MR07

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
JULY-AUGUST 2025

INTERNATIONAL ECONOMIES AND MARKETS

PORTUGUESE ECONOMY

BPI

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

July-August 2025

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

BPI Research (DF-EEF)
www.bancobpi.pt /
https://www.bancobpi.pt/grupo-bpi/estudos-mercados/research
deef@bancobpi.pt
Paula Carvalho
Chief Economist

CaixaBank Research
www.caixabankresearch.com
research@caixabank.com
Enric Fernández
Chief Economist
José Ramón Díez
Head of International Economies and Financial Markets
Oriol Aspachs
Head of Spanish Economy
Sandra Jódar
Head of Strategic Planning
Adrià Morron Salmeron and Nuria Bustamante
Monthly Report coordinators

Date this issue was closed:
9 July 2025

INDEX

Public Finances (also) in the Spotlight

A new focus of concern can be added to the complex global economic panorama: the health of public finances. This time, the trigger will not be an emerging or southern European country. The new US government has approved a fiscal plan which, according to initial estimates, will keep the US public deficit at very high levels over the next few years, at around 7% of GDP, and could put public debt on a worrying upward trajectory, rising by 15 p.p. to 130% of GDP over the next five years. On top of all this, the growth outlook for the world's leading economy has deteriorated as a result of the economic policy implemented. Since November 2024, the growth forecast for this year has been reduced by more than 0.5 percentage points, and the medium-term growth outlook is also deteriorating.

The experience of recent years shows that confidence in the sustainability of public finances can evaporate quickly. This is what happened recently in the UK, when Liz Truss announced a fiscal plan with deep tax cuts that put British public finances at risk. More than 10 years ago, during the global financial crisis, the increase in risk premiums for the so-called PIIGS was also sudden and pronounced. In addition, it is important to consider that during these episodes, investors' risk aversion increases, so the tightening of financial conditions tends to be generalised and the situation of each economy is not adequately differentiated. This requires redoubled efforts when the winds are favourable.

In this context, Portugal has stood out positively, although it is not immune to a potential worsening of global financial conditions: in the coming years, the reduction of the public debt ratio will be hampered by the increase in the interest burden and the slower expansion of economic activity (including volume and prices). Let's take a closer look: Portuguese public debt ended 2024 slightly above 95% of GDP, a level higher than that of most developed economies, particularly the European Union (or EMU), which recorded 82% (87.7% in the EMU), although lower than that of large economies such as Spain, France, Italy, the United States and Japan. Portugal has performed favourably since the pandemic, as it was the country that most corrected the increase in public debt. In 2024, the public debt ratio was 21 pp below 2019 levels, which contrasts with increases recorded in virtually all economies.

In recent years, the two main levers for the fall in the public debt ratio were the maintenance of a positive primary balance (excluding interest), thanks to a prudent fiscal policy (although considered expansionary) and, above all, strong economic growth. According to the Bank of Portugal, the reduction in the public debt ratio in the period 2022-2024, by 29 pp, was entirely due to the «denominator effect», almost equally divided between the increase in real GDP and the increase in prices. For the variation in the numerator, that is, the total debt, the increase in the weight of interest was practically offset by the positive primary balance, the result of the prudent budgetary policy.

Looking ahead, it appears that the two main levers for further debt reductions remain, although nominal growth will play a much smaller role. We recall that the public balance ended 2024 at 0.7% of GDP, but multiple institutions have warned of the possibility of it slipping into a deficit this year, including the Bank of Portugal, the Public Finance Council and BPI Research (see in this Monthly Report «New measures, new international commitments: will this be the end of the budget surplus?»). Even so, this situation would be significantly better than that of the major economies, which recorded significant deficits, namely the USA, France and the United Kingdom (7.3%, 5.8% and 5.7%, respectively), a situation which allows for debt reduction, albeit gradually and as long as growth remains dynamic. In this sense, it is worth noting that, to date, the pace of Portuguese GDP growth has been robust among developed economies, with almost 90% of them reporting worse figures in 2024. All of this contributed to the risk premium on Portuguese public debt remaining on a downward trajectory, falling below that of France, Italy and even Spain.

But to reinforce this position, public accounts must be handled with great care and economic growth must remain relatively dynamic. In this sense, it is essential that productivity growth shows an improvement compared to the figures from the last decade. Between 2014 and 2024, GDP per hour worked grew only 0.4% per year, on average. However, the most recent numbers are more promising. Indeed, since the pandemic productivity growth doubled, reaching 1.0% per year on average. Regarding the budget balance, in the short term, everything indicates that the commitment to budgetary prudence will be maintained, also supported by the expected growth in economic activity. However, in the medium term, pressure on public spending will increase due to rising spending on defence, health care, and social benefits, which will make adjustment more difficult. At the same time, public revenues in Portugal are close to the median of developed countries, so there does not appear to be room to increase them. In addition, practically all developed countries with a higher GDP per capita than Portugal have a more efficient public sector, according to the World Bank's indicator, which measures the quality of public services and the effectiveness of public policies. There is significant room for improvement in this area, which is crucial to driving economic progress and reducing inequality.

Oriol Aspash and Paula Carvalho
July 2025

Chronology

JUNE 2025

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

APRIL 2025

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

FEBRUARY 2025

1 Trump signs the first executive orders imposing tariffs on China, Canada and Mexico.
10-11 Artificial Intelligence Action Summit in Paris, with the participation of governments, organisations and companies from over 100 countries.

MAY 2025

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

MARCH 2025

4 The European Commission presents its ReArm Europe plan to bolster the EU's defence capabilities.
6 The ECB cuts interest rates by 25 bps, leaving the depo rate at 2.50%.

JANUARY 2025

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

Agenda

JULY 2025

1 Euro area: CPI flash estimate (June).
2 Spain: registration with Social Security and registered unemployment (June).
9 Spain: financial accounts (Q1).
10 Portugal: international trade (May).
15 China: GDP (Q2).
18 Portugal: balance of payments (May).
22 Spain: loans, deposits and NPL ratio (May).
24 Spain: labour force survey (Q2).
Governing Council of the European Central Bank meeting.
29 Spain: GDP flash estimate (Q2).
29-30 Federal Open Market Committee meeting.
30 Spain: CPI flash estimate (July).
Portugal: GDP flash estimate (Q2).
Euro area: GDP (Q2).
Euro area: economic sentiment indicator (July).
US: GDP (Q2).
31 Spain: state budget execution (June).
Portugal: CPI flash estimate (July).
Portugal: budget execution (June).
Portugal: tourism activity (June).

AUGUST 2025

1 Euro area: CPI flash estimate (July).
4 Spain: registration with Social Security and registered unemployment (July).
5 Spain: industrial production (June).
6 Portugal: employment (Q2).
8 Portugal: international trade (June).
14 Portugal: labour cost index (Q2).
15 Japan: GDP (Q2).
18 Spain: international trade (June).
26 Spain: loans, deposits and NPL ratio (June).
28 Euro area: economic sentiment indicator (August).
29 Spain: CPI flash estimate (August).
Portugal: GDP breakdown (Q2).
Portugal: CPI flash estimate (August).

Tariffs and strategic dependencies: two sides of the same coin

Having passed the half-way point of the year, the list of open topics in the international economy folder remains considerable (final tariff levels, geopolitical risk, reduction of US inflation, weakening of the dollar, etc.). This limits our visibility of how economic activity will behave in the short term, just as we are entering a time of the year with high sensitivity in the financial channel to any negative surprises. The balance, therefore, remains unstable, although the resilience of the business cycle and of the financial markets to the distortions caused by ever-increasing geopolitical risk remains surprising. For the time being, factors such as the strength of the labour market, the solid financial position of the private sector, the buoyancy of the tech sector and the return of interest rates to neutral territory (with the exception of the US) seem to be offsetting the effect of the disturbances accumulated since January. However, in the short term, uncertainty may continue to affect consumer and business decisions, as well as the movements of the central banks.

Therefore, the final outcome of the tariff negotiations will determine what path the international economy takes over the coming quarters and could open up a wide variety of scenarios, influenced not only by the final destination, but also by how and when it is reached. For now, and while there are still many details yet to be clarified ahead of the new deadline for the negotiations (1 August), the final average US tariff rate may end up close to 15%, which would be consistent with the assumptions behind most baseline forecasting scenarios. In our case, this would place global growth this year at 2.9%, just one notch below the activity rate forecast prior to the tariff saga. In this regard, although the Q2 activity data due to be published at the end of July will provide a little more visibility to assess the impact of the tariff tensions on growth – through the trade, price and expectation channels – there is a feeling that the net effect during the first half of the year will have been moderate and lower than that anticipated by the confidence indicators. Also, the publication of the June inflation data, as well as Q2 business earnings, will shed some light on how the cost of the US tariff hikes is being distributed among consumers, businesses and exporters. The most important thing, however, is that nothing has been definitively broken, as the risk of non-linear effects with a very high potential impact, such as the breakdown of supply chains, has been minimised.

It will be harder to extrapolate long-term trends, although the current events are leading us towards a more fragmented world, with increased barriers between trading blocs and a widespread search for strategic autonomy, a concept initially focused on security and defence that is now shifting towards an eminently economic orientation. The problem is that, given the economic connections that have formed over the past few decades (see «Import dependencies and competitive emergencies for Europe's industry» in this same *Monthly Report*), trade policy decisions are not going to be harmless for future potential growth. In the case of Europe, the share of the supply of manufactured (non-energy) products that is covered by non-EU imports has increased from 15% to 25% in the last 20 years, and this includes an ever-increasing dependency in industrial products with a high technological content, such as electronic components (64.8%) and telecommunications equipment (82.5%). All this reflects the loss of competitiveness of Europe's manufacturing sector (and the greater complexity of Chinese exports, which are increasingly similar to European exports), which has generated significant strategic dependencies, highlighting the need to accelerate the European Commission's roadmap (Competitiveness Compass) based on the Draghi and Letta reports. In this context, the urgency that countries like Germany are showing to reach a quick agreement with the US is also understandable, because not only is a key market for a range of highly sensitive European products (automotive, agricultural sector, etc.) at stake, but also dependencies on the US, although moderate (3% of the total supply), affect strategic sectors (pharmaceuticals, transport equipment, etc.). This search for the lost competitiveness of Europe's industry, while attempting to optimise trade relations with the two major economic powers in the post-globalisation world, will shape Europe's future in the medium term. In short, while it is difficult to believe that «tariff» is the most beautiful word in the dictionary after love, as Trump thinks, it will continue to be the most important one for our economic scenarios in the short term – and for the behaviour of the financial markets at a highly sensitive time of the year.

José Ramón Díez

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

Financial markets

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
INTEREST RATES							
Dollar							
Fed funds (lower limit)	3.18	0.54	0.67	5.25	4.25	4.00	3.25
3-month SOFR	3.62	1.01	1.07	5.37	4.37	4.07	3.35
12-month SOFR	3.86	1.48	1.48	4.95	4.19	3.75	3.41
2-year government bonds	3.70	1.04	1.21	4.46	4.24	4.10	3.90
10-year government bonds	4.69	2.57	1.76	4.01	4.40	4.60	4.50
Euro							
ECB depo	2.05	0.20	–0.30	4.00	3.09	1.75	2.00
ECB refi	3.05	0.75	0.20	4.50	3.24	1.90	2.15
€STR	–	–0.54	–0.38	3.90	3.06	1.70	2.06
1-month Euribor	3.18	0.50	–0.32	3.86	2.89	1.74	2.10
3-month Euribor	3.24	0.65	–0.21	3.94	2.83	1.76	2.11
6-month Euribor	3.29	0.78	–0.07	3.93	2.63	1.91	2.14
12-month Euribor	3.40	0.96	0.10	3.68	2.44	2.09	2.18
Germany							
2-year government bonds	3.41	0.35	–0.21	2.55	2.02	1.89	1.97
10-year government bonds	4.30	1.54	0.14	2.11	2.22	2.30	2.40
Spain							
3-year government bonds	3.62	1.69	0.18	2.77	2.26	2.48	2.63
5-year government bonds	3.91	2.19	0.38	2.75	2.48	2.67	2.84
10-year government bonds	4.42	3.17	0.99	3.09	2.90	3.00	3.20
Risk premium	11	164	85	98	68	70	80
Portugal							
3-year government bonds	3.68	3.33	0.07	2.33	2.03	2.01	2.14
5-year government bonds	3.96	3.94	0.35	2.42	2.15	2.31	2.49
10-year government bonds	4.49	4.67	0.96	2.74	2.68	2.85	3.10
Risk premium	19	314	82	63	46	55	70
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.09	1.05	1.14	1.15
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.86	0.83	0.81	0.80
EUR/GBP (yen per euro)	129.56	126.41	129.91	156.99	161.18	158.00	154.00
OIL PRICE							
Brent ($/barrel)	42.3	80.1	71.0	77.3	73.1	61.7	62.8
Brent (euros/barrel)	36.4	62.5	63.9	70.9	69.8	54.1	54.6

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
GDP GROWTH[1]							
Global	4.3	3.3	2.5	3.5	3.3	2.9	2.9
Developed countries	*2.7*	*1.5*	*1.7*	*1.7*	*1.8*	*1.3*	*1.3*
United States	2.7	1.8	2.1	2.9	2.8	1.3	1.3
Euro area	2.3	0.8	1.2	0.6	0.8	0.9	1.1
Germany	1.6	1.3	0.2	–0.1	–0.2	0.4	1.0
France	2.3	1.0	0.7	1.6	1.1	0.4	0.8
Italy	1.5	–0.3	1.6	0.8	0.5	0.6	1.0
Portugal	1.5	0.4	1.5	2.6	1.9	1.7	1.9
Spain	3.6	0.7	0.6	2.7	3.2	2.4	2.0
Japan	1.4	0.4	–0.2	1.5	0.1	1.0	1.0
United Kingdom	2.8	1.2	1.0	0.4	1.1	1.1	1.2
Emerging and developing countries	*6.3*	*4.9*	*3.1*	*4.7*	*4.3*	*3.9*	*3.9*
China	10.6	8.0	4.7	5.4	5.0	4.2	3.9
India	7.2	6.7	3.8	8.9	6.7	6.8	6.6
Brazil	3.6	1.6	1.5	3.2	3.4	2.0	1.8
Mexico	2.3	1.5	0.5	3.4	1.4	1.0	1.4
Russia	–	1.4	0.6	4.1	4.3	1.7	1.3
Türkiye	5.5	4.5	6.3	5.1	3.2	2.1	2.9
Poland	4.2	3.7	3.6	0.1	2.8	3.6	3.3
INFLATION							
Global	4.1	3.7	5.5	6.6	5.7	4.3	3.9
Developed countries	*2.1*	*1.6*	*3.7*	*4.6*	*2.6*	*2.3*	*2.3*
United States	2.8	1.8	4.6	4.1	3.0	2.9	2.6
Euro area	2.2	1.4	3.7	5.4	2.4	2.0	1.9
Germany	1.7	1.4	4.1	6.0	2.5	2.1	2.0
France	1.9	1.3	2.8	5.7	2.3	1.4	1.9
Italy	2.4	1.4	3.5	5.9	1.1	1.6	1.8
Portugal	3.1	1.1	3.0	4.3	2.4	2.1	2.0
Spain	3.2	1.3	3.7	3.5	2.8	2.4	2.2
Japan	–0.3	0.4	0.7	3.3	2.7	1.5	1.5
United Kingdom	1.6	2.3	4.2	7.3	2.5	2.9	2.3
Emerging and developing countries	*6.9*	*5.5*	*6.8*	*8.0*	*7.7*	*5.6*	*4.9*
China	1.7	2.6	1.8	0.2	0.2	0.5	1.0
India	4.6	7.3	6.1	5.7	5.0	4.6	4.4
Brazil	7.3	5.7	6.9	4.6	4.4	4.9	4.2
Mexico	5.2	4.2	5.7	5.5	4.7	4.4	3.7
Russia	14.2	7.9	8.0	5.9	8.5	8.4	6.0
Türkiye	22.6	9.6	34.7	53.9	58.5	36.1	26.1
Poland	3.5	1.9	7.4	10.8	3.7	4.6	3.4

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

Forecasts

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

Portuguese economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	1.8	0.5	1.2	1.9	3.2	2.0	2.1
Government consumption	2.2	–0.3	2.0	0.6	1.1	1.0	1.1
Gross fixed capital formation	–0.4	–0.7	2.9	3.6	3.0	4.0	3.4
Capital goods	3.3	2.7	5.5	5.6	5.8	–	–
Construction	–1.4	–2.4	2.6	1.2	1.4	–	–
Domestic demand (vs. GDP Δ)	1.3	0.0	1.9	1.7	2.6	1.7	2.2
Exports of goods and services	5.3	4.0	3.6	3.8	3.4	3.3	3.0
Imports of goods and services	3.6	2.7	4.0	1.8	5.0	3.4	3.5
Gross domestic product	**1.5**	**0.4**	**1.5**	**2.6**	**1.9**	**1.7**	**1.9**
Other variables							
Employment	0.4	–0.4	1.1	2.3	1.2	1.0	1.5
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.5	6.4	6.4	6.4
Consumer price index	3.1	1.1	3.0	4.3	2.4	2.1	2.0
Current account balance (% GDP)	–9.2	–2.8	–1.1	0.6	2.2	–	–
External funding capacity/needs (% GDP)	–7.7	–1.5	0.1	2.0	3.3	4.2	3.9
Fiscal balance (% GDP)	–4.5	–5.1	–3.0	1.2	0.7	0.4	0.3

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
Macroeconomic aggregates							
Household consumption	3.7	0.0	0.0	1.7	2.8	2.7	2.3
Government consumption	4.5	0.9	2.6	5.2	4.1	2.0	0.8
Gross fixed capital formation	5.7	–1.2	–1.0	2.1	3.0	3.9	3.0
Capital goods	4.9	0.2	–2.5	1.1	2.8	5.9	2.3
Construction	5.7	–2.6	–1.9	3.0	3.5	3.2	3.4
Domestic demand (vs. GDP Δ)	4.4	–0.2	0.7	1.6	2.7	2.5	2.0
Exports of goods and services	4.7	2.9	2.5	2.8	3.1	2.2	2.1
Imports of goods and services	7.0	0.2	2.5	0.3	2.4	3.0	2.5
Gross domestic product	**3.6**	**0.7**	**0.6**	**2.7**	**3.2**	**2.4**	**2.0**
Other variables							
Employment	3.2	–0.5	1.4	3.2	2.4	2.4	1.7
Unemployment rate (% of labour force)	10.5	19.5	14.5	12.2	11.3	10.7	10.2
Consumer price index	3.2	1.3	3.7	3.5	2.8	2.4	2.2
Unit labour costs	3.1	0.6	3.6	6.1	4.0	3.5	2.7
Current account balance (% GDP)	–5.8	–0.2	0.6	2.7	3.0	2.7	2.9
External funding capacity/needs (% GDP)	–5.2	0.2	1.4	3.7	4.2	3.7	3.9
Fiscal balance (% GDP)[1]	0.3	–6.5	–7.1	–3.5	–3.2	–2.8	–2.6

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

Forecasts

Neither geopolitical risks nor trade threats hinder the advance of risk assets

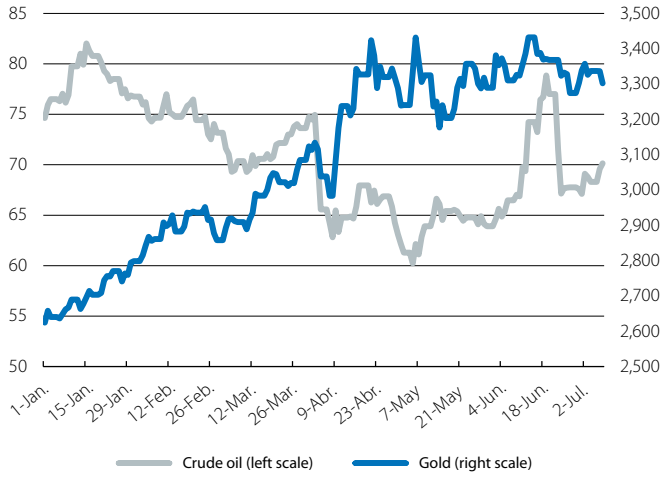
Contained impact from the spike in geopolitical risk. The escalation of tensions in the Middle East, with the attacks between Israel, the US and Iran, was short and intense, but contained. So was the response of financial markets. The price of Brent crude oil surged by 20% in just one week, from 66 to 79 dollars, before falling 15% in just five days after a truce was announced. Since then, the price of Brent has stabilised at levels around 67-68 dollars per barrel, as fundamentals have redirected the price dynamics in a context of oversupply, in which OPEC+ will reverse the 2.2-million-barrel cut implemented in 2023. Production will increase by 548,000 barrels per day in August, accelerating the pace with respect to the consecutive increases of 411,000 barrels per day in May, June and July. Other financial assets responded more timidly. On the day of the US bombings, the S&P 500 fell just 1.5%, the dollar appreciated 0.3% and gold, a traditional safe-haven asset, rose 3% only to quickly return to its previous levels. Following this short episode, markets resumed the trends observed in the previous month: more stable sovereign yields in the euro area, without any surprises from the ECB; rates in the US moving to the tune of monetary policy expectations, without any significant impact from the fiscal risks arising from the new budget act (the OBBBA) or the threats of tariffs. The stock markets, meanwhile, continued to advance despite trade tensions, which could reflect investors' optimism that the White House will eventually reach agreements with its trading partners, or simply disbelief that Trump will reimpose the reciprocal tariffs.

The ECB cuts rates and reaches «the end of a monetary policy cycle». As anticipated, in June the ECB cut rates by 25 bps (placing the depo rate at 2.00%). Lagarde described the current situation as nearing «the end of a monetary policy cycle», with inflation now normalised following the disruptions triggered by COVID-19 and the war in Ukraine. Looking ahead to the new phase of the cycle, a range of scenarios are opening up in an environment which the ECB described as being marked by «exceptional» uncertainty, which is why the central bank reiterated its data-dependent approach for its forthcoming meetings. However, Lagarde said that the current tone of monetary policy is well positioned to respond to uncertainty, thus indicating little willingness to lower rates again in July. Financial markets expect rates to remain unchanged at the next meeting and one further 25-bp cut towards the end of the year.

The Fed on pause and with division of opinions. There were no surprises from the Federal Reserve either, which kept the fed funds rate in the 4.25%-4.50% range, extending the pause it began this year for the fourth time in a row. It once again justified the decision by arguing it needs more clarity on the impact of tariffs on prices and economic activity before making any further moves, and believes the economy's strength allows it to take another pause. In its macroeconomic forecast update, the Fed maintained its qualitative assessment of an outlook

Commodities

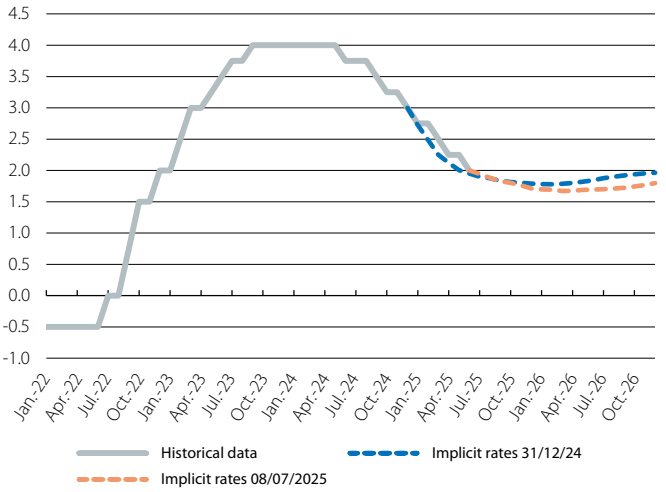
(Dollars per barrel) *(Dollars per ounce)*



Note: *Crude oil refers to the Brent barrel.*
Source: *BPI Research, based on data from Bloomberg.*

ECB: depo rate

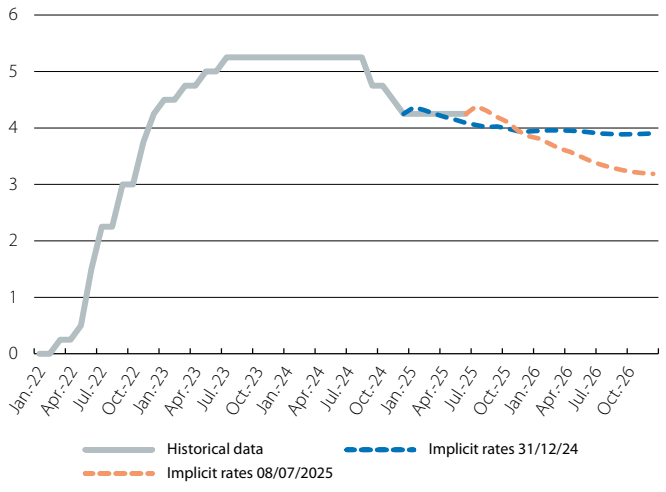
(%)



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

Federal Reserve: fed funds rate

(%)



Source: *BPI Research, based on data from the Federal Reserve and Bloomberg.*

with higher inflation and lower growth, although it did intensify the magnitude of the impact due to higher tariffs than originally estimated. More relevant were the interest rate projections in the dot plot. The chart showed two well-defined and similar-sized blocs within the FOMC: on the one hand, a more cautious group that anticipates only a single rate cut this year, or even none at all; on the other, a more dovish wing that continues to project at least two cuts. This dispersion of expectations highlighted the growing uncertainty surrounding the trajectory of monetary policy and reinforces the data-dependent strategy. Financial markets expect the Fed to resume its monetary easing after the summer, with two 25-bp cuts this year.

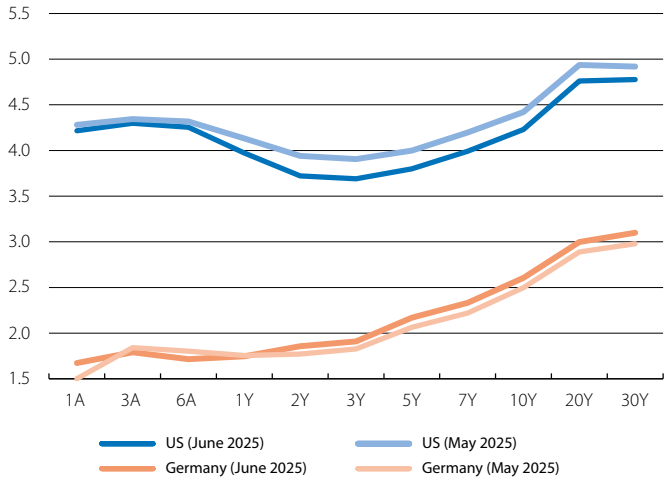
Monetary and fiscal policy expectations guide sovereign rates. With no surprises from the ECB and no change in the underlying trends of the euro area economy, the region's sovereign rates remained relatively stable during the first half of the month. With the announcement of Germany's new draft budget, which entails an increase in public spending, sovereign rates rose across the board, ending June up to 10 bps above the previous month's level. In the US, in contrast, sovereign rates saw back-and-forth movements, initially falling throughout the yield curve prompted by expectations of a more dovish Fed (which could cut rates up to three times this year) in view of the apparent limited impact, for now, that the tariffs are having on the inflation data. However, strong June employment data reversed this trend and reinforced expectations that the Fed will keep rates on hold until after the summer, triggering a rebound in Treasury yields from the beginning of July up until the close of this publication.

Geopolitical tensions were not enough to boost the dollar. Despite escalating geopolitical tensions and trade uncertainty, the US currency weakened against its main peers by almost 3% in June, reaching its lowest levels since 2021. The truce between the countries involved in the Middle East conflict, which increased the appetite for risk assets, as well as the swings in US sovereign rates, caused the currency to lose value. Additionally, concerns over fiscal deterioration in the US continued to weigh down on the currency. The dollar's depreciation has been especially intense against the euro, which is now trading at around 1.18 per dollar (almost 15% higher than at the start of the year).

Stock markets: optimistic, sceptical or both? In a context of high geopolitical uncertainty, and with the expiry date of the pause on the reciprocal tariffs drawing near, global stock markets had a positive month (the MSCI All Country World Index climbed +4.3% in June). US indices led the gains, driven by tech stocks, and the S&P 500 hit a new all-time high. Thus, this was a month in which the stock markets were less reactive to Trump's threats, in what some analysts have labelled the TACO trade (Trump Always Chickens Out), reflecting expectations among investors that the president will eventually delay or fail to follow through on his threats. Thus, stock markets closed the first half of the year recovering from the turbulence in April and distilling optimism that trade deals will eventually be reached and that the global economy will avoid a disorderly tariff war.

Sovereign yield curves

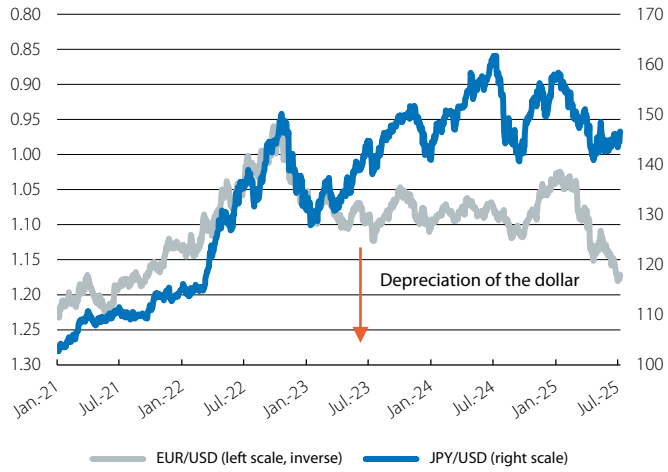
Yield (%)



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

Dollar against the euro and the yen

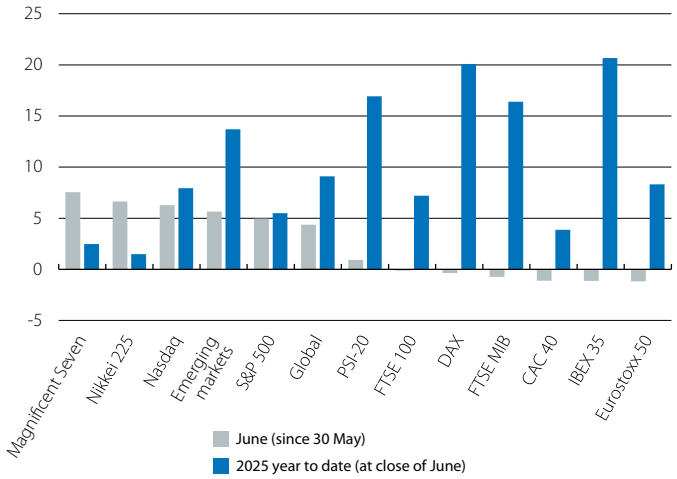
(Dollars per euro) *(Yen per dollar)*



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

Stock market indices

Change (%)



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

Interest rates (%)

	30-June	31-May	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.40	–25	–100.0	–210.0
3-month Euribor	1.94	2.00	–5	–77.0	–176.7
1-year Euribor	2.07	2.09	–2	–38.8	–150.6
1-year government bonds (Germany)	1.76	1.77	–1	–48.5	–145.1
2-year government bonds (Germany)	1.86	1.78	9	–22.1	–97.2
10-year government bonds (Germany)	2.61	2.50	11	24.0	10.7
10-year government bonds (Spain)	3.24	3.09	15	18.1	–17.7
10-year government bonds (Portugal)	3.06	2.98	8	20.7	–19.4
US					
Fed funds (lower limit)	4.25	4.25	0	0.0	–100.0
3-month SOFR	4.29	4.32	–3	–1.3	–103.2
1-year government bonds	3.97	4.10	–13	–17.6	–114.3
2-year government bonds	3.72	3.90	–18	–52.2	–103.4
10-year government bonds	4.23	4.40	–17	–34.1	–16.8

Spreads corporate bonds (bps)

	30-June	31-May	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	55	58	–3	–3.1	–6.9
Itraxx Financials Senior	59	62	–3	–5.0	–13.1
Itraxx Subordinated Financials	101	107	–6	–11.2	–27.4

Exchange rates

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.18	1.13	3.9	13.8	10.0
EUR/JPY (yen per euro)	169.8	163.5	3.9	4.3	–1.5
EUR/GBP (pounds per euro)	0.86	0.84	1.8	3.7	1.3
USD/JPY (yen per dollar)	144.0	144.0	0.0	–8.4	–10.5

Commodities

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	568.50	555.02	2.4	6.0	5.4
Brent ($/barrel)	67.61	63.90	5.8	–9.4	–21.8
Gold ($/ounce)	3,303.14	3,289.25	0.4	25.9	42.0

Equity

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,205	5,912	5.0	5.5	13.6
Eurostoxx 50 (euro area)	5,303	5,367	–1.2	8.3	8.4
Ibex 35 (Spain)	13,992	14,152	–1.1	20.7	27.9
PSI 20 (Portugal)	7,456	7,388	0.9	16.9	15.1
Nikkei 225 (Japan)	40,487	37,965	6.6	1.5	2.3
MSCI Emerging	1,223	1,157	5.7	13.7	12.6

Equilibria that deceive, imbalances that persist

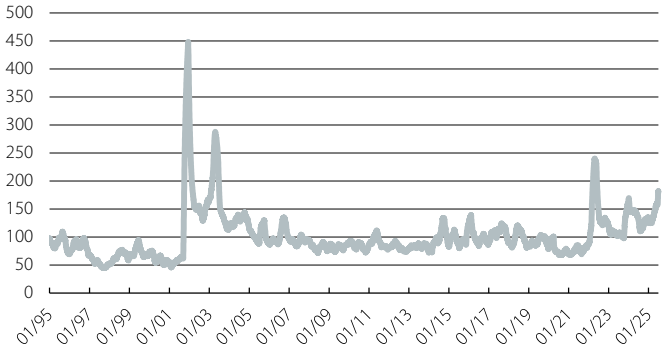
Geopolitics and uncertainty shape the global scenario. The truce announced between Iran and Israel at the end of June, after days of attacks and a US bombing of three sites linked to Iran's nuclear programme, was just the latest in a string of episodes of geopolitical tension that have marked recent months and years. While the truce allayed fears of a wider regional conflict and of disruption to the oil supply, this episode reminded us that the economic environment remains subject to the risk of new supply disruptions. Meanwhile, at the summit of NATO country leaders an agreement was reached to increase defence spending to 5% of GDP (3.5% + an additional 1.5% on cybersecurity, infrastructure, etc.). With all the ongoing or frozen conflicts in various regions, the fragmentation of the geopolitical world order will continue to determine the macroeconomic scenario. Another key element of the economic environment is uncertainty. Unlike risk (geopolitical or other), this refers to the difficulty in anticipating events with a certain degree of certainty or probability. This development is particularly visible in the data on uncertainty by category, collected from large databases of US newspapers where, unlike in previous episodes, there is a widespread upturn across all categories. Also, in the US, the main consumer confidence indicators have deteriorated in recent months, while business surveys point to uncertainty, the tariffs and geopolitical risks as being the main challenges.

Tariffs: pauses, agreements, letters and threats. After a 90-day pause, Donald Trump signed an executive order extending the suspension of the tariffs until 1 August. After this date, the reciprocal tariffs announced on 2 April – so-called Liberation Day – which triggered severe turbulence in the financial markets will, in theory, be reapplied. In letters already sent to some of its largest trading partners, the White House highlighted the conditions for the proposed bilateral agreements and updated the tariffs that would be applied in the event of no agreement being reached. Japan, South Korea and Malaysia would be subject to tariffs of 25%, South Africa 30%, Indonesia 32% and Thailand 36% (levels equal to or very close to those announced on 2 April), while Brazil would be subject to a 50% tariff. On the other hand, Trump announced an agreement with Vietnam (without any official details).

A «big, beautiful» fiscal policy on both sides of the Atlantic. The bill recently passed by the US Congress focuses on tax cuts and includes a permanent extension of those introduced in 2017, as well as new deductions for tips and overtime as promised during the election campaign. On the expenditure side, the bill includes both increases in the budget for defence and national security and also cuts to health spending, while eliminating tax incentives linked to the IRA. Early estimates suggest that the total deficit could exceed 7% of GDP in the coming years, while the federal debt is predicted to exceed 125% of GDP, significantly above current levels (around 100% of GDP). The German parliament, for its part, approved a draft budget for 2025-2029, which includes an increase in federal spending of more than

Global: geopolitical risk

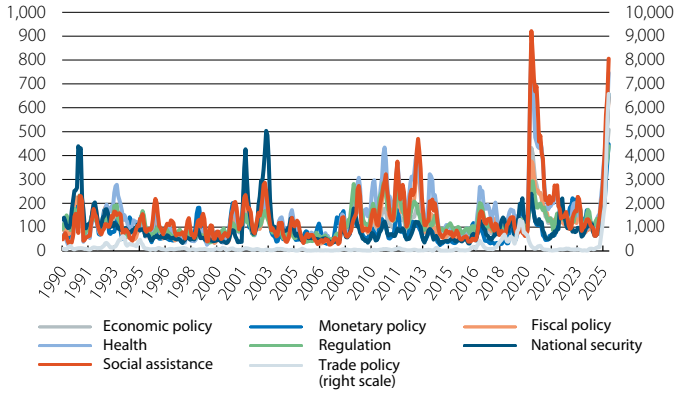
Index (100 = 1985-2019 average)



Notes: *The index is built from newspaper articles, by searching for keywords related to geopolitical risks in the electronic archives of 10 newspapers published in English. A higher value for the index indicates an increase in risk. The 90-day average is shown.*
Source: *BPI Research, based on data from D. Caldara and M. Iacoviello (2022), «Measuring Geopolitical Risk» (downloaded from https://www.matteoiacoviello.com/gpr.htm on 01/07/2025).*

US: uncertainty by category

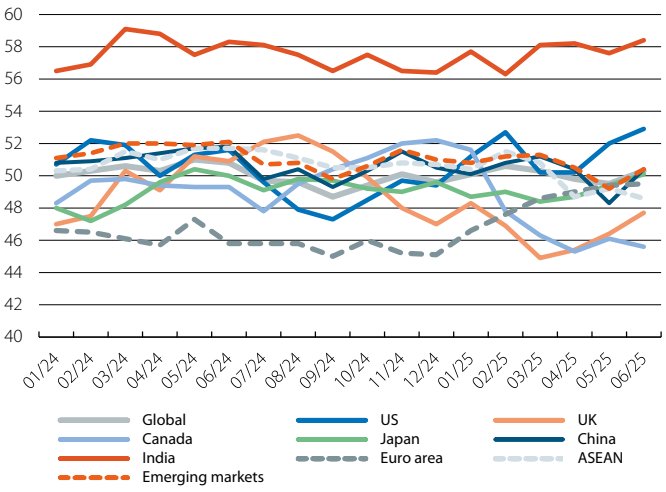
Index (100 = 1985-2010 average)



Notes: *The indices are built from newspaper articles, by searching for keywords related to uncertainty in different spheres. The data are derived from the Access World News database, which contains more than 2,000 US newspapers. Each sub-index contains terms related to economics, uncertainty and policy, as well as a set of terms specific to each category. The three-month average is shown. Each series is normalised to have an average of 100 in the period from 1985 to 2010.*
Source: *BPI Research, based on data from S. Baker, N. Bloom and S. Davis (2016). «Measuring economic policy uncertainty», The Quarterly Journal of Economics, 131 (4), 1593-1636 (downloaded from https://www.policyuncertainty.com/categorical_epu.html on 01/07/2025).*

Global: manufacturing PMI

Index



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

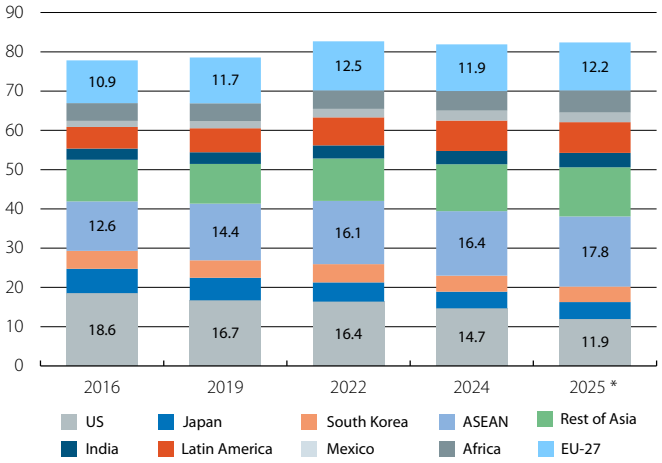
6.0% in 2025 and of more than 3.0% in 2026, driven by increased spending on defence and investment. Also, in the coming years Germany's budget deficit is expected to exceed the 3% limit set by the EU.

Despite geopolitics, uncertainty and the tariffs, the global economy holds steady. The global manufacturing PMI stood at 50.3 in June and regained its level of March, after two readings below 50 points in April and May. By country, in the US the PMI stood at 52.9 points (a peak since the beginning of 2022). The analysis by component reveals an increase in production in the US last month, but also in purchases of inputs and in prices growth, symptoms of a partial and temporary tariff truce. In the euro area, the manufacturing PMI stood at 49.5 points (a peak since the summer of 2022), while in China it recovered to 50.4 points, after a brief fall in May, placing it at the same level as that of all emerging economies as a whole, where increases were also observed in June. The broad-based improvement in the manufacturing PMI in June, along with the stability of the global PMI at around 50 points so far this year, paints a picture of a global economy that continues to withstand multiple shocks and is growing at a moderate pace. Among other witnesses of the timid outlook for the global economy, we find the economies of Canada and the ASEAN countries, whose PMIs (45.7 and 48.8 points in Q2 vs. 49.9 and 51.0 in 2024, respectively) point to a clear contraction in manufacturing activity in Q2.

Mixed data for Q2, after a Q1 that brought more bad news than good. The latest estimate for US GDP in Q1 showed domestic demand slowed more than expected. Despite the fact that GDP growth remained unchanged (–0.1% quarter-on-quarter), the substantial slowdown in private consumption is particularly concerning – a key driver of the US economy in recent years – with quarter-on-quarter growth falling by 0.3 pps, to 0.1%. Economic data available for Q2 point to a quarter characterised by moderation. In the US, retail sales fell 0.9% on a month-on-month basis in May. On the other hand, the «control group» (which excludes components such as vehicles, petrol and restaurants, and is considered more stable for the purpose of measuring trends in economic activity) grew by 0.4%, indicating that consumption remains robust. In this environment, the US labour market remains strong. In Q2, an average of 150,000 jobs were created each month, compared to 111,000 in Q1, while the unemployment rate fell from 4.3% to 4.1% in June. In the euro area, retail sales grew by 1.8% year-on-year in May (vs. 2.7% in April, 2.0% in Q1) and the unemployment rate rose slightly (6.3% in May vs. 6.2% in April), while the economic sentiment indicator continued to fall in June (94 points vs. 94.8 previously). In China, retail sales grew by 6.4% in May (vs. 5.1% in April), an acceleration that can be attributed to the programmes aimed at stimulating the consumption of durable goods, which grew at double-digit rates. Industrial production was up 5.8% year-on-year (vs. 6.1% in April), in a month in which exports of goods slowed (+4.8% vs. 8.1% previously). Between domestic and foreign headwinds, the Asian giant is growing at a moderate rate, supported by fiscal policy and an export sector quickly adapting to a tricky environment.

China: exports

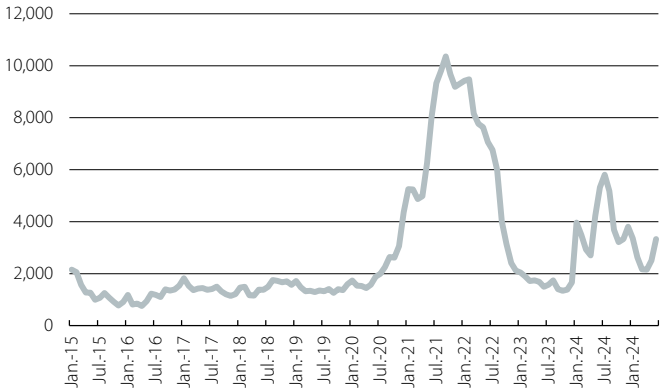
(% of the total)



Note: ** For 2025, cumulative data on exports between January and May are used.*
Source: *BPI Research, based on data from the National Statistics Office of China, via Bloomberg.*

Global: container freight prices

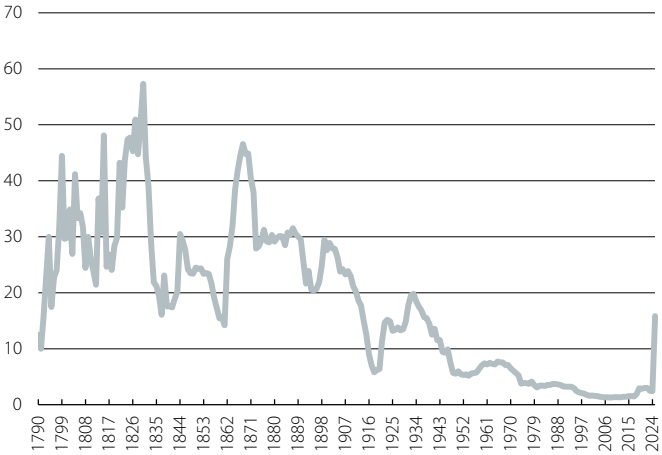
(Dollars per 40ft container)



Note: *The World Container Index (WCI) compiled by Drewry reports on container freight prices in the spot market for the major East-West trade routes. The composite index represents a volume-weighted average of all eight shipping routes, which include: Shanghai-Rotterdam, Rotterdam-Shanghai, Shanghai-Genoa, Shanghai-Los Angeles, Los Angeles-Shanghai, Shanghai-New York, New York-Rotterdam and Rotterdam-New York.*
Source: *BPI Research, based on data from Bloomberg.*

US: effective tariff rate

(%)



Source: *BPI Research, based on The Budget Lab, by Yale University (downloaded from https://budgetlab.yale.edu/research/effective-tariff-rates-and-economic-uncertainty-rapid-policy-environment, on 01/07/2025).*

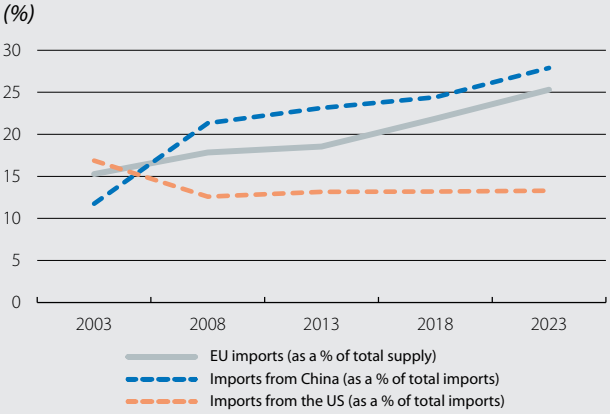
Import dependencies and competitive emergencies for Europe's industry

In the increasingly complex and fragmented global geopolitical landscape, the idea of strategic autonomy in the EU has mutated from being a concept based purely on security and defence to a broader one, with a high economic content.[1] The logic is simple: greater internalised productive capacity provides more degrees of freedom in international politics. The disengagement from Russian energy is a good example of this (see «The EU's difficult farewell to Russian energy» in this same *Monthly Report*). So are the current trade negotiations with the US. With the threat of a 20% tariff announced by Trump on 2 April and a possible protectionist escalation in key sectors, such as the automotive and pharmaceutical industries, the EU has adopted a restrained approach in its responses[2] while maintaining less tough rhetoric with China (de-risking rather than de-coupling).[3] This may be a strategic positioning, but these decisions are understandable in light of the import dependencies that have accumulated this century across a wide range of products, from critical minerals to intermediate inputs and final products.[4] Here we focus our attention on the manufacturing sector, excluding the energy branch.

The loss of industrial competitiveness has been a long time coming

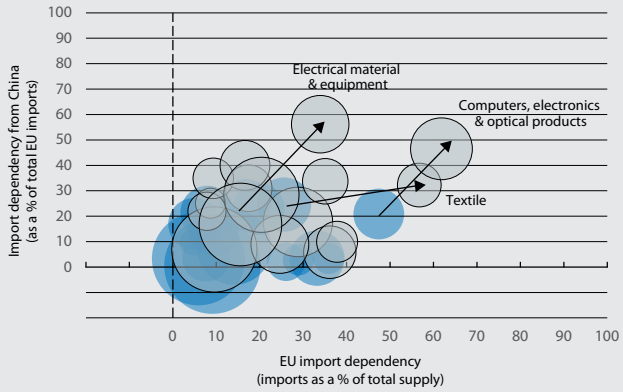
Of the total supply of non-energy manufactured goods in the EU,[5] the portion covered by non-EU imports increased from 15% in 2003 to 25% in 2023, with a particularly sharp increase over the last decade (see first chart). This trend reflects the consolidation of the loss of competitiveness that has been observed in Europe's manufacturing sector since the beginning of the century,[6] and which continues to take place in parallel with the gains in global market share of Chinese products[7] and in EU imports (up to around 30% in 2023, representing 7% of the total supply of non-energy manufactured goods). In contrast, the

EU: import dependency on non-energy manufactured goods

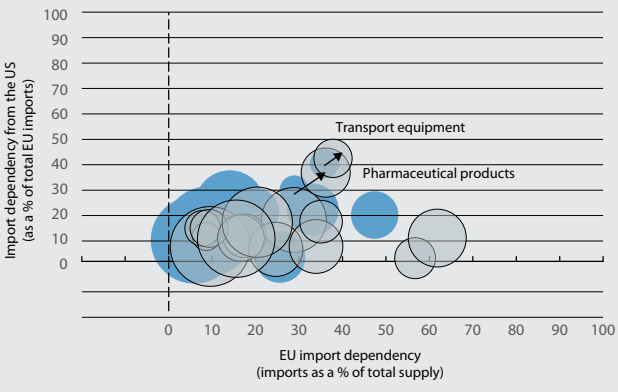


Note: *The total supply in the EU is the sum of production and imports.*
Source: *BPI Research, based on data from Eurostat and COMTRADE.*

EU: dependency on non-energy manufactured goods from China, by product group



EU: dependency on non-energy manufactured goods from the US, by product group



2023 2003

Note: *Import dependency for 16 product groups at the division level according to the National Classification of Economic Activities (CNAE). The size of the bubble is proportional to each product group's relative weight in the total supply.*
Source: *BPI Research, based on data from Eurostat and COMTRADE.*

1. M. Damen (2022)., «EU strategic autonomy 2013-2023: From concept to capacity», European Parliament.
2. See the Focus «US tariffs: where do we stand and what comes next?» in the MR06/2025.
3. A. García-Herrero (2023), «The EU's concept of de-risking hovers around economic diversification rather than national security», Bruegel.
4. European Commission (2021), «Strategic dependencies and capacities».
5. The total supply in the EU is defined as the sum of domestic production in the various Member States and total non-EU imports.
6. R. Marschinski and D. Martínez-Turégano (2020), «The EU´s shrinking share in global manufacturing: a value chain decomposition analysis», National Institute Economic Review, nº 252.
7. See chapter 3 in Joint Research Centre (2022). «China 2.0 – Status and foresight of EU-China trade, investment, and technological race», European Commission.

dependency on the US, which was greater than in the case of China at the beginning of the period in question, has remained relatively stable over the last 15 years (at around 13% imports and 3% of the total supply).

The dependencies on China cover a broad spectrum of products

By product group, we note that the increase in the EU's import dependency on China has been a widespread phenomenon, affecting not only lower-tech manufactured goods, such as those produced by the textile industry, but also more advanced ones, such as electronics and machinery and equipment (see second chart and the table).

In fact, Europe's dependency on Chinese clothing and footwear has been declining for a decade now, in favour of other more competitive producers in Southeast Asia, such as Vietnam, reflecting the upgrading of its manufacturing sector's production capacities. With this dynamic, we could be witnessing a similar «saturation» in the share of imports of computers and other electronic products from China (such as components, mobile phones and precision equipment), which in 2023 accounted for almost 50% of non-EU purchases (20% in 2003) and around 30% of the total supply in this industry (10% at the beginning of the period).

The branch of manufacturing that does not seem to have a brake on the EU's ever-growing dependency is that of electrical equipment (whether for consumer products, such as household appliances, or industrial use, such as batteries and generators). Here, China now accounts for almost 60% of imports and 20% of the total supply (double the level of 10 years ago). More incipiently, and still with a moderate intensity, since 2018 there has also been a rise in the proportion of Europe's supply of chemicals and vehicles coming from China, triggering investigations into anti-competitive practices and the adoption of protectionist measures by the EU.[8]

The dependencies on the US are moderate, but affect strategic sectors

In the case of the US, its share of EU imports has been relatively stable in most non-energy manufactured goods. The most notable exceptions are the pharmaceutical industry (both basic and speciality products) and the transport equipment industry, where US products have reached 35% of non-EU purchases and 15% of the total supply (see third chart), far surpassing the degree of dependency on China in both sectors. Zooming in on the detail, the aeronautical and space industry stands out, with around two thirds of European imports coming from the US, accounting for almost 30% of the total supply of these products in the EU (see table).

8. See https://trade.ec.europa.eu/access-to-markets/en/news/eu-commission-imposes-countervailing-duties-imports-battery-electric-vehicles-bevs-china.

Main non-energy manufactured products with the highest import dependency in the EU (2023)

	Total supply (EUR billions)	Imports		
		Total (% of total supply)	From China (% of total imports)	From the US (% of total imports)
Pharmaceutical specialities	291	34.3	2.0	38.7
Basic iron, steel & ferroalloy products	194	28.0	10.3	1.1
Aeronautical & space & related machinery	149	44.8	3.5	63.8
Electronic components	119	64.8	38.7	5.5
Telecommunications equipment	109	82.5	57.7	4.2
Medical & dental instruments & supplies	99	40.8	14.9	30.6
Measurement, verification & navigation equipment	90	28.4	19.9	26.5
Computers & peripheral equipment	87	81.0	63.0	5.6
Basic pharmaceutical products	78	43.2	18.1	25.7
Aluminium	73	33.8	4.0	1.9
Electric batteries	66	47.2	81.1	2.5
Oil & fats	66	32.3	0.9	2.4
Electric motors, generators & transformers	53	29.2	43.5	8.7
Household appliances	52	39.5	65.2	1.7
Machinery for the mining, quarrying & construction industries	50	25.9	26.8	8.3
Electrical & electronic equipment for motor vehicles	42	32.3	7.6	4.0
Precious metals	42	44.4	0.6	9.0
Footwear	38	57.0	34.7	0.7
Seats & their parts; furniture parts	36	27.4	63.8	1.1
Processing & conservation of fish, crustaceans & molluscs	36	35.8	8.0	3.3
Consumer electronics	36	52.0	70.0	2.2
Tools	34	27.4	44.1	7.9
Tyres & rubber tubes	34	27.8	30.8	2.8
Fertilisers & nitrogen compounds	31	26.7	3.7	5.8
Lamps & electrical lighting apparatus	30	32.8	70.9	2.7

***Note**: Product groups at the 4-digit level of the PRODCOM classification with a minimum total supply value of 10 billion euros and a minimum import dependency of 25%; excluding categories referring to product groups without a specific description (e.g. «Other»).*
***Source:** BPI Research, based on data from Eurostat and COMTRADE.*

Draghi's competitive dream will not be achieved without effort

The European Commission's roadmap to relaunch the competitiveness of our single market is an ambitious project and represents an important step in the right direction to address the structural and geostrategic economic challenges we face.[9] However, achieving its goals will require a coordinated commitment from Member States which must go beyond the communion that arises in extreme situations, such as those that have put the EU on the edge of the precipice several times over the past 20 years (most recently, what appears to be the end of the Atlantic security umbrella). As a reflection of the commitment that is needed, it should be recalled that China's broad-spectrum competitive leap responds to a long-term strategy to improve its citizens' purchasing power. If we are to move in this same direction, we must urgently reach a consensus to revitalise European investment[10] and address the current shortage of labour with the necessary skills and knowledge to boost key sectors of the economy.[11]

9. See the Focus «A shift in the EU's political priorities» in the MR04/2025.
10. See the Focus «A snapshot of investor apathy in the EU» in the MR05/2025.
11. See the Focus «A changing European labour market: the role of immigration and new jobs» in the MR06/2025.

The EU's difficult farewell to Russian energy

On 6 May, the EU presented its roadmap,[1] accompanied by a draft bill[2] presented on 17 June to end the bloc's energy dependency on Russian oil, gas and nuclear energy (imports of Russian coal have already been eliminated through sanctions). Since the outbreak of the war in February 2022, through sanctions and the search for more reliable partners, imports of Russian energy have declined significantly, although they still represent an important part of Europe's energy matrix. The path towards eliminating energy imports from Russia, although gradual, will not be an easy one, nor will it be free of obstacles, and it will require significant coordination efforts by Member States (as was already the case for eliminating the transit of Russian gas through Ukraine in December 2024) in order to build a sustainable, secure and competitive energy system.

From Russian energy to diversification

The EU remains heavily dependent on imported energy. In 2023 (the latest available data), the energy dependency ratio[3] stood at 58%, a reduction of just over 4 points compared to 2022 and slightly below the 2019 level, albeit still slightly above the average of the period 2000-2019 (when it was below 57%).

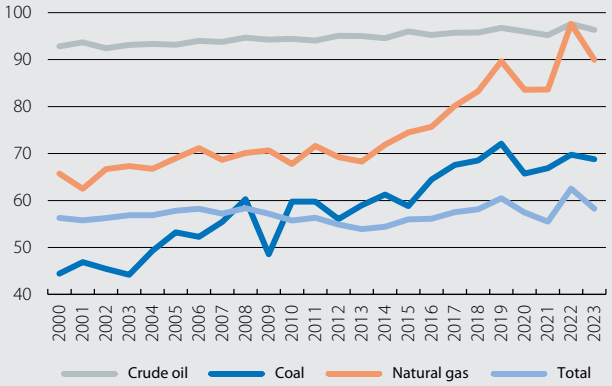
Russian's invasion of Ukraine highlighted the urgent need to transform the EU's energy mix. This is a complex task, however, given that at that time Russia was the EU's leading energy supplier (30% of the EU's total energy imports in 2021 came from Russia, a figure that has fallen to 5.3% in 2024).[4] To this end, in May 2022 the Commission presented the REPowerEU plan (the Recovery and Resilience Facility being its main source of funding). It goals are to save energy, produce clean energy, diversify the EU's energy supply and intelligently combine investments and reforms.

There is still a long way to go, but progress has already been made on several of these fronts. For instance, imports of Russian oil went from representing around 29% in 2021 to just 2.5% in 2024 (see second chart). The US has become the EU's main supplier of oil (in 2021, it was the second biggest supplier, below Russia),

1. Member States must draw up a plan by the end of this year explaining how they will contribute to reducing energy imports from Russia.
2. Among other topics, the roadmap includes a ban on new Russian gas contracts from January 2026 and the termination of long-term contracts by the end of 2027.
3. The energy dependency ratio shows the proportion of energy that an economy must import. It is defined as net energy imports divided by the gross available energy, expressed as a percentage.
4. Calculated using the value of imports in euros, according to the Eurostat database (ds-045409) and taking into account the following products: 2701, 2709, 2710, 271111, 271121, 284410, 284420 and 840130).

EU energy dependency

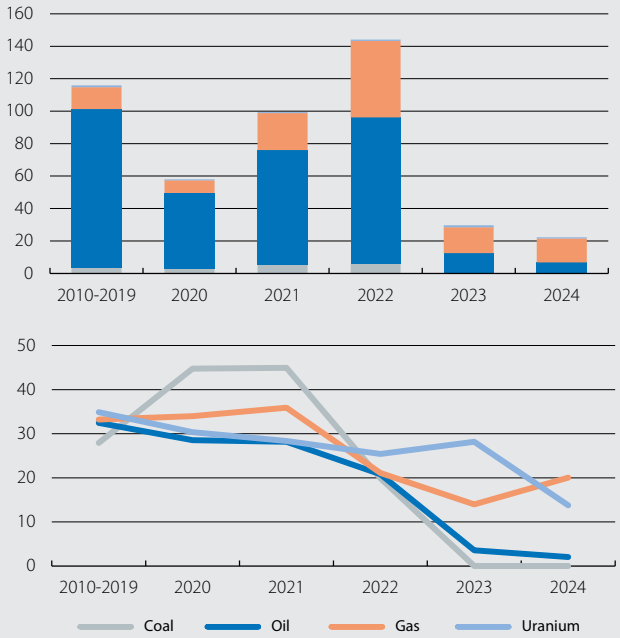
(%)



Note: *Energy dependency is defined as net energy imports divided by the gross available energy.*
Source: *BPI Research, based on data from Eurostat.*

Russia: EU energy imports

EUR billions (above) and % of the total (below)



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

followed by Norway and Kazakhstan, which have seen their share of the total increase significantly.

Substantial progress has also been made in the case of natural gas, as the 45% of the EU's gas imports (whether via pipeline or in the form of liquefied natural gas [LNG]) which came from Russia in 2021 has been reduced to 19% in 2024. Russia has remained the second biggest supplier of LNG, but it is quite far behind the US.

This reduction is mainly explained by the increase in LNG imports from countries such as the US and Norway (which was the main supplier of gas to the EU in 2024, with 33%

of the total, particularly via pipeline, since imports of LNG were led by the US). However, the reduction has also been aided by a reduction in gas consumption in the continent (down almost 20% between 2021 and 2024; since 2022, there have been reductions every year, with the exception of 2024, when consumption increased by 1% compared to 2023). The EU has adopted various different measures to ensure its ability to continue importing LNG in the future. Since 2022, the construction and expansion of regasification terminals has been a top priority (e.g. in Germany, which had no LNG terminals prior to 2022, several floating regasification terminals have been quickly brought online). In addition, gas interconnections have been bolstered in order to redistribute gas from ports into the hinterland and long-term contracts are being signed with key suppliers such as the US, Qatar and Algeria. The EU's storage capacity has also been increased and stockpile levels have been established in order to ensure energy security in the months of peak demand.

Imports of Russian uranium, however, represent an exception to these trends as the reduction has been only limited: in 2024 they remained at practically the same level as in 2022 (a mere 2% below in monetary value, although their share of total European imports has fallen significantly, from 25% in 2022 down to 14%). Although it represents only a small portion of total energy imports, this is an essential product for the operation of nuclear reactors, which generate around 25% of all electricity in the EU. The reduction in imports from Russia has been offset by a significant increase in purchases of Canadian uranium, which in 2024 accounted for 31% of the EU's total uranium imports, compared to 18% in 2022.

The growing role of renewable energies

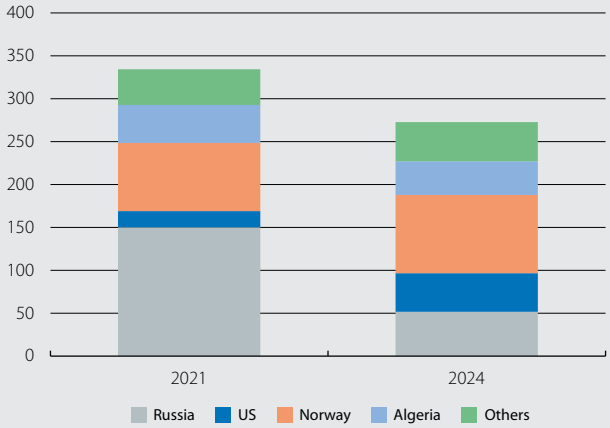
Another pillar of the REPowerEU plan was to boost the incorporation of renewable sources in the bloc's energy production (with the goal of having renewables account for 42.5% of the total energy produced in the EU by 2030). In 2023 (the latest available data), 24.5% of the gross final energy consumption in the EU came from renewable sources, and their share of Europe's electricity mix has continued to grow, reaching 47.2% of the total net electricity generated in the EU in 2024 (see fourth chart), although there are significant differences from country to country. The leading technologies were wind and hydroelectric power (accounting for over two-thirds of renewable generation), while solar also grew significantly and consolidated its position as a key source for the continent's energy transition.

The energy disengagement from Russia is underway, but there is still work to be done

Progress is being made in the disengagement from Russia, as well as in the shift in the EU's energy model.

Natural gas imported by the EU

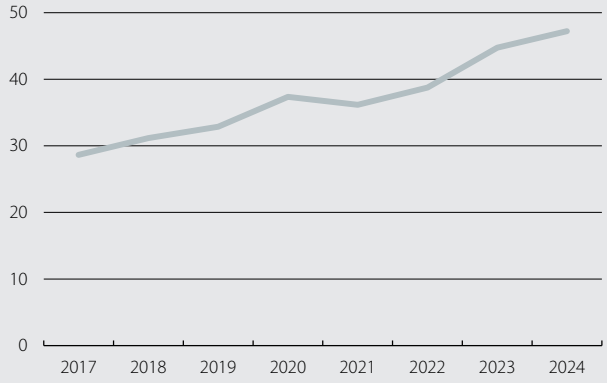
(Billions of cubic metres)



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

EU: electricity from renewable sources

(% of the total)



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

Indeed, significant progress has been achieved in just the last three years: dependence on Russian oil and gas has been drastically reduced, the supply diversified and the transition to renewable sources accelerated. However, major challenges remain, such as the high dependency on energy imports in general, the limited reduction in the case of Russian uranium and the need to strengthen interconnection and storage infrastructures. In this context, the Competitiveness Compass establishes a clear roadmap: moving towards a cleaner, more resilient and affordable energy system will be key not only for energy security,
but also for the EU's long-term industrial competitiveness and economic sustainability. Nevertheless, the EU is starting from a position with competitive disadvantages in the value chain for clean technologies, including aspects ranging from access to critical commodities to the manufacture of batteries and solar panels, where it relies heavily on third-party countries.

India vs. China: a growth perspective

The rise of India and China as economic powers has been one of the most profound changes in the global economy in recent decades, unravelling a landscape previously dominated by advanced economies. In a previous article,[1] we explored the role that India could play in the global economic order, highlighting its rapid progress and good medium-term growth prospects. However, India is at a different stage of development than China. To understand the differences in its development, we will adopt a long-term growth perspective, with the aim of identifying the factors that have driven the Indian economy and the root causes of its divergence with China.

The wheel of dharma and its steering shafts: capital, labour and productivity

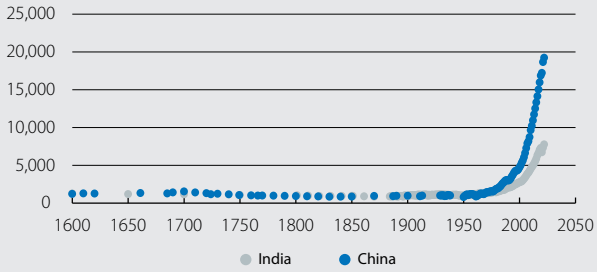
Up until the 1970s, India and China shared similar income levels. Despite very different historical trajectories, the GDP per capita of the two countries was around 1,400 dollars (at constant 2011 prices), far behind other economies such as Japan (15,000), South Korea, the Philippines or Thailand (3,000). Beginning in the 1980s, however, their growth paths diverged significantly – an evolution that has been the subject of extensive debate.

The two countries share characteristics such as a vast territory, a large population and accelerated economic growth in recent decades (China's GDP increased 10-fold in 40 years and India's 5-fold). However, their growth models have been different. China has stood out for the development of its manufacturing sector, driven by a policy of trade liberalisation and the attraction of foreign direct investment (FDI), a phenomenon known as the «China shock» to the global economy.[2] India, on the other hand, has based its growth on the expansion of the services sector. Breaking down the growth by production factors – a procedure known as growth accounting – reveals the supply-side sources that have influenced this trajectory.

The first table presents the composition of GDP growth in India, China and a group of emerging Asian economies

India and China: real GDP per capita

(2011 international dollars)



Note: *Constant international prices of 2011 are used, which adjusts the level of GDP to take account of inflation and differences in the cost of living between countries. The primary sources for the data for India are S.N. Broadberry, J. Custodis and B. Gupta (2015), «India and the great divergence: an Anglo-Indian comparison of GDP per capita, 1600-1871», Explorations in Economic History, 55, 58-75, and for China Y.Z. Xu et al. (2016), «Chinese National Income, ca. 1661-1933», Australian Economic History Review, 57(3), 368-393 and H.X. Wu (2014), «China's growth and productivity performance debate revisited – Accounting for China's sources of growth with a new data set», The Conference Board Economics Program Working Paper Series EWP#14-01.*
Source: *BPI Research, based on data from the Maddison Project Database (MPD).*

Sources of growth: India, China and emerging Asia, 1970–2024

Annual average (%) and contributions from the factors (pps)

	1970-2024			1970-1989			1990-1999			2000-2014			2015-2024		
	India	China	Emerging Asia	India	China	Emerging Asia	India	China	Emerging Asia	India	China	Emerging Asia	India	China	Emerging Asia
GDP growth	5.5	8.2	4.9	4.2	8.1	5.2	5.6	9.5	4.8	6.8	9.3	5.1	5.7	5.5	4.0
Labour (quantity)	0.9	0.8	1.0	1.3	1.7	1.4	0.9	0.8	1.0	0.5	0.3	0.7	0.4	–0.3	0.6
Labour (quality)	0.7	0.3	0.2	1.1	0.3	0.2	0.6	0.2	0.3	0.5	0.3	0.3	0.3	0.2	0.2
Capital (ICT)	0.5	0.4	0.5	0.1	0.1	0.4	0.8	0.3	0.7	0.9	0.8	0.5	0.4	0.7	0.2
Capital (non-ICT)	2.7	4.9	3.2	2.0	4.0	3.6	2.5	5.3	3.1	3.7	6.5	2.9	3.0	4.1	3.1
TFP	0.7	1.8	–0.1	–0.2	2.2	–0.4	0.8	3.0	–0.4	1.3	1.3	0.7	1.6	0.8	–0.1
Output per worker	4.6	7.4	3.9	2.9	6.5	3.8	4.7	8.7	3.8	6.3	9.0	4.4	5.2	5.8	3.4

Notes: *Other emerging Asian economies include Bangladesh, Cambodia, Indonesia, Malaysia, Myanmar, Pakistan, the Philippines, Sri Lanka, Thailand and Vietnam. The contribution of capital to growth measures the growth of the supply of capital, whether in the form of buildings, machinery or software. ICT capital refers to technology, information and communication assets. The contribution of labour measures the growth of the supply of workers (quantity) and the increase in their qualifications (quality). Total factor productivity (TFP) refers to the efficiency with which capital and labour are used in the production process.*
Source: *BPI Research, based on data from The Conference Board.*

1. See the Focus «India: the wheel of dharma on the path to development» in the MR05/2025.
2. See, for example, D. Autor, D. Dorn and G. Hanson (2016). «The China shock: Learning from labor-market adjustment to large changes in trade», Annual Review of Economics, 8(1), 205-240.

between 1970 and 2024, and shows the contribution of labour, capital and total factor productivity (TFP).[3] The growth of output per worker is also analysed separately. China's experience stands out for its sustained growth throughout the period. Although the (absolute) contributions of labour force growth have been similar, the growth in output per worker in China was almost double that recorded in India up until the 2010s.

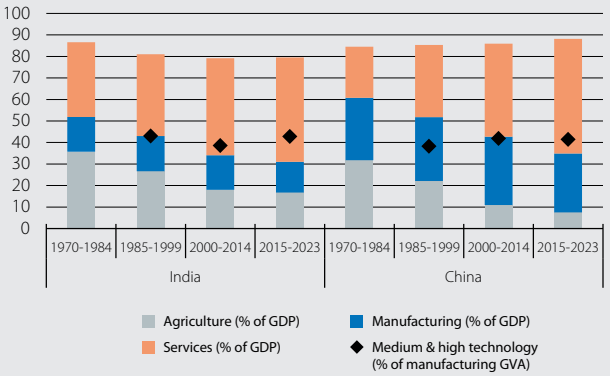
Among the sources of growth, two distinct phases are observed. In the 1980s and 1990s, China experienced strong productivity growth, accompanied by high capital investment. In contrast, India showed a smaller contribution from capital, even compared to other emerging Asian economies, and productivity growth below 1%. Beginning in the 2000s, China saw a slowdown in its productivity growth, although capital investment remained high, accounting for between 75% and 90% of its growth in the last quarter century. In India, in contrast, there was an acceleration in both productivity and the contribution from capital.

The Indian economy in perspective

Differences in the contributions of the factors of production reflect structural transformations and reforms implemented in both countries. In the case of India, labour has made a greater relative contribution, both in quantity and quality. In terms of quantity, this is explained by demographic trends and the gradual decline in China's labour force participation rate. On the other hand, although labour market informality has been falling in recent decades, it is still very high in India. The country has one of the highest informality indices in the region (around 80%) and a high disparity in the labour productivity between the formal and informal sectors.[4] In addition, female labour participation remains low (around 30% vs. 60% in China) and a significant portion of the labour force

India and China: sectoral composition

Gross value added (GVA) of each sector (%)



Notes: *For China, the data on the manufacturing sector for 1970-1999 are estimated, based on the sectoral composition of the agriculture and services sectors in each year, while the historical total GVA is based on the sum of the three sectors. Medium- and high-technology manufacturing activities are considered to encompass the ISIC (International Standard Industrial Classification of All Economic Activities) sectors 24, 29, 30, 31, 32, 33, 34, 35 (excluding sector 351), which includes the chemicals sector,machinery, electrical, electronic and precision equipment, and transport equipment, according to the World Bank classification. This disaggregation does not include sectors such as utilities, construction or mining.*
Source: *BPI Research, based on data from the World Bank.*

is still in low-productivity sectors such as agriculture and construction. On the quality side, India has made great strides in education in recent decades. For instance, the adult literacy rate has risen from 50% in the 1990s to over 75% today (reaching almost 100% among young people), while the completion rate for lower secondary education has reached almost 90% among the relevant age group (compared to 60% in the early 2000s).[5]

In terms of capital, its contribution has increased steadily since the 1990s, becoming the main driver of growth. This momentum is due to the economic liberalisation reforms initiated in that decade, which stimulated both domestic and foreign investment and promoted the development of capital-intensive services. There has also been a gradual increase in public investment, financed by higher tax revenues.

Accelerating productivity in India is linked to structural reforms that have improved the allocation of resources to higher value-added sectors. Institutional improvements (such as strengthening the autonomy of India's central bank) have contributed to a long period of political and economic stability, while the development of digital infrastructure has driven innovation and financial inclusion.

Despite the progress, India faces significant challenges. Its convergence with higher-income economies will depend on its ability to sustain the structural transformation process. This means reallocating labour to more productive sectors and advancing towards the technological frontier, especially in manufacturing.

3. In India, this period can be divided between the pre-reform period (before 1991), when it was mainly dependent on the Soviet sphere, and the post-reform period, with the introduction of economic liberalisation reforms following the foreign exchange rate crisis of 1991. The swearing-in of the current leader, Narendra Modi, in 2014, has reinforced the reformist momentum. In China, this period is marked by the end of the Cultural Revolution (in the 1970s) and the reforms of Deng Xiaoping (beginning in the 1980s), the country's entry into the WTO (in 2001) and the accession to power of Xi Jinping (in 2013).

4. See, for example, F. Ohnsorge and Shu Yu (2022), «The Long Shadow of Informality: Challenges and Policies», World Bank. Widespread informality is associated with a wide range of obstacles to development. In addition to lower labour productivity, there are also reports of reduced access to financing in the private sector, slower accumulation of physical and human capital, fewer fiscal resources, higher poverty rates and higher income inequality. Informal enterprises are, on average, less productive, employ lower-skilled workers, have more limited access to financing and lack economies of scale.

5. By comparison, China's adult literacy rate had already reached 90% by the early 2000s, and the completion rate for lower secondary education has been 100% since the late 2000s.

Investment in education, labour market reforms and continued institutional improvements will be critical for sustaining long-term growth. Although the contribution from capital has increased, India still has some way to go in order to harness this factor, for example by removing barriers to foreign direct investment and international trade. Such measures could provide an additional boost to the Indian economy, further supporting the growth of the second Asian giant, which aspires to be the first.

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

UNITED STATES

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
Activity									
Real GDP	2.9	2.8	3.0	2.7	2.5	2.0	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.4	3.3	3.6	4.1	4.8	5.3	4.6	...
Consumer confidence *(value)*	105.4	104.5	98.9	102.2	110.6	99.8	85.7	98.4	93.0
Industrial production	0.2	–0.3	0.0	–0.4	–0.3	1.3	1.4	0.6	...
Manufacturing activity index (ISM) *(value)*	47.1	48.2	48.5	47.3	48.2	50.1	48.7	48.5	49.0
Housing starts *(thousands)*	1,421	1,371	1,343	1,338	1,387	1,401	1,392	1,256	...
Case-Shiller home price index *(value)*	312	330	329	332	336	340	339	...	...
Unemployment rate *(% lab. force)*	3.6	4.0	4.0	4.2	4.1	4.1	4.2	4.2	4.1
Employment-population ratio *(% pop. > 16 years)*	60.3	60.1	60.1	60.0	59.9	60.0	60.0	59.7	59.7
Trade balance [1] *(% GDP)*	–3.0	–2.8	–2.8	–2.9	–3.0	–3.5	–3.7	–3.7	...
Prices									
Headline inflation	4.1	3.0	3.2	2.6	2.7	2.7	2.3	2.4	...
Core inflation	4.8	3.4	3.4	3.2	3.3	3.1	2.8	2.8	...

JAPAN

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
Activity									
Real GDP	1.4	0.2	–0.6	0.8	1.3	1.7	–	–	–
Consumer confidence *(value)*	35.1	37.2	37.2	36.9	36.1	34.7	31.2	32.8	34.5
Industrial production	–1.4	–3.0	–3.5	–1.8	–2.5	2.5	0.5	–0.1	...
Business activity index (Tankan) *(value)*	7.0	12.8	13.0	13.0	14.0	12.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.5	2.6	2.5	2.5	2.5	2.5	2.5	...
Trade balance [1] *(% GDP)*	–3.0	–1.1	–1.0	–1.1	–1.0	–0.9	–0.8	–0.7	...
Prices									
Headline inflation	3.3	2.7	2.7	2.8	2.9	3.8	3.5	3.4	...
Core inflation	3.9	2.4	2.2	2.0	2.3	2.7	3.0	3.2	...

CHINA

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
Activity									
Real GDP	5.4	5.0	4.7	4.6	5.4	5.4	–	–	–
Retail sales	7.8	3.3	2.6	2.7	3.8	3.6	5.1	6.4	...
Industrial production	4.6	5.6	5.9	5.0	5.6	6.8	6.1	5.8	...
PMI manufacturing *(value)*	49.9	49.8	49.8	49.4	50.2	49.9	49.0	49.5	49.7
Foreign sector									
Trade balance [1,2]	865	995	864	897	995	1,085	1,109	1,130	...
Exports	–5.1	4.6	4.4	5.4	10.0	5.7	7.9	4.5	...
Imports	–5.5	1.1	2.5	2.2	–1.7	–7.0	–0.3	–3.4	...
Prices									
Headline inflation	0.2	0.2	0.3	0.5	0.2	–0.1	–0.1	–0.1	...
Official interest rate [3]	3.5	3.1	3.5	3.4	3.1	3.1	3.1	3.0	3.0
Renminbi per dollar	7.1	7.2	7.2	7.2	7.2	7.3	7.3	7.2	7.2

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
Retail sales *(year-on-year change)*	–1.9	1.2	0.3	2.1	2.1	1.9	2.7	1.8	...
Industrial production *(year-on-year change)*	–1.6	–3.0	–3.9	–1.8	–1.5	1.4	0.8	...	...
Consumer confidence	–17.4	–14.0	–14.2	–13.0	–13.4	–14.1	–16.6	–15.1	–15.3
Economic sentiment	96.2	95.7	95.9	96.1	95.2	95.5	93.8	94.8	94.0
Manufacturing PMI	45.0	45.9	46.1	46.4	46.3	46.3	49.0	49.4	49.5
Services PMI	51.2	51.5	51.7	52.7	53.1	52.6	50.1	49.7	50.5
Labour market									
Employment (people) *(year-on-year change)*	1.4	1.2	1.0	1.0	0.8	0.7	–	–	–
Unemployment rate *(% labour force)*	6.6	6.4	6.4	6.3	6.2	6.3	6.2	6.3	...
Germany *(% labour force)*	3.1	3.4	3.4	3.4	3.5	3.6	3.7	3.7	...
France *(% labour force)*	7.3	7.4	7.4	7.4	7.3	7.4	7.1	7.1	...
Italy *(% labour force)*	7.7	6.6	6.7	6.3	6.2	6.3	6.1	6.5	...
Real GDP *(year-on-year change)*	0.6	0.8	0.6	0.9	1.2	1.5	–	–	–
Germany *(year-on-year change)*	–0.1	–0.2	–0.2	–0.3	–0.2	0.0	–	–	–
France *(year-on-year change)*	1.6	1.1	1.0	1.1	0.6	0.6	–	–	–
Italy *(year-on-year change)*	0.8	0.5	0.7	0.6	0.6	0.7	–	–	–

Prices

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
General	5.5	2.4	2.5	2.2	2.2	2.3	2.2	1.9	2.0
Core	5.0	2.8	2.8	2.8	2.7	2.6	2.8	2.3	2.3

Foreign sector

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
Current balance	2.0	3.3	3.2	3.4	3.3	3.0	3.9	...	...
Germany	5.6	5.7	6.5	6.3	5.7	5.4	7.2	...	...
France	–1.0	0.4	–0.4	0.0	0.4	0.1	–0.1	...	...
Italy	0.1	1.1	0.9	0.9	1.1	1.1	1.4	...	...
Nominal effective exchange rate[1] *(value)*	94.7	95.0	95.1	95.6	94.2	93.5	96.9	96.2	97.2

Credit and deposits of non-financial sectors

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
Private sector financing									
Credit to non-financial firms[2]	2.7	0.8	0.4	1.0	1.4	2.2	2.6	2.5	...
Credit to households[2,3]	1.7	0.5	0.3	0.5	0.9	1.5	1.9	2.0	...
Interest rate on loans to non-financial firms[4] *(%)*	4.6	4.9	5.1	4.9	4.4	3.9	3.5	...	...
Interest rate on loans to households for house purchases[5] *(%)*	4.4	4.6	4.8	4.7	4.3	4.0	3.8	...	...
Deposits									
On demand deposits	–8.5	–3.9	–5.5	–2.5	1.2	3.6	5.2	5.6	...
Other short-term deposits	21.1	12.3	14.3	10.5	5.9	2.3	0.6	–0.1	...
Marketable instruments	20.3	20.3	19.8	22.1	18.6	15.5	10.7	11.2	...
Interest rate on deposits up to 1 year from households *(%)*	2.7	3.0	3.1	3.0	2.6	2.2	2.0	...	...

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.*

Activity robust, but some pitfalls

Partial indicators for Q2 show moderately positive evolution. Sentiment indicators moved from lower to higher in the 3 months of the quarter, with the European Commission's economic sentiment indicator standing at 107.4 in June, indicating an expansion in activity, with improved confidence in all sectors except consumers (here the overall indicator was more influenced by the assessment of the last 12 months than the next 12, which are generally improving). Quantitative indicators (*hard data*), available only for May, also show favourable developments: card purchases and withdrawals deflated by the CPI are growing by around 7% year-on-year and 12% quarter-on-quarter; and car sales also remain strong. The dynamism in consumption (63% of GDP) is supported by the robustness of the labour market and wage gains. On the external front, the signs are less favourable, but we attribute some probability to this situation changing, given that at the beginning of the year, international trade in goods was influenced by the change in US trade policy. The dilution of this effect over the rest of the year and the good performance of service exports will tend to correct the poor performance in the first four months. However, uncertainty will continue to dominate in this area, with the impact of changes in customs policy, weak growth in key trading partners, and a possible acceleration in investment (with a high import content) likely to result in a negative contribution from external demand to growth in 2025.

Inflation rises to 2.4% in June (2.3% in May). This is the third consecutive month of increase in the Global CPI, accompanied by underlying inflation (also standing at 2.4%). The recent evolution of inflation for unprocessed food products has also been surprising (in January, inflation for this aggregate was 1.8%, having shown a consecutive upward trend up to the 4.7% recorded in June). In turn, industrial production prices continue to support the disinflation of goods with the fifth consecutive negative record in May (–3.1%). The usual gap between changes in production and consumer prices bodes well for the coming months, not forgetting that these are expected to be strong in terms of tourism and, consequently, in the prices of aggregate services.

The job market never ceases to surprise as the year progresses. Employment has grown more significantly than last year and than the (moderately positive) economic activity would indicate. Indeed, employment in the first 5 months of the year grew on average by 2.5% year-on-year (compared to 1.5% in the same period in 2024), with series highs being constantly reached. Given this, almost 65% of the working-age population was employed in May (close to the maximum of 65.1% recorded in April). Although we do not have more recent data, job creation between Q1 2025 and Q1 2019 (pre-pandemic) was mainly through construction, commerce, ICT, consulting, scientific, technical & similar activities, and human health & social support activities, with a contribution of almost 7 pp for growth of more than 9% in employment in this period. These signs seem to point to more significant job growth than initially expected in 2025.

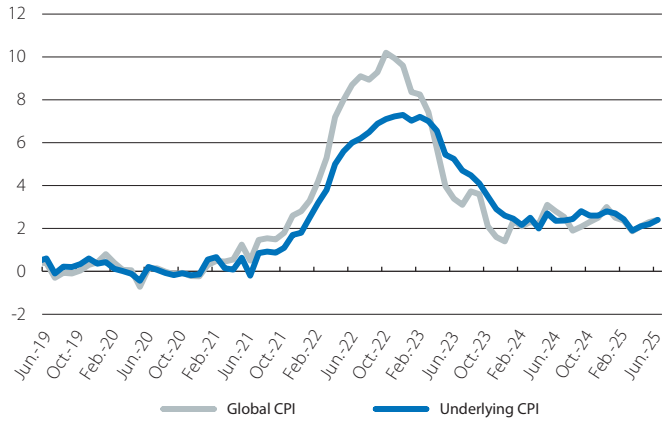
Year-on-year changes, level

		1T 2025	2T 2025	April 2025	May 2025	June 2025	Last month available
Synthetic indicators	Economic climate indicator (yoy)	2.5	2.5	2.3	2.7	2.8	June
	Economic sentiment indicator (level)	104.6	103.8	101.7	105.9	107.4	June
	Daily economic activity indicator (yoy)	2.2	–0.2	–0.1	–0.2	–0.6	June
Consumption	Confidence indicators	–16.0	–18.3	–20.6	–16.0	–16.0	June
	Wholesale and retail trade (yoy)	2.9	1.8	0.0	3.6	–	May
	Retail sales excl. Fuel	5.7	4.5	3.5	5.5	–	May
	Deflated card withdrawals and purchases (yoy)	5.9	6.9	7.1	6.7	–	May
	Car sales (yoy)	-1.7	13.4	8.2	18.6	14.8	June
Investment	GFCF indicator	2.0	4.2	4.2	–	–	April
	Imports of capital goods	6.6	–5.4	–5.4	–	–	April
Supply	Cement sales (yoy)	–2.4	–3.8	–5.5	–2.0	–	May
	Industrial production (yoy)	–2.3	0.2	–2.1	2.6	–	May
Unmet	Electricity consumption corrected for temperature&working days (yoy)	1.9	1.7	3.3	0.0	3.1	June
	No. of non-resident tourists (yoy)	1.1	4.6	7.5	1.7	–	May
	Number of flights (yoy)	2.0	5.8	6.4	5.3	4.3	June
Foreign trade	G&S exports (accum. year, yoy)	2.8	1.4	1.4	–	–	April
	G&S imports (accum. year, yoy)	5.3	4.2	4.2	–	–	April
Labour market	Change in registered unemployment (thousand people)	9.0	–7.0	–4.7	–9.4	–	May
	Variation in employment (thousands of people)	113.8	144.5	157.1	131.8	–	May

Source: *BPI Research, based on data from INE, the European Commission, Banco de Portugal, IEFP, NECEP and REN.*

CPI

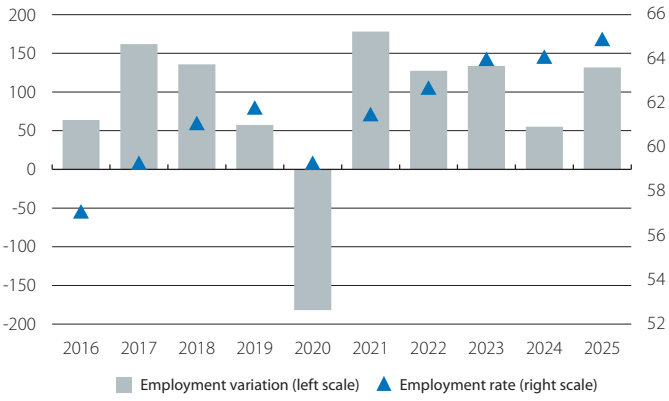
Y-o-Y Var. (%)



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

Employment: year-on-year change and employment rate in the months of May each year

Year-on-year change (thousand individuals) *(%)*



Note: *Seasonally adjusted data.*
Source: *BPI Research based on data from the National Institute of Statistics.*

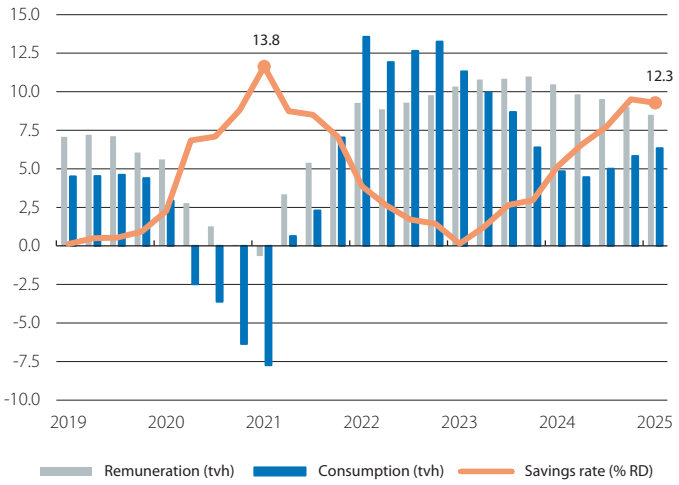
The Portuguese economy recorded a financing capacity equivalent to 2.2% of GDP. With the exception of non-financial companies, all sectors recorded positive balances. In these, financing needs represent 5.5% of GDP, 3 tenths less than in 2024, reflecting an increase in stocks (more than doubled compared to Q4 24), associated with the anticipation of imports before the change in US customs policy; and the reduction of the operating surplus, mainly due to a 1.8% qoq increase in the remuneration paid. In turn, families' ability to finance the remaining sectors is equivalent to 4.4% of GDP; and the savings rate remains close to its historical high (12.3% of disposable income in Q1), a result of stronger growth in nominal income than in consumption. The recovery in income is also evident when analysed at constant prices and per capita, +0.5% quarter-on-quarter and 5.8% year-on-year – continuing to be an important support for consumption and investment. The latter, mainly concentrated in housing, grew 3.2% quarter-on-quarter and 12.3% year-on-year. Meanwhile, the Bank of Portugal published household wealth, which in 2024 increased to 1.071 billion euros in 2024, or 376% of GDP, with financial wealth increasing by 5.6% and real estate by 4%.

Tourism sector registers 3.2 million guests in May. This record represents an increase of 2.6% compared to the same period in 2024 and was also accompanied by growth in overnight stays (+1.3% year-on-year). As in previous months, growth was mainly driven by resident tourists – overnight stays by residents increased by 5.9% and those by non-residents even fell year-on-year (–0.2%). All in all, the sector's total revenues for the year to date increased by 7.9%, with particular emphasis on revenues generated in five- and four-star hotels (+8.3% and +7.8%, respectively). With increasing geopolitical uncertainty, the latest *surveys* of the sector are marked by the issue of *value for money* and budget travel. This will be a critical aspect of bookings for the summer period.

The budget balance improved in the first 5 months of the year, with revenue far exceeding expenditure. The surplus of 0.5% of GDP recorded up to May (–2.1% up to May 2024) is supported by the 12.3% year-on-year increase in revenue, given the behaviour of tax and contributory revenue. At this point, contributions to Social Security, IRS and VAT revenue stand out. The significant increase in employment (mentioned above) and the likely positive trajectory of wages explain the performance of social contributions, while the reduction in IRS and VAT refunds explain the more favourable comparison compared to 2024. Indeed, we estimate that without this effect (and keeping everything else constant), total revenue would have increased by 10.5% and the budget balance would have been in a slight deficit. The dividends paid by CGD in May also had a positive effect. In turn, the increase in expenditure (4.5%) is due to the behaviour of personnel expenses (with the salary update of public employees and career development), current transfers (with, among other factors, the increase in pensions), and investment. Even so, the slowdown in economic activity and the additional pressures resulting from commitments made in the meantime (such as the reduction in personal income tax and investment in defence) increase the likelihood that the budget balance will enter slightly negative territory in 2025 (see the focus «New measures, new international commitments: will this be the end of the budget surplus?», in this IM).

Families: savings, consumption and remuneratio

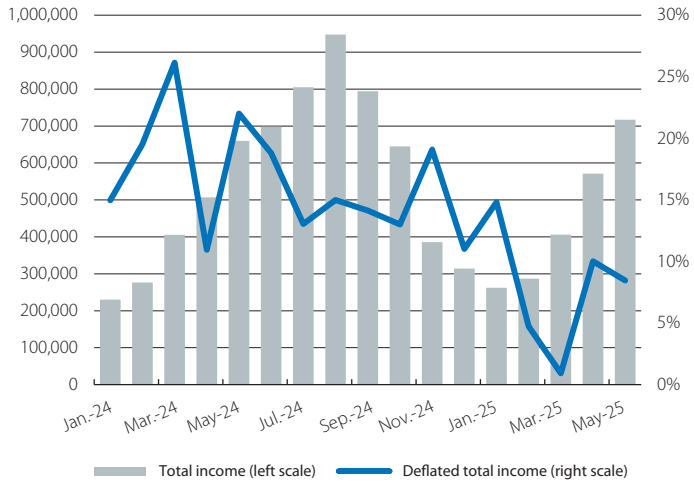
% of RD, year-on-year change (%)



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

Income from tourism

(Millions of euros) *Year-on-year change (%)*



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

Budget Execution of the Public Public (accumulated until May)

(% GDP, unless otherwise indicated)

	2019	2023 *	2024	2025	Var. 2025 vs. 2019	Var.2025 vs. 2024 (million euros)
Revenue	36.0	35.2	34.4	36.9	1.0	5,043
Tax	19.2	19.0	17.9	19.3	0.1	2,807
Social Security contributions	9.6	10.0	10.3	10.6	1.0	998
Expenditure	36.7	34.5	36.5	36.4	–0.3	1948
Personnel expenses	8.6	8.4	8.5	8.8	0.2	872
Current transfers	15.8	15.0	16.7	16.3	0.6	456
Acquisition of Goods and Services	5.1	5.1	5.1	5.0	–0.1	190
Interest	4.1	2.6	2.6	2.3	-1.7	–182
Investment	1.8	2.0	1.9	2.1	0.3	333
Budget balance	-0.7	0.7	–2.1	0.5	1.2	3,095

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

New measures, new international commitments: will this be the end of the budget surplus?

The Government's programme was approved on 18 June and reveals the new Executive's 10 priority areas (a total of 150 measures) for the next government. We would highlight the potential impact on the budgetary context of boosting income from work and savings, combating the housing crisis, new infrastructures relevant to the country, and strategic reinforcement of investment in defence within the framework of NATO commitments.[1] Despite the lack of a timetable that allows us to conclude on the implementation period of the various measures, as well as the associated cost, in this article we will try to understand the impact of some of the measures on public accounts, as well as the effect they will have under the new European budgetary rules.

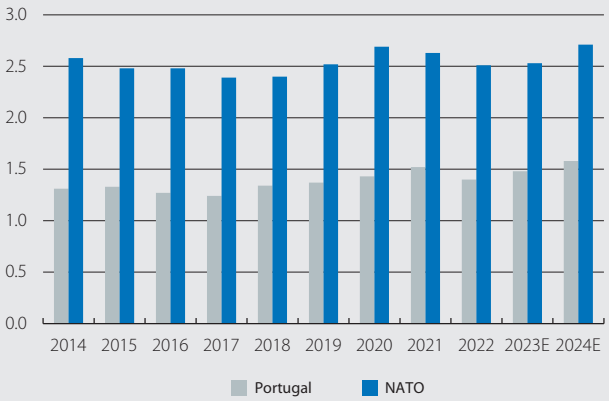
But before we move forward specifically with the focus of this article, it is important to look, as a starting point, at the economic context. When we last reviewed the public accounts scenario in April, expectations were that the Portuguese economy would grow above 2.0% and that nominal GDP growth would exceed 5%. In this context, and despite the measures already included in the 2025 State Budget (such as the IRS for Young People), we expected tax and contributory revenue to increase by around 5% this year and for the budget balance to maintain the positive trend seen in recent years. The news that the Portuguese economy contracted in Q1 posed risks to GDP growth for the year as a whole, justifying the downward revision of BPI Research's forecast.[2] This new context implies, in itself, a lower expectation for the growth of tax and contributory revenue (lower economic activity will generate fewer taxes), which, in the absence of additional measures, would represent a loss of around 0.2% of GDP compared to the April scenario.

In other words, the starting point is already more fragile than it was a few months ago, and this is without taking into account other harmful effects, which have since been exacerbated (such as the increase in the price of Brent, the escalation of geopolitical tensions in the Middle East, and the scenario of a tariff war, currently on hold), and which may imply higher energy costs, weaker activity and/or higher financing costs.

The Government's new measures are expected to put additional pressure on public accounts. More specifically,

1. For more details about the Programme, see the document available on the following website: https://www.portugal.gov.pt/pt/gc24/governo/programa-do-governo.
2. For more information, see focus «New macroeconomic scenario», from IM06/2025, where we better explained the review made in the Portuguese macroeconomic scenario.

Defence spending (NATO concept)
(% of GDP)



Note: *The estimated value for Portugal in 2024 is that estimated by the Government.*
Source: *BPI Research, based on NATO data.*

the additional reduction in IRS: the objective is a reduction of 2 billion euros by 2029, of which 500 million will be achieved this year. This should include salaries up to the 8th bracket (i.e. income up to 83,696 euros), similar to what was put to the vote last year and which was ultimately rejected. If, on a different note, this measure goes ahead this year, this means that there will be 0.2 pp of GDP less in tax revenue entering the public accounts in 2025.[3] However, the budget balance benefits this year from positive effects related to the banking sector and not foreseen in the State Budget, namely the additional payment of dividends by CGD and Novo Banco; overall, these measures (one-off) will be able to fully offset the loss of IRS revenue in 2025.

Another additional pressure arises from commitments to NATO, with the Executive bringing forward the defence spending target of 2% of GDP to be achieved by 2025 (previously planned for 2029). At this point, it is important to keep in mind where we are and what is needed to reach 2%. In 2024, according to Government estimates and in line with the NATO concept, Portugal spent the equivalent of 1.58% of GDP, or around 4.5 billion euros. This means that, to reach the 2% of GDP target in 2025, Portugal would have to spend more than an additional 1.2 billion euros (0.4% of GDP). According to recent statements by the Minister of Finance, the effort should not be of this order of magnitude, given the possibility of reclassifying

3. This negative impact could be slightly mitigated if, at the end of the day, families used up all the savings resulting from lower personal income tax payments, generating a positive effect on the higher collection of other tax revenues (such as VAT). We estimated that this positive effect could be around 0.03 pp of GDP, which would mean that instead of a negative effect of 500 million euros, we would be talking about a net effect of around 400 million euros.

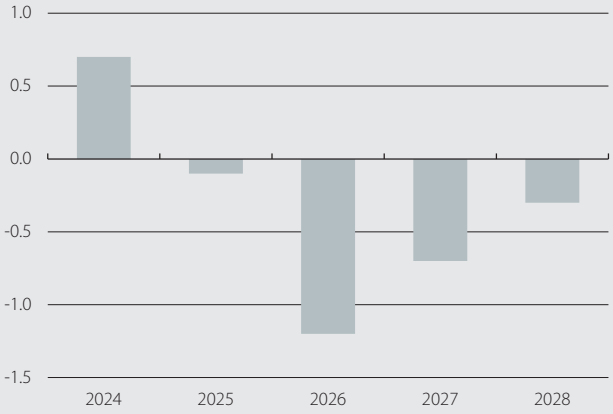
expenses that already exist but are not being accounted for as defence expenditure. Still, for the purposes of analysis in this article, we will assume this totality.

Given this scenario, and considering the measures outlined in this article, it is possible that public accounts will enter slightly negative territory in 2025. What does this imply in terms of European fiscal rules? Recalling the new rules, the key indicator currently is the evolution of net primary expenditure, which, according to the Medium-Term Structural Budgetary Plan for 2025-2028 and agreed with the European Commission, should not exceed 5.0% growth this year. With the incorporation of these measures (and noting that they may not be approved in Parliament and that we are excluding from the analysis other measures for which we have no estimate for the timing of implementation and/or cost), we estimate that the growth in net primary expenditure would exceed 4.7%, up from the 3.4% that the government estimated in April, in the Annual Progress Report, but still below the 5% agreed with the European Commission for this year. However, Portugal activated the national derogation clause, which allows expenditure up to a limit of 1.5% of GDP per year to be excluded from the evolution of net primary expenditure. This means that, despite the slightly negative estimate for the budget balance, Portugal would still be in compliance with European rules: we estimate that the growth in net primary expenditure could rise slightly above 4% in 2025, bringing the gap with what was negotiated below 1 billion euros for this year.

Given these data and considering the challenges expected for the coming years (namely policies

Portugal: budget balance

(% of GDP)



Source: *BPI Research.*

of the new US administration, geopolitical conflicts and the commitments made to NATO, as well as possible greater pressure on the public accounts as a result of the current fragmentation of the Portuguese Parliament and from which unanticipated measures may arise), it is important to bear in mind the need to maintain a prudent trajectory in the public accounts, so as not to jeopardise compliance with European budgetary rules or the sustained downward trend in the public debt ratio, in a context of an expected slowdown in revenue and greater growth in expenditure in a scenario of unchanged policies. This is essential to ensure that the financial markets' spotlight does not fall on Portugal again, in a context of worsening financing needs across the Eurozone as a whole.

Vânia Duarte

Portuguese tourism prepares for summer

Tourism has been a resilient support for the national economy. It also stands out globally, with record revenues in 2024.[1] As we enter the sector's strongest period, the summer months, we take stock of the trends and prospects for the early part of 2025.

Resident tourism the best performer

In the first five months of this year we received 11.7 million tourists (+438 thousand vs. 2024) which amounted to 28.3 million overnight stays (+624 thousand *vs.* 2024). The data from this period of the year reveal aspects that are important to highlight. The first is that the growth rate in the number of tourists is slightly lower than that seen last year compared to 2023. This aligns with our vision, which estimates growth of this figure at around 5% by 2025, a rate comparable to that recorded in 2024. Secondly, it should be pointed out that overnight stays are growing at a slower rate than guests and also at a slower rate than the previous year, showing slightly shorter stays. Last but not least, a complete change in who is sustaining this growth dynamic: this year it is resident tourists who are performing best (overnight stays by residents grew by 6.1% and those by non-residents by 0.7%). Symmetrical behaviour was observed in 2024: overnight stays by residents up until May increased by just 0.7% (those by non-residents increased by 6.1%). By source market, the largest increases in the number of non-resident tourists came from the USA, Poland and Canada; and the biggest declines came from France, Brazil and Germany.

Revenues grow more in the high-end segment

With the increase in guests and overnight stays, it was to be expected that total revenue in tourist accommodation establishments would increase, which it did. Compared to the first five months of 2024 revenues increased by 7.9%. To assess whether this increase also occurred in real terms (i.e., discounting price variations), we deflated[2] the series, which confirmed an average increase of 7.8%.[3] In turn, income exclusively from accommodation increased by 8.0%, and in regional terms, the Madeira Autonomous Region (+22.7%) stood out, followed by the Azores Autonomous Region (+15.9%) and the Setúbal Peninsula (+11.3%). The most modest performance was in Greater Lisbon (+2.6%).

By type of accommodation, the most notable increases in income were in the higher segment hotels (4 and 5 stars) and in rural tourism and housing establishments. The latter extend the good trend that had already started in 2024, when annual revenue growth (+18%) had already exceeded that of the hotel industry as a whole (+12%). There are three reasons why the increase in income was more pronounced in 5-star establishments. One, the fact that families with greater financial availability are the ones who are also more willing to travel throughout the year and specifically during this initial low season phase. Then, the fact that the Madeira Autonomous Region has a higher percentage of 5-star hotels compared to the total number of tourist establishments[4] and was the region where profits increased the most. Finally, we know that historically, around 40% of overnight stays by US tourists (as we have seen, the source market with the largest increase in guests) are spent in 5-star hotels.

Tourism dynamics

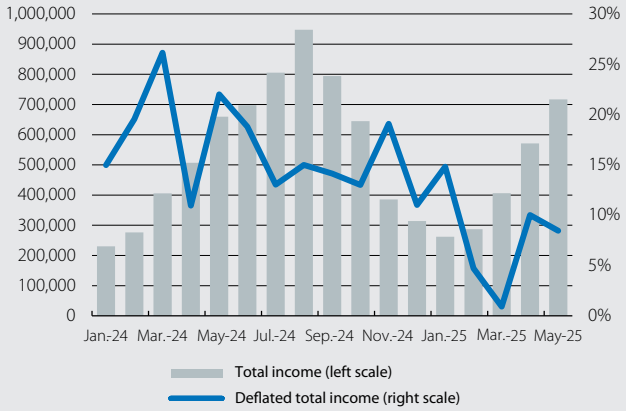
(%)

	May year-to-date	
	2025 vs. 2024	2024 vs. 2023
Guests	**3.9**	**5.3**
Residents	6.1	1.9
Non-residents	2.4	7.6
Stays	**2.3**	**4.5**
Residents	6.1	0.7
Non-residents	0.7	6.1

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

Income from tourism

(Millions of euros) *Year-on-year change (%)*



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

1. See World Bank Group, Tourism Watch – Quarterly Report, April 2025.
2. We deflated based on the Hotel and Restaurant CPI.
3.In March, the real change in income was practically nil as a result of calendar effects, i.e. the effect of the Easter vacation periods, which this year took place in April, while in the previous year it was essentially concentrated in March.

4.With data from the end of 2023, Madeira was the second region in the country with the highest percentage of 5-star hotels in relation to the total supply of tourist establishments, only surpassed by Greater Lisbon.

In terms of external accounts, the sector provides support for the year to date (up to April). Tourism exports amounted to more than 7.2 billion euros, growing at a rate of 5.5% year-on-year, slightly higher than the rate of growth in imports of tourism services (+5.3%). Indeed, in the second half of 2024 there was already a noticeable dynamism in the number of Portuguese people travelling abroad, which does not invalidate the fact that the tourism balance is largely positive, explaining 61% of the (positive) balance of the services balance up to April. However, this was not enough to prevent the trade balance (70.2 million euros) from falling significantly compared to April 2024 (1.188 billion euros), mainly due to the combined effect of the increase in imports of goods (+4.6%) compared to exports of goods (–1.3%). Based on these figures, we estimate that the accumulated balance of the tourism balance over the last 12 months amounts to 7.3% of GDP.

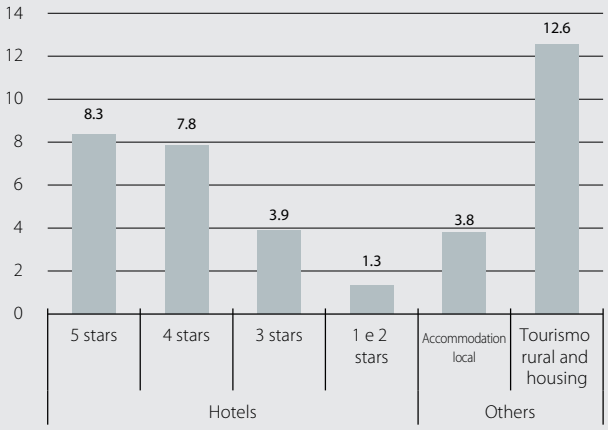
Trends and soft data

The event of the new Trump administration is beginning to mark the sentiment and outlook for the performance of the world tourism sector, and here too uncertainty is a touchstone. Trade tensions have increased the risks of an economic slowdown, which in turn could translate into lower demand for travel. At the same time, unfavourable sentiment is growing, discouraging travel to the US due to a more unilateral stance and tougher border controls. The impact of this on Portuguese tourism is not entirely clear because opposite effects may occur. On the one hand, US tourists have been a driving force behind domestic tourism, and a slowdown in the US economy, with rising inflation and pressure on household budgets, could reduce the appetite for long-haul travel. On the other hand, lower demand from Europeans for travel to the US could result in greater demand for intra-European travel, which would benefit Portugal.[5]

With uncertainty on the rise, another of the trends that has marked the latest *surveys* on the sector is the topic

Total revenue by establishment type

Var. ytd May 2025 vs. yoy (%)



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

of value for money and budget travel. The main concerns of Europeans today when choosing a travel destination are affordable prices (22%), followed by destination safety (18%), and weather stability (14%).[6] Portugal is not a particularly competitive destination in terms of price and this could weigh on demand – in the last *survey* (March 2025) the percentage of Europeans who indicated Portugal as their next travel destination fell compared to April 2024, from 6.5% to 5.4%.[7] Indeed, the best-performing European tourist destinations at the beginning of 2025 were those that offered the best value for money (Romania, for example) and some from central and eastern Europe that were previously seen as being too close to the conflict in Ukraine.

Finally, we would like to highlight some positive data and perspectives from two issuing markets: Canada and China. In the case of Canada, there is news of an increase in air capacity to Portugal[8] in response to the positive trend. In the case of China, the increase in overnight stays this year is around 20%, which could be part of a trend that also benefits other European countries.[9]

Tiago Belejo Correia

5. The European Travel Commission's Q1 2025 report shows that the number of European tourists visiting the US fell by 6%.

6. Monitoring Sentiment for Intra-European Travel Spring & Summer 2025 (European Travel Commission).
7. See footnote 6.
8. New Air Canada flights between Montreal and Porto, and increased frequency of flights between Lisbon and Toronto.
9. During the first Trump administration, Chinese travel to the US declined in favour of increased travel to Europe.

ESG-backed financing in Portugal: quantitative analysis

Sustainability is currently one of the most discussed topics worldwide. The European Green Deal, launched in 2019, is the EU's growth strategy based on a set of initiatives aimed at achieving an efficient ecological transition and climate neutrality by 2050. To achieve these objectives, banks must develop, on their own initiative, ESG projects,[1] also supporting their clients in opening up lines of finance to meet targets related to the ecological transition, directing capital flows towards more sustainable activities.

In January 2019, the first issuance of ESG debt securities by entities resident in Portugal took place, amounting to 1 billion euros, for investment in clean energy projects. Since then, resident entities from various economic sectors have used this funding method to implement projects linked to ESG themes. By May 2025, resident entities had issued €14.7 billion in these securities, with a focus on non-financial companies (77.5% of the total value) and the financial sector (22.5% of the total value). It should be noted that Portuguese public administrations have not yet issued such securities.

According to information released by the Bank of Portugal, ESG debt securities are classified as:

- Green – for financing projects related to environmental protection;
- Social – finance projects with the aim of creating positive social impacts;
- Sustainable – for carrying out projects that combine environmental and social aspects;
- Related to sustainability – there are no restrictions on the use of the funds, but the issuers undertake to comply with the ESG objectives pre-defined in the emissions fact sheets. The final remuneration of these securities will therefore depend on whether or not these objectives are met.

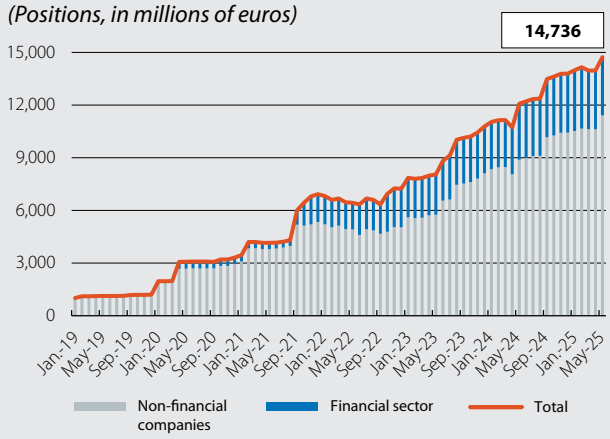
At the end of May 2025, non-financial corporations (NFCs) had a stock of ESG-securitised debt of €11.4 billion, an increase of 28% compared to the same period last year. The «green» category represents 78% of the total ESG-certified debt of entities in this sector. Sustainability-related securities have been gaining weight since 2023, driven by a net issuance of 855 million euros in August of that year.

The weight of ESG financing in total debt issued by non-financial companies has been increasing, reaching 24% in May 2025, +1.9 pp compared to the same period last year. Thus, there is evidence that companies have been turning to the capital markets to finance ESG projects, particularly environmental projects.

1. Environmental (E), social (S) and governance (G).

Amounts issued in ESG debt securities, by issuing sector

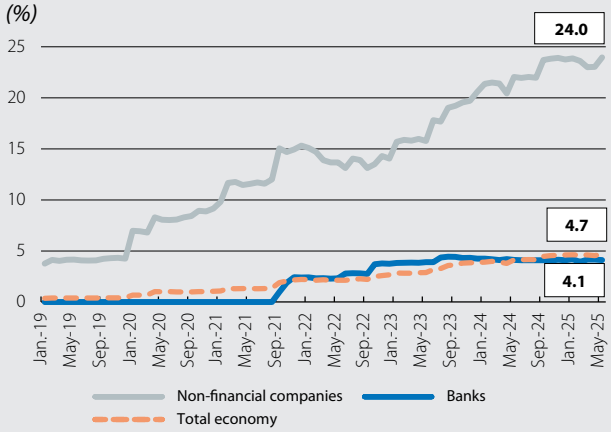
(Positions, in millions of euros)



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

Weight of ESG debt in total debt issued by NFCs, banks and the total economy

(%)



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

The financial sector only registered its first ESG debt issuance in April 2020, more than a year after non-financial companies issued this type of security for the first time. The first issuance of sustainable debt securities took place in September 2021 and the following month the first issuance took place with the aim of financing social projects. Currently, the amounts of green and social debt securities issued represent the most significant proportion of ESG debt by financial sector entities, amounting to 2.6 billion euros in May 2025 (77% of the total).

Analysing the banking subsector in more detail, the first issuance of ESG securities took place in September 2021, an issuance of sustainable securities worth 500 million euros. Since then, banks have taken on debt using ESG

securities, mainly to finance social (1.2 billion euros) and environmental (0.9 billion euros) projects. In May 2025, total ESG-securitised bank liabilities stood at €2.5 billion, representing 4.1% of bank debt securities and 76% of the financial sector's total ESG.

The use of securitised debt issuance to finance ESG initiatives has been increasing in Portugal in recent years. At the end of May 2025, 82 ESG debt securities were outstanding, representing 4.7% of the securitised debt of entities resident in Portugal. This type of financing is more significant in the non-financial corporate sector. The use of these financing instruments is expected to remain high, due to the significant demand for this type of security from investors, who also benefit from having a greener investment portfolio.

Who holds ESG debt securities issued by resident entities?

In April 2025, the outstanding balance of ESG debt securities issued by residents amounted to €14 billion. Of this amount, 69% was held by non-residents, while only 31% had been acquired by residents. However, it has been found that resident entities have increased the exposure of their portfolios to ESG debt securities issued by national entities, although foreign investors are still their main holders.

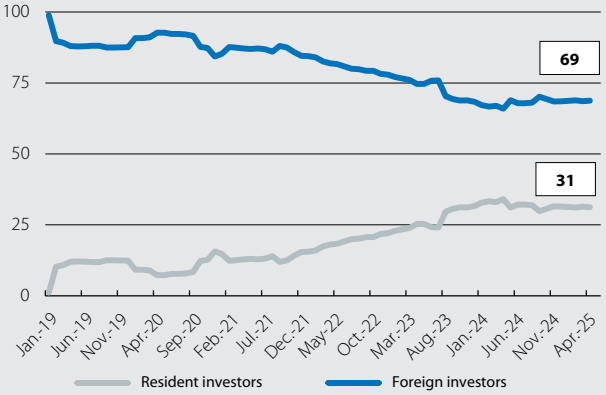
With regard to the non-resident portfolio of ESG debt issued by resident entities, 85% of the amount in April related to green debt securities, which was mainly due to bond issues by non-financial companies that were acquired by foreign entities belonging to the same economic group as the issuer. It is also possible to conclude that the portfolio of non-residents in ESG securitised debt has always been mostly made up of securities in this category.

On the side of resident investors in these securities, entities belonging to the financial sector are the ones that stand out the most, as they held 83% of the respective outstanding amount in April. Analysing by category, 57% of the ESG portfolio of resident entities was composed of sustainability-linked securities. The investment of national entities in ESG debt began to become more significant from 2023 onwards, whereas previously the value of these investments was negligible. This dynamism is due to the increase in the use of securitised debt issues by non-financial companies in sustainability-related securities, which are intermediated by banks and therefore remain in the portfolios of these same institutions belonging to the financial sector.

Pedro Avelar

Evolution of distribution by investor residence

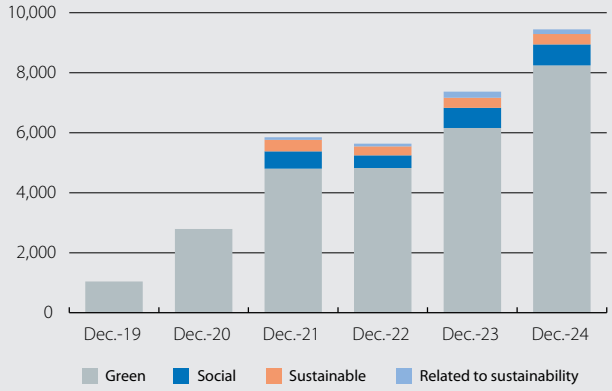
(%)



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

TD ESG (issued by residents) held by non-residents, by category

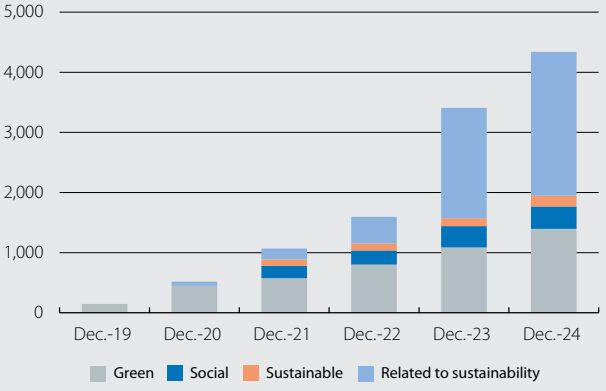
(Positions, in millions of euros)



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

TD ESG (issued by residents) held by residents, by category

(Positions, in millions of euros)



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

Activity and employment indicators

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	04/25	05/25	06/25
Coincident economic activity index	3.5	1.8	1.5	1.7	1.7	...	1.6	1.6	...
Industry									
Industrial production index	–3.1	0.8	–0.2	–0.4	–2.3	...	–2.1	2.6	...
Confidence indicator in industry *(value)*	–7.4	–6.2	–6.1	–4.2	–5.1	–4.8	–5.1	–4.9	–4.4
Construction									
Building permits - new housing (number of homes)	7.5	6.4	13.3	23.5	36.0	...	22.5	...	...
House sales	–18.7	14.5	19.4	32.5	25.0	...	–	–	–
House prices *(euro / m² - valuation)*	9.1	8.5	8.5	13.2	15.8	...	16.9	17.1	...
Services									
Foreign tourists *(cumulative over 12 months)*	19.0	6.3	7.8	6.3	4.6	...	5.2	4.4	...
Confidence indicator in services *(value)*	7.7	5.6	2.4	10.9	12.5	6.6	4.4	6.1	9.4
Consumption									
Retail sales	1.1	3.2	3.7	5.0	4.5	...	3.0	4.8	...
Coincident indicator for private consumption	2.9	2.7	2.7	3.4	3.7	...	3.5	3.4	...
Consumer confidence index *(value)*	–28.6	–18.0	–14.3	–14.3	–15.5	–17.9	–17.9	–18.2	–17.6
Labour market									
Employment	2.3	1.2	1.2	1.3	2.4	...	3.1	2.6	...
Unemployment rate (*% labour force*)	6.5	6.4	6.1	6.7	6.6	...	6.3	6.3	...
GDP	**2.6**	**1.9**	**2.0**	**2.8**	**1.6**	**...**	**–**	**–**	**–**

Prices

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	04/25	05/25	06/25
General	4.4	2.4	2.2	2.6	2.3	2.3	2.1	2.3	2.4
Core	5.1	2.5	2.5	2.7	2.3	2.3	2.1	2.2	2.4

Foreign sector

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	04/25	05/25	06/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	2.4	0.7	2.4	5.7	...	3.9	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–4.0	2.2	–0.8	2.2	5.5	...	4.5	...	...
Current balance	**1.5**	**6.1**	**5.2**	**6.1**	**4.4**	**...**	**4.7**	**...**	**...**
Goods and services	4.0	6.7	6.1	6.7	5.4	...	5.5	...	...
Primary and secondary income	–2.5	–0.5	–0.9	–0.5	–1.0	...	–0.9	...	...
Net lending (+) / borrowing (–) capacity	**5.3**	**9.3**	**8.6**	**9.3**	**7.6**	**...**	**8.0**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	04/25	05/25	06/25
Deposits [1]									
Household and company deposits	–2.3	7.5	6.0	7.5	6.5	...	6.1	5.9	...
Sight and savings	–18.5	–0.3	–6.7	–0.3	3.5	...	4.1	3.6	...
Term and notice	22.2	15.3	20.9	15.3	9.3	...	7.9	8.0	...
General government deposits	–12.4	26.7	29.1	26.7	29.3	...	26.5	33.2	...
TOTAL	**–2.6**	**7.9**	**6.7**	**7.9**	**7.1**	**...**	**6.7**	**6.7**	**...**
Outstanding balance of credit [1]									
Private sector	–1.5	2.1	1.0	2.1	3.3	...	3.7	4.5	...
Non-financial firms	–2.1	–0.6	–0.6	–0.6	0.1	...	0.5	1.4	...
Households - housing	–1.4	3.2	1.4	3.2	5.1	...	5.6	6.3	...
Households - other purposes	–0.3	4.7	4.0	4.7	5.1	...	5.4	5.5	...
General government	–5.5	0.6	–4.1	0.6	–8.0	...	–0.4	1.1	...
TOTAL	**–1.7**	**2.0**	**0.9**	**2.0**	**2.9**	**...**	**3.6**	**4.3**	**...**
NPL ratio *(%)* [2]	**2.7**	**2.4**	**2.6**	**2.4**	**2.3**	**...**	**–**	**–**	**–**

Notes: *1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.*
Source: *BPI Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.*

The Spanish economy makes steady progress in a context of uncertainty

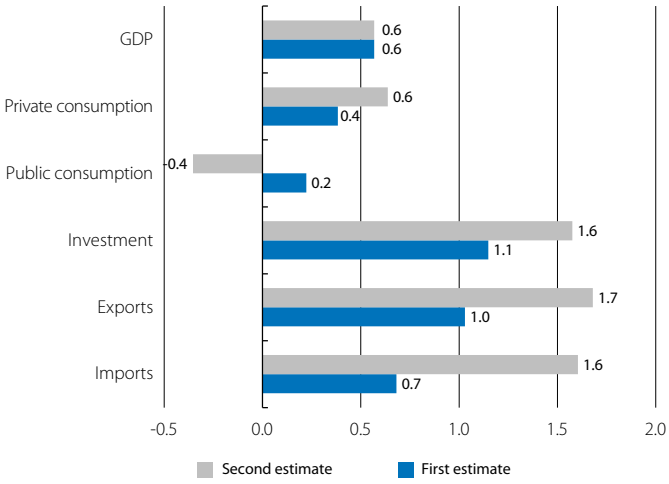
The Spanish economy continues to perform well despite a context of high uncertainty. Despite the trade tensions stemming from the US' tariff policy and the geopolitical conflict between Israel and Iran, the economic activity indicators have shown significant buoyancy, suggesting a solid performance in Q2. In addition, the revision of the GDP figure for Q1 did not change the good aggregate result (0.6% quarter-on-quarter), but it did lead to significant revisions in the components, reflecting a robust composition of this growth. Specifically, the revised figures reveal that it was sustained by private consumption (0.6% quarter-on-quarter growth), investment (1.6% quarter-on-quarter) and the foreign sector, with exports growing by 1.6% quarter-on-quarter (very similar to the growth of imports), driven by the strength of non-tourism services.

Domestic demand is showing particular strength, although pockets of uncertainty persist. Looking ahead to the coming quarters, we expect domestic demand to play a predominant role in economic growth, driven by the reduction of interest rates, a certain recovery of purchasing power, the traction of European Next Generation funds and the strength of the labour market on the back of population growth. In this scenario, the two main sources of uncertainty are the trade tensions linked to tariffs and developments in the conflict between Israel and Iran. While our current scenario, which forecasts GDP growth of 2.4% in 2025, already incorporates a certain dose of uncertainty linked to the trade tensions, this may well end up having a bigger impact, depending on how these two pockets of uncertainty evolve over the coming months. With regards to the escalation of the conflict between Israel and Iran, the uncertainty is high, but at the close of this report, all the indicators are pointing to a gradual de-escalation of the conflict. The probability of the Strait of Hormuz being closed has been reduced, and this has contributed to a slight correction in the oil price, which is not unfavourable for our economy: Spain has to import almost all the oil it consumes. Consequently, cheap oil is a clearly positive factor for the Spanish economy.

The good economic activity data for Q2 and a thriving labour market point to another highly dynamic quarter. The indicators related to employment and consumption have been positive in Q2. Employment growth, measured by the number of registered workers affiliated with Social Security, remained robust and increased in Q2 by 0.6% quarter-on-quarter (corrected for seasonality), matching the rate of the previous quarter. In addition, the total number of affiliates reached 21,861,095 workers, marking a new record and standing 468,206 above the level of a year ago. On the

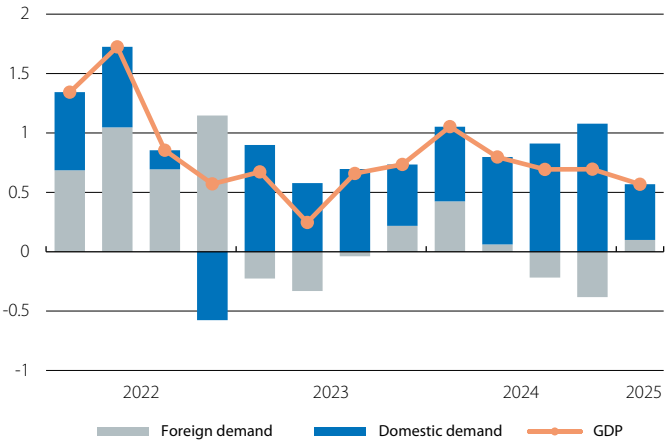
Spain: GDP and its components

Quarter-on-quarter change in Q1 2025 (%)



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

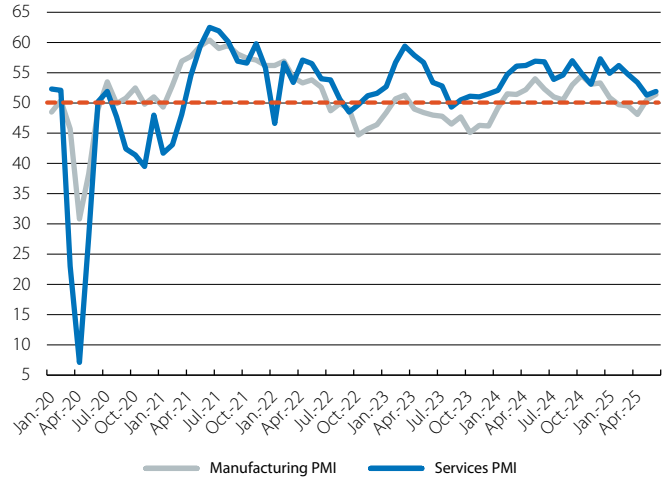
*Spain: contribution to quarterly GDP growth * (pps)*



Note: ** In Q1 2025.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: PMI

Level



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

other hand, the CaixaBank Research Monitor's domestic consumption indicator has shown higher year-on-year growth rates in Q2 than in Q1. As for the business sentiment indices, June was a good month: the manufacturing PMI once again stood in expansive territory (above 50 points) for the second consecutive month, specifically at 51.4 points, exceeding the 50.5 points recorded in May. The services PMI, meanwhile, stood at 51.9 points in June, slightly above the 51.3 points recorded in May. Considering the available data as a whole, quarter-on-quarter GDP growth in Q2 could be around 0.5%. The first estimate for Q2 GDP will be published on 29 July, after the close of this edition.

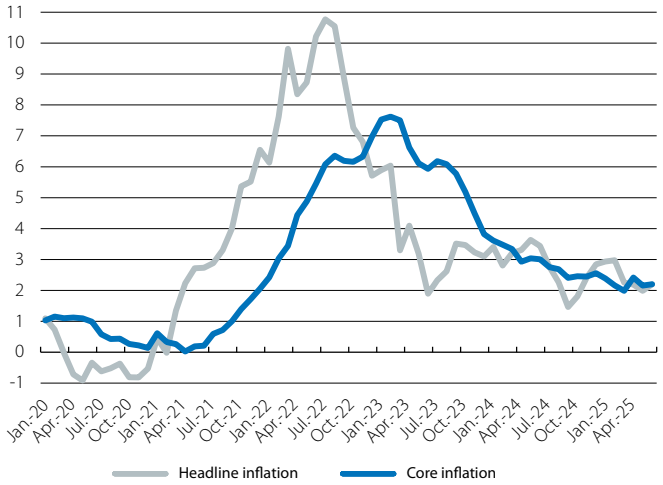
Slight upturn in inflation in Spain, marked by the increase in fuel prices. Headline inflation rose 0.2 pps in June, to 2.2%. This increase was mainly due to the rise in fuel prices observed following the escalation of the conflict between Iran and Israel – although prices have moderated following the signing of a cease fire – and, to a lesser extent, the rise in food and soft drink prices. Thus, headline inflation has picked up again after three months of declines, although core inflation has remained stable at 2.2%. There are some upside risks to the inflation forecast of 2.4% for 2025, due to this rise in fuel prices and a steeper than expected increase in food prices, especially unprocessed food.

Households' gross disposable income remains buoyant in the opening months of 2025, although it is slowing, while the savings rate is declining slightly due to stronger consumption. Households' nominal gross disposable income grew by 5.1% year-on-year in Q1. This is a significant growth rate, thanks largely to the strength of the labour market, but it is more contained than that of 2024 (8.7% for that year as a whole). This growth was lower than that of households' final consumption expenditure (7.1% year-on-year), resulting in a 0.6-pp reduction in the savings rate (static and seasonally adjusted figure), which stood at 12.8% of gross disposable income.

The rally in the real estate market takes hold. Between January and April, there were 237,458 home sales, representing year-on-year growth of 15.9% and the best start to the year since 2007. This strong demand is being felt in increasing pressure on prices. Thus, the appraisal value of housing published by the Ministry of Housing and Urban Agenda increased by 9.0% year-on-year in Q1 2025, accelerating from the 7.0% registered at the end of 2024. At the regional level, this growth rate varies widely. Andalusia was the only region to register a price correction (–0.5% year-on-year), while the highest price increases occurred in Galicia, the Valencian Community and Castilla-La Mancha (increases in the range of 11%-14% year-on-year).

Spain: CPI

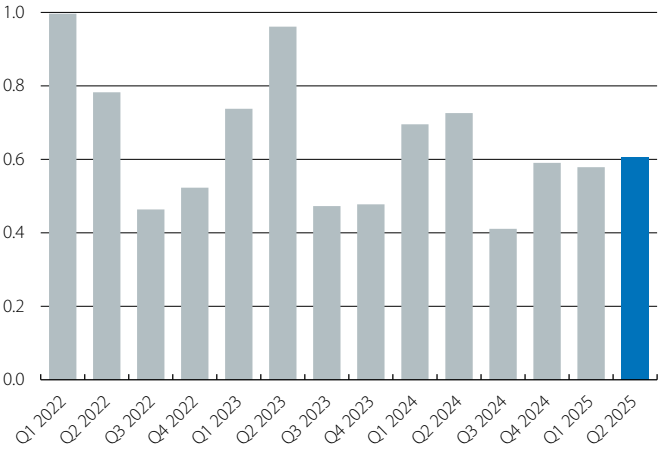
Year-on-year change (%)



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

Spain: registered workers affiliated with Social Security

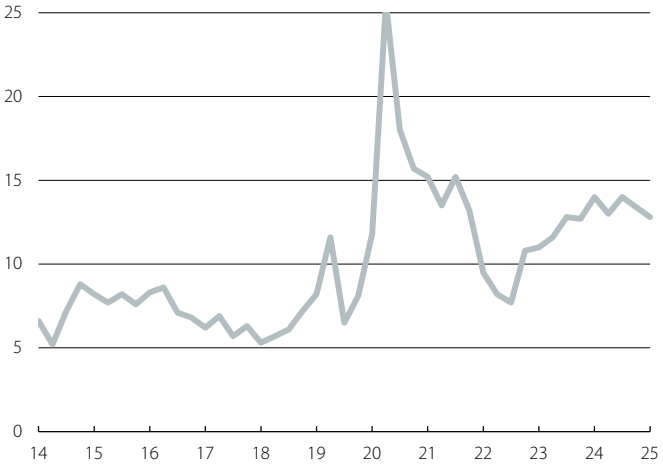
Quarter-on-quarter change (%)



Note: *Seasonally adjusted series.*
Source: *BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: household savings rate

(% of gross disposable income)



Note: *Quarterly static data based on the series corrected for seasonality and calendar effects.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Has the recent pattern of employment growth in Spain favoured productivity growth?

Recent changes in the pattern of employment growth

The Spanish economy has experienced strong employment growth since emerging from the pandemic. In seasonally adjusted terms, in April 2025 the number of Social Security affiliates stood 12.8% above the level of December 2019, which is equivalent to an average annual growth of 2.3%.

In the first chart, we show the contribution of each sector to the growth of Social Security affiliates in two periods: between 2013 and 2019, on the vertical axis, and between 2019 and April 2025, on the horizontal axis. The contributions are expressed as a percentage of the total cumulative growth.

As can be seen, since the pandemic Spain has been creating relatively more jobs in public services (education and health), as well as in the tech and professional services sectors. This contrasts with the previous cycle, when trade, manufacturing and other traditional business services (administrative activities) played a greater role.

This change in the structure of employment growth raises a key question: is this new pattern more favourable for an increase in productivity? According to our analyses, the answer is affirmative, albeit with nuances.

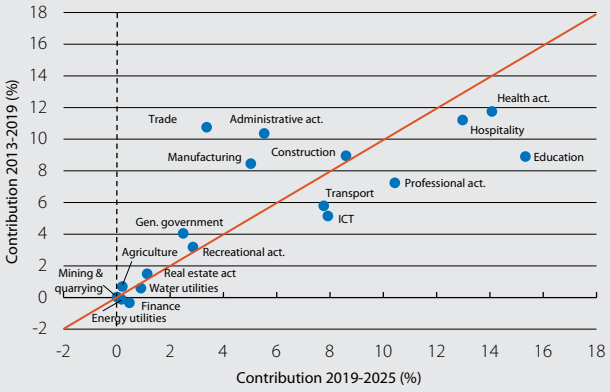
Measuring productivity and composition effect

We measure labour productivity as the real gross value added (GVA) that is generated per hour worked, also known as apparent labour productivity.[1] This metric presents some problems. For instance, capital-intensive sectors will tend to appear to be more productive than employment-intensive ones. However, it has the advantage that it can be calculated directly from national accounting data, so it does not have to be estimated.[2]

1. For a more precise analysis, we have excluded the real estate sector from the calculations, as its GVA is distorted by attributed rents, i.e. the theoretical rental value assigned to owner-occupied dwellings. Since this is a small sector (around 1% of all hours worked) and we only have data corrected for this effect up until 2022, its exclusion allows us to focus on the underlying trend in productivity while also not missing out on recent information.
2. This contrasts with what is perhaps the most accurate measure of productivity, so-called total factor productivity (TFP). This measure is the part of GDP growth that is not explained by the accumulation of factors of production, be it labour, capital, human capital or others. However, TFP has to be estimated, and there is a lot of uncertainty surrounding these estimates.

Spain: Social Security affiliation by sector

Relative contribution (as a % of total growth)



Source: *BPI Research, based on data from the Social Security Institute.*

We have compared the evolution of apparent productivity in three periods:

- Expansion Q1 2000-Q4 2007: productivity per hour increased by just 0.7% in total, representing a mere 0.1% average annual growth.
- Recovery Q4 2013-Q4 2019: productivity grew by 3.8% in total, equivalent to an annual average of around 0.6%.
- Recent period Q4 2019-Q1 2025: productivity amassed an increase of 2.5%, equivalent to 0.5% annually.

At first glance, the rate of productivity growth in the current cycle is similar to that of the period 2013-2019. However, in order to better understand the relationship between employment and productivity, we need to look at where that productivity growth comes from. To this end, we have broken down its increase into two components.

- Intensive margin: increased productivity within each sector, while maintaining the sectoral structure of employment. This reflects improvements in efficiency, technology or human capital in the companies within each sector.
- Composition effect: increased productivity due to changes in the distribution of total employment across the various sectors, maintaining the productivity of each sector constant. This reflects the impact of workers relocating between more or less productive sectors.

In this article we focus on the composition effect. The second chart shows the magnitude of this effect in the various periods in question. The chart reveals several

important points. Firstly, the composition effect has been negative in all three periods analysed. In all the recent expansionary cycles, the change in the structure of employment has subtracted some growth from productivity.

Secondly, the penalty due to the change of composition was particularly pronounced between 2000 and 2007. In contrast, in the two subsequent cycles (2013-2019 and 2019-2025), the negative composition effect has been much smaller, and practically equal in magnitude in both cases. This implies that the recent pattern of job creation has been «similar» to that of the previous cycle, in that the slowdown in productivity growth caused by sectoral changes has been very limited in comparison with periods further in the past.

Given the importance of the education and health sectors in the current cycle, and bearing in mind that these sectors are dominated by the public sector and therefore do not generally operate at market prices, it is also interesting to replicate the analysis focusing on market sectors. If we exclude from the analysis the predominantly public branches of the economy, the result changes slightly. The composition effect in the period 2013-2019 worsens by 0.1 pp, while in 2019-2025 it improves by 0.1 pp. Thus, the negative contribution of the composition effect in the recent period becomes half that noted for the period 2013-2019.

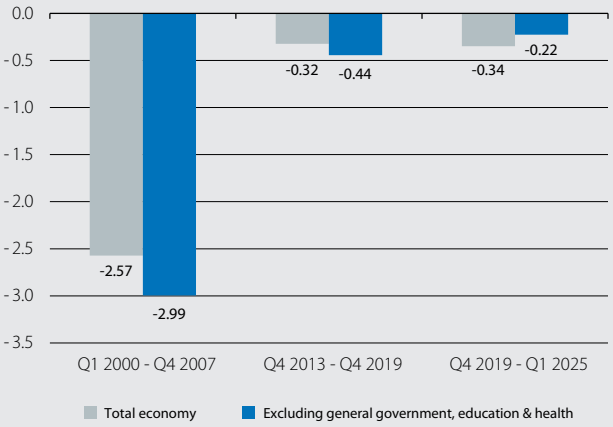
Which sectors are driving up productivity or slowing it down?

Understanding the «why» behind a slightly negative composition effect in the recent phase requires us to identify which sectors have seen their proportion of total employment increase or decrease and what their level of productivity is. To this end, we use a third bubble chart which plots, for each sector, its labour productivity on the vertical axis and, on the horizontal axis, the change in its share of total employment between Q4 2019 and Q1 2025. In this chart, the size of the bubble measures the absolute contribution of each sector to the composition effect, which is the result of multiplying the change in its share of the total by the productivity of that sector. A large bubble thus indicates that the sector has greatly influenced the composition effect, due to a combination of a change in its relative size and and its productivity level. The horizontal red dashed line marks the national average productivity to facilitate comparisons.

Three sectors stand out in the recent phase due to the increase in their share of total employment. The general government, education and health sector has registered a sharp increase in the proportion of total employment it represents, but its productivity is approximately in line with the national average. The ICT sector has experienced a marked increase in its share of

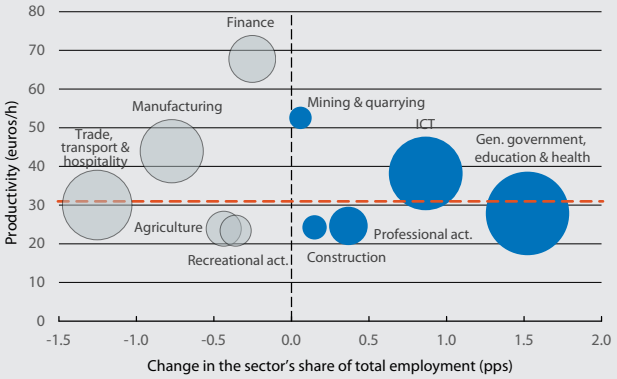
Spain: composition effect

Contribution to productivity growth (pps)



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

Spain: sectoral breakdown of the contribution to employment growth between Q4 2019 and Q1 2025



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

employment and is characterised by productivity above the national average. This sector thus provides a significant positive composition effect, as employment is growing in a sector in which every hour worked contributes a great deal of value added. Finally, the professional, scientific and technical activities sector, although to a lesser extent than the aforementioned ones, also saw its share of total employment increase. However, and perhaps counter intuitively, this sector has a low apparent labour productivity, possibly because it is not a capital-intensive sector, so its contribution to the composition effect is limited.[3]

3. With data from 2022, the professional, scientific and technical activities sector has a net capital stock per hour worked of 45.7 euros, compared to the national average of 155 euros, making it the third lowest sector in the ranking (according to the National Classification of Economic Activities [CNAE] at the 1-digit level of detail).

Among the sectors that have seen their share of total employment decrease in this period, three also stand out. Trade, transportation and hospitality, which saw its share of total employment drop sharply in the wake of the pandemic but has a productivity level similar to the national average. The manufacturing industry has also seen its share of employment decline. Given that manufacturing has above-average productivity, this decline results in a particularly negative contribution to aggregate productivity. Finally, the financial sector, which has a high apparent productivity, has also seen its share of total employment shrink.

Conclusions

The evidence shows that the sectoral pattern of job creation since 2019 has been slightly more benign for productivity than that of the 2013-2019 cycle, and far higher than the expansion of the 2000s. This does not mean
that productivity is growing rapidly – its gains remain modest, at around 0.5% per year on average – but rather that the distribution of new jobs is at least
not weighing down average productivity, as has been the case in the past.

If we focus on the most recent period, the most dynamic sectors in terms of job creation belong to both the public sphere (education and health) and that of private technology (ICT) and specialist services (professional activities), and their combined evolution has managed to largely offset – albeit not entirely – the adverse effect of the loss of employment in traditionally productive sectors such as industry and finance.

Is technology and complexity exported from Spain?

Geopolitical tensions and the uncertainty surrounding foreign demand force us to reassess the strengths and weaknesses of exports in the Spanish economy. To do so, it is essential to analyse what we export, how diversified our range of products is, as well as how competitive it is. To improve our understanding, in this article we will analyse the complexity of the products that are exported, as well as their technological intensity, two key variables for assessing the competitiveness of our exports.

A useful tool for evaluating the resilience of our exports to external shocks is economic complexity. Economic complexity is an indicator that measures the diversity and sophistication of what a country produces and exports. A country with a high economic complexity index (ECI) tends to produce many different products, especially goods that few other countries can produce, and it is an indicator of a highly knowledgeable economy. On the contrary, a low ECI means that the country exports few products and that they are generally common in nature (i.e. many other countries also produce them), reflecting lower diversity and sophistication in its production apparatus. Greater export complexity is associated with better growth prospects and greater resilience in the face of global turbulence.[1,2]

Like two sides of the same coin, we can also define the economic complexity of a particular product, rather than that of a country, using the product complexity index (PCI). The PCI measures a product's sophistication based on the complexity of the countries that trade it and how many can export it. In this article, we will use both perspectives (both the ECI and the PCI).

To enrich this analysis, we also incorporate a technological perspective. To this end, we link each exported product with the economic activity that generates it using a correlation table produced by the OECD.[3] This perspective allows us to answer the question: to what extent are our exports intensive in manufacturing sectors that are considered high-tech? In contrast with the ECI, the technological level of exports is determined by measuring the effort in R&D and the technology incorporated into industries. Thus, as shown, pharmaceutical and aerospace products are examples of high-tech goods, while textile products would fall into the low-tech category. This dual perspective (complexity and technological content) will allow us to paint a more in-depth picture of Spain's foreign competitiveness.

What are we competitive in?

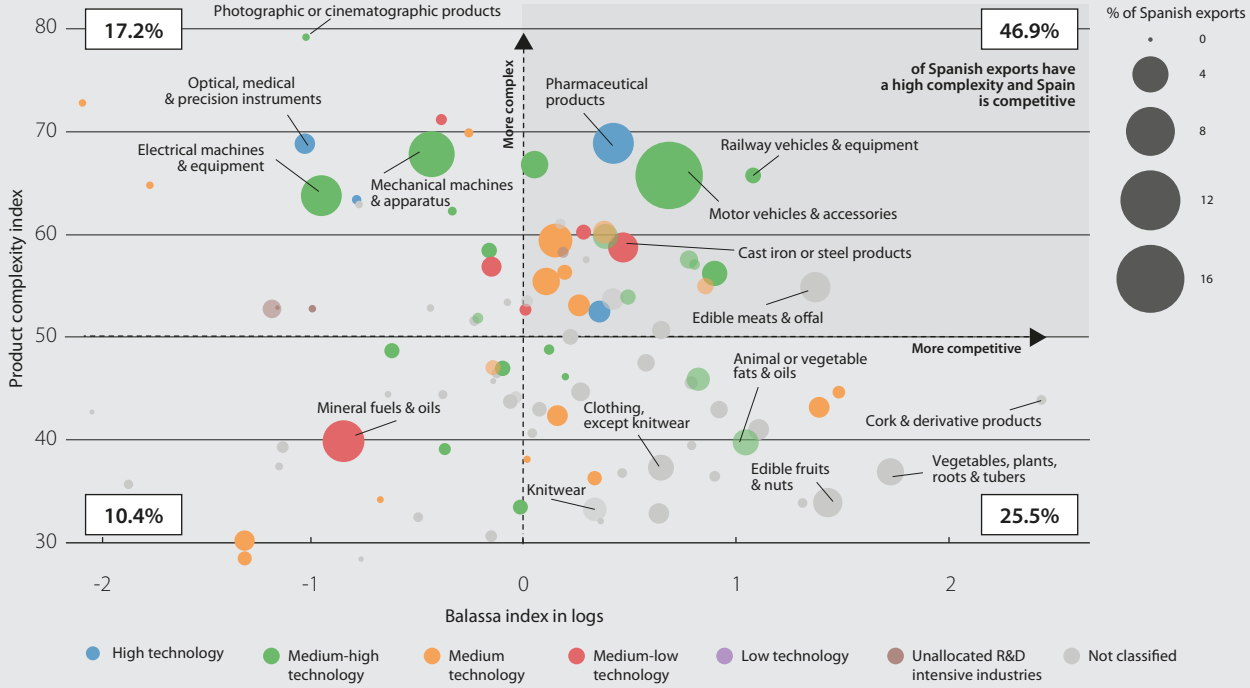
In order to assess the positioning of Spanish exports, we sorted products according to three key dimensions: their complexity, our revealed competitiveness and their technological content. The *Atlas of Economic Complexity*[4] provides detailed data on the complexity of Spanish exports (PCI) and on Spain's market share for each product. We consider a product to be complex if its complexity index, which we rescale to take values between 0 and 100, exceeds 50 points. Also, based on the market share of exports we calculate the revealed comparative advantage, which tells us whether a country exports relatively more of a particular product compared to other countries.[5] According to this metric, a country is competitive in a given product if the index is greater than 1, or 0 if we take the index logarithm, as is our case.

We show the constellation of products we export classified according to these three dimensions in the first chart. The vertical axis shows the products' degree of complexity; the horizontal one, the revealed competitiveness, and the colour of each bubble, the technological content. Finally, the size of the bubble shows what share of Spain's total exports each product represents.

46.9% of Spanish exports correspond to highly complex products in which Spain has a clear competitive advantage. In addition, many of these products incorporate a high technological content, as can be seen in the chart, where they are represented by blue and green dots. The automotive sector is a strong point of Spanish exports. These are products with a high complexity and medium-high technological content. Exports of motor vehicles and accessories represent 16.7% of Spain's total exports. Although it represents a smaller portion of Spanish exports, at 5.4%, the pharmaceutical sector also stands out and is associated

1. See, for example, C.A. Hidalgo and R. Hausmann (2009). «The building blocks of economic complexity». Proceedings of the National Academy of Sciences, 106(26), 10570-10575. D. He, Y. Tang, L. Wang and M. Mohsin (2023). «Can increasing technological complexity help strengthen regional economic resilience?». Economic Change and Restructuring, 56(6), 4043-4070. And R. Hausmann *et al.* «The Atlas of Economic Complexity: Mapping Paths to Prosperity». The MIT Press, 2014.
2. See C. Canals and J. Montoriol «La complejidad de las exportaciones y la calidad del empleo», Spanish Economy Papers 158 (2018): 116, which shows that, in the case of Spain, the industries and autonomous communities with more complex exports tend to generate more stable employment.
3. We use the correspondence developed by the OECD between the Harmonized System (HS) for internationally traded products, in its 2012 version, and the economic activities defined in the BTDIxE database (Bilateral Trade Database by Industry and End-use category).
4. The Atlas of Economic Complexity.
5. More specifically, we use the Balassa index, which measures the ratio between the proportion of a country's exports of a particular product/service relative to its total exports over the proportion of all countries' exports of this product/service relative to total global exports.

Competitiveness, complexity and technology of Spanish exports
TARIC chapters in the sphere of competitiveness and complexity, 2023



Note: *The Balassa index is presented in logarithms; positive values indicate a revealed comparative advantage (competitiveness). The technological classification is based on correspondence to TARIC groups at the 2-digit level, assigning the predominant technology by exported value (more than 40%).*
Source: *BPI Research, based on «The Atlas of Economic Complexity», 2023, and internal calculations.*

with highly complex and high-tech products.

However, Spain is also highly competitive in exports with a low complexity and medium or low technology content, especially in the agricultural sphere,[6] such as fruits and vegetables. Some products are clearly distinctive of the country, such as animal or vegetable fats and oils, which include treated oils for technical or industrial use (classified as medium-high technology).[7] Cork and derivative products also stand out, with Spain accounting for 20.1% of global exports. In total, low-complexity exports in which Spain is competitive represent 25.5% of the total exported.

Also, 17.2% of Spanish exports are concentrated in highly complex products in which, however, Spain still does not have a clear competitive advantage. This group includes products that already represent a significant proportion of the total exported, indicating there is some margin for improvement in terms of competitiveness. This is the case of electrical machinery and equipment (7.2% of Spanish exports), as well as mechanical machines and apparatus (5.6%). Also of note are optical, medical and precision instruments, which are high-tech and highly complex products. These sectors, located in the upper left-hand section of the chart, represent an area with a high potential for industrial and technological development in Spain.

Thus, in Spain, 64.1% of exports in 2023 corresponded to complex products, of which 76.2% were competitive. Moreover, 10.8% of Spanish exports were related to high-tech activities.[8] These figures, although positive, require context.

European comparison: where does Spain lie?

Compared to other large European economies (Germany, France, Italy and Portugal), Spain still has margin for improvement. In the second chart, we show the percentage of each country's exports that are classified as complex, as having a high technological content and those that are also considered competitive. As we can see in the chart, Spain ranks at the tail end of the group in terms of the percentage of exports considered high-tech, and it is second from the bottom in the proportion of complex exports. In the percentage of exports that are competitive and complex, it performs somewhat better and ranks above France and Portugal, but below Italy and Germany.

Even so, Spain is the only economy in the group that has increased its competitiveness in complex exports since

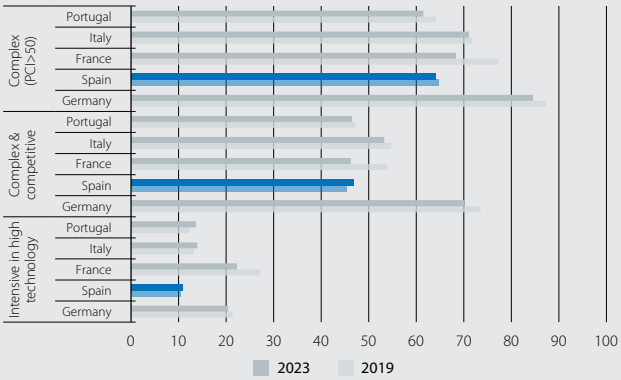
6. The classification of technological intensity does not include agricultural products.
7. Other types of oils are not considered technology-intensive.
8. These data may differ from those published by Eurostat. The difference is due to the limitations of assigning an activity to the products classified according to HS 12.

2019. In addition, together with Italy and Portugal, it has increased the percentage of exports classified as high-tech, as well as its market share for this type of exports. This contrasts with the fall in the complexity of products exported by the main European economies.

If we analyse the ECI rather than looking at the complexity of specific products, we see a downward trend among the major European economies that goes back to the financial crisis (see third chart). However, since 2019, both Spain and Portugal have improved their positions in the ranking. Spain has gone from 39th to 34th place and Portugal has improved from 47th to 37th place. In contrast, Germany, which in 2019 ranked fifth (and between 1995 and 2016 had remained in the top 4), has fallen to sixth place in 2023. France is down four positions and ranks 23rd, below Italy, which itself has fallen two positions and stands at 19th.

Complexity, competitiveness and technology in the exports of the main European economies

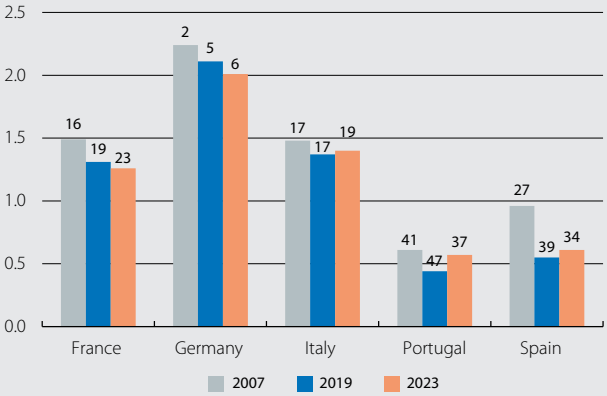
(% of the country's exports, 2023)



Source: *BPI Research, based on data from «The Atlas of Economic Complexity», 2023, and internal calculations.*

Economic complexity index and ranking of European countries

(Index on the left-hand scale, ranking in the labels)



Source: *BPI Research, based on data from «The Atlas of Economic Complexity», 2023, and internal calculations.*

Activity and employment indicators

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
Industry									
Industrial production index	–1.6	0.4	0.0	–0.2	1.3	–0.7	0.6	1.7	...
Indicator of confidence in industry *(value)*	–6.5	–4.9	–5.6	–2.9	–6.0	–5.4	–4.3	–5.1	–6.3
Manufacturing PMI *(value)*	48.0	52.2	52.8	51.5	53.6	50.0	48.1	50.5	51.4
Construction									
Building permits *(cumulative over 12 months)*	0.5	16.7	4.6	10.2	16.7	20.1	14.5	...	...
House sales *(cumulative over 12 months)*	–10.2	9.9	–10.1	–1.2	9.9	17.2	15.3	...	...
House prices	4.0	8.4	7.8	8.2	11.3	12.2	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	18.9	10.1	14.2	12.3	10.1	8.1	8.3	7.3	...
Services PMI *(value)*	53.6	55.3	56.6	55.2	55.1	55.3	53.4	51.3	51.9
Consumption									
Retail sales[1]	2.5	1.8	0.4	2.6	2.9	3.3	4.1	4.8	...
Car registrations	16.7	7.2	8.5	1.7	14.4	14.0	7.1	18.6	15.2
Economic sentiment indicator *(value)*	100.5	103.0	102.6	105.5	101.5	103.3	103.7	103.4	102.0
Labour market									
Employment[2]	3.1	2.2	2.0	1.8	2.2	2.4	...	...	...
Unemployment rate (% labour force)	12.2	11.3	11.3	11.2	10.6	11.4	...	...	...
Registered as employed with Social Security[3]	2.7	2.4	2.4	2.3	2.4	2.3	2.3	2.2	2.2
GDP	**2.7**	**3.2**	**3.3**	**3.3**	**3.3**	**2.8**	**...**	**...**	**...**

Prices

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
General	3.5	2.8	3.5	2.2	2.4	2.7	2.2	2.0	2.2
Core	6.0	2.9	3.0	2.6	2.5	2.2	2.4	2.2	2.2

Foreign sector

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	0.2	–4.9	–1.8	0.2	3.3	1.7	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–7.2	0.1	–7.1	–3.1	0.1	4.2	2.5	...	...
Current balance	**39.8**	**48.7**	**45.1**	**48.3**	**48.7**	**44.3**	**44.6**	**...**	**...**
Goods and services	58.8	68.8	65.2	68.3	68.8	64.4	65.2	...	...
Primary and secondary income	–19.1	–20.0	–20.2	–20.0	–20.0	–20.1	–20.6	...	...
Net lending (+) / borrowing (–) capacity	**56.0**	**67.1**	**61.2**	**65.7**	**67.1**	**63.5**	**63.8**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2023	2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	04/25	05/25	06/25
Deposits									
Household and company deposits	0.3	5.1	5.2	4.3	5.1	4.6	4.9	5.4	...
Demand and notice deposits	–7.4	2.0	–1.9	–1.6	2.0	3.1	4.7	5.8	...
Time and repo deposits	100.5	23.5	68.0	47.5	23.5	12.6	6.5	3.6	...
General government deposits[5]	0.5	23.1	–4.1	14.8	23.1	24.4	20.6	20.4	...
TOTAL	**0.3**	**6.3**	**4.5**	**5.1**	**6.3**	**5.9**	**6.0**	**6.4**	**...**
Outstanding balance of credit									
Private sector	–3.4	0.7	–1.3	–0.3	0.7	1.7	2.1	2.4	...
Non-financial firms	–4.7	0.4	–1.8	–0.6	0.4	1.6	2.1	2.7	...
Households - housing	–3.2	0.3	–1.5	–0.7	0.3	1.4	1.8	2.0	...
Households - other purposes	–0.5	2.3	0.7	1.2	2.3	3.1	2.8	3.0	...
General government	–3.5	–2.6	–2.7	–5.4	–2.6	–0.3	1.0	3.4	...
TOTAL	**–3.4**	**0.5**	**–1.4**	**–0.7**	**0.5**	**1.6**	**2.0**	**2.5**	**...**
NPL ratio (%)[6]	**3.5**	**3.3**	**3.4**	**3.4**	**3.3**	**3.2**	**3.2**	**...**	**...**

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

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

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

MONTHLY REPORT

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

FLASH NOTES

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

COUNTRY OUTLOOK

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

Available in English:
Mozambique Country Outlook

Design and production: www.cegeglobal.com