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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
OCTOBER 2026



ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS

Global economic outlook and financial conditions: autumn 2026

INTERNATIONAL ECONOMY

*Are the midterms important for Trump?
And for the US?*

*Trump 2.0 immigration policies: the end
of the American Dream?*

PORTUGUESE ECONOMY

*Another year dominated by uncertainty
in which GDP is revised upwards (this time
accompanied by inflation)*

*How has economic growth in Portugal been
characterised?*

*Public accounts: controlled improvement
without jeopardising debt sustainability*

*What do the initial tourism figures tell
us following the outbreak of war in Iran?*

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

BPI Research (DF-EEF)

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Date this issue was closed:

5 October 2026

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The price of the new economic equilibrium

The international economy once again conveys a sense of uneasy calm at the start of the final quarter of the year. The combination of oil prices close to 100 dollars, fragile fiscal outlooks in countries such as France and the US, high investment needs, structurally higher real interest rates and more sensitive short-term inflation expectations creates a highly challenging scenario. It is true that economic activity continues to show surprising resilience in the face of accumulating supply-side disruptions. However, the tightening of financial conditions, caused by the significant upward shift in the interest rate curve, poses a new challenge for the coming quarters.

In this context, central banks will once again take centre stage in economic policy – nothing new under the sun – as they are forced to move interest rates into more restrictive territory to rebalance supply and demand and minimise the risk of second-round effects. And this is with the awareness that there is little they can do about the direct impact on inflation of rising oil prices caused by supply restrictions: neither the Fed nor the ECB can produce an additional barrel of crude by raising interest rates. The real difficulties begin when the energy disruption threatens to spread to other prices, alter expectations, and affect wages, corporate margins and pricing mechanisms. The challenge, therefore, will be how monetary conditions can be tightened in a controlled manner so as to protect the inflation target without unnecessarily penalising economic activity or jeopardising financial stability.

Right now, although it is still too early to have a clear picture, the cost to growth of the current interest rate hikes ought to be compatible with a slowdown in activity without triggering a recession. This outlook is supported by the fact that much AI-related investment is less sensitive to financing costs, as well as the strength of labour markets and private sector balance sheets. However, this resilience conceals a paradox: if the economy is less responsive to monetary tightening because the traditional transmission channels have weakened, central banks may be forced to keep interest rates higher for longer in order to achieve the same effect on demand. This could be a particularly narrow path if, as now seems likely, equilibrium interest rates are significantly above the levels of the previous decade.

And there are reasons to think this may be the case. The enormous investment needs related to AI, defence, the energy transition and infrastructure are increasing the demand for capital. If savings do not increase at the same rate, the result should be a higher equilibrium real interest rate. Thus, what we still view as an anomaly, influenced by an exceptional decade of near-zero or even negative rates, could actually be the emergence of a new normal. In the short term, the investment race in data centres, semiconductors, power generation and networks is simultaneously increasing the demand for capital and energy, which is pushing real interest rates upwards and complicating the disinflation process. In the medium term, however, if these investments ultimately yield the expected productivity gains, AI would expand the economy's supply capacity and have disinflationary effects. The investment is happening today; the productivity will come tomorrow. The big question is how long it will take to arrive and with what intensity.

Time is thus an essential factor, both for the positive effects of AI to materialise and for absorbing the new supply disruption. And this is precisely where one of the main risks of the current scenario lies: investors may start to doubt the possibility of an «immaculate disinflation», meaning a return of inflation to central banks' targets with minimal costs in terms of growth and employment. In that case, the seemingly calm coexistence between rising bond yields and stock markets near their peaks would also be tested.

Ultimately, the debate should perhaps not focus solely on identifying the interest rate threshold beyond which financial instability may increase, but rather on determining what level of rates is compatible with the new balance between savings and investment, inflation and growth. Higher interest rates do not necessarily represent only the cost of correcting past fiscal and monetary imbalances. They may also be, at least in part, the price to pay for financing future transformations – a future where vast amounts of capital will need to be mobilised in a world of greater trade, geopolitical and financial fragmentation. Establishing the price of this new economic equilibrium will be one of the main tasks for the markets in the coming months. As with any regime change, not everyone will be equally prepared to pay for it.

José Ramón Díez
October 2026

Chronology

SEPTEMBER 2026

- 12** The ECB raises interest rates by 25 bps, setting the deposit rate at 2.50%.
- 16** The Fed raises interest rates by 25 bps, setting the target range for the fed funds rate at 3.75%-4.00%.
- 18** The Bank of Japan raises interest rates by 25 bps, setting the benchmark rate at 1.25%.

JUNE 2026

- 11** The ECB raises interest rates by 25 basis points, increasing the depo rate from 2.00% to 2.25%.
- 18** The US and Iran sign a memorandum of understanding agreeing to a ceasefire and the opening of the Strait of Hormuz.

APRIL 2026

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

AUGUST 2026

- 12** Europe experienced its hottest June-July period on record in 2026, according to analysis by the EU's Copernicus Programme.

MAY 2026

- 22** Kevin Warsh is sworn in as Fed Chair and is elected Chairman of the FOMC.

MARCH 2026

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

Agenda

OCTOBER 2026

- 1** Portugal: public debt (August).
- 2** Spain: registration with Social Security and registered unemployment (September).
Euro area: CPI flash estimate (September).
- 8** Spain: financial accounts (Q2).
- 9** Portugal: international trade (August).
- 15** European Council meeting.
- 19** China: GDP (Q3).
- 26** Spain: loans, deposits and NPL ratio (August).
- 27** Spain: labour force survey (Q3).
Portugal: loans and deposits (September).
- 27-28** Federal Open Market Committee meeting.
- 29** Portugal: employment and unemployment (September).
Euro area: Economic Sentiment Indicator (October).
Governing Council of the European Central Bank meeting.
US: GDP (Q3).
- 30** Spain: GDP flash estimate (Q3).
Spain: CPI flash estimate (October).
Spain: DBRS rating.
Portugal: GDP flash estimate (Q3).
Portugal: CPI flash estimate (October).
Euro area: GDP (Q3).

NOVEMBER 2026

- 2** Portugal: public debt (Q3).
- 4** Spain: registration with Social Security and registered unemployment (October).
Portugal: employment (Q3).
Euro area: CPI flash estimate (October).
- 6** Spain: industrial production (September).
- 13** Portugal: labour cost (Q3).
- 16** Japan: GDP (Q3).
- 17** Spain: foreign trade (September).
- 19** Portugal: balance of payments (September).
- 24** Spain: loans, deposits and NPL ratio (September).
- 27** Spain: CPI flash estimate (November).
Euro area: Economic Sentiment Indicator (November).
- 30** Portugal: GDP breakdown (Q3).
Portugal: CPI flash estimate (November).

The economy remains robust in a challenging global environment

We have provided a new update to our macroeconomic outlook for Portugal and the global economy, incorporating the most recent information. Despite a context characterised by persistent inflation and higher interest rates, we continue to anticipate a relatively robust performance of economic activity. «Resilience» remains the key word to describe the Portuguese economy, whose momentum continues to benefit from favourable demographic trends and increased investment associated with the final phase of the PRR's implementation, despite the limited productivity gains recorded in recent years.

We expect the Portuguese economy to grow by 2.3% in 2026, 0.5 pp more than predicted in July. This revision largely reflects the better-than-anticipated performance in the first half of the year, achieved despite the adverse shocks experienced in the early months, namely the storms and the outbreak of conflict in the Middle East. Additionally, INE released a revision of the national accounts that points to a more positive evolution of economic activity. The most recent indicators also continue to signal resilient domestic demand, although set against growing concern about price developments, evident in most consumer and business confidence surveys.

In this context, the strength of corporate balance sheets has made it possible to sustain job creation and maintain a trajectory of overall wage growth that has exceeded inflation. Compensation per worker increased by approximately 5.6% in the year ending in June. As a result, a particularly favourable combination has been observed between increased household consumption and the maintenance of high savings levels, which have remained above 12% of disposable income for about two years.

The labour market is expected to continue to show high resilience. The unemployment rate is expected to remain slightly below 6%, close to the lowest levels seen in recent decades, although some moderation in the pace of job creation is expected. In the real estate market, housing prices are expected to continue to rise, albeit at a gradually more moderate pace, reflecting the impact of higher interest rates and the decline in the number of transactions observed in recent quarters.

Regarding inflation, we have revised our forecasts upwards, anticipating a 3.0% increase in consumer prices in 2026 and

2.4% in 2027. This revision is primarily due to the increase in energy prices, particularly oil and natural gas. Nevertheless, the available indicators continue to point to a relatively limited pass-through of these increases to the remaining components of the consumption basket, in a context where pressures from the labour market are less intense than those observed in previous years. Despite this, inflation continues to be the variable subject to the greatest upside risks, reflecting the high volatility of energy markets and the persistence of geopolitical tensions in the Middle East.

For 2027, the outlook remains broadly unchanged, continuing to point to growth in the Portuguese economy exceeding that of the euro area, albeit at a rate slightly below 2%. Apart from that, most institutions have been converging towards this perspective as part of the usual revisions of their projections. Our forecast points to growth of 1.9%, a figure close to Banco de Portugal's estimate (1.8%) and slightly lower than the projection presented by the Government in the State Budget for 2027 (2.1%).

This combination of robust economic growth and the absence of significant imbalances has allowed Portugal to benefit from a particularly favourable risk assessment. This is evident both in the financial markets, where the Portuguese State continues to finance itself with small spreads compared to the German benchmark, around 50 pb, and in the assessments of rating agencies. It should be recalled that in September, Fitch raised the long-term debt rating of the Portuguese Republic to A+, a rating level that had not been achieved for more than a decade.

The State Budget proposal for 2027, recently presented by the Government, projects the continuation of a prudent fiscal policy orientation, anticipating a budget balance close to equilibrium and a further reduction in public debt, by approximately 3 pp, to 84.5% of GDP. If this materialises, it will be the lowest level since 2008. However, it is important to highlight the expectation of increased interest expenses, reflecting the global trend of higher interest rates. The government forecasts that debt servicing expenses will increase by 23% year-on-year, corresponding to an increase of 0.4 pp of GDP, to 2.4%. This is a sign of the need to maintain prudent management of public finances in a demanding international context marked by significant external risks.

Paula Carvalho

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	1.75	4.25	3.50	4.00	3.50
3-month SOFR	3.62	1.01	2.09	4.37	3.71	4.22	3.72
12-month SOFR	3.86	1.48	2.39	4.19	3.48	4.22	3.77
2-year government bonds	3.70	1.04	2.06	4.24	3.51	4.45	3.75
10-year government bonds	4.69	2.57	2.31	4.40	4.14	5.20	4.60
Euro							
ECB depo	2.05	0.20	0.61	3.09	2.00	2.75	2.50
ECB refi	3.05	0.75	1.11	3.24	2.15	2.90	2.65
€STR	–	–0.54	0.52	3.06	1.93	2.68	2.43
1-month Euribor	3.18	0.50	0.57	2.89	1.92	2.80	2.53
3-month Euribor	3.24	0.65	0.70	2.83	2.05	2.89	2.59
6-month Euribor	3.29	0.78	0.87	2.63	2.14	3.11	2.62
12-month Euribor	3.40	0.96	1.04	2.44	2.27	3.39	2.65
Germany							
2-year government bonds	3.41	0.35	0.56	2.02	2.13	3.04	2.40
10-year government bonds	4.30	1.54	0.72	2.22	2.84	3.30	3.00
Spain							
3-year government bonds	3.62	1.69	0.92	2.26	2.39	3.44	2.91
5-year government bonds	3.91	2.19	1.07	2.48	2.64	3.59	3.15
10-year government bonds	4.42	3.17	1.61	2.90	3.28	3.80	3.55
Risk premium	11	164	90	68	45	50	55
Portugal							
3-year government bonds	3.68	3.33	0.76	2.03	2.16	2.98	2.48
5-year government bonds	3.96	3.94	0.98	2.15	2.49	3.23	2.85
10-year government bonds	4.49	4.67	1.52	2.68	3.14	3.70	3.50
Risk premium	19	314	81	46	31	40	50
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.12	1.05	1.17	1.17	1.18
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.83	0.88	0.90	0.90
EUR/GBP (yen per euro)	129.56	126.41	135.43	161.18	182.71	180.00	175.00
OIL PRICE							
Brent (\$/barrel)	42.3	80.1	73.8	73.1	61.6	83.7	75.9
Brent (euros/barrel)	36.4	62.5	67.0	69.8	52.6	71.8	64.3

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
GDP GROWTH¹							
Global	4.3	3.3	2.8	3.5	3.5	3.0	3.3
Developed countries	2.7	1.5	1.7	1.9	1.9	1.7	1.7
United States	2.7	1.8	2.4	3.0	2.3	2.1	1.9
Euro area	2.3	0.9	1.1	1.1	1.3	1.0	1.4
Germany	1.6	1.3	0.2	0.0	0.3	1.1	1.1
France	2.3	1.0	1.0	1.4	0.9	0.5	0.9
Italy	1.5	-0.3	1.5	0.6	0.7	0.9	0.8
Portugal	1.5	0.4	1.9	2.7	1.9	2.3	1.9
Spain	3.6	0.7	1.1	3.7	2.6	2.6	2.0
Japan	1.4	0.4	0.1	-0.2	1.1	0.8	0.6
United Kingdom	2.8	1.3	1.0	1.0	1.3	1.2	1.1
Emerging and developing countries	6.3	4.9	3.5	4.5	4.5	3.8	4.4
China	10.6	8.0	4.9	5.0	5.0	4.5	4.0
India	7.2	6.7	4.6	7.3	7.5	6.6	6.4
Brazil	3.6	1.6	1.9	3.4	2.3	1.9	1.6
Mexico	2.3	1.5	1.1	1.5	0.5	1.3	1.7
Russia	–	1.4	1.5	4.9	1.0	0.7	1.3
Türkiye	5.6	4.6	6.0	3.5	3.7	2.6	3.9
Poland	4.1	3.7	2.6	3.1	3.6	3.1	2.8
INFLATION							
Global	4.1	3.7	5.9	5.8	4.1	4.3	3.7
Developed countries	2.1	1.6	3.9	2.6	2.5	3.0	2.5
United States	2.8	1.8	4.5	3.0	2.6	3.3	2.3
Euro area	2.2	1.4	4.2	2.4	2.1	3.0	2.6
Germany	1.7	1.4	4.6	2.5	2.3	2.8	2.5
France	1.9	1.3	3.5	2.3	0.9	2.4	2.3
Italy	2.4	1.4	4.1	1.1	1.6	2.7	2.5
Portugal	3.1	1.1	3.4	2.4	2.3	3.0	2.4
Spain	3.2	1.3	3.7	2.8	2.7	3.4	2.5
Japan	-0.3	0.4	1.4	2.7	3.2	2.1	2.0
United Kingdom	1.6	2.3	5.0	2.5	3.4	3.0	2.7
Emerging and developing countries	6.9	5.6	7.3	8.0	5.2	5.6	4.8
China	1.7	2.6	1.4	0.2	0.1	1.0	1.5
India	4.6	7.3	6.0	5.0	2.2	4.1	4.0
Brazil	7.3	5.7	6.4	4.4	5.0	4.5	4.4
Mexico	5.2	4.2	5.6	4.7	3.8	3.8	3.9
Russia	14.2	7.9	7.4	8.5	8.7	6.0	5.2
Türkiye	22.6	9.6	39.5	58.5	34.9	31.5	24.5
Poland	3.5	1.9	8.2	3.7	3.4	3.3	2.7

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

Forecasts

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

Portuguese economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
Macroeconomic aggregates							
Household consumption	1.8	0.5	1.5	2.9	3.7	2.9	1.9
Government consumption	2.2	-0.3	1.9	3.0	3.7	1.6	1.1
Gross fixed capital formation	-0.4	-0.7	3.7	4.7	4.3	5.1	1.7
Capital goods	3.3	2.7	6.3	8.0	3.0	–	–
Construction	-1.4	-2.4	3.1	3.0	5.4	–	–
Domestic demand (vs. GDP Δ)	1.3	0.0	2.0	2.9	3.6	3.3	1.8
Exports of goods and services	5.3	4.0	3.8	3.4	0.0	3.9	3.4
Imports of goods and services	3.6	2.7	3.6	4.1	4.6	5.6	2.4
Gross domestic product	1.5	0.4	1.9	2.7	1.9	2.3	1.9
Other variables							
Employment	0.4	-0.4	1.4	1.2	3.2	2.5	1.3
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.4	6.0	5.7	5.7
Consumer price index	3.1	1.1	3.4	2.4	2.3	3.0	2.4
Current account balance (% GDP)	-9.2	-2.8	-0.7	2.2	1.2	0.4	0.6
External funding capacity/needs (% GDP)	-7.7	-1.5	0.6	3.3	2.7	2.0	1.5
Fiscal balance (% GDP)	-4.5	-5.1	-1.9	0.6	0.7	-0.2	-0.4

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2023	2024	2025	2026	2027
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.4	3.1	3.1	3.0	2.1
Government consumption	4.5	0.9	3.0	3.3	2.4	2.1	2.2
Gross fixed capital formation	5.7	-1.2	0.8	4.9	5.4	4.1	2.5
Capital goods	4.9	0.2	-1.3	3.0	6.1	2.6	2.6
Construction	5.7	-2.6	0.0	5.3	5.0	4.0	2.3
Domestic demand (vs. GDP Δ)	4.4	-0.2	0.9	3.3	3.4	2.8	2.1
Exports of goods and services	4.7	2.9	2.4	3.8	2.6	1.0	2.0
Imports of goods and services	7.0	0.2	1.9	3.3	5.5	1.9	2.4
Gross domestic product	3.6	0.7	1.1	3.7	2.6	2.6	2.0
Other variables							
Employment	3.2	-0.5	2.0	2.8	3.1	2.8	1.9
Unemployment rate (% of labour force)	10.5	19.5	13.9	11.3	10.5	9.8	9.3
Consumer price index	3.2	1.3	3.7	2.8	2.7	3.4	2.5
Unit labour costs	3.1	0.6	4.1	3.3	4.1	3.8	3.2
Current account balance (% GDP)	-5.8	-0.2	1.2	3.2	2.9	2.3	2.5
External funding capacity/needs (% GDP)	-5.2	0.2	2.0	4.5	4.3	3.6	3.9
Fiscal balance (% GDP) ¹	0.3	-6.5	-6.1	-3.2	-2.4	-2.3	-2.3

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

Forecasts

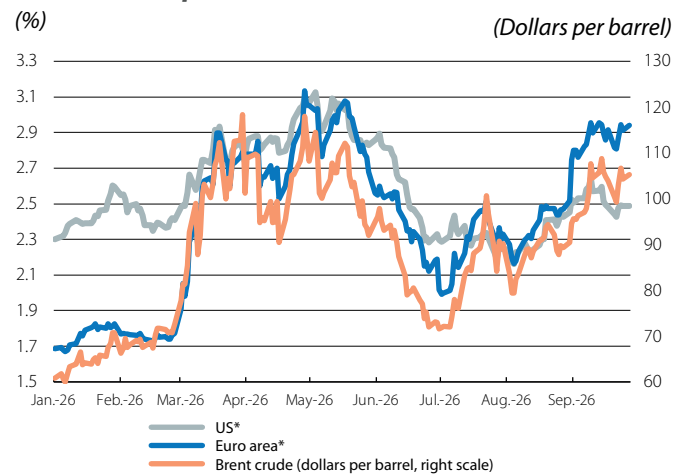
Geopolitics and fiscal policy weigh on financial markets

The conflict in Iran and long-term fiscal concerns determined the course of markets. The blockade of the Strait of Hormuz kept energy prices and inflation expectations high, prompting interest rate hikes by the ECB, the Fed and the Bank of Japan. However, towards the end of the month, ECB and Fed officials softened their hawkish rhetoric, which lowered investors' expectations for intervention rates over the next 12 months, as well as for further rate hikes in October. Expectations regarding central bank rates and fiscal concerns drove up sovereign yields across major developed economies. In the euro area periphery there was a widening of risk premiums, led by France. This was driven by the start of negotiations for the 2027 budgets and the challenges the French government is facing in correcting its deficit. This put pressure on the euro (already weighed down by a dollar that capitalised on the Fed's rate hike) and on European stock markets, while in the US, technology and semiconductors provided some support to stock market indices. Higher real interest rates in the US and the strength of the dollar also weighed on precious metals by eroding their relative appeal as a store of value.

Central banks raised rates but softened their rhetoric towards the end of the month. The ECB raised interest rates by 25 bps, bringing the depo rate to 2.50%, while the Fed set the fed funds rate in the range of 3.75%-4.00%. In both cases, the rate hike was justified by persistent inflationary pressures. However, their rhetoric softened in the last week of the month. For the ECB, Lagarde argued that the economy remains in a scenario of «controlled monetary tightening» and highlighted that recent market movements, with higher long-term rates, are also tightening financial conditions and helping to reduce inflationary pressures. In the US, following unexpectedly low PCE inflation in August, both Williams (New York Fed) and Vice Chair Jefferson advocated taking time to evaluate the economic data before deciding on any new adjustments. Investors thus began to factor in a lower likelihood of rate hikes in October for both central banks (the central scenario is a pause in October) and only three more rate increases on both sides of the Atlantic (compared to four additional hikes previously priced in). Euro area 1 and 2-year inflation swaps fell sharply in the final week, although they remained above their August levels (anticipating average inflation rates over the next two summers of around 3%).

Sovereign yields rebound sharply and spreads widen in the euro area. Long-term sovereign yields reached their highest levels in decades, although the dovish tone of central banks at the end of the month softened some of the increases. In the US, the curve shifted sharply upwards (by about 45 basis points on average across the various segments), with 10-year treasuries surpassing 5.20%. The curve, flattened for much of the month, steepened in the closing days. The rise in short-term rates moderated amid lower expectations for Fed rates, while rates at the long end of the curve remained strained by fiscal concerns, pushing the yield on the 30-year treasury up to its highest level since 2002. In the euro area, despite some rate

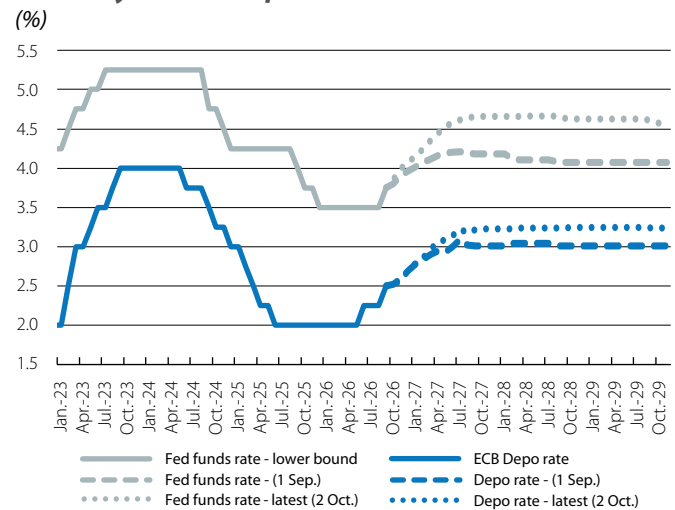
Inflation swap rates for the next two years and crude oil prices



Note: * Inflation swaps represent the average of the inflation rates expected for the corresponding month in the next two years.

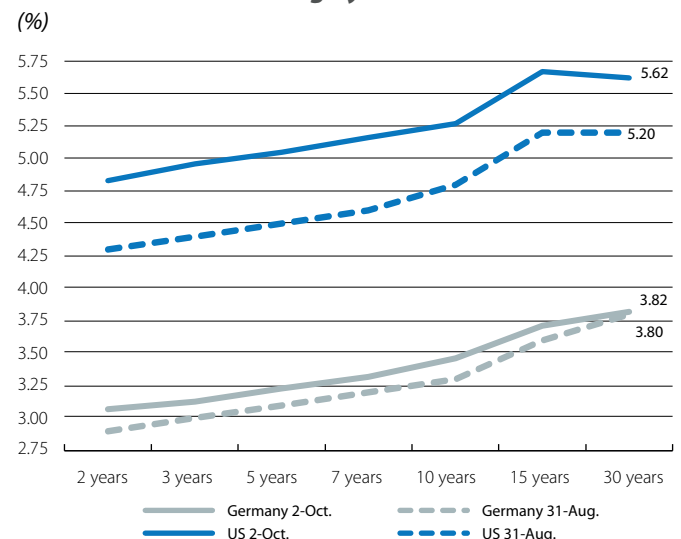
Source: BPI Research, based on data from Bloomberg.

Fed and ECB: interest rate expectations reflected in money market implied rates



Source: BPI Research, based on data from Bloomberg.

German and US sovereign yield curves



Source: BPI Research, based on data from Bloomberg.

hikes, investors sought refuge in German debt. This applied downward pressure to bund yields, especially at the short-term end of the curve, which also favoured a steeper yield curve. On the other hand, the French spread widened by more than 50 bps to exceed 140 bps, causing some contagion to Italian and Greek debt towards the end of the month. Spanish and Portuguese debt performed relatively better, with spreads widening by around 15 basis points. Despite this increase, they remained at comparatively low levels, below their 2024 average.

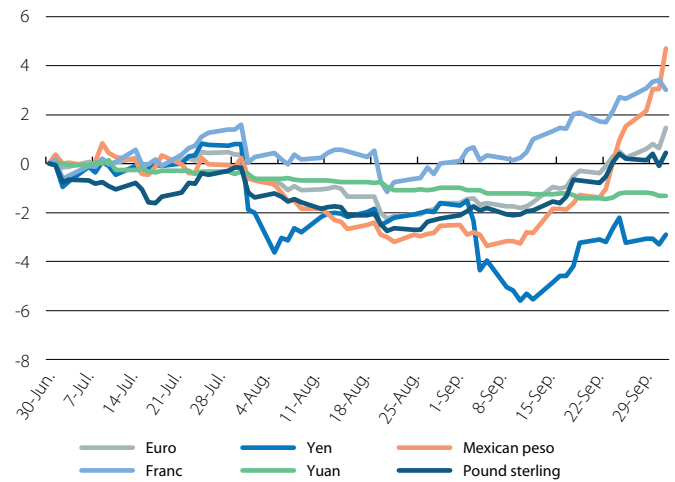
The Fed's rate hike strengthened the dollar, while the French crisis weighed on the euro. The US dollar appreciated against its main counterparts during the month (the nominal effective DXY index rose 3%), supported by an interest rate hike from the Fed, which successfully conveyed to investors a reduced tolerance for the current pace of disinflation. Against the euro, this movement continued amid a widening of the French premium and heightened political uncertainty, leaving the EURUSD down more than 3% over the month. The euro also fell against the pound and the Swiss franc, with the latter benefiting from a flight to safety. On the other hand, the yen, which started the month appreciating following interventions by the Japanese Ministry of Finance and the US Treasury in the foreign exchange market in August, weakened again towards the end of the month. Among emerging currencies, also affected by the strength of the dollar and high US interest rates, the Mexican peso recorded a particularly sharp depreciation of around 8%.

The technology sector widens the gap with other stocks. Optimism about AI continued to support the most exposed US companies, increasing concentration in the main indices as well as divergences with European stock markets. The strong performance of semiconductors and the Magnificent 7 allowed the S&P500 to end the month almost flat and the Nasdaq-100 to advance slightly, in what was an overall weak month for stock markets. However, market breadth was limited, with the equal-weighted S&P500, the Dow Jones and the Russell 2000, which tracks small-cap firms, all recording losses. In the euro area, both regional aggregates and the national indices of the main economies recorded setbacks of between 4% and 6%, with France's CAC-40 being the worst-performing index. Within the pan-European Stoxx 600 index, the automotive sector and those most exposed to high interest rates suffered the biggest setbacks, while only the energy and technology sectors recorded gains for the month.

Oil remained high despite volatility in the past week. After reaching 110 dollars per barrel, driven by the conflict in the Middle East, crude oil corrected some of its gains after Saudi Arabia resumed flows through an alternative pipeline and the US partially tapped into its strategic reserves. Nevertheless, Brent crude closed above 100 dollars per barrel and rose by more than 10% during the period. Gas prices also continued to rise, with the Dutch TTF benchmark increasing by nearly 5% and exceeding 70 euros/MWh, amid the onset of seasonal demand in Europe. Precious metals extended their losses (around 6% in the case of gold) as their appeal as a safe haven diminished in a context of high real interest rates and a stronger dollar.

Performance of selected currencies against the dollar

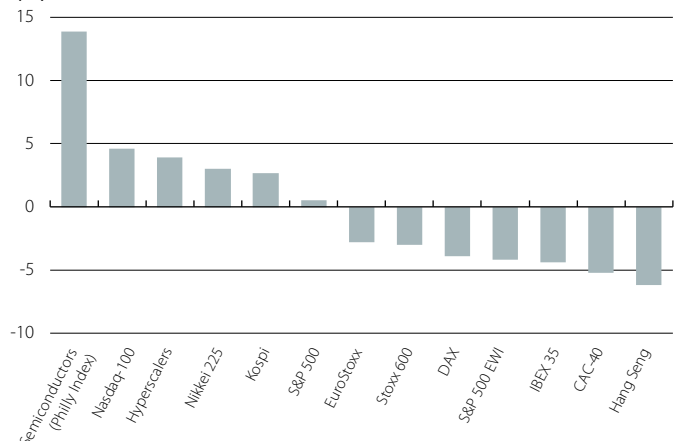
(% appreciation of the dollar since 30 June)



Source: BPI Research, based on data from Bloomberg.

Performance of the main stock market indices in September

(%)*

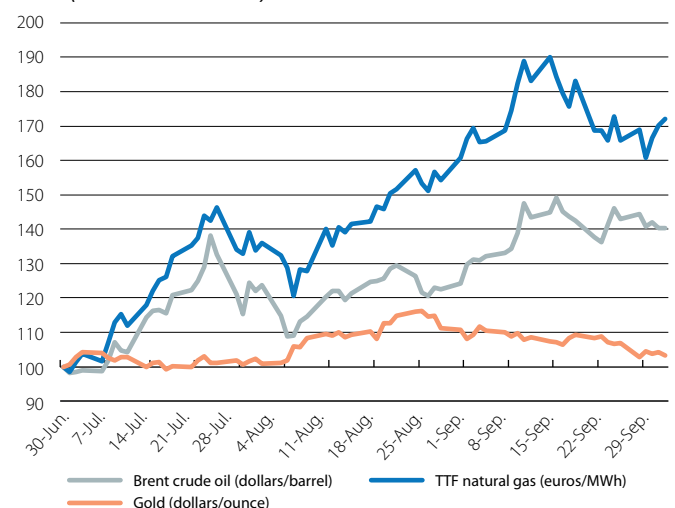


Note: * Cumulative change between 31 August and 2 October.

Source: BPI Research, based on data from Bloomberg.

Energy and gold prices

Index (100 = 30 June 2026)



Source: BPI Research, based on data from Bloomberg.

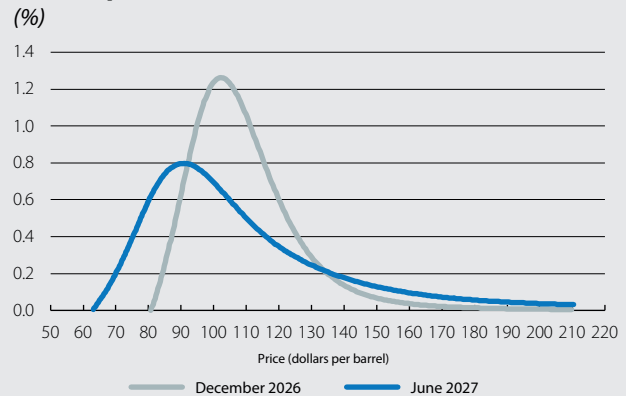
Global economic outlook and financial conditions: autumn 2026

The conflict in the Middle East and the disruptions it is causing continue to set the pace for the global economy. To date, economic activity has remained resilient and inflationary pressures, although significant, have been confined to energy, with no signs of substantial indirect effects on other prices. However, the persistence of the conflict and its uncertainty have led central banks to shift gears and implement the first interest rate hikes.

The starting point for our scenario is an environment of relatively demanding energy prices. Our forecasts are anchored in the oil and gas futures traded on financial markets, which as of the closing date of this article¹ suggest a gradual, albeit incomplete, easing over the coming quarters. Specifically, a barrel of Brent is expected to reach between 80 and 90 dollars in the final quarter of the year and between 75 and 80 dollars in 2027, while TTF gas prices are forecast to lie slightly below 70 euros for the remainder of 2026, before falling towards 40 euros during the course of 2027. This starting point is also subject to significant risk. Energy prices have shown an ability to ease rapidly if the conflict in the Middle East is resolved. However, the closure of the Strait of Hormuz is depleting the reserves that have cushioned the disruption of flows,² and the outlook has become more uncertain following the failure to reach a resolution over the summer. Thus, markets are pricing in a range of oil prices with a wide array of possibilities and a clear bias towards the persistence of disruptions (see first chart).

Based on the projected path for energy prices, economies such as the US and the euro area are likely to see inflation surpass 3.5% over the coming months, or even approach 4%, driven by energy and especially fuels.³ From the spring of 2027, inflation should fall suddenly⁴ and return to levels closer to 2.5%. One of the key factors will be whether or not energy inflation has spread by then to other prices. For now, the indirect effects are limited, and there are several factors that suggest they can remain limited in the future: the restrictive monetary policy, the less accommodative fiscal policy than in the past, and the fact that activity

Brent crude: price distribution according to the options market

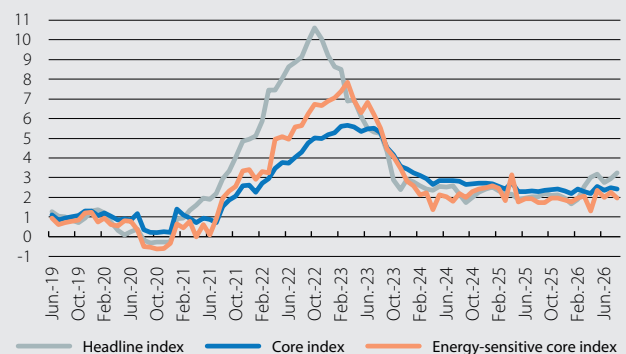


Note: Distributions for Brent oil futures for December 2026 and June 2027 implied in options prices quoted at the end of September 2026.

Source: BPI Research, internal calculations based on data from Bloomberg.

Euro area: HICP

Year-on-year change (%)



Notes: The core HICP excludes energy and all food items. The energy-sensitive core index only includes the items of the core HICP whose productive sector has a high energy intensity (according to data from input-output tables; see the Focus «European inflation: taking stock of the Middle East shock» in the MR07/2026).

Source: BPI Research, based on internal calculations and data from Eurostat.

remains resilient but is not booming. Nevertheless, three major sources of risk exist, stemming from refined oil products (such as diesel, the demand for which covers a variety of uses and which is further strained by the war in Ukraine and export restrictions), food (rising fertiliser costs, extreme weather events), and the threat of disruptions to global supply chains (e.g. attacks in the Red Sea).

It is the intensification of inflationary risks, linked to a longer and more uncertain conflict, that has led central banks to raise rates. In the data themselves, underlying price pressures have remained virtually unchanged since the start of the conflict (see second chart). However, the longer the disruptions last, the greater the risk that these price pressures could spread to other components, causing inflation to gain momentum. This is why both

1. Average quotations for the past 14 days up to early September.

2. The IEA estimates a drop in the global supply of crude oil of around 5% in 2026, absorbed in almost equal parts by the consumption of inventories and the adjustment of demand.

3. The main components of energy inflation are fuels and electricity. So far, the shock has primarily impacted fuels, while transmission delays and greater production from renewables (which reduces the role of gas as a marginal producer) have mitigated the impact on electricity.

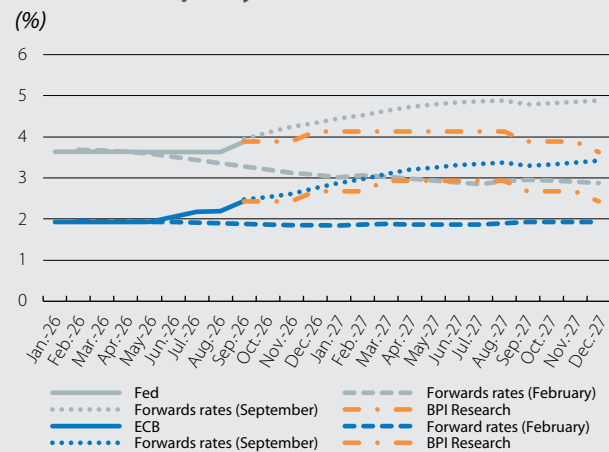
4. Due to base effects in energy, as the denominator for year-on-year inflation will include the initial months of the conflict.

the Fed and the ECB have started to raise rates. Furthermore, the resilience of economic activity gives both central banks room to tighten monetary policy a little more. All this leads us to anticipate that the Fed and the ECB will eventually raise rates to 4.00%-4.25% and to 3.00%, respectively. However, the improvement in inflation during the course of 2027 will likely allow for a relatively swift easing of monetary policy.⁵

Economic activity thus faces an outlook with higher energy prices, higher interest rates and higher inflation. At the same time, financial conditions as a whole are less restrictive than they might appear, thanks to the counterbalance provided by the strong performance of stock markets so far this year and the relative stability of exchange rates. Moreover, the AI-related *investment boom* is helping to offset the burden of the conflict in the Middle East. So far, economic activity has shown resilience: euro area GDP grew at an annualised rate of just over 1% in the first half of 2026⁶ and that of the US, at just under 2%, while China's GDP remained within the 4.5%-5.0% year-on-year range targeted by the authorities. Furthermore, in recent months, indicators such as the PMIs reveal a recovery in sentiment to the highest levels this year, leading us to project a continuation of steady economic growth, supported by a strong labour market.

There are regional differences behind this picture. The euro area is relatively more exposed to the rise in energy costs due to its reliance on imported fossil fuels, but it benefits from momentum in investment and defence spending plans. Furthermore, the periphery's dynamism

Fed and ECB: policy interest rates

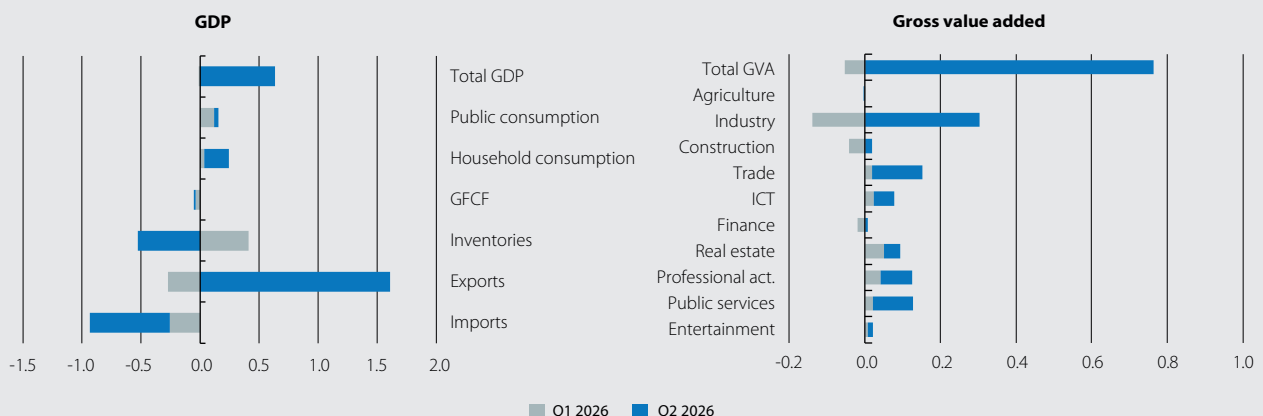


Note: Actual and forward rates for the effective federal funds rate (Fed) and €STR (ECB).
Source: BPI Research, based on data from Bloomberg.

and Germany's renewed acceleration contrast with France's stagnation. The greater energy autonomy of the US, on the other hand, reduces the direct impact of the shock, and US activity is also benefiting particularly from the AI boom. Nevertheless, persistent inflation and a restrictive monetary policy will also act as a brake on domestic demand. China's economy combines weakness in its real estate sector and domestic demand with resilience provided by its extensive oil inventories and the boost of higher value-added goods exports (related to green technologies and AI).

All this lays the ground for a challenging, but not necessarily negative, outlook. The Middle East, energy

Euro area: activity growth in 2026 to date (contribution to GDP or GVA, pps)



Notes: In GDP and GVA, the contribution of each quarter to the cumulative total up to Q2 2026 (compared to Q4 2025) is shown. For the components of demand and sectors, their contribution to the total GDP or GVA of the corresponding quarter is shown. Seasonally adjusted and calendar-adjusted data.

Source: BPI Research, based on data from Eurostat.

5. Markets are pricing in a more aggressive tightening, with higher rates for longer.

6. The euro area has grown at an average annualised quarter-on-quarter rate of 1.3% (1.2% excluding Ireland). Germany has done so at 1.6%, Spain at 2.7%, and Italy at 1.0%. France, on the other hand, has contracted at an annualised quarterly rate of 0.3%.

disruptions and geopolitical tensions will continue to determine the economy's course, so the outlook could change rapidly and in multiple directions. The AI investment cycle also presents double-edged risks: it could drive growth through increased demand and productivity, or it could hinder it if it triggers new episodes of financial turbulence.⁷ At the same time, we must not forget the environment of high public debt and higher interest rates, with increasing scrutiny from investors in economies such as France and the US. Finally, we must also not forget the trade tensions, despite the framework of US tariffs stabilising in the past year; after all, while their legal form may have changed, their basis has remained broadly similar, aiming for an average tariff with the rest of the world of around 10%.

Forecasts: economic activity and prices

Annual change (%)

	GDP			Inflation		
	2025	2026	2027	2025	2026	2027
US	2.3	2.1	1.9	2.6	3.3	2.3
		<i>2.6</i>	<i>2.0</i>		<i>2.6</i>	<i>2.2</i>
Euro area	1.3	1.0	1.4	2.1	3.0	2.6
		<i>1.3</i>	<i>1.5</i>		<i>1.9</i>	<i>2.0</i>
Germany	0.3	1.1	1.1	2.3	2.8	2.5
		<i>1.0</i>	<i>1.4</i>		<i>2.0</i>	<i>2.1</i>
France	0.9	0.5	0.9	0.9	2.4	2.3
		<i>1.0</i>	<i>1.2</i>		<i>1.3</i>	<i>1.7</i>
Italy	0.7	0.9	0.8	1.6	2.7	2.5
		<i>0.8</i>	<i>1.1</i>		<i>1.5</i>	<i>1.8</i>
China	5.0	4.5	4.0	0.1	1.0	1.5
		<i>4.5</i>	<i>4.0</i>		<i>1.0</i>	<i>1.5</i>

Notes: Average for the period. In blue and italics, forecasts prior to the conflict in the Middle East (February 2026).

Source: BPI Research.

Forecasts: financial environment

	Annual average			End of period		
	2025	2026	2027	2025	2026	2027
Brent crude (dollars per barrel)	68.2	86.8	78.5	61.6	83.7	75.9
		<i>67.2</i>	<i>65.4</i>		<i>66.0</i>	<i>64.8</i>
TTF gas (euros per MWh)	36.4	53.0	45.3	27.7	65.5	40.6
		<i>30.8</i>	<i>26.2</i>		<i>30.2</i>	<i>26.2</i>
Fed: official rate (FFR) (%, lower bound)	4.08	3.60	3.90	3.50	4.00	3.50
		<i>3.27</i>	<i>3.00</i>		<i>3.00</i>	<i>3.00</i>
ECB: official rate (depo) (%)	2.24	2.24	2.85	2.00	2.75	2.50
		<i>2.00</i>	<i>2.00</i>		<i>2.00</i>	<i>2.00</i>
US sovereign rate 10 years (%)	4.29	4.62	4.88	4.14	5.20	4.60
		<i>4.38</i>	<i>4.55</i>		<i>4.50</i>	<i>4.60</i>
German sovereign rate 10 years (%)	2.64	3.11	3.14	2.84	3.30	3.00
		<i>2.90</i>	<i>2.92</i>		<i>2.95</i>	<i>2.90</i>
Spanish sovereign rate 10 years (%)	3.23	3.56	3.66	3.28	3.80	3.55
		<i>3.35</i>	<i>3.48</i>		<i>3.45</i>	<i>3.50</i>
EUR-USD exchange rate (dollars per euro)	1.13	1.16	1.17	1.17	1.17	1.18
		<i>1.20</i>	<i>1.20</i>		<i>1.20</i>	<i>1.20</i>

Notes: In blue and italics, forecasts prior to the conflict in the Middle East (February 2026). Brent and TTF forecasts based on market futures.

Source: BPI Research.

7. Recent quarters have already provided some examples: the delicate balance between the high stock market valuations related to AI and the ambitious corporate earnings expectations, the risk of disruption in traditional sectors, and the competition for funding (which is contributing to higher sovereign interest rates).

Interest rates (%)

	30-September	31-August	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.65	2.40	25	50	50
3-month Euribor	2.62	2.59	2	59	60
1-year Euribor	3.33	3.00	33	109	114
1-year government bonds (Germany)	2.96	2.68	28	95	102
2-year government bonds (Germany)	3.21	2.94	27	109	118
10-year government bonds (Germany)	3.59	3.32	26	73	88
10-year government bonds (Spain)	4.13	3.78	36	85	87
10-year government bonds (Portugal)	4.01	3.67	34	86	89
US					
Fed funds (lower limit)	3.75	3.50	25	25	-25
3-month SOFR	4.08	3.80	28	43	10
1-year government bonds	4.54	4.14	40	107	90
2-year government bonds	4.89	4.34	55	141	127
10-year government bonds	5.28	4.75	53	112	115

Spreads corporate bonds (bps)

	30-September	31-August	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	63	51	12	12.1	6.7
Itraxx Financials Senior	69	54	16	15.1	9.5
Itraxx Subordinated Financials	115	87	27	21.7	12.7

Exchange rates

	30-September	31-August	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.133	1.162	-2.5	-3.5	-3.4
EUR/JPY (yen per euro)	178.350	185.590	-3.9	-3.1	2.4
EUR/GBP (pounds per euro)	0.854	0.857	-0.4	-2.0	-2.2
USD/JPY (yen per dollar)	157.410	159.740	-1.5	0.4	5.9

Commodities

	30-September	31-August	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
Bloomberg Commodity Index	141.8	141.4	0.3	29.3	35.0
Brent (\$/barrel)	103.5	90.5	14.4	70.1	52.3
Gold (\$/ounce)	4,157.4	4,437.4	-6.3	-3.7	8.4

Equity

	30-September	31-August	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	7,651.5	7,686.1	-0.5	11.8	14.9
Eurostoxx 50 (euro area)	6,269.0	6,420.2	-2.4	8.2	13.8
Ibex 35 (Spain)	19,426.2	19,974.1	-2.7	12.2	26.8
PSI 20 (Portugal)	9,666.8	9,437.2	2.4	17.0	21.1
Nikkei 225 (Japan)	66,753.7	66,311.9	0.7	32.6	48.2
MSCI Emerging	1,704.9	1,719.3	-0.8	21.4	27.3

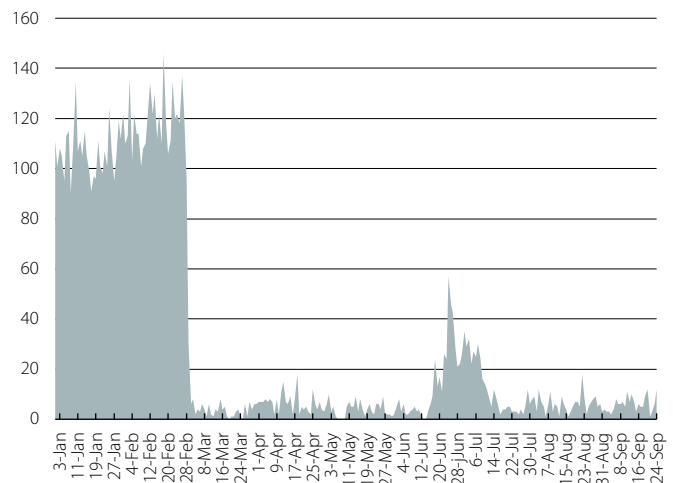
The international economy withstands the shocks, for now

The conflict in the Middle East continues. The war involving Iran, the US and Israel has been ongoing for nearly seven months and is currently in a tense phase. The military stalemate on the ground coincides with challenging diplomatic negotiations, as demonstrated during the UN General Assembly held in late September, while Trump intensifies his rhetoric demanding a swift and definitive deal. The Strait of Hormuz remains the strategic centre of the conflict, with barely any maritime traffic passing through it. Furthermore, the attacks by the Iran-backed Houthi rebels from Yemen on Saudi Arabian facilities and ships are exacerbating the situation for the energy market (the Saudi kingdom even closed a pipeline) and are threatening the Bab el-Mandeb Strait, which connects the Suez Canal with Europe. In this context, the price of Brent crude oil exceeded 100 dollars per barrel in September, around 15% higher than in August, while the price of the European benchmark for liquefied natural gas fluctuated between 70 and 80 euros/MWh, reaching an almost three-year high.

Overall, the global economy has shown resilience to date, thanks to support from public policies in offsetting the energy shock, the availability of energy stockpiles and the significant boost from AI-related investment and trade. In fact, in its September report the OECD slightly revised its growth forecast for 2026 upwards across the board, although it is somewhat more cautious about 2027. It anticipates that global growth will slow slightly to 2.9% in 2026 and recover to 3.0% in 2027. Meanwhile, the rise in inflation is currently limited to energy, and its impact on other prices is still relatively contained among the major developed economies. This explains why medium-term inflation expectations remain anchored around central banks' targets. However, the trend in energy prices poses a significant downside risk to activity, particularly as the winter season approaches and especially for economies more reliant on energy imports.

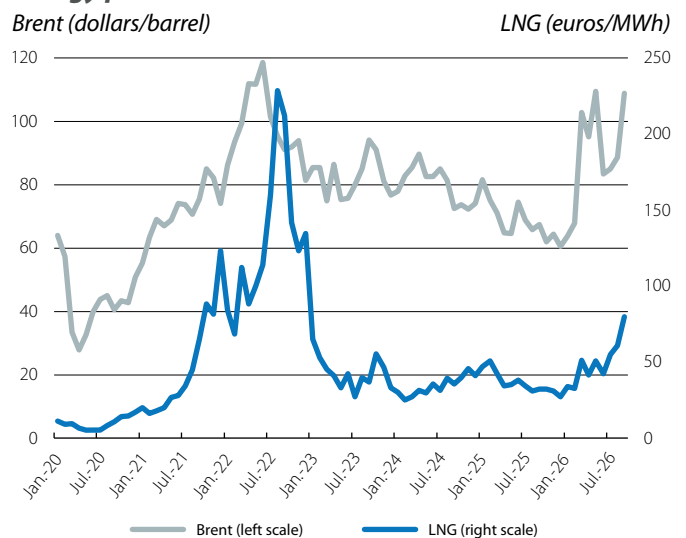
Business climate surveys indicate a fairly dynamic Q3 in the euro area. The main business climate and opinion indicators suggest that euro area growth (excluding Ireland) in Q3 maintained the good momentum of Q2, despite the worsening energy crisis and increased uncertainty. The euro area PMI reached a three-and-a-half-year high in September, rising by 1.1 points to 53.1 (with 50 being the threshold indicating positive growth), thanks to the significant revival of the services sector. By country, it surpassed the 50-point threshold in France for the first time this year and reached an 11-month high in Germany. This improvement in business optimism regarding Germany is bolstered by the trend in the Ifo business confidence index, which in September reached its highest level since May 2023 (89.9, with 100 being the benchmark threshold), as well as by signals from the ZEW,

Ship traffic through the Strait of Hormuz Daily transits



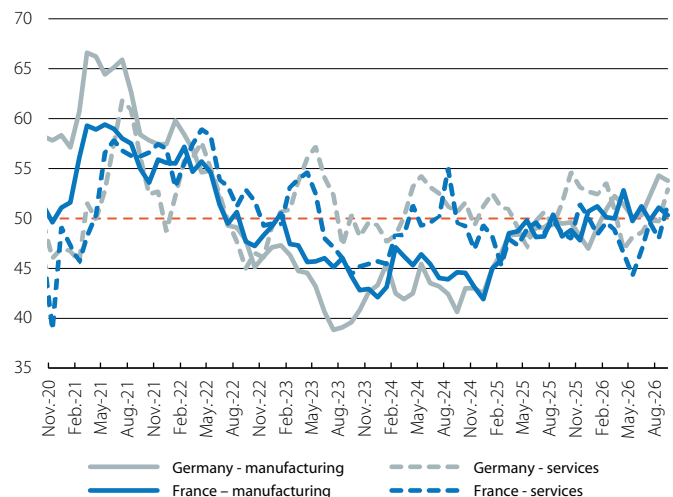
Source: BPI Research, based on data from Bloomberg.

Energy prices



Source: BPI Research, based on data from Refinitiv Workspace.

Euro area: PMI by component Index (>50 expansion; <50 contraction)



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

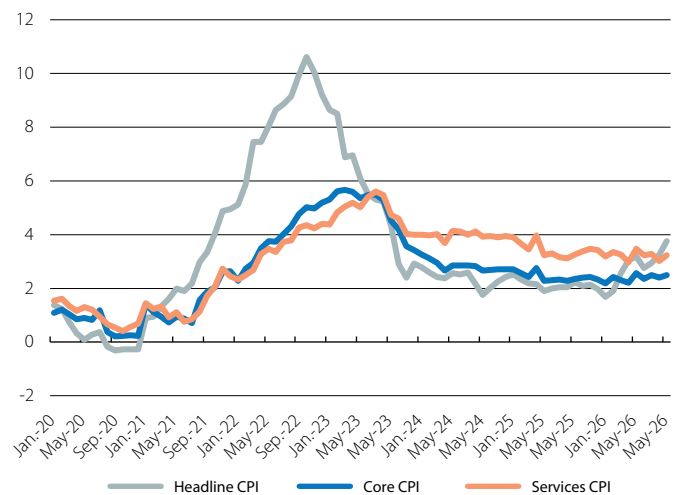
with more than 46% of respondents in September anticipating an improvement in the situation, compared to 12% who fear a deterioration.

However, the actual data dampen the optimism among business surveys, particularly in Germany. In contrast to the optimism shown by business surveys in Germany, confidence among German households remains low, against a backdrop of a slow rise in the unemployment rate (4.0% in July, the highest since the pandemic) and a rather weak start to the third quarter as suggested by July's activity indicators. In fact, retail sales in the country fell by 3.4% month-on-month (which dragged the figure for the euro area down to -0.6%). The dynamism of industrial orders (+2.5% month-on-month), meanwhile, was mainly explained by the boost from the more erratic items (transport and defence), given that excluding them, orders would have fallen by 1.4%. This underlying weakness aligns with the decline in industrial production (-1.1% month-on-month vs. 0.0% in July) and the slowdown in exports (-0.8% month-on-month vs. 0.0%). In this context, euro area headline inflation rose by 0.6 pps in September to 3.8%, the highest in three years. This increase was driven by the renewed surge in energy prices, as core inflation climbed just 0.1 pps to 2.5%, indicating that the indirect effects of the energy shock remain limited.

Inflation in the US remains under upward pressure due to energy while its labour market remains highly volatile. The latest data suggest a slowdown in household consumption: in July, it stagnated in real terms after growing by 0.4% in the previous two months, allowing the savings rate to recover to a four-month high (+0.4 pps, reaching 3.0% of disposable income). Moreover, the indicators do not hint at any substantial recovery in the coming months, in line with the renewed decline in the Michigan confidence index in August (among the lowest since the summer of 2022) and that of the Conference Board, which has spent much of the year fluctuating around its lowest levels since early 2021. Industrial production also stagnated in August (after two months of 0.2% month-on-month growth). However, the trend shown by the sector's main climate indicators suggests this stagnation may be temporary: in September, the manufacturing PMI (+2.0 points, to 55.9) and the manufacturing ISM (-0.1 points, to 54.5) are firmly at levels consistent with dynamic growth in the sector. Job creation remains highly volatile, closing the third quarter with an average of 51,000 jobs created per month, below the monthly average of 76,000 jobs in the first half of the year. The unemployment rate increased by 0.1 pps to 4.2% in September. Inflation, meanwhile, remains under upward pressure due to energy: in August, the headline rate held steady at 3.4% according to the CPI, while the core rate fell by 0.1 pps to 2.4%.

Euro area: harmonised CPI

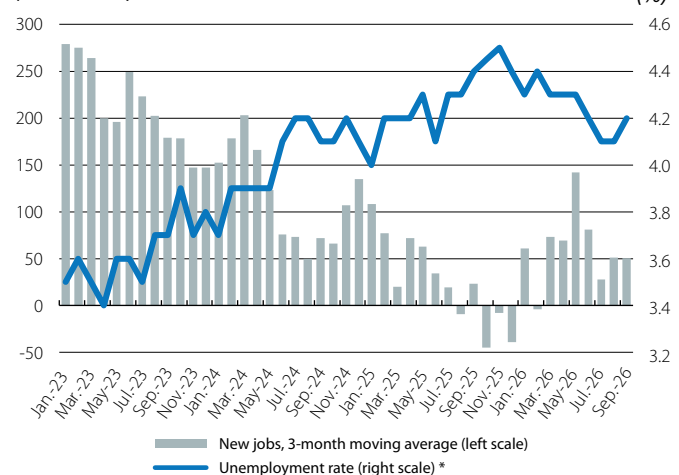
Year-on-year change (%)



Source: BPI Research, based on data from Eurostat.

US: employment

(Thousands)

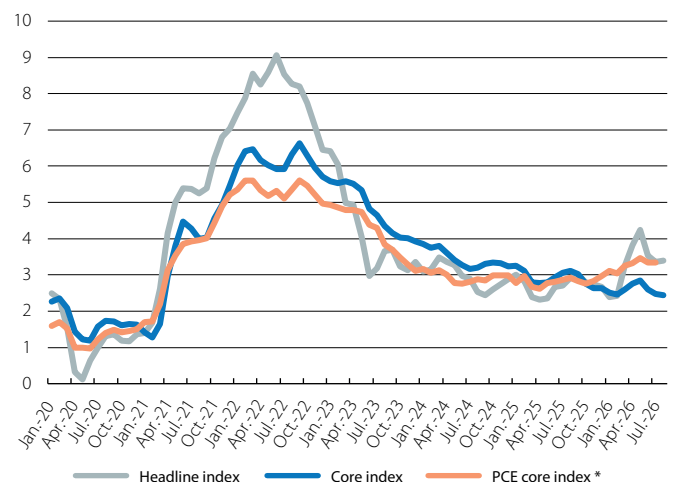


Note: * The unemployment rate for October 2025 was not published due to the government shutdown; the figure shown has been interpolated.

Source: BPI Research, a partir de datos del Bureau of Labor Statistics.

US: price indicators

Year-on-year change (%)



Note: * The PCE is the benchmark used by the Fed, while the core index excludes energy and all food.

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

Are the midterms important for Trump? And for the US?

On 3 November, Americans will return to the polls to renew the entire House of Representatives and one-third of the Senate, the two chambers in which the Republican Party secured a majority in 2024. Although Donald Trump will not appear on the ballot, these elections represent the first major national test of his second term. Opinion polls and election results since his return to the White House currently point to a political environment favourable to the Democrats. At the same time, the regions and social groups that contributed most to the Republican swing in 2024 do not yet appear to have reaped the economic benefits they were promised. The outcome will thus test the confidence that the electoral base which returned Trump to the presidency continues to place in him. More importantly, however, it will determine the institutional checks on his power and influence the debate within the Republican Party surrounding the continuation of his agenda ahead of the 2028 presidential elections.

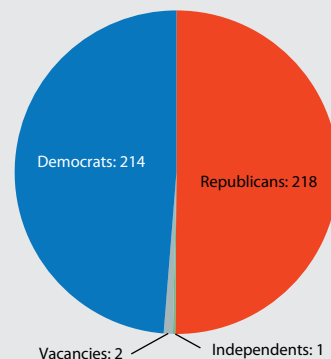
What is being decided on 3 November?

In the midterm elections, all 435 members of the House of Representatives and 35 of the 100 senators will be up for election (see the first two charts).¹ The Democrats need to increase their number of representatives from 214 to 218 to regain the House, while they require four additional seats to achieve a majority of 51 senators, as the vice presidency – and therefore the tie-breaking vote – will remain in Republican hands.

The extent of a Democratic victory will depend on which chamber is won. Control of the Senate would allow them to block appointments of federal judges, senior administration officials, or members of the Federal Reserve. Control of the House would grant them greater powers to conduct investigations into the Executive, demand documents and examine potential conflicts of interest or abuses of power – a strategy which Democratic leaders seem to prefer over immediately initiating a new impeachment process. A Democratic majority in either chamber could block new Republican legislation, while control of both would allow an alternative agenda to be advanced, although Trump would retain veto power. In the fiscal sphere, the new political balance could modify some of the planned spending cuts in the One Big Beautiful Bill Act (OBBBA) or make it difficult to extend its temporary provisions, although it would be unlikely to alter substantially the projected path of the national deficit and debt in the absence of bipartisan agreements. The political confrontation could also extend to funding

1. Of the 35 Senate seats up for grabs, 33 are up for regular renewal and 2 are special elections to decide who will complete the terms of J.D. Vance and Marco Rubio, who were provisionally replaced after taking up their positions as Vice President and Secretary of State, respectively.

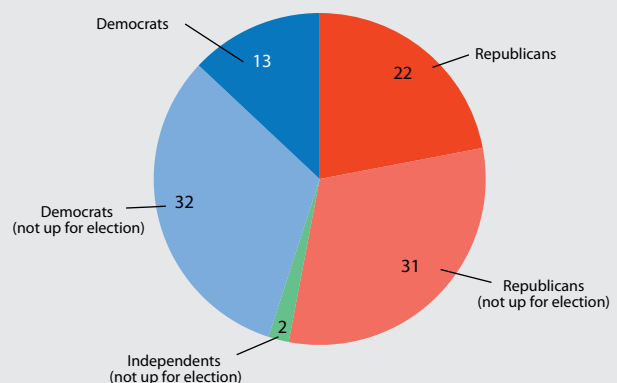
US: current composition of the House of Representatives



Note: 435 representatives in total. Majority with 218 representatives. The 2 vacancies correspond to representatives who have resigned (1 Democrat and 1 Republican). The independent representative changed affiliation from the Republican Party.

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

US: current composition of the Senate and seats up for election in the midterms



Note: 100 senators in total. Majority with 51 senators. The two independent senators join the Democratic bloc.

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

bills, complicating the approval of federal spending and increasing the risk of partial government shutdowns, with the associated economic costs.²

Losing control of Congress would not prevent Trump from continuing to act through executive orders and powers delegated by previous laws, especially on matters related to migration, trade and foreign policy. He would have considerable room for manoeuvre, though not unlimited: he would need funding to implement some measures and his decisions would remain subject to existing laws and court oversight. The Supreme Court's setbacks to the tariffs imposed under the IEEPA and

2. Congressional Research Service (2026), «Past Government Shutdowns: Key Resources» and Congressional Budget Office (2025), «A Quantitative Analysis of the Effects of the Government Shutdown on the Economy Under Three Scenarios».

the attempt to restrict birthright citizenship illustrate these limits.³

Opinion polls favour the Democrats

The Democrats have history on their side: the president's party has lost seats in the House in 20 of the 22 midterm elections held since 1938.⁴ This consistency does not determine the outcome, but it reinforces the interpretation of the opinion polls, which already place the Republicans in a vulnerable position.

At the end of September, the average of the polls on congressional voting intentions placed the Democrats some 7-8 points ahead of the Republicans (see third chart). This advantage does not automatically translate into seats, given the district boundaries and the geographical distribution of votes, but it is consistent with a significant risk to the narrow Republican majority in the House. The prediction market platform Polymarket assigned, at the end of September, a 90% probability to a Democratic House and just under a 40% probability to the Republicans retaining the Senate (see fourth chart). The difference is due to the characteristics of the electoral map. To regain control of the Senate, the Democrats need to emerge with a net gain of four seats. Their main opportunities lie in states currently represented by Republicans, such as North Carolina, Maine, Alaska and Ohio, while Iowa and Texas present more challenging options. At the same time, they must retain Georgia and Michigan, two states won by Trump in the 2024 presidential elections.⁵

Elections results have offered similar signals. In 2025, the Democrats took control of the government in Virginia, retained power in New Jersey, and maintained the progressive majority in the Wisconsin Supreme Court (whose members are elected at the polls) in a state where Trump had won in 2024. More revealing still is the pattern of elections held since his inauguration: in an analysis published in April on 229 federal and state elections with candidates from both parties (mainly special elections for Congress and state legislatures), Democrats exceeded the vote share obtained by Kamala Harris in 2024 in 193 of them, with an average improvement of 5 points.⁶ In the New York mayoral elections, Zohran Mamdani's victory, with a campaign focused on housing and the cost of living, provided further evidence that an alternative economic agenda could gain support even in neighbourhoods

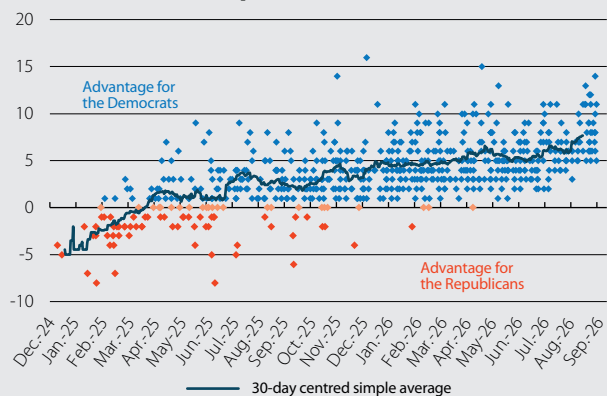
3. See the Focus «The new US tariff landscape (2026 back-to-school edition)», in the MR09/2026, and the Focus «Trump 2.0 immigration policies: the end of the American Dream?», in this same *Monthly Report*.

4. See Brookings Institution (2025), «What History Tells Us About the 2026 Midterm Elections».

5. See The Cook Political Report (2026), «2026 Senate Race Ratings».

6. POLITICO (2026), «Democrats Have Made Up Ground in Nearly Every Election Since Trump Took Office». In any case, this signal should be interpreted with caution, due to the typically lower turnout in special elections and because Harris had performed worse than other Democratic candidates in some areas.

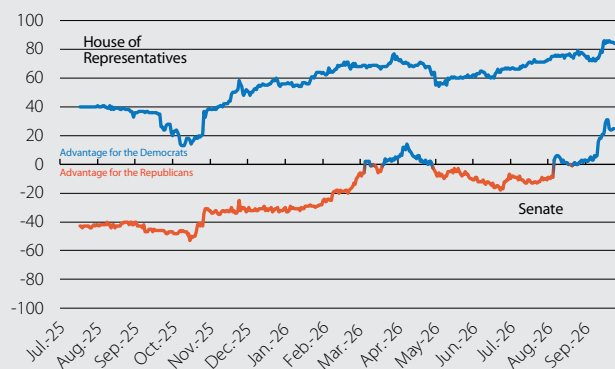
US: difference in voting intention between Democrats and Republicans for the midterms



Note: Each point represents the balance of the difference for a given poll. The orange points correspond to a neutral balance.

Source: BPI Research, based on data from The New York Times.

US: difference between the probabilities of Democratic and Republican control of each chamber in the midterms (pps)



Source: BPI Research, based on data from Polymarket (via Bloomberg).

where the Republican vote had made significant gains in the last presidential elections.

Have the areas that shifted towards the Republicans received the promised economic dividend?

Trump's victory in 2024 was supported by greater mobilisation among Republican voters, the abstention of former Democratic voters, and concerns about inflation and immigration. His gains were widespread across the country: his vote share increased compared to 2020 in 9 out of 10 counties and gained ground most notably in large urban areas, regions with a high immigrant population, southern Florida, the Texas border region, and the industrial states of the Midwest.⁷ The question now is whether those areas have experienced the changes they were hoping for and whether their voters feel their situation has improved.

7. Economic Innovation Group (2024), «The Economic Geography of the 2024 Elections».

The available data do not allow us to identify any distinct economic dividend in the areas that led the swing towards the Republicans. The US economy has maintained positive growth, but in August 2026 only eight states recorded a statistically significant year-on-year increase in non-farm employment, while 10 showed notable rises in their unemployment rates compared to a year earlier.⁸ These statistics indicate that the improvement in employment is far from widespread, although they do not allow a causal link with Trump's policies to be established. It is also worth noting that voters' perceptions are influenced by party identification.⁹

Tariffs provide protection against foreign competition for producers of steel and other goods, but they also increase costs for companies that use imported metals and components. This tension is particularly relevant for the industrial belt of Michigan, Pennsylvania, Wisconsin and Ohio. The available evidence suggests that tariffs have increased the cost of imported goods without yet producing a noticeable improvement in overall employment, with modest and uneven labour effects across sectors and regions.¹⁰ Moreover, the energy shock triggered by the conflict in the Middle East has added new inflationary pressures, directly affecting fuel costs, which are one of the most visible prices for American households. It has also driven up interest rates, complicating the main economic expectation placed on Trump: bringing down the cost of living.¹¹

Migration policy presents a similar tension. Some preliminary analyses link the intensification of operations and detentions carried out by the Immigration and Customs Enforcement (ICE) agency with declines in

local labour supply, consumption and employment, including that of US-born workers.¹² Their impact could also be electoral. Trump significantly increased his support among Latino voters in 2024, largely driven by economic discontent, but the 2025 elections in Virginia and New Jersey reversed some of that progress. Polls indicate that his support is weakening amid high prices and these communities' exposure to ICE operations, although it is still unclear how much is due to changes in voting and how much to increased mobilisation among Democrats.¹³

The greatest challenge between now and 2028 will be for the economy

A Republican defeat would not leave Trump powerless, but it would alter his incentives. Without the possibility to seek re-election and with reduced legislative power, he could shift his focus towards areas with greater presidential autonomy, such as trade, migration and foreign policies, increasing regulatory and geopolitical uncertainty. The midterms will thus determine how much of his agenda Trump can fund, safeguard and turn into a lasting legacy. For the Republican Party, a defeat would also pose the dilemma of maintaining an agenda that energises its base but could jeopardise its chances in the 2028 presidential elections. For the US, the issue at stake is balancing the ability to act with institutional checks: an opposing Congress could limit the most disruptive decisions and reduce legislative surprises, but it could also lead to a period of deadlock, legal challenges and less predictable budgeting. Ultimately, whatever political balance emerges from the ballot box, it will not be neutral for the US economy and will influence the level of uncertainty in the coming years.

8. Bureau of Labor Statistics (2026), «State Employment and Unemployment, August 2026».

9. C. Sahm (2026), «Consumer Sentiment Isn't Politics, but Politics Is Reshaping It».

10. M. Azzimonti and J. Titcomb (2026), «U.S. Import Tariffs in 2025: Realized Tariff Rates, Import Prices, and Local Labor-Market Effects», and J. Matschke and M. Dzholos (2025), «Higher Tariffs Might Have Created Headwinds to Employment Growth in 2025».

11. Federal Reserve Bank of Chicago (2026), «The Aftermath of the 2026 Oil Shock: Some Alternative Macroeconomic Scenarios».

12. E. Cox and C.N. East (2026), «Labor Market Impacts of ICE Activity in Trump 2.0», and E. Hernández (2026), «ICE-ing the Economy: Immigration Enforcement Under Trump 2.0 and Local Economic Activity».

13. Pew Research Center (2025), «Voting Patterns in the 2024 Election»; Pew Research Center (2026), «Trump's approval rating hits second-term low among his Latino voters, though many still approve»; and CBS News (2025), «Latino Voters Swing Toward Democrats in 2025 After Trump's 2024 Historic Gains».

Trump 2.0 immigration policies: the end of the American Dream?

The 250th anniversary of the US Declaration of Independence comes at a time when, more than at almost any point in its recent history, the country is debating the scope of one of its founding ideals: the equality of all people, their freedom to forge their own path in life and their right to pursue a better future. This is a vision that has helped define the country as a nation of immigrants and a land of opportunity. Restrictive immigration policies are not a new development in US history, nor are they the defining feature of the second Trump administration compared with its predecessors. What is new is the breadth and speed of their application, as well as their potential impact on constitutional principles, from birthright citizenship to basic procedural guarantees. Although their medium-term socio-political consequences remain uncertain, some significant economic effects are already evident: lower demographic momentum, tensions in specific segments of the labour market, and a potential erosion of the US ability to attract international talent.

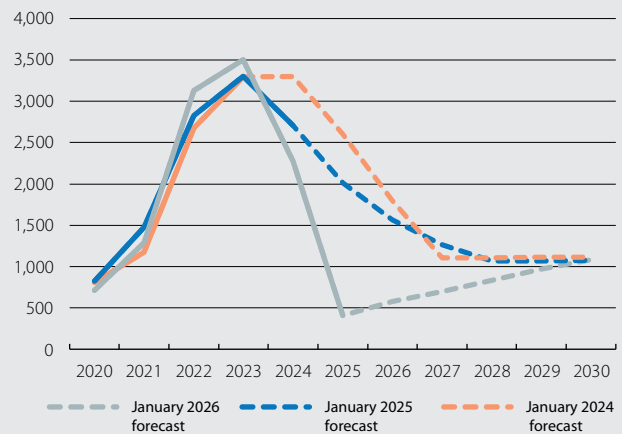
Broad-based restrictions: from managing migration flows to reducing the migrant stock

Trump 2.0's shift on migration began on the very day of his inauguration. On 20 January 2025, the president signed several executive orders aimed at strengthening border control, restricting access to asylum, expanding detention and deportation powers, and reviewing various pathways for legal and humanitarian immigration. Among other measures, electronically processed appointments for asylum applications were cancelled; the Remain in Mexico programme was reactivated, requiring asylum seekers to await the outcome of their application on Mexican soil; the use of expedited removal procedures was expanded; and various refugee admission programmes, temporary authorisations (parole), and temporary protection mechanisms against deportation for certain nationalities were suspended or limited. New travel bans were introduced for citizens of 19 countries (later expanded to 39 countries), along with stricter visa control requirements, and measures aimed at encouraging «self-deportation» and reducing the incentives to remain in the country without legal status.

Although many of these policy instruments have been used by previous administrations, what is new under Trump 2.0 is their simultaneous application across the entire migration cycle: from entry into the country and access to asylum to legal residence, regularisation and removal. Obama combined high levels of deportation with administrative relief mechanisms such as DACA, which temporarily protected undocumented immigrants

Net immigration in the US

(Thousands of people)



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

who arrived in the country as minors from deportation; Trump 1.0 introduced travel bans, the border wall and Remain in Mexico; and Biden attempted to channel flows through legal and humanitarian routes, although he progressively tightened border controls. Trump 2.0 goes a step further by attempting to reduce both new arrivals and the stock of immigrants already present in the country.

The change is particularly evident in the legal sphere. The current administration attempted to restrict automatic birthright citizenship recognised by the 14th Amendment of the Constitution through an executive order, but the Supreme Court invalidated the measure in June 2026. Subsequently, an order with a more limited scope has also been provisionally blocked by a federal court. The administration has also promoted the wider use of expedited removals and administrative detention, which has reopened the debate on the scope of procedural safeguards applicable to non-citizens and the constitutional limits of immigration policy, including the role of federal courts in overseeing executive decisions in this area.

Economic impact: reduced demographic momentum and tensions in the labour market

The effects of the measures described in the previous section have already begun to be reflected in US demographic and labour dynamics. Using the latest population projections by the Congressional Budget Office (CBO) as a reference, the advent of the second Trump administration has led to a significant reduction in projected net immigration flows for the coming years (see first chart). Although the CBO had already anticipated a normalisation of flows following the high levels of

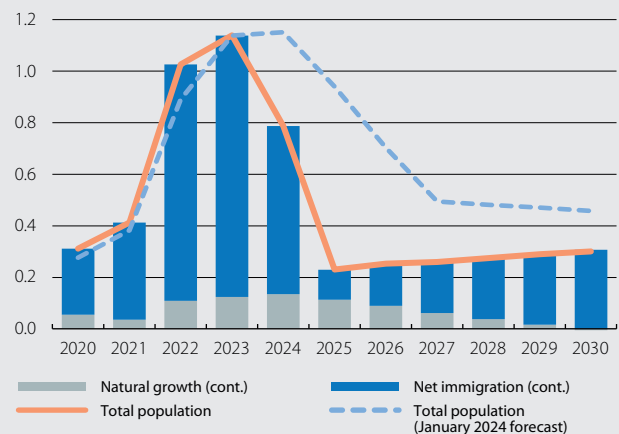
previous years, in September 2025 it lowered its net immigration forecast for that year by 1.6 million compared to the figure published in January. Overall, cumulative net immigration between 2025 and 2030 is expected to be approximately 3.5 million lower than anticipated prior to the current administration.¹ This revision is particularly relevant because the country is currently in a phase in which immigration is crucial for sustaining population growth. Indeed, this dependency will intensify from 2030, when, according to the CBO itself, deaths will outnumber births and the natural balance will become negative (see second chart).

The implications of this shift go beyond the demographic dimension and directly affect the labour market. Immigrants account for around one-fifth of the US labour force (19.1% in 2025) and they played a crucial role in the post-pandemic employment growth.² However, the growth of the foreign-born workforce has moderated sharply since 2025, in line with the slowdown in migration flows. Some estimates attribute between 40% and 60% of the slowdown in non-farm job creation observed during 2025 to reduced immigration, although the broader weakening of the demand for labour also played a significant role.³ While there is currently no widespread labour shortage or any significant impact on overall wages, the effects are already visible in certain sectors and regions where the percentage of foreign labour is higher. The Federal Reserve's Beige Book from October 2025 already identified labour supply tensions in agriculture, construction, hospitality and manufacturing associated with changes in migration policy, with explicit mentions of hiring difficulties, delays in certain projects and wage pressures in specific regional markets. These developments have also been documented in subsequent reports.⁴

An additional channel affects the US' ability to attract international talent. Migration restrictions have not been limited to lower-skilled jobs: they also affect students, researchers and highly educated workers. In the university sector, new international enrolments fell by 17% in autumn 2025, with surveyed institutions citing difficulties obtaining visas and travel restrictions as key factors.⁵ This setback is particularly significant because universities are one of the main gateways to the job market for international talent and represent an essential

Population projections (January 2026)

Annual change (%)



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

source of human capital for knowledge-intensive sectors.⁶ In addition, new restrictions and increased bureaucratic requirements for certain academic and professional visas have led to heightened uncertainty in fields such as technology, finance, scientific research and advanced innovation. It is still too early to conclude that talent is shifting towards other destinations. However, if this trend consolidates, it could limit the availability of the human capital needed to fully leverage the current investment cycle in AI and translate it into productivity gains.⁷

Measures against history...

Experience suggests that migration restrictions rarely eliminate the economic needs that drive population movements. In the US, both the Chinese Exclusion Act of 1882 and the termination of the Bracero programme in 1964 were partly justified by the expectation of improving job opportunities for the native population.⁸ However, subsequent evidence indicates limited effects on wages and employment, while the main adjustments occurred through technological changes, the reorganisation of production or reduced economic activity in the most affected areas.⁹ Although it pertains

1. Estimate based on Congressional Budget Office (2025), «The Demographic Outlook: 2025 to 2055» and Congressional Budget Office (2026), «The Demographic Outlook: 2026 to 2056».

2. Bureau of Labor Statistics (2026), «Labor Force Characteristics of Foreign-Born Workers: 2025».

3. S. Mongey (2025), «Immigration Can't Explain Declining Employment Growth».

4. Federal Reserve System (2025), «Beige Book, October 2025».

5. J. Baer and S. Ekin (2025), «Fall 2025 Snapshot on International Student Enrollment».

6. According to data from the National Science Foundation, around three-quarters of international graduates who earned a doctorate in science and engineering in the US between 2017 and 2019 on a temporary visa were still residing in the country in 2023.

7. See the Dossier «The present and futures of the new AI economy», in the MR05/2026.

8. The Chinese Exclusion Act suspended the entry of Chinese workers into the US from 1882, while the Bracero programme channelled the temporary hiring of Mexican workers, mainly for agriculture, between 1942 and 1964.

9. M. Clemens, E. Lewis and H. Postel (2018), «Immigration Restrictions as Active Labor Market Policy: Evidence from the Mexican Bracero Exclusion», and J. Long, C. Medici, N. Qian and M. Tabellini (2024), «The Impact of the Chinese Exclusion Act on the Economic Development of the Western US».

to a different institutional context, Britain's experience after Brexit points in a similar direction. The end of the free movement of European workers in January 2021 led to a sharp drop in immigration from the EU and labour supply tensions in certain sectors, especially those most reliant on EU workers.¹⁰ However, part of this decline was later offset by an increase in non-EU immigrants, with no available evidence indicating widespread improvements in employment or wages for the native population attributable to stricter migration policies.

The main lesson is that an effective migration policy requires more than just entry restrictions. It also requires credible mechanisms for enforcing legislation, legal certainty for workers and businesses, and cooperation with neighbouring countries to manage flows that are driven by long-term economic and demographic forces. Furthermore, the loss of competitiveness relative to China in some US industrial sectors can hardly be

explained by immigration. Innovative capacity, infrastructure, institutional quality, the availability of suitable human capital, and the strength of technological and industrial ecosystems appear to be much more decisive factors in explaining an economy's competitive position. In this regard, migration policy can complement a competitiveness strategy, but it cannot replace it.

In a context of an ageing population,¹¹ the question is not so much whether the US will remain a nation of immigrants, but whether it will retain the ability to attract and retain the talent and workforce that have historically contributed to its economic dynamism and competitiveness, and thereby, its status as a land of opportunities.¹² The EU could seize this opportunity to advance its ambitious – and necessary – competitiveness agenda,¹³ perhaps laying the foundations for a European Dream.

10. J. Portes and J. Springford (2023), «Early Impacts of the Post-Brexit Immigration System on the UK Labour Market, Centre for European Reform».

11. See the Dossier «Challenges and policies in the age of longevity», in the MR09/2025.

12. National Academies of Sciences, Engineering, and Medicine (2017), «The Economic and Fiscal Consequences of Immigration».

13. See the Focus «How far has the EU progressed on the Competitiveness Compass?», in the MR04/2026.

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

UNITED STATES

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Activity									
Real GDP	3.0	2.3	2.6	2.0	2.6	2.2	–	–	–
Retail sales (excluding cars and petrol)	3.4	4.5	4.6	3.9	4.6	5.6	4.7	5.6	...
Consumer confidence (<i>value</i>)	104.5	96.1	97.4	94.2	90.7	92.2	90.2	88.6	81.9
Industrial production	–0.7	1.1	1.7	1.6	0.8	1.5	1.1	1.4	...
Manufacturing activity index (ISM) (<i>value</i>)	48.2	48.9	48.7	48.2	52.6	53.3	55.6	54.6	54.5
Housing starts (<i>thousands, monthly average</i>)	1,370	1,356	1,347	1,323	1,418	1,345	1,309	1,275	...
Case-Shiller home price index (<i>index</i>)	330	339	338	341	343	344	346	...	...
Unemployment rate (% <i>lab. force</i>)	4.0	4.3	4.3	4.5	4.3	4.3	4.1	4.1	4.2
Employment-population ratio (% <i>pop. > 16 years</i>)	60.1	59.8	59.6	59.7	59.3	59.1	58.9	59.1	59.2
Trade balance ¹ (% <i>GDP</i>)	–2.7	–3.3	–3.4	–3.1	–2.5	–2.3	–2.3	...	...
Prices									
Headline inflation	3.0	2.7	2.9	2.7	2.7	3.9	3.4	3.4	...
Core inflation	3.4	2.9	3.1	2.6	2.5	2.7	2.5	2.4	...

JAPAN

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Activity									
Real GDP	0.1	1.2	0.6	0.4	0.6	0.9	–	–	–
Consumer confidence (<i>value</i>)	37.2	34.7	34.8	36.7	36.9	33.2	34.9	35.5	35.4
Industrial production	–3.0	0.1	–1.1	–1.3	1.2	1.9	3.9	3.4	...
Business activity index (Tankan) (<i>value</i>)	12.8	13.5	14.0	15.0	17.0	22.0	–	–	–
Unemployment rate (% <i>lab. force</i>)	2.5	2.5	2.5	2.6	2.7	2.5	2.4	2.5	...
Trade balance ¹ (% <i>GDP</i>)	–1.0	–0.6	–0.5	–0.4	–0.3	–0.2	–0.3	–0.4	...
Prices									
Headline inflation	2.7	3.2	3.0	2.5	1.4	1.5	1.9	1.9	...
Core inflation	2.5	3.0	3.2	3.0	2.5	1.8	1.9	2.0	...

CHINA

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Activity									
Real GDP	5.0	5.0	4.8	4.5	5.0	4.3	–	–	–
Retail sales	3.3	3.8	2.4	0.7	2.4	0.2	0.6	0.4	...
Industrial production	5.6	5.9	5.8	5.0	6.0	4.6	4.5	5.2	...
PMI manufacturing (<i>value</i>)	49.8	49.6	49.5	49.4	49.6	50.2	49.2	49.8	50.1
Foreign sector									
Trade balance ^{1,2}	997	1,186	1,174	1,186	1,173	1,175	1,190	1,207	...
Exports	4.6	5.5	6.5	3.8	14.5	20.0	23.6	24.7	...
Imports	1.0	0.3	4.7	3.7	23.6	29.4	27.5	28.2	...
Prices									
Headline inflation	0.2	0.1	–0.2	0.6	0.8	1.1	0.5	0.8	...
Official interest rate ³	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Renminbi per dollar	7.2	7.2	7.2	7.1	6.9	6.8	6.8	6.7	6.7

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

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Retail sales (year-on-year change)	1.3	2.4	2.0	2.4	2.0	1.4	0.4	0.8	...
Industrial production (year-on-year change)	-2.9	1.7	1.4	1.9	-1.8	-0.1	0.0	...	...
Consumer confidence	-12.6	-13.4	-13.7	-12.9	-13.7	-19.0	-15.9	-15.5	-16.5
Economic sentiment	95.9	95.9	95.8	97.0	98.1	94.5	97.1	98.4	97.9
Manufacturing PMI	45.9	49.1	50.1	49.5	50.6	51.7	51.9	52.7	52.9
Services PMI	51.5	51.3	50.9	53.0	51.2	48.2	51.7	51.6	53.0
Labour market									
Employment (people) (year-on-year change)	1.0	0.7	0.7	0.7	0.5	...	-	-	-
Unemployment rate (% labour force)	6.4	6.3	6.3	6.3	6.4	6.4	6.4	6.4	...
Germany (% labour force)	3.4	3.7	3.8	3.9	3.9	3.9	4.0	4.0	...
France (% labour force)	7.4	7.7	7.8	8.0	8.2	8.3	8.3	8.2	...
Italy (% labour force)	6.6	6.0	5.9	5.7	5.6	5.7	6.0	6.2	...
Real GDP (year-on-year change)	1.1	1.3	1.2	1.1	0.6	1.2	-	-	-
Germany (year-on-year change)	0.0	0.3	0.3	0.3	0.7	1.0	-	-	-
France (year-on-year change)	1.4	0.9	0.8	1.1	0.7	0.5	-	-	-
Italy (year-on-year change)	0.9	0.7	0.7	0.9	0.8	1.0	-	-	-

Prices

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
General	2.4	2.1	2.1	2.1	2.0	3.0	2.9	3.2	3.8
Core	2.8	2.4	2.3	2.4	2.3	2.4	2.5	2.4	2.5

Foreign sector

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Current balance	3.0	2.1	2.2	2.1	2.1	2.0	2.0	...	...
Germany	5.8	4.4	4.6	4.4	4.3	4.4	4.5	...	...
France	-0.3	-0.4	-0.5	-0.4	-0.3	-0.1	-0.4	...	...
Italy	1.1	1.1	1.1	1.1	1.4	1.3	1.3	...	...
Nominal effective exchange rate¹ (value)	94.5	96.4	98.2	97.8	97.6	97.1	96.5	97.2	97.0

Credit and deposits of non-financial sectors

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Private sector financing									
Credit to non-financial firms ²	0.8	2.7	2.9	3.0	3.0	3.8	4.4	4.2	...
Credit to households ^{2,3}	0.5	2.2	2.5	2.9	3.0	3.0	3.1	3.1	...
Interest rate on loans to non-financial firms ⁴ (%)	4.9	3.4	3.2	3.3	3.3	3.4	3.6	3.4	...
Interest rate on loans to households for house purchases ⁵ (%)	4.6	3.7	3.6	3.5	3.5	3.6	3.7	3.9	...
Deposits									
On demand deposits	-3.9	5.0	5.6	5.4	5.2	3.9	3.3	2.9	...
Other short-term deposits	12.4	-0.1	-1.5	-1.0	-0.2	1.7	3.7	4.1	...
Marketable instruments	20.0	7.7	4.4	0.9	0.8	2.7	4.2	7.1	...
Interest rate on deposits up to 1 year from households (%)	3.0	1.9	1.7	1.8	1.8	1.9	2.1	2.1	...

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.

More growth and more inflation

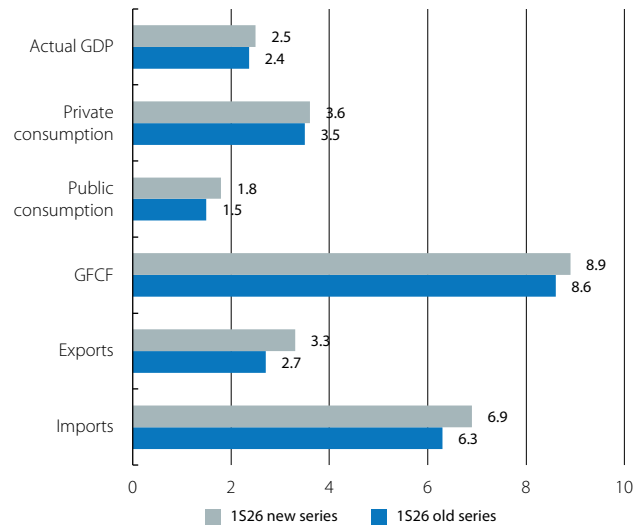
The publication of the definitive GDP series for 2024 resulted in a revision of growth for that year to 2.7%, five tenths higher than the preliminary estimate, but also in an upward revision of growth in the first two quarters of 2026, placing growth for the semester at 2.5%, one tenth higher than in the previous series. Domestic demand continued to be the main driver of growth, with consumption growing 3.6% year-on-year in the first half of the year and gross fixed capital formation (GFCF) 8.9%, 1 and 3 tenths higher, respectively, than in previous series, placing the contribution of domestic demand at 4.3 pp (previously 4.2) and maintaining that of external demand at -1.8 pp. This revision, together with the expectation that activity will continue to grow in the second half of the year, led to a revision of the expected growth in 2026 to 2.3%. Available indicators for Q3 show the economic sentiment indicator accelerating to 102.4 from 101.6 in Q2, but with disparate performances across the various components: confidence in industry is improving, with positive developments in expectations for future production and hiring, but is unfavourable among consumers, impacted by rising inflation and interest rates, in services and in construction. Other indicators, such as car sales and retail sales, suggest growth, albeit more moderate, and the labour market remains impressively strong, with employment increasing and unemployment decreasing. Finally, the still high household savings rate (12.1% in the year ending in Q2 vs. 12.4% in Q1), together with the announcement of further tax relief and a year-end bonus for pensioners, are important cushions when real disposable income declines in a more inflationary scenario.

Inflation gains further momentum in September. The year-on-year rate of change in the CPI estimated by INE for September is 3.6% (3.3% in August 2026). As for core inflation, the increase was more contained (2.7% compared to 2.6% in August). The increase in energy product inflation to 15.2% explains almost 26% of the overall increase and a large part of the increase compared to the previous month. We recognise upside risks in our forecast scenario for this variable, but despite this, underlying CPI dynamics have proven more resilient and relatively contained (the monthly change was lower than the historical average recorded in the 2015-2019 period).

Housing prices are growing at a slower pace. Indeed, the housing price index grew by 3.6% in Q2 2026, two tenths less than in the previous quarter. In year-on-year terms, it increased by 16.5% (compared to 17.8% in Q1 2026). The number of transactions in the quarter was robust (40.1 thousand) and clearly above the series average, but also represents a slowdown in year-on-year terms (-6.4%). Strong demand, limited new construction, and substantially rising construction costs should continue to support prices. However, due to the global context of rising interest rates, we expect quarterly variations to continue to moderate for the remainder of the year.

The economy recorded a net external financing position equivalent to 2.3% of GDP (for the year ending in Q2). By sector, households continue to be the largest contributors to

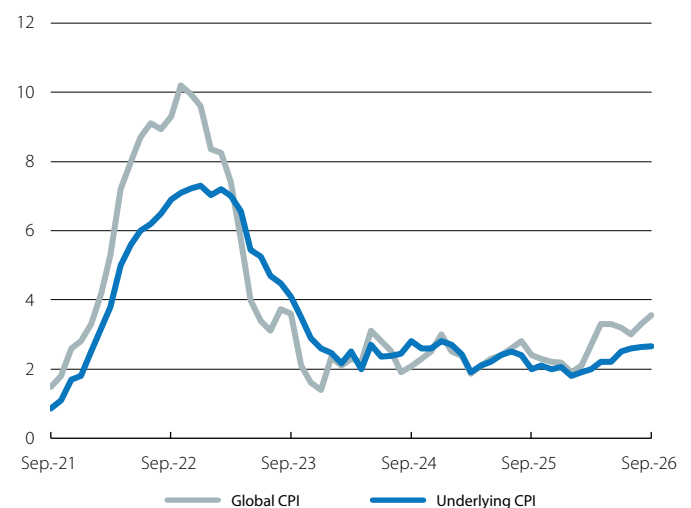
Real GDP growth
(tvh, %)



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

CPI

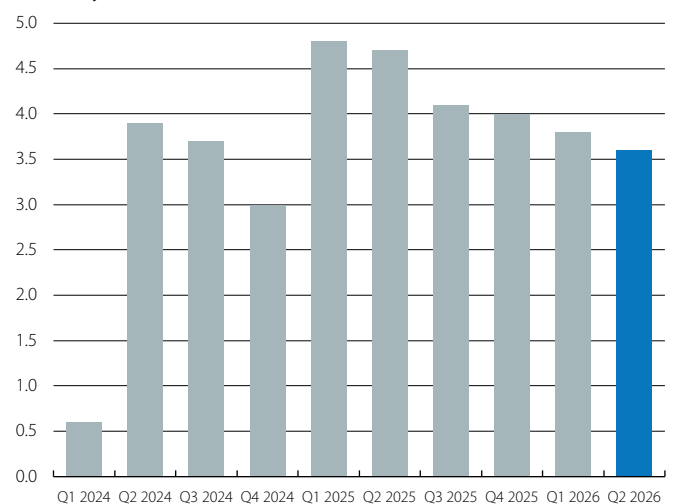
Y-o-Y Var. (%)



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

Housing Price Index

Quarterly var. (%)



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

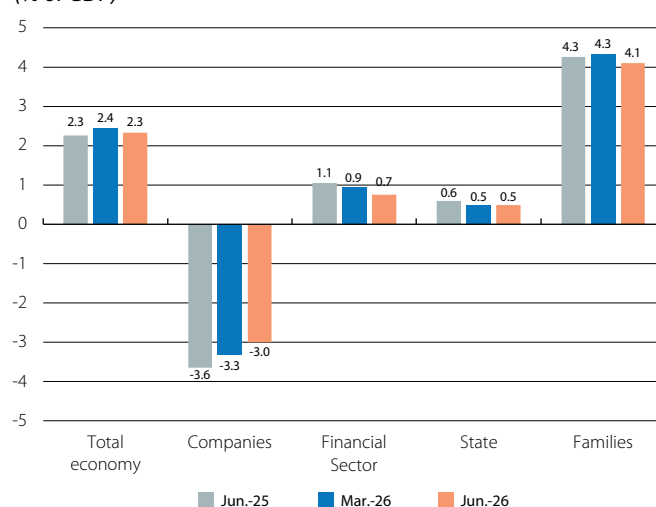
this surplus, with their own financing capacity representing 4.1% of GDP, while non-financial corporations continue to reduce their financing needs, a sign of a reduction in their respective debt levels. In the remaining sectors, public administrations stand out, having recorded a financing capacity vis-à-vis the rest of the world (public balance, from a national accounts perspective) equivalent to 0.5% of GDP, only one tenth less than in the same period of the previous year, largely due to the increase in the balance of capital transfers, reflecting the receipt of NGEU funds.

In the budget execution for the first half of the year, there was a contraction in the surplus from 0.9% to 0.5% of GDP, justified by an increase in total expenditure (+7.7%) that exceeded the growth in revenue (+6.7%). The main drivers on the revenue side were the 7.8% increase in social security contributions and the 5.7% increase in indirect taxes, which offset the slight 1.3% decrease in direct taxes. In turn, expenditure dynamics were heavily pressured by the significant increase of more than 30% in public investment, as well as increases in social benefits and personnel expenses. Similarly, the primary balance also decreased. This result was further affected by the economic impacts of the series of storms earlier in the year on families and businesses, particularly the destruction of infrastructure.¹

The banking system maintains significant dynamism and asset quality. In Q2 2026, the total NPL ratio remained unchanged at 2.1%. In the case of consumer and other-purpose loans, the NPL ratio decreased slightly to 5.8%, while for housing loans it remained at 0.8%. The loan ratio in *stage 2* – which measures the percentage of bank credit granted that is not yet in default, but whose risk has increased significantly – decreased more significantly, to 7.9% (–0.4 pp), demonstrating a solid trajectory in terms of asset quality. In year-on-year terms, there was a reduction in the return on assets and equity in the second quarter of the year, mainly due to the increase in assets and equity themselves, but also due to a slight reduction in the net interest margin via interest received from loans and other assets. Regarding liquidity and solvency, improvements were observed. In August, the *stock* of deposits in the non-financial private sector rose by 5.8% year-on-year, with both segments (non-financial corporations and households) recording positive growth (11.2% and 3.7% year-on-year, respectively). Additionally, the non-financial private sector loan portfolio remained at 8.7% year-on-year in August, driven mainly by loans to individuals (10.6%), while non-financial corporations recorded a more modest increase (5.2%). The housing loan portfolio grew by 11.2%, accounting for 64.5% of the total increase in the *stock* of credit to the non-financial private sector.

1. The deterioration in the budget was partly due to the public sector's response to the impacts of Storm *Kristin*. The measures resulted in increased expenditure, particularly through support for housing rehabilitation and other subsidies, and a reduction in revenue due to contribution exemptions. According to UTAO, the expenditure associated with these measures amounted to €555.6 million (actual expenditure and revenue losses).

The economy's financing capacity/needs (% of GDP)



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

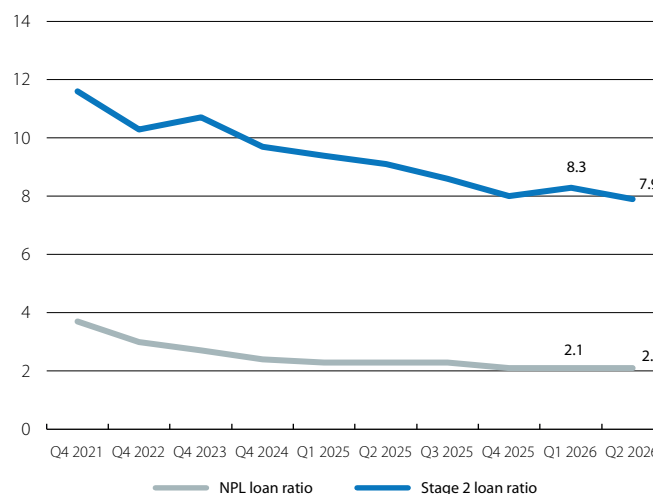
Budget execution – first half of the year – national accounts perspective

	2025	2026	YOY var.		Contribution to total revenue
			Millions of euros	%	
Total revenue	59,868	63,886	4,018	6.7	–
Current revenue	58,489	61,756	3,267	5.6	5.5
Tax	32,811	33,831	1,020	3.1	1.7
Social contributions	18,406	19,838	1,432	7.8	2.4
Others	7,271	8,087	816	11.2	1.4
Capital revenue	1,379	2,130	751	54.5	1.3
Total expenditure	58,586	63,083	4,496	7.7	–
Current expenditure	54,289	57,429	3,139	5.8	5.4
Social benefits	24,315	25,544	1,230	5.1	2.1
Personnel expenses	15,707	16,684	977	6.2	1.7
Interest	2,915	2,955	40	1.4	0.1
Others	11,353	12,246	893	7.9	1.5
Capital expenditure	4,297	5,654	1,357	31.6	2.3
Total balance	1,281	803	-478	–	–
% of GDP	0.9%	0.5%	–	–	–
Primary balance	4,196	3,758	-438	–	–
% of GDP	2.8%	2.4%	–	–	–

Source: BPI Research, based on CNSI data published by INE.

Banking system indicators

(% of total loans)



Source: BPI Research, based on data from Banco de Portugal.

Another year dominated by uncertainty in which GDP is revised upwards (this time accompanied by inflation)

In September we revisited our macroeconomic scenario, updating it in light of the most recent economic information. Of particular note is the publication of the annual national accounts, with upward revisions to real GDP and labour market data for the second quarter, which, in both cases, exceeded our expectations in the previous scenario. And the acceleration of inflation reflecting higher prices for energy goods.

Starting with Gross Domestic Product, the review of the series revealed that growth in the first half of 2026 was higher than expected, with quarter-on-quarter and year-on-year growth of 1.2% and 2.5%, respectively, 0.2 and 0.1 pp higher than estimated when the details of the national accounts for the second quarter were published at the end of August, which had already exceeded BPI Research's forecasts. These data increased the carryover effect, that is, what the annual GDP would grow assuming zero growth in the third and fourth quarters, to 2.1%, 0.2 pp more than the same effect after the publication of the detailed GDP figures for Q2. However, when we look at the most recent indicators, a scenario of stagnation in the second half of the year seems unlikely. The available indicators for the third quarter continue to suggest an expansion of activity supported by domestic demand, consumption and investment; and the outlook for growth in the last months of the year is positive, supported by the end of the Recovery and Resilience Plan (PRR), the robustness of the labour market and, more recently, by the announcement of another bonus for pensioners and new tax relief, two measures that add 800 million euros to families' disposable income. But activity also faces some unfavourable headwinds that could limit the pace of expansion. Among these, the most notable are the rising cost of energy goods, impacting inflation, and the more restrictive monetary policy of the European Central Bank. Since June, the ECB has already raised key interest rates by 50 bps. And the market assigns a probability close to 90% to a further increase occurring by the end of the year. This fact will be reflected in the increased cost of borrowing for both households and businesses, on the one hand reducing disposable income for consumption and, on the other, potentially causing investment decisions to be postponed. For all these reasons, we anticipate that average quarterly growth in the second half of the year will be around 0.4%, below the 0.5%-0.7% observed in the previous 3 years, accommodating any more cautious moves by economic agents, which, if they occur, will place annual

Macroeconomic outlook: BPI Research

	2025	2026	2027
GDP	1.9	2.3	1.9
Inflation	2.3	3.0	2.4
Underlying inflation	2.2	2.4	2.2
Unemployment rate	6.0	5.7	5.6
Job creation	3.2	2.4	1.3
Property prices	17.6	15.7	6.6

Source: BPI Research.

growth in 2026 at 2.3%, five tenths higher than the previous forecast of 1.8%. It should be noted that the most recent forecasts from other institutions have been revised in the same direction as that of BPI Research. The Banco de Portugal and the Government revised their projection for 2026 to 2.3%, the same as BPI Research, while the Universidade Católica (NECEP) revised its growth forecast to 2.2%, one tenth lower. Other institutions that had already included the Q2 data as early as September (EIU and Public Finance Council) project GDP growth above 2% in 2026, with a movement similar to that of BPI Research expected when these institutions update their figures which, in addition to the Q2 data, will incorporate the revised GDP series published by INE on September 23.

We also revised our forecast for inflation in 2026 to 3%, incorporating higher expectations for oil and gas prices and the behaviour of inflation in August and September, when it exceeded 3%. In the area of prices, uncertainty regarding the adjustment of energy prices suggests a postponement of the moment when inflation will approach 2%. In our scenario, we incorporate the expectation embedded in energy market futures prices which, despite immediate pressures, anticipate some easing of tensions in the medium term, allowing us to predict favourable base effects on prices as early as 2027. Furthermore, for now, there is no spillover from the pressure on fuel prices to other classes of goods and services, which, coupled with less bargaining power to secure wage increases, given lower job creation, will also tend to keep the underlying component of inflation fluctuating slightly above 2%. Considering also the ECB's stance, attentive to evolving economic data and willing to tighten monetary policy if necessary, everything points to inflation returning to the 2% mark from 2028 onwards.

Regarding the remaining variables, we highlight the upward revision of the pace of job creation, incorporating information available up to July, which exceeded our expectations, without affecting the unemployment rate estimate, which remains at 5.7%. And the evolution of prices in the real estate market, which, although they continue to increase at high rates (16.5% in Q2), shows a slight slowdown. Thus, our forecast indicates that house prices will increase by around 15.5% for 2026 as a whole, slowing in 2027 to levels closer to 7%, reflecting rising interest rates and existing signs of a reduction in the number of transactions carried out.

Once again, the «cliché» in the construction of these macroeconomic scenarios is the high level of uncertainty associated with latent geopolitical tensions across the globe.

Teresa Gil Pinheiro

Growth forecasts from other institutions

		2025	2026	2027
Current BPI	Sept.-26	1.9	2.3	1.9
Government	Oct.-26	–	2.3	2.1
NECEP	Oct.-26	–	2.2	1.5
Banco de Portugal.	Oct.-26	–	2.3	1.8
EIU	Sept.-26	–	2.1	1.7
CFP	Sept.-26	–	2.2	1.8
IMF	Jun.-26	–	1.7	1.6
OECD	Jun.-26	–	1.8	1.7
Focus Economics	Jun.-26	–	2.0	1.8
European Commission	May-26	–	1.7	1.8

Source: CE, IMF, OECD, BdP, CFP, NECEP, EIU, FE.

How has economic growth in Portugal been characterised?

What actually drives economic growth? The answer to this question can be approached from different perspectives, one of which is the factors of production. In this article, we analyse how economic growth in Portugal has been characterised in comparison to the Eurozone (EZ) in light of growth accounting.

Theoretical framework

Smith (1776), Malthus (1798), and Ricardo (1817) presented the division of labour, investment, demography, and trade integration as the main sources of wealth. Later, Schumpeter (1942) highlighted the importance of innovation and technological progress, while Solow (1956) and Romer (1990) formalised these ideas, suggesting that economic growth results from increased employment, capital accumulation, and total factor productivity (TFP), which represents the effect of technology and efficiency.

Retrospective of growth: Portugal vs. Eurozone

Using the modern approach,¹ we compared GDP growth in Portugal with that of the Eurozone by breaking it down into the contributions from labour, capital and total factor productivity.²

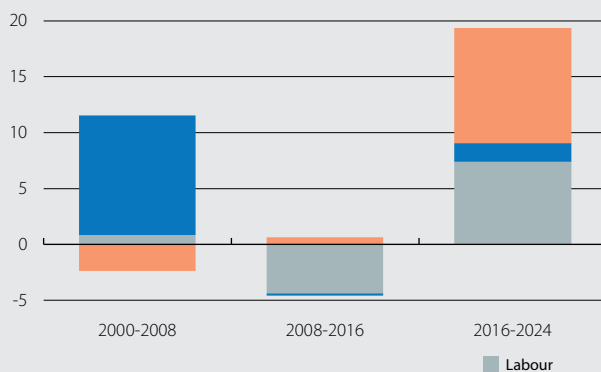
Since 2000, the Portuguese economy has gone through three distinct phases. Between 2000 and 2008, growth

was moderate (9.1%) and was based primarily on real investment: the contribution of capital exceeded that of the EA (10.7 pp vs. 8.0 pp in the EZ). Although it was driven by European funds (Community Support Framework), the investment did not result in aggregate efficiency gains in the allocation of resources, leading to a negative contribution from the PTF (–2.4 pp vs. 4.7 pp). In the context of joining the euro, part of the financial flows was channelled into sectors with lower value added, such as construction, property and retail, whilst several traditional industries, such as textiles, lost competitiveness as a result of trade liberalisation and China's greater integration into global value chains. The contribution from employment was just 0.8 pp (5.2 pp in the EZ), reflecting the slowing momentum in employment, the slowdown in the growth of the labour force and insufficient migration flows.

Between 2008 and 2016, the financial and sovereign debt crises affected demand, production, and employment, resulting in negative contributions from labour (–4.4 pp) and capital (–0.2 pp). The fragility of corporate balance sheets, the increase in non-performing loans, and bank deleveraging restricted the capacity for productive investment. The Eurozone was, on average, less affected, benefiting from greater economic and institutional resilience.

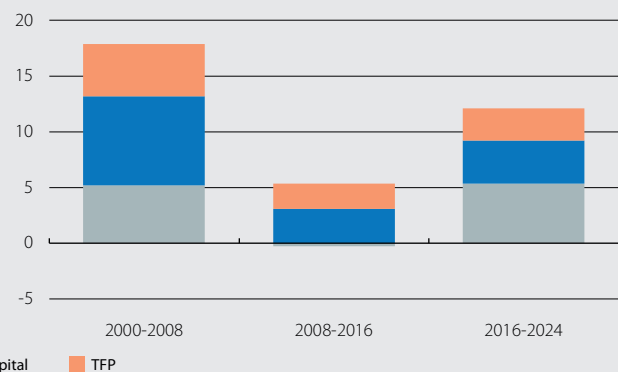
Portugal: Real GDP from the perspective of factors of production

Contribution to the accumulated variation (pp)



Euro area: Real GDP from the perspective of factors of production

Contribution to the accumulated variation (pp)



Notes: The labour factor is represented by the employed population and capital by its respective stock, while TFP/Solow residual is treated as exogenous and deducted from the subtraction between the GDP growth rate and the labour and capital growth rates weighted by elasticities (wage share of GDP as a proxy for the elasticity $1-\alpha$).

Source: BPI Research, based on internal estimates and data from AMECO and Eurostat.

1. Using a Cobb-Douglas production function with constant returns to scale, which is widely used in the economic literature: $Y = AK^\alpha L^{1-\alpha}$, where Y is GDP, A is total factor productivity, K is capital (measured here as a stock), L is labour (measured here as the employed population), α is the elasticity of capital and $1-\alpha$ is the elasticity of labour, approximated by the annual compensation per employee as a percentage of GDP at market prices, according to Eurostat. For example, the European Commission states that the Cobb-Douglas production function is used to estimate potential output and the output gap in terms that are comparable across EU Member States.

2. $g_Y = g_A + \alpha g_K + (1-\alpha)g_L$, where g are the growth rates calculated on a logarithmic basis and weighted by the respective elasticities of labour and capital. The growth rate of TFP (g_A) is derived as a residual.

Since 2016, Portugal has recovered and grown above the Eurozone in almost every year.³ The expansion was sustained by domestic demand, the labour market, NGEU funds, and efficiency improvements. From this perspective, PTF has become the main driver (10.3 pp vs. 2.9 pp in the EZ), reflecting the boost from digitalisation (mainly after the start of the pandemic), the increase in qualifications, the greater export orientation, and the improvement in the financial situation of families and businesses, particularly SMEs. However, being a residual of the production function, this result should be interpreted with caution.⁴

The improvement in the migration balance within the context of the large increase in the number of immigrants in the recent period and⁵ reinforced the contribution of labour (7.4 pp vs. 5.3 pp), while that of capital remained moderate (1.7 pp vs. 3.8 pp.), despite the recovery of investment. After several years of underinvestment, part of the Gross Fixed Capital Formation (GFCF) offset depreciation and replaced obsolete assets under European funds. The PRR has only gained prominence in recent years, so its full impact on productive capacity is expected to emerge later.

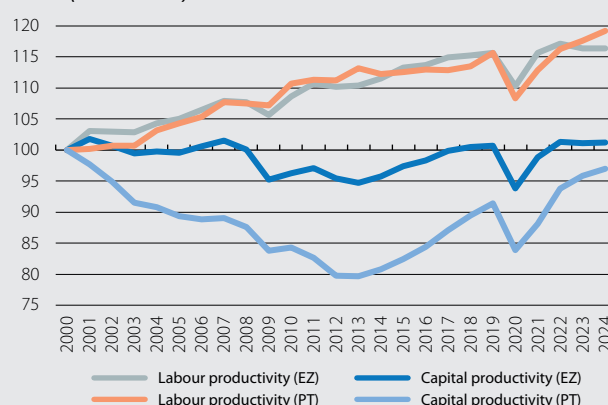
Limits to the sustainability of growth in the long term

Despite recent performance, potential growth remains uncertain. The strong contribution of TFP (Total Factor Productivity) in the last decade is consistent with efficiency gains and the internationalisation of companies, but also incorporates cyclical recovery and base effects following crises. The contribution of labour is expected to slow as the labour market consolidates and the supply of labour slows. Demographic ageing, slower growth in the working-age population, less dynamic migration flows, and an unemployment rate near historic lows support the Banco de Portugal projection of a moderation in employment.⁶ Skills, talent retention, and productivity will be increasingly important for real convergence, especially in a business landscape dominated by micro and small enterprises.

Capital productivity has recovered since the Economic and Financial Assistance Programme, but in 2024 it remained below the 2000 level, signaling that investment

Labour and capital productivity

Index (2000 = 100)



Note: Labour (capital) productivity was calculated as the ratio of real GDP to the employed population (capital stock).

Source: BPI Research, based on data from AMECO and Eurostat.

remains insufficient. A lasting real convergence requires more productive and innovative infrastructure and fixed assets, which should be reinforced by the mechanisms that succeed the PRR (Recovery and Resilience Plan), so that the contribution of technological progress becomes permanent.

The European Commission further emphasises that productivity remains below the European average, businesses face obstacles to expansion, and the economy maintains a significant dependence on tourism. Despite developments in more technological and knowledge-intensive activities, less scalable and lower value-added sectors continue to have a significant weight in GDP and external demand.⁷

In short, Portugal transitioned from growth based on capital accumulation, without proportional productivity gains, to a pattern that allowed it to surpass the euro area annually, supported by demographic dynamics, employment, and technological progress. With less room to expand employment, growth increasingly depends on the qualification and retention of talent, business innovation, the renewal of existing capital, and the strengthening of the most competitive activities.

Tiago Miguel Pereira

3. Except in 2020-2021, due to the effects of the pandemic, which were more adverse in Portugal, among other reasons because of the concentration in tourism.

4. TFP can also incorporate cyclical effects, changes in the utilisation of productive capacity, and limitations in the measurement of factors.

5. The net migration balance reached a historic high in 2022, while the resident foreign population continues to renew it, having reached approximately 1.6 million people in 2025.

6. Consult the Economic Bulletin of June 2026, available at: <https://www.bportugal.pt/publicacao/boletim-economico-junho-2026>

7. By way of example, and according to INE data, the chemical and pharmaceutical industries; the metallurgical, machinery, and automotive industries; the computer, electrical and electronic industries; information and communication activities; finance and insurance; and consultancy, scientific and technical activities – sectors that tend to be more technology- and knowledge-intensive – accounted for just 28.4 per cent of the increase in aggregate GVA between 2000 and 2023. The remainder was due to the other less knowledge-intensive sectors, such as the food and textile industries, construction, commerce, accommodation and catering, etc.

Public accounts: controlled improvement without jeopardising debt sustainability

In public accounts, the figures up to July show that the public sector recorded a surplus of 288 million euros. On a year-over-year basis, spending increased by 10.6% and revenue by 7.4%, which led to a significant deterioration in the budget balance, which fell from a surplus of 1.3% of GDP in July 2025 to a surplus of just 0.2%¹ in July 2026. This deterioration also reflects extraordinary effects related to debt settlement; if these were excluded from the accounts, the magnitude of the deterioration in the balance would be reduced from 1.1 pp to 0.5 pp,² which would be more in line with the deterioration suggested by the general government accounts from a national accounts perspective, as published through the first half of 2026.³

Total revenue reached 76.538 billion euros, up 7.4% from the same period in 2025, with the most significant contributions coming from tax revenue (particularly VAT), social security contributions, and other current revenue, mainly through transfers from the European Union under the PRR. This pattern of growth and tax contributions largely reflects the dynamism of economic activity, particularly the strength of the labour market, both in terms of employment and wages, as evidenced, for example, by trends in social security contributions and in VAT and personal income tax revenues.

In turn, total expenditure⁴ totalled 76.256 billion euros, up 10.6% compared to the same period last year, driven in particular by expenditures on the purchase of goods and services (through the settlement of overdue payments to the National Health Service (SNS) and ADSE beneficiaries)⁵ and capital expenditures, driven by investments made under the PRR. Although it made

1. According to our calculations and considering BPI Research's forecast for GDP in 2026.

2. Corrected for these effects, the balances for the first seven months of the year in 2025 and 2026 would be 1.5% and 1% of GDP, respectively.

3. The publication of the National Accounts by Institutional Sector for the second quarter of 2026 shows that in the first half of the year, the budget balance was 0.5% of GDP, 0.4 pp less than in the same period of the previous year.

4. According to *Report on Public Finances in MEU 2026*, Portugal emerges as one of the countries with projections for net expenditure growth exceeding that advised by the European Council. However, the EC notes that the projections for the budget balance close to equilibrium are in line with the fiscal policy obligations laid down in the Stability and Growth Pact.

5. Correcting for these effects in the acquisition of B&S, the growth of this item would have been 5.1% and not 18.9%; and expenses related to the National Health Service would have increased by 4.1% instead of the 34% observed. However, this is a movement with a limited impact on the 2026 budget balance, insofar as it is a cash movement, corresponding, from a national accounts perspective, to expenses already accounted for in the years to which they related.

Budget Execution, January–July – Cash basis

	2025	2026	YOY var.		Contribution to total revenue
			Millions of euros	%	
Total revenue	71,291	76,538	5,247	7.4	
Tax and contributory revenue	59,236	62,223	2,987	5.0	4.2
Tax	39,698	41,378	1,680	4.2	2.4
IRS	9,581	10,142	561	5.9	0.8
IRC	6,300	6,166	-134	-2.1	-0.2
VAT	14,164	15,122	958	6.8	1.3
Others	9,653	9,948	295	3.1	0.4
Social Sec. contributions	19,538	20,845	1,307	6.7	1.8
Other current revenue	10,030	11,860	1,830	18.2	2.6
CGD dividends	672	988	316	47.1	0.4
Transfers from European Union	3,296	4,222	927	28.1	1.3
Others	6,062	6,650	588	9.7	0.8
Capital revenue	2,025	2,455	429	21.2	0.6

Source: BPI Research based on July budget execution.

Budget execution January–July – Cash basis

	2025	2026	YOY var.		Contribution to total expenditure
			Millions of euros	%	
Total expenditure	68,969	76,256	7,287	10.6	
Primary current expenditure	59,202	63,976	4,774	8.1	6.9
Personnel expenses	17,292	18,362	1,070	6.2	1.6
Acquisition of goods and services	9,285	11,038	1,753	18.9	2.5
National Health Service	4,064	5,456	1,392	34.2	2.0
(Payment of overdue SNS debts)	(167)	(1,399)	(1,232)	(739)	(1.8)
(Payments due to ADSE beneficiaries)	(139)	(198)	(60)	(43)	(0.1)
Others	5,221	5,582	361	6.9	0.5
Current transfers	30,744	32,554	1,810	5.9	2.6
Social benefits	19,955	20,908	953	4.8	1.4
Caixa Geral de Aposentações	7,080	7,382	302	4.3	0.4
Subsidies	1,340	1,526	186	13.8	0.3
Others	541	496	-44	-8.2	-0.1
Non-primary current expenditures	4,581	5,050	469	10.2	0.7
Interest and other charges	4,581	5,050	469	10.2	0.7
Capital expenditure	5,186	7,230	2,044	39.4	3.0

Source: BPI Research based on July budget execution.

a less significant contribution to the growth in total spending, subsidies increased by about 14%, reflecting aid for the restoration of owner-occupied, permanent housing provided as part of the assistance allocated to address the damage caused by Storm Kristin.

In 2026, we are seeing the sharpest increase in the most inflexible types of spending (personnel costs, social benefits, CGD pensions, and interest payments) compared

to the growth in tax and social security revenue: 5.7% vs. 5%, respectively, a trend that could intensify, constituting a factor in squeezing the budget balance, especially at a time of greater global uncertainty, with potentially unfavourable impacts on domestic activity, particularly regarding the maintenance of current job creation rates, a factor that greatly supports the performance of public revenue. In addition, the fact that employment is near historic highs suggests that job creation may slow in the coming quarters, which will most likely be felt in the pace of growth of tax and social security revenue, whose future growth is expected to be lower, also reflecting the recently announced reduction in personal income tax rates, which will affect revenue growth in 2026 and 2027. In turn, expenditure with a higher degree of rigidity accounts for 68% of total expenditure and is expected to continue growing at a faster rate than tax and social security revenue, as higher pension expenditures are likely, due to mandatory pension adjustments, the probable increase in the number of pensioners, salary adjustments in the civil service, and the expected rise in interest payments.

The data from the perspective of national accounts, available for the first half of the year, point in the same direction: greater growth in expenditure than in revenue.

This scenario seems justified by the publication of the framework of invariant policies, which in itself would imply a reduction in the budget balance in 2027 by approximately 4.8 billion euros, mainly through an increase in personnel expenditure of 1.2 billion euros; pensions by 2 billion and interest by 0.8 billion.

Most existing estimates for Portuguese public finances point to a return to a deficit situation; however, these same estimates continue to suggest the maintenance of positive primary balances, that is, excluding interest expenditure. The materialisation of such a scenario will continue to allow for a reduction in the public debt ratio, currently at 93% of GDP, but which should be revised downwards with the revision of Gross Domestic Product by incorporating data relating to immigration. In this scenario, the probability of the market maintaining confidence in the sustainability of Portuguese public finances will remain high, which will greatly contribute to containing the impact of the recent increase in long-term interest rates in the market on the financing cost of Portuguese public debt. We estimate that in 2026, the implicit interest rate on Portuguese debt will rise by 0.2 pp from 2025 to 2.4%, and to 2.6% in 2027.

Teresa Gil Pinheiro

Invariant Policy Framework 2027

Measure with expected impact on the 2027 balance	Impact (€ millions)	Weight in the total estimated expenditure impact (%)
NET REVENUES	-259	-5
Revenue resulting from increases in salaries and pensions	-668	-14
Update of the specific deduction and IRS brackets	401	8
IRS moderate rents (25% → 10%)	209	4
VAT on Construction for Affordable Housing (23% → 6%)	94	2
IRC rate reduction by 1 pp	300	6
IRC SIFIDE indirect (reversal)	-124	-3
Social contributions resulting revenue from the salary increase	-471	-10
EXPENSES	5,042	105
Intermediate consumption	418	9
Public Sector Personnel Expenses	1,231	26
Income agreement	587	12
Progressions and promotions	283	6
Increase in RMMG	116	2
Sectoral wage agreements	244	5
Pensions	1,993	42
Composition effect	1,169	24
Regular pension updates	824	17
Strengthening the Solidarity Supplement for the Elderly	100	2
Interest on public debt	776	16
Public investment	433	9
Transfer to the European Union budget	91	2
TOTAL IMPACT ON THE BALANCE	4,783	-
as a percentage of nominal GDP estimated by BPI for 2027	1.4%	-

Source: BPI Research based on data from the national press.

Public accounts indicators (% of GDP)

	2026	2027	2028
IMF			
Budget balance	0.0	0.0	-0.2
Primary balance	1.9	1.9	1.7
Public debt	85.6	82.3	79.2
European Commission			
Budget balance	0.2	-0.4	-
Primary balance	-	-	-
Public debt	87.6	86.0	-
Public Finance Council			
Budget balance	0.1	-0.4	-0.6
Primary balance	-	-	-
Public debt	86.5	84.5	83.1
BPI Research			
Budget balance	-0.2	-0.4	-0.4
Primary balance	2.2	2.5	2.5
Public debt	86.3	83.2	81.6

Source: BPI Research, IMF, CE, CFP.

What do the initial tourism figures tell us following the outbreak of war in Iran?

The start of the war in Iran opened an uncertain chapter for international tourism. Both the disruption at airport hubs in the Persian Gulf and the sharp rise in oil prices, coupled with concerns about potential shortages of aviation fuel, have raised questions about the net impact of the conflict on the sector's growth. Let us therefore try to understand, with the help of some figures, the initial impact of this event on the tourism sector.

First, let's look at the revenues. We can observe this in the Balance of Payments¹ the data on travel and tourism exports, which show that, overall, growth rose from just 2.1% year-on-year up to February 2026 (pre-conflict) to 4.01% between March and July (post-conflict). This acceleration is mainly explained by the increased dynamism of tourism from Spain, the United Kingdom, and Germany, which are some of the main source markets for tourists to Portugal. Indeed, in year-on-year terms, tourism exports grew by €514.6 million between March and July, with the increases from these three countries accounting for 51% of the total increase.

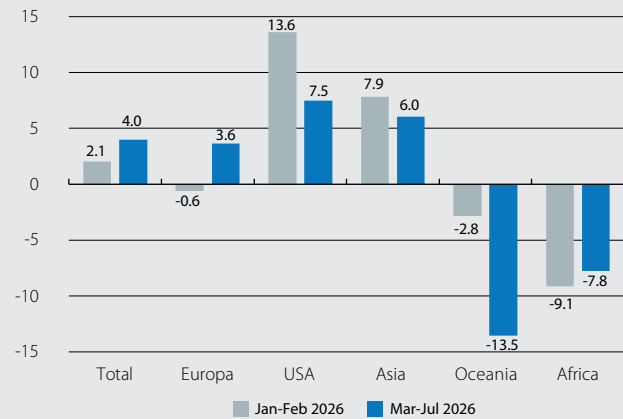
Although we do not have a detailed breakdown of this data by country, another aspect to consider is the evolution of continental export dynamics. Several trend reversals can be observed before and after the conflict. Tourism exports to European countries at the beginning of the year were on a year-on-year downward trend and then started to grow by nearly 4% between March and July. Conversely, exports to America and Asia lost momentum after the outbreak of the conflict. This is even more pronounced in exports to Oceania, where the decline that already existed at the beginning of the year has worsened even more significantly. Let us now look at the evolution of overnight stays by country over these two time periods. The data corroborate what we had already seen regarding exports. Generally, an improvement in performance compared to the beginning of the year in the main European source markets and a worsening in the performance of those originating from other continents – USA (goes from a growth rate of 5.2% to 3.2%); Brazil (goes from 17.9% to 1.3%) and Canada (goes from 13.3% to 7.4%).

All things considered, the main conclusion we can draw from this initial short-term impact of the conflict in Iran is that it has given some dynamism to tourism originating from other European countries, but has slowed down long-haul tourism. Primarily from source markets that in recent years had been exhibiting more exuberant growth rates, such as the USA and Canada. In any case, the growth rate of these markets remains strong and above the European rate, contrasting sharply with the decline in overnight stays by the French, Italians and Belgians, for example.

Historically, episodes of geopolitical instability in the Middle East have tended to boost Portuguese tourism (as seen during the «Arab Spring») through the «safe haven effect» –

Travel and Tourism Exports

Y-o-Y Var. (%)

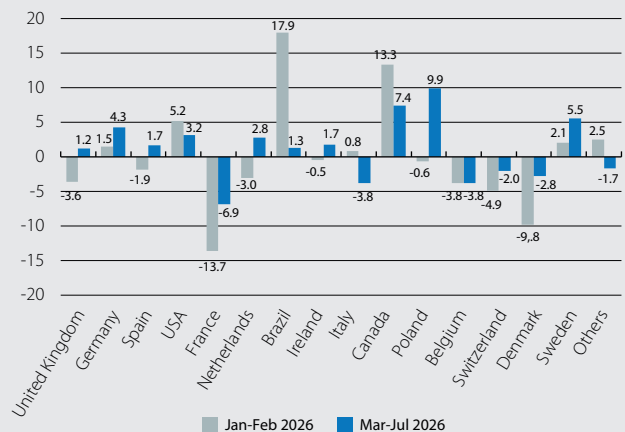


Note: The data for Africa include only the PALOP countries.

Source: BPI Research, based on data from Banco de Portugal.

Stays

Y-o-Y Var. (%)



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

these are periods that tend to result in a redistribution of tourist flows as travellers seek destinations offering safety and political stability. Portugal ranks 7th globally in the Global Peace Index 2026, compiled by the Institute for Economics and Peace, remaining among the most peaceful and safe countries in the world, and this is a competitive advantage that we have highlighted on several occasions. However, the long-term effects of a conflict of this nature may go in the opposite direction. This war has been exacerbating fuel costs, which weighs heavily on airline operations and consequently on the cost of travel. Household budgets are becoming more strained, and this also impacts travel choices, increasing the demand for closer destinations and decreasing the annual frequency of trips. Ultimately, the broader effects of a prolonged energy crisis can lead to an economic crisis, contracting activity in the sector.

Tiago Belejo Correia

1. Balance of Payments data released by the Bank of Portugal.

Activity and employment indicators

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Coincident economic activity index	2.0	2.0	2.0	2.4	2.3	2.2	2.4	2.5	...
Industry									
Industrial production index	0.8	0.7	3.3	0.6	0.4	-0.8	-0.9	-3.8	...
Confidence indicator in industry (<i>value</i>)	-6.2	-4.0	-3.2	-2.9	-2.1	-3.6	-4.3	-4.4	...
Construction									
Building permits - new housing (number of homes)	8.8	18.9	5.7	14.8	-2.2	10.8	...	...	...
House sales	14.5	15.5	3.8	-4.7	-8.7	-6.4	-	-	...
House prices (<i>euro / m² - valuation</i>)	8.5	17.4	18.2	18.4	17.5	16.7	15.2	14.7	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	6.3	1.7	2.5	1.7	2.1	1.5	1.0	9.3	...
Confidence indicator in services (<i>value</i>)	5.5	10.1	11.6	7.7	6.0	8.2	8.4	8.4	...
Consumption									
Retail sales	3.3	5.3	5.8	5.3	4.4	3.5	2.6	2.4	...
Coincident indicator for private consumption	2.8	3.5	3.3	3.5	3.4	3.0	2.9	3.0	...
Consumer confidence index (<i>value</i>)	-18.0	-16.2	-16.2	-15.2	-16.2	-25.6	-22.6	-20.5	...
Labour market									
Employment	1.2	3.2	3.7	3.7	2.3	2.9	1.6	0.9	...
Unemployment rate (% <i>labour force</i>)	6.4	6.0	5.8	5.8	6.1	5.3	5.7	5.7	...
GDP	2.7	1.9	2.1	1.9	2.4	2.6	-	-	-

Prices

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
General	2.4	2.3	2.6	2.2	2.2	3.3	3.0	3.3	3.6
Core	2.5	2.2	2.3	2.1	1.9	2.3	2.6	2.6	2.7

Foreign sector

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	0.1	1.6	0.1	-3.2	0.0	1.8	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	2.0	4.5	6.9	4.5	3.7	4.3	3.9	...	...
Current balance	7.3	3.6	3.4	3.6	2.3	1.2	0.7	...	...
Goods and services	6.8	3.0	3.2	3.0	1.7	0.5	0.2	...	...
Primary and secondary income	0.5	0.6	0.2	0.6	0.6	0.7	0.5	...	...
Net lending (+) / borrowing (-) capacity	10.5	8.3	7.6	8.3	7.7	7.3	6.8	...	...

Credit and deposits in non-financial sectors

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Deposits¹									
Household and company deposits	7.5	5.4	6.3	5.4	6.4	6.9	6.3	5.8	...
Sight and savings	-0.3	8.1	8.6	8.1	7.9	7.3	7.1	5.6	...
Term and notice	15.3	3.1	4.3	3.1	5.1	6.5	5.6	5.9	...
General government deposits	26.7	28.7	-0.5	28.7	20.4	9.2	19.9	24.9	...
TOTAL	7.9	6.0	6.1	6.0	6.9	7.0	6.8	6.4	...
Outstanding balance of credit¹									
Private sector	1.9	6.6	5.8	6.6	7.7	8.2	8.4	8.7	...
Non-financial firms	-1.0	2.6	2.2	2.6	4.3	4.8	5.2	5.2	...
Households - housing	3.0	9.3	8.0	9.3	9.8	10.6	10.8	11.2	...
Households - other purposes	5.4	7.0	6.9	7.0	8.4	8.2	8.2	8.7	...
General government	0.6	6.4	4.8	6.4	3.2	3.2	5.8	6.9	...
TOTAL	1.9	6.6	5.7	6.6	7.5	8.0	8.4	8.7	...
NPL ratio (%)²	2.4	2.1	2.3	2.1	2.1	2.1	-	-	-

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

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

The Spanish economy maintains its momentum, but inflation takes centre stage

The Spanish economy is entering the final stretch of 2026 with solid growth and a more prominent role of domestic demand, although the rise in inflation and heightened uncertainty surrounding the conflict in the Persian Gulf advise caution. In its regular review, the National Statistics Institute (INE) confirmed the momentum of the economy in Q2 and reinforced the view of growth driven mainly by domestic factors. As the third quarter draws to a close, indicators suggest that economic activity remains buoyant, driven by the dynamism of the labour market and services. However, the rise in energy costs has pushed inflation close to 5% and could reduce household spending power in the coming months.

Growth in Q2 is more clearly supported by domestic demand.

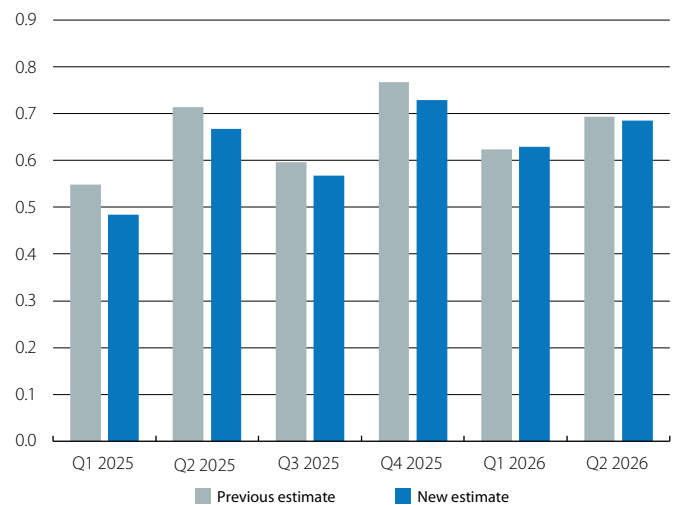
The INE's review confirms this view: the economy maintained solid growth in Q2, with GDP advancing by 0.7% quarter-on-quarter. It also highlights the role of domestic demand, which contributed 1.1 pps to growth, driven by the dynamism of private consumption and investment: the former increased by 1.2% quarter-on-quarter and the latter by 1.4%. In contrast, external demand subtracted 0.5 pps from growth due to the sharp rise in imports, as might be expected in a context of strong domestic spending. This composition reflects an economy that is less reliant on momentum in the external sector, but also more vulnerable to a potential loss of household purchasing power. For now, the savings cushion and job creation continue to support consumption, although rising prices could begin to strain household real incomes.

Indicators reveal uneven progress across sectors in Q3. The latest data suggest that economic activity remained buoyant in Q3, albeit with mixed signals. The services PMI reached 58.3 points in September and averaged 58.1 points in Q3, well above the 50-point threshold denoting growth. The manufacturing industry also improved at the end of the quarter, with a PMI of 51.0 points, although the quarterly average of 50.2 points indicates a more moderate pace of growth. On the demand side, retail sales fell by 0.4% year-on-year for the second consecutive month in August, adding to the weakening observed in this indicator since the start of the conflict. Overall, the strength of the services sector offsets the sluggishness in retail consumption and industry, although inflation could further weaken consumption by eroding household purchasing power.

Energy continues to drive up inflation. One of the main risk factors in the current scenario is the resurgence of inflation. Headline inflation rose by 0.6 pps in September to 4.9%, while core inflation increased by 0.2 pps to 3.1%. The increase was again concentrated in energy, where inflation reached 21.6%, amid rising oil and gas prices and changes in fuel subsidies. However, inflationary pressures also intensified in some core components, such as industrial goods, while services inflation

Spain: GDP

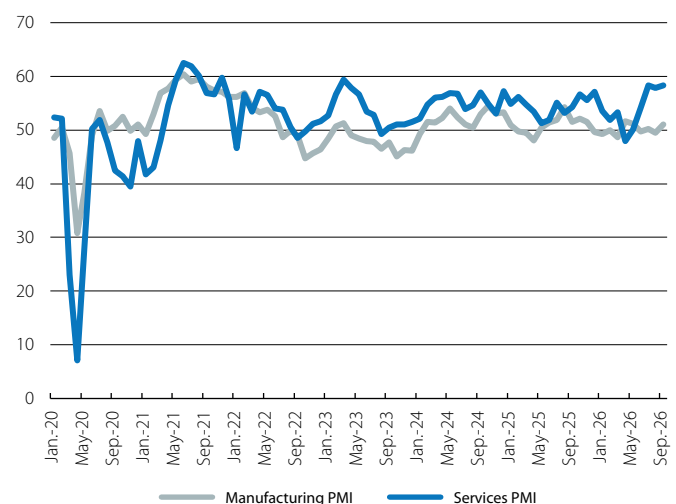
Quarter-on-quarter change (%)



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

Spain: PMI

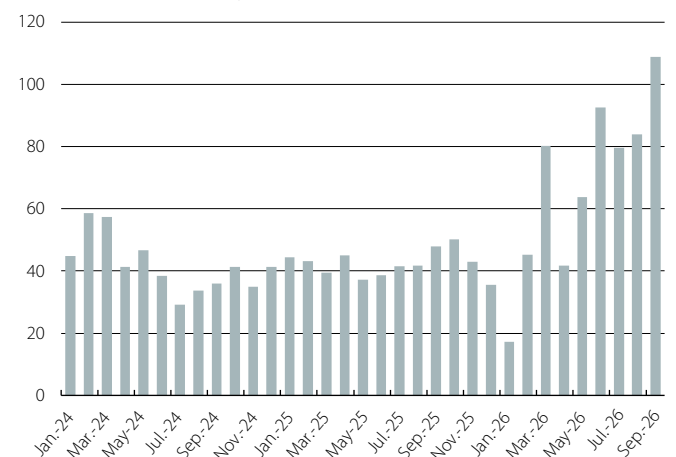
Index (>50 expansion; <50 contraction)



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

Spain: Social Security affiliates

Month-on-month change (thousands)



Note: Seasonally adjusted series.

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

remained close to 4%. This figure exceeds the range forecast by BPI Research and introduces upside risks to our inflation forecast. Nevertheless, the measures approved by the government – notably the increase in fuel discounts to 20 cents per litre and the VAT cut on electricity from 21% to 10% – could bring inflation slightly below 4% in the coming months, which will help cushion part of the shock.

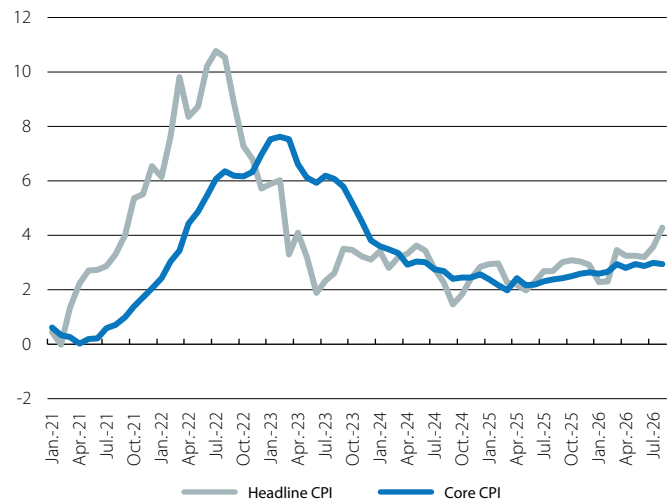
Employment continues to enjoy rapid growth, influenced by the exceptional regularisation. The labour market ended the third quarter with a significant improvement. The average number of registered workers rose by 92,327 people in September, which represented a 0.4% rise compared to August, exceeding the usual growth for this month of the year. The figure remained influenced by the extraordinary regularisation of undocumented migrants, which since April has enabled 420,000 people to register with Social Security, 83,000 of them in September. In seasonally adjusted terms, the number of affiliates rose by 108,832 people, a 0.5% month-on-month increase and 0.1 pps more than the average of the previous three months. However, given the impact of the regularisation on the data, this acceleration cannot be attributed to an improvement in the underlying dynamics. The upcoming data, once the contribution of this process fades, will allow for a more precise assessment of the strength of the labour market.

Household savings continue to provide a significant cushion. Unlike the previous inflationary episode, households are facing the current one from a relatively comfortable financial position. The savings rate moderated slightly in Q2 as consumer spending grew more than disposable income. The strong performance of the latter, driven mainly by the strength of the labour market, prevented a sharper decline. Specifically, gross disposable income increased by 5.5% year-on-year, compared to a 7.1% rise in consumption. The savings rate thus fell to 11.5% of gross disposable income on a cumulative basis for the trailing four quarters, compared to 12.6% a year earlier. Despite this moderation, the savings rate remains well above the 8.6% average recorded between 2000 and 2019. This gives households some leeway to cushion the impact of rising inflation on consumption, although this buffer will diminish if spending continues to outpace incomes.

Housing demand remains high and price pressures persist. Sales fell by 5.1% year-on-year in July, totalling around 409,000 transactions between January and July. Although this is 3.0% lower than in the same period last year, the figure remains relatively high and similar to the levels of 2023 and 2024. The correction is widespread, with noticeable declines in Madrid and Barcelona. For now, this development seems more like a correction following the rapid growth of 2025, rather than a significant weakening of demand. House prices also slowed their growth rate: the appraisal value increased by 12.5% year-on-year in Q2, compared to 13.9% in the previous quarter, and rose by 1.7% quarter-on-quarter. Although this slowdown introduces a downward bias for the price growth forecast, supply remains insufficient to meet the ongoing high demand. Consequently, significant upward pressures are likely to persist over the coming quarters.

Spain: CPI

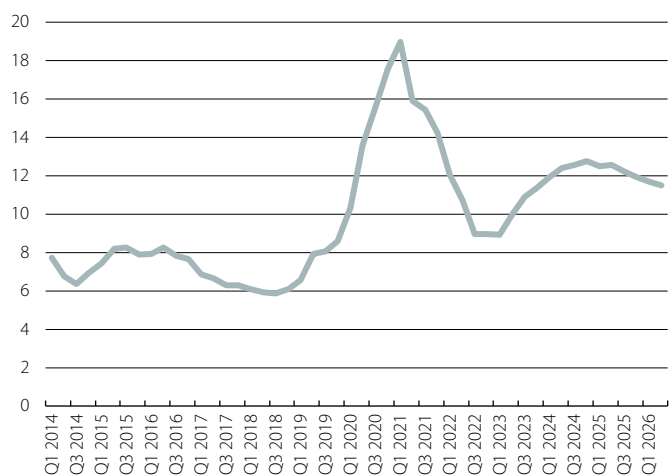
Year-on-year change (%)



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

Spain: household savings rate

(% of gross disposable income)

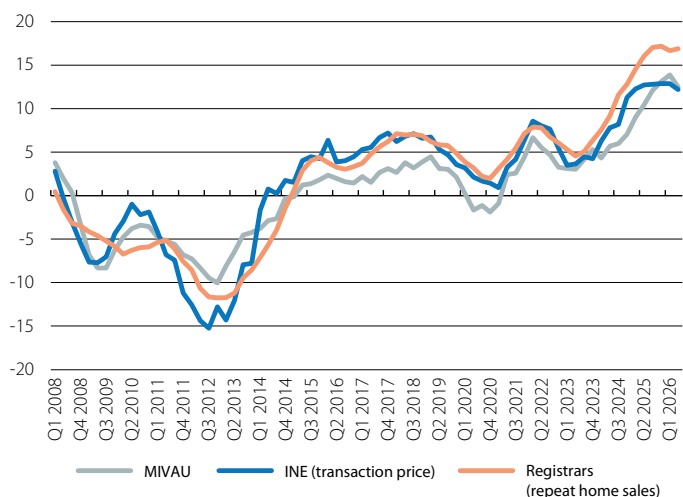


Note: Four-quarter cumulative data.

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.

Activity and employment indicators

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Industry									
Industrial production index	0.4	1.3	2.4	1.8	0.5	2.1	2.3	...	...
Indicator of confidence in industry (value)	-4.9	-4.8	-5.1	-3.9	-3.1	-4.0	-2.4	-3.6	-1.0
Manufacturing PMI (value)	52.2	50.9	52.6	51.1	49.3	50.9	50.2	49.5	51.0
Construction									
Building permits (cumulative over 12 months)	16.7	8.8	7.9	8.8	6.2	...	...	...	...
House sales (cumulative over 12 months)	9.7	11.1	18.5	11.1	5.2	0.6	-1.0	...	...
House prices	8.4	12.7	12.8	12.9	12.9	12.2	...	...	...
Services									
Foreign tourists (cumulative over 12 months)	10.1	3.2	4.3	3.2	2.7	3.2	3.5	4.3	...
Services PMI (value)	55.3	54.5	54.2	56.4	52.9	50.7	58.3	57.8	58.3
Consumption									
Retail sales ¹	1.7	4.3	4.5	4.2	3.3	0.8	-0.4	-0.4	...
Car registrations	7.2	12.9	16.9	8.0	7.6	5.0	3.7	11.8	10.2
Economic sentiment indicator (value)	103.1	103.1	102.7	104.3	105.2	103.0	104.3	102.1	105.5
Labour market									
Employment ²	2.2	2.6	2.6	2.8	2.4	2.3	...	...	...
Unemployment rate (% labour force)	11.3	10.5	10.5	9.9	10.8	9.9	...	...	...
Registered as employed with Social Security ³	2.4	2.3	2.3	2.4	2.3	2.6	2.9	3.1	3.4
GDP	3.7	2.6	2.4	2.5	2.6	2.6	...	...	...

Prices

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
General	2.8	2.7	2.8	3.0	2.7	3.2	3.6	4.3	4.9
Core	2.9	2.3	2.4	2.6	2.7	2.9	3.0	2.9	3.1

Foreign sector

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	0.2	0.7	0.8	0.7	0.2	1.2	1.1	...	...
Imports (year-on-year change, cumulative over 12 months)	0.1	4.6	4.6	4.6	1.7	4.5	4.6	...	...
Current balance	53.4	54.8	54.3	54.8	54.2	47.0	46.5	...	...
Goods and services	69.0	65.1	64.7	65.1	67.7	61.7	62.6	...	...
Primary and secondary income	-15.6	-10.3	-10.4	-10.3	-13.4	-14.7	-16.2	...	...
Net lending (+) / borrowing (-) capacity	71.5	72.3	72.7	72.3	71.7	66.0	65.3	...	...

Credit and deposits in non-financial sectors⁴

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

	2024	2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	07/26	08/26	09/26
Deposits									
Household and company deposits	5.1	4.8	4.9	4.8	5.5	5.0	4.8	3.9	...
Demand and notice deposits	2.0	6.7	7.2	6.7	7.1	5.0	4.2	3.0	...
Time and repo deposits	23.5	-4.7	-6.6	-4.7	-2.2	5.4	8.0	8.9	...
General government deposits ⁵	23.1	4.9	7.2	4.9	5.0	8.5	4.6	4.7	...
TOTAL	6.3	4.8	5.1	4.8	5.5	5.3	4.8	4.0	...
Outstanding balance of credit									
Private sector	0.7	3.5	2.8	3.5	3.8	2.0	3.3	3.2	...
Non-financial firms	0.4	2.9	2.3	2.9	3.7	3.8	4.5	4.4	...
Households - housing	0.3	3.5	2.9	3.5	3.7	3.7	3.8	3.7	...
Households - other purposes	2.3	4.6	3.7	4.6	4.3	-6.8	-0.9	-0.8	...
General government	-2.6	10.7	12.9	10.7	8.1	8.3	2.5	1.6	...
TOTAL	0.5	3.9	3.4	3.9	4.1	2.4	3.3	3.1	...
NPL ratio (%)⁶	3.3	2.7	2.9	2.7	2.6	2.5	2.5	...	...

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

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

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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



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Design and production: www.cegegglobal.com

