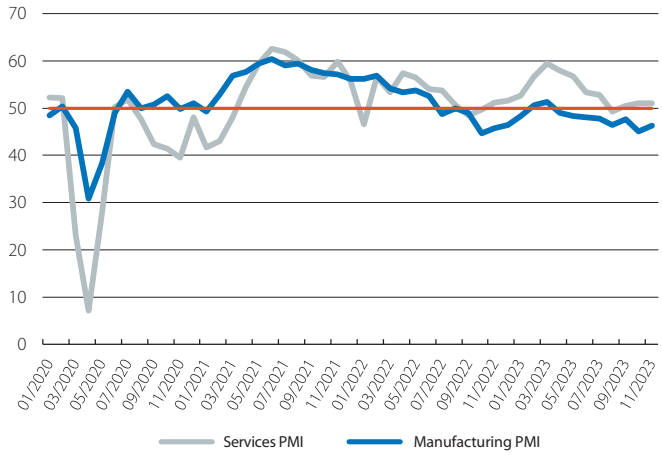
Source: *BPI Research, based on internal data and data from the Bank of Spain.*

Spain: GDP and its components
Change between Q4 2019 and Q3 2023 (%)



Source: *BPI Research, based on data from the National Statistics Institute.*

Spain: PMI
Level



Source: *BPI Research, based on data from S&P Global PMI.*

The increase in affiliated workers, corrected for seasonal effects, amounted to 23,287 people, marking the biggest monthly increase since May. In Q4 as a whole, the increase in registered workers stood at 0.2% quarter-on-quarter, a similar rate of growth to Q3, suggesting that the pace of economic growth has stabilised.

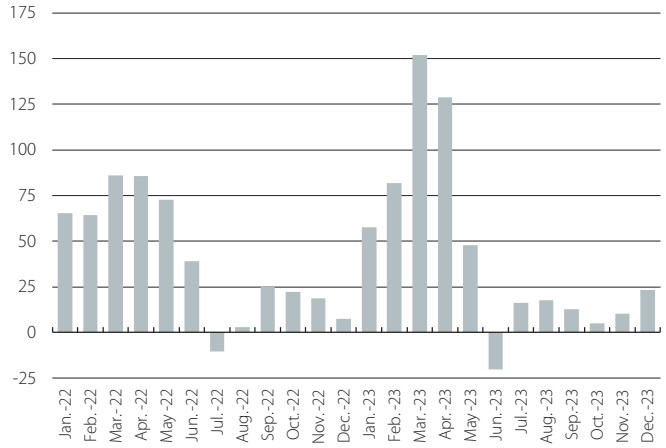
Inflationary pressures continue to moderate. Specifically, the headline inflation rate fell 0.1 pps in December and stood at 3.1%, according to the CPI flash estimate published by the National Statistics Institute. In line with the pattern of moderation of inflation in recent months, the core inflation rate fell by 0.7 pps for the second consecutive month and stood at 3.8% year-on-year. Since July, core inflation has come down significantly, specifically by 2.4 pps.

The government confirms the extension of the anti-inflation measures for 2024. At the end of December, the government set out the measures it would keep in place this year in order to continue tackling inflation. Of particular note in this regard is the rise in VAT on electricity throughout 2024, and until 31 March in the case of gas, to 10%. It should be recalled that this stood at 5% in 2023, while prior to the energy crisis it was 21%. On the other hand, excise duty on electricity and the tax on the value of electricity production will gradually increase throughout the year. With regard to VAT on food, the reduction from 4% to 0% on fresh basic food, and from 10% to 5% on pasta and oil, will remain in force until 30 June. Finally, in terms of transport, the general support measures in place during 2023 will be extended throughout 2024. The extension of many of the measures introduced in 2023 will reduce the impact on inflation that their anticipated withdrawal was expected to have in CaixaBank Research's forecast scenario, so inflation in 2024 could be slightly lower than forecast.

The buoyancy of household income favours a new rebound in the savings rate. Specifically, gross disposable household income grew by a remarkable 10.6% year-on-year in Q3, while final consumption expenditure increased by 4.5%. As a result, the savings rate climbed to 11.0% (cumulative four-quarter figure), representing a 1.1-pp increase compared to Q2 2023. Moreover, this figure is well above the average recorded between 2015 and 2019 (6.8%). All this suggests that, despite the headwinds that are affecting many families, household consumption, in aggregate, may continue to grow in the coming quarters and will remain an important support factor for the Spanish economy as a whole.

Spain: registered workers affiliated with Social Security

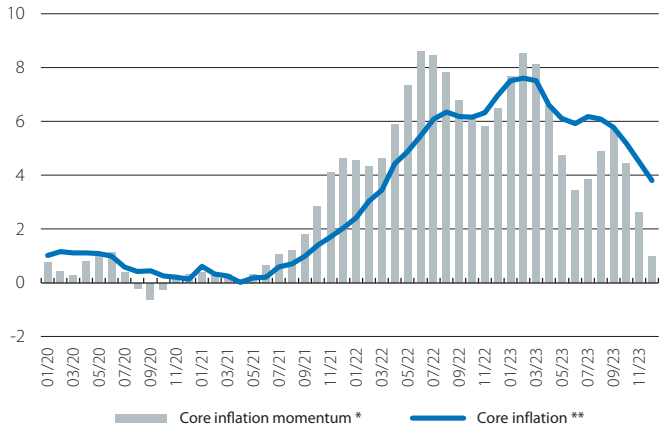
*Month-on-month change (thousands) **



Note: ** Seasonally-adjusted data.*
Source: *BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: core inflation and its momentum

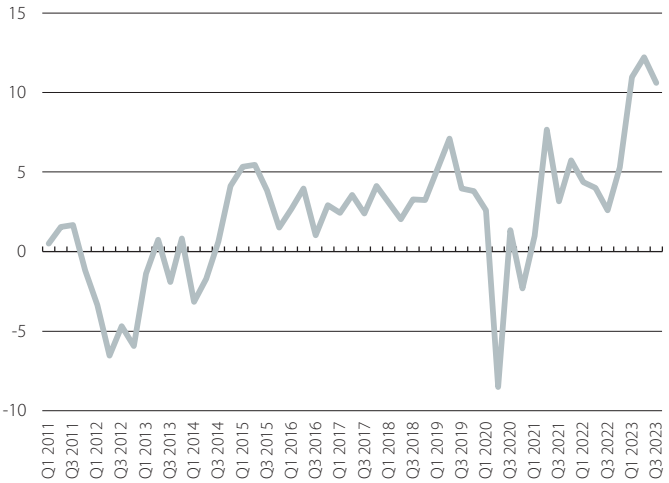
Change (%)



Notes: ** Core inflation momentum is the moving change in the last three months versus the previous three months. ** Core inflation excludes unprocessed food and energy.*
Source: *BPI Research, based on data from the National Statistics Institute.*

Spain: gross disposable household income

Year-on-year change (%)



Source: *BPI Research, based on data from the National Statistics Institute.*

How could structural unemployment be further reduced in Spain?

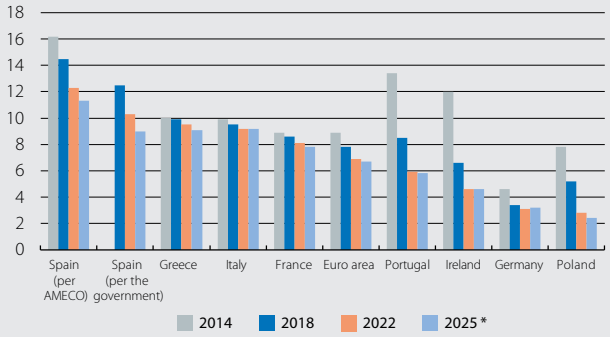
The ability that the Spanish economy has shown to substantially reduce structural unemployment in recent years has been quite remarkable. Until recently, it seemed impossible to bring it down so sharply without generating wage tensions. However, the structural unemployment rate (SUR), also known as the non-accelerating wage rate of unemployment (NAWRU),[1] fell in Spain by 1.7 pps between 2018 and 2022 to reach 11.0%, according to AMECO estimates.[2] Moreover, although all EU countries reduced their SUR following the post-pandemic employment boom, Spain, along with Portugal, Ireland and Poland, were the most outstanding pupils in the region, doing so at a faster rate, at around 0.5 pps per year on average (see first chart).

Several factors have enabled the reduction in structural unemployment between 2018 and 2022. Firstly, job retention schemes (such as ERTE furlough schemes) prevented unemployment from sky-rocketing during the pandemic by allowing millions of workers to retain their jobs when activity ground to a halt. These programmes had been introduced in Spain with the 2012 labour reform to encourage internal flexibility for companies, making it feasible to temporarily reduce employment in the event of a drop in demand, and they were adapted to the exceptional circumstances triggered by COVID-19. After the pandemic, the strong boost to the economy after the resumption of activity favoured significant job creation in all developed economies, including Spain, which today has 1.4 million more registered workers than in 2019. Secondly, in the case of Spain the labour reform approved in 2022 has reduced the high temporary rate of the labour market by restricting temporary contracts, while at the same time increasing the flexibility available in permanent contracts, resulting in fewer people entering and leaving unemployment.[3] This increased flexibility is mainly due to the wider use of permanent discontinuous contracts, which allow for hiring in a way that is adapted to the temporary nature of many occupations in Spain, such as tourism or agriculture, while providing workers with greater job stability.

1. The SUR is the unemployment rate that is compatible with inflation close to the central bank's target, which is why it is also known as the non-accelerating inflation rate of unemployment (NAIRU). The SUR is not directly observable and there are different methodologies for calculating it. For further details, see M. Romero and D. Fuentes (2017). «Tasa de paro estructural en la economía española: estimaciones, consecuencias y recomendaciones». Cuadernos de Información Económica, ISSN, 1132-9386.
2. According to the estimate from the Spanish government's 2023-2026 Stability Plan, the SUR has been reduced by 2.2 pps between 2018 and 2022, reaching 10.3%.
3. Although the «theoretical» (contractual) temporary employment rate has been reduced, in practice there is still a high rate of temporary employment, with short periods of employment and frequent changes in employment. See J.I. Conde-Ruiz *et al.* (2023). «Reforming Dual Labor Markets: "Empirical" or "Contractual" Temporary Rates?». Estudios sobre la Economía Española 2023/36, FEDEA.

EU: structural unemployment rate by country

(%)



Notes: *Structural unemployment rate (NAWRU) estimates by the European Commission (AMECO) and by the Spanish government in its 2023-2026 Stability Plan. * 2026 in the case of the estimate for Spain by the government.*
Source: *BPI Research, based on data from the European Commission (AMECO) and the Spanish government (2023-2026 Stability Plan).*

Although Spain seems to be doing its homework, it is still the worst pupil in the EU: it has the highest structural unemployment rate in the region (11.0% in 2022, according to AMECO), ahead of the likes of Italy (9.2%) and Greece (9.4%). It should be recalled that a high structural unemployment rate implies an underutilisation of an economy's productive capacity, as well as the exclusion of a large part of society from the labour market, so combating it is essential. To reduce it, improvements are needed on three fronts: increased demand for employment, increased job supply and better matching between the two.

The demand for employment from companies would increase with greater economic growth. The set of policies for increasing growth is wide-ranging and includes policies aimed at the green and digital transformations, as well as boosting competition in the markets for goods and services.[4] The public sector could play a key role in all of them, as an impetus for structural reforms would allow for more rapid economic growth and greater buoyancy in the business sector. Although the last two labour reforms mentioned at the beginning are good examples, there is a need for greater momentum when it comes to reforms, as various institutions such as the European Commission, the OECD and the IMF have already recommended to Spain. In order to successfully implement structural reforms, a country must also have high-quality institutions,[5] and this is an area where Spain has room for improvement in several regards (see second chart).

The supply of available employment can increase if the incentives for the unemployed to work are strengthened

4. For a comprehensive review of policies aimed at improving economic growth, see OECD (2023), «Going for Growth: Economic Policy Reforms 2023».
5. See K. Masuch, W. Modery, R. Setzer and N. Zorrell (2023). *The euro area needs better structural policies to support income, employment and fairness*. ECB Blog.

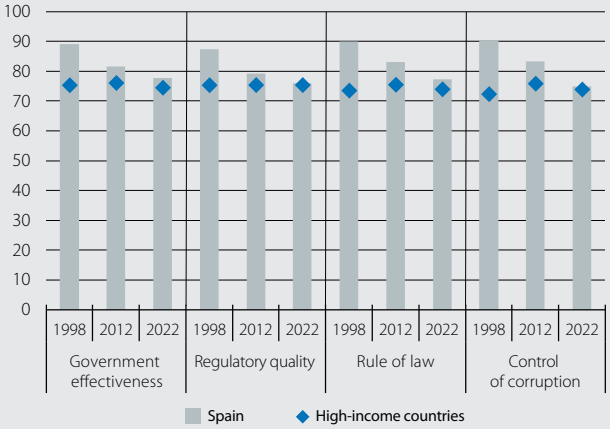
and if the training and employability of the population, including those not working at any given time, is improved. Various studies show that providing incentives for people to return to employment increases the likelihood of them doing so.[6] The recent unemployment benefit reform is a partial step in this direction, as despite raising the amount of the benefit, it will gradually decrease as the months go by, and the subsidy can be received while undertaking paid employment for a period of 180 days. The key to the reform's success will be the paths provided to help recipients of the subsidy seek and accept jobs. We must not lose sight of the fact that improving the training and employability of workers is another way to reduce unemployment. A clear example of this is vocational training, which is more closely linked to the demands of the labour market (thus providing greater protection against unemployment, as well as greater participation in the labour market throughout a person's working life)[7] but is less developed in Spain than in other countries, such as Germany.

Finally, a better match between supply and demand would make it possible to reduce structural unemployment. This dysfunction of the Spanish labour market is reflected in the growing number of unfilled vacancies, a phenomenon which coincides with a high unemployment rate, weighing down productivity and the full use of the economy's productive capacity. This problem has been spreading and not only affects the most specialised profiles. Its causes are varied, ranging from economic and cultural barriers to geographical mobility and deficiencies in information on the availability of job positions. In this regard, active employment policies play an important role, since they support the unemployed in their search for employment and in their training in skills that are in demand. In Spain, however, spending on active employment policies is low, both in absolute terms and relative to passive policies (see third chart). Furthermore, only a small proportion of the unemployed find work through public employment services, so it would be useful to improve the efficiency of active policies,[8] with a greater emphasis on offering job seekers personalised support (e.g. statistical profiling and predictive models for identifying job offers that fit the worker's profile, etc.). This problem is not isolated to Spain: France, our neighbour, is putting great effort into bolstering services for supporting the unemployed. In its recent labour reform approved with the aim of achieving full employment,[9] one of the key changes is that the unemployed are required to carry out at least 15 hours a week of activities dedicated to rejoining the labour market. On the other hand, the need for a better match between the demand and the supply of employment in Spain is also apparent in the high rate of over-qualification, which far exceeds that of our neighbouring countries.[10]

As we have seen, reducing structural unemployment is not an easy task and it needs to be tackled from several different angles. Moving the economy towards full employment is a goal that should generate consensus and which would entail significant social improvements, as it would reduce the exclusion from the labour market of a large part of society.

Spain: institutional quality

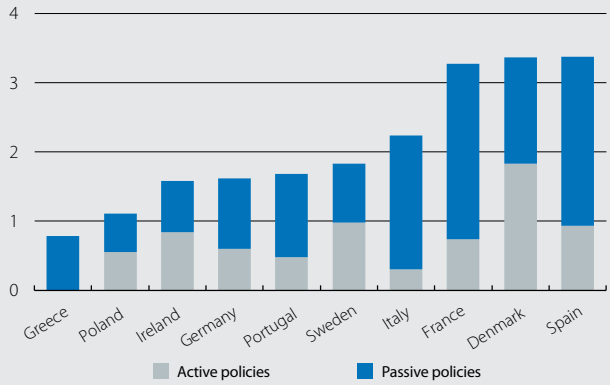
Percentile range



Notes: *The percentile range indicates the percentage of countries around the world that are in a lower category of the chosen territorial entity, with 0 being the lowest value and 100 being the highest. High-income countries correspond to the average of OECD countries with gross income per capita above 13,206 dollars.*
Source: *BPI Research, based on data from the World Bank (Worldwide Governance Indicators).*

Expenditure on active and passive employment policies

(% of GDP)



Note: *Average expenditure in 2019-2020 as a percentage of GDP.*
Source: *BPI Research, based on data from the OECD (OECD Economic Surveys: Spain 2023-Database on labour market programmes).*

6. Á. Martínez Jorge (2023), «¿Qué sabemos sobre los efectos de modificar las prestaciones y los subsidios por desempleo en España?». EsadeEcPol Policy Reaction.
7. In this regard, see the analysis by CaixaBank Dualiza in its latest report on the state of professional training in Spain entitled «Informe 2023 - Observatorio de la Formación Profesional en España» (content available in Spanish).
8. See OECD (2023). «OECD Economic Surveys: Spain 2023». OECD Publishing, Paris.
9. See *Loi du 18 décembre 2023 pour le plein emploi.*
10. For more information on over-qualification in Spain, see the Focus «Changes in the educational level of Spanish workers» in this same *Monthly Report*.

Changes in the educational level of Spanish workers

One of the most positive aspects of the Spanish economy's recent performance is the strength of the labour market: the volume of employment (as of Q3 2023) exceeds the pre-pandemic level (Q4 2019) by 1.3 million (6.5%). In this Focus, we analyse how job creation has behaved in this period, disaggregated by economic sector, workers' educational level and professional categories, which has reflected the gradual change in the profiles of the occupations demanded by companies, driven primarily by the spread of new technologies and the digitalisation of the economy.

Following the pandemic, some of the best performing sectors in terms of job growth have included professional, scientific and technical activities and information and communication activities. These sectors generally have a higher technological content and a more qualified workforce, and they have contributed around 26% of the total employment created (about 334,000 workers), while accounting for just 9.3% of total employment (8.2% before the pandemic). Also of note are the health and social services sectors which, as a result of the pandemic (and also population ageing), have seen the number of people they employ increase by almost 295,000 people compared to the end of 2019, coming to represent 9.6% of all workers (8.7% in 2019). At the other end of the spectrum, some sectors have experienced job destruction, notably water distribution and purification (–13,000 employees), graphic arts (–32,000) and, in particular, the agricultural sector (–92,000).

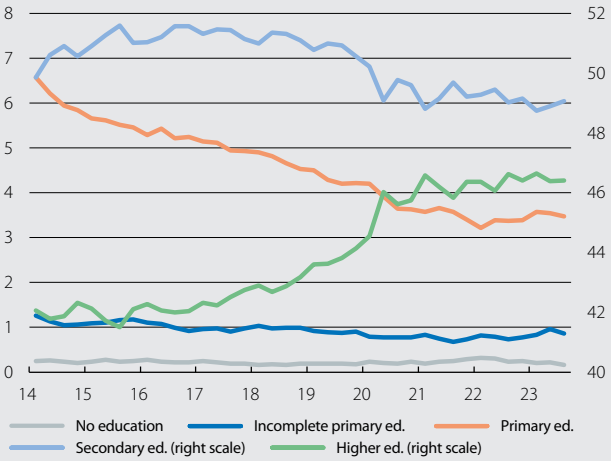
Also, the number of workers with higher educational (higher vocational training and university degrees) has grown well in excess of the other categories, almost doubling the average, at 12.0%. In particular, 46.4% of Spanish workers have higher education, 2.3 points more than before the pandemic and significantly above the Euro area average (39.0%). Of the increase in employment in the period (1.3 million), 81.4% (almost 1.1 million) are workers with higher education, while those with secondary education grew by 340,000 and those with primary or lower education decreased by 98,000.

Looking at the nationality of those in work, the weight of foreign or dual-nationality workers with higher education relative to the total number of employed workers with higher education has grown slightly since 2019 (11.9% vs. 10.8%). Of the total increase in foreign workers since the end of 2019 (816,000), 27.8% had higher education and 61.6% had secondary education (the remaining 10.5%, primary or lower).

However, despite the increase in the percentage of workers with higher qualifications, Spain has the highest rate of over-qualification in Europe, reflecting the

Spain: employed workers by education level

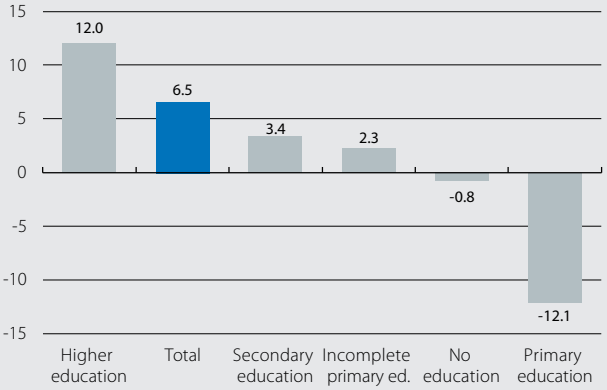
(% of the total)



Source: *BPI Research, based on data from the National Statistics Institute (LFS).*

Spain: employed workers by education level

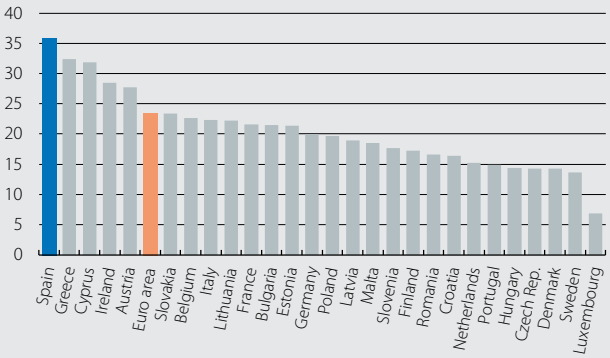
Change versus Q4 2019 (%)



Note: *Data for Q3 2023.*
Source: *BPI Research, based on data from the National Statistics Institute (LFS).*

EU: over-qualification rate

(%)



Notes: *Data for 2022. Employed workers aged 20 to 64 years with higher (tertiary) education who do not work in occupations associated a priori with this qualification level (executives, scientists, intellectuals and technicians).*
Source: *BPI Research, based on data from Eurostat.*

significant mismatch between the profiles demanded by companies and those offered by workers: 35.9% of those employed with this education level do not work in occupations associated *a priori* with their university degrees (data from 2022), compared to 23.5% in the euro area as a whole.[1] But over-qualification does not only affect the most qualified workers: a quarter of those with upper secondary education (second-stage vocational training and baccalaureate) work in occupations that require lower qualifications, which may be related to a «crowding out» effect:[2] those with higher qualifications displace workers with secondary education to more basic occupations.

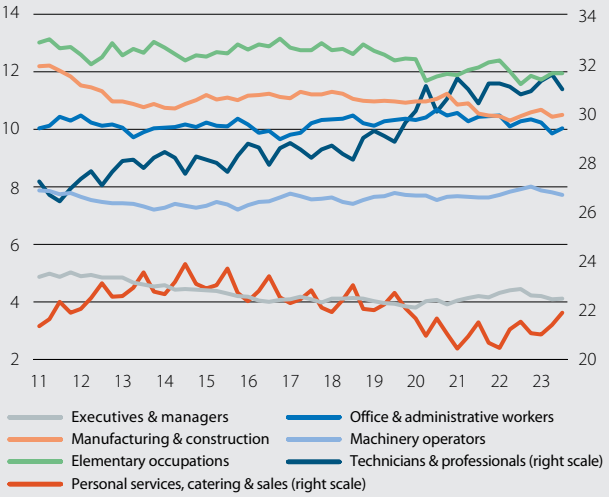
The problem of over-qualification affects the immigrant population to an even greater degree – a phenomenon which is widespread across the EU but particularly pronounced in the case of Spain: 52.2% of foreign workers in our country are overqualified, according to the Eurostat definition, compared to 34.5% for Spanish workers (the percentages for the euro area are 36.6% for foreigners and 22.4% for nationals).

According to workers' occupational category, jobs which, in principle, require higher qualifications (executives, managers, technicians and professionals) have recorded double-digit growth rates and have increased their weight relative to the total by almost 2 points, to 35.2%; plant and machinery operators have also grown above average (6.6%) and have maintained their relative weight at 7.8% of the total. On the contrary, the occupations that have experienced the lowest employment growth are mostly medium-low-skilled jobs: tertiary workers (personal services, catering or sales) grew by 5.6% to represent 21.9% of the total, 0.3 points less than prior to the pandemic; administrative workers grew by 3.1% and account for 10.1% of the total (vs. 10.4%); manufacturing and construction workers grew by 2.4% to 10.6% (vs. 11.0%), and elementary occupations grew by just 2.1% to stand at 12.0% (vs. 12.5%).

Based on the above, it appears that, in both absolute and relative terms, the gap between the number of more qualified workers (which has increased by almost 1.1 million, or 2.3 points relative to the total) and workers in occupations that theoretically require higher qualifications, regardless of their level of education (783,000 people and 1.7 more points), has widened. This either reflects an oversupply of skilled workers in certain job profiles or it indicates that the labour supply is poorly matched to the qualifications that are demanded by companies in these occupations.

Spain: employed workers by occupational category

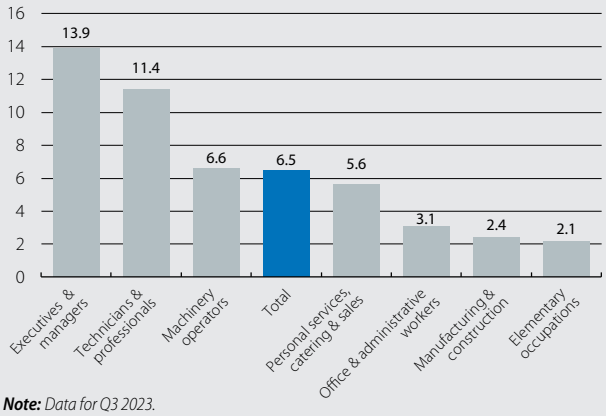
(% of the total)



Source: *BPI Research, based on data from the National Statistics Institute (LFS).*

Spain: employed workers by occupational category

Change versus Q4 2019 (%)



Note: *Data for Q3 2023.*
Source: *BPI Research, based on data from the National Statistics Institute (LFS).*

Ultimately, the educational level of the population is a determining factor for productivity and employment. In a country with significant educational imbalances, reflected in the difficulties companies experience in finding the right profiles to fill their vacancies, and with the added handicap of demographic ageing, which limits the growth of the labour force by making the search for talent more difficult,[3] there is an ongoing need to encourage investment in human capital and to adapt the education system to the new skills demanded by the market, so as to make the most of the training in human capital.

1. This percentage has decreased slightly compared to the 2014-2019 average (36.8%).
2. See FEDEA (2023). «Observatorio Trimestral del Mercado de Trabajo». Bulletin number 6, September.
3. See SEPE (2023). «Desajuste educativo en el mercado de trabajo en España», Revista Cuadernos del Mercado de Trabajo, October; and Randstad Research (2023): «El mundo del empleo tras dos años de pandemia».

The importance of intermediate costs in inflation dynamics in Spain

The phases of the recent inflationary cycle

The inflationary cycle that the Spanish economy has been going through since the beginning of 2022 can be characterised in three phases: the direct impact, the contagion effect and the second-round effects. The direct impact was triggered by a supply shock that originated from supply problems following the pandemic in early 2021 and was exacerbated in 2022 with the energy crisis stemming from the war in Ukraine.

The indirect or contagion effect occurred with the transfer of the initial shock to other components of the consumer price index. Energy is a key input for other products, so an increase in energy prices can end up having an impact on other components if it is transferred to the product's final price. As we can see from the first chart, although energy has made a negative contribution to headline inflation in the last year, the impact of its increase still persists through the indirect effect on the rest of the components.

Finally, second-round effects are usually triggered in an attempt to compensate for the loss of purchasing power. If agents anticipate a sustained increase in inflation over time, pressures to raise wages increase in order to protect workers' purchasing power and companies raise their margins in order to protect their profits. These dynamics can, in turn, generate a new source of upward pressure on prices, fuelling an inflationary spiral. At the current juncture, we do not see any signs of significant second-round effects for the time being: according to internal CaixaBank data, wage growth peaked in Q2 and Q3 2023 with growth rates above 4% year-on-year, and since November the first signs of moderation have been observed (3.5% year-on-year). On the other hand, after falling sharply during the pandemic, business margins have barely recovered their pre-pandemic level.[1]

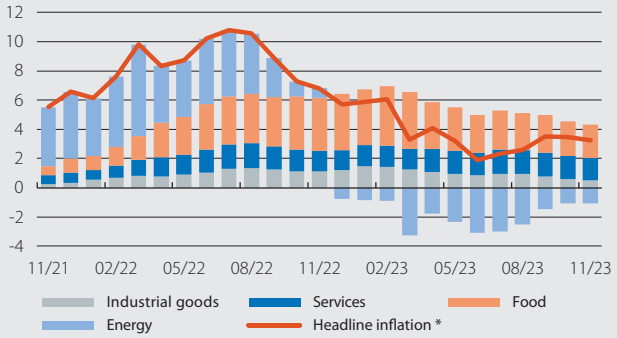
The role of intermediate costs

Containing the triggering of second-round effects is key to ensuring price stability. In this regard, the evolution of intermediate costs is decisive. Specifically, the final price of the goods and services we consume is the result of the sum of the following components: the price of the intermediate consumptions necessary for their production, the remuneration of labour, taxes and business profits (also known as gross operating surplus, GOS). The relative weight of intermediate consumption in final prices was 49% on average in the period 2014-2019.

1. See the quarterly report of the Observatory of Business Margins (Observatorio de Márgenes Empresariales, OME).

Spain: contribution to inflation by component

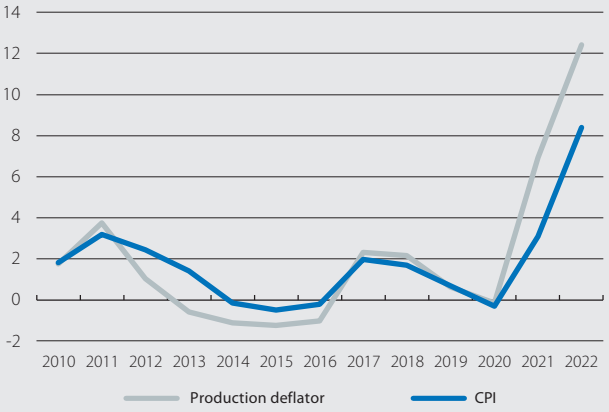
(pps)



Note: ** Year-on-year change.*
Source: *BPI Research, based on data from the National Statistics Institute.*

Spain: national production deflator vs. CPI

Year-on-year change (%)



Source: *BPI Research, based on data from the National Statistics Institute and the Spanish Tax Agency.*

The sum of intermediate costs, labour remuneration, taxes and GOS is what we call domestic production.[2] By deflating this series, we obtain a measure of the general evolution of prices, which as we see in the second chart follows a similar pattern to that of the CPI. This allows us to obtain an approximation of the role of each of the components in the evolution of the CPI.[3]

As we can see in the third chart, much of the price increase in 2021 and 2022 came from a substantial increase in the contribution of intermediate costs, closely linked to the sharp rise in energy prices. However, the

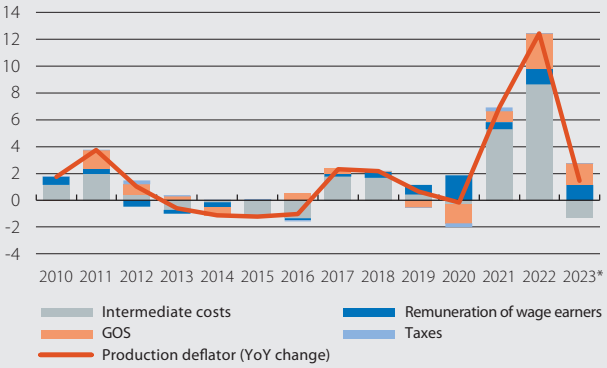
2. Domestic production can also be defined as GDP plus intermediate costs minus net taxes on products.
3. The evolution is not the same because, among other reasons, the basket of products and services which comprise the CPI does not match that of domestic production.

significant moderation in the price of intermediate consumption in 2023 has made it possible to reconcile lower price growth with higher growth in wages and business profits.

For 2024, we foresee modest growth in intermediate costs. In the first three quarters of 2023, the prices of intermediate costs grew by 1.1% compared to the first three quarters of 2022, well below the 20.3% annual growth rate of 2022, and the recent moderation in energy prices suggests that this trend is unlikely to change anytime soon. Thus, in 2024 intermediate costs are likely to continue to grow below 2%, and this should make a gradual recovery in the purchasing power of wages compatible with the convergence of inflation towards the 2% target.

Spain: contribution to the national production deflator

(pps)



Note: ** 2023 corresponds to the first three quarters of the year, for which data is already available.*
Source: *BPI Research, based on data from the National Statistics Institute and the Spanish Tax Agency.*

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Industry									
Industrial production index	8.8	2.8	0.8	1.3	–1.8	–2.1	–1.5	...	...
Indicator of confidence in industry *(value)*	0.6	–0.8	–5.3	–4.4	–5.3	–8.3	–8.6	–9.7	...
Manufacturing PMI *(value)*	57.0	51.0	45.6	50.1	48.5	47.3	45.1	46.3	46.2
Construction									
Building permits *(cumulative over 12 months)*	4.7	15.4	2.6	–1.8	1.7	4.2	2.2	...	...
House sales *(cumulative over 12 months)*	9.6	29.0	17.4	10.2	3.5	–3.0	–7.3	...	...
House prices	3.7	7.4	5.5	3.5	3.6	4.5	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	64.7	129.8	129.8	90.7	40.6	21.8	19.7	19.2	...
Services PMI *(value)*	55.0	52.5	50.8	56.3	56.0	50.9	51.1	51.0	51.5
Consumption									
Retail sales	5.1	0.9	1.9	6.6	6.1	6.9	5.3	5.2	...
Car registrations	158.0	–3.0	2.6	45.5	9.9	6.9	18.1	7.0	10.6
Consumer confidence index *(value)*	–12.9	–26.5	–27.9	–22.7	–19.2	–15.8	–19.8	–19.6	...
Labour market									
Employment [1]	3.0	3.1	1.4	1.8	2.9	3.5	–	–	–
Unemployment rate (% labour force)	14.8	12.9	12.9	13.3	11.6	11.8	–	–	–
Registered as employed with Social Security [2]	2.5	3.9	2.7	2.5	2.8	2.7	2.6	2.6	2.7
GDP	**6.4**	**5.8**	**3.8**	**4.1**	**2.0**	**1.8**	–	–	–

Prices

Year-on-year change (%), unless otherwise specified

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
General	3.1	8.4	6.6	5.1	3.1	2.8	3.5	3.2	3.1
Core	0.8	5.1	6.5	7.6	6.2	6.0	5.2	4.5	3.8

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	21.2	22.9	22.9	20.5	12.3	4.5	3.1	...	...
Imports *(year-on-year change, cumulative over 12 months)*	24.8	33.4	33.4	24.0	10.7	–1.2	–3.5	...	...
Current balance	**9.3**	**8.2**	**8.2**	**22.1**	**28.2**	**35.2**	**37.8**	**...**	**...**
Goods and services	11.8	16.3	16.3	31.6	42.8	54.6	57.1	...	...
Primary and secondary income	–2.5	–8.1	–8.1	–9.5	–14.6	–19.4	–19.3	...	...
Net lending (+) / borrowing (–) capacity	**20.1**	**20.7**	**20.7**	**36.3**	**42.1**	**49.4**	**52.5**	**...**	**...**

Credit and deposits in non-financial sectors [3]

Year-on-year change (%), unless otherwise specified

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Deposits									
Household and company deposits	6.1	4.9	3.8	1.7	0.4	–0.3	0.0	...	...
Sight and savings	10.3	7.9	5.0	0.3	–4.0	–6.9	–7.7	–7.8	–15.0
Term and notice	–24.4	–19.7	–7.3	7.7	40.1	69.5	79.5	89.4	155.0
General government deposits	15.5	9.6	–3.2	7.4	6.8	11.3	14.2	13.6	11.0
TOTAL	**6.7**	**5.2**	**3.2**	**2.1**	**0.8**	**0.5**	**0.9**	**...**	**...**
Outstanding balance of credit									
Private sector	0.3	0.7	0.5	–0.9	–2.2	–3.4	–3.9	–3.8	–3.3
Non-financial firms	1.1	0.9	0.9	–1.0	–2.7	–4.6	–5.6	–5.6	–4.7
Households - housing	0.2	1.0	0.2	–1.2	–2.4	–3.4	–3.3	–3.4	–3.5
Households - other purposes	–1.2	–0.6	–0.1	–0.1	–0.4	0.0	–1.1	0.0	0.7
General government	15.3	0.2	–1.1	–0.2	–3.3	–4.6	–5.9	–7.1	–1.0
TOTAL	**1.1**	**0.7**	**0.4**	**–0.9**	**–2.3**	**–3.4**	**–4.0**	**–4.0**	**–3.2**
NPL ratio (%) [4]	**4.3**	**3.5**	**3.7**	**3.5**	**3.5**	**3.5**	**3.6**	**...**	**...**

Notes: *1. Estimate based on the Active Population Survey. 2. Average monthly figures. 3. Aggregate figures for the Spanish banking sector and residents in Spain. 4. Period-end figure.*
Source: *BPI Research, based on data from the Ministry of Economy, the Ministry of Public Works, the Ministry of Employment and Social Security, the National Statistics Institute, the State Employment Service, Markit, the European Commission, the Department of Customs and Special Taxes and the Bank of Spain.*

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