MR04

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

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ECONOMIC & FINANCIAL ENVIRONMENT

ANALYSIS OF THE ECONOMIC IMPACT OF THE UKRAINE CRISIS IN SPAIN

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
April 2022

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

CaixaBank Research
www.caixabankresearch.com
research@caixabank.com
Enric Fernández
Chief Economist
José Ramón Díez
Head of International Economies and Financial Markets
Oriol Aspachs
Head of Spanish Economy
Sandra Jódar
Head of Strategic Planning
Clàudia Canals and Nuria Bustamante
Monthly Report coordinators

BPI Research (UEEF)
www.bancobpi.pt /
http://www.bancobpi.pt/grupo-bpi/estudos-e-mercados/mercados-financeiros
deef@bancobpi.pt
Paula Carvalho
Chief Economist

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It is time for fiscal policy

The sharp rise in the price of energy and various commodities will affect our capacity to produce and consume. Indeed, it is already clearly doing so. Let us be clear: the entire European population has become poorer. As major importers of these goods, which are now more expensive, we can spend less on other things.

Not only that: the rise in the price of these products is having a very different impact on different sectors. The most energy-intensive sectors are the ones that are suffering the most as a result of the cost increases. Several subsectors in the agrifood industry are also suffering from the sharp increases in the prices of several commodities that are key for their production processes. Different types of households are also being affected very asymmetrically. Lower-income households devote the bulk of their resources to buying essential goods, which are precisely the ones that are rising the most in price.

Once again, economic policy is the key to dealing with an extremely complex situation. In the last two crises, monetary policy has played a very important role: interest rates have been cut to negative territory and large quantities of assets have been purchased in the financial markets.

This time, however, monetary policy cannot and should not be the main tool used to tackle the crisis stemming from the war in Ukraine. It cannot, because interest rates are already at very low levels. Moreover, the high inflation is forcing the central banks to act with extreme caution. Any move that calls into question their commitment to price stability could make the inflationary shock more costly and more difficult to control.

On the contrary, if the central banks failed to respond to the rising prices and gave the impression that they would tolerate higher levels of inflation, we would expect inflation to likely be above the ECB's target not only now, but also in the future. That, in turn, would increase the risk of climbing inflation expectations, leading to second-round effects in the form of more persistent wage pressures and price increases in order to sustain business margins. In the end, people's purchasing power would not change, but we would move into a world with higher inflation that would most likely trigger a stronger response from the central bank in order to regain control.

Moreover, monetary policy is not the most appropriate instrument for combating economic crises that affect different sectors and groups to highly varying degrees. When central banks alter interest rates, they change the financial conditions for the population as a whole, not for specific sectors or groups. And this is, above all, an asymmetric crisis. Thus, fiscal policy must take the lead, and in addition to trying to soften the blow, it must also seek to spread the shock as equitably as possible among the population.

Therefore, the measures taken in this crisis must be at the granular level and must focus on the sectors and groups that are hardest hit. Moreover, given the high level of public debt and the transitory nature that we expect this crisis to have, they should be limited in time in order to avoid a structural increase in public expenditure. In fact, it would be desirable for the measures to be accompanied by medium-term fiscal plans aimed at addressing any doubts over the sustainability of public debt.

It is also important that the measures taken should try, insofar as possible, to make the inflationary shock as short-lived as possible. In this respect, in some cases, limited measures that directly help firms to cushion the sharp rise in their production costs may be preferable to measures that compensate households for the rise in prices. If the pressure on price increases is addressed directly, then the likelihood of there being so-called second-round effects, which would make the inflationary shock more persistent, will be lower. Revising the mechanism used to set electricity prices, in order to mitigate the impact that gas prices have on it, would be one possible approach, although this would not be a strictly fiscal policy measure (rather, a regulatory or quasi-fiscal measure).

Thus, the range of measures that need to be considered is very wide and also includes adjusting tax rates, providing direct aid to the sectors and groups that are hardest hit, and an income deal that distributes the costs of this crisis among the population and businesses as best as possible while trying not to prolong the inflationary pressures. The bulk of the measures approved by the government are along these lines, and they will need to be adjusted over time as the conflict and its economic impact evolve.

Besides the short-term response from economic policy, which is essential for cushioning the shock, this crisis is revealing a major source of vulnerability in our economy: our high energy dependence. It is imperative that we accelerate the energy transition that had already been designed under the umbrella of the NGEU funds, prioritising the timetable for its implementation, if necessary, and making maximum use of the available funds. In both the short and the medium term, it is time for fiscal policy.

Oriol Aspachs
April 2022

Chronology

MARCH 2022

1-31 The war in Ukraine, the peace negotiations and the sanctions continue.
Refugee crisis (more than 4 million Ukrainians have taken refuge outside Ukraine).
23 The Taliban maintain the ban on women's secondary education.

JANUARY 2022

1 Sixth wave of COVID in Spain.
23 A Taliban delegation begins talks with European powers and the US in Oslo.
24 The James Webb telescope reaches its final destination from which it will study the origins of the universe.

NOVEMBER 2021

13 The COP26 Climate Summit closes with a new deal on climate.
15 Migration crisis on the border between Belarus and Poland.
22 New mobility restrictions in Europe and spread of the Omicron variant.

FEBRUARY 2022

1-23 Escalation of tensions between Russia and the West over military manoeuvres on the Russian-Ukrainian border.
24 Russian invasion of Ukraine.
Start of international sanctions on Russia.

DECEMBER 2021

3 The European Commission authorises the disbursement of 10 billion euros of NGEU funds to Spain.
8 Tension rises in the Ukraine crisis.
28 An agreement is reached on labour reform in Spain.

OCTOBER 2021

3 The International Consortium of Investigative Journalists publishes its investigation into accounts in tax havens: the Pandora Papers.
15 The delta plus variant of COVID-19 begins to spread.
30 G-20 summit at which the global minimum corporate tax is endorsed.

Agenda

APRIL 2022

4 Spain: registration with Social Security and registered unemployment (March).
8 Portugal: turnover in industry (February).
Portugal: international trade (February).
12 Spain: financial accounts (Q4).
14 Governing Council of the European Central Bank meeting.
18 China: GDP (Q1).
28 Spain: CPI flash estimate (April).
Spain: labour force survey (Q1).
Euro area: economic sentiment index (April).
US: GDP (Q1).
29 Spain: GDP flash estimate (Q1).
Spain: state budget execution (March).
Portugal: GDP flash estimate (Q1).
Portugal: CPI flash estimate (April).
Portugal: turnover in trade (March).
Euro area: GDP (Q1).

MAY 2022

3 Spain: registration with Social Security and registered unemployment (April).
Portugal: industrial production index (March).
3-4 Federal Open Market Committee meeting.
6 Spain: industrial production index (March).
Portugal: Fitch rating.
11 Portugal: employment and unemployment (Q1).
13 Portugal: labour cost index (Q1).
17 Spain: foreign trade (March).
19 Portugal: coincident indicators (April).
20 Portugal: Moody's rating.
Japan: GDP (Q1).
26 Spain: loans, deposits and NPL ratio (March).
30 Spain: CPI flash estimate (May).
Spain: state budget execution (April).
Euro area: economic sentiment index (May).
31 Portugal: GDP breakdown (Q1).

The turn of the central banks

The role of central banker has become increasingly difficult in recent years, not only because of the difficulty of balancing growth, inflation and financial stability objectives, but also because of the challenge posed by the string of three major crises of a very diverse nature in the last decade and a half (the financial crisis, COVID and the war), with widely varying effects on price dynamics. Whereas just two years ago the monetary authorities on both sides of the Atlantic were still concerned about deflationary risks, which forced them to make extensive use of unconventional tools in a bid to avoid the liquidity trap, the challenge right now is how to deal with the most intense episode of price rallies of the last four decades. The biggest expansionary deployment from monetary policy in history is still in force today, and the recent shift in strategy by the world's two major central banks – which let us not forget was intended to encourage an increase in inflation expectations – is currently in its trial phase. Thus, the starting point increases the challenge of dealing with a supply shock while trying to minimise the effects on economic activity and financial stability of the inevitable path to neutrality.

Moreover, the problem is that the rise in commodity prices triggered by the conflict in Ukraine is occurring at a time when inflation has already been exhibiting the effects of the bottlenecks in global production chains for more than a year. In other words, the timing of the disruption is different from that of similar episodes in recent decades, as it has coincided with inflation in excess of 5% in many developed countries, following months of lower than expected prices.

The reality is that when we combine a global supply that is unable to adapt to the surge in demand, bottlenecks in highly sensitive parts of global supply chains, sharp rises in commodity prices (not just energy), geopolitical uncertainty and central banks that are behind the curve, this cocktail poses a threat to the anchoring of price expectations as it amplifies the risks of second-round effects in the price dynamics. The problem with the current inflation dynamics is that they have many layers and it is difficult to discern whether the price increases are spreading to the underlying components, even using traditional measures for core inflation.

That is why the central banks are most concerned about how the war will affect inflation, while its impact on growth appears to be a secondary concern which should, in any case, be addressed through fiscal and income policy. Let us not forget that the central banks' current autonomy, objectives, strategy and configuration are a product of the shocks triggered by the oil crises of the 1970s, orrather, of the initial mistakes made in the economic policy response which led to an inflationary spiral and a period of stagflation. Therefore, theoretically, the lesson should be well learnt.

It is precisely that strong institutional framework created in the 1980s, in response to a situation similar to the current one, that should immunise us against the risks of macroeconomic imbalances, and this is exactly how investors are reading the situation by anticipating a smooth normalisation of monetary policy. Indeed, the key is that interest rates are already rising across the yield curve, yet this tightening of the financial conditions is occurring at a minimal cost in terms of stability in the markets. There have even been a few positive surprises, such as the strong performance of the stock markets following initial setbacks after the outbreak of the war. Thus, for the time being, the price that the central banks are paying for being somewhat behind the curve when the hostilities began is not proving to be terribly high. It is also true that the Fed is accelerating its withdrawal of the stimulus, as following the first rate hike in March it is anticipating a further six this year and, above all, it is expecting this process to end with an interest rate above the long-term equilibrium level (2.4%, according to the institution itself). This is the first recognition by a major central bank of the need to enter into restrictive territory in order to tackle the current price problems.

Ultimately, the question is not whether interest rates will rise (they are already doing so), but rather what dose will be needed in order to keep inflation expectations contained in the aftermath of the energy shock. Thus, more than a decade after the last monetary tightening process in Europe (August 2011), it seems that we are back in the starting blocks, and the only thing remaining is to decide when to fire the starting pistol. From there on, the key question will be how the combination of interest rates, inflation and uncertainty – all at levels much higher than we were previously accustomed to – will interact in our highly indebted economies.

José Ramón Díez

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

Financial markets

	Average 2000-2007	Average 2008-2018	2019	2020	2021	2022	2023
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.68	1.75	0.25	0.25	2.00	2.50
3-month Libor	3.62	0.90	1.91	0.23	0.21	2.30	2.55
12-month Libor	3.86	1.40	1.97	0.34	0.52	2.70	3.00
2-year government bonds	3.70	0.96	1.63	0.13	0.62	2.25	2.50
10-year government bonds	4.70	2.61	1.86	0.93	1.45	2.75	3.00
Euro							
ECB depo	2.05	0.26	–0.50	–0.50	–0.50	–0.50	0.00
ECB refi	3.05	0.82	0.00	0.00	0.00	0.00	0.50
Eonia	3.12	0.47	–0.46	–0.47	–0.49	–0.48	0.15
1-month Euribor	3.18	0.58	–0.45	–0.56	–0.60	–0.49	0.17
3-month Euribor	3.24	0.74	–0.40	–0.54	–0.58	–0.42	0.27
6-month Euribor	3.29	0.88	–0.34	–0.52	–0.55	–0.27	0.43
12-month Euribor	3.40	1.07	–0.26	–0.50	–0.50	–0.13	0.60
Germany							
2-year government bonds	3.41	0.45	–0.63	–0.73	–0.69	–0.15	0.50
10-year government bonds	4.30	1.69	–0.27	–0.57	–0.31	0.25	0.80
Spain							
3-year government bonds	3.62	1.87	–0.36	–0.57	–0.45	0.63	1.13
5-year government bonds	3.91	2.39	–0.09	–0.41	–0.25	0.81	1.27
10-year government bonds	4.42	3.40	0.44	0.05	0.42	1.45	1.80
Risk premium	11	171	71	62	73	120	100
Portugal							
3-year government bonds	3.68	3.66	–0.34	–0.61	–0.64	0.65	1.22
5-year government bonds	3.96	4.30	–0.12	–0.45	–0.35	0.89	1.40
10-year government bonds	4.49	5.03	0.40	0.02	0.34	1.35	1.80
Risk premium	19	334	67	60	65	110	100
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.28	1.11	1.22	1.13	1.10	1.15
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.90	0.85	0.83	0.84
OIL PRICE							
Brent ($/barrel)	42.3	81.5	65.2	50.2	74.8	93.5	80.0
Brent (euros/barrel)	36.4	62.9	58.6	41.3	66.2	85.0	69.6

Forecasts

Percentage change versus the same period of the previous year, unless otherwise indicated

International economy

	Average 2000-2007	Average 2008-2018	2019	2020	2021	2022	2023
GDP GROWTH							
Global	4.5	3.4	2.8	–3.1	6.1	3.6	3.7
Developed countries	*2.7*	*1.4*	*1.7*	*–4.5*	*5.3*	*3.1*	*2.7*
United States	2.7	1.6	2.3	–3.4	5.7	3.2	2.6
Euro area	2.2	0.8	1.6	–6.5	5.4	2.6	3.1
Germany	1.6	1.3	1.1	–4.9	2.9	1.2	2.8
France	2.2	0.9	1.8	–8.0	7.0	2.9	2.3
Italy	1.5	–0.4	0.5	–9.1	6.6	2.4	2.0
Portugal	1.5	0.3	2.7	–8.4	4.9	4.2	2.8
Spain	3.7	0.5	2.1	–10.8	5.1	4.2	3.8
Japan	1.4	0.5	–0.2	–4.5	1.7	2.3	1.5
United Kingdom	2.6	1.3	1.7	–9.4	7.5	3.2	1.1
Emerging and developing countries	*6.5*	*5.0*	*3.7*	*–2.0*	*6.7*	*4.0*	*4.6*
China	10.6	8.2	6.0	2.2	8.1	4.7	4.9
India	7.2	6.9	4.8	–7.0	8.9	7.3	7.5
Brazil	3.6	1.7	1.4	–4.1	5.3	0.8	2.1
Mexico	2.4	2.1	–0.2	–8.2	4.8	2.5	2.3
Russia	7.2	1.1	1.3	–3.1	4.7	–8.1	–0.3
Turkey	5.4	4.9	0.9	1.6	11.0	3.3	3.9
Poland	4.2	3.5	4.8	–2.5	5.7	4.3	3.2
INFLATION							
Global	4.1	3.7	3.5	3.2	4.5	6.0	3.3
Developed countries	*2.1*	*1.6*	*1.4*	*0.7*	*3.4*	*5.3*	*1.9*
United States	2.8	1.8	1.8	1.2	4.7	6.5	2.2
Euro area	2.2	1.4	1.2	0.3	2.6	5.3	1.5
Germany	1.7	1.4	1.4	0.4	3.2	5.3	1.6
France	1.9	1.3	1.3	0.5	2.1	4.0	1.3
Italy	2.4	1.5	0.6	–0.1	1.9	5.2	1.5
Portugal	3.0	1.2	0.3	0.0	1.3	5.4	1.8
Spain	3.2	1.4	0.7	–0.3	3.1	6.8	1.1
Japan	–0.3	0.4	0.5	0.0	–0.2	0.9	0.7
United Kingdom	1.6	2.4	1.8	0.9	2.6	5.5	1.7
Emerging countries	*6.7*	*5.6*	*5.1*	*5.1*	*5.8*	*6.9*	*4.8*
China	1.7	2.6	2.9	2.5	0.9	1.9	1.7
India	4.5	7.7	3.7	6.6	5.0	5.5	4.5
Brazil	7.3	5.9	3.7	3.2	8.3	7.5	3.5
Mexico	5.2	4.2	3.6	3.4	5.7	5.7	3.5
Russia	14.2	8.2	4.5	4.9	6.3	14.0	7.5
Turkey	27.2	9.1	15.5	14.6	17.3	19.6	11.0
Poland	3.5	1.9	2.1	3.7	5.2	7.6	4.6

Forecasts

Percentage change versus the same period of the previous year, unless otherwise indicated

Spanish economy

	Average 2000-2007	Average 2008-2018	2019	2020	2021	2022	2023
Macroeconomic aggregates							
Household consumption	3.6	–0.1	0.9	–12.2	4.7	3.5	4.3
Government consumption	5.0	1.0	2.0	3.3	3.1	0.2	0.5
Gross fixed capital formation	5.6	–1.9	4.5	–9.5	4.3	3.1	5.4
Capital goods	4.9	0.0	3.2	–12.9	16.0	2.3	4.9
Construction	5.7	–3.8	7.1	–9.6	–2.8	1.8	5.7
Domestic demand (vs. GDP Δ)	4.2	–0.3	1.3	–9.0	5.1	3.7	3.5
Exports of goods and services	4.7	2.9	2.5	–20.1	14.7	9.9	3.7
Imports of goods and services	7.0	0.1	1.2	–15.2	13.9	5.8	3.2
Gross domestic product	**3.7**	**0.5**	**2.1**	**–10.8**	**5.1**	**4.2**	**3.8**
Other variables							
Employment	3.2	–0.7	2.6	–7.6	6.7	3.8	2.9
Unemployment rate (% of labour force)	10.5	20.0	14.1	15.5	14.8	13.6	12.5
Consumer price index	3.2	1.4	0.7	–0.3	3.1	6.8	1.1
Unit labour costs	3.0	0.3	3.1	5.0	1.1	2.2	2.2
Current account balance (% GDP)	–5.9	–0.5	2.1	0.8	0.9	0.1	1.3
External funding capacity/needs (% GDP)	–5.2	–0.1	2.4	1.2	1.9	1.2	1.9
Fiscal balance (% GDP)[1]	0.4	–6.9	–3.1	–10.3	–6.9	–5.5	–4.2

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

Forecasts

Portuguese economy

	Average 2000-2007	Average 2008-2018	2019	2020	2021	2022	2023
Macroeconomic aggregates							
Household consumption	1.7	0.3	3.3	–7.1	4.5	4.0	2.5
Government consumption	2.3	–0.5	2.1	0.4	4.1	1.8	0.2
Gross fixed capital formation	–0.3	–1.2	5.4	–2.7	6.4	4.4	6.6
Capital goods	3.2	2.7	1.6	–6.2	12.5	5.5	6.3
Construction	–1.5	–3.5	7.7	1.6	4.0	2.7	3.7
Domestic demand (vs. GDP Δ)	1.3	–0.2	3.0	–5.6	4.8	3.9	2.9
Exports of goods and services	5.2	4.0	4.1	–18.7	13.1	11.3	12.5
Imports of goods and services	3.6	2.5	5.0	–12.2	12.9	9.5	12.2
Gross domestic product	**1.5**	**0.3**	**2.7**	**–8.4**	**4.9**	**4.2**	**2.8**
Other variables							
Employment	0.4	–0.6	1.2	–1.9	2.7	1.0	0.4
Unemployment rate (% of labour force)	6.1	11.8	6.6	7.0	6.6	6.7	6.5
Consumer price index	3.0	1.2	0.3	0.0	1.3	5.4	1.8
Current account balance (% GDP)	–9.2	–3.2	0.4	–1.2	–1.1	–1.0	–0.4
External funding capacity/needs (% GDP)	–7.7	–1.9	1.2	0.1	0.7	1.3	1.9
Fiscal balance (% GDP)	–4.6	–5.5	0.1	–5.8	–2.8	–2.9	–1.5

Forecasts

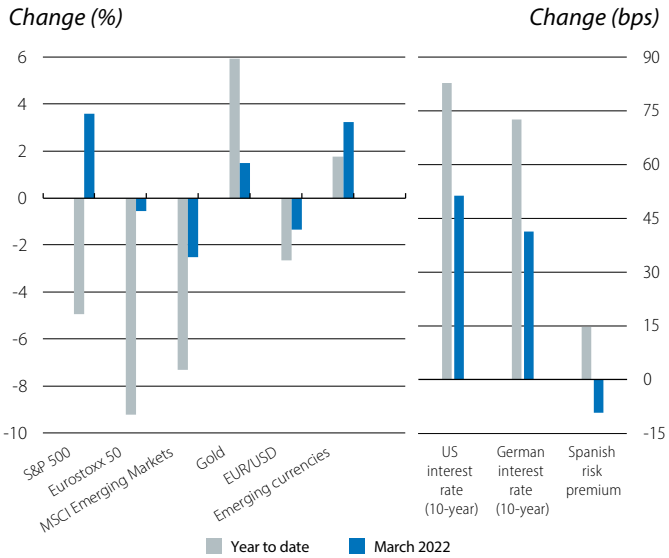
The risk of stagflation seeps into the financial markets

A tumultuous month marked by geopolitical risk and stimulus withdrawal. The financial markets continued to operate under a scenario of high uncertainty and volatility as investors assessed the implications of the war for economic growth, inflation and the withdrawal of the monetary stimulus. According to the preliminary data, the crisis appears to be exacerbating the upward pressures on prices, via rising commodity prices and a worsening of the supply bottlenecks, while the recovery in demand is deflating. In this context, the central banks have chosen to accelerate their monetary policy normalisation strategies (see the Focus «Fed and ECB, at different stages of the normalisation process» in this report). In the markets, these factors were reflected in climbing inflation expectations and sovereign interest rates, as well as in a strengthening of the dollar against the euro. The stock markets, meanwhile, recovered some of the recent declines, albeit overshadowed by a highly uncertain outlook for corporate earnings.

The commodity markets remain stressed. The uncertainty surrounding supply from Russia kept commodity prices at historically high levels, not only in energy but also in industrial metals and agricultural goods. The Brent oil price exceeded 120 dollars per barrel, levels not seen in the last 10 years. The price of European natural gas (Dutch TTF) also surged, accumulating a 79% increase since the beginning of the year. The rally in prices has added pressure on consumer countries to consider supply alternatives; the EU announced agreements for the sale of liquefied natural gas with the US, while negotiations on a possible nuclear deal with Iran intensified. OPEC and its allies, meanwhile, maintained their road map for a gradual increase in their supply of crude oil. On balance, the announcements do not seem to be sufficient to reverse the sharp rise in prices since the beginning of the year (see the Focus «Russia puts the global outlook for oil in check» in this *Monthly Report*).

The Fed expects to raise official rates at least seven times this year. On monetary policy, the US Federal Reserve was one of the first advanced-economy central banks to respond to the conflict in Ukraine by bringing forward its stimulus-withdrawal strategy. Thus, at its much-awaited March meeting, the central bank not only announced the first increase in official rates (of 25 bps, bringing them to the 0.25%-0.50% range), but also advised that it expects similar increases at each of the remaining six meetings this year, as well as bringing the average rate above the long-term level in 2023 (estimated at 2.4%, according to the Fed). It also confirmed that this summer it will begin to gradually reduce the size of its balance sheet. Since the March meeting, statements by FOMC members have tended to favour more aggressive rate hikes in order to contain inflation. As a result, investors have revised

Selected financial variables



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

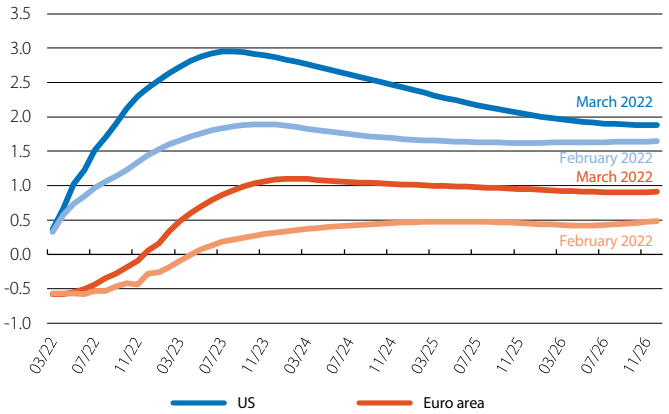
Commodities

	Measure	Price	Change (%)	
			Last month	Year to date
Commodities	Index	124.4	8.6	25.5
Energy	Index	45.7	16.0	47.8
Brent	$/barrel	107.9	6.9	38.7
Natural gas (Europe)	€/MWh	125.9	27.7	79.0
Precious metals	Index	234.0	2.7	6.8
Gold	$/oz	1,937.4	1.5	5.9
Palladium	$/oz	2,268.0	–9.0	19.1
Industrial metals	Index	212.0	12.0	22.6
Aluminium	$/mt	3,491.0	3.6	24.3
Nickel	$/mt	32,107.0	32.2	54.7
Agricultural	Index	72.8	4.0	19.8
Soya	$/bushel	1,618.3	–1.6	21.8
Wheat	$/bushel	1,006.0	8.4	30.5

Note: *Data as of the end of the period.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Expectations for the Fed and ECB reference interest

(%)



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

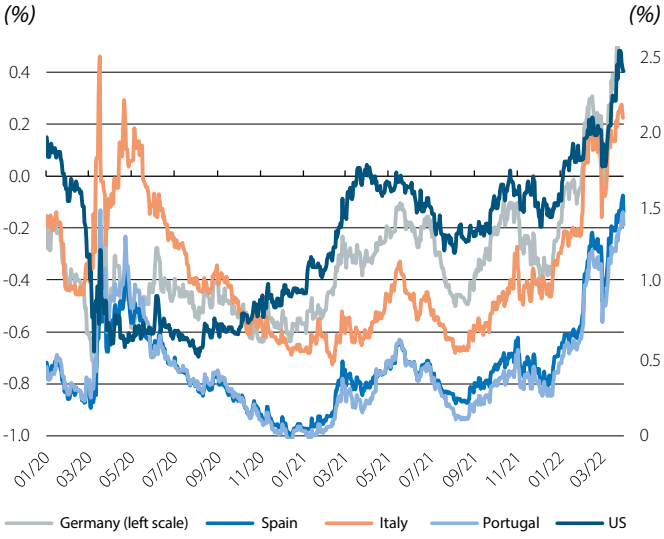
up their official rate forecasts, while the yield curve on the US Treasury has somewhat flattened.

The ECB also accelerates its stimulus withdrawal, but at a slower pace. The ECB also proved surprisingly hawkish in March when it announced that it would be bringing forward the reduction in its net asset purchases, following the upward revision in inflation forecasts. Thus, purchases of 40 billion euros will be carried out under the APP in April, 30 billion in May and 20 billion in June, marking a substantial revision compared to what was announced in February. Thereafter, the level of purchases will depend on developments in the economy, but the ECB clarified that they could be brought to an end during Q3. As for official rates, the ECB expects to carry out the first rate hike «some time after» the end of its net purchases. On this point, the speeches by the members of the ECB in recent weeks have revealed significant divergences within the Governing Council on when to initiate the rate hike cycle, although there seems to be a consensus that the process should be gradual and flexible, in contrast with the announcement by the Fed. The money markets reflect expectations that the ECB will approve increases of at least 50 bps by the end of the year. On the other hand, the Bank of England approved a further rate hike of 25 bps, although it was cautious about additional measures.

Meanwhile, investors are selling sovereign bonds and buying shares. As noted above, the hawkish rhetoric of the central banks and the tension in inflationary pressures have led to a sharp rise in sovereign debt rates, mainly through the increase in inflation expectations. In particular, the yield on the German *bund* reached 0.6%, its highest in the last four years, while the risk premia on euro area periphery debt remained stable. In addition, S&P confirmed Spain's sovereign A rating and raised its outlook to «stable». The sell-off of sovereign debt tended to favour international stock markets, especially in the US, where investor sentiment was supported by the strong economic data.

Emerging markets are circumventing the March turbulence. In Moscow, the benchmark stock market index (MOEX) registered a 9% advance since its partial reopening on 24 March, while the losses of the rouble against the euro and the dollar tempered as the currency was sustained, in part, by the on-time payments in servicing foreign debt and by Putin's announcement demanding gas payments to be made in roubles. In other emerging markets, currencies also recovered against the dollar, although the tightening of inflationary pressures and the more hawkish narrative from the Fed led some central banks to approve further official rate hikes. Finally, in China, the authorities backed new measures to prop up the economy and the markets, and these announcements supported the stock market and the yuan, helping to cushion the impact of the outbreak of COVID.

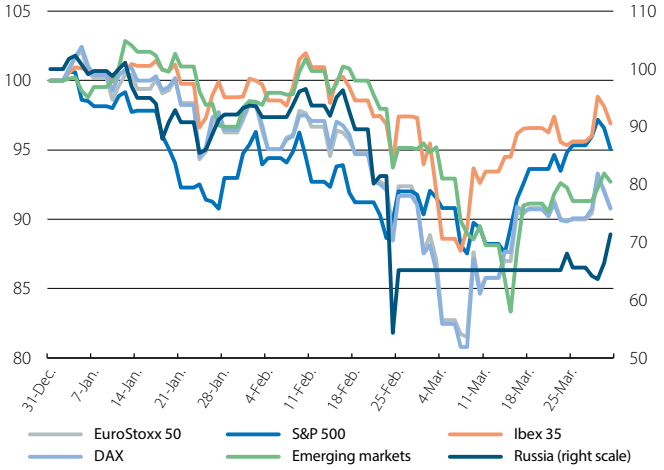
Yields on 10-year sovereign debt



Note: *US, Spain, Italy and Portugal, right-hand scale.*
Source: *CaixaBank Research, based on data from Eurostat and the European Commission.*

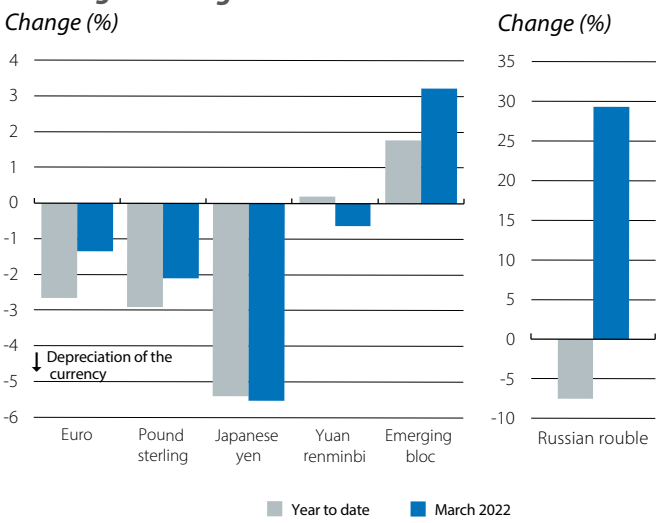
Main stock market indices

Level (100 = 31 December 2021)



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

Exchange rates against the US dollar



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

Fed and ECB, at different stages of the normalisation process

Inflation in the major advanced economies is at unusually high levels. This has been driven, among other factors, by the rise in energy prices and the bottlenecks resulting from the limitations of supply in meeting the rapid recovery in the demand for goods. In this context, the central banks have stepped up and are in the midst of the monetary policy normalisation process, albeit at different rates. In March, the US Federal Reserve raised interest rates by 0.25 pps, announcing that it expects to engage in a much more aggressive cycle of rate hikes than that seen between 2015 and 2018, and suggesting that it could begin to reduce the size of its balance sheet between May and June. In contrast, the ECB merely anticipated that it would increase the size of its balance sheet more gradually and possibly keep it constant from Q3 onwards, a decision that must precede any future interest rate hikes.

The differences between the Fed and the ECB

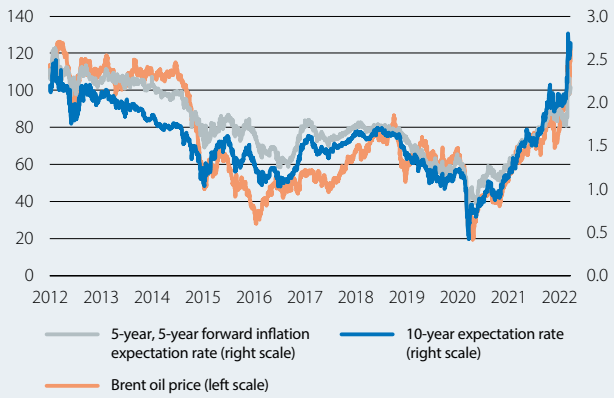
There are various factors that explain why these two central banks are at different stages in the normalisation process. The first is the difference in the origin of the inflationary pressures. While the high inflation in the US and the euro area share some common causes, such as rising energy prices, in the US core inflation is much higher (6.4% compared to 3.0% in the euro area). A key factor behind this higher core inflation in the US is the greater impact of the bottlenecks, as a consequence of the country's broader and more generous direct fiscal aid compared to the euro area. Also, the labour market, key in explaining the medium-term inflationary pressures, is under much greater strain in the US than in the euro area. While the unemployment rate in both regions is below the pre-pandemic level, in the US some indicators suggest much higher tensions (for instance, wage increases in the US are exceeding 5%, while in the euro area they are below 2%).[1]

The second factor that explains the Fed's more aggressive response compared to that of the ECB is the lower impact of the war in Ukraine on the US economy. Given its distance and its lower energy dependence on Russia,[2] the US economy is more isolated from the impact of the war than the euro area, though its effects will also be felt both through the higher energy prices and through lower confidence among households and businesses.

It is clear that the ECB and the Fed are in different situations. The ECB is concerned about inflationary pressures but convinced that it is still on time to prevent inflation from rising above its target rate in the medium term. The Fed, which is surely running late, is concerned with tackling a price dynamic that is far in excess of its targets.

Euro area: long-term inflation expectations and oil prices

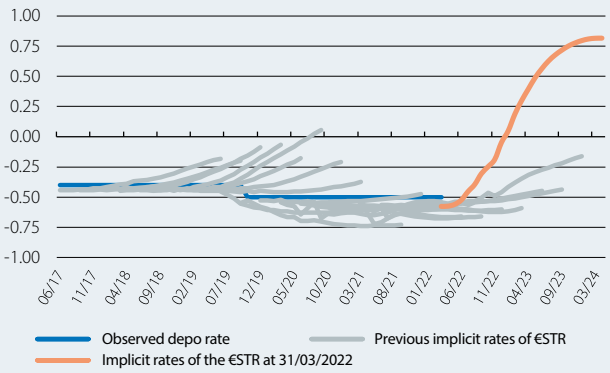
(Dollars per barrel) *(%)*



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

Euro area: rate on the ECB deposit facility and implicit rates on the €STR

(%)



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

ECB: avoiding a spike in inflation expectations

Given its inflation target, the ECB is withdrawing the monetary stimulus much more gradually than its counterparts in other advanced economies, but it nonetheless seems determined to normalise its monetary policy. For instance, in terms of asset purchases, the ECB acquired a total of 1.11 and 1.09 trillion euros in 2020 and 2021 under the APP and the PEPP, respectively, while in 2022 this figure could be reduced to 0.27 trillion. Also, the likelihood that the ECB will make its first rate hike since 2011 in the next 12 months is very high.

The main objective of this normalisation is to prevent the medium-term inflation expectations from deviating from the 2% inflation target, in this case with an upward shift.

1. For further details, see «The Great Resignation: paradigm shift in the US labour market?» in the MR02/2022.
2. In fact, the US is a net energy exporter according to data from the US Energy Information Administration.

While long-term inflation expectations in recent years have been pointing to levels well below 2%, in recent months they have risen to around the target. A first rally occurred last summer when the ECB adjusted its strategy and implied that it would be somewhat more permissive on inflation. And in recent weeks, there has been another rally triggered by the conflict in Ukraine, which, beyond the short-term impact on energy prices, is expected to contribute to rising core inflation in the medium term.

Still, the war in Ukraine is a shock that is generating a great deal of uncertainty in relation to the economy, as well as in relation to the response from the ECB. While the conflict is fuelling inflationary pressures, especially in the short term, it could also weaken economic activity and adversely affect inflation in the medium term. In this uncertain context, the ECB is likely to decide to exercise caution and, even if it stops net asset purchases under the APP in the second half of the year, it will not necessarily introduce the first rate hike as early as the financial markets are currently suggesting.

Fed: balancing the need to cool the economy without triggering a recession

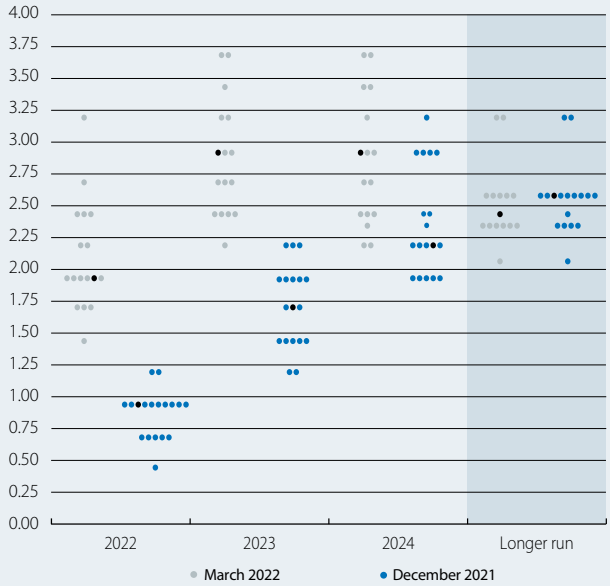
The Fed, on the other hand, is expected to pursue a rate hike cycle amounting to at least 1.75 pps over the course of this year and bringing interest rates into restrictive territory in 2023 and 2024 (above 2.4%, the level which the median voter on the FOMC considers to be the long-term equilibrium rate). In doing so, it is seeking to restore price stability without necessarily dragging the US economy into a recession. Finding the balance to avoid a recession will be a daunting task for FOMC members.

To assess the probability that the financial markets attach to a recession in the coming years, we usually look at the spread between the interest rate on 10-year sovereign debt and on other shorter maturities. Normally best spread to predict recessions in the next 12 months is that between 3-month debt and 10-year debt, and this is not currently showing any indications of a looming recession.[3] However, the spread between 2- and 10-year debt is already very narrow (and has even momentarily inverted). This suggests that the financial markets may now be assigning a higher probability to a recession occurring in the coming years, driven, for instance, by an aggressive tightening of monetary policy by the Fed. So, despite Jerome Powell's firm decision to raise interest rates – even with some 0.50-pp rate hikes – we believe that the Fed will not be able to ignore these indicators and will have to tread carefully, especially if inflation moderates towards levels closer to 2% in early 2023 as we expect.

3. The rate on 3-month debt is closely tied to the official Fed rate, and that rate is still very close to 0%, while the 10-year rate is around 2.5%. For further details, see «On the likelihood of a recession in the US» in the MR05/2018.

Federal Reserve: expected evolution of interest rates

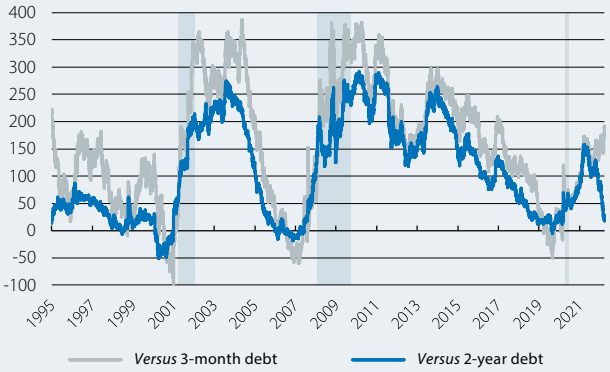
(%)



Notes: *Each point represents a voter of the Federal Open Market Committee. The median voter is shown in black.*
Source: *CaixaBank Research, based on data from the Federal Reserve.*

US: 10-year sovereign debt interest rate spread

(%)



Note: *The grey shaded areas denote the periods of economic recession, according to the NBER.*
Source: *CaixaBank Research, based on data from Bloomberg.*

What is clear, however, is that in an environment of high geopolitical uncertainty, commodity price volatility and production bottlenecks, the central banks will need to have plenty of flexibility in order to respond to ever-changing needs.

Ricard Murillo Gili

Russia puts the global outlook for oil in check

The conflict between Russia and Ukraine and the sanctions imposed on Russia have highlighted the vulnerability of the global growth model to energy supply shocks.[1] Since the beginning of the war, the Brent barrel price has increased by more than 15% and remains well above 100 dollars, reaching levels not seen in the last decade (peaks of around 130 dollars). The pressure on prices has been the result of heightened uncertainty surrounding Russia's ability and willingness to maintain its supply and the difficulties arising from the sanctions in paying for Russian crude oil. As an example, some countries such as the US and the United Kingdom have banned imports of the country's oil.

Russia is a major player in the oil market

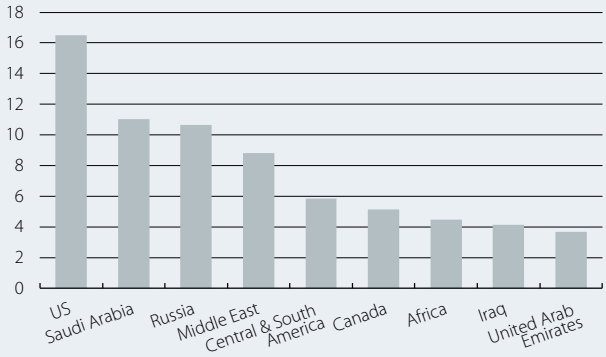
According to the International Energy Agency (IEA), Russia ranks as the world's third biggest oil producer, after the US and Saudi Arabia, and the second biggest exporter, behind the latter. In 2021, Russian oil production[2] averaged 10.5 million barrels a day (b/day), representing around 10% of the world's total, while its exports amounted to 8% of the total of the sector.

The first sets of data since the beginning of the war concerning Russian oil activity appear to confirm the suspicions of the international agencies, which warned of both a possible moderation in production and a decline in flows of crude oil to other countries in the short term, in this case as a result of international refusal to trade. In particular, the IEA and the consensus of industry analysts agree that some 3 million b/day of Russian crude oil, equivalent to a fifth of the country's production, could be withdrawn from the global market over the coming months. This would entail one of the biggest supply shocks since the oil crisis of the 1970s.

On the demand side, the combination of the slowdown in economic activity in a context of uncertainty, the efforts to reduce the consumption of Russian crude oil and to substitute it not only with oil from other parts of the world but also with other energy sources, and the impact of Omicron on China has prompted a downward revision of estimates of global oil demand for 2022 (in March, the IEA cut its forecast by 1.3 million b/day to 99.7 million b/day). This aspect certainly diminishes the imbalance between supply and demand, but it is not enough.

1. This is despite the fact that the relationship between energy and GDP, measured using the ratio of barrels of crude oil to units of production, has fallen worldwide since the oil crisis of the 1970s from 60% to 30% in recent years.
2. Includes the production of both crude oil and refined products.

Oil-producing countries * (2020)
(Million barrels/day)



Notes: ** Includes the production of Brent oil, shale, sand and natural gas (condensed and liquefied). Middle East excludes Saudi Arabia, United Arab Emirates and Iraq. Africa refers to Algeria, Angola and Nigeria only.*
Source: *CaixaBank Research, based on data from the BP Statistical Review of World Energy (July 2021).*

Main events that have affected the oil supply

Event	Year	Maximum reduction in supply (million b/day)
Abqaiq terrorist attacks	2019	5.7
Iranian Revolution	1978	5.6
Saudi Arabian embargo	1973	4.3
Iraq-Kuwait War	1990	4.3
Iran-Iraq War	1980	4.1
Oil strike in Venezuela	2002	2.3
War in Iraq	2003	2.3
Export ban in Iraq	2001	2.2

Source: *CaixaBank Research, based on data from IEA and Goldman Sachs.*

What are the real alternatives for supply and demand?

In view of this potential imbalance in the energy markets, the main alternatives on the supply side are as follows. One of the options that could offset some of the deficit of Russian crude oil would be for OPEC and its partners to boost production. This approach would initially require a shift in the supply-control strategy which the organisation has maintained since the pandemic (based on a gradual increase of 400,000 b/day per month in order to sustain prices), although it would be limited by the low idle productive capacity of most countries, with the exception of Saudi Arabia, the United Arab Emirates and Kuwait. Specifically, it is estimated that these three countries could together increase their supply by 2.1 million b/day in three months. Moreover, on this occasion the two main producers in the Persian Gulf have refused to alter the basis which underlies the agreements between OPEC and its partners, one of which is Russia.

Another option would involve boosting shale production in the US. However, opening up new wells and scaling up production at existing ones would require significant public and private investment, and in the short term this approach would come up against supply chain bottlenecks and labour shortages.

In addition, the US government has begun negotiating a new nuclear deal with Iran which, if achieved, would facilitate the export of Iranian crude oil, amounting to some 1.3 million b/day. That said, its arrival on the energy markets is expected to be slow and gradual. Finally, the most viable short-term option for easing the supply-side tensions appears to be a proposal by several G7 countries to release some of their strategic oil reserves. This idea, which gathered strength in the closing days of March, culminated with the announcement by the US that it would release 1 million b/day over the next six months (a figure estimated to represent around 30% of its total strategic reserves). However, some estimates suggest that this measure would only be effective for a few months.[3]

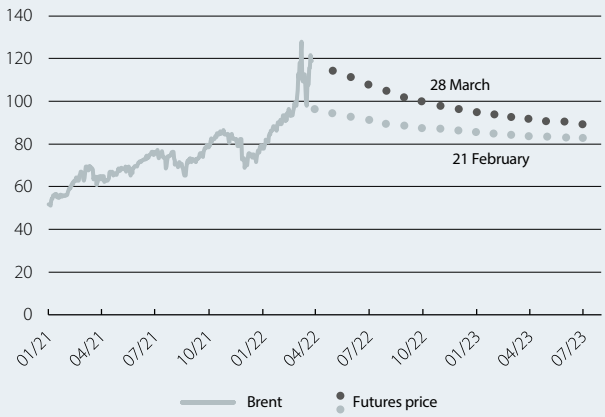
If we look at the other side of the coin, that of demand, we find a trump card that had not been so relevant in other energy crises: China. It is the world's leading importer of oil and refined products, with around a 16% share of the global market. In 2021, its daily average imports of crude oil amounted to 10 million barrels, including 1.6 million barrels originating from Russia. In the context of war, given Russia's need to capitalise some of its production (even at discounted prices) and the West's reluctance to buy its crude oil, it is estimated that China could increase the volume of its purchases of Russian oil by around 2 million b/day, thereby releasing some of the supply of other producing countries. This option appears to be the most feasible in the short term, as it is mutually beneficial to both Russia and China,[4] although there would be geographical obstacles for its transportation and storage which would slow the process down and make it more expensive.

An uncertain and expensive future

In short, the future of the oil market for the coming months is uncertain and littered with obstacles, mainly on the supply side, and this could continue to apply upward pressure on oil prices. The imbalance in crude oil stocks that the war could generate and the sanctions imposed on Russia, as well as the very idiosyncrasy of the post-pandemic oil sector (limited free production capacity and lack of investment), have led us to raise our forecasts for the average price of a barrel of Brent in 2022 to 105 dollars, up from the previous 89.

Beatriz Villafranca

Brent oil price
(Dollars per barrel)



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

3. See Federal Reserve Bank of Dallas (March 2022). «The Russian Oil Supply Shock of 2022».
4. China could purchase Russian Urals crude, which is of a higher quality than others, at below-market prices. Russia would receive payment in yuan, complementing its foreign-exchange reserves and improving its current-account position.

Interest rates (%)

	31-March	28-February	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	0.00	0.00	0	0.0	0.0
3-month Euribor	–0.46	–0.53	8	11.4	8.0
1-year Euribor	–0.07	–0.35	28	42.8	41.5
1-year government bonds (Germany)	–0.45	–0.66	22	19.3	15.0
2-year government bonds (Germany)	–0.07	–0.53	46	54.6	63.4
10-year government bonds (Germany)	0.55	0.14	41	72.5	87.6
10-year government bonds (Spain)	1.44	1.12	32	87.1	112.8
10-year government bonds (Portugal)	1.35	1.00	35	88.7	114.4
US					
Fed funds (upper limit)	0.50	0.25	25	25.0	25.0
3-month Libor	0.96	0.50	46	75.2	76.2
12-month Libor	2.10	1.29	81	151.8	182.1
1-year government bonds	1.60	0.98	62	121.9	153.4
2-year government bonds	2.33	1.43	90	160.2	217.6
10-year government bonds	2.34	1.83	51	82.8	66.8

Spreads corporate bonds (bps)

	31-March	28-February	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	73	71	2	25.3	22.5
Itraxx Financials Senior	81	81	0	26.1	22.9
Itraxx Subordinated Financials	153	152	2	45.3	48.1

Exchange rates

	31-March	28-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.107	1.122	–1.4	–2.7	–6.0
EUR/JPY (yen per euro)	134.670	129.010	4.4	2.9	3.4
EUR/GBP (pounds per euro)	0.842	0.836	0.8	0.1	–1.1
USD/JPY (yen per dollar)	121.700	115.000	5.8	5.8	10.0

Commodities

	31-March	28-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	634.4	609.5	4.1	9.7	25.6
Brent ($/barrel)	107.9	101.0	6.9	38.7	66.4
Gold ($/ounce)	1,937.4	1,909.0	1.5	5.9	12.0

Equity

	31-March	28-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	4,530.4	4,373.9	3.6	–4.9	12.7
Eurostoxx 50 (euro area)	3,902.5	3,924.2	–0.6	–9.2	–1.1
Ibex 35 (Spain)	8,445.1	8,479.2	–0.4	–3.1	–1.5
PSI 20 (Portugal)	6,037.0	5,563.1	8.5	8.4	21.3
Nikkei 225 (Japan)	27,821.4	26,526.8	4.9	–3.4	–5.3
MSCI Emerging	1,141.8	1,171.3	–2.5	–7.3	–14.5

The immediate consequences of the war in Ukraine

The global impact of the Russia-Ukraine conflict: first chapter. The human consequences of the war in Ukraine are already all too visible in the first month of the conflict. From an economic perspective, the countries most affected will be Ukraine (because of the destruction this war is causing) and Russia (because of the sanctions imposed by its main trading partners). However, the effects of the war will be felt in many other territories. Indeed, its most immediate effects are already becoming apparent: prices of the main commodities have soared, adding more inflationary pressure, uncertainty and social tension around the world. In this regard, in the first month of the conflict, the average price of oil was 19% higher than in the previous month, while that of natural gas was 64% higher. The geopolitical risk (GPR) index, meanwhile, surged to levels not seen since the Iraq War.

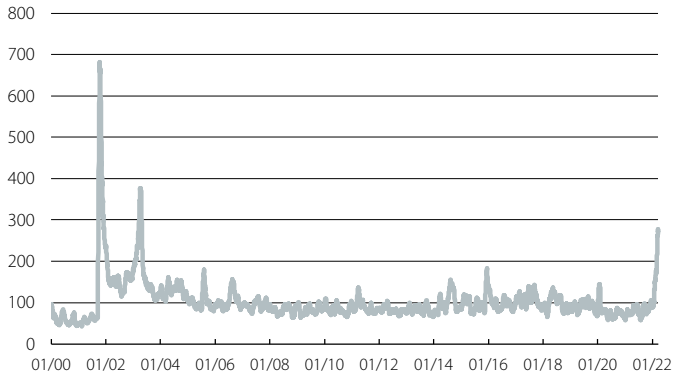
A global but uneven impact. The «barometer» of available indicators is already showing a significant shift. Whereas in March the Purchasing Managers' Index (PMI) fell in the euro area (54.5 *vs.* 55.5 in February), it registered a considerable increase in the US (58.5 *vs.* 55.9). Specifically, in the euro area, the PMI reflected a significant deterioration in the outlook, with widespread cost increases and an intensification of the bottlenecks. In the breakdown by sector, manufacturing is confirmed as the hardest hit, although services also registered a slowdown in growth. Similarly, the European Commission's economic sentiment indicator (ESI) also weakened, accompanied by a deterioration in confidence among consumers, industry and the retail sector.

Eastern Europe shows signs of economic weakness. In Poland and the Czech Republic, the confidence indicators registered a sharp deterioration in March and around 50% of Polish firms in some manufacturing sectors (such as the manufacture of metal or transport equipment) are already citing commodity supply problems among the main factors limiting their production. Among the countries most exposed to potential supply problems as a result of the conflict are the Baltic countries, Bulgaria and Cyprus, all with strong links to Russia, whether due to their dependence on its commodities, the ties of their manufacturing sectors or even those of their services sectors (see the Focus «European dependence on Russia: a primary issue» in this *Monthly Report*).

Euro area: less growth, more inflation and greater uncertainty. While any economic forecast in the current circumstances needs to be taken with a grain of salt, the rise in the cost of energy and the uncertainty generated by the outbreak of the war in Ukraine will mean slower economic growth in 2022 and higher inflation. In this regard, we have revised our growth forecast for the euro area down by 1.4 pps, to 2.6%, and the inflation forecast up by almost 1.0 pp, to 5.3%, marking a new high since the start of the series in 1997. By country, the most substantial downward revision of growth for 2022 is for the German economy (–2.1 pps, to 1.2%), because of its greater dependence on supplies of gas from

Global: geopolitical risk index

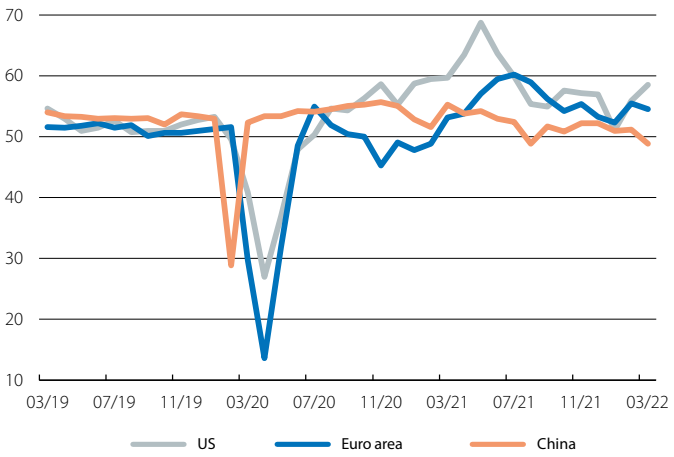
Level (100 = average for the period 1985-2019)



Notes: *The geopolitical risk (GPR) index is built on the basis of newspaper articles, searching for keywords related to geopolitical risks. A higher value of the index indicates a greater increase in geopolitical risk.*
Source: *CaixaBank Research, based on data from D. Caldara and M. Iacoviello (2021). «Measuring Geopolitical Risk», American Economic Review, April, 112(4), pages 1,194-1,225 (data downloaded from https://www.matteoiacoviello.com/gpr.htm on 25 March 2022).*

Global: PMI

Level



Source: *CaixaBank Research, based on data from PMI Markit and the National Statistics Office of China, via Refinitiv.*

Global: inflation tracker

	Latest value	Average in 2021	Average in 2020	Average in 2019	Average in 2014-2018	Average in 2000-2020
Global						
Baltic Dry Index (level)	2,358	2,963	1,085	1,325	990	2,259
FBX Global Container Index ($)	9,743	7,180	1,800	1,357	1,336	1,471
Industrial Metals Index (level)	212.0	156.6	111.0	116.0	117.0	127.2
Brent oil ($/barrel)	107.9	71.5	41.6	64.6	65.1	64.3
Natural gas: Henry Hub ($ MBTU)	5.6	3.2	2.4	2.4	3.3	4.3
Natural gas: TTF (€/MWh)	98.6	32.0	14.3	18.1	16.5	16.4
Semiconductor index (level)	9.7	63.3	36.8	16.5	24.3	13.6
FAO Food Price Index (% change)	20.7	28.4	3.2	–0.7	–3.9	4.1

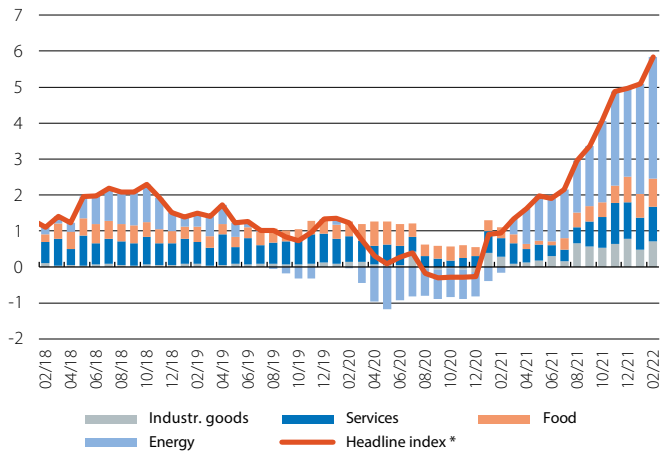
Source: *CaixaBank Research, based on various sources, via Refinitiv.*

Russia and the greater relative weight of the manufacturing industry, a sector particularly affected by bottlenecks and rising commodity prices (see the Focus «Impact of the war on the economic outlook: lower growth and higher inflation» in this same *Monthly Report*). For the US, which has substantially lower ties to Russia and Ukraine, we cut the growth forecasts for 2022 by 0.3 pps (to 3.2%), mainly due to the intensification of the global supply problems, higher inflation and the consequent tightening of financial conditions, with a more rapid withdrawal of the monetary stimulus now expected.

Inflation: soaring food and energy prices, active fiscal policy in the EU. Inflation has soared in the euro area in March, reaching 7.5%, compared to 5.8% in February. This spike has been mainly due to further increases in the price of food and energy. In Germany, where headline inflation reached 7.6% (*vs.* 5.5% in February), marking a 40-year high, the energy component registered inflation of 39.5%, compared to 22.5% in February. In Spain, while headline inflation hit 9.8% (*vs.* 7.6% in February), core inflation stood at 3.4%, indicating that a very significant part of the rally observed in March has been driven by food and energy. In view of these surging prices, the European Commission has announced the new State aid Temporary Framework, providing Member States with ample room for manoeuvre to support those businesses hardest hit by the consequences of the increase in energy prices. In this regard, the packages of measures already announced by various European countries to soften the blow of higher energy costs on businesses and households would exceed 0.5% of GDP this year. In Germany, the government announced fuel duty cuts and subsidies for households and workers, estimated at 0.5% of GDP. In France, meanwhile, measures such as a 15-cent cut in fuel prices and support for businesses experiencing difficulties were announced, estimated at 0.7% of GDP. In the US, where inflation had already hit 7% before the conflict irrupted and with a larger portion of this rally driven by core components, the Fed has already raised rates and will continue to do so throughout 2022 (see the Financial Markets section).

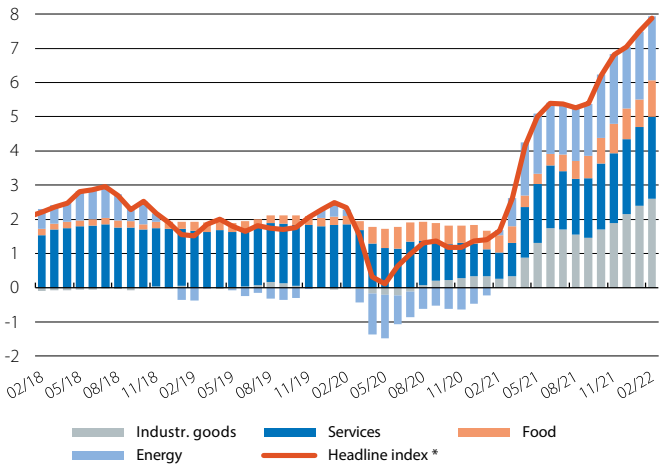
COVID and China: yet another source of risk in the global puzzle. The recent outbreaks of COVID-19 in major production and logistics centres in the country, such as Hong Kong, Shenzhen and Shanghai, once again remind us that the pandemic still poses significant risks to the global economy. We must not forget that China is the heart of the Asian manufacturing chain, and new restrictions in the region could lead to new pressures on already-stressed global supply chains. Also, following a good start to the year, with economic activity indicators exceeding expectations in January and February, the composite PMI fell in March to 48.8 points (*vs.* 51.2 in February), with a drop of more than 3 points in the non-manufacturing PMI. Given the lockdown in Shanghai announced at the end of the month, the Chinese economy is likely to be contracting more than these indicators suggest.

Euro area: contribution to inflation by component
(pps)



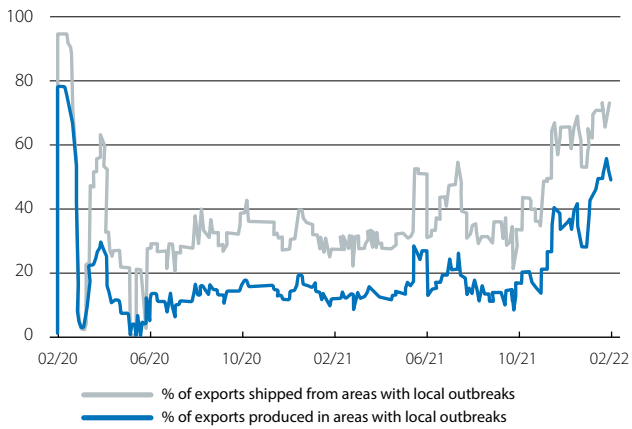
Note: ** Year-on-year change.*
Source: *CaixaBank Research, based on data from Eurostat.*

US: contribution to inflation by component
(pps)



Note: ** Year-on-year change.*
Source: *CaixaBank Research, based on data from the BLS, via Refinitiv.*

China: exports from areas with local outbreaks
(% of total exports)



Note: *A local outbreak is defined as a minimum of 10 positive cases reported in a city over the past 14 days.*
Source: *Capital Economics.*

European dependence on Russia: a primary issue

The outbreak of the conflict between Ukraine and Russia, in addition to the cost in human lives, will also entail an economic cost. Russia's importance as a global exporter of oil, natural gas and other commodities will be the main channel through which the economic impact will be felt beyond the borders of the two warring countries. Indeed, Brent oil and gas prices rose by more than 20% and 50%, respectively, in the first month of the conflict.[1]

The increase in uncertainty and a new open front for global value chains that are already under stress will be two other significant channels for the macroeconomic impact. This impact will be asymmetric by region, with a clearly heavier toll for European economies as a result of the closer ties that bind us with both countries.

Europe and Russian imports

Exports of Russian goods and services to the world represent around 2% of the total (0.2% in the case of Ukraine). However, in the case of the EU-27, imports from Russia account for 7% of gross imports of goods and services.[2] However, while there are countries with very high import ties, such as Bulgaria (slightly above

Gross imports from Russia

(% of total imports)

	TOTAL	AGRICUL-TURE	MINING	MANU FAC-TURING →	Food	Textile & clothing	Wood & paper	Coke & ref. oil products	Chemicals & pharma.	Metals	Electronic equipment	Machinery	Transportation	Other manufacturing	UTILITIES	CONSTRUC-TION	SERVICES
EU-27	7.0	2.1	21.0	5.4	2.0	0.3	7.5	41.8	4.2	11.9	0.4	0.6	1.5	1.1	10.5	10.6	4.7
Euro area	4.8	1.6	16.3	3.6	1.4	0.3	3.7	32.9	2.6	8.8	0.3	0.4	0.7	0.8	5.2	4.1	3.4
Germany	3.0	0.6	17.1	2.3	0.5	0.2	1.4	24.2	0.8	5.4	0.2	0.3	0.3	0.3	0.5	1.9	2.0
Austria	1.4	0.3	3.7	0.6	0.2	0.2	1.0	2.2	0.3	2.3	0.1	0.2	0.1	0.4	0.1	1.5	2.3
Belgium	1.6	1.2	5.6	1.7	0.6	0.3	1.0	14.2	0.8	5.0	0.1	0.1	0.3	2.5	0.1	1.4	0.8
Bulgaria	20.3	0.6	87.1	7.8	0.9	0.3	2.5	48.2	2.3	9.1	0.8	0.7	1.4	2.1	1.5	10.8	12.5
Croatia	2.1	0.1	17.4	1.0	0.2	0.2	0.5	8.7	1.8	1.0	0.1	0.1	0.4	0.3	0.0	1.7	1.6
Cyprus	12.6	3.9	12.9	4.9	1.5	1.3	2.4	2.5	0.8	3.7	1.6	0.9	8.3	4.2	8.8	32.2	18.4
Denmark	2.6	1.2	9.8	3.3	1.2	0.1	1.7	27.0	0.5	4.6	0.1	0.0	0.1	0.3	0.3	3.1	1.9
Slovakia	7.1	0.2	87.1	1.9	0.4	0.2	0.6	30.2	4.4	1.7	0.2	0.2	0.1	0.6	0.3	3.6	6.3
Slovenia	2.3	0.4	53.4	1.2	0.2	0.1	0.8	9.1	1.1	1.5	0.1	0.2	0.1	0.5	0.1	2.1	2.8
SPAIN	1.0	1.1	2.9	0.8	0.4	0.2	0.3	9.6	0.6	0.9	0.1	0.1	0.2	0.2	0.1	1.0	0.8
Estonia	8.6	4.4	69.0	8.2	2.5	2.6	17.4	33.9	18.3	15.5	1.0	1.2	3.9	3.0	9.1	6.6	8.6
Finland	9.2	9.3	57.8	7.5	1.8	0.7	10.9	39.0	11.3	18.0	0.7	0.4	1.0	1.2	30.3	5.0	5.3
France	1.9	0.2	12.8	1.3	1.0	0.1	0.7	14.9	0.8	1.3	0.1	0.2	0.5	0.3	0.4	1.3	1.5
Greece	7.2	6.0	12.2	8.0	1.2	0.2	1.7	44.2	0.7	11.9	0.1	0.2	0.1	0.4	0.3	2.8	4.0
Hungary	4.8	0.3	64.7	2.1	0.3	0.1	0.8	29.6	4.0	0.9	0.2	0.2	0.1	0.6	0.2	1.9	3.3
Ireland	0.7	0.2	3.7	0.7	0.5	0.1	0.4	8.3	0.9	0.6	0.2	0.1	0.0	0.4	0.6	1.4	0.7
Italy	3.3	0.8	19.8	1.8	0.6	0.3	1.6	22.0	0.4	4.1	0.2	0.1	0.1	0.4	0.3	1.9	2.2
Latvia	9.6	17.0	81.6	6.2	2.3	1.9	10.0	14.4	7.6	21.2	1.6	1.1	1.5	3.0	60.1	4.5	8.6
Lithuania	16.9	5.8	57.0	7.3	4.0	1.4	7.7	41.0	6.6	12.0	0.8	1.0	2.6	2.9	36.4	9.1	14.2
Luxembourg	0.3	0.1	2.6	0.3	0.6	0.1	0.4	0.1	0.4	1.2	0.0	0.1	0.0	0.1	0.0	0.7	0.3
Malta	1.9	1.0	8.4	0.8	0.4	0.2	0.5	4.6	0.1	0.2	0.5	0.2	0.3	0.6	0.6	1.7	2.2
Netherlands	3.1	0.3	20.6	1.6	0.3	0.1	1.1	15.7	0.9	3.8	0.4	0.1	0.4	0.4	0.6	2.3	1.8
Poland	6.7	1.2	50.4	3.9	1.2	0.4	2.7	42.2	4.0	5.4	0.3	0.3	1.8	0.7	10.2	4.2	4.8
Portugal	1.7	0.4	9.5	1.1	0.8	0.1	0.8	13.3	0.7	1.0	0.1	0.0	0.0	0.2	0.2	0.6	1.1
Czech Rep.	4.4	0.4	53.2	1.7	0.7	0.2	1.6	13.3	3.5	2.8	0.2	0.2	0.7	0.6	0.2	2.7	4.2
Romania	3.9	0.3	42.5	2.0	0.6	0.1	3.7	31.3	2.0	1.6	0.5	0.3	0.6	0.3	0.4	2.0	3.0
Sweden	3.1	1.6	22.5	2.1	0.4	0.2	1.5	19.3	3.6	1.2	0.2	0.1	0.2	0.3	0.2	1.7	2.0
US	0.9	1.0	1.6	0.9	0.4	0.0	0.5	10.6	0.7	3.5	0.1	0.1	0.2	0.2	0.4	1.6	0.9
China	3.2	2.9	9.0	1.7	2.7	0.3	10.5	12.8	0.8	3.0	0.1	0.1	0.3	1.1	1.9	4.5	2.7

Note: *Data referring to 2018, the most recent year in the OECD TiVA data (November 2021).*
Source: *CaixaBank Research, based on OECD TiVA data (November 2021).*

1. The prices of some food (e.g. cereals) and fertilisers have also risen since the beginning of the conflict. However, their economic impact is not comparable to that of rising energy prices for developed economies.
2. We use the latest update (November 2021) of the OECD TiVA (Trade in Value Added) data for imports, where the most recent year is 2018. The advantage of using these data is that they allow for a more refined analysis of the true origin of the goods and services that are received, consumed and exported in a given country. At this point in the article, we use gross imports according to where they come from (a more classic analysis). However, later we will exploit the complexity of the TiVA data to determine the initial origin of the products that are used in all production processes and consumed in a given country.

20% of total imports), Finland (around 10%) or the Baltic states (between 8% and 17%), there are others where the trade ties are very weak, such as Ireland (0.7%) or Spain (1.0%).[3] In the case of Germany, France and Italy, the three biggest economies of the EU-27, they would lie in the mid-low range if we were to restrict ourselves to looking at Russian imports as a proportion of total imports (between 2% and 3.5%, see the aggregate figures in the first table).

Although these aggregate figures may, at first glance, seem relatively reassuring for the large European economies, it is clear that further examination is needed. After all, Russia is the world's second largest exporter of oil (accounting for 11% of the total) and the leading exporter of natural gas (25%), with Europe being its main market. Looking at the breakdown of European imports by sector, Russia stands out as a trading partner in the mining sector and in the manufacture of coke and refined oil products, accounting for 21% and 42%, respectively, of the total imports of the EU-27 in these sectors (see sectoral breakdown in the first table). This high dependence on certain Russian imports is also seen in the large countries of the Union, such as Germany, France and Italy, with percentages of between 13% and 20% in the mining sector and between 15% and 24% in the case of refined oil products. Russia also appears to play a significant role as a European supplier of metals, as well as utilities in those countries with which it shares a border (e.g. in Latvia, 60% of utility imports come from Russia).

Russian value added in final demand by country

(% of final demand)

	TOTAL	AGRICUL-TURE	MINING	MANUFAC-TURING →	Food	Textile & clothing	Wood & paper	Coke & ref. oil products	Chemicals & pharma.	Metals	Electronic equipment	Machinery	Transportation	Otherr manufacturing	UTILITIES	CONSTRUC-TION	SERVICES
EU-27	1.0	1.3	16.1	2.2	1.1	0.8	1.6	16.8	1.7	2.2	1.0	1.1	1.1	1.0	2.9	0.9	0.7
Euro area	0.9	1.1	15.8	2.0	1.0	0.8	1.4	15.2	1.5	2.0	1.0	1.0	1.0	1.0	2.5	0.8	0.6
Germany	1.0	1.2	17.4	1.9	1.0	0.8	1.5	18.9	1.4	2.0	0.9	1.0	1.0	1.0	2.1	0.8	0.6
Austria	0.9	0.9	4.2	1.5	0.9	0.9	1.4	10.1	1.4	2.3	0.9	1.1	1.0	1.2	1.4	0.7	0.9
Belgium	0.9	1.4	5.7	1.7	1.1	0.9	1.3	8.7	1.1	2.2	0.9	1.0	1.1	2.5	1.6	1.2	0.6
Bulgaria	5.7	4.7	44.7	7.6	6.6	1.9	5.6	45.8	5.4	9.3	2.6	2.3	2.5	3.5	26.0	9.0	3.5
Croatia	1.2	0.9	6.8	2.1	1.2	1.0	1.0	11.6	2.2	1.5	1.1	1.1	1.4	1.0	2.3	1.2	0.8
Cyprus	4.4	3.1	8.6	5.1	2.7	1.9	3.1	14.8	2.6	5.2	3.0	1.9	6.6	3.0	4.2	2.0	6.2
Denmark	0.9	1.5	12.8	2.4	1.3	0.8	1.7	23.9	1.1	2.4	0.8	1.1	0.9	1.1	0.8	1.0	0.9
Slovakia	3.1	1.9	52.1	4.4	1.6	1.1	2.1	39.6	5.9	3.5	1.2	1.4	1.6	1.5	16.0	1.7	1.8
Slovenia	1.3	1.1	14.1	2.2	1.2	0.8	2.3	16.3	2.3	2.4	1.2	1.3	1.2	1.2	2.5	1.1	1.0
SPAIN	0.4	0.6	11.1	1.2	0.6	0.6	0.7	5.8	1.0	1.1	0.8	0.8	0.9	0.6	1.1	0.4	0.3
Estonia	3.8	4.7	37.7	5.7	3.5	3.6	7.1	36.0	12.0	8.6	1.9	2.3	4.1	4.4	4.8	4.0	3.9
Finland	2.2	2.8	42.5	5.2	2.0	1.4	3.6	37.8	4.9	5.5	1.4	1.7	1.9	1.8	5.8	2.3	1.5
France	0.6	0.7	20.1	1.7	0.8	0.7	1.0	12.2	1.3	1.3	0.9	1.0	1.0	0.7	2.2	0.5	0.4
Greece	1.9	2.9	31.7	5.1	2.1	0.9	2.0	25.6	1.7	4.1	1.7	1.4	1.0	1.4	3.8	1.7	1.1
Hungary	2.5	2.3	27.8	4.6	2.4	1.1	2.0	34.1	3.6	3.1	1.1	1.2	1.2	1.4	6.5	2.8	1.6
Ireland	0.6	0.9	15.3	1.1	0.9	0.6	1.1	8.4	0.7	2.2	0.7	0.8	0.8	0.5	0.4	0.8	0.5
Italy	0.9	0.9	13.5	1.9	1.0	0.6	1.2	14.5	1.5	1.7	1.0	1.0	0.9	0.9	2.3	0.6	0.5
Latvia	4.1	7.2	49.8	6.3	4.1	3.3	5.0	40.2	7.2	11.1	2.5	2.7	2.7	4.1	17.9	3.2	3.3
Lithuania	6.2	4.7	46.7	9.6	3.8	2.7	5.9	41.5	5.5	6.9	2.0	2.4	3.3	3.7	19.0	5.3	5.1
Luxembourg	0.6	0.7	6.6	1.4	1.3	0.7	1.2	6.9	1.0	1.9	0.8	0.9	0.9	0.9	0.8	0.5	0.6
Malta	1.4	1.4	7.5	1.6	1.2	0.8	1.3	13.2	1.4	2.1	1.3	1.4	0.9	1.2	3.1	1.2	1.7
Netherlands	0.9	1.0	18.5	2.1	0.9	0.8	1.4	16.9	1.7	2.2	0.9	0.9	1.1	0.8	2.7	0.8	0.6
Poland	2.3	2.4	14.0	3.9	1.7	1.0	2.4	31.4	3.9	4.0	1.4	1.4	2.5	1.7	4.9	2.2	1.6
Portugal	0.6	0.7	9.3	1.5	0.8	0.5	0.8	10.4	1.3	1.2	0.8	0.9	0.8	0.7	2.1	0.6	0.4
Czech Rep.	2.0	1.7	19.6	2.7	1.7	1.2	2.2	24.7	6.4	3.0	1.2	1.6	1.7	1.5	9.8	1.4	1.4
Romania	1.6	1.3	25.9	2.7	1.0	0.8	2.2	15.4	2.3	2.6	1.2	1.5	1.5	1.2	4.8	1.6	1.1
Sweden	1.0	1.6	19.1	2.2	1.1	0.9	1.8	24.4	2.4	1.8	1.1	1.0	1.0	1.3	1.2	1.0	0.8
US	0.2	0.3	0.4	0.5	0.3	0.5	0.4	1.9	0.4	0.9	0.4	0.5	0.5	0.5	0.2	0.2	0.1
China	0.5	0.5	2.7	0.7	0.5	0.5	0.9	5.0	0.6	0.8	0.6	0.6	0.6	0.8	1.3	0.6	0.3

Note: *Data referring to 2018, the most recent year in the OECD TiVA data (November 2021).*
Source: *CaixaBank Research, based on OECD TiVA data (November 2021).*

3. This is the share of Russian imports of goods and services in the total imports of goods and services. This figure can vary significantly with changes in the price of energy goods. In the case of Spain, the figure has increased significantly in 2021, according to data from Datacomex.

The Russian origin of European final demand

In a second, more detailed examination, we exploit the wealth of the OECD Trade in Value Added (TiVA) dataset, based on international input-output tables, which allow us to properly assess the origin of goods and services consumed in a given country (whether for domestic production or consumption, or for export), since they trace the «ins and outs» of intermediate inputs throughout the entire production process. As an example, if we import a particular good from a given country, but most of that good has been produced in a third country, the imports in gross terms do not reflect the importance of that third country, whereas the TiVA tables do.

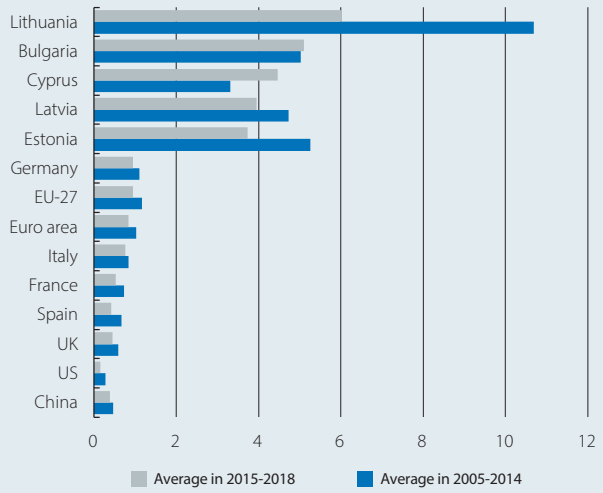
Thus, in this section we focus on the final demand of the different European countries and, using the TiVA tables, we account for the importance of the value added by Russia in that final demand. In aggregate terms, and despite following the trace of all Russian goods and services, they do not represent a particularly significant portion of final demand in the EU-27 countries, at only 1% (see second table). This is a much lower figure than when looking at gross imports, since final demand contains many more services, most of which are not tradable (i.e. they are produced and consumed domestically).

In the breakdown by country, we see how in the Baltic states and Bulgaria these Russian goods and services (or the Russian value added) account for a higher percentage of total final demand, albeit only a discrete difference, while in the large European economies they represent much less. However, when we look at the disaggregation by sector, the importance of Russian energy products in a large number of European countries once again becomes apparent. For instance, in Germany, 17% of the final demand for mining products comes from Russia and 19% of refined oil products are Russian. In Spain, the EU country where imports from Russia represent the lowest proportion of final demand, 11% of final demand in the mining sector is provided by Russia.

This similarity between the figures for gross imports and the analysis using the TiVA data at the sectoral level is precisely due to Russia's specialisation in the export of commodities, and of energy in particular. Much of what European countries import directly from Russia is consumed in the country itself, since some of the main uses of oil and natural gas are transportation (e.g. private cars), electricity generation and residential use to heat our homes. On the other hand, Russia's importance in the energy sector entails a significant «footprint» in many products, mainly in some manufacturing sectors, with integrated production chains that cross borders before reaching the final consumer.

Russian value added in final demand by country

(% of final demand)



Source: *CaixaBank Research, based on OECD TiVA data (November 2021).*

Decoupling from Russia in the short and medium term

In short, Russia's importance in the global energy market, and in the EU's energy consumption in particular, makes a rapid decoupling with the country difficult. To address this situation, the European Commission has proposed a new energy plan (REPowerEU) to reduce the region's dependence on Russian fossil fuels, starting with natural gas. Indeed, one of the first objectives is to replace two-thirds of the gas imported from Russia within the next 12 months. This is a highly ambitious aspiration. For instance, a recent report by the International Energy Agency considered a possible reduction of one third possible in the short term, by employing measures such as increasing imports via gas pipelines from Norway or Azerbaijan and imports of liquefied natural gas, accelerating renewable energy projects (solar and wind) and reactivating some nuclear reactors that have been shut down in recent years.[4] In this regard, a few days ago the EU and the US agreed to increase the supply of US gas.

However, beyond the difficulties of finding substitutes for Russian products in the very short term, in the medium term an economic decoupling with the country is more viable. The European Green Deal already includes massive planned investments aimed at reducing the EU's use of fossil fuels for energy. Moreover, since the annexation of Crimea in 2014 there has been a decline in European countries' ties with Russia (see chart), partly as a result of the sanctions imposed since then.

Clàudia Canals, Luís Pinheiro de Matos and Rita Sánchez Soliva

4. See IEA (March 2022). «A 10-point Plan to Reduce the European Union's Reliance on Russian Natural Gas».

Impact of the war on the economic outlook: lower growth and higher inflation

The main consequences of the war in Ukraine will be the cost in human lives, massive damage to country's physical infrastructure and the biggest humanitarian crisis in Europe since World War II. The IMF suggests that Ukraine's GDP could fall by as much as 35% in 2022, and more than 4 million people have left the country in the first four weeks of the war – a figure that will increase if the conflict continues. Russia, meanwhile, would face a fall of at least 8.0% as a result of the impact of the strong sanctions in place.

First-order impact: commodities and Europe

Moreover, the war in Ukraine represents a new shock for the global economic recovery through its direct negative impact on the supply of commodities, given the importance of these countries in the global supply,[1] as well as through the indirect effect triggered by heightened uncertainty and its implications for confidence and the financial markets. The war is also likely to exacerbate the problems in global supply chains, which were beginning to show timid signs of recovery at the beginning of the year but were still far from functioning normally. We expect that the net effect will be lower growth and higher inflation, albeit unevenly across countries.

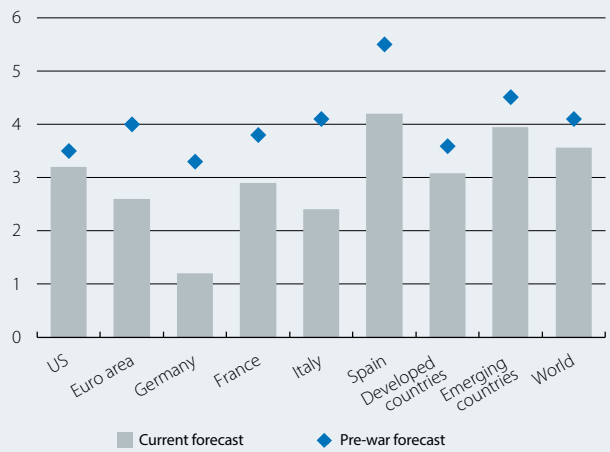
On the first aspect, one of the first consequences of the war and of the sanctions imposed on Russia (at the close of this report, the EU had left the import of oil and gas out of the sanctions) has been the sharp rise in oil and gas prices, which has forced a substantial revision of the outlook for energy prices. In just two weeks, we have raised the projected average price for 2022 of a barrel of Brent oil by 16 dollars to 105 dollars, while we have raised the average price for natural gas by 51 euros to 125 euros/MWh.

This increase in the energy bill and the rise in uncertainty generated by the outbreak of war explain the 1.4-pp reduction in projected growth for the euro area in 2022, cutting it to 2.6%. This reduction would not be offset by the higher growth we expect for 2023 (+0.3 pps, to 3.1%). It should be noted that the euro area economy would not fall below its pre-COVID level (which was recovered in Q4 2021) throughout the forecast horizon. By country, the steepest downward revisions in growth for 2022 are in Germany (–2.1 pps, to 1.2%) and Italy (–1.7 pps, to 2.4%), given their greater exposure to imports of gas from Russia and the greater relative weight of industry in their economic structure (excluding construction, 22% and 18% of their GVA, respectively), a sector particularly affected by the bottlenecks and the increase in the price of a large part of their inputs.

1. See «The Russia-Ukraine conflict, the new «black swan» of 2022» in the MR03/2022.

Global: 2022 GDP

Annual change (%)



Source: *CaixaBank Research.*

On the other hand, the sharp rise already registered in energy prices, coupled with the prospect of them staying high for longer, explain the upward revision of average inflation in the euro area of nearly 1.0 pp for 2022, bringing it to 5.3% and marking a new annual high since the beginning of the series (1997).

US: growth holding up, exacerbation of inflationary tensions

The US, meanwhile, is in a better position to circumvent the impact of the turmoil generated by the armed conflict in Ukraine, owing to its lower economic ties and the fact that it is a major energy producer (19% of the world's crude oil and 24% of the world's gas in 2020). However, the worsening of the global supply problems, the reduced purchasing power of households in the current context of high inflation, and the tightening of financial conditions following the withdrawal of the monetary stimulus explain the 0.3-pp cut in the 2022 growth forecast, placing it at 3.2%, while we revise the forecast for 2023 up by 0.2 pps to 2.6%.

As for inflation, the impact of the higher energy prices is compounded by the internal pressures stemming from the rise in wages. As a result, we raise our forecast for average annual inflation in 2022 by 0.6 pps, bringing it to 6.5%.

Emerging countries: differing impact from region to region

For emerging economies, their productive structure will be key: those that are net exporters of commodities will benefit from the sharp rally in their prices, while net importers will be the hardest hit. In addition, the impact of the Fed's normalisation of monetary conditions must be taken into account, since this has historically led to capital outflows from these economies, which would put those with external weaknesses (i.e. a high current account deficit, high foreign debt and low levels of reserves) in a delicate position.

Among emerging countries, China would be a special case as it is both a producer and a major consumer of commodities, so the net impact of the conflict is less clear. More relevant to its growth outlook is the implementation of its zero-COVID policy, which was already hindering economic activity in recent months and is driving the downward revision of growth forecasts for 2022 (4.7% vs. 5.7% estimated in February).

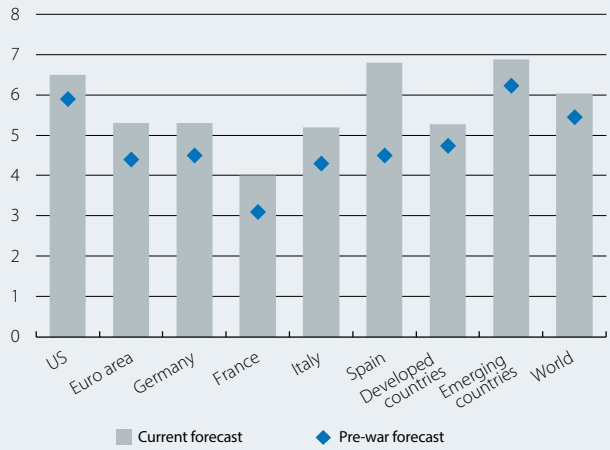
The economies of Eastern Europe and Central Asia deserve special mention, as the conflict will deal a greater blow to their growth compared to countries in other regions due to their close economic and financial links with the conflict zone. On balance, the net impact for emerging markets as a whole is lower growth (4.0% vs. 4.5% in February) and higher inflation (6.7% vs. 6.2%).

However, the magnitude of the economic impact is still quite uncertain and will largely depend on the duration of the conflict and the economic policies that can be implemented. What seems clear is that the war will lead to a major cut in growth while triggering higher inflation, and its impact will be uneven across regions, with Europe being the hardest hit.

Rita Sánchez Soliva

Global: 2022 inflation

(%)



Source: *CaixaBank Research.*

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

UNITED STATES

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	12/21	01/22	02/22
Activity									
Real GDP	–3.4	5.7	0.5	12.2	4.9	5.5	–	–	–
Retail sales (excluding cars and petrol)	2.1	16.7	11.9	26.2	13.7	16.0	16.0	12.3	15.8
Consumer confidence *(value)*	101.0	112.7	99.1	122.1	116.7	112.9	115.2	111.1	110.5
Industrial production	–7.2	5.4	–1.6	14.7	5.5	4.4	3.4	3.6	7.5
Manufacturing activity index (ISM) *(value)*	52.5	60.6	61.3	61.0	60.0	60.1	58.8	57.6	58.6
Housing starts *(thousands)*	1.396	1.605	1.599	1.588	1.562	1.670	1.754	1.657	1.769
Case-Shiller home price index *(value)*	228	267	249	262	274	283	287	...	...
Unemployment rate *(% lab. force)*	8.1	5.4	6.2	5.9	5.1	4.2	3.9	4.0	3.8
Employment-population ratio *(% pop. > 16 years)*	56.8	58.4	57.6	58.0	58.6	59.2	59.5	59.7	59.9
Trade balance [1] *(% GDP)*	–3.2	–3.7	–3.5	–3.6	–3.7	–3.7	–3.7	–3.9	...
Prices									
Headline inflation	1.2	4.7	1.9	4.8	5.3	6.7	7.0	7.5	7.9
Core inflation	1.7	3.6	1.4	3.7	4.1	5.0	5.5	6.0	6.4

JAPAN

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	12/21	01/22	02/22
Activity									
Real GDP	–4.5	1.7	–1.8	7.3	1.2	0.4	–	–	–
Consumer confidence *(value)*	31.1	36.3	33.3	35.4	37.3	39.2	39.1	36.7	35.3
Industrial production	–10.6	5.8	–1.5	19.9	5.9	1.2	2.7	–1.2	...
Business activity index (Tankan) *(value)*	–19.8	13.8	5.0	14.0	18.0	18.0	–	–	–
Unemployment rate *(% lab. force)*	2.8	2.8	2.9	2.9	2.8	2.7	2.7	2.8	2.7
Trade balance [1] *(% GDP)*	0.1	–0.3	0.2	0.6	0.3	–0.3	–0.3	–0.8	–1.0
Prices									
Headline inflation	0.0	–0.2	–0.5	–0.7	–0.2	0.5	0.8	0.5	0.9
Core inflation	0.2	–0.5	0.0	–0.9	–0.5	–0.7	–0.8	–1.2	–0.9

CHINA

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	12/21	01/22	02/22
Activity									
Real GDP	2.2	8.1	18.3	7.9	4.9	4.0	–	–	–
Retail sales	–2.9	12.4	34.0	14.1	5.1	3.5	1.7	–	6.7
Industrial production	3.4	9.3	24.6	9.0	4.9	3.9	4.3	–	7.5
PMI manufacturing *(value)*	49.9	50.5	51.3	51.0	50.0	49.9	50.3	50.1	50.2
Foreign sector									
Trade balance [1,2]	524	681	621	605	636	681	681	704	699
Exports	3.6	30.0	48.9	30.7	24.4	23.1	20.8	24.1	6.2
Imports	–0.6	30.1	29.4	44.1	25.4	23.6	19.5	19.8	10.4
Prices									
Headline inflation	2.5	0.9	0.0	1.1	0.8	1.8	1.5	0.9	0.9
Official interest rate [3]	3.9	3.8	3.9	3.9	3.9	3.8	3.8	3.7	3.7
Renminbi per dollar	6.9	6.5	6.5	6.5	6.5	6.4	6.4	6.4	6.3

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 & 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

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	12/21	01/22	02/22
Retail sales *(year-on-year change)*	–0.8	5.5	2.6	12.7	2.5	4.1	2.1	7.8	...
Industrial production *(year-on-year change)*	–7.9	8.9	4.8	24.4	6.0	0.3	2.0	–1.3	...
Consumer confidence	–14.3	–7.6	–13.8	–5.5	–4.6	–6.7	–8.4	–8.5	–8.8
Economic sentiment	88.0	110.1	94.6	113.2	116.8	115.7	113.8	112.7	114.0
Manufacturing PMI	48.6	60.2	58.4	63.1	60.9	58.2	58.0	58.7	58.2
Services PMI	42.5	53.6	46.9	54.7	58.4	54.5	53.1	51.1	55.5
Labour market									
Employment (people) *(year-on-year change)*	–1.5	...	–1.7	2.0	2.1	...	–	–	–
Unemployment rate *(% labour force)*	8.0	...	8.2	8.0	7.5	7.1	7.0	6.8	...
Germany *(% labour force)*	3.9	...	3.9	3.6	3.4	3.2	3.2	3.1	...
France *(% labour force)*	8.0	...	8.0	8.2	7.9	7.3	7.2	7.0	...
Italy *(% labour force)*	9.3	...	10.1	9.8	9.1	9.1	9.0	8.8	...
Real GDP *(year-on-year change)*	–6.5	5.6	–0.9	14.6	4.0	4.6	–	–	–
Germany *(year-on-year change)*	–4.9	3.1	–2.8	10.4	2.9	1.8	–	–	–
France *(year-on-year change)*	–8.0	7.4	1.7	19.0	3.5	5.4	–	–	–
Italy *(year-on-year change)*	–9.1	7.0	0.1	17.6	3.9	6.2	–	–	–

Prices

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

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	12/21	01/22	02/22
General	0.3	2.6	1.1	1.8	2.8	4.6	5.0	5.1	5.9
Core	0.7	1.5	1.2	0.9	1.4	2.4	2.6	2.3	2.7

Foreign sector

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

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	12/21	01/22	02/22
Current balance	2.1	2.8	2.8	3.1	3.1	3.1	5.6	5.3	...
Germany	7.1	7.4	7.5	8.1	8.1	7.9	7.4	7.2	...
France	–1.9	–0.9	–1.8	–1.6	–1.2	–0.9	–0.7	–0.7	...
Italy	3.7	3.3	3.8	4.3	4.2	4.1	1.6	1.4	...
Nominal effective exchange rate[1] *(value)*	93.9	94.2	95.3	95.0	94.0	92.6	92.3	92.3	92.5

Credit and deposits of non-financial sectors

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

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	12/21	01/22	02/22
Private sector financing									
Credit to non-financial firms[2]	6.3	3.5	6.4	2.3	1.8	3.3	4.3	4.4	4.4
Credit to households[2,3]	3.2	3.8	3.1	3.9	4.1	4.1	4.2	4.3	4.4
Interest rate on loans to non-financial firms[4] *(%)*	1.2	1.2	1.1	1.2	1.3	1.1	1.1	1.2	...
Interest rate on loans to households for house purchases[5] *(%)*	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.4	...
Deposits									
On demand deposits	12.9	12.6	16.1	12.4	11.4	10.5	10.2	9.3	9.2
Other short-term deposits	0.6	–0.8	1.0	–0.6	–2.0	–1.5	–1.5	–0.2	–0.3
Marketable instruments	8.2	11.4	13.8	12.2	10.2	9.2	6.1	0.5	–0.5
Interest rate on deposits up to 1 year from households *(%)*	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	...

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.*

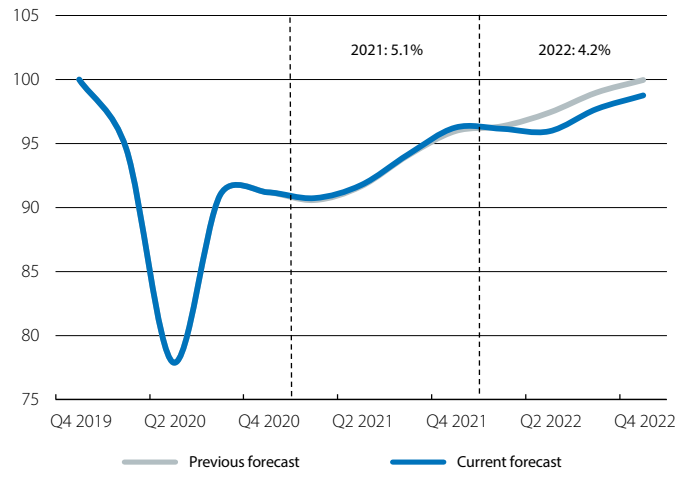
The Spanish economy is beginning to feel the effects of the war in Ukraine

The war in Ukraine will have a significant impact on the Spanish economy and some effects are already beginning to become apparent. Our current outlook foresees growth of 4.2% for the Spanish economy in 2022. While a significant growth rate, this is 1.3 pps lower than we anticipated before the war in Ukraine (see the Focus «The war between Russia and Ukraine will slow the recovery of the Spanish economy» in this same *Monthly Report* for more details). At the close of this report, few post-invasion economic indicators had been published. Nevertheless, with the limited data available we can already draw some signals. On the negative side of the balance, in March there has been a sharp deterioration in consumer confidence and a substantial rise in inflation. This confirms that high uncertainty and rising prices are two of the main channels through which the war in Ukraine is impacting the Spanish economy. Other indicators, in contrast, have shown greater resilience than might have been expected; in particular, the PMIs have registered a slowdown but have nevertheless been higher than expected and remain in expansionary territory (>50 points), while the labour market has held its ground and continued to create jobs, albeit at a more moderate rate.

Business sentiment and confidence indicators recede in March. In particular, the manufacturing PMI, which reflects business sentiment, remained comfortably within expansionary territory in March (54.2 points), but suffered a 2.7-point decline compared to February, affected by rising production costs, supply problems and carrier strikes. This is the lowest level since March 2021. The services PMI, on the other hand, also fell by 3.2 points, placing it at 53.4 points. Confidence indicators also registered a significant setback in March. On the one hand, the European Commission's industry confidence index fell by 4.7 points compared to February, while its consumer confidence index fell even more sharply (–17.9 points *versus* February).

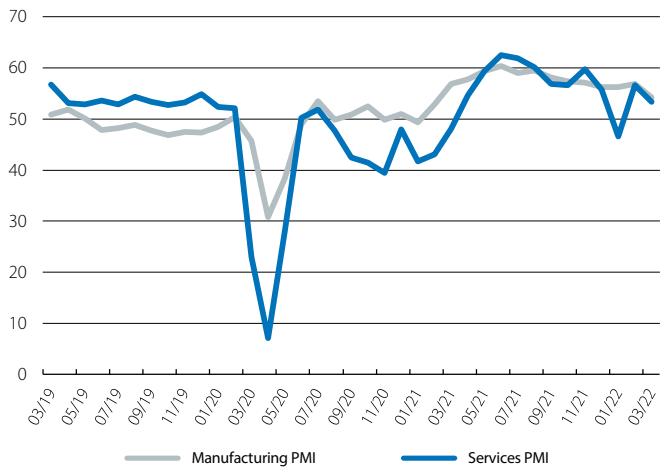
The labour market withstands the onslaught of the war in Ukraine. Job creation moderated in March, but less than would be expected given the high uncertainty triggered by the war and the unemployment figures in various sectors. Specifically, in seasonally adjusted terms, Social Security affiliation grew by 23,998 people in March (37,726 in February), placing quarter-on-quarter growth in employment for Q1 at 1.07% (2.1% in Q4 2021). There has also been a slight increase in the number of non-COVID ERTE furlough schemes, albeit less than expected (going from 13,575 at the end of February to 17,162), and in seasonally adjusted terms unemployment increased by 25,682 people (the first increase since April 2021). On the positive side, there has been a

Spain: evolution of real GDP
(100 = Q4 2019)



Source: *CaixaBank Research.*

Spain: PMI
Level



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

Spain: consumer confidence indicator
Level

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

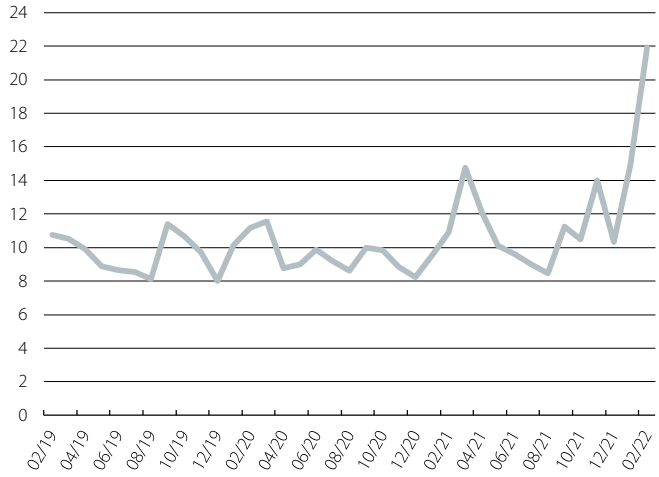
significant improvement in permanent hiring: the percentage of Social Security affiliates with a permanent contract has risen to 75%, 5 points above the usual level before the pandemic.

Inflation surged in March. In the first month that captures the impact of the war on consumer prices, headline inflation rose to 9.8% (7.6% in February), according to the figure advanced by the National Statistics Institute. If confirmed, this would be its highest level since May 1985. The rise in inflation in March has been driven by a widespread increase in the prices of most components. In this regard, core inflation has risen to 3.4% (3.0% in February). It should be noted that the main channels of direct impact of the conflict in Ukraine (increases in gas prices, which have a knock-on effect on electricity prices, and oil and food prices) are already reflected in the March inflation figure. The high energy prices have continued to seep into the other components of the consumer price index basket by driving up transportation and production costs. This trend will continue to push up core inflation.

The budget deficit in Spain closed 2021 at 6.9% of GDP. The general government deficit stood at 82,819 million euros in 2021, representing 6.9% of GDP compared to the 10.3% deficit in 2020. This improvement shows that the economic recovery contributed to reducing the deficit: revenues increased by 13.2% compared to 2020 and expenditure, by 5.2%. Excluding the impact of Sareb (some 1.3 billion euros), the deficit was 6.8% of GDP. Although high, this deficit figure is below the government's forecast (an estimated 8.4% of GDP). Public debt in 2021, meanwhile, was revised down by 3 decimal points of GDP (from 118.7% to 118.4%), placing it 1.6 pps lower than at the 2020 year end but 22.9 pps higher than 2019. On the other hand, the government has presented an action plan to cushion the impact of the war in Ukraine (see the Focus «Key points of the Action Plan: what measures will be taken in Spain to alleviate the impact of the war in Ukraine?» in this same report), with a budget of 6 billion euros (0.5% of GDP).

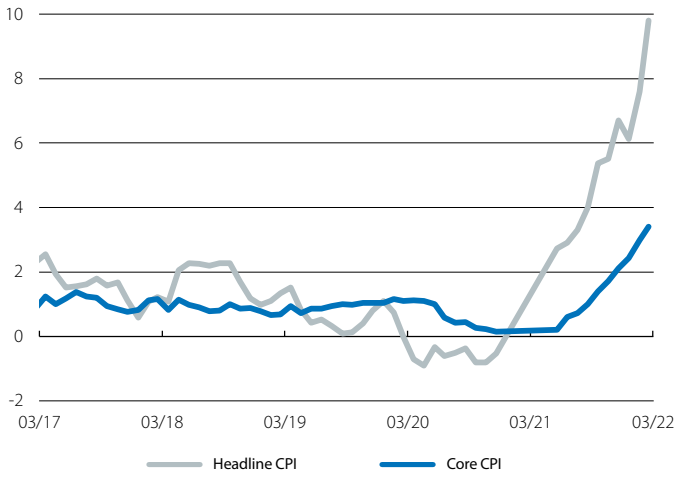
The trade balance reflects the deterioration in the energy deficit. In particular, the trade balance in January showed a deficit of 6,123 million euros, more than triple the level of the previous year and the worst figure in any January since 2008. Both the non-energy and energy deficits increased: the non-energy balance showed a deficit of 2,901 million euros (deficit of 253 million in January 2021) due to greater buoyancy in imports (32.5%) than in exports (19.3%), while the energy deficit rose to 3,222 million euros (deficit of 1,516 million in January 2021), driven by the sharp rise in energy import prices of 46.4% year-on-year. This is an early sign that the current account balance will fall significantly in 2022, largely due to the deterioration of the energy balance in the face of higher energy prices, a trend that will be accentuated by the war in Ukraine.

Spain: permanent employment contracts
(% of the total contracts registered in the month)



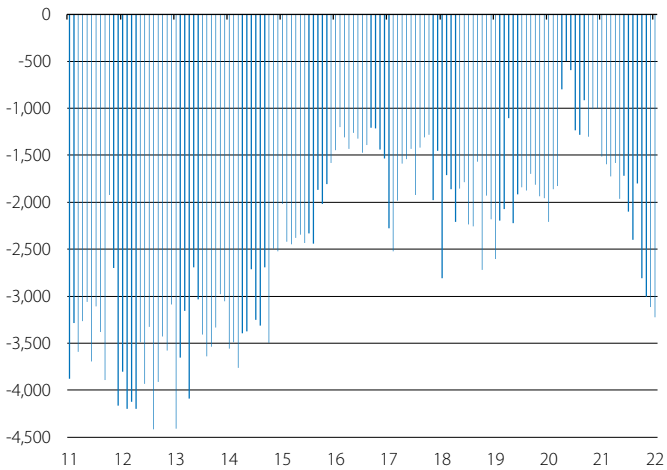
Source: *CaixaBank Research, based on data from the Ministry of Labour and Social Economy.*

Spain: CPI
Year-on-year change (%)



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

Spain: energy balance
(Monthly data in EUR millions)



Source: *CaixaBank Research, based on data from the Customs department.*

The war between Russia and Ukraine will slow the recovery of the Spanish economy

The outbreak of war between Russia and Ukraine requires a revision of the outlook for the Spanish economy. The impact of the conflict, the scope and duration of which are still uncertain, is materialising primarily through three channels. Firstly, as a net importer of commodities such as natural gas and oil, our country will have to pay more for energy.[1] Secondly, the uncertainty surrounding the conflict and its own implications will erode economic agents' spending decisions. Finally, the conflict will also reverberate through the trade channel: although the direct exposure of Spanish exports and imports to and from Russia and Ukraine is limited, the deterioration of the international economic environment and the disruptions that may occur in global supply chains could have a significant impact.[2]

When the macroeconomic environment is so closely linked to the evolution of a particular factor – in this case the war – it is impossible to present a forecast scenario that is not subject to an assumption about that factor's evolution. Our scenario is based on the assumption that we will begin to see a de-escalation of the conflict by the middle of this year. This hypothesis is reflected in energy price forecasts. While in this scenario we expect the average Brent oil price for the year as a whole to be 105 dollars (slightly over 15 dollars above what we were expecting prior to the conflict), by December 2022 the price of crude oil would be around 90 dollars a barrel.

Spain: macroeconomic projections

The table shows the forecasts for the new scenario. As can be seen, we have revised annual GDP growth down by 1.3 pps to 4.2%. The increase in the price of energy explains 0.8 of these 1.3 pps. The rest can be attributed to the other channels: greater uncertainty, the trade channel and the supply chain disruptions. Nevertheless, despite the revision, the expected growth for the year as a whole remains substantial, at over 4%. A new phase of the pandemic, the savings accumulated over the past two years, the deployment of European funds and the recovery of tourism will continue to provide significant support for the recovery.

The slowdown in economic activity will have a knock-on effect on the labour market. Employment growth is expected to moderate by just under 1 pp, to around 2%.

1. For more information on the impact of an increase in oil and gas prices on our economy, see the Focus «The impact of a rise in the price of oil and gas in Spain: possible scenarios» in the MR03/2022.
2. By way of example, Russia is a major global exporter of some of the main industrial metals: neon (70%), palladium (46%), crude nickel (28%), platinum (15%), aluminium (10%) and gold (9%). Although Spain's direct imports of these commodities from Russia are virtually nil, the impact could reach us through global production chains, since these materials are used in the early stages of the production chains of intermediate products that are used in various sectors further down the chain.

Spain: macroeconomic projections

		2022	2023
GDP *(annual change, %)*	Baseline, pre-invasion	5.5	3.6
	Baseline, post-invasion	4.2	3.8
Unemployment rate *(annual average, %)*	Baseline, pre-invasion	13.0	11.8
	Baseline, post-invasion	13.6	12.5
Inflation *(annual average, %)*	Baseline, pre-invasion	4.5	1.2
	Baseline, post-invasion	6.8	1.1

Note: *The pre-invasion scenario corresponds to that which was published in the MR03/2022.*
Source: *CaixaBank Research.*

Despite this revision, some 211,000 jobs are still expected to be created by the end of the year. The downward revision of employment growth is slightly lower than that of GDP. Although the sensitivity of employment growth to GDP growth in Spain has traditionally been greater than 1, during the COVID-19 crisis in 2020 employment showed less sensitivity than in the past. This lower sensitivity reflects the flexibility provided by the ERTE furlough schemes, which allowed the labour market to accommodate changes in the number of hours worked, thereby mitigating the impact on jobs. Thus, to the extent that this flexibility mechanism remains in place (RED mechanism), the sensitivity of employment to GDP should be more consistent with that experienced recently. Overall, the revision of employment leads to an unemployment rate of 13.6% for 2022. This is slightly higher than previously anticipated, but it still represents a decrease of more than 1 pp compared to 2021 (14.8%).

Finally, the rise in energy and food prices, together with the contagion effect that these dynamics could have on the other components of the CPI, are expected to push average inflation in 2022 to close to 7%. However, these forecasts have been produced before the announcement of the new fiscal measures at the end of March, so they do not incorporate their impact on inflation or economic activity. We also have not anticipated the impact which any potential measures introduced to moderate electricity prices may have. In this regard, the new forecast scenario could be considered conservative. For 2023, lower oil and gas prices compared to the previous year would lead to a significant moderation in inflation, potentially bringing it to around 1%, although core inflation would be above 2.0%.

However, all of these forecasts are subject to a high degree of uncertainty, and the extent of the effects of the conflict will depend on how it develops and the impact of the sanctions, as well as the scope of any measures introduced by the EU and the national government to mitigate its consequences.

Oriol Carreras Baquer

Which sectors are most affected by the conflict in Ukraine?

The economic shock of the war in Ukraine is having differing negative effects on the various sectors of the Spanish economy depending on their energy use, their exposure to certain global supply chains and their trade ties with the region.

The main channel of the impact is that of rising energy prices. The more energy-intensive sectors are the ones most directly affected, especially transportation, the auxiliary construction industry, fishing, metallurgy and the chemical industry (see first chart).[1] In addition to energy prices, those of a large proportion of commodities have also surged in the global markets (including industrial metals and agrifood products). Indeed, Russia is a major global exporter of some of the main industrial metals, such as palladium (28%), nickel (20%) and aluminium (9%).[2] Despite the low volume of imports of these commodities from Russia, the rise in international prices for these metals makes Spain's imports of both commodities and intermediate products from other countries more expensive. Through this channel, the industries hardest hit are the metallurgical industry, the manufacture of metal products, electrical equipment and machinery, as well as the automotive industry, adding more pressure to the problems it already experienced last year. In addition, Ukraine has several factories for automotive components, so the conflict is affecting global supply chains, and it is a major exporter of noble gases such as neon, which is key to semiconductor manufacturing.

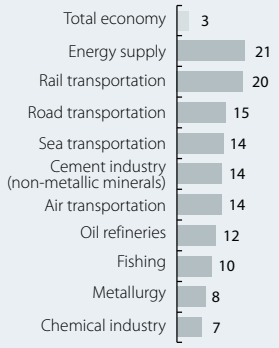
The agrifood sector is also being severely affected by rising prices of agricultural commodities (feed and fertiliser) and energy, which were already climbing sharply before the conflict irrupted.[3] There are also concerns about a potential shortage of certain products from the so-called «bread basket of Europe». In fact, Spain's agricultural sector is highly dependent on some supplies in which Russia and Ukraine have a high share of global production, meaning there will be greater difficulties in substituting them with other producers in the short term. In particular, 63% of the imports of sunflower oil, 30% of the corn, 19% of the rye and 8.6% of the mineral fertilisers that Spain imported in 2021 came from the region. The increase in the price of agricultural inputs has a direct impact on agrifood goods, such as meat and dairy products, and it also affects the entire agrifood chain, including the HORECA sector.

To alleviate this situation, the government has approved an action plan of measures with a budget of 6 billion euros aimed at mitigating the rise in energy costs (cutting fuel prices by 20 cents per litre) and providing direct aid for the sectors hardest hit (agriculture, livestock, fishing, and freight and passenger transportation). In addition, a new government-backed ICO credit facility amounting to 10 billion euros is being established for these sectors, and the maturity of the facilities already granted will be extended.

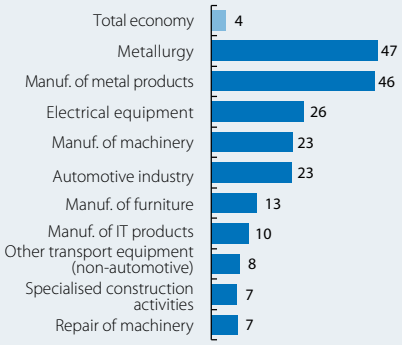
Pedro Álvarez, Javier Ibáñez de Aldecoa and Judit Montoriol

Spain: expenditure structure by sector

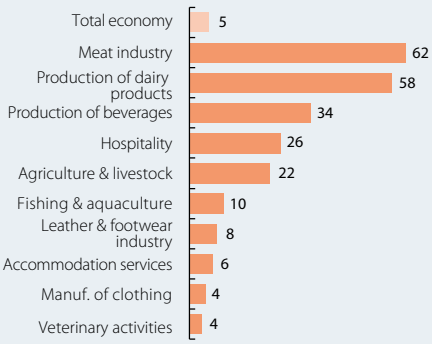
Expenditure on energy
(% of the total production of each sector)



Expenditure on metal minerals and derivative products
(% of the total production of each sector)



Expenditure on agrifood products
(% of the total production of each sector)



Notes: *Energy consumption is considered to include expenditure on coke and oil refining products, electric power and manufactured gas. Products derived from metallic minerals exclude machinery and metallic equipment. Agrifood products include both unprocessed products (from the primary sector) and processed products (from the food industry).*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

1. The final impact on a particular sector will largely depend on its ability to pass on the increased costs to customers through its sales prices. However, it should be borne in mind that this new energy shock is coming at a time when business margins were already under significant pressure.
2. Data for 2019 from the Observatory of Economic Complexity (OEC). During the first month since the outbreak of the conflict, the price of nickel has risen by 43%, that of palladium by 7.7% and aluminium, by 6.1%.
3. According to the FAO Food Price Index, the price of food increased by 28% in 2021.

The rise in energy prices, also taking its toll on Spain's current account balance

As the pandemic appeared to be entering a new phase and COVID-19 looked set to take on a weaker, more flu-like form, we hoped that 2022 would be the year of the definitive revival of foreign exchanges, especially in the case of tourism.[1] This boost was going to allow us to recover a current account surplus, which the pandemic had reduced from 2.1% of GDP in 2019 to 0.8% of GDP in 2020. These forecasts, however, have been truncated by the war in Ukraine.

Firstly, the rise in the price of energy imports will drive up the energy deficit, which in 2021 reached its worst level in six years (25,326 million euros, compared to 14,528 million in 2020), in a context of a recovery in the volume of imports and a sharp rally in prices.[2] Given that a $10/barrel rise in the price of Brent and a €20/MWh rise in gas prices pushes up net imports by some 6.2 billion euros (0.5% of GDP), we estimate that Spain's energy deficit in 2022 could rise to around 45 billion euros, the highest figure since 2010, although the existence of long-term contracts could alleviate this increase.

Secondly, while Spain's trade relations with Russia and Ukraine are limited (in 2019, imports from the two countries accounted for 1.1% and 0.5% of the total, respectively), our dependence is high in the case of certain supplies. In particular, 11% of the energy products we import come from Russia, while 16% of cereals and 10% of oils and fats come from Ukraine.[3] In addition, the war will also have an indirect impact on foreign trade flows through reduced demand from our main trading partners.

As far as tourist flows are concerned, Spain's direct exposure to Russian tourism is limited (it accounted for 1.6% of all nationalities that visited us in 2019), although the country's tourists have a high average spending (they contributed almost 2 billion euros in the same year, 2.2% of the total). Undoubtedly the biggest impact will come from the uncertainty that the conflict could cause in tourism from European countries, the main source of visitors to our country. That said, the perception of Spain as a safe destination could mitigate this impact.

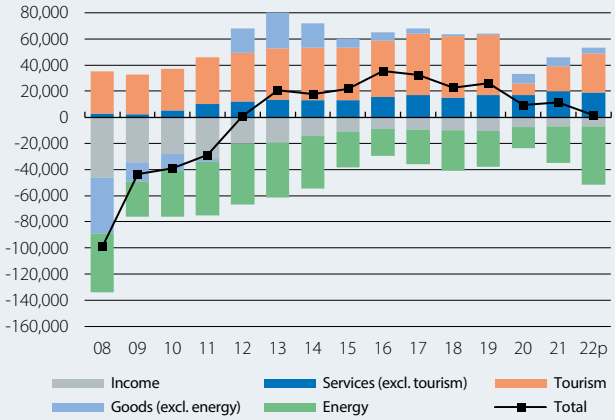
In 2021, a year marked by an incomplete recovery in international tourism flows as a result of the successive waves of the pandemic and the irruption of the Omicron variant in the closing stages of the year, the data for tourism in Spain were encouraging: the surplus registered an extraordinary growth of 122%, reaching 19,158 million euros. While a good figure, this is still a far cry from the 46,387 million reached in 2019. Almost 31.2 million tourists arrived in our country, a 62.7% reduction compared to the 83.5 million who visited us in 2019. In 2022, assuming that tourist arrivals recover to around 85% of 2019 levels, a tourism surplus of around 30 billion euros could be achieved.

In short, in this scenario, we expect a sharp deterioration in the energy deficit this year, offset only in part by the expansion of the tourism surplus. As a result, the current account surplus will shrink considerably to around 0.1% of GDP, from 0.9% in 2021.

Nuria Bustamante and Sergio Díaz Valverde

Spain: current account balance

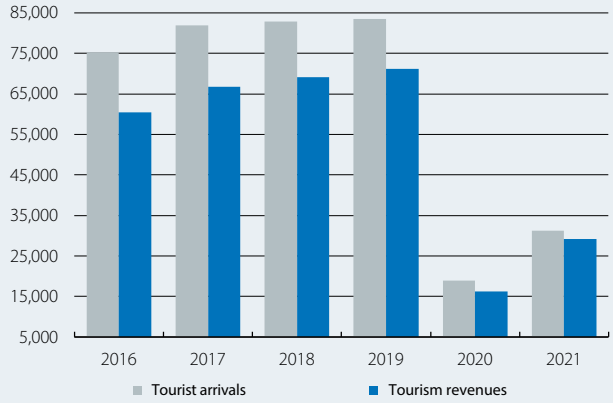
EUR millions



Source: *CaixaBank Research, based on data from the Customs department and the Bank of Spain.*

Spain: evolution of tourism

Thousands of people and EUR millions



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

1. This is a sector of vital importance to the Spanish economy, since its revenues amounted to 5.7% of GDP in 2019.
2. Energy imports grew by 72.3% in 2021, corresponding to an increase of 32.8% in prices (based on the Unit Value Indices) and of 31.3% in terms of volume. According to CUCI data from the Customs department.
3. The dependence on sunflower oil deserves special mention: Ukraine and Russia account for almost 80% of global exports, so the possibility of its substitution with other producers is very low.

Geopolitical uncertainty and economic growth: the indirect impact of the Ukraine conflict in Spain

The conflict between Russia and Ukraine is affecting our economy in many ways. One of them, which we already addressed in another article, is the impact of rising energy prices.[1] Another channel also worth examining is the increase in uncertainty, because in such a situation, households and businesses tend to postpone consumption and investment decisions, which ends up affecting the pace of economic activity. In this article, we attempt to shed some light on this issue.

Uncertainty is a concept that is very difficult to measure. That said, in recent years a number of indices have been developed which give us an idea of how it is evolving practically in real time. For instance, according to the geopolitical risk index developed by Iacovello and Caldara, since the outbreak of the conflict uncertainty has increased substantially, as shown in the first chart.[2] Indeed, this daily index reveals that since the start of the Russian invasion geopolitical risk has risen to levels not seen since the outbreak of the Iraq War in March 2003, although it still lies 30% below the level of that time.

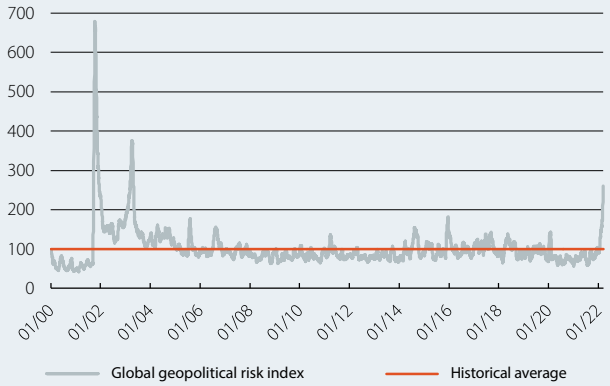
Another index that also faithfully captures the evolution of the degree of uncertainty is the European Political Uncertainty (EPU) index produced by Baker, Bloom and Davis.[3] As can be seen in the second chart, the EPU index has a close relationship with Spain's economic activity data: the higher the uncertainty index, the lower GDP growth tends to be. As an example, a rise in the uncertainty index like that which occurred following the failure of Lehman Brothers in 2008 was accompanied by a 1.6-point reduction in year-on-year growth in the quarter in question.

The indices mentioned help us to gauge the current level of uncertainty, as well as its relationship with economic activity. However, increases in uncertainty tend to be accompanied by other phenomena which also affect economic activity. To what extent can a rise in uncertainty reduce economic activity growth? In order to better identify the direct impact of uncertainty, we use a statistical technique[4] which allows us to quantify the impact on the Spanish economy over time of an uncertainty shock with external origins. In this case, the estimates suggest that an uncertainty shock such as the one observed to date due to the war in Ukraine could result in a 0.6-pp slowdown in year-on-year GDP growth in Q2 2022.

Thus, the rise in uncertainty that is currently occurring could have a significant impact on economic activity. Whether or not this ends up happening will depend, above all, on how the conflict develops, and this is very difficult to foresee. However, it will also depend on the

Global: geopolitical risk

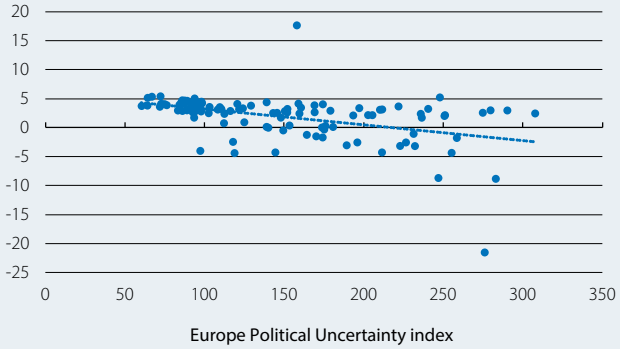
Index



Notes: *1-month moving average. Data up to 18 March 2022. The geopolitical risk (GPR) index is built on the basis of newspaper articles, searching for keywords related to geopolitical risks. A higher value of the index indicates a greater increase in geopolitical risk.*
Source: *CaixaBank Research, based on data from D. Caldara and M. Iacoviello (2022). «Measuring Geopolitical Risk», American Economic Review, April, 112(4), pages 1,194-1,225 (data downloaded from https://www.matteoiacoviello.com/gpr.htm on 18 March 2022).*

Spain: economic activity and political uncertainty in Europe

GDP growth (% year-on-year change)



Notes: *Quarterly data from Q1 1996 to Q4 2021. Index by Baker, Bloom and Davis.*
Source: *CaixaBank Research.*

1. See the Focus «The impact of a rise in the price of oil and gas in Spain: possible scenarios» in the MR03/2022.
2. See https://www.policyuncertainty.com/gpr.html.
3. This index reflects uncertainty in Europe as measured by the relative frequency of news and newspaper articles containing terms related to the economy, uncertainty, politics and public policy. We plotted the rise in the EPU index against the rise in geopolitical risk in order to see to what extent it has a knock-on effect on uncertainty in Europe. Historically, a 100-point increase in the geopolitical risk index translates into a 25-point increase in the EPU index. Using this relationship, we calculate how the EPU index would be affected by the upturn in the geopolitical risk index following the outbreak of the war in Ukraine.
4. The technique in question is a vector autoregressive (VAR) model. See details in the notes of the third chart.

speed and effectiveness of the economic policy measures that are put in place.

On the one hand, the ECB has already made it clear that it will adapt its course of action according to the circumstances and, therefore, that it is ready to adjust the various tools which it has at its disposal if necessary. From the point of view of fiscal policy, it is important that any action taken is swift and effective, helping the groups and sectors that are hardest hit by the crisis and creating a framework of confidence for the economy as a whole.

What channels have we considered in estimating the impact of this uncertainty?

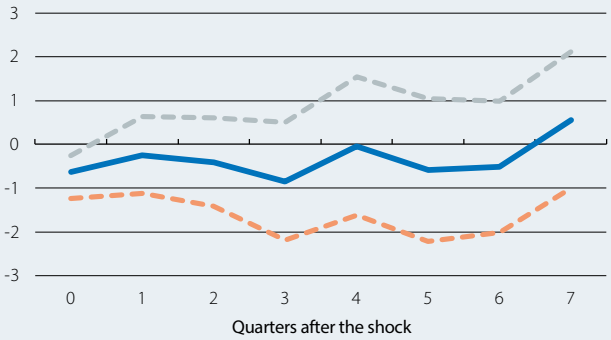
Our model captures an erosion of economic growth due to the impact of the uncertainty shock on consumers, businesses and the financial markets. In this exercise, we assume that the financial variables are first affected by the shock, and that this shock is then also transmitted to the macroeconomic variables of the real economy. On the one hand, when analysing the impact of an uncertainty shock consistent with the rise in the geopolitical risk index that was observed following the start of the Russian offensive, the risk premium shows an increase in the short term, while consumer confidence is eroded. In this context, investment growth contracts (by approximately 1.2 pps in year-on-year terms), as some companies postpone their investment plans until they have greater visibility.

The impact of this uncertainty shock on the average growth of 2022 in Spain could lead to a reduction of 0.2 pps.[5] That said, this is assuming that the conflict will be de-escalated in the coming months and that we will not experience the same degree of uncertainty in the second half of the year. If the conflict were to draw out for longer, the toll on growth would be greater.

Javier Garcia-Arenas and Oriol Carreras Baquer

Spain: response of year-on-year GDP growth to a Europe-wide uncertainty shock

(pps)



Notes: *A fourth-order autoregressive vector is estimated, which includes the quarterly data from the European Political Uncertainty index, the risk premium, the exchange rate, the 10-year sovereign rate, the oil price, inflation, consumer confidence, investment growth and GDP growth. The dotted lines represent a 95% confidence interval. The shock in question fades quickly. The uncertainty shock is of a magnitude consistent with the spike in geopolitical risk observed between late February and mid-March 2022.*
Source: *CaixaBank Research.*

5. This impact is similar to that which we obtain using the CaixaBank Research semi-structural model for the Spanish economy (see «Modelo semiestructural de CaixaBank Research para España», Working Paper 01/21, content available in Spanish). According to this model, the reduction in GDP growth resulting from the uncertainty effect would amount to 0.3 pps when we consider a scenario in which the conflict is de-escalated within a few months.

Key points of the Action Plan: what measures will be taken in Spain to alleviate the impact of the war in Ukraine?

At the cabinet meeting on 29 March, the government approved the War Response Action Plan, which will mobilise up to 16 billion euros in order to mitigate the impact of the war in Ukraine on the Spanish economy. This package will cost some 6 billion euros (0.5% of GDP), as well as including 10 billion in government-backed ICO credit lines, and most of the measures will be in force between 1 April and 30 June. Below, we take a detailed look at the main measures in three spheres: households, the productive fabric of the economy and the electricity market.

Measures to mitigate the impact on households

One of the main measures is the 20-cent per litre cut in fuel prices in force until 30 June for all users. The government will assume 15 cents of this cut and the oil companies 5 cents (this only applies to those with an annual turnover of more than 750 million, in all other cases the government will also assume these 5 cents). Its cost to the public coffers is estimated at 1,4 billion euros euros. It is essential that this price cut is implemented in a quick and coordinated manner; in this respect, an immediate discount will be applied in full to bills at petrol stations, while the Tax Agency will have to refund the seller in the future or they may request an advance.

In the field of labour, there is a ban on objective dismissal for companies receiving public aid or ERTE furlough grants where the cause cited is a rise in energy costs.

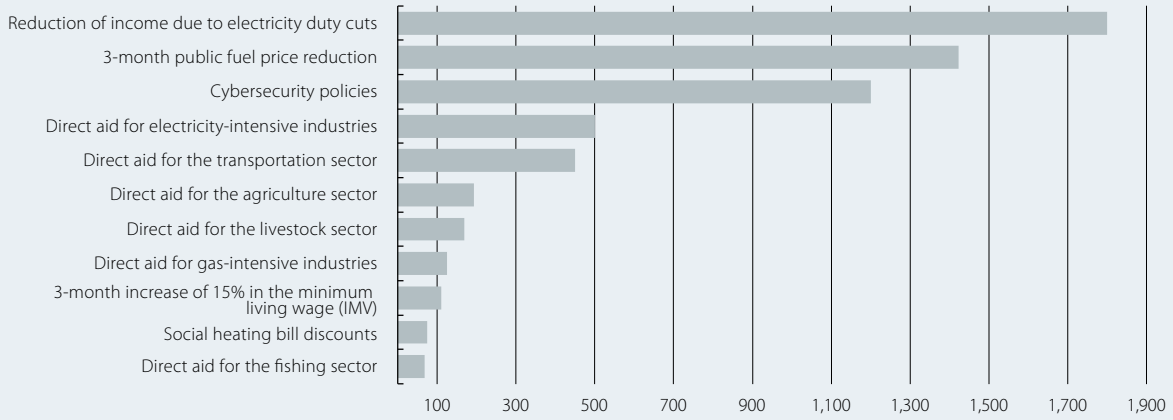
With regards to the real estate market, any revisions of rental prices during the next three months will be limited to the annual change in the Competitiveness Guarantee Index (known as the IGC). As this index is legally applied in values between 0% and 2%, this measure is setting a 2.0% ceiling, albeit with a nuance: this hard ceiling is only applicable to large holders of real estate, while for all other landlords the rent rise may exceed this threshold if agreed with the tenant.

In addition, greater support will be given to the most vulnerable groups: the minimum living wage (known as the IMV) is being increased by 15% for the next three months (we estimate the cost of this measure to be around 110 million euros) and the bigger discounts applied to electricity bills on regulated tarrifs for small consumers (PVPC) under the social discount for electricity bills will be maintained until 30 June (60% instead of 25% for vulnerable groups, and 70% instead of 40% for serious cases).[1] Moreover, this social discount is being extended to 600,000 new households to encompass all those on the minimum living wage with a supply contract (in total, 1.9 million households will benefit from the scheme).

Measures to mitigate the impact on the economy's productive fabric

The measures aimed at supporting the productive fabric of the economy focus on the sectors hardest hit by the rising production costs as a result of the increase in

Spain: main components of the Crisis Response Plan
(EUR millions)



Source: *CaixaBank Research, based on data from the Official State Bulletin (BOE) and the Ministry of Finance.*

1. To be considered a «vulnerable consumer», a household must have an income level equal to or lower than: i) 1.5 times the Multiplier for the Public Income Index, or IPREM (i.e. €12,159.42/year), if there is no household unit or there are no minors in it, or ii) 2 times the IPREM (i.e. €16,212.56/year) if there are also special circumstances.

energy and food prices following the start of the war. In particular, 169 million euros of direct aid will be channelled to dairy producers (124 million for producers of cow's milk, 32.3 million for sheep's milk producers and 12.7 million in the case of goat's milk, with a maximum of 35,000 euros per company), while 193 million euros will go to farms. The fishing sector will receive direct aid worth 68 million euros, including 18 million to compensate fishing vessels and 30 million to compensate fishermen for the increased costs.

The transportation sector will also receive support: in addition to being one of the main beneficiaries of the blanket 20-cent per litre cut in fuel prices, 450 million euros will be injected into the sector in direct aid, depending on the type of vehicle (€1,250 per truck, €900 per bus, €500 per van and €300 per light vehicle).

Industry, a major consumer of energy, will also see its significant cost increases mitigated: 500 million euros in direct aid will be allocated to covering 80% of the tolls between now and the end of the year and offsetting the indirect costs of CO_2 emissions. An additional 125 million will be allocated to gas-intensive industries (paper, cardboard, glass and ceramics). Finally, in relation to cybersecurity, the security of the 5G network will be bolstered with an investment of 1.2 billion euros.

Besides this battery of highly targeted direct aid, there will also be a new set of government-backed ICO credit lines worth 10 billion euros available until the end of the year, the requirements and conditions of which have not yet been specified. In addition, the conditions for extending maturities on the COVID credit lines are being relaxed (the fall in turnover of over 30% in 2020 compared to 2019 will no longer be one of the requirements) and an additional six-month grace period will be granted to the sectors hardest hit (road transportation, agriculture, fishing and livestock).

Measures in the electricity market

The Spanish government, in conjunction with the Portuguese government, has submitted to the European Commission a proposal for setting the benchmark gas price that is used for electricity production. This scheme has not yet been approved, so it is not included as part of the Action Plan, but it will be key in mitigating inflationary pressures, the erosion of households' purchasing power and rising business costs.

What has been included in the Plan is an extension until 30 June of the tax cuts currently applicable in small consumers' electricity bills. These include: a VAT cut from 21% to 10% (which will result in a reduction in revenues of 217 million euros), a cut in excise duty on electricity from 4.11% to 0.5% (reduction in revenues of 224 million euros) and a suspension of the tax on the value of electric energy production (known as IVPEE, representing a revenue loss of around 1,356 million euros).

In addition, the remuneration system for renewable energy and waste plants has been updated. This entails a reduction in electrical system charges of up to 55% in 2022, amounting to 1.8 billion euros.

The windfall profit reduction mechanism in force in the electricity market, linked to the high gas prices, has also been extended until 30 June and its scope is being extended to fixed-price and fixed-term energy contracts, if this price is above €67/MWh, following the European Commission's endorsement as part of its toolbox in early March. The funds raised from this windfall tax will be used to reduce the charges passed on to consumers.

Ultimately, the government has taken steps to alleviate the inflationary shock associated with the war in Ukraine. The impact on the deficit will be around 0.5 pp of GDP. These are temporary measures which, therefore, ought not to have an impact on the structural deficit, and in general (with the exception of the blanket fuel price cut) they are targeted at the most vulnerable households and the productive sectors hardest hit by the rise in prices.

Javier García Arenas

Activity and employment indicators

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

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	01/22	02/22	03/22
Industry									
Industrial production index	–9.5	8.7	3.0	28.6	1.9	1.4	1.7	...	...
Indicator of confidence in industry *(value)*	–14.0	0.4	–7.3	2.5	2.1	4.4	6.1	9.1	4.4
Manufacturing PMI *(value)*	47.5	57.0	53.0	59.2	58.9	56.9	56.2	56.9	54.2
Construction									
Building permits *(cumulative over 12 months)*	–12.8	4.7	–19.1	–1.8	15.0	24.6	30.0	...	...
House sales *(cumulative over 12 months)*	–12.5	9.6	–17.2	0.7	22.3	32.4	39.9	...	...
House prices	2.1	...	0.9	3.3	4.2	6.4	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	–77.3	64.4	–88.0	–75.8	–34.6	64.4	117.8	...	...
Services PMI *(value)*	40.3	55.0	44.3	58.8	59.6	57.4	46.6	56.6	...
Consumption									
Retail sales	–7.1	5.1	–0.3	20.4	–0.4	0.6	4.1	0.9	...
Car registrations	–29.3	158.0	12.7	661.0	–24.5	–17.1	1.0	6.6	...
Consumer confidence index *(value)*	–22.8	–13.3	–22.1	–11.1	–9.1	–10.8	–12.0	–9.4	–27.3
Labour market									
Employment [1]	–2.9	3.0	–2.4	5.7	4.5	4.3	–	–	–
Unemployment rate (% labour force)	15.5	14.8	16.0	15.3	14.6	13.3	–	–	–
Registered as employed with Social Security [2]	–2.0	2.5	–1.4	3.9	3.8	3.9	4.2	4.5	...
GDP	**–10.8**	**5.1**	**–4.1**	**17.8**	**3.5**	**5.5**	–	–	–

Prices

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

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	01/22	02/22	03/22
General	–0.3	3.1	0.6	2.6	3.4	5.8	6.1	7.6	9.8
Core	0.7	0.8	0.4	0.1	0.8	1.7	2.4	3.0	3.4

Foreign sector

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

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	01/22	02/22	03/22
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–10.0	21.2	–8.1	8.7	15.2	21.2	24.4	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–14.7	24.8	–14.0	3.3	13.5	24.8	30.3	...	...
Current balance	**9.3**	**11.3**	**8.7**	**9.2**	**11.6**	**11.3**	**9.6**	...	...
Goods and services	16.5	18.2	16.0	17.1	19.2	18.2	16.4	...	...
Primary and secondary income	–7.3	–6.9	–7.3	–7.9	–7.7	–6.9	–6.8	...	...
Net lending (+) / borrowing (–) capacity	**13.7**	**22.3**	**13.5**	**15.2**	**19.7**	**22.3**	**20.9**	**...**	**...**

Credit and deposits in non-financial sectors [3]

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

	2020	2021	Q1 2021	Q2 2021	Q3 2021	Q4 2021	01/22	02/22	03/22
Deposits									
Household and company deposits	7.5	6.1	8.9	4.9	4.8	5.8	4.9	5.2	...
Sight and savings	12.3	10.3	14.1	9.2	8.9	9.2	8.8	9.2	...
Term and notice	–16.5	–24.4	–20.4	–23.5	–26.0	–27.6	–27.5	–26.7	...
General government deposits	1.0	15.5	11.2	16.3	15.1	19.4	20.1	19.1	...
TOTAL	**7.1**	**6.7**	**9.1**	**5.5**	**5.5**	**6.6**	**5.8**	**6.0**	**...**
Outstanding balance of credit									
Private sector	1.2	0.3	2.3	–0.4	–0.7	–0.1	0.2	0.2	...
Non-financial firms	4.9	1.1	7.8	–0.7	–1.9	–0.9	–0.3	–0.3	...
Households - housing	–1.8	0.2	–1.0	0.0	0.6	1.0	1.2	1.2	...
Households - other purposes	0.8	–1.2	–1.8	–0.7	–1.2	–1.2	–1.2	–1.1	...
General government	3.0	15.3	9.5	17.4	22.7	11.6	3.8	4.5	...
TOTAL	**1.3**	**1.1**	**2.7**	**0.6**	**0.7**	**0.6**	**0.4**	**0.5**	**...**
NPL ratio (%)[4]	**4.5**	**4.3**	**4.5**	**4.5**	**4.4**	**4.3**	**4.3**	**...**	**...**

Notes: *1. Estimate based on the Active Population Survey. 2. Average monthly figures. 3. Aggregate figures for the Spanish banking sector and residents in Spain. 4. 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 war sets back the Portuguese recovery, but it does not jeopardise it

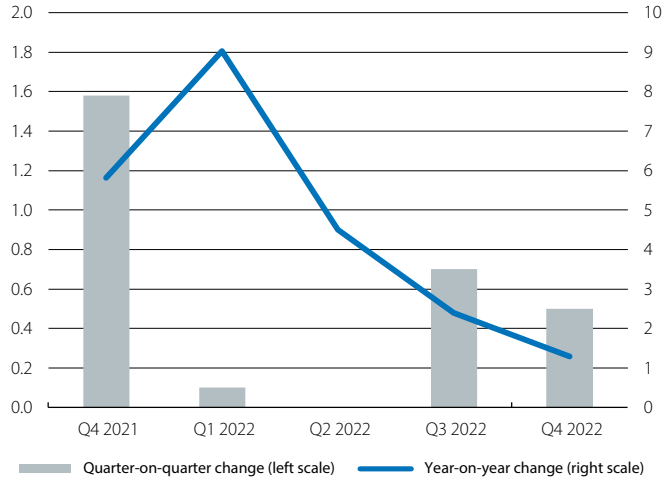
The conflict in Ukraine will condition the speed of the Portuguese economy's recovery, delaying the restoration of pre-pandemic GDP levels until 2023, a milestone which prior to the Russian invasion we expected to be achieved by mid-this year. The higher energy prices and greater caution exercised by 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

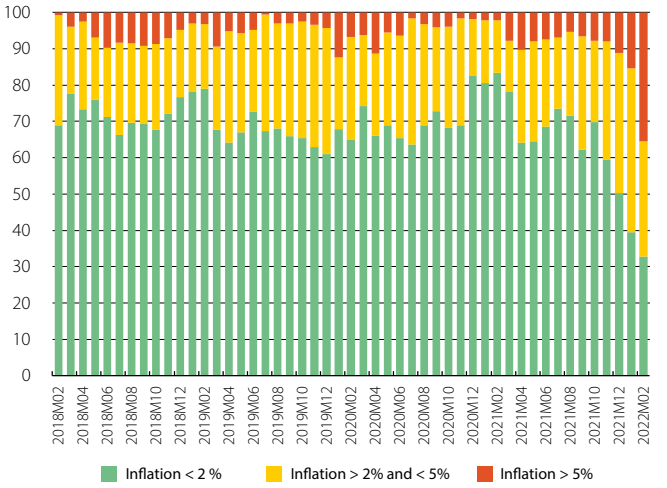
Change (%) *Change (%)*



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

Portugal: inflation's traffic light

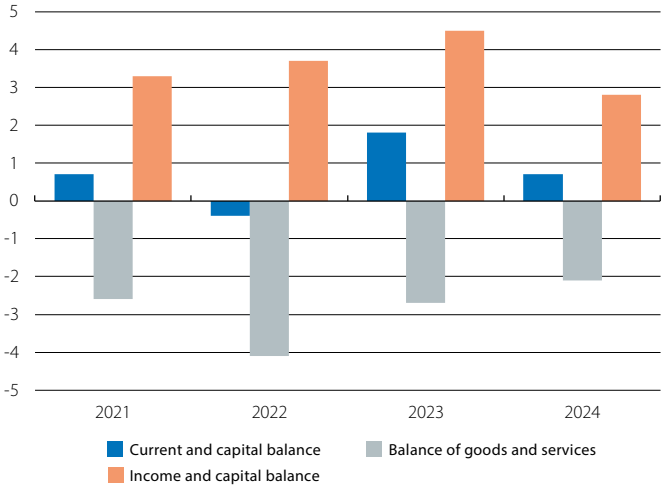
(% of the CPI basket)



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.*

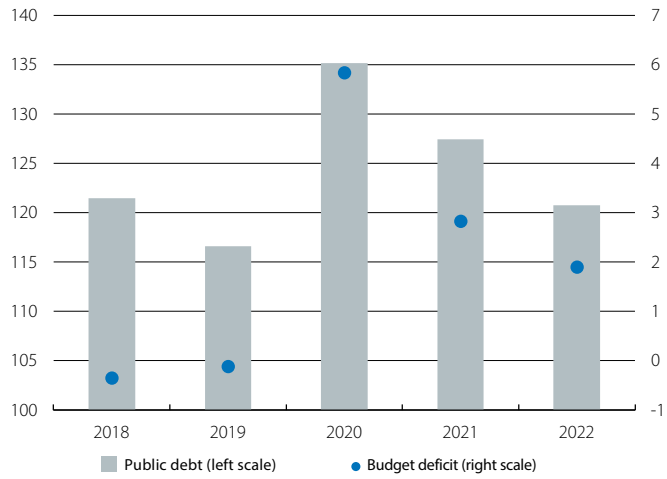
The war will hinder further consolidation of the public accounts in 2022. The budget deficit improved considerably in 2021, falling to 2.8% of GDP (5.8% in 2020), below the government's forecast (4.3%). This was facilitated by the considerable increase in revenues (+10% year-on-year), especially tax 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

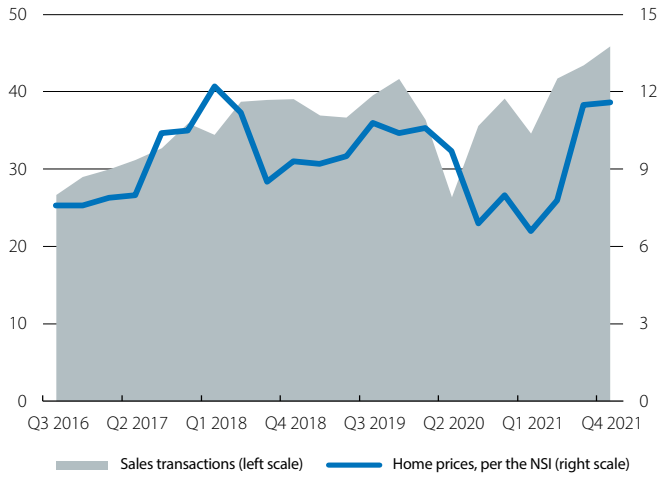
(% of GDP) *(% of GDP)*



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

Portugal: home sales and prices

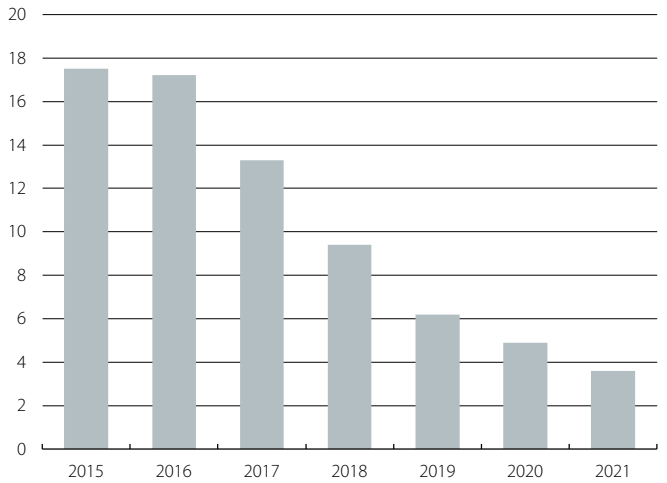
Thousands *YoY change (%)*



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.*

Portugal: what impact will the conflict in Ukraine have on growth?

Up until 24 February, the day when Russian troops invaded Ukraine, the outlook for the growth of the Portuguese economy in 2022 was looking bright. On the one hand, the carry-over effect from 2021 had already itself generated growth of 3.7 pps. On the other hand, investment, consumption and exports were expected to perform well: investment would benefit from the receipt of European funds and the implementation of the RRP; consumption would benefit from the pent-up savings and spending plans deferred during the lockdowns, and tourism, from the recovery of mobility permitted by the greater control of the pandemic. Therefore, before 24 February we were going to revise the forecast for 2022 GDP growth (4.9%) up to 5.5%-6%.

However, the war has turned the situation on its head, and instead of revising the forecasts up we are forced to revise them down: we now estimate that growth in 2022 could be reduced to 4.2%, 7 decimal points below our previous forecast. This forecast is subject to a high degree of uncertainty.

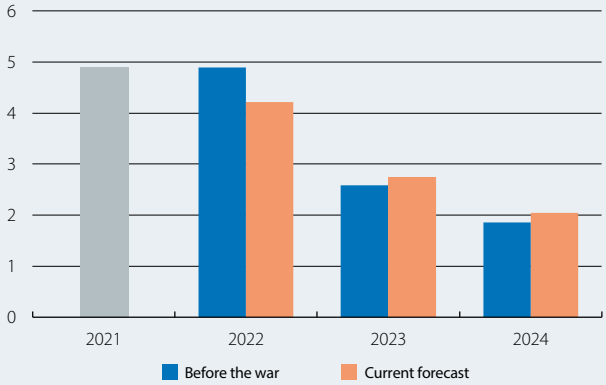
Probably the most significant impact will come from the rise in energy instead of gas prices. But there are other impacts, particularly those related to the confidence of economic agents, which could hamper the recovery in consumption and tourism and trigger a deterioration of Portugal's risk premium.

As a starting point, to estimate the new growth rate expected in 2022, we must take into account the fact that growth in Q4 2021 was stronger than that incorporated into our forecasts. This has a positive impact equivalent to 1 pp on growth in 2022, partly offsetting the negative impacts derived from the conflict.

That said, in a scenario in which the average price of oil is around 105 dollars a barrel (around 16 dollars more than in our initial scenario) and the gas price is rising to around 125 dollars per megawatt on average (50 euros more), and assuming, as seems reasonable, that the demand for these types of goods is relatively rigid (since consumers are unable to easily replace them in the face of a price increase), we estimate that the higher energy prices could subtract 1.1 pps from GDP growth.

The potential impact on the recovery of tourism could also have a cost in terms of growth. Although it is more difficult to estimate, while it is true that Portugal could benefit from the shift of demand from territories that are closer to the conflict and the fact that it is perceived as a safe destination, tourism movements are likely to be affected by deteriorating confidence and the loss of household purchasing power due to rising inflation. We estimate that this could subtract 3 decimal points from growth.

Portugal: projected GDP growth
Annual growth (%)



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

The increasing financing costs of the Portuguese economy, associated with the ECB's debt-purchasing programmes coming to an end[1] or the flight to quality that is common in periods of heightened uncertainty, will also have an unfavourable impact on growth, which we estimate at 2 decimal points. Finally, other impacts associated with the deferral of consumption and investment decisions, driven by factors such as the heightened uncertainty and the need to spend more on energy, could deduct 1 decimal point from growth.

In short, this first attempt at building a new outlook scenario for Portugal's economic growth (taking into account the conflict between Russia and Ukraine and assuming that the tensions ease during the second half of the year) suggests that we will have to wait until early 2023 to see a recovery of pre-COVID levels – a milestone we previously expected to be achieved in mid-2022.

Teresa Gil Pinheiro

1. The ECB will bring its debt-purchase programme to an end this year, but it will continue to reinvest the debt maturities, thus ensuring a significant presence in the sovereign-debt market.

Activity and employment indicators

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	01/22	02/22	03/22
Coincident economic activity index	–5.3	2.6	2.4	4.8	5.2	...	5.5	5.5	...
Industry									
Industrial production index	–6.9	4.5	25.0	–4.7	–1.5	...	–3.2	...	...
Confidence indicator in industry *(value)*	–15.8	–5.7	–5.0	–1.5	–2.7	–1.2	–1.5	–0.5	–1.6
Construction									
Building permits - new housing (number of homes)	0.7	11.9	–28.8	–1.6	–7.6	...	12.8	...	...
House sales	–11.2	20.5	58.2	22.1	17.2	...	–	–	–
House prices *(euro / m² - valuation)*	8.3	8.6	8.5	8.7	11.0	...	10.4	11.9	...
Services									
Foreign tourists *(cumulative over 12 months)*	–76.2	52.0	–74.2	–38.7	52.0	...	92.7	176.0	...
Confidence indicator in services *(value)*	–21.6	–2.9	–9.9	5.5	11.9	9.5	10.7	9.1	8.8
Consumption									
Retail sales	–3.0	4.5	16.0	2.8	6.7	...	10.5	15.8	...
Coincident indicator for private consumption	–6.2	4.2	4.5	7.0	6.4	...	5.4	4.8	...
Consumer confidence index *(value)*	–22.4	–17.2	–17.3	–13.6	–13.5	–19.3	–18.7	–17.1	–22.1
Labour market									
Employment	–1.9	2.8	4.5	4.7	3.1	...	4.6	4.2	...
Unemployment rate (*% labour force*)	7.0	6.6	6.7	6.1	6.3	...	5.8	5.8	...
GDP	**–8.4**	**4.9**	**16.5**	**4.4**	**5.9**	**...**	**–**	**–**	**–**

Prices

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	01/22	02/22	03/22
General	0.0	1.3	0.8	1.5	2.4	3.8	3.3	4.2	5.3
Core	0.0	0.8	0.2	0.9	1.5	2.8	2.4	3.2	3.8

Foreign sector

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	01/22	02/22	03/22
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–10.3	18.2	9.5	13.4	18.2	...	21.3	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–14.8	21.2	1.8	10.3	21.2	...	26.4	...	...
Current balance	**–2.1**	**–2.4**	**–1.6**	**–1.9**	**–2.4**	**...**	**–2.6**	**...**	**...**
Goods and services	–3.9	–5.6	–4.1	–4.4	–5.6	...	–6.0	...	...
Primary and secondary income	1.7	3.2	2.5	2.5	3.2	...	3.4	...	...
Net lending (+) / borrowing (–) capacity	**0.0**	**1.4**	**0.6**	**1.5**	**1.4**	**...**	**0.8**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	01/22	02/22	03/22
Deposits [1]									
Household and company deposits	10.0	9.3	8.6	8.7	9.3	...	9.1	8.3	...
Sight and savings	18.8	16.3	15.3	15.5	16.3	...	15.7	14.2	...
Term and notice	1.2	1.2	1.0	1.0	1.2	...	1.4	1.4	...
General government deposits	–21.0	–4.1	–15.0	–5.2	–4.1	...	–1.6	–2.1	...
TOTAL	**8.9**	**9.0**	**7.7**	**8.2**	**9.0**	**...**	**8.8**	**8.0**	**...**
Outstanding balance of credit [1]									
Private sector	4.6	2.9	4.4	4.2	2.9	...	3.0	2.7	...
Non-financial firms	10.5	2.2	7.2	5.8	2.2	...	2.6	1.6	...
Households - housing	2.1	3.3	2.6	3.3	3.3	...	2.9	2.9	...
Households - other purposes	–1.1	3.1	3.0	3.2	3.1	...	4.1	4.7	...
General government	–4.2	3.8	4.5	4.1	3.8	...	4.5	6.0	...
TOTAL	**4.2**	**2.9**	**4.4**	**4.2**	**2.9**	**...**	**3.0**	**2.8**	**...**
NPL ratio *(%)* [2]	**4.9**	**3.6**	**4.3**	**4.0**	**3.6**	**...**	**–**	**–**	**–**

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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