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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
APRIL 2023

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BPI

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April 2023

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

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New challenges for central banks

Besides being the umpteenth obstacle on the path to the normalisation of the international economic cycle, the intervention in Silicon Valley Bank and its contagion effect on the rest of the international financial system can be understood as a test of the dual mandate of central banks that was consolidated after the 2008 financial crisis (when the traditional inflation target was complemented by a need for financial stability, a prerequisite for keeping prices under control and ensuring the proper functioning of the monetary policy transmission channel). Under normal conditions, this broadened approach to monetary policy does not pose a problem for central banks, as even the instruments used to achieve each of the objectives are different: interest rates for inflation, versus supervisory, regulatory and liquidity lines for financial stability.

But a cumulative increase of almost 400 bp in global interest rates in less than a year, after a decade of near-zero or negative interest rates, represents a regime change that could test the dual mandate of central banks. Especially when there are still no clear signs of a trend change in price dynamics. So what to do in such circumstances? Stick to the pre-announced course? Pause along the way? Or even lower interest rates if tensions increase further? For now, central banks, in our view rightly, have decided to stick to their pre-announced rate hikes (25 bp for the Fed and 50bp for the ECB), while strengthening liquidity supply windows for banks. Any other decision would have led to a deterioration in trust and therefore increased the risk of contagion. For the rest of the year, decisions will be taken more flexibly, depending on the evolution of price and activity indicators and taking into account whether and to what extent the events of March influence these developments through three key channels: confidence, financial conditions, and credit supply.

The market's initial assessment was that the disinflationary effect caused by financial tensions would allow central banks to be a little less aggressive in the coming months, significantly reducing expectations for the evolution of interest rates, and again discounting the possibility of rate cuts in the United States from the summer. All this during a risk-off process. However, it is too early to attempt to estimate the effects on the economic cycle and inflation, since, while we await the extent of the impact on the credit market, the increase in credit risk premiums and volatility indicators has not been accompanied by a deterioration in expectations. This shows that the quick response of central banks has helped to restore a certain degree of confidence.

As is often the case at the end of monetary tightening processes, it stands to reason that financial stability will become more central to the response function of central banks. However, taking incidents such as the SVB into account, the focus should be on detecting (and correcting) particularly fragile business models. And to increase the coordination of regulation and supervision at a global level in order to avoid distortions such as those caused by the intervention of Credit Suisse in the functioning of important segments of the bond markets (AT1).

What seems certain is that we will once again face a year of high market volatility, as in a single quarter we have witnessed three trend reversals in the behaviour of global financial assets. It also sees certain that the demanding mandate of the central banks will once again be put to the test.

Chronology

MARCH 2023

16 The ECB raises rates by 50 bps and places the depo rate at 3.00% and the refi rate at 3.50%.
18 Russia and Ukraine extend the deal allowing the export of grain and related foodstuffs and fertilisers via the Black Sea.
22 The Fed raises rates by 25 bps, placing them in the 4.75%-5.00% range.

FEBRUARY 2023

1 The Fed raises rates by 25 bps up to the 4.50%-4.75% range.
2 The ECB raises rates by 50 bps, placing the depo rate at 2.50% and the refi rate at 3.00%.
6 A magnitude 7.8 earthquake strikes Türkiye and Syria, with the highest death toll since 2010 and the fifth highest this century.

JANUARY 2023

1 Croatia joins the euro area and the Schengen Area.
8 China reopens its borders to foreign travellers after three years.

DECEMBER 2022

14 The Fed raises official interest rates by 50 bps.
15 The ECB raises official interest rates by 50 bps and announces that it will reduce reinvestments under the APP.

NOVEMBER 2022

2 The Fed raises official interest rates by 75 bps.
15 The world's population reaches 8 billion people.

OCTOBER 2022

5 OPEC agrees to cut crude oil production by 2 million barrels a day compared to August 2022 levels.
23 Xi Jinping receives a third term as general secretary of the Chinese Communist Party.
27 The ECB raises official interest rates by 75 bps.

Agenda

APRIL 2023

3 Portugal: industrial production (February).
4 Spain: registration with Social Security and registered unemployment (March).
12 Spain: financial accounts (Q4).
Portugal: services sector turnover (February).
18 China: GDP (Q1).
24 Spain: loans, deposits and NPL ratio (February).
27 Spain: labour force survey (Q1).
Portugal: business and consumer confidence indicator (April).
Euro area: economic sentiment index (April).
US: GDP (Q1).
28 Spain: GDP flash estimate (Q1).
Spain: CPI flash estimate (April).
Spain: state budget execution (March).
Euro area: GDP (Q1).
Portugal: GDP flash estimate (Q1).
Portugal: CPI flash estimate (April).

MAY 2023

2-3 Federal Open Market Committee meeting.
4 Spain: registration with Social Security and registered unemployment (April).
5 Spain: industrial production index (March).
Portugal: new lending (March).
9 Portugal: turnover in industry (March).
10 Portugal: employment and unemployment (Q1).
12 Portugal: labour cost index (Q1).
18 Spain: foreign trade (March).
19 Portugal: Moody's rating.
Japan: GDP (Q1).
26 Spain: loans, deposits and NPL ratio (March).
Spain: Fitch rating.
30 Spain: CPI flash estimate (May).
Spain: state budget execution (April).
Euro area: economic sentiment index (May).
31 Portugal: CPI flash estimate (May).

Resilience yes, but for how long?

The European economies, and that of Portugal in particular, have performed better than most observers and analysts expected. The Portuguese case has even been accompanied by significant structural improvements, reinforcing the resilience of the economy in the face of persistently high levels of inflation and a very significant increase in financing costs for families and companies. But the biggest question is whether the economy will continue to withstand present circumstances. For the time being, activity is growing at a very moderate pace, with inflation coming down due to cooling energy prices and the labour market taking some steps towards cooling as well. Let's take a closer look.

Economic indicators for activity and confidence have remained positive since October-November 2022, although the improvements are moderate, volatile and somewhat erratic, indicating the possibility of a rapid reversal. Even so, confidence indicators for March give some cause for reassurance, with the INE's economic sentiment indicator, which includes the various sectors of activity, returning to values observed at the beginning of 2022. However, the situation is quite inconsistent across different sectors, with real estate activities scoring negatively, possibly reflecting the strong slowdown of purchase and sale transactions in the residential market observed in 2022 (the number of transactions grew only about 1% in the year, and the year ended with significant quarterly drops), while in other sectors the outlook has clearly improved with the approach of the high season for Tourism. In short, while situations differ across the various sectors, overall there has been moderate progress, although probably not enough to guarantee a significant upturn in investment.

Meanwhile, households and consumers are less pessimistic than in October-November, but much more cautious than a year ago. When compared to the period before the war in Ukraine, the confidence index points to a worsening across the board, including greater uncertainty about employment, household finances, household saving capacity, and so on. The so-called «hard» indicators, which measure activity and consumption, also reflect this diagnosis. Specifically, retail sales (adjusted for inflation) decelerated sharply through February, with combined year-on-year growth of just 0.4% (and advancing just 0.1% year-on-year when excluding fuels). Of particular note is the 1.4% drop in the trade of food products, which has been falling by an average of 2.5% in monthly terms over the last six months (an indicator that probably reflects the impact of the loss of real income among lower income families, which have a greater propensity to consume and whose consumption of this type of goods has greater weight in their usual shopping basket). Taken together, these data confirm our outlook that private consumption will evolve very moderately throughout the year, especially the component that excludes durable goods.

Meanwhile, on the external front, the early data for 2023 suggest an excellent performance (overnight stays and arrivals grew by more than 5% compared with the beginning of 2020, before the pandemic interrupted flows). Exports of goods also evolved very positively in several ways, including signs of continued gains in market share and of diversification in terms of target markets (although still with a preponderance of EU countries) and product types. Improvements on this front seem sustainable and have ensured a modest external current account deficit in 2022 (-1.4% of GDP), a year in which the energy deficit reached its historical maximum of 4.9% of GDP.

Turning to inflation, developments are less positive. While the overall pace of price growth has slowed, this is mostly thanks to energy prices. When the more volatile food and energy components are excluded, the underlying rate continues to be around 7%, which confirms the outlook that the path back to 2% will be slow.

Finally, the labour market is showing signs of reversal, with the unemployment rate around 7% (in contrast with 5.9% in 2019). Unemployment records in the IEFP have been increasing for about 6 months (with some oscillations), although starting from a low base. But here, too, there are signs of resilience and structural improvement, so a major deterioration is not expected. As we have analysed in this same publication, despite the highest participation rate in 25 years (60.2%), the dynamism of the economy has ensured demand from the business sector, generating the highest level of employment ever and a number of vacancies per unemployed person that is still very high historically. This means that there is room to absorb (at least partially) any downturn in the economy.

In short, the picture seems to be one of resilience, which should lead to a slight improvement in our outlook for the economy in the coming weeks. However, this revision will likely be very moderate, as the huge increase in financing costs has not yet been fully passed on and prices continue to rise gradually.

Paula Carvalho
Lisbon, 3 April 2023

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

Financial markets

	Average 2000-2007	Average 2008-2019	2020	2021	2022	2023	2024
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.81	0.25	0.25	4.50	5.00	3.75
3-month Libor	3.62	1.01	0.23	0.21	4.74	4.75	3.50
12-month Libor	3.86	1.48	0.34	0.52	5.47	4.50	3.50
2-year government bonds	3.70	1.04	0.13	0.62	4.41	4.00	2.80
10-year government bonds	4.70	2.57	0.93	1.45	3.62	3.20	2.80
Euro							
ECB depo	2.05	0.20	–0.50	–0.50	1.77	3.50	2.50
ECB refi	3.05	0.75	0.00	0.00	2.27	4.00	3.00
€STR	–	–0.54	–0.56	–0.58	1.57	3.41	2.48
1-month Euribor	3.18	0.50	–0.56	–0.60	1.72	3.36	2.42
3-month Euribor	3.24	0.65	–0.54	–0.58	2.06	3.31	2.35
6-month Euribor	3.29	0.78	–0.52	–0.55	2.56	3.38	2.46
12-month Euribor	3.40	0.96	–0.50	–0.50	3.02	3.44	2.56
Germany							
2-year government bonds	3.41	0.35	–0.73	–0.69	2.37	3.20	2.50
10-year government bonds	4.31	1.54	–0.57	–0.31	2.13	3.00	2.80
Spain							
3-year government bonds	3.62	1.69	–0.57	–0.45	2.66	3.23	2.93
5-year government bonds	3.91	2.19	–0.41	–0.25	2.73	3.38	3.15
10-year government bonds	4.42	3.17	0.05	0.42	3.18	4.10	3.80
Risk premium	11	164	62	73	105	110	100
Portugal							
3-year government bonds	3.68	3.33	–0.61	–0.64	2.45	3.46	3.20
5-year government bonds	3.96	3.94	–0.45	–0.35	2.53	3.57	3.38
10-year government bonds	4.49	4.68	0.02	0.34	3.10	4.05	3.80
Risk premium	19	314	60	65	97	105	100
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.22	1.13	1.06	1.10	1.15
EUR/GBP (pounds per euro)	0.66	0.84	0.90	0.85	0.87	0.86	0.85
OIL PRICE							
Brent ($/barrel)	42.3	80.1	50.2	74.8	81.3	93.0	80.0
Brent (euros/barrel)	36.4	62.5	41.3	66.2	76.8	85.0	69.8

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2019	2020	2021	2022	2023	2024
GDP GROWTH							
Global	**4.5**	**3.3**	**–3.0**	**6.0**	**3.1**	**2.7**	**3.4**
Developed countries	***2.6***	***1.4***	***–4.4***	***5.2***	***2.6***	***1.0***	***1.7***
United States	2.7	1.7	–2.8	5.9	2.1	0.9	1.4
Euro area	2.2	0.8	–6.3	5.3	3.5	0.5	1.6
Germany	1.6	1.2	–4.1	2.6	1.9	0.0	1.5
France	2.2	1.0	–7.9	6.8	2.6	0.3	1.4
Italy	1.5	–0.3	–9.0	7.0	3.8	0.4	1.1
Portugal	1.5	0.5	–8.3	5.5	6.7	1.0	2.1
Spain	3.7	0.6	–11.3	5.5	5.5	1.3	1.9
Japan	1.4	0.4	–4.3	2.3	1.1	1.3	1.1
United Kingdom	2.6	1.3	–11.0	7.6	4.0	–0.9	–0.2
Emerging and developing countries	***6.5***	***4.9***	***–1.9***	***6.6***	***3.5***	***3.9***	***4.5***
China	10.6	8.0	2.2	8.4	3.0	5.2	5.1
India	7.2	6.8	–6.7	9.0	7.3	6.0	6.7
Brazil	3.6	1.6	–3.3	5.0	2.9	0.9	1.8
Mexico	2.4	1.9	–8.0	4.7	3.1	1.4	2.5
Russia	7.2	1.3	–2.7	4.8	–2.1	–3.2	3.0
Türkiye	5.5	4.5	1.9	11.4	5.6	3.0	3.2
Poland	4.2	3.7	–2.0	6.9	4.9	0.7	3.2
INFLATION							
Global	**4.1**	**3.7**	**3.2**	**4.7**	**8.6**	**6.0**	**4.1**
Developed countries	***2.1***	***1.6***	***0.7***	***3.1***	***7.2***	***4.0***	***2.0***
United States	2.8	1.8	1.2	4.7	8.0	4.1	2.7
Euro area	2.2	1.4	0.3	2.6	8.4	5.3	2.7
Germany	1.7	1.4	0.4	3.2	8.6	5.9	3.0
France	1.9	1.3	0.5	2.1	5.9	4.3	2.6
Italy	2.4	1.4	–0.1	1.9	8.7	5.9	2.6
Portugal	3.1	1.1	0.0	1.3	7.8	5.5	2.8
Spain	3.2	1.3	–0.3	3.1	8.4	4.2	2.6
Japan	–0.3	0.4	0.0	–0.2	2.5	2.5	1.5
United Kingdom	1.6	2.3	0.9	2.6	9.0	5.7	2.9
Emerging countries	***6.7***	***5.6***	***5.1***	***5.9***	***9.7***	***7.4***	***5.6***
China	1.7	2.6	2.5	0.9	2.0	1.5	1.6
India	4.5	7.3	6.6	5.1	6.7	5.3	5.0
Brazil	7.3	5.7	3.2	8.3	9.3	5.1	4.0
Mexico	5.2	4.2	3.4	5.7	7.9	4.7	3.8
Russia	14.2	7.9	3.4	6.7	13.8	7.5	6.8
Türkiye	22.6	9.6	12.3	19.6	72.3	36.4	29.0
Poland	3.5	1.9	3.7	5.2	14.9	7.0	3.7

Forecasts

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

Portuguese economy

	Average 2000-2007	Average 2008-2019	2020	2021	2022	2023	2024
Macroeconomic aggregates							
Household consumption	1.7	0.5	–7.0	4.7	5.7	0.4	0.9
Government consumption	2.3	–0.3	0.4	4.6	2.4	1.0	1.0
Gross fixed capital formation	–0.4	–0.7	–2.2	8.7	2.7	4.4	8.2
Capital goods	3.2	2.6	–5.4	13.9	4.5	–	–
Construction	–1.5	–2.6	1.0	5.5	0.8	–	–
Domestic demand (vs. GDP Δ)	1.3	0.1	–5.3	5.7	4.8	1.2	2.3
Exports of goods and services	5.3	4.0	–18.8	13.4	16.7	4.3	6.1
Imports of goods and services	3.6	2.7	–11.8	13.2	11.0	4.7	6.3
Gross domestic product	**1.5**	**0.5**	**–8.3**	**5.5**	**6.7**	**1.0**	**2.1**
Other variables							
Employment	0.4	–0.5	–1.9	2.7	2.0	0.1	0.4
Unemployment rate (% of labour force)	6.1	11.4	7.0	6.6	6.0	6.4	6.1
Consumer price index	3.1	1.1	0.0	1.3	7.8	5.5	2.8
Current account balance (% GDP)	–9.2	–2.9	–1.2	–1.2	–1.4	–0.6	–0.4
External funding capacity/needs (% GDP)	–7.7	–1.6	0.1	0.6	–0.5	1.3	1.3
Fiscal balance (% GDP)	–4.6	–5.1	–5.8	–2.9	–1.1	–0.9	–0.8

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2019	2020	2021	2022	2023	2024
Macroeconomic aggregates							
Household consumption	3.6	0.0	–12.4	6.0	4.5	0.7	2.3
Government consumption	5.0	1.1	3.5	2.9	–0.7	2.2	0.5
Gross fixed capital formation	5.6	–1.4	–9.7	0.9	4.6	–1.7	2.6
Capital goods	4.9	0.1	–13.3	6.3	4.0	–4.5	3.4
Construction	5.7	–2.9	–10.2	–3.7	4.7	–0.3	2.2
Domestic demand (vs. GDP Δ)	5.8	–0.3	7.6	6.5	2.9	1.1	1.9
Exports of goods and services	4.7	2.9	–19.9	14.4	14.4	1.0	2.0
Imports of goods and services	7.0	0.2	–14.9	13.9	7.9	–0.5	2.0
Gross domestic product	**3.7**	**0.6**	**–11.3**	**5.5**	**5.5**	**1.3**	**1.9**
Other variables							
Employment	3.2	–0.4	–6.8	6.6	3.8	1.1	1.4
Unemployment rate (% of labour force)	10.5	19.5	15.5	14.8	12.9	12.8	12.4
Consumer price index	3.2	1.3	–0.3	3.1	8.4	4.2	2.6
Unit labour costs	3.0	0.6	7.7	0.3	0.4	3.5	2.4
Current account balance (% GDP)	–5.9	–0.3	0.6	1.0	0.9	0.3	1.0
External funding capacity/needs (% GDP)	–5.2	0.1	1.1	1.9	1.5	1.5	2.0
Fiscal balance (% GDP)[1]	0.4	–6.5	–10.3	–6.9	–4.8	–4.0	–3.3

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

Forecasts

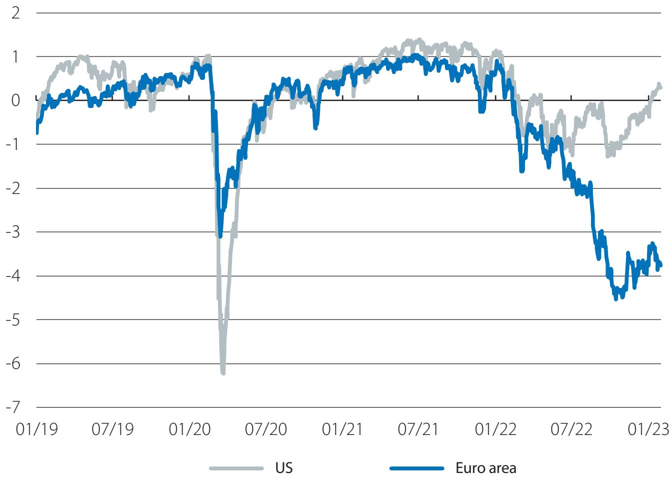
Financial turbulence shakes, but does not stifle, the markets and central banks

Financial markets survive the first materialisation of risks associated with the rate hikes. In March, the markets experienced their third big movement so far this year. Whereas January was marked by a slowdown in inflation and renewed risk appetite, later reversed in February due to the persistence of the cycle and prices, in March the collapse of Silicon Valley Bank (SVB) in the US triggered a brief but intense episode of panic. Interest rate expectations thus ended the quarter at the same level as in mid-January – albeit due to very different reasons – with lower terminal rates which are also expected to be shorter lived on both sides of the Atlantic. On the other hand, US sovereign 2-year paper experienced its biggest rally in the past 35 years following the collapse of SVB, with yields falling more than 130 bps in just a week. This volatility was not so pronounced in the stock markets, where the setbacks were concentrated in banking stocks and other sectors highly exposed to interest rates (already corrected in large part in Europe). Commodities, weighed down by weak demand in recent months, also suffered as a result of the instability.

A lower and shorter-lived terminal rate. The global upturn in risk aversion triggered exceptionally high volatility in interest rate expectations in March. At the beginning of the month, the persistence of inflation and the resilience of economic activity led the market to anticipate terminal rates of 4.25% in Europe and of up to 5.75% in the US. However, the collapse of SVB and the sale of Credit Suisse led to a sharp reversal of these movements. The implicit money market rates thus went from anticipating rate rises of up to 175 bps and 100 bps in Europe and the US, respectively, to even anticipating rate cuts towards the summer in the case of the Fed. After the panic subsided, the ECB raised rates by 50 bps at its March meeting, bringing the depo rate to 3.0%, although it opted to omit any kind of forward guidance. The Fed also raised rates by 25 bps, albeit signalling that the end of the rate hike cycle was near. At the end of the month, greater inertia in the European inflation data once again pushed up interest rate expectations, placing the ECB's anticipated terminal rate at 3.5%, while US expectations continued to anticipate a final 25-bp rise in May for the Fed.

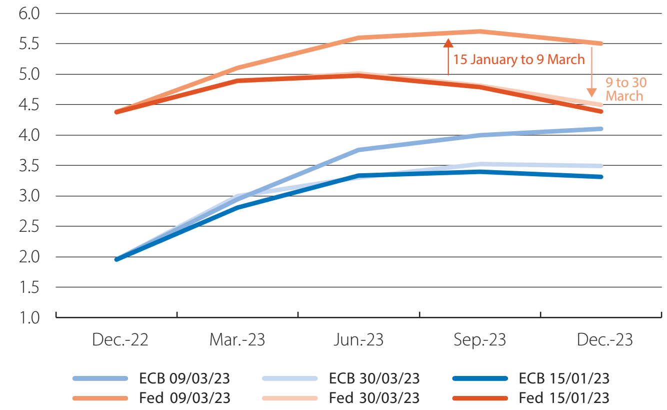
Sovereign debt yields slump and trigger an episode of high volatility. The volatile interest-rate expectations also dragged down public debt yields on both sides of the Atlantic, particularly in the case of shorter-term bonds. The yield on the 2-year German sovereign bond, which reached its peak since the financial crisis at around 3.3% at the beginning of the month, fell more than 100 bps with the Credit Suisse affair, before later recovering some 40 bps once the markets had digested the ECB's rate rise and the turbulence had been left behind. Even more intense was the drop in the US 2-year benchmark which, in the midst of its biggest rally since 1987, lost 130 bps versus its peak of 5% at the beginning of March. Consistent with an imminent end to the Fed's rate hikes, the

Financial conditions
Index (0 = historical average)



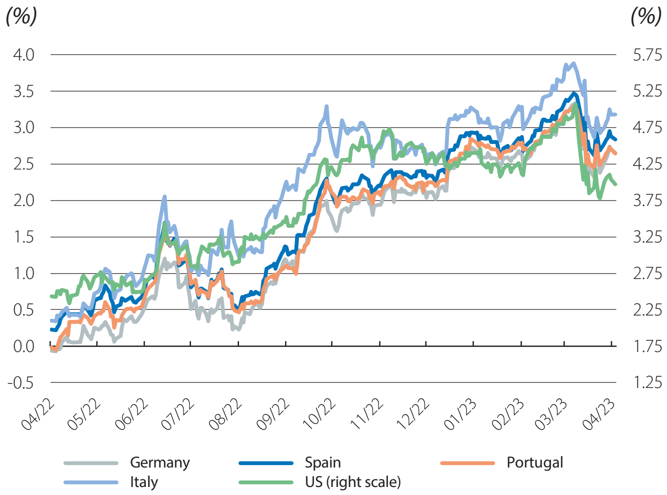
Note: *More negative values indicate tighter conditions.*
Source: *BPI Research, based on data from Bloomberg.*

Expectations for Fed and ECB reference interest rates
(%)



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

Interest rates on 2-year sovereign debt



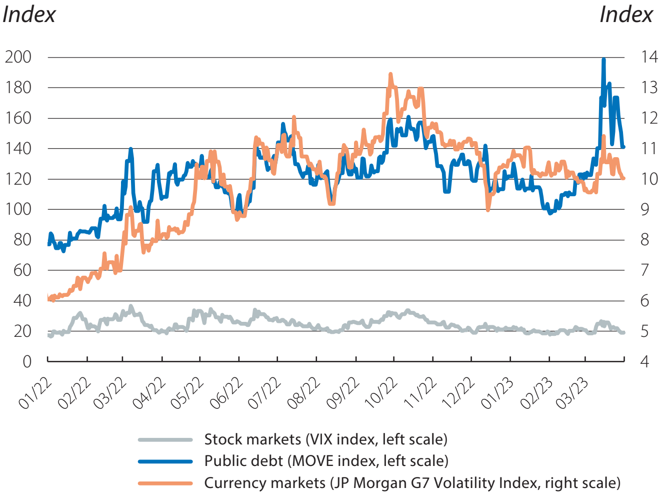
Note: *Germany, Spain, Italy and Portugal (left scale).*
Source: *BPI Research, based on data from Bloomberg.*

recovery in 2-year rates over the past week has also been less pronounced, at around 25 bps. The longer-term benchmarks (10 years), meanwhile, fell around 65 bps in the month. US sovereign bonds have been their most volatile since 2008, and this caused a sharp deterioration in market liquidity and financial conditions, until the Fed's decision to open up a new discount window where T-bills can be discounted at par value eased tensions. This move, which was coherent with the fact that the instability was triggered by SVB's poor management of the rate hikes, did not result in any contagion in the equity markets, although there was some contagion in the currency markets, which are heavily driven by interest rate spreads.

Global stock markets close up for a second consecutive quarter despite the volatility. In March, the main stock market indices closed their second consecutive quarter in the green, a sign of the gradual – and not always linear – recovery in risk appetite as the cycle of rate hikes approaches its end. In March, although the stock markets did not suffer as sharp an episode of volatility as the sovereign debt markets, the stocks most exposed to rates did experience significant movements. The banking sector was particularly affected, with the biggest falls (–30%) occurring in smaller US banks, which found themselves at the epicentre of the episode of instability. Taking into account the bigger banks, however, the declines suffered in the month by banking stocks as a whole were smaller (around –20%), both in Europe and in the US. In the case of Europe, this fall occurred on the back of a rally since the summer of +40% in the banking stocks of the Stoxx600 index, while the rebound in the final week of the month was also greater (+6.5%). Accordingly, the national indices with the greatest presence of the banking sector, namely the IBEX 35 and the Mib, benefited both from the rally at the end of the month and from the strong performance of banking stocks over the last two quarters. The Nasdaq100 index of US tech companies also benefited from the expectations of a lower and shorter-lived terminal rate, registering gains of +12% in March.

Weak global demand hampers commodity prices. Commodity prices experienced a month of declines. The price of the Brent barrel registered its fifth consecutive month of losses, although it managed to recover to the 80-dollar mark after falling to a 15-month low (73 dollars) at the height of the volatility. In addition to the obstacles for refinery supplies generated by the strikes in France and the interruption of production in Iraq, OPEC made a surprise announcement to cut production by 1.16 million barrels a day (mbd) between May and the end of the year, in addition to the cuts of 2 mbd already announced in November. The price of European natural gas (the Dutch TTF) also fell and traded between 40 and 50 euros/MWh thanks to the high level of reserves in Europe (the highest for this time of year in more than a decade). In addition, the EU approved the extension of the voluntary emergency measures to cut gas usage by 15% until 31 March 2024, and it plans to expand the bloc's capacity to receive liquefied natural gas by almost a third next year. However, aspects such as the expected increase in the demand for gas from Asia beginning in the summer, as well as the attractiveness of gas at these prices as opposed to coal or oil for some power plants and industrial users, supported the recovery of futures prices above 50 euros.

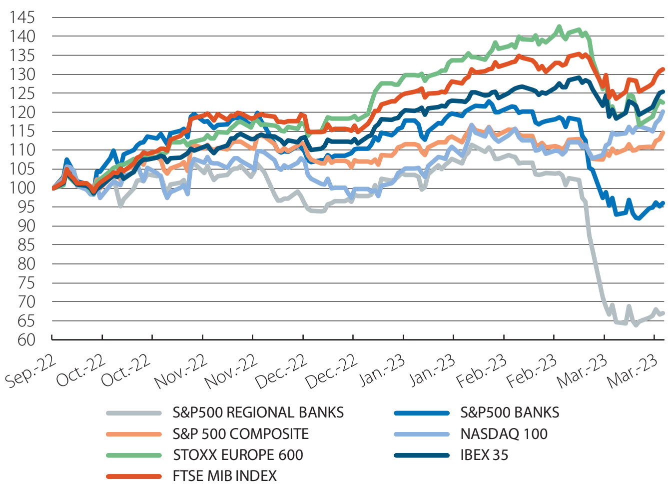
Implicit volatility in the financial markets



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

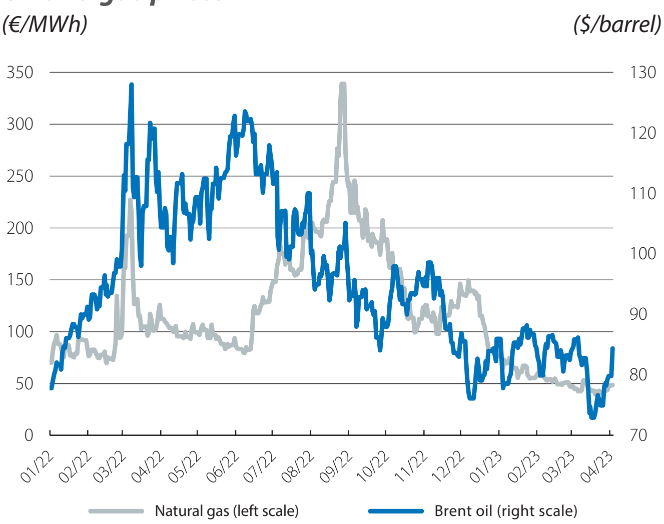
Performance of select stock market indices

Index (100 = 30 September 2022)



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

Oil and gas prices



Note: *The natural gas price corresponds to the Dutch TTF.*
Source: *BPI Research, based on data from Bloomberg.*

The Silicon Valley Bank intervention and its implications

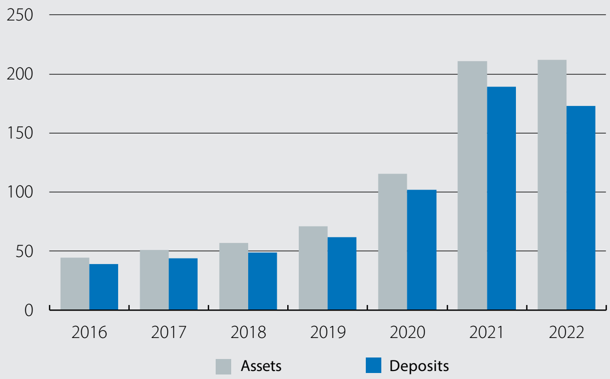
Since the first half of 2022, the major central banks have raised official interest rates rapidly and sharply in an attempt to contain inflation. Silicon Valley Bank (SVB), the sixteenth largest bank in the US by volume of assets – and yet one which was neither directly supervised by the Fed nor subject to the same prudential requirements as the country's largest banks – was unable to survive in this scenario.

SVB was particularly vulnerable to a scenario of sudden interest rate rises due to the composition of its balance sheet. Specifically, it was a bank with a deposit base that was highly concentrated in big tech companies, which are predominant in Silicon Valley. These deposits had tripled since 2018 (see first chart) and more than 95% were not guaranteed by the Deposit Guarantee Fund (FDIC).[1] Deposits of large firms tend to involve higher volatility and usually demand a relatively high return. On the asset side, the bank allocated this liquidity to the acquisition of low-risk assets, but with long-term maturities and at a fixed interest rate, such as US sovereign debt and mortgage-backed securities. Despite these assets' low credit risk profile, SVB's balance sheet was greatly exposed to interest rate risk: in the face of an increase in rates, servicing its liabilities became significantly more expensive (in line with short-term rates) while its assets yielded a lower fixed rate. In other words, following the rise in interest rates, SVB faced significant pressure on its profitability.

SVB developed a plan to alleviate this profitability problem which was threatening its rating. The problem was that it was unable to survive long enough in order to execute it. The plan involved selling a portion of its portfolio of low-yield assets in order to reinvest the proceeds in shorter-term debt, which currently provides a much higher yield. With that higher return on its assets, it would be able to pay its depositors without incurring losses. Upon selling the debt, SVB had to recognise losses, because in an environment of higher interest rates those bonds were worth less than what it had paid for them. To cover those losses, a share capital increase was planned, but unfortunately it failed to raise enough interest. Rumours about SVB's problems in managing this situation, which quickly spread on social media, triggered a stampede of depositors rushing to withdraw their funds within just 24 hours. A day later, the authorities intervened.

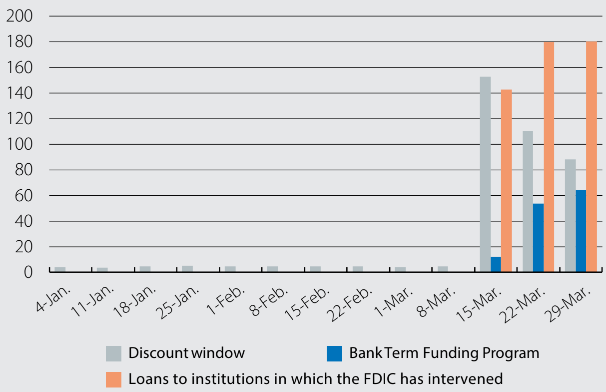
1. Figure as of the end of 2022, according to the annual report submitted by SVB to the SEC. The FDIC (Federal Deposit Insurance Corporation) guarantees deposits up to 250,000 dollars. Amounts exceeding this threshold are more vulnerable to bank runs.

Silicon Valley Bank: deposits and assets on its balance sheet
(USD billions)



Source: *BPI Research, based on data from SNL and from SVB's earnings presentation.*

Federal Reserve balance sheet - loans to credit institutions
(USD billions)



Source: *BPI Research, based on data from the Federal Reserve.*

To calm the financial markets and instil confidence in the depositors, the US Treasury guaranteed all SVB deposits, including those over 250,000 dollars. In addition, the Federal Reserve created a programme to provide liquidity to the financial sector,[2] as well as facilitating access to the discount window (the main instrument which provides banks with liquidity) – tools which have been used extensively by banks in recent weeks (see second chart).

These tensions reverberated across the Atlantic a few days later, when the focus of the financial markets fell on Credit Suisse (CS). This was a bank with good capital and liquidity metrics but which was suffering reputational problems, had incurred losses due to failed

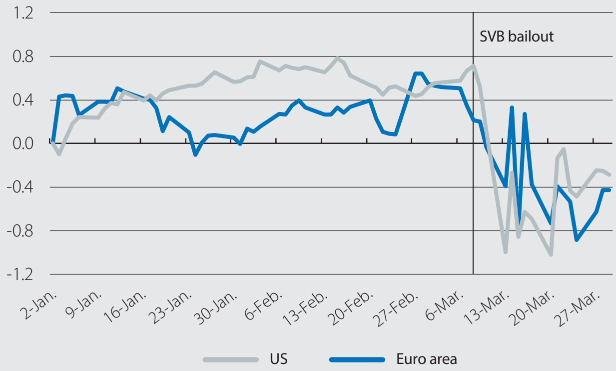
2. The Bank Term Funding Program.

transactions (such as the collapse of Archegos and Greensill Capital) and, much like SVB, had a deposit base for which the deposit guarantee scheme provided little coverage. In this case, the factor that triggered a flight of deposits was the statements by the bank's main shareholder warning that it would not be willing to resort to a share capital increase if this were necessary. After a sharp fall in the value of its shares and in an attempt to slow the flight of deposits and calm sentiment in the financial markets, Switzerland's central bank and government facilitated the acquisition process by UBS, which was finally confirmed during the weekend of 18 March. Among other decisions, as part of this transaction the Swiss authorities decided that a portion of CS's debt (known as AT1) would lose all its value – a measure which provoked some controversy because the shareholders (who, in principle, should bear the greatest losses) did not lose the full value of their investments in CS.

These episodes have had multiple impacts on the financial markets. Firstly, investors' expectations regarding central bank interest rates in the next few months have been revised downwards. Whereas before the SVB bailout the Fed was expected to raise interest rates as high as 5.75% and to keep them there until the end of the year, the markets are now anticipating that rates will reach 5.25% and that the Fed will begin cutting rates in the second half of 2023, bringing them back down to 4% by the end of the year. In the case of the ECB, the markets were previously anticipating a terminal rate of 4% and expecting rates to remain at that level until the beginning of 2024, whereas they are now expecting the ECB to place the depo rate at a peak of 3.50% in the second half of 2023.

Secondly, bank stocks fell sharply, both due to the revision of expectations regarding central bank rates (which had favoured the sector's stock valuations in previous months) and due to the perception of financial instability. In particular, during the month of March the value of banking sector stocks fell in Europe and in the US by 14% and 19%, respectively, whereas the Euro Stoxx 600 and the S&P 500 registered fluctuations of –0.7% and +3.5%. Thirdly, financial conditions have tightened, as can be seen in the last chart. In addition, in the US there has been a certain transfer of deposits from small and medium-sized banks to larger banks. The tightening of financial conditions, if maintained over time, could have an impact on economic activity, which may become more visible in the second half of 2023. The US appears to be more vulnerable to these risks, reducing the chances of a soft landing for the economy in 2023.

Financial conditions
Index



Note: *Lower (higher) values indicate a tightening (a relaxation) of financial conditions.*
Source: *BPI Research, based on data from Bloomberg.*

Interest rates (%)

	31-March	28-February	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	3.50	3.00	50	100.0	350.0
3-month Euribor	3.04	2.74	29	90.6	349.9
1-year Euribor	3.62	3.73	–10	33.1	370.8
1-year government bonds (Germany)	3.01	3.21	–20	40.8	343.9
2-year government bonds (Germany)	2.68	3.14	–45	–8.1	275.1
10-year government bonds (Germany)	2.29	2.65	–36	–27.9	173.7
10-year government bonds (Spain)	3.30	3.60	–30	–35.9	183.2
10-year government bonds (Portugal)	3.12	3.51	–39	–46.2	174.5
US					
Fed funds (upper limit)	5.00	4.75	25	50.0	450.0
3-month Libor	5.19	4.97	22	42.5	423.1
12-month Libor	5.31	5.68	–38	–17.7	313.4
1-year government bonds	4.59	4.98	–39	–9.6	292.6
2-year government bonds	4.03	4.82	–79	–40.1	156.9
10-year government bonds	3.47	3.92	–45	–40.7	108.5

Spreads corporate bonds (bps)

	31-March	28-February	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	85	79	6	–5.4	12.9
Itraxx Financials Senior	99	88	10	–0.4	17.5
Itraxx Subordinated Financials	184	154	30	11.8	28.5

Exchange rates

	31-March	28-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.084	1.058	2.5	1.3	–1.8
EUR/JPY (yen per euro)	144.090	143.990	0.1	2.6	6.5
EUR/GBP (pounds per euro)	0.879	0.880	–0.1	–0.7	4.4
USD/JPY (yen per dollar)	132.860	136.170	–2.4	1.3	8.4

Commodities

	31-March	28-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	550.6	548.5	0.4	–0.7	–13.0
Brent ($/barrel)	79.8	83.9	–4.9	–7.1	–26.1
Gold ($/ounce)	1,969.3	1,826.9	7.8	8.0	2.3

Equity

	31-March	28-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	4,109.3	3,970.2	3.5	7.0	–9.6
Eurostoxx 50 (euro area)	4,315.1	4,238.4	1.8	13.7	10.1
Ibex 35 (Spain)	9,232.5	9,394.6	–1.7	12.2	8.6
PSI 20 (Portugal)	6,046.6	6,057.2	–0.2	5.6	1.0
Nikkei 225 (Japan)	28,041.5	27,445.6	2.2	7.5	1.4
MSCI Emerging	990.3	964.0	2.7	3.5	–13.6

Love triangle in the international economy: activity, inflation and financial stability

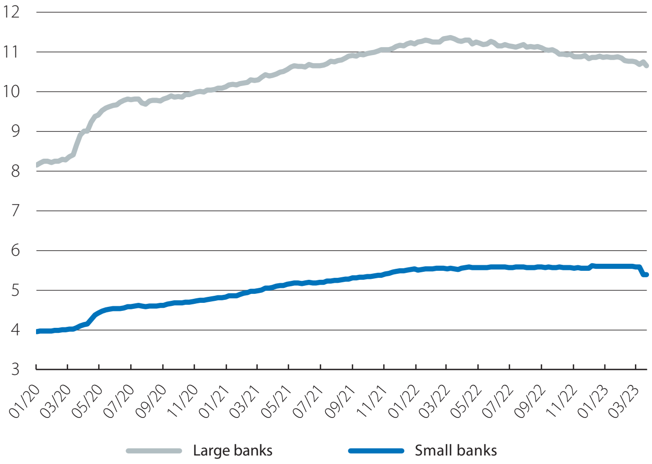
The economic outlook gains new ingredients. In March, the bulk of the published indicators reiterated a picture of reduced weakness in the economic activity figures and greater inertia in core price pressures. However, the collapse of Silicon Valley Bank (SVB) triggered an episode of financial turbulence and highlighted that the rapid and sharp rate hikes by the central banks are leading to tighter financial conditions (for more details on this episode, see the Financial Markets economic outlook section of this report). Although its effect is not yet clearly visible in the macroeconomic data, the tightening of monetary policy indicates a certain shift in the profile of the economic outlook: more resilient data in the short term, but less buoyancy towards the end of the year, when the central banks' rate hikes will have had time to filter through to the wider economy and their impact should be visible in the main economic aggregates. For instance, in the US the SVB episode triggered somewhat of a transfer of deposits from small and medium-sized banks to larger banks. Deposits remain high, but this development highlights the difficulties of the so-called «regional banking» segment in the US. Indeed, while it is an important subsector in commercial, industrial and real estate credit, it could weigh down the chances of a soft landing in 2023.

The labour market, a source of support. Energy prices (much more tempered than in 2022, but still high compared to pre-pandemic levels), high inflation, monetary tightening and its derivatives, and uncertainty continue to act as headwinds and hinder the performance of the world economy. However, in the face of these headwinds, labour markets in the major international economies remain strong, both in terms of job creation and low unemployment as well as in relation to wage buoyancy. In both the US and the euro area, the unemployment rates remain at or very close to the low points of the business cycle (3.6% and 6.6% in February, respectively) while labour participation rates are on the rise (74% and 79% among those under 65, respectively, in both cases around 0.5 pps more than a year ago). Wage growth accelerated to 5% at the end of 2022 in the euro area according to Eurostat data (specifically, the wage component of the hourly labour costs), while in the US various indicators place it between 4.6% (average hourly earnings) and 6.1% (Atlanta Fed indicator), somewhat below the peaks reached in 2022.

Change in the composition of inflation. In 2022, the dramatic surge in energy prices for European consumers (with growth in excess of 40% year-on-year at different times) became the main cause of the high inflation rates, both directly (the energy component accounted for 50% of all inflation) and indirectly (through its pressure on production costs, the rally in energy prices filtered through to the entire basket of goods and services, and it continues to do so). However, the upward pressure exerted by energy prices is fading, both due to base effects and because of the easing in energy prices which has consolidated in recent months). As a result, in March, euro area inflation fell sharply to 6.9% (–1.6 pps), with the first negative

US: bank deposits by entity size

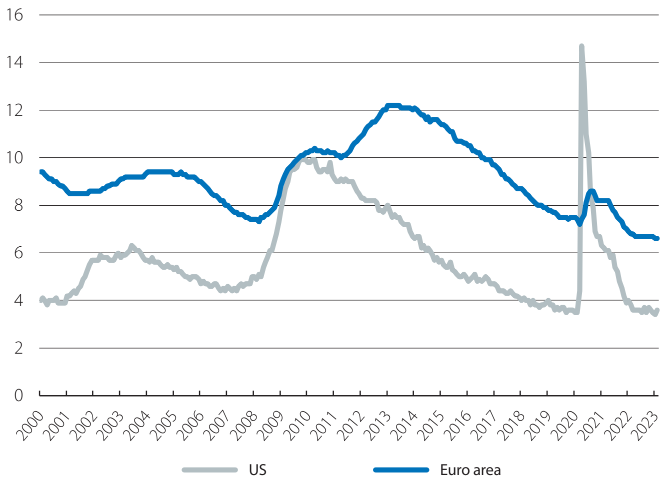
(USD trillions)



Notes: *Seasonally-adjusted data. Latest figure: 22 March 2023.*
Source: *BPI Research, based on data from the US Federal Reserve.*

Unemployment rate

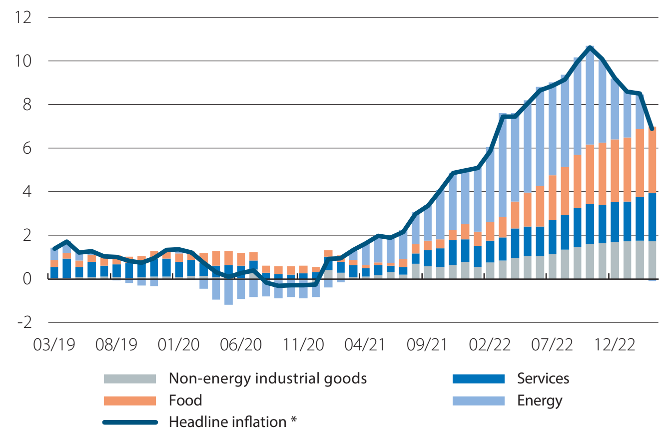
(%)



Source: *BPI Research, based on data from Eurostat and the BLS.*

Euro area: contributions to the year-on-year change in the HICP *

(pps)



Note: * *Year-on-year change in the HICP (%).*
Source: *BPI Research, based on data from Eurostat.*

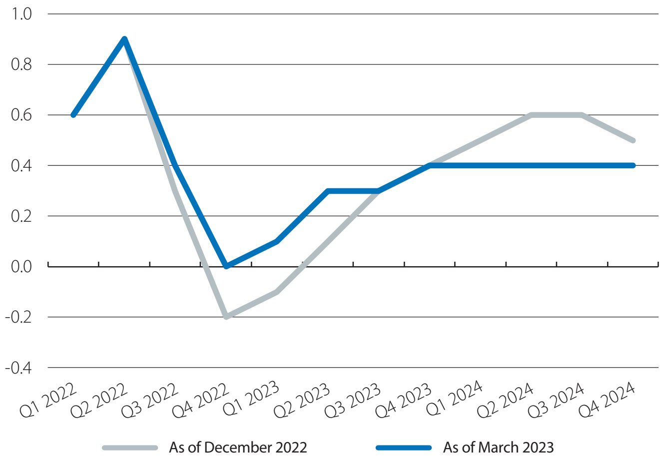
contribution from energy prices since 2021. This dynamic, which should continue for the remainder of the year, is leading to a shift in the composition of European inflation, with food, non-energy goods and services now playing a greater role. In fact, core inflation (which excludes energy and food) accelerated to 5.7% (+0.1 pps). This narrower gap between headline and core inflation is similar to the case of the US, where headline inflation fell in February to 6.0% year-on-year and core inflation stood at 5.5%.

Resilience of economic activity: European version. After avoiding a contraction in Q4 (stagnant GDP, thanks to the +0.9% quarter-on-quarter boost from public spending versus –0.9% in the case of private consumption), the euro area gained traction in Q1 2023, with the composite PMI in expansionary territory and accelerating (54.1 points in March). The improvement was widespread across different countries, but there was disparity between sectors (growth in services, with 53.0 points in the quarter as a whole, but contraction in manufacturing, with a quarterly average of 48.2). Other indicators show a more mixed performance. On the one hand, the Economic Sentiment Indicator (ESI) has slowed its recovery, stagnating in recent months (99.3 points in March, +5.5 points compared to the autumn, but –0.4 compared to January). On the other hand, the latest figures for retail sales and industrial production registered a month-on-month upturn in January 2023, but their year-on-year comparison reflects a relatively modest performance (+0.3% and +0.7%, respectively). All this paints a picture of a more resilient economy, but one which remains in a context of relative weakness. This situation was summed up well in the ECB's forecast update in March: rather than a contraction of 0.1% quarter-on-quarter, the central bank now expects that GDP will manage to grow by 0.1% in Q1 2023.

Economic resilience: US version. The US economy, meanwhile, appears to remain stronger, and after registering an increase of 0.6% quarter-on-quarter in Q4 2022, the Atlanta Fed's nowcasting model had suggested similar GDP growth for Q1 2023. However, the repercussions of the collapse of SVB will act as a new headwind, which the available indicators are not yet reflecting. In fact, in March the Conference Board's consumer confidence index improved by 0.8 points, reaching 104.2, while the composite PMI moved away from contractionary territory by climbing to 53.3 points (50.1 in February).

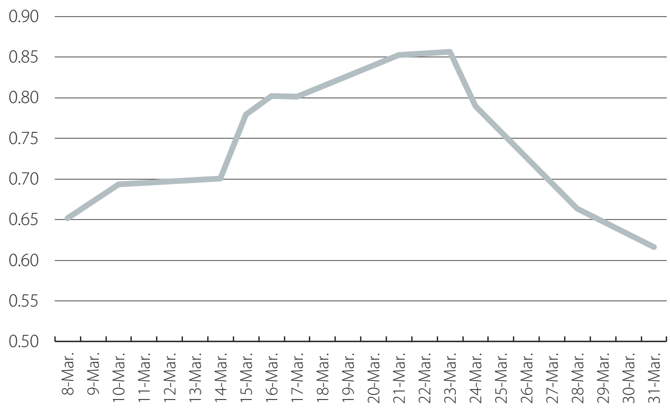
China consolidates its economic revival. The Chinese economy seems to be off to a strong start after the zero-COVID policy was abandoned, and all the indicators suggest that we will see a strong rebound in GDP in these first few months of 2023, leaving behind the economic stagnation of late 2022. In particular, various mobility indicators (such as metro travel) have jumped above their pre-pandemic levels, while the PMI indices have been well within expansionary territory throughout Q1 (average of 56.3 points in the services sector and 51.5 in the case of manufacturing). In addition, retail sales climbed by 3.5% year-on-year in January and February as a whole, with improvements across both goods and services. In this context of economic revival, the fourteenth National People's Congress was inaugurated in March, with the government announcing a growth target of «around 5%» for this year, below the 5.5% and 6.0% of previous years.

Euro area: ECB projections for GDP
Quarter-on-quarter change (%)



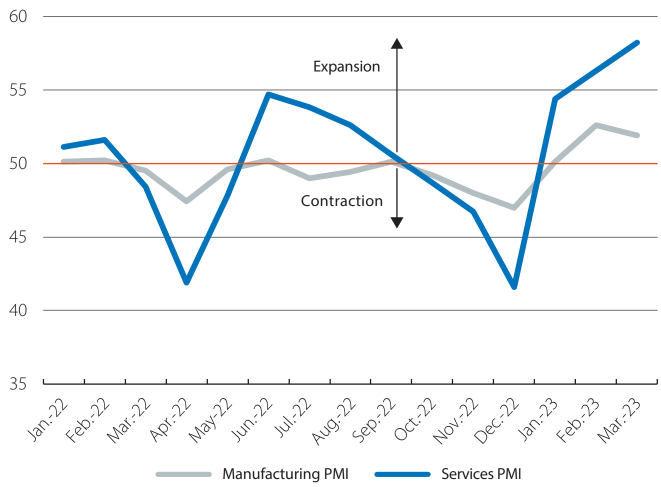
Source: *BPI Research, based on the ECB's macroeconomic projections of December 2022 and March 2023.*

US: Q1 2023 GDP forecast according to GDPNow *
Quarter-on-quarter change (%)



Notes: ** GDPNow is the nowcasting model used by the Atlanta Fed. The pattern shows how the forecast changes as indicators are published.*
Source: *BPI Research, based on data from the Atlanta Fed.*

China: PMI
Level



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

The EU's answer to the Inflation Reduction Act: «You cannot have dessert until you first eat your vegetables»

Meeting climate targets depends heavily on public and private investment and their effects on the development of new technologies. Therefore, much of the economic momentum since COVID has focused on encouraging this ecological transition. In the case of the US, the Inflation Reduction Act (IRA) was approved in August 2022. This is a set of public support measures with which the Biden Administration aims to stimulate environmentally sustainable consumption, production and investment. However, this desire brings with it protectionist clauses which have triggered protests by the EU.

What is the IRA?

The IRA is a plan with a budget of some 400 billion dollars due to be disbursed over the next decade, although it is expected to have a positive impact on the US Treasury's finances.[1] Looking at the breakdown, over 60% of the aid will go to the energy sector, 12% to industry and another 12% to improving the environment. The fact that the world's biggest economy wants to encourage the ecological transition is good news for the planet, but the protectionist bias of the plan's main subsidies is not. Specifically, for some aids available under the IRA, the subsidy or tax credit increases if the good or service in question meets certain domestic production criteria,[2] or if it is produced in a country with which the US has a free trade agreement. These types of clauses are contrary to the provisions of the World Trade Organization (WTO) and the EU considers them unfair competition from the US, which threatens to unleash a subsidy war among the world's major economies. It is estimated that the subsidies which could potentially breach WTO rules could exceed 75 billion dollars, although estimating their value is difficult since several of the support measures are not capped at any particular limit, neither in volume nor in value.[3]

How is the EU encouraging the ecological transition of European industry?

Although the EU has been trying for years to promote the ecological transition, particularly through the Recovery and Resilience Facility (RRF), the EU's answer to the IRA has been articulated through the European Commission's so-called Green Deal Industrial Plan. Unlike the IRA, this plan does not deploy new EU funds, since the EU already had various programmes in place to this end. Specifically,

Funds of the Green Deal Industrial Plan

Instrument	Origin and budgetary nature	Quantity (billions)	To deduct (billions)	Reason
RePowerEU	EU funds (from the EU Emissions Trading System)	20	2.6	Requested by Spain (addendum to the RTRP)
Brexit Adjustment Reserve	EU budget (MFF 21-27)	5.4	3.0	Funds already disbursed as of April 2023
Loans under the Recovery and Resilience Facility	Loans from the Commission to Member States (MFF 21-27)	225	84.0	Requested by Spain (addendum to the RTRP)
Cohesion Funds transferable to other purposes	EU budget (MFF 21-27)	17.9		
InvestEU	Guarantees of the EU budget (MFF 21-27)	26.2	1.5	Guarantees already committed
Innovation Fund	EU funds (from the EU Emissions Trading System)	40	17.8	Funds for RePowerEU (€12 million) and others already allocated
TOTAL		334.5		
TOTAL (excl. funds already disbursed)		312.2		
TOTAL (excl. funds already disbursed and those requested by Spain)		**225.6**		

Note: *For the RRF (but not for other instruments), the sum of funds under the Industrial Plan reflects only those still available as of the beginning of 2023. This excludes both grants (which have been fully requested by Member States) and loans already requested (only by seven countries). Although Spain has also requested the total sum of loans available to it in its addendum to the RTRP, in view of the timeline involved, the Industrial Plan does not yet deduct this amount. As there have not yet been any other announcements like Spain's in other possible addenda to the RTRPs, we only deduct the funds requested by Spain, as a lower limit.*
Source: *BPI Research, based on data from the European Commission.*

1. The plan contemplates some 700 billion dollars in higher tax revenues and lower spending over the next 10 years, more than offsetting the expenditure for the energy transition.
2. For instance, the credit incentives available for buying electric vehicles are 3,750 dollars per vehicle, but if a certain percentage of the minerals that make up the vehicle have been extracted or processed in the US or in a country with which there is a free trade agreement, and if the vehicle is assembled in North America, then this credit increases to 7,500 dollars. For renewable electricity production, there are bonuses applicable to the available subsidies in a similar manner, depending on the origin of the iron, steel and manufactured products used.
3. See D. Kleimann *et al.* (2023). «How Europe should answer the US Inflation Reduction Act». Policy Contribution 04/2023, Bruegel.

this plan includes three major measures: two regulatory proposals (one to promote the reduction of emissions from industry and another on essential raw materials needed for production) and the reform (temporary, for now) of the State aid framework, allowing Member States to match subsidies offered outside the EU in order to avoid the relocation of European industry.

There are a number of key aspects which stand out in this set of measures. Firstly, it aims to reduce bureaucracy so that public aid can be granted as easily as it is in the US. Secondly, in order to safeguard competition in the common market, greater flexibility is granted to the poorest regions of the EU to grant subsidies and thus avoid relocations. This does not, however, completely address the grievance that, in a single market such as the EU, the Member States with the greatest budgetary capacity – some of which also have poorer regions – will be more able to grant subsidies to their companies, sometimes simply because these countries have are bigger economies. Finally, it is also noteworthy that the targets for local production and recycling of raw materials set out in the proposal are not a binding mandate, but rather a benchmark target for monitoring European strategic dependencies throughout the industrial value chain. Because of the non-binding nature of the targets, these provisions are not contrary to WTO rules, unlike the aforementioned provisions of the IRA.

How much money has the EU allocated to this? How much is still available?

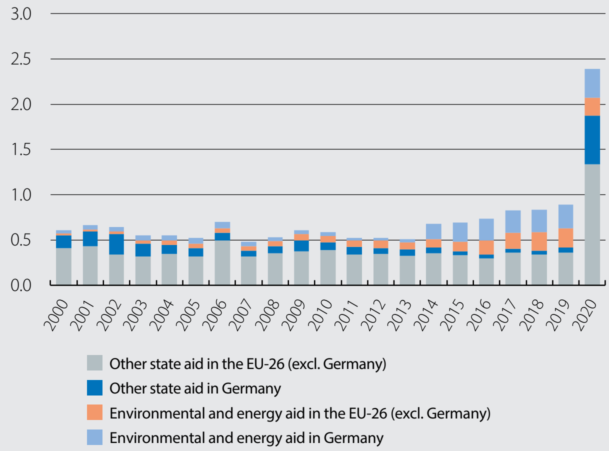
The Green Deal Industrial Plan merely recapitulates the funds which the EU has already mobilised to facilitate this transition, and in some cases adapts which areas and tasks those funds are allocated to, but it does not offer any new funding besides that already available. The total sum of funds that the plan recapitulates is very substantial (around 335 billion euros according to the Green Deal Industrial Plan, which represents 2.1% of EU GDP in 2022), and this comes on top of to the grants already approved under the RRF, the impact of which is mostly yet to be reflected. This 335 billion represents a comparatively greater budgetary effort on the part of the EU than that of the US with the IRA (2.1% of EU GDP versus 1.6% of US GDP).

However, if we discount the funds that have already been committed, or which soon will be, just 225 billion of the aforementioned 335 billion will be made available to European industry. This is equivalent to 1.4% of the EU's GDP in 2022, and is a comparatively lower effort than that of the US with the IRA.

What are national governments doing in the EU?

In short: the EU's answer to the IRA does not involve additional funding, but rather represents a streamlining

State aid in the EU, by country and sphere
(% of EU GDP)



Source: *BPI Research, based on data from the State Aid Scoreboard 2021 by the European Commission's Directorate-General for Competition.*

and simplification of what is already in place, and it gives Member States greater flexibility when it comes to granting aid and subsidies. It is precisely this aspect that could help to maintain a balance between the different blocs, although it still poses problems for the European economy, as the subsidies for the production of renewable energies of recent years have shown. These subsidies amounted to 511 billion euros between 2015 and 2021,[4] of which over 80 billion were allocated in 2020 alone (0.57% of EU GDP). However, the differences between countries are significant, particularly between Germany and the rest (Germany alone granted 33.5 billion euros in 2020, 0.94% of its GDP and 0.32% of the GDP of the EU).[5] This inequality is also reflected in the state aid: in the area of environmental protection, for more than five years now Germany has been providing more aid than all other EU Member States combined.

Finally, it is also worth noting that the EU and the US are already working towards allowing goods that are produced in the EU to access the US subsidies on an equal footing with those produced in countries with which the US has a free trade agreement. This offers some optimism on how transatlantic competition to encourage green industry with public funds could evolve. Ultimately, both the IRA and the EU's Green Deal Industrial Plan will facilitate the ecological transition and the fight against global climate change, although globalisation and the relationship with China will suffer.

4. In constant 2021 euros, see: European Commission, Directorate-General for Energy. T. Badouard *et al.* (2022). «Study on energy subsidies and other government interventions in the European Union: final report: 2022 edition». Publications Office of the European Union.
5. Spain's share (less than 0.2% of GDP) is also lower than that of France and Italy.

The euro area foreign sector in the red

The euro area economy avoided – only just – a decline in GDP in Q4 2022, and the first indicators of 2023 suggest that Q1 of this year will be better than expected. Much of this improvement is due to the level of gas reserves, which reached almost 100% of capacity before winter, which itself was also milder than usual. Having overcome the most delicate period for energy needs in the northern hemisphere, reserve levels remain above the average for this time of year.

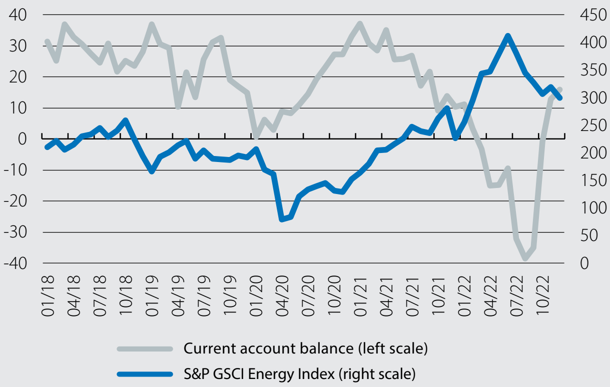
However, this effort to «fill the tanks» has led to a high price to pay for gas, which peaked in the summer (at almost €340/MWh), a period when Europe makes purchases to stock up ahead of winter. This high energy cost led to a deterioration in the terms of trade,[1] with a detrimental impact on trade balances, especially in the summer. As a result, for 2022 as a whole the euro area's trade balance in goods registered a deficit of around 60 billion euros (–0.5% of GDP vs. +2.3% in 2021), and this was entirely due to the widening of the deficit in the energy balance, which doubled during the year (exceeding 500 billion euros, or around 4.5% of GDP). This deterioration in the balance of goods caused the current account balance to fall into a deficit of 0.8% of GDP in 2022 as a whole, after almost a decade of uninterrupted surpluses (2.3% of GDP on average since 2012). From a savings and investment perspective,[2] this adjustment has occurred primarily due to a revival of investment (26% vs. 24% of GDP), in a context in which gross savings are in slight decline, albeit still high (25% vs. 26.4% of GDP).

This pattern in current account flows is replicated in the four major European economies, albeit with nuances. Indeed, Germany and Italy, the economies most exposed to Russian gas and, therefore, to the rise in gas and energy prices, showed the most pronounced deterioration. At the other end of the spectrum, Spain held up rather well, having benefited from the strong revival of international tourism, a warmer winter than usual and the possibility of re-exporting energy thanks to its high refining capacity.

In particular, in Germany the current account surplus fell by almost 50% in 2022, by far the most pronounced correction since German reunification. In fact, it went from an average of 7.5% of GDP in the previous decade to 4.0% (its lowest level since 2005), marking the first time since 2010 that it has fallen below the 6.0% threshold set by the European Commission in order to be considered a macro imbalance subject to surveillance. In Italy, the current account balance recorded its first deficit in a decade: –0.7% of GDP in 2022, having stood at +3.0% in 2021. France has already been registering a current account deficit since 2007, but the blow suffered in 2022 pushed the current account deficit to 2.0% of GDP (+0.4% in 2021), the biggest deficit since 1982. As for Spain, the country's current account balance faired better, with its surplus remaining practically unchanged (0.9% of GDP in 2022, after 1.0% in 2021) thanks to tourism revenues more than doubling compared to the previous year.

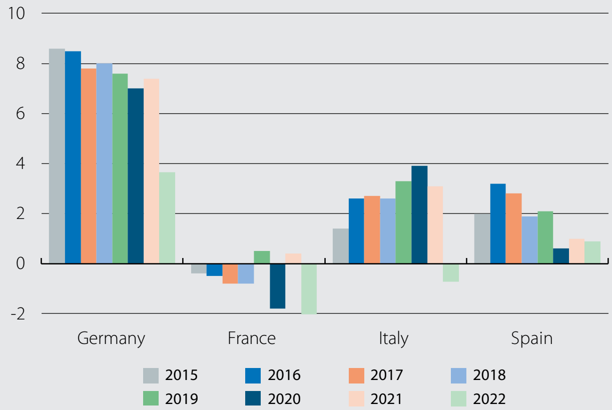
1. Ratio between a country's export prices and its import prices. An increase in this ratio indicates an improvement in trade relations, as exports are sold at a higher price than imports, enabling an improvement in trade balances. On the contrary, a reduction indicates that a higher price is being paid for imports than is received for exports, which tends to deteriorate the trade position.
2. In an open economy, GDP = private consumption + private investment + public spending + trade balance. Since saving = GDP – (private consumption + public spending); the trade balance = savings – private investment.

Euro area: current account balance and energy price
(EUR millions) *(Level)*



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

Current account balance
(% of GDP)



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

As a result, the deterioration in the current account balances has affected European economies' lending capacity or funding needs in 2022.[3] In this regard, we can analyse how each country's various sectors (households, non-financial firms and governments) have contributed to this adjustment.[4] Broadly speaking, the correction is concentrated in the private sector, including both non-financial firms and households, after a couple of years in which their financial situation improved substantially thanks to the exceptional conditions created in the aftermath of the pandemic. This reduced lending capacity in the private sector has been partially offset by a public sector which has significantly reduced its funding needs, having skyrocketed during 2020-2021 as a result of measures implemented to limit the impact of the pandemic on the economy. However, this adjustment has been slowed by the new round of measures introduced in response to the cost of living crisis triggered by the war in Ukraine.

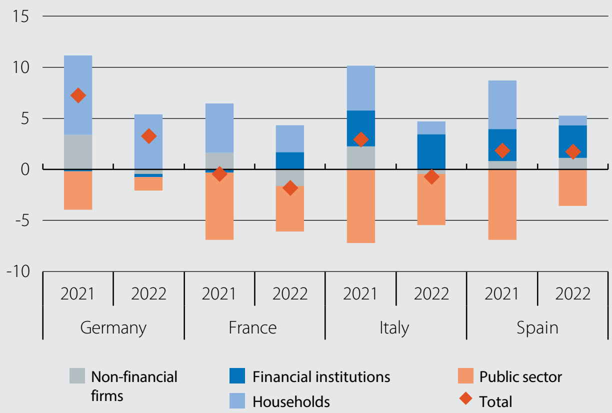
In the case of Germany, our analysis suggests that non-financial firms have seen a significant reduction in their lending capacity from the 3.4% of GDP obtained in 2021, returning to a situation similar to that of 2008 (when they had modest funding needs). Households, meanwhile, looks set to have a lending capacity well below the 7.8% of GDP registered in 2021, but still above the pre-COVID average. The government, for its part, appears to have reduced its funding needs from 3.7% of GDP to 1.5%-2.0% of GDP, giving it one of the lowest ratios in the entire euro area.

In Italy, our analysis indicates that households have reduced their lending capacity from around 4.5% of GDP in 2021 to levels closer to their pre-pandemic average in 2022 (1.5% of GDP), while businesses have seen their lending capacity severely eroded. As for the government, its debt position has been substantially reduced, but its funding needs still exceed the pre-pandemic average.

In France, the most pronounced adjustment occurred in the business sector (both in terms of the international comparison and with respect to other sectors within the country). Households, meanwhile, have seen their lending capacity cut in 2022 to below the average for the decade prior to the pandemic. The good news came from the public sector, which reduced its funding needs to 4.7% of GDP (6.5% in 2021), below the 5.0% budgeted by the government.

3. i.e. the sum of the current account balance and the capital balance.
4. Eurostat publishes annual data on the financial position by sector only up to 2021. As an estimate for 2022, we use the cumulative balance of the heading corresponding to each sector of the ECB's financial accounts between Q4 2021 and Q3 2022 (the latest available data). Therefore, the results and conclusions are provisional and are only intended to provide an indication of the trends over the past year.

Lending capacity (+)/funding needs (–)*
(% of GDP)



Note: ** Cumulative figures for Q4 2021 to Q3 2022, as an estimate for the 2022 total.*
Source: *BPI Research, based on data from Eurostat and the ECB.*

Finally, in Spain, the business sector showed great stability during 2022, while households suffered a significant loss in their lending capacity, being the most pronounced reduction in this measure among the four major economies. On the upside, the public sector registered a reduction of 2.1 pps of GDP in its funding needs, bringing the figure to 4.8% of GDP.

Housing markets in advanced economies in the face of monetary policy tightening (part I)

The housing market is one of the main transmission channels of monetary policy. Tighter financial conditions fuel rising mortgage rates and cool demand for real estate. Meanwhile, rising inflation erodes household purchasing power and weakens demand for housing. Considering the sharp tightening of monetary policy in recent quarters, below we document the turnaround that is beginning to occur in some global real estate markets and analyse the extent of the adjustment that this market may still have ahead of it.

Diagnosis: which real estate markets have accumulated the greatest imbalances?

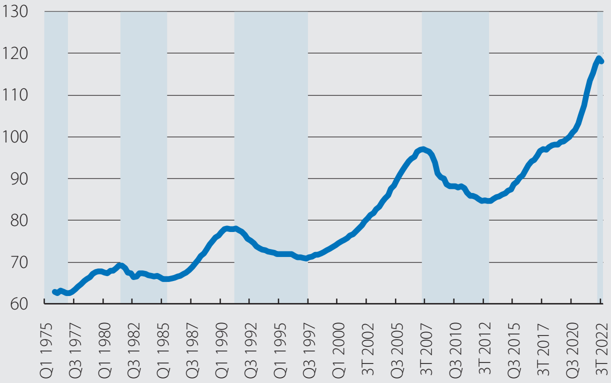
In many developed economies, house prices have increased significantly over many years, with the trend accelerating during the pandemic (due to changing preferences, expansionary fiscal and monetary policy, limited supply, etc.). Global house prices grew by 2.8% in 2019 and 4.5% in 2020, before accelerating by 11.8% in 2021 in nominal terms (1.4%, 3.5% and 8.6%, respectively, in real terms).[1] This upward trend slowed in 2022, especially in real terms (4.1% increase over Q3 2022) (see first chart). The recovery in house prices has far outpaced the evolution of household income and led to significant overvaluation in some markets. Thus, according to the Dallas Fed's Exuberance Indicator, 12 out of 25 countries analysed showed signs of overvaluation in Q3 2021.[2] The countries of most concern are those where the recovery in prices was accompanied by an increase in household debt (which was already at high levels in some cases).In this group, New Zealand, Canada, Australia and the USA stand out, while cases in Europe include the Netherlands, Luxembourg, Sweden, Denmark and Norway. In addition, variable rate mortgages are prevalent in these countries, meaning that newly mortgaged homes are more vulnerable to rising interest rates. The second group includes Portugal, Germany and the United Kingdom, which also experienced strong growth in house prices during the pandemic and an increase in household debt.

The current situation: changing trends in housing markets

Housing markets in several advanced economies began to correct in mid-2022 in the face of higher interest rates and a decline in real household disposable income. The markets with the largest house price declines since their peak (with data up to December 2022 or February 2023, depending on the country) are: Australia (–9.7%), Sweden (–9.6%), Canada (–10.4%), US (–5.9%), Germany (–5.7%), New Zealand (–5.0%) and Norway (–2.8%). Despite these declines, house prices in these countries are still above pre-pandemic levels. Additionally, sales are falling at double-digit rates year-on-year in several of these countries: Australia (–47%), Norway (–38%), Sweden (–35%), USA (–33%) and New Zealand (–31%).[3] The signs of cooling are more modest in the United Kingdom and in the Netherlands, with price drops of less than 5%, but

Global housing prices

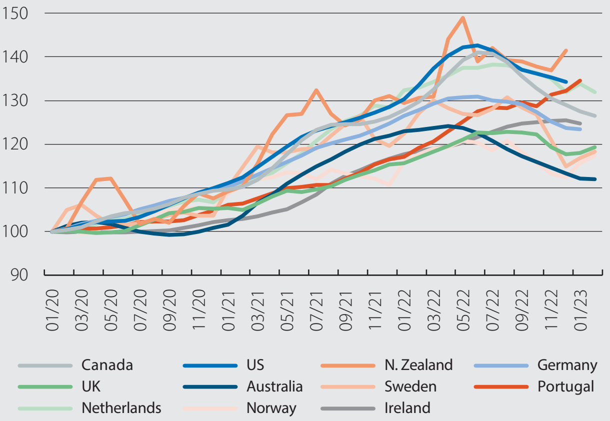
Index (100 = Q4 2019)



Note: *Aggregate price in real terms of 25 countries with dynamic relative weighting.*
Source: *BPI Research, based on the International Housing Observatory database, described in Mack and Martínez-García (2011).*

Nominal housing prices

Index (100 = January 2020)



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

1. Global house price indicator created from 25 advanced countries. See: https://int.housing-observatory.com/.
2. The price correction seen since last summer in many economies has already cooled some of these markets, with only five countries showing signs of overvaluation in Q3 2022.

3. Average annual change over the last three months for which data is available. The latest data date is December, January or February 2023, depending on the country.

Residential property market indicators in several developed economies
(%)

	Price of housing			Household debt		Variable rate	Overpriced housing?
	Variação entre dez.- 2019 e máx.	Variação desde máx.	Variação anual últimos dados	% RDB últimos dados	Variação *vs.* 4T 2019 (p. p.)	% novo crédito hipotecário (2019-2022)	Indicador de exuberância Fed Dallas
New Zealand	49.1	–5.0	8.0	122	4.2	–	YES
USA	42.6	–5.9	4.4	101	2.6	5	YES
Canada	41.2	–10.4	–2.5	179	1.7	–	YES
Netherlands	40.4	–4.5	–0.8	198	–13.4	15	YES
Luxembourg	37.5	–	11.1	193	8.0	38	YES
Sweden	36.2	–9.6	–7.0	193	9.2	64	YES
Portugal	32.7	–	13.1	113	2.9	69	–
Germany	32.3	–5.7	–2.4	91	3.4	11	YES
Ireland	25.7	–0.6	6.1	96	–30.0	21	NO
Australia	25.2	–9.7	–9.1	196	–1.1	–	YES
Norway	24.8	–2.8	–0.3	241	–2.8	–	MIDDLE
United Kingdom	23.0	–2.9	2.1	139	2.6	4	NO
France	18.9	–	6.5	118	5.5	3	YES
Denmark	18.2	–3.8	–2.4	204	–32.0	26	YES
Japan	15.2	–	7.5	115	–1.3	–	MIDDLE
Italy	9.7	–1.0	3.0	81	–0.1	26	NO
Spain	6.1	–	7.6	94	–3.0	30	NO

Notes: *Debt figures for New Zealand, Luxembourg, Norway and Japan are for 2021 and expressed as % of net income. A house is considered overvalued if the real house price exuberance indicator exceeds the critical value in at least one quarter in the period 2021-2022 (models with 1 and 4 lags). "MIDDLE" indicates that it exceeds only according to one of the two models considered.*
Source: *BPI Research, based on data from Eurostat, ECB, Refinitiv, Dallas Federal Reserve and OECD.*

the decline in activity is starting to become evident (annual sales drop of 18.2% in the UK and 15.5% in the Netherlands in February 2023).

Future outlook

The downward trend in house prices is expected to continue in coming quarters as the tightening of monetary policy spills over into the real economy.[4] The speed and intensity of the adjustment in the various housing markets will depend to a large extent on the imbalances that built up in the upswing of the housing cycle. As a result, corrections should be largest in markets where: (i) house prices have grown more strongly above household income (overvalued markets); (ii) household indebtedness is high and has been on an upward trend in recent years; and (iii) the cost of financing house purchases has increased further following the actions of central banks in recent quarters.

In order to assess the potential adjustment in house prices that could occur in these markets, in the Focus "Housing markets in advanced economies in the face of monetary policy tightening (part II)", in this same report, we analyse the pressure exerted by the tightening of affordability and the increase in interest rates in detail. Our exercises point to potential corrections (for the average of the countries analysed) of around 15%. Beyond this figure, there are two important nuances. First, the estimated correction is not abrupt, but is estimated to take place over a period of two years. Secondly, there are significant differences between countries, with a greater potential for adjustment in Anglo-sphere economies (in particular the USA, Australia and Canada) and some inconsistency in Europe. In this respect, it is worth noting that the Spanish property market is in a good position, both in relative and absolute terms.

As for the Portuguese market, it has accumulated some signs of imbalance, with prices that are very much out of line with disposable income, i.e. accessibility ratios that are increasingly challenging. However, it seems to us that there are signs of some resilience. Among other factors, household indebtedness has increased little since the pandemic, and the degree of market leverage is lower now than in previous phases of the residential cycle. Despite these safeguards, however, it is clear that there may be a coming price adjustment, albeit moderate, in line with our outlook and in the context of a reduction in transactions that is already beginning to take place.

It should also be borne in mind that the exercises carried out give us a measure of the potential fall in house prices in the countries where imbalances are most pronounced, but they remain illustrative exercises, which do not control for all relevant factors and

4. Generally, house prices tend to show some difficulty in adjusting downwards in cyclical downswings. The sharp falls in the number of sales suggest that the adjustment in house prices will continue in the coming quarters.

therefore provide a risk measure rather than a forecast. In reality, several factors influence the real estate market. One such factor is a positive performance in the labour market, a circumstance which is widespread among the economies analysed, providing support to household income and helping to mitigate affordability problems and limit forced sales. Households also have healthier balance sheets and banks have ample capital buffers to absorb potential losses without triggering downward price response mechanisms. However, correcting housing markets where imbalances have built up the most is still a risk when monetary policy suddenly changes course.

Advanced economy housing markets in a scenario of tighter monetary policy (part II)

Sensitivity exercises for international housing markets

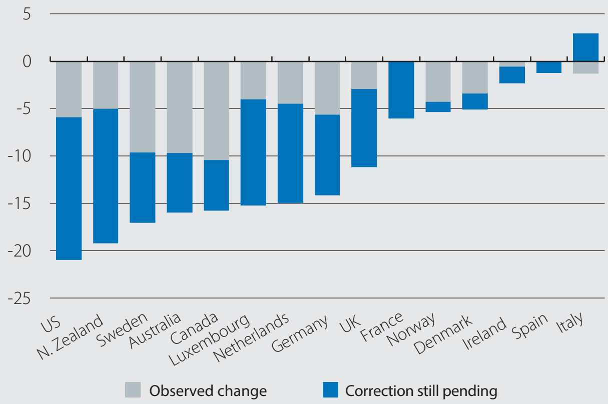
In the Focus «Advanced economy housing markets in a scenario of tighter monetary policy (part I)» we have documented signs of overvaluation in various international housing markets. While some of them have already begun to experience corrections, stress in housing affordability ratios and tighter monetary policy highlight the challenge posed by the current economic environment. In order to gauge the impact of these forces on real estate markets, we carried out two complementary exercises which give us clues as to the potential correction they could experience in their housing prices.

Firstly, we estimated the fall in housing prices which would be required for the housing affordability ratio (housing prices to household disposable income) to return to pre-pandemic levels within the next two years. Secondly, we estimated an econometric model which reveals the sensitivity of housing prices to an interest rate shock for each of the countries.

According to the first methodology,[1] and for all 25 countries analysed, the average correction in nominal housing prices over the next two years relative to their peak could be around 13%.[2] However, the differences between countries are significant. The US and New Zealand are the markets that could experience the biggest correction in housing prices (around 20% peak-to-bottom) in order to recover the affordability ratio of late 2019. In both countries, prices began to fall mid-last year, but some two-thirds of the total estimated correction is yet to occur. On the other hand, in Italy the exercise suggests that the price of housing has room for growth in the next two years, since the expected increase in household incomes alone would lead the affordability ratio to converge with the Q4 2019 level by the end of 2024. For Spain, it is estimated that a material correction in housing prices would not be necessary. Sweden, Australia and Canada, which are among the markets which overheated the most, stand out as having

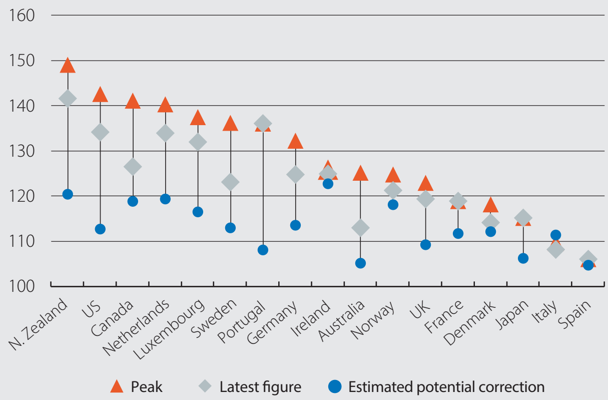
1. This calculation assumes that household income in 2023-2024 (the denominator of the affordability ratio) will grow at the same rate as real GDP and in line with the IMF's projections (October 2022 WEO). We have also performed alternative calculations using forecasts for GDP per capita and nominal GDP. The results are qualitatively similar. In other words, the correction required in order to recover the affordability ratio of Q4 2019 is achieved, in part, thanks to the improvement in the denominator (income).
2. We consider a period of eight quarters for this correction to take place, since this is the average transmission lag from monetary policy to housing prices.

Potential correction in housing prices
(Percentage drop versus the peak previously reached)



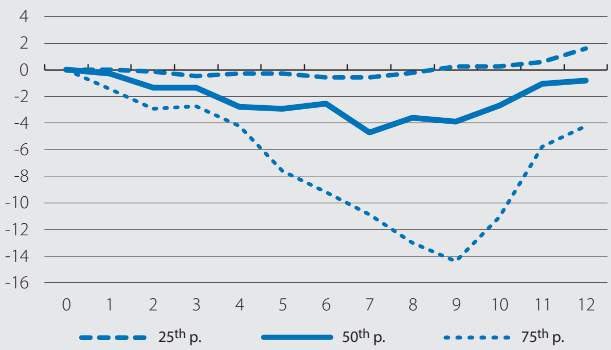
Source: *BPI Research, based on the International Housing Observatory database, described in Mack and Martínez-García (2011), and data from Refinitiv.*

Evolution of housing prices since 2019 and estimated potential correction
(100 = December 2019)



Source: *BPI Research, based on the International Housing Observatory database, described in Mack and Martínez-García (2011), and data from Refinitiv.*

Impact of the rate rises observed in 2022 on housing prices
Deviation (%)



Notes: *1) Deviation versus the price level that would prevail in the absence of any changes in rates. 2) We show the 25th, 50th and 75th percentiles of the average price response in a sample of countries comprising the US, the euro area aggregate, Germany, France, Italy, Spain, the Netherlands, Ireland, Finland, Norway, Denmark, the UK, Canada and Australia.*
Source: *BPI Research.*

already experienced more than half of the anticipated total correction. In contrast, it is estimated that Luxembourg and the Netherlands, which have a similar correction potential (around 15%), have only experienced a quarter of the total.

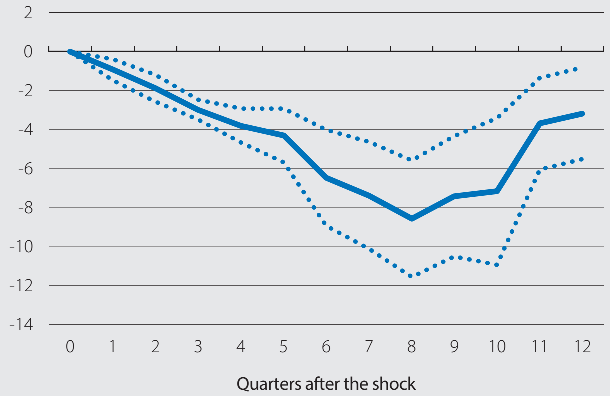
Although the estimated potential corrections are significant, it is also important to note that, at the end of 2024, housing prices would nevertheless remain above the levels of December 2019 in all countries. In other words, this is a partial correction in housing prices following the sharp rallies registered during the pandemic (see second chart).

The second methodology[3] indicates that the tightening of monetary policy observed in recent quarters has a potential to cause a median price correction of around 5%.[4] This analysis suggests that rate hikes take around eight quarters to be fully transmitted to housing prices, suggesting a gradual cooling in housing markets which could last throughout 2023 and 2024. Furthermore, this exercise allows us to separate the final impact of the monetary tightening process between two forces: on the one hand, the sensitivity of each economy to a particular rise in rates; and, on the other, the rate increase actually observed in recent quarters. Thus, and much like in the first exercise, in some economies we estimate a potential impact of around 15%, while in others the effect is barely noticeable.

For instance, in the US, the estimated sensitivity of housing prices to interest rates is not among the highest in the sample, but the monetary tightening process has been one of the most pronounced, thus translating into a relatively high potential for correction (around 20%). The picture for the euro area as a whole is similar, albeit somewhat more moderate due to the lower stress in interest rates (potential of just under 15%). However, the estimated impact among the major European economies is clearly lower (between –2% and –10%). In the sample as a whole, the markets which stand out the most in this exercise are those of the Anglo-Saxon countries, with Canada, Australia and the aforementioned case of the US, in addition to the Netherlands in Europe.

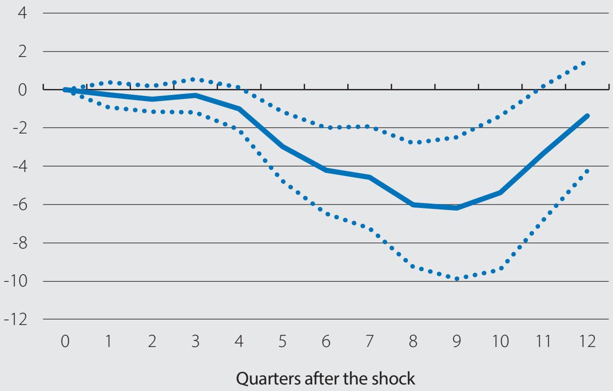
3. We reproduced the model for the euro area used by Battistini *et al.* (2022), in «The impact of rising mortgage rates on the euro area housing market», ECB, Economic Bulletin 6/2022, and extend it to the rest of the countries analysed. Specifically, we use a vector autoregression to estimate the relationship between housing prices, residential investment and mortgage rates, adding control variables (real GDP, the CPI, the short-term interbank interest rate and housing credit), for the period 2003-2022. The impulse-response functions are estimated using the local projections method.
4. We analysed a group of Anglo-Saxon countries (the US, UK, Canada and Australia), a group of European countries (euro area aggregate, Germany, France, Italy, Spain, the Netherlands and Ireland) and another comprising Scandinavian countries (Norway, Denmark and Finland).

Euro area: impact of a 1 pp increase in interest rates on housing prices
Deviation (%)



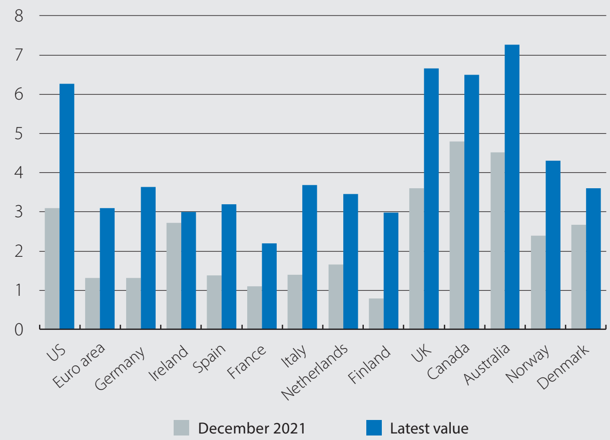
Note: *Deviation versus the price level that would prevail in the absence of any changes in rates.*
Source: *BPI Research.*

US: impact of a 1 pp increase in interest rates on housing prices
Deviation (%)



Note: *Deviation versus the price level that would prevail in the absence of any changes in rates.*
Source: *BPI Research.*

Mortgage rates
(%)



Source: *BPI Research, based on data from the Fed, ECB, BoE (Bank of England), Bank of Canada, RBA, Norges Bank and Danmarks Nationalbank.*

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

UNITED STATES

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
Activity									
Real GDP	5.9	2.1	3.7	1.8	1.9	0.9	–	–	–
Retail sales (excluding cars and petrol)	17.5	8.6	11.2	7.8	8.5	7.2	9.0	7.9	...
Consumer confidence *(value)*	112.7	104.5	108.1	103.4	102.2	104.2	106.0	103.4	104.2
Industrial production	4.4	3.4	4.4	3.8	3.5	1.9	1.0	0.3	...
Manufacturing activity index (ISM) *(value)*	60.7	53.5	57.7	55.0	52.2	49.1	47.4	47.7	...
Housing starts *(thousands)*	1,605	1,554	1,720	1,647	1,450	1,398	1,321	1,450	...
Case-Shiller home price index *(value)*	267	306	299	313	310	303	300	...	...
Unemployment rate *(% lab. force)*	5.4	3.6	3.8	3.6	3.6	3.6	3.4	3.6	...
Employment-population ratio *(% pop. > 16 years)*	58.4	60.0	59.9	59.9	60.0	60.0	60.2	60.2	...
Trade balance [1] *(% GDP)*	–3.6	–3.7	–3.9	–4.0	–3.9	–3.7	–4.8	...	...
Prices									
Headline inflation	4.7	8.0	8.0	8.6	8.3	7.1	6.4	6.0	...
Core inflation	3.6	6.2	6.3	6.0	6.3	6.0	5.6	5.5	...

JAPAN

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
Activity									
Real GDP	2.1	1.0	0.5	1.7	1.5	0.4	–	–	–
Consumer confidence *(value)*	36.3	32.2	34.8	33.1	31.2	29.6	31.0	31.1	...
Industrial production	5.6	0.1	–0.6	–3.6	4.0	0.6	–3.8	–1.5	...
Business activity index (Tankan) *(value)*	13.8	9.5	14.0	9.0	8.0	7.0	–	–	–
Unemployment rate *(% lab. force)*	2.8	2.6	2.7	2.6	2.6	2.5	2.4	2.6	...
Trade balance [1] *(% GDP)*	–0.3	–3.7	–1.0	–1.9	–3.0	–3.8	–5.1	–7.7	...
Prices									
Headline inflation	–0.2	2.5	0.9	2.4	2.9	3.9	4.4	3.3	...
Core inflation	–0.5	1.1	–0.9	0.8	1.5	2.8	3.2	3.4	...

CHINA

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
Activity									
Real GDP	8.4	3.0	4.8	0.4	3.9	2.9	–	–	–
Retail sales	12.4	–0.8	1.6	–4.9	3.5	–2.7	–	3.5	...
Industrial production	9.3	3.4	6.3	0.6	4.8	2.8	–	2.4	...
PMI manufacturing *(value)*	50.5	49.1	49.9	49.1	49.5	48.1	50.1	52.6	51.9
Foreign sector									
Trade balance [1,2]	681	889	728	824	908	889	–	912.4	...
Exports	30.0	7.1	15.7	12.9	10.0	–6.8	–	–6.8	...
Imports	30.0	1.1	10.6	1.2	0.6	–6.5	–	–10.2	...
Prices									
Headline inflation	0.9	2.0	1.1	2.2	2.7	1.8	2.1	1.0	...
Official interest rate [3]	3.8	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Renminbi per dollar	6.5	6.7	6.3	6.6	6.9	7.1	6.8	6.9	6.9

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
Retail sales *(year-on-year change)*	5.4	...	5.9	1.1	–0.6	–2.6	–2.4	...	...
Industrial production *(year-on-year change)*	9.9	...	1.6	2.1	3.4	2.0	0.9	...	...
Consumer confidence	–7.5	...	–13.7	–22.6	–26.9	–26.9	–20.7	–19.1	–19.2
Economic sentiment	110.7	...	111.2	103.9	96.5	96.5	99.7	99.6	99.3
Manufacturing PMI	60.2	...	57.8	54.1	49.3	49.3	48.8	48.5	47.3
Services PMI	53.6	...	54.1	55.6	49.9	49.9	50.8	52.7	55.6
Labour market									
Employment (people) *(year-on-year change)*	1.4	...	3.0	2.6	1.7	1.5	–	–	–
Unemployment rate *(% labour force)*	7.7	6.7	6.8	6.7	6.7	6.7	6.6	6.6	...
Germany *(% labour force)*	3.6	3.1	3.1	3.0	3.1	3.0	2.9	2.9	...
France *(% labour force)*	7.9	7.3	7.3	7.5	7.2	7.2	7.1	7.0	...
Italy *(% labour force)*	9.5	8.1	8.4	8.1	8.0	7.9	8.0	8.0	...
Real GDP *(year-on-year change)*	5.6	3.5	5.5	4.4	2.4	1.8	–	–	–
Germany *(year-on-year change)*	2.8	1.9	3.5	1.7	1.4	0.9	–	–	–
France *(year-on-year change)*	7.2	2.6	4.8	4.2	1.0	0.5	–	–	–
Italy *(year-on-year change)*	7.3	3.9	6.5	5.1	2.5	1.4	–	–	–

Prices

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

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
General	2.6	8.4	6.1	8.0	9.3	10.0	8.6	8.5	6.9
Core	1.5	3.9	2.7	3.7	4.4	5.1	5.3	5.6	5.7

Foreign sector

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

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
Current balance	2.6	–0.8	1.8	0.7	–0.8	–0.8	...	...	...
Germany	7.8	4.2	7.1	6.0	4.7	4.2	4.2	...	...
France	0.4	–2.0	0.1	–0.4	–1.3	–2.0	–1.9	...	...
Italy	3.0	–0.7	2.1	1.0	–0.6	–0.7	–0.7	...	...
Nominal effective exchange rate[1] *(value)*	**94.3**	**90.8**	**92.5**	**90.2**	**88.9**	**91.6**	**93.0**	**93.0**	**...**

Credit and deposits of non-financial sectors

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

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
Private sector financing									
Credit to non-financial firms[2]	3.5	6.7	4.5	6.1	8.4	7.8	6.1	5.7	...
Credit to households[2,3]	3.8	4.4	4.4	4.6	4.4	4.0	3.6	3.2	...
Interest rate on loans to non-financial firms[4] *(%)*	1.2	1.8	1.2	1.4	1.8	2.9	3.5	3.7	...
Interest rate on loans to households for house purchases[5] *(%)*	1.3	2.0	1.4	1.5	2.1	2.9	3.5	3.7	...
Deposits									
On demand deposits	12.6	6.2	9.1	7.7	6.3	1.8	–1.5	–3.5	...
Other short-term deposits	–0.8	4.5	–0.3	0.9	5.3	12.0	15.2	17.5	...
Marketable instruments	11.6	3.7	0.7	2.2	4.1	7.6	13.7	21.3	...
Interest rate on deposits up to 1 year from households *(%)*	0.2	0.5	0.2	0.2	0.4	1.1	1.5	1.9	...

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.*

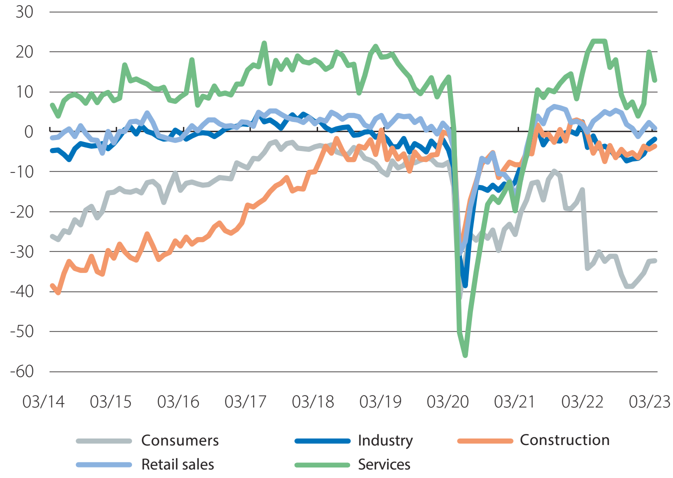
Auspicious signs at the beginning of the year

Resilient indicators in early 2023 pose slight upside risks to our forecast of 1% real GDP growth. Of the indicators available for January and February, the positive performance of consumption, namely for cars and flights, suggest that tourism continues to be an important driver of activity. Similarly, confidence indicators show a positive trend up to March in all sectors except services. Added to all this are signs that the cooling in the labour market is contained. In effect, unemployment registered at job centres decreased in February (-2.0% month-on-month), reaching a total of 315,645 individuals. Even though it remains above 300,000, this is still a positive sign after the consecutive increases of the last six months. Job offers also increased (+8.7% compared to January), although they continue to point to a cooling of the labour market, with February's figure clearly below the average recorded in this month in the five years prior to the pandemic (13,397 and 16,526, respectively). Also noteworthy is the increase in the number of workers on layoff in February (+8.2% compared to January), more than double the historical value, a situation that points to possible reorganisations in companies faced with increases in input prices, financing costs and the environment of high uncertainty. Alongside this, the unemployment rate, despite having fallen in February (6.8% compared to 7.0% in January), is still above year-on-year values and that registered before the pandemic. Therefore, despite some favourable developments, there are signs that demand caution.

The household savings rate fell to 6.1% of disposable income in 2022, though households still have a reasonable cushion of excess savings to meet a period of higher costs for financing and goods and services. The 2022 value is the lowest since Q3 2017, and reflects a larger increase in (nominal) consumption than in disposable income. But despite this fall in the savings rate, some factors suggest an improvement in the financial situation of households. Firstly, their financing capacity recovered somewhat at the end of 2022, increasing to 0.5% of GDP, 0.3% more than in the previous quarter. Secondly, household investment continues to grow at a higher pace than that seen in the 5 years before the pandemic (8% in 2022 vs. 6.9% between 2014 and 2019), suggesting that households continue to invest a significant part of their savings in real assets, namely real estate. Thirdly, surplus savings accumulated during the pandemic have practically stabilised compared to 3Q 2022, remaining at 6.6 billion euros (3% of GDP).

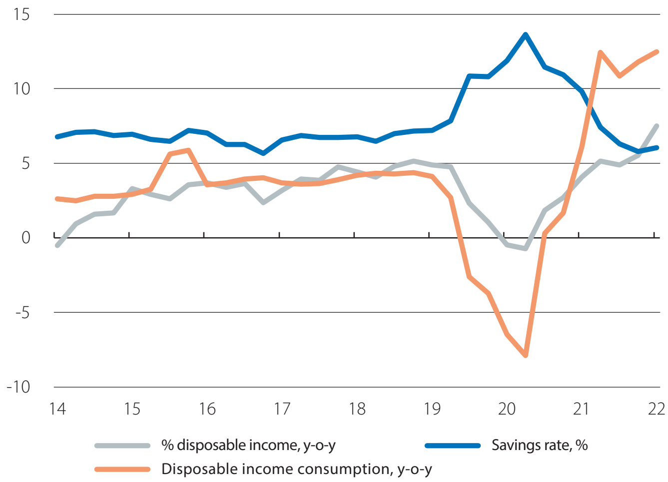
Resistant core inflation. The rise in the underlying inflation rate had been the worst news in the CPI figures for Portugal in February. Indeed, organising the underlying basket by bracket allows us to see the persistence of inflation more clearly. Since May 2022 the core inflation basket has recorded unbroken inflation above 5% in over 40% of its composition, with 43% in the last four months. The March flash estimate, despite the slight decrease in underlying inflation (from 7.2% to 7%), remains at very high levels, and it should be noted that inflation reached its historical maximum since 2001 (5.7%) in the Eurozone. In the opposite direction, energy prices (-4.4% year-on-year) provided a negative contribution, explaining about half of the decline in

Portugal: confidence indicators
(Points)



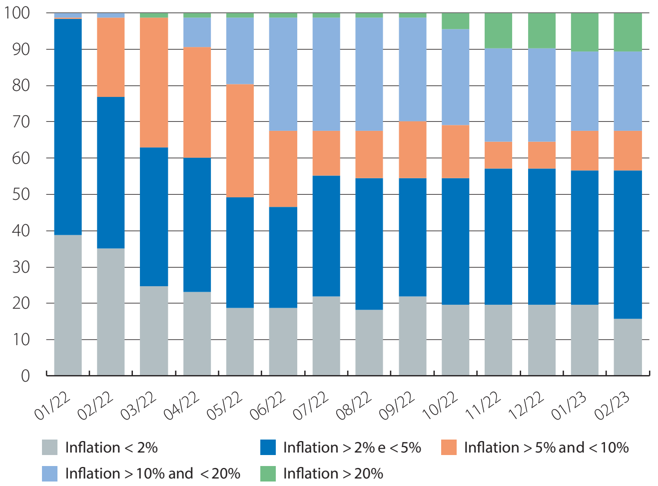
Source: *BPI Research, based on data from the National Statistics Institute of Portugal.*

Households, savings, consumption and income
(% of disposable income, y-o-y)



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

Core inflation traffic light
(As a % of the core inflation basket)



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

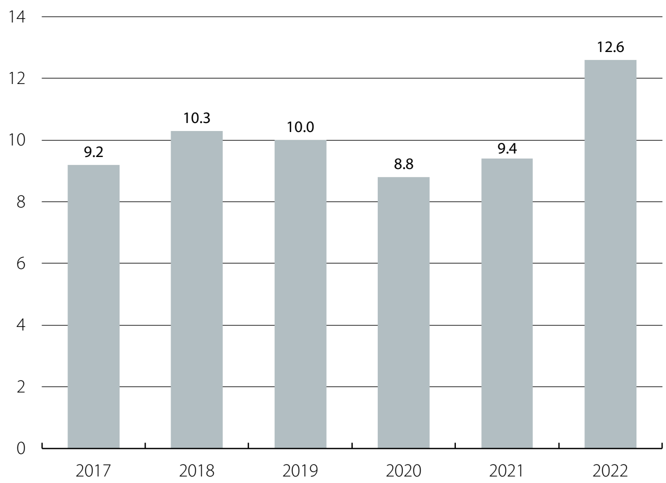
the overall inflation rate (from 8.2% to 7.4%). If energy prices on international markets remain stable, the overall CPI is expected to fall further in April, a month in which the effects of the "zero VAT" measure will also be felt on a number of products in the food basket.

Appreciation of houses in 2022 above 12%. The 4Q 2022 data from INE's Housing Price Index (HPI) revealed year-on-year growth of 11.3% and quarter-on-quarter growth of 1.1%, thus representing a deceleration (in Q3 2022 these figures were 13.1% and 2.9%, respectively). Thus, the appreciation of the HPI last year stood at 12.6%. At the same time, the data from the beginning of this year points to a marked cooling in this market, with new housing credit operations falling 19.3% year-on-year in the accumulated first two months. Transactions in the last three months to February (data from Confidencial Imobiliário) fell 21% compared to Q1 2022. The median value per square metre in bank valuations also dropped by 7 euros in February compared to the previous month. In short, the market is losing steam, even though we believe there is greater resistance to falling prices.

The budget deficit has been a very positive surprise in 2022. At -0.4% of GDP (-2.9% in 2021), this value is well below the last official estimate (-1.9% in State Budget '23) and in BPI Research (-1.1%). This improvement compared to 2021 is explained by the substantially higher growth in revenue (10.2%) than in expenditure (4.4%), due to the increase in tax revenue (16.6%) and social security contributions (8.5%). Indeed, the tax revenue collected in 2022 exceeded the Government's last estimate by more than €1.6 billion, while an additional €450 million in social security contributions is also having an effect. On the expenditure side, the positive movement was related to the lower burden of COVID measures (0.9% of GDP in 2022, compared to 2.7% in 2021) and the additional burden related to support to families, pensioners and companies to deal with high inflation and energy costs. In this context, social benefits increased by 7.4%, but were still 382 million euros below the last estimate. One positive highlight was interest rates, which continued to fall (–9.4%), reaching 2.0% of GDP, the lowest level ever (series starts in 1995). This puts the primary balance in positive territory (1.6% of GDP) for the first time since the pandemic period.

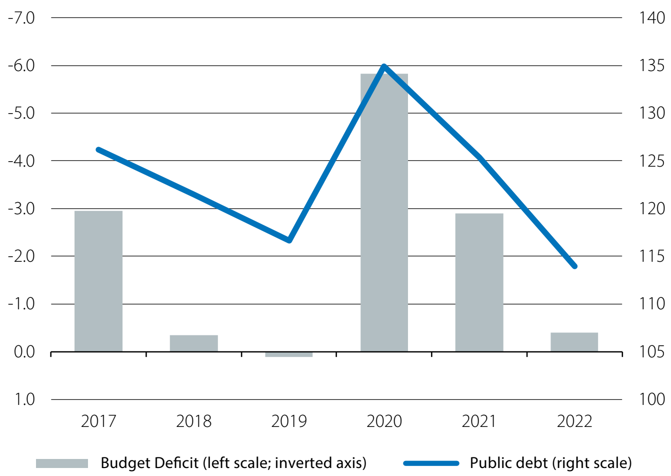
Current account starts 2023 well. The current account balance in January was 268 million euros (compared to a deficit of 380 million euros in the same period of the previous year), reflecting year-on-year improvements in the deficit of the non-energy goods account, which fell by around 58 million euros to 962 million euros, and a significant improvement in the services account, mainly via tourism, but also due to the increase in the surplus in other services (+86 million euros to 523 million euros). The income account also contributed to the surplus in January as a result of the improvement in the primary deficit via an increase in dividend receipts and an increase in the surplus on the secondary income account via a lower financial contribution to the EU and increased social benefits received.

Portugal: home price index
Average annual change (%)



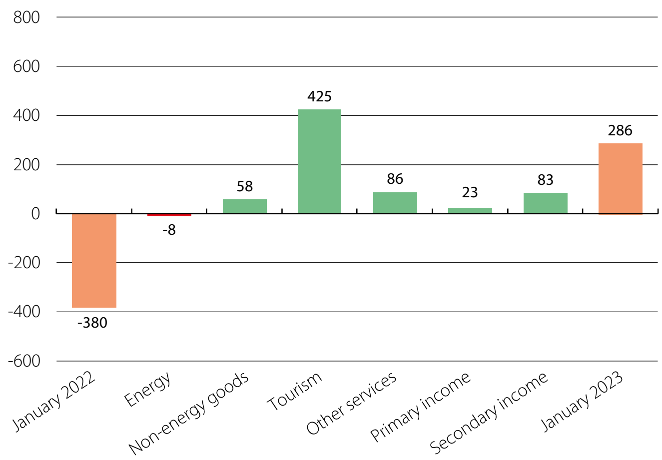
Source: *BPI Research, based on data from the National Statistics Institute of Portugal.*

Budget deficit and public debt ratio
(% of GDP) *(% of GDP)*



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

Portugal: evolution of the current account balance
(EUR millions)



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

Demand or supply: what explains the labour shortage?

The unemployment rate in Portugal stands at 6.0% in 2022, a level for which we need to go to 2002 to find a lower rate (5.0% in the year). Despite the increase in the unemployment rate in the second half of 2022 (from 5.8% on average in the first half of the year, to 6.2% in the second half), which should not be ignored, it is nonetheless curious that, according to the available job vacancy data, there were 17.3 unfilled job vacancies for each unemployed person in Portugal in 2022, clearly above the historical average of 4.0. It is important to understand what is behind this tension in the labour market and to extrapolate on what this may tell us about the future.

To better understand this phenomenon, let's try to identify a cause. Could it be that there more firms looking for workers (i.e. a demand shock)? Or are there fewer people looking for jobs (in this case a supply shock)?

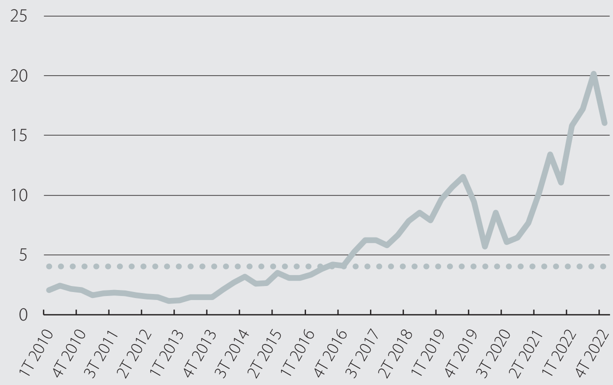
To assess the first question, we take the sum of the total number of employees and unfilled vacancies as a proxy for companies' demand for workers. As can be seen from the second graph, this measure is clearly above the average recorded in the pre-pandemic period, which allows us to conclude that demand from companies in 2022 has far exceeded the average level.

To assess the second question, we drew two scenarios (which can be seen in the third graph). From their analysis, we conclude that the pandemic did not have a destructive impact on job offers. For example, if we use the historical relationship between GDP and employment (represented in the graph as scenario 1), we conclude that there were more workers in 2022 than would have been expected had there not been the pandemic shock. More concretely, we estimate that employment would be above the pre-pandemic level by 2.3% (i.e. around 110,000 jobs), below what was actually observed (2.8%, 130,000).

This exercise thus seems to indicate that there has not been a reduction in the supply of workers, but rather a very significant increase in demand from companies. Other indicators seem to corroborate this. The activity rate of the working-age population,[1] for example, was 60.1 per cent on average in 2022, the highest since at least 1998. Compared to 2019, this represents an increase of 1.2%, but this difference reaches almost 7% if we consider the 55-64 age group, a sign that the pandemic has not driven older individuals out of the labour market.[2] This evolution contrasts with that seen in the case of younger people, whose activity rate fell compared to 2019, which can be justified by the increase in young people studying or undergoing training. Another curious fact is that the increase in the employed population compared to 2019 is explained by older individuals, mainly in the 55-64 age group (+129,000 employed), and which has fully compensated for the fall in employment in the youngest, 16-34 age group (–51,000).

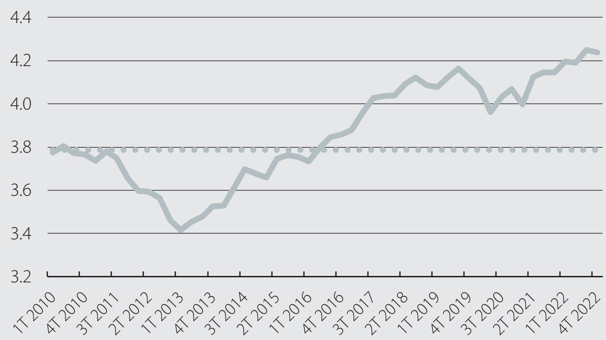
In conclusion, the data seems to point to a significant recovery of the labour market based on the dynamism of economic activity, with companies showing a greater demand for workers to cope with their activity. Indeed, the data does not seem to point to a reduction in the

Job vacancies per unemployed individual
Ratio



Note: *On the dashed line, we indicate historical average (2010-2019).*
Source: *BPI Research, based on Eurostat and INE data.*

Evolution of demand for workers by companies *
(Millions of individuals)



Note: *On the dashed line, we indicate historical average (2010-2019). * We take as proxy the sum of unfilled vacancies and the number of employees.*
Source: *BPI Research, based on Eurostat and INE data.*

1. This measures the proportion of the working-age population (16-89 years) that is part of the labour force (i.e. that is either employed or unemployed).

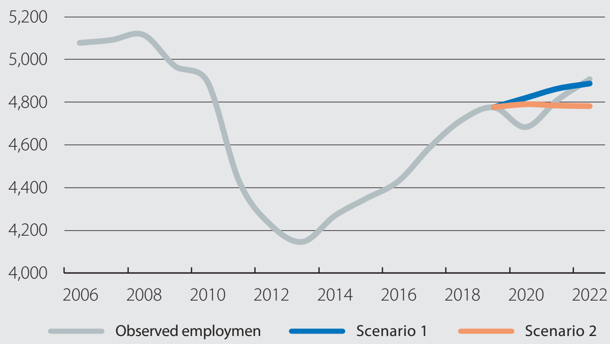
2. These findings are distinct from those obtained in a similar analysis for the US, published in the previous Monthly Information. For more information, see «A snapshot of tensions in the US labour market», in IM03/2023.

number of workers available to work; on the contrary, the dynamism of the labour market has attracted previously discouraged people.[3] This implies that with the expected slowdown in economic activity and the highly uncertain environment, the labour market will suffer, which supports our expectation of an increase in the unemployment rate in 2023 (around 6.4%), with very residual employment growth.

Vânia Duarte

Evolution of employment according to different scenarios

(Thousands of individuals)



Note: *Scenario 1 assumed the historical relationship between GDP and employment and considered pre-pandemic GDP forecasts. Scenario 2 assumed growth in the population aged 16-89, stabilisation of the unemployment rate at 6.6% and an activity rate of 58.9% (2019 values).*
Source: *BPI Research, based on data from INE.*

3. In fact, the number of inactive unemployed people (i.e. people available for work but not looking for work) decreased in 2022 by 20.8% to 128,700. You have to go back to 2010 to find a lower figure (when it reached 72,500) and compare it to the high of 275,100 people recorded in 2013.

Household consumption: the post-pandemic situation

The consumption of resident families represents 63% of GDP and evolved very positively in 2022, growing by 5.8%. This growth translated into a contribution of 3.7% to the expansion of GDP, explaining practically 55% of its growth. But a look at the various types of expenditure that make up household consumption shows us that their behaviour was not homogeneous, with spending on durable goods increasing considerably while spending on food declined.

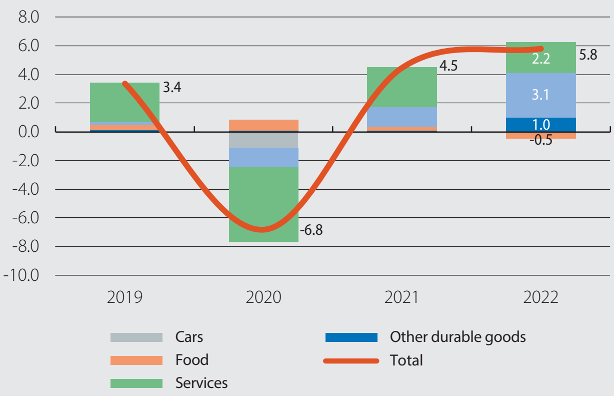
What is behind this behaviour? Is it due to the surplus savings accumulated during the pandemic in higher income households? Or due to the greater impact of the sharp rise in prices on lower income households, who allocate a greater share of that income to the purchase of essential goods? It seems likely that both of these factors are present in consumer behaviour and each raises concerns. However, a look at the evolution of consumption in the various types of goods and services since before the pandemic (2019) suggests that both factors will be neither the only nor the most preponderant in influencing the evolution of the various types of consumption.

While the analysis we present here is based on the evolution of consumption at constant prices, for a more fine-grained analysis of the various types of expenditure we use some of the assumptions available in the data presented by INE at current prices.[1] What stands out most from the evolution since the pandemic is that the consumption of durable goods remains below pre-pandemic levels, reflecting the significant reduction in expenditure on the purchase of cars. The drop of more than 10% in spending on cars in 2020 was justified by the confinement periods, which drastically reduced the need for transport. Continuing restrictions on mobility in 2021 also contributed to the weak recovery, but the main reason for this expenditure still being much lower in 2022 is certainly related to the production difficulties that the automotive sector has faced in the post-pandemic period (and still faces) derived from restrictions in global value chains.

In turn, spending on other types of durable goods, which remained relatively stable in the confinement periods, soared in 2022, exceeding 2019 levels by 23%. Comparing this data with that relating to retail turnover suggests

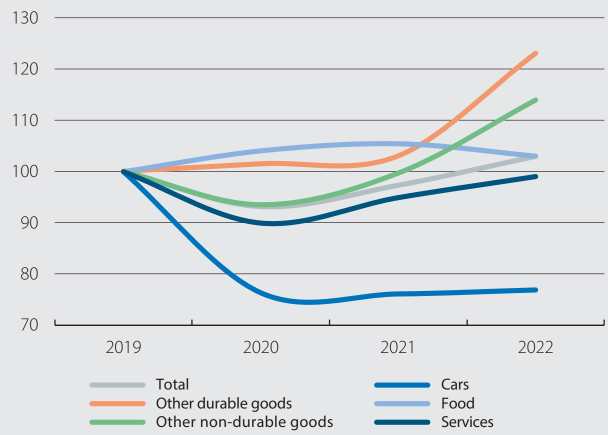
1. There is more detail available for private household consumption published by INE at current prices than that published for constant prices. For a more refined analysis, we assumed that the weight of automobile and services expenditure in household consumption at constant prices would be the same as the weight of these items at current prices. The remaining items are calculated by difference with the main components at constant prices.

Portugal: contributions to the growth of household consumption
(pps)



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

Portugal: evolution of consumption in the post-pandemic period
Constant prices (100 = 2019)



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

that this type of expenditure was mainly concentrated on home improvement and the purchase of computers and communication equipment. This movement, visible since practically the beginning of confinement, continued in 2022, possibly reflecting changes in routines related to the permanence of remote work, which create needs with respect to housing that were previously non-existent or undervalued.

In non-durable goods, there was a strong recovery in non-food current goods and services in 2022, which have almost recovered to 2019 levels, remaining only 1% below 2019 expenditure levels.

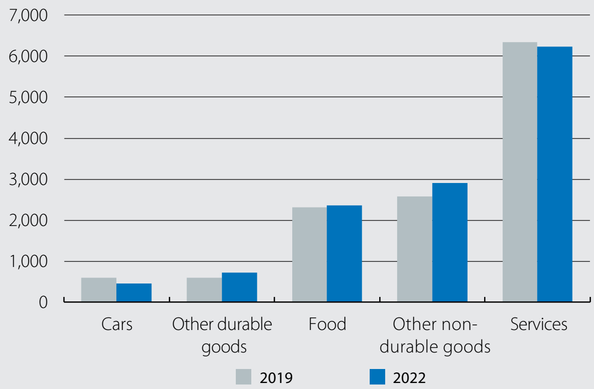
In this category of goods, the behaviour of food stands out, whose fall in 2022 raised a negative interpretation insofar as their contraction could reflect (and in some cases will reflect) the impact of inflation on lower-income households, for whom food is of above-average weight in the consumption basket. However, a closer look since the pandemic suggests that we are essentially in a period of normalisation of income allocation to this type of expenditure. Indeed, in 2020 and 2021 - years in which people spent more time at home - food expenditure had cumulative growth of around 5.5% compared to 2019, 4.1% in 2020 and 1.3% in 2021. In turn, 2022 was the first year since the pandemic that was 100% marked by normal activity and mobility, with reduced use of remote working, which in itself will have reduced the need to buy food. This outlook is also supported by the evolution of per capita consumption. At constant prices, per capita expenditure on food goods in 2022 amounted to 2,367 euros, 2% more than in 2019, while the resident population only increased by 1%.

In conclusion, although situations of greater financial hardship associated with the impact of high inflation on lower income households cannot be ignored, we would say that overall the evolution of the various types of consumption reflect the beginning of a normalisation of the allocation of household expenditure. This movement may well continue in 2023.

Teresa Gil Pinheiro

Portugal: consumption per capita by type of expenditure

(Euros at constant prices)



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

Consumption: what the data from electronic payments tells us

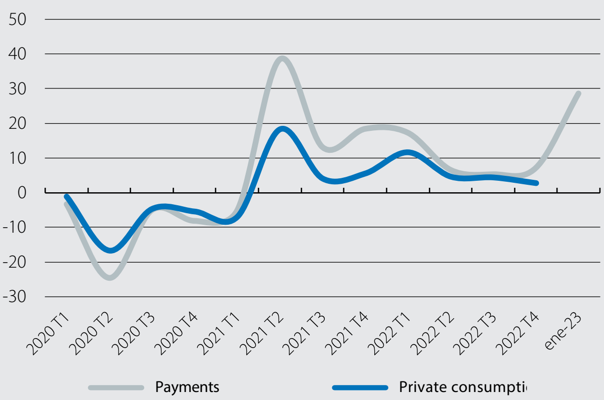
The spread of digital payment technologies and big data make it possible to take the pulse of the economy using high-frequency, highly detailed data. Such data provide valuable inputs for the work of economists, but not only. For example, during the pandemic, mobility data[1] made it possible to monitor the movements of populations to the workplace, for leisure, and for retail purchases. This, together with real-time data on vaccinations, infections and hospitalisations, allowed policy makers to make more informed decisions and balance the health situation with the economic situation. In this article, based on data on payments from SIBS[2], we try to better understand how consumption has behaved.

In a first approach, we collate the data on electronic[3] and cash payments by adjusting them for CPI to 2019 prices in order to assess year-on-year developments in real terms. In parallel with this data, we show the evolution of the private consumption component of GDP in the first graph, where the strong correlation between the two series (variation in consumption and variation in payments) is evident. In the two confinement periods[4], there was a fall in the amounts of payments and also in private consumption, more accentuated in Q2 2020, of -25% and -17%, respectively. With the gradual deconfinement process beginning in Q2 2021, payments showed a strong recovery, culminating in consumption and GDP surpassing the pre-Covid[5] level in Q1 2022. More important is to look at the latest data: in January 2023 the year-on-year change in payments is 29%, a strong move and one that, if sustained over the quarter, could see our private consumption growth forecast of 2% (year-on-year) in Q1 2023 exceeded. While we still do not have data on household savings in 2023 at the time of writing, it is possible that this increase in the level of consumption will come at the expense of undoing surplus savings accumulated during the pandemic, as was already the case in the end of 2022. In the way purchases are made, there seems to be a clearer trend towards a change in preferences, with an increase in the preponderance of electronic payments, which currently represent around 70% of the amounts paid, to the detriment of cash (second graph).

To deepen the analysis of consumer behaviour, we aggregated payments into three categories: Essential Goods, Durable Goods, and Travel and Leisure.[6] It is worth

Private consumption and payments (electronic and cash)

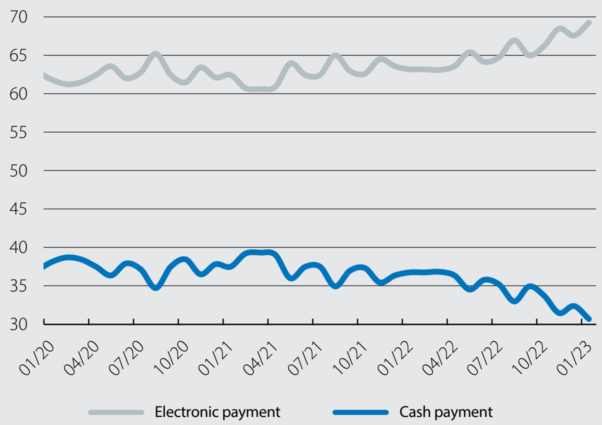
yoy (%)



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

Payment method used

As % of total



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

noting that in the year of the outbreak of the pandemic, Essential Goods was the only category that did not see the value of payments fall in relation to the previous year (see third graph). With restricted mobility and limitations on service activities such as catering, Portuguese citizens stayed at home more and consumed more food in their own homes. Also noteworthy is the fact that the Travel and Leisure category is that in which the drop in payments was most pronounced, and the only one that in 2022 has not yet fully restored its pre-pandemic level of payments. This stands in contrast with the fact that the number of guests and overnight stays by residents exceeded pre-pandemic

1. Namely those made available through the Google mobility report.
2. SIBS is the main Portuguese operator in the area of payment services and provides payment data on its website www.sibsanalytics.com.
3. Only cards issued in Portugal.
4. The first confinement started in 1Q 2020 and the second confinement in 1Q 2021.
5. The pre-COVID level is considered that at 4Q 2019.
6. Under «Essential goods», we consider payments in the sub-categories of Super and hypermarkets, Grocery stores, Mini-markets and Pharmacies. Under «Durable goods», we consider payments in the sub-categories of Vehicles and accessories, Home decoration and furnishings, IT and communications equipment, and Machinery and equipment. In «Travel and leisure», we consider payments in the sub-categories of Tourist accommodation and Leisure and travel.

levels last year, which may suggest more tourism by nationals, but in lower category hotels, with cheaper overnight stays, or a greater preponderance of local accommodation or rural tourism. On the other hand, Durable Goods also experienced a drop in payments in 2020 which stemmed mainly from the drop in consumer confidence and which has now fully recovered: In the disruptive context of the pandemic and motivated by uncertainty about the future, consumers have put off their decisions to purchase goods that are by their nature more expensive. This category also includes payments for vehicles, with the well-known difficulties in delivering cars as a result of the breaks in the semiconductor supply chain, which also affected the recovery of these payments.

Another interesting feature of this data is that it allows us to distinguish between payment patterns by consumer groups, namely between those with higher and lower consumption levels[7] (and therefore with higher or lower income to spend). The empirical confirmation of Engels' Law is immediately evident: as incomes increase, the proportional expenditure on food (for which payments in Hyper and Supermarkets are a proxy) decreases. If we add spending in Hyper and Supermarkets together with Restaurants and Catering, the weight of these payments (in which food products predominate) in the Low Consumption Group rose in January to 51% of total payments. Meanwhile, «Other Services» in the «High Consumption» group are the category with the greatest weight (23%).

We have already shown in this article that there is a significant year-on-year growth in payments in the 2023 data (January), but it is interesting to try to understand the detail of this dynamic. We note that the categories with the highest growth include Other Services and Leisure and Travel, categories where the Highest Consumption Groups allocate the highest percentage of spending. We also have Public Administration (which includes tax, court and social security payments), reflecting higher tax collection and high employment levels.[8] In turn, in the categories in which payments have grown least at this early stage of 2023, we find Telecommunications and Utilities (-2% yoy), which highlights the effort to reduce energy consumption in the context of the energy saving plan presented by the government in the final stages of last year.

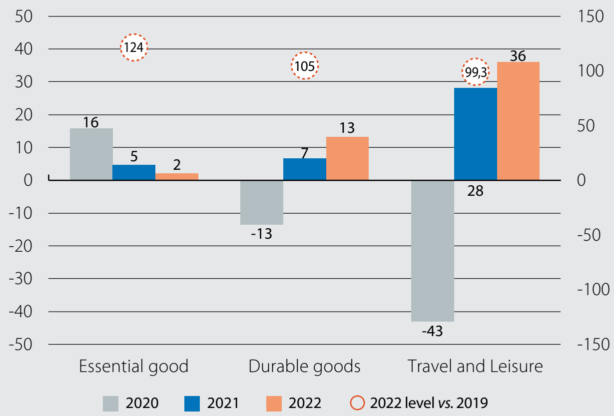
In short, we can say that the data on payments at the start of this year suggest a stronger evolution in consumption than we had anticipated and in categories where consumers with higher incomes are more representative. A movement that is likely supported by the disposal of surplus savings, following the trend that intensified in the second half of 2022.

Tiago Belejo Correia

7. The «High consumption» group corresponds to the 25% of consumers with the highest consumption at a national level; the «Low consumption» group corresponds to the 25% of consumers with the lowest consumption at a national level.
8. Although it was not possible to confirm with SIBS, we believe that the high variation in «Public Administration» may also be linked to financial movements, namely subscription of savings certificates, which reached particularly high amounts from December 2022.

Payments by typology

Annual growth rates (%) / level (100 = 2019)



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

Payment by sector in January 2023

(As a % of total payments)

	All	High consumption	Low consumption
Hyper and supermarkets	19%	15%	36%
Public services	11%	14%	
Restaurants and catering	7%	6%	15%
Other services	18%	23%	
Gas stations	5%	5%	5%
Technology, culture and entertainment			5%
Clothing			6%
Others, not specified	40%	37%	33%

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

Year-on-year change in the value of electronic payments (January 2023)

Top 5	
Other services	366%
With.non-specialised retail	130%
Extractive industries	74%
Public administration	61%
Leisure and travel	60%
Bottom 5	
Raw materials	11%
Games, toys and childcare	6%
Insurance	4%
Telecommunications and Utilities	–2%
Technology, culture and entertainment	–9%

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

What is the impact of the Energy Saving Plan on the consumption of natural gas in Portugal?

The reopening of economies in the post-COVID period and the strong recovery in demand contributed to an increase in fuel prices in late 2021. The subsequent conflict in Ukraine led to very strong additional price rises, reaching around EUR 240/MWh for natural gas in August (compared to the average price of EUR 14.7/MWh in 2019 before the pandemic) and USD 118 for Brent in June (compared to the average of around USD 64/barrel in 2019).

This market reaction was a reflection of the European Union's enormous energy dependence on Russia, especially in the case of natural gas. Indeed, around 40% of natural gas imports in the region came from that country.[1] This, together with the imposition of sanctions on Russia, the need to reduce the invading country's sources of financing, and fears about a possible stoppage of natural gas shipments to Europe were all factors that led the European Union to take concrete measures to avoid what was beginning to be an energy crisis in Europe (with the possibility, in the extreme, of the need for energy rationing in winter, the time of highest consumption).

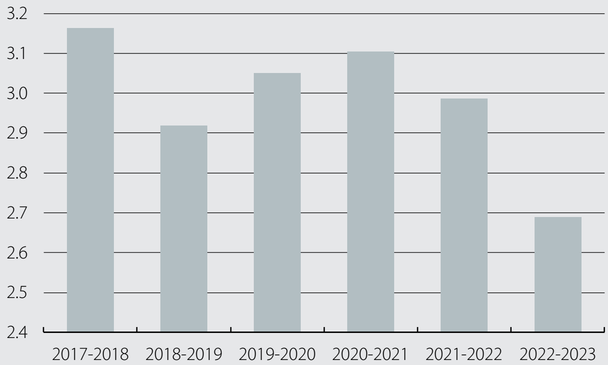
Among various strategies, the EU put forward REPower EU, which aimed to reduce dependence on fuels from Russia, diversifying sources of gas supply, greater investment in renewable energy, and greater energy efficiency. In addition, levels of gas reserves were set at at least 90% in the various Member States at the beginning of October, with countries adopting measures to reduce the consumption of natural gas by 15% between August 2022 and March 2023 compared to the average consumption recorded in the same period of the previous five years. This voluntary reduction could become compulsory if the situation worsens (although the 15% could be adapted to the specific situation of each country, which would mean, for example, that Portugal would only have to guarantee a 7% reduction in consumption, given its limited energy connection with Europe).

In this context, Portugal presented the 2022-2023 Energy Saving Plan last September, whose application will extend until the end of 2023. This plan includes a set of 16 measures, 7 of which are mandatory, covering the Central Public Administration (where the mandatory measures are included), Local Public Administrations and the private sector. Similar to other European countries, measures include switching off decorative interior lighting after 10pm in winter and 11pm in summer, adjusting the temperature to a maximum of 18C in winter and a minimum of 25C in summer, remote working when possible, not using heating/cooling systems during non-occupancy periods, and changing irrigation periods to times with less water evaporation.

What impact are these measures having on reducing natural gas consumption?

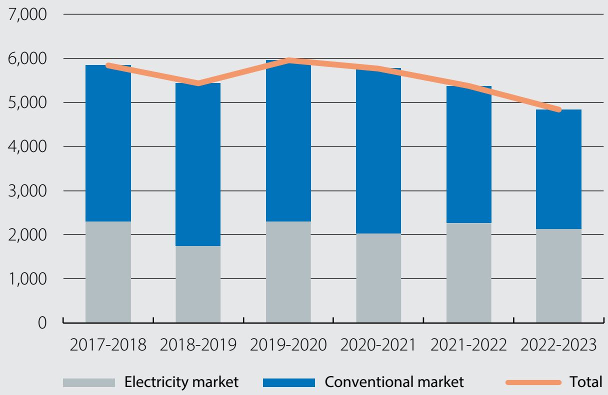
Considering Eurostat data (which allows Portugal's performance to be compared with other European countries), between August 2022 and January 2023 the consumption of natural gas in Portugal decreased by 17.1% compared to the average consumption registered in the previous 5 years, above the voluntary reduction of 15% and slightly below that achieved by the EU countries

Imports of natural gas *
(Billion Nm³)



Note: ** Amount accumulated between August of year x and January of year x+1. Includes gas transported by pipeline, truck and boat (LNG).*
Source: *BPI Research, based on DGEG data.*

Natural gas consumption, by segment *
(GWh)



Note: ** Average recorded between August of year x and February of year x+1.*
Source: *BPI Research, based on REN data.*

1. Russia had a weight of around 13% of the volume of natural gas imported by Portugal in 2021.

as a whole (–19.1%). However, analysing the set of data up to February, released by REN, the reduction reached 14.8%. This significant reduction in natural gas consumption can be seen in the drop in imported volume (represented in the first graph): between August 2022 and January 2023, Portugal imported 10% less than in the same period of the previous year, with special emphasis on the drop of around 48% year-on-year in January.

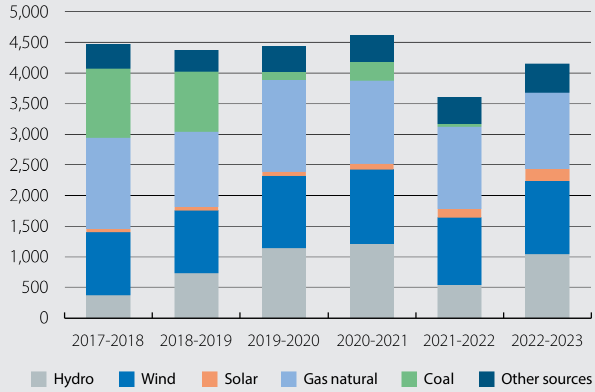
The drop in natural gas consumption has allowed the country to maintain its reserves at very comfortable levels, standing at 95.5% of capacity at the end of February (compared with 74.1% in the same period of 2022), standing out among the other European partners as the country with the highest percentage. Even so, this percentage only covers around 6.5% of the country's annual consumption of natural gas.

As can be seen in the second graph, the reduction in natural gas consumption between August 2022 and February 2023 is explained by the strong reduction in conventional market natural gas consumption, i.e. domestic and industrial consumption (which represented 52% of natural gas consumption in February). In turn, natural gas consumption in the electricity market increased slightly (0.2%), contrary to that which occurred between August 2022 and January 2023 (in this case, the reduction in natural gas consumption by the electricity market reached 6.7%). Looking at electricity production data, we realise that this happened because in February there was a fall in hydroelectric power production (–55.2% quarter-on-quarter), which was offset by the increased use of combined cycle plants (+170%), which use natural gas.[2] In the end, have we been able to reduce electricity consumption with the energy saving plan? The average consumption of electricity between August 2022 and February 2023 has remained practically the same as the average consumption recorded in the same period of the previous 5 years. That is, the plan was not sufficient to save energy. What it did achieve was a change in the sources of electricity production, with a greater preponderance of renewable energies. Indeed, hydroelectric energy production increased by 31.3% compared with the average of the previous five years, while natural gas production fell by 9.7% (see third graph).

The Energy Saving Plan 2022-2023 has not contributed to reducing energy consumption in Portugal, a fact that may be justified by the low visibility of the plan and the voluntary nature of many of the measures. Still, it is especially important that Portugal has maintained gas reserves at levels above 90% and that it is managing to produce electricity using renewable energies. Also noteworthy is the reduction in Portugal's exposure to imports from Russia, whose weight fell from 13% in 2021 to 5% in 2022 (and without any imports in January 2023).

Vânia Duarte

Electricity production, by primary source *
(GWh)



Note: ** Average recorded between August of year x and February of year x+1.*
Source: *BPI Research, based on REN data.*

2. Water reserves and storage facilities fell by about 4% in February compared to the previous month, according to information released on the ENTSO-E transparency platform website.

Activity and employment indicators

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

	2021	2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	01/23	02/23	03/23
Coincident economic activity index	3.4	6.0	6.7	5.4	4.7	...	4.7	5.0	...
Industry									
Industrial production index	4.5	0.4	2.0	1.8	–0.2	...	4.5	...	...
Confidence indicator in industry *(value)*	–5.3	–3.4	–2.3	–4.7	–6.6	–4.9	–6.3	–5.0	–3.5
Construction									
Building permits - new housing (number of homes)	13.5	5.2	2.7	–4.2	12.0	...	5.5	...	...
House sales	20.5	1.3	4.5	–2.8	–16.0	...	–	–	–
House prices *(euro / m^2 - valuation)*	8.6	13.8	14.2	15.8	13.6	...	14.9	12.5	...
Services									
Foreign tourists *(cumulative over 12 months)*	51.5	158.6	298.1	244.4	158.6	...	153.9	137.9	...
Confidence indicator in services *(value)*	0.1	15.0	21.1	17.9	8.1	9.9	6.1	10.2	13.3
Consumption									
Retail sales	4.9	4.8	3.1	3.3	0.0	...	3.8	0.2	...
Coincident indicator for private consumption	5.0	4.4	5.2	3.2	2.3	...	2.4	3.1	...
Consumer confidence index *(value)*	–17.2	–29.7	–30.5	–31.8	–37.0	–35.1	–37.0	–35.0	–33.4
Labour market									
Employment	2.8	2.0	1.9	1.1	0.5	...	0.2	0.7	...
Unemployment rate (*% labour force*)	6.6	6.0	5.7	5.8	6.5	...	7.0	...	...
GDP	**5.5**	**6.7**	**7.4**	**4.8**	**3.2**	**...**	**–**	**–**	**–**

Prices

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

	2021	2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	01/23	02/23	03/23
General	1.3	7.8	8.0	9.1	9.9	8.3	8.4	8.2	7.4
Core	0.8	5.6	5.5	6.5	7.2	7.1	7.0	7.2	7.0

Foreign sector

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

	2021	2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	01/23	02/23	03/23
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	18.3	23.1	18.9	22.7	23.1	...	22.4	...	...
Imports *(year-on-year change, cumulative over 12 months)*	22.0	31.3	31.5	35.2	31.3	...	29.1	...	...
Current balance	**–1.6**	**–3.2**	**–4.4**	**–4.2**	**–3.2**	**...**	**–2.6**	**...**	**...**
Goods and services	–5.5	–4.9	–6.4	–5.3	–4.9	...	–4.4	...	...
Primary and secondary income	3.9	1.7	2.0	1.1	1.7	...	1.8	...	...
Net lending (+) / borrowing (–) capacity	**2.1**	**–1.1**	**–1.0**	**–1.9**	**–1.1**	**...**	**–0.1**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2021	2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	01/23	02/23	03/23
Deposits [1]									
Household and company deposits	9.3	6.4	8.2	7.8	6.4	...	5.1	2.9	...
Sight and savings	16.3	7.3	12.9	11.2	7.3	...	5.3	1.9	...
Term and notice	1.2	5.2	2.3	3.3	5.2	...	4.7	4.3	...
General government deposits	–4.1	12.4	8.5	–0.1	12.4	...	22.3	2.8	...
TOTAL	**9.0**	**6.5**	**8.2**	**7.5**	**6.5**	**...**	**5.5**	**2.9**	**...**
Outstanding balance of credit [1]									
Private sector	2.9	1.3	2.5	1.9	1.3	...	0.9	0.6	...
Non-financial firms	2.2	–1.0	0.7	–0.5	–1.0	...	–1.5	–1.7	...
Households - housing	3.3	2.7	3.8	3.3	2.7	...	2.6	2.1	...
Households - other purposes	3.1	2.9	3.3	3.2	2.9	...	1.4	1.3	...
General government	3.8	–2.7	–1.3	–1.5	–2.7	...	–2.9	–4.3	...
TOTAL	**2.9**	**1.2**	**2.4**	**1.7**	**1.2**	**...**	**0.8**	**0.4**	**...**
NPL ratio *(%)* [2]	**3.7**	**3.0**	**3.4**	**3.2**	**3.0**	**...**	**–**	**–**	**–**

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 holds up well, but the medium-term risks still loom large

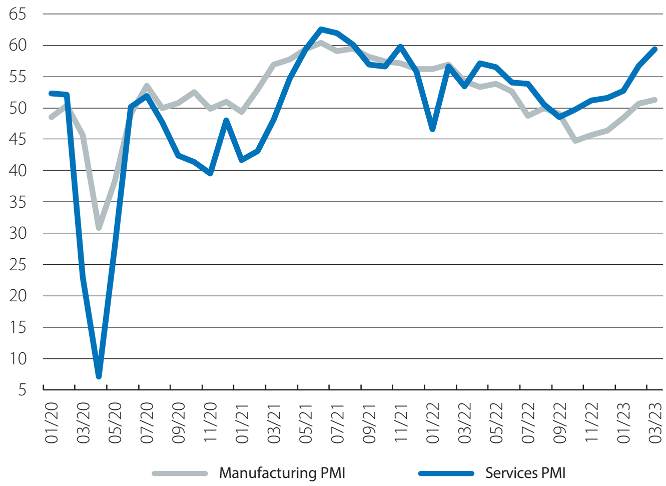
The improvement in the supply shocks, with the correction in energy prices and the easing of the bottlenecks, together with the fiscal support measures and the strength of the labour market, are contributing to better-than-expected economic activity. Indeed, this is even leading to an upward revision of GDP growth forecasts for 2023. However, the transmission of a more pronounced tightening of the financial conditions than had been anticipated a few months ago, as well as the potential blow to confidence dealt by the Silicon Valley Bank (SVB) episode and the ensuing financial turbulence, could take a toll on economic growth in 2024. Thus, the Bank of Spain has raised its forecast for 2023 by 0.3 pps, to 1.6%, but it has lowered the forecast for 2024 by 0.4 pps, placing it at 2.3%.

The indicators published in the opening months of the year offer generally encouraging signals. The Purchasing Managers' Index (PMI) for the manufacturing sector stood in expansionary territory in Q1 (above 50 points, specifically at 50.1 points) for the first time since Q2 2022. In the case of services, the PMI rose to 56.3, the highest figure since Q4 2021. In addition, the tourism sector has got off to a strong start in 2023 and the outlook for the summer season is very good: tourist arrivals in January-February were just 1.3% below the same period in 2019 (–5.5% in Q4 2022) and foreign tourists' spending exceeded the level of January-February 2019 by 12.9%.

On the demand side, the European Commission's consumer confidence index has continued to climb, reaching its highest level in the past year in Q1 (–23.2 points vs. –28.2 in Q4 2022). The improvement in the climate of household confidence, together with the increase in job creation, is reflected in the better pattern in consumption during the opening stages of the year. Retail sales in terms of volume, corrected for seasonal effects and excluding spending at petrol stations (which was greatly affected by the withdrawal of the government's petrol price reduction), grew by 2.4% quarter-on-quarter in January-February (2.0% in Q4 2022). CaixaBank Research's consumption tracker registered an 8% year-on-year increase in the usage of Spanish bank cards in Q1 as a whole, exceeding the figure for Q4 2022 (6%).

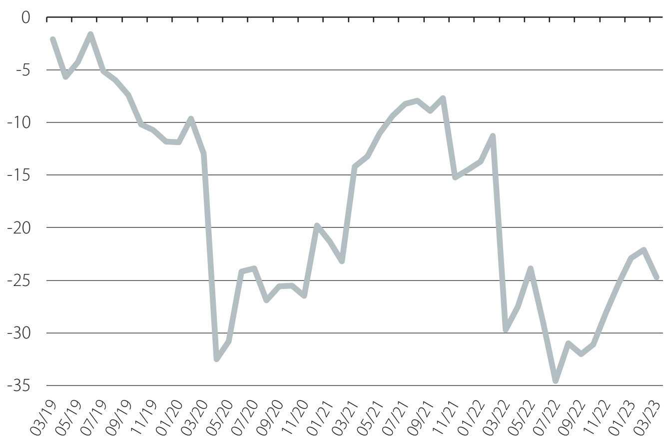
The labour market continues to produce positive surprises, with the pace of job creation intensifying. The Social Security affiliation data for March confirm the excellent momentum in employment: in seasonally adjusted terms, there was an increase of 151,943 registered workers, marking the biggest rise since June 2021, when the lifting of restrictions due to the pandemic led to rapid growth.

Spain: PMI
Level



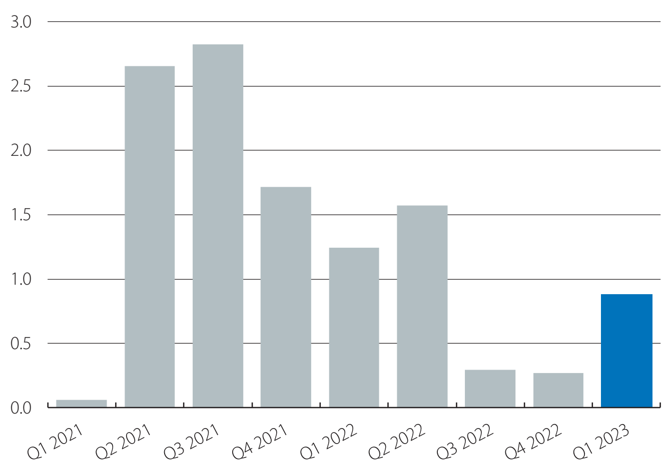
Source: BPI Research, based on data from IHS Markit.

Spain: consumer confidence indicator
Level



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

Spain: registered workers affiliated with Social Security
Quarter-on-quarter change (%)



Note: Seasonally adjusted series of registered workers not on furlough.
Source: BPI Research, based on data from the Ministry of work, migration and social security.

With this figure, effective employment (seasonally adjusted registered workers not on furlough) grew in Q1 2023 by 0.9% quarter-on-quarter, representing a notable acceleration compared to the growth of the previous quarter (0.3%).

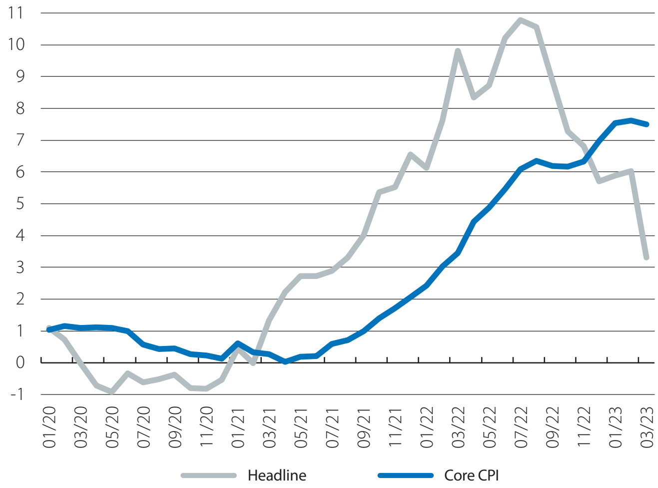
Food prices, the main driver of inflation. According to the flash indicator revealed by the National Statistics Institute, headline inflation fell sharply in March to 3.3% (6.0% in February), marking what would be the lowest level since August 2021. This correction was due to the base effect generated by the increase in energy prices in March 2022, which according to our calculations would have subtracted around 3 pps from headline inflation. In contrast, core inflation (excluding fresh food and energy), driven above all by higher processed food prices, remains very high, although it registered a slight decline in March for the first time in five months (7.5% vs. 7.6% in February).

Signs of cooling in the housing market. Housing prices, according to data from the National Statistics Institute, closed 2022 with significant growth (7.4%), albeit with a slowdown during the course of the year: in Q4 2022 they recorded a fall of 0.8% quarter-on-quarter, after rising 1.7% in Q3. On the other hand, home sales showed some volatility, increasing by 6.6% in January following a weak December (–10.2% year-on-year). Despite this encouraging figure, the rate of transactions is showing signs of slowing down: whereas sales grew by around 23% year-on-year during the first half of 2022 on average, in the last three months the growth rate stood at around 2% year-on-year.

The budget deficit closed 2022 at 4.8% of GDP. The general government deficit amounted to 63,776 million euros in 2022, equivalent to 4.8% of GDP (6.9% in 2021). In a context of strong economic growth and job creation, revenues increased by 8.1%, well in excess of expenditure (3.8%). The deficit, although high, has fallen below the government's forecast of 5.0% of GDP mentioned in the last Budget Plan sent to Brussels. Public debt, meanwhile, closed the year at 1.5 trillion euros, 75,267 million more than at the end of 2021. That said, in terms of GDP, the ratio fell to 113.1%; this is 5.2 pps less than in 2021, although still well above 2019 levels (98.2%).

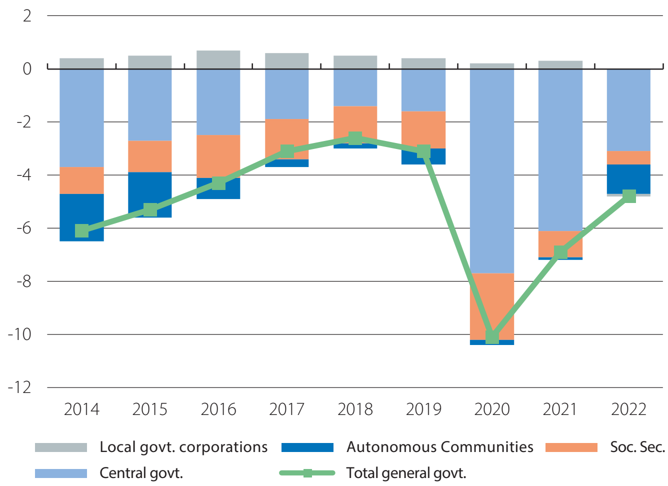
The foreign sector starts the year on a good footing. The trade deficit stood at 3,956 million euros in January, significantly lower than in January 2022 (–6,523 million). By component, both the energy and the non-energy deficits saw a correction. The energy deficit fell to 2,849 million from 3,359 million a year earlier, thanks to the drop in the volume of imports (–2.0% year-on-year), in a context marked by a sharp slowdown in price growth. The non-energy balance, for its part, stood at –1,107 million (–3,164 million in January 2022), thanks to the greater buoyancy of exports (13.8% growth vs. 4.7% in the case of imports).

Spain: CPI
Year-on-year change (%)



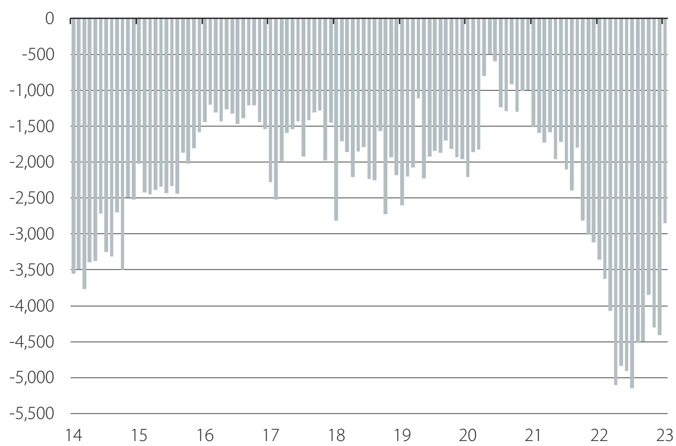
Source: *BPI Research, based on data from the National Statistics Institute.*

Spain: general government balance
(% of GDP)



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

Spain: energy trade balance
(EUR millions)



Note: *Monthly data on energy products according to the Standard International Trade Classification (SITC).*
Source: *BPI Research, based on data from the Customs department.*

The Spanish economy continued to reduce its foreign debt in 2022

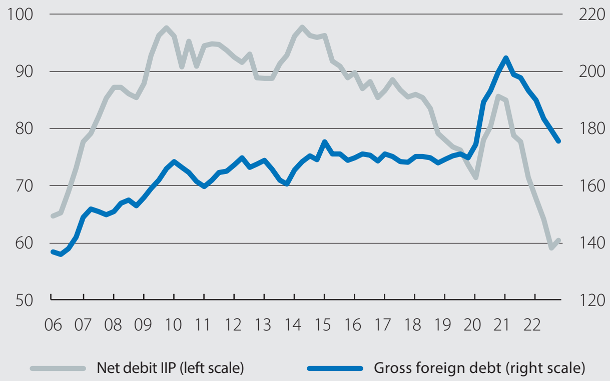
One of the imbalances that has traditionally characterised the Spanish economy is its high levels of foreign debt, which is a source of vulnerability in the event of possible shocks in the financial markets and also jeopardises the sustainability of expansionary cycles. In the period 2014-2019, in an environment of low interest rates and with a highly buoyant economy that had a positive lending capacity, we witnessed a slow reduction in the country's level of debt. This pattern was truncated by the crisis triggered by the pandemic, but it has resumed again in the last two years. In this regard, Spain's net international investment position (NIIP), which measures the balance of the country's financial assets and liabilities vis-à-vis the rest of the world, closed last year with a debit (negative) balance of 802,382 million euros. This is equivalent to 60.5% of GDP, the lowest level since 2004 (71.5% in 2021). In any case, this is still high and far exceeds the threshold set by the European Commission as part of the macroeconomic imbalance procedure (MDP).[1]

Excluding the Bank of Spain, the debit balance of the NIIP fell by 52,468 million euros in 2022, bringing it to 555,676 million (see second chart). However, this improvement was the result of a revaluation effect of the existing assets and liabilities (due to exchange rate or price fluctuations), rather than financial transactions with other countries (an increase in assets and/or a reduction in liabilities). The effect of exchange rates had a positive impact on the assets, mainly due to the appreciation of the dollar. Price changes, meanwhile, had a greater impact on the liabilities and in the opposite direction: the increase in long-term interest rates reduced the value of debt securities, in particular those of the general government.

Looking at the breakdown by financial instrument, the correction of the NIIP debit balance is explained by portfolio investments, which registered a reduction in their debit balance, above all because of the impact of price changes. The balance of the other categories of instruments deteriorated: in the case of direct investments,[2] this was mainly due to the revaluation effect; in other investments,[3] it was essentially due to negative net financial transactions with other countries (the liabilities grew more than the assets).

Spain: net debit IIP and gross foreign debt

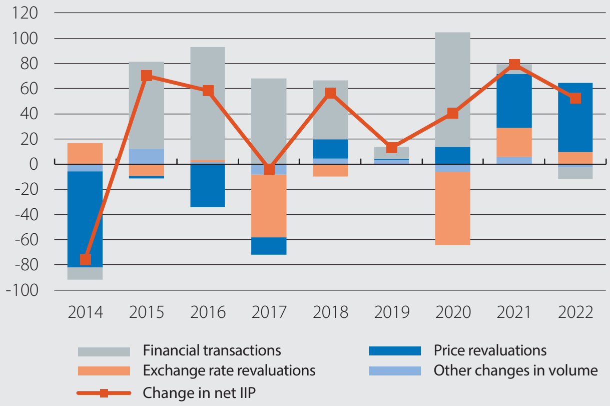
(% of GDP) *(% of GDP)*



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

Spain: change in net IIP by component *

(EUR billions)



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

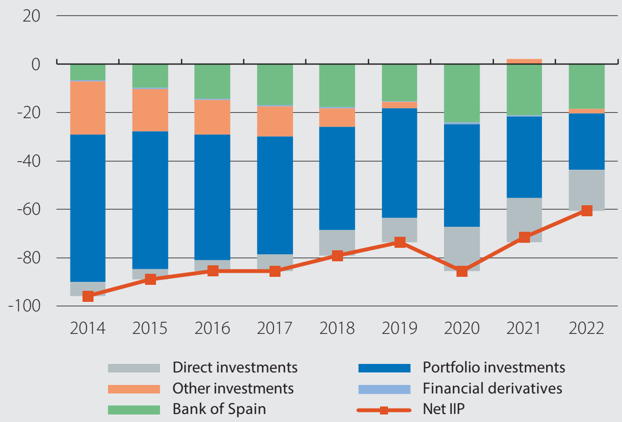
By sector,[4] in line with the reduction in the value of debt securities discussed above, only the general government saw an improvement in its NIIP; indeed, this was a significant improvement, registering the lowest debit balance since 2017. In contrast, there was a deterioration in the position of both monetary financial institutions (MFIs), which saw a reduction in their credit balance, and other resident sectors (ORSs), which increased their debit balance.

1. A surveillance mechanism aimed at preventing and correcting macroeconomic imbalances in EU countries by monitoring 14 indicators, which generate a warning signal when certain thresholds are exceeded; in the case of the debit balance of the NIIP, this threshold is set at 35% of GDP.
2. Shares and other forms of equity holdings, reinvested profits, investments in real estate and financing between related-party companies.
3. Mainly loans, repos and deposits.
4. The IIP is divided into four institutional sectors: (i) Bank of Spain, (ii) other monetary financial institutions (MFIs) – credit institutions, money market funds, electronic money institutions and financial credit establishments – (iii) general government and (iv) other resident sectors (ORSs) – households, companies and non-monetary financial institutions (NMFIs), which include insurance firms and pension funds, among others.

As for gross foreign debt,[5] for the first time since 2013 it fell slightly last year in volume terms, reaching 2,332 trillion euros, down from the 2,334 trillion of the previous year. If we add to this the intense growth of nominal GDP (10.0%), we see (for the second consecutive year) a very sharp decline in the debt-to-GDP ratio (175.7% vs. 193.4%): this reduction was concentrated in the ORSs (22.9% of GDP vs. 25.8%) and especially in the general government entities, where it stood at 44.7% of GDP. This latter level is 12 pps below the previous year and the lowest ratio since 2013, partly because of the purchasing of public debt through the Eurosystem, which led to a portion of the debt held by non-residents being transferred to the Bank of Spain. In contrast, MFIs increased their debt levels to 41.1% of GDP, the highest since 2014 (previously 37.5%).

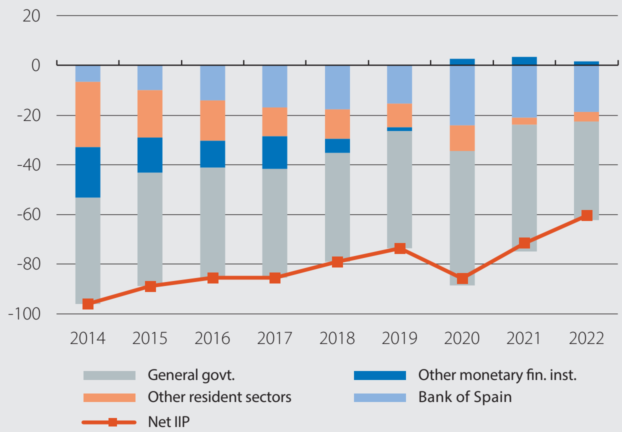
Although Spain's gross foreign debt remains high, even exceeding pre-pandemic levels (169.8% of GDP in 2019), the vulnerability which this represents in a context of rising financing costs is dampened by the composition of its liabilities, given that they are mostly not enforceable in the short term, they consist of public sector debt and they are mostly denominated in euros and at a fixed rate.[6]

Spain: net IIP by financial instrument category
(% 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.*

5. Includes the balance of all liabilities that generate future payment obligations (principal, interest or both); i.e. it is composed of financial instruments included in the liabilities of the international investment position, except equities (shares, other equity holdings and holdings in investment funds) and financial derivatives.
6. Bank of Spain (2022). «Financial Stability Report», autumn.

Spanish real estate sector: 2022 recap and 2023 outlook

As we look back on 2022, we see a year in which the demand for housing exceeded all expectations, with around 650,000 sales (+14.7%), the highest figure since 2007. The start of the ECB's cycle of rate hikes in the summer of 2022 barely made a dent in the rate of transactions in the latter part of the year, with over 150,000 sales registered in the final quarter.[1] Nevertheless, we can expect that the rise in interest rates, coupled with the slower growth in households' real gross disposable income, will continue to weaken housing demand. Investment demand, meanwhile, is adopting a wait-and-see stance. In this context, we foresee a decline in the number of sales to 480,000 homes in 2023, significantly fewer than in 2022 but still higher than the historical average since 2007 (460,000).

By segment, we expect the decline in home sales to be concentrated in second-hand housing. Sales of new homes, on the other hand, will remain buoyant thanks to the high percentage of pre-sales of the developments currently under construction and the relative scarcity of this type of housing. In fact, the sharp upturn in the number of sales in 2022 was entirely due to the second-hand market: 17.7% more second-hand homes were sold than in 2021 (532,000 homes, 82% of the total). In contrast, the number of sales of new homes remained in a similar range to the previous year (117,000 homes, 2.6% more than in 2021).

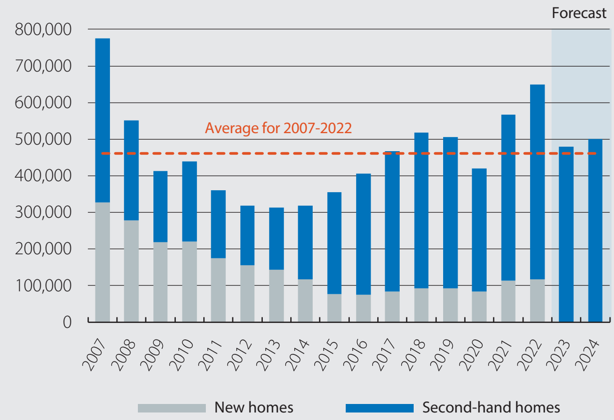
Foreign demand, meanwhile, experienced exceptional growth in 2022: foreigners bought around 90,000 homes in Spain, which far exceeds the pre-pandemic levels and represents 13.75% of the total sales in the year. By nationality, the British once again topped the ranking, with some 9,800 purchases, followed by the Germans (8,400) and the French (6,200). The indicators of intent to buy, based on Google searches for «buying property in Spain» conducted from the various countries of origin of these buyers, suggest that this upward trend may moderate in 2023 (there is a slight decrease in the popularity of these searches compared to the high levels registered in 2022). Germany and Sweden are the nationalities whose indicators remain at very high levels.

The geographical distribution of foreign demand is highly uneven, as it is concentrated around the Mediterranean arc and the archipelagos. The Balearic Islands are the autonomous community where foreign sales make up the largest portion of the total, at 34.4% of all home sales in the region. This represents a 5-pp increase compared to before the pandemic (29.4% in 2019).

1. In December, there was a year-on-year decrease in the number of sales according to the National Statistics Institute (–10.2%), but in January the trend returned to positive territory (6.6% year-on-year).

Spain: home sales

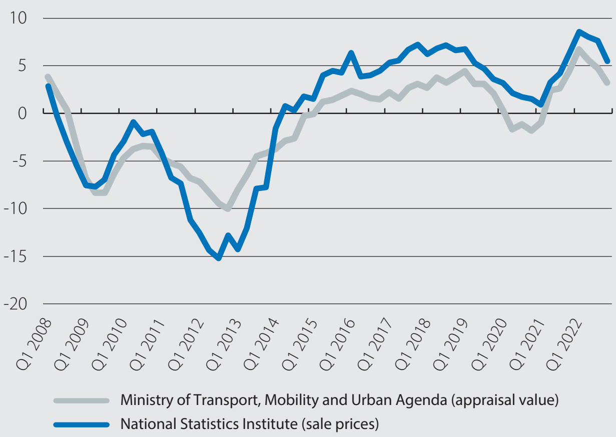
(Number of sale transactions)



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

Spain: slowdown in home prices

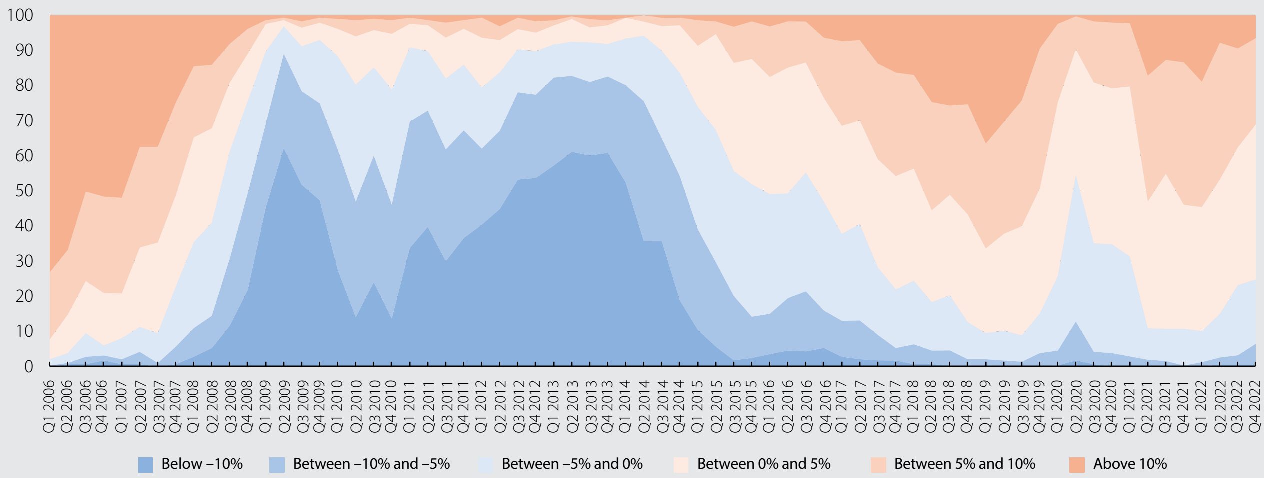
Year-on-year change (%)



Source: *BPI Research, based on data from the Ministry of Transport, Mobility and Urban Agenda and the National Statistics Institute.*

The supply of housing remains very limited and insufficient to meet housing needs given the demographic trends. Specifically, the number of planning permission licences granted for new constructions (109,000 homes in 2022) fell well short of net household creation (210,000), a situation already observed in 2020 and 2021. One factor which could help supply to recover is the recent moderation in the rise in construction costs. These costs surged in the first half of 2022 (peaking at a year-on-year increase of 19.5% in May). Since then, the pace of growth has been somewhat more contained (10.3% year-on-year in December 2022) and going forward we expect the cost pressures to moderate in view of recent developments in the price of energy and industrial metals in international markets, which have fallen sharply since mid-2022 despite the recent increase due to China's reopening.

Spain: distribution of municipalities according to the year-on-year change in home prices
(% of municipalities)



Note: *In each quarter, the municipalities are classified according to whether the year-on-year change in home prices is below –10%, between –10% and –5%, etc.*
Source: *BPI Research, based on data from the Ministry of Transport, Mobility and Urban Agenda.*

Home prices registered significant growth in 2022 (5.0% according to the Ministry of Transport, Mobility and Urban Agenda, and 7.4% according to the National Statistics Institute), but there was also a marked slowdown in year-on-year terms over the course of the year. In particular, having grown by 6.7% in Q1, by Q4 the growth rate had dropped to 3.3% according to the home appraisal value data published by the Ministry of Transport, Mobility and Urban Agenda (according to the National Statistics Institute's price index, which is based on sale prices, the growth rate decreased from 8.5% year-on-year in Q1 2022 to 5.5% in Q4).

In all autonomous community regions, home prices experienced a slowdown during 2022 but recorded positive growth at the end of the year, with Murcia being the only exception (–0.1% year-on-year in Q4 2022). Among all the autonomous community regions, the Balearic Islands registered the biggest increase in home prices in 2022, at 7.8% (compared to 5% for the nation as a whole). In fact, it is the only region where home prices in nominal terms now exceed the peak registered before the bursting of the real estate bubble in 2008 (specifically, in Q4 2022 home prices were 11% higher than the previous peak, while for the country as a whole they still remained 17% below).

The evolution of homes prices in municipalities with more than 25,000 inhabitants also slowed in 2022: 25% of municipalities registered a negative year-on-year rate of change in Q4 2022 (compared to just over 10% at the beginning of the year). In contrast, just 6.5% of municipalities registered an increase in home prices exceeding 10% in Q4 2022 (versus a peak of 19% in Q1 2022).

In the coming quarters, the Spanish economy will continue to face an adverse context marked by geopolitical uncertainty and rising interest rates.[2] Against this demanding economic backdrop, we expect that the trajectory of slowing home prices will continue, with prices remaining virtually stagnant in 2023. The trend will be more positive in locations with the highest demand, such as major city centres and tourist areas. As for the type of housing, we foresee a differentiated trend: second-hand housing will be the most affected, while we expect to see a better performance in the case of new housing, due to its relative scarcity and high demand.

This relatively positive outlook for the Spanish real estate sector rests on a series of hypotheses which constitute CaixaBank Research's baseline scenario. Financial market turbulences experienced since mid-March serve as a warning of the risks that could emerge in a context of rapid interest rate rises. Indeed, if these turbulences were to persist or worsen – neither of which is anticipated in our baseline scenario – this could have an impact on the economic outlook and on the real estate sector. However, it is important to note that the real estate sector is now in a much stronger starting position in order to weather the storm than it was in the previous cycle: there is currently no oversupply, no excessive growth in credit, and there has been no easing of credit standards.[3] In addition, households have healthier balance sheets and banks have large capital and liquidity buffers.

2. There will also be some elements that will support activity growth in the Spanish economy, such as the acceleration of the deployment of NGEU funds and the recovery of tourism. We anticipate GDP growth of 1.3% in 2023.
3. See the article «The real estate sector is cooling down», published in the *Real Estate Sector Report* 1S 2023, for a comparative analysis of different variables in the two most recent expansive cycles of the Spanish real estate market (1999-2007 and 2014-2022).

Activity and employment indicators

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

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
Industry									
Industrial production index	8.8	2.9	1.6	4.4	4.6	0.8	–0.2	–0.4	...
Indicator of confidence in industry *(value)*	0.6	–0.9	6.8	0.4	–5.2	–5.4	–3.7	–5.8	–3.2
Manufacturing PMI *(value)*	57.0	51.0	55.8	53.2	49.2	45.6	48.4	50.7	51.3
Construction									
Building permits *(cumulative over 12 months)*	4.7	15.4	31.6	18.8	8.8	2.6	–1.3	...	...
House sales *(cumulative over 12 months)*	9.6	29.0	41.8	33.6	23.0	17.3	12.8	...	...
House prices	3.7	7.4	8.5	8.0	7.6	5.5	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	64.7	129.8	313.8	312.5	208.8	129.8	...	...	...
Services PMI *(value)*	55.0	52.5	52.2	55.9	51.0	50.8	52.7	56.7	59.4
Consumption									
Retail sales	5.1	0.9	0.2	1.2	0.2	1.8	5.5	4.0	...
Car registrations	158.0	–3.0	–7.5	–10.3	3.1	2.6	51.4	19.2	66.1
Consumer confidence index *(value)*	–12.9	–26.4	–18.2	–26.8	–32.5	–28.2	–22.9	–22.1	–24.7
Labour market									
Employment [1]	3.0	3.1	4.6	4.0	2.6	1.4	–	–	–
Unemployment rate (% labour force)	14.8	12.9	13.6	12.5	12.7	12.9	–	–	–
Registered as employed with Social Security [2]	2.5	3.9	4.5	4.8	3.5	2.7	2.3	2.4	2.7
GDP	**5.5**	**5.5**	**6.9**	**7.8**	**4.7**	**2.6**	–	–	–

Prices

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

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
General	3.1	8.4	7.9	9.1	10.1	6.6	5.9	6.0	3.3
Core	0.8	5.1	3.0	4.9	6.2	6.5	7.5	7.6	7.5

Foreign sector

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

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	21.2	22.9	26.2	22.2	23.3	22.9	21.9	...	...
Imports *(year-on-year change, cumulative over 12 months)*	24.8	33.4	36.1	35.2	38.1	33.4	29.8	...	...
Current balance	**11.5**	**7.8**	**8.1**	**7.8**	**6.1**	**7.8**	**14.1**	...	...
Goods and services	17.9	18.7	13.7	14.7	14.4	18.7	24.3	...	...
Primary and secondary income	–6.4	–10.9	–5.6	–7.0	–8.3	–10.9	–10.2	...	...
Net lending (+) / borrowing (–) capacity	**22.4**	**19.7**	**19.1**	**19.5**	**18.0**	**19.7**	**26.4**	**...**	**...**

Credit and deposits in non-financial sectors [3]

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

	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	01/23	02/23	03/23
Deposits									
Household and company deposits	6.1	4.9	5.2	5.4	5.3	3.8	2.7	1.7	...
Sight and savings	10.3	7.9	9.3	9.2	8.2	5.0	2.3	0.4	...
Term and notice	–24.4	–19.7	–26.8	–25.4	–19.2	–7.4	0.2	4.4	...
General government deposits	15.5	9.6	19.3	15.6	6.6	–3.1	5.8	7.3	...
TOTAL	**6.7**	**5.2**	**6.0**	**6.0**	**5.4**	**3.2**	**2.9**	**2.1**	**...**
Outstanding balance of credit									
Private sector	0.3	0.7	0.2	0.8	1.3	0.5	–0.7	–1.1	...
Non-financial firms	1.1	0.9	–0.5	0.7	2.4	0.9	–0.9	–1.4	...
Households - housing	0.2	1.0	1.3	1.4	1.1	0.2	–0.8	–1.3	...
Households - other purposes	–1.2	–0.6	–1.1	–0.5	–0.9	–0.1	0.0	–0.1	...
General government	15.3	0.2	3.4	1.9	–3.5	–1.1	–1.1	0.9	...
TOTAL	**1.1**	**0.7**	**0.4**	**0.9**	**1.0**	**0.4**	**–0.7**	**–1.0**	**...**
NPL ratio (%) [4]	**4.3**	**3.5**	**4.3**	**4.1**	**3.8**	**3.7**	**3.6**	**...**	**...**

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

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