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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
DECEMBER 2025

BPI

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December 2025

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Portugal: sustained expansion, challenges in the external sector

The Portuguese economy has been one of the most successful in recent years, and this is clearly evident in various international highlights and recognitions achieved, including a recent one by «The Economist» magazine. Indeed, Portugal has been growing systematically above the average expansion rate of Eurozone countries. It has controlled inflation, close to 2%, considered a benchmark for price stability in developed economies; the labour market can be considered to be at full employment, and job creationcontinuestosurprise; and the major imbalances are fading, particularly in terms of external debt and, internally, of companies, families and thestate.

However, some vulnerability in the external accounts has been evident this year, which we analyse in an article in this publication («Details of the Portuguese Current Account up to Q3 2025»): the current account, which reflects the balance between payments and receipts from abroad, deteriorated significantly throughout 2025, with its balance worsening by approximately €2 billion (equivalent to 0.7% of GDP) in the first nine months of the year, compared to the same period of the previous year. And, as we explained, this worsening is largely due to the substantial worsening of the goods balance deficit excluding energy, which worsened by around 1 pp of GDP, reaching –7.2% of GDP by September.Despite everything, this deterioration was compensatedby the surplus in the Services Balance (Tourism, Transport and Other services), improvement in the Income balance (mainly due tothe inflow of EU funds, which is partially reflected here, and a smaller deficit in the energy balance.

Analysing the component of goods exports by country, we see the negative impact of the imposition of tariffs by the US confirmed, whether through increased uncertainty, weaker growth among key partners, or directly in trade with the US. Indeed, according to information provided by the National Institute of Statistics (INE), exports to EU countries slowed significantly (an increase of only 2.8% compared to 3.2% at the end of 2024) while sales to the US fell by 11% in the first ten months of 2025. In other words, exports decreased by approximately 500 million euros, with this destination now representing only about 6% of total exports (7% in 2024).

On the other hand, the trade balance also reflects the acceleration and good performance of Investment. According to the INE, the increase in imports is being influenced by the rise in purchases of industrial goods and transport equipment, which together contributed 4.5 pp to the increase in overall imports in the year to date through October. This means that the dynamics of these aggregates, in part directedto gross fixed capital formation, accounted for more than 80% of the increase in imports. We recall that Investment has increased by 27% since the pre-pandemic period, being the Aggregate Demand category that has expanded the most during this time. Furthermore, considering the first nine months of 2025, we note that gross capital formation grew by more than 6% on average in annual terms, with investment in transport equipment making a very significant contribution in Q3 2025, accounting for more than 40% of the aggregate expansion.

In short, the evolution of external accounts is not, for now, a cause for concern and may even be the prelude to increased productivity and accelerated convergence. Indeed, in our forecasts, we expect this to be a temporary effect, largely due to fluctuations in sentiment caused by the erratic trade policy of the US, the effect of which will tend to fade. However, it is another segment that warrants close monitoring, seeking to confirm the improvement in external competitiveness that has been evident in recent years.

Paula Carvalho
December 2025

Chronology

NOVEMBER 2025

12 End to the longest government shutdown in US history.

SEPTEMBER 2025

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

JULY 2025

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

OCTOBER 2025

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

AUGUST 2025

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

JUNE 2025

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

Agenda

DECEMBER 2025

3 Spain: registration with Social Security and registered unemployment (November).
Portugal: industrial production (October).
9-10 Federal Open Market Committee meeting.
10 Portugal: international trade (October).
17 Spain: quarterly labour cost survey (Q3).
18 Governing Council of the European Central Bank meeting.
19-20 European Council meeting.
23 Spain: quarterly national accounts (Q3).
Spain: loans, deposits and NPL ratio (October and Q3).
Spain: balance of payments and NIIP (Q3).
Portugal: GDP breakdown (Q3).
Portugal: home prices (Q3).
26 Portugal: NPL ratio (Q3).
30 Spain: CPI flash estimate (December).
Spain: household savings rate (Q3).
31 Portugal: CPI flash estimate (December).

JANUARY 2026

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

Geopolitics and artificial intelligence: a new race for global hegemony

With few developments in the economic and financial environment, besides the latest adjustments in the trade negotiations that have placed the average effective US tariff at 13.8%, the attention in the closing weeks of the year remains focused on the two major themes that will shape the economy's performance in the medium term: geopolitics and investment in artificial intelligence (AI). For Europe, given the importance of the challenges related to demography, the energy transition and competitiveness, the main challenge in the short term is geopolitics (rare earths, economic security, defence, Ukraine, etc.), followed by – and interrelated with – the need to position itself within the AI value chain.

In the geo-economic sphere, with the easing of tensions in Gaza, all attention is now focused on the diplomatic efforts to end the war in Ukraine. A ceasefire would have a slightly downward effect on energy commodity prices, at least in the short term, the intensity of which would depend on the conditions for Russia's return to the markets. The positive impact of the supply shock (and the reduction of uncertainty) on the EU economy would be limited, as Russian crude oil has not been imported since the beginning of the war and natural gas purchases have been significantly reduced in recent years. In fact, the objective is for the EU to be completely decoupled from Russian energy by 2027. Therefore, an end to the conflict would serve to offset the negative effect of US tariffs and underpin European growth in the upper range of the 1%-1.5% band, although the more important factor for medium-term activity would be the reconstruction plan for Ukraine (around 500 billion euros according to World Bank estimates) and how it is funded (currently unclear). On the monetary policy side, the short-term effects on inflation of a low-intensity supply shock would be unlikely to alter the ECB's roadmap, since price expectations seem to be firmly anchored at 2% and rates are in neutral territory, where it is easier to find harmony between the different sensitivities that exist within the Board of the European monetary authority.

However, while the transformative potential of today's geopolitics – subject to both the dictates of a transactional approach and variable geometry in international relations – is highly important, the development of AI is not far behind. As Giuliano da Empoli emphasises in his latest book (*The Hour of the Predator*), if the great dilemma which we faced in the 20th century was the relationship between the state and the market, in the 21st century the decision is between man and machine and, in particular, which aspects of our lives we should reserve for human intelligence, versus those that should be trusted to AI. In this context, over the past year, while we have been absorbed by Hurricane Trump, we have overlooked an unprecedented acceleration in AI investment, which is emerging as the main driver of growth in the US. Investment in technology in the US – considering software, computer equipment, data centres and power generation facilities to power the entire process – will approach 1.4 trillion dollars this year (almost 5% of GDP), well above the average of 3.1% dedicated to these areas since the seventies. In addition, more than 25% of this investment has been made by the five big hyperscalers. The question is how long it will take for us to see the effects on productivity, and how intense the substitution of the labour factor for capital will be in the short term.

With all the major players accelerating their plans in the fear that the first to the finish line will take all, it is time for Europe to accelerate strategic decisions (InvestIA or Action Plan for AI) in its positioning in the value chain, taking into account its current weakness both in the first stage of the chain (hardware/semiconductors) and in terms of computational capacity. The European response should combine new investment initiatives, improved regulation and a strengthening of skills, with the aim of closing gaps with the US and reducing dependencies.

The reality is that what we are witnessing is not just a technological cycle or a possible valuation bubble, but a great mobilisation of capital in times of conflict. The rise of AI has become the modern Manhattan Project: a race in which computing replaces uranium and power grids replace enrichment plants. Therefore, and despite the financial, ethical or sustainability weaknesses of the process, we are going to witness an acceleration in the short term, since the prize at stake is not merely profits or returns, but hegemony and leadership of the world economy in the medium term. This is indeed a far cry from the dot-com bubble. The time has come to take action, while differentiating between the structural transformation that is underway and mere financial betting.

José Ramón Díez

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	0.67	5.25	4.25	3.50	3.00
3-month SOFR	3.62	1.01	1.07	5.37	4.37	3.57	3.10
12-month SOFR	3.86	1.48	1.48	4.95	4.19	3.30	3.10
2-year government bonds	3.70	1.04	1.21	4.46	4.24	3.50	3.50
10-year government bonds	4.69	2.57	1.76	4.01	4.40	4.20	4.50
Euro							
ECB depo	2.05	0.20	–0.30	4.00	3.09	2.00	2.00
ECB refi	3.05	0.75	0.20	4.50	3.24	2.15	2.15
€STR	–	–0.54	–0.38	3.90	3.06	1.93	1.97
1-month Euribor	3.18	0.50	–0.32	3.86	2.89	2.00	2.03
3-month Euribor	3.24	0.65	–0.21	3.94	2.83	2.05	2.06
6-month Euribor	3.29	0.78	–0.07	3.93	2.63	2.09	2.11
12-month Euribor	3.40	0.96	0.10	3.68	2.44	2.14	2.18
Germany							
2-year government bonds	3.41	0.35	–0.21	2.55	2.02	1.96	1.99
10-year government bonds	4.30	1.54	0.14	2.11	2.22	2.70	2.80
Spain							
3-year government bonds	3.62	1.69	0.18	2.77	2.26	2.57	2.73
5-year government bonds	3.91	2.19	0.38	2.75	2.48	2.85	3.04
10-year government bonds	4.42	3.17	0.99	3.09	2.90	3.35	3.60
Risk premium	11	164	85	98	68	65	80
Portugal							
3-year government bonds	3.68	3.33	0.07	2.33	2.03	2.09	2.21
5-year government bonds	3.96	3.94	0.35	2.42	2.15	2.49	2.68
10-year government bonds	4.49	4.67	0.96	2.74	2.68	3.20	3.50
Risk premium	19	314	82	63	46	50	70
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.09	1.05	1.19	1.20
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.86	0.83	0.88	0.90
EUR/GBP (yen per euro)	129.56	126.41	129.91	156.99	161.18	173.00	168.00
OIL PRICE							
Brent ($/barrel)	42.3	80.1	71.0	77.3	73.1	65.2	65.3
Brent (euros/barrel)	36.1	62.5	63.9	70.9	69.8	54.9	54.4

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
GDP GROWTH[1]							
Global	**4.3**	**3.3**	**2.5**	**3.5**	**3.3**	**3.1**	**3.1**
Developed countries	***2.7***	***1.5***	***1.7***	***1.8***	***1.8***	***1.6***	***1.6***
United States	2.7	1.8	2.1	2.9	2.8	1.8	1.9
Euro area	2.3	0.9	1.3	0.5	0.8	1.3	1.2
Germany	1.6	1.3	0.4	–0.7	–0.5	0.2	1.1
France	2.3	1.0	0.7	1.6	1.1	0.6	0.7
Italy	1.5	–0.3	1.6	0.8	0.5	0.5	0.7
Portugal	1.5	0.4	1.5	3.1	2.1	1.8	2.0
Spain	3.6	0.7	0.7	2.5	3.5	2.9	2.1
Japan	1.4	0.4	–0.2	1.5	0.1	1.0	1.0
United Kingdom	2.8	1.2	1.0	0.4	1.1	1.3	1.2
Emerging and developing countries	***6.3***	***4.9***	***3.1***	***4.7***	***4.3***	***4.2***	***4.0***
China	10.6	8.0	4.7	5.4	5.0	4.6	4.0
India	7.2	6.7	3.8	8.9	6.7	6.8	6.6
Brazil	3.6	1.6	1.5	3.2	3.4	2.0	1.8
Mexico	2.3	1.5	0.5	3.4	1.4	0.8	1.4
Russia	–	1.4	0.6	4.1	4.3	1.7	1.3
Türkiye	5.5	4.5	6.3	6.6	3.3	3.2	2.9
Poland	4.1	3.7	3.5	0.2	3.0	3.5	3.3
INFLATION							
Global	**4.1**	**3.7**	**5.5**	**6.6**	**5.7**	**4.2**	**3.9**
Developed countries	***2.1***	***1.6***	***3.7***	***4.6***	***2.6***	***2.4***	***2.2***
United States	2.8	1.8	4.6	4.1	3.0	2.8	2.8
Euro area	2.2	1.4	3.7	5.4	2.4	2.1	2.0
Germany	1.7	1.4	4.1	6.0	2.5	2.2	2.1
France	1.9	1.3	2.8	5.7	2.3	1.1	1.7
Italy	2.4	1.4	3.5	5.9	1.1	1.8	1.7
Portugal	3.1	1.1	3.0	4.3	2.4	2.3	2.1
Spain	3.2	1.3	3.7	3.5	2.8	2.5	2.0
Japan	–0.3	0.4	0.7	3.3	2.7	1.5	1.5
United Kingdom	1.6	2.3	4.2	7.3	2.5	3.4	2.5
Emerging and developing countries	***6.9***	***5.5***	***6.8***	***8.0***	***7.7***	***5.3***	***4.9***
China	1.7	2.6	1.8	0.2	0.2	0.0	1.0
India	4.6	7.3	6.1	5.7	5.0	4.6	4.4
Brazil	7.3	5.7	6.9	4.6	4.4	4.9	4.2
Mexico	5.2	4.2	5.7	5.5	4.7	4.4	3.7
Russia	14.2	7.9	8.0	5.9	8.5	8.4	6.0
Türkiye	22.6	9.6	34.7	53.9	58.5	36.1	26.1
Poland	3.5	1.9	7.4	10.8	3.7	3.5	3.2

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

Forecasts

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

Portuguese economy

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

Forecasts

Spanish economy

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

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

Forecasts

Stock market fear gives way to market optimism fuelled by the Fed

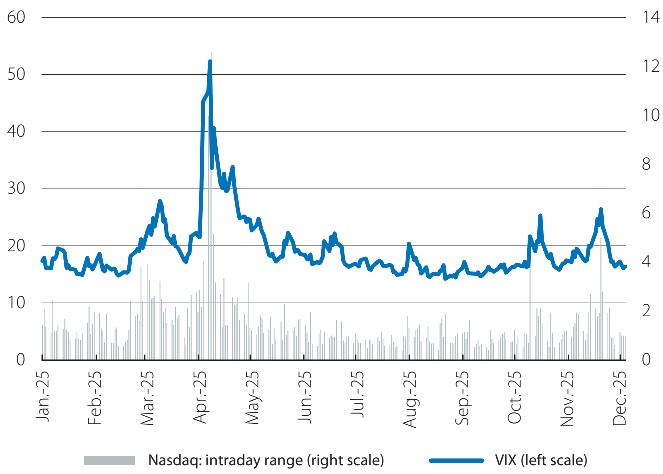
Volatility makes another appearance. November was dominated by a sharp upturn in volatility in the stock markets, amid doubts about the potential exuberance surrounding AI investments in the US and the high valuations of the big tech firms. The US stock market volatility index (VIX) rebounded to levels not seen since April, and the Nasdaq experienced its most volatile day since then, with an intraday oscillation of as much as 5%. For much of the month, the dominant tone was risk aversion, with widespread setbacks in the main global equity indices. However, sentiment gradually recovered towards the end of November as the expectation that the US Fed could continue its rate cuts in December consolidated. With this expectation, sovereign yields in the US fell. However, the final focus shifted to Japan, where concerns over the fiscal outlook pushed long-term sovereign yields to record highs.

The expectation of interest rate cuts in the US grows. The decision that the Federal Reserve will take in December has been shrouded in a high degree of uncertainty due, firstly, to the lack of official data following the federal government shutdown and, secondly, to the growing internal division among Board members regarding the right path for interest rates (given the current context of a cooling labour market combined with upward inflationary pressures). However, towards the end of November, the release of consumer confidence surveys showing a slight deterioration, the fall in employment reflected in private payroll data and weak retail sales growth, coupled with the shift in sensitivity among some members of the Board towards more dovish positions, cemented the expectation of a rate cut in December (which would leave the benchmark rate in the 3.50%-3.75% range). In addition, it was reported that President Trump has already chosen his nominee for the future head of the Fed to replace Jerome Powell (whose term as chair ends next May, although his position on the Board does not end until 2028). Although Trump did not formally reveal the name of the successor, betting houses are naming Kevin Hasset, the current director of the US National Economic Council, as the clear favourite, fuelling expectations that rates will continue to decline to neutral levels next year. In contrast, expectations regarding the ECB remained anchored, with markets assigning a near 0% probability to a rate cut in December and keeping expectations for the depo rate at around 2% for the whole of 2026, with inflation virtually at the target rate and balanced inflationary risks in both directions.

Japan captures the attention of sovereign debt markets. In Japan, the growing expectation of fiscal expansion by the new government, and the resulting concern over public debt, sparked a sell-off of sovereign bonds that pushed 30-year sovereign yields to an all-time high (of around 3.5%), amassing a cumulative increase of around 100 bps in the year. The rise in

Stock market volatility

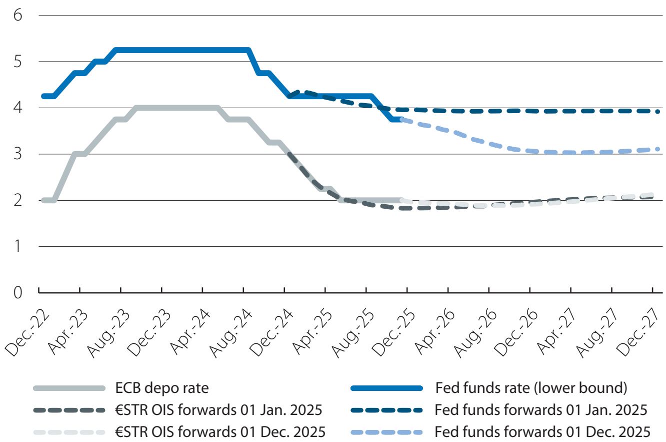
Index



Note: *Intraday range refers to the difference between the maximum and the minimum level observed in the day.*
Source: *BPI Research, based on data from Bloomberg.*

Market expectations regarding interest rates

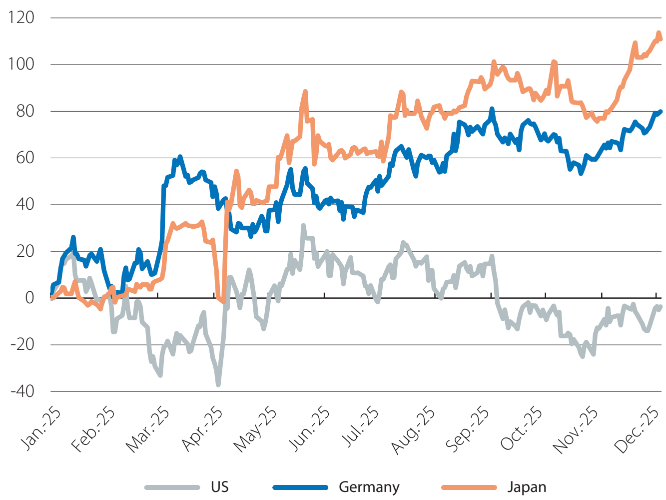
(%)



Source: *BPI Research, based on data from the ECB, the US Federal Reserve and Bloomberg.*

30-year sovereign interest rates

Cumulative change (bps, 0 = 01/01/2025)



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

the 2-year benchmark, which exceeded 1.0%, the highest level since 2007, was later reinforced by the perception of a possible rate hike by the Bank of Japan (markets are anticipating one hike in December and another at the end of 2026 with a 100% probability). In other economies, sovereign debt showed less volatility. The German bund rebounded by around 10 bps up until early December, while euro area peripheral risk premiums narrowed slightly, supported by the upward revision of Italy's credit rating (Moody's upgraded its rating for the first time in 23 years, from Baa3 to Baa2, citing political stability and progress in the recovery plans). In the US, yields declined as the expectation of a rate cut by the Fed in December consolidated. The 2-year benchmark fell by around 5 bps.

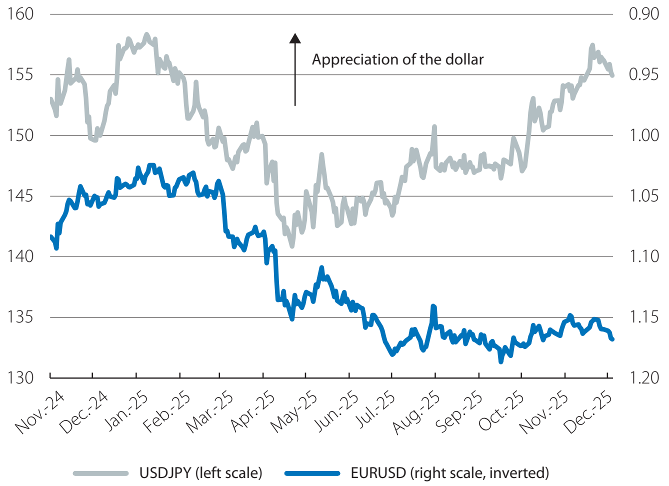
The Japanese yen in the spotlight. In this context, the yen weakened against the dollar as Japanese sovereign yields rose sharply. However, the movement subsequently reversed, as markets began to accommodate the possibility of the Bank of Japan raising rates before the end of the year, and the yen ended up depreciating by 1.5%. On the other hand, the euro-dollar exchange rate remained relatively stable, trading between 1.15 and 1.16 dollars per euro, before settling closer to 1.16 as the expectation of an imminent rate cut by the Fed was consolidated.

A month of volatility in stock markets amid nervousness surrounding technology and expectations regarding the Fed. The month was marked by episodes of high volatility and a general feeling of pessimism, especially amid high tech stock valuations. The sharp rally which had begun in April took a pause, and most global indices registered declines almost throughout November, led by the more cyclical sectors (technology, industry), while defensive sectors (health, basic resources and consumer staples) performed relatively better. However, the expectation of a rate cut by the Fed revived risk appetite and the indices began to rebound towards the end of the month, with gains led by these cyclical sectors. Overall, the S&P 500 closed the month practically flat, the Nasdaq ended slightly down and the euro area indices showed a mixed performance. The IBEX 35 closed with clear gains and stood out above the European average, driven by the good performance of stocks in the financial and materials sectors.

Discussions of a peace deal in Ukraine drag down energy prices. The price of energy commodities registered widespread declines during November. Despite US sanctions on Russia's two largest oil companies and OPEC's announcement that it will stop increasing production in Q1 2026, prices continued to decline amid news of the possible signing of a ceasefire or peace agreement between Russia and Ukraine. The TTF gas benchmark fell below 30 euros/MWh for the first time in more than a year and a half, and the price of the Brent barrel closed the month 2 dollars below October levels, at around 63 dollars. On the other hand, metals had a positive month amid the spike in volatility and the flight to safety. Gold recovered ground and in early December reached 4,200 dollars an ounce, approaching the October highs. Silver reached its all-time peak at 58.5 dollars an ounce and has accumulated gains of almost 95% so far this year.

Currencies against the dollar

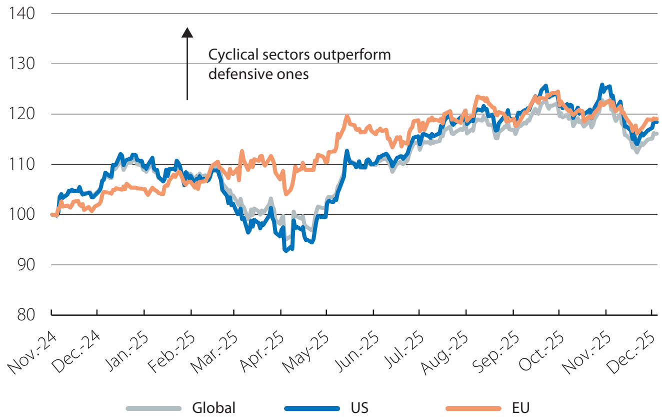
(Yen per dollar) *(Dollars per euro)*



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

Stock market: performance of cyclical sectors versus defensive sectors

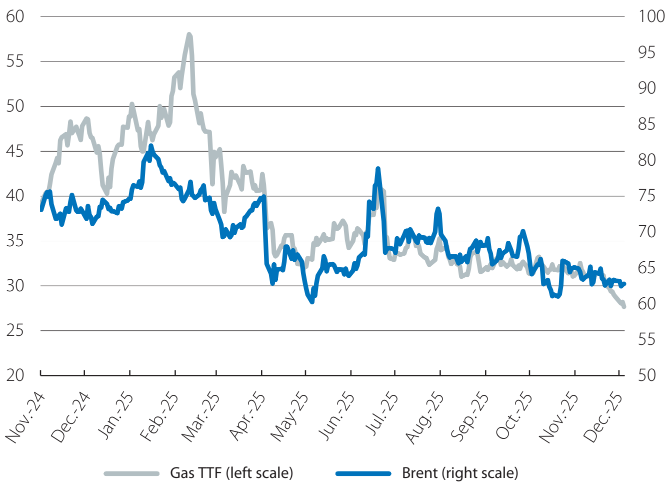
Index (100 = 01/11/2024)



Notes: *Relative performance calculated as the ratio between the value of the cyclical index and that of the defensive index. For the US and global comparisons, the indices are owned by MSCI; for the EU, by STOXX 600.*
Source: *BPI Research, based on data from Bloomberg.*

Energy commodity prices

(Euros/MWh) *(Dollars/barrel)*



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

Interest rates (%)

	30-November	31-October	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.15	0	–100.0	–125.0
3-month Euribor	2.06	2.04	2	–65.4	–87.4
1-year Euribor	2.21	2.20	1	–25.1	–25.2
1-year government bonds (Germany)	1.97	1.88	9	–27.6	–27.9
2-year government bonds (Germany)	2.03	1.97	6	–5.3	7.8
10-year government bonds (Germany)	2.69	2.63	6	32.2	60.1
10-year government bonds (Spain)	3.16	3.14	2	10.3	37.2
10-year government bonds (Portugal)	3.01	2.99	1	15.7	46.6
US					
Fed funds (lower limit)	3.75	3.75	0	–50.0	–75.0
3-month SOFR	3.79	3.89	–10	–51.8	–67.9
1-year government bonds	3.59	3.68	–9	–55.2	–68.8
2-year government bonds	3.49	3.57	–8	–75.2	–66.2
10-year government bonds	4.01	4.08	–6	–55.6	–15.5

Spreads corporate bonds (bps)

	30-November	31-October	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	53	55	–2	–4.8	–3.1
Itraxx Financials Senior	57	59	–2	–7.2	–5.9
Itraxx Subordinated Financials	97	100	–3	–15.0	–13.8

Exchange rates

	30-November	31-October	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.160	1.154	0.5	12.0	9.7
EUR/JPY (yen per euro)	181.160	177.670	2.0	11.3	14.4
EUR/GBP (pounds per euro)	0.876	0.877	–0.1	5.9	5.5
USD/JPY (yen per dollar)	156.180	153.990	1.4	–0.6	4.3

Commodities

	30-November	31-October	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
Bloomberg Commodity Index	110.4	107.3	2.9	11.8	12.5
Brent ($/barrel)	63.2	65.1	–2.9	–15.3	–13.4
Gold ($/ounce)	4,239.4	4,002.9	5.9	61.5	60.4

Equity

	30-November	31-October	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,849.1	6,840.2	0.1	16.4	13.5
Eurostoxx 50 (euro area)	5,668.2	5,662.0	0.1	15.8	18.0
Ibex 35 (Spain)	16,371.6	16,032.6	2.1	41.2	40.6
PSI 20 (Portugal)	8,110.7	8,427.0	–3.8	27.2	26.4
Nikkei 225 (Japan)	50,253.9	52,411.3	–4.1	26.0	31.5
MSCI Emerging	1,366.9	1,401.6	–2.5	27.1	26.7

Good news in the global economy, but with caution

The global economy sustains the momentum, but pockets of instability persist. We are approaching the end of a year marked by multiple challenges (tariffs, geopolitical tensions, technological adaptation) which, while significant, have not derailed the global economy. In addition, a number of factors are converging that allow us to face Q4 with a degree of optimism. The US-China trade agreement eases tensions between the two powers, there are no worrying upward pressures on inflation, the Fed could cut rates in December and the ECB is confident about the evolution of the economy. However, there are elements that advise caution. The US Supreme Court, at the close of this report, was still debating whether it is legal for Trump to invoke a national-emergency statute to impose tariffs, avoiding the need to obtain congressional approval. On the other hand, the US government shutdown will have an impact on short-term growth and has paralysed the release of official data that is key for the Fed's decision-making. Moreover, in the euro area the divergence between countries has intensified, with France trapped between viability and the need for fiscal adjustment.

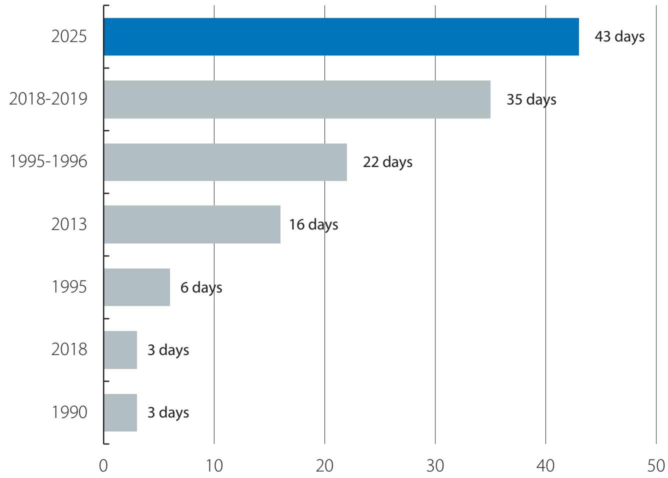
The US faces the impact of the longest shutdown in its history. The federal government has been closed for 43 days and during this time, in addition to the «data blackout», federal employees have not been paid their wages and services and benefits – often critical to the most vulnerable groups of the population – have been paralysed. It is estimated that, for each week of shutdown, the quarterly annualised GDP growth rate is cut by 0.15 pps, although around 75% of those losses are recovered as the normal functioning of the federal government is resumed, so we can expect to see some volatility in the activity data over the coming months.

After the reopening of the federal government, the September employment data were published, offering mixed signals: non-agricultural job creation exceeded expectations (119,000), but the August data was revised downwards (–4,000 vs. 22,000 initially); with an unemployment rate rebounding 0.1 pp in September, to 4.4%, the highest level since October 2021. On the other hand, inflation was fairly contained in September (latest available data): the headline index rebounded 0.1 pp, to 3.0%, while the core rate fell 0.1 pp, to 3.0%. Meanwhile, there is a certain divergence in confidence between business leaders and consumers: the PMI, which measures the business climate, stood in November at 54.2 points (50 is the threshold that marks positive growth), but consumer confidence continued to fall in November, reaching a four-year low. In this context, it should be noted that, during the first half of the year, US growth would have been practically zero had it not been for the exceptional boost from the technological investments associated with the expansion of AI, so it will be interesting to see whether this pattern is maintained. On balance, the analyst consensus points to a growth rate of 0.3% quarter-on-quarter in Q4, after a rate of 0.7% expected for Q3 (publication delayed until 23 December due to the shutdown).

The euro area holds up, but lacks momentum. The main business climate and opinion indicators suggest that the euro area economy could maintain growth rates of around 0.2%

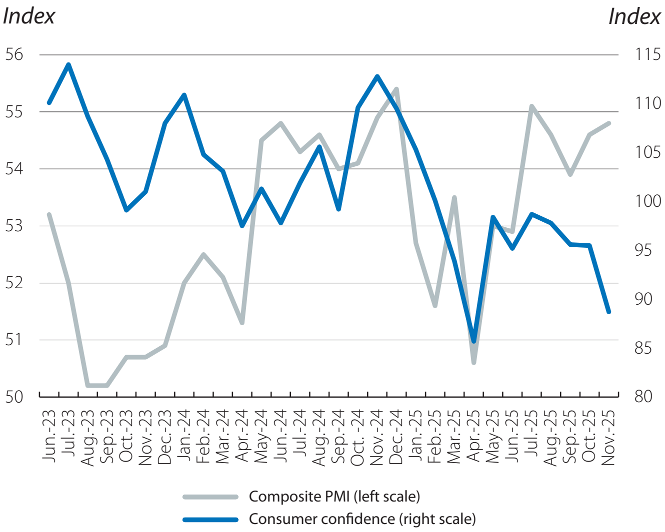
US: the longest government shutdowns in history

Date of the shutdown and days it lasted



Source: BPI Research.

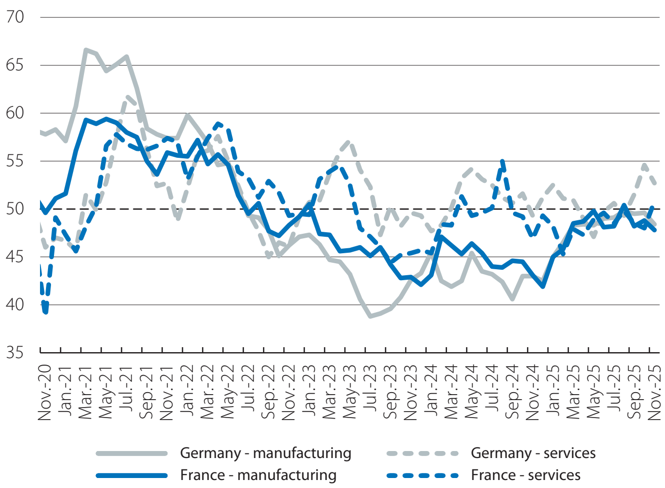
US: confidence indicators



Source: BPI Research, based on data from the Conference Board and S&P Global.

Euro area: PMI by component

Index (>50 expansion, <50 contraction)



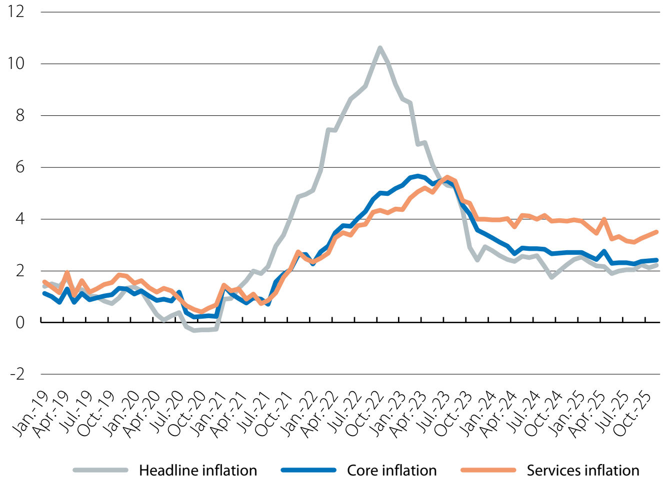
Source: BPI Research, based on data from S&P Global PMI.

quarter-on-quarter in Q4, but with divergences by country and sector. In November, the composite PMI stood at 52.8, thanks to the resilience of the services sector offsetting the renewed weakness in manufacturing. The European Commission's economic sentiment indicator, meanwhile, consolidated the previous month's increase and reached 97.0 (also thanks mainly to services), marking a peak since April 2023, but still below the 100-point threshold which denotes growth around its historical average. One of the reasons for this lack of momentum in the region is the apathy of Germany. While the country could see slightly more dynamic growth rates in Q4, they would still be very modest (around 0.2% quarter-on-quarter vs. 0.0% in Q3), due to the delay in the implementation of the infrastructure plan resulting from the delayed approval of the 2025 budget (October this year). In fact, the data for Germany's federal balance reveal that, in the cumulative period from January to October, total spending increased by 9.0% year-on-year, but the expenditure on fixed capital investment is almost 1.8% lower than in the same period of 2024. Moreover, with just two months to go until the end of the year, this category of expenditure has not even reached half of the target level set for 2025 as a whole. On the other hand, the delicate political situation in France is making it difficult to approve the 2026 budget, with the challenge of reducing the fiscal deficit from the level of 5.4% of GDP expected for this year. This climate of uncertainty could weigh down growth in Q4, after temporary factors boosted GDP in Q3. In this context of sustained but weak growth, euro area inflation is in line with the ECB's target: in November, the headline rate rose 0.1 pp to 2.2%, while the core index remained at 2.4% for the third consecutive month, despite a new upturn in services inflation.

China's slowdown is accentuated at the end of the year. The main activity indicators show a continuation of the slowdown that began in the summer, especially in investment: cumulative fixed capital investment to October fell by 1.7% year-on-year, the worst result since 2020. The only solid growth rates for investment are found in the automotive sector (17.5%) and the rail, maritime and air transportation sector (20.1%). This pattern coincides with that indicated by industrial production, which in October moderated its year-on-year growth rate by 0.6 pps, to 4.9%, although production in the sectors with the highest value added continues to show rapid growth (e.g. cars 17%, rest of transportation 15%, semiconductors 18%), corresponding with the priorities set by the Chinese authorities in their five-year plan. The latest industrial indicators show no signs of improvement, with an official manufacturing PMI in contractionary territory (49.2 points in November). Despite China's ability to redirect trade in the face of Trump's tariff policies (the US has become its third biggest market, while the ASEAN bloc now ranks first), the latest export figures have been weaker (1.1% year-on-year in October, after recording +8.3% in September) in a context of appreciation of the yuan (by more than 3.0% against the dollar in the year).

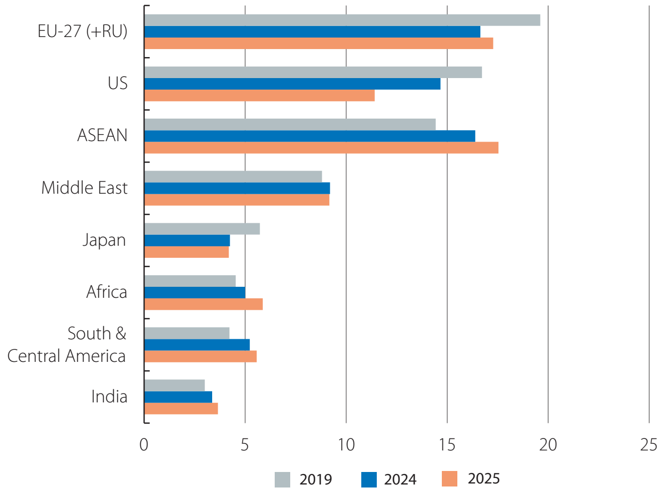
Meanwhile, the residential sector remains a major burden. New and existing house prices recorded the biggest monthly falls i n a year in October and, in many cities, prices have already suffered a correction of between 20% and 30% from the peaks, which continues to punish residential investment (–15% year-on-year in the year to October) in a context of weak demand. However, the government's goal of 5.0% growth for this year seems virtually assured.

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



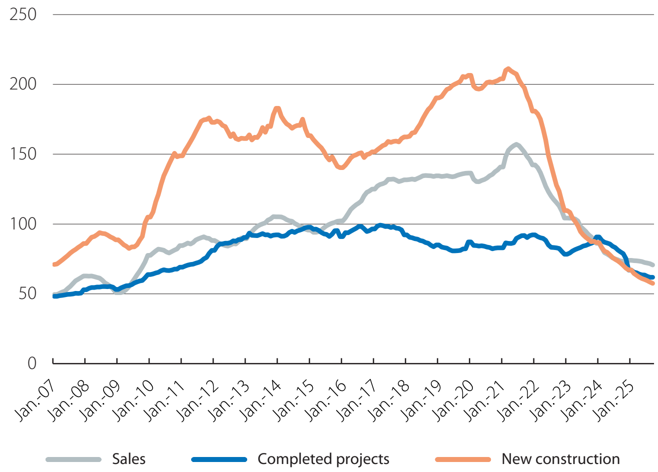
Source: *BPI Research, based on data from Eurostat.*

China: share of exports by destination
Total exports (%)



Source: *BPI Research, a partir de datos de Bloomberg.*

China: real estate sector
*(Million of m²)**



Note: ** 12-month average.*
Source: *BPI Research, based on data from Bloomberg.*

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

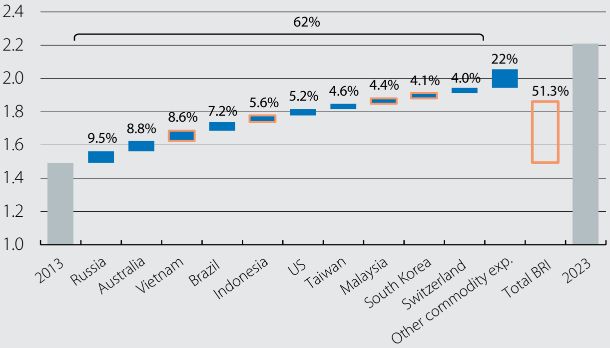
In recent decades, China has managed to transform its export and import profile through the Belt and Road Initiative (BRI), which has sought to facilitate trade with foreign markets. One of the most important dimensions of this trade is the improvement of access to key inputs for the development of its industry. Moreover, as has happened with the destinations of the country's exports, the origins of its imports have also diversified in recent years, albeit not at the product level, where there has been an increase in the concentration of imports.[1]

China's importer profile: a voracious consumer of commodities

Similar to what has happened on the export side,[2] countries participating in the BRI account for over half of the increase in China's imports (see first chart) in the last decade. Among the top 10 source countries that have contributed the most to the increase in Chinese imports, there are four countries that form part of the initiative (18 in the top 30), as well as Russia – a close ally, but which does not officially participate in the BRI. The top 10 account for 62% of the total increase in China's imports over the period in question (vs. 46% in the case of exports). Among these top 10 countries, the three largest commodity exporters (Russia, Australia and Brazil) explain 25% of the total. In addition, many countries have seen substantial increases in their commodity exports to China, such as metal ores (Indonesia), crude oil (Malaysia) and gold (Switzerland), and a decline in the share of electronics and machinery exports, with the exception of South Korea and Taiwan, both of which have seen significant increases in integrated circuits.[3]

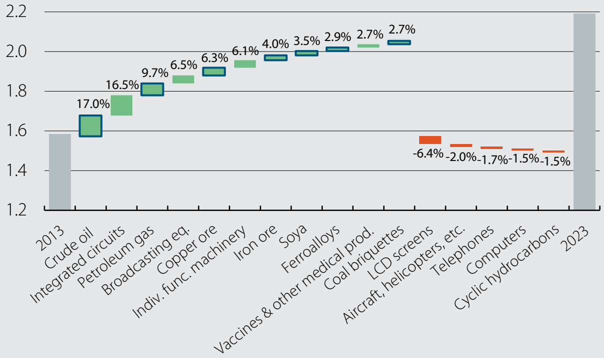
A more detailed analysis of the import profile at the product level (HS4 level of disaggregation) provides greater clarity on China's commodity voracity over the past decade. Among the products that have contributed the most to the increase in China's imports in the period, we find various commodities, including energy products and metals, such as crude oil (which explains 17% of the increase), natural gas (9.7%), copper and iron ore (6.3% and 4.0%, respectively) and ferroalloys.[4] On the other hand, there have been significant reductions in imports of electronic products, such as LCD screens, phones and computers, while integrated circuits account for 16.5% of the total increase in Chinese imports (vs. 9.6% of the increase in exports).[5]

China: total imports and contributions by country
(USD trillions)



Note: *The columns with orange borders correspond to countries that officially participate in the BRI. The chart shows the top 10 countries with the largest contributions to the increase in China's imports, as well as the total contribution of the BRI countries.*
Source: *BPI Research, based on data from the Observatory of Economic Complexity.*

China: total imports and contributions by product
(USD trillions)



Note: *The chart shows the product categories (at the HS4 level) with the largest contributions to the growth of China's imports and the products with the most negative contributions.*
Source: *BPI Research, based on data from the Observatory of Economic Complexity.*

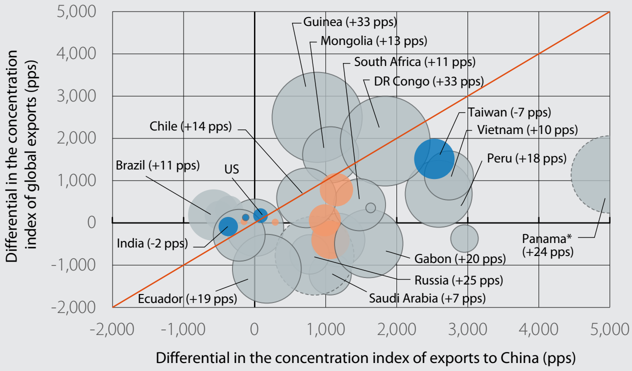
1. The Herfindahl-Hirschman (HH) index for the geographical concentration of China's imports has decreased from 460.5 in 2011-2013 to 384.4 in 2021-2023, while the index for concentration by product (at the HS4 level) has increased from 342.6 to 401.0 points.
2. See the Focus «The Belt and Road Initiative: a double-edged sword? (part I)», in the MR11/2025.
3. Of particular note is the concentration that has taken place in exports from South Korea and Taiwan to China. In 2013, the HH product concentration index (at the HS2 level) for these countries stood at around 1,500 points (1,509.5 for South Korea, 1,646.9 for Taiwan). In 2023, the same index reached 3,144.1 points and 4,177.6 points, respectively. For comparative purposes, the product concentration index of the total exports of these countries stood at 1,519.5 points and 3,500.2 points in 2023 (1,163.7 and 1,985.9 in 2013).
4. Although their aggregate contribution is lower, several commodities, such as other minerals, coal lignite, nickel and rare earths, show very high growth rates in the period. The agrifood (soya, frozen beef and corn) and chemicals (medicines, carbonates or inorganic acids) sectors have also registered substantial growth rates.
5. Chinese imports of integrated circuits (200 billion dollars in 2023, around 10% of total imports) have been concentrated in Asia in recent years (accounting for more than 90% of the total). South Korea (33% of the total) and Taiwan (24%) are the two largest exporters to China, while Vietnam (8%) has grown rapidly, and Malaysia (9%) and Japan (7%) have lost relative importance.

The profound changes in China's import profile, and in particular its growing intensity in critical commodities,[6] are visible in the export profiles of its largest trading partners, especially in the differential observed between the product distribution of their global exports compared to their exports to the Asian giant, and in the concentration that has occurred in the latter (see third chart). Although the differences observed are marginal in the cases of some energy-producing countries (e.g. Iraq, Oman and Saudi Arabia), in most cases the differential in the export concentration is high. Among these, we can distinguish three groups. On the one hand, we find countries that have seen a sharp acceleration in the concentration of their exports to China over the past decade, including producers of minerals such as copper (Panama, Peru and Chile), cobalt (DR Congo) and manganese and chromium (South Africa), as well as chemical elements (Djibouti) and electronics (Taiwan and Vietnam). On the other hand, some large global *commodity producers* have not seen any significant growth in the concentration of their exports to China (such as the UAE, Australia and Brazil), although the product concentration of their exports to China is greater than the global average. In the group of countries with higher incomes, and with the most diversified export profiles, China also maintains a more concentrated import profile than other countries.[7]

The Silk Road of the 21st century: commodities and chips, via manufactured products

China has succeeded in reinforcing its status as the «world's factory» in the last decade and has diversified the geographical distribution of its exports while gaining importance as a destination market for its trading partners' exports. Its growth model, anchored in high investment and oriented towards international markets, has transformed over time, with significant growth in strategic sectors such as green energy, electric mobility and advanced electronics. There has also been a reconfiguration of global trade relations, with China gaining a competitive advantage across a broad spectrum of the manufacturing sector while becoming an avid importer of intermediate goods, including energy, minerals and integrated circuits. China's main trading partners, especially those participating in the Belt and Road Initiative, have thus become direct witnesses to the Asian giant's profound transformation. In this way, while China has gained importance in global trade, it has also triggered changes in the productive structure of these countries. Furthermore, while creating opportunities by promoting investment and increasing trade flows between countries, greater economic integration with China can also pose certain risks by promoting low-value-added extractive industries and by generating greater dependence on the Asian giant in economic, financial and geopolitical terms.

Global: evolution of the concentration and market share of exports to China by country, between 2013 and 2023



Note: *The chart shows the differential in the Herfindahl-Hirschman (HH) index between 2013 and 2023 for each country's global exports and its exports to China at the HS2 level. The size of each circle indicates the change, in pps, of the share of each country's exports to China in the period. Blue bubbles indicate a fall in the share of exports to China (the cases of the US, India, Taiwan and Thailand) and grey bubbles, an increase. The European countries in the sample are highlighted in orange, all of which show increases in the share of their exports to China (Switzerland: +5.9 pps, Ireland: +4.5 pps, the United Kingdom: +4.2 pps, Germany and Spain: +0.2 pps). The countries identified with a grey border are those which officially participate in the BRI (excl. Russia, with uncertain participation, and Panama, which left the BRI in 2025). As an example, Peru has seen an increase in the concentration of its exports to China of 2,591 points (going from 4,652.1 to 7,243.9), while the concentration of its global exports has grown by 688 points (from 1,270.5 to 1,958.9). In the period analysed, its exports to China have gone from 16% to 34% of the total. * In Panama, the increase in the concentration index for its exports to China was 7,367 points (1,147 for its global exports).*
Source: *BPI Research, based on data from the Observatory of Economic Complexity.*

6. In the case of rare earths, China's reserves are estimated to be between 44 and 50 million metric tonnes, about half of global reserves. On the other hand, China accounted for virtually 70% of global extraction (or 270,000 metric tonnes) in 2024. In addition to leading the world in rare earth reserves and extraction, China is a net importer of these materials, on a gross basis, which reflects the competitiveness of its refining industries and the high demand for these materials from its manufacturing industry as essential inputs for a wide range of sectors, such as machinery, electronics and motor vehicles. Also, in 2024, China imported 130,000 metric tonnes of rare earth. The top 5 biggest exporters, in value terms, include three Asian countries that participate in the BRI (Myanmar, Malaysia and Laos), Russia and India. See «Rare Earth Elements: Understanding China's Dominance in Global Supply Chains», China Briefing, published on 29 August 2025 (last access: 19/11/2025).
7. For example, from Switzerland and the United Kingdom, of particular note is the increase in imports of gold, while from Ireland it is those of electrical and electronic machinery. In the case of Malaysia, the decline in the concentration of exports to China is explained by the reduced importance of electrical and electronic machinery, while fuel exports account for almost 40% of the total (vs. 23% in global terms), versus around 10% a decade ago.

EU export diversification beyond Trump's tariffs

Trade protectionism has been part of the new geopolitical normal for years now, but it has reached its peak in 2025 with the new US administration. In this more hostile environment and in the absence of an effective multilateral forum, the EU continues to make efforts to broaden its economic relations with different regions of the world. The strategy of diversification has become a valuable tool, not only in the search for markets with high export growth potential, but also in making progress towards the desired strategic autonomy.

In search of expanding markets

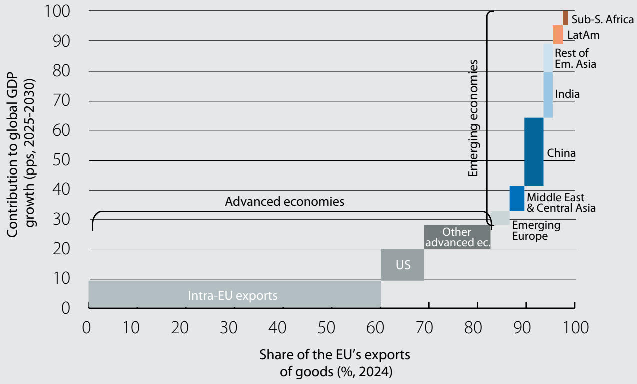
The main destination for EU countries' exports remains predominantly other Member States (around 60% in 2024), which contrasts with the small contribution that this economic zone is expected to make to global growth in the medium term (less than 10% in the next five years) (see first chart). We find a similar imbalance between exposure and potential growth for other advanced economies, particularly those that are geographically closest and with which the EU has maintained historical and commercial ties for decades (the United Kingdom, Switzerland and Norway). The main exception among developed countries would be US, the only one of this group with which there is no trade agreement following the failure of the TTIP in the middle of the last decade, and for which its expected contribution to global growth exceeds the share of European exports (11% vs. 8%).

The situation is clearly asymmetric for emerging economies as a whole and for Asia in particular. According to forecasts up until 2030, China and India – also without any bilateral agreement – are expected to account for just over 40% of global GDP growth in the coming years, whereas they accounted for just 4% of the EU's total exports in 2024. A similar situation is true for the set of ASEAN countries (among which the EU only has a trade agreement in force with Vietnam) and, to a lesser extent, for other regions such as Sub-Saharan Africa, Latin America, the Middle East and Central Asia. There is only a correspondence between export share and global economic relevance with the emerging countries located close to Europe, the main partner being Turkey, with which there has been a customs union since 1995.

Bilateral agreements to overcome multilateral paralysis

The Doha round of negotiations on trade began in 2001 and is by far the longest in history under the multilateral umbrella of the WTO. However, no meaningful agreements to continue reducing tariff and non-tariff barriers in the trade of goods and services were reached.

EU: destination of exports by contribution to global growth in the coming years



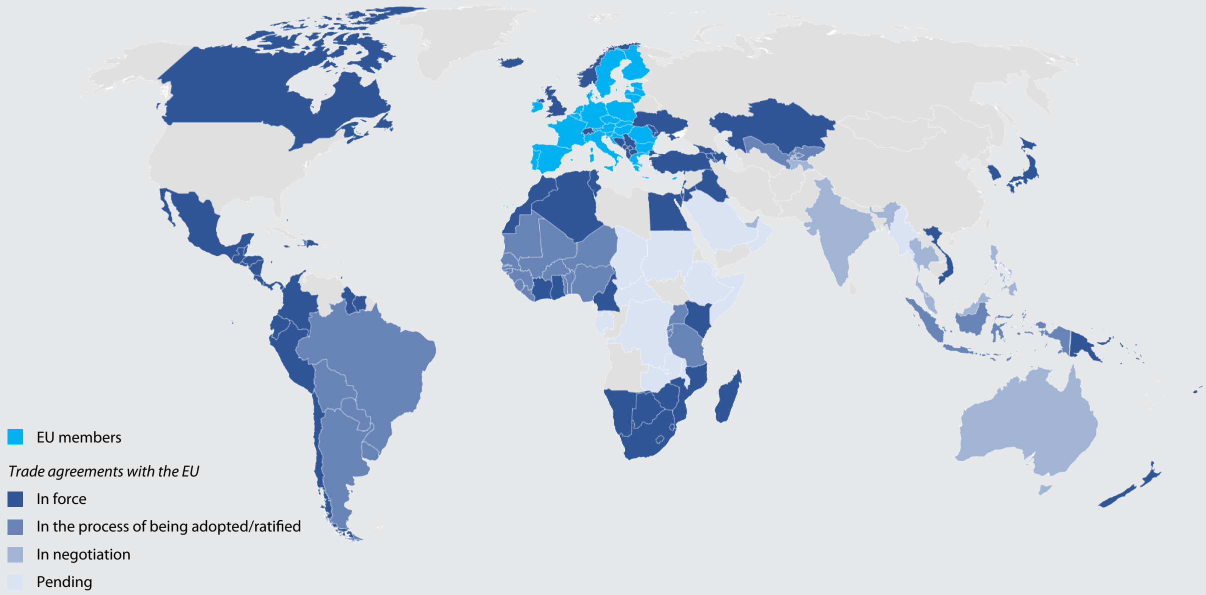
Note: *Contribution to global GDP growth calculated in purchase parity-adjusted dollars as per IMF forecasts (WEO, October 2025).*
Source: *BPI Research, based on data from Eurostat and the IMF.*

In the absence of progress, countries have opted for a bilateral and regional agenda, and nearly 300 agreements of this nature have been signed in the world over the last two decades (compared to less than 100 in force at the beginning of the period). The EU has been no exception and has gradually expanded its economic relations beyond the European environment, with a total of 37 agreements coming into force between 2001 and 2025 (see second chart). Among the most relevant in terms of trade volume are those signed with Japan (2019), South Korea (2011), Canada (2017), Ukraine (2014) and Singapore (2019).[1]

More recently, the EU has concluded successful negotiations with MERCOSUR (December 2024) and Indonesia (September 2025). The treaties are now awaiting ratification by the European Council and Parliament, as well as by the various Member States. In the case of MERCOSUR,[2] as was the case in 2019-2020, France is the main opponent to its definitive adoption due to the competition is entails for agricultural products, a view shared by Poland and Ireland, while environmental aspects are fuelling the reluctance of Austria, Belgium and the Netherlands. In parallel, the EU is in ongoing negotiations with India, the United Arab Emirates, Australia and three other ASEAN countries (the Philippines, Malaysia and Thailand).[3]

1. The agreements with Canada and Ukraine are provisionally in force pending final ratification by Member States, while in the case of Singapore the EU continues to negotiate the specific agreement on digital commerce.
2. The current members of MERCOSUR are Argentina, Bolivia, Brazil, Paraguay and Uruguay. Venezuela has been suspended since 2016.
3. Together with Indonesia, we call this group ASEAN-4.

Map of EU trade agreements



Source: *BPI Research, based on information from the European Commission.*

The potential of diversification in the face of Trump's protectionism

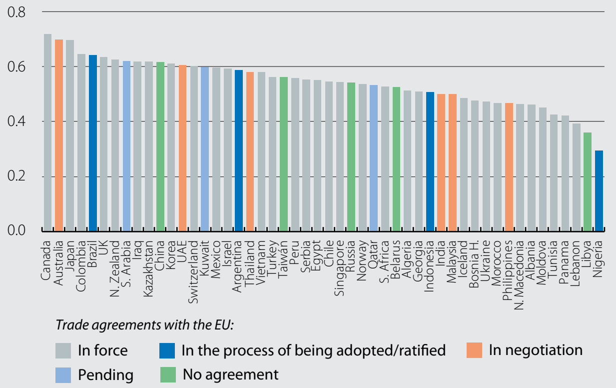
A key feature of the administration that emerged from the US election a year ago is undoubtedly its more protectionist trade policy. In the case of the EU, according to our estimates this has resulted in an increase in the average tariff for entry into the US market to 12%, compared to the 1% that was in force in 2024.[4] In this scenario, European exporting firms are adopting different mitigation strategies, ranging from direct investment projects in the US to finding alternative destinations for their products.[5]

With regard to this second option, it is logical to assume that goods that are no longer sold in the US market will fit more easily into countries where EU exports have a similar product structure. According to the export similarity index,[6] we estimate that the candidates for diverting trade from the US would be mostly developed countries, such as Canada, Australia, Japan, the United Kingdom and New Zealand, but also some Latin American economies, such as Brazil and Colombia (see third chart). Another important factor is the degree to which European products have access to these markets. Overall, this is positive, as the EU either has trade agreements signed with the aforementioned countries or the most-favoured-nation tariff is low compared to the rate now imposed by the US. The notable exception is Brazil, particularly for the entry of agricultural products.

On this note, taking a more medium-term view, it is worth considering whether the EU trade agreements that are pending ratification and those that are currently being negotiated will be able to compensate quantitatively for the potential loss of the US market. For an initial approximation of the challenge that lies ahead, we can refer to the value of EU exports in 2024, when sales of goods to the US reached 530 billion euros, a figure that is

Alternative markets for the EU: similarity to exports to the US (2024)

Index 0-1



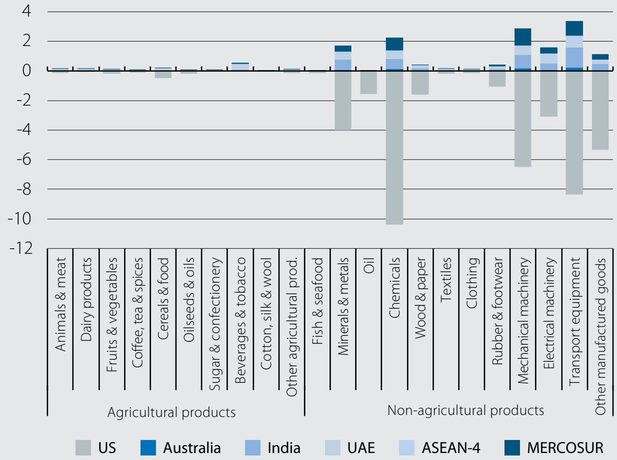
Notes: *The similarity index of a country with the structure of EU exports to the US is constructed as the sum of the minimum value for both countries of the relative weight of each group of products in the total exports. The index ranges from 0 (totally different trade structures) to 1 (identical trade structures). The product groups correspond to the HS classification at the 4-digit level.*
Source: *BPI Research, based on data from Eurostat.*

4. The US-EU agreement reached in late July establishes a general entry tariff of 15% for European exports, with exemptions applied to a number of products, such as generic pharmaceuticals.
5. See, for the case of Spain, the article «Tariff tensions and reconfiguration of trade flows: impact on Spain», published in the *Sectoral Observatory* of the first semester of 2025.
6. See De Soyres *et al.* (2025), «The Sectoral Evolution of China's Trade», FEDS Notes.

more than double the sum of MERCOSUR, ASEAN-4, Australia, India and the United Arab Emirates combined (235 billion). A second, more precise estimate, in which we consider the response of imports of European products to the expected change in tariffs in each country (increase in the US and reduction in the rest), offers us a similar reading. Even in a scenario with a complete disarmament of tariffs with the new trading partners, these markets would cover just under 40% of what would be lost in the US (see fourth chart).[7] By product group, the compensatory capacity would be lower for the chemicals, machinery and equipment industry, while the net balance could be positive in the case of agricultural products.

Export diversification should not only be a trade response to US protectionism, but a centrepiece for strengthening Europe's strategic autonomy through reliable value chains. In a fragmented world, the EU needs more resilience, but this does not mean closing itself off. Agreements with new partners open up expanding markets, but they also broaden access to critical energy and mineral resources, as well as building partnerships for achieving global progress on key issues such as the green transition. That said, we must not forget that the greatest challenge remains within the EU itself. Making progress in the competitive structural agenda is essential to ensure that our most important trading partners – ourselves – do not continue to be the region contributing the least to global growth.

Compensation of higher tariffs in the US via EU trade agreements
(EUR billions)



Notes: *ASEAN-4 includes the Philippines, Indonesia, Malaysia and Thailand. MERCOSUR includes Argentina, Bolivia, Brazil, Paraguay and Uruguay. Product groups defined by the WTO. Own estimate of the increase in tariffs by the US based on the trade agreement with the EU reached in late July and subsequent announcements for pharmaceuticals and exemptions on reciprocal partners. For all other countries, we assume that the most-favoured-nation tariff in force and published by the WTO is reduced to zero. We assume a demand-price elasticity of –1.*
Source: *BPI Research, based on data from Eurostat and the WTO.*

7. The compensatory effect does not change in relative terms for different values of demand-price elasticity, provided it is the same for all countries. What does change substantially is the magnitude of the challenge in aggregate terms, since with a unitary elasticity – which prevails in the short term – around 40 billion of exports to the US would be lost (8% of the total), while with a value four times higher – more reasonable in the medium term – this figure would be 175 billion (one third of the current level).

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

UNITED STATES

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Activity									
Real GDP	2.9	2.8	2.4	2.0	2.1	...	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.4	4.1	4.8	4.9	4.7	4.2	...	...
Consumer confidence *(value)*	105.4	104.5	110.6	99.8	93.1	97.4	95.6	95.5	88.7
Industrial production	–0.2	–0.7	–0.9	0.7	0.5	1.4	1.6	...	...
Manufacturing activity index (ISM) *(value)*	47.1	48.2	48.2	50.1	48.7	48.6	49.1	48.7	48.2
Housing starts *(thousands)*	1,421	1,371	1,387	1,401	1,354	...	...	...	...
Case-Shiller home price index *(value)*	312	330	336	340	338	337	338	...	...
Unemployment rate *(% lab. force)*	3.6	4.0	4.1	4.1	4.2	4.3	4.4	...	...
Employment-population ratio *(% pop. > 16 years)*	60.3	60.1	59.9	60.0	59.8	59.6	59.7	...	...
Trade balance [1] *(% GDP)*	–3.0	–2.8	–3.0	–3.5	–3.6	...	...	...	...
Prices									
Headline inflation	4.1	3.0	2.7	2.7	2.4	2.9	3.0	...	...
Core inflation	4.8	3.4	3.3	3.1	2.8	3.1	3.0	...	...

JAPAN

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Activity									
Real GDP	1.2	–0.2	1.0	1.8	2.0	1.1	–	–	–
Consumer confidence *(value)*	35.1	37.2	36.1	34.7	32.8	34.6	35.3	35.8	37.5
Industrial production	–1.4	–3.0	–2.5	2.5	0.8	0.6	2.0	1.6	...
Business activity index (Tankan) *(value)*	7.0	12.8	14.0	12.0	13.0	14.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.5	2.5	2.5	2.5	2.5	2.6	2.6	...
Trade balance [1] *(% GDP)*	–3.0	–1.1	–1.0	–0.9	–0.7	–0.5	–0.5	–0.5	...
Prices									
Headline inflation	3.3	2.7	2.9	3.8	3.4	2.9	2.9	3.0	...
Core inflation	3.9	2.4	2.3	2.7	3.2	3.2	3.0	3.1	...

CHINA

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Activity									
Real GDP	5.4	5.0	5.4	5.4	5.2	4.8	–	–	–
Retail sales	7.8	3.3	3.8	3.6	4.4	2.4	3.0	2.9	...
Industrial production	4.6	5.6	5.6	6.8	6.2	5.8	6.5	4.9	...
PMI manufacturing *(value)*	49.9	49.8	50.2	49.9	49.4	49.5	49.8	49.0	49.2
Foreign sector									
Trade balance [1,2]	865	997	997	1,086	1,146	1,177	1,177	1,171	...
Exports	–5.1	4.6	10.0	5.7	6.0	6.5	8.2	–1.2	...
Imports	–5.5	1.0	–1.8	–6.8	–0.9	4.3	7.4	1.0	...
Prices									
Headline inflation	0.2	0.2	0.2	–0.1	0.0	–0.2	–0.3	0.2	...
Official interest rate [3]	3.5	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.0
Renminbi per dollar	7.1	7.2	7.2	7.3	7.2	7.2	7.1	7.1	7.1

Notes: *1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.*
Source: *BPI Research, based on data from the Department of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Standard & Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Refinitiv.*

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Retail sales *(year-on-year change)*	–1.9	1.2	2.3	2.4	3.0	1.9	1.2	1.5	...
Industrial production *(year-on-year change)*	–1.6	–3.0	–1.6	1.5	1.3	1.4	1.2	...	...
Consumer confidence	–17.4	–14.0	–13.5	–14.1	–15.7	–15.0	–14.9	–14.2	–14.2
Economic sentiment	96.2	95.7	95.0	95.5	94.4	95.6	95.7	96.8	97.0
Manufacturing PMI	44.4	45.9	45.4	47.6	49.3	50.1	49.8	50.0	49.6
Services PMI	48.8	51.5	50.9	51.0	50.1	50.9	51.3	53.0	53.6
Labour market									
Employment (people) *(year-on-year change)*	1.5	1.2	0.7	0.8	0.7	0.6	–	–	–
Unemployment rate *(% labour force)*	6.6	6.4	6.3	6.3	6.4	6.4	6.4	6.4	...
Germany *(% labour force)*	3.1	3.4	3.5	3.6	3.7	3.7	3.8	3.8	...
France *(% labour force)*	7.3	7.4	7.3	7.5	7.6	7.7	7.7	7.7	...
Italy *(% labour force)*	7.7	6.6	6.2	6.3	6.3	6.1	6.2	6.0	...
Real GDP *(year-on-year change)*	0.6	0.8	1.3	1.6	1.5	1.4	–	–	–
Germany *(year-on-year change)*	–0.7	–0.5	–0.2	0.2	0.3	0.3	–	–	–
France *(year-on-year change)*	1.6	1.1	0.6	0.6	0.7	0.9	–	–	–
Italy *(year-on-year change)*	1.1	0.5	0.5	0.8	0.5	0.6	–	–	–

Prices

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
General	5.5	2.4	2.2	2.3	2.0	2.1	2.2	2.1	2.2
Core	5.0	2.8	2.7	2.6	2.4	2.3	2.4	2.4	2.4

Foreign sector

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Current balance	2.0	3.4	3.4	3.0	3.6	5.2	5.2	...	...
Germany	5.5	5.8	5.8	5.4	6.6	9.4	9.4	...	...
France	–1.0	0.1	0.1	0.0	–0.3	–1.0	–1.0	–1.5	...
Italy	0.2	1.1	1.1	0.9	1.3	2.6	2.6	...	...
Nominal effective exchange rate [1] *(value)*	**94.7**	**95.0**	**94.1**	**93.5**	**96.7**	**98.4**	**98.7**	**98.1**	**97.8**

Credit and deposits of non-financial sectors

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Private sector financing									
Credit to non-financial firms [2]	2.7	0.8	1.4	2.2	2.6	2.9	2.9	2.9	...
Credit to households [2,3]	1.7	0.5	0.9	1.5	2.1	2.5	2.6	2.8	...
Interest rate on loans to non-financial firms [4] *(%)*	4.6	4.9	4.4	3.9	3.4	3.2	3.2	3.2	...
Interest rate on loans to households for house purchases [5] *(%)*	4.4	4.6	4.3	4.0	3.7	3.6	3.5	3.5	...
Deposits									
On demand deposits	–8.5	–3.9	1.2	3.7	5.4	5.6	5.5	5.7	...
Other short-term deposits	21.1	12.4	6.0	2.3	–0.1	–1.5	–2.1	–1.8	...
Marketable instruments	20.1	20.0	18.0	14.7	11.1	4.4	4.3	1.9	...
Interest rate on deposits up to 1 year from households *(%)*	2.7	3.0	2.6	2.2	1.9	1.7	1.7	1.8	...

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.*

Economy supported by domestic demand and balanced accounts

Year-on-year GDP growth accelerated to 2.4% (1.8% in Q2), with domestic demand contributing 3.6 pp, benefiting from robust private consumption (4.0%, +0.4 pp than in Q2) and investment (4.0%, –3.0 pp), despite the slowdown in the latter. Net external demand continued to weigh negatively on growth, but to a lesser extent than in Q2 (contribution of –1.2 pp in Q3, +1.0 pp when compared to Q2). Quarterly growth was 0.8% (+0.1 pp), with a contribution of 1.4 pp from domestic demand (+0.5 pp), driven by private consumption (1.2% quarter-on-quarter, +0.5 pp) and GFCF (3.3% quarter-on-quarter, +1 pp). There was a significant increase in transport equipment (28.8%), the rationale for which is not specified, and it is unclear whether this is a one-off phenomenon.

Quantitative information for Q4 is still scarce, but sentiment indicators suggest that households and businesses remain confident. The European Commission's economic sentiment indicator recovered in November, placing the quarterly average at 105.5 points, above the neutral level of 100 points. Similarly, the INE's economic climate indicator accelerated to 3.1% in November, placing the quarterly average at 3%, one tenth higher than in Q3, as a result of improved sentiment in the manufacturing industry, with good prospects for production over the next three months, and in commerce. In the construction sector, the improvement was marginal and in services it deteriorated, reflecting more cautious prospects for demand over the next 3 months. Among consumers, confidence deteriorated in November, reflecting greater uncertainty about the country's economic situation and their ability to make major purchases in the next 12 months.

Meanwhile, the outlook for 2026 is reasonably optimistic, with the economy expected to grow by around 2%. The factors favouring acceleration next year are investment, driven by the likely acceleration of NG EU funds, which are entering their final year, and facilitated by lower financing costs compared to those seen in recent years; and private consumption, which will continue to benefit from the resilience of the labour market, income recovery, and the accumulation of savings in recent years; the expansionary fiscal policy set out in the 2026 Budget will also be a factor supporting domestic demand, which will be the main driver of growth. In turn, external demand will continue to limit growth, both due to moderate prospects for export growth (resulting from the weakness of some of our main trading partners) and the strength of imports, given their high degree of incorporation into Portuguese domestic demand. But 2026 will be another year marked by a high degree of uncertainty, shaped by several potentially disruptive risks, especially in the external environment, notably those of a geopolitical nature and possible changes in US trade policy; and risks of stronger corrections in stock markets impacting the confidence of economic agents.

Confidence indicators

Confidence indicators	2011-14	2020	3Q 25	4Q 25	Trend	Sep/25	Oct/25	Nov/25
Economic climate indicator	–2.3	–1.5	2.9	3.0	▲	3.0	2.9	3.1
Economic sentiment indicator	89.4	87.3	106.2	105.5	=	105.0	104.5	106.5
Consumers	–35.4	–23.9	–16.6	–14.2	▲	–17.1	–13.2	–15.2
Industry	–11.7	–16.1	–3.0	–2.6	▲	–2.7	–5.5	0.3
Production outlook for the next 3 months	–8.0	–13.6	6.1	6.6	▲	8.9	–0.6	13.9
Uncertainty about future developments of activity	–	–	13.3	9.5	▲	10.8	8.3	10.8
Jobs outlook for the next 3 months	–1.6	–0.3	3.0	1.4	▼	2.7	2.2	0.5
Prices outlook for the next 3 months	2.5	–0.2	3.0	4.9	▲	1.6	2.5	7.4
Construction	–48.2	–10.6	2.7	2.7	=	2.1	2.6	2.7
Order pipeline	–62.5	–23.0	–3.4	–3.0	▼	–3.6	–3.0	–3.0
Jobs outlook for the next 3 months	–33.8	1.7	8.9	8.3	▼	7.8	8.2	8.4
Prices outlook for the next 3 months	–16.7	7.3	14.4	17.0	▲	14.7	13.9	20.1
Retail	–12.5	–11.0	1.9	6.0	▲	2.6	5.0	7.1
Activity for the next 3 months	–15.6	–9.4	5.6	9.0	▲	7.4	8.2	9.9
Jobs outlook for the next 3 months	–	–	1.9	2.3	▲	1.3	3.1	1.5
Prices outlook for the next 3 months	–15.6	–9.4	6.6	5.8	▼	5.3	4.9	6.7
Services	–9.5	–21.0	12.4	6.3	▼	10.7	7.2	5.4
Demand outlook for the next 3 months	0.3	–1.1	15.4	9.0	▼	14.3	10.2	7.7
Jobs outlook for the next 3 months	–2.6	–1.9	3.2	2.3	▼	4.1	3.8	0.8
Prices outlook for the next 3 months	–0.7	–4.2	8.5	10.9	▼	5.4	9.7	12.0

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

GDP 2026: contributions to growth

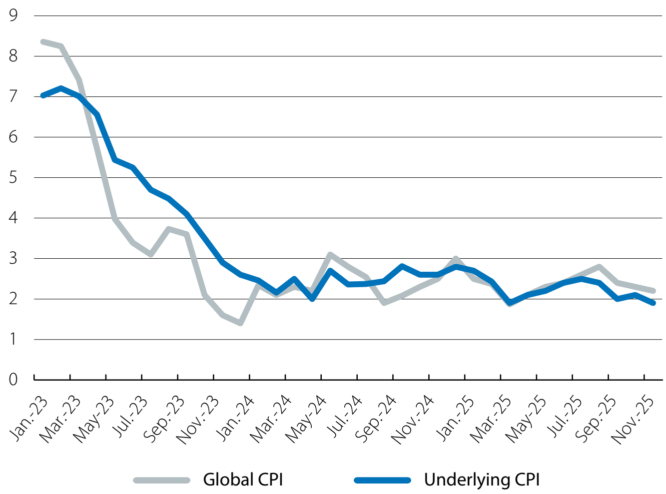
Percentage points (pp)

	2026
«Inertial» GDP 2026*	**1.6**
NGEU	0.4 pp
Savings rate	0.2 pp
Budgetary Policy	0.2 pp
Energy	0.1 pp
Interest rates	0.1 pp
Demography	0.1 pp
External demand	–0.1 pp
Rates	0.2 pp
Uncertainty	0.2 pp
Others	–0.3 pp
GDP 2026	**2.0**

Note: ** Inertial GDP 2026 refers to GDP that would result from not taking into account extraordinary effects and was obtained by regressing annual GDP growth with its autoregressive component and the output gap disclosed by the IMF in the October 2025 World Economic Outlook.*
Source: *BPI Research, based on data from the Bank of Portugal, INE, Eurostat, IMF.*

Inflation

Y-o-Y Var. (%)



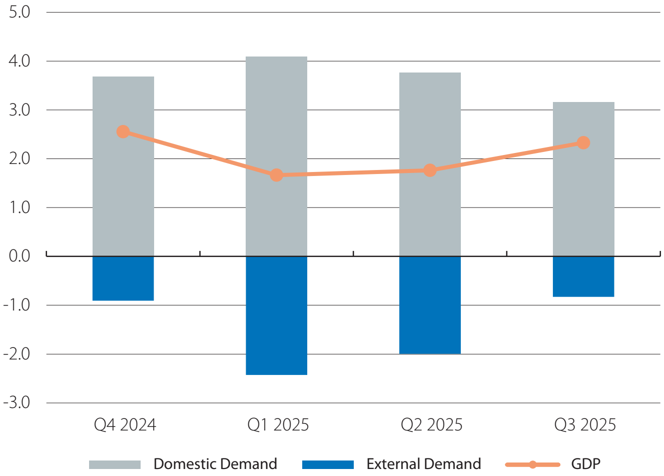
Source: *BPI Research, based on data from the National Institute of Statistics.*

Inflation slows for the third consecutive month. In November, Global CPI fell to 2.2% (2.3% in October), placing the average inflation rate for the last 12 months at 2.4%. Underlying CPI also fell to a value below 2%, more specifically 1.9% (2.1% in October). Indeed, despite the energy products index having increased by 0.78% month-on-month, the main aggregates recorded have decreased; even unprocessed food products (–0.04%) whose year-on-year rate is still at very high levels. The negative monthly variation in these two main indices (Global CPI and Core CPI) reflects historical seasonal patterns and paves the way for the year to close with inflation close to 2% and average inflation possibly reaching 2.3%.

Employment is growing at its fastest pace since the post-pandemic period. Surprisingly, the employed population hit a new record in Q3, growing at a rate not seen since the period post-COVID-19: the 3.7% year-on-year increase (i.e., +191,200 individuals) brings the number of employed people to 5,332,100, a maximum value since the series began in 2011. The year-on-year increase is largely explained by the tertiary sector, namely by Human health & social support activities (+47,400 individuals), Accommodation & catering (+46,200 individuals), ICT (+35,500) and Public administration, defence & Social security (+30,800). Similarly, job creation was widespread across all age groups, with the 25 to 34 age group standing out (+63,600 people compared to the same period last year), as well as an increase in employment among individuals with secondary and post-secondary education (+121,100 people) and higher education (+109,500 people). In this context, the unemployment rate stood at 5.8%, slightly below our expectation (5.9%), revealing that the strength of the labour market may exceed our initial expectations. The most recent monthly data also corroborate this trend, with employment growing again above 3% year-on-year in October.

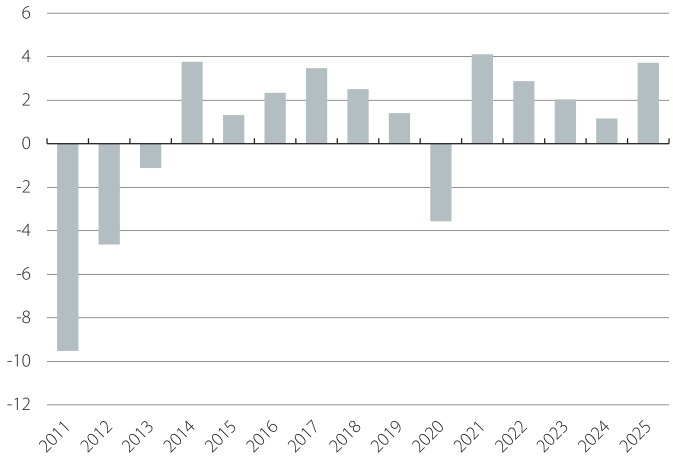
The budget balance remains positive in the final stretch of the year and suggests that 2025 may surprise us again. In the year to October, the budget balance stood at 1.6% of GDP (compared to 1.4% in the same period of 2024), with revenue growing at a faster pace than expenditure (6.2% and 5.6% year-on-year, respectively). Tax and social security contributions continue to account for the vast majority of the increase in revenue (around 86%), with social security contributions, VAT and personal income tax performing particularly well (despite the effect of the reduction in withholding tax rates in August and September). In turn, the increase in expenditure continues to be supported by current transfers, personnel expenses and, to a lesser extent, by investment (with growth of 4.2%, 8.0% and 18.5%, respectively). These data suggest a possible positive surprise in 2025 (in national accounting terms). In fact, although there are still factors putting pressure on public accounts in the last months of the year (such as the payment of Christmas bonuses to civil servants and the execution of investments), the data up to October reinforce our expectation that the budget balance may end 2025 above the Government's expectations (0.3% of GDP in national accounts), also contradicting our expectation of a slight deficit.

Q3 GDP: contributions from domestic and external demand
Yoy %, pp



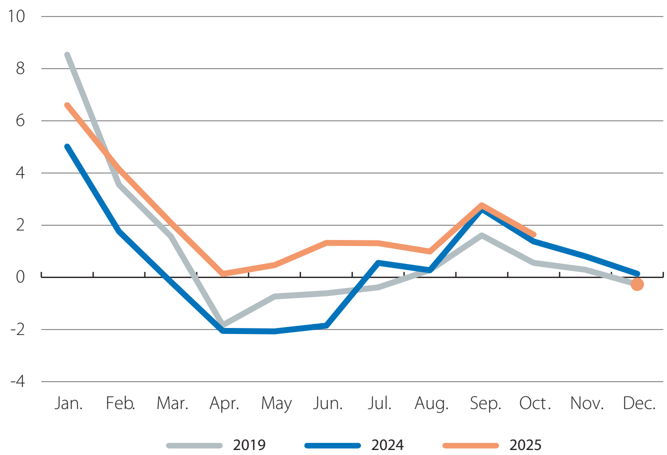
Source: *BPI Research based on data from the National Institute of Statistics.*

Employed population
Year-on-year rate of change in Q3 of each year (%)



Note: *Non-seasonally adjusted data.*
Source: *BPI Research, based on data from the National Institute of Statistics.*

Budget implementation (public accounting)
(% GDP)



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

Household savings rate: characterisation and outlook

Savings, particularly household savings, are important in several respects in the dynamics of an economy, being a necessary component for investment. Yet creating savings means giving up consumption in the present, meaning that savings decisions are usually not a zero-sum game in aggregate terms because the aggregate outcome depends on the destination of the savings, whether that destination has a multiplier effect, and, if so, when it occurs. In this article, we aim to provide a historical overview of the evolution of household savings in the country, look at the recent dynamics of the savings rate, and consider how it may evolve in the near future.

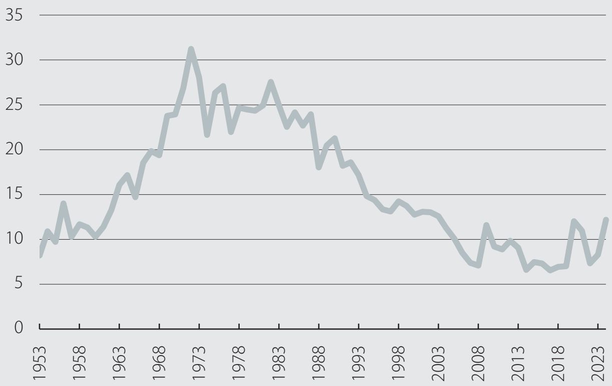
Historical evolution of the savings rate.

If we look at it from a long-term perspective,[1] we can identify distinct moments and trends. In fact, since the 1950s, the savings rate has shown a sustained upward trend from low levels (below 10%) to reach its peak in 1972 (31.2%). Thus, between the 1960s and 1980s, on average, the savings rate remained at relatively high levels (averaging around 20%), but then showed a consistent downward trend until reaching the lows recorded in 2014 and 2017 (6.5%). We acknowledge that the continuous downward trend, particularly from the mid-1980s onwards, is mainly justified by two factors. The first is the fact that social protection schemes have improved since the 1980s.[2] The second is the fact that the Portuguese economy, after joining the EEC, became more open to the outside world and sources of financing and investment increased. These two factors are linked to some of the reasons families have for saving – creating a reserve to guard against adverse situations in the future and smoothing the level of consumption throughout life. Both a more effective welfare state and broader access to credit mitigate these two incentives to save. It should also be noted that in more recent times and in the European context, the savings rate in Portugal is considerably lower than that of the Eurozone – 9.6% and 15.4%, respectively (average 2019 to 2024).

Which families save?

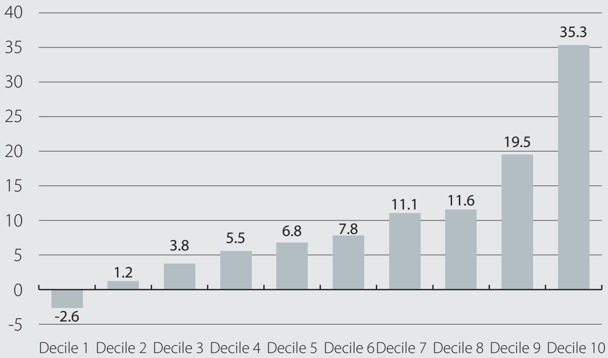
In addition to the data from the National Accounts statistics (from which the official savings rate figure is taken), INE periodically conducts a Household Expenditure Survey, the most recent of which was published in 2024.[3] This allows for a better sociodemographic characterisation of the profile of those who save. First, let's look at the income of those who save (see second graph). The main conclusion we can draw is that the bulk of savings in the country is concentrated in the top 20% of the population in terms of income, more specifically 54.8%. Indeed, the 10% of people with the lowest incomes record negative savings: the difference between the total income of each household and the total consumption expenditure is negative. Unsurprisingly, the savings rate (as a percentage of disposable income) is also significantly higher in the highest income deciles (35.0% and 42.3%, respectively). Finally, it

Savings rate of individuals
(% of disposable income)



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

Distribution of household savings by income deciles
(% da poupança total)



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

1. Long series made available by the Bank of Portugal.
2. In 1984, the first Social Security Framework Law was passed, establishing as the system's objectives the guarantee of protection for workers and their families in situations of incapacity for work, unemployment and death, compensation for family expenses and protection for people in situations of lack or reduction of means of subsistence. On the contributions side, the single social security contribution rate came into effect in 1986, and the contribution rates to be paid by workers and employers were set.
3. But this refers to expenditure and income data collected in 2022 and 2023 from 11,700 families (IDEF 2022). In the IDEF 2022, both expenditure and income figures are underestimated compared to the macroeconomic figures in the national accounts, with the underestimation being more significant in the case of expenditure. Consequently, the savings in euros and the savings rate implied in the IDEF 2022 are overestimated compared to those in the national accounts.

should also be noted that the savings rate is higher in the age group above 64 years for all income deciles.

Outlook for the Savings Rate

The latest quarterly savings rate figures have been in double digits, and the savings rate in 2024 was 12.2%, figures higher than the average since joining the euro and since the last pre-pandemic year (both 9.6% on average). To try to understand what the trend of this variable will be, we modeled it as a function of macroeconomic variables.[4]

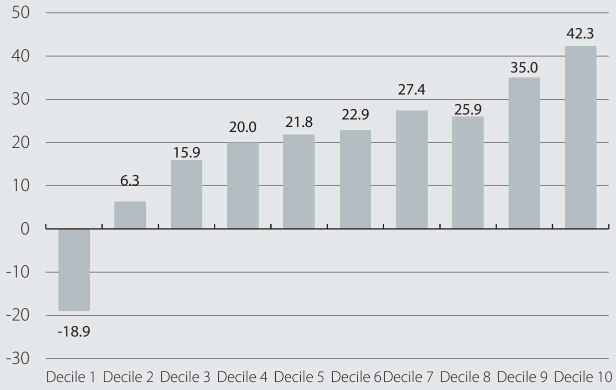
The regression result shows a positive coefficient for GDP, evidencing a pro-cyclical movement in the savings rate as supported by most of the literature on the subject.[5] It is worth noting that the GDP growth variable shows a lag, suggesting that the decision to increase savings is formed based on past, not present, increases in wealth. Also of interest is the statistical significance of the dummy, which marks the years following the Great Financial Crisis (GFC), suggesting a structural break from that point onward. Indeed, at the beginning of the century the savings rate was higher, but with a very strong downward trend. This downward trend was interrupted in the context of the GFC, which may be linked to one of the classic determinants of the decision to save – precaution and the possibility of smoothing consumption during periods of lower income. Finally, the variable associated with inflation has a negative coefficient. This relationship is not so clear: on the one hand, there is literature that supports a positive relationship between inflation and the savings rate, because high inflation can be a proxy for economic instability, encouraging precautionary saving; on the other, higher inflation can stimulate the consumption of durable goods (as protection against rising prices), erode disposable income available for saving, or, in the case of indebted families, reduce the value of debt in real terms, resulting in increased wealth and less need to save to pay off debt.

Based on our central scenario for macroeconomic variables, we used the model we estimated to predict the evolution of savings in the coming years (last graph). The trend we have observed seems to indicate a gradual increase in the savings rate in the coming years, with the average savings rate for 2025-2030 standing at 12.1%. This trend is consistent with a certain convergence of real growth towards the eurozone, which should also translate into a convergence of the savings rate towards more «European» standards, in a context of inflation stabilised around the target. In this article, we have tried to characterise and provide an outlook on the evolution of household savings; however, this is a complex topic involving many other variables. Demographic factors such as population ageing and household size, fiscal policy, and even political and social instability can impact household savings decisions.

Tiago Belejo Correia

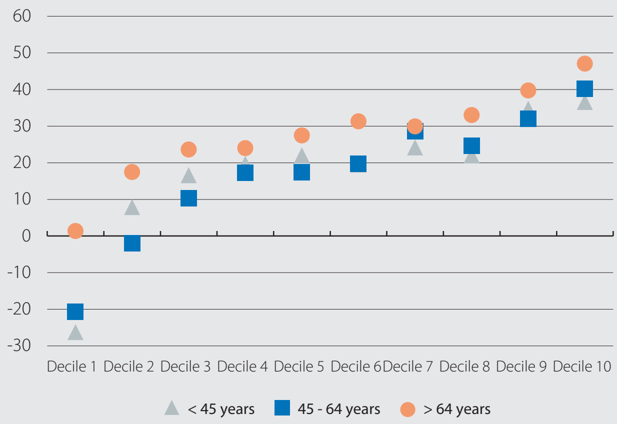
4. We estimated an ARIMAX model (an extension of the ARIMA model: AR(1) with exogenous variables) for the first differences of the savings rate, having as explanatory variables the growth of GDP in volume (lagged), the logarithm of the CPI, and a dummy that marks the period post-financial crisis. The R^2 is 71%. All variables (including the constant) are statistically significant; there is no evidence of multicollinearity or autocorrelation. The residuals from the regression follow a normal distribution. The estimation sample consists of annual data between 1999 and 2024, that is, after joining the euro.
5. See for example Carrol, C., Overland, J. and Weil, D. (2000), «Saving and growth with habit formation», American Economic Review 90.

Average savings rate by income decile
(% of disposable income)



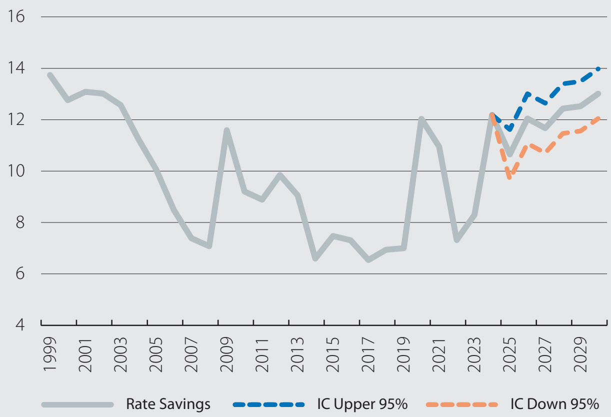
Source: *BPI Research, based on data from INE and Banco de Portugal.*

Savings rate by age group
(% of disposable income)



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

Forecast for the Savings Rate
(% of disposable income)



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

Details of Portugal's current account balance up to Q3 2025

The current account balance shrank in the year to September.

In the first nine months of 2025, Portugal's current account surplus stood at €4.114 billion, equivalent to 1.8% of GDP, representing a significant reduction compared to the figures recorded in the same period of 2024 (–34% in the surplus). This reduction was due not only to the increase in the non-energy goods balance deficit (to 7.6% of GDP), but also to the decrease in the secondary income balance surplus, which fell to 1.5% of GDP. The deterioration observed through September 2025 is partly related to the volatility and uncertainty associated with US government trade policy (although uncertainty has recently been reduced due to the trade agreement[1] between the EU and the US).

Analysing the evolution of the accumulated balance up to September of the current account in absolute terms, it can be concluded that the reduction in the surplus compared to the same period in 2024 (–2.142 billion euros) is justified by the 20% increase in the goods trade deficit (to –21.599 billion euros), which was partially offset by the 6% increase in the services trade surplus (whose accumulated balance rose to 26.4 billion euros). The decrease in the primary income balance deficit (the balance improved by 411 million euros) was offset by the reduction in the secondary income balance surplus (–422 million euros up to September). However, it should be noted that the accumulated current account balance up to September (+€4.114 billion) is the second highest since 2019 (which stood at +€1.266 billion), surpassed only by the accumulated balance recorded up to September 2024 (+€6.255 billion).

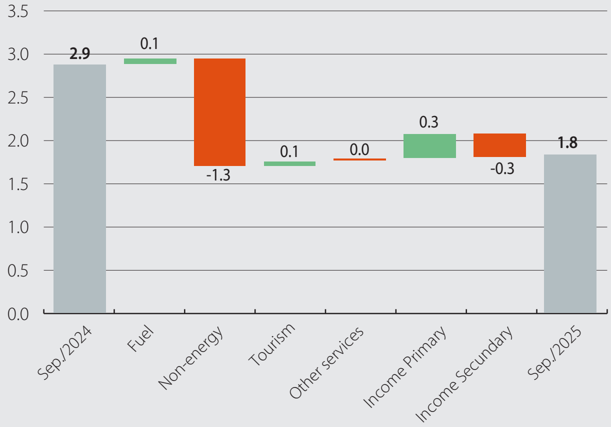
What accounts for the good performance of the balance of services?

Portugal is a significant net exporter of services, and this component is the one that most sustains the positive balance of the current account. Up to September 2025, this balance recorded a surplus of 26.4 billion euros, which corresponds to a 6% improvement compared to the surplus recorded in the same period of 2024. The increase in the balance of €1.459 billion is justified by the increase in the surplus in the two items of this balance: travel & tourism (+993 million euros, i.e. +6%) and other services (+466 million euros, i.e. +6%). The increase in the tourism balance surplus, which contributed 68% to the increase in the cumulative balance of services, was justified by the increase in net exports to countries in Europe (balance increased by €659 million, particularly to Germany and the United Kingdom) and America (balance increased by €295 million). Indeed, the increase in the surplus compared to European and American countries accounts for 66% and 30% of the increase in the tourism balance surplus, respectively. The balance of «Other Services» improved due to an increase in net exports of business services (+€267 million) and transport (+€142 million), whose surplus was partially offset by a deterioration in the balance of construction services (–€151 million).

1. For more information, please consult the respective Brief Note.

Current account evolution

(% of GDP and change in pp)



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

Current account balance evolution (by component)

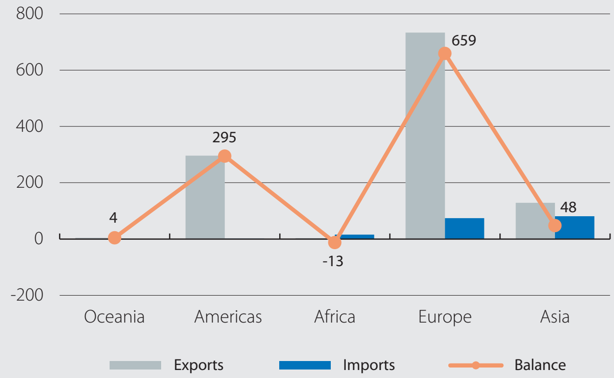
Accumulated figures up to September (millions of euros)

Natural	2024	2025	Difference
Balance of goods	–18,009	–21,599	↓ –3,590
Balance of services	24,940	26,400	↑ 1,459
Secondary income balance	–4,601	–4,190	↑ 411
Secondary income balance	3.926	3.503	↓ -422
Current account	**6.255**	**4.114**	↓ **-2.142**

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

Variation in exports, imports and tourism trade balance, by counterpart territory

Accumulated figures up to September (millions of euros)



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

Balance of goods worsens due to increase of imports

Up to September 2025, the balance of goods had recorded a deficit of €21.599 billion, corresponding to a worsening of the deficit by €3.590 billion (–20%). The deterioration in the balance is justified by the increase in imports (+€3.24 billion, i.e. +4%), as well as the decrease recorded in exports (–350 million euros, i.e. –1%).

In terms of exports of goods, these fell by €350 million up to September compared to the same period in 2024. Pharmaceutical products were those that recorded the most significant increase in export value (+€1.322 million, i.e. +47%), followed by electrical equipment (+13%) and automobiles (+4%). On the downside, exports of coke & refined products decreased by 22%, and the exported value of food products shrank by 4%. The main destinations for exports of national goods were: Spain (26% of total exports, with food products and automobiles being the main products), followed by Germany (14%) and France (12%, mainly automobiles). On the other hand, imports of goods increased by €3.24 billion through September 2025. Behind this significant increase are pharmaceutical products, whose imports increased by €2,434 million (+67%), followed by automobiles (+11%) and food products (+9%). Conversely, imports of oil and natural gas decreased by 12%. The main economic partners on the goods import side are the same as those highlighted on the export side, but with different weights: Spain (32% of total imports, with food products standing out), Germany (12%) and France (7%).

Analysing by product type, it can be concluded that the reduction in the balance of goods (–€3.59 billion) is due to the worsening balance in pharmaceuticals (–€1.112 billion), food (–€890 million), automobiles (–€656 million), and coke & refined products (–€640 million). Conversely, there was an improvement in the balance for crude oil and natural gas (+€550 million).

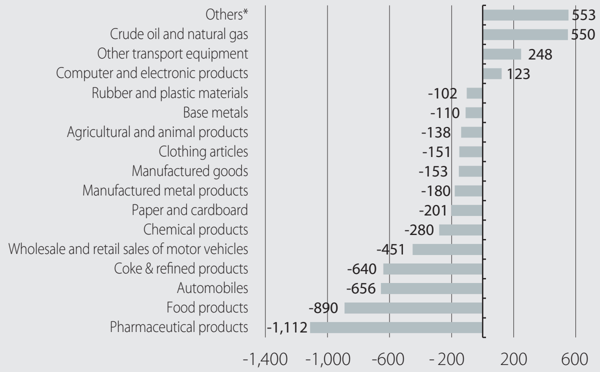
Pharmaceutical product dynamics

Pharmaceutical products stand out in terms of exports and imports, being the main product traded by Portugal with other countries in both areas and in absolute terms. Up to September 2025, exports of this type of product had increased by €1.322 billion (+47%) compared to the same period in 2024. This increase is justified by the rise in exports to Germany (+€1.012 billion) and the US (+€210 million). On the other hand, imports of pharmaceutical products recorded a record increase of €2.434 billion (+67%) through September 2025. Behind this significant variation lies the increase in imports from Ireland (+€1.921 billion, i.e. +319%). According to INE, the increase in Ireland's imports of pharmaceutical products is justified by transactions related to contract work (without transfer of ownership), such as processing work. In net terms, it is worth noting the negative evolution of the trade balance for this type of product with Ireland (to –€2.469 billion), as a result of increased imports, and the improvement in the balance with Germany (to +€1.283 billion), due to increased exports. The interesting dynamics of the pharmaceutical sector deserve continued close monitoring, as they partially justify the worsening of the accumulated balance of goods and, ultimately, Portugal's current account, with negative impacts on the competitiveness of the national economy.

Pedro Avelar

Change in the balance of goods (by product, 2025 vs. 2024)

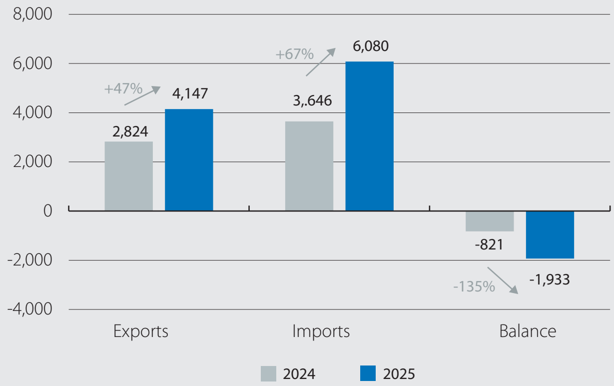
Change in accumulated figures up to September (millions of euros)



Note: ** The «Other» category includes other products (CPA 2008 classification) whose variations in the balance were not that significant. It also includes the adjustment to align the INE (International Trade) figures with the balances determined by the Bank of Portugal.*
Source: *BPI Research, based on data from INE and Banco de Portugal.*

Evolution of pharmaceutical exports and imports

Accumulated figures up to September (millions of euros)



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

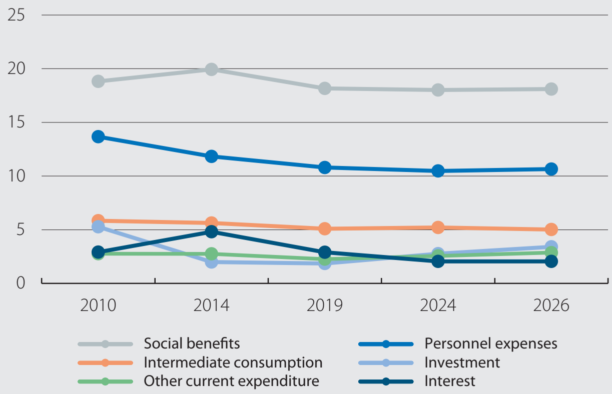
Public spending in Portugal: where does the state its revenues?

The increase in public spending in the post-pandemic years has prompted warnings from various institutions due to fears that, in the future, we may once again be viewed with concern by investors, rating agencies, and international partners. Indeed, the increase in primary current expenditure, that is, the most rigid and difficult-to-reverse public spending in case of necessity, has increased by about 7% on average per year since 2023,[1] and is expected to represent 37.3% of GDP in 2025. If confirmed, this represents an increase of 0.6 pp compared to pre-pandemic levels (i.e., more than 35.3 billion euros). Given these areas of concern, and considering that the new European fiscal rules focus on a new concept related to expenditure (the evolution of net primary expenditure), we look here more clearly at the evolution of public spending in Portugal over the last few years and how the country compares with other European economies.

In this context, social benefits, personnel expenses, and intermediate consumption are the items that weigh most heavily on public spending, in that order, representing about 80% of total expenditure. These are followed, on a smaller scale, by interest, other current expenditure, and investment. This breakdown is similar to that of the other countries in the European Union, as shown in the second graph.

Social benefits were by far the category that increased the most in the last 15 years: standing at almost 18.3 billion euros between 2010 and 2024 (that is, about 60% of the increase in public spending in this period is explained by social benefits), which represents an average annual growth of 3%. In this context, its share

Main categories of public expenditure in Portugal
(% GDP

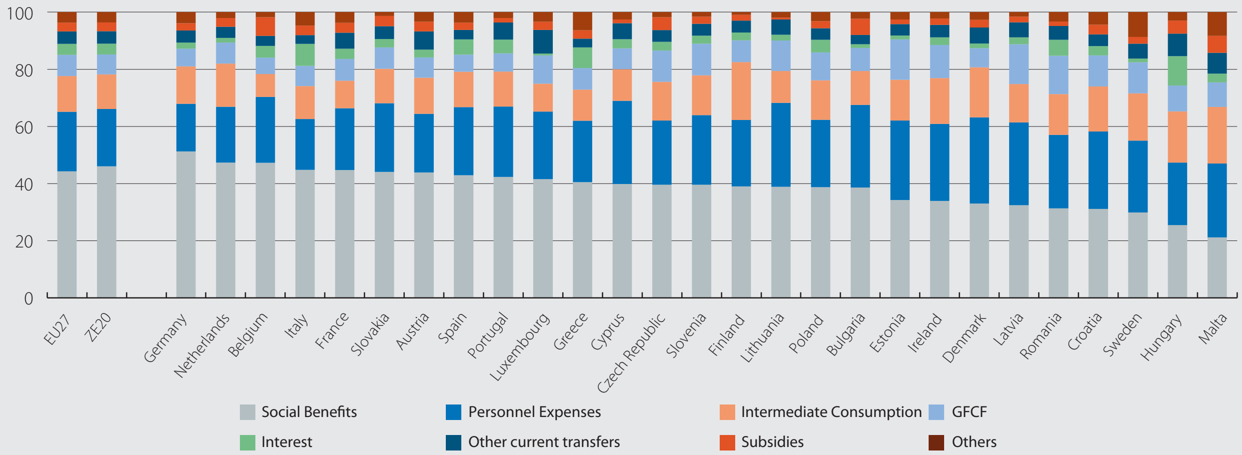


Source: *BPI Research, based on data from the National Institute of Statistics.*

of total expenditure increased from 36.3% in 2010 to over 42% in 2024. In other words, more than 40% of public spending goes towards paying pensions, unemployment benefits and employment support, family allowance, the Solidarity Supplement for the Elderly, among others. More specifically, a quarter of public spending is related to the payment of old-age/retirement pensions, with Portugal being the 5th country with the highest percentage spent (see third graph), and the 7th country if we analyse it as a percentage of GDP (slightly below 11%).[2]

The significant weight of social benefits in public spending is present across all Member States (as shown in the second graph), although some countries spend a larger proportion, such as Germany, which allocates

Breakdown of public expenditure by category, for the various countries of the European Union (2024)
(% of total public expenditure)



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

1. Comparison between the Government's estimate for 2025, included in the 2026 State Budget Proposal, and the amount recorded in 2023.
2. Data relating to 2023, the last year for which information is available from Eurostat.

around 50% of its expenditure to social benefits, while others spend about half of what Portugal spends (such as Malta). Thus, Portugal ranks ninth among countries that allocate the highest percentage of their expenditure to social benefits, slightly below the EU average (44%) and the Eurozone average (46%). It was also the fourth country with the highest increase in the proportion of social benefits in public expenditure between 2010 and 2024, behind only Cyprus, Finland, and Spain.

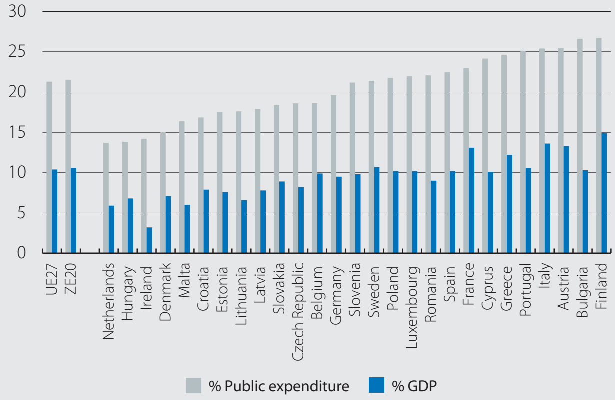
With regard to personnel expenditure, despite an increase of more than €5.7 billion (around 2% on average per year), its weight has decreased in recent years, falling from 26.3% of public expenditure in 2010 to almost 25% in 2024. Per capita expenditure, i.e. dividing personnel costs by the number of civil servants, rose from around €31,000 in 2011 to over €40,000 in 2024.[3] Looking at the data in a disaggregated way, while the number of public employees increased by about 3% during this period, personnel expenses increased by more than 34%. Of the amount spent on personnel, the vast majority is, as expected, the payment of salaries (more than 70%), with the remainder relating to the payment of the respective social contributions. Among the remaining EU countries, Portugal has the 12th highest percentage of expenditure on civil servants' salaries in 2024, above the EU and Eurozone average (around 20% in both cases).

Conversely, Portugal is one of the countries that spends the least on public investment (it was the fourth lowest in terms of the proportion of expenditure allocated to investment in 2024), and this is evident in the weight of public investment in GDP, which fell from 5.3% in 2010 to 2.8% in 2024 (2.5% if we exclude the impact of the PRR). In absolute terms, this represents a reduction of almost 1.5 billion euros between 2010 and 2024 (or more than 2.2 billion euros if we exclude the PRR).

Finally, it is also relevant to look at the evolution of interest, which shows an increase of «just» 689 million euros over the last 15 years, that is, an average of about 46 million euros per year. Its share of GDP decreased from 2.9% in 2010 to 2.1% in 2024, representing approximately 4.8% of public expenditure in 2024 (compared to 5.6% in 2010).[4] This path cannot be analysed separately from the environment of very low (or negative) interest rates that marked the post-crisis period of sovereign debt (through monetary policy action) and Portugal's commitment to consolidating its public accounts,

Weight of old-age pension expenditure, by Member State (2023)

(% of total public expenditure and as a % of GDP)



Note: *Data in national accounts.*
Source: *BPI Research, based on data from Eurostat.*

which has allowed, along with other factors, a better assessment of the country by investors and the main rating agencies, which allows for lower financing costs. Even so, Portugal ranked sixth highest among the various Member States in terms of expenditure allocated to interest payments (as it was in 2010), spending a higher proportion of its expenditure than the average for EU and Eurozone countries (3.8% in both cases),[5] naturally reflecting the still high weight of public debt in Portugal.

Therefore, we end the article the same way we began: careful management of public expenditure (obviously in line with revenue-side policies) must be paramount not only to comply with European budgetary rules,[6] but also to keep the country out of the spotlight of international financial markets.

Vânia Duarte

3. There is no data available for public employment from DGAEP relating to 2010, therefore the comparison for 2024 was made against the first available year, in this case, the fourth quarter of 2011.
4. If we look at the following years, marked by the financial assistance programme for Portugal, the comparison is even more striking: the weight of interest payments in GDP reached 4.8% between 2012 and 2014, and in 2012, interest payments accounted for almost 10% of public spending.
5. The country with the highest interest burden as a proportion of its expenditure in 2024 was Hungary (10.3%), followed by Italy, Greece, Romania and Spain (with 7.7%, 7.2%, 5.6% and 5.4%, respectively).
6. In this context, we suggest reading the focus article «Budgetary balance overshadowed by warnings and risks» in IM11/2025, where we discuss, in the last part of the article, the recent estimates by the Government, UTAO and CFP for the evolution of net primary expenditure and the risk of non-compliance in a scenario without the activation of the national derogation clause. Also recently, the European Commission warned of the risk of non-compliance with fiscal rules, estimating a deviation of 0.7% of GDP in the 2025-2026 period, above the established target (of 0.6%), but maintaining the expectation that Portugal will comply with the minimum annual reduction in the debt ratio of 1 pp.

Healthcare in Portugal – greater longevity, but at what cost?

What has changed over the last 50 years?

The healthcare sector in Portugal has undergone significant changes since the 1970s, particularly regarding the number of trained professionals, increased public spending allocated to investments in the sector, and changes in the habits and lifestyles of the Portuguese population, with direct results in increased life expectancy (LE) and a reduction in the infant mortality rate[1] (IMR). On average, and according to 2022 data, the Portuguese population has a life expectancy of 82.6 years, above the OECD average (82.3 years), which translates to an increase of 14.4 years in life expectancy in just 50 years (the increase observed for the OECD average was 10.4 years). In the 1970s, the Portuguese IMR (37.9) was substantially higher than the OECD average (16.6), whereas currently it stands at 2.6 for Portugal and 3.3 for the OECD average.

Portugal's significantly better performance in the area of Health (with visible results in the increase in life expectancy and the reduction in infant mortality rates) when compared to other OECD countries is largely justified by the creation of the National Health Service (SNS) in 1979, which began to guarantee universal access to essential health care, and in a way that is generally free of charge. Before the creation of the National Health Service (SNS), access to health care was the responsibility of families, private institutions, and social security medical services, something that was beyond the reach of people with lower incomes, placing health as a secondary priority. The National Health Service itself has also undergone changes since its creation, such as the development of doctors' careers, the creation of family health units, and the restructuring of hospital management. In 2020, public spending allocated to health reached 6.8% of GDP, an increase of 5.5 pp compared to 1970. However, starting in 2011, Portugal began spending comparatively less on health than the Eurozone as a whole (on average, 0.7 pp less).

Investment in the training of human resources for the health sector was one of the key factors in improving results. In 1970, only 1.9% of employed people worked in this area, whereas by 2022 the ratio had already exceeded 5%. When we compare the 1970s with 2022, one of the most striking pieces of data is the fivefold increase in the number of doctors and the fourfold increase in the number of nurses registered with their respective professional bodies. However, the increased longevity of the population leads to growing pressure on the NHS, resulting in visible constraints, for example, in the growth of waiting lists for consultations or surgery.

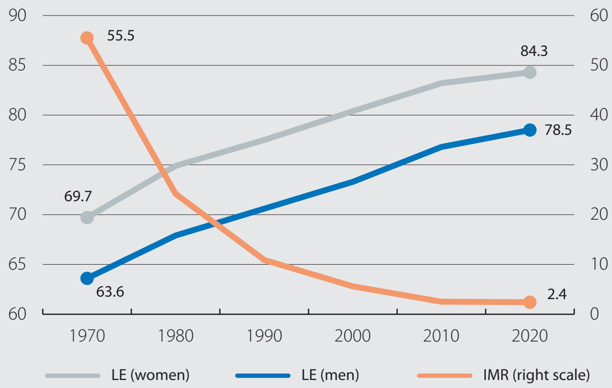
We live longer, but is our quality of life better?

Although life expectancy in Portugal is higher than the OECD average, the number of healthy years of life[2] of the

1. The infant mortality rate refers to the number of deaths per 1,000 live births under 1 year of age.
2. Free from disease, injury, and in a state of functional health.

*Life expectancy at birth (in years) and infant mortality rate**

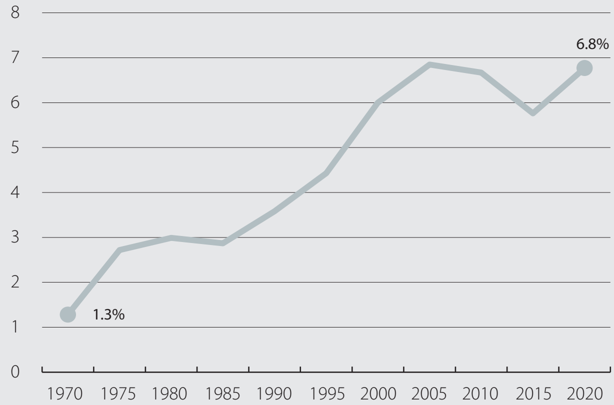
(Years) *(Number of deaths per thousand births)*



Note: ** Number of deaths in babies under 1 year old per thousand live births.*
Source: *BPI Research, based on data from INE and the Ministry of Health.*

Public spending on health

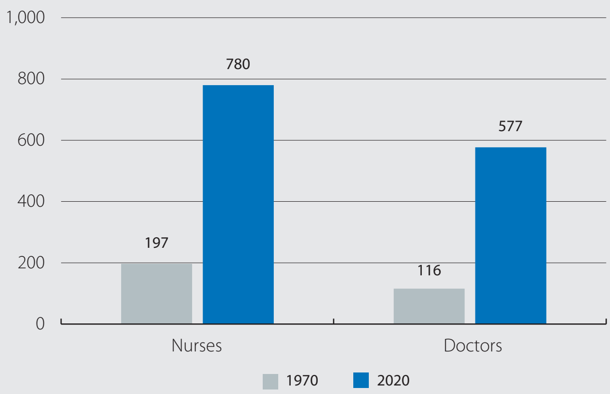
(% GDP)



Source: *BPI Research, based on data from the World Bank.*

Doctors and nurses per 100,000 inhabitants in Portugal

(Number)



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

Portuguese population is 3.5 years below the EU average. Thus, it is possible to conclude that in Portugal, people seek healthcare earlier and over a longer period of time, for example, for the treatment of chronic diseases. One of the reasons given for this smaller number of years of healthy life is the reduced level of physical activity. In fact, in 2019 only 3% of the population walked or cycled for 30 minutes a day, while the EU average was 15%. Another factor contributing to the potential loss of health is the consumption of alcoholic beverages – in 2019, 20.7% of the resident population in Portugal reported consuming alcohol daily (the EU average was 8.4% that year). Additionally, the high number of cases of people with depressive symptoms (in 2019, 8.7% of the population, 2 pp less than the EU average), associated with higher consumption of antidepressants (149 daily doses sold per thousand inhabitants vs. 75 for the EU) also have an impact on the loss of healthy years of life. The increased demand for primary healthcare, resulting from a reduction in the number of healthy years, is putting pressure on the National Health Service (SNS), a topic that is currently under discussion. Indeed, Portugal is the country in Europe where citizens' healthcare needs are met the least[3] (for example, more than 1.5 million health care users did not have an assigned family doctor in 2024). The deficiencies of the NHS has boosted the use of health insurance, with Portugal standing out with the third highest rate of spending on private health care in 2022 in the EU (Portuguese citizens spent an average of €1,056 per year on this type of expenditure, compared to the EU average of €688 per year).

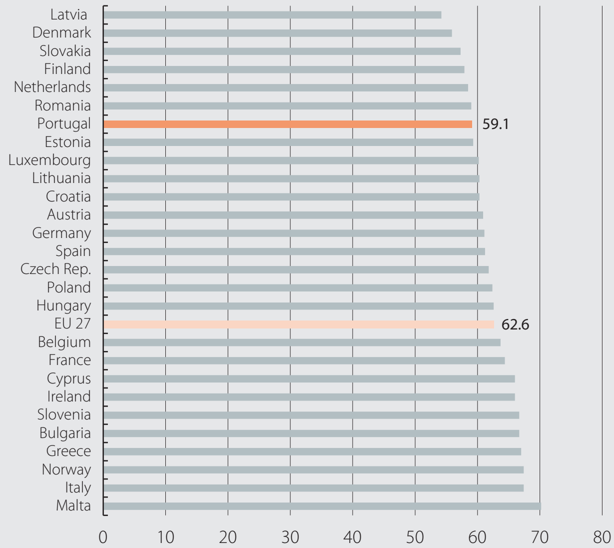
What is expected for the National Health Service in the coming years?

Government spending allocated to the health sector has increased by around 7% per year since 2020. More than half of the funds are used for the acquisition of goods and services, and personnel expenses have absorbed more than 40% of the total amount since 2023 (growing by 2 pp per year since then). Indeed, Portugal spends more on personnel than the Eurozone (whose budget for this component is around 20% of the total allocated to the health sector). The State Budget for 2026 projects the smallest increase in health expenditure in recent years (1.5%), whereas in the last two years the increase was almost 7%. This slowdown is justified by a 10% drop in the acquisition of goods and services. On the other hand, the category with the highest projected growth will be investment (+65%, to 1.2 billion euros).

A key factor in leveraging the potential of the NHS is the implementation of the investments stipulated in the PRR, which allocates 2.1 billion euros (9% of the budget) to this component (C01). To date, only €468 million has been delivered to the final beneficiaries (less than one quarter of what was planned), which appears to compromise the full implementation of the proposed investments and reforms. These projects[4] are fundamental to addressing the challenges arising from an ageing population, increased incidence of chronic diseases, and inequalities in access to healthcare. The ultimate goal is to create a more resilient, efficient, and accessible National Health Service (NHS) that can offer higher quality services and better respond to citizens' needs.[5]

Pedro Avelar

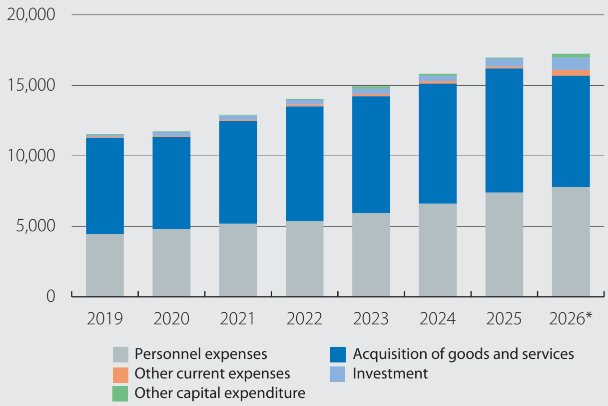
Years of healthy life at birth (2022)



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

Breakdown of healthcare expenses

(Millions of euros)



Note: ** The figures for 2026 are those projected in the State Budget.*
Source: *BPI Research, based on data from the General State Account.*

3. According to Eurostat, 40% of Portuguese people with health needs report at least one instance in which they were unable to access the necessary healthcare (with particular emphasis on oral and mental health), mainly due to waiting times and financial reasons. The EU average is 26%.

4. Examples: construction of 124 new health units, renovation of 347 facilities, creation of 50 integrated continuing care home teams and 10 mental health support teams, construction of 4 inpatient units in general hospitals, allocation of 3,600 new IT equipment to the Madeira Regional Health Service, acquisition of 19 heavy medical equipment for SNS hospitals and construction of part of the Lisbon Eastern Hospital.
5. For example, through infrastructure modernisation, strengthening primary and hospital care, and accelerating digital transformation.

Activity and employment indicators

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Coincident economic activity index	3.9	2.0	1.9	1.8	1.8	2.0	2.1	2.2	...
Industry									
Industrial production index	–3.1	0.8	–0.4	–2.3	1.2	2.6	2.0	...	...
Confidence indicator in industry *(value)*	–7.4	–6.2	–4.2	–5.1	–4.8	–3.4	–3.0	–3.7	–2.6
Construction									
Building permits - new housing (number of homes)	7.5	6.5	23.6	39.8	19.4	7.0	1.6	...	...
House sales	–18.7	14.5	32.5	25.0	15.5	...	–	–	–
House prices *(euro / m² - valuation)*	9.1	8.5	13.2	15.8	17.4	18.2	17.7	17.7	...
Services									
Foreign tourists *(cumulative over 12 months)*	19.0	6.3	6.3	4.6	4.0	2.6	2.6	2.6	...
Confidence indicator in services *(value)*	7.7	5.6	10.9	12.5	6.6	12.9	12.4	10.7	7.8
Consumption									
Retail sales	1.1	3.3	5.0	4.5	4.8	5.3	5.3	4.5	...
Coincident indicator for private consumption	3.1	2.8	3.5	3.8	3.5	3.1	3.1	3.0	...
Consumer confidence index *(value)*	–28.7	–18.0	–14.3	–15.5	–17.9	–16.2	–16.6	–15.9	–15.2
Labour market									
Employment	2.3	1.2	1.3	2.4	2.9	3.7	3.7	3.4	...
Unemployment rate (*% labour force*)	6.5	6.4	6.7	6.6	5.9	5.8	6.0	5.9	...
GDP	**3.1**	**2.1**	**2.6**	**1.7**	**1.8**	**2.4**	–	–	–

Prices

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
General	4.4	2.4	2.6	2.3	2.2	2.6	2.4	2.3	2.2
Core	5.1	2.5	2.7	2.3	2.3	2.3	2.0	2.1	1.9

Foreign sector

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	2.0	2.0	5.3	4.3	2.2	2.2	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–4.0	2.0	2.0	5.4	7.0	6.5	6.5	...	...
Current balance	**1.5**	**6.0**	**6.0**	**4.2**	**3.7**	**3.8**	**3.8**	**...**	**...**
Goods and services	4.1	6.5	6.5	5.2	4.5	4.4	4.4	...	...
Primary and secondary income	–2.6	–0.6	–0.6	–0.9	–0.9	–0.6	–0.6	...	...
Net lending (+) / borrowing (–) capacity	**5.5**	**9.1**	**9.1**	**7.5**	**7.1**	**7.6**	**7.6**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Deposits [1]									
Household and company deposits	–2.3	7.5	7.5	6.5	5.4	6.3	6.3	6.1	...
Sight and savings	–18.5	–0.3	–0.3	5.0	5.1	8.6	8.6	8.1	...
Term and notice	22.2	15.3	15.3	7.8	5.8	4.3	4.3	4.4	...
General government deposits	–12.4	26.7	26.7	29.3	39.6	–0.5	–0.5	15.6	...
TOTAL	**–2.6**	**7.9**	**7.9**	**7.1**	**6.4**	**6.1**	**6.1**	**6.4**	**...**
Outstanding balance of credit [1]									
Private sector	–1.5	1.9	1.9	3.3	4.9	5.8	5.8	6.1	...
Non-financial firms	–2.1	–1.0	–1.0	0.1	2.2	2.3	2.3	2.4	...
Households - housing	–1.5	3.0	3.0	4.9	6.4	8.0	8.0	8.5	...
Households - other purposes	0.2	5.4	5.4	5.7	6.6	6.9	6.9	7.1	...
General government	–5.5	0.6	0.6	–8.0	3.8	4.8	4.8	5.7	...
TOTAL	**–1.7**	**1.9**	**1.9**	**2.9**	**4.9**	**5.8**	**5.8**	**6.1**	**...**
NPL ratio *(%)* [2]	**2.7**	**2.4**	**2.4**	**2.3**	**2.3**	**...**	–	–	–

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

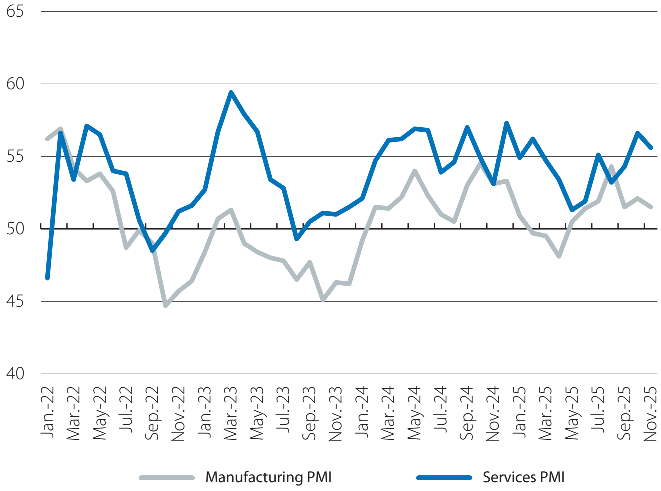
The Spanish economy remains dynamic in the final stretch of 2025

The November activity indicators point to a very positive Q4. Private consumption remains dynamic, supported by the gradual recovery of household real disposable income and lower interest rates. At the same time, business activity indicators are strong and the labour market continues to create jobs. This context leads us to anticipate a better end of the year than expected. Specifically, the CaixaBank Research consumption indicator shows that spending on Spanish cards in the first three weeks of November increased by 6.9% year-on-year, well above the 3.2% of Q3. Also, the retail trade index, deflated and corrected for seasonality effects, recorded a significant increase of 3.8% year-on-year in October. On the supply side, the PMI for the manufacturing sector stood at 51.5 points in November, slightly below the previous month's level of 52.1 points and that of Q3 (52.6), but still comfortably above the threshold that denotes growth in the sector (50 points). In addition, the services sector's PMI reached 55.6 points, a high figure which, although slightly lower than October, is higher than Q3 (54.2).

Good labour market data in Q4. In November, traditionally a month of declines in the number of registered workers due to the fall in employment in the hospitality industry, the labour market showed a good tone: Social Security affiliation fell by 14,358 people compared to October (–0.07%), less than in previous years, and in seasonally adjusted terms it increased by 44,734 people. Thus, affiliation rose in October-November by 0.6% quarter-on-quarter (adjusted for seasonality), 0.1 pp more than in the previous quarter, suggesting an improvement in the pace of job creation. This positive trend indicates that more jobs will have been created in 2025 than in 2024, which is indeed significant: affiliation has increased by 474,846 workers in the first 11 months of the year versus 462,276 in November 2024. Another positive development is that registered unemployment fell by 18,805 people compared to October, to 2.42 million.

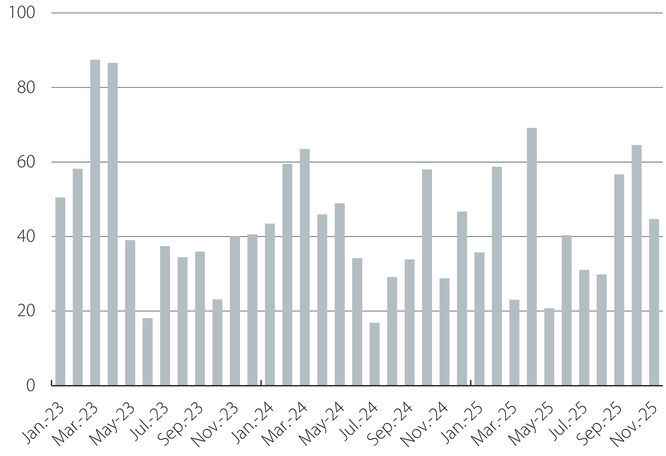
Inflation stabilises at still somewhat high levels. The CPI flash indicator for November stood at 3.0%, 0.1 pp lower than in October, representing a stabilisation after the upward trend observed since May, when inflation was 2.0%. The slight decline was more modest than expected; the price of electricity fell less than expected compared to October, while food and leisure and culture applied upward pressure. Thus, there are upside risks for the inflation forecast due to greater-than-expected inertia in services-related inflation, coupled with the resistance shown by electricity prices to substantially correct.

Spain: PMI
Level



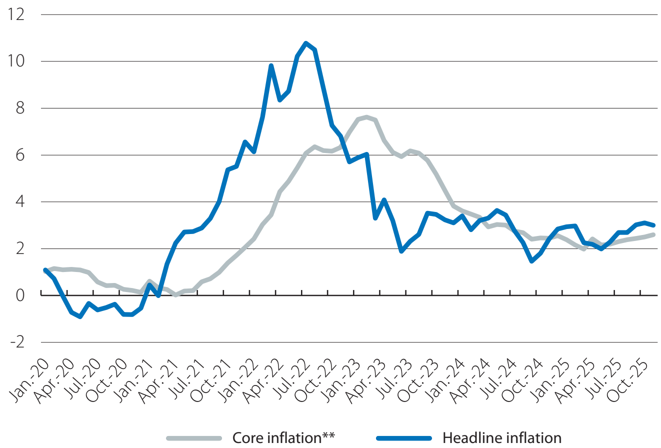
Source: *BPI Research, based on data from S&P Global PMI.*

Spain: registered workers affiliated with Social Security*
Month-on-month change (thousands of people)



Note: ** Series corrected for seasonality.*
Source: *BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: inflation*
Change (%)



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

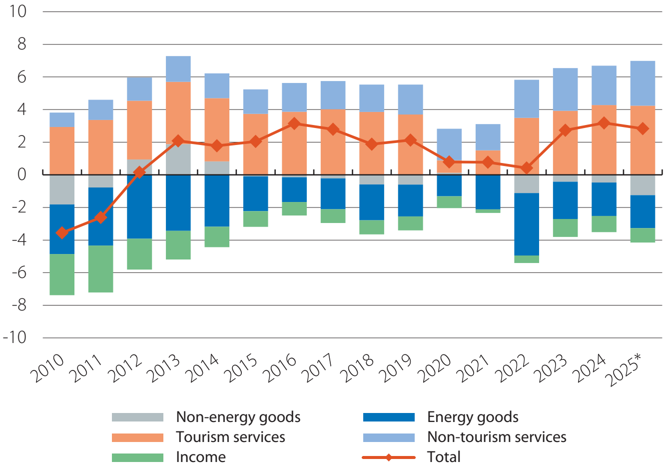
The current account surplus is reduced by the strength of imports. The current account balance up until September, in cumulative terms for the trailing 12 months, showed a surplus of 2.8% of GDP, 0.3 points less than in 2024 as a whole. The setback was primarily due to the significant dynamism of imports of non-energy goods, which supplied strong domestic demand and was much greater than that of exports. This left a deficit in the balance of non-energy goods of 1.2% of GDP, 0.7 points more than at the end of 2024. The energy deficit, for its part, recorded a slight improvement, standing at 2.0% of GDP compared to 2.1% in 2024, with prices continuing to fall (–15% year-on-year in 2025). On the services side, the growth of non-tourism services stands out, with a surplus of 2.7% of GDP compared to 2.4% in 2024, amid a 10% year-on-year increase in exports. Tourism continued to perform well, with a surplus of 4.2% of GDP, following its record of 4.3% last year. By geographical area, between January and September, of particular note was the 7.4% year-on-year fall in exports of goods to the US, which left a trade deficit of almost 10.8 billion with the North American country (10,785.6 million, to be precise).

Reduction of the budget deficit up until Q3 compared to last year. Up to September, the consolidated general government deficit (excluding local government corporations) fell to 1.1% of GDP, compared to 1.5% in the same period of 2024, thanks to the strength of public revenues (+7.2% year-on-year) versus more contained expenditure (+5.7%). In nominal terms, the deficit is 23% lower than a year ago. Tax collection revenues grew by 7.8%, driven by both direct taxes (+9.9%) and indirect taxes (+7.3%), while social security contributions rose by 6.5%. On the expenditure side, of particular note is the increase in social benefits (+6.3%), while that of wage earners' remuneration remained moderate (+3.1%), pending the retroactive application of the 2.5% wage rise agreed in December. With these trends, all the indicators suggest a deficit of around 2.5% of GDP in 2025 (vs. 3.2% in 2024), which is better than our current forecast of 2.7% prepared with data from the first half of the year.

The house price rally shows no sign of easing. The appraisal value of unsubsidised housing grew in Q3 by 3.0% quarter-on-quarter and by 12.1% year-on-year, an acceleration from the 10.4% recorded in Q2 and the biggest increase since 2005. This rebound reflects the imbalance between supply and demand, although in real terms the price remains 27% below the 2007 peak. In this context, sales are showing some volatility: after several quarters with increases in excess of 10%, August saw a fall in sales of 3.4% and in September there was a slight rebound of 3.8%. Nevertheless, the volume remains high, with 707,800 sales transactions closed in the past 12 months, the highest figure since 2007.

Spain: current account balance

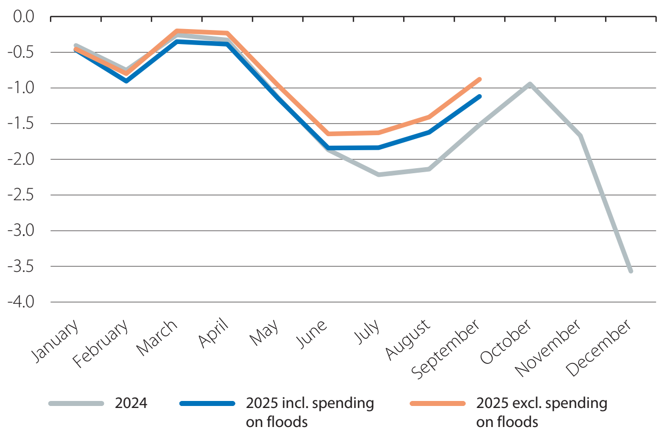
(% of GDP)



Notes: ** Cumulative data for the trailing 12 months to September. Data on goods according to the SITC (Standard International Trade Classification).*
Source: *BPI Research, a partir de datos del INE.*

Spain: general government lending capacity/ funding needs

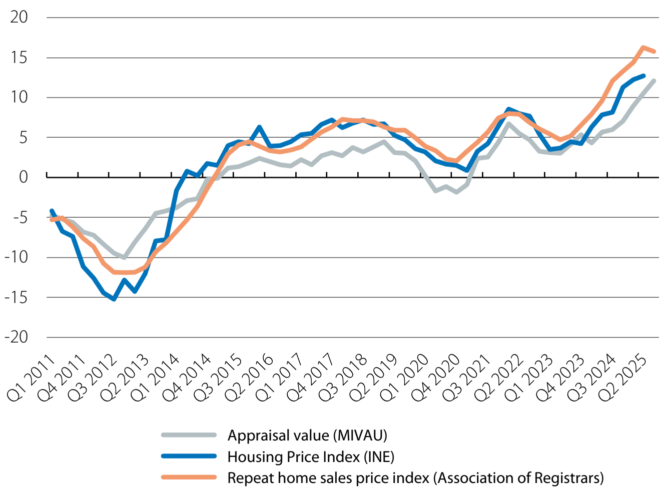
(% of GDP)



Note: *Consolidated data excluding local corporations, since their data has not yet been published.*
Source: *BPI Research, based on data from the General Intervention Board of the State Administration (IGAE).*

Spain: house prices

Year-on-year change (%)



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

Activity and employment indicators

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Industry									
Industrial production index	–1.6	0.4	1.3	–0.7	1.5	2.5	1.7	...	...
Indicator of confidence in industry *(value)*	–6.5	–4.9	–6.0	–5.4	–5.2	–4.9	–4.6	–4.6	–3.4
Manufacturing PMI *(value)*	48.0	52.2	53.6	50.0	50.0	52.6	51.5	52.1	51.5
Construction									
Building permits *(cumulative over 12 months)*	0.5	16.7	16.7	20.1	14.8	7.9	7.9	...	...
House sales *(cumulative over 12 months)*	–10.2	9.7	9.7	17.0	22.9	18.7	18.7	...	...
House prices	4.0	8.4	11.3	12.2	12.7	...	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	18.9	10.1	10.1	8.1	6.3	4.3	4.3	3.7	...
Services PMI *(value)*	53.6	55.3	55.1	55.3	52.2	54.2	54.3	56.6	55.6
Consumption									
Retail sales[1]	2.5	1.8	2.9	3.4	5.1	4.5	4.1	3.8	...
Car registrations	16.7	7.2	14.4	14.0	13.7	16.9	16.4	15.9	12.9
Economic sentiment indicator *(value)*	100.5	103.0	101.4	103.3	103.2	103.7	104.9	103.9	105.9
Labour market									
Employment[2]	3.1	2.2	2.2	2.4	2.7	2.6	...	...	...
Unemployment rate (% labour force)	12.2	11.3	10.6	11.4	10.3	10.5	...	...	...
Registered as employed with Social Security[3]	2.7	2.4	2.4	2.3	2.2	2.3	2.4	2.4	2.5
GDP	**2.5**	**3.5**	**3.7**	**3.1**	**3.0**	**2.8**	...	...	...

Prices

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
General	3.5	2.8	2.4	2.7	2.2	2.8	3.0	3.1	3.0
Core	6.0	2.9	2.5	2.2	2.3	2.4	2.4	2.5	2.6

Foreign sector

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	0.2	0.2	3.3	2.0	0.8	0.8	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–7.2	0.1	0.1	4.2	4.1	4.6	4.6	...	...
Current balance	**40.9**	**50.7**	**50.7**	**47.8**	**49.1**	**47.0**	**47.0**	...	...
Goods and services	57.5	66.3	66.3	63.5	64.3	61.7	61.7	...	...
Primary and secondary income	–16.5	–15.7	–15.7	–15.7	–15.2	–14.7	–14.7	...	...
Net lending (+) / borrowing (–) capacity	**57.8**	**68.7**	**68.7**	**66.6**	**68.1**	**66.1**	**66.1**	...	...

Credit and deposits in non-financial sectors[4]

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

	2023	2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	09/25	10/25	11/25
Deposits									
Household and company deposits	0.3	5.1	5.1	4.6	3.9	4.9	4.9	4.9	...
Demand and notice deposits	–7.4	2.0	2.0	3.1	5.0	7.2	7.2	7.3	...
Time and repo deposits	100.5	23.5	23.5	12.6	–1.5	–6.6	–6.6	–6.1	...
General government deposits[5]	0.5	23.1	23.1	24.4	25.5	7.2	7.2	4.6	...
TOTAL	**0.3**	**6.3**	**6.3**	**5.9**	**5.4**	**5.1**	**5.1**	**4.9**	...
Outstanding balance of credit									
Private sector	–3.4	0.7	0.7	1.7	2.6	2.8	2.8	3.2	...
Non-financial firms	–4.7	0.4	0.4	1.6	2.5	2.3	2.3	3.0	...
Households - housing	–3.2	0.3	0.3	1.4	2.3	2.9	2.9	3.0	...
Households - other purposes	–0.5	2.3	2.3	3.1	–261.4	3.7	3.7	4.3	...
General government	–3.5	–2.6	–2.6	–0.3	5.3	12.9	12.9	11.4	...
TOTAL	**–3.4**	**0.5**	**0.5**	**1.6**	**2.7**	**3.4**	**3.4**	**3.7**	...
NPL ratio (%)[6]	**3.5**	**3.3**	**3.3**	**3.2**	**3.0**	**2.9**	**2.9**	...	...

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

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

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