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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
JANUARY 2026

INTERNATIONAL ECONOMIES AND MARKETS

DOSSIER: AN ANALYSIS OF EUROPEAN PRODUCTIVITY

BPI

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

January 2026

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

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Words for the economic labyrinth

If the 2025 word of the year according to the Foundation of Urgent Spanish (FundéuRAE) was «tariff», the range of potential candidates for this new year should include words such as uncertainty or geopolitics, if we let ourselves be carried away by the vertigo of recent events, or affordability, underscoring the scars caused by the various shocks that have ravaged the international economy since 2020. In all cases, these are words that reflect the effects of tectonic movements on the old international economic order, which has been subject to more changes since the pandemic than in the previous four decades. This has been highlighted once again following the US' intervention in Venezuela, with the oil market as a potential channel affecting the economy in the medium term, considering the abundant crude oil reserves that exist in the Venezuelan subsoil (around 20% of the world's total) and the current low production capacity (slightly less than one million barrels per day) due to the obsolescence of its infrastructure. Therefore, the main source of risk in the short term is once again geopolitics, with a renewed acceleration in the transition from multilateralism towards a new framework shaped by spheres of influence and multipolar competition, which may increase tensions in areas of high strategic importance such as Taiwan or Greenland. The EU is once again in the spotlight, forced to make decisions while still midway through the process of seeking strategic autonomy, despite the progress made by agreeing to issue 90 billion euros in eurobonds to cover Ukraine's short-term financing needs.

All this noise linked to the rebalancing of the foreign policy of the world's leading economic power should not overshadow some significant signals from recent weeks. These include a Chinese trade surplus, which has now reached the psychological figure of one trillion dollars in annual terms and reflects the Asian giant's ability to adapt to the new geo-economic reality; the drop in the Spanish risk premium to the lows of 2009, and the appointment of a Greek as president of the Eurogroup just over a decade after the country's bailout. Meanwhile, activity indicators continue to show resilience and global inflation is proceeding to converge on the central banks' targets, albeit with the question mark of the US. What remains unclear is whether or not we are witnessing the calm before the storm. After all, as Gita Gopinath recently reminded us using the example of Brexit, the structural damage caused by inadequate economic policies such as an increase in trade barriers tends to manifest slowly and, in most cases, is difficult to undo.

In the short term, the effects of the investment boom in artificial intelligence and an expansive fiscal policy, along with more dovish monetary conditions, should allow the cruising speed of the international recovery to be maintained and compensate for adversities. However, that apparent resilience in the global economy could prove to have feet of clay if any of those engines end up seizing. Furthermore, it should be noted that we are seeing a K-shaped recovery, with marked geographical, sectoral and even generational divergences in some countries, and with the economic difficulties of certain segments of the population (what some are calling an affordability crisis) explaining much of the electoral upheaval of recent years on both sides of the Atlantic. The question is what economic policies can help to reverse this situation and make the benefits of the current economic growth – and that which should come with the impending technological change – more inclusive. The answer is not simple without modifying the delicate balance between efficiency and equity. What is clear, as highlighted in the Dossier of this report, is that productivity is the ultimate driver of sustainable economic growth and long-term well-being. A sustained increase in productivity would allow for an increase in citizens' purchasing power and, therefore, improve their living conditions. Moreover, it would pave the way to address the challenges that Europe is facing (demography, energy transition and strategic autonomy, among others) and, ultimately, to maintain the region's relevance in the face of the challenges of the new global scenario. One particular statistic is worth highlighting: real growth per hour worked in the EU since COVID-19 has been 0.5% (1.7% in the period 1996-2007), so the lever for boosting the region's potential growth is very clear, as highlighted by the Draghi report last year. It is time to reverse this trend and make productivity the most important economic buzzword in Europe, not only in 2026 but also in the years to come.

José Ramón Díez
January 2026

Chronology

DECEMBER 2026

10 The Fed cuts rates by 25 bps, placing them in the 3.50%-3.75% range.
18 The Bank of England cuts rates by 25 bps, to 3.75%.
19 The Bank of Japan raises rates by 25 bps, to 0.75%.

OCTOBER 2025

29 The Fed lowers the fed funds rate by 25 bps to the 3.75%-4.00% range, its second cut of the year, and announces an end to the balance sheet reduction process.

AUGUST 2025

5 The majority of the reciprocal tariffs imposed by the US on other countries come into force.
29 S&P upgrades its credit rating for Portuguese debt to A+.

NOVEMBER 2025

12 End to the longest government shutdown in US history.

SEPTEMBER 2025

9 The US Supreme Court agrees to fast-track the review of the legality of Trump's tariffs.
12 S&P upgrades its credit rating for Spanish debt to A+ and Fitch raises Portugal's to A.
17 The Fed cuts interest rates by 25 bps to the 4.00%-4.25% range, after a nine-month pause.
26 Moody's and Fitch upgrade their credit ratings for Spanish debt to A3 and A, respectively.

JULY 2025

27 Agreement between the EU and the US establishing a general tariff of 15%, as well as preferential treatment for a number of strategic products and a European commitment to make purchases from and investments in key US industries.

Agenda

JANUARY 2026

5 Spain: registration with Social Security and registered unemployment (December).
7 Portugal: employment and unemployment (November).
Euro area: CPI flash estimate (December).
8 Euro area: economic sentiment indicator (December).
9 Spain: financial accounts (Q3).
16 China: GDP (Q4).
26 Spain: loans, deposits and NPL ratio (November).
27 Spain: labour force survey (Q4).
Portugal: appraisal value of housing (December).
27-28 Federal Open Market Committee meeting.
29 US: GDP (Q4).
30 Spain: GDP flash estimate (Q4).
Spain: CPI flash estimate (January).
Portugal: GDP flash estimate (Q4).
Portugal: CPI flash estimate (January).
Portugal: budget execution (December).
Portugal: tourism activity (December).
Euro area: GDP (Q4).
Euro area: economic sentiment indicator (January).

FEBRUARY 2026

2 Portugal: industrial production (December).
3 Spain: registration with Social Security and registered unemployment (January).
4 Portugal: employment and unemployment (Q4).
Euro area: CPI flash estimate (January).
5 Governing Council of the European Central Bank meeting.
6 Spain: industrial production (December).
9 Portugal: international trade (December).
13 Portugal: average gross monthly salary per worker (Q4).
16 Japan: GDP (Q4).
19 Spain: foreign trade (December).
25 Spain: loans, deposits and NPL ratio (December).
27 Spain: CPI flash estimate (February).
Spain: balance of payments (December).
Euro area: economic sentiment indicator (February).
Portugal: GDP breakdown (Q4).
Portugal: CPI flash estimate (February).

The main factors for the Portuguese economy in 2026

The rapid and unpredictable reconfiguration of the global geopolitical order offers no respite and forces a constant reassessment of the situation of each economy. What is the starting point, what are the strengths and points of support, and what are the vulnerabilities or aspects that need to be addressed to strengthen resilience? In a fragile and uncertain international context, reinforcing this last aspect seems more necessary than ever. The overall assessment of the Portuguese economy is relatively positive, especially with regard to recent trends, but there are still significant challenges to overcome in order to sustain this trend in the medium term.

The Portuguese economy ended 2025 with dynamic data and better-than-expected results. Job creation maintained a remarkable growth rate, accelerating compared to previous quarters. In the first eleven months of 2025, employment increased by 3.2%, accelerating to 3.8% in the six months to November, a fact that reflects the dynamism of the economy generally. Household consumption also performed well, although it is expected to have slowed in the final quarter of the year, following one-off measures to boost household disposable income in Q3 (tax relief and extra payments to pensioners). Business investment will also have contributed to the expansion cycle of the Portuguese economy, supported by the accelerated implementation of the Recovery and Resilience Plan (PRR). And exports, despite the challenging international environment, maintained a positive growth rate thanks to the dynamism of the services sector, both related to tourism and to other sectors.

The economic activity model used by BPI Research, which estimates short-term GDP growth based on information from various high-frequency indicators, points to year-on-year growth of close to 2% in Q4 2025, better than expected in BPI Research's forecast scenario. If this is confirmed, the Portuguese economy will be well positioned to face 2026 and will likely lead to an upward revision of our growth forecast for this year, currently at 2.0%.

In addition to the starting point, several factors are expected to continue driving the economy in the coming quarters, primarily household consumption and investment. The interest rate cuts implemented by the ECB up to the middle of last year will continue to have a positive impact in the coming quarters. Meanwhile, the implementation of European funds (PRR), which reaches its final phase in 2026, will help investment maintain a significant growth rate. Furthermore, population growth, driven by migration flows, is expected to continue to support employment and consumption.

However, it's not all roses. The international context is unfavourable. Portugal's main trading partners are experiencing moderate growth, and the uncertainty generated by the reconfiguration of the geopolitical order, with its implications in various areas, is also hindering activity.

In the domestic market, the growing imbalance in the real estate sector is evident in the sharp rise in transaction prices throughout 2025. The strong growth in demand for housing is not being matched by a corresponding increase in supply. The housing shortage continues to increase, especially in high-demand areas such as Lisbon and Porto. For reference, assuming an average household size of 2.41 people in Greater Lisbon and 2.57 in the Porto Metropolitan Area (data extrapolated from information dated 2021), between 2023 and 2024 the estimated number of households increased by 12,462 and 6,052, respectively in Greater Lisbon and in the Porto Metropolitan Area. On the other hand, the number of licensed dwellings in new constructions for family housing in each of the regions totalled only 8,768 and 4,294 in 2024 (8,252 and 4,567 in 2023), respectively. Although these figures are indicative and depend on assumptions we had to make given the lack of more detailed and recent concrete information that would allow for a more complete diagnosis, the difference between supply and demand is clear, with demand continuing to increase, since building permits for new developments are growing at a rather slow pace, failing to meet demand in the pipeline. This situation continues to put upward pressure on prices (average annual prices up to November increased by about 18%, according to CI data, and 16% up to Q3 2025, according to INE) and to make access to housing more difficult, particularly for the most vulnerable groups.

Increasing productivity growth is also one of the main challenges facing the Portuguese economy, given that Portugal is one of the countries where the majority of its territory has productivity 25% below the European average. As described in the Dossier accompanying this publication, all regions can boost their strengths to further lift productivity, as well as areas that are at a disadvantage. None of these disadvantages are insurmountable: addressing these weaknesses will improve the growth potential and resilience of their economies. The study also highlights the importance of geographical factors: proximity to a productive region facilitates the progress of both regions, and vice versa. Therefore, a joint effort between all regions and a focus on factors that enhance productivity improvements will increase the likelihood of success and help strengthen Portugal's economic prospects, not only in 2026, but also in the medium term.

Paula Carvalho and Oriol Aspachs

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	0.67	5.25	4.25	3.50	3.00
3-month SOFR	3.62	1.01	1.07	5.37	4.37	3.71	3.10
12-month SOFR	3.86	1.48	1.48	4.95	4.19	3.48	3.10
2-year government bonds	3.70	1.04	1.21	4.46	4.24	3.51	3.50
10-year government bonds	4.69	2.57	1.76	4.01	4.40	4.14	4.50
Euro							
ECB depo	2.05	0.20	–0.30	4.00	3.09	2.00	2.00
ECB refi	3.05	0.75	0.20	4.50	3.24	2.15	2.15
€STR	–	–0.54	–0.38	3.90	3.06	1.93	1.97
1-month Euribor	3.18	0.50	–0.32	3.86	2.89	1.92	2.03
3-month Euribor	3.24	0.65	–0.21	3.94	2.83	2.05	2.06
6-month Euribor	3.29	0.78	–0.07	3.93	2.63	2.14	2.11
12-month Euribor	3.40	0.96	0.10	3.68	2.44	2.27	2.18
Germany							
2-year government bonds	3.41	0.35	–0.21	2.55	2.02	2.13	1.99
10-year government bonds	4.30	1.54	0.14	2.11	2.22	2.84	2.80
Spain							
3-year government bonds	3.62	1.69	0.18	2.77	2.26	2.39	2.73
5-year government bonds	3.91	2.19	0.38	2.75	2.48	2.64	3.04
10-year government bonds	4.42	3.17	0.99	3.09	2.90	3.28	3.60
Risk premium	11	164	85	98	68	45	80
Portugal							
3-year government bonds	3.68	3.33	0.07	2.33	2.03	2.16	2.21
5-year government bonds	3.96	3.94	0.35	2.42	2.15	2.49	2.68
10-year government bonds	4.49	4.67	0.96	2.74	2.68	3.14	3.50
Risk premium	19	314	82	63	46	31	70
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.09	1.05	1.17	1.20
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.86	0.83	0.87	0.90
EUR/GBP (yen per euro)	129.56	126.41	129.91	156.99	161.18	182.71	168.00
OIL PRICE							
Brent ($/barrel)	42.3	80.1	71.0	77.3	73.1	61.6	65.3
Brent (euros/barrel)	36.1	62.5	63.9	70.9	69.8	52.6	54.4

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
GDP GROWTH[1]							
Global	4.3	3.3	2.5	3.5	3.3	3.1	3.1
Developed countries	*2.7*	*1.5*	*1.7*	*1.8*	*1.8*	*1.6*	*1.6*
United States	2.7	1.8	2.1	2.9	2.8	1.8	1.9
Euro area	2.6	1.0	1.3	1.1	0.9	1.3	1.2
Germany	1.6	1.3	0.4	–0.7	–0.5	0.2	1.1
France	2.3	1.0	0.7	1.6	1.1	0.6	0.7
Italy	1.5	–0.3	1.6	1.1	0.5	0.5	0.7
Portugal	1.5	0.4	1.5	3.1	2.1	1.8	2.0
Spain	3.6	0.7	0.7	2.5	3.5	2.9	2.1
Japan	1.4	0.4	–0.2	1.5	0.1	1.0	1.0
United Kingdom	2.8	1.2	1.0	0.4	1.1	1.3	1.2
Emerging and developing countries	*6.3*	*4.9*	*3.1*	*4.7*	*4.3*	*4.2*	*4.0*
China	10.6	8.0	4.7	5.4	5.0	4.6	4.0
India	7.2	6.7	3.8	8.9	6.7	6.8	6.6
Brazil	3.6	1.6	1.5	3.2	3.4	2.0	1.8
Mexico	2.3	1.5	0.5	3.1	1.4	0.8	1.4
Russia	–	1.4	0.6	4.1	4.3	1.7	1.3
Türkiye	5.5	4.5	6.3	6.6	3.3	3.2	2.9
Poland	4.1	3.7	3.5	0.2	3.0	3.5	3.3
INFLATION							
Global	4.1	3.7	5.5	6.6	5.7	4.2	3.9
Developed countries	*2.1*	*1.6*	*3.7*	*4.6*	*2.6*	*2.4*	*2.2*
United States	2.8	1.8	4.6	4.1	3.0	2.8	2.8
Euro area	2.2	1.4	3.7	5.4	2.4	2.1	2.0
Germany	1.7	1.4	4.1	6.0	2.5	2.3	2.1
France	1.9	1.3	2.8	5.7	2.3	0.9	1.7
Italy	2.4	1.4	3.5	5.9	1.1	1.7	1.7
Portugal	3.1	1.1	3.0	4.3	2.4	2.3	2.1
Spain	3.2	1.3	3.7	3.5	2.8	2.7	2.0
Japan	–0.3	0.4	0.7	3.3	2.7	1.5	1.5
United Kingdom	1.6	2.3	4.2	7.3	2.5	3.4	2.5
Emerging and developing countries	*6.9*	*5.5*	*6.8*	*8.0*	*7.7*	*5.3*	*4.9*
China	1.7	2.6	1.8	0.2	0.2	0.0	1.0
India	4.6	7.3	6.1	5.7	5.0	4.6	4.4
Brazil	7.3	5.7	6.9	4.6	4.4	4.9	4.2
Mexico	5.2	4.2	5.7	5.5	4.7	4.4	3.7
Russia	14.2	7.9	8.0	5.9	8.5	8.4	6.0
Türkiye	22.6	9.6	34.7	53.9	58.5	34.9	26.1
Poland	3.5	1.9	7.4	10.8	3.7	3.5	3.2

Note: *1. Figures adjusted for seasonality and calendar effects for the euro area, Germany, France, Italy, Portugal, Spain and Poland. Figures adjusted for seasonality for the United States and the United Kingdom.*

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

Portuguese economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	1.8	0.5	1.2	2.3	3.0	3.2	2.3
Government consumption	2.2	–0.3	2.0	1.8	1.5	1.5	1.5
Gross fixed capital formation	–0.4	–0.7	2.9	6.0	3.8	2.7	5.5
Capital goods	3.3	2.7	5.5	8.6	8.0	–	–
Construction	–1.4	–2.4	2.6	4.5	3.0	–	–
Domestic demand (vs. GDP Δ)	1.3	0.0	1.9	2.2	2.9	3.4	2.9
Exports of goods and services	5.3	4.0	3.6	4.2	3.1	1.0	2.7
Imports of goods and services	3.6	2.7	4.0	2.3	4.8	4.6	4.3
Gross domestic product	**1.5**	**0.4**	**1.5**	**3.1**	**2.1**	**1.8**	**2.0**
Other variables							
Employment	0.4	–0.4	1.1	2.3	1.2	2.3	0.9
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.5	6.4	6.3	6.4
Consumer price index	3.1	1.1	3.0	4.3	2.4	2.3	2.1
Current account balance (% GDP)	–9.2	–2.8	–1.1	0.6	2.2	0.6	0.9
External funding capacity/needs (% GDP)	–7.7	–1.5	0.1	2.0	3.3	2.5	2.5
Fiscal balance (% GDP)	–4.5	–5.1	–3.0	1.3	0.5	–0.1	–1.2

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.0	1.7	3.0	3.1	2.4
Government consumption	4.5	0.9	2.6	4.5	2.9	1.3	0.9
Gross fixed capital formation	5.7	–1.2	–0.7	5.9	3.6	5.3	3.3
Capital goods	4.9	0.2	–2.7	2.6	1.9	8.6	3.3
Construction	5.7	–2.6	–1.3	5.5	4.0	4.0	3.4
Domestic demand (vs. GDP Δ)	4.4	–0.2	0.8	1.5	3.2	3.1	2.3
Exports of goods and services	4.7	2.9	2.5	2.2	3.2	4.2	2.2
Imports of goods and services	7.0	0.2	2.5	0.0	2.9	5.4	2.9
Gross domestic product	**3.6**	**0.7**	**0.7**	**2.5**	**3.5**	**2.9**	**2.1**
Other variables							
Employment	3.2	–0.5	1.4	3.2	2.4	3.0	1.8
Unemployment rate (% of labour force)	10.5	19.5	14.5	12.2	11.3	10.4	9.7
Consumer price index	3.2	1.3	3.7	3.5	2.8	2.7	2.0
Unit labour costs	3.1	0.6	3.6	6.1	4.0	4.0	3.0
Current account balance (% GDP)	–5.8	–0.2	0.6	2.7	3.1	2.3	2.5
External funding capacity/needs (% GDP)	–5.2	0.2	1.4	3.7	4.2	3.4	3.6
Fiscal balance (% GDP)[1]	0.3	–6.5	–7.1	–3.3	–3.2	–2.7	–2.5

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

Forecasts

Geopolitics fails to dampen market risk appetite

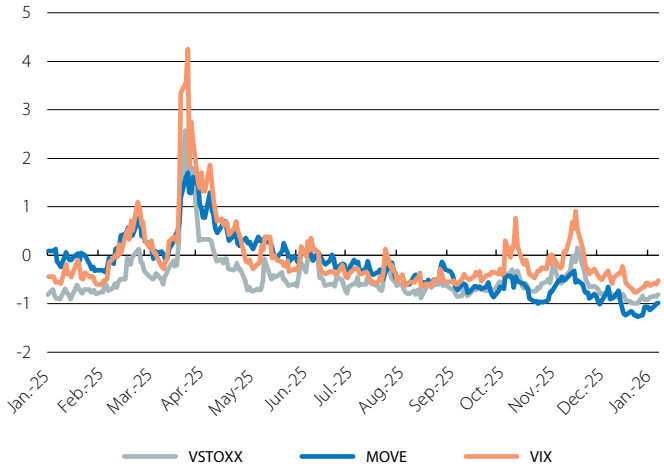
December closed a year of economic resilience and high risk appetite. The gradual decline in volatility in the main asset classes since the tariff shock in April continued in December, alongside an improvement in liquidity in the US (supported by the end of the Fed's balance sheet reduction process) and an easing of financial conditions. Nevertheless, risks related to geopolitics and the concentration of investments in artificial intelligence (AI) persist, and they continue to influence the perception of risk in global markets. Investor appetite recovered in December following the positive US inflation data in November and, subsequently, after the Fed's rate cut and strong US GDP data in Q3 2025. The main stock indices extended the rally that had begun in November, despite sector rotation away from the US tech sector, while long-term sovereign yields rose. In currencies, the euro consolidated its appreciation in the year, while in commodities, oil closed down and reached a four-year low in a market dominated by oversupply, with investors taking a medium-term view of the situation in Venezuela (possible recovery of Venezuelan production). Additionally, precious metals experienced a historic rally, albeit not without setbacks.

No surprises from the central banks. In December, the Fed implemented its third rate cut of the year, bringing rates down to the 3.50%-3.75% range. Its chair, Jerome Powell, suggested a pause going forward, indicating that monetary policy has entered the range of what could be considered neutral ground, leaving the Fed in a good position to «wait and see» how the economy evolves. Nevertheless, the market continues to anticipate two further cuts in 2026 (bringing the fed funds rate to 3.00%-3.25%), supported by upwardly revised growth forecasts and inflation converging on the medium-term target. In the euro area, the ECB maintained the depo rate at 2.00%, reiterating its «meeting-by-meeting» approach and presenting a more optimistic macroeconomic outlook, with higher GDP growth and inflation closer to the target. President Christine Lagarde emphasised the inertia of service prices and geopolitical risks, while Isabel Schnabel, a member of the Executive Board, sent messages with a somewhat hawkish bias that induced tensions. The market anticipates stability in the coming quarters. On the other hand, the Bank of England cut rates by 25 basis points to 3.75%, due to the gradual disinflation recorded, while the Bank of Japan (BoJ) raised rates to 0.75%, the highest level in 30 years, anticipating further hikes in 2026.

Widespread rise in long-term sovereign rates and steepening of yield curves. Medium and long-term sovereign yields in developed economies rose at the end of 2025, driven by the messages emanating from the central banks (signals of a pause from the Fed, some tension-inducing comments among ECB members) and positive economic activity data. In contrast, short-term interest rates remained more stable or edged slightly lower, resulting in a steepening of yield curves. On the other hand, sovereign spreads in the euro area periphery narrowed, also extending the trend observed during the year (Italy around −50 bps in 2025, Spain almost −30 bps). Finally, the BoJ's rate hike caused a sharp steepening of the Japanese yield curve

Volatility in the major asset classes

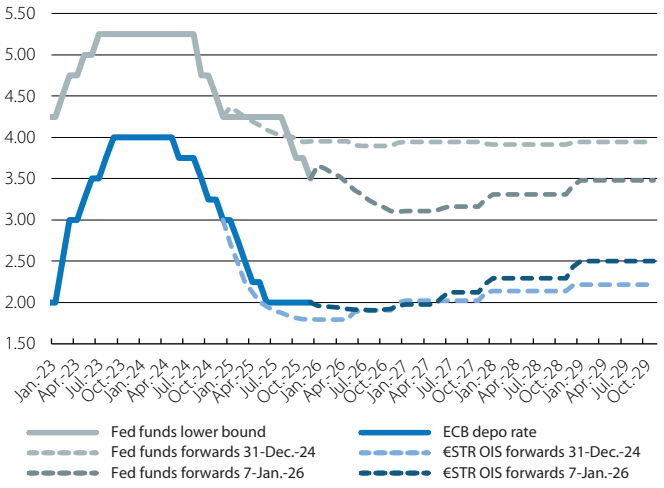
Z-score (standard deviations from the historical mean)



Note: *The VStoxx series begins in 1999, the MOVE series in 1988 and the VIX series in 1990.*
Source: *BPI Research, based on data from Bloomberg.*

Market expectation regarding interest rates

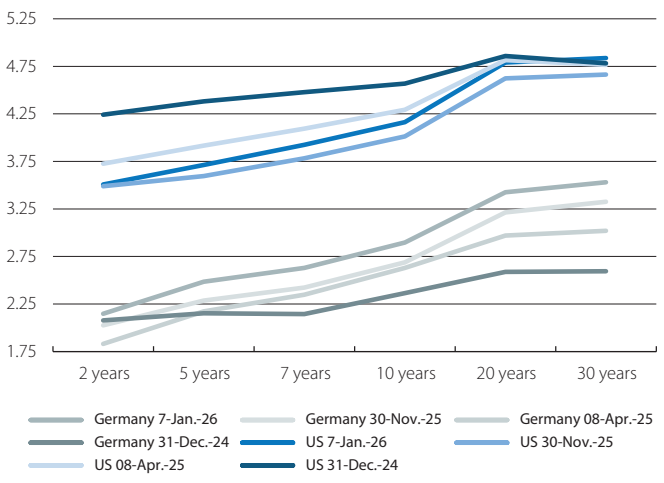
(%)



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

US and German sovereign yield curves

(%)



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

(with an increase of around 30 basis points for the 10-year benchmark since the end of November).

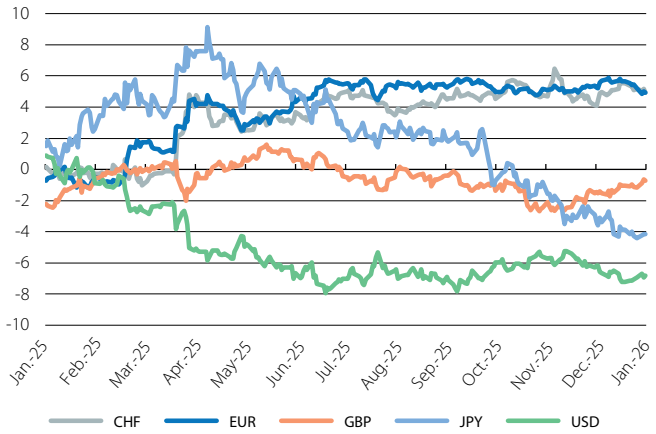
Stock market gains despite caution over AI investment. December closed with the third consecutive year of gains in the main global stock markets, following a rally in the month (MSCI ACWI Global up by more than 20% in 2025). In the US, caution over the high investments in AI weighed on the tech indices in December, although other sectors, such as finance, recorded gains supported by the strength of the economy. In Europe, there were also widespread gains during the month, albeit with some regional disparity: the French CAC advanced only slightly, and the biggest gains were seen in the Italian and Spanish indices – particularly the latter – due to the strong performance of the banking sector. The Japanese stock market also closed a month (and a year) of gains, thanks to the strong performance of the tech sector, the weakness of the yen and the government's stimulus plans. The positive tone also prevailed among the stock markets of emerging economies, with annual gains exceeding 30% across the bloc as a whole and notable increases in both emerging Asia and Latin America.

The euro consolidates its annual appreciation in December. The nominal effective exchange rate (NEER) of the euro rose slightly during the month (0.1% according to the ECB's reference index against a broad group of countries), thus consolidating an appreciation of just over 5% in the year. Nevertheless, in December, the euro consolidated its appreciation against the US dollar (reaching around 1.17-1.18 dollars per euro), while it weakened slightly against the strength of currencies more exposed to mining commodities (Latin American currencies and the Australian dollar) and other European currencies (the British pound sterling and the Swedish krona). The yen, meanwhile, experienced another month of depreciation in its nominal effective exchange rate (although it remained practically flat against the dollar) despite expectations that the BoJ will continue to raise rates in 2026 (the money markets are pricing in one or two more rate hikes).

Energy prices fall in Europe, while metals extend their rally. Oil began the last month of the year with slight price increases due to geopolitical tensions, but corrected amid forecasts of oversupply and the possible return of Russia to the market. At the beginning of 2026, the prospect of a potential return of Venezuelan crude oil (without US sanctions, and once productive capacity is restored) also left Brent crude at around 60 dollars a barrel, its lowest level since 2021. The European natural gas benchmark also extended its downward trend, in a context of normalisation following the 2022 energy crisis (nearly –40% in the year), amid abundant supply and signs of weak Asian demand. Precious metals were once again in the spotlight, particularly silver, which experienced a price rally in December (almost +30%), albeit not without volatility. The exceptional performance of precious metals throughout the year is explained by the high degree of uncertainty in the geopolitical and economic environment during the year, in addition to increased purchases by central banks, structural imbalances in supply and demand, and the depreciation of the dollar. Among industrial metals, copper and nickel surged due to expectations of stimulus in China.

Nominal effective exchange rate of major currencies

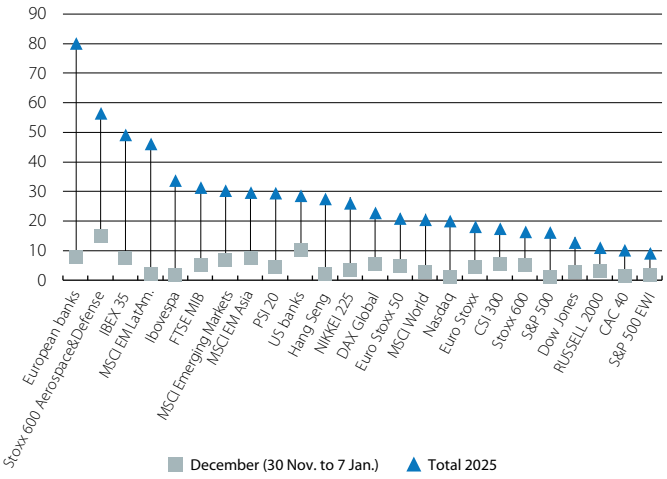
Change since 31/12/2024 (%)



Note: *Nominal effective exchange rate against a broad set of countries.*
Source: *BPI Research, based on data from the ECB.*

Performance of the main stock market indices

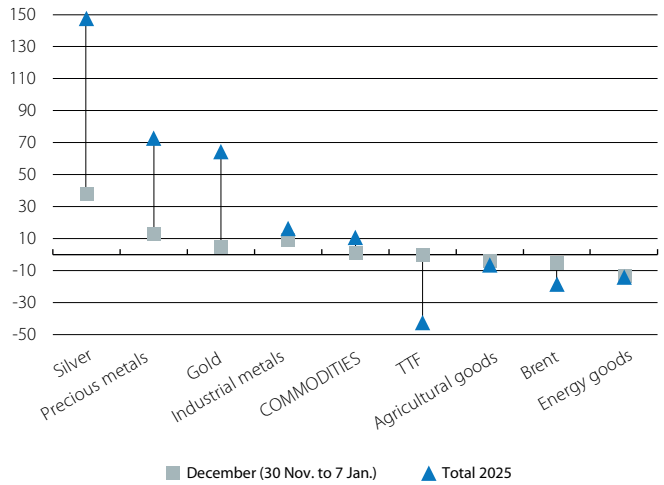
(%)



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

Performance of the main commodities

(%)



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

Interest rates (%)

	31-December	30-November	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.15	0	–100.0	–100.0
3-month Euribor	2.03	2.06	–3	–68.8	–65.2
1-year Euribor	2.24	2.21	3	–21.7	–21.1
1-year government bonds (Germany)	2.01	1.97	4	–23.1	–22.4
2-year government bonds (Germany)	2.12	2.03	9	4.0	4.0
10-year government bonds (Germany)	2.86	2.69	17	48.8	48.8
10-year government bonds (Spain)	3.29	3.16	12	22.7	22.7
10-year government bonds (Portugal)	3.15	3.01	15	30.2	30.2
US					
Fed funds (lower limit)	3.50	3.75	–25	–75.0	–75.0
3-month SOFR	3.65	3.79	–14	–65.3	–65.9
1-year government bonds	3.47	3.59	–12	–67.3	–68.4
2-year government bonds	3.47	3.49	–2	–76.9	–76.9
10-year government bonds	4.17	4.01	15	–40.2	–36.6

Spreads corporate bonds (bps)

	31-December	30-November	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	51	53	–2	–7.1	–7.2
Itraxx Financials Senior	54	57	–2	–9.4	–9.6
Itraxx Subordinated Financials	93	97	–4	–19.2	–20.1

Exchange rates

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.175	1.160	1.3	13.4	12.9
EUR/JPY (yen per euro)	184.010	181.160	1.6	13.0	12.7
EUR/GBP (pounds per euro)	0.872	0.876	–0.5	5.3	5.1
USD/JPY (yen per dollar)	156.710	156.180	0.3	–0.3	–0.1

Commodities

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
Bloomberg Commodity Index	109.7	110.4	–0.7	11.1	10.9
Brent ($/barrel)	60.9	63.2	–3.7	–18.5	–18.2
Gold ($/ounce)	4,319.4	4,239.4	1.9	64.6	65.7

Equity

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,845.5	6,849.1	–0.1	16.4	15.9
Eurostoxx 50 (euro area)	5,791.4	5,668.2	2.2	18.3	18.9
Ibex 35 (Spain)	17,307.8	16,371.6	5.7	49.3	50.0
PSI 20 (Portugal)	8,263.7	8,110.7	1.9	29.6	29.8
Nikkei 225 (Japan)	50,339.5	50,253.9	0.2	26.2	26.2
MSCI Emerging	1,404.4	1,366.9	2.7	30.6	30.2

The global economy, from resilience to settlement

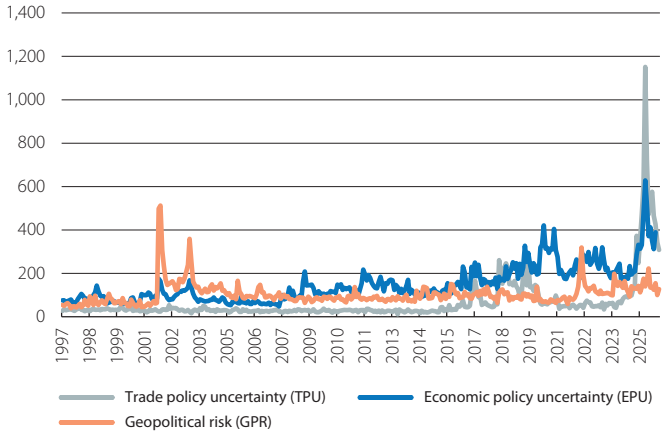
The international economy, resilient to tariffs and uncertainty. The year 2025 was marked by geopolitical and economic uncertainty, with the US administration's tariff hikes being the main trigger (with general levies on countries and sector-specific tariffs on products such as steel and motor vehicles). Uncertainty remained high due to the prevalence of military and geopolitical conflicts, such as those in the Middle East and Ukraine, and due to the reconfiguration of international relations, spurred by the transactional diplomacy of the Trump administration. Despite this context and the strong volatility in financial markets during the first part of 2025, the international economy proved more resilient than initially expected. The supporting factors have been diverse: the adaptability of private agents, the reaching of agreements that avoided extreme scenarios, the gradual transmission of tariffs without triggering sudden impacts on inflation, the reorientation of China's trade flows in favour of other markets, monetary easing in various economies and the boost from a weaker dollar for most emerging economies, in addition to relatively contained energy prices.

2026, the year for settling to the new environment. The disruptions experienced in 2025 have given way to a new environment to which the international economy must adapt in 2026, marked by greater barriers to entry into the US market, a certain reconfiguration of trade flows and traditional alliances and, moreover, an acceleration in the race for artificial intelligence (AI). All this is taking place amid persistent sources of uncertainty, ranging from how the war in Ukraine will pan out, to the robustness or fragility of the US' trade agreements (among other factors, pending the decision of the Supreme Court). Moreover, the debate between the promises and fears surrounding AI continues, with its financial offshoot in high stock market valuations, bold spending plans, and some doubts in the markets over whether the investments will generate a return in time. We must also not forget the uncertainty surrounding fiscal pressures, with the public accounts of major economies like the US and France deteriorating, but also opening a window of opportunity for economic revitalisation in countries such as Germany.

GDP data resilient to the changes in expectations. Despite the volatility, the data suggest that global GDP will have managed to achieve growth close to, albeit slightly below, the 3.3% recorded in 2024, with better-than-expected figures in the three major international economies. The digestion of the latest data has led the consensus of analysts to estimate that, in 2025, China's GDP will have grown at almost the same rate as in 2024 (5%), while the euro area will have accelerated to 1.4% (+0.6 pps) and the US will have managed to mitigate the slowdown in GDP and approach a growth rate of 2% for the year as a whole. However, the statistics have not escaped volatility: the stockpiling prior to the introduction of tariffs caused an import boom and a drop in US GDP in Q1, while spurring exports from the rest of the major economies; this effect was reversed in Q2 and Q3, supporting a rebound in US GDP while dampening growth in other regions. Having moved beyond this volatility, the indicators point to generally positive economic activity in the closing stages of 2025.

Global: uncertainty and geopolitical risk

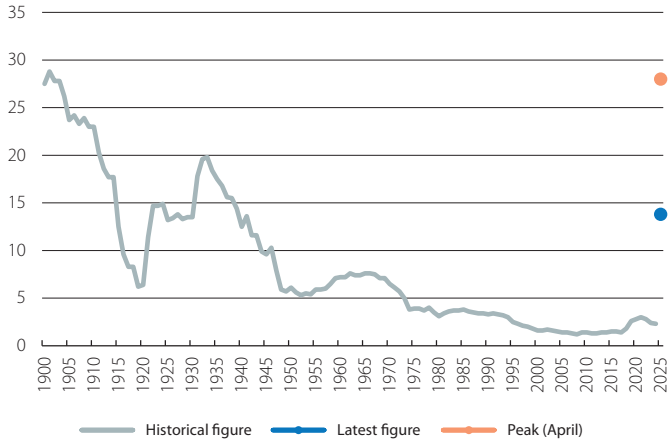
Index



Note: *The indices are constructed based on the frequency of press articles related to economic and trade uncertainty and geopolitical risk.*
Source: *BPI Research, based on data from www.matteoiacovello.com and www.policyuncertainty.com.*

US: average effective tariff

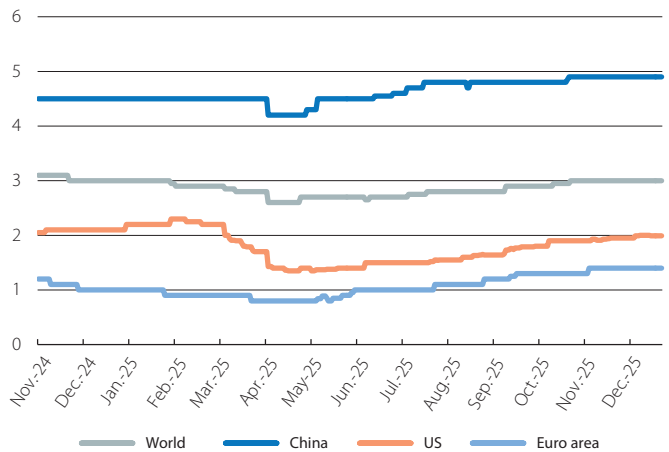
(%)



Note: *The 2025 tariff is an estimate based on full implementation and normalised trade patterns.*
Source: *BPI Research, based on own estimates and data from USTIC.*

Evolution of consensus expectations: 2025 GDP

Annual change (%)



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

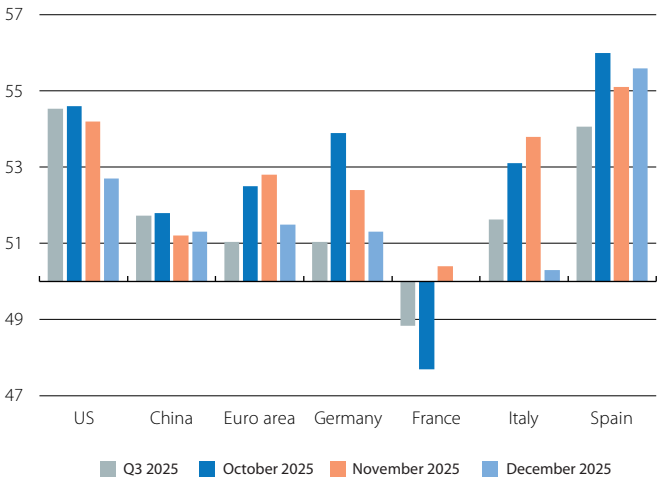
The euro area hints at an improvement. The Purchasing Managers' Indices (PMIs) improved in the final quarter of the year and, although still modest, reached near-three-year highs. Specifically, the composite PMI reached 52.3 points on average in Q4 2025 (51.5 in December) thanks to the boost from the services sector (53.0 points in Q4, 52.4 in December), while manufacturing remained stagnant (49.5 in Q4, 48.8 in December). By country, significant divergence persists, with France continuing to lag behind (Germany, 52.5 points in Q4; France, 49.4; Italy, 52.4; and Spain, 55.6), although all four economies improved compared to Q3. Consumer confidence also picked up slightly (–14.3 points in Q4), although it remains at a low level and it is contributing to a high household savings rate (15.5% in Q2) and modest consumption growth (retail sales +1.5% year-on-year in October), despite the labour market remaining strong (unemployment stable at 6.4% since mid-2025, very close to the minimum of 6.2% recorded in November 2024). Inflation, for its part, remained close to the ECB's target rate, with the overall HICP advancing by 2.0% in December and core inflation, still pressured by a certain inertia in service prices, standing at 2.3%.

In the US, the end of the government shutdown fails to clear the fog in the data. The GDP figure for Q3 2025 was not published until the end of December, and it depicted robust activity (+1.1% quarter-on-quarter and +2.3% year-on-year), with strong momentum in consumption (+0.9% quarter-on-quarter) and a dual performance in investment (non-residential fixed investment +0.7% quarter-on-quarter, driven by intellectual property and equipment, vs. residential investment –1.3%). In the final months of 2025, the indicators also point to dynamic economic activity despite the government shutdown. The composite PMI stood at 52.7 points in December, a positive figure, albeit less buoyant than November's 54.2, and the Atlanta and New York Feds' trackers estimate GDP growth of between 0.5% and 0.7% quarter-on-quarter in Q4. Although 41,000 jobs were lost in the labour market in total in October and November, the decline was heavily influenced by the departure of around 150,000 public sector workers who had accepted the resignation offers made by the Trump administration at the beginning of the year. The unemployment rate rose to 4.6% in November (a four-year high), but the increase reflects growth in labour force participation. The latest inflation figures, meanwhile, show a significant and relatively abrupt moderation (headline inflation of 2.7% year-on-year and core inflation of 2.6% in November, –0.3 pps and –0.4 pps compared to September), which should be interpreted with caution due to data collection issues arising from the government shutdown between 1 October and 12 November.

China experiences a slowdown in the final stretch of 2025. Retail sales slowed to 1.3% year-on-year in November (2.9% in October, 3.4% in Q3), while industrial production advanced by 4.8% (4.9% in October, 5.8% in Q3), its slowest pace since the summer of 2024. The composite PMI, for its part, stood at 51.3 points in December, virtually the same level as in November and slightly below the Q3 average of 51.7. All these figures are set against a backdrop of a persistent real estate crisis, a slowdown in the fiscal boost and weak domestic demand, anticipating a slowdown in the Chinese economy in 2026.

Composite PMI

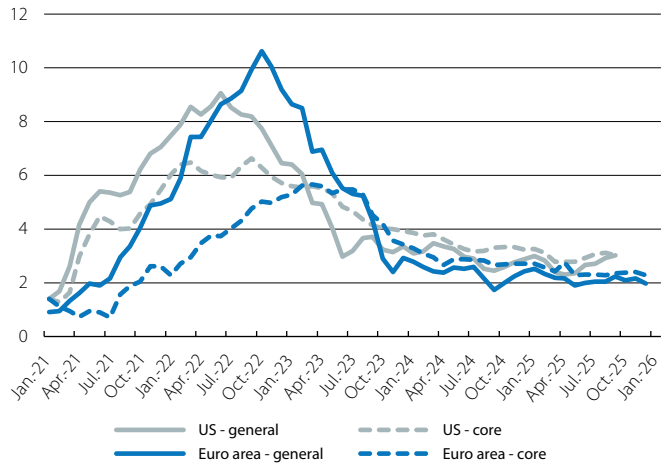
Index



Source: *BPI Research, based on data from S&P Global PMI.*

Advanced economies: CPI

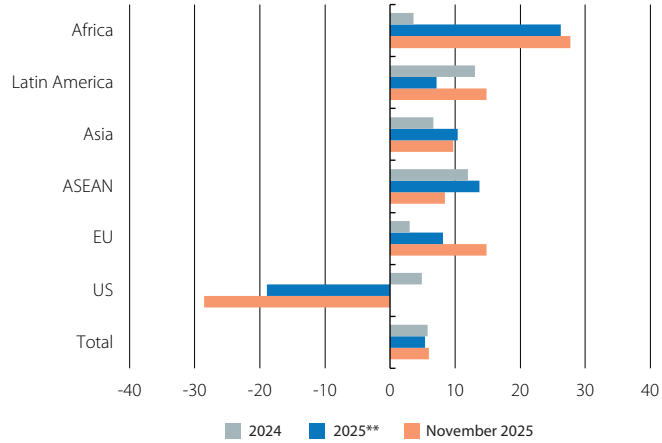
Year-on-year change (%)



Notes: *Harmonised index of consumer prices (HICP) for the euro area. No data are available for October 2025 for the US.*
Source: *BPI Research, based on data from the Bureau of Labor Statistics and Eurostat.*

*China: exports**

Year-on-year change (%)



Notes: ** Exports of goods in dollars. ** 2025 corresponds to the cumulative total from January 2025 to November 2025.*
Source: *BPI Research, based on data from China Customs.*

Characterisation of the business cycle in the EU: neither widespread, nor robust

The vigorous recovery of the European economy after the pandemic has given way in recent years – in a more hostile geopolitical context – to a situation of weak growth. However, this is not the case across the board, neither geographically nor by sector. In particular, while countries such as Germany and Italy are showing significant apathy, the «European periphery» – so-named in a previous era – continues to show remarkable dynamism, led by Spain and Portugal. A similar contrast is found between the more erratic behaviour of the agricultural, manufacturing and construction sectors – with greater exposure to recent shocks – and the growing role in the economy of skilled services supported by favourable underlying trends such as the digital transformation.

Sectoral divergence: industrial vulnerability and technological boom

The EU as a whole showed highly buoyant activity up until mid-2022, at which point the invasion of Ukraine triggered a negative shock on multiple fronts. Indeed, the consequences of this shock persisted until only a few quarters ago: heightened risk particularly affecting areas bordering the conflict, impact via the trade channel for economies with greater ties to Ukraine and/or Russia, rising costs of energy, agricultural products and inputs as well as construction materials, and the tightening of monetary conditions due to higher inflation.

By sector (see first table), the hardest hit were agriculture, also affected by adverse weather conditions; manufacturing, with a contraction led by energy-intensive industry and later affected by trade protectionism; construction, which is sensitive to financing costs and has been emerging from a strong post-pandemic boom; the sector encompassing logistics and hospitality activities, including the negative impact of the conflict on tourism in Eastern Europe;[1] and financial services, weighed down by lower credit activity in real terms, in contrast to the nominal improvement in margins.

In contrast, other sectors less vulnerable to the shock of the conflict in Ukraine have remained buoyant in recent years. The most notable of these are information and communication technology (ICT) services, with annualised growth rates of around 4%; and professional, technical and scientific activities, which include innovation and software development.

Geographical divergence: growth shifts to the «European periphery»

The sectoral divergence of the EU economy can be broadly transferred to the relative behaviour among Member States, although it is worth noting different intensities from country to country (see the second table with data for the 15 largest economies). Taking all sectors into consideration, the countries with the highest growth

Gross value added by sector in the EU (2021–2025)

Quarterly change in real terms

	2021				2022				2023				2024				2025		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
TOTAL	**1.1**	**1.8**	**1.9**	**1.0**	**0.8**	**0.9**	**0.6**	**0.0**	**0.2**	**0.0**	**0.2**	**0.4**	**0.1**	**0.3**	**0.3**	**0.4**	**0.6**	**0.3**	**0.4**
A – Agriculture	1.8	0.8	–0.1	–1.3	–0.4	–0.7	0.3	–0.6	0.4	0.0	–0.1	0.0	–0.2	–0.7	–0.7	1.1	1.1	–1.1	0.6
C – Manufacturing	2.2	0.4	0.3	1.1	2.4	0.4	1.0	0.0	–0.9	–0.7	–0.9	–0.2	–0.9	0.5	0.3	0.3	1.8	0.6	0.4
F – Construction	–2.1	2.5	–0.1	1.1	–0.4	–0.8	–0.8	0.2	2.7	–0.7	–0.3	0.2	–0.6	–0.3	–0.5	–0.2	1.1	0.0	0.1
G, H & I – Trade, transport & hospitality	1.0	4.1	5.6	1.8	1.0	2.1	0.4	–0.8	–0.1	–0.3	0.5	–0.2	0.6	0.2	0.3	0.3	0.3	0.5	0.5
J – Information & communication	4.4	2.7	0.6	3.3	0.0	1.6	2.9	0.1	2.0	1.7	1.1	0.8	0.0	0.4	1.6	0.8	0.9	0.4	1.1
K – Financial services	2.4	1.7	1.0	–0.4	–1.0	0.1	–0.7	0.6	–2.2	0.1	0.2	–0.4	2.0	–0.2	–0.1	0.3	0.1	–0.5	0.8
L – Real estate activities	–0.4	0.8	1.0	1.0	0.2	0.5	0.7	0.7	0.9	–0.1	0.2	0.7	0.4	0.3	0.1	0.4	0.2	0.1	0.2
M & N – Professional services	2.2	2.5	2.3	1.6	1.8	0.9	0.7	0.5	0.5	0.4	0.9	0.6	0.0	0.9	0.3	0.1	0.3	0.4	0.4
O, P & Q – Public administration	0.9	0.6	1.3	–0.2	1.3	0.4	0.3	0.3	0.1	0.2	0.1	0.4	0.5	0.6	0.2	0.7	0.1	0.3	0.4
R, S, T & U – Entertainment & other services	0.6	4.7	9.4	–0.7	6.2	5.1	1.8	–0.5	1.3	0.8	0.8	–0.9	0.9	0.6	1.5	–0.8	0.2	0.3	0.4

Notes: *Data in euros adjusted for seasonality and calendar effects. Individual sections or groupings from the statistical classification of economic activities (NACE), excluding mining (B) and utilities (D&E).*
Source: *BPI Research, based on data from Eurostat.*

1. See the Focus «European tourism in the post-pandemic era: uneven recovery and new challenges» in the MR10/2025.

*Gross value added by sector in the main EU countries**

Average quarterly change in real terms

	EU	Germany	France	Italy	Spain	Netherlands	Poland	Ireland	Belgium	Sweden	Austria	Denmark	Romania	Czech R.	Finland	Portugal	Greece
TOTAL	**0.3**	**–0.1**	**0.4**	**0.1**	**0.8**	**0.1**	**0.5**	**1.0**	**0.3**	**0.3**	**–0.2**	**0.7**	**0.3**	**0.3**	**0.0**	**0.6**	**0.4**
A – Agriculture	**0.0**	–1.1	–0.6	–0.2	1.7	–0.5	1.2	0.2	0.8	–1.3	–0.2	–2.9	0.8	2.0	–1.3	0.1	–1.1
C – Manufacturing	**0.0**	–0.6	0.6	–0.1	0.4	0.1	0.7	0.8	–0.4	–0.4	–0.6	3.7	0.1	0.0	0.3	0.2	1.3
F – Construction	**0.1**	–0.8	0.3	1.2	0.8	0.1	–0.6	1.1	0.5	–0.4	–0.8	–1.5	2.3	1.1	–1.7	0.9	3.3
G, H & I – Trade, transport & hospitality	**0.2**	–0.2	0.0	–0.1	1.2	0.2	0.5	0.7	0.0	0.5	–0.8	0.0	0.3	0.4	–0.7	0.6	0.1
J – Information & communication	**0.9**	0.8	0.8	0.5	1.1	0.4	–0.1	2.1	0.7	0.7	0.5	1.6	0.5	1.6	0.8	1.0	0.8
K – Financial services	**0.1**	–0.3	0.0	–0.3	0.4	–0.4	0.2	2.8	0.0	0.0	0.0	0.7	1.1	0.6	–0.9	0.7	1.3
L – Real estate activities	**0.4**	0.3	0.2	0.4	0.7	0.2	0.5	1.0	0.3	0.8	0.5	0.1	–0.2	0.0	0.3	0.1	0.0
M & N – Professional services	**0.4**	0.1	0.6	0.5	0.9	0.2	1.0	0.6	0.6	1.1	–0.4	0.7	–0.6	0.5	0.1	0.7	0.3
O, P & Q – Public administration	**0.3**	0.3	0.2	–0.1	0.8	0.5	1.1	0.5	0.4	0.3	0.7	–0.1	0.1	0.3	0.3	0.5	0.1
R, S, T & U – Entertainment & other services	**0.4**	0.1	0.5	0.4	0.4	0.2	1.6	–0.1	0.4	0.5	–0.1	0.5	3.5	0.2	–0.4	1.2	1.0

Notes: ** Average for the period between Q4 2022 and Q3 2025. Data in euros adjusted for seasonality and calendar effects. Individual sections or groupings from the statistical classification of economic activities (NACE), excluding mining (B) and utilities (D&E).*
Source: *BPI Research, based on data from Eurostat.*

since the end of 2022 are Ireland, Spain, Denmark and Portugal – with rates that more than double the average progress of the EU. This dynamism contrasts with the slight contraction in Germany and Austria, and the practical stagnation recorded in Italy, the Netherlands and Finland.

In the leading group of countries, of particular note is the cross-sectoral nature of the growth in Spain and Portugal, where all sectors have recorded an increase in value added up to Q3 2025. The economic dynamism also has a broad base in Ireland, albeit with ICT and financial services playing a prominent role, while it is much more concentrated in Denmark, where the pharmaceutical industry and innovation-related activities have had a dominant contribution.[2]

In the case of the worst-performing economies, the weakness is quite widespread across sectors, especially in Italy and the Netherlands, while in Germany, Austria, and Finland certain activities are showing significant vulnerability to the aforementioned shocks (mainly agriculture, manufacturing, construction, logistics and hospitality). It is worth highlighting the shared exception of ICT services, which even in the cases of Germany and Finland has grown at close to the EU average, as well as the exceptional strength of construction in Italy, which will have been driven by the Superbonus housing renovation support programme.[3]

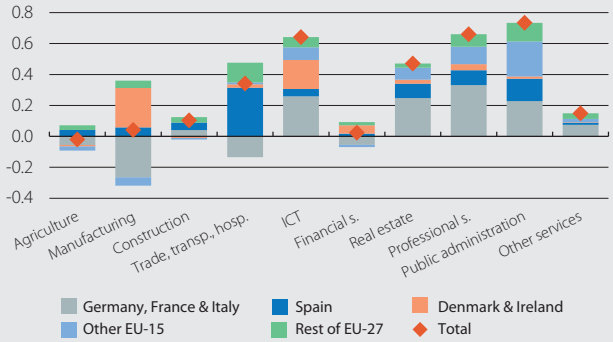
2. In a situation reminiscent of Nokia's role in the Finnish economy during the nineties, the recent growth in Denmark has been spearheaded by the company Novo Nordisk, which has successfully marketed drugs aimed at combating diabetes and obesity.
3. See the Focus «A snapshot of investor apathy in the EU» in the MR05/2025.

Cyclical or structural redrawing of the European economy?

The three largest economies in the EU (Germany, France, and Italy) account for just over 50% of the total value added. However, in the last three years they have been responsible for just 20% of the bloc's cumulative growth. Furthermore, we find few sectors where their significant role in the economy has translated into a dominant contribution, and some activities have even drained growth from the overall European economy, with the most paradigmatic case being the contraction of Germany's manufacturing industry (see first chart). On the upside, there are isolated examples, such as the notable contribution of France in ICT and professional services – led by consultancy activities and the digital transformation.

*Sector-country contribution to the change in the EU's total GVA**

(pps)



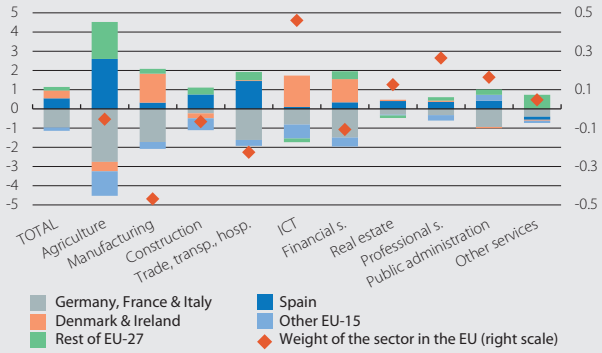
Notes: ** Sum of the quarterly contributions between Q4 2022 and Q3 2025. «Other EU-15» includes the Netherlands, Belgium, Sweden, Austria, Finland, Portugal, Greece and Luxembourg. «Rest of EU-27» includes Poland, Romania, Czechia, Hungary, Slovakia, Bulgaria, Croatia, Lithuania, Slovenia, Latvia, Cyprus, Estonia and Malta.*
Source: *BPI Research, based on data from Eurostat.*

In this way, the EU's growth engine has a new face in this cycle, and this is transforming the composition of Europe's productive fabric (see second chart). For instance, we can see how the broad-based dynamism of Spain – which accounts for over a quarter of the total growth of the EU in the last three years – has led to its relative weight increasing by more than half a point, reaching levels not seen since 2010. The growth of Denmark and Ireland re also noteworthy, as they account for almost 20% of Europe's recent growth (three times more than their relative weight in the economy). As noted earlier, these economies have been supported by specific competitive advantages in certain high-growth sectors, such as ICT services. Finally, the bloc of Eastern European economies is also gaining prominence in the EU – a logical trend as they are expected to converge on the standards of the founding members. Nevertheless, their growth remains restrained and is penalised by their focus on economic activities that show relatively less dynamism, such as agriculture, construction and logistics services.

Therefore, although some of the recent patterns can be read in a cyclical context, the accumulated evidence also points to a somewhat more structural shift in the composition of the European economy. The shift of dynamism towards knowledge-intensive sectors not only reflects a temporary response to the recent shocks, but also embodies underlying transformations linked to technological changes and Europe's repositioning in global value chains. This evolution, however, is not without risks. Firstly, the concentration of growth in specific activities – such as the pharmaceutical industry in Denmark – poses challenges in terms of resilience and sustainability in the medium term. Secondly, the divergence between countries and sectors threatens to accentuate internal asymmetries if it is not accompanied by policies that improve professional training and strengthen social and territorial cohesion. And thirdly, it is foreseeable that these challenges will intensify as strategic sectors are prioritised, given that their investments largely depend on public impetus in a context of increasing fiscal frictions.[4]

Change in the relative weight of countries in the EU's sectoral GVA*

(pps)



Notes: ** Cumulative change between Q4 2022 and Q3 2025. «Other EU-15» includes the Netherlands, Belgium, Sweden, Austria, Finland, Portugal, Greece and Luxembourg. «Rest of EU-27» includes Poland, Romania, Czechia, Hungary, Slovakia, Bulgaria, Croatia, Lithuania, Slovenia, Latvia, Cyprus, Estonia and Malta.*

Source: *BPI Research, based on data from Eurostat.*

4. See the article «Europe's medium-term fiscal dilemma» in the Dossier of the MR11/2025.

The new map of US goods imports

The return of tariffs as a central tool of US economic policy has marked a turning point in 2025. One of the explicit objectives of the White House's new tariff strategy is to reduce the persistent trade deficit in goods. However, far from producing an orderly reduction, the succession of announcements and the irregular implementation of tariffs have generated significant distortions in trade flows, especially in imports. In this context, the data available to date does not yet show any clear change in the trade deficit. However, these distortions are indeed leaving a mark on the composition of imports by geographical origin. Below, we analyse how the country's various trading partners have reacted and we provide an overview of these changes.

Foreign trade in the pre-tariff Trump era

Before analysing what happened in 2025, it is worth reviewing some structural features of US foreign trade. Compared to other advanced economies, the US is a relatively closed economy. On average, during the period 2018-2024, imports of goods accounted for 11.6% of GDP, while exports reached just 7.4%. This pattern has translated into a persistent trade deficit in the balance of goods, which in terms of GDP stood at around 4.2% in 2024 (equivalent to some 1.2 trillion dollars). All of this coexisted with a historically low average applied tariff, of around 2%.

An atypical year for US foreign trade

In real terms, US exports have grown in 2025 at a year-on-year rate of 5% during the first three quarters, a figure comparable to that observed in previous years. This relatively dynamic behaviour can be explained, in part, by the absence – at least for now – of tariff reprisals from the country's main trading partners. Moreover, the resilience of the global economy and the competitiveness of some export sectors have cushioned the negative impact of trade uncertainty.

The behaviour of imports, on the other hand, has been notably more volatile. The first feature to highlight is the sharp rebound observed in Q1 2025. In year-on-year terms, real imports increased by around 25% from January to March, an exceptional growth rate that was driven by an anticipation effect: consumers, businesses and distributors brought forward purchases in order to stockpile before the new tariffs came into effect.

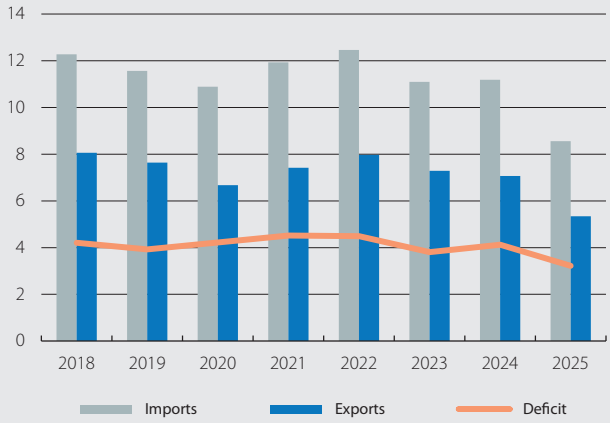
This increase was followed by a partial correction in Q2. Imports fell by 14% quarter-on-quarter, although they remained at levels similar to those of the previous year, with an annual growth of 0.6%. This pattern suggests that the subsequent adjustment did not fully correct the initial hoarding. In Q3, imports remained stable compared to the previous quarter, but with a 4% year-on-year decline, which could already reflect a more direct impact of tariffs on purchasing decisions. However, due to the significant offsetting effect between quarters, the aggregate balance continues to show an increase in imports. In the cumulative period from January to September, imports grew by 6% compared to the same period in 2024.

Beyond the aggregate trends, one of the most key developments in 2025 was the change in the geographical pattern of US imports.

US imports are highly concentrated by place of origin. Between 2018 and 2024, the main trading partners – the EU, China, Canada, Mexico, Japan and the United Kingdom – accounted for nearly 70% of total imports on average. China has historically been the US' main trading

US: balance of trade in goods

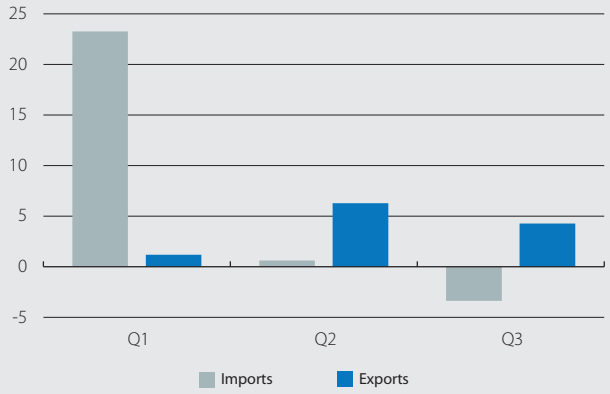
(% of GDP)



Source: *BPI Research, based on data from USITC and the BEA.*

US: real imports and exports of goods in 2025

Year-on-year change (%)



Source: *BPI Research, based on data from USITC, the BEA and the Bureau of Labor Statistics.*

partner in terms of imports, although its share has been steadily declining: from 21% of the total in 2018 to 13% in 2024. In 2025, this trend accelerated significantly, with a share that is slightly below 10%.

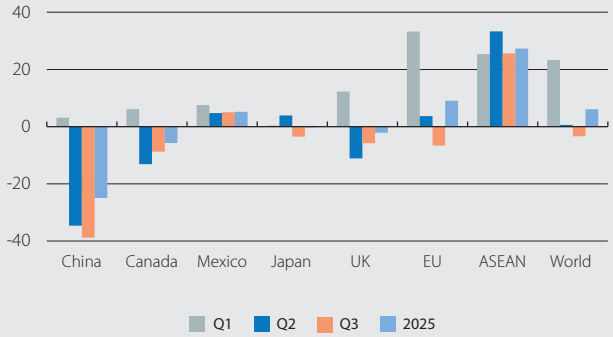
During Q1 2025, the anticipation effect was widespread and imports from almost all trading partners increased, with the EU standing out in particular. However, the subsequent reversal was very mixed. The most striking case is China, with a clear decoupling in view of a 25% drop in imports in the cumulative total for 2025 compared to the levels of 2024 (in the same period from January to September). China was the country most penalised in terms of tariff levels and it is the one with which, so far, only a partial agreement has been reached.[1] US imports from that country contracted sharply and persistently since the start of the escalation of trade tensions. To a lesser extent, declines are also observed in imports from Canada (–5%). With the EU, a different dynamic is observed: the increase in the demand for imports is sustained throughout the first half of the year and imports for the year 2025 to September are almost 10% above the levels accumulated in the same period of the previous year.

The reconfiguration of imports by origin has also resulted in an increase in imports from ASEAN countries, which in the year-to-date have risen by 27% year-on-year, and have gone from representing 8% of total imports in 2018 to 13% in 2025.

This change in the source of imports helps to explain the apparent discrepancy between the average tariff implicit in the measures announced and the effective tariff that is finally collected at customs. According to our estimates, and assuming an import pattern similar to that observed in 2024, the set of measures applied to date would imply an average tariff of around 13.8%. However, the effective tariff collected has been significantly lower and reached a maximum of 10.6% in September. This difference largely reflects the geographical reconfiguration of imports. Thus, although the total volume of imports has not fallen significantly, an increasing portion of foreign purchases is coming from partners that are subject to lower levies, while the proportion coming from partners subject to higher tariffs has fallen (China being the most notable case), and this reduces the average rate effectively collected.

US: origin of goods imports in 2025

Year-on-year change (%)



Notes: *Imports expressed in real terms. The year-on-year change for 2025 as a whole refers to the period from January to September 2025 compared to January to September 2024.*
Source: *BPI Research, based on data from USITC and the Bureau of Labor Statistics.*

Overall, the analysis of the 2025 data shows that the new tariffs have not yet resulted in a reduction in the US goods trade imbalance, but they have caused a structural change in the geographical composition of the country's imports. The direct decoupling with China and the greater connection with ASEAN countries have intensified significantly, indicating a reconfiguration of supply chains rather than a mere contraction of trade. Thus, this process does not seem to be substantially reducing the total dependency on imports, but rather redistributing it among partners.

1. On 31 October, the US agreed to lower the average tariff to around 30%, and the additional levy linked to fentanyl from 20% to 10%. China agreed to defer rare earth export controls for one year and to resume purchases of US soybeans.

The Belt and Road Initiative: a double-edged sword? (part III)

Due to its speed and scale, China's transformation in recent decades has also transformed the rest of the world. In particular, the Belt and Road Initiative (BRI) has brought substantial investments to many of the participating countries. Coupled with an active industrial policy and a capital-intensive development model, this has favoured a rapid expansion of China's trade flows, particularly in sectors with stronger links to its industry.[1]

Belt and Road: blessing or curse?

The Silk Roads were a network of routes that began to be used regularly beginning in the 2nd century BC, when the Han dynasty opened up trade with the West, and lasted until the 15th century, when the Ottoman Empire boycotted trade and closed the routes. During that time, from China to Europe, traders brought silks, jade and other precious stones, porcelain, tea and spices. To the East, manufactured goods such as glassware and textiles were transported. But these routes also provided a channel for cultural exchange and the exchange of ideas, as documented, for example, in *The Book of the Marvels of the World*, by the Venetian merchant Marco Polo.

Today, at the various ends of the new Silk Road, the experiences of countries such as Chile, Peru, the DR Congo, Indonesia and Vietnam are illustrative. The first three countries are among the largest global producers of copper (and of cobalt, in the case of the DR Congo). In the last decade, the share of these countries' exports that is destined for China has risen rapidly, reaching almost 40% in Chile and 35% in the case of Peru. In Peru, exports of copper ore have surged and now account for nearly 70% of its exports to China, while in Chile copper exports have grown steadily (although imports of refined copper have decreased) and the country has seen increases in exports of chemical products (such as lithium) and agrifood products. In the DR Congo, exports to China now account for 70% of the total, compared to 35% a decade ago – an increase explained by exports of cobalt and copper, mainly refined, but also in raw and mineral form.

The share of Indonesia's exports destined for China has also increased significantly, from 13% to 24%, but the concentration in terms of products has decreased. Mining exports (fuels and metal ores, such as nickel and aluminium ore) have decreased, while metal exports have increased (including processed nickel, steel and ferroalloys), as the country banned nickel ore exports with the aim of developing its own refining industry. Exports of electrical and electronic machinery to other Asian countries and the US have also increased rapidly. Vietnam, meanwhile, has tripled the value of its exports in recent years while its share of exports destined for China has increased from 10% to 20%, and that of exports to the US from 17% to 28%. This growth has been driven by a significant expansion in electrical and electronic machinery.

1. See the Focuses «The Belt and Road Initiative: a double-edged sword?» (part I) and (part II), in the MR11/2025 and the MR12/2025, respectively.

Global: exports to China, export concentration and export complexity

	Share of exports to China (% of total)		Global export concentration index (by product, HS2 level)		Export complexity (position in the global ECI ranking)		
	2013	2023	2013	2023	2003	2013	2023
Chile	24.2	38.6	1,733.0	1,516.2	53	67	75
Peru	15.6	33.8	1,270.5	1,958.9	82	83	96
Panama	0.4	24.6	1,095.7	2,242.9	60	40	58
DR Congo	36.3	68.9	2,571.2	4,507.3	110	120	131
South Africa	8.2	19.2	1,082.9	1,512.3	36	53	70
Gabon	7.1	26	4,453.3	3,965.0	88	102	85
Indonesia	12.8	23.7	1,177.7	885.8	62	66	61
Vietnam	10.5	20.2	1,026.8	2,149.8	84	65	50
Malaysia	17.5	20.8	1,754.3	1,937.8	35	25	26

Note: *Export concentration is measured using the Herfindahl-Hirschmann (HH) index at the HS2 product level (approximately 100 categories).*
Source: *BPI Research, based on data from the Observatory of Economic Complexity.*

While Indonesia and Vietnam have climbed the global economic complexity ranking over the last decade, Chile, Peru and the DR Congo have fallen back (see first table).[2] Hence, we analyse the relationship between participation in the BRI, used as an approximation for closer economic and diplomatic ties with China, and export complexity for a sample of 66 countries. The analysis focuses on Eurasia, the region that has received the greatest investment and is home to the largest number of countries participating in the initiative.[3]

The econometric analysis reveals that participation in the BRI has a negative correlation with the economic complexity of the countries in the sample. The results are robust to different econometric specifications and to different definitions of official participation in the BRI. Overall, the results suggest that participation in the

2. The Economic Complexity Index (ECI) measures the intensity of an economy's knowledge, focusing on its technological capabilities. In particular, we use one of the three dimensions of the ECI – export complexity (along with technology and research) – due to its relevance and the availability of data.
3. Two definitions of participation in the BRI are used. The first is based on the signing of the Memorandum of Understanding (MoU) with China, which seals a country's official participation in the initiative. The second is based on the existence of operational infrastructure projects that are within the scope of the BRI, such as roads, railways or ports. A panel regression model is estimated, with data from 1995 to 2023, using fixed and random effects, control variables, and time fixed effects. The dependent variable (Y_{it}) is interpreted as a measure of a country's trade and technological sophistication: $Y_{it} = \beta_0 + \beta_1 BRI_{it} + \theta X_{it}^{'} + \mu_i + \lambda_t + \varepsilon_{it}$. The list of operational projects is based on Reed and Trubetskoy (2019) «Assessing the Value of Market Access from Belt and Road Projects», Policy Research WP, World Bank.

BRI does not contribute to the development of more sophisticated industries or to an improvement in export quality, understood as more diversified exports with higher technological content. On the contrary, participation in the BRI could limit participating countries' ability to «climb» global value chains.[4]

What can we learn from the new Silk Road?

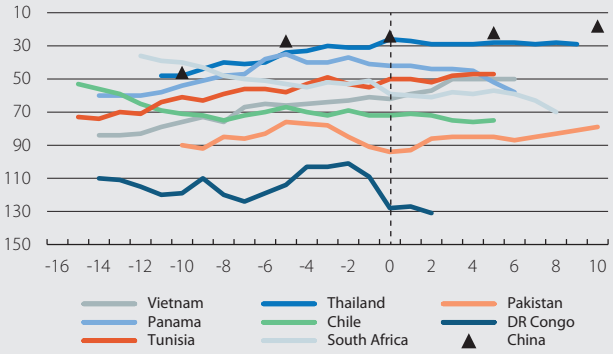
The BRI has become a key element for China's global positioning. Faced with weakened domestic demand and chronic overcapacity, the initiative has facilitated the opening up of new markets, the diversification of export destinations, the dominance of value chains for critical commodities that are essential for its industrial development, and the reduction of dependence on geo-economic rivals, a factor that has gained particular importance in recent years.

However, despite the substantial investment flows from China in sectors such as energy, transport, metals and mining, and construction, as well as a rapid increase in their exports, several countries along the new Silk Road may have seen the direction of their economic development become somewhat narrowed.[5] The negative correlation between participation in the initiative and the economic complexity of the participating countries could be explained by various factors. By focusing on physical infrastructure, the BRI can facilitate Chinese companies' access to local markets while weakening the competitiveness of the local business fabric. Emerging economies, specialising in basic manufacturing, could be displaced, while those rich in natural resources risk becoming trapped in low value-added extractive sectors. Furthermore, many BRI projects carried out by Chinese companies may offer limited direct benefits to local industries, a challenge that is further compounded by governance failures or institutional weaknesses, which also hinder the effective absorption of investments.

While the benefits of the BRI may materialise in the long term, given its recent launch, the observed short-term effects have been debatable. Added to this is the risk that BRI countries could develop economic dependencies on China, seeing their trade deficits, debt levels, and external vulnerability grow – a scenario that raises questions about the sustainability and reciprocity of the BRI. While effective for China's strategic interests, does the initiative represent a genuine development opportunity for participating countries?

Belt and Road Initiative: evolution of the export complexity of participating countries

Position in the ECI ranking



Notes: *For each country, year zero is considered to be the year in which the country signed the Memorandum of Understanding (MoU) with China, marking official participation in the Belt and Road Initiative (BRI). In chronological order, Pakistan signed the MoU in 2013, Thailand in 2014, South Africa in 2015, Panama and Vietnam in 2017, Chile and Tunisia in 2018, and the DR Congo in 2021. For China, year 0 is considered to be 2013, the official launch date of the BRI.*

Source: *BPI Research, based on data from the Observatory of Economic Complexity.*

Simultaneously, China has intensified its commitment to global technological leadership, specifically in AI, robotics and semiconductors. These ambitions could promote technological and productive advances in BRI countries, while simultaneously causing losses of competitiveness and critical dependencies in sectors where China continues to gain global market share.[6]

Like the ancient Silk Roads, the BRI is not limited to investments or trade exchanges. Evaluating its success solely in these terms would ignore a broader geo-strategic purpose, such as ensuring stable economic relations and access to (or dominance of) key economic resources ahead of geopolitical rivals, or an assessment of potential institutional, social or cultural effects. Moreover, despite the large number of initiatives launched in response to the BRI (such as the G7's «Partnership for Global Infrastructure» or the EU's «Global Gateway» programme), their progress has been limited. As in the 15th century, the greatest risk to economic development would be the erosion of these routes. Then, after the fall of Constantinople, the Ottoman Empire imposed very high costs on trade between Europe and Asia. On the other hand, the blockade created incentives for the development of maritime trade and ultimately contributed indirectly to the cultural and scientific development of Western Europe. Ultimately, the Silk Roads stand as enduring witnesses to the ascent of a Chinese empire.

4. See, for example, F. De Soyres, A. Mulabdic and M. Ruta (2020) «Common transport infrastructure: A quantitative model and estimates from the Belt and Road Initiative», Journal of Development Economics, 143, 102415 and S. Lall and M. Lebrand (2020) «Who wins, who loses? Understanding the spatially differentiated effects of the belt and road initiative», Journal of Development Economics, 146, 102496.

5. Among the participants in the BRI, countries such as South Africa (70), Chile (76), Kazakhstan (86), Mongolia (119) and the DR Congo (131) have fallen down the ranking of global economic complexity. In contrast, countries like Tunisia (47), Vietnam (50), Indonesia (60), Pakistan (81) and Bangladesh (92) have climbed the ranking.

6. In this area, the «Digital Silk Road» has sought to expand the country's technological influence through investments in telecommunications, AI, smart cities and digital surveillance, offering solutions to bridge infrastructure gaps in emerging economies. On the other hand, it has raised concerns about the risk of facilitating state control over some technologies and compromising these countries' digital sovereignty.

China's alchemy: how it transforms critical minerals into global power

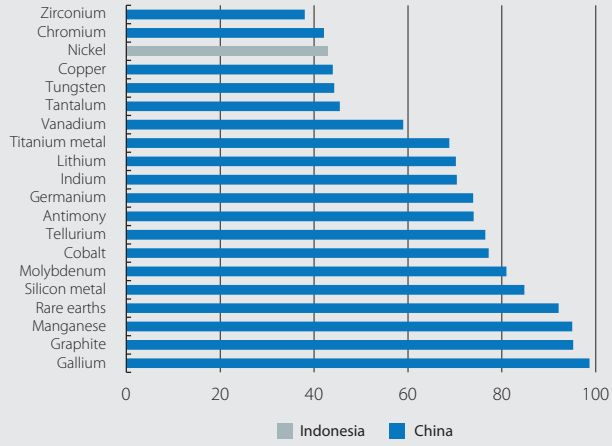
In recent years, the discussion around critical commodities has emerged as a key element in the redefining of economic relations at a global level, in an environment marked by persistent geopolitical tensions. So-called critical minerals – such as rare earths, copper, or lithium – are key inputs for global industry and, specifically, for those sectors most closely linked to the green and digital transition. The demand for these commodities has grown sharply in recent years, as has the supply, driven by the largest global producers of many of these minerals, such as China, Indonesia and the Democratic Republic of the Congo. Also, the geographical concentration of the mining and processing of these commodities increased in the last decade.[1] In this context, China continues to stand out as the leading power in the processing of these minerals, with market shares in excess of 70% in the refining of a wide range of products (see first chart).

Strategic control of commodities that support global industry

In the cases of rare earths and graphite, China's leadership in the processing of these products is complemented by a high market share in their extraction. This gives the country a dominant position in the various stages of the value chain and allows it to effectively control their global supply (see second chart). On the other hand, in the cases of lithium, cobalt and copper, China's dominance is concentrated in processing, while extraction is carried out in other locations. That said, in many cases, China has established a broad economic and diplomatic relationship with these countries, which is especially evident in the case of those participating in the Belt and Road Initiative. For instance, Chile is the largest global exporter of lithium carbonates (accounting for almost 80% of global exports), and two-thirds of its exports are destined for China. The Democratic Republic of the Congo accounts for around 60% of global cobalt exports, and almost all of these go to China. In this way, the dominant position that China has achieved in trade relations with several countries rich in these resources,[2] coupled with its dominance in their processing, offers the Asian giant a near monopoly

Critical minerals: market share of the leading country in refining

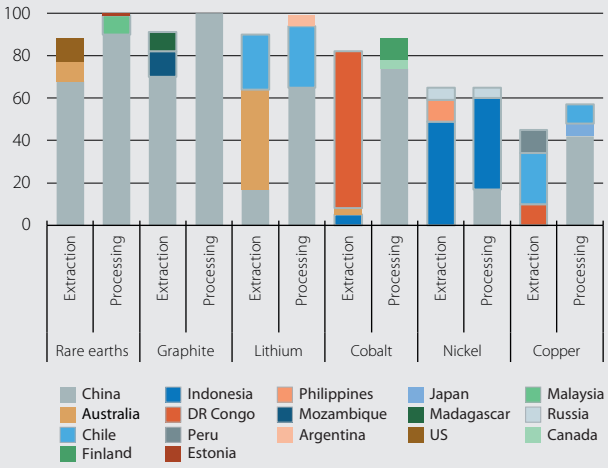
(% of the total)



Source: *BPI Research, based on data from the International Energy Agency.*

Critical minerals: market concentration in extraction and processing

Global market share of the three largest producers (%)



Note: *The countries outlined in grey are official participants in the Belt and Road Initiative.*
Source: *BPI Research, based on data from the International Energy Agency.*

in key points of the value chain of various critical commodities. This dominance gives its industry a key comparative advantage and it can be transformed into a geo-economic lever.

Critical routes: how rare earths move in global trade

The case of rare earths is particularly illustrative of the strategy that China has pursued in recent years in order to achieve global dominance and use it to its advantage. On the one hand, China dominates over half of their extraction globally, while that share rises to nearly 90% in their processing. On the other hand, its global share of rare earth exports, in their various forms (chemical compounds,

1. According to data from the IEA, demand for lithium surged by around 30% in 2024, while demand for nickel, cobalt, graphite and rare earths grew by between 6% and 8%. On the other hand, a rebound in supply has allowed prices to fall slightly for several of these minerals, following an increase in 2021-2022. At the same time, the use of restrictive trade measures on these products has soared since 2023. See the IEA (2025) «Global Critical Minerals Outlook».
2. Between 2000 and 2021, China invested around 57 billion dollars in critical mineral sectors in emerging and developing economies, more than 80% of which was in copper, cobalt and nickel projects (IEA, 2025). See also the Focuses «The Belt and Road Initiative: a double-edged sword? (part I) and (part II)», in the MR11/2025 and MR12/2025, respectively.

raw metals or articles manufactured from these metals), are comparatively low, ranging from around 15% in the case of compounds to 25%-40% in other forms – well below the market shares observed for extraction and processing.[3]

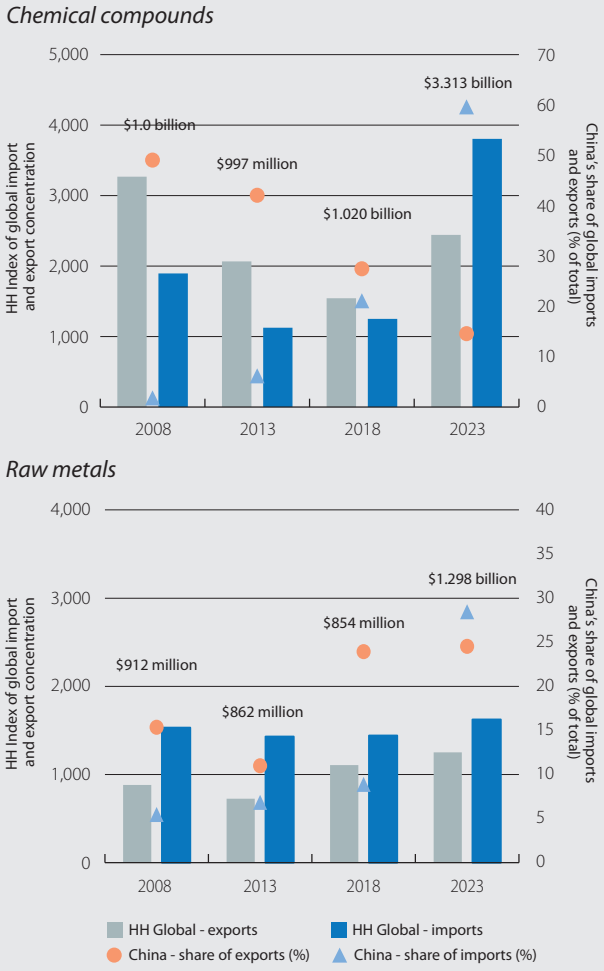
Specifically, in recent years there has been a steady reduction in China's global share of exports of rare earth chemical compounds (precursors of raw metals), from around 50% to the current 15%, while its global share of imports has increased particularly sharply since 2018, reaching the current level of 60% (see third chart). Against this backdrop, there has been a rapid global concentration of imports, with China (the third-largest exporter) absorbing virtually all imports originating from Myanmar (the largest exporter) and 40% of those from Malaysia (the second-largest exporter). On the other hand, in the case of rare earths in raw metallic form or manufactured articles, China's share of global exports has remained relatively stable, while its share of global imports has increased, especially in the less advanced stages of processing these products. Thus, China's strategy has aimed for dominance over the reserves, extraction, and processing of rare earths, a vertical integration that grants the Asian giant an almost uncontested hegemony in the sector, and a unique advantage for industries that rely on these critical inputs.

From extraction to innovation: the architecture of China's dominance

In 2020, Xi Jinping described China's dominance in certain strategic industries or technologies as its «assassin's mace».[4] Rare earths – one of the aces up the Asian giant's sleeve – proved decisive in 2025 during the escalation of trade tensions with the US, and the announced restrictions have set off alarm bells in the rest of the world.

In addition to securing its hegemony over a wide range of critical commodities and enabling their use for more than exclusively trade purposes, China's vertical dominance in these value chains has extended to several products that use them as a key input. In recent years, the country's

Rare earths: concentration of imports and exports, and China's market share



Notes: *The HS6-level product codes 284690 and 811291 are used for rare-earth chemical compounds and raw metals, respectively. For each product, the HH index of import and export concentration is calculated at the level of trade flow destinations/origins. Lower values indicate less market concentration in export/import flows.*
Source: *BPI Research, based on data from the Observatory of Economic Complexity.*

global market share in permanent magnets, electric batteries, wind power generators and electric cars has soared (see last chart).

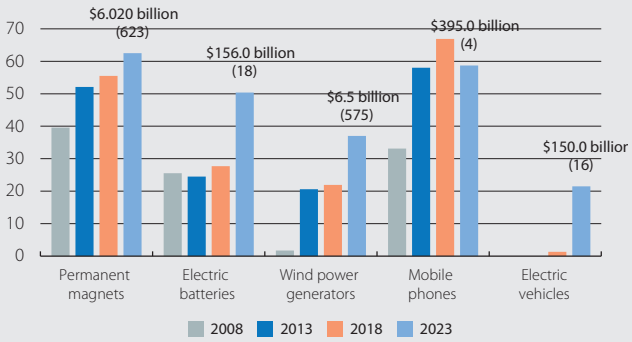
China's success in several of the most important sectors for the global economy in the coming decades is due to a multitude of interrelated factors. One is the control of various critical commodities, which has paved the way for it to develop a comparative advantage in countless intermediate products that are key to several sectors, such as permanent magnets or electric batteries. In addition to its active industrial policy that has allowed it to gain scale and competitiveness, China has added other elements. On the one hand, massive investment in infrastructure has enabled it to have some of the most developed transport, telecommunications and energy networks in the world, and this has helped cultivate «economies of scope», facilitating the deployment of new technologies (such as those related to electric mobility) and providing

3. After the mining phase (i.e. the process of physical extraction of the ore from rock deposits), the processing of these metals can be divided into five phases: concentration (crushing, grinding and separation, which increases the concentration of the desired element), chemical refining (conversion of the mineral into purer compounds), reduction to metal (the chemical process to remove oxygen and other elements, obtaining the raw metal), alloying (casting of the pure metal, and mixing it with other elements, conversion into ingots, powder or parts) and the manufacture of «final» products (use in magnets, batteries or other electronic components).
4. See *The Economist* (2025). «Xi Jinping swings his "assassin's mace" of economic warfare», 06/02/2025, or the translation of the original speech by Xi Jinping, in 2020, «Certain Major Issues for Our National Medium- to Long-Term Economic and Social Development Strategy» by CSET (Georgetown University). In Chinese, the term refers to a tool which, when used at a critical moment in a confrontation, proves decisive.

competitive advantages to energy-intensive industries. On the other hand, a more flexible regulatory framework and a large workforce specialised in the industrial sector favour innovation and a build-up of «process knowledge», ensuring a comprehensive understanding of «factory processes» among its labour force. These elements enable the implementation of continuous improvements, the scalability of Chinese factories and the creation of new industries, such as electric vehicles, drones or robotaxis, ensuring dynamic competitive advantages in the industrial sector. Ultimately, China has transformed critical commodities into the cornerstone of tomorrow's global industries.

China's global market share in manufactured products that use rare earths as inputs

Share of China's exports (% of total exports)



Note: *Products with HS codes 850511 (permanent magnets), 8507 (electric batteries), 850231 (wind-powered electric generators), 851712 (mobile phones) and 870380 (electric vehicles) are considered. For each product, the value of global trade which they represented in 2023 (latest data) and their position in the global context in terms of trade value are indicated. As a reference, in the top 5 most traded products globally (at HS6 level) we find crude oil (1) and refined oil (2), gold (3), mobile phones (4) and pharmaceuticals (5) followed by motor vehicles, integrated circuits, natural gas, other communication devices and laptops.*
Source: *BPI Research, based on data from the Observatory of Economic Complexity.*

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

UNITED STATES

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	10/25	11/25	12/25
Activity									
Real GDP	2.9	2.8	2.4	2.0	2.1	2.3	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.4	4.1	4.8	4.9	4.7	4.2	...	...
Consumer confidence *(value)*	105.4	104.5	110.6	99.8	93.1	97.4	95.5	92.9	89.1
Industrial production	–0.2	–0.7	–0.9	0.7	0.5	1.6	2.2	2.5	...
Manufacturing activity index (ISM) *(value)*	47.1	48.2	48.2	50.1	48.7	48.6	48.7	48.2	47.9
Housing starts *(thousands)*	1,421	1,371	1,387	1,401	1,354	...	...	...	...
Case-Shiller home price index *(value)*	312	330	336	340	338	337	339	...	...
Unemployment rate *(% lab. force)*	3.6	4.0	4.1	4.1	4.2	4.3	...	4.6	...
Employment-population ratio *(% pop. > 16 years)*	60.3	60.1	59.9	60.0	59.8	59.6	...	59.6	...
Trade balance [1] *(% GDP)*	–3.0	–2.8	–3.0	–3.5	–3.6	–3.4	...	...	...
Prices									
Headline inflation	4.1	3.0	2.7	2.7	2.4	2.9	...	2.7	...
Core inflation	4.8	3.4	3.3	3.1	2.8	3.1	...	2.6	...

JAPAN

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	10/25	11/25	12/25
Activity									
Real GDP	0.7	–0.2	0.6	1.6	2.0	0.6	–	–	–
Consumer confidence *(value)*	35.1	37.2	36.1	34.7	32.8	34.6	35.8	37.5	37.2
Industrial production	–1.4	–3.0	–2.5	2.5	0.8	0.6	1.7	0.7	...
Business activity index (Tankan) *(value)*	7.0	12.8	14.0	12.0	13.0	14.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.5	2.5	2.5	2.5	2.5	2.6	2.6	...
Trade balance [1] *(% GDP)*	–2.9	–1.0	–0.9	–0.9	–0.7	–0.5	–0.4	–0.4	...
Prices									
Headline inflation	3.3	2.7	2.9	3.8	3.4	2.9	3.0	2.9	...
Core inflation	3.9	2.4	2.3	2.7	3.2	3.2	3.1	3.0	...

CHINA

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	10/25	11/25	12/25
Activity									
Real GDP	5.4	5.0	5.4	5.4	5.2	4.8	–	–	–
Retail sales	7.8	3.3	3.8	3.6	4.4	2.4	2.9	1.3	...
Industrial production	4.6	5.6	5.6	6.8	6.2	5.8	4.9	4.8	...
PMI manufacturing *(value)*	49.9	49.8	50.2	49.9	49.4	49.5	49.0	49.2	50.1
Foreign sector									
Trade balance [1,2]	865	997	997	1,086	1,146	1,177	1,171	1,185	...
Exports	–5.1	4.6	10.0	5.7	6.0	6.5	–1.2	5.8	...
Imports	–5.5	1.0	–1.8	–6.9	–0.9	4.3	1.0	1.9	...
Prices									
Headline inflation	0.2	0.2	0.2	–0.1	0.0	–0.2	0.2	0.7	...
Official interest rate [3]	3.5	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.0
Renminbi per dollar	7.1	7.2	7.2	7.3	7.2	7.2	7.1	7.1	7.0

Notes: *1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.*
Source: *BPI 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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	10/25	11/25	12/25
Retail sales *(year-on-year change)*	–1.9	1.2	2.3	2.4	3.0	1.9	1.5	...	...
Industrial production *(year-on-year change)*	–1.6	–3.0	–1.6	1.4	1.3	1.4	2.0	...	...
Consumer confidence	–16.0	–12.6	–11.9	–12.6	–14.3	–13.6	–12.5	–12.8	–13.1
Economic sentiment	96.2	95.7	95.1	95.5	94.4	95.7	96.9	97.1	96.7
Manufacturing PMI	44.4	45.9	45.4	47.6	49.3	50.1	50.0	49.6	48.8
Services PMI	48.8	51.5	50.9	51.0	50.1	50.9	53.0	53.6	52.4
Labour market									
Employment (people) *(year-on-year change)*	1.5	0.9	0.7	0.8	0.7	0.6	–	–	–
Unemployment rate *(% labour force)*	6.6	6.4	6.2	6.3	6.4	6.4	6.4	6.3	...
Germany *(% labour force)*	3.1	3.4	3.4	3.6	3.7	3.8	3.8	3.8	...
France *(% labour force)*	7.3	7.4	7.3	7.5	7.6	7.7	7.7	7.7	...
Italy *(% labour force)*	7.7	6.6	6.2	6.3	6.3	6.1	5.8	5.7	...
Real GDP *(year-on-year change)*	0.6	0.8	1.3	1.6	1.6	1.4	–	–	–
Germany *(year-on-year change)*	–0.7	–0.5	–0.2	0.2	0.3	0.3	–	–	–
France *(year-on-year change)*	1.6	1.1	0.6	0.6	0.7	0.9	–	–	–
Italy *(year-on-year change)*	1.1	0.5	0.5	0.8	0.5	0.6	–	–	–

Prices

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	10/25	11/25	12/25
General	5.5	2.4	2.2	2.3	2.0	2.1	2.1	2.1	2.0
Core	5.0	2.8	2.7	2.6	2.4	2.3	2.4	2.4	2.3

Foreign sector

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	10/25	11/25	12/25
Current balance	2.0	3.4	3.4	3.0	3.6	5.2	10.5	...	...
Germany	5.5	5.8	5.8	5.4	6.7	9.3	18.5	...	...
France	–1.0	0.1	0.1	0.0	–0.3	–0.9	–1.3	–1.8	...
Italy	0.2	1.1	1.1	0.9	1.3	2.6	5.2	...	...
Nominal effective exchange rate[1] *(value)*	94.4	94.6	93.7	93.2	96.6	98.3	98.0	97.9	98.4

Credit and deposits of non-financial sectors

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	10/25	11/25	12/25
Private sector financing									
Credit to non-financial firms[2]	2.7	0.8	1.4	2.2	2.6	2.9	2.9	3.1	...
Credit to households[2,3]	1.7	0.5	0.9	1.5	2.1	2.5	2.8	2.9	...
Interest rate on loans to non-financial firms[4] *(%)*	4.6	4.9	4.4	3.9	3.4	3.2	3.2	3.2	...
Interest rate on loans to households for house purchases[5] *(%)*	4.4	4.6	4.3	4.0	3.7	3.6	3.5	3.5	...
Deposits									
On demand deposits	–8.5	–3.9	1.2	3.7	5.4	5.6	5.7	5.5	...
Other short-term deposits	21.1	12.4	6.0	2.3	–0.1	–1.5	–1.8	–0.8	...
Marketable instruments	20.1	20.0	18.0	14.7	11.1	4.4	1.4	1.6	...
Interest rate on deposits up to 1 year from households *(%)*	2.7	3.0	2.6	2.2	1.9	1.7	1.8	1.8	...

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: *BPI Research, based on data from the Eurostat, European Central Bank, European Commission, national statistics institutes and Markit.*

Positive trend continues at the end of the year

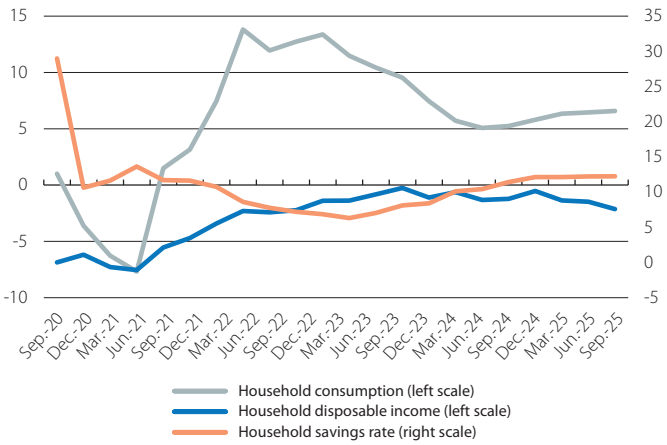
Recent activity indicators point to dynamism at the turn of the year, despite slightly slower growth. Considering the first three quarters (Q1 2025-Q3 2025), real GDP grew by 1.9% (–0.1 pp compared to the same period last year), driven by a significant slowdown in exports and an acceleration in imports. On the other hand, private consumption continued to contribute to the robustness of activity, accelerating to 3.8% (+1.2 pp compared to the same period last year), driven, among other factors, by the solid labour market and the reduction in income tax rates in August and September (with retroactive effects). From an income perspective, and in nominal terms, the economy continues to reflect net financing capacity, i.e., institutional sectors as a whole continue to generate more income than they spend and invest (on average, in the first three quarters of 2025, capacity was 2.6% of GDP, –0.9 pp than in the same period last year). In the case of households, their income continues to grow steadily, although it shows signs of slowing down. On average, their respective gross disposable income (GDI) grew by 7.6% year-on-year in the year ending in Q3 2025 (–1.3 pp compared to the previous year). In turn, private consumption and savings show a moderate acceleration, driven by robust employment and wage growth. Consumption increased by an average of 6.6% (+1.4 pp year-on-year) and the average savings rate stands at 12.5% (+0.9 pp).

Housing appreciates strongly. With data from the Housing Price Index (HPI) for Q3 2025, a year-on-year appreciation of 17.7% was observed, placing the average housing appreciation over the last four quarters at 15.7%. The latest data extends the trend that had already been present in the previous two quarters of very strong quarterly price increases, above 4%. Q3 is also the fourth consecutive quarter in which the number of transactions exceeds 40,000 (42,400, +3.8% year-on-year, although –1% compared to the previous quarter). The average price of homes transacted now stands at 247,100 euros. According to bank valuation data, the strongest median appreciations (value/m^2) are for dwellings in the Setúbal Peninsula, Médio Tejo and Lezíria do Tejo regions. In other words, stronger appreciations in an increasingly wider area around the Lisbon metropolitan area.

In October and in cumulative terms for the year, the Portuguese current account recorded a surplus of €5.2536 billion (i.e. 2.1% of GDP), which is equivalent to a 23.4% reduction compared to the surplus recorded in the first 10 months of 2024. This development is justified by the goods balance deficit, which worsened by €3.472 billion compared to the same period last year, driven by an increase in imports (+€2.933 billion) and a decrease in exports (–€539 million). On the other hand, the services balance surplus increased by €1,742 million compared to October 2024, mainly due to the increase in exports of travel and tourism services (+€1,314 million year-on-year).

Household consumption, income and savings

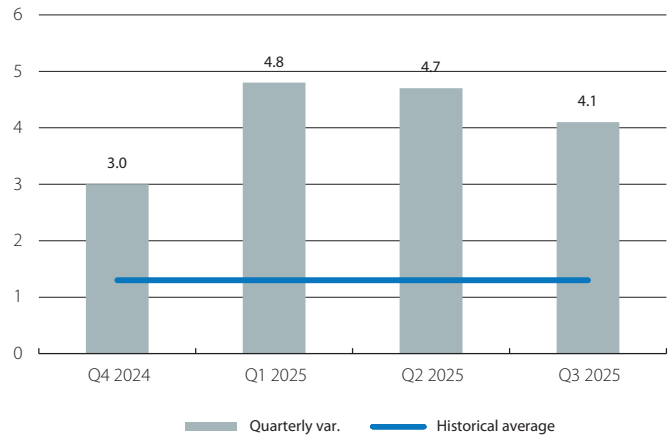
Year-on-year change (%) *(%)*



Note: *Moving averages from the previous 4 quarters are used for each indicator.*
Source: *BPI Research, based on data from the National Institute of Statistics.*

Housing Price Index

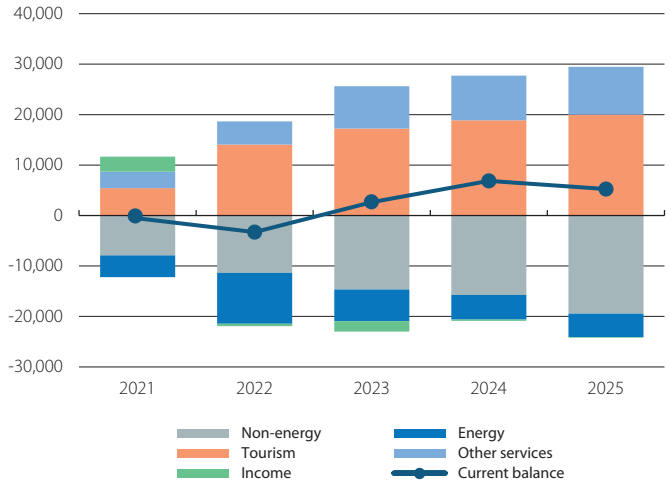
Quarterly var. (%)



Note: *: The historical average refers to the average of the quarterly valuations of the IPH series up to 4Q 2024.*
Source: *BPI Research, based on data from the National Institute of Statistics.*

Portugal: current account

(year-to-date October, millions of euros)



Source: *BPI Research, based on data from Datastream.*

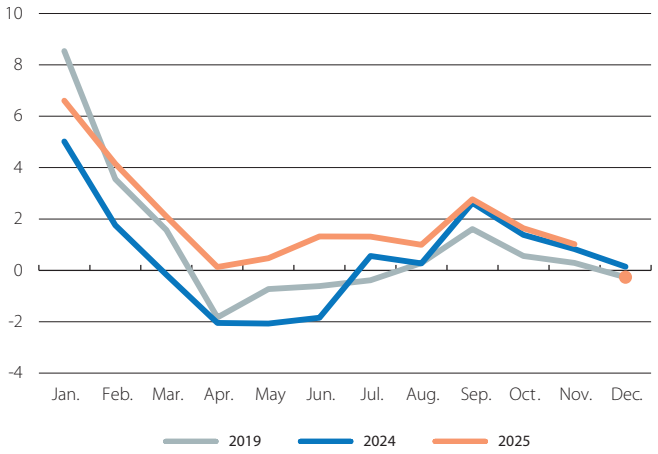
Budget execution throughout 2025 seems to point to another year of positive surprises. Data up to Q3 (in national accounts) and up to November (in public accounts) reveal the same pattern: tax revenue and social security contributions are the main drivers of revenue growth (for example, they account for 82% of the increase in revenue up to November), while social benefits and personnel expenses are the items that have put the most pressure on public spending (i.e. the equivalent of 60% up to November). As such, official data points to a surplus of 2.0% of GDP up to Q3, while budget execution up to November (in public accounting) reveals a surplus of 1.0% of GDP. Given this scenario, and considering the difference between the estimates provided by the Government in the State Budget for 2026, the budget balance should be slightly above the Government's latest estimate (0.3% of GDP).

Average inflation for 2025 is 2.3%. With the global CPI registering 2.2% in December, 2025 will end with an average inflation rate of 2.3%. The maintenance of global inflation was not accompanied by underlying inflation, which increased slightly – prices rose 2.1% year-on-year (2.0% in November). Although the slowdown in average inflation in 2025 has been confirmed, it was less than initially expected, mainly due to persistent service inflation and a higher-than-expected increase in the prices of unprocessed food products. Looking ahead to 2026, our current forecast for the global CPI is 2.1%, already very close to the target value and therefore maintaining the disinflation trend from 2025. In the energy sector, we foresee support for disinflation based on an average Brent price lower than that recorded in 2025, and in the food sector, high cereal production and reserves should also support some relief in processed food products.

The non-performing loan ratio remained unchanged in Q3 at a record low. In fact, the NPL ratio in Q3 remained at 2.3% for the third consecutive quarter, with the amount of non-performing loans decreasing by approximately 133 million euros compared to the previous quarter. The ratio relating to housing credit decreased slightly (–0.1 pp, to 1.0%), while in the case of non-financial corporations it decreased by 0.2 pp, to 3.8%. In the case of consumer credit and other purposes, the NPL ratio remained unchanged at 6.1%. In all cases, the NPL ratio reached a historic low. However, the credit portfolio for the non-financial private sector continues to evolve very dynamically: the portfolio increased by 6.5% year-on-year in November, with notable growth in the mortgage loan portfolio (8.9%) to a maximum level not seen since the beginning of the series (December 2014). The loan portfolio of non-financial corporations also accelerated to 2.8% (compared to 2.6% in October). At the same time, deposits hit a new all-time high in November, both for non-financial corporations and for individuals: In the first case, the increase was almost 11% year-on-year, while for individuals the increase was 4.3%; in this latter case, the significant growth in demand deposits stands out, with a sequential increase of almost 2 billion euros.

Budget implementation (public accounting)

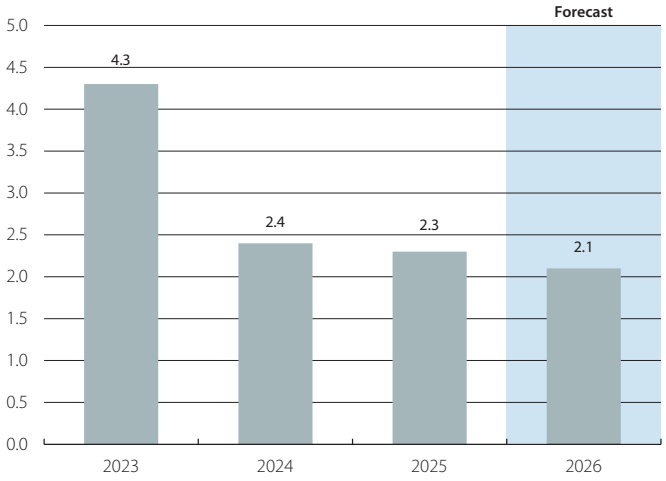
(% GDP)



Note: *The point represents the government's estimate for the end of the year.*
Source: *BPI Research, based on data from INE and the Proposed General State Budget 2026.*

Global CPI

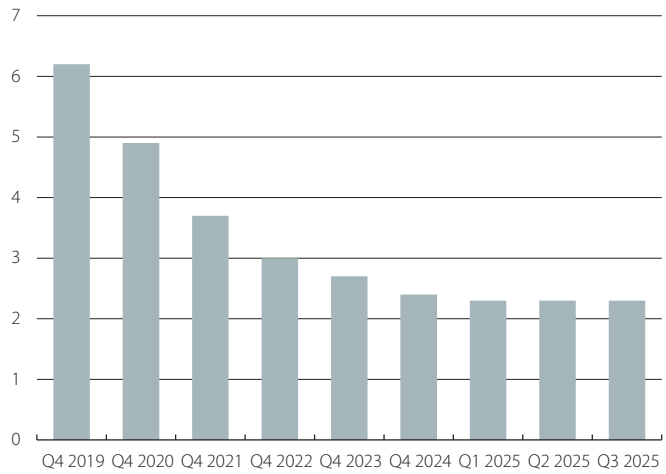
Average annual variation (%)



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

Non-Performance Loans (Total)

(% of total loans)



Source: *BPI Research, based on data from BdP.*

The technology balance is improving, but still reveals a significant technological dependence on foreign countries

A technology balance groups together components of the balance of payments related to commercial transactions involving technology exchanges between countries, covering transactions related to the use of patents, licences, trademarks, design, know-how and technical services (including technical assistance), industrial R&D, among others, functioning as an indicator of a country's international technological capacity and competitiveness.

In the first 9 months of 2025, the technological balance was 1.854 billion euros (practically three times more than in 2019), receipts reached 4.885 billion euros (77% above the 2019 level) and payments amounted to 3.031 billion (34% more than in 2019).

In the post-pandemic period, the technological balance gained importance in the balance of payments, with the respective balance representing 27.5% of the balance of payments, 45% of the current account and around 39% of the balance of goods and services. This was partly due to the fact that exports of goods and services included in the technology balance were growing at a much faster rate than the balance of goods and services as a whole, which resulted in the doubling of the share of receipts obtained from transactions of technological assets in the total balance of goods and services. The trend observed in imports was identical, but less pronounced.

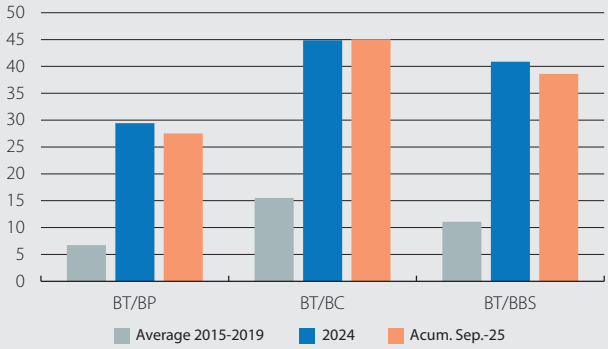
The level of detail regarding what is accounted for in this balance is quite limited, being restricted to three components: i) rights to acquire/use patents and trademarks; ii) technical assistance services; and iii) other services of a technical nature.[1]

The structure of exports of technological assets has changed over the last 15 years, with other services of a technical nature gaining importance. On the other hand, sales of technical assistance services have lost importance and patent sales are insignificant, reflecting the fact that Portugal is among the European countries with the lowest number of registered inventors and patent applicants.

1. i) Rights to acquire/use patents and trademarks include transactions related to intellectual property such as patents, product or process improvements, trademarks, technology licensing, trademark usage rights and *know-how*, industrial design, and rights to designations of origin.
ii) Technical assistance services include technical consulting, engineering and architecture, specialised maintenance and repair, installation and calibration, and technical training.
iii) Other services of a technical nature include information technology and telecommunications services, research and development (R&D) services, metrology and certification services, innovation consultancy and technology transfer.

Weight of the technological balance in the balance of payments, current account, and goods and services

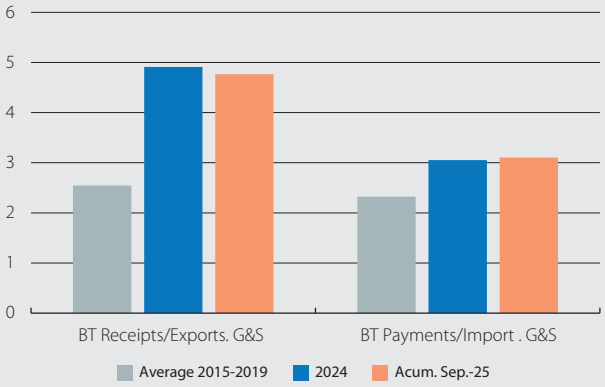
(%)



Note: *BT (technological balance); BP (balance of payments); BC (current balance); BBS (balance of goods and services).*
Source: *BPI Research, based on data from Banco de Portugal.*

Weight of receipts and payments in exports and imports of B&S

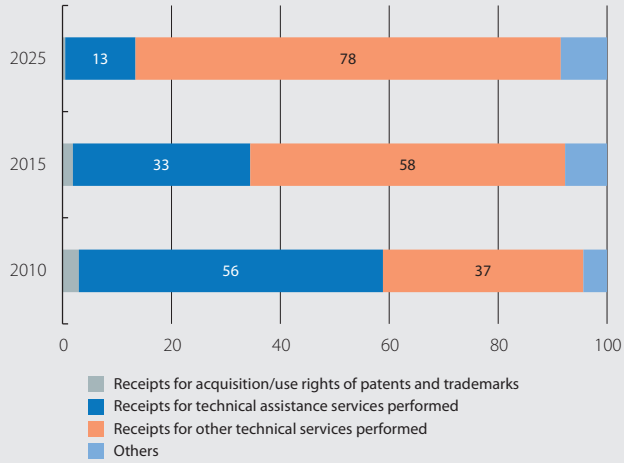
(%)



Source: *BPI Research, based on data from Banco de Portugal.*

Receipts by type of asset/service

(% of the total)



Source: *BPI Research, based on data from Banco de Portugal.*

In terms of imports, those of other technical services are also predominant; however, the structure is more diversified, with acquisitions of intellectual property assets and other technical assistance services each representing approximately 20%.

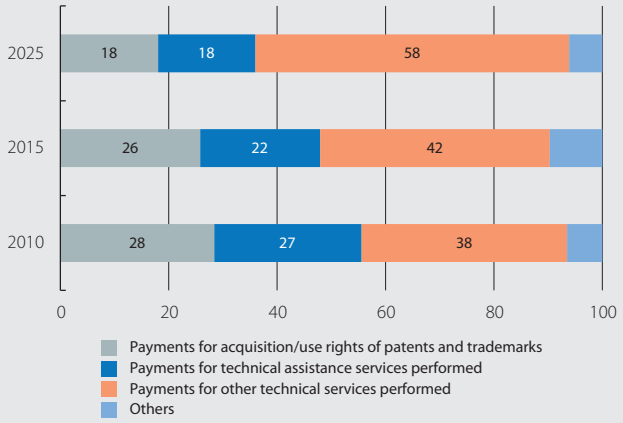
Despite stronger growth in exports than imports of technological assets, Portugal remains highly dependent on imports of knowledge and other technological assets, which could be a limiting factor for long-term gains in competitiveness. In fact, in 2024, foreign acquisitions of technological assets still represented 77.6% of the country's R&D expenditure (72.8% on average between 2015-2019).

Comparison with other countries is limited, so as a proxy we used data available from Eurostat for international trade in research and development services, trade-related technical services and other business services, and transactions in intellectual property assets. The data indicate the balance in trade for these three services[2] as a percentage of GDP is still very low compared to other Eurozone countries (0.1% of GDP, compared to 0.4% in Spain, 0.2% in Germany and 0.3% in France), but shows moderately favourable developments in these services, but which need to be accelerated, in what we might call the external dependence index in the area of technology, suggesting some gains in domestic technological production, with the respective ratio falling by around 16 pp between 2019 and 2024.

Teresa Gil Pinheiro

Payments by asset/service type

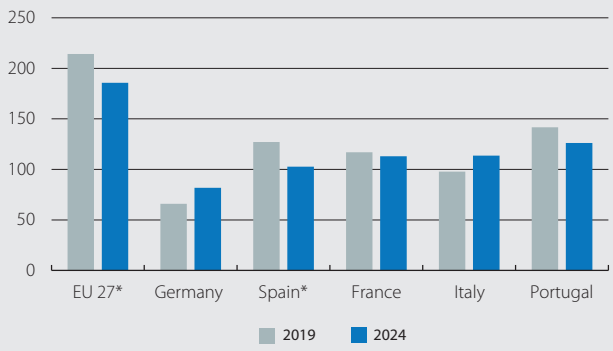
(% of the total)



Source: *BPI Research, based on data from Banco de Portugal.*

Payments for R&D, technical and intellectual property services, as a percentage of R&D expenditure

(%)



Note: ** Data relating to 2023.*
Source: *BPI Research, based on data from Eurostat.*

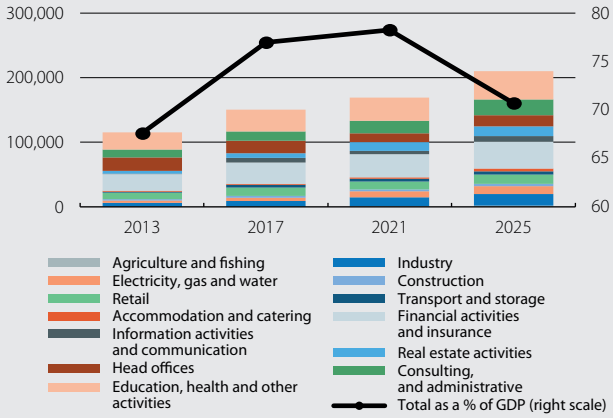
2. Comparing the data published by Eurostat on trade in these types of services with the data published by the Bank of Portugal for the technology balance, it can be concluded that not all of these transactions are considered in the technology balance.

Portugal has been attractive for foreign investment, but there is room for new improvement

Foreign direct investment (FDI) has the capacity to boost the economy by fostering the diversification of financing and the transfer of innovation and knowledge from more technologically advanced or specialised countries, potentially increasing GDP and employment. In recent years, the stock of FDI has shown a positive trajectory in Portugal, reaching an average of €210.2 billion in the period Q4 2024–Q3 2025 (+5.6% and +32.4% compared to the years 2023 and 2019, respectively), which reflects the ability to attract investors to increase competitiveness and make value chains more efficient. However, we have observed that the evolution of its share in GDP has not been so significant: between 2013 and 2021, this share increased by 10 percentage points, from approximately 68% to 78%; but from 2021 onwards it receded, returning to levels slightly below 70%. This may initially appear to be less favourable behaviour, but from a broader perspective, we can say that the economy has managed to grow in various ways without needing to systematically depend on foreign capital (see first chart).

Foreign direct investment stocks

Annual average of quarterly values (millions of euros) *(% of nominal GDP)*

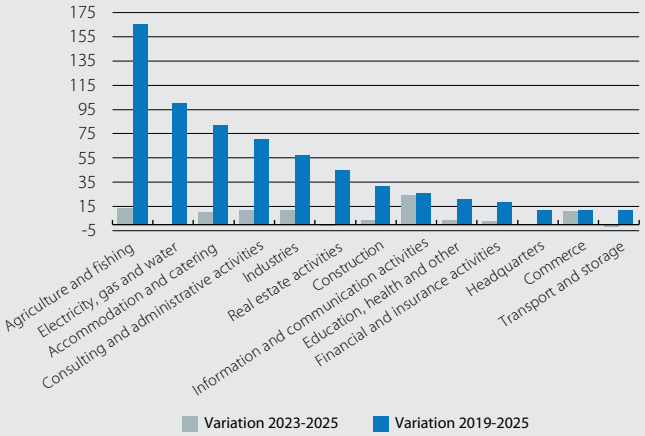


Note: *The 2025 stock corresponds to the average of the last four available quarters (Q4 2024–Q3 2025). The total FDI figures considered in this article consist of the sum of the figures corresponding to each sector of activity. The Bank of Portugal publishes a series representing the total, but this does not correspond exactly to the sum of the sectors, the difference resulting from unallocated amounts, mainly associated with real estate investment by non-residents.*

Source: *BPI Research, based on data from Banco de Portugal.*

Foreign direct investment stocks

Cumulative rate of change (%)



Note: *The 2025 stock corresponds to the average of the last four available quarters (Q4 2024–Q3 2025).*

Source: *BPI Research, based on data from Banco de Portugal.*

Sectoral dynamics in FDI (excluding the portion allocated to real estate investment by non-residents)

Excluding education, health and other activities,[1] the most relevant portion of stock has historically been invested in the financial sector, which in the period Q4 2024–Q3 2025 averaged €40.7 billion (19% of the total, although its proportion has been decreasing), benefiting from regulatory stability and the entry of Spanish capital into Portuguese banking (through the establishment of new businesses or acquisitions, it being important to mention that Spain is the main source of FDI). Also noteworthy are consulting and administrative activities (€25.0 billion or 12% of the total) and industries (€17.7 billion or 8% of the total). Compared to the pre-pandemic period (see second graph), the variation observed in agriculture and fishing is evident (+168.8% since 2019), which, despite its low representation of 1%, has benefited from NGEU funds and the CAP strategic plan, from the demand for sustainable agri-food products or those protected by intellectual property (protected designation of origin and protected geographical indication – PDO and PGI), and from the development of more efficient machinery and equipment. The electricity, gas and water sector (+103%) has also gained relevance, supported in part by European alignment with the goal of carbon neutrality by 2050 (implicit in the Paris Agreement and in the *Green Deal*) and by the focus on the energy transition (supported by programmes such as *InvestEU*); and also accommodation and catering (+80.7%), which accompanied the recovery of tourism after the pandemic. More recently, information and communication activities were the sector whose stock of FDI increased the most (+28.1% since 2023), driven by the growing investment in technology services and the relative attractiveness of Portugal as a strategic platform in Europe for technological transformation and data centres.[2] For example, IT services and software are the

1. Education, health, and other activities represent an average of €43.5 billion in the period Q3 2024–Q2 2025, which corresponds to approximately 21% of the total invested in that period, but have not received much attention because the category encompasses several sectors/subsectors of activity and does not allow for isolated analysis.

2. Of particular note is Microsoft's announced investment of approximately $10 billion in a «gigafactory» in Sines, which foresees the installation of more than 12,000 state-of-the-art Nvidia graphics cards.

segment with the highest number of FDI projects in Portugal, and their proportion of the total number of projects is approximately double the European average (29.1% vs. 14.6%),[3] driven by some government-promoted strategies that have contributed to prioritising structural digitalisation and efforts to develop artificial intelligence (AI), such as the Digital Transition Action Plan and *AI Portugal* 2030.

It is worth noting that the stock of FDI allocated to real estate investment (not included in this analysis) has been increasing consistently since 2008 and more sharply in recent years, reaching €37.7 billion in Q3 2025 and becoming relevant in this context (15% of the sector total when including this amount, compared to 11% in Q4 2019). An analysis of these flows, by origin and in comparison with other geographies, will be provided in a future article.

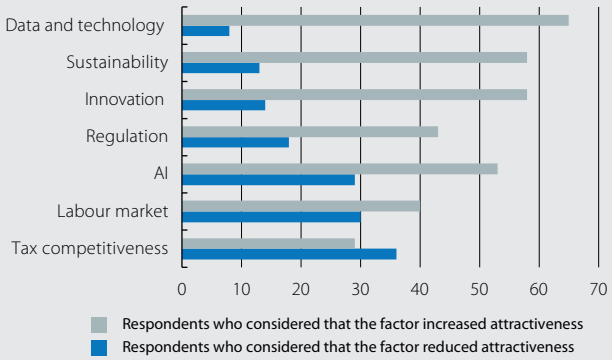
Risks and areas for improvement

Positive performance in FDI has contributed to gains in competitiveness in some sectors, but certain risks and areas for improvement remain, linked to increased geopolitical and commercial uncertainty in international markets and the fact that Portugal is still consolidating its innovation and entrepreneurship capacity. Despite the generally positive outlook in line with the official data analysed earlier in this article, the *EY Attractiveness Survey* highlights that Portugal fell from 7th to 9th place in the European *ranking* for investment attractiveness and the number of projects financed by FDI decreased, partly due to the systemic decline in confidence of external institutional investors in Europe as a result of slower growth and political instability. As a result, the proportion of companies planning to establish or expand operations in Portugal fell to 60% in 2025 (–24 pp compared to the previous year), which may affect the future attraction of investors.[4]

Through the third graph we can observe the main factors that, from the perspective of the surveyed business decision-makers, most contributed to reducing Portugal's attractiveness: fiscal competitiveness and the labour market, according to 36% and 30% of respondents surveyed by EY, respectively. This indicates that many international companies understand that the country needs more significant tax reform in order to establish or expand their activities (for example, despite the reduction in corporate income tax, the combined tax rate on business income is 30.5% in Portugal, the third highest in the OECD, which has an average of 24.2%); as well as a policy that maintains dynamic employment and reduces the shortage of skilled professionals in key areas such as energy, causing the labour economy to transition from a cost-efficiency model (supported by recent immigration growth) to one focused on long-term added value. On the other hand, technology, sustainability, and innovation are the aspects perceived as having most increased the attractiveness for FDI, reflecting the development of the national technological *hub* in recent years,[5] alongside leadership in the energy transition through the exploration of renewable sources.[6]

Survey on factors affecting Portugal's attractiveness for FDI in 2025

(% of total respondents)



Note: *Survey conducted on a sample of 200 international decision-makers involved in their organisation's decisions on establishing or expanding operations in the country.*
Source: *BPI Research, based on the EY Portugal Attractiveness Survey 2025.*

In short, Portugal remains capable of attracting FDI, the amount of which has increased in absolute terms and has been anchored in sectors such as electricity/energy and information and communication activities, through its leadership in sustainability and technological development. However, recent signs of a slowdown in the number of projects indicate that there may be room for structural changes, especially in terms of taxes and job specialisation, factors that continue to hinder the attraction of international funds according to the perspectives of a relatively broad sample of companies. In addition to promoting the areas where Portugal already has a competitive advantage, the way forward will be to prioritise the allocation of resources to high value-added segments and to advance reforms that encourage reindustrialisation, fiscal flexibility, and the strengthening of knowledge-intensive labour.

Tiago Miguel Pereira

3. See *EY Portugal Attractiveness Survey*: https://www.ey.com/pt_pt/foreign-direct-investment-surveys/ey-attractiveness-survey-portugal-2025
4. Despite the limitations of the study conducted by EY, which is based on surveys constrained by the sample size and not on official statistics,
5. Which has also been supported by the annual holding of *Web Summit* in Lisbon.
6. According to Eurostat, Portugal had the second highest proportion of electricity generated from renewable energy sources in the EU in 2024 (87.5% vs. 47.4% on average).

Characterisation of the Portuguese hotel sector

The supply of tourist accommodation plays a central role in consolidating the country as a competitive and attractive destination on the international stage. The expansion of supply that has occurred does not translate only into capacity; it represents a driver of economic and social development, generating employment, stimulating investment, and promoting the development of less urbanised regions. Understanding the structure and evolution of this supply is therefore fundamental to characterising the sector.

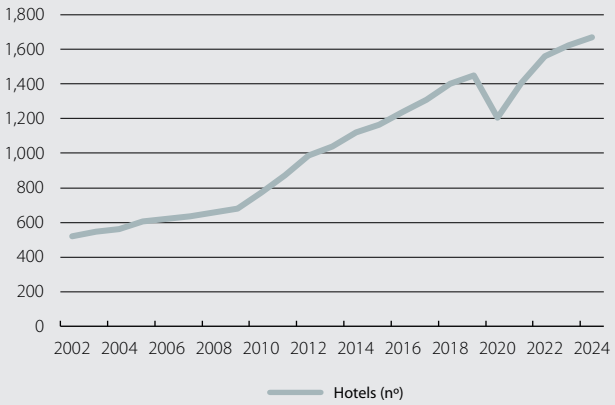
Let's quantify the expansion of supply in numbers. According to the INE (National Institute of Statistics), at the end of 2024 there were 8,173 tourist accommodation establishments (EAT).[1] Of these, 1,670 are hotels (which have more than tripled compared to the early years of this century, as we can see in the first graph). Also in that year, the installed capacity in terms of number of rooms amounted to 215,490 and despite the hotel industry[2] predominating, Local Accommodation (AL) already represented almost 20% of the supply.

Despite the significant presence of short-term rentals in terms of rooms, when we look at total revenue in the tourism and accommodation sector, hotels have an even more significant share (68%), also boosted by the cross-selling opportunities that this type of infrastructure allows (other activities, spa services, bar, meals, etc.). With reference to hotels specifically, the largest share of revenue is generated in 4-star hotels (43%), but with the 5-star category quite close (38%), even though the number of 4-star hotels is almost 4 times greater (616 vs. 176 of 5 stars). On the other hand, in recent years[3] the number of 5-star hotels has grown more (+54%) than 4-star (+37%) and 3-star (+26%) hotels, signaling a shift towards higher-end segments.

In terms of distribution across the territory, at the end of 2024 the North region will register the highest percentage of the total number of hotels, 28.1% (14.7% in the Porto Metropolitan Area alone), followed by the Centre (22.5%), Lisbon Metropolitan Area (22.2%), Algarve (10.5%), Alentejo (6.3%), Madeira Autonomous Region (5.6%) and finally the Azores Autonomous Region

Evolution of the number of hotels

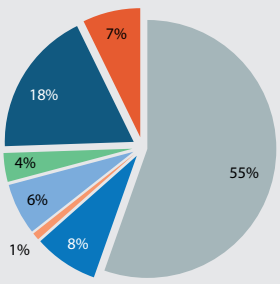
Number



Source: *BPI Research, based on data from INE (Survey on guest stays in hotels and other accommodations).*

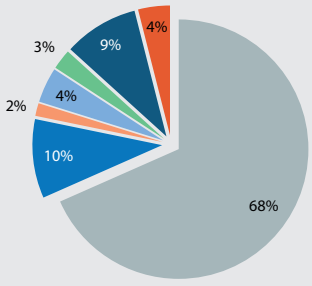
Room distribution by type of EAT

(%)



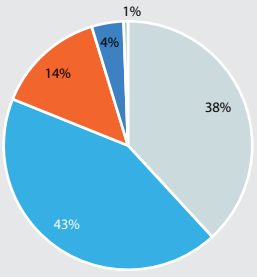
Total revenue by EAT type

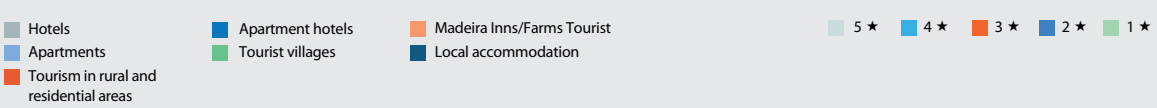
(%)



Distribution of total revenue by hotel type

(%)





Source: *BPI Research, based on data from INE (Survey on guest stays in hotels and other accommodations).*

1. EAT includes Hotels, Hotel-apartments, Inns/Farms in Madeira, Tourist apartments, Tourist villages, Local accommodation, Rural and residential tourism.
2. Hotel services include: Hotels, Apartment hotels, Guesthouses/Farms in Madeira, Tourist apartments, Tourist villages.
3. Between 2017 and 2024.

(4.9%). Indeed, between 2017 and 2024, the North was the region where the number of hotels increased proportionally the most (+44%),[4] followed by Lisbon MA (+37%), the Centre (+19%), the Algarve (+18.2%), the Azores AR (+14.1%), the Alentejo (+11.6%) and the Madeira AR (+10.7%).

Despite being the region with the highest number of hotels, the fact that the North registered the largest increase in hotels seems positive, since the North is also the region with the lowest accommodation capacity in the EATs,[5] measured by the indicator of beds per 1,000 inhabitants (25 beds per 1,000 inhabitants). In other words, supply and investment are showing signs of orientation towards a region with still relatively low tourism intensity, growing more diverse. In this area there is a great asymmetry between regions – the Algarve has a ratio of beds per 1,000 inhabitants (274) more than 10 times higher than the North region, a value clearly indicative of tourist pressure also due to seasonality, with potential impact on health and transport infrastructure, housing prices, environmental sustainability, etc.

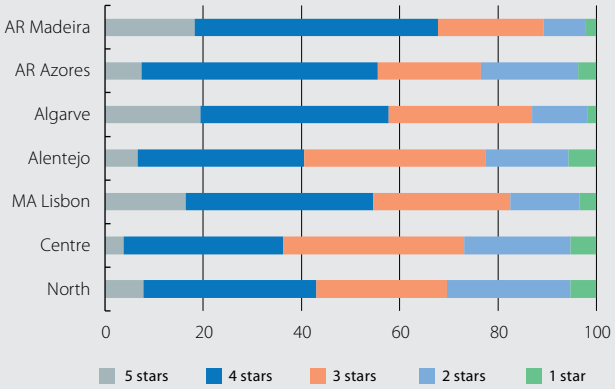
By typology, the Algarve is the region where the hotel stock has the highest proportion of 5-star hotels, 19%, closely followed by the Autonomous Region of Madeira (18%). In turn, the Autonomous Region of Madeira is the region that notably presents the highest proportion of its hotel stock with hotels in the higher segment (4 and 5 stars), specifically, 68%. In contrast, the Central region has the highest proportion of lower-segment hotels (3 stars or less), at 64%.

What can we expect regarding the evolution of the hotel sector in the near future? To try and answer this question, we used data from Turismo de Portugal (TdP)[6] as well as from Lodging Econometrics.[7] According to TdP data, the number of hotels opening in the near future is 76, corresponding to 4,268 rooms and 8,154 beds. The number of 4- and 5-star hotels are comparable (24 and 22, respectively) and they represent 61% of new hotels (71% of new beds), which seems to reaffirm the focus on higher segments. Lodging Econometrics indicates that Portugal is the European country with the fifth most hotel projects in the *pipeline*[8] – 111 projects – and Lisbon as the third city with the largest *pipeline* – 37 projects, behind only London and Istanbul.

Taking the TdP room *pipeline* as a reference, the completion of these hotels would result in a total increase in accommodation capacity in EATs of 2% (and 3.6% of hotel accommodation capacity). The country's strong position in the expansion of European supply in the sector indicates that investors continue to foresee solid growth in tourism demand in our territory. It is important that the expansion of supply keeps pace with global trends and responds to the demands of increasingly well-informed and discerning tourists. The new offering must be varied, reflecting the cultural and geographical richness of the territory, but the need for accompanying infrastructure must not be overlooked, so that the sector's development does not conflict with the lives of residents.

Tiago Belejo Correia

Distribution of hotel stock *by region (2024)*
(%)



Source: *BPI Research, based on data from INE (Survey on guest stays in hotels and other accommodations).*

Pipeline *of new hotels*

	1 star	2 stars	3 stars	4 stars	5 stars	**Total**
Number of hotels	4	8	18	24	22	**76**
Number of beds	125	457	1,755	3,248	2,569	**8,154**
Number of rooms	89	232	1,017	1,672	1,258	**4,268**

Source: *BPI Research, based on data from Turismo de Portugal (Tourism Development Projects with a favourable opinion from TdP and with a dispatch date in 2024 and 2025 (until November).*

4. Excluding the Porto Metropolitan Area, the increase in hotels in the North region was 27%, while the increase in hotels exclusively in the Porto Metropolitan Area was +64%.
5. Followed by the Centre (30.5), Lisbon MA (34.7), the Alentejo (42.2), Azores AR (82.4), Madeira AR (161.3) and the Algarve (274.2).
6. We analysed data from Tourism Development Projects that received a favourable opinion from the TdP and were scheduled for dispatch in 2024 and 2025.
7. Q2 2025 Hotel Construction Pipeline Trend Report for Europe.
8. The top four are the United Kingdom (282 projects); and Germany (157 projects), Turkey (138 projects) and France (118 projects).

Activity and employment indicators

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

	2023	2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	10/25	11/25	12/25
Coincident economic activity index	3.9	2.0	1.8	1.8	2.0	...	2.2	2.3	...
Industry									
Industrial production index	–3.1	0.8	–2.3	1.2	2.8	...	–0.5	0.3	...
Confidence indicator in industry *(value)*	–7.4	–6.2	–5.1	–4.8	–3.4	–2.8	–3.7	–2.6	–2.0
Construction									
Building permits - new housing (number of homes)	7.5	6.5	39.8	19.4	55.0	...	29.4	...	...
House sales	–18.7	14.5	25.0	15.5	3.8	...	–	–	–
House prices *(euro / m² - valuation)*	9.1	8.5	15.8	17.4	18.2	...	17.7	18.4	...
Services									
Foreign tourists *(cumulative over 12 months)*	19.0	6.3	4.6	4.0	2.6	...	2.6	2.1	...
Confidence indicator in services *(value)*	7.7	5.6	12.5	6.6	12.9	8.4	10.7	7.8	6.6
Consumption									
Retail sales	1.1	3.3	4.5	4.8	5.4	...	4.3	6.4	...
Coincident indicator for private consumption	3.1	2.8	3.8	3.5	3.1	...	3.0	3.0	...
Consumer confidence index *(value)*	–28.7	–18.0	–15.5	–17.9	–16.2	–15.2	–15.9	–15.2	–14.5
Labour market									
Employment	2.3	1.2	2.4	2.9	3.7	...	3.4	...	...
Unemployment rate (*% labour force*)	6.5	6.4	6.6	5.9	5.8	...	5.9	...	...
GDP	**3.1**	**2.1**	**1.7**	**1.8**	**2.4**	**...**	**–**	**–**	**–**

Prices

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

	2023	2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	10/25	11/25	12/25
General	4.4	2.4	2.3	2.2	2.6	2.2	2.3	2.2	2.2
Core	5.1	2.5	2.3	2.3	2.3	2.1	2.1	2.0	2.1

Foreign sector

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

	2023	2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	10/25	11/25	12/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	2.0	5.3	4.2	2.1	...	0.5	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–4.0	2.0	5.4	7.0	6.5	...	5.6	...	...
Current balance	**1.5**	**6.0**	**4.2**	**3.7**	**3.8**	**...**	**4.4**	**...**	**...**
Goods and services	4.1	6.5	5.2	4.5	4.4	...	4.8	...	...
Primary and secondary income	–2.6	–0.6	–0.9	–0.9	–0.6	...	–0.5	...	...
Net lending (+) / borrowing (–) capacity	**5.5**	**9.1**	**7.5**	**7.1**	**7.6**	**...**	**7.9**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2023	2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	10/25	11/25	12/25
Deposits [1]									
Household and company deposits	–2.3	7.5	6.5	5.4	6.3	...	6.1	5.9	...
Sight and savings	–18.5	–0.3	5.0	5.1	8.6	...	8.1	7.9	...
Term and notice	22.2	15.3	7.8	5.8	4.3	...	4.4	4.1	...
General government deposits	–12.4	26.7	29.3	39.6	–0.5	...	15.6	16.9	...
TOTAL	**–2.6**	**7.9**	**7.1**	**6.4**	**6.1**	**...**	**6.4**	**6.2**	**...**
Outstanding balance of credit [1]									
Private sector	–1.5	1.9	3.3	4.9	5.8	...	6.2	6.5	...
Non-financial firms	–2.1	–1.0	0.1	2.2	2.5	...	2.6	2.8	...
Households - housing	–1.5	3.0	4.9	6.4	8.0	...	8.4	8.9	...
Households - other purposes	0.2	5.4	5.7	6.6	6.9	...	7.1	7.1	...
General government	–5.5	0.6	–8.0	3.8	4.8	...	5.7	5.3	...
TOTAL	**–1.7**	**1.9**	**2.9**	**4.9**	**5.8**	**...**	**6.1**	**6.4**	**...**
NPL ratio *(%)* [2]	**2.7**	**2.4**	**2.3**	**2.3**	**2.3**	**...**	**–**	**–**	**–**

Notes: *1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.*
Source: *BPI Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.*

The Spanish economy weathers the tariff storm

The Spanish economy successfully navigates a year fraught with challenges. The year 2025 has been a good year for the Spanish economy despite the challenging international context, largely due to the US' tariff conflict with the rest of the world. At the start of the year, the consensus forecast among analysts placed GDP growth at 2.4%, but projections were revised upwards as the year progressed, reaching 2.9% in December, in line with our own current estimate. If this forecast is confirmed, then the Spanish economy will have grown in 2025 at more than double the rate of the euro area, for which analysts forecast growth of 1.4%. This strong performance is mainly explained by the vigour of domestic demand, driven by a dynamic labour market, the decline in interest rates, migration flows and European funds. These factors have more than offset the negative impact of the tariff hikes imposed on our goods exports to the US.

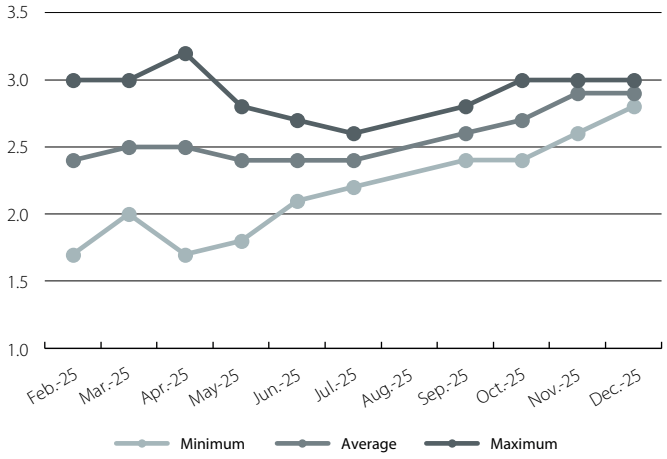
Domestic demand, the main driver of growth, although foreign demand also offers interesting nuances. GDP growth in Q3 2025 remained unchanged at 2.8% year-on-year following the National Statistics Institute's usual revision two months after the publication of the initial estimate. There were slight adjustments in the GDP breakdown, which reinforced the difference between the contribution of domestic and foreign demand. According to the updated figures, domestic demand contributed 3.8 pps to year-on-year GDP growth, 0.1 pp more than in the preliminary estimate, while foreign demand subtracted 1 pp, 0.2 points more than initially forecast.

The GDP breakdown shows an economy with growth that is supported primarily by private consumption and investment, with the latter growing by more than 8% year-on-year and notable growth in all its subcomponents. On the foreign sector side, we observe that exports are growing at a good pace, at 3.3% year-on-year, although behind this figure lie sluggish goods exports – with growth of just 0.5% year-on-year, probably affected by US tariffs – and strong services exports, up 8.7% year-on-year. Despite the overall good performance of exports, imports grew even more, by 6.8%, which explains why foreign demand detracted from GDP growth. This import strength is not necessarily a negative development if it corresponds to purchases aimed at boosting investment and consequently business productivity, as seems to be the case.

Activity indicators perform well in Q4. Among sentiment indicators, on average in Q4, the composite PMI stood at 55.6 points, a high figure indicating robust economic growth in the final part of the year and above the previous quarter's average of 54.1 points. In the case of consumption indicators, retail sales on average in October and November grew by 1.0% compared to the average for Q3, matching the previous quarter's figure, and the CaixaBank Research Consumption

Spain: 2025 GDP forecast according to analysts' consensus

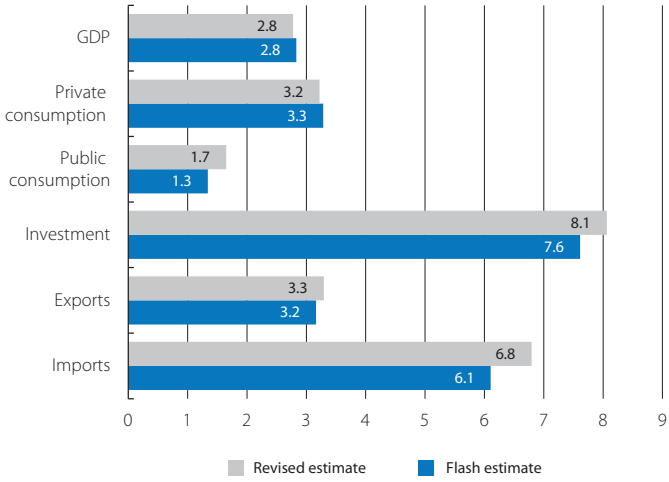
Annual change (%)



Source: *BPI Research, based on data from Consensus Forecast.*

Spain: GDP for Q3 2025 and its components

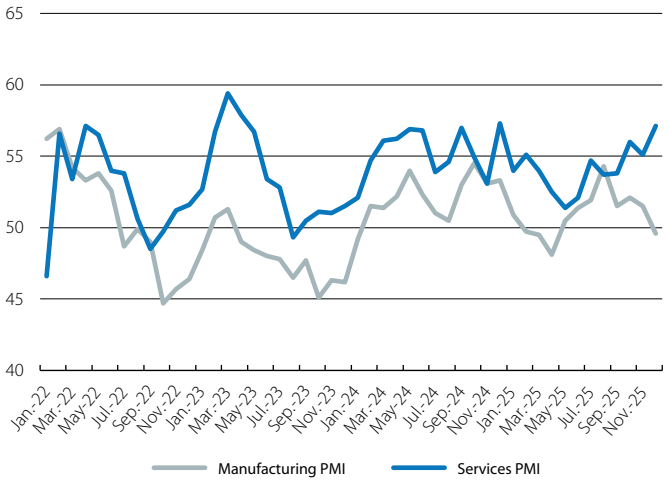
Year-on-year change (%)



Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: PMI

Level



Source: *BPI Research, based on data from S&P Global PMI.*

Tracker grew by 3.9% year-on-year on average in Q4, above the previous quarter's 3.2%. The employment figures, meanwhile, have maintained a positive trend, with a quarter-on-quarter increase in Social Security affiliation averaging 0.7% in Q4. Thus, employment growth has accelerated compared to the previous quarter, when it grew by 0.5%. If we consider all of the available information, our nowcasting model suggests that GDP in Q4 will have grown by 0.8% quarter-on-quarter.

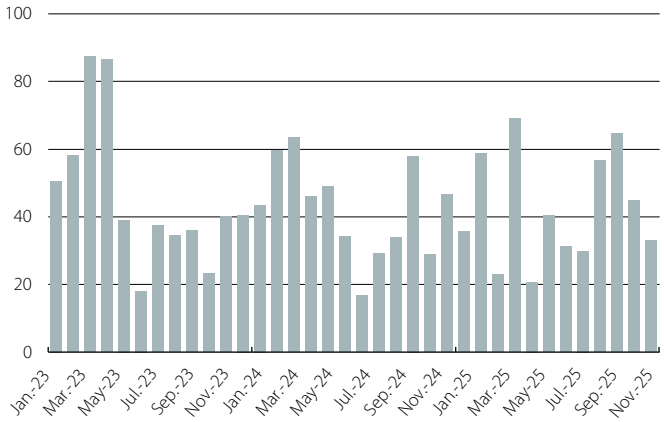
The labour market ends a very good year. Average Social Security affiliation increased by 19,180 workers in December. This is a modest figure, considering that the average increase in 2023-2024 was 32,700 people, but it consolidates the good records of October and November. The labour market's performance in 2025 as a whole has been very positive, and it ended the year with an increase of 506,451 affiliates, slightly surpassing the previous year's figure of 502,000. In year-on-year terms, this represents growth of 2.4%, the same figure as in 2024.

First signs of moderation in the household savings rate. In Q3 2025, and in cumulative terms for the trailing four quarters, the savings rate fell by 0.4 pps to 12.3%. This is the first decline (discounting the negligible one that occurred in Q1 2025) since Q3 2022 and may indicate the beginning of a convergence of the savings rate from its current highs to levels more in line with its historical average, around 8%-9%. The savings rate has fallen because the growth rate of consumption has remained at 6.2% year-on-year (also in four-quarter cumulative terms), whilst gross disposable income (GDI) has decreased by 0.5 pps compared to the previous quarter's figure, standing at 5.6%. This slowdown in GDI growth is explained by the higher growth in tax payments, with an annual growth rate increasing from 6.9% in Q2 to 9.4% in Q3 (cumulative four-quarter data). In contrast, the strong performance of the labour market has allowed the growth in wage-earners' remuneration to remain at a buoyant 7.0% year-on-year.

Inflation eases slightly in December. Specifically, in the final month of the year, inflation fell by 0.1 pp to reach 2.9%. According to the flash estimate for the CPI, this decrease is due to the reduction in fuel prices compared to the increase in December 2024, and, to a lesser extent, to a smaller price rise in leisure and culture compared to the increases in the same month of the previous year. Core inflation, meanwhile, has remained stable at 2.6%. In 2025, inflation stood at 2.7%, following the 2.8% recorded in 2024, and core inflation at 2.3%, after 2.9% in the previous year. In January, we anticipate that inflation will moderate due to the fading impact of the normalisation of VAT on electricity bills that took place in January 2025.

*Spain: registered workers affiliated with Social Security**

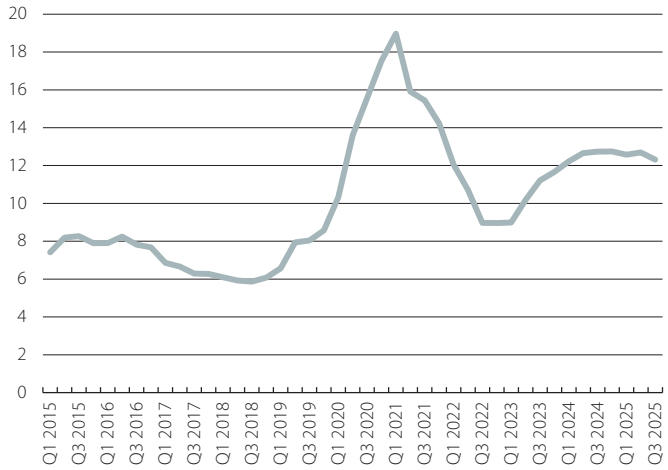
Month-on-month change (thousands of people)



Note: ** Seasonally adjusted series.*
Source: *BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: household savings rate

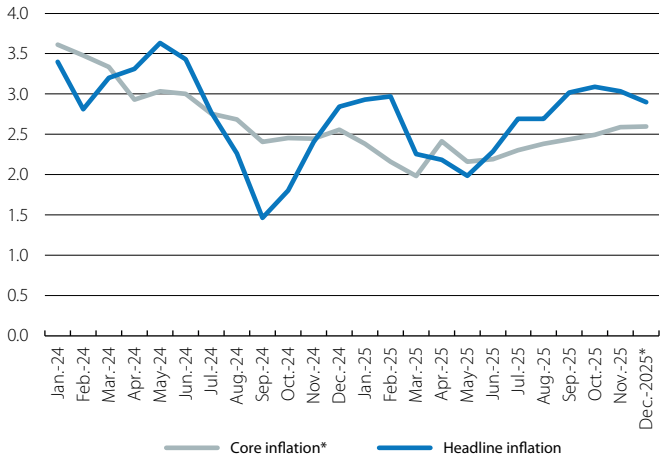
(% of gross disposable income)



Note: *Four-quarter cumulative data.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

*Spain: inflation**

(%)



Notes: ** The December data are preliminary. ** Core inflation excludes unprocessed food and energy.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Has employment growth in Spain been of higher quality since the pandemic?

Employment has enjoyed a strong recovery in Spain since the pandemic. Between 2019 and the first three quarters of 2025, the number of people in employment grew by 11.9%. In addition, the sectoral distribution of this boom differs from the expansionary cycle of 2014-2019. Sectors such as healthcare, professional and scientific activities, and technology have gained prominence, while manufacturing and traditionally job-intensive areas such as trade, hospitality and agriculture have played a smaller role.

These dynamics raise a key question: is the employment created in this phase of higher quality than in previous expansions? To answer this question, we have analysed three key aspects: workers' qualifications, the trend in temporary employment – as an indicator of stability – and real wages.

Better qualified workers

A more skilled workforce usually means more human capital and higher productivity. In this regard, the data show a clear improvement in the education level of employees in Spain.

Between 2019 and 2025 (up until the latest available data), over 70% of the employment growth corresponds to people with university or equivalent studies – a much higher proportion than in the period 2014-2019. In contrast, the employment of workers with secondary education grew less and that of workers with low education levels continued to decline, as was the case in 2014-2019.

Sharp fall in temporary employment

Job stability is another pillar of the quality of work. Spain has historically had a high rate of temporary contracts, but since the 2021 reform this proportion has plummeted, going from 26.6% on average in the period 2017-2019 to 15.4% on average in the first three quarters of 2025, converging on the figure for the euro area as a whole (13.5%).[1] This decline has improved job stability.

To better understand this change, we can break it down into two effects:

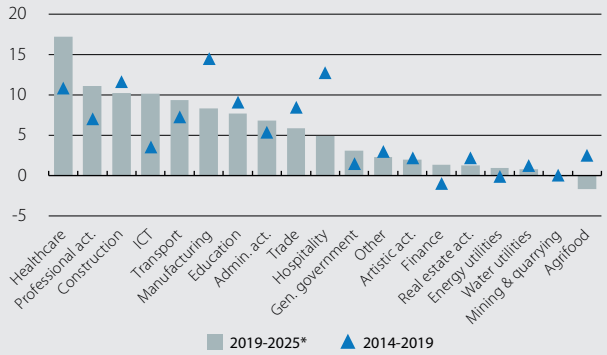
- Composition effect: this is the part of the change in the temporary employment rate that occurs due to changes in the relative weight of the various sectors. For example, if sectors that traditionally have a low temporary employment rate grow and those with a high temporary employment rate shrink as a proportion of the total economy, the aggregate rate will decrease due to this effect.
- Intensive margin: this is the part of the change that occurs due to changes in the temporary employment rate within each sector. In our context, this margin reflects whether companies in each sector are using more or fewer permanent contracts compared to temporary contracts than previously.

Applying this breakdown to recent developments, we find that the sharp reduction in temporary employment between 2019 and 2025 is entirely due to the intensive margin (see table). In other words, all sectors have substantially reduced their temporary employment rate, driving the overall decline. This result was to be expected, as it reflects the cross-sectoral nature of the impact of the labour reform on temporary employment. The sectoral

1. Data from Eurostat. According to Social Security affiliation data, the temporary employment rate in Spain was around 12% in 2025.

Spain: employment by sector

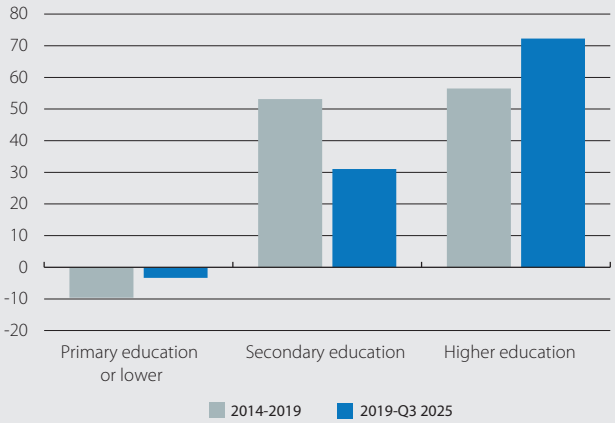
*Relative contribution to growth (%)**



***Note:** * Contribution to relative growth is the contribution to the employment growth in each sector, expressed as a percentage of the total employment growth in the period in question. For example, according to the chart, employment growth in the healthcare sector accounted for 17.2% of the total employment growth between 2019 and 2025.*
***Source:** BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: employment by education level

Relative contribution to employment growth (%)



***Source:** BPI Research, based on data from the Spanish National Statistics Institute (INE).*

composition of employment, meanwhile, has acted slightly against this reduction, but its impact was negligible. This contrasts with the previous expansive cycle (2014-2019), when the temporary rate increased by 2 pps, driven by both an increase in the intensive margin and an adverse composition effect of a greater magnitude than we have seen in the last five years (+0.7 pps vs. +0.2 pps).

Evolution of real wages

Finally, we analyse how real wages have evolved during this current phase. To do this, we use the Quarterly Labour Cost Survey, which measures the average wage cost per worker and per sector, and we adjust the data based on the CPI in order to obtain figures in real terms.[2]

Between the average for 2019 and the first three quarters of 2025, the average real wage fell slightly, by 0.3%. However, this overall result hides two opposing forces:

- Composition effect: this has been positive. Employment has been more concentrated in high-wage sectors, contributing approximately +0.3 pps to the average wage growth. This change represents a shift from the cycle of 2014-2019, when employment was created mainly in low-wage sectors, deducting −0.8 pps from wage growth.
- Intensive margin: this has been negative. Within most sectors, wages have not grown at the rate of inflation, deducting 0.6 pps from growth. In other words, although the sectoral composition has favoured an increase in the average wage at the aggregate level, the loss of purchasing power within each sector more than offsets that effect.

Conclusions

The indications analysed suggest that employment growth in Spain in the last five years has, overall, been of higher quality than that of the previous expansion. Several factors support this claim:

- The labour force has become better qualified, with employment rising predominantly among workers with a higher level of education.
- Labour stability has improved substantially: the temporary employment rate has fallen to record lows, thanks to a widespread decline across all sectors following the 2021 reform. This means more stable and predictable jobs than in the recent past.
- Employment has grown more in high-wage sectors, reversing the regressive pattern of the 2014-2019 phase.

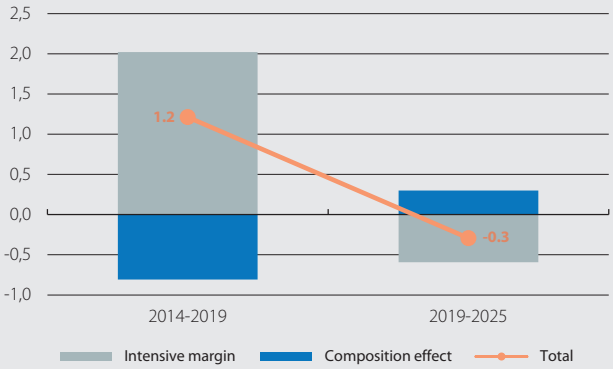
2. The sectoral information is taken from the National Classification of Economic Activities (CNAE) at the two-digit level of detail, which comprises almost 80 sectors.

Spain: temporary employment rate
(pps)

	2014-2019	2019-2025*
Intensive margin	1.3	−17.8
Composition effect	0.7	0.2
Total	2.0	−17.6

Note: ** Data up to September 2025.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE) and the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: breakdown of real wage growth
(pps and percentage change)



Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE) and the Ministry of Inclusion, Social Security and Migration (MISSM).*

Activity and employment indicators

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

	2023	2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	10/25	11/25	12/25
Industry									
Industrial production index	–1.6	0.4	–0.8	1.5	2.5	...	1.2	...	...
Indicator of confidence in industry *(value)*	–6.5	–4.9	–5.4	–5.2	–4.9	...	–4.6	–3.4	...
Manufacturing PMI *(value)*	48.0	52.2	50.0	50.0	52.6	51.1	52.1	51.5	49.6
Construction									
Building permits *(cumulative over 12 months)*	0.5	16.7	20.1	14.8	7.9	...	9.0	...	...
House sales *(cumulative over 12 months)*	–10.2	9.7	17.0	22.9	18.7	...	13.9	...	...
House prices	4.0	8.4	12.2	12.7	12.8	...	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	18.9	10.1	8.1	6.3	4.3	...	3.7	3.2	...
Services PMI *(value)*	53.6	55.3	55.3	52.2	54.2	56.4	56.6	55.6	57.1
Consumption									
Retail sales[1]	2.5	1.8	3.4	5.1	4.5	...	3.9	6.0	...
Car registrations	16.7	7.2	14.0	13.7	16.9	8.0	15.9	12.9	–2.2
Economic sentiment indicator *(value)*	100.5	103.0	103.3	103.2	103.7	...	103.9	105.9	...
Labour market									
Employment[2]	3.1	2.2	2.4	2.7	2.6	...	...	...	...
Unemployment rate (% labour force)	12.2	11.3	11.4	10.3	10.5	...	...	...	...
Registered as employed with Social Security[3]	2.7	2.4	2.3	2.2	2.3	2.4	2.4	2.5	2.4
GDP	**2.5**	**3.5**	**3.1**	**2.9**	**2.8**	**...**	...	...	...

Prices

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

	2023	2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	10/25	11/25	12/25
General	3.5	2.8	2.7	2.2	2.8	3.0	3.1	3.0	2.9
Core	6.0	2.9	2.2	2.3	2.4	2.6	2.5	2.6	2.6

Foreign sector

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

	2023	2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	10/25	11/25	12/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	0.2	3.3	2.0	0.8	...	0.3	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–7.2	0.1	4.2	4.1	4.6	...	4.6	...	...
Current balance	**40.9**	**50.7**	**47.8**	**48.6**	**48.7**	**...**	**51.0**	**...**	**...**
Goods and services	57.5	66.3	63.5	63.7	62.1	...	62.7	...	...
Primary and secondary income	–16.5	–15.7	–15.7	–15.1	–13.4	...	–11.7	...	...
Net lending (+) / borrowing (–) capacity	**57.8**	**68.7**	**66.6**	**67.6**	**67.1**	**...**	**69.5**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2023	2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	10/25	11/25	12/25
Deposits									
Household and company deposits	0.3	5.1	4.6	3.9	4.9	...	4.9	4.7	...
Demand and notice deposits	–7.4	2.0	3.1	5.0	7.2	...	7.3	7.0	...
Time and repo deposits	100.5	23.5	12.6	–1.5	–6.6	...	–6.1	–6.6	...
General government deposits[5]	0.5	23.1	24.4	25.5	7.2	...	4.6	1.4	...
TOTAL	**0.3**	**6.3**	**5.9**	**5.4**	**5.1**	**...**	**4.9**	**4.4**	**...**
Outstanding balance of credit									
Private sector	–3.4	0.7	1.7	2.6	2.8	...	3.2	3.1	...
Non-financial firms	–4.7	0.4	1.6	2.5	2.3	...	2.9	2.5	...
Households - housing	–3.2	0.3	1.4	2.3	2.9	...	3.0	3.1	...
Households - other purposes	–0.5	2.3	3.1	–261.4	–278.2	...	4.3	4.5	...
General government	–3.5	–2.6	–0.3	5.3	12.9	...	11.4	12.3	...
TOTAL	**–3.4**	**0.5**	**1.6**	**2.7**	**3.4**	**...**	**3.7**	**3.7**	**...**
NPL ratio (%)[6]	**3.5**	**3.3**	**3.2**	**3.0**	**2.9**	**...**	**2.8**	**...**	**...**

Notes: *1. Deflated, excluding service stations. 2. LFS. 3. Average monthly figures. 4. Aggregate figures for the Spanish banking sector and residents in Spain. 5. Public-sector deposits, excluding repos. 6. Data at the period end.*

Sources: *BPI Research, based on data from the Ministry of Economy, the Ministry of Transport, Mobility and Urban Agenda (MITMA), the Ministry of Inclusion, Social Security and Migration (MISSM), the National Statistics Institute (INE), S&P Global PMI, the European Commission, the Department of Customs and Excise Duties and the Bank of Spain.*

European productivity from a regional perspective

The Draghi report is flooded, even in its preamble, with references to the persistent productivity gap with the US, the low productivity growth in the EU, and the need to boost it in a context of a rapidly ageing population.[1] Thus, a sustained and higher increase in productivity has become a top priority for the European economy, as it would simultaneously allow for an improvement in citizens' purchasing power, help mitigate the effects of the demographic transition – including the sustainability of public finances –[2] as well as help maintain a minimum level of economic relevance in the new global geopolitical scenario. In this Dossier, we explore recent dynamics in the EU's productivity, focusing on its territorial dispersion and the differentiating factors between the best and worst performing regions. We begin with some context by outlining the main trends.

EU: productivity

Annual change (%)

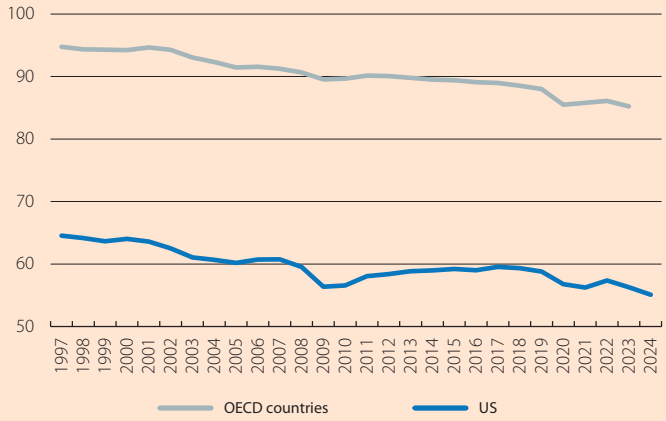
Notes: *Forecasts from 2024 onwards. The dashed lines correspond to the annual average of real GDP per hour worked during the periods 1996-2007 and 2008-2023.*
Source: *BPI Research, based on data from AMECO.*

A broadly unfavourable diagnosis, from any perspective

The debate around what productivity is and how to measure it would probably fill an entire Dossier, so it is worth specifying from the outset which metrics we will use as a reference here and in the following articles. We opt to use GDP per hour worked, as it is considered a relatively uniform measure of production capacity (value added generation) per unit of working time. It is also less sensitive to the cycle than productivity per employee – as seen during COVID-19 – and is easily observable compared to the complications involved in estimating total factor productivity (TFP).[3] Moreover, GDP per hour worked is the metric which, according to the Draghi report, goes further in explaining the differences in per capita income between the European economy and the US. As for its measurement, we use statistics in real terms to analyse its evolution over time and abstract from the impact of prices, and when making a cross-sectional snapshot between EU Member States or regions, we adjust the nominal values for differences in purchasing power parity in each territory. In this way, our goal is to achieve the best possible approximation to a tangible idea – such as physical goods or services provided – rather than one based on monetary concepts or productivity.

EU: real GDP per hour worked

(% of the reference economy)



Note: *Calculated based on constant 2020 dollar values adjusted for purchasing power parity.*
Source: *BPI Research, based on data from the OECD.*

The debate around metrics quickly takes a back seat when we find that they all lead us to a similar diagnosis and, more importantly, one that is not favourable for the aggregate productivity of the European economy. Thus, real GDP growth per hour worked in the EU has shown a notable slowdown over the past 30 years, decreasing from an annual average of 1.7% in the period 1996-2007 to 0.8% in 2008-2023, and falling below 0.5% since COVID-19 (see first graph). Productivity growth since the Great Recession is also less than half of that observed in the previous decade if we look at the figures in terms of GDP per employee or TFP. The comparison with other developed economies does not reflect well on European productivity either (see second chart). According to OECD estimates, GDP per hour worked in the EU would today be equivalent to 85% of the value for this group of economies, compared to 95% in

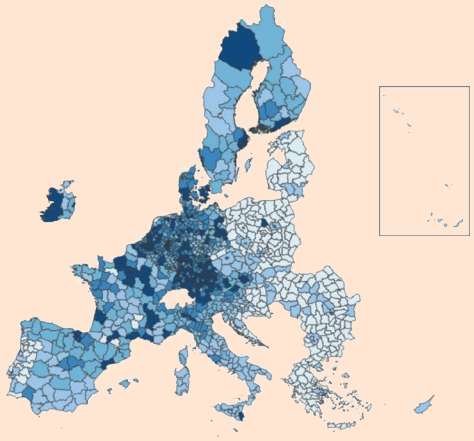
1. European Commission (2024), «The future of European competitiveness».
2. See the Dossier «Challenges and policies in the age of longevity» in the MR09/2025.
3. Changes in total factor productivity measure the variation in production in an economy that is not explained by increases in factors of production (capital and labour) – e.g. through a more efficient use of these factors.

1995. Moreover, it would have followed a similar trend relative to the country considered to be the technological frontier, the US, decreasing from 65% to 55% in the same period.[4]

Wide geographical disparity that is slowly narrowing

The data for the EU as a whole, or even within the Member States, conceal highly disparate realities between territories.[5] As a starting point for the more in-depth analyses presented in other articles of this Dossier, we introduce here a general overview of the regional differences in productivity levels and the recent dynamics. We take as a reference the most detailed territorial division defined by Eurostat, known as NUTS3, which covers approximately 1,165 territorial units across the 27 countries that make up the EU. In the case of Portugal, it corresponds to 26 statistical territorial units.

EU: GDP per hour worked by region
(2023)

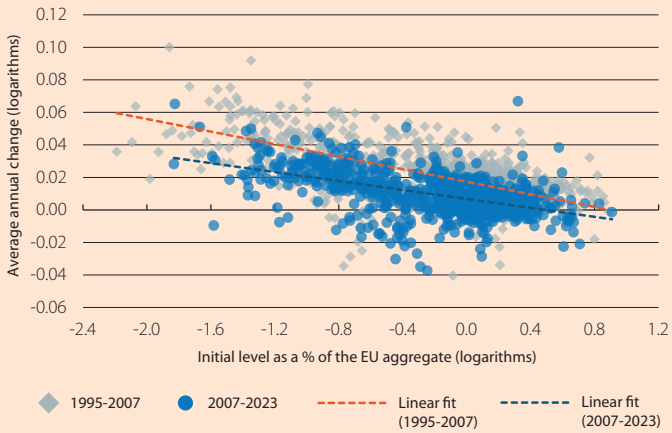


Notes: *Regions at the NUTS3 level (2024 definition). Level adjusted for purchasing power parity. Colour grading by quintile, ranging from light blue (lower productivity) to dark blue (higher productivity). The inset shows the Azores, Madeira and the Canary Islands.*
Source: *BPI Research, based on data from the European Commission (ARDECO).*

With data for 2023, the geographical distribution shows a concentration of territories with higher productivity in the central and northern areas of the EU, while the lowest values are recorded in countries in the east and south (see map). Specifically, among the NUTS3 divisions where GDP per hour worked is at least 25% higher than the EU average, a significant number of regions are found in Ireland, Denmark, Germany, Belgium, France, and Austria. Conversely, among those with productivity at least 25% below the average, we find a majority of territories in Bulgaria, Greece, Poland, Portugal, Croatia, Hungary and the Baltic republics.

In light of this snapshot of differences in productivity levels, which confirms the persistence of significant territorial disparities within the EU, it is worth assessing the extent to which there has been convergence between regions of lower and higher productivity. Based on the two periods previously identified either side of the Great Recession, we compared the GDP per hour worked in the first year of each period with the average annual change (see third chart). From this exercise, we can draw three conclusions. The first, already noted above in aggregate terms and clearly visible in the chart due to the downward slope revealed by the scatter chart, is that productivity growth has been lower on average since 2008, with a greater number of regions with declines in GDP per hour worked. The second, reflected in a greater number of points located away from the dashed line marking the average pattern, is that the degree of dispersion in productivity change appears to have increased significantly for the same starting level; this would suggest a greater role of more idiosyncratic factors in the evolution of the different regions. The third conclusion, illustrated by the change in the slope of the dashed lines, is that the rate of convergence has also significantly decreased in the second period; i.e. the regions with lower productivity continue to grow faster than the rest, but to a lesser extent.

EU: productivity convergence between regions
Level of and change in real GDP per hour worked



Notes: *Regions at the NUTS3 level (2024 definition). Initial level in euros adjusted for purchasing power parity. Change in constant 2020 euros.*
Source: *BPI Research, based on data from the European Commission (ARDECO).*

4. Calculated using constant 2020 USD values adjusted for purchasing power parity.
5. O. Aspachs and E. Solé (2024), «Evolución de la productividad en Europa: una mirada regional», Cercle d'Economia.

Greater convergence is needed in order to close the gap with the US

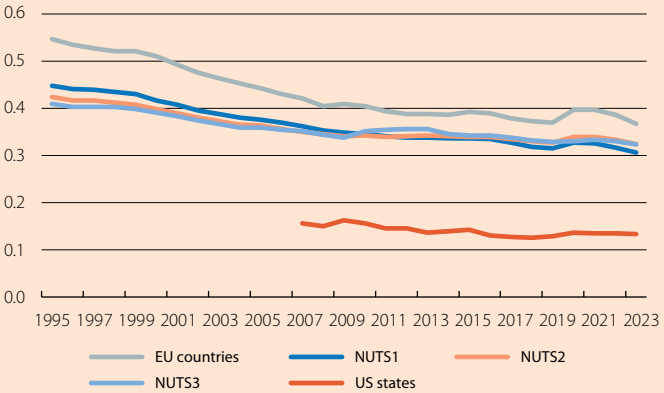
Parallels are often drawn between the EU and the federal structure across the Atlantic. Productivity is no exception, and better understanding its territorial differences can give us clues about which levers to activate in the European economy in order to close the persistent gap with the US. When comparing the dispersion between countries and regions of the EU with that of the US states, we find that the territorial map of productivity is much more even in the latter (see fourth chart). This diagnosis is robust to the use of different territorial units in the EU and would even hold if we used figures not adjusted for differences in price levels between US states.

The result of this greater dispersion among European regions, along with a lower average productivity than in the US, suggests that a significant number of territories must be far from the technological frontier. This conclusion is confirmed when we compare the levels of GDP per hour worked in US states with those of the most similar territorial units in the EU, the so-called NUTS1 divisions (large socio-economic regions with between 3 and 7 million inhabitants, or entire countries where applicable). Thus, while among the 25 territories with the highest productivity – out of a combined total of 143 – we find a relatively equitable distribution between both economic areas (something that is replicated in the middle part of the distribution), the 25 lowest records correspond to European regions, mainly in the east and south of the EU.

Understanding how we can accelerate convergence between EU territories – learning from the regions that show better performance and what would allow us to reduce the gap with the US – is precisely what we dedicate the following articles of this Dossier to.

Territorial dispersion of productivity in the EU and US

(Standard deviation over the average)

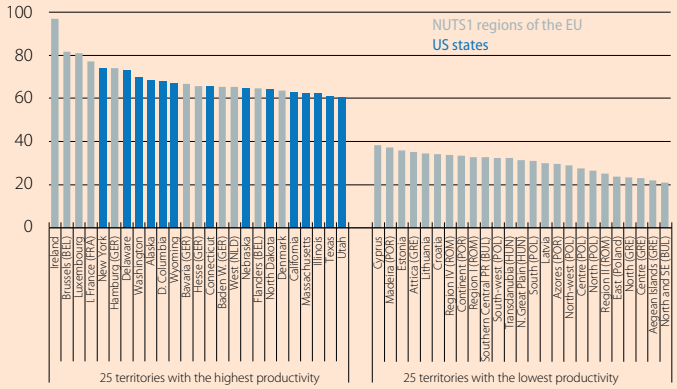


Notes: *Simple dispersion, not weighted by population. Productivity measured as GDP per hour worked at constant 2020 prices adjusted for purchasing power parity. Calculated for the US on the gross value added in the non-primary private sector.*

Source: *BPI Research, based on data from the European Commission (ARDECO), the Bureau of Labor Statistics and the BEA.*

GDP per hour worked in EU and US territories

(2023)



Notes: *EUR thousands adjusted for purchasing power parity. Calculated for the US on the gross value added in the non-primary private sector. NUTS1 regions for the EU (2024 definition).*

Source: *BPI Research, based on data from the European Commission, the Bureau of Labor Statistics, the BEA and the IMF.*

Factors shaping regional productivity disparities in Europe

Productivity is the ultimate driver of sustainable economic growth and long-term well-being. However, as we have seen in the first article of this Dossier («European productivity from a regional perspective»), neither its level nor its evolution over time are uniform across different territories, as they depend on multiple structural factors. In this article, we review a broad set of variables covering institutional, geographical and technological aspects, as well as others linked to the economy's productive structure, in order to distinguish the different groups of European regions according to their productivity level. This framework serves as a prelude to the third article,[1] in which we quantify their explanatory capacity relative to the dynamics observed over the last 20 years, seeking to understand why some regions have seen an acceleration in their productivity while others have stagnated.

The usual suspects explaining the geographical productivity gap

This section provides a brief overview of the aspects most frequently cited in the economic literature to explain territorial productivity differences and the transmission channels.

Firstly, institutional quality plays a crucial role. Regions with better governance tend to exhibit higher productivity and even enhance the returns of other factors such as training and innovation through regulatory efficiency, protection of property rights and the confidence of economic agents.[2] Conversely, weak institutions constrain the development of human capital and R&D expenditure, as well as for their translation into efficiency gains. Institutional reforms can be slow, but they are crucial for development.

Secondly, geographical aspects have a significant impact. Densely populated and urbanised regions are conducive to agglomeration economies that boost productivity.[3] The concentration of firms and workers facilitates specialisation, mutual learning, and more efficient services, while a high proportion of the population living in metropolitan areas tends to correlate with higher GDP per worker due to better access to markets and knowledge. Furthermore, neighbouring high-productivity regions increase the likelihood of a territory improving its relative position compared to others with a similar level of productivity.[4]

Thirdly, the structure of the regional productive fabric is a determining factor. A greater relative weight of the manufacturing sector tends to be associated with higher productivity and long-term growth, as it is in their industries – especially those with high technological complexity – where most innovation and efficiency gains are generated. Recent studies indicate that the relative decline of the manufacturing sector in European regions has been accompanied by a slowdown in productivity growth.[5] Similarly, business size plays an important role. Regions where a significant portion of employment is in medium-sized and large firms – with greater capital, technology, and economies of scale – tend to be more productive than those dominated by microenterprises.[6]

Finally, technological factors are decisive in the regional productivity gap. A higher share of jobs in high-tech sectors (both in industry and in services) is associated with higher levels of productivity, as activities such as computing or electronics tend to provide high value added per worker. Similarly, R&D intensity has a positive impact by boosting efficiency and generating spillover effects that benefit the entire productive fabric of the economy. Several analyses have indicated that part of Europe's low productivity growth in recent decades is due to a technological deficit compared to other advanced economies, including lower private investment in R&D, a lower dissemination of cutting-edge technologies and slower adoption of digitalisation.[7]

It is worth noting that these factors do not act in isolation but interact with each other. For example, good institutions enhance the positive effect of urban agglomeration or technological innovation. Similarly, skilled human capital is less likely to emigrate if the region offers a dynamic environment with attractive cities, cutting-edge sectors and good governance. The most prosperous European regions typically combine these ingredients virtuously, which explains much of the dispersion in productivity observed between territories.

1. See the article «Key factors driving productivity improvements at the European regional level» in this same Dossier.
2. A. Rodríguez-Pose, and R. Ganau (2022), «Institutions and the productivity challenge for European regions», Journal of Economic Geography, 22(1), 1-25.
3. A. Ciccone (2002), «Agglomeration effects in Europe», European Economic Review, 46(2), 213-227, and A. Gómez-Tello, M.J. Murgui-García and M.T. Sanchis-Llopis (2025), «Labour productivity disparities in European regions: the impact of agglomeration effects», Annals of Regional Science, 74(1), 123-146.
4. O. Aspachs Bracons, and E. Solé Vives (2024), «Evolución de la productividad en Europa: una mirada regional», Cercle d'Economia.
5. R. Capello and S. Cerisola (2023), «Regional reindustrialization patterns and productivity growth in Europe», Regional Studies, 57(1), 1-12.
6. See the Focus «Firm size and productivity gaps in the EU» in the MR10/2025.
7. IMF (2025), «Europe's Productivity Weakness: Firm-Level Roots and Remedies», IMF Working Paper nº 2025/040 and R. Veugelers (2018), «Are European Firms Falling Behind in the Global Corporate Research Race?», Bruegel Policy Contribution nº 6.

Characterisation of the most and least productive European regions

On the basis of the aspects identified in the previous section as relevant for explaining differences in productivity levels, we will now group Europe's regions into productivity quintiles, differentiating them according to the value of the variables that represent institutional, geographical and technological aspects and those linked to the productive fabric (see the table for a description of the variables used and their sources).[8]

Database: main variables relevant to the analysis to explain differences in productivity

Variable and description	Sphere represented	Source
Productivity per hour worked *Adjusted for purchasing power parity in constant terms*	–	Eurostat
Productivity of bordering regions *Weighted by population*	Geographical factors	Eurostat
Density *Population per km²*	Geographical factors	Eurostat
Share of the population in the metropolitan area *% of the population living in the functional urban area**	Geographical factors	Eurostat
EQI *European Quality of Government Index ***	Institutional framework	University of Gothenburg
Total R&D expenditure *% of GDP*	Innovation & human capital	Eurostat
% of employment in high-tech sectors ***	Innovation & human capital	Eurostat
% of the population with secondary or higher education	Innovation & human capital	Eurostat
% of employment in firms with >10 employees	Productive & sectoral structure	Eurostat
% of hours worked in industry	Productive & sectoral structure	Eurostat

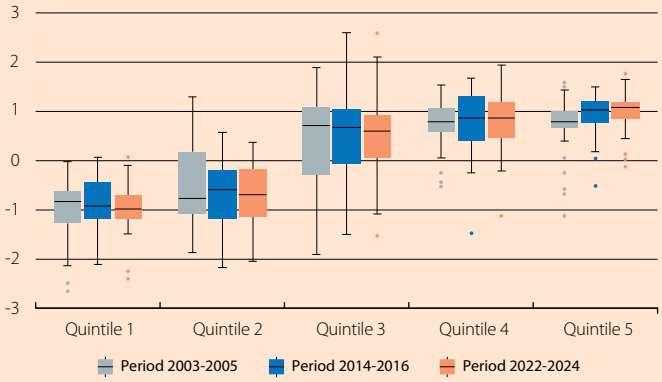
Notes: *Out of a total of 244 NUTS2 regions. * Defined as a territory comprising a main city and the area from which people regularly commute to work in that city. ** The EQI measures the perception of corruption and the quality and impartiality of public services in the EU. *** High-tech sectors include pharmaceutical and electronic manufacturing and knowledge-intensive services such as ICT and R&D.*
Source: *BPI Research.*

In the institutional sphere, we use the European Quality of Government Index (EQI) developed by the University of Gothenburg, which has been published every three years since 2010[9] and includes aspects related to the quality of public services and the perception of corruption. We observe that the most productive regions tend to exhibit significantly superior institutional quality, with good governance and effective public services (see first chart). This advantage has remained relatively stable over time, while the less productive regions show very limited improvements.

For the geographical dimension, we use three variables: population density, measured as the number of inhabitants per square kilometre published by Eurostat; the share of the region's population living in metropolitan areas, defined as functional urban areas;[10] and the productivity of neighbouring regions, which we construct as a population-weighted average. The most productive regions coincide with large metropolitan centres, and this trend is reinforced over time. In less productive regions, urban growth is more limited, which hinders the generation of agglomeration effects. Something similar is observed in the case of density: it is higher in the regions that make up the most productive quintile. Finally, neighbouring regions can influence the productivity of each region through proximity to other markets, the possibility of cross-border cooperation, technological diffusion and access to shared infrastructure. The most productive European regions are also surrounded by highly productive regions (see second chart). In contrast, in less productive regions, the productivity of their bordering regions is also low. Throughout the three periods, a progressive improvement is observed in the upper quintiles, especially in those with the highest productivity (quintile 5), where the productivity

*European Quality of Government Index (EQI)**

Distribution by productivity quintile



Notes: *The boxes represent the interquartile range IQR = Q3 - Q1, where Q1 is the 25th percentile and Q3 the 75th percentile; the central line is the median, and the outer lines show the values within the normal range [Q1 - 1.5x IQR; Q3 + 1.5x IQR]; the points correspond to observations that fall outside this range (outlier values). * Standard deviation from the European average, mean = 0.*
Source: *BPI Research, based on data from the University of Gothenburg.*

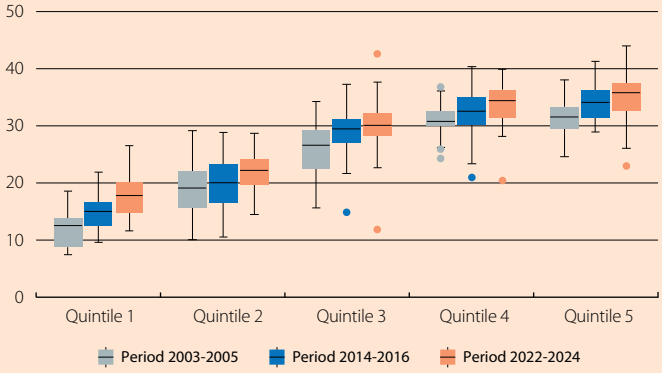
8. In this article and those that follow, the European regions correspond to the NUTS2 territorial analysis units according to Eurostat (autonomous communities in the case of Spain).
9. For 2003-2005, we take the value of 2010.
10. A functional urban area is a zone comprising a main city and nearby municipalities that are connected to it, primarily on the basis of daily commutes, such as people going to work or to study; it is characterised by an urban centre, with high population and employment density, and a peri-urban crown, where people who work or study in the centre live. This concept is used by bodies such as Eurostat and the OECD to understand how cities and their surroundings are really organised, beyond administrative boundaries, and it helps in planning public policies, transport, housing, etc.

of the bordering regions intensifies. This could reflect better economic integration, the utilisation of European networks and greater business dynamism. In the middle quintiles, the progress is more moderate, while in the lower quintiles there are hardly any advances, indicating persistent structural barriers.

If we focus on the dimensions related to the business structure, the results are also noteworthy. Regarding the share of employment in industry, it is observed that this is higher for regions in the lowest quintile and then shows no clear pattern as the regions become more productive. This characterisation reflects the fact that Eastern Europe – with a good number of its regions at the lower end of the distribution – plays a significant role in Central European industrial value chains. On the other hand, the sector's role in the economy has steadily decreased over time, reflecting the progressive shift towards a service-based economy consistent with countries' more advanced economic development. Also, the regions with higher productivity have a business structure that is made up of larger firms, specifically with a higher share of employment in firms of more than 10 workers; this suggests that more scalable firms have higher productivity, as has been empirically documented in the economic literature (see third chart). This difference persists over time, although the intermediate quintiles show some improvement. In less productive regions, employment in microenterprises predominates, which limits the ability to scale.

*Productivity index of bordering regions**

Distribution by productivity quintile

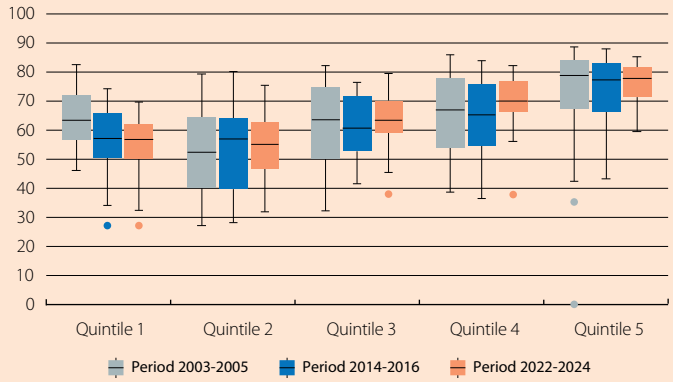


Notes: *The boxes represent the interquartile range IQR = Q3 - Q1, where Q1 is the 25th percentile and Q3 the 75th percentile; the central line is the median, and the outer lines show the values within the normal range [Q1 - 1.5x IQR; Q3 + 1.5x IQR]; the points correspond to observations that fall outside this range (outlier values). * GDP per hour worked of neighbouring regions weighted according to the population of those regions.*

Source: *BPI Research, based on data from Eurostat.*

Employment in firms with >10 employees (%)

Distribution by productivity quintile



Note: *The boxes represent the interquartile range IQR = Q3 - Q1, where Q1 is the 25th percentile and Q3 the 75th percentile; the central line is the median, and the outer lines show the values within the normal range [Q1 - 1.5x IQR; Q3 + 1.5x IQR]; the points correspond to observations that fall outside this range (outlier values).*

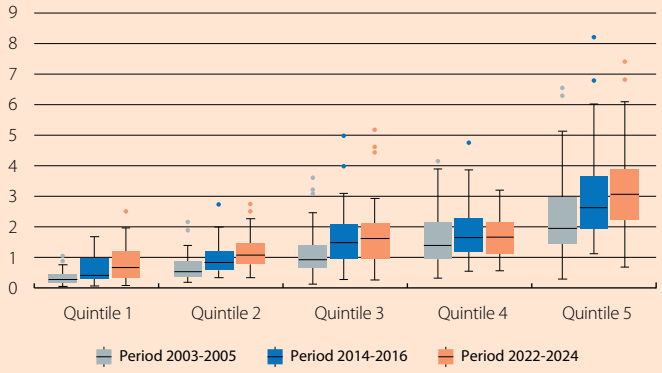
Source: *BPI Research, based on data from Eurostat.*

If we look at the variables of innovation and human capital, the relationship also goes in the expected direction. In all regions, the share of people with higher education has increased over the last 20 years, but it is in the most productive regions where this share is highest (the same applies to both secondary and higher education). Also, from the first period, it is observed that the most productive regions allocate a significantly larger proportion of their GDP to research activities, which enhances their capacity to generate endogenous innovation (see fourth chart). In contrast, the lower quintiles exhibit much lower levels, which limits their potential for technological convergence. This structural gap persists over time. A similar pattern is observed for the share of employment in high-tech jobs, as this share increases when we move towards more productive regions.

The visual evidence suggests that institutional quality, urbanisation and density, the productivity of the neighbouring environment, sectoral and business structure, human capital, and R&D intensity may be key determining factors of regional productivity in Europe. In the following article, we analyse to what extent the quantitative estimates confirm this hypothesis.

*Total R&D expenditure**

Distribution by productivity quintile



Notes: *The boxes represent the interquartile range IQR = Q3 - Q1, where Q1 is the 25th percentile and Q3 the 75th percentile; the central line is the median, and the outer lines show the values within the normal range [Q1 - 1.5x IQR; Q3 + 1.5x IQR]; the points correspond to observations that fall outside this range (outlier values). * % of GDP.*

Source: *BPI Research, based on data from Eurostat.*

Key factors driving productivity improvements at the European regional level

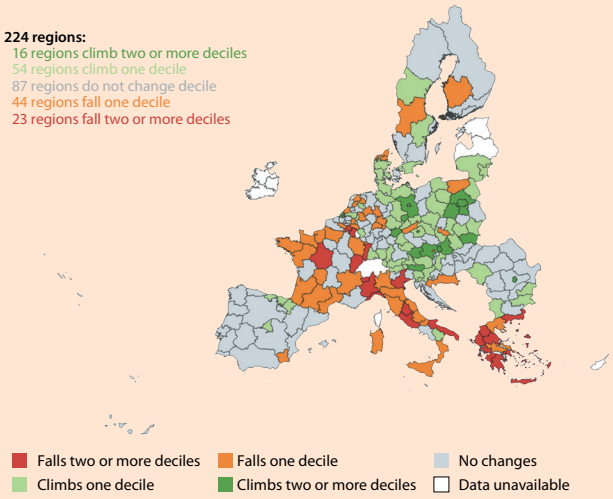
In this article, we conduct an in-depth analysis of the key economic factors driving productivity at the European regional level and their quantitative contribution. After confirming in the previous article that there are notable differences in the evolution of the main variables related to productivity,[1] it is now time to identify which ones have the most significant positive impact.

How to achieve a jump in productivity? An initial descriptive approximation

The aim of this article is to characterise the patterns exhibited by the most successful European regions (outperformers), understood as those that have shown better performance than their counterparts with a similar starting point, which has allowed them to improve their position in the productivity ranking of European regions over the last 20 years.

In order to analyse the movements among European regions in recent years, we grouped them into 10 deciles, from lowest to highest productivity.[2] Between 2004 and 2023,[3] 61% of European regions (137 out of 224) have changed decile. Of these, 70 have risen and 67 have fallen.[4] Among those that have improved, Germany stands out (17 out of its 38 regions have moved up from their starting decile, including all 8 regions in the East of the country), Austria (7 out of 9), Poland (11 out of 17) and Denmark (3 out of 5). In contrast, France has recorded no improvements, and Italy only 2 (out of 21 regions). Among the regions that have fallen back, Greece stands out, with all of its 13 regions dropping by at least one decile and 11 of them by more than 1; and Italy, with 16 setbacks (76% of its regions), particularly in the South of the country (Mezzogiorno), where 6 out of 8 regions have seen their position deteriorate. France also stands out negatively, with 14 regions falling from their starting decile (out of 21).

Change in productivity decile in Europe between 2004 and 2023 (NUTS 2 territories)



Notes: *The regions in white are those that do not appear in the final sample due to a lack of data in relevant explanatory variables. Final sample of 224 regions.*
Source: *BPI Research.*

We begin with a descriptive analysis that helps provide visual evidence of the main variables in our sample[5] for which a good (bad) relative starting position in 2004 is particularly relevant for moving up (down) a decile between 2004 and 2023.[6,7] In the case of the regions that have climbed deciles, the main variables in which they initially outperform regions with similar productivity are primarily geographical components and those related to human capital and innovation:[8] population density, the percentage of employment in high-tech sectors, the percentage of the population with secondary or higher education, and investment in R&D. Additionally, having a larger business size than other regions with similar productivity levels will help a European region to subsequently climb the productivity ranking. Conversely, one of the two main factors that predict subsequent

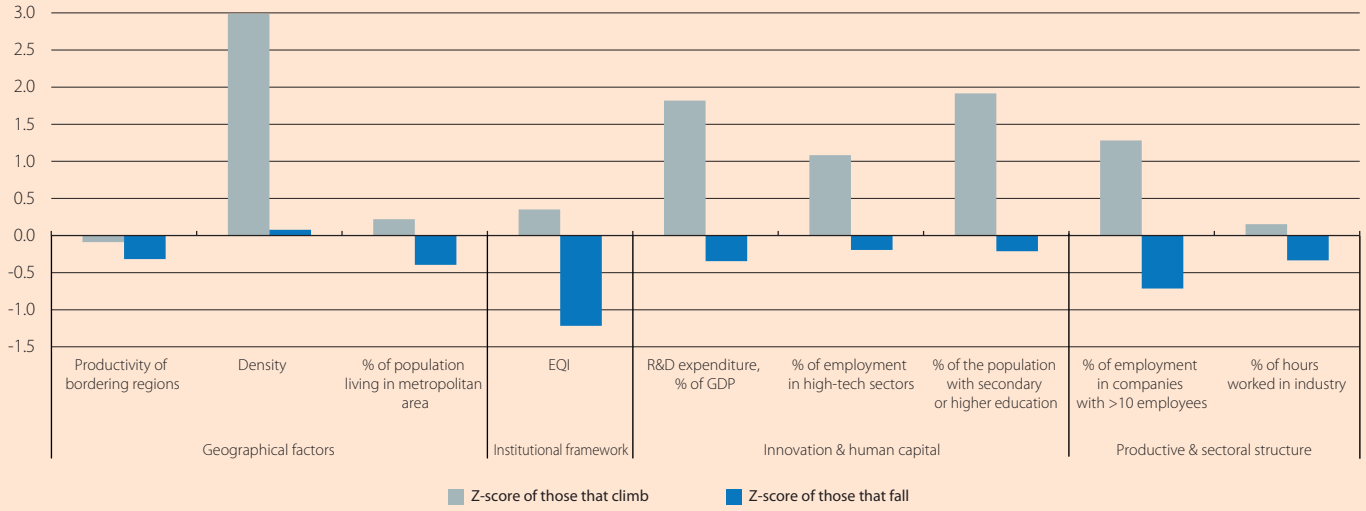
1. See the article «Factors shaping regional productivity disparities in Europe» in this same Dossier.
2. The 10% of regions with the lowest level of productivity form the first decile, the next 10% comprise the second decile, and so on, successively. Finally, the 10% of European regions with the highest level of productivity correspond to the 10th decile.
3. In reality, we use the periods 2003-2005 and 2022-2024, taking, for each one, the average productivity and explanatory variables of the available years. For simplicity, in the remainder of the article we will refer to these periods simply as 2004 and 2023, respectively.
4. Although the total number of upward and downward movements between 2004 and 2023 is the same, this does not necessarily mean that the number of regions that have improved matches the number of regions that have deteriorated. This is because some regions have experienced more than one rise or decline over the period. Moreover, not all movements are of a single decile; in some cases, there has been a jump of several deciles. Therefore, from a strictly mathematical point of view, the number of regions that have risen may not necessarily match the number of regions that have fallen, even though the total number of movements is balanced.
5. These variables are explained in detail in the article «Factors shaping regional productivity disparities in Europe» in this same Dossier.
6. In general, these upward movements involve climbing from one decile to the next, although there are some cases (16 out of 70) in which, after 20 years, a region ends up two or more deciles higher than where it started.
7. Specifically, the normalised difference, or «Z-score», is calculated (normalising allows us to compare magnitudes for the different variables) in 2004 of the average determining variables of productivity between European regions that climb/fall between deciles between 2003-2005 and 2022-2024 and those that do not change decile, for each decile. Finally, this score is weighted taking into account how many regions climb deciles in each decile with respect to the total in the sample.
8. We make this comparison by decile and then weigh the result according to the number of regions that have improved in each decile with respect to the total number of regions that improve in the whole sample.

declines between deciles is insufficient institutional quality, which highlights the importance of healthy institutions that ensure a level playing field in order to prevent a region from falling down the ranking. The other factor is a low percentage of employment in companies with more than 10 employees.

This analysis, by considering the entire productivity distribution, may conceal significant variations in the factors which initially distinguish the regions that progress from those that stagnate, depending on the initial level of productivity. In deciles 1-3, it is notable that the regions which have moved up a decile in the last 20 years initially had a much higher density. In contrast, in deciles 8-10, the most notable differences between regions that progress and those that stagnate are observed in education and, to a lesser extent, institutional quality and the productivity of neighbouring regions. Finally, in deciles 3-7, where Spain's autonomous communities are located, the regions that have managed to climb deciles stand out for having higher density and

Determining factors of productivity: initial differences by decile between European regions that move up/down deciles between 2004 and 2023 and those that do not change decile

*Weighted Z-score**



Note: $Global\ indicator = \sum_{j=1}^{10} (Weight_j \times Z\text{-}score_j) = \sum_{j=1}^{10} \left(\frac{No.\ of\ regions\ that\ climb\ in\ decile\ j}{Total\ no.\ of\ regions\ that\ climb} \times \frac{Average^{2004}_{climb,j} - Average^{2004}_{stagnant,j}}{Standard\ dev._{stagnant,j}^{2004}} \right)$

Source: *BPI Research, based on data from Eurostat and Ardeco.*

relatively larger metropolitan areas, a higher percentage of the population with secondary or higher education, higher percentages of hours worked in industry, and higher institutional quality. The importance of geographical constraints in these intermediate deciles suggests that, in the depopulated areas of Spain, the absence of agglomeration effects represents a significant obstacle to climbing the European productivity ranking.

The key ingredients for progress: geography, institutions, and human capital and innovation

In this second part of the article we proceed to characterise, using more sophisticated econometric techniques, what the most successful regions – or outperformers – are like. These regions have managed to stand out due to a greater improvement in productivity relative to their counterparts at the starting point. To characterise them, we estimate a multiple linear regression with the regions that have improved their relative position using their productivity growth between 2004 and 2023 as the dependent variable, compared to the average productivity growth of those regions that have stagnated but were in the same decile in 2004 (we will henceforth refer to this variable as differential productivity growth). Subsequently, we use the decomposition of the variance to study the relative weight of factors related to demographics,[9] institutional quality,[10] technology

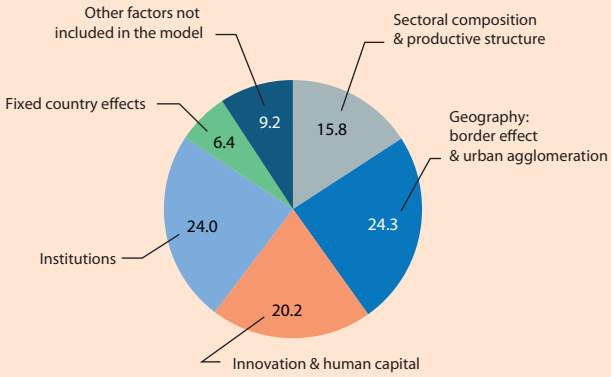
9. Density, percentage of the population living in metropolitan areas (defined as functional urban areas), percentage of the population living in urban areas and cities, and the productivity of bordering regions.
10. The European Quality of Government Index (EQI).

and human capital[11] and productive structure,[12] presented in the previous article, in order to explain the differential productivity growth for the regions that have improved their relative position.[13]

The results (see last chart) show that the four categories of variables included in our analysis play a very important role in explaining why some regions have managed to «take off» over the last 20 years in terms of productivity and grow more than other regions that had a similar starting position. Specifically, these four categories together account for almost 85%[14] of the differential productivity growth of the outperformers.

Explanatory factors of productivity growth in 2004-2023 for European regions that have moved up a decile compared to the average growth of those that have stagnated having started from the same decile in 2004

(% of the total change)



Source: *BPI Research.*

Geographical conditions and institutions appear to play a particularly key role. Specifically, geographical factors account for around a quarter of the differential productivity growth. When we examine which variables in this sphere are statistically significant for differential productivity growth, having an initially high density and the growth in the percentage of the region's population living in urban areas stand out. This suggests the importance of economies of agglomeration, a concept coined by economists to emphasise that the physical proximity of people, workers, companies, etc. enriches us.[15] Hence the importance of public policies that help to create vibrant and dynamic urban centres.

Also, the institutional quality variable, EQI, accounts for around a quarter of the differential productivity growth in regions that have improved their relative position between 2004 and 2023, which underscores the importance of considering institutional variables when analysing the productivity growth of European regions. This result aligns with the economic literature, championed by the Nobel laureates Daron Acemoglu and James Robinson, which documents the importance for economic growth of strong institutions that respect property rights and stimulate investment and the flourishing of a broad middle class.

Next, the variables related to human capital and innovation explain around one-fifth of the differential productivity growth in regions that have improved their relative position between 2004 and 2023. More than two-thirds pertain to investment in R&D and employment in high-tech sectors.

Finally, the variables that make up the regions' productive structure account for slightly less than one fifth of the differential productivity growth in regions that have improved their relative position between 2004 and 2023.[16] Among the variables in this category, of particular note is a positive and statistically significant relationship between employment in large companies in 2004 and differential productivity growth. This should come as no surprise, given the abundant literature documenting a positive relationship between company size and productivity: large companies tend to last longer, export more, have more diversified sources of financing and are more innovative.[17]

11. Investment in R&D, the percentage of employment in high-tech jobs and the percentage of the population with secondary or higher education levels.
12. Hours worked in industry as a proportion of the total, hours worked in services as a proportion of the total, the stock of physical capital, as well as the percentage of workers in companies with more than 10 workers.
13. This method is also known as Shapley decomposition. Specifically, we use as regressors the levels in 2004 of the explanatory variables and interactions of their level in 2004 with their differential growth (i.e. for each region that has climbed deciles, their growth minus the average growth of those that have stagnated and started from the same initial decile) in order to incorporate convergence effects. The results are similar if instead of the initial level we take their initial level relative to the initial level of those that stagnated by decile.
14. We also include fixed country effects, for countries with more regions that climbed deciles, in order to capture idiosyncratic factors at the country level not absorbed into the rest of the variables. These fixed effects have a contribution of 6.4% to the total variance.
15. See the article «The urban factor of the labour market» in the Dossier of the MR06/2016.
16. 100% here includes 9.2% corresponding to other factors not included in our analysis, so the proportion is relative to the total of the explained variance (90.8%) and the unexplained variance (9.2%).
17. See the Focus «Sectoral specialisation penalises the productivity of the Spanish economy» in the MR11/2023.

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