

## Encouraging signs from the Portuguese economy at the start of the year

The good tone of the economic activity indicators poses upside revision risks to our 2023 GDP growth forecast of 1%. Particularly noteworthy was the strong performance of the consumption indicators, especially car sales and air traffic, suggesting that tourism remains a major driver of economic activity. Moreover, the confidence indicators are showing a positive trend across all sectors, with the exception of construction. In addition to this, there are mixed signals coming from the labour market: registered unemployment fell in February (-2.0% month-on-month) for the first time in seven months, while job offers increased (+8.7% month-on-month). In contrast, the unemployment rate rose in January for the third consecutive month to reach 7.1%, its highest level since January 2021.

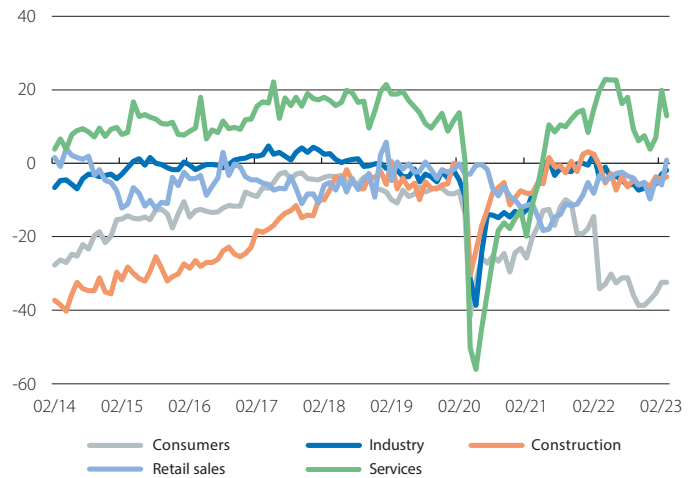
**Headline inflation moderates, but core inflation persists.** According to the flash indicator for March, inflation slowed by 8 percentage points to 7.4%, thanks to the base effect relative to the sharp rise in energy and food prices in March last year. However, core inflation remains very high and fell only 2 percentage points in March, standing at 7%. If energy prices in the international markets remain stable, a further slowdown in the headline CPI is expected in April, when the effects of the zero-VAT measure should also be noted in various items of the basket of food products.

**The price of housing grew by 12.6% in 2022.** However, the latest data point to a cooling of the market: the home price index for Q4 2022 revealed a slowdown (11.3% year-on-year vs. 13.1% previously) and the granting of home loans for new housing fell 13% year-on-year in January.

**The budget deficit for 2022 offers a positive surprise.** It stood at 0.4% of GDP (2.9% in 2021), thanks to revenue growth well in excess of expenditure (10.2% vs. 4.4%), driven by the notable increase in tax revenues (16.6%) and social security contributions (8.5%). On the expenditure side, the interest component continued its downward trend (-9.4%), reaching 2.0% of GDP. This is the lowest level in the series and places the primary balance back in positive territory (1.6% of GDP).

**The current account balance kicks off 2023 in the black.** The current account balance in January registered a surplus of 268 million euros (vs. a deficit of 380 million euros a year earlier), thanks to the improvement in the balance of non-energy goods and, above all, services (mostly tourism). The income balance also contributed to this recovery, as a result of an increase in dividends received, a lower financial contribution to the EU and an increase in transfers received.

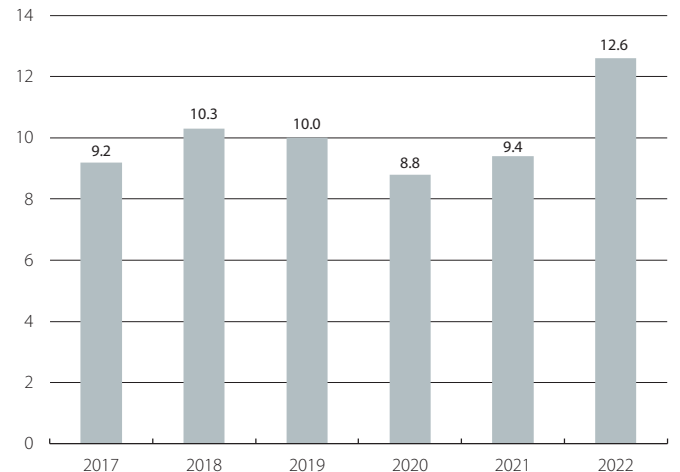
Portugal: confidence indicators (Points)



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

Portugal: home price index

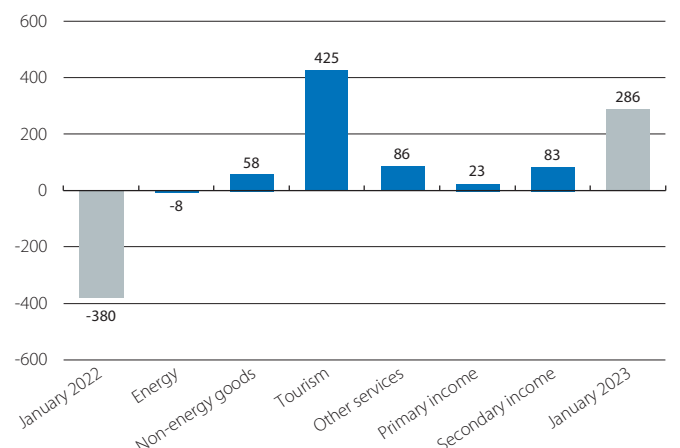
Average annual change (%)



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

Portugal: evolution of the current account balance

(EUR millions)



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