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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
MAY 2026

AI

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ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS

What markets tell us about macroeconomics

INTERNATIONAL ECONOMY

Shadows (and some light) in Europe's industrial decline

PORTUGUESE ECONOMY

The climate and geopolitics overshadow the budget surplus

An economist's appetite: Portugal's potential GDP

What does the Transformation, Recovery and Resilience Plan mean for us?

SPANISH ECONOMY

Investment growth, key to consolidating Spain's economic expansion

DOSSIER: THE PRESENT AND FUTURES OF THE NEW AI ECONOMY

Artificial intelligence: a supply-side perspective

Differentiated strategies for governing AI: towards cooperation or conflict?

Productivity and employment in the face of generative AI: what do we know?

The AI buzz in financial markets

The adoption of Artificial Intelligence in Portugal

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May 2026

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

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Economy and markets between two tides: geopolitics and artificial intelligence

The most positive (and surprising) aspect of recent weeks in the economic landscape has been the financial sector's response to the heightened uncertainty caused by geopolitical instability. There are no precedents for an energy shock of this magnitude without a noticeable tightening of financial conditions. However, on this occasion, the initial risk-off movement moderate, and in some market segments it has been almost completely reversed. Indeed, as the conflict enters its third month, with significant distortions in energy and trade flows, many stock markets are above their pre-conflict levels – in some cases even reaching all-time highs. Moreover, there have been no overreactions in currency markets. Even bond yields are reflecting limited concern about inflation and medium-term fiscal balances, beyond pricing in changes in the monetary policy outlook at the short end of the curve – something we all would have signed off on 28 February.

This may be the calm before the storm or reflect the difficulty of incorporating geopolitical risk into financial asset valuations. However, this gap between the financial channel and the harsh geoeconomic reality is proving to be an important lever for mitigating the impact of geopolitical risk on the real economy. It could be argued that behind this disconnection lies investors' excessive confidence in the resilience of the business cycle and in central banks' ability to keep inflation expectations in check and limit second-round effects on prices, a key factor for financial stability. But perhaps the most important support for this market optimism lies in the beneficial effects that artificial intelligence (AI) could have on productivity and potential medium-term growth, more than offsetting the impact of any negative shock on the supply curve.

In other words, although our attention will remain focused for a while on geopolitics and all its derivatives, the elephant in the room remains the medium-term implications of AI on macroeconomic variables. The risk is of being overly optimistic, but the tip of the iceberg of this megatrend is promising, considering the initial positive effects on US growth and on the earnings of firms in the sector. As a case in point, investment in technology in the US (processing equipment, software and research and development) has been growing at a year-on-year rate of 15% over the past six months, establishing itself as the main driver of growth. Since the emergence of ChatGPT three years ago, the so-called Magnificent Seven have accounted for more than 50% of the earnings growth of the S&P 500 and 60% of the cumulative rise in its market capitalisation.

In this context, we have dedicated our May Dossier to this new technology, which is becoming a priority in economic competition among the major powers. The strategies adopted vary widely, from the American goal to define the technological frontier, leveraging its competitive advantages in human capital and technological capabilities, to China's prioritisation of optimising the global industrial value chain and scale, as well as security (see the article: «Differentiated strategies for governing AI: towards cooperation or conflict?»). Meanwhile, Europe, facing the risk of falling behind, has intensified the debate on balancing regulation, competitiveness and scale. At the same time, it is attempting to establish a common governance framework to leverage the strength of its scientific and research base and reduce its high external dependency for semiconductors and foundational models. In other articles we examine the adoption of AI in the Spanish economy and how it could affect productivity growth and the labour market (see the article «Productivity and employment in the face of generative AI: what do we know?»). Our analysis reveals that, although aggregate estimates vary greatly depending on the assumptions used about the proportion of tasks affected by AI (and the average productivity gain in those tasks), in the most reasonable scenario, medium-term productivity improvements of up to 1 pp annually can be expected in the US and around half of that in Europe. This would not be an instant revolution, but it would represent a step change for potential growth. That is precisely what financial markets are anticipating, rightly or wrongly, when they try to look beyond the noise of geopolitics. They are walking the thin line that separates hopes for a new industrial revolution from fears of its effects on inequality and employment.

José Ramón Díez
May 2026

Chronology

APRIL 2026

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

FEBRUARY 2026

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

DECEMBER 2025

- 10** The Fed cuts rates by 25 bps, placing them in the 3.50%-3.75% range.
- 18** The Bank of England cuts rates by 25 bps, to 3.75%.
- 19** The Bank of Japan raises rates by 25 bps, to 0.75%.

MARCH 2026

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

JANUARY 2026

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

NOVEMBER 2025

- 12** End to the longest government shutdown in US history.

Agenda

MAY 2026

- 4** Portugal: industrial production (March).
- 5** Spain: registration with Social Security and registered unemployment (April).
- 6** Portugal: employment and unemployment (Q1).
- 8** Spain: industrial production index (March).
- 15** Portugal: average monthly gross salary per worker (Q1).
Portugal: DBRS rating.
Japan: GDP (Q1).
- 19** Spain: foreign trade (March).
- 25** Spain: loans, deposits and NPL ratio (March).
- 28** Euro area: economic sentiment indicator (May).
- 29** Spain: CPI flash estimate (May).
Spain: DBRS rating.
Portugal: GDP breakdown (Q1).
Portugal: CPI flash estimate (May).

JUNE 2026

- 2** Spain: registration with Social Security and registered unemployment (May).
Euro area: CPI flash estimate (May).
- 9** Portugal: international trade (April).
- 11** Governing Council of the European Central Bank meeting.
- 16** Spain: quarterly labour cost survey (Q1).
- 16-17** Federal Open Market Committee meeting.
- 18-19** European Council meeting.
- 22** Portugal: resident population (2025).
- 23** Spain: balance of payments and NIIP (Q1).
Portugal: house prices (Q1).
- 24** Portugal: GDP breakdown (Q1).
- 25** Spain: GDP breakdown (Q1).
Portugal: NPL ratio (Q1).
- 26** Spain: loans, deposits and NPL ratio (Q1 and April).
- 29** Spain: CPI flash estimate (June).
Euro area: economic sentiment indicator (June).
- 30** Spain: household savings rate (Q1).
Portugal: CPI flash estimate (June).

Hormuz: time is against us

The economic impact of the war with Iran is still yet to be seen in full. If an agreement is reached in the short term and the flow of goods through the Strait of Hormuz resumes soon, the macroeconomic effect may be limited. In a time when we tend to emphasise downside risks, this scenario should not be overlooked. Not only is it plausible, it may be the most likely scenario. The fact that, so far, the market reaction has been moderate (with the main stock market indices near historical highs) points us in that direction. If this scenario should materialise, the Portuguese economy could maintain significant dynamism.

The starting point is relatively solid, despite the somewhat weak performance in the first quarter. This is confirmed by the recently released key indicators for the first quarter, along with the first available data for the second quarter. Portuguese GDP stabilised in Q1 and grew 2.3% year-on-year, below the estimate we gave at the beginning of the year, before the start of the conflict, but still significant, considering the various adverse events, particularly the series of storms that hit the mainland and which we estimated to have an impact of approximately 0.2 p. p. on growth in the quarter. According to INE, the positive contribution of domestic demand to the year-on-year change in GDP increased (via an acceleration in investment). On the other hand, external demand made a more negative contribution, with imports accelerating more sharply than exports. This economic performance was also accompanied by dynamism in the labour market: According to INE, employment decreased by 0.7% compared to the previous quarter, while maintaining robust year-on-year growth (2.3%).

The latest economic indicators send mixed signals. The sentiment indicator suggests a slowdown in economic activity in March and April; however, indicators related to the labour market and consumption continue to show positive trends. Sentiment in the construction, retail, and services sectors improved in April, suggesting that

economic activity in these sectors may be boosted. The external data, however, are not so favourable, with exports showing weak performance in both goods and services. Additionally, the slowdown in the growth rate of flights suggests a slowdown in tourism sector exports in April, and the inflation rate accelerated to 3.4% in April, with more than 40% of the increase being due to the energy component.

If the conflict in the Middle East were resolved quickly and energy prices go back down, this latest shock should not significantly affect the Portuguese economy. In fact, growth would likely be lower than the 2.1% projected in our central scenario, which was drafted before the conflict broke out. As a reference, a \$20 increase in the average price of oil over the year (to \$87/barrel) subtracts 0.14 p. p. from GDP growth; in the case of gas, the sensitivity is slightly lower, close to 0.10 p. p. (assuming that the average price of gas in 2026 stands at €58, €20 higher than in the previous year). At the time of writing, futures prices for the year indicated an average price of almost €30 above pre-conflict levels for crude oil and €15 for gas. Overall, the energy shock would have a noticeable impact, though it would not be enough to halt the expansionary momentum of the Portuguese economy.

However, time is working against this scenario of a more moderate impact. The closure of the Strait of Hormuz has created a significant deficit in global oil and gas production, which is currently unable to meet existing demand, with global reserves rapidly declining. If the situation persists, some countries – mainly in Asia or those with lower purchasing power – may begin to face supply problems. In this context, the market reaction would likely not be so complacent; energy prices would rise and household confidence would be affected.

It is therefore advisable to consider all scenarios. There are many reasons to believe that the situation could get worse, but it is also unwise to act rashly. Time may not be on our side, but the economy is still holding firm.

Oriol Aspachs and Paula Carvalho

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	1.75	4.25	3.50	3.00	3.00
3-month SOFR	3.62	1.01	2.09	4.37	3.71	3.10	3.07
12-month SOFR	3.86	1.48	2.39	4.19	3.48	3.10	2.78
2-year government bonds	3.70	1.04	2.06	4.24	3.51	3.50	3.75
10-year government bonds	4.69	2.57	2.31	4.40	4.14	4.50	4.60
Euro							
ECB depo	2.05	0.20	0.61	3.09	2.00	2.00	2.00
ECB refi	3.05	0.75	1.11	3.24	2.15	2.15	2.15
€STR	–	–0.54	0.52	3.06	1.93	1.94	1.97
1-month Euribor	3.18	0.50	0.57	2.89	1.92	2.00	2.03
3-month Euribor	3.24	0.65	0.70	2.83	2.05	2.04	2.06
6-month Euribor	3.29	0.78	0.87	2.63	2.14	2.12	2.11
12-month Euribor	3.40	0.96	1.04	2.44	2.27	2.23	2.18
Germany							
2-year government bonds	3.41	0.35	0.56	2.02	2.13	2.04	2.00
10-year government bonds	4.30	1.54	0.72	2.22	2.84	2.95	2.90
Spain							
3-year government bonds	3.62	1.69	0.92	2.26	2.39	2.57	2.60
5-year government bonds	3.91	2.19	1.07	2.48	2.64	2.88	2.92
10-year government bonds	4.42	3.17	1.61	2.90	3.28	3.45	3.50
Risk premium	11	164	90	68	45	50	60
Portugal							
3-year government bonds	3.68	3.33	0.76	2.03	2.16	2.17	2.17
5-year government bonds	3.96	3.94	0.98	2.15	2.49	2.62	2.64
10-year government bonds	4.49	4.67	1.52	2.68	3.14	3.40	3.45
Risk premium	19	314	81	46	31	45	55
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.12	1.05	1.17	1.20	1.20
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.83	0.87	0.90	0.90
EUR/GBP (yen per euro)	129.56	126.41	135.43	161.18	182.71	180.00	175.00
OIL PRICE							
Brent (\$/barrel)	42.3	80.1	73.8	73.1	61.6	66.0	64.8
Brent (euros/barrel)	36.4	62.5	67.0	69.8	52.6	55.0	54.0

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
GDP GROWTH¹							
Global	4.3	3.3	2.8	3.3	3.4	3.3	3.2
Developed countries	2.7	1.5	1.7	1.8	1.7	1.9	1.7
United States	2.7	1.8	2.4	2.8	2.1	2.6	2.0
Euro area	2.3	0.9	1.1	0.8	1.5	1.3	1.5
Germany	1.6	1.3	0.2	-0.5	0.3	1.0	1.4
France	2.3	1.0	0.9	1.1	0.9	1.0	1.2
Italy	1.5	-0.3	1.5	0.5	0.7	0.8	1.1
Portugal	1.5	0.4	1.9	2.1	1.9	2.1	1.9
Spain	3.6	0.7	1.1	3.5	2.8	2.4	2.0
Japan	1.4	0.4	0.1	-0.2	1.1	0.8	0.6
United Kingdom	2.8	1.3	1.0	1.1	1.3	0.7	1.4
Emerging and developing countries	6.3	4.9	3.5	4.3	4.4	4.2	4.1
China	10.6	8.0	4.9	5.0	5.0	4.5	4.0
India	7.2	6.7	4.6	7.3	7.5	6.6	6.4
Brazil	3.6	1.6	1.9	3.4	2.3	1.8	1.8
Mexico	2.3	1.5	1.1	1.4	0.6	1.3	1.8
Russia	-	1.4	1.5	4.3	1.0	1.1	1.1
Türkiye	5.5	4.5	6.4	3.3	3.6	3.4	3.4
Poland	4.1	3.7	2.6	3.0	3.6	3.5	3.2
INFLATION							
Global	4.1	3.7	5.9	5.8	4.1	3.9	3.5
Developed countries	2.1	1.6	3.9	2.6	2.5	2.2	2.1
United States	2.7	1.8	4.5	2.9	2.6	2.6	2.2
Euro area	2.2	1.4	4.2	2.4	2.1	1.9	2.0
Germany	1.7	1.4	4.6	2.5	2.3	2.0	2.1
France	1.9	1.3	3.5	2.3	0.9	1.3	1.7
Italy	-0.1	1.4	4.1	1.1	1.6	1.5	1.8
Portugal	3.1	1.1	3.4	2.4	2.3	2.1	2.0
Spain	3.2	1.3	3.7	2.8	2.7	2.4	2.2
Japan	-0.3	0.4	1.4	2.7	3.2	2.0	2.0
United Kingdom	1.6	2.3	5.0	2.5	3.4	2.5	2.1
Emerging and developing countries	6.9	5.6	7.3	7.9	5.1	5.1	4.4
China	1.7	2.6	1.4	0.2	0.1	1.0	1.5
India	4.6	7.3	6.0	5.0	2.2	4.1	4.0
Brazil	7.3	5.7	6.4	4.4	5.0	4.2	3.8
Mexico	5.2	4.2	5.6	4.7	3.8	3.9	3.8
Russia	14.3	7.9	7.5	8.5	8.7	6.0	4.5
Türkiye	22.6	9.6	39.5	58.5	34.9	26.1	19.9
Poland	3.5	1.9	8.2	3.7	3.4	2.6	2.6

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

Forecasts

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

Portuguese economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
Macroeconomic aggregates							
Household consumption	1.7	0.5	1.5	3.0	3.5	2.6	2.1
Government consumption	2.2	-0.3	1.9	1.5	1.6	1.5	1.0
Gross fixed capital formation	-0.3	-0.6	3.7	4.3	3.6	5.4	2.2
Capital goods	3.3	2.7	6.3	8.4	-1.4	-	-
Construction	-1.4	-2.4	3.1	3.0	5.5	-	-
Domestic demand (vs. GDP Δ)	1.3	0.0	2.0	3.0	3.1	3.1	1.9
Exports of goods and services	5.3	4.0	3.8	3.2	0.4	2.2	4.1
Imports of goods and services	3.6	2.7	3.6	4.7	4.3	3.5	3.9
Gross domestic product	1.5	0.5	1.7	2.2	1.9	2.1	1.9
Other variables							
Employment	0.4	-0.4	1.4	1.2	3.2	1.9	1.5
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.4	6.0	5.9	5.9
Consumer price index	3.1	1.1	3.4	2.4	2.3	2.1	2.0
Current account balance (% GDP)	-9.2	-2.9	-0.4	2.1	1.2	1.2	1.2
External funding capacity/needs (% GDP)	-7.7	-1.5	0.6	3.3	2.0	3.8	2.1
Fiscal balance (% GDP)	-4.5	-5.1	-1.9	0.5	0.7	-0.6	-0.5

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.4	3.0	3.3	3.0	2.1
Government consumption	4.5	0.9	3.1	2.9	2.4	1.4	1.8
Gross fixed capital formation	5.7	-1.2	1.0	3.6	5.8	5.2	2.5
Capital goods	4.9	0.2	-1.4	1.9	7.4	4.4	2.5
Construction	5.7	-2.6	0.4	4.0	5.2	5.6	2.4
Domestic demand (vs. GDP Δ)	4.4	-0.2	0.9	3.2	3.5	3.0	2.0
Exports of goods and services	4.7	2.9	2.4	3.2	3.6	2.1	2.1
Imports of goods and services	7.0	0.2	1.9	2.9	6.2	4.1	2.4
Gross domestic product	3.6	0.7	1.1	3.5	2.8	2.4	2.0
Other variables							
Employment	3.2	-0.5	2.0	2.8	3.1	2.5	1.8
Unemployment rate (% of labour force)	10.5	19.5	13.9	11.3	10.5	9.8	9.2
Consumer price index	3.2	1.3	3.7	2.8	2.7	2.4	2.2
Unit labour costs	3.1	0.6	4.1	3.3	4.2	3.6	2.7
Current account balance (% GDP)	-5.8	-0.2	1.2	3.2	2.9	2.7	2.9
External funding capacity/needs (% GDP)	-5.2	0.2	2.0	4.2	3.4	3.6	3.9
Fiscal balance (% GDP) ¹	0.3	-6.5	-6.1	-3.2	-2.4	-2.1	-2.1

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

Forecasts

Financial markets: a disconnect between risk and energy?

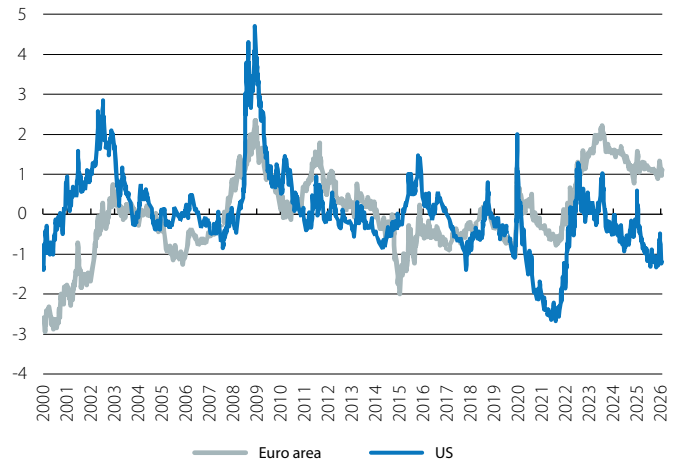
Uncertainty and risk appetite diverge in April. The conflict in the Middle East set the pace for financial markets in a month marked by very high uncertainty and as geopolitics continued to redefine the economic landscape. Despite the ceasefire, the price rally in energy and other products linked to hydrocarbons and the region (such as fertilisers and fuels) was consolidated. At the same time, central banks confirmed a shift towards a gradually more restrictive monetary policy (due to either expectations of interest rate hikes or a pause in previously anticipated cuts), causing sovereign yields to remain high. However, stock markets diverged from this trend and the main stock indices once again registered gains, spurred by renewed optimism around AI firms, the reporting of strong corporate earnings and a recovery in risk appetite.

Energy remains in distress... With the Strait of Hormuz closed, the International Energy Agency estimates that since March, around 10% of the global oil supply has been lost and that this decline has been cushioned mainly by previously accumulated stockpiles. The price of a barrel of Brent remained above 100 dollars for much of the past month and continued to show significant volatility, with some sessions seeing an easing of prices to just below 90 dollars per barrel while in others it exceeded 120 dollars. In the gas market, the European TTF benchmark traded in the range of 40-50 euros per MWh. For the 2026 average, futures markets continued to suggest prices at around 90 dollars per barrel of Brent and 45 euros per MWh for the TTF, 30% and 40% above pre-conflict levels, respectively. For 2027, they anticipate a moderation in prices to 75 dollars and 35 euros on average for the year (+10% vs. pre-conflict levels). Furthermore, these price tensions continued to spread to derivative products, with generic benchmarks in wholesale diesel and jet fuel markets rallying between +60% and +80% vs. pre-conflict levels. The rise in fertiliser (urea) prices was similar, with concerns that this could be passed on to food prices, which also rose in April (Bloomberg's agricultural index rose by over 3% in April and is up more than 10% in the year to date).

... and stock markets regain their risk appetite. In the US, the S&P 500 reached new all-time highs thanks to the tech sector rally and the advance of cyclical sectors (consumption, industry). European stock markets also recorded a significant and widespread rebound, with the Stoxx 600 EUR returning to positive territory for the year to date. The MSCI Emerging Markets indices were also up around 15% in 2026 in both Asia and Latin America. Sentiment found support in a strong earnings season. At the close of this report, with over 60% and 50% of firms in the S&P 500 and the Stoxx 600 EUR having reported their earnings, between 70% and 80% of US firms have exceeded expectations in sales and earnings, while around 50% beat forecasts in Europe (in line with previous seasons). In parallel, analysts continue to anticipate strong earnings growth for the year ahead (of around 20% and 10% in the US and Europe, respectively).

Financial conditions

Index (0 = 2000-2026 average)



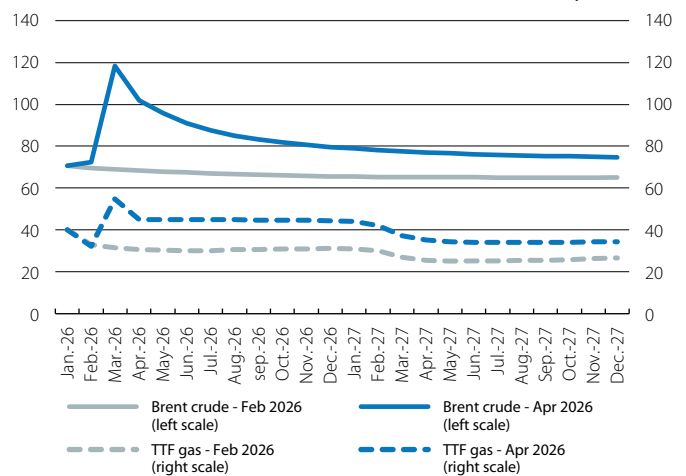
Note: Goldman Sachs financial conditions indices normalised using the mean and standard deviation for the period 2000-2026.

Source: BPI Research, based on data from Bloomberg.

Oil and gas: futures curves

(Dollars per barrel)

(Euros per MWh)

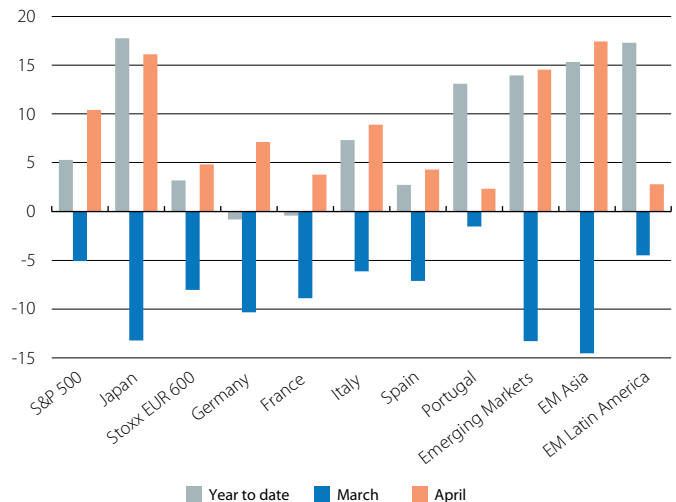


Note: The reference prices for oil and gas correspond to futures prices two and one months ahead, respectively (e.g. Mar-2026 prices correspond to futures contracts for May [Brent] and April [TTF]).

Source: BPI Research, based on data from Bloomberg.

International stock markets: performance in 2026

Change (%)



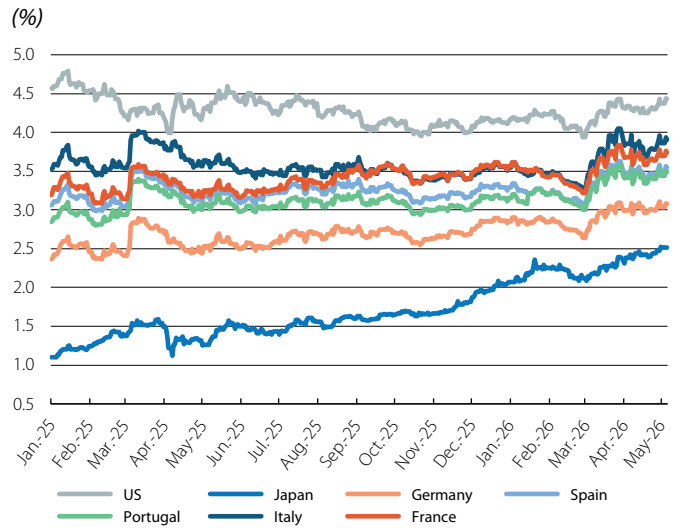
Source: BPI Research, based on data from Bloomberg.

Interest rates are consolidating at higher levels. On both sides of the Atlantic, sovereign interest rates remained stressed. This was due to inflation expectations stemming from the energy shock in the Middle East (swaps were pricing in one-year inflation at around 3.5%, in both the US and the euro area), as well as the prospect of a more restrictive monetary policy than that anticipated prior to the bombings. US and German sovereign yields rose by almost 10 bps and 5 bps in the last month, with the short ends of the curves rising between 40 and 50 bps in the year to date (+20 bps at the long end). Risk premia in the periphery, in contrast, remained contained (just under 50 bps for Spain, just above 40 bps for Portugal) and Italy and France, which were initially under more strain, managed to moderately narrow their spreads relative to Germany. In the foreign exchange market, the euro regained some lost ground and appreciated to 1.17 dollars.

Change at the helm of the Fed, but no changes in rates. The Fed kept interest rates unchanged in April (fed funds rate in the 3.50%-3.75% range). This decision was expected, but the central bank struck a notably more cautious tone. The Fed expressed greater concern about inflation and indicated a reduced willingness to resume rate cuts (at the close of this report, markets were assigning less than a 10% probability to a rate cut in 2026). The meeting was marked by Jerome Powell's departure as chair. Departing from tradition, Powell will remain as a governor of the Fed until the legal attacks against the institution, which he considers a threat to its independence, are resolved in a final and transparent manner. His successor should be Kevin Warsh, pending his final confirmation by the Senate. The central banks of Japan and England adhered to expectations and kept rates at 0.75% and 3.75%, respectively. In both cases, hawkish signals dominated, with dissent in favour of raising rates, and markets are pointing to 25-bp hikes at their June and July meetings, respectively.

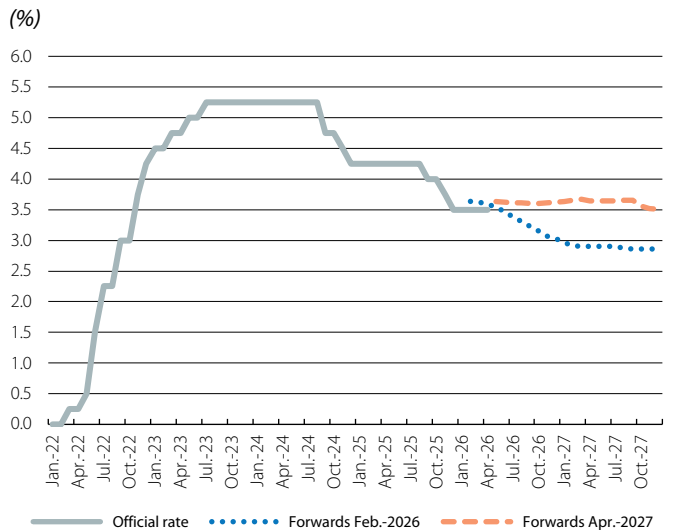
The ECB hints at a rate hike in June. The ECB kept interest rates unchanged in April (depo rate at 2.00%). The decision was unanimous, although President Lagarde herself acknowledged that a rate increase had been discussed. The ECB maintained a balanced tone in its communication, highlighting both the upside risks to inflation and the downside risks to activity stemming from the conflict in the Middle East. In an uncertain environment, it advocated maintaining a «meeting-by-meeting» and «data-dependent» approach, «not pre-committing to a particular rate path». However, the communication also hinted at a high likelihood of raising rates in June. The ECB highlighted that the war in the Middle East will drive inflation «materially above 2% in the near term». The direct effects on inflation are visible (in April, energy raised inflation to 3.0%) and there are signs of some indirect effects. With all this, Lagarde acknowledged that they will reassess the situation in the coming weeks, admitting that she is clear about the direction of monetary policy while expressing no discomfort with regard to financial market expectations (which in the last month continued to price in between two and three 25-bp hikes in the depo rate for the whole of 2026).

10-year sovereign interest rates



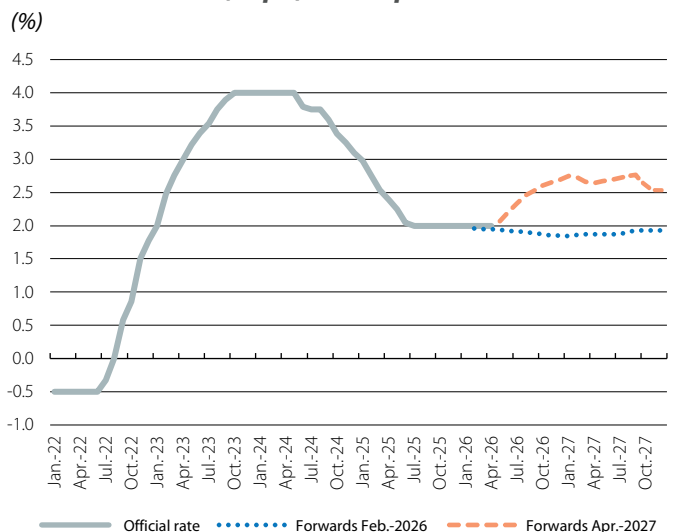
Source: BPI Research, based on data from Bloomberg.

Fed: official rate (FFR) and expectations



Source: BPI Research, based on data from Bloomberg.

ECB: official rate (depo) and expectations



Source: BPI Research, based on data from Bloomberg.

What markets tell us about macroeconomics

How do financial markets reflect macroeconomic surprises? Can we identify, in financial asset prices, which macroeconomic narrative dominates investor sentiment? This article presents an analytical model¹ to identify the macroeconomic factors that drive financial markets in the euro area and the US. It does so on the basis of correlations between different asset classes and daily high-frequency market data, spanning from June 2005 to the present.

Methodology

For each region, we examine daily data from different types of financial assets: interest rates (overnight rates and sovereign bonds), inflation expectations (inflation swaps), equities (stock and volatility indices), exchange rates and commodities (gold, oil and gas).²

We then analyse the co-movements between these assets and extract patterns (in the form of common factors) that allow us to identify different macroeconomic drivers of market movements.³

Main drivers

Our exercise identifies three major categories of macroeconomic shocks: demand, supply and monetary policy. Intuitively, an increase in demand stimulates both economic activity and price growth, which is reflected in rising stock market prices (higher corporate profits), inflation expectations and higher interest rates (both to compensate for inflation and due to the possibility of central bank rate hikes). Conversely, a contraction in supply depresses activity and raises prices (this may be caused by an increase in the cost of commodities, such as oil), resulting in stock market declines and higher interest rates (amid expectations of monetary tightening to combat inflation).

Finally, a dovish monetary policy shock (e.g. when a central bank signals it will cut interest rates) is associated with declines in sovereign rates, a depreciation of the domestic currency, and an increase in stock markets and inflation expectations (due to the support of monetary easing for economic activity).

1. The model is based on the one proposed by Matteo Crimella of Goldman Sachs in the 2019 article «French and Italian Spreads: A Tale of Macro, Policy and Politics».
 2. For interest rates and inflation expectations, we take the daily variance, in pps, at the close of the session; for the rest, we take the daily percentage variance in the closing price.
 3. We use a principal component analysis (PCA) on the standardised daily variations of all assets.

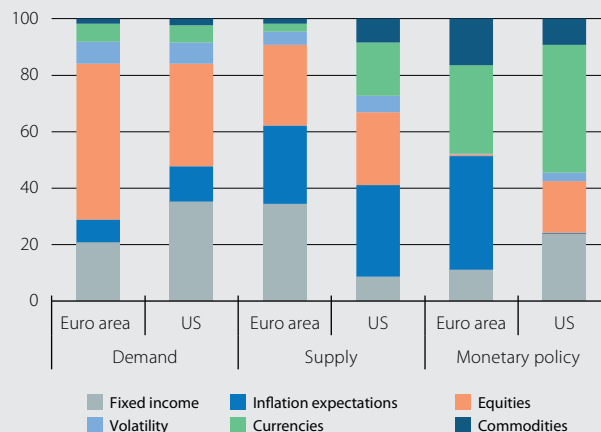
Asset movements in each type of shock

	Demand (-)	Supply (-)	Monetary policy (dovish)
Fixed-income securities	-	+	-
Inflation expectations	-	+	+
Equities	-	-	+
Volatility	+	+	=
Currencies	-	=	-
Commodities	=	+	+

Notes: The signs (+), (-) and (=) indicate increases, decreases and stability, respectively, of the variables and of aggregate demand and supply. For fixed-income securities, by variables we refer to sovereign yields (so a decline corresponds to an increase in the bond price).

Source: BPI Research.

Importance of assets in each type of shock (%)



Note: The contribution of the variables is in terms of one standard deviation of each asset.
Source: BPI Research, based on data from Bloomberg.

Formally, these three macroeconomic market drivers are identified through the various expected co-movements between financial variables, as summarised in the first table.⁴

Macro drivers from a historical perspective

The model's results show that the nature of the shocks that drive financial markets varies widely depending on the historical episode and the region analysed. In the euro area, recessions – the global financial crisis, the sovereign debt crisis and the COVID-19 pandemic – were clearly dominated by demand shocks, which accounted for around 40%-50% of the sessions. This reflects an

4. The three drivers correspond to the first three main components of the PCA. The resonance between the weight assigned by the PCA to each financial variable and the direction of the financial markets (increases or declines in the stock market, interest rates, etc.) determines which of the three drivers «dominates» a market session.

environment marked by deteriorating growth, stock market declines and falling inflation expectations. However, recent geopolitical crises present a different dynamic. During the war in Ukraine, the weight of supply shocks surged to 33%, during current tensions in the Middle East this figure has risen to 65%, highlighting Europe’s high sensitivity to energy and supply disruptions. In the US, demand shocks also dominated during the economic recessions of 2008 and the pandemic, albeit with less intensity than in Europe, while monetary policy shocks play a structurally more significant role throughout the sample.

In fact, during the war in Ukraine, and especially during the recent Iran episode, the dominant driver in US markets has been monetary policy, accounting for 33% and 40% of sessions, respectively. Together, these results suggest that markets interpret the Iranian shock primarily as a supply-side inflationary risk in the euro area. In the US, in contrast, the market response is dominated by its implications for the future path of the Federal Reserve, given the relatively lower vulnerability of the US economy to increases in external energy prices, due to its status as a net energy producer and exporter.

Observations and technical notes on methodology and models

Although it falls outside the scope of this article, our model reveals seemingly technical details which nevertheless provide «narrative» insights worthy of discussion.

Firstly, the most notable reading is the difference between the monetary policy shocks in the US and in the euro area.⁵ While the movements in both regions are in the expected direction, the exercise identifies different sensitivities and magnitudes between the two regions. In the euro area, equities are relatively less sensitive, generally speaking, to monetary policy shocks. This may reflect the greater weight of the financial sector in European stock market indices (a sector which tends to benefit from higher interest rates, unlike the rest). Another similar observation is the low sensitivity of inflation expectations to monetary shocks identified by the model in the US – a result consistent with the academic literature.⁶

5. Technically, shocks in one region and another are not comparable, at least quantitatively, as they have different weights on different (and also non-comparable) assets.

6. R.S. Gürkaynak, B. Sack and J.H. Wright (2010). «The TIPS yield curve and inflation compensation». American Economic Journal: Macroeconomics, 2(1), 70-92.

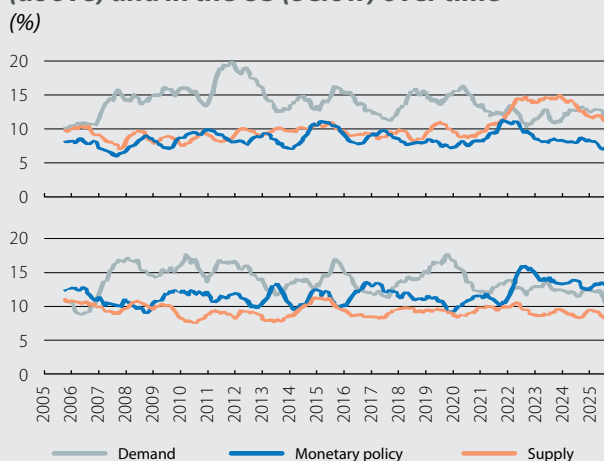
Sessions dominated by each driver

		Demand	Supply	Monetary policy
Financial crisis (01/01/2007-31/12/2009)	Euro area	41	13	8
	US	39	15	17
Sovereign debt crisis (01/01/2010-31/12/2012)	Euro area	47	13	13
	US	44	10	21
COVID crisis (01/01/2020-31/12/2020)	Euro area	45	14	8
	US	40	10	16
Ukraine War (01/01/2022-31/12/2022)	Euro area	23	33	20
	US	26	13	33
Iran War (01/03/2026-24/04/2026)	Euro area	3	65	8
	US	15	15	38
Total sample	Euro area	36	20	12
	US	33	13	25

Note: The percentages do not add up to 100% because there are sessions dominated by other less important components that we do not consider.

Source: BPI Research, based on data from Bloomberg.

Importance of the drivers in the euro area (above) and in the US (below) over time



Note: The lines correspond to the moving averages of the importance of each driver in the last 200 sessions.

Source: BPI Research, based on data from Bloomberg.

Secondly, the analysis makes it possible to calibrate the sensitivity of each asset class to different types of shock. For example, equities show greater sensitivity in demand shocks than in supply shocks. In the case of fixed-income securities, sensitivity varies by region: in the euro area, it shows a similar magnitude in response to supply and demand shocks, whereas in the US it is greater in response to demand shocks.

Finally, it is difficult to decouple the movement of commodities from that of other assets using only the three drivers described. If we expand the number of drivers analysed, we obtain components with less

aggregate explanatory power but which offer greater precision in explaining specific co-movements between assets. This allows us to observe how fluctuations in gold prices are heavily influenced by drivers that were of limited aggregate importance in the past, but which have recently surged.⁷

7. In technical terms, the PCA only identifies the seventh component as being a significant driver of gold prices, whereas until mid-2024 it had limited explanatory power. However, in 2026 there have been weeks when this component has been the one with the greatest aggregate importance.

Interest rates (%)

	30-April	31-March	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.15	0	0	-25
3-month Euribor	2.20	2.08	12	17	2
1-year Euribor	2.85	2.87	-2	61	77
1-year government bonds (Germany)	2.50	2.51	0	49	73
2-year government bonds (Germany)	2.64	2.62	3	52	91
10-year government bonds (Germany)	3.04	3.00	3	18	54
10-year government bonds (Spain)	3.50	3.51	-1	21	34
10-year government bonds (Portugal)	3.44	3.45	-1	29	39
US					
Fed funds (lower limit)	3.50	3.50	0	0	-75
3-month SOFR	3.66	3.68	-2	1	-61
1-year government bonds	3.71	3.65	5	24	-19
2-year government bonds	3.87	3.79	8	40	22
10-year government bonds	4.37	4.32	5	20	20

Spreads corporate bonds (bps)

	30-April	31-March	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	60	72	-12	9.0	-7.0
Itraxx Financials Senior	63	78	-15	8.2	-8.7
Itraxx Subordinated Financials	103	134	-31	10.0	-21.5

Exchange rates

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.173	1.155	1.5	-0.1	3.0
EUR/JPY (yen per euro)	183.700	183.380	0.2	-0.2	13.3
EUR/GBP (pounds per euro)	0.862	0.873	-1.3	-1.1	1.6
USD/JPY (yen per dollar)	156.590	158.720	-1.3	-0.1	10.0

Commodities

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
Bloomberg Commodity Index	140.5	135.2	3.9	28.1	37.2
Brent (\$/barrel)	114.0	118.4	-3.7	87.4	77.4
Gold (\$/ounce)	4,617.9	4,668.1	-1.1	6.9	39.2

Equity

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	7,209.0	6,528.5	10.4	5.3	29.6
Eurostoxx 50 (euro area)	5,881.5	5,569.7	5.6	1.6	13.9
Ibex 35 (Spain)	17,781.0	17,049.6	4.3	2.7	33.0
PSI 20 (Portugal)	9,345.0	9,131.6	2.3	13.1	34.1
Nikkei 225 (Japan)	59,284.9	51,063.7	16.1	17.8	64.5
MSCI Emerging	1,600.2	1,397.2	14.5	13.9	44.7

Geopolitics prevails over international economic data

Attention in the past month has refocused on the Middle East.

As of the close of this report, military and economic pressure continues around the Strait of Hormuz, a key route for the global supply of oil, gas, and derivative products. The IMF, in its April outlook report, points out that despite the strong start to 2026 globally, there is a risk of a severe energy shock if hostilities persist. In its baseline scenario, it assumes a relatively quick normalisation, with an average oil price of around 80 dollars per barrel in 2026, global GDP growth of around 3%, and an increase in inflation of 0.3 pps. It also warns, however, that more adverse or severe scenarios could push the global economy to the brink of stagflation.

The euro area was already in a rather delicate situation before the conflict.

Euro area GDP moderated its growth in Q1 2026 to 0.1% quarter-on-quarter (previously 0.2%), but excluding Ireland it would stand at around 0.2% (previously 0.4%). By country, Germany grew by 0.3%, but important hard data for March (industrial production, orders, exports, etc.), which could affect the final GDP figure, are yet to be published. Italy grew by 0.2% and France stagnated. The euro area has had a modest start to the year, placing the region in a delicate position to face the new energy shock. Moreover, the latest indicators reveal an even weaker start to Q2 2026: in April, the PMIs (which reflect the business climate) fell into recession territory (-2.1 points, to 48.6, with 50 being the threshold) and the Commission's economic sentiment indicator recorded three consecutive months of decline, reaching its lowest level since November 2020 (93.0, with 100 being its historical average). To mitigate the impact of rising energy costs, the main euro area economies have opted for temporary and targeted measures (direct aid to vulnerable households or tax cuts), with a much lower fiscal cost than those deployed during the crisis of 2022-2023.

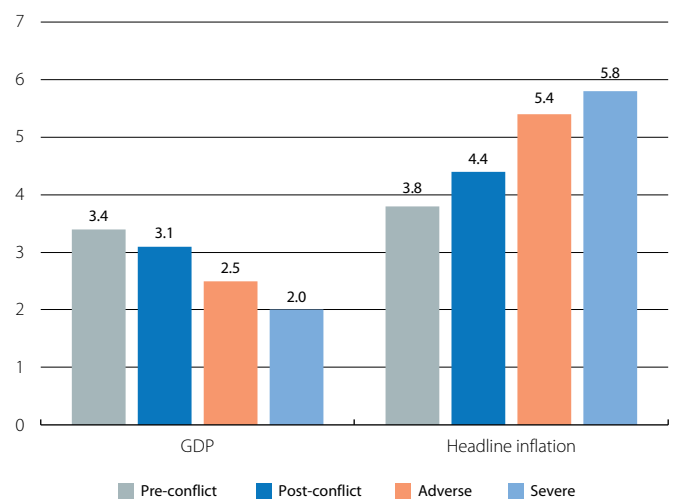
Germany will see how rising energy costs limit the impact of its infrastructure plan.

Moreover, this plan is already struggling to take off: total cumulative federal spending to March has grown by almost 6.0% year-on-year, but infrastructure spending is still 14% lower than a year ago. Optimism about the German economy continues to cool: in April, the ZEW confirms a sharp rise in the proportion of surveyed investors who expect the situation to deteriorate further (almost 35 pps in two months, exceeding 38% of those surveyed), while the Ifo fell to its lowest level since June 2009 (84.4, with 100 being its historical average). Even the government has halved its growth forecast for 2026 to 0.5%.

Italy, which is more exposed to fossil fuels (as they generate almost half of the electricity it consumes), will feel the impact of rising energy prices more acutely in the middle months of the year. France, meanwhile, was already stagnant before the conflict and a substantial recovery is not expected (the consensus among analysts points to GDP growth of 0.1%-0.2% quarter-on-quarter going forward). Furthermore, the capacity of fiscal policy to support both economies is limited by the unfavourable state of their public accounts.

IMF: global GDP and inflation forecasts for 2026

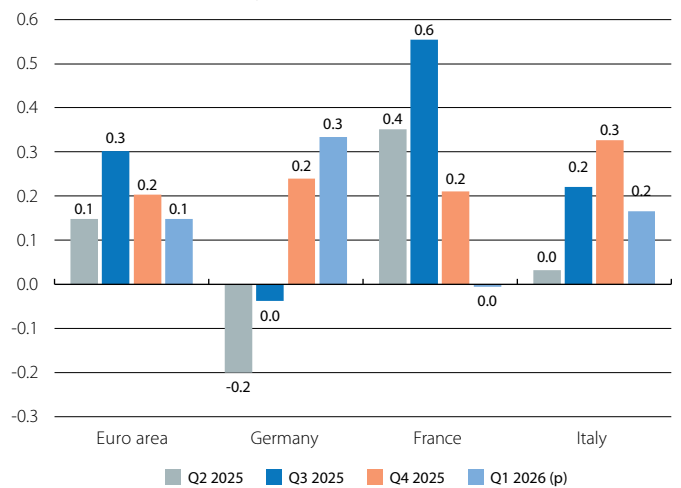
Year-on-year change (%)



Source: BPI Research, based on data from the IMF (WEO, April 2026).

Euro area: GDP

Quarter-on-quarter change (%)

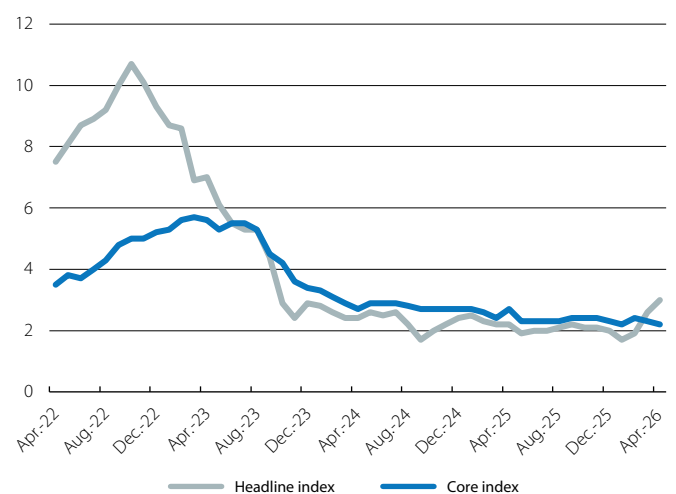


Note: (p) preliminary data.

Source: BPI Research, based on data from Eurostat.

Euro area: HICP

Year-on-year change (%)



Source: BPI Research, based on data from Eurostat.

Euro area headline inflation rose by 0.4 pps in April to 3.0%, driven by energy (10.9% year-on-year in April vs. 5.1% in March), while core inflation fell by 0.1 pp to 2.2%. There is a risk of new inflation spikes: the price components of the PMIs have tightened since the conflict in the Middle East and the inflation expectations captured in the Commission's sentiment indicator are at their highest since the second half of 2022.

The US kicked off the year with good momentum, placing it in a better position to face the current energy shock. The US economy has overcome the impact of the shutdown: after the 0.1% quarter-on-quarter growth recorded in Q4 2025, it grew by 0.5% in Q1 2026. Private consumption continued to expand at a steady pace, while public spending experienced a rebound as its activity normalised (1.1% vs. -1.4%). The main driver was investment in fixed capital (1.5% vs. 0.4%), driven by the ongoing investments associated with AI: investment in computer equipment, software and research and development contributed almost 0.5 pps to quarter-on-quarter GDP growth. This AI boom is also driving imports (5.0% vs. -0.2%), which explains why external demand subtracted 0.3 pps from growth.

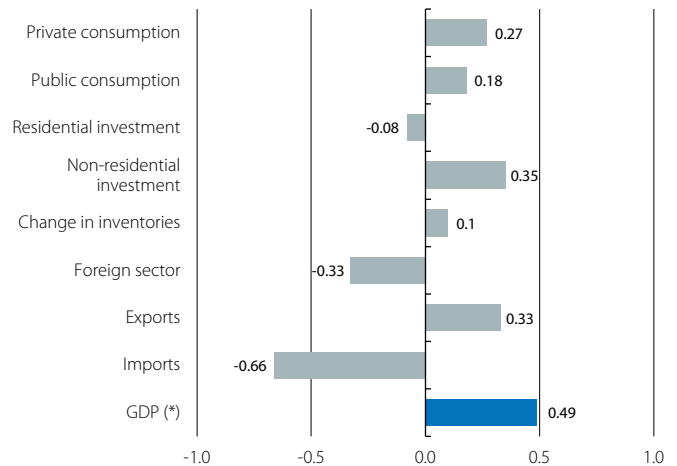
The latest business opinion and climate indicators suggest that this dynamism is set to continue, at least at the start of Q2. In April, the PMIs for both services and manufacturing improved and consolidated at levels compatible with growth rates similar to or slightly above those achieved in Q1. This message is reinforced by the ISM indicators, particularly in the manufacturing sector, which remains at its highest level since August 2022 thanks to the boost from orders.

This optimism in the business sector contrasts with the doubts among consumers: the surge in fuel prices (petrol has risen by more than 33% in the year to April and exceeds 4 dollars per gallon, its highest since August 2022) and rising inflation have dented consumer confidence (the Michigan sentiment index fell in April to its lowest since the summer of 2022). In March, headline inflation rose by 0.8 pps to 3.3%, driven by energy (12.6% vs. 0.4%), while core inflation increased by 0.1 pp to 2.6%. The sharp increase in the price components of the main business climate indicators in March and April points to further rises in inflation in the coming months.

China kicks off the year on a good footing. GDP grew by 1.3% quarter-on-quarter in Q1 2026 (previously 1.2%) and by 5.0% year-on-year, slightly more than expected. Yet domestic demand remains fragile: consumption is slowing down and investment, despite overcoming the setbacks of 2025, remains at historically low levels, weighed down by the real estate sector. Industrial production and exports are showing solid growth, driven by high value-added products such as semiconductors and motor vehicles, which are expected to continue benefiting from the investment boom linked to AI. The positive performance of the main business climate indicators in April suggests that this economic momentum is being maintained at the start of Q2. In this context, inflation remains under control, thanks to a low starting point and measures taken to counteract the rising cost of energy: in March, the headline rate fell by 0.3 pps to 1.0%, and the core rate by 0.7 pps to 1.1%.

US: GDP and its components in Q1 2026

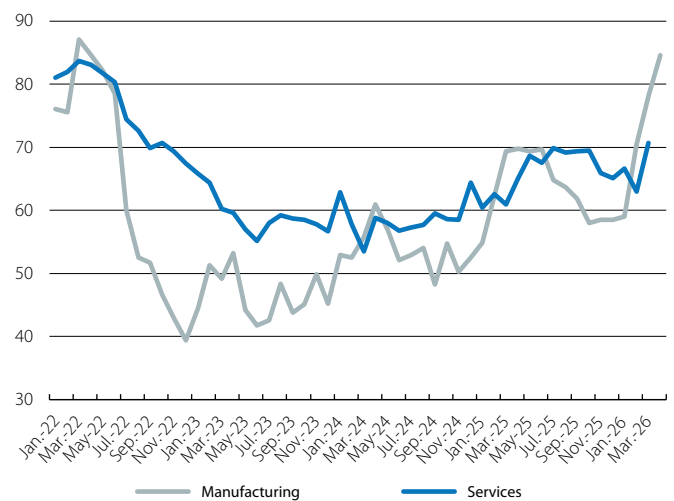
Contribution to quarter-on-quarter growth (pps)



Note: * Quarter-on-quarter change.
Source: BPI Research, based on data from the Bureau of Economic Analysis.

US: ISM

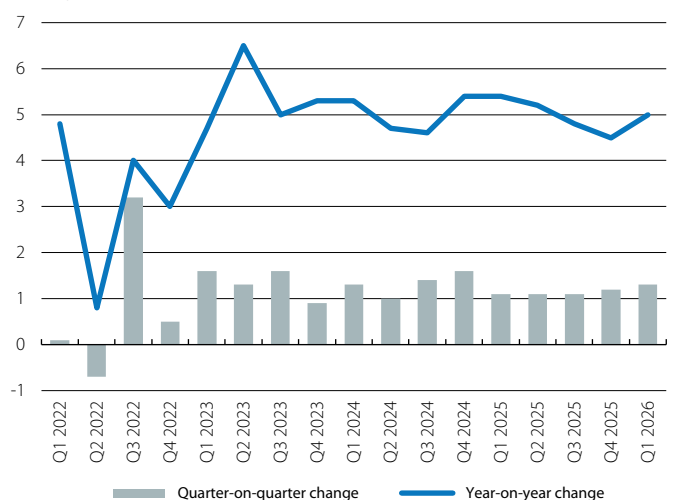
Index (>50 increase; <50 decrease)



Source: BPI Research, based on data from ISM.

China: GDP

Change (%)



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

Shadows (and some light) in Europe’s industrial decline

The Industrial Accelerator Act, presented by the European Commission at the beginning of March, outlines its response to the EU’s weakening industrial base. It is structured around a set of quantitative objectives: a general one, to raise the sector’s share of the economy to 20% of GDP by 2035 (14% in 2025), and several specific ones, aimed at boosting productive capacity and reducing strategic dependencies in critical segments. In pursuit of this latter goal, it includes minimum European content requirements and maximum thresholds for third countries in terms of foreign direct investment and public procurement. This approach risks import substitution leading to costlier inputs and a further erosion of competitiveness, without addressing structural deficiencies in investment, scale, and positioning in value chains for the dual green and digital transition.¹ The shocks accumulated since 2020 – COVID-19, the war in Ukraine, energy and trade tensions – have intensified the loss of European industrial dynamism, but they do not fully explain it. In this context, the solution does not lie in setting numerical thresholds, but in creating the financial, legal and market conditions necessary to reverse the trends that have led to the decline of European industry.²

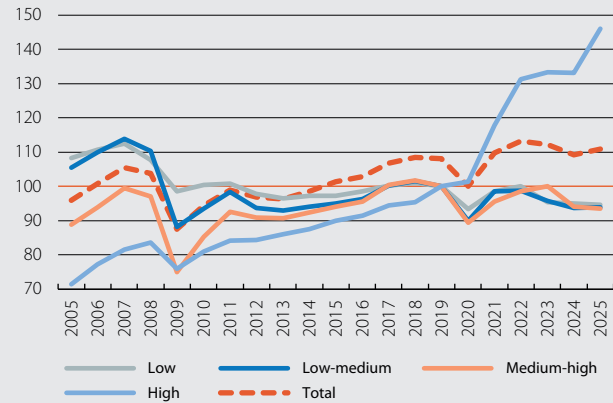
Widespread structural weakness despite technological momentum

Since the global financial crisis, European industry has shown weakness and a high exposure to successive shocks. In 2025, production volumes were just 5% above 2007 levels, resulting from an average annual growth rate below 0.3% (see first chart). This general pattern is found across the sector, although different dynamics are observed depending on the industrial activity. The poorest performance is found in manufacturing with a low or low-medium technological content, where output has recorded a cumulative decline of between 15% and 20%. Given the greater importance of production costs as a competitive element in most of these industries (clothing, footwear and furniture, among others), their weakness points to a structural adjustment driven by intensified competition from Asia, led by China since its entry into the WTO in 2001. In other cases, such as metallurgy, the loss of international competitiveness has been exacerbated by state aid, a more lenient legal framework and better access to raw materials in competitor countries.³

1. See J. Zettelmeyer (2025). «Draghi on a shoestring: the European Commission’s Competitiveness Compass».
 2. See the Focus «How far has the EU progressed on the Competitiveness Compass?» in the MR04/2026.
 3. OECD (2025). «Steel Outlook 2025».

EU: manufacturing output by technological content

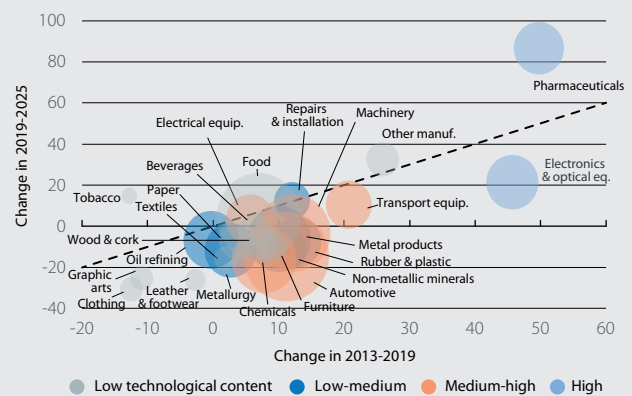
Volume (index 100 = 2019)



Source: BPI Research, based on data from Eurostat.

EU: manufacturing output by activity

Volume (% change)



Note: The area of the bubbles is proportional to output value in 2019.
 Source: BPI Research, based on data from Eurostat.

Even more concerning is the prolonged stagnation of medium-high technology manufacturing (chemicals, machinery and transport equipment, including the automotive sector), which represent the core of traditional European industry and account for a significant portion of the sector’s employment. In contrast, high-tech manufacturing (pharmaceuticals, electronics and aeronautics) has performed much better, with average annual production growth exceeding 3% over the last 20 years. As a result, its share of total industrial output has doubled (reaching 17% in 2025).

This contrasting picture by technological content becomes even more patent when analysing the pattern by industrial activity: the advances of a few have failed to galvanise a broader improvement in manufacturing as a whole (see second chart). In most cases, even before COVID-19 (2013-2019), growth was insufficient to recover the losses accumulated in previous crises, and since 2020,

sharper declines or incomplete recoveries have prevailed. For example, sectors such as furniture, rubber and plastic, non-metallic minerals (mainly construction materials), chemical products and the automotive sector have shifted from growing at average rates of 1.5%-2% annually before the pandemic to declining by around 2% up until 2025. In all cases, they remain below the production levels of 10 years ago (in some cases, 20 years ago).

The automotive and high-tech sectors: two distinct geographical patterns

The automotive industry – one of the worst-performing industrial sectors in recent years – reveals one of the clearest territorial divides within European industry. The overall decline in production between 2019 and 2025 has not been uniform: several Eastern European countries show relatively more favourable patterns, while the large industrial economies such as Germany and Italy have recorded sharper declines (see third chart). This pattern reflects a highly pronounced production specialisation in countries such as Poland and the Czech Republic, as well as their deep integration into Central European value chains, where the automotive industry continues to play a significant role. The core countries, in contrast, have been more sharply affected by the loss of competitiveness and the adjustments resulting from the technological transition and regulatory changes associated with decarbonisation.⁴

Unlike the automotive sector, the pattern in high-tech manufacturing shows less geographical divergence. Production growth has been relatively widespread across different countries, consistent with its strong aggregate performance over the past 20 years (see fourth chart). Nevertheless, the intensity of this growth is uneven, with the strongest performance found in segments such as pharmaceuticals, which has driven economies like Ireland and Denmark.⁵ In contrast, leading EU countries like Germany and France have recorded more modest progress, and electronic equipment manufacturing has experienced a widespread loss of momentum, precisely in the midst of the AI boom.⁶

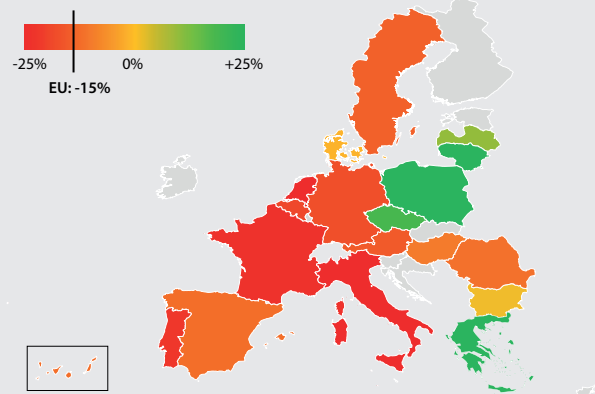
External dependencies and limits of European industrial integration

The breakdown of the EU’s final demand by origin of manufacturing value added, based on the OECD’s TiVA (Trade in Value-Added) database, provides a snapshot of European industry’s external dependencies. Although

4. See McKinsey & Company (2025). «A new ‘ERA’: an action plan for the European automotive industry».
 5. See the Focus «Characterisation of the business cycle in the EU: neither widespread, nor robust» in the MR01/2026.
 6. See the article «Differentiated strategies for governing AI: towards cooperation or conflict?» in the Dossier of this same *Monthly Report*.

Automotive sector output

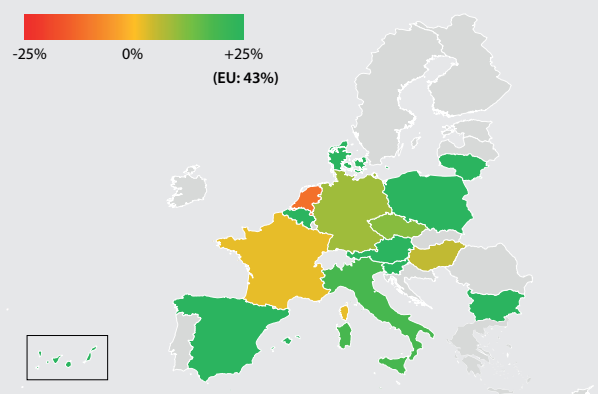
Volume (% change in 2019-2025)



Note: Confidential data not available for the countries in grey.
 Source: BPI Research, based on data from Eurostat.

High-tech content manufacturing output

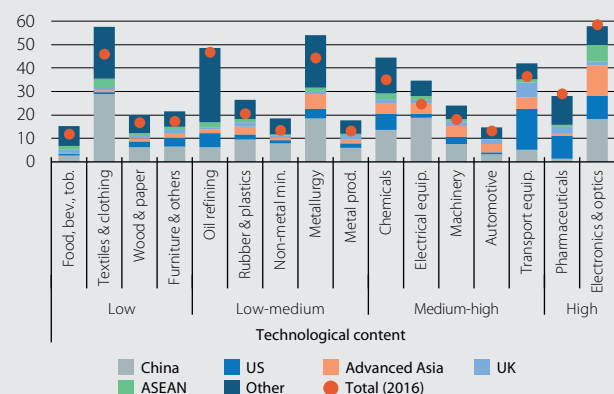
Volume (% change in 2019-2025)



Notes: Includes the manufacture of pharmaceutical products, the manufacture of computer, electronic and optical products, and aerospace and space construction and its machinery. Confidential data not available for the countries in grey.
 Source: BPI Research, based on data from Eurostat.

EU: manufacturing value added embodied in final demand (2022)

(by country/region of origin outside the EU, as a %)



Notes: Manufacturing value added from outside the EU as a percentage of the total manufacturing value added embodied in the total final demand of the EU. Advanced Asia includes Japan, Korea and Taiwan.
 Source: BPI Research, based on data from Eurostat.

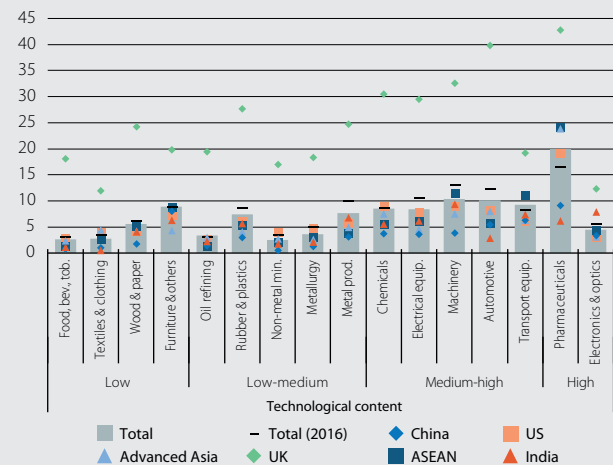
this information is published with a certain time lag (the most recent available year is 2022), the patterns that emerge are clearly structural.⁷ The comparison with 2016 – the midpoint of the 2013-2019 period – confirms that most manufacturing activities, including those with a high technological content, already incorporated a very high share of value added from outside the EU, with China as the main source. Moreover, in many cases these percentages had increased by 2022 (see fifth chart). This dependency is observed in all the major EU economies (especially in production chains centred in Germany) and is more intense in highly globalised industries. For instance, electronics and optical equipment, as well as textiles and clothing, have a particularly high external dependency: in both segments, around 60% of the value added in the EU’s final demand is contributed by non-EU suppliers (with China contributing approximately 20 and 30 points, respectively).

The alternative reading, based on the destination of European manufacturing value added, reinforces this asymmetry. The EU’s integration into global value chains is largely focused on advanced markets, particularly the US in absolute terms and the UK in relative terms, while its presence in Asia’s final manufacturing demand is comparatively limited (see sixth chart). For example, of the total industrial value added embodied in China’s final demand in 2022, the EU accounted for less than 3%, highlighting the challenge of gaining a foothold in Asian markets. Overall, Europe’s share of manufacturing value added embodied in the final demand of the rest of the world stood below 7% in 2022, almost 1 percentage point less than in 2016.

The diagnosis that emerges is clear and unflattering. European industry faces a structural weakness that cannot be explained solely by recent shocks nor corrected through aggregate quantitative targets. There are technological capabilities and niches of strength, but their reach is limited and their capacity to benefit other manufacturing activities is insufficient. At the same time, asymmetric international integration has increased external dependencies in key sectors, amplifying vulnerabilities in an increasingly fragmented geopolitical environment. The reform agenda kick-started with the Competitiveness Compass, which encompasses the Industrial Acceleration Act, will only be effective if it directly addresses the bottlenecks in investment, scale, and the internal market that have been hindering European industry for years. Otherwise, we risk pursuing a strategy that, while well-intentioned, is incapable of reversing deeply-entrenched trends.

7. See R. Marschinski and D. Martínez-Turégano (2020) «The EU’s shrinking share in global manufacturing: a value chain decomposition analysis», National Institute Economic Review, nº 252.

EU: manufacturing value added (2022)
(by country/region of final demand, as a %)



Notes: Manufacturing value added of the EU as a percentage of the total manufacturing value added embodied in the final demand of each country/origin. The total excludes final demand in the EU.

Source: BPI Research, based on data from Eurostat.

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

UNITED STATES

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Activity									
Real GDP	2.8	2.1	2.1	2.3	2.0	2.7	–	–	–
Retail sales (excluding cars and petrol)	3.4	4.5	4.9	4.6	3.9	4.4	4.4	4.2	...
Consumer confidence (value)	104.5	96.1	93.1	97.4	94.2	90.7	91.0	92.2	92.8
Industrial production	–0.7	1.1	0.5	1.7	1.6	1.2	1.2	0.7	...
Manufacturing activity index (ISM) (value)	48.2	48.9	48.8	48.7	48.2	52.6	52.4	52.7	52.7
Housing starts (thousands)	1,371	1,356	1,354	1,346	1,323	1,419	1,356	1,502	...
Case-Shiller home price index (value)	330	339	338	338	341	...	343	...	...
Unemployment rate (% lab. force)	4.0	4.3	4.2	4.3	4.5	4.3	4.4	4.3	...
Employment-population ratio (% pop. > 16 years)	60.1	59.8	59.8	59.6	59.7	59.3	59.3	59.2	...
Trade balance ¹ (% GDP)	–2.8	–3.4	–3.6	–3.4	–3.0	–2.5	–2.5	–2.2	...
Prices									
Headline inflation	2.9	2.6	2.4	2.9	2.7	2.7	2.4	3.3	...
Core inflation	3.4	2.9	2.8	3.1	2.6	2.5	2.5	2.6	...

JAPAN

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Activity									
Real GDP	–0.2	1.2	2.1	0.7	0.4	...	–	–	–
Consumer confidence (value)	37.2	34.7	33.2	34.8	36.7	36.9	39.7	33.3	32.2
Industrial production	–3.0	0.1	0.1	–1.1	–1.3	1.1	0.4	0.5	...
Business activity index (Tankan) (value)	12.8	13.5	13.0	14.0	15.0	17.0	–	–	–
Unemployment rate (% lab. force)	2.5	2.5	2.5	2.5	2.6	2.7	2.6	2.7	...
Trade balance ¹ (% GDP)	–1.0	–0.6	–0.7	–0.5	–0.4	...	–0.3	...	...
Prices									
Headline inflation	2.7	3.2	3.4	2.9	2.7	1.4	1.3	1.4	...
Core inflation	2.4	3.0	3.2	3.2	3.0	2.6	2.6	2.5	...

CHINA

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Activity									
Real GDP	5.0	5.0	5.2	4.8	4.5	5.0	–	–	–
Retail sales	3.3	3.8	4.4	2.4	0.7	2.4	2.8	1.7	...
Industrial production	5.6	5.9	6.2	5.8	5.0	6.0	6.3	5.7	...
PMI manufacturing (value)	49.8	49.6	49.4	49.5	49.4	49.6	49.0	50.4	50.3
Foreign sector									
Trade balance ^{1,2}	997	1,191	1,146	1,175	1,191	1,183	1,234	1,183	...
Exports	4.6	5.5	6.0	6.5	3.8	14.5	39.4	2.3	...
Imports	1.0	0.1	–0.8	4.6	3.1	22.7	13.9	27.8	...
Prices									
Headline inflation	0.2	0.1	0.0	–0.2	0.6	0.8	1.3	1.0	...
Official interest rate ³	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Renminbi per dollar	7.2	7.2	7.2	7.2	7.1	6.9	6.9	6.9	6.8

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

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Retail sales (year-on-year change)	1.2	2.4	3.1	2.0	2.2	...	1.7	...	...
Industrial production (year-on-year change)	-2.9	1.5	1.2	1.5	1.9	...	-0.6	...	...
Consumer confidence	-12.6	-13.4	-14.1	-13.6	-12.9	-13.8	-12.4	-16.4	-20.6
Economic sentiment	95.9	95.9	95.0	96.0	97.1	97.6	97.8	96.2	93.0
Manufacturing PMI	45.9	49.1	49.3	50.1	49.5	50.7	50.8	51.6	52.2
Services PMI	51.5	51.3	50.1	50.9	53.0	51.2	51.9	50.2	47.6
Labour market									
Employment (people) (year-on-year change)	1.0	0.7	0.7	0.6	0.7	...	-	-	-
Unemployment rate (% labour force)	6.3	6.3	6.3	6.3	6.3	6.2	6.3	6.2	...
Germany (% labour force)	3.4	3.8	3.7	3.8	3.9	4.0	4.0	4.0	...
France (% labour force)	7.4	7.7	7.6	7.7	7.9	7.7	7.7	7.7	...
Italy (% labour force)	6.6	6.1	6.3	6.0	5.7	5.3	5.4	5.2	...
Real GDP (year-on-year change)	0.9	1.5	1.6	1.4	1.2	0.8	-	-	-
Germany (year-on-year change)	-0.5	0.3	0.4	0.3	0.4	0.3	-	-	-
France (year-on-year change)	1.1	0.9	0.8	1.0	1.3	1.1	-	-	-
Italy (year-on-year change)	0.6	0.7	0.4	0.7	0.9	0.7	-	-	-

Prices

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
General	2.4	2.1	2.0	2.1	2.1	2.0	1.9	2.6	3.0
Core	2.8	2.4	2.4	2.3	2.4	2.3	2.4	2.3	2.2

Foreign sector

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Current balance	3.4	2.2	2.7	2.4	2.2	...	2.4	...	...
Germany	5.9	4.5	5.0	4.7	4.5	...	4.6	...	...
France	0.1	-0.3	-0.2	-0.5	-0.3	...	-0.3	...	...
Italy	1.1	1.1	0.9	1.1	1.1	...	1.3	...	...
Nominal effective exchange rate¹ (value)	94.2	96.1	96.2	97.9	97.5	97.2	97.3	96.8	97.4

Credit and deposits of non-financial sectors

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Private sector financing									
Credit to non-financial firms ²	0.8	2.7	2.6	2.9	3.0	3.0	3.0	3.2	...
Credit to households ^{2,3}	0.5	2.2	2.1	2.5	2.9	3.0	3.0	3.0	...
Interest rate on loans to non-financial firms ⁴ (%)	4.9	3.4	3.4	3.2	3.3	3.3	3.2	3.4	...
Interest rate on loans to households for house purchases ⁵ (%)	4.6	3.7	3.7	3.6	3.5	3.5	3.5	3.5	...
Deposits									
On demand deposits	-3.9	5.0	5.3	5.5	5.4	5.4	5.3	5.0	...
Other short-term deposits	12.4	-0.1	-0.1	-1.5	-1.0	-0.1	0.2	-0.1	...
Marketable instruments	20.0	7.7	11.0	4.4	0.9	1.5	-1.3	4.5	...
Interest rate on deposits up to 1 year from households (%)	3.0	1.9	1.9	1.7	1.8	1.8	1.8	1.8	...

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

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

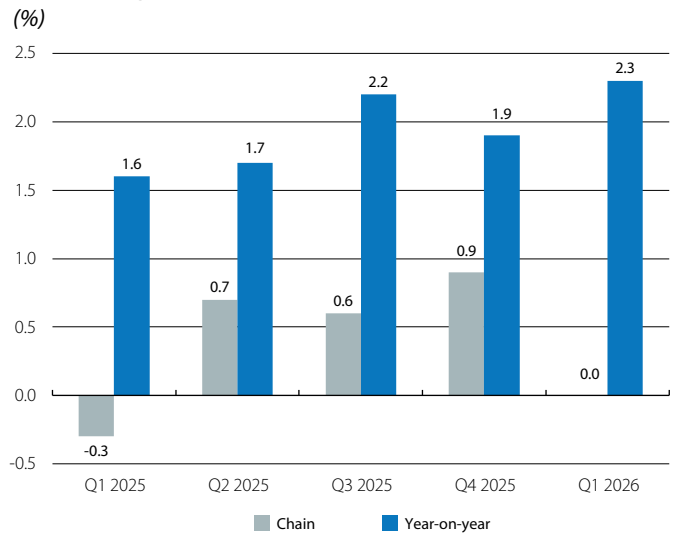
The impacts of the conflict are starting to become visible

The economy stagnates in Q1. The storms in February and the initial impact of the war in Iran contributed to the stagnation of GDP in the first three months of the year. This behaviour reflected the deterioration in the contribution of external demand, with a recovery in imports, probably of investment goods. In fact, the contribution of domestic demand turned positive, driven by an acceleration in investment (gross fixed capital formation), which had contracted in Q4 2025 as a result of the significant drop in GFCF in transport equipment and inventories. Year-on-year, GDP advanced 2.3%, 0.4 percentage points more than in Q4. This data, coupled with increased uncertainty due to the materialisation of geopolitical risks (conflict in the Middle East) and the consequent rise in energy prices, has an unfavourable impact on activity over the coming months. In this scenario, it is likely that household disposable income will decrease (in real terms) and financing costs will increase, both for individuals and for businesses. Furthermore, increased uncertainty encourages the postponement of investment projects and/or consumption decisions, posing downside risks to our current forecast for real GDP growth in 2026 (2.1%). Similarly, the external component may be negatively impacted by the expected increase in the energy deficit, resulting from higher Brent and gas prices, and by a smaller contribution from exports affected by lower demand in some of the main trading partners. Looking at the European Commission's economic sentiment indicator for April, the outlook is not massively encouraging at the start of Q2. This indicator fell to 100.4 points (only slightly above the level indicating expansion), due to a significant drop in confidence among consumers and in the industrial sector. Finally, Q2 begins in an environment of great uncertainty, under negative pressure from rising fuel prices and still without evidence of the positive impact that could come from reconstruction efforts in the areas affected by the storms.

Inflation surges in April. INE's flash estimate indicates that in April overall inflation rose 0.7 p. p. compared to March, exceeding the 3% mark (3.4%). Underlying inflation also increased, but more moderately, by 0.2 p. p. to 2.2%. More than 40% of the increase in the overall CPI is explained by the very strong rise in inflation of energy products (rate of 11.7%) and unprocessed food products (rate of 7.5%). These increases, especially in energy, are inextricably linked to the conflict in the Middle East and the disruption of the energy markets. Therefore, taking this data into account and the uncertainty surrounding the resolution of the conflict, we will proceed with an upward revision of our forecast for average inflation in 2026.

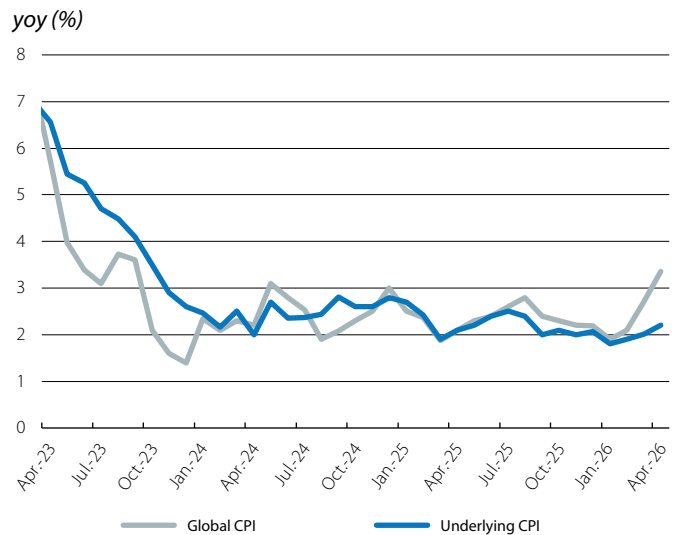
Employment continues to grow, but at a slower pace. In Q1, the unemployment rate behaved as expected, increasing sequentially by 0.3 p. p. to 6.1% (compared to 6.6% in Q1 2025). In turn, employment continued to grow in Q1 (2.3% year-on-year), a positive sign, but one that nevertheless shows a slowdown compared to the growth recorded in 2025 (3.2%

Real GDP growth



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

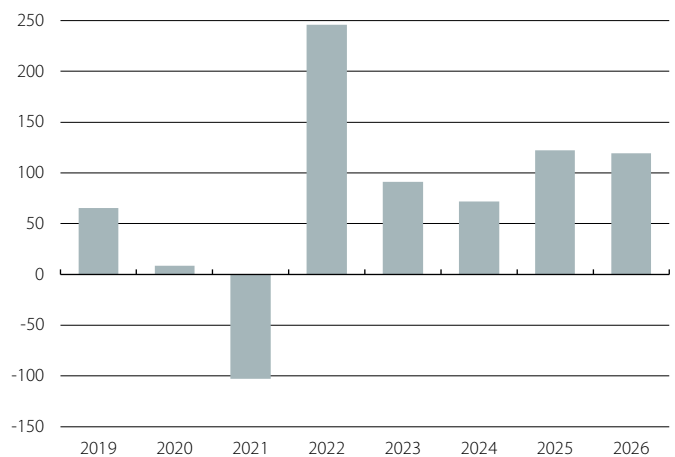
CPI



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

Employed population

Year-on-year change in the 1st quarter of each year (thousands of individuals)



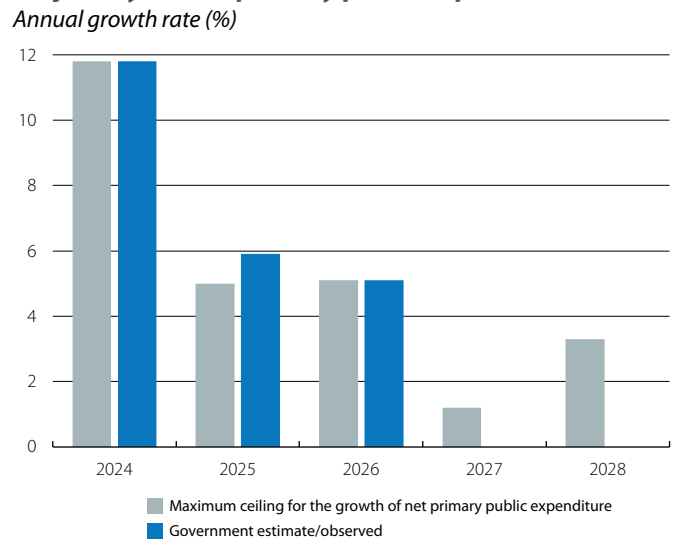
Source: BPI Research based on data from the National Institute of Statistics.

for the year as a whole). The data ended up surprising us, since we anticipated that the rate of job growth in Q1 would be around 3%, and this may imply a downward revision of our forecast for the year as a whole (currently at 1.9%), with a potentially unfavourable impact on the unemployment rate. For the coming months, companies remain optimistic about employment prospects: After a decline in March across all sectors, likely reflecting the effects of increased uncertainty regarding the conflict unfolding in the Middle East, indicators recovered again in April, clearly standing above the historical average in construction, services, and commerce. This points to a positive evolution in employment, supporting our moderately favourable outlook.

The heavy storms and the conflict in the Middle East are leading the Government to slightly revise its expectations for the budget balance. In the Annual Progress Report, the government anticipates a zero balance for 2026, after the expectation of a slight surplus of 0.1% of GDP included in the 2026 State Budget. The justification is related to the storms that hit the country at the beginning of the year (with an estimated impact on public accounts of 0.4% of GDP) and the conflict in the Middle East (where support in the form of tax reductions stands out, which the Government estimates to be around 0.1% of GDP). However, our view is of a less optimistic scenario, maintaining the expectation that 2026 will bring a slight budget deficit (see the focus “Climate and geopolitics cast a shadow over the budget surplus” in this IM). Given this context, the Government considers that European fiscal rules will remain positive: In 2025, it is estimated that there will have been a deviation in the growth of net primary expenditure of 0.3 p. p. of GDP, in line with the deviation allowed each year; for 2026, the government expects net primary expenditure to grow in line with what was agreed with the European Commission (5.1%), and does not expect any additional deviation this year. Additionally, it expects the public debt ratio to decrease by 2.1 p. p. in 2026, exceeding the 1 p. p. required under the new fiscal rules for countries whose ratio exceeds 90% of GDP (a situation in which Portugal found itself in 2023).

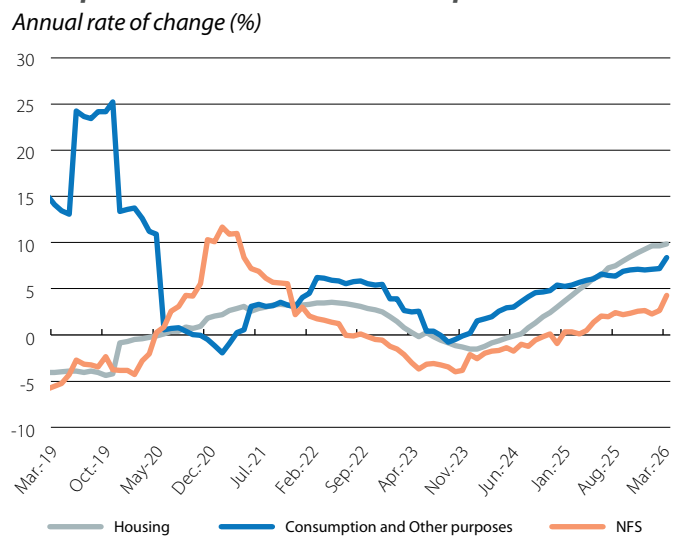
The portfolio of loans to the non-financial private sector picked up pace again in March. More specifically, it increased by 7.7% year-on-year (compared to 6.8% in the previous month), with the housing loan portfolio increasing by 9.9% year-on-year. This dynamism is driven by new operations, which increased by 11.3% year-on-year in Q1, of which more than €1.4 billion relates to loans for the purchase of owner-occupied, permanent homes under the Youth Guarantee scheme. Other credit segments also accelerated in March: The portfolio of non-financial companies increased by 4.3% year-on-year (2.7% in February) and that of consumer & other purposes accelerated to 8.4% (compared to 7.2% in the previous month). This dynamic may be influenced by new loans (34.5% and 13.0% year-on-year in Q1, respectively) and the impact of payment deferrals granted to families and businesses affected by storms in regions declared to be in a state of calamity. The outlook for Q2 reported by banks in the Bank Lending Survey points to an increase in demand from SMEs and a reduction in demand from households, particularly for housing.

Trajectory for net primary public expenditure



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

Loan portfolio to the non-financial private sector



Source: BPI Research based on data from BdP.

The climate and geopolitics overshadow the budget surplus

Public finances once again exceeded expectations in 2025, but 2026 is another challenging year: In addition to the consequences of the series of storms that hit parts of the country earlier this year, the conflict in the Middle East is also forcing the Government to take additional measures to help families and businesses. Given this context, will Portuguese public finances continue to be a pleasant surprise?

Public accounts end 2025 on a high note...

Portuguese public finances have once again exceeded all expectations: The budget balance ended 2025 above the Government's expectations (0.7%, compared to the forecast of 0.3% of GDP) and even slightly exceeded the surplus of 2024 (0.6%). This pleasant surprise is explained by the higher-than-expected execution of tax and social security revenue (+0.6 p. p. of GDP compared to the Government's latest estimate, included in the State Budget for 2026, i.e., an additional €1.796 billion) and, conversely, by the lower execution of other current expenditure and investment (-0.8 p. p. compared to the Government's latest estimate). In summary, revenue growth ended up slightly exceeding expenditure growth (6.7% and 6.6%, respectively).

What will this surplus be used for? The Budget Framework Law (Article 21) stipulates that surpluses must be used to amortise public debt if the ratio exceeds the reference value (60% of GDP). This amortisation could result in interest savings (possibly around €70 million in 2026) and contributes to a positive assessment by international investors and rating agencies (which, in the current context, allows the risk premium to remain slightly above 40 basis points, the lowest among peripheral countries) and consequent positive effects on the financing costs of the State, businesses and households.

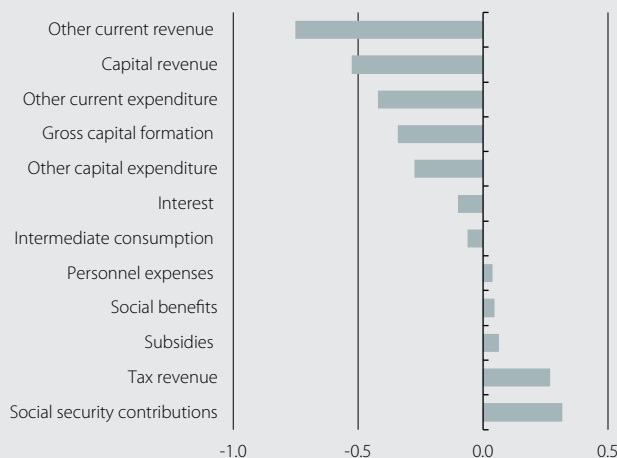
Although there is no direct carryover between the budgetary surprise of 2025 and the 2026 accounts, some of last year's good performance may have positive impacts this year. In this sense, considering the 2025 budget execution, the expected GDP performance for this year, and without additional measures, the 2026 budget balance benefits from a 'buffer' that could amount to around €900 million (0.3% of GDP).¹

... but the start of the year brought a bleak outlook

Indeed, the start of 2026 has been fraught with challenges that cast doubt on the budget surplus the Government had forecast for this year in the 2026 State Budget (0.1% of GDP). The series of storms that

1. Taking into account the elasticities of revenue and expenditure in relation to economic trends.

Public Accounts 2025: executed vs. estimate (pp of GDP)



Note: The comparison is made between the amount actually spent in each category and the Government's estimate included in the 2026 State Budget.

Source: BPI Research, based on data from INE and the 2026 State Budget.

devastated parts of the country and the conflict in the Middle East add to the challenges already anticipated for 2026 (existing geopolitical tensions, the volatility of US trade policies and the need for investment in defence).

The impact of the support measures for populations and businesses after the storms is difficult to quantify. In addition to the available lines of credit (which total €2 billion, with no impact on the budget balance), other measures (for example, the possibility of resorting to lay-offs, financial support for the reconstruction of homes, and tax payment deferrals) will already have had an impact on the budget balance, and the Government's estimate points to a cost of around €1.2 billion (0.4% of GDP).² However, there may be indirect effects on the budget balance, but estimating these is difficult. The PFC elucidates this complexity in an article,³ referring to the visible impacts on infrastructure (such as the electricity grid) and on the wealth of families and businesses (destruction of homes, factories, stocks), but they also imply loss of economic activity (due to the destruction of factories, difficulty in the movement of people and goods, possibility of insolvencies), reputational damage (failure to deliver orders) and impacts on the physical and mental health of individuals. For all these reasons, an accurate assessment of the effect of the storms on the budget balance is extremely complex.

As for the conflict in the Middle East, the transmission channels to the public accounts are also diverse: The

2. Estimate incorporated in the April 2026 Annual Progress Report.

3. For more information, please visit the following link: <https://www.cfp.pt/pt/blogue/transicao-climatica/impactos-plausiveis-do-estado-de-calamidade>

increase in the price of energy products and the worsening of inflation can, on the one hand, have a positive effect (more tax revenue, such as VAT and the tax on petroleum and energy products (ISP)), but, conversely, they contribute to the loss of dynamism in economic activity (increased cost of raw materials, financing costs, deterioration of the confidence of economic agents and postponement of consumption and investment decisions), which can generate lower revenue. At the same time, while a potential acceleration in wages (given the rising cost of living) could lead to increased revenue from income tax and social security contributions, a slowdown in economic activity could, in turn, increase unemployment. Furthermore, government support for families and businesses to cope with rising costs (in the purchase of energy products or others) will have a negative impact on expenditure. Finally, the worsening of yields on public debt implies an increase in financing costs and, given the rise in the Euribor, also in the costs of retail products (such as Savings Certificates).

There are numerous effects and they affect public finances in different ways. In this regard, we will limit our analysis to the evolution of the Brent price and the measures currently in place to help businesses and families cope with the increase in fuel prices.

First of all, in the 2026 State Budget, the government concludes that a 20% increase in the price of Brent (which would result in an average price of around \$78.5 per barrel for the whole of 2026) has a negligible impact on public finances (not measured). Currently, considering the known data at the end of April and futures for the rest of the year, the average price of Brent points to around \$96 for the whole of 2026, i.e., about \$17 above the sensitivity assessment made by the Government. Given the context incorporated into the markets, the impact on public finances should not be negligible (although this is impossible to determine without further details).

In turn, the Government implemented a set of measures to help families and businesses cope with the increase in fuel prices. The first measure announced was the return of the increased VAT revenue through a reduction in the ISP when the price of fuel exceeds the reference week price (2–6 March) by more than 10 cents per litre. We estimate, based on a similar measure implemented in 2022 (when Russia invaded Ukraine), that this measure could have an impact of less than €400 million (approximately 0.1% of GDP), in line with what the government anticipated in the Annual Progress Report. At the same time, the Government also decided to increase the contribution towards the purchase of the solidarity gas cylinder (from €15 to €25) for 3 months, which could result in a cost of around €3.2 million (residual impact as a percentage of GDP). Finally, the government also moved forward with support schemes equivalent to

€150 million per month for certain sectors,⁴ which will be in effect, at a minimum, between April and June (i.e., with a total cost of €450 million, 0.1% of GDP). More recently, the government moved ahead with granting a check for between €114 and €420 per vehicle to freight transport companies, emergency services, and agricultural cooperatives, at an estimated cost of €30 million. In addition to these, there is the Portugal Resiliência Energética line of credit (€600 million), which supports companies whose energy expenditure represents more than 20% of their production costs. In conclusion, the support measures for families and businesses to mitigate the negative effects of the conflict in the Middle East total, to date, approximately €1.46 billion (0.5% of GDP). The impact on the budget balance (excluding the line of credit) is expected to be around 0.3% of GDP.

In other words, assuming that the economic and geopolitical scenario does not suffer further disruptions, overall (between the storms and the conflict in the Middle East), the negative impact on the budget balance will be around 0.7% of GDP in 2026. This means that, in our view, the budget balance could register a deficit of around 0.6% of GDP in 2026. However, the distribution of profits by Caixa Geral de Depósitos mitigates this deficit: The €1.25 billion (0.4% of GDP) could support a deficit of around 0.2% of GDP in 2026 (the Government now estimates a zero balance as a percentage of GDP in the Annual Progress Report).

Even so, if the conflict in the Middle East intensifies and becomes more prolonged (which would imply a greater slowdown in the economy, a worsening of unemployment, a rise in inflation and, consequently, in interest rates), the budget deficit could be around 1.0% of GDP in 2026 (the adverse effect would be mitigated by rising inflation) and exceed 1.5% in 2027 (reflecting more prolonged effects of the conflict, namely a gradual worsening of the labour market and a correction in inflation).

Vânia Duarte

4. This package includes: support of 10 cents per litre for professional diesel fuel for passenger and freight transport vehicles, 10 cents for coloured and marked diesel fuel intended for agriculture, forestry, fishing and aquaculture, in both cases whenever the price exceeds the average price of the reference week by 10 cents; direct support to humanitarian fire brigades of €360 per heavy vehicle and €120 for other vehicles, €120 per vehicle for taxis, and support of €600 to private social solidarity institutions.

An economist's appetite: Portugal's potential GDP

Imagine, if you will, an economist. Now let's imagine an economist who is hungry. The hungry economist heads to a nearby restaurant. What dish will the economist choose to replenish his energy and, once fully replenished, devote himself to his task of interpreting reality? From a gastronomic point of view, GDP is the economist's main course. His comfort food, the one he always comes back to. We all like to eat our favourite dish with just the right amount of salt. Economists do too. This allegory, anchored in metaphors, is a starting point to illustrate a concept that is itself a theoretical construct: potential GDP.

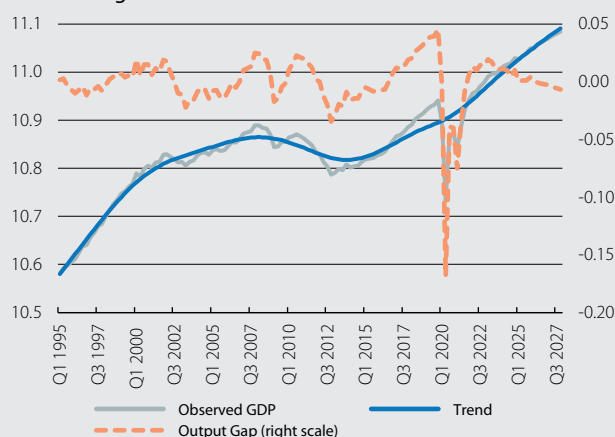
Potential GDP is the economist's meal that is neither too salty nor too bland. It can be defined as the level of output once an economy's resources are fully employed; in other words, a situation where unemployment equals its natural rate. If the «GDP dish» is too salty, this can cause inflationary pressures and other imbalances, such as increasing the external deficit or speculative bubbles in certain assets. If the «GDP dish» is bland, the risk is inflation falling below the target and the unemployment rate rising above the norm.

Unfortunately, our economist's local restaurant cannot perfectly replicate this «theoretical right amount of salt» on a daily basis. Each meal comes with a different amount of salt. The difference between the amount of salt observed each day and the theoretical right amount of salt is what we call the output gap. In other words, the output gap is the difference between the GDP that national accounting observes and records and potential GDP. If the output gap is positive, the observed GDP is higher than potential GDP. The dish may even seem «intense» at first, but it tends to be uncomfortable and can upset the balance. In this case, there is excess demand. If the output gap is negative, the observed GDP is lower than the potential – there is a lack of intensity in the dish, with installed capacity that is underutilised. There is a lack of demand. In short, the output gap indicates whether the economy is overheating or underperforming relative to its potential.

Calculation of potential GDP using the Hodrick-Prescott (HP) filter

As we have already stressed, potential GDP is a theoretical and unobservable value. However, it is important for the authorities that implement economic and monetary policy to determine this value in order to design their strategy and actions. A widely used method for determining potential GDP, which is statistical by its nature, is the HP filter. The HP filter calculates the trend component of any time series through a weighted two-sided moving average, which is based on the minimisation of a quadratic loss function. This function

Hodrick-Prescott Filter Applied to GDP
Series in Logarithms



Source: BPI Research, based on INE data.

penalises both deviations of the observed series from the calculated trend and the volatility of the trend itself. In this way, the HP filter obtains an estimate of potential output from the calculation of weighted moving averages using past and future values of observed output.

This method assumes that GDP can be broken down into a structural component and a cyclical component. The structural component is what is commonly referred to as potential GDP. The second, more cyclical component is what we usually refer to as the output gap and it includes elements of a temporary nature, reflecting not only the evolution of the economic cycle but also very short-term fluctuations.

We present the result of this exercise in the first chart.¹ Values above or below 0 for the representation of the output gap in the chart show growth rates above or below potential growth, driven by cyclical factors. Here, the decline related to the COVID pandemic clearly stands out, a one-off event with a severe impact and unrelated to the underlying trend of the Portuguese economy, which gave rise to the most pronounced output gap from this period in Q2 2020.

1. By weighting past and future observations, the use of the HP filter raises problems at the extremes of the sample, causing the estimated trend to closely follow the observed value of output. This is relevant because sometimes the goal is to measure potential output in recent years. The literature determines that, to overcome this problem, it is advisable to extend the sample with forecasts of future output values. As a result, our sample of values covers the period from Q1 1995 to Q4 2027, and from Q4 2025 onwards we are using quarterly GDP values associated with the BPI Research forecasts in effect in the central scenario as of March 2026. Given that we are starting from quarterly GDP data, the literature establishes the use of a smoothing factor of $\lambda = 1600$. See the original article by Hodrick and Prescott: Hodrick, R. J. and E. C. Prescott (1997): «Postwar U.S. business cycles: an empirical investigation», *Journal of Money Credit and Banking* 29, 1-16.

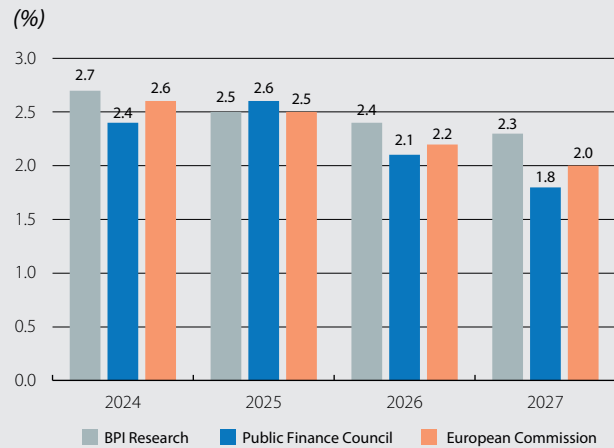
Other approaches to potential and comparative GDP

There are other methods for estimating potential GDP. In fact, there is an official European Commission methodology based on a production function,² which establishes a theoretical relationship between a country's output, its factors of production and its technology. This method is more complex to implement and involves a broader initial set of assumptions to estimate the potential of each production factor and of the technology itself, so the resulting estimates of potential output may also vary depending on the «appetite» of the economists who design them. We see this in the second graph, where we present the estimates of potential output estimated by us (via HP filter), by the Public Finance Council (PFC) and by the European Commission (EC), both using a production function. Even with the same methodology between PFC and EC, the numbers obtained are different, although there is a certain similarity in the results between all approaches, with differences of least 0.1 p. p. and at most 0.4 p. p. in each year.

In our approach, considering estimates since the beginning of this century, we have an average potential GDP of 1.2% (which can be considered an approximation to «long-term potential GDP»). In recent years and in the near future (until 2027), the value of potential GDP that we estimate is higher, averaging 2.5% between 2024 and 2027. Positive net migration, impacting labour (employment), has been supporting potential GDP growth in recent years. The PFC's exercise, breaking down the contributions to potential GDP, reflects this well (see last graph). This contribution is expected to decrease due to the expected evolution of the working-age population and the activity rate, with a corresponding increase in productivity³ which will possibly reflect technological advances, innovations and improvements in management associated with the results of the application of the PRR.

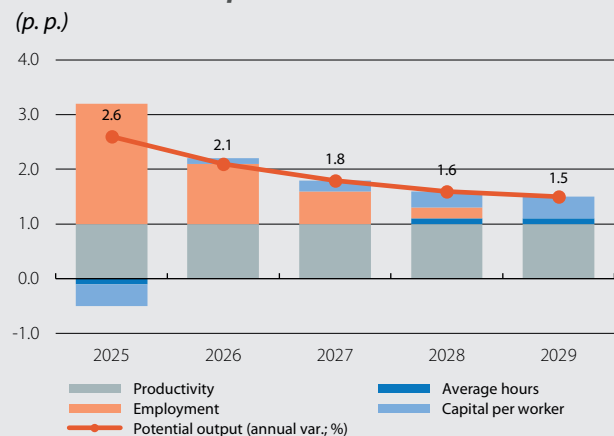
Tiago Belejo Correia

Estimate of Potential GDP



Source: BPI Research based on data from INE, EC (AMECO), PFC (the document «Economic and Budgetary Outlook 2025-2029», September 2025).

Contributions to potential GDP



Note: The contribution of productivity refers to total factor productivity (TFP).

Source: BPI Research, based on data from the Public Finance Council («Economic and Budgetary Outlook 2025-2029»).

2. See Economic Papers 535 (November 2014) from the European Commission: «The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps».

3. Referred to in the economic literature as TFP: Total Factor Productivity.

What does the Transformation, Recovery and Resilience Plan mean for us?

Following the storms recorded in early February, the government launched the Transformation, Recovery and Resilience Plan (PTRR) with a budget of €22.6 billion (7% of GDP), to be distributed between 2026 and 2034. Beyond the short-term perspective, which is aimed at rebuilding areas affected by the storms, the plan foresees addressing structural weaknesses accumulated in recent years, especially in terms of infrastructure.

Thus, this plan rests on three pillars – Recover, Protect and Respond – which aim to address the damage caused by the storms, strengthen and prepare the country to respond to future disaster situations. It is distributed across three time periods: Short, medium and long term, roughly corresponding to 2026, 2027-2029 and 2030-2034, with funding sources including public administration, public companies, the private sector and European funds.

The public administration will be its main funder, with a contribution equivalent to 37% of the total Plan, mostly intended to strengthen the resilience of infrastructure to adverse shocks («Protect») and to rebuild the damage suffered in Q1 2026 («Recover»). In second place in the ranking is the private sector (which includes public-private partnerships and concessions), with an estimated contribution of approximately 34%.

The «Protect» pillar is seen as the most structural, as it aims to strengthen resilience to adverse shocks, with a particular focus on the medium and long term. The total amounts to approximately €15 billion, equivalent to about 4.5% of GDP, with investments standing out in the areas of i) energy (€4.7 billion) to reduce the territory's external dependence; ii) €3.2 billion to reduce existing structural vulnerabilities within the territorial structure itself; iii) €1.2 billion in the business sector, complementing the effort to reduce desertification of the territory, through attracting productive investment to regions with a higher degree of economic and demographic desertification; and iv) €2.6 billion in investments in the water sector, namely in the construction of new dams and strengthening the resilience of sanitation and water supply infrastructure.

The «Respond» pillar, with a budget of €2.3 billion, focuses on restoring the capacity to respond to emergency situations, with investments mainly concentrated in the medium term.

The first pillar (Recover) focuses on restoring the infrastructure affected by recent storms, including support measures for families and businesses already in place. Its implementation is scheduled for the short term, i.e., mostly in 2026, benefiting from an allocation

Funding sources

(Millions of euros)

	Recover	Protect	Respond	TOTAL	Structure (%)
Public Administrations	2,500	3,956	1,939	8,395	37.1
of which: State Budget	1,300	3,074	1,822	6,196	27.4
Global Parques and ADP	–	2,407	–	2,407	10.6
European funds	110	3,721	378	4,209	18.6
Private/PPPs/Concessions	2,720	4,882	0	7,602	33.6
Total	5,330	14,966	2,317	22,613	100
By Time Horizon					
Short Term	5,330	152	134	5,616	24.8
Medium Term	–	7,083	2,130	9,213	40.7
Long Term	–	7,731	53	7,784	34.4

Source: BPI Research based on PTRR - Portugal Transformation, Recovery and Resilience

equivalent to the estimated losses, €5.3 billion, including a series of measures planned immediately after the storms, such as lines of credit to companies (€2 billion), the reconstruction of roads and railways, and support for the reconstruction of homes.

The PTRR essentially represents an investment shock focused on rebuilding structures destroyed by storms and on modernising and developing infrastructure, and it is expected to positively impact economic activity in terms of stimulating the credit market, creating jobs, and real GDP growth.

The impact on credit was already evident in the accelerated pace of credit growth to companies during March, and it is possible that this increased dynamism will continue at least until June, when the lines expire.¹

In employment, the PTRR also emerges as a support factor, especially in areas linked to construction. In the short term, through reconstruction efforts, and through infrastructure improvements in the medium and long term.

With regard to the Portuguese economy as a whole, the impact of this investment effort is likely to be reflected

1. Through Banco Português de Fomento, two lines of credit were created, each with an allocation of €1 billion, to support reconstruction efforts: one line is aimed at investments in rebuilding infrastructure affected by the storms, and the other is intended to address cash flow problems. Within the investment-focused line of credit, there is 100% coverage for damages not covered by insurance, with a maturity of 10 years and a 12-month grace period before use. The cash flow support line allocates between €100,000 and €2,500,000 to each company, depending on its size.

positively in growth. To estimate this impact, we used the GFCF multipliers calculated by INE,² concluding that the impact could translate into GDP in 2034 being approximately +2.5% higher compared to a scenario without the plan. To that end, we are assuming that the implementation rate of the Plan will be around 60%, in line with the data available for the implementation of the PRR, which ends this year. We assume that the impact will be more significant in 2026, reflecting the reconstruction efforts in the most affected areas. In a more optimistic scenario, to which we assign a lower probability, in which the plan is fully implemented, the GDP increase could reach around 4%.

Teresa Gil Pinheiro

Key measures of the Recover pillar
(Millions of euros)

	Allocation
Support lines for business reconstruction and cash flow	2,000
Road and railway reconstruction	400
Support for families and immediate recovery of homes, schools and other infrastructure	250
Support for the agricultural, forestry and fisheries sectors	193.5
Support lines for reindustrialisation	150
Emergency post-disaster support through the Environmental Fund	137
Interventions on the coastline	126
Interventions in rivers and waterways	49
Extraordinary financial incentive for maintaining jobs and simplified lay-off scheme	40
Support for recovery of cultural heritage	20
Mortgage payment deferrals for primary residences	–

Source: BPI Research based on PTRR - Portugal Transformation, Recovery and Resilience

2. Symmetric Input-Output Matrices, 2017.

Activity and employment indicators

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Coincident economic activity index	2.0	2.0	1.8	2.0	2.2	2.1	2.1	2.0	...
Industry									
Industrial production index	0.8	0.5	1.2	2.8	0.3	...	-4.4	...	...
Confidence indicator in industry (<i>value</i>)	-6.2	-4.0	-4.8	-3.4	-2.8	-2.0	-2.1	-2.4	-2.7
Construction									
Building permits - new housing (number of homes)	6.5	20.6	20.3	8.9	16.1	...	-9.3	...	...
House sales	14.5	15.5	15.5	3.8	-4.7	...	-	-	-
House prices (<i>euro / m² - valuation</i>)	8.5	17.4	17.4	18.2	18.4	17.5	17.2	16.5	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	6.3	1.9	4.1	2.6	1.9	2.2	1.7	2.2	...
Confidence indicator in services (<i>value</i>)	5.6	10.1	6.6	12.9	8.4	4.9	5.0	5.0	6.2
Consumption									
Retail sales	3.3	4.8	4.8	5.4	4.4	...	4.9	...	...
Coincident indicator for private consumption	2.8	3.4	3.5	3.1	3.1	3.0	3.0	2.8	...
Consumer confidence index (<i>value</i>)	-18.0	-16.2	-17.9	-16.2	-15.2	-16.2	-15.3	-18.7	-23.9
Labour market									
Employment	1.2	3.2	2.9	3.7	3.7	...	2.2	2.2	...
Unemployment rate (<i>% labour force</i>)	6.4	6.0	5.9	5.8	5.8	...	5.8	5.8	...
GDP	2.2	1.9	1.7	2.2	1.9	...	-	-	-

Prices

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
General	2.4	2.3	2.2	2.6	2.2	2.2	2.1	2.7	3.4
Core	2.5	2.2	2.3	2.3	2.1	1.9	1.9	2.0	2.2

Foreign sector

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	0.6	4.2	2.0	0.6	...	-3.8	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	4.0	7.0	6.7	4.0	...	2.3	...	...
Current balance	6.5	3.8	3.5	3.0	3.8	...	3.3	...	...
Goods and services	6.4	3.7	4.0	3.5	3.7	...	3.3	...	...
Primary and secondary income	0.1	0.1	-0.5	-0.5	0.1	...	-0.1	...	...
Net lending (+) / borrowing (-) capacity	9.6	8.3	6.9	7.0	8.3	...	7.8	...	...

Credit and deposits in non-financial sectors

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Deposits¹									
Household and company deposits	7.5	5.4	5.4	6.3	5.4	6.4	5.1	6.4	...
Sight and savings	-0.3	8.1	5.1	8.6	8.1	7.9	8.0	7.9	...
Term and notice	15.3	3.1	5.8	4.3	3.1	5.2	2.6	5.2	...
General government deposits	26.7	28.7	39.6	-0.5	28.7	20.4	29.2	20.4	...
TOTAL	7.9	6.0	6.4	6.1	6.0	6.9	5.9	6.9	...
Outstanding balance of credit¹									
Private sector	1.9	6.6	4.9	5.8	6.6	7.7	6.8	7.7	...
Non-financial firms	-1.0	2.6	2.0	2.2	2.6	4.3	2.7	4.3	...
Households - housing	3.0	9.3	6.4	8.0	9.3	9.9	9.6	9.9	...
Households - other purposes	5.4	7.0	6.6	6.9	7.0	8.4	7.2	8.4	...
General government	0.6	6.4	3.8	4.8	6.4	3.2	4.9	3.2	...
TOTAL	1.9	6.6	4.8	5.7	6.6	7.5	6.7	7.5	...
NPL ratio (%)²	2.4	2.1	2.3	2.3	2.1	...	-	-	-

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

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

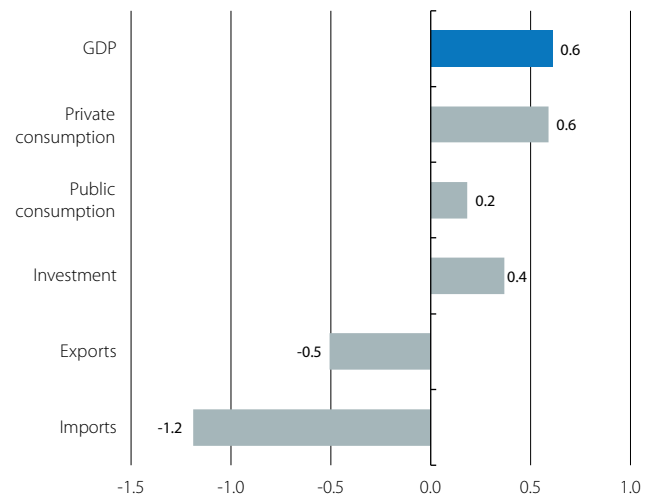
The Spanish economy remains resilient in an uncertain environment

The latest indicators depict an economy that remains resilient amid the entrenchment of the conflict in the Persian Gulf. Among the various channels through which this conflict can affect the economy, the most visible impact so far is in inflation, through the rise in energy costs: the rise in crude oil prices has been partially passed on to fuel prices, especially diesel, which is moderately driving up inflation. This, in turn, could dampen a previously dynamic consumption if tensions were to persist. Nevertheless, the start of 2026 is proving somewhat more favourable than expected and the initial indicators for Q2, with their nuances, suggest that economic activity growth remains buoyant.

GDP beats expectations in Q1 and confirms the resilience of domestic demand. GDP grew by 0.6% quarter-on-quarter in Q1 2026, 0.2 pps less than in Q4 2025 but slightly above the 0.5% quarter-on-quarter growth rate we had anticipated. This expansion was supported by the strength of domestic demand, which contributed 0.4 pps to quarter-on-quarter growth, driven mainly by private consumption. Investment moderated its growth in quarter-on-quarter terms to 0.4%, but the strength of recent quarters has kept the year-on-year growth rate above 5%. Foreign demand also made a positive contribution of 0.2 pps, although this was due to imports falling more than exports. In both cases, it was the goods segment that caused the setbacks, which is not surprising given the environment of increased trade protectionism and the tensions in the Persian Gulf. In contrast, services exports maintained a good tone.

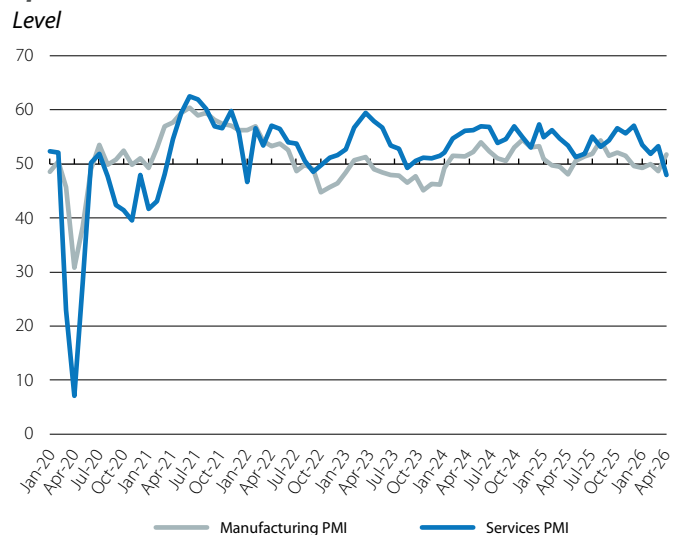
A moderate growth rate is maintained at the start of Q2. We still have few indicators for Q2. With data up to April, we currently note that employment continues to grow at a steady pace, while the crisis in Iran is beginning to impact sentiment indicators. In April, the PMI for the services sector plummeted from 53.3 points to 47.9 points, affected by the climate of lower confidence, and entered the territory indicating contraction in the sector (below 50 points) for the first time since August 2023. In industry, in contrast, the manufacturing PMI registered a sharp rebound to 51.7 points, the highest level since July 2025. This improvement was driven by an increase in customer orders to secure inventories, and returned the index to expansionary territory after several months in the contractionary zone. The CaixaBank Research Consumption Monitor experienced significant fluctuations throughout the month, with a drop of nearly 2.5% in the first fortnight, followed by a sharp rebound in the second, of around 7%. Beyond the fluctuations generated by seasonal effects, such as Easter, the composition of spending suggests that household confidence remains high. Domestic consumption is being driven by spending on discretionary items such as fashion, furniture and decoration, as well as leisure and dining. Thus, the indicators overall suggest that growth could moderate slightly this quarter compared to the previous one, but that the economy will continue to grow.

Spain: GDP and its components
Quarter-on-quarter change in Q1 2026 (%)



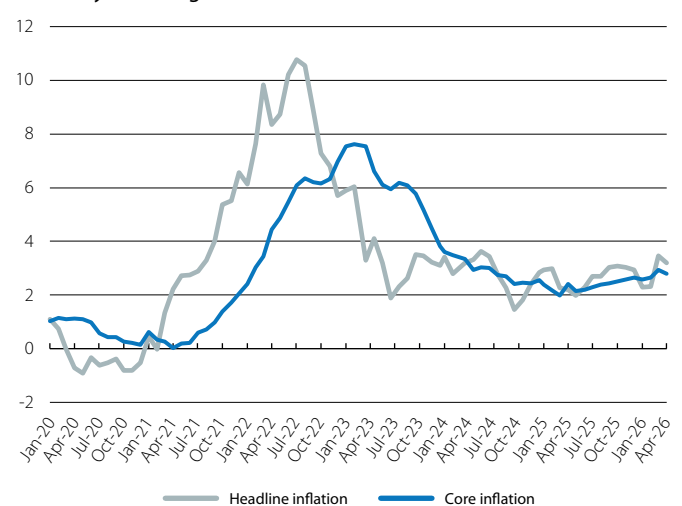
Source: BPI Research, based on data from the National Statistics Institute (INE).

Spain: PMI



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

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



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

Inflation eases in April, but the energy shock persists.

Headline inflation fell 0.2 pps in April to 3.2%, while core inflation was down 0.1 pp to 2.8%. The moderation of headline inflation is mainly explained by the decline in electricity prices due to tax cuts. Fuels continued to exert upward pressure, especially diesel, despite the measures adopted. On the other hand, the non-energy components of the CPI have remained contained. This suggests that, for now, the energy shock is not noticeably being transmitted to other prices via indirect effects. With the information available from March and April, and considering the recent evolution of energy prices and the measures adopted, all the indicators suggest that inflation will be above 3% for the year as a whole.

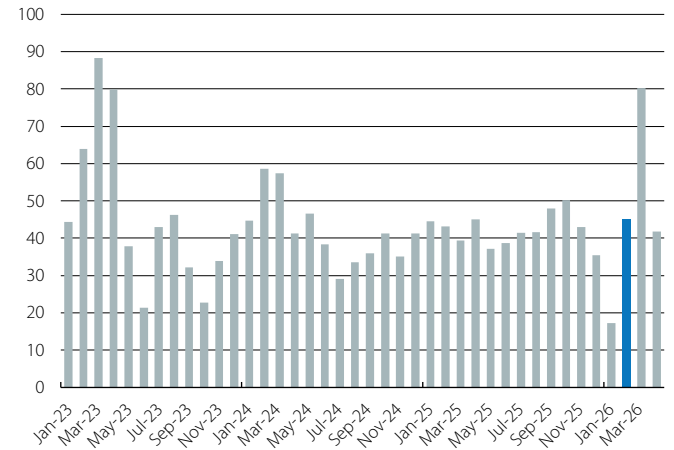
Employment continues to record rapid growth. The labour market continues to show a healthy performance. In April, Social Security affiliation increased by 1.0% month-on-month, a figure in line with usual trends for this month of the year. In seasonally adjusted terms, the growth rate of employment remained similar to those observed at the end of 2025 and during Q1, indicating continuity in the pace of job creation. In fact, the available data suggest a somewhat more dynamic start to 2026 than anticipated: in the first four months of the year, the number of affiliates has increased by an average of some 46,000 people per month (seasonally adjusted). If this rate were maintained, it would result in a year-end total of around 550,000 new registered workers, exceeding the forecast of 475,000, excluding the impact of the exceptional regularisation of undocumented workers.

The Q1 2026 LFS also reflects a significant job creation rate. After a particularly dynamic Q4 2025, employment increased by 0.4% quarter-on-quarter, just 0.2 pps below the average growth rate of recent years. The unemployment rate, meanwhile, rose to 10.8% in a quarter in which it typically increases, although it was still 0.6 pps below the figure of a year ago. Taken together, both sources point to a labour market that continues to create jobs at a solid – albeit somewhat restrained – rate that is consistent with the moderation of economic activity.

Tourism growth remains solid at the start of the year. While in other areas the risks to economic activity are skewed to the downside, the outlook for the tourism sector is more ambiguous. In March, the month when the war began, international tourist arrivals increased by 3.3% year-on-year and tourism spending rose by 5.4%, surpassing the February figures. This indicates that, for now, the conflict in the Persian Gulf is not hindering the sector's progress. Q1 2026 thus ended with 17.5 million international tourists (+2.5% year-on-year) and foreign tourism expenditure exceeding 25 billion euros (+6.3%). Although these rates are lower than the exceptional records of 2025, the reduction in tourism from Asia due to adjustments to air routes passing through the Gulf is currently being more than offset by a redirection of European tourism towards destinations perceived as safe, such as Spain. However, if the conflict becomes entrenched or escalates, then the sector could also end up being negatively impacted.

Spain: workers registered with Social Security*

Month-on-month change (thousands of people)



Note: * Seasonally adjusted series. Source: BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration.

Spain: unemployment rate

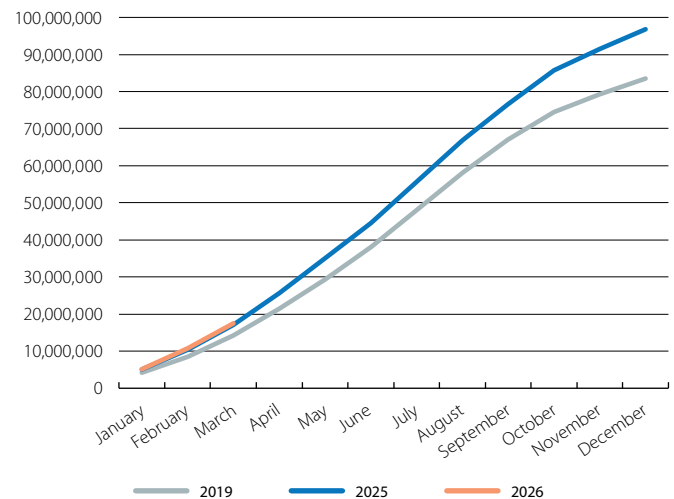
(%)



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

Spain: number of international tourists

People (cumulative)



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

Investment growth, key to consolidating Spain's economic expansion

Investment is a key component for the long-term growth and competitiveness of any economy, but it is also one of the most procyclical and volatile, with high sensitivity to financing conditions, external shocks or changes in agents' confidence or demand. Following the pandemic, investment in Spain followed a slower recovery than other components of demand. The drivers of growth were public consumption and net exports, while investment did not return to pre-pandemic levels until Q1 2023, a year after GDP, and its relative contribution to growth was significantly reduced: between 2021 and 2025 it accounted for 21.3% of average annual GDP growth, compared to 35% in the previous expansionary cycle (2014-2019). Below, we analyse the factors behind the recent behaviour of investment, comparing the current investment cycle with the previous one (2014-2019) and contrasting the situation in Spain with that of its main euro area partners.

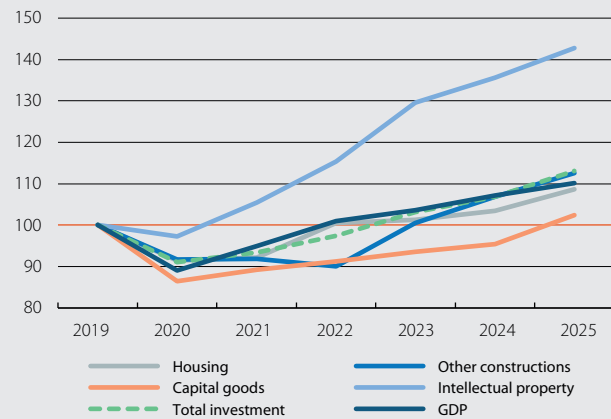
The cycle prior to the outbreak of the pandemic took place in a relatively calm environment and benefited from financial tailwinds (liquidity and low interest rates), the recovery of economic activity and employment following the 2008-2013 financial crisis, the improvement in corporate financial positions, and a gradual normalisation of the real estate sector. In contrast, the post-pandemic cycle experienced a succession of exogenous shocks that shook the European economic landscape, first with disruptions to global supply chains and later with the energy crisis stemming from the war in Ukraine, with the consequent impact on inflation and the rapid tightening of monetary policy, which reduced the capacity of businesses and households to invest.

Despite the difficulties, the 2025 data hinted at a revival in investment, in line with the recovery in demand and business confidence, and in a context characterised by favourable financial conditions and the boost from NGEU funds. However, the war in the Middle East has triggered a spike in uncertainty and could limit investment.¹ Regarding the NGEU funds, their role has been very significant, supporting both public investment and a part of private investment: a significant proportion of companies acknowledge that they would not have made their investments without this support.²

By asset type, investment since 2019 has been widely varied (see first chart). On the one hand, investment in technological and intangible assets (R&D, software, concessions, patents, licenses, etc.) is the segment that

Spain: investment by asset type

Index (100 = 2019)



Note: Data in real terms.

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

has shown the greatest buoyancy, with exceptional growth exceeding 40% since 2019, driven by the digitalisation of businesses and European funds allocated to support the digital transition. This strong growth has allowed investment in this asset class to increase as a proportion of GDP, going from 3.4% in 2019 to 4.0% in 2025. This dynamic, which is applicable across the euro area, is key to enhancing the transformation capacity of the productive sector and accelerating the convergence with countries that are leaders in innovation.

Conversely, investment in capital goods is the component that is lagging the most behind, as it did not recover to pre-pandemic levels until the end of 2024, initially affected by sluggish domestic demand and uncertainty about the economic future. Within this category, clear differences are observed by segment: in contrast to the prolonged weakness in investment in transport equipment – in 2025 it was still 17% below 2019 levels – reflecting past bottlenecks, the technological transition and business caution, investment in other machinery shows a more resilient profile and in 2025 was 12.1% above the 2019 level.

As for investment in construction, its two segments – housing³ and non-residential – have recovered in line with GDP, the latter driven by public infrastructure. In any case, the construction sector faces certain constraints, such as the rising cost of materials and interest rate hikes.

3. Although investment in housing has performed better than other segments, such as investment in capital goods, it has been insufficient to correct the imbalance between supply and demand in the real estate sector. For further information on the housing deficit in Spain, see «Lack of new housing where it is most needed: a growing and geographically concentrated deficit», included in the *Real Estate Sector Report S1 2026*.

1. See the Focus «The Spanish economy in 2026», in the MR03/2026.

2. Bank of Spain (2025): «Weak business investment in Spain following the pandemic: an analysis based on the Banco de España Business Activity Survey», Economic Bulletin, 2025/Q1.

When compared with the previous cycle (see second chart), certain differences in the pattern of investment are apparent. The performance varied by component, and it is the construction segment – primarily housing – that took centre stage, growing by 47.8% between 2014 and 2019, which is more than triple the rate recorded by GDP (15.0%). Consequently, residential investment gained 1.2 points in terms of GDP during that period, reaching 5.6%. More modest, however, was the growth of investment in intangible assets (16.5%). In this latter case, its share of GDP remained stable (increasing by just 0.1 percentage points, to 3.4%).

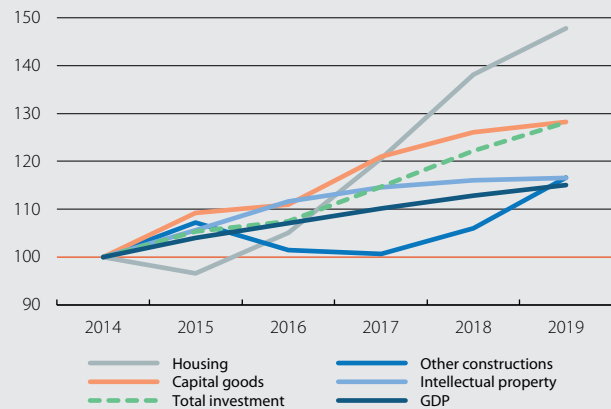
Compared to our European partners, Spain shows a much more intense recovery in investment, with a cumulative growth of 13.1% since 2019, 10 points more than across the euro area as a whole (see third chart). Consequently, the investment rate – understood as investment as a percentage of GDP – has increased by half a point to 20.7%, thus significantly narrowing the gap with the European average to just 0.3 points, as seen in the fourth chart. Among the main euro area economies, the pattern is uneven, with Spain showing an average performance. At the top of the ranking, Italy clearly stands out, with growth of close to 34%. This is mainly explained by the construction segment, thanks to tax incentives (Superbonus, Transizione 4.0) and the rapid execution of European funds, which has raised its investment rate to 22.4%, almost 5 points more than in 2019.

In contrast, investment in Germany shows a decrease of 7.7%, placing its share of GDP below 20%, which constitutes one of the main structural burdens on its recent growth. Of particular note is the deterioration in investment in capital goods, affected by the slowdown in industry, the energy crisis, lower foreign demand and the segment’s high exposure to China, as well as in construction, due to fiscal rules and reduced investment in infrastructure. France shows a more stable pattern, with growth and investment rates close to the average (2.8% and 21.6%, respectively), partly due to industrial and fiscal policies that have cushioned the impact of the recent shocks.

In conclusion, in the post-pandemic cycle, the composition of investment has shown a different profile compared to the 2014-2019 period. Intangible assets have gained prominence, while investment in capital goods and construction has declined. Overall, since 2019, Spain has shown more dynamic investment than the euro area, which has enabled it to narrow the gap with the European average. For 2026, the maintenance of favourable financial conditions and the support of NGEU funds are significant support factors, although the geopolitical environment may influence the outlook, which was more favourable at the beginning of the year.

Spain: investment by asset type

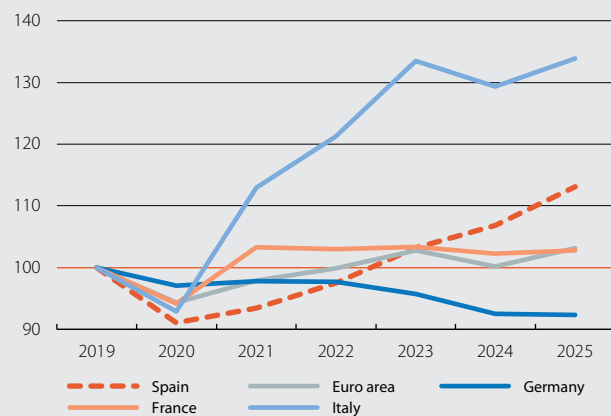
Index (100 = 2014)



Note: Data in real terms. Source: BPI Research, based on data from the National Statistics Institute (INE).

Europe: investment

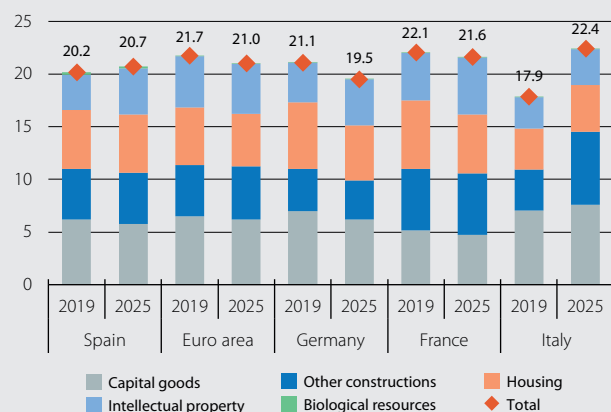
Index (100 = 2019)



Note: Data in real terms. Source: BPI Research, based on data from the National Statistics Institute (INE) and Eurostat.

Europe: investment by component

(% of GDP)



Note: Data in real terms. Source: BPI Research, based on data from the National Statistics Institute (INE) and Eurostat.

Activity and employment indicators

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Industry									
Industrial production index	0.4	1.3	1.5	2.4	1.6	...	-1.1	...	...
Indicator of confidence in industry (value)	-4.9	-4.8	-5.3	-4.9	-3.9	-3.2	-2.5	-4.4	-5.1
Manufacturing PMI (value)	52.2	50.9	50.0	52.6	51.1	49.3	50.0	48.7	51.7
Construction									
Building permits (cumulative over 12 months)	16.7	8.8	14.8	7.9	8.8	...	9.0	...	...
House sales (cumulative over 12 months)	9.7	11.6	22.9	18.8	11.6	...	8.7	...	...
House prices	8.4	12.7	12.7	12.8	12.9	...	...	...	...
Services									
Foreign tourists (cumulative over 12 months)	10.1	3.2	6.3	4.3	3.2	2.7	2.7	2.7	...
Services PMI (value)	55.3	54.5	52.2	54.2	56.4	52.9	51.9	53.3	47.9
Consumption									
Retail sales ¹	1.8	4.3	5.1	4.4	4.2	3.4	2.3	4.1	...
Car registrations	7.2	12.9	13.7	16.9	8.0	7.6	7.5	11.7	8.4
Economic sentiment indicator (value)	103.1	103.1	102.3	102.8	104.3	105.1	105.9	103.5	102.6
Labour market									
Employment ²	2.2	2.6	2.7	2.6	2.8	2.4	...	...	...
Unemployment rate (% labour force)	11.3	10.5	10.3	10.5	9.9	10.8	...	...	...
Registered as employed with Social Security ³	2.4	2.3	2.2	2.3	2.4	2.3	2.2	2.5	2.4
GDP	3.5	2.8	2.9	2.7	2.6	2.7	...	...	...

Prices

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
General	2.8	2.7	2.2	2.8	3.0	2.7	2.3	3.5	3.2
Core	2.9	2.3	2.3	2.4	2.6	2.7	2.7	2.9	2.8

Foreign sector

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	0.2	0.7	2.0	0.8	0.7	...	0.5	...	...
Imports (year-on-year change, cumulative over 12 months)	0.1	4.6	4.1	4.6	4.6	...	3.0	...	...
Current balance	50.7	49.4	48.5	48.2	49.4	...	49.3	...	...
Goods and services	66.3	64.5	64.0	62.5	64.5	...	67.7	...	...
Primary and secondary income	-15.7	-15.1	-15.5	-14.3	-15.1	...	-18.4	...	...
Net lending (+) / borrowing (-) capacity	68.7	66.6	67.5	66.6	66.6	...	66.3	...	...

Credit and deposits in non-financial sectors⁴

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	02/26	03/26	04/26
Deposits									
Household and company deposits	5.1	4.8	3.9	4.9	4.8	5.5	5.5	5.5	...
Demand and notice deposits	2.0	6.7	5.0	7.2	6.7	7.1	7.2	7.1	...
Time and repo deposits	23.5	-4.7	-1.5	-6.6	-4.7	-2.4	-2.8	-2.4	...
General government deposits ⁵	23.1	4.9	25.5	7.2	4.9	5.1	3.8	5.1	...
TOTAL	6.3	4.8	5.4	5.1	4.8	5.5	5.4	5.5	...
Outstanding balance of credit									
Private sector	0.7	3.5	2.6	2.8	3.5	3.7	3.7	3.7	...
Non-financial firms	0.4	2.9	2.5	2.3	2.9	3.6	2.9	3.6	...
Households - housing	0.3	3.5	2.3	2.9	3.5	3.7	3.8	3.7	...
Households - other purposes	2.3	4.5	3.5	3.7	4.5	4.2	5.1	4.2	...
General government	-2.6	10.7	5.3	12.9	10.7	8.1	5.6	8.1	...
TOTAL	0.5	3.9	2.7	3.4	3.9	4.0	3.8	4.0	...
NPL ratio (%)⁶	3.3	2.7	3.0	2.9	2.7	...	2.7	...	...

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

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

Artificial intelligence: a supply-side perspective

Artificial intelligence (AI), in a broad sense, is the ability of machines and computational systems to replicate human intelligence in the perception, synthesis and inference of information, thereby performing tasks which previously could not be carried out or traditionally required human cognitive abilities, such as language comprehension, pattern recognition and decision-making.

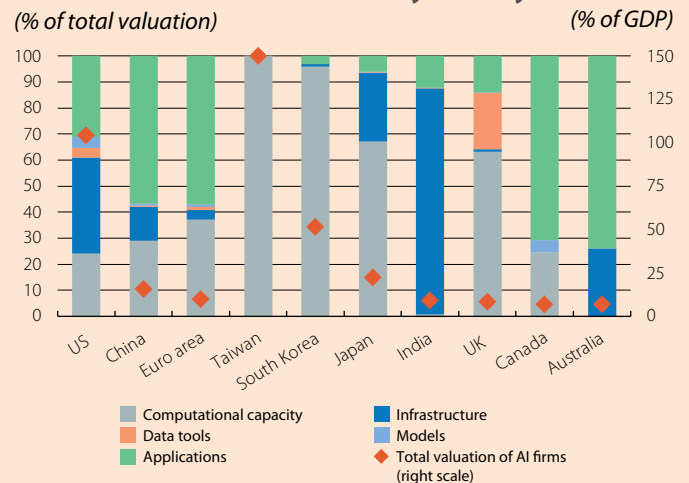
While the development of this technology dates back to the 1950s-60s, advances in large language models (LLMs) over the past decade, along with improvements in processing power and mass data collection, have driven more recent developments in so-called generative AI, capable of producing text, code and audiovisual material based on patterns learned from large datasets.

The AI value chain: complex and heterogeneous from country to country

The development of AI relies on a complex value chain composed of several interdependent links.¹ At its core lies access to critical minerals used in the manufacture of semiconductors, the «physical brain» of AI. These components are integrated into a broader computational infrastructure comprising data centres, communication networks, power grids and cloud computing services, together forming the «body» that enables large-scale data processing. On top of this infrastructure lies access to large volumes of data for training models. The development of so-called foundational models represents in itself the next link in the chain and requires sophisticated algorithms and neural networks for deep learning. Finally, the value of generative AI is realised in the development of specific applications built on foundational models, such as virtual assistants or content generation systems, and in its integration into digital products and services, which are the main point of contact with the end user.

Currently, AI value chains vary widely across the major economies (see first chart). On one hand, in the US and several Asian nations the sector plays a significant role in the economy, measured in terms of AI firm valuations as a percentage of GDP. Among these, Taiwan and South Korea are highly specialised in computational capacity, while the US has a more diversified value chain. On the other hand, in China and several advanced economies, AI plays a somewhat smaller role in the economy and they also have different specialisations. Japan and the United Kingdom show greater specialisation in computational capacity (and data tools, in the case of the latter), while in China and the euro area there is a greater emphasis on applications.

Structure of the AI value chain by country



Note: In the case of Taiwan, the total valuation of AI firms (as a % of GDP) is 207.2%.

Source: BPI Research, based on data from the BIS (K. Rishabh and V. Shreeti (2026), «The geography of AI firms», BIS Working Papers 1343).

AI deployment, from innovation to adaptation

The deployment of AI can be divided into four key phases: the innovation phase, the development of new infrastructure, the diffusion and widespread adoption of the new technology, and the adaptation of business models and markets to the new technology.

In this context, the global economy is still immersed in the first two phases of AI deployment. There is ample evidence of an investment boom related to innovation and infrastructure construction, which is particularly evident in countries such as the US and some Asian nations.² In this context, AI capabilities are improving at an exponential rate. This progress is being supported by

1. See O. García Retuerta and D. García Retuerta (2026), «La cadena de valor de la inteligencia artificial: estrategias de autonomía para España», IEEE Opinion Document 03/2026, Spanish Ministry of Defence, Spanish Institute for Strategic Studies; and McKinsey & Company (2023), «Exploring opportunities in the generative AI value chain», QuantumBlack, AI by McKinsey.

2. See the article «The AI buzz in financial markets», in this same Dossier.

hyperscaling, driven by rapid advances in the amount of data used to train models, the number of parameters, and computational capacity. At the same time, the surge in supply and demand is creating infrastructure bottlenecks.³

AI supply indicators in the US, the EU and China

	China	US	EU-27
Innovation, infrastructure and procurement			
Market share for logic chip production, by manufacturing stage ¹			
Design	9.0	61.0	0.0
Fabrication	12.0	27.0	2.0
Assembly, testing and packaging	14.0	28.0	0.0
Granted AI patents (per 100,000 people) ²	7.0	4.7	2.6
Scholarly publications on AI (per million people) ¹	72.7	145.7	139.4
Highest score achieved by an AI model (MMLU) ³	90.6	92.5	84.0
Number of data centres ²	449.0	5,427.0	1,461.0
Number of notable data models (2021-2025) ²	108.0	331.0	44.0
Number of cumulative GitHub stars (millions) ²	9.0	30.0	13.0
Innovation Index (Global AI Vibrancy Tool) ²	5.1	20.7	3.0
Adoption, diffusion and adaptation			
AI adoption rate among the population ²	17.0	28.3	31.2
Industrial robots in operation (per 10,000 employees) ⁴	166.0	307.0	266.0
Number of industrial robots installed in the last year (thousands) ⁴	276.3	37.6	50.3
Electricity consumption of data centres (% of total electricity demand) ⁵	1.1	4.4	2.3
Digital infrastructure (AI Preparedness Index) ⁶	0.19	0.19	0.17
Innovation and economic integration (AI Preparedness Index) ⁶	0.15	0.18	0.16
Human capital and labour market policies (AI Preparedness Index) ⁶	0.15	0.18	0.16
Graduates from STEM programmes (% of total, tertiary education) ⁷	41.0	20.0	25.0
Digital-intensive sectors' share in total employment (% of total employment) ⁸	28.0	47.8	47.4
ICT goods and services (% of international trade) ⁸	22.2	9.8	7.5
Digital Services Trade Restrictiveness Index ⁸	0.29	0.06	0.11

Note: The latest available year is used for each series, unless otherwise stated. In cases where data for the EU aggregate is unavailable, the average is calculated using the available countries. Values in red indicate more negative performance, yellow medium, and green more positive. Sources: ¹Our World in Data, ²Stanford University Institute for Human-Centered AI, ³MMLU-Pro Benchmark Leaderboard, ⁴International Federation of Robotics (IFR), ⁵International Energy Agency (IEA), ⁶International Monetary Fund (IMF), ⁷World Bank and Center for Security and Emerging Technology - Georgetown University, ⁸OECD.

Source: BPI Research, based on various sources.

As has been the case with other technologies in the past, some economies will not play a decisive role in the innovation phase, but will benefit from adoption, diffusion and adaptation to the technology. If we focus on the comparison between the US, the EU and China, we can see important nuances in different phases of the deployment process. In the innovation phase, the US economy is taking a clear lead, as is particularly evident in indicators related to output (such as the performance of models at the technological cutting edge, academic publications⁵ and open-source development) and infrastructure (such as the number of data centres and chip design). Yet China has shown a remarkable ability to catch up with the technological frontier in recent years. Its most advanced models show a very similar level of performance to their American counterparts, while the dynamism observed in the granting of patents and the development of models points to a boom in innovation. The EU, meanwhile, is not so well positioned in terms of innovation, according to most indicators. In particular, its low market share in chip production makes it highly dependent in this sphere, while it is lagging behind China and the US in the development of AI models. Finally, China is leading in the supply of materials, due to its access to critical minerals and its processing capacity for chip and semiconductor manufacturing.⁴

In indicators related to adoption, diffusion and adaptation, the picture is somewhat more homogeneous. Adoption in the three major economies, in terms of the proportion of the population currently using AI, stands at around 30% in the EU and the US, while for China it is just under 20%.⁵ Similarities are also found in their degree of readiness for adoption, diffusion and adaptation,

3. For example, METR, a metric which measures AI performance based on the maximum task length (time horizon) a model can handle, shows that in recent months it can now satisfactorily perform tasks that would require several hours, whereas a year ago models could only handle tasks with a duration of minutes. See also «The AI Index 2026 Annual Report», by Stanford University's Institute for Human-Centered AI. The main infrastructure bottlenecks are found in the chip market, but also in data centre capacity and in the energy market.

4. See «China's alchemy: how it transforms critical minerals into global power» in the MR01/2026.

5. These are significant figures that indicate a substantially higher adoption rate than that of previous technologies. Business adoption figures, meanwhile, show greater dispersion by function, sector and degree of implementation. See «The AI Index 2026 Annual Report», by Stanford University's Institute for Human-Centered AI.

albeit with a slight advantage for the US. On the other hand, in recent years China's manufacturing sector has undergone a very rapid modernisation – and «robotisation» – process, anchored in an aggressive industrial policy and significant investment in infrastructure and human capital. This places it in a strong position to benefit from the diffusion of and adaptation to AI, especially as a global supplier of advanced technologies. Finally, the European and US economies are more intensive in digital services, positioning them as potential leaders in the adaptation phase, the speed and magnitude of which will be key to determining the macroeconomic effects of AI.⁶

The global economy, in the early miles of the AI marathon

The «AI race» is still in its early stages. While the US has taken the lead in the innovation phase, the pack is closing in, led by China, and it is unlikely that the race will be decided between just two participants. Given its transformative potential, the success of the deployment of AI and its macroeconomic impact will depend on the business sector's ability to adapt and manage the frictions associated with this new technology. However, AI will also require an active role from states, both in its regulation and in its adoption, diffusion, adaptation and coordination at a global level, promoting the necessary improvements in terms of institutions, infrastructure and human capital.⁷ The task ahead is complex and will require new tools of public policy and economic diplomacy. Moreover, the AI supply model that is ultimately adopted – whether in fragmented blocks centred around the US or China, or more integrated globally – will have implications that extend beyond the economy. The AI marathon is only just begun, and everyone is taking part.

6. For further details, see the article «Productivity and employment in the face of generative AI: what do we know?», in this same Dossier.

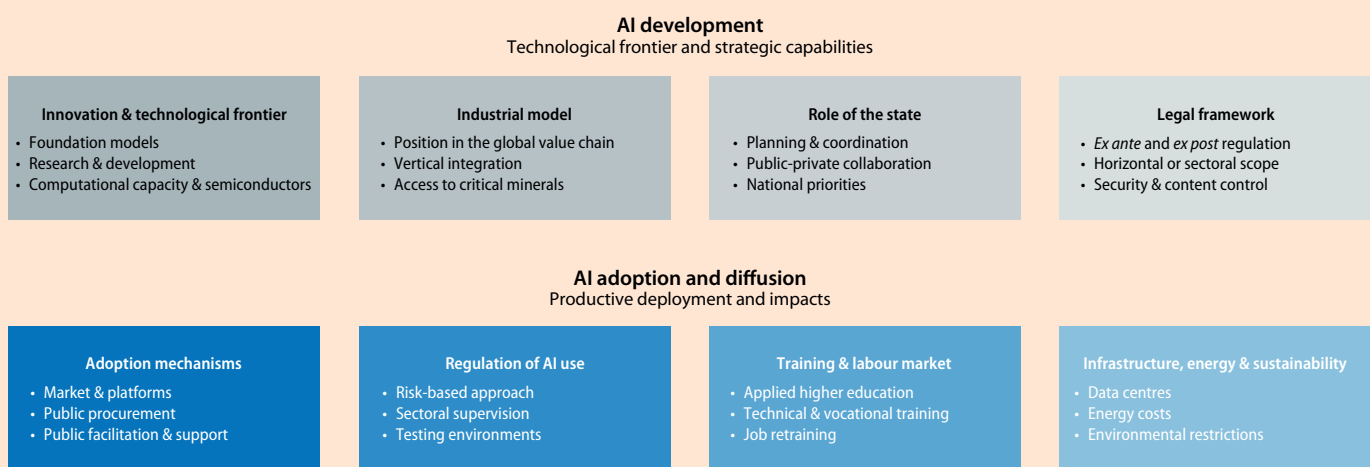
7. For further details, see the article «Differentiated strategies for governing AI: towards cooperation or conflict?», in this same Dossier.

Differentiated strategies for governing AI: towards cooperation or conflict?

Generative artificial intelligence (AI) is a critical area of economic and strategic competition among the major powers, and its development depends both on the dynamism of the private sector and on state action. Together, they shape the scope and effects of a technology whose complex ecosystem spans innovation and its monetisation, positioning in the value chain, its diffusion and adoption, and the management of its externalities. This article reviews – from a geoeconomic perspective – the strategies adopted by the US, China and the EU in key areas such as regulation, the role of the state in the industrial model, public support instruments, and cross-cutting policies such as professional training and sustainability. We conclude with a reflection on the future interaction of these governance models and the potential areas of friction and cooperation that may arise.

AI governance: from development to adoption

Analytical framework for international comparison



Source: BPI Research.

The US seeks to shape the technological frontier

The potential of AI lies in the complexity, speed and reliability with which it performs tasks. Its development relies on a combination of cutting-edge knowledge for the design of language models, computers equipped with high-capacity processing chips, and a robust architecture – both physical (data centres) and digital (cloud infrastructure) – for information storage and model training.

In this field, the US has consolidated its position at the global AI frontier thanks to its human capital, technological capabilities and a favourable business environment.¹ It boasts an innovative ecosystem based on elite universities and a concentration of STEM and international research talent. It also benefits from public support as an early incubator, led by both civilian agencies (NSF) and defence agencies (DARPA), and from a business cluster with large tech firms that are embedded into the economy's industrial base and have both financial muscle and an appetite for risk. Added to this are favourable tax and regulatory frameworks, with minimal intervention during the development phase, still lacking a comprehensive federal law² and with a predominance of *ex post* intervention. The Trump administration's action plan has placed even greater focus on the technological frontier with a marked geostrategic emphasis,³ setting an explicit goal for US semiconductors, models and applications to be hegemonic on a global scale and become the new «gold standard».⁴

In contrast, state planning, coordination and guidance are the foundation of the Chinese model. While it is private companies that have capitalised on the exponential improvement of technological capabilities in the last decade, AI research and development

1. According to estimates based on data from Epoch AI, the US accounts for two-thirds of the world's AI-related computational capacity, followed by China with around 20%, while the EU accounts for just 5%.

2. The only general AI law in effect in the US is the one passed by the state of Colorado in 2024.

3. White House (2025), «America's AI Action Plan».

4. It thus shifts the previous focus on the coordination of the innovative ecosystem and industrial resilience as outlined in the National Artificial Intelligence Initiative Act (2020) and the CHIPS and Science Act (2022).

are aligned with national priorities. Whereas the US seeks to define the technological frontier, China prioritises key links in the global industrial value chain,⁵ scale, technological self-sufficiency and security. Subsidies, tax incentives and public financing mechanisms, both at the central and provincial levels, are all contributing to this. This approach is complemented by the preventive control of socially sensitive content, including registration and assessment requirements *ex ante* for recommendation systems in digital applications.⁶ Recent regulation reinforces the limits on public dissemination of information while maintaining greater relative freedom in the research, development and training of models for productive or strategic uses.⁷

The EU, for its part, is seeking to establish a common governance framework to overcome the prevalence of national frameworks in AI development. The main strength of the European innovative ecosystem is its scientific and research base, with universities and centres of excellence. However, it suffers from insufficient supranational coordination and limited prioritisation of its framework programmes, such as Horizon Europe. The financial system is less geared towards risk-taking and, together with the fragmentation of the internal market, hinders the transfer and monetisation of knowledge, as well as the scaling-up of the technology.⁸ To protect its citizens, the EU's regulatory framework prioritises *ex ante* regulation of the uses of AI based on risk,⁹ which can shift its development away from the cutting edge of innovation. Added to this is a high external dependency on advanced semiconductors and foundation models, which the EU is attempting to mitigate through open strategic autonomy and diversification of economic partners.¹⁰

China prioritises adoption and diffusion with productive uses

Beyond technological development, the economic and social impact of AI largely depends on how its adoption and diffusion are governed. In these areas, the approach adopted by the main players also varies widely.

In the US, it is private entrepreneurial initiative and competition that is taking the lead, with the major tech platforms and software providers acting as natural channels for scaling up towards businesses and consumers. State action focuses on removing barriers, providing critical infrastructure, and using public procurement – especially in defence and security – as a driving mechanism for adoption. Regulation is mostly *ex post*, guided by voluntary standards of cross-sector application defined by a federal scientific agency (NIST), along with sectoral oversight in sensitive areas, such as the protection of healthcare patients and financial services clients. Based on this logic of minimal intervention, the state acts as a facilitator and largely leaves the management of cross-cutting areas to the market, although the new national regulatory framework includes recommendations for professional retraining and to limit the impact of the expansion of data centres on electricity costs.¹¹

In the Chinese model, as in the development phase, the public sector plays a key role. The state acts as the coordinator of the ecosystem, *ex ante* regulator, financier and demander, channelling substantial public investment through large state-owned enterprises and into strategic sectors such as advanced industry, logistics, energy and security. The planned schedule includes sectoral and territorial penetration objectives at different time horizons, with a roadmap that is due to culminate in a fully «smart» economy and society by 2035.¹² To this end, vertical programmes for the transformation of the industrial value chain have been defined,¹³ with controlled competitive environments that facilitate the assessment of scalability without transferring risks to the wider system, such as regulatory sandboxes and pilot zones. This approach is accompanied by the integration of AI into higher education and technical and professional training programmes. Energy and infrastructure planning forms part of the deployment strategy, while sustainability is subordinated to national economic security priorities.

Unlike in the US, where the diffusion of AI relies on large private platforms, and in China, where the state acts as a centralised demander, in the EU the adoption and diffusion of AI is primarily structured through an approach based on regulation and public support. The fragmentation of the internal market and *ex ante* regulatory obligations for high-risk uses limit the pace and scale of

5. See the Focus «China's alchemy: how it transforms critical minerals into global power» in the MR01/2026.

6. Cyberspace Administration of China, CAC (2021), «Algorithm Recommendation Provisions». CAC (2023), «Interim Measures for the Management of Generative AI Services», CAC (2023), «Deep Synthesis Provisions» and CAC (2025), «AI-generated Content Labeling Rules».

7. CAC (2023), «Interim Measures for the Management of Generative AI Services», CAC (2023), «Deep Synthesis Provisions» and CAC (2025), «AI-generated Content Labeling Rules».

8. M. Draghi (2024), «The Future of European Competitiveness».

9. EU (2024), Artificial Intelligence Act.

10. The «AI Continent» Action Plan, presented by the Commission in 2025, extends the strategic public intervention approach applied to semiconductors in the European Chips Act (2023), complemented by the objectives of the Critical Raw Materials Act (2024) to ensure a secure and sustainable supply of critical raw materials.

11. White House (2026), «Artificial Intelligence: national policy framework».

12. These objectives are defined by the work programme of the AI Plus initiative launched in 2024 by the State Council, similar to the Internet Plus initiative of 2015.

13. e.g. the AI+ Manufacturing initiative launched in 2025 under the umbrella of AI Plus.

adoption.¹⁴ Public-sector action combines regulation with EU-wide instruments – such as the Apply AI Strategy – and practical support – such as hubs and testing environments – aimed at facilitating sectoral implementation and reducing legal uncertainty.¹⁵ This approach tends to increase adoption costs and slow down dissemination, especially among SMEs, where fixed costs and skills deficits weigh more heavily. Added to this are structural limiting factors, such as high energy costs and environmental commitments associated with the deployment of compute-intensive infrastructures.¹⁶

The EU seeks its place in AI geopolitics

The rivalry between the US and China in the AI era is unfolding amid significant strategic uncertainty.¹⁷ It is unclear whether the advantage of being at the technological frontier will generate persistent revenue streams that are difficult to replicate or whether competition will shift towards dissemination, deployment, and the ability to scale up applications in key sectors. In both scenarios, the power associated with AI will largely depend on the control of key assets – advanced chips, computing capacity, energy, talent, and industrial integration – so betting on a single trajectory could prove costly if the evolution of the technology diverges from the initial assumptions.

This framework tends to place middle powers in a position of technological dependence.¹⁸ The concentration of talent, investment, and computing capacity in the US and China limits the scope of influence over the direction of technological change and amplifies the economic and social adjustment costs associated with AI. For the EU, the risk of falling behind reinforces the debate surrounding the balance between regulation, competitiveness and scale. In particular, the Draghi report's diagnosis on internal market frictions and the difficulty of scaling up innovation aligns with the recent shift towards approaches based on simplification and regulatory proportionality. The goal of this shift is to prevent legal certainty from ultimately penalising adoption and scale-up, especially among SMEs.¹⁹

Nevertheless, AI governance is not necessarily reduced to bloc logic. Even in a context of strategic rivalry, recent multilateral initiatives show areas for coordinating principles and practices. Thus, the focus on security and regulation at the summits in London (2023) and Seoul (2024) has expanded to encompass a more comprehensive agenda of innovation, digital skills, labour impact, and sustainability in Paris (2025), and the emphasis on capacity gaps between advanced and emerging economies in New Delhi (2026). In this vein, the framework promoted at the United Nations suggests a more inclusive and distributed global architecture based on common principles and mechanisms that are complementary to national and regional strategies.²⁰ For the EU, the challenge will be translating this cooperative agenda into real adoption and scale-up capabilities.

14. M. Draghi, *op. cit.*

15. The AI Act (2024) establishes support mechanisms for AI deployment to facilitate regulatory compliance in high-risk uses, while the Apply AI Strategy (2025) integrates them into an action plan aimed at accelerating adoption, especially among SMEs and government entities.

16. IEA (2025), «Energy and AI».

17. Foreign Affairs (2026), «Geopolitics in the Age of Artificial Intelligence: Strategy and Power in an Uncertain AI Future».

18. Foreign Affairs (2026), «The AI Divide: How U.S.-Chinese Competition Could Leave Most Countries Behind».

19. The European Commission's proposal set out in the Digital Omnibus package of November 2025 – currently being negotiated among co-legislators – introduces a more pragmatic tone in the regulatory approach, with adjustments aimed at reducing the burden and facilitating technological adoption without altering protection objectives.

20. United Nations (2024), «Governing AI for Humanity».

Productivity and employment in the face of generative AI: what do we know?

Generative artificial intelligence (AI) has traits of a general-purpose technology: applications in many sectors, rapid improvement of the technology itself and a catalyst for complementary innovations. This has already happened with technologies such as electricity and the internet. Even so, having high potential does not necessarily mean an immediate or uniform macro impact. The final magnitude of AI's impact will depend on the speed of its adoption and the ability of firms to reorganise processes. This article examines how AI could affect productivity growth and what it means for the labour market.

Striking productivity increases at the micro level

Since the emergence of ChatGPT in 2022, research on the impact of AI on worker productivity has surged. A review by the OECD indicates that, on average, using AI tools can boost individual productivity by around 30%, and some studies find improvements exceeding 50% in specific tasks.^{1,2} Many of these studies, conducted in controlled environments where one group of workers is given access to the tool and another is not, find vast productivity improvements in tasks where the technology has a direct application, such as programming or writing.

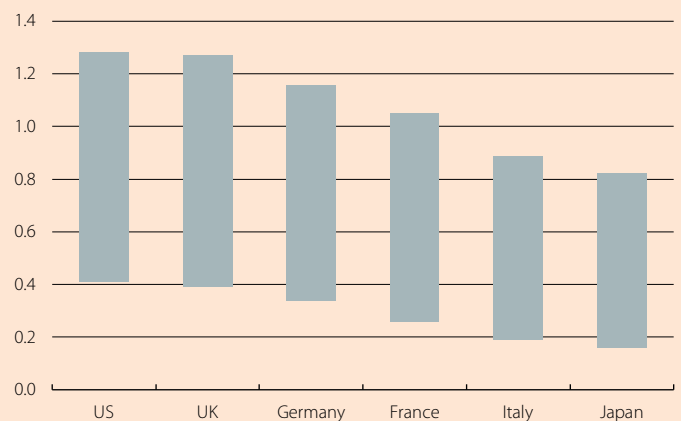
These results should not be read as an automatic estimate of the impact on the entire economy. Firstly, they focus on specific tasks, and secondly, they often exclude implementation costs (training, process adaptation, organisational changes, legal or technical frictions). In short, they show what AI can do under favourable conditions, but not necessarily what it will do immediately on an aggregate scale. Even so, they represent a floor. As the technology advances, further improvements can be expected, and the evidence available to date suggests a rapid rate of improvement. Many of the available studies, for example, were conducted before the arrival of autonomous AI agents capable of executing complete tasks without human intervention; if this type of solution becomes widespread, then the productivity gains could increase substantially. There is also a pattern that is repeated in many jobs: among workers performing the same task, AI tends to be of greater help to those who started with a lower level of productivity. In this regard, it acts as a «leveller».

The leap from micro to macro is not automatic

Small-scale advances do not always translate into macro figures. If AI were to have a big impact on a few occupations, then the overall impact could be limited. The Nobel laureate in Economics, Daron Acemoglu, proposes a simple framework for considering this leap.³ AI boosts productivity in two ways: it automates tasks (replacing human labour) or it complements workers (enabling them to do more and better). Both increase productivity, but with different implications for employment, wages and inequality.

Under certain assumptions, the author shows that the impact of AI on aggregate productivity can be approximated based on two ingredients: (i) the proportion of tasks or occupations actually affected by the new technology and (ii) the average productivity gain in those tasks.⁴ Unfortunately, there is significant uncertainty regarding the magnitude of both of these ingredients.

Estimated productivity gains due to AI
(pps)



Notes: Average annual increase over the next 10 years. The range captures differences in the speed of the technology's adoption and differences in the sectoral structure of each country.

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

1. «Macroeconomic productivity gains from Artificial Intelligence in G7 economies», OECD Artificial Intelligence Papers, June 2025, n° 41.

2. The productivity metric varies according to the study. In some cases, it refers to time savings, while in others it refers to increases in production within the same time interval. In general, they can be interpreted as savings in labour costs.

3. D. Acemoglu (2025). «The simple macroeconomics of AI». Economic Policy 40, n° 121, pages 13-58.

4. Economic literature distinguishes the concept of a task from that of an occupation. An occupation is a set of tasks, and the automation of a task does not necessarily mean that the occupation is automated. For the sake of simplicity, in this article we will use the words task and occupation as synonyms.

For instance, Acemoglu assumes that 20% of tasks are susceptible to being automated and that, among these, it will only be economically viable to automate 23% of them within the next 10 years. Other authors find higher figures, with 60% of tasks being susceptible to automation and 80% viability among these cases.⁵

Aggregate estimates vary significantly depending on assumptions about the proportion of tasks affected and the average productivity gains. At one end of the spectrum, Acemoglu suggests modest productivity gains of around 0.1 pp per year. With more favourable assumptions, the figures are higher. For example, the OECD estimates that, over the next 10 years, annual productivity growth will increase by between 0.4 and 1.3 pps in the US and by between 0.2 and 0.8 pps in other advanced economies.⁶ These are broad ranges, depending on different assumptions about the speed of the technology's adoption and the sectoral structure of each economy, but in no case are they negligible figures.

These exercises do not exhaust all impact channels. AI can facilitate new occupations and business models, and could accelerate scientific innovation. The OECD, for example, notes signs of a virtuous circle of innovation: there is an increase in generative AI patents cited in developments in other fields and, in turn, an increase in generative AI patents that cite innovations from other fields that cited generative AI patents.⁷ In other words, AI facilitates innovation in other fields and these accelerate innovation in AI itself.

The adverse effects also need to be included. The economy does not always function as the sum of isolated tasks. A simple example is the so-called Baumol effect: if productivity increases significantly in some sectors but little in others, wages tend to move similarly across sectors. Otherwise, workers would end up moving to where the pay is better. In order to retain them, less productive sectors have to raise wages, even if they do not produce more. The rise in wages in these sectors translates into higher prices and, therefore, the weight of these sectors on final expenditure increases and dilutes the impact of the productivity gains in the more advanced sectors. OECD simulations suggest that this effect could subtract around one-sixth of the potential increase in productivity growth associated with AI.⁸

Furthermore, AI can have harmful uses – disinformation, manipulation, cyberattacks or addictive advertising – that generate negative externalities. If these costs are not reflected in standard metrics, macro gains may overestimate the social benefits.

The labour market: a great unknown

The net effect of AI on employment is ambiguous. On the one hand, automation reduces the demand for labour in the affected tasks. On the other hand, new technologies also create new jobs – the reinstatement effect. This is an important channel. In the four decades following the Second World War, the emergence of new occupations completely offset job destruction due to automation.⁹ The big question is whether AI will replicate that pattern and at what pace. There is also a third channel: by boosting productivity, AI could result in lower costs, lower prices, and better products, which could stimulate demand and, therefore, the demand for labour too.

Wage inequality does not follow a single direction either. Unlike other technological waves, such as robotics, which disproportionately affected certain groups, exposure to AI seems to be relatively widespread across occupations of different skill levels, potentially limiting the increase in wage inequality. The IMF notes, however, that higher-income workers are, on the one hand, those at greater risk of having their jobs replaced by AI, but at the same time, those with more potential to benefit from its complementarity.¹⁰

The institution simulates three scenarios and finds that the effect of AI on wage inequality depends on whom it helps and whom it harms more: if task substitution dominates, inequality could decrease (because higher-paid jobs would be more affected). If complementarity prevails, inequality would tend to increase (because workers with higher qualifications would benefit more). And if AI increases aggregate productivity, wages can rise for everyone, but more so for those who benefit from greater complementarity with AI, once again widening the gap.

5. For a review of the estimates made, see P. Aghion and S. Bunel (2024). «AI and Growth: Where do we Stand?», Policy Note.

6. See footnote 1.

7. «Is Generative AI a General-Purpose Technology? Implications for Productivity and Policy», OECD Artificial Intelligence Papers, June 2025, n° 40.

8. The impact is greater the more unequal the productivity gains are between sectors and the greater the difficulty households have in redirecting their spending towards more productive sectors.

9. D. Acemoglu and P. Restrepo (2019) «Automation and new tasks: How technology displaces and reinstates labor», Journal of Economic Perspectives 33, n° 2, pages 3-30.

10. M. Giovanni, A. Pantoni, C. Pizzinelli, E. Rockall and M.M. Tavares (2024). «Gen-ai: Artificial intelligence and the future of work». IMF, 979, pages 1-37.

Competition will be a key element

The distribution of the benefits will also depend on the competitive environment. AI can reduce barriers to entry in some markets. Cheaper tools for programming, translating, designing or analysing data can enable small businesses to do things that previously required greater scale. In competitive markets, part of the profits would translate into lower prices and more widely distributed benefits. If, on the other hand, companies capture most of the income – through patents or market power – then the distribution may be unequal.

This tension is particularly relevant in the AI market itself. Economies of scale (larger size, greater efficiency), economies of scope (a single model can be adapted for multiple uses at a relatively low cost) and bottlenecks in access to data to train models, as well as the cost of computing and human capital, naturally drive this market towards greater concentration. It is not inevitable, but it is a plausible risk. Oversight by authorities will therefore be important: not to hinder innovation, but to prevent a technology with the potential to enhance well-being from being sequestered by excessively closed market structures.

In summary, AI will be transformative. Its potential to increase productivity is real, but its deployment will be gradual. Initially, time-saving in specific tasks will prevail. The most significant changes will come later, when companies redesign entire processes and when AI helps accelerate the generation of knowledge and new ideas.

The most reasonable scenario is thus one of increasing benefits in the medium term. This increase will be more intense and rapid in the US than in Europe, given the faster pace of technological adoption and the prominence of the tech sector in the US compared to Europe.¹¹ In this context, it seems plausible to expect productivity improvements of up to 1 pp annually in the US over a 5 to 10-year horizon, and about half of that in Europe. This would not be an instant revolution, but it would represent a step change for growth.

11. For further details, see the articles «Artificial intelligence: a supply-side perspective» and «Differentiated strategies for governing AI: towards cooperation or conflict?», in this same Dossier.

The AI buzz in financial markets

Artificial intelligence (AI) has accounted for much of the recent economic growth¹ and stock market performance in the US. Since the emergence of ChatGPT three years ago, the so-called Magnificent Seven² account for 60% of the cumulative increase in the market capitalisation of the S&P 500 and now represent around 35% of the index. The rise of AI has led to hopes of a new industrial revolution and, at the same time, fears of another bubble. This ambivalence extends to stock market valuations: they rest on expectations of vast revenue growth, but at the same time, there are doubts about their sustainability, either because the expectations themselves may disappoint or due to the eye-watering spending and investment plans being drawn up by firms in the sector.³

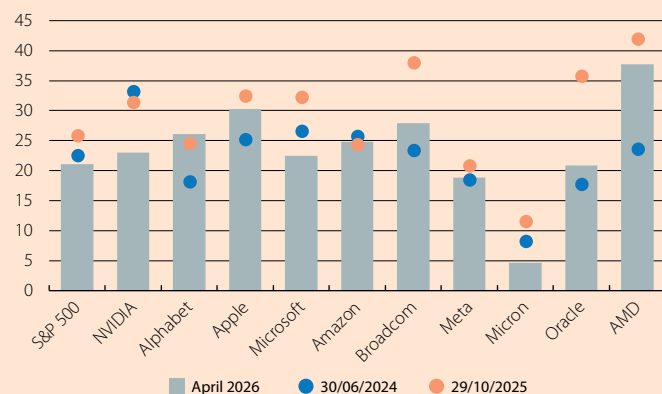
The role of market structure

Although the Magnificent Seven are considered global leaders in AI today,⁴ one of the questions for determining whether they will be able to monetise their vast investment plans in time is the shape that the AI market will take and which companies will emerge as winners and losers when the technology matures.

The AI value chain provides insights into the potential evolution of the market. This chain has five layers.⁵ Firstly, computing power, with the design of microprocessors and memory chips that manage intensive calculations, where NVIDIA currently stands out in design and TSMC in production. Secondly, infrastructure, with data centres and cloud services and a notable presence of Amazon (Amazon Web Services) and Microsoft (Azure). Thirdly, datasets (images, text, audio) for training AI. The fourth link is large AI models, such as OpenAI's GPT or Anthropic's Claude, which can be adapted to a wide range of tasks. The final layer is applications that adapt these large models for specific use cases, such as Copilot, ChatGPT or Claude Code.

US: P/E ratio of leading AI companies

(Share price divided by expected earnings per share over the next 12 months)



Note: Companies ranked by market capitalisation from left (highest) to right (lowest). These companies dominate the Bloomberg Global Artificial Intelligence C-Series Index (the index does not include Tesla among its constituent stocks).

Source: BPI Research, based on data from Bloomberg.

companies such as Meta, Google or Microsoft could reinforce their competitive advantage thanks to the high volume of users of their applications (social networks, such as Instagram or LinkedIn, navigation [Google Maps] or office software [Microsoft 365]).

The complementary connections between the different layers in the chain also favour the dominance of firms that encompass multiple layers in the AI value chain – an integration already exhibited by the established big tech firms. For example, Google also produces its own hardware (TPU chips), builds models (Gemini) and integrates its products with one another.

1. See the article «Productivity and employment in the face of generative AI: what do we know?», in this same Dossier.

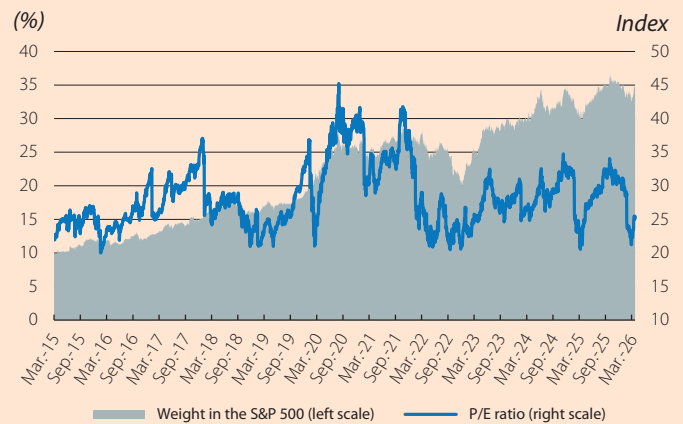
2. Alphabet (Google), Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla.

3. This ambivalence is reflected in the P/E ratios (price per share divided by earnings per share, a standard valuation metric) shown in the first two charts: tech firms have above-average P/E ratios, but they have experienced corrections in recent months.

4. J. Frost, K. Rishabh and V. Shreeti (2026). «Global giants in the AI supply chain», Bank for International Settlements.

5. L. Gambacorta and V. Shreeti (2026). «The AI supply chain», Review of Network Economics.

Magnificent Seven: stock market capitalisation and valuation



Notes: The Magnificent Seven are Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla. The P/E ratio is that between the observed market capitalisation and the expected earnings over the next 12 months (Forward Price-to-Earnings ratio). A higher P/E ratio can suggest both higher expectations of long-term earnings and the risk of over-valuation of the stock.

Source: BPI Research, based on data from Bloomberg.

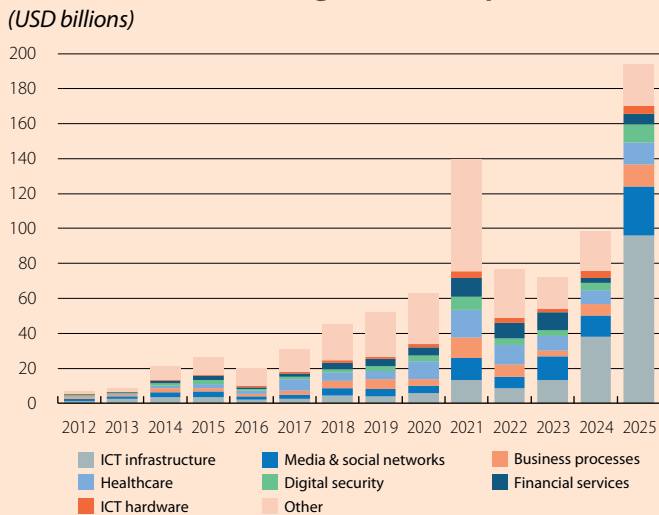
A step change in investment needs

AI not only requires cutting-edge research but also vast investment in infrastructure, particularly related to the computational needs for storing data and training and using models. This investment includes data centres, computer servers, cooling systems, energy facilities, etc. Among the Magnificent Seven, this investment ambition has translated into capex growth of 50% and 60% in 2024-2025, accelerating to 70% in 2026, according to estimates and forecasts by Bloomberg's analyst consensus.

The sharp growth in investment has led to a shift in financing strategies. In recent years, tech firms have taken advantage of their low debt ratios and highly profitable operations to fund their investments with the cash flow they themselves generated. But their spending plans have grown so much that they have become more reliant on external financing (corporate bonds, loans and private credit and venture capital⁶).

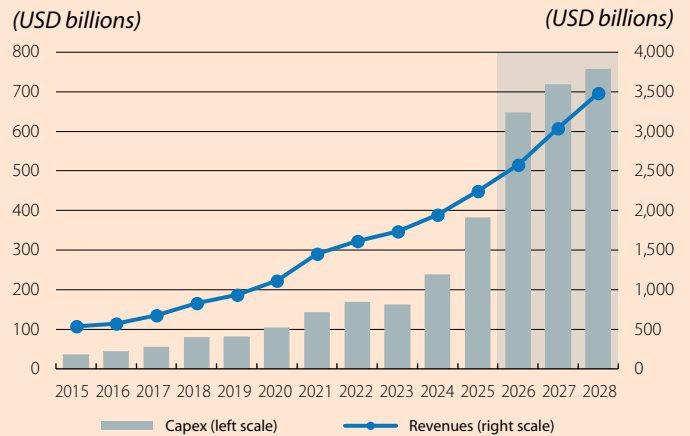
A common structure for obtaining external financing links data centres, private equity, and cross-investments among large AI firms.⁸ Typically, this formula involves forming a consortium of actors to create a new entity, which will own data centres. That consortium includes, as a minority shareholder, the AI company itself which will pay the rent and operate the data centres. To obtain financing, the entity issues debt, often channelled through private credit⁹ or institutional investors, and the servicing of that debt is backed by the income generated from the rental of the data centres. According to the Bank for International Settlements itself,¹⁰ this structure can create circularity and opacity around AI firms' actual level of indebtedness. Furthermore, it tends to create links between the established major AI firms (when they converge in consortia), just like in other cross-investment operations among the leading companies.¹¹

US: AI investments through venture capital



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

Magnificent Seven: investment in capital goods and revenues



Notes: The Magnificent Seven are Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla. Forecasts from 2026 onwards.

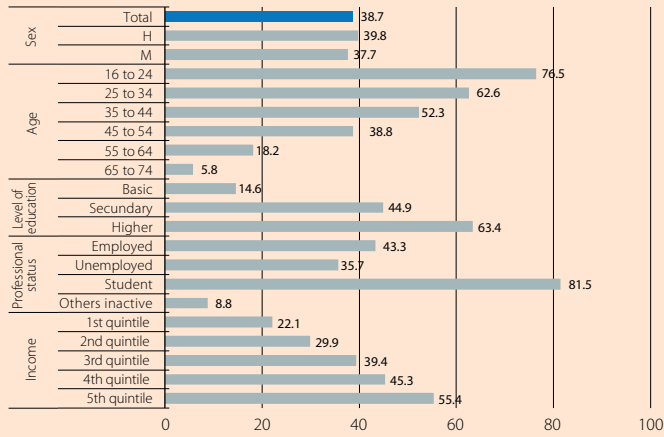
Source: BPI Research, based on data and forecasts from Bloomberg.

Overall, the current AI value chain and the financing strategies and strategic deals between established tech firms exhibit traits that are conducive to market concentration and dominance by incumbents. Besides helping to explain current market valuations, such concentration could pose a source of instability.¹² Nonetheless, how the AI market will actually develop remains uncertain and could result in very different configurations. Regulation, the ease of building new models, and supply dependencies (such as specialised chips) will be key to determining its final structure.

6. Venture capital is a form of investment that involves providing capital to new or growing companies with a perceived high long-term growth potential.
 7. I. Aldasoro, S. Doerr and D. Rees (2026). «Financing the AI boom: from cash flows to debt», Bank for International Settlements.
 8. Eren et al. (2026). «Financing the AI infrastructure boom: on- and off-balance sheet borrowing», Bank for International Settlements.
 9. i.e. non-bank credit granted by specialist investment funds, negotiated directly between lender and borrower.
 10. Eren et al. (2026), op. cit.
 11. Bloomberg (2026). «A Guide to the Circular Deals Underpinning the AI Boom», describes various such circular arrangements. e.g. in 2025 NVIDIA agreed to invest 100 billion dollars in OpenAI, while OpenAI committed to operating its data centres intensively with NVIDIA chips. OpenAI and AMD also formed a strategic alliance whereby OpenAI could end up becoming a major shareholder of AMD and, at the same time, committed to purchasing AMD chips worth tens of billions of dollars.
 12. For example, by exposing a large portion of the economy to the difficulties of a handful of agents or to bottlenecks, or by increasing the correlation between agents (e.g. correlated market movements that amplify moments of stress). S. Breeden (2024), *Engaging with the machine: AI and financial stability*, speech at the HKMA-BIS Joint Conference on Opportunities and Challenges of Emerging Technologies in the Financial Ecosystem.

The adoption of Artificial Intelligence in Portugal

People who regularly use AI tools by sociodemographic characteristics (2025) (%)



Source: BPI Research, based on data from INE (survey on the use of information and communication technology by households; 2025).

(see first graph), with heavy use by young people aged 16 to 24 (76.5%), by students (81.5%), and by the majority of people in the highest income quintile (55.4%). The main reason given for not using it is, by far, the absence of any need to use it (67.9%), followed by lack of knowledge about how to use it (15.3%), concerns about privacy/security (8.3%), and also lack of awareness of the existence of the technology (4.5%).

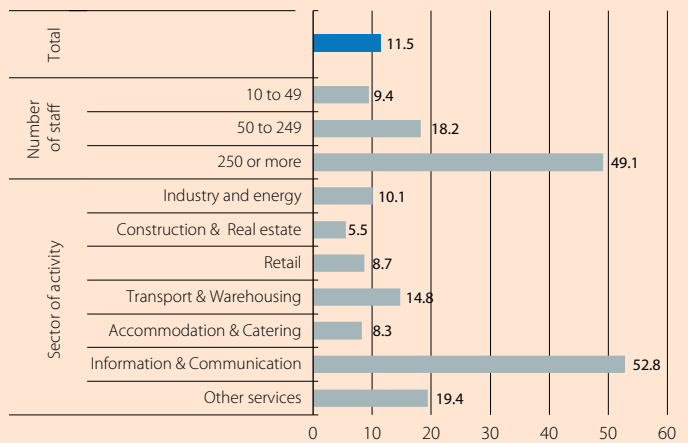
It is important that domestic companies do not fall behind the peloton, as we have previously emphasised that the use of AI has transformative potential in economic and social terms comparable to that of electricity or computing, with some evidence already demonstrated in increased worker productivity.¹ Just as in the case of individuals, Portuguese companies also have a good foundation for the use of AI: Almost all have internet access (98.8%), more than half of the staff have access for professional purposes (51.1%), and 38.7% of companies report acquiring cloud computing services for use on the internet. However, in 2025 only 11.5% of companies (INE data) used AI technologies, a modest increase (+2.9 p. p.) in the adoption rate compared to the previous year, but still higher than what was seen in 2024 compared to 2023 (+0.7 p. p.). In part, this is explained by the fact that large companies are the biggest adopters of this technology (see second graph) and they represent a very small proportion (in number) of the national business landscape. It is worth noting that almost 70% of companies using AI do so by acquiring/contracting external, off-the-shelf solutions without directly involving their employees.

In the third graph, we see that the organisation of administrative and management processes is the main purpose of use, and the most used AI technology is written language analysis. In other words, the incorporation of AI in companies is still being done at a more basic level of technology, but this likely enables some immediate, measurable increase in productivity. We don't see this as a negative, as it could allow companies to demonstrate to management the cost-benefit ratio of the technology, potentially leading to a gradual increase in its use for more complex purposes. It may also reflect the R&D deficit within our business sector itself.

The digital transformation over the last few decades has profoundly altered the way citizens and businesses live, work and interact. In Portugal, digitalisation began with widespread internet access for individuals, evolved with the massive use of smartphones and consolidated with online services that have become part of everyday life: digital payments, streaming, social networks, etc. Within companies, the trajectory followed a similar path: computerisation of processes, adoption of management software, e-commerce, etc. Artificial Intelligence (AI) is the next step on this path. Despite already being 'silently' embedded in the routines of the so-called «connected population» (through integration into search engines and personalised recommendations, for example), what is the current level of AI adoption in Portugal (particularly by companies)? In this article we seek to clarify the answer to this question.

In terms of adoption by the population, there are large asymmetries depending on sociodemographic characteristics

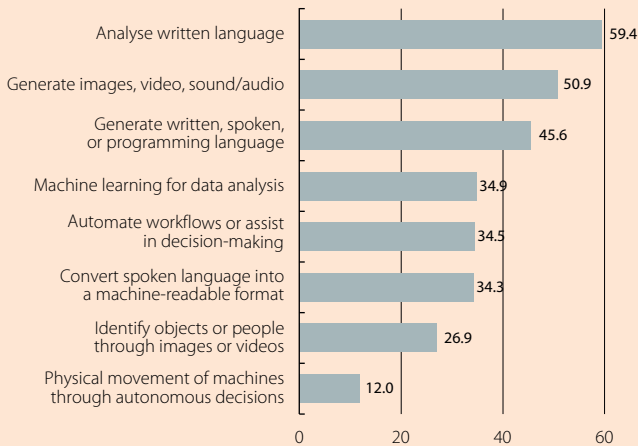
Companies using AI (2025) (%)



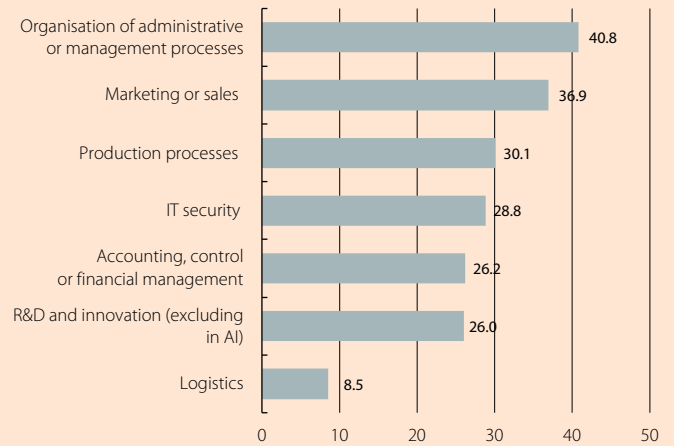
Source: BPI Research, based on data from INE (survey on the use of information and communication technologies in companies; 2025).

1. See the article «Artificial intelligence: challenges and opportunities for Europe» present in IM06/2024.

Companies using AI by technology type (2025)
(%)



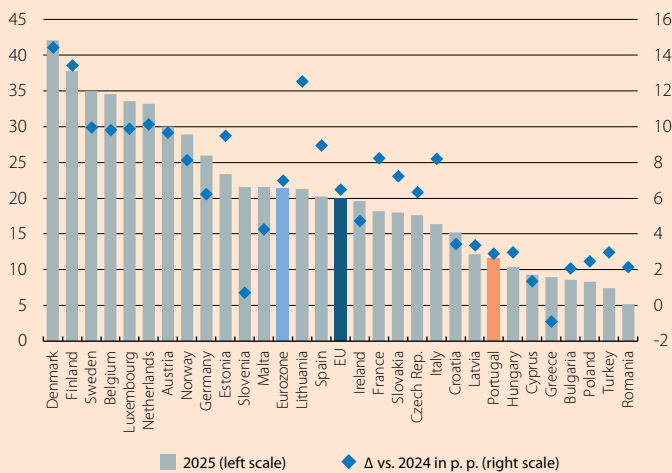
Companies using AI by type of intended use (2025)
(%)



Source: BPI Research, based on data from INE (survey on the use of information and communication technologies in companies; 2025).

But how does Portugal compare to other European countries in its companies' adoption of AI? That's what the last graph shows. As we can see, Portugal (11.5%) is in a weak position in the European context (EU = 19.9% and Eurozone = 21.3%), and the rate of adoption is also not extraordinary (only +2.9 p. p. compared to 2024). Countries that had a similar adoption rate to Portugal in 2024 (Spain, France, Lithuania) and even lower rates (Italy) accelerated their usage rate in the last year, clearly surpassing us. The only positive aspect to mention in this story is the fact that there is a growing number of companies that do not use the technology but are considering starting to do so (12.3%).

Percentage of companies using AI
(%)



Source: BPI Research based on data from Eurostat

Opportunities and obstacles to AI adoption in Portugal

Throughout this article, we have already touched on some advantages and obstacles to the adoption of this technology in the country. Among the advantages, we highlighted the good internet coverage across the territory and, among the obstacles, the digital skills of the population, which need to be improved. There is also a shortage of professionals with hybrid profiles (who combine knowledge of the technology with knowledge of companies' businesses), some resistance to change, and a lack of a culture of innovation.

Our language is an advantage. AI development is based on Large Language Models that are fed billions of words and phrases from the internet and other sources, learning

patterns, grammar, facts, and reasoning. Now, the fact that Portuguese is the language with the eighth-most content on the internet² constitutes a competitive advantage for training this type of model.

Another aspect to consider in order to lead and disseminate this technology is data centres, which are the infrastructure needed to train and run AI models. Reducing the physical distance between data centres and customers makes it possible to optimise response times and improve the user experience. Several investments in this type of infrastructure are known to be underway in the country, and the pipeline capacity is expanding.³ Finally, it is worth remembering that data centres require large amounts of electrical energy. While on the one hand we benefit from an energy mix in which around 70% of electricity is produced from renewable sources, on the other hand the promoters of these projects have already requested power from the national electricity grid in a volume greater than the country's installed production capacity, which may require investments in the grid.

2. According to OBDILCI - Observatory of Linguistic and Cultural Diversity in the Internet.

3. See, for example, the press release by Cushman & Wakefield «Expanding data centres in Portugal, a strategic market in the European landscape».

Governance is also part of this process. In addition to the launch of the «national data centre strategy» and a «National AI Agenda» announced at the last Web Summit,⁴ there are also legislative initiatives such as the recognition of the entire continental territory as a «High Demand Area», which is an exceptional procedure to reorganise, recover, or redistribute electrical capacity in response to requests for connection of new consumer installations (such as data centres).

The future cannot wait. As technology matures, familiarity with and trust in it will increase. It remains to be seen how to harness it for the common good.

Tiago Bejejo Correia

4. See the press release from the government [«Government presents strategy for artificial intelligence at the service of people at Web Summit»](#).

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