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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
MAY 2024

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BPI

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

May 2024

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

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Lights and shadows of the world economy between the short and medium terms

In the first third of the year, the pieces of the puzzle of the international economy's soft landing fell into place, despite increased geopolitical instability and positive surprises in growth and inflation data which, in any case, reduce the likelihood of recessionary scenarios. This greater solidity of activity data and company results at this point in the spring provides a good basis for growth in the rest of the year and is accompanied by a recovery in confidence, despite the high levels of geopolitical noise. The only discordant note, although not unexpected, is a certain drag on inflation on the way to the target band as we enter the last mile. However, the most innovative aspect in the monetary normalisation process is the divergence that is beginning to be seen in the price trajectories for 2%, reflecting the uneven pace of the recovery in recent quarters and heterogeneous sectoral patterns. This should lead to less coordination in the reduction of interest rates compared to the restrictive movement of the last two years, in the absence of excessive reactions in exchange rates.

In the IMF's words, all this shows a «resilient economic cycle in divergence», thanks to the support given to demand by both the strength of the labour market and public spending and savings accumulated during the pandemic. Perhaps even more innovative, however, is the fact that the positive dynamics on the supply side were reinforced when the normalisation of supply chains and the fading of the energy shock were coupled with the growth of the workforce (no one speaks any more of the «Great Resignation»). Therefore, the rebalancing achieved in the last six months between global supply and demand leaves the horizon fairly clear on the way back to potential growth rates, if there are no negative surprises in the geopolitical scenario that lead to a disturbing rise in the price of a barrel of oil from current levels. For the time being, in a few weeks with global demand gaining momentum, interruptions in maritime transport and high political instability, prices have been quite contained, reflecting the flexibility of the offer to keep the oil barrel price at around 85 dollars.

The problem is that the improvement in the economic scenario will not prevent short-term growth rates from remaining rather mediocre, especially in Europe, due to: persistently high interest rates, the gradual withdrawal of budgetary support, the delayed consequences of the shocks of recent years, and the prudence that economic agents continue to show when making investments or consumption decisions in an unstable context. The strengthening of companies' and households' balance sheets helps to offset the public sector's high borrowing needs, though it could be a drag on activity when the fiscal stimulus fades. This is especially so in a world where the external demand channel may be limited by the fragmentation of protectionist policies under the aegis of strategic autonomy, *friendshoring*, or similar concepts. This increases the importance of private investment as a key variable for the recovery of potential growth in developed economies, a necessary condition for achieving economic policy objectives such as those linked to the energy transition, since relying on an imminent recovery in productivity would be hopeful at best. As the Letta Report showed, Europe has the additional competitive disadvantage of not having adequate channels to direct domestic savings towards major investment projects, in the absence of a (full) Capital Markets Union. The report calls for the creation of a Savings and Investment Union to reduce the high outflow of savings abroad (around 250 billion euros a year) and to facilitate the financing of the green and digital transition and the defence spending needed to deal with current security problems, as well as to address the challenges facing pension systems. Improving the visibility of economic results in the short term therefore remains a major challenge in the medium term, in a context that will see major changes in the coming years.

Chronology

APRIL 2024

9 The EU's Copernicus programme reports that March 2024 is the 10th consecutive month to set record temperatures in the month since records began (1850).

MARCH 2024

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

FEBRUARY 2024

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

JANUARY 2024

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

DECEMBER 2023

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

NOVEMBER 2023

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

Agenda

MAY 2024

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

JUNE 2024

4 Spain: registration with Social Security and registered unemployment (May).
6 Governing Council of the European Central Bank meeting.
11 Portugal: turnover in industry (April).
11-12 Federal Open Market Committee meeting.
17 Spain: quarterly labour cost survey (Q1).
18 Portugal: resident population (2023).
21 Spain: loans, deposits and NPL ratio (Q1 and April).
Spain: balance of payments and NIIP (Q1).
Portugal: home prices (Q1).
24 Portugal: GDP breakdown (Q1).
25 Spain: quarterly national accounts (Q1).
27 Euro area: economic sentiment index (June).
Portugal: NPL ratio (Q1).
27-28 European Council meeting.
28 Spain: CPI flash estimate (June).
Spain: household savings rate (Q1).
Portugal: CPI flash estimate (June).

Good progress for the Portuguese economy at the start of 2024

Information about the first few months of this year regarding activity, employment, and inflation justifies some optimism for the year as a whole and is also confirmed by the recent revisions of scenarios by some reference entities. This confirms that 2024 will be a year of lower growth than recent years, but still one of significant expansion given all the unfavourable factors, in particular the huge increase in inflation and interest rates since mid-2022, with lagged effects on activity and confidence.

Particularly noteworthy is the information from the national accounts for the first quarter of the year, whose *flash* estimate (still without component details) surprised favourably with an increase in GDP of 0.7% in the quarter. Even so, year-on-year growth was only 1.4%, signalling that the economy has effectively suffered from the various unfavourable conditions and slowed compared to immediate post-pandemic period (growth stood at 2.3% in 2023). Despite this noticeable slowdown and lower growth, in comparison with the rest of the eurozone, Portugal continues to go well, given that the EMU as a whole expanded by 0.4% year-on-year and 0.3% quarter-on-quarter in the same period. The region's performance has been greatly influenced by the continued fragility of the bloc's two largest economies, Germany (with 3 consecutive quarters of year-on-year GDP decline) and France (year-on-year growth of around 1%), as well as the northern European countries (such as Austria, which has seen activity contract by more than 1% year-on-year for at least 4 quarters), penalised by the proximity of the conflict in Ukraine and with a greater weight in the industrial segment (which is more affected by the energy transition).

Returning to the Portuguese economy, the signs for the coming months look moderately favourable, at least from the reading of the confidence indices, which in April saw an improvement across the various segments. In the case of consumers, confidence has returned to levels seen in early 2022, before the outbreak of the war in Ukraine. Families are more optimistic about both their household situation and their assessment (current and future) of the country's economic situation. The reduction in interest rates over the last six months, in line with the market's expectation of the ECB's monetary policy, the expectation that this movement will strengthen soon, and the orderly decline in the inflation rate are at the root of this optimism. No less important is the performance of the labour market, where employment rose to more than 5 million individuals in Q1, a new all-time high, while compensation per employee rose by more than 6% y-o-y in the first three months of the year, the highest rate since the series began, suggesting that household disposable income has performed well (especially in real terms), supporting private consumption.

Sector indicators are also favourable, generally recovering from the weaker values seen in the middle of last year, while still not offering as favourable an outlook as the consumer indicators. Indeed, the EC's economic sentiment indicator has been at an all-time high for around a year, with the services sector particularly standing out. Nevertheless, the industrial sector continues to shrink and construction seems to be losing some vigour. Even so, everything points to the economy continuing on a positive path throughout the year, possibly justifying a reassessment of our upward scenario in the coming weeks.

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

Financial markets

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.77	0.25	4.50	5.50	4.50	3.50
3-month SOFR	3.62	0.99	0.21	4.74	5.37	3.85	2.85
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.40	3.00
2-year government bonds	3.70	0.99	0.66	4.30	4.46	3.40	2.80
10-year government bonds	4.69	2.44	1.46	3.62	4.01	3.50	3.10
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.00	2.25
ECB refi	3.05	0.69	0.00	2.27	4.50	3.50	2.75
€STR	–	–0.55	–0.58	1.57	3.90	2.93	2.30
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	2.83	2.33
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.74	2.36
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	2.76	2.40
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	2.78	2.45
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	1.90	2.00
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.00	2.20
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.32	2.42
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.46	2.57
10-year government bonds	4.42	2.96	0.42	3.18	3.09	2.90	3.00
Risk premium	11	158	73	105	98	90	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.54	2.66
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.61	2.75
10-year government bonds	4.49	4.35	0.34	3.10	2.74	2.80	3.00
Risk premium	19	297	65	97	63	80	80
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.06	1.09	1.12	1.15
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.87	0.86	0.84	0.86
EUR/GBP (yen per euro)	129.56	126.06	128.82	142.85	156.99	160.00	156.00
OIL PRICE							
Brent ($/barrel)	42.3	77.3	74.8	81.3	77.3	78.0	73.0
Brent (euros/barrel)	36.4	60.6	66.2	76.8	70.9	69.2	63.9

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
GDP GROWTH							
Global	4.5	2.9	6.3	3.5	3.0	3.0	3.2
Developed countries	*2.7*	*1.0*	*5.6*	*2.6*	*1.6*	*1.4*	*1.7*
United States	2.7	1.5	5.8	1.9	2.5	2.2	1.6
Euro area	2.2	0.3	5.9	3.4	0.5	0.7	1.7
Germany	1.6	0.8	3.1	1.9	–0.1	0.2	1.3
France	2.2	0.3	6.4	2.5	0.9	0.6	1.4
Italy	1.5	–1.0	8.3	3.9	0.7	0.6	1.6
Portugal	1.5	–0.2	5.7	6.8	2.3	1.6	2.3
Spain	3.7	–0.3	6.4	5.8	2.5	1.9	2.2
Japan	1.4	0.1	2.6	0.9	1.9	0.8	1.0
United Kingdom	2.7	0.3	8.7	4.3	0.1	0.0	0.6
Emerging and developing countries	*6.5*	*4.4*	*6.9*	*4.1*	*4.0*	*4.0*	*4.2*
China	10.6	7.5	8.5	3.0	5.2	4.6	4.4
India	7.2	5.7	9.0	7.3	7.7	6.7	5.5
Brazil	3.6	1.2	4.8	3.0	2.9	1.8	1.8
Mexico	2.3	0.7	5.7	4.0	3.2	2.1	2.1
Russia	–	1.0	5.6	–2.1	3.6	1.5	1.3
Türkiye	5.5	4.3	11.4	5.5	4.5	2.6	3.5
Poland	4.2	3.2	6.9	5.5	0.1	2.9	3.6
INFLATION							
Global	4.2	3.7	4.7	8.7	6.9	5.2	4.0
Developed countries	*2.1*	*1.5*	*3.1*	*7.3*	*4.6*	*2.5*	*2.0*
United States	2.8	1.7	4.7	8.0	4.1	2.6	2.0
Euro area	2.2	1.3	2.6	8.4	5.4	2.2	2.1
Germany	1.7	1.4	3.2	8.7	6.0	2.5	2.2
France	1.9	1.3	2.1	5.9	5.7	2.4	2.0
Italy	2.4	1.3	1.9	8.7	5.9	1.5	2.0
Portugal	3.1	1.0	1.3	7.8	4.3	2.3	2.0
Spain	3.2	1.2	3.1	8.4	3.5	3.0	2.5
Japan	–0.3	0.4	–0.2	2.5	3.3	2.0	1.5
United Kingdom	1.6	2.2	2.6	9.1	7.3	2.8	2.3
Emerging and developing countries	*6.7*	*5.5*	*5.9*	*9.8*	*8.5*	*7.2*	*5.4*
China	1.7	2.6	0.9	2.0	0.2	0.8	1.7
India	4.5	7.3	5.1	6.7	5.5	5.0	4.5
Brazil	7.3	5.5	8.3	9.3	4.8	4.3	3.7
Mexico	5.2	4.1	5.7	7.9	5.5	4.5	3.9
Russia	14.2	7.5	6.7	13.8	5.9	5.4	4.5
Türkiye	22.6	9.8	19.6	72.3	53.9	52.6	29.0
Poland	3.5	2.1	5.2	13.2	10.8	4.6	4.6

Forecasts

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

Portuguese economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	1.7	–0.1	4.7	5.6	1.7	1.0	1.7
Government consumption	2.3	–0.2	4.5	1.4	1.0	1.9	1.1
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	2.6	3.3	5.1
Capital goods	3.2	2.0	15.3	5.5	4.3	–	–
Construction	–1.5	–2.3	7.4	1.3	–0.3	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	4.7	1.4	1.8	2.2
Exports of goods and services	5.3	2.2	12.3	17.4	4.1	2.6	5.2
Imports of goods and services	3.6	1.5	12.3	11.1	2.2	2.9	5.1
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.3**	**1.6**	**2.3**
Other variables							
Employment	0.4	–0.6	2.2	2.2	2.0	1.1	1.4
Unemployment rate (% of labour force)	6.1	11.0	6.7	6.2	6.5	6.7	6.5
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.3	2.0
Current account balance (% GDP)	–9.2	–2.7	–0.8	–1.4	1.4	1.2	1.4
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.5	2.7	2.5	2.7
Fiscal balance (% GDP)	–4.6	–5.1	–2.9	–0.3	1.2	0.4	0.6

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	3.6	–0.9	7.2	4.8	1.8	2.3	2.3
Government consumption	5.0	1.3	3.4	–0.2	3.8	2.7	1.6
Gross fixed capital formation	5.6	–2.0	2.8	2.4	0.8	0.6	3.1
Capital goods	4.9	–0.8	4.4	1.9	–1.6	0.2	3.8
Construction	5.7	–3.4	0.4	2.6	2.3	0.2	2.8
Domestic demand (vs. GDP Δ)	0.2	0.1	0.3	0.1	0.0	0.1	0.1
Exports of goods and services	4.7	1.1	13.5	15.2	2.3	0.1	2.1
Imports of goods and services	7.0	–1.0	14.9	7.0	0.3	1.1	2.3
Gross domestic product	**3.7**	**–0.3**	**6.4**	**5.8**	**2.5**	**1.9**	**2.2**
Other variables							
Employment	3.2	–0.9	7.1	3.7	3.2	2.4	1.8
Unemployment rate (% of labour force)	10.5	19.2	14.8	12.9	12.1	11.8	11.4
Consumer price index	3.2	1.2	3.1	8.4	3.5	3.0	2.5
Unit labour costs	3.0	1.2	1.0	0.9	5.9	4.4	2.5
Current account balance (% GDP)	–5.9	–0.2	0.8	0.6	2.6	2.4	2.6
External funding capacity/needs (% GDP)	–5.8	0.2	1.6	1.4	3.6	3.6	3.7
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.8	–4.7	–3.6	–3.4	–2.9

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

Forecasts

The markets assume high rates for longer

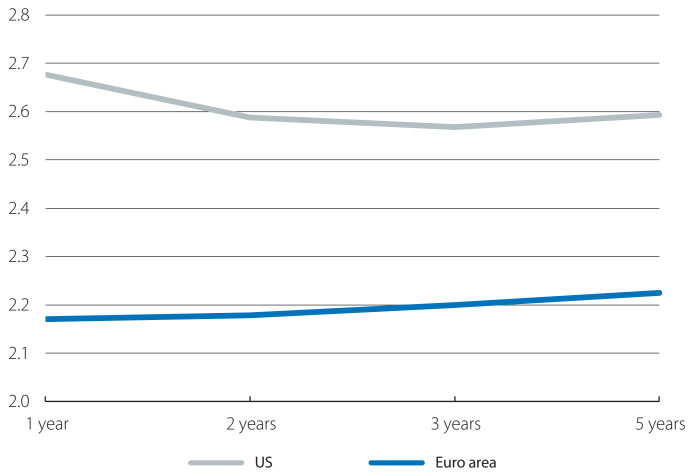
Volatility gains prominence. For much of April, the tone in the financial markets was marked by geopolitical risks and investors' bets about the near future of monetary policy in the major developed economies. The increase in hostilities in the Middle East and in the war between Russia and Ukraine, combined with renewed trade tensions between the US and China over tariffs on various metals, led to a rise in uncertainty among investors. In addition, signs of downward resistance in US inflation, amid a strong economy, led investors to postpone their expectations regarding the Fed's rate cuts, and this had repercussions for a broad range of interest rates, for spreads in the yields between different regions and for exchange rate movements.

The Fed remains cautious about the path to 2%. As investors had anticipated, in April the Fed kept interest rates in the 5.25%-5.50% range and, responding to investors' doubts, indicated that the latest data have not helped to gain the confidence needed to prepare for a first rate cut. However, Fed chair Jerome Powell tempered this hawkish signal with some dovish messages, for instance by rejecting the possibility of an interest rate hike. In particular, the Fed wanted to convey a more balanced view, focusing the debate on how long interest rates should be kept high for and how long the central bank should wait before implementing a first rate cut. Thus, the Fed refused to open the door to a possible rate hike, pointing out that the current restrictive environment should be enough to end up bringing inflation down to 2%, although it will take longer than expected. On the other hand, at its April meeting the Fed also announced that it will slow down its quantitative tightening (balance sheet reduction process) from June. Specifically, treasuries will be allowed to expire at a rate of 25 billion dollars per month (previously 60 billion), while MBSs will continue to be allowed to expire at the rate of 35 billion per month. With all this, the markets ended the month betting on a first Fed rate cut in November and assigning almost a 50% probability to a second cut at the end of 2024.

The ECB signals a rate cute in June. In the euro area, the central bank also kept its monetary policy unchanged in April (the depo rate at 4.00% and the refi rate at 4.50%), but it did reinforce the expectation that in June it will make a first cut in its reference rates. This signal from the ECB was supported, on the one hand, by the sustained slowdown seen in most price indicators, despite the fact that some items are showing a little more inertia (such as services). On the other hand, the intention to cut rates was also underpinned by the euro area's economic activity, which continues to show weakness despite some signs of improvement in the latest indicators. However, Christine Lagarde pointed out that we should not anticipate a path of sustained interest rate reductions beyond June, but rather that decisions will be taken «meeting by meeting» and based on the data. Finally, and in the face of the Fed's greater caution before cutting rates, Lagarde was keen to distance the

Inflation swaps at different maturities

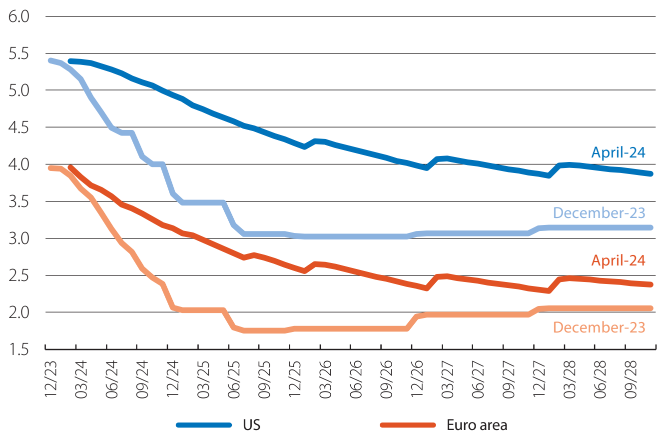
(%)



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

Expectations for Fed and ECB reference interest rates

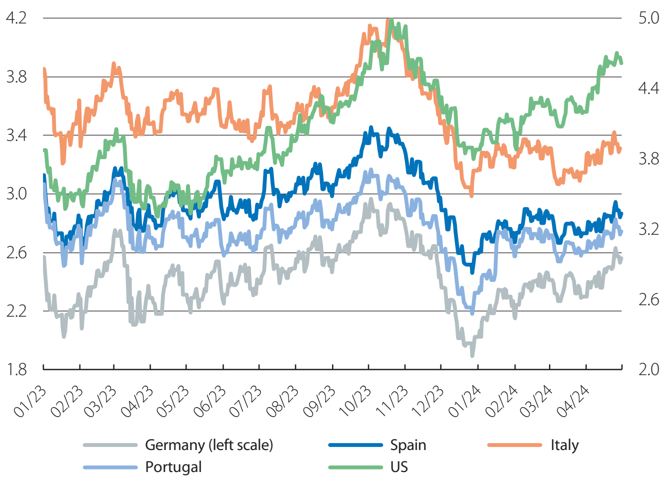
(%)



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

Interest rates on 10-year sovereign debt

(%) (%)



Note: *US, Spain, Italy and Portugal, right-hand scale.*
Source: *BPI Research, based on data from Bloomberg.*

two institutions and reiterated that the ECB is governed by the needs of the euro area's economic outlook, recalling that it is significantly different from that of the US, and she downplayed the consequences of a monetary divergence between the Fed and the ECB. With all this, the markets closed the month of April assigning a 90% probability to a cut of 25 bps in the ECB's rates in June, and betting on a total of 75 bps of reductions in 2024 as a whole (with which the depo rate would end the year at 3.25%).

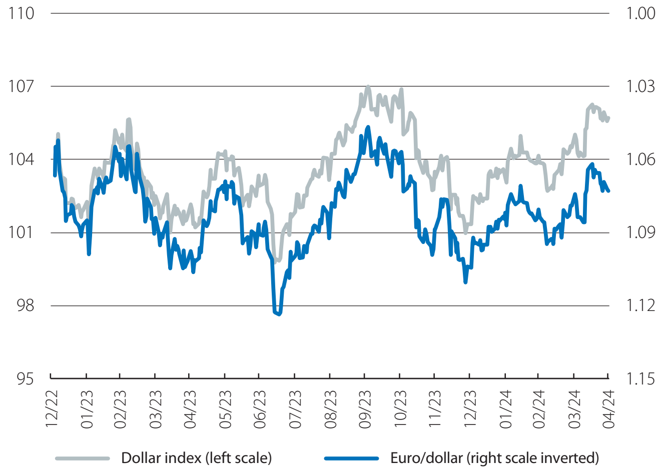
Sovereign interest rates at their highest in five months. In April, the fixed-income markets were dominated by the combination of geopolitical risk and adjustments to expectations regarding monetary policy, and the month as a whole saw a widespread increase in interest rates on US and euro area sovereign debt. In the case of treasuries, there was an upward shift across the entire curve, with the yield on the 2-year bond reaching the 5% barrier for the first time since November, while the 10-year yield rebounded almost 50 bps. The euro area's sovereign yield curves, meanwhile, moved in the same direction, albeit to a lesser degree, responding to the monetary divergence between the Fed and the ECB and the prospect of monetary policy being eased in the euro area sooner than in the US. This difference between the increase in yields on the two sides of the Atlantic, coupled with the US currency's role as a safe-haven asset, favoured the appreciation of the US dollar against the euro to 1.067 dollars, as part of a movement in which the dollar gained strength against a broad swathe of major advanced and emerging-economy currencies (e.g. the dollar strengthened to a three-decade high against the yen).

Commodity prices rise with the increased hostilities in the Middle East and the growth of global economic activity. The conjunction of the attacks between Iran and Israel, with their potential repercussions for the oil supply (Iran is the third-largest producer of OPEC), and the extension of the production cuts by OPEC and its allies caused the Brent barrel price to trade at around 90 dollars for much of April. Industrial metal prices also rose, with copper leading the charge, as the growth expectations for global economic activity improved, especially in China.

The stock markets register setbacks. In this scenario, and fearing that the restrictive monetary conditions could continue to strain corporate margins, the major stock market indices suffered widespread losses in April. The US indices accumulated the largest decreases (S&P 500 –4.2%, Nasdaq –4.5%), weighed down by the sharp rise in treasury yields and faced with a Q1 business earnings season getting underway with more contained profits than expected in some of the big financial and tech companies. In the euro area (EuroStoxx 50 –3.2%), the declines were more moderate thanks to the ECB's anticipated rate cut, and with a somewhat differential performance between the stock markets of the bloc's core (DAX –3.0%, CAC 40 –2.7%) and periphery (IBEX 35 –2.0%, PSI-20 +5.3%).

Currencies: dollar and euro index

(Index) *(Dollars per euro)*



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

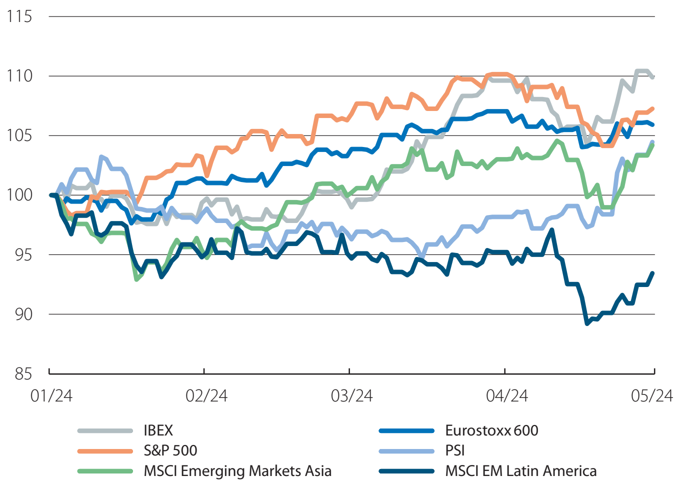
Commodity prices

	Measure	Price	Change (%) Last month	Year to date	2022	2023
Commodities	Index	101.7	2.2	3.1	13.8	–12.6
Energy	Index	31.6	–0.4	3.0	33.5	–25.6
Brent	$/barrel	87.9	0.4	14.0	10.5	–10.3
Natural gas (Europe)	€/MWh	29.2	6.8	–9.7	8.5	–57.6
Precious metals	Index	244.5	3.9	9.3	–1.9	4.1
Gold	$/ounce	2,286.3	2.5	10.8	–0.3	13.1
Industrial metals	Index	157.4	12.6	10.3	–4.4	–13.7
Aluminium	$/MT	2,590.0	10.8	8.6	–15.3	0.3
Copper	$/MT	10,135.5	14.3	18.4	–13.9	2.2
Agricultural commodities	Index	59.3	–0.9	–5.1	13.2	–9.3
Wheat	$/bushel	581.3	3.7	–7.4	2.8	–20.7

Note: *Data as of 30 April 2024.*
Source: *BPI Research, based on data from Bloomberg.*

International stock markets

Index (100 = January 2024)



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

Phase changes in monetary policy

Monetary policy is at an unusually restrictive point, resulting from the inflationary aftermath of the COVID-19 pandemic and the war in Ukraine which have raised our estimates for global interest rates above the peak reached in 2007. However, the evolution of the economy points to a change of phase: the beginning of a relaxation of monetary policy worldwide.

This change is clearly visible in the first chart and in the first rate cuts that have been introduced between late 2023 and early 2024 in Switzerland, Hungary, the Czech Republic, Mexico, Brazil, Colombia, Peru and Chile (most of which also led the cycle of rate hikes in 2021). One common factor behind these first cuts is the global decline in inflation, which has been significant compared to the peaks reached in 2022, although not yet definitive.

Idiosyncrasies and divergences

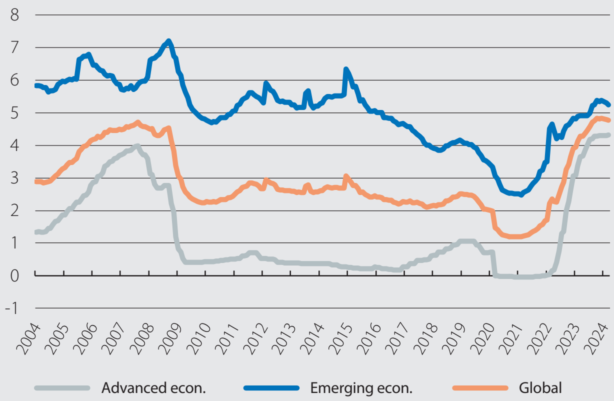
However, the trend of global disinflation and the change of phase in monetary policy hide disparities between countries. For example, the dynamics of the bloc of emerging economies are affected by the acceleration of inflation in Turkey (which stood at around 70% in early 2024, compared with rates of around 40% in mid-2023) and, to a lesser extent, Russia (almost 8% in recent months),[1] while at the other extreme China has inflation levels close to 0% or even slightly negative.

Among advanced economies, Japan is the most notable exception. The country's inflation is also slowing down, but having been above 2% for two years now, the central bank has been able to take a different path and to begin raising interest rates. More subtle, but somewhat more prominent, is the divergence between the US and the euro area. On both sides of the Atlantic, the Fed and the ECB have pointed out that the gradual withdrawal of the restrictive monetary policy is approaching. Moreover, in both cases this stance is a response to a significant decline in inflation. But the recent dynamics are changing the tempos with which the Fed and the ECB plan to execute this monetary policy easing. As can be seen in the third chart, underlying price pressures in the euro area continue to decline at a steady pace, thanks to the fading of the direct and indirect energy and food shocks, as well as the absence of any significant second-round effects between prices, wages and business margins. In contrast, in the US, the underlying inflationary pressures have shown more resilience in recent months, driven up by both observed and owner-equivalent rents (a component which has not quite begun the sharp slowdown it was expected to

1. In addition to extreme cases such as Argentina, where inflation is running into three digits.

World: central bank interest rates

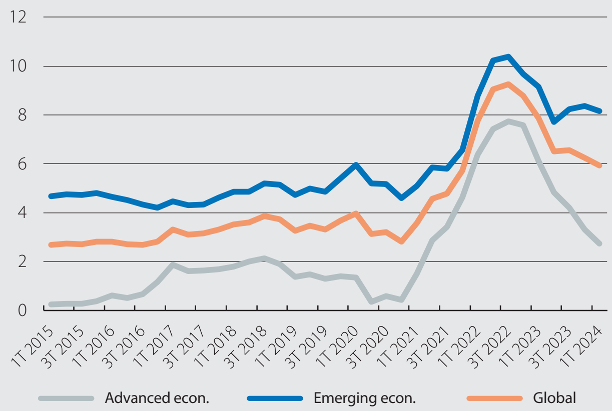
(%)



Notes: *Aggregate of 14 central banks from advanced economies and 11 from emerging economies representing 39% and 38% of world GDP, respectively. For China, the Household Savings Deposits Rate is used.*
Source: *BPI Research, internal calculations based on data from the IMF and Bloomberg.*

World: CPI

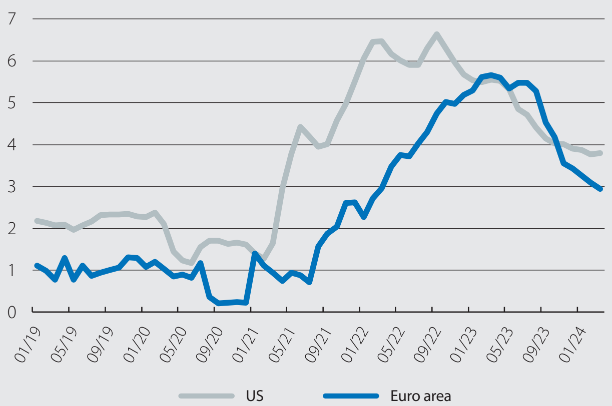
Year-on-year change (%)



Source: *BPI Research, internal calculations based on data from the IMF and national statistics agencies.*

Advanced economies: core CPI *

Year-on-year change (%)



Note: * *Excludes energy and all foods.*
Source: *BPI Research, based on data from the Bureau of Labor Statistics and Eurostat.*

follow according to most of the leading indicators) and, more recently, a certain acceleration in the prices of other services. The Fed continues to state that its next step will be a rate cut. However, the uncertainty over whether these tensions reflect temporary idiosyncratic factors or whether, in a context of robust economic activity, they are signs of an underlying resistance in prices is causing the Fed to be more cautious before making a move. On the other hand, in Europe the data are giving the ECB more cause for confidence and the communications pointing to a rate cut on 6 June are becoming increasingly explicit.

It is thus understandable that the financial markets have adjusted their expectations in recent months. Whereas, in Europe, they are assigning a 90% probability to a first rate cut in June and a total reduction of 75 bps is anticipated in 2024 as a whole, investors are not expecting the Fed's first rate cut until November and they doubt whether there will be any further cuts before the end of the year. However, the distinction made by the markets regarding the outlook for each economy is not applicable to all aspects. In fact, the change in expectations in the financial markets has been quite widespread across the major advanced economies. At the end of 2023, investors had expected generally aggressive rate cuts and this vision has been corrected in favour of a more gradual easing.

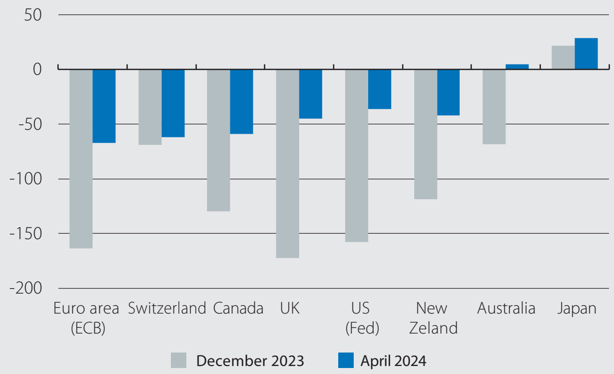
ECB: data-dependence or Fed-dependence?

The synchronisation of investors' expectations has several explanations (e.g., the possibility that US inflation and the Fed are anticipating the dynamics of other economies; financial markets' tendency not to discriminate between the nuances of each region; etc.). In any case, it is reasonable to ask to what extent a more cautious Fed could affect the rest of the central banks. Focusing on the ECB, there are three main channels through which it could be affected: financial conditions, global demand and exchange rate. Firstly, restrictive conditions in the US will tend to strain those in the euro area. If this contagion is unwanted, it could reinforce the ECB's determination to ease its monetary policy and keep European financial conditions in check. The two other channels, however, could favour a more cautious ECB. On the one hand, the strength of the US could boost global demand, put pressure on commodity prices and lead to an appreciation of the dollar. On the other hand, there is the threat of the impact that the exchange rate could have on inflation in the euro area, although estimates suggest that the transmission would be limited: a depreciation of 1% in the euro's nominal effective exchange rate would push inflation up by less than 0.1 pp.[2] Given that the euro has resisted against other currencies besides the dollar despite the latter's strength,[3] we could expect to see contained inflationary pressures even in the face of a weakening of the euro-dollar exchange rate to parity (and, in any case, lower pressures than the disinflation which is yet to be transmitted via other channels).

Throughout the readjustment of market expectations, the ECB has reiterated its independence from the Fed and has emphasised the different nature of the economic scenarios in the US and the euro area. Starting in June, and with the permission of a challenging risk map, the ECB will have the first opportunity to translate these words into rate cuts.

Market expectations for monetary policy in 2024

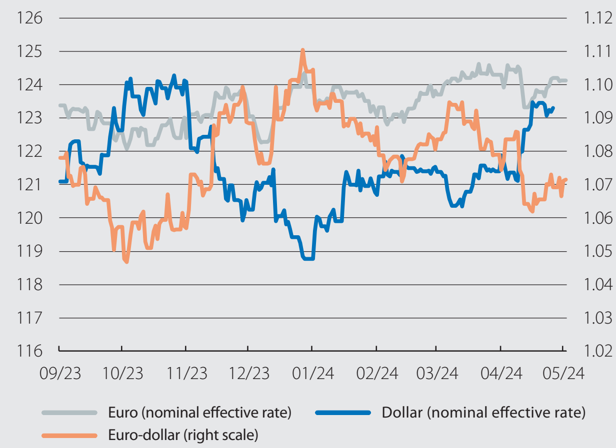
Change in the official rate of each central bank (bps)



Notes: *Change between December 2023 and December 2024, according to expectations inferred from market prices. In Switzerland and Japan, the April 2024 expectation already incorporates adjustments actually made.*
Source: *BPI Research, based on data from Bloomberg.*

Exchange rates

Index *(Dollars per euro)*



Notes: *The effective rates indicate the exchange rate relative to a large basket of currencies (weighted according to the various countries' importance in terms of trade). A higher figure indicates the currency's appreciation against this basket.*
Source: *BPI Research, based on data from Bloomberg, the Fed and the ECB.*

2. E. Ortega and C. Osbat (2020). «Exchange rate pass-through in the euro area and EU countries». Bank of Spain Occasional Paper (2016).
3. The dollar accounts for 16% of the basket of the euro's nominal effective exchange rate against the top 41 currencies.

Interest rates (%)

	30-April	31-March	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.50	4.50	0	0.0	100.0
3-month Euribor	3.83	3.89	–7	–8.4	56.0
1-year Euribor	3.70	3.67	3	18.3	–18.4
1-year government bonds (Germany)	3.44	3.34	10	17.7	34.9
2-year government bonds (Germany)	3.03	2.85	19	63.0	34.3
10-year government bonds (Germany)	2.58	2.30	29	56.0	27.1
10-year government bonds (Spain)	3.35	3.16	19	36.1	–0.5
10-year government bonds (Portugal)	3.21	3.01	20	55.2	7.5
US					
Fed funds (upper limit)	5.50	5.50	0	0.0	50.0
3-month SOFR	5.33	5.30	3	–0.3	23.9
1-year government bonds	5.24	5.02	21	47.3	38.4
2-year government bonds	5.04	4.62	42	78.5	89.4
10-year government bonds	4.68	4.20	48	80.1	111.2

Spreads corporate bonds (bps)

	30-April	31-March	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	56	54	2	–2.9	–27.4
Itraxx Financials Senior	63	63	0	–3.5	–34.6
Itraxx Subordinated Financials	116	114	2	–6.6	–71.3

Exchange rates

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.067	1.079	–1.1	–3.4	–2.8
EUR/JPY (yen per euro)	168.220	163.300	3.0	8.0	11.4
EUR/GBP (pounds per euro)	0.854	0.855	–0.1	–1.5	–2.8
USD/JPY (yen per dollar)	157.800	151.350	4.3	11.9	14.8

Commodities

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	546.2	536.4	1.8	7.0	0.2
Brent ($/barrel)	87.9	87.5	0.4	14.0	10.8
Gold ($/ounce)	2,286.3	2,229.9	2.5	10.8	15.3

Equity

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,035.7	5,254.4	–4.2	5.6	20.8
Eurostoxx 50 (euro area)	4,921.2	5,083.4	–3.2	8.8	12.9
Ibex 35 (Spain)	10,854.4	11,074.6	–2.0	7.4	17.5
PSI 20 (Portugal)	6,615.6	6,280.5	5.3	3.4	6.5
Nikkei 225 (Japan)	38,405.7	40,369.4	–4.9	14.8	31.9
MSCI Emerging	1,046.0	1,043.2	0.3	2.2	7.1

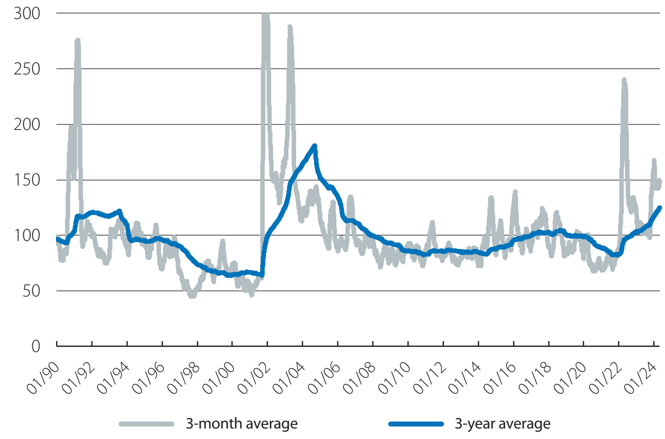
International fragmentation in the economic outlook

Smooth landing, with areas of high turbulence. As the global economy's landing is turning out to be smoother than anticipated a few months ago, the last few weeks reminded us that the environment continues to be marked by a high degree of uncertainty. The direct attacks between Israel and Iran led to a moment of maximum tension in the conflict. Moreover, while the attacks did not escalate further and the scenario of an outbreak of a regional conflict seems to have been avoided for the time being, a further escalation leading to new tensions in the international economy, particularly in commodity markets, cannot be ruled out. The macroeconomic scenario will thus remain subject to geopolitical risks, on various fronts. The GPR geopolitical risk index has stood at around 150 points for the last 6 months (50% above its historical average of 100 points) and its 3-year average exceeded 125 points for the first time since 2006, when we went through a period of «de-escalation» following the historical peaks at the beginning of the century.

«–Control tower: OK», good GDP performance in Q1 in advanced economies. In the US, GDP grew by 0.4% quarter-on-quarter in Q1 2024. Although below expectations, this figure reflects the health of the US economy. The reading at the component level reveals that private consumption grew by a significant 0.6% quarter-on-quarter (vs. 0.8% in the previous quarter) and that investment in fixed capital accelerated (+1.3% in Q1 vs. 0.9% previously). The data thus paint a picture of robust domestic demand, in a context in which foreign demand is cooling. In the euro area, GDP grew by 0.3% quarter-on-quarter, surpassing expectations after having fallen in the previous two quarters and placing the year-on-year growth rate at 0.4%. The large economies accelerated relative to the previous quarter. Germany managed to grow by 0.2% quarter-on-quarter (vs. –0.5% in Q4 2023, revised downwards), France grew by 0.2% (vs. 0.1% previously), mainly due to a solid acceleration in fixed capital investment, while Italy advanced 0.3% (vs. 0.2% previously). Spain stood out above the rest, growing by a significant 0.7% at the beginning of this year (see the Spanish economy economic outlook section). These figures helped to mitigate the divergence between the US and European economies, while the gap in growth between the central and peripheral economies of the euro area persists. However, in a context of persistent weakness in European industry, which is also reflected in the main opinion polls and business climate surveys, the growth expectations remain somewhat modest. In fact, in the latest update of its World Economic Outlook, the IMF highlighted the divergence in growth rates between advanced economies, as well as between this group and developing economies, revising US growth upwards for 2024 and 2025 (2.7% and 1.9%, +0.6 pps and +0.2 pps vs. the previous forecast, respectively) and downwards in the case of euro area growth (0.8% and 1.5%, –0.1% pps and –0.2 pps vs. the previous forecast, respectively).

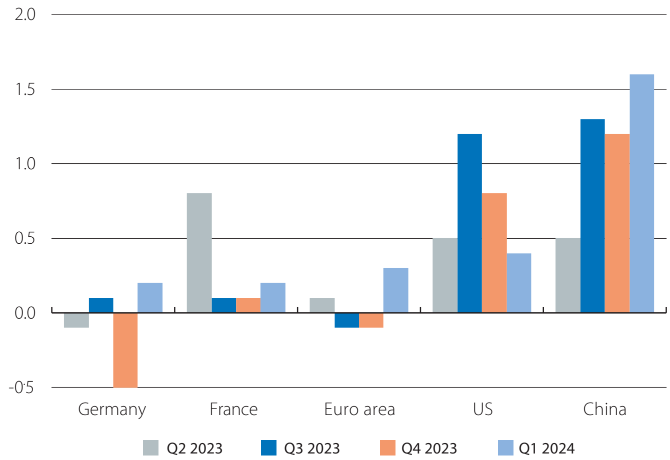
The high for longer rhetoric strikes back... with more force in Washington than in Frankfurt. Inflation continues to be a source of concern and remains on the risk map, especially in

Global: geopolitical risk
GPR index



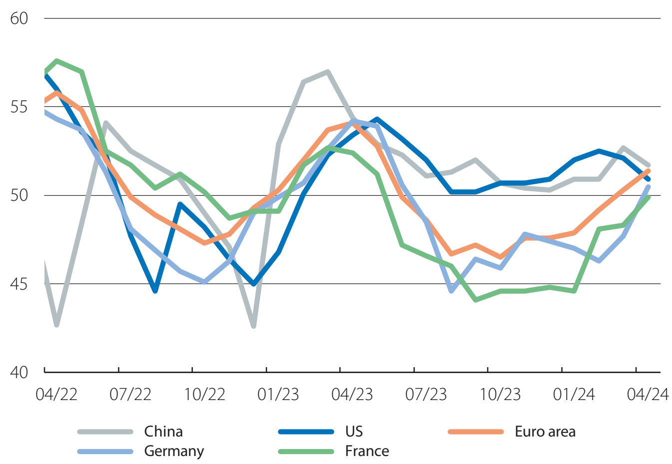
Source: BPI Research, based on data from D. Caldara and M. Iacoviello (2022). «Measuring Geopolitical Risk», AER, 112 (4), 1194-225 (downloaded from https://www.matteoiacoviello.com/gpr.htm, on 30/04/2024).

Global: GDP
Quarter-on-quarter change (%)



Source: BPI Research, based on data from Eurostat, the Bureau of Economic Analysis and the National Statistics Office of China, via Bloomberg and Refinitiv.

Global: composite PMI
Index



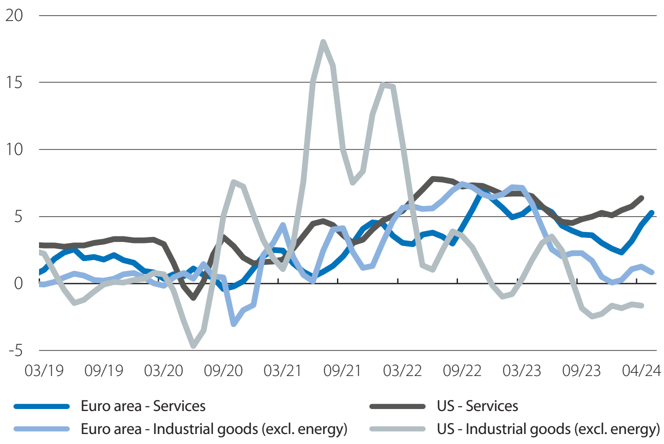
Source: BPI Research, based on data from S&P Global and the National Statistics Office of China, via Bloomberg.

the US, where the publication of the GDP data not only showed the strength of US consumption but also that of the domestic inflationary pressures. The rise in the GDP deflator (from +2.0% to 3.1% year-on-year) and in the core PCE measure of inflation (from 1.6% to 3.7%) helped to fuel a delay in expectations for rate cuts, both in the financial markets and in the communications from the Federal Reserve itself (for more details, see the Financial markets economic outlook section). This opens up a further source of divergence between the US and European economies, with confidence increasing in the latter case that the ECB could begin to cut rates as early as June. In April, headline inflation in the euro area stood at 2.4%, while the core index fell to 2.7%, marking its lowest point since February 2022. Of particular note was the slowdown in services to 3.7% and the sustained moderation in the inflation of industrial goods. Moreover, in a context of high uncertainty, at its latest meeting the ECB underlined its strategy of relying on the data, not on the Fed.

The mixed signals in the Q2 suggest low altitude flights. While on the one hand consumption remained strong in Q1 in the US, the decline in April of the composite Purchasing Managers' Index (PMI) to 50.9 points (vs. 52.1 previously), placing it only just above the 50-point threshold that denotes expansion in production, suggests that economic activity could lose some momentum in Q2. In the euro area, the composite PMI rose again by more than 1 point in April, reaching 51.7 points (vs. the previous 50.3). This increased dynamism is mainly explained by the revival of the services sector (53.3 points vs. 51.5 previously), while the industrial sector has not yet recovered from the crisis triggered by the outbreak of the war in Ukraine (45.7 points vs. 46.1 previously). Germany's Ifo business sentiment index also climbed 1.5 points in April, to 89.4. This marked its third consecutive increase, although it remains well below the 100-point threshold that denotes growth around its long-term average. On the other hand, the economic sentiment indicator (ESI) declined slightly in the euro area (95.6 points vs. the previous 96.2).

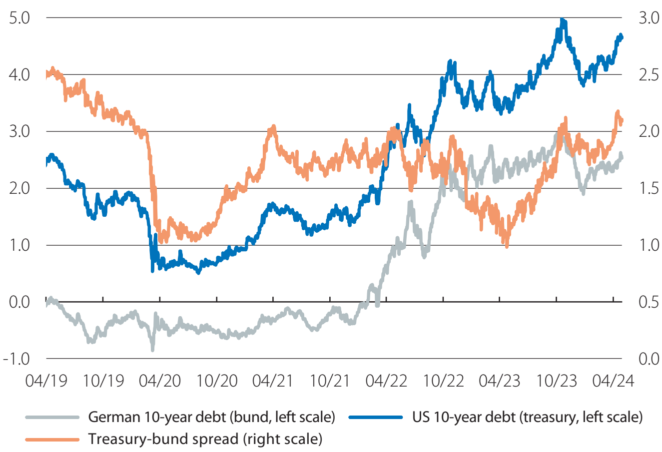
In China, Q1 was better than expected, but a more fragile «year of the dragon» is anticipated. The Chinese economy performed better than expected in Q1, recording quarter-on-quarter growth of 1.6% (vs. 1.2% in Q4 2023). However, it was not all good news. The acceleration observed in Q1 can be attributed above all to the boost in investment, while consumption continues to show signs of significant weakness, indicating a growing fragmentation between the buoyancy of supply and the fragility of demand. The economic activity indicators show a loss of steam in retail sales at the beginning of the year, while the PMIs for April reveal a slowdown in activity at the start of Q2 (the official composite PMI fell from 52.7 points in March to 51.7 in April). This slowdown is particularly concentrated in the services sector, for which the official PMI fell more than 2 points (from 52.4 to 50.3 points). The slowdown in China's economy is also likely to become more visible in the coming months as the boost provided by fiscal policy loses steam, amid persistent low consumer confidence and overcapacity issues in the country's industry. Indeed, this overcapacity was the target of criticism from the US treasury secretary, Janet Yellen, after her last visit to China, showing that geopolitics will continue to play a central role in these latitudes as well.

US and euro area: inflation momentum
(%)



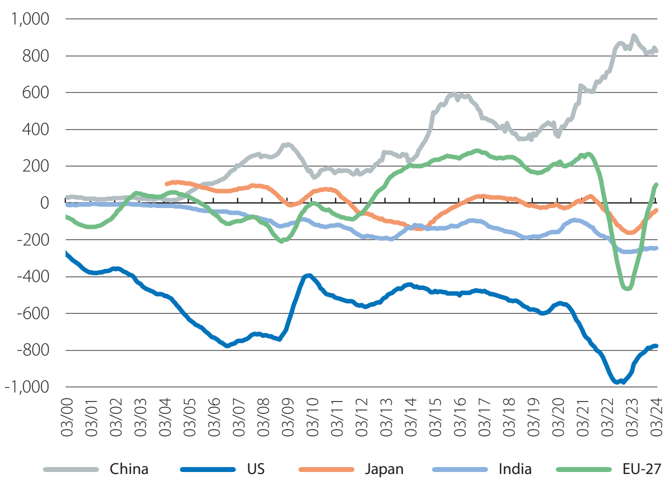
Notes: *Core inflation excludes energy and food from the price index. Inflation momentum is calculated as the annualised change in the three-month average of the seasonally-adjusted CPI relative to the previous three months.*
Source: *BPI Research, based on data from the ECB and the Bureau of Labor Statistics.*

US and euro area: sovereign debt yields
(%) *(%)*



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

Global: balance of trade in goods by country
(USD billions)



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

Whoever has a home has a treasure

The ECB has begun publishing an experimental statistic[1] that makes it possible to perform a broad analysis of how wealth is distributed in the euro area by providing disaggregated data for different tranches of wealth for the first time. Specifically, the information is broken down for each of the upper 6th, 7th, 8th, 9th and 10th deciles of net wealth, as well as for the bottom 50%.[2] In this article we will show a comparison between the main countries in order to determine whether there are significant differences in the way in which household wealth is distributed, not only between countries, but also between the different tranches of the distribution. To this end, we will analyse how wealth and its main components have evolved between the beginning of the pandemic (Q4 2019) and the latest available data (Q3 2023).

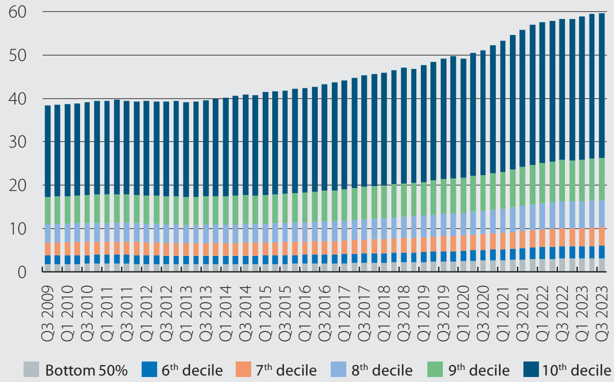
Wealth distribution in the euro area

Since the pandemic (Q4 2019), the net household wealth[3] in the euro area has increased by almost 20%. This is above all a result of the increase in net wealth in housing[4] (around 24%), in a context of a significant rise in the value of this asset category (up until Q3 2023, home prices rose by more than 18%). The importance of housing as a vehicle for generating wealth in the current context of rising property values explains how homeowners have seen their wealth increase by 21%, compared to the 12% increase observed among the rental population.

On the other hand, deposits continue to remain attractive (they represent almost 15% of total net wealth) and have grown almost 16% since Q4 2019. However, there has been a clear moderation in their year-on-year growth rate since mid-2022: in Q3 2023, they grew by just 0.3%, compared to an average rate of 3.4% in the five years prior to the pandemic. This slowdown in the accumulation of deposits is occurring despite the higher remuneration offered by this type of product. In fact, during the period from September 2015 to June 2022, deposits offered, on average, the lowest nominal return in their history (below 1.0%), whereas since the summer of 2022, and coinciding with the ECB's cycle of rate hikes, the return offered by deposits has increased to levels not seen since 2011.

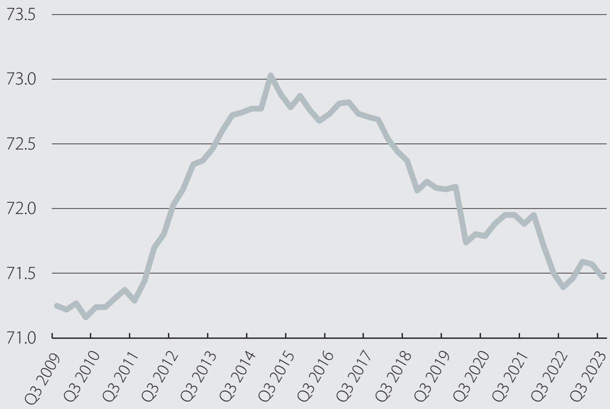
1. https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.pr240108~ae6f7ef287.en.html.
2. The deciles divide the net wealth series ordered from lowest to highest into 10 equal parts and allow us to differentiate the population according to its net wealth. Thus, the lowest deciles represent the population with the least wealth, while the 10th decile represents the wealthiest portion of the population.
3. By net household wealth we refer to the difference between the value of their assets (deposits, debt securities, listed shares, unlisted shares and other equity holdings, holdings in investment funds, life insurance policies, real estate and non-financial assets used for production purposes) less their liabilities (mortgage and non-mortgage loans).
4. Wealth in housing net of mortgage loans.

Euro area: evolution of net household wealth *
(EUR trillions)



Note: ** Net financial and non-financial wealth.*
Source: *BPI Research, based on data from the ECB.*

Euro area: Gini index
(0 = perfect equality; 100 = maximum inequality)



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

Housing as a wealth equalizer

The data show that housing (net of mortgages) accounts for almost 57% of the total net wealth of households in the euro area. Moreover, it is the main component of wealth in all tranches of wealth (representing between 58% and 73% of total wealth), with the exception of households in the highest tranche, where it accounts for 47% of their total net worth. The widespread acquisition of housing in recent years has enabled an increase in net wealth across all tranches.[5] In fact, net wealth among the population in the bottom half of the distribution increased by 28%, compared to an increase of less than

5. The ECB offers the wealth distribution by decile for the aggregate population, but not separately for homeowners or renters. However, as we have already pointed out, the data show that the increase in wealth among homeowners has been much greater than among the rental population.

19% in the richest portion of the population. This has contributed to a modest reduction in wealth inequality within the bloc, although it still remains high: the Gini index has fallen to 71.5% in Q3 2023, from 72.2% prior to the pandemic.

Deposits for the less wealthy and more sophisticated savings products as wealth increases

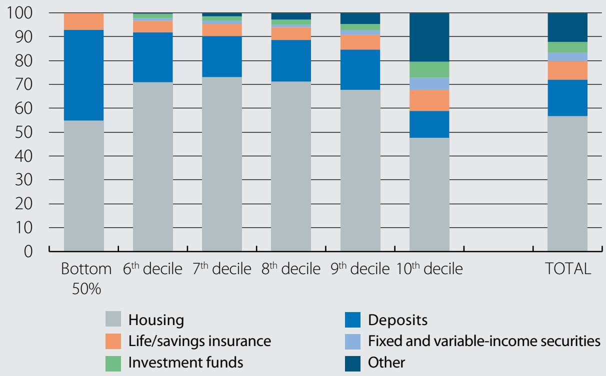
As for deposits, they represent over 15% of the total net wealth of the euro area, although this figure varies widely depending on the degree of wealth: among less wealthy households, deposits represent more than 40% of their wealth, while for the population with medium and medium-high wealth it represents between 17% and 20%; falling to 11% in the case of the richest group. On the other hand, life/savings insurance policies[6] account for around 8.0% of wealth in the euro area, rising to 9.7% of household wealth for the bottom 50% and 9.0% in the case of the wealthiest groups. It is also apparent that more sophisticated financial investment instruments (such as listed shares and/or investment funds) account for around 20% of total wealth in the euro area, although these figures are only significant in the composition of the wealth of the richest 10% of the population.

Conclusion

The data show that wealth inequality in the euro area has declined modestly in recent years thanks to the substantial increase in the value of housing, an asset class which accounts for a particularly large portion of the wealth of households in the bottom half of the distribution. There are also significant differences in the composition of household wealth. In the less wealthy half of the distribution, this wealth consists of housing and low-risk assets (deposits and life/savings insurance policies), while the wealth structure of the richest households includes a much higher proportion of more sophisticated financial instruments. This clear difference between households can affect the transmission of monetary policy, as has been demonstrated in multiple studies. We must therefore begin to consider that the functioning and the effectiveness of monetary policy measures depend on the distribution and structure of wealth, as one member of the ECB already acknowledged some time ago.[7]

Euro area: composition of net wealth by instrument and tranche of wealth *

(% of the total net wealth of each tranche of wealth)



Note: ** Data as of Q3 2023.*
Source: *BPI Research, based on data from the ECB.*

6. This form of savings is particularly common in Germany and France. It consists of a savings method in which the policyholder receives the income from the insurance policy after retiring; or, if they die before reaching retirement age, the insurance premium is received by their beneficiaries.
7. Dinner address by Peter Praet, member of the ECB Executive Board, ECB Conference on Household Finance and Consumption, Frankfurt am Main, 17 October 2013.

Distribution of wealth in Europe's large economies

The patterns observed in the aggregate data for the euro area are repeated, with varying degrees of differences, among the major countries of the bloc. Spain is the country where net wealth[1] has increased the most since the pandemic: from Q4 2019 to Q3 2023 there was a significant increase of 25%, followed closely by Germany with 22%, France with 16% and, further behind, Italy with 6.0%. This disparate evolution of total wealth from country to country is explained by the uneven pattern followed by net wealth held in the form of housing.[2] In Germany and Spain, net wealth in housing has increased by almost 25%, in France by more than 20% and, trailing somewhat behind, in Italy by less than 5.0%.

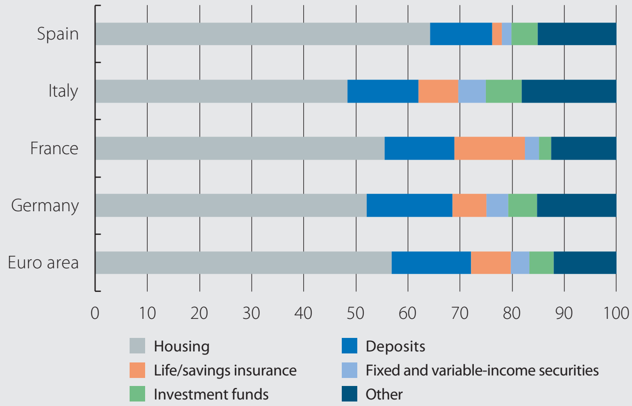
Thus, housing is reaffirmed as the main source of household wealth, and its relative weight within total wealth has been increasing since the outbreak of the pandemic in all countries, except in Italy, where it has remained fairly stable in the last three years around the level of 48.4% which it represented in Q3 2023 (50.5% in Q4 2019). Meanwhile, in Spain the portion of total net wealth attributable to housing climbed to 64.2% in Q3 2023 (61.8% pre-pandemic), while in France it rose to 55.5% (vs. 53.5%) and in Germany to 52.1% (vs. 51.0%).

Much of the pattern shown by housing wealth is explained by the increase in home prices since the start of the pandemic throughout the region. In the specific case of Germany, prices in Q2 2022 were 25% higher than prior to the pandemic, marking the biggest increase in value that housing has experienced among the four major economies in the period analysed. However, the increase in home prices in Germany has experienced a notable correction since the peak and, in Q4 2023, they lay just 10% above the pre-pandemic level. In the other countries, the correction in prices from their peaks in France is very modest, in Italy prices have been quite stable, and in Spain not only has there been no correction, but real estate property has registered a new rally since Q4 2022, such that at the end of 2023 Spain is the country with the biggest growth in home prices since the pandemic among the large economies (19%).

With regard to deposits, they are confirmed as the second source of household wealth, although in Q3 2023 their role within total net wealth has reduced slightly compared to Q4 2019 in Spain (12.0% vs. 12.9%) and, more markedly, in Germany (16.4% vs. 17.6%); while in Italy their relative weight within total net wealth has remained practically stable (13.7%) and in France it has even increased slightly (13.3% vs. 12.4%).

*Country comparison: composition of wealth by instrument **

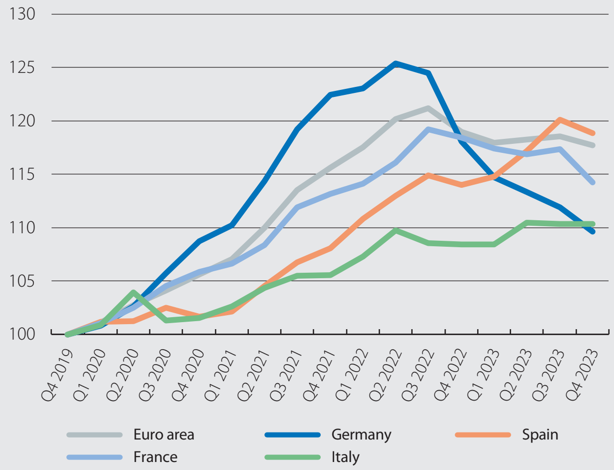
(% of total net wealth)



Note: ** Data as of Q3 2023.*
Source: *BPI Research, based on data from the ECB.*

Home prices

Index (100 = Q4 2019)



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

The importance of life/savings insurance as an investment vehicle stands out in France, Germany and Italy,[3] while in Spain this item is less relevant. However, since the pandemic the role of these policies within total net wealth has been gradually declining, especially in France (13.5% vs. 17.2%) and Germany (6.6% vs. 8.6%). As for other somewhat more sophisticated investment alternatives, such as stocks and investment funds, their role within total wealth has remained relatively stable in the study period, although as we have already seen

1. By net household wealth we refer to the difference between the value of their assets (deposits, debt securities, listed shares, unlisted shares and other equity holdings, holdings in investment funds, life insurance policies, real estate and non-financial assets used for production purposes) less their liabilities (mortgage and non-mortgage loans).
2. Wealth in housing net of mortgage loans.

3. In France and Germany, life insurance is not limited to covering a contingency in the event of the death of the insured person: upon reaching retirement age, the insured person can also access the accumulated funds. They thus act as savings tools similar to pension plans in Spain. In Spain, life insurance is a financial instrument that provides a payout to the insured person's heirs after their death.

in the aggregate data for the euro area, they are only relevant for households belonging to the richest 10%-20% of the population.

To own or not to own a home... that is the question

The aggregate data show that housing has been a determining factor in the increase in wealth in recent years. However, when we look at the detail of households classified into the different wealth tranches, we see quite different patterns from country to country. The case of Germany is particularly striking. In fact, in Germany only 47% of households own a home (compared to the European average of almost 70%), and this percentage falls to 26% for the lowest income brackets (50% on average across Europe). This constrains the pattern of wealth distribution in Germany: for the bottom 50% of the population in terms of wealth, housing wealth represents just 20% of their total wealth, whereas for the medium and medium-high wealth tranches it exceeds 60%; and it is just under 47% for the wealthiest group.

The relative weight of housing in the net worth of the bottom half of the population stands in stark contrast with the figure found in the other major economies, where housing accounts for over half of households' wealth in the lowest tranches: 54% in France, 75% in Italy and almost 80% in Spain. On the other hand, deposits in Germany account for more than two thirds of household wealth for the bottom 50%, compared to 45% in France and just over 20% in Italy and Spain.

This composition of wealth no doubt explains the lag observed among the less wealthy part of the population in Germany relative to its counterparts in other countries. The wealth of a household belonging to the bottom half of the population stands at around 18,360 euros in Q3 2023. This figure contrasts with the 45,320 euros observed in France, 58,800 in Italy and 75,000 in Spain.

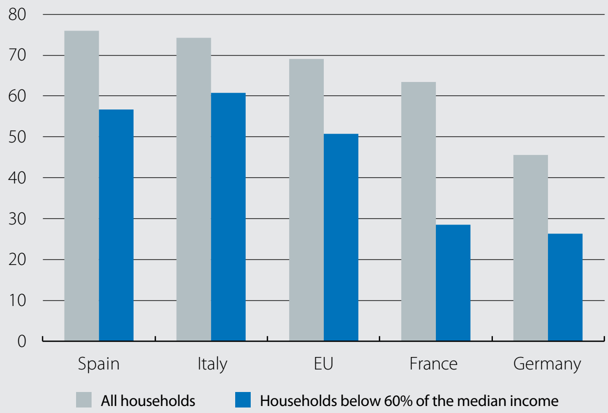
These figures help us to understand why Germany's inequality in terms of wealth distribution, measured using the Gini index, is the highest among the countries analysed here despite the significant progress made since 2014, and why it is the only country where inequality has increased since the start of the pandemic. Spain, for its part, stands out as the economy of the big four with the lowest inequality and where the most progress has been made since the pandemic (see last chart).

Conclusions

The data show significant differences between household wealth patterns in the four major countries of the EU. One notable insight is the limited role of housing within the total net wealth of the least wealthy households in Germany, while in the other countries studied it is the main vehicle of wealth for this group of the population. A more consistent pattern from country to country is the fact that the net worth of less wealthy households is highly concentrated in low-risk assets (deposits and life/savings insurance policies) in all the countries, although in Germany these instruments player a bigger role in the wealth of this tranche of the population. This composition of wealth can help to explain why inequality in Germany is the highest among the large economies. The data show a mixed pattern among European households in terms of the composition of their wealth, and this will determine their response to the various economic shocks.[4]

Households that owned a home in 2022

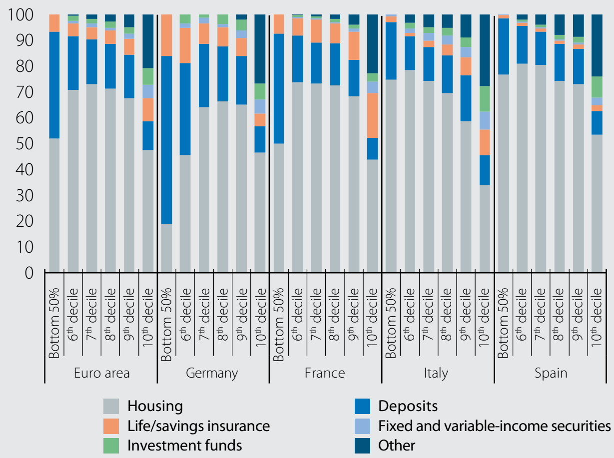
(% of households)



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

Comparison of wealth distribution by instrument *

(% of the total wealth of each percentile of wealth)



Note: ** Data as of Q3 2023.*
Source: *BPI Research, based on data from the ECB.*

4. Dinner address by Peter Praet, member of the ECB Executive Board, ECB Conference on Household Finance and Consumption, Frankfurt am Main, 17 October 2013.

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

UNITED STATES

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Activity									
Real GDP	1.9	2.5	2.4	2.9	3.1	3.0	–	–	–
Retail sales (excluding cars and petrol)	8.6	5.2	4.3	4.6	5.0	3.3	3.0	5.3	...
Consumer confidence *(value)*	104.5	105.4	105.4	109.0	102.7	106.3	104.8	103.1	97.0
Industrial production	3.4	0.2	0.0	–0.1	0.1	–0.3	–0.3	0.0	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	46.7	47.6	46.9	49.1	47.8	50.3	49.2
Housing starts *(thousands)*	1,551	1,423	1,450	1,371	1,485	1,415	1,549	1,321	...
Case-Shiller home price index *(value)*	307	312	308	316	321	...	324	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.6	3.7	3.7	3.8	3.9	3.8	3.9
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.3	60.4	60.3	60.2	60.1	60.3	60.2
Trade balance[1] *(% GDP)*	–3.8	–3.1	–3.2	–3.0	–2.9	–2.8	–2.8	–2.8	...
Prices									
Headline inflation	8.0	4.1	4.0	3.5	3.2	3.2	3.2	3.5	...
Core inflation	6.2	4.8	5.2	4.4	4.0	3.8	3.8	3.8	...

JAPAN

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Activity									
Real GDP	1.0	1.9	2.3	1.6	1.2	...	–	–	–
Consumer confidence *(value)*	32.2	35.2	35.7	36.2	36.5	38.9	39.0	39.5	38.3
Industrial production	0.0	–1.4	0.9	–3.6	–0.9	–4.5	–6.8	–3.6	...
Business activity index (Tankan) *(value)*	9.5	7.0	5.0	9.0	13.0	11.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.6	2.6	2.6	2.5	2.5	2.6	2.6	...
Trade balance[1] *(% GDP)*	–2.1	–3.0	–3.6	–2.7	–1.8	...	–1.2	...	...
Prices									
Headline inflation	2.5	3.3	3.4	3.1	2.9	2.5	2.8	2.7	...
Core inflation	1.1	3.9	4.2	4.3	3.9	3.2	3.2	2.9	...

CHINA

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Activity									
Real GDP	3.0	5.2	6.3	4.9	5.2	5.3	–	–	–
Retail sales	–0.8	7.8	10.7	4.2	8.3	4.7	5.5	3.1	...
Industrial production	3.4	4.6	4.5	4.2	6.0	5.8	7.0	4.5	...
PMI manufacturing *(value)*	49.1	49.9	49.0	49.7	49.3	49.7	49.1	50.8	50.4
Foreign sector									
Trade balance[1,2]	899	866	947	901	866	842	877.2	845.6	...
Exports	7.1	–5.1	–5.4	–10.8	–3.3	–1.7	2.9	–11.4	...
Imports	0.7	–5.5	–7.0	–8.5	0.8	1.5	–8.1	–1.9	...
Prices									
Headline inflation	2.0	0.2	0.1	–0.1	–0.3	0.0	0.7	0.1	...
Official interest rate[3]	3.65	3.45	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Renminbi per dollar	6.7	7.1	7.0	7.2	7.2	7.2	7.2	7.2	7.2

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Retail sales *(year-on-year change)*	1.2	–2.1	–2.2	–2.3	–0.8	...	–0.7	...	...
Industrial production *(year-on-year change)*	2.1	–2.1	–0.8	–4.7	–3.7	...	–6.4	...	...
Consumer confidence	–21.9	–17.4	–26.9	–26.9	–26.9	–26.9	–15.5	–14.9	–14.7
Economic sentiment	102.1	96.4	96.5	96.5	96.5	96.5	95.4	96.2	95.6
Manufacturing PMI	52.1	51.2	44.7	43.2	43.6	43.9	46.5	46.1	45.7
Services PMI	52.1	52.1	54.4	49.2	48.4	48.4	50.2	51.5	53.3
Labour market									
Employment (people) *(year-on-year change)*	2.3	1.4	1.4	1.4	1.2	...	–	–	–
Unemployment rate *(% labour force)*	6.8	6.6	6.5	6.6	6.5	6.5	6.5	6.5	...
Germany *(% labour force)*	3.1	3.0	2.9	3.0	3.1	3.2	3.2	3.2	...
France *(% labour force)*	7.3	7.3	7.4	7.4	7.5	7.4	7.4	7.3	...
Italy *(% labour force)*	8.1	7.7	7.7	7.6	7.5	7.3	7.4	7.2	...
Real GDP *(year-on-year change)*	3.5	0.5	0.6	0.1	0.1	0.4	–	–	–
Germany *(year-on-year change)*	1.9	0.0	0.2	–0.1	–0.2	–0.2	–	–	–
France *(year-on-year change)*	2.6	0.9	1.1	0.7	0.8	1.1	–	–	–
Italy *(year-on-year change)*	4.2	1.0	0.6	0.6	0.7	0.6	–	–	–

Prices

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
General	8.4	5.5	6.2	5.0	2.7	2.6	2.6	2.4	2.4
Core	3.9	5.0	5.5	5.1	3.7	3.1	3.1	3.0	2.7

Foreign sector

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Current balance	–0.7	4.1	0.2	1.8	4.1	...	10.1	...	...
Germany	4.3	12.1	4.8	7.8	12.1	...	26.0	...	...
France	–2.0	–1.5	–1.8	–1.8	–1.5	...	–2.7	...	...
Italy	–1.6	1.0	–1.1	0.1	1.0	...	3.8	...	...
Nominal effective exchange rate [1] *(value)*	**90.9**	**94.7**	**94.6**	**95.9**	**95.1**	**95.2**	**94.9**	**95.5**	**95.1**

Credit and deposits of non-financial sectors

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Private sector financing									
Credit to non-financial firms [2]	6.7	2.7	4.0	1.1	0.1	0.3	0.3	0.4	...
Credit to households [2,3]	4.4	1.7	2.1	1.1	0.5	0.2	0.3	0.2	...
Interest rate on loans to non-financial firms [4] *(%)*	1.8	4.6	4.5	5.0	5.2	5.1	5.1	5.2	...
Interest rate on loans to households for house purchases [5] *(%)*	2.0	4.4	4.3	4.7	4.9	4.8	4.8	4.8	...
Deposits									
On demand deposits	6.3	–8.5	–8.1	–11.3	–10.7	–8.8	–8.9	–7.6	...
Other short-term deposits	4.5	21.1	22.5	23.2	21.0	18.5	18.8	16.9	...
Marketable instruments	3.7	20.4	22.0	20.4	19.9	19.7	17.5	19.2	...
Interest rate on deposits up to 1 year from households *(%)*	0.5	2.7	2.5	3.0	3.3	3.2	3.2	3.2	...

Notes: *1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated. 2. Data adjusted for sales and securitization. 3. Including NPISH. 4. Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. 5. Loans with a floating rate and an initial rate fixation period of up to one year.*
Source: *BPI Research, based on data from the Eurostat, European Central Bank, European Commission, national statistics institutes and Markit.*

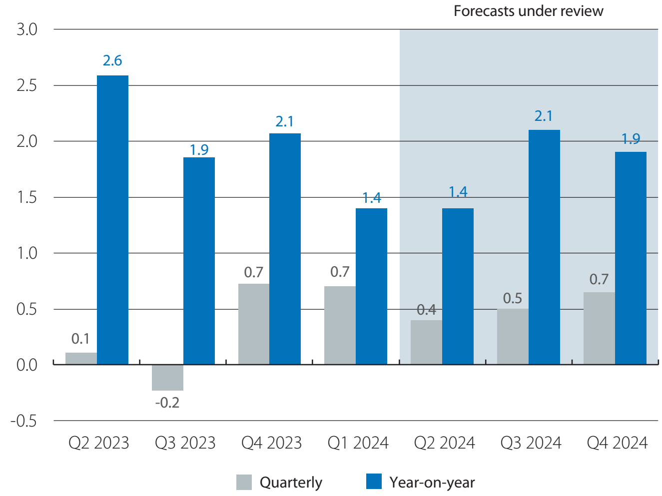
2024 gets off to a stronger start than expected

First estimate for growth in Q1 puts upside risks on BPI Research's forecast for the year as a whole. According to the INE, GDP in Q1 2024 grew by 0.7% quarter-on-quarter, exceeding our estimate of 0.4% quarter-on-quarter growth, which poses risks of a slight upward revision of the forecast for the year as a whole, currently at 1.6%. We continue to believe that, for the year as a whole, the trajectory will be from less to more, benefiting from the process of disinflation and the probable start of the withdrawal of restrictiveness in the ECB's monetary policy, with an impact on both domestic economic agents and our main trading partners. Despite this expectation, it is possible that, as in past years, the quarterly growth trajectory will show some volatility. In terms of published indicators, these suggest that the better than expected performance reflects greater strength in private consumption and improved economic sentiment. On the supply side, there are signs of recovery in industrial production, which rose by 1% year-on-year in February.

Inflation resumes its decline in April. The headline CPI stood at 2.2% (2.3% in March) and the underlying CPI at 2.0% (2.5% in March). It's a very slight drop and one that reinforces the dragging nature of the disinflationary process. Indeed, the reduction in inflation was very slight and this month it was also hampered by the base effect in energy products (there had been a significant reduction in prices in April 2023, specifically a monthly variation of -3.2%). The most favourable news for the index in April stems from the return to a downward trend in underlying inflation after the halt in March. Nevertheless, the monthly dynamics of underlying inflation were still stronger than the average of recent years prior to the pandemic, which may be related to the continued strength of services inflation. Looking ahead to the next few months, we can't rule out another rise in inflation. Indeed, it is to be expected that May will also see base effects in the unprocessed food and energy indices (in May 2023 they fell by -2.35% and -1.77% respectively).

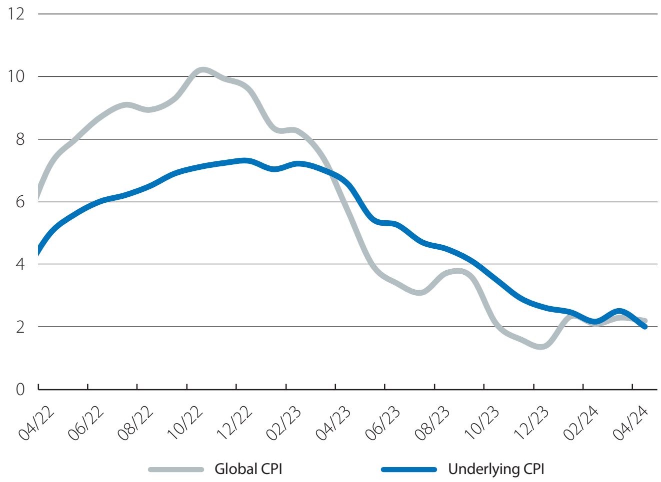
Real estate market shows signs of resistance. In fact, some data for the first quarter is already known and can serve as a barometer of price behaviour. In the bank valuation released by INE, we saw the most significant monthly increase in median value/m^2 since January 2023 (+1.28%, which corresponds to +20 eur/m^2, to 1580 euros). Compared to the end of last year, the median bank valuation increased by 2.9%. Confidencial Imobiliário's residential price index also shows increases of +2.2% compared to the close of 2023, despite more contained monthly variations. Sales expectations and 3-month prices, as published by the same organisation, have also been recovering in the first few months of 2024. These behaviours are not unconnected to the fact that rates on new home loans have been falling for five months now, and official rates are expected to be cut by the ECB in the middle of this year. All in all, prices should evolve more favourably this first quarter than we anticipated (+0.5% quarter-on-quarter), which could lead to an

Actual GDP
Change (%)



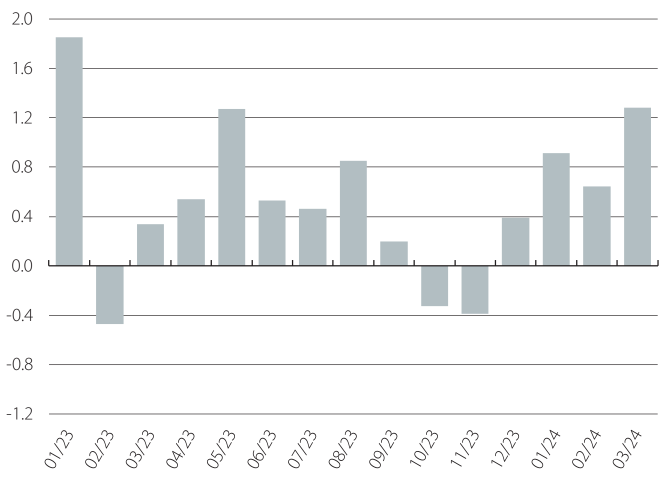
Source: *BPI Research, based on data from the National Institute of Statistics.*

CPI
Y-o-Y Var. (%)



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

Bank valuation of housing (median; eur/m^2)
Var. monthly (%)



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

upward revision of our forecast for average house price growth in 2024 (currently 3.5%).

No surprises in the job market: a good sign. Employment continues to evolve positively year-on-year, maintaining growth rates close to the 2% seen last year. Meanwhile, the unemployment rate stabilised at 6.5% in March, for the fifth month in a row, and continues to compare favourably with the same month last year and with the historical record (for example, the average unemployment rate recorded in the months of March of the 5 pre-pandemic years was 8.6%). Reinforcing these figures, unemployment registered at job centres fell for the second month running in March, which, despite a year-on-year increase of 6%, is a positive turnaround and could be a good sign for the coming months as the summer season approaches. On the downside, job vacancies continue to be lower, although they have recovered in leaps and bounds in the first three months of the year from very low levels compared to recent history (for example, in March they were 31% lower than in the five years pre-COVID). Similarly, the number of people on *layoff* remains close to record highs, although it still represents a very residual portion of the employed population. In this context, and given the more significant increase in employment and the labour force in Q1 than we had anticipated, we may have to slightly revise upwards our forecast for the unemployment rate this year.

The estimate for the behaviour of international trade in Q1 indicates that the trade deficit will continue to shrink. The publication of the estimate for exports and imports of goods in Q1 suggests that, in nominal terms, the trade deficit has improved by around 12% year-on-year. The detailed information up to February indicates that this evolution is very much marked by the correction seen in the prices of energy goods, which is reflected in a significant contraction in fuel imports. On the export side, the behaviour up to February only indicates a contraction in exports of industrial goods. However, INE's announcement that exports of goods fell by 4.2% year-on-year in Q1 suggests that other types of goods may have registered less positive movements in March.

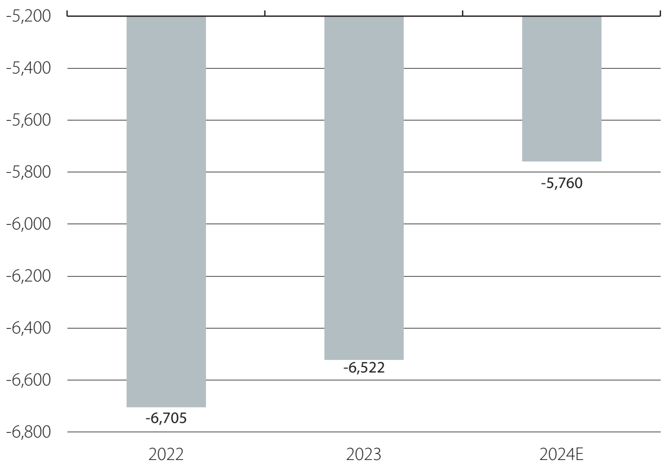
A good first quarter in the tourism sector. In the first three months of the year there were 5.5 million guests and 13.4 million overnight stays in tourist accommodation establishments. Respectively, 7.7% and 7.1% more compared to the same period in 2023. In part, this good performance was influenced by the moving structure of the calendar, i.e. the effect of the holiday period associated with Easter (this was spread out between March and April and in 2023 only took place in April). Growth was stronger among non-residents (+8.7% of overnight stays) compared to residents (+3.9% of overnight stays). Amongst non-residents, the British were the main market (16% of overnight stays) but the Americans recorded another significant increase (+18% compared to Q1 2023). The figures are roughly in line with what we expect for the sector this year (+5% in the overall number of guests), and it should be noted that pre-pandemic levels were already surpassed last year.

Monthly job market indicators

(Thousands of individuals, unless otherwise indicated)	Average in March of the 5 pre-pandemic years	Mar.-24	Mar.-23
Employment (INE)	4,592	5,014	4,918
Unemployment (INE)	430	347	361
Unemployment rate (%)	8.6	6.5	6.8
Registered unemployment	423	325	306
Job offers (thousands of offers)	17.6	12.1	16.6
Employment registered with	3,417	4,145	4,055
Layoff (Number of persons)	1,179	10,827	4,402
Unemployment benefits	206	195	179
Collective layoffs *	0.8	1.0	0.6

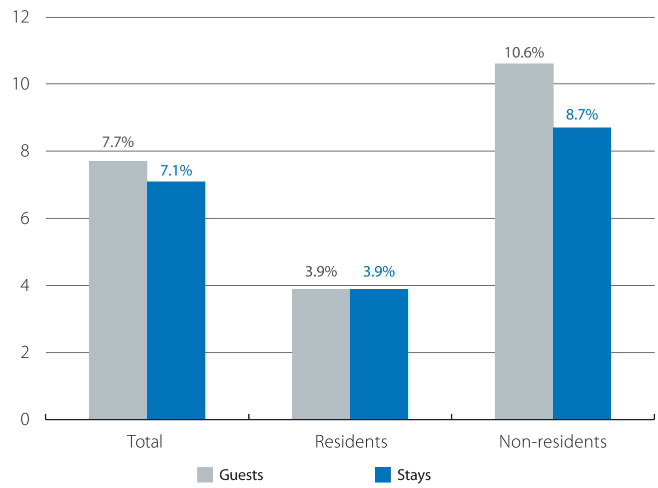
Note: ** The figures for collective redundancies relate to the year to February.*
Source: *BPI Research, based on data from INE, BdP, IEFP, DGERT and Social Security.*

Trade deficit in Q1
Millions of euros



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

Guests and overnight stays
Variation 1Q 2024 vs. 1Q 2023 (%)



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

Acquisition of houses by foreigners in Lisbon: Who? Where? And at what price?

In 2023, the Greater Lisbon area accounted for 18% of all housing transactions in the country. If we look exclusively at buyers with a tax residence outside Portugal and the European Union, the weight of transactions carried out by them in Greater Lisbon is 23%. In addition to this effective weight, there is a «relative weight» which stems from the *spillover* effect that the increase in demand and prices in Greater Lisbon has on the Setúbal Peninsula or the West and Vale do Tejo region, for example.[1] We therefore consider it relevant to emphasise the main characteristics of demand from foreigners in Lisbon,[2] which is what we will try to do in this article.[3]

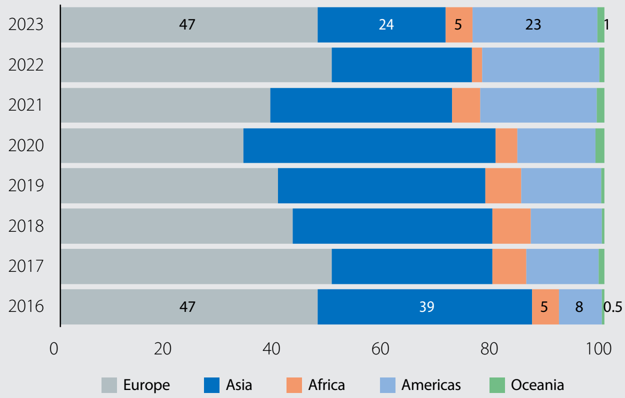
Origin of buyers

If we start by looking at the regions of the globe, we can see a clear trend in recent years of an increase in the representation of foreign buyers originating from North America. In fact, purchases by foreigners from North America already accounted for 23% of the total in 2023 (see first graph), compared to 8% in 2016. This increase has come against the backdrop of the loss of representation of Asian buyers, particularly in recent years following the pandemic. We believe that this movement is not unrelated to the strong restrictive health measures of several states in this geography, particularly China, with purchases by Chinese accounting for 33% of all purchases by Asians in 2023, but having fallen significantly in recent years (only 106 purchases in 2023, 62% less than the average recorded between 2016 and 2020). European buyers continue to account for the largest share of home purchases by foreigners, with 47% of all sales.

Houses purchased by foreigners in Lisbon involve people of around 40 different nationalities. A more granular analysis shows that in 2023 they were led by US citizens (15.2% of the total), followed by the French (12.9%), and the British (8.7%). The top ten nationalities account for almost 70% of transactions (second graph). This second graph also confirms the reconfiguration of weightings we saw in the analysis by region: an extraordinary increase in the weight of the USA compared to 2016 (from 2% to 15%) and a reduction in the representation of China (from 22% to 7%). More America and less Asia. What's

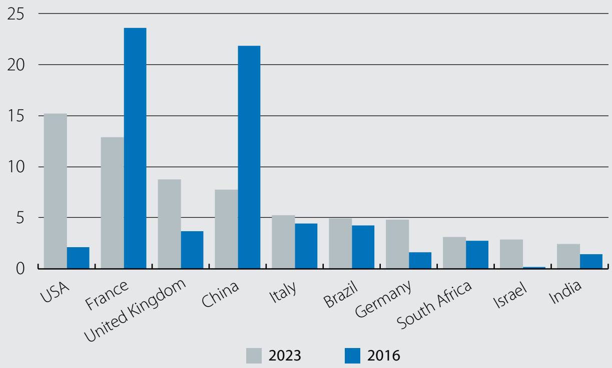
1. For evidence of this contagion effect, see Chapter 2 («Exuberance and contagion in the Portuguese property market: a perspective from residential prices disaggregated at local level») of the study sponsored by the Francisco Manuel dos Santos Foundation «The property market in Portugal: Prices, rents, tourism and accessibility» (April 2022).
2. The data takes into account house purchases made by private buyers within the perimeter of Lisbon's Urban Rehabilitation Area, which covers 21 of the municipality's 24 civil parishes (excluding Santa Clara, Lumiar and Parque das Nações).
3. The analysis is based on data from Confidencial Imobiliário (SIR), whose source is communications for pre-emption rights, and allows for a more granular analysis by nationality and civil parish.

Acquisition of houses by foreigners in Lisbon
(% of total transactions; by continent)



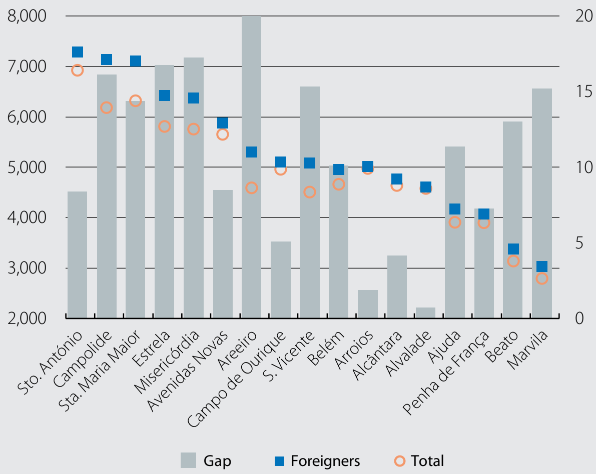
Source: *BPI Research, based on data from Confidencial Imobiliário.*

Acquisition of houses by foreigners in Lisbon
(% of total transactions; by nationality)



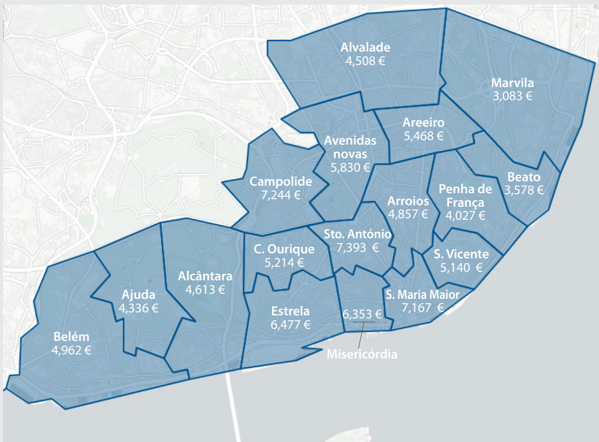
Source: *BPI Research, based on data from Confidencial Imobiliário.*

Price of total purchases vs. purchases by foreigners (2023)
(Euros per m²) *(%)*



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

Average purchase price by foreigners (2023)
(eur/m²)



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

Location	Number of transactions (2023)	% of total transactions	Price/m² of acquisitions by foreigners (eur)	Hierarchy of price (1st = most expensive civil parish)
Santo Antonio	180	13.1%	7,393	1st
Arroios	178	12.9%	4,857	11th
Estrela	161	11.7%	6,477	4th
Santa Maria Maior	128	9.3%	7,167	3rd
Misericórdia	112	8.1%	6,353	5th
S. Vicente	103	7.5%	5,140	9th
Penha de França	102	7.4%	4,027	15th
Campolide	88	6.4%	7,244	2nd
Avenidas Novas	80	5.8%	5,830	6th
Alcântara	77	5.6%	4,613	12th
Campo de Ourique	57	4.1%	5,214	8th
Marvila	29	2.1%	3,083	17th
Areeiro	27	2.0%	5,468	7th
Ajuda	23	1.7%	4,336	14th
Beato	14	1.0%	3,578	16th
Alvalade	12	0.9%	4,508	13th
Belém	**7**	**0.5%**	**4,962**	**10th**

more, in 2016, just two nationalities (French and Chinese) accounted for almost 50% of all transactions.

Location and purchase prices

But in which locations do these foreigners buy their houses? And at what price? Do they buy more expensive properties than the Portuguese? The images above help provide an overview.

Last year, the location with the most house purchases by foreigners (180) was in the civil parish of Santo Antonio. At the same time, this is the civil parish where the price per square metre of these acquisitions was the highest, at 7,393 euros/m², which can be considered a *premium* segment. It's a very central location in the city, encompassing well-known streets such as Praça Marquês de Pombal, Rua de S. Bento, Av. Duarte Pacheco, Avenida Fontes Pereira de Melo, and in particular Avenida da Liberdade, which is closely associated with luxury shopping. Next was the civil parish of Arroios, where nearly 13% of purchases were made (178), but where prices are below the average for foreigners overall. The civil parishes where the lowest prices were charged are located in the eastern part of the city: Beato and Marvila. Also noteworthy is Campolide, the civil parish with the second highest price per square metre, which may be related to a specific well-known high-end development that is also one of the city's largest housing projects in recent years. This highlights the care with which these numbers must be interpreted. Indeed, apart from the obvious (more central locations and those associated with luxury), relative prices are influenced by many factors that are more difficult to gauge and interpret - number of transactions (for example, a very low number of transactions but made at a very high value can «mechanically» place a certain civil parish at the top of the most expensive), availability and type of supply, ratio of supply between new and used, etc.

By most representative nationalities, North Americans concentrated 35% of their purchases in two of the most expensive civil parishes (Santo António and Estrela), the same happened with the French, 27% in these same two parishes. British demand was more eclectic when it came to prices - 19% of transactions took place in Estrela, but another 15% took place in a civil parish with below-average prices (Arroios). The Chinese, meanwhile, allocated 32% of their purchases to the third most expensive parish, Santa Maria Maior, which covers the historic areas of Baixa, Chiado and Sé.

Finally, it is important to try to understand whether foreigners buy property at higher average prices. In a context of scarce supply, acquisitions by foreigners with greater financial capacity and at higher prices tend to be reflected in higher prices for the remaining properties in the location (and neighbouring locations). We tried to explore this possibility (third graph) by comparing the price/m² acquisition *gap* of all transactions with those made by foreigners (but the data for all purchases includes the latter). However, we should again point out that the way prices are formed is not so linear and we would need other data, control variables and more sophisticated methods to be definitive in this conclusion. In other words, there is evidence and literature that support the notion of a *spillover* from Lisbon to neighbouring municipalities, but it is more difficult to say that this also happens within or between the city's civil parishes based on this data alone. At first glance, we can conclude that in all parishes purchases by foreigners have a higher price than the global average of purchases (positive *gap*), although there are some highlights. Areeiro is the location where the difference between the purchase price by foreigners is greatest compared to all purchases (+20%). In Arroios and Alvalade, meanwhile, this price difference is very residual.

Tiago Belejo Correia

Is the best-qualified generation ever being utilised?

One of the most substantial changes in the country over the last decade relates to the evolution of the qualifications of the employed population. Indeed, there has been a significant reduction in the last 10 years of employed population aged 25 to 74 with the lowest levels of education and qualifications, from around 56% to around 37%, albeit still substantially higher than that recorded for the Eurozone as a whole (of around 18%). In turn, the percentage of individuals with higher levels of education increased by more than 10%, representing around 33% of the employed population in 2023, and approaching the euro area average (40%).

This path is explained by younger people, whose percentage of individuals who have only completed basic education was around 16% in 2023, compared to almost 60% in the 55 to 74 age group. The opposite is true if we analyse individuals with a higher level of education: at this point, over 40% of 25-34 year olds have a level of education equivalent to higher education, a percentage that drops to just over 20% in the 55-74 age group. This is also true of the euro area as a whole, but the differences are not as marked as they are in Portugal: for example, the proportion of older people in Portugal with only completed primary education is around 40% higher than in the younger age group, a difference that narrows to 12% in the case of the Eurozone.

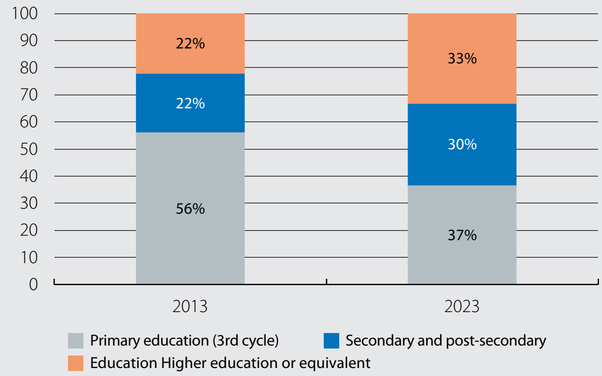
The effort to increase the training of young people is corroborated by other indicators. One of them is the percentage of young people (aged 15-29) who neither work nor study, a rate that has risen from around 16% in 2013 (similar to the Eurozone) to around 9% in 2023 (below the Eurozone average). Another indicator that has evolved impressively is the percentage of young people leaving school with only basic education completed.[1] The reduction over the last 10 years is significant: -13%, corresponding to 6% of young people in 2022, below the euro area average (around 10%); more specifically, Portugal went from having a percentage 6% above the Eurozone, to being almost 4% below in the last year for which information is available (2022).

And how is this reflected in the labour market? The third graph helps us realise that over the last 10 years, more than 40% of jobs have been created in medium/high-tech industries and knowledge-intensive services. The latter are particularly prevalent and account for around 30% of the increase in employment over the last decade. These include sectors such as finance and insurance,

1. Percentage of young people aged 18 to 24 who have completed at most basic education (ISCED 2011 levels 0 to 2) and have not received any education or training in the four weeks prior to the survey.

Employed population by education level

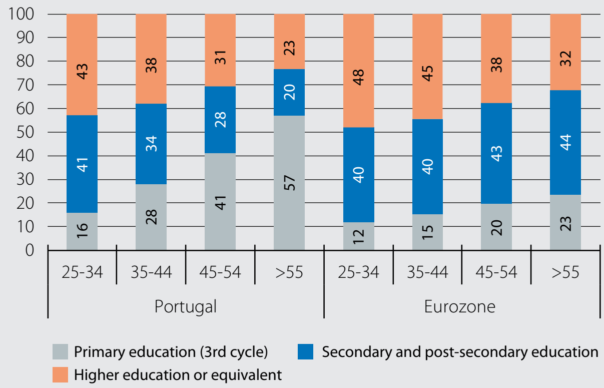
(%)



Note: *Employed population aged 25 to 74, according to the highest level of education completed.*
Source: *BPI Research, based on data from Eurostat.*

Employed population by age group and level of education

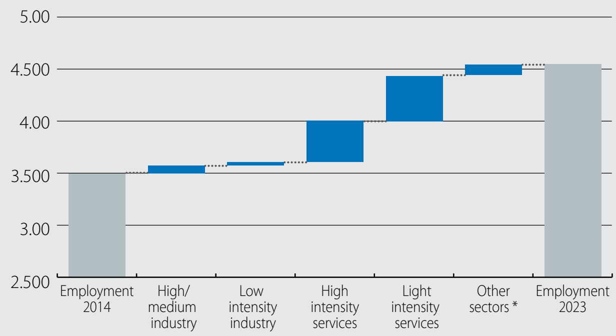
(%)



Note: *Employed population aged 25 to 74, according to the highest level of education completed.*
Source: *BPI Research based on data from Eurostat.*

Job creation in the last decade by technological intensity

(Millions of individuals)



Note: ** Includes agriculture, mining, utilities and construction.*
Source: *BPI Research based on data from the National Institute of Statistics.*

human health and veterinary activities, education, ICT and research.

However, another very significant share of the number of jobs created in recent years belongs to services that are not very knowledge-intensive,[2] also at around 40%, which seems out of line with the improvement in the qualifications of the employed population over the last decade. This could be a sign of overqualification. Indeed, if we analyse the behaviour of the qualifications of the youngest people in the jobs market, i.e. the most qualified, their upward trajectory is followed by the behaviour of the overqualification rate. Interestingly, more than 22% of 25-34 year-olds with completed tertiary education had qualifications that exceeded the requirements of their occupation. This is clearly the age group where overqualification is most significant, falling to around 12% in the 35 to 64 age group.

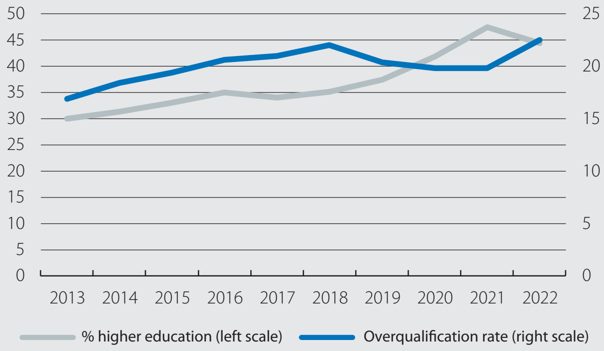
The literature[3] points to various explanatory factors for overqualification, ranging from the mismatch between the training/courses on offer and the qualifications/skills required by the labour market, the fact that some individuals accept jobs with lower requirements (for example, to make up for a lack of professional experience and enter the labour market for the first time), technological developments (because companies are not keeping up with the rapid pace of the digital transition), or because the demand for individuals with certain skills is greater than what educational institutions are able to train.

Additionally, overqualification may be related to the economy itself. In this regard, it is worth highlighting the fact that the improvement in the population's qualifications has not been accompanied by a substantial structural change in the economy, with the more technology- and knowledge-intensive sectors failing to gain relevance in the Portuguese economy. In fact, the weight of the GVA of medium and high-tech industry and knowledge-intensive services in the total has increased slightly over the last 10 years, representing around 42% of total GVA, similar to that recorded in 2013.[4]

Another indicator that corroborates this explanation is the proportion of high-tech products in Portuguese exports: despite an improvement of almost 2% in the last decade, it continues to represent a very small proportion of total Portuguese exports, slightly above 5%. Portugal is the country with the third lowest proportion in the EU

Overqualification of young Portuguese (25-34 years old)

(% of individuals in this age group) *(%)*



Note: *Overqualification measures the proportion of employed individuals with higher education or equivalent in low or medium-skilled occupations.*
Source: *BPI Research, based on data from Eurostat.*

as a whole, ahead of only Greece and Cyprus, both of which have similar proportions (in these 10 years, Portugal has only moved up one position in this *ranking*).

In short, Portugal has witnessed a remarkable advance in the improvement of the qualifications of the employed population in the last decade, which makes these individuals better prepared to face the challenges of a new digital age in which «change» is the watchword in the global context. However, we need to ensure that this increase in qualifications translates into an increase in the population's wealth and well-being, and this can only be achieved with greater productivity. And on this point, Portugal's performance is not surprising. For example, Portugal's labour productivity in 2013 represented around 80% of the productivity of the EU as a whole, a percentage that has only increased by 0.4% in the last 10 years.[5] Another indicator that supports this is GDP *per capita* in purchasing power parities, which, despite having increased by 54% in the last 10 years (above the EU's 45%), has not taken Portugal out of 10th place among the countries with the lowest GDP *per capita* in the EU as a whole, representing around 83% of that recorded for the EU (compared to 78% in 2013).[6]

Vânia Duarte

2. Includes sectors such as commerce, accommodation & catering, real estate activities.
3. For more information, see the CEDEFOP (2010) article «The Skill Matching Challenge: Analysing Skill Mismatch and Policy Implications».
4. This analysis is made by comparing GVA in 2013 and in 2019, since there is no more recent information for the detail required to make this type of comparison.
5. Portugal went from having the 10th lowest productivity measured by this indicator in 2013 to the 7th lowest in 2023, surpassed, for example, by Romania, which in 2013 had the 2nd lowest productivity, equivalent to 56% of the EU, and went to the 10th lowest in 2023, equivalent to more than 84% of the EU.
6. The improvement of around 5% recorded in Portugal over the last decade was the 14th highest among EU countries, but still below the improvement recorded by the vast majority of Eastern European countries. Poland is an example of this: in 2013, GDP *per capita* represented 67% of the EU's GDP *per capita*, below Portugal, and by 2023 it had risen to 80%, very close to the 83% recorded in Portugal.

Portuguese companies' debt: opening up to the «Rest of the World»

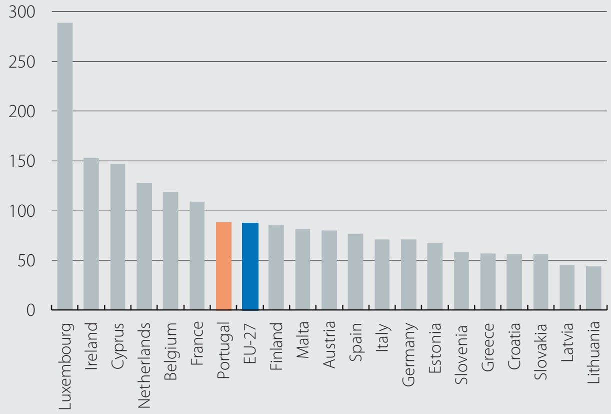
In recent articles[1] we have already given an overview of various aspects that characterise Portuguese companies.[2] In particular, with regard to NFC investment, the sectors with the highest birth (and death) rates and debt. Specifically with regard to this last topic, debt, we have shown that borrowings have lost weight in relation to Assets and also that the debt of NFCs as a percentage of GDP has been following a consistent downward trend. In this article, we intend to delve a little deeper into the topic of debt, detailing, for example, financing and financed sectors, debt typology, and comparing these with the situation at present in the eurozone.

NFC Debt and Financing from Credit Institutions (CI)

As we have already pointed out, the debt of NFCs in relation to GDP has been on a downward trend in Portugal since 2012. Indeed, at the end of 2022, the proportion of NFC debt as a percentage of GDP in Portugal (88.5%) is practically in line with that of the EU (87.7%). However, the debt of national NFCs is still the seventh highest in the eurozone, although lower than that of countries such as France (109.4%), Belgium (118.5%) and the Netherlands (128.1%), as can be seen in the first graph. We can also attest to this deleveraging behaviour when we look at the debt taken out by national CIs (second graph). In accumulated terms, the stock of credit with national CIs between 2017 and 2023 fell (–8.2%) and new credit operations fell even more (–15.5%). The recent trend of stock reduction was only interrupted in the years of the pandemic by the necessary support for the business community, which was crucial in this context, including the introduction of grace periods in financing. Another way to understand this trend is to look in absolute terms at the values of new NFC credit operations. Between 2003 and the financial crisis of 2008, an average of 60.4 billion euros were contracted per year, while between 2018 and 2023 the average was just 22.4 billion euros per year, an order of magnitude almost three times lower. Despite the overall fall in the stock of NFC loans to national CIs between 2017 and 2023 (–8.2%), this did not take place across the board and was even quite different between sectors of activity (third graph). On the one hand, strong deleveraging in the Construction and Manufacturing sector (–49.5% and –33.3%) as opposed to Real Estate Activities and Wholesale Trade (+38% and +49.8% respectively). In our analyses of the topic, we also concluded that the downward trend in new credit operations is independent of the progress of activity as a whole. Indeed, the correlation between new operations and GDP[3] is weak (not statistically significant) and in the opposite direction, suggesting that there are other dynamics determining the evolution of new

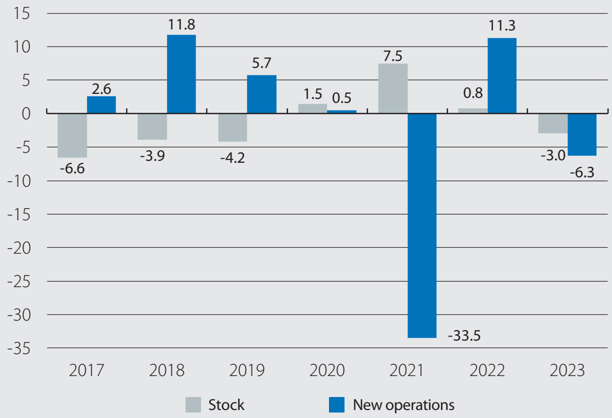
1. See IM03 article from 2024 «The identity card of Portuguese companies: from birth rate to investment».
2. Only non-financial companies, i.e. «NFCs».
3. With data from 2003.

NFC debt (2022)
(% of GDP)



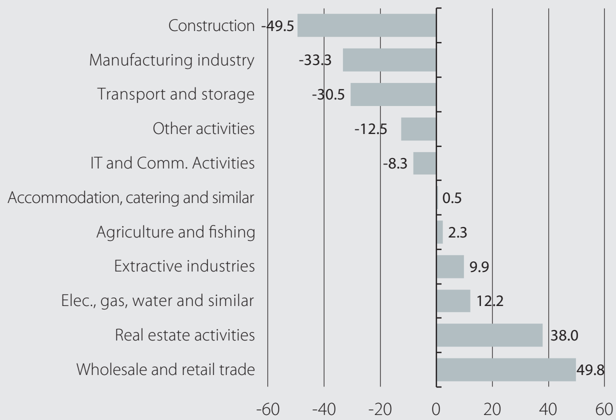
Source: *BPI Research, based on data from Eurostat.*

NFC debt to CIs
Annual variation (%)



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

Credit stock of NFCs by sector of activity
Cumulative change over the period 2017-2023 (%)



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

credit operations for companies such as confidence, sectoral dynamics, debt servicing, alternative forms of financing, and so on.

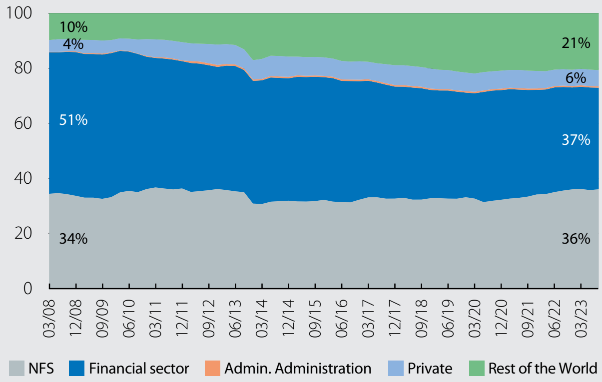
Financing sectors and debt type

Historically, Portuguese credit institutions have had the largest share in the *mix* of NFC financing sectors. This remains true, but the financial sector has been losing its dominance. Let's look at the fourth graph: between 2008 and 2023 the resident Financial Sector loses 14% in weight, representing 37% of the companies' total debt. On the other hand, the «Rest of the World» (RoW) sector gained 11% of share in the same period and now accounts for 21%. In Spain there was a similar movement (the resident Financial Sector fell by 14% to 31% and RM increased by 10% to 24%) but in the EU the weights have remained more constant (43% for the Financial Sector and 10% for RoW). RM comprises all institutional units that are not resident in the country's economic territory and that carry out transactions with resident institutional units or have other economic ties with resident units. Thus, the «Rest of the World» sector includes, for example, non-financial companies, other monetary financial institutions, private individuals, and investment funds, as long as they are not resident in Portugal. However, the availability of data does not make it possible to disaggregate the RoW financing sector, which makes it more difficult to interpret the causes for the resident Financial Sector losing weight in its favour. Finally, in the last graph we can see how the NFCs' financing portfolio is made up, both those contracted from the Financial Sector and those contracted from the RoW. In both cases, long-term loans are the most important form of financing (72% of financing granted by the financial sector and 45% of that granted by RoW). But the difference that stands out the most is that the weight of Commercial Credits is much greater in the financing granted by the RoW (23%, compared to 0.3% in the Financial Sector). This may shed some light on the reasons for the growth of this sector as a financier: It is possible that this growth is associated with the movement towards greater internationalisation and export intensity of Portuguese companies and a greater volume of loans made to entities in the country of origin of commercial partners. In previous articles, we have also suggested that the growth in investment in intellectual property products could explain part of the loss of the financial sector as a financier of NFCs. These intangible products are by nature a weak guarantee for traditional credit and have lower financing requirements. On the other hand, they require potential financiers to have much more in-depth prior knowledge of the business and a real capacity to generate *cash-flow* to attract capital before agreeing to allocate their capital. Finally, the entry of *Bigtech* as *players* in activities typically associated with the traditional Financial Sector may also already be weighing on this dynamic.

Tiago Belejo Correia

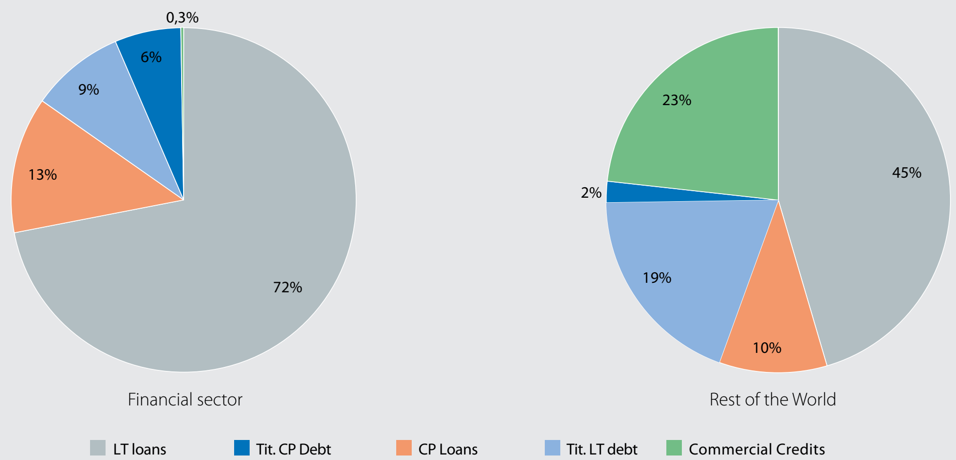
NFCs: evolution of indebtedness by financing sector

(As % of total)



Note: *Commercial loans are not broken down by institutional sector and have therefore been allocated to NFCs in this analysis.*
Source: *BPI Research, based on ECB data (non-consolidated data).*

Types of NFC debt by sector



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

Activity and employment indicators

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Coincident economic activity index	5.7	3.3	3.6	3.3	2.7	2.3	2.3	2.2	...
Industry									
Industrial production index	0.8	–3.1	–5.4	–4.5	–3.5	1.1	0.8	3.5	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–5.6	–9.4	–9.5	–7.5	–7.7	–6.6	–6.2
Construction									
Building permits - new housing (number of homes)	6.2	5.8	1.3	9.7	2.2	...	–9.8	...	...
House sales	1.3	–18.7	–22.9	–18.9	–11.4	...	–	–	–
House prices *(euro / m^2 - valuation)*	13.8	9.1	9.1	8.1	6.4	5.5	5.5	6.5	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	52.6	24.9	19.1	13.1	14.5	13.1	...
Confidence indicator in services *(value)*	15.1	7.5	13.4	5.8	–0.2	6.9	7.1	8.7	8.4
Consumption									
Retail sales	5.5	1.1	1.8	0.6	0.6	1.4	2.6	1.4	...
Coincident indicator for private consumption	3.9	2.5	2.8	2.8	2.4	2.4	2.4	2.6	...
Consumer confidence index *(value)*	–29.7	–28.6	–29.4	–22.8	–27.2	–24.6	–24.4	–22.6	–20.4
Labour market									
Employment	2.2	2.0	2.8	2.2	1.6	...	1.9	2.0	...
Unemployment rate (*% labour force*)	6.2	6.5	6.1	6.1	6.6	...	6.6	6.5	...
GDP	**6.8**	**2.3**	**2.6**	**1.9**	**2.1**	**1.4**	–	–	–

Prices

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
General	7.8	4.4	4.4	3.5	1.7	2.2	2.1	2.3	2.2
Core	5.6	5.1	5.7	4.4	3.0	2.3	2.1	2.5	2.0

Foreign sector

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.1	11.8	3.0	–1.1	...	–2.2	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.2	12.5	1.1	–4.2	...	–5.5	...	...
Current balance	**–2.8**	**3.6**	**1.5**	**4.1**	**3.6**	**...**	**4.6**	**...**	**...**
Goods and services	–4.7	3.3	–0.3	2.1	3.3	...	4.1	...	...
Primary and secondary income	1.9	0.4	1.9	2.0	0.4	...	0.6	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**7.2**	**4.5**	**7.3**	**7.2**	**...**	**8.4**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Deposits [1]									
Household and company deposits	6.4	–2.3	–2.1	–2.6	–2.3	2.7	1.0	2.7	...
Sight and savings	7.3	–14.8	–9.0	–9.4	–14.8	–11.2	–13.6	–11.2	...
Term and notice	5.2	14.8	7.5	6.9	14.8	20.2	20.1	20.2	...
General government deposits	12.4	–12.4	1.4	5.5	–12.4	9.1	–4.4	9.1	...
TOTAL	**6.5**	**–2.6**	**–2.0**	**–2.4**	**–2.6**	**2.9**	**0.8**	**2.9**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.5	–1.2	–1.8	–1.5	–0.8	–1.1	–0.8	...
Non-financial firms	–0.6	–2.1	–3.5	–3.5	–2.1	–1.9	–2.0	–1.9	...
Households - housing	3.2	–1.5	0.1	–0.9	–1.5	–0.8	–1.2	–0.8	...
Households - other purposes	2.9	0.2	0.4	–0.8	0.2	2.0	1.7	2.0	...
General government	–2.7	–5.5	0.6	–1.4	–5.5	5.9	–3.2	5.9	...
TOTAL	**1.6**	**–1.7**	**–1.1**	**–1.8**	**–1.7**	**–0.6**	**–1.2**	**–0.6**	**...**
NPL ratio *(%)* [2]	**3.0**	**2.7**	**3.1**	**2.9**	**2.7**	**...**	–	–	–

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

Spain's growth beats expectations in Q1

The indicators published in recent weeks confirm the good health of the Spanish economy, with growth in Q1 once again beating expectations and recording the highest rate among the major euro area economies.

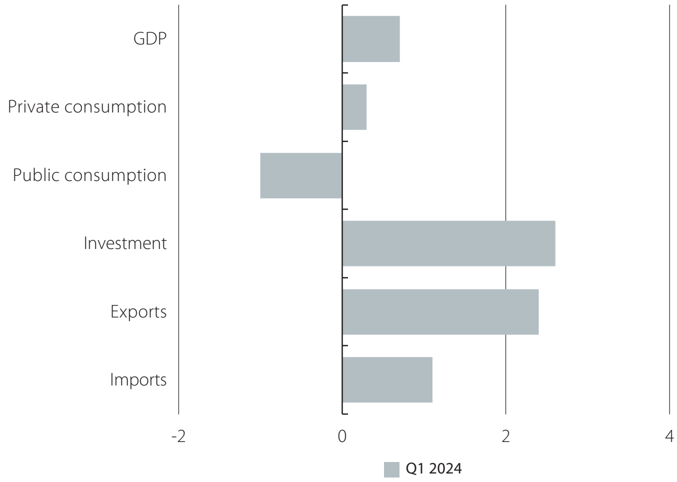
During Q1 of the year, GDP posted an increase of 0.7% quarter-on-quarter (2.4% year-on-year). The figure published represents a similar level to that of Q4 2023 (revised, in turn, upwards by 0.1 pp from 0.6% quarter-on-quarter) and is substantially higher than the average growth of the euro area (0.3% quarter-on-quarter). Foreign demand emerged as the main driver of growth and contributed 0.5 pps to quarter-on-quarter GDP growth, thanks in particular to the strength of service exports. Growth in domestic demand, which contributed 0.2 pps to quarter-on-quarter GDP growth, was driven by investment – which following the sharp decline recorded during Q4 2023 (–1.6% quarter-on-quarter) rose by a significant 2.6% quarter-on-quarter – and, to a lesser extent, by private consumption, which maintained a moderate growth rate (0.3% quarter-on-quarter).

The economic activity indicators available for Q2 of the year indicate that the economy remains in good shape. The PMI for the industrial sector rose 0.8 points to 52.2 in April, representing its best level since June 2022. The PMI for the services sector, meanwhile, climbed 0.1 points, to 56.2, thanks to the growth of new orders. Finally, Spanish card activity ended the month of April with 3.2% year-on-year growth (3.3% in March), according to the CaixaBank Consumption Indicator.

Job creation remains strong. The data on the growth of Spain's economic activity during Q1 2024 were supported by a labour market which continued to grow at a steady pace and which has maintained that growth rate in the first month of Q2. In April, the number of registered workers affiliated with Social Security increased by 199,538 people, down from last year's exceptional figure (238,436) when Easter fell in the first week of April, but above the usual level for the month of April (173,777 on average in the period 2014-2019). For the first time, the total number of affiliates now exceeds the psychological barrier of 21 million, specifically at 21,101,505 workers, which is 486,516 more workers than a year ago. In seasonally adjusted terms, employment grew in the month by 40,677 workers, which is still a high figure. As for registered unemployment, it fell in the month by 60,503 people, to 2.666 million, the lowest figure since September 2008.

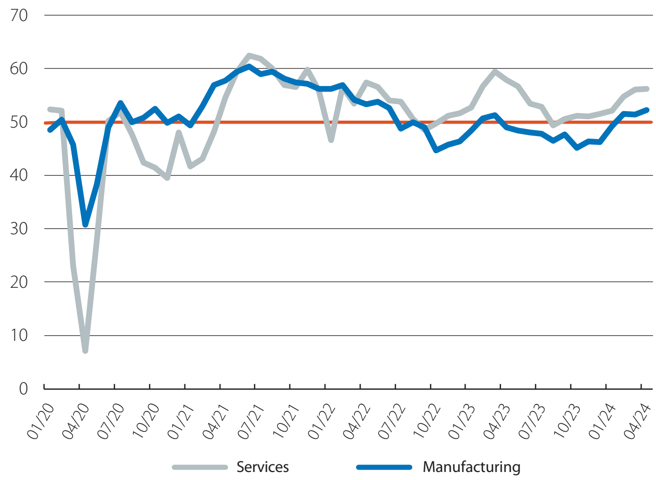
The VAT rise on gas and food keeps headline inflation above 3%. Headline inflation rose by 0.1 pp in April and

Spain: GDP and its components
Quarter-on-quarter change (%)



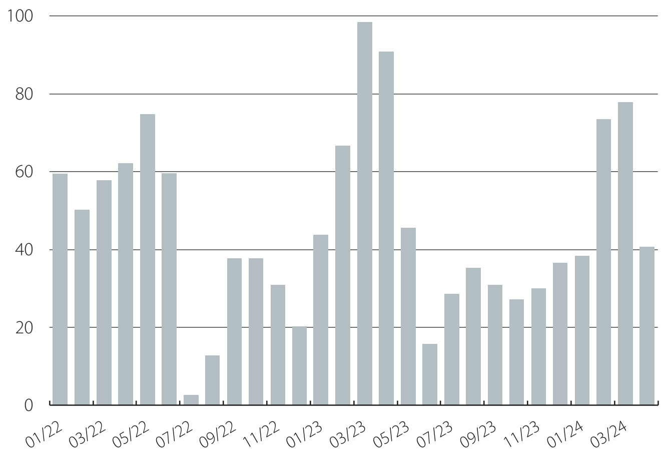
Source: *BPI Research, based on data from the National Statistics Institute.*

Spain: PMI
Level



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

Spain: registered workers affiliated with Social Security *
Month-on-month change (thousands of people)



Note: ** Series corrected for seasonality.*
Source: *BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

stood at 3.3%, according to the flash estimate of the CPI published by the National Statistics Institute. However, this increase was driven by the rise in gas prices, given that on 1 April the VAT rate on gas, which had been reduced to 10%, returned to its usual level of 21%. In any case, the process of price moderation continued in the case of core inflation (which excludes energy and unprocessed food), as it experienced a sharp reduction, placing it at 2.9% (0.4 pps less than in March). The headline inflation figure is within the range anticipated by CaixaBank Research, while core inflation is lower than expected.

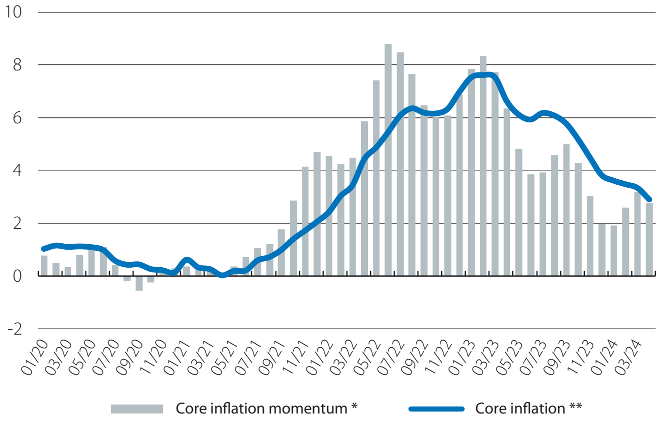
The improvement in Spain's trade deficit consolidates a good start to the year for foreign trade. In line with the good data on foreign demand, the trade deficit decreased by 4.7% in year-on-year terms in February, thanks to a 27.8% year-on-year correction of the energy deficit. Non-energy exports, meanwhile, improved compared to the previous month, despite being below the level of February last year. In cumulative terms during the first two months of the year, the trade deficit showed a reduction of 5.6% year-on-year, corresponding to a fall of 17.3% in the non-energy deficit and one of 4.3% in the case of energy. The trade deficit with countries outside the euro area fell by 25% year-on-year, while the surplus with EU countries fell by 32% year-on-year.

Tourism, which is key to the good performance of the foreign sector, also recorded rapid growth during the first quarter of the year. The provisional data from FRONTUR indicate that in the first three months of the year 16.1 million foreign tourists arrived in the country, representing a 17.7% increase compared to the same period last year. Also, according to data from EGATUR, spending by international tourists reached just shy of 22 billion euros in this same period, marking a 27.2% increase over the same period last year. These figures, in turn, represent a 5% increase in the average daily expenditure of international tourists compared to Q1 2023.

Home sales in Spain regain some vigour at the beginning of the year. In February, home sales rose 5.8% year-on-year, marking a significant improvement after falling at double-digit rates throughout the second half of 2023. The increase was widespread across the different types of housing, but was especially pronounced in the case of new homes, which recorded an increase of 20.8% year-on-year, compared to 2.2% in the case of existing homes. As for the pattern from region to region, the increase in sales was recorded throughout most of the country, except for in six autonomous communities which registered declines (the Balearic Islands, the Canary Islands, Andalusia, the Community of Madrid, the Basque Country and La Rioja). In cumulative terms, in the first two months of the year 107,000 sales were closed throughout the country, which is the best start to the year in terms of real estate activity since 2008.

Spain: core inflation and its momentum

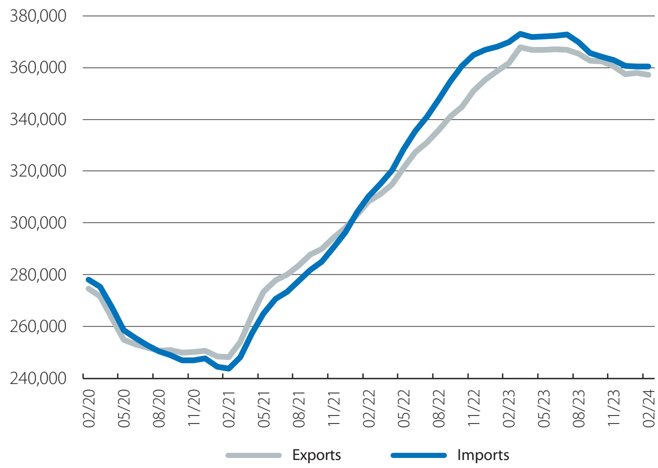
Change (%)



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

*Spain: foreign trade in goods **

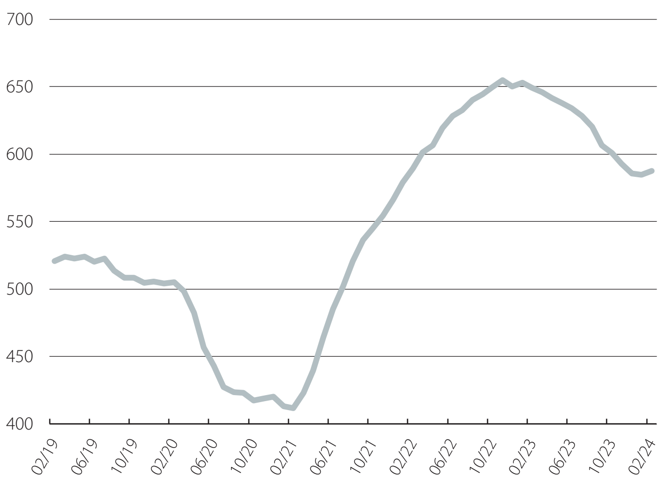
12-month cumulative data (EUR millions)



*Notes: * Nominal data, not seasonally adjusted. Excludes energy.*
Source: BPI Research, based on data from the Customs Department.

Spain: home sales

12-month cumulative data (thousands of homes)



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

A closer look at the increase in Spanish household savings in 2023

The savings rate has risen to even exceed the level reached during the pandemic thanks to the significant growth of disposable income. Households' saving capacity has increased significantly in 2023. Specifically, the savings rate rose to 11.7% of gross disposable income (GDI), well above the 7.6% recorded in 2022 and the historical average of 8.2% recorded between 2000 and 2019 (see first chart). This amounts to 108 billion euros in gross savings, which is 44.76 billion more than in 2022 and 59 billion more than the average in the period 2015-2019. In other words: in a context still marked by high inflation in 2023, households have managed to increase their savings buffer at the aggregate level – a remarkable feat.

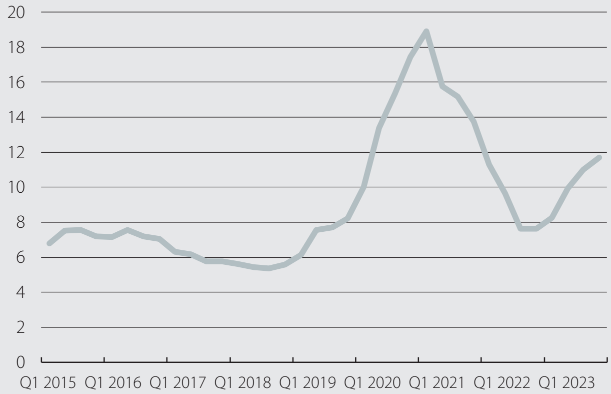
What is behind these figures that may surprise more than one reader? The increase in the savings rate was the result of an 11% year-on-year growth in GDI, which is the highest in the historical series and much higher than the growth in nominal consumption, which rose by 6.1% (see second chart). The increase in GDI was well above inflation (3.5%) and the strong growth in the number of households (1.4%), and this allowed the purchasing power that had been lost with the inflationary shock of 2022 to rapidly recover. Let us not forget that in 2022 GDI grew by 4.1% year-on-year, but inflation stood at 8.5%, and the number of households grew by 1.6%.

The buoyancy of GDI exceeded all expectations thanks to a significant 8.8% year-on-year growth in the remuneration of wage-earners, reflecting the intense job creation in 2023 – with a 3.4% increase in the number of wage earners – as well as the greater buoyancy of wages demonstrated by the 5.4% increase in the remuneration per worker. Other components of gross income which also contributed to the growth in household income included social benefits, which rose by +9.9% year-on-year, driven by the pension increase of 8.4%, self-employed workers' income, as well as net property income thanks to the increase in the collection of dividends and other investment income. All this has more than offset the higher net interest payments, which rose to 16.6 billion euros, 5.2 billion higher than in 2022, as well as the negative contribution from direct taxes and social security contributions (see third chart).

2023 was the first year in which real GDI per household has exceeded the pre-pandemic level; whereas in 2022 this variable still stood 4.4% below the 2019 level, in 2023 it was 1.5% above it, as shown in the fourth chart.

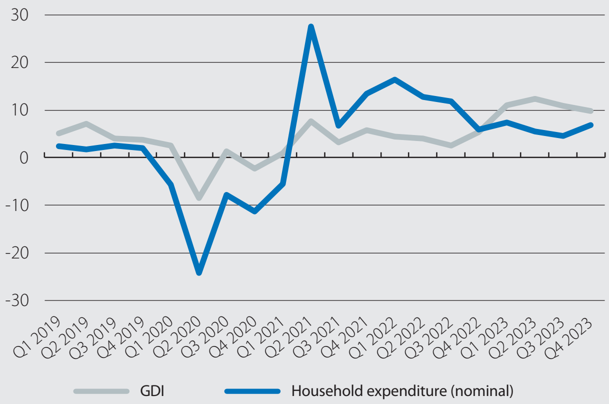
As for this year, GDI growth is expected to remain dynamic thanks to the strength of the labour market and the

Spain: household savings rate
(% of GDI)



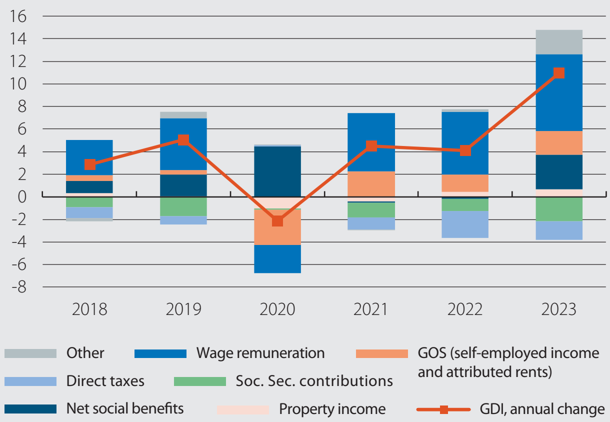
Note: *4-quarter cumulative rate.*
Source: *BPI Research, based on data from the National Statistics Institute.*

Spain: gross disposable income and nominal household consumption
Year-on-year change (%)



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

Spain: gross disposable household income
Annual change (%) and contributions (pps)



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

increase in pension incomes, which is expected to reach around 6% when taking into account the entry of new pensioners. In fact, a better-than-expected figure for the 2023 year end, combined with good labour market data in Q1 2024, suggest that GDI growth could reach around 6.0% this year. Thus, if household spending maintains a similar pace of growth to that of 2023, the savings rate would remain at similar levels to last year.

Consequences and use of the greater savings

Households' lending capacity increased significantly in 2023, going from 2.5 billion in 2022 to 42.361 billion in 2023. The reasons for this rally included increased savings coupled with stagnant investment on the part of households (see fifth chart): gross fixed capital formation, which includes the purchase of real estate (new builds) and self-employed workers' investments in physical assets, was 59.8 billion euros in in 2023, just 800 million more than in 2022, in a context of higher interest rates.

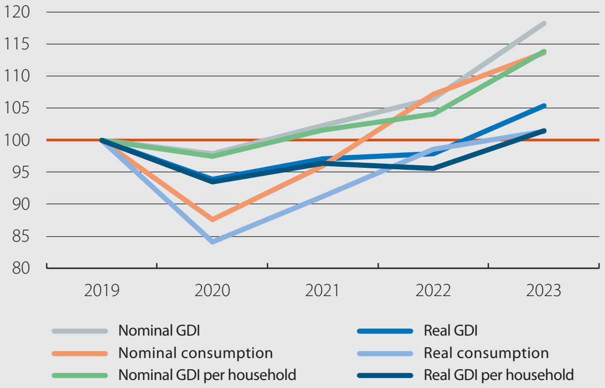
In addition, households' financial wealth continued to increase in 2023: their financial assets at the 2023 year end amounted to 2.83 trillion euros, compared to 2.67 trillion at the end of 2022. This increase of 159 billion is broken down into a net acquisition of financial assets of 39 billion euros, exceeding the average of 21.5 billion in the period 2015-2019 in which interest rates were very low, and a revaluation effect of 120 billion (see sixth chart). When we look at the breakdown of the net acquisition of assets, since late 2022 there has been a greater appetite for instruments that have increased their yield on the back of the rate hikes, such as Treasury bills and investment funds. In particular, households invested in debt securities – mostly public – amounting to 22.85 billion euros, and in equities and investment funds of 20.25 billion.

As for the structure of this wealth, it is still dominated by equities and investment funds, which accounted for 45.6% of the total, 2 points more than in the previous year (see seventh chart). These assets were followed by bank deposits, accounting for 35.9% of the total, just over 2 points less than in the previous year but still higher than the average for the period 2015-2019, which was 34.4%. In contrast, the portion allocated to insurance policies and pension funds increased slightly compared to 2022, reaching 12.7% of the total, but it remains below the 2015-2019 average of 15.2%.

On the other hand, households continued to deleverage in 2023 and, at the end of the year households' financial liabilities[1] stood at 51.0% of GDP, compared to 56.7% in 2022. This is the lowest figure since Q1 2001 (see last chart). This decrease, in conjunction with the increase

Spain: households' gross disposable income and consumption

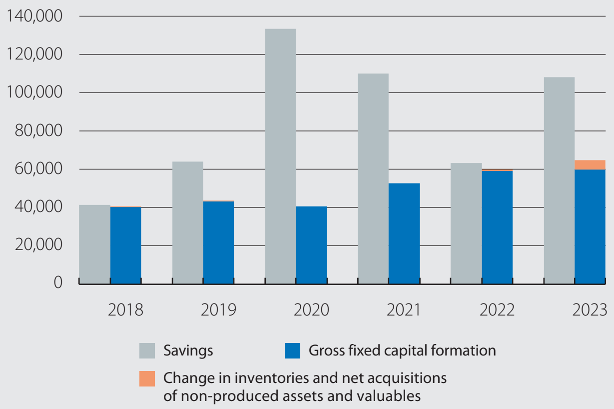
Index (100 = 2019)



Note: *Seasonally-adjusted data.*
Source: *BPI Research, based on data from the National Statistics Institute.*

Spain: households' savings and investment

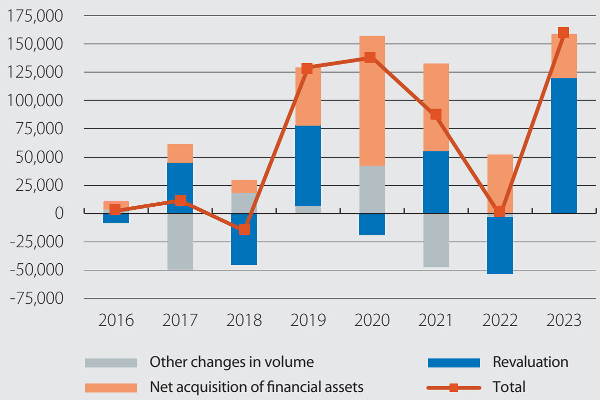
(EUR millions)



Note: *Investment is the sum of gross fixed capital formation (acquisition of new housing and self-employed workers' investments in machinery and cars) and the change in inventories, the net acquisition of valuable assets and the net acquisition of non-produced assets.*
Source: *BPI Research, based on data from the National Statistics Institute.*

Spain: change in households' financial assets

Annual change (EUR millions)



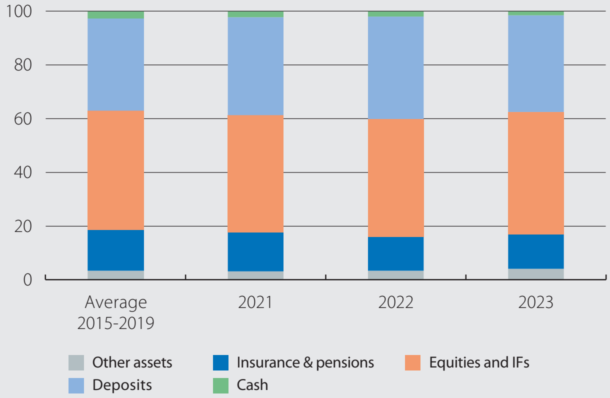
Source: *BPI Research, based on data from the Bank of Spain.*

in nominal GDP, shows that in 2023 as a whole households made net repayments amounting to 8.5 billion on their liabilities, which contrasts with the net acquisition of liabilities of +39.7 billion in 2022 and +25.86 billion in 2021. In other words, in a context of higher interest rates, households have reduced their debt positions. Early repayments of mortgages in the face of the increase in rates have also contributed to this trend: in particular, the Bank of Spain[2] estimates that, for the quintile of households with the highest incomes, early repayments in 2023 amounted to 5% of the balance of outstanding variable-rate mortgages.

Due to this sharp fall in financial liabilities as a percentage of GDP in 2023, there was a slight increase 0.9 points in households' net financial wealth compared to 2022, reaching 142.8% of GDP; a ratio which significantly exceeds that recorded in 2019 in any case (136%).

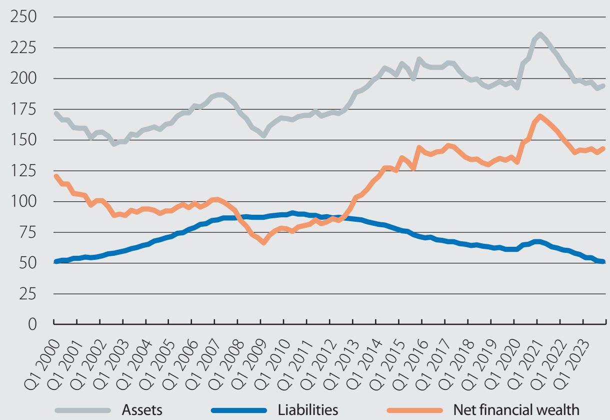
In short, the strength of the labour market has allowed households' GDI to rapidly grow in 2023. This growth, together with a more moderate pattern of expenditure, has significantly increased households' lending capacity, and this has been used to acquire financial assets and to repay debts. In this way, households began 2024 with a stronger financial balance sheet, which should support economic activity growth during the course of the year.

Spain: structure of households' financial wealth
(% of the total)



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

Spain: households' balance sheet
(% of GDP)



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

1. Financial liabilities include the outstanding balance of bank loans, commercial loans and other payables (interest accrued on loans, taxes and outstanding social security contributions).
2. See the Bank of Spain's *Financial Stability Report* for April 2024.

Spanish firms remain financially sound

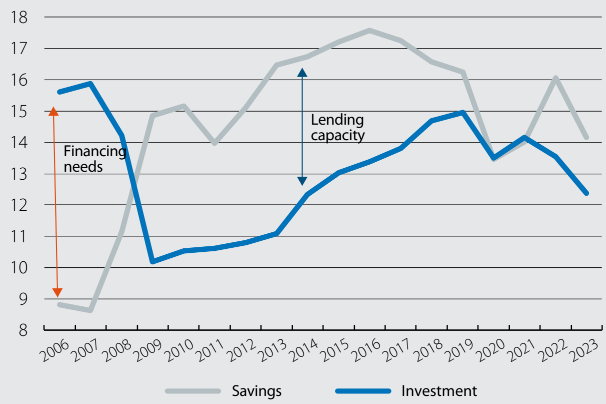
Spanish businesses, on the whole, have been relatively successful in overcoming the impact of the various shocks that have shaken the economy in recent years, such as the crisis triggered by the pandemic; the increase in production costs, especially energy costs following the outbreak of the war in Ukraine, and the tightening of the ECB's monetary policy. The year-end data for 2023 confirm that, despite a fall in their revenues, businesses have continued to generate lending capacity and to reduce their levels of debt to the lowest they have been in over two decades.

After two years of strong growth, in 2023 firms' disposable income[1] fell by 4.3% year-on-year, as the increase in operating profits[2] (3.6%) was dwarfed by the rise in outflows such as corporate tax payments (up 21%) and, above all, net charges on capital payable (42.3%), due to both interest payments[3] and dividends. Despite the fall in disposable income, firms continued to generate lending capacity – something that has been happening continuously since 2009 – as investment also contracted by 0.7% year-on-year, placing it at 12.4% of GDP (13.5% in 2022): this capacity amounted to 32.028 billion euros (2.2% of GDP), as can be seen in the first chart.

How have businesses put this funding capacity to use? According to the data provided by the Bank of Spain's financial accounts, it has been used exclusively for deleveraging and not for acquiring financial assets. Let's take a closer look: firstly, consolidated debt (excluding corporate debt) fell in 2023 for the second consecutive year, with a reduction of 11.866 billion euros (–1.2%) which placed it at 946.529 billion. This level is equivalent to 64.7% of GDP and is 6.5 points less than the previous year. Moreover, this is the lowest ratio since 2001, it is almost 3 points below the euro area average and it is a far cry from the highs of 2009-2010, when it peaked at 120%[4] (see second chart). Thus, last year the business deleveraging process, which had begun in 2010 but was abruptly interrupted in 2020 by the pandemic, continued. This was

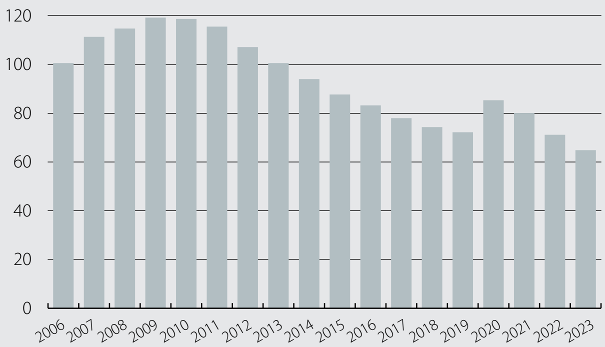
1. Earnings after tax payments and the distribution of dividends, equivalent to business savings.
2. Gross operating surplus (GOS).
3. Although interest income grew at a faster rate, the volume of payments is greater: before financial brokerage services (SIFMI), interest received grew by 226% to 14.046 billion euros, while the amount paid was 40.178 billion. Thus, interest payments amounted to over 16% of GOS in Q4 2023, almost doubling the previous year's figure. In any event, the adverse effects associated with higher interest costs were generally limited. See Bank of Spain (2024): *Financial Stability Report*, spring 2024, and Bank of Spain (2023): «The impact of interest rate hikes on firms' financial pressure», Box 2, *Report on the financial situation of households and firms*, 2nd half of 2023.
4. In unconsolidated terms, the debt ratio stood at 81.7% of GDP, compared to 92.2% in 2022, 13.7 points below the euro area average.

Spain: savings and investment of non-financial corporations
(% of GDP)



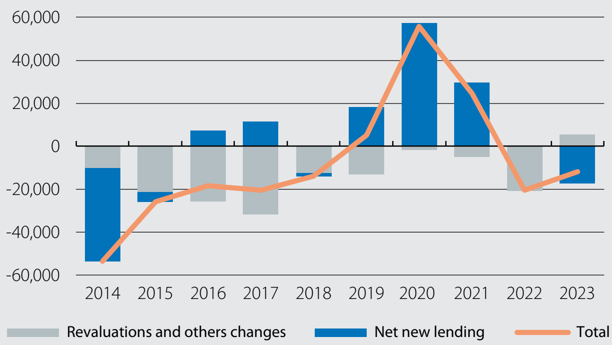
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: consolidated debt of non-financial corporations
(% of GDP)



Note: *Debt in the form of debt securities and loans; excluding debts with other companies.*
Source: *BPI Research, based on data from the Bank of Spain.*

Spain: change in the consolidated debt of non-financial corporations
(EUR millions)



Note: *Debt in the form of loans and debt securities; excluding debts with other companies.*
Source: *BPI Research, based on data from the Bank of Spain.*

due both to the sharp rise in nominal GDP (denominator), of 8.6%, and to the decline in the debt balance (numerator). This decline of 11.866 billion in the debt balance corresponds to a negative net balance in new lending to businesses of 17.262 billion euros, which represents the largest repayment of debt since 2014. Of this amount, the majority was in the form of loans (about 70%), while the rest was in fixed-income securities (see third chart).

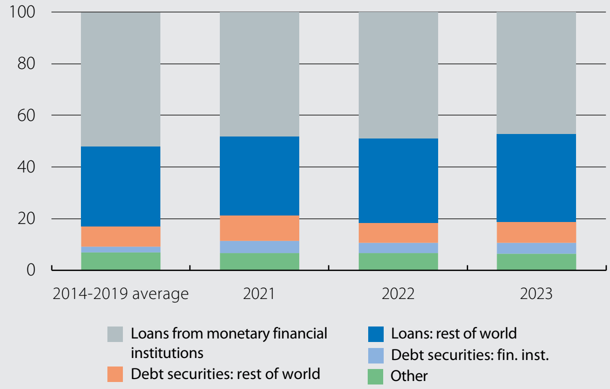
As a result, the trend observed in recent years of a declining role of bank loans – i.e. those granted by monetary financial institutions, or MFIs – in businesses' external financing is confirmed: in 2023 they accounted for 47.3% of total consolidated debt, almost 5 points less than prior to the pandemic (see fourth chart). The use of these forms of loans is being replaced by issues of fixed-income securities, which are predominantly acquired by financial institutions and, above all, loans granted by non-residents.

As for firms' financial assets, they increased in 2023 by 85.759 billion euros (2.8%, reaching a total of 3.13 trillion). This increase in the balance of assets is fully explained by their significant rise in value (101.711 billion), especially in the case of shares and investment funds (IFs), in line with the increase in stock prices, given that the net acquisition of assets was negative, at –16.234 billion (see fifth chart). In other words, in a trend not seen since 2023, companies divested: they reduced their assets held in the form of shares, IFs and, most notably, loans. On the other hand, their holdings of cash, deposits and fixed-income securities increased.

In any case, firms' financial wealth continues to be held mainly in equity holdings in other companies and in IFs. An increase is even observed in their relative weight after the pandemic, as they now account for 57% of the total, 2 points more than the average during the period 2014-2019. Cash and deposits are also increasing, albeit to a lesser extent, while the role of loans and other assets, mainly trade receivables, is diminishing (see last chart).

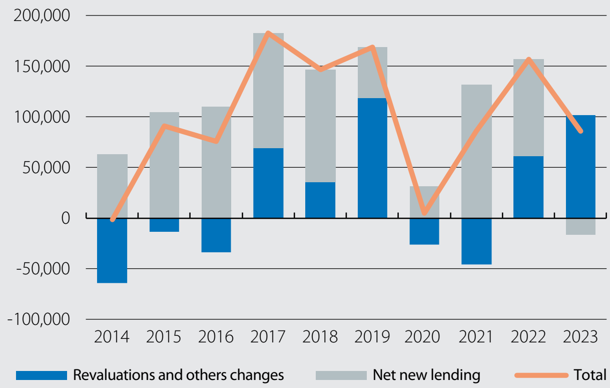
In short, in a context marked by the resilience of economic activity, and with an outlook in which financing conditions will gradually ease and the deployment of NGEU funds should intensify, all the indicators suggest that business' financial position will remain strong at the aggregate level in 2024. In this regard, the percentage of firms with high levels of debt fell to 18.2% at the 2023 year end, compared to 20% the previous year. All this should facilitate the revival of investment, which is the component of demand that is lagging the most behind its pre-pandemic levels, and the definitive recovery of which is considered essential if the current expansionary cycle is to continue.

Spain: structure of the consolidated debt of non-financial corporations
(% of the total)



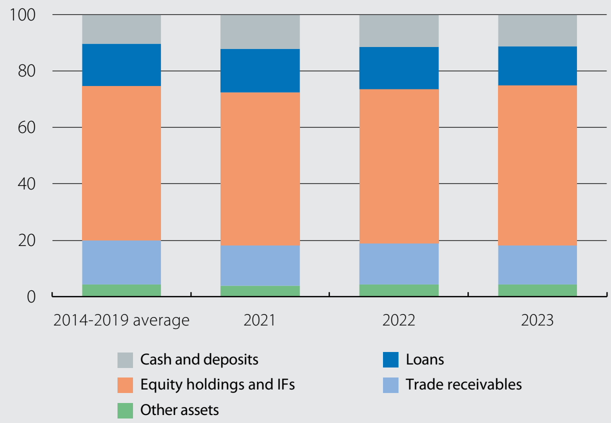
Note: *Excluding debts with other companies.*
Source: *BPI Research, based on data from the Bank of Spain.*

Spain: annual change in the financial assets of non-financial corporations
(EUR millions)



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

Spain: structure of the financial assets of non-financial corporations
(% of the total)



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

Activity and employment indicators

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Industry									
Industrial production index	2.2	–1.1	–2.3	–2.2	–0.5	–	1.5	...	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–5.2	–8.2	–8.1	–5.2	–4.6	–5.7	–4.4
Manufacturing PMI *(value)*	51.0	48.0	48.5	47.3	45.9	50.7	51.5	51.4	52.2
Construction									
Building permits *(cumulative over 12 months)*	15.4	1.2	1.7	4.3	0.6	–	–0.8	...	...
House sales *(cumulative over 12 months)*	29.0	0.3	3.3	–3.2	–9.0	–	–9.5	...	...
House prices	7.4	4.0	3.6	4.5	4.2	...	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	18.9	40.7	21.9	18.9	15.8	16.2	15.8	...
Services PMI *(value)*	52.5	53.6	56.0	50.9	51.2	54.3	54.7	56.1	56.2
Consumption									
Retail sales[1]	2.3	2.5	2.5	2.1	2.8	0.9	1.8	0.6	...
Car registrations	–3.0	18.5	9.9	6.9	11.9	4.2	9.9	–4.7	23.1
Consumer confidence index *(value)*	–26.5	–19.2	–19.1	–16.1	–19.1	–17.3	–17.2	–15.9	–14.7
Labour market									
Employment[2]	3.6	3.1	3.2	3.4	3.6	3.0	–	–	–
Unemployment rate (% labour force)	13.0	12.2	11.7	11.9	11.8	12.3	–	–	–
Registered as employed with Social Security[3]	3.9	–	2.8	2.7	2.6	2.6	2.7	2.6	2.4
GDP	**5.8**	**2.5**	**2.0**	**1.9**	**2.1**	**2.4**	–	–	–

Prices

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
General	8.4	3.6	3.1	2.8	3.3	3.1	2.8	3.2	3.3
Core	5.1	6.1	6.2	6.0	4.5	3.5	3.5	3.3	2.9

Foreign sector

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	12.3	4.5	–1.4	–	–3.7	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	10.7	–1.2	–7.2	–	–8.3	...	...
Current balance	**8.2**	**38.0**	**28.7**	**35.8**	**38.0**	**–**	**40.5**	**...**	**...**
Goods and services	16.3	60.3	42.6	54.6	60.3	–	62.5	...	...
Primary and secondary income	–8.1	–22.3	–14.0	–18.8	–22.3	–	–22.0	...	...
Net lending (+) / borrowing (–) capacity	**20.7**	**53.9**	**42.6**	**50.0**	**53.9**	**–**	**55.7**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Deposits									
Household and company deposits	4.9	0.6	0.4	–0.3	0.4	2.4	2.2	3.4	...
Sight and savings	7.9	–4.5	–4.0	–6.9	–7.6	–6.6	–7.0	–5.2	...
Term and notice	–19.7	51.9	40.1	69.5	90.4	103.7	109.2	95.7	...
General government deposits	9.6	8.7	6.8	11.3	9.4	27.2	38.4	43.6	...
TOTAL	**5.2**	**1.1**	**0.8**	**0.5**	**1.0**	**4.1**	**4.6**	**6.2**	**...**
Outstanding balance of credit									
Private sector	0.7	–2.5	–2.2	–3.4	–3.7	–2.9	–2.8	–2.5	...
Non-financial firms	0.9	–3.4	–2.7	–4.6	–5.2	–4.0	–3.9	–3.7	...
Households - housing	1.0	–2.6	–2.4	–3.4	–3.3	–2.8	–2.8	–2.5	...
Households - other purposes	–0.6	–0.2	–0.4	0.0	–0.5	–0.1	–0.1	0.3	...
General government	0.2	–3.4	–3.3	–4.6	–5.5	–2.9	–1.8	–4.7	...
TOTAL	**0.7**	**–2.6**	**–2.3**	**–3.4**	**–3.8**	**–2.9**	**–2.8**	**–2.7**	**...**
NPL ratio (%)[5]	**3.5**	**3.5**	**3.5**	**3.5**	**3.6**	**...**	**3.6**	**...**	**...**

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

Source: *BPI Research, based on data from the Ministry of Economy, the Ministry of Public Works, the Ministry of Employment and Social Security, the National Statistics Institute, the State Employment Service, Markit, the European Commission, the Department of Customs and Special Taxes and the Bank of Spain.*

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