

MIR04

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
APRIL 2026



INTERNATIONAL ECONOMIES AND MARKETS

INTERNATIONAL ECONOMY

The oil market enters unknown territory

ECONOMIA INTERNACIONAL

*Goeconomic exposure and strategic
relevance of the Middle East*

Europe faces another energy crisis

*Energy tensions, inflation and monetary
policy in the euro area*

*How far has the EU progressed on the
Competitiveness Compass?*

ECONOMIA ESPANHOLA

*Spain in the face of the new energy shock:
a comparison with Europe*

*The crisis in Iran: how much could it affect
the Spanish economy?*

PORTUGUESE ECONOMY

*The impact of the conflict in Iran on the
Portuguese economy*

*War in the Middle East: The impact of an
energy shock on Portuguese companies*

Outlook for domestic tourism in 2026

*The performance of Portuguese industry:
sectoral dynamics, competitiveness and
reindustrialisation*

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

April 2026

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

BPI Research (DF-EEF)

www.bancobpi.pt/

<https://www.bancobpi.pt/grupo-bpi/estudos-mercados/research>

deef@bancobpi.pt

Paula Carvalho

Chief Economist

CaixaBank Research

www.caixabankresearch.com

research@caixabank.com

Enric Fernández

Chief Economist

José Ramón Díez

Head of International Economies and Financial Markets

Oriol Aspachs

Head of Spanish Economy

Sandra Jódar

Head of Strategic Planning

Adrià Morron Salmeron and

Oriol Carreras

Monthly Report coordinators

Date this issue was closed:

8 April 2026

INDEX

1 EDITORIAL

3 KEY POINTS OF THE MONTH

4 FORECASTS

7 FINANCIAL MARKET

10 *The oil market enters unknown territory*

14 INTERNATIONAL ECONOMY

16 *Goeconomic exposure and strategic relevance of the Middle East*

18 *Europe faces another energy crisis*

20 *Energy tensions, inflation and monetary policy in the euro area*

22 *How far has the EU progressed on the Competitiveness Compass?*

26 PORTUGUESE ECONOMY

28 *The impact of the conflict in Iran on the Portuguese economy*

30 *War in the Middle East: The impact of an energy shock on Portuguese companies*

33 *Outlook for domestic tourism in 2026*

35 *The performance of Portuguese industry: sectoral dynamics, competitiveness and reindustrialisation*

38 SPANISH ECONOMY

40 *Spain in the face of the new energy shock: a comparison with Europe*

42 *The crisis in Iran: how much could it affect the Spanish economy?*

Globofriction (chap. 26)

Globofriction captures one of the most characteristic features of the current era: simultaneous attraction and repulsion between economic blocs. On the one hand, they are competing for technological leadership, aware that the associated benefits go far beyond those currently gained by the companies leading innovation. Historically, countries that have led an economic revolution have ended up consolidating themselves as global powers in the following decades. On the other hand, economic blocs remain deeply intertwined by trade and financial interdependencies. This is the force of globalisation, the benefits of which are well known and remain very present.

There is no doubt that frictions have intensified in recent years as the disruptive potential of new technologies has become more evident and the ability to lead the new economic cycle is no longer in the hands of a single power, namely the US. The increase in trade barriers on a global scale is probably one of the phenomena that best illustrates this. Although it may seem like a recent phenomenon, it is not. The number of measures against trade liberalisation began to grow more than a decade ago, during the financial crisis, and since then it has continued to increase, spanning governments of all kinds until rendering the old international order and the institutions that supported it obsolete. However, the diplomacy with which some have acted stands in stark contrast to the brazenness and disdain shown by others.

The economic and geopolitical uncertainty indices also clearly reflect the consequences of these frictions between powers. Both have shown an increasing trend for some years now, with sharp rises associated with each episode of tension. However, when viewed in perspective, these episodes tend to be relatively brief. The threats intensify until the deep ties that still unite us become evident. So far, the force of globalisation has helped to ease frictions. In 2025, the escalation of the trade conflict between the US and China ended when their mutual dependency became evident: one needs the other's critical minerals; the other needs a large market to export to in order to continue growing. This year, we expect the war in the Middle East to come to an end after it has been recognised that everyone needs goods to flow freely through the Strait of Hormuz.

The struggle to lead the new economy – or at least not to fall excessively behind – has also resulted in a significant deterioration of public finances. The pressure to implement stimulus and economic transformation policies has continued to rise, and with it so has the public debt of many leading countries, bringing it to historically high levels. Moreover, in several cases, there are no clear signs of a correction in the coming years. In the monetary sphere, political pressure on some key central banks has also intensified, although for the moment their independence remains intact.

Once again, globalisation – in this case financial – has probably been crucial in preventing greater harm. When temptations have arisen to implement openly irresponsible fiscal policies or to question the independence of central banks, the reaction of international financial markets has been swift and, at times, forceful. We only have to recall the lesson learned by Liz Truss, who lasted not even two months in office.

As long as the battle for leadership in the new economy remains ongoing, frictions between the major economic powers are likely to recur. The agreement between the US and China is valid for one year; the US threat to annex Greenland remains latent, and the chapter on Cuba could be reopened at any moment. *Globofriction* will undoubtedly have new episodes. Spoiler: all the indicators suggest that the force of globalisation will continue to impose its limits. By the way, the impetus being given by the EU – that space of economic and democratic freedom which often generates more scepticism than enthusiasm, which rarely features in predictions to lead the new economy, but which we are fortunate to live in – to free trade agreements is particularly relevant in this context.

Chronology

<p>MARCH 2026</p> <p>11 The International Energy Agency agrees to release 400 million barrels of strategic reserves to mitigate the impact of the war in the Middle East.</p>	<p>FEBRUARY 2026</p> <p>20 The US Supreme Court invalidates the tariffs announced under the IEEPA.</p> <p>28 The US and Israel launch a coordinated attack against Iran in which Ali Khamenei is killed.</p>
<p>JANUARY 2026</p> <p>14 2025 was the third warmest year on record (1940-2025) and 1.5 °C above the pre-industrial average (1850-1900) according to the EU's Copernicus programme.</p> <p>27 The EU and India conclude negotiations for a Free Trade Agreement.</p>	<p>DECEMBER 2025</p> <p>10 The Fed cuts rates by 25 bps, placing them in the 3.50%-3.75% range.</p> <p>18 The Bank of England cuts rates by 25 bps, to 3.75%.</p> <p>19 The Bank of Japan raises rates by 25 bps, to 0.75%.</p>
<p>NOVEMBER 2025</p> <p>12 End to the longest government shutdown in US history.</p>	<p>OCTOBER 2025</p> <p>29 The Fed lowers the fed funds rate by 25 bps to the 3.75%-4.00% range, its second cut of the year, and announces an end to the balance sheet reduction process.</p>

Agenda

<p>APRIL 2026</p> <p>1 Spain: household savings rate (Q4).</p> <p>6 Spain: registration with Social Security and registered unemployment (March).</p> <p>9 Portugal: turnover in industry (February). Portugal: international trade (February).</p> <p>10 Spain: financial accounts (Q4).</p> <p>17 China: GDP (Q1).</p> <p>24 Spain: loans, deposits and NPL ratio (February).</p> <p>28 Spain: labour force survey (Q1). Portugal: bank credit portfolio (March).</p> <p>28-29 Federal Open Market Committee meeting.</p> <p>29 Spain: CPI flash estimate (April). Portugal: employment and unemployment (March). Euro area: economic sentiment indicator (April).</p> <p>30 Spain: GDP flash estimate (Q1). Portugal: GDP flash estimate (Q1). Portugal: CPI flash estimate (April). Governing Council of the European Central Bank meeting. Euro area: GDP (Q1). Euro area: CPI flash estimate (April). US: GDP (Q1).</p>	<p>MAY 2026</p> <p>4 Portugal: industrial production (March).</p> <p>5 Spain: registration with Social Security and registered unemployment (April).</p> <p>6 Portugal: employment and unemployment (Q1).</p> <p>8 Spain: industrial production index (March).</p> <p>15 Portugal: average monthly gross salary per worker (Q1). Portugal: DBRS rating. Japan: GDP (Q1).</p> <p>19 Spain: foreign trade (March).</p> <p>25 Spain: loans, deposits and NPL ratio (March).</p> <p>28 Euro area: economic sentiment indicator (May).</p> <p>29 Spain: CPI flash estimate (May). Spain: DBRS rating. Portugal: GDP breakdown (Q1). Portugal: CPI flash estimate (May).</p>
--	--

Geopolitical tensions and macroeconomic implications

Macroeconomic information for the first quarter remains limited, particularly regarding the actual performance. Despite this, confidence indicators – particularly surveys directed at businesses – show a significant increase in the level of uncertainty associated with the prolongation of the conflict in the Middle East. As for prices the March inflation rate incorporated pressures stemming from fuel price developments, registering an increase of 0.5 pp compared to February, reaching 2.7%.

The prolonged nature of the conflict, coupled with the destruction of critical infrastructure for the transport, extraction, and storage of oil and natural gas, introduces adverse revisions to global macroeconomic scenarios. Although Portugal is currently showing greater resilience compared to previous crises, the adverse impact remains inevitable. In articles in this publication, we offer a detailed analysis of the main channels through which these tensions are transmitted, both at the aggregate level of the economy and at the business sector level, highlighting the subsectors most exposed to increases in energy costs, especially electricity, diesel, and petrol.

Our central scenario for the Portuguese economy will be reviewed in May, when visibility on the current situation is expected to improve. However, some institutions have already begun adjusting their scenarios, notably the Banco de Portugal, which reduced its GDP growth projection for 2026 by 0.5 pp (to 1.8%) and revised its inflation forecast upwards by 0.7 pp (to 2.8%) compared to the December Economic Bulletin. Despite the futures markets for energy commodities continuing to price in a short-term conflict, a prolonged conflict will amplify the adverse effects. In particular, it puts upward pressure on average crude oil and natural gas prices – in 2024, together these accounted for about 60% of primary energy consumed in Portugal – and delays the convergence to levels more compatible with a situation of surplus supply, which is currently unlikely.

The economic impact tends to worsen the longer the shock goes on. In the short term, there are losses in real household income and increased costs for businesses, with contractionary effects on consumption and investment. Over the medium term, the increase in uncertainty, greater risk aversion in financial markets, and the need to adjust

monetary policy to anchor inflation expectations intensify these effects. The risk of a stagflation scenario increases proportionally with the persistence of geopolitical disruption. According to Banco de Portugal calculations, an additional 10% increase in the price of crude oil translates into a reduction of approximately 0.05 pp in growth and an increase of 0.25 pp in inflation in the first year. It should be noted that between the end of February and the beginning of April, Brent futures for 2026 increased by more than 30%.

The most recent data still only partially reflect the impacts of the storms in January and February and only marginally shows the effects of the recent escalation of the conflict involving the US/Israel and Iran. However, surveys of companies are already showing some deterioration, especially in the more energy-intensive sectors. The components related to price expectations were the first to react, rising above the levels observed in January/February 2026 and in the same period of the previous year, although still below the highs of 2022/23. Industry, commerce, and services show more negative expectations regarding price developments over the next three months, and in the case of services, a deterioration in activity and employment expectations is also observed.

In summary, we can expect the current geopolitical framework to imply downward revisions to growth, upward revisions to inflation, and more restrictive financial conditions (at the time of writing, increases of 75 basis points in the key interest rates set by the ECB until the end of the year were priced in). Despite this, the Portuguese economy is benefiting from favourable starting conditions: stronger budgets for households and businesses, high savings levels, low debt ratios, and a fiscal position that still allows for some discretionary room for manoeuvre. These characteristics mitigate the potential macroeconomic impact. Nevertheless, significant vulnerabilities persist – notably the high level of energy dependence on imports, which remains around 64% (compared with the EU average of 57%). If the shock persists, it is plausible that the energy deficit will once again exceed 4% of GDP, approaching the levels observed in 2023, which would put pressure on the current budget and the country's net external position once again.

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)	36.1	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	3.3	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	0.9	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	3.4	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	1.1	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	-2.5	-2.1	-2.1

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

Forecasts

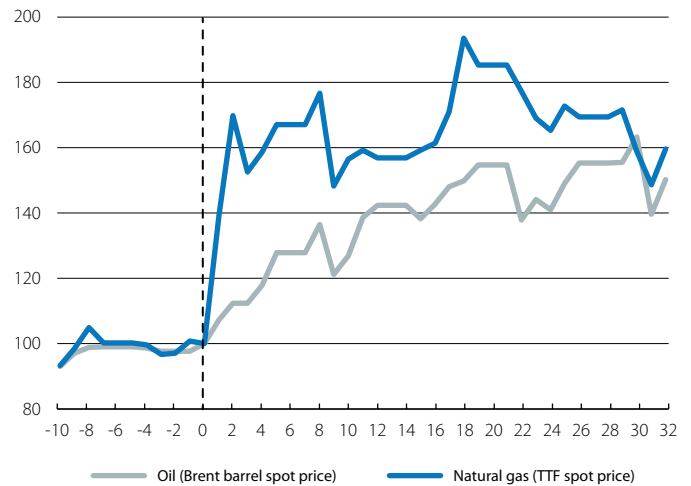
The Middle East leaves a «furious» mark on financial markets

Geopolitical uncertainty drives markets. March was marked by a notable increase in volatility in the global financial markets, with the conflict in the Middle East as the main catalyst. The war triggered significant risk aversion, leading to stock market declines, spikes in volatility, a flight to safe-haven assets, and a sharp tightening in energy and other commodity prices. This increase in energy prices, in turn, led to a rise in short-term inflation expectations, resulting in a significant adjustment of monetary policy expectations and an increase in sovereign interest rates. In a context of high uncertainty regarding the duration and intensity of the conflict, markets reacted very sensitively to a constant flow of news such as political statements, episodes of military escalation (Israeli attacks on energy facilities and the involvement of regional players like the Houthis) and fluctuations in the rhetoric of international leaders. The overall tone of markets was one of fragility and unstable sentiment. As a reflection of the persistence of geopolitical risks and uncertainty regarding the impacts of the conflict, at the beginning of April markets experienced sessions with recoveries (supported by expectations of a de-escalation and the announcement of a truce) and new episodes of risk aversion (amid fears of further military escalation).

Energy prices surge. The most immediate transmission channel of the conflict to financial markets has been through energy commodities. The Middle East is a critical focal point for both the production and the global transportation of hydrocarbons, with the Strait of Hormuz playing a particularly key role, as approximately 20% of the world's crude oil and natural gas pass through it, creating significant tensions regarding supply expectations. In this context, the price of Brent surged by over 60% since the start of the conflict, at times reaching close to 120 dollars per barrel, the highest level since 2022 in the aftermath of the invasion of Ukraine. TTF gas in Europe, also recorded a significant increase of over 70%, reaching peaks slightly above 60 euros/MWh during moments of greatest tension. At the end of March, futures markets continued to price in a scenario of structurally higher prices than before the conflict, with year-end estimates close to 80 dollars per barrel for Brent and 50 euros/MWh for gas, well above previous levels (68 dollars and 32 euros/MWh, respectively).

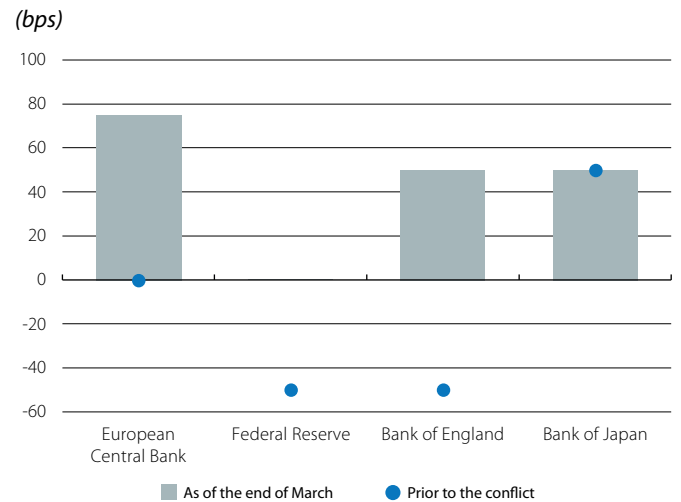
The increase in energy costs also affected derivative products. In the US, the price of gasoline rose to 4 dollars per gallon, an increase of nearly 35% in just one month. Other derivatives such as fertilisers, especially urea from the Middle East, also recorded sharp increases of up to 55%, which could have additional implications for agricultural prices in the coming quarters. Among other commodities, the tension was more moderate. Industrial metals, such as aluminium, recorded more contained increases (of around 10%), while agricultural commodities rose by less than 5%. Precious metals showed weaker performance, with declines of around 10%, reflecting both the strengthening the dollar and a slight correction in gold and silver following last year's strong rally.

Commodities
Index (100 = day 0 of the conflict)



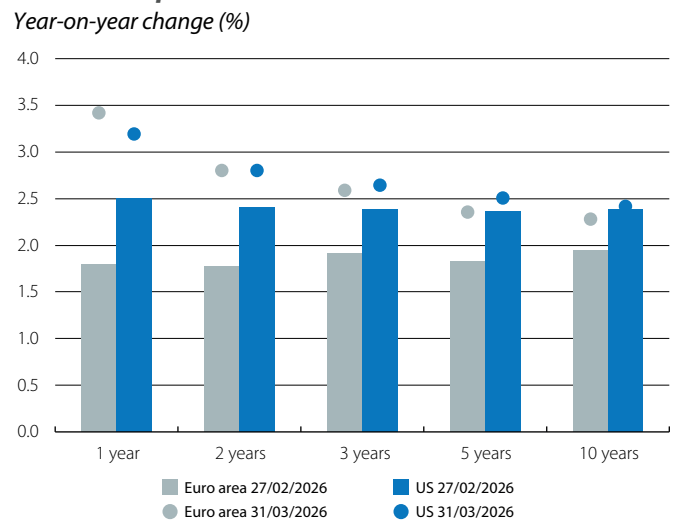
Source: BPI Research, based on data from Bloomberg.

Market-implied changes in policy interest rates for 2026



Source: BPI Research, based on data from Bloomberg.

Inflation expectations



Note: Inflation expectations priced in through inflation swaps.

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

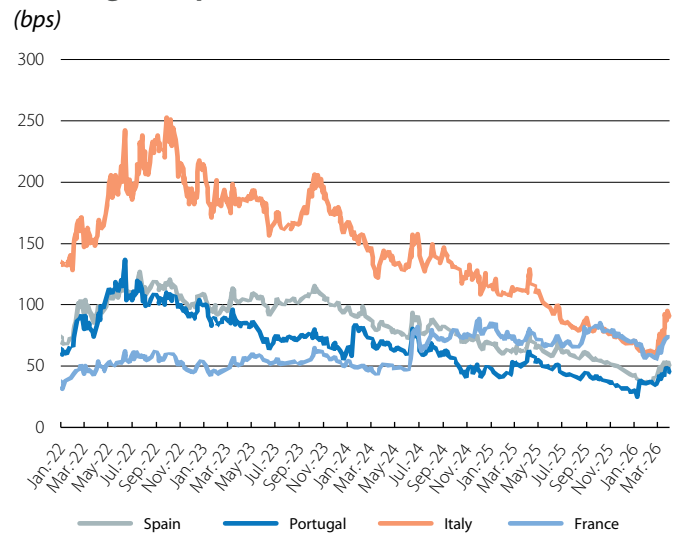
Markets anticipate more restrictive central banks. The ECB kept interest rates unchanged at 2.00% at its March meeting, but explicitly acknowledged the inflationary risks arising from increased energy costs resulting with the conflict. In this regard, the institution adopted a more hawkish tone and indicated the possibility of tightening the monetary policy stance if a significant pass-through of energy costs to the overall price basket is observed. The ECB emphasised that it is starting from a neutral stance, which gives it room for manoeuvre, and reiterated its data-dependent approach. As a result, by the end of March, markets began to anticipate three rate hikes throughout 2026 (depo rate at 2.75%) compared to the expectation of stability from the beginning of the year. This adjustment was reflected in interbank interest rates, with the 12-month Euribor rising by some 60 basis points to 2.9%, the highest since September 2024.

In the US, the Fed adopted a more cautious stance towards the conflict. While acknowledging the risks associated with rising energy costs, it considered premature to assess their macroeconomic impact and chose to focus its communication on the balance of domestic risks. In particular, the Fed expressed concern about the trend in goods inflation, affected by tariffs, and signs of weakness in the labour market. Chair Jerome Powell indicated that, in principle, they would be willing to «look through» a temporary energy shock, provided that long-term inflation expectations remain well anchored. However, the overall tone was cautious and he avoided committing to a specific path for rates. Markets made a hawkish reading of these messages and postponed the next rate cut to mid-2027, once the impact of the energy shock has dissipated, thus anticipating a Fed in «pause» mode during 2026. The shift in expectations extended to other economies. In the United Kingdom, the change was particularly notable and investors shifted from anticipating two rate cuts to two and three hikes for 2026. In Japan, meanwhile, expectations of at least two rate hikes were reinforced.

Sovereign rates reflect inflation risks and the shift in monetary policy expectations. Sovereign debt markets clearly reflected the combined impact of rising energy costs and the tightening of monetary policy expectations. In general terms, interest rates rose significantly, with particularly pronounced movements at the short end of the curves. In Germany and the US, short-term rates rose by approximately 60 and 40 basis points, respectively, during March. Euro area peripheral risk premia periphery also tightened, especially in Italy (given the country's greater energy dependence), but their levels nevertheless remained contained, particularly in Spain and Portugal (by end of March stood at 50 bps and 45 bps, respectively). Of particular note was the rebound in long-term US rates (also around 40 bps): while long-term inflation expectations have remained relatively anchored, the increase in nominal rates is largely explained by a rise in real rates. This suggests that investors are demanding higher returns to compensate for future uncertainty, whether due to increased inflationary volatility or a world of greater uncertainty, amid a backdrop of deteriorating public finances.

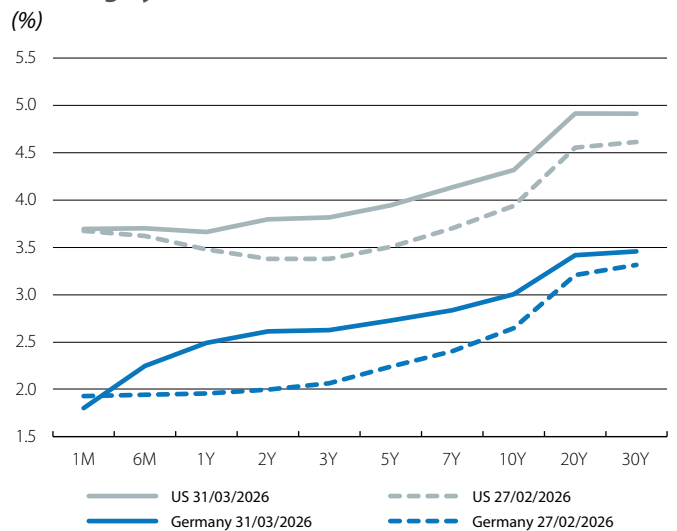
Only the energy sector escapes stock market declines. The increase in geopolitical uncertainty and the tightening of financial conditions resulted in widespread declines in global stock markets. Advanced and emerging economies accumulated declines of 10% by the end of March, and most indices

Sovereign risk premiums



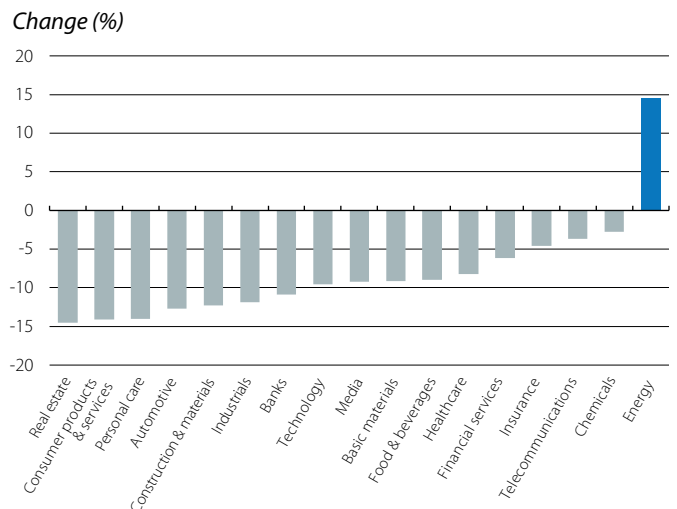
Source: BPI Research, based on data from Bloomberg.

Sovereign yield curves



Source: BPI Research, based on data from Bloomberg.

Eurostoxx 600: sectors



Note: Change between 27/02/2026 and 31/03/2026. Source: BPI Research, based on data from Bloomberg.

accumulate losses year to date. The declines were particularly pronounced in Asia, given its high energy dependence on the Middle East. At the sectoral level, almost all sectors recorded setbacks, with notable declines in more cyclical sectors such as industry, tourism and real estate. Other sectors showed relative resilience, including defensive sectors such as utilities, as well as the US tech sector. The major tech firms, which were already experiencing a period of correction prior to the conflict due to high valuations and doubts around the profitability of their massive investments in AI, showed a relatively more robust performance compared to other sectors, supported by their lower direct exposure to the energy cycle. The only sector with positive performance was the energy sector, due to the expectation of greater profits resulting from the rebound in commodity prices.

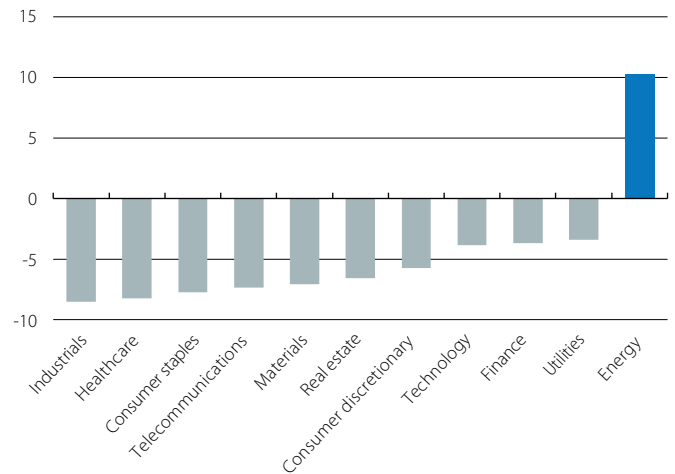
The dollar regains some of its appeal as a safe-haven asset.

In currency markets, the dollar was the main beneficiary of risk aversion sentiment. After weakening for most of 2025, the US dollar regained ground against its main counterparts, driven by its safe-haven status and the relatively lower exposure of the US economy to the conflict. Within the G-10, the pound sterling and the Japanese yen showed relatively better performance, with moderate depreciations, while the euro traded around 1.15 during the month, down from the pre-conflict levels of 1.18. Currencies such as the Swedish krona recorded sharper declines. In Asia, the currencies most exposed and dependent on Gulf energy flows, such as the South Korean won or the Taiwanese dollar, depreciated by more than 4%, while the Chinese renminbi remained relatively stable (China accumulated significant crude oil reserves and is better positioned in terms of supply in the current context). In Latin America, divergences were observed depending on countries' exposure to commodities. The Colombian peso, supported by its status as a crude oil exporter, strengthened, while other currencies such as the Chilean peso registered declines.

High volatility in an uncertain environment. Overall, March was characterised by a highly volatile environment, with indicators such as the VIX exceeding 30 points at the moments of greatest tension – levels not seen since «Liberation Day» in April 2025. In the coming months, the evolution of the conflict will continue to be the main driver of financial markets. In particular, the duration, intensity and aftermath of the tensions will be key for assessing the impact on energy and its transmission to the rest of prices, the global economy and, therefore, the path of monetary policy and financial conditions. Meanwhile, markets will continue to navigate an environment of high uncertainty that increases the propensity to experience episodes of volatility.

S&P 500: sectors

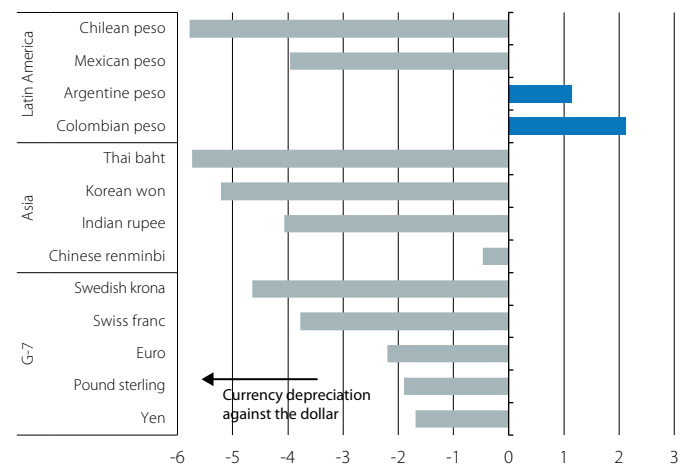
Change (%)



Note: Change between 27/02/2026 and 31/03/2026. Source: BPI Research, based on data from Bloomberg.

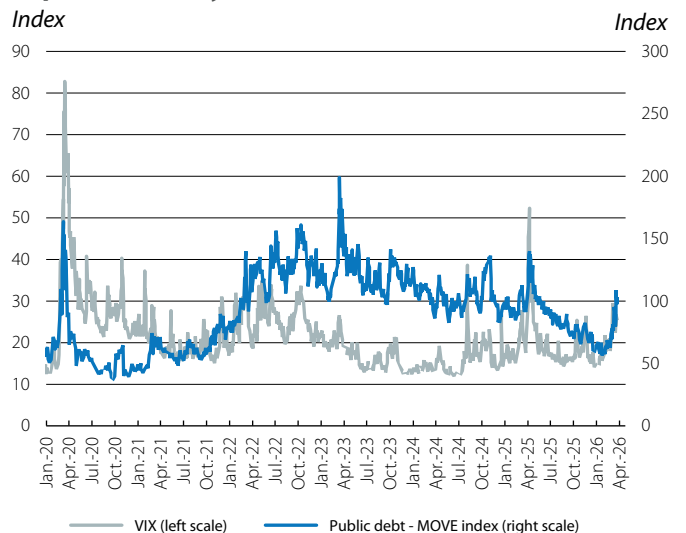
Currencies against the US dollar

Change (%)



Note: Change between 27/02/2026 and 31/03/2026. Source: BPI Research, based on data from Bloomberg.

Implied volatility



Source: BPI Research, based on data from Bloomberg.

The oil market enters unknown territory

The conflict now widely referred to as the Third Gulf War has caused the largest disruption on record in the global energy market. The main point of tension is the Strait of Hormuz, a key maritime route through which around 20% of global oil and liquefied natural gas (LNG) passes. With the strait effectively closed, a large share of the region's energy production is blocked. Energy markets reflected this scenario: the price of oil hovered around 100 dollars per barrel in the final weeks of March, driven by supply disruptions, attacks on tankers and damage to critical energy infrastructure.

Pre-conflict situation: solid fundamentals but with risks

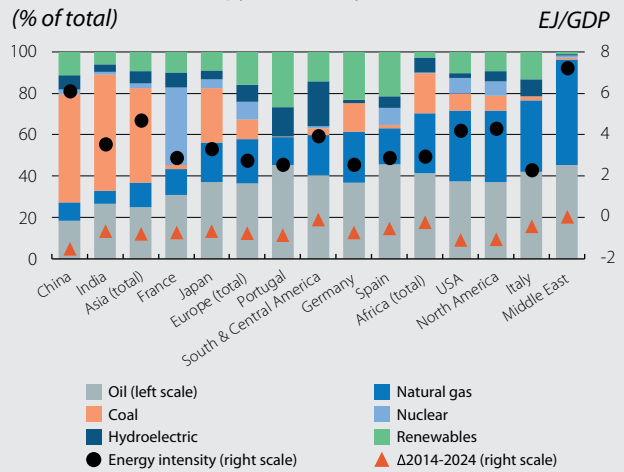
Up until the outbreak of the conflict, the market was in a comfortable position, with supply growth outpacing that of demand. A surplus of approximately 1.5-2.0 million barrels per day (mb/d) was driven by increased production in non-OPEC countries, the accelerated reversal of OPEC+ cuts, and demand in a moderate growth phase.¹ On the other hand, global oil inventories (crude and derivatives) stood at around 8.2 billion barrels, equivalent to approximately 80 days of global consumption, marking the highest level in five years and above the historical average.² All this pointed to a relatively contained underlying Brent price (close to USD 60 per barrel), to which a risk premium was added, linked to the build-up of geopolitical risks and conflicts in regions with the potential to disrupt market stability.

Hormuz, a critical strait: a vital artery for the global economy

Oil traffic passing through the Strait of Hormuz historically stood at around 20 mb/d. According to data on daily flows through the strait, a drop in traffic of over 90% has been observed since the start of the conflict. In this context, there are alternative routes through which Gulf countries can redirect part of the oil flows,³ but even with these alternatives the closure of Hormuz implies a loss of supply of some 15 mb/d.

1. The International Energy Agency (IEA) anticipated an average growth in supply of 2.4 mb/d in 2026 (vs. 3.1 mb/d in 2025), compared to a demand growth of 0.9 mb/d in 2026 (vs. 0.8 mb/d in 2025). See the «Oil Market Report» from February 2026.
 2. Around half of these are located in OECD countries, of which 1.25 billion barrels are held by governments (emergency reserves) and another 600 million barrels are industrial reserves maintained under government obligations.
 3. The East-West pipeline, which connects the oil fields in the east of the Arabian Peninsula to the port of Yanbu on the Red Sea, has a capacity to transport up to 7 mb/d (vs. utilisation of 1.5-2 mb/d in 2025). The Abu Dhabi pipeline, which connects the UAE's refineries with the port of Fujairah in the Gulf of Oman, has limited re-routing capacity due to its high level of utilisation and vulnerability to Iranian attacks.

Global: primary energy consumption sources and energy intensity



Source: BPI Research, based on data from the Energy Institute.

Some factors that could mitigate this supply shock have already been set in motion. The IEA has announced the release of 400 million barrels of strategic reserves, although there is uncertainty regarding the release rate, which could be between 1 and 3 mb/d. In addition, non-OECD countries may release some of their strategic reserves and sanctioned crude oil could enter the market, contributing an additional 2-3 mb/d.⁴ Adjusting for the release of reserves, in the short term the net impact of the closure of the Strait of Hormuz is estimated to be between 8 and 12 mb/d, which would mean the loss of some 300 million barrels of oil in one month of conflict. These levels are significant, but manageable in scenarios with a brief conflict. Once the conflict is over, it is uncertain how long it will take for the flows passing through Hormuz to return to their historical levels. In particular, the deterioration of security conditions in the strait or damage to logistical and productive infrastructure in the region could result in it taking longer for trade flows to be re-established.

To the extent that the conflict drags on and imbalances between oil supply and demand accumulate, the likelihood of scenarios in which prices could be substantially higher than they were in March also increases, in an attempt to moderate a highly inelastic demand.⁵ Additionally, the recovery of pre-conflict

4. In particular, it is estimated that China holds strategic reserves exceeding 1 billion barrels (equivalent to around 90 days of domestic consumption), although it has not yet announced the release of those reserves. In recent years, there has been an accumulation of sanctioned Russian and Iranian crude oil stored on ships. It is estimated that there are 100-150 million barrels of sanctioned Iranian crude oil (out of a total of almost 300 million).
 5. For reference, in March 2022, the price of Brent crude oil approached 140 dollars per barrel.

production levels could require longer timeframes and increase the risks of a structural deterioration in productive capacity.

A global dependency on the Gulf, but with variable geography

Despite the global nature of the shock, its impact will be asymmetric. On the one hand, the direct dependency on energy flows from the Gulf varies significantly by country. 90% is destined for Asia and approximately half of the crude oil imported by India and China originates from the region,⁶ while this figure exceeds 70% in the case of South Korea, and 80% for Japan. By way of comparison, in the case of the EU, crude oil imports from the Gulf account for between 10% and 20% of the total.⁷

On the other hand, the energy mix varies significantly between countries, as does their energy intensity, that is, the amount of energy required for economic activity. At one end of the spectrum are the countries of the Middle East themselves, with a very high energy intensity and a primary energy consumption derived almost exclusively from oil and gas. Asian emerging markets also exhibit high energy intensity, especially China, but with intensive coal consumption. Asian emerging markets also tend to exhibit high energy intensity, especially China, where coal consumption remains particularly intensive. Among advanced economies, which generally display lower energy intensity, France and Japan stand out for their relatively lower dependence on oil and gas, while the United States and Italy's energy mixes remain heavily reliant on fossil fuels.⁸

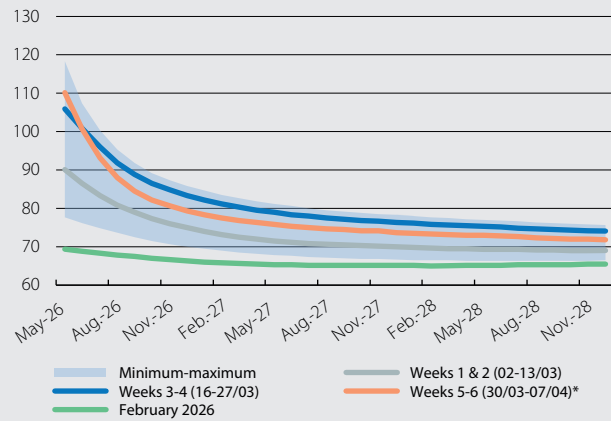
Duration of the conflict: a key (known) unknown

The economic impact of the conflict will be transmitted through various channels, notably energy, international trade, financial conditions, and uncertainty, the intensity

6. These two countries are the largest importers of crude oil from Russia, which accounts for around 35% of India's crude oil imports and 20% of China's.
 7. In the case of natural gas, the situation is somewhat different. Despite Qatar being the largest global exporter of LNG, the observed dependencies on flows from the region are somewhat less pronounced, and import volumes are also significantly lower. Also, about 20% of the LNG imported by China comes from the region, although these imports are far inferior to those delivered via pipelines. Japan and India also show limited dependence on the region, while Pakistan and Korea show somewhat higher dependencies. Other major exporters of natural gas to Asia include Russia, Australia, the US and Malaysia. In the case of the EU, around 5% of LNG imports come from the Gulf. On the other hand, unlike the case of oil, the cost of storing LNG results in substantially lower natural gas inventories, which increases the vulnerability of economies more dependent on natural gas to supply disruptions and price fluctuations.
 8. For further details on the sectoral impact and monetary policy implications in the euro area, see the Focuses «Goeconomic exposure and strategic relevance of the Middle East» and «Energy tensions, inflation and monetary policy in the euro area» in this same report.

Oil: futures prices

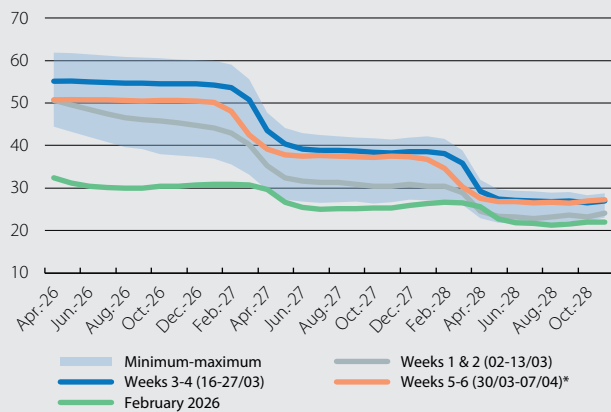
(Dollars per barrel)



Note: * Using market closing data up to 7 April.
 Source: BPI Research, based on data from Bloomberg.

Natural gas: futures prices

(Euros per MWh)



Note: * Using market closing data up to 7 April.
 Source: BPI Research, based on data from Bloomberg.

and scope of which will depend on the duration of the conflict and the credibility of a potential ceasefire.

Some of the factors that could prolong the conflict include the ability of the Iranian leadership to maintain a *status quo* in the country and successfully resort to asymmetric warfare strategies, the ambiguity of the US and Israeli military objectives, the risk of a regional escalation, and the difficulty in achieving a ceasefire if maximalist conditions are imposed. Conversely, the US electoral calendar, the weakening of Iranian leadership, and damage to infrastructure increase the political and economic costs of prolonging the hostilities. In any case, it can be expected that, even under an early ceasefire, the medium-term scenario will remain marked by significant risks of renewed tensions.

Faced with a considerable range of known uncertainties (or *known unknowns*), such as the duration of the conflict or the extent of the damage to energy infrastructure, the market response during the first month of conflict

could be explained by different layers of uncertainty.⁹ On the one hand, this could be a certain intuition (or an *unknown known*) that at least one of the parties will not be willing to engage in a prolonged conflict, given the rapidly rising economic costs of a disruption of this magnitude. By the end of March, with Brent futures trading at around 80 dollars one year ahead (up from 65 dollars in February) and natural gas futures at around 50 euros (versus 30 euros in February), the markets seem to be anticipating a relatively short-lived conflict, with limited structural damage and a stable ceasefire, along with a steady recovery of trade flows through Hormuz. On the other hand, the environment of elevated geopolitical risk and heightened market volatility points to a risk distribution with a heavy negative tail, skewed by an ample set of *unknown unknowns*.

9. The Rumsfeld Matrix, popularised by the former US Secretary of Defense, Donald Rumsfeld, in a press conference in 2002 during the Iraq War, is a framework for analysing information and uncertainty in strategic decision-making. It distinguishes four types of knowledge. Known knowns are facts that we know and understand well, and they form the basis on which decisions are made. Known unknowns are aspects we know exist, but about which information is lacking. Unknown knowns are pieces of knowledge we possess but do not recognise or consciously use, such as accumulated experience or intuition. Finally, unknown unknowns are factors we are unaware of and cannot anticipate, which often involve the greatest risks, such as extreme events (or «black swans») and unidentified risks.

Interest rates (%)

	31-March	28-February	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.15	0	0	-50
3-month Euribor	2.08	2.01	7	5	-25
1-year Euribor	2.87	2.22	65	63	55
1-year government bonds (Germany)	2.51	1.97	54	49	51
2-year government bonds (Germany)	2.62	2.00	62	49	60
10-year government bonds (Germany)	3.00	2.64	36	15	28
10-year government bonds (Spain)	3.51	3.06	44	22	14
10-year government bonds (Portugal)	3.45	3.00	45	30	21
US					
Fed funds (lower limit)	3.50	3.50	0	0	-75
3-month SOFR	3.68	3.67	2	3	-62
1-year government bonds	3.65	3.47	18	18	-38
2-year government bonds	3.79	3.37	42	32	-12
10-year government bonds	4.32	3.94	38	15	7

Spreads corporate bonds (bps)

	31-March	28-February	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	72	55	16	21.0	9.4
Itraxx Financials Senior	78	59	19	23.4	10.0
Itraxx Subordinated Financials	134	101	32	40.6	14.8

Exchange rates

	31-March	28-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.155	1.181	-2.2	-1.6	6.7
EUR/JPY (yen per euro)	183.380	184.360	-0.5	-0.3	13.0
EUR/GBP (pounds per euro)	0.873	0.876	-0.3	0.2	4.4
USD/JPY (yen per dollar)	158.720	156.050	1.7	1.3	5.9

Commodities

	31-March	28-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
Bloomberg Commodity Index	135.2	121.7	11.1	23.3	27.8
Brent (\$/barrel)	118.4	72.5	63.3	94.5	60.7
Gold (\$/ounce)	4,668.1	5,278.9	-11.6	8.1	51.3

Equity

	31-March	28-February	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,528.5	6,878.9	-5.1	-4.6	17.0
Eurostoxx 50 (euro area)	5,569.7	6,138.4	-9.3	-3.8	4.5
Ibex 35 (Spain)	17,049.6	18,360.8	-7.1	-1.5	28.1
PSI 20 (Portugal)	9,131.6	9,276.1	-1.6	10.5	31.4
Nikkei 225 (Japan)	51,063.7	58,850.3	-13.2	1.4	37.6
MSCI Emerging	1,397.2	1,610.7	-13.3	-0.5	24.7

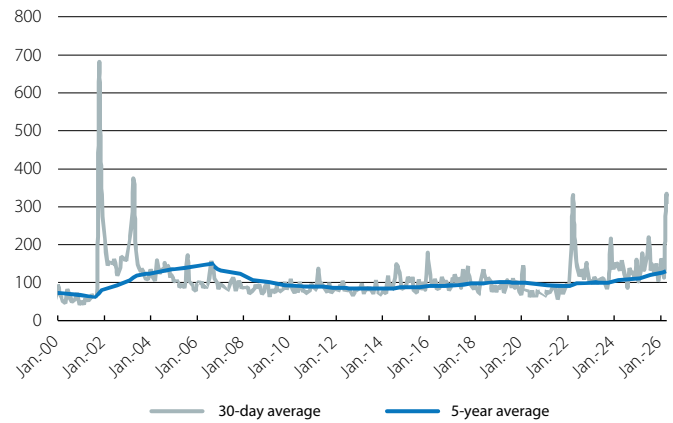
An uncertain energy shock hangs over the global economy

A new global shock, with coordinates yet to be defined. Faced with the largest oil shock in decades, the global economy is bracing for the consequences of the closure of the Strait of Hormuz, through which around 20% of the oil and LNG produced and consumed globally flows. Throughout March, the conflict was characterised by heightened volatility in the financial markets, most notably in energy markets (see the Financial Markets - Economic Outlook section). Despite the uncertainty over two key variables – namely, the duration of the conflict and the extent of damage to key infrastructure – the price of Brent was close to 100 dollars per barrel (around 70 dollars in February), while futures prices for delivery through to the year end exceeded 80 dollars. On the gas side, prices were above 50 euros per MWh in contracts until next winter. These prices are compatible with scenarios involving a short-lived conflict and limited damage to productive capacity in the Gulf region, albeit with a long tail of downside risks.

The March data point to a sharper deterioration in services. The euro area PMIs show mixed patterns in March. The services index fell to 50.2 points (vs. 51.9 previously) and that of manufacturing rose to 51.6 points (vs. 50.8 previously). The price subcomponents indicate a rise in input costs that is not yet being passed on to final prices. By country, France was in contractionary territory (48.8 points vs. 49.9 previously), while Germany remained in the expansionary zone, although it also shows a significant decline (51.9 points vs. 53.2 previously). The main German business confidence indices confirm the deterioration in sentiment in March. The Ifo fell by 2.0 points (to 86.4, below the 100-point benchmark), due to the sharp decline in the expectation component, while the ZEW index shows that the percentage of respondents anticipating a deterioration in activity rose sharply this month. In the US, the services PMI also recorded a decline (49.8 points vs. 51.7 previously) and the manufacturing PMI rebounded (52.3 points vs. 51.6 previously) thanks to increased dynamism in production and new orders. The US PMI also indicates a sharp rise in production costs and a rapid pass-through to final prices, with this subcomponent recording its most pronounced increase since 2022.

The US economy comes back down to Earth. The second estimate of the Q4 2025 GDP figure placed its quarter-on-quarter growth at 0.2%, compared to 0.4% in the first estimate, leaving its average growth in 2025 at 2.1% (vs. the previous 2.2%). In particular, the quarter-on-quarter growth of public consumption was revised downwards to -1.5% (-0.2 pps), reflecting that the federal government shutdown had a greater impact than expected. Private consumption and investment also experienced slight downward revisions, but maintained dynamic growth rates. On the other hand, the sharp increase in employment in March (+178,000 jobs) is mainly explained by temporary effects, such as the reversal of strike effects and milder weather, rather than by any structural upturn in the

Global: geopolitical risk Index (100 = 1985-2019 average)

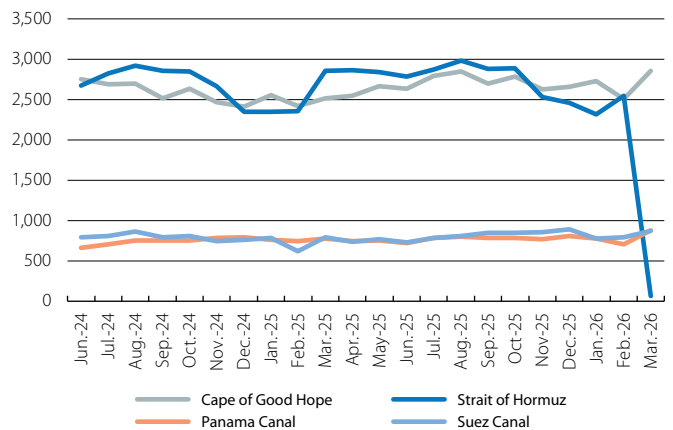


Note: The index is constructed from newspaper articles by searching for keywords related to geopolitical risks in the electronic archives of 10 newspapers published in English. A higher value for the index indicates an increase in risk.

Source: BPI Research, based on data from D. Caldara and M. Iacoviello (2022), «Measuring Geopolitical Risk» (downloaded from <https://www.matteoiacoviello.com/gpr.htm> on 07/04/2026).

Global: shipping traffic through the main maritime chokepoints

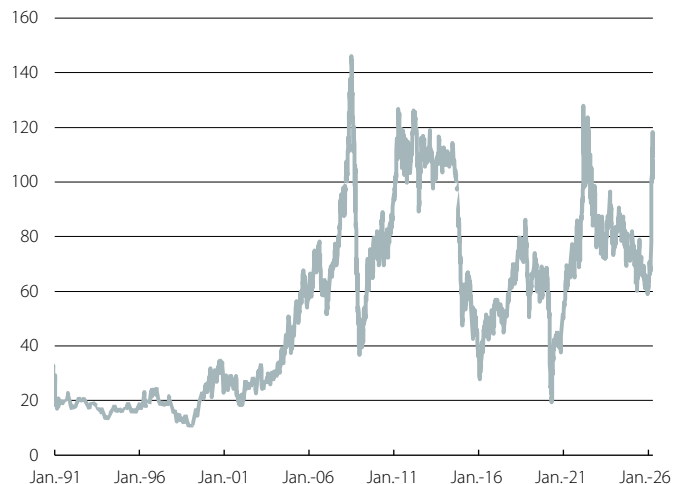
Number of ships



Note: The chart uses monthly shipping traffic data through four major choke points for maritime traffic.

Source: BPI Research, based on data from Bloomberg.

Brent oil price (Dollars per barrel)



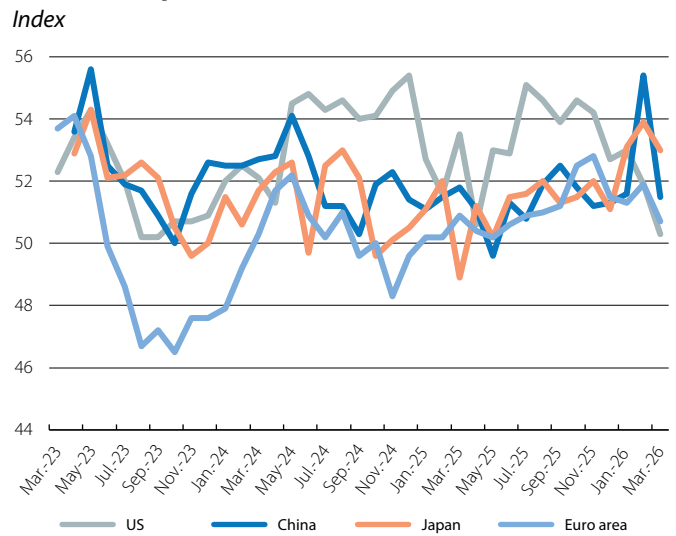
Source: BPI Research, based on data from Bloomberg.

labour market. The biggest increases were in sectors such as healthcare, construction, leisure and manufacturing, while the declines continued in technology, information and financial services. Average job creation in the US, meanwhile, stood at 68,300 jobs in Q1, with a recent trend indicating a practically stagnant labour market.

Inflation notes the first impact of rising energy costs. Amid rising energy prices, headline inflation in the euro area increased by 0.6 percentage points in March to 2.5%, while core inflation (which excludes food and energy) fell to 2.3% (vs. 2.4% previously). The energy component has shifted from a 3% year-on-year decline in February to a 5% year-on-year increase in March. In contrast, price pressures eased in the rest of the consumer basket, particularly in services, where inflation returned to 3.2% year-on-year following the rebound in February. These figures reflect favourable dynamics prior to the conflict in the Middle East, although in the future they could be affected by rising energy costs, as well as the key question for the ECB of whether this increase will spread to the rest of the basket. In the US, inflation remained stable in February: 2.4% year-on-year in headline inflation and 2.5% in the core index, the same as in January. On the other hand, the private consumption deflator shows underlying inflation still above 3%, while the producer price index rose by 0.5 pps in February to 3.4%. These inflationary pressures are more intense than in the euro area and could imply a more cautious trajectory than anticipated on the part of the Fed.

Asian economies start the year under the same moon: Japanese strength, Chinese solidity and rising prices. In Japan, the Tankan survey showed positive dynamics in Q1. The business conditions index for large manufacturers rose from 16 to 17, close to its 18-point peak reached in 2021. In the non-manufacturing sector, the index remained at 36, its highest level since the 1990s. On the other hand, price indices among large manufacturers increased, although they remain far from the levels recorded in recent years. In China, the economy accelerated in Q1, mainly due to the boost from exports. Industrial production grew by 6.3% year-on-year in January and February (vs. 5.2% in December), while retail sales recovered (2.8% year-on-year vs. 0.9% in December) and fixed investment in urban areas returned to positive territory, albeit still at very contained levels. In this context, the official manufacturing PMI rose from 49.0 to 50.4 points in March, while the RatingDog PMI, whose sample includes companies that are relatively more exposed to foreign markets, fell from 52.1 to 50.8 points. However, price pressures spiked sharply. The input prices subcomponent surged from 54.3 to 60.5 points, while the selling prices subcomponent stood at 53.8 points, a four-year high. On the services side, the official PMI rose from 49.7 to 50.1 points, a sign confirming that Chinese households might be less affected by the rise in global energy prices, in an environment of low inflation and regulated prices.

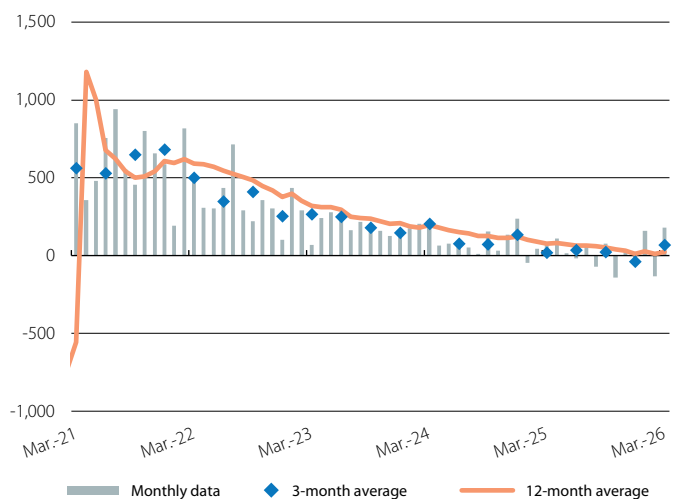
Global: composite PMI



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

US: employment

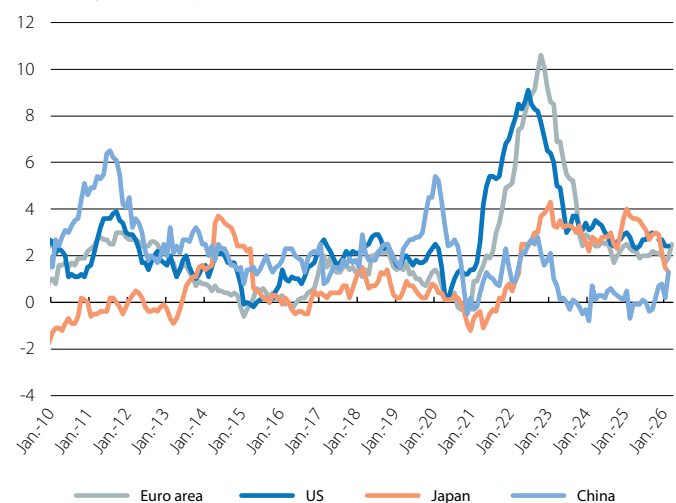
Monthly change (thousands of jobs)



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

Global: headline CPI

Year-on-year change (%)



Source: BPI Research, based on data from Bloomberg

Geoeconomic exposure and strategic relevance of the Middle East

Global supply chains have been shaken once again following the joint US and Israeli attack on Iran and the subsequent spread of the conflict to other countries in the Middle East. Subject to uncertainty over the shock's severity and duration, this episode is shaping up to be the greatest disruption to international trade since COVID-19. In addition to its significance as one of the world's main producers of oil, gas, and chemical derivatives, it also holds a strategic geographical position for maritime freight transport and air passenger transport between Europe and Asia. All this means that rising input costs and a lack of critical supplies are once again causing concern for the international productive sector (which, in the case of Europe, was just beginning to recover from the effects of Russia's invasion of Ukraine)¹ and, ultimately, for households due to the potential erosion of their purchasing power.

An asymmetric sectoral effect in response to the global rise in energy input costs

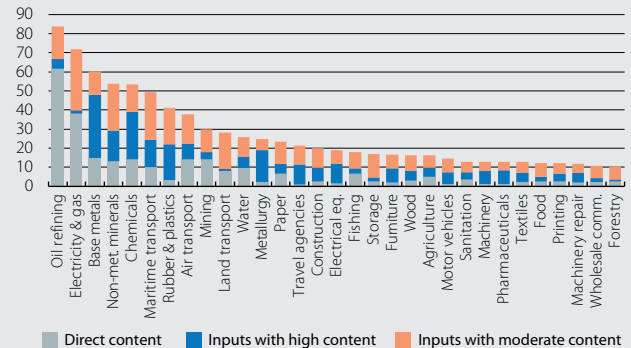
Asia is the main destination for oil and gas exports from the Middle East, while in Europe the direct dependency is more moderate, though still significant for some countries.² Nevertheless, the global nature of commodity markets means that the shock has also been transmitted to economies sourcing energy well outside the conflict area, and even well-supplied regions, such as North America. In this way, oil- and gas-intensive companies worldwide have been exposed to an increase in their production costs. The sectors with the greatest direct exposure are oil refining and power generation, the chemical and metallurgical industry, transport services, construction-related materials and agriculture (see the first chart, with aggregated data for the EU). In addition to this impact, there is a second layer through derivative products: some, like fertilisers at the start of the food value chain, have a more specific scope; others act as key intermediate goods for various branches of manufacturing, such as plastics and metals in the automotive industry, and others have a more widespread impact, like electricity, a critical input for the majority of economic activity and particularly critical for data centres supporting AI deployment.³

In recent years, the EU has reduced its energy intensity,⁴ and following Russia's invasion of Ukraine it has made

1. See the Focus «Characterisation of the business cycle in the EU: neither widespread, nor robust» in the MR01/2026.
 2. See the Focus «The oil market enters unknown territory» in this same *Monthly Report*.
 3. As proof of this key role, the Trump administration signed a pledge on 4 March with the commitment of seven tech firms to internalise any electricity costs that data centres may generate for consumers.
 4. International Energy Agency (2025), «Energy Efficiency 2025».

EU: economic activities with the highest energy content

(% of production value, 2023)

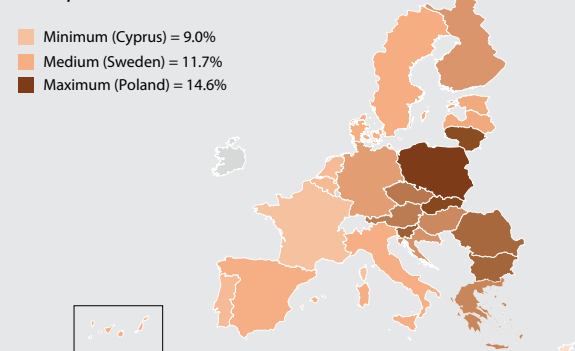


Notes: Direct content includes mining products, oil refining, electricity and gas. Inputs with high (medium) content include those sectors with direct content equal to or greater than 10% (5%) of production.

Source: BPI Research, based on data from Eurostat.

EU: energy content by country

(% of production value, 2024)



Notes: Average energy content of each sector in the EU-27 weighted according to the relative sectoral value added in each Member State. The energy content is the sum of the direct content and the inputs with high and medium direct content. Data not available for Ireland, Luxembourg and Malta.

Source: BPI Research, based on data from Eurostat.

great efforts to diversify its energy sources.⁵ However, it remains highly dependent on external sources for its primary energy needs. Furthermore, the share of renewables in electricity generation coexists with a marginal pricing system in which fossil fuels in general, and gas in particular, often continue to determine the price.⁶ All this means that Europe's sensitivity to international energy markets remains high. The differences between countries are largely due to the productive structure and the relative weight of the aforementioned energy-intensive sectors: Eastern Europe is the relatively most exposed area, with Poland, Slovakia and Lithuania at the forefront (see second chart), and among the larger economies, Germany has the highest percentage of energy content and France the lowest.

5. See the Focus «Europe faces another energy crisis» in this same *Monthly Report*.
 6. M. Draghi (2024), «The Future of European Competitiveness».

The Middle East’s geoeconomic relevance beyond energy markets

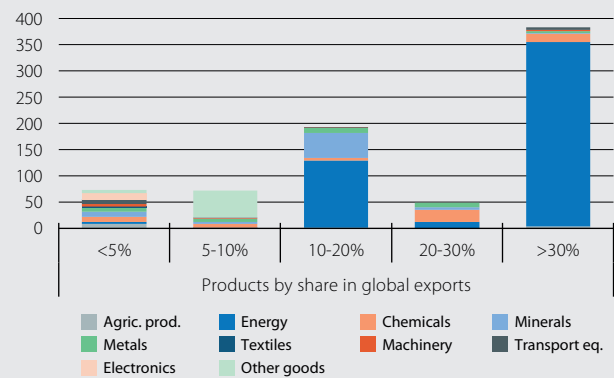
The economic importance of the Middle East extends far beyond the oil and gas markets, which are the most visible aspect of the war’s impact in the short term. Countries such as Saudi Arabia, Qatar and the UAE are significant producers and exporters of non-energy products, particularly in the chemical and metalliferous sectors (see third chart). These products include nutrients for producing fertilisers, such as urea, for which the production of the region as a whole accounts for around a third of global exports, on which India and Brazil are highly dependent. The region also supplies essential commodities for a wide range of plastic products, such as ethylene glycol, polyethylene (PE) and polypropylene (PP), which represent over 25% of the global market share, with Asia being the main customer. Helium too – a noble gas that is critical for the semiconductor industry and for which the region is a key supplier, with Taiwan being among the most dependent countries. Another example is aluminium and its alloys (15% share), which are used in metallurgy, the automotive sector, construction and machinery, and of which Europe is one of the largest buyers (see the map of the EU’s main import dependencies in the fourth chart).

Furthermore, the region is a strategic hub in economic relations between Europe and Asia. In addition to the significance of the Strait of Hormuz as an export route for oil and gas, the region is also home to the Suez Canal, one of the most critical choke points for global maritime freight transport. This latter route has already been under considerable stress since the end of 2023 due to Houthi attacks in the Red Sea around the Bab el-Mandeb Strait, which has reduced maritime traffic passing through this point by 50%, and increased the length and duration of the route to Europe (by 6,500 kilometres and 10-15 days, respectively), diverting it around the Cape of Good Hope.⁷ All this has led to significant delays in order deliveries and increased freight costs on this route, which is particularly important for goods with a low unit value, such as bulk shipments of grain and fertilisers or basic manufactured goods such as furniture, textiles and toys. This situation could be exacerbated by the extension of the conflict in the Middle East. It should be recalled that the EU has significant dependencies on China in critical minerals for the automotive and tech industries,⁸ as well as for consumer electronics (mobile phones and laptops) and electrical equipment (household appliances, industrial batteries and generators).⁹

7. United Nations (2025), «Review of maritime transport 2025: Staying the course in turbulent waters».
 8. See the Focus «China’s alchemy: how it transforms critical minerals into global power» in the MR01/2026.
 9. See the Focus «Import dependencies and competitive emergencies for Europe’s industry» in the MR07/2025.

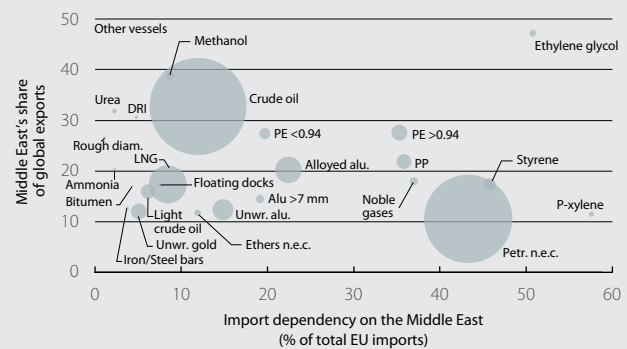
Exports from the Middle East: by global share and sector

(USD billions, 2024)



Note: Sum of exports from Iran, Iraq, the UAE, Saudi Arabia, Qatar, Bahrain, Kuwait and Oman. Calculations based on products at the 6-digit level of the HS classification.
 Source: BPI Research, based on data from the Atlas of Economic Complexity.

EU: import dependency on the Middle East Selected products, 2025



Notes: Products at the 6-digit level of the HS classification in which the Middle East has a global export share of 10% or more. The Middle East includes Iran, Iraq, the UAE, Saudi Arabia, Qatar, Bahrain, Kuwait and Oman. The area of the circles is proportional to the value of EU imports from the Middle East.
 Source: BPI Research, based on data from Eurostat and the Atlas of Economic Complexity.

Finally, it is also worth highlighting the role played by Dubai and Doha as international air hubs. In addition to serving as international connectors between Europe, Asia and Africa, the region has gained increasing importance as a tourist and business destination through the promotion of major international events, sectoral congresses and a notable development of hotel and leisure infrastructures. In 2024, Dubai Airport – the second busiest in the world and the first in international traffic – reached 92 million passengers, while Doha’s approached 53 million. The escalation and prolongation of the war in Iran could divert air traffic and travellers to other areas, potentially benefiting Europe, as happened during the Arab Spring in 2010 and, more recently, following the conflicts in Israel.

Europe faces another energy crisis

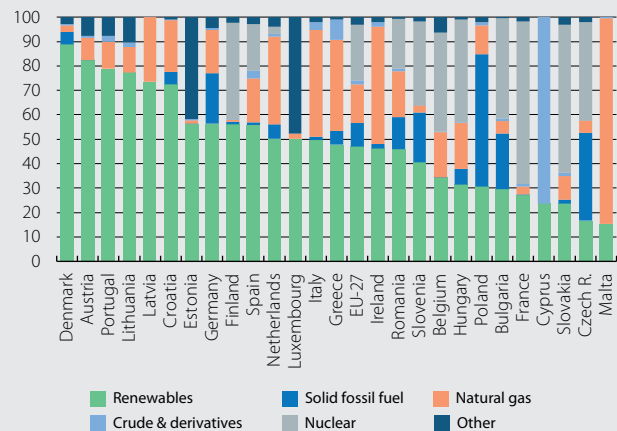
Europe, which prior to the outbreak of the armed conflict in Iran was facing this year with relative optimism, is now confronting the impact of a new surge in energy prices. The invasion of Ukraine in 2022 already triggered a major supply crisis, driving up crude oil prices and, above all, natural gas prices, which necessitated fiscal measures to limit its impact on economic activity. The conflict in the Middle East presents a new energy shock, and although the situation and risks are different,¹ it has once again put Europe’s energy model under the spotlight.

Despite significant progress, Europe remains highly dependent on fossil fuels

Despite the efforts made in recent years to reduce energy intensity in Europe and boost the role of renewables as alternative energy sources, the region remains sensitive to shifts in international energy prices. In fact, more than 70% of all the energy consumed by the EU-27 is generated from non-renewable sources.² One of the main energy consumers is transport, accounting for nearly one-third of the EU’s total energy consumption and relying almost entirely on petroleum derivatives, such as petrol and diesel, which have already recorded a significant price increase (of nearly 20% and 36%, respectively, in the year to date) and have raised costs in the sector. On the other hand, households³ and the industrial sector each account for around 25% of total energy consumption, mainly through natural gas and electricity.

Electricity is not a primary energy source, but its price will depend on the cost of the inputs used in its generation. In Europe, electricity prices are set through a marginal system, which means that the final price is determined by the most expensive source of energy that is needed to meet demand, and this is often generated with gas, despite not being the main source of generation.⁴ In the EU as a whole, over 47% of electricity is generated from renewables, compared to less than 16% from gas, 10% from coal, and 23% from nuclear energy. However, the aggregate picture conceals significant divergences

Europe: sources of electricity generation
(% of the total)



Source: BPI Research, based on data from Eurostat.

between countries, which is crucial when assessing the impact of a rise in fossil fuel prices, especially in economies with a significant share of energy-intensive industry.⁵

Generally speaking, the economies of Eastern Europe are in a less favourable position, both because they lie at the bottom of the energy efficiency ranking and due to their energy mix and production structure. Specifically, Poland, where industry accounts for almost a fifth of the country’s economy and consumes nearly 40% of the country’s electricity, generates about 54% of this electricity from coal⁶ and has virtually no nuclear generation. Furthermore, its energy-intensive industry accounts for around 7.0% of the total GVA.

Germany is also noteworthy: its industrial sector, one of the largest in the euro area (almost 21% of GDP), directly consumes more than 37% of all the gas used in the country and nearly 47% of all the electricity. Moreover, 18% of this electricity is generated with gas and 21% with coal. France, on the other hand, shows less sensitivity thanks to its nuclear power plants that cover most of its electricity demand (around 67%) and an economy that is less dependent on the industrial sector (which accounts for only 12% of GDP). Spain and Italy, where industry accounts for 14% and 18% of GDP, respectively, show different starting positions. Industry in Spain accounts for around

5. Industries considered energy-intensive include basic metals, chemicals, non-metallic minerals, food, and paper. These five sectors consume, on average in the EU-27, two-thirds of all the energy consumed across the entire industrial sector.

6. The conflict in the Middle East does not directly affect coal prices, as the region is not a producer of this commodity. However, the increase in price or the scarcity of crude oil and/or gas may lead to some substitution of these energy sources with coal, driving up its price. In fact, during the energy crisis of 2021-2022, the price of coal quadrupled and since the outbreak of the conflict in the Middle East it has already increased by almost 17%.

1. See the article «Energy tensions, inflation and monetary policy in the euro area» in this same *Monthly Report*.

2. See *Energy in Europe – 2026 edition*, Eurostat.

3. Refers to energy consumption in homes. The expenditure on petrol/diesel incurred by households for their travel is accounted for within the transport sector. See <https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:32008R1099>.

4. Electricity cannot be easily stored, so in Europe, the amount of energy needed for each hour of the following day is calculated daily. For each of those hours, power plants indicate how much electricity they can produce and the minimum price at which they are willing to offer it. The market then sorts these offers from lowest to highest price and accepts them one by one until the entire anticipated demand is met. The last power plant needed to meet demand, usually the most expensive among those that come online, is the one that determines the final electricity price for that hour.

60% of the nation's natural gas consumption and nearly 30% of its electricity consumption, although it has reduced coal-fired electricity generation to less than 1% and combines 56% renewables with 19% nuclear, providing it with a certain buffer. Italy, however, is more vulnerable as its industry accounts for over 30% of the national consumption of natural gas and electricity, but 44% of the country's electricity is generated with gas and the share of renewables in its production is the lowest among the four major euro area economies.

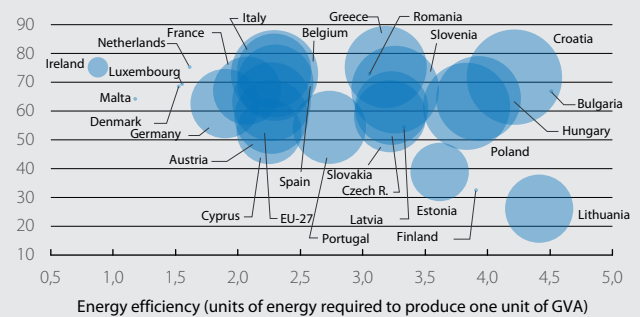
A new crisis, a new opportunity for progress

Europe has made significant efforts in recent years to improve its energy efficiency and significantly reduce its dependence on fossil fuels. However, traditional and non-renewable energy sources continue to play a very significant role in the economy as a whole, and the current spike in energy prices is once again testing Europe's resilience while reminding us of its weaknesses in the energy sphere. Furthermore, the conflict in the Middle East adds a risk factor, both due to the potential reduction in the global supply of hydrocarbons (given the threat that attacks on key infrastructure in the region could affect production/distribution in the coming years) and due to logistical and trade disruptions arising from the closure of the Strait of Hormuz and the issues in the Bab el-Mandeb Strait.

Nevertheless, Europe is not facing this current situation from scratch: the united response to the 2022 crisis accelerated several initiatives to reduce the continent's energy dependency. The sources of gas supply have been diversified (with new liquefied natural gas import infrastructure and agreements with alternative suppliers), electrical and gas connections and solidarity between EU countries are being strengthened, and public policies (such as RePower-EU and the Next Generation funds) are driving investment in renewables, energy efficiency and electrification.

Therefore, the current situation represents a new challenge, but also a new opportunity to correct historical imbalances in the energy system. Two energy crises in less than five years could lead to a faster transition towards a sustainable and secure energy model, with diversification of sources and greater European cooperation. Achieving these goals is the best guarantee that, in the future, European households and businesses will be better protected against the fluctuations of international energy markets. The roadmap is already set; the challenge once again is to implement it with the urgency demanded by the current circumstances.

Europe: exposure of industry to fossil fuels
(% of non-renewable energy used in industry)*



Notes: The size of the bubble indicates the share of gross value added (GVA) that is contributed by energy-intensive industries. Industries considered energy-intensive include basic metals, chemicals, non-metallic minerals, food, and paper. For Ireland, no data are available for the chemicals industry. No data are available for any of the energy-intensive industries for Bulgaria, Denmark, Finland, Lithuania, Luxembourg, Malta, the Netherlands and Romania. * The percentage of electricity generated from fossil fuels is also included.
Source: BPI Research, based on data from Eurostat.

Energy tensions, inflation and monetary policy in the euro area

In March, the bombings exchanged between Iran and the US and Israel caused significant stress in energy commodities; Brent crude oil fluctuated around 100 dollars per barrel throughout the month, while TTF gas did so between 50 and 60 euros per MWh. This points to a rebound of inflation and has led the markets to price in rate hikes at the ECB's forthcoming meetings.

Iran: an energy shock, but not like in 2022

The conflict in the Middle East represents a disruption to global supply and, therefore, may drive up inflation and hinder economic activity. The question is whether the magnitude, persistence and propagation of the disruptions will result in a change in the economic outlook or merely a recalibration of forecasts. Although uncertainty is very high, the nature of the shock brought back memories of Russia's invasion of Ukraine in 2022. But the two shocks are different.

In 2022, the stress was not only a matter of rising oil and gas prices but also a problem with energy flows themselves: Europe had to reconfigure its supply chains due to its high dependency on Russia. In contrast, Europe's direct dependencies on the Middle East are limited (see first chart) and the supply disruption mainly affects Asia.

On the pricing side, between February and March, the futures markets shifted from quoting averages for 2026 of 65 dollars per barrel of Brent and 30 euros per MWh of TTF gas to between 80 and 90 dollars for Brent and 45 and 55 euros for TTF (see second chart). Despite the significance of the change, the shock was much stronger in 2022: whereas in mid-2021 the respective prices for 2026 were quoted at 70 dollars and 25 euros, the year's average ended up being 100 dollars and 130 euros, resulting in annual energy inflation of nearly 40% in the euro area.

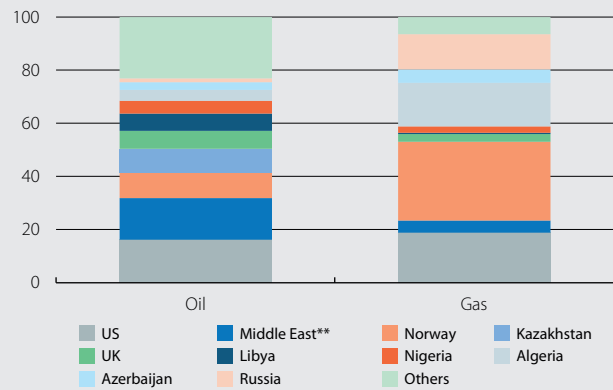
The macroeconomic and monetary environment is also different. In 2022, the war coincided with the post-pandemic reopening of the global economy. The interaction between the energy shock and the imbalances in supply and demand caused a perfect storm for inflation to spread. Furthermore, monetary policy was in a highly expansionary position,¹ which slowed down the ECB's response.

In 2026, the European economy is in a better starting position. Without the imbalances or pressures in the global supply chains of 2022, the euro area's economic activity has maintained moderate growth, while monetary policy has been in a neutral position for several quarters now and the ECB's «meeting by meeting» and «data-dependent» approach to decision-making allows it to react swiftly.

1. In February 2022, the ECB had the official rate at a historic low of -0.50% and was implementing unconventional policies, including both net asset purchases (PEPP and APP) and long-term liquidity injections (TLTRO-III).

Euro area: oil and gas imports

(% of the total)*



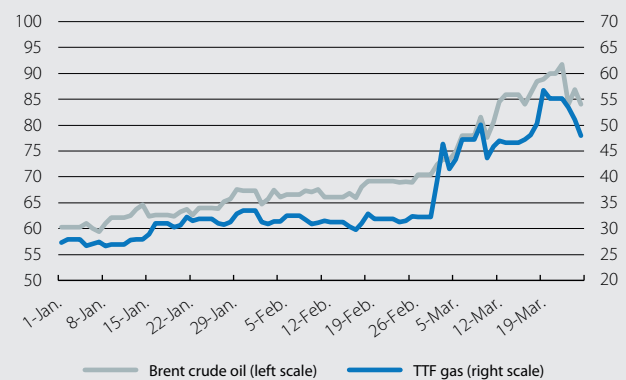
Notes: * Data from 2024, excluding imports from other EU countries. ** Includes the Arabian Peninsula, the Levant, Iraq and Iran.

Source: BPI Research, based on data from Eurostat.

Average price forecast for 2026 according to market futures

(Dollars per barrel)

(Euros per MWh)



Note: Evolution so far this year according to closing prices in the futures markets.

Source: BPI Research, based on data from Bloomberg.

The ECB also has the buffer of inflation expectations anchored at the 2% target in the medium term. However, there may be an unfavourable difference compared to 2022, as expectations tend to be heavily influenced by recent memories: whereas the past experience in 2022 was a decade of low inflation, in 2026 the latest inflationary crisis remains fresh in the collective memory.

Inflation: direct and indirect impacts

Energy accounts for just under 10% of the euro area's price basket (HICP) and its inflation shows a close link with gas and oil prices. Thus, we estimate that the range of Brent and TTF futures quoted in March could translate into energy inflation of between 5% and 12% for 2026 as a whole in the euro area, before dropping to 0%-1% in 2027.² Starting from

2. We use paths for oil and gas prices according to the futures referenced between March and December 2026 and quoted throughout March. The range is framed between the 30% and 99% price percentiles. These paths translate into energy inflation with linear regressions that fit well: one between oil and the HICP for fuels and lubricants, and another between gas and the HICP for energy excluding fuels.

a headline inflation rate of 2%, energy prices could mechanically cause an increase in the HICP to 2.5%-3.1% in 2026 for the euro area as a whole, easing back to 2% in 2027 (see third chart).

A persistently significant increase in energy costs could also impact the prices of the other components of the consumer basket through the various economic sectors' energy dependencies.³ The input-output tables for the euro area show oil and electricity intensity at the sectoral level and provide an approximation of the potential of this indirect effect on inflation. To estimate it, we transfer the energy intensities of each sector to the different components of the HICP and stress their prices with the range of energy inflation rates between 5% and 12%.^{4,5} Assuming that the strength of transmission is proportional to energy intensity, the indirect impact can be significant, although in practice it would affect inflation with a time lag⁶ and would probably only materialise with high intensity (as predicted by the exercise) in a scenario with persistently significant stress in energy prices.

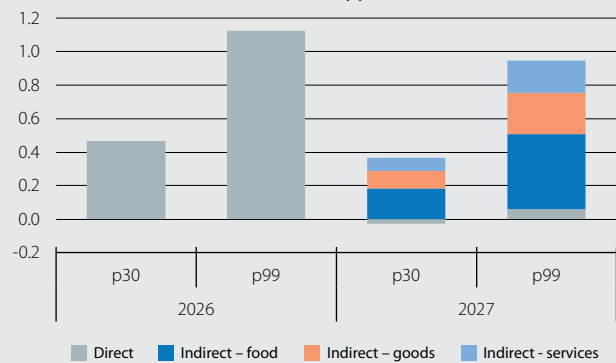
Constraints for the ECB

This range of impacts does not differ much from what was being quoted by the markets in March, when inflation swaps pointed to rates of slightly above 3% and 2.5% one and two years ahead, respectively. At the same time, the markets were pricing in between 2 and 3 ECB rate hikes during 2026, placing the depo rate at the end of the year between 2.50% and 2.75%.

We can assess these expectations based on the so-called Taylor rule, which projects the interest rate that the ECB should set according to the evolution of economic activity and inflation.⁷ In the fourth chart, we present a range of responses according to the inflation sensitivities analysed previously, the potential impacts on activity (which are

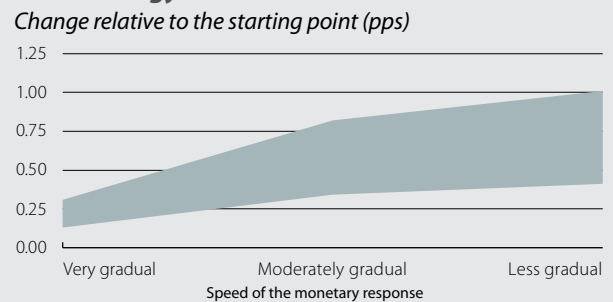
3. See the article «Goeconomic exposure and strategic relevance of the Middle East» in this same *Monthly Report*.
 4. We reproduce the methodology used by Fagandini *et al.* (2024), «Decomposing HICPX inflation into energy-sensitive and wage-sensitive items», ECB Economic Bulletin 3/2024, to calculate an «energy-sensitive» HICP. After assigning energy intensity among 103 items of the HICP, we transmit to them the increase in energy costs based on the ratio between the energy intensity of each component and that of purely energy items.
 5. The exercise identifies food and services related to transport and the repair of goods as the most likely sectors to suffer indirect effects from energy.
 6. After the peak in energy inflation in 2022, it took 9 months for the inflation peak in non-energy goods to materialise, while the time lag was 10 months for food, and 14 months for services.
 7. Based on De Mazelis *et al.* (2023), «Monetary policy strategies for the euro area: optimal rules in the presence of the ELB», ECB Working Paper, we use the rule: $i_t = \rho(i_{t-1} - i_t^*) + (1 - \rho)[1, 5 \cdot (\pi_t - 2) + y_t]$, where i^* is the natural interest rate, π is inflation and y is the output gap (difference between observed and potential GDP). We assume a nominal natural rate of interest of 2% and an initial output gap of zero. The parameter ρ measures the gradualness of the response.

Euro area inflation: impact of an energy shock
 Contribution to headline inflation (pps)



Notes: p30 and p99 indicate price paths for oil and gas quoted by the futures markets in March (the 30th and 99th percentiles). The direct effect is the contribution of energy inflation caused by the impact of oil and gas prices. The indirect effect is the contribution of the rest of the consumer basket caused by the transmission of energy inflation.
Source: BPI Research, based on data from Eurostat and own estimates.

ECB: response of the official interest rate to the energy shock
 Change relative to the starting point (pps)



Notes: The range encompasses projected scenarios based on different oil and gas futures quoted in March 2026 (from the 30th to the 99th percentiles). The ECB's response is simulated with an inertial Taylor rule in which the interest rate depends on its starting point, the neutral rate, the deviation of inflation from 2% and the output gap. A very (less) gradual response indicates that the rule assigns a high (low) weight to the starting point of rates.
Source: BPI Research, based on own estimates and data from Bloomberg and the ECB.

currently estimated to be contained)⁸ and how gradual the ECB's response is.

This exercise does not rule out the possibility that the ECB could barely react at all to the energy shock, relying instead on its transitory nature and the favourable starting point of the euro area's economy and monetary policy. Nevertheless, there is also the possibility of a scenario in which the combination of a more severe and persistent energy shock and a swift response from the ECB could lead to a tightening of interest rates similar to that priced in by the financial markets in March. In such a scenario, the ECB could shift from a clearly neutral monetary policy to interest rates that would lie between the upper band of what would still be considered neutral and the lower band of a restrictive policy.

8. Based on the behaviour of energy futures throughout March, most estimates point to a markedly more moderate impact on economic activity than on inflation (reflecting the euro area's low direct exposure and its greater energy resilience). Thus, we feed the Taylor rule with the adverse and severe GDP scenarios presented by the ECB last March, projecting growth within the 0.4%-1.2% range.

How far has the EU progressed on the Competitiveness Compass?

In 2024, the Letta and Draghi reports identified the EU's competitive bottlenecks and proposed reforms to reignite medium-term economic growth.¹ On this basis, in 2025 the European Commission presented the Competitiveness Compass: a roadmap to deepen economic integration, close the innovation gap with the US and reconcile growth and decarbonisation.² In 2026, in a more complex geopolitical environment, the overall assessment is positive in terms of direction and debate, but limited in progress, with key decisions still pending and with an uncertain outlook. Looking ahead to 2027, with limited fiscal space, the end of NGEU and the negotiation of the next budget, the priority is to accelerate the reform agenda in order to tackle present and future challenges.

Progress on regulatory simplification and diversification of economic relations

Almost 500 days after the presentation of the Competitiveness Compass, the balance is mixed and the same applies to progress on the Draghi report's recommendations: as of January 2026, only 15% had been fully implemented and 24% partially.³

The most visible progress is concentrated on three fronts: (i) financing instruments, such as SAFE loans linked to new defence commitments;⁴ (ii) the continuation of initiatives already deployed, such as the Net-Zero Industry Act – the industrial pillar of the Green Deal –, IPCEI projects in clean technologies, strategic projects under the Critical Raw Materials Act and the decoupling from Russian energy driven by REPowerEU; and (iii) targeted adjustments to streamline existing regulation, such as the Omnibus packages – of which the Commission has adopted 6 of the 10 planned, including the digital and sustainability packages –⁵ and the creation of the small mid-caps segment to extend administrative regulatory relief beyond SMEs.⁶ In addition to this we find initiatives falling strictly within EU-level competences, especially in trade policy and strategic partnerships, such as the agreements with MERCOSUR, Indonesia, India and Australia, which are currently pending ratification⁷ and are aimed at diversifying the EU's economic relations.⁸

In addition, the Commission continues to follow up on the recommendations of Letta and Draghi through strategies

and action plans in various areas, although their translation into tangible results will depend on the co-legislators and national implementation. In the context of the single market, the One Europe, One Market framework aims to reduce frictions and strengthen the enforcement of existing rules.⁹ The roadmap focuses on addressing the so-called «terrible ten» – the 10 barriers identified by the Commission as being the most detrimental to the internal market – through measures ranging from regulatory simplification to regulatory harmonisation in services. One element of this approach is EU Inc. (the 28th regime), a proposal for an optional corporate framework with fully digital corporate operations – online incorporation within 48 hours at a cost of under 100 euros – insolvency procedures adapted to micro-enterprises and start-ups, application of the once-only principle in corporate information and greater capital flexibility to facilitate the scaling of innovative companies.

In the financial sector, the Savings and Investment Union (SIU) plays a cross-cutting enabling role. The roll-out is gradual: the first legislative package presented by the Commission focuses on the securitisation market, aiming to reactivate an underutilised segment and release additional financing capacity. In parallel, progress has been made in designing savings-investment products in order to boost retail participation in capital markets. The most delicate initiatives – integration, market scale, and supervision – are left for later stages and will require broader political agreements. For its part, the digital euro – key to financial autonomy and resilience – is progressing in its preparatory phase led by the ECB, although its impact and timeline remain subject to pending legislative decisions.

In innovation and technological adoption, the Commission has presented the AI Continent action plan, which organises the European agenda for the deployment of this technology. This includes the Apply AI strategy, aimed at accelerating adoption in strategic sectors through pilot projects, dedicated infrastructure – including factories and gigafactories – and providing specific support for SMEs to reduce barriers to entry. In human capital, the Union of Skills complements this agenda with measures aimed at bolstering training in STEM and digital skills, improving the recognition of qualifications and facilitating labour mobility, which are key to alleviating bottlenecks in sectors linked to the green and digital transition.

What remains pending (and most critical): a genuine internal market at scale

Despite the correct strategic orientation, critical components of the Competitiveness Compass for the integration of the single market remain blocked, representing a significant drag on medium-term growth. Some require greater coordination – such as the provision of European public goods (defence, networks, interconnections) or in the design of pan-European projects under the State aid framework – but others demand

9. European Commission (2026), «The 2026 Annual Single Market and Competitiveness Report».

1. M. Draghi (2024). «The Future of European Competitiveness» and E. Letta (2024), «Much more than a market».

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

3. EPIC (2026). «The Draghi Observatory Implementation Index Update: Assessing EU Delivery of the Draghi Report».

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

5. The estimated savings for companies from these six packages stands at 7 billion euros.

6. See the Focus «Firm size and productivity gaps in the EU» in the MR10/2025.

7. On 23 March, the Commission notified the members of MERCOSUR that the interim treaty will come into force on 1 May.

8. See the Focus «EU export diversification beyond Trump's tariffs» in the MR12/2025.

agreements, if not unanimity, among Member States, in areas where national incentives are not always aligned: regulatory harmonisation in services, fiscal and labour convergence, revision of the competition framework and progress towards a genuine capital markets union.

The IMF estimates that internal barriers in the EU are equivalent to tariffs of 44% for goods (compared to 15% in the US) and of up to 110% for services, illustrating the magnitude of the challenge.¹⁰ Progress towards a single market for services goes beyond administrative simplification and requires harmonising substantive aspects: licences and professional requirements, sectoral regulations, rules on data use and transfer, and even elements related to economic regulation that influence prices, margins, and service delivery models. Many of these policy areas are anchored in long-established national models and modifying them will require significant political capital. A similar issue arises with EU Inc., the impact of which will be limited if there is no progress towards broader convergence in taxation, labour framework and insolvency procedures.

Similarly, the strategy for the SIU provides direction, but it is still far from constituting a true capital markets union as envisaged by Letta and Draghi deem essential in order to achieve scale and efficiency in channelling financing towards innovative activities. Removing structural frictions is essential to allow capital to flow freely across Europe: align insolvency and debt enforcement frameworks; simplify cross-border procedures and taxes that currently deter investment on a European scale; effectively integrate stock and private fixed-income markets, including their clearing and settlement systems; move towards convergent supervision to avoid a fragmented application of the single rulebook; and complete the banking union with a pan-European deposit guarantee fund.

In the industrial sector, strategic dependencies remain substantial.¹¹ In March, the Commission presented the Industrial Accelerator Act, with measures intended to generate demand for European products and technologies with a low carbon footprint (via public procurement and support schemes) and to accelerate permitting procedures in strategic sectors. These tools will only be effective if they strengthen the single market and if the reduction of dependencies is supported by productivity, innovation and scale, and not by quantitative import substitution targets that increase the cost of inputs and erode competitiveness.¹² In technological development and adoption, bottlenecks persist along the value chain, with upstream dependencies (semiconductors and computing power) and gaps in access to data, financing, human capital and energy.

In decarbonisation, two central challenges persist: regulatory certainty and reduction of energy costs. Beyond networks, interconnections and permits, the European agenda acknowledges that the final price of electricity

end-user prices depend on market rules and the stability of the framework. The 2024 electricity market design reform introduced improvements to reduce exposure to gas price volatility and incentivise long-term contracts, although its impact on prices remains limited. In parallel, the revision of the ETS scheduled for 2026 must balance carbon price stability and investment signal without undermining its central role in the transition.¹³ Without credible progress in energy costs, the price gap relative to other economies will continue to weigh on industrial competitiveness.

From strategy to full implementation

Looking ahead to the second half of 2026 and 2027, there is a window of opportunity, but the margin is narrow. The end of NGEU coincides with the negotiation of the 2028-2034 EU budget, greater investment needs in defence, energy and critical technologies, and a context of demographic ageing and low productivity.¹⁴ This is compounded by an increasingly demanding geopolitical environment – an entrenched conflict in Ukraine and recent tensions in the Middle East, a reconfiguration of global trade, and episodes of energy volatility – which increases the value of resilience but also intensifies competition for limited public resources.¹⁵

In this context, the competitive agenda will only gain credibility if it translates into actionable decisions. Firstly, this means making the single market operational in areas with the greatest potential – services, data, business and talent mobility – and prioritising the elimination of the most costly barriers to scaling. Secondly, it means implementing the SIU in real integration and growth financing, and making progress on insolvency, fiscal frictions and supervisory convergence. Thirdly, it must lead to a structural reduction in energy costs, so that decarbonisation also enhances industrial competitiveness. Fourthly, it requires an acceleration in the technological race, with AI at the core, and relying on strategic alliances in order to secure critical inputs and open new spaces for economic cooperation.

The proposal for a Competitiveness Fund in the next budgetary framework could help organise instruments and concentrate resources, but it does not replace the need to reach political agreements on integration and governance. If part of the agenda progresses through coalitions of countries, then the base should be broad enough not to erode the internal market nor lead to a multi-speed Europe that undermines social and territorial cohesion.¹⁶ Ultimately, the decisive step in the coming quarters is to move decisively from strategies and action plans to implementation.

13. CEPS (2025). «Reforming the EU ETS: Balancing price stability and investment signals».

14. See the Focus «The 2028-2034 EU budget: An impossible mission?» in the MR09/2025, and the Dossiers «The transformative capacity of NGEU and other fiscal stimulus plans» in the MR03/2025, «Challenges and policies in the age of longevity» in the MR09/2025 and «An analysis of European productivity» in the MR01/2026.

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

16. J. Zettelmeyer *op. cit.*

10. IMF (2024). «A Recovery Short of Europe's Full Potential».

11. See the Focus «Import dependencies and competitive emergencies for Europe's industry» in the MR06/2025.

12. J. Zettelmeyer (2025). «Draghi on a shoestring: the European Commission's Competitiveness Compass».

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

UNITED STATES

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
Activity									
Real GDP	2.8	2.1	2.0	2.1	2.3	2.0	–	–	–
Retail sales (excluding cars and petrol)	3.4	4.5	4.8	4.9	4.6	3.9	4.5	4.1	...
Consumer confidence (value)	104.5	96.1	99.8	93.1	97.4	94.2	89.0	91.0	91.8
Industrial production	–0.7	1.2	0.7	0.5	1.7	1.7	2.3	1.4	...
Manufacturing activity index (ISM) (value)	48.2	48.9	49.9	48.8	48.7	48.2	52.6	52.4	52.7
Housing starts (thousands)	1,371	1,357	1,401	1,354	1,346	1,328	1,487	...	...
Case-Shiller home price index (value)	330	339	339	338	337	341	343	...	...
Unemployment rate (% lab. force)	4.0	4.3	4.1	4.2	4.3	4.5	4.3	4.4	4.3
Employment-population ratio (% pop. > 16 years)	60.1	59.8	60.0	59.8	59.6	59.7	59.4	59.3	59.2
Trade balance ¹ (% GDP)	–2.8	–3.4	–3.5	–3.6	–3.4	–3.0	–2.7	–2.5	...
Prices									
Headline inflation	2.9	2.6	2.7	2.4	2.9	2.7	2.4	2.4	...
Core inflation	3.4	2.9	3.1	2.8	3.1	2.6	2.5	2.5	...

JAPAN

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
Activity									
Real GDP	–0.2	1.2	1.6	2.1	0.7	0.4	–	–	–
Consumer confidence (value)	37.2	34.7	34.7	32.8	34.6	36.8	37.9	40.0	...
Industrial production	–3.0	0.1	2.8	0.1	–1.1	–1.3	2.6	0.3	...
Business activity index (Tankan) (value)	12.8	13.5	12.0	13.0	14.0	15.0	–	–	–
Unemployment rate (% lab. force)	2.5	2.5	2.5	2.5	2.5	2.6	2.7	2.6	...
Trade balance ¹ (% GDP)	–1.0	–0.6	–0.9	–0.7	–0.5	–0.4	–0.2	–0.3	...
Prices									
Headline inflation	2.7	3.2	3.8	3.4	2.9	2.7	1.5	1.3	...
Core inflation	2.4	3.0	2.7	3.2	3.2	3.0	2.7	2.6	...

CHINA

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
Activity									
Real GDP	5.0	5.0	5.4	5.2	4.8	4.5	–	–	–
Retail sales	3.3	3.8	3.6	4.4	2.4	0.7	...	2.8	...
Industrial production	5.6	5.9	6.8	6.2	5.8	5.0	...	6.3	...
PMI manufacturing (value)	49.8	49.6	49.9	49.4	49.5	49.4	49.3	49.0	50.4
Foreign sector									
Trade balance ^{1,2}	997	1,193	1,086	1,146	1,176	1,193	1,177	1,237	...
Exports	4.6	5.5	5.7	6.0	6.5	3.8	9.8	39.4	...
Imports	1.0	0.0	–6.8	–0.8	4.5	2.9	25.6	13.8	...
Prices									
Headline inflation	0.2	0.1	–0.1	0.0	–0.2	0.6	0.2	1.3	...
Official interest rate ³	3.1	3.0	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Renminbi per dollar	7.2	7.2	7.3	7.2	7.2	7.1	7.0	6.9	6.9

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	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
Retail sales (year-on-year change)	1.3	2.4	2.3	3.0	2.0	2.2	2.0	...	...
Industrial production (year-on-year change)	-2.9	1.5	1.3	1.2	1.6	2.1	-1.2	...	...
Consumer confidence	-12.6	-13.4	-12.7	-14.2	-13.6	-12.9	-12.5	-12.3	-16.3
Economic sentiment	95.9	95.9	95.9	94.8	95.9	97.2	99.2	98.2	96.6
Manufacturing PMI	45.9	49.1	47.6	49.3	50.1	49.5	49.8	50.8	51.6
Services PMI	51.5	51.3	51.0	50.1	50.9	53.0	51.6	51.9	50.2
Labour market									
Employment (people) (year-on-year change)	1.0	0.7	0.8	0.7	0.6	0.7	-	-	-
Unemployment rate (% labour force)	6.3	6.3	6.3	6.3	6.3	6.3	6.1	6.2	...
Germany (% labour force)	3.4	3.8	3.6	3.7	3.8	3.9	4.0	4.0	...
France (% labour force)	7.4	7.7	7.5	7.6	7.7	7.9	7.8	7.8	...
Italy (% labour force)	6.6	6.1	6.4	6.3	6.0	5.7	5.2	5.3	...
Real GDP (year-on-year change)	0.9	1.5	1.6	1.6	1.4	1.2	-	-	-
Germany (year-on-year change)	-0.5	0.4	0.3	0.4	0.3	0.4	-	-	-
France (year-on-year change)	1.1	0.9	0.7	0.8	1.0	1.2	-	-	-
Italy (year-on-year change)	0.6	0.7	0.7	0.5	0.7	0.8	-	-	-

Prices

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
General	2.4	2.1	2.3	2.0	2.1	2.1	1.7	1.9	2.5
Core	2.8	2.4	2.6	2.4	2.3	2.4	2.2	2.4	2.3

Foreign sector

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
Current balance	3.4	8.4	3.0	3.5	4.6	8.4	2.2	...	...
Germany	5.9	18.5	5.5	6.7	9.5	18.5	4.5	...	...
France	0.1	-1.3	0.0	-0.3	-1.1	-1.3	-0.2	...	...
Italy	1.1	5.0	0.9	1.3	2.4	5.0	1.3	...	...
Nominal effective exchange rate¹ (value)	94.2	96.1	92.8	96.2	97.9	97.5	97.4	97.3	96.5

Credit and deposits of non-financial sectors

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
Private sector financing									
Credit to non-financial firms ²	0.8	2.7	2.2	2.6	2.9	3.0	2.8	2.9	...
Credit to households ^{2,3}	0.5	2.2	1.5	2.1	2.5	2.9	3.0	3.0	...
Interest rate on loans to non-financial firms ⁴ (%)	4.9	3.4	3.9	3.4	3.2	3.3	3.3	3.2	...
Interest rate on loans to households for house purchases ⁵ (%)	4.6	3.7	4.0	3.7	3.6	3.5	3.5	3.5	...
Deposits									
On demand deposits	-3.9	5.0	3.7	5.3	5.5	5.4	5.8	5.3	...
Other short-term deposits	12.4	-0.1	2.3	-0.1	-1.5	-1.0	-0.6	0.2	...
Marketable instruments	20.0	7.7	14.6	11.0	4.4	0.9	1.3	-1.3	...
Interest rate on deposits up to 1 year from households (%)	3.0	1.9	2.2	1.9	1.7	1.8	1.8	1.8	...

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

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

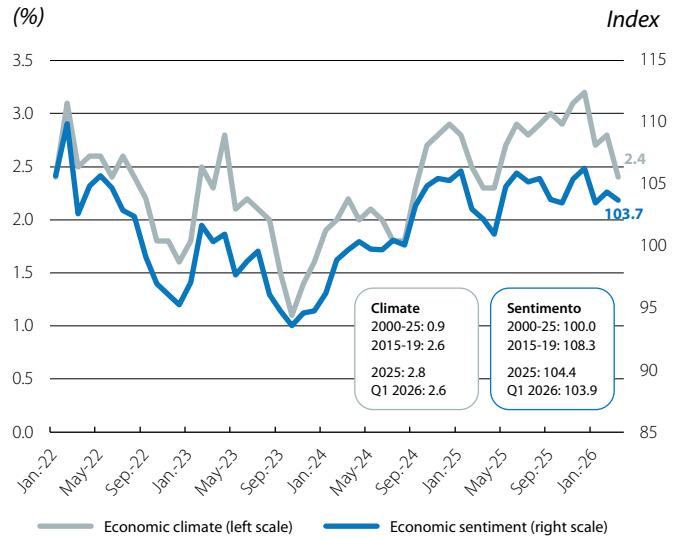
First signs of impact from the geopolitical situation in the Middle East

A turbulent first quarter with sentiment indicators reflecting a cautious approach. Household sentiment was the most affected, with the March indicator falling by about 8 points to levels seen at the end of 2023. This movement already partially reflects the impact of the conflict in the Middle East, with a significant deterioration in the perception of the country's own financial and economic situation for the next 12 months. Meanwhile, the household savings rate stood at 12.1% of disposable income, close to the highest historical levels in the series, constituting an important cushion for possible periods of greater hardship. At the same time, the labour market is once again showing strength at the start of the year, with the possibility of a (contained) slowdown in employment dynamics (around 2%) and the unemployment rate at 6.2% in Q1. In the remaining sectors, the deterioration in sentiment was less pronounced, with the economic climate indicator falling from 2.8% year-on-year in February to 2.4% in March, with a significant deterioration in the component that assesses prices, as a result of the clear perception that the conflict will bring with it fresh inflationary pressures, while the extent of the impact on activity remains uncertain, heavily dependent on the duration of the conflict and any potential significant disruptions/destruction in supply chains and energy infrastructure. Nevertheless, the European Commission's sentiment indicator for Portugal remained above 100: 103.7 in March vs. 104.4 in February. The events of early 2026—especially the war in Iran—pose downside risks to our growth scenario, which currently points to a level of around 2%. Recently, Banco de Portugal revised its macroeconomic scenario, lowering its 2026 growth forecast by 0.5 pp to 1.8%, while maintaining a downward bias.

War in Iran brings inflation closer to 3% in March. With the instability in the Middle East (Strait of Hormuz), the effects were already visible in March inflation. The energy CPI varied by 6.7% month-on-month and jumped to 5.8% year-on-year (-2.2% in February). The energy CPI, which had been negative for five consecutive months, contributed more than 50% to the increase in the overall CPI, which jumped to 2.7% (2.1% in February). The underlying CPI dynamics (2.0%) remained relatively controlled (monthly variation of 1.85%), as it was lower than the average for this metric in March from 2015-2019 and over the last three years. How this geopolitical tangle unfolds in the coming period will determine whether the rise in the CPI becomes more persistent.

House prices are evolving like never before in 2025. With the National Institute of Statistics' release of the Q4 2025 data for the Housing Price Index, a year-on-year variation of 18.9% was observed (and 4% quarter-on-quarter), implying an

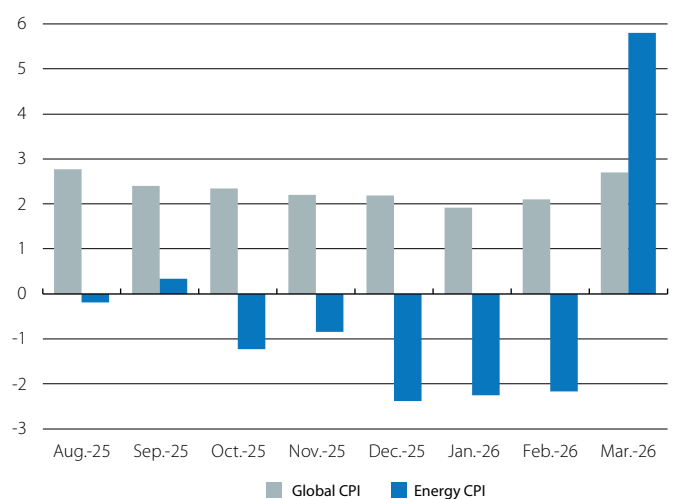
Economic climate and sentiment indicators



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

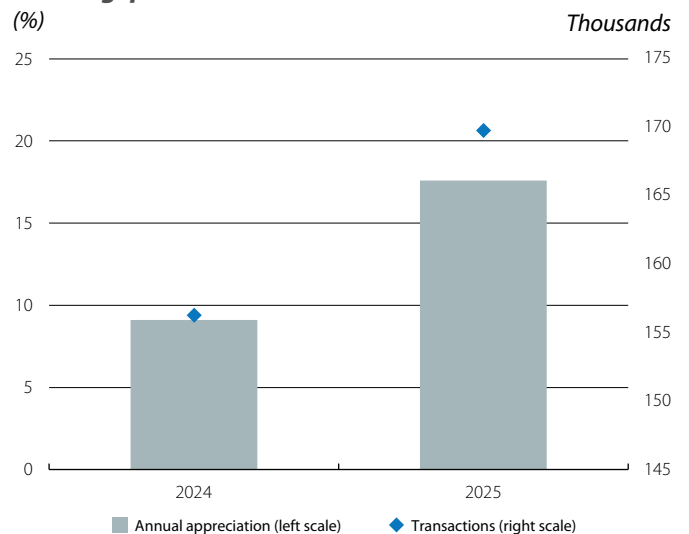
CPI

Year-on-year change (%)



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

Housing: prices and number of transactions



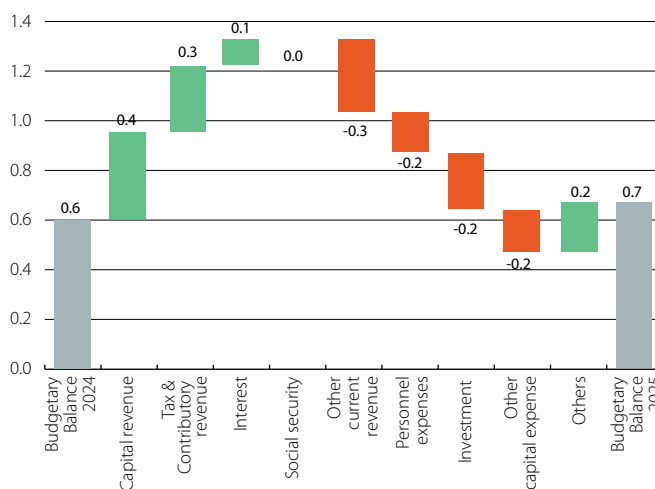
Source: BPI Research, based on data from Statistics Portugal.

average appreciation of houses in 2025 of 17.6%. This is a record value for the INE series. The same is true of the number of transactions: almost 170,000. Into 2026, up to February, bank valuations in the context of housing loan processes continue to indicate appreciation. The prolonged conflict in the Middle East, with inflation potentially constraining household confidence and disposable income, as well as more onerous debt servicing (implicit in the current trend of short-term interest rates), could curb this escalation.

The surprising budget surplus of 2025 has been overshadowed by the challenges of 2026. The budget balance stood at 0.7% of GDP in 2025, following a surplus of 0.6% in 2024. As the monthly data indicated, revenue growth exceeded expenditure growth (6.7% and 6.6%, respectively), largely supported by tax revenue and social security contributions. The amount collected from the two categories exceeded the Government’s latest estimate (included in the 2026 State Budget): Overall, they exceeded it by almost €1.8 billion, a dynamic that cannot be isolated from the economic environment and the robustness of the labour market. In turn, almost two-thirds of the increase in expenditure is explained by the behaviour of personnel expenses and social benefits, while investment and other current expenditure, despite the increase, were considerably below the estimate (–€2.33 billion). Despite the positive surprise of 2025, the start of 2026 brought challenges that call into question the Government’s expectation of a budget surplus (0.1% of GDP): Storms and the conflict in the Middle East exacerbate challenges that had already been expected (pre-existing geopolitical flashpoints, volatility in US trade policies, and the need for investment in defence).

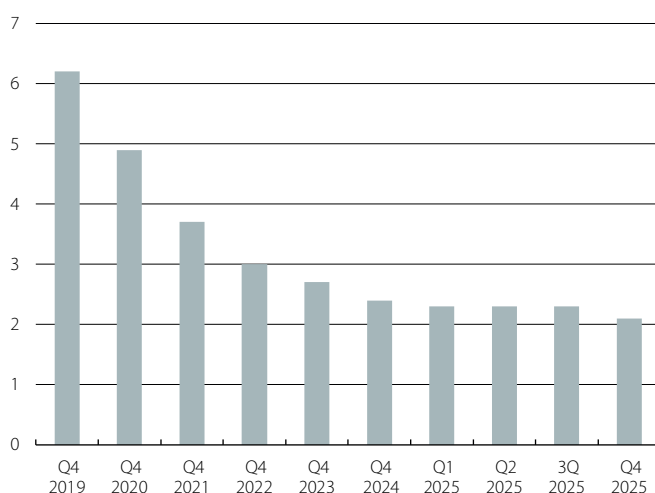
Default ratios again reached historic lows in the final quarter of 2025. In fact, the total NPL ratio decreased by 0.2 pp compared to Q3, down to 2.1%, a minimum for the statistical series (which began at the end of 2015). The reduction observed at the end of the year was seen across all segments, with the most significant contribution coming from the 0.3 pp decrease recorded in consumption & other purposes. Meanwhile, the non-financial private sector loan portfolio maintained remarkable growth in February 2026 (6.8% year-on-year), with increases across all credit segments, with housing credit standing out in particular (which recorded a 9.6% year-on-year increase). This was supported by new lending which, despite slowing compared to last year’s figures, continues to show significant growth (8.2% in the first two months of the year), making it the best start to the year ever. Nevertheless, the amount recorded in February (€1.673 billion euros) represents the lowest monthly value since the same month last year.

Carryover of the budget balance from 2024 to 2025 (pp of GDP)



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

Ratio of Non-Performing Loans Total (% of total loans)



Source: BPI Research, based on data from BdP.

The impact of the conflict in Iran on the Portuguese economy

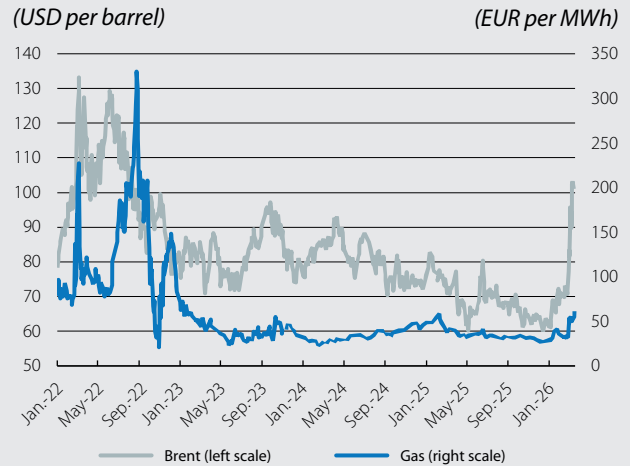
The review of the macroeconomic scenario that we carried out in February, before the outbreak of the conflict in the Middle East, was generally positive. Without forgetting the impacts of the severe weather recorded in the first half of that month, we anticipated that the economy would continue to expand at around 2%, with unemployment remaining stable and inflation moving towards the 2% target.

However, the US/Israeli intervention in Iran has altered some of the assumptions our projections were based on, and we can highlight the following key channels:

1. Increase in the cost of energy goods. From the end of February until 20 March, Brent and natural gas prices increased by approximately \$30: As for oil, prices exceeded \$100 per barrel, and gas rose by almost €30 to close to €60 per Megawatt-hour. Additionally, on that same day, futures indicated that by the end of the year, oil would be around \$80 per barrel and gas around €60 per MWh. In summary, the 2026 futures markets have shown increases in average annual oil and gas prices, ranging from approximately \$20 to \$30/barrel and around €20 for gas compared with the assumptions of our previous central pre-conflict scenario.
2. Disruptions in the supply chains of these types of goods, with an impact on other goods through, for example, higher transportation and insurance costs.
3. Spillover effects on the prices of other goods and services and a consequent increase in inflation.
4. Possible change in the ECB's monetary policy as a way to control an inflationary surge, causing a worsening of financing conditions. Following the ECB meeting on 19 March, the market anticipated that the ECB would implement two rate hikes of 25 basis points. In 2026, one in Q2 and another in Q3. More recently, the probability of a third rate hike this year has been increased.
5. Increased uncertainty, with economic agents adopting cautious positions and postponing consumption and investment decisions.
6. Flight-to-quality movements with a potential impact on the risk assessment of more vulnerable economies.

Paraphrasing Lagarde's remarks after the last ECB monetary policy meeting, the current scenario is subject to transformations, representing a significant and severe shock to the global (and Portuguese) economy, with the degree of severity depending on the duration and intensity of the conflict.

Oil and gas prices



Source: BPI Research, based on data from Datastream.

The macroeconomic impact of this conflict will depend primarily on the length of time it is ongoing, but also on other factors, such as the degree of damage to the energy infrastructure in the Persian Gulf countries. In a less severe scenario, where the conflict proves to be temporary (up to 3 months) and oil and gas prices stay in line with current futures prices (average annual value of oil in 2026 around \$85 and gas around €55), the impact could be relatively limited, reducing growth in 2026 by 0.5 pp. In this case, the upward movement of inflation would be controlled, partly because the prices of energy goods will be corrected, and partly because no significant inflationary expectations are formed, nor do serious second-order effects occur.

However, in another, more severe scenario, where the conflict is prolonged over time,¹ it is plausible to assume that in 2026, on average, the price of oil would approach \$110, in line with what was observed between 2011 and 2013, years which were characterised by geopolitical instability in the Middle East and fears of supply disruptions.² Furthermore, in this scenario the price of gas would be around €75 per MWh (\$40 more and €45 more, respectively, than the levels implied in our February scenario).

In this last scenario, to which we assign a low probability, the overall impact could be even more significant, as disruptions in supply chains, more aggressive positioning by central banks to combat inflation, and flight-to-quality movements with a significant increase in risk

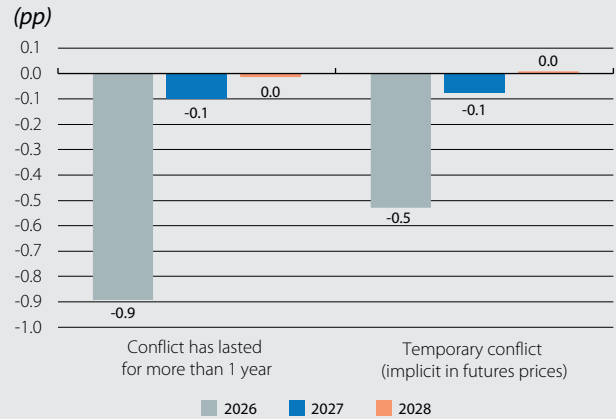
1. More specifically, this is a scenario in which the conflict lasts more than a year, turns into a regional conflict, and energy infrastructure is severely damaged.
 2. The main factors putting pressure on oil prices were the Arab Spring (2011), sanctions against Iran (2012), increased demand from emerging economies (China), and tensions in Syria (2013).

premiums associated with a serious deterioration in confidence in financial markets would exacerbate the adverse impact of the conflict on economic activity. In this case, the impact on inflation would be more significant, potentially approaching 4%, and growth would slow to rates below 1% in 2026.

Therefore, it can be concluded that uncertainty levels remain high for the time being, so our central scenario is under review, with growth risks clearly skewed downward. In our next scenario review, we will be able to incorporate the impacts of the storms that hit the country in January–February, which are expected to have been significant for Q1 GDP. But there is one thing we remain quite certain of: The Portuguese economy headed into 2026 in a very favourable position, with robust domestic demand and fewer structural imbalances. Despite all the challenges, we will most likely continue to grow above the Eurozone average and most of our euro-area partners.

Teresa Gil Pinheiro

Portugal: impact of the increase in oil and gas prices on growth*



Note: * Direct impact of changes in the prices of these commodities.
Source: BPI Research, based on data from Datastream and Bloomberg.

War in the Middle East: The impact of an energy shock on Portuguese companies

Recent geopolitical developments in the Middle East, particularly the escalation of the conflict involving Iran, the US, and Israel, revive the risk of a new energy shock with significant implications for the European economy as a whole and, in particular, for the profitability of domestic companies. The experience gained during the war in Ukraine showed how abrupt and persistent increases in energy prices can erode margins, put pressure on cost structures, and be reflected in consumer prices, especially in economies that are more heavily dependent on energy imports. This article analyses how a new energy shock associated with the conflict in Iran could affect the profitability of companies in Portugal, in a macroeconomic and financial context that, despite being better prepared, remains exposed to high levels of uncertainty.

Company accounts from a production perspective: Concepts

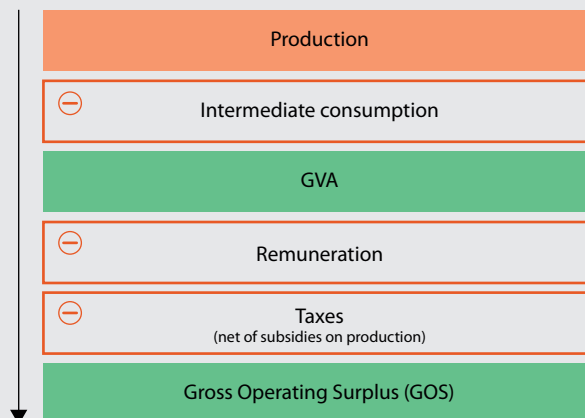
From a production perspective, company accounts seek to measure the direct contribution of productive activity to wealth creation, focusing on the process of transforming factors of production into goods and services. The central concept is Gross Value Added (GVA), which represents the wealth created by the company and results from the difference between production and intermediate consumption.

Production includes the value of goods and services produced by the company in a given period, encompassing sales, changes in inventories, work carried out for the company itself, and other operating income directly linked to productive activity. Intermediate consumption corresponds to the value of goods and services acquired from third parties and consumed in the production process (raw materials, energy, external services), excluding the remuneration of labour and capital.

GVA thus measures the income generated internally by the company, which is then distributed in the form of employee compensation, net taxes on production, and gross operating surplus (GOS). If we consider it in terms of companies' financial reporting, we can understand GOS as the equivalent to Operating Profit and EBITDA. This perspective is particularly relevant for analyses of productivity, competitiveness, and the macroeconomic impact of companies and is aligned with the principles of the National Accounts (ESA 2010).¹

1. See the INE website on this topic: https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_cnacionais_metodb2021.

Company accounts from a production perspective



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

Companies' energy bills and the impact of a shock

What portion does energy account for in a company's bills? Globally, energy expenditure represents 8% of production and 20%² of GVA. Within energy expenses, 41% relate to electricity and 59% to other sources.³ These are average values, but there are sectors where energy expenditure is more heavily concentrated in a particular source. For example, in the restaurant sector, 81% of energy expenditure is on electricity, and it's a similar situation in the accommodation sector (74%). When we talk about other sources (excluding electricity), the levels of concentration of energy expenditure are even higher, with a large number of sectors sitting above 90%. Specifically: Land transport, Postal activities, Forestry, Specialized construction activities, Fishing, Activities related to buildings and garden maintenance. Given the nature of these sectors (with transport leading the way), it seems clear that when we talk about other energy sources (excluding electricity), the burden will fall more heavily on fuels.⁴

But which sectors' GVA is most exposed to large variations in electricity and fuel prices? This data can be seen in the second graph.

The difference in the proportion of weighting between these two energy sources suggests what we already

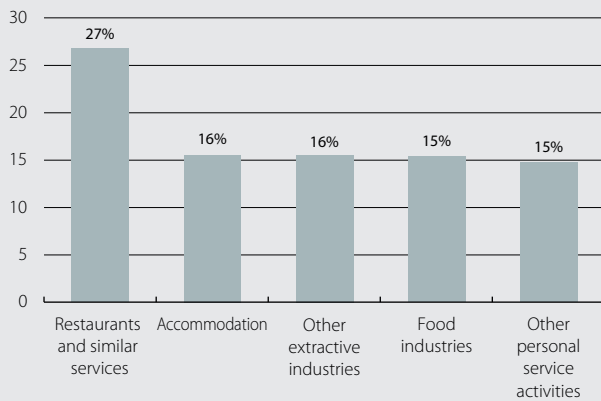
2. 8% of expenses are on electricity and 12% on other energy sources.

3. For the distribution of weighting in this study, we used the data from the article by Amador, J.; (2022). «Energy mix and intensity in Portugal: snapshots with aggregated and company data», Bank of Portugal.

4. For the sake of simplification and due to the lack of finer detail, from this point forward in this article we will assume that other energy sources, excluding electricity, refer to fuels.

Top 5 sectors with the highest electricity expenses

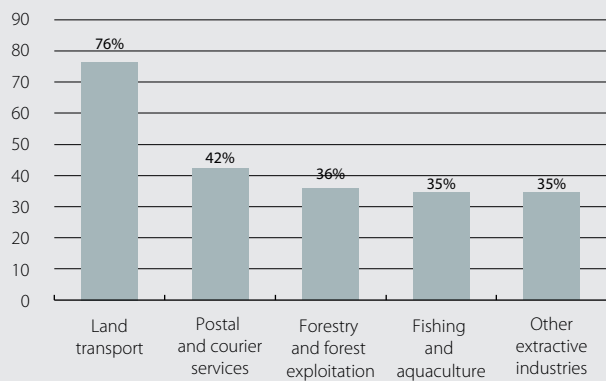
(% do VAB)



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

Top 5 sectors with the highest fuel expenses

(% do VAB)



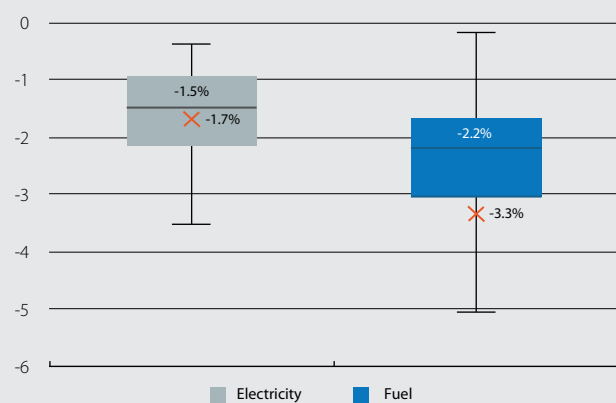
knew—a shock in fuels has the potential for a greater magnitude in the profitability of Portuguese companies than a surge in electricity prices. This idea is confirmed when we assess the potential erosion of another profitability measure (GOS) as a result of a 10% increase in electricity or fuel expenses. The results are summarised in the third graph. On average, a 10% increase in electricity prices translates into a 1.7% reduction in companies' EBITDA, and a 10% increase in fuel prices translates into a 3.3% reduction. The medians are also represented in the box plot graph (–1.5% and –2.2%, respectively). The reason the difference between the median and the mean is greater in the case of fuels is due to the existence of pretty extreme outliers, that is, the existence of sectors where a 10% increase in fuel spending translates into a much greater erosion of GOS. These points are not represented in the graph, but we can point to, for example, Land transport –29.4%), Postal and courier activities (–24.1%), Activities related to buildings, planting and maintenance of gardens –9.9%), Fishing –9.5%), and Research and security activities –9.1%).

The conflict in the Middle East has been particularly damaging to Brent crude oil prices. Iran has the third-largest proven crude oil reserves and produces 3 million barrels/day, Saudi Arabia produces 10 million barrels/day, and 25% of the world's oil is transported through the Strait of Hormuz. Tanker traffic in the Strait of Hormuz is controlled by Iran and, at the time of writing, is practically paralysed. With this scenario in mind, we simulated the impact of Brent crude oil rising to \$100 from the \$69⁵ that was seen in the days leading up to the conflict. The assumption of this simulation is that this increase translates, with the same magnitude, into an increase in fuel expenses, *ceteris paribus*. For the business sector

5. The price at which Brent was trading in the days leading up to the start of the conflict.

Erosion potential in Gross Operating Surplus

Variation resulting from a 10% increase in expenses (%)



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

Sectors most impacted by an oil shock

Sector	Δ GVA (%)	Δ GOS (%)
Land transport	-34	-133
Postal and courier services	-19	-108
Forestry and forest exploitation	-16	-33
Fishing and aquaculture	-16	-43
Other extractive industries	-13	-29
Water transport	-12	-26
Agriculture, animal production and hunting	-12	-14
Rental services	-9	-13
Sports, entertainment and recreational activities	-8	-33
Collection, drainage and wastewater treatment	-8	-13
Activities related to buildings and garden maintenance	-7	-45
Research and security activities	-5	-41
Employment activities	-1	-25

Note: We selected the 10 sectors with the greatest erosion of GVA and GOS (which in most cases is the same).

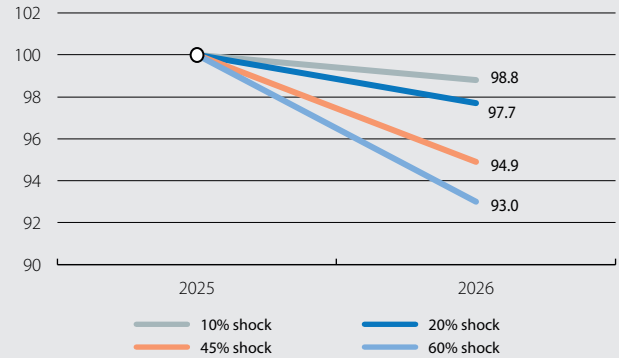
Source: BPI Research, based on data from the National Institute of Statistics.

as a whole, this exercise results in average declines of 5% in GVA and 13% in EBITDA. We can see the extent of the deterioration of these metrics in the worst affected sectors in terms of GVA and/or EBITDA from the chart.⁶ Land transport is the most impacted sector and the one at greater risk of generating negative results, which could only be mitigated by increasing the price of these services or reducing other costs. It is evident that an energy shock has the potential to be reflected in consumer price increases, given that transport services are an input to many other activities.

We extended this exercise to gain a perspective on the aggregate impact on the GVA of national companies, that is, by weighting the GVA of each sector in the overall GVA⁷ and also shocks of different magnitudes. Thus, a 45% shock to pre-war in Iran fuel prices would have an estimated reduction in companies' GVA of 5.1%, and a 60% shock (implicitly placing Brent at USD 110/barrel) would shrink aggregate GVA by 7%.

Tiago Belejo Correia

Impact on companies' GVA resulting from fuel price shock
(2025 level=100)



Note: A 45% shock corresponds to the shock associated with an increase in Brent to USD 100 vs. the pre-Iran war Brent price being fully reflected in the fuel price at the pump.
Source: BPI Research, based on data from the National Institute of Statistics.

6. Sometimes the sectors with the greatest erosion of GVA and GOS do not coincide due to the relative weighting of remuneration versus energy expenses in the operating account.

7. For the sake of simplification, we considered the sectors that represent 60% of the GVA of the SNF and assigned an overall average reduction in GVA associated with the shock to the remaining sectors.

Outlook for domestic tourism in 2026

In 2025, tourist accommodation establishments in Portugal received 32.5 million guests and 82.1 million overnight stays, reflecting annual growth of 3.0% and 2.2%, respectively. The increase in total revenue was stronger (+7.2%), due not only to inflation in services associated with travel and tourism, but also to the rise in the value chain (higher revenue growth in tourist accommodation establishments in higher segments). In recent years we have consistently anticipated record numbers in the sector, which have now been confirmed. Will this trend continue in 2026? That is what this article intends to clarify.

Scenario for 2026

We have drawn up a scenario for the evolution of the sector in 2026 based on the latest data, the observation of dynamics and also on some know-how from external sources. We started from an «endogenous» scenario (the one that would exist in 2026, *ceteris paribus*, resulting from the data and dynamics observed) and we then considered some «exogenous» effects to which we assign a weight/impact as an add-on in order to arrive at the final figures.

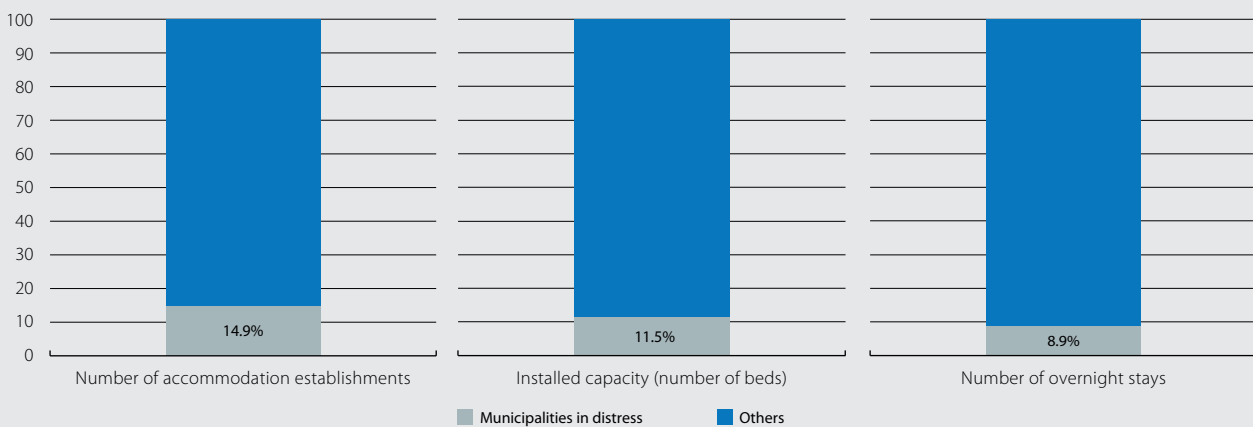
According to the United Nations, the sector is expected to grow between 3% and 4% globally in 2026,¹ leveraged by the recovery of tourism in Asia and the Pacific, the maintenance of favourable global economic conditions, the continued reduction of inflation in tourism services, and assuming that geopolitical conflicts do not intensify. The expectations of a panel of experts in a survey by this organisation points to a positive year, albeit below those recorded in the same survey for 2025. In our «endogenous» scenario, we estimated overall guest growth in Portugal of 3.4% in 2026, in the lower half of the 3% to 4% range. There are several aspects contributing to this rationale. First, the position in the cycle. While tourism in other parts of the

world is still in a phase of strong post-ovid expansion/recovery, in Portugal that path has already been trodden (among EU countries we have some of the greatest variation compared to this period) and we are now in a phase of consolidation. On the other hand, value for money continues to be the main concern for travellers, and in this respect Portugal does not compare well in one part of the equation when we look at the price factor.² Finally, there is a strong, dynamic performance and outlook in some countries of the Mediterranean basin competing directly with Portugal – Albania, Malta, Montenegro and Türkiye. The evolution in the number of flights at national airports, a proxy for the evolution of international tourism, is consistent with this view, with year-on-year growth of 3.3% recorded in January. Air capacity has also been increasing, taking into account data for 2026. In January, the number of routes and seats increased year-on-year by 4.5% and 4.0%, respectively. In February, they increased by 2.9% and 1.8%, respectively. The forecast for the number of places we consulted in «TravelBI» (from Turismo de Portugal («TdP»)) point to year-on-year growth rates above 3% during the peak summer season.

One add-on that we considered in the overall value of the final forecast is associated with the expansion of hotel supply. According to TdP data, the number of hotels opening in the near future is 76, corresponding to 4,268 rooms and 8,154 beds.³ Taking the room pipeline as a reference, the completion of these hotels would result in a total increase in accommodation capacity in EATs of 2%. As an assumption, we suppose the entry of 20% of TdP’s pipeline into operation in 2026, with an occupancy rate of 50%, resulting in a 0.2% increase in tourists. The other add-on, in this case to be subtracted from «endogenous growth», is related to the effect of the storms and floods

Representativeness of municipalities in distress in the tourism sector

(%)



Source: BPI Research, based on data from INE.

1. See World Tourism Barometer – volume 24, Issue 1, January 2026. Note: This study predates the conflict with Iran.
2. See Focus «Portugal’s position in the Travel & Tourism Development Index» in the IM09/2024 report.
3. Tourism Development Projects that received a favourable opinion from TdP and were scheduled for dispatch in 2024 and 2025.

that occurred in late January and February across the country. In this context, a state of calamity was declared in 68 municipalities accounting for 17% of the resident population. In these municipalities, tourist accommodation is not the most important activity, but it is not negligible either. In 2025, these municipalities accounted for 14.9% of active establishments (1,263), 11.5% of installed capacity (58,300 beds), and 8.9% of overnight stays in the country (7.3 million). The effect we estimated subtracts 0.8% from the «endogenous scenario».⁴ Thus, our forecast for the evolution in the number of guests in 2026 is 2.8%, a slight slowdown compared to the 3% recorded in 2025.

By geography, the scenario assumes growth in resident guests of around 3% (4.7% in 2025), mindful of the expectation of moderate growth in real wages and the search for value for money, which could divert some tourism abroad or to accommodation options not covered by the INE statistics that we use as a basis for our forecasts.⁵ The conflict in the Middle East could make trips to some more distant destinations more expensive, benefiting domestic tourism, and that is also why our forecast for growth in resident guests is stronger than our forecast for growth in non-resident guests.

On the non-resident side, the US and Canadian source markets are expected to continue to moderate their growth rate, with increases of +2% and +3%, respectively. This moderation is mainly based on the occurrence of a major sporting event involving both countries (the 2026 FIFA World Cup), which should boost domestic tourism. The prolonged conflict in the Middle East is also contributing to a slowdown in long-haul tourism due to the increased cost of air travel (associated with rising fuel costs).

How will this translate into macroeconomic aggregates? The latest data available from the tourism satellite account refers to 2024. Here, it is estimated that tourism consumption represented 16.6% of Gross Domestic Product (GDP), maintaining the relative share of GDP observed in 2023. Tourism Consumption in the Economic Territory (CTTE) and Gross Value Added to Tourism (VABGT) reached €47.2 billion and €20.1 billion, respectively, representing a nominal increase of 6.5%.

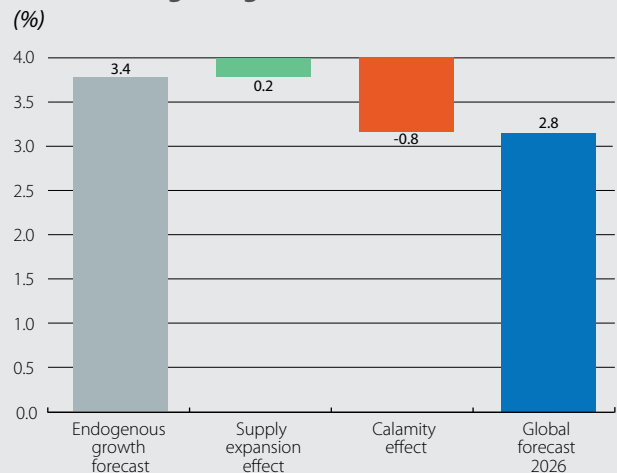
Given that we already have data for GDP, GVA, and tourism exports for the entirety of 2025, and projections for tourism and GDP for 2026, using econometric models we attempted to approximate the evolution of tourism GVA and the contribution of tourism in terms of GDP. Thus, we anticipate that tourism will have increased its share of GDP again in 2025 (from 16.6% to 17%) and will continue to do so in 2026 (to 17.5%), reaching a GVA of €23.1 billion in that year.

Tiago Belejo Correia

4. Here the assumptions are a 100% drop in guests in February in the municipalities under a state of emergency in the Leiria region and a 70% drop in the following three months, and an 80% drop in guests in February in the remaining municipalities under a state of emergency, excluding those in the Leiria region.

5. In the case of AL, the series only include establishments with at least 10 beds (statistical threshold laid down in EU Regulation 692/2011).

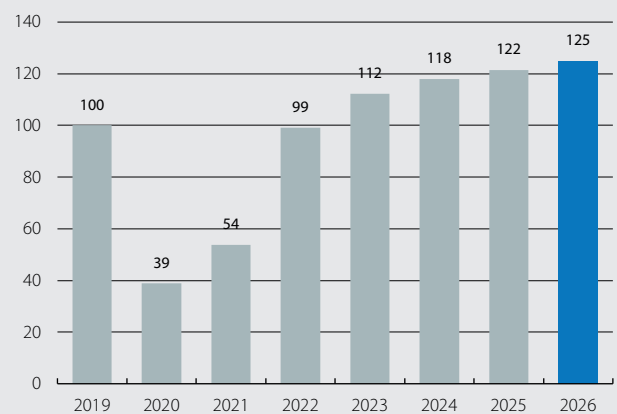
Forecast for guest growth in 2026



Source: BPI Research forecasts.

Number of guests

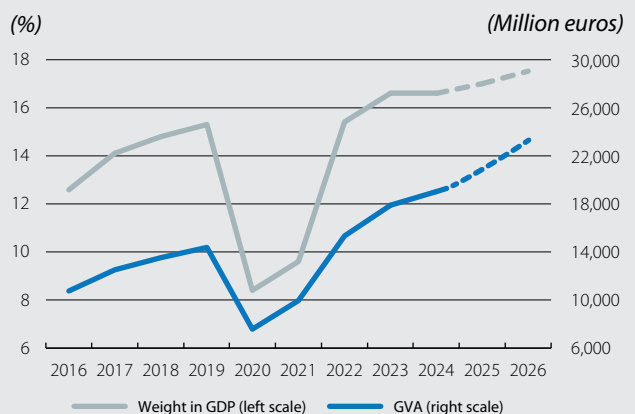
(2019 Level = 100)



Note: Data for 2026 refer to forecasts from BPI Research.

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

Portugal: Tourism GVA and Weight of Tourism in GDP



Note: Data for 2025 and 2026 refer to forecasts from BPI Research.

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

The performance of Portuguese industry: sectoral dynamics, competitiveness and reindustrialisation

Like most European economies, Portugal underwent a natural process of deindustrialisation at the end of the last century, with the tertiary sector becoming increasingly key for economic activity and employment. In 2024, and according to the long-term data series from INE, these industries¹ produced a gross value added (GVA) that represented only 13.3% of nominal GDP, a considerably lower figure than the one seen up until the early 1990s (consistently more than 20%). This process signified the transition to what is considered a more developed economy, given the strengthening of the tertiary sector, one of the consequences being the loss of external market share in strategic industries (for example, textiles) to other countries where business conditions or production costs were more competitive (namely Asian countries, such as China),² as we have seen across most of Europe.

This situation is reflected in the limits to competitiveness that the business structure³ is facing, which means that revitalising Portuguese industry, along with increased investment in innovation, becomes crucial to creating a solid foundation on which the economy can grow in a sustainable way in the medium to long term and mitigate its exposure to the volatility of international markets. This proves particularly relevant in the current context of high geopolitical uncertainty, reinforced by the escalation of tensions in the Middle East and the paralysis of energy trade through the Strait of Hormuz, which has accentuated the upside risks to inflation and the downside risks to activity and external demand.

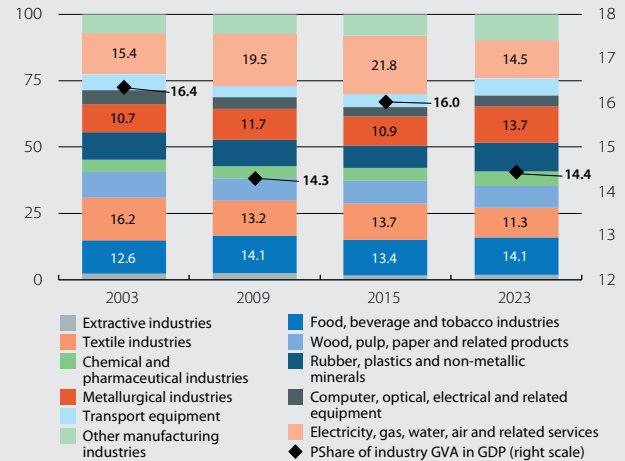
In this article, we analyse the evolution of the value created by the main industries, the dynamics in foreign trade, and whether there has been a strategic reorientation towards segments with greater productive and innovative potential.

The value created by industry

Between 2003 and 2023, the GVA generated by industry increased by 63.4% to approximately €39 billion. The sector that contributed most to the increase in absolute terms was the metallurgical industry (+€2.7928 billion; +108.8%), becoming the third-largest industry with a

1. Including extractive and manufacturing industries, and electricity, gas, water, air and related resources, herein referred to as public utilities.
 2. See the article in the ECB Economic Bulletin: «Past and future challenges for the external competitiveness of the euro area» (https://www.ecb.europa.eu/press/economic-bulletin/articles/2024/html/ecb.ebart202406_01~3639959dc2.en.html).
 3. See Focus in IM09/2025: «The limits to the productivity and competitiveness of Portuguese companies» and in IM10/2025: «The competitiveness of Portuguese companies – a sectoral perspective».

Composition of the GVA generated by industries (% of total industries) (% of GDP)



Source: BPI Research, based on data from Statistics Portugal.

representation of 13.7% (+3.0 pp) of total GVA in the sector, through a large increase in gross fixed capital formation (GFCF). Public utilities did not see any major changes (GVA increased by 54% over the same 20-year period), continuing to be the largest sector, although with decreasing relevance (14.5%; -0.9 p. p.). The food industries stood out positively (+82.9%), becoming the second-largest core sector (14.1%; +1.5 pp), which is also significant given that the country has some external dependence on this type of goods. Meanwhile, the textile industry, whose position has been impacted by increased competition from imported products and overtaken by the food industries, are in decline, with GVA growing by only 14.5% and their share falling by 4.8 pp to 11.3%.

In addition to metallurgy, the main highlights are pharmaceuticals (whose GVA increased by 171.9% since 2003 and its respective share by +1.0 pp to 2.5%) and transport equipment (+74.4%; +0.4 pp to 6.3%), high and medium-high technology intensity industries that contribute to strategic specialisation in more internationally competitive areas.

Dynamics in external demand

Exports of industrial goods increased over the last two decades (+151.7% between 2005 and 2025), but have recently stagnated due to the lower contribution of sectors such as textiles, wood, pulp, paper and related products, coke and refined petroleum products. The food industries provided the largest contribution to the accumulated variation (+22.0 pp and a share of 11.2% in 2025), associated with the dynamism of agriculture. Transport equipment also made a significant contribution (20.7 pp) and has the largest share of total exports (13.7%)

despite this having decreased, being associated with the dynamism of the automotive industry, although this industry needs greater investment in innovation and efficiency. The main recent highlight is the increased importance of the pharmaceutical industries and of computer, optical and related products, due to the boost given by European funds to stimulate the competitiveness of the secondary sector, reorienting it towards segments that are more intensive in technology, knowledge and with higher added value.

Despite the dynamism in external demand, particularly in sectors relevant to the country's strategic autonomy or those with higher technological intensity, some structural obstacles remain. The trade balance for industrial goods has worsened in recent years to –€26.6989 billion (equivalent to –8.7% of GDP),⁴ reflecting persistent external dependence and significant exposure to supply shocks.

Strategies for competitiveness and reindustrialisation

In retrospect, there has been a positive evolution in value creation by the secondary sector and an increase in the relevance of more technologically advanced and knowledge-based industries, such as pharmaceuticals, technology, and the automotive industry. However, we see room for new developments, given that the economy is still concentrated on tourism and the productive structure continues to rely significantly on low value-added segments.

Thus, there is a consensus that reindustrialisation, taking into account both the energy transition and the digital transition, plays a crucial role in the pursuit of strategic autonomy and sustained growth. For this, Portugal has a number of favourable conditions, including a significant improvement in the proportion of skilled labour,⁵ a privileged geographical location (and a vast Exclusive Economic Zone to explore), hegemony in the production of renewable energies⁶ and a solid base of public financial support.

The PRR has financed the competitiveness of industry through the Mobilising Agendas, reinforcing the capacity for modernisation and internationalisation of companies, which could be maximised this year by entering the final phase of its execution. In the pillar of resilience,

Exports of goods from industries: contributions to the cumulative variation and share

	Contribution to the variation in exports from industries (pp)				Share in total exports (%)		
	2005-2019	2019-2025	2024-2025	2005-2025	2005	2015	2025
All industries	91.5	31.4	0.2	151.7	97.4	97.1	96.2
Extractive industries	1.2	0.8	-0.1	2.7	1	1.1	1.4
Food, beverage and tobacco industries	11.2	5.6	-0.2	22	7.2	10	11.2
Textile industries	6.3	0.7	0	7.7	17.1	13.7	9.6
wood, pulp, paper, cardboard and related products	5.4	1.3	-0.3	7.9	8.2	7.7	6.2
Coke and refined petroleum products	7.4	0.3	-1.6	7.9	3.5	7.2	4.4
Chemical industries	5.1	0.3	-0.3	5.6	6	5.7	4.5
Pharmaceutical industries	3	6.5	1.9	15.4	1.1	1.9	6.3
Rubber and other non-metallic minerals	8.9	2.7	-0.1	14.1	7.9	9.5	8.5
Metallurgical industries (except machinery and equipment)	8.2	2.9	-0.2	13.8	8.2	9	8.5
Machines and equipment	4.4	0.7	0.4	8.9	4.4	4.6	5.1
Computer, optical and related equipment	2.9	3	-0.3	8.6	9	3.8	6.8
Electrical equipment	3.7	1.8	0.6	7.2	4.6	5.5	4.5
Transport material	18.1	1.3	0.4	20.7	14.7	12	13.7
Other manufacturing industries	4.6	1.1	0	6.7	3.4	4.1	3.9
Electricity, gas, water, air and related services	1.2	0.8	0	2.6	1.1	1.1	1.4

Source: BPI Research, based on data from Statistics Portugal.

the level of qualification of the workforce and the automation of processes has accelerated.⁷ The digital transition pillar reduces technological asymmetries, especially among SMEs, with the component «Empresas 4.0». At the same time, it encourages decarbonisation and energy efficiency through the climate transition pillar. The COMPETE 2030 Programme complements the PRR in the areas of research and development, new products, knowledge transfer, and strengthening industrial policy on intangible assets. It should also be noted that the recent conflict between the US, Israel and Iran, and the consequent increase in oil and natural gas prices, may negatively impact the performance of some industries that are more exposed to energy consumption, particularly the chemical industry, rubber, plastic and non-metallic minerals industry, and the wood, pulp, paper and related products industry.

Tiago Miguel Pereira

4. –€8.0694 billion (equivalent to –4.5% of GDP) in 2015.

5. For example, according to Eurostat, the gap in the proportion of workers with at most basic education in total manufacturing employment between Portugal and the EU decreased from a 52 percentage point difference to 28 percentage points between 2011 and 2024. The same is true for extractive industries (62 pp to 39 pp).

6. See Focus in IM02/2026: «The energy market in Portugal is on a solid and adaptive trajectory, but energy poverty still exists».

7. The new line «Reindustrialise» is added, with an initial allocation of €150 million, managed by the national development bank.

Activity and employment indicators

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

	2024	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	01/26	02/26	03/26
Coincident economic activity index	2.0	2.0	1.8	2.0	2.2	...	2.1	2.1	...
Industry									
Industrial production index	0.8	0.5	1.2	2.8	0.3	...	0.4	-4.4	...
Confidence indicator in industry (<i>value</i>)	-6.2	-4.0	-4.8	-3.4	-2.8	-2.0	-1.4	-2.1	-2.4
Construction									
Building permits - new housing (number of homes)	6.5	20.6	20.1	8.9	16.0	...	-16.9	...	...
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	...	18.7	17.2	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	6.3	1.9	4.1	2.6	1.9	...	1.6	1.7	...
Confidence indicator in services (<i>value</i>)	5.6	10.1	6.6	12.9	8.4	4.9	4.7	5.0	5.0
Consumption									
Retail sales	3.3	4.8	4.8	5.4	4.4	...	4.4	4.9	...
Coincident indicator for private consumption	2.8	3.4	3.5	3.1	3.1	...	3.2	3.1	...
Consumer confidence index (<i>value</i>)	-18.0	-16.2	-17.9	-16.2	-15.2	-16.2	-14.7	-15.3	-18.7
Labour market									
Employment	1.2	3.2	2.9	3.7	3.7	...	2.6	2.0	...
Unemployment rate (<i>% labour force</i>)	6.4	6.0	5.9	5.8	5.8	...	5.6	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	01/26	02/26	03/26
General	2.4	2.3	2.2	2.6	2.2	2.2	1.9	2.1	2.7
Core	2.5	2.2	2.3	2.3	2.1	1.9	1.8	1.9	2.0

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	01/26	02/26	03/26
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	0.6	4.2	2.0	0.6	...	-1.6	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	4.0	7.0	6.7	4.0	...	3.1	...	...
Current balance	6.5	3.8	3.5	3.0	3.8	...	3.4	...	...
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	...	0.0	...	...
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	01/26	02/26	03/26
Deposits¹									
Household and company deposits	7.5	5.4	5.4	6.3	5.4	...	5.0	5.1	...
Sight and savings	-0.3	8.1	5.1	8.6	8.1	...	7.5	8.0	...
Term and notice	15.3	3.1	5.8	4.3	3.1	...	2.8	2.6	...
General government deposits	26.7	28.7	39.6	-0.5	28.7	...	25.3	29.2	...
TOTAL	7.9	6.0	6.4	6.1	6.0	...	5.6	5.9	...
Outstanding balance of credit¹									
Private sector	1.9	6.6	4.9	5.8	6.6	...	6.7	6.8	...
Non-financial firms	-1.0	2.6	2.0	2.2	2.6	...	2.3	2.7	...
Households - housing	3.0	9.3	6.4	8.0	9.3	...	9.6	9.6	...
Households - other purposes	5.4	7.0	6.6	6.9	7.0	...	7.1	7.2	...
General government	0.6	6.4	3.8	4.8	6.4	...	5.2	4.9	...
TOTAL	1.9	6.6	4.8	5.7	6.6	...	6.6	6.7	...
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.

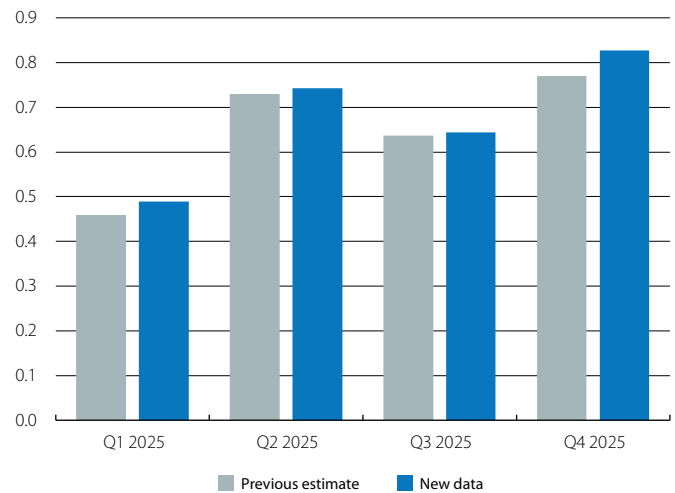
The Spanish economy endures

Geopolitical instability complicates the macroeconomic scenario. The complex international context of recent years has once again been shaken by the war in the Middle East, accentuating the downside risks to our scenario, particularly due to the rising cost of energy. Although it is still early to assess its impact on the economy, given the significant uncertainty about its duration and scope, we are facing the situation from a relatively favourable starting point: the Spanish economy showed very robust dynamics at the end of 2025, which led us to revise our GDP growth forecast for 2026 upwards to 2.4% in February, prior to the outbreak of the crisis. Furthermore, the economic activity indicators for Q1 have remained buoyant. Added to this is the reduction of the budget deficit and of external indebtedness in recent years – distinguishing factors compared to previous crises.

At CaixaBank Research, we estimate that if the rise in energy costs is temporary and moderate, in line with what oil and gas futures indicated during the month of March, then the growth forecasts for the Spanish economy would only be weakened by a few percentage points. Even so, the impact would not be uniform across the entire economy, with energy-intensive industry and the transport and agrifood sectors being the hardest hit. The effect would be less pronounced than in the euro area, given Spain's lower dependence on energy flows originating in the Middle East (around 5% of the oil and less than 2% of the liquefied natural gas arriving in Spain passes through the Strait of Hormuz) and the greater weight of renewables in the energy mix. Additionally, to mitigate the effects of the crisis, the government has approved a package of measures valued at around 5 billion euros, which includes tax reductions on fuels, gas, and electricity production, as well as direct aid to sectors and households (see the Focus «The crisis in Iran: how much could it affect the Spanish economy?» in this same report). In any case, it will be necessary to closely monitor how the conflict develops, whether the war is resolved quickly or becomes prolonged and, above all, the severity of the damage caused to energy infrastructure.

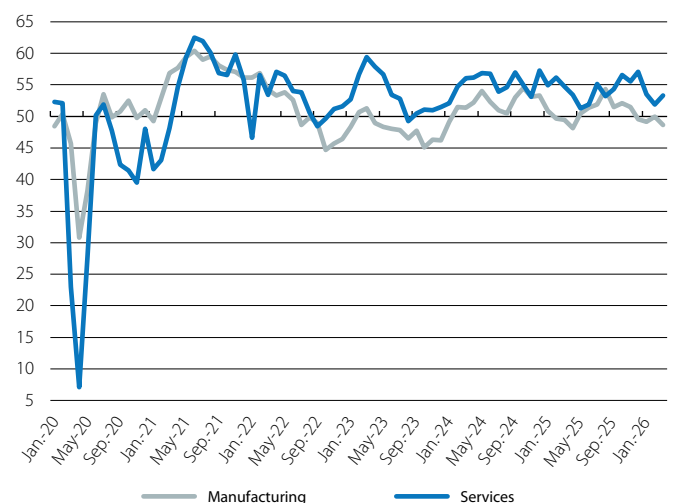
Economic activity indicators point to dynamic growth in Q1. Adverse weather conditions and disruptions to rail traffic hampered economic activity at the start of the year, but it has gradually picked up and the quarter ended up closing with dynamic growth. On the services side, the PMI index rebounded in March to 53.3 points, offsetting much of the decline experienced in February: it stands 3.5 points below the previous quarter's level, but still indicates notable growth in the sector (above 50 points marks expansion). The manufacturing PMI, for its part, fell by 1.8 points on average in Q1 compared to Q4 2024, reaching 49.3 points, indicating a potential decline in the industrial sector driven by increasing uncertainty. On the consumption side, retail sales excluding service stations, in volume and seasonally adjusted terms, fell by 0.4% in January-February compared to the average for Q4 2025, marking the first decline since Q1 2023. However, the CaixaBank Research Consumption Tracker, with data for

Spain: GDP
Quarter-on-quarter change (%)



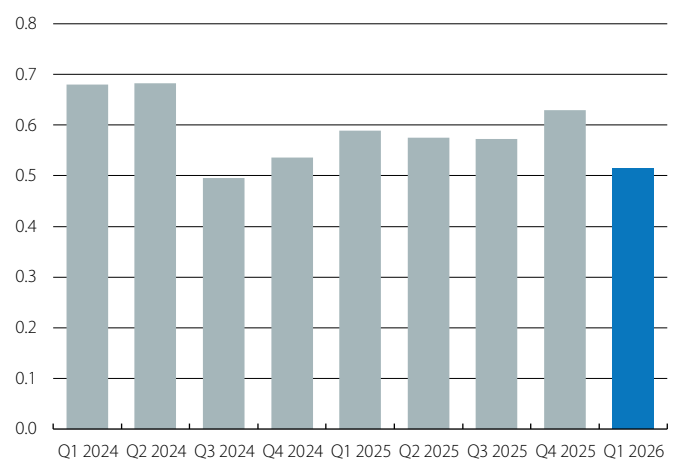
Source: BPI Research, based on data from the National Statistics Institute (INE).

Spain: PMI
Level



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

Spain: Social Security affiliates
Quarter-on-quarter change (%)



Note: Seasonally adjusted series.

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

the entire quarter, grew 3.5% year-on-year. This falls short of the 4.6% recorded in the previous quarter, although the monthly profile is particularly revealing: in January it grew by a robust 4.0%; in February it plummeted to 1.8%, largely due to the bad weather in the first half of the month; and in March it rebounded to 4.7%. Overall, the available indicators suggest GDP growth in Q1 of around 0.4%-0.5% quarter-on-quarter.

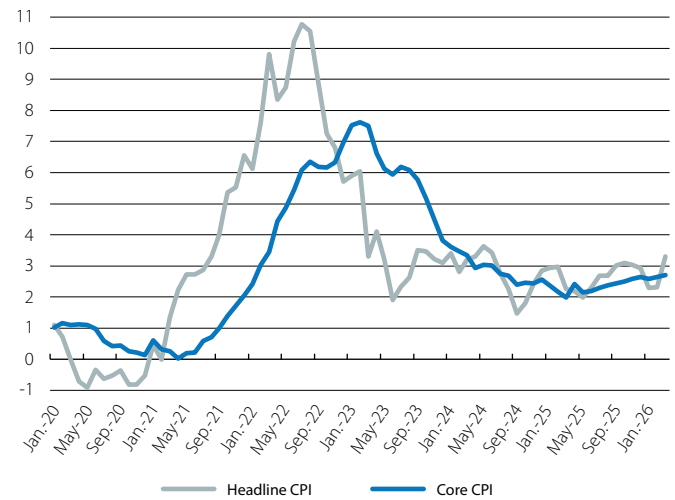
Employment remains robust in March. The number of Social Security affiliates increased by 211,511 people in March (0.98% month-on-month), slightly above the usual growth for this month in recent years (0.91% on average in 2023-2025). Thus, in Q1 as a whole, affiliation in seasonally adjusted terms registered a slight deceleration of 0.1 pp in its growth rate, placing it at 0.5% quarter-on-quarter.

Where the impact of the conflict in the Middle East and the government's measures is most evident is in the rise in inflation. According to the CPI flash estimate, headline inflation stood at 3.3% in March, 1 point higher than the previous month. However, the rebound would have been even greater without the measures adopted by the government, approaching 4.0%. Core inflation, which excludes energy prices, remained at 2.7%, but if the conflict is prolonged and the pressures on energy costs persist, it could also be affected. The rise in energy prices introduces upside risks to our inflation forecast. The forecast scenario anticipates an inflation rate of 2.4% for the year as a whole, but it could be around 3% if oil and gas prices follow the pattern anticipated during March by the futures markets, although the recently announced truce, if consolidated, could moderate the extent of the increase.

The reduction of the budget deficit in recent years helps to face the new shock. The general government deficit stood at 40.33 billion euros in 2025 (2.4% of GDP), which is 0.8 pps less than the previous year and the best figure since 2007. In this way, the deficit improved on the government's target by 0.1 pp. If we exclude the budgetary impact derived from the floods in Valencia, which does not count in terms of the European fiscal rules, then the deficit decreases from 2.9% to 2.2%.

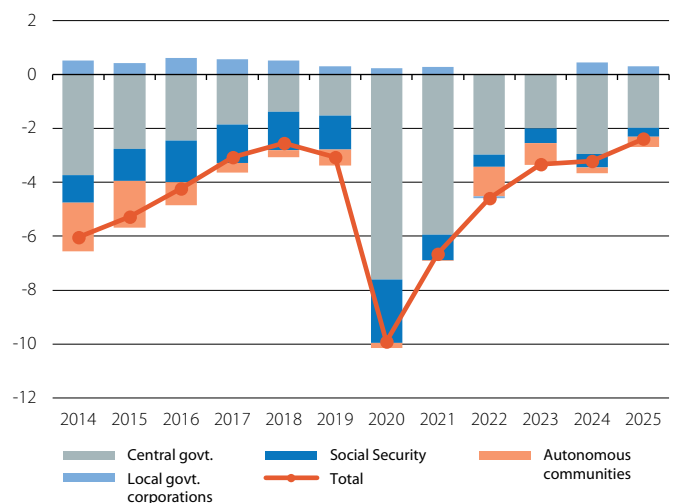
External indebtedness remains relatively low and is another distinguishing factor compared to previous crises. The deficit of the net international investment position (NIIP, referring to the balance of financial assets and liabilities vis-à-vis the rest of the world) increased by 3.8 pps in 2025, reaching 44.8% of GDP. Nevertheless, it remains low compared with previous years (-83.6% on average in 2014-2019) and far from the historical peak of 2009 (-97.2%). The deterioration was exclusively the result of a negative valuation effect, linked to prices and the exchange rate (the increase in value and the appreciation of the euro impacted liabilities more than assets), while net financial transactions were positive (assets increased more than liabilities). Gross external debt (the balance of liabilities that generate future payment obligations) increased slightly to 163.6% of GDP (162.9% in 2024), although it remains below the 2019 level (168.6%).

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



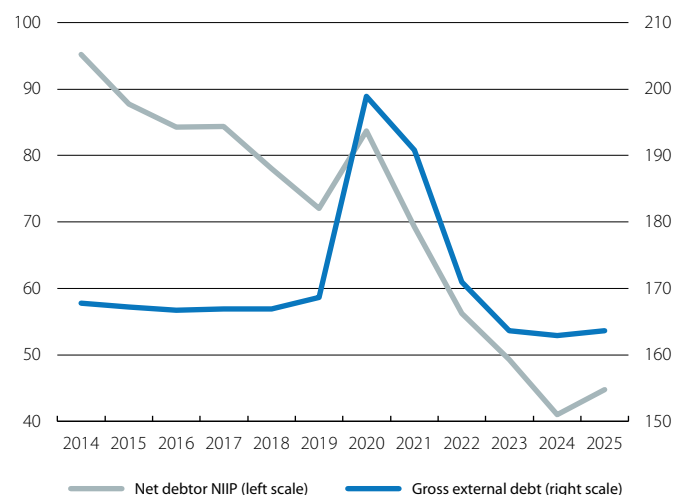
Source: BPI Research, based on data from the National Statistics Institute (INE).

Spain: general government balance
(% of GDP)



Source: BPI Research, based on data from the Ministry of Finance.

Spain: Net debtor NIIP and gross external debt
(% of GDP)



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

Spain in the face of the new energy shock: a comparison with Europe

The recent escalation of the conflict in the Persian Gulf, with the outbreak of the war in Iran, has once again placed energy at the centre of the global economic agenda. Although the scope and duration of the conflict remain uncertain, markets, especially those for oil and natural gas, have reacted swiftly. In this context, we analyse where the Spanish economy stands in the face of this new energy shock.

From a supply perspective, one of Spain's main strengths is its low direct exposure to the Persian Gulf. Around 10% of the country's oil imports come from the region (mainly from Saudi Arabia and Iraq), while for natural gas this percentage is less than 2%, primarily from Qatar. This limited dependency reduces the risk of physical supply disruptions. However, the global nature of these markets means that a sustained increase in geopolitical tensions is reflected in prices regardless of the origin of the imports.

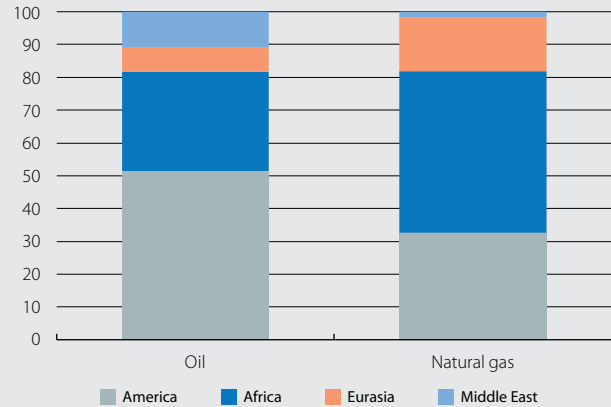
Compared to the EU as a whole, Spain has a slightly lower exposure to the Persian Gulf, but a greater dependence on Algeria and Nigeria for oil and gas imports, as well as on the US in the case of gas. The important role of Algeria as a source of gas imports represents a comparative advantage, as it is primarily transported via pipeline. This type of supply is less likely to be redirected to other markets and, therefore, tends to be more stable than liquefied natural gas (LNG). Moreover, this lower capacity to be redirected, together with the absence of costs associated with liquefaction and regasification, tends to result in a lower price compared to LNG.

Another relevant structural factor is the accumulated improvement in the energy efficiency of the Spanish economy. Since the beginning of the century, energy intensity, measured as the amount of energy required to generate 1,000 euros of GDP at constant prices, has decreased by about a third. This progress helps to cushion the macroeconomic impact of rising energy costs by limiting the increase in production costs and, ultimately, in final prices. Opposing these favourable elements, Spain's main weakness remains its high energy dependency on foreign sources: 70% of the country's energy needs must be met through imports, a rate that is only 5 percentage points lower than at the turn of the century.

In terms of energy intensity, Spain is very close to the European average. Where significant differences are observed is in the total energy dependency, which is higher in Spain than in the rest of Europe. As we can see in the fourth chart, Spain meets its energy needs to a greater extent with imported petroleum products,

Spain: oil and gas imports

(% of the total)

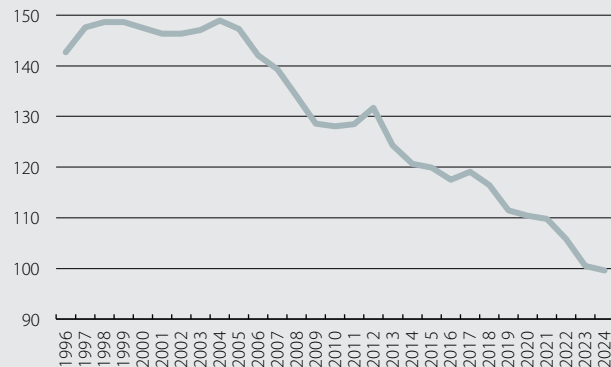


Notes: Data from 2025. Percentage of the total in volume terms.

Source: BPI Research, based on data from CORES.

Spain: energy intensity

(Units of energy per 1,000 euros of GDP at constant prices)

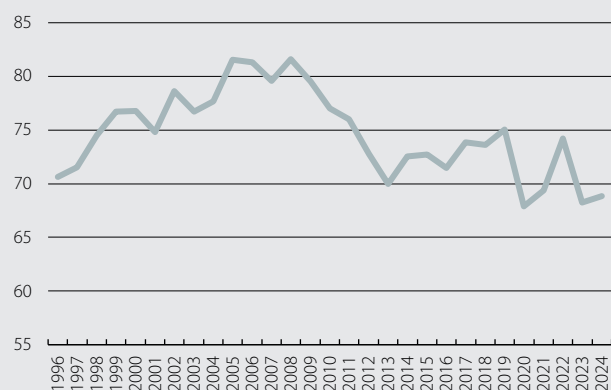


Notes: Energy measured in kilograms of oil equivalent. The numerator corresponds to the gross available energy (primary production, recovery and recycling, net imports and change in inventories).

Source: BPI Research, based on data from Eurostat.

Spain: energy dependency

Net energy imports over gross available energy (%)



Note: Gross available energy includes primary production, recovery and recycling, net imports and change in inventories.

Source: BPI Research, based on data from Eurostat.

whereas in the rest of Europe these are largely met with coal, of which there are significant reserves on the continent, particularly in Germany and Poland.¹

The electricity market: the Iberian exception

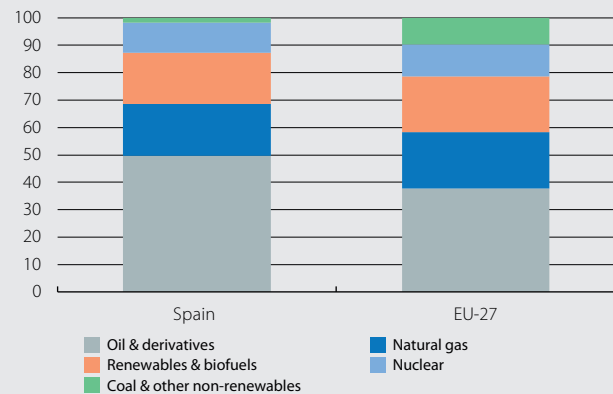
The wholesale electricity market is one of the main strengths of the Spanish economy in the energy sector relative to the rest of Europe. Unlike oil or gas, the European electricity market is less homogeneous, so external shocks are not transmitted in the same way across all countries.² Despite the energy tensions, the wholesale price of electricity on the Iberian Peninsula actually decreased in March in year-on-year terms, unlike in other European countries, and it was also well below the levels observed in Northern Europe (see fifth chart).³

This pattern is mainly due to the greater share of renewable energies in electricity generation on the peninsula. The European electricity market operates under a marginal system, where the technology that is required to cover the last unit of demand is the one that sets the price. The greater presence of renewables in our economy means that there are more time slots during the day when this source becomes the marginal energy. Given that renewable energies have very low marginal costs, especially compared to natural gas combined cycle power plants, this tends to reduce the price.⁴

Overall, although the war in Iran introduces a new focal point of tension in international energy markets, the limited direct exposure to the Persian Gulf, advances in energy efficiency, and advantages in the electricity market all place the Spanish economy in a favourable position to absorb the shock. However, the country's high dependence on foreign energy remains a source of vulnerability. This balance indicates that, although Spain remains exposed to a price shock, it has certain structural elements that could mitigate its impact compared to recent episodes.

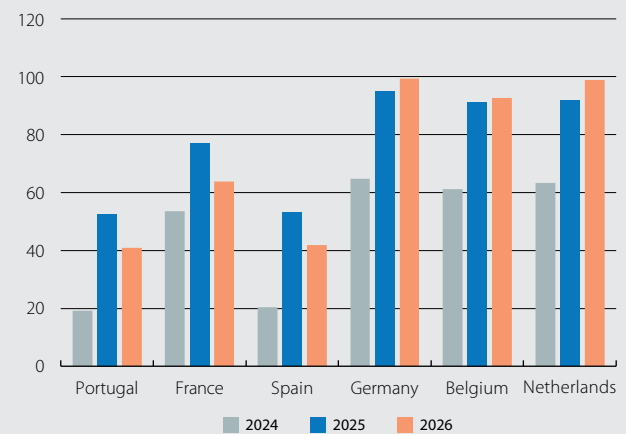
1. It may be surprising that the combined weight of renewable energies and biofuels in the gross available energy is not greater in Spain, given its relative advantage in electricity generation. This apparent discrepancy is explained by the fact that electricity generation is only one part of the total energy system, while other uses such as transport continue to show a high dependence on petroleum products.
2. It is important to clarify that the final price which consumers pay for electricity includes various fixed costs (tolls, charges, taxes) that significantly increase the total bill, which means that Spain's electricity market represents a comparative advantage mainly for electricity-intensive companies. The National Commission on Markets and Competition (CNMC) estimates that these costs account for around two-thirds of the bill for domestic consumers, while for industrial consumers they represent less than half of the total.
3. Due to the strong seasonality of electricity prices, month-on-month comparisons are not informative.
4. Also, even when combined cycles set the electricity price, the relatively advantageous position in gas supplies limits the increase in costs compared to other countries.

Energy sources
(% of gross available energy)



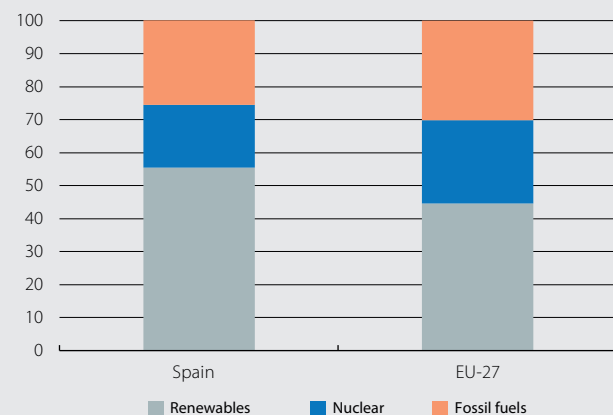
Notes: Data from 2024. Gross available energy includes primary production, recovery and recycling, net imports and change in inventories.
Source: BPI Research, based on data from Eurostat.

Wholesale electricity prices in March
(euros/MWh)



Source: BPI Research, based on data from ESIOS-REE.

Structure of electricity generation
(%)



Note: Average data for 2025.
Source: BPI Research, based on data from Red Eléctrica de España.

The crisis in Iran: how much could it affect the Spanish economy?

The war in the Middle East could generate a new shock to the global economy that would also affect the Spanish economy. In this article, we analyse the three main channels through which it could do so: the first is inflation, through the rising cost of energy, other products originating from the Persian Gulf, and increased maritime transport costs; the second is external demand, if the conflict hampers the growth of our trading partners; and the third is the financial channel, in the event of rising interest rates and tighter financial conditions. In addition to these three factors, there is the effect of fiscal policy; indeed, the government already announced a first set of measures on 20 March to cushion the impact of the shock.

Inflation: the main short-term impact channel

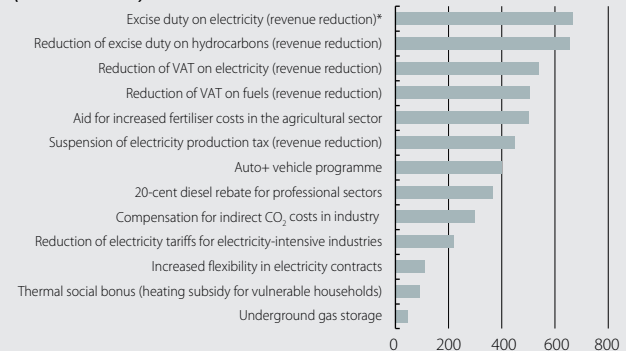
The inflationary channel combines direct and indirect effects. The direct effects are the most visible and the first to appear: a rise in oil prices quickly translates into higher fuel costs, while an increase in gas prices is reflected both in the price of natural gas and in electricity bills, given its key role in electricity generation.

The indirect effects are more gradual but also potentially significant. Energy forms part of the inputs used in multiple production processes, so an increase in its cost, if persistent over time, is passed on, at least in part, to other products. The experience of 2022 and other historical episodes of rising energy prices suggests that this transfer begins to manifest around nine months after the initial shock. Added to this is the potential increase in the cost of other strategic inputs, such as fertilisers, a key component for the agricultural sector in which the Middle East plays a important role as an exporter.

The magnitude of the final impact will depend on the intensity and duration of the energy shock, as well as the response of fiscal policy. Our estimates suggest that a 10% increase in Brent oil in euros raises headline inflation by 0.2 pps, while a 10% increase in gas has a more contained effect of around 0.05 pps. In a scenario with an average oil price in 2026 of around 85 dollars per barrel and a gas price of around 55 euros – figures consistent with data from market futures during March – the combined impact could add as much as 1 pp to our inflation forecast for this year, currently at 2.4%. The package of fiscal measures announced by the government would act as a buffer. Assuming that the measures remain in force until June – a condition that, according to the approved law, depends on fuel and electricity inflation exceeding 15% in April – we estimate that they could reduce the impact of the shock by 0.4 pps and bring average inflation in 2026 to around 3%. The recently announced truce in hostilities, if consolidated, would help limit the rise in inflation, although it could also mean that the fiscal support measures end prematurely.

Spain: key components of the Crisis Response Plan

(EUR millions)



Note: * Estimates based on similar policies in 2022-2023 following the energy shock triggered by the war in Ukraine.

Source: BPI Research, based on data from the Official State Gazette (BOE) and the Ministry of Finance.

Foreign demand: limited direct exposure, currently contained indirect risk

Spain's direct exposure to the Gulf countries is limited.¹ Exports of goods and services to the entire region accounted for just 2.0% of our total exports, equivalent to 0.7% of GDP in 2025.

To assess what percentage of this exposure may be at risk, we can use the year 2022 as a reference. The war between Russia and Ukraine halved Spanish goods exports to both countries. A 50% drop in goods exports to the region, excluding their import content, would mean around 0.15 pps less GDP growth. However, this threshold seems conservative given the severity of the conflict between Russia and Ukraine and the imposition of EU sanctions on Russia.

Another risk factor arises from the deterioration of the international environment. Illustratively, we estimate that a 1-pp slowdown in the growth of our export markets would reduce GDP growth by around 0.2 pps. For now, a marked slowdown is not anticipated. For example, the ECB recently cut its forecast for import growth in the euro area – our main trading partner – by 0.3 pps as a result of the conflict in Iran, a revision that would have a limited impact on our economy.² In any case, the importance of this channel will depend on how the conflict evolves.

Uncertainty and financial conditions

When uncertainty increases, households and businesses tend to postpone their spending decisions: households

1. Lebanon, Syria, Iraq, Iran, Israel, West Bank/Gaza, Jordan, Saudi Arabia, Kuwait, Bahrain, Qatar, the UAE, Oman and Yemen.

2. The ECB's forecasts were made under the assumption of a Brent oil price of 81.3 dollars/barrel and a price of 46.4 euros/MWh for gas for 2026 as a whole, which is 30% and 47% higher, respectively, than in the previous forecasts.

delay purchasing durable goods, while businesses defer their investments until they have greater visibility.

An increase of one standard deviation in the Bank of Spain's economic uncertainty index during one quarter is associated with a loss of GDP growth of around 0.2 pps in the same year.³ For now, although March has seen a notable uptick in the index, this has been insufficient to substantially impact Q1 as a whole. If the conflict is resolved relatively quickly, then the impact of this channel should be limited.

On the other hand, the markets are anticipating between two and three rate hikes by the ECB during 2026. A 100-bp increase is generally associated with a cumulative loss of around 0.4 pps of GDP over a two-year period, with most of the impact concentrated in the second year. This means that if monetary tightening does materialise, its effect would be more noticeable in 2027 than in 2026.

Fiscal policy: a cushioning tool

On 20 March, the government presented an emergency plan to mitigate the rising cost of energy triggered by the geopolitical escalation in the Middle East. The measures came into effect on 22 March and were subsequently ratified in the Congress of Deputies.

The government estimates that the package will cost close to 5 billion euros – 0.3 pps of GDP – if it remains in force until 30 June. The final cost will depend both on how long the crisis lasts, and on how energy prices, the associated additional revenues and the reduction in demand evolve. It is estimated that around 60% of the total cost – approximately 3 billion euros – comes from the reduction in tax revenues on energy. As these are temporary measures, the impact on the deficit should also be temporary.

As for the main measures, the decree sets out a wide range of tax reductions and subsidies for electricity, fuels for transport and other fuels. In transport fuels, VAT is reduced from 21% to 10% and the excise duty on hydrocarbons is lowered to the minimum permitted by the EU.⁴ The supervisory role of the National Commission on Markets and Competition (CNMC), which is responsible for monitoring prices and margins, is being strengthened to prevent the public subsidies from leading to increased profits.

In electricity, VAT is also reduced to 10% and the excise duty is set at 0.5% instead of 5.11%. In addition, the tax on electricity production (IVPEE) is suspended.⁵

3. See the Focus «What do we mean when we talk about uncertainty?» in the MR11/2025.

4. The excise duty on hydrocarbons in Spain is approximately 38 cents per litre for diesel and 47 cents per litre for 95 octane petrol. In accordance with Directive 2003/96/EC, this levy could only be reduced to the EU's harmonised minimums, set at 33 cents per litre for diesel and 35.9 cents per litre for petrol.

5. Direct tax levied on electricity production and its incorporation into the electrical system.

Spain: illustrative scenarios of the impact on GDP

	Scenario 1		Scenario 2	
	Description	Impact	Description	Impact
Inflation (<i>ex ante</i> fiscal measures)	+0.8 pps	-0.3	+2.0 pps	-0.8
Export markets	Drop of 0.3 pps and -10% in goods exports to the region*	-0.1	Drop of 1.5 pps and -50% in goods exports to the region*	-0.6
Uncertainty	Negligible	0.0	+1.5 standard deviations for 1 quarter	-0.4
Monetary policy (depo rate)	+25 bps	0.0	+100 bps	-0.1
Fiscal policy	The measures are withdrawn prematurely**	0.2	The measures are extended until the end of the year	0.9
Impact on 2026 GDP		-0.2		-0.9

Notes: * See footnote 1. ** The measures are withdrawn at the beginning of June, instead of on 30 June.
Source: BPI Research.

Regarding sectoral measures, the main highlights are the subsidy of 20 cents per litre of diesel for professional use in the agricultural and transport sectors, which is also extended to self-employed workers and operators not entitled to reclaim the tax, together with an exceptional support measure of 500 million euros to offset the increased cost of fertilisers for farmers and a reduction in electricity tariffs for electricity-intensive industries.

The plan immediately reduces household energy bills, partially offsets the negative macroeconomic impact of the war, and has the advantage of being quickly implementable. However, if it were necessary to extend the measures beyond June, it would seem advisable to focus them more on vulnerable groups and sectors in order to increase their effectiveness and limit the fiscal cost.⁶

Impact on economic activity: two illustrative scenarios

We present two illustrative scenarios in the table, which should not be interpreted as a precise forecast, but rather as a means of organising the risks and approximating their potential macroeconomic impact.

A first, more benign scenario would be compatible with a conflict that is resolved relatively quickly and with minimal and reversible damage to energy infrastructure. A second, more adverse scenario would envisage a conflict lasting several months, with significant damage to energy infrastructure, and an extension of the fiscal support measures.

Under these assumptions, the impact on annual GDP growth could range between 0.2 pps and less than 1 pp (our pre-war forecast was 2.4%). This is a wide range, but precisely this breadth reflects the magnitude of the uncertainty presented by the current situation.

6. See E.G. Miralles (2023). «Support measures in the face of the energy crisis and the rise in inflation: an analysis of the cost and distributional effects of some of the measures rolled out based on their degree of targeting». Economic Bulletin (2023/Q1).

Activity and employment indicators

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
Industry									
Industrial production index	0.4	1.3	-0.6	1.5	2.5	1.7	0.3	...	...
Indicator of confidence in industry (value)	-4.8	-4.8	-5.1	-5.3	-5.0	-3.9	-2.6	-2.4	-4.3
Manufacturing PMI (value)	52.2	50.9	50.0	50.0	52.6	51.1	49.2	50.0	48.7
Construction									
Building permits (cumulative over 12 months)	16.7	8.8	20.1	14.8	7.9	8.8	10.6	...	...
House sales (cumulative over 12 months)	9.7	11.5	17.0	22.9	18.7	11.5	10.0	...	...
House prices	8.4	12.7	12.2	12.7	12.8	12.9	...	...	...
Services									
Foreign tourists (cumulative over 12 months)	10.1	3.2	8.1	6.3	4.3	3.2	3.0	2.7	...
Services PMI (value)	55.3	54.5	55.3	52.2	54.2	56.4	53.5	51.9	53.3
Consumption									
Retail sales ¹	1.7	4.3	3.5	5.1	4.4	4.1	3.8	2.2	...
Car registrations	7.2	12.9	14.0	13.7	16.9	8.0	1.1	7.5	11.7
Economic sentiment indicator (value)	103.1	103.1	103.3	102.1	102.8	104.4	106.0	106.1	103.7
Labour market									
Employment ²	2.2	2.6	2.4	2.7	2.6	2.8	...	...	...
Unemployment rate (% labour force)	11.3	10.5	11.4	10.3	10.5	9.9	...	...	...
Registered as employed with Social Security ³	2.4	2.3	2.3	2.2	2.3	2.4	2.3	2.2	2.5
GDP	3.5	2.8	3.0	2.8	2.7	2.7	...	...	...

Prices

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
General	2.8	2.7	2.7	2.2	2.8	3.0	2.3	2.3	3.3
Core	2.9	2.3	2.2	2.3	2.4	2.6	2.6	2.7	2.7

Foreign sector

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	0.2	0.7	3.3	2.0	0.8	0.7	0.6	...	...
Imports (year-on-year change, cumulative over 12 months)	0.1	4.6	4.2	4.1	4.6	4.6	3.3	...	...
Current balance	50.7	49.4	47.7	48.5	48.2	49.4	49.1	...	...
Goods and services	66.3	64.5	63.7	64.0	62.5	64.5	66.7	...	...
Primary and secondary income	-15.7	-15.1	-16.0	-15.5	-14.3	-15.1	-17.7	...	...
Net lending (+) / borrowing (-) capacity	68.7	66.6	66.5	67.5	66.6	66.6	66.2	...	...

Credit and deposits in non-financial sectors⁴

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

	2024	2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025	01/26	02/26	03/26
Deposits									
Household and company deposits	5.1	4.8	4.6	3.9	4.9	4.8	5.1	5.5	...
Demand and notice deposits	2.0	6.7	3.1	5.0	7.2	6.7	7.2	7.2	...
Time and repo deposits	23.5	-4.7	12.6	-1.5	-6.6	-4.7	-4.9	-2.8	...
General government deposits ⁵	23.1	4.9	24.4	25.5	7.2	4.9	5.3	3.8	...
TOTAL	6.3	4.8	5.9	5.4	5.1	4.8	5.2	5.4	...
Outstanding balance of credit									
Private sector	0.7	3.5	1.7	2.6	2.8	3.5	3.4	3.7	...
Non-financial firms	0.4	2.9	1.6	2.5	2.3	2.9	2.6	2.9	...
Households - housing	0.3	3.5	1.4	2.3	2.9	3.5	3.7	3.8	...
Households - other purposes	2.3	-276.1	3.1	-261.4	-278.2	-276.1	4.7	5.1	...
General government	-2.6	10.7	-0.3	5.3	12.9	10.7	6.6	5.6	...
TOTAL	0.5	3.9	1.6	2.7	3.4	3.9	3.6	3.8	...
NPL ratio (%)⁶	3.3	2.7	3.2	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.

All BPI studies and publications are available at: www.bancobpi.pt

MONTHLY REPORT

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

FLASH NOTES

Periodic analysis of relevant economic issues in the Portuguese economy (activity, prices, public accounts, external accounts, real estate market, banking sector) (only available in English).

COUNTRY OUTLOOK

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

Available in English:
Mozambique Country Outlook



The *Monthly Report* is a publication drawn up jointly by CaixaBank Research and BPI Research (DF-EEF) which contains information and opinions from sources we consider to be reliable. This document is provided for information purposes only. Therefore, CaixaBank and BPI shall take no responsibility for however it might be used. The opinions and estimates are CaixaBank's and BPI's and may be subject to change without prior notice. The *Monthly Report* may be reproduced in part, provided that the source is adequately acknowledged and a copy is sent to the editor.

© Banco BPI, 2026
© CaixaBank, S.A., 2026

Design and production: www.cegeglobal.com

