

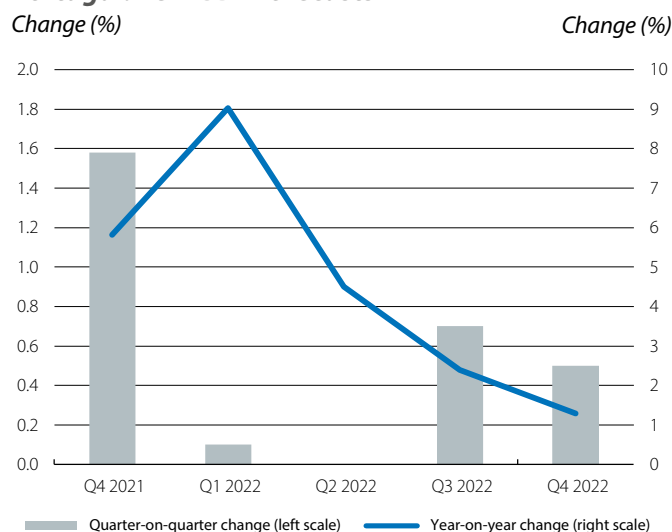
## The war sets back the Portuguese recovery, but it does not jeopardise it

The conflict in Ukraine will condition the speed of the Portuguese economy's recovery, delaying the restoration of pre-pandemic GDP levels until 2023, a milestone which prior to the Russian invasion we expected to be achieved by mid-this year. The higher energy prices and greater caution exercised by economic agents in their consumption and investment decisions will have a detrimental impact on economic activity and will slow growth to 4.2% this year. This is just 7 decimal points below our previous forecast, thanks to the carry-over effect of the stronger than expected performance in Q4 2021 (see the Focus «Portugal: what impact will the conflict in Ukraine have on growth?» in this same *Monthly Report*). This forecast is subject to a high degree of uncertainty and entails predominantly downside risks, but it is conservative, especially compared to other forecasts. For instance, the Bank of Portugal (4.9% in 2022) envisages a more positive scenario thanks to European funds, the savings accumulated by households during the various lockdowns (which will allow the impact of rising prices to be absorbed) and the persistence of favourable financial conditions, all of this associated with the expectation that the armed conflict in Ukraine will not escalate. The Bank of Portugal's daily indicator, meanwhile, rose by around 8% on average year-on-year, which could translate into stronger GDP growth in Q1 2022 than that forecast in our scenario.

**Inflation exceeds the 5% threshold.** March marks the sixth consecutive month of rising inflation, with the National Statistics Institute's estimates placing headline inflation at 5.3% (4.2% in February) and core inflation at 3.8% (3.2% in February). This is the highest increase since June 1994 and it is taking place against an adverse European geopolitical backdrop which, above all, is having an impact on energy prices. In addition, we note that the high inflation rates are spreading to a greater number of components of the CPI basket, especially in the food category. In this context, we expect inflationary pressures to remain high over the coming months, hence our recent upward revision of the annual average for 2022 to 5.4%.

**As for the foreign sector, the Bank of Portugal forecasts that the current and capital balance will register a deficit in 2022** (-0.7% of GDP), reflecting the increase in the forecast for oil prices, which are expected to reach 103.6 dollars according to its outlook scenario. This unfavourable impact of the rise in energy prices on the foreign accounts has already been evident since the beginning of the year: in January 2022, the energy balance stood at -629 million euros, representing a deterioration of 67% year-on-year. For 2023-2024, the Bank of Portugal expects that the foreign accounts will return to positive territory, benefiting from the receipt of European funds (which will represent 3.9% of GDP in this period on average) as well as from the improvement in the tourism balance.

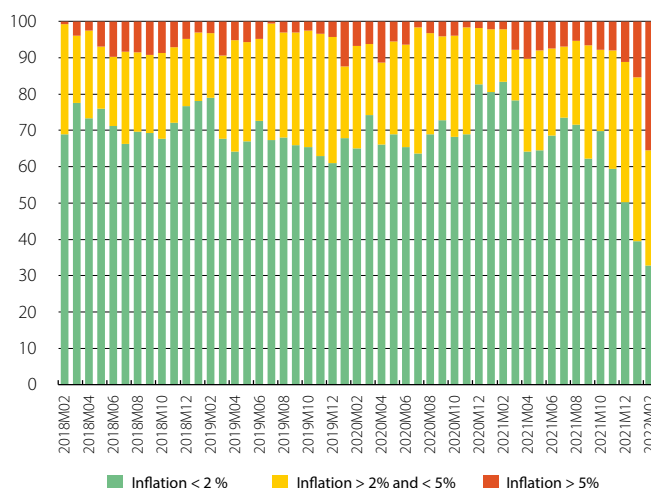
### Portugal: new GDP forecasts



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

### Portugal: inflation's traffic light

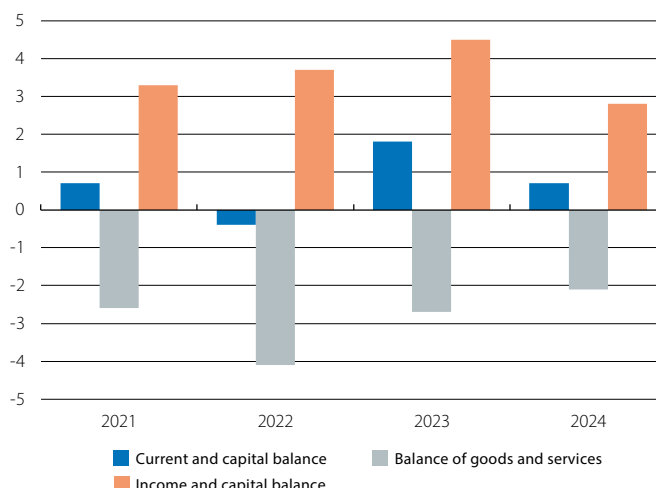
(% of the CPI basket)



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

### Portugal: current and capital balance

(% of GDP)



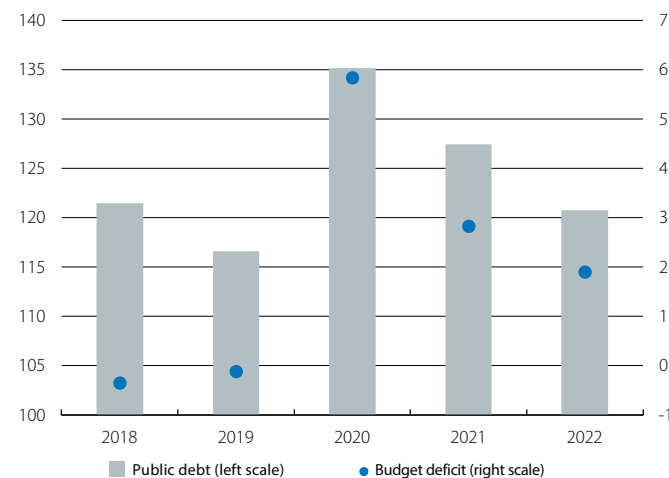
Source: CaixaBank Research, based on data from the Bank of Portugal.

**The war will hinder further consolidation of the public accounts in 2022.** The budget deficit improved considerably in 2021, falling to 2.8% of GDP (5.8% in 2020), below the government’s forecast (4.3%). This was facilitated by the considerable increase in revenues (+10% year-on-year), especially tax revenues, which exceeded the budget thanks to the strength of the labour market and the buoyant growth of domestic demand. Incorporating the final data for 2021 would result in a revision of our 2022 forecast (currently a deficit of 2.9% of GDP) to below 2% of GDP. However, there are other factors which will counteract these improvements. The war in Ukraine has forced the government to introduce measures to support households and businesses in the face of the rise in prices, and the weaker buoyancy of employment and consumption can be expected to dent tax revenues. The initial estimate for the budgetary impact of these measures is of around 520 million euros, according to the 2022-2026 Stability Programme presented by the government in March, in which it anticipates GDP growth of 5.0% in 2022 and a drop in the unemployment rate of as much as 6.0%. In this context, the government estimates that the deficit will stand at 1.9% of GDP this year, while the public debt ratio will fall to 120.8% of GDP (127.4% in 2021), although these forecasts seem somewhat optimistic in the current circumstances.

**2021, a year of notable price increases in the residential real estate market.** The data for the Q4 2021 home price index place the average annual increase in property prices at 9.4%, reinforcing the trend in 2020 (8.8%). The strong performance of the sector can be largely attributed to the strength of demand: the number of home sales in 2021 was the highest in the series (165,000) and was 7% above the previous best annual record (154,000 in 2018). On the other hand, the supply of new housing is scarce: despite the fact that the number of new homes that were completed grew by 11% in 2021, for the second consecutive year the figure was lower than that recorded annually between 2003 and 2009. In January 2022, the confidence indicator reported by Confidencial Imobiliário was also comfortably in positive territory. However, none of these figures incorporate the consequences of the war in Ukraine. Given the potential ramifications for household budgets (via inflation) and confidence, we anticipate a more moderate performance from the real estate market in 2022.

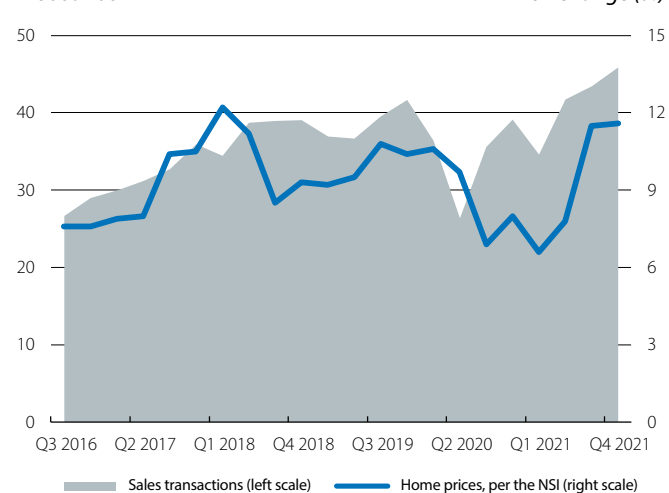
**There are no signs of a worsening of non-performing loans.** The stock of loans to the non-financial private sector continued to increase in February (2.7% year-on-year), thanks to the growth of overall housing credit (+2.9%) and new lending transactions for housing (+28.1% in the year to date up to February). Consumer credit, meanwhile, remained buoyant (3.7%), while the growth of corporate credit slowed to 1.6% (2.6% in January). On the other hand, the level of non-performing loans continues to fall and the delinquency ratio stood at 3.6% in Q4, -0.4 pps compared to Q3. We should also mention the recent recommendation by the Bank of Portugal, which links the maximum maturity of new loans to the age of the borrowers.

**Portugal: budget deficit and public debt**  
(% of GDP)



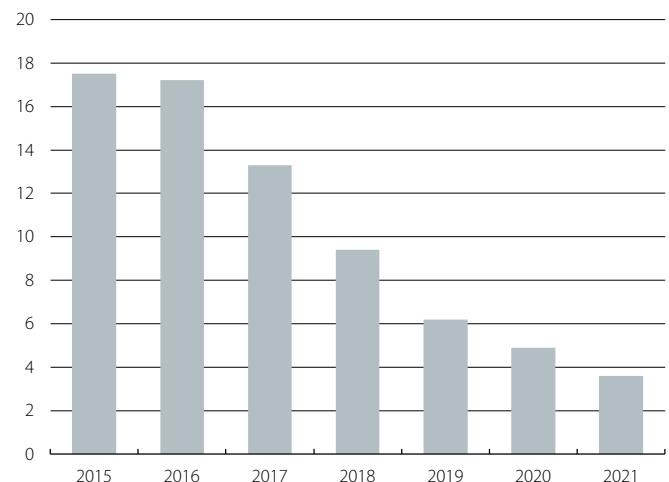
Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

**Portugal: home sales and prices**  
Thousands



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

**Portugal: evolution of the non-performing loan ratio**  
End of the period (%)



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