

MR 11

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
NOVEMBER 2025



ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS

Debt limits: 2025 edition

INTERNATIONAL ECONOMY

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

Emerging economies: resilience after three global shocks

PORTUGUESE ECONOMY

The tourism sector during the peak season of 2025

Near-balanced budget overshadowed by warnings and risks

Recent performance of the agricultural sector: productivity and foreign trade

DOSSIER: 2026 OUTLOOK

The world economy in 2026: resilience, transition or disruption?

Europe's medium-term fiscal dilemma

US 2026 outlook: resilience with frailties

Portugal: the fundamentals for growth in activity in 2026

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

November 2025

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

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One year later: global resilience in the face of a tariff storm

It may seem unbelievable, but twelve months have already passed since Trump's victory in the presidential elections. Taking advantage of this anniversary and the proximity of the end of the year, we have prepared our usual analysis dossier on the main trends and factors that will shape the behaviour of the economy in 2026. We start from the premise that both international and Portuguese economic activity have once again demonstrated great resilience this year, overcoming uncertainty caused by the use of trade and finance as instruments at the service of politics. This in a context where, as in 2023 and 2024, forecasts improved throughout the year due to reduced trade uncertainty, favourable financial conditions, and the ability of economic agents to adapt their consumption and investment decisions to a complex environment.¹

Looking ahead to 2026, geopolitics will continue to play a key role, given the reshaping of the globalisation process in which the international economy has been immersed since the pandemic. Beyond the evolution of active armed conflicts, the key in the short term will be whether the trend towards a more fragmented world will accelerate or whether we will see progress in the search for new agreements between natural trading partners (EU, ASEAN, Canada, Australia, etc.) to offset the increase in trade restrictions by the US. This should not be incompatible with the continuation of the broader process of achieving strategic autonomy. In this sense, for Europe, the key in 2026 will be how to reconcile its desire to reduce external dependence (industrial, defence, etc.) with the sustainability of public debt. This is an extremely complex challenge, marked by tensions between fiscal discipline, the necessary investments (the ECB raised its Draghi Report estimates to €1.2 trillion in public and private investments), and geopolitical demands.² This European budgetary dilemma can only be resolved with a combination of higher potential growth, greater efficiency in public spending, and greater flexibility in fiscal rules. Countries like Belgium or France are already under pressure due to fiscal impasses that are difficult to resolve³ and which are being reflected in the realignment of risk premiums in Europe.

However, the key to the stability of the economic and financial landscape lies in how the trade relationship between China and the US will evolve, since this will affect the two key sectors for AI development (rare earths and microchips), in which there is mutual dependence. An optimal balance would allow the positive momentum of AI investment for short-term growth (especially visible in the US) to be maintained and increase the likelihood that this innovation process will translate into productivity and potential growth in the medium term, offsetting the negative effects of demographics and economic fragmentation. Indeed, AI is an example of positive uncertainty, insofar as it is expected to lead to greater growth and productivity, but we do not know exactly to what extent. The crucial question is thus whether all the investment effort will materialise, which is essential to mitigate the financial risk caused by the confluence of fiscal pressures, uncertainties, and geopolitical tensions. This, coupled with significant stock market valuations, creates an environment in which financial stability could be tested in 2026, with segments of private credit under investor scrutiny. Central banks have the necessary tools to eliminate any problems that may arise, although their degrees of freedom are also more limited after the efforts of the last decade.

In this complex context, the Portuguese economy continued to demonstrate solid dynamism (although it slowed down), which will allow it to close the year with average growth rates very close to 2%. This performance has been justified by the resilience in domestic demand, driven by private consumption, despite the deterioration in external demand. Looking ahead to 2026, trends are expected to remain positive, thanks to the anticipated boost from European funds, population growth, a robust labour market, favourable financial conditions, and high household savings rates. All of this leads us to predict growth of 2% in 2026.

In summary, over the next year, the economy will continue to be exposed to a combination of emerging trends (trade and migration restrictions, the rise of AI, etc.) and short-term challenges (limited fiscal space, high valuations in financial markets, etc.). A year in which, once again, the ability to question the assumptions behind economic projections at every turn, as well as flexibility when making decisions, will be crucial.

José Ramón Díez
November 2025

1. See the dossier article in this MR: «World economy 2026: resilience, transition, or disruption?».
2. See the dossier article in this MR: «Europe's medium-term budgetary dilemma».
3. See in this MR: «The limits of debt: 2025 edition».

Chronology

OCTOBER 2025

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

AUGUST 2025

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

JUNE 2025

- 5** The ECB cuts interest rates by 25 bps and lowers the depo rate to 2.0%.
- 12** According to the European Commission's Copernicus programme, May 2025 was, globally, the second warmest month of May since records began (the record is held by May 2024).

SEPTEMBER 2025

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

JULY 2025

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

MAY 2025

- 3** OPEC increases oil production while internal tensions rise.
- 28** Legal doubts about the Trump administration's tariffs increase uncertainty over their global effects.

Agenda

NOVEMBER 2025

- 3** Portugal: public debt (Q3).
- 4** Spain: registration with Social Security and registered unemployment (October).
- 5** Portugal: employment (Q3).
- 6** Spain: industrial production (September).
- 13** Portugal: labour cost (Q3).
- 14** Portugal: Moody's rating.
Japan: GDP (Q3).
- 16-17** Federal Open Market Committee meeting.
- 19** Portugal: balance of payments (September).
- 20** Spain: international trade (September).
- 25** Spain: loans, deposits and NPL ratio (September).
- 27** Euro area: economic sentiment indicator (November).
- 28** Spain: CPI flash estimate (November).
Spain: DBRS rating.
Portugal: GDP breakdown (Q3).
Portugal: CPI flash estimate (November).

DECEMBER 2025

- 2** Spain: registration with Social Security and registered unemployment (November).
Euro area: CPI flash estimate (November).
- 3** Portugal: industrial production (October).
- 9-10** Federal Open Market Committee meeting.
- 10** Portugal: international trade (October).
- 16** Spain: quarterly labour cost survey (Q3).
- 18** Governing Council of the European Central Bank meeting.
- 18-19** European Council meeting.
- 23** Spain: quarterly national accounts (Q3).
Spain: loans, deposits and NPL ratio (Q3).
Spain: balance of payments and NIIP (Q3).
Portugal: GDP breakdown by institutional sector (Q3).
Portugal: house prices (Q3).
- 30** Spain: CPI flash estimate (December).
Spain: household savings rate (Q3).
Portugal: NPL ratio (Q3).
- 31** Portugal: CPI flash estimate (December).

Portugal: sound finances give a boost to 2026

As is customary at this time of year, we present the medium-term outlook for the global and Portuguese economies, as well as our analysis of the main factors we believe will drive or dampen economic activity in the coming year. One of the main tailwinds is the fiscal policy boost which, according to our findings, will add about 0.2 pp to growth. In this same context, and as a key theme of this publication, we have also included a critical analysis of the state of public finances and the proposed State Budget for 2026.

The conclusions of the various analyses carried out in this area, whether our own or those of other reference entities, are almost always favourable, and the results have been reflected in the financing costs of the Portuguese Republic and in the ratings classifications, with successive improvements, far from the times when Portugal was under the investors' spotlight. Indeed, the Republic can currently finance itself over a 10-year period with a risk premium of only about 0.35 pp above the equivalent German rate (which serves as a benchmark in the Eurozone). Currently, the Portuguese state finances itself at lower costs than the Spanish, Italian, or French treasuries, which is remarkable.

And, from our perspective, there are reasons for the positive assessments. Economic growth and job creation, together with a public expenditure management that has been classified as prudent, have made it possible to achieve surplus public accounts and, at the same time, a reduction in public debt, which, by the end of 2025, is projected to be already very close to 90% of GDP. At the same time, fiscal policy has been stimulating the economy, fostering growth, and is therefore classified as expansionary (albeit moderately, since, in fact, the public debt ratio continues to decline). It is noteworthy that, in the last 10 years (excluding 2020 and 2021, the years of the pandemic), Portugal has managed to achieve positive primary balances (excluding public debt interest) that, on average, have been around 2% of GDP.

But, once looking at the detail, not everything is favourable. In our analysis of the State Budget, we pointed out some differences between our scenario and

the one underlying the Budget that justify a slightly less optimistic expectation for the evolution of the deficit and debt. It is also important to mention some trends that seem to us to be unsustainable, especially in the presence of any significant adverse exogenous shock. These trends are mainly related to the evolution of certain expenditure items, namely social benefits (with old-age pensions standing out) and wage expenditure, items that have grown, on average, by about 7% per year since 2019. Given that these are fixed expenses, and that they would even increase in a more disruptive scenario, the presence of a hypothetical reduction in revenue would result in a significant deficit, potentially quickly reversing the progress made in reducing state debt. In this chapter, it is worth analysing the details of the expected evolution of public spending in 2026, which, due to the carryover effect of measures taken in previous years (automatic pension updates, pension composition effect, updates to the Guaranteed Minimum Monthly Income, salary agreements and career enhancements...) will increase significantly even without additional measures. We conclude that approximately two-thirds of the increase stems from this carryover effect in the main budget items.

Another important point to highlight concerns public investment, which should return to 3% of GDP thanks to the implementation of the Recovery and Resilience Plan, which, in 2026, enters its final phase. However, despite this expectation of accelerated public investment in 2026, it has once again been found that the targets are not being met, as the objective for 2025 was revised downward by approximately 670 million euros (-0.2% of GDP). And we remind you that this is an expense item, but a virtuous one (or generally so).

In short, it is certain that Portugal has balanced public finances and stands out favourably in the European context. But, as we have seen, detailed analysis raises some concerns, especially when it coincides with clear evidence that there are problems sustaining fundamental systems for social equilibrium, particularly in the areas of Health and Education.

Paula Carvalho

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	0.67	5.25	4.25	3.50	3.00
3-month SOFR	3.62	1.01	1.07	5.37	4.37	3.57	3.10
12-month SOFR	3.86	1.48	1.48	4.95	4.19	3.30	3.10
2-year government bonds	3.70	1.04	1.21	4.46	4.24	3.50	3.50
10-year government bonds	4.69	2.57	1.76	4.01	4.40	4.20	4.50
Euro							
ECB depo	2.05	0.20	-0.30	4.00	3.09	2.00	2.00
ECB refi	3.05	0.75	0.20	4.50	3.24	2.15	2.15
€STR	–	-0.54	-0.38	3.90	3.06	1.93	1.97
1-month Euribor	3.18	0.50	-0.32	3.86	2.89	2.00	2.03
3-month Euribor	3.24	0.65	-0.21	3.94	2.83	2.05	2.06
6-month Euribor	3.29	0.78	-0.07	3.93	2.63	2.09	2.11
12-month Euribor	3.40	0.96	0.10	3.68	2.44	2.14	2.18
Germany							
2-year government bonds	3.41	0.35	-0.21	2.55	2.02	1.96	1.99
10-year government bonds	4.30	1.54	0.14	2.11	2.22	2.70	2.80
Spain							
3-year government bonds	3.62	1.69	0.18	2.77	2.26	2.57	2.73
5-year government bonds	3.91	2.19	0.38	2.75	2.48	2.85	3.04
10-year government bonds	4.42	3.17	0.99	3.09	2.90	3.35	3.60
Risk premium	11	164	85	98	68	65	80
Portugal							
3-year government bonds	3.68	3.33	0.07	2.33	2.03	2.09	2.21
5-year government bonds	3.96	3.94	0.35	2.42	2.15	2.49	2.68
10-year government bonds	4.49	4.67	0.96	2.74	2.68	3.20	3.50
Risk premium	19	314	82	63	46	50	70
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.09	1.05	1.19	1.20
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.86	0.83	0.88	0.90
EUR/GBP (yen per euro)	129.56	126.41	129.91	156.99	161.18	173.00	168.00
OIL PRICE							
Brent (\$/barrel)	42.3	80.1	71.0	77.3	73.1	65.1	65.3
Brent (euros/barrel)	36.4	62.5	63.9	70.9	69.8	54.8	54.4

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
GDP GROWTH¹							
Global	4.3	3.3	2.5	3.5	3.3	3.1	3.1
Developed countries	2.7	1.5	1.7	1.8	1.8	1.6	1.6
United States	2.7	1.8	2.1	2.9	2.8	1.8	1.9
Euro area	2.3	0.9	1.3	0.5	0.8	1.3	1.2
Germany	1.6	1.3	0.4	-0.7	-0.5	0.2	1.1
France	2.3	1.0	0.7	1.6	1.1	0.6	0.7
Italy	1.5	-0.3	1.6	0.8	0.5	0.5	0.7
Portugal	1.5	0.4	1.5	3.1	2.1	1.8	2.0
Spain	3.6	0.7	0.7	2.5	3.5	2.9	2.1
Japan	1.4	0.4	-0.2	1.5	0.1	1.0	1.0
United Kingdom	2.8	1.2	1.0	0.4	1.1	1.3	1.2
Emerging and developing countries	6.3	4.9	3.1	4.7	4.3	4.2	4.0
China	10.6	8.0	4.7	5.4	5.0	4.6	4.0
India	7.2	6.7	3.8	8.9	6.7	6.8	6.6
Brazil	3.6	1.6	1.5	3.2	3.4	2.0	1.8
Mexico	2.3	1.5	0.5	3.4	1.4	0.8	1.4
Russia	–	1.4	0.6	4.1	4.3	1.7	1.3
Türkiye	5.5	4.5	6.3	6.6	3.3	3.2	2.9
Poland	4.2	3.7	3.6	0.1	2.8	3.6	3.3
INFLATION							
Global	4.1	3.7	5.5	6.6	5.7	4.2	3.9
Developed countries	2.1	1.6	3.7	4.6	2.6	2.4	2.2
United States	2.8	1.8	4.6	4.1	3.0	2.8	2.8
Euro area	2.2	1.4	3.7	5.4	2.4	2.1	2.0
Germany	1.7	1.4	4.1	6.0	2.5	2.2	2.1
France	1.9	1.3	2.8	5.7	2.3	1.1	1.7
Italy	2.4	1.4	3.5	5.9	1.1	1.8	1.7
Portugal	3.1	1.1	3.0	4.3	2.4	2.3	2.1
Spain	3.2	1.3	3.7	3.5	2.8	2.5	2.0
Japan	-0.3	0.4	0.7	3.3	2.7	1.5	1.5
United Kingdom	1.6	2.3	4.2	7.3	2.5	3.4	2.5
Emerging and developing countries	6.9	5.5	6.8	8.0	7.7	5.3	4.9
China	1.7	2.6	1.8	0.2	0.2	0.0	1.0
India	4.6	7.3	6.1	5.7	5.0	4.6	4.4
Brazil	7.3	5.7	6.9	4.6	4.4	4.9	4.2
Mexico	5.2	4.2	5.7	5.5	4.7	4.4	3.7
Russia	14.2	7.9	8.0	5.9	8.5	8.4	6.0
Türkiye	22.6	9.6	34.7	53.9	58.5	36.1	26.1
Poland	3.5	1.9	7.4	10.8	3.7	4.6	3.4

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

Forecasts

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

Portuguese economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	1.8	0.5	1.2	2.3	3.0	3.2	2.3
Government consumption	2.2	-0.3	2.0	1.8	1.5	1.5	1.5
Gross fixed capital formation	-0.4	-0.7	2.9	6.0	3.8	2.6	5.5
Capital goods	3.4	2.7	5.5	8.6	7.5	–	–
Construction	-1.4	-2.4	2.6	4.5	2.7	–	–
Domestic demand (vs. GDP Δ)	1.3	0.0	1.9	2.2	2.9	3.4	2.8
Exports of goods and services	5.3	4.0	3.6	4.2	3.1	1.0	2.7
Imports of goods and services	3.6	2.7	4.0	2.3	4.8	4.6	4.3
Gross domestic product	1.5	0.4	1.5	3.1	2.1	1.8	2.0
Other variables							
Employment	0.4	-0.4	1.1	2.3	1.2	2.3	0.9
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.5	6.4	6.3	6.4
Consumer price index	3.1	1.1	3.0	4.3	2.4	2.3	2.1
Current account balance (% GDP)	-9.2	-2.8	-1.1	3.9	2.4	0.6	0.9
External funding capacity/needs (% GDP)	-7.7	-1.5	0.1	1.9	2.8	2.5	2.5
Fiscal balance (% GDP)	-4.5	-5.1	-3.0	1.3	0.5	-0.1	-1.2

Forecasts

Spanish economy

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

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

Forecasts

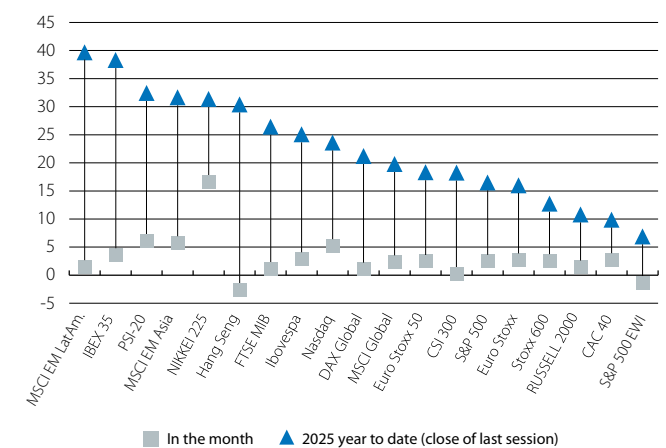
The markets weigh an easing in geopolitics and vertigo in technology

A rebound in risky assets, not exempt from swings. The US-China trade truce, the ceasefire in Gaza and the progress in the budget negotiations in France offered support to investor sentiment. In October, the main stock indices reached all-time highs, the dollar appreciated, sovereign debt yields declined and euro area peripheral spreads narrowed, while commodities exhibited disparity between the rise in metals and the decline in crude oil prices. Despite this broadly positive tone in the month, market prices were not without volatility and suffered back-and-forth movements, especially in the case of stocks, sovereign interest rates and some commodities. In this context, the central banks fulfilled expectations: the Fed cut rates, the ECB kept them unchanged and investors' monetary policy expectations remained relatively stable.

The central banks stayed on track. The Federal Reserve cut rates by 25 bps, placing the fed funds rate in the 3.75%-4.00% range, and announced the end of the balance sheet reduction programme from December. However, Chair Powell's tone was more cautious and he warned that further cuts are not a foregone decision, especially in a context of incomplete data due to the government shutdown. In addition, the statements of various Fed members revealed a notable disparity of views within the FOMC. Nevertheless, investors are still betting on another rate cut in December (although they lowered its probability slightly, to around 70%) and maintain the expectation of two more cuts in 2026. As for the ECB, it kept rates at 2.00% and reiterated its «meeting-by-meeting» and «data-dependent» approach to policy decisions, refusing to provide any clues about the future path of interest rates. While the ECB noted an improvement in the balance of risks surrounding the euro area economy, the markets kept their expectations unchanged, pricing in a near 95% probability that the depo rate will remain at 2.00% in December, but with a slight dovish bias for 2026 (implicit probability of 45% that the ECB will end up cutting the depo rate to 1.75% in the first half of next year).

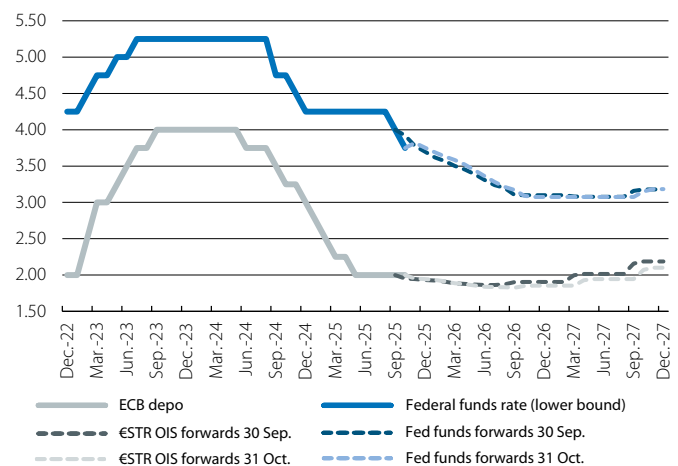
Indecisive falls in sovereign interest rates. The month was marked by swings in sovereign bonds, which finally ended with a widespread decline in sovereign interest rates on both sides of the Atlantic (and a sharper drop at the long ends of the curve). In the US, sovereign rates racked up falls of 20 bps, although they rebounded at the end of October, following the FOMC meeting and Powell's more cautious tone, as well as finding support in the trade truce with China. In Europe, the pattern was similar: the *bund* was under pressure in the first half of the month, but regained some ground in the second half. On the other hand, risk premiums in the euro area periphery decreased (not only in Italy, Spain and Portugal,

Stock market performance in the year and the month



Source: BPI Research, based on data from Bloomberg.

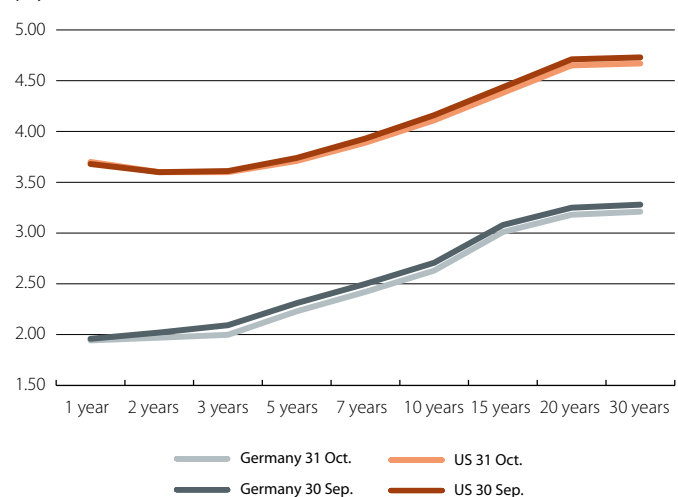
Market expectations regarding central bank rates



Note: Implicit rates of futures on the EFFR and OIS rates for the €STR.

Source: BPI Research, based on data from Bloomberg.

Sovereign yield curves



Source: BPI Research, based on data from Bloomberg.

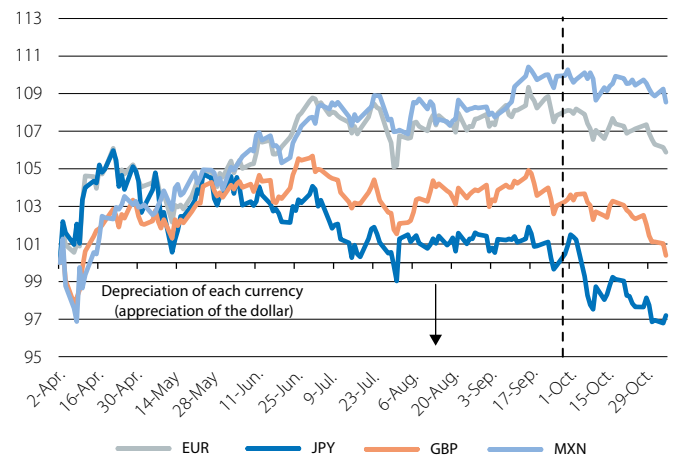
but also in France, amid progress in the negotiations over the 2026 budget).

Widespread appreciation of the dollar. Following the sharp depreciation suffered in the first half of the year and a practically flat summer, the dollar appreciated in October, supported by solid activity indicators in the US (despite the lack of public statistics, suspended by the government shutdown) and the slightly hawkish bias in the comments of some Fed board members at the end of the month. Specifically, the euro depreciated to 1.15 dollars and reached its lowest levels since June. The Japanese yen, meanwhile, weakened in the month, also penalised by expectations of a continuity in the Bank of Japan's dovish policy stance after it kept rates unchanged.

Gains in the stock markets, but with signs of caution amid high tech stock valuations. The main US and European indices reached all-time highs in the month, driven by the resilience of the global economy, the US-China trade truce and solid business earnings. Although the technology sector was one of the main drivers of the US stock markets for the month as a whole, there were some episodes of correction and market commentary focused on tech firms, their high valuation multiples and the demanding expectations regarding investment in artificial intelligence. In Europe, the performance of the various sectors was somewhat more balanced, with a good contribution from stock prices in the financial sector, while by country the IBEX 35 and the PSI-20 were among the indices with the greatest gains for the month as a whole.

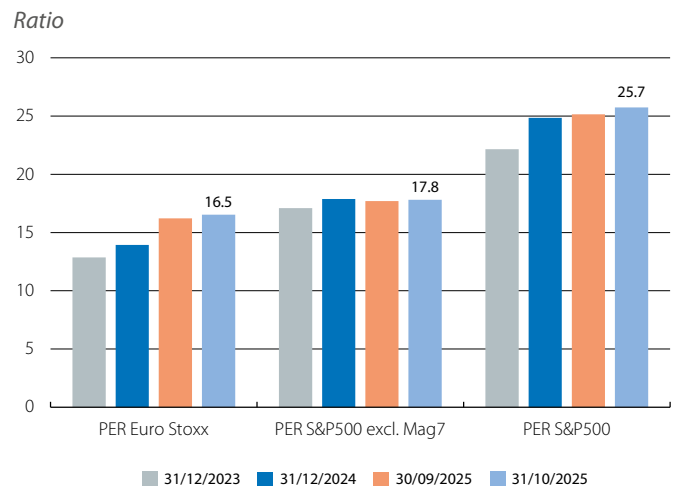
Diverging dynamics among commodities. While industrial metals and agricultural products rose sharply in October, energy commodities retreated and gold recorded significant setbacks in the month. Specifically, after accumulating significant gains in the first few weeks of the month, gold suffered a correction towards the end of October, falling nearly 10% from the mid-month highs. Industrial metals recorded widespread increases, with sharp rises in aluminium and copper. Oil, on the other hand, closed the month down amid the prospect of an oversupply in the market (the International Energy Agency revised its global surplus forecasts for 2026 upwards). This outlook prompted OPEC to pause its increases in output, announcing that there will be no increases in Q1 2026, after a relatively moderate output increase planned for December (137,000 barrels per day). However, oil also experienced price swings, ranging from 61 dollars per barrel of Brent up to a peak of 67 dollars (after US and EU sanctions were imposed on the Russian oil firms Rosneft and Lukoil).

Evolution of selected currencies against the dollar
Index (100 = 02/04/2025)



Source: BPI Research, based on data from Bloomberg.

Euro area and US: PER* ratio of the main indices

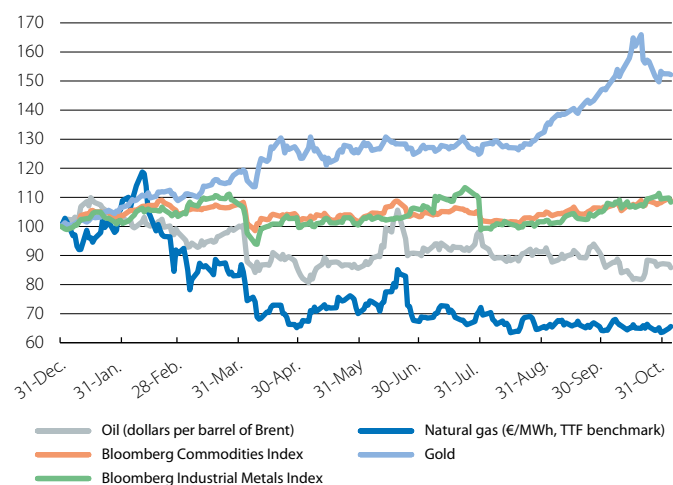


Note: * Share price over earnings expected in the next 12 months.

Source: BPI Research, based on data from Bloomberg.

Commodities

Index (100 = 31/12/2024)



Source: BPI Research, based on data from Bloomberg.

Debt limits: 2025 edition

In recent decades, public debt has risen sharply and broadly, as we already discussed a year ago.¹ Some of the countries that reached high peaks are now correcting course, but in other cases the levels remain high and there are no signs of them coming back down (see first chart). This has sparked occasional concern in financial markets, with investors becoming more sensitive to public finances.

Some of the advanced economies that are showing no signs of correcting their high levels of debts include the United States, France, the United Kingdom, Belgium and Japan. The growth outlook for nominal GDP, the government balance and interest rates suggest that, in the coming years, public debt ratios will continue to deteriorate significantly in the US, France and Belgium (see first table).² In all three cases, the expected increase in debt reflects the outlook of sustained high primary government deficits (i.e. excluding interest payments).³ In addition, in the US the gap between interest rates and weaker economic growth will also make it difficult to reduce the debt. In contrast, in Japan, the gap between rates and growth is expected to facilitate the reduction of the country's debt, while in the United Kingdom the debt ratio is likely to stabilise at current levels if the outlook for rates, growth and fiscal policy is met.

Reversing these trends will not be easy without substantial fiscal effort.⁴ Based on current GDP and interest rate forecasts, the US, France and Belgium will need to converge on an equilibrium primary fiscal balance at the very least if they are to begin reducing their debt ratios (see the last column of the first table).

1. See the Focus «Debt limits», in the MR01/2025.

2. Growth forecasts for nominal GDP (g) and primary government balance (b) per the IMF (World Economic Outlook autumn 2025 update). Interest rate forecasts (i) based on market forwards (measured according to the average maturity of each country), assuming that a percentage of the debt proportional to the average maturity is refinanced each year at the market rate. Taking these figures for g , b and i , we project the evolution of the public debt to GDP ratio (d) using the classic equation for debt dynamics:

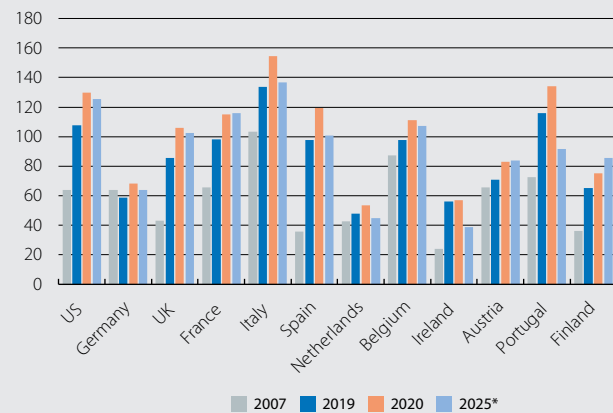
$$d_{t+1} = d_t + \frac{i_{t+1} - g_{t+1}}{1 + g_{t+1}} \times d_t - b_{t+1}$$

3. In the US, the Committee for a Responsible Federal Budget (CRFB) estimates that the *One Big Beautiful Bill Act* passed by the Trump administration this summer will add more than 1.5 pps to the annual primary deficit in 2026 and 2027, and between 1.0 and 1.5 pps in 2028-2030, representing more than a third of the annual primary deficit forecast by the IMF. See CRFB (2025), «The 30-Year Cost of OBBA». In France, parliamentary fragmentation makes it difficult to pass measures to reduce the country's high primary deficit (3.7% in 2024).

4. The projections of this article do not take into account the negative feedback that a significant fiscal consolidation would have on economic growth; such a situation would further complicate the state of the public accounts in the countries mentioned.

Gross public debt

(% of GDP)



Note: * 2025 forecast according to the European Commission's spring report.
Source: BPI Research, based on data from the European Commission.

Public debt dynamics in major economies

(% of GDP)

	Gross public debt			Primary government balance	
	2025	Δ 2030*	Δ 2035*	2030 forecast	To stabilise the debt from 2030**
US	125	22	44	-3.4	1.0
Germany	64	9	20	-2.4	-0.4
Japan	246	-12	-13	-2.5	-2.7
UK	103	-1	-4	0.7	0.0
France	116	14	28	-2.9	-0.1
Italy	137	-5	-9	1.9	1.1
Spain	101	-8	-14	0.6	-0.6
Netherlands	45	5	11	-1.6	-0.4
Belgium	107	16	33	-3.6	-0.2
Ireland	39	-10	-19	1.3	-0.6
Austria	84	6	13	-1.6	-0.1
Portugal	92	-12	-18	0.7	-0.6
Finland	86	7	13	-2.0	-0.9
Greece	147	-20	-34	2.0	-0.8

Notes: * Changes in public debt between now and 2030 and 2035 according to forecasts for nominal GDP and the primary government balance (excl. interest payments) by the IMF (assuming that in 2031-2035 the performance of 2030 is maintained) and the average interest rate on the debt according to market forwards (as of 30 September 2025). ** Assuming that nominal GDP grows at the same rate as in 2030.

Source: BPI Research, based on data from the European Commission, the IMF (WEO, October 2025), Bloomberg, the ECB and the treasuries of the US, Japan and the United Kingdom.

In the absence of changes to the path of fiscal policy, interest rates would need to fall sharply and/or nominal GDP growth would have to rebound strongly to stabilise and reduce debt (see the second and third tables). On the other hand, this does not mean that the sustainability of the debt is easily compromised by a rise in market interest rates. This is because rate increases in secondary markets are diluted by a relatively high average debt maturity (this mitigates the percentage of debt that is to be refinanced at a potentially higher cost). For example, given the current average debt maturities, we estimate that a sustained increase in secondary market interest rates of 100 bps would lead to an increase in the average cost

of the debt, over an average horizon of 10 years, of around 25 bps across all the countries analysed overall (in the third year, the average impact would be around 15 bps, in the fifth year around 25 bps, and in the tenth year around 45 bps).

In contrast, the path followed by the euro area periphery and its growth and interest rate dynamics are, *a priori*, favourable for further reducing the debt ratios: as shown in the first table, in this scenario Italy, Spain and Portugal could achieve reductions of around 10 pps, 15 pps and 20 pps, respectively, in 10 years. Moreover, as seen in the second and third tables, the euro area periphery has a certain buffer that could allow it to withstand an increase in interest rates or a slowdown in GDP while still managing to reduce its debt ratios. However, these countries still face high debt levels, and making a deeper correction will require a significant fiscal effort, as the last table shows.⁵

Germany, for its part, is a special case. It currently has a low level of public debt, but projections for its GDP, rates and government balance point to a significant increase in its debt, led by investment and defence spending plans that have reoriented German fiscal policy in the last year.⁶

High debt is not necessarily a bad thing. Debt is a technology for storing wealth, managing crises, and investing in the future. The countries with the best credit capacity are those that can borrow the most. However, credit capacity can easily be eroded if the economy is unable to recover fiscal space when the economic environment is favourable. This is especially relevant after several years of strong nominal GDP growth and with the prospect of structural pressures on expenditure on the horizon (population ageing, defence and the energy transition).⁷

5. The new EU fiscal rules, adopted in 2024, give some flexibility through medium-term adjustment plans. See «The new EU economic governance framework» in the MR01/2025.

6. See the article «Europe's medium-term fiscal dilemma», in the Dossier of this same *Monthly Report*, for a discussion on investment needs in Europe and the outlook for public debt.

7. According to the IMF, interest payments on public debt, population ageing (pensions and healthcare), the energy transition and defence spending in the major European economies will put additional pressure on annual public spending of 5.75% of GDP by 2050. IMF (2025), «Long-term spending pressures in Europe», Departmental Paper.

Average interest rate on the debt: average in 2026-2030

(%)

	Implicit in market forwards*	To stabilise the debt at 2025 levels**
US	4.1	0.6
Germany	2.0	-1.1
Japan	0.8	1.8
UK	3.4	3.7
France	2.5	0.1
Italy	3.1	3.9
Spain	2.8	4.5
Netherlands	2.0	-0.2
Belgium	2.6	-0.5
Ireland	1.8	7.2
Austria	2.4	1.0
Portugal	2.6	5.3
Finland	2.1	0.5
Greece	2.4	5.3

Notes: * The projection of the average cost assumes that a portion of the debt (determined by the average maturity) is refinanced each year at the interest rate implicit in the markets on 30 September 2025. ** Assuming that the interest rate is maintained throughout the horizon. **Source:** BPI Research, based on data from Bloomberg (forwards as of 30 September 2025), the IMF (WEO, October 2025), the ECB, the European Commission and the treasuries of the US, Japan and the United Kingdom.

Nominal GDP

Annual change (%)

	Projected average in 2026-2030 (IMF)	To stabilise the debt*
US	3.8	7.4
Germany	3.2	4.6
Japan	2.6	1.1
UK	3.7	5.3
France	3.0	5.6
Italy	2.7	2.7
Spain	4.2	3.4
Netherlands	3.5	5.6
Belgium	2.9	6.3
Ireland	3.9	-1.7
Austria	3.3	6.2
Portugal	3.9	0.3
Finland	3.4	7.4
Greece	3.9	0.3

Notes: * In 2030, debt stable at 2025 levels. Assuming a stable primary government balance at 2025 levels and that interest payments evolve according to projections based on market forwards.

Source: BPI Research, based on data from the IMF (October WEO), the European Commission, Bloomberg, the ECB and the treasuries of the US, Japan and the United Kingdom.

Primary government balance

(% of GDP)

	2025 forecast (IMF)	To stabilise the debt*	To return the debt to 2019 levels in 10 years	To halve the debt gap vs. 60% in 10 years**
US	-3.8	0.6	2.4	3.6
Germany	-1.6	-0.5	0.0	-0.3
Japan	-0.9	-3.5	-2.5	0.3
UK	-1.8	-0.1	1.6	2.9
France	-3.4	-0.3	1.5	2.5
Italy	0.5	0.9	1.1	4.6
Spain	-0.6	-1.0	-0.7	1.1
Netherlands	-1.5	-0.5	-0.8	-1.3
Belgium	-3.7	-0.2	0.7	2.1
Ireland	1.4	-0.8	-2.7	-1.9
Austria	-3.0	-0.4	0.9	0.8
Portugal	2.0	-0.9	-3.4	0.7
Finland	-4.2	-0.9	1.2	0.4
Greece	3.2	-1.5	-5.3	3.0

Notes: * In 2030, the debt has stabilised at 2025 levels. ** At 2007 levels for the US, Japan and the United Kingdom.

Source: BPI Research, based on data from the IMF (October WEO), the European Commission, Bloomberg, the ECB and the treasuries of the US, Japan and the United Kingdom.

Interest rates (%)

	31-October	30-September	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.15	0	-100.0	-125.0
3-month Euribor	2.04	2.03	1	-67.4	-101.6
1-year Euribor	2.20	2.19	0	-26.4	-35.2
1-year government bonds (Germany)	1.88	1.94	-6	-36.5	-56.6
2-year government bonds (Germany)	1.97	2.02	-5	-11.4	-29.2
10-year government bonds (Germany)	2.63	2.71	-8	26.6	24.5
10-year government bonds (Spain)	3.14	3.26	-11	8.2	4.6
10-year government bonds (Portugal)	2.99	3.12	-12	14.5	20.0
US					
Fed funds (lower limit)	3.75	4.00	-25	-50.0	-100.0
3-month SOFR	3.89	3.98	-9	-41.6	-68.2
1-year government bonds	3.68	3.61	6	-46.6	-60.3
2-year government bonds	3.57	3.61	-3	-66.8	-60.9
10-year government bonds	4.08	4.15	-7	-49.2	-22.3

Spreads corporate bonds (bps)

	31-October	30-September	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	55	56	-1	-3.0	-2.8
Itraxx Financials Senior	59	60	-1	-4.9	-5.3
Itraxx Subordinated Financials	100	103	-2	-11.8	-12.9

Exchange rates

	31-October	30-September	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.154	1.173	-1.7	11.4	6.3
EUR/JPY (yen per euro)	177.670	173.530	2.4	9.1	6.7
EUR/GBP (pounds per euro)	0.877	0.873	0.5	6.0	4.7
USD/JPY (yen per dollar)	153.990	147.900	4.1	-2.0	0.4

Commodities

	31-October	30-September	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	540.3	545.9	-1.0	0.7	1.0
Brent (\$/barrel)	65.1	67.0	-2.9	-12.8	-10.3
Gold (\$/ounce)	4,002.9	3,859.0	3.7	52.5	43.6

Equity

	31-October	30-September	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,840.2	6,688.5	2.3	16.3	17.7
Eurostoxx 50 (euro area)	5,662.0	5,530.0	2.4	15.6	15.9
Ibex 35 (Spain)	16,032.6	15,475.0	3.6	38.3	36.9
PSI 20 (Portugal)	8,427.0	7,957.6	5.9	32.1	31.8
Nikkei 225 (Japan)	52,411.3	44,932.6	16.6	31.4	33.4
MSCI Emerging	1,401.6	1,346.1	4.1	30.3	24.4

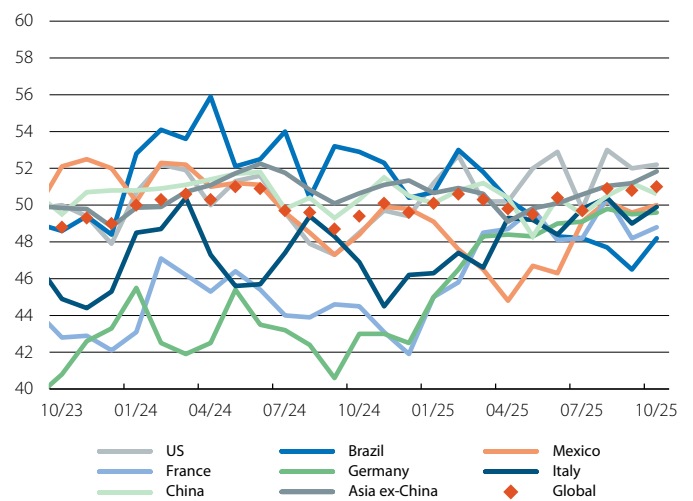
The global economy advances, one truce after another

US-China relations: truce or trick? In the run-up to the Asia-Pacific Economic Cooperation (APEC) summit, Donald Trump's Asian tour has contributed to a thaw in US-China trade ties. The meeting between the US president and Xi Jinping in South Korea concluded with an agreement that includes a one-year delay on the export controls announced by China in October on rare earths and related products, the resumption of purchases of US soybean and a general reduction of 10 pps in the tariffs imposed on imports from China, in exchange for increased cooperation in combating fentanyl trafficking. These measures could reduce the average effective tariff applied by the US on imports from China from around 40% to 30%, and the total US tariff from 16% to 14.5%. The possibility of an easing of US restrictions on the export of advanced chips has also been opened, and additional restrictions on the operation of Chinese companies included in the list of sanctioned entities have been suspended. In addition, the US has reached trade agreements with several ASEAN countries and new agreements have been announced with Malaysia, Thailand and Japan to strengthen cooperation on rare earths, marking an acceleration of the US' efforts to «shield» its supply chains of critical minerals amid an uncertain geo-economic environment.

Autumn leaves: a quarter of contrasts among advanced economies. In Q3, euro area GDP grew by 0.2% quarter-on-quarter (vs. 0.1% in Q2). However, the aggregate figure masks significant disparity between countries. Germany and Italy continue to record weak growth, with their economies stagnating in Q3 after experiencing declines in Q2 (–0.2% and –0.1%, respectively), while the French economy accelerated, registering quarter-on-quarter growth of 0.5%, driven by an increase in exports of aircraft equipment. This divergence underlines the fragility of the European economy, where the Spanish economy has been standing out recently, sustaining growth of around 3%. On the other hand, in the US the federal government shutdown since 1 October – now the longest in history, as Republicans and Democrats fail to reach an agreement to pass a bill to fund federal public services beyond 1 October, when the previous federal budget expired – means that the publication of most official statistics, including the data for Q3 GDP, has been postponed.

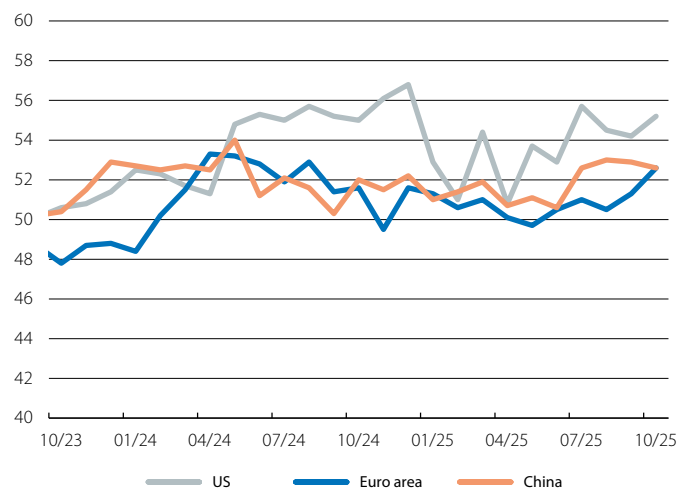
An autumn free of scares, for the moment. In the euro area, the available activity indicators point to a positive start to Q4. The European Commission's economic sentiment indicator (ESI) improved in October and reached a peak since March 2023 (96.8 points vs. 95.6 previously), while the manufacturing PMI stood at 50.0 points (vs. 49.8 previously), with improvements in the biggest economies of the bloc. The services PMI has improved to 53.0 points (vs. 51.3 previously), marking a high since August 2024. In this environment, headline inflation fell to 2.1%, while the core index remained at 2.4%. Of particular note was the rebound in services (+0.2 pps, to 3.4%), which

Global: manufacturing PMI
Index



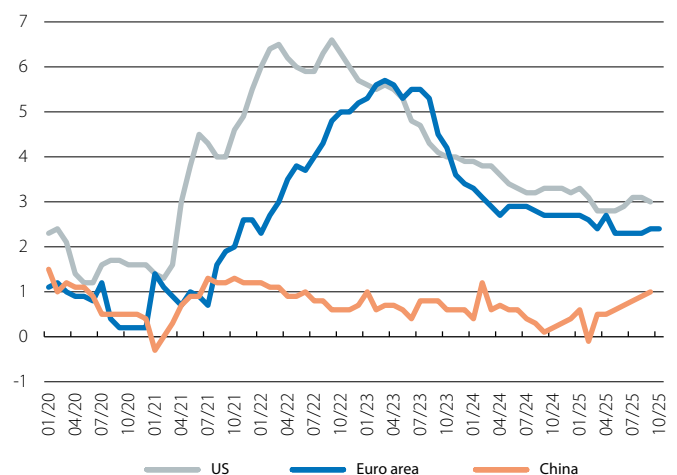
Source: BPI Research, based on data from S&P Global.

Global: services PMI
Index



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

Global: core inflation
Year-on-year change (%)



Source: BPI Research, based on data from the Bureau of Labor Statistics, Eurostat and the National Bureau of Statistics of China.

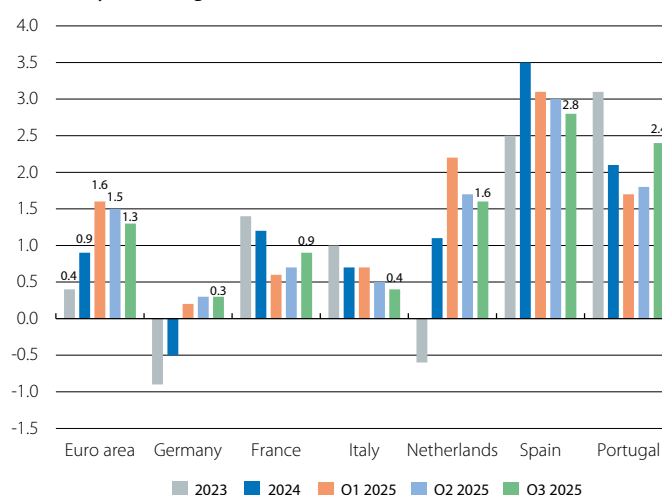
offset the moderation in industrial goods and food and the reduction in energy prices. In the US, Q4 began with positive signals, reflected in the rise in the composite PMI to 54.8 points, driven by services (55.2 vs. 54.2 previously) and a slight improvement in manufacturing (52.2 vs. 52.0 previous). However, the pace of job creation continues to moderate, while inflation remains stable, which allowed the Fed to lower rates in October, albeit with a message of caution with respect to the upcoming meetings (see the Financial Markets – Economic Outlook section).

China, with beacons of light in a stormy horizon. The Chinese economy grew by 1.1% quarter-on-quarter in Q3, a slight acceleration versus Q2, although year-on-year growth has slowed from 5.2% to 4.8%, and the monthly indicators show a slowdown in private consumption and investment. The pace of growth in retail sales fell (6.2% in Q2, 5.8% in Q3) and investment in urban areas contracted 0.5% year-on-year to September, its first decline since 2020. On the other hand, industrial production and exports accelerated in September (6.5% vs. 5.2% previously and +8.3% vs. 4.4% previously, respectively). Despite sharp falls in exports to the US, exports as a whole continue to offer a growth lever for the Asian giant and trade flows with the so-called Global South have provided an important buffer. Of particular note this year is the increase in exports to Africa and the rest of Asia, marking an acceleration of a trend observable in recent years. Still, the October figures point to a slowdown, with the official manufacturing PMI falling to 49.0 points (49.8 in September), marking its lowest level since May – a trend also observed in the PMI RatingDog (50.6 vs. 51.2 previously).

Emerging markets, a «sweet spot» in a challenging environment. Amid all the commotion in geopolitics, emerging economies continue to show significant dynamism. Although the manufacturing PMI fell slightly in October to 51.1 points, the index remains in expansionary territory and close to its highest level of the year. Also, the falls in China and Korea have been offset by improvements in India (59.2 points, also close to this year's highs) and several countries in the ASEAN region, such as Thailand (56.6 points, a high since May 2023) and Vietnam (54.7, a high since July 2024), as well as by Brazil's recovery (48.2 points vs. 46.5 previously). Nevertheless, export orders remain below the levels of the beginning of the year in most countries. Mexico's economy, for its part, continues to be affected by the US' trade policies. GDP contracted 0.2% in Q3, the first annual decline since Q1 2021. The brake on activity was mainly concentrated in industry, while a slowdown was observed in consumption and investment. At its last meeting, Banxico lowered interest rates by 25 bps, to 7.5%, and highlighted its concerns regarding the country's economic weakness amid the trade uncertainty. In addition, in its latest autumn update, the IMF has kept its forecasts for emerging economies virtually unchanged with respect to its July scenario (4.2% in 2025 and 4.0% in 2026), highlighting the difficult environment for the global economy in which global trade will grow more slowly, while the specter of fragmentation, migration restrictions, and fiscal vulnerabilities will come to the fore.

Euro area: GDP

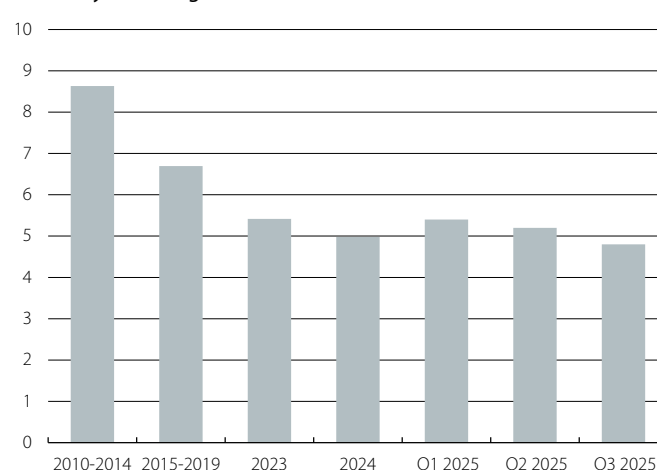
Year-on-year change (%)



Source: BPI Research, based on data from Eurostat.

China: GDP

Year-on-year change (%)



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

China: export growth

Year-on-year change (%)

	Q3 2025	Q2 2025	Q1 2025	2024	2018-2023
Total exports	6.6	6.1	5.6	5.8	7.4
US	-27.3	-23.9	4.4	4.9	3.4
EU	11.2	9.2	3.6	3.1	5.9
ASEAN	18.4	17.5	7.7	12	11.3
Japan	3.6	6.7	2.8	-3.5	2.6
India	11.0	14.2	13.8	2.4	11.1
Asia	14.1	12.3	6.3	6.7	7.0
Latin America	6.4	5.1	9.6	13.1	12.3
Africa	41.5	31.4	11.3	3.6	10.8

Note: The average growth of exports in the years 2018-2023 is used.

Source: BPI Research, based on data from the Bureau of Labor Statistics, Eurostat and the National Bureau of Statistics of China.

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

Over the past decade, China has become a key player in global trade and in foreign direct investment (FDI) flows into emerging economies. Anchored in the Belt and Road Initiative (BRI),¹ launched in 2013, its ambitious foreign policy has sought to establish alliances and has focused on improving regional connectivity through investments in infrastructure and economic integration in the Eurasian continent, as well as in Africa and Latin America.

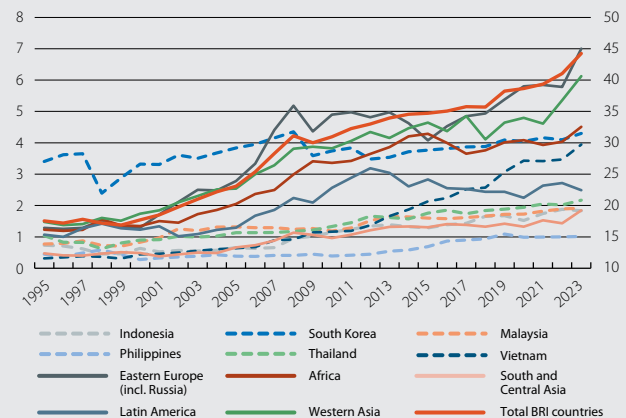
The BRI offers reduced transport costs and times, generating «agglomeration economies» in the manufacturing sector and facilitating the mobility of resources. On the other hand, participation in the BRI can promote Chinese FDI and support the modernisation of the participating countries' productive fabric.² Also, the trade and investment channels are among the most important for understanding the economic effects of the BRI. In a series of three articles, we will take a closer look at the trade channel, using detailed data on international trade flows.

China's exporting profile: from manufacturing giant to technological power

Just as the BRI intended, China has managed to increase its share of global exports from just over 5% at the turn of the century (around 500 billion dollars) to 15% (or 3.5 trillion dollars) today, while at the same time exports to countries participating in the BRI have gone from representing 20% to more than 40% of the total. In addition, in recent years, there has been a rapid diversification of export destinations, with the share of countries participating in the BRI increasing by some

China: share of exports to countries in the Belt and Road Initiative (BRI)

(% of total exports of goods)



Note: Countries participating in the Belt and Road Initiative are considered to be those that have signed the «Memorandum of Understanding» (in total, more than 140 countries). In the case of Russia, although it does not officially participate in the initiative, the country has participated in various infrastructure projects in the region and in several forums organised within the scope of the BRI.

Source: BPI Research, based on data from the Observatory of Economic Complexity and C. Nedopil (2025), «China Belt and Road Initiative (BRI) Investment Report 2024».

10 pps.³ China has also developed links with new markets and improved the infrastructure of countries that were beginning to gain prominence as export destinations, creating alternative trade routes to traditional export destinations, such as the US, in the face of an imminent escalation of trade frictions.

By sector, the increase in China's exports to BRI countries has been widespread, albeit with some nuances. For example, the share of exports of furniture and related products to these countries has grown by 15 pps between 2018 and 2023 (from 23% to 38%), after remaining practically stagnant in the previous decade, while the share of car exports has grown by 14 pps (from 40% to 54%) and has reached a new peak since 2013 (when it stood at 50%), during a period of strong growth in the sector. There have also been accelerations in sectors such as electrical products and electronics, while in metals their market share has remained stable since 2018.

The new Silk Road: strategic axis of Chinese global trade

Over the past decade, BRI participating countries account for almost half of China's export growth

1. The name refers to the ancient Silk Routes – commercial networks that connected Asia, the Middle East and Europe from the 2nd century BC to the 15th century AD. Since the BRI was announced in 2013, each year new countries have signed the «Memorandum of Understanding» in order to participate in the programme. Most of the participating countries did so between 2013 and 2018, the latter being the year with the most accessions (62 in total), and are located in Asia and Africa – regions made up mostly of countries with greater infrastructure investment needs and allowing China to extend its regional influence. In total, more than 140 countries form part of the initiative. Although there is no official list of participating countries, we use the definition by C. Nedopil (2025) «China Belt and Road Initiative (BRI) Investment Report 2024», Green Finance & Development Center.

2. F. Zhai (2018) «China's Belt and Road Initiative: A preliminary quantitative assessment», *Journal of Asian Economics*, pages 84–92, estimates that the BRI could have a positive impact on trade flows and GDP, especially if it is accompanied by institutional improvements. See also J. Bird, M. Lebrand and A. Venables (2020) «The Belt and Road Initiative: Reshaping economic geography in Central Asia?», *Journal of Development Economics*; and H. Yeung and J. Huber (2024) «Has China's Belt and Road Initiative positively impacted the economic complexity of host countries? Empirical evidence», *Structural Change and Economic Dynamics*, pages 246–58.

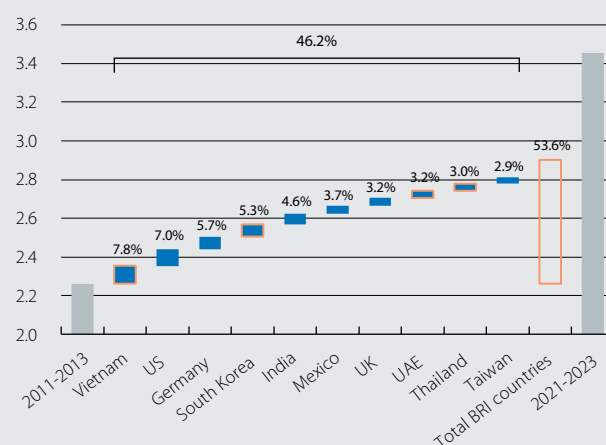
3. The Herfindahl-Hirschman (HH) index of geographical concentration of China's exports has declined from 655.9 in 2011–2013 (652.4 in 2016–2019) to 451.6 in 2021–2023, indicating a rapid geographical diversification of its exports. On the other hand, the product concentration index (at the HS4 level) of Chinese exports has remained stable over the period (at around 170 points).

(see second chart). Among the top 10 destinations that have contributed the most, we find four countries that form part of the initiative (15 in the top 30), the most prominent of which is Vietnam. This country has contributed 7.8% to China's total export growth over the period in question, making it the fifth most important destination for Chinese exports, having barely made the top 20 a decade earlier. Other Asian countries participating in the BRI, such as the United Arab Emirates, Thailand, Indonesia and the Philippines have also seen substantial growth, as well as some Eastern European countries, while Latin America and Africa have recorded significant growth since 2016-2018. On the other hand, while the US has contributed significantly to China's export growth over the last decade as a whole (7% of the total), the dynamics have been rapidly changing. Whereas China's exports to the US grew by more than 20% up until 2016-2018, they have contracted in the years that followed. Hence, the share of exports to the US has fallen from 20% to around 15% of the total.

In addition to diversifying the geographical distribution of its exports, an analysis at the product level reveals profound changes in Chinese value chains. As a witness to its rapid technological evolution, China now ranks 21st in the Economic Complexity Index (ECI) produced by the Observatory of Economic Complexity, compared to 31st back in 2013 and below 50th up until 2004. In the past decade, the biggest contributions to China's export growth have come from sectors such as electronics and machinery, in which the country has acquired a key role. Particularly noteworthy are electric batteries and motor vehicles, with contributions in excess of 6% and very high nominal growth rates. Overall, exports of these goods have increased 12-fold in the period. On the other hand, also of note is the contribution from refined oil, exports of which have doubled in 10 years, mainly to Asian countries.

The distribution of each country's trade flows depends on multiple economic, geographical, institutional and geopolitical factors. However, it is clear that China's efforts over the past decade – anchored in several complementary initiatives, both externally (such as the BRI) and domestically (such as its *Made in China 2025* industrial policy) – have achieved a profound transformation of its productive structure and of its trade relations with the rest of the world, with obvious geopolitical consequences.

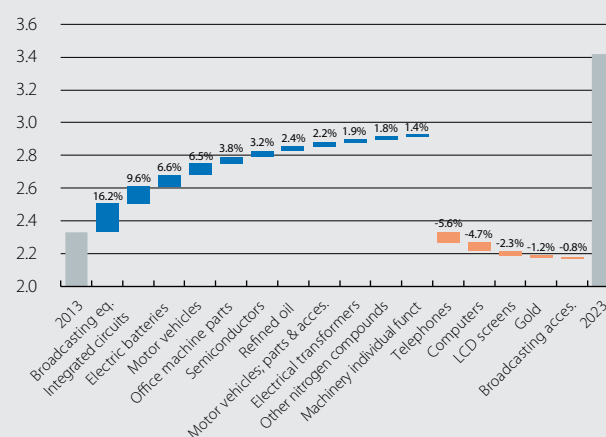
China: total exports and contribution by country (USD trillions)



Notes: The columns with orange borders correspond to countries that participate officially in the BRI. The chart shows the top 10 countries with the largest contributions to the increase in exports from China, as well as the total contribution of all BRI countries.

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

China: total exports and contribution by product (USD trillions)



Note: The chart shows the product categories (at the HS4 level) with the largest contributions to the growth of China's exports and the products with the most negative contributions.

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

Emerging economies: resilience after three global shocks

Emerging economies¹ have faced three major global shocks in recent years: the COVID-19 pandemic, the energy and food crisis stemming from the war in Ukraine, and the protectionist shift spearheaded by the US. The effect of these episodes has manifested itself in different ways among this group of countries. However, despite their magnitude, many emerging economies have shown remarkable resilience in terms of economic stability and their capacity to recover.

From a macroeconomic perspective, the pandemic marked a sharp contraction for the global economy. The drop in incomes, rising unemployment and the increase of fiscal deficits and public debt meant a decline in GDP of 2.1% in 2020 for emerging countries, representing a fall of 6.7 pps compared to pre-pandemic projections. However, the recovery was faster than expected and the subsequent structural after-effects were largely alleviated as the negative impact on productivity was less persistent compared to previous events.² With the war in Ukraine, the second shock was triggered in the form of an energy and food crisis, which led to a rise in inflation worldwide. In the case of emerging countries, inflation reached around 10% in 2022. Although the spike in prices affected these countries unevenly, it was³ energy and food importers that were the hardest hit, with significant increases in their current account deficits. This situation was further exacerbated by a synchronised tightening of monetary policy at the global level, which led to an increase in debt servicing for emerging countries.

The third shock, which we could date from Donald Trump's victory in the US presidential race, has been triggered by the country's protectionist shift through the introduction of widespread general tariffs, as well as specific tariffs on imports of key sectors such as semiconductors, energy and the automotive industry, among others.⁴ However, the global economy, and emerging economies in particular, has performed better than expected during the first half of the year thanks to imports being brought forward (ahead of the introduction of the tariffs), the gradual nature of the tariff hikes (which has prevented a trade war) and the easing of financial conditions in most countries.

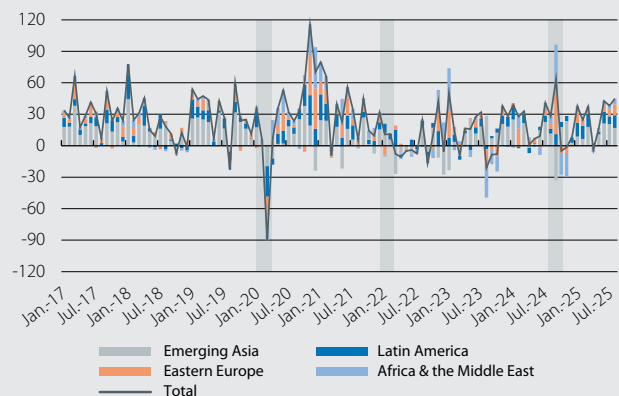
1. The IMF considers emerging economies or markets to be those developing countries that show significant economic growth, accelerated industrialisation and growing integration into the global economy. The countries that form this group are: Mexico, Brazil, Argentina, Colombia, Chile, Peru, China, India, Indonesia, Malaysia, South Korea, Vietnam, Philippines, Thailand, Taiwan, Saudi Arabia, United Arab Emirates, South Africa, Nigeria, Egypt, Kenya, Poland, Czech Republic, Turkey, Russia, Hungary and Romania.

2. See C. Jackson and J. Lu (2023). «Revisiting Covid Scarring in Emerging Markets», IMF.

3. See M. Lebrand, G. Vasishtha and H. Yilmazkuday (2023). «Energy price shocks and current account balances, evidence from Emerging Market and Developing Economies», World Bank.

4. See E. Kohlscheen and P. Rungcharoenkittul (2025). «Macroeconomic impact of tariffs and policy uncertainty», BIS Bulletin 110.

Portfolio capital flows (USD billions)



Notes: The chart shows capital flows invested in equities and fixed-income securities. The grey bands correspond to the start of each shock.

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

In addition, over the course of these five years, the resilience of emerging countries has been observed in other variables, such as the gradual recovery of the current account balance and the ratio of foreign debt to GDP, as indicated by our external vulnerability tracker. In short, this favourable progression has led many international organisations to improve their growth forecasts for emerging countries as a whole, including the IMF, which has revised its GDP growth forecasts⁵ for this year upwards on two separate occasions, placing them at 4.2% for 2025 and 4.0% for 2026 (+0.5 pps and +0.1 pp compared to the April forecasts, respectively).

Ingredients for the improvement in financial resilience

In addition to various economic factors, there have been some fundamental changes that have gradually cushioned the negative impact of each shock on emerging economies.⁶ COVID-19 marked a turning point in a large number of emerging countries, with more decisive decision-making and actions in monetary and fiscal policy.

On the one hand, many monetary authorities responded rapidly and decisively to the surge in inflation triggered by the disruption to global supply chains following the pandemic. Indeed, in the case of Brazil, Mexico and Russia the response was even ahead of the Fed and the ECB. This response marked a shift towards a stronger monetary framework, guided by the goal of anchoring inflation expectations and reducing dependence on exchange rate interventions. Moreover, autonomy in decision-making has boosted these central banks' credibility.

5. See IMF. «World Economic Outlook, October 2025: Global Economy in Flux, Prospects Remain Dim».

6. See «Chapter 2: Emerging Markets resilience: Good luck or Good policies», World Economic Outlook, October 2025: Global Economy in Flux, Prospects Remain Dim.

On the other hand, in fiscal matters, the introduction of budgetary rules, despite the variations from country to country, and the fact that the fiscal consolidation process was initiated earlier than in previous crises, have provided relative fiscal stability in the emerging bloc. However, as the IMF points out, there is still a lot to be done in this area. It has been observed, for example, that despite the existence of fiscal rules in some Latin American countries, there have been fiscal deviations that have led to increased debt vulnerability.

Capital flows, less volatile and more selective

The outcome of the progress made in both the monetary and the fiscal spheres has been essential in building resilience in emerging countries. This strength has been reflected through one of the key aspects in the global scenario: capital flows.

Historically, emerging financial markets have been more vulnerable to global shocks. Typically, such shocks triggered a risk-off movement among global investors, characterised by the outflow of capital from these markets, the depreciation of their currencies and the tightening of domestic financial conditions (used as a tool to cushion the increase in the cost of foreign debt). However, the post-shock experience of recent years offers a different, more favourable reading from the traditional one. As the IMF points out,⁷ those countries whose central banks have

shown greater autonomy and have done a better job of anchoring inflation expectations have also reduced the need to intervene in their currencies. Similarly, early fiscal consolidation has contained sovereign risks, moderating spreads and facilitating access to external financing.

In addition, the efforts of many of these economies to build credible and stable institutions and policy frameworks have favoured the development of local currency markets in which, besides attracting foreign investors, a growing number of domestic investors are participating – an important component in sustaining the growth of these economies and reducing episodes of financial instability. According to the Institute of International Finance, August saw net capital inflows amounting to 45 billion dollars entering emerging countries, with a notable increase in debt denominated in local currency.

However, the recovery has not been even across the board. In a scenario like the current one, marked by geopolitical tensions, trade uncertainty and monetary divergence, investment flows have been concentrated in countries with solid fundamentals or those less exposed to Trump's tariffs, while in others we see capital outflows or erratic patterns of behaviour. For instance, these flows have been sustained in countries such as Brazil, India, Peru, Chile and South Africa. In contrast, countries like Mexico, Argentina, Turkey and Colombia have been subject to greater volatility.

External vulnerability tracker

	Current account balance (% of GDP)	Foreign debt (% of GDP)	S/T foreign debt (% of foreign debt)	S/T foreign debt (% of reserves)	Effective interest rate on foreign debt (%)	DFI inflows (% of GDP)	Risk premium of foreign debt issued in dollars (bps)	External vulnerability ranking From higher to lower risk
Turkey	-2.1 (-3.9)	31.9 (-16.5)	32.4 (9)	191.7 (70)	5.3 (2.2)	0.3 (-0.5)	N/A	1
Argentina	-1.6 (-0.9)	39.4 (-26.2)	17.2 (-6.8)	146.1 (-12.7)	6.2 (-3)	0.2 (-0.9)	1,150 (-190)	2
Malaysia	1.8 (-1.8)	62.2 (2.5)	42.5 (1.4)	107.5 (15.5)	2.6 (-0.2)	1.2 (0.8)	40 (-20)	3
Egypt	-4.1 (-1.1)	42.9 (11)	17.7 (7.6)	78.4 (51.6)	5.4 (2.2)	3.4 (1)	550 (40)	4
South Africa	-0.1 (2.5)	41.2 (-6.3)	22.4 (3.8)	73.2 (2.6)	5.1 (0.8)	0.7 (0.2)	300 (-20)	5
Chile	-2.1 (3.2)	78.9 (1.3)	8 (-1.9)	49 (0.9)	3.7 (3.3)	3.3 (2.2)	80 (-10)	6
Peru	1.3 (2)	28.6 (0.2)	N/A	N/A	2.7 (-0.2)	0.2 (-2)	130 (20)	7
Thailand	3 (-4)	34.7 (4.5)	45.9 (11.3)	37.8 (10.2)	11.1 (8.6)	-1.5 (-0.7)	150 (20)	8
Russia	1.9 (-2.2)	11.6 (-14.5)	44.9 (31)	31.7 (16.3)	10.9 (5.2)	0.2 (-0.4)	1,310 (1,090)	9
Colombia	-2.9 (1.7)	48.9 (5.3)	10.2 (-1.1)	35.1 (5)	6.6 (2.4)	2.2 (-1.1)	310 (100)	10
China	2.8 (2)	13.7 (0.5)	46.5 (-10.5)	41.2 (2.6)	4.7 (0.1)	-0.8 (-1.1)	10 (-40)	11
Morocco	-2 (1.5)	42 (-0.5)	14.4 (-1.5)	27 (-7.3)	4.3 (2.9)	0.8 (0.2)	210 (-40)	12
Brazil	-3.3 (0.2)	27.1 (-4.2)	13.9 (0.1)	26.7 (4.3)	11 (6.6)	2.2 (-0.3)	190 (-70)	13
Mexico	-0.7 (-0.4)	32.7 (-14.6)	10.9 (2)	29.4 (-1.9)	5.1 (0.7)	1.4 (-0.4)	190 (-40)	14
Philippines	-4.6 (-3.7)	22.5 (3.2)	14 (-6.6)	19.3 (-2.3)	5.7 (3.5)	1 (-0.4)	80 (0)	15
India	-0.3 (0.8)	18.3 (-1.3)	19.5 (0.6)	22.6 (-2.1)	2.1 (-1)	0.2 (-1.1)	90 (-40)	16
Saudi Arabia	-2 (-6.3)	32.3 (13)	18.7 (-9.6)	18.6 (8.5)	4.9 (2.3)	-0.1 (1.2)	N/A	17
Algeria	-1.4 (7.2)	2.8 (-0.1)	26.8 (-14.4)	3.5 (-0.1)	2.6 (1.7)	0.3 (-0.4)	610 (140)	18

Notes: The values correspond to the situation of the variables in Q2 2025. The figures in brackets show the pp change in the variables between 2019 and Q2 2025.

Source: BPI Research, based on data from Oxford Economics and LSEG Workspace.

7. See footnote 6.

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

UNITED STATES

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Activity									
Real GDP	2.9	2.8	2.4	2.0	2.1	...	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.4	4.1	4.8	4.9	...	5.4	...	...
Consumer confidence (<i>value</i>)	105.4	104.5	110.6	99.8	93.1	97.4	97.8	95.6	94.6
Industrial production	0.2	–0.3	–0.3	1.2	0.9	...	0.9	...	...
Manufacturing activity index (ISM) (<i>value</i>)	47.1	48.2	48.2	50.1	48.7	48.6	48.7	49.1	48.7
Housing starts (<i>thousands</i>)	1,421	1,371	1,387	1,401	1,354	...	1,307	...	...
Case-Shiller home price index (<i>value</i>)	312	330	336	340	338	...	337	...	...
Unemployment rate (% <i>lab. force</i>)	3.6	4.0	4.1	4.1	4.2	...	4.3	...	...
Employment-population ratio (% <i>pop. > 16 years</i>)	60.3	60.1	59.9	60.0	59.8	...	59.6	...	...
Trade balance ¹ (% GDP)	–3.0	–2.8	–3.0	–3.5	–3.6	...	...	...	...
Prices									
Headline inflation	4.1	3.0	2.7	2.7	2.4	2.9	2.9	3.0	...
Core inflation	4.8	3.4	3.3	3.1	2.8	3.1	3.1	3.0	...

JAPAN

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Activity									
Real GDP	1.2	0.1	1.2	1.7	1.7	...	–	–	–
Consumer confidence (<i>value</i>)	35.1	37.2	36.1	34.7	32.8	34.6	34.9	35.3	35.8
Industrial production	–1.4	–3.0	–2.5	2.5	0.8	0.4	0.1	1.6	...
Business activity index (Tankan) (<i>value</i>)	7.0	12.8	14.0	12.0	13.0	14.0	–	–	–
Unemployment rate (% <i>lab. force</i>)	2.6	2.5	2.5	2.5	2.5	2.5	2.6	2.6	...
Trade balance ¹ (% GDP)	–3.0	–1.1	–1.0	–0.9	–0.7	...	...	...	...
Prices									
Headline inflation	3.3	2.7	2.9	3.8	3.4	2.9	2.7	2.8	...
Core inflation	3.9	2.4	2.3	2.7	3.2	3.2	3.3	3.1	...

CHINA

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Activity									
Real GDP	5.4	5.0	5.4	5.4	5.2	4.8	–	–	–
Retail sales	7.8	3.3	3.8	3.6	4.4	2.4	3.4	3.0	...
Industrial production	4.6	5.6	5.6	6.8	6.2	5.8	5.2	6.5	...
PMI manufacturing (<i>value</i>)	49.9	49.8	50.2	49.9	49.4	49.5	49.4	49.8	49.0
Foreign sector									
Trade balance ^{1,2}	865	997	997	1,086	1,146	1,177	1,169	1,177	...
Exports	–5.1	4.6	10.0	5.7	6.0	6.5	4.3	8.2	...
Imports	–5.5	1.0	–1.8	–6.9	–0.9	4.3	1.2	7.4	...
Prices									
Headline inflation	0.2	0.2	0.2	–0.1	0.0	–0.2	–0.4	–0.3	...
Official interest rate ³	3.5	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.0
Renminbi per dollar	7.1	7.2	7.2	7.3	7.2	7.2	7.2	7.1	7.1

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

Source: BPI Research, based on data from the Department of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Standard & Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Refinitiv.

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Retail sales (year-on-year change)	-1.9	1.2	2.2	2.0	2.8	1.7	1.6	1.0	...
Industrial production (year-on-year change)	-1.6	-3.0	-1.6	1.5	1.4	...	1.1	...	...
Consumer confidence	-17.4	-14.0	-13.5	-14.1	-15.7	-15.0	-15.5	-14.9	-14.2
Economic sentiment	96.2	95.7	95.1	95.5	94.4	95.6	95.4	95.6	96.8
Manufacturing PMI	45.0	45.9	45.4	47.6	49.3	50.1	50.7	49.8	50.0
Services PMI	51.2	51.5	50.9	51.0	50.1	50.9	50.5	51.3	53.0
Labour market									
Employment (people) (year-on-year change)	1.5	1.2	0.7	0.7	0.7	...	-	-	-
Unemployment rate (% labour force)	6.6	6.4	6.2	6.3	6.4	6.3	6.3	6.3	...
Germany (% labour force)	3.1	3.4	3.4	3.6	3.7	3.8	3.8	3.9	...
France (% labour force)	7.3	7.4	7.3	7.5	7.5	7.5	7.5	7.6	...
Italy (% labour force)	7.7	6.6	6.2	6.3	6.3	6.0	6.0	6.1	...
Real GDP (year-on-year change)	0.6	0.8	1.3	1.6	1.5	1.3	-	-	-
Germany (year-on-year change)	-0.7	-0.5	-0.2	0.2	0.3	0.3	-	-	-
France (year-on-year change)	1.6	1.1	0.6	0.6	0.7	0.9	-	-	-
Italy (year-on-year change)	1.1	0.5	0.5	0.7	0.5	0.4	-	-	-

Prices

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
General	5.5	2.4	2.2	2.3	2.0	2.1	2.0	2.2	2.1
Core	5.0	2.8	2.7	2.6	2.4	2.3	2.3	2.4	2.4

Foreign sector

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Current balance	2.0	3.4	3.4	3.0	3.6	...	5.1	...	...
Germany	5.5	5.8	5.8	5.4	6.6	...	9.4	...	...
France	-1.0	0.1	0.1	0.0	-0.3	...	-0.7	...	...
Italy	0.2	1.1	1.1	0.9	1.3	...	2.5	...	...
Nominal effective exchange rate¹ (value)	94.7	95.0	94.1	93.5	96.7	98.5	98.3	98.7	98.2

Credit and deposits of non-financial sectors

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Private sector financing									
Credit to non-financial firms ²	2.7	0.8	1.4	2.2	2.6	2.9	3.0	2.9	...
Credit to households ^{2,3}	1.7	0.5	0.9	1.5	2.1	2.5	2.5	2.6	...
Interest rate on loans to non-financial firms ⁴ (%)	4.6	4.9	4.4	3.9	3.4	3.2	3.1	3.2	...
Interest rate on loans to households for house purchases ⁵ (%)	4.4	4.6	4.3	4.0	3.7	3.6	3.6	3.5	...
Deposits									
On demand deposits	-8.5	-3.9	1.2	3.6	5.3	5.6	5.6	5.6	...
Other short-term deposits	21.1	12.3	6.0	2.3	-0.1	-1.4	-1.3	-2.2	...
Marketable instruments	20.3	20.3	18.6	15.7	10.4	4.1	2.2	4.0	...
Interest rate on deposits up to 1 year from households (%)	2.7	3.0	2.6	2.2	1.9	1.7	1.7	1.7	...

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.

The Portuguese economy stands out in the European context

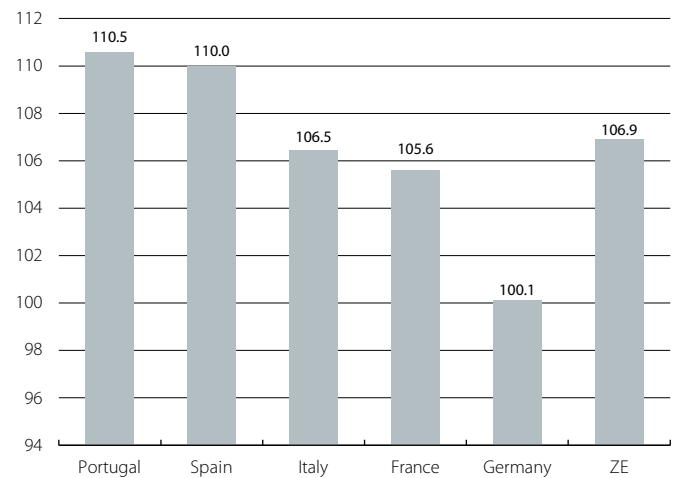
GDP in Q3 grew 0.8% quarter-on-quarter and 2.4% year-on-year, in line with BPI Research's expectations and supporting our forecast of a 1.8% advance for the year as a whole. The quarter-on-quarter growth reflects the greater contribution of domestic demand, supported by private consumption, which was likely influenced by specific fiscal measures that resulted in an increase in household disposable income during the quarter.¹ External demand reduced the quarter-on-quarter change in GDP, with imports growing more than exports, possibly reflecting the increase in imports of services (foreign travel by residents) and goods (associated with increased investment). Performance up to Q3 continues to place Portugal in a prominent position in the post-pandemic recovery among euro area countries. However, information available for Q4 remains scarce, with the European Commission's economic sentiment indicator standing out, which stands comfortably above 100 points but is decelerating, suggesting that the economy will continue to expand, but possibly at a slower pace than in Q3. Indeed, the economy continues to be supported by a robust and resilient labour market (as a result of increased employment and wages); by the receipt of European funds, with the possibility of accelerating their implementation as we approach the end of the NGEU (2026); and by the reduction, to some degree, of uncertainty associated with the new US tariff policy following the agreement between the US and the EU. However, we note that the application of the agreed tariffs may impact international trade data, altering current dynamics. The risks to BPI Research's forecast are balanced, though the probability of better economic performance appears to be slightly higher. For 2026, we anticipate growth of 2%, influenced by a stronger set of tailwinds than headwinds (see the «2026 Outlook» dossier in this publication).

Inflation in October eases slightly. Global CPI slowed by 0.1 pp to 2.3%. In contrast, underlying CPI increased by 0.1 pp to 2.1%. Thus, it was the non-underlying components (energy and unprocessed food products) that were at the root of this slowdown in the CPI, falling to -1.23% and 6.09%, respectively (0.3% and 6.97% in September). It is worth highlighting that the monthly dynamics in October for Global CPI (0.0% change) and Underlying CPI (0.1% change) were weaker than the historical average for the month, which leaves open the possibility of fulfilling BPI Research's forecast for the average CPI in 2025 (2.3%).

Employment continues to surprise and reach record highs. The employed population increased by 3.6% year-on-year (preliminary and seasonally adjusted data), placing the average for the year at over 3% (substantially above the average annual growth of 1.2% in 2024). This dynamism puts the total number of employed people at a new historical high of 5,286,700, with the employment rate also exceeding historical highs (in September, it stood at 65.7%, meaning that almost 66% of people of working

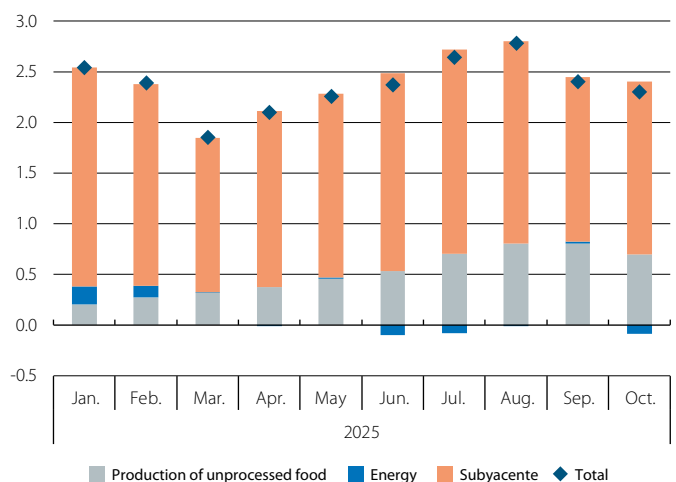
1. The increase in household income and pensions resulted from changes to the IRS (Personal Income Tax) with retroactive effect to the beginning of 2025, impacting household income in September and October; and payment of the extraordinary pension supplement in September 2025.

Q3 GDP: recovery compared to Q4 2019 Index Q4 2019



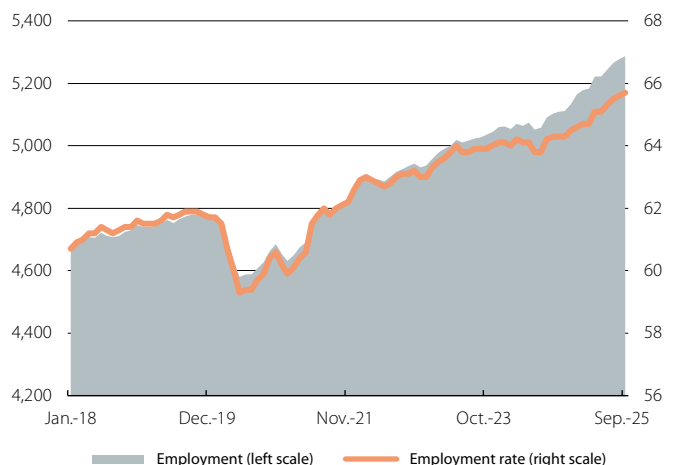
Source: BPI Research, based on Eurostat and INE data.

CPI: contributions for year-on-year variation (%)



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

Employed population and employment rate (Thousand individuals) (%)



Note: Seasonally adjusted data. The data for September is preliminary.

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

age were employed in Portugal). In turn, the unemployment rate increased slightly compared to August (+0.1 pp), to 6.0%. In this context, we maintain our expectation that the unemployment rate will decrease to 6.3% in 2025, with significant job growth expected (more than 2% for the year as a whole), a surprising figure that reflects the dynamism of the economy.

In August and in cumulative terms for the year, the Portuguese current account recorded a surplus of €3.5342 billion (i.e. 1.7% of GDP), which is equivalent to a 35% reduction compared to the surplus recorded in the first 8 months of 2024. This evolution is explained by the goods trade deficit, which worsened by €2.998 billion compared to the same period last year, driven by an increase in imports (+€2.398 billion) and a decrease in exports (–€600 million). On the other hand, the services balance surplus increased by €1.198 billion compared to August 2024, mainly due to the increase in exports of travel and tourism services (+€1.038 billion year-on-year).

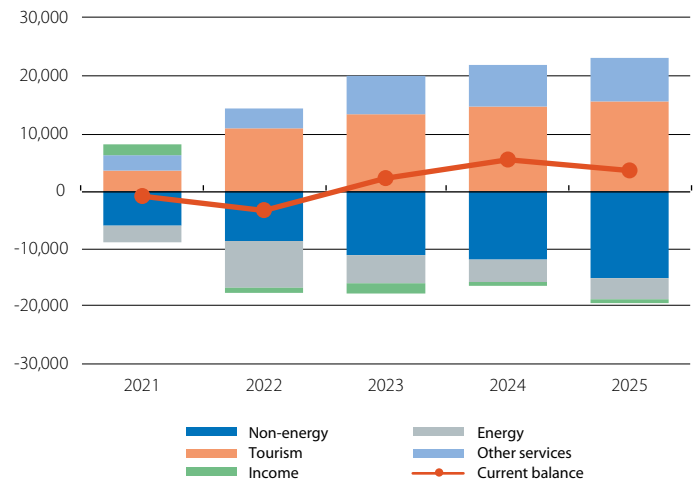
Tourism is growing, but with some nuance. Up to Q3 2025, the number of guests in the national tourism sector increased by 3% year-on-year and by 2.2% in terms of overnight stays. Growth was more pronounced among domestic guests (+4.9%) compared to non-residents (+1.8%). Some of the main source markets performed poorly, namely Spain and France (with a decline in overnight stays compared to the same period last year). On the positive side, there was an increase in guests from Canada, Poland and the USA. Total revenue in tourist accommodation establishments grew by 7.6% up to September compared to the same period in 2024, setting the tone for a new annual record (in August 2025, the monthly revenue threshold of 1 billion euros was surpassed for the first time).

The dynamism of credit is transversal across various segments.

The loan portfolio of the non-financial private sector continues to grow at considerable rates: in September, it grew almost 6% year-on-year, a trend supported by all credit segments, with particular emphasis on housing credit. Indeed, the housing loan portfolio increased by 8.0% year-on-year, bringing the total amount close to the levels recorded in mid-2014 (although this comparison should be made with particular care, since the Bank of Portugal has revised the statistical series, which reduces their comparability). This dynamism has been driven by the remarkable growth in new operations (+39.7% year-on-year, in the year to date up to September), with the effect of tax measures for young people up to 35 years old reflected in high activity. Indeed, the amount granted in the first 9 months of the year is the highest since the beginning of the series. In turn, companies have also been resorting more to bank credit, with new operations up to September growing by more than 18% year-on-year, making the start of 2025 the best start to the year since 2015. Given this performance, the loan portfolio of non-financial corporations has grown by more than 2% year-on-year. Expectations for Q4, as revealed in the Bank Survey on the Credit Market, point to the continuation of this dynamism: in the non-financial corporations sector, an increase in SMEs and long-term loans is expected and, in the case of individuals, a slight increase in credit for home purchases.

Portugal: current account

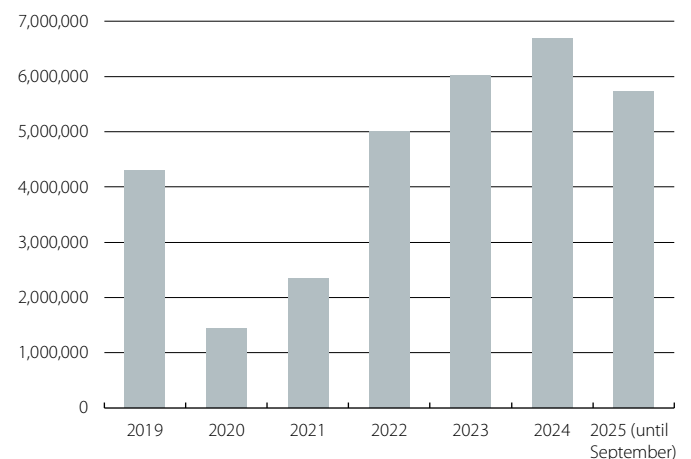
(Ytd August, millions of euros)



Source: BPI Research, based on data from Datastream.

Total income from tourist accommodation establishments

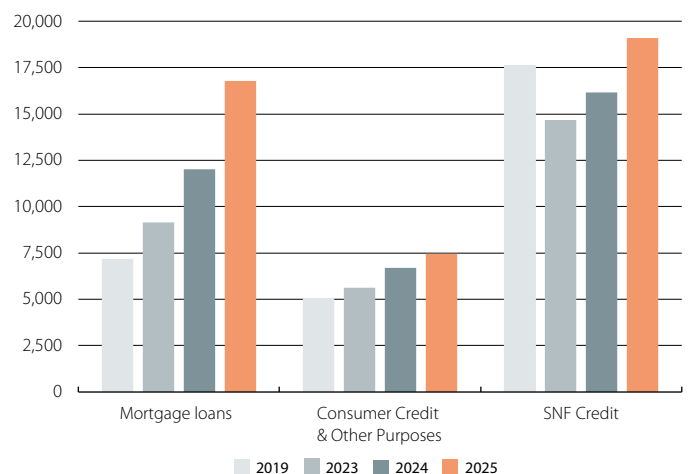
(Millions of euros)



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

New mortgage loans

Accumulated in the year to September (millions of euros)



Note: New corrected operations from credit renegotiations.

Source: BPI Research, based on BdP and ECB data.

The tourism sector during the peak season of 2025

Travel and tourism exports in July and August 2025¹ amounted to a value close to 8 billion euros. Although this number is a milestone in absolute terms, the growth was not as strong as in previous years. The year-on-year growth of this figure compared to July and August 2024 amounted to 5.1%. While in the previous year it had reached 6.4%.² While the difference is not significant, what is noteworthy is the standardisation of growth rates throughout the year: up to June, tourism exports had grown 5.6% year-on-year (11.1% in 2024), and during this peak season period, as we have already seen, they grew 5.1% (6.4% in 2024).

Globally, what these numbers suggest is a normalisation of international tourism demand at solid levels, but with important nuances across large groups of source markets (first graph). The strongest export growth rates originate from tourism from the Americas and Asia, and differences are also noticeable here. While Asian tourism growth was stronger through June (19.2% year-on-year), the growth rate of American tourism only reached double digits during the peak season months (11.1%). The more mature European markets performed consistently, but more weakly during the summer.

When we look at the second graph, we see exports from the main source markets during peak season³ and confirm what had already been revealed to us in the first: greater strength in the American source markets, with the US and Brazil growing at rates of 12.4% and 8.4%, respectively.⁴ Another important insight is offered when we cross-reference the year-on-year variation in overnight stays with export data. Generally speaking, the evolution of exports during peak season is stronger than the variation in overnight stays. Here, the nominal effect (of inflation) will be present, but also the suggestion of a shift towards higher segments with greater expenditure per overnight stay.⁵ This is particularly evident in the data from Brazil, where overnight stays fell by 1%, but exports increased by 8.4%. It is also worth noting the very significant decline

1. For the sake of simplification, in this article we consider July and August as «peak season».

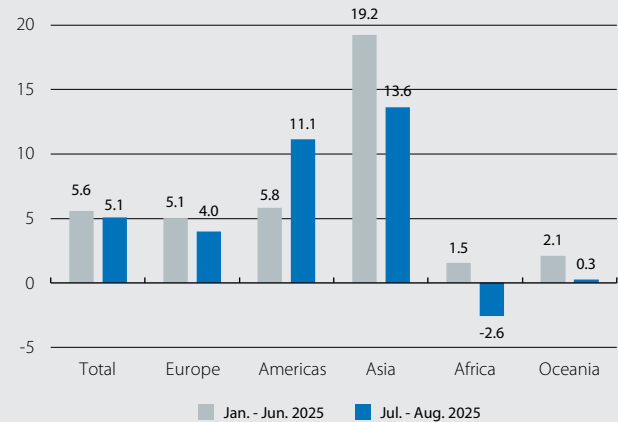
2. In 2023, 11.3%, still in the context of post-pandemic recovery.

3. They account for 80% of travel and tourism exports during peak season.

4. While we do not have monthly data for exports to Canada, overnight stays originating from that country also increased by nearly 7% year-on-year during the same period.

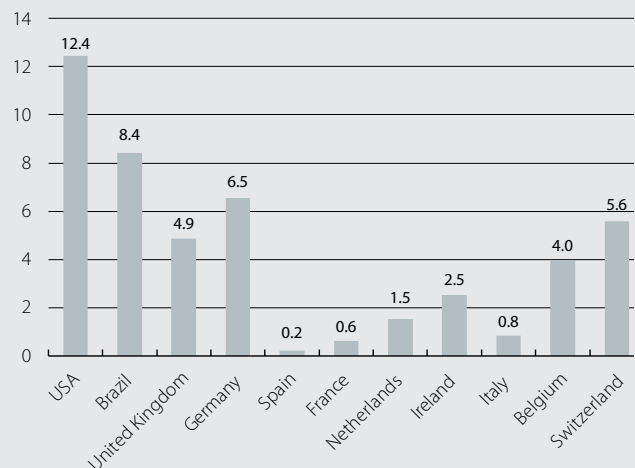
5. This seems to be confirmed by the evolution of room revenue by hotel type visible in the fourth graph.

Growth of travel and tourism exportse turismo
Y-o-Y Var. (%)



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

Travel and tourism exports (July and August)
Y-o-Y Var. (%)



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

Exports and overnight stays in tourism
(July and August)
Y-o-Y Var. (%)



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

in overnight stays from the (important) French and Spanish markets.⁶

The stronger dynamics of long-haul markets offer advantages, primarily the diversification of tourism origins and the fact that they are usually associated with longer stays and tourists with greater purchasing power. The flip side of the coin comes in the form of higher prices for domestic tourists and a loss of market share in Europe's natural (and traditional) markets. On the other hand, long-haul tourism is also more exposed to route and air capacity constraints, fluctuations in oil prices, exchange rate fluctuations against the euro, and even geopolitical issues.

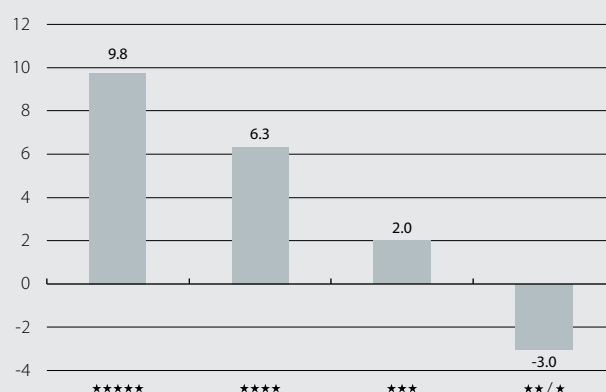
In this article we focused on international tourism, due to its predominance in the total,⁷ yet it is important to note that overall, in 2025 and also during the peak season, tourism has been primarily from residents.⁸ the one that shows the highest growth compared to the previous year, with emphasis on the increase in overnight stays in the Autonomous Region of Madeira (+32.8% until August). In terms of non-resident tourism, by region, the most notable increases in overnight stays during the peak season were in Alentejo (+7.2%) and the Setúbal Peninsula (+5.1%).

In summary, the peak season for domestic tourism in 2025 registered growth in the main metrics, although with less exuberance than in previous years due to the dilution of base effects. Thus, for 2025, we estimate growth in Tourism GVA of around 11%, which should translate into an increase in Tourism's share of GDP to around 17%.⁹

Tiago Belejo Correia

Room revenue by hotel type (July-August 2025)

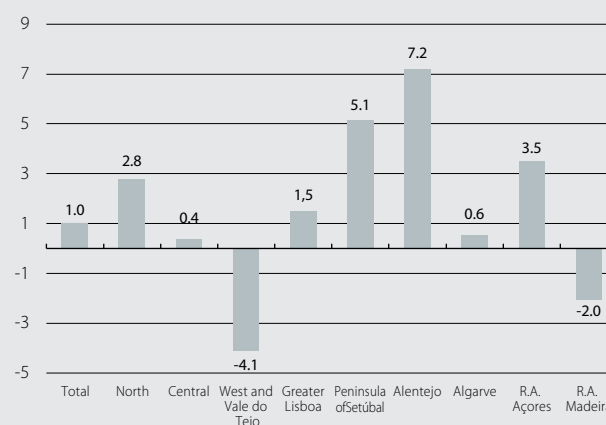
Year-on-year change (%)



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

Overnight stays by non-residents during peak sea

Y-o-Y Var. (%)



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

6. With regard to the Spanish market, it should be noted that, in terms of *year-to-date* guests up to August, the number of Spanish guests in Portugal fell by 4.4% year-on-year, while Portuguese guests in Spain increased by 6.1% (Travel BI information from Turismo de Portugal – competitor analysis, August 2025).

7. *Year-to-date* up to August, overnight stays by non-residents accounted for about 70% of the total overnight stays.

8. *Year-to-date* up to August, overnight stays by residents increased by 5.7% year-on-year (1% for non-residents).

9. Measured based on the concept of «Tourism consumption in the economic territory». In 2024, this figure was 16.6%.

Near-balanced budget overshadowed by warnings and risks

In the final stretch of the year, the State Budget Proposal for 2026 brings with it the balance for 2025 and the fiscal outlook for the State, households, and companies in 2026. In an exercise that marks our November monthly publication, we have analysed the 2026 State Budget and share the main ideas and conclusions in this article.

The starting point is the macroeconomic scenario on which the dynamics of budgetary variables are based. Overall, it is aligned with the institutions that have recently released their forecasts, although it reveals a more positive expectation than, for example, the scenario from BPI Research or the Bank of Portugal regarding the expected performance of private consumption, investment, and, consequently, imports. This optimism may be reflected in lower revenue than expected by the Executive. Another relevant aspect concerns the expected decrease in the unemployment rate in 2025, which, in order to materialise, would require the seasonal quarterly increase in the unemployment rate in Q4 2025 to be lower than what has been recorded in recent years.¹

The balance of the 2025 accounts

As always, the State Budget Proposal provides a more concrete overview of the current year's public finances. This year, the upward revisions to expenditure and revenue compared to the initial budget were similar (around 1.3 billion euros, or 0.4% of GDP), which justifies maintaining the budget surplus at 0.3% of GDP, as outlined in the 2025 State Budget. In this sense, the upward revision of revenue results, to a large extent, from the revision of tax revenue (+1.85 billion euros), with similar proportions between direct and indirect taxes, which can be justified by the higher price level in the economy (measured by the GDP deflator, resulting in nominal GDP growth higher than projected in the 2025 State Budget), the surprising dynamism of the labour market (more employment and higher-than-initially-estimated wage growth) and, consequently, more private consumption.² In this context, we estimate that the higher growth in private consumption could justify around 500 million euros in additional indirect tax revenue, mainly due to increased VAT revenue. Even so, if the revision of the income tax brackets had not occurred, we would be talking about an upward revision of tax revenue exceeding 2 billion euros, or approximately 0.8% of GDP.

On the expenditure side, the upward revision of personnel expenses stands out, but mainly social benefits (overall,

these were revised upwards by more than €2.2 billion compared to the 2025 State Budget), explained, for example, by higher old-age pension costs, the extraordinary pension supplement, and the Solidarity Supplement for the Elderly (with a combined additional cost of around €840 million). Conversely, the Executive revised downwards its investment execution expectations, by approximately 670 million euros compared to the 2025 State Budget (–0.2% of GDP).

What does the 2026 State Budget bring us?

The budget balance is expected to decrease again in 2026 to near equilibrium, a result of expenditure increasing more than revenue. Even so, if we exclude the negative effect that PRR loans have on public accounts, the budget surplus would be 0.8% of GDP in 2025 and 0.6% in 2026. The expected reduction in the structural primary balance reveals an expansionary fiscal policy in 2026. Of particular note, in a negative sense, is the growth in primary current expenditure of around 4% compared to 2025, which, if confirmed, represents an increase of more than 50% compared to pre-pandemic levels, a trend explained almost entirely by expenditure on personnel and social benefits. This trajectory points to an increase in the rigidity of public expenditure, which makes it more difficult to adjust in a scenario of weakness.

The expected increase in total revenue is mainly explained by social security contributions (+2.35 billion euros) and indirect taxes (+2.1 billion euros), meaning that the Executive will be heavily dependent on a robust labour market and a vigorous economy to meet the expenditure. Nevertheless, considering the historical relationship between GDP, tax and social security revenue (and adjusted for the budgetary measures known to date, such as the 1 pp reduction in the corporate income tax rate), we estimate a slight overestimation, of around 0.1% of GDP. However, if the economy evolves more in line with the projections of BPI Research, we could be talking about 0.3 pp less in GDP compared to what is included in the State Budget.

In turn, the expected increase in expenditure next year is largely explained by the carryover effect of measures taken in previous years (for example, the regular updating of pensions). The CFP estimates that this effect will increase public spending in 2026 by approximately 3.9 billion euros.³ Furthermore, the CFP estimates that the macroeconomic scenario will contribute to an increase in public spending of around 2.6 billion euros, and the new

1. Nevertheless, we estimate that this potential overestimation will have a minimal impact on the expected expenditure on unemployment benefit payments in the aggregate for 2025-2026 (around 0.06 pp of GDP).

2. More specifically, the Government now estimates nominal GDP growth of 5.7% (vs. 4.8% in the 2025 State Budget), employment increases by 1.7% (vs. 0.7%), the unemployment rate is expected to remain at 6.1% (vs. 6.5%), and private consumption increases by 3.4% (vs. 2.0%).

3. Within the framework of unchanged policies, the Government estimates that spending measures will result in an increase of almost 4.3 billion euros. The difference between the CFP's estimate and the Executive's estimate lies in intermediate consumption: the Government estimates an increase of 280 million euros, and the CFP estimates that the spillover effect implies a reduction of 97 million euros in 2026. For more information, see CFP (2025). «Analysis of the Proposed State Budget for 2026».

Main items in the public accounts

(% GDP)

	2019	2025	2026	Variation 2026-2019		Variation 2026-2025		
				% GDP	Millions of euros	YoY%	Contributions	Millions of euros
Current revenue	42.2	42.4	41.9	-0.3	43,840	3.6	3.5	4,719
Tax and contributory revenue	36.6	36.7	36.6	0.0	38,959	4.6	3.8	5,181
Capital income	0.4	1.8	1.9	1.5	5,300	12.2	0.5	664
Total revenue	42.6	44.2	43.8	1.2	49,141	4.0	-	5,383
Intermediate consumption	5.1	5.2	5.0	-0.1	5,183	1.2	0.1	184
Personnel expenses	10.8	10.6	10.6	-0.1	10,990	5.1	1.2	1,644
Social benefits	18.2	18.0	18.1	-0.1	19,073	5.4	2.2	2,973
Interest	2.9	2.0	2.1	-0.9	349	4.9	0.2	305
Subsidies	0.4	0.5	0.4	0.0	419	-10.3	-0.1	-158
Investment	1.9	3.3	3.4	1.6	6,949	6.8	0.5	697
Total expenditure	42.5	43.9	43.7	1.3	49,128	4.5	-	6,069
Primary current expenditure *	36.7	37.3	37.1	0.3	39,996	4.1	3.5	4,665
Overall Balance	0.1	0.3	0.1	0.0	14	-	-	-685
Primary balance	3.0	2.4	2.1	-0.9	363	-	-	-380
Primary structural balance	2.0	2.7	2.3	0.3	3,084	-	-	-886
Public debt	116.1	90.2	87.8	-28.3	31,518	-	-	5,551

Source: BPI Research, based on data from INE, Proposed State Budget 2026 and Report of Information Elements (State Budget 2026).

policy measures of 2026 (the update of the Solidarity Supplement for the Elderly and parental benefits) will result in an increase in spending of 375 million euros. Conversely, specific measures and one-offs from 2025 will not be repeated in 2026 (such as the extraordinary pension supplement), which the CFP estimates will result in a positive effect of around 1.86 billion euros in 2026.

In concrete terms, approximately two-thirds of the increase in expenditure is attributed to the rise in social benefits and personnel costs. More specifically, of the nearly 3 billion euro increase in social benefits, approximately 1.68 billion euros result from the carryover effect (including the effect of the automatic pension update, around 700 million euros, and the composition effect,⁴ around 980 million euros). Furthermore, new measures are being added: the increase of 40 euros per month in the Solidarity Supplement for the Elderly and the increase of 2 months in the initial parental allowance (with a combined cost of 375 million euros). The increase in personnel expenses includes the impact of salary agreements and career advancements, along with the increase in the Guaranteed Minimum Monthly Income. In other words, a large part of the expected increase is explained by measures taken in previous years (about 1.25 billion euros).

Finally, note the expectation outlined for public investment, which, if confirmed, could reach its highest share of GDP since 2011. The PRR continues to play a very relevant role in the recovery of public investment: if we exclude the effect of this programme, public investment would reach only 2.4% of GDP, similar to 2022. When assessing the progress of this indicator, the adverse effect that weak investment subsequently has on infrastructure

and the quality of public services provided should be considered. In this context, it is important to bear in mind that in 2019 Portugal was the country with the lowest public investment as a percentage of its GDP among all EU countries, and that in 2024 it was the second lowest.

In this context, the Executive maintains a trajectory of reducing the public debt ratio, largely explained by the performance of the economy. After anticipating a reduction of 3.4 pp in 2025, to 90.2% of GDP, the Government anticipates that the reduction will be smaller in 2026, at 2.4 pp, to 87.8% of GDP, with a smaller contribution from the country's economic performance and a reduction in the primary balance. If confirmed, the ratio will fall below 90% for the first time since 2009.

What can we expect from compliance with European fiscal rules?

The Government revised upwards the growth of net primary expenditure in 2025 compared to what it had committed to in the Medium-Term Structural Budget Plan, and downwards for 2026 (more specifically, from 5.0% to 5.5% in 2025, and from 5.1% to 4.8% in 2026). With this new data, the average growth over the 4 years (2025-2028) is slightly above that agreed with the European Commission (3.7% vs. 3.6%) and the cumulative annual deviations amount to 0.3 percentage points of GDP up to 2026. It should be recalled that the Excessive Deficit Procedure is only activated when the deviation recorded in the control account is greater than 0.3 pp per year or 0.6 pp cumulatively over two years. At the same time, Portugal must comply with the minimum annual reduction of the debt ratio, of 1 pp. However, it is also important to consider the estimates of other benchmark institutions, namely the CFP and UTAO, which draw different conclusions: both conclude that the accumulated deviation up to 2026 will be greater than estimated by the Government and may exceed or come close to the accumulated deviation

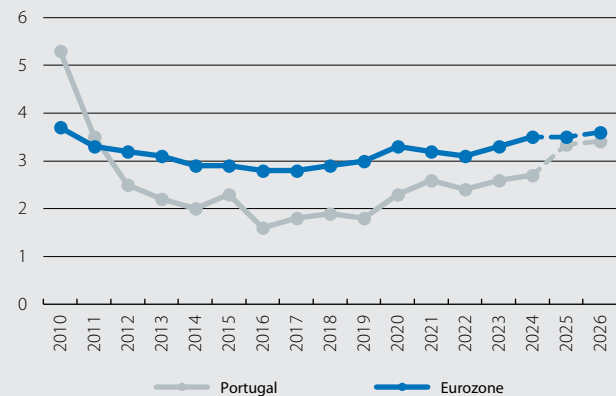
4. The composition effect includes the increase in the average pension per individual and the change in the number of pensioners.

allowed under the new fiscal rules (0.9% and 0.6% by the CFP and UTAO, respectively). However, both also reiterate that the activation of the national derogation clause (which provides more flexibility for defence investment) allows the country to maintain compliance with the new European budgetary rules (placing the accumulated deviations up to 2026 at 0.5% and 0.2%, by the CFP and UTAO, respectively).

In short, the catalogue of risks remains full of challenges that could jeopardise the balance of public accounts, ranging from geopolitical risks, those arising from the tariff war, fluctuations in financial markets (with a possible impact on the increase of financing costs) to political uncertainty in France. To these are added other domestic factors, such as the insufficient execution of European funds and their impact on investment, or a possible slowdown in economic activity with adverse effects on the collection of tax and social security revenue. In budgetary terms, it is also worth highlighting potential pressure on public finances resulting from the approval of measures that may increase expenditure, the impact of the housing package measures, or the realisation of contingent liabilities as expenditure.⁵ In this context, there is an urgent need for a continued reduction in public debt levels, alongside a commitment to balancing public accounts.

Vânia Duarte

Public investment in Portugal and the Eurozone (% GDP)



Note: The forecasts for 2025 and 2026 were taken from the 2026 State Budget for Portugal and from the European Commission's Spring forecasts for the Eurozone.

Source: BPI Research, based on data from Eurostat, the 2026 State Budget and the EC Spring Forecasts.

5. The CFP clarifies that the housing-related measures have already been announced by the Government, but are not yet included in the 2026 State Budget. With regard to contingent liabilities, the CFP highlights public guarantees and the restoration of financial equilibrium in PPPs.

Recent performance of the agricultural sector: productivity and foreign trade

Over the last decade, agriculture has, on average, reduced its share in the labour market and the economy,¹ despite a slight recovery since the sharp drop that occurred in 2022 due to the adverse effects of the war in Ukraine. This, however, represents an expected trajectory, since the share of the primary sector decreases as the economy develops and becomes more advanced, which is also observed in most European countries.²

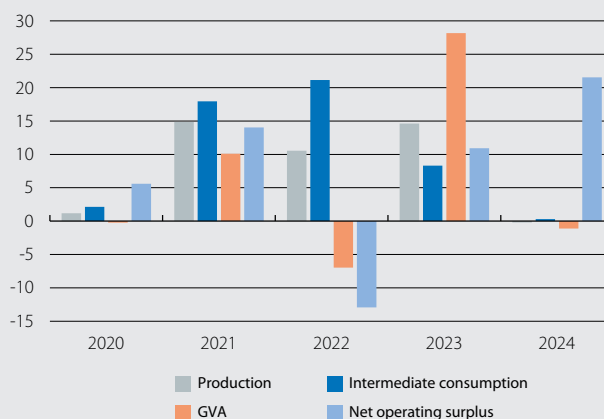
The first graph shows us that, despite its lower economic relevance, this sector has proven to be dynamic. After the post-pandemic recovery, gross value added (GVA) and the net operating surplus decreased in 2022 due to the large increase in raw material prices in international markets, which resulted in an increase in intermediate consumption. More recently, agriculture has regained its contribution: 2023 and 2024 were the years in which GVA and net operating surplus increased the most in the period considered (respectively, GVA grew by +28.2% in 2023 and net operating surplus by +21.5% in 2024). Despite the fact that the expansion of the net operating surplus in 2024 was mainly justified by exogenous factors³ (European support) and not by the organic performance of agriculture itself, for which positive developments are expected in the coming years.

Productivity of crops

In a previous article⁴ we observed that, in 2024, plant production had decreased slightly in value (–1.4%, resulting from a +5.1% increase in volume and a –6.2% reduction in prices) and animal production had stagnated (+3.6% in volume and –3.5% in price levels). It was a year marked by favourable weather conditions for agricultural operations, as well as by a reduction in market prices for various goods, which leads us to analyse how crop productivity has evolved (see second graph). The efficiency and innovation of the agricultural methods, machinery, and equipment used present positive prospects for some crops. For example, olives are one of the most representative crops (approximately 20% of plant production) and their productivity, although relatively low,

Agricultural economic accounts

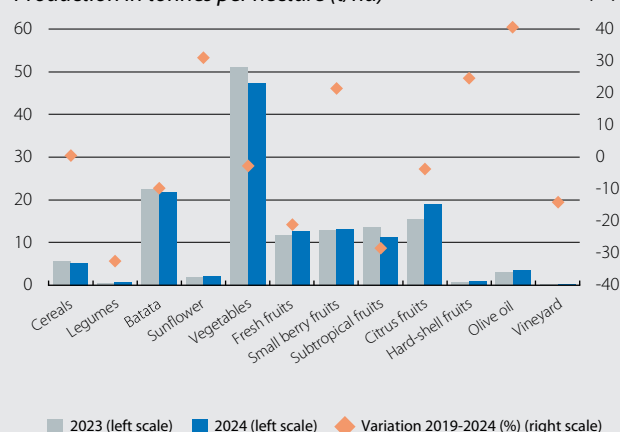
Annual variation (%) at current prices



Source: BPI Research, based on INE Agricultural Statistics.

Productivity of crop plants

Production in tonnes per hectare (t/ha)



Source: BPI Research, based on INE Agricultural Statistics.

has grown the most in the last 5 years as a result of the expansion of olive groves,⁵ due to increased demand and the modernisation of harvesting. On the other hand, vegetables are the most relevant category (representing about 41% of plant production, namely tomatoes for industry – 25%), and although their productivity has stagnated in the last 5 years and even decreased in 2024, it is already the highest among the main product groups, indicating that resources may be being directed towards optimising the production of the least efficient crops, such as olives, sunflowers, and nuts. This conclusion can be extended to potatoes and citrus fruits, which benefited from higher rainfall levels in 2024. In general, evolution has not been uniform, but investment by companies in the sector seems to be evolving positively in some important crops, channelling resources to the less productive ones,

1. The primary sector represented 2.9% of the employed population in 2024 (–0.8 pp compared to 2014) and the GVA of agriculture was about 1.9% of GDP at constant prices (–0.2 pp compared to 2014), according to INE.

2. According to Eurostat, the share of the GVA of agriculture, forestry and fisheries in the GDP of the European Union decreased by 0.1 pp between 2014 and 2024.

3. The net agricultural surplus in 2024 was driven primarily by production subsidies from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development (EAGF and EAFRD) and the Strategic Plan of the Common Agricultural Policy (CAP Strategic Plan) for the period between 2023 and 2027.

4. See Focus «The economic accounts of agriculture in 2024» in IM02/2025.

5. 2024 saw the second largest olive oil production campaign ever.

instead of focusing solely on those that already have high production per hectare.

Foreign trade

On the external front, it is important to note that in 2024 the trade deficit of the agri-food sector decreased for the first time since 2020, by approximately 627.7 million euros. Exports and imports increased by +738.8 and +111.1 million to 9.094.4 and 12.771.4 billion, respectively, considering the groups of goods presented in the third graph. In addition to positive expectations regarding productivity, agricultural foreign trade, which had been on a negative trajectory, recovered due to increased external demand, production, and profitability, particularly in fats and oils, whose balance gained +482.7 million (reinforcing the already dominant share of their exports to 21.1%, +3.5 pp of total exports), supported by the quantity of olives produced, which increased to 1.34 million tonnes in 2024 (+12.2% compared to 2023), now representing 20% of the total (as mentioned earlier). Portugal followed the recovery experienced in the rest of Europe, contributing to an easing of external accounts and domestic demand, as the population gained purchasing power in olive oil consumption due to one of the sharpest reductions in market prices (–29.3% in olive oil prices in 2024, compared to 2023). Secondly, cereals had already provided an increased contribution to the external balance in 2023, which was reinforced in 2024 by adding +233.3 million to the trade balance through significant recoveries in maize (+118.4 million) and wheat (+100.2 million). This

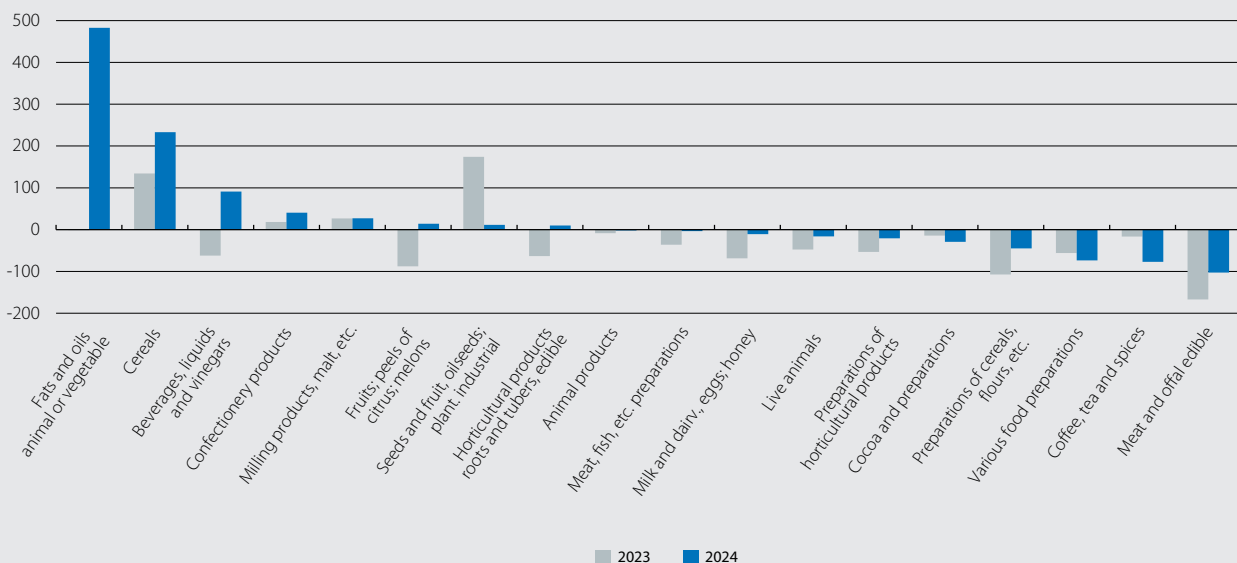
was favoured by better weather conditions and is reflected in part in the normalisation of cereal prices since the peak reached in 2022.⁶ Finally, the balance of beverages, alcoholic liquids and vinegars was also boosted (+91.2 million) due to the fall in imports (–67.5 million), particularly in categories related to wines. On the negative side, meat and offal stand out, with a balance that fell again (–102.8 million euros in 2024, compared to 2023), mainly due to beef (–82.3 million) and the considerable increase in its imports (+91.2 million), since the increase in national beef production volume (+5.3%) was not enough to meet domestic consumption needs. It is important to note that beef consumption in Portugal has one of the highest external dependencies, underscored by its self-sufficiency rate, which is well below 100% (50.9%).

Globally, the dynamics analysed reflect a positive performance of the agri-food sector. On the one hand, the value produced and added, as well as the net operating surplus, have increased since 2022 and have offset intermediate consumption, also through subsidies received under European funds and the CAP. This ultimately boosted foreign trade, particularly in the categories of fats and oils and cereals. On the other hand, although gross fixed capital formation in agriculture is following an upward trajectory, investment in innovation and efficiency must continue to be encouraged in order to reduce the sector's productivity deficit compared to the European Union, which has been showing convergence in recent years.⁷

Tiago Miguel Pereira

Trade balance of the agri-food sector by product groups

Annual variation (millions of euros)



Source: BPI Research, based on INE Agricultural Statistics.

6. According to *TradingEconomics*, wheat (corn) futures have been systematically below \$600 (\$500)/bushel since mid-2024 (2023), when they exceeded \$1150 (\$800)/bushel after the start of the war in Ukraine.

7. When measured, for example, by real factor income per unit of annual labour (Eurostat).

Activity and employment indicators

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Coincident economic activity index	3.9	2.0	1.9	1.8	1.7	1.8	1.8	1.8	...
Industry									
Industrial production index	-3.1	0.8	-0.4	-2.3	1.2	2.6	3.0	2.0	...
Confidence indicator in industry (<i>value</i>)	-7.4	-6.2	-4.2	-5.1	-4.8	-3.4	-3.3	-3.0	-3.7
Construction									
Building permits - new housing (number of homes)	7.5	6.5	23.6	39.4	19.2	-62.9	17.9	...	...
House sales	-18.7	14.5	32.5	25.0	15.5	...	-	-	-
House prices (<i>euro / m² - valuation</i>)	9.1	8.5	13.2	15.8	17.4	18.2	18.1	17.7	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	19.0	6.3	6.3	4.6	4.0	2.6	3.2	2.6	...
Confidence indicator in services (<i>value</i>)	7.7	5.6	10.9	12.5	6.6	12.9	13.5	12.4	10.7
Consumption									
Retail sales	1.1	3.2	5.0	4.5	4.8	5.2	4.4	5.0	...
Coincident indicator for private consumption	3.1	2.8	3.4	3.6	3.3	3.0	3.0	2.9	...
Consumer confidence index (<i>value</i>)	-28.6	-18.0	-14.3	-15.5	-17.9	-16.1	-16.2	-16.5	-15.9
Labour market									
Employment	2.3	1.2	1.3	2.4	2.9	3.7	3.7	3.6	...
Unemployment rate (% <i>labour force</i>)	6.5	6.4	6.7	6.6	5.9	5.8	5.9	6.0	...
GDP	3.1	2.1	2.6	1.7	1.8	2.4	-	-	-

Prices

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
General	4.4	2.4	2.6	2.3	2.2	2.6	2.8	2.4	2.3
Core	5.1	2.5	2.7	2.3	2.3	2.3	2.4	2.0	2.1

Foreign sector

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	-1.4	2.0	2.0	5.3	4.3	...	1.3	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	-4.0	2.0	2.0	5.4	6.9	...	6.0	...	...
Current balance	1.5	6.0	6.0	4.2	3.7	...	4.1	...	...
Goods and services	4.1	6.5	6.5	5.2	4.5	...	4.7	...	...
Primary and secondary income	-2.6	-0.6	-0.6	-0.9	-0.9	...	-0.6	...	...
Net lending (+) / borrowing (-) capacity	5.5	9.1	9.1	7.5	7.1	...	7.5	...	...

Credit and deposits in non-financial sectors

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Deposits¹									
Household and company deposits	-2.3	7.5	7.5	6.5	5.4	6.3	6.0	6.3	...
Sight and savings	-18.5	-0.3	-0.3	5.0	5.1	8.6	7.5	8.6	...
Term and notice	22.2	15.3	15.3	7.8	5.8	4.3	4.6	4.3	...
General government deposits	-12.4	26.7	26.7	29.3	39.6	-0.4	17.0	-0.4	...
TOTAL	-2.6	7.9	7.9	7.1	6.4	6.1	6.3	6.1	...
Outstanding balance of credit¹									
Private sector	-1.5	1.9	1.9	3.3	4.9	5.8	5.6	5.8	...
Non-financial firms	-2.1	-1.0	-1.0	0.1	2.2	2.3	2.6	2.3	...
Households - housing	-1.5	3.0	3.0	4.9	6.4	8.0	7.5	8.0	...
Households - other purposes	0.2	5.4	5.4	5.7	6.6	6.9	6.4	6.9	...
General government	-5.5	0.6	0.6	-8.0	3.8	4.8	2.4	4.8	...
TOTAL	-1.7	1.9	1.9	2.9	4.9	5.8	5.5	5.8	...
NPL ratio (%)²	2.7	2.4	2.4	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.

Domestic demand, supporting the Spanish economy

Domestic demand takes on a more prominent role. The Spanish economy continues to enjoy strong growth. GDP grew by 0.6% quarter-on-quarter in Q3 2025, far outpacing the euro area, at 0.2%, as has become the norm of late. The composition of the growth reveals a very favourable picture, albeit with some nuances. The economy is growing because households are spending more – private consumption grew by 1.2% quarter-on-quarter – and because companies are investing more – investment grew by 1.7% quarter-on-quarter. We have also seen a recent rebound in public consumption, which was up 1.1% quarter-on-quarter, although this has come after three quarters of practical stagnation, so in year-on-year terms public consumption has grown by a modest 1.3% in Q3.

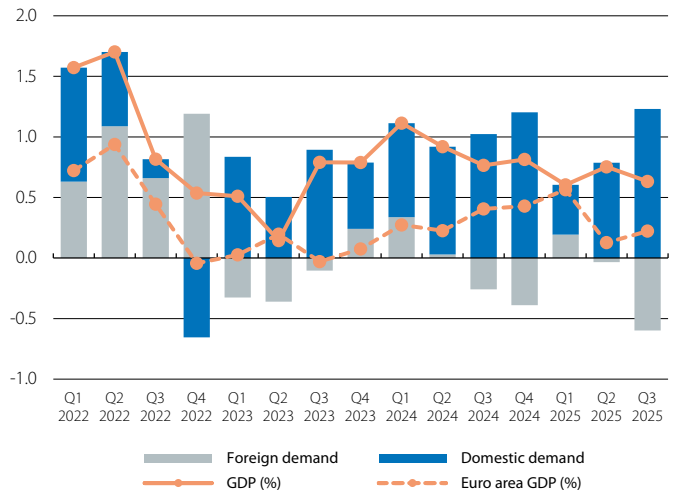
Overall, domestic demand contributed 1.2 pps to quarter-on-quarter GDP growth. This is a very high figure and, with the exception of Q4 2024, we have not seen such levels since late 2021, at the height of the post-pandemic recovery. The negative contribution came from foreign demand, which subtracted 0.6 pps from GDP growth. This was due to a fall in exports, of 0.6% quarter-on-quarter, combined with a notable increase in imports, of 1.1% quarter-on-quarter. Thus, whereas the foreign sector was one of the main pillars of growth in 2023 and still managed to contribute slightly to GDP growth in 2024, in 2025 it is subtracting growth.

Divergence: the balance of trade in goods deteriorates, while that of services improves. The poor performance of exports in Q3 was due to exports of goods. Customs data up to August confirm that the balance of trade in goods continued to deteriorate, and this is entirely due to non-energy goods. Thus, in the current year up until August, the balance of trade in non-energy goods showed a deficit of 0.8% of GDP, compared to a deficit of just 0.1% of GDP in the same period last year. Much of this 0.7-pp of GDP we have lost is down to the lower growth of exports, which are no doubt feeling the impact of the US' protectionist shift. The data for services, in contrast, remain very positive, albeit not enough to fully offset the deterioration on the goods side. In particular, tourism services are progressing in line with the performance of the previous year, while non-tourism services are exceeding it: the cumulative surplus up until August stood at 1.9% of GDP, 0.3 pps more than in the same period in 2024. However, the current account surplus is not in danger: in the current year to August, the current account shows a surplus of 2.2%, just 0.3 pps lower than in the same period of the previous year.

The first available indicators suggest that domestic demand remains strong. The strength of domestic demand is largely supported by the buoyancy of the labour market. According to the Labour Force Survey (LFS), employment grew by 0.4% quarter-on-quarter in Q3 – a rapid pace. As for the Social Security affiliation data for October, the first available month of Q4, they continue to exceed expectations, with an increase of around 142,000 workers; this is the biggest advance in a

Spain: GDP

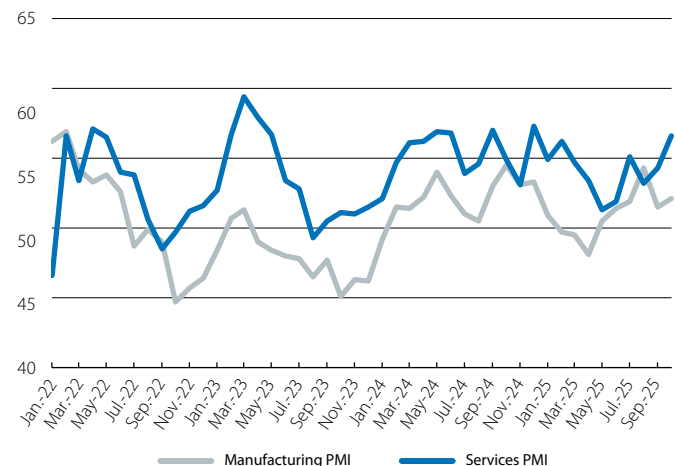
Quarter-on-quarter change (%) and contributions (pps)



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

Spain: PMI

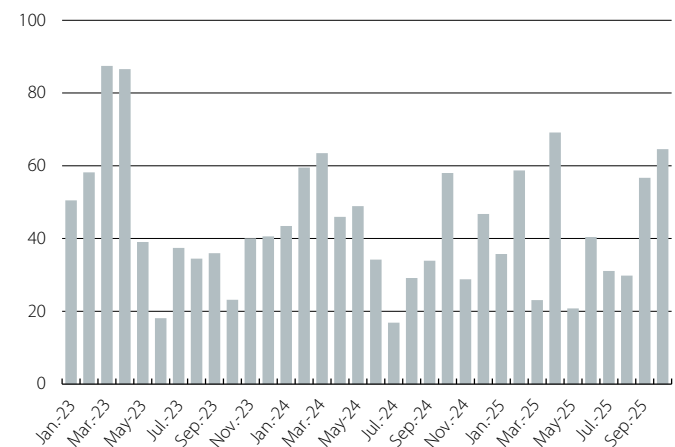
Level



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

Spain: registered workers affiliated with Social Security*

Month-on-month change (thousands of people)



Note: * Series corrected for seasonality.

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

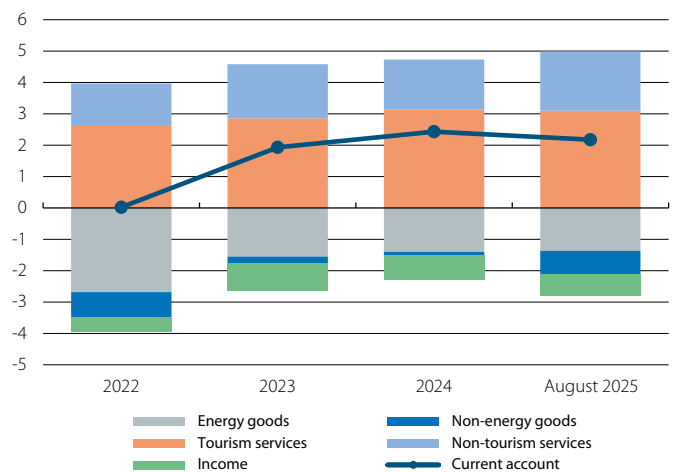
month of October, with the exception of 2021. With this figure, the number of registered workers in October stands 0.52% above the average figure for Q3, so it looks likely that in Q4 we will see an acceleration of the quarter-on-quarter growth rate (which in Q3 was 0.48%).

The Purchasing Managers' Indices (PMIs), meanwhile, also suggest that economic activity is healthy. In October, the PMI for the manufacturing sector advanced 0.6 points to 52.1 points, well above the threshold that marks growth in the sector (50 points). Also, the PMI for the services sector gained 2.3 points and reached 56.6 points, the highest level in the last 10 months, indicating a significant growth rate in the sector. Finally, with data up to 21 October, the CaixaBank Research consumption indicator, which is based on duly anonymised data on card spending and cash withdrawals, shows a 0.4-pp acceleration in the year-on-year growth rate compared to the previous month, reaching 4.8% (3.2% on average in Q3). Overall, the good figures for employment and for the sentiment and consumption indicators suggest that domestic demand remains strong in the final quarter of the year.

Electricity keeps inflation at around 3%. In October, inflation in Spain stood at 3.1%, 0.1 pp above the previous month and widening the gap with respect to the euro area, for which inflation has fallen 0.1 pp to 2.1%. This gap, which at first glance could be concerning, requires some qualification, since it is largely explained by the energy component. Core inflation, which excludes energy and food from the calculation, stood at 2.7% in Spain in September compared to 2.4% in the euro area – a much smaller difference. Despite this, a slight gap persists even in the core index, which is derived from the services component. Looking at this component in more detail, its evolution is increasingly marked by the dynamics of services that are periodically revalued. In their latest update, these services experienced a significant increase, and this has kept their year-on-year rate of change stable at relatively high levels. This is the case, for example, for health and car insurance services, for which the average inflation for the year to September – the last month for which we have data from the breakdown – stands at 10.3% and 9.5%, respectively. On the energy side, the contribution from this component to inflation ought to subside over the coming months, based on the outlook according to the futures markets – with oil and gas prices remaining contained – and the fact that, in January 2026, the impact of the VAT hike on electricity bills that occurred in January 2025 will fall outside of the inflation calculation.

House sales in Spain buck the upward trend. Sales registered a year-on-year decline of 3.4% in August, the first setback since 2024. Although it is premature to draw definitive conclusions from a single data point, in a month which traditionally presents low residential activity, it is a first sign of moderation in the pace of growth in demand. In any case, activity in the sector remains high: so far this year, around 470,000 sales transactions have been completed, representing a 16% increase over the same period in 2024.

Spain: current account balance (% of GDP)



Note: Cumulative data for the year to date.

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

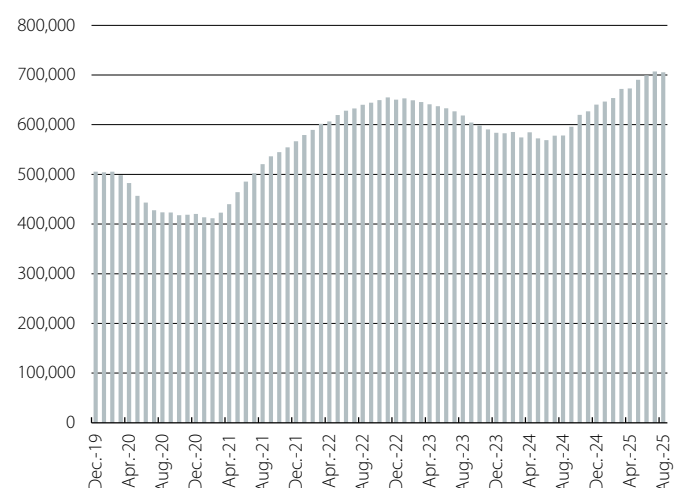
Spain: headline and core inflation* Change (%)



Notes: * The data for October are preliminary. ** Core inflation excludes unprocessed food and energy.

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

Spain: house sales Units



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

Spain's position in the face of global vulnerabilities in public finances

Public finances are once again in the spotlight. There are two main factors behind this. The first is the pressures from fiscal dominance in the US. Fiscal dominance is when a country's stressed fiscal position can put pressure on the central bank to deviate from its price stability target and lower interest rates further than it otherwise would. By influencing interest rates, and thus the cost of debt and government deficits, any monetary policy action has fiscal consequences.¹ In the US, two-thirds of the public debt in circulation currently has a maturity of less than five years. Last year, around one-third of the debt issued had a maturity of less than one year. This inclination towards short-term issues has also been observed in Canada, Germany, France and other OECD countries. Over 40% of the OECD's more than 50 trillion in outstanding sovereign debt will need to be refinanced in the next three years.

The second factor is the political uncertainty in France over the political impasse that has led to the resignation of three prime ministers in less than a year (Michel Barnier, François Bayrou and Sébastien Lecornu, although the latter has formed a new government and has remained as prime minister). In a context of large deficits and rising public debt, this instability has led to a rebound in the risk premium above 80 bps and it has driven Italy's premium to far exceed Spain's, which has fallen to 54 bps (around 70 bps in January). The fiscal situation in France has led to the country being downgraded by Fitch, which lowered its rating from AA- to A+ in September 2025, followed by a similar downgrade by S&P in October and a shift to negative outlook by Moody's in late October. In contrast, in September S&P, Moody's and Fitch have improved their credit ratings for Spain: S&P raised it from A to A+, Moody's raised it from Baa1 to A3 and Fitch improved it from A- to A.

In this article we analyse key aspects of Spain's public finances, such as the duration of its public debt and the sensitivity of the risk premium to other economies, in order to assess the extent to which the challenging global environment and the fiscal risks in the rest of Europe can impact us.

Public finances in Spain and France: revealing contrasts

The public finances of Spain and France show marked contrasts. Public spending in France represents 57% of GDP, some 12 points more than in the Spanish economy. France's public debt will close the year at around 116% of GDP and has grown significantly in recent years (109.8% in 2023). In contrast, although Spain's public debt is slightly above 100% of GDP, exceeding the level of most

Euro area: risk premiums

(bps)



Source: BPI Research, based on data from LSEG Workspace.

developed economies (75% have a lower level), it has been steadily declining from the level of 115.6% of 2021 and lies below that of several large economies such as Italy, the US and Japan. The debt ratio has declined thanks to economic dynamism – nominal GDP grew by 28.8% between 2021 and 2024 – and the reduction of the primary deficit from 4.5% of GDP in 2021 to an almost balanced position anticipated for 2025. The reduction of the deficit is explained by the rapid growth of public revenues (+27.2% between 2021 and 2024) driven by the strength of the labour market, in a context of more contained expenditure growth (+16.0% between 2021 and 2024, excluding interest and exceptional expenses associated with the floods in the Valencia province) as the measures introduced to mitigate the rise in energy prices have been gradually withdrawn. For 2025, the budget execution in Spain points to a public deficit that will be below the target of 2.8% of GDP (the deficit in 2024 was 3.2%), while in France it is expected to reach almost 5.5% of GDP.

Beyond the reduction of the deficit and debt in terms of GDP in the short term and the upward pressures on the public finances in the long term – issues that we have analysed in detail in these same pages –² in this article we analyse other key aspects of Spain's public finances. Beginning with the average term of the public debt in circulation, like the rest of Europe's economies, Spain took advantage of the years dominated by quantitative expansion programmes to increase the average term of its debt until it reached around eight years. The percentage

1. See A. Haldane (2025). «Fiscal populism' is coming for central Banks», Financial Times, 21 July.

2. See, for the short term, the Focus «Lower budget deficit in 2025 in Spain, but the structural challenges persist» in the MR06/2025 and, for the long term, the Focus «The impact of ageing on public finances: a major challenge for Spain and Europe» in the MR09/2025 and «Debt limits» in the MR01/2025.

of Spanish public debt issued up until August 2025 that has a maturity of 1 year or less was 33.9%, similar to the 31.3% of a year ago. And if we calculate the average term of new issues of debt in 2025, we see a small reduction: 6.6 years compared to 7.2 years in the first eight months of 2024. Despite this slight reduction in the average term of new issues, the average term of all public debt in circulation in Spain remains fairly stable, whereas in France it has reduced slightly (see second chart).

Risk premium and macro fundamentals

The 10-year interest rate on Spain's public debt, and thus its spread relative to the German rate – the so-called risk premium – depends on the country's macroeconomic fundamentals and the global environment.³ For example, Spain's payment capacity depends on its level of indebtedness and its economic growth. Also, the situation of the European economy as a whole and its inflation determines the monetary policy that is set by the ECB, and this influences the array of interest rates across the continent. Moreover, global factors such as US interest rates also play an important role. With all these ingredients, and based on the historical relationships between them, we can estimate the risk premium that is consistent with the macroeconomic fundamentals: the so-called «macro premium».⁴

Macro fundamentals are usually good indicators of risk premiums in the market, although in recent years there have been moments of divergence: in 2018, with the deepening of an unconventional monetary policy from the ECB which had started in 2015 and coincided in 2020 with the COVID-19 outbreak, we saw risk premiums that were persistently lower than the macro premium. Beyond these episodes of decoupling, today Spain's macro premium is very much aligned with the observed risk premium. In other words, the market risk premium is consistent with the macroeconomic fundamentals.

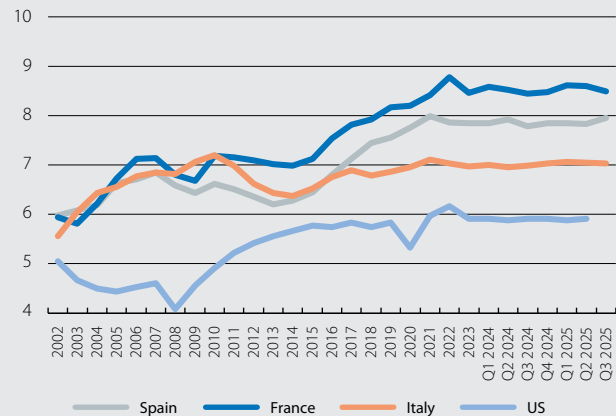
Sensitivity between premiums: reduced in the case of Spain

This alignment of Spain's risk premium with the macroeconomic fundamentals suggests that the market now shows a lower sensitivity for Spain's risk premium to other premiums. To test this hypothesis, we looked at the historical sensitivity of the Spanish risk premium to changes in the Italian and French premiums in different periods of time. In the fourth chart we can see that this sensitivity has decreased significantly over the last 20 years, and especially in 2023-2025, precisely when Spain's risk premium has realigned entirely with the macro fundamentals. In contrast, there has been an increase in the sensitivity of the French risk premium to changes in the Italian one.

3. See the Focus «The macroeconomic fragility of interest rates» in the MR10/2020.

4. We obtain an explanatory power of around 70%.

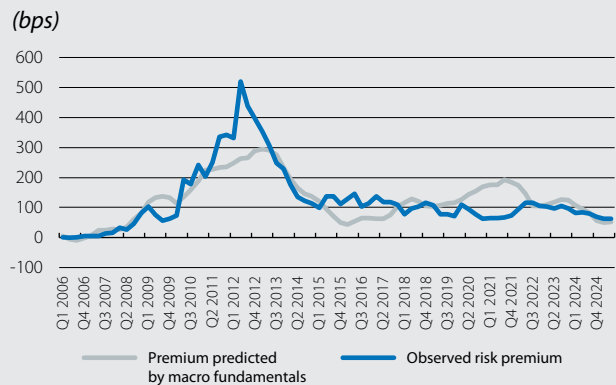
Average term of public debt in circulation (Years)



Note: Latest available data: August for Spain and France, July for Italy and June for the US.

Source: BPI Research, based on data from the Spanish Treasury, the Agence France Trésor and the Bank of Italy.

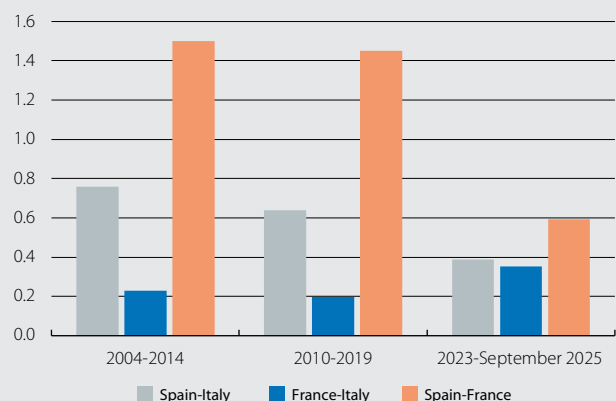
Sovereign risk premium for Spanish 10-year debt*



Note: * Risk premium predicted by macroeconomic fundamentals (ECB monetary policy, public debt, growth and inflation data, and US sovereign rates) and estimated based on historical relationships up to mid-2025.

Source: BPI Research, based on data from LSEG Workspace, Eurostat and Consensus Economics.

Sensitivity to changes in the risk premium (bps)



Notes: Beta coefficients in linear regression with monthly data. In all cases the coefficients are statistically significant at 5%.

Source: BPI Research.

In short, we do not observe any clear pattern of a reduction in the average term of Spanish public debt in circulation and, in any case, the pattern is more pronounced in other countries such as France. However, in this challenging environment and with debt and deficits still at high levels, it remains important that Spain carry out a fiscal consolidation in line with the European fiscal rules. Finally, it should be recalled that the analyses in this article are based on historical data, so we do not know for certain how Spain would react to a sharper rebound in France's risk premium if its public finances deteriorate further. That said, if necessary, the ECB has enough tools such as the TPI⁵ to relieve the pressure on risk premiums and mitigate the *shock*.

5. The Transmission Protection Instrument can be used by the ECB to purchase public debt from a country whose risk premium has strayed far from the level justified by its macro fundamentals. This offers some protection against the risks of unjustified contagion.

Activity and employment indicators

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Industry									
Industrial production index	-1.6	0.4	1.3	-0.7	1.5	...	3.4	...	...
Indicator of confidence in industry (value)	-6.5	-4.9	-6.0	-5.4	-5.2	-4.9	-5.7	-4.6	-4.6
Manufacturing PMI (value)	48.0	52.2	53.6	50.0	50.0	52.6	54.3	51.5	52.1
Construction									
Building permits (cumulative over 12 months)	0.5	16.7	16.7	20.1	14.8	...	10.5	...	...
House sales (cumulative over 12 months)	-10.2	9.7	9.7	17.0	22.9	...	22.0	...	...
House prices	4.0	8.4	11.3	12.2	12.7	...	...	...	...
Services									
Foreign tourists (cumulative over 12 months)	18.9	10.1	10.1	8.1	6.3	4.3	5.1	4.3	...
Services PMI (value)	53.6	55.3	55.1	55.3	52.2	54.2	53.2	54.3	56.6
Consumption									
Retail sales ¹	2.5	1.8	2.9	3.4	5.1	4.5	4.7	4.2	...
Car registrations	16.7	7.2	14.4	14.0	13.7	16.9	17.2	16.4	15.9
Economic sentiment indicator (value)	100.5	103.0	101.4	103.3	103.2	103.6	101.8	104.8	103.9
Labour market									
Employment ²	3.1	2.2	2.2	2.4	2.7	2.6	...	...	...
Unemployment rate (% labour force)	12.2	11.3	10.6	11.4	10.3	10.5	...	...	...
Registered as employed with Social Security ³	2.7	2.4	2.4	2.3	2.2	2.3	2.3	2.4	2.4
GDP	2.5	3.5	3.7	3.1	3.0	2.8	...	...	...

Prices

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
General	3.5	2.8	2.4	2.7	2.2	2.8	2.7	3.0	3.1
Core	6.0	2.9	2.5	2.2	2.3	2.4	2.4	2.4	2.5

Foreign sector

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	-1.4	0.2	0.2	3.3	2.0	...	0.7	...	...
Imports (year-on-year change, cumulative over 12 months)	-7.2	0.1	0.1	4.2	4.1	...	3.8	...	...
Current balance	40.9	50.7	50.7	47.8	49.1	...	48.6	...	...
Goods and services	57.5	66.3	66.3	63.5	64.3	...	63.4	...	...
Primary and secondary income	-16.5	-15.7	-15.7	-15.7	-15.2	...	-14.8	...	...
Net lending (+) / borrowing (-) capacity	57.8	68.7	68.7	66.6	68.1	...	67.6	...	...

Credit and deposits in non-financial sectors⁴

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	08/25	09/25	10/25
Deposits									
Household and company deposits	0.3	5.1	5.1	4.6	3.9	4.8	5.1	4.8	...
Demand and notice deposits	-7.4	2.0	2.0	3.1	5.0	7.2	7.2	7.2	...
Time and repo deposits	100.5	23.5	23.5	12.6	-1.5	-6.6	-5.1	-6.6	...
General government deposits ⁵	0.5	23.1	23.1	24.4	25.5	7.2	9.0	7.2	...
TOTAL	0.3	6.3	6.3	5.9	5.4	5.0	5.4	5.0	...
Outstanding balance of credit									
Private sector	-3.4	0.7	0.7	1.7	2.6	2.8	2.7	2.8	...
Non-financial firms	-4.7	0.4	0.4	1.6	2.5	2.3	2.5	2.3	...
Households - housing	-3.2	0.3	0.3	1.4	2.3	2.9	2.8	2.9	...
Households - other purposes	-0.5	2.3	2.3	3.1	-261.5	3.7	3.3	3.7	...
General government	-3.5	-2.6	-2.6	-0.3	5.3	12.8	14.8	12.8	...
TOTAL	-3.4	0.5	0.5	1.6	2.7	3.4	3.5	3.4	...
NPL ratio (%)⁶	3.5	3.3	3.3	3.2	3.0	...	2.9	...	...

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

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

The world economy in 2026: resilience, transition or disruption?

The year 2025 will end with the feeling that the impacts on growth of the various supply shocks and the heightened uncertainty have been limited and far lower than expected following the noise generated during Donald Trump's first few weeks in office. The global economy continues to show significant resilience and the business cycle is maintaining a cruising speed of around 3%, although the disparities in growth between Europe (1.3%), the US (1.8%) and Asia (4.5%) persist. The list of factors that may explain this strength in economic activity include a milder-than-expected impact of the tariff hikes now that an all-out trade war has been avoided and the flexibility of private agents in anticipating and adapting to the noise of the new economic environment, in addition to the existence of favourable financial conditions.

In fact, we have the same feeling at this time of autumn as we did in 2023 and 2024, when the reality at the end of the year was much better than the baseline forecast scenarios drawn up at the beginning of the year had predicted. There are several factors behind this steady improvement in the economic outlook, including an underestimation of economic agents' ability to deal with uncertainty and make decisions in times of instability or, simply, the fact that forecasting exercises are complicated in times of high uncertainty. However, in addition to all of the above, the resilience that the business cycle has demonstrated since the end of the pandemic appears to be a reflection of some of the benefits of an old international order that is in the midst of a transformation. This is an economic and political framework (Pax Americana) in which the US has assured the balance of an open world economy by offering essential public goods (defence, security, payment systems, etc.), open markets for trade and a stable currency, in addition to becoming a lender of last resort in times of need (via the IMF).

This environment, therefore, has offered benefits in terms of economic stability, growth, innovation and the optimisation of competitive advantages, but it is now threatened by the emergence of a new global leader (China) which is seeking to establish new alliances and strategic dependencies in the Eurasian continent, as well as in Africa and Latin America.¹ At the same time, the old hegemonic power is seeking to rebalance the playing field by charging more explicitly for the services rendered (tariffs, arms

Forecasts for the international economy and financial markets

Projections as of 22/09/2025

	2024	2025	2026
World GDP (year-on-year)	3.3	3.1	3.1
US GDP (year-on-year)	2.8	1.8	1.9
Euro area GDP (year-on-year)	0.8	1.3	1.2
Germany GDP (year-on-year)	-0.5	0.2	1.1
China GDP (year-on-year)	5.0	4.6	4.0
Oil (Brent, dollars per barrel)	79.8	68.5	65.1
US inflation (year-on-year)	3.0	2.8	2.8
Euro area inflation (year-on-year)	2.4	2.1	2.0
ECB – depo rate (%, end of period)	3.0	2.0	2.0
Fed – fed funds rate (%, end of period, lower bound)	4.3	3.5	3.0
12M Euribor (%, end of period)	2.4	2.1	2.2

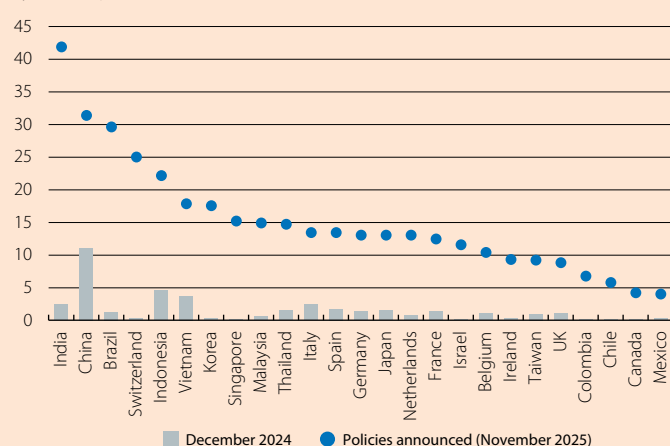
Source: BPI Research.

spending, direct investment targets, etc.), amid a radical realignment of its foreign policy in this new reality. This realignment process is generating some paradoxes, such as the fact that the theoretical provider of stability and protection is currently one of the main hotbeds of uncertainty and that traditional US allies (Europe, Japan, Canada, South Korea, etc.) could be the most impacted by the changes in the rules of the game.²

Therefore, geo-economics will continue to play a key role in 2026, as trade and finance appear to have become instruments at the service of political objectives, further complicating any forecasting exercise. The question is whether the current trend towards a more fragmented world will accelerate or, now that the average US tariff has stabilised at around 14.5%-16% (2.5% prior to Trump's mandate), the strengthening of trade links between the EU, ASEAN, Canada or Australia could partly offset the effects of the US' reduced openness. In any event, in the

Average effective US tariff

By trading partner (%)



Source: BPI Research, based on data from the USITC, the BEA, the Treasury Department and Comtrade.

1. See «The Belt and Road Initiative: a double-edged sword?» in this same *Monthly Report*.
2. See Adam S. Posen (2025). «The New Economic Geography. Who profits in a Post-American World?». *Foreign Affairs*, Volume 104 no. 5.

short term, the effects on growth and inflation of the new tariff framework will continue to materialise while the shape of the new trade relationship between the US and China is being finalised, and this will be defined by the balance between the two sectors in which there is mutual dependence: rare earths and microchips.

Next year, therefore, we will see a continuation of the reordering of the globalisation process in which the international economy has been immersed since the pandemic. When we eventually emerge from this process, the new balance – characterised by more division between economic blocs – will result in losses in potential growth and well-being which could potentially be offset by the innovation process linked to artificial intelligence (AI). This innovation process has accelerated significantly of late, as demonstrated by US GDP growth in the first half of the year (90% of which is explained by investments made in hardware, software, data centres, etc.).³ The big tech firms alone plan to invest nearly 3 trillion dollars in AI-related items by 2030, representing almost 10% of GDP. The positive short-term boost to activity is assured and could help to offset the first signs of weakening in the US labour market, but the key question is whether this wave of investment will result in greater profits in the medium term. This question is particularly relevant bearing in mind that more leveraged and circular financing structures are beginning to be identified, with cross-holdings between companies in the same sector along the value chain, as this could increase the risks if the returns end up being lower than expected. Moreover, these interdependencies could act as a brake on the creative destruction process, blocking or delaying the entry of new competitors.⁴

In short, the big question is whether, in the medium term, AI can offset the negative impact of demographics and economic fragmentation on potential growth, via the accumulation of capital and total factor productivity. If successful, this will likely lead to a greater presence of capital in production and a lower proportion for labour, potentially posing an additional obstacle to fiscal consolidation policies, given that it is more difficult to tax capital – because it is more mobile – than labour incomes. Moreover, this is without taking into account that structural changes of this scope tend to require a compensation mechanism to support the losers of this change process in the transition to the new reality, whether they are companies or workers. All this is taking place in a context in which the absence of fiscal space⁵ in many OECD countries is one of the biggest risks in the scenario,⁶ especially given the need to simultaneously tackle a variety of challenges such as the energy transition, the new defence spending needs and the effects of population ageing.⁷

While the medium-term fiscal outlook for the US is not very buoyant – given the IMF's recent estimate that public debt could rise to 143% of GDP by 2030, while the deficit will not fall below 7% in the whole period – in the short term the focus will be on Europe, with France in the eye of the storm. Fiscal imbalance plus political instability is a recipe that is difficult to digest, especially in a country where tax revenues exceed 50% of GDP yet, despite this, the primary deficit lies above 3%. The diagnosis of the markets is clear: France's fiscal situation shares more in common with Italy's than with that of Spain or Portugal, and this has already translated into a reordering of Europe's country-risk, as reflected in the risk premiums and the changes made by the ratings agencies.⁸ At the limit, the greatest threat is that the mechanisms designed in the past decade to tackle spikes in the risk of fragmentation in Europe (ESM, UNWTO and IPT) could end up being put to the test.

In short, in 2026 the economy will continue to be exposed to the combination of new underlying trends (restrictions on trade and migration movements, AI boom, etc.) and short-term challenges (limited fiscal space, high valuations in financial markets, etc.). This will be a year in which the ability to question the assumptions behind economic projections will once again be decisive, as will be a flexible approach to decision-making. Moreover, the resilience of the business cycle will once again be tested, as we find ourselves between a world that has not quite died yet (globalisation, multilateralism, liberal democracies) and another that has not quite been born. The risk lies in underestimating the changes at hand and believing that we will soon return to the previous status quo, which makes it pertinent to recall the words of Joseph de Maistre: «We had the French Revolution; we were quite pleased with it. It was not an event: it was an epoch.»

3. For an in-depth analysis of the outlook for the US economy, see the article «US 2026 outlook: resilience with frailties» in this same *Monthly Report*.

4. See P. Aghion, C. Antonin and S. Bunel (2021). «El poder de la destrucción creativa». Editorial Deusto.

5. According to the IMF, global public debt could reach 100% by 2029.

6. For further details in the case of Europe, see the article «Europe's medium-term fiscal dilemma» in this same *Monthly Report*.

7. The IMF estimates that all these challenges could exert pressures on public spending in Europe equivalent to around 6 pps of GDP by 2050.

8. It should also be noted that the biggest fiscal shift in the euro area is occurring precisely in the country that has the greatest budgetary margin (Germany), and this is driven by an increase in investment in infrastructure and defence which should kick off in 2026, resulting in a projected jump in public debt of around 15 points between 2024 and 2028 and a structural deficit that is expected to rise to 4% of potential GDP in 2026.

Europe's medium-term fiscal dilemma

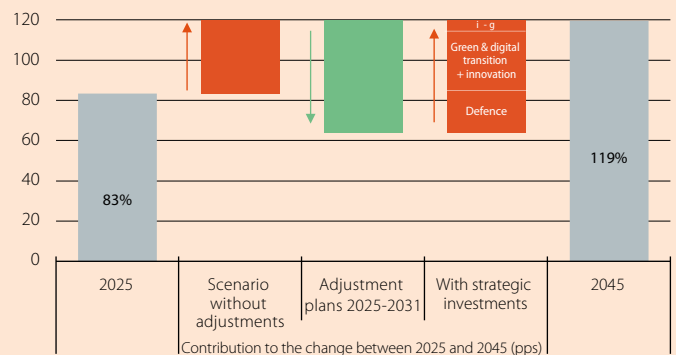
This year's return to fiscal rules – as safeguards of the sustainability of public debt – and the persistent shortfall in investment needed to address the EU's priorities in the current geopolitical context create a scenario marked by frictions that requires a coordinated fiscal strategy that far exceeds the horizon of national and EU political mandates, both in duration and ambition. Therefore, it is essential that the differences that exist, as well as some taboos that have characterised the EU's economic history on other occasions, are overcome.

Two opposing forces: fiscal consolidation vs. strategic autonomy

On the one hand, the state of Europe's public finances since the pandemic¹ and the effects of population ageing² will lead to a marked fiscal deterioration in the absence of compensatory measures, causing a growing number of countries to stray from the benchmark levels established in the Stability and Growth Pact. Based on the European Commission's forecasts for the various Member States, in a scenario without adjustments, the EU's aggregate public deficit could reach 5% of GDP in 10 years (3.2% in 2024) and the public debt ratio could approach 100% of GDP (81% in 2024).³ Under the new European fiscal governance framework, the main instrument for correcting such imbalances is the medium-term fiscal-structural plans, in which Member States set out a roadmap for ensuring the sustainability of their public debt.⁴ For those countries that need to make adjustments, the measures included in the plans entail an annual reduction in the primary structural deficit of 0.5-0.6 pps of GDP between 2025 and 2031 (some in four years and others over an extended period of seven years). As for the public debt of the EU as a whole, the difference compared to the scenario without any adjustments is very substantial – up to 25 pps lower within 10 years and 50 pps lower within 20 years (see first chart). The implementation of the medium-term plans is therefore crucial in order to ensure the sustainability of the public finances.

On the other hand, as has been highlighted in recent years by COVID-19, Russia's invasion of Ukraine and the unilateralism of the new Trump Administration, the EU has strategic dependencies in areas such as defence, innovation and the twin green and digital transition. Thus, the Draghi report published in 2024 set out additional investment needs in these areas amounting to some 800 billion euros per year,⁵ a figure which now, following the commitments to higher defence spending made by NATO members,⁶ has been updated by the ECB to 1.2 trillion (around 7% of 2024 GDP).⁷ Assuming that the public sector finances 25% of these additional investment needs over the next 10 years (100% in the case of defence due to its natural status as a monopsony), this spending boost could raise EU public debt to a level that would offset the reduction expected under the medium-term adjustment plans (see first chart).⁸ Therefore, in the search for a desired strategic autonomy in the current geopolitical context, we would find ourselves back at the starting blocks in terms of debt (un)sustainability, with additional risks of adverse feedback effects due to the pressure on Member States' financing costs.⁹

Total public debt of EU countries*
(% of GDP)



Notes: * Change between 2025 and 2045. 2025 forecast published in the European Commission's spring report. 'i - g' indicates the effect of the change in the spread between the interest rate (i) and nominal GDP growth (g), assuming that each 1-point increase in the public debt ratio results in a 4-bp increase in the cost of new financing, and a fiscal multiplier of 0.75 for changes in the primary structural balance. It is assumed that strategic investments will result in the existing gap being gradually closed by 2035.

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

1. See the Focus «Debt limits: 2025 edition» in this same *Monthly Report*.

2. See the Dossier «Challenges and policies in the age of longevity» in the MR09/2025.

3. Internal calculations based on the scenarios submitted by the European Commission to Member States prior to the preparation of the medium-term fiscal-structural plans in 2024-2025.

4. See the Focus «The new EU economic governance framework» in the MR01/2025.

5. See the Focus «Draghi proposes a European industrial policy as a driving force to address the challenges of the coming decades» in the MR10/2024.

6. See the Focus «5% of GDP on defence: Why? What for? Is it feasible?» in the MR09/2025.

7. ECB (2025), «Time to be strategic: how public money could power Europe's green, digital and defence transitions».

8. In the baseline scenario, we consider a gradual increase in defence spending to 3.5% of GDP by 2035 (5% for Poland and the Baltic Republics) and an increase in public investment on innovation and the dual green and digital transition of 1.5 pps over the same period.

9. E. Baldacci and M.S. Kumar (2010), «Fiscal Deficits, Public Debt, and Sovereign Bond Yield» estimates interest rate sensitivity in the range of 3 to 5 bps for each pp increase in the public debt ratio. Thus, *ceteris paribus*, the increase in public investment for strategic purposes could raise the cost of new financing by between 0.75 and 1.25 pps in 10 years and by between 1.5 and 2.5 pps in 20 years compared to the scenario with adjustments under the new fiscal rules.

Mitigation levers for the transition towards a new balance

In this scenario, a credible fiscal strategy should combine some short-term flexibility in order to close the investment gap – extending the escape clause for defence spending activated this year to other critical areas and increasing joint financing of EU public assets – with the imperative requirement to achieve greater efficiency in public spending and to build a solid foundation for greater potential growth. Such a strategy would allow the necessary medium-term fiscal consolidation process to be addressed, which more realistically could entail a higher end-point benchmark for the public debt ratio – closer to 90% of GDP than the current 60% – something that is in fact implicit in Germany's own stimulus plans.¹⁰

The aspiration to boost the EU's economic growth is inseparable from the fiscal debate. Faster economic activity growth will broaden the revenue base and allow public debt to be «absorbed» more quickly, while also containing the pressure on financing costs that a new medium-term fiscal anchor might entail (see second chart).¹¹ To this end, the aforementioned investments must be channelled through high-impact projects in terms of strategic autonomy and macroeconomic scope in the EU – with a growing prominence of European value added. Furthermore, as set out in the objectives of the Competitiveness Compass, in parallel progress must be made with the reform agenda, including regulatory simplification, deeper integration of the single market, new financing instruments within a capital markets union, and the revision of the competition and state aid framework in order to promote European projects with an EU-wide approach.¹² As Draghi himself pointed out on the anniversary of his report, the adoption and implementation of this ambitious agenda must be urgently accelerated in order to generate a virtuous circle with greater participation of private capital and lower demands on the public accounts.¹³

As for the role that joint financing can play in meeting strategic needs, the issuance of pooled debt has shown its potential in the face of large-scale shocks accompanied by stress in financial markets, thus facilitating the implementation and lowering the cost of short-term countercyclical policies, while also relieving pressure on public finances in the medium term.¹⁴ However, in «normal times» and in the absence of a complete federal structure, the use of joint financing (whether via markets or through the EU budget) seems less justifiable as a means to guarantee the EU's combined fiscal sustainability – after all, it is debt that Member States will have to repay. However, this approach is more justifiable due to the potential efficiency gains it could offer in areas where national public spending is fragmented, such as trans-European energy and transport networks, or minimum defence capabilities coordinated at the EU level. That said, the 530 billion euros proposed by the European Commission to finance strategic investments for the period 2028-2034 – including the new Competitiveness Fund and greater resources for the Connecting Europe facility – seems rather small in scale, since its incremental share compared to the previous budget is equivalent to just 4% of the total gap estimated by the ECB.¹⁵ An increase of 25% of these funds would finance up to 20% of the public investments in strategic areas in the coming years.¹⁶

Consolidation, but adapted to the new times

Greater potential economic growth, greater efficiency in public spending, a higher degree of co-financing in EU public assets and greater flexibility in the fiscal rules are key mitigation levers for the sustainability of Europe's public debt. However, it is likely that they will not be sufficient in the face of potential future shocks and a certain amount of additional consolidation will remain necessary in the medium term, although it would be much more limited in scale than the adjustment plans approved for the coming years (see second chart).¹⁷ This path will be easier to follow provided it is gradual yet persistent and integrated into a credible fiscal strategy that is coordinated among Member States.

10. J. Zettelmeyer (2025), «What does German debt brake reform mean for Europe?», and Z. Darvas, L. Welslau and J. Zettelmeyer (2025), «What Germany's medium-term fiscal plan means for Europe».

11. We estimate that, beyond the multiplier effect of strategic investments, a 0.5-pp increase in the average annual growth of nominal GDP over the next five years, and a 1-pp increase thereafter, could reduce the EU's public debt ratio by around 15 pps within 20 years.

12. See the Focus «A shift in the EU's political priorities» in the MR04/2025.

13. M. Draghi (2025), «High Level Conference – One year after the Draghi report: what has been achieved, what has changed».

14. P. Burriel, I. Kataryniuk and J.J. Pérez (2022), «Computing the EU's SURE interest savings using an extended debt sustainability assessment tool».

15. See the Focus «The 2028-2034 EU budget: An impossible mission?» in the MR09/2025.

16. If jointly financed, we estimate that the national debt ratio for all EU countries as a whole could be around 10-12 pps lower in 2045, compared with a slightly smaller increase in EU debt, resulting from the differential impact on the cost of financing.

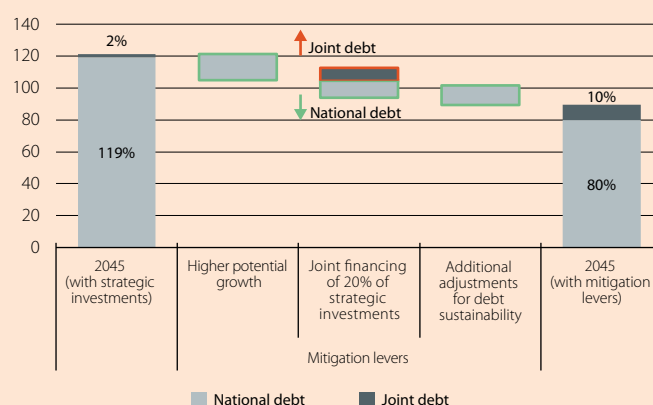
17. According to our internal estimates, stabilising the public debt ratio from 2045 would require an increase in the primary structural balance equivalent to a reduction in EU debt of between 10 and 15 pps of GDP. For countries with levels in excess of 90% of GDP, it is assumed that they would converge on this level or, if higher, on the level that would be expected after the adjustments set out in the medium-term adjustment plans (excluding strategic investments).

On the revenue side, the tax structure must promote economic growth and eliminate distortions in market efficiency, while also helping to mitigate – through an adequate level of collections and suitably progressive tranches – any social and territorial inequalities that may arise in the transition towards a European economy that is more autonomous and competitive at the global level. On the expenditure side, besides allocating the greater strategic investment to more productive areas, it would also be beneficial to continuously monitor the efficiency and impact of public policies, as well as evaluating the effects that the change in the composition of budgets will have on growth and income distribution.¹⁸

We see, therefore, that reconciling the sustainability of public debt with the drive for European strategic autonomy is a challenge of enormous complexity, marked by tensions between fiscal discipline, necessary investments and geopolitical demands. Each step that is taken on one of these fronts implies adjustments and risks on the other fronts, and this will require ambitious and flexible coordination between Member States, under the continued discipline of financial markets and with the additional complication of growing domestic political fragmentation. The magnitude and interdependence of the challenges addressed in this analysis highlight the difficulty of achieving a lasting balance. However, inaction or a lack of ambition could leave the EU lagging behind other global powers in terms of welfare and with a debt challenge far greater than the current one.

Total EU public debt in 2045*

(% of GDP)



Notes: * Change versus a scenario with strategic investments. Total EU public debt includes Member States' national debt and joint EU debt. The balance of the joint debt expected for 2045 corresponds to the gradual repayment of the financing for NGEU. The scenario with higher potential growth assumes a gradual increase of 0.5 pps through to 2030 and of up to 1 pp from 2035. The gap between the increase in joint debt needed to finance 20% of strategic investments and the reduction in the national debt ratio is explained by the impact on financing costs. The additional adjustments for the sustainability of public debt are materialised in a gradual increase in the primary structural balance beginning in 2029, when the escape clause for defence spending (here extended to other strategic investments) ends. The effects consider the impact via fiscal multipliers and interest rates of the new financing.

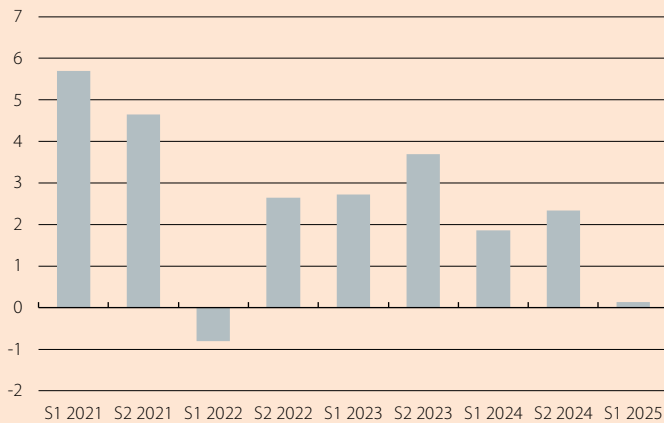
Source: BPI Research, based on data from the European Commission and the ECB.

18. IMF (2025), «Fiscal Monitor: Spending Smarter: How Efficient and Well-Allocated Public Spending Can Boost Economic Growth».

US 2026 outlook: resilience with frailties

The US economy has shown remarkable resilience in 2025, despite facing a complex environment marked by tensions in trade and domestic policy, as well as uncertainty. In spite of these obstacles, growth reached 1.6% (annualised) in the first half of the year, driven primarily by the dynamism of investment in assets linked to artificial intelligence (AI), as well as by private consumption which, despite a moderation in its growth rate, continues to contribute to economic activity.

US: GDP growth excluding investment in information processing equipment and software (%, annualised)



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

Looking ahead to 2026, the outlook is positive. We project a growth rate close to the potential (2%), based mainly on the continuity of the vigorous private investment cycle, particularly linked to AI. Another source of support will be the transition of monetary policy towards a more neutral position, as well as an expansionary fiscal policy that maintains the stimulus in the short term. However, these pillars also carry risks in the medium term, with doubts over the return that the current wave of investment in AI will yield, the health of public accounts and the sustainability of debt, the ability of the Fed to complete the transition to neutrality and the backdrop of risks more directly linked to the measures introduced by the new Trump administration. The latter include the impact on the labour market, wages and economic activity of restrictive migration policies, the reconfiguration of US institutions and persistent tariff tensions.

The surge in investment in AI spearheads growth

In 2025, private investment in technology and AI has been the major driver of growth. Spending on information processing equipment (computers, servers) and software grew in the first half of the year at annual rates of 35% and 23%, respectively, and contributed 1.4 pps to a total growth of 1.6%. Without this push from investment in technology, GDP would hardly have grown at all.

The epicentre of the boom is Silicon Valley, where a small group of large firms¹ have invested some 194 billion dollars in infrastructure and data centres in the first half of the year. It is estimated that this figure will reach 368 billion by the end of 2025 (equivalent to 1.2% of GDP) and that it could reach 432 billion in 2026, more than double the amount invested in 2023. In addition, we must consider the large projects being pursued by companies such as OpenAI and the vast investments required to bolster the electricity grid and chip production, where players such as Nvidia stand out.

In the short term, this investment boom has a clearly positive effect on the economy. However, the concentration of growth mainly in a single driving force poses risks. If the technological tailwind weakens, underlying weaknesses could be exposed: more fragile consumption, a labour market that has begun to cool, and the inflationary effects of tariffs which, although limited to date (partly due to the accumulation of inventories and advanced purchases in Q1 2025), could intensify as inventory buffers run out.

In addition, questions have arisen regarding the sustainability of this boom. Companies face operational challenges in scaling their infrastructure, while the true impact of AI on productivity and its ability to generate sustainable benefits remains unclear. If expectations are not met, there could be a correction in stock market valuations in the medium term, the financial implications of which will be more or less broad depending on the rise in credit and debt that accompanies the investment boom in the coming years.² Another possible amplification factor lies in the rise of more leveraged and circular financing structures, with cross-holdings between companies within the same sector along value chains.

The monetary lever

On the monetary front, the Federal Reserve is in the midst of a transition from a position it qualifies as moderately restrictive to a more neutral one. Currently, the fed funds rate lies in the 3.75%–4.00% range and we expect it to fall to 3.00%–3.25% by the end of 2026. This shift responds to a deterioration in the labour market: job creation has cooled, recruitment is declining and unemployment has begun

1. In particular, we refer to Amazon, Microsoft, Meta, Alphabet, Oracle, Apple and Tesla.

2. For example, according to estimates by Morgan Stanley and Bloomberg, of the investments that the big tech firms will make between 2026 and 2028 in data centres, 50% will be financed with these companies' own cash flows, 30% with private credit and the remaining 20% from other sources. See S. Ren (2025, 2 October), «AI Data Centers Give Private Credit Its Mojo Back», Bloomberg.

to creep up. Although inflation remains above the 2% target, the Fed is seeking to avoid an excessive cooling of employment which could compromise economic activity.

However, consensus within the FOMC is limited: one group of members is advocating a degree of prudence while another is pushing for more aggressive cuts. In a context in which the two mandates – price stability and full employment – are pulling in opposite directions, the margin for error is narrow and the path of interest rates is uncertain. In Powell's words, the next cuts are «far from» guaranteed.

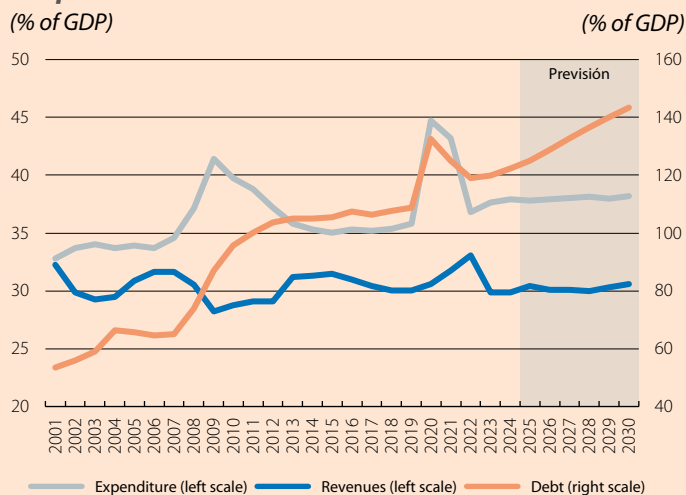
In addition to this uncertainty there is an institutional risk. In 2025, the White House intensified its pressure on the Fed, proposing appointments of allies and sparking debate over the central bank's independence. The attempt to oust Governor Lisa Cook set an unusual precedent, and the appointment of Stephen Miran – an economist close to President Trump – aroused misgivings. Miran has expressed divergent positions to the rest of the FOMC, contributing to the widest dispersion of interest rate projections among Fed members at its September meeting (when there is usually greater consensus on the rates anticipated for the end of the year) in the last 13 years, as seen in the second chart. While we see no clear signs that the Fed will lose its independence, and we are confident that the majority of its members will continue to act to fulfil its mandates, this type of institutional tension adds uncertainty to the economic and financial environment. Moreover, this comes at a time when at least two Board seats are up for renewal in 2026.³

Fiscal outlook

In July 2025, the OBBBA (One Big Beautiful Bill Act) came into force, making most of the tax cuts that were passed in 2017 permanent and adding some new temporary cuts.⁴ It also allows companies to immediately deduct certain capital expenses, thus encouraging short-term investment.

These measures help sustain growth in the short term, but at the cost of further deterioration in the public accounts. Thus, all the indicators suggest that this year the public deficit will remain at around 7% of GDP – double the average prior to the pandemic – and the forecasts indicate that it will remain at that level for several years. The increase in revenues from tariffs is unlikely to offset the projected increase in public spending. The IMF estimates that, if this trend continues, gross public debt could exceed 140% of GDP by the end of the decade, a very significant increase in a short period of time considering it expects it to close this year at 122%. In other words, today's fiscal momentum could become a burden tomorrow.

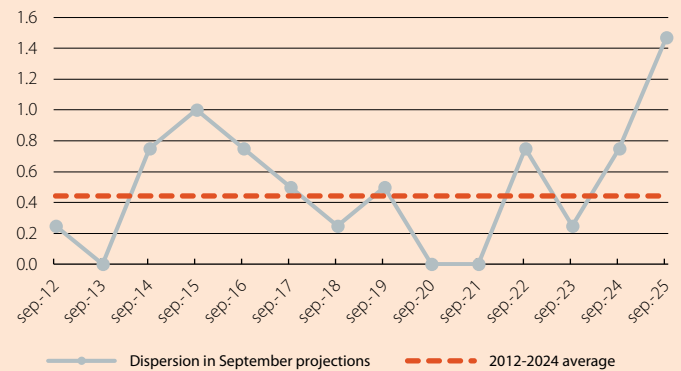
US: public accounts



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

Dispersion in year-end rate projections (FOMC - September meetings)

(pps)



Notes: Dispersion refers to the difference between the maximum rate and the minimum rate projected in the dot plot. The maximum rate projected in September 2025 is 4.375% and the minimum rate (Miran) is 2.875%.

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

Cautious optimism

Overall, the US economy is facing 2026 with a mix of strength and vulnerability. The resilience demonstrated in 2025 has exceeded expectations, and the two growth drivers – AI investment and new rate cuts – predict another year of strong growth. However, the picture is not free from risks. The tech boom could well be prolonged and, if the productivity gains materialise, its benefits will extend beyond 2026. However, if the return on these investments falls short of expectations, then the negative impact on growth and on financial markets would be significant in the medium term. The Fed faces internal dilemmas and external pressures while labour, tariff and political risks persist, and all this against the backdrop of a deterioration of the public accounts.

3. In January, Miran's position is up for renewal, after he took over to finish Adriana Kugler's term in September 2025. Powell's term as chair of the FOMC expires in May and, although his position as a governor is not due to end until 2028, his predecessors have resigned from the board after the end of their term as chair.

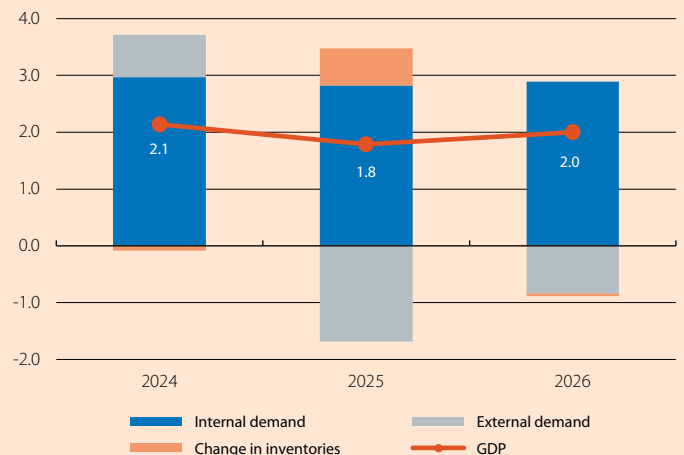
4. Such as the exemption from income tax for tips and overtime.

Portugal: the fundamentals for growth in activity in 2026

Results in 2025

Portugal has not escaped the vicissitudes of US trade policy, with impacts on the behaviour of economic agents, particularly regarding the anticipation of imports of goods in order to reduce the effects of changes in trade tariffs to be applied by the US. External demand, particularly its import component, was also impacted by the strength of domestic demand, especially private consumption. All of this has translated into robust growth in imports, which for the year as a whole will be around 4.5%. This is coupled with weak export performance, with slowing sales to key trading partners and a contraction in sales to the US, which will be reflected in annual growth of around 1%, much lower than usual. In this way, external demand will subtract approximately 1.5 percentage points from annual growth. Domestic demand was the engine of growth, contributing just under 2 percentage points. Record-high employment, record-low unemployment rates, and recovering incomes supported private consumption, which is expected to grow by around 2% for the year as a whole. Investment will also fall short of expectations at the start of the year, affected by the highly uncertain environment, especially in the first half of the year, but will ultimately contribute 0.6 pp to growth. All things considered, we anticipate growth in 2025 to be 1.8%, a slowdown compared to the 2.1% recorded in 2024, but above the eurozone average, making it the 7th largest contributor to eurozone growth, excluding Ireland (despite its GDP ranking 9th among euro area countries).

Portugal: GDP contributions from domestic and external demand (pp)



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

What to expect for 2026?

For the year as a whole, we anticipate growth of 2%, which, if realised, will represent an acceleration compared to 2025, with the factors driving growth exceeding those that could limit it. In short, the factors behind this forecast are related to the strength of domestic demand. Private consumption will remain strong, as no significant changes are expected in the labour market; and investment is expected to accelerate with the start of the final year of the Recovery and Resilience Plan (PRR), and because financing costs will remain low. In turn, the contribution of external demand will continue to be negative, with exports growing at a slower pace than usual, due to the still weak growth of the main trading partners and the impact of the higher tariffs charged by the US. And uncertainty will continue to be present through geopolitical and commercial poles,

factors that will put upward pressure on growth.

To estimate growth in 2026 and the impact of tailwinds and headwinds influencing the final forecast for the year as a whole, we start from the so-called inertial GDP, i.e. the GDP growth rate excluding extraordinary effects and taking into account the difference between the country's actual output and its potential growth (output gap) ¹ as estimated by the IMF.

The extraordinary positive effects (or tailwinds):

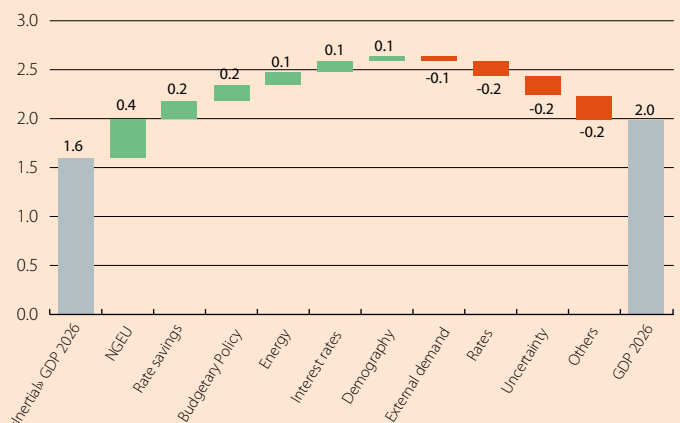
- **NGEU European funds:** by November 2025, €12.7 billion had been received, representing 57% of the total programme, and payments to final beneficiaries amounted to €9.4 billion. By the end of 2025, Portugal will receive a further €1.06 billion, with an estimated €8.4 billion expected to be received in 2026. In parallel, the rate of fund execution has been gradually accelerating, and the expectation is that this pace will increase, given the approaching end of the programme and reprogramming to facilitate the transition of funds allocated to initiatives with a low probability of execution until the end of 2026 to other projects, notably the initial allocation of 315 million euros intended for sectors such as innovation, science, health, and digital transition. In this context, we anticipate that the implementation of the PRR could add 0.4 pp to the inertial growth of 2026.
- **Savings rate:** the savings rate reached its peak in 2024, with a reduction estimated for 2025 and 2026. Although remaining at a historically high level (11.2% at the end of 2026), it will decrease compared to the 2025 level, and it is expected that part of

1. In the case of Portugal, the output gap is positive, which means that actual output is higher than potential output, which could generate inflationary pressures, as the economy is producing beyond its sustainable capacity.

this reduction will be channeled into consumption, potentially adding around 0.2 pp to real GDP growth. It should also be noted that the prospect of a dynamic labour market encourages less concern about accumulating savings, contributing to a gradual reduction in the savings rate.

- **Fiscal policy:** supported by the record of budget surpluses in recent years, which facilitated the reduction of the debt ratio, the state budget for 2026 is based on an expansionary fiscal policy.² A reduction in the tax burden is expected, mainly through a reduction in the corporate income tax rate and an increase in public investment, taking advantage of European funds. Overall, we anticipate that the boost resulting from fiscal policy could be around 0.2 pp.
- **Energy:** the expectation is that average Brent crude and gas prices in 2026 will be lower than in 2025 by about €6 for oil and €5 for gas, contributing positively to growth by 0.1 pp.
- **Interest rate:** monetary policy will maintain its accommodative character in 2026, supporting activity. Although no further cuts to key interest rates are anticipated by the ECB, some lag is expected in the transmission of the reduction in key rates to activity. Here too, the expected positive impulse will be around 0.1 pp.
- **Demography:** population projections indicate a population growth of 0.5% in 2026, about one-tenth above the potential growth of the economy in the pre-pandemic period. This factor will add 0.1 pp to growth.

GDP 2026: contributions to growth
(pp)

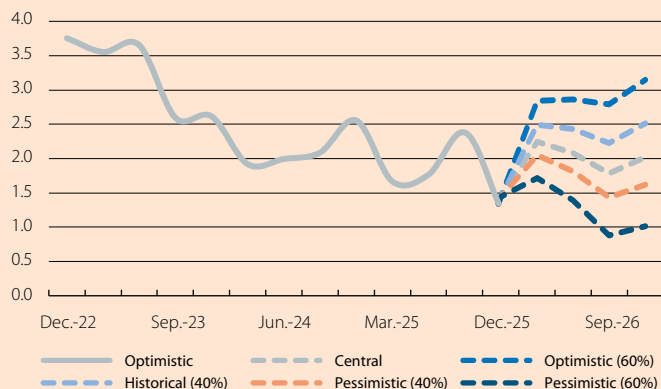


Note: Inertial GDP 2026 refers to GDP that would result from not taking into account extraordinary effects and was obtained by regressing annual GDP growth with its autoregressive component and the output gap disclosed by the IMF in the October 2025 World Economic Outlook.

But not all winds are favourable, and the year 2026 may also be battered by some that are adverse. Among these, we highlight:

Portugal: actual GDP

Year-on-year change



Note: The «Optimistic» and «Pessimistic» margins have an implied probability of 60% and 40%. This probability was calculated by applying a shock to the qoq GDP series in Q1 2026 based on the percentiles (20, 30, 70 and 80) of the residuals of an AR(2) regression on the series of quarterly changes in GDP.

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

as can be seen in the adjacent graph, the degree of dispersion of the forecasts is high, reflecting the magnitude of both the headwinds and the tailwinds. Therefore, the probability of growth coinciding exactly with our forecast is low, which is why we have estimated ranges within which the forecast may vary. In other words, with a 40% probability, growth will be between 1.7% and 2.4%, and with a 60% probability, it will be between 1.3% and 2.9%.

- **External demand and tariffs:** these will tend to hinder growth. Exports will continue to grow below the usual levels seen in recent years, reflecting the weakness of key trading partners and the higher tariffs that the entire eurozone will face on its sales to the US; in parallel, the expected investment boost in 2026, which incorporates a high import component, will tend to be reflected in robust import growth. These two factors will tend to subtract 0.3 pp from growth.
- **Uncertainty and other factors:** the degree of uncertainty at the global level will continue to weigh on the decisions of economic agents, although probably with less intensity than in 2025. Other unfavourable factors, albeit of lesser intensity, may be added to this, which together will reduce growth by 0.4 percentage points.

All things considered, we anticipate that the pace of economic growth will accelerate to 2%, a rate closer to the average growth observed in the post-sovereign crisis period; however,

Teresa Gil Pinheiro

2. See the Focus section in this publication, «Budgetary balance overshadowed by warnings and risks».

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Analysis of the economic outlook for Portugal, Spain and at the international level, as well as the trends in financial markets, with specialized articles on topical subjects.

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COUNTRY OUTLOOK

Economic, financial and political characterization, of the main trading and investment partner countries of Portuguese companies. Brief analysis of the main economic and financial aspects and economic forecasts for the triennium.

Available in English:
Mozambique Country Outlook



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