

# MR04

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

NUMBER 488 | APRIL 2024



## INTERNATIONAL ECONOMIES AND MARKET

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### FINANCIAL MARKETS

*Oil in the «era» of decarbonisation*

### INTERNATIONAL ECONOMY

*The perception of the economy and its paradoxes*

## SPANISH ECONOMY

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

*Innovation in Spain: somewhat below the EU*

*The Spanish economy continues to reduce its foreign debt*

*The income balance suffers at the hand of the rate hikes*

*An exceptional year for the catering sector in Spain*

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April 2024

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

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## The two sides of the Spanish economy

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

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

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

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

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

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

**Oriol Aspachs**  
April 2024

## Chronology

<p><b>MARCH 2024</b></p> <ul style="list-style-type: none"> <li><b>13</b> The ECB adjusts the operational framework through which it implements its monetary policy.</li> <li><b>19</b> The Bank of Japan raises its reference rate from -0.1% to 0.1%.</li> </ul> <p><b>JANUARY 2023</b></p> <ul style="list-style-type: none"> <li><b>11</b> NASA confirms that 2023 was the warmest year since records began (1880).</li> <li><b>19</b> Japan becomes the fifth country to land on the Moon.</li> </ul> <p><b>NOVEMBER 2023</b></p> <ul style="list-style-type: none"> <li><b>10</b> 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.</li> </ul>	<p><b>FEBRUARY 2024</b></p> <ul style="list-style-type: none"> <li><b>22</b> 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.</li> </ul> <p><b>DECEMBER 2023</b></p> <ul style="list-style-type: none"> <li><b>13</b> COP28 (United Nations Climate Change Conference) ends with a commitment to transition away from fossil fuels.</li> <li><b>20</b> The European Council approves the reform of EU fiscal rules.</li> </ul> <p><b>OCTOBER 2023</b></p> <ul style="list-style-type: none"> <li><b>7</b> A new war breaks out between Hamas and Israel.</li> <li><b>20</b> Greece regains an investment grade sovereign rating after S&amp;P raises it to BBB-.</li> </ul>
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## Agenda

<p><b>APRIL 2024</b></p> <ul style="list-style-type: none"> <li><b>2</b> Spain: registration with Social Security and registered unemployment (March). Portugal: employment and unemployment (February). Portugal: industrial production (February).</li> <li><b>3</b> Euro area: CPI flash estimate (March).</li> <li><b>10</b> Spain: financial accounts (Q4).</li> <li><b>11</b> Governing Council of the European Central Bank meeting.</li> <li><b>15</b> China: GDP (Q1).</li> <li><b>18</b> Portugal: balance of payments (February).</li> <li><b>22</b> Spain: loans, deposits and NPL ratio (February).</li> <li><b>25</b> US: GDP (Q1).</li> <li><b>26</b> Spain: labour force survey (Q1).</li> <li><b>29</b> Spain: CPI flash estimate (April). Euro area: economic sentiment index (April).</li> <li><b>30</b> Spain: GDP flash estimate (Q1). Portugal: GDP flash estimate (Q1). Portugal: CPI flash estimate (April). Euro area: GDP (Q1). Euro area: CPI flash estimate (April).</li> <li><b>30-1</b> May: Federal Open Market Committee meeting.</li> </ul>	<p><b>MAY 2024</b></p> <ul style="list-style-type: none"> <li><b>3</b> Spain: registration with Social Security and registered unemployment (April).</li> <li><b>8</b> Spain: industrial production index (March). Portugal: employment and unemployment (Q1).</li> <li><b>16</b> Portugal: labour cost index (Q1).</li> <li><b>17</b> Spain: Fitch rating. Portugal: Moody's rating. Japan: GDP (Q1).</li> <li><b>20</b> Spain: foreign trade (March).</li> <li><b>24</b> Spain: loans, deposits and NPL ratio (March).</li> <li><b>29</b> Portugal: loan and deposit portfolio (April).</li> <li><b>30</b> Spain: CPI flash estimate (May). Euro area: economic sentiment index (May).</li> <li><b>31</b> Spain: DBRS rating. Portugal: GDP breakdown (Q1). Portugal: industrial production (April). Euro area: CPI flash estimate (May).</li> </ul>
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## The central banks make moves

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

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

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

With this decision, the anomaly of the phase of negative interest rates can be considered closed. Indeed, it was

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

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

José Ramón Díez

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

## Financial markets

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
<b>INTEREST RATES</b>							
<b>Dollar</b>							
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
<b>Euro</b>							
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
<b>Germany</b>							
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
<b>Spain</b>							
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
<b>Portugal</b>							
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
<b>EXCHANGE RATES</b>							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.06	1.09	1.12	1.15
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.87	0.86	0.83	0.87
EUR/JPY (yen per euro)	129.56	126.06	128.82	142.85	156.99	160.00	156.00
<b>OIL PRICE</b>							
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
<b>GDP GROWTH</b>							
<b>Global</b>	4.5	2.9	6.3	3.5	3.0	3.0	3.2
<b>Developed countries</b>	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
<b>Emerging and developing countries</b>	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
<b>INFLATION</b>							
<b>Global</b>	4.2	3.7	4.7	8.7	6.9	5.2	4.0
<b>Developed countries</b>	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
<b>Emerging and developing countries</b>	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

### Spanish economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
<b>Macroeconomic aggregates</b>							
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
<b>Gross domestic product</b>	<b>3.7</b>	<b>-0.3</b>	<b>6.4</b>	<b>5.8</b>	<b>2.5</b>	<b>1.9</b>	<b>2.2</b>
<b>Other variables</b>							
Employment	3.2	-0.9	7.1	3.7	3.2	2.4	1.8
Unemployment rate (% of labour force)	10.5	19.2	14.8	12.9	12.1	11.8	11.4
Consumer price index	3.2	1.2	3.1	8.4	3.5	3.0	2.5
Unit labour costs	3.0	1.2	1.0	0.9	5.9	4.4	2.5
Current account balance (% GDP)	-5.9	-0.2	0.8	0.6	2.6	2.3	2.5
External funding capacity/needs (% GDP)	-5.2	0.2	1.9	1.5	1.5	3.3	3.5
Fiscal balance (% GDP) <sup>1</sup>	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

### Portuguese economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
<b>Macroeconomic aggregates</b>							
Household consumption	1.7	-0.1	4.7	5.6	1.6	1.0	1.7
Government consumption	2.3	-0.2	4.5	1.4	1.2	1.9	1.1
Gross fixed capital formation	-0.4	-0.8	8.1	3.0	2.4	3.3	5.1
Capital goods	3.2	2.0	15.3	5.5	4.1	-	-
Construction	-1.5	-2.3	7.4	1.3	-0.3	-	-
Domestic demand (vs. GDP Δ)	1.3	-0.4	6.0	4.7	1.4	1.7	2.2
Exports of goods and services	5.3	2.2	12.3	17.4	4.2	2.6	5.2
Imports of goods and services	3.6	1.5	12.3	11.1	2.2	2.9	5.1
<b>Gross domestic product</b>	<b>1.5</b>	<b>-0.2</b>	<b>5.7</b>	<b>6.8</b>	<b>2.3</b>	<b>1.6</b>	<b>2.3</b>
<b>Other variables</b>							
Employment	0.4	-0.6	2.2	2.2	2.0	1.1	1.4
Unemployment rate (% of labour force)	6.1	11.0	6.7	6.2	6.5	6.7	6.5
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.3	2.0
Current account balance (% GDP)	-9.2	-2.7	-0.8	-1.4	1.4	1.2	1.4
External funding capacity/needs (% GDP)	-7.7	-1.5	1.0	-0.4	2.7	2.5	2.7
Fiscal balance (% GDP)	-4.6	-5.1	-2.9	-0.3	1.2	0.4	0.6

■ Forecasts



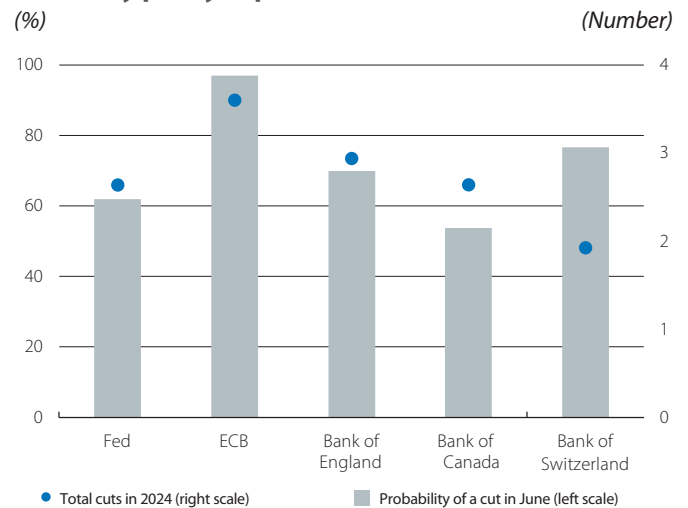
## Financial markets set their sights on summer

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

### Turning point towards the easing of monetary policy.

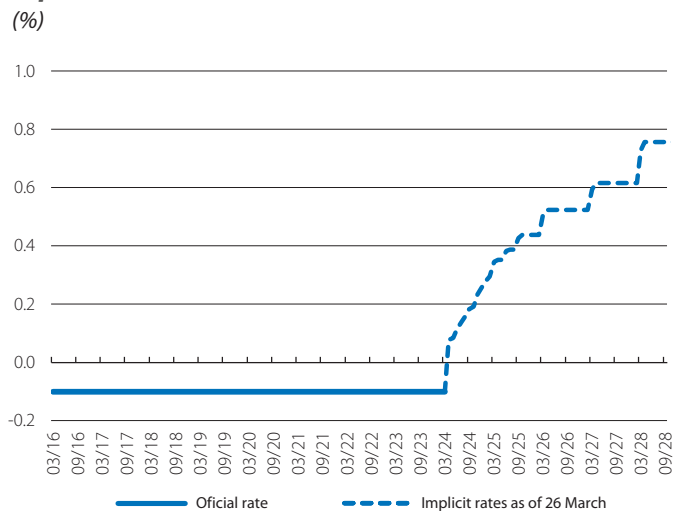
Following the major central banks' meetings, the expectation that the global monetary cycle will move in a new direction in 2024 was reinforced. The Bank of Switzerland clearly demonstrated this by being the first of the G10 economies to cut interest rates, in this case by 25 bps from 1.75% to 1.50%.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

### Monetary policy expectations



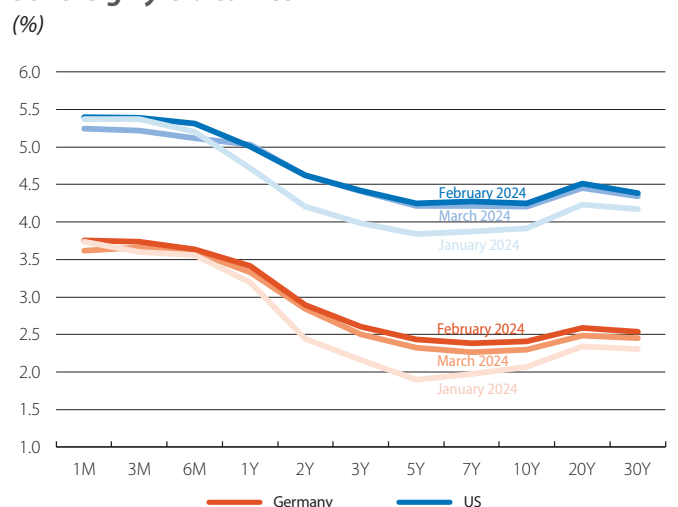
Note: Forwards on OIS curves as of 01/04/2024. Source: CaixaBank Research, based on data from Bloomberg.

### Japan: official interest rates



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

### Sovereign yield curves



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

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

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

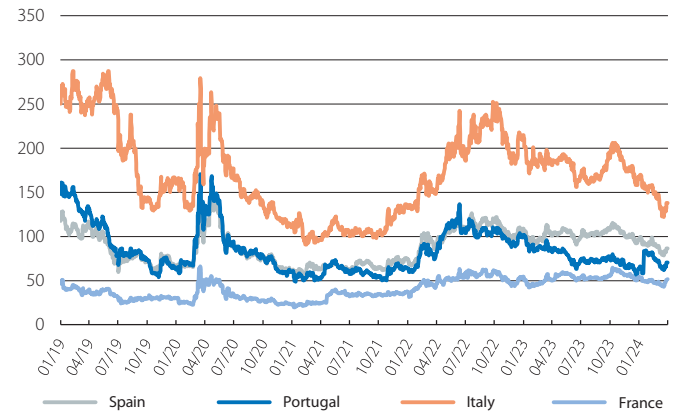
**Equities continue to reach record highs.** The major stock markets capitalised on the central banks' dovish tone and remained seemingly oblivious to the high interest rates, the geopolitical risks and even the vulnerabilities in the commercial real estate sector, extending their gains for yet another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

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

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

**Euro area: evolution of peripheral economy risk premiums**

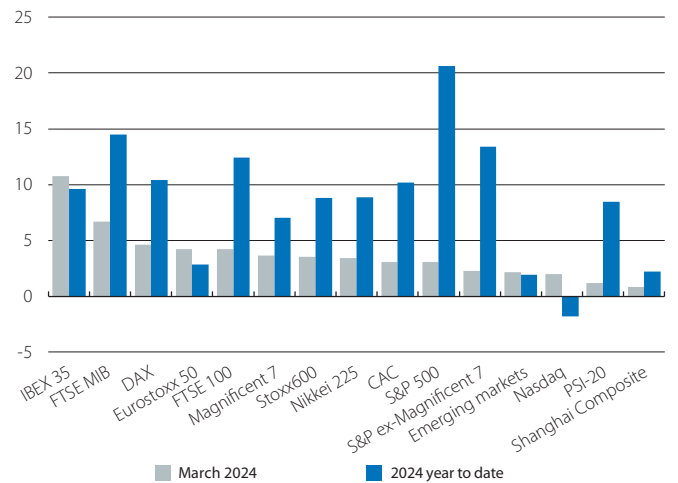
(bps)



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

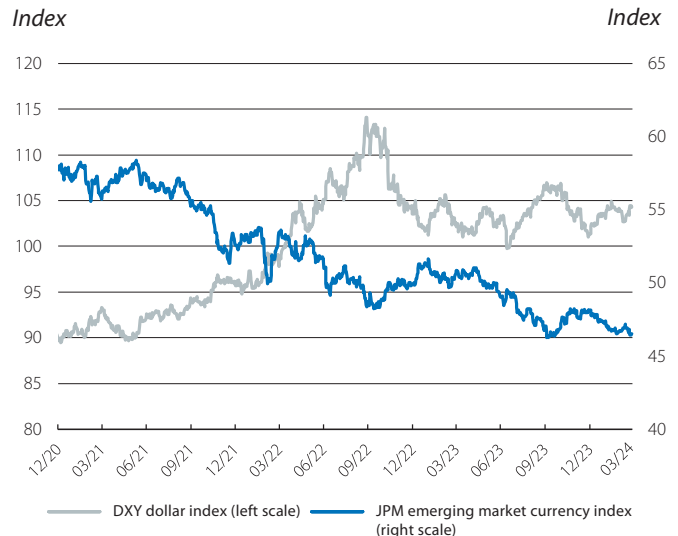
**Performance of the main stock market indices**

(%)



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

**Currencies**



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

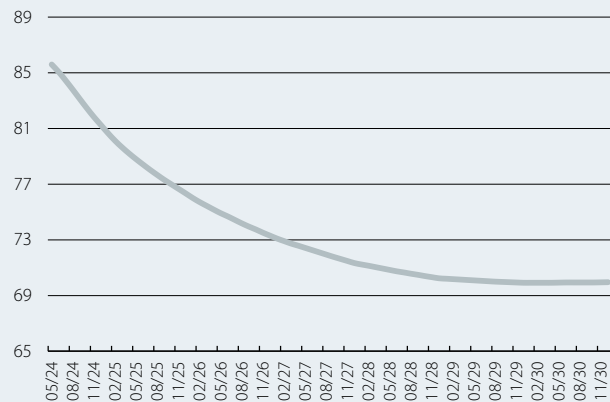
## Oil in the «era» of decarbonisation

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

### Is there a future for oil?

Focusing on oil, establishing a long-term price range for the Brent barrel is no easy task, particularly given the

**Brent: futures price curve**  
(Dollars per barrel)



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

uncertainty dominating the current energy scenario. The International Energy Agency (IEA) conducted an analysis of the outlook through to 2050 in its latest *World Energy Outlook*.<sup>3</sup> Using three scenarios,<sup>4</sup> it evaluates the

### Oil supply and demand

(Million barrels/day)

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

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

1. This stress has been triggered by events such as the pandemic of 2020, which significantly affected global energy demand, the sanctions on Russia's energy exports since 2022 and, since last autumn, the armed conflict in Gaza and the crisis in the Red Sea, which for now have not posed an obstacle for the oil supply in the Middle East but have increased the risks of possible contagion among neighbouring countries.

2. Paris Agreement (December 2015).

3. IEA, *World Energy Outlook 2023* (October 2023).

4. The three scenarios are: the Stated Policies Scenario (STEPS), with the policies already adopted; the Announced Pledged Scenario (APS), with the promises that have been announced, and the Net Zero Emissions Scenario (NZE), with a pathway to achieve net zero emissions by 2050 and limiting the global temperature rise to 1.5 °C.

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

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

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

### Other implications

Oil will remain an important energy source for the next two decades, although countries' commitments to phase out fossil fuels will reduce oil consumption. In this process, the oil market will become more coherent with the climate objectives. Nevertheless, in turn, this transformation introduces the threat of a disorderly adjustment for those economies most dependent on oil

production, as they will face the challenge of continuing to generate profits from oil activity while they seek alternative growth strategies outside the sector. In this regard, according to the IMF<sup>6</sup> there are two components to this risk. On the one hand, these countries could see a slump in the value of their oil reserves and the investment they attract, which in turn could lead to serious economic problems, including bankruptcies and crises in the regions currently most dependent on the oil sector. On the other hand, those countries with lower extraction costs could slow down the pace at which they adopt more competitive strategies until they have made material progress in reforming their economies. This would exacerbate the weakness of countries with high fiscal deficits and would negatively affect those items that rely on oil revenues for funding, such as health or public employment.

*Beatriz Villafranca*

5. According to the IEA, in the last decade China was responsible for 50% of the growth in global energy demand and 85% of the increase in CO<sub>2</sub> emissions.

6. IMF, [The Future of Oil](#) – IMF F&D (2021).

**Interest rates (%)**

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

**Spreads corporate bonds (bps)**

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

**Exchange rates**

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

**Commodities**

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

**Equity**

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

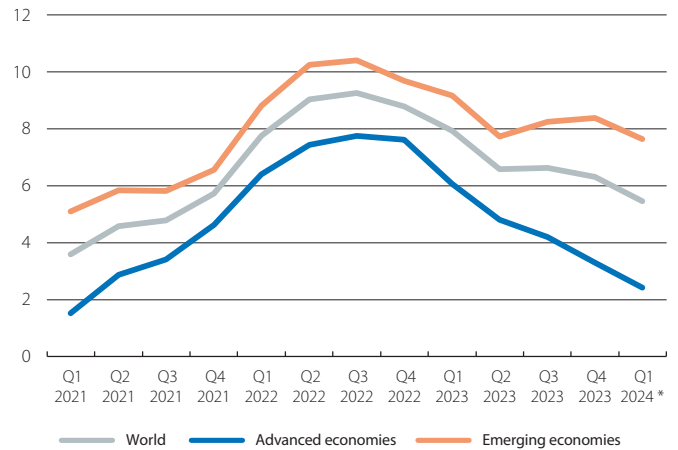
## The international economy, waiting for rate cuts

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

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

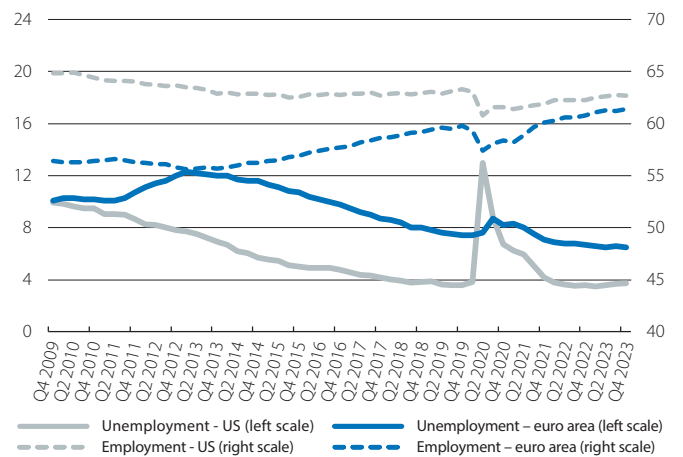
**The strength of the US stands out among advanced economies.** US economic activity completed a solid start to the year, with the manufacturing PMI rebounding to 50.3 points in March (in expansive territory for the first time since the end of 2022) and the services PMI remaining consistently above the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

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



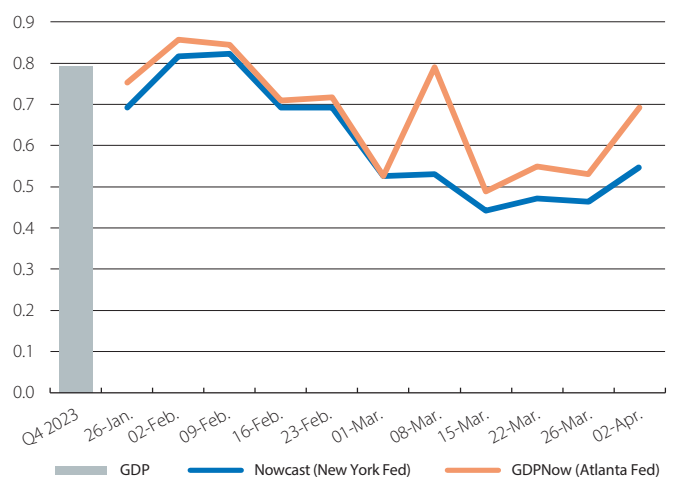
*Note:* \* For Q1 2024, estimate based on data to February 2024.  
*Source:* CaixaBank Research.

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



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

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



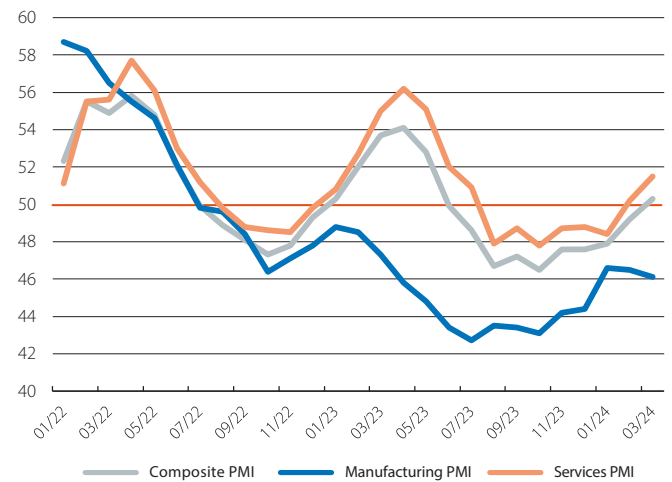
*Source:* CaixaBank Research, based on data from the BEA, the New York Fed and the Atlanta Fed.

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

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

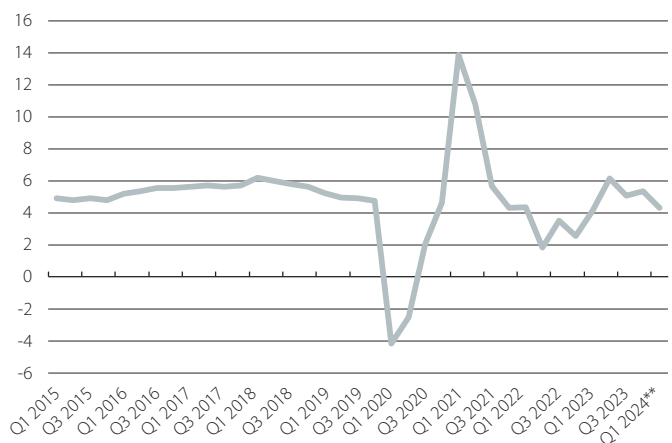
**India's growth tops the BRICS, with China giving way to the new leader.** The divergence of dynamics among advanced economies is also found in the major economies of the emerging world, where there is significant contrast between the two growth leaders: India and China. India ended 2023 with GDP accelerating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

**Euro area: PMI Index**



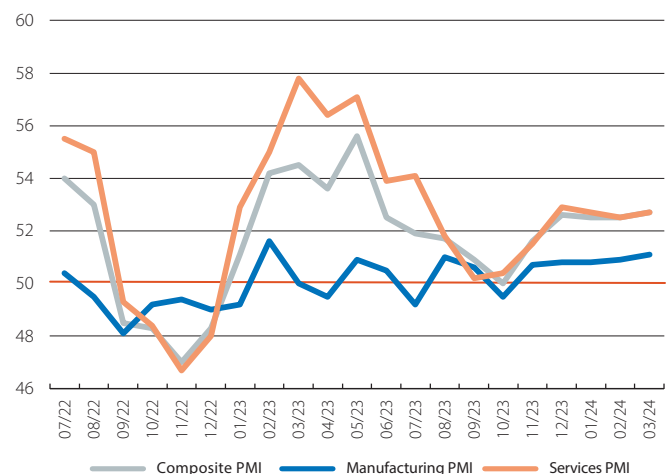
Source: CaixaBank Research, based on data from S&P Global PMI.

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



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

**China: PMI Index**



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

## The perception of the economy and its paradoxes

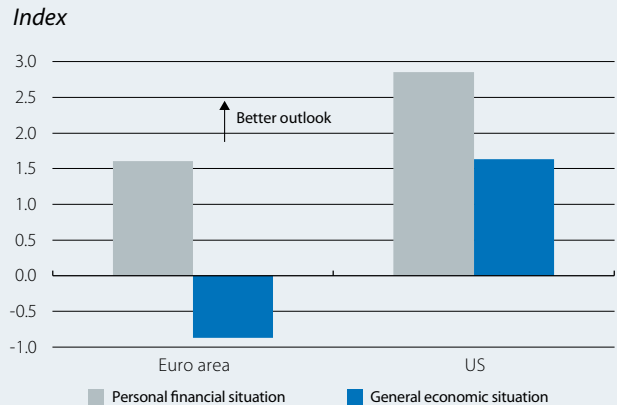
Reality and perception are inseparable, but they do not always reconcile with one another. This is also the case in economics. For example, we know that, as individuals, we systematically have a better assessment of our own personal outlook than that of the economy as a whole. This is illustrated by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

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

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

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

### Household expectations: 1985-2023



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

### US: consumer economic sentiment



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

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

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



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

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

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

**What about Europe?**

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

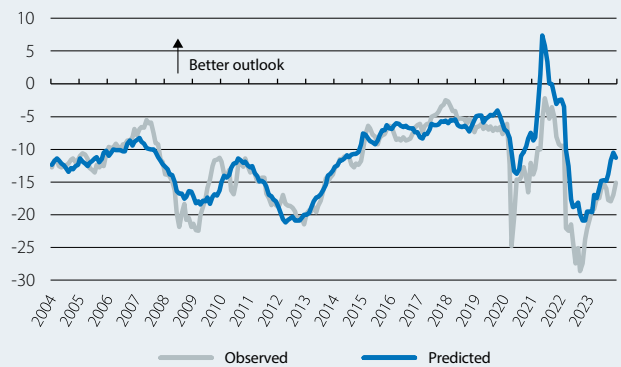
The fact that the European economy, with an even more challenging economic outlook than that of the US, does not suffer so clearly from this mismatch in sentiment suggests that, perhaps, we should be looking for idiosyncratic explanations in the US. In this regard, the work of Ryan Cummings and Neale Mahoney is rather revealing.<sup>7</sup> They show that 30% of the sentiment gap in the US reflects a partisan bias: Republicans and Democrats have a better (worse) assessment of the

5. According to surveys conducted by the University of Michigan, at the end of 2023 the median consumer estimated that inflation stood at around 6.5% (compared with observed rates of around 3.0%). In contrast, this misperception was much lower prior to the pandemic.

6. See G. Lengauer, F. Esser and R. Berganza (2012). «Negativity in political news: A review of concepts, operationalizations and key findings». *Journalism*, 13(2), 179-202, and Robertson, Claire E. *et al.* «Negativity drives online news consumption». *Nature Human Behaviour* 7.5 (2023): 812-822.

7. «Asymmetric amplification and the consumer sentiment gap». Available at [www.briefingbook.info](http://www.briefingbook.info).

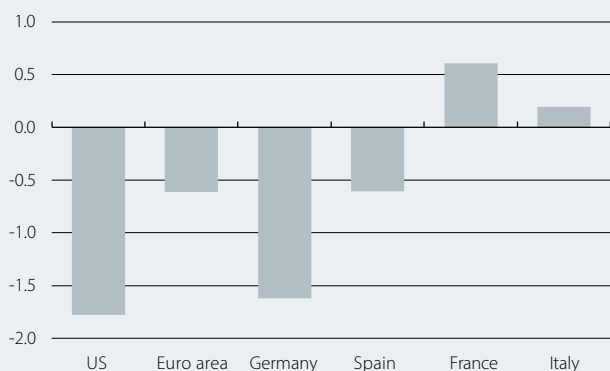
**Euro area: consumer economic sentiment Index**



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

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

Standardised index \*



**Note:** \*The chart shows the average difference between the observed and predicted sentiment in the second semester of 2023, normalised by the historical standard deviation of consumer economic sentiment.

**Source:** CaixaBank Research, based on internal estimates and data from the University of Michigan, FRED, the European Commission, the ECB and Eurostat.

economy when their party is in power (in opposition). Moreover, this bias is not symmetrical, as Republicans' perception of the economy deteriorates more when they are in opposition than it does for Democrats.

**It's the economy, stupid!**

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

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

## UNITED STATES

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

## JAPAN

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

## CHINA

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

Notes: 1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.

Source: CaixaBank Research, based on data from the Department of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Standard &amp; Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Refinitiv.

## EURO AREA

## Activity and employment indicators

Values, unless otherwise specified

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

## Prices

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

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

## Foreign sector

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

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

## Credit and deposits of non-financial sectors

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

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

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

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

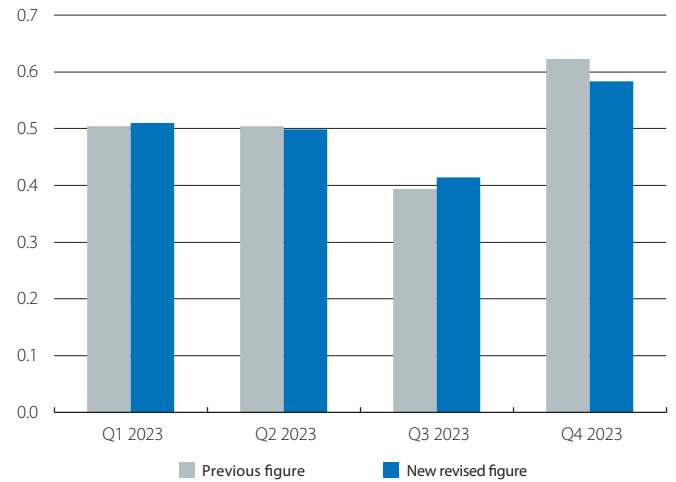
## The Spanish economy remains resilient in a challenging environment

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

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

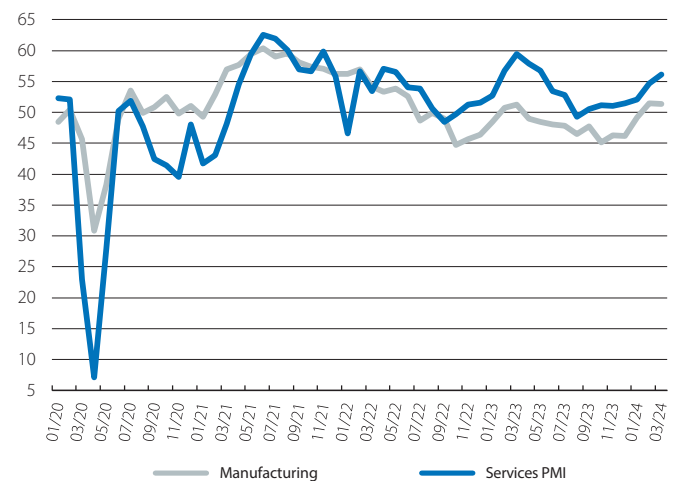
**The labour market remains remarkably dynamic.** The number of registered workers affiliated with Social Security grew in March by 193,585 people compared to the previous month, which is more than usual for the month of March (140,000 on average in the months of March during the period 2014-2019). Correcting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

**Spain: GDP**  
Quarter-on-quarter change (%)



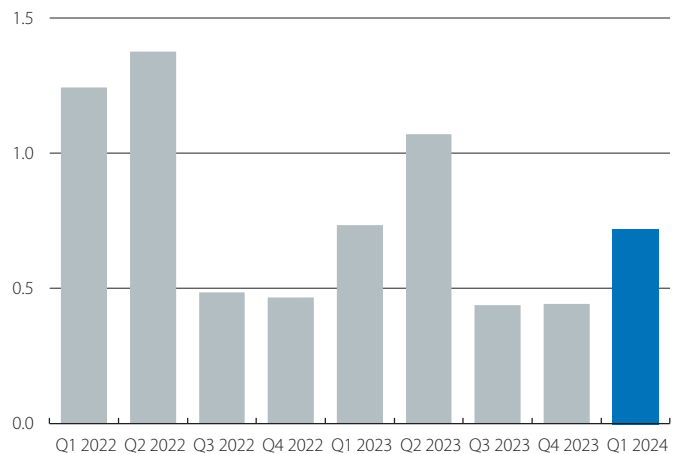
Source: CaixaBank Research, based on data from the National Statistics Institute.

**Spain: PMI**  
Level



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

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



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

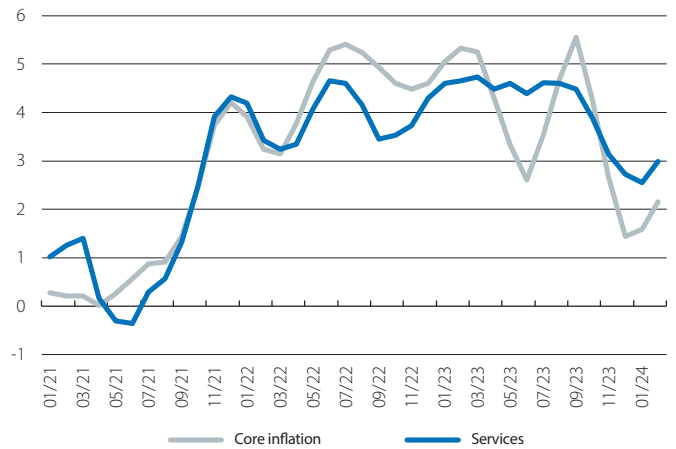
**Energy prices and the withdrawal of the fiscal measures dominate the inflation dynamics.** According to the CPI flash estimate, headline inflation rose by 40 pps in March, to 3.2%. This rebound is mainly due to the increase in electricity and fuel prices. On the electricity side, the fall of 13.1%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

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

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

**Spain: inflation momentum**

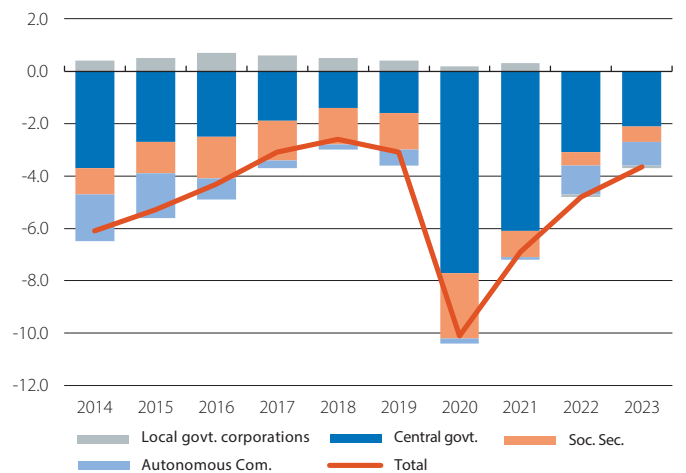
Change in the average index for the last 3 months versus the previous 3 months, annualised (%)



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

**Spain: general government balance**

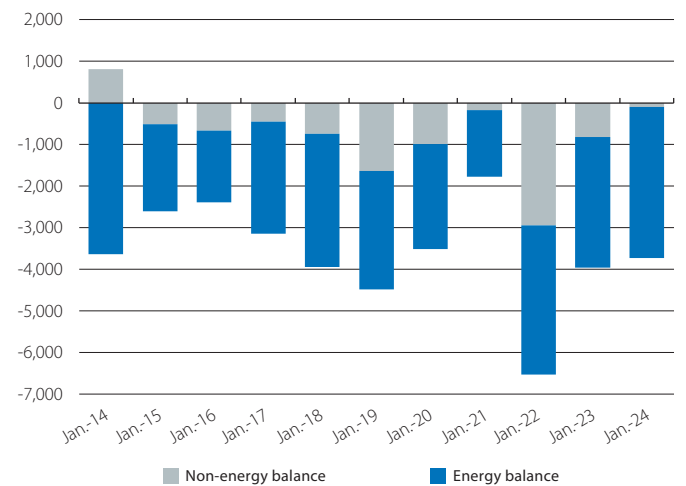
(% of GDP)



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

**Spain: balance of trade in goods**

(EUR millions)



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

## The medium-term potential growth of Spain's GDP

The last four years have borne witness to a series of events that we could call «extreme»: first, COVID-19; then, the outbreak of the war between Russia and Ukraine, and more recently the conflict between Israel and Hamas. These events have left little room for analysis of the underlying trends in our economy. In a series of recent Focuses we have addressed more structural aspects such as the evolution of productivity, both on aggregate and at the sector level, and the evolution of the structural unemployment rate.<sup>1</sup> In this article, we focus on analysing the past evolution and future outlook for potential GDP growth. This is a key variable, since it offers an indication of our economy's underlying growth trend. In other words, it tells us how much the economy can grow by in a sustained manner in the absence of shocks if all of the economy's productive capacity is used and no imbalances

arise. However, quantifying an economy's potential GDP growth is no easy task. This is a variable that cannot be directly observed and estimating it is shrouded in uncertainty.

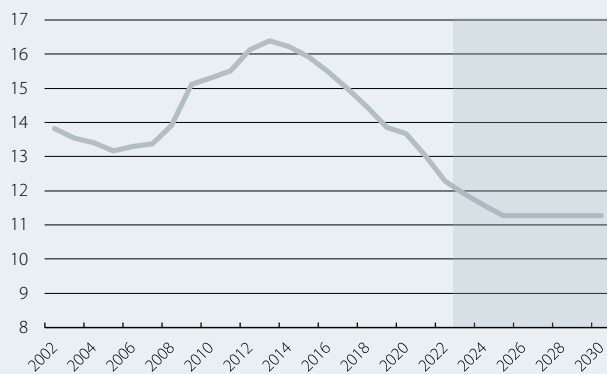
### How do we measure potential GDP?

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

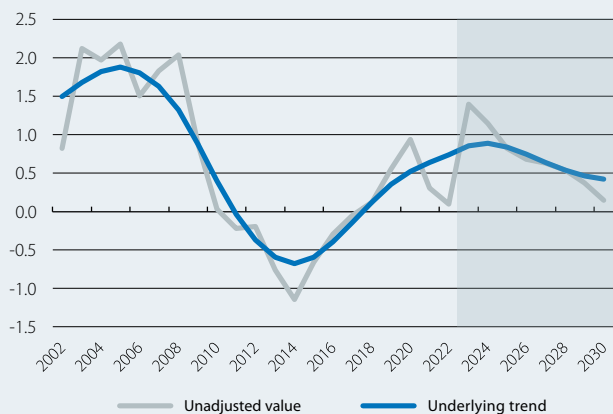
We measure the labour factor as the number of hours worked in the economy. In turn, the hours worked can

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

#### Structural unemployment rate (%)

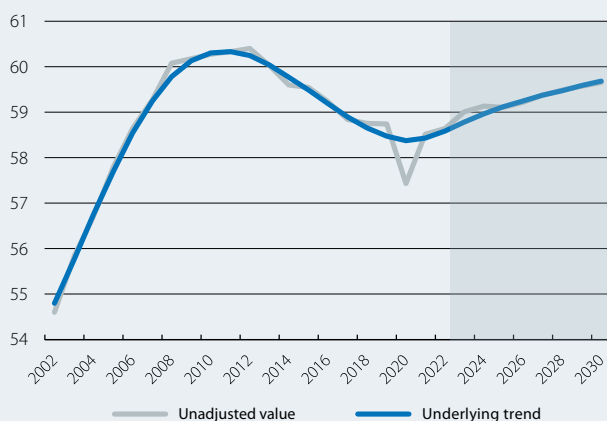


#### Working age population (16-64 years) Year-on-year change (%)

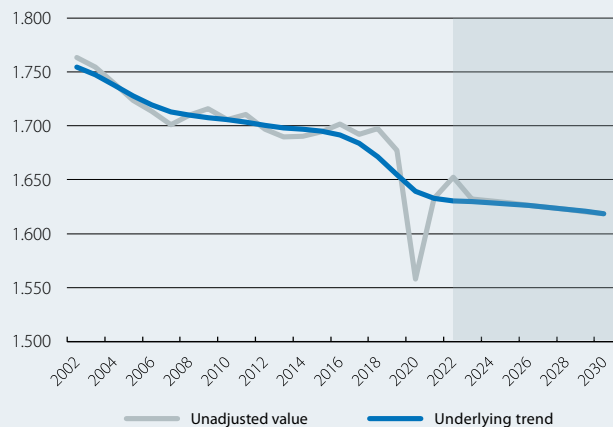


#### Activity rate

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



#### Annual hours worked per employee



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

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

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

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

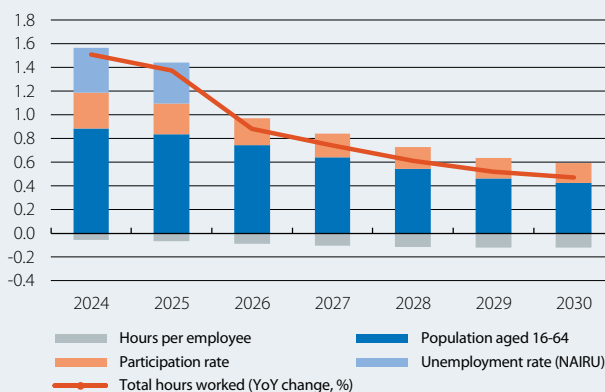
TFP is obtained as a residual amount, i.e. the difference between real GDP growth and the weighted sum of labour and capital growth. TFP captures everything else that causes production to grow in excess of what would be allowed by the sum of the production factors specifically considered (labour and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

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

In this article we will focus on calculating the growth of potential GDP, rather than determining its level. Thus, if the growth of observed GDP is greater than that of

### Spain: contributions to the growth of potential hours worked

(p.p.)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute and AMECO

potential GDP, this can suggest that either the gap between observed and real GDP is closing (because there was a negative gap) or, on the other hand, that it is widening (because the gap was already positive) and the economy is overheating.

### Assumptions regarding the evolution of the number of hours worked

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

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

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

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

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

### Outlook for potential GDP growth

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

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

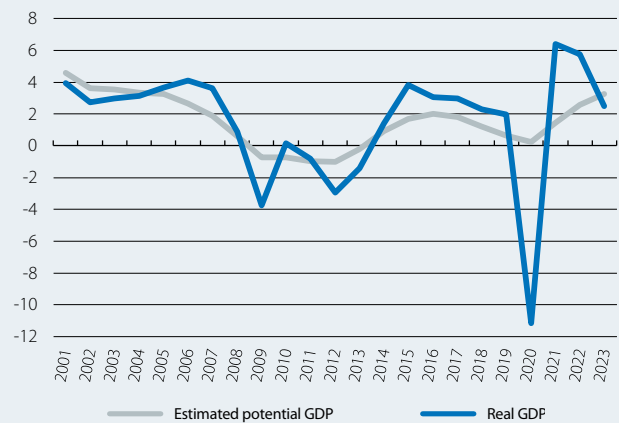
The uncertainty surrounding forecasts for potential GDP growth is high due to several factors, ranging from technical issues in the measurement and specification of the model, to the underlying assumptions used in the forecasts. To exemplify the uncertainty surrounding this last point, we considered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

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

9. The Bank of Spain and the European Commission obtain similar results. The Bank of Spain estimates a potential GDP growth in 2020 of around 0.0% (see P. Cuadrado *et al.* «El crecimiento potencial de la economía española tras la pandemia», nº 2208, Bank of Spain, 2022), while the Commission's estimate is 0.3%.

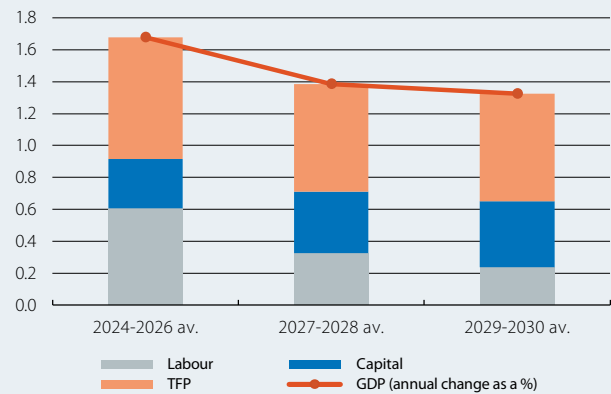
10. See Pilar Cuadrado *et al.* «El crecimiento potencial de la economía española tras la pandemia», nº 2208, Bank of Spain, 2022, and the «Report on the main budgetary lines of the public administrations for 2024», by the AIReF.

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



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

Spain: potential GDP growth, contributions (pps)



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

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

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

Oriol Carreras

11. This rate is similar to the average annual reduction in the structural unemployment rate observed in the period 2014-2019 (0.4 pps per year).

12. This improved performance could be explained by the NGEU funds having a greater impact on the economy than currently expected.



## Innovation in Spain: somewhat below the EU

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

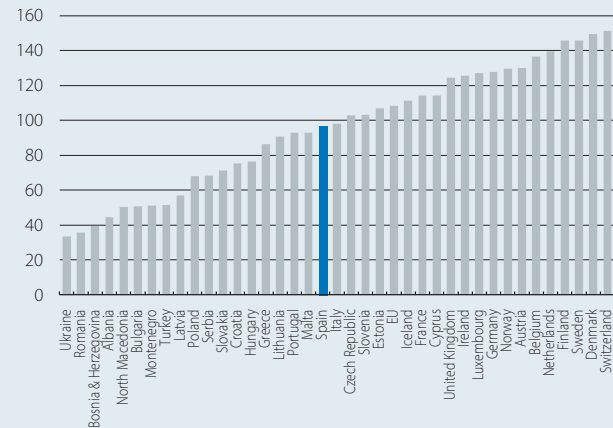
### Spain compared to the EU: room for improvement

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

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

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

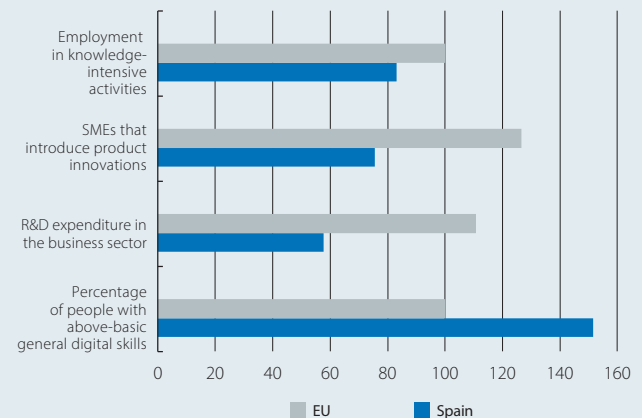
### Innovation Index 2023: European comparison



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

### Innovation Index sub-pillars: Spain vs. EU comparison

Ratio between Spain and the EU (%)



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

pending for the Spanish economy.<sup>3</sup> Secondly, greater investment in R&D is essential in order to make the qualitative leap to which we aspire. Thirdly and finally, in a country in which SMEs are a very important part of the productive fabric, it is essential that advances in innovation are widely disseminated across the business sector and that SMEs grow in scale.<sup>4</sup>

(See an extended version of this article at [caixabankresearch.com](https://caixabankresearch.com))

1. The index normalises the score to take account of the population size of each country or region so that the results are not determined by the population.  
 2. 100 points in 2016. The EU averages are always weighted to take account of the relative population sizes of each country.  
 3. 76% of companies report a skills gap between what their organisations need and the training offered by the university system. At the same time, 79% of companies report a skills gap among candidates with vocational training. See J. Canals (2020), «Changes in the portfolio of skills needed by Spanish companies following COVID-19».

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

## The Spanish economy continues to reduce its foreign debt

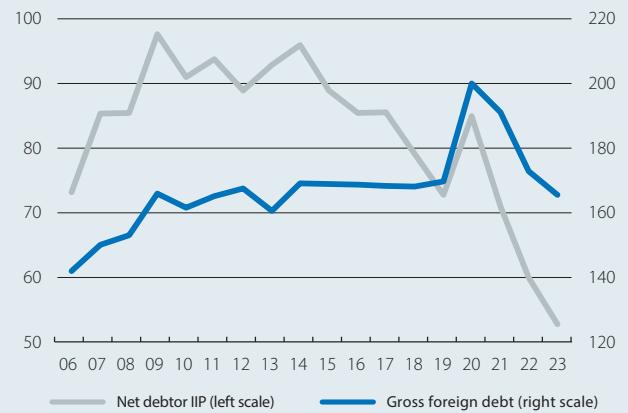
Having overcome the shock of the pandemic, Spain's economy has resumed the path of correcting one of its traditional imbalances – its foreign indebtedness – in a process largely driven by its recent ability to maintain a high lending capacity. Indeed, Spain has not only racked up 12 consecutive years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

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

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

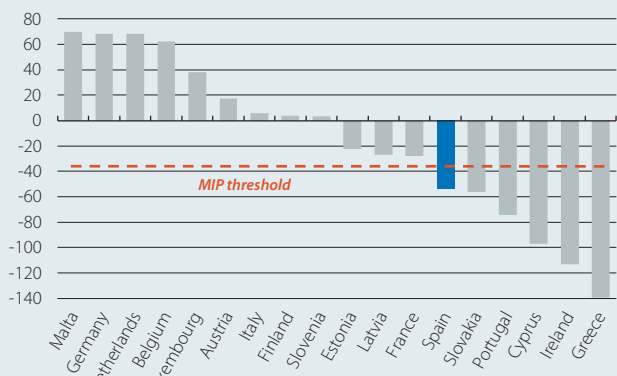
1. In contrast, in the period 2000-2008 the economy recorded funding needs of 5.6% of GDP on average annually.
2. A supervisory mechanism established with the aim of preventing and correcting macroeconomic imbalances in EU countries.
3. Net purchases ended in 2022, both under the Pandemic Emergency Purchase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

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



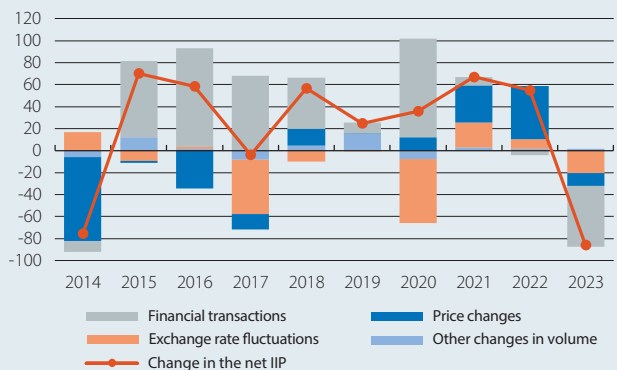
Source: CaixaBank Research, based on data from the Bank of Spain.

**Euro area: net IIP (% of GDP)**



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

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



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

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

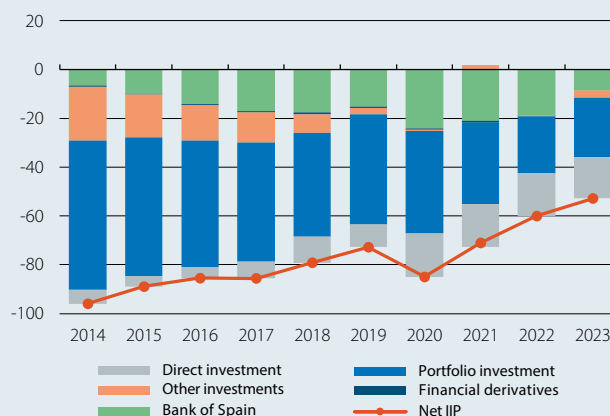
Looking at the breakdown by type of financial instrument, all of them with the exception of derivatives saw their debtor balance expand in 2023, especially portfolio investments, due to the impact of prices and the negative foreign financial transactions (the liabilities grew more than the assets). In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

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

As for gross foreign debt,<sup>8</sup> it resumed the upward path that had been truncated in 2022 and grew sharply, reaching 2.419 trillion euros, up from 2.327 trillion the previous year. However, as a result of nominal GDP growth, the debt-to-GDP ratio continued to fall to 165.5% (172.8% previously), even improving on the pre-pandemic levels (169.7% in 2019). By sector, the reduction of gross debt was concentrated in the general government (44.0% of GDP, just 10 pps less than in 2022), other resident sectors (20.3% vs. 21.6%) and, above all, the Bank of Spain (36.3% vs.

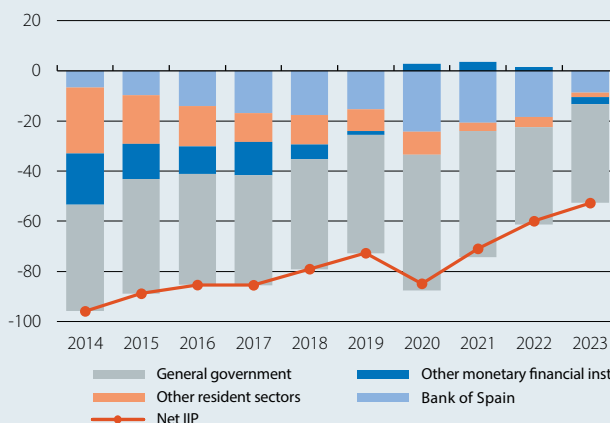
5. Shares and other forms of equity holdings, reinvested profits, investments in real estate and financing between related companies.  
 6. However, given the significant increase in nominal GDP (8.6%), the debtor balance of direct investment in terms of GDP improved slightly last year (16.8% vs. 17.4%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

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



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

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



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

46.9%). In the latter case, once the Eurosystem's purchases of public debt were completed, a portion of the debt was no longer held by the Bank of Spain and once again lay in the hands of non-residents. In contrast, the debt of MFIs grew by almost 6 points to 46.4% of GDP, the highest ratio since 2012, due to capital inflows mainly channelled in the form of deposits.

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

Sergio Díaz Valverde

## The income balance suffers at the hand of the rate hikes

The current account balance showed significant improvement in 2023. After recording a surplus of 0.6% of GDP in 2022, in 2023 the surplus rose to 2.6%. All sub-balances contributed to this improvement, except for income, where the deficit widened to 1.5% of GDP, marking its highest level in the last 10 years. In this article, we will look into the detail of the income balance and analyse the reasons behind its deterioration in the last year. As we will see, the deterioration in the income balance has been closely linked to the interest rate hikes implemented in 2022 and 2023.

### What does the income balance comprise?

The income balance is a component of a nation’s balance of payments that focuses on accounting for flows related to the remuneration of labour and returns on capital, as well as unmatched transfers.<sup>1</sup> It is divided into two subcomponents:

- **Primary income:** comprises the income and payments related to the remuneration of a nation’s capital and labour employed abroad and vice versa. For example, primary income includes the wages of Spanish cross-border workers and the returns from Spanish investments abroad, which are recorded as incomes. On the other hand, the returns from foreigners’ investments in Spain are accounted for as expenses.
- **Secondary income:** records unmatched transfers, such as remittances by foreign workers to their countries of origin or public transfers made to international bodies, such as annual contributions to the EU budgets.

### Origin of the deficit in the income balance

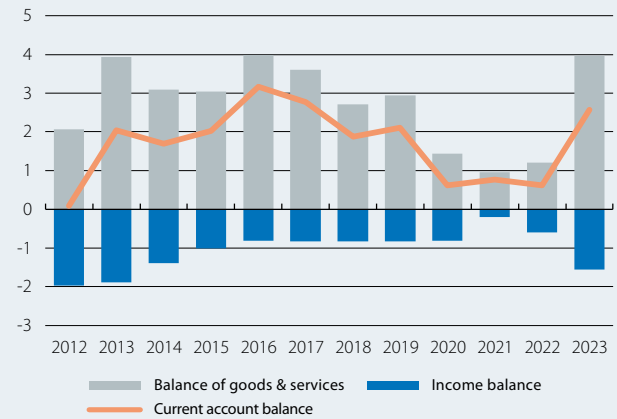
The income balance in Spain shows a historical structural deficit, which is closely linked to the Spanish economy’s debtor position vis-à-vis the rest of the world. The magnitude of the deficit has fluctuated over the years, peaking at 4.2% of GDP in 2008. Since then, there has been a remarkable improvement and stabilisation, with an average annual deficit of 0.8% of GDP between 2014 and 2022. However, 2023 has concluded with a marked deterioration in the income balance, as its deficit has risen to 1.5% of GDP from the 0.6% recorded in 2022, contrasting with the exceptional performance of the balance of trade in goods and services.<sup>2</sup>

As the second chart shows, primary incomes are the main source of volatility within the income balance, while the secondary income balance has been very stable.

1. For more detailed information, consult the [Methodological Note \(bde.es\)](#) published by the Bank of Spain.  
 2. For more details on the performance of the current account in 2023, see the Focus «[Spain’s current account balance in the European context](#)» in the MR03/2024.

### Spain: current account balance

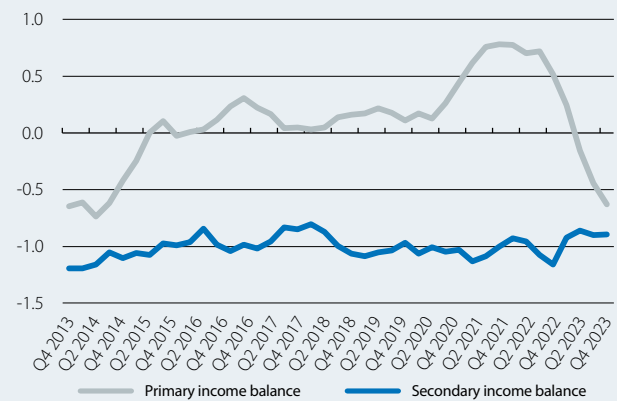
(% of GDP)



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

### Spain: composition of the income balance

(% of GDP) \*



Note: \* Four-quarter cumulative data.

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

Similarly, we note that the deterioration in the income balance in 2023 is attributable to the worsening of the primary income balance, which was negative (-0.63% of GDP vs. +0.5% of GDP in 2022) for the first time since 2016 and was responsible for the entire deterioration of the income balance.

Focusing on primary income, this consists of three elements: investment income, remuneration of labour and other primary income. Investment income makes up the majority of flows in the income balance, accounting for 87% of all revenues and 95% of all payments (average in 2014-2019), and it is responsible for the deterioration of the primary income balance in 2023. Thus, the investment income balance has gone from 0.07% of GDP in 2022 to -1.0% of GDP in 2023.

Looking deeper into the analysis, in the third chart we show the investment income balance, as a percentage of

GDP, broken down into its four components: income from direct investment, from portfolio investment, from reserve assets and from other investment.<sup>3</sup>

While direct investment income and portfolio investment income usually constitute the bulk of investment income flows, the deterioration observed in the last year in the total investment income balance is not attributable to these components, as their balances have remained relatively stable. Rather, the deterioration in the income balance is almost exclusively attributable to the deterioration of «other investment income», which mainly includes interest payments and income arising on deposits, repos and loans, and which has gone from a deficit of 0.2% of GDP at the end of 2022 to one of 1.01% of GDP at the 2023 year end.

**The deficit and interest rates**

This deterioration in the balance of other investment income in the last year is closely linked to two factors: the change in European monetary policy in the last two years and the increase in the debtor position of Spain's economy vis-à-vis foreign markets in other investment given the inflow of capital that occurred in 2023, as this has meant that the rise in interest rates has had a greater impact on outgoing payments than it has had on incomes.<sup>4</sup>

As can be seen in the last chart, the balance of other investment income responds inversely to changes in interest rates: when interest rates rise, the deficit of other investment income increases. This makes sense, as the items included within «other investment» are those that are most sensitive to interest rate changes, as they have an impact on the interest that is payable on commercial loans and deposits. It is also apparent that the impact of the rise in interest rates on other investment income has been quite rapid. According to our estimate, the balance of other investment income is affected by changes in the Euribor that take place in the year in progress and those that took place a year earlier, but the changes that took place two or more years ago no longer have an impact.<sup>5</sup> A 1-pp increase in the Euribor would thus result in a gradual deterioration of the balance of other investment income, which would amount to 0.15 pps in the year

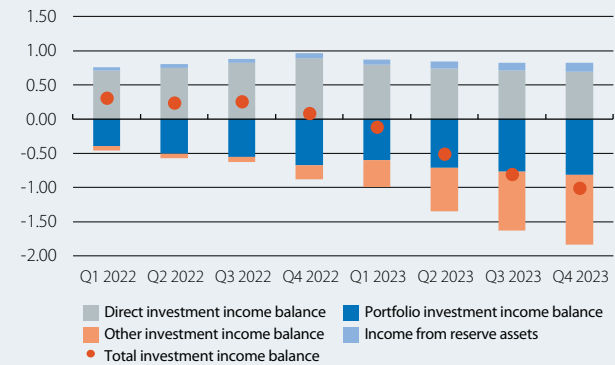
3. Direct investment income includes the remuneration derived from foreign companies operating in Spain and vice versa. Portfolio investment income includes all foreign monetary flows of returns associated with shares and equity holdings in investment funds and debt securities.

4. For more information on the evolution of Spain's net international investment position, see the Focus «The Spanish economy continues to reduce its foreign debt» in this same *Monthly Report*.

5. We performed a regression analysis of the change in the balance of other investment income (four-quarter cumulative balance) against the change in the 12-month Euribor in the current quarter, with a four-quarter delay and with an eight-quarter delay. All coefficients are statistically significant except for in the case of the eight-quarter delay.

**Spain: composition of the investment income balance**

(% of GDP) \*

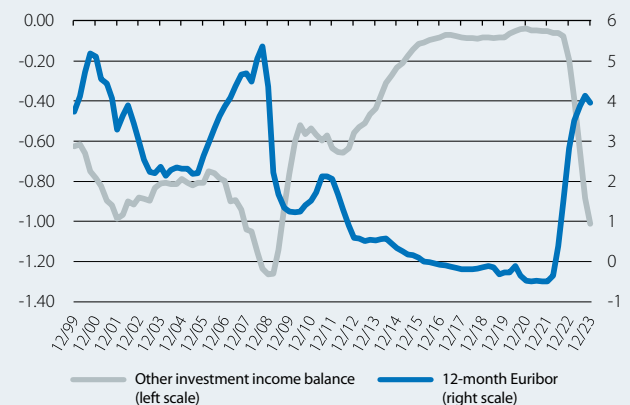


Note: \* Four-quarter cumulative data.  
Source: CaixaBank Research, based on data from the Bank of Spain.

**Spain: other investment income balance vs. interest rates**

(% of GDP)

(12-month Euribor)



Source: CaixaBank Research, based on data from the Bank of Spain and Bloomberg.

following the increase in the Euribor. Thereafter, however, the balance would stabilise.

In short, the rate hikes implemented by the ECB during 2022 and 2023 have had a negative impact on the income balance of our current account. However, given the speed at which rate changes are translated to the income balance, and assuming the ECB begins to gradually lower rates from mid-2024, we can expect the deterioration of the income balance to stabilise in 2024 and a correction to begin in 2025.

Erik Solé Vives

## An exceptional year for the catering sector in Spain

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

The consumption indicators based on our internal card spending data confirm this dynamic in the catering sector.<sup>1</sup> As can be seen in the charts below, spending on catering dropped off sharply due to the restrictions imposed during the pandemic (especially in the case of foreign cards, as a result of the restrictions on mobility), but since mid-2021, spending with Spanish cards (and, since the end of 2021, with foreign ones too) has

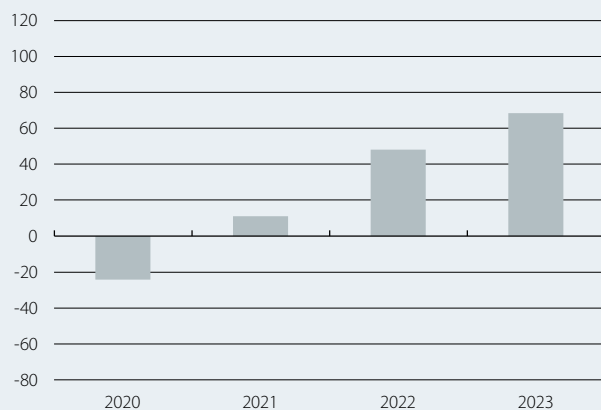
exceeded 2019 levels. In 2023, spending has continued to register significant growth, especially among foreign tourists. This growth also reflects the increase in prices in the sector (6.6% on average in 2023), as businesses have largely passed on their cost increases to consumers – it should be recalled that the catering sector has been exposed to the rise in energy prices and, above all, food prices.

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

### Spain: CaixaBank Consumption Indicator. Spending on catering in 2023

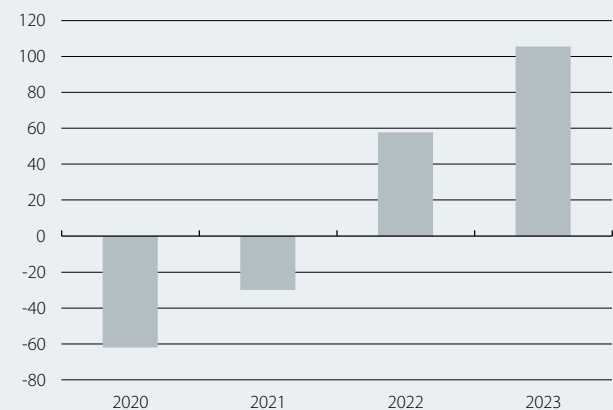
#### Spanish cards

Change versus the same period in 2019 (%)



#### Foreign cards

Change versus the same period in 2019 (%)



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

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

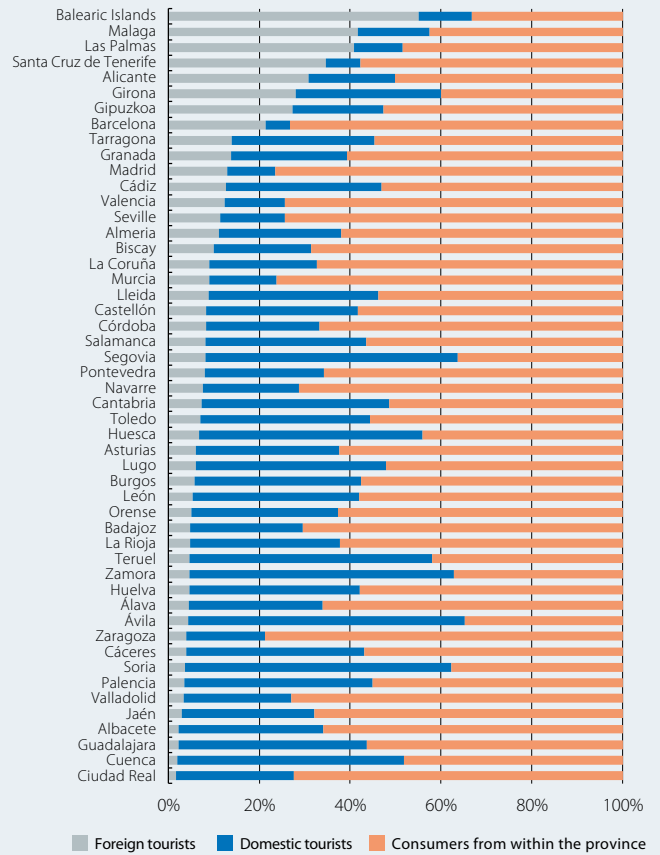
It should be noted that most catering expenditure is concentrated in the summer months, since at least 30% of the sector's turnover is generated between the months of July and September. Again, the pattern is quite different from province to province. The sector's revenues are particularly seasonal in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

**Outlook for the coming months**

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

*Pedro Álvarez Ondina and Alberto Graziano*

**Spain: CaixaBank Consumption Indicator. Structure of spending on catering**  
(% of the total spending on catering in the province)



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

**Spain: spending on catering between July and September**  
(% of the spending on catering in the province in 2023)



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

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

### Activity and employment indicators

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

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

### Prices

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

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

### Foreign sector

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

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

### Credit and deposits in non-financial sectors<sup>4</sup>

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

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

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: CaixaBank 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.



## The Portuguese economy kicks off 2024 better than expected

The indicators for Q1 suggest that economic activity is more buoyant than expected, and that GDP growth in the first quarter could exceed our forecast of 0.4% quarter-on-quarter. The Bank of Portugal’s daily economic activity indicator showed an average year-on-year growth of 5.8% in Q1 (with data to 20 March), which represents an acceleration compared to the 5.5% registered in the previous quarter. In addition, the European Commission’s economic climate and economic sentiment indicators also show an improvement over the previous quarter. In this context, the Bank of Portugal has revised upwards its GDP growth forecast to 2.0% for 2024 and to 2.3% for 2025.

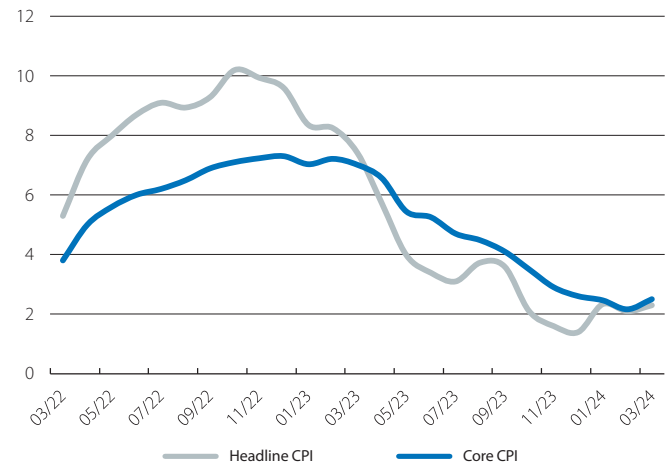
**Bumpy disinflation.** The disinflationary process has been interrupted and is now going through a more volatile phase; headline inflation has rebounded to 2.3% in March, up from 1.4% in December, while core inflation, after falling to 2.1% in February, has rebounded in March to 2.5%, thus truncating 12 consecutive months of declines.

**Sharp upturn in home prices despite the fall in transactions.** Home prices recorded an average growth of 8.2% in 2023, despite the number of sales falling by 18.7% compared to 2022, to a total of 136,400 homes. The latest available indicators suggest that prices are continuing to grow at a steady pace in early 2024: the price per square metre according to bank valuations rose by 5.5% year-on-year in February, while the residential price index (IPR) recorded an increase of 1.5% up until February compared to the end of 2023.

**The public accounts pass the 2023 year-end with flying colours.** The budget surplus rose to 1.2% of GDP, thus exceeding the government’s forecast (0.8% of GDP), as well as that of CaixaBank Research (0.7% of GDP), and improving on the figure for 2022 (deficit of 0.3% of GDP). This improvement was driven by the growth of revenues which, at 9.0%, far exceeded that of expenditure, at 5.2%. In this context, the public debt to GDP ratio fell 17.5 pps compared to 2019 and stood at 99.1%, its lowest level since 2009.

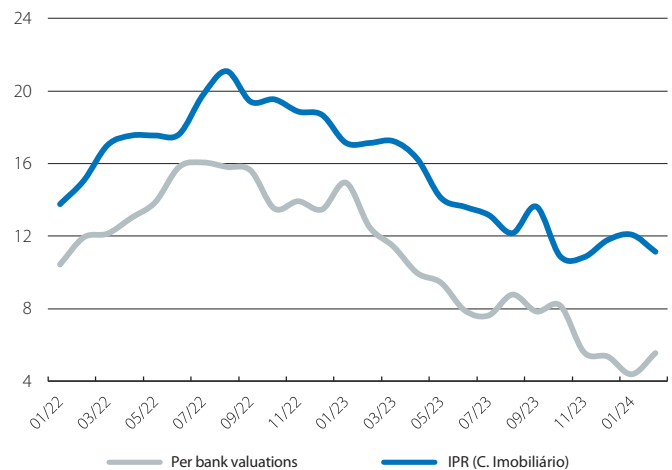
**2023 ended with a foreign surplus equivalent to 2.6% of GDP,** helping to bring down Portugal’s foreign debt, which nevertheless remains high. The general government was the sector that contributed the most to the surplus, with a lending capacity of 1.2% of GDP, followed by households (1% of GDP, 0.4 pps more than in 2022); non-financial corporations, meanwhile, reduced their funding needs by 0.3 pps to 2% of GDP, in a context of weak investment growth.

**Portugal: CPI**  
Year-on-year change (%)



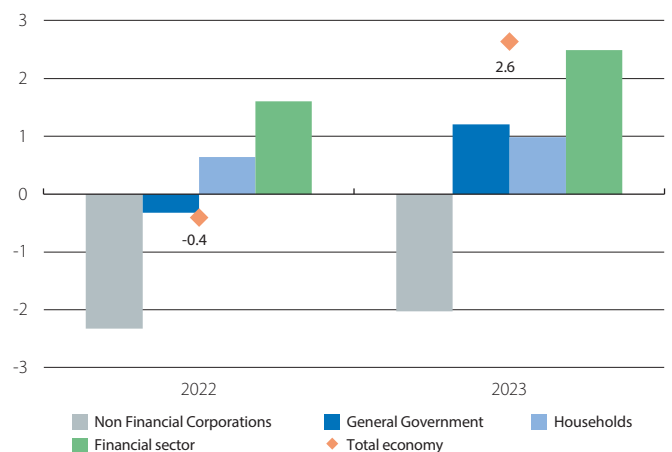
Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

**Portugal: home prices**  
Year-on-year change (%)



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

**Portugal: + lending capacity/- funding needs of the economy**  
(% of GDP)



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

## Activity and employment indicators

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	01/24	02/24	03/24
Coincident economic activity index	5.7	3.3	3.6	3.3	2.7	...	2.5	2.4	...
<b>Industry</b>									
Industrial production index	0.4	-2.7	-5.0	-4.6	-2.3	...	-1.3	1.0	...
Confidence indicator in industry ( <i>value</i> )	-3.4	-7.4	-5.6	-9.4	-9.5	-7.5	-8.2	-7.7	-6.6
<b>Construction</b>									
Building permits - new housing (number of homes)	6.2	5.6	1.3	9.5	1.8	...	-16.4	...	...
House sales	1.3	-18.7	-22.9	-18.9	-11.4	...	-	-	-
House prices ( <i>euro / m<sup>2</sup> - valuation</i> )	13.8	9.1	9.1	8.1	6.4	...	4.4	5.5	...
<b>Services</b>									
Foreign tourists ( <i>cumulative over 12 months</i> )	158.9	19.1	52.6	24.9	19.1	...	16.1	14.5	...
Confidence indicator in services ( <i>value</i> )	15.1	7.5	13.4	5.8	-0.2	6.9	5.1	7.1	8.7
<b>Consumption</b>									
Retail sales	5.5	1.1	1.8	0.6	0.6	...	0.2	2.2	...
Coincident indicator for private consumption	3.9	2.5	2.8	2.8	2.3	...	2.2	2.2	...
Consumer confidence index ( <i>value</i> )	-29.7	-28.6	-29.4	-22.8	-27.2	-24.6	-26.9	-24.4	-22.6
<b>Labour market</b>									
Employment	2.2	2.0	2.8	2.2	1.6	...	2.3	1.8	...
Unemployment rate ( <i>% labour force</i> )	6.2	6.5	6.1	6.1	6.6	...	6.6	6.7	...
<b>GDP</b>	<b>6.8</b>	<b>2.3</b>	<b>2.6</b>	<b>1.9</b>	<b>2.1</b>	...	-	-	-

## Prices

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

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

## Foreign sector

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

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

## Credit and deposits in non-financial sectors

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

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

Notes: 1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.

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

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### Brief Notes on Economic and Financial Developments



Assessment of the main macroeconomic indicators for Spain, Portugal, the euro area, the US and China, as well as of the meetings of the European Central Bank and the Federal Reserve.

### Consumption tracker



Monthly analysis of the evolution of consumption in Spain using big data techniques, based on expenditure with cards issued by CaixaBank, non-customer expenditure registered on CaixaBank POS terminals and cash withdrawals from CaixaBank ATMs.

### Currency flash report



Flash report on developments in the euro's exchange rate with the major currencies: the US dollar, pound sterling, Japanese yen and Chinese yuan. It offers technical, structural and predictive analysis.

### Tourism Sector Report S1 2024



After the blow dealt to the sector by the pandemic, the recovery of international tourism in Spain can now be considered practically complete. Among the top 10 global tourism destinations, Spain was the second to exceed its pre-COVID number of international tourists.

### Agrifood Sector Report 2023



The Spanish agrifood sector is suffering the effects of the prolonged drought and the sharp rise in production costs. Even so, the sector has shown a moderate growth trend which we expect to continue in the coming quarters.

### Real Estate Sector Report S1 2024



We take stock of a more positive 2023 than expected in the real estate market and offer our forecasts for 2024-2025. We also analyse the role of demographics in housing demand in Spain, the outlook for Spain's commercial real estate market and the evolution of the real estate markets in the main advanced economies.



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