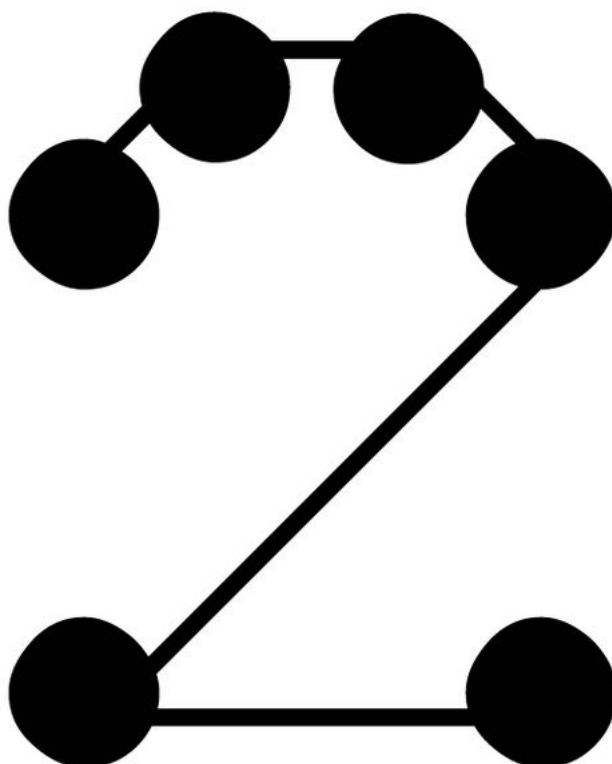


Economic, sectoral and regulatory environment



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Economic, sectoral and regulatory environment

2.1 Economic and financial environment

The Trump administration's agenda was a major factor behind the main events that took place in the economic and financial environment during 2025.

In 2025, the economic and regulatory agenda of the US administration went a considerable way in shaping the global environment. In terms of trade, the United States significantly raised its effective tariffs imposed on the rest of the world. Tariff pressures eased somewhat after bilateral agreements were signed with various regions.

On the institutional plane, the decisions made by the United States pointed towards a reconfiguration of the rules of the game, with more government interference in traditionally independent bodies and, externally, with less support for multilateral agreements and institutions.

In the financial markets, this framework raised occasional doubts about the role of US government bonds as a safe haven asset and of the US dollar as the world's primary reserve currency. At the same time, the sustainability of the public finances continued to be a cause for concern, not only in the United States, but also in certain European economies such as France.

On the geopolitical front, instability persisted, with the conflicts in Ukraine and the Middle East no closer to being resolved. In addition, the publication of the new United States National Security Strategy in December revealed the country's desire to have more influence in the Western hemisphere.

Despite this backdrop, economic activity and the markets showed remarkable resilience. Contributing factors included the boost associated with the deployment of artificial intelligence, expectations of interest rate cuts, as well as sound corporate earnings, all of which helped risk assets to perform well.

The Spanish economy continued to post robust growth of 2.8% per annum, amply outperforming the wider Eurozone. This performance was underpinned by population growth, low exposure to US tariffs, progress made in rolling out NGEU funds, and the pass-through of lower interest rates to households and firms.

Political and geopolitical environment

Geopolitical instability continued to rise in 2025, although its direct impact on economic activity and the financial markets was limited. The main sources of tension were the Middle East, Ukraine, and relations between China and Taiwan, whilst the United States exerted more influence in the Western hemisphere.

In the Middle East, Israel launched direct and sweeping attacks on Iranian nuclear installations, with support from the United States. The episode caused an initial rebound in oil prices, which was quickly corrected once it became clear that Iran's response was one of moderation. This conflict, combined with weakened pro-Iranian militia in the region, reduced Iran's geopolitical influence. In the meantime, Israel continued to attack Gaza, increasing its military occupation of the Strip and gaining further control of the West Bank. Although Trump and the Israeli Prime Minister agreed on a peace plan for Gaza, its implementation soon stalled, with no definitive cease-fire and with no agreements with Hamas. Israel's gains in the region sounded alarm bells for states in the Persian Gulf, above all because it caused them to question whether the United States will be able to continue guaranteeing their security. Against this backdrop, Saudi Arabia signed a mutual defence pact with nuclear-armed Pakistan as a preventive measure.

Geopolitical instability was still very much present in 2025, with the conflicts in Ukraine and the Middle East no closer to being resolved.

In Ukraine, the US administration failed to make any significant progress to resolve the conflict. Russia intensified its attacks to levels not seen since the start of the war, while Ukraine built up its capacity to damage critical Russian infrastructures. Russia's struggles to make front-line gains and the country's depleted economy resulted in more intensive use of hybrid warfare tactics, including cyberattacks and drone incursions in Europe, which increased the risk to the security of Europe and NATO.

In response, NATO agreed to increase its defence spending target from 2% to 5% of GDP within the next ten years. The European Union, for its part, came closer to defining a common defence strategy to make it easier to fund and implement strategic investments. The United States imposed new sanctions on Russia's energy sector and introduced additional tariffs on India, as this country is one of the biggest buyers of Russian oil.

Aside from these conflicts, there were also ongoing tensions between China and Taiwan, with multiple military drills launched around the island and measures designed to exert economic pressure. At the end of the year, the US administration also took military action against Venezuela, allegedly to combat drug trafficking.

In terms of domestic policy, the United States took measures that raised concerns about the country's institutional quality and the separation of powers, and which affected universities, the media and the judiciary. Troops from the National Guard were also deployed to Democrat-controlled cities in order to contain protests linked to migration policies and matters of security. As for foreign policy, the Trump administration focused on scaling back its contribution to international agreements and international development programmes.

In Europe, decisive progress was made on strategic matters, such as those related to defence, which eased concerns over the impact of far-right conservative governments, such as Italy's, and which arguably helped to build bridges with the United States. Despite voting intention polls showing a surge of support for far-right parties, no changes of government took place in either Germany or France. Germany held snap elections that returned the Conservatives to power in coalition with the Social Democrats, while France continued to have a fragmented parliament that struggled to push through structural reforms. After the State Budget for 2026 failed to secure approval, the country had no choice but to extend its existing Budget set for 2025.

Economic activity and inflation

In 2025, the uncertainty generated by the US trade policy and by rising geopolitical tensions shaped the course of global economic activity. Even so, the direct impact of the new tariffs was more moderate than anticipated, thanks to the bringing forward of trade flows, the contained response to the tariffs adopted by the rest of the world, the boost associated with artificial intelligence, and the resilience of trade between emerging economies.

The United States raised the effective tariff to over 10%, from the previous year's rate of below 2.5%. The tariff structure combined a baseline global tariff of 10%, tariffs of 15% for the EU, Japan and South Korea, and tariffs ranging from 20% to 50% for the remaining countries, although with exemptions on certain products of strategic importance to the United States. The United States also set sector-specific tariffs of 25% on the automotive industry (15% in the case of the EU), 50% on steel, aluminium and copper, and of 10-20% on timber, lumber and their derivative products. Lastly, investigations began into the possible imposition of tariffs on sectors such as semiconductors and pharmaceuticals. Trump also imposed politically-driven tariffs, as in the case of Brazil and India.

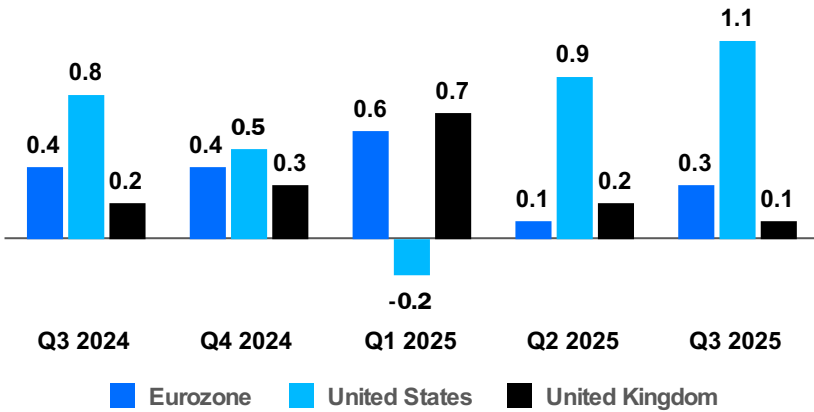
In terms of technology, the tech war between United States and China intensified. The United States introduced new export controls on advanced AI chips to China, while China in turn threatened to set export controls on critical mineral shipments. Although tensions eased off after the two powers agreed a truce in November, the structural confrontation in relation to technology continues.

The increase in tariffs imposed by the United States had a limited impact on the economy in 2025.

In the Eurozone, the heightened trade uncertainty affected GDP performance. GDP spiked in the first quarter as exports to the United States were brought forward, before subsequently posting more moderate growth when those trade flows normalised. Germany stood out after it approved a huge fiscal stimulus package that boosted growth, allowing the country to record economic growth for the first time since 2022.

In the United Kingdom, economic activity showed some resilience in the first half of the year. Lower interest rates revitalised the real estate market and reinvigorated borrowing, although the tax situation remained a cause for concern. In the United States, the economy continued to post solid growth thanks to the sharp increase in investment linked to artificial intelligence and to resilient levels of private consumption, despite the labour market gradually cooling.

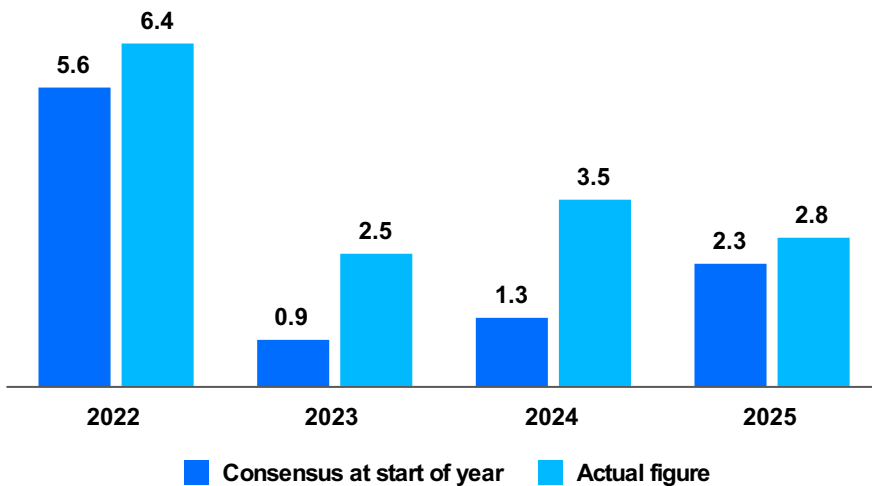
GDP growth in Eurozone, US and UK
 (quarter-on-quarter change, %)
 Sources: Eurostat, BEA and ONS.



Spain’s economic growth once again surprised to the upside.

The Spanish economy outperformed the Eurozone average yet again. Growth in Spain was driven by several factors, such as flows of immigration, which did become more moderate but nevertheless remained a factor that spurred growth, together with the NGEU funds and the pass-through of lower interest rates to the economy. Domestic demand performed well, particularly in terms of private consumption and investment, both in machinery and equipment and in construction. Although exports were affected by the US tariffs, the impact was limited given the small relative weight of this market. The job market remained strong, with the unemployment rate falling to its lowest since 2008, although signs of tension did emerge associated with labour shortages in certain specific sectors.

GDP growth in Spain vs consensus at start of year
 (annual variation, %)
 Sources: INE and Consensus Economics.

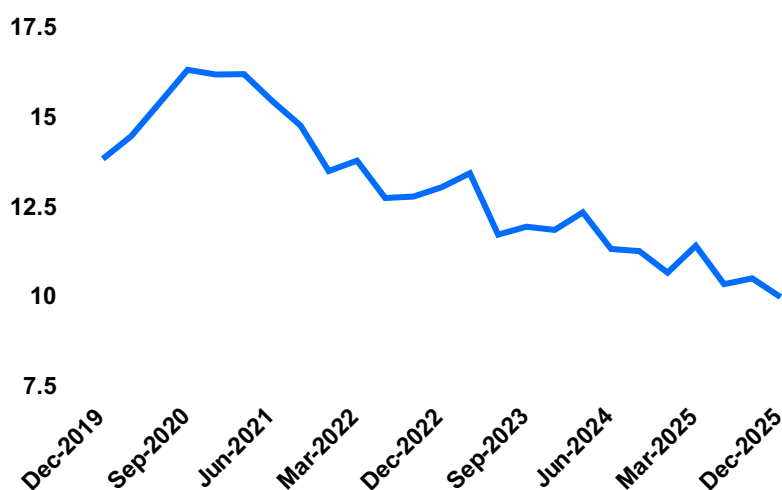


In fiscal terms, Spain's credit rating was revised upwards by the three major credit rating agencies, as they recognised the country's improved public finances and its progress in implementing European funds.

As for Spain's economic policy, other than the aid package approved to cushion the impacts of the US tariffs, it is worth noting the approval, at year-end, of a revised Recovery Plan, which was agreed with the European Commission. The updated Plan aims to facilitate the disbursement of NGEU funds transfers and confirms that only 25% of the total loans available will be used, given that interest rates in the EU are less attractive than Spanish government bond yields and because there is limited time in which to spend the funds. In relation to other economic policy initiatives, such as the automatic debt write-off and the creation of a singular financing system for Catalonia, only scant progress was made. In addition, the government failed to approve the General State Budget for 2026, marking the third consecutive year without a new spending plan.

Unemployment rate in Spain (%)

Source: INE.



In China, economic activity proved resilient despite a still-sluggish real estate market and the strategic clash with the United States. Exports continued to post robust performance, offsetting the slump in sales to the United States, as shipments to other regions increased. The authorities introduced measures to boost consumption and combat the ongoing deflation, a move that was welcomed by the markets.

In Mexico, economic growth continued to lose traction due to a restrictive monetary policy, fiscal consolidation, and the uncertainty regarding relations with the United States, although the impact was less negative than initially expected. As for other emerging economies, these benefited from greater trade fragmentation, a dynamic tech industry (particularly in Asia), and more favourable financial conditions.

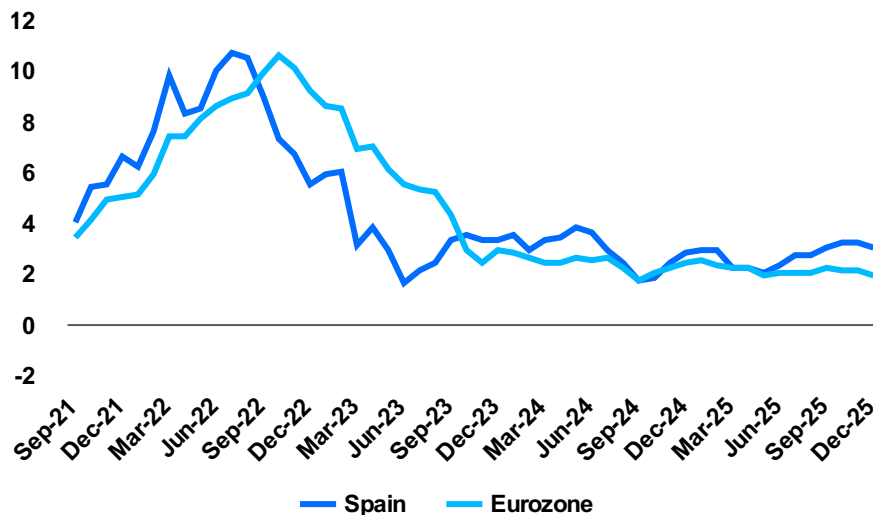
In terms of global inflation, this was generally less of a concern than it had been in previous years. Although the new tariffs did have some impact on the United States, inflationary pressures remained in check in most economies. In the Eurozone, inflation converged towards the ECB's target, with service inflation still sticky. In the United Kingdom, inflation rebounded slightly, due to higher utilities and food prices.

Inflation ceased to be a cause for concern.

In Spain, inflation was lower than in the previous year, although it rebounded in the last few months due to the energy effect and the resilience of tourism-linked services. The pace of house price growth picked up once more, as demand outstripped supply. In the United States, inflation remained above target, with core inflation still pressured by utilities and housing. In Mexico, inflation stabilised at around 4%, at the top end of the target range of the central bank, as a result of sticky services inflation and isolated climate-related events.

HICP in Spain vs Eurozone (year-on-year change in %)

Source: Eurostat.



Monetary policy

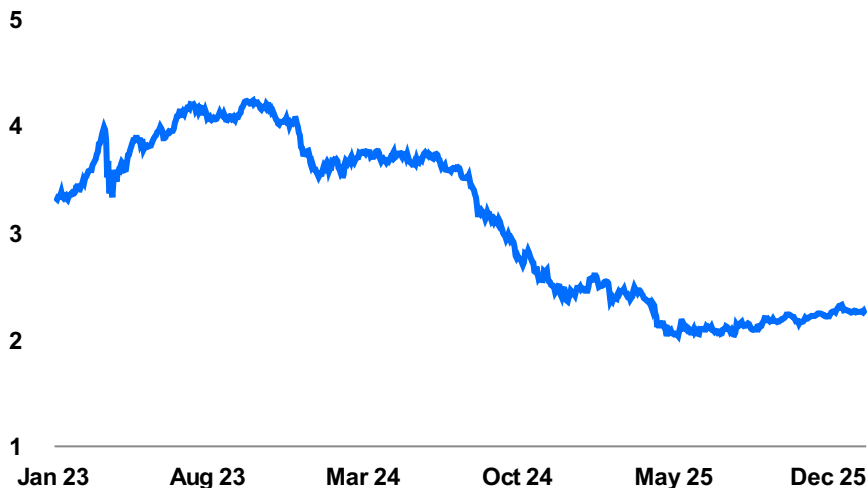
In 2025, the main central banks acted with caution in the face of the considerable uncertainty surrounding the global environment, characterised by geopolitical tensions, trade policy shifts and mixed signals in terms of economic activity.

Central banks cut interest rates, exercising caution given the highly uncertain global landscape.

The ECB cut the deposit facility rate by a total of 100 basis points to 2.00%. That signalled an end to the cycle of rate cuts, as inflation was steadily converging towards the target. The ECB also continued to shrink its balance sheet by ceasing to reinvest the proceeds of its maturing bond holdings.

12M Euribor (%)

Source: Refinitiv.



In the United States, the Federal Reserve (Fed) cut its Fed funds rate target by 75 basis points to 3.50–3.75%, after keeping it stable during the first half of the year. The gradually deteriorating labour market was the trigger behind the decision to resume rate cuts. In addition, the Fed announced that it would be ending its quantitative tightening on 1 December 2025 and it began making additional short-term debt purchases to maintain ample reserves and ensure the smooth operation of the repos market.

The Bank of England continued with its rate cut cycle, introducing four 25 basis point cuts to bring its base rate down to 3.75%. The central bank insisted on the need to maintain a restrictive stance for long enough to mitigate inflationary risks, although its latest decisions were not unanimous. As for its balance sheet, it announced that it would be reducing its gilt holdings by 70 billion pounds in 2026.

In Japan, the Bank of Japan forged ahead with its monetary policy normalisation and raised its policy rate by 50 basis points to 0.75%. However, it slowed the pace of its sovereign bond tapering to avoid market dislocation, especially given the impact of the trade war on the Japanese economy.

In Mexico, the central bank continued with its monetary easing, cutting its official interest rate by 300 basis points over the year to 7.0%, encouraged by an environment of controlled inflation and a resilient Mexican peso.

Other central banks in Latin America adopted more prudent stances in the face of the fiscal and political uncertainty, whilst Brazil extended its cycle of rate hikes given the ongoing inflationary pressures. Turkey, for its part, temporarily reversed some of its rate cuts, after an episode of financial volatility, later resuming its cuts even though inflation remained at very high levels.

Financial markets

In 2025, the financial markets posted good performance overall, despite episodes of high volatility associated with the so-called 'Liberation Day' and the uncertainty stemming from the geopolitical and commercial environment. After some initial corrections, risk assets made a strong recovery, driven by fiscal stimulus measures, the tariff truce, economic resilience, solid corporate earnings, and the enthusiasm surrounding artificial intelligence.

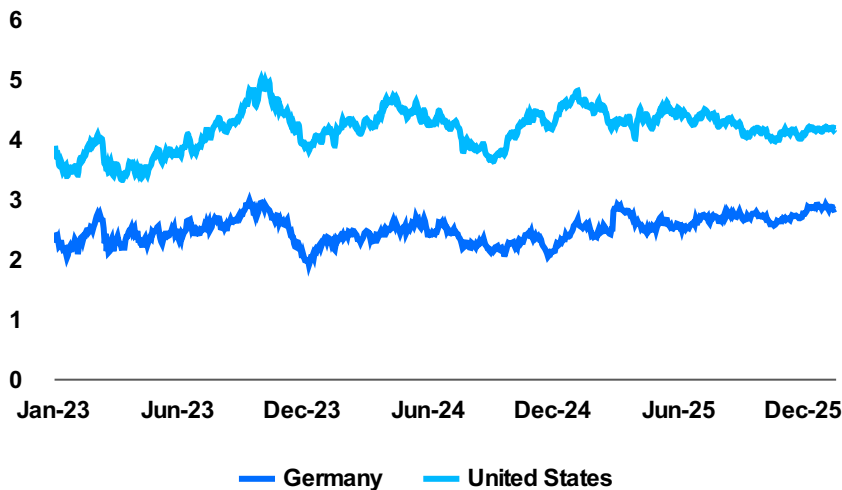
Financial markets performed well in 2025, despite isolated episodes of high volatility.

The main stock market indices either reached all-time highs or posted significant gains. The Stoxx 600 gained 17%, while the IBEX 35 posted an impressive 49% increase, the largest among the main European indices. Stock market increases were also noteworthy in the United States, especially in the tech sector, where S&P 500 gained 16% and Nasdaq 100 gained 20%.

In the fixed-income market, short-term government yields dropped in most jurisdictions, in line with the monetary easing. However, long-term yields remained high, with certain divergence between regions. In the United States, long-term yields dipped due to expectations of cuts to official interest rates, while in Germany they rose against a backdrop of increased tax expenditure.

US and German 10-year government bond yields (%)

Source: Refinitiv.

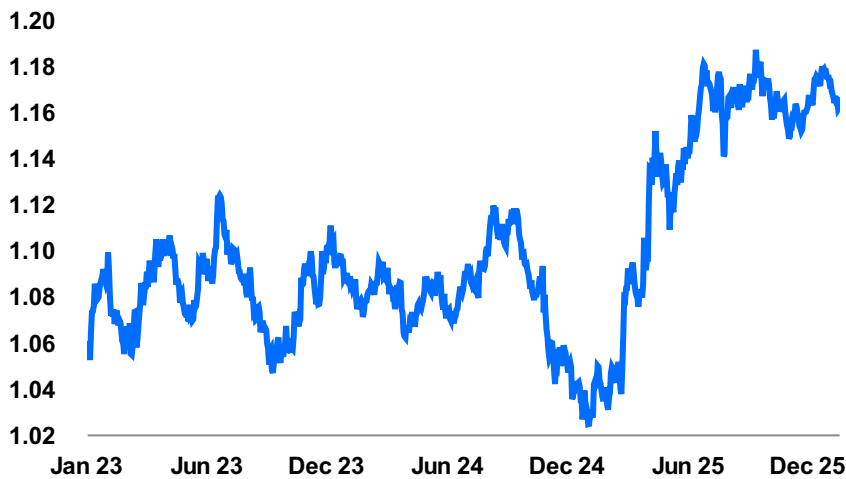


In Japan, yields rebounded sharply due to expectations of a more restrictive monetary policy and the arrival of its new political leadership, which is embracing an expansionary fiscal approach. In the European periphery, risk premiums were reduced thanks to positive revisions by rating agencies, good economic performance and the progress made in rolling out the NGEU funds. France's risk premium, despite being lower than at the end of 2024, remained at high levels given the considerable political uncertainty, the poor shape of its public finances and the negative actions taken by credit rating agencies.

The US dollar depreciated sharply after Liberation Day, driven by a recalibration of expectations regarding the Fed's monetary policy and by the perception of heightened political risk in the country. The currency later stabilised, ending the year at around 1.17 dollars per euro. The pound sterling depreciated against the euro, weighed down by tax risk in the United Kingdom.

USD to EUR exchange rate

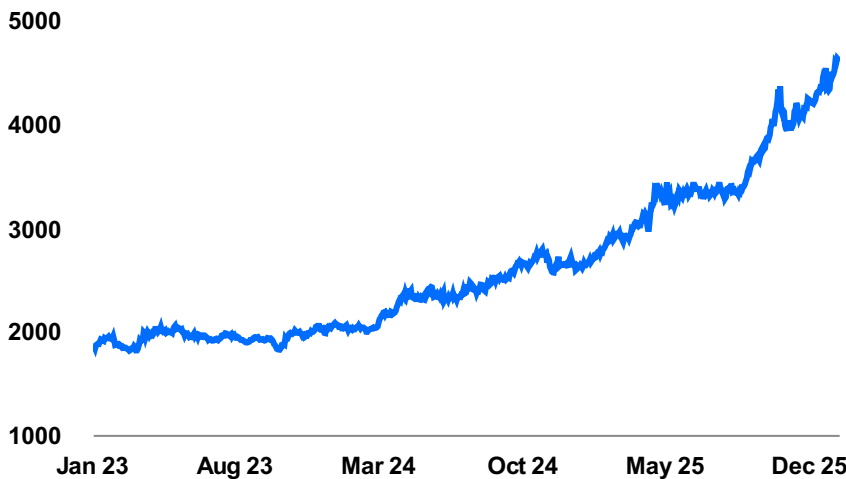
Source: Refinitiv.



In the commodities market, the Brent price fell by around 20%, due to a surplus of global supply, despite the occasional spike linked to geopolitical tensions. Precious metals benefited from the surge in risk aversion: gold recorded its biggest rally since 1979, jumping by 65% to reach a new all-time high, driven by central bank purchasing and international fiscal concerns.

Gold prices (USD per ounce)

Source: Refinitiv.



Corporate bond spreads ended the year at historically low levels, in both the high yield and investment grade segments. After Liberation Day, there were significant rebounds, but the market quickly recovered its positive tone. Nevertheless, the collapse of two firms in the automotive industry, both of which had borrowed from private credit funds, raised some concerns about the health of the sector and the interconnectedness between traditional banks and non-bank financial institutions.

In the emerging markets, risk premiums fell throughout the year thanks to contained inflation, resilient economies, currencies that were posting strong performance, and portfolios that were diversifying internationally beyond the US dollar. However, premiums did encounter occasional bouts of upward pressure, at the time of Liberation Day and due to issues related to tax risks in Brazil and political uncertainty in Turkey. Long-term domestic government bond yields, for their part, generally dropped throughout the year.

Crypto-asset markets surged thanks to the open support from the US administration. Exchange Traded Funds (ETFs) that invest in over-

the-counter crypto-assets recorded considerable inflows. Several firms in the sector filed initial public offerings and saw a jump in their stock prices. Bitcoin touched a record price of just over 125,000 dollars before correcting in November. The market's total market capitalisation reached over 4 trillion dollars in October, the highest level to date.



2.2 Financial sector environment

Banking sector

In 2025, the global banking sector was influenced by the effects stemming from the deregulatory agenda pursued by the United States and by rising geopolitical tensions. From the beginning of the presidential term, measures were taken to reduce the size and scope of the regulatory agencies, including restructuring, dismissals and increased political influence over supervisory bodies. These decisions came alongside regulatory easing and incentives for banks to engage in crypto-related activities.

In the regulatory plane, the US authorities unveiled proposals designed to make the prudential framework more flexible, in order to adapt it to the size, business model and risk profile of each institution. Implementation of Basel III was postponed to 2026. In parallel to this, greater emphasis was placed on the search for a balance between financial innovation and stability, although the market saw these measures as a significant shift towards deregulation.

In contrast, the European Union kept a more prudent stance. The SSM adopted a package for regulatory simplification, but without going as far as deregulation and ensuring the financial stability and solidity of the banking sector. The proposals included adjustments to capital requirements and specific measures for small banks, and the conclusions of the evaluation will be included in the banking sector report, due to be published in 2026.

The situation in the European banking industry continued to improve in 2025, with Spanish banks standing out in a positive light.

The United Kingdom adopted a position more in sync with the US strategy. The Leeds Reforms made regulations considerably more flexible, delaying implementation of a portion of Basel III to 2028 and promoting incentives for channelling retail savings into financial markets. It was argued that these measures were necessary to make the UK financial sector more competitive.

Geopolitical risks were explicitly included in the activities of European supervisors. The 2025 stress test included an adverse scenario in which geopolitical tensions disrupted trade channels, lowered economic growth and affected the banking sector. A thematic stress test for 2026 was also announced, which will focus on geopolitical risks as part of the ICAAP. Supervisors also asked banks to increase their provisions to prepare for a potential deterioration as a result of the new wave of tariffs.

The European and Spanish banking sectors showed resilience despite the challenging environment. Spanish banks stood out due to their profitability, efficiency and credit quality, although their CET1 capital ratios remained below the European average. Nonetheless, their other solvency metrics and the positive development of their business put them in a comparatively good position.

Towards the end of the year, a new development rekindled concerns about regional banks in the United States, after several of them revealed

exposures to two bankrupt firms associated with the automotive industry and involved in allegations of fraud, namely Tricolor and First Brands. Both firms also had links to private credit, which gave rise to unease regarding the interconnectedness between the bank and non-bank sectors. Major banks also publicly disclosed that they had exposures to those bankrupt firms.

Over the year, bank consolidation processes intensified both in the United States and in Europe. In Italy, various takeover attempts were scuppered by the complexity of the shareholding structure and the government's intervention in strategic deals. Portugal and Greece saw some major takeovers by international banks go ahead, while in Germany corporate movements involving systemic banks continued, although with no definitive resolution.

In parallel to this, some countries introduced new tax measures applicable to the sector. Italy revised its treatment of tax credits used by banks, while the United Kingdom debated on whether to increase the taxes on the sector, although ultimately the proposals were not featured in the country's budget.

Financial stability and macroprudential policy

In 2025, the risks for financial stability skyrocketed against a backdrop of geopolitical uncertainty, trade tensions and extremely volatile markets. The main sources of risk identified include the possibility of disorderly asset price adjustments, potential credit impairment in sectors exposed to geopolitical tensions, increased volatility in sovereign debt markets, and a fragile non-bank financial sector, especially in the private credit sector. It was also made clear that new emerging risks need to be monitored, such as those linked to crypto-assets, dollar-backed stablecoins, and the increase in cyberattacks and fake news.

The non-bank financial sector, in particular the private credit market, raised considerable concerns over the year. Episodes of stress together with the collapse of various firms with complex financing revealed the sector's vulnerabilities and the risk of these spilling over to banks. The Bank of England responded by announcing its very first stress test, which will cover banks, insurers, private credit funds and other non-bank institutions; it plans to release the results in 2026.

In Europe, macroprudential policy remained restrictive. The Bank of Spain raised the countercyclical capital buffer from 0.5% to 1%, applicable as from October 2026. According to the central bank, the voluntary capital buffers of Spanish banks allow them to comfortably cover this increase, without compromising their funding capability. Progress was also made in preparing to implement borrower-based measures, following in the footsteps of the other Eurozone countries.

Savings and Investments Union (SIU)

In 2025, the European Commission unveiled the Savings and Investments Union (SIU), a strategy designed to increase the financial integration of the European Union and to strengthen both the Banking Union and the Capital Markets Union. The main goal pursued by the SIU is to channel European consumer savings towards productive investments that can be used to address the major structural challenges facing the continent, such as climate change, technological transformation and the needs stemming from a more demanding geopolitical environment. According to the Letta report, the European Union will need between 750 billion and 800 billion euros per year until 2030 to finance these priorities.

Over the year, various initiatives were presented, designed to raise retail investor participation in capital markets, rewire the securitisations market and support the role of institutional investors in financing the European economy. These included the creation of a savings account with tax incentives, the launch of a new label for financial products that invest in Europe, and a lower risk weight for certain equity exposures to banks.

Under the SIU, the European Securities and Markets Authority (ESMA) will also be given more powers to oversee significant institutions operating in the markets and the conversion of certain directives into regulations in order to simplify bank rules and reduce fragmentation. Both the European Central Bank and several national governments publicly supported this agenda, pointing out the need for greater financial integration to ensure Europe's strategic autonomy and its global competitiveness.

Challenges for the banking industry

In 2025, the banking industry faced a major change in the sustainability agenda, influenced by the United States' withdrawal from key climate agreements and by the country's supervisors ending their membership of the Network of central banks and supervisors for Greening the Financial System (NGFS). This shift had a domino effect on the banks and asset managers of other jurisdictions, weakening global climate partnerships such as the Net-Zero Banking Alliance, which ended up transitioning to a non-binding framework of recommendations.

Climate deregulation in the United States expedited the planned review of the ESG framework in Europe, leading to the Omnibus I proposal, which aims to simplify reporting obligations of firms, particularly for SMEs. Although this change sought to reduce administrative burdens, various banking associations argued that the reduced availability of data could make risk assessments harder and drive up costs.

Throughout the year, there was a surge of the phenomenon known as greenhushing, whereby some firms opted to remove all specific mentions of sustainability from their communications to reduce litigation and reputational risks, even though they were still pursuing initiatives aligned with the climate transition.

Supervisors from across the globe, including the ECB, continued to develop frameworks to embed climate risks into financial asset valuations. The ECB announced the introduction of a climate factor from 2026 onwards, which will reduce the recognised value of assets issued by carbon-intensive firms when those assets are used as collateral in liquidity operations.

Digitalisation processes continued at an increasingly fast pace, especially in connection with tokenisation, crypto-assets and artificial intelligence. In the United States, the administration pushed through a

regulatory framework designed to support the development of crypto-asset markets (including the approval of the GENIUS Act to regulate stablecoins), to ease supervision and to withdraw previous restrictions. These initiatives were posited as a strategy to keep the US dollar as the dominant reserve currency in the digital financial system, against a backdrop in which the issuance of a digital currency by the Federal Reserve had been ruled out. All this led to a major trend shift with regard to cryptocurrency markets, with a far more favourable and enabling approach to these activities.

In Europe, with regard to digitalisation regulations, MiCA was gradually phased in, although some countries chose to extend the transitional periods. The strong growth of dollar-backed stablecoins and their potential to become a mainstream currency for payments in the EU ignited debates on the need to revise certain aspects of MiCA to mitigate risks to financial stability. The European Systemic Risk Board warned that stablecoins issued jointly by EU and non-EU entities could result in market-wide exposure.

Progress continued to be made with the digital currencies of central banks. The digital euro project concluded the preparation phase, with expectations for a regulatory framework in 2026, pilot testing in 2027 and potentially its first issuance in 2029. In parallel to this, a complementary infrastructure was explored, consisting of interconnecting instant payment systems ('landing zone'). China, for its part, also showed a slightly more open attitude towards stablecoins, and it could take advantage of Hong Kong's regulatory impetus for stablecoins and other digital asset initiatives to adopt a somewhat more flexible approach to the threat posed by the potential flood of dollar-backed stablecoins. The United Kingdom continued to work on a potential digital pound, although progress was slower and there were more doubts as to whether the project will ultimately be necessary. The United States began pushing through a law to prohibit the digital dollar, responding to an executive order by Trump banning the Fed from issuing it.

More intensive work was made on initiatives designed to achieve interoperability between digital currencies and tokenised deposits, including Project Agora, led by BIS, and other similar projects promoted by BRICS countries (Brazil, Russia, India and China). These developments reflect the transition towards a more digital and interconnected financial system, with new risk models that banks will need to embed into their future strategies.

2.3 Outlook for 2026

In 2026, there is likely to be more evidence of the impacts stemming from the economic agenda pursued by the Trump administration. However, these impacts are not expected to generate any severe economic and/or financial disruptions. Global economic growth will tend to grow more steadily, with the European Union and China capable of finding internal levers to boost domestic demand and largely offset the effects of the US economic policy. It is thought that growth in the United States will slow down as a result of the imposition of tariffs and restrictions on immigration. In Mexico, economic activity could gradually recover following the successful renegotiation of the USMCA trade deal.

In terms of geopolitics, it is thought that all of the current conflicts will continue, but that they will not escalate or have any far-reaching economic ramifications. In Ukraine, it is unlikely that a definitive solution to the conflict will be reached, although there will be no additional Russian pressure on NATO. In the Middle East, the confrontation between Israel and Iran is not expected to translate into critical disruptions in oil and gas flows. As for trade, the level of tariffs imposed by the United States is expected to be manageable for all other countries, as these are capable of absorbing their impacts. That said, international trade relations are not expected to be evenly balanced or long-lasting.

In terms of inflation, headline inflation is likely to remain close to the targets pursued by central banks, except in the case of the United States, where it could climb to slightly higher levels in the near term. After the tariff shock, inflation could remain at around 2% in the Eurozone, underpinned by the strength of the euro and the absence of retaliatory measures. In general, inflation will continue to be volatile and erratic, due to various supply shocks (tariffs, reconfiguration of production chains, redirection of trade flows, geopolitical tensions, and adverse climatic events).

Although trade-related issues will be a key source of uncertainty, attention is likely to also turn to fiscal matters. In this respect, the United States is a cause for concern, given the deterioration of its public finances and the approval of a new fiscal stimulus package. In Europe, the main tax-related concerns will remain centred on the United Kingdom, France and Italy, in a context in which the markets will have to absorb the increased supply of government debt associated with the shift in Germany's tax policy.

As for monetary policy, central banks will probably keep interest rates at levels close to neutrality. In the United States, it is thought that the Federal Reserve will retain its independence, despite political pressures and Powell's replacement planned for 2026. This, together with inflationary pressures related to the tariff war, will limit the scope for rate cuts. In Europe, the ECB will likely keep the deposit facility rate at its current levels for several years, in a context of economic activity stifled by tariff increases, the appreciation of the euro and China's manufacturing overcapacity.

In the financial markets, yields on long-term government bonds are expected to remain at relatively high levels, driven by a higher term premium linked to volatility in growth and inflation figures and high sovereign financing needs. Risk premiums on European periphery countries' debt will remain at contained levels and in line with their credit ratings. In the currency market, the dollar is expected to depreciate against the euro, in line with the trend of short-term interest rate differentials and a higher uncertainty premium associated with the US economic policy.

In Spain, economic growth will be driven by population increases, NGEU funds and low interest rates. The country is relatively well positioned within the global context: (i) its limited trade relations with the United States make it less sensitive to tariffs, (ii) Spain is not among the countries most exposed to tax risks, and (iii) the sound financial situation of households and companies helps to protect them against potential tensions. The economy is therefore likely to continue to outgrow the Eurozone, gradually coming closer to growth rates more in keeping with its potential.

In the financial landscape, the banking industry proves robust and resilient. The trade war is expected to have a limited impact on delinquency levels in the sectors represented on the balance sheet. In the European Union, banks start off from a strong position that will likely continue as profitability and capital levels remain high. As for the regulatory landscape, new phases of Basel III are due to come into force, according to the established calendar, while progress made towards European integration will focus on initiatives linked to the Savings and Investments Union.

