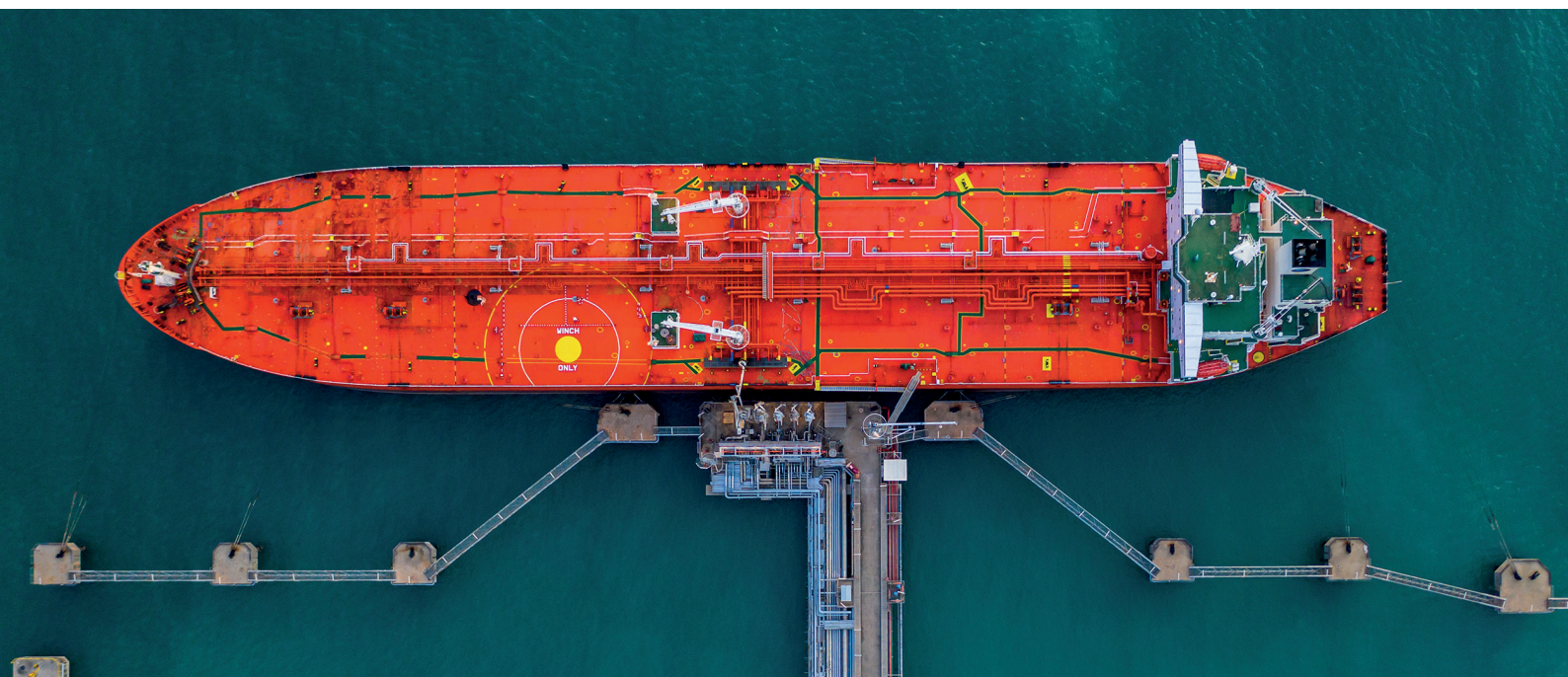


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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
JUNE 2026



ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS

The financial conditions behind the economic scenario in 2026

The new (im)balances in the oil market

INTERNATIONAL ECONOMY

International economic outlook

European households' well-being: greater reliance on public support amid higher inflation

PORTUGUESE ECONOMY

Uncertainty dominates the scenario review calendar

Financial literacy and its role in the wealth accumulation prospects of Portuguese families

What is happening with the external accounts?

From quantity to quality: the transformation of the labour market in Portugal's post-pandemic period

Current status of European budgetary rules in light of the Annual Progress Report

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

June 2026

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

BPI Research (DF-EEF)

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Robustness with some warning signs – our scenario has changed

We have adjusted our expectations for the macroeconomic scenario. The main driver of the biggest changes was the significant increase in prices of energy commodities on the international market, following the outbreak of the conflict in the Middle East, which pits the US and Israel against Iran. In fact, given that Portugal is a net importer of energy, albeit with a lower degree of dependence than in the past, changes in this important variable are reflected in our economy in various ways.

The adjustment in the GDP growth forecast was slight compared to our previous expectation (–0.3 in 2026 and –0.1 in 2027), despite the substantial change in the international framework. We now expect the economy to grow by 1.8% in 2026 and 2027, still above the average for the Eurozone as a whole. The inflation rate will be the variable with the greatest impact, although in our scenario we continue to assume that on average, for 2026, it will stay at values close to, but lower than, 3%, slowing to 2.3% next year. The labour market is expected to remain robust despite the international context, reflecting strong business activity and continued reports of a specialised labour shortage in many sectors. Thus, the unemployment rate is expected to remain stable, close to what is considered full employment, and employment is expected to continue to increase, albeit more moderately than in the past. Furthermore, this boost in employment has been accompanied by clear improvements in the composition of the labour force, as we explain in a focus topic of this publication. Indeed, employment today is more skilled, less precarious, and better paid. Regarding public finances, the budget balance is expected to slip into a slight deficit, although still allowing progress in the public debt ratio to below 90%.

This is a scenario that we can consider relatively robust, given the adverse geopolitical context, the escalation of oil, gas and fuel prices, and the change in stance of central banks, namely the European Central Bank, which is preparing to make its monetary policy slightly more restrictive. Part of this resilience will be common to other economies, also based on a financial environment that continues to support activity. The expectation of a swift resolution to this crisis –a story that is ultimately reflected in the prices that international markets anticipate for oil and gas in the future– is also a key element in making this scenario a reality. A more detailed analysis of the revision of our scenario can be found in the corresponding section of this publication.

Despite this favourable scenario, some signs of weakness have also become evident, reminding us that we need to continue moving towards greater competitiveness, higher productivity, and greater diversification. As we detailed in an analysis also included in this publication, the external accounts have been reflecting a gradual deterioration that is expected to continue in the coming months, given the foreseeable trend in the energy balance. Beyond this effect, as a result of our energy dependence, there are signs of a worsening in the balance of non-energy goods (very weak exports) and other services, in addition to tourism. All things considered, and assuming that the energy market stabilises within the next few months and in a context of moderate interest rate increases, we anticipate that the current balance will remain positive at the end of the year, but very close to zero, an expectation that is indeed shared by the most recent forecasts from various entities. This is a sign that not all is well, despite some evident resilience when looking only at the usual variables and notwithstanding the more robust structural situation of families, businesses and the State, which now present more balanced balance sheets than they did in the not-too-distant past. In short, we need to take advantage of this crisis to transform challenges into opportunities for change.

Paula Carvalho
June 2026

Chronology

<p>MAY 2026</p> <p>22 Kevin Warsh is sworn in as Fed Chair and is elected Chairman of the FOMC.</p>	<p>APRIL 2026</p> <p>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.</p>
<p>MARCH 2026</p> <p>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.</p>	<p>FEBRUARY 2026</p> <p>20 The US Supreme Court invalidates the tariffs announced under the IEEPA.</p> <p>28 The US and Israel launch a coordinated attack against Iran in which Ali Khamenei is killed.</p>
<p>JANUARY 2026</p> <p>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.</p> <p>27 The EU and India conclude negotiations for a Free Trade Agreement.</p>	<p>DECEMBER 2025</p> <p>10 The Fed cuts rates by 25 bps, placing them in the 3.50%-3.75% range.</p> <p>18 The Bank of England cuts rates by 25 bps, to 3.75%.</p> <p>19 The Bank of Japan raises rates by 25 bps, to 0.75%.</p>

Agenda

<p>JUNE 2026</p> <p>2 Spain: registration with Social Security and registered unemployment (May). Euro area: CPI flash estimate (May).</p> <p>9 Portugal: international trade (April).</p> <p>11 Governing Council of the European Central Bank meeting.</p> <p>16 Spain: quarterly labour cost survey (Q1).</p> <p>16-17 Federal Open Market Committee meeting.</p> <p>18-19 European Council meeting.</p> <p>22 Portugal: resident population (2025).</p> <p>23 Spain: balance of payments and NIIP (Q1). Portugal: house prices (Q1).</p> <p>24 Portugal: GDP breakdown (Q1).</p> <p>25 Spain: GDP breakdown (Q1). Portugal: NPL ratio (Q1).</p> <p>26 Spain: loans, deposits and NPL ratio (Q1 and April).</p> <p>29 Spain: CPI flash estimate (June). Euro area: economic sentiment indicator (June).</p> <p>30 Spain: household savings rate (Q1). Portugal: CPI flash estimate (June).</p>	<p>JULY 2026</p> <p>1 Portugal: employment and unemployment (May). Portugal: public debt (May). Euro area: CPI flash estimate (June).</p> <p>2 Spain: registration with Social Security and registered unemployment (June).</p> <p>9 Spain: financial accounts (Q1).</p> <p>15 China: GDP (Q2).</p> <p>17 Spain: Moody's rating. Portugal: balance of payments (May).</p> <p>23 Portugal: non-financial sector debt (May). Governing Council of the European Central Bank meeting.</p> <p>24 Spain: loans, deposits and NPL ratio (May).</p> <p>28 Spain: labour force survey (Q2).</p> <p>28-29 Federal Open Market Committee meeting.</p> <p>30 Spain: GDP flash estimate (Q2). Spain: CPI flash estimate (July). Portugal: GDP growth (Q2). Euro area: GDP (Q2). Euro area: economic sentiment indicator (July). US: GDP (Q2).</p> <p>31 Portugal: CPI flash estimate (July). Euro area: CPI flash estimate (July).</p>
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Uncertainty and resilience on the eve of summer

More than three months into the conflict in the Middle East, the effects of the supply shock triggered by the surge in energy prices will now become increasingly evident in the inflation and growth data. The combination of uncertainty and resilience that has characterised the recent behaviour of the global economy makes for a fragile balance, especially with geopolitical risk remaining so high. Such an environment demands the utmost flexibility, both in investment strategies and in economic policy responses. It requires economic forecasts to be recalibrated to reflect to a new reality, with much greater volatility in economic and financial variables. All this reflects the ongoing structural reorganisation of the global economy, amid the pursuit of broader economic efficiency encompassing security and resilience.

Currently, of the supply shock's three transmission channels, the energy channel has been activated with the greatest intensity, as evidenced by the widespread rise in inflation, which is already reducing households' purchasing power. This, combined with the moderate tightening of financial conditions (far less severe than that which followed the outbreak of the war in Ukraine), will cool private consumption in the middle months of the year and will reduce any potential macroeconomic imbalances that may arise from the gap that has opened up between supply and demand.

In the absence of further negative surprises in energy prices, the net effect on growth ought to be moderate and concentrated in the middle two quarters of the year. This assessment is based on the presence of various support factors for economic activity, such as healthy labour markets, high household savings rates, low levels of private sector debt, and the ability of fiscal policy to offset part of the negative effects of the supply shock. Nevertheless, all this will depend on the swift reopening of the Strait of Hormuz, as the imbalance between supply and demand in energy markets is currently being covered by a daily reduction in stocks. If the crisis were to drag on, it could lead to issues with physical deliveries in some market segments during the summer months.

Putting numbers to the scenario, we have revised the global economic growth forecast downwards from 3.3% to

3.0% in 2026, with reductions in growth for the euro area from 1.3% to 0.7% (from 2.4% to 2.1% in the case of Spain) and for the US from 2.6% to 2.1%. To update the forecasts, we have used average oil prices for 2026 (90 dollars per barrel) and 2027 (80 dollars per barrel), in line with what futures markets are pricing in. This would mean a gradual return to normality for energy markets in the coming quarters, albeit with equilibrium crude prices almost 20 dollars higher than those prior to the conflict and a smaller buffer of stocks. If these assumptions hold true, growth could return to its potential levels by the end of 2026, and inflation could resume its path towards central banks' targets in 2027 following this year's spike (3.1% in the euro area and 3.5% in the US).

Right now, while we await growth data for the second quarter, some signs of a slowdown are beginning to emerge. However, these are also partially offset by purchases being brought forward amid the risk of potential disruptions and future price increases. The most valuable information is found in the inflation data, where in Europe the year-on-year rate has risen to 3.2%, accompanied by an increase in the core rate to 2.5%. This is largely explained by the acceleration of inflation in services (+0.5 pps, to 3.5%), the highest in over a year in Europe. It is now the turn of central banks and, following the old adage that prevention is better than cure, we will see moderate interest rate hikes in the coming months in a bid to evade the risks of second-round effects and their potential impact on inflation expectations. In Europe, in a scenario with significant (but not severe) direct inflationary effects and limited contagion to the rest of the consumer basket, a total increase of 50 bps might suffice, starting with 25 points in June. So by the time you read this, official rates in Europe will probably already have reached 2.25%. The situation is more challenging for the Fed, not only because of the complications introduced by a dual mandate (focused on both inflation and employment) during a supply shock, but also due to the lack of clarity regarding the strategic shift planned by the new chair (Kevin Warsh), when it is well known that it is not advisable to make changes during times of trouble. Moreover, monetary and exchange rate credibility often takes a long time to establish, but it can be lost very quickly.

José Ramón Díez

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	0.9	1.1	0.9	0.6	0.9
Italy	1.5	-0.3	1.5	0.6	0.7	0.5	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	3.4	3.4
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	2.9	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	26.1	19.9
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

Some market relief despite the uncertainty

Markets remained highly influenced by the supply shock in May, particularly in the euro area. In an uncertain geopolitical environment with mixed signals, markets welcomed the favourable signs of rapprochement between the US and Iran. As a result, May saw a decrease in oil prices and consequently a slight moderation in short-term inflation expectations. European sovereign interest rates fell and this reduced risk premiums, particularly the Italian one, which was also the most stressed during the initial weeks of the conflict. In the US, however, sovereign rates rose in a month marked by the release of macroeconomic data that have shifted investors' expectations toward a more hawkish Fed. Stock indices rose globally, with a few exceptions, supported by the tech sector. Nevertheless, the volatility priced in by the markets remained high, despite showing some relief compared to March and April.

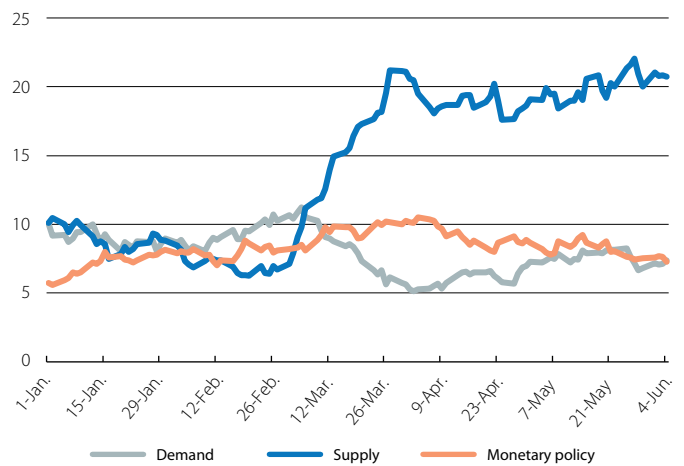
Energy prices remain in the focus. May was marked by the continuation of a fragile ceasefire in the Middle East and the ongoing closure of the Strait of Hormuz, despite the occasional traffic of a few oil tankers. Despite the uncertainty, markets were encouraged by favourable signs of a peace agreement, resulting in Brent crude opening May at around 110 dollars per barrel and closing below 100 dollars, albeit with significant volatility and a slight uptick in the final sessions of the month. However, market prices also reflected the view that restoring energy flows will be a difficult process, with futures pricing in a structurally higher 2026 year end than prior to the conflict, indicating with relative consistency a range of 80 to 85 dollars per barrel. The pattern was similar for gas prices: whereas they had been declining since the end of March, in May they were volatile within the range of 45-50 euros per MWh, and futures for the 2026 year end indicated a price of 45-47 euros per MWh (15 euros higher than before the conflict).

Stock markets continue to register gains, as seen in April. Driven by the rise of AI, the indices that benefited the most were those of Taiwan, South Korea, and Japan, due to their key role in chip supply chains. In the US, the S&P 500 recorded eight consecutive weeks of gains, coinciding with first quarter earnings season. However, this overall growth was mainly supported by gains among tech firms, which more than offset losses recorded in many other sectors. NVIDIA, the biggest constituent of the S&P 500, reported an 85% year-on-year increase in its Q1 profits, driven by gains from its data centres, which grew by 95% year-on-year. Thus, in the last month, the strong performance of AI firms intensified the market concentration seen in recent quarters, with the weight of tech firms in the S&P 500 rising from 42% to over 48% in just two months.

The Fed gives more hawkish signals... Up until early May, markets were pricing in a stable fed funds rate through to the

European financial markets drivers

Importance of each driver (%)



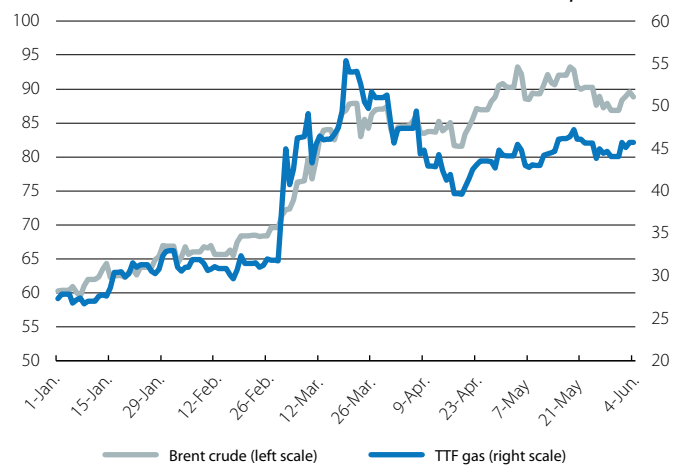
Note: The lines represent the moving averages of the importance of each driver over the last 20 sessions.

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

Energy: average prices for 2026

(Dollars per barrel)

(Euros per MWh)

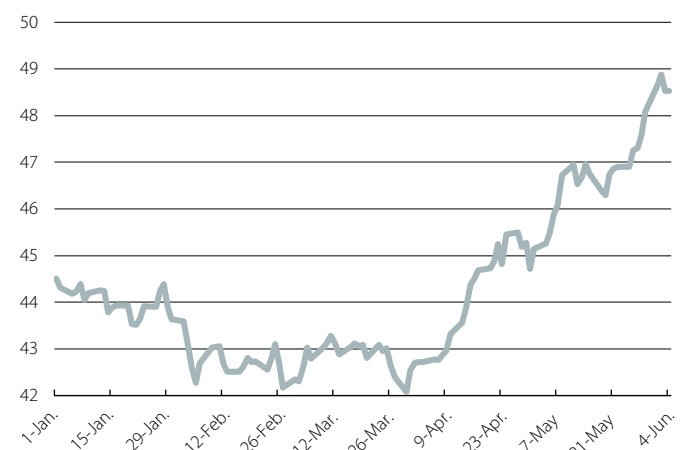


Note: Annual average is calculated based on the observed average price in the preceding months of the year to date and futures prices for the current and following months.

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

US: ICT sector share of the S&P 500 stock index

(% of the total market capitalisation of the index)



Note: Evolution throughout 2026. ICT includes the information technology and communication services sectors.

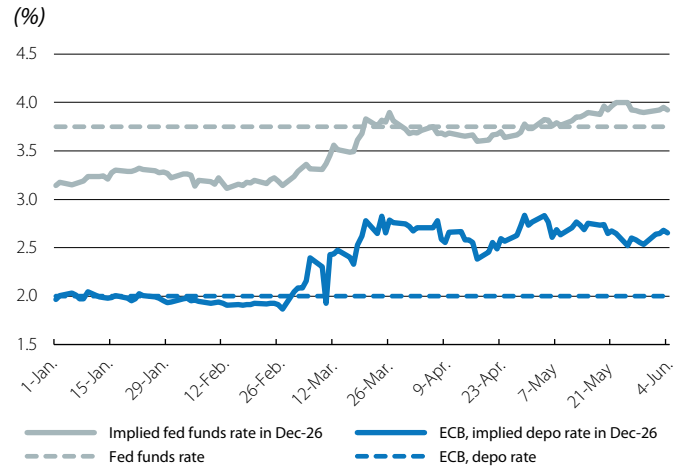
Source: BPI Research, based on data from Bloomberg.

end of the year. This was based on the energy price shock having a limited impact on US economic activity, given its position as a producer and net exporter. However, the latest macroeconomic data releases have revealed a resilient labour market and substantially higher production and import prices than analysts had anticipated. This has led investors to believe that the Fed could raise interest rates – a possibility to which financial markets were assigning a 75% probability at the close of this report. This shift in expectations led to the dollar appreciating against most major currencies. On the other hand, these adjustments are occurring amid a changing context for the bank: Kevin Warsh was officially sworn in as Fed chair. Warsh has mentioned his intention to reduce the size of the Fed’s balance sheet and to reform the bank’s communication policy (measures like eliminating the publication of the dot-plot, among others) as well as reducing the frequency of FOMC meetings. In any case, these communications have not been interpreted by the market as any short-term shift in the Fed’s direction.

... while expectations for the ECB consolidate. Dominated by the supply shock triggered by the conflict in the Middle East and its inflationary impact on the euro area, financial markets in May consolidated expectations that the ECB will implement between two and three rate hikes in 2026. This included assigning a probability of over 90% to the first 25 bp increase being announced at the meeting on June 11. Despite this, euro area sovereign interest rates fell from the levels reached at the end of April, and risk premiums narrowed, particularly that of Italy, which has shown the most sensitivity to news regarding the conflict.

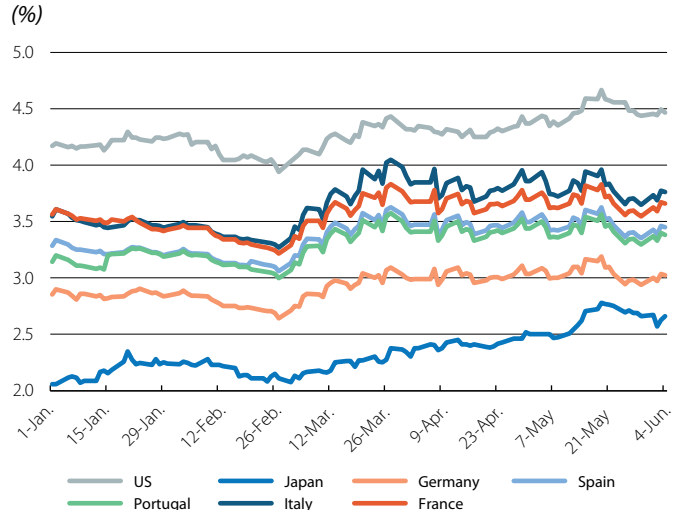
Japan is once again under the spotlight, after the Japanese Ministry of Finance intervened in the yen when the USD/JPY exchange rate hit the 160 mark at the end of last month. Since then, the currency has shown the same pattern as in previous episodes: a gradual depreciation indicating a structural weakness. Markets are factoring in a couple of interest rate hikes by the Bank of Japan, something they had already priced in prior to the start of the conflict in the Middle East. The first hike is expected to occur at the next meeting, also scheduled for June. In the United Kingdom, investors were torn between the possibility of a tightening of monetary policy due to rising inflation and the deteriorating economic outlook, with the labour market experiencing unemployment rates of around 5%, levels not seen since the COVID crisis. In May, financial markets were anticipating two interest rate hikes by the Bank of England (BoE), compared to the three expected a month ago, while the consensus among analysts was that the BoE would keep rates stable for the remainder of the year. Norges Bank in Norway was ahead of other banks and raised the interest rate by 25 bps to 4.25%.

Market-implied policy rates for the Fed and the ECB in December 2026



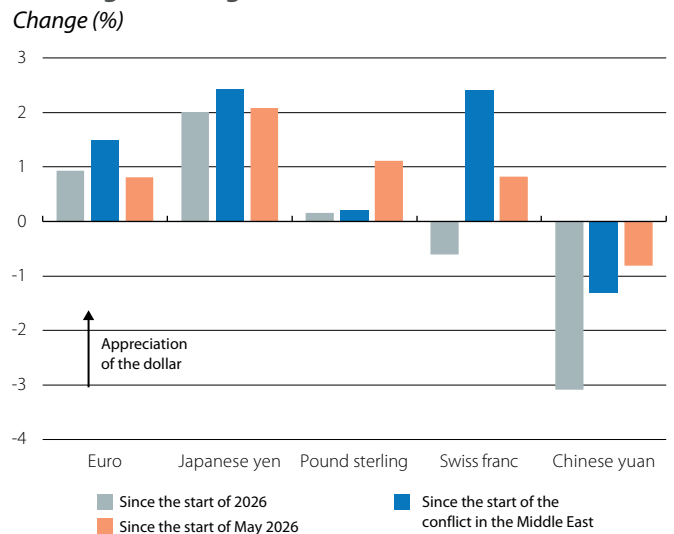
Note: The grey lines refer to the upper bound of the fed funds rate. The dashed lines correspond to the current respective rate.
Source: BPI Research, based on data from Bloomberg.

10-year sovereign interest rates



Note: Evolution throughout 2026.
Source: BPI Research, based on data from Bloomberg.

Exchange rates against the US dollar



Source: BPI Research, based on data from Bloomberg.

The financial conditions behind the economic scenario in 2026

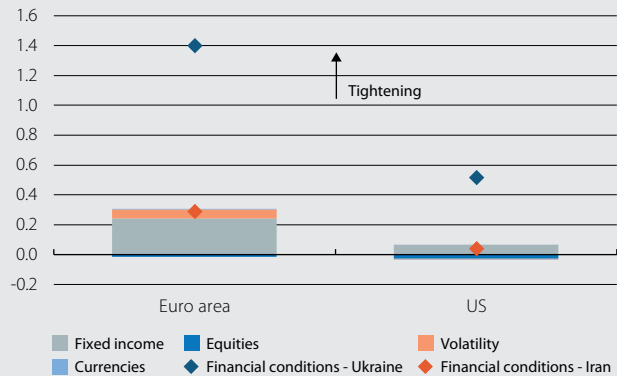
The war in the Middle East has altered the economic outlook for the coming quarters and the financial conditions that underpin it.¹ The blockade of the Strait of Hormuz and the damage to the region's infrastructure have led to a surge in the cost of energy commodities, various derivative products (such as fuels and fertilisers), and other products where the Middle East plays an important role as a producer or transit region (e.g. aluminium). All this has led to a global rise in inflation and, combined with the significant uncertainty regarding how long the conflict will last, an increase in volatility.

This context has led to financial conditions that are less favourable for economic activity in the coming quarters, characterised by increased volatility, higher interest rates, and a narrower path for corporate profits and stock market performance. However, the tightening of financial conditions has so far been moderate, as shown in the first chart, and has been mainly due to the rise in interest rates and increased volatility. In contrast, equities have helped to ease tensions, supported by a strong corporate earnings season so far this year (due to both reported profits and future expectations), optimism around AI, and the view that the energy shock will impact inflation more than economic activity. Among advanced economies, the euro area has experienced greater tightening than the US, reflecting its relative vulnerability to the new shock (in fact, in the US, financial conditions indices show a very modest net tightening).²

Setting energy aside,³ the main change in the financial environment is the direction of monetary policy. In a scenario in which the energy shock is significant enough to directly push inflation above 3% for 2026 as a whole, the main central banks have signalled their intention to adopt a moderately restrictive monetary policy. Our new economic forecasts are thus based on the view that the ECB will raise its official rate to 2.50% in 2026 and maintain it at this boundary between neutrality and restriction for much of 2027 (vs. a pre-conflict expectation of stable rates at 2.00%). The Fed will put

Financial conditions

Change and contributions (points)



Note: The change in financial conditions due to the war in Ukraine compares the average from May 2022 with that of January 2022; for Iran, it compares the average from February 2026 with that of May 2026.

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

its planned rate cuts on hold, and keep the fed funds rate stable in the 3.50%-3.75% range (the 2025 year-end level). With this measured hawkish shift, both central banks will help mitigate the risk that rising energy costs could lead to indirect and second-round effects.⁴ On this basis, our scenario anticipates that both the ECB and the Fed could resume their pre-conflict interest rate paths by the end of 2027.⁵

The differing reactions of the ECB and the Fed not only reflect their different starting points (inflation at the 2% target in the euro area and neutral monetary policy vs. greater inflationary inertia in the US and moderately restrictive rates), but also the fact that the shock derived from the Middle East is of a different nature in each region. Europe's reliance on energy imports significantly exposes the euro area to rising energy commodity prices, even though the Middle East is not a major supplier to Europe. In contrast, the US' energy autonomy gives North American economic activity better protection from the direct shock. This has been reflected in a differential

1. See the Focus articles «International economic outlook» and «Macroeconomic outlook for Spain: resilience in uncertain times» in this same report.

2. The analysis is based on the financial conditions indices developed by CaixaBank Research (see, for example, the article «The ECB's holistic approach» in the MR06/2021). Other indices, such as those by Bloomberg and Goldman Sachs, convey a similar message, with moderate tension in euro area financial conditions due to the conflict in the Middle East and little impact on those in the US.

3. See the Focus «The new (im)balances in the oil market» in this same report for an overview of the impact and state of the oil market three months after the outbreak of the conflict.

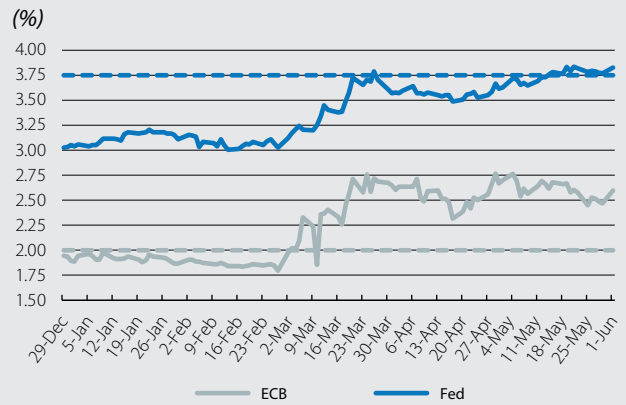
4. Indirect and second-round effects should also be mitigated by the absence of significant imbalances between aggregate supply and demand (as indicated by the modest GDP figures for the euro area in recent quarters or the cooling of the US labour market), as well as by the deterioration in business and consumer confidence reflected in the latest indicators, stemming from the conflict in the Middle East. On the other hand, a prolonged conflict, increased energy tensions, and/or the influence on inflation expectations of the recent memory of the inflationary crisis triggered by the war in Ukraine could lead to higher inflation and encourage a more aggressive monetary tightening.

5. In other words, the ECB will return the depo rate to 2.00% and the Fed will resume a path of moderate cuts (fed funds rate at 3.00%-3.25% by the end of 2027).

performance between the European and US financial markets: the third chart shows how, since the bombings between Iran and the US and Israel, European markets have been dominated by a narrative of a «negative supply shock», while trading sessions in US markets have been characterised by a «monetary policy tightening shock».⁶ Despite this, the euro exchange rate has remained relatively stable against the dollar, which has gained little (in terms of appreciation) from its role as a safe-haven asset despite the renewed spike in uncertainty. Thus, we maintain our forecast of relative strength for the euro, and see the exchange rate edging towards 1.20 dollars in 2027.

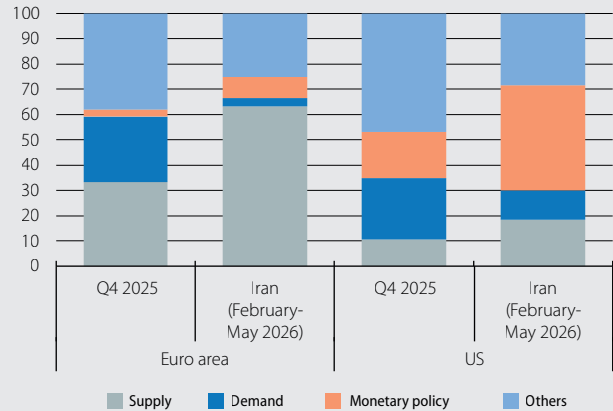
Overall, the conflict in the Middle East has caused the financial environment to take a step backwards. Although it has not experienced significant tightening overall, it is less favorable to the performance of economic activity in the coming quarters. The risks are high, and while a swift resolution of the conflict could ease financial conditions, the prolonged blockade of the Strait of Hormuz threatens to exponentially increase economic and financial costs if oil and derivative product stocks fall too low and can no longer cushion the contraction in energy supply. It is also important not to overlook market monitoring of public debt dynamics in several advanced economies, nor the financial risks associated with AI, both in terms of its ability to live up to expectations and its potential to disrupt established economic structures.

Central banks: market rate expectations for December 2026



Note: The dashed lines indicate the interest rate levels from which the Fed and the ECB started at the end of 2025.
Source: BPI Research, based on data from Bloomberg.

Macroeconomic drivers of financial markets (% of total trading sessions)



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

6. The characterisation of market sessions between demand, supply or monetary policy drivers is based on the co-movements of the various classes of financial assets. For example, we associate a negative supply shock (which depresses activity and raises prices) with stock market declines and higher interest rates (with expectations of monetary tightening to combat inflation); a positive demand shock is linked to stock market gains (higher corporate profits), higher inflation expectations, and higher interest rates; and a restrictive monetary policy shock is associated with rises in sovereign rates, an appreciation of the domestic currency, and a decline in stock markets and inflation expectations. For more details on this extraction of economic narratives from financial markets, see the Focus «What markets tell us about macroeconomics» in the MR05/2026.

The new (im)balances in the oil market

As a result of the conflict in the Middle East and the near-total closure of the Strait of Hormuz over the past three months, the price of oil averaged around 103 dollars per barrel in May. Meanwhile, futures contracts maturing in 6-12 months have fluctuated between 80 and 95 dollars per barrel, maintaining a steeply negative price curve.¹

The black gold market: from solid fundamentals to a fluid world

In recent months, crude oil flows from the Gulf have dropped from 20 million barrels per day (mb/d) to 8 mb/d, due to the collapse of flows through the Strait of Hormuz (from 16 mb/d to less than 2 mb/d). This has been only partially offset by redirecting flows to alternative routes, notably the port of Yanbu in the Red Sea (see second chart). In this context, global oil production has fallen from around 106-108 mb/d to approximately 95 mb/d in April, indicating that the drop in production in Gulf countries has only been modestly offset by higher production in other regions. At the same time, global consumption has remained relatively stable, at around 103 mb/d in March and April (compared to approximately 104 mb/d in 2025). This indicates that the decline in demand remains limited and is mainly concentrated in a few Asian countries and in certain refined products.² Thus, the global oil market has shifted from an oil supply surplus (crude and refined products) of nearly 2.0 mb/d³ to a deficit exceeding 8 mb/d. The key to mitigating this deficit has been the use of inventories.

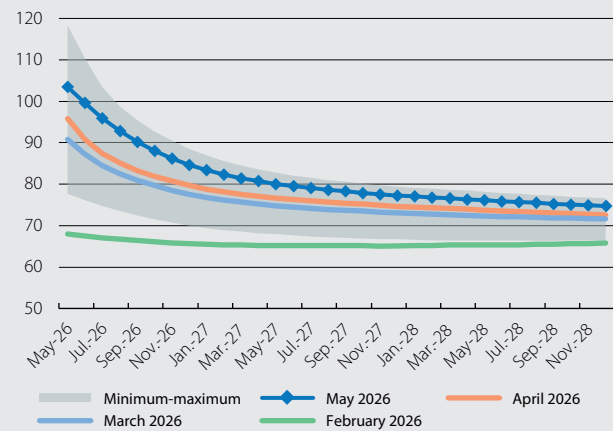
Global oil inventories: the secret of the unicorn

Oil inventories can be divided into four layers. The first is oil that is stored on ships, either stationary or in transit, known as «oil on water». Due to its rapid availability, it is considered the first layer that typically provides flexibility to the market. Secondly, there are

1. The negative slope indicates that contracts for shorter-term deliveries are priced significantly higher than those for long-term delivery. This pattern, known as «backwardation», indicates that buyers are willing to pay a premium to secure short-term oil deliveries and is a sign of supply shortages (or exceptionally high oil demand). It also indicates that the market expects the imbalance between supply and demand to be temporary, discouraging the storage of oil since it will be worth less in the future than it is now.
 2. For further details, see the May 2026 «Oil Market Report» by the International Energy Agency (IEA).
 3. See the Focus «The oil market enters unknown territory», in the MR04/2026.

Oil: futures prices

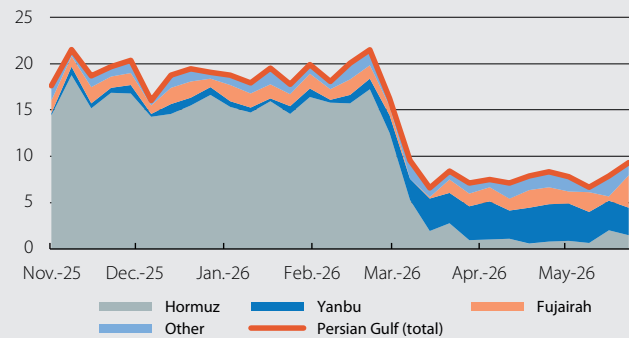
(Dollars per barrel)



Source: BPI Research, based on data from Bloomberg.

Crude oil flows from the Persian Gulf

Millions of barrels per day (weekly average)



Notes: The chart shows maritime crude oil flows originating from ports in Persian Gulf countries. All ship departures from ports in Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates and Yemen are included, and they are categorised according to whether they pass through the Strait of Hormuz, or they do not (as is the case for the ports of Yanbu in the Red Sea and Fujairah in the UAE). Integrated data from satellites, broker reports, customs, and port agents, enabling real-time monitoring of maritime oil flows.

Source: BPI Research, based on data from Vortexa (via Bloomberg).

commercial inventories. These refer to the stocks of crude oil and derivatives held by the private sector – such as oil companies, refineries, and logistics operators – which are used for the ordinary functioning of the market. The level of these inventories is a key indicator of balance in the market, as it responds to the economic incentives generated by the conditions of supply and demand. Therefore, monitoring them is essential for assessing tensions in the sector and anticipating movements in oil prices. Thirdly, there are the strategic petroleum reserves (SPRs), primarily of crude oil, managed by governments with the aim of enhancing energy security and responding to

exceptional situations, such as severe supply disruptions, geopolitical conflicts or natural disasters. Unlike commercial inventories, these reserves are not used for regular operational purposes; rather, they are released deliberately to stabilise the market and mitigate the impact of supply shocks.⁴ Therefore, they are a key tool in energy policy, capable of temporarily influencing global oil supply and prices. Finally, there are «operational minimums», which are necessary to keep the market physically functioning. As the final «cushion» in the oil market, between the three previous layers and the bottom levels defined by operating constraints, there are demand destruction scenarios. Here, the pricing system becomes the main balancing mechanism, cooling consumption to prevent stocks from falling to critical levels.⁵

OECD countries' commercial oil inventories remain within their historical range. At the end of April, they stood just below 2.7 billion barrels, compared to an average of around 2.9 billion over the past decade. However, their rapid reduction (–150 million barrels between March and April) suggests that, at the current rate, commercial stocks could approach critically low levels by Q3. Even under the (benign) assumption of a swift resumption of global oil production beginning in June, returning to pre-conflict levels by the end of Q4 2026, OECD commercial stocks could hit historic lows in June and reach 2.4 billion barrels in Q3, slowly normalising thereafter. This reduction in commercial inventory levels implies a higher likelihood of non-linear price spikes in the coming months. Furthermore, those countries (and products) that are more dependent on energy supplies from Gulf countries, and whose reserves are more limited, will remain more vulnerable.⁶

4. On 11 March, the IEA announced the release of 400 million barrels from its strategic reserves, estimated at around 1.2 billion barrels (with more than 600 million barrels held under government obligation). This was only the sixth joint release of reserves (following the crises of 1991, 2005, 2011, and 2022, the last with two announcements of reserve releases).

5. These minimum operating thresholds are related to the volumes that must be maintained in oil infrastructures – such as tanks, pipelines, or underground cavities – for technical reasons. These levels serve as a non-usable layer necessary to ensure the proper functioning of the system (pressure levels, flows, operational safety). It is estimated that minimum operating oil levels are equivalent to around 30 days of demand (i.e. with consumption like that of the OECD, at 45-47 mb/d, this would equate to approximately 1.4 billion barrels).

6. Although the oil market still seems far from critical operational thresholds at a macro level, inventory levels vary widely by region and product. Inventories of refined products (such as aviation fuel and naphtha) have deteriorated more rapidly than those of crude oil, while several emerging Asian countries are experiencing supply difficulties.

Global production and consumption of oil (crude and refined) (Millions of barrels per day)



Note: Actual data are reported up to April 2026. From May 2026, the latest EIA forecasts are shown.

Source: BPI Research, based on data from the EIA (Energy Information Administration).

For illustrative purposes, other scenarios could lead to greater market imbalances. On one hand, the short-term disruption could be greater than expected if talks between Iran and the US do not allow for a recovery of flows from June, leading to inventories reaching even lower levels in the coming months. On the other hand, the recovery of global oil production could be more gradual than expected, for instance, due to greater than anticipated damage to oil infrastructure in the Persian Gulf or difficulties in restoring shipping flows through the Strait of Hormuz to pre-conflict levels, which would lead to lower inventory levels for a longer period. Given the close correlation between Brent prices and commercial inventories, these scenarios would entail even greater price pressures in the coming years.⁷

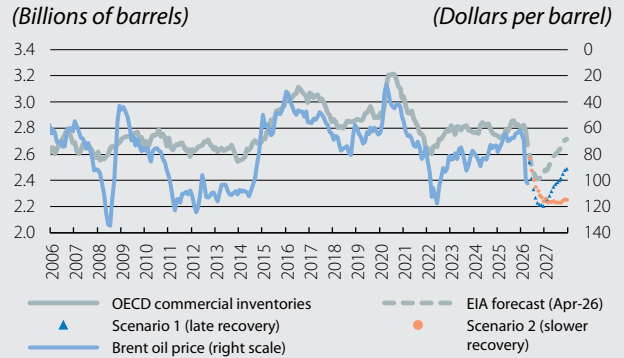
Brent: what will be the (new) equilibrium price?

Despite futures contracts indicating structurally higher oil prices in the coming years as a result of the biggest oil shock in history, markets also seem to be assuming a rapid normalisation of supply and demand conditions in the coming months. In this scenario, global inventories would remain the main mechanism for absorbing the current supply shock, and the Brent oil price is currently converging towards an equilibrium of around 80 dollars per barrel. Even so, it is important

7. In its latest «Oil Market Report» from May 2026, the IEA estimates a cumulative loss of 900 million barrels (including the release of 400 million barrels from strategic reserves), assuming the conflict ends in June and production recovers from Q3. The IEA estimates that this figure could double in the event of a prolonged conflict.

to recall that futures contract prices do not provide a crystal ball. Rather than reflecting predictive power, they offer the possibility of securing deliveries of a specific quantity of a scarce good in the future at a set price, based on currently available information. Similarly, just as the negative slope of the curve indicates high market tension in the short term, in the long term the market will likely continue to be characterised by a long tail of upside risks.

Commercial oil inventories (OECD) and Brent oil price



Notes: Actual data are reported up to April 2026. From May 2026, the latest EIA forecasts and two alternative scenarios are presented. In scenario 1, we assume that the disruption to oil flows will persist until mid-Q3, with a slightly slower recovery rate (-0.5mb/d) in Q4. In scenario 2, we assume a recovery in global production starting in June, but at a slower pace, with net inventory withdrawals (the estimated difference between global consumption and production) lower (-1mb/d) than in the baseline scenario (EIA forecast) until the end of 2027. The average monthly Brent oil price is shown.

Source: BPI Research, based on data from the EIA (Energy Information Administration).

Interest rates (%)

	31-May	30-April	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.15	0	0	-25
3-month Euribor	2.27	2.20	7	24	27
1-year Euribor	2.80	2.85	-4	56	71
1-year government bonds (Germany)	2.41	2.50	-9	40	64
2-year government bonds (Germany)	2.53	2.64	-11	41	75
10-year government bonds (Germany)	2.94	3.04	-10	8	44
10-year government bonds (Spain)	3.35	3.50	-15	7	26
10-year government bonds (Portugal)	3.30	3.44	-14	15	32
US					
Fed funds (lower limit)	3.50	3.50	0	0	-75
3-month SOFR	3.66	3.66	-1	1	-67
1-year government bonds	3.77	3.71	6	30	-33
2-year government bonds	4.00	3.87	14	53	11
10-year government bonds	4.44	4.37	6	27	4

Spreads corporate bonds (bps)

	31-May	30-April	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	53	60	-7	2.2	-5.0
Itraxx Financials Senior	55	63	-7	1.0	-6.5
Itraxx Subordinated Financials	91	103	-12	-2.4	-16.6

Exchange rates

	31-May	30-April	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.166	1.173	-0.6	-0.7	2.7
EUR/JPY (yen per euro)	185.670	183.700	1.1	0.9	13.6
EUR/GBP (pounds per euro)	0.867	0.862	0.5	-0.6	2.8
USD/JPY (yen per dollar)	159.270	156.590	1.7	1.6	10.6

Commodities

	31-May	30-April	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
Bloomberg Commodity Index	135.1	140.5	-3.8	23.2	35.1
Brent (\$/barrel)	92.1	114.0	-19.3	51.3	43.5
Gold (\$/ounce)	4,540.3	4,617.9	-1.7	5.1	38.0

Equity

	31-May	30-April	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	7,580.1	7,209.0	5.1	10.7	28.2
Eurostoxx 50 (euro area)	6,050.5	5,881.5	2.9	4.5	12.7
Ibex 35 (Spain)	18,362.9	17,781.0	3.3	6.1	29.8
PSI 20 (Portugal)	9,076.5	9,345.0	-2.9	9.8	22.8
Nikkei 225 (Japan)	66,329.5	59,284.9	11.9	31.8	74.7
MSCI Emerging	1,752.2	1,600.2	9.5	24.8	51.4

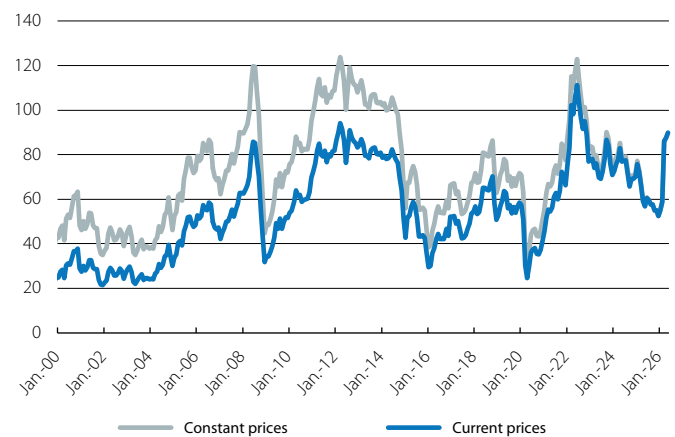
The global economy in search of a new balance

The reopening of Hormuz, a necessary but insufficient condition. The closure of the Strait of Hormuz since the start of the conflict has driven up the oil price to around 100 dollars per barrel in recent months, while the reduction in inventories has helped absorb part of the energy shock. In recent weeks, news of an extension to the ceasefire and negotiations between the US and Iran have led to a perception that the strait could soon reopen, allowing energy flows from the region to resume. However, restoring the balance between supply and demand would require a sustained increase in flows through the Strait of Hormuz, and returning inventories to their pre-conflict levels will not be quick. Overall, the indicators suggest that the energy market will remain strained and that geopolitical risk will continue to apply upward pressure on prices.

Economic activity cools in the face of a new shock. The available indicators for advanced economies point to a slowdown in activity in Q2. In the EU, the economic sentiment indicator showed a slight recovery in May (93.7 points vs. 93.4 previously), but it remains close to the lows observed in recent years and below its historical average of 100 points. Business sentiment indicators point to further deterioration. The euro area PMI fell to its lowest level in nearly three years, reaching 47.5 points (vs. 48.8 previously), weighed down primarily by weakness in the services sector (at its lowest since late 2020), amid uncertainty and rising inflation. On the manufacturing side, activity continues to hold steady, while the price subcomponents indicate an increase in production costs. In its spring report, the European Commission highlights the deteriorating macroeconomic scenario due to the conflict in the Middle East and an environment still characterised by high uncertainty, which reinforces the downside risks to growth. At CaixaBank Research, we forecast euro area growth at 0.7% for 2026 (-0.5 pps vs. our previous forecast, due to a combination of slightly lower-than-expected GDP data and the impact in the Middle East) and at 1.2% for 2027 (-0.3 pps). See the Focus «International economic outlook» in this same report.

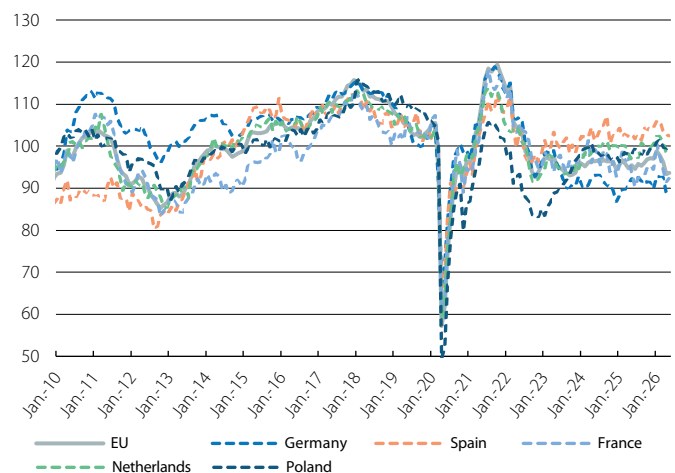
US: focus on private consumption and the labour market. The US economy continues to withstand the impact of the energy shock, despite the deterioration in consumer confidence. Individual consumption was up 0.1% month-on-month in April (vs. 0.3% in March), constrained by weakening household purchasing power, while the labour market remained strong. The unemployment rate remained at 4.3%, while job creation stood at 115,000 people (vs. 63,000 people on average for Q1). The second GDP estimate for Q1 2026 placed growth at 0.4% quarter-on-quarter (-0.1 pps vs. the initial estimate) and indicated a more moderate increase in private consumption (+0.3% quarter-on-quarter, vs. 0.5% in Q4 2025). Fixed investment has been confirmed as the main driver of growth in the quarter. Business sentiment data have indicated levels consistent with a slight cooling of economic activity in Q2, but with positive growth rates. The composite PMI remained

Brent: price
(Euros per barrel)



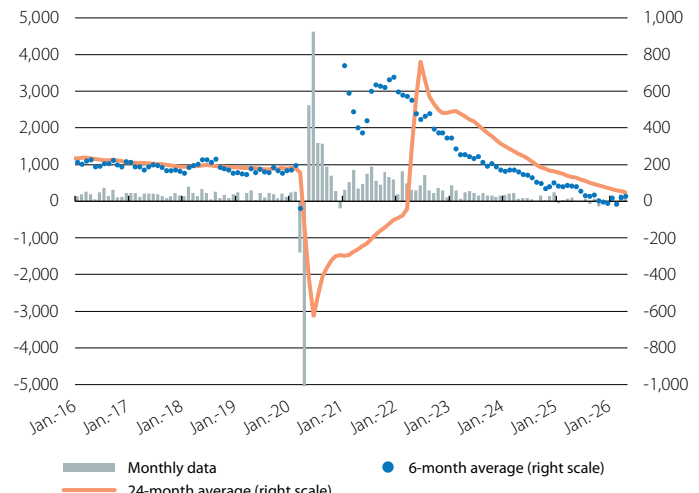
Notes: The chart shows monthly averages. For the calculation of Brent at constant prices, the prices from December 2025 are used as the base. The deflator used is based on IPCA inflation for the euro area.
Source: BPI Research, based on data from Bloomberg and Eurostat.

EU: Economic Sentiment Indicator (ESI) Index



Note: The historical average of the index is 100 points (since the year 2000).
Source: BPI Research, based on data from the European Commission.

US: employment
Monthly change (thousands of jobs)



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

unchanged in May (at 51.7 points), although the price subcomponents indicate widespread inflationary pressures, reaching their highest levels since 2022.

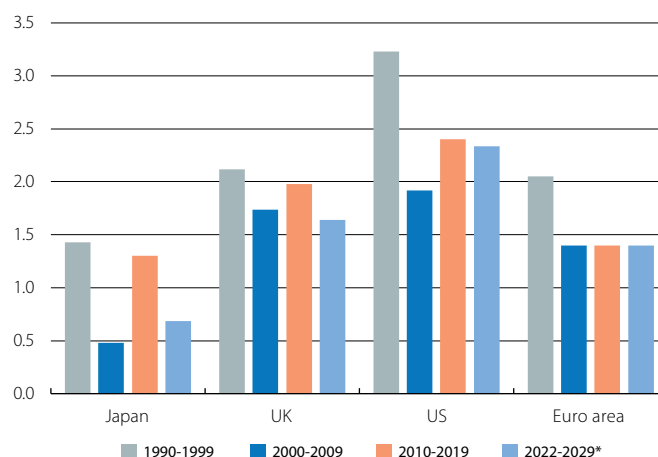
Inflationary pressures are accelerating due to rising energy costs. Euro area headline inflation rose to 3.2% year-on-year in May (vs. 3.0% in April), while core inflation stood at 2.5% (+0.3 pps). The impact of rising energy prices remains visible (energy once again contributed 1 pp to headline inflation), and notable dynamics were observed in core inflation, where the upward trend in industrial goods was joined by a sharp rise in services inflation. In the absence of a detailed breakdown by component, the rebound in services could be explained by calendar effects and the indirect impact of the conflict in the Middle East on more energy-sensitive services, such as transport. In the US, the PCE, a benchmark used by the Fed, recorded an annual increase of 3.8% in April (+0.3 pps) in its headline index, while the core component was up 3.3% (+0.1 pp). This reinforces the view that the Fed will keep rate changes «on hold» until the end of the year and that the ECB could move towards a first «precautionary» rate hike as early as June (for more details, see the Focus «The financial conditions behind the economic scenario in 2026» in this report).

The United Kingdom and Japan kick off the year on a good footing, but challenges lie ahead. The UK's GDP grew by 0.6% quarter-on-quarter in Q1 (vs. 0.2% previously), driven by the services sector and dynamic private consumption. However, the political instability following the local elections, combined with the rise in sovereign bonds and greater uncertainty about the direction of economic policy, could pose new challenges for the British economy this year. Japan's GDP, meanwhile, grew by 0.5% quarter-on-quarter in Q1 (vs. 0.2% previously), supported by strong domestic demand and a rebound in exports. The fuel cap introduced by the Japanese government is helping to keep inflation relatively contained for now. However, the risks are clearly skewed to the upside, as indicated by the PMI price components, which are close to the levels recorded in 2022, and a strained labour market. With global inflation expectations on the rise, factors such as economic uncertainty and a potential deterioration in fiscal outlooks could increase pressure on both countries.

The outlook for emerging economies deteriorates, albeit with exceptions. In China, following a strong first quarter, activity data reveal a slowdown in April. Industrial production slowed, although it still grew at a steady pace (+4.1% year-on-year vs. 6.1% in Q1), while retail sales remained virtually stagnant. On a positive note, the strong performance of services and improved consumer confidence, in an environment in which inflation remains contained, could help sustain activity. On the other hand, Brazil's GDP grew by 1.8% year-on-year in Q1, driven mainly by private consumption and investment. In the context of a global energy shock, these data reiterate that energy-importing economies, particularly those with greater initial vulnerabilities, could face increased risks to their growth prospects.

Global: GDP growth

Annual change (%)

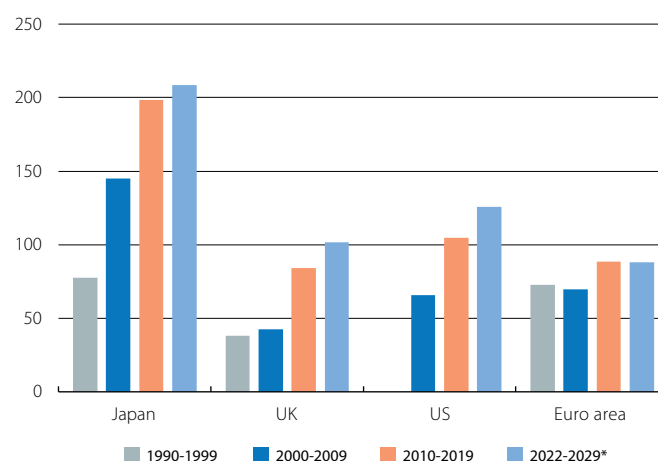


Notes: The average annual growth rates are calculated for each period. For the period 2022-2029, the IMF forecasts from 2026 are considered (WEO, April 2026).

Source: BPI Research, based on data from the International Monetary Fund.

Global: public debt

(% of GDP)

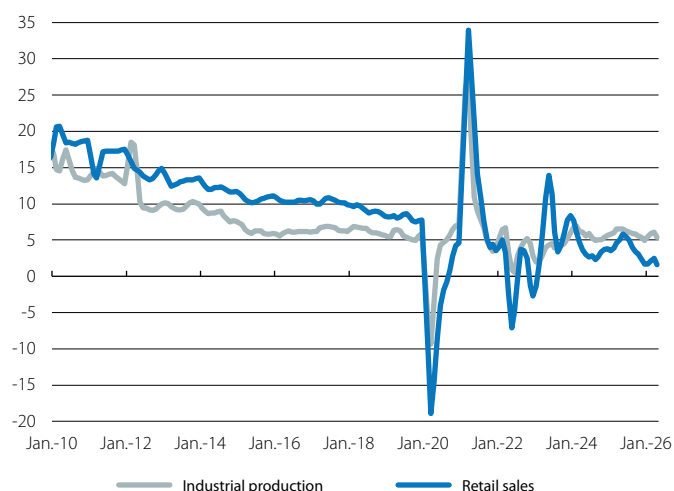


Notes: The average public debt ratios are calculated for each period. For the period 2022-2029, the IMF forecasts from 2026 are considered (WEO, April 2026).

Source: BPI Research, based on data from the International Monetary Fund.

China: economic activity indicators

Year-on-year change (%; 3-month average)



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

Perspetivas para a economia internacional

At the close of this report, the conflict in the Middle East remains unresolved and continues to exert pressure on the price of energy and its derivatives. The duration of the conflict will be crucial in assessing its economic impact. The region produces nearly 30% of the world's crude oil and 20% of its gas, the latter being a key input in the production of fertilisers and helium, which are essential for semiconductor manufacturing. Additionally, it contains two of the world's major maritime routes: the straits of Hormuz and Bab-el-Mandeb (in the Red Sea). Moreover, there are factors that could hasten a resolution to the conflict, such as Trump's declining popularity (which could affect him in the mid-term elections) and the high economic cost of the war. Given the uncertainty of the environment, our economic forecasts are anchored in quoted market energy prices.

Specifically, our forecast scenario is based on futures traded by financial markets over an average of 14 trading days (to reduce their volatility). Based on this data, the Brent barrel will remain above 100 dollars up until July, before gradually easing to around 85 dollars by the end of the year. This will place the average Brent price at approximately 90 dollars in 2026 and almost 80 dollars in 2027, well above the levels anticipated prior to the conflict (some 25 and 15 dollars higher, respectively). Furthermore, prices are not expected to return to pre-war levels until at least 2030. In the case of gas prices, the impact has been much less severe than that triggered by the outbreak of the war in Ukraine. Overall, the futures underpinning our forecasts anticipate an average gas price of just under 45 euros per MWh in 2026 and just over 35 euros per MWh in 2027, which is 10-15 euros more expensive each year than expected before the conflict.

In other words, energy futures seem to be factoring in a gradual resolution of the military conflict that would lead to the reopening of the Strait of Hormuz, while acknowledging that this does not mean economic activity will immediately recover to pre-conflict levels.¹

In this context of higher energy prices, economic growth will be lower than expected before the conflict, especially in countries more dependent on energy imports (Europe and Asia, particularly India, which is especially affected). Inflation will rise across the board, causing the main central banks to adopt a more hawkish stance.²

1. See the Focus «The new (im)balances in the oil market» in this same *Monthly Report*.

2. See the Focus «The financial conditions behind the economic scenario in 2026» in this same *Monthly Report*.

Main forecasts

Year-on-year change (%)

	GDP			Inflation		
	2025	2026	2027	2025	2026	2027
World	3.4	3.0	3.2	4.1	4.4	3.7
	–	<i>3.3</i>	<i>3.2</i>	–	<i>3.9</i>	<i>3.5</i>
US	2.1	2.1	2.1	2.6	3.5	2.4
	–	<i>2.6</i>	<i>2.0</i>	–	<i>2.6</i>	<i>2.2</i>
Euro area	1.5	0.7	1.2	2.1	3.1	2.3
	–	<i>1,3</i>	<i>1,5</i>	–	<i>1,9</i>	<i>2,0</i>
Germany	0.3	0.6	1.1	2.3	3.2	2.4
	–	<i>1,0</i>	<i>1,4</i>	–	<i>2,0</i>	<i>2,1</i>
France	0.9	0.6	0.9	0.9	2.4	2.0
	–	<i>1,0</i>	<i>1,2</i>	–	<i>1,3</i>	<i>1,7</i>
Italy	0.7	0.5	0.7	1.6	2.6	2.1
	–	<i>0,8</i>	<i>1,1</i>	–	<i>1,5</i>	<i>1,8</i>
China	5.0	4.5	4.0	0.1	1.0	1.5
	–	<i>4,5</i>	<i>4,0</i>	–	<i>1,0</i>	<i>1,5</i>

Notes: Average for the period. In blue and italics, previous forecasts (February 2026).

Source: BPI Research.

The euro area faces another energy shock

The region's direct exposure to the Middle East is limited. However, despite efforts in recent decades to improve energy efficiency and promote the use of renewable energies, there remains a high dependency on fossil fuels: they account for nearly 70% of all the energy consumed by the entire economy, and they are practically the only type of energy used in the transport sector.³ The impact of higher energy prices will result in increased inflation over the coming months, averaging above 3.0% in 2026, approximately 1.0 pp higher than expected before the war. Therefore, household purchasing power will be squeezed and private consumption will slow in the coming quarters, but it will not contract, thanks to the substantial savings buffer (more than 14% of gross disposable income) and a still resilient labour market (the unemployment rate has been around a historic low of 6.2% for over a year). It is also important to note that the end of 2025 and the beginning of 2026 in the euro area were weaker than expected, which explains the substantial downward revision we have made: –0.5 pps in 2026, to 0.7%, and –0.3 pps in 2027, to 1.2%. On the other hand, this slowdown in activity will mitigate indirect and second-round effects and, together with various fiscal measures already approved, it will help contain the inflationary impact of the war. For now, the euro area will avoid

3. See the Focus «Europe faces another energy crisis» in the MR04/2026.

entering recession, but such an outcome cannot be ruled out if the conflict drags on and more adverse scenarios materialise.

US, the impact of higher inflation on a growth model heavily reliant on technology investment

The US is the world's largest producer of crude oil and gas and a net exporter, but this does not mean that its consumers are unaffected by rising energy prices. In fact, inflation is already reflecting this impact (petrol is above 4 dollars per gallon), in a context in which service prices were already showing significant resistance to moderation. As a result, the direct impact of rising energy costs will cause headline inflation in 2026 to be almost 1.0 pp higher on average than it would have been without the conflict, reaching 3.5%. This inflation pattern will dent household consumption, as indicated by the significant deterioration in the main household confidence indicators, although they will still maintain dynamic growth rates. Furthermore, we remain confident that investment in technology will remain strong due to the boost from the deployment of AI, so the US economy should continue to advance at a steady pace. However, since Q4 2025 and Q1 2026 were weaker than expected, we have reduced our growth forecast for 2026 by 0.5 pps to 2.1%, a rate which will be maintained in 2027.

China will benefit from the boost provided by its high value-added exports

The Chinese economy faces the impact of the war in the Middle East with some ambiguity. As a net energy importer, it is adversely affected by the sharp rise in energy costs, while its exports to Europe (accounting for around 16% of its total) are hindered by trade disruptions in the region. However, the rise of AI and the development of green energies in much of the world are boosting its high-value exports, sectors in which China has already become a global leader. In the short term, this greater diversification of Chinese exports will help sustain the growth of its economy. This, combined with the tariff cuts prompted by the US Supreme Court and a slightly better than expected start to the year, reinforces our growth forecast of 4.5% for 2026 and 4.0% for 2027. The measures implemented by the government to contain the impact of the energy shock will keep inflation under control, which was very low before the conflict. We thus expect it to be in the 1.0%-1.5% range in 2026 and 2027.

In short, it seems we are heading towards a world with lower growth and higher inflation. Uncertainty remains high and the most adverse scenarios cannot yet be ruled out, with highly uneven regional impacts and inflation reaching higher for longer, as the IMF already warned in its April report. Nevertheless, it is important to emphasise that the situation differs from 2022, when significant disruptions still affecting global supply chains after the pandemic drove global inflation to nearly 9.0%.

European households' well-being: greater reliance on public support amid higher inflation

Between 2013 and 2019, the recovery that followed the financial and sovereign debt crises enabled gradual but sustained improvements in household purchasing power, supported by an improvement in employment and a contained inflation environment. The pandemic disrupted this dynamic, and while nominal income and the labour market showed resilience, the inflation shock exacerbated by the invasion of Ukraine eroded purchasing power and strained households' well-being, hitting low-income households particularly hard. In this context, real actual individual consumption per capita – a broad indicator of material well-being that includes both private expenditure and individual goods and services provided by the public sector – allows us to analyse how the living conditions of European households have evolved before and after the pandemic, as well as the role of public redistribution.

From post-crisis recovery to inflation shock

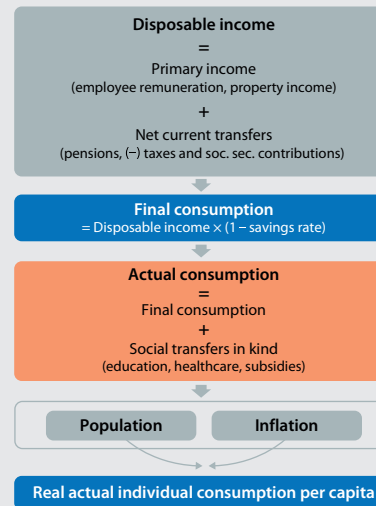
Real actual individual consumption per capita is an indicator that reflects the material well-being of households more accurately than GDP, disposable income, or final consumption (see the first chart for definitions). It is a measure that is less sensitive to temporary deviations between production, household income and savings, which are particularly relevant after the pandemic and during the recent inflation shocks.¹ Unlike other metrics, it includes public sector transfers in kind – such as education and healthcare, as well as subsidised housing or transport – so it better reflects households' access to goods and services.

Between 2013 and 2019, actual individual consumption per capita in the EU grew steadily at around 1.5% annually. This was in line with a phase marked by rising incomes and a gradual normalisation of the economy following the financial and sovereign debt crises (see second chart). The progress of this measure of well-being was somewhat less pronounced than that of GDP, but it was nonetheless steady, supported by an improvement in employment and a moderate inflation environment (less than 1% annually on average). This dynamic changed abruptly with the pandemic. The initial collapse in private consumption in 2020 was followed by a relatively swift recovery, driven by expansive fiscal policy, although heightened uncertainty may have led to a structurally higher savings rate.

However, the real turning point was not the pandemic itself, but the subsequent inflationary episode. Between 2021 and 2023, the sharp rise in energy and food prices eroded household purchasing power. The EU's average

1. IMF (2020). «Measuring Economic Welfare: What and How?».

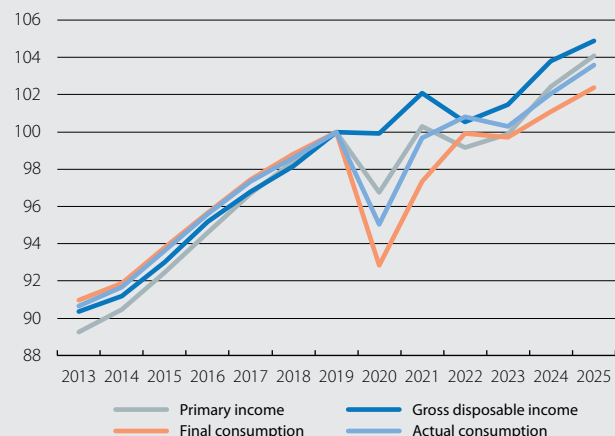
Actual individual consumption



Source: BPI Research.

EU: per capita income and consumption

In real terms (index 100 = 2019)



Source: BPI Research, based on data from Eurostat.

annual inflation reached a historic high of 9.2% in 2022, creating a persistent gap between the trends of variables in nominal and real terms. In turn, this inflation shock had a distinctly regressive nature. Households with lower incomes faced significantly higher inflation rates as they devoted a larger share of their spending to basic goods, which were precisely the category that registered the biggest price increases during this period.² Furthermore, in some countries there was a deterioration in housing affordability.³

2. ECB (2024). «The unequal impact of the 2021-22 inflation surge on euro area households».

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

Less convergence and more dispersion between countries after the pandemic

Beyond the European aggregate, the comparison between countries reveals significant changes in growth and convergence dynamics. This is largely explained by the uneven impact of inflation and the varying fiscal space that was available to countries to respond. Generally speaking, the average growth of real actual individual consumption per capita during the period 2019-2025 was significantly lower than that recorded in the years prior to the pandemic for most of Member States (see third chart). Only a few countries have managed to sustain growth in actual individual consumption, while others have experienced a more pronounced slowdown, mainly in Eastern Europe. The four major EU economies (Germany, France, Italy and Spain) have shown stagnation in recent years.

In the years leading up to the pandemic, countries with lower initial levels of actual individual consumption per capita tended to record significantly higher growth rates, indicating a gradual convergence in well-being (see fourth chart). This trend weakens after 2019. The asymmetric impact of the inflation shocks, combined with differences in fiscal space, has led to less uniformity in outcomes among Member States. The pandemic and the subsequent shocks have not reversed previous progress, but the result has been slower convergence (see in the chart how the blue dotted line lies below the grey one and the how the slope is steeper for lower levels of well-being) and less uniformity (greater dispersion of the blue scatter plot), with significant structural differences persisting within the EU.

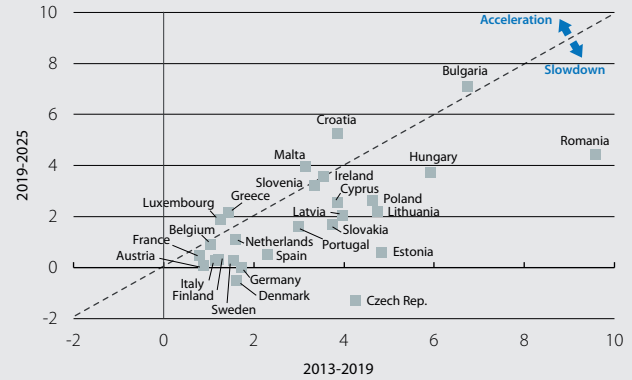
Sustaining well-being in an inflationary environment: limits of redistribution

The analysis of the main EU economies clearly shows the shift in pattern between the two periods. Between 2013 and 2019, the growth in real actual individual consumption per capita was mainly supported by the increase in real incomes and contained inflation. However, following the pandemic, the key differentiating factor is the sharp rise in inflation, which has significantly eroded purchasing power despite the strength of the labour market (see fifth chart). In response, public transfers have played a greater cushioning role – particularly in the Netherlands, Poland, and Germany – alongside a gradual decline in the savings rate following the sharp rise in 2020-2021, which is more pronounced in France, Spain, and Italy. In the case of Spain, the per capita results are also influenced by the rapid population increase due to higher migration flows in the recent period.

Across Member States, the more active role of redistribution following the pandemic has been a widespread but uneven phenomenon (see sixth chart). In most countries, the increase in transfers – whether monetary or in kind –

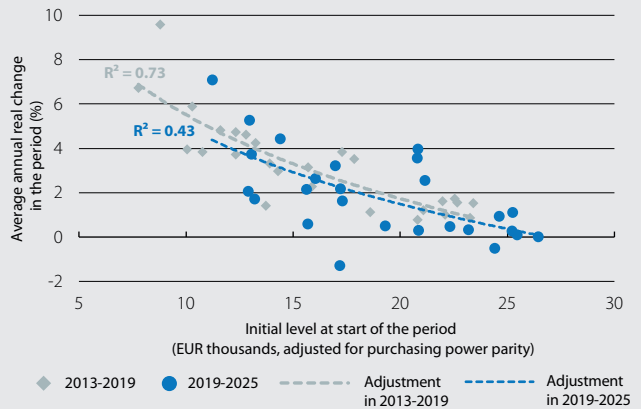
EU: actual individual consumption per capita (countries)

Average annual real change in the period (%)



Note: Data up to 2022 for Bulgaria, up to 2024 for Estonia, and up to Q3 2025 for Ireland.
Source: BPI Research, based on data from Eurostat.

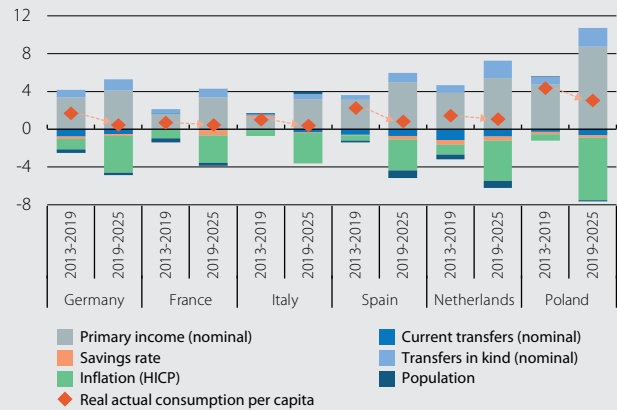
EU: actual individual consumption per capita (countries)



Notes: Data up to 2022 for Bulgaria, up to 2024 for Estonia, and up to Q3 2025 for Ireland. Luxembourg is excluded due to recording atypical values (around 35,000 euros). Logarithmic adjustment.
Source: BPI Research, based on data from Eurostat.

EU: actual final individual consumption per capita (major economies)

Average annual real change in the period (pps)



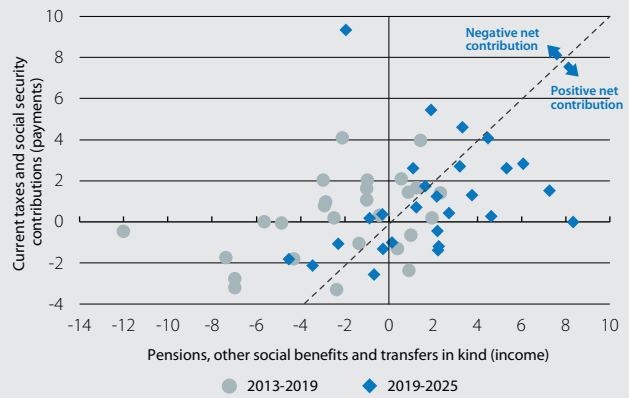
Notes: Current transfers net of taxes and social security contributions. The savings rate is calculated as the inverse of individuals' final consumption over their gross disposable income in nominal terms.
Source: BPI Research, based on data from Eurostat.

has been accompanied by higher contributions through taxes and social security. However, in many cases, this increase has not been fully offset on the fiscal revenue side. In contrast, only a minority of countries have shown a negative net contribution from transfers to the growth of actual individual consumption in recent years.

Implications for cohesion and pursuit of the competitive agenda

Since the pandemic, EU government action has helped cushion the impact of a series of unprecedented shocks on households’ material well-being, preventing an abrupt fall in actual individual consumption per capita. However, this result has increasingly relied on public redistribution mechanisms and has occurred in a context of reduced convergence between countries. The erosion of purchasing power caused by inflation has highlighted the limits of a model based on ex post cushioning of well-being. Looking ahead, preserving economic cohesion will require stronger EU competitiveness fundamentals: boosting productivity and deepening the single market.⁴ Without progress in boosting potential growth and job creation, maintaining well-being will become increasingly costly and more difficult to align with European convergence in an environment of high public debt.⁵

Current and in-kind transfers
Change as a percentage of primary income (pps)



Note: Data up to 2022 for Bulgaria, up to 2024 for Croatia, Cyprus, Slovakia, Slovenia, Estonia, Latvia, Lithuania and Malta, and up to Q3 2025 for Ireland.
Source: BPI Research, based on data from Eurostat.

4. See the Focus «How far has the EU progressed on the Competitiveness Compass?» in the MR04/2026.
5. See the article «Europe’s medium-term fiscal dilemma» in the Dossier of the MR11/2025.

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

UNITED STATES

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	03/26	04/26	05/26
Activity									
Real GDP	2.8	2.1	2.1	2.3	2.0	2.6	–	–	–
Retail sales (excluding cars and petrol)	3.4	4.5	4.9	4.6	3.9	4.6	4.5	4.9	...
Consumer confidence (value)	104.5	96.1	93.1	97.4	94.2	90.7	92.2	93.8	93.1
Industrial production	–0.7	1.1	0.5	1.7	1.6	1.1	0.8	1.4	...
Manufacturing activity index (ISM) (value)	48.2	48.9	48.8	48.7	48.2	52.6	52.7	52.7	54.0
Housing starts (thousands, monthly average)	1,371	1,357	1,356	1,347	1,323	1,413	1,507	1,465	...
Case-Shiller home price index (index)	330	339	338	338	341	343	342	...	...
Unemployment rate (% lab. force)	4.0	4.3	4.2	4.3	4.5	4.3	4.3	4.3	...
Employment-population ratio (% pop. > 16 years)	60.1	59.8	59.8	59.6	59.7	59.3	59.2	59.1	...
Trade balance ¹ (% GDP)	–2.8	–3.4	–3.6	–3.4	–3.0	–2.5	–2.2	...	...
Prices									
Headline inflation	2.9	2.6	2.4	2.9	2.7	2.7	3.3	3.8	...
Core inflation	3.4	2.8	2.8	3.1	2.6	2.5	2.6	2.8	...

JAPAN

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	03/26	04/26	05/26
Activity									
Real GDP	–0.2	1.1	2.0	0.5	0.2	0.6	–	–	–
Consumer confidence (value)	37.2	34.7	33.2	34.8	36.7	36.9	33.3	32.2	33.6
Industrial production	–3.0	0.1	0.1	–1.1	–1.3	1.2	0.6	2.3	...
Business activity index (Tankan) (value)	12.8	13.5	13.0	14.0	15.0	17.0	–	–	–
Unemployment rate (% lab. force)	2.5	2.5	2.5	2.5	2.6	2.7	2.7	2.5	...
Trade balance ¹ (% GDP)	–1.0	–0.6	–0.7	–0.5	–0.4	...	...	...	...
Prices									
Headline inflation	2.7	3.2	3.4	2.9	2.7	1.4	1.4	1.3	...
Core inflation	2.4	3.0	3.2	3.2	3.0	2.6	2.5	1.9	...

CHINA

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	03/26	04/26	05/26
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	1.7	0.2	...
Industrial production	5.6	5.9	6.2	5.8	5.0	6.0	5.7	4.1	...
PMI manufacturing (value)	49.8	49.6	49.4	49.5	49.4	49.6	50.4	50.3	50.0
Foreign sector									
Trade balance ^{1,2}	997	1,189	1,145	1,174	1,189	1,179	1,179	1,167	...
Exports	4.6	5.5	6.0	6.5	3.8	14.5	2.3	13.9	...
Imports	1.0	0.2	–0.8	4.6	3.4	23.0	28.1	25.3	...
Prices									
Headline inflation	0.2	0.1	0.0	–0.2	0.6	0.8	1.0	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	6.9	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	03/26	04/26	05/26
Retail sales (year-on-year change)	1.2	2.4	3.1	2.0	2.3	1.9	2.1	1.0	...
Industrial production (year-on-year change)	-2.9	1.5	1.2	1.5	2.0	-1.2	-2.1	...	...
Consumer confidence	-12.6	-13.4	-14.2	-13.6	-12.9	-13.8	-16.4	-20.6	-19.0
Economic sentiment	95.9	95.9	95.0	96.0	97.1	97.7	96.3	93.2	93.5
Manufacturing PMI	45.9	49.1	49.3	50.1	49.5	50.8	51.8	52.8	53.8
Services PMI	51.5	51.3	50.1	50.9	53.0	51.2	50.2	47.6	47.7
Labour market									
Employment (people) (year-on-year change)	1.0	0.7	0.8	0.7	0.7	0.6	-	-	-
Unemployment rate (% labour force)	6.4	6.3	6.3	6.3	6.3	6.3	6.3	6.3	...
Germany (% labour force)	3.4	3.7	3.7	3.8	3.9	3.9	3.8	3.8	...
France (% labour force)	7.5	7.7	7.6	7.8	8.0	8.2	8.2	8.2	...
Italy (% labour force)	6.6	6.1	6.3	6.0	5.7	5.3	5.2	5.1	...
Real GDP (year-on-year change)	0.9	1.5	1.6	1.4	1.2	0.8	-	-	-
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	03/26	04/26	05/26
General	2.4	2.1	2.0	2.1	2.1	2.0	2.6	3.0	3.2
Core	2.8	2.4	2.4	2.3	2.4	2.3	2.3	2.2	2.6

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	03/26	04/26	05/26
Current balance	3.4	2.2	2.7	2.4	2.2	2.2	2.2	...	...
Germany	5.9	4.5	5.0	4.7	4.5	4.4	4.4	...	...
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	96.8	97.3	97.0

Credit and deposits of non-financial sectors

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	03/26	04/26	05/26
Private sector financing									
Credit to non-financial firms ²	0.8	2.7	2.6	2.9	3.0	3.0	3.2	3.4	...
Credit to households ^{2,3}	0.5	2.2	2.1	2.5	2.9	3.0	3.0	3.0	...
Interest rate on loans to non-financial firms ⁴ (%)	4.9	3.4	3.4	3.2	3.3	3.3	3.4	...	...
Interest rate on loans to households for house purchases ⁵ (%)	4.6	3.7	3.7	3.6	3.5	3.5	3.5	...	...
Deposits									
On demand deposits	-3.9	5.0	5.3	5.5	5.4	5.4	5.1	4.1	...
Other short-term deposits	12.4	-0.1	-0.1	-1.5	-1.0	-0.2	-0.1	0.8	...
Marketable instruments	20.0	7.7	11.0	4.4	0.9	0.8	4.2	1.1	...
Interest rate on deposits up to 1 year from households (%)	3.0	1.9	1.9	1.7	1.8	1.8	1.8	...	...

Notes: 1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated. 2. Data adjusted for sales and securitization. 3. Including NPISH. 4. Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. 5. Loans with a floating rate and an initial rate fixation period of up to one year.

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

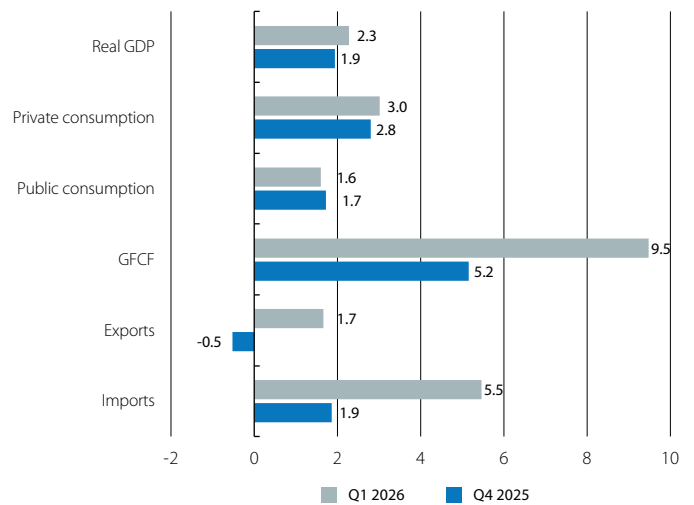
Investment and private consumption drive economic activity

GDP in Q1 2026 remained stagnant quarter-on-quarter, growing 2.3% year-on-year. This performance is the result of an improved contribution from domestic demand and more negative contributions from external demand, both quarter-on-quarter and year-on-year in both cases. Domestic demand contributed 4.1 pp to growth, taking advantage of the 9.5% increase in gross fixed capital formation; and consumption also performed well, advancing 3% year-on-year. External demand was influenced by the acceleration of imports, associated with investment dynamics, since this is a component with a high import content. The few indicators available for Q2 at this time suggest that activity will remain moderate, but expanding. Of these, the European Commission's economic sentiment indicator stands out, which in the first two months of Q2 stood at 101 points (compared to 103.7 points in Q1), reflecting a more pronounced slowdown in the sentiment of economic agents in April, with a slight recovery in May. Although the external environment is more adverse, domestically there are still active factors that will limit the unfavourable impact of the conflict, with a return to the expected quarter-on-quarter growth trajectory. Thus, domestic demand will continue to support growth, both through investment and private consumption, while external demand will remain weakened, with exports pressured by the low growth of its main trading partners. Supporting this outlook is the expectation that investment (especially public investment) will prove robust, reflecting the Recovery and Resilience Plan that is entering its final year and the fact that the labour market remains strong, supporting growth via private consumption. Taking all these factors into account, at the beginning of May we revised our 2026 growth forecast downwards, from 2.1% to 1.8%.

Inflation stabilised in May above 3%. The INE's flash estimate indicates that overall inflation in May remained unchanged from April, exceeding the 3% threshold (3.3%). Underlying inflation also stabilised, standing at 2.2%. The main factors behind the year-over-year change in the Overall CPI are the very sharp rise in inflation for energy products (a rate of 13.2%) and for unprocessed food products (a rate of 5.7%). The stalemate in the Middle East conflict is beginning to leave a more marked imprint, especially on fuel prices, although the situation stabilised in May. Therefore, given the uncertainty and protracted nature of the conflict, the persistence of high oil and natural gas prices, and the inflation readings since March, we have revised our forecast for the 2026 inflation rate up to 2.9%, 0.8 pp higher than what was expected in February.

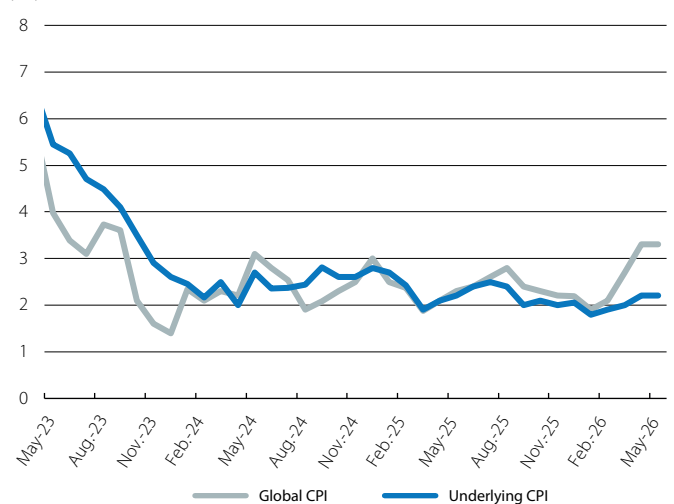
The employed population maintains a strong growth rate and once again registers a historical high. The April figure (seasonally adjusted and still preliminary) reinforces the extraordinary performance of employment, which again grew by more than 2% (2.3%, to be exact), reaching yet another all-time high for the monthly statistical series (of 5,344,700). At the same time, the unemployment rate decreased sequentially (-0.1 pp) to 5.7%, a decrease of 0.5 pp compared to the same month last year. These data ultimately reinforce our recently updated perspective on the

GDP growth and components (%)



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

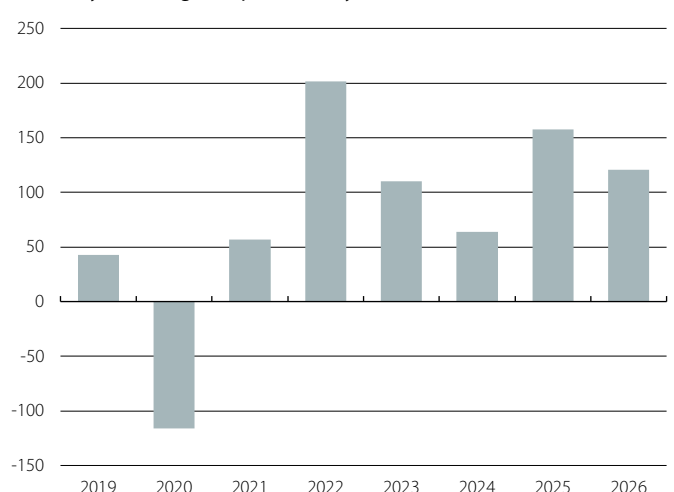
CPI yoy (%)



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

Employed population

Year-on-year change in April of each year (thousands of individuals)



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

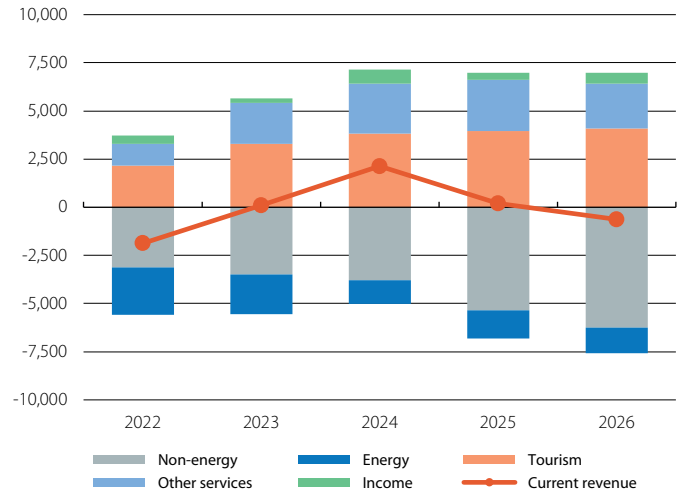
dynamics of the Portuguese labour market in 2026: Employment is expected to slow down this year, but it will continue to support economic activity.

The current account balance recorded a deficit of €616 million in accumulated terms up to March. The deterioration in the balance by €809 million compared to the same period last year is explained by the worsening of the goods balance by €779 million (mainly due to the non-energy component), as a result of the increase in imports (+3.7% year-on-year), which more than offset the increase in exports (+0.9% year-on-year). Similarly, the accumulated services balance decreased by €202 million (-3.0% year-on-year), as a result of the reduction in the surplus of non-tourism services. Compared to the first quarter of 2025 and in cumulative terms, the tourism balance saw its surplus increase by €140 million (+3.5% year-on-year), driven by an increase in exports. Regarding the tourism sector, in April the number of guests increased by 2.4% year-on-year, with marked differences between residents and non-residents – the number of resident guests remained practically unchanged (+0.1%) and non-residents increased more significantly (+3.8%). However, the INE has stressed that the March results may have been influenced by the sliding calendar structure, in other words, by the effects associated with the Carnival and Easter periods. For the year as a whole, total overnight stays grew by 1.0% and total revenue by 5.3%.

The rise in geopolitical tensions poses an added challenge to financial stability. This, coupled with a potential abrupt correction in asset prices in financial markets, has exacerbated the risks to financial stability, according to Banco de Portugal. Furthermore, the central bank states that the current context is conducive to shocks of various kinds (macroeconomic, financial, geopolitical and climatic), which could affect the stability of the Portuguese financial system. Furthermore, it reiterates that a correction in residential property prices, operational and cybersecurity risks (in a context of accelerated digital transformation), climate risks, pressures on public spending (resulting from the need to mitigate shocks and other challenges, such as an ageing population and defence) in a context of (still) high public debt, deterioration of the economic and financial conditions of companies and worsening of the household debt ratio (in a context of potentially higher financing costs and high house prices) are also risk factors for the stability of the national financial system. Nevertheless, the structural improvements in the Portuguese economy over the last 10 years and the resilience of the financial system help to counterbalance this more uncertain context.

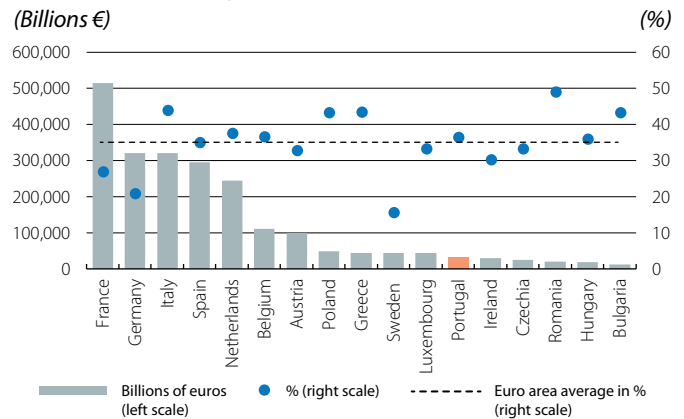
Deposit portfolio accelerates in April. Deposits continue to show consistent momentum: the stock of deposits of the non-financial private sector increased by 6.9% year-on-year, with both segments (non-financial firms and individuals) recording positive developments (12.4% and 4.9% year-on-year, respectively). These year-on-year changes have been increasing since the beginning of the year. In the State's retail products, savings certificates in April recorded net subscriptions of €483 million, the highest value since April 2025. It should be noted that in that month the Government increased the maximum investment ceiling for series F to 250,000 units and the base interest rate for savings certificates also increased, the highest it has been since May 2025.

Portugal: current account
(year-to-date March, millions of euros)



Source: BPI Research, based on data from Datastream.

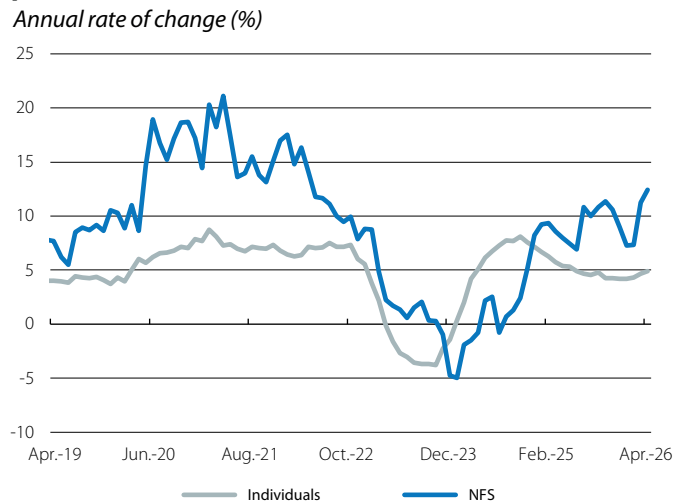
Loans from the banking system to sectors most exposed to geopolitical risk



Note: Data as of December 2024, with the exception of Portugal (December 2025). The sectors most affected are those considered in analyses developed by the ECB on geopolitical risk and correspond to Agriculture, forestry and fisheries (A), Industry (I), Construction (C) and Transport and storage (H). The dashed line refers to the euro area average for exposure to the most affected sectors as a percentage of corporate credit.

Source: BPI Research, based on BdP data (REF May 2026).

Portfolio of deposits from the non-financial private sector



Source: BPI Research, based on data from BdP.

Uncertainty dominates the scenario review calendar

The world has changed since February, so we've had to make some adjustments to our macroeconomic outlook.

The start of the war in Iran was the catalyst for these changes, as it affected international trade conducted through the Strait of Hormuz, through which, under normal conditions, about 20% of the oil and gas we consume passes. Although Portugal's dependence on trade originating in the Middle East is limited,¹ the effect on the Portuguese economy occurs through increased prices of energy products, heightened uncertainty, and a less favourable financial environment, particularly through higher financing costs. As for the first aspect, the differences are significant. In fact, from a Brent price of around US\$66 per barrel in February, we have now moved to levels around US\$100, with predictions that on average it will be close to US\$90 in 2026, falling to a level slightly below US\$80 in 2027. In the gas sector, the price increase was more moderate –from €30/MWh to €45/MWh– with the expectation that on average it could be around €43/MWh in 2026 and €36/MWh in 2027. In other words, compared to February when the previous scenario was drawn up, the forecasts for oil and gas in 2026 have been revised, up by US\$23 and €13, respectively. In 2027, the difference compared to February will be reduced to US\$13 and €10. The price of urea, a fertiliser used to accelerate crop growth and increase their productivity, has risen 20% since the end of February. In addition to price increases, there is a risk of altering the balance between supply and demand for these goods, which could lead to supply shortages and impact economic activity.

The increase in gas and Brent prices alone will subtract 0.2 pp from GDP growth this year. However, growth could also be negatively impacted by a more cautious stance from economic agents (greater uncertainty), who may opt to postpone investment and consumption decisions. Additionally, the increase in these prices will tend to be reflected in higher inflation, possibly in higher interest rates by the ECB,² increasing financing costs and reducing real disposable household income.

Some of these negative impacts may be mitigated by the strength of certain aspects of the Portuguese economy, which should continue to support domestic demand. Among them, the PRR is entering its final year, boosting investment, especially public investment; there are low

levels of debt, both in the private and public sectors, limiting the impact of higher interest rates; the high savings rate among households is an important safety buffer in a more inflationary environment; and finally, the strength of the labour market. Additionally, GDP stagnated in Q1, contrary to our forecast of a 0.2% increase. All these aspects translate into a downward revision of real GDP growth by 0.3 pp, to 1.8%.

Regarding the labour market, we anticipate that it will remain robust, but will evolve at a slower pace than expected in February. More moderate job growth than anticipated in Q1 2026, the downward revision of economic growth, and the greater uncertainty among economic agents will be reflected in slower job growth, especially in 2026, without this, however, being reflected in a deterioration in the unemployment rate, which we continue to expect to stand at 5.9% in 2026, 0.1 pp lower than in 2025.

The strongest impact of the crisis in the Middle East will be felt in the inflation rate. In fact, the signs of this worsening are already evident, with year-over-year inflation in April accelerating to 3.4%, reflecting the rise in energy prices to 11.7% year-over-year, compared with 5.7% in March; and the acceleration of food prices to 7.4%, 1 pp higher than in March. This performance, together with the continued high prices of Brent and gas and the possible impact on other prices, has resulted in an upward revision of the 2026 inflation forecast to 2.9%, 0.8 pp higher than expected in February.

Public finances, particularly the budget balance, will be impacted by measures to ease the effects of the increase in fuel prices and by supportive measures after the February storms, returning to a deficit situation, but less significant than expected in February, reflecting the recording of a better-than-expected surplus in 2025 and the announcement of a more significant distribution of dividends by CGD,³ among other factors. Nevertheless, we anticipate that public debt will continue its downward trajectory when measured as a proportion of GDP (86.4% at the end of 2026).

In the real estate market, the revision of house prices was also upward, reflecting the carry-over effect resulting from stronger price growth in the last quarter of 2025 and the persistence of a clear imbalance between housing supply and demand. Despite this, the quarterly growth in these prices may slow, reflecting the mismatch with domestic incomes, the less favourable financial environment, and the lack of a supply response, in line

1. Portugal's exposure to energy imports transiting through the Strait of Hormuz is relatively low: around 7% in the case of oil and less than 1% in the case of natural gas.

2. The market is discounting the possibility of the ECB raising key interest rates by 50/75 basis points this year, with a strong bet on an increase of 25 basis points in June.

3. See Focus published in IM05, «The climate and geopolitics overshadow the budget surplus».

with the already visible signs of a decline in the number of transactions in Q1 2026.

In constructing and disseminating this scenario, the refrain that has accompanied us in recent years persists: high uncertainty, this time with risks skewed upwards for inflation and downwards for growth. If these materialise, then the labour market could perform worse, the public deficit could exceed our forecast, and house prices could grow less than anticipated. Finally, but no less importantly, the scenario outlined is based on the possibility that the Middle East conflict could be resolved in the coming months, insofar as the parties involved show some interest in its resolution. This is one of the most relevant hypotheses in our new scenario.

Teresa Gil Pinheiro

May's macroeconomic scenario vs. the scenario in February

		2025	2026	2027	2028	Accum. 26-28
GDP (annual growth)	BPI, May-26	1.9	1.8	1.8	1.8	5.4
	BPI, Feb.-26	–	2.1	1.9	1.8	5.9
Unemployment rate (% workforce)	BPI, May-26	6.0	5.9	5.9	5.9	–0.1
	BPI, Feb.-26	–	5.9	5.9	5.9	–0.1
Employment (annual growth)	BPI, May-26	3.2	1.2	1.4	1.2	3.8
	BPI, Feb.-26	–	1.9	1.5	1.3	4.8
Inflation rate (annual average)	BPI, May-26	2.3	2.9	2.3	2.0	7.3
	BPI, Feb.-26	–	2.1	2.0	2.0	6.2
Underlying inflation (annual average)	BPI, May-26	2.2	2.2	2.1	1.9	6.3
	BPI, Feb.-26	–	2.0	1.9	1.9	5.9
House prices (annual growth)	BPI, May-26	17.6	11.7	4.6	2.8	20.2
	BPI, Feb.-26	–	10.1	3.7	2.8	17.3
Budget balance (% of GDP)	BPI, May-26	0.7	–0.2	–0.4	–0.4	–1.1
	BPI, Feb.-26	–	–0.6	–0.5	–0.5	–1.2
Public debt (% of GDP)	BPI, May-26	89.7	86.4	83.2	81.6	–8.1
	BPI, Feb.-26	–	86.4	83.4	81.7	–8.0

Source: BPI Research forecasts.

Financial literacy and its role in the wealth accumulation prospects of Portuguese families

Financial literacy is a topic that has gained prominence since the 2008 crisis and, according to the OECD, consists of a combination of «financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and, ultimately, achieve financial wellbeing» (for example: OECD, 2023).¹ Thus, it involves not only understanding key concepts such as inflation and the time value of money, but also the ability to act rationally and in an informed manner with regard to individual financial needs. This set of skills becomes particularly relevant in the current macroeconomic and geopolitical context, marked by high uncertainty and changes in the fundamentals that drive markets.

In the March Economic Bulletin,² the Bank of Portugal analysed this topic in the context of the 2023 OECD/INFE survey and concluded that Portugal has an overall level of financial literacy comparable to that of the Eurozone, reflecting a reasonable performance, although characterised by several limitations. The OECD indicator involves three components –financial knowledge, behaviour, and attitudes– and the country performed above average in the latter two, meaning that the Portuguese have good savings and expense management habits. The main obstacle lies in the financial knowledge component, quantified through seven questions which only 13% of the Portuguese respondents were able to answer all of them correctly (vs. 17.9% in the Eurozone), highlighting difficulties in understanding areas such as risk diversification and interest calculation.

This article aims to complement the central bank study by analysing another survey –the European Commission's Eurobarometer on financial literacy³ –and by assessing its impact on families' prospects for wealth accumulation through the composition of their savings and investment portfolios. The financial literacy indicator in this survey is given by the average of two dimensions (instead of three in the case of the OECD) related to knowledge and behaviour.⁴

The Eurobarometer results are slightly more negative than those of the OECD, but are roughly in line with them. Looking at the first graph, Portugal sits below the European average (weight of low and medium scores of approximately 89% vs. 82% in the EU), driven mainly by the gap in

1. OECD (2023). OECD/INFE 2023 international survey of adult financial literacy. Available at: https://www.oecd.org/en/publications/oecd-infe-2023-international-survey-of-adult-financial-literacy_56003a32-en.html

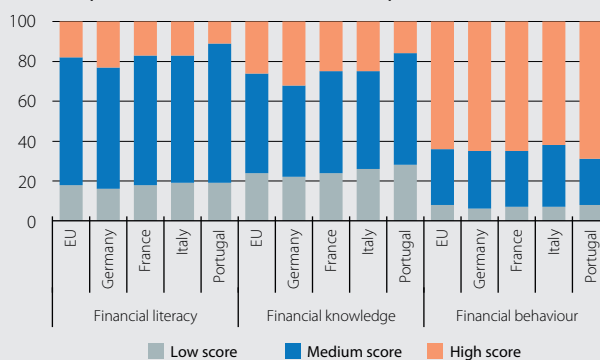
2. Bank of Portugal (2026). Economic Bulletin – March 2026. Available at: <https://www.bportugal.pt/publicacao/boletim-economico-marco-2026>

3. European Commission (2023). *Monitoring the level of financial literacy in the EU*. Available at: <https://europa.eu/eurobarometer/surveys/detail/2953>

4. The knowledge component is measured by the number of correct answers to five technical questions on financial concepts, and the behavioural component by the number of responses consistent with prudent behaviours in terms of choosing financial products, controlling expenses, and ambition in achieving financial goals.

Financial literacy in the EU: Eurobarometer 2023

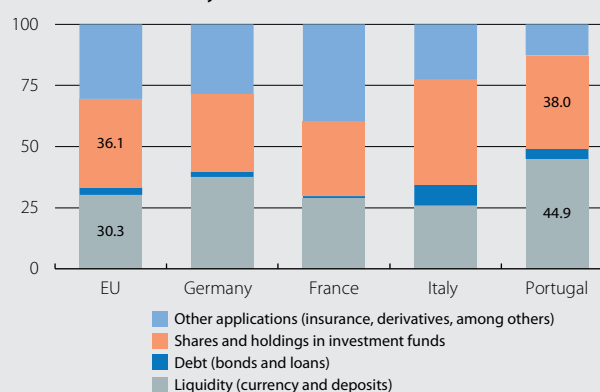
(% of respondents who obtained the respective score)



Nota: A low score indicates values less than or equal to 5; a medium score indicates values between 5 and 9; and a high score indicates values of 9 or 10. The final financial literacy score is calculated as a weighted average of the knowledge and behavior scores. **Source:** BPI Research, based on data from the European Commission.

Evolution of the financial asset structure of households in the EU in 2024

(% of the total held by households)



Source: BPI Research, based on data from Eurostat.

knowledge (84% vs. 74% in the EU), while the Portuguese adopt more cautious attitudes and responses than most countries (weight of high scores of 69% vs. 64% in the EU). This reinforces the dichotomy between a lack of understanding of relevant concepts and caution in making financial decisions that can affect the wealth, solvency, and liquidity of each individual, so the Portuguese are characterised by a high aversion to risk that may stem from different sources.⁵

This low tolerance for risk is evident in the second graph. In 2024, almost half of household savings were channelled into liquid financial assets with low credit and market risk (currency, deposits and debt instruments, including government retail products) (49.2% vs. 33.3% in the EU),

5. Since levels of financial literacy are relatively low, risk aversion may stem from a lack of knowledge that rationalises certain investment or debt decisions, rather than from the population's own psychological, emotional, and financial characteristics.

which ultimately translate into lower profitability, while 50.8% (66.7% in the EU) were invested in assets that tend to have higher risk and expected return, such as stocks, shares in investment funds and other investments.⁶

The third graph presents the estimated impacts of the level of financial literacy and its components on the proportions of risk-free assets (currency and deposits) and risky assets, namely stocks and fund holdings, through linear regression models using data from EU member states.

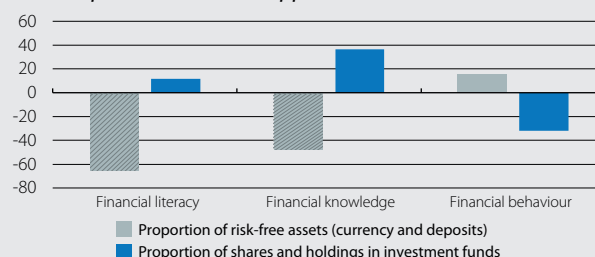
The model results confirm the economic importance of this issue, indicating a negative and statistically significant impact of the overall financial literacy indicator (with a significance level of 10%) and the specific indicator on knowledge (at 5%) on the proportion of money and deposits held by European households. In other words, the lower the financial literacy, the greater the aversion to risk and the propensity to allocate capital to low-yield assets. Furthermore, we reinforce Banco de Portugal's conclusions regarding the widespread preference for capital security and that the main problem lies in the population's difficulties in understanding and applying key concepts, as we observe that the main contribution to this dynamic comes from the domain of knowledge and not from behaviour (the coefficient in the case of knowledge is in line with that of the overall indicator and even reflects stronger statistical significance, unlike the coefficient for behaviour). In regressions on stocks and fund holdings, the results are not significant, but they follow the expected sign.

As reflected in Banco de Portugal's analysis, financial literacy performance can be directly or indirectly impacted by other determinants such as gender, age, education levels, and income; therefore, we considered a set of control variables encompassing these. This supports the view that the impact of financial literacy is also affected by the relationship it has with other demographic and socioeconomic factors.⁷ In general, we deduce a positive (negative) relationship between financial literacy and appetite (aversion) for risky assets, reflected in the knowledge component, while the behavioural component has the opposite impact, further highlighting the importance of the prudence factor in decision-making.

There are two main underlying consequences of limited levels of financial literacy for the wellbeing of Portuguese families: a reduced capacity to accumulate wealth and a widening of income and purchasing power disparities compared to other developed economies. As individuals feel less confident about investing in risky assets to generate real returns on their savings, they face an opportunity cost associated with returns on capital⁸ which perpetuates itself

Relationship between financial literacy indicators and the asset structure of households in EU countries

Regression coefficient (impact of a 1-unit increase in the dependent variable in pp)



Notes: * An equation was estimated with the respective proportions identified as dependent variables, each financial literacy score as the main independent variable, and also a vector of control variables: $Proportion_{i,j} = \beta_0 + \beta_1 * X_{i,j} + \theta_j * Controls_{i,j} + \epsilon_i$. The unique values for each financial literacy variable were calculated by BPI Research for each country, weighted by the weight (w) of the scores, with «0» assigned to low scores, «1» to medium scores and «2» to high scores: $score_{final} = w_{medium,j} * 1 + w_{high,j}$. ** The impacts of each dimension on the respective proportion of assets by risk level was estimated using ordinary least squares (OLS) linear regressions in cross-section (EU countries plus overall average, totalling 28 observations; 2024 data for asset proportions and control variables, and 2023 data for independent variables (i.e., dimensions of financial literacy), which was the year in which the survey was conducted). The HAC (Newey-West) matrix was taken into account to mitigate possible heteroscedasticity problems. Coefficients in dark gray and with stripes reveal statistical significance at a maximum of 10%. The control variables are the proportion of male individuals, the median age of the resident population, the proportion of the population with higher education, and the median net income. The software used to estimate the models was EViews.

Source: BPI Research, based on internal estimates and data from the European Commission and Eurostat.

over time via a compounding effect, basing their monetary decisions entirely on wages (income from the labour factor), which are already comparatively low, despite having recorded significant increases in recent years. These consequences can spread to the rest of the economy, structurally limiting potential long-term consumption and investment because resources are not directed towards higher value-added applications and companies have to base their financing, for example, on bank credit, reducing their options. On the other hand, there is the benefit that economic agents are less exposed to short-term fluctuations in risky assets.

It is therefore urgent to place financial literacy on the list of strategic priorities for gains in the country's competitiveness and resilience. The main existing strategy in this area is the National Financial Literacy Plan,⁹ which promotes debate on the topic in schools, among young people and teachers, but the focus is on the private sector, especially newspapers/ media and financial companies, but also individuals who have managed to disseminate relevant content in a recreational and playful way among the population through social media, creating the concept of a finfluencer (financial influencer).¹⁰

Tiago Miguel Pereira

6. Focusing exclusively on stocks and holdings in investment funds, Portuguese families show a slightly higher proportion than the European average (38% vs. 36.1%), but the relevance of individual stocks (compared to the naturally more diversified portfolios in funds) is lower in Portugal (33.9% vs. 41%).

7. For example, it is natural that a family with relatively low income or low levels of education will have lower financial literacy.

8. For example, the absence of income through attractive interest, dividends, and capital gains.

9. The new cycle for 2026-2030 was formalised between the main regulatory entities of the financial system (Banco de Portugal, Insurance and Pension Funds Supervisory Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões), and the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários)) and the Ministry of Education, Science and Innovation.

10. Although there are benefits, scrutiny of this niche is still necessary to prevent the spread of misinformation.

What is happening with the external accounts?

The current account balance shrank in the year to March

In the first three months of 2026, the current account recorded a deficit of €615.5 million, equivalent to -0.9% of GDP, a significant reduction in the balance compared with the figures recorded in the same period of the previous year (up to March 2025, the current account had recorded a surplus of €193.2 million, +0.3% of GDP). This reduction was due not only to the widening of the non-energy goods trade deficit (to -5.1% of GDP), but also to the narrowing of the services trade surplus to 4.9% of GDP (-0.4 pp). Additionally, the surplus in the secondary income balance also contributed to the worsening of the balance, having fallen to 0.8% of GDP (-0.3 pp). For now, the impacts of the energy price increase resulting from the conflict in the Middle East, which has caused the price of Brent crude to rise significantly, are not yet visible. However, the prolonged closure of the Strait of Hormuz could place additional pressure on the already negative current account balance through a deterioration in the balance of energy goods.

Analysing the trend in the cumulative current account balance up to March in absolute terms, it can be concluded that the reduction in this figure compared with 2025 is attributable to an 11% increase in the goods trade deficit (to -€7.584 billion) and a 3% reduction in the services trade surplus (to +€6.425 billion). The reduction in the primary income balance deficit (+€310 million) was more than offset by the reduction in the secondary income balance surplus (-€138 million). It is also worth highlighting the fact that the accumulated current account balance in the first three months of the year (-€616 million) constitutes the worst start to a year since 2022. In the following sections, we will try to understand what led to the deterioration in the balance of goods and services.

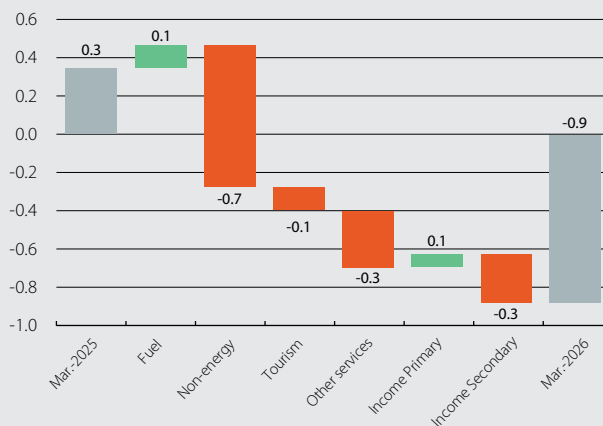
Balance of goods reaches its largest deficit in the first three months of the year since 2003

Up to March 2026 and compared with the same period of the previous year, imports of goods grew by €943 million (+3.7%), while exports registered an increase of only €165 million (+0.9%), resulting in a worsening of the goods trade deficit by €779 million, constituting the worst result recorded in the first three months of the year since 2003. Both the increase in exports and in imports was driven by non-energy goods,¹ with particular

1. Cumulative exports up to March 2026 recorded an increase of €349 million (non-energy goods) and a decrease of €184 million (energy goods) compared to the same period in 2025. Imports of non-energy goods increased by €1.228 billion, while imports of energy decreased by €285 million.

Current account evolution

% of GDP and change in pp



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

Evolution of the current balance (by component)

Cumulative figures up to March, in billions of euros

Balance	2025	2026	Diferença
Balance of goods	-6,805	-7,584	↓ -779
Balance of services	6,626	6,425	↓ -202
Income balance (primary)	-907	-597	↑ 310
Income balance (secondary)	1,279	1,141	↓ -138
Current account	193	-616	↓ -809

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

emphasis on the year-on-year increase in exports of machinery and equipment (+19%) and electrical equipment (+13%). The main absolute variations compared to the same period in 2025 observed on the import side were in computer and electronic products (+32%), motor vehicles (+8%) and electrical equipment (+17%). With regard to trading partners, we highlight the reduction in exports to Germany (-30%) and to the United States (-24%), both cases resulting from decreased sales of pharmaceutical products² and, conversely, the increase in exports to Turkey (+44%, driven by car sales) and Finland (+116%, via increased sales of metallic ores). On the import side, the highlight is the increased exposure to the Netherlands (+61%, mainly due to increased imports of computer and electronic products) and Brazil (+41%, as a result of increased purchases of crude oil and natural gas) and, conversely, the decrease in imports from Ireland (-71%, driven by pharmaceutical products).

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.

What caused the deterioration in the balance of services?

Portugal is a significant net exporter of services, and this component is the one that most sustains the balance of the current account. By March 2026, this balance had recorded a surplus of €6.425 billion, representing a 3% decrease compared with the surplus recorded in the same period of 2025. The decrease in the balance of €202 million is justified by the reduction in the surplus in the category of other services (–€341 million, i.e., –13%), which was partially offset by the increase in the surplus of the travel & tourism category (+€140 million, i.e., +4%). Starting with the positive variation in the tourism balance surplus, this was due to the increase in net exports to countries in the Americas (the balance increased by €101 million, with the United States accounting for 1/3 of this increase). The «Other Services» category saw its balance deteriorate due to a fall in net exports of transport services (–€247 million, driven by a rise in imports) and other business services (–€191 million, due to a fall in exports), the negative changes in which were partially offset by an improvement in the balance for ICT services (+€124 million, driven by an increase in exports).

How will the current account balance evolve?

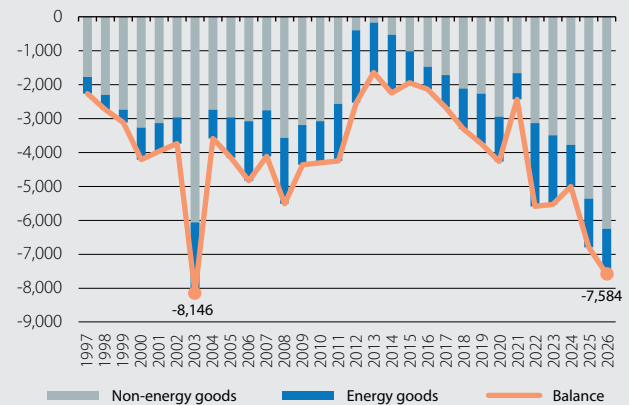
Based on futures prices at the time the May macroeconomic scenario was prepared, we estimate an average price for Brent crude oil in 2026 of US\$90/barrel (+31% compared to 2025) and for TTF gas of €43/MWh (+19%), below that seen in 2022.³ Therefore, we have revised our macroeconomic scenario, reducing the forecast for real GDP growth by 0.3 pp to 1.8%.⁴

Regarding the revision of the current account balance (currently set at 1.2% of GDP for this year), consideration will be given to the worsening energy balance, which we estimate could deteriorate by 26% compared to the 2025 balance, to around –€6.7 billion, mainly due to increased imports of energy goods, as well as some slowdown in the growth of exports and imports of travel and tourism due to potential constraints resulting from rising prices of jet fuel and the possibility of flight cancellations by airlines.

Based on our estimate of the evolution of the various components of the current account balance, we predict that the deterioration of the balance of goods will not

Breakdown of the balance of goods by subcategory

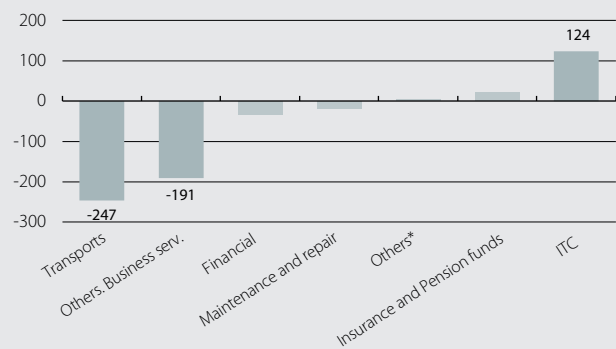
Accumulated figures up to March, in millions of euros



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

Change in balance by «Other Services» category

Change in the accumulated balance up to March, in millions of euros



Nota: * «Others» includes construction services, cultural and recreational services, intellectual property rights, transfer of assets belonging to third parties, and services of public administrations.

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

be sufficient for this aggregate to return to negative values, since the balance of services should continue to record a surplus greater than the deficit in the balance of goods. Thus, we estimate that the current account balance will reach approximately +€1.2 billion, equivalent to 0.4% of GDP,⁵ which still represents a 69% deterioration compared to the previous year's balance, highlighting that the Portuguese economy remains vulnerable to adverse exogenous shocks (such as changes in US trade policy and the conflict in the Middle East).

Pedro Avelar

3. That year, as a result of the Russian invasion of Ukraine, the average price of Brent crude reached US\$98.9/barrel and the price of TTF gas exceeded €131/MWh, leading to an energy deficit of –€11.584 billion (–4.7% of GDP). That year, Portugal's current account balance stood at –2.0% of GDP.

4. For more information on the revisions made to the central scenario, see Focus «Uncertainty dominates the scenario revision calendar» in this publication.

5. It is worth noting that this result is in line with the most recent IMF estimates for Portugal, which are included in the World Economic Outlook, which points to a current account balance for the year as a whole of 0.5% of GDP.

From quantity to quality: the transformation of the labour market in Portugal's post-pandemic period

Employment has shown incredibly robust momentum in the post-pandemic period, supporting economic growth: The employed population grew by 10.1% between 2019 and 2025 (an increase of 485,000 jobs), while the employment rate reached historical highs. Nevertheless, job creation in the latest cycle shows some relevant differences compared to the previous growth cycle (2014-2019), especially with regard to sectoral distribution. ICT, construction, public administration, and professional activities (consulting, scientific, and technical) have gained prominence at the expense of other sectors, which are typically labour-intensive, such as the manufacturing industry. The construction sector, being one of the most labour-intensive sectors, is an exception to this rule, but it is driven by known incentives and reasons related to the high shortage of housing supply in the country.

The increased importance of less labour-intensive sectors and typically higher value-added activities lead us to question whether the jobs created in the last 6 years are of better quality than in the previous growth cycle. To do this, we will explore three factors: the workers' level of education, the stability of employment contracts, and real wages.

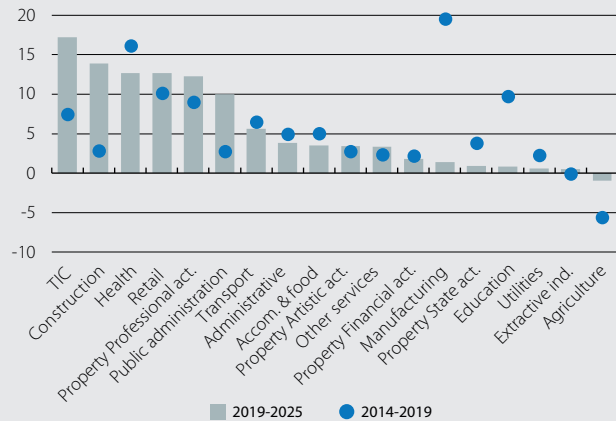
Employed population with a higher level of education

A more qualified employed population has immense benefits, both in personal terms (typically with better opportunities, higher pay, more stability) and for the country (such as improved productivity). The jobs created in recent years have largely been for people who completed higher education, in a proportion clearly higher than what was seen in the previous expansion cycle. Conversely, employment for people with lower qualifications has been declining. With this, Portugal records a significant improvement in the proportion of the employed population with higher education over these 12 years, to around 35% in 2025 (+10 pp compared with 2014). However, it continues to stay adrift of other EU countries: It is the 7th worst-performing country in this regard (Eastern European countries and Italy are at the bottom of the list).

We also tried to understand where this improvement comes from: Is the improvement in the qualifications of the employed population due to increased employment in sectors that typically require higher qualifications (the so-called composition effect), or is it explained by an improvement in qualifications across all sectors (the so-called intensive margin)? We analysed these two

Portugal: employment by sector

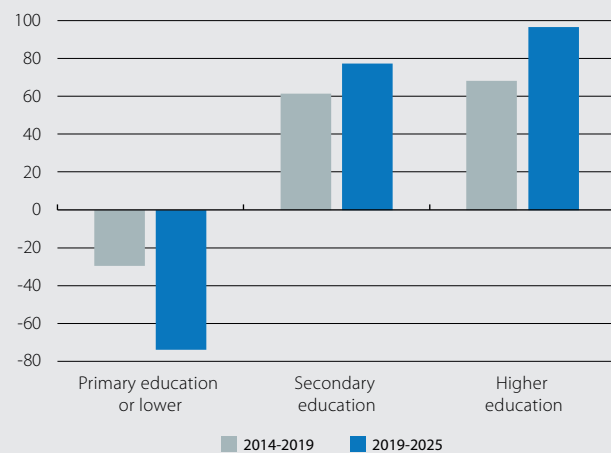
Relative contribution to growth (%)*



Note: * This corresponds to each sector's contribution to employment growth, expressed as a percentage of total employment growth during the period considered
Source: BPI Research, based on data from the National Institute of Statistics.

Portugal: Employment by education level

Relative contribution to employment growth (%)



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

effects and the conclusion is that both are positive, but the intensive margin is clearly the winner (it explains about 80% of the change in employment between 2019 and 2025).

The precariousness of contracts has decreased in recent years

Another relevant aspect for evaluating the quality of the jobs created is the level of precariousness of employment contracts. To do this, we analysed the jobs created in light of the type of contracts (permanent or fixed-term). At this point, it is clear that permanent contracts account for the entirety of the increase in employment in the last 6 years, with a negative contribution from the other,

typically more precarious, types of contracts.¹ This differs from what was observed in the previous expansionary cycle, in which both types of contracts had positive contributions. Given this, the temporary employment rate reached 15.1% in 2025 (compared to 21.4% in 2019 and 22.1% in 2014).

Once again, we disaggregated the data into compositional effect and intensive margin to try to understand whether the reduction in the temporary employment rate results from changes in the weight of different sectors (i.e., whether employment in sectors where temporary work predominates has decreased) or whether it results from changes in the temporary employment rate in each sector.² The table presented allows us to conclude that the reduction in the rate, in both periods of expansion, is due to the lower use of fixed-term contracts in companies across different sectors. Two sectors are a good example of this: The rate of temporary employment decreased by more than 10 pp between 2019 and 2025 in accommodation & food services and in construction, although it remained above the rate recorded for the market as a whole.

The improvement in wages was seen in (almost) all sectors of activity

Wage dynamics were also very significant in the last expansionary cycle: The average real gross monthly remuneration increased by more than 10% between 2019 and 2025, way above the 3.4% recorded in the previous period. Once again, in an attempt to understand what the driving force behind this significant growth might have been, we broke down this dynamic into a composition effect and an intensive margin. The graph helps to show that both dynamics had a positive effect on increasing remuneration, but the intensive margin is clearly the winner. This means that the increase in wages was across all sectors of activity (a more detailed analysis reveals a loss of purchasing power in only two sectors of activity: utilities and the financial sector). This conclusion is not at all surprising, if we consider the continuous increases in the minimum wage (an increase of about 45% between 2019 and 2025, compared to about 20% in the previous period) and the reports of labour shortages (reported in business surveys as one of the obstacles to activity in sectors such as, for

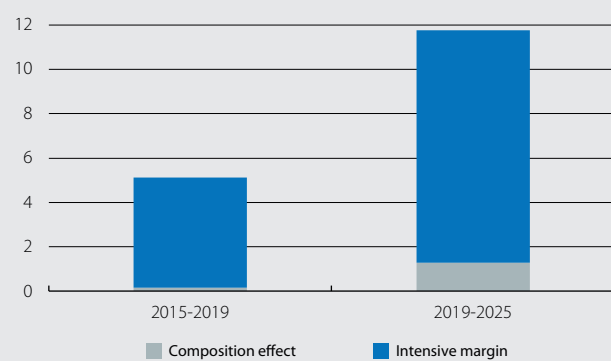
1. This could also be explained by the labour reforms made in 2019, which encouraged permanent contracts and penalised more precarious contracts.
 2. For this analysis, data from Eurostat was used in order to obtain the temporary employment rate in each of the sectors of activity. Even so, given the lack of information for the period analysed, it was necessary to exclude the extractive industry, utilities and real estate activities, so the reduction in the temporary employment rate shown in the table results only from the combination of the remaining sectors. If we consider the INE data for all sectors, the reduction between 2019 and 2025 was 6.3 pp.

Portugal: temporary employment rate (pp)

	2014-2019	2019-2025
Composition effect	-0.03	0.02
Intensive margin	-0.60	-6.03
Total	-0.63	-6.01

Source: BPI Research, based on data from Eurostat.

Portugal: growth of real wages (pp)



Note: Given the lack of data for real wages by sector of activity in 2014, the analysis focused on the period between 2015 and 2019. The percentage change in both periods does not correspond to what is mentioned in the text, since the data in the text refers to the economy as a whole, while in the graph we exclude some sectors of activity.

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

example, construction, or reflected in unfilled job vacancies, which increased by about 60% between 2019 and 2025).³

As such, it is correct to state that the jobs created in Portugal over the last six years were, in fact, of better quality, with a significant improvement in the qualifications of the employed population (with a greater preponderance of individuals with higher education) and through more stable contracts. However, despite the significant recovery in wages during this cycle, the increase in the overall wage level did not result from an increase in employment in sectors with higher wages, leading to the conclusion that the increase was practically generalised across the various sectors of activity.

Vânia Duarte

3. In 2025, the number of unfilled job vacancies reached its highest ever level: 56,029 on average in the year. The rate was 1.4%, compared to 1.0% in 2019 and 0.6% in 2014. In this case, the main outlier is the ICT sector, which reached 4.1% in 2025 (vs. 2.9% in 2019 and 2.2% in 2014).

Current status of European budgetary rules in light of the Annual Progress Report

At the end of April, the Portuguese Government presented the Annual Progress Report (Relatório Anual de Progresso, RAP), with some changes compared to what had been included in the State Budget for 2026. In this article we will examine the main differences and compare the Government's new perspectives with the recent estimates from the European Commission and the Public Finance Council (Conselho das Finanças Públicas, CFP) for Portuguese public finances.

The starting point in macroeconomic terms is different now. The conflict in the Middle East has brought about a new source of uncertainty and volatility in the economy, forcing the Government to substantially alter its forecasts for oil prices (from \$56.4 in the 2026 State Budget to \$89.8 per barrel in the RAP). Furthermore, Portugal faced adverse weather events at the beginning of the year, with a series of storms substantially affecting some areas of the country. Given this context, the Government anticipates slower growth for the Portuguese economy in 2026 and more rapid price increases.

This shift in the geopolitical context has implications for public finances. Despite the 2025 budget execution proving more positive than the Government had estimated when preparing the 2026 State Budget (at the time it projected a budget surplus of 0.3% of GDP in 2025, but this figure ended up being 0.7%), the measures put forward to support families and businesses in dealing with these new challenges will have a negative impact on the budget balance in 2026. In light of this, the Government revised its forecasts for the budget balance downwards, moving from an expectation of a slight surplus (0.1% of GDP) to a balanced budget.

The main highlight is the upward revision in terms of expenditure, with particular emphasis on intermediate consumption and public investment. The Government justifies the acceleration of investment with the implementation of structural investments (financed by the Recovery and Resilience Plan (PRR) and those with national contributions) and the reconstruction efforts following the storms. At the same time, the Government clarifies that the line items for other current revenue, capital revenue, other current expenditure, and other capital expenditure are also influenced by PRR funds. In turn, the measures to support families explain the slight upward revision of social benefits compared to what was projected in the 2026 State Budget. In total, the Government anticipates that the storms will result in a negative impact on public finances of €1.199 billion,

Macroeconomic scenario for 2026

(Annual variation in %, except when another measure is indicated)	2025	2026	
		2026 State Budget	RAP
GDP	1.9	2.3	2.0
Private Consumption	3.5	2.7	1.9
Public Consumption	1.6	1.2	1.6
Investment	3.6	5.5	4.8
Exports	0.4	1.8	1.5
Imports	4.3	3.6	2.6
HICP	2.2	2.1	2.5
Employment¹	2.3	0.9	1.2
Unemployment rate (% active pop.)	6.0	6.0	6.0
Current and capital balance (% GDP)	2.5	3.0	2.3

Note: Employment according to the National Accounts.

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

Main indicators in the public accounts

(% GDP)	2025	2026	
		2026 State Budget	RAP
Current revenue	42.1	41.9	42.8
Tax	24.5	24.1	24.3
Social contributions	12.6	12.5	12.8
Other current revenue	4.9	5.3	5.7
Capital revenue	1.2	1.9	2.6
Total revenue	43.4	43.8	45.4
Current expenditure	38.8	39.1	39.8
Intermediate consumption	5.1	5.0	5.4
Personnel expenses	10.6	10.6	10.7
Social benefits	18.0	18.1	18.2
Interest	1.9	2.1	1.9
Subsidies and other current expenditure	3.1	3.3	3.6
Capital expenditure	3.9	4.6	5.6
Gross fixed capital formation	3.0	3.4	4.4
Other capital expenditure	0.9	1.2	1.1
Total expenditure	42.7	43.7	45.3
Overall Balance	0.7	0.1	0.0

For reference:

Tax and contributory revenue	37.2	36.6	37.1
Primary current expenditure *	36.9	37.0	37.9
Primary Balance	2.6	2.2	1.9
Public debt	89.7	87.8	87.5

Source: BPI Research, based on data from the INE and RAP.

equivalent to 0.4% of GDP. As such, primary current expenditure saw an upward revision compared to the forecast in the 2026 State Budget (+0.9 pp), to almost 38% of GDP; if confirmed, this will be an increase of 1 pp compared to that observed in 2025 and represents the highest value since 2022, a year still marked by the effects of the pandemic.

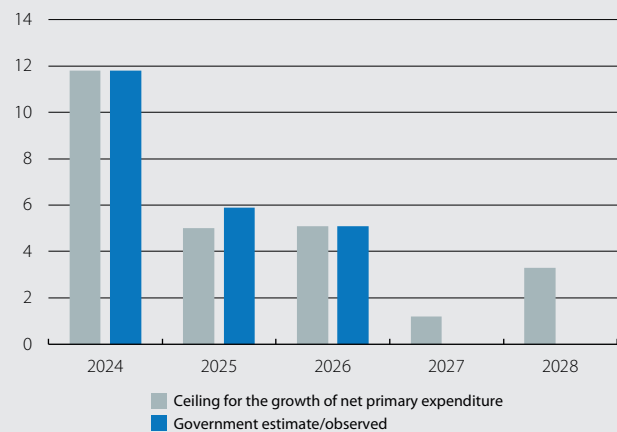
Despite this deterioration, the Government maintains its expectation of complying with the new European budgetary rules: Projections indicate that net primary spending in 2025 will have exceeded the ceiling agreed with the European Commission, but in 2026 the trajectory will be aligned. Thus, the accumulated deviation up to 2026 will be 0.3 pp, less than the permitted cumulative 0.6 pp (or 0.3 pp per year). At the same time, with regard to the public debt safeguard clause (which requires a minimum decrease of 1 pp per year in the public debt ratio), the Government is anticipating its compliance, with a decrease of 2.2 pp compared to that recorded in 2025, to 87.5% of GDP.

Nevertheless, the forecast put forward by the Government is now below the latest revision by the CFP (which points to a slight surplus of 0.1%), but above the latest forecast by the European Commission (-0.1%) and our own forecast (-0.2%).¹

Vânia Duarte

Portugal: trajectory for net primary expenditure

Annual variation (%)



Source: BPI Research, based on data from the Annual Progress Report.

1. To learn more about our outlook on public finances in 2026 and the estimated impact of the storms and the conflict in the Middle East, we suggest reading Focus «The climate and geopolitics cast a shadow over the budget surplus», available in IM05/2026.

Activity and employment indicators

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	03/26	04/26	05/26
Coincident economic activity index	2.0	2.0	1.8	2.0	2.3	2.2	2.0	1.8	...
Industry									
Industrial production index	0.8	0.7	1.4	3.3	0.6	0.3	4.1	0.0	...
Confidence indicator in industry (<i>value</i>)	-6.2	-4.0	-4.7	-3.2	-2.9	-2.1	-2.5	-2.8	-3.5
Construction									
Building permits - new housing (number of homes)	6.5	20.9	20.4	9.0	16.2	-4.7	12.4	...	...
House sales	14.5	15.5	15.5	3.8	-4.7	...	...	...	...
House prices (<i>euro / m² - valuation</i>)	8.5	17.4	17.4	18.2	18.4	17.5	16.5	...	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	6.3	1.9	4.1	2.6	1.9	2.2	2.2	1.8	...
Confidence indicator in services (<i>value</i>)	5.5	10.1	7.2	11.6	7.7	6.0	6.7	7.9	8.3
Consumption									
Retail sales	3.3	5.3	4.8	5.8	5.3	4.3	6.0	4.9	...
Coincident indicator for private consumption	2.8	3.4	3.5	3.1	3.2	3.0	2.7	2.2	...
Consumer confidence index (<i>value</i>)	-18.0	-16.2	-17.9	-16.2	-15.2	-16.2	-18.7	-23.9	-27.1
Labour market									
Employment	1.2	3.2	2.9	3.7	3.7	2.3	2.6	2.3	...
Unemployment rate (<i>% labour force</i>)	6.4	6.0	5.9	5.8	5.8	6.1	5.8	5.7	...
GDP	2.2	1.9	1.7	2.2	1.9	2.3	...	...	...

Prices

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	03/26	04/26	05/26
General	2.4	2.3	2.2	2.6	2.2	2.2	2.7	3.3	3.3
Core	2.5	2.2	2.3	2.3	2.1	1.9	2.0	2.2	2.2

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	03/26	04/26	05/26
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	0.6	4.2	2.0	0.6	-3.0	-3.0	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	4.1	7.0	6.7	4.1	3.0	3.0	...	...
Current balance	6.5	3.8	3.5	3.0	3.8	3.0	3.0	...	...
Goods and services	6.4	3.7	4.0	3.5	3.7	2.8	2.8	...	...
Primary and secondary income	0.1	0.1	-0.5	-0.5	0.1	0.2	0.2	...	...
Net lending (+) / borrowing (-) capacity	9.6	8.3	6.9	7.0	8.3	7.3	7.3	...	...

Credit and deposits in non-financial sectors

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	03/26	04/26	05/26
Deposits¹									
Household and company deposits	7.5	5.4	5.4	6.3	5.4	6.4	6.4	6.9	...
Sight and savings	-0.3	8.1	5.1	8.6	8.1	7.9	7.9	7.4	...
Term and notice	15.3	3.1	5.8	4.3	3.1	5.1	5.1	6.5	...
General government deposits	26.7	28.7	39.6	-0.5	28.7	20.4	20.4	15.2	...
TOTAL	7.9	6.0	6.4	6.1	6.0	6.9	6.9	7.2	...
Outstanding balance of credit¹									
Private sector	1.9	6.6	4.9	5.8	6.6	7.7	7.7	8.0	...
Non-financial firms	-1.0	2.6	2.0	2.2	2.6	4.3	4.3	4.9	...
Households - housing	3.0	9.3	6.4	8.0	9.3	9.9	9.9	10.1	...
Households - other purposes	5.4	7.0	6.6	6.9	7.0	8.4	8.4	8.3	...
General government	0.6	6.4	3.8	4.8	6.4	3.2	3.2	2.7	...
TOTAL	1.9	6.6	4.8	5.7	6.6	7.5	7.5	7.8	...
NPL ratio (%)²	2.4	2.1	2.3	2.3	2.1	0.0	...	...	...

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.

Spain maintains solid growth despite heightened uncertainty

Growth: slightly less, yet dynamic. The macroeconomic outlook is once again influenced by increased geopolitical uncertainty due to the conflict in Iran, which is primarily affecting energy prices. Spain is facing this scenario from a solid starting position, following a dynamic 2025 and a better-than-expected Q1 2026. Growth is supported by strong private consumption and employment, the good performance of service exports, and investment that continues to benefit from European funds. These factors, along with significant accumulated household savings and support from fiscal policy, act as buffers amid a deteriorating international environment. Nevertheless, the surge in energy prices and weaker foreign demand will dampen economic activity and push inflation upwards. Consequently, we have moderately revised down our GDP growth forecasts to 2.1% in 2026 and to 1.8% in 2027, versus 2.4% and 2.0% previously. Despite this, the underlying assessment remains unchanged: the Spanish economy is expected to continue growing at a relatively strong pace, supported by multiple factors and clearly outperforming the European average, which is projected to remain below 1%.

The economic activity data for Q2 are relatively positive, revealing a strong labour market, but also emerging signs of weakness in private consumption. So far in the Q2, seasonally adjusted Social Security affiliation has increased by 0.6% quarter-on-quarter, 0.1 pp more than in Q1. In May, the integration of immigrants following the exceptional regularisation of undocumented workers has begun to be reflected, but even excluding these new entries, the figures remain dynamic. We estimate that, of the more than 63,000 new registrations, approximately one-third (in seasonally adjusted terms) are due to the regularisation process. Excluding this group, the increase in registered workers would be 0.2% month-on-month, a rate comparable to that of Q1. The PMIs suggest positive momentum in Q2: the manufacturing PMI stood at 51.2 points in May, meaning the sector remains in expansion, as it is above 50 points. Production continues to increase slightly, offsetting weak demand, declining orders, and rising costs in the wake of the Middle East conflict. The services PMI rebounded in May, returning to expansionary territory at 50.1 points, after April's 47.9, ahead of a summer tourism season that is expected to be very good if the conflict in the Gulf is resolved in a timely manner. However, the impact of the shock is beginning to be seen in consumption indicators. In April, retail sales fell by 1.5% month-on-month, and year-on-year growth slowed significantly, from 4.1% to 0.8%. Our internal indicator for domestic consumption also aligns with this loss of momentum: in April and May, consumption growth was 1.6% year-on-year, far short of the 3.5% recorded in Q1, although part of the

Spain: new macroeconomic scenario

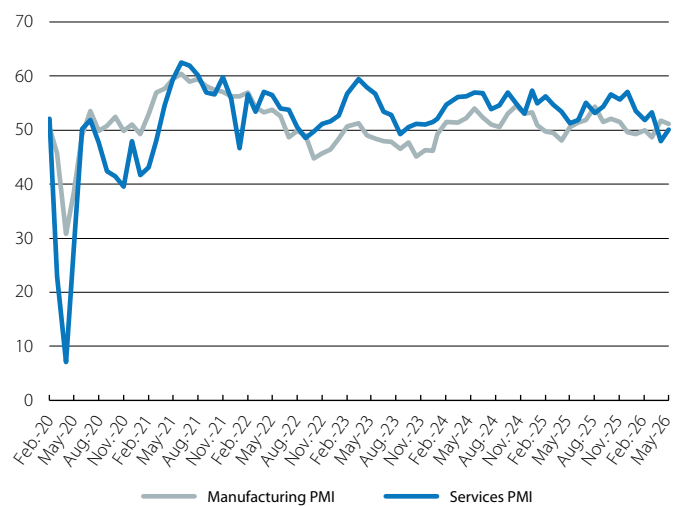
Annual change (%), unless otherwise stated

	New macroeconomic scenario			Previous scenario		
	2025	2026 (f)	2027 (f)	2025	2026 (f)	2027 (f)
GDP	2.8	2.1	1.8	2.8	2.4	2.0
Unemployment rate (% of the labour force)	10.5	9.8	9.3	10.5	9.8	9.2
Inflation	3.7	3.5	2.7	2.7	2.4	2.2

Source: BPI Research.

Spain: PMI

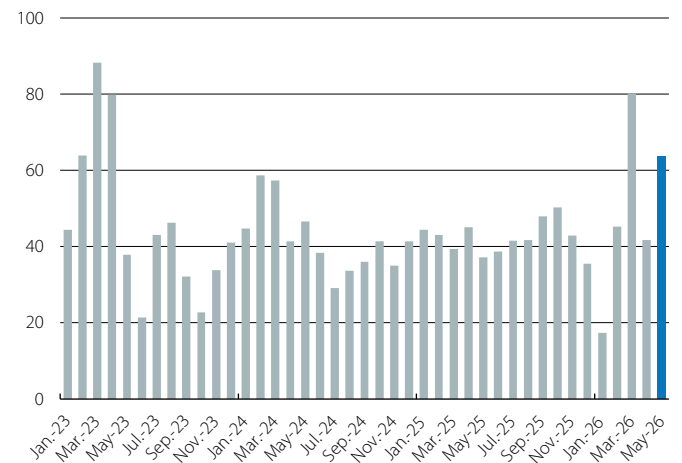
Level



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

Spain: Social Security affiliates*

Month-on-month change (thousands of people)



Note: * Seasonally adjusted series.

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

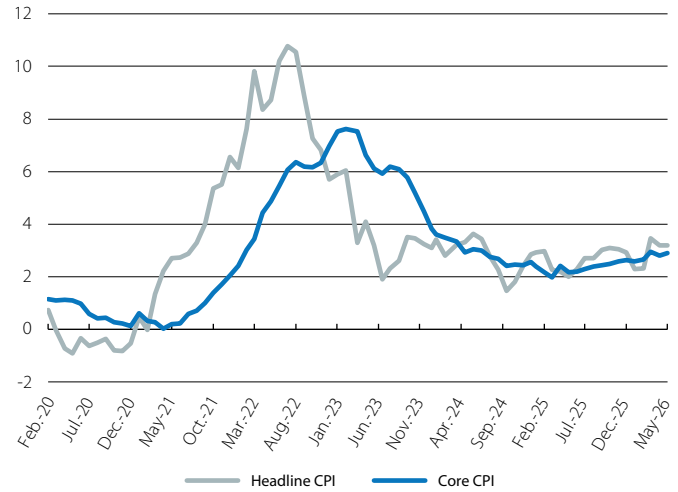
observed trend is due to temporary factors (base effects and the Easter calendar).

Inflation remains above 3% due to energy. The new CaixaBank Research forecasts raise inflation to 3.5% in 2026 and to 2.7% in 2027, versus the previous 2.4% and 2.2%. This new scenario reflects a direct impact from the Iran war in 2026 through energy prices and, in 2027, through indirect effects (a gradual and moderate spill-over to industrial goods and food). The preliminary data for May were consistent with this scenario: headline inflation at 3.2% (as in April) and core inflation at 2.9% (0.1 pp higher). Of particular note was the increase in services (0.6 pps, to 4.0%) driven by transport and recreational activities. This was partly due to a rebound following an unusually low April caused by calendar effects. In June, we expect to see a temporary rebound focused in energy following the removal of tax discounts on electricity and gas. With prices consistent with current futures, inflation could be around 4% in June, before steadily easing thereafter.

The current account balance performs well, hardly affected by the Iran war with data to March. The current account surplus stood at 3.0% of GDP (annualised), consistent with the figure recorded a year earlier and in line with the fundamentals of our narrative: a resilient economy despite the high uncertainty. Moreover, the economy is still supported by the strong dynamism of services (both tourism and non-tourism), which more than offsets the deterioration in the balance of trade in goods, in a context of stronger domestic demand and geopolitical disruptions. The tourism surplus stood at 4.1% of GDP and remains strong despite a slight moderation due to the increased growth of tourism imports – a trend that could be reinforced by the potential redirection of tourist flows due to the Gulf war. Non-tourism services significantly increased their contribution to 3.1% of GDP, compared to 2.6% a year earlier, thanks to the strong growth in exports. In the trade of goods, the pattern was more mixed: the non-energy goods deficit widened to -1.4% of GDP, in a context of stronger imports driven by rising domestic demand, while the energy deficit moderated to -1.7% of GDP. Thus, despite recent tensions in energy prices, the energy balance (12-month cumulative basis) has not yet deteriorated.

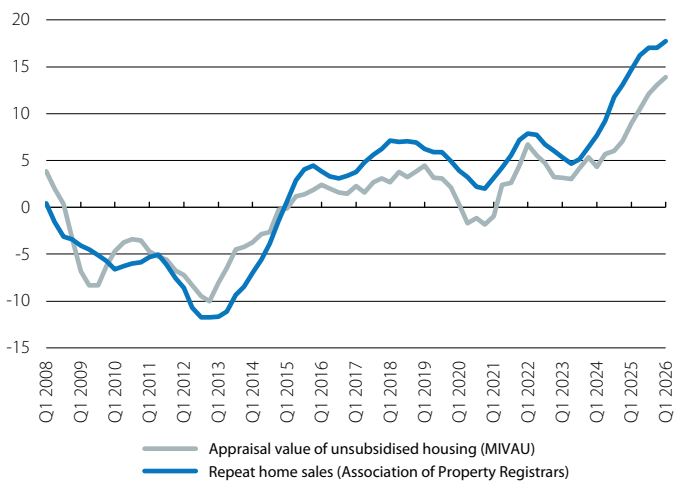
In the housing market, the gap between supply and demand continues to be reflected in price behaviour. Price growth remained high in Q1, with a quarter-on-quarter increase of 3.8% and a year-on-year rise of 13.9%, amid a persistent imbalance between insufficient supply and highly dynamic demand. Several factors already analysed have driven demand: rising incomes, demographic growth and a strong labour market. Although new construction permits have increased, actual production is still failing to fully meet demand, underscoring the need to accelerate the increase in supply in order to prevent further price pressures. This imbalance leads us to anticipate that house prices will continue to rise significantly in the coming quarters, even with the prospect of the ECB raising rates.

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



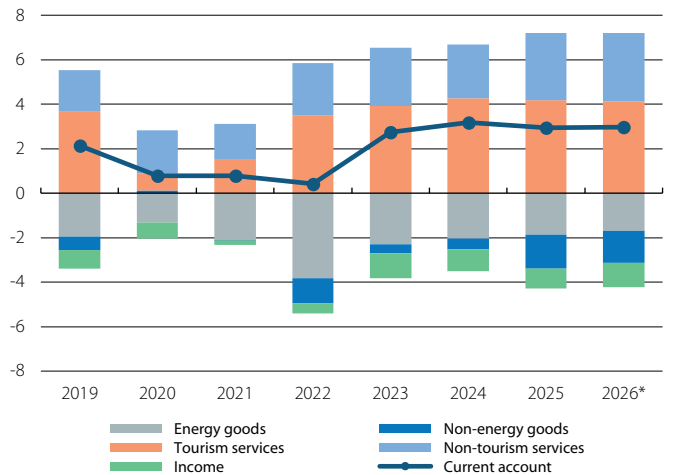
Source: BPI Research, based on data from the National Statistics Institute (INE).

Spain: house prices
Year-on-year rate of change (%)



Source: BPI Research, based on data from the National Statistics Institute (INE), the Ministry of Housing and Urban Agenda (MIVAU), and the Association of Property Registrars.

Spain: current account balance
(% of GDP)



Note: * Data for Q1 2026, on a four-quarter cumulative basis.
Source: BPI Research, based on data from the Bank of Spain.

Activity and employment indicators

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	03/26	04/26	05/26
Industry									
Industrial production index	0.4	1.3	1.4	2.4	1.8	0.4	1.9	2.0	...
Indicator of confidence in industry (value)	-4.9	-4.8	-5.3	-5.0	-3.9	-3.2	-4.4	-5.0	-4.2
Manufacturing PMI (value)	52.2	50.9	50.0	52.6	51.1	49.3	48.7	51.7	51.2
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	18.8	11.5	5.6	5.6	...	...
House prices	8.4	12.7	12.7	12.8	12.9	...	...	...	...
Services									
Foreign tourists (cumulative over 12 months)	10.1	3.2	6.3	4.3	3.2	2.7	2.7	2.3	...
Services PMI (value)	55.3	54.5	52.2	54.2	56.4	52.9	53.3	47.9	50.1
Consumption									
Retail sales ¹	1.7	4.3	5.2	4.4	4.1	3.4	4.1	0.8	...
Car registrations	7.2	12.9	13.7	16.9	8.0	7.6	11.7	8.4	-0.8
Economic sentiment indicator (value)	103.1	103.1	102.3	102.8	104.3	105.1	103.5	102.6	102.5
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	2.5	2.4	2.5
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	03/26	04/26	05/26
General	2.8	2.7	2.2	2.8	3.0	2.7	3.5	3.2	3.2
Core	2.9	2.3	2.3	2.4	2.6	2.7	2.9	2.8	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	03/26	04/26	05/26
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	0.2	0.7	2.0	0.8	0.7	0.2	0.2	...	...
Imports (year-on-year change, cumulative over 12 months)	0.1	4.6	4.1	4.6	4.6	1.7	1.7	...	...
Current balance	50.7	49.4	48.5	48.2	49.4	50.9	50.9	...	...
Goods and services	66.3	64.5	64.0	62.5	64.5	69.5	69.5	...	...
Primary and secondary income	-15.7	-15.1	-15.5	-14.3	-15.1	-18.7	-18.7	...	...
Net lending (+) / borrowing (-) capacity	68.7	66.6	67.5	66.6	66.6	67.8	67.8	...	...

Credit and deposits in non-financial sectors⁴

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	03/26	04/26	05/26
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	7.1	6.2	...
Time and repo deposits	23.5	-4.7	-1.5	-6.6	-4.7	-2.2	-2.2	2.1	...
General government deposits ⁵	23.1	4.9	25.5	7.2	4.9	5.0	5.0	8.7	...
TOTAL	6.3	4.8	5.4	5.1	4.8	5.5	5.5	5.8	...
Outstanding balance of credit									
Private sector	0.7	3.5	2.6	2.8	3.5	3.8	3.8	2.9	...
Non-financial firms	0.4	2.9	2.5	2.3	2.9	3.7	3.7	3.7	...
Households - housing	0.3	3.5	2.3	2.9	3.5	3.7	3.7	3.7	...
Households - other purposes	2.3	4.5	3.5	3.7	4.6	4.3	4.3	-1.3	...
General government	-2.6	10.7	5.3	12.9	10.7	8.1	8.1	9.9	...
TOTAL	0.5	3.9	2.7	3.4	3.9	4.1	4.1	3.4	...
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 (MISSEM), the National Statistics Institute (INE), S&P Global PMI, the European Commission, the Department of Customs and Excise Duties and the Bank of Spain.

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