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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
MARCH 2026



INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS

*The macro-financial environment behind
the economic outlook*

INTERNATIONAL ECONOMY

*What to expect from the international
economy in 2026*

*10 questions on the US Supreme Court's tariff
ruling*

*Japan, at the dawn of a new cycle: fiscal
tensions and monetary normalisation in
the Land of the Rising Sun*

SPANISH ECONOMY

*Spain's foreign sector performed better
than expected in 2025*

*Spanish exports amid challenges to their
competitiveness*

PORTUGUESE ECONOMY

New macroeconomic scenario

The last mile of inflation?

How can storms affect the economy?

*Construction as a way to combat the housing
crisis*

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

March 2026

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

BPI Research (DF-EEF)

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Geopolitics and tariffs: a new twist for economic resilience

After a January filled with a range of emotions (Venezuela, Greenland, etc.), the first quarter of the year will close with new changes in the tariff landscape, following the US Supreme Court's decision to invalidate the legal path used by the Trump administration to redesign a significant portion of the tariff framework and, above all, with the intensification of tensions in the Middle East following the outbreak of the military conflict in Iran. This new twist in the geopolitical landscape will once again test the resilience shown by the business cycle in recent years, amid a spike in energy prices and uncertainty in the short term.

Considering Iran's importance as an oil producer (3.3 million barrels per day) and its ability both to restrict maritime traffic through the Strait of Hormuz, through which 20% of maritime oil and gas transport passes, and to damage regional energy infrastructure, the immediate responses of the markets have reflected investors' concerns about the economic and financial effects of a new supply shock. The rise in oil prices during the first week of hostilities, as well as natural gas prices in particular, highlights the sensitivity and disruptive capacity of the energy channel, despite the slack that existed in the market before the conflict began. A second derivative is how the energy shock interacts with the trade channel, as the necessary diversion of shipping routes via the Cape of Good Hope and the increase in insurance costs (12 times more in the case of tankers passing through Hormuz) will result in higher transport costs and new distortions in value chains, which are already under strain from tariff noise and trade fragmentation. All this is occurring at a juncture where the widespread increase in uncertainty could be transmitted to the financial channel, especially considering the presence of stressed valuations in certain market segments and the rotation occurring in AI-related stocks.

In this challenging context, there are four key factors at play in the short term: (i) the duration of the conflict and, therefore, of the tensions in the energy market, (ii) the strategy of the new Iranian leadership and the possibility that the US will push for a solution similar to that of Venezuela (with the US midterms elections just around the corner), (iii) Iran's ability to structurally damage the region's energy infrastructure, maintain disruptions in Hormuz (tanker war) and extend the conflict considering the country's delicate economic situation, and (iv) the responses of monetary authorities to isolate the financial channel amid a potential increase in uncertainty and inflation expectations.

The time variable is key, as it will delineate the boundary between a controlled supply shock and a global stagflation scenario. Oil and gas futures traded during the week following the start of the air strikes were anticipating a moderate supply shock. With this change in the initial assumptions, the growth outlook for the euro area and Spain could be slightly lower than previously anticipated, while inflation could experience a temporary rebound of a few tenths of a percentage point that would not significantly alter the ECB's strategy. Such an impact would be manageable for the business cycle, considering the resilience shown in recent years and the structural reduction in energy intensity in production. From here, the situation would become more complicated in a scenario of persistently higher prices (oil above 100 dollars for several months), with risks of upward pressures on inflation expectations. In this context, we would see interest rate hikes, and combined with the negative effects on income this would bring us to the brink of stagflation, with distortions in capital flows, higher risk premiums and a general tightening of financial conditions.

Therefore, for the umpteenth time in recent years, we are yet again reminded of the fragility of economic and financial forecasts in the face of geopolitical shocks. This is a reality we will have to live with from now on, and a reflection of a neo-Westphalian world, with increasing rivalry between major powers, protectionism, division into hegemonic blocs and limited multilateral coordination. The recommendations to mitigate damage in this complex framework are largely common sense: strengthen balance sheets, diversify portfolios, increase flexibility and degrees of freedom in management, create firewalls capable of absorbing losses, and do not overreact amid the noise of daily events. That is easier said than done.

José Ramón Díez
March 2026

Chronology

<p>FEBRUARY 2026</p> <ul style="list-style-type: none"> 20 The US Supreme Court invalidates the tariffs announced under the IEEPA. 28 The US and Israel launch a coordinated attack against Iran in which Ali Khamenei is killed. <p>DECEMBER 2025</p> <ul style="list-style-type: none"> 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%. <p>OCTOBER 2025</p> <ul style="list-style-type: none"> 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. 	<p>JANUARY 2026</p> <ul style="list-style-type: none"> 14 2025 was the third warmest year on record (1940-2025) and 1.5 °C above the pre-industrial average (1850-1900) according to the EU's Copernicus programme. 27 The EU and India conclude negotiations for a Free Trade Agreement. <p>NOVEMBER 2025</p> <ul style="list-style-type: none"> 12 End to the longest government shutdown in US history. <p>SEPTEMBER 2025</p> <ul style="list-style-type: none"> 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.
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Agenda

<p>MARCH 2026</p> <ul style="list-style-type: none"> 3 Euro area: CPI flash estimate (February). 4 Spain: registration with Social Security and registered unemployment (February). 6 Portugal: Fitch rating. 9 Portugal: turnover in industry (January). 12 Portugal: international trade (January). 13 Spain: Fitch and S&P ratings. 17 Spain: quarterly labour cost survey (Q4) 17-18 Federal Open Market Committee meeting. 19 Governing Council of the European Central Bank meeting. 19-20 European Council meeting. 23 Portugal: house prices (Q4). 26 Spain: GDP flash estimate (Q4). Spain: loans, deposits and NPL ratio (Q4). Portugal: GDP breakdown (Q4). 27 Spain: CPI flash estimate (March). Spain: Moody's rating. 30 Euro area: economic sentiment indicator (March). 31 Portugal: CPI flash estimate (March). Portugal: employment and unemployment (February). Euro area: CPI flash estimate (March). 	<p>APRIL 2026</p> <ul style="list-style-type: none"> 1 Spain: household savings rate (Q4). 6 Spain: registration with Social Security and registered unemployment (March). 9 Portugal: turnover in industry (February). Portugal: international trade (February). 10 Spain: financial accounts (Q4). 17 China: GDP (Q1). 24 Spain: loans, deposits and NPL ratio (February). 28 Spain: labour force survey (Q1). Portugal: bank credit portfolio (March). 28-29 Federal Open Market Committee meeting. 29 Spain: CPI flash estimate (April). Portugal: employment and unemployment (March). Euro area: economic sentiment indicator (April). 30 Spain: GDP flash estimate (Q1). Portugal: GDP flash estimate (Q1). Portugal: CPI flash estimate (April). Governing Council of the European Central Bank meeting. Euro area: GDP (Q1). Euro area: CPI flash estimate (April). US: GDP (Q1).
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The Portuguese economy and the start of the war in the Middle East

The start of the war in the Middle East has once again triggered global uncertainty. As has happened repeatedly in recent years, we find ourselves in a context where making reliable predictions is very difficult. This was the case during the pandemic, also after the Russian invasion of Ukraine, and more recently, when Donald Trump initiated the trade war. Although the nature of each shock and the transmission channels are different, the feeling of moving towards an uncertain future is recurrent. Once again, it is necessary to reassess the position of the Portuguese economy and analyse its strengths and vulnerabilities in relation to the channels through which this new shock could spread.

The starting point for the Portuguese economy is relatively positive. The year 2025 ended with dynamic growth, slightly exceeding our forecasts and the growth recorded by most advanced economies. At the beginning of 2026, activity indicators continue to show robustness, despite adverse weather events that affected several regions of the country in January and February. In this way, activity remains generally solid and has sufficient resources to continue growing. The latest forecasts from BPI Research point to growth of 2.1% this year. However, the outbreak of war has significantly increased downside risks. The potential deviation from the forecast will depend on the duration and intensity of the conflict, its geographical scope, and any structural damage to the energy infrastructure of the Gulf countries. Depending on these factors, the rise in energy prices will be more or less intense and prolonged, and trade flows, financial conditions, and confidence will be affected to a greater or lesser extent.

In this regard, it is worth recalling that the share of energy imports arriving in Portugal through the Strait of Hormuz is relatively low: around 7% in the case of oil and less than 1% in the case of gas. The increase in renewable energy production and the diversification of imports have become valuable assets in situations of tension such as the current one. Although the Portuguese economy is not expected to face supply problems, it will be affected by higher energy prices. As a reference, a \$20 increase in the average price of oil over the year (to \$87/barrel) subtracts 0.14 pp from GDP growth; in the case of gas, the sensitivity is slightly lower, close to 0.10 pp (assuming that the average gas price in

2026 is set at €58/MWh, €20 more than in the previous year). Taking into account the increase recorded to date and the duration of the recovery that markets anticipated on 9 March, the growth of the Portuguese economy may still be close to 1.8%. However, the sectoral impact would be very heterogeneous: industry, which is more energy-intensive, would be the most affected; yet for tourism, the perception of a safe destination may offset the effect of the shock on demand. With respect to inflation, the expected moderation to 2.1% for the year as a whole may not materialise and it could remain at higher levels, around 2.7%.

The situation also invites us to reassess the macrofinancial position of the Portuguese economy. If inflationary pressures eventually intensify, the ECB will be forced to raise interest rates, and global financial conditions will become more restrictive if uncertainty and risk aversion remain at high levels. In this regard, it is important to note that Portugal faces this scenario in a more solid position than it did a few years ago. Private sector debt, measured as a percentage of GDP, has been decreasing over time. Net external debt (which stood at 36.2% of GDP in 2025) also decreased steadily and sharply for more than a decade, reducing vulnerability to changes in international investor sentiment. Public debt, for its part, also maintained the downward trajectory that began in 2021, decreasing by 3.9 percentage points in the last year, reaching 89.7% of GDP. Thus, its evolution has been more positive than that of other advanced economies and has contributed to maintaining a relatively low risk premium.

The last channel through which the Portuguese economy could be affected is confidence. If families and businesses, concerned about the geopolitical context, overreact and reduce consumption and investment as a precaution, the impact of the shock will be significant. However, we believe that this is unlikely. The Portuguese economy started the year in a turbulent manner, but maintains a relatively low trade exposure to Middle Eastern countries and is in a reasonably solid economic and financial position. However, for the good of all – and especially for the citizens of the Middle East – let us hope that the war ends as soon as possible.

Paula Carvalho
Oriol Aspash

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	1.75	4.25	3.50	3.00	3.00
3-month SOFR	3.62	1.01	2.09	4.37	3.71	3.10	3.07
12-month SOFR	3.86	1.48	2.39	4.19	3.48	3.10	2.78
2-year government bonds	3.70	1.04	2.06	4.24	3.51	3.50	3.75
10-year government bonds	4.69	2.57	2.31	4.40	4.14	4.50	4.60
Euro							
ECB depo	2.05	0.20	0.61	3.09	2.00	2.00	2.00
ECB refi	3.05	0.75	1.11	3.24	2.15	2.15	2.15
€STR	–	–0.54	0.52	3.06	1.93	1.94	1.97
1-month Euribor	3.18	0.50	0.57	2.89	1.92	2.00	2.03
3-month Euribor	3.24	0.65	0.70	2.83	2.05	2.04	2.06
6-month Euribor	3.29	0.78	0.87	2.63	2.14	2.12	2.11
12-month Euribor	3.40	0.96	1.04	2.44	2.27	2.23	2.18
Germany							
2-year government bonds	3.41	0.35	0.56	2.02	2.13	2.04	2.00
10-year government bonds	4.30	1.54	0.72	2.22	2.84	2.95	2.90
Spain							
3-year government bonds	3.62	1.69	0.92	2.26	2.39	2.57	2.60
5-year government bonds	3.91	2.19	1.07	2.48	2.64	2.88	2.92
10-year government bonds	4.42	3.17	1.61	2.90	3.28	3.45	3.50
Risk premium	11	164	90	68	45	50	60
Portugal							
3-year government bonds	3.68	3.33	0.76	2.03	2.16	2.17	2.17
5-year government bonds	3.96	3.94	0.98	2.15	2.49	2.62	2.64
10-year government bonds	4.49	4.67	1.52	2.68	3.14	3.40	3.45
Risk premium	19	314	81	46	31	45	55
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.12	1.05	1.17	1.20	1.20
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.83	0.87	0.90	0.90
EUR/GBP (yen per euro)	129.56	126.41	135.43	161.18	182.71	180.00	175.00
OIL PRICE							
Brent (\$/barrel)	42.3	80.1	73.8	73.1	61.6	66.0	64.8
Brent (euros/barrel)	36.1	62.5	67.0	69.8	52.6	55.0	54.0

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 2020-2023	2024	2025	2026	2027
GDP GROWTH¹							
Global	4.3	3.3	2.8	3.3	3.3	3.3	3.2
Developed countries	2.7	1.5	1.7	1.8	1.7	1.9	1.7
United States	2.7	1.8	2.4	2.8	2.2	2.6	2.0
Euro area	2.3	0.9	1.1	0.8	1.5	1.3	1.5
Germany	1.6	1.3	0.2	-0.5	0.3	1.0	1.4
France	2.3	1.0	0.9	1.1	0.9	1.0	1.2
Italy	1.5	-0.3	1.5	0.5	0.7	0.8	1.1
Portugal	1.5	0.4	1.9	2.1	1.9	2.1	1.9
Spain	3.6	0.7	1.1	3.5	2.8	2.4	2.0
Japan	1.4	0.4	0.1	-0.2	1.1	0.8	0.6
United Kingdom	2.8	1.3	1.0	1.1	1.3	0.7	1.4
Emerging and developing countries	6.3	4.9	3.5	4.3	4.4	4.2	4.1
China	10.6	8.0	4.9	5.0	5.0	4.5	4.0
India	7.2	6.7	4.6	7.3	7.5	6.6	6.4
Brazil	3.6	1.6	1.9	3.4	2.0	1.8	1.8
Mexico	2.3	1.5	1.1	1.4	0.6	1.3	1.8
Russia	-	1.4	1.5	4.3	0.9	1.1	1.1
Türkiye	5.5	4.5	6.4	3.3	3.2	3.4	3.4
Poland	4.1	3.7	2.6	3.0	3.6	3.5	3.2
INFLATION							
Global	4.1	3.7	5.8	5.7	4.1	3.9	3.5
Developed countries	2.1	1.6	3.9	2.6	2.5	2.2	2.1
United States	2.7	1.8	4.5	2.9	2.6	2.6	2.2
Euro area	2.2	1.4	4.2	2.4	2.1	1.9	2.0
Germany	1.7	1.4	4.6	2.5	2.3	2.0	2.1
France	1.9	1.3	3.5	2.3	0.9	1.3	1.7
Italy	-0.1	1.4	4.1	1.1	1.6	1.5	1.8
Portugal	3.1	1.1	3.4	2.4	2.3	2.1	2.0
Spain	3.2	1.3	3.7	2.8	2.7	2.4	2.2
Japan	-0.3	0.4	1.4	2.7	3.2	2.0	2.0
United Kingdom	1.6	2.3	5.0	2.5	3.4	2.5	2.1
Emerging and developing countries	6.9	5.5	7.1	7.7	5.1	5.1	4.4
China	1.7	2.6	1.4	0.2	0.1	1.0	1.5
India	4.6	7.3	6.0	5.0	2.2	4.1	4.0
Brazil	7.3	5.7	6.4	4.4	5.0	4.2	3.8
Mexico	5.2	4.2	5.6	4.7	3.8	3.9	3.8
Russia	14.3	7.9	7.5	8.5	8.7	6.0	4.5
Türkiye	22.6	9.6	39.5	58.5	34.9	26.1	19.9
Poland	3.5	1.9	8.2	3.7	3.4	2.6	2.6

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 2020-2023	2024	2025	2026	2027
Macroeconomic aggregates							
Household consumption	1.8	0.5	1.5	3.0	3.5	2.6	2.1
Government consumption	2.2	-0.3	1.9	1.5	1.7	1.6	1.0
Gross fixed capital formation	-0.4	-0.7	3.7	3.8	3.5	5.2	2.2
Capital goods	3.4	2.7	6.3	8.4	-1.3	-	-
Construction	-1.4	-2.4	3.1	3.0	5.5	-	-
Domestic demand (vs. GDP Δ)	1.3	0.0	2.0	2.9	3.7	2.8	2.0
Exports of goods and services	5.3	4.0	3.8	3.1	0.4	2.2	4.1
Imports of goods and services	3.6	2.7	3.6	4.8	4.2	3.5	3.9
Gross domestic product	1.5	0.4	1.9	2.1	1.9	2.1	1.9
Other variables							
Employment	0.4	-0.4	1.4	1.2	3.2	1.9	1.5
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.4	6.0	5.9	5.9
Consumer price index	3.1	1.1	3.4	2.4	2.3	2.1	2.0
Current account balance (% GDP)	-9.2	-2.9	-0.4	2.1	1.2	1.1	1.2
External funding capacity/needs (% GDP)	-7.7	-1.5	0.6	3.3	2.0	3.8	2.1
Fiscal balance (% GDP)	-4.5	-5.1	-1.9	0.5	0.4	-0.6	-0.5

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.4	3.0	3.4	3.0	2.1
Government consumption	4.5	0.9	3.1	2.9	1.8	1.4	1.8
Gross fixed capital formation	5.7	-1.2	1.0	3.6	6.3	5.2	2.5
Capital goods	4.9	0.2	-1.4	1.9	9.0	4.4	2.5
Construction	5.7	-2.6	0.4	4.0	5.2	5.6	2.4
Domestic demand (vs. GDP Δ)	4.4	-0.2	0.9	3.2	3.5	3.0	2.0
Exports of goods and services	4.7	2.9	2.4	3.2	3.4	2.1	2.1
Imports of goods and services	7.0	0.2	1.9	2.9	6.3	4.1	2.4
Gross domestic product	3.6	0.7	1.1	3.5	2.8	2.4	2.0
Other variables							
Employment	3.2	-0.5	2.0	2.8	3.1	2.5	1.8
Unemployment rate (% of labour force)	10.5	19.5	13.9	11.3	10.5	9.8	9.2
Consumer price index	3.2	1.3	3.7	2.8	2.7	2.4	2.2
Unit labour costs	3.1	0.6	4.1	3.3	4.2	3.6	2.7
Current account balance (% GDP)	-5.8	-0.2	1.2	3.2	2.9	2.7	2.9
External funding capacity/needs (% GDP)	-5.2	0.2	2.0	4.2	3.4	3.6	3.9
Fiscal balance (% GDP) ¹	0.3	-6.5	-6.1	-3.2	-2.5	-2.1	-2.1

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

Forecasts

Financial markets, to the rhythm of geopolitics and AI

Financial conditions amid mixed dynamics. The start of 2026 has brought volatility and mixed dynamics reflecting the markets' sensitivity to geopolitical and technological shifts. The threat of a military conflict between the US and Iran had already heightened the perception of risk before the bombings materialised and triggered a sharp increase in stress and volatility, especially in commodity markets. In parallel, AI continues to influence stock markets not only due to high company valuations and the challenge of making ambitious investment plans profitable, but also due to fears of disruption to established business lines. In addition to all this, in February the US Supreme Court ruling annulled a significant portion of the tariffs imposed by the Trump administration. These catalysts drove mixed stock market performance, while commodities were pushed upwards and investor sentiment led to a slight recovery in the dollar in the currency markets and opposing dynamics between long-term interest rates on both sides of the Atlantic.

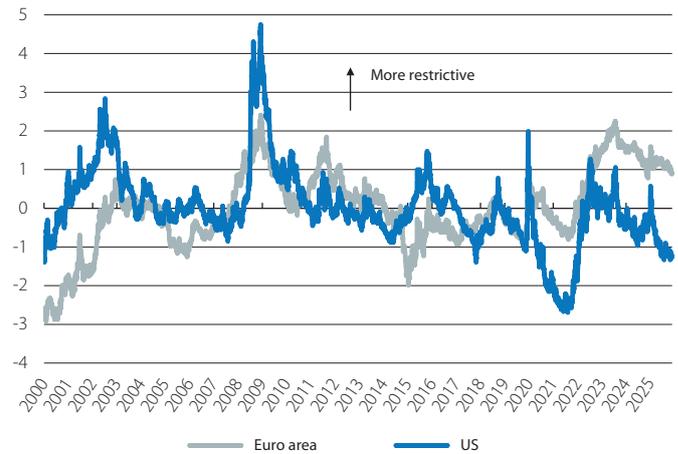
Markets on the rise... until the outbreak of conflict in Iran. February opened with uneven performance among the main international stock markets, torn between the boost from a good earnings season and doubts generated by the momentum of AI-related companies. In the US, the fear that these firms might disrupt traditional business models put pressure on established firms within the technology and communication services sectors, leaving the S&P 500 virtually flat in February. In contrast, indices in the rest of the world gained more traction: European stock markets recorded notable gains, approaching +4% overall in February, driven by more balanced growth prospects and favourable investor sentiment following the Supreme Court's ruling. In emerging markets, the regional index for Asia was approaching gains of 7%, while the Latin American index exceeded 4%. Globally, Japan stood out in particular, where the Nikkei recorded increases of over 10%, encouraged by the electoral victory of Sanae Takaichi and her reflationary agenda. However, at the beginning of March, the bombings in Iran triggered widespread declines in global stock markets, with the European stock market retreating to levels of late 2025.

Macroeconomic dynamism supports business earnings. The earnings season in the US closed with a solid overall picture, in a context of robust performance of the American economy: around 85% of the companies in the S&P 500 exceeded sales expectations and around 75% did so in profits. The greatest impetus came from the financial and tech sectors, where the firms most closely linked to AI maintained the combination of good reported results and ambitious investment plans. In Europe, while the tone was more moderate, the balance as of the close of this report was also positive, with the tech, financial and utilities sectors standing out.

Geopolitics drives up commodities. February was a month of tense calm in energy prices. The balance between the

Financial conditions

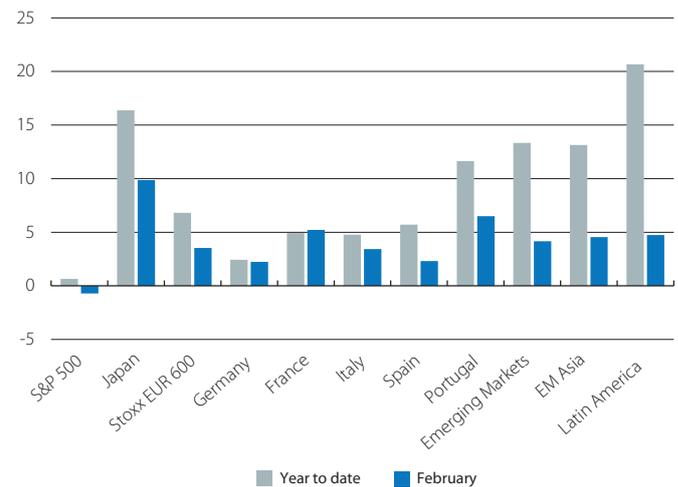
Index (0 = 2000-2026 average)



Note: Goldman Sachs financial conditions indices normalised by the average and the standard deviation from 2000-2026.
Source: BPI Research, based on data from Bloomberg.

International stock markets: performance in 2026

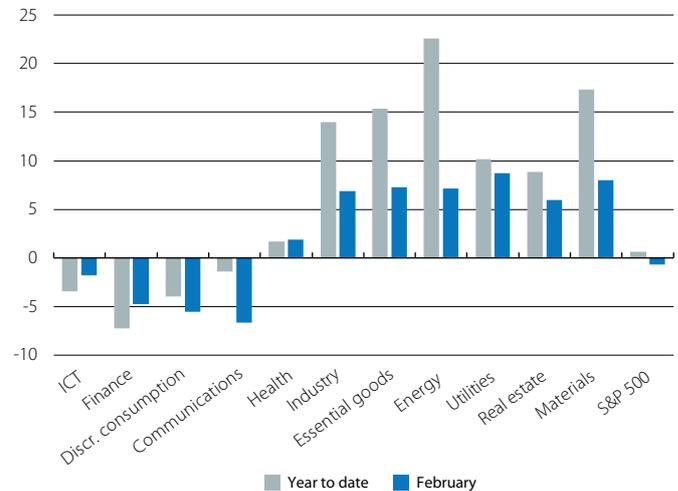
Change (%)



Source: BPI Research, based on data from Bloomberg.

US: stock market performance in 2026

Change (%)



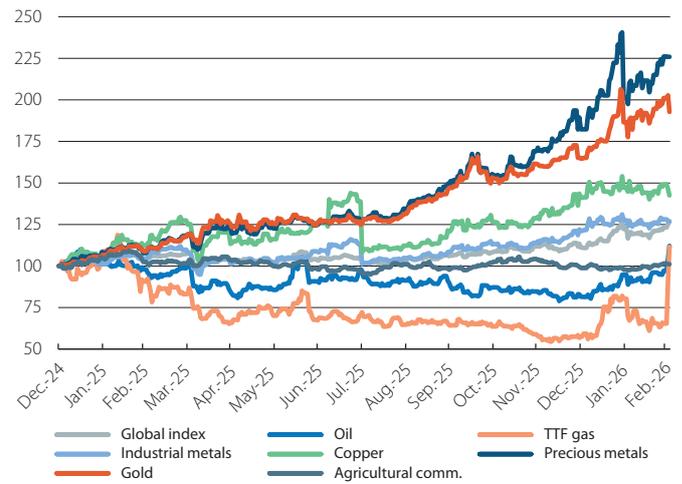
Source: BPI Research, based on data from Bloomberg.

expectation of an oversupply in the oil market and the increasing risk premium arising from geopolitics pushed the price of the Brent barrel towards the 70-dollar mark, while the TTF gas price fell towards 30 euros per MWh, aided by an increase in liquefied natural gas imports at northern European terminals and forecasts of milder temperatures for the end of the winter. However, the exchange of attacks between Iran and the US and Israel in early March exerted significant pressure on prices, with oil surpassing 100 dollars per barrel of Brent and TTF gas reaching nearly 60 euros per MWh and experiencing considerable volatility (briefly surpassing 65 euros). Futures curves became relatively less expensive, indicating an easing of tensions towards 2027.

The dollar takes a breather. The behaviour of the US dollar was erratic during February, but it managed to close the month with a slight recovery. The Supreme Court’s ruling helped to ease the downward pressure that has been weighing on the currency since the tariff announcements of 2025, while the war in Iran moderately benefited it in its role as a safe-haven asset. The euro remained relatively stable, at around 1.18 dollars (weakening towards 1.15 dollars following the bombings in the Middle East), the pound hovered around 1.35 dollars and the yen also weakened. Among emerging currencies, the best performing ones were those that benefited the most from a more direct reduction of tariffs: throughout February, the Brazilian real appreciated by more than 3% against the dollar, while the Chinese yuan appreciated by just under 1% and the Indian rupee by more than 1% (capitalising on the US-India trade agreement). Nevertheless, the bombings ultimately led to a widespread weakness among emerging currencies.

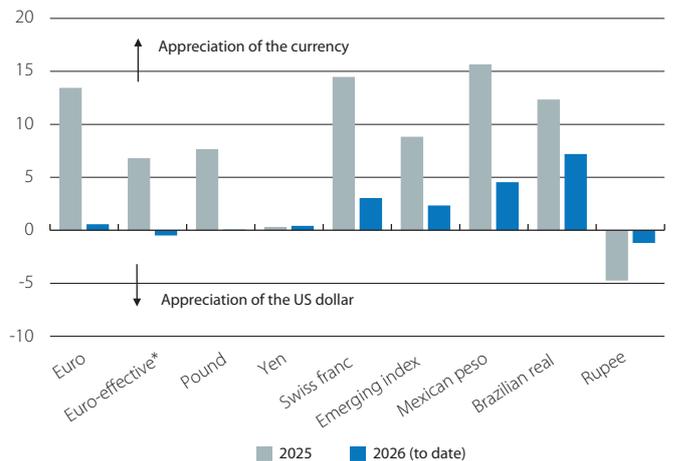
Fluctuations in interest rates. In a February without monetary policy meetings among the major central banks, investors initially bet on a decline in sovereign rates in both the US and the euro area. However, the stress triggered by energy prices following the bombings in the Middle East pushed rates up due to a surge in inflation expectations and a hawkish revision of the monetary policy outlook on the part of investors. Net, sovereign interest rates remained stable in the US (rising at the short end of the curve and falling at the long end), while in the euro area rates registered an increase (more notably in the periphery than in Germany). The money markets abandoned their dovish bias for the ECB and began to price in the possibility of the ECB raising rates in 2026 (as of the close of this report, the markets were debating between one and two rate hikes). The markets also reduced their confidence in rate cuts by the Fed (although they are still pricing in two cuts for the remainder of the year). In fact, the minutes of the Fed's January meeting revealed a more restrictive tone than had been perceived, and pointed to greater concern about inflation risks. The minutes also revealed that almost all Fed members consider the current level of rates to be in neutral territory. In the euro area, the ECB demonstrated greater continuity in its communication and various interventions continued to emphasise the strategy of not over-calibrating decisions to every small change in the data, given the uncertainty of the environment.

Commodity prices
Index (100 = 31 Dec. 2024)



Source: BPI Research, based on data from Bloomberg.

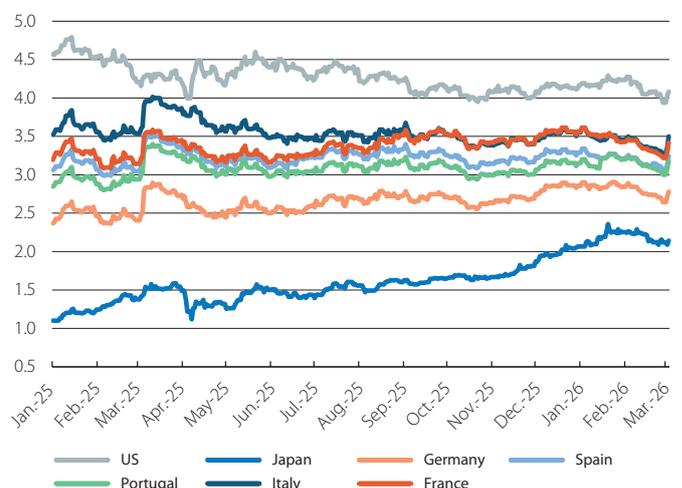
International currencies against the US dollar
Change (%)



Note: * For the effective exchange rate of the euro, a basket of 41 currencies against the euro is presented.

Source: BPI Research, based on data from Bloomberg.

10-year sovereign interest rates
(%)



Source: BPI Research, based on data from Bloomberg.

The macro-financial environment behind the economic outlook

The economic outlook for the coming quarters rests on the path for financial conditions.¹ The environment is supported by a stable and neutral monetary policy, which neither stimulates nor cools the economy, and a dollar that maintains the relative weakness observed in 2025. Additionally, energy prices benefit from a buffer of surplus supply and stockpiling inherited from 2025, which mitigates geopolitical pressures. However, the risk map is demanding and, in addition to the prevalence of geopolitical disruptions, the financial markets have shown sensitivity to the promises, doubts and transformations of artificial intelligence (AI) and to the sustainability of public debt. The escalation of the conflict in the Middle East, with attacks between the US, Israel and Iran, heightens uncertainty and downside risks, as we discuss at the end of this article.

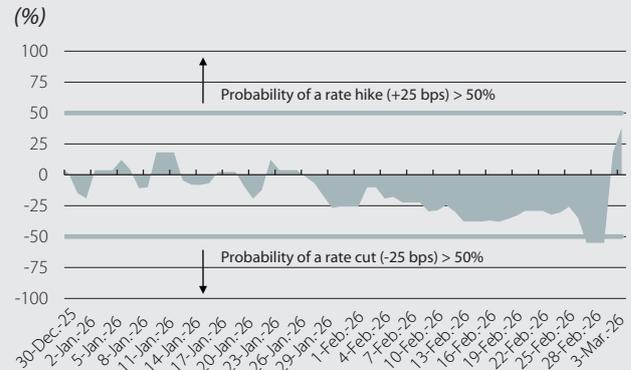
Monetary policy and interest rates

The monetary policy of the ECB and the Fed is one of the anchors of the scenario. The euro area has on-target inflation and a multi-directional balance of risks – from supply disruptions (global supply chains, extreme weather events, energy prices) to trade tensions and China’s redirection of exports towards the EU. Thus, the ECB has chosen to keep its powder dry and frequently reassess the scenario, maintaining a stable policy while the risks do not tip the economy one way or the other. Our forecasts are based on a depo rate of 2.00% in the coming quarters. This is the same rate as was being priced in by the financial markets until the escalation of the conflict in Iran triggered a shift in sentiment (see first chart).

In the US, the narrative is different, but the result is relatively similar: the gradual cooling of the labour market and the moderation of inflation at the end of 2025 provide room for some additional cuts, although the robustness of growth suggests that the Fed is nearing the end of the rate-cutting cycle. Our forecast scenario foresees two more cuts, bringing the fed funds rate to the range of 3.00%-3.25%, a level that is consistent with more neutral monetary conditions. This assessment is shared by market pricing (see second chart).

In parallel, 2026 will also be a significant year on the institutional front. Jerome Powell’s term as Fed chair ends in May and his replacement has been overshadowed by the Trump administration’s pressure to lower interest

ECB: quoted probability for 2026 of an increase (+) or decrease (-) in the depo rate relative to 2.0%



Note: Probability inferred from €STR forwards for December 2026.
Source: BPI Research, based on data from Bloomberg.

Fed: reference interest rate



Note: Forwards on the fed funds futures curve as of 03/03/2026.
Source: BPI Research, based on data from Bloomberg.

rates.² The designated successor, Kevin Warsh, has a solid profile (he was a Fed governor from 2006 to 2011) but an erratic record in his monetary policy preferences. Additionally, Governor Lisa Cook is awaiting the Supreme Court’s ruling on her attempted dismissal by the administration. On a very different level, the changeover to the presidency of the ECB is scheduled for 2027, while in 2026 the most significant end of term is that of Vice-President Luis de Guindos (ending in May) and his successor will be the current governor of the central bank of Croatia, Boris Vujčić.

1. See the Focuses «What to expect from the international economy in 2026» and «The Spanish economy in 2026» in this same report.

2. Some fears were alleviated when, in December, the Fed approved the reappointment of 11 of the 12 regional Federal Reserve presidents (the exception, at the Atlanta Fed, reflects the retirement of the current president).

On the other hand, in the euro area, it is worth noting that sovereign risk premiums are at their lowest levels in almost 20 years (with the exception of France; see third chart). This moderation has been accompanied by an improvement in the macroeconomic fundamentals, which supports the continuation of investor sentiment being comparatively favourable for the periphery.³

Exchange rate and commodities

The narrowing of interest rate spreads between the euro area and the US, the expectation of a certain revitalisation of European growth and the perception of improved sentiment towards Europe support the continuation of a somewhat stronger euro/dollar exchange rate than the 2022-2024 average,⁴ as indicated by the markets.

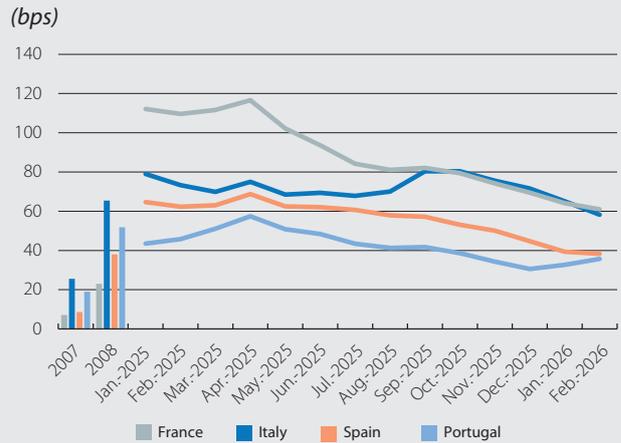
The outlook for energy prices has become more uncertain since the escalation of the conflict between Iran, Israel and the US (see fifth chart). In the background, the oil and gas markets had containment forces due to an abundance of supply, which in recent quarters has led to the accumulation of an inventory buffer that helps mitigate the impact of geopolitical shocks.

Risks

This environment outlines financial conditions with a stability that should not be unfavourable for economic performance. However, the perception of risk continues to manifest episodically in the markets. Geopolitical conflicts remain at the forefront as a source of supply-side disruptions. In early March, oil and gas came under severe stress following attacks involving Iran, the US and Israel, with futures – amid high volatility – pointing to prices for 2026 as a whole significantly higher than those quoted in mid-February. Two additional features stood out: (i) futures prices anticipated some easing over the following quarters, and (ii) they fluctuated with considerable volatility (for oil, futures for 2026 as a whole swung between increases of 10% and 25%, and between 30% and 70% for gas). If the path reflected in these futures persists then the outlook for international economic activity would lose some momentum. However, with the support of the accumulated global energy stocks and anchored inflation expectations, the outlook ought not to suffer any profound change nor

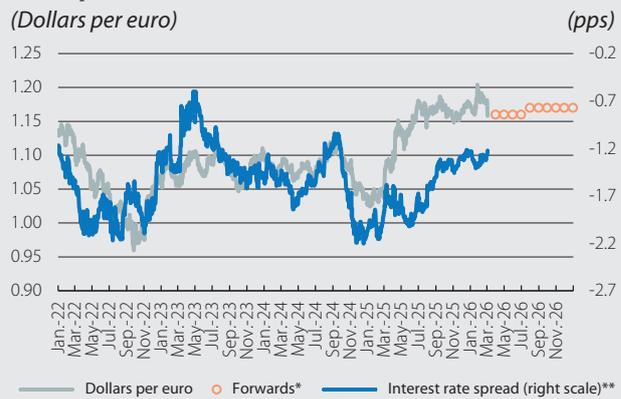
3. See the Focus «Risk premiums and macroeconomics: a robust and cross-cutting relationship» in the MR02/2026.
 4. The gap that has opened up between the actual EUR/USD exchange rate and that predicted by interest-rate differentials is an indication of relatively favourable sentiment towards Europe. The depreciation is more significant if one considers that, according to conventional prediction, the dollar should have appreciated in response to an increase in tariffs (see fourth chart and Ostry *et al.* (2025), «Trading blows: The exchange-rate response to tariffs and retaliations», Bank of England, Staff Working Paper.

Sovereign risk premiums



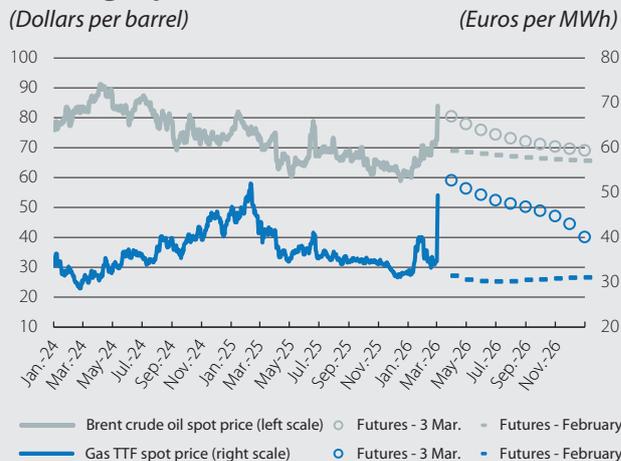
Note: Spread between the 10-year interest rate of each country and its German counterpart. Source: BPI Research, based on data from Bloomberg.

US and euro area: exchange rate and interest rate spread



Notes: * Forwards as of 03/03/2026. ** Difference between the 2-year OIS rate for the euro area and the US. Source: BPI Research, based on data from Bloomberg.

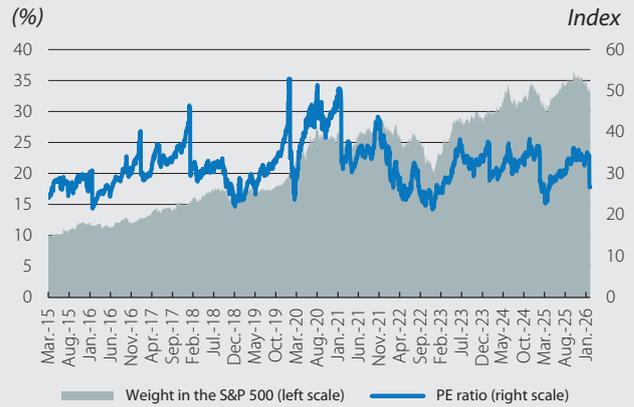
Oil and gas prices



Source: BPI Research, based on data from Bloomberg.

will it necessarily substantially alter monetary policy strategies, which are generally starting from neutral or slightly restrictive levels. A scenario with persistently higher energy prices would raise the risk of more significant disruptions, deeper tensions in financial markets and indirect effects on inflation, and could spur a more pronounced hawkish shift in monetary policy. On the other hand, in the risk map, it is important not to overlook the importance of monitoring public debt dynamics in several advanced economies (the United Kingdom, France, Japan, and even the US have experienced some turbulence in their long-term interest rates) nor the financial risks surrounding AI, both in terms of its ability to meet expectations and its potential to disrupt established economic structures, in a context of high valuations and significant stock market concentration (see last chart).

US stock market: Magnificent 7



Notes: The Magnificent 7 are Apple, Amazon, Google, Meta, Microsoft, Nvidia and Tesla. The PE (Price-to-Earnings) ratio represents the ratio between the market capitalisation (price) and the profits (earnings) of the last 12 months.
Source: BPI Research, based on data from Bloomberg.

Interest rates (%)

	28-February	31-January	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.15	0	0	-75
3-month Euribor	2.01	2.03	-2	-1	-47
1-year Euribor	2.22	2.23	0	-2	-19
1-year government bonds (Germany)	1.97	1.97	0	-4	-5
2-year government bonds (Germany)	2.00	2.09	-9	-12	-4
10-year government bonds (Germany)	2.64	2.84	-20	-21	23
10-year government bonds (Spain)	3.06	3.21	-15	-23	2
10-year government bonds (Portugal)	3.00	3.20	-20	-15	6
US					
Fed funds (lower limit)	3.50	3.50	0	0	-75
3-month SOFR	3.67	3.66	1	1	-65
1-year government bonds	3.47	3.46	1	0	-63
2-year government bonds	3.37	3.52	-15	-10	-68
10-year government bonds	3.94	4.24	-30	-23	-32

Spreads corporate bonds (bps)

	28-February	31-January	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	55	51	4	4.6	1.9
Itraxx Financials Senior	59	54	5	4.7	2.0
Itraxx Subordinated Financials	101	91	10	8.3	2.5

Exchange rates

	28-February	31-January	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.181	1.185	-0.3	0.6	13.6
EUR/JPY (yen per euro)	184.360	183.430	0.5	0.2	18.3
EUR/GBP (pounds per euro)	0.876	0.866	1.2	0.5	6.2
USD/JPY (yen per dollar)	156.050	154.780	0.8	-0.4	4.2

Commodities

	28-February	31-January	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
Bloomberg Commodity Index	121.7	120.7	0.8	10.9	16.7
Brent (\$/barrel)	72.5	70.7	2.5	19.1	-2.1
Gold (\$/ounce)	5,278.9	4,894.2	7.9	22.2	83.5

Equity

	28-February	31-January	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,878.9	6,939.0	-0.9	0.5	17.4
Eurostoxx 50 (euro area)	6,138.4	5,947.8	3.2	6.0	12.2
Ibex 35 (Spain)	18,360.8	17,880.9	2.7	6.1	38.4
PSI 20 (Portugal)	9,276.1	8,662.2	7.1	12.3	35.5
Nikkei 225 (Japan)	58,850.3	53,322.9	10.4	16.9	53.8
MSCI Emerging	1,610.7	1,528.1	5.4	14.7	43.3

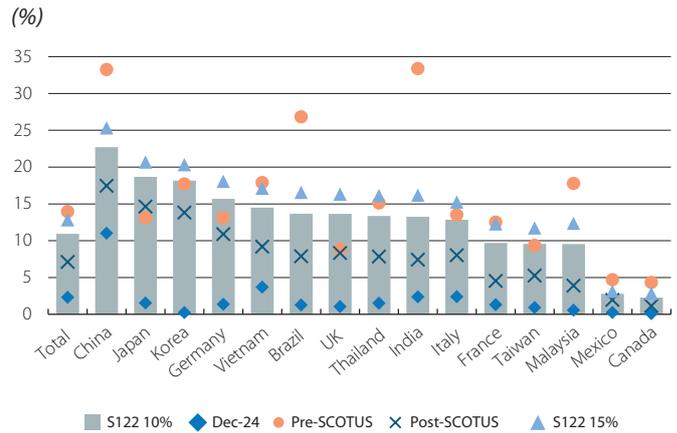
The international economy once again follows developments in the US

Geopolitical risk intensifies and trade uncertainty resurfaces. Geopolitical events have once again taken centre stage, almost relegating to the background the assessment of the economic indicators published over the past month. The US attack on Iran has caused a spike in geopolitical instability and economic uncertainty, opening up a new source of risk in an environment characterised by the transactional stance of the Trump administration and the erosion of multilateral institutions. The impact of this conflict will depend on its duration and geographical scope, but Iran's response has already triggered a sharp rise in energy prices. Iran is the fourth largest crude oil producer in OPEC (3.3 million barrels per day, 3.3% of global production) and it has strategic control over the Strait of Hormuz, through which over 20% of the world's maritime energy trade passes.

On the other hand, the US Supreme Court (SC) ruled in February that Trump exceeded the emergency powers invoked and has declared the tariffs imposed under the IEEPA illegal, but those approved under other regulations (on cars, steel, etc.) will remain in force. That is, the SC has declared the procedure used for the approval of the bilateral tariffs illegal, not the tariffs themselves. Trade uncertainty is now re-emerging as a period begins in which the Trump administration will explore all the legal avenues still available to continue implementing its tariff policy, which it has already made clear it will not abandon. In fact, Trump invoked Section 122 of the Trade Act to impose a universal 10% tariff, which has led to a «reconfiguration» of the tariff pressure. Countries such as China and Brazil will now have a much lower tariff than was in force prior to the Supreme Court's ruling, while the EU and the United Kingdom will lose out – so much so, that the EU has delayed the approval of the trade agreement reached in July of last year until there is more information and further clarity on this matter (see «10 questions about the US Supreme Court's tariff ruling» in this same *Monthly Report*).

The shutdown affected the US economy more than expected in Q4. The Supreme Court's announcement regarding Trump's tariff policy added to the disappointment with the Q4 2025 GDP figure: growth reached 0.4% quarter-on-quarter (almost half of what was expected by the consensus of analysts), following 1.1% in Q3 2025, and placed growth for 2025 as a whole at 2.2% (2.8% in 2024). The result of Q4 is explained almost entirely by the decline in public spending (–1.3% quarter-on-quarter vs. 0.1% average for the year), as a consequence of the shutdown. In fact, the rest of domestic demand ended the year very dynamically: investment and private consumption grew at a quarter-on-quarter rate of 0.6%. Foreign demand, meanwhile, made an almost negligible contribution in Q4. However, the slowdown in Q4 appears to have been temporary and in Q1 2026 we may see a certain «rebound» effect, once activity in the federal government has returned to normal. In this regard,

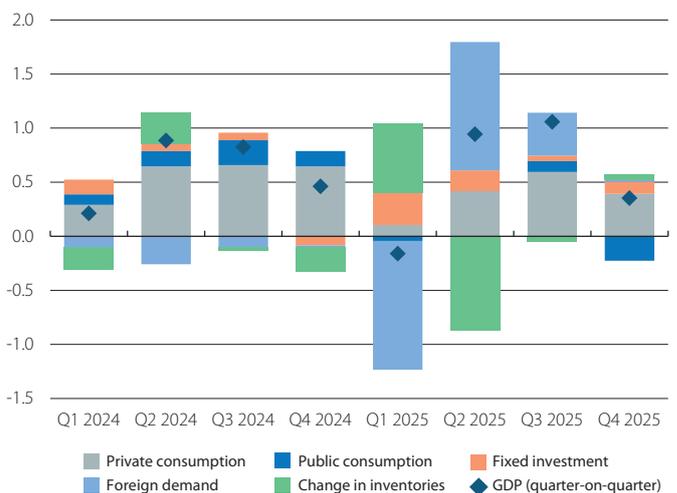
US: average tariff by trading partner



Notes: Observed tariff for December 2024 and based on policies announced for the rest. SCOTUS: Supreme Court of the US. S122 = section 122 of the Trade Act. 10% corresponds to the tariff in force since 24 February, 15% is another possibility that has been announced.
Source: BPI Research, based on data from Bloomberg, UN COMTRADE and the White House.

US: GDP

Quarter-on-quarter change (%) and contributions (pps)



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

US: PCE price index

Year-on-year change (%)



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

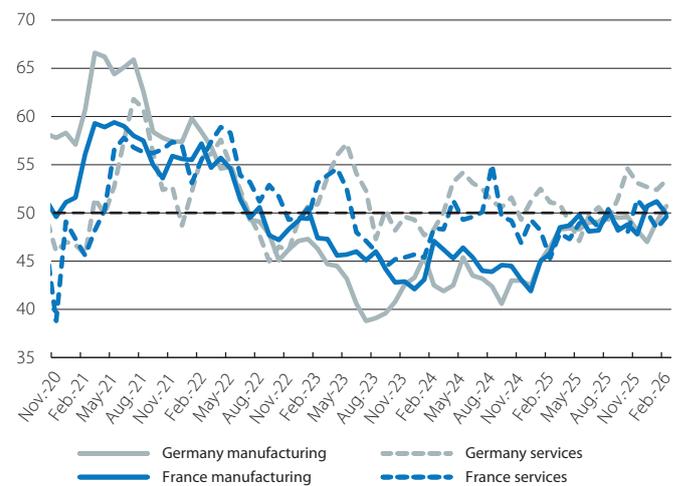
February's PMIs paint a picture of an economy that continues to perform well (51.9, following the Q4 average of 53.8, with 50 being the threshold denoting positive growth). Nonetheless, in February household confidence according to the Conference Board barely recovered from the substantial drop in the previous month (+2.2 points, to 91.2, with 100 being the threshold), while the University of Michigan's indicator has yet to regain the levels of prior to «Liberation Day». This lack of household confidence is mainly due, among higher incomes, to volatility in the financial markets, and among lower incomes, to the loss of purchasing power they face. In fact, inflation is showing a clear resistance to falling to the Fed's target: according to the PCE price index, core inflation rose by 0.2 pps in December, reaching 3.0%, while January's CPI showed that overall inflation fell by 0.3 pps to 2.4%, but core inflation only decreased by 0.1 pp to 2.5%.

The performance of the euro area will largely depend on Germany. In fact, the PMI for the euro area rose by 0.6 points in February to 51.9, with activity in services continuing to grow, albeit at modest rates, and a manufacturing sector that is consolidating the positive shift initiated several months ago. This result is based on the recovery observed in Germany (+1.1 points, to 53.2) thanks to the continued momentum in the services sector and a manufacturing sector that is confirming a somewhat positive shift, albeit still with modest progress. Other opinion and business climate indicators contribute to this increased optimism towards the German economy, but with caution: in February, the ZEW shows that the percentage of respondents anticipating an improvement remains around 60%, while the Ifo increased, although it remains well below the threshold of 100 that denotes growth around the average rate (+1 point, to 88.6). Nonetheless, signs of recovery in the German economy are beginning to accumulate, particularly in the industrial sector: industrial orders grew by almost 13% year-on-year in December, anticipating a recovery in production in the coming months. France, for its part, seems to be confirming its position as the weakest link: the PMI remains below the 50-point threshold in February, due to weakness in both manufacturing and services, while consumer confidence remains weak and does not hint at any recovery in consumption in the short term. On balance, the euro area economy will continue to grow, albeit still below its long-term average, in a context in which inflationary pressures remain contained: in February, inflation rose by 0.2 pps, bringing the headline rate to 1.9% and the core index to 2.4%.

A rather apathetic close to 2025 in other parts of the world. In the United Kingdom, GDP grew by 0.1% quarter-on-quarter in Q4 2025, confirming a steady slowdown over the course of the year that has led to a growth rate of 1.3% for 2025 overall (0.3% in 2024). The weakness observed in the main business and consumer surveys does not give us cause to anticipate any significant acceleration in activity in the short term. In Japan, growth in Q4 2025 barely reached 0.1% quarter-on-quarter, following the previous -0.7%, placing the 2025 average at 1.1% (-0.2% in 2024). Hopes for a revival of activity rest on the fiscal stimulus announced by the government, although the rise in sovereign interest rates may limit the effectiveness of fiscal and monetary policy in stimulating economic growth.

Euro area: PMI by component

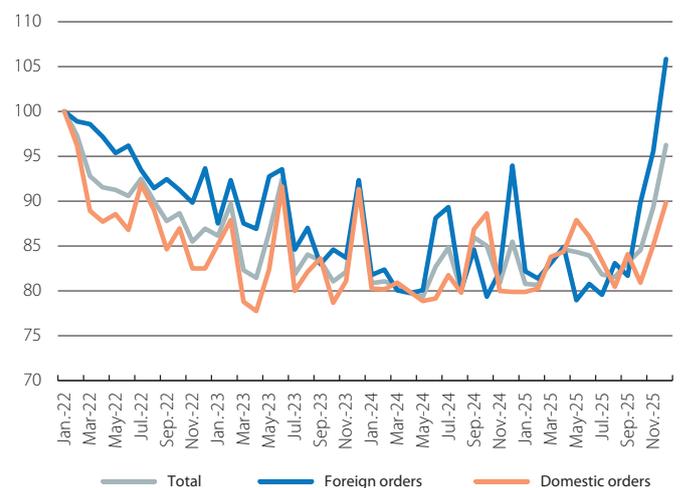
Index (>50 expansion; <50 contraction)



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

Germany: industrial orders

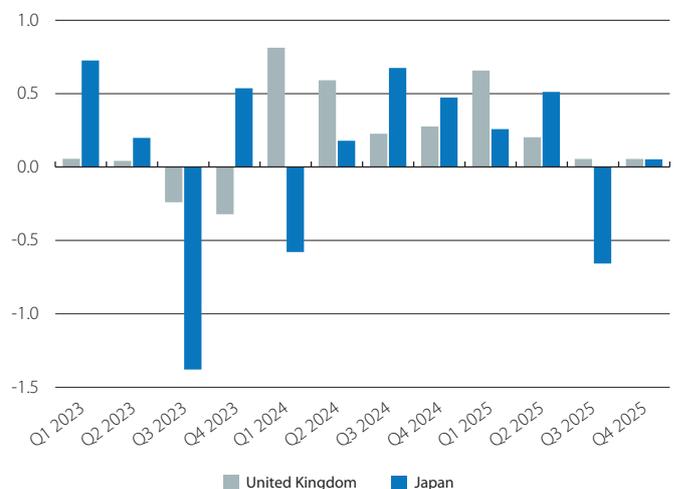
Index (100 = January 2022)



Source: BPI Research, based on data from Destatis.

United Kingdom and Japan: GDP

Quarter-on-quarter change (%)



Source: BPI Research, based on data from the ONS and the Cabinet Office of Japan.

What to expect from the international economy in 2026

The global economy demonstrated notable resilience during 2025, providing a good starting point for 2026. Going forward, there is sustained growth due to a more neutral monetary policy, as well as a fairly neutral tone in fiscal policy, albeit constrained by large deficits and high debt in the major economies. The dynamism we continue to anticipate for investment in technology, especially in artificial intelligence (AI), is also crucial. Under these assumptions, the US will continue to grow at a steady pace, with the euro area consolidating the momentum it achieved at the end of 2025. China will continue to experience a slowdown (4.5% in 2026 and 4.0% in 2027), reflecting the persistence of the residential sector adjustment and the impact of tariffs, with investments in AI as the main growth driver. In the rest of Asia, technology-intensive economies will continue to benefit from the global investment cycle, and India's growth will outpace China in the coming years. Therefore, the global economy could continue to grow at a rate of around 3%, with globally stable inflation.

However, these projections are based on the environment anticipated before the outbreak of the war in the Middle East. That is to say, it relies on gas and crude prices determined by supply and demand fundamentals, which in recent quarters have been characterised by an oversupply of oil and stability in gas. As we note at the end of the article, the latest events highlight the risks to this hypothesis, the validity of which will depend on the duration and scope of the conflict.

The euro area will continue to grow slowly but surely

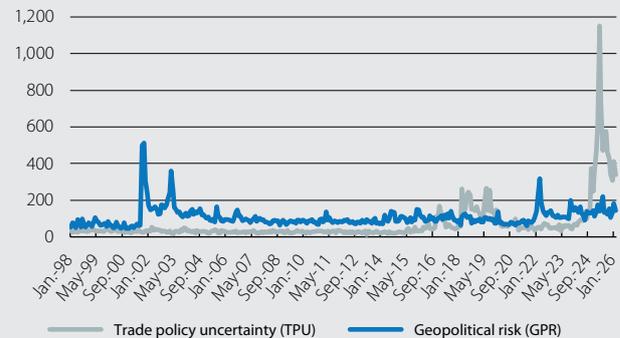
The euro area will maintain modest growth rates (slightly above 0.3% quarter-on-quarter on average), reaching 1.3% in 2026, following 1.5% in 2025. This apparent slowdown reflects the normalisation of growth in Ireland to rates of around 3.0% (13.3% in 2025). Excluding Ireland, the euro area would grow by 1.2% in 2026, following 1.0% in 2025. As for inflation in the euro area, it will remain sufficiently close to the 2% target throughout the forecast horizon.

This outlook is supported by Germany's recovery after five years of virtual stagnation. The deployment of the fiscal bazooka¹ approved last year will be key for

1. In March 2025, a modification to the constitutional debt brake rule was approved in order to fund an infrastructure plan (SVIK, by its German acronym), with a budget of 500 billion euros for the next 12 years, and to increase defence spending from 2.0% of GDP in 2024 to 3.5% by 2029, according to NATO criteria. Investments financed by the SVIK fund do not count for the purposes of the debt brake.

Measures of uncertainty and geopolitical risk

Index (frequency in the press of terms related to economic and trade uncertainty and geopolitical risk)



Source: BPI Research, based on data from D. Caldara, M. Iacoviello, P. Molligo, A. Prestipino and A. Raffo (2020), «The Economic Effects of Trade Policy Uncertainty», *Journal of Monetary Economics*, 109, pages 38-59 (<https://www.matteoiacoviello.com/tpu.htm#overview>), and from S.R. Baker, N.S. Bloom and S.J. Davis (2016), «Measuring Economic Policy Uncertainty» (https://www.policyuncertainty.com/global_monthly.html).

Germany's growth. The 2026 budget includes a 3.5% increase in public spending, investment growth of nearly 10% thanks to the deployment of the Infrastructure Fund (1.3% of GDP through to 2029, compared to 0.9% in 2025) and defence spending of 2.8% of GDP (2.0% in 2025).² However, the budgets forecast a fiscal deficit of 3.25% in 2025 and of 4.75% in 2026, but delays in their approval and execution explain why the fiscal deficit in 2025 was 2.5%, following the -2.7% of 2024: this means that there was no fiscal stimulus in 2025. This circumstance reinforces doubts about the utilisation of the fiscal stimulus.³ Overall, the increased growth compared to a scenario without this fiscal stimulus would be between 0.4 pps and 0.8 pps⁴ in the coming years, supporting the forecast of German growth of 1.0% in 2026 and of 1.4% in 2027.

In France, growth is expected to remain around 1% in 2026 and 2027. The budget for 2026, approved earlier

2. NATO's definition of «defence spending» is broader, as it considers all expenses incurred to cover all the needs of the armed forces, regardless of the ministry in which they are generated (pensions, R&D expenditure, transport, cost of overseas missions, etc.). The defence spending that appears in the budgets is lower, as it uses internal criteria and, for example, excludes spending by other ministries and military pensions.

3. Some criticisms of the plan are: that it does not serve to fund new investment projects but rather pre-existing ones, that part of it is allocated to funding current expenditure, and that investments have been removed from the ordinary budget in order to be financed with SVIK funds. See «German Council of Economic Experts», Annual Report 2025/26, chapter 2.

4. Given the behaviour of the public accounts in 2025, and assuming that the magnitude of the increase in the structural fiscal deficit outlined in the 2026 budget is maintained, the fiscal stimulus in 2025 and 2026 would be around 1.0 pp, almost half of what it would have been had the 2025 forecast been met. Assuming multipliers of between 0.4 and 0.8, the boost to growth would be between 0.4 pps and 0.8 pps.

this year after arduous negotiations, envisages a fiscal deficit of 5.0% of GDP (5.4% in 2025) and it includes tax hikes for large corporations and delays the implementation of the pension reform until 2027. The fiscal situation in France remains rather delicate, and this will put pressure on financing costs, influencing the investment and consumption decisions of households and businesses.

In Italy, growth will be constrained by apathetic private consumption and the lack of momentum in foreign demand. Investment will be the main driver thanks to the NGEU funds still available before the programme expires in August. Financing conditions will remain favourable, supported by a neutral fiscal policy (the deficit is expected to be reduced by 0.2 pps to 2.8% of GDP). Furthermore, Italy may exit the Excessive Deficit Procedure in the first half of the year, potentially activating the escape clause that would allow defence spending to be increased for four years up to a maximum of 1.5% of annual GDP. Consequently, growth in 2026 would be 0.8% and could exceed 1.0% in 2027.

The US faces another year with a positive outlook

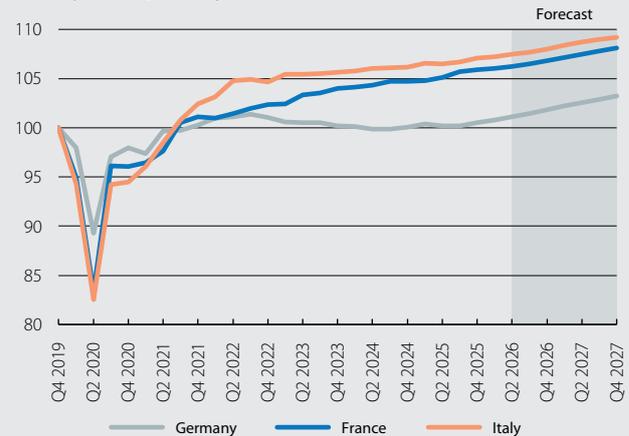
The US economy will accelerate its growth rate in 2026, kicking off the year with a rebound as part of the loss of activity experienced in Q4 2025 due to the shutdown will be offset. Investment will continue to drive growth thanks to the development and deployment of AI. The dynamism of spending among higher-income households will more than offset the restraint shown among lower-income households, consolidating the narrative of a K-shaped growth pattern in private consumption. Overall, growth in 2026 is expected to reach 2.6% (2.2% in 2025). Inflation, meanwhile, will continue to resist falling to the 2% target, sustained by tariffs and economic dynamism. Thus, both headline and core inflation will remain closer to 3% than 2% on average in 2026, following a rate of 2.6% in 2025.

Risks

The risks to the baseline global scenarios have increased significantly following the joint US and Israeli attack on Iran, which has triggered a surge in oil and gas prices and turmoil in the financial markets. The final impact

Evolution of GDP

Index (100 = Q4 2019)



Source: BPI Research, based on data from Eurostat.

of this conflict will depend on its duration and geographical scope. If the energy price increase currently reflected in the futures market materialises (a short-term risk premium, but easing over the following quarters), then the forecast growth for the euro area would be reduced by a few tenths of a percentage point, but there would not be any change of narrative that would alter the medium-term trends. Inflation could experience a temporary uptick, but without deviating from the target in a concerning manner, so this would not affect the strategy of the ECB, which feels comfortable with the depo rate at 2.00%. In the US, higher energy prices have an asymmetric impact: they increase inflation but also improve the trade balance and growth (the US is a net exporter of oil and gas). This combination would favour a somewhat more restrictive bias for the Fed, reinforcing the view that it is in no hurry to cut rates again.

The conflict in Iran adds to the existing ones: Ukraine, limited fiscal space in industrialised economies and a risk of sharp corrections in financial markets due to high expectations and valuations linked to AI companies. Also, the intensification of trade uncertainty following the Supreme Court's blow to many of the tariffs implemented by Trump should be noted as a significant risk to the scenario (see «10 questions about the US Supreme Court's tariff ruling» in this same *Monthly Report*).

10 questions on the US Supreme Court's tariff ruling

1. What decision has been taken?

By a majority of 6 to 3, the Supreme Court has ruled that the use of the International Emergency Economic Powers Act (IEEPA) is not the appropriate legal basis for the introduction of general tariffs and that, as a fiscal measure, the power to do so lies with Congress.

2. Which tariffs are affected?

The ruling invalidates both the tariffs imposed on Canada, Mexico and China, linked to drug trafficking, and those announced on «Liberation Day» and its subsequent amendments (as well as those used for geopolitical purposes based on the IEEPA, such as the recent 25% levy on countries maintaining economic relations with Iran, as well as earlier precedents linked to Brazil, Russia or Venezuela).

3. Which ones are not?

The ruling does not affect the sectoral tariffs approved on national security grounds under Section 232 of the Trade Expansion Act (S.232), such as those imposed on cars and components, aluminium, steel, copper, certain furniture products and commercial vehicles.

4. What has the government's response been?

On the same day as the ruling, a presidential proclamation activated Section 122 of the Trade Act (S.122), which allows for a temporary general tariff of up to 15% for 150 days to address fundamental international payment problems. A 10% general tariff entered into force on Tuesday, 24 February.

5. Which countries and products are affected by the new measures?

The application of the tariff under S.122 is non-discriminatory, i.e. it applies uniformly to all countries. The proclamation states that the tariff does not accumulate on top of existing sectoral tariffs, nor those imposed on imports from Canada and Mexico that meet the conditions of the trade agreement they maintain with the US (USMCA, formerly NAFTA). A list of exemptions has also been defined, including, among others, certain critical minerals, agricultural products, pharmaceuticals and electronics.

6. What other measures could the government adopt?

Following the approval of the new 10% general tariff, Trump threatened to raise it to the maximum level of 15% permitted under S.122. In addition, the presidential proclamation included the mandate to initiate investigations into countries for unfair practices under Section 301 of the Trade Act (S.301), while the extension

of sectoral tariffs under S.232 is also expected, potentially focusing on pharmaceutical and electronic products. Unlike the tariffs approved under the IEEPA and S.122, these alternatives require a greater procedural burden and have precedents, such as the use of S.301 for China during Trump's first term and its continuation under Biden.

7. What are the main uncertainties following the ruling?

The main concerns focus on: (i) the legal battle over the revenues collected under the IEEPA, which we estimate to be in the range of 125-150 billion dollars (equivalent to 0.4%-0.5% of US GDP), and potential new claims for the use of S.122; (ii) the validity of the bilateral agreements reached since the summer and the more favourable tariffs agreed (EU, Japan, United Kingdom, among others); (iii) the stability of the truce on trade and technology with China reached last November (Trump will visit Beijing at the end of March); and (iv) the impact on the reconfiguration of trade that occurred in 2025 affecting Chinese exports to Vietnam (textiles, footwear, household goods) and Taiwan (machinery and equipment).

8. What does the tariff scenario look like following the response to the ruling?

Overall, the Supreme Court ruling initially reduced the average tariff on US imports by around 7 pps, considering the policies announced. Subsequently, and following the activation of S.122, it returned to around 11% (compared to the previously estimated 14%).

9. Which countries have seen a reduction or an increase in their tariffs in relative terms?

The main immediate beneficiaries are China, India, and Brazil, which have seen a significant drop in their tariffs, while those adversely affected include the EU and the UK, which had previously secured specific reductions through bilateral agreements that now in question. For instance, a European car might now be subject to a tariff of 27.5% (the 25% established under S.232 plus the initial most-favoured-nation rate of 2.5%) compared to the 15% cap previously agreed.

10. Does the Supreme Court's ruling change Trump's tariff strategy?

No, there has been a change of instruments, with a firmer legal basis. Tariffs will remain a central axis of the US' trade, fiscal and foreign policy. In fact, during his State of the Union address, Trump reaffirmed his vision that tariff revenues could substantially replace federal income taxes in the long term.

Japan, at the dawn of a new cycle: fiscal tensions and monetary normalisation in the Land of the Rising Sun

Japanese sovereign yields have rebounded since 2022, particularly in the past year, and have exceeded the 2% threshold for the first time in nearly three decades. These movements have sparked a wide debate about the country's fiscal sustainability and the direction of its monetary policy. In this article, we analyse the factors behind the recent upturn and its consequences for the Japanese economy.

Evolution of interest rates in Japan: $i = r + \pi^e$

The rise in interest rates has been accompanied by a gradual normalisation of the Bank of Japan's (BoJ) monetary policy and its control over the yield curve.¹ This pattern can be broken down into movements in real rates and inflation expectations. The recent rise in nominal rates in Japan is mainly due to a sustained increase in long-term inflation expectations (see first chart). Since 2022, these have risen from levels of around 0% to a range of 1.5%-2% recently, alongside more persistent observed inflation (close to 3%, a level not seen since the early 1990s). This movement reflects underlying dynamics that go beyond the initial commodity shock that followed the outbreak of the Russia-Ukraine conflict, such as second-round effects, wage increases after years of stagnation,² in addition to idiosyncratic factors (such as rising food prices, especially rice) and a depreciated yen.

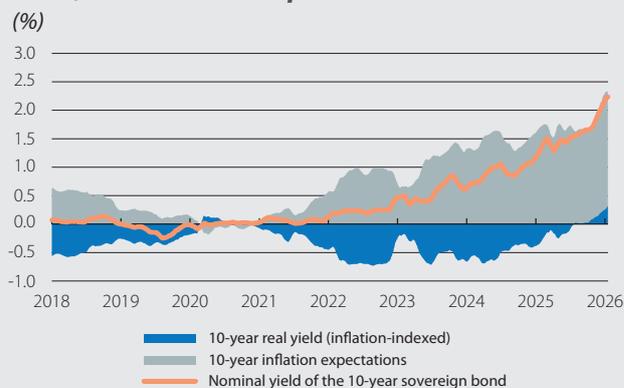
In addition, real rates have also risen, going from around -0.5% to a range of 0%-0.5% at the long end of the curve. According to economic theory, this movement in real rates could be explained by various structural factors: higher potential growth, demographic changes that have structurally reduced savings and prospects of a sustained increase in investment. However, given the abruptness of the movement in the real rate, concentrated mainly in the last year, and the absence of significant changes in demographics or growth potential,³ the movement seems to be attributable to other factors. These might

1. In 2016, within the framework of the quantitative easing it had been carrying out since the early 2000s, the BoJ adopted a policy of sovereign yield curve control (YCC) in which it set a target (close to 0%) for the yield on the 10-year Japanese bond. This policy was gradually relaxed until it was eventually abandoned in 2024.

2. After years of wage rises of between 0% and 2%, an upturn began to be observed in 2023, during the *shuntō* spring negotiation process between large corporations and unions. In 2024 and 2025, the increases exceeded 5%, the highest since the early 1990s. Firms and unions are anticipating a similar or even greater wage rise in the *shuntō* of 2026.

3. Japan's GDP grew by 1.1% in 2025, and the IMF forecasts growth of 0.5% in the medium term, while the average growth in the period 2000-2019 was 0.8%.

Japan: evolution of real and nominal interest rates, and inflation expectations



Note: Inflation expectations are measured by the movement of inflation swap rates, while the real yield is measured as the yield on the inflation-indexed bond.

Source: BPI Research, based on data from Bloomberg.

include an improvement in investment expectations (after a long period of corporate deleveraging and with greater dynamism in the real estate market) or changes in fiscal policy.⁴

Fiscal policy in Japan: from Abenomics to Takaichinomics?

One of the keys to understanding the recent rise in sovereign rates lies precisely in the country's fiscal situation. With gross debt of 230% of GDP and net debt (which subtracts government-held financial assets from the gross debt) reaching 130% of GDP, Japan has one of the highest debt ratios in the world. While the budget deficit is relatively low, the latest projections indicate a moderate deterioration in the medium term, reflecting pressures from spending on pensions, health and defence.⁵

4. Expectations of fiscal stimulus may translate into higher interest rates, both due to an increase in the term premium and through inflation expectations.

5. The IMF projects a deficit trajectory going from 1.3% in 2025 (3.0% in 2019) to around 4.5% in 2030, while the primary structural deficit, which excludes interest payments and the change in the more volatile components associated with the business cycle from the fiscal balance, would stand at 2.5% in 2030, compared to the current level of 1% (vs. 2.6% in 2019). Despite the unfavourable demographics, the latest OECD projections place pension spending at around 10% of GDP by 2060, compared to around 9% currently – such an increase represents additional fiscal pressure that is in line with the OECD average (around +1 pp by 2060), but lower than in countries like South Korea (around +6 pps) or Spain (around +3 pps). The increase in defence spending is anchored in the discussion on the revision of Article 9 regarding non-belligerence, enshrined in Japan's Constitution since 1947, and in a geopolitical context marked by rising tensions with China and in the Pacific region, with Russia and North Korea as close neighbours.

In recent months, these factors have been compounded by Prime Minister Sanae Takaichi’s rise to power⁶ and an expansionist shift anchored in a rhetoric of a «proactive and responsible» fiscal policy. This includes increases in public investment and tax cuts, such as the temporary removal of the 8% levy on food – a key electoral promise with an impact estimated at around 0.8% of GDP per year.

Furthermore, beyond the country’s current fiscal position, the recent concerns may be linked to an increase in perceived risks regarding its long-term outlook, in the event that spending increases or tax cuts are not offset by other measures to balance the public accounts. In its preliminary report on Japan’s economy, the IMF has recommended maintaining a neutral fiscal stance, in a context in which the economy is operating above its potential, avoiding increasing cyclical pressures and preserving «buffers» against future shocks.⁷

Monetary policy in Japan: the BoJ faces new challenges

In this context, the BoJ is facing a structural shift in the macroeconomic environment. After many years dealing with deflation, the country has managed to exceed the 2% inflation target since 2022, and long-term expectations are anchored around that level. Thus, the BoJ has begun to adjust its monetary policy, abandoning its YCC policy in 2024, gradually raising interest rates and implementing a strategy of quantitative tightening, which reduces the pace of asset purchases, especially sovereign bonds (approximately half of Japan’s debt is held by the BoJ).

In its latest communications, the BoJ has reinforced its intention to pursue a gradual path of rate hikes. However, the difficulty of combining a restrictive monetary policy with expansive fiscal policies, in a high-debt environment, may become clearer in the future.

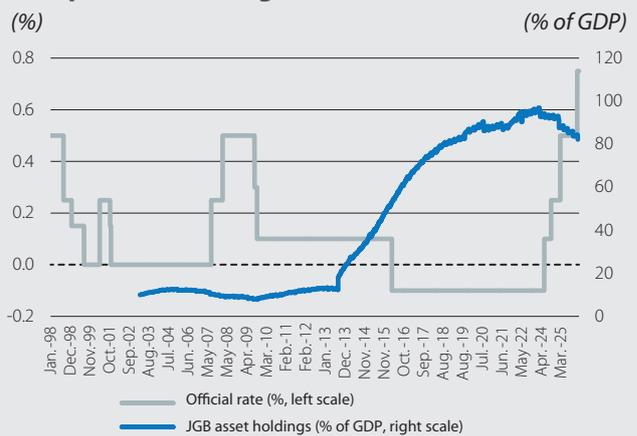
Japan: decomposition of the sovereign yield curve



Note: The chart shows the evolution of two factors extracted from a decomposition of the Japanese sovereign yield curve, specifically the level and the slope of the curve. The level is correlated with long-term interest rates, while the slope measures the relative difference between short-term and long-term rates. The strong inverse correlation observed between the two factors reveals that the movements in the curve have been particularly dominated by long-term rates.

Source: BPI Research, based on data from Bloomberg.

Bank of Japan: official interest rate and holdings of Japanese sovereign bonds



Source: BPI Research, based on data from Refinitiv.

6. This February, the Liberal Democratic Party secured a «supermajority» in the Lower House of Japan’s parliament (316 seats out of a total of 465, plus 36 from its coalition partner, the Innovation Party).

7. The Fund mentions the tax cuts on food consumption as an ineffective measure that would increase fiscal risks. See «Japan: Staff Concluding Statement of the 2026 Article IV Mission» (17 February 2026).

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

UNITED STATES

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Activity									
Real GDP	2.8	2.2	2.0	2.1	2.3	2.2	–	–	–
Retail sales (excluding cars and petrol)	3.4	4.5	4.8	4.9	4.6	3.8	3.5	...	...
Consumer confidence (value)	104.5	96.1	99.8	93.1	97.4	94.2	94.2	89.0	91.2
Industrial production	–0.7	1.2	0.7	0.5	1.7	1.7	1.3	2.3	...
Manufacturing activity index (ISM) (value)	48.2	48.9	49.9	48.8	48.7	48.2	47.9	52.6	52.4
Housing starts (thousands)	1,371	1,359	1,401	1,354	1,346	1,333	1,404	...	...
Case-Shiller home price index (value)	330	339	340	338	337	341	343	...	...
Unemployment rate (% lab. force)	4.0	4.3	4.1	4.2	4.3	4.5	4.4	4.3	...
Employment-population ratio (% pop. > 16 years)	60.1	59.8	60.0	59.8	59.6	59.7	59.7	59.8	...
Trade balance ¹ (% GDP)	–2.8	–3.4	–3.5	–3.6	–3.4	–3.0	–2.9	...	...
Prices									
Headline inflation	2.9	2.6	2.7	2.4	2.9	2.7	2.7	2.4	...
Core inflation	3.4	2.9	3.1	2.8	3.1	2.6	2.6	2.5	...

JAPAN

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Activity									
Real GDP	–0.2	1.1	1.6	2.0	0.6	0.1	–	–	–
Consumer confidence (value)	37.2	34.7	34.7	32.8	34.6	36.8	37.2	37.9	40.0
Industrial production	–3.0	1.2	2.5	0.8	0.6	1.0	0.8	4.1	...
Business activity index (Tankan) (value)	12.8	13.5	12.0	13.0	14.0	15.0	–	–	–
Unemployment rate (% lab. force)	2.5	2.5	2.5	2.5	2.5	2.6	2.6	2.7	...
Trade balance ¹ (% GDP)	–1.0	–0.6	–0.9	–0.7	–0.5	–0.4	–0.4	–0.2	...
Prices									
Headline inflation	2.7	3.2	3.8	3.4	2.9	2.7	2.1	1.5	...
Core inflation	2.4	3.0	2.7	3.2	3.2	3.0	2.9	2.7	...

CHINA

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Activity									
Real GDP	5.0	5.0	5.4	5.2	4.8	4.5	–	–	–
Retail sales	3.3	3.8	3.6	4.4	2.4	0.7	0.9	...	...
Industrial production	5.6	5.9	6.8	6.2	5.8	5.0	5.2	...	...
PMI manufacturing (value)	49.8	49.6	49.9	49.4	49.5	49.4	50.1	49.3	49.0
Foreign sector									
Trade balance ^{1,2}	997	1,194	1,086	1,146	1,176	1,194	1,194	...	...
Exports	4.6	5.5	5.7	6.0	6.5	3.8	6.6	...	...
Imports	1.0	0.0	–6.9	–0.8	4.4	2.9	5.7	...	...
Prices									
Headline inflation	0.2	0.1	–0.1	0.0	–0.2	0.6	0.8	0.2	...
Official interest rate ³	3.1	3.0	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Renminbi per dollar	7.2	7.2	7.3	7.2	7.2	7.1	7.0	7.0	6.9

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Retail sales (year-on-year change)	1.2	2.3	2.4	3.0	1.9	2.0	1.3	...	...
Industrial production (year-on-year change)	-3.0	1.5	1.5	1.3	1.5	1.8	1.2	...	...
Consumer confidence	-12.6	-13.4	-12.7	-14.3	-13.6	-12.9	-13.2	-12.4	-12.2
Economic sentiment	95.9	95.9	95.9	94.7	95.9	97.2	97.0	99.3	98.3
Manufacturing PMI	45.9	49.1	47.6	49.3	50.1	49.5	48.8	49.8	50.8
Services PMI	51.5	51.3	51.0	50.1	50.9	53.0	52.4	51.6	51.9
Labour market									
Employment (people) (year-on-year change)	0.9	0.7	0.8	0.7	0.6	0.7	-	-	-
Unemployment rate (% labour force)	6.4	6.4	6.3	6.4	6.4	6.3	6.3	6.2	...
Germany (% labour force)	3.4	3.8	3.6	3.7	3.8	3.9	4.0	4.0	...
France (% labour force)	7.4	7.7	7.5	7.6	7.7	7.9	7.8	7.7	...
Italy (% labour force)	6.6	6.1	6.3	6.3	6.0	5.6	5.5	5.1	...
Real GDP (year-on-year change)	0.8	1.5	1.6	1.5	1.4	1.3	-	-	-
Germany (year-on-year change)	-0.5	0.4	0.3	0.4	0.3	0.4	-	-	-
France (year-on-year change)	1.1	0.9	0.7	0.8	1.0	1.2	-	-	-
Italy (year-on-year change)	0.6	0.7	0.7	0.5	0.7	0.8	-	-	-

Prices

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
General	2.4	2.1	2.3	2.0	2.1	2.1	2.0	1.7	1.9
Core	2.8	2.4	2.6	2.4	2.3	2.4	2.3	2.2	2.4

Foreign sector

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Current balance	3.4	8.6	3.0	3.6	4.7	8.6	8.6	...	...
Germany	5.8	18.0	5.4	6.7	9.3	18.0	18.0	...	...
France	0.1	-1.8	0.0	-0.3	-0.9	-1.8	-1.8	...	...
Italy	1.1	4.9	0.9	1.3	2.4	4.9	4.9	...	...
Nominal effective exchange rate¹ (value)	94.6	96.5	93.2	96.6	98.3	98.0	98.2	97.8	97.7

Credit and deposits of non-financial sectors

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Private sector financing									
Credit to non-financial firms ²	0.8	2.7	2.2	2.6	2.9	3.0	3.0	2.8	...
Credit to households ^{2,3}	0.5	2.2	1.5	2.1	2.5	2.9	3.0	3.0	...
Interest rate on loans to non-financial firms ⁴ (%)	4.9	3.4	3.9	3.4	3.2	3.3	3.4	3.3	...
Interest rate on loans to households for house purchases ⁵ (%)	4.6	3.7	4.0	3.7	3.6	3.5	3.6	3.5	...
Deposits									
On demand deposits	-3.9	5.0	3.7	5.3	5.5	5.4	5.2	5.8	...
Other short-term deposits	12.3	-0.1	2.3	-0.1	-1.5	-1.0	-0.4	-0.6	...
Marketable instruments	20.0	7.7	14.6	11.0	4.4	1.0	-0.6	1.6	...
Interest rate on deposits up to 1 year from households (%)	3.0	1.9	2.2	1.9	1.7	1.8	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.

A troubled start to the year for the Portuguese economy

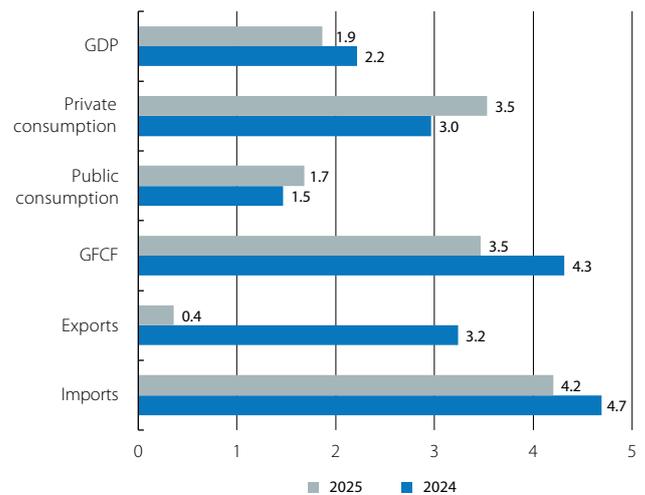
In 2025 the economy grew 1.9%, driven by domestic demand, which contributed 3.7 pp, mainly through private consumption. Conversely, the contribution of external demand was negative (-1.8 pp), resulting from a sharp slowdown in exports (0.4% vs. 3.2% in 2024), while imports grew 4.2%, 0.5 pp less than in 2024. Quarter-on-quarter growth in Q4 has been revised upwards, bringing the automatic growth rate for 2026 – i.e. assuming zero growth in every quarter of this year – to 1.2%, prompting BPI Research to revise its growth forecast for this year upwards to 2.1% (for further information, see the «New macroeconomic scenario» section in this publication).

The forecast for 2026 already incorporates the impacts that recent adverse weather events may have on economic growth. Although the expected impacts of these adverse events are highly uncertain – and are very likely to affect growth in Q1 – they tend to boost activity in subsequent quarters, driven by reconstruction efforts in the affected areas, which could almost entirely offset the losses (not yet fully accounted for) recorded at the start of the year (see the focus «How might the storms affect the economy?» in this publication). Added to this is the fact that the sentiment indicators for February – which already incorporate the period of inclement weather – reveal a positive trend. The European Commission’s Economic Sentiment Indicator improved compared to January, and INE’s economic climate indicator also rose in the same month, with visible improvements in services and industry, the latter possibly reflecting negative responses from companies located in the areas most affected by the bad weather. Conversely, sentiment in the construction and retail sectors deteriorated, and the same happened among consumers.

CPI rises again in February. Global CPI once again stood above 2% (2.1%), after 1.9% year-on-year in January. The strong monthly variation in both the prices of unprocessed food products (+0.47%) and energy (+0.87%) contributed to this evolution. We acknowledge that the effect of the storms may have placed additional pressure on unprocessed food products and that this could continue throughout the year, in a category that already experienced high inflation last year. Underlying inflation remained below 2%, despite rising 0.1 pp to 1.9%, demonstrating that the underlying trend is one of disinflation and convergence towards the target value.

The current account balance narrowed in 2025. For the year to date, Portugal’s current account balance recorded a surplus of €3.7998 billion (1.2% of GDP), which is equivalent to a reduction of 1.0 pp of GDP compared to the surplus recorded in 2024. This trend is attributable to the goods trade deficit, which widened by €3.952 billion compared with the previous

GDP - annual growth in 2025 and 2024 (%)



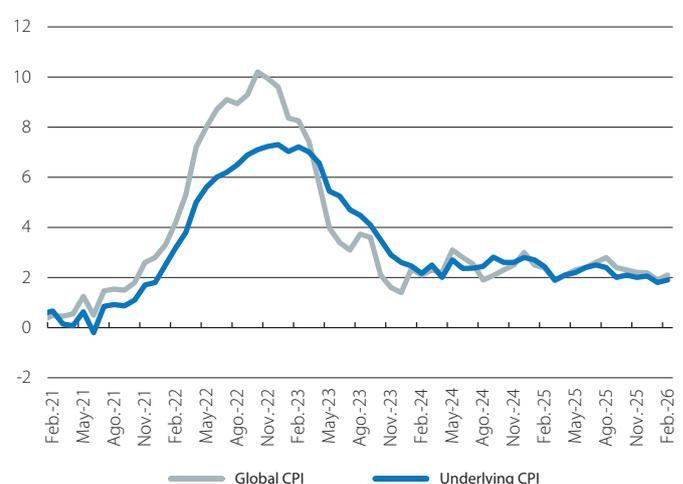
Source: BPI Research, based on data from Institute of National Statistics

Portugal - EC sentiment indicator



Source: BPI Research, based on data from the European.

CPI yoy (%)



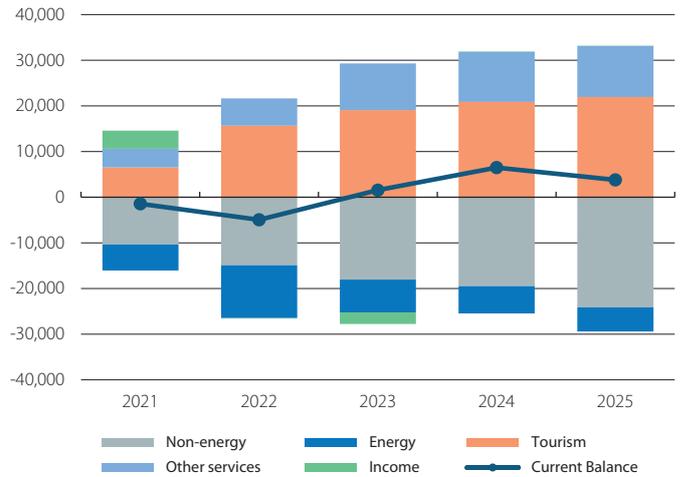
Source: BPI Research, based on data from the National Institute of Statistics.

year, driven by an increase in imports (€2.714 billion) and a decrease in exports (€1.238 billion). On the other hand, the surplus on the balance of services increased by €1.261 billion compared with 2024, mainly due to the rise in exports of travel and tourism services (€1.137 billion).

Tourism starts the year growing. In January, the number of guests increased by 3.8% year-on-year, and overnight stays by 2%. Following the trend seen in 2025, overnight stays by residents showed stronger growth (+4.7% year-on-year) than those by non-residents (only +0.7% year-on-year). For 2026, we forecast tourist growth of around 3%, very similar to 2025. This perspective is based on the positive dynamics of the sector globally, although the position in the national tourism cycle is one of consolidation. Reducing seasonality and improving the sector's position in the value chain will remain key challenges this year, at a time when all industry surveys point to value for money as the decisive factor in choosing travel destinations.

The loan portfolio starts the year with dynamism. The stock of bank credit granted to the non-financial private sector grew by 6.7% year-on-year in January, reaching its highest number since the end of 2014. The main driver was mortgage lending (+9.6% year-on-year), which accounts for more than 70% of the increase in the lending portfolio to the non-financial private sector. Non-financial firms also saw their portfolio grow by 2.4% year-on-year, accounting for around 13% of the increase. At the same time, deposits continue to show surprising dynamism: the stock of deposits of the non-financial private sector increased by 5.0% year-on-year, with both segments (non-financial firms and individuals) recording positive developments (7.3% and 4.2% year-on-year, respectively).

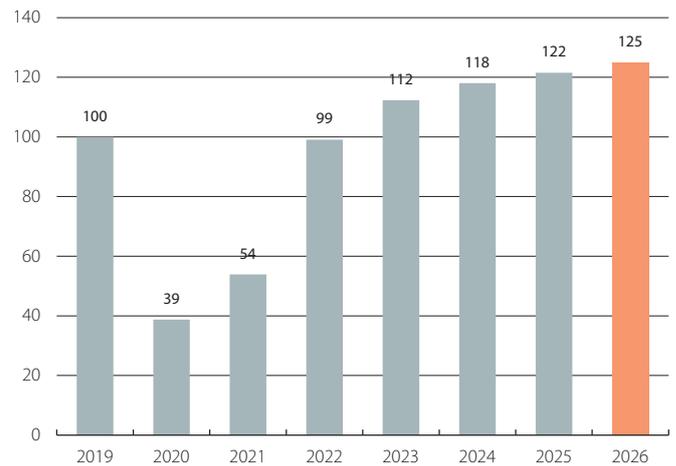
Portugal: current account
(year to date as of December, in millions of euros)



Source: BPI Research, based on data from Datastream.

Number of guests

Level (100 = 2019)

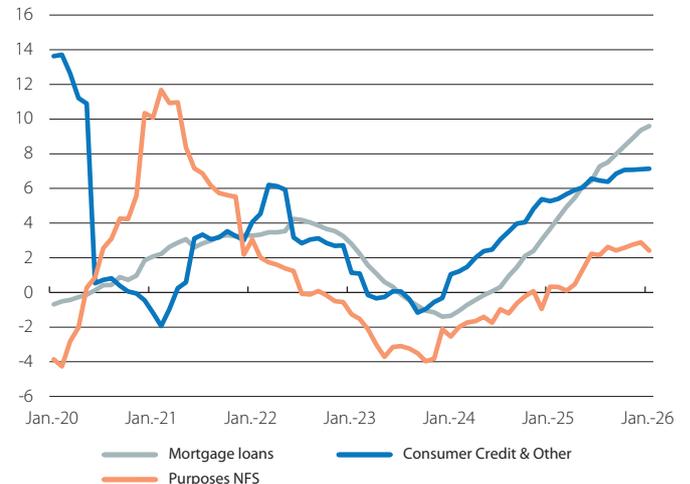


Note: 2026 corresponds to the forecast from BPI Research.

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

Loan portfolio to the non-financial private sector

Annual rate of change (%)



Source: BPI Research, based on data from BdP.

New macroeconomic scenario

The Portuguese economy performed better than expected in 2025, growing by 1.9%, taking advantage of robust domestic demand driven largely by private consumption. The contribution of external demand was unfavorable, largely reflecting uncertainty regarding US tariff policy, but also because some of Portugal's main trading partners faced a difficult year.

What we expect for 2026

The year begins with a positive momentum, driven by the very positive trend seen in the second half of 2025, and a negative impact resulting from the effects of the severe weather that hit the central region of the country between 28 January and 15 February.

The positive momentum shows that the ripple effect associated with growth dynamics in 2025 is significant, i.e. 1.2%. In other words, if GDP remained stagnant in all quarters of 2026, the economy would end 2026 with growth of 1.2%. However, this scenario is highly unlikely to materialise, as a number of factors remain in place that are likely to support positive economic growth, driven primarily by domestic demand. Among these favourable signs, we highlight:

- i) The boost that the entry of the PRR in its final year will give to investment. Currently, the ratio between the amounts already paid to the final beneficiaries and the amounts already received is around 82%, suggesting that the application of the funds to be received – around 8.1 billion euros are still outstanding – will result in an increase in gross fixed capital formation (GFCF), through the channelling of funds to approved investments. We estimate that this boost could add 0.2 pp to growth in 2026.
- ii) Also impacting gross fixed capital formation (GFCF), we assume that credit growth in 2025 (+6.6%), and the expectation that it will advance by around 3.5% in 2026, will also contribute 0.2 pp to GDP growth.
- iii) Additionally, the expansionary nature of fiscal policy and the fact that the household saving rate is at historically high levels will tend to contribute to maintaining robust private consumption, especially at a time when the labour market remains resilient, favouring a greater propensity for households to consume. Each of these factors (fiscal policy and the possibility of channelling savings into consumption) could add 0.2 pp to growth, distributed equally.

GDP: contributions to growth in 2026

(pp)

GDP in 2025	1.9
NGEU	0.2
Savings rate	0.1
Fiscal policy	0.1
Credit impulse	0.2
Impact of storms	-0.1
Uncertainty/other negative impacts	-0.3
GDP 2026	2.1

Source: BPI Research forecasts.

Counteracting these tailwinds are:

- i) The impact that the severe weather that hit the country from the end of January to mid-February had on the most affected regions, which is believed to have substantially limited activity. These are impacts that are difficult to estimate, but we acknowledge that they may result in zero (or even slightly negative) growth in the first quarter of the year, followed by a reconstruction effort that will translate into a greater increase in investment and public spending, which will mitigate much of the decline in activity in the region. Globally, we assume that this event will reduce growth by 0.1 pp in 2026.
- ii) The still high level of uncertainty at the global level, resulting both from the still uncertain evolution of US trade policy (with its impact on the export sector), favours the continued negative contribution of external demand; and from increased global geopolitical tensions, with a possible impact on the higher cost of important raw materials and a more cautious stance from economic agents. Taken together, these headwinds could reduce growth by 0.3 pp in 2026.

All factors considered point to an estimated growth for the Portuguese economy of 2.1% in 2026, one-tenth of a percentage point higher than we anticipated at the end of 2025, with domestic demand contributing 2.8 pp and external demand reducing it by 0.7 pp.

In the remaining macroeconomic variables, the main changes occurred in:

- i) The labour market, largely reflecting the better-than-expected performance in 2025 and also the fact that indicators of job creation prospects continue to evolve positively across all sectors of activity.
- ii) The real estate market, the upward revision of the pace of price expansion reflects the incorporation of a stronger carry-over effect from 2025 and new information indicating that prices continue to grow at strong rates.

Teresa Gil Pinheiro

Forecasts of the main macroeconomic variables

		2025	2026	2027	2028	Accum. 26-28
GDP (annual growth)	BPI, Feb-26	1.9	2.1	1.8	1.8	5.8
	BPI, Sept-25		2.0	2.0	2.0	6.1
Unemployment rate (% workforce)	BPI, Feb-26	6.0	5.9	5.9	5.9	-0.1
	BPI, Sept-25		6.4	6.4	6.4	0.4
Employment (annual growth)	BPI, Feb-26	3.2	1.9	1.5	1.3	4.8
	BPI, Sept-25		0.9	0.9	0.2	2.0
Inflation rate (annual average)	BPI, Feb-26	2.3	2.1	2.0	2.0	6.2
	BPI, Sept-25		2.1	2.0	2.0	6.2
Underlying inflation (annual average)	BPI, Feb-26	2.2	2.0	1.9	1.9	5.9
	BPI, Sept-25		2.0	1.9	1.9	5.9
House prices (annual growth)	BPI, Feb-26	17.2	10.1	3.7	2.8	17.4
	BPI, Sept-25		6.3	2.8	2.8	12.3

Source: BPI Research forecasts.

The last mile of inflation?

After a period following the start of the war in Ukraine, in which a perfect storm was conjured up with all the ingredients – geopolitics and armed conflicts, energy crisis and food crisis – the winds seem to be blowing more calmly in the area of prices. In 2025, average inflation in Portugal slowed down again to 2.3%. The decline in average inflation was very small, only -0.1 pp compared to 2024 (2.4%), and it becomes relevant to understand why it has not yet fallen to its target value. It is also important to give our perspective on the evolution of consumer prices this year, which is what we will try to do in this article.

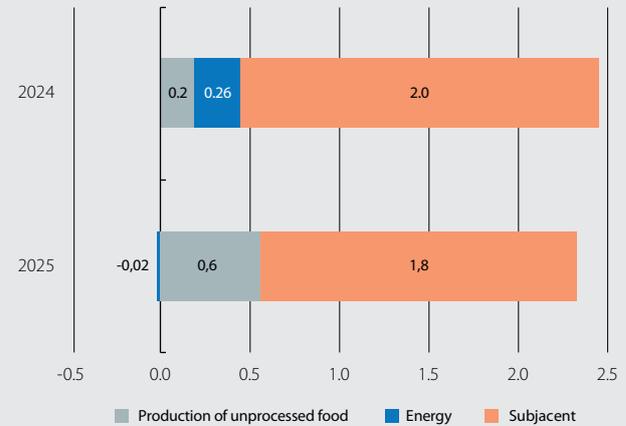
Inflation behaviour in 2025

In 2025, the average inflation of the underlying component, which corresponds to overall inflation excluding energy and unprocessed food products, stood at 2.2%, down from 2.5% in 2024. As can be seen in the first graph, the underlying component contributed 1.8 pp to Global CPI. In other words, a contribution of 76% to the average CPI in 2025, which was lower than the contribution made by this segment in 2024 (82%). As can be concluded, while the significant decrease in inflation in 2025 was a positive development because it concerns the component that is the «heart» of the CPI, excluding the most volatile components, overall it was not enough to bring inflation down to the target value. What we are seeing is that in 2025 the inflation of unprocessed food products,¹ with a contribution of 0.6 pp to the overall CPI (24%), was the determining factor for inflation being above 2%, even with the marginally negative contribution of energy inflation.²

Going into more detail on the issue of food inflation, we can see in the second graph that in 2025 the proportion of food inflation with year-on-year rates below 2% gradually decreased, while conversely the «green area» of year-on-year rates between 2% and 5% increased, as did the «yellow area» of year-on-year rates between 5% and 10%. The subcategories that contributed most to this phenomenon of increased food inflation are precisely three categories that belong to the aggregate of the CPI for unprocessed food products – Fish, crustaceans and molluscs (average inflation of 5.9%); meat (average inflation of 7.2%); and Coffee, tea and cocoa (average inflation of 9.4%). In coffee, this phenomenon was closely related to global supply constraints. Brazil, the world's largest coffee producer,³ suffered from adverse weather conditions, with temperatures exceeding historical averages and drought impacting production. For meat, the *FAO Meat Price Index* reached record highs this year despite a moderation in feed prices following the peak in 2022. Global beef prices hit a new record high, supported by higher prices in Australia,

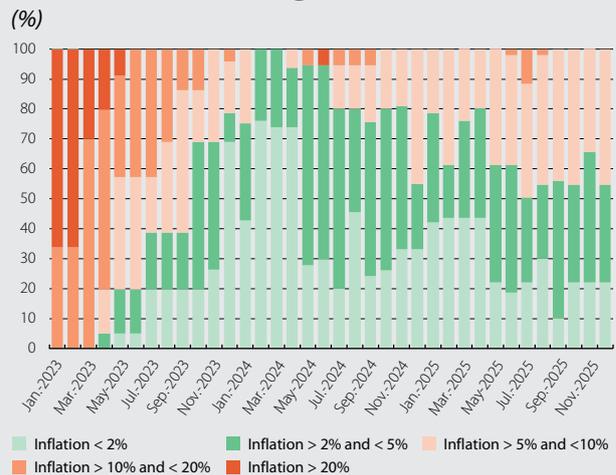
1. The average inflation rate for unprocessed food products in the CPI in 2025 was 4.8% (1.6% in 2024).
 2. The average inflation rate for energy in the CPI was -0.2% in 2025.
 3. Approximately 40% of world production.

Weighted contributions to average overall CPI (pp)



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

Food inflation traffic light (%)



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

driven by strong import demand, particularly from China and the United States of America, which exceeded the supply available for export. It is worth remembering that Portugal has a low level of self-sufficiency in beef.⁴ In addition to the significant weight that the food basket represents in the overall consumption basket, and the relatively inelastic demand for these products, the evolution of food prices also plays an important role in shaping consumers' expectations about future inflation,⁵ influencing, for example, wage negotiations.

4. The degree of self-sufficiency is a ratio calculated as the ratio of domestic production to total domestic consumption; it measures, for a given product, the degree of dependence of a territory on the outside world (import needs) or its export capacity. In the case of beef, Portugal's self-sufficiency rate is around 50%, revealing high import needs.

5. In this regard, see the box «Inside the food basket: what is behind recent food inflation?» in the Economic Bulletin (Issue 8/2025) of the European Central Bank.

Our outlook for inflation in 2026

For 2026 we expect a further slight downward adjustment in inflation, falling to 2.1%, but again still above the target value. We base our outlook for disinflation on four main pillars. First, our forecast is for the euro to appreciate against the dollar, with the average EUR/USD in 2026 at 1.20, which makes products and services denominated in dollars relatively cheaper for the Eurozone, as is the case for many commodities. Second, our forecast is for inflation in the Eurozone to be 2% in 2026. Eurozone inflation closed 2025 at 2%, and we expect the average inflation rate for 2026 to also be at this figure. As we know, part of Portuguese inflation is «imported» inflation,⁶ resulting from the increase in import prices. Since the Eurozone countries are our main trading partners, we expect that the slowdown in the rate of price increases in the Eurozone will also support a slowdown in the rate of price increases in Portugal. Third, we also expect a slight slowdown in the Services CPI, whose average inflation in 2025 was 3.9% (contrasting with 1.1% in Goods inflation). In the last quarter of 2025, we already saw a trend of easing in some subcategories of this aggregate. For example, communications (which recorded average inflation of -0.2% up to September and -3.5% in the last quarter) and Recreational and Cultural Services (which recorded average inflation of 6% up to September and 3.5% in the last quarter).⁷ Finally, we expect some stability in the price of Brent, at around USD 65 per barrel, which, given its high correlation with the energy CPI, should contribute to overall disinflation.⁸

The reasons why we believe that the average CPI in 2026 will not fall sufficiently to reach the target value are mainly related to the dynamics of the labour market and wages. With the currently low unemployment rate and reports in business surveys indicating that the difficulty in hiring staff is one of the main obstacles to activity,⁹ we continue to anticipate gains in real wages with the potential to put pressure on demand and prices. The extraordinary growth seen in primary sector wages may also continue to put upward pressure on the prices of some food products.

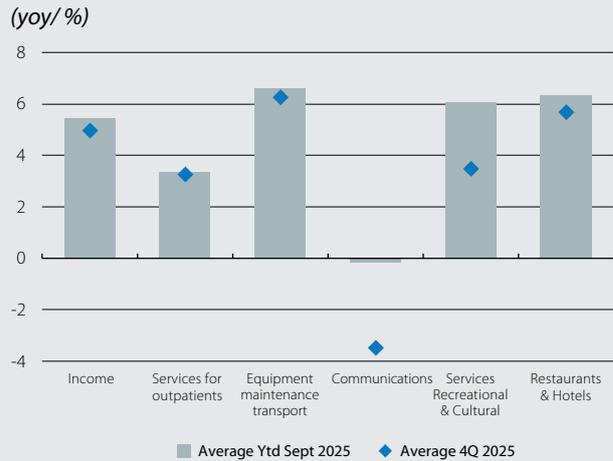
6. See the article «Imported inflation in Portugal: characterisation and recent dynamics» in the Dossier «Special Inflation: Is it here to stay?» from IM02/2023.

7. These two subcategories account for 13.3% of the Services CPI, but there were also movements of easing, albeit more modest, in the other most important subcategories of this aggregate: Restaurants & Hotels (22.2% weight in the Services CPI); Rents (11% weight in the Services CPI); Services for outpatients (11% weight in the Services CPI) and Maintenance of transport equipment (6.5% weight in the Services CPI).

8. This article was written before the US and Israeli military intervention in Iran. The extent and duration of the conflict will determine the possibility of more persistent effects on energy prices. In this regard, read the Information Note «Assessment of the situation in the Middle East» published on the BPI Research website.

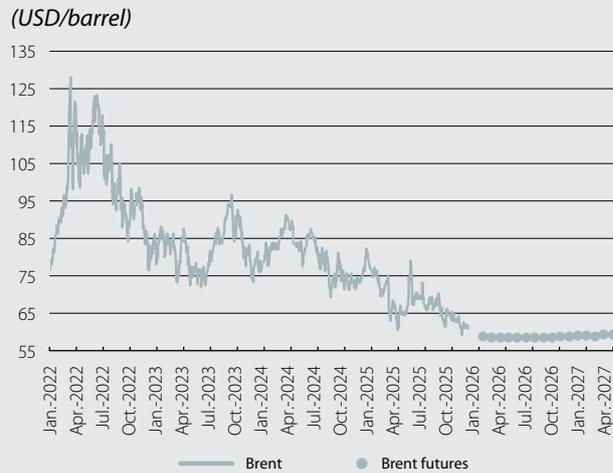
9. In the December business survey, «Difficulty in hiring staff/qualified staff» is the second most important obstacle to activity indicated by companies in the Manufacturing Industry, and the first obstacle indicated both by companies in the Construction and Public Works sector and by companies in the Services sector.

CPI: dynamics of the main service categories



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

Brent price and futures



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

Naturally, any scenario or forecast has risks, both on the upside and on the downside. In this case, the upside risks are mainly related to geopolitical risks affecting the supply of energy goods and, in the case of food, the possibility of a bad agricultural year; and the fact that this is the last year of implementation of the PRR and that this could provide an additional stimulus to the demand for goods and services. On the downside, we have the flip side of the geopolitical coin, with conflicts currently being resolved and the positive impact this could have on commodity prices. Added to this is lower-than-expected economic growth and the possibility of a stronger reorientation of Chinese trade towards Europe, impacting prices.

Tiago Belejo Correia

How can storms affect the economy?

Portugal was battered by a series of storms between January 28 and February 15. In total, it affected approximately 22% of the country, impacting the entire Beira Baixa, Leiria, and Mid Tejo regions. Other regions were also heavily impacted: the Coimbra area (15 municipalities out of a total of 19), Aveiro (9/11), and the West (9/12); and others on a smaller scale such as Lezíria do Tejo (3/11), the Alentejo Coast (1/5) and Beiras e Serra da Estrela (2/15). In total, 68 municipalities were declared to be in a state of calamity, with considerable losses in terms of public infrastructure (destroyed roads, impassable railway lines, destroyed electricity grid, schools), housing, factories, and loss of agricultural crops.

The exact amount of the losses is still uncertain, but initial estimates suggest they could be between 5 and 6 billion euros, or about 2% of the national GDP. In order to support the losses suffered, an initial public support package of €2.5 billion was implemented, later increased to €3.5 billion – about 1% of GDP – intended to support families and businesses in the services, industry and agriculture sectors. To date, the estimated amount allocated is around 2.6 billion euros, of which 2.4 billion euros have been granted to companies.

For families, the support is intended for the reconstruction of their own permanent home and can reach up to 10,000 euros, excluding parts covered by insurance.¹ In the case of businesses, the support includes the opening of credit lines to support reconstruction, both in terms of working capital support and investment support. Additionally, there is support for salary costs, and the use of a simplified lay-off regime, exemptions from social security contributions, extension of deadlines for fulfilling tax obligations, and the possibility of resorting to credit moratoria.

The six most affected regions – Aveiro, Coimbra, Leiria, Beira Baixa, West and Mid Tejo – represent 17% of the national population, 15% of GDP and employment, and 16% of goods exports. Data relating to GVA (Gross Value Added) show a balanced distribution among the various sectors, with the agricultural and industrial sectors representing approximately 23% of the national total.

The economic impacts occur on two levels:

1. At the level of the capital stock: there is a destruction of wealth, severely affecting the financial situation of families and businesses. Families are particularly affected in terms of their real estate wealth; and

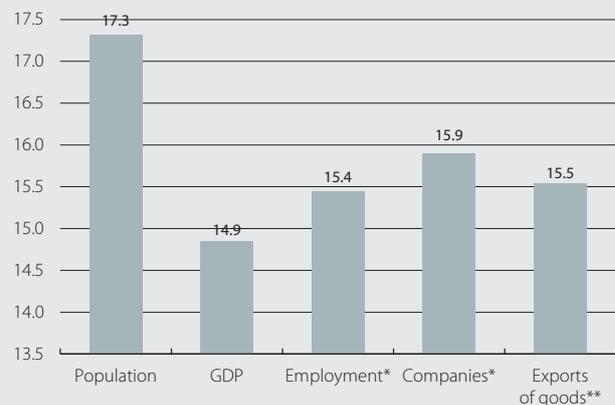
1. According to the statement made by the President of the Insurance and Pension Funds Supervisory Authority on February 18th, 49% of homes in municipalities under a state of calamity did not have insurance coverage for storms and/or floods.

What we know as of 19 February 2026

	Applications	Estimated value	Estimated value (millions of euros)
Families			
Claims for loss of income	3,662	1,074.26	47.2
Applications for housing reconstruction support	14,491	10,000	144.9
Companies			
Requests for treasury support	4,697	–	2,000.0
Support for agriculture	6,131	–	384.0
Employment support, including exemption from social security contributions	5,213	–	–
Extraordinary support for maintenance of employment	1,922	–	–
Simplified lay-off regime (nº of workers covered)	1,385	–	–
Infrastructure recovery			650.0
Roads and railways	–	–	400.0
Local authorities with priority for schools	–	–	250.0
Recovery of cultural heritage			20.0
Insurance			
Policies triggered	–	–	–
Families	95,000	–	–
Companies	20,000	–	–
Homes without storm and flood coverage	49% of the total	–	–

Source: BPI Research, based on data from the government and the Insurance and Pension Funds Supervisory Authority.

Portugal: weight of areas in a state of calamity (% of the national total)



Notes: * Data from 2023. ** Data from 2025.

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

companies in terms of lost production and destruction of infrastructure. The losses can be irreversible, such as in the case of loss of agricultural crops. In all sectors, losses can occur due to potential difficulties and/or the inability to re-enter supply chains, as customers may be forced to find alternative suppliers. Small businesses may face greater difficulties in recovering due to more limited financial resources.

In a second phase, a partial recovery of losses is expected, benefiting both from insurance coverage provided by companies and from financial support programmes. In this case, two scenarios are possible, particularly applicable to the productive sector: in a more optimistic scenario, the impact on economic growth could be positive if the destroyed factors of production are replaced by more efficient ones. However, it is not possible to rule out a more permanent adverse impact on GDP growth. Based on a study by the Bank of International Settlements,² it is possible that there will be a more permanent loss in GDP. In fact, based on an analysis of data from 89 countries, the BIS concludes that in the four years following droughts, landslides, and medium-sized wildfires, there are decreases in GDP of 2%, 1%, and 0.4%, respectively. However, these effects will also depend on the macroeconomic situation of the country in question.

- The second impact occurs at the level of outputs, which, from a production perspective, measures the value of goods and services produced and, from an expenditure perspective, measures the evolution of consumption, investment, exports and imports in a given period. In this case, the period in which the accidents occur is marked by a reduction in the rate of growth of economic activity, due to drops in production and consumption, but this tends to be reversed in subsequent periods, benefiting from the reconstruction effort. In the same BIS document, it is stated that the increase in GDP after the storms is partly due to fiscal support and insurance payments. Investment increases significantly in the same year and two years after the storms. Empirically, it is reasonable to anticipate that public consumption will also register more significant growth; in turn, household consumption may be affected by income loss and more cautious behaviours that tend to postpone consumption decisions. In terms of output, it cannot be ruled out that, in the short term, reconstruction efforts may boost GDP in the year the event occurs; however, it must not be forgotten that this effect can only be beneficial in the medium to long term if destroyed infrastructure is replaced with more efficient alternatives.

Estimating the impact of these adverse weather events on GDP growth in 2026 is a very uncertain exercise. It

2. BIS Working Papers, No. 1292: Macroeconomic impact of weather disasters: A global and sectoral analysis, September 2025. To calculate the impact on GDP, data from 12 African countries, 21 American countries, 17 Asian countries, 36 European countries and 3 countries from Oceania are used.

Gross value added

Weight of the sector in each region (%)

	Total	Agriculture	Industry	Construction	Services
Aveiro Region	3.4	3.3	7.6	2.4	2.6
Coimbra Region	3.7	4.0	4.7	3.9	3.4
Leiria Region	2.6	2.7	4.4	4.6	2.1
Beira Baixa	0.7	2.1	1.1	0.9	0.6
West	2.8	8.3	3.4	3.5	2.4
Mid Tejo	1.6	2.5	2.0	1.9	1.4
Weight in the country	14.8	22.8	23.2	17.2	12.6

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

Impact on GDP in Q1 2026 of the series of storms

% of activity interrupted	15%	25%	15%	25%
Weight in the GDP of the affected regions	15%	15%	15%	15%
Duration of the interruption in weeks	2	2	3	3
Weeks in the quarter	13	13	13	13
Impact on quarterly GDP (in pp)	0.34	0.58	0.51	0.86

Source: BPI Research, based on data from INE and miscellaneous information from the national and international press.

depends on the time period during which the activity was interrupted and the percentage of productive activity that was affected. In an attempt to estimate the impact on growth in Q1 2026, we assume that on average 15% of the region's activity was paralysed for a period of two weeks. Given that the GDP of the affected regions represents 15% of the national GDP, the negative impact on national GDP growth could be -0.3 pp. However, this impact could be much greater if the period during which activity was interrupted and/or the duration of the interruption is longer. Therefore, we assign a high probability to growth in this first quarter being close to 0% or possibly registering a slight contraction. However, in 2026 as a whole, the impact is likely to be smaller. The impact of the reconstruction effort on investment behaviour and of public support on public consumption will likely be reflected in a significant increase in subsequent quarters. Therefore, our estimate for GDP growth in 2026 does not change significantly compared to the pre-storm scenario, i.e., around 2%.

Teresa Gil Pinheiro

Construction as a way to combat the housing crisis

Characterisation of the construction sector in Portugal

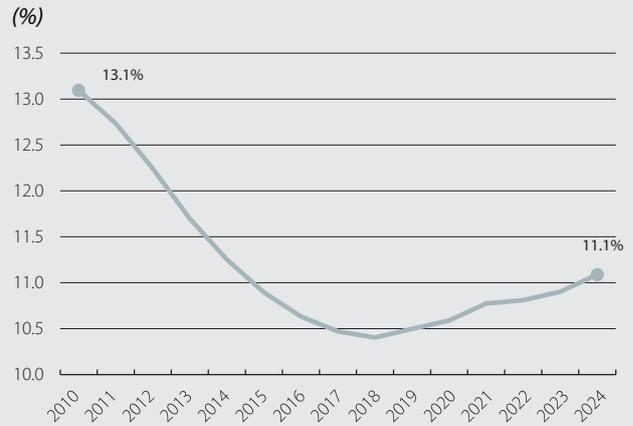
The Troika period had a profound impact on the construction and public works sector. In fact, between 2010 and 2015, there was a decrease of more than 5,400 companies in the sector operating in Portugal; however, from 2017 onwards, the number started to grow again. In 2024, there were 61,111 companies operating in the construction sector (11% of the national total, -2.0 pp compared to 2010), subdivided into three segments of economic activity: building construction, civil engineering and specialised activities. The building construction segment has the largest number of companies (60% of the sector) and generates the highest volume of business (51% of the total generated by the sector). Finally, construction companies generated €37.698 billion in turnover in 2024 (6.9% of the turnover generated by Portuguese companies), an increase of 3.3% compared to the previous year. Employment also underwent significant changes, as between 2010 and 2014 the proportion of people employed by companies in the construction sector in Portugal fell from 10% to 6.7% (-122,600 individuals). In 2024, the number of individuals working in this area was 380,620 (of which 30% were foreign nationals), which was equivalent to 10.4% of the business workforce.

The construction sector currently has a healthy financial structure. Following a difficult period during which return on equity¹ only turned positive in 2016, the sector achieved a ratio of 10.8% in 2024, marking an all-time high since 2006. In parallel, the capital structure and solvency demonstrate remarkable strength: financial autonomy² reached its recent peak (38% in 2024), whilst financial pressure³ remained higher than the figures recorded for the Portuguese business sector as a whole.

The sector's gradual recovery is reflected in the increase in the number of completed dwellings for family housing, with the figure for 2024 (25,311) already approaching the levels seen in 2011 (26,382). However, the response from the construction sector remains below the dynamism of demand, which is justified by the sector's long production cycle, the scarcity of skilled labour, and the low levels of productivity.

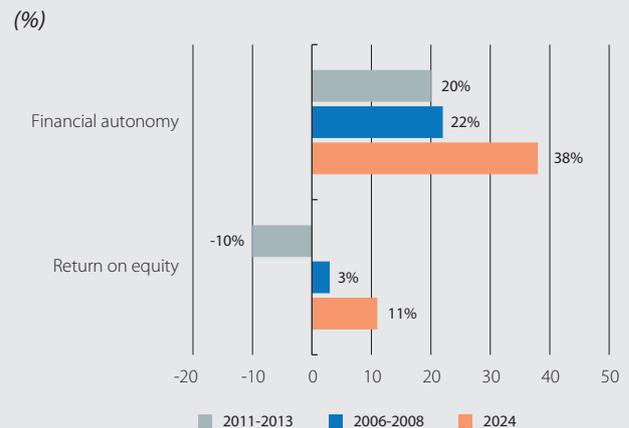
1. Ratio between net income for the period and equity. It makes it possible to measure the return on capital invested by the company's partners/shareholders.
2. Ratio between equity and total assets. This expresses the ability of companies to meet their financial obligations through equity.
3. Ratio between financing expenses and EBITDA. This indicates the proportion of EBITDA generated by companies during the period that is allocated to cover financing expenses.

Weight of construction companies in the total number of Portuguese companies (%)



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

Economic and financial ratios for the construction sector (%)



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

In fact, companies face some obstacles that can inhibit their activity, most notably the difficulty in hiring staff and obtaining licences. The obstacles that appear to be more under control are the difficulty in obtaining bank credit, deteriorating sales prospects, and the outlook for interest rates (a benign phase resulting from less restrictive monetary policy).

Supply-side stimulus measures

Based on an average occupancy rate of 2.41 people per dwelling in the capital and 2.57 in Porto, it is estimated that, between 2023 and 2024 alone, more than 12,000 new households emerged in Greater Lisbon and more than 6,000 in the Porto metropolitan area, intensifying the urgent need for new homes. However, the number of building permits issued for new family homes in each

of these regions totalled just 8,768 and 4,294 in 2024 (vs. 8,252 and 4,567 in 2023), respectively. This analysis appears to indicate a worsening of the housing shortage in Portugal, with a greater impact in areas of higher real estate pressure, such as the metropolitan areas of Lisbon and Porto.

It thus becomes evident that the gap between supply and demand continues to widen, while building permits are increasing only slightly. The survey⁴ Published by the OECD in January, it includes a set of recommendations to be adopted by Portugal in order to promote a more sustainable and inclusive real estate market, particularly related to tax reforms (increasing taxes on property and vacant buildings and, conversely, reducing the tax burden on transactions). The document also suggests that the rental market should be more subject to inspections and that vulnerable groups should be supported in accessing housing through the promotion of social housing and greater subsidies. Finally, they consider it important that licensing processes be improved.

In line with some of these guidelines, at the beginning of 2026 the government approved a set of measures aimed at combating the existing housing deficit. More specifically, the government commits to providing 59,000 homes over the next six years (of which 33,000 new units will be financed by the Recovery and Resilience Plan) and to building 12,000 homes, which will be part of the Rental Support Programme. Other measures include the sale of state-owned real estate for housing purposes (enabling the creation of 10,000 affordable rental units by the end of 2035).

The decree also includes fiscal measures⁵ Support for the construction sector, namely the reduction of VAT to 6% on the construction of housing for sale or for rent at moderate prices (i.e., 648,000 euros in the case of sale and 2,300 euros in the case of rent). The intention is also to encourage the placement of properties on the rental and sale market at moderate prices (for example, through a reduction in the IRS tax rate applied to owners in rental contracts and the exemption from IMT and IMI for properties intended for moderate rental), thus encouraging the availability of properties for rent on the market. In this way, the sector expects a significant stimulus that could allow the resumption of suspended or postponed works, reinforce investment in

Completed family homes

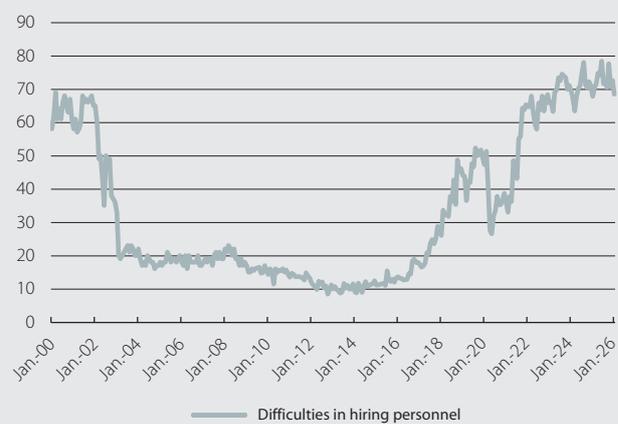
Number



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

Obstacles to activity

(%/effective value)



Source: BPI Research, based on data from the INE's Business Surveys.

rehabilitation, and contribute to increasing housing supply, with results expected to be visible only from 2027 onwards.⁶

New construction will be crucial in relieving market pressure, which is expected to continue growing. However, to meet the dynamics of demand, the sector needs to increase its productivity and production capacity, coupled with a stable and predictable legal framework.

Pedro Avelar

4. Source: https://www.oecd.org/en/publications/oecd-economic-surveys-portugal-2026_025b3445-en/full-report/tackling-portugal-s-housing-affordability-challenge-promoting-sustainable-and-inclusive-housing_c920df36.html

5. Source: <https://www.portugal.gov.pt/pt/gc25/comunicacao/noticia?i=pacote-fiscal-para-habitacao-aprovado-no-parlamento>

6. Source: <https://eco.sapo.pt/entrevista/choque-fiscal-da-habitacao-tem-impacto-orkamental-reduzido-em-2026/>

Activity and employment indicators

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Coincident economic activity index	2.0	2.0	1.9	1.8	2.0	2.2	2.2	2.2	...
Industry									
Industrial production index	0.8	0.5	-2.3	1.2	2.8	0.5	1.8	1.2	...
Confidence indicator in industry (<i>value</i>)	-6.2	-4.0	-5.1	-4.8	-3.4	-2.8	-2.0	-1.4	-2.1
Construction									
Building permits - new housing (number of homes)	6.5	...	40.2	19.5	7.9	...	...	...	...
House sales	14.5	...	25.0	15.5	3.8	...	-	-	-
House prices (<i>euro / m² - valuation</i>)	8.5	17.4	15.8	17.4	18.2	18.4	19.1	18.7	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	6.3	1.9	4.6	4.1	2.6	1.9	1.9	1.7	...
Confidence indicator in services (<i>value</i>)	5.6	10.1	12.5	6.6	12.9	8.4	6.6	4.7	5.0
Consumption									
Retail sales	3.3	4.8	4.5	4.8	5.4	4.4	2.8	4.6	...
Coincident indicator for private consumption	2.8	3.4	3.9	3.5	3.1	3.1	3.2	3.3	...
Consumer confidence index (<i>value</i>)	-18.0	-16.2	-15.5	-17.9	-16.2	-15.2	-14.5	-14.7	-15.3
Labour market									
Employment	1.2	3.2	2.4	2.9	3.7	3.7	3.6	2.6	...
Unemployment rate (<i>% labour force</i>)	6.4	6.0	6.6	5.9	5.8	5.8	5.6	5.6	...
GDP	2.1	1.9	1.6	1.7	2.2	1.9	-	-	-

Prices

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
General	2.4	2.3	2.3	2.2	2.6	2.2	2.2	1.9	2.1
Core	2.5	2.2	2.3	2.3	2.3	2.1	2.1	1.8	1.9

Foreign sector

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	0.5	5.3	4.2	2.0	0.5	0.5	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	3.9	5.4	7.0	6.7	3.9	3.9	...	...
Current balance	6.5	3.8	4.6	3.5	3.0	3.8	3.8	...	...
Goods and services	6.4	3.7	4.9	4.0	3.5	3.7	3.7	...	...
Primary and secondary income	0.1	0.1	-0.3	-0.5	-0.5	0.1	0.1	...	...
Net lending (+) / borrowing (-) capacity	9.6	8.3	7.9	6.9	7.0	8.3	8.3	...	...

Credit and deposits in non-financial sectors

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Deposits¹									
Household and company deposits	7.5	5.4	6.5	5.4	6.3	5.4	5.4	5.0	...
Sight and savings	-0.3	8.1	5.0	5.1	8.6	8.1	8.1	7.5	...
Term and notice	15.3	3.1	7.8	5.8	4.3	3.1	3.1	2.8	...
General government deposits	26.7	28.7	29.3	39.6	-0.5	28.7	28.7	25.3	...
TOTAL	7.9	6.0	7.1	6.4	6.1	6.0	6.0	5.6	...
Outstanding balance of credit¹									
Private sector	1.9	6.6	3.3	4.9	5.8	6.6	6.6	6.7	...
Non-financial firms	-1.0	2.8	0.1	2.2	2.4	2.8	2.8	2.4	...
Households - housing	3.0	9.3	4.9	6.4	8.0	9.3	9.3	9.6	...
Households - other purposes	5.4	7.0	5.7	6.6	6.9	7.0	7.0	7.1	...
General government	0.6	6.4	-8.0	3.8	4.8	6.4	6.4	5.2	...
TOTAL	1.9	6.6	2.9	4.9	5.8	6.6	6.6	6.6	...
NPL ratio (%)²	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: between resilience and slowdown

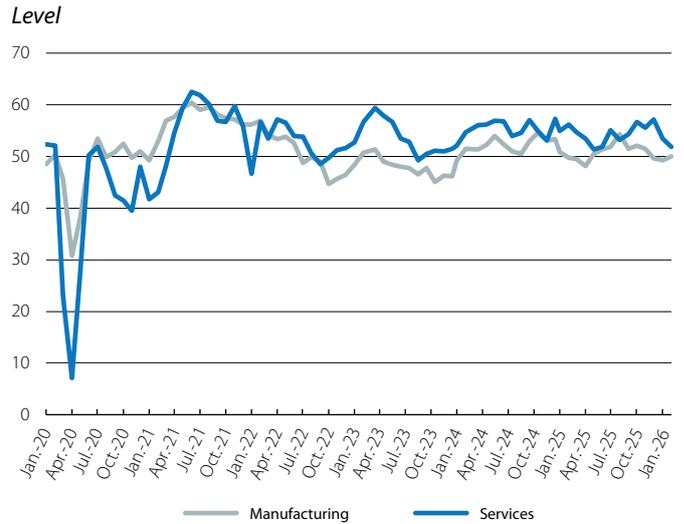
The Spanish economy closed 2025 with solid growth and has kicked off 2026 with figures that remain strong, albeit somewhat lower than those of last year. Together, the indicators published to date are consistent with CaixaBank Research's which anticipates GDP growth of 2.4% for this year. This allows the economy to tackle the potential consequences of the war that has erupted in the Middle East from a somewhat more comfortable position compared to other economies, but it is still too early to assess the consequences it could have. These will largely depend on the duration of the conflict and its impact on energy prices, trade routes and, ultimately, on global financial conditions and agents' confidence. Right now, the risks are clearly skewed to the downside.

Consumption and employment on the rise. The available indicators for Q1 show an economy that remains resilient, especially in the face of the bad weather that has affected several regions at the start of the year. On one hand, the CaixaBank Research Consumption Tracker reflects the impact of the adverse weather during the first few weeks of February, although the latest data already show a clear improvement. Thus, while in the first fortnight of the month consumer spending barely grew in year-on-year terms, in the second week, it gained momentum and increased by an average of 3.2%. For reference, in Q4 2025, the growth rate stood at 4.6%. Beyond the aggregate figures, it is worth noting that the slowdown was concentrated in fashion, transport, and leisure and hospitality, while spending in other categories has rebounded.

The labour market has also shown improvement at the start of the year. In January, the rate of job creation was just 17,000 social security affiliates in month-on-month and seasonally adjusted terms, far from the 42,000 recorded on average in 2025. In contrast, in February the increase was 45,000 affiliates, a figure consistent with the dynamic growth rate of the past year and indicating that the dip at the beginning of 2026 was temporary. In fact, in the first two months of the year, the average seasonally adjusted rate of job creation reached 31,000 affiliates per month. If this trend continues throughout the year, new registrations in 2026 would exceed approximately 375,000, only just shy of the forecast of 400,000 net affiliations, excluding the effect of the exceptional amnesty announced by the government.

Economic activity growth moderates. On the supply side, the PMIs also suggest that the growth rate remains positive and relatively dynamic, albeit probably somewhat more moderate. On the one hand, the manufacturing PMI appears to have bottomed out after several months of weakening, although it remains at relatively low levels. Specifically, in February it stood at 50 points, a level that typically delineates

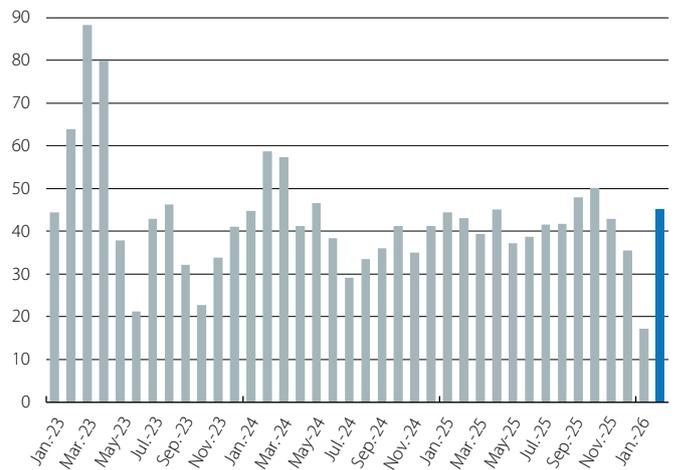
Spain: PMI



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

Spain: Social Security affiliates*

Month-on-month change (thousands of people)

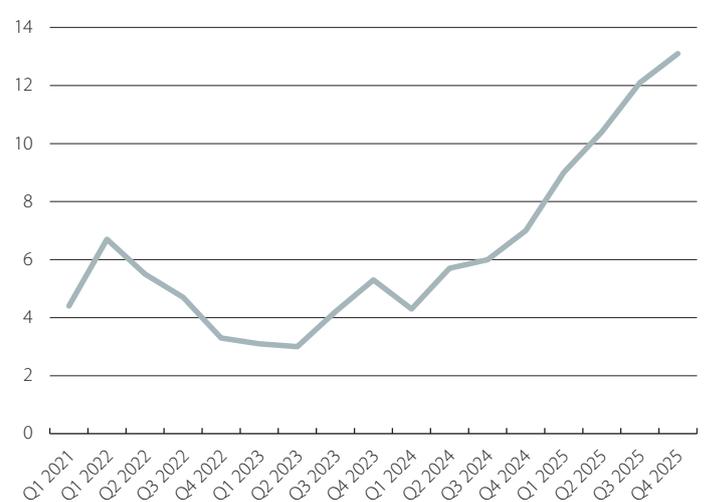


Note: * Seasonally adjusted series.

Source: BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSEM).

Spain: house prices

Year-on-year change (%)



Source: BPI Research, based on data from the Ministry of Housing and Urban Agenda (MIVAU).

expansive territory from the contractive one, and slightly higher than the January figure. However, the average for Q1 stands at 49.6 points, well below the 51.1 points of Q4 2025. The services PMI is also weakening compared to the figures recorded at the end of 2025. In February, it stood at 51.9 points, leaving the average for the first quarter of 2026 to date at 52.7 points, well below the figures recorded at the end of 2025.

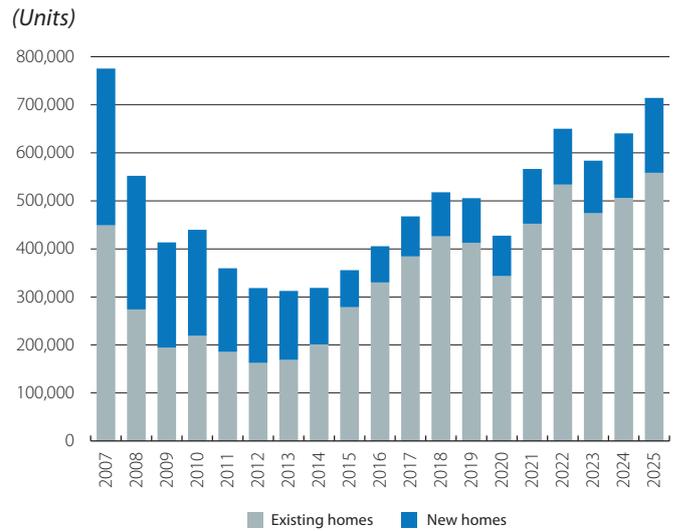
The demand for housing stabilises. The housing market is showing a trend similar to that of other indicators: the level of activity is high, but the growth rate is losing momentum. This is reflected in the trend in sales: 2025 closed with 714,237 transactions, a historically high level (between 2014 and 2019 an average of 428,000 sales were closed per year). However, the growth rate has been weakening in recent months: during the first half of the year, the average growth in sales was 20.9% year-on-year, a figure that contrasts with the 4.5% average in the second half.

In any case, the pressure from demand continues to be reflected in prices in a context where supply is growing at a more moderate pace. The appraisal value of unsubsidised housing according to the Ministry of Housing and Urban Agenda (MIVAU) rose by 13.1% year-on-year in Q4, the largest increase of the current cycle. Although prices are reaching new nominal highs, in real terms they remain 25% below 2007 levels. Taken together, the recent data reinforce a scenario characterised by the structural housing deficit, which is likely to continue exerting pressure on prices.

Inflation stabilises at moderate levels. The moderate slowdown of the Spanish economy is being accompanied by a reduction in inflationary pressures. In February, inflation remained at 2.3%, far from the figures of nearly 3% recorded at the end of 2025. Our forecast scenario anticipates that inflation will stabilise at levels similar to the current ones, which should help the growth of private consumption, and that of economic activity in general, to remain dynamic. However, the rise in energy prices triggered by the war that has erupted in the Middle East could reignite inflationary pressures in the coming months.

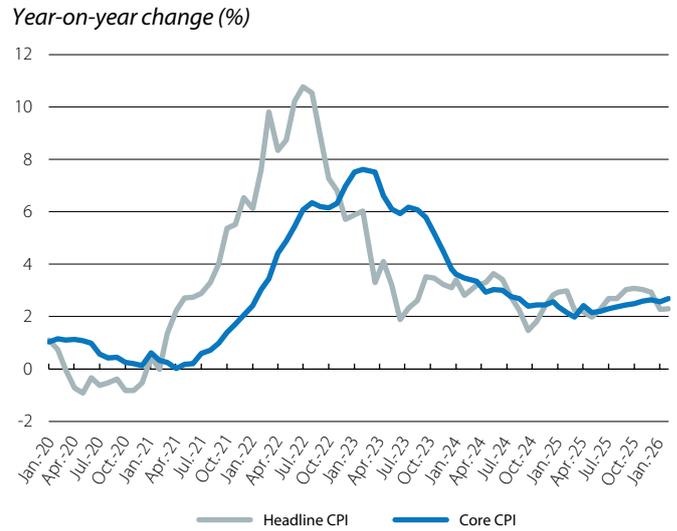
The current account holds up despite the deterioration of the international context. Despite the challenging international context, the foreign sector has remained a source of support for the Spanish economy to date. In 2025, the current account closed with a surplus of 2.9% of GDP, a level slightly below the 3.2% of the previous year, but still above the 2.3% average recorded during the period 2014-2019. Beneath this overall result lie opposing dynamics. On one hand, the trade balance deteriorated significantly in an environment marked by higher tariffs and reduced trade flows with the US. However, this deterioration was offset by the improvement in the services surplus, which reached 7.1% of GDP, thanks to the dynamism of non-tourism service exports, while the tourism surplus recorded a slight slowdown.

Spain: house sales



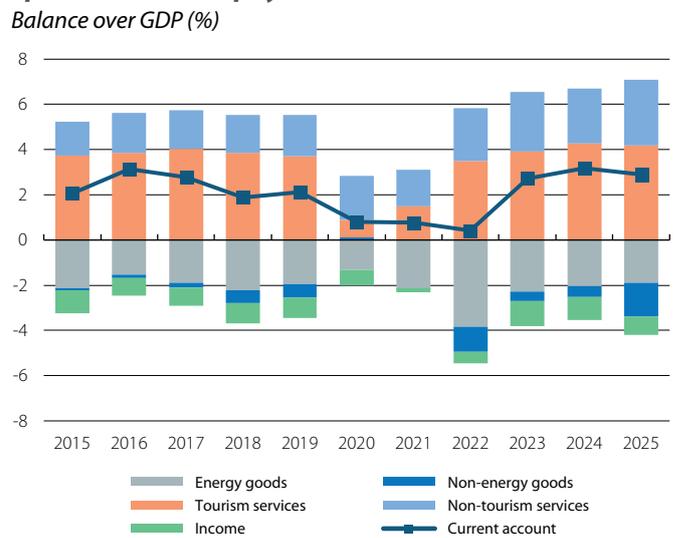
Source: BPI Research, based on data from the National Statistics Institute (INE).

Spain: CPI



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

Spain: balance of payments



Source: BPI Research, based on data from the Bank of Spain and DataComex.

Spain's foreign sector performed better than expected in 2025

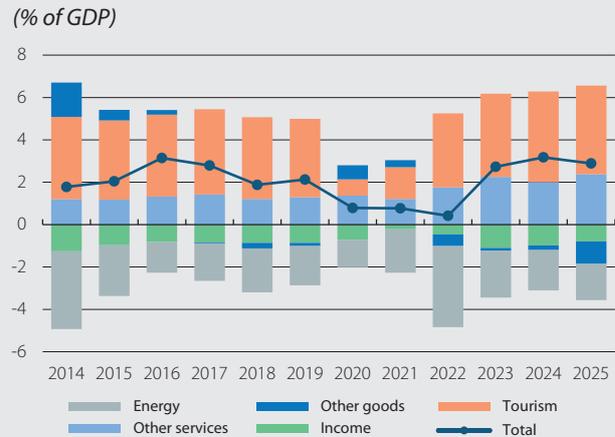
The challenging international environment in 2025 – marked by US tariff hikes, the slowdown in global trade and heightened uncertainty – foreshadowed a significant deterioration in Spain's current account balance, which had been performing excellently with uninterrupted surpluses since 2012. These factors led us, in mid-2025, to revise downwards the current account surplus forecast to 2.3% of GDP. However, the balance has ended up being better than expected, thanks to other more favourable factors, such as the containment of international energy prices and the dynamism of service exports, including both tourism services and, above all, non-tourism services. Consequently, the deterioration of the current account balance was very limited, resulting in a surplus of 2.9% of GDP, just 0.3 percentage points below the historic figure of 2024.

By component, the deficit of the income balance in 2025 stood at 0.8% of GDP, slightly lower than the previous year's figure (1.0%), but very similar to the average recorded since 2014. This balance, which shows a chronic deficit linked to the Spanish economy's debtor position vis-à-vis the exterior,¹ is mainly linked to interest and dividend payments to foreign investors (primary income) and to current transfers from the EU, notably the NGEU funds (secondary income). With still incomplete information (January-September), the sharp correction of the primary income deficit (-0.2% of GDP vs. -0.4% a year earlier), resulting from the fall in interest rates, contrasts with the stabilisation of the secondary income deficit (-0.7% of GDP).

As for the trade deficit in goods, it rose sharply to 2.8% of GDP (2.1% in 2024),² weighed down by the significant deterioration in the balance of non-energy goods, in a context of buoyant domestic demand that boosted imports, especially of capital goods, and a slowdown in foreign demand, in line with the weak performance of the euro area, the main destination for our exports. Other factors contributing to the weaker performance of exports include the strength of the euro (which appreciated by almost 14% against the dollar) and increased international competition, exacerbated by global tariff tensions and market diversification strategies. All this explains the meagre growth of Spain's non-energy exports, of just 1.8%, a rate well below that

1. See the Focus «The income balance suffers at the hand of the rate hikes» in the MR04/2024.
 2. This is an estimate, as the final data for the goods account of the balance of payments will not be known until 24 March. The balance in terms of the balance of payments is slightly different from the balance in terms of customs. For more information on the differences between the two, see the Focus «Excellent records in the foreign sector in 2024» in the MR03/2025.

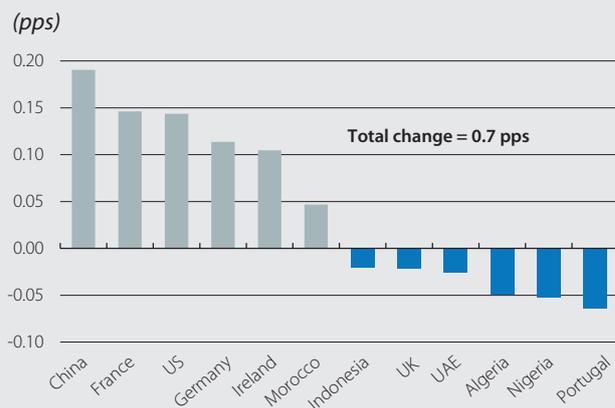
Spain: current account balance



Note: Trade data for energy goods according to the SITC (Standard International Trade Classification).

Source: BPI Research, based on data from the Bank of Spain and Customs.

Spain: contribution to the change in the trade deficit in 2025



Source: BPI Research, based on data from DataComex.

of imports (6.7%). The energy balance, meanwhile, performed more favourably and its traditional deficit registered a significant correction, in line with the reduced price of imports (the price of a barrel of Brent oil fell by 18.6% in dollars).

One of the key elements of the international landscape in 2025 was the US tariff hikes. The exposure of the Spanish export sector to the North American economy is limited (as of 2024, exports of Spanish goods to the US account for 1.1% of GDP, compared to 3.2% in the case of the EU), and this has cushioned the direct impact.³ However, the sharp decline in sales to the US (-8.0%), especially of oils, chemicals and crude oil derivatives, is compounded by

3. For more information, see the article «Tariff tensions and reconfiguration of trade flows: impact on Spain» in the Sectoral Observatory S1 2025.

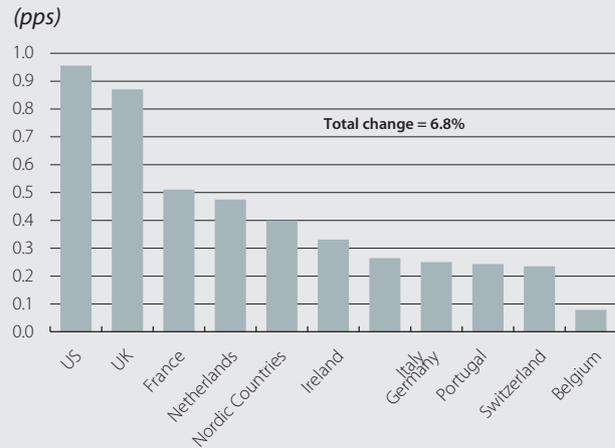
vigorous imports (+7.0%), driven in recent years by the energy sector.⁴ This results in a notable widening of the trade deficit with the US, which, in turn, accounts for a substantial part of the deterioration in the overall balance of trade (see second chart).

As for the balance of trade in services, it continues to register record surpluses. On the one hand, tourism has once again become the driving force of the current account, demonstrating great resilience despite the global economic slowdown, with a surplus that remained very close to its peak (4.2% of GDP vs. 4.3% previously).⁵ The depreciation of the dollar against the euro, meanwhile, did not reduce the influx of travellers from the US, which is one of the source markets with the highest average spending.⁶ On the contrary, it was the market that contributed the most to the growth of total expenditure and, among non-European markets, the one that contributed the most to the growth in tourist arrivals (see third chart).

As for non-tourism services, which have been gaining prominence in Spain's foreign sector in recent years, they performed better than expected. Sectors such as transportation, financial services, consultancy, and digital services experienced very strong growth, supported by the growing trend of outsourcing among European firms and the consolidation of Spain as a hub for advanced corporate services. This dynamism allowed the surplus of this sub-balance to rise by 0.4 percentage points, to 2.4% of GDP, marking a new all-time high. With data up to September, exports are growing at twice the rate of imports (15.4% year-on-year vs. 7.7%), resulting in a 33.0% year-on-year surge in the surplus. By type of service, only intellectual property and insurance and pensions show deficits, while transportation has registered a notable improvement in its surplus.

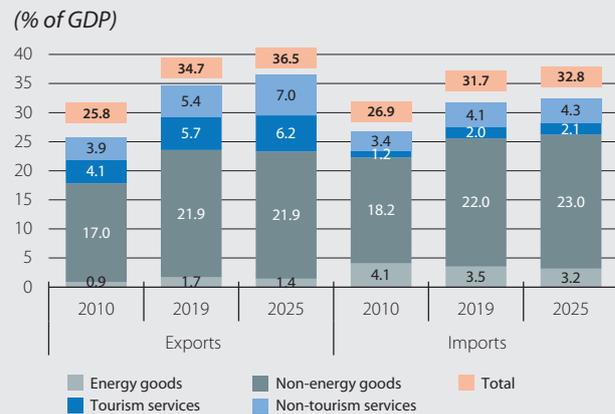
Ultimately, the 2025 data reinforce the diagnosis of a robust Spanish export sector. Taking a longer-term view, the current account surplus between 2023 and 2025 averaged 0.6 pps above the 2017-2019 average. The significant increase in recent decades in the share of non-energy goods and services exports – both tourism and non-tourism – (see last chart) reflects a growing diversification of the foreign sector. In this context,

Spain: contribution to the change in tourism expenditure in 2025



Source: BPI Research, based on data from the National Statistics Institute (Tourism Expenditure Survey).

Spain: exports and imports of goods and services



Note: Trade data for goods according to the SITC (Standard International Trade Classification). Source: BPI Research, based on data from the National Statistics Institute and the Bank of Spain.

and as set out in the Focus «Spanish exports amid challenges to their competitiveness» in this same report, the deterioration of the balance of trade in non-energy goods this year seems to be primarily explained by the weakness of our main trading partners and by the increase in imports linked to the rebound in investment, rather than by a deterioration in competitiveness.

4. Since the outbreak of the war in Ukraine, dependence on US liquefied natural gas (LNG) has surged. See the Focus «The importance of the trade in goods between Spain and the United States» in the MR12/2024.
 5. This slight reduction in the surplus is mainly due to the strong growth in tourism payments, which far exceeds that of income (15.3% vs. 6.9%)
 6. The average expenditure per American tourist was 2,296 euros, 65% above the average (1,392 euros).

Spanish exports amid challenges to their competitiveness

In the last three years, Spain's foreign sector has significantly improved its position: the current account surplus went from representing 0.4% of GDP in 2022 to nearly 3% of GDP in 2025, which reflects a greater lending capacity relative to the rest of the world. However, this improvement has occurred in a context in which Spain's inflation has remained slightly above the euro area average over the last two years, as well as coinciding with an appreciation of the euro against the dollar in this period. In light of the potential increase in export prices resulting from these conditions, we assess the impact on the price and cost competitiveness of export sales and we analyse Spain's current share of exports in a global scenario marked by rising trade tensions where the margins for competition appear to be narrowing.

As a measure of price competitiveness, we will use the real effective exchange rate (REER), which measures Spain's nominal exchange rate averaged against a set of trading partners, adjusted for relative inflation according to the harmonised index of consumer prices. The adjustment for inflation captures the differences in consumer prices between Spain and its counterparts. Therefore, if the REER rises, it means that Spain loses competitiveness, as its exports become more expensive and imports become relatively cheaper, and vice versa.

In the first chart, we compare the REER against the euro area and a group of 37 industrialised countries. In comparison with the euro area, given that Spain shares the same currency, the nominal exchange rate component does not operate and the reading equates to a comparison of relative prices. Following a turning point in the last quarter of 2022 (when inflation in Spain rose less than in other euro area countries), we see a modest deterioration in competitiveness until the last quarter of 2025, which leaves us, nevertheless, in a more competitive position than we had in 2019. Against the group of 37 countries, the recent rise in the REER is more pronounced due to the impact of the appreciation of the euro. Even so, we remain at levels comparable to the pre-pandemic situation.

On the other hand, we can also analyse the evolution of the REER deflated by the unit labour cost (ULC) index instead of inflation. This allows us to assess whether, from the production side, there is any pressure arising from the relationship between wages and productivity that could contribute to a relative increase in costs compared to other countries. In the second chart we can see that, following a peak in the REER during the COVID-19 pandemic due to the sharp rise in ULCs, Spain has clearly regained competitiveness against euro area

Spain: real effective exchange rate adjusted for the CPI

Index (100 = 2015)



Note: * «37 industrialised countries» includes the EU-27 plus Australia, Canada, the USA, Japan, Norway, New Zealand, Mexico, Switzerland, the United Kingdom and Turkey.

Source: BPI Research, based on data from Eurostat.

Spain: real effective exchange rate adjusted for unit labour cost

Index (100 = 2015)



Note: * «37 industrialised countries» includes the EU-27 plus Australia, Canada, the USA, Japan, Norway, New Zealand, Mexico, Switzerland, the United Kingdom and Turkey.

Source: BPI Research, based on data from Eurostat.

costs, although it is in a worse position than in 2019. Against the group of 37 industrialised economies, the improvement that occurred in 2020 has gradually moderated and, after a slight upturn in 2025, the current position is similar to that of 2019.

Taken together, the two charts present a nuanced picture: on the side of final prices, there is solid competitiveness, while the recent slight loss is more attributable to labour costs, which have evolved more favourably compared to the euro area than against the group of 37 industrialised economies, in turn highlighting the effect of the exchange rate appreciation. In order to determine whether these tensions have actually resulted in a setback in our external position, we complement the analysis by examining the evolution of Spain's share of exports of goods and services. This measure is useful because

competitiveness can be assessed not only in terms of prices and costs, but also from the perspective of other dimensions such as innovation, complexity or the level of technology of exports.¹ In this regard, the export share reflects how the set of factors that influence international trade ultimately materialises in foreign sales.

In the third chart, of particular note are Spain's gains over time compared to Germany, Italy, and France: Spain's share of this group's exports of goods has continued to increase and now stands at 13%, compared to 11.4% in 2019. This improvement is explained by the fact that, in the period 2020-2025, Spanish exports of goods grew by 30%, compared to a growth rate of 12% in these three countries as a whole. Spain's share of global trade, meanwhile, has remained stable at around 1.7% in recent years, indicating that Spain has not lost its presence in the global trade of goods despite the inflation and exchange rate dynamics. This ability to maintain market share during this period is even more noteworthy in a context in which the export share of China, and of other Asian economies such as Vietnam and Taiwan, has grown inexorably.

Regarding the share of service exports in the global total, in the last year Spain has regained its pre-pandemic level – a particularly positive result when compared to Germany, Italy and France, which are losing share. In parallel, the US, despite remaining the leader in the sector, is losing some ground in the global distribution, while China and the United Kingdom have gained share in recent years. If we analyse tourism services in particular, Spain's performance is especially impressive. Our global share stands at around 6%, ahead of France (around 4%), Italy (3.5%) and Germany (2.5%), and 1 pp above the level recorded in 2019, consolidating Spain as one of the main exporters of tourism services in Europe. If we focus solely on non-tourism services, following the exceptional growth of the sector since 2021, we find that Spain has managed to maintain its market share in an environment with Germany, Italy, France, and the US in retreat. That said, it has not improved this share either, given that the volume of global exports has also increased sharply.

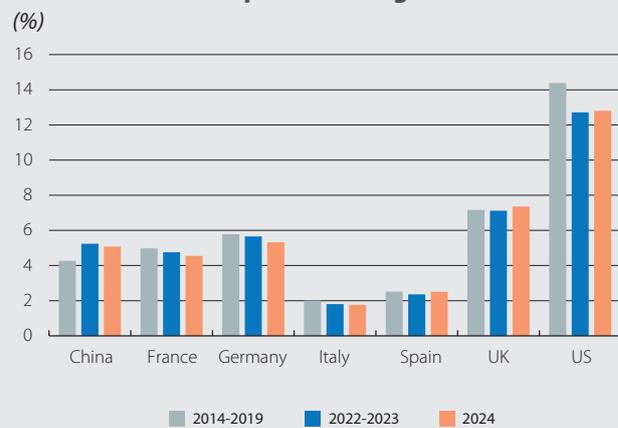
Taken together, the indicators analysed suggest that, despite the inflation gap and the appreciation of the euro in recent years, there has been no significant

Spain: share of goods exports



Note: * Data up until Q3, trailing four-quarter cumulative total.
Source: BPI Research, based on data from the World Trade Organization.

Share of service exports in the global total



Source: BPI Research, based on data from the World Trade Organization.

deterioration in Spain's external competitiveness. This, combined with a stable or rising share of exports in both goods and services, suggests that the Spanish economy has managed to maintain its competitive position in a challenging environment. This performance could be associated with a diversification effort by our export sector, or with the ability to compete in other dimensions, which may have partially offset the impact of higher relative prices. All this becomes even more relevant in a global environment in which China continues to expand its influence and where several European economies and even the US have lost ground.

1. See the Focus: «Is technology and complexity exported from Spain?» in the MR07/2025.

Activity and employment indicators

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Industry									
Industrial production index	0.4	1.3	-0.6	1.5	2.5	1.7	-0.3	0.3	...
Indicator of confidence in industry (value)	-4.9	-4.8	-5.0	-5.4	-5.0	-3.8	-3.5	-2.5	-2.2
Manufacturing PMI (value)	52.2	50.9	50.0	50.0	52.6	51.1	49.6	49.2	50.0
Construction									
Building permits (cumulative over 12 months)	16.7	8.8	20.1	14.8	7.9	8.8	8.8	...	...
House sales (cumulative over 12 months)	9.7	11.5	17.0	22.9	18.7	11.5	11.5	...	...
House prices	8.4	...	12.2	12.7	12.8	...	...	...	...
Services									
Foreign tourists (cumulative over 12 months)	10.1	3.2	8.1	6.3	4.3	3.2	3.2	3.0	...
Services PMI (value)	55.3	54.5	55.3	52.2	54.2	56.4	57.1	53.5	51.9
Consumption									
Retail sales ¹	1.8	4.3	3.4	5.1	4.5	4.3	2.9	...	...
Car registrations	7.2	12.9	14.0	13.7	16.9	8.0	-2.2	1.1	7.5
Economic sentiment indicator (value)	103.1	103.1	103.3	102.1	102.7	104.4	104.6	106.2	106.2
Labour market									
Employment ²	2.2	2.6	2.4	2.7	2.6	2.8	...	...	...
Unemployment rate (% labour force)	11.3	10.5	11.4	10.3	10.5	9.9	...	...	...
Registered as employed with Social Security ³	2.4	2.3	2.3	2.2	2.3	2.4	2.4	2.3	...
GDP	3.5	2.8	3.0	2.8	2.7	2.6	...	...	...

Prices

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
General	2.8	2.7	2.7	2.2	2.8	3.0	2.9	2.3	2.3
Core	2.9	2.3	2.2	2.3	2.4	2.6	2.6	2.6	2.7

Foreign sector

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	0.2	0.7	3.3	2.0	0.8	0.7	0.7	...	...
Imports (year-on-year change, cumulative over 12 months)	0.1	4.6	4.2	4.1	4.6	4.6	4.6	...	...
Current balance	50.7	48.7	47.8	48.6	48.7	48.7	48.7	...	...
Goods and services	66.3	62.6	63.5	63.7	62.1	62.6	62.6	...	...
Primary and secondary income	-15.7	-13.8	-15.7	-15.1	-13.4	-13.8	-13.8	...	...
Net lending (+) / borrowing (-) capacity	68.7	67.4	66.6	67.6	67.1	67.4	67.4	...	...

Credit and deposits in non-financial sectors⁴

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	12/25	01/26	02/26
Deposits									
Household and company deposits	5.1	4.8	4.6	3.9	4.9	4.8	4.8	5.1	...
Demand and notice deposits	2.0	6.7	3.1	5.0	7.2	6.7	6.7	7.2	...
Time and repo deposits	23.5	-4.7	12.6	-1.5	-6.6	-4.7	-4.7	-4.9	...
General government deposits ⁵	23.1	4.9	24.4	25.5	7.2	4.9	4.9	5.3	...
TOTAL	6.3	4.8	5.9	5.4	5.1	4.8	4.8	5.2	...
Outstanding balance of credit									
Private sector	0.7	3.5	1.7	2.6	2.8	3.5	3.5	3.4	...
Non-financial firms	0.4	2.9	1.6	2.5	2.3	2.9	2.9	2.6	...
Households - housing	0.3	3.5	1.4	2.3	2.9	3.5	3.5	3.7	...
Households - other purposes	2.3	4.5	3.1	-261.4	-278.2	4.5	4.5	4.7	...
General government	-2.6	10.7	-0.3	5.3	12.9	10.7	10.7	6.6	...
TOTAL	0.5	3.9	1.6	2.7	3.4	3.9	3.9	3.6	...
NPL ratio (%)⁶	3.3	2.7	3.2	3.0	2.9	2.7	2.7	...	...

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 (MISSEM), the National Statistics Institute (INE), S&P Global PMI, the European Commission, the Department of Customs and Excise Duties and the Bank of Spain.

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