

Following a brilliant 2022, shadows loom for the Portuguese economy in 2023

The economy dodged contraction in Q4 2022, with GDP growing by 0.2% quarter-on-quarter. This marks a slowdown from the previous quarter, when it grew by 0.4%. However, for 2022 as a whole GDP growth was very high, at 6.7% compared to 5.5% in the previous year, especially considering the adverse context derived from the intensification of the energy crisis.

Indicators for the new year are still very scarce, limited to the sentiment of economic agents in January, which shows a widespread improvement in confidence. This, coupled with a more benign pattern in energy prices and greater resilience shown by the euro area economy, suggests that the Portuguese economy could once again avoid contraction in Q1 2023. However, the outlook for 2023 remains shrouded by uncertainty; we expect GDP to grow by 1%, marking a significant slowdown compared to the past two years, mainly due to the impact of rising interest rates and the cumulative loss of purchasing power.

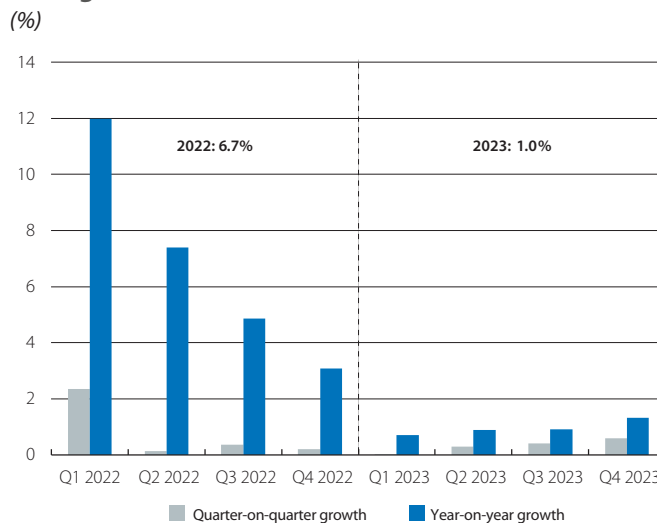
Intense correction in inflation in January. The preliminary figure published by the National Statistics Institute indicates an inflation rate of 8.3%, compared to 9.6% in December. This marks the third consecutive decrease, mainly due to the fall in energy prices (-9.1% monthly). Core inflation, meanwhile, fell from 7.3% down to 7.0% after 15 months of increases.

The labour market is feeling the impact of the slowdown in economic activity. The unemployment rate rose for the second consecutive month in December, reaching 6.7% (seasonally adjusted). This marks the highest rate since June 2021 and is very close to the levels of 2019. The employed population, meanwhile, registered a decrease (-0.5% year-on-year) for the first time since early 2021, although it still remains well above pre-pandemic levels.

The trade balance closed 2022 with a deficit of around 13% of GDP and reached 30 billion euros, 55% more than the previous year, mainly due to the increase in the cost of energy imports. However, the pattern in terms of volume suggests a less negative outlook: up to November, the quantities exported, excluding fuels, increased by around 6.5% year-on-year, exceeding the growth in imports (4%).

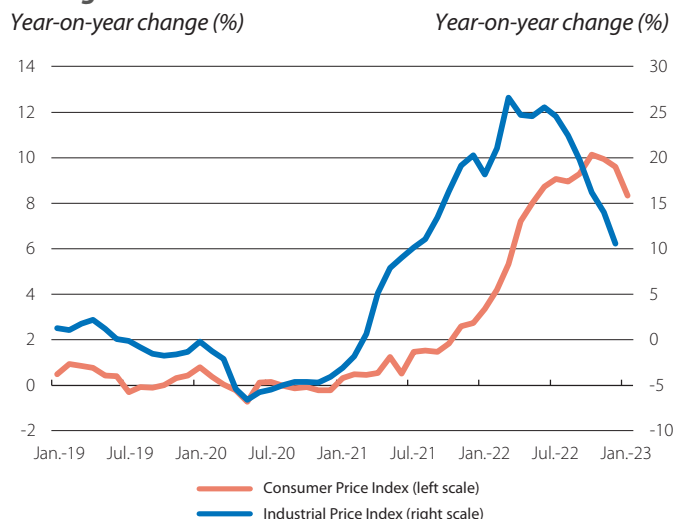
The budget balance improved considerably in 2022. In National Accounting terms, we estimate that the budget deficit fell from 2.9% of GDP to slightly above 1% of GDP. This improvement was due to significant revenue growth (11.1%). Expenditure, meanwhile, increased by 5.1%, due to the implementation of support measures to address the rise in inflation and energy prices. In any case, expenditure was below the level foreseen in the 2022 Government Budget, mainly due to the lower execution of public investment.

Portugal: GDP



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

Portugal: CPI and Industrial Price Index



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

Portugal: unemployment rate *



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