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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
JULY-AUGUST 2026



ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS

Warsh's Fed: from guiding expectations to managing them without commitment

INTERNATIONAL ECONOMY

European inflation: taking stock of the Middle East shock

The upcoming budget takes over from NGEU in the European Semester

Europe needs to channel its high savings into productive investments

PORTUGUESE ECONOMY

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A sectoral perspective on the exposure of the Portuguese economy to demand shocks

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

July-August 2026

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

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[www.bancobpi.pt /](http://www.bancobpi.pt/)
<https://www.bancobpi.pt/grupo-bpi/estudos-mercados/research>
deef@bancobpi.pt

Paula Carvalho

Chief Economist

CaixaBank Research

www.caixabankresearch.com
research@caixabank.com

Enric Fernández

Chief Economist

José Ramón Díez

Head of International Economies
and Financial Markets

Oriol Aspachs

Head of Spanish Economy

Sandra Jódar

Head of Strategic Planning

Adrià Morron Salmeron and

Oriol Carreras

Monthly Report coordinators

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37 SPANISH ECONOMY

The global economy in search of a new equilibrium

Decreased geopolitical uncertainty following the signing of the agreement between the US and Iran and its immediate impact on energy prices represents a rebalancing of the short-term risk landscape, precisely as we enter the time of year when financial variables are most sensitive to any disruption. The reaction of the energy channel to the incipient reopening of the Strait of Hormuz was more intense than expected, considering that oil barrel prices have practically returned to their starting point (near \$70), while futures markets even anticipated average prices until the end of 2027 that are significantly lower than the assumptions used in most central forecasting scenarios.

It is still too early to declare victory, as, for now, we are only witnessing the end of the beginning of a long process of reconfiguring the geopolitical balance in the Middle East. The agreement does not constitute a definitive treaty, but rather a memorandum of understanding (MoU) that opens a 60-day period to negotiate three fundamental aspects: the reopening and management of the Strait of Hormuz, the release of frozen Iranian assets (along with reconstruction aid), and the resolution of the conflict in Lebanon.

Thus, it cannot be ruled out that negotiations will be prolonged and remain subject to high volatility. However, in the delicate exercise of economic forecasting in recent years, the fall in energy prices has automatically reduced tail risks and the probability of the most adverse scenarios (stagflation), increasing the likelihood that all the instability accumulated since February will be limited to a moderate supply shock. Thus, after the noise of recent months, the improvement in the energy channel has led to downside risks for inflation and upside risks for economic activity, favouring the composition of nominal growth while the imbalance between supply and demand is readjusted, particularly in some segments of commodity markets.

In this context, June inflation data in Europe (2.8%, compared to 3.2% in May) show that the easing of energy pressures could quickly alleviate price pressures, with reductions in harmonised inflation in three of the four largest European economies (France, Germany and Italy). More importantly, there was a sharp decline in short-term inflation expectations on both sides of the Atlantic, reflecting, on the one hand, the effectiveness of the moderate monetary tightening of recent months and, on the other, giving central banks greater flexibility to assess the intensity of second-order effects on prices. The result was a softening of the outlook for monetary policy, with markets anticipating at the end of June only one more interest rate hike in the US and Europe, following the 25 basis point increase by the ECB and the change in the Federal Reserve's communication strategy with the arrival of Kevin Warsh. In general, the prevailing perception is that central banks will maintain a restrictive stance until the uncertainties surrounding the complex international scenario are clearer. Nevertheless, taking into account the future prices of oil and gas observed at the end of June, the direct impact of energy on headline inflation in 2026 could be about three tenths lower than estimated just a month ago.

There is less visibility regarding economic activity while awaiting national accounts data for Q2. However, everything indicates that the negative effects on growth will be moderate, especially if the recent signs of improvement in household and business confidence indicators are confirmed. This once again demonstrates the resilience of the global economic cycle and the new dynamism of investment which, after a decade and a half of stagnation, is replacing private consumption as the main driver of short-term growth, driven by artificial intelligence, increased defence spending, the energy transition, and the latest effects of the Next Generation EU program in Europe.

The paradigm shift that consists of replacing efficiency as the main objective of economic policy with national security, industrial resilience, and technological competition between blocs will have a very high cost. It now remains to find ways of financing and to assess the implications of this process for the delicate balance between fiscal fragility and financial stability, as the Bank for International Settlements (BIS) has recently pointed out.

The hope is that the search for a new equilibrium point for the global economy will end successfully, as the positive impact of artificial intelligence on productivity more than offsets the negative shocks accumulated in recent years. It is within this framework that the global economy is entering a new era characterised by two major simultaneous transitions: geoeconomic fragmentation and the technological revolution.

The challenge for economic policy lies in preserving the resilience of an increasingly complex, interconnected and uncertain economic system. And in being aware that the difficulty lies not so much in developing new ideas, but rather in escaping the old ones, as Keynes warned.

José Ramón Díez

Chronology

JUNE 2026

- 11** The ECB raises interest rates by 25 basis points, increasing the depo rate from 2.00% to 2.25%.
- 18** The US and Iran sign a memorandum of understanding agreeing to a ceasefire and the opening of the Strait of Hormuz.

APRIL 2026

- 1-10** The Artemis II mission travels to the Moon and reaches 406,771 km, the greatest distance from Earth ever achieved by a manned mission.

FEBRUARY 2026

- 20** The US Supreme Court invalidates the tariffs announced under the IEEPA.
- 28** The US and Israel launch a coordinated attack against Iran in which Ali Khamenei is killed.

MAY 2026

- 22** Kevin Warsh is sworn in as Fed Chair and is elected Chairman of the FOMC.

MARCH 2026

- 11** The International Energy Agency agrees to release 400 million barrels of strategic reserves to mitigate the impact of the war in the Middle East.

JANUARY 2026

- 14** 2025 was the third warmest year on record (1940-2025) and 1.5 °C above the pre-industrial average (1850-1900) according to the EU's Copernicus programme.
- 27** The EU and India conclude negotiations for a Free Trade Agreement.

Agenda

JULY 2026

- 1** Portugal: employment and unemployment (May).
Portugal: public debt (May).
Euro area: CPI flash estimate (June).
- 2** Spain: registration with Social Security and registered unemployment (June).
- 9** Spain: financial accounts (Q1).
- 15** China: GDP (Q2).
- 17** Spain: Moody's rating.
Portugal: balance of payments (May).
- 23** Portugal: non-financial sector debt (May).
Governing Council of the European Central Bank meeting.
- 24** Spain: loans, deposits and NPL ratio (May).
- 28** Spain: labour force survey (Q2).
- 28-29** Federal Open Market Committee meeting.
- 30** Spain: GDP flash estimate (Q2).
Spain: CPI flash estimate (July).
Portugal: GDP flash estimate (Q2).
Euro area: GDP (Q2).
Euro area: economic sentiment indicator (July).
US: GDP (Q2).
- 31** Portugal: CPI flash estimate (July).
Euro area: CPI flash estimate (July).

AUGUST 2026

- 3** Portugal: public debt (June).
- 4** Spain: registration with Social Security and registered unemployment (July).
- 5** Portugal: employment (Q2).
- 6** Spain: industrial production (June).
- 14** Portugal: average monthly gross salary per worker (Q2).
- 17** Japan: GDP (Q2).
- 18** Spain: foreign trade (June).
- 19** Portugal: balance of payments (June).
- 25** Spain: loans, deposits and NPL ratio (June).
- 28** Spain: CPI flash estimate (August).
Portugal: S&P rating.
Euro area: economic sentiment indicator (August).
- 31** Spain: balance of payments (June).
Portugal: GDP breakdown (Q2).
Portugal: CPI flash estimate (August).

Portugal: between internal resilience and external challenges

Official data for the second quarter of 2026 are expected to be more favourable for the Portuguese economy than we anticipated at the beginning of spring. The escalation of the conflict between the United States and Iran, which reached a critical point in April, initially generated significant fears about global growth, energy prices, the confidence of economic agents, and international trade. However, the rapid evolution towards a political understanding between the parties made it possible to reverse some of that impact. The fall in energy prices observed in the last weeks of June and the progressive improvement in confidence indicators help explain why the most recent data suggest a more resilient national economy than expected. Despite this, the geopolitical context remains fragile and subject to reversals, so the risks for the second half of the year remain high.

In fact, after an initial negative reaction in April, economic sentiment indicators recovered consistently throughout the quarter. Of particular note is the European Commission's economic sentiment indicator, which once again exceeded 100 points in June, while several indicators associated with private consumption continued to show robust developments. Meanwhile, the labour market once again surprised on the positive side, with the employed population reaching a new historical high, the unemployment rate maintaining a downward trajectory, and wages continuing to grow at a rate close to 5%, sustaining households' disposable income. This framework helps explain why domestic demand continues to be the main driver of economic activity in Portugal.

The financial situation of households also remains generally favourable. The net worth of Portuguese households increased again in 2025, driven by both real estate appreciation and growth in financial wealth. The savings rate remains near historical highs and constitutes an important buffer against potential future shocks. Although challenges persist associated with the concentration of savings in low-risk, low-yield financial assets, recent developments in income, employment, and wealth suggest that households are entering this phase of greater external uncertainty in a significantly more robust position than in previous episodes.

In the tourism sector, one of the country's main export activities, the first months of the year also reveal an ability to adapt. The sector simultaneously faced the effects of the storms recorded at the beginning of the year and the indirect impact of the conflict in the Middle East. Despite this, overall performance remained positive. The weather disturbances had a smaller impact than initially estimated, while the effects of geopolitical instability proved to be ambivalent: on the one hand, they temporarily weakened domestic demand; on the other, they contributed to a reorientation of tourist flows towards European destinations considered safer. In this context, important source markets for Portugal, such as the United Kingdom and Germany, showed significant acceleration, helping to sustain the growth of international tourism.

The same pattern of resilience can be observed in the external accounts. Despite the combined balance of the current and capital accounts showing a less favourable start to the year than in 2025, and the weak performance of exports to the United States (with a significant decline, especially in exports of pharmaceutical products), the tourism sector continues to contribute positively and the energy deficit has not worsened as much as was feared at the height of the conflict. The signing of the memorandum of understanding between the United States and Iran contributed to a rapid correction in international energy prices, reducing one of the main macroeconomic risks identified for this year. Consequently, global inflation began to slow, although the underlying component shows some persistence, albeit at a level close to 2%.

Among the most relevant structural developments of the year is the revision of the statistics on the resident population in Portugal. The new methodology adopted by INE (National Institute of Statistics) revealed that the country has more residents than previously estimated, with a particularly significant revision for the most recent years and strongly associated with the underestimation of the foreign population. The new data show a much more favourable demographic dynamic than previously assumed, supported by significant migratory flows and a relatively young and more highly qualified foreign population.

However, this positive news simultaneously raises an important set of analytical questions. The revision of the population will entail future changes in various economic and social statistics, including national accounts and labour market indicators. More importantly, it will be necessary to reassess fundamental metrics such as GDP per capita, economic convergence with the European Union and, above all, the evolution of productivity. If population growth has been significantly higher than previously thought, some of the economic growth observed in recent years may reflect an increase in the labour factor and not necessarily gains in productive efficiency. Understanding this distinction will be essential to correctly assess the structural performance of the Portuguese economy and its potential for future growth.

In summary, the indicators currently available suggest that the Portuguese economy weathered the second quarter of 2026 more favourably than initially anticipated. The strength of employment, domestic demand, tourism, and the favourable overall financial situation of households partially offset the adverse effects of geopolitical instability. Nevertheless, the fragility of the agreement reached in the Middle East, the uncertainty associated with the international trade framework, and the lingering doubts about the true evolution of Portuguese productivity justify caution in assessing the outlook for the coming quarters. The central scenario continues to be one of moderate economic growth, with the risks clearly concentrated on the external front.

Paula Carvalho

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	1.75	4.25	3.50	3.50	3.00
3-month SOFR	3.62	1.01	2.09	4.37	3.71	3.72	3.21
12-month SOFR	3.86	1.48	2.39	4.19	3.48	3.57	2.95
2-year government bonds	3.70	1.04	2.06	4.24	3.51	3.90	3.85
10-year government bonds	4.69	2.57	2.31	4.40	4.14	4.60	4.65
Euro							
ECB depo	2.05	0.20	0.61	3.09	2.00	2.50	2.00
ECB refi	3.05	0.75	1.11	3.24	2.15	2.65	2.15
€STR	–	–0.54	0.52	3.06	1.93	2.43	1.93
1-month Euribor	3.18	0.50	0.57	2.89	1.92	2.52	2.00
3-month Euribor	3.24	0.65	0.70	2.83	2.05	2.58	2.04
6-month Euribor	3.29	0.78	0.87	2.63	2.14	2.72	2.14
12-month Euribor	3.40	0.96	1.04	2.44	2.27	2.89	2.26
Germany							
2-year government bonds	3.41	0.35	0.56	2.02	2.13	2.61	2.07
10-year government bonds	4.30	1.54	0.72	2.22	2.84	3.00	2.90
Spain							
3-year government bonds	3.62	1.69	0.92	2.26	2.39	3.03	2.66
5-year government bonds	3.91	2.19	1.07	2.48	2.64	3.21	2.96
10-year government bonds	4.42	3.17	1.61	2.90	3.28	3.50	3.50
Risk premium	11	164	90	68	45	50	60
Portugal							
3-year government bonds	3.68	3.33	0.76	2.03	2.16	2.62	2.23
5-year government bonds	3.96	3.94	0.98	2.15	2.49	2.91	2.67
10-year government bonds	4.49	4.67	1.52	2.68	3.14	3.45	3.45
Risk premium	19	314	81	46	31	45	55
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.12	1.05	1.17	1.20	1.21
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.83	0.88	0.90	0.90
EUR/GBP (yen per euro)	129.56	126.41	135.43	161.18	182.71	180.00	175.00
OIL PRICE							
Brent (\$/barrel)	42.3	80.1	73.8	73.1	61.6	83.7	76.2
Brent (euros/barrel)	36.1	62.5	67.0	69.8	52.6	69.7	62.9

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
GDP GROWTH¹							
Global	4.3	3.3	2.8	3.4	3.4	3.0	3.2
Developed countries	2.7	1.5	1.7	1.8	1.9	1.6	1.6
United States	2.7	1.8	2.4	2.8	2.1	2.1	2.1
Euro area	2.3	0.8	1.1	0.9	1.5	0.7	1.2
Germany	1.6	1.3	0.2	-0.5	0.3	0.6	1.1
France	2.3	1.0	1.0	1.4	0.9	0.4	0.9
Italy	1.5	-0.3	1.5	0.6	0.7	0.6	0.7
Portugal	1.5	0.4	1.9	2.1	1.9	1.8	1.8
Spain	3.6	0.7	1.1	3.5	2.8	2.1	1.8
Japan	1.4	0.4	0.1	-0.2	1.1	0.8	0.6
United Kingdom	2.8	1.3	1.0	1.0	1.4	1.0	0.9
Emerging and developing countries	6.3	4.9	3.5	4.5	4.4	3.9	4.2
China	10.6	8.0	4.9	5.0	5.0	4.5	4.0
India	7.2	6.7	4.6	7.3	7.5	6.6	6.4
Brazil	3.6	1.6	1.9	3.4	2.3	1.8	1.9
Mexico	2.3	1.5	1.1	1.4	0.6	1.1	1.8
Russia	–	1.4	1.5	4.9	1.0	0.8	1.5
Türkiye	5.5	4.5	6.4	3.3	3.6	3.1	3.9
Poland	4.1	3.7	2.6	3.1	3.6	3.1	2.8
INFLATION							
Global	4.1	3.7	5.9	5.8	4.1	4.4	3.7
Developed countries	2.1	1.6	3.9	2.6	2.5	3.0	2.3
United States	2.7	1.8	4.5	3.0	2.6	3.5	2.4
Euro area	2.2	1.4	4.2	2.4	2.1	3.1	2.3
Germany	1.7	1.4	4.6	2.5	2.3	3.2	2.4
France	1.9	1.3	3.5	2.3	0.9	2.4	2.0
Italy	2.4	1.4	4.1	1.1	1.6	2.6	2.1
Portugal	3.1	1.1	3.4	2.4	2.3	2.9	2.3
Spain	3.2	1.3	3.7	2.8	2.7	3.5	2.7
Japan	-0.3	0.4	1.4	2.7	3.2	2.1	2.0
United Kingdom	1.6	2.3	5.0	2.5	3.4	3.2	2.7
Emerging and developing countries	6.9	5.6	7.3	8.0	5.2	5.3	4.6
China	1.7	2.6	1.4	0.2	0.1	1.0	1.5
India	4.6	7.3	6.0	5.0	2.2	4.1	4.0
Brazil	7.3	5.7	6.4	4.4	5.0	4.5	4.0
Mexico	5.2	4.2	5.6	4.7	3.8	4.2	3.9
Russia	14.2	7.9	7.4	8.5	8.7	5.7	4.6
Türkiye	22.6	9.6	39.5	58.5	34.9	30.3	21.5
Poland	3.5	1.9	8.2	3.7	3.4	3.3	2.7

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

Forecasts

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

Portuguese economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
Macroeconomic aggregates							
Household consumption	1.8	0.5	1.5	3.0	3.6	2.0	1.8
Government consumption	2.2	-0.3	1.9	1.5	1.6	1.4	1.0
Gross fixed capital formation	-0.4	-0.7	3.7	3.8	3.6	4.0	1.5
Capital goods	3.4	2.7	6.3	8.4	-0.9	–	–
Construction	-1.4	-2.4	3.1	3.0	5.5	–	–
Domestic demand (vs. GDP Δ)	1.3	0.0	2.0	2.9	3.6	2.2	1.6
Exports of goods and services	5.3	4.0	3.8	3.1	0.4	1.4	3.3
Imports of goods and services	3.6	2.7	3.6	4.8	4.3	2.0	2.8
Gross domestic product	1.5	0.4	1.9	2.1	1.9	1.8	1.8
Other variables							
Employment	0.4	-0.4	1.4	1.2	3.2	1.2	1.4
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.4	6.0	5.9	5.9
Consumer price index	3.1	1.1	3.4	2.4	2.3	2.9	2.3
Current account balance (% GDP)	-9.2	-2.9	-0.4	2.1	1.2	1.2	1.3
External funding capacity/needs (% GDP)	-7.7	-1.5	0.6	3.3	2.7	2.8	2.2
Fiscal balance (% GDP)	-4.5	-5.1	-2.0	0.6	0.7	-0.2	-0.4

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.4	3.0	3.3	2.4	1.8
Government consumption	4.5	0.9	3.1	2.9	2.4	1.4	1.9
Gross fixed capital formation	5.7	-1.2	1.0	3.6	5.8	3.9	2.1
Capital goods	4.9	0.2	-1.4	1.9	7.4	2.8	2.2
Construction	5.7	-2.6	0.4	4.0	5.2	4.1	2.0
Domestic demand (vs. GDP Δ)	4.4	-0.2	0.9	3.2	3.5	2.4	1.8
Exports of goods and services	4.7	2.9	2.4	3.2	3.6	0.6	1.9
Imports of goods and services	7.0	0.2	1.9	2.9	6.2	1.6	2.1
Gross domestic product	3.6	0.7	1.1	3.5	2.8	2.1	1.8
Other variables							
Employment	3.2	-0.5	2.0	2.8	3.1	2.5	1.6
Unemployment rate (% of labour force)	10.5	19.5	13.9	11.3	10.5	9.8	9.3
Consumer price index	3.2	1.3	3.7	2.8	2.7	3.5	2.7
Unit labour costs	3.1	0.6	4.1	3.3	4.1	3.7	3.1
Current account balance (% GDP)	-5.8	-0.2	1.2	3.2	2.9	2.3	2.5
External funding capacity/needs (% GDP)	-5.2	0.2	2.0	4.2	3.4	3.6	3.9
Fiscal balance (% GDP) ¹	0.3	-6.5	-6.1	-3.2	-2.4	-2.3	-2.3

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

Forecasts

The reopening of Hormuz supports markets despite monetary tightening

Risk appetite: torn between geopolitics and central banks.

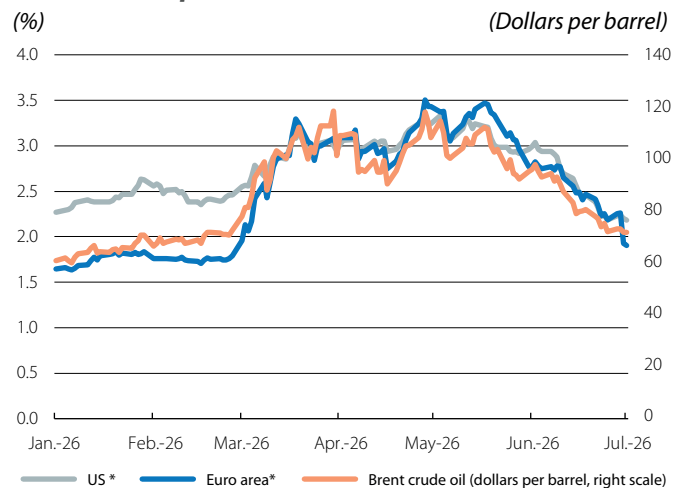
The provisional agreement between the US and Iran reached mid-month, which extended the military truce and allowed the gradual reopening of the Strait of Hormuz, triggered one of the sharpest drops in oil prices in recent years. This led to a significant decline in short-term global inflation expectations. However, the Fed and the ECB toughened their messages in their respective meetings and emphasised their anti-inflation stance, generating opposing forces in the markets. Nevertheless, the drop in oil prices led investors to anticipate fewer ECB rate hikes compared to the previous month, while markets continued to expect further tightening from the Fed. As a result, the dollar rallied during the month, despite the recovery in investors' risk appetite. Stock markets showed varied performance depending on their sectoral composition. European indices recorded significant gains, with several of them reaching new all-time highs, supported by the easing of crude oil prices. On the other hand, US and Asian stock markets performed worse, weighed down by a poor month for tech firms, particularly larger firms with more debt for AI deployment.

The ECB raises rates and the Fed adopts a more hawkish tone.

The ECB raised rates by 25 bps, taking the depo rate to 2.25%. This move was the first since the depo rate was lowered to 2.00% in June 2025, completing the monetary cycle that was kick-started by the Ukraine war inflation crisis. The ECB justified the increase to 2.25% with the conflict in the Middle East and its asymmetric economic impacts, namely a significant rise in inflation and a relatively minor impact on economic activity. The Fed kept rates unchanged at its first meeting chaired by Kevin Warsh, but surprised analysts with a more restrictive tone: about half of the Committee anticipated at least one more rate hike according to the dot plot. This led markets to anticipate a rate hike in the coming months, which would place the fed funds rate in the 3.75%-4.00% range. At one point, markets even priced in the possibility of two Fed rate hikes, but the drop in oil prices tempered expectations of monetary tightening. At the ECB's annual forum held in Sintra at the end of June, several members continued to advocate for slightly higher interest rates, but emphasised that there is no urgency to raise rates again and that the agreement between the US and Iran improves the balance of risks. As a result, markets ended the month betting on another ECB rate hike before the end of the year (bringing the depo rate to 2.50%), but ruling out the possibility of the depo rate reaching 2.75% (in May, they had assigned more than an 80% probability to a third hike).

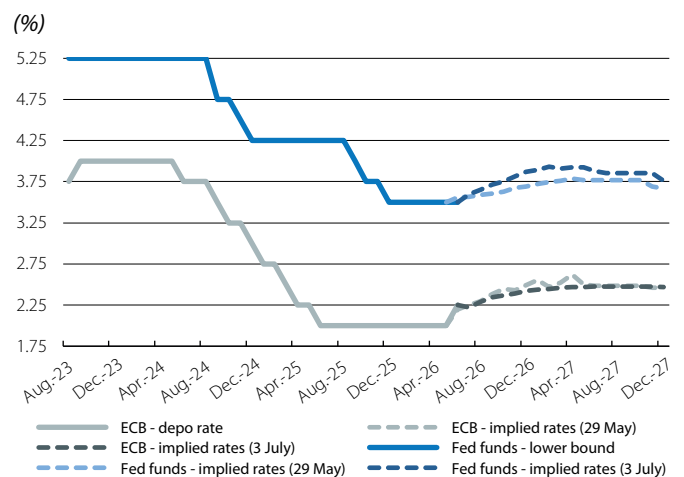
A month of varied dynamics in sovereign rates. In the first half of the month, the macroeconomic strength in the US and the restrictive tone of the ECB and the Fed drove up yields, especially at the short end of the curve. The Fed's more restrictive tone reinforced this movement and drove short-term treasury yields to their highest level in over a year, causing a flattening of the curve. In the second half of the month, however, the drop in oil

Inflation expectations for the next two years and crude oil prices



Note: * Inflation expectations are the average of one-year and two-year zero-coupon inflation swaps.
Source: BPI Research, based on data from Bloomberg.

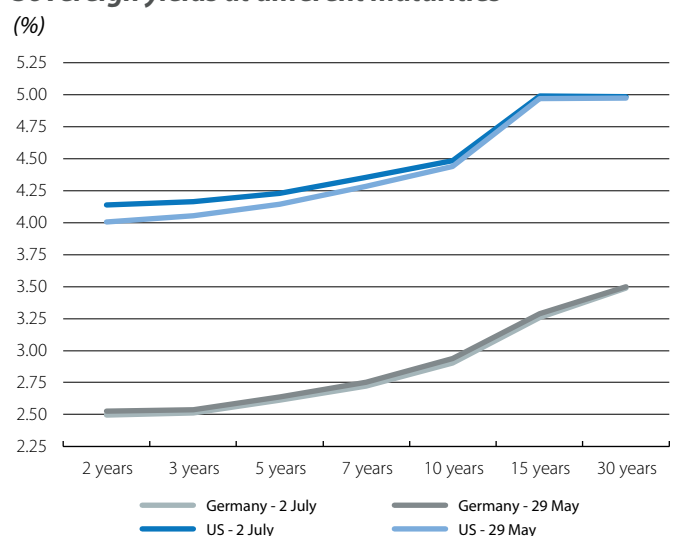
Monetary policy expectations priced in through to December 2027



Note: ECB rates are OIS-implied. Fed rates are derived from the spread between the Effective Federal Funds Rate (EFFR) and the three-month SOFR.

Source: BPI Research, based on data from Bloomberg.

Sovereign yields at different maturities



Source: BPI Research, based on data from Bloomberg.

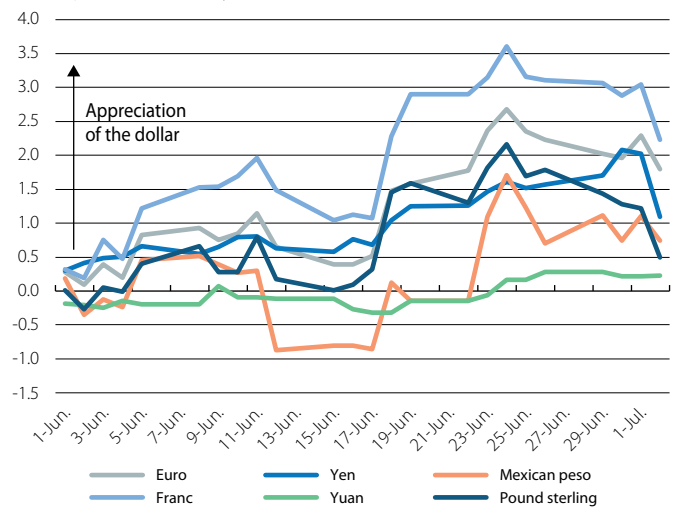
prices disrupted this pattern. In the euro area, the German yield curve shifted downwards across all segments, while in the US the long segments fell the most, accentuating the flattening of the curve. This trend ultimately prevailed in the month as a whole: a downward shift in sovereign interest rates in Europe and a flattening of the US curve (particularly due to rising interest rates at the short end). The sovereign risk premiums of the euro area periphery widened slightly, although they remained contained. The Italian premium stabilised at levels still higher than at the start of the year, while the Spanish and Portuguese premiums remained at historically low levels.

A strong month for the dollar. The month of June saw a moderation in expectations of ECB rate hikes, particularly following the reopening of the Strait of Hormuz, together with renewed confidence in a more restrictive Fed monetary policy. This combination led to a widening of the interest rate spread in favour of the US currency and an appreciation of the dollar in its nominal effective exchange rate. The euro thus depreciated to 1.14 dollars, reaching its lowest level in about a year. The yen continued to weaken, falling to nearly 160 yen per dollar, and remained close to multi-decade lows against the dollar. This was despite the Bank of Japan's interest rate hike at its June meeting (from 0.75% to 1.00%) and the rise in Japanese sovereign debt yields. The pound sterling also depreciated against the dollar, although it showed greater relative resilience, supported by a similarly restrictive tone from the Bank of England (which kept rates at 3.75% in June, despite two dissenting votes in favour of an increase).

Divergence in global stock markets, with European indices regaining ground. Doubts surrounding the profitability of AI investments once again generated volatility, particularly affecting hyperscalers. Chip manufacturers also experienced significant volatility, ending the month with relatively better performance. In the US, the S&P 500 and the Nasdaq ended the month with losses, although the S&P equal weight index closed with gains, as did firms less exposed to AI. In Asia, the indices most exposed to tech firms also recorded losses. In Europe, stock markets recorded widespread gains and outperformed the rest of the world, thanks to the fall in energy prices, with the Stoxx 600 reaching all-time highs. At the sector level, energy company stocks lagged behind.

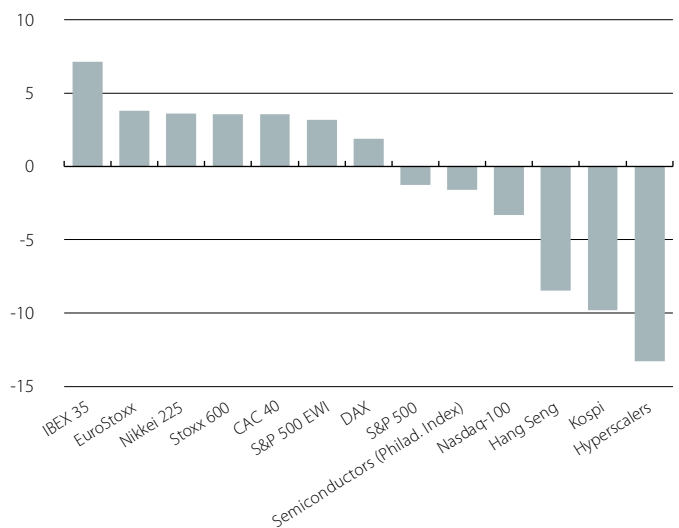
The collapse in oil prices deflates market inflation expectations. The reopening of the Strait of Hormuz normalised energy flows and returned the price of crude oil to almost pre-conflict levels. Specifically, the benchmark price for Brent crude oil (a future referenced to two months ahead) fell to nearly 70 dollars per barrel. The decline was less sharp for oil futures referenced to 2027, which also remained close to 70 dollars (vs. an average for 2027 that was trading at 78 dollars at the end of May and at 67 dollars at the end of February). The correction in oil prices quickly affected inflation expectations priced into swaps. Natural gas, which had been less stressed than oil, showed a much smaller decline during the month and fluctuated just above 40 euros/MWh. In other commodities, both precious metals such as gold and industrial metals like aluminium recorded significant declines.

Performance of selected currencies against the dollar (Change versus 29 May, %)



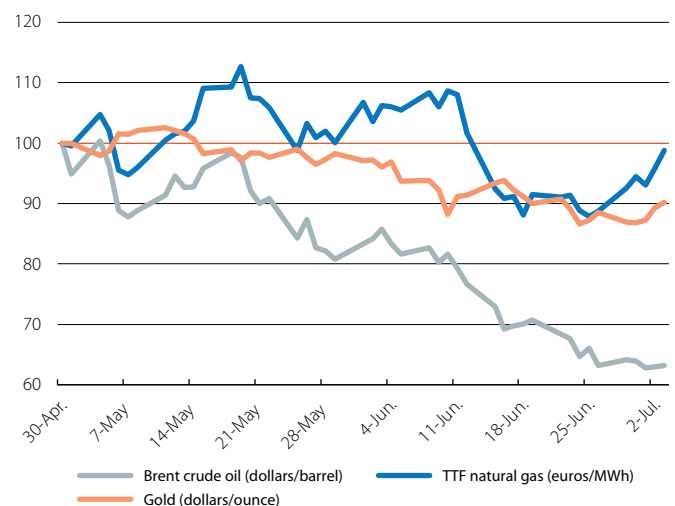
Source: BPI Research, based on data from Bloomberg.

Performance in the month (from 29 May to 2 July)



Source: BPI Research, based on data from Bloomberg.

Commodity price fluctuations since May Index (100 = 30 April 2026)



Source: BPI Research, based on data from Bloomberg.

Warsh's Fed: from guiding expectations to managing them without commitment

Kevin Warsh's appointment as Chair of the Federal Reserve marks a significant shift in US monetary policy. His first meeting as head of the FOMC did not change interest rates, but it did provide indications about the institution's future direction. Beyond a somewhat more restrictive tone in response to the uptick in inflation, the most significant change appears to lie in a redefinition of the Fed's communication framework. The market reaction suggests that investors are anticipating a Fed that is less inclined to commit to future interest rate moves and that will provide less forward guidance, although the anti-inflationary bias of its first meeting helped dispel potential doubts about its political independence.

In the last two decades, the Fed has believed that providing hints about the future path of interest rates – forward guidance – was the most effective and efficient communication framework for monetary policy, although it was not without risks or costs. The logic is that the effects of interest rates depend both on current decisions and on expectations about their trajectory, so influencing these amplifies the transmission mechanism. As Bernanke explained, this required reducing communicative ambiguity: the better agents could anticipate the Fed's reaction function, the more directly they would incorporate this behaviour into prices and decisions, thus promoting macro-financial stability, especially in a low inflation and rate environment.¹

The dot plot, introduced in 2012, serves this purpose by translating an implicit reaction function into an observable signal.² Although it is neither a collective decision nor a formal commitment, it reveals how FOMC members incorporate their macroeconomic forecasts into interest rates. However, the dot plot can become overly influential and hinder a proper adjustment of expectations, especially in contexts with greater uncertainty and dispersion. Recent evidence suggests that while it contains useful information and can improve the average accuracy of forecasts, it may also cause anchoring effects if agents continue to place too much emphasis on projections which may have been rendered obsolete by the economic reality.³ Moreover, the market tends to interpret the

median as if it were the Fed's intention, even if this is not formally the case. This risk increases when there is significant dispersion in the dot plot, as is currently the case, because the median can conceal deep disagreements and convey a false sense of consensus.⁴

Warsh has expressed scepticism about the usefulness of forward guidance, as he believes that both this and the forecasts of macro-financial variables can overly constrain central bankers. His critique does not reject transparency, but it does question whether more communication always enhances monetary policy transmission. As he explained in his review of the transparency of the Bank of England's Monetary Policy Committee, transparency is desirable, but it does not necessarily mean that everything should be made more explicit and visible.⁵ In his view, an «overly talkative» central bank can give the market a false sense of precision about the future, excessively influence financial prices, and limit its own flexibility. The lesson that seems to be drawn from mistakes such as characterising inflation as «transitory» in 2021 is that the Fed should not always draw more attention to its deliberations, but rather should acknowledge its limitations, for instance, when predicting economic variables.⁶

Warsh put that vision into practice at his first meeting, where the shift in communication was more significant than the decision on rates. The statement was shorter and more direct, and it removed the explicit reference to future guidance. At the press conference, he insisted that the statement should be limited to presenting the facts «as best we can judge them» and refused to provide anything akin to future guidance, arguing that it did not suit the current situation. Additionally, he chose not to publish his own projection in the dot plot.

This shift in the communication paradigm poses a challenge, as economic agents perceive communication as being reasonably effective. According to a Brookings survey of academics and economists (from both think tanks and private companies), the Fed's communication is rated highly, and tools such as the press statement and conference are widely appreciated.⁷ The dot plot, despite its limitations, is still considered useful by the majority. The risk, therefore, is that altering a framework that works reasonably well without clearly explaining what will

1. Board of Governors of the Federal Reserve System. (2003). «Minutes of the Federal Open Market Committee», 24-25 June 2003. Federal Reserve. B.S. Bernanke (19 November 2013). «Communication and monetary policy». Board of Governors of the Federal Reserve System. Federal Reserve.

2. The dot plot is the chart that summarises Fed members' individual forecasts for the future interest rate path which they consider most appropriate for the macroeconomic scenarios they envisage.

3. E. Engstrom (2026). «Anchored to the dot plot: Central bank projections and interest rate expectations». Finance and Economics Discussion Series n° 2026-026. Board of Governors of the Federal Reserve System. Federal Reserve.

4. A. Foerster and Z. Martínez (2023). «The evolution of disagreement in the dot plot». Federal Reserve Bank of San Francisco Economic Letter, 2023-21. FRBSF.

5. K. Warsh (2014). «Transparency and the Bank of England's Monetary Policy Committee». Bank of England.

6. N. Timiraos (14 June 2026). *Kevin Warsh wants the Fed to stop explaining everything*. The Wall Street Journal.

7. S. Ahmad and D. Wessel (8 May 2026). *Grading Fed communications: A 2026 survey of Fed watchers*. Brookings Institution.

replace it may end up reducing clarity without gaining sufficient flexibility.

The cost of shifting to a new, more opaque communication regime and greater flexibility in setting interest rates may be reduced predictability and increased volatility. The market reaction following the latest FOMC meeting provides a good illustration of what can happen under this new regime, although it was also influenced by a hawkish bias which investors did not anticipate. The 2-year treasury yield – the segment most sensitive to monetary policy – rose by just over 13 bps on the day of the meeting. Although the FOMC kept rates unchanged and the movement was not particularly sharp from a historical perspective, it was nevertheless significant: it exceeded 1.6 standard deviations from the average movements observed on FOMC meeting days since 1976. If only meetings without rate changes since Bernanke's arrival in 2006 are considered, the movement was almost 2 standard deviations above the average and ranked among the most intense, specifically in the top 2.5% out of some 140 meetings.

Warsh's interpretation of the variables which define the Fed's dual mandate (price stability and full employment) is also relevant. On inflation, his approach hints at a Fed that is guided less by direction and more by the assessment of the data at each meeting. In his public statements, he has argued that the data used to judge inflation are imperfect and has expressed a preference for measures that better distinguish noise from the underlying trends, such as trimmed means. These metrics exclude extreme price swings and can provide a more stable reading of underlying inflation than traditional measures that only remove food and energy, as well as better estimating future inflation based on empirical evidence.⁸

However, trimmed measures also have their limitations: they are useful for estimating trends over long time horizons but may not perform so well for short periods.⁹ This is relevant today: if shocks – such as the tariff and energy shocks – are isolated, trimmed inflation measures can adequately filter out the noise; however, if they become widespread across components and affect expectations, they tend to underestimate inflationary pressure. In the current context, these measures do not present a particularly worrying diagnosis, although this did not prevent the FOMC from showing greater concern about inflation than in previous months.

Regarding the labour market, Warsh has been attentive to the impact of artificial intelligence (AI) on productivity

and, consequently, on the natural or equilibrium interest rate. The statement even included a reference to productivity growth and capital investment. Various studies suggest that technological advances can have ambiguous effects on inflation and the natural rate of interest: an increase in productivity may exert disinflationary pressures, but it can also raise the equilibrium rate if it boosts investment and aggregate demand.¹⁰ For now, the latest total factor productivity data do not show any clear acceleration in recent quarters or compared to previous decades (although the inflation data do indicate that the high investment in AI is increasing demand and, with it, consumer prices for related items). This uncertainty could support Warsh's argument for reducing the publication of forecasts on unobservable indicators, which are particularly difficult to estimate during times of change, such as potential growth, labour market potential, or the natural rate of interest.

Finally, balance sheet policy could represent another major shift at Warsh's Fed. If he translates his historical scepticism towards asset purchases into a more rapid balance sheet reduction process, he may encounter the operational limits that the Fed faced previously when it withdrew liquidity too quickly. As governor, Warsh was sceptical about the ability of bond purchases to boost the economy and has even mentioned the need for a new «agreement» between the Fed and the Treasury. As demonstrated by episodes such as the taper tantrum of 2013 (which highlighted the costs of unclear communication about stimulus withdrawal) or the tensions in the repo market in 2019 (which showed the central role of reserves in the current financial system), it will be necessary to tread very carefully in order to avoid disrupting financial stability.

Ultimately, Warsh's Fed is moving towards a monetary policy that is less guided and more data dependent. The exact extent of the change in communication policy will depend on his ability to transform his ideas on managing expectations and implementing monetary policy into a framework that is intelligible and accepted by the market. Making the reaction function less explicit could increase the Fed's flexibility in a more uncertain environment, but it also requires the institution's credibility and independence to be strengthened. The challenge lies in communicating the new framework without replacing what is considered false precision with equally unnecessary opacity – the risk being that this reduced guidance could lead to more volatility than clarity.

8. T. Atkinson, J. Dolmas and R. Zarutskie (16 April 2026). «Skewness warrants caution as Trimmed Mean PCE inflation eases». Federal Reserve Bank of Dallas.

9. R. W. Rich, R.J. Verbrugge and S. Zaman (2022). «Adjusting median and trimmed-mean inflation rates for bias based on skewness». Federal Reserve Bank of Cleveland Economic Commentary, 2022-05. Federal Reserve Bank of Cleveland.

10. G. Melina and S. Villa (2025). «From servers to rates: AI, ICT capital, and the natural rate». IMF Working Paper n° 2025/224. IMF. And I. Aldasoro, S. Doerr, L. Gambacorta and D. Rees (2024). «The impact of artificial intelligence on output and inflation». BIS Working Paper n° 1179). BIS.

Interest rates (%)

	30-June	31-May	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.40	2.15	25	25	25
3-month Euribor	2.32	2.27	6	30	39
1-year Euribor	2.73	2.80	-8	49	67
1-year government bonds (Germany)	2.43	2.41	1	41	66
2-year government bonds (Germany)	2.53	2.53	0	41	67
10-year government bonds (Germany)	2.86	2.94	-8	0	27
10-year government bonds (Spain)	3.34	3.35	-1	6	12
10-year government bonds (Portugal)	3.24	3.30	-6	9	20
US					
Fed funds (lower limit)	3.50	3.50	0	0	-75
3-month SOFR	3.73	3.66	8	8	-56
1-year government bonds	3.97	3.77	21	50	0
2-year government bonds	4.17	4.00	17	70	42
10-year government bonds	4.47	4.44	3	30	19

Spreads corporate bonds (bps)

	30-June	31-May	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	52	53	-1	1.1	-3.5
Itraxx Financials Senior	54	55	-1	0.0	-4.6
Itraxx Subordinated Financials	89	91	-2	-4.0	-12.6

Exchange rates

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.142	1.166	-2.0	-2.8	-2.5
EUR/JPY (yen per euro)	185.680	185.670	0.0	0.9	9.6
EUR/GBP (pounds per euro)	0.861	0.867	-0.6	-1.2	0.8
USD/JPY (yen per dollar)	162.550	159.270	2.1	3.7	12.4

Commodities

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
Bloomberg Commodity Index	123.2	135.1	-8.8	12.3	19.7
Brent (\$/barrel)	72.9	92.1	-20.8	19.8	7.6
Gold (\$/ounce)	4,008.0	4,540.3	-11.7	-7.2	22.4

Equity

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	7,499.4	7,580.1	-1.1	9.6	21.5
Eurostoxx 50 (euro area)	6,328.1	6,050.5	4.6	9.3	18.8
Ibex 35 (Spain)	19,471.9	18,362.9	6.0	12.5	39.4
PSI 20 (Portugal)	9,132.6	9,076.5	0.6	10.5	21.4
Nikkei 225 (Japan)	70,062.3	66,329.5	5.6	39.2	74.5
MSCI Emerging	1,722.9	1,752.2	-1.7	22.7	40.2

The US-Iran agreement alleviates adverse scenarios for the international economy

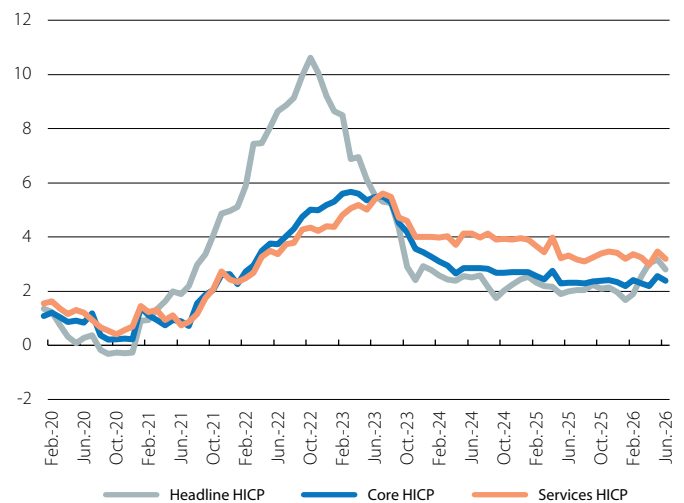
The evolution of the conflict in the Middle East remains key for the global outlook. In mid-June, the US and Iran signed a Memorandum of Understanding (MoU), which is not a definitive or binding treaty, but rather a statement of intent outlining the terms of their future collaboration. The MoU marks the beginning of a 60-day period for negotiations on a range of highly sensitive issues, including Iran's nuclear programme and the lifting of sanctions. One of the first decisions taken was to reopen the Strait of Hormuz and end the US naval blockade, providing significant relief to energy markets and reducing the likelihood of the worst-case scenarios materialising. The key will lie in how quickly trade flows passing through the Strait can recover. The data show a somewhat erratic increase in flows, consistent with warnings from various international agencies that normalisation will take months. On the other hand, geopolitical uncertainty remains high and the complex dynamics surrounding the US-Iran agreement highlight its fragility.

The peak impact of the rise in energy costs on inflation may have been in May. In the euro area, headline inflation reached an almost three-year high in May at 3.2%, driven by the energy component (which contributed nearly 1.0 pp). However, in June it fell by 0.4 pps to 2.8%, largely due to a slight easing in that component (-2.1 pps to 8.7%). In the US, headline inflation, driven by energy, rose by 0.4 pps in May to 4.2% (a three-year high), while core inflation was more contained (+0.1 pp to 2.9%). However, the price components of the main business climate and opinion indicators for June suggest that the peak of inflation may already be behind us.

Ireland's volatility influences the euro area's performance. The GDP revision for the euro area shows a 0.2% quarter-on-quarter decline in Q1 2026 (vs. +0.2% per the initial estimate), explained by the collapse of the Irish economy (-12.0% vs. -2.0% initially). Without Ireland, the euro area would have grown by 0.2%, following the 0.3% recorded in Q4 2025. This is still a modest result, indicating that most of the region had not yet achieved the desired acceleration before the outbreak of the conflict in the Middle East. In this context, the available indicators for Q2 2025 suggest an economy that is practically stagnant: the PMIs for the euro area consolidated in June at levels below the 50-point threshold (and clearly below their average for Q1 2025). This was due to the deterioration in services, while the manufacturing PMI reflected how the positive impact of the increase in precautionary orders following the outbreak of war in the Middle East was beginning to dissipate.

Germany sees rising energy costs limit the impact of its infrastructure plan. In fact, the increase in energy prices is particularly impacting its industrial sector (in April, industrial production stagnated and orders fell by almost 4.0%), while household consumption remains very weak (April's retail sales

Euro area: HICP
(% year-on-year)



Source: BPI Research, based on data from Eurostat.

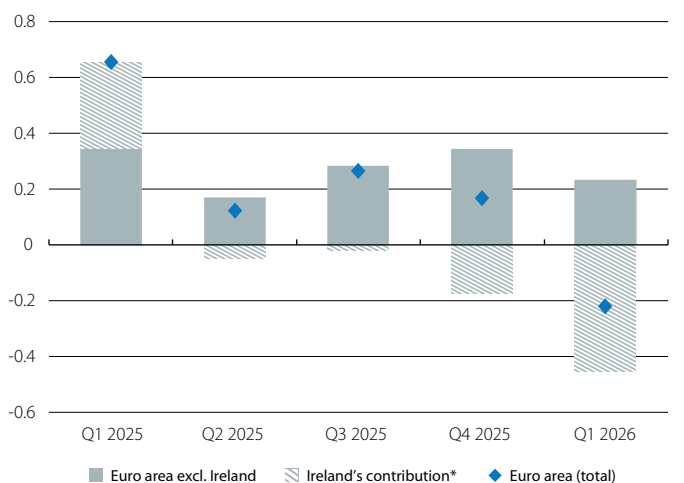
US: CPI *
(Year-on-year change, %)



Note: * The CPI for October 2025 was not published due to the shutdown; the figure shown has been interpolated.

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

Euro area: GDP
(Quarter-on-quarter change, %)



Note: * Ireland's contribution to the quarter-on-quarter growth of the euro area in percentage points.

Source: BPI Research, based on data from Eurostat.

are still 1.6% below their 2025 year-end level). Moreover, the implementation of the infrastructure investment plan is progressing very slowly: total accumulated federal spending to May increased by more than 3.0% year-on-year, with defence growing by 22%, but infrastructure spending was still 10% lower. Sentiment regarding Germany's performance remains rather weak, although some indicators suggest that the peak impact of the Middle East conflict may have already passed. In June, the ZEW indicates that the percentage of respondents expecting a further deterioration in the situation has almost halved (to less than 18%), while the Ifo recorded a new increase, although it remains at very low levels (85.6, with 100 being its historical average).

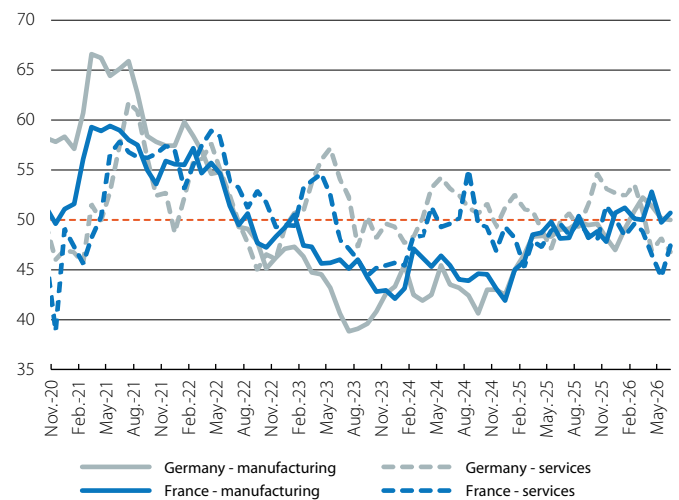
In the US, the labour market shows stability rather than recovery. In fact, 57,000 non-agricultural jobs were created in June, almost half the number expected. Additionally, the figures for the previous two months were revised downwards by more than 70,000 people. Nevertheless, average monthly job creation in 2026 exceeds 90,000, compared to less than 10,000 in 2025, and the unemployment rate fell by 0.1 pp to 4.2%. This stability in the labour market will continue to support household consumption: in May, it rose by a robust 0.7% in nominal terms and 0.3% in real terms, surpassing the average monthly growth recorded in the rest of the year (0.5% and 0.1%, respectively). Industrial production slowed in May (increasing by just 0.1% month-on-month after a previous rise of 0.9%), following several months of strong growth driven by orders being brought forward in response to the war in the Middle East.

US business leaders are more confident about the economic situation than consumers. The main business climate indicators suggest that economic growth in Q2 will have remained at similar or slightly higher rates than in Q1 (0.5% quarter-on-quarter). Specifically, the PMI for June rose to 52.2 points, placing the Q2 average at 51.8, almost the same as in Q1. The ISM indices, for both manufacturing and services, also point in the same direction, standing at around 54 points in May for both sectors (50 is the threshold indicating positive activity growth in both the PMI and the ISM). Additionally, business leaders are starting to notice signs of a moderation in the rate at which input costs are rising. This limits the risks of further rises in inflation, although it will remain high in the coming months. This increase in prices is the main factor undermining consumer confidence, amid a 0.7% year-on-year fall in real wages in May.

In China, the dynamism of the external sector contrasts with the persistent weakness of domestic demand. Exports in May grew by around 20% year-on-year, driven by demand for technology linked to AI and orders being brought forward, which continues to support industrial production despite a slight slowdown (+4.5% year-on-year vs. 6.0% in Q1). In contrast, retail sales fell by 0.6%, marking the first decline since the end of 2022, partly due to the withdrawal of consumer incentives. Urban fixed investment fell by 4.0% in the year to May, impacted by weakness in real estate and lower infrastructure investment. In this context, inflation remained at 1.2% and production prices reached 3.9%, the highest in nearly four years.

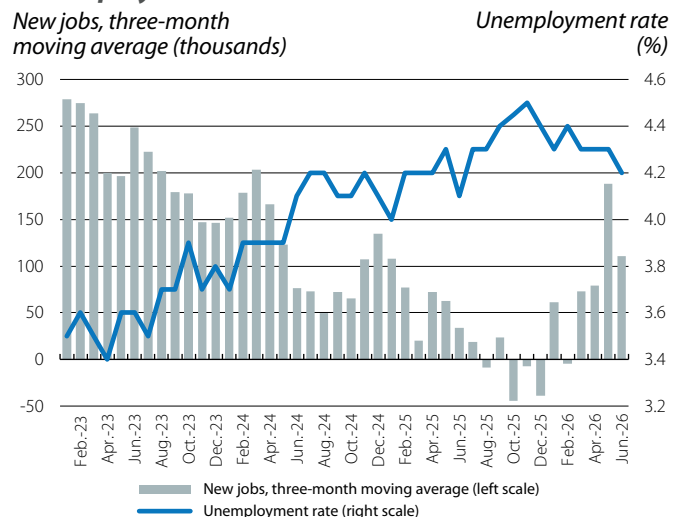
Euro area: PMI by component

Index (>50 expansion, <50 contraction)



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

US: employment *

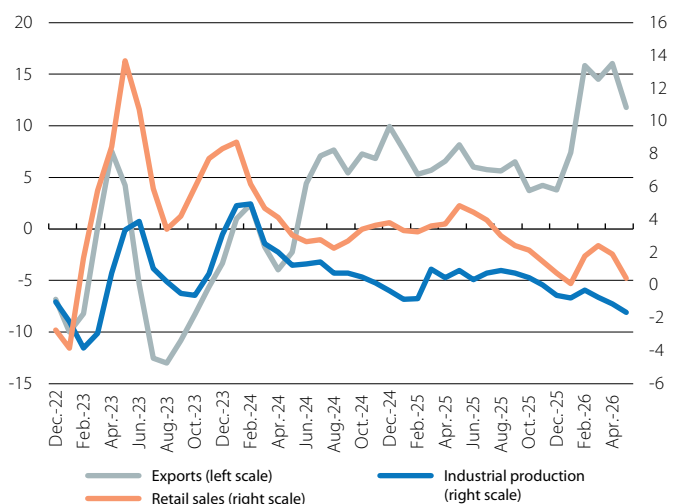


Note: * The unemployment rate for October 2025 was not published due to the shutdown; the figure shown has been interpolated.

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

China: economic activity data

Year-on-year growth in the three-month moving average (%)



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

European inflation: taking stock of the Middle East shock

The conflict in the Middle East has raised European inflation to around 3% and has pushed the ECB out of its comfort zone. On 11 June, the central bank raised interest rates, and both its recent communications and financial market prices suggest that it will do so again in the coming months. The main issue is not the direct impact of rising energy costs, but the risk that this increase could spill over to other prices in the economy, leading to excessively high and persistent inflation. What do the data tell us about this spillover?

Significant direct impact

Energy costs have risen by around 10% in recent months, driven by fuels, which have experienced price increases of over 20% year-on-year, while the electricity CPI has been much less strained (with inflation close to 3% year-on-year). This has added 1 pp to headline inflation in the euro area and almost entirely explains the change in level since February (see first chart). Although the figures are much lower than the stress experienced in 2022 (when energy inflation peaked at 40%), the magnitudes are significant enough to spread to other prices through indirect effects (increased input costs).¹ The spillover could also have second-round effects (wage-price spiral), although such effects appear with a delay and it is too early to observe them in the available data.

Indirect impact: mixed evidence

The detailed breakdown of the price index provides the first clues about the extent of the indirect effects so far. On one hand, a breakdown of the HICP into nearly 300 products (see table) clearly shows that the bulk of the current inflation spike is purely energy-related. However, some spillover to energy-intensive goods and services, such as audiovisual media or various transport services, is apparent.²

On the other hand, if we focus on more real-time inflationary measures, such as momentum,³ there are also some signs of indirect effects. Specifically, as shown in the second chart, although the vast majority of goods and services continue to have momentums below 2.5%, the share of products in the core basket⁴ with momentums exceeding 4.0% has increased from 10% to 25% so far this year.

1. See the Focus «Energy tensions, inflation and monetary policy in the euro area», in the MR04/2026.

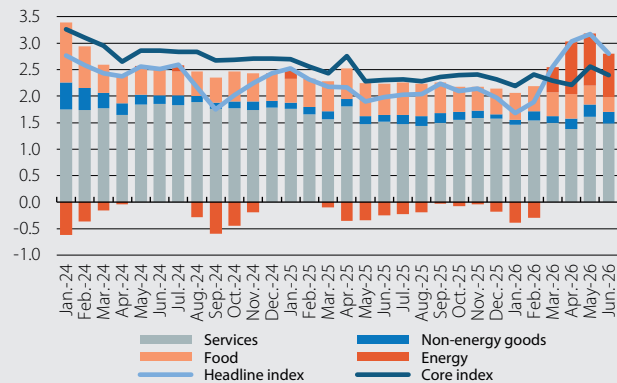
2. These products are identified as energy-intensive based on the analysis of input-output tables referenced in footnote 1.

3. Annualised quarter-on-quarter change in the seasonally adjusted HICP, which reflects changes of trend more rapidly.

4. The core HICP excludes energy and all food.

Euro area: HICP

Year-on-year change (%) and contributions (pps)



Note: Year-on-year change for the headline and core HICP, contributions to headline inflation for the rest.

Source: BPI Research, based on data from Eurostat.

Euro area: top 15 items with the highest inflation increase

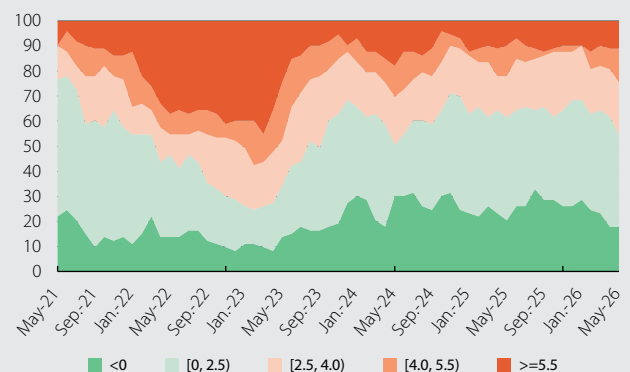
	Year-on-year inflation (m) in May 2026 (%)	Δπ between February 2026 and May 2026 (pps)	Weight (%)
Liquid fuels	43.4	50.6	0.3
Diesel	29.4	31.5	1.5
Unrecorded recording media	35.1	21.0	0.0
Petrol	16.3	19.8	2.2
Other fuels for personal transport equipment	12.2	17.5	0.1
Natural gas through networks	3.7	9.5	1.5
Audiovisual media	4.7	8.8	0.1
Fresh or chilled leguminous vegetables	12.1	8.2	0.0
Hire of personal transport equipment	9.3	7.6	0.2
Vegetable oils	-4.0	7.4	0.3
Passenger transport by air, international	9.0	6.8	0.8
Liquefied hydrocarbons	5.3	6.3	0.1
School uniforms	0.5	5.8	0.0
Video game computers, consoles, game applications and software	-1.1	5.6	0.2
Other fruits, fresh	2.5	5.6	0.2

Note: Breakdown according to ECOICOP2 at the four-digit level.

Source: BPI Research, based on data from Eurostat.

Euro area: core HICP traffic light

(% of components according to momentum)



Notes: Momentum refers to the annualised change in the average HICP over the last three months compared to the previous three months. Seasonally adjusted data for the three-digit breakdown of the core HICP.

Source: BPI Research, based on data from Eurostat.

Another way to assess the indirect effects of the energy shock is to build an inflation indicator that includes all the non-energy goods and services that are most likely to experience spillover effects from energy. Based on the energy intensity of each productive sector in the euro area, which we can infer using input-output tables, we have classified all non-energy goods and services that make up the HICP into «energy-sensitive» and «non-energy-sensitive»: making up approximately 30% and 70% of the core basket, respectively.⁵ As shown in the third chart, during the inflation crisis of 2022-2023, the «energy-sensitive» indicator predicted the stress and easing in other underlying prices. Although current movements are much smaller compared to 2022-2023, between February and May 2026, «energy-sensitive» core inflation rose by 0.4 pps, while the «non-energy-sensitive» index remained stable.⁶

This review of different segments of the HICP, which is the benchmark index and the most relevant metric for the ECB, shows some indirect effects, although they are still somewhat incipient (more visible in momentum than in year-on-year rates of change) and of limited magnitude. There are other indicators besides the HICP that do make the threat of indirect effects more visible. These are primarily indicators based on business surveys such as the PMIs or the European Commission's sentiment indicators. Since March, these indicators have reflected sustained pressure on input costs and intentions to raise prices for final products. Moreover, Eurostat's production price data indicate certain pressures in capital goods (+2.1% in April vs. 1.6% in January-February), intermediate goods (3.9% vs. 1.4%) and durable consumer goods (2.7% vs. 2.3%). Finally, food inflation has eased in the euro area in recent months (from 2.5% in February to 1.6% in June). However, these prices are not without future risks, especially given the rising cost of key inputs such as fertilisers (although fertiliser prices fell sharply in June following the US-Iran agreement).

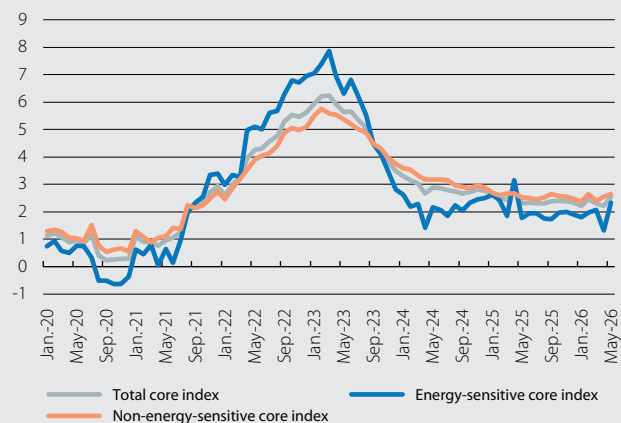
What about the US-Iran agreement?

In mid-June, oil and gas prices fell sharply due to the memorandum of understanding announced by the US and Iran, which marked a continuation of the military truce and the announced reopening of the Strait of

5. We reproduce the methodology used by Fagandini *et al.* (2024), «Decomposing HICPX inflation into energy-sensitive and wage-sensitive items», ECB Economic Bulletin 3/2024, but using a slightly less detailed breakdown of the HICP (3 digits, with 103 items) and the latest weightings (2026). A particular good/service is considered «energy-sensitive» when its energy intensity (intermediate energy consumption over total production) is higher than the average for all goods/services.
6. The «energy-sensitive» index shows two recent sawtooth patterns, in April 2025 and 2026, attributed to calendar effects related to Easter (with a significant base effect on passenger airfares and holiday packages).

Euro area: core HICP

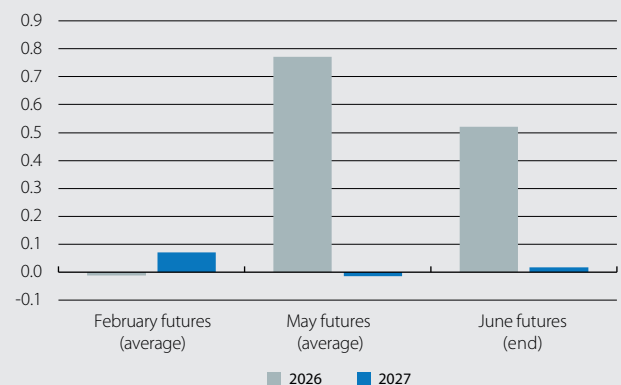
Year-on-year change (%)



Note: All inflations are calculated using the fixed weights of the 2026 HICP.

Source: BPI Research, own estimates based on data from Eurostat.

Euro area: energy's contribution to headline inflation according to gas and oil futures (pps)



Note: The estimated contribution also incorporates all available HICP data at each time.

Source: BPI Research, own estimates based on data from Bloomberg and Eurostat.

Hormuz together with a 60-day negotiation window. Geopolitical uncertainty is high, but if the markets continue to react favourably, the inflationary threat from the conflict could be significantly reduced: according to oil and gas futures prices at the end of June, the direct impact of energy on headline inflation in the euro area in 2026 could be reduced by around 30% (see last chart).⁷ Even in these favourable scenarios, euro area inflation could average close to 3% in 2026, but it would be «slightly below» rather than «slightly above». With a lower risk of adverse scenarios, the likelihood of significant price spillovers would also decrease, boosting confidence in a return to 2% during the course of 2027.

7. This direct impact is estimated using linear regressions which transfer oil and gas futures to the HICP of fuels and lubricants and to the HICP of energy excluding fuels, respectively.

The upcoming budget takes over from NGEU in the European Semester

On 3 June, the so-called 'Spring Package' – the final stage of the EU's annual cycle of economic, fiscal and cohesion policy coordination – was presented. Last year, the focus was on accelerating the execution of NGEU funds in their final phase and reflecting the guidance of the newly launched Competitiveness Compass. In 2026, the European Semester strengthens its role as a framework for identifying reform and investment needs ahead of the upcoming 2028-2034 EU budget. The priorities include: more tangible progress towards an effective integration of the Single Market, alongside strengthening the competitiveness agenda in strategic sectors and reconciling new spending needs with the European fiscal framework.

The geopolitical context exacerbates the EU's structural weaknesses

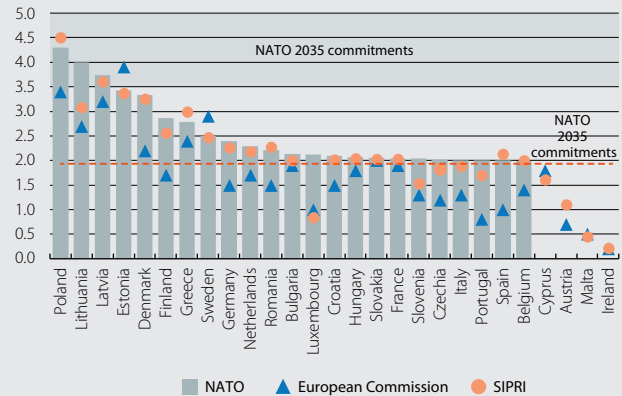
The initial diagnosis is clear: there is no room for complacency in the face of external threats – such as security risks, climate change and supply tensions – and internal weaknesses – notably fragmentation of the internal market and low productivity growth. In line with the Competitiveness Compass, the three priorities are: closing the innovation gap, decarbonising the economy and reducing strategic dependencies.¹ To achieve this, the focus is on effectively integrating the Single Market by reducing barriers, simplifying regulations, and developing the Savings and Investments Union (SIU), with recommendations to better channel European savings into productive investment.

In terms of economic security and strategic autonomy, the central focus is on reducing dependencies in energy, critical raw materials and key technologies. Initiatives such as REPowerEU and AccelerateEU aim to accelerate the diversification of supplies, the deployment of renewables, electrification, and the strengthening of networks and interconnections, turning the energy transition into both a climate and geopolitical policy lever. In parallel, efforts are being made to bolster the industrial base in strategic sectors such as defence, focusing on joint procurement – supported by instruments like SAFE loans – and deeper coordination among Member States, which would allow for more efficient progress on NATO's new commitments (see first chart).²

A broad set of challenges under the new strategic priorities

The country-specific recommendations reflect a more demanding agenda than in the past, centred around a

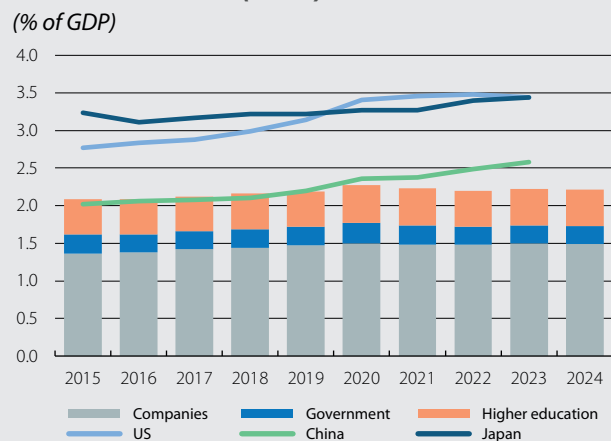
EU: defence spending by country (2025) (% of GDP)



Note: Austria, Cyprus, Ireland and Malta are not NATO members.

Source: BPI Research, based on data from NATO, the European Commission and the Stockholm International Peace Research Institute (SIPRI).

EU: R&D expenditure by sector and total of other countries (2024) (% of GDP)



Source: BPI Research, based on data from Eurostat.

common core linked to new strategic priorities. Thus, for the four largest economies, the emphasis combines competitiveness, the functioning of the internal market, and structural reforms. Boosting innovation is a shared priority, given the persistent gap with the US and other global competitors like China (see second chart). This includes recommendations to boost investment in R&D, improve the transfer of knowledge to the business sector, facilitate access to funding, and develop ecosystems that support the growth and scaling-up of start-ups. Reducing administrative bottlenecks that limit the ability to execute large-scale investments is also a priority in these countries. Recommendations in this area focus on improving efficiency, cutting red tape and expediting permits.

In Central and Eastern Europe, the focus remains on the energy transition in favour of renewable sources, given these regions' current reliance on coal and gas, along

1. See the Focus «How far has the EU progressed on the Competitiveness Compass?» in the MR04/2026.

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

with strengthening energy security. In the Baltic and Eastern European countries, security, defence, and civil preparedness are gaining prominence in the context of the war in Ukraine, while in Southern Europe the recommendations place greater emphasis on social cohesion, the labour market, and climate resilience.

A significant development this year is the increased prominence of housing on the European agenda.³ The Commission links the challenges in this area not only to social cohesion but also to competitiveness, due to their impact on labour mobility and the functioning of the labour market. The recommendations propose action on several fronts: simplifying and expediting permits and planning processes, mobilising public land and improving coordination between different levels of government, boosting the construction and renovation of affordable and energy-efficient housing, reviewing tax incentives that could distort demand, and encouraging the reuse of underutilised housing.

The fiscal governance framework: short-term flexibility, medium-term frictions

Together, these recommendations reflect a more ambitious investment and reform agenda, the pursuit of which is constrained by the state of European public finances.⁴ This year's Spring Package represents the first comprehensive test of both the new fiscal framework adopted in 2024 and the national medium-term fiscal-structural plans submitted in 2025.⁵ The assessment combines the objective of ensuring the medium-term sustainability of public debt with adapting to an environment marked by rising structural spending needs (defence, energy, digital transformation and population ageing). The response has been to introduce limited and temporary flexibility into the fiscal framework, which, in some cases, allows the new spending pressures to be reconciled with the recommended fiscal path. However, compliance across Member States remains uneven, with risks of deviation concentrated in 2026.⁶

The main flexibility instrument is the national escape clause for defence expenditure, which was activated last year and allows for an additional spending margin of 1.5% of GDP through to 2028 without compromising medium-term fiscal sustainability. In 2026, its scope will be

expanded, within this limit and time frame, to include certain energy-related measures linked to reducing external dependencies: up to 0.3% of annual GDP and a cumulative limit of 0.6% for investment in electrification, networks, storage, energy efficiency, or the clean energy transition.

This flexible design allows the energy and security shocks to be absorbed without formally altering the fiscal anchor. However, it does not eliminate underlying tensions: the margins are temporary, the additional expenditure will be incorporated into fiscal trajectories, and achieving sustainability will depend on these priorities being combined with higher potential growth or cuts to other budgetary items. In this context, the key will be how these new structural commitments are reflected in the spending paths of the medium-term plans. The risk, however, is that the EU may not have resolved the alignment of its strategic priorities with fiscal rules and a greater common budgetary capacity.

The ball is in national governments' court

With the publication of the Spring Package, the Commission is laying out the diagnosis and guiding the priorities, but it should not be forgotten that the final implementation lies with Member States. In the short term, they must finalise the execution of NGEU funds, apply the country-specific recommendations, and conclude negotiations for the 2028-2034 EU budget, which will determine the EU's actual capacity to fund its ambitions in competitiveness, defence, energy and cohesion.⁷ In this context, the focus shifts from the European response to national execution, where factors such as administrative capacity, regulatory delays and territorial fragmentation can be decisive.

The debate, therefore, cannot be confined to the European dimension nor to what is discussed and agreed upon in Brussels. The conclusion of the NGEU programme marks the end of an exceptional instrument and necessitates the establishment of a more permanent framework for investment and reforms. The European Semester sets the direction, but the transition will not be automatic and will require deciding which part of this approach, along with the associated conditionality, is incorporated into the new financial instruments of the next budget (referred to as National and Regional Partnership Plans in the Commission's initial proposal). Ultimately, it will be the ability – and the political willingness – of Member States to reach and implement ambitious agreements that will determine whether the EU has risen to the challenge.

3. See the Focus «There are reasons why housing has become the top concern among European citizens» in the MR02/2026.

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

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

6. Moderate risks of slippage emerge in 2026 for major economies such as France and Spain, although these are limited and compatible with compliance in cumulative terms. More strained situations are observed in a smaller group of countries with a risk of material non-compliance, such as Hungary, Croatia, Lithuania and Bulgaria; for the latter, the Commission is considering initiating an excessive deficit procedure.

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

Europe needs to channel its high savings into productive investments

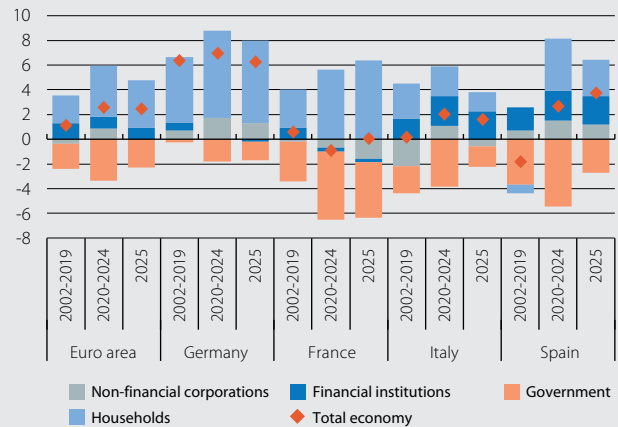
The euro area has maintained a high lending capacity, even during major shocks, largely driven by households.^{1,2} By country, Germany has been the major source of lending, regardless of its position in the cycle. Spain and Italy's lending capacity, meanwhile, has been more heavily affected by the euro crisis, the pandemic, and the energy crisis triggered by the war in Ukraine. This behaviour reflects significant structural differences and is consistent with the diagnosis outlined in the Draghi report³ and the European Commission's «Spring Package»:⁴ the region has resources but needs to mobilise them more effectively towards productive investments that enhance competitiveness, strategic autonomy, and the ability to adapt to the new technological, energy and geopolitical reality.

Europe's problem is not a lack of resources for investment

Before the 2008 financial crisis, the euro area's gross saving stood at around 22% of GDP. Then, after falling to around 20% in 2009-2010, it gradually recovered from 2013 onwards, supported by an improvement in public saving and the recovery of economic activity. In 2019, the gross saving of the economy as a whole stood at around 25% of GDP. The pandemic temporarily changed the composition of savings: household savings reached historic highs, at around 13% of GDP in 2020, compared with an average of 8.0% in the previous decade, offsetting the significant deterioration in the general government balance. Although a part of those savings has been used up as economic activity has returned to normal, household savings still exceed their pre-pandemic average. As a result, gross savings in the euro area reached almost 24% of GDP in 2025, equivalent to some 3.8 trillion euros.

However, this volume of resources has not resulted in an equivalent recovery of investment. After reaching an average of 22.3% of GDP between 2002 and 2008 due to the boom in residential investment, gross non-financial investment fell to a low of 19% of GDP in 2014, in the aftermath of the financial crisis. Subsequently, the low

Net lending (+) / Net borrowing (–) by institutional sector (% of GDP)



Source: BPI Research, based on data from Eurostat.

interest rate environment allowed for a slight recovery, but the pandemic, increased uncertainty, and the tightening of financial conditions due to the energy crisis triggered by the war in Ukraine limited its progress. In 2025, investment stood at 20% of GDP, approximately 3.4 trillion euros. This gap between saving and investment translates into a net lending position in the euro area of around 391 billion euros, or 2.5% of GDP. The issue is not the lack of savings, but rather their insufficient conversion into investment within the region itself.

Germany accounts for a significant portion of the euro area's excess savings

The German economy accounts for about one-third of the region's gross savings, amounting to some 1.19 trillion euros in 2025, of which more than 47% is household savings. However, the investment effort of the economy has been relatively low: in 2025, gross investment was around 908 billion euros, or 20% of GDP, compared to 21.4% in the euro area. This explains why Germany recorded a lending capacity of nearly 282 billion euros, or around 6% of its GDP, which represents the bulk of the euro area's aggregate lending capacity.

The gap between savings and investment in Germany is expected to gradually narrow with the implementation of the infrastructure investment plan, although this convergence will be slow. With the exception of Spain, the bloc's other major economies have a more limited lending capacity. France's savings have been well below its level of investment since the pandemic, influenced by the deterioration of public saving and the funding needs

1. Lending capacity = gross saving – gross investment.

2. Gross saving is the portion of gross national disposable income (GNDI) that is not allocated to final consumption. It is the sum of savings from different institutional sectors (households, businesses and government).

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

4. See the Focus «The upcoming budget takes over from NGEU in the European Semester», in this same report.

of the business sector.⁵ Spain, on the other hand, has shown a notable improvement in household savings since the pandemic. Together with consolidation efforts in the public sector, this allowed it to record a lending capacity of 3.7% of GDP in 2025, which is approximately 63 billion euros.

Household savings are allocated to illiquid assets

Households are the main source of savings generated in the euro area, but they have always shown a «more conservative» profile when it comes to investing those savings. Housing constitutes their main asset: it accounts for more than 55% of their total net wealth, over 50% of wealth in the bottom 50%, and 45% in the highest decile. There is also a significant preference for deposits, which account for around 14% of total wealth, over 40% for households in the bottom 50%, but just 10% in the top decile. In contrast, exposure to financial assets with higher expected returns (investment funds and shares) accounts for only 9% of the wealth of all households and is mainly concentrated in the highest wealth percentile, while among the bottom 50% it represents just 3% of their wealth.^{6,7}

In the US, holding financial assets is a more widespread practice. In fact, for households as a whole, housing accounts for less than 20% of their wealth, and deposits make up just 8% of their assets. Corporate shares and investment funds, meanwhile, account for over 30% of their wealth.⁸ There are significant differences between wealth brackets, but even among the groups with less wealth there is a clear preference for somewhat more complex financial products. In fact, for households in the bottom 50%, equities and investment funds account for 14% of their total wealth (well below the more than 50%

among wealthier households), while deposits make up between 15% and 20%. As for housing, it accounts for around 30%-40% of wealth among less wealthy households, and only represents between 8% and 13% of the wealthiest households' wealth.⁹

Savings in the euro area must be allocated more efficiently

Ultimately, the key issue for Europe is not how much it saves, but how it ensures that these savings fund its future growth. The comparison with the US clearly illustrates this difference: in Europe, a significant portion of household wealth remains concentrated in housing and deposits, whereas in the US, the greater presence of investments in stocks and funds reflects the existence of deeper, more liquid and developed capital markets. This greater depth allows savings to reach companies more quickly and under better conditions, especially those with greater long-term funding needs and higher risk, such as start-ups, innovative companies, or projects linked to the energy and technological transition. This diagnosis aligns with the European Commission's Spring Package, which proposes advancing the Savings and Investments Union as a necessary vehicle to transform its high lending capacity into higher potential growth, increased innovation, and a better response to geopolitical, technological and climate challenges.

5. Since Eurostat does not publish data on dividend distributions for all countries, we use gross operating profit as a proxy for the income generated by companies. The difference between that profit and the gross savings of companies indicates that in France, the decline in corporate savings is not due to a deterioration in margins, but rather to increased financial cost pressures and/or a more generous dividend distribution policy compared to its partners.

6. See «Whoever has a home has a treasure» in the MR05/2024.

7. In its Household Finance and Consumption Survey (HFCS), the ECB publishes information for each of the 6th, 7th, 8th, 9th and 10th deciles and for the bottom 50%. Deciles divide the wealth series, ordered from lowest to highest, into 10 equal parts and make it possible to differentiate the population by level of wealth. Thus, the lowest deciles represent the population with the least wealth, while the 10th decile represents the wealthiest group.

8. Corporate shares encompass shares of both domestic and foreign companies, whether listed or not, valued at market prices, as well as direct investments in companies, not just stock market shares. Investment funds refer to equity funds, mixed funds and fixed-income funds. Among others, this category does not include monetary funds or directly acquired debt securities, which are accounted for in their own categories.

9. In its Distributional Financial Accounts, the Fed publishes the distribution of wealth by percentile. It presents five major percentiles: the wealthiest 0.1% (billionaires), the rest of the top 1%, the next 9% (top 10%), then the next 40% (middle and upper-middle class), and the bottom 50%.

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

UNITED STATES

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
Activity									
Real GDP	2.8	2.1	2.1	2.3	2.0	2.7	–	–	–
Retail sales (excluding cars and petrol)	3.4	4.5	4.8	4.6	3.9	4.6	5.0	5.6	...
Consumer confidence (<i>value</i>)	104.5	96.1	93.1	97.4	94.2	90.7	93.8	90.6	91.2
Industrial production	–0.7	1.1	0.5	1.7	1.6	0.8	1.4	1.7	...
Manufacturing activity index (ISM) (<i>value</i>)	48.2	48.9	48.8	48.7	48.2	52.6	52.7	54.0	53.3
Housing starts (<i>thousands, monthly average</i>)	1,370	1,356	1,356	1,347	1,323	1,418	1,392	1,177	...
Case-Shiller home price index (<i>index</i>)	330	339	338	338	341	343	342	...	...
Unemployment rate (% <i>lab. force</i>)	4.0	4.3	4.2	4.3	4.5	4.3	4.3	4.3	4.2
Employment-population ratio (% <i>pop. > 16 years</i>)	60.1	59.8	59.8	59.6	59.7	59.3	59.1	59.2	59.0
Trade balance ¹ (% <i>GDP</i>)	–2.8	–3.3	–3.5	–3.4	–3.1	–2.5	–2.3	...	...
Prices									
Headline inflation	2.9	2.6	2.4	2.9	2.7	2.7	3.8	4.2	...
Core inflation	3.4	2.8	2.8	3.1	2.6	2.5	2.8	2.9	...

JAPAN

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
Activity									
Real GDP	–0.2	1.1	1.9	0.5	0.3	0.4	–	–	–
Consumer confidence (<i>value</i>)	37.2	34.7	33.2	34.8	36.7	36.9	32.2	33.6	33.8
Industrial production	–3.0	0.1	0.1	–1.1	–1.3	1.2	2.0	1.2	...
Business activity index (Tankan) (<i>value</i>)	12.8	13.5	13.0	14.0	15.0	17.0	–	–	–
Unemployment rate (% <i>lab. force</i>)	2.5	2.5	2.5	2.5	2.6	2.7	2.5	2.5	...
Trade balance ¹ (% <i>GDP</i>)	–1.0	–0.6	–0.7	–0.5	–0.4	–0.3	–0.2	–0.1	...
Prices									
Headline inflation	2.7	3.2	3.4	2.9	2.7	1.4	1.3	1.5	...
Core inflation	2.4	3.0	3.2	3.2	3.0	2.6	1.9	1.8	...

CHINA

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
Activity									
Real GDP	5.0	5.0	5.2	4.8	4.5	5.0	–	–	–
Retail sales	3.3	3.8	4.4	2.4	0.7	2.4	0.2	–0.6	...
Industrial production	5.6	5.9	6.2	5.8	5.0	6.0	4.1	4.5	...
PMI manufacturing (<i>value</i>)	49.8	49.6	49.4	49.5	49.4	49.6	50.3	50.0	50.3
Foreign sector									
Trade balance ^{1,2}	997	1,187	1,145	1,174	1,187	1,176	1,165	1,167	...
Exports	4.6	5.5	6.0	6.5	3.8	14.5	13.9	19.2	...
Imports	1.0	0.2	–0.8	4.7	3.6	23.2	25.2	27.4	...
Prices									
Headline inflation	0.2	0.1	0.0	–0.2	0.6	0.8	1.2	1.2	...
Official interest rate ³	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Renminbi per dollar	7.2	7.2	7.2	7.2	7.1	6.9	6.8	6.8	6.8

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

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
Retail sales (year-on-year change)	1.2	2.4	3.1	2.0	2.3	1.9	1.0	...	...
Industrial production (year-on-year change)	-2.9	1.6	1.5	1.5	1.9	-1.6	0.3	...	...
Consumer confidence	-12.6	-13.4	-14.1	-13.6	-12.9	-13.7	-20.5	-19.0	-17.7
Economic sentiment	95.9	95.9	95.0	95.9	97.1	97.8	93.3	93.7	95.0
Manufacturing PMI	45.9	49.1	49.3	50.1	49.5	50.6	52.2	51.6	51.4
Services PMI	51.5	51.3	50.1	50.9	53.0	51.2	47.6	47.7	49.4
Labour market									
Employment (people) (year-on-year change)	1.0	0.7	0.7	0.7	0.7	0.5	-	-	-
Unemployment rate (% labour force)	6.4	6.3	6.3	6.3	6.3	6.3	6.2	6.2	...
Germany (% labour force)	3.4	3.7	3.7	3.8	3.9	3.8	3.8	3.8	...
France (% labour force)	7.5	7.7	7.6	7.8	8.0	8.1	8.2	8.2	...
Italy (% labour force)	6.6	6.1	6.3	6.0	5.7	5.2	5.1	5.0	...
Real GDP (year-on-year change)	0.9	1.5	1.6	1.4	1.2	0.3	-	-	-
Germany (year-on-year change)	-0.5	0.3	0.4	0.3	0.4	0.3	-	-	-
France (year-on-year change)	1.4	0.9	0.8	0.8	1.1	0.9	-	-	-
Italy (year-on-year change)	0.6	0.7	0.5	0.7	0.9	0.8	-	-	-

Prices

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
General	2.4	2.1	2.0	2.1	2.1	2.0	3.0	3.2	2.8
Core	2.8	2.4	2.4	2.3	2.4	2.3	2.2	2.6	2.4

Foreign sector

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
Current balance	3.0	2.0	2.4	2.2	2.0	2.1	2.0	...	...
Germany	5.9	4.5	5.0	4.7	4.5	4.4	4.3	...	...
France	0.1	-0.3	-0.2	-0.5	-0.3	-0.3	-0.3	...	...
Italy	1.1	1.1	0.9	1.1	1.1	1.4	1.4	...	...
Nominal effective exchange rate¹ (value)	94.2	96.1	96.2	97.9	97.5	97.2	97.4	96.7	96.1

Credit and deposits of non-financial sectors

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
Private sector financing									
Credit to non-financial firms ²	0.8	2.7	2.6	2.9	3.0	3.0	3.4	4.0	...
Credit to households ^{2,3}	0.5	2.2	2.1	2.5	2.9	3.0	3.0	3.1	...
Interest rate on loans to non-financial firms ⁴ (%)	4.9	3.4	3.4	3.2	3.3	3.3	3.3	3.3	...
Interest rate on loans to households for house purchases ⁵ (%)	4.6	3.7	3.7	3.6	3.5	3.5	3.6	3.6	...
Deposits									
On demand deposits	-3.9	5.0	5.3	5.5	5.4	5.4	4.0	4.3	...
Other short-term deposits	12.4	-0.1	-0.1	-1.5	-1.0	-0.2	0.9	1.4	...
Marketable instruments	20.0	7.7	11.0	4.4	0.9	0.8	0.9	3.2	...
Interest rate on deposits up to 1 year from households (%)	3.0	1.9	1.9	1.7	1.8	1.8	1.9	1.9	...

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.

Relief in confidence and robustness in employment

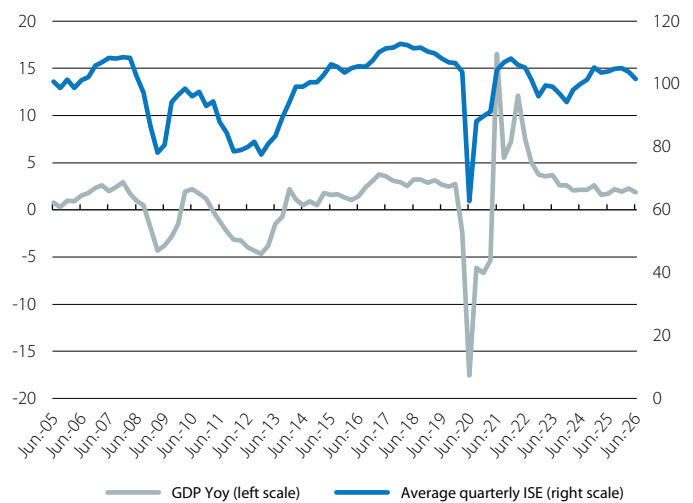
Indicators for Q2 with a trend from less to more. In April, economic sentiment reacted to the uncertainty associated with the impacts of the war in Iran. However, several indicators partially recovered in May, and the data already available for June indicate a consolidation of this trend. Thus, confidence indicators showed improvement throughout the quarter, most notably the European Commission's economic sentiment indicator, which recovered to 103 points in June. Meanwhile, indicators relating to private consumption remain robust, with retail sales advancing 4.2% in the first two months of the quarter and car sales advancing 11.8% in the quarter (10.1% in Q1). The behaviour of the consumption data is supported by the positive performance of the labour market, which continues to surprise positively, and by the growth in nominal wages: 5% in Q1. Regarding households, their savings rate remains near historical highs, having stabilised at 12.3% in the first quarter of the year. The indicators related to investment are less up to date; however, they also suggest positive performance in Q2. We continue to anticipate that the economy will grow by 1.8% in 2026, benefiting from robust domestic demand but constrained by weaker export momentum associated with the still sluggish growth of key trading partners. Recently, the IMF and the European Commission revised their growth expectations downwards to 1.7% for this year, largely explained by more modest prospects for the export sector.

Inflation in June slowed to 3.2%, a slight slowdown from the 3.3% recorded in May. Conversely, underlying inflation gained strength, rising to 2.5% (2.2% in May), possibly reflecting some lagged effects of the energy shock. Energy product prices slowed sharply to 9.1% year-on-year (vs. 13.1% in May). This is happening on the back of the signing of the memorandum of understanding between the United States and Iran, which resulted in a rapid drop in energy prices, with Brent and gas already at levels close to pre-conflict prices in international markets.

Employment is regaining momentum and the second quarter could prove more positive than initially expected. The May data (still preliminary and seasonally adjusted) reinforce the dynamism of employment, with year-on-year growth of 2.8%, above the average growth of the previous four months (2.4%). The employed population in May (5,366,600) represents a new historical high. In line with this dynamic, the unemployment rate decreased to 5.5% (a reduction of 0.2 pp compared to April and 0.7 pp compared to the same month last year). Given these figures, it is possible that the unemployment rate will be around 5.3% in Q2, which, if confirmed, suggests that the unemployment rate for the year as a whole may be lower than our forecasts (currently 5.9%).

The Housing Price Index (HPI) increased by 17.8% year-on-year in Q1 2026. This figure reflects a slight slowdown from the 18.9% of Q4 2025. Quarter-on-quarter growth also remained strong (3.8%), although below the strength of recent quarters,

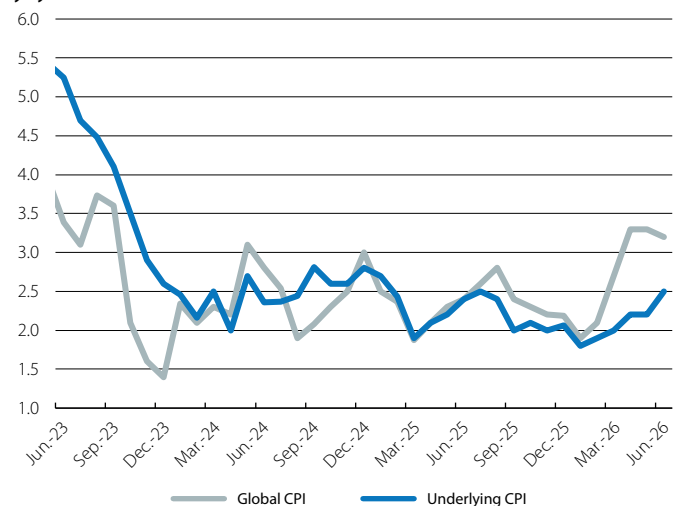
Economic sentiment and GDP growth (%)



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

CPI

yoy (%)



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

Employed population (Thousands of individuals)



Note: Seasonally adjusted data.

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

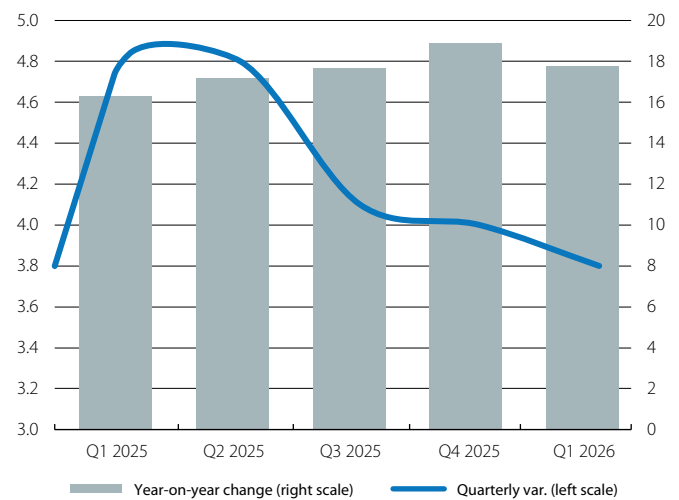
which had recorded quarterly variations always above 4%. The dynamics of transactions have also calmed. In fact, 37,745 homes were transacted in the quarter, –8.7% compared to the same period of the previous year, also reflecting a significant quarter-on-quarter decline (–12.4%). Nevertheless, the average price of homes transacted increased to 262,800 euros (+5.1% quarter-on-quarter). Expectations regarding price and transaction trends have calmed, but the fundamentals are still consistent with robust appreciation in this market in 2026.

External accounts register their worst start to the year since 2023. In cumulative terms up to April, the balance of the current and capital accounts stood at 814.5 million euros (–713 million euros compared to the same period last year), driven by a deterioration in the current account balance of 693 million euros (the capital account recorded a decrease in its surplus of only 20.3 million euros). The negative current account balance is attributable to a deterioration in the goods account balance of 968 million euros (driven mainly by the non-energy component), as a result of the rise in imports (+6.2 per cent year-on-year), which more than offset the increase in exports (+4.6 per cent year-on-year). Similarly, the cumulative balance of the services account fell by 167 million euros (–1.8 per cent year-on-year), as a result of the decline in the surplus on the non-tourism services account. Compared with April 2025 and on a year-to-date basis, the tourism balance saw its surplus increase by 235 million euros (+3.5 per cent year-on-year), driven by a rise in exports. We also highlight the increase in the income balance surplus, driven by a decrease in the primary income balance deficit of 468 million euros, resulting from a reduction in interest payments made abroad.

The loan portfolio for the non-financial private sector continues to grow strongly. With year-on-year growth of 7.8% in May, the dynamism was broad-based across the various segments; nevertheless, the main highlight is the housing loan portfolio, which once again grew by more than 10% year-on-year and accounts for around 65% of the year-on-year increase in the private loan portfolio. We also highlight the loan portfolio to SNF (4.2%), which will be supported by the dynamism of new operations (data not yet available at this time), and which will have a significant weight from post-storm support credit lines (up to April, credit lines accounted for 11% of new loans). Conversely, there is no significant deterioration in the credit quality of the portfolio: overdue loans are at minimum levels (in the case of housing credit) or relatively close (SNF and consumer & other purposes, although there has been a deterioration in recent months in these two segments), while the NPL ratio remained unchanged at its historical low at the beginning of 2026, a pattern that is practically transversal to all credit segments. Conversely, loans in *stage 2* (for which credit risk has increased significantly, but which are still not in default) increased at the beginning of the year (in the case of individuals, mainly housing), but remained far from historical highs.

Housing Price Index

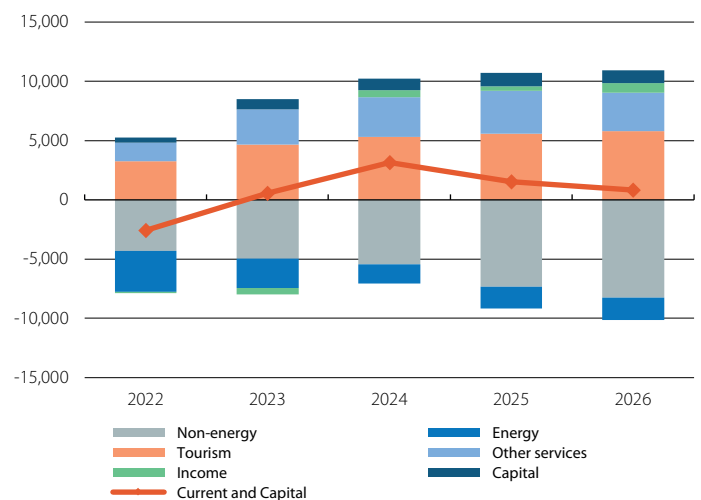
Quarterly and year-on-year variation (%)



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

Portugal: current and capital balance

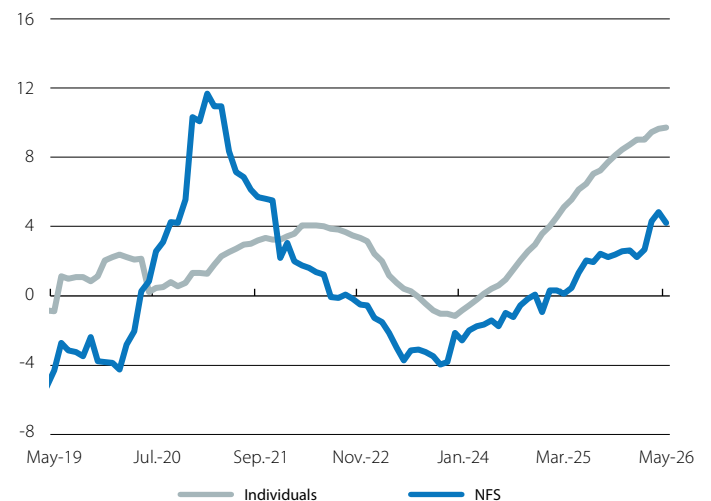
(Ytd April, millions of euros)



Source: BPI Research, based on data from Datastream.

Loan portfolio to the non-financial private sector

Annual rate of change (%)



Source: BPI Research, based on data from BdP.

Ultimately, there are more of us residing in Portugal. What has changed in the statistics?

INE has revised its estimates of the resident population in Portugal, taking into account a new methodology for obtaining these data. The impact was quite significant compared to previously released data, and in this article, we will explain the basis of the new methodology, the effects already visible in the new statistics, and the future impacts we can expect.

What has changed in resident population estimates?

The previous methodology for estimating the resident population in Portugal was based on the cohort component method: this meant that, to obtain the population at the end of a period (for example, at the end of 2025), one would start with the population at the beginning of the period (in this example, at the end of 2024) and use the demographic flows observed in that period (in this case, 2025); thus, demographic flows were determined a priori. More specifically, existing data on births and deaths (to calculate the natural balance), available in the Integrated Civil Registration and Identification System, and on migration movements (to determine the migration balance), obtained from information from the Survey on Outgoing Migration Movements and the Employment Survey, were used.¹

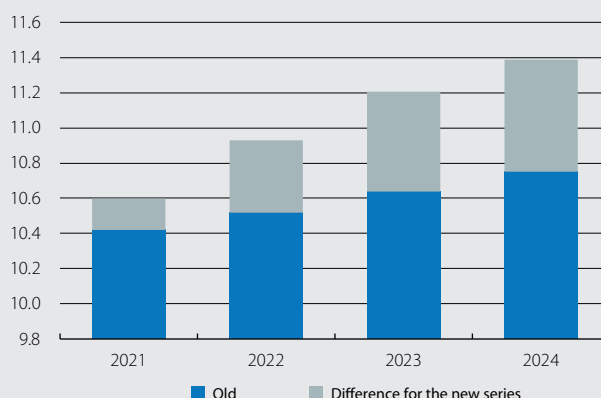
Conversely, the new methodology directly determines the resident population at the end of a period, with demographic flows being calculated afterwards. This is possible through an administrative-based methodology, in which INE (National Institute of Statistics) uses data from various public entities (such as IRN, AIMA, AT, CGA, IEFP, among others). In this context, and according to INE (National Institute of Statistics), estimates of the resident population are part of the Resident Population Base (BPR), which is simply a way of integrating these various administrative data to produce statistics relating to the resident population as of December 31 of each year.²

What was the impact of changing the methodology for resident population statistics?

The methodological change led to an upward revision of the previously estimated resident population in Portugal for the period between 2021 and 2024. The most significant difference occurred in 2024, with almost 640,000 more residents in Portugal than previously

Portugal: impacts of the revision of the resident population series

(Millions of individuals)



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

estimated. The main justification for the upward revision in this period is the previous underestimation of the foreign population (which explains, on average, about 60% of the upward revision between 2021 and 2023).

However, this upward revision of the resident population has other implications: INE draws attention to the revision of other statistics, which cut across several areas. In addition to expected changes in the Employment Survey and other labour market indicators, the national accounts (including GDP) will also be subject to revision (in both cases, this revision is scheduled for the first 3 months of 2027). Furthermore, revisions are also expected in statistics in the areas of culture & sport, health, education, justice, and even social protection. In the latter case, it is important to highlight the implications this will have for the revision of the Mortality Tables and, consequently, for the calculation of life expectancy at age 65, a relevant variable for determining the legal retirement age and the sustainability factor each year.

Once these revisions are made, it will be important to subsequently assess what impact this will have on the evaluation of Portugal's economic convergence compared to other EU countries (particularly in the calculation of per capita variables, such as GDP) and how the country's productivity has actually evolved during this period.

What do we know about the resident population in 2025?

Given this new data and with the estimate for 2025, we can conclude that the resident population in Portugal has grown in a surprising way over the last 5 years (with

1. For more detailed information on this, please consult the «Methodological note on the 2025 resident population estimates and the 2021–2024 revision», available on the INE website, dated June 22.

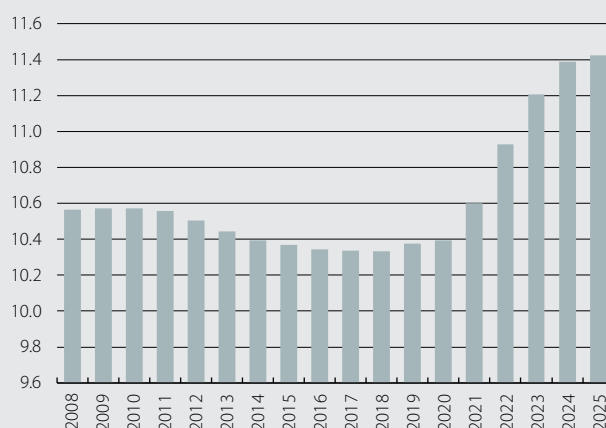
2. For more information on the various sources of administrative information that are integrated into the BPR, please refer to the methodological note mentioned in footnote 1.

average annual growth of around 2%), exceeding the most optimistic projections.³ The issue at hand is the dynamism of the foreign-national population, which has been increasing quite significantly, particularly over the last 7 years, a period in which the average annual growth has approached 20%. It represented approximately 14% of the total resident population in Portugal in 2025, equivalent to about 1.6 million people, compared to approximately 441,000 people in 2018 (when they represented 4.3%).

Regarding countries of origin, Brazil stands out by a wide margin (representing approximately 36% of the foreign population residing in Portugal in 2025), followed by Angola, India, Cabo Verde and Nepal, rounding out the top 5. It is also worth highlighting the fact that more than half of the foreign population residing in Portugal (around 55%) is in the 25–44 age group (compared to around 21% for the national population). In turn, the proportion of men is higher in the foreign population (57%, compared to 48% in the case of the national population), although the masculinity rate in the foreign population from the Asian continent is substantially higher than that observed in the Portuguese population, with Bangladesh, Pakistan and India standing out (with rates above 80%). At the same time, the foreign population has a generally higher level of education than the Portuguese population: for example, 43% of the national population has completed, at most, basic education, which contrasts with 24% of the foreign population; in higher education, the rate is also higher among the foreign population (31% compared to 27% in the national population). Finally, it is worth highlighting the higher concentration on the country's coast, similar to the Portuguese population, where more job opportunities are typically found; it is worth highlighting that the districts of Lisbon, Faro and Porto concentrated approximately 60% of the foreign population residing in Portugal in 2024.

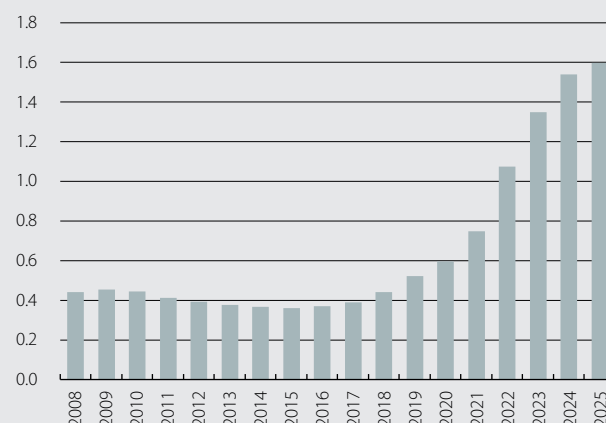
Vânia Duarte

Portugal: resident population (Millions of individuals)



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

Portugal: foreign resident population (Millions of individuals)



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

3. It is worth recalling that, in INE's projections, published in September 2025, for the high scenario (the most positive scenario for the projection of the resident population), the institution projected that the resident population in Portugal would be around 10,840,000 people.

Household wealth improved, while inequality declined a little

The publication of household wealth data and the Household Finance and Consumption Survey show improvements in the situation of Portuguese households: their wealth has increased, and although the appreciation of real estate is contributing to a higher level of wealth, the improvement in financial wealth is also significant, growing at the pace of nominal GDP. Additionally, some improvements have been observed in the wealth disparity between the richest and the poorest. Less positive is the distribution of financial wealth by type of asset, which remains concentrated in low-risk assets, typically offering less attractive returns.

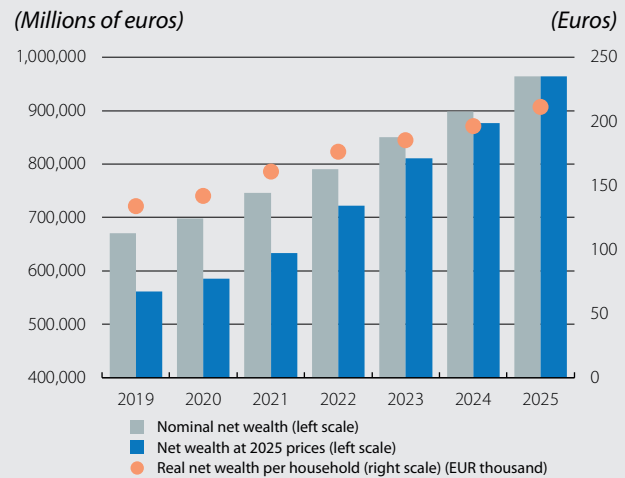
Thus, total household¹ net wealth reached €964 billion in 2025, representing growth of 7.4% compared with the previous year, exceeding the pace of nominal GDP expansion (5.9%). This movement was influenced by the appreciation of real estate assets, which increased by 8.6% over the last year, contributing 4.9 pp to the increase in wealth. In turn, net financial wealth increased in line with nominal GDP, contributing 2.5 pp to the increase in wealth. When measured at 2025 prices, the increase in wealth was even more substantial (9.9%), while wealth per household, also at 2025 prices, rose by 7.8%.

The structure of wealth did not change significantly in terms of real estate assets,² but the composition of financial wealth underwent some changes. In 2025, households' financial assets amounted to €619 billion (+6.6% compared with 2024), with deposits and shares and other equity accounting for the majority of these assets. Deposits continue to be the preferred asset among households, in line with the findings of the latest Household Finance and Consumption Survey, which indicate that 86% of households are unwilling to assume any financial risks. Within these, term deposits account for just over 60%.

The shares and other equity component, which gained weight in households' financial assets between 2019 and 2025, represents, in practice, ownership of or a stake in companies' capital. These, compared with 2019, increased by 6.2 pp, representing around 25% of households' assets in 2025. Stock market investments play a residual role, accounting for around 2% of total financial assets. Investments in capital markets are made primarily through the purchase of units in investment funds and pension funds. Together, these represent almost 18% of households' financial assets.

The structure in the euro area is quite different from that of Portugal, with a greater prevalence of assets invested

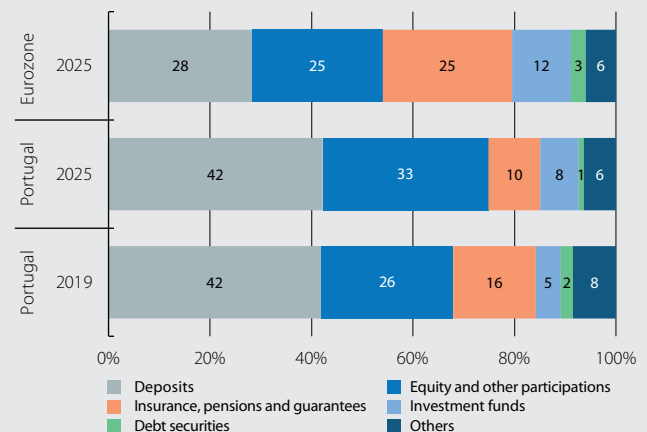
Net wealth of households



Source: BPI Research, com base on data from Banco de Portugal and INE (Portuguese National Institute of Statistics).

Portugal: household financial assets

Share of the different asset classes in total financial assets



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

in investment funds and pension funds, to the detriment of deposits, which can largely be explained by differences in the level of financial literacy, particularly regarding financial knowledge.³

In turn, financial liabilities amounted to €206 billion in 2025, being mostly composed of loans (80%), with the remaining 20% relating to other payables associated with households' current activities, including, for example, taxes payable and (current) debts to suppliers, such as electricity, water and gas bills.

In net terms, households' financial wealth amounted to €413 billion, with average annual growth of 6.3% since 2019,

1. Total net wealth is equal to total wealth less liabilities, which are mostly composed of loans (over the last two years, these accounted for 80% of households' total liabilities). The remaining 20% relates, for example, to taxes and contributions payable, as well as outstanding amounts associated with commercial transactions.

2. Real estate assets represent 47% of total wealth and 57% of total net wealth (58% and 46%, respectively, in 2019).

3. See the Focus note «Financial literacy and its role in households' wealth accumulation prospects», published in IM06/2026.

two tenths of a pp above the average annual growth of nominal GDP. This reflects stronger growth in assets (5.5%) than in liabilities (3.9%).

Despite the positive evolution of wealth in Portugal, its importance relative to nominal GDP remains considerably below euro area levels across the various types of assets, both real and financial. In net terms, the differences are even greater, as a result of the higher weight of liabilities in Portugal.

The aggregate data on household wealth conceal considerably different situations, as evidenced, for example, by the fact that the Gini index of Portuguese households' net wealth stands at 64.8%.⁴ Although inequality in wealth levels can still be considered high, there has been an improvement since 2013 (68.4%). Perhaps even more relevant is the fact that Portugal compares favourably with the euro area: 68.5% in 2023 (69.7% in 2014). Another indicator of inequality in the distribution of wealth is calculated through the ratio between average and median net wealth⁵ per household. In Portugal, this ratio indicates that average wealth is twice as high as that of the majority of households (the median), being influenced by the extremes of the net wealth distribution, as the ratio is higher among the least wealthy and the wealthiest groups: 1.8x and 1.4x, respectively. In the remaining percentiles, the differences between average and median wealth are insignificant. Looking at the distribution by type of asset, it can be observed that the imbalance is particularly influenced by financial wealth, where the ratio stands at 5.5 (compared with 1.6 for real assets).

Expectations for the evolution of household wealth remain positive, as a favourable trend in household income is anticipated, together with the maintenance of a high savings rate compared with historical levels. Regarding the distribution of financial wealth, no significant changes are expected; however, in 2026 there may be a greater preference for increasing investments in retail government

Household assets: Portugal vs. Eurozone (% of GDP)

	Portugal		Eurozone	
	2019	2024	2019	2024
Total assets	388.7	375.4	500.3	501.0
Real estate assets	179.2	175.0	272.7	279.9
Financial wealth	209.5	200.4	227.6	221.1
Financial liabilities	76.2	65.6	64.4	58.4
Total net worth	312.5	309.8	435.9	442.6
Net financial assets	133.3	134.7	163.2	162.7

Source: BPI Research, based on data from Banco de Portugal, Eurostat and the ECB.

Net worth per household (Thousand euros)

	Average		Average	
	Portugal	Eurozone	Portugal	Eurozone
Net worth	151.8	140.1	298.4	312
Real assets	183.1	161.4	287	293.6
Financial assets	6.6	16.6	36.2	72.1
Debt	35.3	31.8	24.7	81.8
Income	–	37.1	49.77	52.6
Ratios				
Debt/Assets	20.2	21.6	–	–
Debt/Income	103.6	66	134.7	168.4

Note: The data for the euro area refer to 2023; those for Portugal refer to 2024.

Source: BPI Research, based on the Household Finance and Consumption Survey (2024) and on the Household Finance and Consumption Survey: Results from the 2023 wave.

debt (savings certificates) at the expense of deposits, reflecting the slower transmission of the rise in short-term interest rates to deposit remuneration compared with retail government debt. For the remaining financial products, data up to May suggest a greater preference for investments in investment funds and pension funds. Real estate wealth will continue to reflect the appreciation of the property market.

Teresa Gil Pinheiro

Annual savings and distribution across various asset classes (Millions of euros)

	2015-19	2020	2021	2022	2023	2024	2025	2026E
Gross disposable income	136,035	145,795	154,003	167,695	183,001	201,589	213,020	223,000
x savings rate	7.0%	12.0%	10.9%	7.3%	8.9%	12.5%	12.1%	11.6%
= Savings	9,582	17,540	16,858	12,277	16,317	25,261	25,838	25,827
– Investments in real assets	6,434	7,921	8,992	9,822	10,651	12,491	14,865	15,800
= Financing capacity	3,147	9,620	7,866	2,455	5,666	12,770	12,084	10,027
+ increase in financial liabilities (credit)	3,995	3,995	3,995	3,995	-1,520	4,655	11,774	14,000
= Acquisition of financial assets	7,143	13,615	11,861	6,450	4,146	17,425	23,857	24,027
Variation in deposits	3,451	11,808	11,011	9,562	-2,656	12,897	8,036	7,000
Retail government debt	2,335	702	528	4,528	9,684	-1,227	2,800	2,400
Investment funds	1,127	1,665	6,025	58	614	3,222	5,500	7,000
Insurance, pensions, guarantees	-530	-2,064	-703	-977	-4,408	514	4,014	5,000
Listed shares	-149	251	-323	12	-167	0	-240	10
Others	910	1,253	-4,678	-6,733	1,079	2,020	3,747	2,617

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

- The Gini index measures the concentration of the distribution of a given variable, ranging from zero in the case of minimum concentration (when all households have the same level of net wealth) to 100 in the case of maximum concentration (when all net wealth is held by a single household).
- Median wealth reflects the level of wealth held by the majority of households.

Tourism in the first months of 2026: growth amidst the storm and war

In the first few months of this year, we have witnessed a number of developments that have had an impact on the tourism sector. Some have had a more direct effect, notably the severe weather events and the aftermath of Storm Kristin, while others have influenced the sector more indirectly, particularly the geopolitical developments following the conflict in Iran and the resulting instability across the Middle East. In this article, we provide an initial assessment of tourism activity against this challenging backdrop.

Impact of storms on tourism

As highlighted in our Tourism Outlook 2026, published in March,¹ the storms that affected the country at the beginning of the year led to a state of emergency being declared across 68 municipalities. These municipalities account for 17% of the resident population, 14.9% of tourist accommodation establishments, and 8.9% of total overnight stays. The Central and Western regions were particularly affected, with Leiria among the hardest hit, although flooding also occurred elsewhere, including in areas such as Alcácer do Sal.

The trend in guest numbers across these regions during the first four months of the year appears to confirm that the adverse weather had a tangible impact. As shown in the first chart, with the exception of the Azores, the regions most severely affected by the extreme weather recorded year-on-year declines in guest numbers: the Centre (–5.0%), the West and Tagus Valley (–5.3%), and the Setúbal Peninsula (–2.8%). In the Azores, Ryanair's decision to cease operations to the archipelago at the end of March is likely to have been a significant factor behind the decline in guest numbers, particularly in April, when the number of guests fell by 8.3% year on year. Overall, the decline in guest numbers that can, at this stage,² be attributed to the severe weather event is estimated at around 0.2% of the total number of guests recorded in 2025. This is lower than the impact we initially estimated in our *Outlook*,³ which we acknowledged at the time was a conservative estimate. However, the effects may continue to be felt over the coming months, particularly given the damage caused to infrastructure in some of the affected areas.

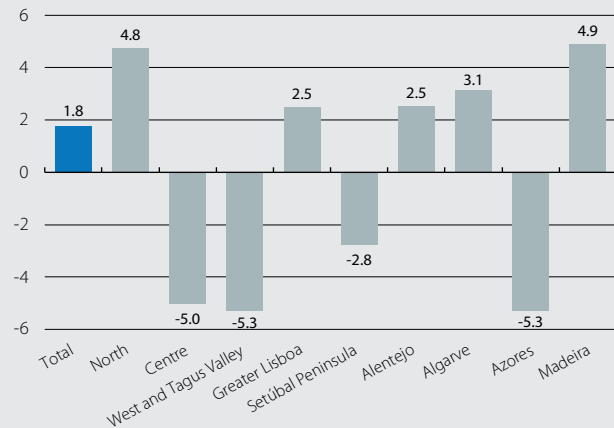
Impact of the war in Iran on tourism

This impact is more difficult to quantify, as its effects are more indirect in nature. For example, higher Brent crude

1. See «Tourism Outlook 2026», available on the Banco BPI website.
2. Calculated on the basis of the decline in guest numbers in the NUTS regions most affected by the storms, relative to the total number of guests in the country in 2025.
3. An overall decline of 0.8% in annual guest numbers attributable to the impact of the storms.

Change in the number of guests

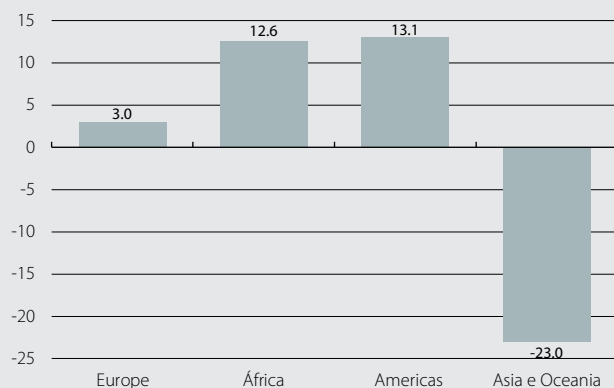
YTD April 2026 vs. YTD April 2025 (%)



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

Air traffic: passengers disembarked by continent of origin

Year-on-year variation YTD April 2026 vs. YTD April 2025 (%)



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

oil prices and, consequently, increased jet fuel and air travel costs, restrictions on flight routes and air traffic, and the impact on households' decisions regarding travel destinations and the timing of bookings. In our *Outlook*, we assumed that the conflict in the Middle East could increase the cost of travelling to more distant destinations, thereby encouraging domestic tourism and having a positive effect on the growth of resident guest numbers. So far, however, there is no evidence of such an effect. On the contrary, the data point in the opposite direction. In the first four months of the year, the number of resident guests increased by just 0.5%, while resident overnight stays rose by only 0.3%. More specifically, following the outbreak of the conflict in Iran (March and April), the number of resident guests actually declined by 1.5% compared with the same period in 2025. This behaviour may reflect a postponement of consumption decisions in response to the current climate of uncertainty. On the

other hand, the increase in inflation, which has already affected household budgets, may encourage families to take fewer holiday trips, but concentrate them more heavily during the summer season. Against this backdrop, our forecast of 3% growth in resident guest numbers cannot yet be ruled out.

In terms of inbound air traffic, some clear effects of the conflict in Iran have already been observed. Analysing the number of passengers arriving at national airports by continent of origin, growth in the first two months of the year was broad-based across all regions of the world. Following the outbreak of the conflict, in March and April, there was a sharp decline in passengers arriving from Asia and Oceania (–48.9% year on year, compared with growth of +8.1% in January and February). By contrast, the number of arriving passengers from European countries accelerated in March and April (+3.8% year on year), compared with the first two months of the year (+2.0% year on year).

This appears to support our view that the conflict could have the effect of stimulating intra-European tourism. Thus, in the first four months of the year, the pace of growth in non-resident guests (+2.7% year on year) was broadly unchanged compared with the same period in 2025. However, it is worth highlighting the acceleration recorded in two of the main European markets: the United Kingdom (+5.4% year on year up to April) and Germany (+7.3% year on year up to April). Spain also showed a slight recovery (+0.9% year on year up to April, compared with +0.3% over the same period last year). On the downside, the continued decline in guests from France (–8.0% year on year) and Italy (–3.4% year on year) stands out. The US market, which has gained increasing weight and prominence in recent years, continues to record positive growth, although at a more moderate pace (3.5% year on year up to April). Therefore, up to April, the effects of the conflict in the Middle East appear to have had mixed impacts: on the one hand, they have dampened domestic demand; on the other, they have supported demand from Europe's main tourism source market for Portugal. The overall balance of these effects can only be assessed at a later stage and will depend above all on the success of the peace plan currently being negotiated and expected to be signed at the time of writing this article.

In summary, despite the challenges outlined in this article, the performance of the tourism sector at the beginning of the year was positive. This is particularly noteworthy given that growth this year is once again being achieved from already record-high levels.

Tiago Belejo Correia

Tourism performance indicators up to April

Stays	No. (Thousands)	Year-on-year change (%)
Total	20,743.60	1.0%
Residents in Portugal	6,305.90	0.3%
Residents abroad	14,437.70	1.3%
North	3,899.40	5.5%
Centre	1,317.50	–4.2%
West and Tagus Valley	758.00	–6.1%
Greater Lisbon	5,654.60	2.0%
Setúbal Peninsula	400.50	–3.9%
Alentejo	798.10	5.7%
Algarve	4,375.00	1.1%
Autonomous Region of Azores	655.70	–4.8%
Autonomous Region of Madeira	2,884.80	–1.5%
Hospitality	17,176.20	1.7%
Hotels	13,051.00	1.0%
Apartment hotels	2,197.60	4.6%
Pousadas and Quintas in Madeira	253.80	–2.0%
Tourist apartments	1,085.70	1.8%
Tourist villages	588.00	9.1%
Local accommodation	2,897.10	–3.2%
Tourism in rural and residential areas	670.40	1.0%

Total revenue	Thousands EUR.	Year-on-year change (%)
Total	1,606,958.80	5.3%
North	270,703.20	6.8%
Centre	85,526.1	–1.4%
West and Tagus Valley	48,127.30	–1.6%
Greater Lisbon	528,968.90	4.0%
Setúbal Peninsula	23,439.00	–1.8%
Alentejo	60,755.90	7.5%
Algarve	288,328.20	7.0%
Autonomous Region of Azores	43,068.30	3.0%
Autonomous Region of Madeira	258,041.90	9.0%

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

Portugal's trade exposure to the USA – what has changed in the last year?

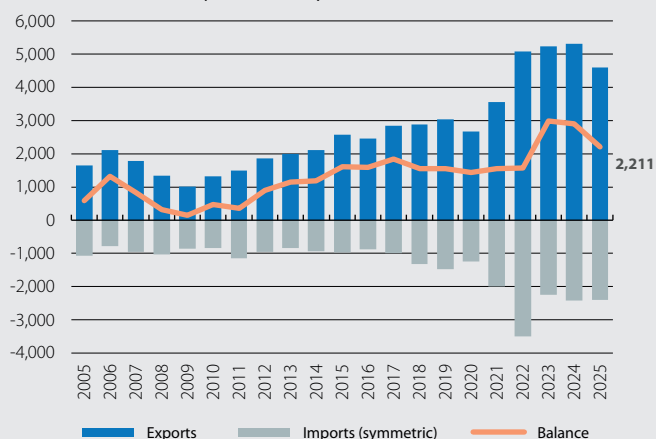
The goods balance surplus decreased in 2025

Portugal's exports of goods to the US have historically exceeded the value of imports, resulting in successive trade surpluses. Last year, Portugal recorded a surplus of €2.211 billion in goods trade with this country. This balance represents a 24% decrease compared with 2024, driven by a significant decline in exports (–13.4%), while imports from the US experienced a slight reduction (–0.8%). Analysing the historical series, 2022 stands out, when exports and imports recorded significant increases of 43% and 75%, respectively.¹ This was partly justified by Russia's invasion of Ukraine, which caused energy prices to surge. In the following year, purchases of goods from the US partially corrected, falling by 36%, and have remained broadly stable since then, averaging €2.3 billion per year over the last three years.

In terms of goods, the main product imported by Portugal from the United States is crude oil and natural gas. In 2025, Portugal imported a total of €796 million worth of these products, equivalent to 33% of the total value of goods imported from the US (€2.395 billion, down 0.8% year-on-year). Despite this decline, Portugal increased its purchases from the US compared with the previous year across most other product categories, with particularly strong growth in agricultural products and live animals (+41%), chemicals

Balance of trade in goods with the US

Year-to-date values (EUR million)



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

(+22%) and other transport equipment (+82%). As a result, the US ranked as the 10th largest source of Portugal's goods imports in 2025, accounting for 2.1% of the total value of imports.

The value of exports to the US reached €4.606 billion (1.5% of GDP), down 13% year-on-year, representing 5.8% of Portugal's total goods exports. The US remained the

US imports by product type

Product type	2025		2024		Variation
	Millions of euros	Total weight (%)	Millions of euros	Total weight (%)	
Crude oil and natural gas	796	33.2%	1,175	48.7%	–32%
Agricultural and animal products	393	16%	279	12%	41%
Chemical products	220	9%	180	7%	22%
Other transport equipment	202	8%	111	5%	82%
Computer, electronic and optical products	197	8%	145	6%	36%
Coke and refined petroleum products	169	7%	151	6%	12%
Machines and equipment	82	3%	69	3%	19%
Pharmaceutical products	36	2%	13	1%	180%
Wood and cork	34	1%	30	1%	14%
Food products	34	1%	56	2%	–40%
Fabricated metal products	31	1%	28	1%	12%
Electrical equipment	29	1%	32	1%	–10%
Base metals	24	1%	19	1%	30%
Miscellaneous manufactured products	19	1%	19	1%	3%
Forestry and logging products	19	1%	11	0%	73%
Paper and cardboard	17	1%	9	0%	85%
Rubber and plastic articles	15	1%	13	1%	15%
Beverages	15	1%	11	0%	34%
Others	64	2.7%	66	2.7%	–2.5%
Total	2,395	2.1%	2,416	4.3%	–0.8%

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

US exports by product type

Product type	2025		2024		Variation
	Millions of euros	Total weight (%)	Millions of euros	Total weight (%)	
Pharmaceutical products	1,269	27.5%	1,183	22.2%	7%
Coke and refined petroleum products	579	13%	1,031	19%	–44%
Rubber and plastic products	380	8%	418	8%	–9%
Fabricated metal products	267	6%	343	6%	–22%
Computer, electronic and optical products	227	5%	246	5%	–7%
Textile products	225	5%	219	4%	3%
Clothing products	184	4%	256	5%	–28%
Chemical products	183	4%	210	4%	–12%
Wood and cork	158	3%	138	3%	14%
Machines and equipment	154	3%	136	3%	13%
Other non-metallic mineral products	151	3%	154	3%	–2%
Electrical equipment	142	3%	213	4%	–33%
Food products	136	3%	167	3%	–19%
Furniture	117	3%	110	2%	6%
Leather and similar products	97	2%	110	2%	–12%
Beverages	95	2%	110	2%	–13%
Paper and cardboard	72	2%	88	2%	–19%
Base metals	56	1%	72	1%	–22%
Others	113	2.5%	114	2.1%	–0.4%
Total	4,606	5.8%	5,316	6.7%	–13.4%

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

1. In the case of exports, pharmaceutical products and fuels accounted for more than half of the overall increase. On the import side, around 75% of the increase was driven by higher purchases of crude oil and natural gas.

leading destination for Portuguese goods exports outside the EU and ranked fourth overall, behind only Spain, Germany and France. The main products exported to the US were pharmaceutical products (€1.269 billion, up 7% year-on-year), followed by coke and refined petroleum products, and rubber products. The increase in pharmaceutical exports was driven by stockpiling in response to the uncertainty surrounding the implementation of tariffs by the Trump Administration during the first half of 2025.² The decline in exports to the US was primarily due to a sharp fall in fuel exports (–44%), although exports declined across almost all product categories, with only five categories recording an increase.

Tariff agreement with the EU and recent developments

The agreement signed between the EU and the US on 28 July means that European products will be subject to a general tariff of 15%, although a number of exceptions apply. These include generic medicines and cork (whose tariff in force at the end of 2024 will remain unchanged), the automotive industry (where the tariff will be reduced from 25% to 15%), and steel and aluminium (which will continue to be subject to a 50% tariff).

Based on this announcement, and applying the composition of Portugal's exports to the US recorded in 2025, we estimate an average effective tariff of 14.2%, below the general tariff rate of 15%. This is because the US is a key destination for Portuguese exports of generic

medicines and cork, whose tariff rates will remain unchanged. Taken together, these products account for 12.4% of Portugal's total exports to the US. As a result, the estimated effective tariff represents an increase of 12.2 pp compared with the average effective tariff in force at the end of 2024 (i.e., 2.0%).

At the beginning of June, the White House announced new adjustments (Section 232) to US tariffs on steel, aluminium and copper. As a result, a 50% tariff now applies to products made directly from these metals, a 25% tariff to derivative products, and a 15% tariff to certain specific products, including agricultural products and air conditioners. However, the EU maintains a more favourable tariff regime as a result of the agreement reached, under which the maximum tariff applied to its exports of these products cannot exceed 15%. Nevertheless, where a product was previously subject to a tariff below 15%, the new tariff will be increased to 15%.³ Under this scenario, with the tariff on these products reduced from 50% (as agreed in 2025) to 15%, the average effective tariff on Portugal's exports to the US would decline by 1.0 pp, to 13.2%.

What do the data available so far for 2026 tell us?

Up to April 2026, Portugal's goods trade surplus with the US amounted to €517.5 million, representing a 46% decline compared with the same period in 2025. This marks the weakest start to the year since 2022, although it remains broadly in line with the average trade surplus recorded in

Tariffs on Portuguese exports to the USA

	Exports to the USA 2025 (EUR million)	% of total	Average tariff 2024	Average tariff "Liberation Day"	Tariff agreement August 2025 (15%)	15% tariff on steel, aluminium and copper (June 2026)
Pharmaceutical products	1,232	26.7	0.2	0.2	10.1	10.1
Generics (*)	411	8.9	0.2	0.2	0.2	0.2
Non-generics	821	17.8	0.2	0.2	15.0	15.0
Mineral fuels	589	12.8	0.5	0.5	15.0	15.0
Rubber	333	7.2	1.7	15.0	15.0	15.0
Electrical machinery	285	6.2	1.2	20.0	15.0	15.0
Mould bases, miscellaneous machinery and engines	191	4.2	1.3	20.0	15.0	15.0
Clothing	190	4.1	12.8	20.0	15.0	15.0
Cork and similar products	160	3.5	0.7	50.0	0.7	0.7
Textile products	140	3.0	6.8	20.0	15.0	15.0
Iron and steel products	138	3.0	1.2	20.0	50.0	15.0
Furniture	129	2.8	1.9	20.0	15.0	15.0
Organic chemical products	102	2.2	2.7	20.0	15.0	15.0
Beverages	96	2.1	1.8	20.0	15.0	15.0
Ceramic products	89	1.9	4.1	20.0	15.0	15.0
Footwear	86	1.9	10.5	20.0	15.0	15.0
Optical, photographic, cinematographic	47	1.0	0.9	20.0	15.0	15.0
Others	796	17.3	2.4	20.0	15.0	15.0
Total	4,606	5.8%	2.0%	12.9%	14.2%	13.2%
% of GDP	1.5%					

Note: * The share of generic medicines in total pharmaceutical exports is based on a Deloitte study (2022).

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

2. For more information on the dynamics of pharmaceutical products in 2025, consult Focus «Details of the Portuguese Current Account up to Q3 2025» in IM12/2025.

3. In 2025, Portuguese exports of metal products amounted to €6.184 billion (–3.8% compared with the previous year), accounting for 7.8% of the country's total exports. More than 77% of these exports were destined for European Union countries, with Spain (48% share) and France (18% share) standing out as the main destinations. Exports to the US totalled €231 million in 2025, representing just 3.7% of total exports of these products. This is a relatively modest amount, leading us to conclude that the application of tariffs on metal products is likely to have only a limited impact at the national level.

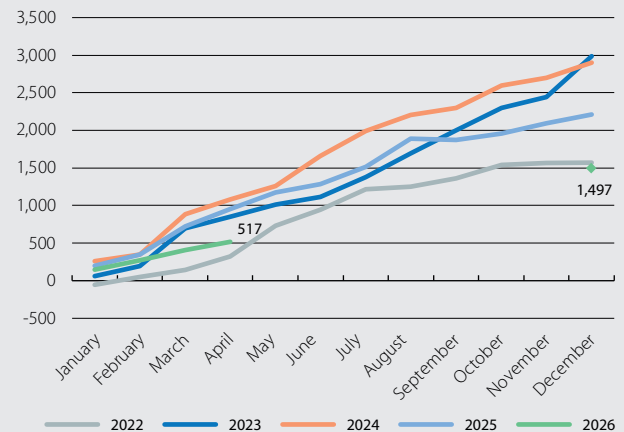
the first four months of each year between 2017 and 2021. The main reason behind this deterioration is the decline in exports (down €362 million year-on-year, i.e., -21%), driven by the decrease in sales of pharmaceutical products (down €295 million, i.e., -51% year-on-year). On the other hand, imports of goods from the US increased by €74 million (+9%), with energy goods standing out, as purchases of these products rose by 27% compared with the same period in 2025.

The tariff agreement with the EU and the normalisation of energy commodity prices could steer the goods trade balance towards pre-war levels, around €1.5 billion accumulated over the year. This assumes that US trade policy remains stable and that there are no new episodes of supply shocks or bottlenecks in global supply chains.

Pedro Avelar

Balance of trade in goods with the US

Year-to-date values (EUR million)



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

A sectoral perspective on the exposure of the Portuguese economy to demand shocks

In 2025, GDP growth was driven mainly by private consumption and investment, supported by improved access to credit conditions, higher disposable income and the strength of the labour market. Net external demand, however, continued to make a negative contribution to economic growth. This suggests that, as a small open economy, Portugal remains significantly reliant on domestic demand to sustain a pace of growth above the European average, despite having demonstrated resilience in recent years. Furthermore, the difficulty in achieving sustained export growth constrains the prospects for long-term competitiveness and strategic autonomy. In the current context of geopolitical uncertainty and fragmentation, it is important to assess companies' exposure to adverse shocks in domestic demand, given its current role in driving growth, as well as to external demand, in view of the potential and desirable greater future focus on internationalisation. In this article, we use the INE's input-output (I-O) tables¹ to estimate the impact of demand shocks on GDP and identify the sectors that are most exposed to such shocks.²

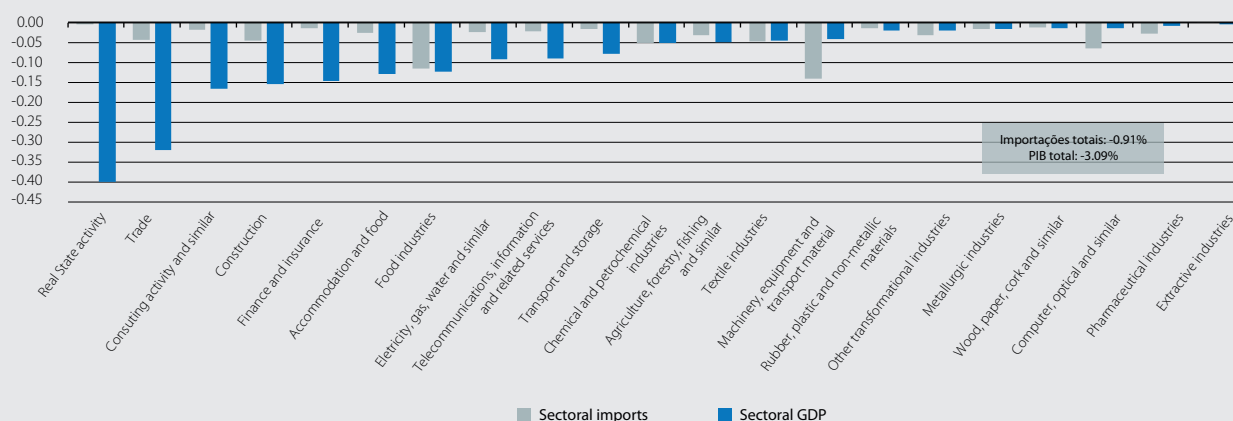
The Leontief model comprises several types of matrices, but for this purpose we are interested in the demand multiplier matrices, which indicate the sensitivity to a unitary variation in the expenditure of each institutional sector (for example, final household consumption) or aggregate expenditure (final demand, domestic demand, or external demand)³ of a given item (output, intermediate consumption, GVA, imports, taxes, GDP, etc.) relating to the economy as a whole, a product or an activity sector. This model allows the analysis of the exposure of the economy and of the various sectors to demand shocks, although it is subject to a number of assumptions and conditions.⁴

The occurrence of a hypothetical –4% shock to domestic demand results in declines in GDP and imports of around –3.1% and –0.9%, respectively (see first chart). In other words, only 22.5% of the shock is absorbed through a reduction in import content, highlighting the significant impact of domestic demand on the economy.

Real estate activities and trade are the sectors most exposed to a shock to domestic demand (–0.44% and

Impacts of a 4% negative shock to domestic demand

Percentage change in imports or GDP of the respective sector (%)



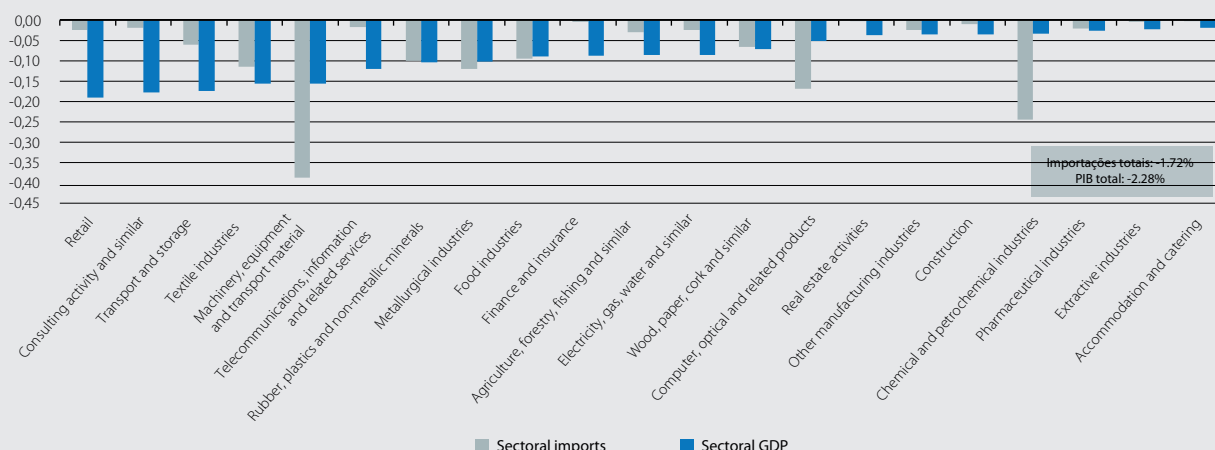
Note: The 4% negative shock was assumed on the basis of the average annual rate of change in nominal GDP recorded in the four years since 1996 in which it declined (2009; 2011; 2012; 2020), resulting in an average reduction of -3.7%, which we rounded to -4%. The impact on imports includes indirect (intermediate consumption) and direct imports. For simplicity, some branches of the services sector were excluded, including public administration, employment, education, health and security services. The total impacts correspond to the sum of the impacts by sector.

Source: BPI Research, based on the input-output tables from National Accounts of the INE.

- Input-output (I-O) tables are a macroeconomic analysis tool developed by Russian economist Wassily Leontief in 1941 to understand how different activity and institutional sectors are interconnected in terms of output, intermediate consumption, imports and demand, using concepts from linear algebra. This makes it possible to map the structural interconnections existing in the economy and, consequently, quantify the impacts of potential shocks on the various subsectors, the institutional aggregates of the State, businesses and households, and economic activity as a whole.
- The most recent input-output (I-O) tables date back to 2017, with a significant lag in their publication.
- Demand multipliers are calculated from the Leontief inverse matrix and take into account the technical coefficients of production. $\Delta r_{sa} = M_{si}^{r_{sa}} \Delta D_{si}$ where Δr_{sa} represents the change in a given item from the production perspective for a specific sector of activity, product, or even for the economy as a whole; $M_{si}^{r_{sa}}$ is the corresponding demand multiplier of a given institutional sector relating to a specific sector of activity, and ΔD_{si} represents the change in consumption or investment expenditure by that institutional sector. For more details, see the following publications: https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_publicacoes&PUBLICACOESpub_boui=294446616&PUBLICACOESmodo=2&xlang=pt (INE, 2013); https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_destaque&DESTAQUESdest_boui=427464212&DESTAQUESmodo=2&xlang=pt (INE, 2020).
- For example, according to the INE: constant technical coefficients; absence of economies of scale; absence of changes in relative prices and substitution effects; unlimited production capacity; homogeneous products and absence of financial constraints; global changes in any final demand aggregate distributed proportionally across the various goods and services.

Impacts of a 4% negative shock to external demand

Percentage change in imports or GDP of the respective sector (%)



Note: The 4% negative shock was assumed on the basis of the average annual rate of change in nominal GDP recorded in the four years since 1996 in which it declined (2009; 2011; 2012; 2020), resulting in an average reduction of -3.7%, which we rounded to -4%. The impact on imports includes indirect (intermediate consumption) and direct imports. For simplicity, some branches of the services sector were excluded, including public administration, employment, education, health and security services. The total impacts correspond to the sum of the impacts by sector.

Source: BPI Research, based on the input-output tables from National Accounts of the INE.

–0.36% in their respective shares of GDP), followed by professional, scientific and related activities (–0.18%), construction (–0.17%) and financial and insurance activities (–0.16%). These sectors have a moderately high exposure, meaning that they tend to derive a significant share of their revenues and value added from domestic consumers. By contrast, extractive industries (–0.00%); pharmaceutical industries (–0.01%); computer, optical and related industries (–0.02%); wood, cork and related industries (–0.02%); metallurgical industries (–0.02%), and others show limited exposure. Therefore, greater specialisation in certain knowledge- and technology-intensive branches (such as the second and third sectors mentioned above) supports improved competitiveness while simultaneously acting as a buffer against potential shocks affecting consumption and investment.

Imports in the food industries and in the machinery, equipment and transport equipment industries are particularly sensitive to this type of shock, as they rely heavily on imported intermediate inputs, such as cereals in the former case and components/parts in the latter. Therefore, adverse developments in domestic demand tend to be cushioned by a reduction in imports. However, the opposite also applies: when a positive shock occurs, the performance of these industries tends to be constrained by their external dependence.

The second chart confirms that economic exposure to a shock in external demand is considerably lower: A 4% decline in exports is associated with a 2.3% fall in GDP, partly offset by a 1.7% reduction in imports (43.1% of the shock is absorbed through lower import content). Trade (–0.21%); consulting, scientific and related activities (–0.20%); transport and storage (–0.19%); textile industries (–0.17%) and machinery, equipment and transport

equipment (–0.17%) are the most sensitive segments, while accommodation and food service activities (–0.02%); extractive industries (–0.00%); pharmaceuticals (–0.03%); chemicals and petrochemicals (–0.04%) and construction together with real estate activities (–0.04%), are the least sensitive. It should be noted that some activities are exposed to both domestic and external demand shocks (notably trade and professional, scientific and related activities, highlighting the contribution of services exports), while others are relatively insensitive to both (such as extractive industries and pharmaceutical industries). Some sectors also have a naturally concentrated exposure to domestic demand (real estate activities; construction; accommodation and food service activities) while others are more exposed to external demand (rubber, plastic and non-metallic mineral products; metallurgy).

The data confirm that a substantial proportion of exports of goods and services relies on imported inputs, particularly in industries such as machinery, equipment and transport equipment (including the automotive industry); chemicals and petrochemicals, and computer, electronic and optical products. These sectors, which are integrated into global supply chains, depend heavily on imported inputs and are therefore also exposed to shocks arising from imported inflation.

The third chart shows a positive relationship between the contribution of each main sector to economic growth⁵ between 2010 and 2023 and its corresponding sensitivity to final demand (domestic and external), as measured by the multiplier. This suggests that, while these sectors benefit during periods of economic expansion, it also highlights that the Portuguese economy remains fundamentally exposed to demand shocks. More

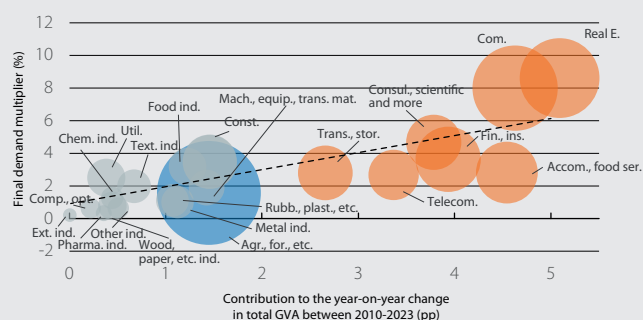
5. Here measured by the sum of gross value added (GVA) rather than by GDP.

specifically, the activities that have contributed most to economic growth and account for a significant structural share of GDP –namely trade and real estate (which together represented around 20% of GDP in 2023)– are also the most exposed to demand shocks. By contrast, most manufacturing industries and the primary sector, which tend to have lower demand multipliers, have not made a comparatively significant contribution to economic growth. Accordingly, the model points to the need for greater diversification of the productive structure, in order to reduce the concentration of activity in services, develop new sources of competitiveness (particularly in high-technology industries), and lessen the economy’s exposure to adverse shocks in aggregate demand.

It is worth recalling that this analysis may be subject to some inconsistencies due to the time lag between the variables covered. The latest input-output (I-O) tables refer to 2017, a period in which economic conditions (for example, interest rates and the labour market) did not correspond to those observed in the post-pandemic period.

Tiago Miguel Pereira

Relationship between final demand multipliers and sectoral contributions to growth



Note: The multipliers refer to 2017, meaning that the analysis may be relatively outdated due to differences in the timing of data releases. The size of the bubbles refers to the weight of the respective GVA in nominal GDP in 2023. The blue bubbles refer to the primary sector; grey represents the secondary sector, and orange represents the tertiary sector. For simplicity, some branches of the tertiary sector considered less economically relevant, such as public administration services, employment, education, health, and security were excluded.

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

Activity and employment indicators

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	04/26	05/26	06/26
Coincident economic activity index	2.0	2.0	2.0	2.3	2.2	...	1.9	1.7	...
Industry									
Industrial production index	0.8	0.7	3.3	0.6	0.4	...	0.0	-2.3	...
Confidence indicator in industry (value)	-6.2	-4.0	-3.2	-2.9	-2.1	-3.6	-2.8	-3.5	-4.4
Construction									
Building permits - new housing (number of homes)	6.5	21.4	9.1	16.9	...	...	5.6	...	...
House sales	14.5	15.5	3.8	-4.7	-8.7	...	-	-	-
House prices (euro / m ² - valuation)	8.5	17.4	18.2	18.4	17.5	...	16.5	17.1	...
Services									
Foreign tourists (cumulative over 12 months)	6.3	1.9	2.6	1.9	2.2	...	1.8	1.8	...
Confidence indicator in services (value)	5.5	10.1	11.6	7.7	6.0	8.2	7.9	8.3	8.5
Consumption									
Retail sales	3.3	5.3	5.8	5.3	4.4	...	5.2	3.2	...
Coincident indicator for private consumption	2.8	3.4	3.1	3.2	3.0	...	2.5	2.0	...
Consumer confidence index (value)	-18.0	-16.2	-16.2	-15.2	-16.2	-25.6	-23.9	-27.1	-25.9
Labour market									
Employment	1.2	3.2	3.7	3.7	2.3	...	2.4	2.8	...
Unemployment rate (% labour force)	6.4	6.0	5.8	5.8	6.1	...	5.7	5.5	...
GDP	2.2	1.9	2.2	1.9	2.3	...	-	-	-

Prices

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	04/26	05/26	06/26
General	2.4	2.3	2.6	2.2	2.2	3.3	3.3	3.3	3.2
Core	2.5	2.2	2.3	2.1	1.9	2.3	2.2	2.2	2.5

Foreign sector

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	04/26	05/26	06/26
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	2.0	0.6	2.0	0.6	-3.0	...	-1.2	...	...
Imports (year-on-year change, cumulative over 12 months)	2.0	4.1	6.7	4.1	3.1	...	3.7	...	...
Current balance	6.5	3.8	3.0	3.8	3.0	...	3.1	...	...
Goods and services	6.4	3.7	3.5	3.7	2.8	...	2.6	...	...
Primary and secondary income	0.1	0.1	-0.5	0.1	0.2	...	0.5	...	...
Net lending (+) / borrowing (-) capacity	9.6	8.3	7.0	8.3	7.3	...	7.6	...	...

Credit and deposits in non-financial sectors

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	04/26	05/26	06/26
Deposits¹									
Household and company deposits	7.5	5.4	6.3	5.4	6.4	...	6.9	6.6	...
Sight and savings	-0.3	8.1	8.6	8.1	7.9	...	7.4	7.3	...
Term and notice	15.3	3.1	4.3	3.1	5.1	...	6.5	6.0	...
General government deposits	26.7	28.7	-0.5	28.7	20.4	...	15.2	10.9	...
TOTAL	7.9	6.0	6.1	6.0	6.9	...	7.2	6.7	...
Outstanding balance of credit¹									
Private sector	1.9	6.6	5.8	6.6	7.7	...	8.0	7.8	...
Non-financial firms	-1.0	2.6	2.2	2.6	4.3	...	4.9	4.2	...
Households - housing	3.0	9.3	8.0	9.3	9.8	...	10.1	10.2	...
Households - other purposes	5.4	7.0	6.9	7.0	8.4	...	8.3	8.2	...
General government	0.6	6.4	4.8	6.4	3.2	...	2.7	4.6	...
TOTAL	1.9	6.6	5.7	6.6	7.5	...	7.8	7.7	...
NPL ratio (%)²	2.4	2.1	2.3	2.1	2.1	...	-	-	-

Notes: 1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.

Source: BPI Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.

The Spanish economy at a crossroads: slowdown or recovery?

The improvement in the outlook for the US-Iran conflict reduces the early warnings of a slowdown in our economy.

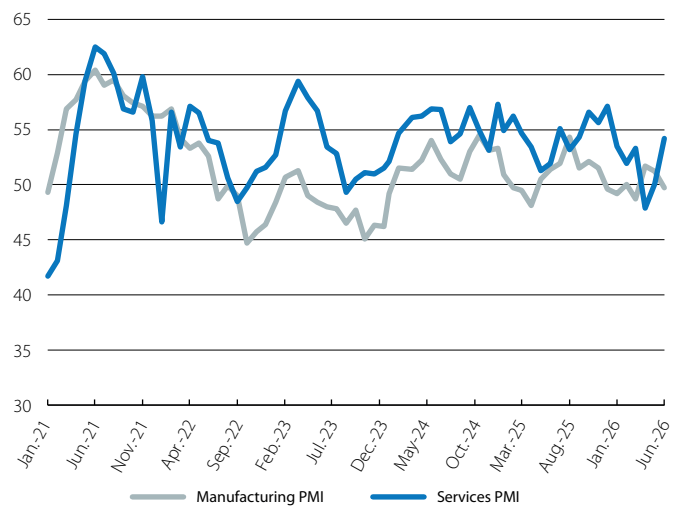
Four months after the outbreak of the conflict, signs began to emerge last month indicating that the economic growth rate might be affected by the conflict's impact on the energy market, confidence and financial conditions. However, the partial reopening of the Strait of Hormuz following the recent agreement signed between the US and Iran has significantly eased tensions in the energy markets, reducing the pressure that has been building on the economy and dispelling the spectre of a slowdown.

Activity indicators have improved compared to the previous month. On the consumption side – the area expected to be hardest hit by rising inflation – we observed good performance in May. The retail trade index rose by 0.6% month-on-month, recovering some of the ground lost in April's poor result (–1.5%). However, the average for April and May remains 0.5% below the average for Q1. In the same month, industrial production recorded strong growth, with the year-on-year rate accelerating from 2.3% to 3.4%. The data for the tourism sector were very encouraging. In May, international tourist arrivals were up 9.5% and 10.9% year-on-year, compared to 1.2% and 4.6% recorded in May of the previous year. This improvement aligns with the view that Spain's tourism sector should benefit from the Middle East conflict due to the redirection of tourist flows, hinting at a record high season. Finally, the composite PMI rose significantly in June, reaching 53.3 points (50.1 the previous month). This places it well above the threshold indicating no change (>50 points) and is the highest level since December 2025. Overall, and considering the labour market data discussed below, the set of indicators suggests that GDP growth in Q2 2026 could exceed the 0.3% quarter-on-quarter rate envisaged in our forecast.

The labour market ends Q2 with strong growth in registered employment due to the impact of the regularisation of undocumented workers, although even without this effect the growth rate remains dynamic.

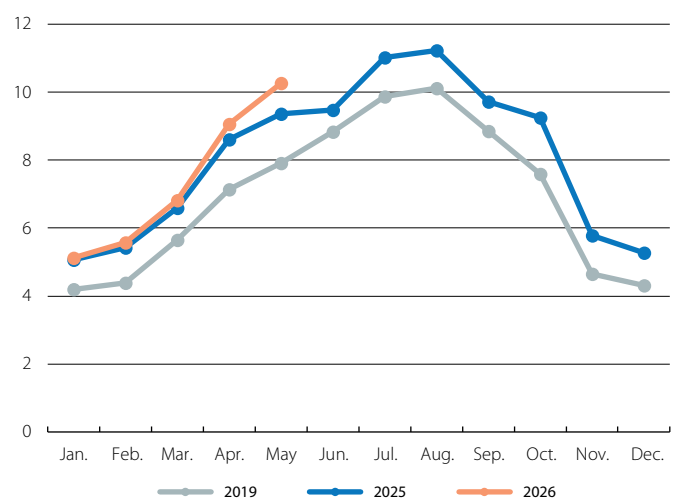
In Q2 as a whole, the number of registered workers grew compared to the Q1 average by around 595,000 people. This growth exceeds the figure of 540,000 recorded on average in the second quarters of 2023 to 2025. However, according to the government, some 160,000 workers were registered due to the exceptional regularisation process. Therefore, net of this effect, the quarter-on-quarter change stands at around 435,000 workers, which is slightly below the usual figure for this quarter of the year. In seasonally

Spain: PMIs
Level



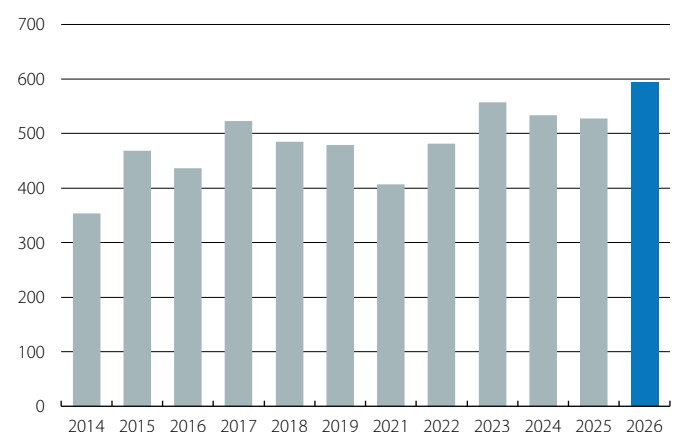
Source: BPI Research, based on data from S&P Global PMI.

Spain: international tourist arrivals
(Millions of people)



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

Spain: Social Security affiliates in Q2 of the year*
Quarter-on-quarter change (thousands of people)



Note: * Raw series.

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

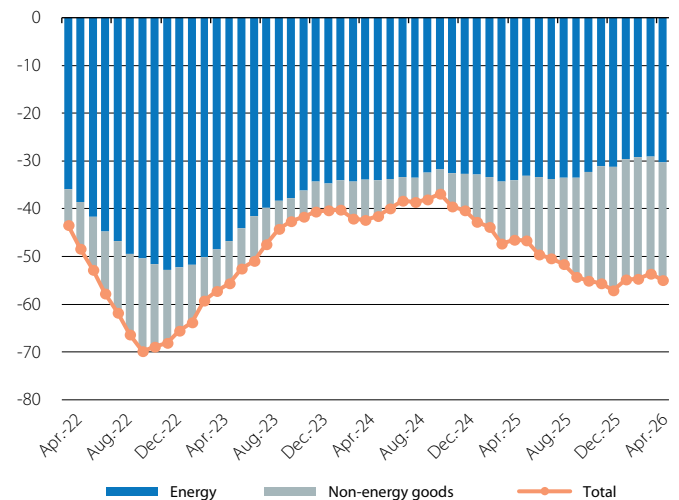
adjusted terms, we estimate that the corrected figure represents a quarter-on-quarter growth in affiliates of 0.5% in Q2 – a dynamic growth rate in line with that of the previous quarter.

The rise in energy prices is beginning to show in external sector data, but without disrupting the steady improvement in the trade balance since the start of the year. In April, the trade deficit stood at 5.172 billion euros, up from 3.882 billion euros a year earlier, due to import growth of 8.7% year-on-year, compared to a 5.8% increase in exports. This import growth was driven by the surge in energy product imports (+32.2%), mainly due to higher prices. Despite the deterioration due to the energy component in April, the cumulative trade balance between January and April shows a deficit of 16.85 billion euros, lower than the 18.982 billion recorded in the same period of 2025. However, the May and June figures are expected to show a continued deterioration in the energy balance, hindering any improvement in the overall trade balance.

Inflation in June remains stable at 3.2%, but begins to reflect the effects of falling energy prices. Although the tax support measures on gas and electricity bills were withdrawn in June, energy inflation barely accelerated compared to the previous month. This was made possible by the sharp drop in fuel pump prices, reflecting the decline in oil prices in international markets. Core inflation fell by 0.1%, although it remains high at 3.1%, largely due to the services component. This is affected by transport costs, particularly air travel, which is the category most directly impacted by the recent rise in energy prices. Over the coming months, we are likely to see a rise in inflation due to the gradual withdrawal of tax subsidies on fuels. However, the drop in oil futures prices suggests that the inflation path for the rest of the year will be lower than we were anticipating before the US-Iran agreement.

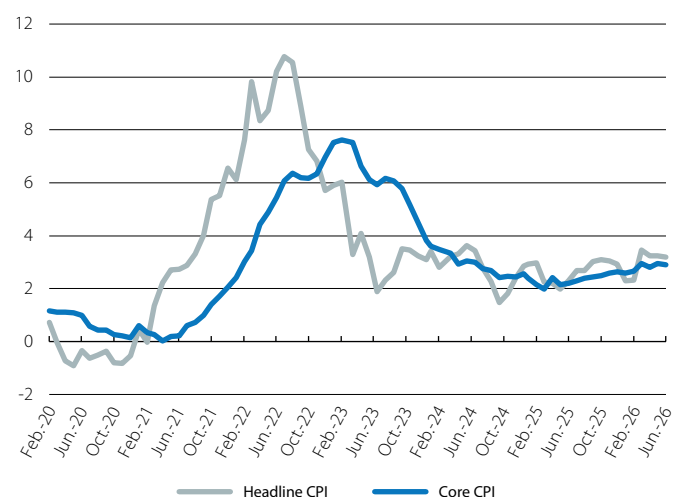
In the lead-up to the conflict in Iran, the household savings rate remained high. In the four-quarter aggregate, the household savings rate stood at 11.8% in Q1 2026, just 0.2 pps below the previous month's figure and significantly above the 2015-2019 average of 7.3%. This high savings rate provides a buffer for households to cope with the rise in inflation in Q2. Whether or not they will use this buffer remains to be seen. For now, the slight deterioration observed in consumption-related indicators suggests that households may have chosen to protect their savings and adjust their consumption decisions.

Spain: balance of trade in goods EUR billions (12-month aggregate)



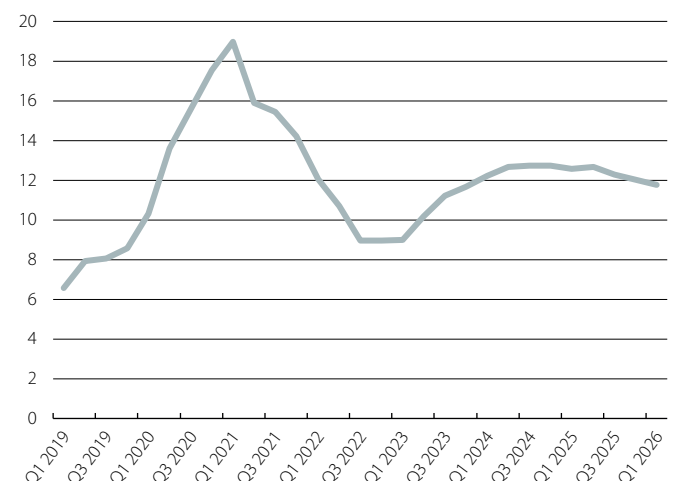
Source: BPI Research, based on data from Datacomex.

Spain: CPI Year-on-year change (%)



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

Spain: household savings rate (% of gross disposable income)*



Note: * Four-quarter aggregate.

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

Activity and employment indicators

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
Industry									
Industrial production index	0.4	1.3	1.3	2.4	1.8	0.5	2.3	3.4	...
Indicator of confidence in industry (value)	-4.9	-4.8	-5.3	-5.0	-3.9	-3.2	-4.9	-4.1	-3.2
Manufacturing PMI (value)	52.2	50.9	50.0	52.6	51.1	49.3	51.7	51.2	49.7
Construction									
Building permits (cumulative over 12 months)	16.7	8.8	14.8	7.9	8.8	...	...	...	...
House sales (cumulative over 12 months)	9.7	11.5	22.9	18.7	11.5	5.6	5.3	...	...
House prices	8.4	12.7	12.7	12.8	12.9	12.9	...	...	...
Services									
Foreign tourists (cumulative over 12 months)	10.1	3.2	6.3	4.3	3.2	2.7	2.3	3.1	...
Services PMI (value)	55.3	54.5	52.2	54.2	56.4	52.9	47.9	50.1	54.2
Consumption									
Retail sales ¹	1.7	4.3	5.3	4.4	4.1	3.3	0.6	1.3	...
Car registrations	7.2	12.9	13.8	16.9	8.0	7.6	8.4	-0.8	7.8
Economic sentiment indicator (value)	103.1	103.1	102.3	102.7	104.3	105.1	102.7	102.6	103.3
Labour market									
Employment ²	2.2	2.6	2.7	2.6	2.8	2.4	...	...	...
Unemployment rate (% labour force)	11.3	10.5	10.3	10.5	9.9	10.8	...	...	...
Registered as employed with Social Security ³	2.4	2.3	2.2	2.3	2.4	2.3	2.4	2.5	2.8
GDP	3.5	2.8	2.9	2.7	2.6	2.7	...	...	...

Prices

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
General	2.8	2.7	2.2	2.8	3.0	2.7	3.2	3.2	3.2
Core	2.9	2.3	2.3	2.4	2.6	2.7	2.8	3.0	2.9

Foreign sector

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	0.2	0.7	2.0	0.8	0.7	0.2	1.1	...	...
Imports (year-on-year change, cumulative over 12 months)	0.1	4.6	4.1	4.6	4.6	1.7	2.9	...	...
Current balance	50.7	49.5	48.5	48.2	49.5	48.6	48.0	...	...
Goods and services	66.3	64.7	64.0	62.5	64.7	67.1	67.7	...	...
Primary and secondary income	-15.7	-15.1	-15.5	-14.3	-15.1	-18.6	-19.8	...	...
Net lending (+) / borrowing (-) capacity	68.7	66.9	67.5	66.6	66.9	65.8	65.2	...	...

Credit and deposits in non-financial sectors⁴

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	04/26	05/26	06/26
Deposits									
Household and company deposits	5.1	4.8	3.9	4.9	4.8	5.5	5.5	5.5	...
Demand and notice deposits	2.0	6.7	5.0	7.2	6.7	7.1	6.2	5.9	...
Time and repo deposits	23.5	-4.7	-1.5	-6.6	-4.7	-2.2	2.1	3.5	...
General government deposits ⁵	23.1	4.9	25.5	7.2	4.9	5.0	8.7	3.1	...
TOTAL	6.3	4.8	5.4	5.1	4.8	5.5	5.8	5.4	...
Outstanding balance of credit									
Private sector	0.7	3.5	2.6	2.8	3.5	3.8	2.9	3.0	...
Non-financial firms	0.4	2.9	2.5	2.3	2.9	3.7	3.7	3.8	...
Households - housing	0.3	3.5	2.3	2.9	3.5	3.7	3.7	3.8	...
Households - other purposes	2.3	4.6	3.5	3.7	4.6	4.3	-1.3	-1.5	...
General government	-2.6	10.7	5.3	12.9	10.7	8.1	9.9	8.1	...
TOTAL	0.5	3.9	2.7	3.4	3.9	4.1	3.4	3.3	...
NPL ratio (%)⁶	3.3	2.7	3.0	2.9	2.7	2.6	2.6	...	...

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.

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