MR09

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

NUMBER 503 | SEPTEMBER 2025

ECONOMIC & FINANCIAL ENVIRONMENT

DOSSIER: CHALLENGES AND POLICIES IN THE AGE OF LONGEVITY

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
September 2025

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

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

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

Date this issue was closed:
5 September 2025

INDEX

New realities, old risks

The summer has passed with the feeling that the initial impact caused by the Trump administration's economic policy decisions has been lower than initially expected. After compensating for the effects caused by «anticipation» of the tariff hikes at the beginning of the year, the snapshot of economic activity reflects an overall growth cycle that remains in an orderly landing phase and, therefore, far from the scenarios involving a recession. The significant resilience shown by the US, China and India is offsetting the weakness of the euro area, allowing global growth to maintain a cruising speed close to 3%, as reflected by the global PMI which stood at a 15-month high in August. It is true that the average US tariff is going to be much higher than it was at the beginning of the year (17% versus 2.5%) and that the levels imposed on some countries (such as Brazil, Switzerland and India) will have a negative impact on growth. The agreement with China is also yet to be finalised while the US courts reach a decision over the legal avenues used by the executive branch to justify the tariff hikes. However, for the time being the effects on growth are proving to be moderate, and with the new tariff map now laid out, the potential impact of uncertainty on economic agents' decisions has been reduced thanks to the ruling out of a trade war.

On the inflation front, in the absence of retaliation, the impact is being transmitted gradually. Even in the US, the data for Q2 reflect that companies are assuming a significant portion of the tariff hike, without it having a major impact on profits. This combination of growth and inflation will allow the widespread easing of global monetary policy towards neutral territory (–100 bps in the last 12 months) to continue – a trend which the Fed could soon join in a bid to offset the first signs of weakening in the labour market. The situation at the crossroads of the American central bank contrasts with the sense of comfort emerging from the ECB's latest messages regarding the current level of interest rates, now that inflation has stabilised at around 2%.

At this juncture, the monetary policy transmission channels could be affected by new tensions in the bond markets that are affecting the usual suspects (France, the United Kingdom and Japan) as well as the US. This reflects concerns regarding fiscal sustainability and the Fed's independence, as well as certain mismatches between market supply and demand, especially in the long part of the curve. The 30-year American bond, a key benchmark, has returned to the 5% zone and in Europe the realignment of risk premiums has been consolidated, with that of France (80 bps) lying closer to Italy's (87 bps) than Spain's (60 bps) and with the yield on the British 30-year bond at its highest this century (5.6%). Essentially, doubts remain over the fiscal margin that is available in a number of OECD countries in order to tackle the challenges of the new geopolitical scenario, the needs of the energy transition and the medium-term effects of demographics, a sphere in which trends tend to be difficult to reverse in the short term (see the Dossier in this same *Monthly Report*). This is in addition to the misgivings about how the problem of fiscal sustainability could contaminate monetary policy, which has been treading on thin ice in the last decade, forced to test unconventional tools as a result of assuming responsibilities that were not part of its usual remit. This emphasises even more the importance of the central banks' autonomy.

In this way, the markets' focus of attention will shift until the end of the year from the trade front to the budgetary front, at the expense of consolidating the narrative that the impact of investment in AI (the latest estimates place it at 4-7 trillion dollars by 2030) on productivity – and, therefore, on potential growth – can offset the distortions in global supply that the new geopolitical scenario will entail. In any case, these are the first strikes of the transformation process in which the world economy is currently immersed and which in the near future will test everything from the trade relations between the major economic blocs to the solidity of the institutions that have generated well-being in recent decades, starting with the independence of the central banks and regulatory bodies. Such things tend to be missed when they are already difficult to recover and – like with other important facets of life, and to paraphrase Quevedo – the lessons tend to be learnt late and painfully.

José Ramón Díez
September 2025

Chronology

AUGUST 2025

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

JUNE 2025

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

APRIL 2025

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

JULY 2025

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

MAY 2025

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

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%.

Agenda

SEPTEMBER 2025

2 Spain: registration with Social Security and registered unemployment (August).
Euro area: CPI flash estimate (August).
9 Portugal: international trade (July).
11 Governing Council of the European Central Bank meeting.
12 Spain: S&P rating.
Portugal: Fitch rating.
16 Spain: quarterly labour cost survey (Q2).
16-17 Federal Open Market Committee meeting.
22 Portugal: house prices (Q2).
23 Spain: loans, deposits and NPL ratio (Q2).
Spain: balance of payments and NIIP (Q2).
Portugal: GDP breakdown by institutional sector (Q2).
25 Portugal: NPL ratio (Q2).
26 Spain: GDP breakdown (Q2).
Spain: Fitch rating.
Spain: Moody's rating.
29 Spain: CPI flash estimate (September).
Euro area: economic sentiment index (September).
30 Spain: household savings rate (Q2).
Portugal: CPI flash estimate (September).
Portugal: tourism activity (August).

OCTOBER 2025

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

A differential expansive cycle

The Spanish economy is starting the 2025-2026 academic year with a certain advantage. The international context is fragile. Europe continues to show signs of weakness. In the US, the Trump administration is filling the pillars that support its economy with cracks, and in China the housing crisis has not yet reached its bottom. On the other hand, the Spanish economy is showing solid domestic demand and a capacity to continue to drive growth, if the international context allows it and if it can successfully overcome the main challenges it faces following the summer break.

The GDP figure for Q2 2025 confirmed the boom that the Spanish economy is currently enjoying. The quarterly growth rate stood at 0.7%, slightly higher than expected, primarily supported by domestic demand and, above all, private consumption and investment. After several years spearheaded by foreign demand, the timing of this change is particularly favourable. The ECB's normalisation of interest rates, a private sector with a broadly sound financial position and population growth are acting as support factors – and they are expected to continue to do so in the near future. CaixaBank Research's forecast scenario anticipates growth of 2.4% for 2025 and 2.0% for 2026. However, following the latest published data, the reality is likely to exceed these forecasts – which we will revise next month. This message stands out in the fragile international context.

To consolidate the current expansive cycle, it is essential that the growth of economic activity is sustainable, that new imbalances are not generated and that the existing ones are corrected. In this regard, one of the key challenges of the Spanish economy lies in the real estate sector. Housing demand has grown sharply in recent years, as witnessed by the increase in the number of both households and home sales. On the other hand, the housing supply is reacting slowly and insufficiently to meet this demand. Pressure on house prices is the main reflection of this imbalance. As set out in the *Real Estate Sector Report* just published by CaixaBank Research, the housing deficit accumulated in recent years exceeds half a million homes. Such an imbalance will be difficult to correct, so the price pressures are likely to remain high in the short term. Decisive and wise action is urgently needed to address this mismatch and begin to correct it as soon as possible.

A second front which deserves special attention is the public accounts. Spain's public debt has been steadily corrected in recent years. All the indicators suggest that this year the deficit will finally fall below 3.0%, a milestone that will reinforce this process and help set the Spanish economy apart from other economies currently on investors' radars, such as the US and France. Both of these economies have a public deficit in excess of 6% and there are serious doubts about their ability to turn this situation around. The threat of a rebound in sovereign risk premiums is raising its head again in the financial markets, and when this happens many investors find it difficult to differentiate between economies. We do not need to go far back in time to find good examples of this. In this context, it is important to make the most of this good moment in the economy in order to bolster the commitment to adjusting Spain's public accounts, and to offer the utmost visibility and credibility possible regarding the future path of revenues and expenditures in the short and medium term.

Finally, special attention must also be paid to the export sector. Much of the recent success of the Spanish economy is based on its productive sector opening up to foreign markets. Faced with the collapse of domestic demand triggered by the financial crisis almost two decades ago, many companies made a leap of faith and obtained a foothold in the international market. This allowed many jobs to be saved and, over the years, many more were created. This greater openness to foreign markets has also served as a catalyst for increased productivity in many sectors and, at the macroeconomic level, has enabled a large trade surplus to be maintained, which has helped reduce the country's high foreign debt. The level of tariffs finally imposed by the Trump administration has been lower than initially proposed, but the agreement seems fragile – who knows if tomorrow the US president will change his mind? – and, in any case, the current global geopolitical tensions require maximum prudence. In this context, it is essential to support the export sector to continue to expand and diversify its international customer base. If the main economic imbalances are corrected and the buoyancy of both domestic and foreign demand are combined, then the Spanish economy's expansive cycle will be differential.

Oriol Aspachs

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	1.21	1.22
EUR/GBP (pounds per euro)	0.66	0.84	0.87	0.86	0.83	0.81	0.80
EUR/JPY (yen per euro)	129.56	126.41	129.91	156.99	161.18	158.00	154.00
OIL PRICE							
Brent ($/barrel)	42.3	80.1	71.0	77.3	73.1	65.1	65.3
Brent (euros/barrel)	36.4	62.5	63.9	70.9	69.8	53.8	53.5

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2019	Average 2020-2022	2023	2024	2025	2026
GDP GROWTH[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	0.7	0.9	1.2	1.1
Germany	1.6	1.3	0.4	–0.7	–0.5	0.4	1.3
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	0.8
Portugal	1.5	0.4	1.5	2.6	1.9	1.6	2.0
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	1.1	1.6
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	2.5	2.0
Japan	–0.3	0.4	0.7	3.3	2.7	1.5	1.5
United Kingdom	1.6	2.3	4.2	7.3	2.5	3.1	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

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	3.0	2.3
Government consumption	4.5	0.9	2.6	5.2	4.1	1.5	1.0
Gross fixed capital formation	5.7	–1.2	–1.0	2.1	3.0	4.3	3.1
Capital goods	4.9	0.2	–2.5	1.1	2.8	7.3	2.8
Construction	5.7	–2.6	–1.9	3.0	3.5	3.2	3.3
Domestic demand (vs. GDP Δ)	4.4	–0.2	0.7	1.6	2.7	2.6	2.1
Exports of goods and services	4.7	2.9	2.5	2.8	3.1	2.8	2.0
Imports of goods and services	7.0	0.2	2.5	0.3	2.4	3.9	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	1.8
Unemployment rate (% of labour force)	10.5	19.5	14.5	12.2	11.3	10.6	10.2
Consumer price index	3.2	1.3	3.7	3.5	2.8	2.5	2.0
Unit labour costs	3.1	0.6	3.6	6.1	4.0	3.4	2.7
Current account balance (% GDP)	–5.8	–0.2	0.6	2.7	3.1	2.4	2.6
External funding capacity/needs (% GDP)	–5.2	0.2	1.4	3.7	4.2	3.4	3.6
Fiscal balance (% GDP)[1]	0.3	–6.5	–7.1	–3.5	–3.2	–2.8	–2.6

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

Forecasts

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	1.1	1.1
Gross fixed capital formation	–0.4	–0.7	2.9	3.6	3.0	1.9	4.7
Capital goods	3.4	2.7	5.5	5.6	6.5	–	–
Construction	–1.4	–2.4	2.6	1.2	1.4	–	–
Domestic demand (vs. GDP Δ)	1.3	0.0	1.9	1.7	2.7	1.8	2.2
Exports of goods and services	5.3	4.0	3.6	3.8	3.4	1.7	3.0
Imports of goods and services	3.6	2.7	4.0	1.8	5.0	2.2	3.3
Gross domestic product	**1.5**	**0.4**	**1.5**	**2.6**	**1.9**	**1.6**	**2.0**
Other variables							
Employment	0.4	–0.4	1.1	2.3	1.2	2.1	1.0
Unemployment rate (% of labour force)	6.1	11.4	6.6	6.5	6.4	6.3	6.4
Consumer price index	3.1	1.1	3.0	4.3	2.4	2.1	2.0
Current account balance (% GDP)	–9.2	–2.8	–1.1	0.6	2.2	1.7	1.4
External funding capacity/needs (% GDP)	–7.7	–1.5	0.1	2.0	3.3	1.9	1.6
Fiscal balance (% GDP)	–4.5	–5.1	–3.0	1.2	0.7	–0.1	–1.2

Forecasts

Calm markets, latent risks

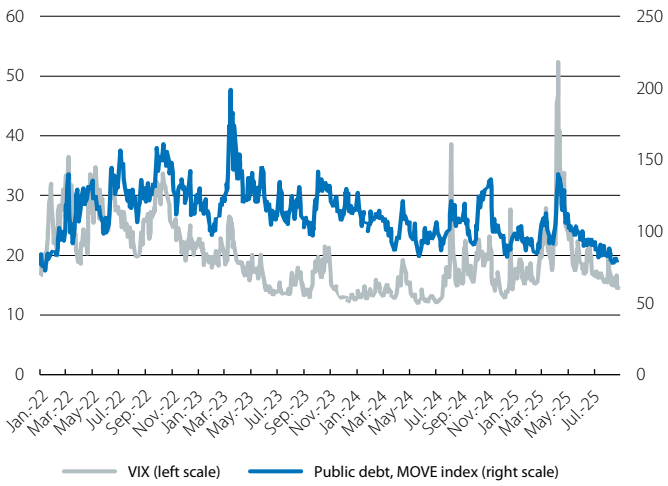
A summer of low volatility. The summer season tends to have lower trading volume and liquidity in the financial markets, so small pockets of instability tend to escalate rapidly, and volatility spikes are frequent. We only have to look back to August 2024 to recall how the depreciation of the yen sparked a massive global equity sell-off which knocked more than 8% off the main indices in just a couple of days. However, the summer of 2025 has been a period of relative calm in the financial markets, with the main measures of volatility remaining contained, despite the underlying instabilities of the macroeconomic environment: uncertainties over tariff agreements, the risk of erosion of the independence of institutions in the US, doubts about the direction of monetary policy, concerns about the fiscal outlook in the developed world and geopolitical risks, with a new source of instability in France.

Summer brings a change of gears between the Fed and the ECB. Whereas the ECB entered the summer cutting rates to neutral territory (depo rate at 2.00% since June) and the Fed did so maintaining a restrictive monetary policy (stable fed funds rate in the 4.25%-4.50% range since December 2024), the last few weeks have brought a certain shift in the outlook for September. According to financial market expectations, in the coming weeks it is likely to be the Fed that will cut rates and the ECB that will keep them unchanged. Specifically, for September the money markets are anticipating a 25-bp cut in the US with around a 90% probability, while they assign an almost 100% probability to a scenario with no change in the ECB's rates and the depo rate remaining stable at 2% through to the end of the year. This shift in market expectations is linked to the messages conveyed by the Fed and the ECB in recent weeks. On the one hand, when the Fed held rates in July, most of its members were more concerned about inflation risks than employment risks and only two members supported a cut. However, the publication of weaker-than-expected labour market data (see the International Economy - Economic Outlook section) led Chair Powell to acknowledge at the annual Jackson Hole symposium that «the shifting balance of risks may warrant adjusting our policy stance». Powell thus opened the door to a rate cut in September, without making any commitments and still awaiting the inflation and employment data for August. Within the ECB, meanwhile, President Lagarde acknowledged that the recent trade agreements have eased global uncertainty (but not eliminated it) and highlighted the resilience of the euro area economy. More emphatically, Isabel Schnabel explained that she sees no need for any changes in monetary policy stance in September. In addition, the latest data reflect an encouraging view of inflation (practically at the target rate since June), which, according to the ECB's messages, reinforces an approach of waiting and seeing how the data and uncertainty evolve.

In the US, sovereign yields are in line with monetary policy expectations but they do not seem to fear institutional risk. The growing expectation that the Fed will resume rate cuts from September and maintain the path of monetary easing through to the end of 2026 drove down treasury yields in the short ends of the sovereign curve (between 6 months and 5 years). This was

Measures of volatility

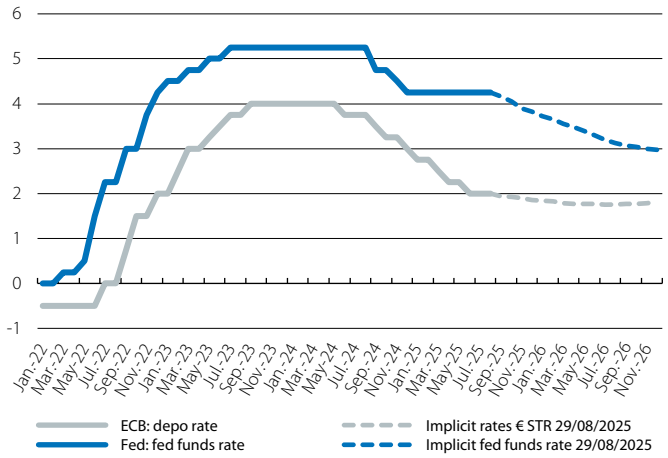
Index *Index*



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

ECB and Fed: interest rates

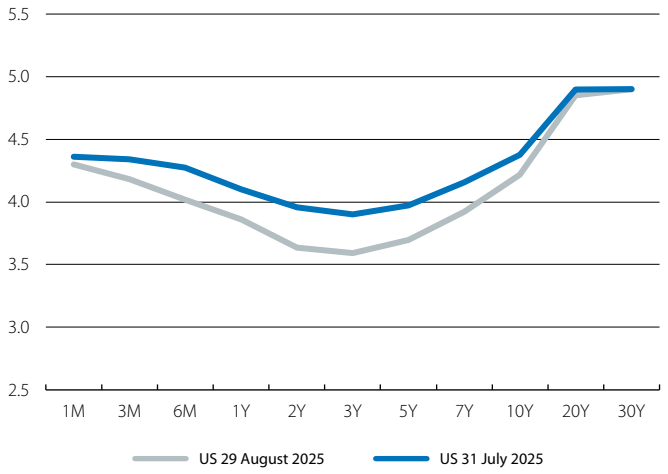
(%)



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

US: sovereign yield curve

Yield (%)



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

particularly the case for the 2-year benchmark, which is especially sensitive to monetary policy and fell more than 30 bps in August. On the other hand, the longer sections showed a more stable pattern of behaviour: the 10-year benchmark fell by around 15 bps, while the 30-year one closed the month practically flat. This differential performance between short and long yields partly reflects the expectation that, even if the Fed lowers rates, underlying fiscal pressures will keep long-term yields high. Also of note is the almost complete lack of reaction in the long-term references to the growing pressures from the White House on the Fed's independence. These pressures intensified with Trump's dismissal of Lisa Cook, a member of the Federal Reserve Board of Governors, accusing her of mortgage fraud; a decision which Cook has already challenged in court, where her future in the role will be determined.

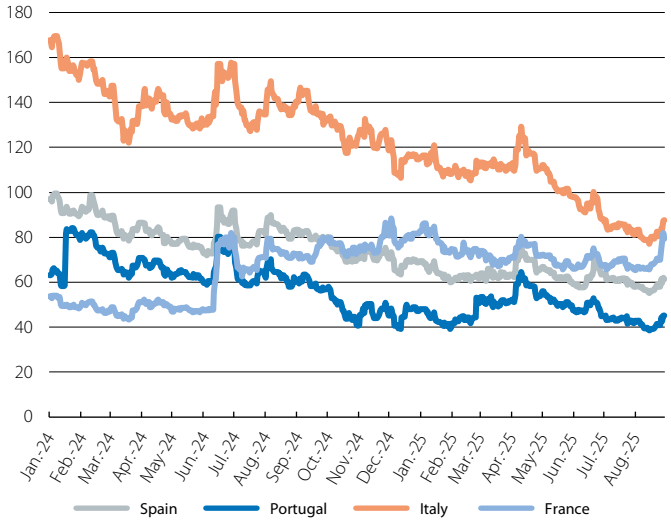
France emerges as a new source of instability. With no surprises from the ECB nor any major changes in monetary policy expectations in the euro area, the region's sovereign yields went through the summer with little change, and the euro-dollar continued to trade in the 1.16-1.17 dollars per euro range. France stood out as an exception within this scenario of relative stability: following the announcement of the vote of confidence, its risk premium surged more than 11 points in just three days, approaching the levels of the Italian premium, and with the 10-year sovereign yield around 3.50% (the highest level since March this year). The contagion effect on the rest of the periphery remained contained, without any shocks in the other risk premiums. Nevertheless, there has been a recent rebound in long-term sovereign yields, as September began with global sovereign bond sales on the back of growing concerns about the fiscal outlook in developed economies.

Another month of gains in the stock markets. The global stock index climbed 2.3% in August and has accumulated gains of 13% so far this year, despite the challenging economic context. In the month, the gains were particularly pronounced in the IBEX 35, driven by the good performance of the banking sector, and in the S&P 500, where the good earnings season and hype around AI once again boosted the performance of the US' stock market. France's CAC 40 lagged behind, as the political instability ended up weighing down share prices and the index slipped 2% in the last three days of the month alone, following the announcement of the confidence motion.

Crude oil stable while gold continues to «shine». The cessation of the air strikes between Iran and Israel, as well as the various tariff negotiations between Trump and other countries, favoured a reduction of the risk premium imposed by investors on the price of oil during much of August. Adding to this situation was the continued expansion of oil production by OPEC countries. However, the price of the Brent barrel stabilised and was trading between 66 and 68 dollars. This trend was maintained during the opening sessions of September, pending the decision from producing countries on potential further production increases and amid the IEA's expectation of excess oil supply over the coming quarters. The price of gold reached a new high (3,500 dollars per ounce) amid heightened uncertainty among investors regarding inflation, debt and fiscal discipline.

Euro area: risk premiums

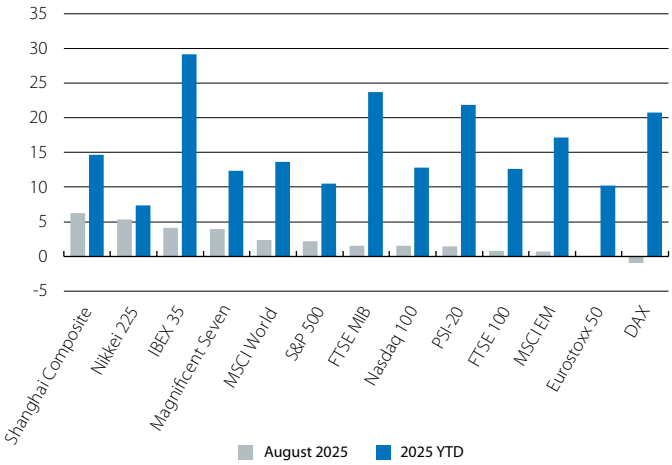
(bps)



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

Stock market indices

Change (%)



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

Commodity prices

Change (%)

	Measure	Price	Change (%)			
			Last month	YTD	2023	2024
Commodities	**Index**	**103.5**	**2.8**	**4.8**	**–12.6**	**0.1**
Energy	**Index**	**27.7**	**–2.6**	**–6.0**	**–25.6**	**–3.9**
Brent	$/barrel	67.8	–2.7	–9.1	–10.3	–3.1
Natural gas (Europe)	€/MWh	31.6	–7.0	–35.4	–57.6	51.1
Precious metals	**Index**	**352.0**	**7.4**	**32.2**	**4.1**	**19.0**
Gold	$/ounce	3,542.5	5.0	35.0	13.1	27.2
Industrial metals	**Index**	**143.2**	**2.7**	**2.1**	**–13.7**	**–1.6**
Aluminium	$/MT	2,619.0	2.1	2.6	0.3	7.0
Copper	$/MT	9,980.5	3.6	13.8	2.2	2.4
Agricultural commodities	**Index**	**55.1**	**3.7**	**–3.3**	**–9.3**	**–8.7**
Wheat	$/bushel	513.0	–0.7	–7.0	–20.7	–12.2

Note: *Data as of 3 September.*
Source: *CaixaBank Research, based on data from Bloomberg.*

What is behind the ECB's interest rates

The ECB has completed a monetary cycle, leaving the negative rates and unconventional measures of the last decade behind and significantly tightening monetary policy since 2022. Since 2024, with inflation gradually being brought under control, the ECB has been easing its interest rates until inflation has virtually reached the target (2%) and monetary policy has entered neutral territory (depo rate at 2.00%).

During this cycle, the ECB has also adjusted the structure it uses to guide and implement monetary policy over the course of the business cycle, and it has done so through two spheres: its strategy and its operational framework.

Monetary strategy: a guide for a volatile economy

The ECB's strategy is the framework that guides its decisions, and it encompasses a vision of the economic environment, monetary policy objectives and a reaction function which sets out how its objective can be achieved given the constraints of the environment. The last time the ECB reviewed its strategy was in 2021: it did so influenced by a decade of low inflation and weak demand and a focus on measures aimed at combating deflation and the threat of the zero lower bound.[1] Today the environment is very different, and this change is evident in the ECB's 2025 strategy update.

The new strategy is based on the view that structural transformations, such as the geopolitical reordering and climate change, result in a more uncertain and volatile economic environment. For the ECB, this means that instances of inflation deviating from the target may become more frequent, persistent and pronounced, and these deviations can be either negative, as in 2010-2019, or positive, as in 2021-2024. Thus, it is not enough to merely reaffirm the key elements of the existing strategic framework; rather, it is necessary to clarify some of the weaknesses identified in recent years.

The continuity of the key pillars provides certainty about the ECB's course of action. There is no change in the inflation target (2%, symmetric, medium-term and referenced to the HICP)[2] or in the official toolbox (interest rates and unconventional measures such as asset purchases, TLTROs and forward guidance). The commitment to climate considerations is also reiterated, as they are relevant to price stability. However, the new strategy incorporates a more balanced reaction function, emphasising that the ECB must

ECB strategy and operational framework review: key points

Strategy review	
Environment	Increased uncertainty and volatility due to structural changes (geopolitics, AI, demography, climate change, etc.).
Inflation target	2%, symmetrical and medium-term.
	Metric: HICP.
Tools	Primary instrument: interest rates.
	Unconventional measures are also included (negative rates, QE, forward guidance, etc.), subject to a proportionality assessment.
Reaction function	Respond to significant and sustained deviations from the target, both positive and negative.
	Disinflationary shocks: zero lower bound risk.
	Inflationary shocks: risk of non-linearity in price-wage relationship.
Other considerations	Implications of climate change for monetary policy.
	Financial stability as a necessary condition for price stability.
Review	Last: 2025.
	Next: 2030.

Operational framework	
Implementation principles	Effectiveness, robustness, flexibility, efficiency and proper functioning of financial markets.
	Without prejudice to the primary objective (inflation) and the foregoing principles, facilitate the secondary objectives (support for general EU economic policies and, in particular, the green transition).
Interest rates	Main benchmark: depo rate.
	Refi – depo rate spread of 15 bps (previously: 50 bps), MLF – refi rate spread remains at 25 bps.
Liquidity	Injected through multiple instruments, but with MROs playing a key role.
	MROs and 3-month LTROs remain fixed-rate tender and full allotment.
	Structural longer-term credit operations and a structural asset portfolio will be introduced to cover liquidity requirements due to autonomous factors and reserve requirements. Without interfering with the monetary policy position.
	Broad collateral framework.
Reserves	Reserve ratio (for determining minimum requirements) of 1% and remuneration of 0% for minimum reserves.
Review	Last: 2024.
	Next: 2026 (review of parameters).

Note: *HICP, harmonised index of consumer prices; LTRO, longer-term refinancing operations; MLF, marginal lending facility; MRO, main refinancing operations; QE, quantitative easing, referring to asset purchases for monetary policy purposes.*
Source: *CaixaBank Research, based on data from the ECB.*

1. The zero lower bound refers to the principle that rates cannot be lowered significantly below 0%. See the Focus «The cost of negative rates: the case of the Riksbank» in the MR03/2020.
2. The ECB also reiterated that it would like the HICP to incorporate more representative measures of housing costs. The HICP, which is calculated by Eurostat, only includes rents that are paid, accounting for less than 6% of the total index.

react to inflation deviations that are persistent and significant (in volatile times, this allows for a degree of tolerance of moderate deviations, avoiding the temptation to fine-tune monetary policy in response to every new data point), including both negative deviations (as emphasised under the previous strategy) and positive ones. In the same spirit, the ECB has introduced agility as a key characteristic of its unconventional measures, which in the future could translate into the inclusion of «escape routes» in the design of these tools so that, in the event of a sudden change in the scenario (as occurred in 2022), the ECB can shift its monetary policy without the need for an overly slow withdrawal of any stimulus measures in place.[3]

Operational framework: the liquidity transition

The review of the operational framework is much more substantial, at least formally, as in practice it formalises operations that had been introduced out of necessity following the 2008 financial crisis (such as establishing the depo rate as the reference interest rate or maintaining fixed-rate, full allotment [FRFA] in refinancing operations).[4] However, the challenge of the operational framework lies in the future: guaranteeing that the ECB's drainage of liquidity[5] does not compromise the implementation of monetary policy. The ECB wants to move from the current environment of abundant liquidity, injected at the time by the central bank itself through unconventional measures, to a world in which the financial system itself determines the liquidity that it wishes to possess: that is, to move from a system governed by the supply of liquidity by the central bank to a system driven by the liquidity demands of financial institutions.

The vision is that a demand-driven system is more efficient (demand is self-satisfying and ensures a proper distribution of liquidity) and robust, as well as reducing the central bank's footprint in financial markets.[6] To implement this, the ECB will make its regular refinancing operations the main source of the central bank's direct liquidity (especially seven-day MROs, but also 3-month LTROs). In addition, in the coming years the ECB will launch two new instruments for supplying reserves: structural longer-term refinancing operations and a structural asset portfolio. The intention is that these two instruments will not interfere with the position (stimulus or restriction) of monetary policy; rather, being long-term, they will provide stability to financial institutions' liquidity needs (and not force them into continuous, large-scale refinancing operations).

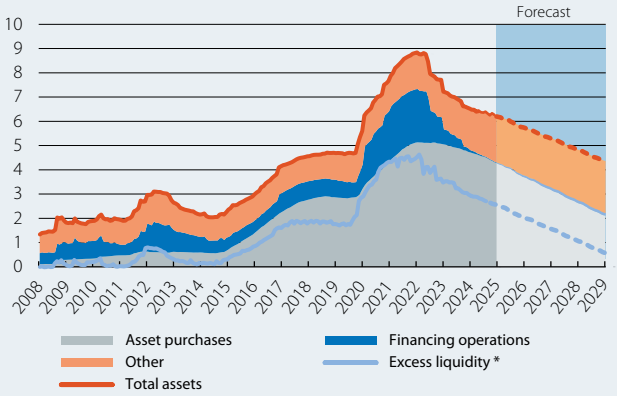
The ECB also anticipates that the markets will become a more significant source of financing. This has influenced the decision to narrow the gap between its refi rate (the cost of borrowing from the ECB through MROs) and depo rate (the remuneration provided for depositing liquidity in the ECB). The ECB has reduced this spread from 50 bps to 15 bps, with the dual objective of making MRO loans more attractive (de facto, the refi rate is reduced by 35 bps) and reducing the volatility of interbank interest rates. At the same time, it aims to maintain a sufficiently wide spread between the refi and depo rates so as to preserve the incentives to lend and borrow in the markets.[7] However, the transition will be a gradual one, given that the ECB's drainage of liquidity is progressing slowly[8] (see second chart) and the revival of demand for new liquidity is still only incipient (see third chart).

Taken together, these changes in strategy and operations demonstrate that the ECB has gone through a demanding cycle and has taken note, equipping itself with greater efficiency and flexibility in order to deal with an environment that is at risk from a wide array of shocks (ranging from supply shocks and stagflation scenarios to declines in demand and the risk of the zero lower bound).

3. The mere sending this message is, in itself, an example of an escape route, as it communicates that the ECB wants to be able to quickly abandon unconventional measures if the scenario so requires.
4. Fixed-rate, full allotment: i.e. at the fixed interest rate announced by the ECB, each bank gets as much liquidity as it desires.
5. The ECB is undertaking a withdrawal of liquidity from the financial system through the winding down of its asset purchase programmes and the already completed repayment of its TLTROs (long-term loans).
6. See the Focus «The ECB, in the midst of a review» in the MR12/2023.
7. Institutions that lend can obtain remuneration above the depo rate, and those that borrow pay a cost that is less than the refi rate.
8. It does so passively, by not reinvesting the principal of the assets acquired years ago under the APP and PEPP purchasing programmes, which are now gradually reaching maturity.

ECB balance sheet: total assets

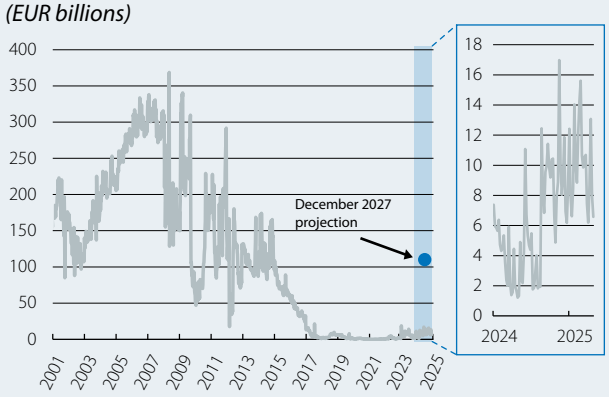
(EUR trillions)



Note: ** Deposits in the deposit facility plus excess reserves less use of the marginal lending facility.*
Source: *CaixaBank Research, based on data from the European Central Bank (ECB) and internal forecasts.*

Use of the ECB's MROs by European banks

(EUR billions)



Note: *The December 2027 projection corresponds to the median expectation per the Survey of Monetary Analysts (MROs + 3-month LTROs).*
Source: *CaixaBank Research, based on data from the ECB.*

Interest rates (%)

	31-August	31-July	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	2.15	2.15	0	–100.0	–210.0
3-month Euribor	2.06	2.01	5	–65.3	–142.9
1-year Euribor	2.12	2.13	–1	–34.1	–96.9
1-year government bonds (Germany)	1.90	1.88	2	–34.2	–92.4
2-year government bonds (Germany)	1.94	1.96	–2	–14.2	–45.1
10-year government bonds (Germany)	2.72	2.70	3	35.7	42.5
10-year government bonds (Spain)	3.33	3.28	6	26.9	19.7
10-year government bonds (Portugal)	3.18	3.12	6	33.2	26.9
US					
Fed funds (lower limit)	4.25	4.25	0	0.0	–100.0
3-month SOFR	4.17	4.30	–13	–13.4	–84.6
1-year government bonds	3.83	4.09	–26	–30.9	–56.9
2-year government bonds	3.62	3.96	–34	–62.5	–30.0
10-year government bonds	4.23	4.37	–15	–34.1	32.5

Spreads corporate bonds (bps)

	31-August	31-July	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	55	54	2	–2.3	2.9
Itraxx Financials Senior	59	56	3	–4.3	–0.9
Itraxx Subordinated Financials	101	96	5	–11.3	–6.5

Exchange rates

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.17	1.14	2.4	12.9	5.8
EUR/JPY (yen per euro)	171.9	172.1	–0.1	5.6	6.4
EUR/GBP (pounds per euro)	0.87	0.86	0.1	4.6	2.9
USD/JPY (yen per dollar)	147.1	150.8	–2.5	–6.5	0.6

Commodities

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	554.89	562.11	–1.3	3.4	3.5
Brent ($/barrel)	68.12	72.53	–6.1	–8.7	–13.6
Gold ($/ounce)	3,447.95	3,289.93	4.8	31.4	37.7

Equity

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	6,460	6,339	1.9	9.8	14.4
Eurostoxx 50 (euro area)	5,352	5,320	0.6	9.3	7.9
Ibex 35 (Spain)	14,936	14,397	3.7	28.8	31.0
PSI 20 (Portugal)	7,760	7,712	0.6	21.7	14.8
Nikkei 225 (Japan)	42,718	41,070	4.0	7.1	10.5
MSCI Emerging	1,258	1,243	1.2	17.0	14.4

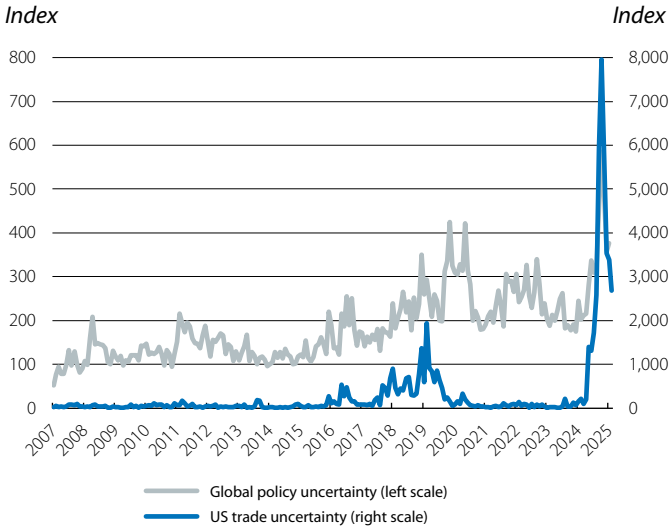
The international economy holds up over the summer

A resilient global economy, with less uncertainty but higher tariffs. The economy returned from the summer break with resilient activity indicators (global composite PMI of 52.9 points in August, a 15-month high) and a reduction in uncertainty surrounding trade relations in the short term. The US and the EU reached an agreement establishing a general 15% tariff on exports of goods from the EU to the US, including cars, semiconductors and pharmaceuticals, as well as preferential treatment for a number of strategic products and a European commitment to make purchases and investments in key US industries. Japan also agreed on a 15% tariff with the US, while the US and China extended their truce and continue to negotiate, with a new deadline set for November. Other economies received more severe US tariffs, especially Brazil and India (50%), as well as Switzerland (39%). In addition, the US eliminated the *de minimis* exemption (products with a value of less than 800 dollars) for all countries and set a 50% tariff on copper. All this leaves an effective average US tariff of close to 17% (the highest level since 1934, and a far cry from the rate of 3% or lower that had prevailed in the last 50 years).

The sources of uncertainty persist. Not only are important trade negotiations still pending, but uncertainty also persists over how long the agreements already reached will last, as well as legal uncertainties (the US Court of Appeals has declared the general bilateral tariffs established under the IEEPA to be illegal), although they remain in force until at least 14 October and the case is likely to be brought before the Supreme Court. There is also uncertainty regarding the macroeconomic impact of the tariffs, ranging from their transmission throughout global and domestic production chains and price formation to possible global reconfigurations of trade flows. On the other hand, politics is harbouring more sources of uncertainty in Europe. In recent weeks, France has suffered a tensioning of its risk premium in the face of a possible fall of François Bayrou's government and a slower correction of its public accounts: in 2024, the budget deficit was 5.8%, the highest in the euro area; public debt, at 113%, is the third highest in the euro area (behind Greece and Italy) and it lies at practically the same level as that of 2020 and 15 pps above that of 2019.

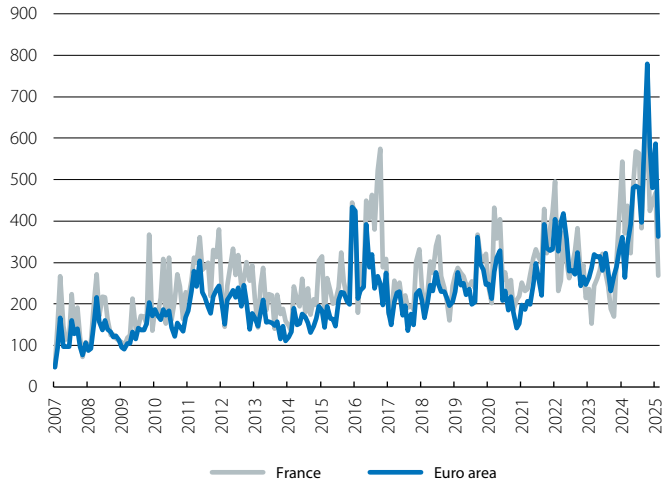
Reversal effects on GDP. The Q2 data show the reversal of the «anticipation effects» due to the entry into force of the US tariffs. After the import boom in Q1 in anticipation of the tariffs caused a drop in US GDP and boosted exports from the other major economies, in Q2 US GDP rebounded 0.8% quarter-on-quarter. This was driven by a significant positive contribution from the foreign sector, albeit one with a mixed composition: a marked fall in imports, a slight decline in exports and slower than usual growth in private consumption and investment. These swings in international trade with the US weighed on Chinese exports in Q2, although the economy compensated for it with higher exports to ASEAN countries and other economies, and China's GDP continued to record solid growth in Q2 (+1.1% quarter-on-quarter, +5.2% year-on-year). In the euro area, GDP slowed to

Economic uncertainty



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

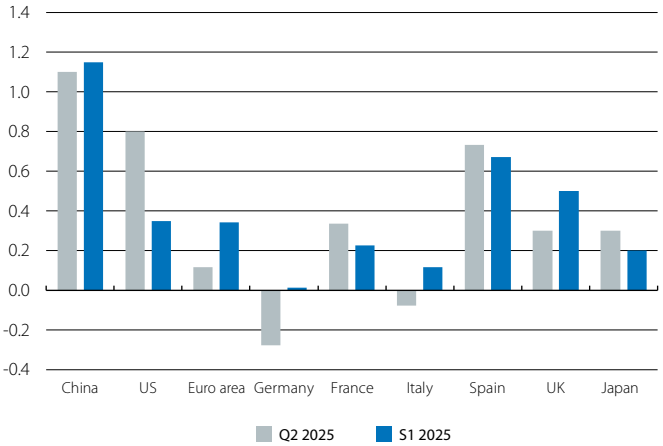
Economic policy uncertainty



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

Main economies: GDP

Quarter-on-quarter change (%)



Note: *S1 2025 is the average quarter-on-quarter change of Q1 2025 and Q2 2025.*
Source: *CaixaBank Research, based on data from the Statistics Office of China, the Bureau of Labor Statistics, Eurostat, the ONS and the Statistics Office of Japan.*

0.1% quarter-on-quarter (vs. +0.6% in Q1 or +0.3% excluding Ireland), weighed down by the foreign sector, although the resilience of domestic demand reveals some positive underlying dynamics (in a context in which the unemployment rate fell to a low of 6.2% in July). By country, Germany and Italy contracted (–0.3% and –0.1%, respectively, in Q2 vs. +0.3% in Q1 in both cases) and France accelerated due to the accumulation of inventories (+0.3% in Q2 vs. +0.1% in Q1).

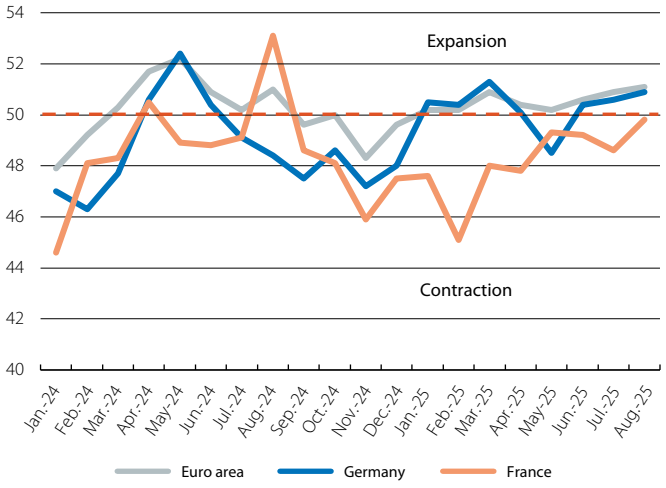
Signs of improvement in Europe's economic activity in Q3. The euro area faces the challenge in the coming months of adapting to new trade conditions with the US which are clearly less favourable than those in place prior to 2025, although the fiscal stimulus due to be deployed in the coming years (ReArmEU plan and the infrastructure plan in Germany) could mitigate some of the impact of the new trade landscape. In this regard, the latest business confidence indicators show some improvement, within a scenario of modest expansion in economic activity. Specifically, the region's composite PMI rose by around 0.5 points between July and August to reach 51.0 – while this indicates only modest growth, it nevertheless represents a peak since mid-2024. In addition, the improvement was widespread among the major economies and both in services and, especially, in manufacturing (in August, the manufacturing PMI [50.7] returned to expansive territory for the first time since June 2022). For July and August as a whole, the economic sentiment indicator also improved, although, like consumer confidence, it remained at somewhat meagre levels.

Signs of a not-so-robust US labour market. The bulk of activity indicators in the US point to a dynamic GDP in Q3 (the New York and Atlanta Feds' trackers indicate growth of 0.6%-0.7% quarter-on-quarter), but the most relevant figure over the summer was job creation. Specifically, the labour market created 51,000 new jobs per month on average in July and August (vs. 127,000 on average over the previous 12 months). Moreover, the statistical revision of the series revealed that just 6,000 jobs were created in May and June in total (vs. 291,000 initially estimated). The contrast between the loss of dynamism in job creation and an unemployment rate that is relatively stable at 4% suggests that the labour market may be cooling on both the demand and the supply side. Indeed, this was the reflection made by Fed Chair Jerome Powell at the annual Jackson Hole symposium, after which he opened the door to a rate cut in September (see the Financial Markets Economic Outlook section).

Inflation diverges between the two sides of the Atlantic. In the euro area, headline inflation was 2.1% year-on-year in August, virtually at the ECB's 2% target. Although core inflation, which excludes energy and food, remained at 2.3% year-on-year, behind this stability lies a low inflation figure for non-energy industrial goods (0.8%) and a services inflation that is slowly but steadily moderating (3.1% in August, its lowest level since April 2022). In contrast, inflationary pressures in the US remain at close to 3%, with the headline CPI standing at 2.7% year-on-year in July and core inflation accelerating to 3.0% (the highest record since February). However, these figures suggest that the impact of the tariffs on final consumer prices has so far been modest, with limited pressures on the items that should be most affected (electronic equipment, textiles, etc.).

Euro area: composite PMI

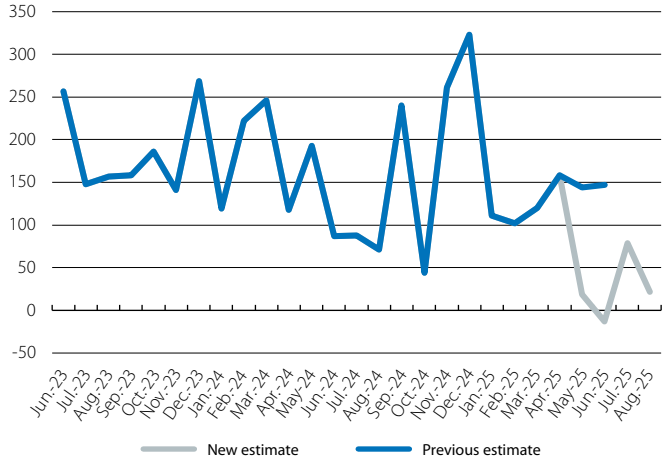
Index



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

US: employment

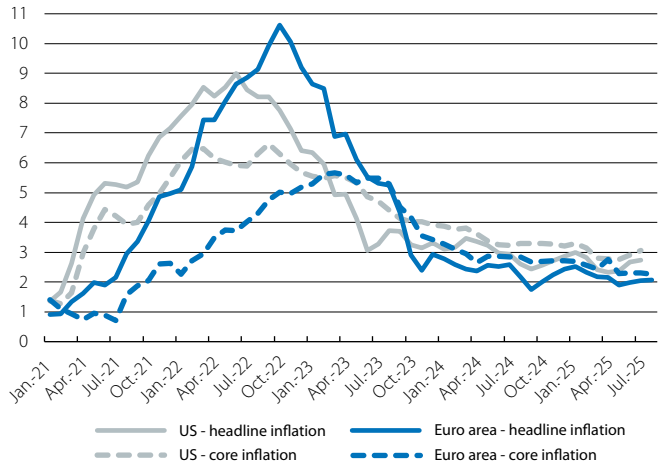
Monthly change (thousands)



Note: *Excludes the agricultural sector.*
Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

Advanced economies: CPI

Year-on-year change (%)



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

5% of GDP on defence: Why? What for? Is it feasible?

The NATO summit held in The Hague on 24 and 25 June concluded with the commitment by its members to increase defence spending to 5% of GDP by 2035. The defence market is a natural monopsony in which demand is dominated by governments, so these types of commitments have an immediate implication for public finances, especially in a global context of fiscal constraints like the current one.[1] In Europe, it also coincides with the desire to give its economy a competitive boost on the basis of the Draghi report,[2] so there is significant competition for resources for other strategic areas, such as the green and digital transition. Here, we seek to understand the reasons behind NATO's commitment, explain what objectives are being pursued and assess to what extent it is reasonable to expect the EU to boost its defence spending in the coming years.

Why?

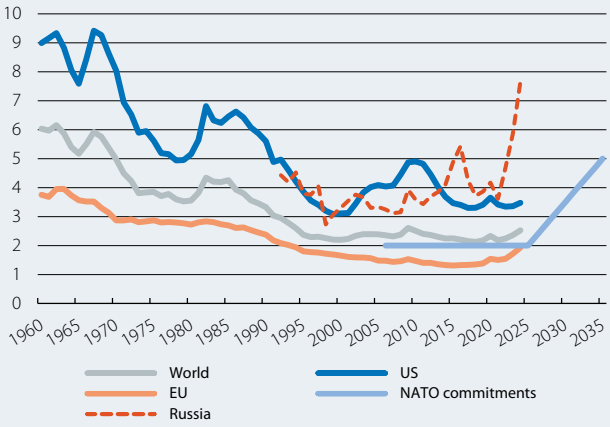
The establishment of defence spending commitments is nothing new to NATO. Indeed, since the Riga summit in 2006, a benchmark of 2% of GDP has been set, and this goal was reinforced at the Wales summit in 2014 following Russia's invasion of Crimea. The US' criticisms of the systematic failure of its European partners to meet these targets has not been exclusive to the Trump administrations; they also resonated with Obama and Biden in the White House, and the data show that they are justified in their criticism (see first chart). Another structural element is the mention of the threat posed by Russia to Euro-Atlantic security, materialised since 2022 with the invasion of Ukraine, and which has led to an unprecedented leap in the country's military spending and its transformation into a «war economy». However, under the current conditions – without any direct involvement of NATO members in a war – none of these factors alone would make it necessary to raise the commitment to 5% of GDP, a figure which the US last met in the final years of the Cold War and throughout the 1960s. Thus, the most reasonable justification should be sought in the desire to have a greater deterrent power in a more polarised geopolitical scenario, in which NATO members have gradually seen their role in the world economy wane, together with their share of absolute defence spending at the global level (from 75% 30 years ago to 55% today). In contrast, the sum of China, India and Russia has steadily increased and today exceeds 20% of the total (see second chart).

What for?

NATO's new commitment for 2035 is split between 3.5% of GDP to cover essential defence needs and capabilities – mainly equipment and personnel – including for its mobilisation, and 1.5% to protect critical infrastructure,

Global defence spending and NATO commitments

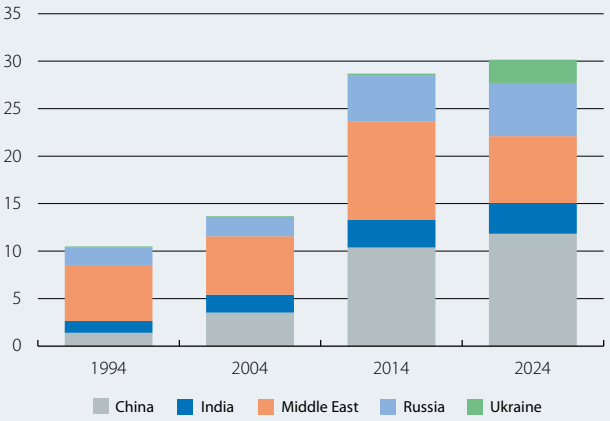
(% of GDP)



Source: *CaixaBank Research, based on data from the World Bank and SIPRI.*

Non-NATO defence spending: selected countries

(% of global total)



Source: *CaixaBank Research, based on data from SIPRI.*

increase civil and digital resilience, to foster innovation and to strengthen the industrial base. Thus, the first component is one that seeks to ensure a faster response in the short term to conventional threats and aggressions, while the second one would provide member countries with a more robust and broad-spectrum autonomous layer of security. Meeting these targets is undoubtedly a driving force behind more resources being employed, but qualitative considerations are just as relevant, if not more so.[3] In this regard, NATO has stressed the importance of a cooperative and coordinated systemic approach, with common standards and joint public procurement processes that facilitate the interoperability and interchangeability of equipment and weapons, as well as a more secure supply chain for the provision of critical materials to the defence industry.[4] This same diagnosis has

1. See the Focus «Debt limits» in the MR01/2025.
2. See the Focuses «Draghi proposes a European industrial policy as a driving force to address the challenges of the coming decades» in the MR10/2024 and «A shift in the EU's political priorities» in the MR04/2025.
3. Carnegie Endowment (2025). «Taking the pulse: does meeting the 5 percent of GDP target enable Europe to confront the Russian threat?».
4. NATO (2024). «NATO industrial capacity expansion pledge», and NATO (2024) «Defence-critical supply chain security roadmap».

been carried out by European institutions in recent years,[5] presenting, as highlighted in the Draghi report, three particularly marked weaknesses of the defence sector vis-à-vis the US: the fragmentation of its internal market – which affects both its industry and governance – the high external dependence and the low percentage of spending on research, development and innovation.

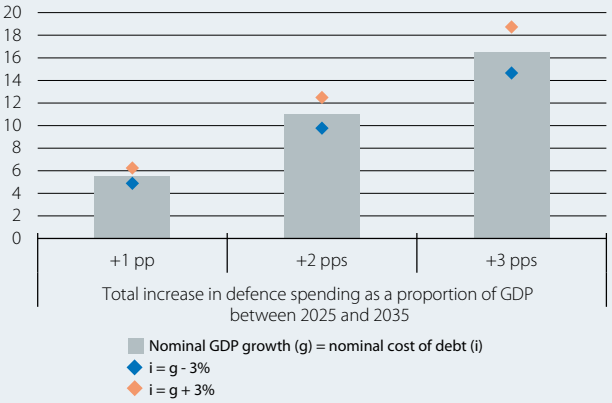
Is it feasible?

In the EU, the various initiatives proposed by the European Commission to finance the expansion of defence spending leave the bulk of the fiscal effort in the hands of Member States. On the one hand, the first measures presented in March and already endorsed by the Council – which include a new 150-billion-euro loan instrument (SAFE) to promote joint purchases, and the possibility of deviating from the spending rule over the next four years by up to 1.5% of GDP – has generated little enthusiasm among Member States with limited fiscal margin. These measures fail to cushion the significant impact that the new defence commitments will have both on public debt (see some scenarios in the third chart),[6] with risks of pushing up the cost of sovereign financing, and on additional adjustments to those already required by the medium-term fiscal plans (see fourth chart).[7] This latter impact could have potential implications for income growth and distribution, depending on the value of the various fiscal multipliers and on which taxes and/or expenditure items the compensatory measures are concentrated in.[8] In fact, in this context, Spain, France and Italy have not requested the activation of the escape clause, significantly reducing the scope of this measure to around 200-300 billion euros compared to the 600 billion initially estimated. On the other hand, the appetite of the so-called «frugal countries» to push for a new NGEU-style joint debt-issuance spending programme seems to have been diluted in recent months, as priority has instead been given to pursuing national proposals, as in the case of Germany. Moreover, the increase proposed by the European Commission for the next budget cycle[9] is dwarfed by the magnitude of the commitments reached within NATO.

5. EEAS (2022). «A strategic compass for security and defence», European Commission (2022), «Defence Investment Gaps Analysis and Way Forward» and European Commission (2025), «White Paper for European defence - Readiness 2030».
6. The scenarios in the third chart show the increase in public debt derived exclusively from different increases in defence spending (1 point, 2 points or 3 points of GDP between 2025 and 2035, distributed proportionally over each of the next 10 years), and in each case the sensitivity to a negative, neutral or positive gap between nominal GDP growth and the nominal cost of public debt. We assume that the increase in defence spending is not compensated for by higher taxes or reduced spending elsewhere.
7. See the Focus «The new EU economic governance framework» in the MR01/2025.
8. Regarding fiscal multipliers, see V. Sheremirov and S. Spirovska (2022) «Fiscal multipliers in advanced and developing countries: Evidence from military spending», Journal of Public Economics.
9. See the Focus «The 2028-2034 EU budget: An impossible mission?» in this same *Monthly Report*.

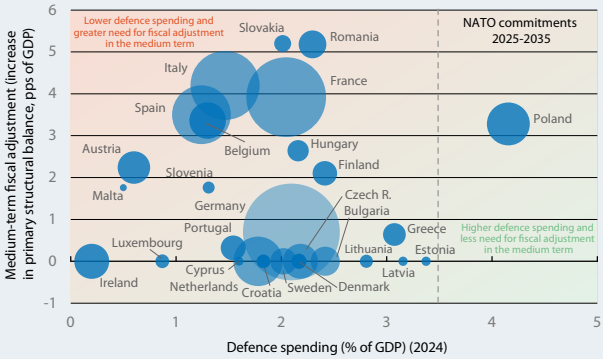
Increase in defence spending: impact on the public debt to GDP ratio

(pps)



Note: *We assume a gradual annual increase in defence spending between 2025 and 2035.*
Source: *CaixaBank Research.*

Current defence spending and projected fiscal adjustment in the medium term in EU countries



Notes: *Total fiscal adjustment during the period covered by the medium-term fiscal-structural plans (4 years or 7 years with an extension). The area of the circles is proportional to the nominal GDP of 2024 in euros. Eurostat 2023 data for non-NATO countries (Austria, Cyprus, Ireland and Malta).*
Source: *CaixaBank Research, based on data from NATO, Eurostat and the European Commission.*

At this juncture, in the current geopolitical scenario, the motivations for wanting to boost defence spending above current levels are understandable. There are also aspects that need to be strengthened in public procurement processes and in Europe's defence industry in order to meet the emerging challenges with guarantees. Nevertheless, the aspiration of reaching 5% of GDP is undoubtedly highly ambitious. Taking a reference level of 3%-3.5%, in 10 years this figure would compensate for the deficit in defence spending accumulated by European governments in recent decades – a considerable effort. The fiscal bill could be lowered through a precise identification of critical priorities, better coordination to reduce costs and avoid duplication, and encouraging synergies with the private sector in the field of innovation; this would also allow progress to be made in other strategic areas in order to raise the potential growth of the European economy.

David Martínez Turégano

The 2028-2034 EU budget: An impossible mission?

On 16 July, the European Commission presented its proposal for the 2028-2034 EU budget, kick-starting a negotiation process with the Council and the European Parliament that could continue through to the end of 2027. In order to give the EU genuine strategic autonomy, the next budget should pursue two key objectives: to revitalise European competitiveness – following the guidelines laid out in the Draghi report – and to address the challenges of global geopolitics, including increased trade protectionism and the commitments assumed within NATO. Achieving these objectives will require vast resources to be mobilised. However, the capacity of the private sector to do so is yet to be seen, while on the public side, it seems that it will fall on national budgets, which today have limited degrees of freedom. In short, this will be quite some balancing exercise.

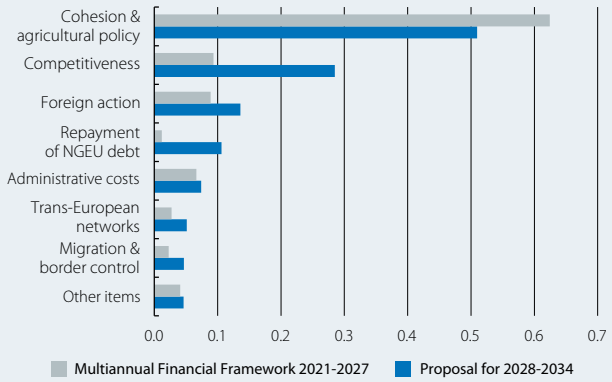
A cycle with new priorities

The Commission's proposal for the next budget (Multiannual Financial Framework as termed in Brussels) puts the total volume of resources at close to 2 trillion nominal euros, which represents an annual average equivalent to 1.3% of the EU's expected GDP between 2028 and 2034.[1] This figure represents a quantitative leap compared to the previous budget, which amounted to just over 1.2 trillion euros (1% of the average nominal GDP for 2021-2027), although this was then reinforced by 800 billion euros of NGEU funds, of which the repayment of the joint debt issued to finance it would now absorb 168 billion. In addition, for the sake of simplicity and flexibility, the proposal entails a reduction in the number of thematic areas and EU programmes, as well as changes in their implementation, facilitating the reallocation of funds according to needs and including a transformation of structural funds (social and territorial cohesion, and agricultural policy) in the direction marked by the NGEU funds.

The focus of the funds has also been substantially changed in response to the strategic priorities review (see first chart). Some of the main innovations include the creation of a Competitiveness Fund allocated with a budget of 409 billion euros, which becomes the EU budget's main vehicle for pursuing the investment agenda proposed by the Draghi report.[2] The main recipients include the boost to innovation through the Horizon programme (175 billion) and the defence and space industries (131 billion), both with a significant increase over the 2021-2027 cycle, while the rest will be allocated to the clean transition, digital leadership and various bioeconomy sectors. These funds are complemented by a bigger budget for the Connecting Europe facility for trans-European transport networks (including military mobility) and energy networks (81 billion in total).

Main elements of the EU budget

(% of annual GDP)



Notes: *In nominal terms relative to the average GDP of each period. Initial commitments approved by the Council for the period 2021-2027 (excluding NGEU) and proposal by the European Commission for 2028-2034.*
Source: *CaixaBank Research, based on data from the European Commission.*

As for other strategic areas, of particular note is the significant increase in resources allocated to international cooperation and support for EU candidate countries. Thus, the Global Europe instrument is bolstered up to 200 billion, while two funding lines outside the budget are proposed to cover needs linked to the war in Ukraine and the country's future reconstruction (for a total of 131 billion). At the same time, funds for the management of migration, asylum and border control are increased (up to 74 billion). Finally, with emergency management such as COVID-19 in the forefront, the Commission's proposal includes a new transitional lending mechanism which is allocated 395 billion – also outside the budget – for potential future crises, which would be in addition to other EU funds aimed at building resilience in the spheres of health and civil protection.

The eternal funding dilemma

The new Competitiveness Fund marks a step forward for leveraging a structural change in the European economy, but its impact is expected to be limited without a full Savings and Investment Union to mobilise the necessary private capital. This will be particularly important for financing innovative projects that can drive the digital transformation and lead to productivity gains, as well as for supporting the green transition with the formation of a European clean technology industry. On the other hand, the EU effort proposed in some areas, especially in defence, appears to fall short of the current investment deficits and the commitments assumed, suggesting that the public contribution will have to come largely from national budgets that are already under significant stress in most Member States (see «5% of GDP on defence: why? What for? Is it feasible?» in this same *Monthly Report*).

1. European Commission (2025). «The 2028-2034 EU budget for a stronger Europe».
2. See the Focus «A shift in the EU's political priorities» in the MR04/2025.

As in previous budget cycles, the debate over funding will remain intense up until its adoption. In contrast to the positions that demand the extension of the model used for the NGEU funds, with joint debt and non-reimbursable transfers, another group of countries is showing their usual reluctance, now reinforced given that the bill for those issues will absorb 8% of the total EU budget (24 billion each year). In short, although the combined fiscal space is wider than the individual one, with the consequent gains in terms of financing costs, Europe's public finances are starting from a position with relatively high debt levels (87% of GDP in 2024).[3] In this context, the Commission's proposal provides for the possibility of using joint issues (up to 690 billion, somewhat less than NGEU), but only for the purposes of addressing certain contingencies (such as the new crisis mechanism) or for granting loans (either to Member States or to candidate countries, such as Ukraine).

Another noteworthy element is the proposal to increase own resources by around 350 billion for the whole period 2028-2034, which would represent around 20% of total expected revenues (see second chart). These would come from different sources, including the Emissions Trading System (ETS) and the Carbon Border Adjustment Mechanism (CBAM), as well as new taxes on waste from unrecycled electrical and electronic equipment, tobacco and a fixed business contribution according to the level of turnover. Some of these new resources were already proposed in 2020 for the current budget cycle and were not adopted.

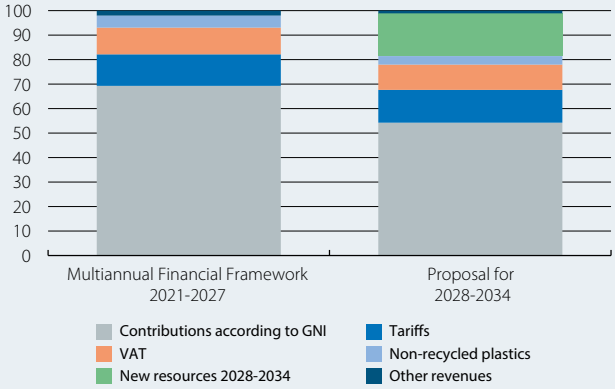
Cohesion and the green transition, key to the political negotiation

With regard to cohesion funds and agricultural policy (broadly including the environment and the climate transition), some voices point out that it is in these categories that the fiscal constraints and the EU's new strategic priorities have been most clearly reflected. Thus, the nominal resources allocated for these policies are set to remain stable relative to the commitments for 2021-2027 (around 800 billion), but they would decline both as a percentage of the total budget (from 64% to 40%) and relative to GDP (from 0.6% to 0.5% per year, as shown in the first chart). This reduction contrasts with the stagnation of the last 15 years in the convergence between European regions, given the significant gap that persists between the most developed regions in the north-west and those with the lowest income per capita in the east, which still have large rural areas and an important role played by their agricultural sector.[4] Moreover, a possible enlargement of the EU led by Ukraine would reinforce this diagnosis.

3. Includes 82% of GDP of national debt of Member States and 5% of GDP of pooled debt.
4. European Commission (2024). «Ninth report on economic, social and territorial cohesion».

Sources of funding for the EU budget

(% of total revenues)



Notes: *Gross national income (GNI) is equivalent to the sum of GDP and the foreign income balance from labour and capital. Own resources from tariffs also include agricultural taxes.*
Source: *CaixaBank Research, based on data from the European Commission and the Council.*

In addition to this quantitative change in the structural funds is the proposal for a significant adjustment in how they are governed. Following the design of the NGEU funds, the Commission envisages the development of National and Regional Partnership Plans (NRPPs) which will encompass the reform and investment programmes of each Member State and would provide access to the resources allocated in the EU budget. Criticisms of the role that local and regional governments will have in this new scheme indicate that this will also be a central element of the emerging political debate. Another component that is due to be inherited from NGEU is the availability of loans for implementing the measures set out in the NRPPs. The Commission proposes a total of 150 billion, which could potentially raise the total resources for cohesion and agricultural policy to levels equivalent to the current ones, albeit with the difference that these loans would increase the level of national public debt, whereas the EU budget essentially includes non-refundable transfers between Member States.

Last but not least, the search for support in the European Parliament and for consensus in the Council will also pivot on the new Commission's apparent shift on the environmental and climate agenda. Criticisms point out that, despite the fact that the proposal maintains a target of 35% for EU expenditure in these areas, the follow-up of the commitments set out in the European Green Deal is lost, and the content of the measures seems increasingly subordinate to the competitive drive, with greater emphasis placed on supporting industrial decarbonisation and less on sustainable agriculture and biodiversity.

Undoubtedly, the negotiation of the next budget will once again test the health of the European project, on which our strategic autonomy needed to address the geopolitical challenges that will continue to come from abroad will depend.

David Martínez Turégano

Do tariffs work as a fiscal revenue tool in the US?

The use of tariffs has become a centrepiece of the Trump administration's economic policy. With this strategy, the White House has declared that it is pursuing three main goals: protecting domestic industries and repatriating manufacturing to US soil (including bolstering economic independence in strategic sectors), correcting the trade deficit, and boosting revenues to fund part of the growing fiscal deficit. However, these objectives are difficult to reconcile with one another. It is difficult to curb imports in order to defend local production while relying on them as a source of tax revenues. In fact, the more successful trade policy is in restricting imports, the lower the revenues that can be expected. This underlying tension raises doubts about the power of tariffs as a revenue source, and it is precisely on this point that we focus the analysis of this article.

Effective tariff: from 2% to 15%... to what level?

As of August 2025, we estimate that the average effective tariff applied by the US stands at around 17%. This represents an increase of 2 pps compared to our June estimate[1] and one of 15 points since the beginning of the year. This level reflects the accumulation of measures introduced between February and June: the universal tariff of 10%, 50% on steel and aluminium, 25% on cars, as well as 35% on Canada, 25% on Mexico[2] and 45% on China. It also incorporates adjustments resulting from bilateral agreements reached in the summer with partners such as the United Kingdom (10%), the EU (15%) and Japan (15%), where cars are taxed according to the country-specific tariffs in place. It also includes the new, higher tariffs affecting countries such as Switzerland (39%), India (50%) and Brazil (50%). It should be noted that some negotiations remain ongoing: China (deadline on 10 November), Mexico (deadline at the end of October), the EU (pending, inter alia, the list of strategic products subject to 0%) and possible sector-specific tariffs on electronic and pharmaceutical products, so the final level is yet to be known.

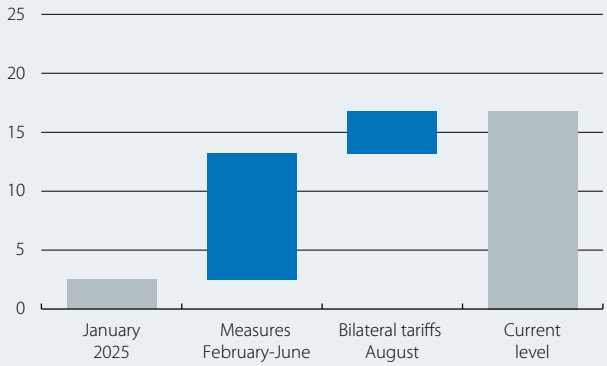
Revenues from tariffs: from 0.3% of GDP... to 1%?

Historically, US Treasury revenues from tariffs have been marginal, since up until recently they had not been intended as an important fiscal policy instrument or tax collection mechanism. The main sources of income have traditionally been corporate and personal income taxes, which together have accounted for some 60% of total revenues, equivalent to around 10% of GDP. By comparison, tariffs have contributed just 2% of total tax collections and 0.3% of GDP.[3]

1. See the Focus: US tariffs: where do we stand and what comes next? in the MR06/2025.
2. The tariff imposed on Mexico and Canada only applies to goods that do not meet the conditions of the USMCA.
3. If we exclude revenues from Social Security contributions, income from corporate and personal income taxes represent 89% of the total and tariffs, 3%.

US: effective tariff

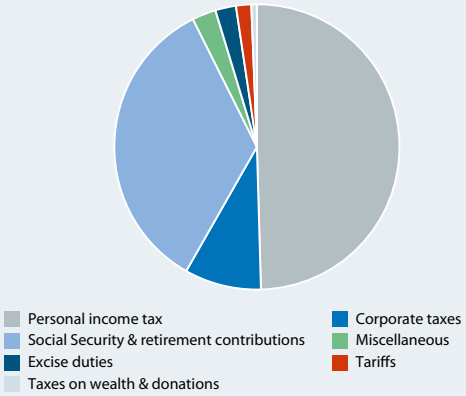
(%)



Note: *Updated rates based on trade agreements and written communications.*
Source: *CaixaBank Research, based on data from UN COMTRADE.*

US: sources of tax revenues

(%)



Note: *Average proportions during the period 2015-2024.*
Source: *CaixaBank Research, based on data from the US Treasury.*

However, this year the pattern has begun to change, especially since April, following the entry into force of the universal tariff of 10%, along with other sector-specific ones. Between January and July alone, the Treasury has raised 114.9 billion dollars in tariffs, equivalent to nearly 0.4% of GDP. In other words, so far this year, more revenue has been collected through this means (as a proportion of GDP) than in all of 2023 and 2024 combined (see second chart). Beyond the first half of the year, the final result will henceforth depend on both the final level at which the tariffs settle and the behaviour of imports.

In this regard, data for the first half of the year reveal that, after having surged by almost 20% quarter-on-quarter in Q1 in anticipation of the tariffs, imports of goods fell 20% month-on-month in April before stabilising between May and June at around 270 billion dollars, just below the prior year average (274 billion dollars). In a scenario in which we assume that monthly imports will stabilise at around these levels, and we apply an effective tariff of 17% (the level in place right now), the total revenues for the year from this source would amount to 1.1% of GDP.

Is 1% a realistic and sustainable long-term scenario?

For the White House, it is crucial to keep revenues from tariffs at high levels in order to cover part of the projected increase in the public deficit over the next 10 years as a result of the new budget act. Collecting revenues equivalent to 1% of GDP, as we projected earlier, would prevent a significant deterioration in the fiscal accounts. Is this level actually achievable?

The success of this strategy depends not only on the level of the tariffs, but also on whether imports remain stable. For that to happen, at least two conditions are needed: that the elasticity of imports to prices be low and/or that aggregate demand remain strong.

Let's start with the first condition. The behaviour of imports will depend, first of all, on how tariffs are passed on to prices, that is, how the cost is shared between exporters, importers and final consumers. Several studies on the tariffs imposed on China in 2018 found that they resulted in an almost one-for-one increase in the price of imported goods, suggesting that it was US importers and consumers who absorbed the cost.[4]

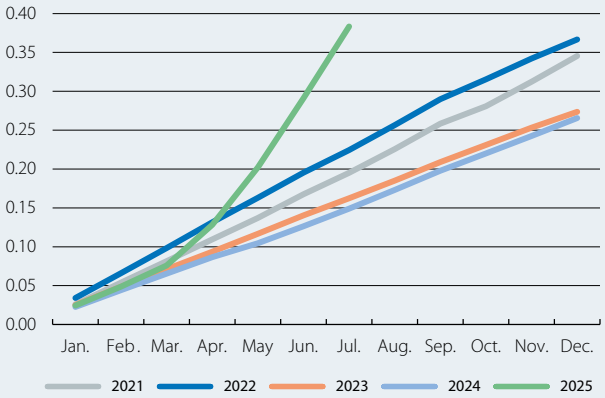
Surveys conducted by various regional Fed banks show that many firms plan to pass the tariffs on to consumers either fully or in part. For instance, a survey by the Atlanta Fed[5] reveals that at least 55% of firms plan to do so, and of that group, half plan to pass on «all» or «most» of the cost. Although it is still early to assess the final impact on consumer prices, CPI data from June and July showed that prices of certain imported goods have already begun to rise.[6] If part of the tariffs is passed on to the final consumer, then the behaviour of imports going forward will depend on the sensitivity of demand to prices. The price elasticity of imports has been estimated by several studies to lie somewhere between –1 and –5.[7] Taking the most conservative value (–1),[8] we can assume that a 1% increase in the price of an imported good reduces its demand by 1%.

One channel that could partially cushion this effect is the exchange rate. A strong dollar would help counteract an increase in the price of imported goods. However, so far this year, the dollar has depreciated by 10% against its main peers, possibly weakened by growing expectations of an economic slowdown in the US.

4. See M. Amiti, S.J. Redding and D.E. Weinstein (2019). «The impact of the 2018 tariffs on prices and welfare». Journal of Economic Perspectives, 33(4), 187-210. And A. Cavallo, G. Gopinath, B. Neiman and J. Tang (2021). «Tariff Pass Through at the Border and at the Store: Evidence from US Trade Policy». American Economic Review: Insights, 3(1), 19-34.
5. Federal Reserve Bank of Dallas (2025). «Texas Business Outlook Survey: Special Questions». April.
6. See the CaixaBank Research Brief Note on US inflation published in June (content available in Spanish).
7. See R.C. Feenstra, P. Luck, M. Obstfeld and K.N. Russ (2018). «In Search of the Armington elasticity». The Review of Economics and Statistics, 100(1), 135-150.
8. O. Jeanne and J. Son (2020). «To What Extent Are Tariffs Offset by Exchange Rates?» Working Paper nº 27654, National Bureau of Economic Research.

US: cumulative revenues from tariffs

(% of GDP)



Source: *CaixaBank Research, based on data from the US Treasury and the Bureau of Economic Analysis.*

This last point leads us to the second condition needed for tariff policy to work as a sustained revenue mechanism: that aggregate demand is not weakened. Our forecasts point to a moderation in GDP growth, from 2.8% in 2024 to 1.3% in 2025 and 2026 (the analyst consensus places it around 1.5%). This anticipated cooling is explained both by the direct effects of the tariffs – through the mechanisms described – and by the increased uncertainty, which will adversely affect consumption and investment decisions. In addition, a foreseeable cooling in the global economy will weigh down foreign demand for US exports, and in a less dynamic environment, imports will inevitably be affected.

So far, a sharp fall in imports has not materialised, but that is because an anticipation effect still persists. In addition, we should recall that some goods, such as pharmaceuticals and semiconductors, have remained exempt from tariffs up until now, and this maintains the incentive to accumulate stocks. For example, according to US Census Bureau data, imports of pharmaceutical products have increased so far this year by 15%, while imports of furniture and clothing have fallen by 15% and 10%, respectively.

In short, the increase in tariff revenues has been significant and reaching 1% of GDP would be a material figure, but it seems difficult to do so in a sustained manner over time.

Isabela Lara White

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

UNITED STATES

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Activity									
Real GDP	2.9	2.8	2.7	2.5	2.0	2.1	–	–	–
Retail sales (excluding cars and petrol)	5.2	3.4	3.6	4.1	4.8	4.8	4.6	4.4	...
Consumer confidence *(value)*	105.4	104.5	102.2	110.6	99.8	93.1	95.2	98.7	97.4
Industrial production	0.2	–0.3	–0.4	–0.3	1.2	1.0	0.8	1.4	...
Manufacturing activity index (ISM) *(value)*	47.1	48.2	47.3	48.2	50.1	48.7	49.0	48.0	48.7
Housing starts *(thousands)*	1,421	1,371	1,338	1,387	1,401	1,346	1,358	1,428	...
Case-Shiller home price index *(value)*	312	330	332	336	340	338	337	...	...
Unemployment rate *(% lab. force)*	3.6	4.0	4.2	4.1	4.1	4.2	4.1	4.2	...
Employment-population ratio *(% pop. > 16 years)*	60.3	60.1	60.0	59.9	60.0	59.8	59.7	59.6	...
Trade balance [1] *(% GDP)*	–3.0	–2.8	–2.9	–3.0	–3.5	–3.6	–3.6	...	...
Prices									
Headline inflation	4.1	3.0	2.6	2.7	2.7	2.4	2.7	2.7	...
Core inflation	4.8	3.4	3.2	3.3	3.1	2.8	2.9	3.1	...

JAPAN

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Activity									
Real GDP	1.2	0.1	0.8	1.2	1.8	1.2	–	–	–
Consumer confidence *(value)*	35.1	37.2	36.9	36.1	34.7	32.8	34.5	33.7	34.9
Industrial production	–1.4	–3.0	–1.8	–2.5	2.5	0.8	2.6	–0.9	...
Business activity index (Tankan) *(value)*	7.0	12.8	13.0	14.0	12.0	13.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.3	...
Trade balance [1] *(% GDP)*	–3.0	–1.1	–1.1	–1.0	–0.9	–0.7	–0.6	–0.6	...
Prices									
Headline inflation	3.3	2.7	2.8	2.9	3.8	3.4	3.2	3.0	...
Core inflation	3.9	2.4	2.0	2.3	2.7	3.2	3.5	3.4	...

CHINA

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Activity									
Real GDP	5.4	5.0	4.6	5.4	5.4	5.2	–	–	–
Retail sales	7.8	3.3	2.7	3.8	3.6	4.4	4.8	3.7	...
Industrial production	4.6	5.6	5.0	5.6	6.8	6.2	6.8	5.7	...
PMI manufacturing *(value)*	49.9	49.8	49.4	50.2	49.9	49.4	49.7	49.3	49.4
Foreign sector									
Trade balance [1,2]	865	997	898	997	1,086	1,146	1,146	1,159	...
Exports	–5.1	4.6	5.4	10.0	5.7	6.0	5.6	7.1	...
Imports	–5.5	1.0	2.1	–1.8	–6.9	–0.9	1.1	4.1	...
Prices									
Headline inflation	0.2	0.2	0.5	0.2	–0.1	0.0	0.1	0.0	...
Official interest rate [3]	3.5	3.1	3.4	3.1	3.1	3.0	3.0	3.0	3.0
Renminbi per dollar	7.1	7.2	7.2	7.2	7.3	7.2	7.2	7.2	7.2

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Retail sales *(year-on-year change)*	–1.9	1.2	2.1	2.2	2.0	2.7	3.5	2.2	...
Industrial production *(year-on-year change)*	–1.6	–3.0	–1.7	–1.5	1.4	1.2	0.2	...	...
Consumer confidence	–17.4	–14.0	–13.0	–13.4	–14.1	–15.7	–15.3	–14.7	–15.5
Economic sentiment	96.2	95.7	96.0	95.1	95.5	94.3	94.1	95.7	95.2
Manufacturing PMI	45.0	45.9	45.5	45.4	47.6	49.3	49.5	49.8	50.7
Services PMI	51.2	51.5	52.1	50.9	51.0	50.1	50.5	51.0	50.5
Labour market									
Employment (people) *(year-on-year change)*	1.4	1.2	1.0	0.7	0.7	0.7	–	–	–
Unemployment rate *(% labour force)*	6.6	6.4	6.3	6.3	6.3	6.3	6.3	6.2	...
Germany *(% labour force)*	3.1	3.4	3.4	3.4	3.6	3.7	3.7	3.7	...
France *(% labour force)*	7.3	7.4	7.4	7.3	7.5	7.6	7.6	7.6	...
Italy *(% labour force)*	7.7	6.6	6.3	6.2	6.3	6.3	6.2	6.0	...
Real GDP *(year-on-year change)*	0.7	0.9	1.0	1.3	1.5	1.4	–	–	–
Germany *(year-on-year change)*	–0.7	–0.5	–0.6	–0.2	0.2	0.2	–	–	–
France *(year-on-year change)*	1.6	1.1	1.1	0.6	0.6	0.8	–	–	–
Italy *(year-on-year change)*	0.8	0.5	0.5	0.6	0.7	0.4	–	–	–

Prices

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
General	5.5	2.4	2.2	2.2	2.3	2.0	2.0	2.0	2.1
Core	5.0	2.8	2.8	2.7	2.6	2.4	2.3	2.3	2.3

Foreign sector

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Current balance	2.0	3.3	3.4	3.3	3.0	3.6	3.6	...	...
Germany	5.5	5.6	6.3	5.6	5.4	6.7	6.7	...	...
France	–1.0	0.1	0.3	0.1	0.0	–0.8	–0.8	...	...
Italy	0.1	1.1	0.9	1.1	1.1	1.6	1.6	...	...
Nominal effective exchange rate[1] *(value)*	94.7	95.0	95.5	94.2	93.5	96.8	97.3	98.4	98.4

Credit and deposits of non-financial sectors

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Private sector financing									
Credit to non-financial firms[2]	2.7	0.8	1.0	1.4	2.2	2.6	2.7	2.8	...
Credit to households[2,3]	1.7	0.5	0.5	0.9	1.5	2.1	2.2	2.4	...
Interest rate on loans to non-financial firms[4] *(%)*	4.6	4.9	4.9	4.4	3.9	3.4	3.3	3.3	...
Interest rate on loans to households for house purchases[5] *(%)*	4.4	4.6	4.7	4.3	4.0	3.7	3.6	3.6	...
Deposits									
On demand deposits	–8.5	–3.9	–2.5	1.2	3.6	5.3	5.1	5.6	...
Other short-term deposits	21.1	12.3	10.5	6.0	2.3	–0.1	–1.0	–0.8	...
Marketable instruments	20.3	20.3	22.1	18.6	15.7	11.0	10.4	6.4	...
Interest rate on deposits up to 1 year from households *(%)*	2.7	3.0	3.0	2.6	2.2	1.9	1.8	1.7	...

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

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

The good times continue for the Spanish economy

Q2 2025 began with all bets placed on a slowdown in the growth of the Spanish economy. In early April, and after months of threats, the Trump administration announced bilateral tariffs and catapulted the main uncertainty indicators to all-time highs. Weeks later, a blackout left the Iberian Peninsula without electricity for a day. Moreover, all this happened in an environment in which the euro area economy was once again showing signs of cooling.

The Spanish economy exceeds expectations once again in Q2 2025. Despite this unfavourable context, the Spanish economy not only maintained its buoyancy, but accelerated relative to the previous quarter. In Q2, GDP grew by 0.7% quarter-on-quarter, 0.1 pp more than in Q1. The breakdown of this figure also stands out due to the strength of domestic demand, which contributed 0.9 pps to quarter-on-quarter GDP growth. Private consumption was one of the main drivers of domestic demand, growing 0.8% quarter-on-quarter and accelerating compared to the 0.5% recorded in Q1. Investment, meanwhile, grew 1.6% quarter-on-quarter, thus outpacing GDP growth for the third consecutive quarter. Exports also advanced at a steady pace of 1.1% quarter-on-quarter, despite the uncertainty surrounding trade and the weakness of our main trading partners. However, the growth of domestic demand, especially investment, boosted imports, which grew by 1.7% quarter-on-quarter, resulting in a negative contribution from foreign demand.

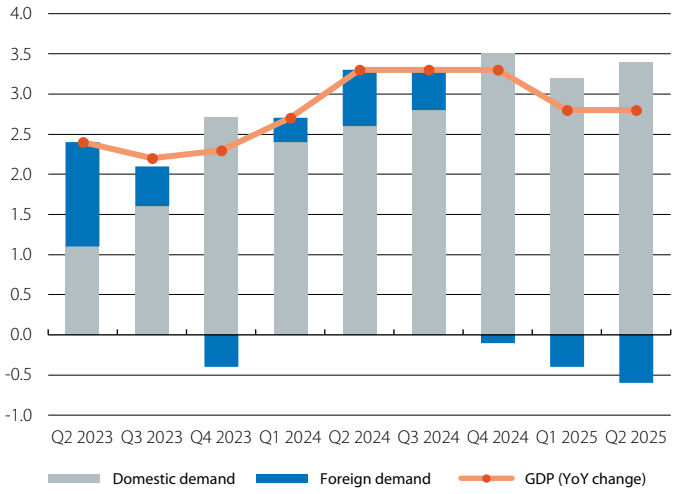
Positive signals in the main economic activity indicators for Q3. The first indicators for Q3 show mixed signals between supply and demand. On the one hand, business confidence indicators point to a solid growth rate for Q3. In August, the manufacturing sector's PMI rebounded to 54.3 points, the best figure since October last year and well clear of the contractionary zone below the 50-point threshold in which it stood between February and April. Also, the PMI for the services sector remained in the expansionary zone with 53.2 points, a slightly lower figure than in July.

On the other hand, the CaixaBank consumption tracker points to a moderation in consumption, following the good performance in Q2. So far in Q3, domestic consumption has grown by 2.8% year-on-year, 1.5 pps less than in Q2. However, correcting for seasonal and calendar effects, the tracker points to a growth rate in private consumption similar to that of Q2.

The labour market holds up despite the adverse seasonality of the end of summer. Following a record Q2, Spain's labour market continues to show signs of strength, consolidating itself as one of the pillars of economic growth in recent years. In August, the number of Social Security affiliates fell by 0.9% month-on-month, as is commonplace in a month marked by the end of summer contracts and the temporary halt of some economic activities. This fall is similar to the one recorded in

Spain: contribution to GDP growth

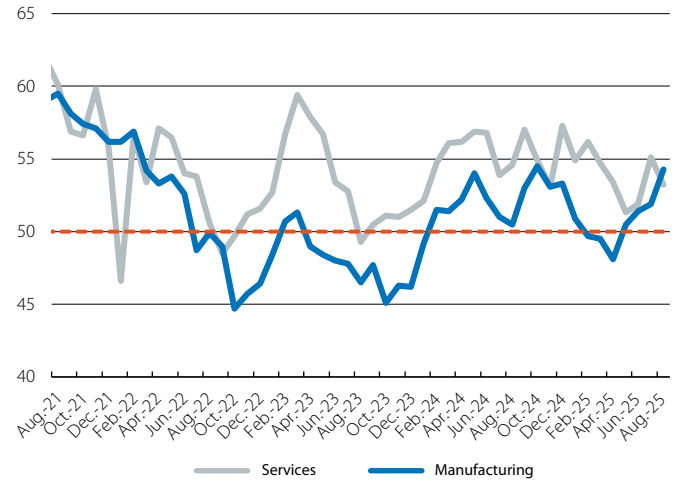
Pps and year-on-year change (%)



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

Spain: PMI

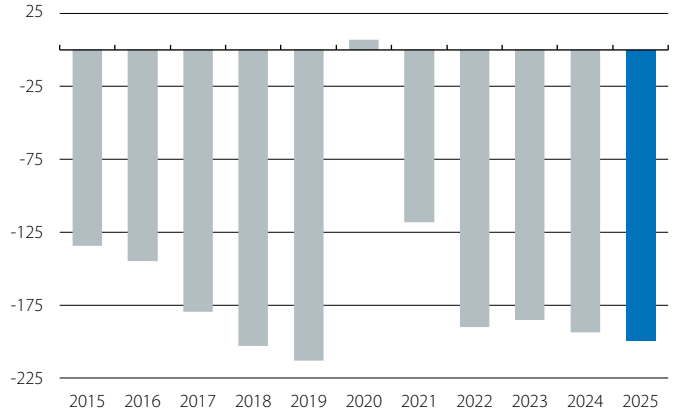
Level



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

Spain: monthly change in registered workers in August

(Thousands)



Note: *Data not seasonally adjusted.*
Source: *CaixaBank Research, based on data from the Ministry of Labour and Social Economy.*

August last year and also to the average of the months of August between 2014 and 2019. In year-on-year terms, the number of registered workers has grown at a rate of 2.3%. By sector, job growth has been particularly strong in construction, with a year-on-year rate that accelerated by 0.4 pps to 3.5%, while in industry and services the rate has stabilised.

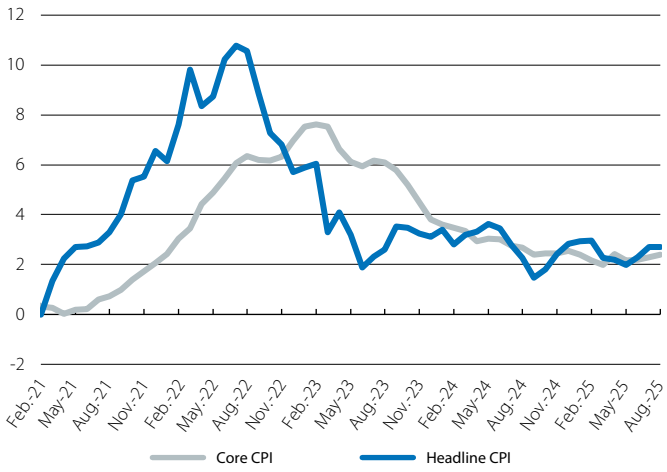
Electricity and food prices give inflation a respite. In August, headline inflation remained at 2.7%, according to the CPI flash indicator published by the National Statistics Institute (INE). This stabilisation is in response to two opposing effects: the upward pressure exerted by fuels, which is offset by the downward contribution from electricity and food. Meanwhile, core inflation (excluding energy and unprocessed food) increased by 0.1 pp to 2.4%. Thus, after two months on the rise, headline inflation lies 0.7 pps above the figure of May, when the current price rebound began. This rebound has been driven by rising prices of fresh food and, to a lesser extent, electricity. Currently, the futures markets suggest that energy prices will remain stable during the remainder of the year. Also, the decline in food prices this month advanced by the INE could indicate a pause in their upward trend. If the current dynamics are maintained, we could see inflation peak in September.

The housing market closed its best first semester since 2007. In a context marked by the recovery of purchasing power and lower interest rates, housing demand continues to show significant strength. In June, sales grew by 17.9% year-on-year, maintaining the buoyancy observed in previous months. The cumulative balance for the year to date reinforces this trend: between January and June, some 358,000 sales transactions were recorded, representing a 19.7% increase over the same period last year and marking the best first half of the year since 2007. The combination of dynamic demand and a supply which, although reactivated, is growing at a more moderate rate, is causing the price tensions to persist. In Q2 2025, the Association of Registrars' repeat home sales price index rose by 14.8%, up from the previous 14.2% and marking the highest rate since 2006.

The trade deficit rises sharply in the first half of the year. Unlike the real estate sector, the current context does not favour the foreign sector. The strength of domestic demand is driving up import growth. Added to this is the uncertainty over trade, as well as the weakness of the euro area, which are adversely affecting exports. In the first half of the year, exports of goods grew by 1.0% year-on-year, but the 5.4% increase in imports has led to a deficit of 25.1 billion euros in Q1 2025, a figure that far exceeds that of the same period last year (–15.8 billion). By component, the deterioration stands out not only due to the increase in the energy deficit, which is commonplace in Spain's balance of trade, but also due to the sharp deterioration in the balance of non-energy goods, which shows a deficit of 8.78 billion, versus just 138 million in 2024. The widening of the non-energy deficit is explained by the greater dynamism of imports, which are up 7.4% year-on-year, far outpacing the 2.6% growth in exports.

Spain: inflation

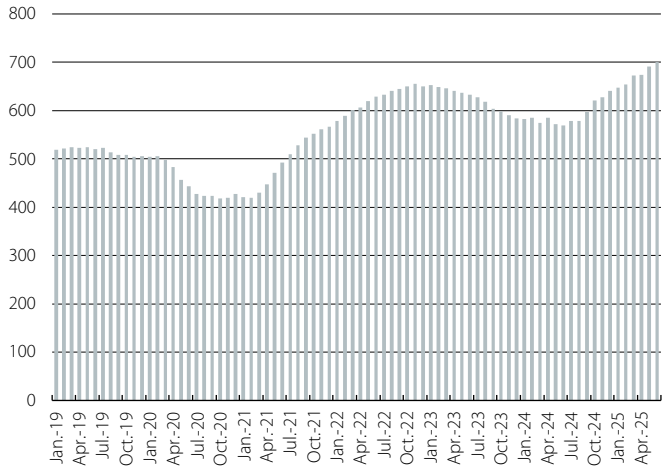
Year-on-year change (%)



Note: *The figure for August 2025 is provisional.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: home sales

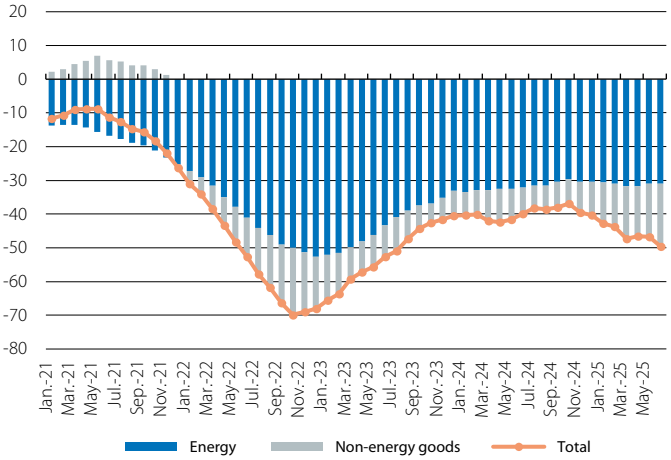
*(Thousands)**



Note: ** 12-month cumulative total.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: balance in the trade of goods

*(EUR billions)**



Note: ** 12-month cumulative total.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

The causes of the departure from employment

As we already discussed in a previous Focus,[1] employment stability in Spain has improved in recent years, as reflected in the sharp decline in the temporary employment rate and in the reduced flow of entries and departures in the labour market. Although turnover has increased in all types of contracts, the aggregate turnover rate (the sum of Social Security registrations and de-registrations as a percentage of the total number of workers registered under the General Scheme) has reduced due to a composition effect, given that permanent contracts, which tend to have a lower turnover, have increased as a share of the total. In this article we take a more detailed look at one of the determining factors of turnover, namely, departures from the labour market, and we analyse the changes they have undergone, having been significantly affected by the entry into force of the latest labour reform approved in December 2021.

There are several factors that influence outflows of workers from employment. Among others, they include: (i) the digital transformation, which is causing changes in the demand for certain professions and skills; (ii) temporary employment and the outsourcing of services, which contribute to the instability of employment; (iii) crises, recessions or unexpected events such as the pandemic, which lead to job destruction, and (iv) population ageing, given that the empirical evidence shows that labour mobility decreases as workers' age increases.[2]

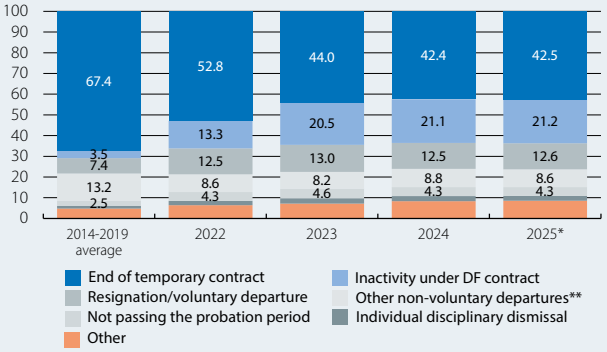
In view of the data provided by the Social Security Treasury, the main cause of affiliate de-registrations (see first chart) remains the termination of temporary contracts. That said, this type of termination of employment has reduced considerably, in line with the fewer number of temporary contracts being signed as a result of the labour reform. In this regard, whereas in 2014-2019 two in every three departures (almost 686,000 per year on average) occurred for this reason, in 2025 (using annualised data to April) that figure has fallen by over 30% to below 477,000, representing 42.5% of the total.

On the other hand, there has been an increase in the number of departures as a result of workers becoming inactive under discontinuous fixed contracts,[3] a form of contract that has gained prominence with the labour reform. This type of outflow has gone from explaining fewer than 36,000 departures per year on average in the period 2014-2019, representing just 3.5% of the total, to over 237,000 in the trailing 12 months to April, or 21.2%, thus becoming the second biggest cause of de-registrations.

However, what is most striking is the sharp increase in de-registrations due to two other causes: voluntary departures and those not having passed the probation period. Voluntary departures or resignations have almost doubled in the period analysed, exceeding 141,000, or 12.6% of the total, which is 5 points more than prior to the pandemic. That said, they still lie well below the level found in the US, where they are the leading cause of employment termination. This could be related to the recovery of activity and therefore job creation: workers have more incentives to leave their jobs if the chances

Spain: de-registrations of Social Security affiliates by cause

(% of the total)

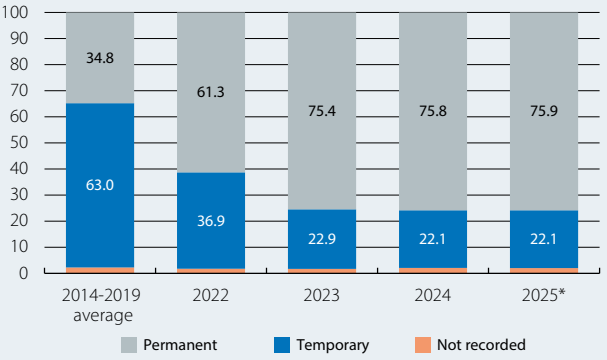


Notes: *Average monthly Social Security affiliates under the General Scheme who de-register. * Cumulative trailing 12 months to April. ** Termination of a contract in a situation of temporary incapacity, legal closure of the company, dismissal due to death or retirement of the business owner, etc.*

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

Spain: voluntary de-registration of Social Security affiliates by contract type

(% of the total)



Notes: *Average monthly Social Security affiliates under the General Scheme. * Cumulative trailing 12 months to April.*

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

1. See the Focus «Employment stability improves in Spain», in the MR02/2025.
2. See Bank of Spain (2024). «The impact of population ageing on Spanish labour market flows», Economic Bulletin, 2024/Q3.
3. During these periods of inactivity, the worker neither receives benefits nor makes any social security contributions, but their contract remains in force.

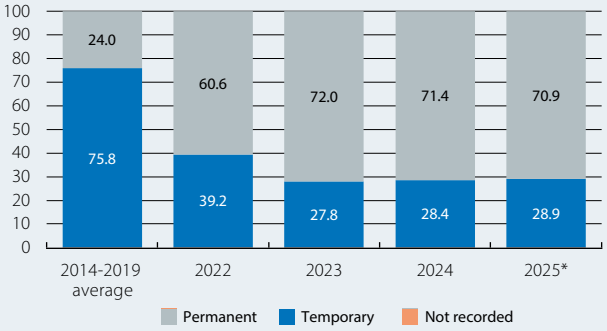
of finding better working conditions elsewhere are high. Within this type of departure, we can see a significant change in the composition (see second chart): before the pandemic, most of the workers who resigned (63.0% on average in 2014-2019) were temporary (usually with more precarious jobs); in contrast, in 2025 (annualised data to April) three out of every four resigned from permanent contracts. This increase has no doubt been concentrated in relatively new permanent contracts, although generally speaking a permanent employee will now be more willing than previously to lose their seniority, given that it will be easier for them to find another job with a permanent contract: 41.2% of all the contracts signed since January 2022 have been permanent, in contrast to the 9.0% in the period 2014-2019.

Although the Social Security data do not disaggregate these departures by economic sector or professional category, it is logical to assume that voluntary resignations of employees with permanent contracts are likely to be concentrated in activities that had higher temporary rates prior to the reform, such as construction or hospitality, and among workers with less accumulated seniority, since in these cases they have less to lose from resigning: according to data from the Labour Force Survey (LFS), in Q1 2025 more than 70% of employees with permanent contracts have been working in their current job for more than three years, i.e. since before the reform.

Finally, other types of departure that have experienced a sharp increase in recent years include those that occur as a result of not passing the probation period;[4] although

Spain: de-registration of Social Security affiliates due to not passing the probation period by contract type

(% of the total)



Notes: *Average monthly Social Security affiliates under the General Scheme. * Cumulative trailing 12 months to April.*

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

they remain a minority (representing just 4.3% of the total), they have almost doubled compared to the pre-pandemic period and now stand at 48,000. In this type of departure, there is also now a greater prominence of permanent contracts (see third chart): in 2025 (data for the trailing 12 months to April), almost 71.0% affected these workers, compared to 24.0% on average in 2014-2019. Although this situation may have raised suspicions that companies could be using the probation period to fill short-term jobs with workers on permanent contracts, the most likely explanation is that permanent contracts are now driving employment more than they did in other similar cyclical phases.

Sergio Díaz Valverde

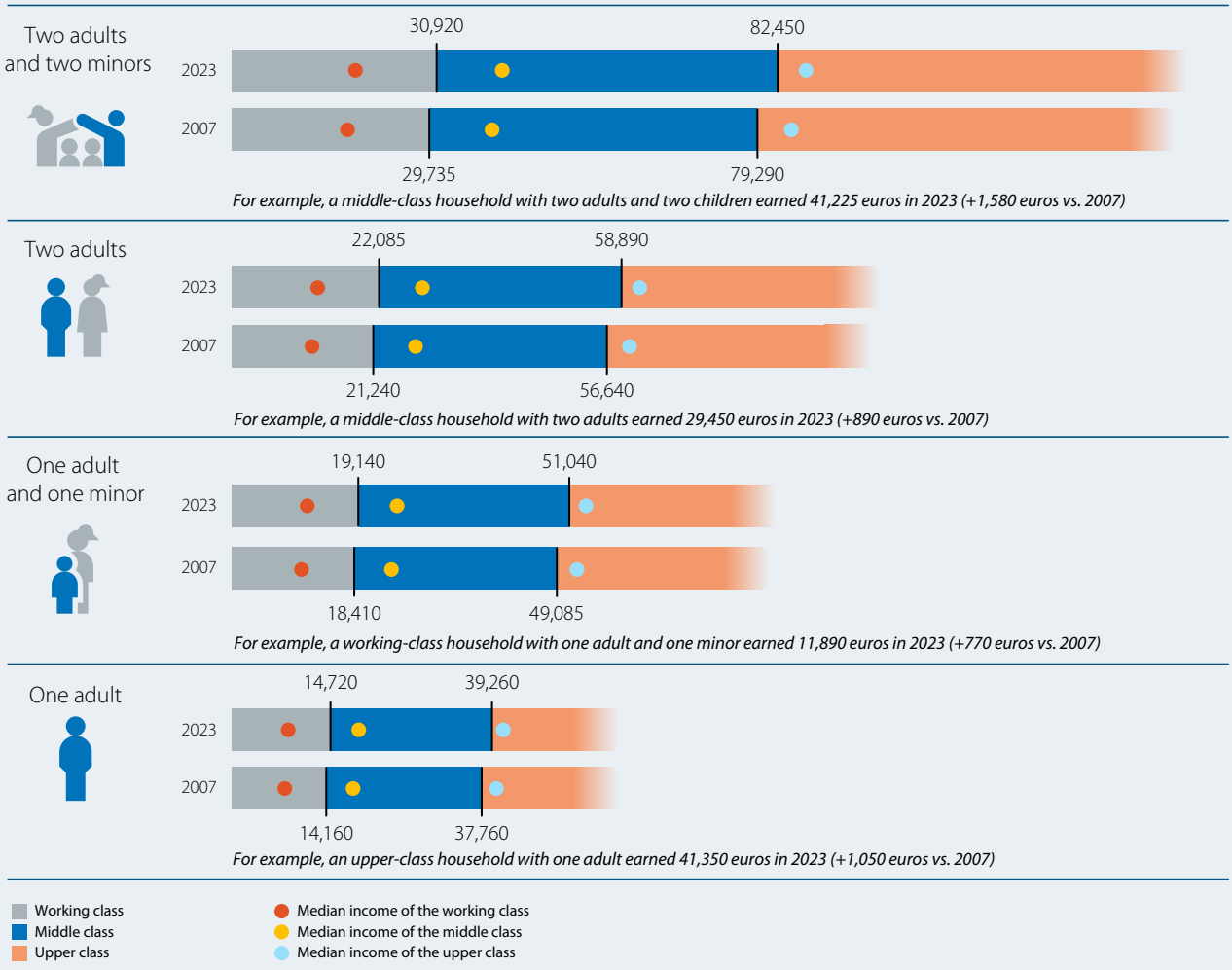
4. The probation period must be expressly agreed in the employment contract and may not exceed the maximum duration indicated in the Workers' Statute (Article 14) or in the collective bargaining agreement currently in force. If the collective agreement does not specify this period, then the maximum trial period will be: for temporary contracts, one month; for permanent contracts, six months for qualified technicians and two months for all other workers, with the possibility that it can be three months in companies with fewer than 25 workers.

Spain's middle class in numbers: rising incomes, waning sense of progress

The middle class continues to expand as a share of Spain's total population, according to the latest data from the National Statistics Institute's Living Conditions Survey (LCS). In 2023, 61.5% of households belonged tothe middle class (+0.4 pps vs. 2022), 8.1% to the upper class (−0.7 pps) and 30.4% to the working class (+0.3 pps). In the same year, incomes increased for all economic classes, and for the middle and working classes in particular: the income of a middle-class household increased by 3.7% in real terms, that of a working-class household by 3.3% and that of an upper-class household by 1.3%. These findings challenge the common perception that the middle class is in retreat, so this article aims to offer a practical guide to interpreting the results: what do we mean by middle class? How many euros do households belonging to it earn? What differences do we observe according to the family structure?

To analyse the middle class in Spain, we use the data from the LCS, which gathers economic and social information from households and their members, and we adopt the OECD definition, which considers middle-class households to be those with an income between 75% and 200% of the median income of the population.[1] In order to compare households of different sizes and compositions, we adjust household incomes using the OECD equivalence scale, which allows us to calculate income per unit of consumption.

Income of Spanish households by class and household composition
(Annual euros)



Note: *Net household income in real terms. Working class is defined as households with incomes below 75% of the median, middle class as households with incomes between 75% and 200% of the median, and upper class as the rest.*
Source: *CaixaBank Research, based on data from the Living Conditions Survey (LCS, National Statistics Institute).*

1. See the article «How has the middle class evolved in Spain?» in the MR12/2024 for further details.

This scale assigns a value of 1 to the first adult (over 14 years of age), 0.5 to additional adults and 0.3 to those under the age of 14. For example, a household with two adults and two minors is equivalent to 2.1 consumption units, while a household with one adult and one minor is equivalent to 1.3 units. Using the adjusted incomes per unit of consumption, the thresholds for each class are established (households with incomes below 75% of the median are considered to be working class, and those above 200% to be upper class) and households with different compositions can be compared.

The accompanying infographic allows us to identify which economic class each type of household belongs to according to its income and composition.[2] For instance, according to the established thresholds, a household consisting of two adults and two minors would be classified as middle class if its income lies between 30,920 euros and 82,450 euros in 2023. On average, households in this class earned 41,225 euros, which is 1,480 euros more than in 2022 and 1,700 more than in 2019, but only 1,579 euros more than in 2007. This result shows how improvements in incomes in real terms are concentrated in these latter years, since between 2014 and 2019 households only managed to recover the sharp fall in incomes that was triggered by the financial crisis between 2008 and 2013.[3] Thus, the cumulative progress over a period of more than 15 years is limited, having been affected by multiple crises (the financial crisis, the pandemic, inflation), which helps explain why the general sentiment does not reflect a perceived improvement in income levels. For example, the average annual improvement in real terms between 2007 and 2023 for a household of two adults and two children is less than 100 euros per year, which represents a very small improvement in living standards. On the upside, all households saw an improvement in their situation in 2023, which shows that the middle class is recovering economic capacity after years marked by multiple crises. If this pattern is consolidated, as the data for 2024 suggest, then we may be entering a period of more sustained progress – one that Spanish households might finally begin to feel.

Josep Mestres Domènech and Anna Bahí

2. Net household income in real terms (2018 euros).

3. The income of a household with two adults and two minors decreased by 5,557.1 euros between 2007 and 2013, and recovered by 5,284.7 euros between 2013 and 2019.

Activity and employment indicators

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Industry									
Industrial production index	–1.6	0.4	–0.3	1.3	–0.7	1.6	2.3	...	...
Indicator of confidence in industry *(value)*	–6.5	–4.9	–3.0	–5.9	–5.4	–5.2	–6.2	–4.5	–5.8
Manufacturing PMI *(value)*	48.0	52.2	51.5	53.6	50.0	50.0	51.4	51.9	54.3
Construction									
Building permits *(cumulative over 12 months)*	0.5	16.7	10.2	16.7	20.1	...	...	...	...
House sales *(cumulative over 12 months)*	–10.2	9.9	–1.2	9.9	17.1	23.1	23.1	11.2	2.5
House prices	4.0	8.4	8.2	11.3	12.2	...	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	18.9	10.1	12.3	10.1	8.1	6.3	6.3	5.6	...
Services PMI *(value)*	53.6	55.3	55.2	55.1	55.3	52.2	51.9	55.1	53.2
Consumption									
Retail sales[1]	2.5	1.8	2.6	2.9	3.4	5.1	6.2	4.7	...
Car registrations	16.7	7.2	1.7	14.4	14.0	13.7	15.2	17.1	17.2
Economic sentiment indicator *(value)*	100.5	103.0	105.5	101.5	103.3	103.1	102.1	104.3	101.7
Labour market									
Employment[2]	3.1	2.2	1.8	2.2	2.4	2.7	...	...	...
Unemployment rate (% labour force)	12.2	11.3	11.2	10.6	11.4	10.3	...	...	...
Registered as employed with Social Security[3]	2.7	2.4	2.3	2.4	2.3	2.2	2.2	2.3	2.3
GDP	**2.7**	**3.2**	**3.3**	**3.3**	**2.8**	**2.8**	...	...	...

Prices

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
General	3.5	2.8	2.2	2.4	2.7	2.2	2.3	2.7	2.7
Core	6.0	2.9	2.6	2.5	2.2	2.3	2.2	2.3	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	06/25	07/25	08/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	0.2	–1.8	0.2	3.3	2.0	2.0	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–7.2	0.1	–3.1	0.1	4.2	4.1	4.1	...	...
Current balance	**39.8**	**48.7**	**48.3**	**48.7**	**44.3**	**44.3**	**44.3**	**...**	**...**
Goods and services	58.8	68.8	68.3	68.8	64.4	64.4	64.4	...	...
Primary and secondary income	–19.1	–20.0	–20.0	–20.0	–20.1	–20.2	–20.2	...	...
Net lending (+) / borrowing (–) capacity	**56.0**	**67.1**	**65.7**	**67.1**	**63.5**	**63.3**	**63.3**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Deposits									
Household and company deposits	0.3	5.1	4.3	5.1	4.6	3.9	3.9	4.8	...
Demand and notice deposits	–7.4	2.0	–1.6	2.0	3.1	5.0	5.0	6.5	...
Time and repo deposits	100.5	23.5	47.5	23.5	12.6	–1.5	–1.5	–3.6	...
General government deposits[5]	0.5	23.1	14.8	23.1	24.4	25.5	25.5	15.7	...
TOTAL	**0.3**	**6.3**	**5.1**	**6.3**	**5.9**	**5.4**	**5.4**	**5.7**	**...**
Outstanding balance of credit									
Private sector	–3.4	0.7	–0.3	0.7	1.7	2.6	2.6	2.6	...
Non-financial firms	–4.7	0.4	–0.6	0.4	1.6	2.5	2.5	2.2	...
Households - housing	–3.2	0.3	–0.7	0.3	1.4	2.3	2.3	2.4	...
Households - other purposes	–0.5	2.3	1.2	2.3	3.1	3.5	3.5	3.9	...
General government	–3.5	–2.6	–5.4	–2.6	–0.3	5.3	5.3	12.7	...
TOTAL	**–3.4**	**0.5**	**–0.7**	**0.5**	**1.6**	**2.7**	**2.7**	**3.2**	**...**
NPL ratio (%)[6]	**3.5**	**3.3**	**3.4**	**3.3**	**3.2**	**3.0**	**3.0**	**...**	**...**

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: *CaixaBank 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.*

Portugal maintains the economic momentum thanks to employment and investment

The Portuguese economy is showing remarkable resilience in 2025, driven mainly by a buoyant labour market and increasingly strong investment. In Q2, GDP grew by 0.6% over the previous quarter, offsetting the 0.4% fall recorded in Q1 and recovering quarterly growth rates consistent with the average observed in recent years.

Domestic demand was the main driver of this growth and contributed 0.8 pps to the quarter-on-quarter increase in GDP, with a particularly strong performance from investment, up 2.1% quarter-on-quarter. In contrast, foreign demand subtracted 0.2 pps, due to import growth (0.7% quarter-on-quarter) exceeding that of exports (0.2% quarter-on-quarter).

Q3 is expected to bring robust results, driven by private consumption and favoured by lower income tax rates, retroactive payments and exceptional payments to pensioners. These measures represent a 900-million-euro increase in household income, equivalent to 0.3% of nominal GDP. However, we could see a correction in Q4, similar to that recorded between Q4 2024 and Q1 2025, when household income normalises.

Inflation picked up again in August and stood at 2.8%, 0.2 pps above the previous month. Core inflation remained stable at 2.5%. However, unprocessed foods rebounded 0.9 pps to 7.0%, due to rising prices in products such as coffee and beef, as well as due to wage increases in the agricultural sector. In addition, persistent inflation in services, above 4%, is contributing to the rigidity of the core index.

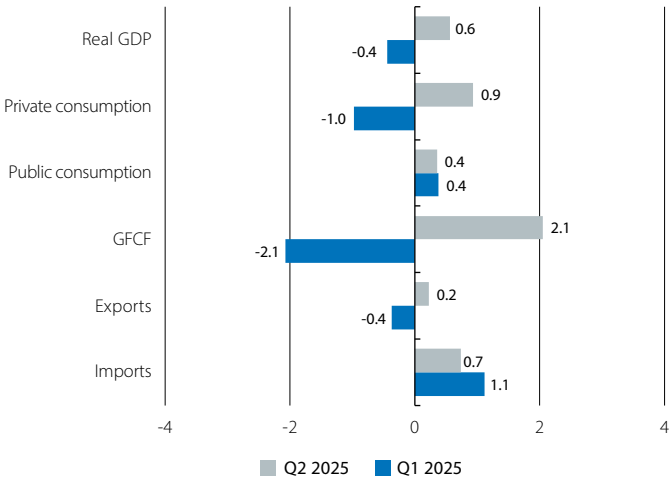
The labour market continues to exceed expectations. In Q2, employment reached a new peak since 2011, with a year-on-year growth rate of 2.9%, the highest of any Q2 since 2017 (excluding during the pandemic). Manufacturing, consulting, scientific and technical activities, as well as accommodation and catering were responsible for more than 65% of the increase. The unemployment rate fell to 5.9%, the lowest on record (except for during the pandemic).

House prices continue to rise. The residential price index closed the first half with a year-on-year increase of 14.9%, while bank valuations reached 1,945 euros/m^2 in July, 18.7% more than the previous year. Sales remain high, although it is expected that they will stabilise and that price growth will moderate.

The current account balance to June has accumulated a surplus of 577 million euros, albeit with a sharp fall of 80% compared to the same period in 2024, due to the deterioration in the balance of trade in goods. However, the increased surplus in the balance of trade in services (+5.8%), especially in tourism, partially offsets the deterioration in the balance of goods.

Portugal: components of GDP

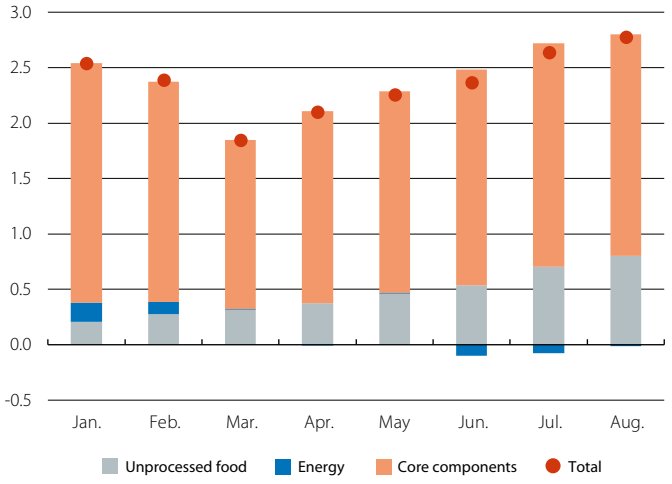
Quarter-on-quarter change (%)



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

Portugal: contribution to the CPI by component

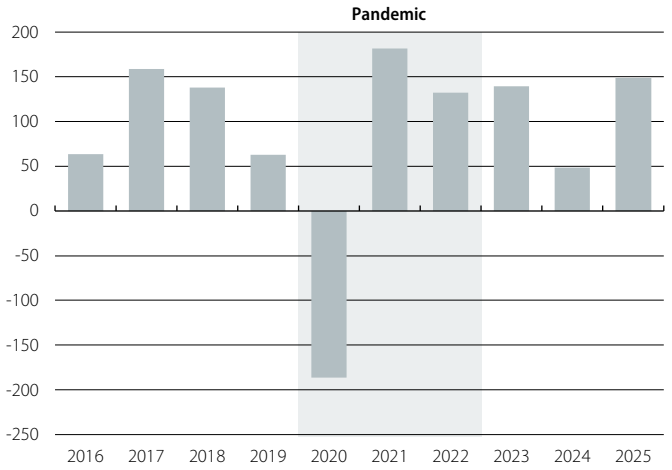
Year-on-year change (%) and pps



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

Portugal: employment in Q2 of each year

Year-on-year change (thousands of people)



Note: *Series not seasonally adjusted.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Activity and employment indicators

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Coincident economic activity index	3.5	1.8	1.5	1.7	1.7	1.7	1.7	1.7	...
Industry									
Industrial production index	–3.1	0.8	–0.2	–0.4	–2.3	1.3	2.9	...	...
Confidence indicator in industry *(value)*	–7.4	–6.2	–6.1	–4.2	–5.1	–4.8	–4.4	–3.8	–3.3
Construction									
Building permits - new housing (number of homes)	7.5	6.5	13.4	23.6	37.5	16.3	12.4	...	...
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	17.4	18.1	18.7	...
Services									
Foreign tourists *(cumulative over 12 months)*	19.0	6.3	7.8	6.3	4.6	4.0	4.0	3.9	...
Confidence indicator in services *(value)*	7.7	5.6	2.4	10.9	12.5	6.6	9.4	12.8	13.5
Consumption									
Retail sales	1.1	3.2	3.7	5.0	4.5	4.7	5.8	6.2	...
Coincident indicator for private consumption	2.9	2.7	2.7	3.4	3.6	3.3	3.2	3.1	...
Consumer confidence index *(value)*	–28.6	–18.0	–14.3	–14.3	–15.5	–17.9	–17.6	–15.7	–16.2
Labour market									
Employment	2.3	1.2	1.2	1.3	2.4	2.9	3.8	4.0	...
Unemployment rate (*% labour force*)	6.5	6.4	6.1	6.7	6.6	5.9	6.1	5.8	...
GDP	**2.6**	**1.9**	**2.0**	**2.8**	**1.7**	**1.9**	–	–	–

Prices

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
General	4.4	2.4	2.2	2.6	2.3	2.2	2.4	2.6	2.8
Core	5.1	2.5	2.5	2.7	2.3	2.3	2.4	2.5	2.5

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	06/25	07/25	08/25
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–1.4	2.0	0.5	2.0	5.3	4.4	4.4	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–4.0	2.0	–1.1	2.0	5.4	6.9	6.9	...	...
Current balance	**1.5**	**6.0**	**5.1**	**6.0**	**4.2**	**3.7**	**3.7**	**...**	**...**
Goods and services	4.1	6.5	6.4	6.5	5.2	4.5	4.5	...	...
Primary and secondary income	–2.6	–0.6	–1.3	–0.6	–0.9	–0.9	–0.9	...	...
Net lending (+) / borrowing (–) capacity	**5.5**	**9.1**	**8.6**	**9.1**	**7.5**	**7.1**	**7.1**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2023	2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	06/25	07/25	08/25
Deposits [1]									
Household and company deposits	–2.3	7.5	6.0	7.5	6.5	5.4	5.4	6.2	...
Sight and savings	–18.5	–0.3	–8.1	–0.3	5.0	5.1	5.1	6.5	...
Term and notice	22.2	15.3	22.6	15.3	7.8	5.8	5.8	5.9	...
General government deposits	–12.4	26.7	29.1	26.7	29.3	39.6	39.6	15.5	...
TOTAL	**–2.6**	**7.9**	**6.7**	**7.9**	**7.1**	**6.4**	**6.4**	**6.5**	**...**
Outstanding balance of credit [1]									
Private sector	–1.5	1.9	1.0	1.9	3.3	5.0	5.0	5.3	...
Non-financial firms	–2.1	–1.0	–0.6	–1.0	0.1	2.3	2.3	2.2	...
Households - housing	–1.5	3.0	1.3	3.0	4.9	6.4	6.4	7.3	...
Households - other purposes	0.2	5.4	4.6	5.4	5.7	6.6	6.6	6.5	...
General government	–5.5	0.6	–4.1	0.6	–8.0	3.8	3.8	1.4	...
TOTAL	**–1.7**	**1.8**	**0.9**	**1.8**	**2.9**	**4.9**	**4.9**	**5.2**	**...**
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: *CaixaBank Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.*

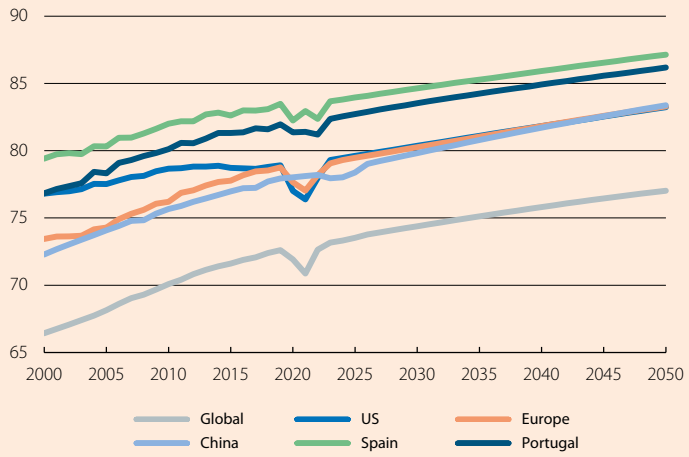
Demography and destiny: the world that awaits us in 2050 with fewer births and longer lifespans

We are living increasingly longer lives and – even more importantly – with better health. This is undoubtedly excellent news for all of us. However, this longevity, combined with a persistently low birth rate, is reconfiguring the demographic structure of our societies. This demographic shift calls for a profound transformation in how we organise ourselves that goes far beyond the necessary – but insufficient – use of population levers such as immigration or birth rates. In this article, we address the demographic dimension of this challenge before going on to analyse, in the following four articles of this Dossier, how this transition will impact three key areas: macroeconomics,[1] public finances[2] and savings and interest rates.[3]

In order to understand the magnitude of the demographic change that is coming, it is important to observe in more detail the trends that are shaping this new reality. Fertility rates are declining throughout the world and in the US, China and most European countries they are already below replacement level. This threshold, estimated at 2.1 children per woman, is the level at which the population would remain constant without migratory flows. In the case of Spain, the fertility rate has already been well below this threshold for over 40 years: it reached a low of 1.1 children per woman in the 1990s and is expected to remain very low over the next 25 years (1.3 children per woman). At the same time, life expectancy at birth increased by approximately seven years globally between 2000 and 2025, to 74 years, and by five years in the case of Spain, to 84 years (see first chart). Only the COVID-19 pandemic caused a temporary setback, with a fall of up to two years in some countries, from which it has already recovered. This improvement is expected to continue, with an additional three-year increase between 2025 and 2050, both globally and in Spain. Thus, by 2050, the world's population will be longer-living and older, but will also enjoy better health, since it is estimated that most of the increase in life expectancy will be in good health.[4] In fact, between 2000 and 2021, 70% of the improvements in life expectancy at 60 years of age already corresponded to improvements in healthy life expectancy, defined by the WHO as years without major diseases or injuries.[5] However, population ageing will also mean an increase in the prevalence of chronic diseases and dependency, and this will translate into an increase in the total burden of disease (Disability-Adjusted Life Years, or DALY) globally.

Life expectancy at birth

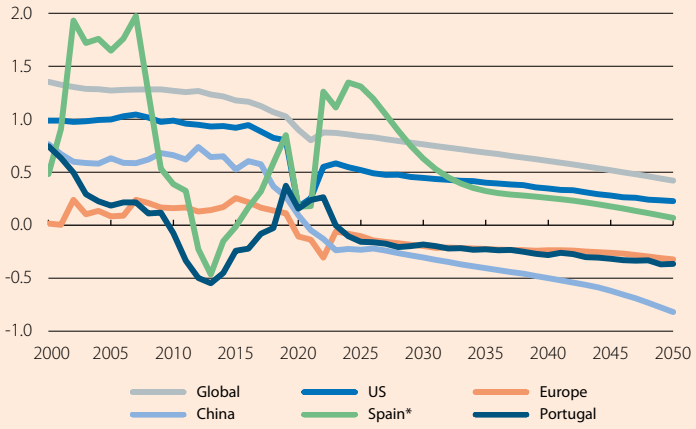
(Years)



Source: *CaixaBank Research, based on data from* UN World Population Prospects *2024.*

Population growth

Annual change (%)



Note: ** Continuous Population Statistics (2000-2023) and Population Projections (2024-2050).*
Source: *CaixaBank Research, based on data from the National Statistics Institute (for Spain) and* UN World Population Prospects *2024 (for the rest).*

This demographic change translates into a gradual decline in the annual growth rate of the global population (see second chart). This phenomenon is especially evident in European countries and in China, where population growth

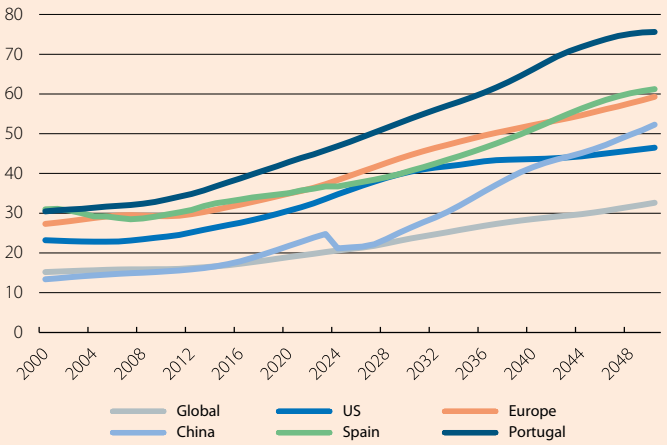
1. See the article «The effects of ageing on growth and policy tools to mitigate them» in this same Dossier.
2. See the articles «The impact of ageing on public finances: a major challenge for Spain and Europe» and «Levers to mitigate the impact of demographics on public finances: the case of pensions» in this same Dossier.
3. See the article «Will an ageing society pay lower interest rates?» in this same Dossier.
4. S.E. Vollset, H.S. Ababneh, Y.H. Abate, C. Abbafati, R. Abbasgholizadeh, M. Abbasian, H. Ariffin (2024). «Burden of disease scenarios for 204 countries and territories, 2022–2050: a forecasting analysis for the Global Burden of Disease Study 2021», The Lancet, 403(10440), 2204-2256.
5. OECD (2025). «OECD Employment Outlook 2025: Can We Get Through the Demographic Crunch?», OECD Publishing, Paris.

has stagnated and has even begun to retreat. In Spain, recent waves of migration have temporarily alleviated this situation, but they will not be able to reverse on their own the trend of a lower secular population growth observed in all European countries.

As a result, the global demographic structure is undergoing a profound transformation and it is becoming less and less like the classic pyramid with a wide base formed by young people and a narrower peak of elderly people. Instead, the population structure is assuming a more obelisk-like form, with a narrow base due to low birth rates and an increasingly wide upper section as a result of longer life expectancies.

Dependency ratio

Population over 65 years of age over the population aged 25 to 64 (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute (for Spain) and* UN World Population Prospects *2024 (for the rest).*

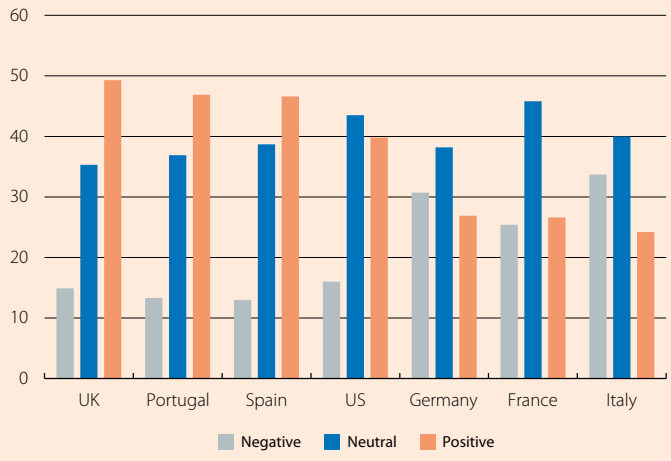
This change in the silhouette reflects a transformation that will require profound changes in a social system based essentially on working generations supporting retirees. In Spain, the 67-year-old cohort entering retirement has been more numerous since 2020 than the 25-year-old cohort entering the labour market. This «demographic trap» in which generations are not being replaced will be accentuated in the coming years. In fact, the proportion of the population over 65 years of age compared to the population aged 25 to 64, known as the dependency ratio, is currently 36% in Spain, which means that for every person over 65 there are 2.6 people of working age. This dependency ratio will increase sharply to 61% in 2050, which means that for every retiree there will be only 1.6 people of working age (see third chart).

In this context of population ageing and stagnation, birth rates would be a first demographic lever to counteract population ageing. The reality of the last few decades and the forecasts for the next few do not invite optimism in this regard. Public policies that reduce the cost of having children can help promote child birth, but they generally have a very limited impact and, as the OECD states in its latest Employment Outlook,[6] even the best known policies would not bring the fertility rate up to replacement level. Also, an increase in birth rates would only begin to have an impact beyond 2050, since it will not change the demographic reality of the working-age population for the next 25 years.

Thus, immigration emerges as the unavoidable demographic lever to curb population decline, albeit only partially. Between 2022 and 2024, in a context of the post-COVID rebound in migratory flows, almost 1.2 million immigrants entered Spain. The National Statistics Institute's migration forecasts for the coming years are equally significant, with net inflows of approximately 375,000 per year between now and 2053, although demographic forecasts of migratory flows are the ones most subject to uncertainty. And yet, the migratory flows needed to maintain the current dependency ratio would be around one million immigrants a year in a sustained manner for three decades.[7] It would be very difficult to receive influxes almost three times greater than those expected and, at the same time, offer the resulting population adequate public services to avoid the saturation of healthcare, infrastructure, etc. Moreover, immigration is a sensitive issue, as it affects social, economic and cultural aspects, and sometimes public perception can be distorted. For example, 7 out of every 10 European citizens overestimate the proportion of the foreign-born population in their country. In 2024, 13.9% of the EU population had been born abroad, a figure that in Spain reached 18.2%. Despite some

Impact of immigration on the country's development

(%)



Source: *CaixaBank Research, based on data from the* World Values Survey Wave *7: 2017-2022.*

6. OECD (2025). «OECD Employment Outlook 2025: Can We Get Through the Demographic Crunch?», OECD Publishing, Paris.
7. Bank of Spain (2024). Annual Report 2023. Bank of Spain, Madrid.

prejudices, in most European countries citizens have a positive view of the economic impact of immigration.[8] In Spain and Portugal, 47% of the population has a positive view of immigration, 40% a neutral view and only 13% a negative one. However, in some countries such as Italy, opinions tend to be more negative (24% in favour vs. 34% against, with 40% neutral).

Since neither immigration nor a rise in birth rates seem capable, on their own, of reversing this demographic transformation, it is essential to explore how the economy, the welfare system and private savings can adapt to this new population reality.

Josep Mestres Domènech

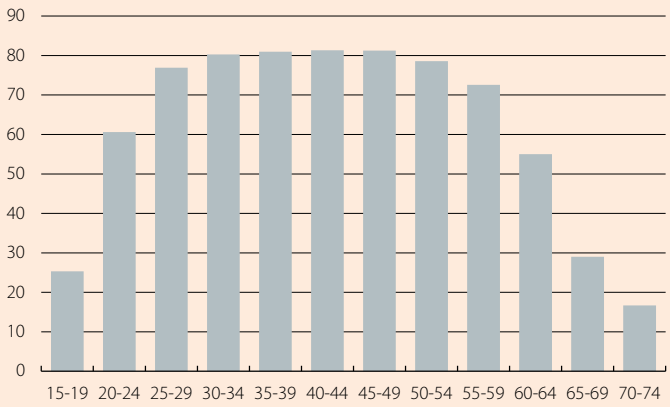
8. According to data from the World Values Survey Wave 7: 2017-2022.

The effects of ageing on growth and policy tools to mitigate them

The current phase of the global demographic transition, characterised by slowing population growth and an ageing population (for further details, see the article «Demography and destiny: the world that awaits us in 2050 with fewer births and longer lifespans» in this same Dossier), involves a series of transformations and broad-spectrum challenges for the economy, which seem to have cast a shadow over the prospects for global growth over the coming decades. However, the future is not written in stone and it can be shaped with the right policies. Proof of this is the fact that the «demographic dividend» that Africa has enjoyed for decades has not been reflected in significant economic development in the region, in contrast to the dynamism of Southeast Asia, which has become an engine of global growth in the last 25 years. Indeed, this dynamism has been led by China, which has managed to transform its economy into a global competitor, including in high-tech products, despite a relatively ageing population.

Employment rate by age group in OECD countries (2023)

(%)



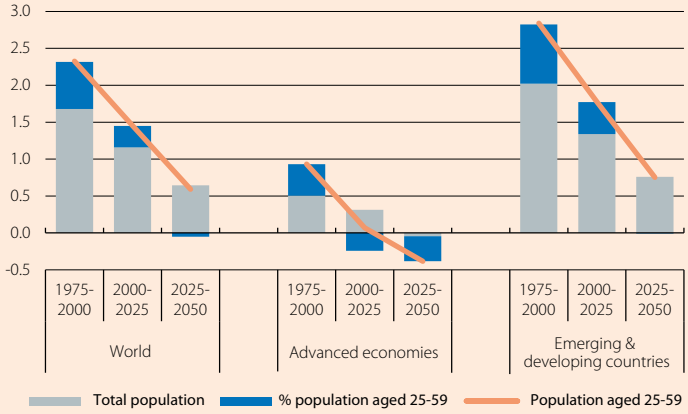
Note: *Population in employment over the total population in each age group.*
Source: *CaixaBank Research, based on data from the OECD.*

The diminishing role of demographics in growth

Taking into account that a country's economic activity depends on the volume of its resources and the way in which they are used and combined, the current demographic transition poses two simultaneous challenges. On the one hand, lower population growth slows down the increase in available resources, in this case, the labour factor. On the other hand, population ageing causes the most utilised labour resources – usually the population between 25 and 59 years of age (see first chart) – to decrease as a share of the total. If we look at projections by the United Nations,[1] the combination of these two factors seems to lead, *ceteris paribus*, to a significant slowdown in economic growth in the coming decades. This is the case both for advanced countries, where the total population has already stagnated at best, and especially for emerging and developing countries, where for the first time the share of people of working age will decline relative to the population as a whole (see second chart).[2]

Average annual change in the population aged between 25 and 59

(% and contributions in pps)



Note: *Forecasts from 2024 onwards.*
Source: *CaixaBank Research, based on data from the United Nations.*

Scope for closing the gender gap and prolonging working life

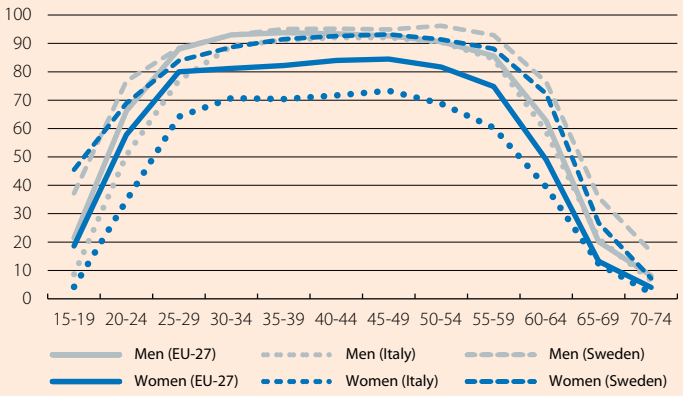
Among the elements that could help mitigate the effects of the current demographic transition on economic growth, one of the main areas of action is policies aimed at increasing the supply of labour. In this regard, despite the convergence observed in recent decades due to social and educational factors,[3] even today stark differences persist in the labour force participation rate between countries, as well as between population groups within these countries, with the lowest rates found among women and with a sharp decline in workers from 60 years of age (see the third chart for the EU as a whole and the contrast between two of its member countries, Italy and Sweden). Some of the levers that can

1. World Population Projections 2024: https://population.un.org/wpp/.
2. The IMF estimated in its World Economic Outlook report this spring that, with current policies, the global growth of the economy between 2025 and 2050 will be 1.1 pp lower than in 2016-2018.
3. C. Fernández Vidaurreta and D. Martínez Turégano (2018), «Labour market participation rate in the euro area: performance and outlook, a long-term view», Bank of Spain Economic Bulletin.

help boost participation among women include, above all, policies that facilitate a balance between work and family life, such as flexible part-time work arrangements, non-deterrent tax treatment for secondary earners and adequate provision of early childhood education services.[4] On the other hand, in order to extend people's working lives, incentives can be implemented to align the effective retirement age with the statutory one, to promote the compatibility of retirement and certain forms of employment, to bolster active policies with lifelong learning and to improve the health conditions in old age.[5] Also, given the differences between world regions in the stage and intensity of these demographic changes and the persistence of wide gaps in economic development, managing migratory flows will continue to play an important role.[6] Only an ambitious implementation of this set of policies can significantly cushion the effects of the demographic transition (see example for different EU countries in the fourth chart, based on UN projections).[7]

Participation rate by sex and age group in the EU 2023

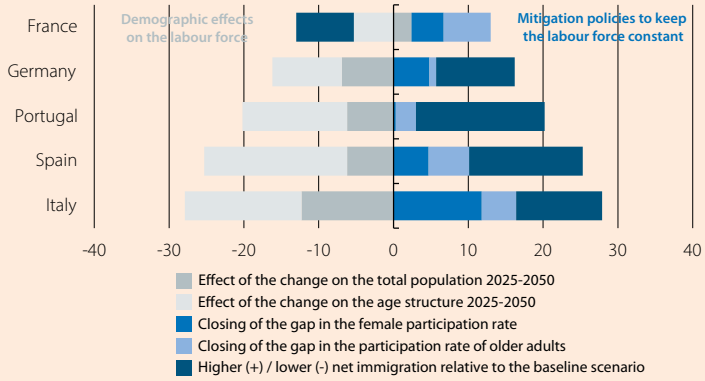
(%)



Note: *Labour force over total population in each age group.*
Source: *CaixaBank Research, based on data from Eurostat.*

Labour force change in EU countries: 2025-2050

Demographic effects and mitigation policies (%)



Note: *Closing of the gender gap assumes that the female participation rate increases in all age groups to match the level for males; closing of the gap among older adults assumes that the participation rate in the 60 to 74 age group increases for both sexes to match the value in Sweden; higher/lower net immigration takes place in the 25 to 59 age group to match the labour force of 2050 with that of 2025.*
Source: *CaixaBank Research, based on data from the United Nations and Eurostat.*

Productivity to the rescue (driven by AI)?

In addition to greater use of the labour factor, its more efficient use combined with capital resources is also a key source for overcoming the determinism of the current demographic transition. Over the past few decades, labour productivity has continued to increase at a steady pace globally, driven by structural change and macroeconomic stabilisation in emerging countries, which have facilitated efficiency gains, improvements in education level and the accumulation of productive capital (see fifth chart). However, the effect of these processes tends to be progressively exhausted as the degree of economic development advances and sectoral tertiarisation becomes more pronounced. Moreover, we observe a practical stagnation in the translation of technological advances to total factor productivity (TFP).[8] In this regard, recent developments in the field of artificial intelligence (AI) have opened the door for this general-purpose technology to boost TFP across a broad spectrum of sectors, particularly those involving more cognitive tasks, as well as accelerating innovation processes. However, there is still significant uncertainty over the degree of complementarity/substitutability of AI with the labour factor,[9] leaving ample scope for future scenarios. Some baseline estimates place the increase in labour productivity in the US in the range of 1%-1.5% per year,[10] which would offset the demographic brake on GDP growth discussed above. In the rest of the world, the expected gains would likely be more moderate given the reduced exposure to and preparedness for the adoption of AI, including institutional

4. J. Fluchtmann, M. Keese and W. Adema (2024), «Gender equality and economic growth: Past progress and future potential», OECD.
5. IMF (2025). «The rise of the silver economy: global implications of population aging», World Economic Outlook.
6. See, for example, the case of the euro area after the pandemic: O. Arce, A. Consolo, A. Días and M. Weissler (2025), «Foreign workers: a lever for economic growth», ECB.
7. In the case of Spain, the projections produced by the National Statistics Institute (INE) differ significantly from those of the United Nations, mainly with regard to immigration flows. Specifically, while the latter anticipate an average of 60,000-70,000 net entries between 2025 and 2050, the INE's projections place this figure between 350,000 and 400,000 people. Using the latter as a reference, we estimate that the labour force in Spain would remain relatively stable during this period.
8. Changes in total factor productivity measure the variation in production in an economy that is not explained by increases in the productive factors (capital and labour); for example, through these factors being used more efficiently.
9. D. Acemoglu (2024), «The simple macroeconomics of AI», NBER.
10. M. Baily, E. Brynjolfsson and A. Korinek (2023). «Machines of mind: The case for an AI-powered productivity boom», Brookings; Goldman Sachs (2023), «Generative AI: hype, or truly transformative?».

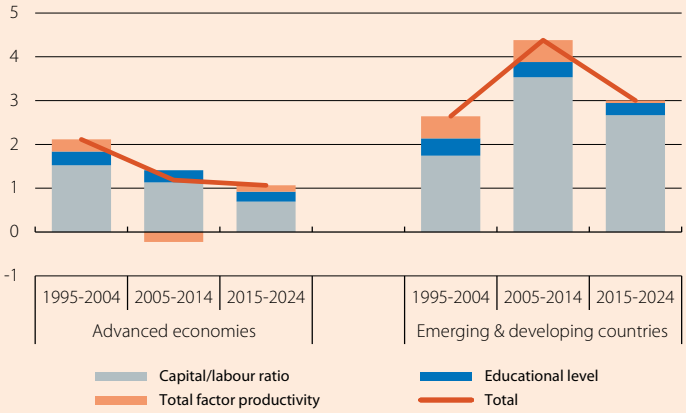
aspects, the rollout of digital infrastructure and vocational training (see sixth chart).[11]

A comprehensive strategy to address the demographic challenges

Policies aimed at increasing the labour supply and boosting productivity have a high potential to offset the effects of the demographic transition. However, their effectiveness will depend decisively on three factors. Firstly, it will depend on the existence of favourable conditions for business activity and job creation. In the EU, this need has been echoed in the Competitiveness Compass,[12] which seeks to revitalise the growth capacity of the European economy through improvements in the regulatory framework of the internal market and the mobilisation of capital towards strategic investments. Secondly, the range of professional skills needs to be adapted to technological changes, the green transition and new patterns of demand in an ageing society. To this end, active labour market policies must minimise the costs of adjusting to this new reality and firms must adapt their job positions, paying particular attention to jobs at risk due to task automation, increasingly shaped by advances in AI. Thirdly, the set of public policies must be adapted to promote further improvements in citizens' welfare at the same time as maintaining fiscal discipline,[13] while private actors will have to adjust their consumption and investment decisions to the new income and wealth conditions across the life cycle.[14] In both cases, the distributional effects of the ongoing changes will also be relevant for determining the magnitude of the challenges.

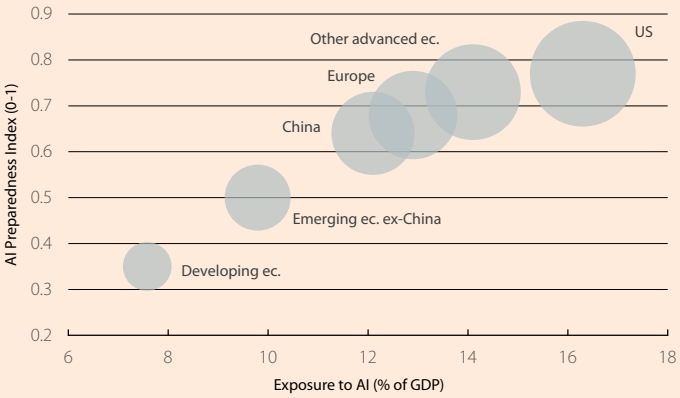
David Martínez Turégano

Average annual change in real labour productivity
(pps)



Source: *CaixaBank Research, based on data from The Conference Board.*

AI exposure and preparedness by world region



Note: *The size of the bubble is proportional to the product of the two variables, which approximates the sensitivity to an AI-driven productivity shock.*
Source: *CaixaBank Research, based on data from Cerutti* et. al. *(2025).*

11. E.M. Cerutti *et al.* (2025). «The Global Impact of AI – Mind the Gap», IMF.
12. See the Focus «A shift in the EU's political priorities» in the MR04/2025.
13. See the articles «The impact of ageing on public finances: a major challenge for Spain and Europe» and «Levers to mitigate the impact of demographics on public finances: the case of pensions» in this same Dossier.
14. See the article «Will an ageing society pay lower interest rates?» in this same Dossier.

The impact of ageing on public finances: a major challenge for Spain and Europe

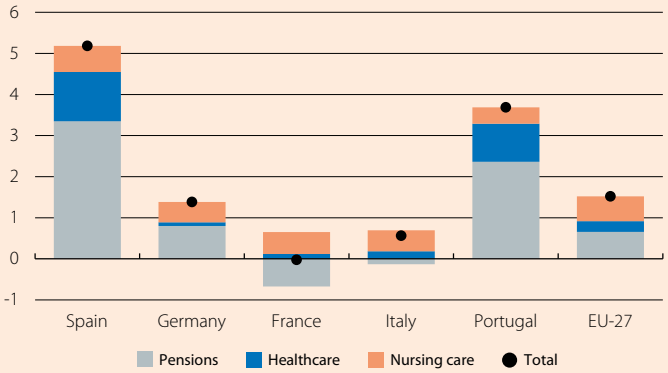
The ageing of the population will have a major impact on the public finances of advanced economies. The mechanism is well known: the ageing of the population and the consequent increase in dependency ratios can reduce tax revenues and increase public spending substantially. The main message of this article is that demographics will exert intense upward pressure on the public finances in Spain and Europe.

Ageing and public spending

The portion of public expenditure directly affected by ageing which we take as a reference consists of pensions, healthcare and long-term nursing care. Public spending on pensions represents the bulk of the three (more than 60% in Spain) and AIReF[1] estimates that, in the absence of changes in economic policies (what is known as a constant policy scenario), this category of expenditure in Spain would go from 12.7% of GDP in 2022 to 16.1% of GDP in 2050 (EU average estimated for 2050: 12.1% of GDP according to the European Commission's 2024 Ageing Report, or simply AR24). This is an increase of 3.4 points, well above the EU average (+0.7 pps) and that of the other major European economies, including Portugal (+2.4 pps), as shown in the first chart.[2] Two factors can help us to understand why pension spending will put greater pressure on the public finances in Spain than in the EU in the medium term. The first is the greater generosity of the public pension system: according to AR24 it is projected that, at constant policies, the replacement rate (i.e. the ratio between an individual's starting pension and their final salary) will be 65% in Spain in 2050, compared to 38.5% in the EU.[3] The second factor is the fact that, in Spain, the baby boom started almost a decade later than in central Europe (this second factor is expected to delay Spain's peak pension spending as a percentage of GDP until 2045-2050).[4]

Increase in public spending on ageing between 2022 and 2050

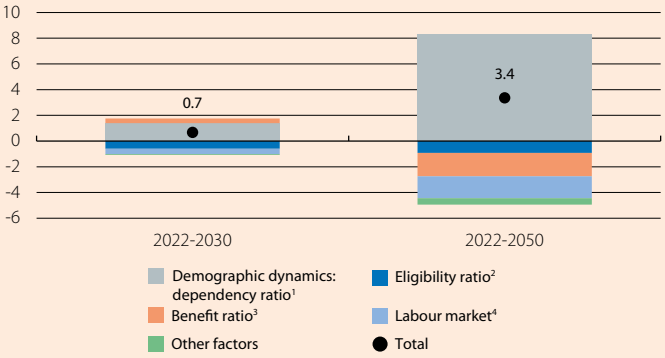
(pps of GDP)



Note: *Scenario at constant policies.*
Source: *CaixaBank Research, based on projections from the Ageing Report 2024 and, in the case of Spain, from AIReF, 2025, «Opinion on the long-term sustainability of the general government: demographics and climate change».*

Spain: determining factors of the increase in public spending on pensions

(pps of GDP)



Notes: *Scenario at constant policies. 1. Retirement-age population over working-age population. 2. Number of pensioners over retirement-age population. 3. Average pension divided by apparent labour productivity (defined as GDP over hours worked). 4. Working-age population over hours worked. This shows how the effort to fund the system is distributed among the labour force.*
Source: *CaixaBank Research, based on projections from the Ageing Report 2024 and AIReF.*

The main determining factor that would explain the increase in public spending on pensions in Spain is demographics: it is estimated that, through the decline in the ratio of the working-age population to retirees, this could contribute an increase in pension spending of more than 8 pps of GDP between 2022 and 2050.[5] Not surprisingly, in Spain, there are currently 2.6 people of working age for every person over 65 years, and by 2050, the National Statistics Institute (INE) projects that for every retiree there will be just 1.6 people of working age.[6] The impact of demographics would be partially offset (see second chart) by the expected fall in the benefit rate (the ratio of the

1. See the «Second Opinion on the Long-term Sustainability of the General Government» published by AIReF on 31 March 2025.
2. For the other economies, the anticipated increases are estimates from AR24. In the case of Spain, we take those published by AIReF, since it gives a more up-to-date scenario incorporating macro data from 2023 (only from 2022 in the case of AR24) and demographic projections that take into account recent demographic trends (AR24 uses Eurostat demographic projections from 2023). According to AR24, the increase in pension expenditure between 2022 and 2050 is, in fact, expected to be higher: +4.2 pps.
3. Currently 76.0% in Spain and 45.5% on average in the EU.
4. See the European Commission's Annual Report of Taxation 2025.
5. We have rescaled the key figures from the Ageing Report 2024 to match the most recent AIReF reports which take into account the latest macroeconomic data.
6. See the article «Demography and destiny: the world that awaits us in 2050 with fewer births and longer lifespans» in this same Dossier. Estimates similar to those from AR24 and AIReF.

average pension to the average wage); due to the increase in the employment rate and a lower eligibility ratio[7] (pensioners as a proportion of the retirement-age population). The reason for the importance of demographics is that, between 2022 and 2050, the number of retirees will steadily rise due to the retirement of the baby boomer generation,[8] and that increase will not be offset by new entries into the labour market, even with dynamic migration flows.

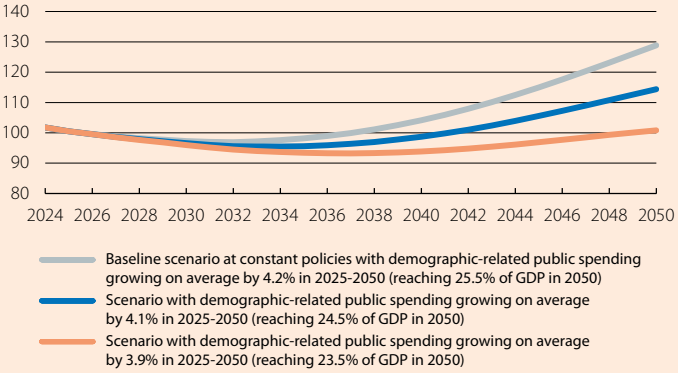
Healthcare spending would also increase significantly, especially in Spain: in a constant policy scenario, it is estimated[9] that this would increase by 1.2 points of GDP in Spain (+0.3 pps in the EU) to 8.0% of GDP (7.2% in the EU) between 2022 and 2050. In contrast, spending on nursing care would grow by 0.6 points of GDP, both in Spain and in the EU.

Thus, adding up pensions, healthcare and nursing care, the total public spending related to ageing in Spain would go from 20.3% of GDP in 2022 to 25.5% of GDP in 2050. This is an increase of 5.2 points, significantly higher than in the EU as a whole (+1.5 points). In terms of primary public expenditure, spending linked to ageing would represent 56% of the total in 2050 in Spain, compared to 48% today.

Demographics and public debt

The upward pressure of ageing on public spending is undoubted, but in order to get the full picture it is worth analysing the impact of ageing on public debt. AIReF has estimated that, in an illustrative scenario at constant policies,[10] Spain's public debt would increase by around 30 points of GDP between now and 2050, reaching 129% of GDP (debt in 2024: 101.8% of GDP), and it is documented that the ageing of the population and the increase in associated expenditure would be the trigger for this increase. In particular, AIReF estimates that the higher spending associated with ageing (pensions, healthcare and nursing care) alone would increase the debt by 57 points between now and 2050 (this would be partially offset by other factors, such as lower expenditure on education due to the reduction in the number of pupils, GDP growth, etc.). Of these 57 points, 31 would be driven by pension expenditure, 19 by healthcare and 7 by nursing care.[11]

Public debt: sensitivity analysis according to the evolution of public spending related to ageing
(% of GDP)



Notes: *The baseline scenario we take as a benchmark at constant policies is that used by AIReF. Spending on ageing includes pensions, healthcare and long-term nursing care.*
Source: *CaixaBank Research.*

A sensitivity analysis: the future is yet to be written and is not deterministic

Although the ageing of the population will put pressure on public finances, we must emphasise that the estimates analysed in this article are derived from illustrative inertial scenarios without any new economic policy measures beyond those already taken to date. Therefore, we should not succumb to despair.

It should be noted that a slight reduction in the growth of public spending (whether on items related to ageing or otherwise) would enable considerable savings that would go a long way to mitigating the increase in public debt and, therefore, the mortgage burden we would leave for future generations. Focusing on public spending related to ageing, we have already mentioned that with constant policies this would increase from 20.3% of GDP in 2022 to an estimated 25.5% of GDP in 2050. This is an average annual growth of 4.2% over the next 25 years. However, we estimate that reducing the average annual growth of such spending from 4.2% to 4.1% – which would bring it to 24.5% of GDP in 2050 instead of the 25.5% in the baseline scenario at constant policies – while keeping other factors unchanged[12] would enable a much more gradual increase in public debt. Specifically, this would be 15 points of GDP lower in 2050 than in the baseline scenario (114% of GDP instead of 129%). Taking this

7. The eligibility ratio will help mitigate the increase in pension spending, especially during the first decade of the projection due to the gradual implementation of the increase in the statutory retirement age, reaching 67 in 2027.
8. See the Dossier «The golden years of the baby boomers: challenges and opportunities» in the MR06/2023.
9. See the «Second Opinion on the Long-term Sustainability of the General Government» published by AIReF on 31 March 2025.
10. It is assumed that no further measures are taken to rebalance the public accounts. In its macroeconomic forecast scenario, AIReF estimates population growth of 3.0 million between 2025 and 2050, an average annual growth in apparent labour productivity of 1.1% over the period 2025-2050 and an average annual growth in real GDP of 1.3% in the same period.
11. In other words, if the public finances were not conditioned by demographic pressures, debt would follow a downward path, reaching around 72% of GDP by 2050 (this figure is obtained by subtracting the upward contribution of demographics of 57 points of GDP from the estimated total debt of 129% of GDP).
12. However, we take into account that a lower path of public debt also has an impact on the interest bill, which will be lower (leading to a snowball effect).

scenario further, reducing the average annual growth of this expenditure from 4.2% to 3.9% – bringing it to 23.5% of GDP in 2050 instead of 25.5% in the baseline scenario – would lead to public debt being almost 30 points of GDP lower in 2050 compared to the baseline scenario (i.e. 101% of GDP instead of 129%).

In short, demographics will exert clear upward pressure on public spending in Europe and Spain in the medium term. However, the evolution of public finances in the medium term is highly sensitive to small changes in the assumptions used in the macroeconomic scenario, as well as to the estimates of increases in public spending, all of which is subject to the intrinsic uncertainty that surrounds the country's macroeconomic evolution over the next 25 years. Moreover, the medium-term estimates are based on constant policies, but we cannot ignore the fact that the Spanish economy and those of Europe in general have a wide range of economic policy levers at their disposal to cushion and minimise the adverse impact of demographics on their public finances. Thus, there is considerable scope for action. It is precisely these levers that we discuss in the next article of this Dossier.[13] The future is not written.

Javier Garcia-Arenas

13. See «Levers to mitigate the impact of demographics on public finances: the case of pensions» in this same Dossier.

Levers to mitigate the impact of demographics on public finances: the case of pensions

The upward pressure of demographics on public spending will be the dominant factor which, in the absence of measures, would lead to a deterioration of the public finances of developed economies in the medium term.[1] Broadly speaking, in a scenario with constant policies, AIReF projects that public spending on ageing in Spain will increase between 2022 and 2050 by more than 5 points of GDP, of which 3.4 would correspond to pension spending, compared to a 1.1-point increase in revenues from social security contributions.[2] It would therefore be necessary to increase revenues by 2.3 points of GDP via transfers from the government to the Social Security system in order to finance the higher pension expenditure, unless measures are taken to reduce expenditure as a percentage of GDP.[3]

In this article, we focus on three major levers proposed by economists to mitigate the impact of population ageing on public finances and, in particular, on pension spending: prolonging working life, boosting productivity and attracting more immigration.[4] Institutions such as AIReF and the European Commission have conducted sensitivity analyses on how changes in these levers could affect pension spending as a percentage of GDP in Spain. These are illustrative results that should be taken with caution given the high uncertainty surrounding the country's future macroeconomic path over the next 25 years. In addition to these levers, we should also consider policies aimed at bolstering private pension schemes as an essential complement to public pensions, as well as measures to incentivise child birth.[5]

Starting with prolonging working life, increasing the employment rate among people aged 55 to 74 would considerably ease the pressure of ageing on pension spending. The Ageing Report 2024 (AR24) estimates that successfully raising this rate in Spain to 70% by 2050, rather than the 60% predicted in its baseline scenario with constant policies, would allow pension spending to be reduced by 1.4 points of GDP in 2050 compared to the baseline scenario – almost half the projected increase in expenditure (3.4 points). Achieving an employment rate of 70% by 2050 for people aged 55 to 74 seems ambitious; in the major European economies, also with constant policies, the projections for the employment rate in this age group in 2050 fall below that figure.[6] In Spain, the current rate is 54%, so reaching the level of 60% anticipated[7] in the baseline scenario would already represent a substantial improvement of 6 points, which incorporates the impact of the new design for the system of incentives to delay retirement under the 2023 pension reform.[8] Policies that go further in this regard, such as allowing work and the receipt of a pension to be combined, would help to further boost the employment rate among these groups.

One avenue that other countries have followed to extend working life is to delay the legal retirement age. In AR24, they analyse the impact of delaying retirement by linking it to the increase in life expectancy; specifically, applying three-quarters of the increase in life expectancy[9] between 2022 and 2050. This would mean that the legal retirement age in Spain would increase from 66.2 years in 2022 to 68.2 years in 2050, as life expectancy is expected to increase by almost three years in that period. The impact of this delay in the retirement age alone would represent a reduction in pension spending of 0.5 GDP points in 2050 compared to the baseline scenario in which the retirement age rises to 67 years in 2027 and remains constant at that age from then until 2050. Denmark, the Netherlands, Sweden and Estonia have already linked retirement age to life expectancy. These countries also tend to be in more favourable positions in terms of the sustainability of their pension systems.[10]

Improving productivity is the second major lever analysed in this article to counteract demographic pressure on public finances. Productivity is the main source of economic growth in the medium term, so accelerating it would reduce pension spending as a

1. See the article «The impact of ageing on public finances: a major challenge for Spain and Europe» in this same Dossier.
2. See the «Second Opinion on the Long-term Sustainability of the General Government» published by AIReF on 31 March 2025.
3. See the Focus «AIReF's evaluation of the pension reform: first match ball saved, but with big challenges on the horizon» in the MR05/2025.
4. Levers to mitigate the macroeconomic impact of ageing are discussed in detail in the article «The effects of ageing on growth and policy tools to mitigate them» in this same Dossier.
5. We discussed the first one in detail in the article «How to manage our cognitive biases to boost private pension savings» in the Dossier of MR06/2023, and the effects of the latter would possibly become evident beyond 2050.
6. Projections of the employment rate for this age group in 2050: 63.4% in France, 64.8% in Germany, 59.9% in Portugal and 55.9% in Italy.
7. It would go from 57.6% in 2022 to 72.5% in 2050 for the 55-64 age group and from 6.0% in 2022 to 18.2% in 2050 for the 65-74 age group.
8. The reform regarding delayed retirement includes a standardisation and increase of the additional percentages applicable for each year of delay in calculating the initial pension, as well as the possibility to replace the increase in the pension with a lump-sum payment calculated on the basis of the number of years of social security contributions, the years of delay and the initial pension. AIReF anticipates that these measures will contribute to an increase in the effective retirement age from 64.7 years in 2021 to 65.2 years today and to a forecast of 66.2 years in 2050.
9. Life expectancy at 65 years of age.
10. Specifically, their public pension expenditure as a percentage of their tax revenues is lower than the European average, as analysed in the European Commission's Annual Report of Taxation 2025.

percentage of GDP, although the positive impact via greater economic dynamism would be partially offset by higher pensions driven by higher wages. It is estimated that an average growth rate of total factor productivity (TFP) of 1.2% over the next 25 years, instead of the 0.8% envisaged in AIReF's baseline scenario, could decrease pension spending in 2050 by 1 GDP point and public debt by around 20 points compared to the baseline scenario.[11] If sound economic policies are implemented – in education, attracting talent, and a good institutional environment, etc. – and if the deployment of artificial intelligence has a successful impact, it is not unreasonable to aspire to achieve that pace in the medium term, even though it is an ambitious goal. To contextualise this scenario, the average annual growth rate of TFP in Spain was 0.9% between 2015 and 2019.

Finally, immigration can be a lever that also contributes in the desired direction, since it is the demographic phenomenon that has the quickest and most direct impact on the working-age population, a key element for GDP growth. It is estimated that net migration flows of 385,400 people per year on average in the period 2024-2050, as predicted by the National Statistics Institute (INE), rather than the 275,200 used in AIReF's baseline scenario, would reduce pension spending in 2050 by 0.3 points of GDP compared to this baseline scenario, thanks to the greater growth of the economy.[12] In addition, public debt in 2050 would be reduced by around 10 points of GDP compared to the baseline scenario thanks also to public revenues contributed by this group linked to their labour incomes. To contextualise the estimation of flows, in the period 2000-2023 they averaged 356,000 per year[13] and reached 630,000 in 2000-2008. However, there is significant uncertainty over the impact of this lever; according to the AR24 analysis, the reduction in pension spending as a percentage of GDP thanks to immigration would be greater, albeit based on different assumptions.[14]

In order to measure the impact of immigration on public finances more fully, an analysis is needed to compare the contributions made by immigrants to public revenues against the benefits they will receive throughout their life cycle (e.g. the impact will be more positive in the case of young immigrants with high levels of training and strong professional skills). AIReF's forecasts reveal how the ageing process would be mitigated in the 2030s and 2040s – the peak phase with the retirement of most baby boomers – by the incorporation of immigrants of ages at which the contribution to the public sector is positive. Subsequently, these cohorts of immigrants would reach their negative contribution stage once the process of the ageing of the native population has stabilised and, therefore, the pressure of increasing expenses associated with ageing has eased.

Sensitivity analysis of pension spending
(difference versus the baseline scenario, in pps of GDP)

Policy	Details	Change in pension expenditure in 2050 vs. the baseline scenario (pps of GDP)
Increase the rate of employment among workers aged 55-74	Increase to converge on a final rate that is 10 points higher than the AR24 baseline scenario: in 2050, it would go from 60% to 70%.	–1.4
Raise the legal retirement age by linking it with the increase in life expectancy	Apply three-quarters of the increase in life expectancy between 2022 and 2050: retirement at 68.2 years instead of 67 years in 2050.	–0.5
High productivity	Average annual GDP growth of 1.2% instead of 0.8% in 2025-2050.	–1.0
High migration	Net flows in 2024-2050 of 385,400 instead of 275,200.	–0.3

Source: *CaixaBank Research, based on the sensitivity analysis from AR24, except for productivity and immigration, where we performed a linear extrapolation based on estimates from the sensitivity analysis conducted by AIReF in its «Opinion on the Long-term Sustainability of the General Government», published in March 2025.*

In short, with constant policies, it is projected that public spending on pensions will increase in Spain by more than 3 points of GDP over the next 25 years, or 2.3 points of GDP if the expected increase in income is factored in. Dynamic productivity growth, higher retention of older workers in the labour market and the attraction of highly educated immigrants could offset those 2.3 points completely in the best of worlds, or at least mitigate them considerably. At least, that is the case according to sensitivity analyses, which are subject to the inherent difficulty of making macroeconomic and demographic assumptions over such a long time horizon. Therefore, the room for manoeuvre exists and now is the time to get down to work.

Javier Garcia-Arenas with the collaboration of Vânia Duarte

11. Extrapolation based on the sensitivity analysis performed by AIReF regarding the impact of increasing TFP growth by 10% in the «Second Opinion on the long-term sustainability of the general government: demographics and climate change».
12. We performed a linear extrapolation based on the sensitivity analysis conducted by AIReF, according to which a 15% increase in net migration flows in the period 2024-2050, starting from 275,200 a year in the baseline scenario, would reduce pension spending by 0.1 pp of GDP compared to the baseline scenario.
13. Excluding 2020 and 2021, years of reduced mobility due to the pandemic.
14. In AR24 the baseline scenario is net flows of 227,000 per year on average in the period 2024-2050. They estimate that a 33% increase in these flows to more than 300,000 per year would reduce pension spending by 1.4 points of GDP compared to the baseline scenario.

Will an ageing society pay lower interest rates?

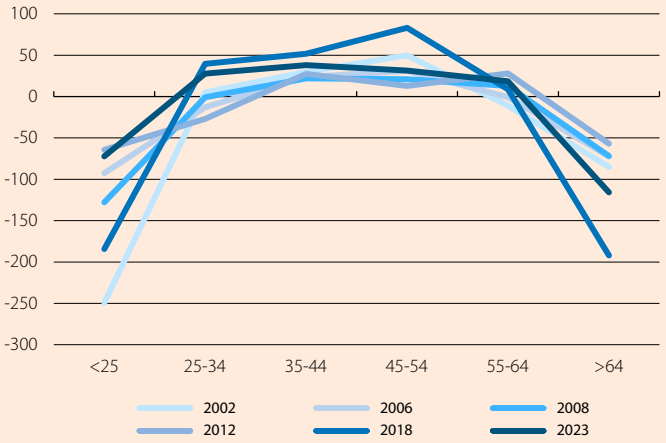
In the other pages of this Dossier, we have analysed in depth how ageing will affect the capacity for economic growth and the public finances. All these changes will have consequences on the supply and demand for savings and, therefore, on the interest rates of economies.

From ageing to savings: transmission channels

We can divide the transmission mechanisms of population ageing on interest rates between those that affect the demand for savings and those that affect the supply. On the demand side, it should be borne in mind that population ageing goes hand in hand with a reduction in fertility and lower population growth. This results in less dynamic GDP[1] and, consequently, investment: that is, lower demand for savings, leading to lower interest rates. In other words, as the capital of an economy slowly depreciates, the lower growth of the economy causes the capital stock-to-GDP ratio to rise and generates a relative abundance of capital, which pressures interest rates downwards.[2]

US: savings rate by age

Deviation from the national average (%)

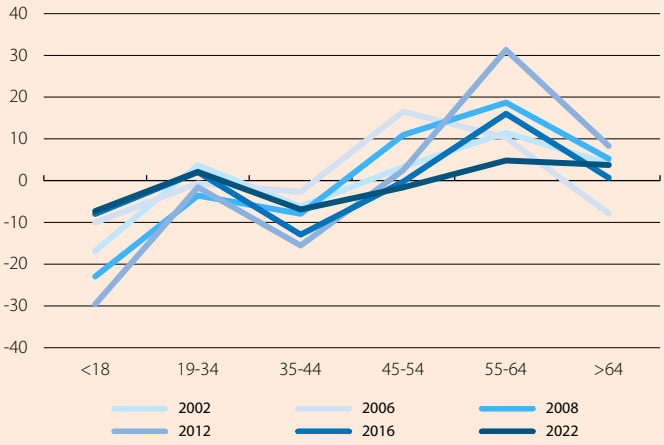


Source: *CaixaBank Research, based on data from the Consumer Expenditure Survey (Bureau of Labor Statistics).*

On the supply side there are different mechanisms, and all of them are derived from the so-called life cycle theory.[3] According to this theory, the savings rate varies over the course of our lives following an inverted U-shape: young people and the elderly save less, while the middle-aged save more. The first chart shows how this relationship plays out in the US (not so clearly in Italy).[4] The reason is the desire to enjoy a relatively stable quality of life over time. Thus, the life cycle theory suggests that people should save more at those ages at which they earn higher incomes, and use these extra savings to improve their quality of life in stages with a lower income flow (typically youth and old age).

Italy: savings rate by age

Deviation from the national average (%)



Source: *CaixaBank Research, based on data from the* Indagine sui bilanci delle famiglie italiane (Banca d'Italia).

Taking into account these fluctuations in savings throughout the life cycle, population ageing generates two major forces on the supply side. The first presumes a change in the behaviour of savers. Ageing is associated with an increase in life expectancy and in the number of years of labour inactivity after retirement. If people want to maintain a stable quality of life over a longer retirement, as the life cycle theory postulates, then higher life expectancy should spurt an increase in savings in the years of labour activity. That is, the increase in life expectancy ought to increase the supply of savings.

The second force is based on changes in the composition of savers. On the one hand, the increase in the elderly population means that a greater proportion of the population would be comprised of a segment which, according to the life cycle theory, should have lower savings rates. This dynamic depresses the total supply of savings. However, the third chart

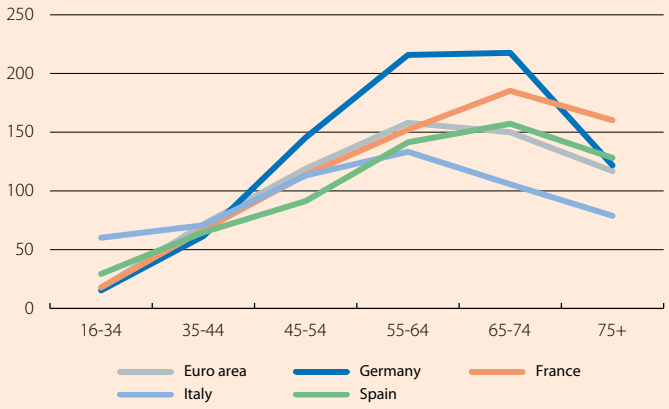
1. See the article «The effects of ageing on growth and policy tools to mitigate them» in this same Dossier.
2. See C. Jones (2023). «Aging, secular stagnation, and the business cycle», Review of Economics and Statistics, 105(6), 1580-1595.
3. A. Ando and F. Modigliani (1963), «The 'life-cycle' hypothesis of saving: aggregate implications and tests», American Economic Review, 53(1), 55-84.
4. In Spain, according to internal CaixaBank Research data, there is also a clear inverted-U relationship between the savings rate and age.

illustrates how the elderly population is, at the same time, a group that tends to have a larger stock of savings accumulated throughout their lives (whether in the form of real estate or financial assets) and, therefore, if the elderly population increases in relative terms, so too should the total supply of savings. Overall, changes in the composition of the population have an uncertain effect because they present two opposing forces: a flow effect (lower savings rate) and a stock effect (greater accumulated stock of savings).[5]

Finally, there is another mechanism that goes beyond the supply and demand for savings. Nominal interest rates also depend on inflation, since we usually talk about interest rates in terms of a currency, such as the euro or the dollar, and not in «real units». If population ageing makes the labour factor more scarce (for example, due to a reduction in the percentage of workers), then there could be more dynamic growth in wages and, therefore, in inflation, which would end up driving up interest rates in nominal terms.[6] However, in the demographic transition there could also be disinflation if the loss of economic growth occurs more quickly than the reconfiguration of the productive structure (demand would lose steam faster than supply).

Average net wealth by age group

(% of the national average)



Note: *Net wealth is the difference between assets (including real estate and financial assets) and total liabilities.*
Source: *CaixaBank Research, based on data from the* Household Finance and Consumption Survey *(Eurosystem).*

The net effect on interest rates

The mixture of mechanisms with different impacts on the supply and demand for savings and on inflation expectations prevents us from drawing unambiguous conclusions. While lower economic growth, higher life expectancy and the «stock of savings» effect tend to push rates downwards, the «flow of savings» effect and the traction between wage growth and inflation push them upwards.

One way of settling the net effect on interest rates is to build an economic model that contains all of the forces discussed as ingredients. This is what studies like those conducted by Auclert *et al.* (2021),[7] the IMF (2023)[8] and Lisack *et al.* (2017) do.[9] According to all of these models, population ageing results, on balance, in lower interest rates. However, each model has its nuance. On the one hand, the IMF believes that, as the demographic transition is already at an advanced stage, its impact on interest rates in the future will be moderate. On the other hand, Lisack *et al.* (2017) emphasise the life expectancy channel (which will continue to progress) and still anticipate a significant downward pressure on interest rates in the 2040 horizon. In the same vein, Auclert *et al.* (2021) highlight the «stock of savings» effect and project persistent downward pressure through to 2050. A monograph by the ECB itself[10] also estimates a persistent negative impact.

However, these results are not free of uncertainty.[11] Beyond the particularities of each model, there is the question of how people's actual behaviour will change. For example, a longer working life would ease downward pressures on interest rates. Also, the inverted-U relationship between the savings rate and age is still a theoretical postulate, and actual data show significant variation across countries and time periods, with some meaningful deviations from the theoretical postulates (compare the most canonical case of the US, in the first chart, with the deviations presented by Italy, in the second). In short, like in the rest of the articles of this Dossier, in the case of interest rates the key once again lies in which levers will be activated in order to manage demographic forces.

5. N. Lisack, R. Sajedi and G. Thwaites (2017). «Demographic trends and the real interest rate», Bank of England Staff Working Paper.
6. C.A.E. Goodhart and Manoj Pradhan (2020). «The great demographic reversal», Economic Affairs, 40 (3).
7. A. Auclert *et al.* (2021). «Demographics, wealth, and global imbalances in the twenty-first century», National Bureau of Economic Research Working Paper.
8. IMF (2023). «The natural rate of interest: drivers and implications for policy», chapter 2 of the World Economic Outlook of April 2023.
9. See the reference in footnote 5.
10. C. Brand, M. Bielecki and A. Penalver (2018). «The natural rate of interest: estimates, drivers, and challenges to monetary policy», ECB Occasional Paper.
11. See the discussion in a previous article, «The demographic cycle of savings and interest rates», in the Dossier of the MR11/2018.

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