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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
APRIL 2024

INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS
Oil in the «era» of decarbonisation

INTERNATIONAL ECONOMY
The perception of the economy and its paradoxes

SPANISH ECONOMY
The medium-term potential growth of Spain's GDP

Innovation in Spain: somewhat below the EU

The Spanish economy continues to reduce its foreign debt

An exceptional year for the catering sector in Spain

PORTUGUESE ECONOMY

The Portuguese property clock: contraction does not have an appointment

Industry, a sector struggling to get back on its feet

Challenges and prospects for Portuguese public debt: reflections on the withdrawal of the ECB

What's happening in commercial property in Portugal?

BPI

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April 2024

The *Monthly Report* is a publication developed jointly by CaixaBank Research and BPI Research (UEEF)

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Date this issue was closed:
5 April 2024

INDEX

1 **EDITORIAL**

3 **KEY POINTS OF THE MONTH**

4 **FORECASTS**

7 **FINANCIAL MARKET**

9 *Oil in the «era» of decarbonisation*

12 **INTERNATIONAL ECONOMY**

14 *The perception of the economy and its paradoxes*

18 **PORTUGUESE ECONOMY**

20 *The Portuguese property clock: contraction does not have an appointment*

21 *Industry, a sector struggling to get back on its feet*

23 *Challenges and prospects for Portuguese public debt: reflections on the withdrawal of the ECB*

25 *What's happening in commercial property in Portugal?*

28 **SPANISH ECONOMY**

30 *The medium-term potential growth of Spain's GDP*

33 *Innovation in Spain: somewhat below the EU*

35 *The Spanish economy continues to reduce its foreign debt*

37 *An exceptional year for the catering sector in Spain*

The two sides of the Spanish economy

Spain's economy has been performing better than expected for several quarters now and could continue to do so. In an adverse economic and geopolitical context that has had a negative impact on many economies, Spain's GDP growth ended 2023 well above expectations and surpassed that of most developed countries, and today it stands 2.9% above the level of 2019, in line with the euro area as a whole. This is a remarkable performance and one that we have been highlighting in the pages of our *Monthly Report*.

Despite the good data, 2024 began with the prediction that economic growth would likely slow at the start of the year before gradually gaining traction, especially during the second half. The end of the inflationary pressures and the expected reduction in interest rates should facilitate this. However, the positive surprises have not stopped coming. The economic activity indicators are not showing any signs of weakness and neither is the labour market; rather, quite the opposite is true. In Q1 2024, the number of registered workers affiliated with Social Security rose by 0.7% quarter-on-quarter, almost double the growth rate recorded in the final tranche of last year. In fact, the rate of job creation is the same as that recorded in Q1 2023. Then, GDP grew by 0.5% quarter-on-quarter; for Q1 2024, CaixaBank Research's forecast scenario foresees an increase of 0.3%, so it seems that the risks are skewed slightly to the upside.

Beyond the aggregate growth data and the reading of the short-term indicators, we must continue to recall that the quality of growth is just as important as its quantity, if not more so. In this regard, the message is less positive. One simple way to illustrate this is by looking at the evolution of GDP per capita. In 2014, when Spain began to recover from the financial and real estate crisis, GDP per capita was 17 pps below that of the euro area. This gap barely narrowed at all in the following years and in 2020, with the outbreak of the pandemic, the gap widened suddenly and substantially to 22 pps. Since then it has been gradually shrinking, but it still remains significant, at 15 pps.

Spain's economic growth has been accompanied by a notable increase in its population, which helps economic activity to grow at the aggregate level. However, if this growth does not go hand in hand with an increase in productivity, it will be difficult for Spain's GDP per capita to converge with that of Europe. More importantly, it will be difficult for the population to perceive improvements in their standard of living.

When assessing the growth capacity of Spain's economy in the medium and long term, the message does not invite much optimism either. An article in this very report analyses one of the key factors, the capacity for innovation, and finds that Spain's economy falls well short its European partners and that the gap has barely narrowed in recent years. Education, the small size of our companies and innovation are some of the key areas in which we need to improve.

In this context, it should come as no surprise to hear that the growth capacity of Spain's economy could lose momentum in the coming years. Another article this month adds figures to this statement. In particular, it estimates the potential GDP growth in the medium term and places it at 1.3%, in line with the estimates of other leading institutions. This is a slower pace of progress than that achieved in recent years, with the average growth rate between 2000 and 2023 being 1.7%. In any case, growth could increase if reforms are implemented in certain specific areas. If we succeed in reducing the structural unemployment rate such that jobs can continue to be generated in the coming years, and if investment, which has been very weak for a long time, can be revived, then growth could remain close to or even surpass that of recent decades. These are the two sides of the Spanish economy.

Chronology

MARCH 2024

13 The ECB adjusts the operational framework through which it implements its monetary policy.
19 The Bank of Japan raises its reference rate from –0.1% to 0.1%.

FEBRUARY 2024

22 The US returns to the Moon after more than 50 years with the landing of Odysseus, the first commercial module to touch down on the lunar surface.

JANUARY 2023

11 NASA confirms that 2023 was the warmest year since records began (1880).
19 Japan becomes the fifth country to land on the Moon.

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.

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.

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–.

Agenda

APRIL 2024

2 Spain: registration with Social Security and registered unemployment (March).
Portugal: employment and unemployment (February).
Portugal: industrial production (February).
3 Euro area: CPI flash estimate (March).
10 Spain: financial accounts (Q4).
11 Governing Council of the European Central Bank meeting.
15 China: GDP (Q1).
18 Portugal: balance of payments (February).
22 Spain: loans, deposits and NPL ratio (February).
25 US: GDP (Q1).
26 Spain: labour force survey (Q1).
29 Spain: CPI flash estimate (April).
Euro area: economic sentiment index (April).
30 Spain: GDP flash estimate (Q1).
Portugal: GDP flash estimate (Q1).
Portugal: CPI flash estimate (April).
Euro area: GDP (Q1).
Euro area: CPI flash estimate (April).
30-1 May: Federal Open Market Committee meeting.

MAY 2024

3 Spain: registration with Social Security and registered unemployment (April).
8 Spain: industrial production index (March).
Portugal: employment and unemployment (Q1).
16 Portugal: labour cost index (Q1).
17 Spain: Fitch rating.
Portugal: Moody's rating.
Japan: GDP (Q1).
20 Spain: foreign trade (March).
24 Spain: loans, deposits and NPL ratio (March).
29 Portugal: loan and deposit portfolio (April).
30 Spain: CPI flash estimate (May).
Euro area: economic sentiment index (May).
31 Spain: DBRS rating.
Portugal: GDP breakdown (Q1).
Portugal: industrial production (April).
Euro area: CPI flash estimate (May).

The central banks make moves

With all the attention at the start of the year focused on how the Fed and the ECB will go about implementing the shift in monetary policy, and with the feeling that the rate cuts could begin at different times on each side of the Atlantic, in recent weeks there have been certain developments that could shed some light on the agitated world of monetary policy.

Firstly, the Swiss National Bank (SNB) has joined the ranks of several monetary authorities in both emerging countries (Brazil, Chile, Malaysia and Hong Kong) and European countries (Poland, Hungary and the Czech Republic) by making a surprise announcement of a 25-bp cut in its official interest rate, placing it at 1.50%, now that inflation has reached the target (1.2% in February) and appears to be stable. In addition, with this reduction, Switzerland's central bank has managed to momentarily break the trend of the appreciation of its currency – an important step for an economy that continues to show significant weakness and which has a degree of openness exceeding 100% of GDP. Therefore, as we await the decisions of the two major central banks, the process of the normalisation of global monetary policy has already begun and it could lead to a reduction of around 100 bps in interest rates over the next 12 months.

In this early stage of the monetary easing process there has been a move against the current, as the Bank of Japan (BoJ) has raised its reference rate from –0.1% up to the 0%-0.1% range (the first rate rise since 2007), in addition to announcing the end of other unconventional measures, such as its yield curve control policy and its purchases of ETFs. This decision is only a first step towards the normalisation of its monetary policy, as the tightening of financial conditions has been minimal and the purchases of public debt will continue. Going forward, the key will be to keep a close eye on what happens to Japanese investors' public debt holdings abroad (more than a trillion dollars in US debt alone), given the effects that a repatriation movement could have on the American or European interest rate curves. The BoJ's decision, in addition to the promising recent pattern in inflation, also reflects the authorities' unease with the undervaluation of the yen (of between 25% and 30% relative to the major currencies), and this could lead to foreign exchange interventions if the situation is not reversed in the short term.

With this decision, the anomaly of the phase of negative interest rates can be considered closed. Indeed, it was during this phase that other central banks were introducing unconventional measures precisely to combat the risk of «Japanisation», which is characterised by: a significant reduction in potential growth, a fall in the natural interest rate to levels close to zero, a continued decline in prices and a loss of effectiveness of traditional monetary policy tools. The reality is that it is too early to declare that the Japanese economy has definitively left behind a behaviour which reflects structural factors that are difficult to reverse in the short term (demographics, etc.). By the same token, central banks throughout the world will continue to have in their «toolbox» the unconventional tools which they have had to design and use in the last decade. In this context, the ECB has announced an update to its tools and procedures for implementing its monetary policy strategy. Under the new operational framework, the depo rate will formally become the main reference rate, liquidity will be determined by the demand of the financial system, a structural portfolio of bonds will be maintained, there are no changes to the cash ratio and, from September, the spread between the refinancing rate and the depo rate will be reduced to 15 bps. With all this, together with newly created tools (TPI), the ECB will have the means to respond flexibly to the challenge of the dual objective (monetary and financial stability) in the turbulent waters which monetary policy will continue to navigate in the medium term.

For now, this year the challenge will lie in how best to manage the path towards more neutral monetary policy territory, limiting significant exchange rate imbalances if the timing differences that are anticipated in the adjustment process on each side of the Atlantic are confirmed. In the case of the dollar/euro exchange rate, the current levels are not far off the equilibrium exchange rate, which will offer a certain margin for the discrepancy. All this will need to be carried out with one eye on geopolitical risk and its potential effects on energy prices – the factor that could truly alter the roadmap. And, unfortunately, in this sphere the latest news is not positive, as indicated by the behaviour of the oil price and that of some traditional safe-haven assets, such as gold.

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	4.50	3.50
3-month SOFR	3.62	0.99	0.21	4.74	5.37	3.85	2.85
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.40	3.00
2-year government bonds	3.70	0.99	0.66	4.30	4.46	3.40	2.80
10-year government bonds	4.69	2.44	1.46	3.62	4.01	3.50	3.10
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.00	2.25
ECB refi	3.05	0.69	0.00	2.27	4.50	3.50	2.75
€STR	–	–0.55	–0.58	1.57	3.90	2.93	2.30
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	2.83	2.33
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.74	2.36
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	2.76	2.40
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	2.78	2.45
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	1.90	2.00
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.00	2.20
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.32	2.42
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.46	2.57
10-year government bonds	4.42	2.96	0.42	3.18	3.09	2.90	3.00
Risk premium	11	158	73	105	98	90	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.54	2.66
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.61	2.75
10-year government bonds	4.49	4.35	0.34	3.10	2.74	2.80	3.00
Risk premium	19	297	65	97	63	80	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	0.83	0.87
EUR/GBP (yen per euro)	129.56	126.06	128.82	142.85	156.99	160.00	156.00
OIL PRICE							
Brent ($/barrel)	42.3	77.3	74.8	81.3	77.3	78.0	73.0
Brent (euros/barrel)	36.4	60.6	66.2	76.8	70.9	69.2	63.9

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	3.0	3.0	3.2
Developed countries	*2.7*	*1.0*	*5.6*	*2.6*	*1.6*	*1.4*	*1.7*
United States	2.7	1.5	5.8	1.9	2.5	2.2	1.6
Euro area	2.2	0.3	5.9	3.4	0.5	0.7	1.7
Germany	1.6	0.8	3.1	1.9	–0.1	0.2	1.3
France	2.2	0.3	6.4	2.5	0.9	0.6	1.4
Italy	1.5	–1.0	8.3	3.9	0.7	0.6	1.6
Portugal	1.5	–0.2	5.7	6.8	2.3	1.6	2.3
Spain	3.7	–0.3	6.4	5.8	2.5	1.9	2.2
Japan	1.4	0.1	2.6	0.9	1.9	0.8	1.0
United Kingdom	2.7	0.3	8.7	4.3	0.1	0.0	0.6
Emerging and developing countries	*6.5*	*4.4*	*6.9*	*4.1*	*4.0*	*4.0*	*4.2*
China	10.6	7.5	8.5	3.0	5.2	4.6	4.4
India	7.2	5.7	9.0	7.3	7.7	6.7	5.5
Brazil	3.6	1.2	4.8	3.0	2.9	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	3.6	1.5	1.3
Türkiye	5.5	4.3	11.4	5.5	4.5	2.6	3.5
Poland	4.2	3.2	6.9	5.5	0.1	2.9	3.6
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*	*2.5*	*2.0*
United States	2.8	1.7	4.7	8.0	4.1	2.6	2.0
Euro area	2.2	1.3	2.6	8.4	5.4	2.2	2.1
Germany	1.7	1.4	3.2	8.7	6.0	2.5	2.2
France	1.9	1.3	2.1	5.9	5.7	2.4	2.0
Italy	2.4	1.3	1.9	8.7	5.9	1.5	2.0
Portugal	3.1	1.0	1.3	7.8	4.3	2.3	2.0
Spain	3.2	1.2	3.1	8.4	3.5	3.0	2.5
Japan	–0.3	0.4	–0.2	2.5	3.3	2.0	1.5
United Kingdom	1.6	2.2	2.6	9.1	7.3	2.8	2.3
Emerging and developing countries	*6.7*	*5.5*	*5.9*	*9.8*	*8.5*	*7.2*	*5.4*
China	1.7	2.6	0.9	2.0	0.2	0.8	1.7
India	4.5	7.3	5.1	6.7	5.5	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	5.5	4.5	3.9
Russia	14.2	7.5	6.7	13.8	5.9	5.4	4.5
Türkiye	22.6	9.8	19.6	72.3	53.9	52.6	29.0
Poland	3.5	2.1	5.2	13.2	10.8	4.6	4.6

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	1.6	1.0	1.7
Government consumption	2.3	–0.2	4.5	1.4	1.2	1.9	1.1
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	2.4	3.3	5.1
Capital goods	3.2	2.0	15.3	5.5	4.1	–	–
Construction	–1.5	–2.3	7.4	1.3	–0.3	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	4.7	1.4	1.7	2.2
Exports of goods and services	5.3	2.2	12.3	17.4	4.2	2.6	5.2
Imports of goods and services	3.6	1.5	12.3	11.1	2.2	2.9	5.1
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.3**	**1.6**	**2.3**
Other variables							
Employment	0.4	–0.6	2.2	2.2	2.0	1.1	1.4
Unemployment rate (% of labour force)	6.1	11.0	6.7	6.2	6.5	6.7	6.5
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.3	2.0
Current account balance (% GDP)	–9.2	–2.7	–0.8	–1.4	1.4	1.2	1.4
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.4	2.7	2.5	2.7
Fiscal balance (% GDP)	–4.6	–5.1	–2.9	–0.3	1.2	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	1.8	2.3	2.3
Government consumption	5.0	1.3	3.4	–0.2	3.8	2.7	1.6
Gross fixed capital formation	5.6	–2.0	2.8	2.4	0.8	0.6	3.1
Capital goods	4.9	–0.8	4.4	1.9	–1.6	0.2	3.8
Construction	5.7	–3.4	0.4	2.6	2.3	0.2	2.8
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	2.3	0.1	2.1
Imports of goods and services	7.0	–1.0	14.9	7.0	0.3	1.1	2.3
Gross domestic product	**3.7**	**–0.3**	**6.4**	**5.8**	**2.5**	**1.9**	**2.2**
Other variables							
Employment	3.2	–0.9	7.1	3.7	3.2	2.4	1.8
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	3.0	2.5
Unit labour costs	3.0	1.2	1.0	0.9	5.9	4.4	2.5
Current account balance (% GDP)	–5.9	–0.2	0.8	0.6	2.6	2.3	2.5
External funding capacity/needs (% GDP)	–5.2	0.2	1.9	1.5	1.5	3.3	3.5
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.8	–4.7	–3.6	–3.4	–2.9

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

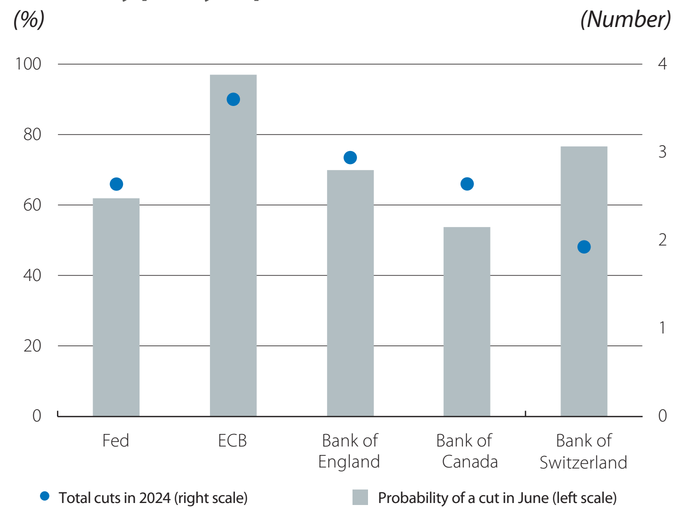
Forecasts

Financial markets set their sights on summer

Continuity in financial markets' narrative. The postponement of interest rate cut expectations that had begun in February extended to March, with investors consolidating the idea that the central banks are not in such a hurry to relax financial conditions so soon. The big difference this month was that, in March, markets showed a greater capacity to discriminate between regions based on the differing pace of the slowdown in disinflation, as well as the divergence in economic strength between the major developed economies. For the euro area, where the progress on inflation has been more promising and economic activity remains more sluggish, investors increased their confidence in the expectation that the first cut of 25 bps will come in June and that the ECB will cut rates a total of three or four times this year. For the US, in contrast, where inflation is showing more persistence and economic activity greater dynamism, the markets were more sceptical and gradually shifted expectations for the first rate cut from June to July, at the same time as they reduced the expectation of four cuts in 2024 down to only three. This continuity in the narrative led to little changes in US sovereign yields in March, which had already rebounded significantly in the previous month, and with modest falls in the German yield curve as expectations of a rate cut in June took hold. Meanwhile, risk assets remained unaffected by the high rates and consolidated another month of gains.

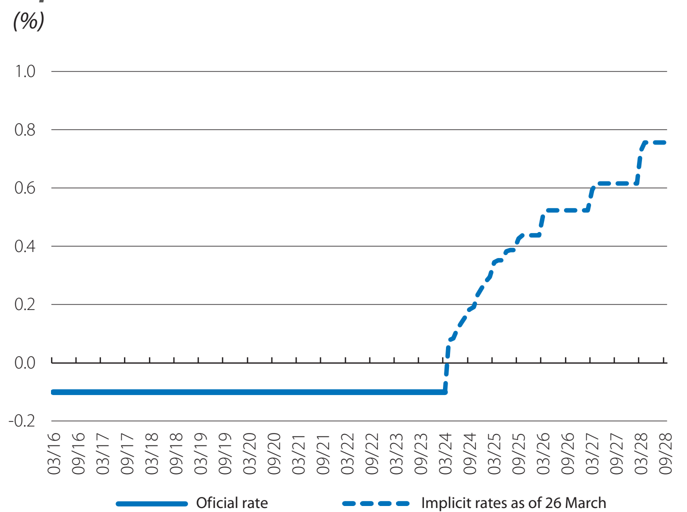
Turning point towards the easing of monetary policy. Following the major central banks' meetings, the expectation that the global monetary cycle will move in a new direction in 2024 was reinforced. The Bank of Switzerland clearly demonstrated this by being the first of the G10 economies to cut interest rates, in this case by 25 bps from 1.75% to 1.50%. More indirectly did so the other central banks of the major developed economies, as although they did not announce any changes to their reference rates, there was a noticeably more dovish tone to their messages. In the case of the Bank of England, which held rates at 5.25%, the fact that this was the first meeting in which none of the nine members voted in favour of an additional rate hike was taken as a sign of a shift towards a more accommodative stance. On the other hand, in the case of the ECB (which left the depo rate at 4.00% and the refi rate at 4.50%), despite reinforcing the need for caution and for any decisions to be taken based on the data, the message was articulated around June being a key month for considering the first rate cut. On the other side of the Atlantic, meanwhile, the Fed, which also maintained rates in the 5.25%-5.50% range, appeared confident about the good progress of inflation and its dot plot was explicit in anticipating three rate cuts in 2024, beginning in June. Another turning point was that of the Bank of Japan (BoJ), which ended its regime of negative interest rates by announcing an increase in its short-term benchmark rate from –0.1% up to the 0.0%-0.1% range. Moreover, it announced the end of unconventional monetary policy programmes, including the purchase of Japanese ETFs and REITs, as well as the yield curve control. While there is still a long way for it to go before it will approach the position of other central banks, and

Monetary policy expectations



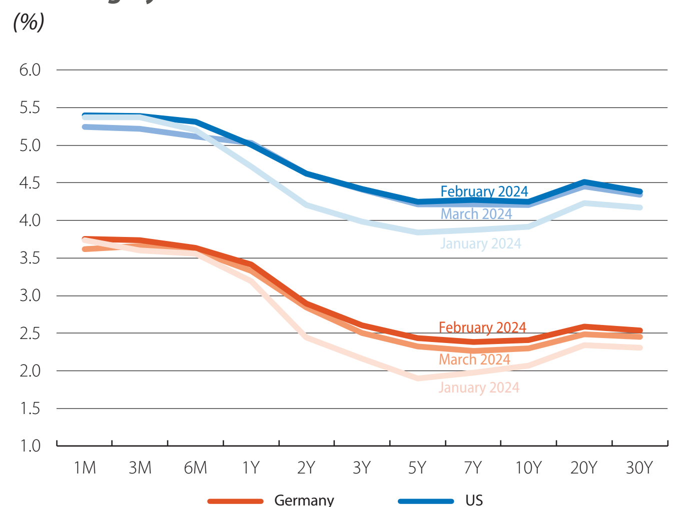
Note: Forwards on OIS curves as of 01/04/2024.
Source: *BPI Research, based on data from Bloomberg.*

Japan: official interest rates



Note: *The dashed lines correspond to the implicit market rates on the OIS forward curve.*
Source: *BPI Research, based on data from Bloomberg.*

Sovereign yield curves



Note: *Yield curves at the end of each month.*
Source: *BPI Research, based on data from Bloomberg.*

while the BoJ gave indications of wanting to move very cautiously in order to mitigate the risks associated with a withdrawal of the stimulus, the measures taken marked a turning point towards a return to more conventional monetary policy.

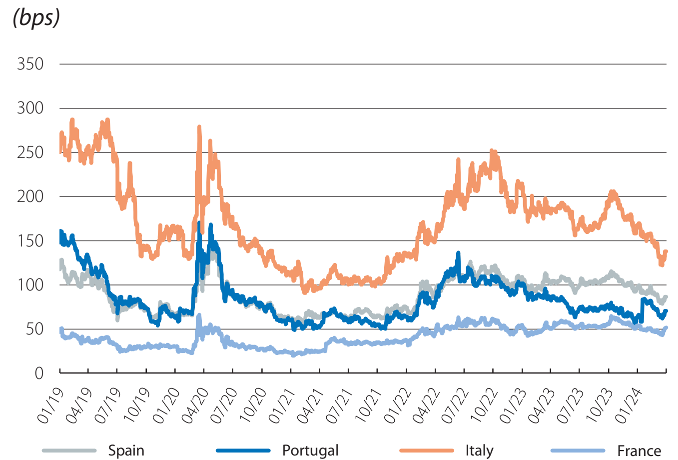
Sovereign yields remain high. In March, debt markets faced a similar juncture to last month, with no major changes in the ECB's data-dependency messages or in the Fed's dot plot, and with greater confidence that the summer is when we will see the first rate cuts. Thus, after spending the month seeking a clear direction, sovereign interest rates ended up almost at the same levels as where they had stood at the end of February. On the other hand, the sovereign curves of the peripheral economies were once again affected by investors' risk appetite and moderately narrowed their risk premiums, with Spain benefiting from the revision of the country's outlook from «stable» to «positive» assigned by the rating agency Moody's. This was not the case with the French and Italian risk premiums, which rose slightly (+11 bps in Italy and +6 bps in France) from mid-March after it was known that their deficits in 2023 exceeded their respective governments' targets.

Equities continue to reach record highs. The major stock markets capitalised on the central banks' dovish tone and remained seemingly oblivious to the high interest rates, the geopolitical risks and even the vulnerabilities in the commercial real estate sector, extending their gains for yet another month. Even the S&P 500 in the US and the Eurostoxx 600 in Europe closed the month of March at new all-time highs. The Spanish stock market stood out in the euro area, with the IBEX 35 rallying almost +11%, spurred by the financial sector after Moody's positive revision of the rating of 15 national banks after having improved its outlook for Spain. In Asia, Japan's stock market also hit a record despite the central bank's rate hike, capitalising on the BoJ's message of caution on exiting ultra-accommodative conditions, while China's stock market posted modest gains as flows begin to return to the country amid a government effort to support local markets.

The yen's weakness stands out among the major currencies. Following the BoJ's announcement, the already weakened yen depreciated as much as an additional 1% against the euro and the dollar, as investors interpreted the BoJ's messages as still highly dovish. Japan's monetary authorities responded that they are prepared to take the necessary measures, as they do not consider the movements to be due to fundamentals. Meanwhile, the dollar remained strong against the major currencies, supported by the expectation that the Fed could take longer to cut rates. Especially notable was the strength of the dollar against other emerging economy currencies, which have depreciated by up to 3% against the dollar so far this year.

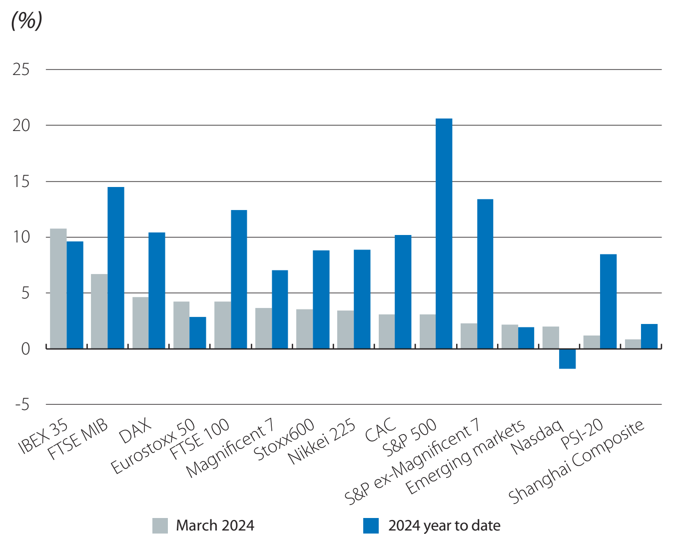
Geopolitical risk pushes up commodity prices. The geopolitical tensions, both in the Middle East with renewed attacks in Gaza and on some embassies, and in Ukraine and Russia with new bombings of crude oil refineries, caused oil prices to soar (the Brent barrel came to trade at around 90 dollars/barrel). So too did the price of gold, due to its role as a safe-haven asset, reaching new highs of around 2,200 dollars/ounce.

Euro area: evolution of peripheral economy risk premiums
(bps)



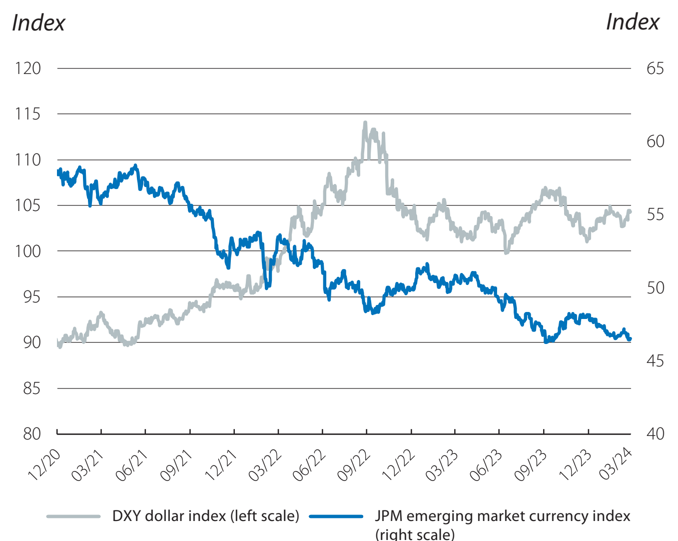
Note: *The spike in the Portuguese premium beginning on 16/01/24 is due to a change in the bond of reference.*
Source: *BPI Research, based on data from Bloomberg.*

Performance of the main stock market indices
(%)



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

Currencies



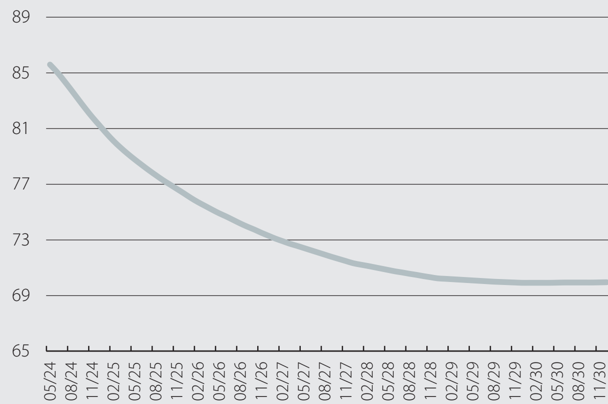
Source: *BPI Research, based on data from Bloomberg.*

Oil in the «era» of decarbonisation

Over the past four years, energy markets have been under heavy stress, which has led to one of the most volatile episodes in recent decades.[1] Part of the legacy of the events of this period has been an acceleration of the political and social commitments to decarbonising the energy system. Since the first major pact between developed and emerging countries was signed in Paris in 2015,[2] several global meetings have been held and agreements reached setting targets for reducing the use of fossil fuels, and cutting the resulting CO_2 emissions, while adding impetus to the transition to cleaner and more environmentally friendly energy sources. Several deadlines have been set for these targets, mainly 2030 and 2050, but the challenge ahead is not without its difficulties given the complexity of the current energy scenario. After all, despite the efforts made to date, in 2022 oil and gas still accounted for around 60% of the world's total primary energy consumption.

Brent: futures price curve

(Dollars per barrel)



Note: *Prices as of 25/03/2024.*
Source: *BPI Research, based on data from Bloomberg.*

Is there a future for oil?

Focusing on oil, establishing a long-term price range for the Brent barrel is no easy task, particularly given the uncertainty dominating the current energy scenario. The International Energy Agency (IEA) conducted an analysis of the outlook through to 2050 in its latest *World Energy Outlook*.[3] Using three scenarios,[4] it evaluates the

Oil supply and demand

(Million barrels/day)

	2010	2022	STEPS		APS		NZE	
			2030	2050	2030	2050	2030	2050
Road transportation	36.5	41.3	41.1	35.5	37.6	15.9	29.1	1.6
Aviation & maritime transport.	9.9	10.6	13.5	17.2	12.5	9	10.5	2.1
Industry	17.2	20.6	23.3	25.5	21.4	17.8	20.3	14.3
Construction	12.4	11.4	9.5	6.7	8.6	4.1	6.1	0.5
Other sectors	11.1	12.6	14	12.5	12.4	7.9	11.4	5.7
Global oil demand	**87.1**	**96.5**	**101.5**	**97.4**	**92.5**	**54.8**	**77.5**	**24.3**
Conventional crude oil	67.4	62.8	61.3	58.2	54.9	29.8	48	15.8
Tight oil	0.7	8.3	11.1	10.2	10.3	6.9	7.6	1.8
Natural gas	12.7	19	21.2	19.4	20.1	13.6	16.2	4.4
Heavy crude oil and bitumen	2	3.7	4.4	5.5	3.9	2.5	3	1.5
Other production	0.5	0.9	1	1.2	0.9	0.3	0.3	0
Global oil production	**85.3**	**97.1**	**101.5**	**97.4**	**90.2**	**53.1**	**75.1**	**23.5**
OPEC (market share; %)	40	36	35	43	35	45	37	53
Global oil supply	**85.3**	**97.1**	**101.5**	**97.4**	**92.5**	**54.8**	**77.5**	**24.3**
Crude oil barrel price ($/barrel)	**103**	**98**	**82**	**80**	**74**	**60**	**42**	**25**

Notes: *All variables refer to millions of barrels per day, unless otherwise stated. STEPS (Stated Policies Scenario), a scenario with the policies already adopted; APS (Announced Pledged Scenario), with the promises announced to date; NZE (Net Zero Emissions Scenario), a scenario in which net zero emissions are achieved by 2050 and the global temperature rise is limited to 1.5 ºC.*
Source: *BPI Research, based on data from the International Energy Agency.*

1. This stress has been triggered by events such as the pandemic of 2020, which significantly affected global energy demand, the sanctions on Russia's energy exports since 2022 and, since last autumn, the armed conflict in Gaza and the crisis in the Red Sea, which for now have not posed an obstacle for the oil supply in the Middle East but have increased the risks of possible contagion among neighbouring countries.
2. Paris Agreement (December 2015).
3. IEA, World Energy Outlook 2023 (October 2023).
4. The three scenarios are: the Stated Policies Scenario (STEPS), with the policies already adopted; the Announced Pledged Scenario (APS), with the promises that have been announced, and the Net Zero Emissions Scenario (NZE), with a pathway to achieve net zero emissions by 2050 and limiting the global temperature rise to 1.5 ºC.

possible future paths of the energy transition and reaches several conclusions. On the one hand, it estimates that the demand for oil will continue to rise over the next few years, driven by continued increases in petrochemical production and air travel, but that it will peak before 2030 (it estimates a global demand of 105.7 million barrels per day in 2028). Factors such as the increase in sales of electric vehicles (in 2023 they had a market share of around 20%) and, even more relevant, the slowdown in the growth rate of China,[5] are expected to act as counterweights for this demand for crude oil over the period analysed. It should be noted that in the most demanding decarbonisation scenarios (APS and NZE), the reduction in demand would be noticeably accentuated in the long term, in contrast to the stability that would be observed in the less demanding scenario.

On the other hand, while it is true that these scenarios focus on analysing what will happen to oil demand, on the supply side they consider that the production of non-OPEC countries will grow more than that of OPEC and its allies up until 2030, although in 2050 the distribution between the two blocs will be around 50/50. In addition, in the first two scenarios, under the assumption that production will adjust to demand, it suggests that new investments in the sector would be necessary, focused on reducing the environmental impact in production processes in order to avoid a decline in the effectiveness of energy transition programmes.

Taking into account the fact that, as anticipated by the IEA, the policies adopted by governments to date will not be sufficient to achieve the decarbonisation targets set for 2030, and given that around 90% of global emissions are subject to zero emissions commitments, it is highly probable that further progress will be made in environmental policies in order to steer the reality closer towards the first two scenarios. In this case, the IEA estimates that the price range for the Brent barrel would be between 74 and 82 dollars in 2030, a higher range than that indicated by the Brent futures curve at the time of writing (70 dollars per barrel in 2030).

Other implications

Oil will remain an important energy source for the next two decades, although countries' commitments to phase out fossil fuels will reduce oil consumption. In this process, the oil market will become more coherent with the climate objectives. Nevertheless, in turn, this transformation introduces the threat of a disorderly adjustment for those economies most dependent on oil production, as they will face the challenge of continuing to generate profits from oil activity while they seek alternative growth strategies outside the sector. In this regard, according to the IMF[6] there are two components to this risk. On the one hand, these countries could see a slump in the value of their oil reserves and the investment they attract, which in turn could lead to serious economic problems, including bankruptcies and crises in the regions currently most dependent on the oil sector. On the other hand, those countries with lower extraction costs could slow down the pace at which they adopt more competitive strategies until they have made material progress in reforming their economies. This would exacerbate the weakness of countries with high fiscal deficits and would negatively affect those items that rely on oil revenues for funding, such as health or public employment.

5. According to the IEA, in the last decade China was responsible for 50% of the growth in global energy demand and 85% of the increase in CO_2 emissions.
6. IMF, The Future of Oil – IMF F&D (2021).

Interest rates (%)

	31-March	29-February	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.50	4.50	0	0.0	100.0
3-month Euribor	3.89	3.94	–4	–1.7	83.9
1-year Euribor	3.67	3.75	–8	15.6	1.8
1-year government bonds (Germany)	3.34	3.43	–9	8.1	30.0
2-year government bonds (Germany)	2.85	2.90	–5	44.5	17.5
10-year government bonds (Germany)	2.30	2.41	–11	27.4	4.3
10-year government bonds (Spain)	3.16	3.29	–13	16.9	–11.3
10-year government bonds (Portugal)	3.01	3.12	–12	35.1	–7.1
US					
Fed funds (upper limit)	5.50	5.50	0	0.0	50.0
3-month SOFR	5.30	5.33	–4	–3.3	37.8
1-year government bonds	5.02	5.00	3	26.2	46.9
2-year government bonds	4.62	4.62	0	37.0	65.7
10-year government bonds	4.20	4.25	–5	32.1	78.9

Spreads corporate bonds (bps)

	31-March	29-February	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	54	55	–1	–4.4	–31.0
Itraxx Financials Senior	63	64	–1	–3.7	–35.6
Itraxx Subordinated Financials	114	117	–3	–8.5	–68.9

Exchange rates

	31-March	29-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.079	1.081	–0.1	–2.3	–1.0
EUR/JPY (yen per euro)	163.300	162.060	0.8	4.9	13.1
EUR/GBP (pounds per euro)	0.855	0.856	–0.1	–1.4	–2.6
USD/JPY (yen per dollar)	151.350	149.980	0.9	7.3	14.3

Commodities

	31-March	29-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	536.4	524.4	2.3	5.1	–2.4
Brent ($/barrel)	87.5	83.6	4.6	13.6	3.0
Gold ($/ounce)	2,229.9	2,044.3	9.1	8.1	12.4

Equity

	31-March	29-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,254.4	5,096.3	3.1	10.2	27.4
Eurostoxx 50 (euro area)	5,083.4	4,877.8	4.2	12.4	17.9
Ibex 35 (Spain)	11,074.6	10,001.3	10.7	9.6	20.9
PSI 20 (Portugal)	6,280.5	6,158.0	2.0	–1.8	3.3
Nikkei 225 (Japan)	40,369.4	39,166.2	3.1	20.6	43.2
MSCI Emerging	1,043.2	1,020.9	2.2	1.9	5.5

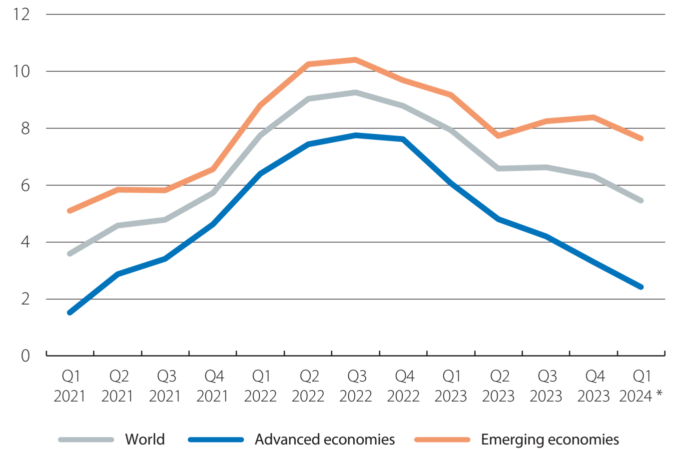
The international economy, waiting for rate cuts

Cautiously optimistic outlook... In recent quarters, the growth of the world economy has moderated amid the transmission of the monetary tightening process, the difficulties in China and an environment of high risks and uncertainty. Despite this, it is estimated that global GDP has managed to maintain a growth rate of slightly above 3% and close to its average for the last decade. This is thanks, at least in part, to the resilience of labour markets and the use of savings buffers accumulated during the pandemic, albeit with differing dynamics between the major regions. Some of these winds will blow less in favour in 2024 (for instance, in the US the post-pandemic excess savings have been virtually depleted, while the persistence of savings in Europe hides a change in their composition and a significant reduction in excess savings held in liquid assets). However, there are also positive signals, such as the global trade in goods returning to growth in recent months and, most notably, the steady decline of inflation, which has already led to rate cuts in some emerging economies (such as Brazil) and also leads us to anticipate a more widespread easing of monetary policy between the spring and summer (see the Financial Markets Economic Outlook section). Taken together, these two dynamics should support a revival of economic growth during the course of 2024.

...but with a demanding risk map. Negative factors continue to dominate the balance of risks surrounding global economic activity, particularly due to the combination of geopolitical tensions and potential supply-side disruptions, although there are also risks on the demand side (notably the risks of further transmission of the monetary tightening process of 2022-2023, as well as uncertainty surrounding what degree of inertia we will see in the inflationary pressures most sensitive to domestic factors). However, two concrete manifestations of these global sources of risk were appeased during March. Specifically, shipping costs steadily eased (having been under significant pressure at the turn of the year due to the tensions in the Red Sea) and the financial turbulence surrounding certain vulnerabilities was contained, including that related to New York Community Bancorp, which had previously fallen victim to the troubles in the commercial real estate sector in a restrictive interest rate environment.

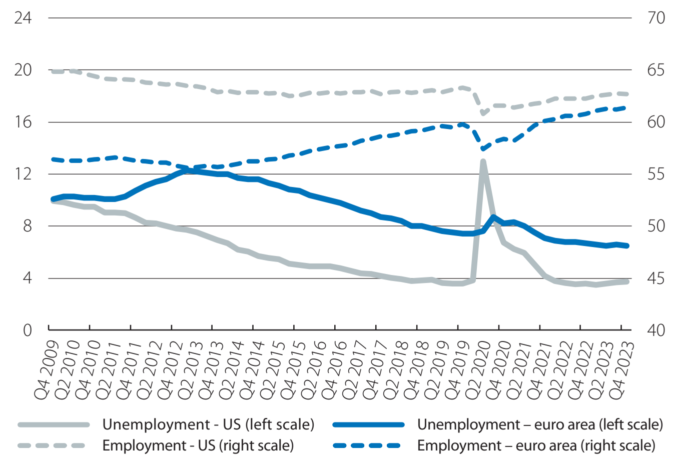
The strength of the US stands out among advanced economies. US economic activity completed a solid start to the year, with the manufacturing PMI rebounding to 50.3 points in March (in expansive territory for the first time since the end of 2022) and the services PMI remaining consistently above the expansionary threshold (51.4 points, and the Q1 2024 average above its Q4 2023 level). Moreover, it continued to be supported by the strength of the labour market, with the unemployment rate lying at just 3.8% and net job creation reaching 303,000 in March. Overall, the data suggest that US GDP could have grown by 0.5%-0.6% quarter-on-quarter in Q1 2024, a dynamic figure that coexists with a gradual fading of the inflationary pressures: according to the PCE, the benchmark index used by the Fed, inflation stood at 2.5%

World: inflation
Year-on-year change in the CPI (%)



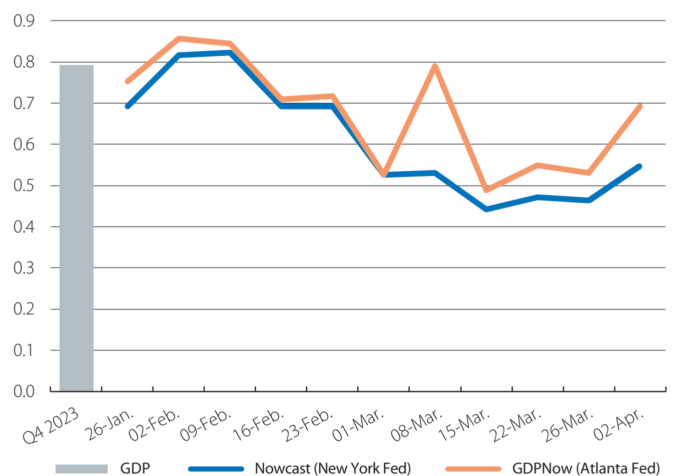
Nota: ** For Q1 2024, estimate based on data to February 2024.*
Source: *BPI Research.*

Employment and unemployment rates
(% of the labour force) *(% of the population)*



Note: *Population aged 16 and over.*
Source: *BPI Research, based on data from the Bureau of Labor Statistics and from Eurostat.*

US: GDP for Q4 2023 and projections for Q1 2024
Quarter-on-quarter change (%)



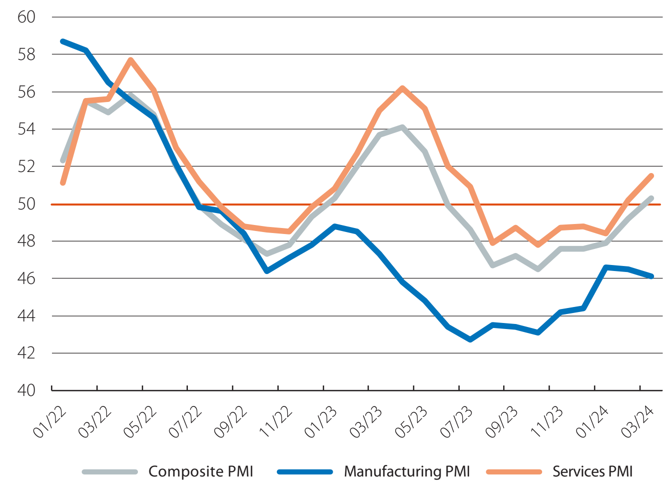
Source: *BPI Research, based on data from the BEA, the New York Fed and the Atlanta Fed.*

(headline) and 2.8% (core) in February. This strength of the US contrasts with the weakness shown by the rest of the major advanced economies. In particular, the United Kingdom fell into a technical recession at the end of 2023, with GDP contracting 0.3% quarter-on-quarter in Q4, and the monthly tracker produced by the country's Office for National Statistics points to a 0.1% decline in January 2024. Japan, for its part, had also entered a technical recession in Q4, but emerged from it with a second GDP estimate that was revised upwards to +0.1% quarter-on-quarter.

The euro area has not yet left behind its sluggish economic activity. Euro area GDP has been fluctuating up and down within the ±0.1% quarter-on-quarter range for five quarters now (since Q4 2022), and the set of indicators for Q1 2024 suggest that this dynamic has continued at the beginning of the current year (the consensus of analysts expects growth of +0.1%). However, there are some indications that hint at an revival of economic activity, such as the recovery of the services PMI to 50.2 points in February and to 51.5 in March (in expansionary territory for the first time since July 2023) and a somewhat less negative manufacturing PMI (above 46 points throughout Q1 2024, which although in contractionary territory represents the best figure since March 2023). This is all thanks to the greater momentum among the countries of the periphery and a degree of improvement in France, while Germany's economic activity remains fragile. Moreover, although some labour market indicators are showing signs of moderation (for instance, the European Commission's employment expectations indicator stood at 102.6 points in March vs. 105.2 on average in 2023), unemployment remains stable and at a low level (6.5% in February), while employment is at peak levels. Taken together with wage growth at around 4% (Indeed.com indicator at 3.9% in February, wages negotiated at 4.5% in Q4 2023), this should facilitate a recovery in purchasing power and, therefore, in demand over the coming quarters. In addition to all this, headline inflation fell to 2.4% in March and core inflation dropped to 2.9% (below 3% for the first time since February 2022) – two dynamics that open the door to a first ECB rate cut in the coming months.

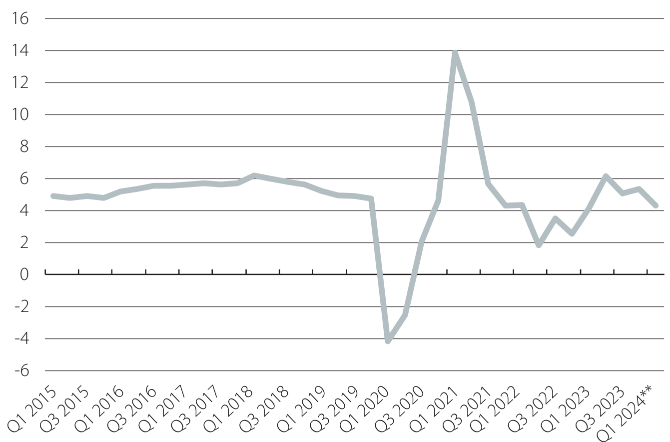
India's growth tops the BRICS, with China giving way to the new leader. The divergence of dynamics among advanced economies is also found in the major economies of the emerging world, where there is significant contrast between the two growth leaders: India and China. India ended 2023 with GDP accelerating to 8.4% year-on-year in Q4, far surpassing forecasts and spurring an improvement in the growth outlook for 2024 according to the analyst consensus. In China, the latest indicators show a more dynamic economic activity than at the end of 2023, thanks to industry and the pull of exports and investment (between January and February, industrial production rose by 7.0% year-on-year and fixed investment by 4.2%). However, Chinese domestic consumption remains somewhat sluggish (retail sales growth slowed to 5.5% year-on-year in January-February, after standing at 7.4% in December) and the crisis in the real estate sector looks set to continue. As a result, the consensus of analysts anticipates that GDP growth for 2024 will fall short of that of 2023 and also somewhat below the 5% target announced by the authorities.

Euro area: PMI
Index



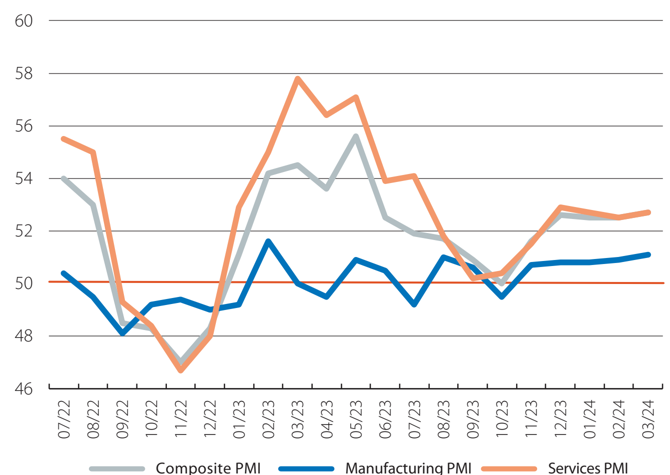
Source: *BPI Research, based on data from S&P Global PMI.*

*BRICS: * GDP*
Year-on-year change (%)



Notes: ** BRICS comprises Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates. ** Q1 2024 forecast according to the Bloomberg consensus.*
Source: *BPI Research, based on data from Bloomberg.*

China: PMI
Index



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

The perception of the economy and its paradoxes

Reality and perception are inseparable, but they do not always reconcile with one another. This is also the case in economics. For example, we know that, as individuals, we systematically have a better assessment of our own personal outlook than that of the economy as a whole. This is illustrated by the first chart.

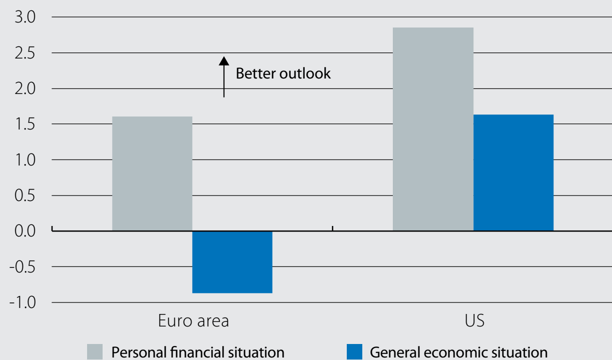
This mismatch of perceptions has taken another twist in recent years. Indeed, it seems that the close historical relationship between economic sentiment among consumers and the main variables that describe the state of the economy has been broken, and this rupture has been particularly documented in the US.[1] As the second chart shows, between 1980 and 2019 just a handful of economic variables (inflation, unemployment, wages, stock market indices, etc.) were able to accurately predict the sentiment of American families. However, since the outbreak of the COVID-19 pandemic, households are much more pessimistic than one would expect given the state of the American economy. The level of pessimism is statistically excessive even given the recent inflation (one of the indicators used to predict sentiment) and especially considering the low levels of unemployment, the robust GDP growth and the fact that stock markets are at all-time highs.

This discrepancy between the economy and sentiment appears to be a persistent legacy of the pandemic, and a rather striking one at that given that the economy has long since normalised. The second chart shows a significant gap (for example, in the last three months, household sentiment is 25% lower than what the state of the economy would suggest) and, as we will see below, it is one without a definitive explanation.[2] Firstly, the gap remains significant when analysing alternative measures of sentiment, such as the Conference Board Consumer Confidence Index (with a gap of 15%, despite the fact that this indicator registered a relatively moderate fall after the pandemic and that, in principle, it assigns greater weight to the performance of the labour market), and even if we distinguish between people's perceptions of their personal financial situation and that of the general economy (both have similar gaps).

1. See «The pandemic has broken a closely followed survey of sentiment», *The Economist* (7 September 2023) and Bolhuis, *et al.* (2024). «The Cost of Money is Part of the Cost of Living: New Evidence on the Consumer Sentiment Anomaly», National Bureau of Economic Research.
2. The gap is not a statistical artifice. The statistical model is estimated using data between 1980 and 2019, so to an extent it is natural that there is a good fit in that period. However, if we estimate the relationship between sentiment and economic indicators only in the period 1980-1990 and then project the sentiment that is predicted «by the economy», there is still a very close fit up until 2019.

Household expectations: 1985-2023

Index



Notes: *Average of two sub-indices referring to «Expectations for the next 12 months» in the period 1985-2023 of the University of Michigan index of consumer sentiment (US) and the European Commission consumer confidence indicator (euro area). Standardised units according to the respective aggregate sentiment indices.*
Source: *BPI Research, based on data from the University of Michigan and the European Commission.*

US: consumer economic sentiment

Index

Notes: *The observed index is the «index of consumer sentiment» developed by the University of Michigan from surveys. The predicted index is estimated using economic variables (inflation, unemployment, exchange rate, stock market, wages and petrol prices) with data up to December 2019.*
Source: *BPI Research, based on internal estimates and data from the University of Michigan and from FRED.*

A second possibility is that households' sensitivity to economic indicators has changed. For example, it could be that when interest rates and inflation are high, they are more relevant to household sentiment. In fact, Larry Summers and co-authors[3] show that incorporating interest rates into the analysis helps to partially bridge the gap.[4] Moreover, if we estimate the relationship between sentiment and the economy in the periods 1980-2019 and 2020-2023 separately, we find indications of a change in sensitivity on the part of households: following the pandemic, good labour market and stock

3. See Bolhouis *et al.* (2024), in footnote 1.
4. But it does not eliminate it. In fact, the gap remains significant (and the ability of rates to narrow it depends on the statistical model used).

market performance appears to have a less positive impact on household sentiment, while the same inflation rate also seems to have a more negative impact in 2020-2023 (although, in this case, the differences in sensitivity between the two periods are fairly small).

A third explanation for the statistically excessive pessimism of households can be found in cognitive biases. On the one hand, surveys show that citizens give highly deviated answers when asked about the value taken by indicators such as the unemployment rate or inflation. Therefore, the excessive pessimism could reflect a deterioration of these biases: we think that inflation or unemployment are higher than they really are, and this leads us to have a worse view of the economy.[5] Similarly, it has been widely documented that biases exist in media coverage of current affairs, with evidence that negative news not only receives more coverage, but also has a higher consumption rate.[6]

Finally, another explanation could simply be that the intensity of the economic turbulence of recent years has been such that households need more time than usual to digest it and that the normalisation of the economy will eventually be reflected in an improvement in sentiment.

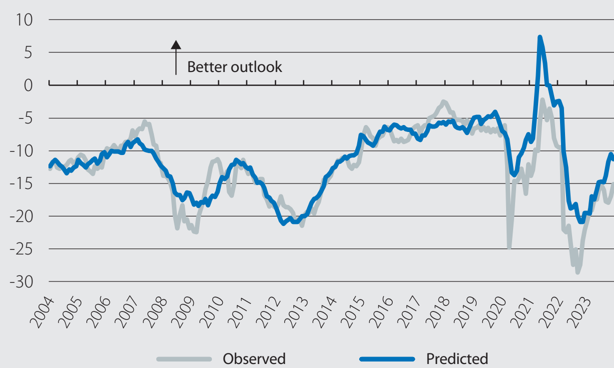
What about Europe?

In Europe, a small set of economic indicators, similar to those in the US, has also been able to accurately reproduce the pulse of consumer confidence. As the third chart shows, a certain gap between the economy and sentiment has also opened up after the pandemic, but it is clearly narrower than in the US. Moreover, the situation varies between countries and the gap is not significant in most of the major euro area economies (see fourth chart).

The fact that the European economy, with an even more challenging economic outlook than that of the US, does not suffer so clearly from this mismatch in sentiment suggests that, perhaps, we should be looking for idiosyncratic explanations in the US. In this regard, the work of Ryan Cummings and Neale Mahoney is rather revealing.[7] They show that 30% of the sentiment gap in the US reflects a partisan bias: Republicans and Democrats have a better (worse) assessment of the economy when their party is in power (in opposition). Moreover, this bias is not symmetrical, as Republicans' perception of the economy deteriorates more when they are in opposition than it does for Democrats.

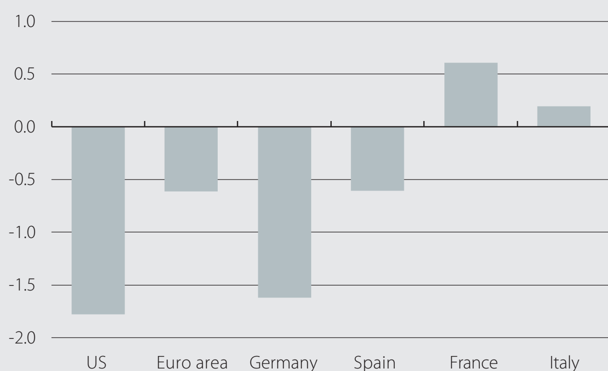
5. According to surveys conducted by the University of Michigan, at the end of 2023 the median consumer estimated that inflation stood at around 6.5% (compared with observed rates of around 3.0%). In contrast, this misperception was much lower prior to the pandemic.
6. See G. Lengauer, F. Esser and R. Berganza (2012). «Negativity in political news: A review of concepts, operationalizations and key findings». Journalism, 13(2), 179-202, and Robertson, Claire E. *et al.* «Negativity drives online news consumption». Nature Human Behaviour 7.5 (2023): 812-822.
7. «Asymmetric amplification and the consumer sentiment gap». Available at www.briefingbook.info.

Euro area: consumer economic sentiment
Index



Notes: *The observed index is the «consumer confidence indicator» developed by the European Commission based on surveys. The predicted index is estimated using economic variables (inflation, unemployment, wages, interest rates and petrol prices) with data up to December 2019.*
Source: *BPI Research, based on internal estimates and data from the European Commission, Eurostat and the ECB.*

Difference between sentiment and economy: S2 2023
*Standardised index **



Note: **The chart shows the average difference between the observed and predicted sentiment in the second semester of 2023, normalised by the historical standard deviation of consumer economic sentiment.*
Source: *BPI Research, based on internal estimates and data from the University of Michigan, FRED, the European Commission, the ECB and Eurostat.*

It's the economy, stupid!

Bill Clinton became US president in 1992 with the slogan *It's the economy, stupid!* coined by his adviser James Carville. In 2024, the biggest election year in history according to many analysts, the (lack of) reconciliation between perceptions and indicators will result in the economy playing a more complex role in the election cycle, if that is at all possible.

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

UNITED STATES

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
Activity									
Real GDP	1.9	2.5	1.7	2.4	2.9	3.1	–	–	–
Retail sales (excluding cars and petrol)	9.3	4.9	7.1	4.0	4.3	4.4	1.5	2.2	...
Consumer confidence *(value)*	104.5	105.4	104.5	105.4	109.0	102.7	110.9	104.8	104.7
Industrial production	3.4	0.2	0.9	0.0	–0.1	0.1	–0.3	–0.2	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	47.2	46.7	47.6	46.9	49.1	47.8	50.3
Housing starts *(thousands)*	1,551	1,423	1,385	1,450	1,371	1,485	1,374.0	1,521.0	...
Case-Shiller home price index *(value)*	307	312	302	308	316	321	322	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.5	3.6	3.7	3.7	4	4	...
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.3	60.3	60.4	60.3	60.2	60	...
Trade balance[1] *(% GDP)*	–3.8	–3.1	–3.5	–3.2	–3.0	–2.9	–2.8	...	...
Prices									
Headline inflation	8.0	4.1	5.8	4.0	3.5	3.2	3.1	3.2	...
Core inflation	6.2	4.8	5.6	5.2	4.4	4.0	3.9	3.8	...

JAPAN

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
Activity									
Real GDP	1.0	1.9	2.6	2.3	1.6	1.2	–	–	–
Consumer confidence *(value)*	32.2	35.1	32.2	35.9	36.2	36.3	38.0	39.1	...
Industrial production	0.0	–1.4	–1.8	0.9	–3.6	–0.9	–3.1	–6.3	...
Business activity index (Tankan) *(value)*	9.5	7.0	1.0	5.0	9.0	13.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.6	2.6	2.6	2.6	2.5	2.4	2.6	...
Trade balance[1] *(% GDP)*	–2.1	–3.0	–3.9	–3.6	–2.7	–1.8	–1.3	–1.2	...
Prices									
Headline inflation	2.5	3.3	3.6	3.4	3.1	2.9	2.1	2.8	...
Core inflation	1.1	3.9	3.5	4.2	4.3	3.9	3.5	3.2	...

CHINA

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
Activity									
Real GDP	3.0	5.2	4.5	6.3	4.9	5.2	–	–	–
Retail sales	–0.8	7.8	5.8	10.7	4.2	8.3	...	5.5	...
Industrial production	3.4	4.6	3.2	4.5	4.2	6.0	...	7.0	...
PMI manufacturing *(value)*	49.1	49.9	51.5	49.0	49.7	49.3	49.2	49.1	50.8
Foreign sector									
Trade balance[1,2]	899	866	948	946	901	866	854.7	877.1	...
Exports	7.1	–5.1	0.1	–5.4	–10.8	–3.3	5.3	2.9	...
Imports	0.7	–5.5	–7.2	–7.0	–8.5	0.8	15.4	–8.2	...
Prices									
Headline inflation	2.0	0.2	1.3	0.1	–0.1	–0.3	–0.8	0.7	...
Official interest rate[3]	3.65	3.45	3.7	3.6	3.5	3.5	3.5	3.5	3.5
Renminbi per dollar	6.7	7.1	6.8	7.0	7.2	7.2	7.2	7.2	7.2

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
Retail sales *(year-on-year change)*	1.0	–1.7	–2.6	–1.9	–1.8	–0.7	...	...	...
Industrial production *(year-on-year change)*	2.1	–2.2	0.7	–1.0	–4.8	–3.8	–6.7	...	...
Consumer confidence	–21.9	–17.4	–26.9	–26.9	–26.9	–26.9	–16.1	–15.5	–14.9
Economic sentiment	102.1	96.4	96.5	96.5	96.5	96.5	96.1	95.5	96.3
Manufacturing PMI	52.1	51.2	48.2	44.7	43.2	43.9	46.6	46.5	46.1
Services PMI	52.1	52.1	52.8	54.4	49.2	48.4	48.4	50.0	51.1
Labour market									
Employment (people) *(year-on-year change)*	2.3	1.4	1.7	1.4	1.4	1.2	–	–	–
Unemployment rate *(% labour force)*	6.7	6.5	6.6	6.5	6.5	...	6.5	6.5	...
Germany *(% labour force)*	3.1	3.0	2.9	2.9	3.0	...	3.2	3.2	...
France *(% labour force)*	7.3	7.4	7.1	7.4	7.4	...	7.5	7.4	...
Italy *(% labour force)*	8.1	7.7	7.9	7.7	7.6	...	7.3	7.5	...
Real GDP *(year-on-year change)*	3.5	0.5	1.3	0.6	0.1	0.1	–	–	–
Germany *(year-on-year change)*	1.9	–0.1	–0.1	0.1	–0.3	–0.2	–	–	–
France *(year-on-year change)*	2.6	0.9	0.9	1.2	0.6	0.7	–	–	–
Italy *(year-on-year change)*	4.2	1.0	2.3	0.6	0.5	0.6	–	–	–

Prices

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
General	8.4	5.5	8.0	6.2	5.0	2.7	2.8	2.6	2.4
Core	3.9	5.0	5.5	5.5	5.1	3.7	3.3	3.1	3.0

Foreign sector

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
Current balance	–0.6	4.5	–0.4	0.3	2.0	4.5	10.3	...	...
Germany	4.3	12.1	4.3	4.8	7.8	12.1	25.2	...	...
France	–2.0	–2.5	–1.9	–1.8	–1.9	–2.5	–5.0	...	...
Italy	–1.6	1.0	–1.5	–1.1	0.1	1.0	3.2	...	...
Nominal effective exchange rate [1] *(value)*	**90.9**	**94.7**	**93.4**	**94.6**	**95.9**	**95.1**	**95.2**	**95.0**	**95.6**

Credit and deposits of non-financial sectors

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
Private sector financing									
Credit to non-financial firms [2]	6.7	2.7	5.7	4.0	1.1	0.1	0.2	0.4	...
Credit to households [2,3]	4.4	1.7	3.2	2.1	1.0	0.5	0.3	0.3	...
Interest rate on loans to non-financial firms [4] *(%)*	1.8	4.6	3.8	4.5	5.0	5.2	5.1	...	...
Interest rate on loans to households for house purchases [5] *(%)*	2.0	4.4	3.7	4.3	4.7	4.9	4.8	...	...
Deposits									
On demand deposits	6.3	–8.5	–3.9	–8.1	–11.3	–10.7	–9.9	–8.9	...
Other short-term deposits	4.5	21.1	17.6	22.5	23.2	21.0	19.8	18.8	...
Marketable instruments	3.7	20.4	19.4	22.0	20.4	19.9	22.4	17.6	...
Interest rate on deposits up to 1 year from households *(%)*	0.5	2.7	1.9	2.5	3.0	3.3	3.2	...	...

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.*

2024 starts stronger than expected

Indicators for Q1 suggest that activity is stronger than anticipated at the end of last year. The indicators that give us a more complete outlook for Q1 suggest that quarterly growth in this period could exceed our forecast of 0.4% quarterly growth. The daily activity indicator from the Bank of Portugal shows average year-on-year growth of 5.8% in Q1 (data available up to 20 March), a slight acceleration compared to Q4 23. Meanwhile, the economic climate indicators - which summarise sentiment in industry, retail, other services and construction - and the European Commission's economic sentiment indicator also showed positive behaviour compared to Q4. If the stronger behaviour of these indicators is reflected in more growth in Q1 than anticipated by BPI Research, it will skew the risks to our forecast of 1.6% growth for the year as a whole upwards. The Bank of Portugal recently revised its macroeconomic scenario, putting annual growth in 2024 at 2%, 0.4% more than our forecast. Notwithstanding, from a medium-term perspective, accumulated growth in the 2024-26 period remains at 6.6%, the same as that implied in the BPI Research scenario.

Uneven disinflation. In March, Global CPI rose again to 2.3% (2.1% in February). The same happened with the underlying inflation index, which excludes the most volatile categories, to 2.5% (2.1% in February). In the case of the underlying CPI, this breaks a streak of 12 consecutive months of decline. March is typically the month of the year with the strongest monthly change in the price index and, in the case of underlying inflation, this increase (2.39%) was higher than the average recorded between 2015 and 2019 (2.23%). On the energy front, meanwhile accumulated rises in the price of Brent crude in the first three months of the year also did no favour to the disinflationary process as a whole. The monthly price increase in food products, which runs against normal seasonality, could also raise the possibility of some out-of-date updates that may have occurred outside the scope of the end of the Zero VAT measure, for reasons of commercial strategy on the part of the large retailers. In short, the road to average inflation of 2% is bumpy and gradual and may well take us beyond 2024.

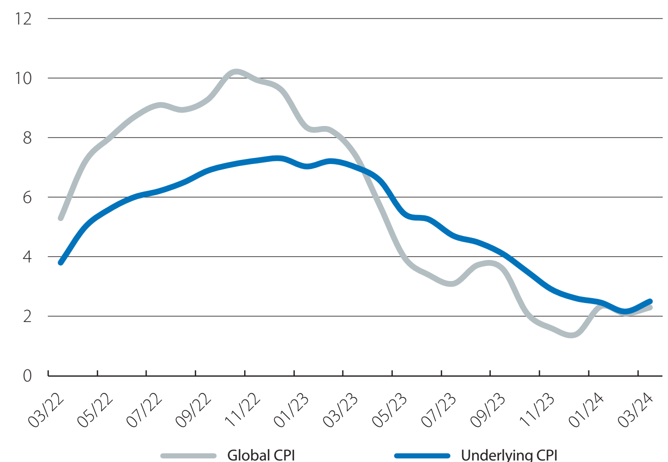
Housing prices rise 8.2% in 2023. With the release of the 4Q data by INE (year-on-year change of 7.8%), the average increase in house prices in 2023 was 8.2%. Last year a total of 136,400 homes were sold, 18.7% less than in 2022. Looking ahead to 2024, the available data continues to point to an increase in prices. The value per square metre of bank appraisals for mortgage loans rose in the first two months of the year (+5.5% year-on-year in February), while data from the Residential Price Index also points to an increase in prices (having increased by 1.5% in February compared to the end of 2023). So although we expect activity as a whole to be less dynamic in 2024, we continue to believe that this market will remain strong and that prices will increase by around 3.5%.

Public accounts close 2023 with a flourish. The budget surplus of 1.2% of GDP exceeded the government's and BPI Research's estimates (0.8% and 0.7% respectively) and compares very favourably with that recorded in 2022 (–0.3%), given that revenue growth (9.0%) was higher than

		4Q 2023	1Q 2024	Last month available
Synthetic indicators	Economic climate indicator	1.2	1.8	March
	Economic sentiment indicator	95.7	99.5	March
	Daily economic activity indicator	5.5	5.8	March *
Consumption	Confidence indicators	–28.2	–23.6	February
	Retail sales	0.5	0.4	February
	Retail sales excl. Fuel	0.8	0.9	January
	Number of cars sold (monthly average)	15,422	18,124	February
	Car sales	7.9	17.4	February
Investment	GFCF indicator	3.1	–	December
	Imports of capital goods (accum. year)	2.8	1.4	January
Supply	Cement sales	3.6	13.8	February
	Industrial production	–2.3	–1.3	January
Unmet	Electricity consumption corrected for temperature&working days	3.6	2.4	February
	No. of non-resident tourists (yoy 2019)	13.4	5.9	January
	Number of flights (yoy)	7.2	1.7	February
Retail external	G&S exports (accum. year)	5.0	–	December
	G&S imputs (accum. year)	–1.6	–	December
Labour market	Change in registered unemployment (thousand people)	13.5	14.2	February
	Variation in employment (thousands of people)	79.0	97.8	January

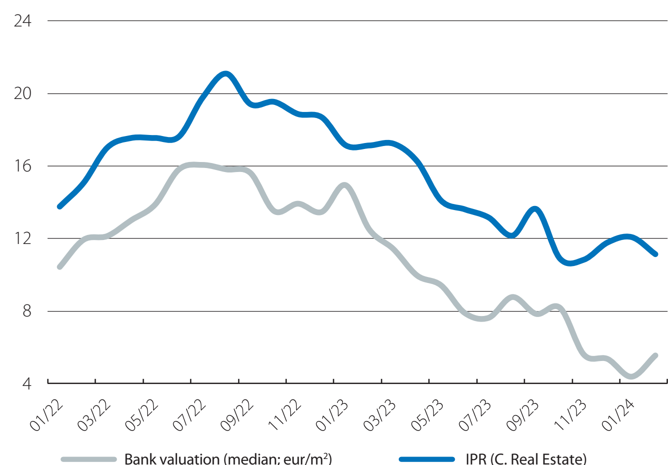
Note: ** Data available until March 20th.*
Source: *BPI Research.*

CPI
Y-o-Y Var. (%)



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

Bank valuation of housing and the Residential Price Index
Y-o-Y Var. (%)



Source: *BPI Research, based on data from the Institute of National Statistics and Confidencial Imobiliário.*

expenditure growth (5.2%). In the first case, tax and social security revenue particularly stands out, which, unsurprisingly (the monthly figures already signalled this) contributed around half of the increase in total revenue and exceeded the government's latest forecast by more than 1 billion euros. In addition, capital revenue increased significantly due to European funds, particularly from PRR. Among expenditure items, the biggest contributions came from staff costs, social benefits and interest, with the latter item recording a positive variation for the first time since 2014. After the increase in some expenditure items during the pandemic, the vast majority have returned to GDP weights similar to those of 2019, with current primary expenditure (the key indicator of rigid expenditure) lower than in 2019. The opposite behaviour is seen in tax and contributory revenue, whose weight in GDP increased by almost 1% compared to the pre-COVID period. In this context, the public debt ratio fell by 17.5% compared to 2019, to 99.1%, the lowest ratio since 2009.

2023 ended with an external surplus equivalent to 2.6% of GDP, helping to reduce the economy's still high level of external indebtedness. Public administration was the sector that contributed most to the surplus, recording a financing capacity of 1.2% of GDP, followed by households, which recorded an improvement of 0.4% compared to 2022, with a surplus equivalent to 1% of GDP. Non-financial companies reduced their financing needs to 2% of GDP, 0.3% less than in 2022, reflecting the 8.1% growth in gross operating surplus and a more moderate growth in GFCF, which increased by 3.8% in 2023 (15% in 2022). For their part, financial corporations improved their surplus to 2.5% of GDP, 0.9% more than a year ago, benefiting largely from the improvement in the intermediation margin resulting from the change in the ECB's monetary policy. The household savings rate remained at 6.3% in 2023, reflecting similar growth rates in disposable income and consumption. Although the savings rate remains close to historic lows, its evolution hides families' decisions to use their surplus savings to amortise home loans. In 2023, this totalled 11.689 billion euros, suggesting that in 2024 household budgets will be under less interest pressure and will be able to allocate a more significant portion of their disposable income to consumption and/or boosting savings.

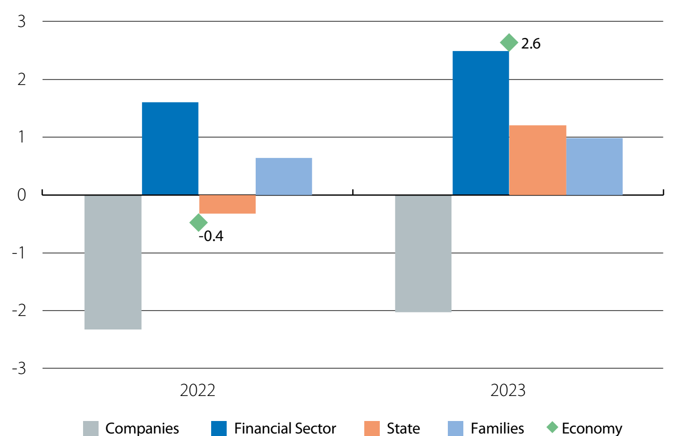
The signs of deteriorating credit quality are sparse, but nevertheless striking. The total NPL ratio fell again at the end of last year, from 3.0% at the end of 2022 to 2.7%, a trajectory followed by practically all segments, except mortgage loans. In fact, in this case, the ratio increased slightly (+0.2%), to 1.3%, still far from what was recorded at the end of 2019 (2.4%) or even the maximum (7.4%) marked at the beginning of 2016. On the other hand, the ratio of stage 2 loans (i.e. loans whose credit risk has increased significantly compared to the start of the contract) rose by 0.4% to 10.7% at the end of the year, with increases in the case of housing and consumption & other purposes (+2.3 and +1.6%, to 9.8% and 12.4%, respectively). Despite this behaviour, the increase is contained when compared to the historical record. Meanwhile, the credit portfolio shows signs that the worst is over. The mortgage loan portfolio fell less in February than in the previous month (–1.2% year-on-year, compared to –1.5%), as did non-financial companies (–2.0% compared to –2.6% in January). For its part, the consumer credit portfolio maintained the dynamism shown at the start of the year (+3.8 per cent year-on-year).

Main items in the public accounts
(% GDP)

	2019	2023	Variation 2023-2022		Variation compared to the 2024 State Budget
			YOY%	Contributions	
Current revenue	42.2	42.6	8.1	8.0	924
Tax and contributory revenue	36.6	37.5	8.7	7.5	1,135
Capital income	0.4	0.9	68.9	1.0	–354
Total revenue	**42.6**	**43.5**	**9.0**	–	**564**
Intermediate consumption	5.1	5.3	5.0	0.6	–406
Personnel expenses	10.8	10.5	7.6	1.8	14
Social benefits	18.1	17.5	3.4	1.4	–472
Interest	3.0	2.2	23.3	1.0	84
Investment	1.8	2.6	17.5	1.0	–579
Total expenditure	**42.5**	**42.3**	**5.2**	–	**–438**
Primary current expenditure *	36.7	36.3	3.7	3.2	–354
Overall Balance	**0.1**	**1.2**	–	–	**1,003**
Public debt	**116.6**	**99.1**	–	–	–

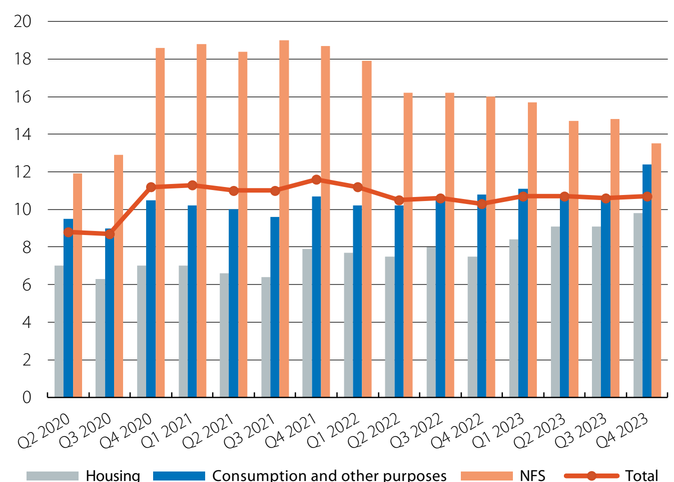
Source: *BPI Research, based on data from INE and OGE 2024 (latest forecasts available for 2023 public accounts).*

Financing capacity of the economy
(% of GDP)



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

Stage 2 loan ratio, by segment
(%)



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

The Portuguese property clock: contraction does not have an appointment

At this time of year, in 2023, we anticipated a slight correction in residential real estate prices: an average change of –0.2% over the year followed by near stagnation in 2024 (+0.1%). Combining what was already happening at the time - a very significant year-on-year reduction in the number of transactions - with the fact that the ECB is still raising its benchmark interest rates to the current level, the outlook for a price adjustment was justified, as was the case in other developed markets. This scenario of course did not prove to be the case - the average price change in 2023 was +8.2% and transactions fell by –18.7%, placing the dynamics of the residential real estate market in what we call a slowdown context (see graph): reduced sales but increased prices. In fact, real estate prices appreciated less than in the previous six years, but continued to appreciate robustly.

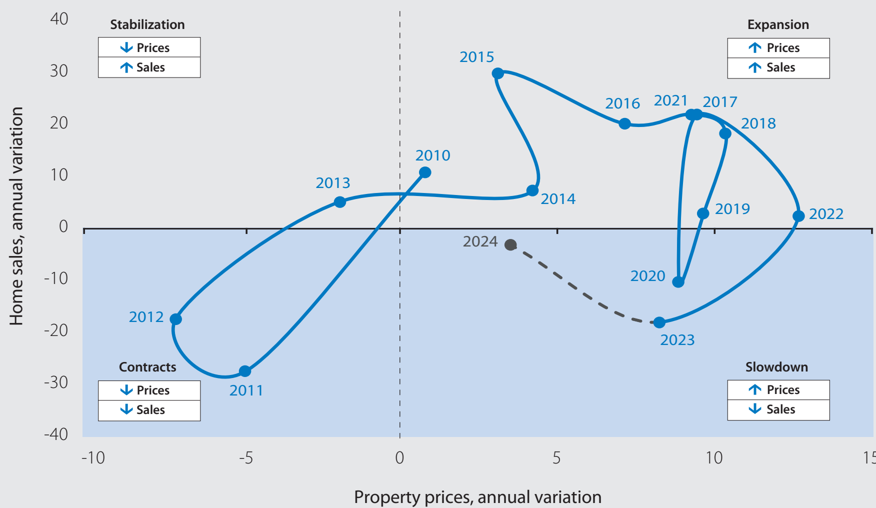
Several factors lay behind this. The economy grew more than expected and the labour market was resilient, with unemployment at very low levels. Despite the significant reduction in sales compared to 2022, the quarterly average of transactions over the past year is equivalent to that of the period between 2015 and 2022 (around 34,000 homes/quarter). In other words, fewer sales than the highs, but still at high levels. We also know, according to data from the Bank of Portugal, thatmortgage loans made in recent years represent a significant slice of the total stock of loans and are mostly made to households in the upper income groups. They are therefore less exposed to the erosion of net disposable income caused by the inflationary surge of recent years.

Looking ahead, we anticipate a further slight drop in sales this year (–4.2%), with prices also growing more moderately (+3.5%). On the one hand, the major macroeconomic support factors should weaken - we expect lower GDP growth and a slight increase in the unemployment rate. On the other hand, although we project interest rates to remain above pre-pandemic levels, we also expect them to fall. Lower interest rates and greater visibility about the beginning of rate cuts by the ECB will bring greater confidence to agents in this market and improve affordability metrics. Add to this the continuation of positive migratory balances, resilient demand, and a supply of properties that remains contained, we see the market remaining solid. On the other side of the scales, there may be some uncertainty in the political field or legislative measures that will affect the fundamentals of this market, although the tangible effects of these initiatives are usually somewhat delayed.

This beginning of the year has revealed some encouraging data, with alternative sources to INE showing that prices continue to rise and that new mortgage loans are also booming - 1.184 billion euros were contracted in January, more than 23% higher than in the same month in 2023. In this way, we move the «hands of the property clock» away from the contraction scenario and for 2024 place it in the same quadrant as this year: that of deceleration.

Tiago Belejo Correia

Property watch
(Annual variation, %)



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

Industry, a sector struggling to get back on its feet

In 2023, the industrial sector had one of its worst performances in the last decade, reflecting the disruptions in global supply chains, the rise in the price of energy products, consumers' greater appetite for purchasing services rather than goods and, more recently, the tightening of monetary policy[1] and the reduction in demand associated with rising financing costs.

In 2023, the value added generated by the industrial sector contracted by 1.8%, remaining 1.3% below the pre-pandemic level, putting the weight of the GVA generated by the sector at 17% of the total GVA generated by the economy, 1 percentage point less than the historical average weight of the sector.

In the same direction, industrial production contracted by 2.8% compared to the previous year, remaining around 3.5% below the five years prior to the pandemic.

Looking at the main groupings, the loss of momentum in the industrial sector reflects the falls in production in the sectors that mostly produce intermediate goods - used in the production of consumer and investment goods - and goods intended for consumption. Taken together, these two large groups – intermediate goods and consumer goods – represent around 68% of industrial production.

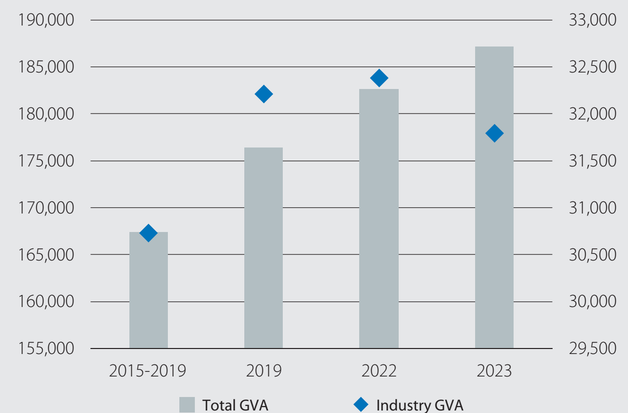
The change in monetary policy, both in the extent of the increase in key interest rates and in the speed of the process, will have had a negative impact on industrial activity, as it is typically more capital-intensive than the services sector and is therefore more exposed to changes in financing conditions in investment and production decisions. In addition, household consumption of industrial goods, particularly durable goods, is more often dependent on the use of credit than the consumption of services.

Looking at the results of business surveys, they show a reduction in demand and an accumulation of *stocks*, which explains the weakening of production in the industrial sector. Indeed, the responses to these surveys show that demand for goods produced in the manufacturing industry is well below that seen in the previous five years. The movement was identical in all sectors, but more pronounced in the production of intermediate and consumer goods, in line with the slowdown in private consumption, partly explained by a normalisation of consumption dynamics (changed in the periods immediately after the reopening of the economy in the post-Covid period), but possibly also by a greater appetite for the consumption of services (such as tourist services like accommodation, restaurants, transport), whose demand will have been boosted by the end of the restrictions associated with the pandemic.

At the same time, the evaluation of *stocks* shows that they are much higher than was typical in the five years before the pandemic, limiting progress in boosting production.

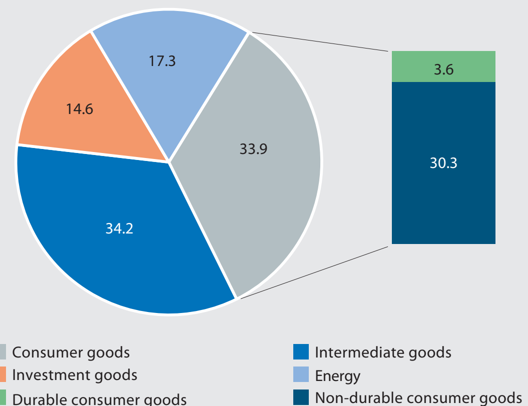
1. In the article «Analysis of the impact of monetary policy on GVA by sector of activity», published in the December 2023 Economic Bulletin by the Bank of Portugal, it is concluded, based on a BVAR (Bayesian Vector Autoregressive) model, that the shock associated with the tightening of monetary policy is greater and more immediate in the industrial sector than in the services sector. In the article, the authors estimate that while in services the impact is –0.22% after nineteen quarters, in industry it is –0.25% after six quarters.

GVA at constant prices
(Millions of euros)



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

Aggregates of the industrial production index
(% of total index)



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

Industry surveys
Weighting (%)

		Industrial sector	Consumer goods	Investment goods	Intermediate goods	Manufacturing of motor vehicles	Other goods of equipment
		100	40.6	17.5	41.0		
Global demand	2015-2019	–7.1	-7.3	–4.6	–6.5	–4.6	–6.3
	2023	–18.0	–16.8	–9.8	–22.5	4.3	–13.5
	2024	–17.2	–19.1	–9.0	–19.3	2.5	–11.8
Stock of finished products	2015-2019	2.6	1.9	1.2	3.2	1.9	1.0
	2023	6.3	5.9	0.9	8.9	1.7	0.7
	2024	6.4	5.5	2.0	9.0	0.0	2.5
Most important obstacles (the sum of the various obstacles is equal to 100%)							
Insufficient demand	2015-2019	47.5	51.7	55.2	41.8	92.3	49.0
	2023	42.2	44.7	29.3	46.0	2.2	36.7
	2024	54.0	58.5	34.8	59.1	0.0	43.2
Difficulties in hiring qualified personnel	2015-2019	12.9	13.9	18.7	10.7	0.5	23.4
	2023	16.2	17.7	18.7	14.2	0.1	23.7
	2024	14.6	13.2	27.4	10.2	0.3	34.0
Insufficiency of materials and/or equipment	2015-2019	15.6	7.6	4.7	24.6	0.0	6.3
	2023	16.5	14.0	34.4	10.5	62.2	27.7
	2024	6.8	9.1	12.8	2.6	1.1	15.6
Treasury difficulties	2015-2019	5.6	7.0	4.7	4.9	0.0	5.8
	2023	9.5	7.6	2.3	14.0	0.0	3.0
	2024	11.4	5.8	2.1	19.4	0.0	2.6
Difficulties in obtaining bank credit	2015-2019	1.7	1.1	4.7	1.3	0.0	5.6
	2023	0.9	0.9	1.4	0.6	0.0	1.8
	2024	0.8	1.0	0.4	0.9	0.0	0.5
Other obstacles	2015-2019	16.8	18.7	12.0	16.6	7.1	9.8
	2023	14.7	15.2	13.8	14.6	35.5	7.2
	2024	12.3	12.5	22.6	7.8	98.6	4.1

Note: *For 2024, information on demand and stocks covers January and February; for obstacles, surveys are collected quarterly and the last response is in January.*
Source: *BPI Research based on data from Institute of National Statistics.*

What to expect for 2024?

It is possible that there will not be significant changes in the short term, particularly in the downward trend in production, as financing conditions remain restrictive, limiting investment and production and conditioning consumption decisions by families. Then there is the need for sectors with the largest *stocks* to dispose of their stored production before reinitiating production. However, the prospect of a gradual relaxation of financing conditions and the disposal of finished products mean that the industrial sector will gradually gain some strength and may recover some of the losses suffered in recent years, although perhaps not all of them, both because of the end of the very low interest rate environment and because of a greater appetite for consumption of services.

Teresa Gil Pinheiro

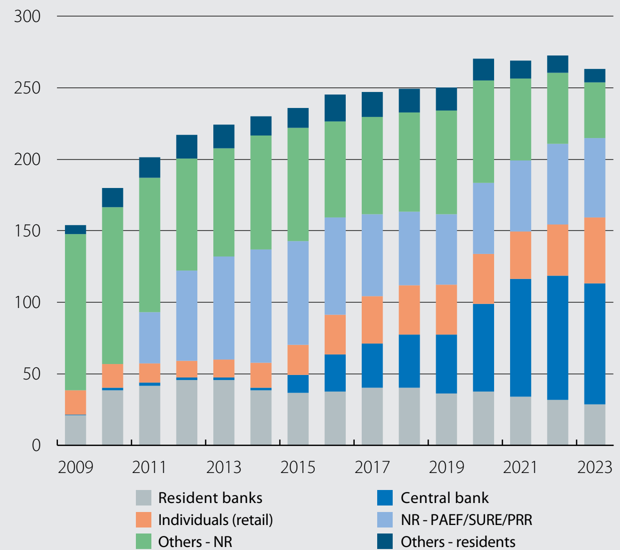
Challenges and prospects for Portuguese public debt: reflections on the withdrawal of the ECB

Yields on public debt (and other instruments) vary in the opposite direction to the value of bonds. More specifically, when *yields* increase, the value of bonds decreases; when *yields* decrease, the value of bonds increases. This dynamic affects investors' decisions and is important for understanding how the markets assess a country's economic strength. As far as Portugal is concerned, public bonds have become more expensive than those of other European partners. But what explains this dynamic? Explaining why Portuguese public debt securities are more expensive than those of other European partners is akin to explaining why the interest rates Portugal pays to finance itself are lower. We suggest three perspectives for analysing this issue.

Initially, it is important to look at the macroeconomic context. On this point, Portugal has recovered significantly in the post-pandemic period (almost 6% since the end of 2019), standing out from the average recorded for the Eurozone (3%) and the main economies in the region (for example, Germany grew by just 0.1%).

A second perspective concerns the budgetary component. In this regard, the commitment to consolidating public accounts stands out, which has allowed positive primary balances to be achieved in recent years (except during the pandemic). In 2023, Portugal returned to a budget surplus and, at the time of writing this article, the outlook is that this will be the new fiscal normal in the coming years (this commitment is extended to the main political parties, which helps to consolidate this expectation). A context of notable economic growth, fiscal consolidation and other effects[1] have made it possible to bring the public debt ratio below 100% of GDP in 2023, which hadn't occurred since 2009. Such consolidation of public accounts in the post-pandemic period is distinctive among other Eurozone countries: for example, with regard to the public debt ratio, Portugal's reduction (of 4.2% in 2022 compared to 2019) was the fourth largest, clearly different from that observed for the euro area as a whole (with an increase of almost 7% compared to pre-pandemic period).[2]

Holders of Portuguese public debt
(Billions of euros)



Source: *BPI Research, based on data from Banco de Potrugal and IGCP.*

The consolidation of public accounts (in addition to other factors that are also relevant, such as the significant growth of the economy, the reduction in private debt, and the greater strength of the banking sector) has been decisive in the appreciation of the country's risk, with Portugal being placed at risk level A according to the assessment of all the *rating* agencies.

Finally, the change in the structure of public debt holders. Another reason for the increase in the value of Portuguese public debt securities is the lower volume of debt in circulation on the markets. Indeed, in 2023, Portugal issued around 8.7 billion euros less in Treasury Bonds and Treasury Bills, reducing the outstanding balance of these instruments by almost 7 billion euros. The restrained use of the market is explained by the significant increase in the placement of public debt retail products, namely Savings Certificates. Subscriptions (net of interest) to retail products exceeded 9.6 billion euros last year, fully offsetting the lower issuance of securities on the market. This has led to public debt held by private residents rising from 13% in 2022 to around 17% at the end of 2023 (it was even lower in 2010, at around 9%; see graph). This compares with around 2% in the case of Spain, for example. This is also a very particular issue with Portuguese public debt: in total, between private individuals, the central bank and official creditors (i.e. loans under the Financial Assistance Programme), the share of debt outside the market was over 70% at the end of 2023 (compared to around 10% in 2010).

1. The reduction in public debt in 2023, in terms of both its ratio and in absolute value, is explained by various factors, including early repurchases of public debt from banks and insurance companies, and the high allocation in CEDIC (Special Short-Term Public Debt Certificates), debt excluded from the Maastricht perspective (which increased by more than 8.4 billion euros in 2023).
2. At the time of writing, there was still no information on public accounts data for 2023 for the Eurozone as a whole. In Portugal, we know that the public debt ratio fell 17.5% compared to 2019.

What impact should we expect from the ECB's withdrawal?

The ECB's intervention in the debt markets will fall, with the gradual reduction of its balance sheet.[3] The question is what impact this might have on Portugal's financing. The Treasury's financing strategy for 2024, approved in mid-December last year and recently updated, includes the gross issuance of around 20.7 billion euros in securities, mainly medium and long-term instruments. This year's expected market issuance exceeds that recorded in 2023 (by around 4.38 billion euros), but falls short of the amount issued in 2022 (by around 4.31 billion euros).

In turn, around 8.5 billion euros of medium and long-term securities will mature this year, part of which will be related to securities held by the ECB, i.e. related to the total and/or partial end of reinvestments of securities that are reaching maturity. More specifically, for 2024, net purchases of Portuguese public debt should be negative by 2.3 billion euros according to the IGCP,[4] i.e. the equivalent of around 3% of the debt held by the ECB at the end of 2023 (in 2023, net purchases were around –3 billion euros). In this context, we estimate that the debt held by the central bank will fall from around 32% of GDP in 2023 to around 30% this year, similar to that recorded in 2020.

This means that Portugal will have to place around 9.8 billion euros of medium and long-term public debt securities with private investors, something that shouldn't pose any major challenges. Interest rates are expected to remain high compared to recent history (recall that in 2019, pre-pandemic, the average interest rate on 10-year OT on the financial markets was less than 1%, which compares with rates of around 3% forecast for 2024), which should continue to be attractive to investors in Portuguese government bonds. This appetite for Portuguese public debt is corroborated by recent bond issues, where demand was almost twice as high as supply, a dynamic also seen in other countries such as Spain. In addition, IGCP has now issued around 50% of the total medium and long-term debt planned for the year as a whole.

At the same time, the placement of Portugal's *rating* in the «A» risk bracket by the main *rating* agencies opens up the possibility of widening interest on the part of institutional investors who invest in debt from countries with lower risk. In addition, Portugal could be included in the FTSE World Government Bond Index later this year, an index that only includes sovereign bonds with an A *rating*.

Diversifying the investor base is very positive for reducing the Portuguese government's financing costs (different investors have different attitudes towards risk and different investment horizons), reducing vulnerability to external shocks and, consequently, promoting financial stability, and increasing liquidity in the debt market, making it more attractive.

In short, Portugal's structural developments have allowed it to compare more favourably with other European partners in terms of the cost of financing. Given this context, the gradual withdrawal of the ECB should not put additional pressure on the Portuguese government's cost of financing. However, it should be borne in mind that markets can quickly change their perception of the evolution of economies and, in the near future, the challenges (in terms of, for example, the ageing of the population, the normalisation of economic activity and price growth) will contribute to increasingly gradual improvements in the reduction of some important ratios in the assessment of Portugal's performance (such as the public debt ratio and the budget balance), which could take the shine off the country's recent performance.

Vânia Duarte

3. Regarding the APP, the ECB has not been reinvesting securities that reach maturity since July last year. As far as the PEPP is concerned, between April 2022 and June 2024, the ECB reinvests 100% of the securities that reach maturity, but between July and December 2024, the ECB will let 7.5 billion euros mature per month, accelerating in 2025 with zero reinvestments.
4. According to the information disclosed in the investor presentation of March 2024.

What's happening in commercial property in Portugal?

Our articles about the real estate market usually focus on the residential segment. This is primarily due to the importance of mortgage loans in Portuguese banking assets, operations where these properties appear as collateral, making it essential to correctly evaluate and monitor price developments. However, the ECB recently highlighted[1] a persistent decline in commercial real estate prices in Europe, exacerbated by a market with a dramatic drop in transactions of 47% in the first half of 2023 compared to the same period in 2022. In this article we intend to give an overview of how this market has evolved in Portugal, especially in terms of prices, and try to envision how it will evolve in the near future.

The relationship between residential and commercial real estate

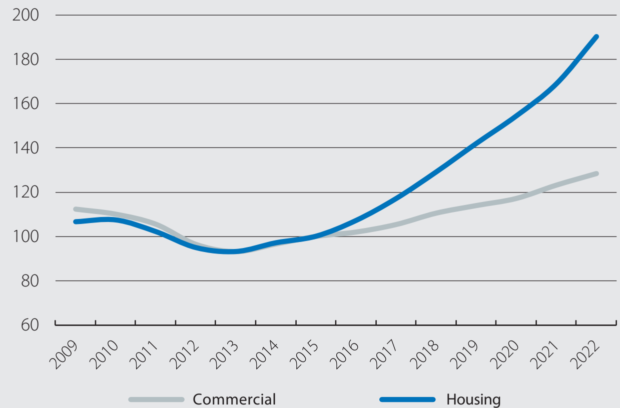
When we look at the indices produced by INE for housing prices (IPH) and commercial property prices (IPPCom), we can see that there is a strong correlation.[2] Let's take a look at the first graph: the curves evolve in a very similar way until 2015. Then, in the post-troika period, the common trend is one of appreciation, much stronger in the residential market. The last year in which the annual price variation was negative was also the same in both segments - 2013 - with a devaluation of –3.4% for commercial properties and –1.9% for residential properties.

The main reason for this correlation lies in one of the major *drivers* common to both segments - interest rates. Lower interest rates mean higher asset prices (in this case, real estate) and vice versa. In the residential property market, higher interest rates reduce borrowers' accessibility to mortgage loans by increasing the effort rate, tending to reduce demand. In the commercial property market, a general increase in interest rates is making it more expensive to finance investment operations. These operations, which are usually accompanied by leverage, become less attractive compared to other alternatives. An investor in commercial real estate will therefore be looking for higher yields (which requires an increase in associated rents, a moderation in asset prices, or both) to make these investments attractive. Despite this similarity on the financial side, the basic fundamentals for buying a home or investing in and trading commercial real estate are quite different. Housing first and foremost satisfies the basic need for a place to live., In commercial real estate, in addition to the pure investment component, there are the underlying needs of the businesses that will occupy the spaces, which are very different depending on the sector of activity. In other words, there is a range of very different activities occupying commercial real estate and idiosyncrasies specific to each segment, starting with the two large blocks: services and retail. Obviously, the fundamentals for investing in and making a profit from a student residence will be different from those of a *retail park*.

1. Financial Stability Review, November 2023 – ECB.
2. Correlation coefficient of 92.4%.

Commercial property price index

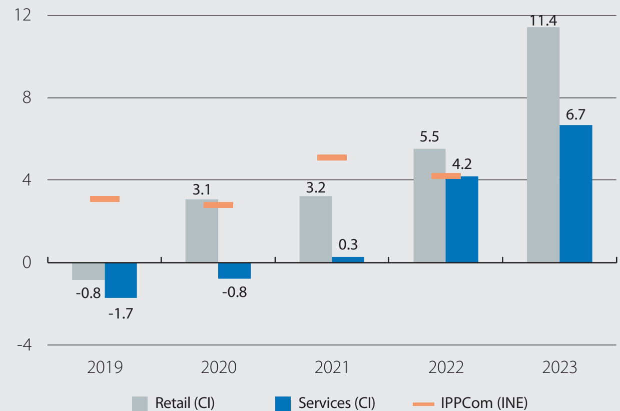
2015 = base 100



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

Commercial real estate price index

Annual average appreciation (%)



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

Commercial real estate in 2023

INE only provides data on IPPCom on an annual basis,[3] making it difficult to monitor the market. Therefore, in order to assess recent developments, we used information from alternative sources. In this case, Confidencial Imobiliário (CI) publishes indices for Services property prices and Retail property prices.[4] What we can see, with

3. Normally in May, reporting on the year immediately previous.
4. These indices follow the appreciation in the Retail and Services segments, based on sales information gathered from the panel of operators associated with CI and who report information on this type of asset. The indices are calculated based on stratification methodologies.

data that covers the whole of 2023, is that last year continued to see appreciation, even in a context of rising interest rates. Although it doesn't cover the entire market and all types, CI's data suggests that commercial properties have continued to appreciate in value, even more strongly than in 2022, although with greater intensity in Retail properties than in Services.

Another source of data is the large real estate services consultancies. In this case, JLL reports some interesting data for 2023,[5] with a very significant drop in the volume of capital invested up to Q3 2023 (–48% compared to the average of the last 5 years), which is inseparable from the increase in interest. Investments in hotel real estate (39% of the total) and retail real estate (36%) led the way and were essentially made with foreign capital (70%). On the other hand, *prime yields* in most segments are higher compared to the period when interest rates began to rise.

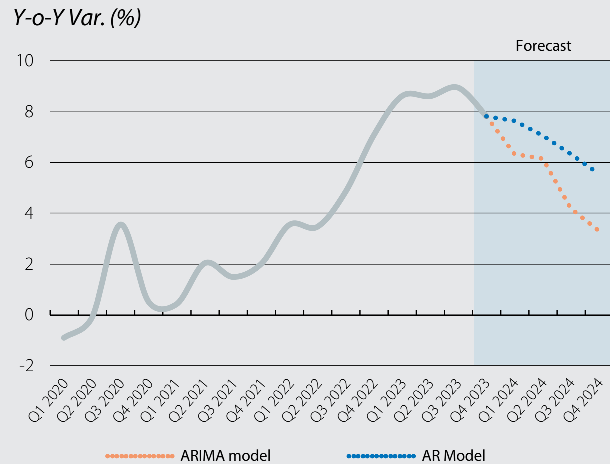
The retail segment showed one of the best performances, supported by several specific factors in addition to the increase in tourism and private consumption - the opening of *concept stores*, increased demand from luxury retailers, and expansion and entry into the market of new *low-cost* retailers. As an example, rents in the main shopping centres increased by 8% compared to the previous year and sales by 10%, above the pre-pandemic level.

In the office segment, the performance was not so encouraging, with *take-up* volume,[6] especially in the Lisbon region, much lower than in previous years. This resulted in an increase in the *vacancy* rate[7] to 10% (8.3% in 2022). Despite this, *prime* and average incomes evolved positively. This segment is seeing the abandonment of more obsolete spaces in the city's western corridor and the search for spaces aligned with sustainability and carbon neutrality targets, with a location and features compatible with retaining talent and hybrid working models. Therefore, this mismatch between current supply and tenants' wishes has allowed rents to rise even in a context of reduced *take-up*. Tenants agree to take on higher rents to ensure that certain spaces are occupied.

We can say that, overall, the increase in rents has made it possible to offset the rise in interest rates and support asset prices. Add to this an employed population at historically high levels (demanding *office space* and consuming more) and greater visibility in the latter part of the year regarding coming cuts in interest rates (associated with the ongoing disinflationary process). In addition to the logistics segment,[8] which has been favoured by the growth of e-commerce, we can't forget the existence of other smaller segments, but with a lot of potential. For example, residences built specifically for students (where the supply has not kept up with the increase in students in higher education and the arrival of foreign students), senior residences (to respond to a growing ageing population) and *Data Centres*.

5. Research Report JLL Market Pulse, Q3 2023; and, Research Report JLL Market 360 – Real Estate Market in Portugal.
6. This refers to the cumulative area of all new leases or sales to occupiers (as opposed to sales to investors) that will be used as offices.
7. This refers to the percentage of unrented space on the market.
8. There is currently around 590,000 m^2 of new construction underway, half of it in the Lisbon region.

Commercial property price index
Y-o-Y Var. (%)



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

Looking at 2024

In an attempt to get an idea of how commercial property prices might evolve in the remainder of this year, we first averaged CI's service and retail property indices. In this average index, prices appreciated by 4.7% in 2022 and 8.5% in 2023. We then made a projection for 2024 based on our central macroeconomic scenario using an econometric model with an autoregressive component and with the evolution of the house price index, GDP and the spread between Portuguese long-term debt and the German Bund as explanatory variables. Finally, we contrasted this forecast with another developed using an ARIMA model. The result is summarised in the last graph: we anticipate a clear downward trend in valuations compared to 2023, but no price correction. Indeed, the estimated model points to a 6.6% increase in prices and the ARIMA model to a slightly more modest increase of 4.9%. In short, we can say with the data we have that the expectation is still for appreciation. The behaviour of this market as a whole appears to be similar to what we are experiencing in residential real estate market, with dynamic demand in some segments, foreign investment, and a shortage of suitable supply, which, combined with economic growth and high levels of employment, have been supporting prices.

Tiago Belejo Correia

Activity and employment indicators

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	01/24	02/24	03/24
Coincident economic activity index	5.7	3.3	3.6	3.3	2.7	...	2.5	2.4	...
Industry									
Industrial production index	0.4	–2.7	–5.0	–4.6	–2.3	...	–1.3	1.0	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–5.6	–9.4	–9.5	–7.5	–8.2	–7.7	–6.6
Construction									
Building permits - new housing (number of homes)	6.2	5.6	1.3	9.5	1.8	...	–16.4	...	...
House sales	1.3	–18.7	–22.9	–18.9	–11.4	...	–	–	–
House prices *(euro / m² - valuation)*	13.8	9.1	9.1	8.1	6.4	...	4.4	5.5	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	52.6	24.9	19.1	...	16.1	14.5	...
Confidence indicator in services *(value)*	15.1	7.5	13.4	5.8	–0.2	6.9	5.1	7.1	8.7
Consumption									
Retail sales	5.5	1.1	1.8	0.6	0.6	...	0.2	2.2	...
Coincident indicator for private consumption	3.9	2.5	2.8	2.8	2.3	...	2.2	2.2	...
Consumer confidence index *(value)*	–29.7	–28.6	–29.4	–22.8	–27.2	–24.6	–26.9	–24.4	–22.6
Labour market									
Employment	2.2	2.0	2.8	2.2	1.6	...	2.3	1.8	...
Unemployment rate (*% labour force*)	6.2	6.5	6.1	6.1	6.6	...	6.6	6.7	...
GDP	**6.8**	**2.3**	**2.6**	**1.9**	**2.1**	**...**	**–**	**–**	**–**

Prices

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	01/24	02/24	03/24
General	7.8	4.4	4.4	3.5	1.7	2.2	2.3	2.1	2.3
Core	5.6	5.1	5.7	4.4	3.0	2.3	2.4	2.1	2.5

Foreign sector

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	01/24	02/24	03/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.1	11.8	3.0	–1.1	...	–2.0	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.1	12.5	1.1	–4.1	...	–5.2	...	...
Current balance	**–2.8**	**3.6**	**1.5**	**4.1**	**3.6**	**...**	**4.2**	**...**	**...**
Goods and services	–4.7	3.3	–0.3	2.1	3.3	...	3.8	...	...
Primary and secondary income	1.9	0.4	1.9	2.0	0.4	...	0.5	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**7.2**	**4.5**	**7.3**	**7.2**	**...**	**7.8**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	01/24	02/24	03/24
Deposits [1]									
Household and company deposits	6.4	–2.3	–2.1	–2.6	–2.3	...	–1.1	1.0	...
Sight and savings	7.3	–14.8	–9.0	–9.4	–14.8	...	–15.2	–13.6	...
Term and notice	5.2	14.8	7.5	6.9	14.8	...	17.8	20.1	...
General government deposits	12.4	–12.4	1.4	5.5	–12.4	...	–22.5	–4.4	...
TOTAL	**6.5**	**–2.6**	**–2.0**	**–2.4**	**–2.6**	**...**	**–1.7**	**0.8**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.5	–1.2	–1.8	–1.5	...	–1.5	–1.1	...
Non-financial firms	–0.6	–2.1	–3.5	–3.5	–2.1	...	–2.6	–2.0	...
Households - housing	3.2	–1.5	0.1	–0.9	–1.5	...	–1.5	–1.2	...
Households - other purposes	2.9	0.2	0.4	–0.8	0.2	...	1.6	1.7	...
General government	–2.7	–5.5	0.6	–1.4	–5.5	...	–4.0	–3.1	...
TOTAL	**1.6**	**–1.7**	**–1.1**	**–1.8**	**–1.7**	**...**	**–1.5**	**–1.2**	**...**
NPL ratio *(%)* [2]	**3.0**	**2.7**	**3.1**	**2.9**	**2.7**	**...**	**–**	**–**	**–**

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 remains resilient in a challenging environment

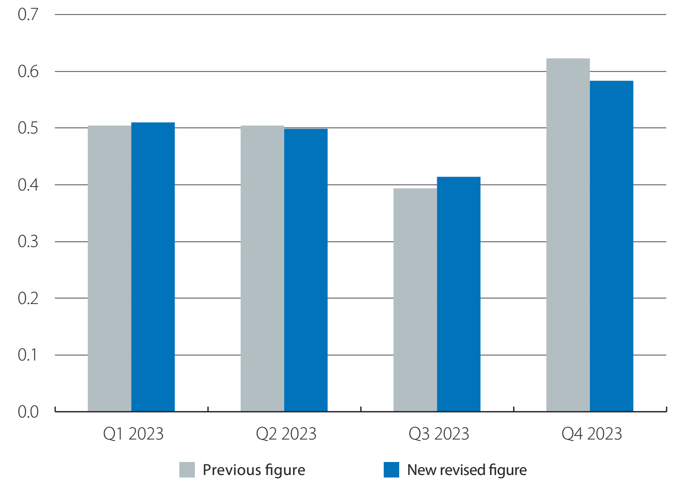
The available information suggests that, despite an adverse economic context marked by the impact of last year's interest rate hikes and inflation hovering at around 3%, economic activity has continued to grow at a steady pace during Q1. The new estimate for GDP growth in Q4 2023 published by Spain's National Statistics Institute as part of its usual schedule of revisions has also not changed the reading of the recent past. GDP growth in the last quarter of 2023 remained unchanged from that offered by the flash estimate, while in the breakdown by component there was a slight downward revision of the growth of private and public consumption, offset by a slight upward revision of investment.

Good figures from the economic activity indicators. The economic activity indicators available for Q1 2024 show a better than expected performance, especially among those for sentiment, employment and tourism. In March, the services PMI maintained its upward path and reached 56.1 points, a level that suggests a considerable pace of expansion in the sector. The industrial sector, meanwhile, is leaving behind its weakness and the manufacturing sector PMI, at 51.4 points, has consolidated its position within the territory that marks growth, after lying below this threshold in the previous 10 months. Moreover, industrial production grew by an average rate of 0.8% to February compared to Q4 2023, slightly faster than in the previous quarter (+0.6% quarter-on-quarter). On the consumption side, retail sales in February rebounded 0.5% month-on-month, following declines in December and January. However, despite the rebound, the January-February average continues to show a slight decrease of 0.3% compared to the average for Q4 2023. Tourism has also kicked off the year with excellent figures; in February, arrivals of foreign tourists increased by 15.9% year-on-year and spending, by 25.8%. Thus, both tourist arrivals and their spending stand well above the pre-pandemic levels of February 2019, specifically 14.4% and 44.8% above, respectively.

The labour market remains remarkably dynamic. The number of registered workers affiliated with Social Security grew in March by 193,585 people compared to the previous month, which is more than usual for the month of March (140,000 on average in the months of March during the period 2014-2019). Correcting for seasonality, employment posted an increase of 77,876 registered workers, such that the average monthly increase in Q1 rose to 63,242 workers, higher than the average for Q4 2023 (31,248). In Q1 2024, the quarter-on-quarter growth rate in the number of registered workers intensified to 0.7% (0.4% in the previous two quarters).

Spain: GDP

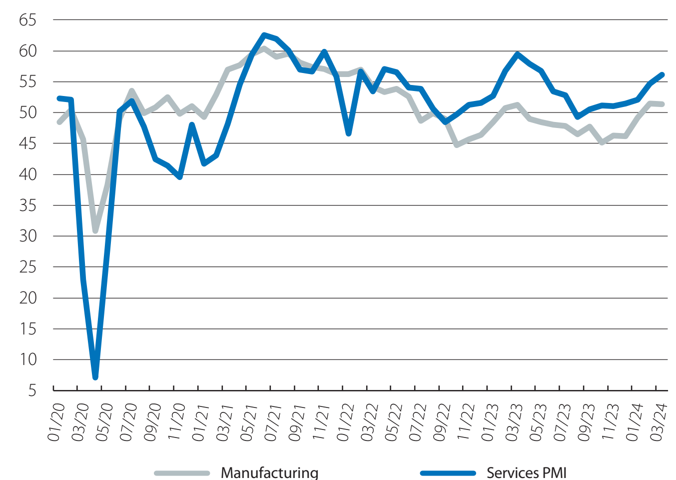
Quarter-on-quarter change (%)



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

Spain: PMI

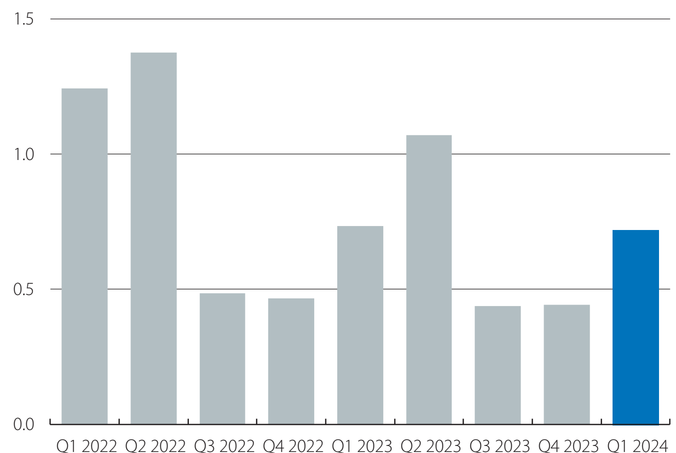
Level



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

Spain: registered workers affiliated with Social Security

Quarter-on-quarter change (%)



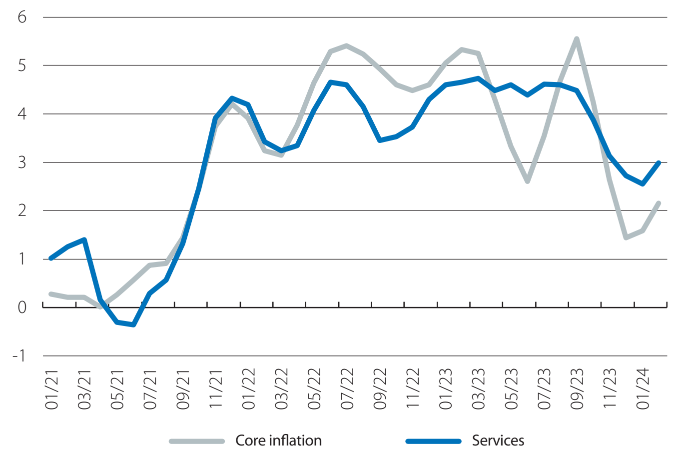
Note: *Seasonally adjusted series of the number of registered workers not on furlough.*
Source: *BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Energy prices and the withdrawal of the fiscal measures dominate the inflation dynamics. According to the CPI flash estimate, headline inflation rose by 40 pps in March, to 3.2%. This rebound is mainly due to the increase in electricity and fuel prices. On the electricity side, the fall of 13.1% month-on-month in the PVPC tariff (the voluntary price for small consumers) was more than offset by the increase in VAT from 10% to 21% in March – an increase triggered by the wholesale market price in February falling below the 45-euros/MWh threshold established in the law that was passed last December. Current forecasts in the futures market suggest that wholesale market prices will not climb back above 45 euros/MWh until the summer. If these forecasts are met, then VAT on electricity would return to its reduced rate of 10% in July. On the fuel side, the price of Brent has been on the rise for three months now and in March stood at an average of 78 euros per barrel, which led to a 1.9% month-on-month increase in petrol prices. Despite these fluctuations, the underlying trends indicate that the disinflationary process is continuing. In March, underlying inflation – excluding energy and unprocessed food – fell 0.2 pps to 3.3%, while the momentum of core inflation – excluding energy and all food – suggests that it should continue to moderate.

The budget deficit fell in 2023 to 3.6% of GDP. This represents a significant improvement over the 2022 deficit (4.7% of GDP), although it is still above the pre-pandemic level (3.1% of GDP in 2019). By government administration, the deficit of the central government was 2.1% of GDP; that of the autonomous communities was 0.9%; that of the social security system was 0.6%; and that of local government corporations was 0.1%. The reduction in the deficit in 2023 was due to the buoyancy of public revenues, which increased by 9.0% compared to 2022, mainly due to the strength of the collection of direct taxes and social security contributions, while total expenditure increased by 6.5%, driven by the pension increase and the maintenance of a large part of the measures introduced to tackle the energy shock.

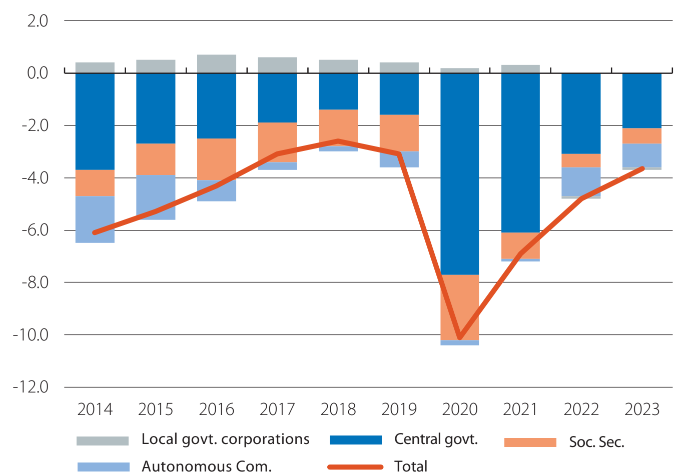
The foreign sector starts the year on a good footing. The trade deficit stood at 3.729 billion euros in January, lower than the deficit of 3.956 billion registered in January 2023 (–5.7% year-on-year) thanks to the improvement of the non-energy component. In particular, the non-energy deficit fell from 816 million euros in January 2023 to 90 million in January this year, in an environment marked by growing exports, which were up 1.7% year-on-year, and falling imports, which were down 0.9% year-on-year due to the fall in prices (of –3.9% year-on-year). In contrast, the energy deficit increased to 3.639 billion euros, from 3.140 million a year earlier, due to a sharper reduction in exports than imports (–41.2% and –12.3% year-on-year, respectively).

Spain: inflation momentum
Change in the average index for the last 3 months versus the previous 3 months, annualised (%)



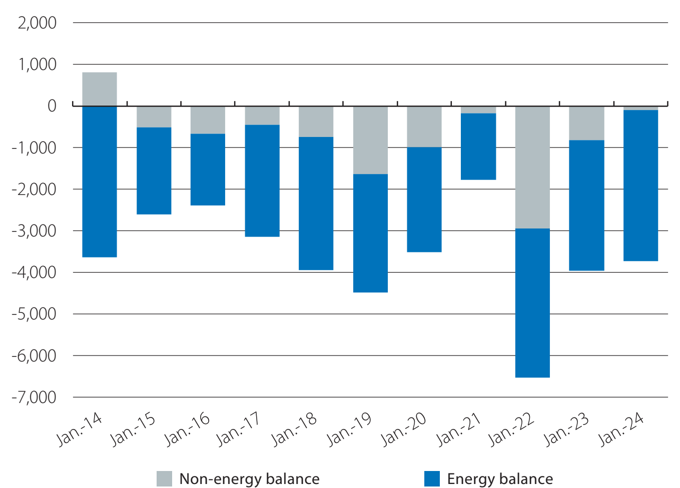
Source: *BPI Research, based on data from the National Statistics Institute.*

Spain: general government balance
(% of GDP)



Source: *BPI Research, based on data from the Ministry of Finance.*

Spain: balance of trade in goods
(EUR millions)



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

The medium-term potential growth of Spain's GDP

The last four years have borne witness to a series of events that we could call «extreme»: first, COVID-19; then, the outbreak of the war between Russia and Ukraine, and more recently the conflict between Israel and Hamas. These events have left little room for analysis of the underlying trends in our economy. In a series of recent Focuses we have addressed more structural aspects such as the evolution of productivity, both on aggregate and at the sector level, and the evolution of the structural unemployment rate.[1] In this article, we focus on analysing the past evolution and future outlook for potential GDP growth. This is a key variable, since it offers an indication of our economy's underlying growth trend. In other words, it tells us how much the economy can grow by in a sustained manner in the absence of shocks if all of the economy's productive capacity is used and no imbalances arise. However, quantifying an economy's potential GDP growth is no easy task. This is a variable that cannot be directly observed and estimating it is shrouded in uncertainty.

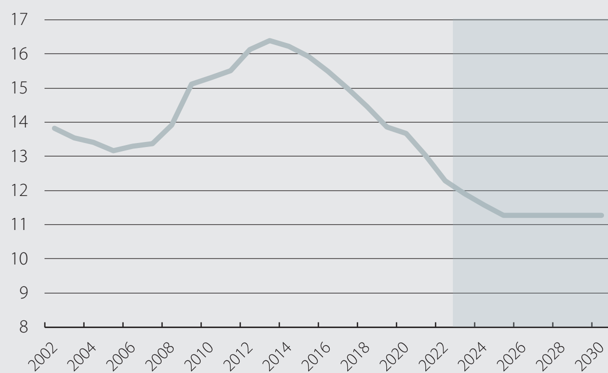
How do we measure potential GDP?

There are several ways to estimate potential GDP. In this article, we opt to use the production function approach. According to this methodology, GDP can be modelled as a function of a set of production factors, typically labour, capital and so-called total factor productivity (TFP).[2] Once we establish this relationship, it can be shown that GDP growth is equal to the growth of TFP plus the weighted sum of the growth of labour and capital.[3]

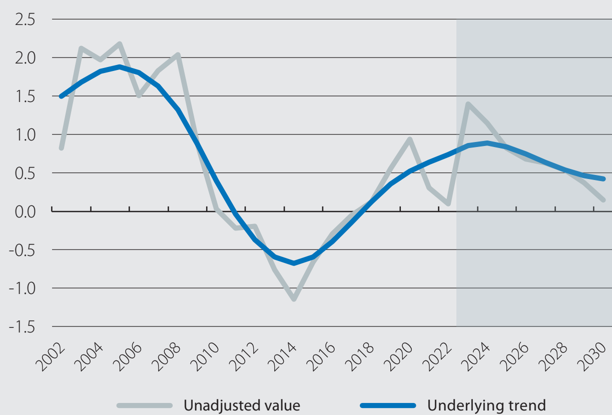
We measure the labour factor as the number of hours worked in the economy. In turn, the hours worked can

Spain: assumptions regarding the growth of the components of the labour factor

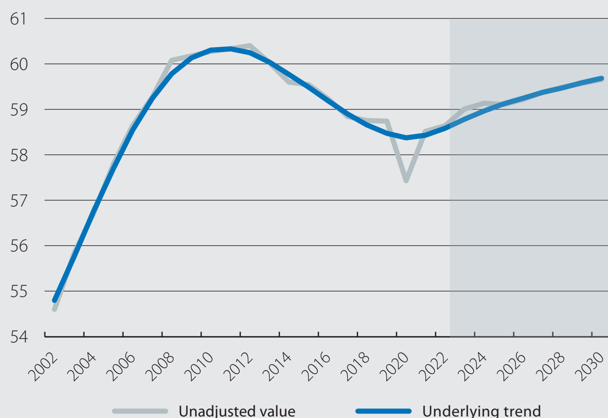
Structural unemployment rate
(%)



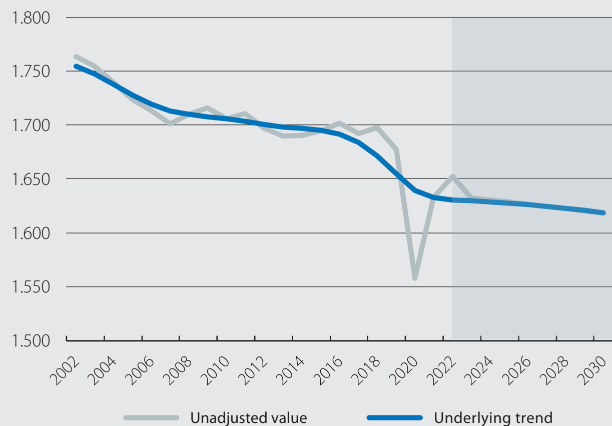
Working age population (16-64 years)
Year-on-year change (%)



Activity rate
Active labour force over the population aged 16-64 (%)



Annual hours worked per employee



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

1. See the articles «Productivity in Spain: a lot of scope for improvement», «Sectoral specialisation penalises the productivity of the Spanish economy» and «How could structural unemployment be further reduced in Spain?», in the MR10/2023, MR11/2023 and MR01/2024, respectively.
2. In this article, we talk about three production factors. However, the literature has analysed more complex cases where more factors are explicitly considered, such as human capital.
3. The weighting is based on the weight of income from labour and from capital relative to GDP.

be broken down into four variables: the hours worked per employee, the employment rate (which is equal to one minus the unemployment rate), the activity rate and the working age population (between 16 and 64 years of age).[4] Since the goal is to measure potential GDP, we take the structural unemployment rate rather than the observed rate.[5] The above breakdown allows for a better understanding of the key factors that lie behind the evolution of the number of hours worked.

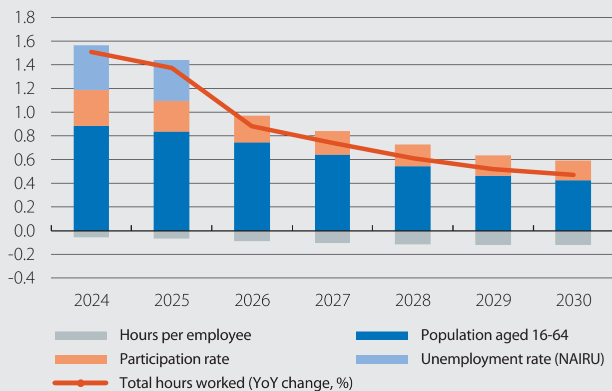
In the case of the growth of capital, this is measured by summing up the gross fixed capital formation over the stock of capital each year, after deducting the depreciation of the stock of capital.[6]

TFP is obtained as a residual amount, i.e. the difference between real GDP growth and the weighted sum of labour and capital growth. TFP captures everything else that causes production to grow in excess of what would be allowed by the sum of the production factors specifically considered (labour and capital). In this regard, TFP captures productivity gains, but it can also capture other dynamics such as an inaccurate measurement of the specific production factors. In particular, since the labour factor in our model only takes into account the change in the number of hours worked, our estimate of TFP includes changes in the quality of the labour factor, which, according to other analyses, has improved considerably over the last few decades.[7]

Finally, once we have obtained the evolution of TFP, the labour factor and the capital factor, we then determine the potential underlying trend values for each variable, before using these values to estimate the evolution of potential GDP.[8] Of course, the observed GDP may be less than or greater than the potential GDP. If the observed GDP is below potential GDP, this means that there is an underutilisation of the economy's capacity, and vice versa. As an example, consider the period between 2009 and 2012, which was affected by the financial and sovereign debt crisis. During this period, potential GDP fell as the shock that affected our economy reduced its productive capacity. However, the observed GDP fell to a greater extent than potential GDP, suggesting that, beyond the loss of productive capacity to which our economy was subjected, there was also an underutilisation of productive resources.

In this article we will focus on calculating the growth of potential GDP, rather than determining its level. Thus, if the growth of observed GDP is greater than that of potential GDP, this can suggest that either the gap between observed and real GDP is closing (because there was a negative gap) or, on the other hand, that it is widening (because the gap was already positive) and the economy is overheating.

Spain: contributions to the growth of potential hours worked
(p. p.)



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

Assumptions regarding the evolution of the number of hours worked

What are the growth assumptions for each of the components that make up our forecast of the number of hours worked?

The first chart shows the assumptions regarding the evolution of the structural unemployment rate, the working age population, the activity rate and the hours worked per employee.

For the structural unemployment rate, we take the European Commission's forecast, which goes up to 2025 and assumes that the structural unemployment rate will reduce to 11.3%. From there on, we assume that the rate will remain flat at this level; this could be considered a conservative assumption, given that the structural unemployment rate could plausibly continue to fall. For the dynamics of the working age population, we take the demographic projections of Spain's National Statistics Institute (which for 2030, for example, assume a growth of 0.15%). In the case of the activity rate, we assume a slight increase within the projection horizon, while for the number of hours worked we take as a reference the average annual decline recorded between 2014 and 2019 (–0.12%).

Based on these assumptions, the second chart shows the projected growth of the number of hours worked between 2024 and 2030, and the breakdown of the contributions of each component. Initially, the hours worked are favoured by a decrease in the structural unemployment rate. However, from 2026, based on the assumption that this rate will stabilise, this factor fades. Thereafter, the demographic trends gain prominence and give rise to a gradual but sustained moderation in the growth of the number of hours worked, as a result of the slowdown in the growth of the working age population.

4. The activity rate is defined as the sum of the unemployed and the employed over the working age population (16-64 years).
5. We define the structural unemployment rate as the unemployment rate that is compatible with inflation close to the central bank's target. The structural unemployment rate is not observable and has to be estimated.
6. We obtain the depreciation rate from the rates associated with each subcategory of the stock of capital, weighting them according to each subcategory's relative weight in the total stock.
7. Bontadini *et. al.* (2023), «EUKLEMS &INTANTProd: industry productivity accounts with intangibles», offers an estimate of the impact of the increase in the quality of the labour factor.
8. To obtain the underlying trend values, we use the Hodrick-Prescott filter.

Outlook for potential GDP growth

The third chart shows the comparison between the evolution of potential GDP growth since the beginning of the millennium, according to our estimate, and that of the observed GDP. During the 2020 pandemic, potential GDP growth fell, albeit less than the observed GDP growth.[9] This more contained fall in the potential GDP growth is attributed to the fact that, according to our model, the sharp decline in the number of hours worked and in investment are considered to be short-lived events. From 2021, potential GDP growth has recovered and we estimate that it peaked in 2023.

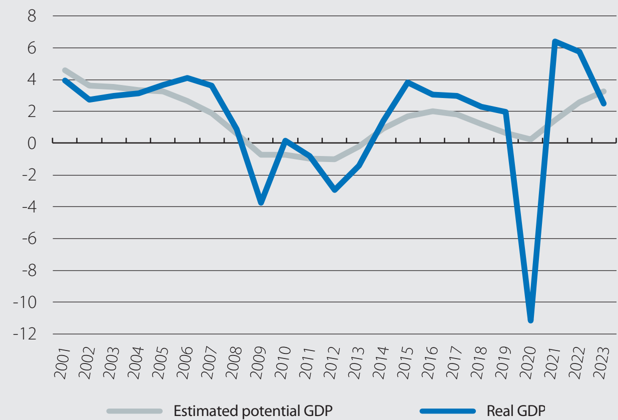
In the fourth chart, we present our projections for potential GDP growth from 2024 to 2030, and we detail the contribution of the various factors. Overall, we expect the potential growth of the economy to oscillate around 1.7% in the three-year period between 2024 and 2026, before gradually declining to 1.3% in 2030. Our forecast assumes that the growth of TFP will rapidly return to its historical average of 0.7% per year within the projection horizon. We observe a gradual decrease in the contribution of the labour factor, due to the demographic factors mentioned above, which is partially offset by an improvement in the contribution from capital. After the low level of investment recorded between 2021 and 2023, we expect to see a certain recovery in the coming years, and this should boost the contribution to growth that comes from the capital factor. Our forecast for medium-term potential GDP growth of 1.3% is similar to that offered by other institutions. For instance, the Bank of Spain estimates a potential growth of 1.1% in 2030 in the absence of European NGEU funds, although taking the NGEU funds into account it increases that forecast up to the 1.3%-1.9% range, depending on the assumptions regarding the impact of the funds. The AIReF, for its part, estimates a potential growth of 1.3% in the medium term (from 2028 onwards).[10]

The uncertainty surrounding forecasts for potential GDP growth is high due to several factors, ranging from technical issues in the measurement and specification of the model, to the underlying assumptions used in the forecasts. To exemplify the uncertainty surrounding this last point, we considered two sensitivity exercises.

- The first examines the effect that a greater reduction in the structural unemployment rate would have. Specifically, if we assume that it will continue to decline beyond 2025 at a rate of 0.3 pps per year,[11] this change would bring the structural unemployment rate slightly below 10% in 2030 and would increase the potential growth of the economy by 0.2 pps to 1.5% in 2030.

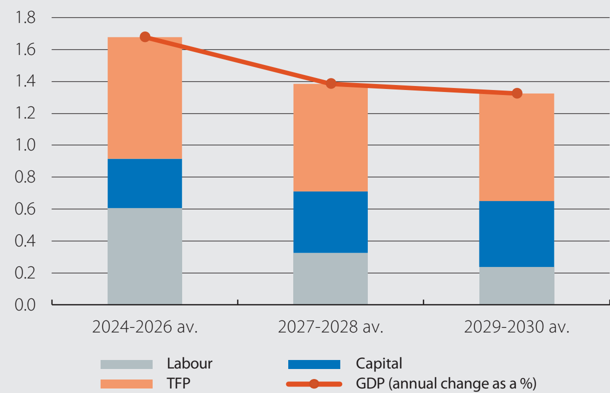
9. The Bank of Spain and the European Commission obtain similar results. The Bank of Spain estimates a potential GDP growth in 2020 of around 0.0% (see P. Cuadrado *et al. al.* «El crecimiento potencial de la economía española tras la pandemia», nº 2208, Bank of Spain, 2022), while the Commission's estimate is 0.3%.
10. See Pilar Cuadrado *et. al.* «El crecimiento potencial de la economía española tras la pandemia», nº 2208, Bank of Spain, 2022, and the «Report on the main budgetary lines of the public administrations for 2024», by the AIReF.

Spain: GDP vs. potential GDP
Annual change (%)



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

Spain: potential GDP growth, contributions
(pps)



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

- The second exercise considers a scenario with a higher rate of investment growth.[12] In particular, in this scenario it is assumed that investment will grow by 1 pp more each year through to 2030. If this scenario were to materialise, then potential GDP growth would gradually increase, reaching 1.5% in 2030. This increase could be greater still if, in addition, the effect that it could have on the economy's productivity growth is taken into account.

To summarise, we anticipate that the potential growth of Spain's economy will be 1.7% on average between 2024 and 2026, but that from then on it will moderate due to demographic factors, reaching 1.3% in 2030. In view of the prospect of somewhat moderate medium-term potential growth, it is imperative to propose structural reforms that will boost investment, improve the efficiency of the labour market and foster greater productivity growth.

11. This rate is similar to the average annual reduction in the structural unemployment rate observed in the period 2014-2019 (0.4 pps per year).
12. This improved performance could be explained by the NGEU funds having a greater impact on the economy than currently expected.

Innovation in Spain: somewhat below the EU

Innovation is a key variable for increasing an economy's potential growth. In this article we analyse the evolution of the innovation index developed by the European Commission for the case of Spain in order to shed some light on this matter. This index[1] is built from 32 indicators grouped into 12 areas such as: talent attraction, investment in research and development, and use of information technologies. In 2023, of the 38 European economies analysed, the lowest value of the index was Ukraine (index of 33 points) and the highest was Switzerland (151 points). In addition, the EU average of 108.5 points in 2023[2] stood 11% below the US, the paradigm of innovation.

Spain compared to the EU: room for improvement

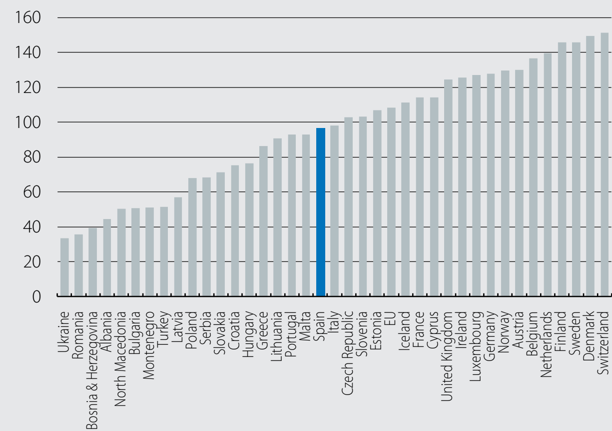
In 2023, the innovation index for Spain stood at 96 points, 11% below the EU average. Seven years ago, when this index was first introduced, Spain stood 13% below the EU average, so although we have slightly narrowed the gap with the euro area, we are still somewhat behind. Relative to our main European peers, in 2023 the index for Spain was 15% below the level of France, 25% below Germany, 1% below Italy, but 4% above Portugal.

Having seen these statistics, why is Spain trailing behind the EU and our main European partners when it comes to innovation? To answer this question, we compared Spain with the European average in 2023 in certain key components of the innovation index.

The results, which can be seen in the third chart, show that Spain is clearly ahead of the EU in the measure of workers with advanced digital skills and is relatively close in terms of employment in knowledge-intensive occupations. On the other hand, two dimensions where we need to improve (as we are lagging far behind) are in the degree of innovation in SMEs and in the level of R&D spending invested by the private sector. The fact that Spain is comparatively better in advanced digital skills and in technological employment offers a hopeful message for the prospect of narrowing the gap with Europe. Three reflections are, in any case, inescapable. Firstly, it is essential that there are no skill mismatches, such that these skills can be matched with jobs that have a high innovative potential. The evidence to date indicates that aligning the skills of the labour supply with those which companies are seeking is a task that remains pending for the Spanish economy.[3] Secondly, greater investment in R&D is essential in order to make the qualitative leap to which we aspire. Thirdly and finally, in a country in which SMEs are a very important

Innovation Index 2023: European comparison

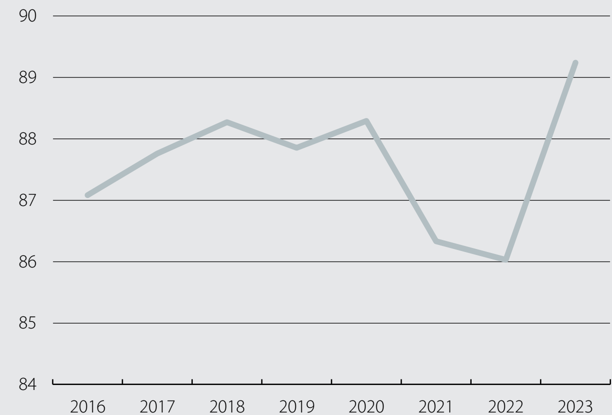
Index



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

Innovation Index comparison: Spain vs. EU

Ratio between Spain and the EU (%)



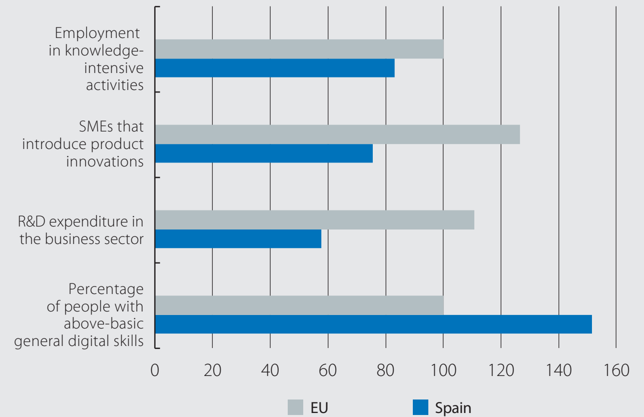
Source: *BPI Research, based on data from the European Commission.*

1. The index normalises the score to take account of the population size of each country or region so that the results are not determined by the population.
2. 100 points en 2016. The EU averages are always weighted to take account of the relative population sizes of each country.

3. 76% of companies report a skills gap between what their organisations need and the training offered by the university system. At the same time, 79% of companies report a skills gap among candidates with vocational training. See J. Canals (2020), «Changes in the portfolio of skills needed by Spanish companies following COVID-19».

part of the productive fabric, it is essential that advances in innovation are widely disseminated across the business sector and that SMEs grow in scale.[4]

Innovation Index sub-pillars: Spain vs. EU comparison
Ratio between Spain and the EU (%)



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

4. In Spain, the productivity level of large corporations is more than twice that of micro-enterprises. In addition, several studies highlight that large corporations are more likely to invest in intangible assets. However, the relative weight of medium- or large-sized companies in the Spanish economy is lower than in other countries. In Spain, around 35% of employment is in companies with more than 50 employees – a proportion that stands at 66% in Germany.

The Spanish economy continues to reduce its foreign debt

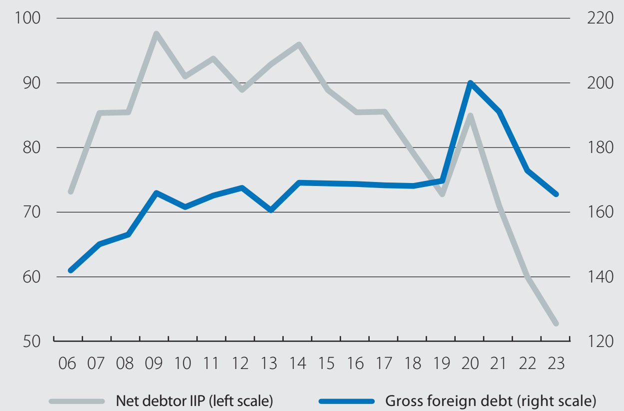
Having overcome the shock of the pandemic, Spain's economy has resumed the path of correcting one of its traditional imbalances – its foreign indebtedness – in a process largely driven by its recent ability to maintain a high lending capacity. Indeed, Spain has not only racked up 12 consecutive years with a net lending capacity, but in 2023 its net lending also reached a new all-time high (3.7% of GDP vs. 1.5% the previous year).[1] This trend is the result of surpluses recorded in both the current and the capital balances (2.6% and 1.1%, respectively): in the case of the former, this reflects the growing competitiveness of our productive sector, while the latter has received a boost from the European funds linked to the NGEU programme. Even with the outbreak of the pandemic and the subsequent energy crisis, Spain's economy managed to maintain its lending capacity, demonstrating the structural nature of the improvement in its foreign imbalance.

As a result of the above, last year the debtor balance of Spain's net international investment position (NIIP), which measures the difference between a country's financial assets and liabilities vis-à-vis the rest of the world, continued to decline and reached just under 771.4 billion euros, or 52.8% of GDP, representing the best figure since 2003 (60.0% in 2022). Although still high and well above the 35.0% threshold set by the European Commission in the Macroeconomic Imbalance Procedure (MIP),[2] the cumulative reduction achieved in recent years is significant: no less than 45 points from the peak of 2009.

Special mention should be made of the significant reduction in the debtor balance of the Bank of Spain's NIIP, which went from 18.5% of GDP in 2022 to 8.7% a year later. This improvement has been partially driven by the ECB's asset purchases coming to an end,[3] given the negative impact those purchases had generated in the period 2015-2022 on the Bank of Spain's IIP through its position vis-à-vis the Eurosystem, which is now beginning to be unwound, as well as being driven by the disbursements of NGEU funds.[4]

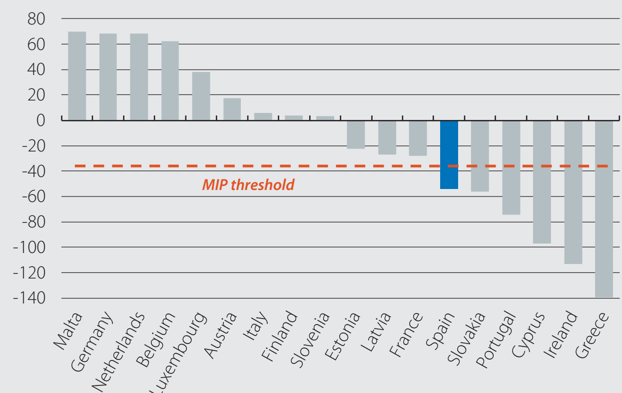
1. In contrast, in the period 2000-2008 the economy recorded funding needs of 5.6% of GDP on average annually.
2. A supervisory mechanism established with the aim of preventing and correcting macroeconomic imbalances in EU countries.
3. Net purchases ended in 2022, both under the Pandemic Emergency Purchase Programme (PEPP) and under the Asset Purchase Programme (APP), while gross purchases were brought to an end during 2023 for the APP.
4. The inflow of funds in the form of grants has an impact, initially, in the financial accounts of the Bank of Spain (as a decrease in its liabilities) and of the general government (increase in liabilities). See https://www.bde.es/webbe/es/estadisticas/compartido/docs/notaNGEU.pdf

Spain: net debtor IIP and gross foreign debt
(% of GDP)



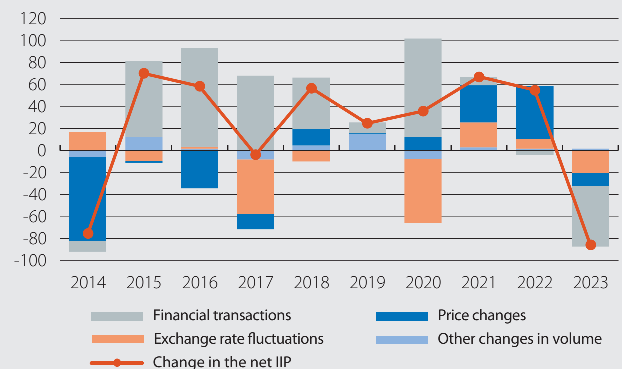
Source: *BPI Research, based on data from the Bank of Spain.*

Euro area: net IIP
(% of GDP)



Note: *Data for Q3 2023.*
Source: *BPI Research, based on data from Eurostat.*

Spain: annual change in the net IIP by component *
(EUR billions)



Note: ** Excluding the Bank of Spain.*
Source: *BPI Research, based on data from the Bank of Spain.*

If we exclude the Bank of Spain, the debtor balance of the economy's NIIP increased in 2023 by more than 85.7 billion euros, something that had not happened since 2017, bringing it to a total of just over 644.1 billion. This deterioration was the result of negative net valuation effects (due to exchange rate and/or price variations), especially the negative value of foreign financial transactions. That is, the net increase in liabilities with other countries was greater than that of assets (net capital inflow) (see third chart). As for the valuation effects, exchange rates had a more intense negative impact on the assets, mainly due to the depreciation of the dollar, which fell sharply in the final stages of the year. In the case of prices, their increase had a greater impact on the liabilities, given their higher volume.

Looking at the breakdown by type of financial instrument, all of them with the exception of derivatives saw their debtor balance expand in 2023, especially portfolio investments, due to the impact of prices and the negative foreign financial transactions (the liabilities grew more than the assets). In the case of direct investment,[5] the deterioration was mainly due to the impact of the exchange rate,[6] while in the case of other forms of investment[7] it was essentially the result of net capital inflows.

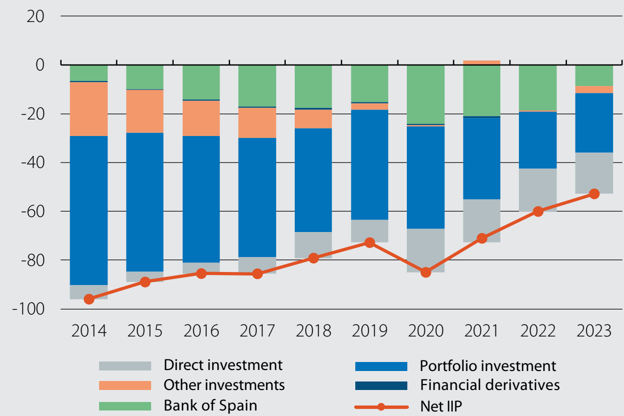
By sector, only other resident sectors reduced their debtor balance in volume terms, and they did so significantly, recording the lowest balance since the year 2000. On the other hand, both the general government and, in particular, monetary financial institutions (MFIs) saw their positions deteriorate, going from a creditor to a debtor balance.

As for gross foreign debt,[8] it resumed the upward path that had been truncated in 2022 and grew sharply, reaching 2.419 trillion euros, up from 2.327 trillion the previous year. However, as a result of nominal GDP growth, the debt-to-GDP ratio continued to fall to 165.5% (172.8% previously), even improving on the pre-pandemic levels (169.7% in 2019). By sector, the reduction of gross debt was concentrated in the general government (44.0% of GDP, just 10 pps less than in 2022), other resident sectors (20.3% vs. 21.6%) and, above all, the Bank of Spain (36.3% vs. 46.9%). In the latter case, once the Eurosystem's purchases of public debt were completed, a portion of the debt was no longer held by the Bank of Spain and once again lay in the hands of non-residents. In contrast, the debt of MFIs grew by almost 6 points to 46.4% of GDP, the highest ratio since 2012, due to capital inflows mainly channelled in the form of deposits.

In addition to the clear downward path of foreign indebtedness, another piece of good news which helps to reduce the economy's vulnerability to possible shocks in the financial markets, especially in a context of high interest rates, is the composition of these liabilities: they are largely made up of liabilities issued by the public sector (48% corresponds to debt of the general government and of the Bank of Spain), with long-term maturities, at fixed interest rates and denominated in euros, thus reducing the refinancing, interest rate and foreign exchange risks.[9]

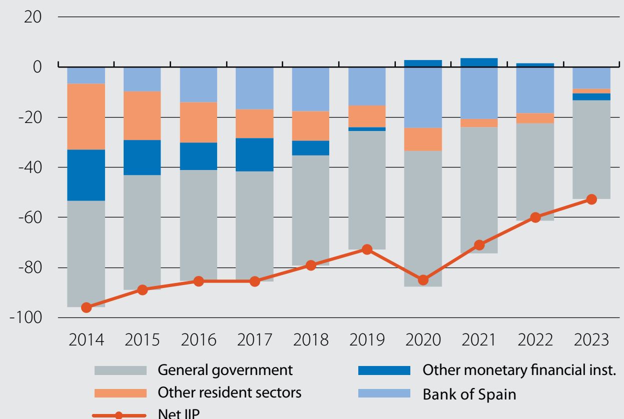
5. Shares and other forms of equity holdings, reinvested profits, investments in real estate and financing between related companies.
6. However, given the significant increase in nominal GDP (8.6%), the debtor balance of direct investment in terms of GDP improved slightly last year (16.8% vs. 17.4% in 2022).
7. Mainly loans, repos and deposits.
8. Includes the balance of all liabilities that generate future payment obligations (principal, interest or both), i.e. it is composed of the financial instruments included in the liabilities of the IIP, except for equities (shares, other equity holdings and holdings in investment funds) and financial derivatives.
9. Bank of Spain (2023): Financial Stability Report, autumn.

Spain: net IIP by type of financial instrument
(% of GDP)



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

Spain: net IIP by institutional sector
(% of GDP)



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

An exceptional year for the catering sector in Spain

The tourism sector has been a constant source of good news for Spain's economy since the mobility and social distancing restrictions were lifted back in 2022. Having been one of the sectors hardest hit by the pandemic, Spain's tourism sector has experienced a rapid recovery, which was completed in 2023. In parallel, and benefiting from this extraordinary revival of tourism, the catering sector also stands out as one of the most buoyant. Its turnover reached almost 100 billion euros in 2023, marking a new record figure and representing 9.2% growth over 2022, while also exceeding 2019 sales by 6%. In addition, catering reached a new high in terms of its number of registered workers, after employing 1.4 million people in 2023, 4.5% more than in 2022. However, the pandemic has forced a certain consolidation process in recent years, as there are 8% fewer active catering companies, with around 232,000 companies in 2023 distributed across 263,500 establishments, primarily bars and cafés (62% of the total).

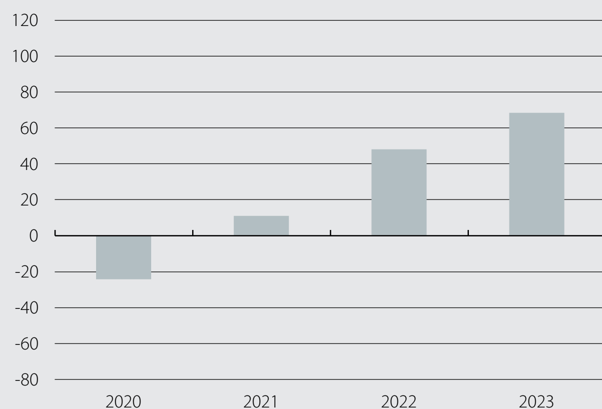
The consumption indicators based on our internal card spending data confirm this dynamic in the catering sector.[1] As can be seen in the charts below, spending on catering dropped off sharply due to the restrictions imposed during the pandemic (especially in the case of foreign cards, as a result of the restrictions on mobility), but since mid-2021, spending with Spanish cards (and, since the end of 2021, with foreign ones too) has exceeded 2019 levels. In 2023, spending has continued to register significant growth, especially among foreign tourists. This growth also reflects the increase in prices in the sector (6.6% on average in 2023), as businesses have largely passed on their cost increases to consumers – it should be recalled that the catering sector has been exposed to the rise in energy prices and, above all, food prices.

To what extent has this recovery in the sector been driven by the boom in international tourism in 2023? According to internal data, 28% of catering establishments depend on tourism expenditure, with 10% of them dependent on international tourists.[2] Of course, the situation is not equal in all regions. The dependence on international tourists is particularly high in the provinces that are most attractive to those from beyond our borders: the Balearic Islands, Malaga, Las Palmas and Santa Cruz de Tenerife are the provinces that benefit the most, since at least 35% of the spending there is conducted with foreign cards (in the case of the Balearic Islands, the figure is over 55%). As for spending by domestic tourists,[3] the pattern is not as clear as it is for international tourism, but the cases of Ávila, Soria, Zamora, Segovia and Teruel are worth highlighting, where spending by Spanish tourists accounts for at least 50% of the total spending on catering in the province.

Spain: CaixaBank Consumption Indicator. Spending on catering in 2023

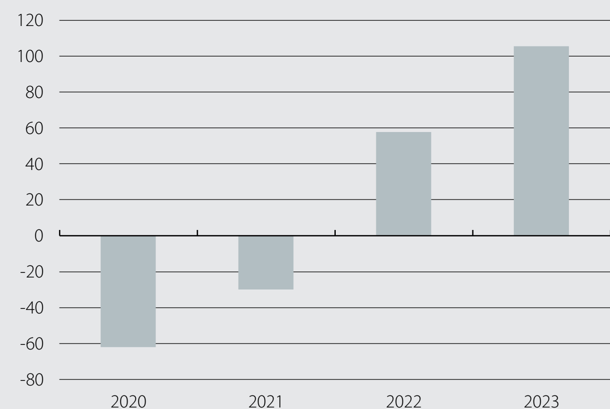
Spanish cards

Change versus the same period in 2019 (%)



Foreign cards

Change versus the same period in 2019 (%)



Source: *BPI Research, based on internal data on card spending in the catering sector.*

1. The CaixaBank Research Consumption Indicator tracks the evolution of consumption in Spain using big data techniques, based on duly anonymised internal data from expenditure with cards issued by CaixaBank, expenditure registered on CaixaBank POS terminals and withdrawals at CaixaBank ATMs. For further details on the methodology, see https://www.caixabankresearch.com/sites/default/files/content/file/2023/11/13/49/Nota%20Metodologica_RTE.pdf.
2. An establishment is considered to be dependent on tourism if spending by domestic or foreign tourists accounts for at least 33% of its total annual turnover.
3. Domestic tourist spending is considered to be card spending that is conducted outside the province in which the CaixaBank card holder resides.

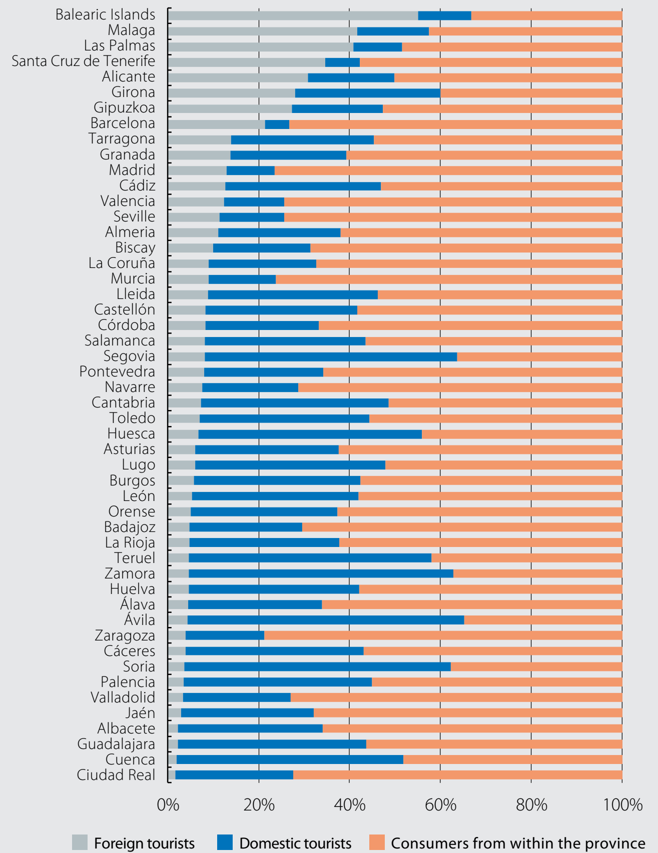
It should be noted that most catering expenditure is concentrated in the summer months, since at least 30% of the sector's turnover is generated between the months of July and September. Again, the pattern is quite different from province to province. The sector's revenues are particularly seasonal in the Balearic Islands, Girona and Cantabria, where over half of annual revenues occur in those three months of the year. On the other hand, Cordoba, Seville, Zaragoza, Madrid and the Canary Islands, among others, record between just 30% and 35% of their total turnover in those months of the year.

Outlook for the coming months

Having recovered pre-pandemic figures, and in a context of normalisation of economic growth rates, the indicators for tourism activity continue to exceed expectations. However, growth in the tourism sector can also be expected to normalise now that pre-pandemic levels have been reached in 2023.[4] Even so, we expect growth of 1.5% for tourism GDP in 2024, although the beginning of the year has proven better than this forecast would indicate. Under this scenario, the catering sector ought to maintain the good tone of last year, taking into account the good outlook for private spending, thanks to the gain in households' purchasing power (wages are growing above inflation) and the expectations of a moderation in production costs.

Spain: CaixaBank Consumption Indicator. Structure of spending on catering

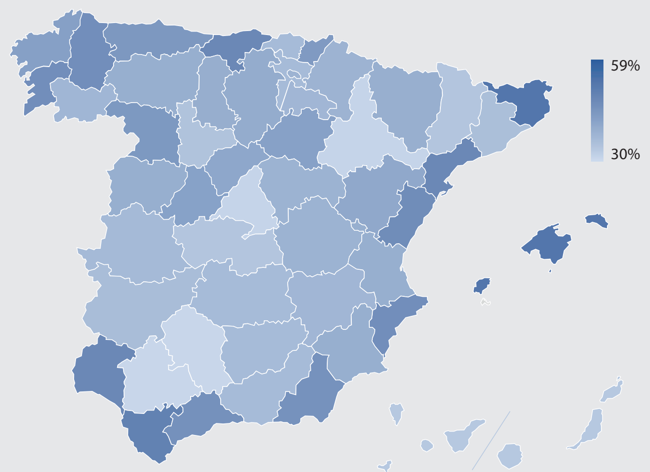
(% of the total spending on catering in the province)



Source: *BPI Research, based on internal data on card spending in the catering sector.*

Spain: spending on catering between July and September

(% of the spending on catering in the province in 2023)



Source: *BPI Research, based on internal data on card spending in the catering sector.*

4. For a more detailed account of the factors that will affect the tourism sector over the coming months, see the article «The current state and outlook for tourism in Spain: Strength and resilience» from the last *Tourism Sector Report*.

Activity and employment indicators

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
Industry									
Industrial production index	2.2	–1.1	0.5	–2.3	–2.2	–0.5	0.3	1.5	...
Indicator of confidence in industry *(value)*	–0.8	–6.6	–4.5	–5.4	–8.2	–8.1	–5.1	–4.5	–5.6
Manufacturing PMI *(value)*	51.0	48.0	50.1	48.5	47.3	45.9	49.2	51.5	51.4
Construction									
Building permits *(cumulative over 12 months)*	15.4	1.1	–1.8	1.7	4.3	0.2	0.4	...	...
House sales *(cumulative over 12 months)*	29.0	0.3	10.1	3.3	–3.1	–8.9	–10.4	...	...
House prices	7.4	4.0	3.5	3.6	4.5	4.2	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	18.9	90.6	40.7	21.9	18.9	17.1	16.2	...
Services PMI *(value)*	52.5	53.6	56.3	56.0	50.9	51.2	52.1	54.7	56.1
Consumption									
Retail sales[1]	2.3	2.5	2.6	2.4	2.1	2.9	0.5	1.9	...
Car registrations	–3.0	18.5	45.5	9.9	6.9	11.9	7.3	9.9	–4.7
Consumer confidence index *(value)*	–26.5	–19.2	–22.5	–19.1	–16.1	–19.1	–18.7	–17.3	–16.0
Labour market									
Employment[2]	3.1	3.0	1.8	2.9	3.5	3.8	–	–	–
Unemployment rate (% labour force)	12.9	12.1	13.3	11.6	11.8	11.8	–	–	–
Registered as employed with Social Security[3]	3.9	–	2.5	2.8	2.7	2.6	2.6	2.7	2.6
GDP	**5.8**	**2.5**	**4.1**	**2.0**	**1.9**	**2.0**	–	–	–

Prices

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
General	8.4	3.6	5.1	3.1	2.8	3.3	3.4	2.8	3.2
Core	5.1	6.1	7.6	6.2	6.0	4.5	3.6	3.5	3.3

Foreign sector

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	20.5	12.3	4.5	–1.4	–2.7	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	24.0	10.7	–1.2	–7.2	–7.8	...	...
Current balance	**8.2**	**38.0**	**22.3**	**28.7**	**35.8**	**38.0**	**40.8**	...	...
Goods and services	16.3	60.3	31.5	42.6	54.6	60.3	61.7	...	...
Primary and secondary income	–8.1	–22.3	–9.2	–14.0	–18.8	–22.3	–20.9	...	...
Net lending (+) / borrowing (–) capacity	**20.7**	**53.9**	**36.6**	**42.6**	**50.0**	**53.9**	**56.5**	...	...

Credit and deposits in non-financial sectors[4]

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	01/24	02/24	03/24
Deposits									
Household and company deposits	4.9	0.6	1.7	0.4	–0.3	0.4	1.5	2.3	...
Sight and savings	7.9	–4.5	0.3	–4.0	–6.9	–7.6	–7.6	–7.0	...
Term and notice	–19.7	51.9	7.7	40.1	69.5	90.4	106.2	109.2	...
General government deposits	9.6	8.7	7.4	6.8	11.3	9.4	–0.4	38.4	...
TOTAL	**5.2**	**1.1**	**2.1**	**0.8**	**0.5**	**1.0**	**1.4**	**4.7**	...
Outstanding balance of credit									
Private sector	0.7	–2.5	–0.9	–2.2	–3.4	–3.7	–3.2	–2.8	...
Non-financial firms	0.9	–3.4	–1.0	–2.7	–4.6	–5.2	–4.4	–3.9	...
Households - housing	1.0	–2.6	–1.2	–2.4	–3.4	–3.3	–3.0	–2.8	...
Households - other purposes	–0.6	–0.2	–0.1	–0.4	0.0	–0.5	–0.4	–0.1	...
General government	0.2	–3.4	–0.2	–3.3	–4.6	–5.5	–2.1	–1.8	...
TOTAL	**0.7**	**–2.6**	**–0.9**	**–2.3**	**–3.4**	**–3.8**	**–3.1**	**–2.8**	...
NPL ratio (%)[5]	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.6**	**3.6**	...	...

Notes: *1. Excluding service stations and deflated. 2. Estimate based on the Active Population Survey. 3. Average monthly figures. 4. Aggregate figures for the Spanish banking sector and residents in Spain. 5. 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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