

MR10

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
OCTOBER 2025



INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS

*International economic scenario: tariff hikes
vs. respite in uncertainty*

Investment flows in times of Trump 2.0

INTERNATIONAL ECONOMY

Firm size and productivity gaps in the EU

*European tourism in the post-pandemic era:
uneven recovery and new challenges*

SPANISH ECONOMY

*The tourism sector closes the high season
with solid figures*

PORTUGUESE ECONOMY

New macroeconomic scenario

*PPR in Portugal: level of implementation and
comparison with other European Union
countries*

The Fishing sector in Portugal

*The competitiveness of Portuguese companies
– a sectoral perspective*

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

October 2025

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

BPI Research (DF-EEF)

[www.bancobpi.pt /](http://www.bancobpi.pt/)
<https://www.bancobpi.pt/grupo-bpi/estudos-mercados/research>
deef@bancobpi.pt

Paula Carvalho
Chief Economist

CaixaBank Research

www.caixabankresearch.com
research@caixabank.com

Enric Fernández
Chief Economist

José Ramón Díez
Head of International Economies
and Financial Markets

Oriol Aspachs
Head of Spanish Economy

Sandra Jódar
Head of Strategic Planning
Adrià Morron Salmeron and
Oriol Carreras
Monthly Report coordinators

Date this issue was closed:
6 October 2025

INDEX

1 EDITORIAL

3 KEY POINTS OF THE MONTH

4 FORECASTS

7 FINANCIAL MARKET

- 9 *International economic scenario: tariff hikes vs. respite in uncertainty*
- 11 *Investment flows in times of Trump 2.0*

14 INTERNATIONAL ECONOMY

- 16 *Firm size and productivity gaps in the EU*
- 19 *European tourism in the post-pandemic era: uneven recovery and new challenges*

23 PORTUGUESE ECONOMY

- 25 *New macroeconomic scenario*
- 27 *PPR in Portugal: level of implementation and comparison with other European Union countries*
- 29 *The Fishing sector in Portugal*
- 31 *The competitiveness of Portuguese companies – a sectoral perspective*

34 SPANISH ECONOMY

- 36 *The tourism sector closes the high season with solid figures*

Portugal in 2025-27: Sustained growth, in convergence

In this publication, we present an adjustment to our macro scenario for Portugal, this time focusing on expectations for inflation and real estate market prices, which continue to surprise. In the medium term, we maintain a positive outlook for economic growth, which we expect to continue converging, based on demographic expansion, improved productivity, and a more structurally balanced starting point, as explained below. We also include two articles in this publication that analyse the fisheries sector—a very interesting sector for Portugal that we don't usually cover—and the implementation of the Recovery and Resilience Plan, concluding that, compared to our community partners, implementation has been average.

Regarding the macroeconomic scenario, it is important to note that we have not adjusted our GDP growth forecasts this time, but, at least for 2025, the macro data released for Q3, which are in addition to the significant revisions to the National Accounts by the INE, indicate that the balance of risks is favourable. Thus, although our official forecast for activity growth in 2025 currently remains at 1.6%, we admit that the economy should expand closer to 2%. As I mentioned, the revision of the GDP series is one of the elements that justifies this positive bias: the INE revised the rate of growth of economic activity in 2023 by a further 5 tenths, to 3.1%; and in 2024, by another 2 tenths, to 2.1%. Information for this year has also been revised upwards, with activity growing by an average of 1.7% year-on-year in the first half of the year. Stronger domestic demand was the basis for these revisions, with a focus on more robust investment, particularly in 2024. This change is compounded by the favourable signals conveyed by the activity and confidence indicators released up to the end of September, particularly those relating to domestic demand.

In the medium term, in 2026 and 2027, our outlook remains positive and the diagnosis remains unchanged. It appears to us that Portugal should continue to expand at around 2%, above the consensus forecasts for the average of EMU countries. Demographic change is one (but only one) of the factors that justifies this forecast, and one of the reasons that has also been the basis for the good performance since the pandemic. Indeed, after a decade of successive demographic shrinkage, the resident population has increased again since 2018 thanks to net immigration, with this increase representing a variation of around 4% in the period, 416 thousand more individuals compared to 2018, reaching a total of 10.7 million individuals in 2024, according to the latest official data. This increase in the resident population resulted, during the period, in higher output and more job opportunities, and coincided with a modest increase in productivity.

Indeed, according to figures from the Bank of Portugal, GDP per capita in the period 2023 to 2025 (including estimates for 2025) will have increased by an average of 1.4% per year; GDP per person of working age also grew by 1.4%; and productivity, measured by GDP per employee, recorded a lower but still significant average change of 0.9% per annum on average over the period. Furthermore, the impact on the labour market was also well absorbed given that, despite the increase in the working population available for work, the economy was able to generate employment in such a way that the unemployment rate has remained stable, fluctuating around 6%. This response from the labour market and job offers reflects, in some way, a dynamic business sector, with competitive capacity and value generation. On the other hand, there is no doubt that the estimated slowdown in productivity in 2025, in a context of some economic slowdown and strong job creation, will also translate into a dominant orientation towards labour-intensive sectors, related to the tourism sector, a trend that may fade in the future, allowing for a more notable recovery in productivity rates.

Another reason for expecting a good performance, as we have been highlighting, is the good economic health of households, businesses and the State, all of which have more stable balance sheets than in the past, specifically compared to the first decade of this century. And this situation is quite evident in the trend of reducing public debt – which is expected to approach 85% of GDP in this projection horizon; and the positive evolution of debt levels: despite the return to growth in domestic credit to individuals and companies, debt ratios continue to fall, signaling a productive channelling of their uses.

Paula Carvalho
October 2025

Chronology

SEPTEMBER 2025

- 9 The US Supreme Court agrees to study the legality of Trump's tariffs by fast track.
- 17 The Fed cuts interest rates by 25 bps to the 4.00%-4.25% range after a nine-month pause.

JULY 2025

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

MAY 2025

- 3 OPEC increases oil production while internal tensions rise.
- 28 Legal doubts about the Trump administration's tariffs increase uncertainty over their global effects.

AUGUST 2025

- 5 The majority of the reciprocal tariffs imposed by the US on other countries come into force.

JUNE 2025

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

APRIL 2025

- 2 «Liberation Day»: Trump announces a universal 10% tariff and higher «reciprocal» tariffs on 57 countries.
- 17 The ECB cuts interest rates by 25 bps, leaving the depo rate at 2.25%.
- 28 Spain and Portugal are affected by a massive blackout, causing severe disruptions in both countries.

Agenda

OCTOBER 2025

- 1 Portugal: employment and unemployment (August).
Portugal: public debt (August).
Euro area: CPI flash estimate (September).
- 2 Spain: registration with Social Security and registered unemployment (September).
- 8 Spain: financial accounts (Q2).
- 10 Portugal: international trade (August).
- 20 China: GDP (Q3).
- 22 Spain: loans, deposits and NPL ratio (August).
- 23-24 European Council meeting.
- 24 Spain: labour force survey (Q3).
- 27 Portugal: loans and deposits (September).
- 28-29 Federal Open Market Committee meeting.
- 29 Spain: GDP flash estimate (Q3).
- 30 Spain: CPI flash estimate (October).
Portugal: GDP flash estimate (Q3).
Euro area: GDP (Q3).
Euro area: economic sentiment indicator (October).
US: GDP (Q3).
Governing Council of the European Central Bank meeting.
- 31 Portugal: budget execution (September).
Euro area: CPI flash estimate (October).

NOVEMBER 2025

- 3 Portugal: public debt (Q3).
- 4 Spain: registration with Social Security and registered unemployment (October).
- 5 Portugal: employment (Q3).
- 6 Spain: industrial production (September).
- 13 Portugal: labour cost (Q3).
- 14 Portugal: Moody's rating.
Japan: GDP (Q3).
- 16-17 Federal Open Market Committee meeting.
- 19 Portugal: balance of payments (September).
- 20 Spain: international trade (September).
- 25 Spain: loans, deposits and NPL ratio (September).
- 27 Euro area: economic sentiment indicator (November).
- 28 Spain: CPI flash estimate (November).
Spain: DBRS rating.
Portugal: GDP breakdown (Q3).
Portugal: CPI flash estimate (November).

Economic resilience and investment in the Trump era

The updating of economic forecast scenarios by the major research centres in recent weeks reflects the fact that the world economy is moving at a higher cruising speed than had been anticipated at the beginning of the year, when «hurricane Trump» was threatening to destabilise an economic environment exposed to the winds of uncertainty. For now, the incipient distortions affecting growth and inflation triggered by the increased tariff barriers are being offset by the AI-driven investment boom in the US, the increase in defence spending (and the acceleration of the NGEU programme) in Europe, the resilience of Chinese exports and the easing of global monetary conditions. To top it all off, the oil price is almost 15% below where it stood at the start of the year and significant wealth has been generated by the rally in global stocks (+17%) and other financial and real assets in 2025 (gold, housing, etc.), despite the ongoing instability in the geopolitical scenario in recent weeks (with the US government shutdown and the resignation of the French prime minister).

As a result of all of the above, we now expect the global economy to grow by 3.1% this year and next (up from 2.9% previously), driven by upward revisions in the US (from 1.3% to 1.8% in 2025) and China (from 4.2% to 4.6%), in addition to marginal improvements in the euro area (from 1.2% to 1.3%), with Spain expected to perform particularly well (2.9%, up from the 2.4% predicted previously). The narrative that has been supporting this strong prognosis for economic activity and the markets in recent months is that, once the risks posed by tariffs has stabilised, the investment cycle (AI + defence + housing) can take over as the engine of economic activity, after a long period of apathy since the 2008 financial crisis. In fact, we have already seen in the activity data for Q2 some significant recoveries in gross fixed capital formation in countries such as Spain and the US, and in the future this recovery could be compounded by a very favourable financial situation among private agents, following the long deleveraging process of the last decade.

The hope is that this new investment cycle can lead to the necessary jump in productivity in order to offset the inexorable demographic trends that most developed countries will face in the coming decades, allowing potential growth to be reinvigorated. The risk is that of an investment bubble (as occurred in Spain at the beginning of this century) related to AI. In fact, right now, the US economy continues to enjoy dynamic growth thanks to immense investment in this area.

In this context of change and disruption, it is no surprise that central banks are falling back on the old strategy of managing the risks in the scenario, rather than employing discretionary policy rules (Taylor, etc.). Starting with the Fed, and beyond political pressures, its recent interest rate cut can be interpreted as a hedge against a possible further weakening of the labour market, which Powell has described as being in a «curious kind of balance», in view of the simultaneous slowdown in both the supply and the demand of workers (a «low-hire, low-fire» job market). This has significantly reduced job creation, which is needed to keep the unemployment rate unchanged. The problem is that the Trump administration's new migration policy could cut the growth of the labour force from 1% in 2024 down to 0.2%-0.3% by 2027, and faced with such a restriction of additional supply, monetary policy will struggle to respond. So, from now on, monetary policy will take a much more flexible approach to responding to changes in an economic scenario that is subject to high volatility. This intrinsic complexity in the scenario introduces a high degree of uncertainty regarding how the structural relationships between growth, employment and inflation might evolve, and this would explain the wide range of opinions that has opened up within the Fed's Board of Governors (as reflected in the dot plot) regarding the level of long-term neutral or equilibrium interest rates (ranging from 2.5% to 4%). That said, in such cases of divergent viewpoints, we should always keep in mind the old maxim of Churchill: «If you put two economists in a room, you get two opinions. Unless one of them is Lord Keynes, in which case you get three.»

José Ramón Díez

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	0.67	5.25	4.25	3.50	3.00
3-month SOFR	3.62	1.01	1.07	5.37	4.37	3.57	3.10
12-month SOFR	3.86	1.48	1.48	4.95	4.19	3.30	3.10
2-year government bonds	3.70	1.04	1.21	4.46	4.24	3.50	3.50
10-year government bonds	4.69	2.57	1.76	4.01	4.40	4.20	4.50
Euro							
ECB depo	2.05	0.20	-0.30	4.00	3.09	2.00	2.00
ECB refi	3.05	0.75	0.20	4.50	3.24	2.15	2.15
€STR	–	-0.54	-0.38	3.90	3.06	1.93	1.97
1-month Euribor	3.18	0.50	-0.32	3.86	2.89	2.00	2.03
3-month Euribor	3.24	0.65	-0.21	3.94	2.83	2.05	2.06
6-month Euribor	3.29	0.78	-0.07	3.93	2.63	2.09	2.11
12-month Euribor	3.40	0.96	0.10	3.68	2.44	2.14	2.18
Germany							
2-year government bonds	3.41	0.35	-0.21	2.55	2.02	1.96	1.99
10-year government bonds	4.30	1.54	0.14	2.11	2.22	2.70	2.80
Spain							
3-year government bonds	3.62	1.69	0.18	2.77	2.26	2.57	2.73
5-year government bonds	3.91	2.19	0.38	2.75	2.48	2.85	3.04
10-year government bonds	4.42	3.17	0.99	3.09	2.90	3.35	3.60
Risk premium	11	164	85	98	68	65	80
Portugal							
3-year government bonds	3.68	3.33	0.07	2.33	2.03	2.09	2.21
5-year government bonds	3.96	3.94	0.35	2.42	2.15	2.49	2.68
10-year government bonds	4.49	4.67	0.96	2.74	2.68	3.20	3.50
Risk premium	19	314	82	63	46	50	70
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.09	1.05	1.19	1.20
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.86	0.83	0.88	0.90
EUR/GBP (yen per euro)	129.56	126.41	129.91	156.99	161.18	173.00	168.00
OIL PRICE							
Brent (\$/barrel)	42.3	80.1	71.0	77.3	73.1	65.1	65.3
Brent (euros/barrel)	36.4	62.5	63.9	70.9	69.8	54.8	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	2.3	0.9	1.3	0.5	0.8	1.3	1.2
Germany	1.6	1.3	0.4	-0.7	-0.5	0.2	1.1
France	2.3	1.0	0.7	1.6	1.1	0.6	0.7
Italy	1.5	-0.3	1.6	0.8	0.5	0.5	0.7
Portugal	1.5	0.4	1.5	3.1	2.1	1.6	2.0
Spain	3.6	0.7	0.7	2.5	3.5	2.9	2.1
Japan	1.4	0.4	-0.2	1.5	0.1	1.0	1.0
United Kingdom	2.8	1.2	1.0	0.4	1.1	1.3	1.2
Emerging and developing countries	6.3	4.9	3.1	4.7	4.3	4.2	4.0
China	10.6	8.0	4.7	5.4	5.0	4.6	4.0
India	7.2	6.7	3.8	8.9	6.7	6.8	6.6
Brazil	3.6	1.6	1.5	3.2	3.4	2.0	1.8
Mexico	2.3	1.5	0.5	3.4	1.4	0.8	1.4
Russia	–	1.4	0.6	4.1	4.3	1.7	1.3
Türkiye	5.5	4.5	6.3	6.6	3.3	3.2	2.9
Poland	4.2	3.7	3.6	0.1	2.8	3.6	3.3
INFLATION							
Global	4.1	3.7	5.5	6.6	5.7	4.2	3.9
Developed countries	2.1	1.6	3.7	4.6	2.6	2.4	2.2
United States	2.8	1.8	4.6	4.1	3.0	2.8	2.8
Euro area	2.2	1.4	3.7	5.4	2.4	2.1	2.0
Germany	1.7	1.4	4.1	6.0	2.5	2.2	2.1
France	1.9	1.3	2.8	5.7	2.3	1.1	1.7
Italy	2.4	1.4	3.5	5.9	1.1	1.8	1.7
Portugal	3.1	1.1	3.0	4.3	2.4	2.3	2.1
Spain	3.2	1.3	3.7	3.5	2.8	2.5	2.0
Japan	-0.3	0.4	0.7	3.3	2.7	1.5	1.5
United Kingdom	1.6	2.3	4.2	7.3	2.5	3.4	2.5
Emerging and developing countries	6.9	5.5	6.8	8.0	7.7	5.3	4.9
China	1.7	2.6	1.8	0.2	0.2	0.0	1.2
India	4.6	7.3	6.1	5.7	5.0	4.6	4.4
Brazil	7.3	5.7	6.9	4.6	4.4	4.9	4.2
Mexico	5.2	4.2	5.7	5.5	4.7	4.4	3.7
Russia	14.2	7.9	8.0	5.9	8.5	8.4	6.0
Türkiye	22.6	9.6	34.7	53.9	58.5	36.1	26.1
Poland	3.5	1.9	7.4	10.8	3.7	4.6	3.4

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	2.8	2.1
Government consumption	2.2	-0.3	2.0	1.8	1.5	1.3	1.1
Gross fixed capital formation	-0.4	-0.7	2.9	6.0	3.8	2.7	4.9
Capital goods	3.4	2.7	5.5	8.6	7.5	–	–
Construction	-1.4	-2.4	2.6	4.5	2.7	–	–
Domestic demand (vs. GDP Δ)	1.3	0.0	1.9	2.2	2.9	3.1	2.5
Exports of goods and services	5.3	4.0	3.6	4.2	3.1	0.8	2.7
Imports of goods and services	3.6	2.7	4.0	2.3	4.8	4.0	3.6
Gross domestic product	1.5	0.4	1.5	3.1	2.1	1.6	2.0
Other variables							
Employment	0.4	-0.4	1.1	2.3	1.2	2.3	0.9
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.5	6.4	6.3	6.4
Consumer price index	3.1	1.1	3.0	4.3	2.4	2.3	2.1
Current account balance (% GDP)	-9.2	-2.8	-1.1	3.9	2.4	0.6	0.9
External funding capacity/needs (% GDP)	-7.7	-1.5	0.1	1.9	2.8	2.5	2.5
Fiscal balance (% GDP)	-4.5	-5.1	-3.0	1.3	0.5	-0.1	-1.2

Forecasts

Spanish economy

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

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

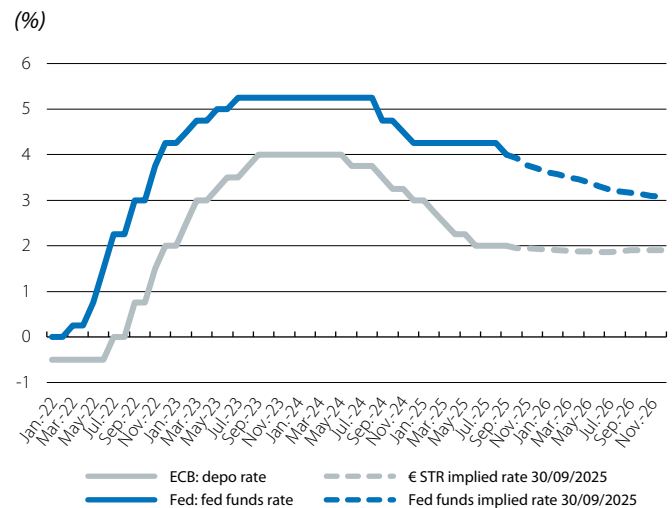
Forecasts

The central banks move the market in September

Central banks and geopolitical tensions mark investor sentiment. September has been a month of transition in the financial markets, characterised by increased volatility and significant movements in risk assets. Monetary policy decisions, especially the US Federal Reserve's meeting, has set the tone for the month, together with the process of adapting to the new trade context amid higher tariffs. In addition, episodes of geopolitical tension – such as the incursion of Russian drones into Polish territory, the federal government shutdown in the US and political instability in France – have contributed to market volatility. In this environment, investors have adjusted their expectations regarding the central banks' next steps, with greater confidence in cuts being made by the Fed and in the stability of ECB rates. These adjustments, combined with sensitivity to the data, have driven developments in yield curves, currencies and stock markets in the month. Investors remain cautious amid an environment that remains uncertain, with particular attention being placed on upcoming central bank decisions, the impact of the tariff hikes, the evolution of the economic indicators and the fiscal challenge that many countries are facing.

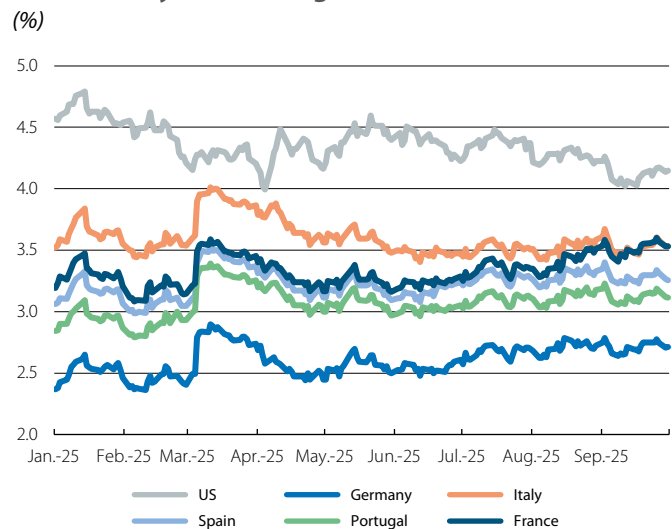
A rate cut by the Fed and a long pause on the part of the ECB, although everything will depend on the data. In the money market, September was marked by numerous policy meetings. The focus, however, was on the Fed, which cut interest rates by 25 bps, bringing them to the 4.00%-4.25% range and marking the first reduction in nine months. This move reflects a change in the reading of the balance of risks between the Fed's two mandates. According to Fed Chair Jerome Powell, the cooling of the labour market – which is visible in the data and is attributed both to lower demand and to supply factors – has gained prominence over inflation risks, which are now perceived to be more contained. The rate cut was practically unanimous, although there is a divergence of opinions regarding the next steps, as shown by the dot plot, which reflects significant dispersion among FOMC members. Powell stressed that monetary policy is not a pre-set course and that decisions will be made meeting by meeting, based on the data. Market expectations have shifted throughout the month – for instance, with the upward revision of Q2 GDP and the positive data published to date for Q3 – and at the close of this report investors are anticipating four rate cuts between now and December 2026, which would leave the fed funds rate in the 3.00%-3.25% range. The ECB, meanwhile, left rates unchanged (depo rate at 2%), in an expected and unanimous decision, and one that was accompanied by a relatively positive view of the outlook, with inflation already at the medium-term target rate. The ECB also continued not providing any guidance regarding the anticipated path of interest rates for the coming months, reiterating that monetary policy will be determined following a «meeting-by-meeting» and «data-dependent» approach. The market now anticipates that rates will remain stable for the remainder of this year and throughout 2026. President Lagarde avoided making any statements on France, although she

ECB and Fed: benchmark interest rates



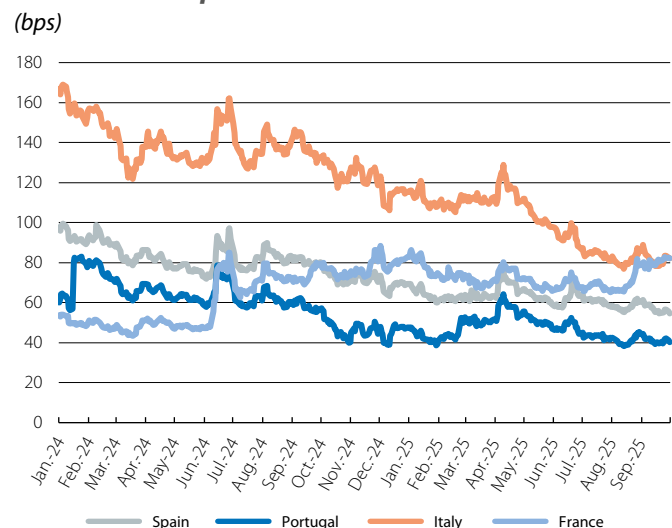
Note: The historical data for the fed funds rate correspond to the lower bound.
Source: BPI Research, based on data from the ECB, the Fed and Bloomberg.

Yield on 10-year sovereign bonds



Source: BPI Research, based on data from Bloomberg.

Euro area: risk premiums



Source: BPI Research, based on data from Bloomberg.

recalled that the ECB has tools for ensuring that monetary policy is transmitted to all euro area jurisdictions and that, in activating asset purchases under the TPI programme, there is a combination of discretion and analysis (an assessment of the fiscal outlook is necessary, and tensions that are justified by the country's macroeconomic fundamentals should not be responded to).

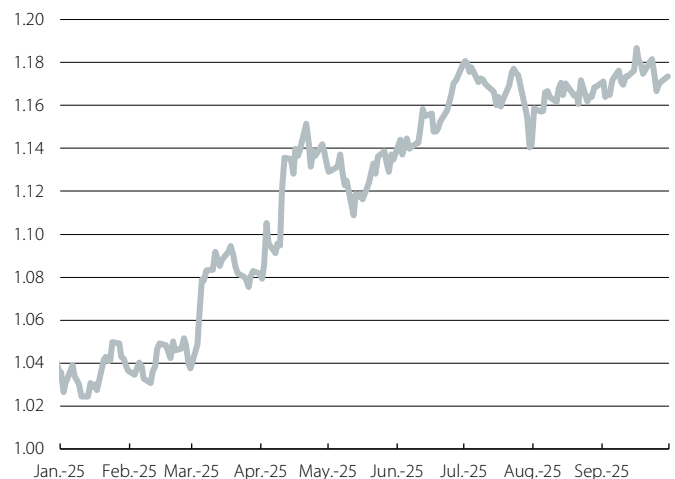
US sovereign rates fall hand in hand with expectations regarding the Fed's next moves. In fixed income, the month ended with declines in treasury yields, particularly in the long end of the curve, while in the euro area there was a rise in yields in the short end, given the widespread correction in the longer sections. The exception to this trend was France, which was once again the focus of attention due to the political instability in the wake of the change of government. There were new spikes in the country's risk premium, before it settled at around 80 bps, and a slight rebound in the yield on the French 10-year bond compared to the end of August, causing it to exceed 3.50%. On the other hand, the credit rating of Spanish debt was upgraded during September by all three rating agencies (S&P to A+, Moody's to A3 and Fitch to A). Fitch has also revised Portugal's rating from A- to A. This has been reflected in sovereign bonds, with declines in yields in both countries, as well as in the spread with the German 10-year bond, unlike the increase that occurred in France.

Appreciation of the euro, with fluctuations. The euro experienced a back-and-forth movement in September, appreciating against the dollar in the first half of the month, driven in part by a somewhat hawkish reading of the ECB meeting, to exceed 1.18. Subsequently, it closed the quarter around 1.17 (+0.4%). The dollar, meanwhile, recovered ground in the second half of the month, supported by favourable economic growth data in the US.

A positive month for the stock markets. The stock markets recorded gains during the month, although there were sessions with corrections – in some cases lasting several days in a row – driven by profit-taking and a rebound in bond yields. The IBEX 35 remained among the best-performing indices, although the gains were widespread on both sides of the Atlantic, with the exception of the German DAX, which closed almost flat compared to August (–0.1%).

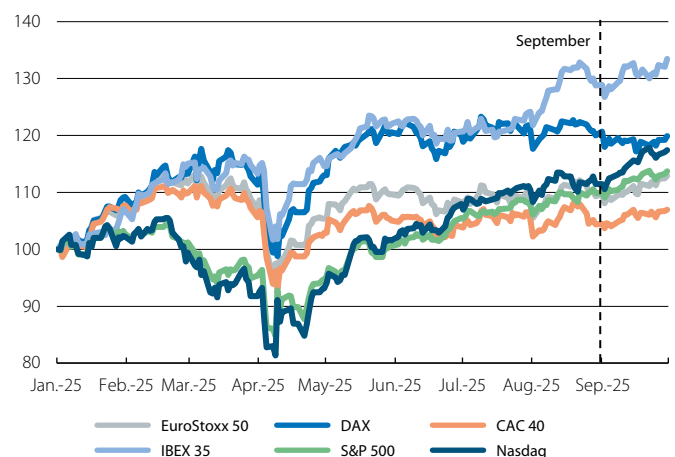
Volatility in oil and new highs in gold. In commodities, oil remained volatile and the Brent barrel rebounded to 70 dollars, before correcting much of that increase in the latter part of the month to close September down almost 2% versus the prior month (at 67 dollars). This pattern was driven by heightened geopolitical tensions (such as Ukraine's attacks on critical Russian oil infrastructure), questions over excess supply, an increase in US inventories, the resumption of exports from northern Iraq and the announcement of increased production from OPEC+ (which has already returned to the market the 2.2 million barrels per day that it cut in 2023 and is now embarking on recovering the second tranche of cuts implemented in 2023, of 1.7 million). Gold, meanwhile, reached new highs (exceeding 3,850 dollars per ounce), further reinforcing its role as a safe-haven asset in an environment of high fiscal and economic uncertainty, especially in the US.

Euro/dollar exchange rate (Dollars per euro)



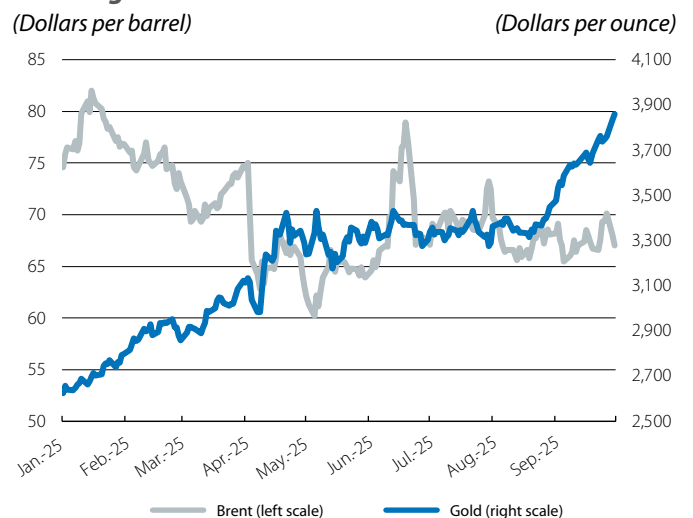
Source: BPI Research, based on data from Bloomberg.

US and euro area: performance of the main stock market indices Index (100 = 01/01/2025)



Source: BPI Research, based on data from Bloomberg.

Oil and gold in 2025



Source: BPI Research, based on data from Bloomberg.

International economic scenario: tariff hikes vs. respite in uncertainty

The international economy started 2025 clouded by the threat of US tariffs, trade uncertainty and geopolitical tensions, at a crossroads amid the reorientation of economic policies and geopolitical strategies.¹ This led to a deterioration of the outlook and shook the financial markets. How has the scenario evolved since then? Where is the international economy heading in the coming quarters?

Starting point

So far this year, the scenario has been characterised by volatility in the data and the resilience of the international economy in the face of uncertainty. Initially, the anticipation of new US tariffs triggered a boom in the country's imports and spurred exports from the other major economies, an effect which was then unwound, causing swings in the data. Despite the volatility, GDP figures have performed better than anticipated, with a common support factor in robust labour markets and a certain recovery in purchasing power and investment, leading to an improvement in economic expectations and investor sentiment.

The improvement in expectations has also been supported by a moderation of uncertainty. The various trade agreements that the US has reached have helped to gradually clarify the trading landscape in which the world economy will operate going forward, while also helping to rule out extreme scenarios, at least in the short term. That said, the global economy will have to adapt to a significantly higher level of tariffs and the uncertainty, although in retreat, has not faded completely (several negotiations remain pending, such as between the US and China, and there are doubts over the durability of the agreements reached, legal uncertainties, etc.).

Key drivers, outlook and risks

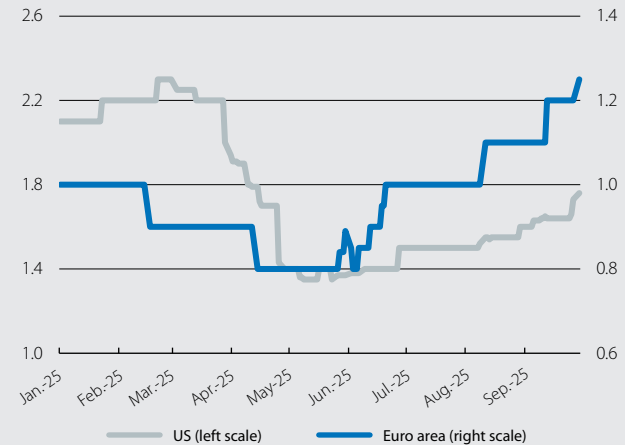
From this new starting point, the outlook enjoys the support of contained energy prices, thanks to an oil market that continues to exhibit excess supply² and in which the Brent barrel is expected to hover at around 65 dollars per barrel, while gas futures point to a stable European TTF price of around 35 euros/MWh. Also, monetary policy will no longer weigh down the

1. IMF (2025). «A Critical Juncture amid Policy Shifts», World Economic Outlook, spring issue.

2. In a context of production increases by both OPEC+ (which has already recovered 2.2 million barrels a day of the cuts implemented in 2023) and other producers and more moderate growth in demand (especially in China and India).

GDP in 2025: analyst consensus forecast

Annual change (%)



Source: BPI Research, based on data from Bloomberg.

Global stock markets: MSCI World Index

Index (100 = 31 December 2024)



Source: BPI Research, based on data from Bloomberg.

economy. In the euro area, the ECB's interest rates are at a neutral level of 2.00%, where they neither stimulate nor restrict economic activity. After lowering them by 100 bps between February and June, all the indicators (including both the central bank's own messaging and market prices) suggest that, with inflation at the target rate, the ECB will prefer to keep rates at their current levels and will reserve the option to alter them only in the event of a significant change in the outlook. The Fed, meanwhile, has resumed its rate cuts after noting a slowdown in job creation³ and a moderate and gradual

3. This has not put pressure on the unemployment rate, which remains low despite the recent increase, possibly reflecting a cooling of the labour market on both the demand and the supply side.

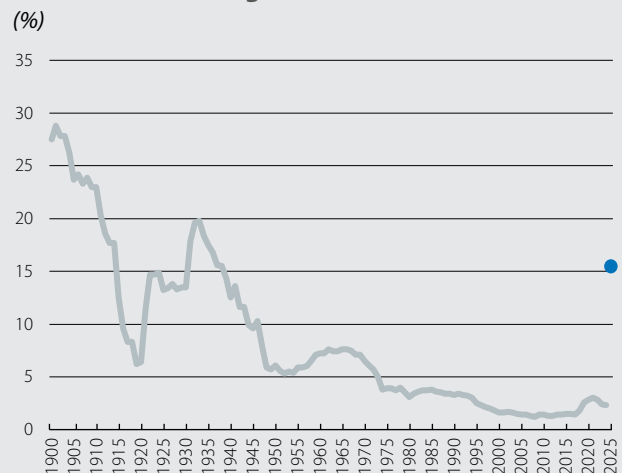
impact of tariffs on inflation. It is thus exhibiting a different sensitivity to the balance of employment/inflation data, which leads us to expect a gradual pattern of rate cuts over the coming quarters.⁴ On the other hand, international economic activity is also expected to continue enjoying the support of the Chinese economy. Indeed, despite the tariffs and the country's persistent housing crisis and weak domestic demand, China's exports and industry have held up well, while analyst consensus expectations for the country have continued to improve.

Thus, our scenario predicts that US economic activity will remain relatively dynamic and that, with a cooling due to the normalisation of the labour market, and fuelled by investment linked to AI and less restrictive monetary conditions, the country's GDP will approach an annual growth rate of 2%. However, this improvement in the outlook remains subject to downside risks, ranging from inflation resisting the last mile to the 2% target, to the digestion of government deficits that are predicted to remain high, to the transmission of tariffs to economic activity and inflation which, so far, has been modest.

In the euro area, we forecast a moderate acceleration in economic activity, bringing GDP growth to 0.2%-0.3% quarter-on-quarter. This growth will be supported by the effects of the ECB's recent monetary easing, a reorientation of fiscal policy⁵ and improved confidence that could spur further growth if it helps households to redirect their high savings rate (15.2%) towards consumption. With regards to the foreign sector, despite the prospect of a stronger euro against the US dollar (1.20 dollars in 2026), the effective real exchange rate has been more stable. This factor, coupled with lower tariffs with the US than in other jurisdictions, could help (in relative terms) to protect exports. However, the growth of the euro area will continue to show significant disparities from country to country, with the strength of Spain's GDP growth contrasting with the structural difficulties of Germany's industry and the weakness of France with its public accounts under investor scrutiny.

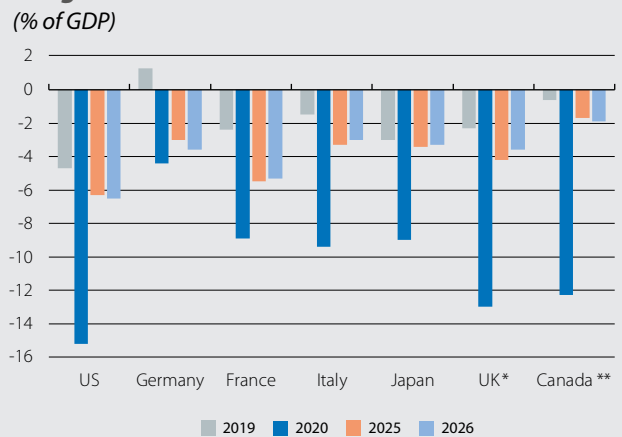
Overall, the resistance exhibited by international economic activity, the reduction of uncertainty and the improvement in growth projections indicate a better

US: effective average tariff



Source: BPI Research, based on data from USITC.

G7: government balance



Notes: * Fiscal year. ** For Canada, figure for 2021 instead of 2020.

Source: BPI Research, based on historical data (2019-2020) and forecasts (2025-2026) from Bloomberg.

immediate outlook. However, the world economy is not out of the woods yet. The shift in economic policies and geopolitical strategies continues to steer the world toward heightened geopolitical tensions and risks of disruption in global supply chains, in addition to factors that could fuel financial turbulence (such as the deterioration of public finances and institutional quality in the major economies).

4. We expect four more cuts up until the end of 2026 (placing the fed funds rate at 3.50%-3.75% in December 2025 and at 3.00%-3.25% in December 2026).

5. Especially in Germany, where the infrastructure and defence spending plans have led the government to project an increase in the federal deficit from 1.1% of GDP in 2024 to 3.3% in 2025 and up to 4.2% in 2026. In France, parliamentary fragmentation and the consequent difficulties in approving budgets suggest that the reduction of the deficit (5.8% in 2024) will be very gradual. In the other two major economies, Italy and Spain, the deficit is expected to decrease slightly, placing it below 3% in 2026 and 2025, respectively.

Investment flows in times of Trump 2.0

Trump continues to demonstrate a somewhat disruptive approach to legislating, marking a turning point compared to the stability and predictability of his predecessors. The new Trump administration has argued that the global economic order that has been in place almost since the end of World War II is harmful to US interests, so it must be changed («America First»). This shift, which is materialising primarily in the imposition of high and sweeping tariffs and the reduction of the country's commitments on international security and cooperation, is leading many to wonder whether it could undermine the pillars that have sustained the dominant role of the dollar for the past 80 years.¹ In this process of international geopolitical «adjustment», one of the main beneficiaries in terms of investment flows could be the euro area: it offers a stable regulatory framework, there are no doubts about the independence of the ECB, and plans to boost defence spending in Europe (the ReArm Europe plan) and infrastructure spending in Germany will provide major investment opportunities in the coming years.

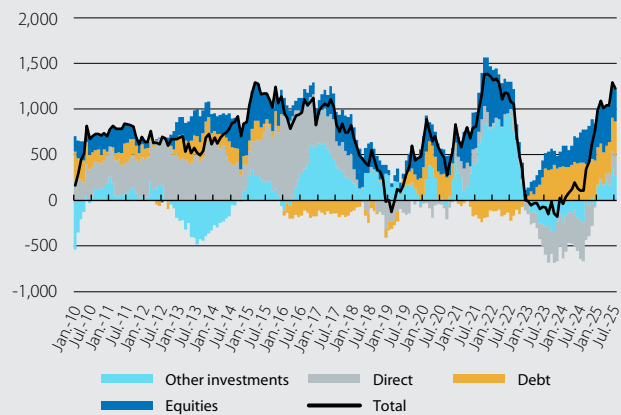
The euro area as a destination for foreign investment

In the last two years, having overcome the halt in capital flows following the outbreak of the war in Ukraine in 2022, there has been renewed interest among foreign investors in the financial assets of the euro area, especially in 2025 and in certain asset classes, as can be seen in the balance of payments data published monthly by the ECB. In fact, in the past year up until July, inflows of foreign direct investment (FDI) and portfolio investment (fixed-income securities and equities) amount to over 560 billion euros (3.7% of GDP), which is 30% more than in the same period a year ago and the highest level since 2015. This result has been supported by the reactivation of capital inflows in the form of FDI, which in the year to July amounted to 147 billion euros, after divestments in this category reached 15 billion euros in 2024 as a whole and more than 350 billion euros in total in 2023.

In terms of inflows into debt securities and the stock market, which are much more sensitive in the short term to changes in investor sentiment, there were significant outflows of investment in April following the announcements of reciprocal tariffs on «Liberation Day», although interest in euro area assets subsequently recovered. It appears that inflows of capital into debt are the preferred option among investors, despite a rather modest start to the year, given that up until July inflows into this category from foreign investors amounted to 255 billion euros, around 20% less than those registered in the

1. See M. Obstfeld (June 2025). «The International Monetary and Financial System: A Fork in the Road». Andrew Crockett Memorial Lecture, Bank for International Settlements, 29 June.

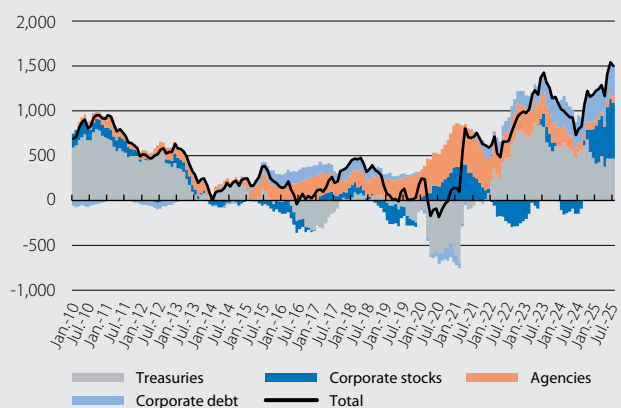
Euro area: inflows of foreign capital (EUR billions)*



Note: * 12-month cumulative total.

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

US: inflows of foreign capital (USD billions)*



Note: * 12-month cumulative total.

Source: BPI Research, based on data from the US Treasury.

same period of 2024. As for inflows into equities, which have been highly volatile this year, in the year to July they stood at 162 billion euros, 20% less than in the same period last year.

The US and its historical need for foreign savings

The US has traditionally maintained a deficit in its current account balance (above 3.0% of GDP, on average for the last two decades), as a result of its savings being insufficient to meet its funding needs (especially in the public sector). However, it has been able to finance this deficit thanks to a significant inflow of foreign capital. Although the tariffs seek to reduce these imbalances, the outlook suggests that, at least for the next two years, the current account deficit will remain at close to 3.0% of GDP. Therefore, it remains vital that foreign capital continues to flow into the US economy in order to finance this deficit.

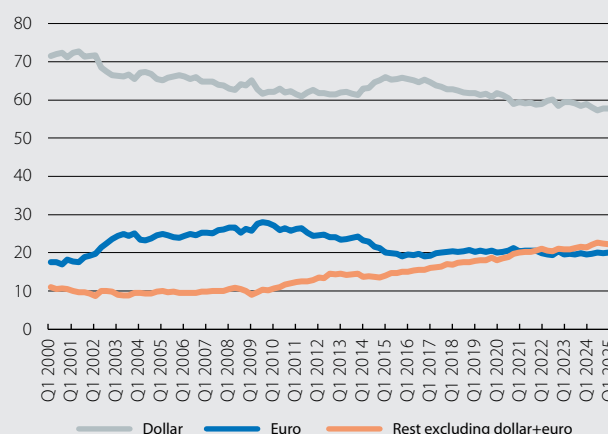
In order to analyse the evolution of capital flows into/out of the US, we use the monthly statistics on international capital flows published by the US Treasury. The breakdown by investment instrument offered by the Treasury statistics is not exactly the same as that offered by the ECB (there is no data for FDI), but this does not prevent us from making a comparison of the investment flows entering both economies.

The Treasury data reveal that, while the increase in uncertainty does cause significant capital outflows (such as in April, following the announcements on «Liberation Day»), US financial assets have not lost their appeal among foreign investors. In fact, so far this year up until July, foreign investors acquired US financial assets amounting to 878 billion dollars, up from 558 billion in the same period last year. Most of this improvement rests on the significant inflow of capital into equities: 272 billion dollars, compared to outflows exceeding 37 billion suffered in the same period a year earlier. Meanwhile, treasuries continue to maintain their appeal and up until July they registered inflows of 376 billion dollars, just 4.0% below what was invested in the previous year. It should be noted that this greater appetite for US financial assets is driven by private investors (who account for almost 80% of all positions), as governments and central banks are significantly reducing their holdings of assets in dollars: up to July, the balance of inflows from institutional investors is practically zero, compared to inflows of around 50 billion in the previous year. This pattern is part of a trend observed in recent years and responds to the strategy being pursued by many central banks (especially in emerging economies) to reduce their dependency on the dollar, while increasing positions in other currencies, thus strengthening their strategic security.

Conclusions

The data show the high sensitivity of capital flows to increased uncertainty, and this requires us to be particularly cautious to ensure these short-term movements do not cause us to lose sight of the bigger picture. Analysing the cumulative picture for the past 12 months, which offers a more balanced view of the underlying trends, we note a substantial revival of inflows of foreign capital into euro area assets since their lows at the end of 2023. This helps to explain the sharp appreciation registered by the euro: of around 20% against the dollar and more than 12% in nominal effective terms. However, this greater preference for euro area assets has not come at the expense of lower demand for US financial assets, which are at almost all-time highs, thanks to private investors. In fact, over the past two decades, governments and central banks, particularly in emerging economies, have been reducing their exposure to the dollar in a bid to reduce their dependency on the US currency, thereby strengthening their strategic security and financial sovereignty. So much so that the

Composition of international reserves (% of the world's total allocated reserves)



Source: BPI Research, based on data from the IMF provided by Refinitiv.

dollar, despite still being the predominant currency, has steadily seen its share of global reserves wane over the last two decades: today, it represents 58% of the total, compared to around 72% in the year 2000. In this repositioning of portfolios in favour of other assets, gold is emerging as the major beneficiary: in 2024, central banks' purchases of gold more than doubled the annual average of the previous decade. As a result, and in a context in which the gold price continues to break records, this asset now represents almost 20% of the official reserves at market prices, almost matching the euro, which represents around 20%, a level at which it has remained quite stable in the last decade.²

However, several studies show that increasing consideration is being given to geopolitical relations when it comes to investment decisions, and that rising geopolitical tensions lead to lower cross-border capital allocation. If this process of fragmentation continues, in the long term we could find ourselves in a multi-polar financial system, in which the dollar would have to coexist with other influential currencies. Nevertheless, any change in the dollar's leading role would be a very gradual process, but it is worth keeping these risks in mind in the current context of a reconfiguration of relations and possible conflicts between the major powers.³

2. See ECB (2025). «The international role of the euro», June.

3. See IMF (2023). «Global Financial Stability Report (GFSR)», chapter *Geopolitics and Financial Fragmentation: Implications for Macro-Financial Stability*, April.

Interest rates (%)

	30-September	31-August	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.15	0	-100.0	-150.0
3-month Euribor	2.03	2.06	-3	-68.2	-129.4
1-year Euribor	2.19	2.12	7	-26.7	-57.8
1-year government bonds (Germany)	1.94	1.90	4	-30.1	-55.8
2-year government bonds (Germany)	2.02	1.94	8	-6.3	-5.7
10-year government bonds (Germany)	2.71	2.72	-1	34.4	57.8
10-year government bonds (Spain)	3.26	3.33	-7	19.6	33.2
10-year government bonds (Portugal)	3.12	3.18	-6	26.9	41.6
US					
Fed funds (lower limit)	4.00	4.25	-25	-25.0	-75.0
3-month SOFR	3.98	4.17	-19	-32.9	-61.7
1-year government bonds	3.61	3.83	-22	-52.9	-30.8
2-year government bonds	3.61	3.62	-1	-63.3	4.9
10-year government bonds	4.15	4.23	-8	-41.9	40.0

Spreads corporate bonds (bps)

	30-September	31-August	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	56	55	1	-1.7	-1.6
Itraxx Financials Senior	60	59	1	-3.6	-5.6
Itraxx Subordinated Financials	103	101	2	-9.6	-16.0

Exchange rates

	30-September	31-August	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.173	1.169	0.4	13.3	5.1
EUR/JPY (yen per euro)	173.530	171.860	1.0	6.6	9.3
EUR/GBP (pounds per euro)	0.873	0.866	0.8	5.5	4.6
USD/JPY (yen per dollar)	147.900	147.050	0.6	-5.9	4.0

Commodities

	30-September	31-August	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	545.9	554.9	-1.6	1.7	1.4
Brent (\$/barrel)	67.0	68.1	-1.6	-10.2	-6.9
Gold (\$/ounce)	3,859.0	3,448.0	11.9	47.0	45.2

Equity

	30-September	31-August	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,688.5	6,460.3	3.5	13.7	16.6
Eurostoxx 50 (euro area)	5,530.0	5,351.7	3.3	12.9	9.1
Ibex 35 (Spain)	15,475.0	14,935.8	3.6	33.5	29.3
PSI 20 (Portugal)	7,957.6	7,760.1	2.5	24.8	16.9
Nikkei 225 (Japan)	44,932.6	42,718.5	5.2	12.6	12.8
MSCI Emerging	1,346.1	1,258.4	7.0	25.2	14.6

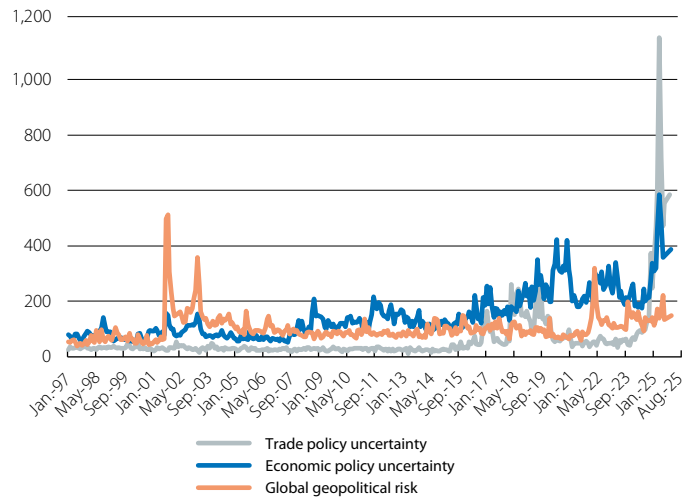
Resilience and challenges in the global economy

The global economy is demonstrating remarkable resilience, despite all the uncertainty associated with Trump's tariff policy. In September, the Purchasing Managers' Index (PMI), which indicates business activity, stood at 52.4 points (50 marks the threshold of positive growth), and in July, August and September as a whole it reached its highest level this year. This good result is explained by the improvement in both services and manufacturing. For Q3 as a whole, the data from the major international economies showed some improvement, which justifies the OECD's upward revision of 0.3 pps in its global growth forecast for 2025, placing it at 3.2%. However, the risks to the global economy persist, with trade relations posing one of the biggest challenges. The summer agreements left the «rules of the game» more or less defined and significantly reduce the risk of the most adverse scenarios, but the uncertainty has not dissipated and further shifts in the US' position cannot be ruled out, which explains why the trade uncertainty indices remain very high.

The euro area closes another quarter of very modest growth in Q3. After growing by just 0.1% quarter-on-quarter in Q2, reflecting the falls recorded in Germany and Italy (–0.3% and –0.1%, respectively) and with France growing solely due to the accumulation of inventories, the available indicators for Q3 do not suggest any significant rebound in growth in the euro area. Specifically, the PMI climbed 0.2 points in September to 51.2, which marks a 16-month high but is still only just above the 50-point threshold that denotes positive growth, while the average for Q3 stands at 51.0, compared to 50.4 in Q2. In addition, there are some divergences among the major economies. Germany closed Q3 with a little more vigour (the PMI rose in September to 52.0), but the weakness in the components related to orders has dampened any optimism, as shown by the fall in the Ifo Business Climate Index in September (to 87.7, with 100 being the reference threshold). Despite the major infrastructure plan that has been proposed, but has not yet begun to be implemented, the business environment remains unfavourable, and this explains the cautiousness in the German economy in the short term. Meanwhile, in France economic activity remains subject to the country's fragile political situation and the PMI fell in September by more than 1 point, placing it at 48.1, marking the thirteenth consecutive months below the 50-point threshold. The lack of support to approve the new budgets led to the resignation of Prime Minister Lecornu, barely a month after his appointment, reiterating the climate of political uncertainty and hindering the introduction of measures to bring the fiscal deficit down from the 5.6% of GDP forecast for this year.

In this context, inflation remains practically stable around the ECB's target: in September, the headline rate stood at 2.2%, while the core index remained at 2.3% for the fifth consecutive month. In addition, economic agents' inflation expectations remain fairly contained: despite higher tariffs, business leaders in the manufacturing, retail and service sectors in September still showed no intention of substantially raising their sales prices, and consumers are also confident that prices will remain relatively stable.

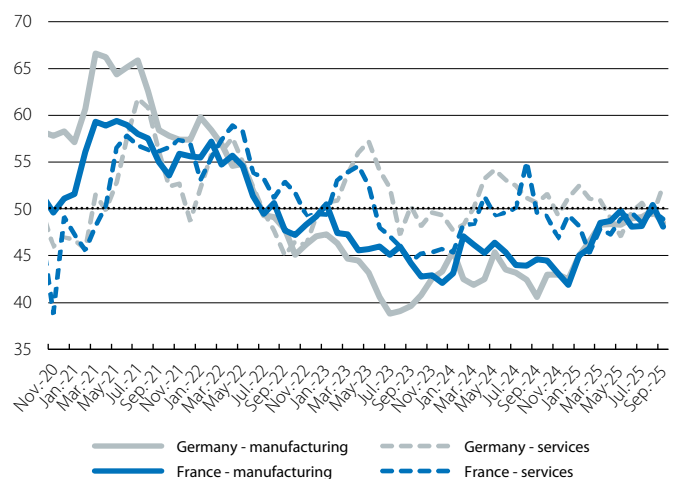
Uncertainty Index



Source: BPI Research, based on data from www.policyuncertainty.com.

Euro area: PMI by component

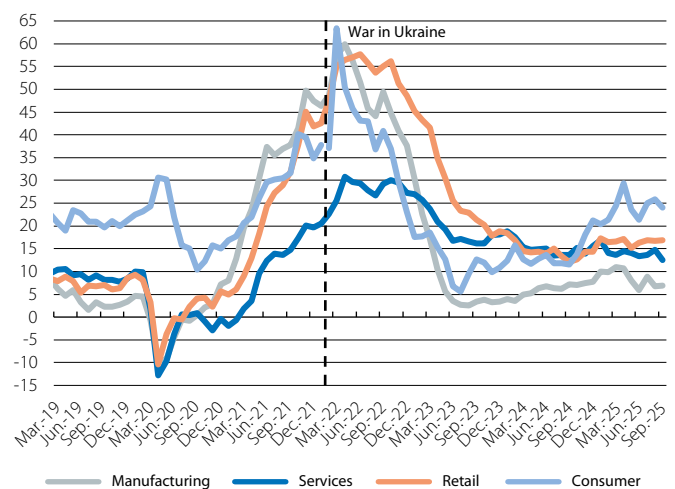
Index (>50 expansion; <50 contraction)



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

Euro area: price expectations

(Balance of responses)



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

The US continues to surprise with its dynamism, although the labour market is cooling. The US economy continues to show little evidence of the impact of the tariff hikes. For starters, the final revision of GDP reveals growth of 0.95% quarter-on-quarter in Q2, compared to the 0.8% initially published. This improvement is driven by private consumption, which remains robust (+0.6%), supported by highly dynamic investment in fixed capital (1.1%) amid the drive for greater investment in new technologies and AI (computer equipment +2.8% and software +6.1%). In addition, the latest data also point to a vigorous Q3. In fact, in August, private consumption continued to grow (retail sales rose again by 0.6% month-on-month) and industrial production remained buoyant. With all this, the New York and Atlanta Feds' GDP trackers suggest that GDP has advanced by 0.6%-0.9% quarter-on-quarter in Q3.

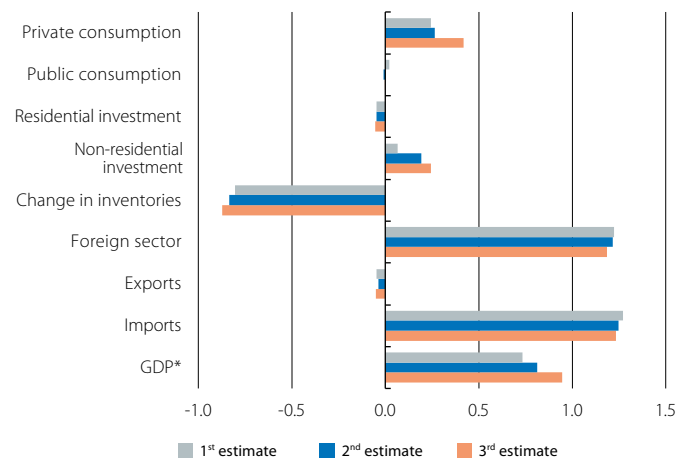
In this context of economic dynamism, **inflation continues to show some downward resistance:** in August, the headline rate rose by 0.2 pps to 2.9%, while the core index climbed just 0.1 pp, to 3.1%. Although these figures remain above the 2% reference rate, the data suggest that the tariffs have had a modest impact so far, possibly because firms are absorbing much of the cost increase they have induced. However, the latest labour market data are beginning to show signs of exhaustion. The annual revision of the statistics showed almost 911,000 fewer jobs in the period April 2024-March 2025 than initially estimated and in August just 22,000 jobs were created, compared to an average of over 100,000 jobs in the first four months of the year. The unemployment rate, meanwhile, has risen to 4.3%, compared to 3.5% at the beginning of the year.

The US federal government is facing a shutdown, as of the close of this report, due to the lack of agreement between Republicans and Democrats to approve the budgets (the main point of friction is the cuts in health spending). This first government shutdown in seven years means that all non-essential services are suspended until a new budget is approved. The impact on growth will depend on how long it lasts, but the historical evidence indicates that it is usually quite limited, especially as much of the losses caused by the shutdown are recovered once the government reopens. In fact, the five-week partial government shutdown between 2018 and 2019, the longest in US history, had an estimated cost of around 11 billion dollars (just 0.05% of GDP) according to the Budget Office, and almost 75% of those losses were recovered once the government resumed normal operations.

China's domestic demand remains weak. Retail sales grew by 3.4% year-on-year, compared to 5.4% on average in Q2. This loss of momentum will continue in the coming months: household spending will be weighed down by the exhaustion of the effect of the tax incentives, which had stimulated the purchase of durable goods at the beginning of the year. Industrial production, meanwhile, maintained resilient growth rates of 5.2% year-on-year, albeit 1 pp lower than the Q2 average, and looking ahead it faces the challenge of a more demanding external environment. In fact, in August, Chinese exports grew by 4.8% year-on-year (compared to a 7.4% year-on-year increase in Q2), weighed down by a fall of almost 33% year-on-year in exports to the US.

US: components of GDP in Q2 2025

Contribution to non-annualised quarter-on-quarter growth (pps)

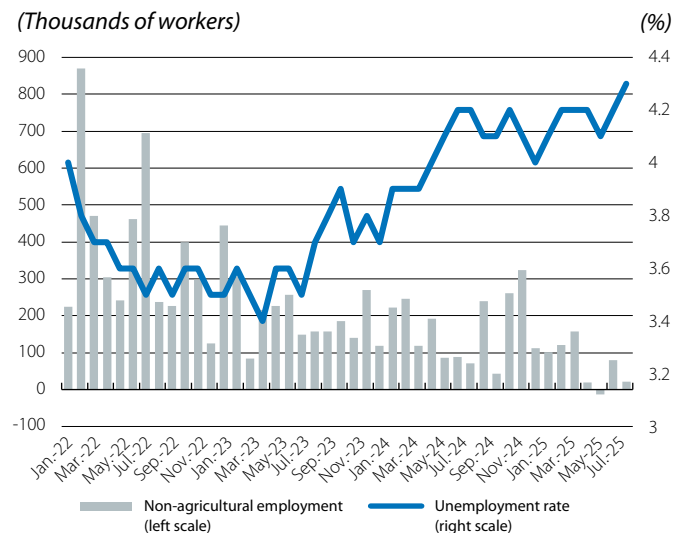


Note: * Non-annualised quarter-on-quarter change (%).

Source: BPI Research, based on data from the Bureau of Economic Analysis.

US: labour market

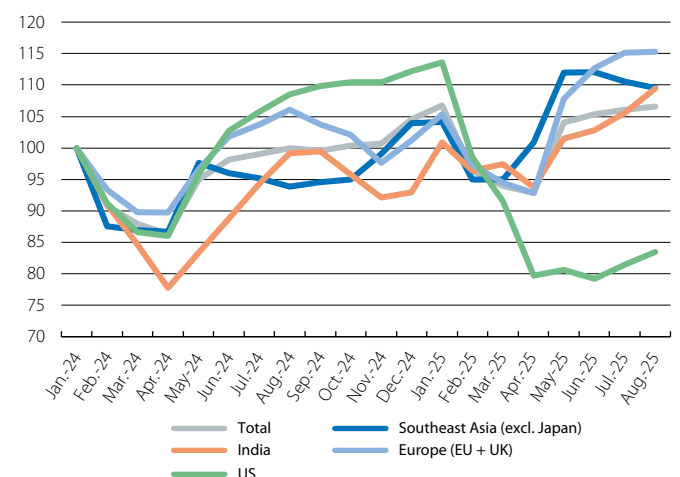
(Thousands of workers)



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

China: exports of goods*

(100 = January 2024)



Note: * 3-month average.

Source: BPI Research, based on data from Bloomberg.

Firm size and productivity gaps in the EU

The European Commission proposed in May the definition of a new business category based on size, the so-called «small mid-caps». These firms, with between 250 and 750 employees and an annual turnover ranging from 50 to 150 million euros, are in the transition phase between medium and large enterprises. The aim is to allow them to benefit from more proportionate regulation that facilitates the scale-up of Europe's productive sector, an idea which the Draghi report stressed in order to regain global competitiveness. The smaller average firm size of is particularly pronounced in certain EU countries, such as Greece, Italy, Portugal and Spain. In this article, we focus on how this distinctive feature may relate to productivity disparities, with which firm size is positively correlated.

The positive association between size and productivity

Differences in productivity between countries can be either due to divergences in the general efficiency conditions of an economy, such as the institutional or legal framework, or related to productive structures with different characteristics, whether at the sectoral or corporate level.¹ Through a simple statistical decomposition analysis, we can approximate the contribution of each of these elements to the differences in productivity between individual European countries and the EU as a whole (see first chart).² For example, within the four major economies, Germany and France show a similar profile: their productivity per person employed³ exceeds the European average thanks to a higher concentration of larger firms than in the rest of the EU, and this is a factor associated with higher productivity (see second chart).⁴

1. See, among other references: E.J. Bartelsman and M. Doms (2000), «Understanding productivity: Lessons from longitudinal microdata»; M.J. Melitz (2003), «The impact of trade on intra-industry reallocations and aggregate industry productivity», and D. Restuccia and R. Rogerson (2017), «The causes and costs of misallocation».

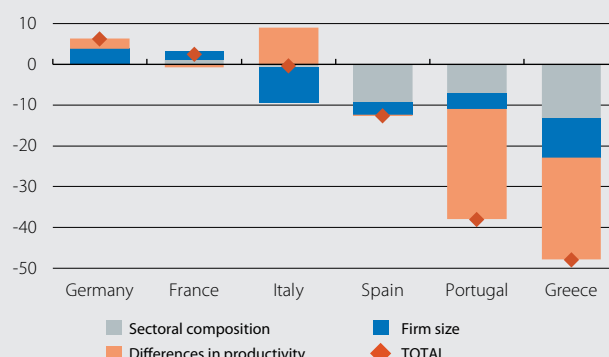
2. A country's productivity can be expressed as the average productivity in each sector-firm size pair weighted by the number of employees in that pair. Thus, the productivity gap between two countries can be broken down into the contribution of the differences in: (i) the percentage of employment by firm size within a sector, (ii) the percentage of employment by sector and (iii) the productivity level for each sector-firm size pair. The full formulation can be found in chapter 7.2 of P. Bauer *et al.* (2020), «Productivity in Europe: Trends and drivers in a service-based economy».

3. According to the Eurostat definition, the number of persons employed in a company includes employees, owners and partners who work in the business, as well as unpaid family members working in the business.

4. The debate on causality between firm size and productivity remains open and references in both directions can be found. For instance, the study by E. Moral-Benito (2016), «Growing by learning: firm-level evidence on the size-productivity nexus» argues for Spain that low productivity growth is behind the fact that the distribution is skewed towards smaller businesses and not vice versa.

Productivity per person employed compared to the EU in 2022

Decomposition into factors (%)



Notes: Data in euros adjusted for purchasing power parity. Calculation for 16 sections of the National Classification of Economic Activities (NACE) (the total economy excludes the agricultural sector and general government).

Source: BPI Research, based on data from Eurostat.

Productivity gap with respect to micro-enterprises (%)



Notes: Micro-enterprises have fewer than 10 persons employed. Coefficients obtained using a linear regression of the logarithm of productivity per employee for 2022 in euros, adjusted for purchasing power parity, using categorical variables for country, sector and type of company by size.

Source: BPI Research, based on data from Eurostat.

On the other hand, this factor has a negative contribution in Spain and, especially, in Italy. In the case of Spain, the sectoral composition of the economy is also unfavourable, while in Italy the greater relative weight of smaller (and thus less productive) businesses is offset by general productivity levels that exceed those of the EU as a whole. Among other Member States, Portugal and Greece stand out, as all three of these components – sectoral structure, firm size and overall efficiency – make a significant contribution to explaining their notably lower productivity relative to the European average.

Large and manufacturing firms as key drivers of innovation

A standard measure of firm size is the ratio between the number of persons employed and the total number of companies. However, this metric introduces a considerable bias when there is a significant presence of self-employed workers or micro-enterprises in the productive sector, skewing the focus towards the lower end of the

distribution. An alternative approach, which is also consistent with the productivity decomposition analysis discussed above, is to calculate the average size weighted by the percentage of persons employed in each category, as this brings us closer to the economy's actual productive capacity. As an example, if an economy has 100 companies with one worker and one company of 100 workers, the first measure would give us an average size of 1.98 and the second, of 50.5; a substantial difference.

For the countries analysed above, France has the highest weighed average firm size, with 750 persons employed, followed at some distance by Germany with 530 and Spain with 400. The figure is below 300 in Italy and Portugal, while Greece ranks last, with less than 150 (see third chart). There are also significant differences by sector, with administrative and ancillary services, transport and logistics, and information and communication services showing a notably higher figure than average. At the other end of the spectrum, firm size is generally smaller in construction, hospitality and professional and technical activities.⁵ In terms of the cross-country dispersion within sectors, the biggest differences are found in the manufacturing and transport services sectors, with Germany and France showing an average firm size that is more than double those of the other Member States in question. In these cases, it seems that the larger size of these economies make it possible to exploit the importance of scale in the two sectors.

In the case of manufacturing, beyond the positive association between size and productivity we demonstrated earlier, the divergence in firm size also has implications for innovation and technological progress for the economy as a whole. This is because the percentage of value added that firms spend on research and development varies substantially according to their size, with the greatest jumps occurring between the micro-enterprise and small business segments, as well as between the medium and large segments (see fourth chart). For the EU as a whole, large firms are responsible for two thirds of all R&D spending, with around 80% of funding coming from the business sector itself and with manufacturing being the top investing sector (60% in the EU and over 80% in Germany).

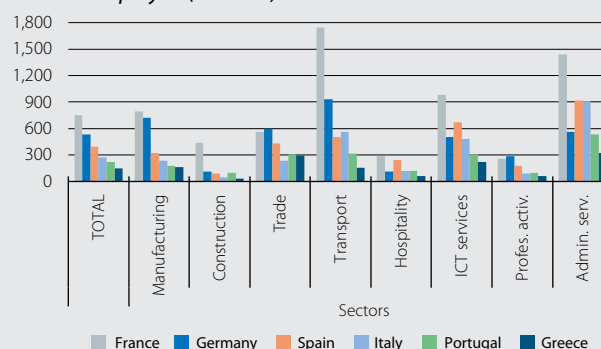
In search of the right tools for scaling up

The positive association between firm size and productivity gives support to the goal of reducing the regulatory burden, as proposed by the European Commission in May, in order to facilitate the scale-up in the productive sector, by softening the differential impact of regulations

5. Regarding the differences in average firm size by sector, see G. Berlingieri, S. Calligaris and C. Criscuolo (2018). «The productivity-wage premium: Does size still matter in a service economy?», AEA Papers and Proceedings.

Weighted average firm size by sector in 2023

Persons employed (number)

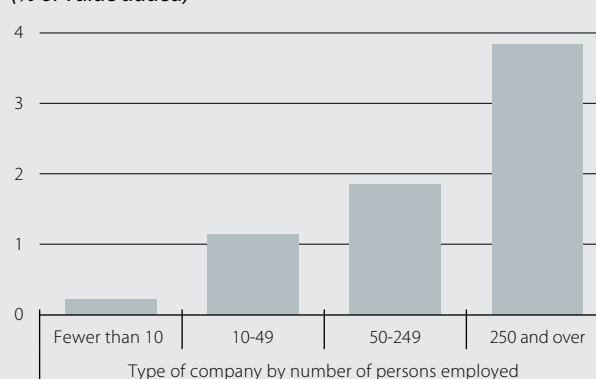


Notes: Average size weighted by the percentage of persons employed in each type of company in a given sector. Five types of company: fewer than 10 employees, 10 to 19, 20 to 49, 50 to 249 and 250 and over. The sectors correspond to sections of the statistical classification of economic activities (NACE). The total economy excludes the agricultural sector and general government.

Source: BPI Research, based on data from Eurostat.

EU: R&D expenditure by company size in 2021

(% of value added)



Note: Calculation over the aggregate for all 27 Member States.

Source: BPI Research, based on data from Eurostat.

depending on the size of the company.⁶ Beyond this element, and in the light of the stark differences that persist between Member States, as well as for the EU as a whole with respect to the US, this step should be supplemented with an additional battery of measures at the national and EU level. One of the key factors identified as influencing the distribution of companies by size is the role of the institutional framework, with judicial and government efficiency being a particularly favourable factor for boosting firm size, and even more so in the case of innovative and capital-intensive activities.⁷ In this regard, countries with a greater relative weight of small businesses score lower in indicators related to aspects such as regulatory quality and the protection of property

6. See N. Guner, G. Ventura and Y. Xu (2008). «Macroeconomic implications of size-dependent policies», Review of Economic Dynamics, volume 11, chapter 4.

7. See K.B. Kumar, R.G. Rajan and L. Zingales (1999). «What determines firm size?», NBR, Working Paper 7208.

rights.⁸ On the other hand, at the EU level, following the path laid out by the Letta and Draghi reports, one of the top priorities highlighted in the Competitiveness Compass presented by the Commission in January is to pursue further integration of the single market, including capital markets.⁹ Removing the obstacles that encourage their fragmentation would favour cross-border activity among

European companies and facilitate a jump in scale that is crucial in order for some sectors to compete globally. Behind this element is also the ongoing debate in the EU regarding a possible revision of competition rules, in which the political discussion will seek a difficult balance between efficiency and well-being.

8. P. Bauer *et al.* (2020), «Productivity in Europe: Trends and drivers in a service-based economy», includes, in chapter 7.2, an analysis with multiple institutional variables and different definitions of firm size.

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

European tourism in the post-pandemic era: uneven recovery and new challenges

The tourism sector was one of the hardest hit globally by the COVID-19 pandemic. In fact, even today, a good number of countries have not yet recovered the levels of international visitors seen in 2019, particularly in the Asia-Pacific region. In this challenging context, aggregate tourism demand in the EU has performed relatively well, albeit with marked heterogeneity within the bloc. In particular, the Mediterranean economies experienced a rapid revival, in contrast to less favourable demand in Eastern European countries. Here we review recent developments and challenges for a sector that is key to the European economy.¹

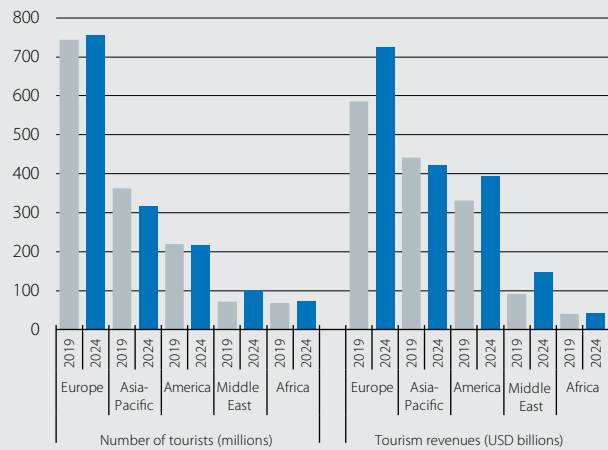
International demand takes over from domestic tourism amidst ongoing challenges

The number of international tourists returned to pre-pandemic levels in 2024 (around 1.5 billion in 2019, according to the World Tourism Organization). By region, the picture is, however, more mixed, with the Asia-Pacific region still 12% below 2019 levels, while the Middle East stands 40% higher, benefiting from its growing offer of business and sporting events (see first chart). In Europe, the number of international tourists last year exceeded the level recorded in 2019 by 12 million, with a cumulative increase in revenues of around 25%, although the latter figure is in nominal terms and is largely explained by inflation in this period.

The international tourism segment was the hardest hit by the mobility restrictions during 2020 and 2021. In the EU, both the number of people and overnight stays by foreigners at tourist establishments collapsed by 70% compared to 2019, and pre-pandemic levels were only recovered in 2023 as demand finished normalising in key markets such as China (see second chart). However, its revival has not been without obstacles, such as the war in Ukraine, the higher cost of air travel and hospitality services and, more recently, the impact on flights of tensions in the Middle East and the increase in global uncertainty. By comparison, domestic demand declined by 30%-40% and had already recovered pre-pandemic levels by 2022, although since then it has experienced moderate growth in a context in which the cumulative loss of European households' purchasing power has only recently begun to be corrected.

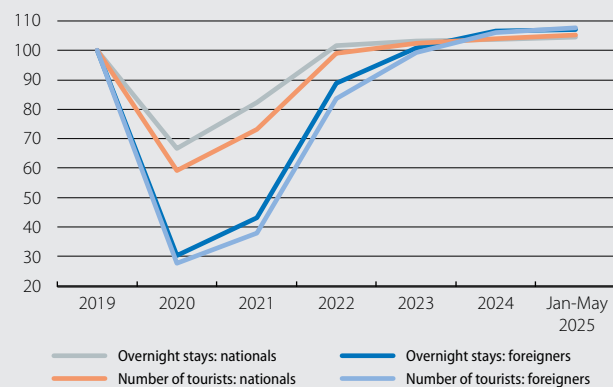
1. According to data and methodology from the World Travel and Tourism Council, the tourism sector represents around 10% of European GDP and some 25 million jobs. This figure includes direct, indirect and induced effects.

International tourism by destination region



Source: BPI Research, based on data from the World Tourism Organization.

Stays in EU tourist accommodation establishments Index (100 = 2019)



Note: The figures for January to May 2025 are calculated by applying the average year-on-year change for those months to the annual figure for 2024. Tourist accommodation establishments include hotels, apartments and campsites.

Source: BPI Research, based on data from Eurostat.

Beyond the case of Spain: the Mediterranean region drives the recovery for European tourism

The aggregate figures for the EU hide significant variations in the recovery of international tourism demand between different Member States. Whilst a large number of countries show a significant increase in overnight stays by foreigners compared to 2019 levels – including most Mediterranean countries – others still remained far short of pre-pandemic levels in 2024, especially Bulgaria and the Baltic states, which have a historically high dependence on the Russian market (see third chart). Among the EU's large economies, the recovery has been particularly strong in the case of Spain (15% more overnight stays by foreigners in the last year

compared to 2019)² and in Italy (12%), both of which have shown significant dynamism in the sector's global context, while it has been much more contained in France and remains incomplete in the case of Germany.

The revival of international tourism in the Mediterranean region has had a significant macroeconomic impact in recent years and has been a key factor in the recovery of GDP to pre-pandemic levels, contributing to job creation and the improvement of the current account balance. For these countries as a whole, their traditional external surplus for tourism services stood above 2% of GDP in 2023 and 2024, exceeding the 2019 level (see fourth chart). In contrast, the other group of countries that showed a positive balance prior to the pandemic – of which the largest in volume terms were Austria, Hungary and Poland – registered net tourism exports last year equivalent to 0.8% of GDP, half that of 2019.

What comes next? A new phase for European tourism

The World Tourism Organization anticipates an increase in the number of international tourists in 2025 of between 3% and 5%,³ while the medium-term prospects are also favourable and continue to be supported by a combination of the high elasticity of demand to income and the expansion of the middle classes in emerging countries.⁴ The materialisation of this scenario will largely depend on a moderation of the current global economic and geopolitical uncertainty, while it remains to be seen how the price escalation of recent years will be offset by a growing consumer preference for leisure and travel in particular.

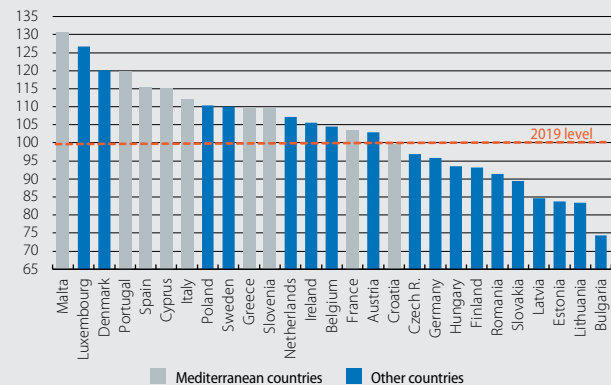
In the EU, the tourism sector has emerged from the years of post-pandemic recovery with a generally positive balance and looks poised to take advantage of the good outlook for global demand. However, the picture is neither uniform nor free from challenges. The particular needs of each country have become more nuanced compared to the global solutions proposed in 2020 in the face of the effects of COVID-19. Today the debates range widely, from doubts about the sustainability of current demand – particularly in locations where it has grown the most in recent years or is more exposed to the rigours of climate change – to those areas shaken by the war in Ukraine and destinations with a tourist offer that is more vulnerable to global competition.

2. A detailed snapshot of the latest trends in Spain's tourism sector can be read in the *Tourism Sector Report* published by CaixaBank Research twice per year.

3. See the World Tourism Barometer published in May this year.

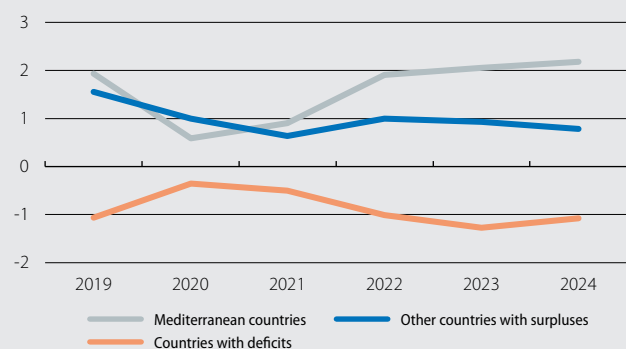
4. See the article «What do the elasticities of international tourism demand tell us about the growth of the tourism sector in Spain?» in the *Tourism Sector Report S1/2025*.

Overnight stays by foreigners in tourist establishments by EU country (% of 2019 level)



Notes: Data for the last 12 months up to May 2025 as a percentage of the value for 2019. Tourist accommodation establishments include hotels, apartments and campsites.
Source: BPI Research, based on data from Eurostat.

Balance of payments for tourism services in the EU Net balance (% of GDP)



Notes: Mediterranean countries include Cyprus, Croatia, Slovenia, Spain, France, Greece, Italy, Malta and Portugal. Other countries with surpluses include Austria, Bulgaria, the Czech Republic, Slovakia, Estonia, Hungary, Latvia, Luxembourg and Poland. Countries with deficits include Germany, Belgium, Denmark, Finland, Ireland, Lithuania, the Netherlands, Romania and Sweden.

Source: BPI Research, based on data from Eurostat.

With the aim of transforming the tourism model in order to maintain its competitiveness, in the coming months the European Commission will present the Sustainable Tourism Strategy, which will outline priorities such as reducing the seasonality of demand, diversifying destinations, improving job quality and boosting the use of data (AI) for tourism management, among others. This will thus join other initiatives that seek to respond to the challenges of the sector, such as the emission reduction targets in transportation and the environmental certification requirements for accommodation establishments set out in the European Green Deal, the regulatory harmonisation for short-term rentals approved in 2024 and the entry into force in late 2026 of a new digital entry authorisation scheme to bolster border security.

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

UNITED STATES

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Activity									
Real GDP	2.9	2.8	2.8	2.4	2.0	2.1	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.4	3.5	4.1	4.8	4.9	4.6	5.4	...
Consumer confidence (<i>value</i>)	105.4	104.5	102.2	110.6	99.8	93.1	98.7	97.8	94.2
Industrial production	0.2	–0.3	–0.4	–0.3	1.2	0.9	1.3	0.9	...
Manufacturing activity index (ISM) (<i>value</i>)	47.1	48.2	47.3	48.2	50.1	48.7	48.0	48.7	49.1
Housing starts (<i>thousands</i>)	1,421	1,371	1,338	1,387	1,401	1,354	1,429	1,307	...
Case-Shiller home price index (<i>value</i>)	312	330	332	336	340	338	337	...	...
Unemployment rate (% <i>lab. force</i>)	3.6	4.0	4.2	4.1	4.1	4.2	4.2	4.3	...
Employment-population ratio (% <i>pop. > 16 years</i>)	60.3	60.1	60.0	59.9	60.0	59.8	59.6	59.6	...
Trade balance ¹ (% GDP)	–3.0	–2.8	–2.9	–3.0	–3.5	–3.6	–3.5	...	...
Prices									
Headline inflation	4.1	3.0	2.6	2.7	2.7	2.4	2.7	2.9	...
Core inflation	4.8	3.4	3.2	3.3	3.1	2.8	3.1	3.1	...

JAPAN

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Activity									
Real GDP	1.2	0.1	0.8	1.2	1.7	1.7	–	–	–
Consumer confidence (<i>value</i>)	35.1	37.2	36.9	36.1	34.7	32.8	33.7	34.9	35.3
Industrial production	–1.4	–3.0	–1.8	–2.5	2.5	0.8	–0.4	0.4	...
Business activity index (Tankan) (<i>value</i>)	7.0	12.8	13.0	14.0	12.0	13.0	–	–	–
Unemployment rate (% <i>lab. force</i>)	2.6	2.5	2.5	2.5	2.5	2.5	2.3	...	...
Trade balance ¹ (% GDP)	–3.0	–1.1	–1.1	–1.0	–0.9	–0.7	–0.6	...	...
Prices									
Headline inflation	3.3	2.7	2.8	2.9	3.8	3.4	3.0	2.7	...
Core inflation	3.9	2.4	2.0	2.3	2.7	3.2	3.4	3.3	...

CHINA

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Activity									
Real GDP	5.4	5.0	4.6	5.4	5.4	5.2	–	–	–
Retail sales	7.8	3.3	2.7	3.8	3.6	4.4	3.7	3.4	...
Industrial production	4.6	5.6	5.0	5.6	6.8	6.2	5.7	5.2	...
PMI manufacturing (<i>value</i>)	49.9	49.8	49.4	50.2	49.9	49.4	49.3	49.4	49.8
Foreign sector									
Trade balance ^{1,2}	865	997	898	997	1,086	1,146	1,159	1,169	...
Exports	–5.1	4.6	5.4	10.0	5.7	6.0	7.1	4.3	...
Imports	–5.5	1.0	2.1	–1.8	–6.9	–0.9	4.1	1.3	...
Prices									
Headline inflation	0.2	0.2	0.5	0.2	–0.1	0.0	0.0	–0.4	...
Official interest rate ³	3.5	3.1	3.4	3.1	3.1	3.0	3.0	3.0	3.0
Renminbi per dollar	7.1	7.2	7.2	7.2	7.3	7.2	7.2	7.2	7.1

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

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Retail sales (year-on-year change)	-1.9	1.2	2.1	2.2	2.0	2.7	2.2	...	...
Industrial production (year-on-year change)	-1.6	-3.0	-1.8	-1.6	1.5	1.4	1.8	...	...
Consumer confidence	-17.4	-14.0	-13.0	-13.5	-14.1	-15.7	-14.7	-15.5	-14.9
Economic sentiment	96.2	95.7	96.0	95.1	95.5	94.4	95.8	95.3	95.5
Manufacturing PMI	45.0	45.9	45.5	45.4	47.6	49.3	49.8	50.7	49.8
Services PMI	51.2	51.5	52.1	50.9	51.0	50.1	51.0	50.5	51.3
Labour market									
Employment (people) (year-on-year change)	1.4	1.2	1.0	0.8	0.7	0.6	-	-	-
Unemployment rate (% labour force)	6.6	6.4	6.3	6.3	6.3	6.3	6.2	6.3	...
Germany (% labour force)	3.1	3.4	3.4	3.4	3.6	3.7	3.7	3.7	...
France (% labour force)	7.3	7.4	7.4	7.3	7.4	7.5	7.5	7.5	...
Italy (% labour force)	7.7	6.6	6.3	6.2	6.3	6.3	5.9	6.0	...
Real GDP (year-on-year change)	0.5	0.8	0.9	1.3	1.6	1.5	-	-	-
Germany (year-on-year change)	-0.7	-0.5	-0.6	-0.2	0.2	0.2	-	-	-
France (year-on-year change)	1.6	1.1	1.1	0.6	0.6	0.8	-	-	-
Italy (year-on-year change)	0.8	0.5	0.5	0.6	0.7	0.4	-	-	-

Prices

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
General	5.5	2.4	2.2	2.2	2.3	2.0	2.0	2.0	2.2
Core	5.0	2.8	2.8	2.7	2.6	2.4	2.3	2.3	2.3

Foreign sector

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Current balance	2.0	3.3	3.4	3.3	3.0	3.6	5.3	...	...
Germany	5.5	5.8	6.3	5.8	5.4	6.6	9.7	...	...
France	-1.0	0.1	0.3	0.1	0.0	-0.3	-0.7	...	...
Italy	0.1	1.1	0.9	1.1	1.1	1.6	2.6	...	...
Nominal effective exchange rate¹ (value)	94.7	95.0	95.5	94.2	93.5	96.8	98.4	98.3	98.7

Credit and deposits of non-financial sectors

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Private sector financing									
Credit to non-financial firms ²	2.7	0.8	1.0	1.4	2.2	2.6	2.8	3.0	...
Credit to households ^{2,3}	1.7	0.5	0.5	0.9	1.5	2.1	2.4	2.5	...
Interest rate on loans to non-financial firms ⁴ (%)	4.6	4.9	4.9	4.4	3.9	3.4	3.3	3.1	...
Interest rate on loans to households for house purchases ⁵ (%)	4.4	4.6	4.7	4.3	4.0	3.7	3.6	3.6	...
Deposits									
On demand deposits	-8.5	-3.9	-2.5	1.2	3.6	5.3	5.6	5.6	...
Other short-term deposits	21.1	12.3	10.5	6.0	2.3	-0.1	-0.8	-1.4	...
Marketable instruments	20.3	20.3	22.1	18.6	15.7	10.4	6.1	2.6	...
Interest rate on deposits up to 1 year from households (%)	2.7	3.0	3.0	2.6	2.2	1.9	1.7	1.7	...

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

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

Economy continues to be underpinned by domestic demand

Our activity traffic light¹ indicates that the economy is continuing to expand in Q3, but at a slower pace than in Q2, partly because some indicators considered in the traffic light are only available until July and partly reflecting unfavourable behaviour of the DEI², which has recently shown little adherence to reality. The fall of the European Commission's economic sentiment indicator to 105.1 points in September also had an unfavourable impact on the traffic light. Other data used in constructing the synthetic indicator show good performance: retail sales grew 6% in August; and deflated revenue in services and industry, only available for July, grew 0.6% and 4.9%, respectively. Other indicators not considered in the traffic light confirm the positive momentum of economic activity, with card purchases growing 6% in August and car sales increasing 14.8% yoy in Q3. We would like to remind you that activity in Q3 will also be boosted by the retroactive reduction in income tax rates and the respective impact on households' disposable income. In September, we revisited our macroeconomic scenario, maintaining our forecast of 1.6% for 2025 unchanged (see Focus «New macroeconomic scenario» in this publication), despite the upward revision of historical GDP series. This exercise resulted in a revision of growth in 2023 to 3.1%, up 0.5 percentage points, and in 2024 to 2.1%, up 0.2 percentage points. and in 2025, Q1 was revised to -0.3% qoq (-0.4% previously) and Q2 to 0.7% qoq (0.6% previously).

Household disposable income continues to grow at a good pace, supporting consumption and savings. In the year ending in Q2 25, RD increased by 8.5% year-on-year, supported by an increase in the wage bill (which represents 70% of RD and grew by 7.7% yoy in the period) via increased employment and wage growth. During the same period, nominal consumption maintained a robust growth rate (6.3% yoy), but lower than disposable income, contributing to an increase in the household savings rate to 12.6%, a level not seen since 2003.

Inflation slows in September. After five consecutive months of increases, the Global CPI was adjusted downwards to 2.4% year-on-year (-0.4 pp compared to August) and the Core CPI corrected to 2.0% (also -0.4 pp compared to August). This development reflects a monthly price variation more in line with the historical average for September. Nevertheless, in September we revised our forecast for average inflation in 2025 upwards from 2.1% to 2.3%. The persistence of inflation in services and the recent behaviour of inflation in unprocessed food products are behind this decision (they recorded a year-on-year inflation rate of 7% in the last two months).

1. See Focus The «Activity Traffic Light» published in MR 11/2024.

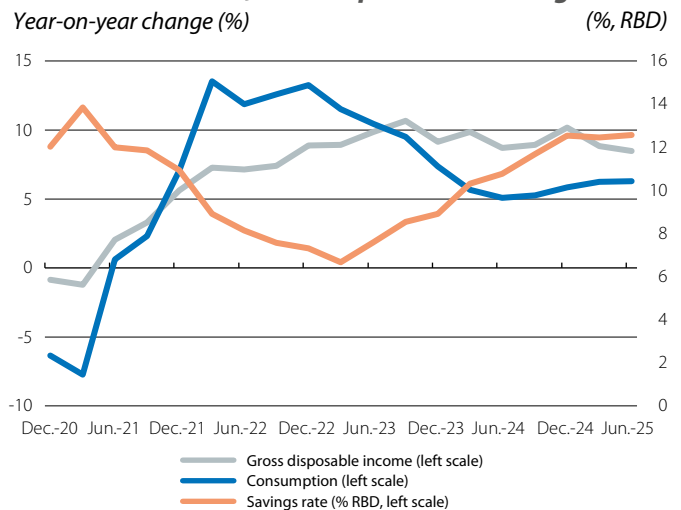
2. Daily Indicator of the Bank of Portugal.

The «Traffic Light of Activity»



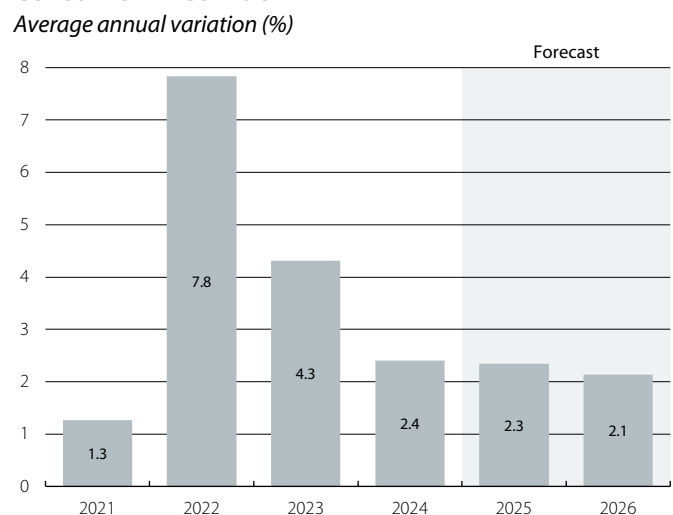
Source: BPI Research, based on data from INE, BdP and EC.

Household income, consumption and savings



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

Consumer Price Index



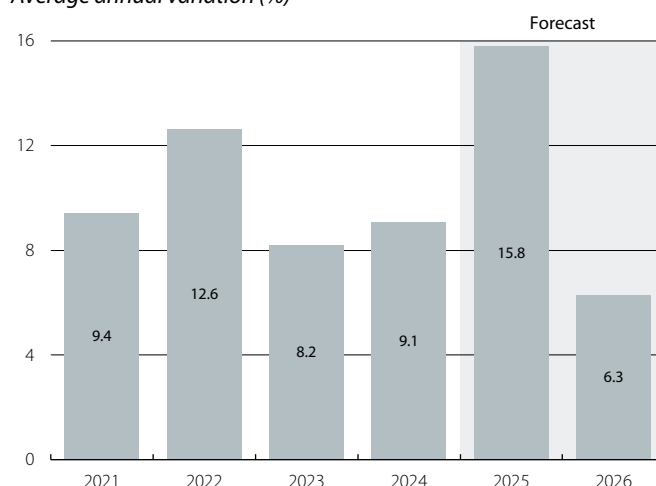
Source: BPI Research based on data from the National Institute of Statistics.

Housing prices relentless. The Housing Price Index (HPI) data for Q2 2025 was released at the end of September and shows the continuation of a very strong dynamic in house prices: year-on-year variation of 17.2% and 4.7% compared to the first quarter of the year. With the publication of this data, the average increase in house prices over the last 12 months stood at 13.8%, leading to an upward revision of our forecast for HPI growth in 2025 (from 12.4% to 15.8%). Other data already available at the start of Q3 2025 point to a continuation of this positive performance. For example, bank valuations in the context of mortgage lending rose by 18.1% year-on-year in August, and the median value per square metre (€1,965) is already 12.5% higher than at the end of 2024.

The budget balance remains positive, but the second half of the year is likely to bring additional pressure. National accounting data revealed a surplus of 1.9% of GDP in Q2, down from 2.5% in the same period of 2024. In this context, revenue increased by 4.6%, supported by tax and social security contributions, while expenditure increased by 6.3%, with personnel costs and social benefits standing out among the others (accounting for around 64% of the increase in total expenditure). As such, the average budget balance recorded in the first half of the year stood at 1.0% of GDP (compared to 0.9% in the first half of 2024), but the second half of the year brings greater pressure on public accounts, namely due to the decrease in personal income tax, the extraordinary payment to pensions and other additional measures, namely related to meeting the 2% target set by NATO, which may require an increase in defence spending. However, public accounting data through August continues to point to a positive scenario: the balance will have been around 1.0% of GDP, with revenue proving to be more dynamic (reflecting lower IRS refunds). The increase in public revenue (8.0%) exceeded that of expenditure (6.1%), which, from this perspective, is also supported by personnel expenses and current transfers (in this case, already reflecting the extraordinary payment to lower pensions).

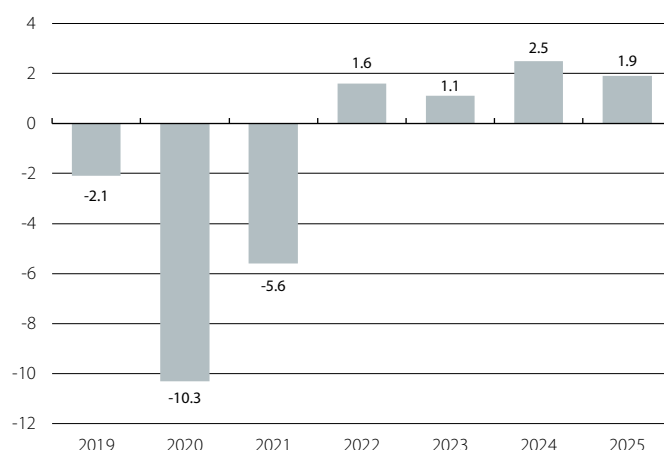
NPL ratio remains at historic lows in Q2. The NPL ratio remained unchanged at 2.3%, but with different dynamics between segments. More specifically, the ratio for non-financial companies remained unchanged at 4.0%, while for housing loans and consumer credit & other purposes, it decreased by 0.1 pp, to 1.1% and 6.1%, respectively. Similarly, the percentage of stage 2 loans (see chart) decreased by 0.3 pp to 9.1% in Q2, with reductions in all credit segments; in Q2, 7.9% of mortgage loans were in stage 2, while for consumption & other purposes and SNF the ratio reached 11% and 11.4%, respectively. Considering the macroeconomic context (growing economy, robust labour market, rising household incomes and a more solid financial situation for companies) and financial context (with interest rates lower than in the recent past), no deterioration in the quality of the credit portfolio is expected.

Housing Price Index Average annual variation (%)



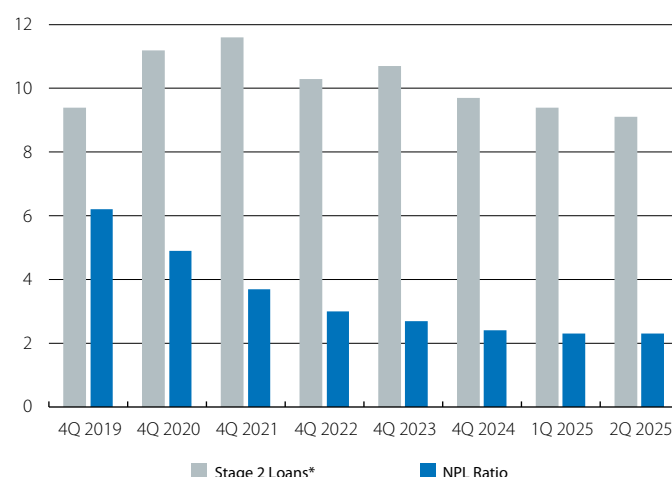
Source: BPI Research, based on data from the INE.

Salary balance in the 2nd Quarter of each year (National Accounting) (% PIB)



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

Stage 2 loans and NPL ratio (% of total loans)



Note: * Loans whose risk has increased significantly, but are not in default.

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

New macroeconomic scenario

In September, we revisited our macroeconomic scenario and included new information that had become available. This review again takes place in an environment of global uncertainty, but with some clarification regarding the (ever-changing) new US trade policy. Internally, the reduction of IRS rates with retroactive effect to January 2025 and the allocation of an extraordinary contribution to pensioners will tend to be an important support for economic growth in the second half of the year,¹ but it may introduce some volatility in the quarterly behaviour of GDP. In addition to these factors, the qualitative and quantitative indicators that have since become available have confirmed our outlook for the Portuguese economy, namely that activity continues to be supported by a strong labour market and a recovery in incomes, but also by a (still moderate) recovery in investment. Interest rates, which have fallen sharply compared to the highs of 2024, contribute to this; the budgetary policy of clear support for growth; and the international environment which, despite all the risks, has proven to be quite resilient.

GDP: We maintained our forecast of 1.6% growth in 2025 and the expectation of acceleration to 2% in 2026. The slowdown in 2025 will be largely determined by the behaviour of the components of external demand. Export performance will fall short of previous years, partly reflecting the weakness of some of the main trading partners' economies and partly reflecting the slowdown in tourism activity, reducing its contribution to growth. On the other hand, imports have remained strong, as a result of purchases being brought forward ahead of the change in US trade policy, but also due to strong domestic demand, supported by private consumption.² For 2026, the expectation is that the economy will continue to benefit from a set of factors that support growth. Domestically, consumption will remain strong, supported by the strength of the labour market, the update of the minimum wage, which will

1. We recall that in 2024, similar measures were implemented – changes in income tax rates with retroactive effect from January, which were reflected in the application of specific tables in September and October and an extraordinary payment to pensioners in October – with a significant impact on household disposable income and consumption. In fact, in Q4 24, GDP grew by 1.2%, correcting in the following quarter with a fall of 0.3%.

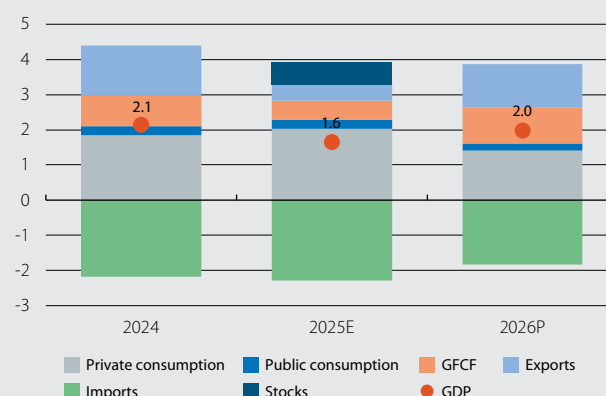
2. In Q3 25, private consumption will receive an extraordinary boost associated with the increase in household disposable income of 900 million associated with the retroactive reduction in income tax rates and the extraordinary payment to pensioners, which households will receive this quarter, and for which an impact of +0.2 percentage points on private consumption and +0.1 percentage points on GDP is estimated. The impact is calculated using the elasticity between disposable income and private consumption in 2023 and 2024 and assuming that the remaining components of GDP remain unchanged.

New macroeconomic scenario (%)

	2024	2025	2026
GDP			
September 2025	1.9	1.6	2.0
July 2025	–	1.6	2.0
Inflation			
September 2025	2.4	2.3	2.1
July 2025	–	2.1	2.0
Unemployment Rate			
September 2025	6.4	6.3	6.4
July 2025	–	6.3	6.4
Housing Prices			
September 2025	9.1	15.8	6.3
July 2025	–	12.4	4.1

Source: BPI Research.

GDP: real growth and contributions of components (% and pp)



Source: BPI Research based on data from INE, via datastream

benefit lower-income families with a high propensity to consume, and the persistence of low financing costs compared to recent history. This last factor, together with the entry of the PRR into its final stretch, will tend to favour investment. For GDP, we consider that the risks to our forecast for 2025 are slightly skewed, reflecting the recent upward revision of GDP growth in H1 25 by INE.³

Inflation: has shown greater resistance to decline, reflecting, on the one hand, the behaviour of prices of important commodities on international markets,

3. With the publication of the National Accounts by Institutional Sector for Q2 25, INE revised the historical GDP series, which resulted in: the upward revision of growth in 2023 and 2024 and in the first two quarters of 2025. The revisions were plus 0.5 percentage points in 2023, to 3.1%, and plus 0.2 percentage points in 2024, to 2.1%. In 2025, after all, the contraction in Q1 was 0.3% and not 0.4% and the growth in Q2 was 0.7% and not 0.6%.

particularly food, and, on the other hand, resistance to the decline in prices of services, largely as a result of robust household spending and tourism. Thus, the trajectory of the consumer price index throughout 2025 proved to be less benign than previously anticipated, forcing an upward revision of average inflation to 2.3%. However, the disinflation process has not been interrupted, with the rate expected to approach 2% at the end of 2026. This movement will be favoured by the moderation in the pace of wage growth in the second half of 2025 and in 2026.

Labour market: we have maintained our forecasts for the unemployment rate in 2025 and 2026 at 6.3% and 6.4%, respectively. Although data continues to show record employment levels, we have opted to adopt a more conservative stance on employment trends in the second half of the year, acknowledging that companies are taking a more cautious approach in a scenario of higher tariffs.

Real estate market: resilience to moderation remains high in this market. The imbalance between supply and demand, the favourable employment situation, lower interest rates and tax measures to support home purchases by younger people contributed to house prices rising 4.7% in Q2, above expectations in July, forcing an upward revision of the forecast for residential property price growth in 2025, anticipating an increase of 15.8% for the year, considerably above the 9.1% recorded in 2024. By 2026, we anticipate a considerable slowdown, based on signs that prices, when measured by alternative indices to the HPI, are moderating slightly, which should continue as there are signs that supply is recovering – the number of new homes being built continues to grow, and new measures on the rental market could boost this segment; the movement in supply may be accompanied by a cooling in demand, reflecting less access for families to the real estate market, moderation in the tourism sector, contributing to more sustainable growth.

PPR in Portugal: level of implementation and comparison with other European Union countries

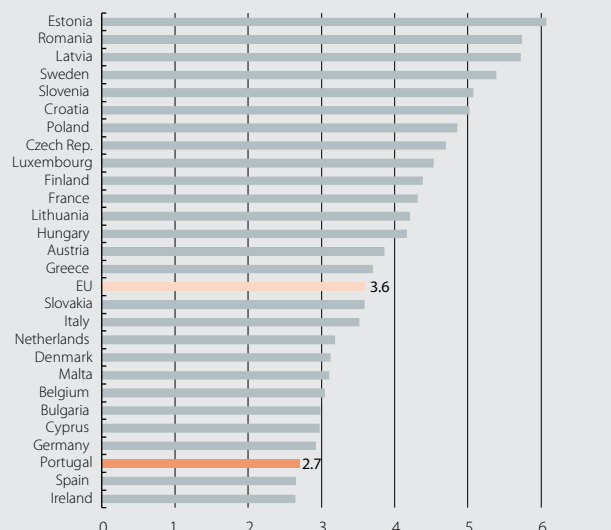
In December 2024, the BCE¹ published a study containing revisions to the forecasts prepared in 2021 for the incremental impact that the NGEU will have on the growth of the Eurozone economy. It is now estimated that public expenditure and structural reforms related to this package have the potential to increase the GDP of the Eurozone by between 0.4% and 0.9% by 2026 (initially, an impact of up to 1.5% was predicted) and between 0.8% and 1.2% by 2031, depending on capital productivity and the degree of absorption of funds from this programme. These new forecasts result from the fact that the impact until 2023 has been lower than expected by the ECB, with an increase of between 0.1% and 0.2%, lower than the expected 0.5%. This deviation from the initial forecast is justified by reduced administrative capacity at government and local authority level, and by changes/reductions in procurement contracts (in response to supply-side bottlenecks and higher inflation). Another reason cited is the underestimation of the time needed to implement certain structural measures.

The level of public investment in the EU was set at 3.6% of GDP in 2024, with Portugal below the average (2.7%). Behind Portugal are only Spain and Ireland. However, the figure for 2024 is the highest since 2011, when public investment as a percentage of national GDP reached 3.5%. The PRR funds represent a crucial opportunity to boost investment levels, both public and private. Its strategic use is essential to modernise the economy, increase competitiveness and promote a green and digital transition. The Bank of Portugal² estimates that the ratio of public investment to GDP will increase to 3.7% in 2026 and will decrease to 3.1% in 2027.

Current situation in Portugal

The endowment³ of Portugal (already fully approved) was set at €22.2 billion (€16.3 billion and €5.9 billion in grants and loans, respectively), with the aim of financing 117 investments and 44 reforms (41% of these projects are related to climate targets and 21% to support for the digital transition). The programme is divided into three dimensions: resilience, climate transition and digital transition. The first will absorb 71% of the funds, the second 18% and the third 11%, in the case of the Portuguese programme. **By the end of September 2025, €9.1 billion had already been delivered to final**

Public investment in 2024 (% of GDP)



Source: BPI Research, based on AMECO data.

Approvals and payments to direct and final beneficiaries

(up to 24 September)	Approved (millions euros)	Paid (millions euros)	Payment rate (%)
Families	326	266	81.6
Institute of Solidarity and Social Economy	821	312	38.0
Companies	6,380	3,229	50.6
Excluding ENESII* in consortia	5,489	2,769	50.4
ENESII* in consortia with companies	891	459	51.5
Science and technology system inst.	660	222	33.6
University education inst.	844	353	41.8
Schools	1,038	606	58.4
Municipalities and metropolitan areas	4,436	1,282	28.9
Public entities	5,270	1,902	36.1
Public companies	2,994	918	30.7
Total (million euros)	22,769	9,090	–
(% total PRR)	102%	41%	–

Note: Non-Business Entities of the Research and Innovation System.

Source: BPI Research, based on 'Recuperar Portugal' data.

beneficiaries (41% of the allocation), +11 pp compared to the end of 2024.

Analysing by type of beneficiary, 28% of the amounts are expected to be delivered to companies (having already received more than half), 23.1% to public entities and 19.5% to local authorities. Families constitute the group that has received the most funds in relative terms (81.6% of the total approved). The implementation of projects at the level of local authorities and public companies remains at a low pace, with around 30% of the budgeted

1. See «Four years into NextGenerationEU: what impact on the euro area economy?».

2. See Economic Bulletin (June/2025).

3. Based on the most recent report (as of 24/09/2025) published in «Recover Portugal».

funds delivered. It should be noted that there are projects within the National Health Service whose implementation appears to be at risk, such as the construction of the Lisbon Oriental Hospital. On the housing projects side, there are also delays in execution, due to the installed capacity to respond to the various civil construction requests (only 34% of the total budgeted amount has been paid).

Comparison with other Member States

The development of the projects appears to be behind schedule, with less than a year and a half remaining until the deadline for their completion. But is this delay only visible in Portugal, or is it something that affects all Member States?

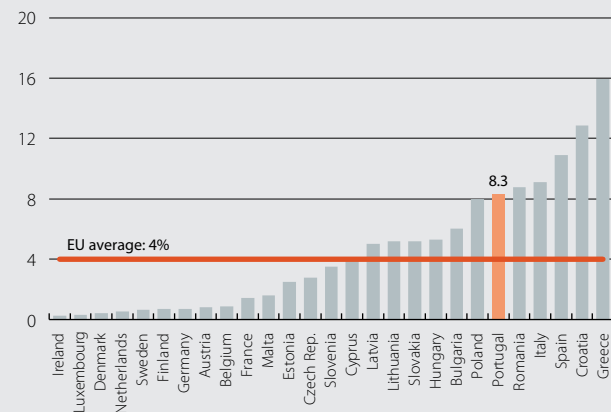
The amount granted to Portugal under the PRR (€22.2 billion) is equivalent to **8.3% of GDP**, which is higher than most countries (the PRR amount is equivalent to approximately 4% of the EU's GDP). The country that received the most, as a percentage of its GDP, was Greece, followed by Croatia and Spain. In terms of amounts already delivered to the respective countries, Portugal is slightly above average (55%), with 57% of the agreed amount already delivered to the country. France has already received 85% of the approved amount. Of the amount already received by Portugal, only 41% has actually been delivered to the final beneficiaries. It is expected that delivery will begin to increase in pace as we approach the end of the execution period.

Portugal has to date achieved 40% of the number of objectives it set itself under the RRP (111 investments and 66 reforms), out of a total of 438 objectives. In this way, Portugal is situated in line with the EU average. France is the country with the most objectives achieved (82%), followed by Denmark (60%) achieved).

In short, the implementation of projects falls short of expectations for the vast majority of EU countries, with 15 countries having a lower percentage of objectives achieved than Portugal (in fact, Portugal ranks precisely in the middle of the countries in terms of achieving objectives). The most worrying case is Hungary, which has yet to achieve any of the goals it set.

Pedro Avelar

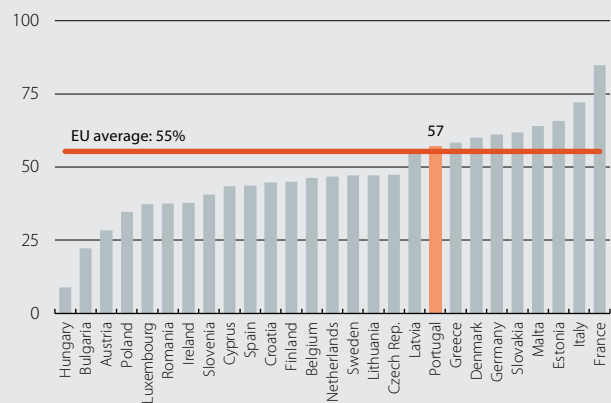
Amount granted via RRP to Member States (% of GDP)



Note: Values extracted on 24/09/2025.

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

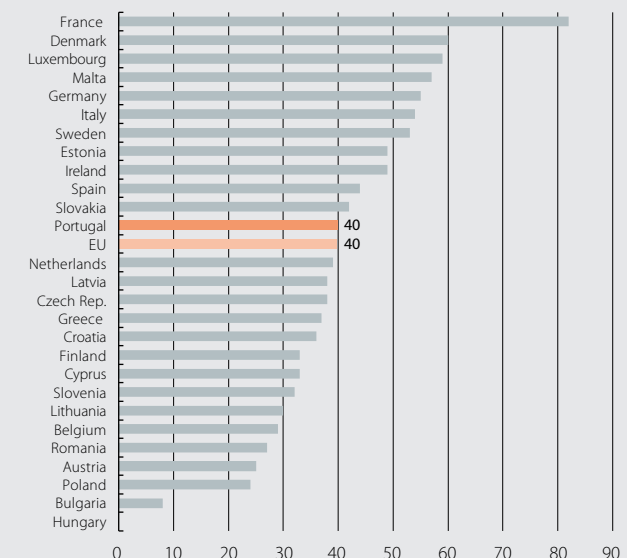
Amounts paid to Member States (% of total amount approved by the EC)



Note: Values extracted on 24/09/2025.

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

Percentage of achievement of objectives (% of total number of objectives)



Note: Values extracted on 24/09/2025.

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

The Fishing sector in Portugal

Due to its geographical location with a vast coastal area, Portugal has a clear competitive advantage in the fishing industry. In fact, within the EU, only Spain and Portugal catch fish in all seven fishing zones covered by EU catch statistics. At the same time, the GVA of the fisheries sector accounts for only 0.2% of national GDP. In this article, we aim to highlight some characteristics of this sector in Portugal, its evolution and its positioning.

Positioning in the European context

At European level, Portugal is a major player in fisheries. This becomes evident when we analyse employment data. The Portuguese population represents around 2.4% of the EU population, but the Portuguese population employed in the fishing industry represents almost 9% of the total EU population employed in the fishing industry. In turn, despite accounting for almost 9% of employment, national fisheries production represents only 5.6% of EU fisheries production (first chart). These data suggest a productivity gap in our fishing industry. Spain leads by a wide margin in terms of both the population employed in the sector (23.8%) and production (22.7%). In contrast to the national picture, we find countries such as the Netherlands and Denmark, where the weight of their fishing production within the EU (7.5% and 11%, respectively) is much greater than the weight of their employment in fishing (1.9% and 1.3%, respectively).

Why does this happen? Due to the different characteristics of these industries between countries – some countries (such as Portugal) have a fishing fleet composed of a relatively high number of small vessels, while others have a fleet consisting of a smaller number of large vessels. In 2024, the national fishing fleet consisted of 6,817 vessels, almost four times more than the Danish fleet (1,767), but in terms of gross tonnage,¹ the Portuguese fleet, with 84,091 GT, was only 1.3 times larger than the Danish fleet. The national fishing fleet has also shown a steady decline in the number of vessels over the last 30 years, similar to the trend across the EU as a whole (see second graph): by the end of 2024, the number of vessels had shrunk by 44% compared to 1994 (–31% in the EU).

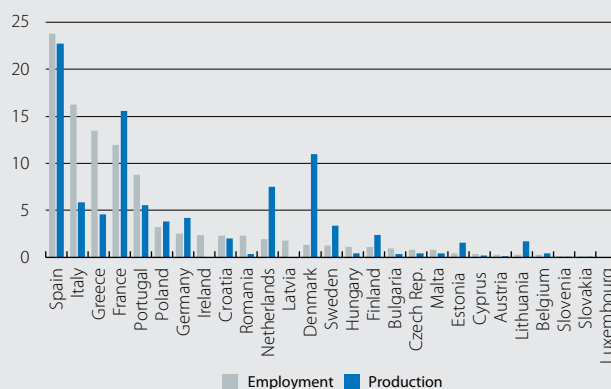
Fish catches

Having briefly described the relative position of the national sector in the European context, it is now important to understand what type of catches are made by our fishing industry, where, in what quantities and values. The latest details available from Eurostat show

1. Gross tonnage (*gt*) refers to the measurement of the total volume of a vessel or ship.

Employment and production quotas in the fishing industry

(% of EU total, 2022)

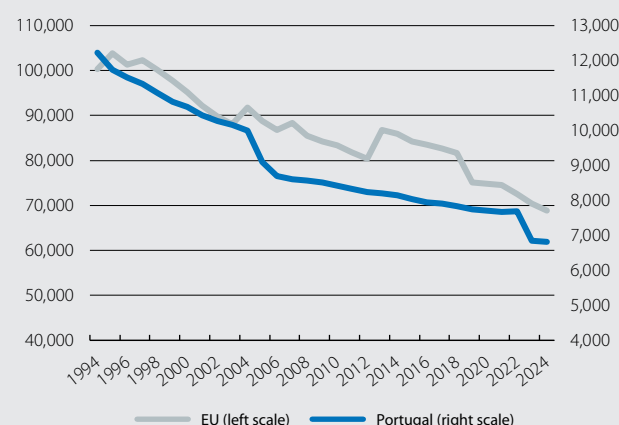


Notes: Portugal's production data refer to 2021. Production data for Ireland and Latvia not available.

Source: BPI Research based on data from Eurostat.

Fishing fleet

Number of vessels



Source: BPI Research based on data from Eurostat.

Fish catch by main fishing

(% of quantity caught)

Fishing area	%
Northwest Atlantic	9.7
Northeast Atlantic	82.6
Central-East Atlantic	3.7
Mediterranean and Black Sea	0.02
Southwest Atlantic	2.3
Atlantic, Southeast	0.9
Western Indian Ocean	0.8

Source: BPI Research, based on Eurostat data (2021).

that more than 80% of the quantity caught by our fishing industry is caught in the Northeast Atlantic, although the scope is clear from the fact that our fleet also fishes in the waters of the Indian Ocean. Marine fish represent the largest share of the quantity caught in 2024 (83.3%), followed by molluscs (15%) and crustaceans (1.3%). As the average price of molluscs and crustaceans is higher, the value of catches in these categories is higher: molluscs (27.4%) and crustaceans (6.7%). Thus, the value transacted at auction in 2024 generated revenue of 337.6 million euros, -0.6% compared to 2023, as a result of a 3.2% decrease in production and despite the increase in the average unloaded price which increased by 5.9% (from 2.47 euros/kg to 2.62 euros/kg). The species with the largest quantity captured were sardines (26.2% of the total), mackerel (15%) and horse mackerel (11.7%). However, in terms of value transacted at auction, the species with the greatest weight were octopus (11.7% of the total), sardines (10%) and tuna (7.2%).

Downstream from these auction transactions we have the Fishing and Aquaculture Processing Industry. According to the latest data available (2023) and the aggregation of the subsectors of «frozen foods», «dried and salted foods» and «canned foods», this industry recorded sales of around €1.7 billion and total production of 263,000 tonnes, which is almost double the tonnes caught that year by the national fishing fleet, highlighting the need to import fish.

Foreign trade

In terms of foreign trade in fishery products,² the balance remained negative and worsened to almost €1.3 billion, with imports growing at a slightly faster pace than exports. Intra-EU transactions accounted for 60.4% of this deficit. Over the last 20 years, however, the average annual growth rate of exports (6.9%) exceeds that of imports (4.8%). In terms of exports, the 'Fish preparations and preserves' group is the most representative (24.5% of the total), with a 12.9% increase in value compared to 2023, mainly due to exports to Spain (the main customer for these products). In terms of imports, 'Dried, salted and smoked fish' is the most imported group (19.8% of the total), with an 8.7% increase in import value compared to 2023, mainly due to purchases from Norway. Fresh or chilled fish follows as the second most important imported group (17.3% of the total), with growth of 6.8% compared to 2023, based on increased purchases from Spain and Morocco. Thus, last year, the «Fish preparations and preserves» group was the only one to show a positive trade balance (€95.8 million), in contrast to the 'Dried, salted and smoked fish' group, which continued to show the largest deficit (€491.8 million).

2. Includes preserves.

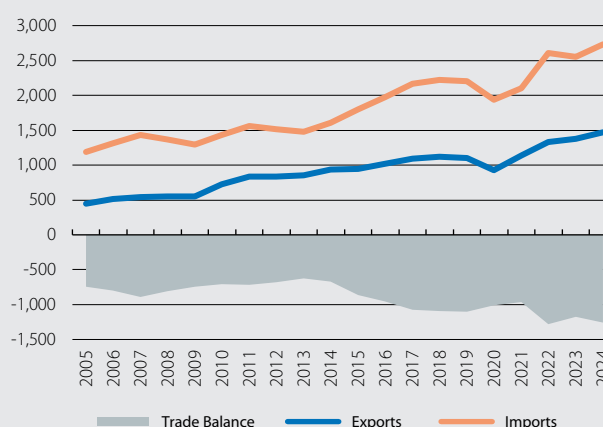
Type of fish caught in 2024

	In % of	
	Quantity (tons.)	Value (euros)
Brackish and freshwater fish	0.1	0.4
Marine fish	83.3	64.9
Crustaceans	1.3	6.7
Mollusks	15.0	27.40
Various aquatic species	0.3	0.6

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

Foreign trade in fishery goods

(Millions of euros)



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

In short, in this sector the country benefits from its maritime tradition, an extensive exclusive economic zone and a domestic market in which the consumer guarantees robust demand.³ On the other hand, it has a fishing fleet that still has some artisanal characteristics, a risk of overfishing of some species and dependence on imports for others.

Tiago Belejo Correia

3. Portugal has one of the highest per capita fish consumption rates among European countries.

The competitiveness of Portuguese companies – a sectoral perspective

As indicated in a previous article,¹ Portugal has shown an alarming productivity gap compared to the European Union, justified by its small corporate size and specialisation in low-value-added sectors. But what are these sectors?

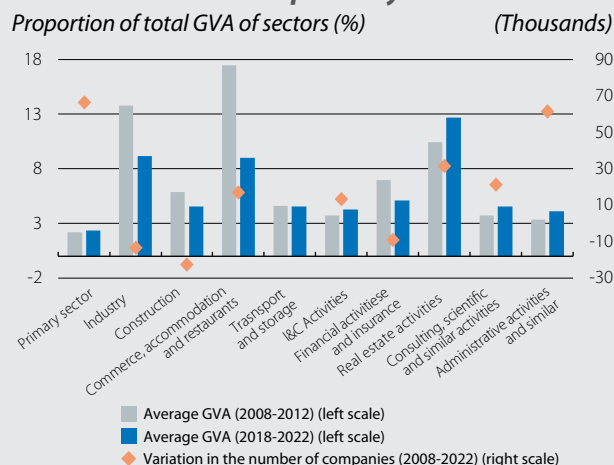
Analysing first chart, we can see that trade (including accommodation and catering), industry, financial and insurance activities, and construction were the sectors that most reduced their economic contribution from a production perspective (gross value added – GVA) between the periods 2008-2012 and 2018-2022 (respectively, –8.4 pp, –4.6 pp, –1.9 pp and –1.3 pp). In the case of commerce, the number of companies varied little (+17,000) and in the other three sectors mentioned, it even decreased. On the other hand, real estate activities were the segment whose share of total GVA grew the most (+2.3 pp, in line with the trajectory of housing prices and the increase in the number of companies), followed by consulting, scientific and similar activities (+0.8 pp), administrative and similar activities (+0.7 pp) and information and communication (I&C) activities (+0.5 pp).

This reconfiguration and the lower concentration of the business structure in the secondary sector and in trade, accommodation and catering – generally less technology- and knowledge-intensive – and a growing focus on areas of the tertiary sector with a strong technical or intellectual component (with the exception of financial activities) signals a positive development in terms of specialisation in areas with high growth potential, but also highlights some weaknesses.

Taking into account second chart, labour productivity has remained low in the primary sector, has declined in R&D activities, and has increased in financial and insurance activities, despite the declines in the number of companies and their weight in aggregate GVA. These figures suggest that investment by companies has not kept pace with operational needs or that resources are being allocated inefficiently, given that: (i) a significant increase in the number of enterprises in agriculture did not translate into significant gains in GVA in relative terms; (ii) there was simultaneously a greater focus on technological activities and productivity losses, as can be seen in the case of R&D activities; and (iii) the financial sector lost economic relevance, but saw its productivity levels increase.

1. MR09/2025: Limits to the productivity and competitiveness of Portuguese companies

GVA at current prices and change in the number of enterprises by sector

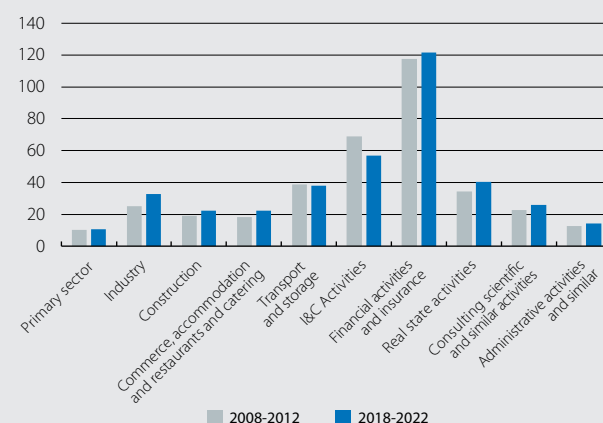


Note: Not all sectors of activity are included according to the classification of economic activities (CAE), focusing on those considered most relevant.

Source: BPI Research, based on the equity indicators of companies in Portugal from the INE.

Labour productivity by sector

GVA/Persons employed (thousands of €, period average)



Note: In this context, labour productivity consists of the GVA at market prices over the number of people employed.

Source: BPI Research, based on the equity indicators of companies in Portugal from the INE.

We conclude that specialisation may be counterproductive in some sectors, where there is insufficient research and innovation to stimulate human capital or compensate for the obsolescence of existing assets. As a result, the convergence of Portuguese companies towards European and North American levels in terms of competitiveness is compromised.

We now address the secondary sector in detail. Using the European classification of technological intensity in manufacturing industries,² we find that in several sectors,

2. High and medium-high technology industries are considered to be high value-added, while low and medium-low technology industries are considered to be low value-added.

the variation in their weight in GVA has shown uneven behaviour in Portugal (see third chart).

In fact, with regard to the most technology-intensive sectors, such as computer, electronic and optical products and vehicles, Portugal has not specialised significantly, recording a considerably lower increase in total GVA than that observed in Germany and France in the first case; and to that observed in Germany and Italy in the second. However, it has shown good prospects for specialisation in the pharmaceutical industry, with its share of total GVA increasing by 0.15 percentage points between 2015 and 2022, a progress only surpassed by Germany and which has been reflected in the positive contribution that products in this sector have made to external demand, as analysed in previous articles.

In the medium-low technology sectors, Portugal has specialised more in metals, a sector that has been losing importance (in terms of GVA) among the main European economies.

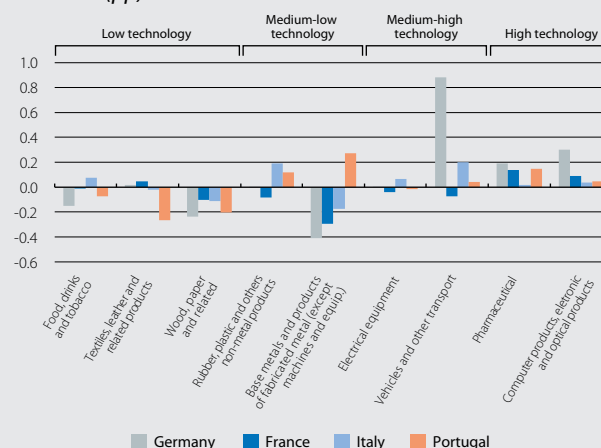
In the sectors with less technological intensity, Portugal leads the decline in the importance of textiles and is only behind Germany in the cases of wood and related products and food products. We conclude that the problem of specialisation in low-value sectors may not be justified by the manufacturing industry, noting some limitations, particularly in the vehicle and computer, electronic and optical products segments, but also potentialities, such as pharmaceutical products.

Considering that the limited competitiveness of Portuguese companies can be attributed, at least in part, to insufficient investment and innovation, we analysed the European Commission's Summary Innovation Index (ISI) (see fourth chart). Taking the EU average as a benchmark and comparing it with the three largest economies, Portugal only leads in attractive research systems (114.7% of the EU); it ranks second in human resources (104.5%) and financing and support (105.8%), third in IT investment (91.9%) and innovative impacts on jobs and sales (114.8%), and last in all other relevant categories,³ including business investments (56.6%), innovative SMEs (109.6%), intellectual assets (78.3%), innovative impacts of trade (56.2%) and productivity (85.9%). Consequently, it has a composite ISI below the European average and the lowest in Western Europe (90.7 per cent).

In fact, according to the European Innovation Scoreboard, Portugal needs above all to expand the innovative

GVA in selected manufacturing industries

Change in GVA at constant prices (2020) between 2015 and 2022 (pp)

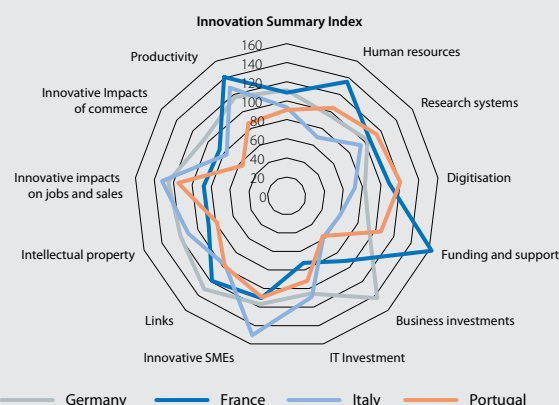


Note: Manufacturing industries separated according to the technological intensity classification defined by Eurostat.

Source: BPI Research based on data from Eurostat.

Innovation Summary Index (ISI) and relevant headings

(100 = European Union in 2025)



Source: BPI Research, based on the European Innovation Scoreboard (2025) of the European Commission.

capacity of companies and its financial system, increasing and optimising venture capital investments, collaboration between SMEs, exports of technological products and knowledge-intensive services, as well as productivity.

The areas for improvement identified, together with the continued focus on developing more efficient processes, strategic specialisation in high value-added sectors and channelling resources to optimise the productivity of those with lower value, constitute a necessary solution to the structural problem of competitiveness in the Portuguese economy.,

Tiago Miguel Pereira

3. Although in some areas Portugal is above the European average.

Activity and employment indicators

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Coincident economic activity index	3.5	1.8	1.5	1.8	1.7	1.7	1.7	1.6	...
Industry									
Industrial production index	-3.1	0.8	-0.2	-0.4	-2.3	1.2	2.4	3.1	...
Confidence indicator in industry (<i>value</i>)	-7.4	-6.2	-6.1	-4.2	-5.1	-4.8	-3.8	-3.3	-3.0
Construction									
Building permits - new housing (number of homes)	7.5	6.5	13.4	23.6	39.1	17.9	-6.0	...	...
House sales	-18.7	14.5	19.4	32.5	25.0	15.5	-	-	-
House prices (<i>euro / m² - valuation</i>)	9.1	8.5	8.5	13.2	15.8	17.4	18.7	18.1	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	19.0	6.3	7.8	6.3	4.6	4.0	3.9	3.3	...
Confidence indicator in services (<i>value</i>)	7.7	5.6	2.4	10.9	12.5	6.6	12.8	13.5	12.4
Consumption									
Retail sales	1.1	3.2	3.7	5.0	4.5	4.8	6.2	4.5	...
Coincident indicator for private consumption	2.9	2.7	2.7	3.4	3.6	3.3	3.1	2.9	...
Consumer confidence index (<i>value</i>)	-28.6	-18.0	-14.3	-14.3	-15.5	-17.9	-15.7	-16.2	-16.5
Labour market									
Employment	2.3	1.2	1.2	1.3	2.4	2.9	4.1	3.4	...
Unemployment rate (% <i>labour force</i>)	6.5	6.4	6.1	6.7	6.6	5.9	6.0	6.1	...
GDP	3.1	2.1	2.1	2.6	1.7	1.8	-	-	-

Prices

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
General	4.4	2.4	2.2	2.6	2.3	2.2	2.6	2.8	2.4
Core	5.1	2.5	2.5	2.7	2.3	2.3	2.5	2.4	2.0

Foreign sector

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	-1.4	2.0	0.5	2.0	5.3	4.3	1.2	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	-4.0	2.0	-1.1	2.0	5.4	6.9	5.8	...	...
Current balance	1.5	6.0	5.1	6.0	4.2	3.7	4.1	...	...
Goods and services	4.1	6.5	6.4	6.5	5.2	4.5	4.9	...	...
Primary and secondary income	-2.6	-0.6	-1.3	-0.6	-0.9	-0.9	-0.8	...	...
Net lending (+) / borrowing (-) capacity	5.5	9.1	8.6	9.1	7.5	7.1	7.7	...	...

Credit and deposits in non-financial sectors

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Deposits¹									
Household and company deposits	-2.3	7.5	6.0	7.5	6.5	5.4	6.2	6.0	...
Sight and savings	-18.5	-0.3	-8.1	-0.3	5.0	5.1	6.5	7.5	...
Term and notice	22.2	15.3	22.6	15.3	7.8	5.8	5.9	4.6	...
General government deposits	-12.4	26.7	29.1	26.7	29.3	39.6	15.5	17.0	...
TOTAL	-2.6	7.9	6.7	7.9	7.1	6.4	6.5	6.3	...
Outstanding balance of credit¹									
Private sector	-1.5	1.9	1.1	1.9	3.3	4.9	5.3	5.6	...
Non-financial firms	-2.1	-1.0	-0.6	-1.0	0.1	2.2	2.2	2.6	...
Households - housing	-1.5	3.0	1.3	3.0	4.9	6.4	7.3	7.5	...
Households - other purposes	0.2	5.4	4.6	5.4	5.7	6.6	6.5	6.4	...
General government	-5.5	0.6	-4.1	0.6	-8.0	3.8	1.4	2.4	...
TOTAL	-1.7	1.9	0.9	1.9	2.9	4.9	5.2	5.5	...
NPL ratio (%)²	2.7	2.4	2.6	2.4	2.3	2.3	-	-	-

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

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

The Spanish economy defies the global environment and beats expectations

The Spanish economy continues to show significant dynamism, with better performance than expected, driven by domestic demand (both private consumption and investment). Among other factors, this is thanks to the strong financial situation of both households and firms, favourable financing conditions, the normalisation of inflation and the strength of the labour market.

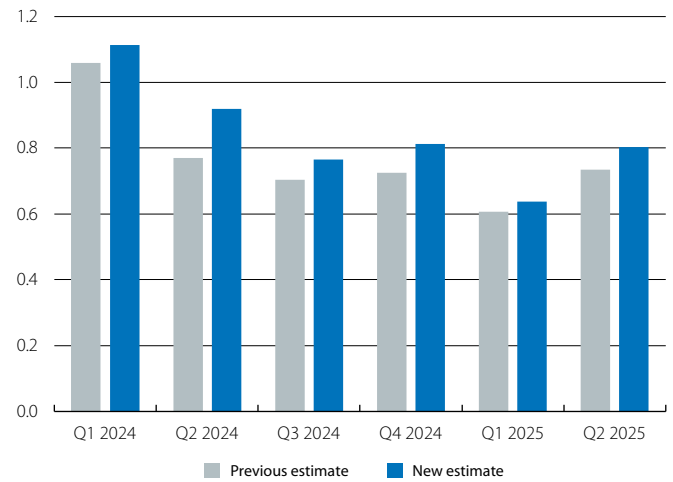
This good performance has exceeded initial expectations and has even offset the negative impact of a higher-than-expected increase in US tariffs. In addition, the National Statistics Institute (INE) has revised its previous GDP estimates upwards by 0.5%, placing growth for 2024 at 3.5%, compared to 3.2% previously, and this introduces a positive knock-on effect on the forecasts. As a result, we have adjusted our GDP growth forecast for 2025 to 2.9%, 0.5 pps more than in the previous estimate, and to 2.1% for 2026, 0.1 pp more than before.

The INE's statistical revision improves the starting point. The INE has raised the quarter-on-quarter GDP growth of Q2 2025 by 0.1 pp, to 0.8%, compared to 0.6% in the previous quarter, which means that the Spanish economy was even able to intensify its growth rate in an unfavourable global environment. In addition, in its new estimates the INE has revised upwards the quarterly growth rates for most of 2024. With this new picture, domestic demand is 9.0% above the level of Q4 2019, compared to the previously estimated 8.3%, driven mainly by investment, which is now 11.4% above the pre-pandemic level, instead of 6.8%; this is the result of the significant revision of investment in non-residential construction, which has gone from being 0.5% below to 9.4% above that level.

Economic activity remains dynamic in Q3 2025, with the PMIs consolidated in expansive territory, tourism reaching new highs and employment growing at a steady pace. The PMI for the services sector has increased to an average of 54.2 points in Q3, 2 points more than in the previous quarter. This improvement has been supported by strong demand, especially for commercial activities, which in turn are being driven by the tourism sector as it continues to set new highs despite the normalisation of its growth rate. In particular, in July-August, 22.3 million foreign tourists arrived in our country, spending 32.8 billion euros, which represents an increase of 2.3% and 6.4% year-on-year, respectively (see the Focus «The tourism sector closes the high season with solid figures» in this same report). As for industry, the manufacturing sector PMI stood at 52.6 points on average in July-September (50.0 in Q2); after the turbulent international context of the previous months, both production and new orders are now on the rise amid an improvement in expectations. The labour market, meanwhile, continues to be one of the pillars of growth, and Social Security affiliation is growing at a year-on-year rate of 2.4% in September, i.e. 500,000 more workers than a year ago.

Spain: GDP

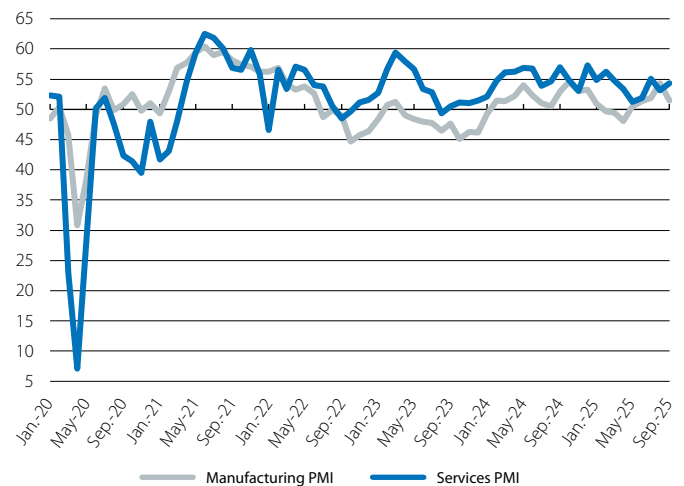
Quarter-on-quarter change (%)



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

Spain: PMI

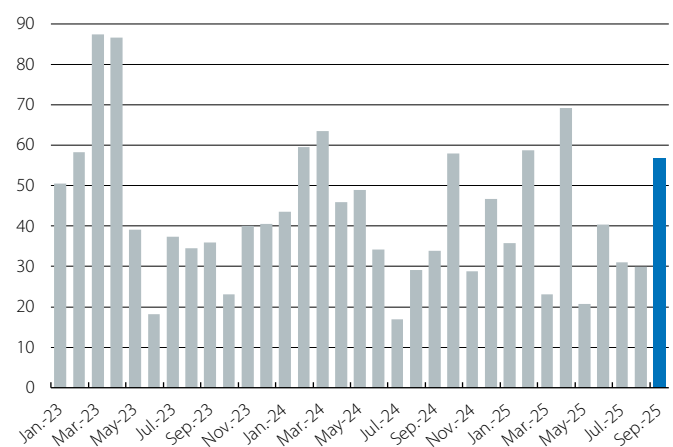
Index (>50 expansion; <50 contraction)



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

Spain: registered workers affiliated with Social Security

Month-on-month change (thousands)



Note: Seasonally adjusted series.

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

This recent strength in the labour market has translated into a notable increase in households' gross disposable income (GDI), which in Q2 grew by a year-on-year rate of 6.0%, driven by a 7.0% rise in wage-earners' remuneration, and slightly above the increase in household spending (5.9%). Thus, the savings rate, in cumulative terms for the last four quarters, has risen to 12.8% of GDI, compared to 12.6% in the previous quarter. This places it well above the average recorded in the period 2015-2019 (7.2%) and increases households' future spending capacity.

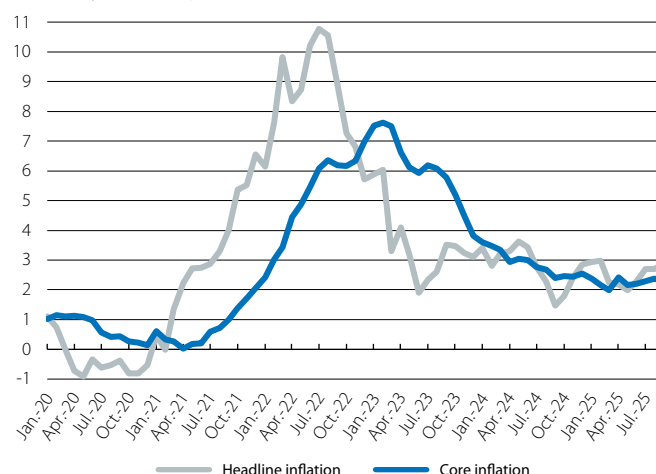
On the consumption side, the latest indicators point to a moderation of its growth rate, following a very dynamic Q2. In particular, the BPI Research indicator for Spanish card activity shows year-on-year growth of 2.7% in Q3, compared to 4.3% in the previous quarter, albeit with a steady improvement throughout the quarter. The data for passenger car registrations offer better signals, with an acceleration in their growth rate in Q3 to 16.9% year-on-year (13.7% previously), marking the fastest pace since Q1 2023. In annualised terms, registrations exceed 1.1 million units, the highest number since prior to the outbreak of the pandemic.

Inflationary pressures are contained. According to the CPI flash indicator, headline inflation rose by 0.2 pps in September to 2.9%, the highest rate since February, but this was due to a base effect on fuels and electricity, as their prices fell less than in September 2024; in fact, core inflation, which excludes energy and unprocessed food, fell by 0.1 pp to 2.3%. The inflation rebound which began in May is likely to have come to an end and for the coming months, in line with the containment in energy and fresh food prices anticipated by the markets, we expect inflation to steadily moderate and to end the year at around 2%.

The housing market continues to climb. Sales once again recorded rapid growth in July (13.7% year-on-year), and this growth was widespread across different regions and types of housing, with growth in the demand for new homes (22.3%) being more dynamic than that of existing homes (11.6%). The picture for the year to date is one of a booming housing market, with sales up 19% and exceeding 422,200 transactions, marking the highest level of activity in the first seven months of the year since 2007. A more dovish monetary policy, the current strength of the economy, that of the labour market, as well as population growth together explain the strength of the demand for housing, in contrast with a revived but still insufficient supply. In the last 12 months up until May, 132,000 new homes have been approved, compared to a rate of household creation exceeding 190,000, according to the Continuous Population Statistics. In this context of imbalance between supply and demand, the main house price indicators continue to show significant growth, as is the case of the appraisal value of unsubsidised housing published by the Ministry of Housing and Urban Agenda (3.0% quarter-on-quarter in Q2 vs. 3.1% in Q1) or the Housing Price Index published by the INE (4.0% quarter-on-quarter vs. 3.5% in Q1).

Spain: evolution of the CPI

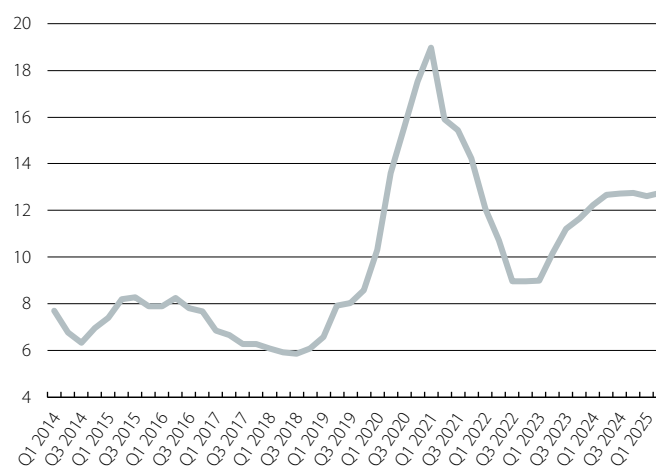
Year-on-year change (%)



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

Spain: household savings rate

(% of gross disposable income)

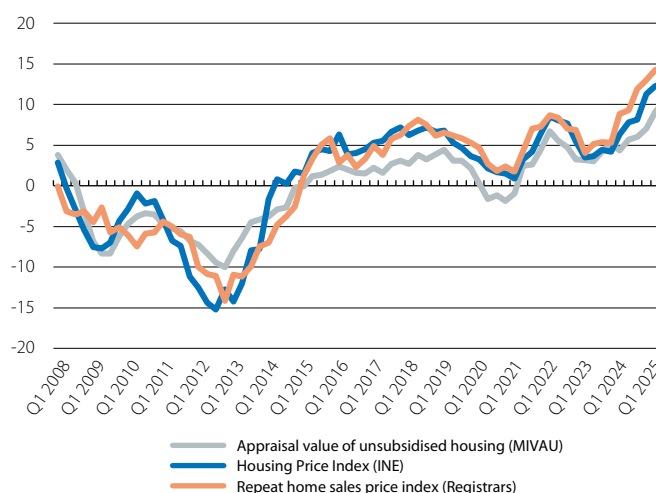


Note: Four-quarter cumulative data.

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

Spain: house prices

Year-on-year change (%)



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

The tourism sector closes the high season with solid figures

In 2025, the high season for Spain's tourism sector has turned out better than expected. Unlike previous years in which we saw lower growth in the high season, this year the growth rates in summer have approached those of the low season. These good results confirm our view that tourism growth is normalising at solid levels, and that tourism GDP will grow by 2.7% in 2025 and by 2.5% in 2026.

International tourism spending recorded on CaixaBank POS terminals grew by 7.7% year-on-year in July and August 2025. This figure is very close to the 7.9% recorded in the first six months of 2025 and suggests that international tourism continues to show strong demand, even in a context of normalisation following the post-pandemic boom.

By origin, the mature markets are showing solid figures. Spending by tourists from the United Kingdom is up 9.7%, while that of the French is up 9.6%. Despite the sluggishness of the German economy, German tourism spending increased by 7.4% in the high season, far outpacing the 3.5% growth recorded in the first six months.

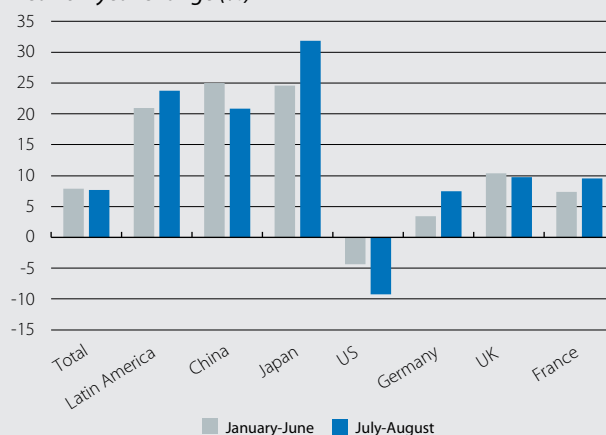
While mature markets have shown strength almost across the board, the picture among long-haul markets is somewhat more mixed. Tourism from the US has experienced a significant fall (–9.2%), even greater than the –4.4% recorded in the first six months of the year. This decline is offset by excellent records from other long-haul markets such as China, Japan and Latin America, all with growth in excess of 20%. We note that tourism spending from Latin America has accelerated significantly since December 2024.

Domestic tourism has also increased this summer, albeit more modestly. Domestic tourism spending was up 3.1% in July and August, a slight slowdown relative to the 4.1% growth recorded between January and June. Of particular note is the improvement in spending on restaurants, which, according to data from CaixaBank POS terminals, increased by 13.2% year-on-year in the summer of 2025.

Overall, this has been a strong high season for international tourism, with robust and diversified growth. This good performance confirms our outlook for the sector, which we expect to contribute 0.35 pps to this year's GDP growth and 0.33 pps in 2026.

Spain: international tourism expenditure

Year-on-year change (%)



Source: BPI Research, based on data from CaixaBank POS terminals.

Spain: domestic tourism expenditure

Year-on-year change (%)



Source: BPI Research, based on data from CaixaBank POS terminals.

Activity and employment indicators

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Industry									
Industrial production index	-1.6	0.4	-0.2	1.3	-0.7	1.4	2.5	...	...
Indicator of confidence in industry (value)	-6.5	-4.9	-3.0	-5.9	-5.4	-5.2	-4.5	-5.8	-4.7
Manufacturing PMI (value)	48.0	52.2	51.5	53.6	50.0	50.0	51.9	54.3	51.5
Construction									
Building permits (cumulative over 12 months)	0.5	16.7	10.2	16.7	20.1	14.8	14.1	...	...
House sales (cumulative over 12 months)	-10.2	9.7	-1.4	9.7	17.0	22.9	22.3	...	...
House prices	4.0	8.4	8.2	11.3	12.2	12.7	...	...	...
Services									
Foreign tourists (cumulative over 12 months)	18.9	10.1	12.3	10.1	8.1	6.3	5.6	5.1	...
Services PMI (value)	53.6	55.3	55.2	55.1	55.3	52.2	55.1	53.2	54.3
Consumption									
Retail sales ¹	2.5	1.8	2.6	2.9	3.4	5.1	4.7	4.5	...
Car registrations	16.7	7.2	1.7	14.4	14.0	13.7	17.1	17.2	16.4
Economic sentiment indicator (value)	100.5	103.0	105.5	101.5	103.3	103.1	104.3	101.7	104.7
Labour market									
Employment ²	3.1	2.2	1.8	2.2	2.4	2.7	...	...	...
Unemployment rate (% labour force)	12.2	11.3	11.2	10.6	11.4	10.3	...	...	...
Registered as employed with Social Security ³	2.7	2.4	2.3	2.4	2.3	2.2	2.3	2.3	2.4
GDP	2.5	3.5	3.6	3.7	3.2	3.1	...	...	...

Prices

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
General	3.5	2.8	2.2	2.4	2.7	2.2	2.7	2.7	2.9
Core	6.0	2.9	2.6	2.5	2.2	2.3	2.3	2.4	2.3

Foreign sector

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	-1.4	0.2	-1.8	0.2	3.3	2.0	1.6	...	...
Imports (year-on-year change, cumulative over 12 months)	-7.2	0.1	-3.1	0.1	4.2	4.1	4.3	...	...
Current balance	40.9	50.7	50.5	50.7	47.8	49.1	48.9	...	...
Goods and services	57.5	66.3	65.9	66.3	63.5	64.3	63.8	...	...
Primary and secondary income	-16.5	-15.7	-15.5	-15.7	-15.7	-15.2	-14.9	...	...
Net lending (+) / borrowing (-) capacity	57.8	68.7	68.9	68.7	66.6	68.1	67.9	...	...

Credit and deposits in non-financial sectors⁴

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	07/25	08/25	09/25
Deposits									
Household and company deposits	0.3	5.1	4.3	5.1	4.6	3.9	4.8	5.1	...
Demand and notice deposits	-7.4	2.0	-1.6	2.0	3.1	5.0	6.5	7.2	...
Time and repo deposits	100.5	23.5	47.5	23.5	12.6	-1.5	-3.6	-5.1	...
General government deposits ⁵	0.5	23.1	14.8	23.1	24.4	25.5	15.7	9.0	...
TOTAL	0.3	6.3	5.1	6.3	5.9	5.4	5.7	5.4	...
Outstanding balance of credit									
Private sector	-3.4	0.7	-0.3	0.7	1.7	2.6	2.6	2.7	...
Non-financial firms	-4.7	0.4	-0.6	0.4	1.6	2.5	2.2	2.5	...
Households - housing	-3.2	0.3	-0.7	0.3	1.4	2.3	2.4	2.8	...
Households - other purposes	-0.5	2.3	1.2	2.3	3.1	-261.5	3.9	3.3	...
General government	-3.5	-2.6	-5.4	-2.6	-0.3	5.3	12.7	14.8	...
TOTAL	-3.4	0.5	-0.7	0.5	1.6	2.7	3.2	3.5	...
NPL ratio (%)⁶	3.5	3.3	3.4	3.3	3.2	3.0	2.9	...	...

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

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

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

MONTHLY REPORT

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

FLASH NOTES

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

COUNTRY OUTLOOK

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

Available in English:
Mozambique Country Outlook



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

© Banco BPI, 2025
© CaixaBank, S.A., 2025

Design and production: www.cegeglobal.com

