



PORTUGAL MACROECONOMIC TRENDS

31 MAY 2023

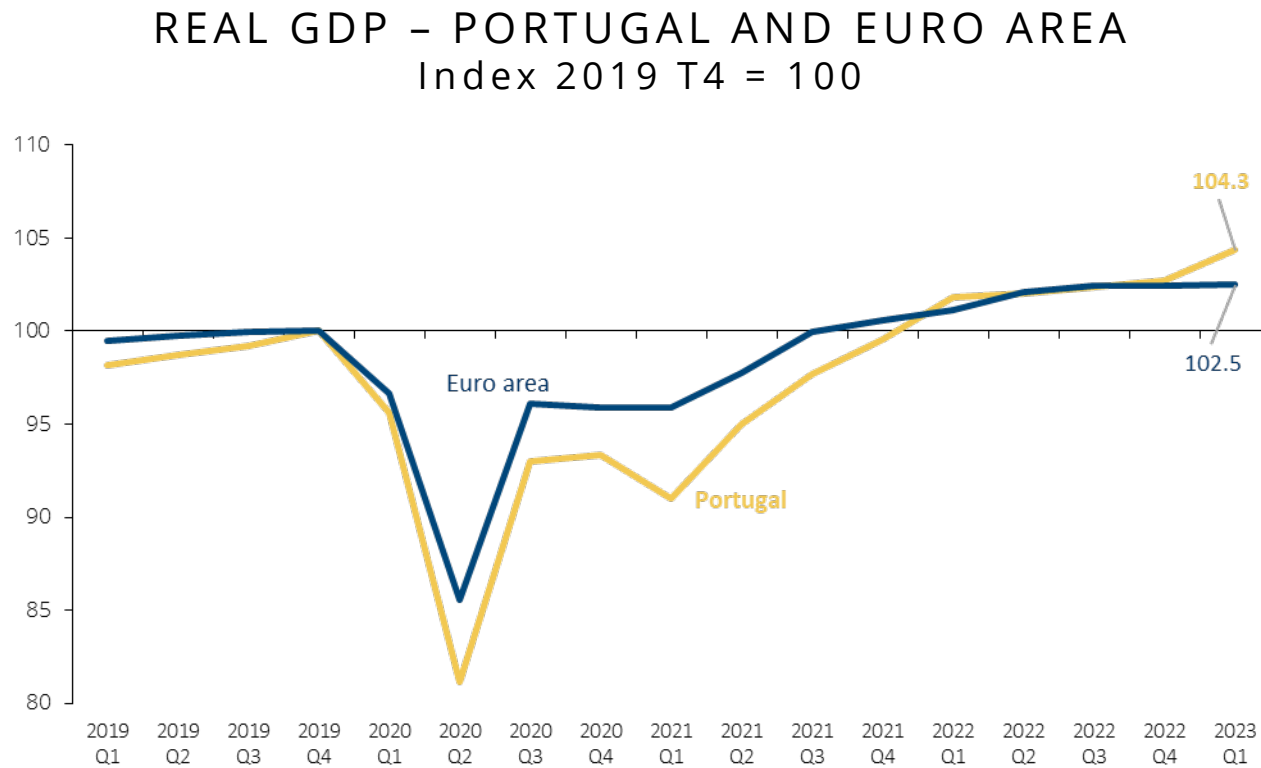


Economic activity recovered and surpassed pre-pandemic levels



Momentum continued in 2023 Q1 with quarter-on-quarter growth of 1,6%. If the level of GDP stayed at Q1 level in the rest of the year, the annual growth rate in 2023 would stand at 2,1%.

Cumulative growth since 2019 Q4 in Portugal is higher than in the euro area.



Source: Statistics Portugal and Eurostat.

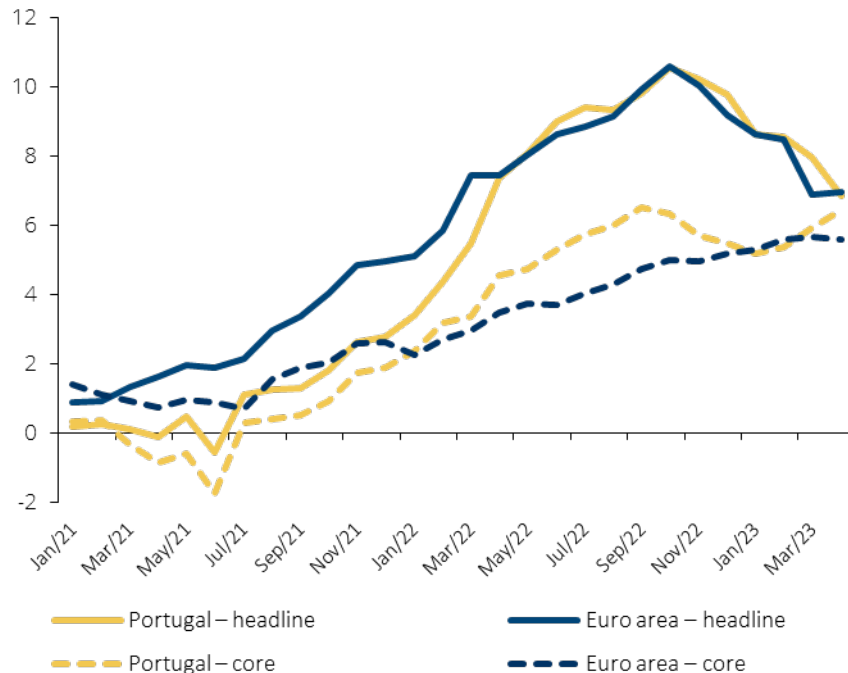
Inflation is receding but remains at high levels



The rise in inflation reflected the effects of the war in Ukraine on energy and food prices, global supply constraints and, to a lesser extent, the recovery in demand.

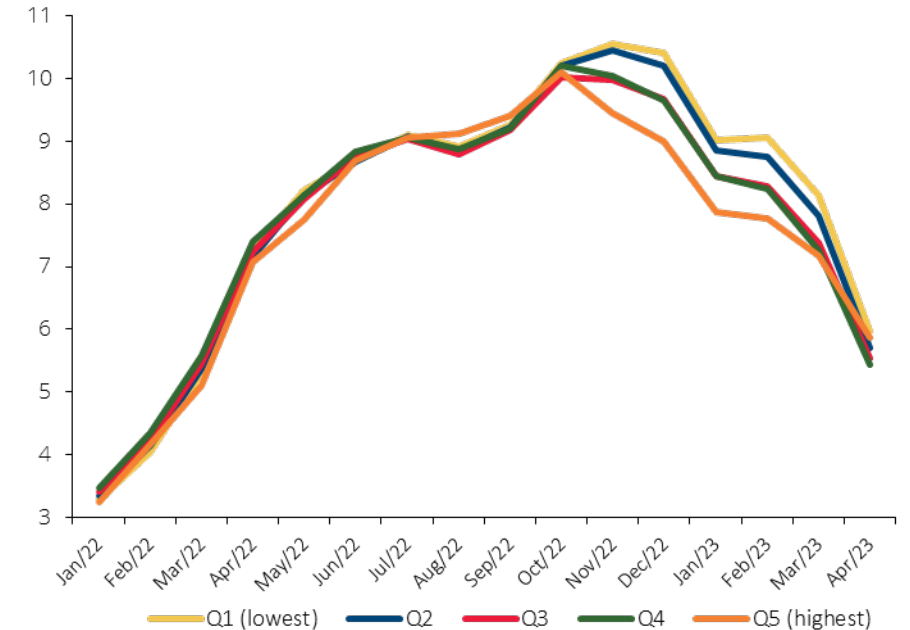
The impact of rising prices has been uneven, with lower-income households facing higher inflation given the stronger increase in food prices, which account for a higher share of their consumption.

IHCP – PORTUGAL AND EURO AREA Year-on-year rate (%)



Sources: Statistics Portugal and Eurostat.

INFLATION ESTIMATES BY INCOME QUINTILE CPI based, year-on-year rate (%)



Source: Statistics Portugal (Banco de Portugal calculations).

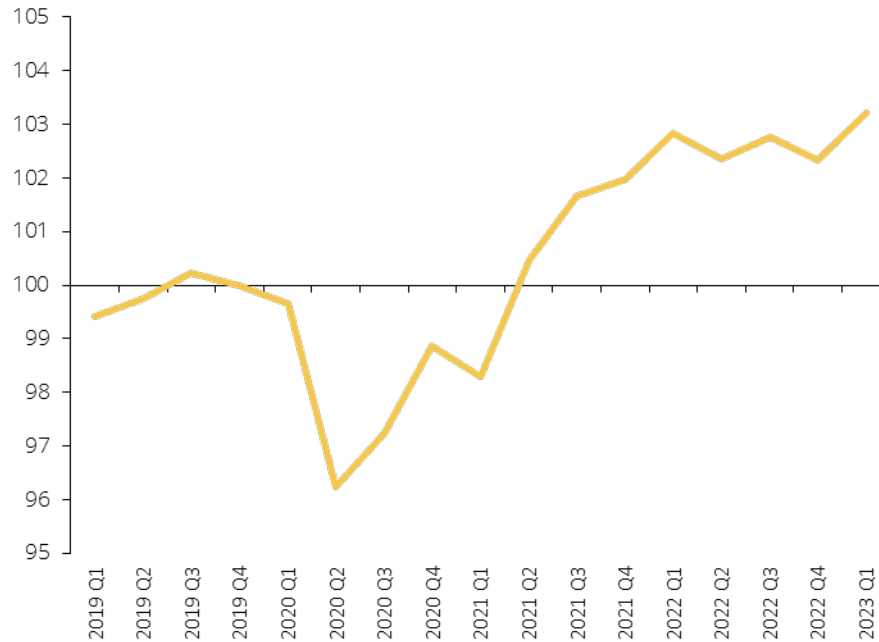
Strong performance of the labor market



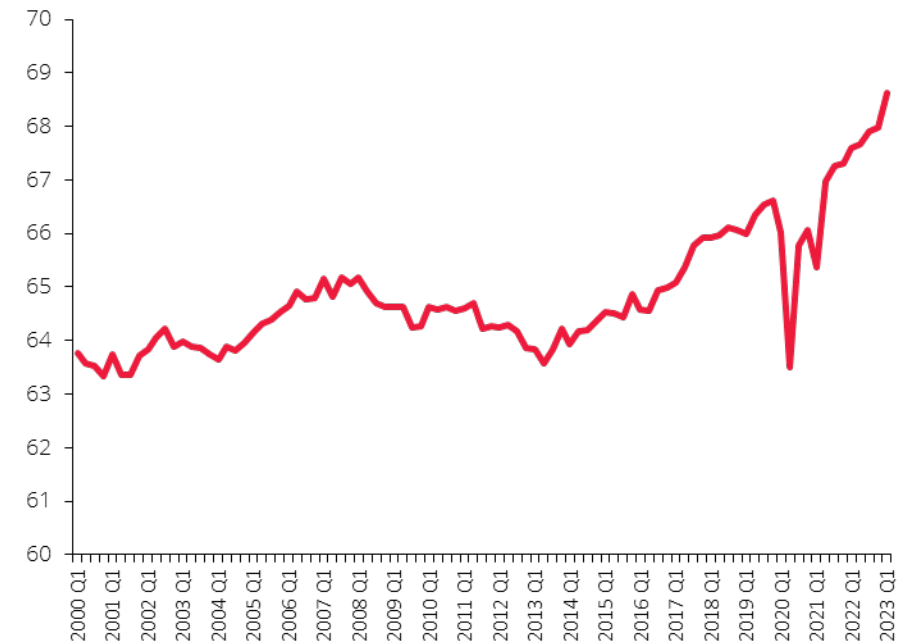
Employment increased, standing above pre-pandemic levels. Businesses signal labor shortages.

The participation rate rose to historically high rates, reflecting its cyclical behavior and structural effects related to the increase in female labor market participation, the greater share of individuals with higher levels of education in the population and the increase in the retirement age.

EMPLOYMENT
Index 2019 T4 = 100



PARTICIPATION RATE
(%)



Source: Statistics Portugal. | Note: Employment and participation rate considering individuals in the 16-70 years age bracket.

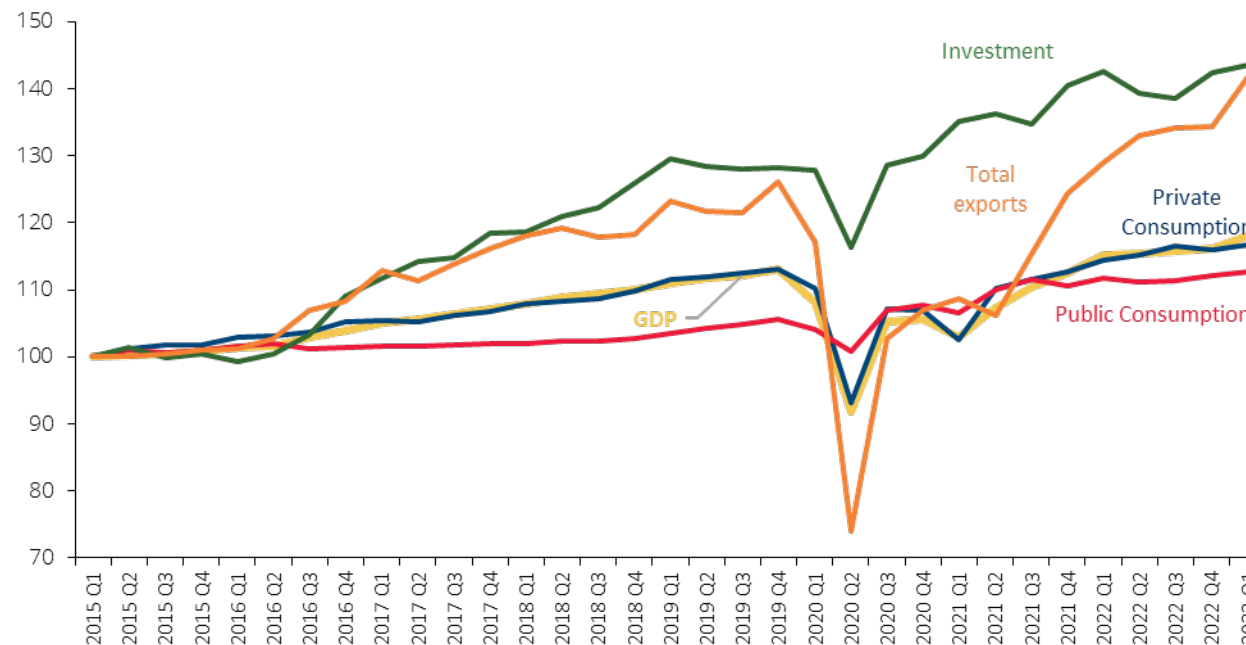
Growth led by the strong recovery of services exports and consumption



The post-pandemic recovery was driven specially by tourism exports which continued to make gains in market share.

Investment, less impacted during the pandemic, decelerated in 2022 due to higher uncertainty and higher financing and production costs. Private consumption remained resilient, reflecting pent-up demand and the reduction in the savings rate.

REAL GDP AND MAIN EXPENDITURE AGGREGATES
Index 2015 Q1 = 100



Source: Statistics Portugal and Banco de Portugal. | Note: The expenditure decomposition in 2023 Q1 is estimated by Banco de Portugal using the available economic indicators.

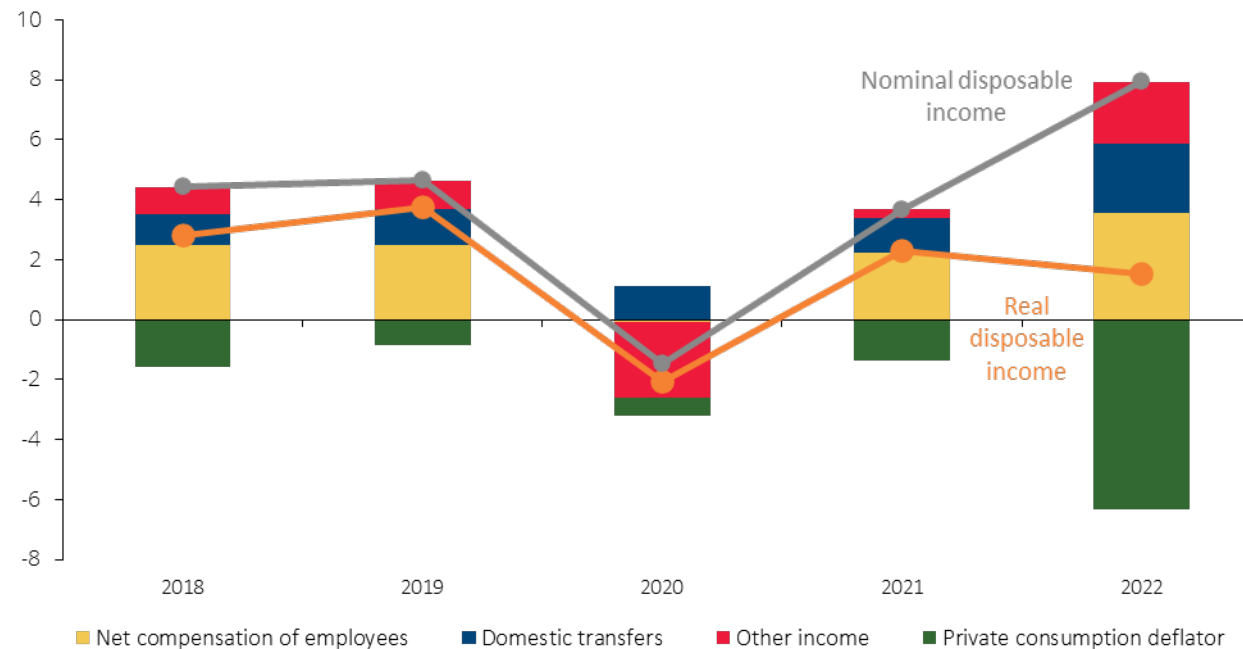
Gains in real households' disposable income



Households' disposable income was sustained by the increase in average wages, strong employment growth and the impact of government support measures. Despite the adverse effects of higher inflation and interest rates, households' income increased in real terms.

Labor market tightness and the increase in the minimum wage contributed to the acceleration in nominal wages.

HOUSEHOLDS' DISPOSABLE INCOME
Annual growth rate (%) and main contributions (pp)



Source: Statistics Portugal (Banco de Portugal calculations).

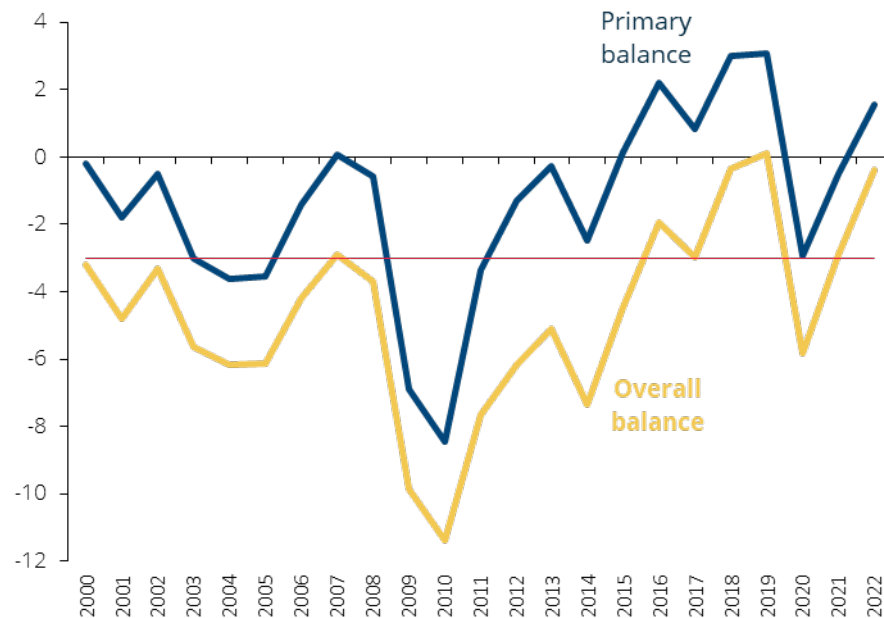
Improving macroeconomic balances (flows)



The fiscal balance and the external accounts are fundamental in signaling the soundness of the economy.

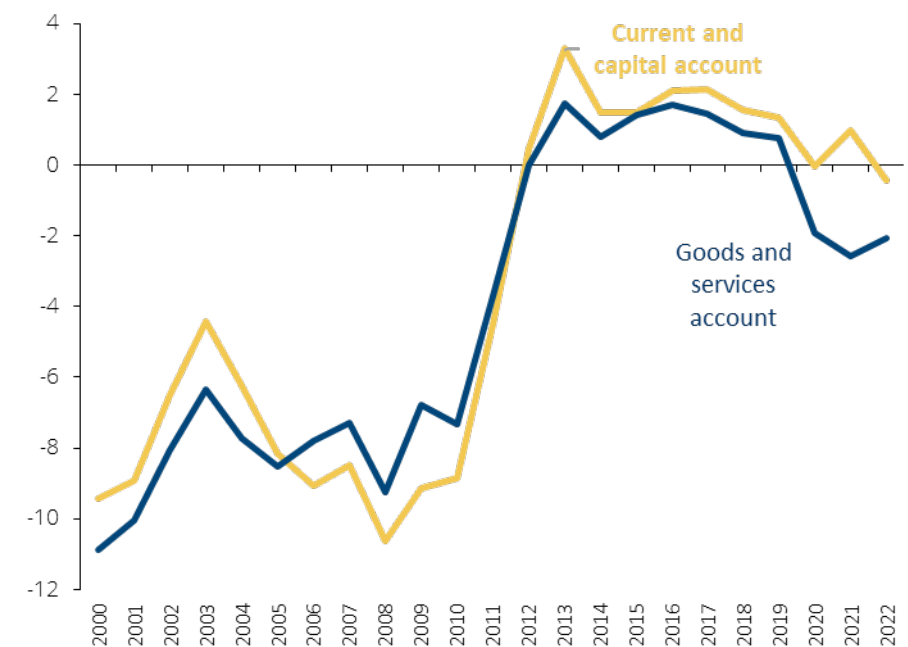
Public finances have recovered after the deterioration during the crisis, helped by strong revenue performance. The current and capital account remained close to balance despite the impact of the deterioration in the terms of trade.

GENERAL GOVERNMENT BALANCE % GDP



Source: Statistics Portugal.

CURRENT AND CAPITAL ACCOUNT % GDP



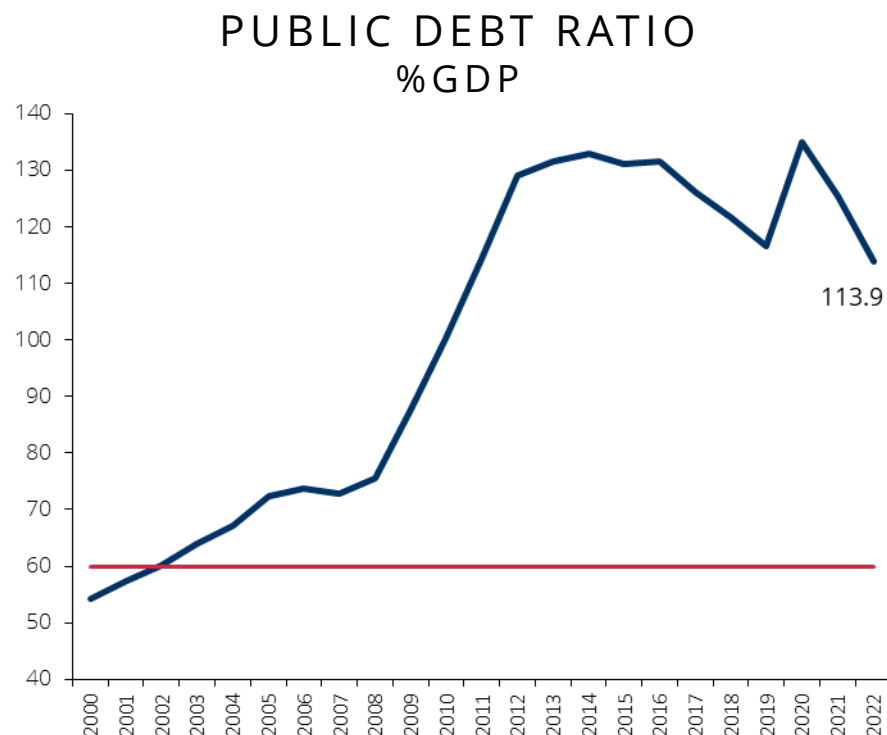
Sources: Statistics Portugal and Banco de Portugal.

Improving macroeconomic balances (stocks)

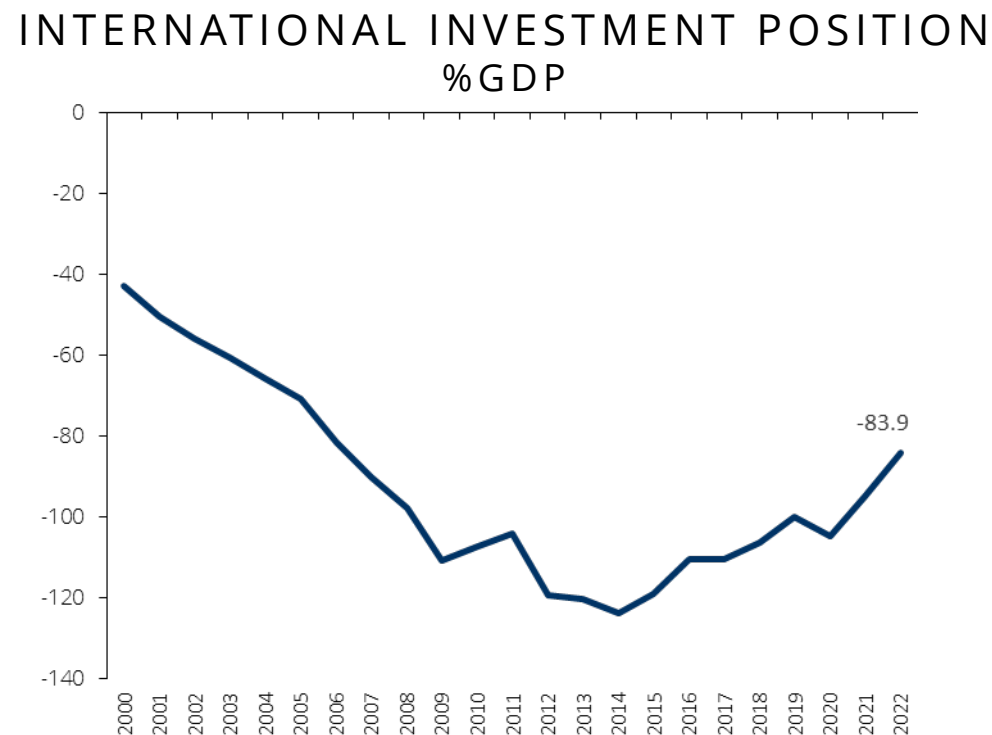


After the increase in the pandemic, the public debt to GDP ratio returned to a declining path, which is crucial given its still high level and the context of rising interest rates and an ageing population.

The international debtor position continued to improve but remains large in international and historical perspective, requiring further effort to consistently reduce vulnerability to external financings shocks.



Source: Statistics Portugal.



Sources: Statistics Portugal and Banco de Portugal.

Main features of BdP projections (to be released in mid-June)



- After increasing by 6,7% in 2022, **economic activity** is expected to expand at a more moderate but still robust pace in 2023-25.
- High inflation, tighter financing conditions and the fading of the recovery dynamics will constrain growth. But the strength of the labor market, the accumulated pandemic savings, the government support measures and the inflow of EU funds are expected to act as shock absorbers.
- Investment and exports will return to their pre pandemic growth paths, increasing their weight in GDP. Private consumption is projected to rise by less than GDP, in a context of subdued real disposable income growth, rising debt-servicing costs and a recovery in the savings rate.
- In the short term, the decrease in **inflation** relies mainly on energy and food prices. Core inflation will take longer to decline due to the lagged effects from past cost increases, recovering profit margins and wage growth. The impact of monetary tightening and anchored inflation expectations ensure that inflation converges to the ECB's medium-term target.
- The **labour market** is expected to remain robust, underpinning households' disposable income, with further employment gains and increases in real wages broadly in line with productivity developments.
- The **current and capital account** is expected to return to surpluses, reflecting still buoyant tourism exports, better terms of trade and increased transfers of EU funds.

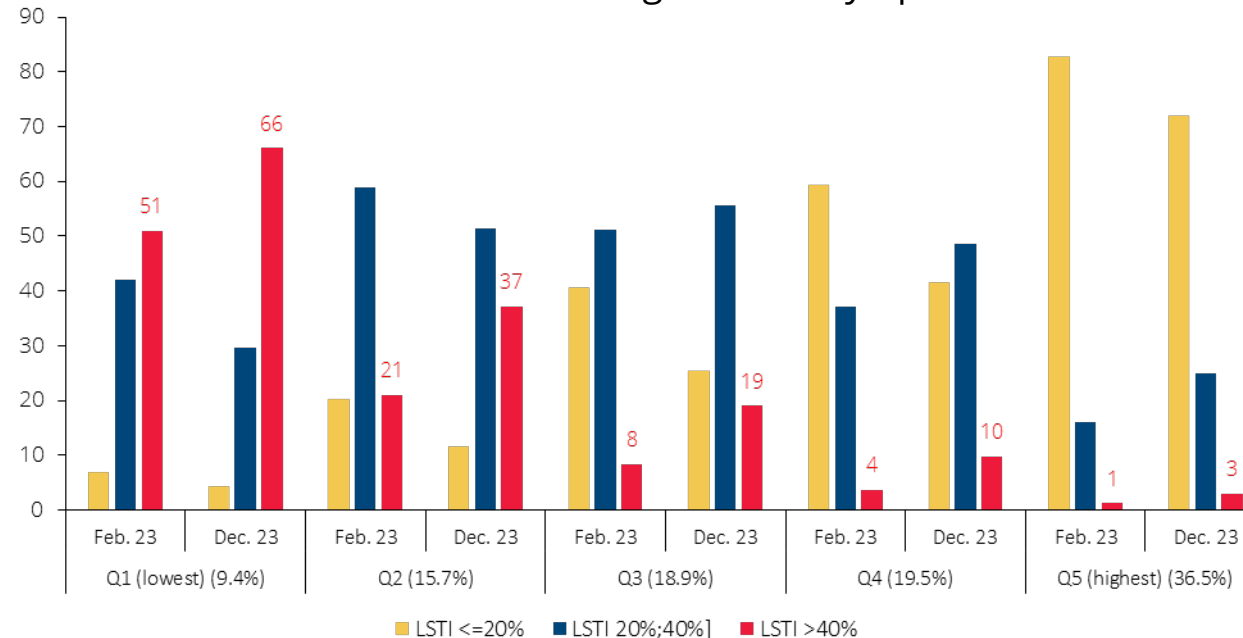
Resilience challenge (1) – impact of rising interest rates on households



Proportion of mortgages with loan service to income ratio (LSTI) over 40% is estimated to increase to 19% in Dec.23 (11% in Feb.23), being more significant for households in the lowest income quintile (accounting for 6% of the stock).

Risk mitigants: reduction in debt levels, pandemic savings, low unemployment, policy measures.

STOCK OF HOUSING LOANS BY LSTI CLASS AND INCOME QUINTILE
% of stock of housing loans by quintile



Source: Statistics Portugal and Banco de Portugal. | Note: The LSTI corresponds to the ratio of the instalment of the housing loan to the borrowers' average monthly income. The percentages next to the quintiles correspond to their weight in the stock of total housing loans.

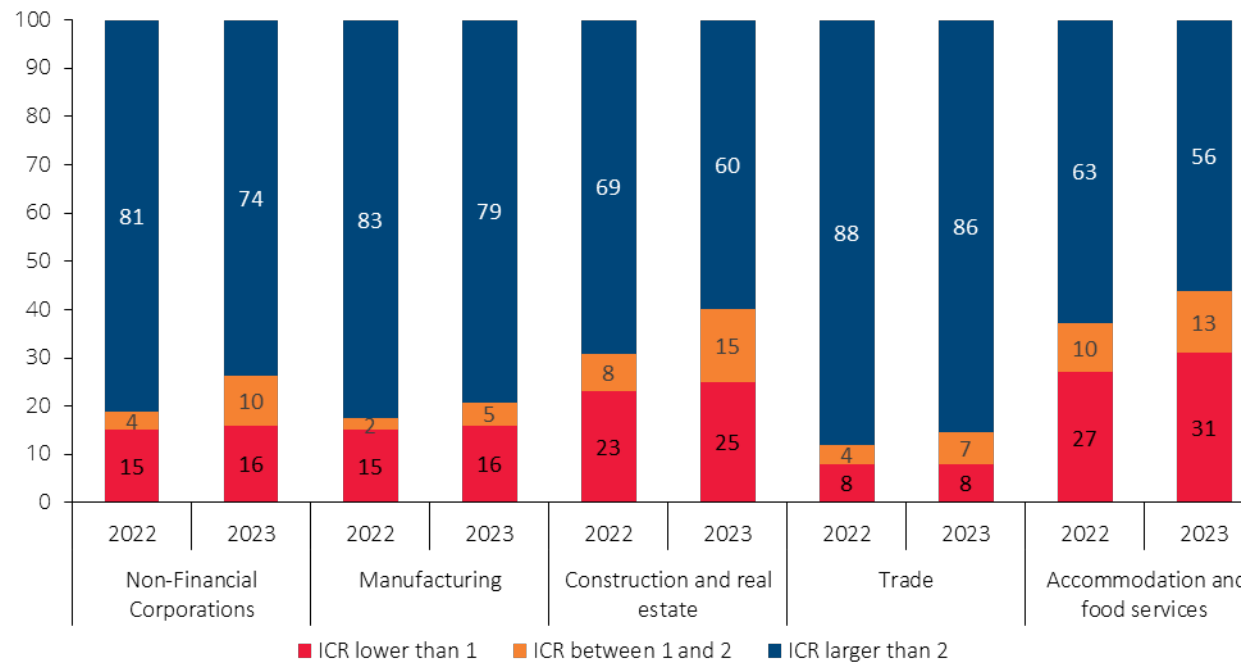
Resilience challenge (2) – impact of rising interest rates on firms



Proportion of firms with interest coverage ratio below 2 is estimated to rise, more noticeably in construction and real estate, but to remain below the level observed during the sovereign debt crisis.

Risk mitigants: deposits accumulated during the pandemic, recovery of profitability, government measures directed to most affected sectors.

NON-FINANCIAL CORPORATIONS BY INTEREST COVERAGE RATIO AND SECTOR
% of firms, weighted by total assets



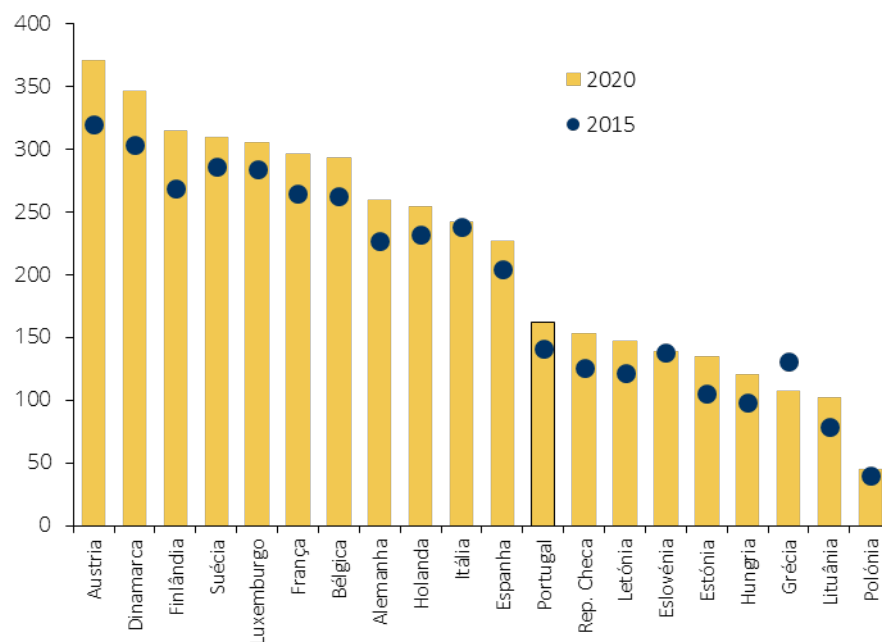
Source: Banco de Portugal. | Notes: Percentages correspond to the proportion of companies in each bracket of the interest coverage (EBITDA/financing costs), weighted by total assets and are based on results of a simulation exercise of firms' financial situation in 2022 and 2023.

Convergence challenge



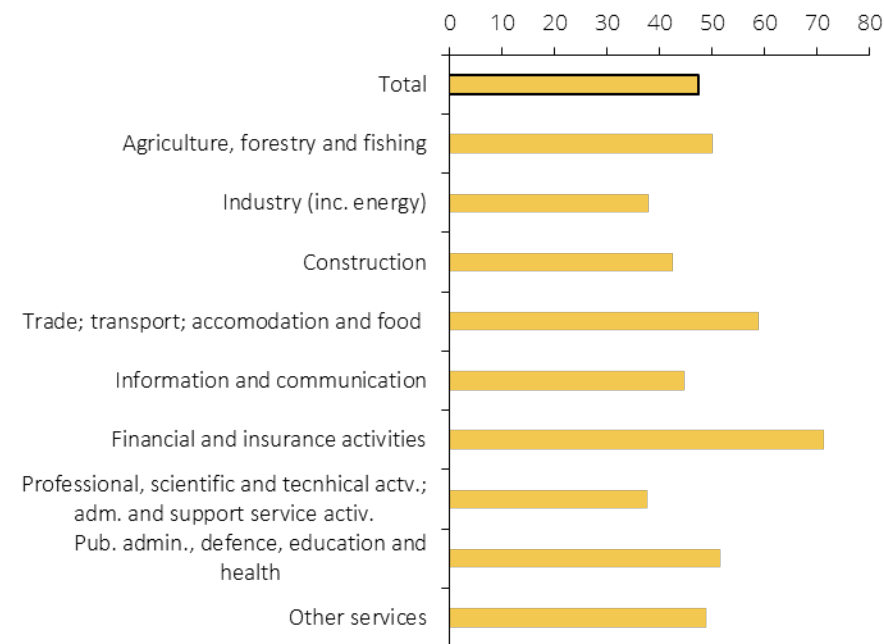
Capital per worker in Portugal has been increasing but remains low by European standards. This contributes to the still significant gap in productivity per hour worked vis-à-vis the euro area, which extends to all sectors of activity.

COEFFICIENT OF CAPITAL INTENSITY Euro 1000 per worker



Source: Eurostat (Banco de Portugal calculations). | Note: Ratio of the fixed assets capital stock at current prices to number of workers.

HOURLY PRODUCTIVITY IN PORTUGAL % of productivity in euro area, 2022



Source: Eurostat (Banco de Portugal calculations). | Note: Productivity per hour worked at 2015 prices.

Demographic and educational transition challenge

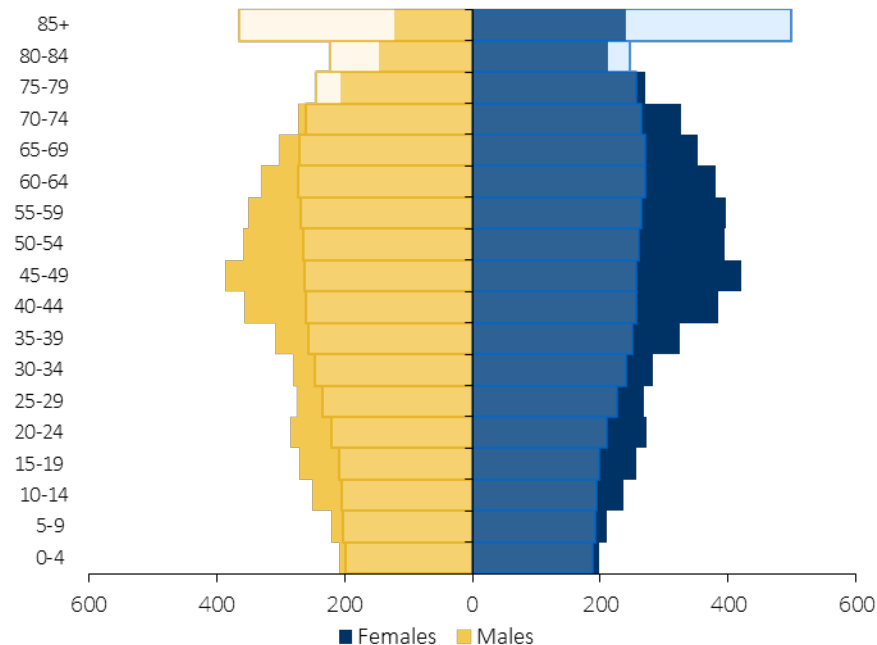


Projections point towards a shrinking and ageing population in the medium to long term, which will constraint economic growth. This may be mitigated by increased migration flows and continuously enhancing of workers' skills.

Education levels in Portugal have been converging to those of the EU-27 but are still lower. For the younger generations, they are already comparable.

POPULATION AGE PYRAMIDS (2021 AND 2100)

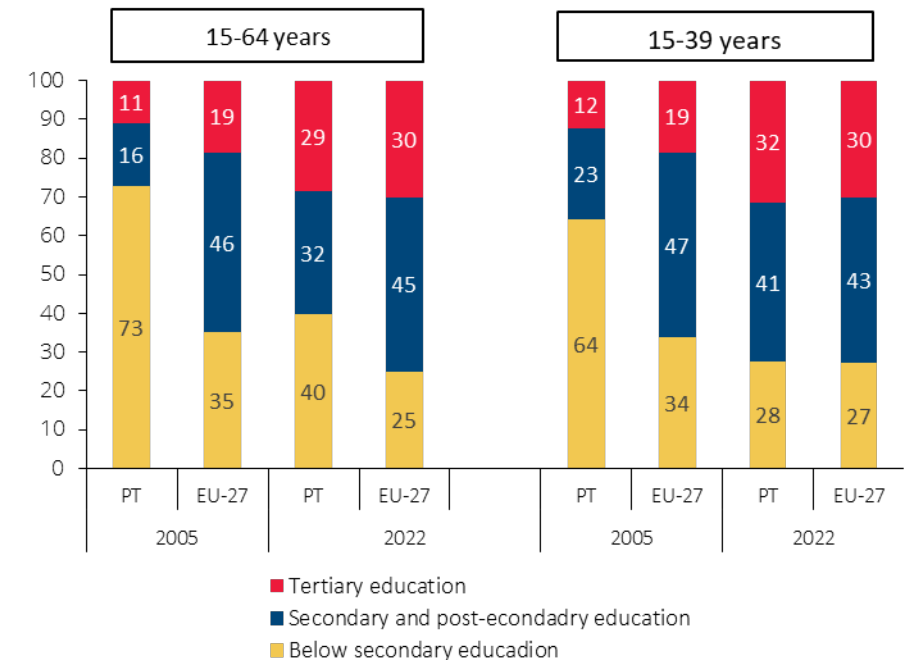
Thousand individuals by age group



Sources: Eurostat (Banco de Portugal calculations). | Note: The darker shade denotes 2021, while the brighter shade denotes 2100.

POPULATION BY LEVEL OF EDUCATION

% of total



Source: Eurostat.

THANK YOU OBRIGADA TAK!