The resilience of the Portuguese economy persists

GDP growth of 2.3% in 2023 is confirmed. Domestic demand contributed 1.4 pps to GDP growth, primarily supported by the growth of private consumption, which increased by 1.6%, spurred on by the recovery of spending on durable goods. Investment also recorded significant growth, increasing by 2.4%, especially in transport equipment. Foreign demand, meanwhile, contributed 0.9 pps to growth, thanks to the buoyancy of exports, which grew by 4.2% (2 points more than imports), especially services, at +10.6%, thanks to the boost from tourism.

The 2023 result and the expectation of a more gradual improvement in 2024, given the anticipated shift in the ECB's monetary policy, lead us to cut our GDP growth forecast for 2024 by 20 pps, to 1.6%. The first known indicators referring to 2024 hint at more moderate growth in Q1: the daily economic activity indicator grew at an average rate of 5.1% in January-February (5.5% in Q4 2023).

Inflation resumed its downward trend in February. After inflation rebounded to 2.3% in January, in February it resumed its downward path and headline inflation fell to 2.1%, while the core index moderated to 2.2%. In monthly terms, the price increase was very modest (less than 10 pps), reinforcing our view that the fall in inflation will occur gradually throughout the year.

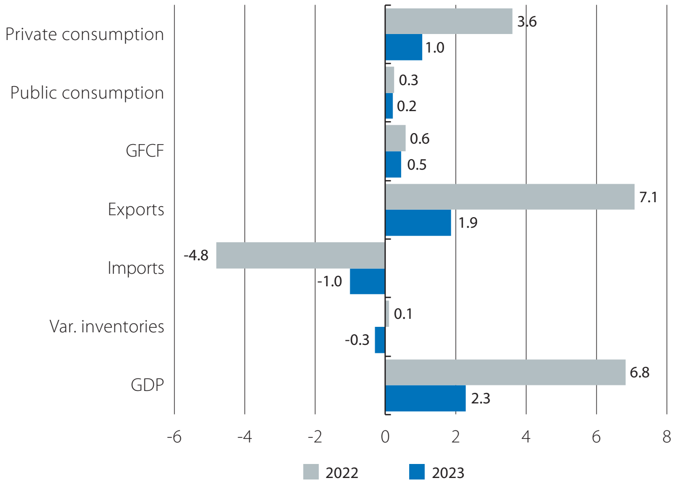
Steady pace of job creation. In 2023, employment once again grew, for the third consecutive year, at a rate of around 2%, reaching the highest number of people in employment since 2008; more than half of the employment created was concentrated in construction and hospitality. However, the unemployment rate increased slightly, from 6.2% to 6.5%, reflecting the labour market's loss of momentum in absorbing the rapid growth of the labour force (in 2023, it increased by 2.4%, almost 125,000 people). During the course of 2024, employment will continue to grow, but at a somewhat more modest pace; the slowdown in economic activity, the uncertainty still prevailing and the continued high costs will curb the rate at which companies hire.

Tourism kicks off 2024 with 1.5 million visitors and 3.5 million overnight stays in January, representing an increase of 1.8% and a decrease of 0.1% in year-on-year terms, respectively. However, the latter figure is explained by the weakening of resident tourism: compared to January 2023, the number of resident tourists fell by 1% and overnight stays of residents, by 2.6%; there were particularly sharp falls in overnight stays in the Greater Lisbon area (–11%) and Madeira (–17%). For 2024, we expect new growth in the sector, albeit more contained.

The current account balance ended 2023 with a surplus of 1.4% of GDP, the first positive balance in four years (deficit of 1.1% in 2022). The main drivers of this improvement were the energy balance, which saw its deficit decline by 2.1 pps to 2.7%, and the surpluses in services, including both tourism (+7.1%, +70 pps) and other services (+3.5%, +90 pps). The balance of trade in non-energy goods deteriorated, with a deficit of 6.7% of GDP (–6.1% in 2022).

Portugal: GDP and components of demand

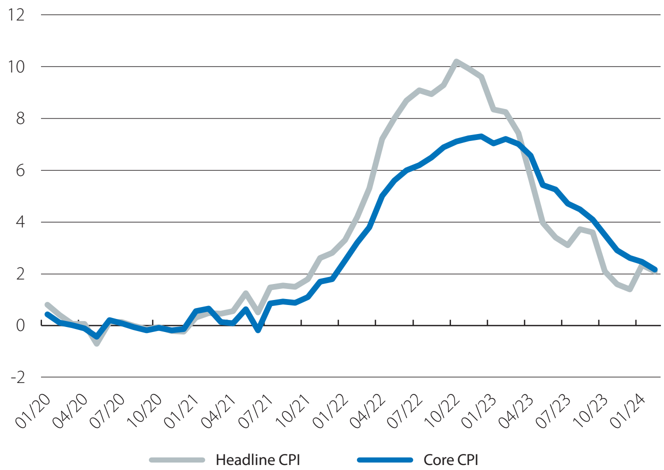
Annual change in GDP (%) and contribution by component (pps)



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

Portugal: CPI

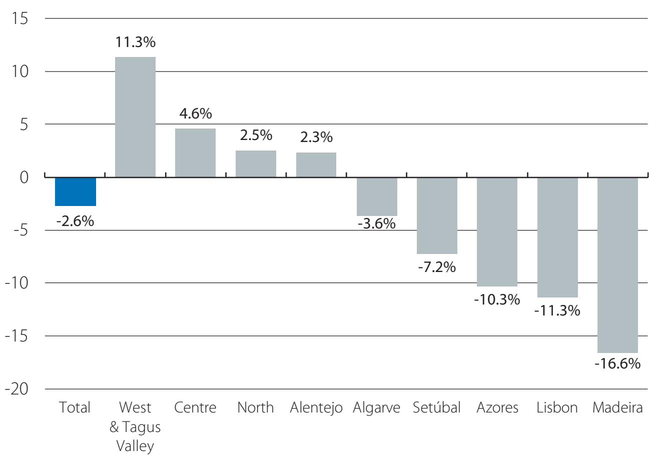
Year-on-year change (%)



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

Portugal: overnight stays of residents by destination region

Change between January 2023 and January 2024 (%)



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