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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
FEBRUARY 2025

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February 2025

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The Trump Agenda: a matter of balance

Trump's first weeks in the White House have been a '*totum revolutum*' of measures, with implications that are difficult to quantify in economic and financial terms, since in some cases economic policy instruments (tariffs) are being used as a foreign policy tool, making it difficult to anticipate the final objective pursued and the dynamics of adjustment of economic variables. Faced with the difficulties of filtering out the high level of noise, the financial markets maintain a cautious attitude, anticipating that in the short term there won't be excessive changes in growth trends (deregulation and tax cuts will offset tariffs and immigration restrictions on the labour market) and that the price to pay in terms of inflation will be moderate. This means relying on the stabilising role of the markets themselves (*'bond vigilantes'*) and the counterweight of the Federal Reserve, as well as the flexibility of global supply to adapt to the new restrictions that will emerge along the way. The paradox is that the changes are being led precisely by the country with the best post-pandemic economic performance, thanks to a more successful combination of economic policies (fiscal, monetary and industrial) than in other regions of the world and the positive effect of immigration on the labour market. The 'new' vision of trade as a zero-sum game could aggravate economic and monetary divergences worldwide and jeopardise the orderly landing of the global economic cycle after the shocks of recent years.

Therefore, the main threat to economic scenarios in the coming months is a new supply shock, this time triggered by the start of a trade war, the intensity of which we don't know at the moment. What we have on the table, for now, is an increase ('frozen' for a month) of 25% in the tariff on American imports from Mexico and Canada, plus an additional 10% already in force on products from China, to which the Asian country has responded in a measured way, with a 10%/15% tariff on energy products and cars (affecting only 20 billion dollars of American exports), among other measures (limitations on trade in rare earths, etc.). Within the American negotiating strategy, it's logical to think that, in the case of Mexico and Canada, we're talking about a maximum tariff that can be reduced and the contrary in the case of China. Pending the measures to be applied to Europe and the rest of the world, and if we anticipate that the average American tariff will rise from the current 2.4% to 10% (which would be a maximum of more than six decades), the effect on growth would be less than five tenths for the EU (five or six times more for Canada and Mexico).

However, the uncertainty about the impact on activity remains very high, as it is necessary to take into account the evolution of the exchange rate, the willingness of consumers to pay more for certain products, the possibility of trade being diverted to other geographical areas, the effects on the expectations of economic agents and, very importantly, the adoption of equivalent measures by the affected countries. Not to mention the consequences of dismantling such efficient value chains as those that exist between the US, Canada and Mexico. There are fewer doubts about the effects on inflation, which will be clearly negative in the US and very diluted in Europe, due to the weakness of the economic cycle and the global oversupply that may seek accommodation in European markets. This would imply a widening of the interest rate differential on both sides of the Atlantic and the possibility of a break in the EUR/USD exchange rate parity. It is precisely the behaviour of the dollar and long-term interest rates in the US that could moderate temptations to overreact on the part of the American authorities, in a context where migration policies could have an impact on the supply of the American labour market sooner than expected. Not forgetting the elephant in the room that is fiscal policy, about which little has been said so far, apart from some spending cuts in federal agencies, such as the one dedicated to development aid. This shows once again that the weakest part of the chain in the process of transforming the world economy will be the low-income countries.

In short, we are witnessing an acceleration of the reconfiguration of the world economic order that was already underway before the pandemic and, in this process of transition, there will be winners and losers. In macroeconomic terms, this adjustment process may be orderly, but it's not easy to move from the old to the new balances without a few scares along the way, especially when words like co-operation, co-ordination or multilateralism seem to have fallen into disuse. Perhaps it's an exaggeration to claim, as Martin Wolf does, that increased tariffs will change the world, because announcements such as DeepSeek's advances in AI (stimulated precisely by export restrictions) have far greater transformative potential than something as old as mercantilism, but at least it's a sign of where the winds will blow in the short term. We therefore have to navigate a changing economy, subject to much more numerous shocks as AI advances spread throughout the economy, enabling a leap in productivity. The key is for the adjustment to take place quickly and in a balanced way.

José Ramón Díez
February 2025

Chronology

JANUARY 2025

10 The EU's Copernicus programme reports that 2024 was the warmest year on record and the first to exceed the threshold of 1.5°C above the pre-industrial average.
30 The ECB cuts interest rates by 25 bps and lowers the depot rate to 2.75%.

DECEMBER 2024

12 The ECB cuts interest rates by 25 bps and leaves the depo rate at 3.00%.
18 The Fed cuts interest rates by 25 bps, placing them in the 4.25%-4.50% range.

NOVEMBER 2024

7 The Fed cuts interest rates by 25 bps, placing them in the 4.50%-4.75% range.
The BoE cuts interest rates by 25 bps to 4.75%.

OCTOBER 2024

17 The ECB cut interest rates by 25 bps and lowered the depo rate to 3.25%.

SEPTEMBER 2024

12 The ECB cut interest rates 25 bps, placing the depo rate at 3.50% and the refi rate at 3.65%.
18 The Fed cut interest rates 50 bps, placing them in the 4.75%-5.00% range, having raised them 500 bps since March 2022.

AUGUST 2024

1-5 Strong turbulence in the financial markets triggered by the Bank of Japan's decision and worse-than-expected employment data for July in the US.
12 OPEC revises its forecasts for global oil demand in 2024 and 2025 slightly downwards, mainly due to slowing consumption in China.
23 The Fed will begin cutting interest rates in September, according to Powell's speech in Jackson Hole.

Agenda

FEBRUARY 2025

3 Euro area: CPI flash estimate (January).
4 Spain: registration with Social Security and registered unemployment (January).
5 Portugal: employment and unemployment (Q4).
7 Spain: industrial production (December).
10 Portugal: international trade (December).
14 Portugal: average gross monthly wage per worker (Q4).
17 Japan: GDP (Q4).
Spain: foreign trade (December).
18 Portugal: industrial price index (January).
24 Spain: loans, deposits and NPL ratio (December).
27 Spain: CPI flash estimate (February).
Euro area: economic sentiment index (January).
28 Spain: balance of payments (December).
Portugal: GDP breakdown (Q4).
Portugal: CPI flash estimate (February).

MARCH 2025

3 Euro area: CPI flash estimate (February).
4 Spain: registration with Social Security and registered unemployment (February).
6 Governing Council of the European Central Bank meeting.
14 Spain: S&P rating.
Portugal: Fitch rating.
17 Spain: quarterly labour cost survey (Q4).
18-19 Federal Open Market Committee meeting.
20-21 European Council meeting.
21 Portugal: house prices (Q4).
25 Spain: loans, deposits and NPL ratio (Q4).
26 Spain: GDP flash estimate (Q4).
Portugal: GDP breakdown (Q4).
27 Portugal: NPL ratio (Q4).
28 Spain: CPI flash estimate (March).
Spain: Moody's rating.
Euro area: economic sentiment index (March).
31 Portugal: CPI flash estimate (March).
Portugal: industrial production (February).
Portugal: employment and unemployment (February).

Ballast for a good 2025

In recent weeks, some of the economic results for 2024 have been announced in relation to the main macro variables. The most comprehensive, and therefore most scrutinised, is the economy's growth rate, which turned out to be better than expected. But there was also good news in other areas. Inflation has moved closer to the 2% mark, the labour market has remained robust, and even the budget balance is preparing to confirm a new surplus. All positive news in a world and a global context that is increasingly complex and can quickly become adverse. 2025 thus begins with a good foundation.

Starting with GDP, the most comprehensive variable that reflects all the wealth generated in the economy by residents during the year, this ended up expanding by 1.9%. To give you some context, in April/May last year, the European Commission anticipated growth of just 1.2%, the EIU predicted 1.3% and the Government 1.5%. We ourselves, at the beginning of 2024, predicted an expansion of just 1.6%. The economy ended up surprising in Q4, expanding 1.5% in the period and 2.7% year-on-year, confirming the trajectory from less to more (the year had started with growth of just 1.4%).

Although we do not yet have the details, according to the INE explanation, the strength of internal demand, with emphasis on private consumption, was constant throughout the year; investment have slowed down compared to the previous year; and net external demand made a negative contribution due to the higher growth in imports, although exports should also have performed favourably despite the weakness of some important partners (Germany, for example, which saw its GDP fall for the second year running). An expansion that can be characterised as healthy. Let's take a closer look: compared to 2019, activity will be around 8% higher (in real terms), the same as private consumption and public spending, while both exports and investment exceed this threshold, with an increase of around 15%. It is an expansion therefore largely based on exports and investment.

The good performance in 2024 means that, by construction, we will have a boost in the 2025 annual growth rate of 1.3%, the so-called *carry-over effect* (it would have been around 0.6% if our forecast of 1.7% had been confirmed). This will very likely translate into an upward revision of growth expectations for 2025. We can therefore say with greater certainty that the economy will expand above the EU average and above 2% in 2025.

However, the inflation rate stood, on average, at 2.4%, in line with BPI Research forecasts. Despite the drop compared to the previous year (in 2023 it was 4.3%), the difficulty in advancing this last mile of price deceleration towards 2% is clear. We actually had a minimum of 1.8% in August, but the inflation rate ended the year at 3%. This was helped by the fluctuations in the most volatile prices, namely fuels and energy as a whole (the Energy Index recorded average inflation of 3.2% in 2024), with important base effects, and updates to some regulated prices, in addition to the resistance of services prices (they increased by an average of 4.3% in 2024, only 0.3 p.p. less than in 2023). Communications in particular (prices increased by 5.9% on average) and Restaurants and Hotels (4.8% increase) account for this slowdown. In 2025, we expect a further step towards convergence with the central bank's target, with the expected containment of *commodity* and food prices contributing to this, as well as a slowdown in wage settlements, given that the loss of purchasing power recorded in the years of highest inflation has already been restored.

Finally, it is worth mentioning the unemployment rate, which ended 2024 at 6.4%, one tenth less than BPI Research's forecasts, given the slightly higher job creation that we expected. Given the persistent lack of labour in some sectors and the expectation that the economy will continue to expand at a good pace, we anticipate that the unemployment rate will persist at around 6.4%. In this chapter we highlight our analysis of demography in Portugal, from which we extract some relevant data for a future context. We note, in particular, that the foreign population already accounts for 10% of the resident population, and is, on average, more qualified. An important feature to enhance future economic growth.

And, last but not least, the public accounts ended the year with a performance that points to another budget surplus being recorded, which will possibly be even higher than official expectations (0.4%). It's a good starting point for 2025 and for ensuring that financing costs abroad are among the lowest in the Eurozone, especially in a context where the issue of state financing on the market could return as one of the most challenging.

Paula Carvalho
Lisbon, 6 February

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	0.67	5.25	4.25	3.00	3.00
3-month SOFR	3.62	1.01	1.07	5.37	4.37	3.07	3.10
12-month SOFR	3.86	1.48	1.48	4.95	4.19	3.10	3.15
2-year government bonds	3.70	1.04	1.21	4.46	4.24	3.35	3.38
10-year government bonds	4.69	2.57	1.76	4.01	4.40	3.80	3.90
Euro							
ECB depo	2.05	0.20	–0.30	4.00	3.09	2.00	2.00
ECB refi	3.05	0.75	0.20	4.50	3.24	2.15	2.15
€STR	–	–0.54	–0.38	3.90	3.06	2.01	2.01
1-month Euribor	3.18	0.50	–0.32	3.86	2.89	2.04	2.04
3-month Euribor	3.24	0.65	–0.21	3.94	2.83	2.06	2.07
6-month Euribor	3.29	0.78	–0.07	3.93	2.63	2.12	2.12
12-month Euribor	3.40	0.96	0.10	3.68	2.44	2.18	2.16
Germany							
2-year government bonds	3.41	0.35	–0.21	2.55	2.02	2.05	2.00
10-year government bonds	4.30	1.54	0.14	2.11	2.22	2.00	2.15
Spain							
3-year government bonds	3.62	1.69	0.18	2.77	2.26	2.32	2.39
5-year government bonds	3.91	2.19	0.38	2.75	2.48	2.41	2.53
10-year government bonds	4.42	3.17	0.99	3.09	2.90	2.80	2.95
Risk premium	11	164	85	98	68	80	80
Portugal							
3-year government bonds	3.68	3.33	0.07	2.33	2.03	2.53	2.63
5-year government bonds	3.96	3.94	0.35	2.42	2.15	2.56	2.71
10-year government bonds	4.49	4.67	0.96	2.74	2.68	2.75	2.95
Risk premium	19	314	82	63	46	75	80
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.09	1.05	1.00	1.04
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.86	0.83	0.86	0.83
EUR/JPY (yen per euro)	129.56	126.41	129.91	156.99	161.18	158.00	154.00
OIL PRICE							
Brent ($/barrel)	42.3	80.1	71.0	77.3	73.1	73.5	69.2
Brent (euros/barrel)	36.4	62.5	63.9	70.9	69.9	73.5	66.5

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
GDP GROWTH							
Global	4.4	3.3	2.4	3.3	3.2	3.1	3.2
Developed countries	*2.7*	*1.5*	*1.5*	*1.7*	*1.8*	*1.7*	*1.8*
United States	2.7	1.8	2.1	2.9	2.8	1.9	1.8
Euro area	2.3	0.8	1.2	0.5	0.7	1.3	1.8
Germany	1.6	1.3	0.2	–0.1	–0.2	0.7	1.5
France	2.3	1.0	0.6	1.1	1.1	1.2	1.6
Italy	1.5	–0.3	1.5	0.8	0.5	1.0	1.5
Portugal	1.5	0.4	1.5	2.5	1.9	2.3	2.2
Spain	3.6	0.7	0.6	2.7	3.2	2.3	2.1
Japan	1.4	0.4	–0.2	1.9	0.8	1.0	1.0
United Kingdom	2.7	1.2	0.9	0.1	1.1	1.0	1.3
Emerging and developing countries	*6.4*	*4.9*	*3.1*	*4.4*	*4.1*	*4.0*	*4.1*
China	10.6	8.0	4.5	5.3	5.0	4.0	3.9
India	7.2	6.7	3.6	7.7	6.6	6.8	6.6
Brazil	3.6	1.6	1.5	3.2	2.5	2.0	1.8
Mexico	2.3	1.5	0.5	3.3	1.5	1.0	1.4
Russia	–	1.4	0.7	3.7	3.7	1.7	1.3
Türkiye	5.5	4.5	6.3	5.1	2.9	2.1	2.9
Poland	4.2	3.7	3.6	0.1	2.9	3.6	3.3
INFLATION							
Global	4.2	3.7	5.6	6.8	5.8	4.5	3.8
Developed countries	*2.1*	*1.6*	*3.7*	*4.6*	*2.6*	*2.2*	*2.1*
United States	2.8	1.8	4.6	4.1	3.0	2.0	2.0
Euro area	2.2	1.4	3.7	5.4	2.4	2.2	2.0
Germany	1.7	1.4	4.1	6.0	2.5	2.2	2.0
France	1.9	1.3	2.8	5.7	2.3	2.0	1.9
Italy	2.4	1.4	3.5	5.9	1.1	2.0	1.8
Portugal	3.1	1.1	3.0	4.3	2.4	2.1	2.0
Spain	3.2	1.3	3.7	3.5	2.8	2.5	2.2
Japan	–0.3	0.4	0.7	3.3	2.7	1.5	1.5
United Kingdom	1.6	2.3	4.2	7.3	2.5	2.3	2.1
Emerging and developing countries	*6.7*	*5.5*	*7.0*	*8.3*	*7.9*	*5.9*	*4.7*
China	1.7	2.6	1.8	0.2	0.2	1.4	1.4
India	4.6	7.3	6.1	5.7	5.0	4.6	4.4
Brazil	7.3	5.7	6.9	4.6	4.4	4.9	4.2
Mexico	5.2	4.2	5.7	5.5	4.7	4.4	3.7
Russia	14.2	7.9	8.0	5.9	8.5	8.4	6.0
Türkiye	22.6	9.6	34.7	53.9	58.5	36.1	26.1
Poland	3.5	1.9	7.4	10.8	3.7	4.6	3.4

Forecasts

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

Portuguese economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	1.7	0.5	1.2	2.0	2.2	1.7	2.2
Government consumption	2.2	–0.3	2.0	0.6	1.0	0.8	0.8
Gross fixed capital formation	–0.4	–0.7	2.9	3.6	1.3	5.7	5.9
Capital goods	3.4	3.0	5.8	5.7	–	–	–
Construction	–1.3	–2.4	2.6	1.3	–	–	–
Domestic demand (vs. GDP Δ)	1.3	0.0	1.9	1.7	1.8	2.3	2.7
Exports of goods and services	5.3	4.0	3.6	3.5	4.2	5.0	5.2
Imports of goods and services	3.6	2.7	4.0	1.7	4.6	5.0	6.3
Gross domestic product	**1.5**	**0.4**	**1.5**	**2.5**	**1.9**	**2.3**	**2.2**
Other variables							
Employment	0.4	–0.4	1.1	2.3	0.9	1.3	1.5
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.5	6.4	6.4	6.4
Consumer price index	3.1	1.1	3.0	4.3	2.4	2.1	2.0
Current account balance (% GDP)	–9.2	–2.9	–1.0	1.4	1.2	1.4	1.4
External funding capacity/needs (% GDP)	–7.7	–1.6	0.2	2.7	2.8	3.1	3.2
Fiscal balance (% GDP)	–4.5	–5.1	–3.0	1.2	0.5	0.3	0.2

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.0	1.7	2.8	2.5	2.3
Government consumption	4.5	0.9	2.6	5.2	4.9	1.6	1.2
Gross fixed capital formation	5.7	–1.2	–1.0	2.1	2.3	3.4	3.0
Capital goods	4.9	0.2	–2.5	1.1	2.3	4.3	3.3
Construction	5.7	–2.6	–1.9	3.0	2.6	3.0	2.8
Domestic demand (vs. GDP Δ)	4.4	–0.2	0.7	1.7	2.8	2.4	2.1
Exports of goods and services	4.7	2.9	2.5	2.8	2.9	2.3	2.1
Imports of goods and services	7.0	0.2	2.5	0.3	2.0	2.8	2.3
Gross domestic product	**3.6**	**0.7**	**0.6**	**2.7**	**3.2**	**2.3**	**2.1**
Other variables							
Employment	3.2	–0.5	1.4	3.2	2.4	2.1	1.8
Unemployment rate (% of labour force)	10.5	19.5	14.5	12.2	11.3	11.2	10.8
Consumer price index	3.2	1.3	3.7	3.5	2.8	2.5	2.2
Unit labour costs	3.1	0.6	3.6	6.1	4.0	3.3	2.4
Current account balance (% GDP)	–5.8	–0.2	0.6	2.7	3.1	3.1	3.2
External funding capacity/needs (% GDP)	–5.1	0.2	1.3	3.6	4.1	4.1	4.2
Fiscal balance (% GDP)[1]	0.3	–6.5	–7.1	–3.5	–3.0	–2.6	–2.3

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

Forecasts

Ups and downs in the financial markets

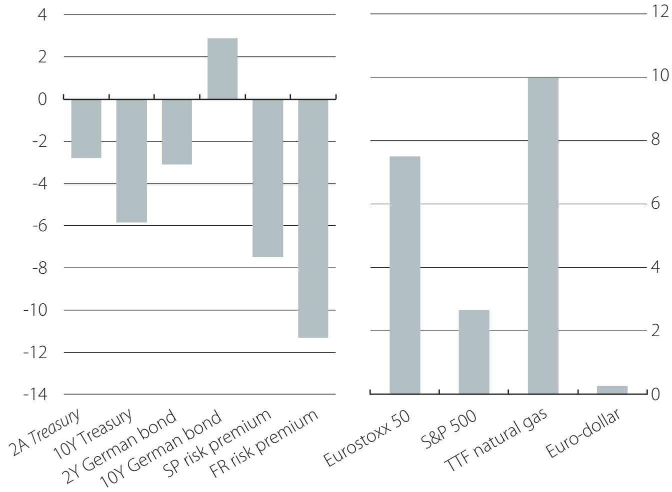
A month of ups and downs in almost every corner of the market. 2025 began with a month of contrasts: on the one hand, the central banks acted in line with expectations (the ECB cut rates by 25 bps, with no changes by the Fed) and gave stability to the market. In other assets, however, several factors stirred up the market: sovereign debt and currencies suffered fluctuations both due to the gradual disinflation in the euro area and the US and as a result of the first economic policy moves of the Trump administration. In equities, China's advances in artificial intelligence with DeepSeek caused sharp price corrections for tech companies throughout the West, although in many cases they did not last. In the commodities market, meanwhile, European natural gas and precious metal prices surged. With all this, the beginning of the year exemplifies how political and geo-economic risks can continue to steer the market.

Monetary policy meets expectations in January. In particular, the ECB placed the depo rate at 2.75%, with the fifth 25-bp cut since last June. Although interest rates remain in restrictive territory, Lagarde appeared confident that they will continue to fall. Money market implicit rates point to a further cut of 25 bps in March and anticipate that the depo rate will stabilise between 1.75% and 2.00% in the second half of 2025. For its part, the Fed kept rates unchanged (fed funds rate in the 4.25%-4.50% range) and Powell indicated that they were not in a hurry to lower rates and preferred to wait to assess the impact of Trump's economic measures. With this, money market implicit rates are anticipating that the Fed will lower rates to around 4.00% towards the end of 2025, which would entail between one and two cuts of 25 bps in the year as a whole. The Bank of Japan, on the other hand, raised rates by 25 bps (the benchmark rate now stands at 0.50%) and revised its inflation forecasts upwards. In addition, in recent weeks, several bank officials have shown a willingness to continue to raise rates in light of the prospect that inflation could leave behind the weakness of recent decades more permanently.

Sovereign debt seeks direction. Sovereign rates began the year prolonging the rebound which they began in December, especially in the long sections of the curve, in the face of greater future economic uncertainty. This trend reversed mid-month, following the publication of better-than-expected core inflation data in the US, and lasted up until the last week, when the protectionist rhetoric of the Trump administration intensified. The announcements regarding US tariffs resulted in a reduction of sovereign interest rates in both the US and the euro area. Moreover, there was a tightening of the periphery's sovereign risk premiums, with that of France performing somewhat better (after Ecofin endorsed the Commission's fiscal recommendations). In this context,

Monthly performance of the main financial assets

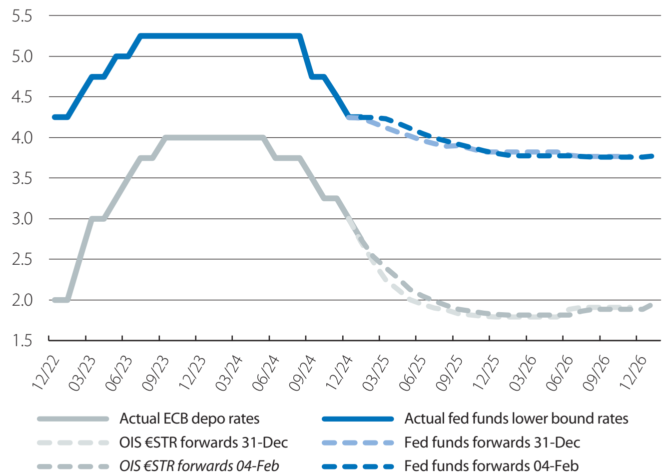
(p. b.) *(%)*



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

Market expectations regarding intervention rates

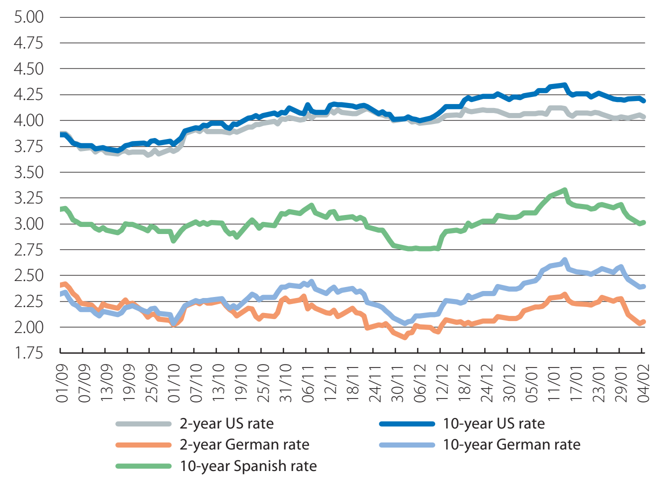
(%)



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

Evolution of sovereign interest rates

(%)



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

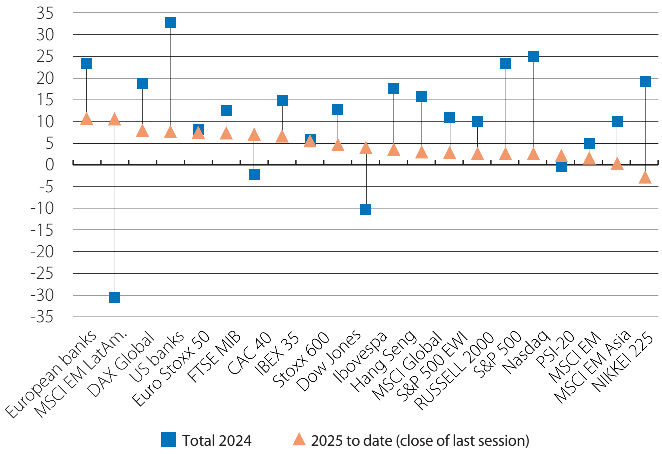
Japanese sovereign rates picked up following the hikes by the central bank, while British debt – for which the 10-year benchmark reached its highest level since 2008 – recorded setbacks in the month, which were more intense in the short sections of the curve due to the lack of buoyancy in the economic data and the moderation of core inflation.

Stock markets in developed economies posted a month of widespread gains despite DeepSeek. European indices led the gains, with Germany's DAX, France's CAC and Spain's IBEX at the helm. However, the market gains were not linear and the final stretch of the month was marked by widespread and significant setbacks in the tech sector throughout the West following the launch of DeepSeek, which weighed down the general indices given the sector's large capitalisation. These falls, however, moderated in most companies once investors recalibrated the impact of this innovation on future profits. Emerging stocks in Latin America also posted gains, especially the Brazilian stock market, with a more positive perspective among investors regarding the country's fiscal outlook since the announcement of government spending cuts in late 2024.

Volatility increases among currencies, an asset class particularly exposed to the protectionist escalation. The dollar closed the month practically flat, albeit not without movements, in line with the performance of sovereign rates and for similar reasons. The euro also followed a specular pattern to that of the dollar, fluctuating with the perceived risk of the US imposing tariffs on the EU. The yen, meanwhile, clearly appreciated against the dollar, backed up expectations of rate hikes by the Bank of Japan. Among emerging currencies, most notable was the appreciation of the Brazilian real, in a context of recovery of Brazil's various financial asset classes. On the other hand, the Mexican peso and the Canadian dollar, which followed a very similar pattern during the month, depreciated (especially the peso) following the announcement of tariffs by Trump, and despite the fact that these were finally put on hold.

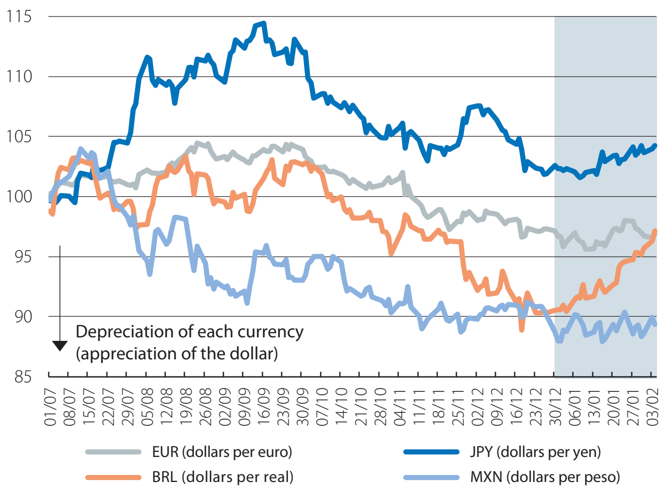
Widespread rally in commodity prices. In an environment of rising prices, the increase in that of natural gas in Europe stood out: the Dutch TTF exceeded 50 euros/MWh, reaching its highest levels since 2023. This increase was driven by European reserves declining faster than in previous years (although they remain at high levels) and a context in which Russian gas is no longer flowing through Ukraine since the beginning of the year. Oil closed the month slightly up, while precious metals made notable advances, favoured by their role as a safe-haven asset in an environment of greater uncertainty surrounding trade. Finally, agricultural commodities also recorded price increases, driven up by the supply risk posed by dry weather in several Latin American producing countries.

Performance of stock market indices
(%)



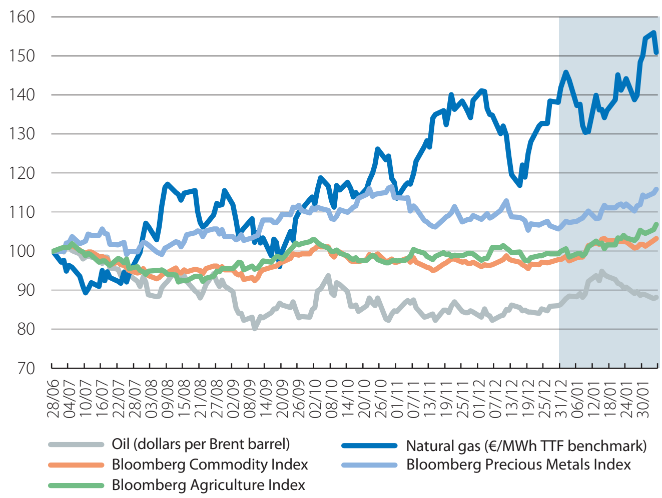
Source: *BPI Research, based on data from Bloomberg.*

Select currencies against the dollar
Índex (100 = 30/06/2024)



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

Commodity prices
Index (100 = 30/06/2024)



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

China and the stockpiling of commodities: strategy or growth?

China is the world's largest consumer of commodities, consuming 40% of the world's total and, consequently, it is a key player in the global demand for these products. The country is rich in some resources, mostly minerals, such as coal and some of the so-called critical minerals,[1] but it lacks others, such as copper and nickel. Moreover, China is home to one fifth of the world's population, but arable land on its territory accounts for less than 10% of the world's total and its hydrographic resources are limited. These circumstances mean that many of the commodities that China consumes are imported, especially by sea, in most cases crossing geographical choke points such as the Malacca Strait.

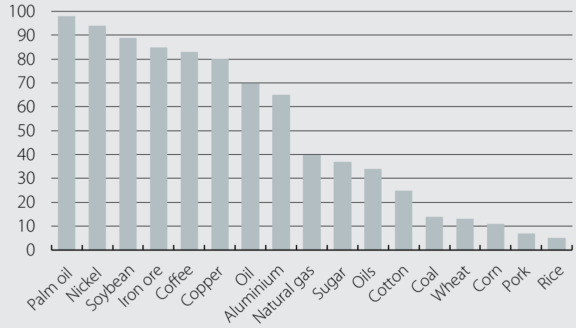
As a reference to understand this dependence on the outside world for its consumption of commodities, it is estimated that China imports 70% of the oil it consumes and 40% of its natural gas,[2] as well as 80% of its demand for copper, 65% for aluminium and up to 94% in the case of nickel. This percentage is around 100% in the case of agricultural products derived from water-intensive crops.[3]

Despite playing a leading role in the commodity market, its lack of capacity to meet its own demand and its dependence on imports from other countries is a major source of risk for China.

The accumulation of reserves, a long-term plan

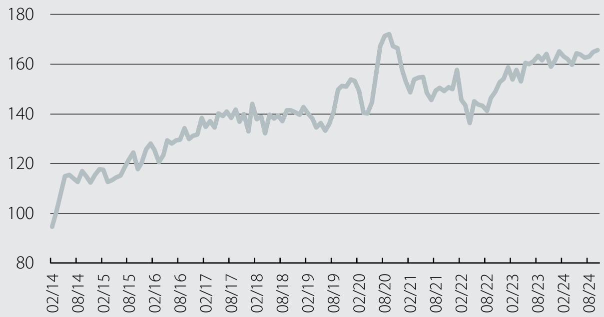
In the 1980s, the Chinese authorities, aware of this source of risk, began to develop a long-term strategy that would allow them to safeguard the country's national security and stabilise domestic markets in the event of any disruption in the global commodity market. Through the control of mines,[4] of the trade in commodities,[5] of the investment and financing of foreign production companies and through the signing of long-term contracts with energy and mineral suppliers, the Chinese government has been able to supply its productive structure. Simultaneously, since 2008 it has promoted

China: dependence on imports by product category
(% of commodity imports relative to Chinese final demand for natural resources)



Source: *BPI Research, based on data from JP Morgan.*

China: volume of commodity imports *
*(Millions of metric tonnes) ***



Notes: ** Aggregate volumes of imports of crude oil and derivatives, coal, coke, copper, aluminium, iron ore, nickel, steel, wheat, palm oil, soybean, oils and rice.*
*** Three-month moving average.*
Source: *BPI Research, based on data from Bloomberg.*

the growth of a huge fund of strategic reserves of natural resources. These reserves act as a buffer in times of supply interruptions or price volatility, and the Chinese government can strategically release or store these products to influence dynamics in the domestic market and avoid extreme price fluctuations.

The precise volume of reserves in the fund is unknown, as is the rate at which the government expects to gather commodities. Nevertheless, by monitoring China's imports of these products, we can see how there have been significant increases in recent years, largely driven by events affecting its economy. In 2018, during his first term, Trump imposed tariffs on Chinese exports worth 60 billion dollars a year, prompting China to respond with tariffs on US soybeans. In 2020, the COVID-19 pandemic disrupted supply chains and raised the cost of commodities. Then, in 2022, the war in Ukraine drove up prices even more and showed the US' willingness to make use of embargoes.

1. These are the minerals and metals needed to generate renewable energy, produce clean technologies and facilitate the transition to a more sustainable energy scenario. Their geopolitical relevance has intensified with the energy transition. Among others, there has been a rise in the demand for lithium, nickel, cobalt, graphite, manganese and rare earths.
2. According to data from J.P. Morgan Global Commodities Research, «Supply insecure, China's imports of commodities at all-time highs and likely to stay that way», July 2024.
3. China leads the global production of wheat and rice, but its food self-sufficiency ratio has decreased from 93.6% in 2006 to 65.8% in 2020 and it is expected to drop to 58.8% by 2030. K. Dong and M. Prytherch (2024), «China's Food Security: Key Challenges and Emerging Policy Responses», Center for Strategic and International Studies, March 2024.
4. See Information Office of the State Council of the People's Republic of China (2003). «China's Policy on Mineral Resources».
5. See National Development and Reform Commission (2013). «Belt and Road Initiative».

In 2023, the value of China's commodity imports reached an all-time high of 810 billion dollars (16% higher than the previous year), of which around 45% corresponded to purchases of crude oil and derivatives and just over 30% to industrial metals. In addition, the data for 2024 indicate that between January and November the value of imports of the main commodities continued to grow and was 1.5% higher than in the same period last year.

Another indicator that can shed some light on China's strategy of stockpiling commodities is the level of accumulated stocks. Information on China's emergency stocks is strictly guarded by the government, making it difficult to estimate their levels. However, in the last five-year plan (2021-2025), the government showed its willingness to intensify the expansion of the country's storage capacity as a way to increase import flows of energy and food. In the case of energy, it is estimated that the current storage capacity of crude oil is around 2 billion barrels, equivalent to almost six months of consumption, while that of the US is around 2.4 billion. For natural gas, the storage capacity could reach 85 billion cubic metres by 2030 (representing 16% of annual demand), compared to 130 billion cubic metres in the US (enough to supply 15% of the country's demand). Also, in this regard, the Shanghai Futures Exchange tracks inventory levels of a number of metals and energy materials[6] deposited in stores throughout the country. Between January and November 2024, all the indicators showed an increase in excess of 100% (with the exception of zinc, which registered an increase of 84%), having reached the maximum levels of accumulation between June and July, depending on the product.

Could China be preparing for a more hostile future?

Certainly, the observed increase in commodity stocks could be related to the weakness of economic activity in the Chinese economy, which leads to lower consumption of these products. However, if we consider the international context that is beginning to emerge in 2025, we can find various arguments that would justify the intensification of China's commodity stockpiling activities. Firstly, despite the government's recent economic policies, China could be preparing for a more stable growth cycle in the medium term, and it would like to disengage from Western supplies. Secondly, China could be expanding its storage infrastructure[7] and bringing its commodity purchases forward in anticipation of Trump's announced tariffs beginning in February. Another explanation could be that China is preparing for new geopolitical threats. In this regard, the influence of the US over the Strait of Malacca is a crucial aspect for China, since two thirds of the goods that pass through its waters go to China. Finally, the US Security Commission points to the possibility that the accumulation of metals and minerals could be related to a potential Chinese incursion into Taiwan.[8] Some financial analysts relate this argument to China's increased purchases of gold (gold stocks appear to have increased by more than 400% between April and December 2024) and to the reduction of its holdings of US debt (–6.9% between January and November) as a possible means of protecting itself against any Western sanctions on the country's dollar accounts.

Given that these factors will remain present in 2025, we can expect the Chinese government to maintain the pace at which it is accumulating commodity reserves, or even to increase it in the face of stress in some of them. If this were to happen, we believe it would most likely lead to greater upward pressure on commodity prices, as a result of the increased demand from China and the increased allocation of risk premiums in the financial markets.

6. Copper, aluminium, zinc, lead, nickel, tin, gold, silver, steel and crude oil, among others.
7. In China, strategic reserve stores include private tanks, silos and warehouses that the state has access to in times of crisis.
8. See U.S.- China Economic and Security Review Commission, Gregory Wischer Testimony.

Interest rates (%)

	31-January	31-December	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.90	3.15	–25	–25.0	–160.0
3-month Euribor	2.59	2.71	–13	–12.5	–130.6
1-year Euribor	2.52	2.46	6	5.9	–113.7
1-year government bonds (Germany)	2.14	2.24	–10	–10.4	–118.1
2-year government bonds (Germany)	2.12	2.08	4	3.7	–51.1
10-year government bonds (Germany)	2.46	2.37	9	9.3	14.4
10-year government bonds (Spain)	3.07	3.06	1	0.7	–17.1
10-year government bonds (Portugal)	2.88	2.85	3	3.0	–25.0
US					
Fed funds (lower limit)	4.25	4.25	0	0.0	–100.0
3-month SOFR	4.30	4.31	0	–0.3	–101.2
1-year government bonds	4.15	4.14	1	0.6	–65.8
2-year government bonds	4.20	4.24	–4	–4.5	–23.2
10-year government bonds	4.54	4.57	–3	–3.0	41.8

Spreads corporate bonds (bps)

	31-January	31-December	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	53	58	–5	–4.6	–6.7
Itraxx Financials Senior	60	64	–4	–4.2	–11.7
Itraxx Subordinated Financials	105	112	–7	–7.0	–26.6

Exchange rates

	31-January	31-December	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.036	1.035	0.1	0.1	–3.8
EUR/JPY (yen per euro)	160.780	162.780	–1.2	–1.2	0.7
EUR/GBP (pounds per euro)	0.836	0.827	1.0	1.0	–2.0
USD/JPY (yen per dollar)	155.190	157.200	–1.3	–1.3	4.7

Commodities

	31-January	31-December	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	542.0	536.5	1.0	1.0	4.8
Brent ($/barrel)	76.8	74.6	2.8	2.8	–3.1
Gold ($/ounce)	2,798.4	2,624.5	6.6	6.6	37.5

Equity

	31-January	31-December	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,040.5	5,881.6	2.7	2.7	20.9
Eurostoxx 50 (euro area)	5,286.9	4,896.0	8.0	8.0	13.0
Ibex 35 (Spain)	12,368.9	11,595.0	6.7	6.7	25.1
PSI 20 (Portugal)	6,524.3	6,377.3	2.3	2.3	5.5
Nikkei 225 (Japan)	39,572.5	39,894.5	–0.8	–0.8	9.6
MSCI Emerging	1,093.4	1,075.5	1.7	1.7	9.1

Surprises, disappointments and uncertainties in the international economy

Global resilience, with underlying uncertainty. In 2024, the global economy remained resilient in an environment marked by restrictive financial conditions and, overall, the major international economies managed to grow by more than expected. The biggest surprise was the US, where the strength of domestic demand and of the labour market propelled GDP to rates of nearly 3%, twice what the consensus had predicted at the start of the year. China also managed to grow more than expected. After a bumpy start to the year due to the housing crisis and weak domestic demand, the country's economy gained cyclical momentum in the final stretch of the year to reach the 5% target, thanks to a combination of fiscal and monetary stimulus measures and support for the real estate sector. Even the euro area recovered slightly more than predicted, with GDP growth in 2024 of 0.7% (a year ago the consensus was predicting 0.5%). That said, there was significant internal disparity and only Spain (which more than doubled the growth rate expected by the consensus) performed clearly better than expected, while Germany once again disappointed and is yet to recover its pre-pandemic GDP level. Despite these surprises and the fact that global monetary policy is no longer as restrictive as it was a few quarters ago, 2025 is still set to be a challenging year. After all, the threat of greater economic fragmentation has now been added to the risk map, with an increase in trade barriers and uncertainty that has already begun to materialise at the close of this report. The US has announced tariffs of 25% on virtually all imports of goods from Mexico and Canada (10% on Canadian energy products) and of 10% on China (in addition to eliminating the duty-free de minimis threshold). Forty-eight hours after signing the executive order, the White House froze the decision on Mexico and Canada for a month; this marked a pause for the tariffs, but not for the prospect of a 2025 conditioned by uncertainty.

Significant disparity in international economic activity. US GDP grew by 2.8% in 2024, enjoying a strong boost from domestic demand, which contributed 3.1 pps to the year's total growth due to the strength of both investment and private consumption. In addition, the US economy ended the year on a good note, growing by a remarkable 0.6% quarter-on-quarter in Q4 2024. In contrast, the euro area's GDP disappointed once again with stagnation in Q4 (0.0% quarter-on-quarter), placing the bloc's growth for 2024 as a whole at 0.7%. The sluggishness affected all the major economies, except Spain, which stood out with a quarter-on-quarter growth rate of 0.8%, and in all cases, except for Italy, foreign demand posed a burden for the economy in Q4. France contracted 0.1% quarter-on-quarter and registered an average growth rate of 1.1% in 2024. Italy stagnated for the second consecutive quarter and its average growth in 2024 was 0.5%. Finally, Germany shrank by 0.2% quarter-on-quarter and suffered a setback of 0.2% in 2024 as a whole (after –0.1% in 2023), meaning that its GDP has not yet recovered pre-COVID levels.

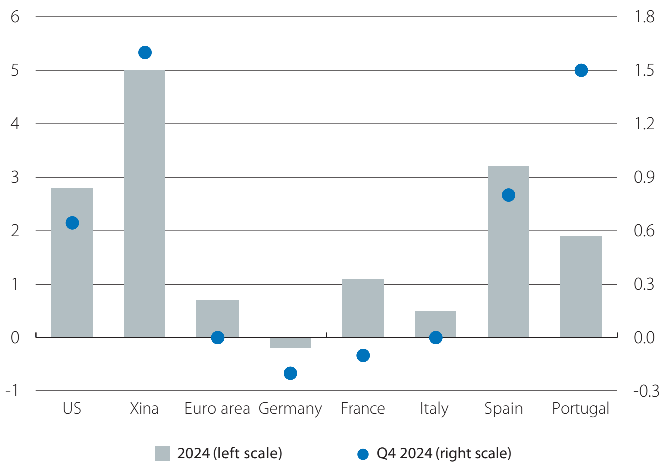
Inertia and uncertainty in the opening weeks of 2025. The first economic activity data for 2025 continue to paint a picture

IMF: GDP forecasts
Annual change (%)

	Estimate	Forecast		Change vs. WEO Oct. 2024	
	2024	2025	2026	2025	2026
World economy	3.2	3.3	3.3	0.1	0.0
Advanced economies	1.7	1.9	1.8	0.1	0.0
US	2.8	2.7	2.1	0.5	0.1
Euro area	0.8	1.0	1.4	–0.2	–0.1
Germany	–0.2	0.3	1.1	–0.5	–0.3
France	1.1	0.8	1.1	–0.3	–0.2
Italy	0.6	0.7	0.9	–0.1	0.2
Spain	3.1	2.3	1.8	0.2	0.0
Japan	–0.2	1.1	0.8	0.0	0.0
United Kingdom	0.9	1.6	1.5	0.1	0.0
Emerging & developing economies	4.2	4.2	4.3	0.0	0.1
China	4.8	4.6	4.5	0.1	0.4
India	6.5	6.5	6.5	0.0	0.0
Russia	3.8	1.4	1.2	0.1	0.0
Brazil	3.7	2.2	2.2	0.0	–0.1

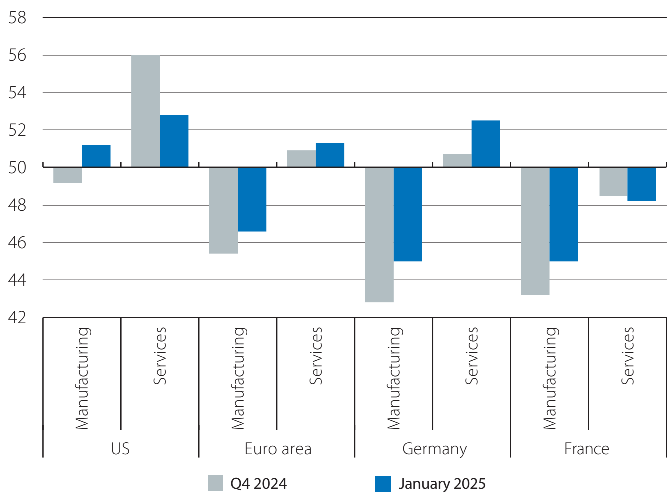
Note: ** Projections for the fiscal year in the case of India.*
Source: *BPI Research, based on data from the IMF (WEO, January 2025 update).*

Global: GDP
Annual change (%) *Quarter-on-quarter change (%)*



Source: *BPI Research, based on data from the BEA, the National Statistics Office of China and Eurostat.*

Advanced economies: PMI
Index



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

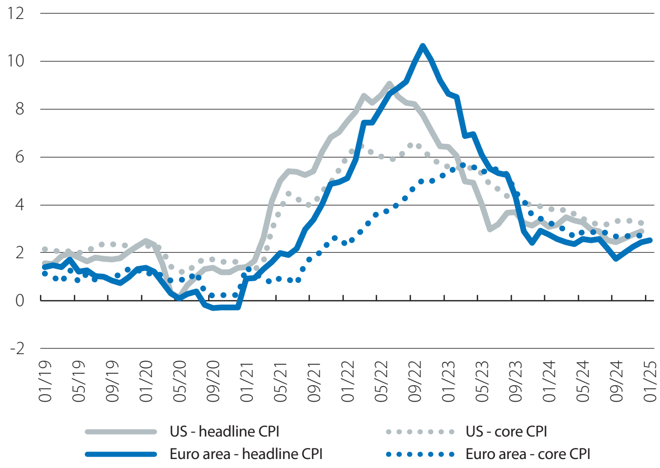
of buoyant growth in the US economy. The manufacturing ISM, at 50.9 points in January, abandoned contractionary territory for the first time since 2022, and the services ISM remained comfortably within the expansionary zone (52.8). The GDP trackers, meanwhile, hint at growth of +0.7% quarter-on-quarter in Q1 2025, although with very preliminary information. In the euro area, the PMIs recovered slightly in January, with a composite index of 50.2 points, marking the best figure in five months. However, this level is only just above the boundary between expansion and contraction. Moreover, the sectoral breakdown continues to show declining manufacturing activity (46.6) versus modest growth in services (51.3) and, by country, there are persistent signs of weakness in France (47.6) and Germany (50.5, a timid figure but, in this case, an eight-month high). The euro area's labour market, for its part, remains resilient with an unemployment rate at 6.3% in December (the second lowest rate in the historical series) and an incipient improvement in the employment expectations indicator (98.8 points in January vs. a historical average of 100). On the other hand, the ECB's bank lending survey showed an unexpected tightening of credit standards, concentrated in Germany and France, which institutions attributed to greater uncertainty in the macroeconomic scenario.

Disinflation continues. Although there has recently been a slight rebound in headline inflation, both in the US (2.9% year-on-year in December, +0.2 pps) and in the euro area (2.5% in January, +0.1 pp), this is essentially due to volatility in energy prices. Most notably, the data continue to reflect a moderation in the underlying price pressures. This disinflation is most visible in the euro area, where core inflation (which excludes energy and food) was 2.7% in January and, although it has remained at that level for the fifth consecutive month, more real-time indicators point to lower rates (the momentum of the core HICP, or its annualised quarter-on-quarter rate of change, was 1.8%). In addition, the indicators reflect a slowdown in wage growth and a compression of corporate margins across the euro area, reinforcing the medium-term disinflationary outlook. In the US, the latest core CPI figure offered slightly more optimism, after months of downward resistance. Specifically, core inflation decreased by 0.1 pp to 3.2% in December; although a modest decrease, this was the first since August and it was also accompanied by an annualised month-on-month rate of 2.7% (five-month low), as well as the second consecutive decrease in services inflation (although this indicator remains high, at 4.4% year-on-year).

China beats expectations and reaches the 5.0% growth target. In Q4 2024, the Chinese economy accelerated significantly, recording GDP growth of 1.6% quarter-on-quarter (up from 1.3% in Q3, revised upwards by +0.4 pps compared to the first estimates) and 5.4% year-on-year (vs. 4.6% in Q3). With these figures, which are the highest since the first half of 2023 (when the economy was recovering from a long period of zero-COVID policies), China's GDP managed to grow by 5.0% in 2024 as a whole, beating expectations and meeting the authorities' target. This acceleration came with signs of improvement in domestic demand and benefited from the support measures announced by the Chinese authorities since the summer, in addition to continued strong export growth and some signs of frontloading (such as the increase in exports to the US at the end of 2024) in anticipation of the expected US-China tariff hikes.

Advanced economies: CPI

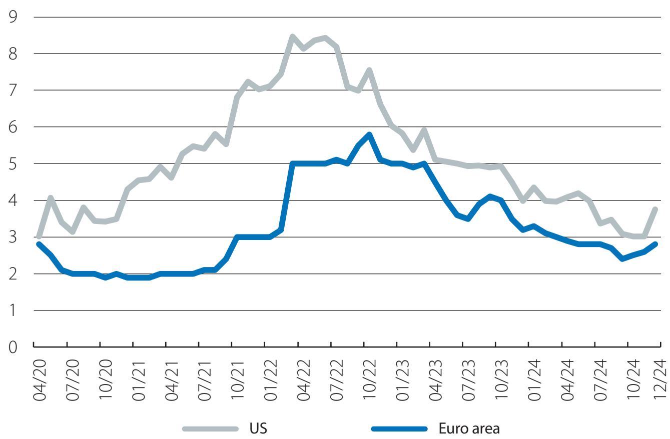
Year-on-year change (%)



Note: *Core inflation excludes energy and all food.*
Source: *BPI Research, based on data from the Bureau of Labor Statistics and Eurostat.*

Consumer inflation expectations for the next 12 months

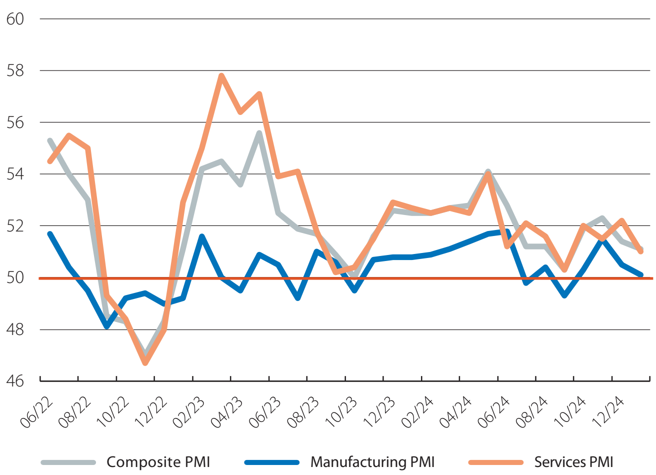
*(%) **



Note: ** Median quantitative expectation of respondents.*
Source: *BPI Research, based on data from the Federal Reserve Bank of New York and the ECB.*

China: Caixin PMI

Index



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

Measuring Trump 2.0's fiscal room for manoeuvre

A concerning starting point

The federal government's 2024 fiscal year[1] ended with a government deficit of 1.8 trillion dollars: this represents 6.4% of GDP and an increase of 138 billion dollars over the previous year (6.2% of GDP). From a historical perspective, this is a very high figure. The average deficit over the past 50 years is 3.8% of GDP, and since 1946 it has only exceeded the 2024 level in six years: from 2009 to 2012, during the Great Recession, and from 2020 to 2021, in the years of the pandemic, both being periods of recession with a high unemployment rate. In 2024, however, the average unemployment rate was 4.0% and GDP growth was strong, which makes the current situation more worrying. The outlook is not terribly encouraging either. In fact, the Congressional Budget Office (CBO)[2] estimates that the total deficit will continue to fluctuate between 5% and 7% of GDP over the next decade, with federal government debt rising above 120%. To a large extent, these deficits will deteriorate due to an increase in interest payments (the CBO projects a reduction in the primary deficit, which excludes interest payments, from the current 4.0% to 2.7%).[3]

In this context, we must ask ourselves how the new White House administration's economic policies will affect the deficit. With few details and little clarity on the measures that will be taken (beyond what was discussed in the campaign, we will have to consider the reality of the negotiations in Congress and their final implementation), it is still too early to estimate the net impact accurately. However, we can conduct a preliminary analysis in order to understand the initial implications.

On the revenue side...

The federal government has three main sources of revenue: approximately 50% is derived from personal income tax, 35% from social security and Medicare contributions, 11% from corporate taxes, and the remaining 4% includes duties, inheritance taxes and other income. The CBO estimates that, by the end of 2034, revenues will increase to 18% of GDP from the current 17.1%. However, that projection assumes that the tax reductions stipulated in the Tax Cuts and Jobs Acts (TCJA) approved in 2017 will expire in 2025,[4] resulting in tax rates reverting to higher rates. However, one of the great bastions of Trump's campaign was to make the measures under the TCJA permanent. This would add between 3.5 and 5.0 trillion dollars to the deficit[5] over the next 10 years, bringing it to around 8% or 9% of GDP (with debt climbing above 130%). If other measures proposed during the campaign are also approved, such as deductions on social security benefits, tips and overtime work and an additional corporate tax rate cut to 15%, estimates point to an extra 3 trillion dollars in deficit.

Alongside this deterioration in the deficit, the main new source of revenue highlighted in the election campaign by the new administration has been tariffs. However, the collection of tariffs falls far short of the projected deterioration of the deficit. For instance, in 2024 the government collected just 80 billion dollars in tariffs, representing 2% of total revenues (in contrast, personal income tax revenues amounted to 530 billion dollars). Even in an extreme case in which a 100% tariff were introduced on all imports of goods from China, the extra revenue would come to 400 billion dollars per year, but only if we assume that the 100% tariff does not cause a fall in import volumes, which is highly improbable: with such high tariffs, it is unlikely that the imports affected could represent a recurring and stable income on which the Treasury would be able to count. Similarly, a universal 10% tariff on all imports of goods could raise between 3 and 4 trillion dollars on a cumulative basis over the next decade, but again this is assuming local demand is inelastic to import prices and that there is no substitution or fall in import volumes. In addition, there is some uncertainty over the purpose of their use: will tariffs be used merely as a negotiating strategy and therefore as a temporary tool, or as a recurring and more permanent source of revenue?

1. US fiscal years span from 1 October to 30 September.
2. The CBO is a non-partisan congressional agency tasked with providing economic and budget analysis.
3. The CBO's projections are prepared on the assumption that, over the next decade, both revenues and expenditure will follow current policy trends and that inflation and GDP growth will average 2.0% and 1.8%, respectively. For further details, see the Focus «Deficit and debt on the rise: the future of the US' public finances» in the MR09/2024.
4. The Tax Cuts and Jobs Acts cut the corporate tax rate from 35% to 21% and reduced the maximum rates for each personal income tax bracket.
5. See «Tax Cuts and Jobs Act Expiration: Options for the Tax Code», Yale Budget Lab, 2024, «The 2024 Trump Campaign Policy Proposals: Budgetary, Economic and Distributional Effects», Penn Wharton Model, August 2024 and «Donald Trump Tax Plan Ideas: Details and Analysis», Tax Foundation, October 2024.

... and on the expenditure side?

An alternative way to avoid the deterioration of the deficit could be spending cuts. To that end, the president created the DOGE (Department of Government Efficiency), led by Elon Musk, who declared an intention to cut spending by 2 trillion dollars over the next 18 months. Federal spending is divided into three categories. The first is «mandatory» spending (60% of the total), which includes commitments such as social security and health; this is stipulated by current legislation, so changes to laws are required in order to implement cuts. That is, it is difficult to reduce it, both from a legal standpoint and from a welfare perspective (since it mainly includes social security benefits and healthcare). The second category is discretionary spending, which is negotiated each year in Congress and in 2024 amounted to 1.8 trillion dollars.[6] However, discretionary spending does not seem easy to cut either (approximately 50% is defence spending) and, in any event, it is at historically low levels and looks set to decline under the CBO's continuity forecasts. The third type is interest payments on government debt, which is where much of the deterioration is concentrated. In 2024, interest payments increased to 949 billion dollars, which is more than the total spending on defence (826 billion) or Medicare (870 billion) and represents almost 15% of total spending. Interest payments are likely to continue to rise. In fact, in the CBO's baseline scenario, with an interest rate around 4% and in which the primary deficit is predicted to fall from the current level of 4.0% to 2.7% by 2034, it is estimated that interest payments will increase to 1.7 trillion dollars (4% of GDP vs. 3% today). Stabilising interest spending would require a clearly greater fiscal effort and/or a scenario with significantly lower interest rates: we estimate that it would require either a reduction in the primary deficit of up to 1.5% of GDP in 10 years, or interest rates to converge on their pre-pandemic level of 2%.[7] Reducing interest payments would require an even greater fiscal effort or even lower interest rates.

In short, the fiscal scenario in which Trump finds himself at the beginning of his second term is very different from that of 2017 (see first chart). The overview of the current state of the public accounts and of the major fiscal proposals put forward by the new administration during the electoral campaign points to a sustained increase in the deficit and, consequently, in the level of debt. Given this outlook, doubts arise regarding the new administration's true capacity to implement its fiscal proposals.

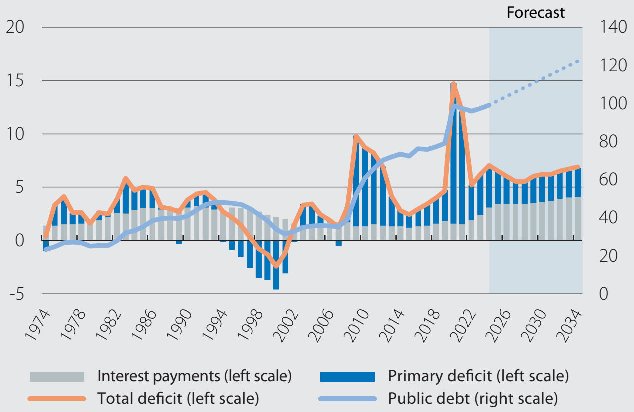
6. It should be noted that the target for spending cuts stated by the DOGE is greater than the total discretionary spending.
7. These estimates are based on the simulation of the evolution of debt

$$d_{t+1} = d_t + \frac{i_{t+1} - g_{t+1}}{1+g_{t+1}} d_t - b_{t+1}$$

assuming nominal GDP growth according to the CBO. In one case, we set the evolution of interest rates as projected by market forwards as of mid-January 2025 and, in the other, we set the evolution of the primary deficit according to the CBO.

US: historical deficit and debt levels and CBO projections

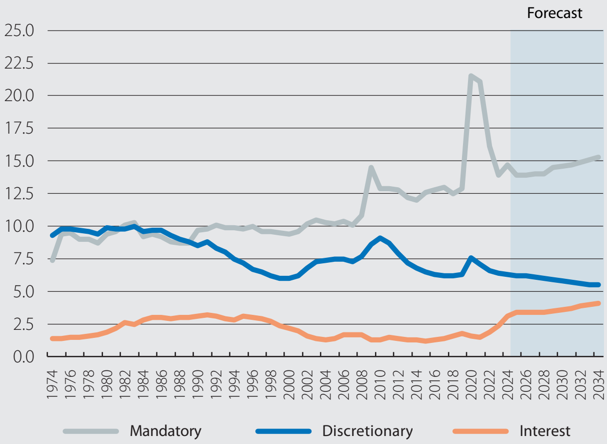
(% of GDP) (% of GDP)



Note: *The negative figures on the left-hand axis indicate a surplus, and the positive figures, a deficit.*
Source: *BPI Research, based on data from the CBO.*

US: public spending by category

(% of GDP)



Source: *BPI Research, based on data from the CBO and the Treasury Department.*

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

UNITED STATES

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Activity									
Real GDP	2.9	2.8	2.9	3.0	2.7	2.5	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.4	2.9	3.4	3.5	3.8	4.1	3.3	...
Consumer confidence *(value)*	105.4	104.5	106.3	98.9	102.2	110.6	112.8	109.5	104.1
Industrial production	0.2	–0.3	–0.5	0.0	–0.4	–0.2	–0.6	0.5	...
Manufacturing activity index (ISM) *(value)*	47.1	48.2	48.8	48.5	47.3	48.2	48.4	49.2	50.9
Housing starts *(thousands)*	1,421	1,365	1,407	1,340	1,332	1,379	1,294	1,499	...
Case-Shiller home price index *(value)*	312	...	325	329	332	...	336	...	...
Unemployment rate *(% lab. force)*	3.6	4.0	3.8	4.0	4.2	4.1	4.2	4.1	...
Employment-population ratio *(% pop. > 16 years)*	60.3	60.1	60.2	60.1	60.0	59.9	59.8	60.0	...
Trade balance[1] *(% GDP)*	–3.1	–2.9	–2.8	–2.8	–2.9	–3.1	–3.0	–3.1	...
Prices									
Headline inflation	4.1	3.0	3.2	3.2	2.6	2.7	2.7	2.9	...
Core inflation	4.8	3.4	3.8	3.4	3.2	3.3	3.3	3.2	...

JAPAN

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Activity									
Real GDP	1.5	...	–0.9	–0.9	0.5	...	–	–	–
Consumer confidence *(value)*	35.2	37.2	38.9	37.0	36.8	36.3	36.4	36.2	35.2
Industrial production	–1.4	–2.7	–4.3	–2.9	–1.8	–1.7	–1.9	–2.8	...
Business activity index (Tankan) *(value)*	7.0	12.8	11.0	13.0	13.0	14.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.5	2.5	2.6	2.5	2.5	2.5	2.4	...
Trade balance[1] *(% GDP)*	–3.0	...	–1.2	–1.0	–1.0	...	–1.0	...	...
Prices									
Headline inflation	3.3	2.7	2.5	2.7	2.8	2.9	2.9	3.7	...
Core inflation	3.9	2.4	3.2	2.2	2.0	2.3	2.4	2.4	...

CHINA

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Activity									
Real GDP	5.4	5.0	5.3	4.7	4.6	5.4	–	–	–
Retail sales	7.8	3.3	4.7	2.6	2.7	3.8	3.0	3.7	...
Industrial production	4.6	5.6	5.8	5.9	5.0	5.6	5.4	6.2	...
PMI manufacturing *(value)*	49.9	49.8	49.7	49.8	49.4	50.2	50.3	50.1	49.1
Foreign sector									
Trade balance[1,2]	865	995	841	864	897	995	965	995	...
Exports	–5.1	4.6	–1.7	4.4	5.4	10.0	7.0	10.5	...
Imports	–5.5	1.1	1.6	2.5	2.3	–1.8	–4.0	1.0	...
Prices									
Headline inflation	0.2	0.2	0.0	0.3	0.5	0.2	0.2	0.1	...
Official interest rate[3]	3.45	3.10	3.5	3.5	3.4	3.1	3.1	3.1	3.1
Renminbi per dollar	7.1	7.2	7.2	7.2	7.2	7.2	7.2	7.3	7.3

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Retail sales *(year-on-year change)*	–1.9	1.0	0.0	0.2	2.0	1.8	1.6	1.9	...
Industrial production *(year-on-year change)*	–1.7	...	–4.7	–3.9	–1.6	...	–1.9	...	...
Consumer confidence	–17.4	–14.1	–15.4	–14.3	–13.1	–13.6	–13.8	–14.5	–14.2
Economic sentiment	96.4	95.9	96.1	96.1	96.3	95.1	95.8	93.8	95.3
Manufacturing PMI	45.0	45.9	46.4	46.3	45.8	45.5	45.2	45.1	46.6
Services PMI	51.2	51.5	50.0	53.1	52.5	52.1	49.5	51.6	51.3
Labour market									
Employment (people) *(year-on-year change)*	1.4	1.2	1.1	1.0	0.9	...	–	–	–
Unemployment rate *(% labour force)*	6.6	6.4	6.5	6.4	6.3	6.3	6.2	6.3	...
Germany *(% labour force)*	3.0	3.4	3.3	3.4	3.5	3.4	3.4	3.4	...
France *(% labour force)*	7.3	7.5	7.4	7.5	7.5	7.7	7.7	7.8	...
Italy *(% labour force)*	7.7	6.5	7.1	6.7	6.2	6.0	5.9	6.2	...
Real GDP *(year-on-year change)*	0.5	0.7	0.4	0.5	0.9	0.9	–	–	–
Germany *(year-on-year change)*	–0.1	–0.2	–0.1	–0.2	–0.3	–0.2	–	–	–
France *(year-on-year change)*	1.1	1.1	1.4	1.0	1.2	0.7	–	–	–
Italy *(year-on-year change)*	0.8	0.5	0.3	0.7	0.5	0.5	–	–	–

Prices

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
General	5.5	2.4	2.6	2.5	2.2	2.2	2.2	2.4	2.5
Core	5.0	2.8	3.1	2.8	2.8	2.7	2.7	2.7	2.7

Foreign sector

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Current balance	2.1	...	2.6	3.2	3.3	...	3.5	...	...
Germany	5.8	...	6.1	6.3	6.2	...	6.0	...	...
France	–1.0	...	–0.5	–0.4	–0.1	...	–0.3	...	...
Italy	0.0	...	0.5	0.9	1.1	...	1.3	...	...
Nominal effective exchange rate [1] *(value)*	**94.7**	**95.1**	**95.2**	**95.2**	**95.6**	**94.2**	**94.2**	**93.5**	**93.1**

Credit and deposits of non-financial sectors

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Private sector financing									
Credit to non-financial firms [2]	2.7	0.7	0.3	0.4	0.8	1.2	1.0	1.5	...
Credit to households [2,3]	1.7	0.5	0.3	0.3	0.6	1.0	0.9	1.1	...
Interest rate on loans to non-financial firms [4] *(%)*	4.6	4.9	5.1	5.1	4.9	4.4	4.4	4.2	...
Interest rate on loans to households for house purchases [5] *(%)*	4.4	4.6	4.8	4.8	4.7	4.3	4.3	4.2	...
Deposits									
On demand deposits	–8.5	–3.9	–8.8	–5.5	–2.5	1.1	1.5	1.8	...
Other short-term deposits	21.1	12.3	18.4	14.4	10.5	5.9	6.1	4.5	...
Marketable instruments	20.3	20.0	20.5	19.8	22.0	17.9	17.0	16.3	...
Interest rate on deposits up to 1 year from households *(%)*	2.7	3.0	3.2	3.1	3.0	2.6	2.6	2.5	...

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.*

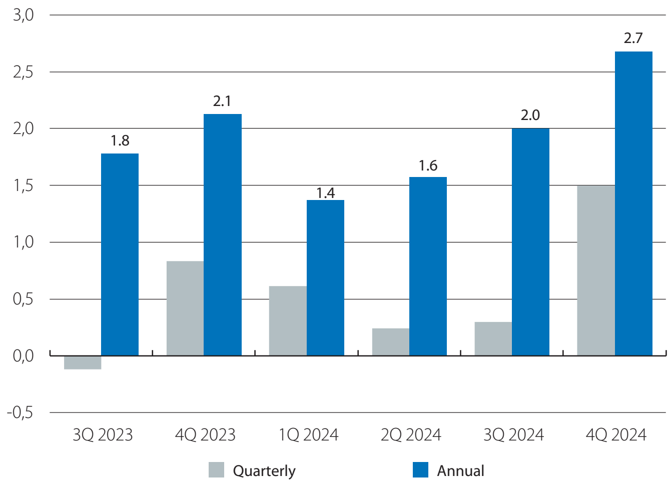
Strength in 2024 illuminates 2025

GDP surprised positively in Q4 24. Quarter-on-quarter growth was 1.5%, putting year-on-year growth at 2.7% and annual growth at 1.9%, above BPI Research and *consensus* forecasts. There are no details on the performance of the various components, but focusing on annual growth, it was robust domestic demand - via private consumption - that supported the economy. This strong development in the final months of 2024 skews the risks upwards for BPI Research's growth forecast for 2025 (2.3%). In fact, the strength of growth in Q4 has created very positive momentum for 2025, since in a scenario of zero quarterly growth, the economy would still advance by 1.3% this year. Looking at the components, investment should recover, reflecting the expected acceleration in the implementation of the NGEU funds, which are entering their penultimate year; signing of investment contracts between AICEP and private investors scheduled to start in 2025 and run for the next 10 years (420 million euros to be executed by 2035); and less restrictive financing conditions. Private consumption will also continue to show strength, supported by the robustness of the labour market and the prospect of an increase in real disposable household income. External demand should take the edge off the growth in activity, reflecting the high import content of domestic demand and the expectation of an acceleration in GFCF and the resilience of private consumption; and also derived from some caution about the performance of exports, given the still hazy international environment regarding the impacts of the US's more protectionist policies. Meanwhile, the European Commission's economic sentiment indicator strengthened again in January, reaching 107.2 points, up two tenths on November and December; and households have regained some confidence, with an improvement in the outlook for their financial situation over the next 12 months and better prospects for making major purchases over the next 12 months.

Inflation falls in January 2025. In fact, the year-on-year rate of change in the Consumer Price Index (CPI) fell to 2.5% in January, down from 3.0% in December. The same happened with the underlying CPI (down to 2.6% from 2.8% last December). INE points out that the slowdown compared to December's figures is partly explained by the base effect associated with the end of the VAT exemption on a number of essential foodstuffs and the increase in electricity prices in January 2024. Nevertheless, the figures for January 2025 are higher than those recorded a year ago (2.3% for the Overall CPI and 2.4% for the Underlying CPI), which highlights the resilience of the trajectory of this "last mile" towards the 2% target value. A growth in activity above that of European partners (which could translate into a more assertive demand dynamic), a strong labour market and all the latent geopolitical issues are the main risks on the price horizon.

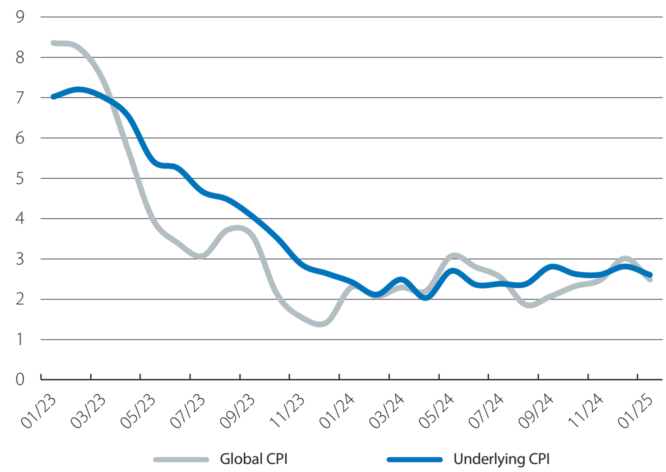
The balance of goods ended the year with a deficit of 27.7 billion euros, just below that of 2023. Based on INE's estimates for exports and imports of goods in Q4, it is likely that the former will have risen by 2.6% and the latter by 1.8% over the year as a whole. Meanwhile, exporting companies expect their exports to grow by 4.6% in 2025 (in nominal terms). The outlook

Evolution of real GDP
(%)



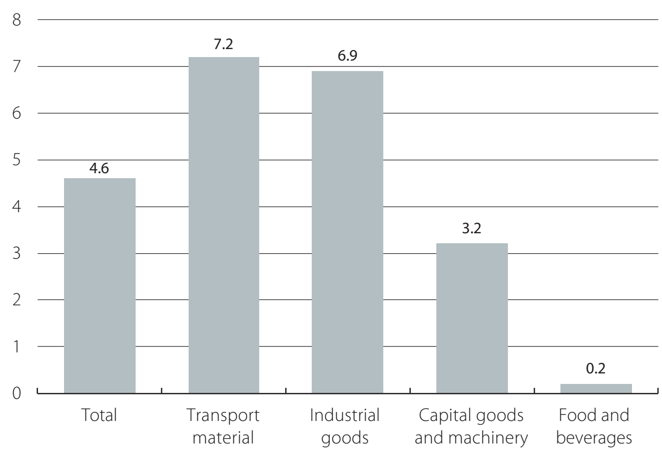
Source: *BPI Research, based on data from the National Institute of Statistics.*

CPI
Y-o-Y Var. (%)



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

Outlook for export growth in 2025
(Nominal rate of change)



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

by sector differs considerably, with greater optimism among companies producing industrial goods and transport equipment. This outlook will reflect some optimism about business possibilities with some of the main trading partners, but should be subject to a considerable degree of uncertainty related to the possible increase in protectionist policies. In terms of the balance of goods, we don't rule out the possibility of a widening deficit, especially if it is confirmed that GFCF will accelerate and consumption will remain strong.

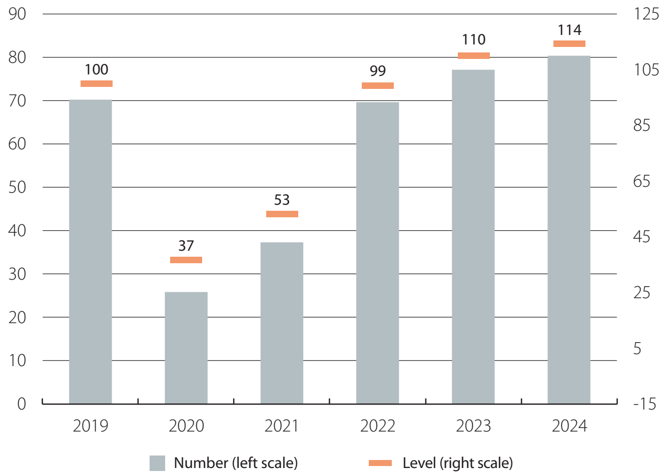
2024 set new records for national tourism. Thus, last year the sector registered 31.6 million guests and 80.3 million overnight stays, corresponding to year-on-year increases of 5.2% and 4.0%, respectively. This result was in line with BPI Research's forecast for an increase in guests (+5.5%). The increase in the number of overnight stays was higher among foreign tourists (+4.8%) than among resident tourists (+2.4%). In terms of source markets, the United Kingdom continues to lead the way, although the most significant increases in overnight stays came from tourists from the American continent, namely from Canada and the United States of America (+17.1% and +12.1% respectively). The outlook for 2025 continues to be good, due to the recovery of the purchasing power of nationals and the maintenance of a strong dollar.

Public accounts end 2024 in positive territory for the second consecutive year. More specifically, the budget balance (cash basis) stood at 0.1% of GDP last year as a whole, compared to 1.7% in 2023 (excluding the impact of the transfer of the CGD Pension Fund to CGA). The smaller surplus is explained by the significant increase in expenditure, which exceeded that of revenue (9.2% and 5.1%, respectively), as had been indicated in the various months of the year. The slight surplus was higher than the government's estimate (-0.4% of GDP), which poses positive risks for the national accounts data. Indeed, considering the difference in optics estimated by the government, it is possible that the surplus in national accounts was around 1.0% of GDP, which, if confirmed, would far exceed the government's estimate (0.4%) and BPI Research's (0.5%).

The fall in interest rates has brought dynamism back to bank lending. The non-financial private sector's loan portfolio ended the year up 2.2% year-on-year, in contrast to the performance in the first half of the year. This was especially true of the mortgage loan portfolio, which, after falling by more than 1% at the start of the year, ended 2024 with a very positive sign, up 3% year-on-year. At the time of writing, there is still no information on new operations for the year as a whole, but the figures up to November point to significant growth, up 32% on the same period last year. In addition to the downward cycle in interest rates, other factors also help to explain this dynamism, namely the weight of younger people in new mortgage operations in the last few months of the year, following the entry into force of tax measures to exempt them from certain taxes.

Stays

Number (millions) *Level (2019 = 100)*



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

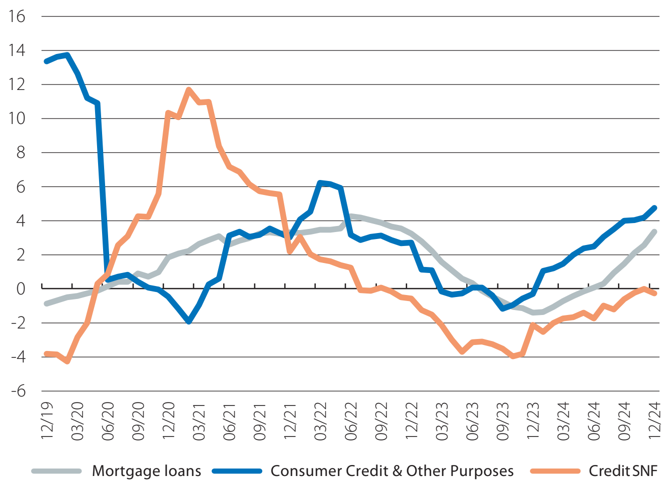
Budget Execution of the Public Administration (main headings)

January-December	2019	2021	2022	2023 *	2024	Var. 2024 *vs.* 2019	Var. 2024 *vs.* 2023 (million euros)
Revenue	41.5	42.5	41.9	43.0	45.2	3.7	5,900
Tax	24.2	23.8	24.1	24.6	25.4	1.2	1,969
Social Sec. Social Sec.	10.4	11.2	10.8	11.0	12.0	1.6	2,858
Expenditure	41.8	46.5	43.3	41.3	45.1	3.3	10,114
Expenses on staff	10.1	10.9	10.0	9.8	10.6	0.5	2,053
Transfers transfers	17.9	20.2	19.2	17.7	19.9	2.0	5,985
Acquisition of goods and services	6.2	6.8	6.6	6.5	7.0	0.8	1,250
Interest	3.8	3.2	2.7	2.5	2.6	–1,2	251
Investment	2.3	2.9	2.7	2.8	2.9	0.6	352
Budget balance	–0.3	–4.0	–1.4	1.7	0.1	0.4	–4,214

Note: ** Adjusted value of the transfer from the CGD Pension Fund to CGA.*
Source: *BPI Research, based on data from the Directorate-General for the Budget.*

Loan portfolio to the non-financial private sector

Annual rate of change (%)



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

Population, immigration and trends

Europe is experiencing a demographic winter. Indeed, the most recent *Ageing Report* reveals that the population in the EU is expected to peak in 2026 (at 453 million people), but that from then on it will start to fall, until it reaches 432 million in 2070, a drop of around 4% on the 2022 level. Not only is the population in this region expected to fall, but there is also a change in the age structure, with a greater predominance of older people. In this context, the economic dependency ratio[1] is expected to rise from just over 45% in 2022 to almost 70% in 2070, along with rising costs related to ageing (i.e. pension costs, health and long-term care costs, among others).

The scenario drawn up for the EU can be transposed to Portugal, but with different figures: the European Commission estimates that Portugal's population could shrink by around 14% between 2022 and 2070, to around 9 million people, while the economic dependency ratio is expected to worsen by more than 27 p.p., to 75.8%, the 8th highest among all Member States.

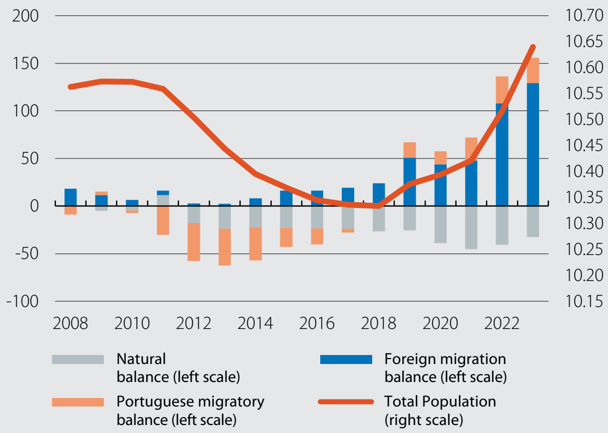
However, the country has seen positive developments in recent years. In fact, Portugal's resident population has increased by an average of 0.6% over the last five years, putting the total (of more than 10.6 million people) at the highest levels since at least 1941.[2] More than half of Portugal's resident population are women, a quarter are over 65 (compared to 23% under 25) and the median age is around 47. In addition, more than 46% had only completed basic education and the vast majority (more than 90%) were Portuguese.

Population growth in recent years is explained solely by positive migration balances, which have made it possible to offset the ongoing negative natural balances. This means that the increase in the resident population in Portugal over the last 5 years is only explained by the increase in the foreign population: the data indicate that the reduction in the resident Portuguese population was 0.6%, on average, compared to an increase in the foreign population of over 7% on average in the same period.

We need to go back to 2008 to find the last year in which the natural balance was slightly positive. As regards net migration, the country's greater attractiveness has made it possible to offset the departure of Portuguese people that characterises the Portuguese context. Thus, the

Evolution of the resident population in Portugal

(Thousand individuals) *(Millions of individuals)*



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

migration balance has been on an upward trajectory since 2017, although it was interrupted in 2020 by the COVID-19 pandemic. Subsequently, from 2021 onwards, the trend has increased and, in 2023, the balance was positive at 155,701 people, that is, the equivalent of around 1.5% of the total resident population in Portugal in 2023. The quantum is quite significant: using data from 2022 (the latest information available for the EU as a whole), Portugal's migration balance (1.3% of the resident population that year) was the 11th highest, in contrast to Malta's 4.0% and below that of neighbouring Spain (1.5%). However, these data have the effect of the war in Ukraine.[3] If we analyse the data for 2021, which excludes this effect, Portugal occupied 4th place, with the migration balance representing 0.7% of the population residing in Portugal.

Geographically, the improvement in the migratory balance in recent years is mainly due to the North (largely due to the Porto Metropolitan Area), the Centre (namely the West, Aveiro and Coimbra regions) and the Lisbon Metropolitan Area (especially Lisbon and Sintra). If we analyse the evolution of the migratory balance since 2017 by NUTs, we see that the coast is the preferred area, with Lisbon and Porto standing out. In the case of Lisbon, the migration balance in 2023 was almost 3 times higher than that recorded in 2017. The ratio approaches 4 if we consider the Lisbon Metropolitan Area and almost 9 times in the case of the Porto Metropolitan Area.

1. It relates the proportion of the inactive population aged over 65 to the total employed population aged between 20 and 64. In other words, at the moment, there are around two people working for every pensioner (45%), but by 2070, if trends continue, there will be just over one person for every potential pensioner.
2. This was the first year for which we found statistics on the total resident population in Portugal.

3. For example, in Germany, the increase in Ukrainian immigrants exceeded 930,000 in 2022 and in Czechia the increase exceeded 275,000, which explains why the migration balance in Czechia went from representing 0.5% of the resident population in 2021 to 2.9% in 2022 (placing the country in second place in this ranking).

In this context, the foreign population residing in Portugal reached 9.8% of the total in 2023, a trajectory that cannot be dissociated from the economic environment experienced in the country: Portugal recorded GDP and employment growth rates close to 3%, while the unemployment rate was heading towards historically low levels.

But who are the people who chose Portugal to start a new life? In terms of origin, almost 40% of the foreign population residing in Portugal comes from Central and South America, followed by Europe (with 27%). By country, the top 5 most representative nationalities in the resident foreign population include Brazil, followed by Angola, Cape Verde, the United Kingdom and India. These five nationalities together represent more than half of the foreign population in 2023. The evolution of the last two years is largely explained by citizens coming from Brazil (they explain more than 47% of the increase in the foreign population in the last two years), followed by three African countries (Angola, São Tomé and Príncipe and Cape Verde), Bangladesh and India.

Contrary to the Portuguese population, more than half of the foreign population is male, although the masculinity rate (i.e. the proportion of men in the total population) is quite different between nationalities, with high masculinity rates in Asian countries (such as India and Bangladesh, with rates of around 80%), and much lower rates in individuals from Angola or Brazil (with an almost even balance between men and women).

Additionally, the foreign population is younger than the Portuguese population (more concentrated in the age group of 25 to 44 years old, which represents almost 50% of the resident foreign population). This is reflected in the median age which, in the case of the foreign population residing in Portugal, is around 37 years, compared to almost 48 years in the case of the Portuguese population. Finally, they are also more qualified: 30.5% have higher education qualifications, compared to almost 25% of the Portuguese population; if we look at the lower levels of education, 47.1% of the Portuguese population had only completed basic education, compared to 25.8% of the foreign population.

The importance of immigration for a country suffering the consequences of rapid aging is undeniable. A recent study by the Francisco Manuel dos Santos Foundation[4] concludes that, in a scenario without migration, natural population growth would be insufficient to meet the demand for human resources, regardless of the economic scenario analysed (i.e. whether a more positive or more negative economic scenario is assumed).

4. For more information, see Peixoto, J. [et al.] (2017). «Migrações e sustentabilidade demográfica». Francisco Manuel dos Santos Foundation.

Foreign population residing in Portugal in 2023

			Variation in the last two years		
	Total	% of total foreigners	In no.	In %	% increase in foreigners
Brazil	368,391	35.3	163,722	80	47.4
Angola	55,564	5.3	29,813	116	8.6
Cape Verde	48,792	4.7	14,804	44	4.3
United Kingdom	47,407	4.5	5,475	13	1.6
India	44,048	4.2	13,800	46	4.0
Italy	36,227	3.5	5,408	18	1.6
Guinea Bissau	32,523	3.1	12,177	60	3.5
Nepal	28,914	2.8	8,425	41	2.4
China	28,123	2.7	5,149	22	1.5
France	27,549	2.6	830	3	0.2
Sao Tome and Principe	26,460	2.5	15,284	137	4.4
Bangladesh	25,662	2.5	14,726	135	4.3
Ukraine	23,499	2.3	–3,695	-14	–1.1
Germany	22,858	2.2	4,518	25	1.3
Romania	20,881	2.0	–8,030	-28	–2.3
Spain	20,573	2.0	2,027	11	0.6
Pakistan	17,147	1.6	9,651	129	2.8
USA	14,091	1.3	7,222	105	2.1
Netherlands	13,592	1.3	2,579	23	0.7
Russia	10,894	1.0	5,744	112	1.7

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

More specifically, to give us an idea of the scale, even in a low economic growth scenario, by 2040 there would be a shortfall of almost 600,000 people, rising to more than 1 million by 2060. If we look at a more positive economic growth scenario, the deficit would exceed 2.5 million in 2060.

However, it is important to keep two issues in mind: as the study indicates, an increase in migration is not, in itself, a solution to the problems associated with the ageing of the Portuguese population (for example, it doesn't solve the lack of infrastructure to support older people, such as home care or health care). Additionally, it is important to ensure that the integration of foreigners is done appropriately, in order to avoid negative perceptions on the part of nationals.[5]

Vânia Duarte

5. The Francisco Manuel dos Santos Foundation's Immigration Barometer reveals that Portuguese people's perceptions change according to nationality, making it easier to accept people who come from countries with cultures more similar to ours. Other conclusions of the study point out that 51% of Portuguese consider immigrants to be a symbolic threat to Portuguese values and traditions (mainly accentuated by certain nationality groups) and that they contribute to the increase in crime (answer given by more than 67% of those surveyed).

The economic accounts of agriculture in 2024

Last December, INE released the first estimate of the economic accounts for agriculture for 2024. It is this data that allows us to assess the sector's overall performance in terms of production volume, prices, intermediate costs and added value, for example. In this article we seek to clarify these aspects.

Increased production volume and weather conditions

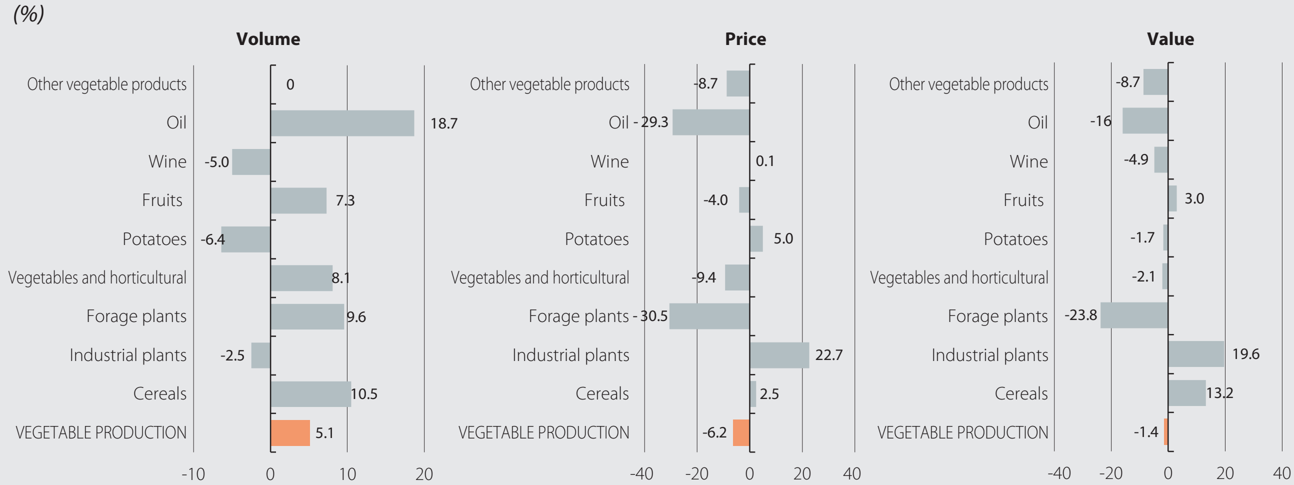
In 2024, the overall volume of production in the agricultural branch of the economy increased by 4.4%. Crop production, the most important, increased by 5.1% and animal production by 3.6%. Despite the increases in quantity, the fall in prices in crop production of -6.2% and in animal production of -3.5%, resulted in the total value of agricultural production practically stabilising compared to the previous year (-0.5%).

It was an agricultural year that benefited most from weather conditions, which favoured volumes. Unlike last year, there was no territory affected by severe drought. The level of rainfall also meant that, from February onwards, the percentage of the total storage volume of the dams was higher than the previous year and the 1990-2024 average (north of the Tagus it was the sixth wettest agricultural year in the last twenty).

However, the variations in volume and price have different explanations depending on the type of crop we're talking about. For example, vegetables are expected to increase in volume, especially industrial tomatoes, whose production is expected to increase by 3.5% due to the 5.0% increase in the area under cultivation, since productivity and quality have

Variation in crop production in 2024

(%)



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

Variation in animal production in 2024

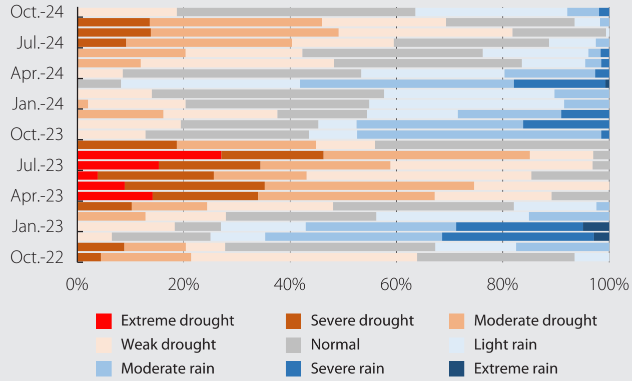
(%)

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

decreased. The reduction in the price of vegetables (-9.4%) is fundamentally due to fresh vegetables (-14.2%).[1] Potatoes fell by 6.4% in volume, as a result of decreases in area and productivity in the main producing regions, with the area planted reaching the lowest value in the series. Prices are expected to have increased by 5.0%, reflecting reduced production. Fruit production is expected to increase in volume (7.3%), especially olives (27.1%), due to new olive groves coming into production in the Alentejo.[2] Fruit prices are expected to fall by 4.0%, especially olives (-29.5%). The main reason for this decrease is the normalisation of demand for olives for olive oil, which was very high in previous years as a result of the shortage on the international market. In wine, the harvest went smoothly, with an estimated decrease in production compared to the previous year (-5.0%), and despite some phytosanitary problems, good quality wines are expected. One of the most important crops in the sector - olive oil - is expected to see an increase in production in volume (18.7%), as a result of the combination of the excellent previous campaign (2023/2024) and the good current campaign (2024/2025). The price is expected to fall sharply (-29.3%) compared to the high prices in 2023, as a result of the increase in world olive oil production and the normalisation of supply.

In livestock production, there was an increase in the slaughter of cattle, which may be related to disturbances in live animal exports to Israel, which is why the slaughter of these animals in Portugal increased. Poultry is expected to see an increase in volume (5.5%), due to higher chicken and turkey production (production particularly affected by health problems in 2023).

PDSI Index (Palmer Drought Severity Index)
% of territory



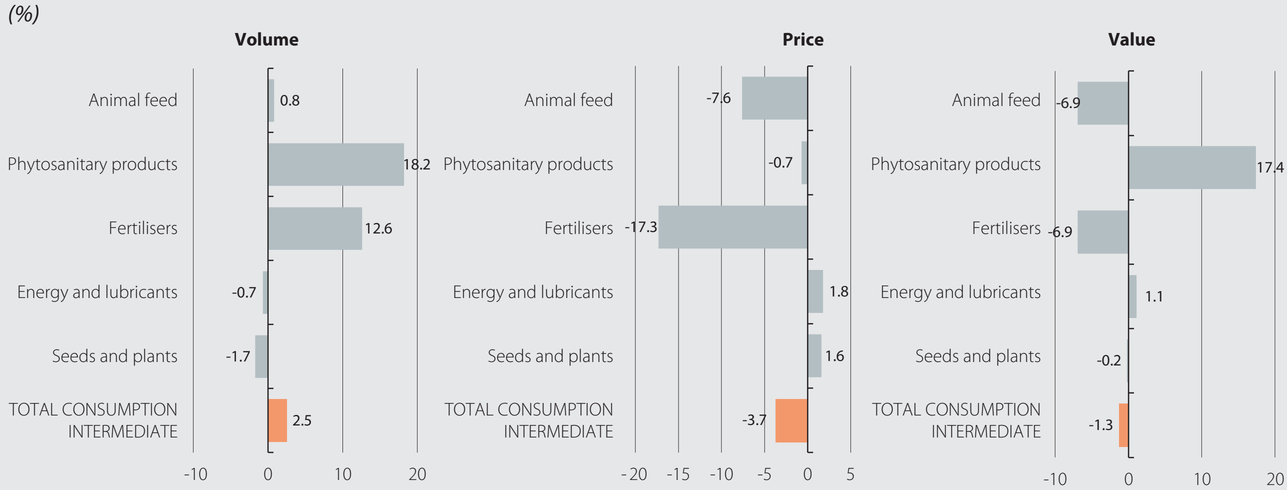
Note: *The PDSI index is based on the concept of the water balance, considering data on the amount of precipitation, air temperature and available water capacity in the soil, and makes it possible to detect the occurrence of periods of drought byclassifying them in terms of intensity.*
Source: *BPI Research, based on IPMA data.*

Intermediate costs and profitability

The value of intermediate costs slightly reduced its weight in relation to the total value of agricultural production, which contributed to a slight improvement in GVA compared to the previous year (+1%). Specifically, despite the increase in the quantity of Fertilisers, Plant Protection Products and Animal Feed used, the reduction in prices (especially in Fertilisers and Animal Feed, -17.3% and -7.6% respectively), allowed for a reduction in intermediate costs as a whole.

For the second year running, the change in the price of Fertilisers and soil improvers was negative (in 2023 the price had fallen by 26.8%), after the 29.5% increase in

Variation in intermediate consumption in 2024
(%)



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

1. It should be noted that, in 2023, the price of fresh vegetables increased by 23.2%.
2. However, the price of olives is expected to fall (-29.5%) due to the normalisation of demand for olives for olive oil, which was very high in previous years as a result of the shortage on the international market.

2022 associated with the side effects of the war in Ukraine (Russia is a major fertiliser producer). Under the heading of animal feed, INE points out that the abundant production of pasture in 2024 meant that, on the vast majority of farms, extensive livestock could be fed without the need for advance supplementation. In addition, good forage production has considerably increased the ability to self-supply hay and silage, reducing the need to buy preserved food and feed. In other words, the increase in food availability was reflected in the drop in prices.

Indeed, the sector's net operating surplus improved by 21.8% (+540 million euros) and *the bottom line* (net corporate income) improved by 23.5% compared to 2023 (+530 million euros). Although intermediate costs fell by more than 102 million euros in absolute terms, they were not the biggest contributor to this improvement in profitability - the main culprit was other operating subsidies. INE indicates that the transition to the new Common Agricultural Policy plan has intensified support for producers, resulting in an increase of 728 million in subsidies (+128%), after a decrease in 2023 (-33%).

In short, the performance of the agricultural sector was more positive in 2024 as a result of increases in production in volume, some price reductions in inputs and increased subsidies. The agricultural sector had been losing weight in the national economy from 2020 until 2022. In 2023 it recovered slightly (GVA from Agriculture was equivalent to 2.19% of the economy's total GVA). The performance in 2024, which we explained in this article, will have contributed to maintaining this weight.[3]

Tiago Belejo Correia

3. At the time of writing, data is available up to Q3 2024.

Agri-food Prices: from producer to consumer and from pressure to calma

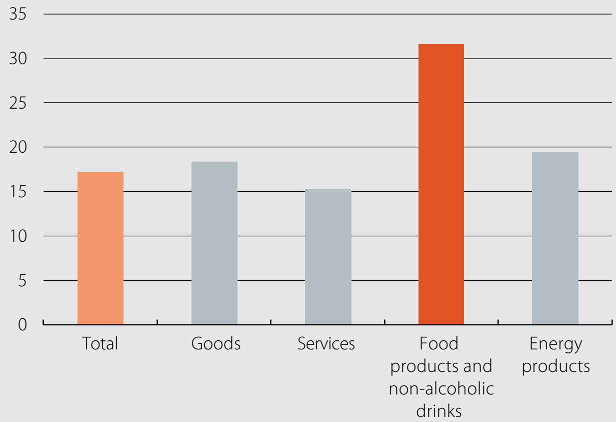
Food prices were, along with energy prices, the main players in the inflationary shock that began in 2021 and intensified in 2022 as a result of the war in Ukraine. Specifically, compared to the pre-pandemic, we see that in November 2024 the prices of food and non-alcoholic beverages increased by 31.6%, more than 10 p.p. higher than the increase in energy (19.4%) and more than 14 p.p. higher than the overall CPI (17.2%), as we see in the first image. The increase in prices over this period has been particularly punishing for the Portuguese consumer in basic products such as oils and fats (which includes olive oil, +55.5%), vegetables (+36.8%), fruit and meat (both +34.5%).

At the beginning of 2023, food inflation exceeded 21%. At the time, 66% of the food basket was increasing in price by more than 20% year-on-year and the rest was increasing in price by between 10% and 20% (second graph). Since then, food inflation has been moderating, even reaching a zero rate in March 2024. In recent months, food inflation and global inflation have shown similar values,[1] but food inflation still shows significant dispersion: in November 2024, 20% of the food basket had inflation of between 5% and 10%, while at the other extreme 33% of the basket had inflation of less than 2%.

One of the main factors behind the rise in food prices was the sharp increase in production costs in the agricultural sector. Measured by the price index for the means of production in agriculture, we see that inflation of these *inputs* peaked in June 2022 (34.7% year-on-year). Until June 2022, the price increase in seeds & plants and machinery & equipment was more modest (+9.5% and +16.9% respectively), but it was explosive in other categories such as energy & lubricants (+64.5%), animal feed (+65.7%) and especially fertilisers & soil improvers (+185.7%). This was helped by the war in Ukraine and the fact that Russia is a major producer of fertilisers worldwide. Compared to the pre-pandemic, fertilisers and animal feed continued to cost almost twice as much at the end of 2023, although Q1 2024 saw slight downward corrections in these two items (-1.4% and -3.4%, respectively). As we can see in the fourth graph, there was a strong correlation in this period between agricultural *input* prices, farm-gate prices and consumer food prices. It is interesting to note the time lag between the increase in *input* prices and the increase in producer prices. Indeed, it was found that the high increase in

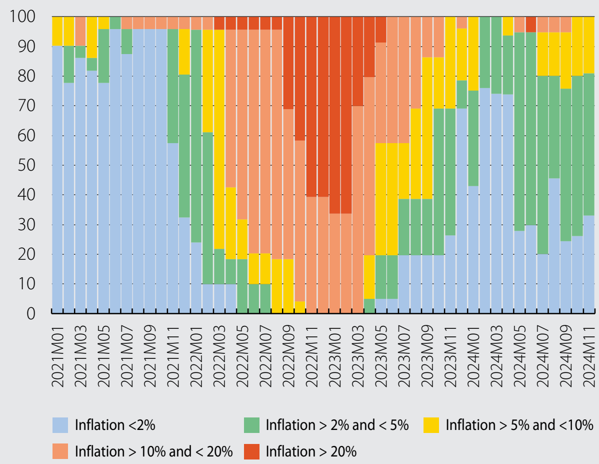
1. In November 2024, 2.5% for the Global CPI and 2.7% for the CPI for food and non-alcoholic beverages.

Variation in consumer prices
Nov. 24 compared to Dec. 19 (%)



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

Food inflation traffic light
As a % of the food sub-class of the CPI



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

Prices paid by farmers
Variation (%)

	Dec. 19 - Jun. 22	Dec. 19 - Dec. 23	Dec. 23 - Mar. 24
Total	**46.4**	**45.8**	**–0.5**
Seeds & Plants	9.5	17.7	4.7
Energy & Lubricants	64.5	38.4	1.9
Fertilisers	185.7	83.8	–1.4
Crop protection products	39.0	48.3	0.0
Animal feed	65.7	79.2	-3.4
Machines & equip.	16.9	21.4	3.0

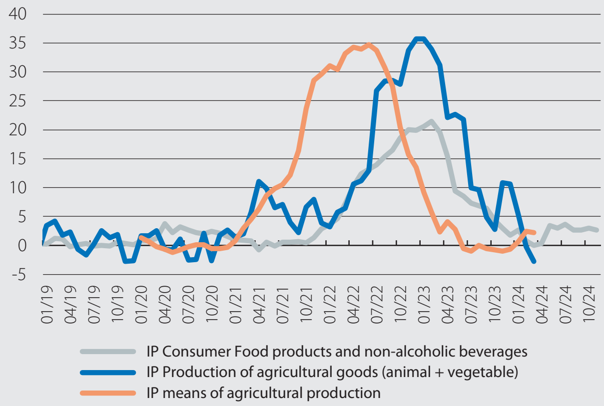
Source: *BPI Research, based on data from the National Institute of Statistics.*

input prices was reflected in ex-producer prices between 7 and 9 months later, as the transfer between producer and consumer prices is much faster. This could be due not only to the length of the farming cycle, but also to the pre-established contracts between producers and large retailers for the prices to be paid each season. In other words, during a certain period, producers will not be able to fully and immediately pass on unexpected increases in their costs to those who buy their production from them, because the contracts in place do not allow them to do so. Naturally, other factors contribute to producer and consumer prices: weather conditions, the volume of production of each product, labour costs (both in the agricultural sector and in large retailers), taxation,[2] other contextual costs for retailers and competition and *pricing power* between retailers.

Looking ahead to the next few quarters, we expect the trend of price moderation to consolidate. The prices of the main agricultural products traded on the international markets have fallen from their 2022 peaks and the futures markets point to a slightly more stable trend, with prices closer to those prevailing before the start of the war in Ukraine. In particular, the futures markets predict that the price of wheat will be around 600 dollars per *bushel* over the next two years. This value is slightly higher than the price recorded in December 2019 (550 dollars), but much lower than the peak reached in the spring of 2022 (when it exceeded 1,100 dollars). A similar trend is expected for corn and soybean prices, as can be seen in the last chart. This trend of gradual moderation in agricultural prices reflects, on the one hand, the favourable outlook for cereal supply during the 2024-2025 marketing year and, on the other, signs of a slowdown in world economic activity, with more modest growth rates (especially in China), which is moderating demand for agricultural products on international markets.

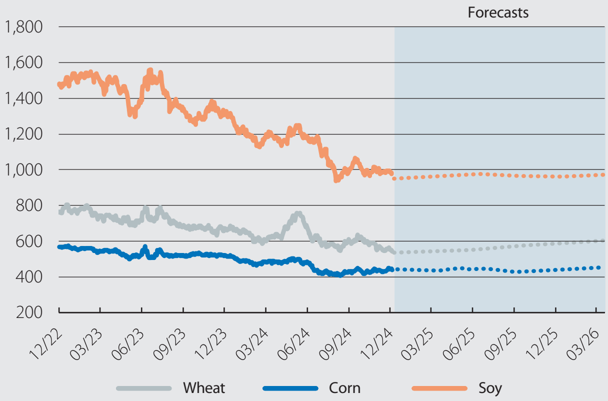
Tiago Belejo Correia

Consumer, producer and means of production prices
Y-o-Y Var. (%)



Note: *IP Production of agricultural goods refers to the price at which the farmer/producer first sells them on leaving the farm/production unit. For IP Production and IP Means of Production, data is available until March 2024.*
Source: *BPI Research, based on data from the National Institute of Statistics.*

International prices of food commodities
Dollars per unit of product



Source: *BPI Research, com base nos dados da Bloomberg.*

2. Remember that during this period the "Zero VAT" measure came into force on a wide range of food products.

Activity and employment indicators

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Coincident economic activity index	3.5	1.5	2.1	1.4	1.1	1.2	1.3	1.2	...
Industry									
Industrial production index	–3.1	0.3	1.4	1.4	–0.8	–0.9	–2.5	–4.9	...
Confidence indicator in industry *(value)*	–7.4	–6.2	–7.9	–6.7	–6.2	–3.9	–3.5	–4.1	–4.7
Construction									
Building permits - new housing (number of homes)	7.5	...	–17.5	8.4	12.0	...	26.9	...	...
House sales	–18.7	...	–4.1	10.4	19.4	...	–	–	–
House prices *(euro / m² - valuation)*	9.1	8.5	5.5	6.8	8.5	13.2	13.7	13.7	...
Services									
Foreign tourists *(cumulative over 12 months)*	19.1	6.2	13.1	9.5	7.8	6.2	6.4	6.2	...
Confidence indicator in services *(value)*	7.6	5.5	6.3	4.3	–0.4	11.9	12.3	17.9	20.2
Consumption									
Retail sales	1.1	3.4	1.8	2.2	3.9	5.7	5.5	5.9	...
Coincident indicator for private consumption	2.9	2.5	2.4	2.2	2.5	3.0	3.0	3.3	...
Consumer confidence index *(value)*	–28.6	–18.0	–24.6	–18.7	–14.3	–14.3	–14.0	–15.0	–15.1
Labour market									
Employment	2.3	...	1.4	1.0	1.2	...	1.3	1.4	...
Unemployment rate (% *labour force*)	6.5	...	6.8	6.1	6.1	...	6.6	6.4	...
GDP	**2.3**	**3.3**	**1.4**	**1.6**	**1.9**	**2.7**	–	–	–

Prices

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
General	4.4	2.4	2.2	2.7	2.2	2.6	2.5	3.0	2.5
Core	5.1	2.5	2.3	2.4	2.5	2.7	2.6	2.8	2.6

Foreign sector

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	...	–5.5	–3.7	0.8	...	2.8	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–4.0	...	–7.3	–5.6	–0.9	...	1.2	...	...
Current balance	**1.3**	**...**	**3.1**	**4.4**	**5.2**	**...**	**5.7**	**...**	**...**
Goods and services	3.3	...	4.6	5.2	5.8	...	6.2	...	...
Primary and secondary income	–2.0	...	–1.5	–0.8	–0.7	...	–0.5	...	...
Net lending (+) / borrowing (–) capacity	**5.0**	**...**	**6.9**	**8.0**	**8.5**	**...**	**9.3**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Deposits [1]									
Household and company deposits	–2.3	7.5	2.7	5.6	6.0	7.5	6.9	7.5	...
Sight and savings	–18.5	–0.3	–14.8	–8.6	–6.7	–0.3	–2.1	–0.3	...
Term and notice	22.2	15.3	27.1	24.0	20.9	15.3	16.6	15.3	...
General government deposits	–12.4	26.7	9.1	4.5	29.1	26.7	11.1	26.7	...
TOTAL	**–2.6**	**7.9**	**2.9**	**5.6**	**6.7**	**7.9**	**7.1**	**7.9**	**...**
Outstanding balance of credit [1]									
Private sector	–1.5	2.2	–0.8	–0.3	1.1	2.2	1.9	2.2	...
Non-financial firms	–2.1	–0.3	–1.7	–1.7	–0.6	–0.3	0.0	–0.3	...
Households - housing	–1.4	3.3	–0.7	0.1	1.5	3.3	2.6	3.3	...
Households - other purposes	–0.3	4.8	1.5	2.5	4.0	4.8	4.2	4.8	...
General government	–5.5	0.6	5.9	–5.8	–4.1	0.6	–4.0	0.6	...
TOTAL	**–1.7**	**2.2**	**–0.5**	**–0.5**	**0.9**	**2.2**	**1.7**	**2.2**	**...**
NPL ratio *(%)* [2]	**2.7**	**...**	**2.7**	**2.6**	**2.6**	**...**	–	–	–

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 ended 2024 on a strong note and faces 2025 with optimism

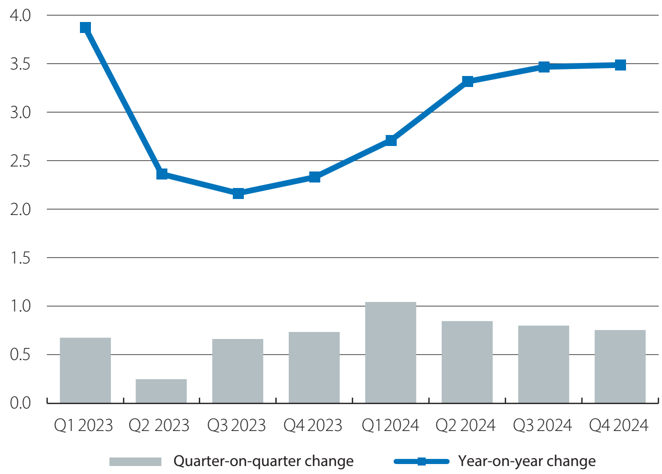
Economic activity has shown remarkable buoyancy in a challenging environment. The Spanish economy grew by 3.2% in 2024 and exceeded our forecast of a year ago of 1.4%, despite the geopolitical uncertainty, high inflation and interest rates still at restrictive levels. This growth was driven by the strength of the foreign sector, tourism (which contributed 0.7 pps to growth) and the gradual revival of private consumption, which is gaining prominence to the detriment of public consumption, which was strong up until Q3. In 2025, the economy is expected to continue to grow above the euro area average, supported by strong household consumption, thanks to the recovery of purchasing power, and the recovery of investment. The major geopolitical challenges and Europe's weak growth represent the main risk factors.

Spain's GDP grows rapidly in Q4 2024 and exceeds expectations. In Q4 2024, GDP grew by 0.8% quarter-on-quarter and 3.5% year-on-year, maintaining the same pace as in Q3. This growth contrasts with the stagnation of the euro area. In 2024 as a whole, GDP grew by 3.2%, 0.5 pps more than in 2023, and it stood 7.6% above the pre-pandemic level. The positive surprise of the figure for Q4 GDP growth will lead us to revise upwards our 2025 growth forecast, which currently lies at 2.3%, due to the knock-on effect of the increased growth during the second half of last year. The labour market also offered good news: according to the Labour Force Survey, the unemployment rate fell to 10.6% in Q4, its lowest level since Q2 2008, and the number of people in employment increased by 34,800 over the previous quarter, an improvement compared to the Q4 average in the period 2014-2019 (+28,300).

Domestic demand, especially private consumption and investment, was the main driver of growth in Q4, contributing 1.2 pps to quarter-on-quarter GDP growth. Private consumption grew by an impressive 1.0% quarter-on-quarter, while investment, especially in equipment and construction, also registered a significant increase. In contrast, foreign demand had a negative contribution of 0.4 pps to quarter-on-quarter growth due to the fall in exports of goods (–1.1% quarter-on-quarter) and stronger imports.

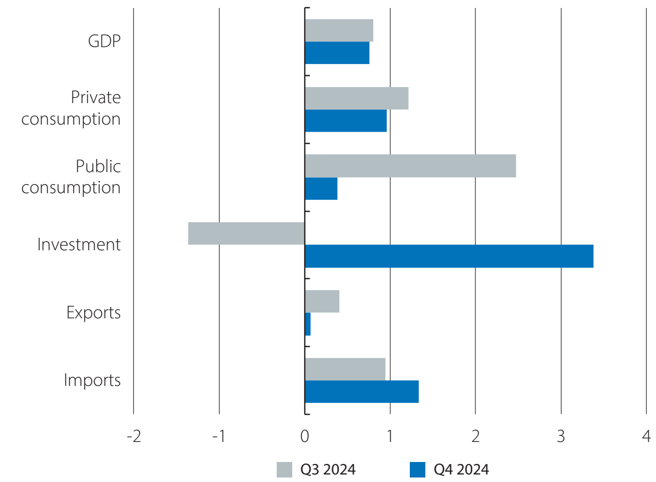
The first activity indicators available for 2025 paint a broadly positive picture, albeit with a slower pace of growth than in Q4 2024. According to Social Security affiliation data, the year started on a good footing. Although the number of registered workers fell, as is usual in the month of January, in seasonally adjusted terms employment registered an increase of 35,750 workers. The PMI for the services sector, for its part, stood at 54.9 points in January, remaining in expansionary

Spain: GDP
Change (%)



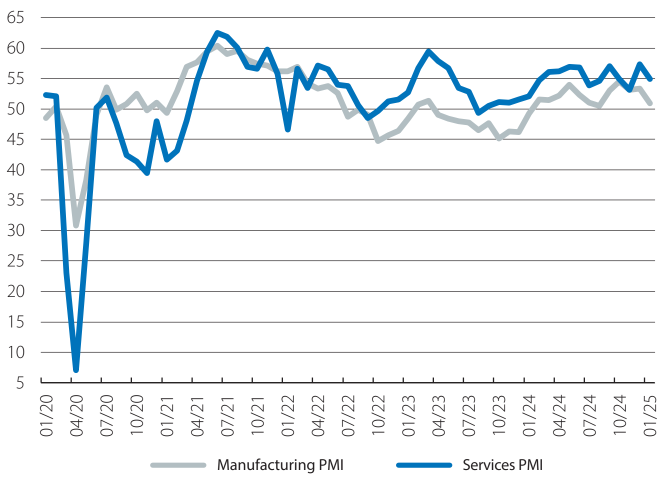
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

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



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

Spain: PMI
Level



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

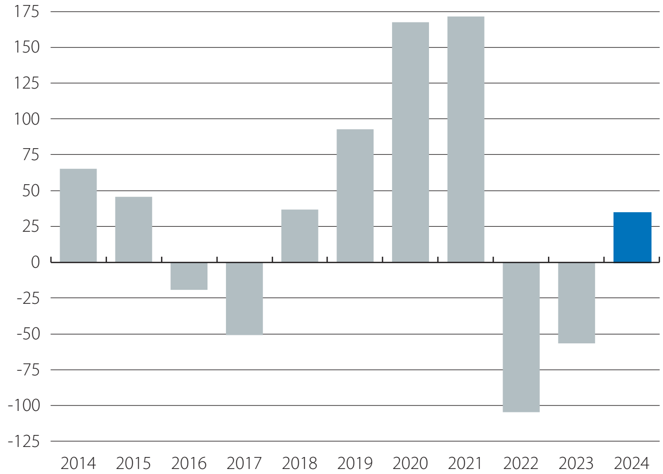
territory (>50), albeit below the figure for December (57.3). However, the signals from industry were less encouraging, as the manufacturing PMI fell to 50.9 points in January, just above the expansion/contraction threshold and below the December figure (53.3), weighed down by the slowdown in new orders and production. Also, on the consumption side, the CaixaBank Research consumption tracker shows that spending activity with Spanish cards remained buoyant in January with a growth of 3.9% year-on-year, compared to 3.2% in December and 4.1% in November.

Core inflation continues to decline in January, while headline inflation picks up slightly due to energy. Headline inflation rose to 3.0% in January, 0.2 pps above the December figure. In contrast, core inflation (excluding energy and unprocessed food) fell 0.2 pps to 2.4% (3.6% a year ago). The slight uptick in headline inflation in January is explained by the increase in fuel prices and, to a lesser extent, electricity prices due to the rise in taxes on electricity bills (e.g. VAT on electricity rose from 10% to 21% on 1 January). On the positive side, the fall in core inflation seems to indicate that the underlying price trends continue to follow a downward path, beyond the upturn in the headline indicator.

House sales in Spain continue to grow at double-digit rates. Sales grew rapidly again in November (15% year-on-year), consolidating the exceptional increases observed in previous months (51% year-on-year in October). The shift in monetary policy in recent months accounts for much of the sector's revival in 2024. Between January and November, 591,500 transactions were completed, marking a year-on-year growth of 8.1%. The buoyancy in sales, coupled with the acceleration of prices in a context of thriving demand and with supply responding at the same pace, has led us to raise our price and sales forecasts for 2024 and 2025, as explained in detail in the Focus «New forecasts for the Spanish real estate sector: the expansionary cycle takes hold in 2025» in this same report.

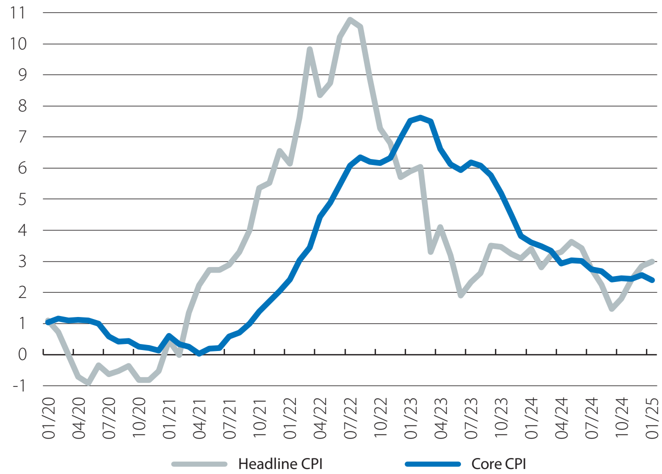
The tourism boom in Spain enables an improvement in the current account balance despite sluggish exports of goods. In the current year to November, exports of goods stagnated in year-on-year terms, while imports fell (–0.26% year-on-year), although the latter are steadily rising. Thus, the trade deficit to November stood at –2.3% of GDP, representing an improvement compared to the –2.5% recorded in the first 11 months of the previous year. The surplus of services for the current year to November, meanwhile, rose to 6.5% of GDP (6.3% in November 2023), hoisted up by the enviable strength of tourism, which closed 2024 with exceptional figures. In 2024, tourist arrivals reached around 94 million, 10.1% more than in 2023, and they spent 16.1% more than in 2023.

Spain: persons in employment
Quarterly change in Q4 (thousands)



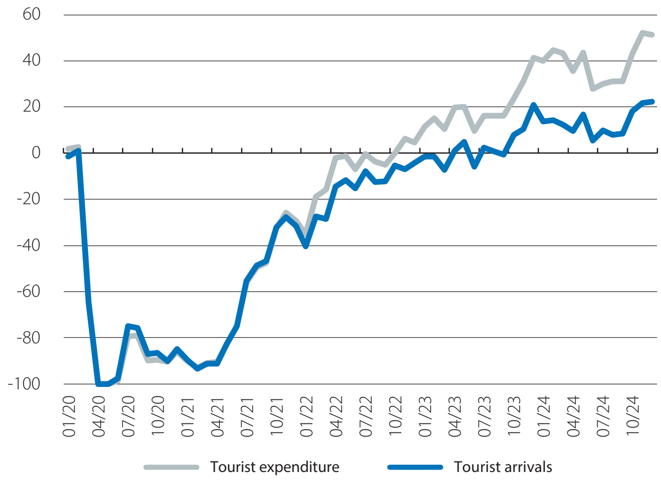
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE, Labour Force Survey).*

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



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

Spain: foreign tourism indicators
Change versus the same month of 2019 (%)



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

2025 Treasury strategy in a context of reduction of Spain's public deficit

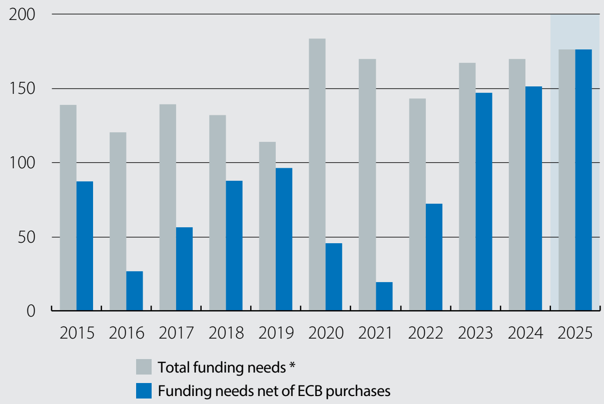
Context: adjustment in the public accounts with the new fiscal rules

In 2025, we expect to see a reduction in the budget deficit of around half a percentage point of GDP, placing it close to 2.8% of GDP. This decrease is largely due to the end of the tax cuts and direct support measures, which in 2024 amounted to 5.5 billion euros (0.4% of GDP). This fiscal scenario already takes into account an exceptional increase in spending of several dozen basis points to support relief in the areas affected by the flooding in the Valencia region, which will be largely offset by the new revenue measures approved in December (minimum corporate tax rate of 15% for multinationals, increase in the top marginal personal income tax rate for capital income, tax on vapers, etc.). However, if the budgets for this year end up being approved and they incorporate additional spending measures, then the deficit could be somewhat higher.

A deficit of less than 3.0% is well below what is expected in countries such as France (between 5% and 6% of GDP) or Italy (deficit of around 3.5%) and it is also fully consistent with the fiscal rules that come into force this year. Specifically, as part of the Fiscal-Structural Plan 2025-2031 recently approved by the European Council, Spain has committed to a 40-bp reduction of its primary structural balance in 2025.[1] As interest expenditure is expected to remain stable as a percentage of GDP in 2025, the reduction of the deficit will essentially result from a reduction of the primary structural deficit with the withdrawal of the support measures (as a general rule, the European Commission has a very narrow definition of what it considers a one-off measure, so measures to combat inflation fall within the perimeter of the structural balance).

Spain: treasury funding needs

(EUR billions)

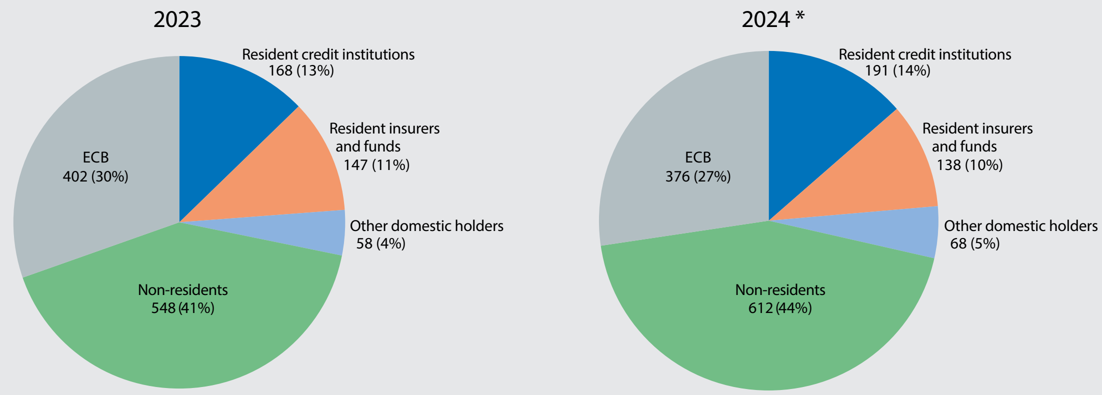


Note: ** The repayment figures do not include bills.*
Source: *BPI Research, based on data from the Secretary General of the Treasury.*

Thus, the fact that the economy is in a good position in the cycle will allow public revenues to enjoy strong growth of around 6% year-on-year. The increase in public spending, meanwhile, will be lower, bearing in mind that the structural plan sets the growth for Spain's net computable primary expenditure[2] (which does not include the

Spain: holdings of state debt (bills, bonds and obligations)

EUR billions and structure (%)



Note: ** Data as of November 2024.*
Source: *BPI Research, based on data from the Secretary General of the Treasury.*

1. The plan proposes a cumulative fiscal adjustment in the period 2024-2031 in the primary structural balance of 2.9 percentage points of GDP (0.42 points on average each year). In this way, and taking into account that interest spending will remain stable below 3% of GDP, the government deficit would fall from 3.0% of GDP in 2024 to 0.8% in 2031, while the primary balance would fall from –0.4% of GDP in 2024 to +2.0% in 2031.
2. Computable expenditure includes net public expenditure on interest payments, discretionary measures relating to revenue, expenditure on EU programmes fully offset by revenue from EU funds, national expenditure on co-financing programmes financed by the EU, cyclical elements of expenditure on unemployment benefits, and ad-hoc and other temporary measures.

measures announced in response to the floods) at slightly below 4% in 2025.[3]

Despite the expected decrease in the deficit, the Treasury's funding needs remain high. In 2025, the Treasury expects a net issuance of 60 billion euros, mainly covered by medium- and long-term instruments. This is a significant amount and exceeds the 2024 figure by 5 billion, due to the funding needs derived from the measures to support those affected by the floods (it should be recalled that the central government has approved measures amounting to over 16 billion euros, with an impact on the deficit of 0.5 pps of GDP), although it is 5 billion less than in 2023. The gross issuance of debt in the medium and long term will be 176.5 billion euros.

The Treasury's strategy, following the culmination of the ECB's withdrawal

This year the ECB will complete its withdrawal and will stop making reinvestments, marking a change of scenario for the placement of the debt to be issued.[4] However, the context of higher interest rates relative to the period 2016-2022 and the anchoring of expectations should increase the attractiveness of public debt among investors, whether domestic or non-resident. In 2024, foreign investors increased their holdings of Spanish debt by 64.3 billion euros, well above the historical average in the period 2003-2021 (16.4 billion annual average increase). With this increase, the proportion of the total holdings of our debt (including bills, which account for just 5% of the debt portfolio) that is in the hands of foreign investors has risen to 44.2%, compared to 40.3% at the end of 2022.

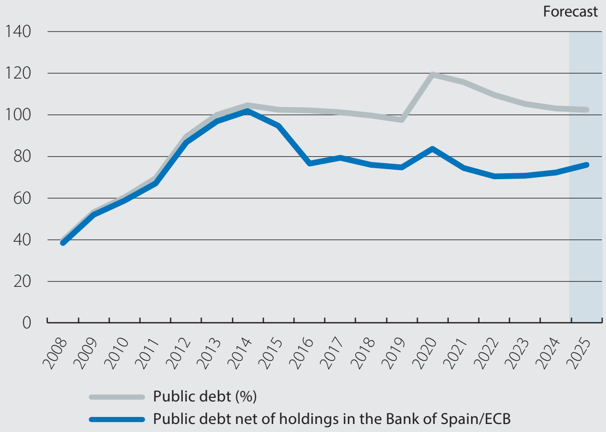
On the other hand, Spanish retail investors have led domestic interest in Treasury bills, becoming the main holders, with a record increase of 24.1 billion euros since the end of 2022, although it has stabilised following the first rate cuts (–746 million between June and November). Thus, domestic investors as a whole account for 28.6% of all the debt in circulation (26.3% at the end of 2022).

Looking at the total stock, we estimate that public debt held by the ECB in 2025 will represent 25.7% of the total debt (26.3% of GDP), leaving the remaining 73.7% (75.9% of GDP) in the hands of other investors. Between 2012 and 2015, the proportion of the total debt held by non-central bank actors far exceeded this figure (peaking at 101.6% of GDP in 2014).

In 2024, the average cost of new Spanish Treasury issues fell to 3.16%, 28 bps less than in 2023 and 80 bps below the October 2023 peak. This reduction is in line with the ECB's cumulative fall in rates, which remain higher than the average cost of the portfolio, and this will cause the average cost to continue to rise temporarily. The average life of the portfolio has remained stable at around eight years, as the Treasury has taken advantage of the years with low rates to issue debt in the longer sections of the curve. This stability has mitigated the impact of the rise in interest rates, with the average cost of debt increasing by just 57 bps since 2021 despite the surge in interest rates.

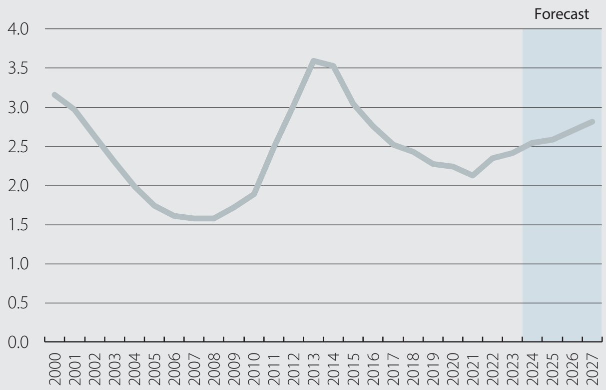
3. Net primary expenditure growth is expected to average 3% between 2025 and 2031.
4. In 2024, the ECB already ceased its net purchases of Spanish sovereign debt and limited itself to reinvesting repayments under the PEPP (pandemic emergency purchase programme) amounting to 18.6 billion (1.2% of GDP). In 2025, the ECB will stop reinvesting repayments under the PEPP.

Spain: public debt
(% of GDP)



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

Spain: interest payments on public debt
(% of GDP)



Note: *Since the average maturity is 8 years, the prediction is performed using the implicit market 8-year rate.*
Source: *BPI Research.*

In 2025, the average cost of the total public debt is expected to increase very slightly, as a significant portion of the debt that will be repaid was issued seven or eight years ago at lower rates than the current issuance rates. In particular, interest payments on general government debt as a whole could be 2.5-2.6% of GDP in 2025, taking into account the rebound of sovereign rates through various channels such as the influence of the higher sovereign rates in the US, expectations of higher growth and greater uncertainty regarding where rates will be in the medium to long term. This would be a level similar to that of 2023-2024 and in line with AIReF's expectations, but lower than a decade ago (in 2014, for example, interest payments reached 3.5%).

In the medium term, in 2027, the general government's overall interest payments could be around 2.8% of GDP. Implementing a gradual and sustained fiscal consolidation strategy, in line with the new EU fiscal rules, will thus be key.

New forecasts for the Spanish real estate sector: the expansionary cycle takes hold in 2025

The housing market entered expansive mode in 2024

2024 marked a change of trend for the real estate market. Whereas in 2023 the increase in interest rates led to a slowdown in house prices and a drop in demand (sales fell by 10.2%), in 2024 prices accelerated significantly. Specifically, the growth of house prices rose from 3.9% in 2023 to 6.0% year-on-year in Q3 2024 according to the Ministry of Housing and Urban Agenda (MIVAU), based on appraisal values. The acceleration is even more evident in the index produced by the National Statistics Institute (INE), which is based on transaction prices: the growth rate went from 4.0% in 2023 to 8.2% year-on-year in Q3 2024.

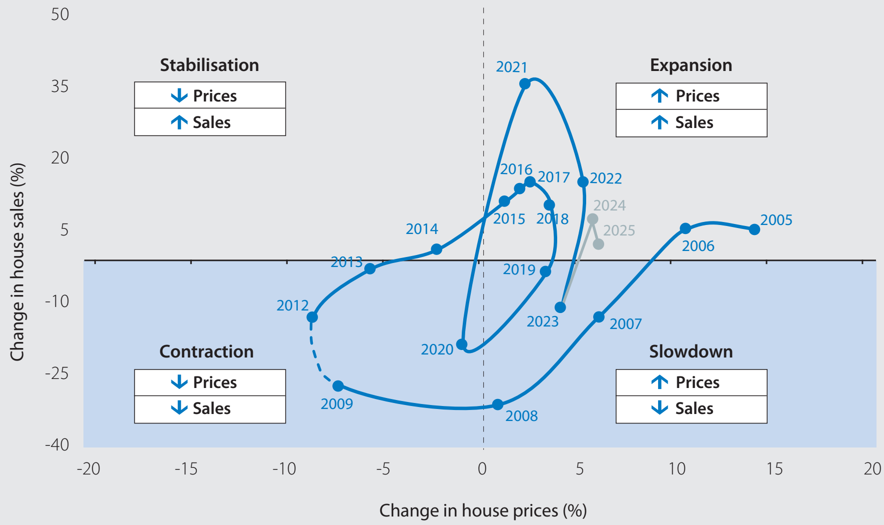
This acceleration in prices has occurred in a context in which housing demand has remained very strong. The number of sales transactions rose by 8.1% year-on-year in January-November of 2024 (628,000 units in the trailing 12 months to November, 24% more than in 2019). This growth is attributable to a series of factors that are driving demand: growth in gross disposable income, increasing foreign demand, positive migration flows, favourable household finances, lower interest rates and an expectation that house prices will continue to rise.

The BPI Research real estate clock reflects this movement: after spending 2023 in the slowdown zone (with a decline in sales, but not in prices), in 2024 it entered the expansion zone (increase in both sales and prices).[1]

The upward trend will continue in 2025

For 2025, we believe that the housing market will remain in this expansive zone. On the one hand, the various factors that have driven demand will remain present. The ECB will continue to lower interest rates, household incomes are expected to continue to regain purchasing power, and the population is also expected to continue to grow. Thus, we expect that the number of sales transactions will reach around 650,000, equalling the figure for 2022. On the other hand, we expect that the housing supply will continue to gradually increase: we have raised our forecast for new construction permits from 125,000 to 135,000 in 2025, after they gained traction in 2024 (+16.5% year-on-year in January-October of 2024, reaching around 125,000 permits in the trailing 12 months). However, the supply of new housing is likely to remain below the rate at which new households are being created, so house prices are likely to grow at rates similar to those observed in 2024. Specifically, we expect

BPI Research real estate clock



Note: *The period 2010-2011 is excluded due to the effect caused by tax incentives.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE), the Ministry of Housing and Urban Agenda (MIVAU) and internal forecasts.*

1. For a description of the movements of the real estate clock in recent years, see the Focus «The BPI Research real estate clock: slowdown in sight», in the MR09/2022. The latest update of the clock was published in the MR03/2024: «The BPI Research real estate clock: from slowdown to expansion».

the housing price index according to the MIVAU (based on appraisal values) to grow by 5.6% and 5.9% in 2024 and 2025, respectively (+0.5 pps and +2.3 pps compared to the previous forecast). In the case of the INE's index (using transaction prices), the upward revision is +1.3 pps and +3.1 pps, respectively, brining the figure to 8.5% in 2024 and to 7.2% for 2025.

According to these new forecasts, house price growth will slightly outpace that of disposable income per household. This will cause the affordability ratio[2] to increase slightly at the aggregate level, going from 7.2 in 2024 to 7.5 in 2025 and placing it a level similar to that of 2022, albeit well below the peak of 9.4 reached in 2007. In this way, the strength of household incomes ought to prevent the emergence of significant imbalances in prices at the aggregate level in the short term, although in the large cities there is a clear affordability problem. In any event, the pattern of house prices will continue to be largely conditioned by the mismatch between supply and demand. In this regard, a lower-than-expected revival of supply could put more pressure than expected on house prices and, depending on the response of demand, could exacerbate the affordability problems.[3]

BPI Research forecasts for Spain's real estate sector (January 2025)

	2021	2022	2023	2024	2025
Sales (Thousands)	566	650	584	630 (572)	650 (578)
New construction permits (Thousands)	108	109	109	125 (115)	135 (125)
House prices (MIVAU) (Annual change, %)	2.1	5.0	3.9	5.6 (5.1)	5.9 (3.6)
House prices (INE) (Annual change, %)	3.7	7.4	4.0	8.5 (7.1)	7.2 (4.1)

Note: *In brackets, October 2024 forecast.*
Source: *BPI Research.*

2. The affordability ratio is calculated by dividing the price of a representative home by the gross disposable income of the median household, and it indicates the number of years of full income that the median Spanish household must dedicate to the purchase an average home.
3. For further details on the current state and future outlook for the sector, see the *Real Estate Sector Report S1 2025*, available at www.caixabankresearch.com at the end of February 2025.

Activity and employment indicators

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Industry									
Industrial production index	–1.4	...	–0.4	0.1	0.2	...	–0.4	...	...
Indicator of confidence in industry *(value)*	–6.5	–4.9	–5.2	–5.5	–2.9	–5.9	–5.2	–4.5	–4.3
Manufacturing PMI *(value)*	48.0	52.2	50.7	52.8	51.5	53.6	53.1	53.3	50.9
Construction									
Building permits *(cumulative over 12 months)*	0.5	...	2.0	4.6	10.2	...	15.9	...	...
House sales *(cumulative over 12 months)*	–10.2	...	–11.0	–10.0	–1.1	...	6.4	...	...
House prices	4.0	...	6.3	7.8	8.2	...	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	18.9	10.1	15.8	14.3	12.3	10.1	11.5	10.1	...
Services PMI *(value)*	53.6	55.3	54.3	56.6	55.2	55.1	53.1	57.3	54.9
Consumption									
Retail sales[1]	2.5	1.7	1.1	0.5	2.6	2.8	0.9	4.0	...
Car registrations	16.7	7.1	3.1	8.5	1.7	14.4	6.4	28.8	5.3
Consumer confidence index *(value)*	–19.2	...	–17.2	–14.4	–13.6	...	...	...	...
Labour market									
Employment[2]	3.1	2.2	3.0	2.0	1.8	2.2	...	...	...
Unemployment rate (% labour force)	12.2	11.3	12.3	11.3	11.2	10.6	...	...	...
Registered as employed with Social Security[3]	2.7	2.4	2.6	2.4	2.3	2.4	2.4	2.4	2.4
GDP	**2.7**	**3.2**	**2.7**	**3.3**	**3.5**	**3.5**	...	...	...

Prices

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
General	3.5	2.8	3.1	3.5	2.2	2.4	2.4	2.8	3.0
Core	6.0	2.9	3.5	3.0	2.6	2.5	2.4	2.6	2.4

Foreign sector

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	...	–6.9	–4.9	–1.8	...	–0.8	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–7.2	...	–9.8	–7.1	–3.1	...	–1.2	...	...
Current balance	**39.8**	**...**	**41.2**	**45.4**	**49.6**	**...**	**49.4**	**...**	**...**
Goods and services	58.8	...	60.5	65.5	69.3	...	69.3	...	...
Primary and secondary income	–19.1	...	–19.2	–20.1	–19.7	...	–19.9	...	...
Net lending (+) / borrowing (–) capacity	**56.0**	**...**	**56.0**	**61.5**	**66.2**	**...**	**65.9**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2023	2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024	11/24	12/24	01/25
Deposits									
Household and company deposits	0.3	5.0	3.3	5.2	4.3	5.0	5.6	5.0	...
Demand and notice deposits	–7.4	1.9	–5.2	–1.9	–1.6	1.9	1.4	1.9	...
Time and repo deposits	100.5	23.7	96.7	68.0	47.5	23.7	32.4	23.7	...
General government deposits[5]	0.5	23.0	–4.6	–4.1	14.8	23.0	20.2	23.0	...
TOTAL	**0.3**	**6.2**	**2.7**	**4.5**	**5.1**	**6.2**	**6.8**	**6.2**	**...**
Outstanding balance of credit									
Private sector	–3.4	0.6	–2.6	–1.3	–0.3	0.6	0.4	0.6	...
Non-financial firms	–4.7	0.3	–3.6	–1.8	–0.6	0.3	0.2	0.3	...
Households - housing	–3.2	0.5	–2.5	–1.5	–0.7	0.5	0.1	0.5	...
Households - other purposes	–0.5	1.8	–0.1	0.7	1.2	1.8	1.9	1.8	...
General government	–3.5	–2.8	–4.8	–2.7	–5.4	–2.8	–3.0	–2.8	...
TOTAL	**–3.4**	**0.4**	**–2.7**	**–1.4**	**–0.7**	**0.4**	**0.2**	**0.4**	**...**
NPL ratio (%)[6]	**3.5**	**...**	**3.6**	**3.4**	**3.4**	**...**	**3.4**	**...**	**...**

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

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

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