Portugal: two years of growth at the mercy of the pandemic

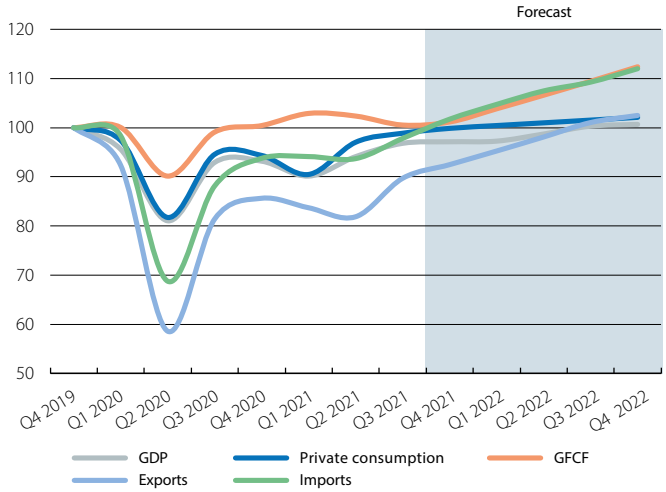
Recovery of pre-crisis GDP by mid-2022. The successive waves of the pandemic and the restrictions imposed have marked the year that is now ending, giving rise to dynamic GDP growth, which we estimate to be 4.3%. In Q3, the economy grew more than expected, driven by private consumption and exports. However, the information available for Q4 suggests a moderation in economic activity following two quarters of strong growth. On the one hand, the data on air traffic, electronic payment card spending and electricity consumption are looking strong compared to the same periods in 2019 and 2020, while on the other hand the confidence indicators are showing a deterioration. This decline reflects uncertainty associated with the domestic political situation (early elections on 30 January 2022) and greater caution in the face of the energy crisis and bottlenecks. In turn, the recent developments in the pandemic and the emergence of a new, more aggressive variant could weigh down confidence levels in the coming months, despite the low pressure on hospitals. In this context, the government has decreed a state of emergency from 1 December, accompanied by some measures aimed at facilitating detection but without significantly restricting economic activity. The aforementioned limitations will continue to condition 2022 and will potentially be more pronounced in the first few months of the year. Even so, the country will register significant growth next year – we project GDP growth of 4.9% – and this will allow pre-pandemic levels to be recovered. The recovery in tourism, the receipt of European funds and the pent-up savings will be the drivers of this growth and should offset the above unfavourable factors. This outlook remains subject to some uncertainty, heightened by the recent fears related to the pandemic. But the outcome could also be favourable if the supply bottlenecks dissipate more quickly and/or the pandemic situation improves.

The labour market weathered the pandemic better than expected. The lockdown imposed in early 2021 and the very gradual lifting of restrictions have not prevented the labour market from emerging from this crisis surprisingly unscathed. Employment has not only recovered pre-crisis levels, but it has remained at the highs of the historical series, which began in 1995. However, the recovery has been uneven by sector, and employment remains below pre-pandemic levels in the accommodation, catering and construction sectors. This pattern is due not only to the lack of recovery of pre-pandemic activity levels, such as in the case of accommodation and catering, but also to the shortage of labour. In fact, unfilled job vacancies have reached their highest values since 2017. This may reflect not only vocational retraining, but also the reduction in the number of immigrants, who are often employed in these more labour-intensive sectors such as hospitality. At the same time, the unemployment rate has fallen to around 6%, reaching its lowest levels since 2002 and surpassing our expectations. As a result, we have revised down our unemployment rate forecasts for 2021 (6.6%) and 2022 (6.5%).

The real estate market continues to thrive. Although the national statistics institute's data on the price of housing in Q3 are not yet known, the available data show a clear advance in

Portugal: GDP and components

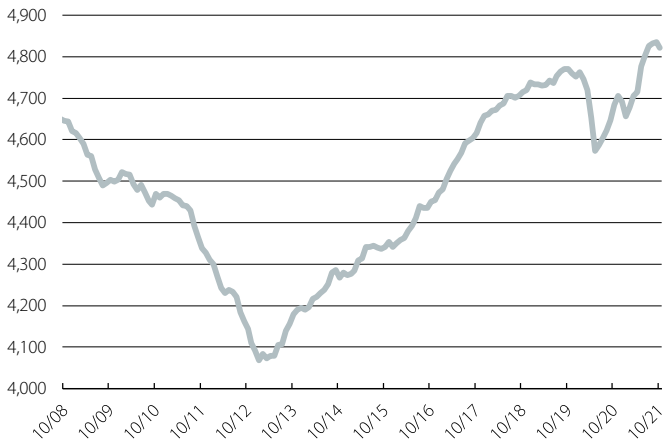
Index (100 = Q4 2019)



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

*Portugal: evolution of the population in employment **

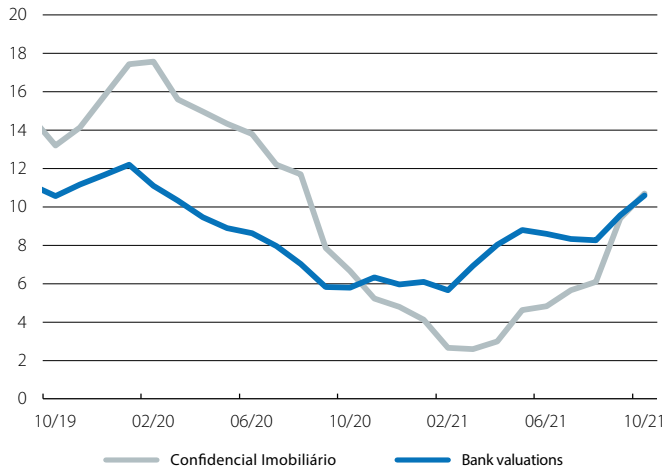
(Thousands of people)



Note: ** Data not seasonally adjusted.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: housing prices

Year-on-year change (%)



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

the market. This leads us to place the CaixaBank Research forecast for housing price growth in 2021 above 6%. The residential price index produced by Confidencial Imobiliário increased by 10.7% year-on-year in October. This year-end boost may be linked to the golden visa programme, as it will no longer cover the purchase of residential properties in Lisbon and Porto in 2022. The bank valuation figures for mortgage loans support this trend, registering an increase in October of 10.6% year-on-year.

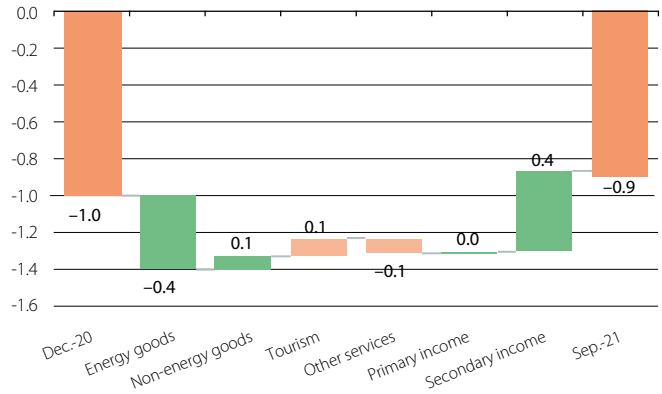
Slight improvement in the current account deficit. In the last 12 months to September, the current account deficit stood at 1,905 million euros (0.9 % of GDP), representing a 1-decimal-point improvement compared to the 2020 year end. One important factor in this trend has been the increase in transfers of European funds, with an impact of +0.4 pps and offsetting the 0.3-pp deterioration in the balance of goods and services. This deterioration was, in turn, driven by the worsening of the energy deficit (of 4 decimal points to 2% of GDP) resulting from the rise in oil prices, and was only partially offset by a slight improvement in the tourism balance. In fact, in the three strongest months for the sector (July, August and September), the number of tourists visiting Portugal doubled compared to 2020, with a 53% increase in tourism revenues in the period.

The political uncertainty should not substantially affect the public accounts. The lockdown at the beginning of the year led to a strengthening of the support measures for households and businesses and an increase in health costs (over 5.1 billion euros up to October), which have served as an important buffer against the blow which the pandemic has dealt to the economy. Nevertheless, the growth of current primary spending, which is more difficult to adjust in the future, is still worrying; by October it will have reached 37.8% of GDP, approaching the levels observed during the sovereign debt crisis (41.9% in 2013). Even so, we do not anticipate there being significant pressure on the public accounts next year, even in the context of early elections and the likely persistence of a budget in twelve parts during the first half of the year. Although this means spending will be limited to what was set out in the 2021 general state budget (which is 5.8 billion euros less than under the 2022 draft), there is some scope to execute the necessary expenditures in an adverse scenario of new variants of COVID-19.

Limited impact of the pandemic on the banking sector. One of the measures with the greatest impact on households and businesses was the application of loan moratoria, which allowed principal and interest payments to be postponed, providing a boost to these groups' liquidity at the height of the pandemic. Indeed, in September 2020 the volume of loans under moratorium reached 17.1% and 34.1% of all household and business loans, respectively, falling to 0.3% and 3.6% in October after the moratoria came to an end. The stock of loans to the non-financial private sector has increased significantly (+4.2% year-on-year in October). Similarly, the low-interest-rate environment, the strength of the labour market and the high level of savings have contributed to the buoyancy of new mortgage lending (which grew by 40.7% year-on-year up to September). Despite the end of the moratoria, there has not been any substantial deterioration in the NPL ratio. Delinquency rates remain at minimum levels, and phase 3 loans, referring to those showing indications of impairment, accounted for between 7% and 13% of all the loans under moratorium in some banks in September.

Portugal: current account balance and contribution by components

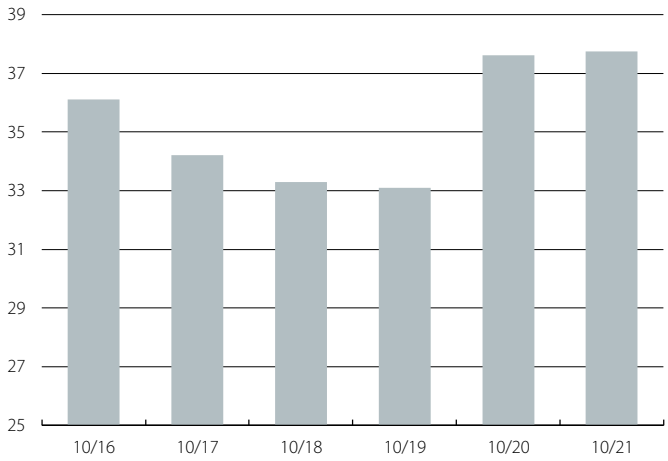
(% of GDP)



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

*Portugal: general government balance **

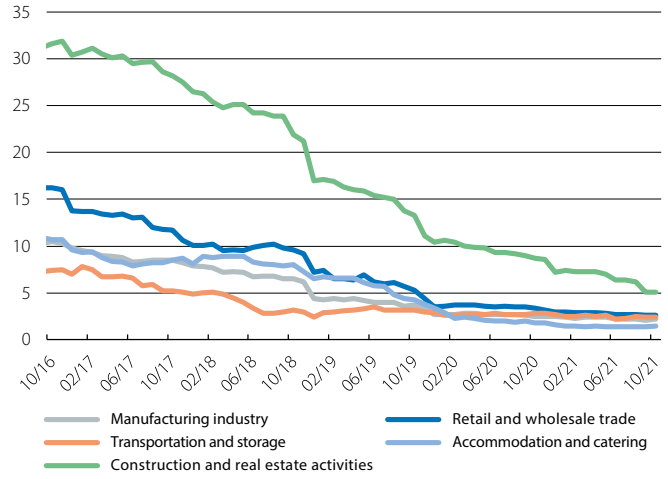
(% of GDP)



Note: ** Public accounting data.*
Source: *CaixaBank Research, based on data from the DGO.*

Portugal: loans under moratorium

(% of the total loans of each segment)



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