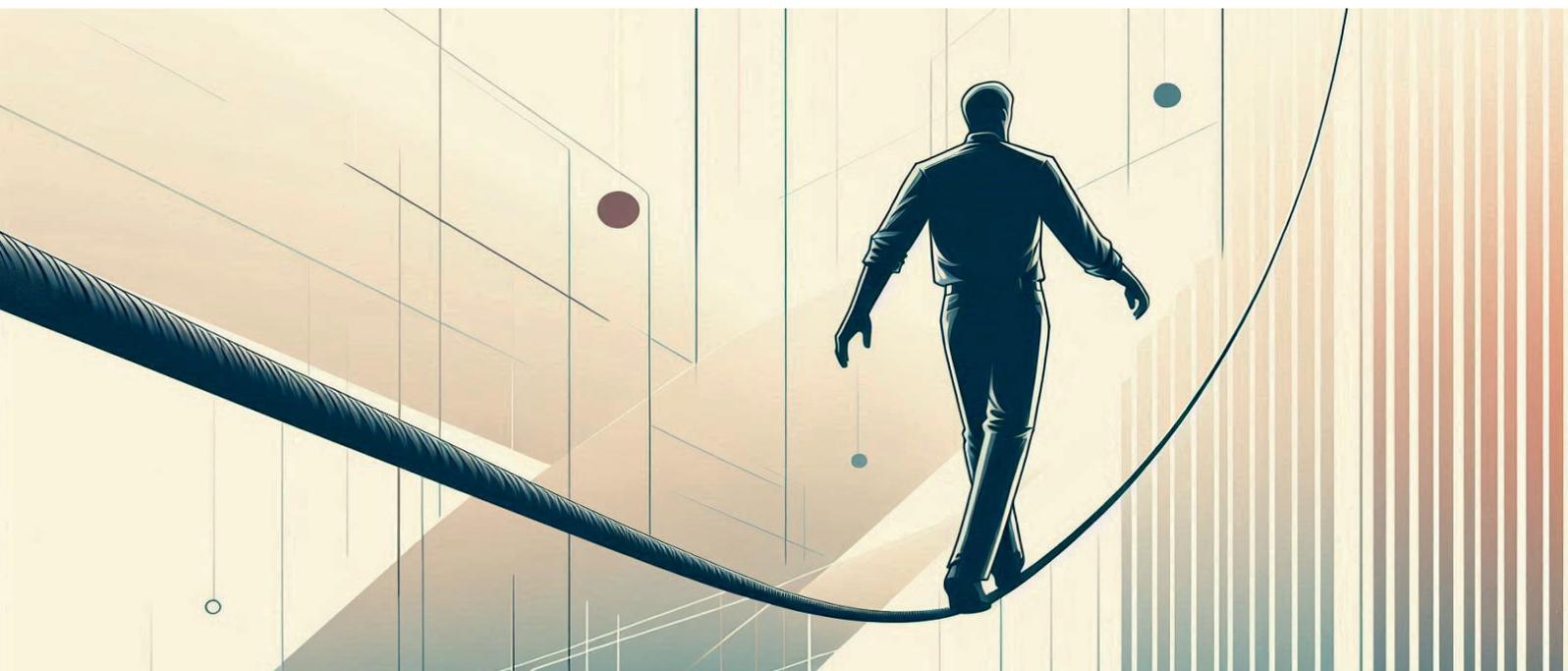


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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
FEBRUARY 2026



INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS

Innovation, expectations and vertigo: is AI-driven concentration reshaping Wall Street?

Risk premiums and macroeconomics: a robust and cross-cutting relationship

INTERNATIONAL ECONOMY

Hours worked and productivity: is Spain an outlier in the EU?

There are reasons why housing has become the top concern among European citizens

The differing speeds of inflation: a differential calculation for the ECB

SPANISH ECONOMY

Treasury funding needs in 2026: high but manageable thanks to strong demand

PORTUGUESE ECONOMY

How is public consumption characterised?

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February 2026

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

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deef@bancobpi.pt

Paula Carvalho

Chief Economist

CaixaBank Research

www.caixabankresearch.com

research@caixabank.com

Enric Fernández

Chief Economist

José Ramón Díez

Head of International Economies
and Financial Markets

Oriol Aspachs

Head of Spanish Economy

Sandra Jódar

Head of Strategic Planning

Adrià Morron Salmeron and

Oriol Carreras

Monthly Report coordinators

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Portugal: economic resilience in a challenging time (and climate)

Portugal ended 2025 with a robust economic performance, in line with the forecasts of leading public and private analysts. As in other developed economies, the Portuguese economy showed resilience throughout the year, overcoming the noise and uncertainty caused by the erratic trade policies of the new US Administration. Portuguese GDP grew by 1.9%, ending the year with significant dynamism and a relevant boost for 2026, although its composition at the turn of the year (decline in imports) and the effect of adverse weather may bring some surprises to the trajectory.

The evolution throughout the past year confirms the favourable pattern: after the contraction observed in the first quarter – essentially explained by base effects associated with the strong fiscal easing at the end of 2024 – the economy accelerated consistently. Between April and December, GDP grew by an average of 0.7%-0.8% per quarter. For the year as a whole, the rate increased from 1.7% in the first half to 2.1% in the second half, reflecting a trajectory «from less to more».

Among the growth drivers, domestic demand clearly stands out. Although we do not yet have the details for the fourth quarter of 2025 (to be released at the end of February), it is clear that all its components contributed positively. Private consumption – which accounts for about 64% of GDP – is expected to have grown by more than 3% year-on-year, driven mainly by the consumption of durable goods. Public consumption is expected to have registered moderate expansion, in line with economic growth, reflecting the prudent management of public finances. Investment is expected to have increased by more than 4%, benefiting from the strengthening of public investment (above 3% of GDP in cash terms), the dynamism of private investment, including real estate, and the accumulation of *stocks*, which supported activity until at least September.

In contrast, the external sector is expected to have weighed on growth. The weakness of trading partners, currency appreciation, and uncertainty stemming from shifts in US economic policy constrained exports: overall, exports of goods increased by only 0.5% in 2025, squeezed by a 4% drop in sales to countries outside the European Union and a significant decline of around 13% to the US. On the other hand, imports grew by 3.9%, in line with the strength of domestic demand. Despite this deterioration in the trade balance, the current account is expected to have ended the year in positive territory, benefiting from surpluses in the services balance – not only in tourism, but also in other strongly performing services.

Solid quarterly growth in activity since April translates into a significant carry-over effect into 2026: Even with zero quarterly growth, the economy would mathematically advance 1.1% this year. Portugal thus begins 2026 with a dynamic economy, a robust and job-creating labour market, falling debt levels – both for households and the State – and a stable inflation and interest rate environment, close to 2%.

Everything would therefore point to an upward revision of the growth projection for 2026, currently at 2%. However, the start of the year was marked by significant challenges stemming from the extreme weather events recorded since the last week of January. The most affected regions – Centro, Vale do Tejo and Península de Setúbal – represent approximately 25% of GDP, 27% of employment and 15% of the country's businesses. Beyond the irreparable human losses, the economic effects will be significant, resulting from periods of production stoppage, disruption of trade flows and potential job losses, which may even prove to be more lasting.

Nevertheless, it is important to emphasise that Portugal has important instruments to mitigate these impacts, ranging from existing budgetary leeway to the possibility of mobilising external support funds. Added to this is the favourable momentum of activity inherited from 2025, the continued dynamism of the labour market, the execution of European funds (PRR) and stable financial conditions, which should support the recovery. For these reasons, despite internal challenges and the complexity of the international geopolitical environment, the year 2026 maintains the conditions to evolve positively.

Paula Carvalho
February 2026

Chronology

JANUARY 2026

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

NOVEMBER 2025

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

SEPTEMBER 2025

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

DECEMBER 2025

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

OCTOBER 2025

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

AUGUST 2025

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

Agenda

FEBRUARY 2026

- 2 Portugal: industrial production (December).
- 4 Spain: registration with Social Security and registered unemployment (January).
Portugal: employment and unemployment (Q4).
Euro area: CPI flash estimate (January).
- 5 Governing Council of the European Central Bank meeting.
- 6 Spain: industrial production (December).
- 9 Portugal: international trade (December).
- 13 Portugal: average gross monthly salary per worker (Q4).
- 16 Japan: GDP (Q4).
- 19 Spain: foreign trade (December).
- 20 US: GDP (Q4).
- 25 Spain: loans, deposits and NPL ratio (December).
- 26 Euro area: economic sentiment indicator (February).
- 27 Spain: CPI flash estimate (February).
Spain: balance of payments (December).
Portugal: GDP breakdown (Q4).
Portugal: CPI flash estimate (February).

MARCH 2026

- 3 Euro area: CPI flash estimate (February).
- 4 Spain: registration with Social Security and registered unemployment (February).
- 6 Portugal: Fitch rating.
- 9 Portugal: turnover in industry (January).
- 12 Portugal: international trade (January).
- 13 Spain: Fitch and S&P ratings.
- 17 Spain: quarterly labour cost survey (Q4)
- 17-18 Federal Open Market Committee meeting.
- 19 Governing Council of the European Central Bank meeting.
- 19-20 European Council meeting.
- 23 Portugal: house prices (Q4).
- 26 Spain: GDP flash estimate (Q4).
Spain: loans, deposits and NPL ratio (Q4).
Portugal: GDP breakdown (Q4).
- 27 Spain: CPI flash estimate (March).
Spain: Moody's rating.
- 30 Euro area: economic sentiment indicator (March).
- 31 Portugal: CPI flash estimate (March).
Portugal: employment and unemployment (February).
Euro area: CPI flash estimate (March).

Reality or fiction? The answer lies in the data

It is becoming increasingly difficult to ignore the noise caused by the geopolitical context and focus on the signal coming from macroeconomic data. The sense of vulnerability is heightened by the unpredictability surrounding the pace of change in the old international order. This reading is confirmed by a brief review of the first month of the year, which has seen the beginning of a transition process in Venezuela, the signing of a deal between the EU and Mercosur and a Free Trade Agreement with India, tensions on both sides of the Atlantic over the sovereignty of Greenland and a new episode of tension between the US and Iran. As Mark Carney reminded us in Davos, the world is experiencing a disruptive process that bears all the hallmarks of a rupture, rather than an orderly transition, and where the choice is between being either «at the table» or «on the menu» and nostalgia for past times is not a strategy. Thus, in this turbulent environment in which we find ourselves, it is increasingly difficult to separate reality from fiction, and it seems that published economic data lose value as they are a snapshot of an economic context that may have changed within a matter of weeks.

However, in recent years, the data have consistently indicated the resilience of the global economy to various kinds of shocks. Indeed, this is the trend that emerges from the information published to date for the 2025 year-end, which shows a global economy growing at rates close to potential, inflation nearing central banks' targets after the post-pandemic tensions and, notably, a rise in productivity in the US that is offsetting the atypical balance of the labour market (few hirings or redundancies). Therefore, whilst the effects of the two opposing forces that will shape the new future economic reality – fragmentation/geopolitics versus artificial intelligence – continue to manifest themselves, the positive momentum of the landing process continues apace.

Meanwhile, just as sinologists attempt to decipher what lies behind any minor change in China's political-military hierarchy («reading tea leaves», as it is known), macroeconomic analysts seek to select indicators that might predict changes in the tense calm that characterises

the economic and financial landscape. And, while some of them, such as inflation expectations, do not reflect any future tensions in the balance of global supply and demand, geopolitical uncertainty is beginning to generate risk aversion, which is particularly affecting the commodity and currency markets. In this context, the possibility of a recurrence of «Truss moments» – where a sudden loss of fiscal credibility triggers a disorderly market reaction with significant effects on the currency and the long end of the sovereign debt curve – cannot be ruled out. The latest example of such an episode occurred in Japan, where the prime minister's decision to call a snap election and announce a fiscal expansion plan rekindled investors' concerns over budgetary balance, pushing long-term sovereign interest rates to all-time highs (the interest rate on 40-year debt exceeded 4% for the first time). This movement was accompanied by a sharp depreciation of the yen, fuelling rumours of a possible joint intervention by the Japanese Ministry of Finance and the US Treasury in the currency market.

All this is happening precisely at a time when the relationship between commodity markets, currencies, and geopolitical tensions has become a fundamental component of the new global economic order's central architecture, with the dollar as the protagonist and central barometer of all these new dynamics. Questions surrounding the new US administration's intentions for the greenback have led to structural changes in global investment portfolios over the past year, with precious metals acquiring a more prominent role as safe-haven assets. In this context, the sensitivity of gold and silver prices to changes in the dollar's exchange rate has been steadily increasing, as demonstrated by the sharp correction on 30 January (–10% for gold and –30% for silver), when the announcement of the official candidate for the Fed presidency (Kevin Warsh, the most orthodox of the nominees) led to a strong appreciation of the US currency. When looking for signals, it is on the dollar – as the link between commodities, geopolitical risk and uncertainty levels – that we will need to focus our attention in the coming months.

José Ramón Díez

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

Financial markets

| | Average 2000-2007 | Average 2008-2019 | Average 2020-2022 | 2023 | 2024 | 2025 | 2026 |
|----------------------------|----------------------|----------------------|----------------------|--------|--------|--------|--------|
| INTEREST RATES | | | | | | | |
| Dollar | | | | | | | |
| Fed funds (lower limit) | 3.18 | 0.54 | 0.67 | 5.25 | 4.25 | 3.50 | 3.00 |
| 3-month SOFR | 3.62 | 1.01 | 1.07 | 5.37 | 4.37 | 3.71 | 3.10 |
| 12-month SOFR | 3.86 | 1.48 | 1.48 | 4.95 | 4.19 | 3.48 | 3.10 |
| 2-year government bonds | 3.70 | 1.04 | 1.21 | 4.46 | 4.24 | 3.51 | 3.50 |
| 10-year government bonds | 4.69 | 2.57 | 1.76 | 4.01 | 4.40 | 4.14 | 4.50 |
| Euro | | | | | | | |
| ECB depo | 2.05 | 0.20 | -0.30 | 4.00 | 3.09 | 2.00 | 2.00 |
| ECB refi | 3.05 | 0.75 | 0.20 | 4.50 | 3.24 | 2.15 | 2.15 |
| €STR | - | -0.54 | -0.38 | 3.90 | 3.06 | 1.93 | 1.97 |
| 1-month Euribor | 3.18 | 0.50 | -0.32 | 3.86 | 2.89 | 1.92 | 2.03 |
| 3-month Euribor | 3.24 | 0.65 | -0.21 | 3.94 | 2.83 | 2.05 | 2.06 |
| 6-month Euribor | 3.29 | 0.78 | -0.07 | 3.93 | 2.63 | 2.14 | 2.11 |
| 12-month Euribor | 3.40 | 0.96 | 0.10 | 3.68 | 2.44 | 2.27 | 2.18 |
| Germany | | | | | | | |
| 2-year government bonds | 3.41 | 0.35 | -0.21 | 2.55 | 2.02 | 2.13 | 1.99 |
| 10-year government bonds | 4.30 | 1.54 | 0.14 | 2.11 | 2.22 | 2.84 | 2.80 |
| Spain | | | | | | | |
| 3-year government bonds | 3.62 | 1.69 | 0.18 | 2.77 | 2.26 | 2.39 | 2.73 |
| 5-year government bonds | 3.91 | 2.19 | 0.38 | 2.75 | 2.48 | 2.64 | 3.04 |
| 10-year government bonds | 4.42 | 3.17 | 0.99 | 3.09 | 2.90 | 3.28 | 3.60 |
| Risk premium | 11 | 164 | 85 | 98 | 68 | 45 | 80 |
| Portugal | | | | | | | |
| 3-year government bonds | 3.68 | 3.33 | 0.07 | 2.33 | 2.03 | 2.16 | 2.21 |
| 5-year government bonds | 3.96 | 3.94 | 0.35 | 2.42 | 2.15 | 2.49 | 2.68 |
| 10-year government bonds | 4.49 | 4.67 | 0.96 | 2.74 | 2.68 | 3.14 | 3.50 |
| Risk premium | 19 | 314 | 82 | 63 | 46 | 31 | 70 |
| EXCHANGE RATES | | | | | | | |
| EUR/USD (dollars per euro) | 1.13 | 1.26 | 1.13 | 1.09 | 1.05 | 1.17 | 1.20 |
| EUR/GBP (pounds per euro) | 0.66 | 0.84 | 0.87 | 0.86 | 0.83 | 0.86 | 0.90 |
| EUR/GBP (yen per euro) | 129.56 | 126.41 | 129.91 | 156.99 | 161.18 | 169.10 | 168.00 |
| OIL PRICE | | | | | | | |
| Brent (\$/barrel) | 42.3 | 80.1 | 71.0 | 77.3 | 73.1 | 61.6 | 65.3 |
| Brent (euros/barrel) | 36.1 | 62.5 | 63.9 | 70.9 | 69.8 | 52.6 | 54.4 |

Forecasts

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

International economy

| | Average 2000-2007 | Average 2008-2019 | Average 2020-2022 | 2023 | 2024 | 2025 | 2026 |
|--|----------------------|----------------------|----------------------|------|------|------|------|
| GDP GROWTH¹ | | | | | | | |
| Global | 4.3 | 3.3 | 2.5 | 3.5 | 3.3 | 3.1 | 3.1 |
| Developed countries | 2.7 | 1.5 | 1.7 | 1.8 | 1.8 | 1.6 | 1.6 |
| United States | 2.7 | 1.8 | 2.1 | 2.9 | 2.8 | 1.8 | 1.9 |
| Euro area | 2.6 | 1.0 | 1.3 | 1.1 | 0.9 | 1.5 | 1.2 |
| Germany | 1.6 | 1.3 | 0.4 | -0.7 | -0.5 | 0.3 | 1.1 |
| France | 2.3 | 1.0 | 0.7 | 1.6 | 1.1 | 0.9 | 0.7 |
| Italy | 1.5 | -0.3 | 1.6 | 1.1 | 0.5 | 0.7 | 0.7 |
| Portugal | 1.5 | 0.4 | 1.5 | 3.1 | 2.1 | 1.9 | 2.0 |
| Spain | 3.6 | 0.7 | 0.7 | 2.5 | 3.5 | 2.8 | 2.1 |
| Japan | 1.4 | 0.4 | -0.2 | 1.5 | 0.1 | 1.0 | 1.0 |
| United Kingdom | 2.8 | 1.2 | 1.0 | 0.4 | 1.1 | 1.3 | 1.2 |
| Emerging and developing countries | 6.3 | 4.9 | 3.1 | 4.7 | 4.3 | 4.2 | 4.0 |
| China | 10.6 | 8.0 | 4.7 | 5.4 | 5.0 | 5.0 | 4.0 |
| India | 7.2 | 6.7 | 3.8 | 8.9 | 6.7 | 6.8 | 6.6 |
| Brazil | 3.6 | 1.6 | 1.5 | 3.2 | 3.4 | 2.0 | 1.8 |
| Mexico | 2.3 | 1.5 | 0.5 | 3.1 | 1.4 | 0.8 | 1.4 |
| Russia | - | 1.4 | 0.6 | 4.1 | 4.3 | 1.7 | 1.3 |
| Türkiye | 5.5 | 4.5 | 6.3 | 6.6 | 3.3 | 3.2 | 2.9 |
| Poland | 4.1 | 3.7 | 3.5 | 0.2 | 3.0 | 3.5 | 3.3 |
| INFLATION | | | | | | | |
| Global | 4.1 | 3.7 | 5.5 | 6.6 | 5.7 | 4.2 | 3.9 |
| Developed countries | 2.1 | 1.6 | 3.7 | 4.6 | 2.6 | 2.5 | 2.2 |
| United States | 2.8 | 1.8 | 4.6 | 4.1 | 3.0 | 2.6 | 2.8 |
| Euro area | 2.2 | 1.4 | 3.7 | 5.4 | 2.4 | 2.1 | 2.0 |
| Germany | 1.7 | 1.4 | 4.1 | 6.0 | 2.5 | 2.3 | 2.1 |
| France | 1.9 | 1.3 | 2.8 | 5.7 | 2.3 | 0.9 | 1.7 |
| Italy | 2.4 | 1.4 | 3.5 | 5.9 | 1.1 | 1.7 | 1.7 |
| Portugal | 3.1 | 1.1 | 3.0 | 4.3 | 2.4 | 2.3 | 2.1 |
| Spain | 3.2 | 1.3 | 3.7 | 3.5 | 2.8 | 2.7 | 2.0 |
| Japan | -0.3 | 0.4 | 0.7 | 3.3 | 2.7 | 3.2 | 1.5 |
| United Kingdom | 1.6 | 2.3 | 4.2 | 7.3 | 2.5 | 3.4 | 2.5 |
| Emerging and developing countries | 6.9 | 5.5 | 6.8 | 8.0 | 7.7 | 5.1 | 4.9 |
| China | 1.7 | 2.6 | 1.8 | 0.2 | 0.2 | 0.1 | 1.0 |
| India | 4.6 | 7.3 | 6.1 | 5.7 | 5.0 | 2.2 | 4.4 |
| Brazil | 7.3 | 5.7 | 6.9 | 4.6 | 4.4 | 5.0 | 4.2 |
| Mexico | 5.2 | 4.2 | 5.7 | 5.5 | 4.7 | 3.8 | 3.7 |
| Russia | 14.2 | 7.9 | 8.0 | 5.9 | 8.5 | 8.7 | 6.0 |
| Türkiye | 22.6 | 9.6 | 34.7 | 53.9 | 58.5 | 34.9 | 26.1 |
| Poland | 3.5 | 1.9 | 7.4 | 10.8 | 3.7 | 3.3 | 3.2 |

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

Forecasts

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

Portuguese economy

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

Forecasts

Spanish economy

| | Average 2000-2007 | Average 2008-2019 | Average 2020-2022 | 2023 | 2024 | 2025 | 2026 |
|---|----------------------|----------------------|----------------------|------------|------------|------------|------------|
| Macroeconomic aggregates | | | | | | | |
| Household consumption | 3.7 | 0.0 | 0.0 | 1.7 | 3.0 | 3.4 | 2.4 |
| Government consumption | 4.5 | 0.9 | 2.6 | 4.5 | 2.9 | 1.8 | 0.9 |
| Gross fixed capital formation | 5.7 | -1.2 | -0.7 | 5.9 | 3.6 | 6.3 | 3.3 |
| Capital goods | 4.9 | 0.2 | -2.7 | 2.6 | 1.9 | 9.0 | 3.3 |
| Construction | 5.7 | -2.6 | -1.3 | 5.5 | 4.0 | 5.2 | 3.4 |
| Domestic demand (vs. GDP Δ) | 4.4 | -0.2 | 0.8 | 1.5 | 3.2 | 3.5 | 2.3 |
| Exports of goods and services | 4.7 | 2.9 | 2.5 | 2.2 | 3.2 | 3.4 | 2.2 |
| Imports of goods and services | 7.0 | 0.2 | 2.5 | 0.0 | 2.9 | 6.3 | 2.9 |
| Gross domestic product | 3.6 | 0.7 | 0.7 | 2.5 | 3.5 | 2.8 | 2.1 |
| Other variables | | | | | | | |
| Employment | 3.2 | -0.5 | 1.7 | 3.6 | 2.8 | 3.1 | 1.8 |
| Unemployment rate (% of labour force) | 10.5 | 19.5 | 14.5 | 12.2 | 11.3 | 10.5 | 9.7 |
| Consumer price index | 3.2 | 1.3 | 3.7 | 3.5 | 2.8 | 2.7 | 2.0 |
| Unit labour costs | 3.1 | 0.6 | 3.5 | 5.8 | 3.3 | 4.2 | 3.0 |
| Current account balance (% GDP) | -5.8 | -0.2 | 0.6 | 2.7 | 3.1 | 2.3 | 2.5 |
| External funding capacity/needs (% GDP) | -5.2 | 0.2 | 1.4 | 3.7 | 4.2 | 3.4 | 3.6 |
| Fiscal balance (% GDP) ¹ | 0.3 | -6.5 | -7.1 | -3.3 | -3.2 | -2.7 | -2.5 |

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

Forecasts

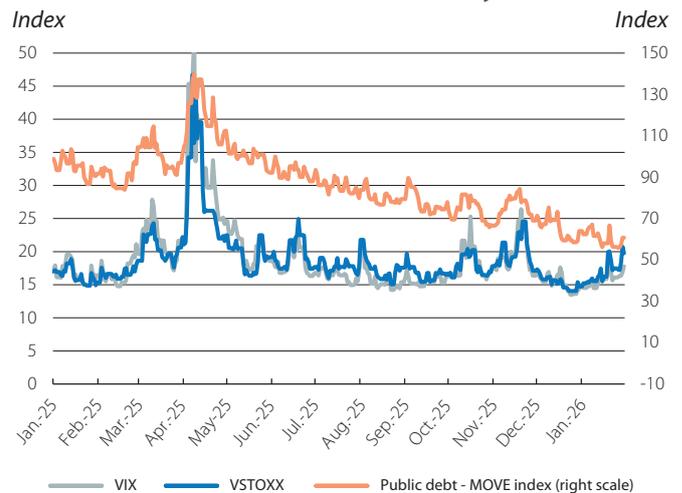
A start to the year with cross-currents in the financial markets

January inherits currents from 2025 and opens up new fronts. Geopolitics marked the beginning of the year in the financial markets. The resurgence of tensions, from Venezuela to Iran, and the diplomatic clash between the US and Europe over Greenland generated risk aversion and triggered a temporary spike in market volatility. In Asia, a renewed focus on Japan's fiscal outlook led to exceptional movements in interest rates and the Japanese currency. At the same time, sources of uncertainty from last year remain, such as tariff tensions between major blocs, expectations surrounding AI, and the focus on the ability of the big tech firms to monetise their investments. All this occurred against a backdrop of the central banks continuing with their data-dependent strategies.

Japan returns to the spotlight due to its fiscal outlook. Prime Minister Sanae Takaichi's decision to call a snap election and plans for fiscal expansion reignited investors' concerns surrounding fiscal sustainability in Japan. Long-term sovereign interest rates soared to all-time highs, with the 40-year benchmark exceeding 4% for the first time. At the same time, at its January meeting, the Bank of Japan kept the official rate at 0.75% (following the 25-basis-point hike in December) and indicated that it will continue to raise rates if its growth and inflation forecasts materialise (markets are pricing in two 25-bp hikes in 2026). Nevertheless, the yen weakened sharply, falling to an eighteen-month low against the dollar (nearing 159 yen per dollar) and reaching levels not seen since the 1990s against the euro (183 yen per euro), penalised by investors amid perceptions of fiscal deterioration. Only rumours of a joint intervention by the Japanese Ministry of Finance and the US Treasury at the end of the month halted the yen's decline.

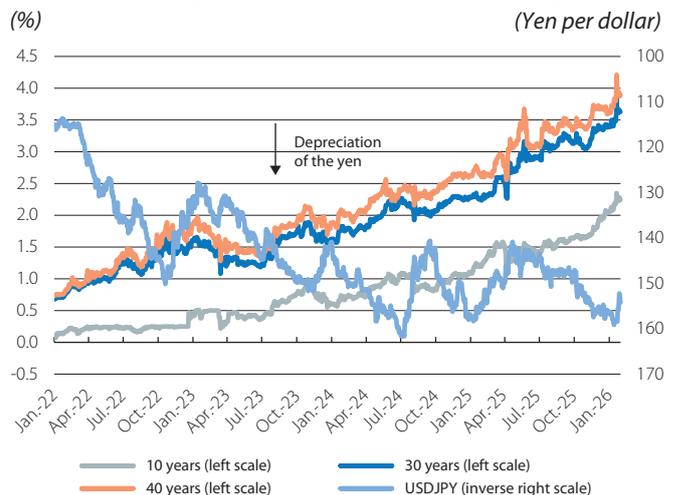
The dollar in the spotlight amid the resurgence of geopolitical noise. Weighed down by geopolitical uncertainty and tensions in US foreign and trade policy, the US dollar suffered widespread depreciation in January. The DXY dollar index closed the month with a decline of nearly 1% and the euro traded above 1.20 dollars for the first time in four years. Other safe-haven currencies capitalised the situation and the Swiss franc reached historic highs against the dollar (exceeding 1.30 dollars per franc). The US currency was also pressured by concerns over the Fed's independence. On the one hand, Department of Justice is conducting an investigation into President Jerome Powell and his testimony to the Senate regarding the refurbishment costs of two Fed buildings. In response, Powell stated that the real motivation behind the investigation was not linked to his testimony, but to the fact that the Fed sets interest rates based on economic conditions and not President Trump's preferences. However, the dollar regained some ground in early February after Trump announced the nomination of Kevin Warsh as the candidate for Fed Chair once Powell's term expires next May. Warsh was a governor of the Fed between 2006 and 2011 and maintained a critical stance on its balance sheet expansion and a restrictive bias on interest rates, although in the last year his statements have been aligned with Trump's thesis in favour of lowering interest rates. The markets received this announcement

Measures of financial market volatility



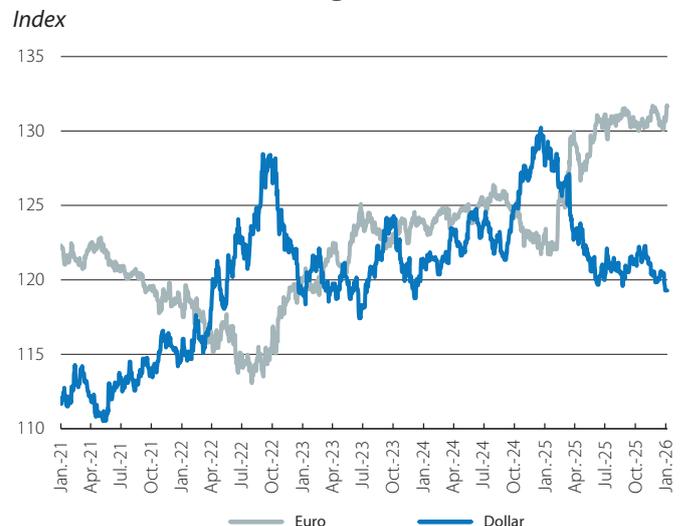
Source: BPI Research, based on data from Bloomberg.

Japan: sovereign interest rates and exchange rate



Source: BPI Research, based on data from Bloomberg.

Nominal effective exchange rate



Source: BPI Research, based on data from the European Central Bank and the Fed.

favourably, with a strengthening of the dollar, and stability in interest rate expectations for 2026 (two cuts of 25 bps).

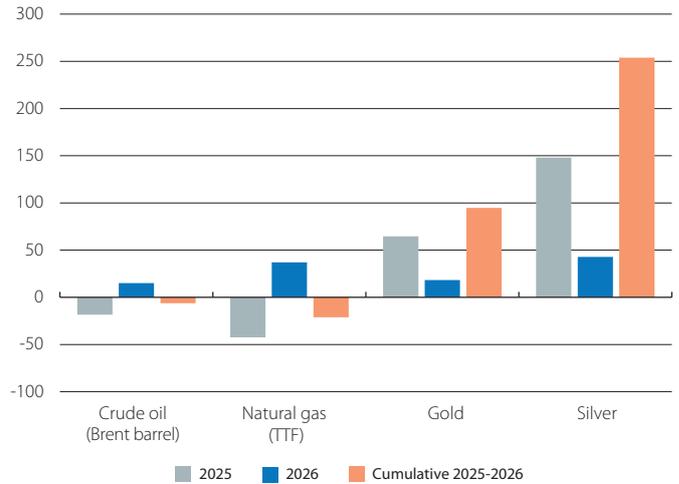
Commodities capitalise on global uncertainty. As is usual, spikes in geopolitical tensions lead to episodes of volatility in energy markets. In this case, the price of a barrel of Brent, which had begun the year at around 60 dollars in an environment of oversupply, rose to 70 dollars amid tensions in Iran and fears of possible supply disruptions. Similarly, the European gas benchmark reached €42/MWh, with an additional boost triggered by fears over supply linked to a winter storm in the US. In early February, both oil and gas prices moderated following news of a de-escalation in the US' conflict with Iran. On the other hand, amid rising global uncertainty and a weak dollar, precious metals capitalised on the flight to safe-haven assets. In particular, gold surpassed the \$5,000/ounce barrier, even reaching close to \$5,600/ounce, and silver appreciated by as much as 42%. In cumulative terms, between the beginning of 2025 and the peak in late January they amassed gains of almost 100% and 300%, respectively, although in early February both metals suffered a sudden and sharp correction.

The markets keep the central banks in view. The other major development in monetary policy was the change in tone from the Fed, with a more positive assessment of the macroeconomic environment following its January meeting (at which, unsurprisingly, the Fed kept the fed funds rate at 3.50%-3.75%). This change left the impression that the Fed is in no hurry to lower rates in the short term, and pushed back the expected timing of the first cut, as priced in by the futures markets, from March to June 2026. The ECB, for its part, acted as expected and kept the depo rate at 2%, emphasising the need not to overreact to small variations in the data, and presenting a more balanced map of inflationary and deflationary risks. The financial markets' expectation regarding the ECB remains one of stable monetary policy throughout 2026. In this context, euro area sovereign yields remained relatively flat, with stable peripheral risk premiums except in France, where the premium fell some 15 bps, placing it around 58 bps, its lowest level in 18 months. This reflects a positive market reception to the approval of the 2026 budget, (this budget would allow the deficit to be reduced in 2026 to 5.0% of GDP, from the 5.4% estimated in 2025).

Mixed behaviour in global stock markets. Stock markets ended January with generally positive results, albeit with episodes of volatility linked to geopolitical events. The S&P 500 ended January with small gains, although it began February with corrections, weighed down by the technology sector, the adjustments in commodities and the strengthening of the dollar. At the sector level, a clear dispersion was observed over the month of January: cyclical sectors such as energy, materials, and industrials benefited from the dynamics in commodities markets, while the financial, technology and healthcare sectors performed less favourably. Within the technology segment, the heterogeneity was even more pronounced: firms that did not meet growth expectations suffered significant setbacks, while others linked to high-demand AI segments recorded notable gains. In Europe, the advances were led by the peripheral markets, with the PSI-20 and the IBEX 35 driven by the financial sector.

Commodities

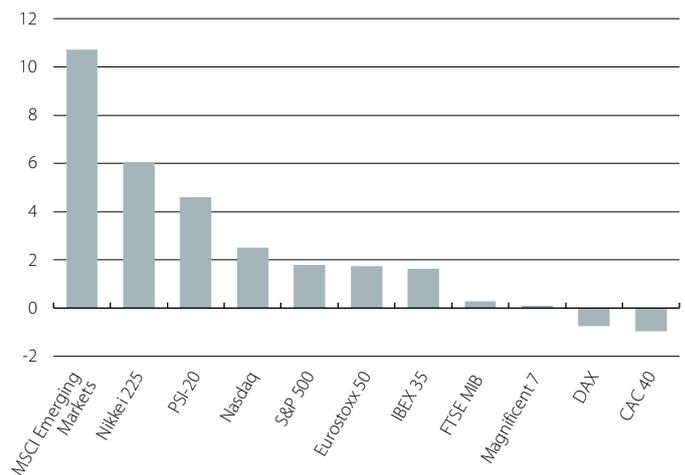
Change in price (%)



Source: BPI Research, based on data from Bloomberg.

Global stock indices

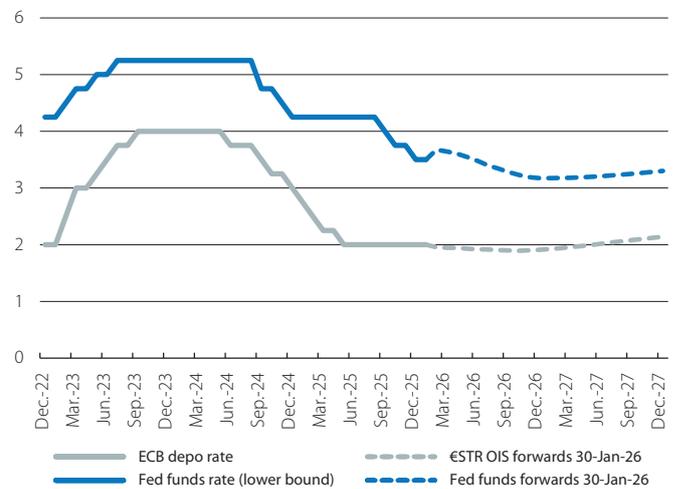
Change in January 2026 (%)



Source: BPI Research, based on data from Bloomberg.

Market expectations for interest rates

(%)



Source: BPI Research, based on data from the ECB, the Fed and Bloomberg.

Innovation, expectations and vertigo: is AI-driven concentration reshaping Wall Street?

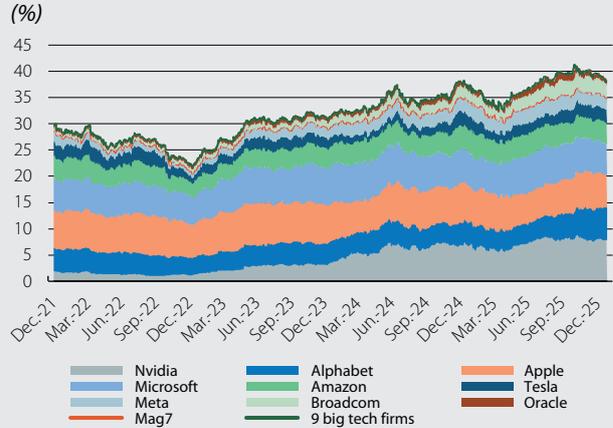
Optimism surrounding artificial intelligence (AI) has been a key driver in the US stock market rally of recent months, helping the S&P 500 and the Nasdaq to record gains for the third consecutive year in 2025. Part of this expansion was explained by increased earnings, although the S&P 500 has recorded greater growth relative to these profits. In this rally, various analysts and investors have seen reminiscences of events from the year 2000 during the dot-com boom, sparking a debate about whether or not we are in a bubble. Although answering this question in real time is like trying to untie a Gordian knot by hand, in this article we analyse how the S&P 500 today compares with that of the dot-com bubble, and how feasible the expectations underpinning current stock market valuations are.

The first clear effect of AI on the US stock market has been an increase in concentration in various areas: returns, company size and earnings, as well as in investment. Thus, the so-called Magnificent 7 (or Mag7: tech firms that are leaders in innovation, with large market capitalisation and diversified business models well protected from potential competitors)¹ once again outperformed the remaining 493 companies in the index in 2025, for the third consecutive year (+25% compared to 14% in 2025; and +245% compared to +30% since the end of 2022, respectively).² This increased their relative capitalisation in the S&P 500 from 20% at the end of 2022 to over 35% by the end of 2025 (and if we consider the next two largest tech companies, the percentage rose to over 40%). This concentration contrasts sharply with the 17.5% accounted for by the seven largest companies at the height of the dot-com bubble.³ On the other hand, in terms of profits, the earnings per share among the Mag7 grew by 30% in the first three quarters of 2025, compared to 6% for the S&P 493.

The growth of tech firms has had another indirect effect: it has contributed to the increase in the relative price of the index. Let us consider a common measure of affordability, the P/E (Price-to-Earnings) ratio, which compares a company's market capitalisation to its ability to generate profits. The P/E ratio of the S&P 500, measured against the earnings recorded over the last 12 months, fluctuated between 27 and 28 points in recent weeks; this is above its historical average (20.2 since 1990) and in the high range of its historical distribution (in 90% of sessions since 1990 this ratio has been below 27.3).

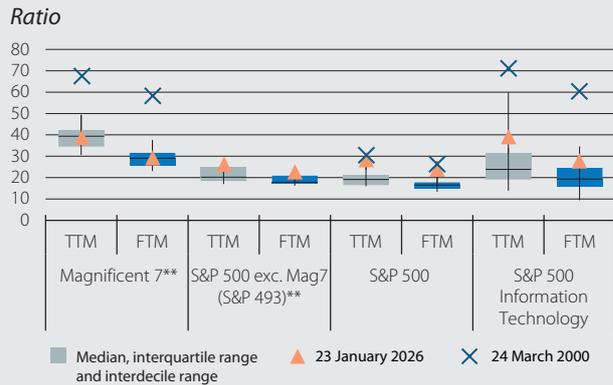
1. NVIDIA, Alphabet, Microsoft, Apple, Amazon, Meta and Tesla.
 2. Bloomberg Magnificent 7 Price Return Index and Bloomberg 500 excluding Magnificent 7 Price Return Index.
 3. Microsoft, Cisco Systems, Intel, IBM, Oracle, HP and Texas Instruments.

Capitalisation of the S&P500 represented by each company



Source: BPI Research, based on data from Bloomberg.

Historical distribution of the trailing (TTM) and forward (FTM)* P/E ratio of the S&P500 and sub-indices



Notes: * The trailing P/E ratio uses earnings from the past 12 months, while the forward ratio takes earnings expectations for the next 12 months. ** The P/E ratio of the Magnificent 7 and the S&P493 are calculated according to the Bloomberg Magnificent 7 PR and Bloomberg 500 exc. Magnificent 7 PR indices. For the year 2000 reference, we take the 7 largest tech firms of that time. The FTM P/E ratio of the Magnificent 7 in the year 2000 is calculated based on their actual earnings obtained one year later, not on expectations. For the S&P 500 and its tech firm sub-index, the box and whisker chart shows the available historical range (from 1990 to the present). For the Bloomberg Magnificent 7 and Bloomberg 500 exc. Magnificent 7 indices, data is shown from 2015 to the present.

Source: BPI Research, based on data from Bloomberg.

Part of this situation is explained by the aforementioned concentration, as the Mag7 and tech firms in general⁴ currently have the highest P/E ratio in the index. This is also historically common,⁵ due to investors' typically ambitious long-term earnings expectations for these companies.

In fact, in historical terms, the P/E ratio of tech firms is not so high relative to their recent earnings, nor compared to their future expected earnings. Thus, if we compare

4. Taking here the sub-index of the information technology sector of the S&P 500.
 5. Excluding the real estate sector, which, nevertheless, has a much lower relative weight (around 16 times less) than the technology sector.

Year-on-year recorded and expected earnings growth in each index

(%)



Note: Mag7 index: Bloomberg Magnificent 7 PR; S&P493 index: Bloomberg 500 exc. Magnificent 7 PR.
Source: BPI Research, based on data from Bloomberg.

the current P/E ratio levels with those at the peak of the dot-com bubble, the P/E ratio of the Mag7 currently lies at around 40 points, based on earnings from the last 12 months, and at around 30 if measured against expected earnings over the next 12 months; these are considerably lower levels than those of the seven biggest tech firms by capitalisation at that time, which were 69 and 59, respectively.⁶

The rise in the relative price of the S&P 500, however, is not solely explained by the concentration in the Mag7 and other tech firms. The optimism surrounding AI has also contributed to gains among industrial companies (particularly those involved in the construction of data centres, as well as those more closely linked to defence and the aerospace sector). Financial firms – the second most significant sector in the index, with a historically low P/E ratio – are also in the high range of their historical distribution (with the trailing-12-month P/E ratio lying above 18, close to the 90th percentile of the historical distribution).

Finally, it is noteworthy that the P/E ratio of the S&P 500 is also high if adjusted for the cycle (taking its price in relation to real earnings, adjusted for inflation, over the last 10 years). According to this long-term P/E ratio, also known as the CAPE (Cyclically Adjusted Price-to-Earnings) ratio, the index is not yet as strained as it was during the dot-com bubble (estimated at 39.9 points in December 2025, compared to the peak of 44.2 reached in December 1999), although it is already at historically high levels.

Traditionally, a high CAPE ratio suggests that prices will revert to the average, although it does not tell us when this might happen. However, the two most critical factors for the sustainability of the scenario are expectations

regarding earnings growth and interest rates, which affect the net present value (i.e. discounted to today) of expected future earnings.

Analysts’ earnings growth expectations are ambitious, but at least in the short term they are not misaligned with the historical average, both for the Mag7 and for other companies. For the Mag7, earnings per share (EPS) growth of 24.4% is expected over the next 12 months, compared to an average aggregate net earnings growth among these seven companies of 24.7% since 2017.⁷ For the rest of the index, an 8% growth rate in EPS is expected, compared to the 7.8% average recorded since 2017. For the S&P 500 as a whole, expectations are for EPS to grow by 11.7%, compared to the 10.2% average recorded since 2017.

On the other hand, any potential tightening of interest rates in the US would reduce the present value of these expected earnings, not only due to a discount factor but also because of higher financing costs. In this regard, there is a systematically negative relationship between interest rates and valuation ratios.⁸ Although interest rates are historically high, the presence of various risks (geopolitical, trade and fiscal tensions) do not allow us to rule out further hikes.

Ultimately, AI has catalysed concentration in the S&P 500 and, as a result, strained the index relative to the earnings of the companies that comprise it. Although the affordability indicators are not yet as strained for tech firms as they were during the dot-com bubble, they rest on demanding growth expectations, as well as on macroeconomic assumptions that are highly delicate in the current context, such as that interest rates will not become more strained again.

6. In the case of the forward P/E ratio for the Magnificent 7 of the year 2000, rather than basing the calculation on market expectations, we take the actual profits they recorded in the following 12 months. The fall in these companies’ aggregate earnings led to a P/E ratio of 76 being recorded in Q3 of the year 2000.

7. Net earnings are used in order to avoid the effects of share buybacks.
 8. Since 2019, a year-on-year increase of 25 bps in the 10-year real interest rate (US inflation-indexed bond) is associated with a contraction of around 3% in the forward P/E ratio of the S&P 500.

Risk premiums and macroeconomics: a robust and cross-cutting relationship

Risk premiums defined an economic and political era of the euro area.¹ Stressed to extreme levels between 2011 and 2013, they became an indicator of the risk of a break-up of the monetary union and gave rise to pivotal events such as Mario Draghi’s *Whatever it takes* speech.² In recent years, the economic and political landscape has not been easy for the euro area either, yet risk premiums managed to close 2025 at their lowest levels in over 15 years: Portugal, Spain and Italy, which in 2012 – when the German rate was around 1.5% – saw their spreads exceed 1,500 bps, 600 bps and 500 bps, respectively, ended 2025 at 30 bps, 43 bps and 70 bps.

In the last decade, risk premiums have stabilized at an intermediate level between the calm of the 2000s (when sovereign bonds traded in the market with virtually no distinction between countries) and the stress of the sovereign debt crisis of 2010-2012. At this midpoint, investors differentiate based on the macroeconomic and financial health of each country without questioning the survival of the euro. Thus, the easing of Portuguese and Spanish risk premiums has been accompanied by a clear improvement in their macroeconomic performance compared to Germany, a clear commitment to fiscal sustainability, and the recovery of their credit ratings according to the rating agencies (see table). By contrast, France’s sluggish economic performance, deteriorating public accounts and lower credit rating have contributed to an increase in its risk premium (rising from around 30 bps pre-pandemic to nearly 70 bps by the end of 2025).

The relationship between macroeconomic fundamentals and risk premiums can be formally established. Interest rates on sovereign bonds depend on fundamentals such as indebtedness and economic growth (which determine a state’s ability to pay), the ECB’s monetary policy, and global factors such as the interest rates of other economies (which offer an alternative investment opportunity) and investors’ risk appetite. Taking advantage of the historical relationship between all these ingredients and interest rates, we can quantify a sovereign risk

1. In this article, risk premium refers to the spread between a euro area country’s 10-year sovereign interest rate and its German counterpart.
 2. On 26 July 2012, ECB President Mario Draghi declared that he would do «whatever it takes» to preserve the euro. His words became a symbol of the euro area’s survival. See «Mario Draghi and his “parole, parole”» in the MR01/2018.

Macroeconomic fundamentals for risk premiums and sovereign rates

| | GDP forecast | | Inflation forecast | | Public debt | | Rating | |
|----------|--------------|-----------|--------------------|-----------|-------------|-----------|--------|-----------|
| | 2014 | Dec. 2025 | 2014 | Dec. 2025 | 2014 | Dec. 2025 | 2014 | Dec. 2025 |
| France | 1.1 | 1.0 | 1.1 | 1.3 | 96 | 116 | AA | A+ |
| Italy | 0.9 | 0.7 | 0.9 | 1.4 | 135 | 136 | BBB | BBB |
| Spain | 1.6 | 2.2 | 0.9 | 2.1 | 104 | 100 | BBB | A |
| Portugal | 1.3 | 2.1 | 0.7 | 2.0 | 133 | 91 | BB | A |
| Germany | 1.8 | 1.0 | 1.7 | 2.0 | 74.5 | 63 | AAA | AAA |

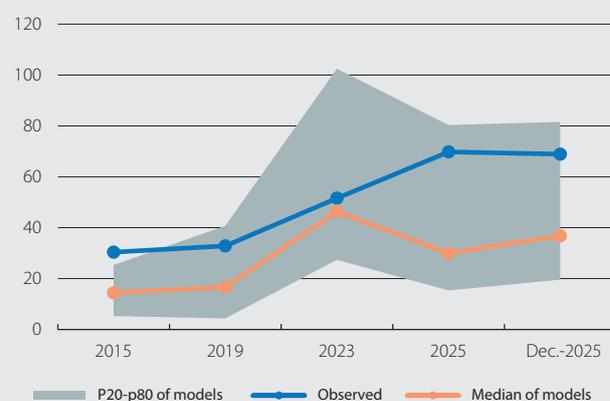
Note: GDP and inflation forecasts one year ahead according to Consensus Forecasts or Bloomberg consensus; public debt as a % of GDP (European Commission forecast for Dec. 2025); Bloomberg composite rating (average credit rating of Fitch, Moody’s and S&P).
 Source: BPI Research, based on data from Consensus Forecasts, Eurostat and Bloomberg.

Sovereign risk premium: average of France, Italy, Spain and Portugal (bps)



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

France: risk premium (bps)



Note: P20-p80 indicates the range between the 20th and 80th percentiles.
 Source: BPI Research, based on data from Bloomberg and own estimates.

premium that is consistent with the macroeconomic fundamentals.^{3,4}

As the first chart shows, macro fundamentals have closely aligned with observed sovereign risk premiums in recent years. In fact, the sustained moderation of the main euro area risk premiums clearly aligns with what is predicted by the fundamentals. However, a country-by-country analysis reveals a more nuanced picture.

Unlike the traditional peripheral economies, in recent years France has suffered from a persistently higher risk premium. This market adjustment is not only due to a certain shift in investors' outlook,⁵ but also reflects a change in macroeconomic fundamentals: in recent years, France has experienced a clear deterioration in its public finances (its debt is estimated to be almost 120% in 2025, with a projected public deficit of 5.4% that is also likely to remain high) while losing economic dynamism and seeing its credit rating downgraded by the three major rating agencies.

Italy, with a worse starting position in terms of its public debt and credit rating, managed to steer the situation in 2025 and achieve its lowest risk premium since 2008. Of particular note is the significant correction in its public deficit (going from 7.2% in 2023 to a projected 3.0% in 2025) and the resilience that allowed its credit rating to be raised by a notch in 2025 by the three major agencies.

At the other end of the spectrum, Spain and Portugal have shown a much more sustained improvement in their risk premiums. This improvement is very visible in the premiums quoted in the financial markets (lows in line with 2008 in both cases) and is clearly reflected in the evolution predicted by the fundamentals: both economies have led economic growth in the euro area in 2025, have been continuously reducing their public debt and, in the last year, have seen widespread improvements in their sovereign credit rating.

Overall, this exercise suggests that the evolution of macroeconomic fundamentals can explain the behaviour of sovereign risk premiums in recent years, from the improvement of the traditional periphery to the deterioration of France. However, the analysis also

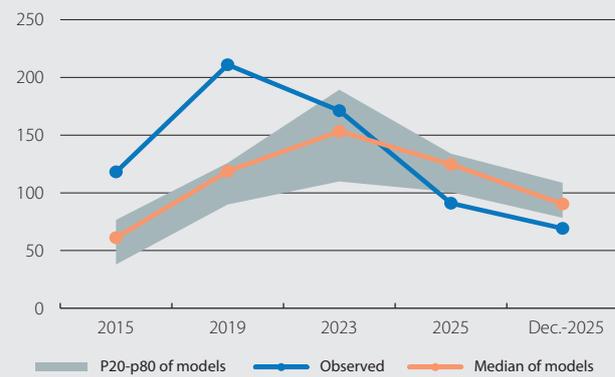
3. We presented a macro interest rate model in «The macroeconomic fragility of interest rates» (MR10/2020). Taking that exercise as a starting point, we now estimate a panel regression for the risk premiums of Austria, Belgium, France, Italy, Ireland, Spain, the Netherlands and Portugal using data for the period spanning January 2000 to December 2025 and the following explanatory variables: expectations of the 3-month Euribor, real growth of GDP and inflation, the public debt-to-GDP ratio, a stock market volatility indicator, public debt assets acquired by the Eurosystem, sovereign rating and an indicator of stress in the euro area (a binary variable equal to 1 if a sovereign risk premium is markedly strained).

4. In addition to the baseline estimate, we reflect the uncertainty surrounding these exercises by conducting 20 alternative estimates, in which we individually exclude GDP, inflation, the 3-month Euribor, public debt, ECB assets and rating and, in each case, with three time samples (up to the year 2019, up to 2022 and up to 2025).

5. Between 2023 and 2025, the premium has shifted from being at the centre of the range predicted by the fundamentals to being in the upper band.

Italy: risk premium

(bps)

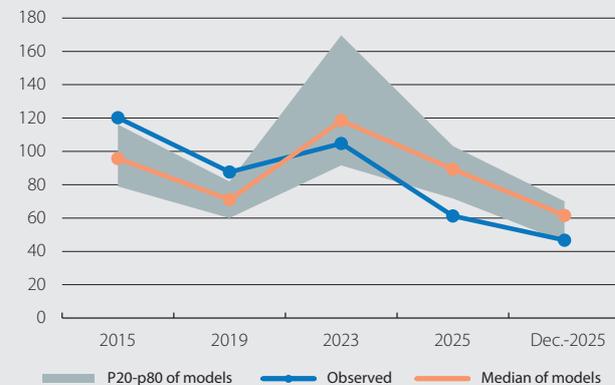


Note: P20-p80 indicates the range between the 20th and 80th percentiles.

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

Spain: risk premium

(bps)

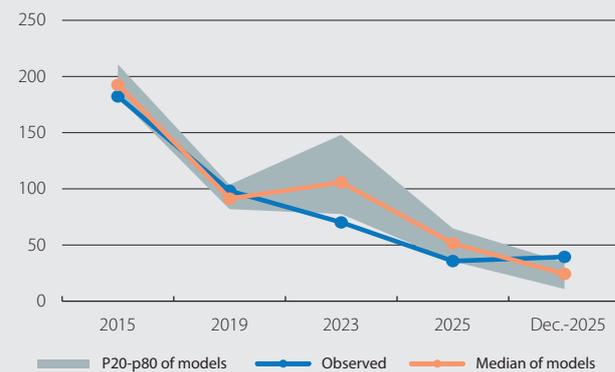


Note: P20-p80 indicates the range between the 20th and 80th percentiles.

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

Portugal: risk premium

(bps)



Note: P20-p80 indicates the range between the 20th and 80th percentiles.

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

indicates that there is a range of risk premiums consistent with a given set of macroeconomic fundamentals.⁶ Maintaining markets within the most favourable part of this range will require strengthening underlying fundamentals, especially given the demands of the global environment.

6. See footnote 4.

Interest rates (%)

| | 31-January | 31-December | Monthly change (bp) | Year-to-date (bp) | Year-on-year change (bp) |
|-------------------------------------|------------|-------------|---------------------|-------------------|--------------------------|
| Euro area | | | | | |
| ECB Refi | 2.15 | 2.15 | 0 | 0.0 | -75.0 |
| 3-month Euribor | 2.03 | 2.03 | 1 | 0.5 | -57.5 |
| 1-year Euribor | 2.23 | 2.24 | -2 | -1.7 | -30.5 |
| 1-year government bonds (Germany) | 1.97 | 2.01 | -4 | -4.2 | -23.7 |
| 2-year government bonds (Germany) | 2.09 | 2.12 | -3 | -3.3 | -11.9 |
| 10-year government bonds (Germany) | 2.84 | 2.86 | -1 | -1.2 | 32.4 |
| 10-year government bonds (Spain) | 3.21 | 3.29 | -8 | -7.6 | 9.2 |
| 10-year government bonds (Portugal) | 3.20 | 3.15 | 5 | 5.1 | 28.2 |
| US | | | | | |
| Fed funds (lower limit) | 3.50 | 3.50 | 0 | 0.0 | -75.0 |
| 3-month SOFR | 3.66 | 3.65 | 1 | 0.9 | -63.1 |
| 1-year government bonds | 3.46 | 3.47 | -1 | -0.9 | -69.5 |
| 2-year government bonds | 3.52 | 3.47 | 5 | 4.9 | -68.5 |
| 10-year government bonds | 4.24 | 4.17 | 7 | 6.9 | -28.1 |

Spreads corporate bonds (bps)

| | 31-January | 31-December | Monthly change (bp) | Year-to-date (bp) | Year-on-year change (bp) |
|--------------------------------|------------|-------------|---------------------|-------------------|--------------------------|
| Itraxx Corporate | 51 | 51 | 1 | 0.8 | -1.8 |
| Itraxx Financials Senior | 54 | 54 | -1 | -0.6 | -5.8 |
| Itraxx Subordinated Financials | 91 | 93 | -2 | -1.7 | -13.8 |

Exchange rates

| | 31-January | 31-December | Monthly change (%) | Year-to-date (%) | Year-on-year change (%) |
|----------------------------|------------|-------------|--------------------|------------------|-------------------------|
| EUR/USD (dollars per euro) | 1.185 | 1.175 | 0.9 | 0.9 | 14.1 |
| EUR/JPY (yen per euro) | 183.430 | 184.010 | -0.3 | -0.3 | 14.4 |
| EUR/GBP (pounds per euro) | 0.866 | 0.872 | -0.6 | -0.6 | 3.5 |
| USD/JPY (yen per dollar) | 154.780 | 156.710 | -1.2 | -1.2 | 0.3 |

Commodities

| | 31-January | 31-December | Monthly change (%) | Year-to-date (%) | Year-on-year change (%) |
|---------------------------|------------|-------------|--------------------|------------------|-------------------------|
| Bloomberg Commodity Index | 120.7 | 109.7 | 10.0 | 10.0 | 17.5 |
| Brent (\$/barrel) | 70.7 | 60.9 | 16.2 | 16.2 | -8.0 |
| Gold (\$/ounce) | 4,894.2 | 4,319.4 | 13.3 | 13.3 | 75.1 |

Equity

| | 31-January | 31-December | Monthly change (%) | Year-to-date (%) | Year-on-year change (%) |
|--------------------------|------------|-------------|--------------------|------------------|-------------------------|
| S&P 500 (USA) | 6,939.0 | 6,845.5 | 1.4 | 1.4 | 14.3 |
| Eurostoxx 50 (euro area) | 5,947.8 | 5,791.4 | 2.7 | 2.7 | 12.6 |
| Ibex 35 (Spain) | 17,880.9 | 17,307.8 | 3.3 | 3.3 | 44.0 |
| PSI 20 (Portugal) | 8,662.2 | 8,263.7 | 4.8 | 4.8 | 32.6 |
| Nikkei 225 (Japan) | 53,322.9 | 50,339.5 | 5.9 | 5.9 | 34.9 |
| MSCI Emerging | 1,528.1 | 1,404.4 | 8.8 | 8.8 | 39.5 |

Global stability: superficial mirage or structural strength?

Stability of the global economy amid a mosaic of risks. The latest update of the IMF's World Economic Outlook highlights stable growth expectations for the global economy (GDP +3.3% in 2026 and 3.2% in 2027). Technological dynamism, particularly investment related to AI, continues to sustain economic activity, especially in the US, offsetting the adverse effects of persistent trade tensions and high geopolitical uncertainty. In this environment, the IMF anticipates a gradual slowdown in international trade (+2.6% in 2026 vs. 4.1% in 2025), and economic activity is showing uneven dynamics. While the US is expected to continue to grow above 2.0% thanks to investment in technology and fiscal stimuli, Europe's forecasts are constrained by structural obstacles and a certain fiscal consolidation (with the notable exception of the deployment of the German fiscal plan). Among emerging economies, India is showing particularly dynamic and balanced growth, while growth in China has managed to withstand a difficult year but faces significant structural challenges. Inflation, meanwhile, is expected to continue its downward trajectory in both advanced and emerging economies. The Fund also warns of downside risks to its forecasts, such as a possible adjustment in the valuations of AI stocks, further escalations of geopolitical tensions or trade disputes affecting global supply chains. Upside risks include a faster-than-expected boost to productivity from AI and the consolidation of trade agreements and structural reforms that reduce barriers and increase investment.

A better than expected end to 2025. In Q4 2025, euro area GDP recorded quarter-on-quarter growth of 0.3%, placing the annual increase at 1.5% (vs. 0.9% in 2024). The dynamism of economic activity is particularly noteworthy in a year marked by high uncertainty and the outbreak of trade tensions with the US, and a widespread acceleration was even recorded at the end of the year. Germany accelerated to 0.3% in Q4, after stagnating in the previous quarter, bringing its average growth for 2025 to 0.3%, following two years of setbacks. Italy also advanced by 0.3% in Q4 (vs. 0.1% in the previous quarter), placing the average growth for 2025 at 0.7%. Conversely, France registered a slowdown to 0.2% in Q4 (vs. 0.5% in Q3) and brought the growth for 2025 to 0.9%. The outlook for 2026 suggests that the euro area will continue to grow at rates similar to the current ones, in a context where the positive impact of Germany's planned expansive fiscal policy will be offset by progress in the fiscal consolidation process in France and Italy. On the other hand, in the US, the publication of Q4 data has been delayed (until 20 February) due to difficulties in data collection following the federal government shutdown in October, but the main nowcasts point to a dynamic quarter, and the US economy could even exceed growth of 2.0% in 2025.

Global activity kicks off 2026 on a good footing. In the euro area, the consumer confidence indicator rose to -12.4 points in January, the best figure in 11 months, while the composite PMI decreased slightly to 51.3 points, with an improvement in manufacturing (to 49.5 points vs. 48.8 previously) and a loss of momentum in services (51.6 points vs. 52.4 previously).

Global: GDP growth forecasts Annual change (%)

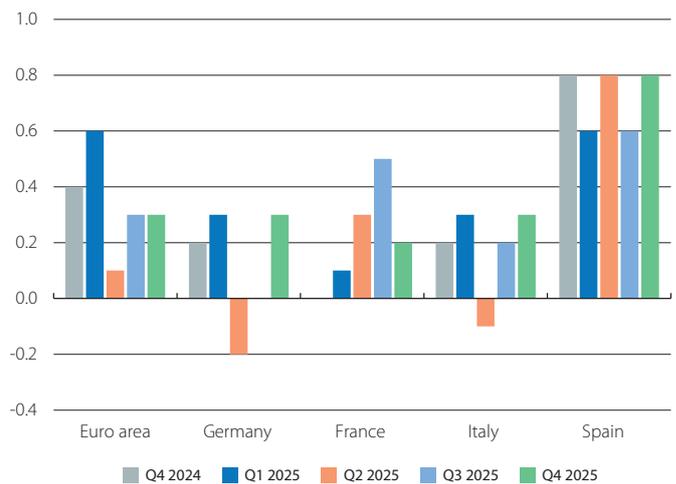
| | Projections per January WEO | | | | Difference vs. October 2025 WEO (pps) | |
|--|-----------------------------|------|------|------|---------------------------------------|------|
| | 2024 | 2025 | 2026 | 2027 | 2026 | 2027 |
| World economy | 3.3 | 3.3 | 3.3 | 3.2 | 0.2 | 0.0 |
| Advanced economies | 1.8 | 1.7 | 1.8 | 1.7 | 0.2 | 0.0 |
| US | 2.8 | 2.1 | 2.4 | 2.0 | 0.3 | -0.1 |
| Euro area | 0.9 | 1.5 | 1.3 | 1.4 | 0.1 | 0.0 |
| Germany | -0.5 | 0.3 | 1.1 | 1.5 | 0.2 | 0.0 |
| France | 1.1 | 0.9 | 1.0 | 1.2 | 0.1 | 0.0 |
| Italy | 0.7 | 0.7 | 0.7 | 0.7 | -0.1 | 0.1 |
| Spain | 3.5 | 2.8 | 2.3 | 1.9 | 0.3 | 0.2 |
| Emerging and developing economies | 4.3 | 4.4 | 4.2 | 4.1 | 0.2 | -0.1 |
| China | 5.0 | 5.0 | 4.5 | 4.0 | 0.3 | -0.2 |
| India | 6.5 | 7.3 | 6.4 | 6.4 | 0.2 | 0.0 |

Notes: For the euro area countries and China, the official GDP estimates for 2025 are reported. For India, data and projections in fiscal year terms.

Source: BPI Research, based on data from the IMF (World Economic Outlook, January 2026), Eurostat and the National Bureau of Statistics of China.

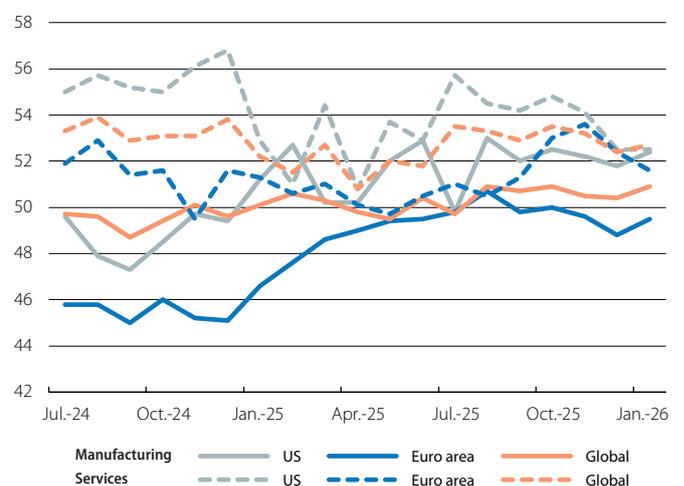
Euro area: GDP

Year-on-year change (%)



Source: BPI Research, based on data from Eurostat.

Global: PMI Index



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

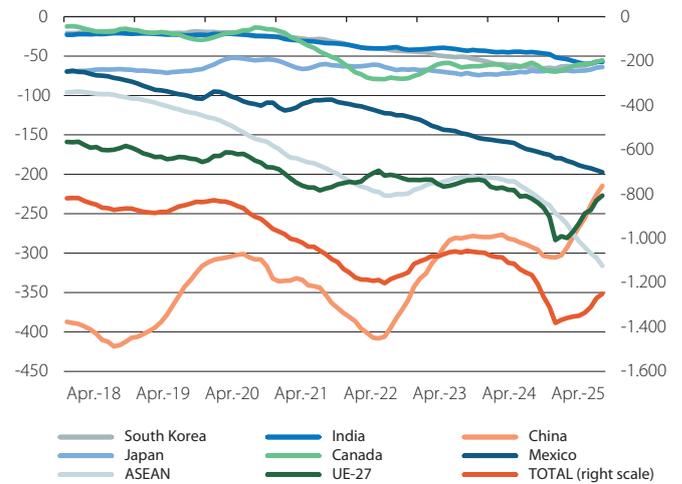
By country, Germany's rebound stood out, with its PMI rising to 52.1 points and recording improvements in both services and manufacturing. In the US, the PMIs also reflect an economy in expansion, with the services indicator steady at 52.5 points and that of manufacturing at 52.4 (vs. 51.8 previously). On the other hand, the Conference Board's consumer confidence index fell sharply to 84.5 points, its lowest level since 2014, affected by a perception of weakness in the US labour market and an increased focus on trade, geopolitical and domestic political risks, reinforcing the disconnect observed in recent months between business confidence and consumer confidence.

The EU continues to walk on thin ice. Following the escalation of geopolitical tensions with the US during the Greenland crisis at the beginning of the year, in which the EU even considered activating its anti-coercion instrument for the first time, the confrontation eased after a meeting between Trump and the NATO Secretary General on security in the Arctic region during the World Economic Forum. Despite the apparent easing of tensions in transatlantic relations, this episode highlights the fact that the European bloc is still navigating in a particularly challenging geo-economic environment. In this context, the EU and India have reached a free trade agreement to significantly reduce tariff barriers on 90% of EU exports. According to the European Commission, this could lead to a doubling of European exports of goods to India, albeit starting from a low level (less than 2% of the total). On the other hand, the European Parliament's decision to refer the Mercosur deal to the Court of Justice illustrates the difficulties in making progress in the EU's trade diversification strategy. Furthermore, following the recent critical minerals summit convened by US Secretary of State Marco Rubio, involving over 30 countries (including the G7, the EU, India, South Korea, Mexico and Australia, among others) that are seeking to form an alliance to strengthen global value chains, new initiatives in the sector were discussed and the US unveiled the creation of a public-private fund to manage strategic reserves (known as Project Vault).

China Meets Its 2025 Targets, but a Challenging Year of the Horse Lies Ahead. China's GDP grew by 1.2% quarter-on-quarter in Q4 2025 (1.1% in Q3), bringing the full year's growth to 5.0%, in line with the authorities' target. However, the monthly activity indicators showed a slowdown in consumption and investment throughout Q4. Specifically, investment in urban areas contracted by 3.8% over the year as a whole, the lowest level in the historical series. In this context, the January PMIs indicate a new slowdown at the start of 2026. The official composite PMI fell to 49.8 points (50.7 in December), with declines in all three sub-indices: manufacturing, services and construction. Meanwhile, the RatingDog manufacturing PMI rose slightly (from 50.1 to 50.3 points) and the services PMI climbed from 52.0 to 52.3. These figures underscore the current weakness of domestic demand and reinforce the likelihood that new economic stimuli will be announced during the quarter. The Chinese authorities also announced the end of the Three Red Lines, a policy that in 2020 imposed strict limits on borrowing and triggered a prolonged adjustment in the real estate sector. Despite the regulatory relief, solvency and overcapacity issues in the sector persist, making it difficult to achieve a sustained recovery in activity.

US: balance of trade in goods

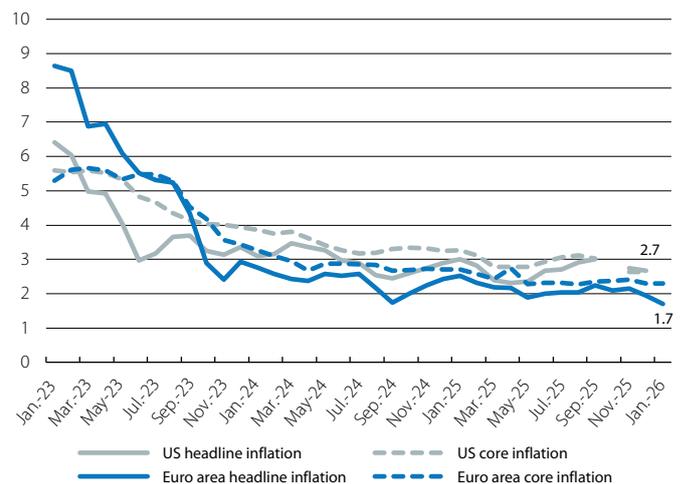
USD billions (12-month cumulative total)



Source: BPI Research, based on data from BEA.

Headline and core inflation

Year-on-year change (%)



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

China: GDP

Annual change (%)



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

Hours worked and productivity: is Spain an outlier in the EU?

The debate over working hours has intensified significantly in Spain, on the one hand, due to proposals for its reduction, and on the other, due to the rise in hours lost due to temporary sick leave. Beyond the impact on business costs and the labour market, the implications for labour productivity are of particular interest, with widely divergent readings since the pandemic in the case of Spain depending on whether we measure it per hour worked or per employee. This article places these debates within the broader European context, drawing similarities and differences with other countries in our vicinity.

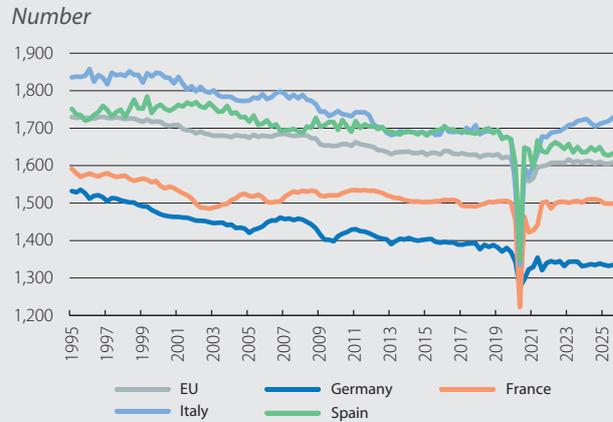
A secular downward trend, but with nuances

The number of hours worked per employee in the EU has decreased by 7% over the last three decades, from around 1,730 hours per year in 1995 to just over 1,600 hours today (see first chart). Behind this common trend (also noted in other developed economies), there are some notable differences.

Firstly, while the change in France, Italy and Spain is very similar to that observed in aggregate, the decline has been far greater in Germany (almost 200 hours less, 13% versus the initial level), deepening its position among the bloc's four major economies as the one with the fewest hours worked. Secondly, most of the decline in the number of hours worked occurred between 1995 and 2005, particularly in France following the reform at the beginning of the century, which reduced the working week from 40 to 35 hours. Spain and Italy, meanwhile, exhibit exceptional and contrasting pattern, with a steady acceleration in the decline of hours worked in the former and a reversal of the previous trend in recent years in the latter.¹

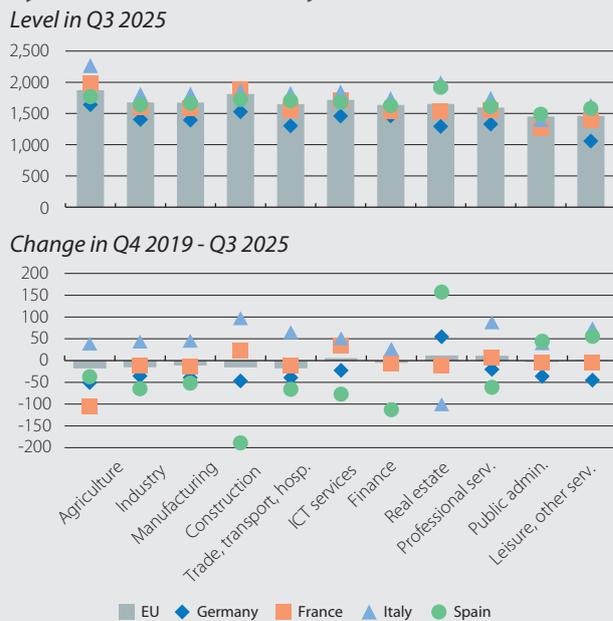
Thirdly, we can identify some common factors behind the secular reduction in working hours, such as the increase in part-time employment (whether voluntary or involuntary), a greater proportion of employment among the female population, in the service sector and among older workers – groups that on average have shorter working hours – and a greater preference for leisure time (reflected, for example, in a continuous decline in overtime hours).² There are, however, other elements that have emerged in the post-pandemic period,³ such as the greater (lesser) dynamism of certain economic activities with a number of hours worked below (above) the average, such as public administration (industry),⁴ the labour shortage in some

Annual hours worked per employee: total by EU country (1995-2025)



Note: Quarterly data annualised and adjusted for seasonal and calendar effects. Source: BPI Research, based on data from Bloomberg.

Annual hours worked per employee: by sector and EU country



Notes: Quarterly data annualised and adjusted for seasonal and calendar effects. Individual or grouped sections of the National Classification of Economic Activities (NACE). «Industry» includes mining, manufacturing and utilities. Source: BPI Research, based on data from Eurostat.

sectors – which, following the shock of the war in Ukraine, may have favoured the retention of workers with less intensive use – and the increase in temporary sick leave.⁵

Fourthly, in the post-pandemic period, we note that the changes in the number of hours worked across different sectors are generally similar and moderate throughout the EU (see second chart). France shares the same diagnosis, while the reductions in Germany and the increases in Italy

5. For this last factor in the case of Spain, see the Focus «The disparity between employment and hours worked in Spain» in the MR07/2024.

1. For the widespread increase in the intensive use of labour in Italy, refer to chapter 4 on the labour market in Ufficio Parlamentare di Bilancio (2025), «Rapporto sulla politica di bilancio 2025».
 2. Bank of Spain (2023), «An analysis of hours worked per worker in Spain: trends and recent developments» and ECB (2025), «Who wants to work more? Revisiting the decline in average hours worked».
 3. ECB (2023). «More jobs but fewer working hours».
 4. See the second chart for sectoral differences in the number of hours worked. For an analysis of recent sectoral dynamics, see the Focus «Characterisation of the business cycle in the EU: neither widespread, nor robust» in the MR01/2026.

are equally widespread, albeit somewhat more intense. In Spain, however, the dispersion is quite pronounced, as we see a significant decline in construction (11% fewer hours worked in Q3 2025 compared to Q4 2019) and finance (a 7% decrease), in contrast to increases in real estate activities, public administration, and leisure and entertainment services.⁶

The complex relationship between hours worked and productivity

The academic literature documents a bidirectional but inconclusive relationship between productivity and working hours.⁷ On the one hand, efficiency gains can generate a positive income effect if they are associated with higher wages, which ultimately reduces the number of hours offered by a worker, but they can also lead to a greater substitution of leisure in favour of work if the former becomes relatively more expensive. On the other hand, conversely, a fatigue effect on productivity may occur due to a greater number of hours worked (diminishing returns), and this can coexist with the effect of a fixed cost of entry or of cumulative learning that boosts productivity in parallel with working hours. The prevalence of certain channels over others will be decisive in assessing the impact of specific events or economic policies.

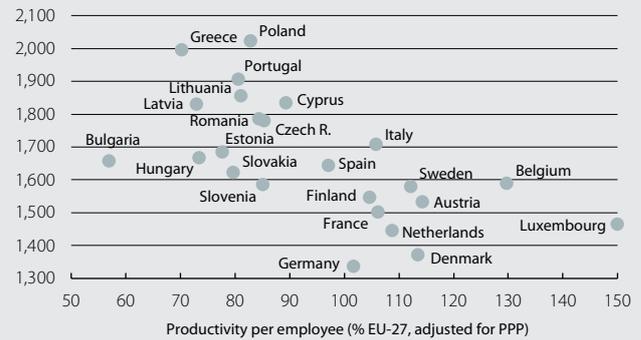
In the case of the EU, a long-term view reveals a negative relationship between economic development and the number of hours worked per employee (predominance of the positive income effect). Thus, in Eastern Europe, where working hours have significantly decreased in recent decades in parallel with the process of economic convergence with the founding members, the persistence of a high productivity gap⁸ coexists with figures still notably higher than the average (see third chart). More recently, for the EU as a whole, further reductions in the number of hours worked per employee in the post-pandemic period have been compatible with increases in productivity per hour and per employee, aided by a positive compositional effect towards more productive activities. However, this has not been the case for the four major European economies (see fourth chart). In particular, in the cases of Germany and Spain, there is a stark contrast between the reduction in working hours and the increase in productivity per hour worked, which has resulted in GDP per employee being practically stagnant over the last five years.

In summary, the reduction in hours worked in the EU is a secular trend that is likely to continue in the coming decades, supported by the ageing of the population.⁹

6. The strong negative correlation between hours worked in construction and real estate activities is striking, and this extends to the EU as a whole and to the four major economies analysed here.
 7. A good summary can be found in G. Cette, S. Drapala and J. Lopez (2023). «The circular relationship between productivity and hours worked: A long-term analysis».
 8. See the Dossier «An analysis of European productivity» in the MR01/2026.
 9. See the Dossier «Challenges and policies in the age of longevity» in the MR09/2025.

Productivity per employee and hours worked per year (2023)

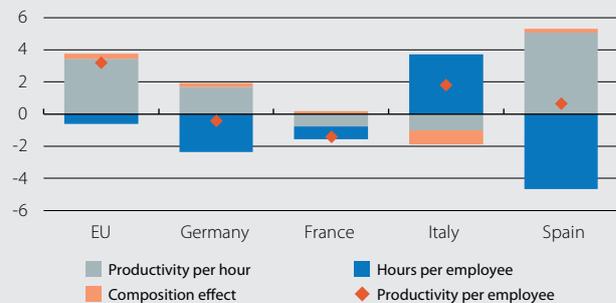
Number of hours worked per employee and year



Notes: Nominal productivity adjusted for purchasing power parity (PPP). Data not available for Croatia, France or Malta. Ireland is excluded from the chart with values of 200% productivity per employee and 1,654 hours worked per year.
 Source: BPI Research, based on data from Eurostat.

Productivity per employee in EU countries: change in Q4 2019-Q3 2025T 2025

(% and contributions in pps)



Notes: Includes sections B to N of the National Classification of Economic Activities (NACE), except real estate activities (section L). Data adjusted for seasonality and calendar effects. The composition effect includes the change in the relative weight of the hours worked in sectors with higher or lower productivity per hour and the change in the weight of employment in sectors with a higher or lower number of hours per employee.
 Source: BPI Research, based on data from Eurostat.

However, its intensity is not set in stone and will depend on a number of factors, including trends in productivity, regulatory changes in statutory working hours, the general health conditions of older workers, as well as incentives and policies aimed at increasing labour participation and part-time work.¹⁰ As for the role of productivity, a scenario in which the efficiency gains linked to artificial intelligence are limited or unevenly distributed will likely hinder further reductions in working hours if the current level of well-being is to be maintained.¹¹

10. IMF (2024). «Dissecting the Decline in Average Hours Worked in Europe».
 11. See footnote 7.

There are reasons why housing has become the top concern among European citizens

On 16 December, the Commission sent the so-called European Affordable Housing Plan to the European Council and Parliament, which aims to facilitate Europeans’ access to housing with adequate living conditions.¹ The plan sets out a series of measures aimed at boosting the housing supply (particularly in areas with the greatest deficit), attracting investment and mobilising funding, supporting the most vulnerable segments – such as young people and low-income workers – and reviewing regulations in order to avoid bottlenecks in the provision of housing and improve affordability in the medium term. This analysis examines the recent evolution of the European residential market and explores differences between countries in a context where housing has become the top concern among Europeans.²

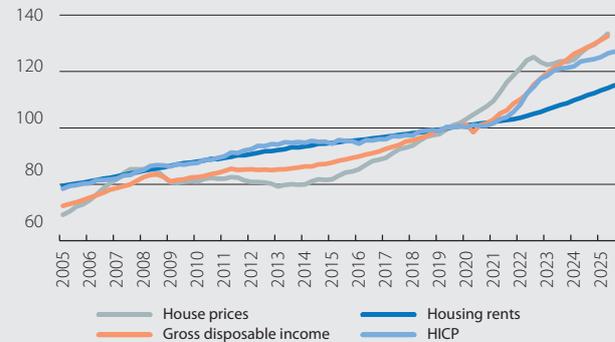
Supply shortages take over from recent shocks in the current European housing market phase

The residential real estate cycle in the EU over the last 10 years has been characterised by four distinct phases. An initial phase is framed by the emergence from the financial-sovereign crises, extending from 2014 to 2019, just before COVID-19. During this phase, average house prices in the EU grew at an annual rate of around 5%, far outpacing consumer inflation and rental costs (just over 1% in both cases), as well as gross disposable income per capita (3%) (see first chart).³ This rapid price growth reflects both an adjustment in real terms, following the sharp corrections that occurred between 2007 and 2013, and a slow initial response from supply to the increase in the number of households (see second chart).

A second phase occurs in the context of the pandemic, where there was an unusual accumulation of savings, resulting from the job retention schemes that contained the fall in labour income, combined with lower spending due to the mobility restrictions and interruptions in the supply of certain products.⁴ As the situation began to normalise, investment in housing – and not only in the primary residence segment – increased significantly.

1. See European Commission (2025). «European Affordable Housing Plan».
2. See European Commission (2025). «Public opinion on urban challenges and investment in cities».
3. House prices are based on sale transactions. Rental costs are approximated by taking sub-group 041 of the harmonised index of consumer prices (HICP), which reflects both updated existing contracts and new rental agreements.
4. See «Savings and consumption in times of pandemic: a historical and international review» in the MR11/2021.

EU: house prices, housing rents, disposable income and HICP
(Index 100 = 2019)



Notes: Gross disposable income of households per capita (including non-profit institutions serving households). Quarterly average of monthly data for the harmonised index of consumer prices (HICP). Housing rents corresponds to sub-group 041 of the HICP.
Source: BPI Research, based on data from Eurostat

EU: household formation and residential construction
(Thousands of units)



Notes: Building permits for residential construction excluding cooperatives (number of dwellings). 2025 data for building permits estimated using the year-on-year change in the first three quarters. 2025 data for household creation estimated using the year-on-year change in the population in the first three quarters and applying the average change in household size of the last 10 years.
Source: BPI Research, based on data from Eurostat.

This pushed up purchase prices, which doubled their year-on-year growth rate to 10% by the end of 2021 and the beginning of 2022, far exceeding the growth of incomes, prices and rents.

A third phase is triggered by Russia’s invasion of Ukraine, which gave rise to an energy and price shock that initiated a more restrictive monetary policy cycle. The ECB’s rate hikes and the consequent rise in bank financing costs cooled the European housing market, resulting in the relative stagnation of residential property prices from mid-2022 up until the start of 2024, once monetary policy had fully passed through to the real economy. This situation contrasts with the sharp

growth in consumer prices during this period (in excess of 10% year-on-year in some months) and the acceleration in the increase of rents, which doubled their growth rate to 3%.

Finally, in the last two years, we find ourselves in a different phase in which the supply of new housing has barely recovered from the lows of 2023-2024, hampered by bottlenecks, labour shortages and rising construction material costs. In contrast, demand has accelerated in a context of monetary policy easing⁵ and increased demographic growth driven by immigration – partly due to the arrival of Ukrainian refugees, partly due to the attraction of workers in response to labour shortages in some sectors. Thus, purchase prices are once again on the rise, at a rate around 5% year-on-year, in line with the average growth of disposable income across the EU, while rental costs are also now outpacing consumer prices (slightly above 3% vs. 2.5%, respectively).

Marked geographical heterogeneity among Europe's residential markets

In recent years, house prices in the EU have shown differential behaviour from country to country, although a certain geographical pattern emerges, with the sharpest increases recorded throughout Eastern Europe and the Mediterranean region (with Greece and Portugal leading), while the central-northern region has shown more contained growth, with the exceptions of Ireland and the Netherlands (see third chart).⁶

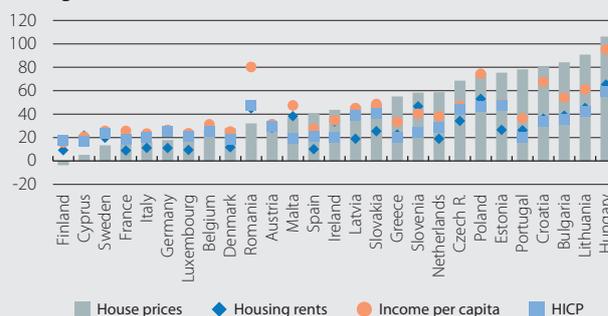
Even within these groups, it is possible to distinguish Member States based on how aligned the evolution of house prices has been with the headline price index (change in real prices), disposable income (as a measure of affordability), or rental costs (a proxy for yield or opportunity cost). Thus, for example, purchase prices in Poland, Croatia, Portugal and Bulgaria have increased by around 80% between 2019 and 2025, but whereas in the first two cases the growth in per capita income has been similar, in the latter two the accumulated gap is 30-40 pps, resulting in a significant deterioration in the affordability of home ownership for their populations. Similarly, Spain and Ireland have recorded price increases of around 40%, some 10 pps above the increase in household incomes, although the difference between them is marked by the behaviour of rental costs, which have been much more contained in the former case (10% vs. 30%) as a result of the measures

5. See «House prices in Europe reactivate with the shift in monetary policy» in the *Real Estate Sector Report for S1 2025*.

6. ECB (2025). «Developments in the recent euro area house price cycle».

EU: house prices, housing rents, income and HICP by country

Change in 2019-2025 (%)



Notes: Change in the average of monthly/quarterly data for 2025 compared to those of 2019. Gross disposable income of households per capita (including non-profit institutions serving households). Housing rents corresponds to sub-group 041 of the HICP. House price data for Greece based on the observed trend of the housing affordability ratio between 2019 and 2024 and with a rate of change equal to income per capita in 2025. The income data for 2025 correspond to the update with the HICP on the 2024 data (for Bulgaria, on the 2022 data).
Source: BPI Research, based on data from Eurostat.

applied during COVID-19 and the subsequent controls in stressed areas.⁷

Some of the possible explanatory factors for the geographical dispersion include differences in the alignment between supply and demand, a different evolution of financial conditions and changes in the role of the second home segment.⁸ Here we focus on the first element, the one most linked to the medium-term fundamentals for the residential market. To this end, we compare the change in the number of households that has occurred in recent years (since 2022, to abstract from the demographic effect of COVID-19) with the provision of new homes based on construction permits (see fourth chart). In general, we observe a reasonable alignment between demand for primary housing and the supply of new homes, with the vast majority of countries having a supply surplus/deficit of less than 2% of the total number of households. However, it is worth highlighting some countries where the discrepancies are significant: Lithuania, Portugal, Ireland and Estonia show a recent imbalance exceeding 5% (double digits in the first two countries), while Italy, Finland, the Netherlands and Spain also stand out, with demand representing two or more years of new construction (up to seven years in the first case).⁹

7. However, the contained rise in rental costs for the stock of contracts contrasts with the strong increases observed in new contracts in recent years, of just over 30% per m² between 2021 and 2025 according to data from Idealista.

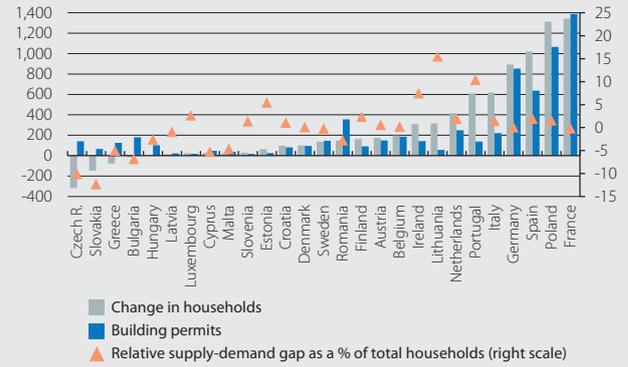
8. See European Commission (2025). «Housing in the European Union: market developments, underlying drivers and policies».

9. For a more detailed calculation using alternative metrics for Spain, see «The price of not building: how the housing deficit explains much of the price pressures» in the *Real Estate Sector Report for S2 2025*.

The recent evolution of the European residential market reflects a cycle marked by successive shocks and an insufficient supply that is now emerging as the main source of tension. Although the price rally is widespread, the disparity between countries is clear, with differences in affordability and mismatches between supply and demand that limit the policy response. In this context, the Commission’s European Affordable Housing Plan is a step in the right direction, but only a coordinated strategy between different levels of government will allow housing to stop being Europeans’ top concern and become instead a pillar of social cohesion and economic stability.

EU: household formation and housing construction by country

(Thousands of units, cumulative 2022-2025)



Notes: Building permits for residential construction except cooperatives (number of dwellings). 2025 data for building permits estimated using the year-on-year change in the first three quarters. 2025 data for household creation estimated using the year-on-year change in the population in the first three quarters and applying the average change in household size of the last 10 years.

Source: BPI Research, based on data from Eurostat.

The differing speeds of inflation: a differential calculation for the ECB

The euro area reached the ECB’s inflation target in 2025. Headline inflation fell to 2.1% for the year as a whole and closed at 1.9% in December, while most agents’ expectations also place it at 2% in the medium term. How has this final disinflation towards the 2% target played out? Which products and countries have contributed the most? What inertia remains?

For the first time in three years, in 2025 disinflation was supported more by the core components (industrial goods and services) than by the more volatile ones. This reflects disinflation that is occurring at different speeds, mirroring the previous inflationary crisis itself: energy and food prices, which were the most strained in 2022, also led the first stage of the disinflation in 2023. In contrast, non-energy industrial goods and especially services lagged behind, leading the disinflationary process in 2024 and 2025 after having accelerated in 2023.

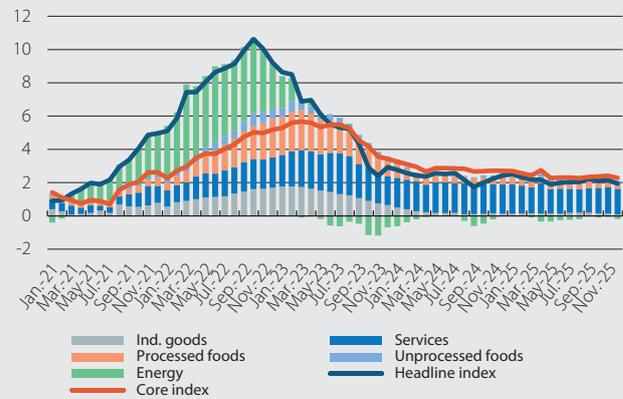
These differing speeds still persist in the latest inflation data. The main discrepancy is the inertia still present in services, with an inflation rate of 3.4% both for 2025 as a whole and in the last quarter and month of the year, which has been offset by the low inflation of non-energy industrial goods (0.6% in 2025, its lowest figure since the pandemic). The inertia of services is largely explained by the final ripple effects from the transmission of the inflationary crisis, and the latest data show that it is mainly due to the lagging behaviour of labour-intensive services (which also, consequently, are more sensitive to wage growth), energy-intensive services, and services that update their prices infrequently.¹ With headline inflation normalised, energy prices contained and wages decelerating, over the coming quarters we can expect service inflation to make definitive progress in its normalisation.

On the other hand, the return of headline inflation to 2% has also corrected the dispersion between countries that had been generated during the 2022 crisis. Small economies that were heavily impacted by the energy shock, such as the Baltic states (Estonia, Latvia and Lithuania saw inflation rates in excess of 20% in 2022), have recorded sharp disinflation (although their inflation rates still remain high within the euro area, at between 3% and 4%). Among the four major European

1. For example, in December 2025, prices related to transport, public services (post, waste collection, hospitals) and insurance accounted for nine of the top 10 items with the highest inflation in the core basket and contributed 0.5 pps to a core inflation rate of 2.3%. Inflation in insurance-related services also has inertia because it is affected by past inflation in the products being insured.

Euro area: HICP

Year-on-year change (%) and contributions (pps)



Note: Year-on-year change for headline and core inflation; contributions for the components.

Source: BPI Research, based on data from Eurostat.

Euro area: headline HICP

Year-on-year change (%) and contributions (pps)

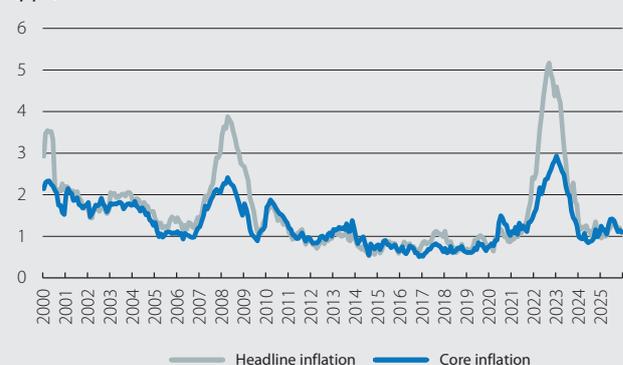


Note: For the components, their contribution to the change in headline inflation between 2023 and 2024 and between 2024 and 2025 is shown.

Source: BPI Research, based on data from Eurostat.

Euro area: dispersion of inflation between countries

(pps)



Note: Dispersion measured according to the standard deviation of the year-on-year change in the harmonised CPI among the 20 countries that made up the euro area as of December 2025.

Source: BPI Research, based on data from Eurostat.

economies, the country that provided the greatest boost to the disinflation of the euro area as a whole in 2025 was France, while Germany and Spain also helped to reduce it (albeit more moderately). Italy, on the other hand, actually pushed it up slightly due to base effects related to energy prices.

In terms of levels, France stands out for having the lowest inflation, largely driven by a negative contribution from energy due to the more gradual manner in which the rise in energy costs filtered through to French prices during the crisis.² The negative contribution from energy also persisted in Germany and Italy, whose energy dependence on Russia initially led to a relatively higher increase in energy costs (the energy CPI rose by 35% in Germany and by 51% in Italy in 2022 as a whole), although by 2025 it had become more residual in quantitative terms. Spain, for its part, has recorded inflation somewhat higher than the euro area average, largely explained by higher inflation in energy and food compared to the euro area.³

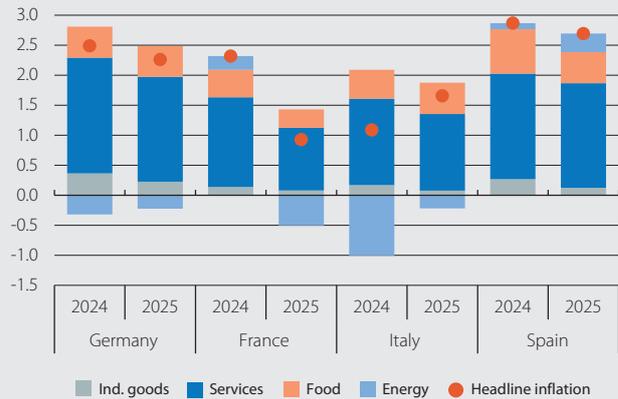
Taken together, the 2025 figures depict inflation at the ECB's 2% target. However, behind this normalisation there is a dispersion among components that reflects the wide variety of risks surrounding the scenario: from the inertia of services (which ought to moderate with wages) to the low inflation of goods (subject to risks of tariff disruptions and the redirection of trade), to food and its sensitivity to extreme weather events.

2. In 2022, France opted for direct interventions on gas prices. Thus, the tightening of its energy prices was less pronounced in the short term, but so was their subsequent easing.

3. In terms of the harmonised CPI, Spanish inflation was similar to that of the euro area in non-energy industrial goods and services (0.3 pps lower in the former, 0.2 pps higher in the latter), lower in processed foods (1.0 pp) and significantly higher in unprocessed foods (2.4 pps) and energy (4.6 pps).

Euro area: HICP

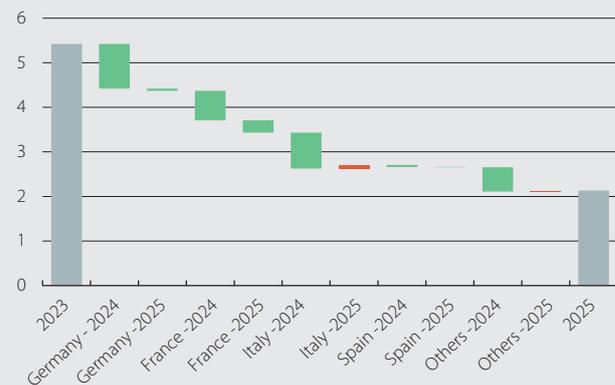
Annual change (%) and contributions (pps)



Note: Annual change for headline inflation; contributions for the components. Source: BPI Research, based on data from Eurostat.

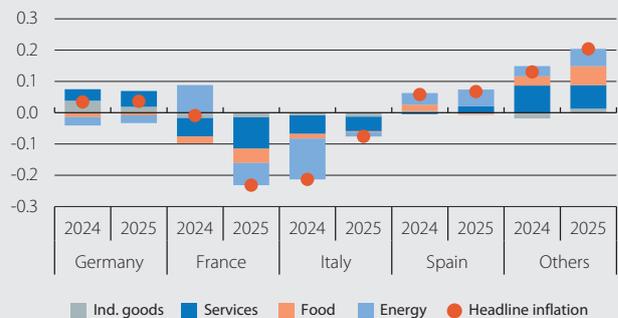
Euro area: headline HICP

Year-on-year change (%) and contributions (pps)



Note: For the countries, their contribution to the change in the headline inflation of the euro area between 2023 and 2024 and between 2024 and 2025 is shown. Source: BPI Research, based on data from Eurostat.

HICP: differential contribution by country to the euro area as a whole* (pps)



Note: * The differential contribution refers to the contribution of each country's headline inflation to the inflation of the euro area as a whole, expressed as an excess (+) or deficit (-) compared to the contribution predicted by the country's weight in the index (assuming the same inflation in all countries). Source: BPI Research, based on data from Eurostat.

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

UNITED STATES

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|---|-------|------|---------|---------|---------|---------|-------|-------|-------|
| Activity | | | | | | | | | |
| Real GDP | 2.8 | ... | 2.0 | 2.1 | 2.3 | ... | – | – | – |
| Retail sales (excluding cars and petrol) | 3.4 | ... | 4.8 | 4.9 | 4.6 | ... | 4.4 | ... | ... |
| Consumer confidence (value) | 104.5 | 96.1 | 99.8 | 93.1 | 97.4 | 94.2 | 92.9 | 94.2 | 84.5 |
| Industrial production | –0.7 | 1.3 | 0.7 | 0.5 | 1.7 | 2.2 | 2.7 | 2.0 | ... |
| Manufacturing activity index (ISM) (value) | 48.2 | 48.9 | 49.9 | 48.8 | 48.7 | 48.2 | 48.0 | 47.9 | 52.6 |
| Housing starts (thousands) | 1,371 | ... | 1,401 | 1,354 | 1,339 | ... | ... | ... | ... |
| Case-Shiller home price index (value) | 330 | ... | 340 | 338 | 337 | ... | 341 | ... | ... |
| Unemployment rate (% lab. force) | 4.0 | 4.3 | 4.1 | 4.2 | 4.3 | 4.5 | 4.5 | 4.4 | ... |
| Employment-population ratio (% pop. > 16 years) | 60.1 | 59.8 | 60.0 | 59.8 | 59.6 | 59.7 | 59.6 | 59.7 | ... |
| Trade balance ¹ (% GDP) | –2.8 | ... | –3.5 | –3.6 | –3.4 | ... | –3.1 | ... | ... |
| Prices | | | | | | | | | |
| Headline inflation | 3.0 | 2.7 | 2.7 | 2.4 | 2.9 | 2.7 | 2.7 | 2.7 | ... |
| Core inflation | 3.4 | 2.9 | 3.1 | 2.8 | 3.1 | 2.6 | 2.6 | 2.6 | ... |

JAPAN

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|--|------|------|---------|---------|---------|---------|-------|-------|-------|
| Activity | | | | | | | | | |
| Real GDP | –0.2 | ... | 1.6 | 2.0 | 0.6 | ... | – | – | – |
| Consumer confidence (value) | 37.2 | 34.7 | 34.7 | 32.8 | 34.6 | 36.8 | 37.5 | 37.2 | 37.9 |
| Industrial production | –3.0 | 1.2 | 2.5 | 0.8 | 0.6 | 1.0 | 0.6 | 0.8 | ... |
| Business activity index (Tankan) (value) | 12.8 | 13.5 | 12.0 | 13.0 | 14.0 | 15.0 | – | – | – |
| Unemployment rate (% lab. force) | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.6 | 2.6 | 2.6 | ... |
| Trade balance ¹ (% GDP) | –1.0 | ... | –0.9 | –0.7 | –0.5 | ... | –0.4 | ... | ... |
| Prices | | | | | | | | | |
| Headline inflation | 2.7 | 3.2 | 3.8 | 3.4 | 2.9 | 2.7 | 2.9 | 2.1 | ... |
| Core inflation | 2.4 | 3.0 | 2.7 | 3.2 | 3.2 | 3.0 | 3.0 | 2.9 | ... |

CHINA

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|-------------------------------------|------|-------|---------|---------|---------|---------|-------|-------|-------|
| Activity | | | | | | | | | |
| Real GDP | 5.0 | 5.0 | 5.4 | 5.2 | 4.8 | 4.5 | – | – | – |
| Retail sales | 3.3 | 3.8 | 3.6 | 4.4 | 2.4 | 0.7 | 1.3 | 0.9 | ... |
| Industrial production | 5.6 | 5.9 | 6.8 | 6.2 | 5.8 | 5.0 | 4.8 | 5.2 | ... |
| PMI manufacturing (value) | 49.8 | 49.6 | 49.9 | 49.4 | 49.5 | 49.4 | 49.2 | 50.1 | 49.3 |
| Foreign sector | | | | | | | | | |
| Trade balance ^{1,2} | 997 | 1,194 | 1,086 | 1,146 | 1,176 | 1,194 | 1,185 | 1,194 | ... |
| Exports | 4.6 | 5.5 | 5.7 | 6.0 | 6.5 | 3.8 | 5.8 | 6.6 | ... |
| Imports | 1.0 | 0.0 | –6.9 | –0.8 | 4.4 | 2.9 | 1.9 | 5.7 | ... |
| Prices | | | | | | | | | |
| Headline inflation | 0.2 | 0.1 | –0.1 | 0.0 | –0.2 | 0.6 | 0.7 | 0.8 | ... |
| Official interest rate ³ | 3.1 | 3.0 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Renminbi per dollar | 7.2 | 7.2 | 7.3 | 7.2 | 7.2 | 7.1 | 7.1 | 7.0 | 7.0 |

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

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|---|-------|-------|---------|---------|---------|---------|-------|-------|-------|
| Retail sales (year-on-year change) | 1.2 | ... | 2.4 | 3.0 | 1.9 | ... | 2.3 | ... | ... |
| Industrial production (year-on-year change) | -3.0 | ... | 1.4 | 1.3 | 1.4 | ... | 2.5 | ... | ... |
| Consumer confidence | -12.6 | -13.4 | -12.7 | -14.3 | -13.6 | -12.9 | -12.8 | -13.2 | -12.4 |
| Economic sentiment | 95.9 | 96.0 | 95.9 | 94.7 | 95.9 | 97.3 | 97.5 | 97.2 | 99.4 |
| Manufacturing PMI | 45.9 | 49.1 | 47.6 | 49.3 | 50.1 | 49.5 | 49.6 | 48.8 | 49.8 |
| Services PMI | 51.5 | 51.3 | 51.0 | 50.1 | 50.9 | 53.0 | 53.6 | 52.4 | 51.6 |
| Labour market | | | | | | | | | |
| Employment (people) (year-on-year change) | 0.9 | ... | 0.8 | 0.7 | 0.6 | ... | - | - | - |
| Unemployment rate (% labour force) | 6.4 | 6.3 | 6.3 | 6.4 | 6.4 | 6.3 | 6.3 | 6.2 | ... |
| Germany (% labour force) | 3.4 | 3.7 | 3.6 | 3.7 | 3.8 | 3.8 | 3.8 | 3.8 | ... |
| France (% labour force) | 7.4 | 7.6 | 7.5 | 7.6 | 7.7 | 7.7 | 7.7 | 7.7 | ... |
| Italy (% labour force) | 6.6 | 6.0 | 6.3 | 6.3 | 6.0 | 5.7 | 5.6 | 5.6 | ... |
| Real GDP (year-on-year change) | 0.8 | 1.5 | 1.6 | 1.5 | 1.4 | 1.3 | - | - | - |
| Germany (year-on-year change) | -0.5 | 0.3 | 0.3 | 0.4 | 0.3 | 0.4 | - | - | - |
| France (year-on-year change) | 1.1 | 0.9 | 0.7 | 0.8 | 0.9 | 1.1 | - | - | - |
| Italy (year-on-year change) | 0.5 | 0.7 | 0.7 | 0.5 | 0.6 | 0.8 | - | - | - |

Prices

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|---------|------|------|---------|---------|---------|---------|-------|-------|-------|
| General | 2.4 | 2.1 | 2.3 | 2.0 | 2.1 | 2.1 | 2.1 | 2.0 | 1.7 |
| Core | 2.8 | 2.4 | 2.6 | 2.4 | 2.3 | 2.4 | 2.4 | 2.3 | 2.2 |

Foreign sector

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|--|------|------|---------|---------|---------|---------|-------|-------|-------|
| Current balance | 3.4 | ... | 3.0 | 3.6 | 4.7 | ... | 8.9 | ... | ... |
| Germany | 5.8 | ... | 5.4 | 6.7 | 9.3 | ... | 18.1 | ... | ... |
| France | 0.1 | ... | 0.0 | -0.3 | -0.9 | ... | -1.8 | ... | ... |
| Italy | 1.1 | ... | 0.9 | 1.3 | 2.4 | ... | 4.9 | ... | ... |
| Nominal effective exchange rate¹ (value) | 94.6 | 96.5 | 93.2 | 96.7 | 98.3 | 98.0 | 97.8 | 98.2 | 97.8 |

Credit and deposits of non-financial sectors

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|---|------|------|---------|---------|---------|---------|-------|-------|-------|
| Private sector financing | | | | | | | | | |
| Credit to non-financial firms ² | 0.8 | 2.7 | 2.2 | 2.6 | 2.9 | 3.0 | 3.1 | 3.0 | ... |
| Credit to households ^{2,3} | 0.5 | 2.2 | 1.5 | 2.1 | 2.5 | 2.9 | 2.9 | 3.0 | ... |
| Interest rate on loans to non-financial firms ⁴ (%) | 4.9 | 3.4 | 3.9 | 3.4 | 3.2 | 3.3 | 3.2 | 3.4 | ... |
| Interest rate on loans to households for house purchases ⁵ (%) | 4.6 | 3.7 | 4.0 | 3.7 | 3.6 | 3.5 | 3.5 | 3.6 | ... |
| Deposits | | | | | | | | | |
| On demand deposits | -3.9 | 5.0 | 3.7 | 5.3 | 5.6 | 5.5 | 5.5 | 5.1 | ... |
| Other short-term deposits | 12.4 | -0.1 | 2.3 | -0.1 | -1.5 | -1.0 | -0.8 | -0.4 | ... |
| Marketable instruments | 20.0 | 7.7 | 14.7 | 11.1 | 4.4 | 0.6 | 1.5 | -1.0 | ... |
| Interest rate on deposits up to 1 year from households (%) | 3.0 | 1.9 | 2.2 | 1.9 | 1.7 | 1.8 | 1.8 | 1.8 | ... |

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

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

2025: more jobs and robust growth

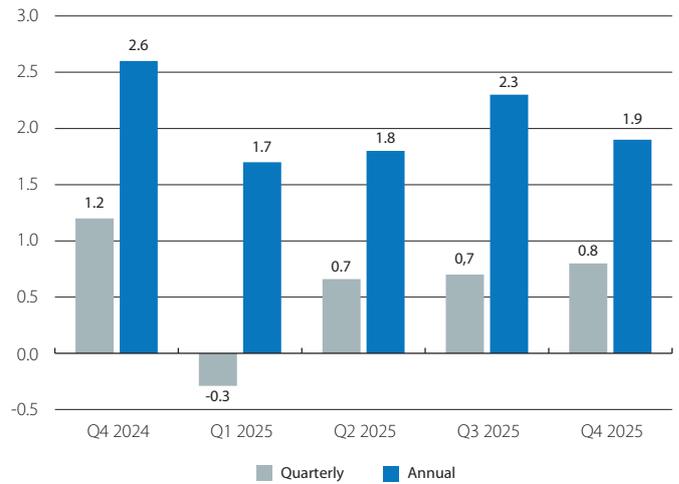
In Q4 2025, GDP grew 0.8% quarter-on-quarter, placing annual growth for 2025 at 1.9% and the recovery since 2019 at 11.3%. The quarter-on-quarter performance reflected a negative contribution from domestic demand associated with a sharp drop in investment, which may be related to a reduction in stocks. Fiscal changes announced for 2026 may also have led to the postponement of investment decisions, perhaps most notably in the construction sector. In turn, the contribution of external demand was positive due to a reduction in imports, possibly also reflecting the accumulation of stocks in previous quarters. The quarterly evolution throughout 2025 was from less to more, placing annual growth at 1.9% and the implied carryover effect for 2026 at 1.1%. In other words, the risks to BPI Research's current estimate for real GDP growth in 2026 (2.0%) are skewed upwards because, in addition to the carryover effect, there are other standout favourable factors: An increase in investment is expected (through the acceleration of the implementation of the Recovery and Resilience Plan, which is entering its final year), in an environment where financial conditions remain benign; and private consumption will remain solid, buoyed by the resilience of the labour market. External demand will continue to have an impact on growth, given the high level of import content, and all of this is happening against a backdrop where the external environment remains uncertain for export performance. Economic data for 2026 is still very scarce, with only the fact that the European Commission's Economic Sentiment Indicator remains comfortably above 100 points as a basis for speculation.

Heading into 2026, inflation is below 2%. Indeed, the year-on-year change in the CPI estimated by Statistics Portugal (INE) for January is 1.9% (2.2% in December 2025) and underlying inflation also fell to 1.8% year-on-year (2.1% in December). Since March of last year, the global CPI has not fallen below the 2% mark, and this marks the start of the gradual disinflation process expected this year. We are aiming for an average inflation rate of 2.1%. Factors such as the appreciation of the euro against the dollar and the stability of the Brent price around \$65 should support this process, but it is not without risks. Among the upside risks are all geopolitical issues related to both the possibility of a tariff war and the escalation of ongoing conflicts, with an impact on commodities in food and energy.

The job market ends the year on a high note. In fact, employment grew 3.7% year-on-year in Q4 (+190,700 people employed), placing annual growth at a surprising 3.2%. We have to go back to 2022, a period marked by the gradual return to post-pandemic normality, to find such a significant growth rate (at that time, it grew by 3.3%). The tertiary sector is by far the main driver of employment growth: For the year as a whole, more than 20% of job creation was in the human health & social support activities sector, followed by hospitality (which accounts for approximately 14% of the increase in employment). Another relevant aspect concerns the creation of typically more stable jobs, with the increase in permanent contracts surpassing other

GDP: evolution by volume

Rate of change (%)



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

CPI

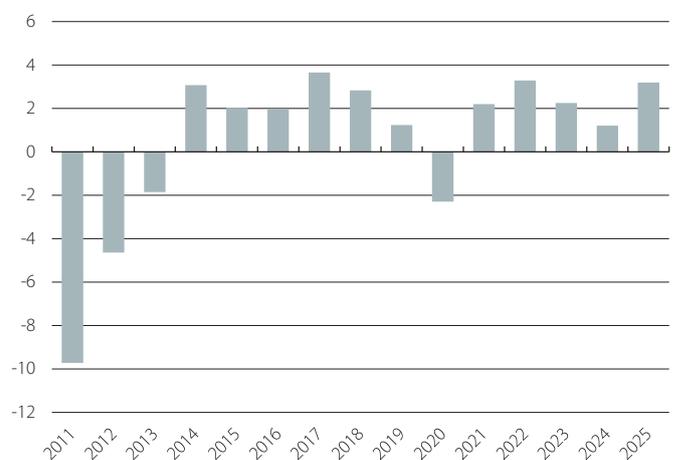
yoy (%)



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

Employed population

Rate of change (%)



Note: Non-seasonally adjusted data.

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

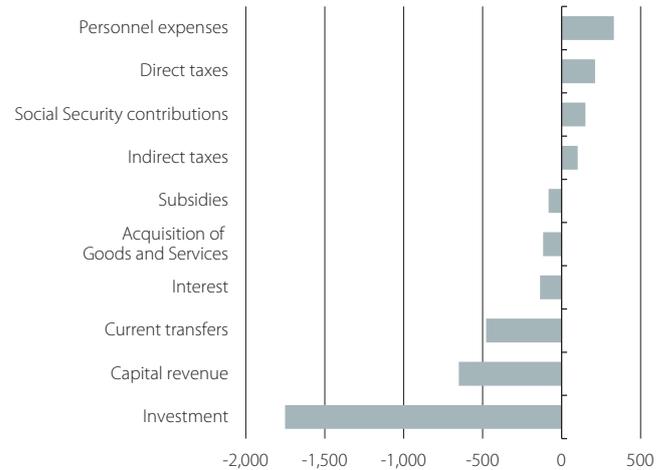
types of contracts. In turn, the unemployment rate changed from what typically happens in the final quarter of the year (increasing sequentially). In fact, in Q4, it remained unchanged at 5.8%, placing the annual average for 2025 at 6.0%. The surprising behaviour of the labour market in 2025 reinforces the possibility of revising the estimated dynamics for 2026.

The budget balance (in public accounting) ends the year on a positive note and exceeds the Government’s expectations. Budget execution up to December revealed a surplus of 0.4% of GDP (compared to 0.1% in 2024), above the Government’s original estimate, included in the 2026 State Budget, of -0.3%. The increase in revenue exceeded the growth in expenditure, in line with what was recorded throughout the year. In the first case, the 7.6% increase was largely due to growth in tax and social security revenue, placing the amount collected approximately €465 million above the Government’s latest estimate. In turn, more than half of the 6.9% increase in expenditure was accounted for by personnel costs and current transfers. In this case, only personnel expenses ended up exceeding the Government’s latest estimate (by €330 million), although, in total, expenditure was almost €2.3 billion below what was forecast, with particular emphasis on public investment (€-1.75 billion). Considering the difference estimated by the Government between the two perspectives, the budget balance from the official perspective (national accounts) would have been around 1.0% of GDP, 0.7 pp above the Administration’s estimate.

Positive year for tourism. Turning our attention to tourism, 2025 was marked, in a similar way to 2024, by record highs in terms of guests (32.5 million), overnight stays (82.0 million) and revenue (€7.154 billion). Growth in guest and overnight stay metrics was primarily driven by resident tourism (4.7% and 5.4%, respectively) and more modestly by non-resident tourism (+1.9% in guests and +0.8% in overnight stays). The United Kingdom remained the main source market, and among the main markets, Canada (+5.8%) and the United States (+4.9%) stood out with the largest increases, while the French and Spanish markets recorded the largest decreases (-7.0% and -5.2%, respectively).

The loan portfolio ends the year with the positive tone that characterised 2025. The stock of bank credit granted to the non-financial private sector grew by 6.7% year-on-year in December, reaching its highest number since the end of 2014. The main driver was housing credit (+9.4% year-on-year), which accounts for almost 70% of the increase in the loan portfolio to the non-financial private sector. Non-financial corporations also saw their portfolio increase by 2.9%, accounting for approximately 15% of the growth. This dynamism is driven by new credit operations, which, in the case of housing credit, increased by 33.9% year-on-year for the year as a whole (marking the best year ever in terms of credit granted for home purchases), while new credit operations granted to non-financial corporations increased by 16.3% (signalling 2025 as the best year since 2015). In turn, in 2025, the stock of deposits from the non-financial private sector increased by 6.1%, with both segments showing positive growth (individuals: +4.3% and non-financial corporations: +9.0%) and reaching record highs.

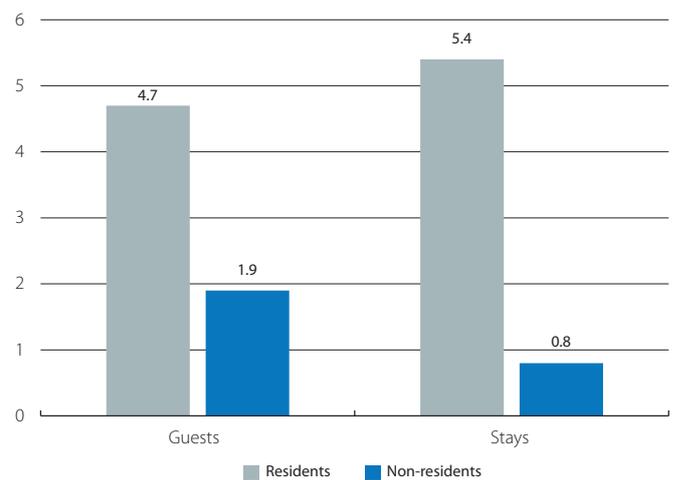
Budget implementation (public accounting)
Implemented in 2025 vs. government estimate (million euros)



Source: BPI Research, based on data from the Budgetary Authority.

Portuguese tourism in 2025

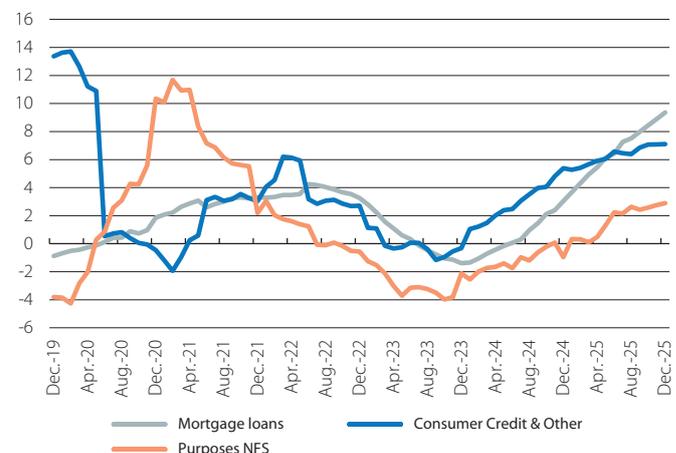
Annual change (%)



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

Loan portfolio to the non-financial private sector

Annual rate of change (%)



Source: BPI Research, based on data from BdP.

How is public consumption characterised?

Public consumption stands at 17% of the national GDP and refers to the expenditure of public administrations (PAs) on goods and services made available to families and the community, such as health, education, security, defence, among others, differing from total public expenditure by not including, for example, gross fixed capital formation, interest, pension payments, or unemployment benefits.¹

It consists of final consumption expenditures produced by the public administration and expenditures on market acquisitions. The first category includes wages, intermediate consumption, other taxes on production and consumption of fixed capital, minus sales of goods and services,² while the second type consists of social transfers in kind acquired on the market.

Public administration final consumption expenditures produced by public administrations represent approximately 88% of total public administration final consumption expenditures, with purchases from the market accounting for the remaining 12%.

Final consumption expenditure of PAs:

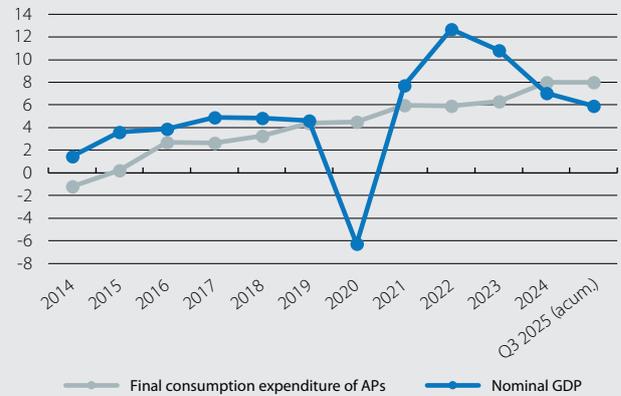
- 63% are costs related to remuneration;
- Approximately 30% is spent on intermediate consumption, which corresponds to goods and services consumed in the production process, excluding fixed assets, such as maintenance expenses, medical supplies, vaccines, etc.;
- 14% is depreciation of the assets used;
- and 12% corresponds to in-kind transfers acquired on the market, which include, for example, health, education and social protection services acquired on the market to fulfil commitments made to the population;
- Sales, corresponding to the value of the production of goods and services attributed to households/

1. Public consumption refers to public administration expenditure on the production or acquisition of goods and services for collective or individual consumption. Since these products are generally bereft of a market price, they are valued at their production costs, which consist mainly of personnel expenses, intermediate consumption, and social transfers in kind. It is a subset of public administration expenditure, since it does not include, for example, gross fixed capital formation, interest or social transfers other than in kind (source: Public Finance Council).

2. From a National Accounts by Institutional Sector perspective, this corresponds to market production, production for own final use and payments for non-market production. This article took Regulation (EU) No. 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union and the working document of the Independent Authority for Fiscal Responsibility, «What do we mean by public consumption?» as sources.

Portugal: nominal GDP growth and public consumption

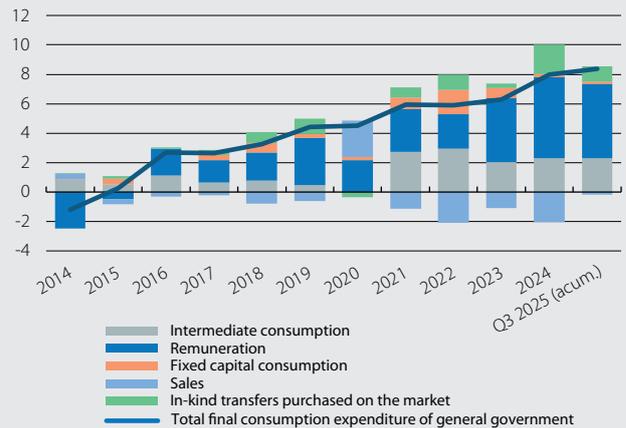
Annual variation (%)



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

Portugal: components of public consumption

Contributions (pp) and annual variation (%)



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

communities, are deducted from the sum of production costs and represent approximately 19% of total public administration final consumption expenditure. Some examples of goods and services in this category are services provided by public hospitals, payments to schools and hospitals, sales associated with R&D contracts between public universities and the business sector, etc.

With the exception of 2020, when nominal GDP shrank by 6.3%, public consumption in nominal terms has shown slower growth rates than nominal GDP, reflecting the fiscal consolidation effort that has characterised Portuguese fiscal policy in the post-troika era. However, since 2024 the growth rate of public consumption has exceeded that of nominal GDP, as a result of the acceleration of certain areas of public spending.

Remuneration has grown by an average of 8% per year since 2023, making it the component that contributes most to the acceleration of public consumption, a reflection of salary updates for public employees and career advancement measures. Transfers in kind acquired on the market have also recorded significant growth rates since 2024 (18.8% in 2024 and 8.8% up to Q3 2025), increasing their contribution to the growth of public consumption. In turn, the contribution of intermediate consumption increased from an average of 0.7 pp between 2014 and 2019 to 1.4 pp between 2020-2021 and to 2.4 pp between 2022 and 2024.

The distribution of public consumption differs from function to function within the public administrations, and unsurprisingly, health and education are observed as the largest contributors to public spending. The former accounts for 34% of total consumption, and the latter for around 23%.

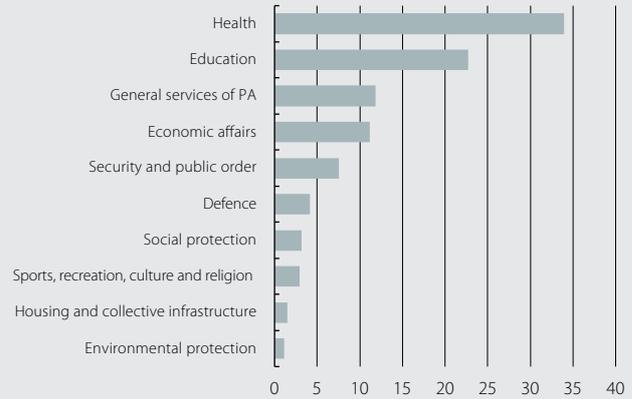
In the fourth graph, where the points above the dotted line refer to the functions with the greatest contribution to the growth of public consumption in 2020-2023, we see that functions such as health, social protection, and security and public order have made weaker contributions to this growth in recent years, while environmental protection, education, housing and infrastructure, and defence have increased their contributions in the same period. Economic issues can be seen as an outlier, with substantially stronger contributions both in more recent times and in the period following the end of the economic and financial assistance programme that ended in 2014.

'Economic affairs' encompasses public consumption with activities focused on promoting economic growth and efficiency, and includes sectors such as industry, agriculture, communications, economic, commercial and labour affairs, as well as transportation. The latter sub-function represents 63% of the function's total consumption, including expenses on infrastructure, management and maintenance of the transport network.

On the other hand, 2025 shows a trend of apparent moderation in the nominal growth rate of public consumption. This trend may intensify as the effects linked to salary increases and career advancement decisions for certain professional categories diminish. However, the absolute value of public consumption will have an impact, and it is likely to translate into an increase in its share of GDP. It should also be noted that this is naturally a determining factor for the smooth progress of budget execution in the medium term and is particularly relevant for the prospective path of public debt, especially in a context of growing challenges (demographics and climate change, among others) and increasing rigidity of expenditure items.

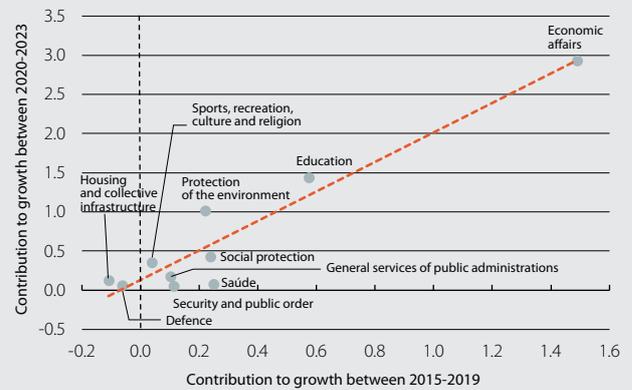
Teresa Gil Pinheiro

Public consumption by function of the Public Administration in 2023
(% of the total)



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

Breakdown of each function's contribution to public consumption growth



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

The energy market in Portugal is on a solid and adaptive trajectory, but energy poverty still exists

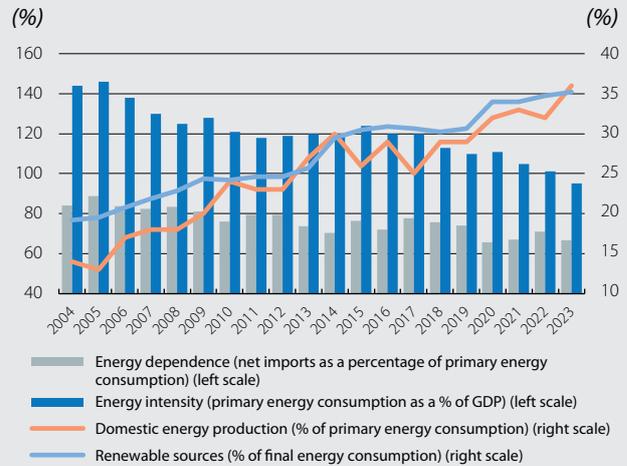
The efficient use of energy and investment in renewable sources have proven crucial for improving economic autonomy and reconciling GDP growth with the UN's sustainable development goals and the European plan for the energy transition until 2050, implicit in the Paris Agreement (2015), the Green Deal (2019), REPowerEU (2022) and in directives recently created by the European Commission. This becomes particularly relevant in the current international context, marked by trade uncertainty, fragmented perspectives on combating climate change, and high exposure to energy market fluctuations and supply shocks, as evidenced by external dependence on Russian gas, which has adversely impacted European economies since the beginning of the war in Ukraine. On the other hand, access to quality energy plays an important role in addressing social challenges such as inequality in income distribution and access to healthcare. Therefore, it is relevant to examine the current state of this sector in Portugal and whether political and institutional decision-makers have responded effectively.

The energy market in Portugal

Historically, due to the lack of significant fossil fuel reserves within the country, Portugal has a high level of external energy dependence, with net imports representing approximately 67% of primary energy consumption¹ in 2023 (see first graph). However, this is proof of a progressive decrease over the last two decades (84% in 2004), reflecting the strategic reorientation of choices in terms of both supply and demand, on the part of households and businesses. The effectiveness of public policy (such as the National Energy and Climate Plan (PNEC 2030) and the end of coal-fired electricity production, with the closure of the Sines and Pego thermal power plants in 2021) and the channelling of European funds (more recently, the NGEU and within the framework of REPowerEU), which encouraged innovation and investment in renewable energy infrastructure, namely hydro, solar and wind power, which account for approximately 90% of clean energy production.²

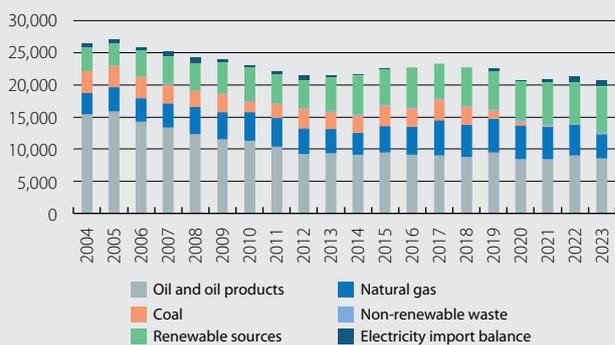
1. Primary energy is extracted in its original form, without any transformation, while final energy corresponds to what is available to consumers.
 2. The WindFloat Atlantic project, in Viana do Castelo, stands out as the first floating offshore wind farm in Europe, which received €60 million in funding from the European Investment Bank (EIB) and was initiated by a joint venture involving, among other companies, Repsol and EDP Renováveis.

Energy in Portugal: indicators



Source: BPI Research, based on DGEG data.

Primary energy consumption: sources (Thousands of TOE*)



Note: * Tonnes of oil equivalent. Non-renewable waste includes industrial waste and the non-renewable fraction of municipal solid waste. The electricity import balance is accounted for by the fact that imports enter the country as directly available energy in the form of electricity and not in their original form (e.g., oil).

Source: BPI Research, based on DGEG data.

In fact, both the proportions of (i) domestically produced energy in primary energy consumption and (ii) renewable sources in final energy consumption have grown considerably, rising from approximately 14% and 19% in 2004 to 36% and 35% in 2023, respectively, according to DGEG data. Furthermore, there were gains in energy consumption efficiency, linked to more robust technologies, greater infrastructure capacity, and reduced production costs, which translated into a drastic decrease in energy intensity (95% in 2023 vs. 144% in 2004).

Portugal is thus on a positive trajectory in terms of reducing exposure to international energy markets, innovation in this area, and the development of the sector, even going so far as to hold a relatively high

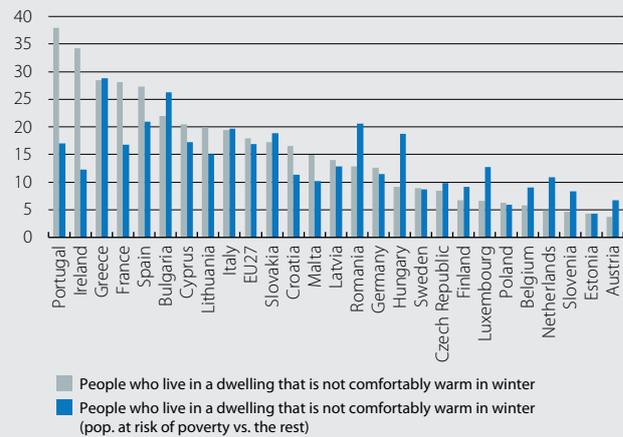
position within the EU in the proportion of renewable energy in total consumption (7th place in 2024). This path is justified by the diversification of sources and by alignment with sustainability goals in the transition to a greener,³ emission-free economy. The second graph complements the analysis, with primary energy consumption decreasing in absolute terms and a reduction in the structural relevance of the biggest pollutant fossil fuels: In 2023, oil consumption was 8,549 thousand toe (-44% compared to 2004) and coal consumption was only 5 thousand toe (-99.9%), with the share of these two sources decreasing from 72.3% to 41.4% over the time period presented. Conversely, renewable sources increased their share of consumption from 16.1% to 34.9% (7,199 thousand toe in 2023, +73.8% compared to 2004), but there is still room to reduce the significant dependence on oil and natural gas, with the importance of the latter having increased due to the substitution effect and its role in making the transition process more flexible.⁴

The persistence of energy poverty

Despite the positive outlook in terms of strategic specialisation, from a socioeconomic standpoint, the panorama is rather negative. The European Parliament and Council define energy poverty as the lack of access by a family to essential energy services that provide basic levels of life and health, namely heating and lighting. With 38% of the population living in housing that is not adequately warm in winter in 2023 (vs. 17.9% in the EU as a whole; see third graph), Portugal is in the worst position among EU countries (though average temperatures in Portugal are comparatively higher than in most of Europe), exacerbating problems of inequality and social justice. Indeed, the quality of the housing stock in the country is lower than the EU average, requiring a reinforced focus from public institutions to improve or renovate existing structures,⁵ especially for the most vulnerable segment of the population, characterised by a higher unemployment rate and demographic ageing, or concentrated in rural areas further inland (where winters are generally more severe and homes have more obsolete equipment and systems). Data from the European Commission indicates that, in regional terms, the Autonomous Regions of the Azores and Madeira are the NUTS regions where energy poverty is most prevalent, followed by the North.

Energy poverty in the EU

% of the total population in 2023 (or difference in pp)



Note: Denmark was excluded due to a lack of data for this indicator.
Source: BPI Research, based on the Eurostat EU-SILC survey.

The persistence of this problem requires the adoption of an integrated strategy among various institutions, which has been partially effective in certain areas, such as mitigating inequality in a broader sense: The difference between the proportion of people without a warm home in winter who are at risk of poverty or social exclusion compared to those who are not is in line with the European average (of «just» 17%).

In 2024, the National Long-Term Strategy to Combat Energy Poverty (ELPPE) was approved, aiming to eliminate the problem by 2050 by establishing targets such as reducing the percentage of people living in households unable to keep their homes adequately heated from 17.5% in 2020 to <1%, and the percentage of homes that are not cool in summer from 35.7% in 2012 to <5%, as well as eliminating situations where families spend more than 10% of their income on energy expenses. Furthermore, the programme also aims to mitigate the regional heterogeneity of energy poverty (decentralisation of implementation, with significant involvement of municipalities) and boost energy literacy levels, providing the population with clear information on available support and knowledge to better understand, for example, energy efficiency classifications.

Tiago Miguel Pereira

3. According to Eurostat, Portugal had the second-highest proportion of electricity generated from renewable energy sources in the EU in 2024 (87.5% vs. 47.4% on average).
4. Although of fossil origin, gas pollutes less than oil and coal.
5. See article from Banco de Portugal 'Policies to combat energy poverty in Portugal': <https://www.bportugal.pt/paper/politicas-de-combate-pobreza-energetica-em-portugal>

Portuguese tourism in the context of the European Union

Last month we published an article that described the Portuguese hotel sector in its various characteristics and in considerable detail:¹ evolution of the number of hotels, distribution of rooms by type of establishment, revenues by type of hotel, hotel offering by region, etc. This month we are continuing with the theme of Tourism, but from the perspective of framing Portuguese tourism within the European Union (EU).

The relative position of Portuguese tourism

We have repeatedly highlighted this sector’s strong performance in our economy and the enormous progress in terms of tourist numbers, export revenue, and the evolution of the value chain, for example. However, it is important to keep in mind the relative position and strong competition that the country faces in the broader European context. According to the United Nations,² six of the top 10 destinations with the highest number of international tourists are EU countries.³ Eurostat data (first figure) shows that in 2024, with 88 million overnight stays, Portugal lies tenth in this metric among EU countries; a 2.9% share of the more than 3 billion overnight stays (an unprecedented figure for EU tourism). A modest percentage, but one that appears to fit the country’s demographics;⁴ and it’s even more positive if we consider that the number of overnight stays in Portugal is higher than the number of overnight stays recorded in Belgium and Ireland together and also higher than the sum of overnight stays in the eight countries with the lowest recorded figures. The recent strong performance is most evident when considering that, compared to pre-pandemic levels, Portugal has the sixth-highest increase in overnight stays (+13.5%), surpassing direct competitors like Spain (+7.5%), Italy (+6.7%) and Greece (+6.5%), thereby gaining market share in the tourism sector of this political and economic bloc. It is worth highlighting that most of the countries that have not yet recovered their pre-pandemic tourism levels border Russia and/or Ukraine, emphasising the sector’s vulnerability to geopolitical issues.

In the following graphs, we can also observe other interesting nuances. Firstly, the fact that Portugal has a much smaller share of overnight stays by

Tourist overnight stays by EU country

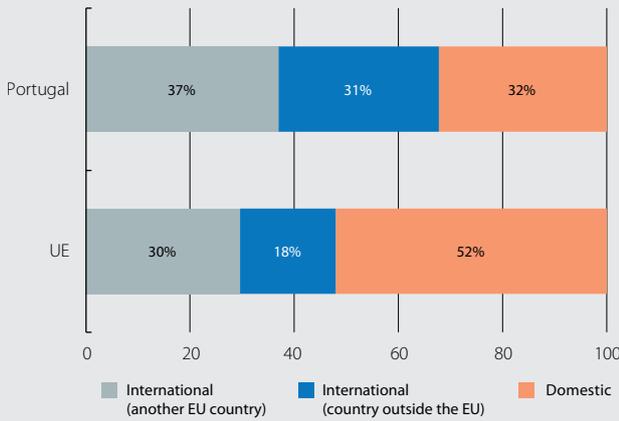
| Country | Overnight stays in tourist accommodation (thousands) | Proportion of total overnight stays in the EU (%) | Change in overnight stays compared with pre-pandemic levels (%) |
|-----------------|--|---|---|
| Spain | 505,166 | 16.7 | 7.5 |
| Italy | 466,158 | 15.4 | 6.7 |
| France | 457,644 | 15.1 | 2.5 |
| Germany | 439,620 | 14.5 | 0.6 |
| Greece | 152,945 | 5.1 | 6.5 |
| Netherlands | 145,238 | 4.8 | 17.7 |
| Austria | 131,201 | 4.3 | 2.6 |
| Poland | 97,648 | 3.2 | 4.6 |
| Croatia | 93,644 | 3.1 | 2.7 |
| Portugal | 88,074 | 2.9 | 13.5 |
| Sweden | 64,116 | 2.1 | 1.5 |
| Czech Rep. | 57,236 | 1.9 | 0.4 |
| Belgium | 44,843 | 1.5 | 5.5 |
| Ireland | 41,678 | 1.4 | 27.9 |
| Denmark | 39,817 | 1.3 | 16.0 |
| Hungary | 31,803 | 1.1 | -4.2 |
| Romania | 30,231 | 1.0 | 1.1 |
| Bulgaria | 27,646 | 0.9 | 1.8 |
| Finland | 22,678 | 0.8 | -1.8 |
| Cyprus | 17,909 | 0.6 | 1.9 |
| Slovenia | 16,835 | 0.6 | 6.8 |
| Slovakia | 14,667 | 0.5 | -14.9 |
| Malta | 11,320 | 0.4 | 14.2 |
| Lithuania | 8,640 | 0.3 | -3.4 |
| Estonia | 6,646 | 0.2 | -4.6 |
| Latvia | 4,692 | 0.2 | -14.8 |
| Luxembourg | 3,684 | 0.1 | 16.4 |

Source: BPI Research, based on Eurostat data (2024).

resident tourists (only 32%, compared to 52% in the EU as a whole). Furthermore, overnight stays by international tourists are practically split equally between EU and non-EU tourists, a trend that has been boosted in recent times by the growth of tourism to the country from the United States of America. It should also be noted that overnight stays in hotels are much more prevalent in Portugal, with only a very small share for campsites and caravan parks.

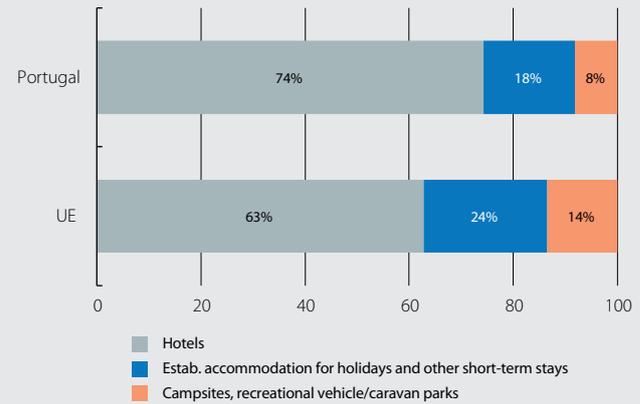
1. See Focus «Characterisation of the Portuguese hotel sector» in IM01/2026.
 2. UN Tourism – International Tourism Highlights 2024 edition.
 3. 1st France, 2nd Spain, 3rd USA, 4th Italy, 5th Turkey, 6th Mexico, 7th United Kingdom, 8th Germany, 9th Greece, 10th Austria.
 4. It is also worth taking into account that Portugal is the tenth most populous country in the EU and the twelfth in terms of land area.

Overnight stays by guest origin (%)



Source: BPI Research, based on Eurostat data (2024).

Overnight stays by type of establishment (%)



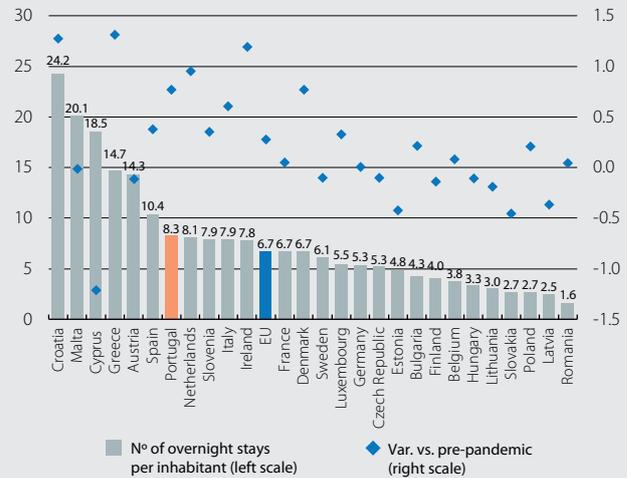
Tourism intensity

The discussion about tourism intensity comes to the fore whenever tourism gains importance in economies. This is because the negative consequences of overtourism are well known: pressure on natural resources; pressure on infrastructure and public services; a loss of character within destinations; pressure on the housing market; just to name a few. These metrics should be evaluated across the country as a whole, but also at the local level, in each city, and that is the framework provided below.

One of the metrics commonly used to analyse tourism intensity at the national level is the number of overnight stays per inhabitant. In this metric, Portugal records a ratio of 8.3 (above the EU average of 6.7), making it the country with the eighth highest ratio in the EU, therefore above its relative position in terms of the number of overnight stays (the tenth highest, as we saw earlier in this article). The following graph shows this metric, and we can also see that compared to pre-pandemic levels, only four countries increased their tourism intensity more than Portugal (+0.8 nights per inhabitant) – Greece (+1.3), Croatia (+1.3), Ireland (+1.2) and the Netherlands (+1.0).

In this regard, it is important to recall that in 2016 Turismo de Portugal included a target number of overnight stays in the report «Tourism Strategy for 2027» in line with the objective of economic sustainability of 80 million overnight stays per year, a number that had already been exceeded by 10% in 2024, as per Eurostat data. However, as we have already mentioned, analysing these metrics at a more granular level is crucial. Considering the National Institute for Statistics (INE) data on the resident population⁵ and on overnight

Overnight stays per inhabitant



Source: BPI Research, based on Eurostat data (2024).

stays by region, we see a highly imbalanced situation within the territory. The ratio in the Algarve (45.1 overnight stays per inhabitant) and Madeira (38.6) are above the highest ratio recorded in the EU (Croatia). In turn, the Azores (13.0) and Greater Lisbon (9.5) have a ratio above the national average. Finally, we have other regions with lower ratios – Alentejo (7.2, still above the EU average), Oeste and Vale do Tejo (4.4), Norte (4.0), Centro (3.2) and Península de Setúbal (2.0).

Turning to a city-centric analysis, it becomes clear that, with the exception of Bulgaria, Spain, Croatia, and Cyprus, the most visited city in each EU country is its capital. Paris, with around 74 million overnight stays, is the most visited city in the EU, and these overnight stays represent 2.4% of the total overnight stays in the European community. Lisbon accounts for a significant concentration of all overnight stays in the country (22.7%), and only in eight countries is the concentration

5. 2021 Census and NUTS II (2024).

in the main tourist city higher than in Portugal. If we broaden the analysis of the concentration of overnight stays to the three main cities in the country, this metric (39.5%) becomes more pronounced, as only in four countries is the concentration of overnight stays in the three main tourist cities higher – Latvia (60.5%), Estonia (57%), Malta (51.9%) and Lithuania (40.1%).

In conclusion, Portugal’s tourism figures in recent times have been superior to most EU countries. Tourism is characterised by a greater emphasis on hotel stays and greater diversification, with a balanced distribution between resident tourists, those from other EU countries, and those from non-EU countries. Meanwhile, Portugal exhibits above-average tourism intensity metrics, both at the national level and at the local/city level, which should serve as a warning regarding the need to reduce seasonality and diversify this activity across the country.

Tiago Belejo Correia

Top 3 cities* in each country in terms of overnight stays**

Proportion of total overnight stays (%)

| | 1st | 2nd | 3rd | Concentration index of overnight stays (%) |
|-------------|-----------------------------------|------------------------------------|---------------------------------|--|
| EU | Paris (greater city) 2.4 | Rome 1.4 | Berlin 1.0 | |
| Belgium | Brussels (greater city) 16.4 | Antwerp 6.1 | Bruges 4.8 | 27.4 |
| Bulgaria | Varna 16.1 | Sofia 8.1 | Plovdiv 2.4 | 26.6 |
| Czech Rep. | Prague 31.9 | Brno 2.4 | Pilsen 1.0 | 35.4 |
| Denmark | Copenhagen (greater city) 32.6 | Aarhus 3.3 | Aalborg 2.0 | 37.9 |
| Germany | Berlin 6.9 | Munich 4.5 | Hamburg 3.7 | 15.0 |
| Estonia | Tallinn 49.8 | Tartu 6.4 | Narva 0.7 | 57.0 |
| Greece | Athens (greater city) 6.8 | Thessaloniki (greater city) 1.7 | Chania 1.1 | 9.6 |
| Spain | Barcelona (greater city) 5.7 | Madrid (greater city) 5.3 | Benidorm 3.1 | 14.1 |
| France | Paris (greater city) 16.2 | Lyon 1.4 | Nice (greater city) 1.3 | 18.9 |
| Croatia | Split 3.4 | Zagreb 2.8 | Zadar 2.5 | 8.7 |
| Italy | Rome 9.2 | Milan (greater city) 3.9 | Venice 2.9 | 15.9 |
| Cyprus | Limassol (greater city) 9.5 | Larnaca (greater city) 2.5 | Nicosia (greater city) 1.2 | 13.2 |
| Latvia | Riga 54.1 | Liepaja 4.6 | Daugavpils 1.8 | 60.5 |
| Lithuania | Vilnius 26.4 | Kaunas 7.9 | Klaipėda 5.8 | 40.1 |
| Luxembourg | Luxembourg 34.3 | – | – | 34.3 |
| Hungary | Budapest 34.5 | Debrecen 1.8 | Szeged 1.5 | 37.7 |
| Malta | Valletta (greater city) 51.9 | – | – | 51.9 |
| Netherlands | Amsterdam (greater city) 15.3 | Rotterdam (greater city) 2.8 | The Hague (greater city) 2.5 | 20.7 |
| Austria | Vienna 13.9 | Salzburg 2.4 | Innsbruck 1.4 | 17.6 |
| Poland | Warsaw 8.2 | Krakow 6.7 | Gdansk 3.4 | 18.3 |
| Portugal | Lisbon (greater city) 22.7 | Porto (greater city) 9.6 | Funchal (greater city) 7.2 | 39.5 |
| Romania | Bucharest 13.1 | Constanța 4.7 | Brasov 4.4 | 22.2 |
| Slovenia | Ljubljana 15.4 | Maribor 3.0 | – | 18.4 |
| Slovakia | Bratislava 15.0 | Košice 3.0 | Zilina 1.1 | 19.1 |
| Finland | Helsinki 20.1 | Tampere 6.0 | Vantaa 4.9 | 31.0 |
| Sweden | Stockholm (greater city) 19.8 | Gothenburg (greater city) 7.6 | Malmö 3.4 | 30.7 |

Notes: * Eurostat data includes all capitals and cities with a population of at least 200,000 inhabitants, as well as some other cities that are of particular importance for tourism. ** No data is available for Ireland.

Source: BPI Research, based on Eurostat data (2024).

Activity and employment indicators

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|--|-------|-------|---------|---------|---------|---------|-------|-------|-------|
| Coincident economic activity index | 2.0 | 1.9 | 1.8 | 1.8 | 2.0 | 2.1 | 2.1 | 2.2 | ... |
| Industry | | | | | | | | | |
| Industrial production index | 0.8 | 0.6 | -2.3 | 1.2 | 2.8 | 0.8 | 0.3 | 2.3 | ... |
| Confidence indicator in industry (<i>value</i>) | -6.2 | -4.0 | -5.1 | -4.8 | -3.4 | -2.8 | -2.6 | -2.0 | -1.4 |
| Construction | | | | | | | | | |
| Building permits - new housing (number of homes) | 6.5 | ... | 39.8 | 19.4 | 55.0 | ... | ... | ... | ... |
| House sales | 14.5 | ... | 25.0 | 15.5 | 3.8 | ... | - | - | - |
| House prices (<i>euro / m² - valuation</i>) | 8.5 | 17.4 | 15.8 | 17.4 | 18.2 | 18.4 | 18.4 | 19.1 | ... |
| Services | | | | | | | | | |
| Foreign tourists (<i>cumulative over 12 months</i>) | 6.3 | 1.9 | 4.6 | 4.0 | 2.6 | 1.9 | 2.1 | 1.9 | ... |
| Confidence indicator in services (<i>value</i>) | 5.6 | 10.1 | 12.5 | 6.6 | 12.9 | 8.4 | 7.8 | 6.6 | 4.7 |
| Consumption | | | | | | | | | |
| Retail sales | 3.3 | 4.8 | 4.5 | 4.8 | 5.4 | 4.6 | 6.5 | 3.1 | ... |
| Coincident indicator for private consumption | 2.8 | 3.4 | 3.7 | 3.4 | 3.1 | 3.1 | 3.1 | 3.2 | ... |
| Consumer confidence index (<i>value</i>) | -18.0 | -16.2 | -15.5 | -17.9 | -16.2 | -15.2 | -15.2 | -14.5 | -14.7 |
| Labour market | | | | | | | | | |
| Employment | 1.2 | 3.2 | 2.4 | 2.9 | 3.7 | 3.7 | 3.7 | 3.6 | ... |
| Unemployment rate (<i>% labour force</i>) | 6.4 | 6.0 | 6.6 | 5.9 | 5.8 | 5.8 | 5.7 | 5.6 | ... |
| GDP | 2.1 | 1.9 | 1.7 | 1.8 | 2.4 | 1.9 | - | - | - |

Prices

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|---------|------|------|---------|---------|---------|---------|-------|-------|-------|
| General | 2.4 | 2.3 | 2.3 | 2.2 | 2.6 | 2.2 | 2.2 | 2.2 | 1.9 |
| Core | 2.5 | 2.2 | 2.3 | 2.3 | 2.3 | 2.1 | 2.0 | 2.1 | 1.8 |

Foreign sector

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|---|------|------|---------|---------|---------|---------|-------|-------|-------|
| Trade of goods | | | | | | | | | |
| Exports (<i>year-on-year change, cumulative over 12 months</i>) | 2.0 | ... | 5.3 | 4.2 | 2.1 | ... | 0.4 | ... | ... |
| Imports (<i>year-on-year change, cumulative over 12 months</i>) | 2.0 | ... | 5.4 | 7.0 | 6.6 | ... | 4.4 | ... | ... |
| Current balance | 6.0 | ... | 4.2 | 3.7 | 3.8 | ... | 4.1 | ... | ... |
| Goods and services | 6.5 | ... | 5.2 | 4.5 | 4.4 | ... | 4.7 | ... | ... |
| Primary and secondary income | -0.6 | ... | -0.9 | -0.9 | -0.6 | ... | -0.6 | ... | ... |
| Net lending (+) / borrowing (-) capacity | 9.1 | ... | 7.5 | 7.1 | 7.6 | ... | 7.9 | ... | ... |

Credit and deposits in non-financial sectors

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|--|------|------|---------|---------|---------|---------|-------|-------|-------|
| Deposits¹ | | | | | | | | | |
| Household and company deposits | 7.5 | 5.6 | 6.5 | 5.4 | 6.3 | 5.6 | 5.9 | 5.6 | ... |
| Sight and savings | -0.3 | 8.2 | 5.0 | 5.1 | 8.6 | 8.2 | 7.9 | 8.2 | ... |
| Term and notice | 15.3 | 3.2 | 7.8 | 5.8 | 4.3 | 3.2 | 4.1 | 3.2 | ... |
| General government deposits | 26.7 | 28.7 | 29.3 | 39.6 | -0.5 | 28.7 | 16.9 | 28.7 | ... |
| TOTAL | 7.9 | 6.1 | 7.1 | 6.4 | 6.1 | 6.1 | 6.2 | 6.1 | ... |
| Outstanding balance of credit¹ | | | | | | | | | |
| Private sector | 1.9 | 6.7 | 3.3 | 4.9 | 5.8 | 6.7 | 6.5 | 6.7 | ... |
| Non-financial firms | -1.0 | 2.9 | 0.1 | 2.2 | 2.4 | 2.9 | 2.8 | 2.9 | ... |
| Households - housing | 3.0 | 9.4 | 4.9 | 6.4 | 8.0 | 9.4 | 8.9 | 9.4 | ... |
| Households - other purposes | 5.4 | 7.1 | 5.7 | 6.6 | 6.9 | 7.1 | 7.1 | 7.1 | ... |
| General government | 0.6 | 6.4 | -8.0 | 3.8 | 4.8 | 6.4 | 5.3 | 6.4 | ... |
| TOTAL | 1.9 | 6.7 | 2.9 | 4.9 | 5.8 | 6.7 | 6.4 | 6.7 | ... |
| NPL ratio (%)² | 2.4 | ... | 2.3 | 2.3 | 2.3 | ... | - | - | - |

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

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

The Spanish economy faces 2026 with optimism

Despite the difficulties, activity and employment remain highly buoyant. The Spanish economy successfully navigated the trade and geopolitical tensions affecting the global environment in 2025, achieving growth of 2.8%. This figure clearly surpasses both our forecast at the start of year, which was 2.3%, and the euro area's growth, which stood at 1.5%. This GDP growth was driven by the momentum of domestic demand, which offset the deterioration of external demand resulting from the surge in imports.

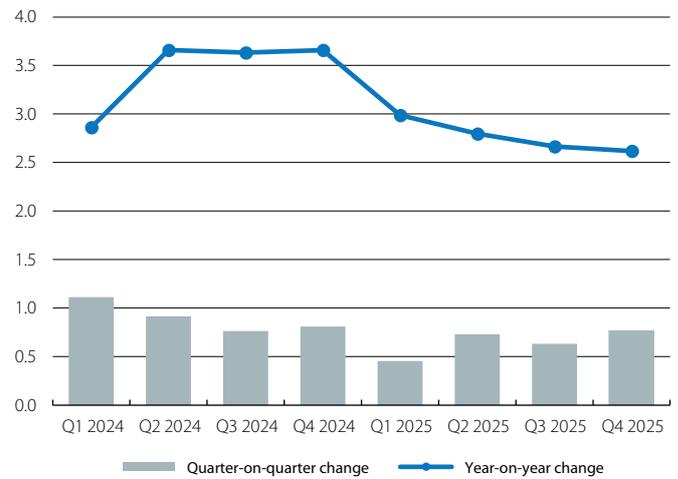
For this year, we expect the economy to maintain its dynamism, with growth exceeding the euro area average, despite the ongoing geopolitical uncertainty. Domestic demand will remain the main driver of growth, supported by an increase in private consumption and investment, which will benefit from still favourable financial conditions. Consumption will also be supported by the improvement in disposable income – in a context of significant job creation, wage growth and high migratory flows – and the solid financial position of households, with a savings rate that will continue to normalise from the current high levels. In the case of investment, the support factors will include the implementation of NGEU funds, along with the strength of construction and the boom in investment in new technologies and intangible assets.

Spain's GDP beats expectations in the final stretch of 2025. GDP grew by 0.8% quarter-on-quarter in Q4 2025, above the 0.6% recorded in Q3, while the year-on-year rate stood at 2.6%, just 0.1 pp less than in the previous quarter. The latest GDP data, which are better than initially expected, mean a higher starting point for 2026 and create a carry-over effect that will lead us to revise upwards our growth forecast for this year, currently at 2.1%.

Domestic demand was the main driver of the economy in Q4 2025, contributing 1.0 pp to quarter-on-quarter GDP growth: private consumption grew by 1.0% and investment by 2.2%, particularly in construction (both residential and non-residential) and, above all, in transport equipment. In contrast, foreign demand subtracted 0.2 pps from quarter-on-quarter growth due to the greater dynamism of imports, which, driven by the momentum of domestic demand, grew by 1.4%, compared to the 0.8% recorded by exports. In the case of the latter, the strength of services exports contrasts with the stagnation of goods exports, affected by tariffs and the weakness of our euro area partners.

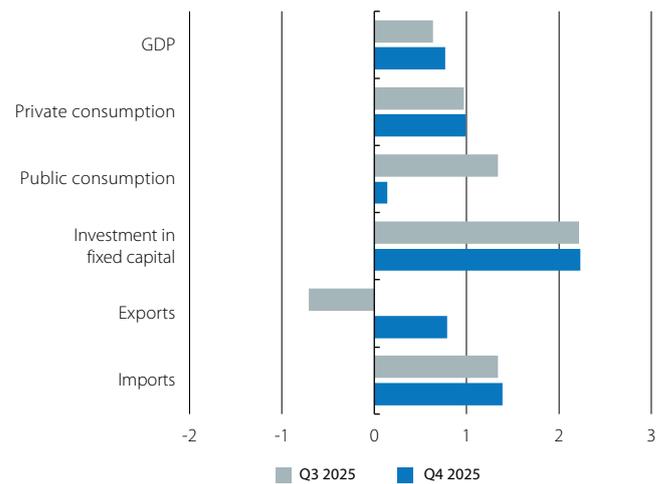
The labour market ended 2025 in a position of strength. According to the Q4 2025 LFS, the number of people in employment increased by 76,200, marking the best Q4 figure in four years and significantly surpassing the 2024 levels (34,900) as well as the 2014-2019 average (28,300). Moreover, in seasonally adjusted terms, growth stood at 0.9% quarter-on-quarter (0.5% in the prior quarter), the strongest since Q2 2023. The unemployment rate, meanwhile, fell by 0.6 percentage points to 9.9%, marking the first time since 2008 that it has dropped below 10%. In this way, 2025 ended with 605,400 more people in employment (+2.8% year-on-year), reaching

Spain: GDP
Change (%)



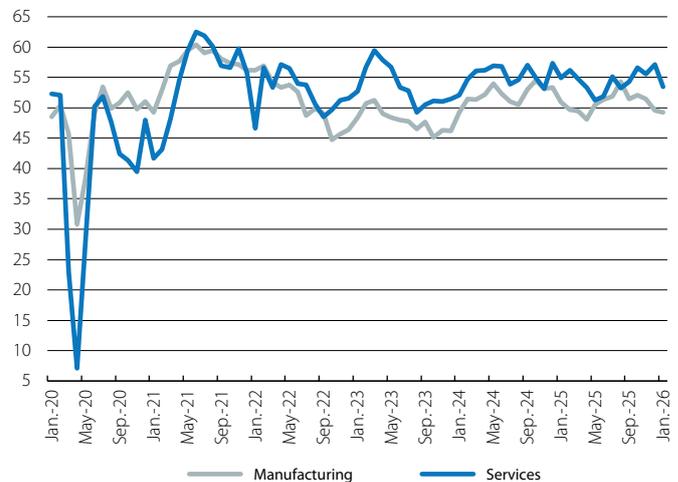
Source: BPI Research, based on data from the Spanish National Statistics Institute (INE).

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.

a new record of 22.46 million, and 118,400 fewer unemployed (-4.6%).

The first available activity indicators for 2026 point to a containment in growth. Firstly, as is commonplace in January, Social Security affiliation fell by 270,782 workers (-1.2%), a slightly sharper decline than in the same month of previous years (-1.1% on average in 2023-2025), while in seasonally adjusted terms it recorded an increase of 17,311 people, compared to a monthly average of 42,875 in Q4 2025. On the supply side, the January PMIs suggest a moderation in growth: in the case of the services sector, it remains in expansionary territory, above 50 points, but slipped to 53.5 points from 57.1 points in December. As for the manufacturing index, it stands at 49.2 points, slightly below the previous figure (49.6). On the consumption side, the CaixaBank Research Consumption Tracker shows a slowdown in Spanish card activity in January, with a year-on-year growth rate (up to the 21st) of 3.4%, compared to 5.5% in December.

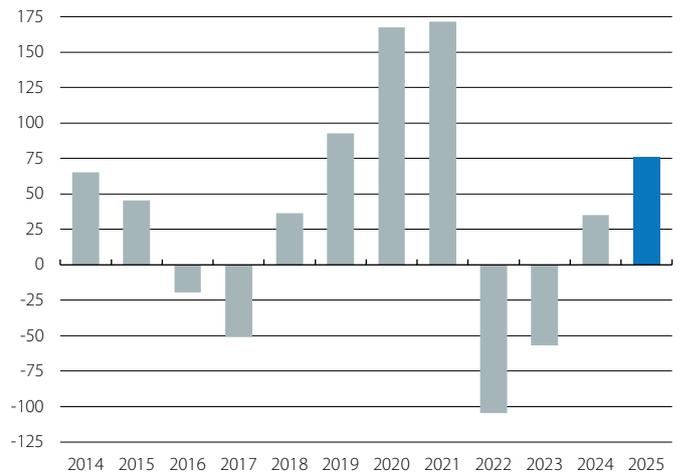
Inflation starts the year with a sharp slowdown, thanks to energy. According to the flash estimate published by the National Statistics Institute (INE), in January headline inflation continued its moderation of previous months and decreased by 0.5 percentage points to 2.4%, the lowest rate since June 2025. Meanwhile, core inflation (which excludes energy and unprocessed food) remained at 2.6%. The decline in headline inflation is mainly explained by electricity prices. This January, the VAT base effect disappeared: in 2025, electricity was subject to 21% VAT, compared to 10% in 2024. Now, when we compare two months with the same VAT rate of 21%, this effect fades, pushing inflation down. Despite this path of moderation, the persistence shown by the services component leads us to anticipate that inflation in 2026 will still remain slightly above the 2% target.

Initial signs of stabilisation in housing demand. Sales transactions grew again in November (7.8% year-on-year), although they have maintained a modest tone since August, far from the double-digit rates recorded in the first half of the year. In any case, the level of activity in 2025 remains very high, with 660,000 sales transactions completed between January and November, representing a 12% year-on-year increase. However, the supply of new housing remains far from meeting this strong demand: in the same period, 127,400 new builds were approved, 7.4% more than in the same period of the previous year but insufficient to absorb the creation of new households (220,000 in the trailing four quarters to Q3 2025). This mismatch between supply and demand will continue to exert upward pressure on house prices in the short and medium term.

The current account surplus remains at high levels thanks to services. The current account balance in 2025, with 12-month cumulative data up to November, showed a surplus of 2.9% of GDP, slightly below the record high of 2024 (3.2%). On one hand, the trade deficit increased to 2.8% of GDP (2.1% in 2024), due to the deterioration of the balance of non-energy goods in a context of strong import growth to satisfy the burgeoning domestic demand. Conversely, the services balance continues to record high surpluses, both for non-tourism services (2.3% of GDP vs. 2.0% in 2024) and for tourism (4.2% of GDP vs. 4.3%).

Spain: people in employment

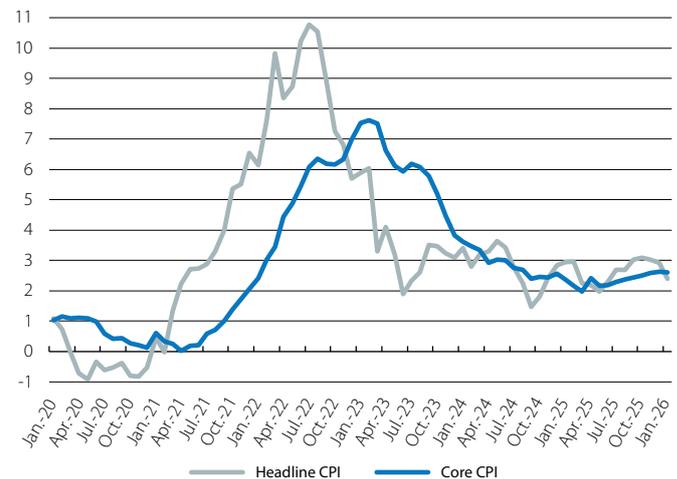
Quarterly change in Q4 (thousands)



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

Spain: CPI

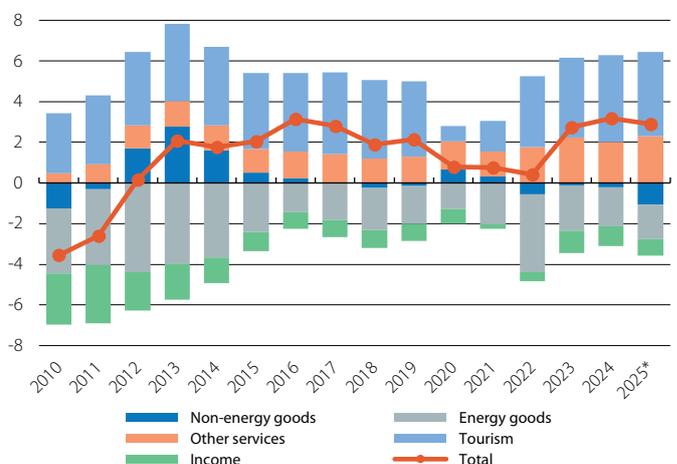
Year-on-year change (%)



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

Spain: current account balance

(% of GDP)



Note: * Cumulative data for the trailing 12 months to November. Goods data according to the SITC (Standard International Trade Classification).

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

Treasury funding needs in 2026: high but manageable thanks to strong demand

Spain is facing 2026 with funding needs that remain high, albeit in a relatively more favourable fiscal context than its main European peers. Despite the reduction of the deficit and public debt as a percentage of GDP, the high nominal levels and a volume of maturities similar to that of 2025 mean that funding needs remain at levels comparable to those of recent years. In this context, the strength of demand for public debt – especially among non-resident investors – allows us to anticipate an orderly absorption of the issuance volume.

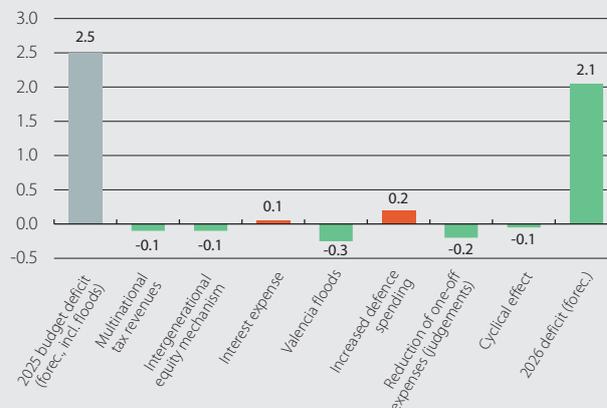
We anticipate that the public deficit will fall from 2.5% of GDP in 2025 to 2.1% in 2026,¹ thanks, among other factors, to the reduction of exceptional expenses – such as aid for the Valencia floods and judicial payments (both concepts will represent around 0.5% of GDP in 2025)² – and economic dynamism, although the increase in defence spending will partially offset these factors. In this way, Spain will be in a better fiscal position than France (fiscal deficit of 4.9% of GDP in 2026 according to the European Commission) or Italy (2.8%).

Public revenues are expected to grow by more than 5% year-on-year,³ slightly above nominal GDP, while the growth of net computable expenditure⁴ is anticipated to be slightly above 4.0%, exceeding the 3.7% target agreed with the European Commission. According to the Commission’s own estimates, this would entail a deviation amounting to 0.3% of GDP, placing it at the limit of what is tolerated, so it would not constitute a formal breach of the agreed fiscal path nor would it trigger the activation of any formal early warning.⁵

1. AIReF is even more optimistic and places it at 2.0%.
2. Estimates from the «Annual Progress Report 2025», Ministry of Economy.
3. See the «Report on the drafts budgets and main budgetary lines of the General Government for 2026», published in November by AIReF.
4. Net computable expenditure, which is relevant for the European fiscal rules, includes public expenditure net of interest expenses, discretionary measures related to income, expenditure on EU programmes fully offset by income from EU funds, national expenditure on the co-financing of EU-funded programmes, cyclical elements of expenditure on unemployment benefits, and one-off and other temporary measures. Moreover, it does not include the expenses associated with the floods in the Valencia province.
5. Under the new European fiscal framework, the activation of more stringent corrective mechanisms does not depend on temporary or one-off deviations, but rather on their persistence and accumulation over time. In particular, the rules focus on identifying sustained breaches of the agreed spending path, assessed through the use of a cumulative control account, as well as the absence of credible corrective measures. In this way, a one-off deviation can lead to an early warning, but what is relevant for escalating the procedure is its persistence and lack of correction. In cumulative terms, the control account – considering deviations for the period 2024-2026 – would show a deviation of 0.2% of GDP in 2026, well below the maximum threshold of 0.6%. This result is favoured by the fact that in 2024 the growth of net primary expenditure was well below the target, with a margin of around 0.4% of GDP.

Budget deficit

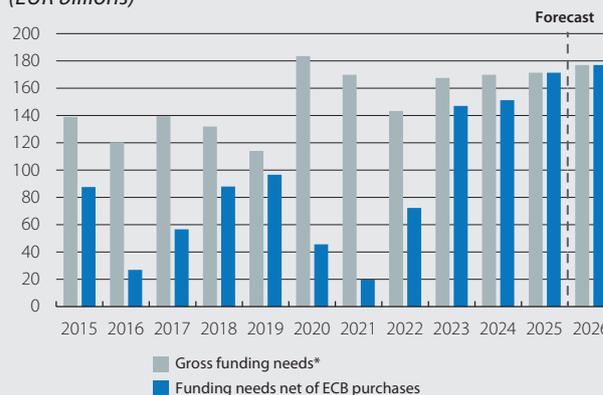
(% of GDP)



Source: BPI Research.

Spain: Treasury funding needs

(EUR billions)



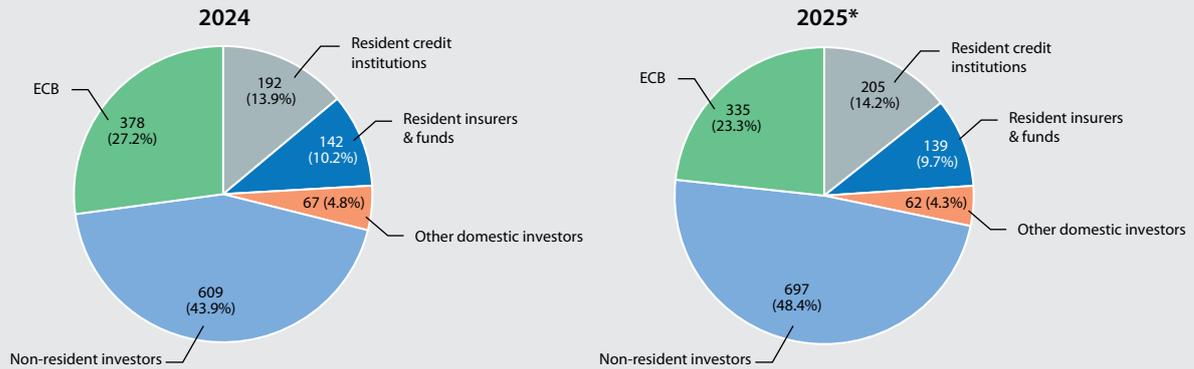
Note: * Amortisation figures do not include bills.
Source: BPI Research, based on data from the General Secretariat of the Treasury.

Although the public deficit will continue to decrease, the Treasury’s funding needs will remain relatively high and in line with those of 2025. In particular, in 2026, the Treasury forecasts a net issuance of 55 billion euros, to be funded mainly through medium- and long-term instruments, accounting for 50 billion, with Treasury Bills making up the remaining 5 billion. This figure is very similar to the almost 54.8 billion of 2025 and the slightly more than 55.0 billion of 2024, although it is 10 billion lower than that of 2023. The gross issuance of medium and long-term debt, which is the sum of redemptions and the net issuance, will be just over 176.5 billion euros, 5.6 billion more than in 2025, and will include a planned ESM redemption of just over 3.6 billion euros.

International support and the strength of demand will be decisive. The ECB will continue not reinvesting maturities,

Spain: holdings of government debt (bills, notes and bonds)

(EUR billions and structure in % terms)



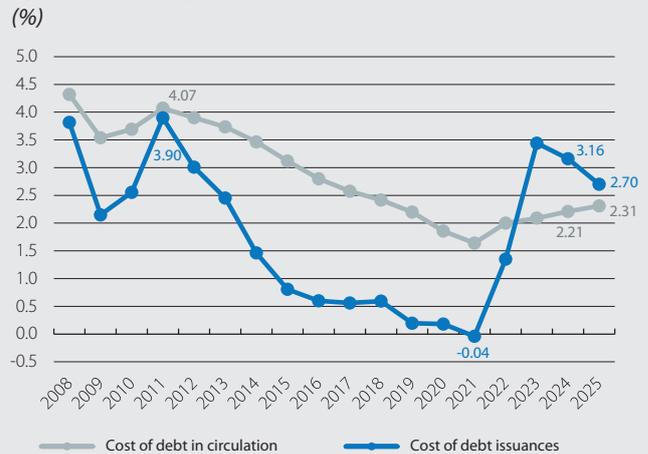
Note: * Data from October 2025.

Source: BPI Research, based on data from the General Secretariat of the Treasury.

which underscores the importance of the attractiveness of Spanish debt in a context of higher rates than in 2016-2022. The reduced role of the ECB is being more than offset by non-residents; in the first 10 months of 2025, non-resident investors increased their holdings of notes and bonds (excluding bills) by 74.3 billion euros, well above the historical average (average annual increase in their holdings of +19.2 billion euros during the period 2003-2023), raising their share of medium/long-term public debt holdings to 48.9%, compared to 44.9% at the end of 2024. Meanwhile, domestic retail investors reduced their positions in Treasury Bills by 5.8 billion relative to the end of 2024. This trend is consistent with the rate cuts implemented by the ECB (although their holdings are 18 billion higher than they were at the end of 2022, in the lead-up to the rate hikes implemented following the energy shock), although it is more than offset by an 11-billion increase in purchases of bills by non-residents. Overall, domestic investors hold 28.3% of the public debt in circulation, a figure slightly below the 28.9% at the end of 2024, but higher than the 26.3% of 2022.

The average cost of new debt issued by the state in 2025 stood at 2.70%, a reduction of 46 bps compared to 2024, consistent with the decline in interest rates. The average cost of the debt in circulation, meanwhile, remained contained and ended 2025 at 2.31%, just 10 bps above the 2024 level. This level, however, remains above the all-time low reached in 2021 (1.64%) and reflects a key phenomenon: although issuance rates have fallen compared to 2024, they remain above the average cumulative cost, leading to a gradual increase in that average cost. The average life remains stable at around eight years, with maturities well distributed and low refinancing risk (13% within one year).⁶ Finally, we estimate that the total interest payments of the general

Spain: cost of government debt



Source: BPI Research, based on data from the General Secretariat of the Treasury.

government as a whole, considering market expectations, could reach 2.5% of GDP in 2026, 0.1 percentage point more than in 2025, although well below the 2014 level (3.5% of GDP). This slight increase is explained by the renewal of the stock of debt: older issuances with lower rates than the current ones are being amortised.

Regarding the stock of public debt, we anticipate that public debt will stand at around 99% of GDP by the end of this year, still more than 1 point above the 2019 level. We estimate that 22.5% of the total will be held by the ECB, leaving 77.5% of the total in the hands of other investors. Thus, the net debt of central bank holdings will be around 76.7% of GDP, compared to much higher levels in the past, such as 101.6% in 2014.

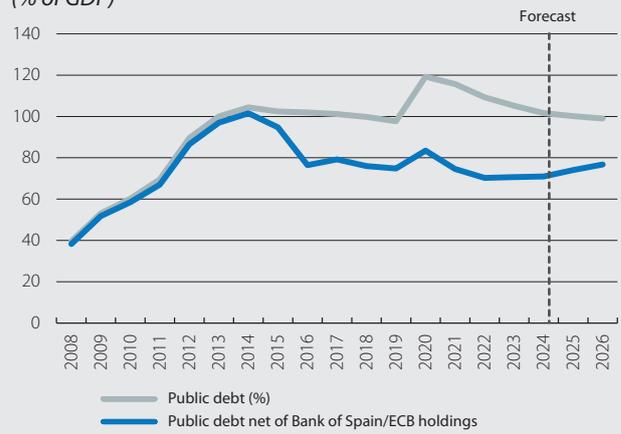
In conclusion, Spain is facing 2026 with high funding needs, but these are fully manageable in the current market environment, supported by a solid investor base. However, beyond the short term, the main challenge lies

6. See AIReF's December 2025 «Public Debt Monitor».

in the credibility of the medium-term fiscal path. The structural increase in public spending – especially on defence and that associated with ageing – and the full implementation of the new European fiscal rules require a credible, gradual and sustained fiscal consolidation strategy in order to ensure the stability of the public finances beyond 2026.⁷

Spain: public debt

(% of GDP)



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

7. See footnote 3.

Activity and employment indicators

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|--|------------|------------|------------|------------|------------|------------|-------|-------|-------|
| Industry | | | | | | | | | |
| Industrial production index | 0.4 | ... | -0.8 | 1.5 | 2.6 | ... | 4.5 | ... | ... |
| Indicator of confidence in industry (value) | -4.9 | -4.8 | -5.0 | -5.4 | -5.0 | -3.8 | -3.5 | -3.5 | -2.4 |
| Manufacturing PMI (value) | 52.2 | 50.9 | 50.0 | 50.0 | 52.6 | 51.1 | 51.5 | 49.6 | 49.2 |
| Construction | | | | | | | | | |
| Building permits (cumulative over 12 months) | 16.7 | ... | 20.1 | 14.8 | 7.9 | ... | 7.7 | ... | ... |
| House sales (cumulative over 12 months) | 9.7 | ... | 17.0 | 22.9 | 18.7 | ... | 13.3 | ... | ... |
| House prices | 8.4 | ... | 12.2 | 12.7 | 12.8 | ... | ... | ... | ... |
| Services | | | | | | | | | |
| Foreign tourists (cumulative over 12 months) | 10.1 | 3.2 | 8.1 | 6.3 | 4.3 | 3.2 | 3.2 | 3.2 | ... |
| Services PMI (value) | 55.3 | 54.5 | 55.3 | 52.2 | 54.2 | 56.4 | 55.6 | 57.1 | 53.5 |
| Consumption | | | | | | | | | |
| Retail sales ¹ | 1.8 | 4.3 | 3.4 | 5.1 | 4.5 | 4.3 | 6.0 | 2.9 | ... |
| Car registrations | 7.2 | 12.9 | 14.0 | 13.7 | 16.9 | 8.0 | 12.9 | -2.2 | 1.1 |
| Economic sentiment indicator (value) | 103.1 | 103.1 | 103.3 | 102.1 | 102.7 | 104.4 | 104.9 | 104.5 | 106.2 |
| Labour market | | | | | | | | | |
| Employment ² | 2.2 | 2.6 | 2.4 | 2.7 | 2.6 | 2.8 | ... | ... | ... |
| Unemployment rate (% labour force) | 11.3 | 10.5 | 11.4 | 10.3 | 10.5 | 9.9 | ... | ... | ... |
| Registered as employed with Social Security ³ | 2.4 | 2.3 | 2.3 | 2.2 | 2.3 | 2.4 | 2.5 | 2.4 | 2.3 |
| GDP | 3.5 | 2.8 | 3.0 | 2.8 | 2.7 | 2.6 | ... | ... | ... |

Prices

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|---------|------|------|---------|---------|---------|---------|-------|-------|-------|
| General | 2.8 | 2.7 | 2.7 | 2.2 | 2.8 | 3.0 | 3.0 | 2.9 | 2.4 |
| Core | 2.9 | 2.3 | 2.2 | 2.3 | 2.4 | 2.6 | 2.6 | 2.6 | 2.6 |

Foreign sector

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|--|-------------|------------|-------------|-------------|-------------|------------|-------------|------------|------------|
| Trade of goods | | | | | | | | | |
| Exports (year-on-year change, cumulative over 12 months) | 0.2 | ... | 3.3 | 2.0 | 0.8 | ... | 0.8 | ... | ... |
| Imports (year-on-year change, cumulative over 12 months) | 0.1 | ... | 4.2 | 4.1 | 4.6 | ... | 4.5 | ... | ... |
| Current balance | 50.7 | ... | 47.8 | 48.6 | 48.7 | ... | 48.7 | ... | ... |
| Goods and services | 66.3 | ... | 63.5 | 63.7 | 62.1 | ... | 62.1 | ... | ... |
| Primary and secondary income | -15.7 | ... | -15.7 | -15.1 | -13.4 | ... | -13.4 | ... | ... |
| Net lending (+) / borrowing (-) capacity | 68.7 | ... | 66.6 | 67.6 | 67.1 | ... | 67.4 | ... | ... |

Credit and deposits in non-financial sectors⁴

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

| | 2024 | 2025 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 11/25 | 12/25 | 01/26 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Deposits | | | | | | | | | |
| Household and company deposits | 5.1 | 4.7 | 4.6 | 3.9 | 4.9 | 4.7 | 4.7 | 4.7 | ... |
| Demand and notice deposits | 2.0 | 6.6 | 3.1 | 5.0 | 7.2 | 6.6 | 7.0 | 6.6 | ... |
| Time and repo deposits | 23.5 | -4.5 | 12.6 | -1.5 | -6.6 | -4.5 | -6.6 | -4.5 | ... |
| General government deposits ⁵ | 23.1 | 4.9 | 24.4 | 25.5 | 7.2 | 4.9 | 1.4 | 4.9 | ... |
| TOTAL | 6.3 | 4.8 | 5.9 | 5.4 | 5.1 | 4.8 | 4.4 | 4.8 | ... |
| Outstanding balance of credit | | | | | | | | | |
| Private sector | 0.7 | 3.4 | 1.7 | 2.6 | 2.8 | 3.4 | 3.1 | 3.4 | ... |
| Non-financial firms | 0.4 | 2.9 | 1.6 | 2.5 | 2.3 | 2.9 | 2.5 | 2.9 | ... |
| Households - housing | 0.3 | 3.5 | 1.4 | 2.3 | 2.9 | 3.5 | 3.1 | 3.5 | ... |
| Households - other purposes | 2.3 | 4.5 | 3.1 | -261.4 | -278.2 | 4.5 | 4.5 | 4.5 | ... |
| General government | -2.6 | 10.7 | -0.3 | 5.3 | 12.9 | 10.7 | 12.3 | 10.7 | ... |
| TOTAL | 0.5 | 3.9 | 1.6 | 2.7 | 3.4 | 3.9 | 3.7 | 3.9 | ... |
| NPL ratio (%)⁶ | 3.3 | ... | 3.2 | 3.0 | 2.9 | ... | 2.8 | ... | ... |

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

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

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