Conselho das Finanças Públicas

Macroeconomic forecasts underlying the 2026 Draft State Budget

8 October 2025

Opinion no.

02/2025

The Portuguese Public Finance Council is an independent body, created by Article 3 of Law No. 22/2011 of 20 May, which made the 5th amendment to the Budgetary Framework Law (Law No. 91/2001 of 20 August, republished by Law No. 37/2013 of 14 June).

The initiative to create it followed the publication of the final report of the Task Force for the European Council on European economic governance and was implemented in October 2010 through a protocol between the Government, then supported by the Socialist Party, and the Social Democratic Party. The final version of the CFP Statutes was approved by Law No. 54/2011 of 19 October.

The CFP began its activity in February 2012, with the mission of conducting an independent assessment of the consistency, compliance and sustainability of budgetary policy, promoting its transparency, in order to contribute to the quality of democracy and economic policy decisions and to strengthen the financial credibility of the State.

This Opinion was prepared based on information available as of 7 October 2025.

INTRODUCTION

This Opinion focuses on the macroeconomic forecasts underlying the Draft State Budget for 2026 (DSB/2026), presented by the XXV Constitutional Government in the XVII Legislature, in accordance with the "Protocol between the Ministry of Finance and the Portuguese Public Finance Council on the preparation of an opinion on the macroeconomic forecasts underlying the Stability Programme and the Draft State Budget", signed on 6 February 2015.

In accordance with the provisions of the aforementioned Protocol, the Government formally notified the Portuguese Public Finance Council (CFP) on 14 August that the DSB/2026 would be presented to the Assembly of the Republic on 10 October (day "D" for the purposes of the calendar included in section 5 of the Protocol).

Under the terms of the Protocol, on 12 September (day D-20), the Ministry of Finance (MF) should have submitted the macroeconomic trend forecasts – embodied in the scenario of unchanged policies.

On 15 September, the MF sent the CFP a programmatic scenario (which includes the impact of possible policy measures), stating that the DSB/2026 scenario did not incorporate policy measures beyond those assumed in the Invariant Policy Framework (QPI) sent to Parliament. Following the scenario presented, and in accordance with step 3 of the Protocol, on 17 September the CFP sent the MF its initial reaction to the trend scenario.

Under the terms of the Protocol, on 26 September (day D-10), the MF should have submitted an update of the macroeconomic scenario, in a scenario of policies and invariant policies. On 29 September, the MF sent the CFP an update of the macroeconomic forecasts for the programme scenario and the first version of the scenario with unchanged policies. It also sent a response to the request for clarification sent on 17 September. On the same day, the CFP asked a further set of questions regarding the revisions made.

On 30 September, the CFP requested additional methodological clarifications from the MF and proposed a technical meeting on 1 October. Also on the 30th, the MF submitted additional documentation with responses to the questions raised by the CFP.

On 1 October, the CFP responded to the clarifications submitted by the MF. On the same day, a meeting took place between the technical teams of the MF and the CFP.

This Opinion focuses on the values considered by the MF for external and technical assumptions, as well as for the macroeconomic forecasts underlying this scenario, presented in Table 1. The analysis carried out by the CFP technical team:

- highlights the revisions, and their justification, compared to the latest macroeconomic scenario published by the MF;

- assesses consistency with the most recent statistical information available for the first half of 2025, produced by the national statistical authorities – the National Statistics Institute (INE) and the Bank of Portugal (BdP);
- quantifies the intra-annual growth forecast for 2026, considering the estimated carry-over effect for 2025;
- verifies the estimate presented for potential output growth and the output gap in accordance with the common methodology agreed in the European Union;
- validates the external assumptions used, such as external demand growth and oil price developments, and takes into account the policy measures communicated to it;
- compares the scenario with the MFP projections and with the available forecasts and projections made by other reference institutions: BdP, European Commission (EC), International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD);
- highlights recent revisions to average growth projections for the Portuguese economy in 2025 and 2026;
- assesses the probability of the forecasts, taking into account the confidence intervals calculated with past forecast errors for the Portuguese economy;
- takes into account the written and verbal technical clarifications provided by the MF regarding the forecasts presented.

MACROECONOMIC SCENARIO UNDERLYING THE DSB/2026

Presentation of the MF forecast for 2025 and 2026 and reconciliation with previous forecasts

In the macroeconomic scenario underlying the DSB/2026, the MF forecasts that Gross Domestic Product (GDP) in volume terms will grow by 2.0% in 2025, a marginal slowdown compared to the 2.1% observed in 2024. The growth projected by the MF is based on the expectation of an increase in the contribution of domestic demand and a more negative contribution from net exports (Table 1).

The expected dynamics for domestic demand in 2025 reflect exclusively an acceleration in the growth rate of private consumption. In fact, the macroeconomic scenario anticipates a slowdown in gross fixed capital formation (GFCF) and the maintenance of the growth rate of public consumption compared to 2024. Of particular note is an increase of 0.4 p.p. to 3.4% in private consumption growth and a decrease of 0.6 p.p. to 3.6% in GFCF growth, mainly due to the slowdown in private investment growth. On the other hand, the deterioration in the contribution of net exports results from a slowdown in the growth rate of exports (-1.6 p.p. to 1.5%) greater than that projected for imports (-0.8 p.p. to 4.0%).

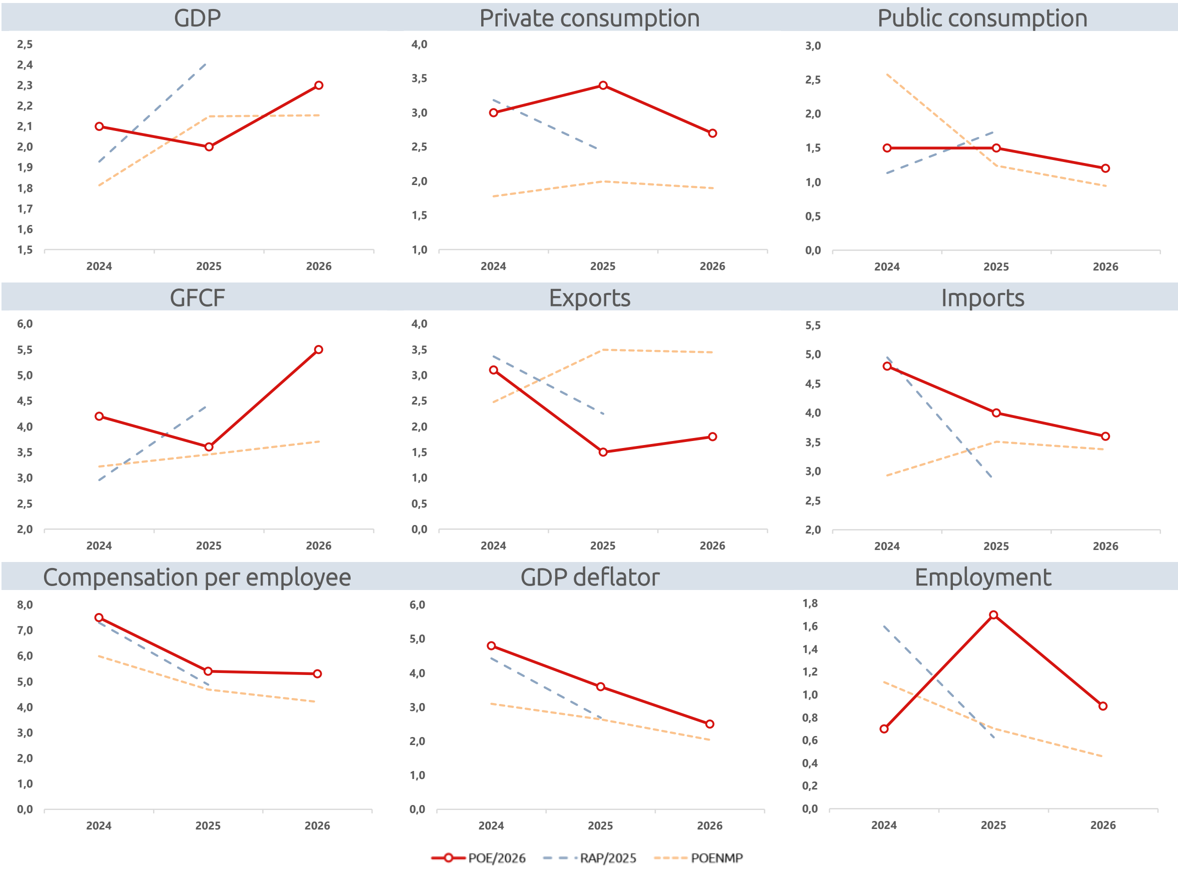
This estimate constitutes a downward revision of GDP growth compared to the scenario underlying the Annual Progress Report (RAP/2025). In April, the forecasts underlying the RAP/2025 anticipated growth of 2.4% during the year (Chart1). This revision reflects lower growth in exports of goods and services (-0.7 p.p.), as well as a less favourable outlook for investment growth (-0.8 p.p.) and the pace of growth in public administration consumption (-0.2 p.p.). These factors are only partially mitigated by an upward revision in private consumption dynamics (+1.0 p.p.). The CFP warned in its Opinion on the 2025 Annual Progress Report that the forecast for 2025 appeared likely, but not prudent. In the context of the multiple shocks that have affected the global economy, it should be noted that exports of goods and services were the only component of demand with downward revisions to their growth in 2025 and 2026, both compared to the RAP/2025 and the 2025-2028 National Medium-Term Budgetary and Structural Plan (MTP).

The MF's macroeconomic scenario points to a slowdown in the growth of the implicit GDP deflator compared to 2024 by 1.2 p.p. to 3.6% in 2025. The MF's current forecast[1] revises upwards the forecast included in the scenario underlying the RAP/2025 (+0.9 p.p.), an increase resulting from both the upward revision of the implicit deflator of general government consumption and GFCF, and the estimate of terms of trade gains associated with higher growth in export prices than import prices, which in RAP/2025 were expected to be zero. Thus, the MF anticipates nominal GDP growth of 5.7% (5.2% in RAP/2025). For inflation,

[1] The expected growth rate of 3.6% in 2025 is underpinned by a growth rate of 1.5% in the second half of the year, compared to the chain growth observed in the first half of 1.9%.

measured by the harmonised index of consumer prices (HICP), the scenario points to growth of 2.4% in 2025, a slowdown compared to that observed in 2024 (2.7%).

Chart1 – Comparison of forecasts included in DSB/2026, RAP/2025 and MTP (variation, %)

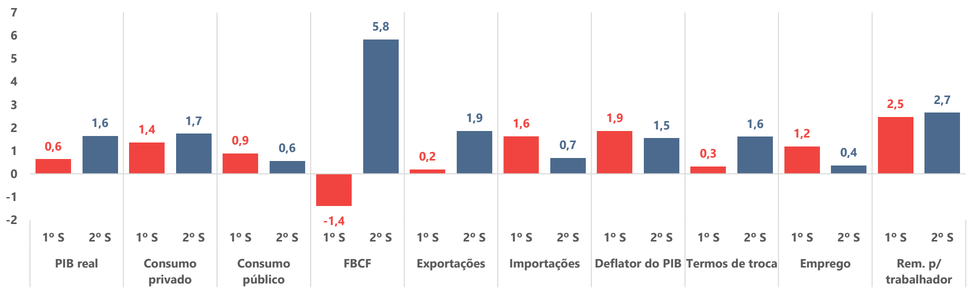


Source: MF – DSB/2026, RAP/2025 and MTP.

The forecasts for employment and the unemployment rate reflect the significant improvement in labour market conditions recorded throughout the year. The MF projects employment growth of 1.7% in 2025, an increase of 1.0 p.p. compared to 2024. This forecast is a significant upward revision compared to the scenario set out in RAP/2025 (0.6%). The unemployment rate will fall by 0.3 p.p. to 6.1% of the working population in the same period, a downward revision from the 6.4% expected in the same document. In this context, the MF also anticipates an increase in average wages per worker of 5.4% in 2025, compared to the 4.9% expected in April. Finally, the MF forecasts a slowdown in apparent labour productivity of 1.1 p.p. to 0.3%. The latter reflects a substantial downward revision (-1.5 p.p.) compared to the RAP/2025.

The realisation of the real GDP growth estimate in 2025 depends on a very strong acceleration in economic growth in the second half of the year. The growth rate observed for economic activity in the first half of 2025 was 0.6% compared to the previous half-year. Taking into account the information already available for the National Accounts for the first half of 2025, the growth rate for the second half of the year would have to reach 1.6% compared to the first half for the 2.0% forecast underlying the MF scenario to materialise. The economic growth anticipated by the MF is influenced by the forecast of lower import growth in the second half of 2025, despite more significant growth in all components of demand with high import content. The forecasts imply very high implicit growth rates for the second half of the year in the case of investment (from a contraction of 1.4% in the first half to growth of 5.8% in the second) and exports (from marginal growth of 0.2% to 1.9% in the same period). With regard to the labour market, the MF forecast is consistent with a slowdown in employment growth to 0.4% in the second half of 2025, following the 1.2% increase recorded in the first six months of the year. At the same time, the MF's forecast for compensation per employee depends on stronger growth in the second half of the year (2.7%) than that already recorded in the first half (2.5%), which appears challenging. The implied intra-annual growth rates are illustrated in Chart 2.

Chart 2 – Growth compared to the previous half-year: observed (first half of 2025) and implied in forecasts (second half of 2025)



Source: MF – DSB/2026, INE and CFP calculations.

For 2026, the MF anticipates greater economic dynamism (2.3%), forecasting higher growth in investment and exports. The forecast for GDP growth in volume terms is for an acceleration of 0.3 p.p. to 2.3% (Table 1). In fact, the MF forecasts an acceleration of 1.9 p.p. to 5.5% in the growth rate of GFCF, a boost originating exclusively from private investment growth,[2] and an acceleration in exports of goods and services to 1.8% (+0.3 p.p. compared to 2025). The MF also forecasts a slowdown in private consumption growth to 2.7% (-0.7 p.p.) and public consumption (-0.3 p.p. to 1.2%). These forecasts imply intra-annual GDP growth of 1.1%, slightly higher than expected in 2025 (+0.2 p.p.), which is not explained by the scale of the policy measures communicated to the CFP when compared to those in force this year (Box 1). The MF's latest forecast for 2026 was presented in the MPT and anticipated growth of 2.1% in 2025 and 2.2% in 2026. Thus, despite revising its forecast for 2025 downwards, the MF is now revising its forecast for 2026 upwards (Chart 1).

Despite the acceleration in real growth, the scenario underlying the DSB/2026 forecasts a slowdown in nominal growth in 2026 associated with the moderation

[2] According to the MF, real public investment is expected to grow by 20.8% in 2025 and 17.8% in 2026; private investment, in turn, is expected to grow by 1.0% in 2025 and accelerate in 2026 to 3.3%.

of the GDP deflator. The forecast growth for the deflator is 2.5% compared to 2025 (3.6%). Contributing to this downward trajectory is the slowdown in most domestic demand deflators, with the exception of investment. However, the slowdown is not more significant only because gains in terms of trade (0.5%) are expected to continue, impacting nominal GDP growth, albeit less than expected for 2025. The size of these terms of trade gains is reflected in the external assumptions for the evolution of oil prices and the exchange rate.[3] This is also an upward revision compared to the MTP, in which the MF anticipated GDP deflator growth of 2.0% in 2026. The forecast growth in nominal GDP was 4.2%, around 0.6 p.p. lower than that now presented. At the time, the CFP considered the estimates and forecasts for real GDP growth and the respective deflator to be probable and plausible. The MF also anticipates a reduction in the inflation rate to 2.1%, a figure already very close to the European Central Bank's (ECB) monetary policy target. Considering the cumulative growth in 2025 and 2026, the MF's forecast for real GDP remains unchanged from the MTP (4.3%), with an upward revision in nominal GDP (from 9.3% to 10.8%).

For the labour market, the macroeconomic scenario points to high wage growth. The MF forecasts employment growth of 0.9% in 2026, almost half of the estimate for the previous year. The MF also forecasts that the unemployment rate will fall marginally to 6.0% in the same period. Apparent labour productivity is expected to grow robustly in 2026, increasing by 1.1 p.p. to 1.4% (Table 1). This growth, identical to that observed in 2024, compares with an average growth of 0.5% between 2015 and 2019. Finally, compensation per employee remains highly dynamic, growing by 5.3%, close to the forecast for 2025 (5.4%). These forecasts represent a significant upward revision compared to the 4.2% forecast in the MTP, which already predicted a slowdown in compensation per worker compared to 2025 (4.7%). Taking into account the inflation forecast for 2025 and 2026, and productivity growth over the same period, an increase in wage gains of the magnitude forecast should be reflected in the consumer price forecast. In its absence, the compression of business margins would have to be reflected in the investment forecast.

The MF forecast results in a slightly negative output gap in 2025 and 2026. However, these figures are not compatible with those obtained by the CFP estimate, based on the macroeconomic scenario under consideration and using the common methodology agreed in the European Union. In fact, the CFP estimate points to potential output growth underlying the MF forecast of 2.1% in 2026 and a widening of the output gap from 0.2% in 2025 to 0.4% in 2026. This evolution of the economic cycle reinforces doubts about the forecast acceleration of real GDP for 2026.

[3] These variables are essential in projecting terms of trade. See, for example, Bokan, N., Dossche, M., and Rossi, L. (2018). 'Oil prices, the terms of trade and private consumption'. ECB Economic Bulletin, Issue 6/2018.

This is an automatic translation that has not yet been reviewed. Only the Portuguese version is authentic.

Table 1 – Macroeconomic forecasts underlying the DSB/2026

	2024	2025	2026
PIB real e componentes (variação, %)			
PIB	2,1	2,0	2,3
Consumo privado	3,0	3,4	2,7
Consumo público	1,5	1,5	1,2
Investimento (FBCF)	4,2	3,6	5,5
Exportações	3,1	1,5	1,8
Importações	4,8	4,0	3,6
Contributos para a variação real do PIB (p.p.)			
Procura interna	2,9	3,2	3,1
Exportações líquidas	-0,7	-1,2	-0,9
Preços (variação, %)			
Deflator do PIB	4,8	3,6	2,5
Deflator do consumo privado	2,8	2,4	2,2
Deflator do consumo público	6,6	5,1	2,2
Deflator do investimento (FBCF)	2,5	2,6	2,7
Deflator das exportações	0,8	0,7	1,0
Deflator das importações	-2,4	-0,8	0,5
IHPC	2,7	2,4	2,1
PIB nominal			
Variação (%)	7,1	5,7	4,8
Mercado de trabalho (variação, %)			
Taxa de desemprego (% pop. ativa)	6,4	6,1	6,0
Emprego	0,7	1,7	0,9
Remuneração média por trabalhador	7,5	5,4	5,3
Produtividade aparente do trabalho	1,4	0,3	1,4
Desenvolvimentos cíclicos			
PIB potencial (variação, %)	2,9	2,6	2,4
Hiato do produto (% PIB potencial)	0,5	-0,1	-0,2
Pressupostos			
Procura externa (variação, %)	1,7	3,3	1,9
Taxa de juro de curto prazo (média anual, %)	3,6	2,1	2,0
Taxa de câmbio EUR-USD (média anual)	1,10	1,10	1,20
Preço do petróleo (Brent, USD/barril)	79,7	68,9	65,4

Source: MF – Information sent on 3 October 2025.

Box 1 – The year 2026: the carry-over from 2025 and projected intra-annual growth

An annual economic growth forecast can be broken down into the carry-over effect (or *carry-over*[4]) from the previous year's growth and the forecast intra-annual growth (specific to the year).[5] The availability of statistical information from the Quarterly National Accounts allows us to estimate the carry-over effect

[4] For example, the growth that would be observed in 2026 if GDP stagnated at the level recorded in the fourth quarter of 2025. See https://www.cfp.pt/pt/glossario/carry-over-efeito-de.

[5] For a similar approach to forecasts, see Chapter 3 in ECB (2025). 'ECB staff macroeconomic projections for the euro area', September.

for the different components of the macroeconomic scenario for 2025 and 2026 (Chart 3). This makes it possible to isolate the forecast growth for each year, which is the real object of the forecast.

The acceleration in GDP growth projected for 2026 is based simultaneously on the expectation of higher intra-annual growth (1.1%) and a greater carry-over effect (1.2%). This results from the significant acceleration in growth expected for the second half of 2025, referred to in this Opinion, which benefits the forecast for 2026. However, this performance is, at least in part, due to the impact of substantial and one-off measures: the extraordinary pension supplement and the adjustment of the withholding tax tables for personal income tax. As in 2024, their temporary nature justifies the transitory effect on growth. However, the *carry-over* effect on growth should not be mechanically attributed to the forecast for 2026, as it is expected that growth for that year will be negatively affected by the non-repetition of these stimulus measures. Given the current adverse international context, where risks to activity are tending to decline, and in the absence of new policy measures of significant magnitude, it seems challenging to achieve an increase in economic activity.

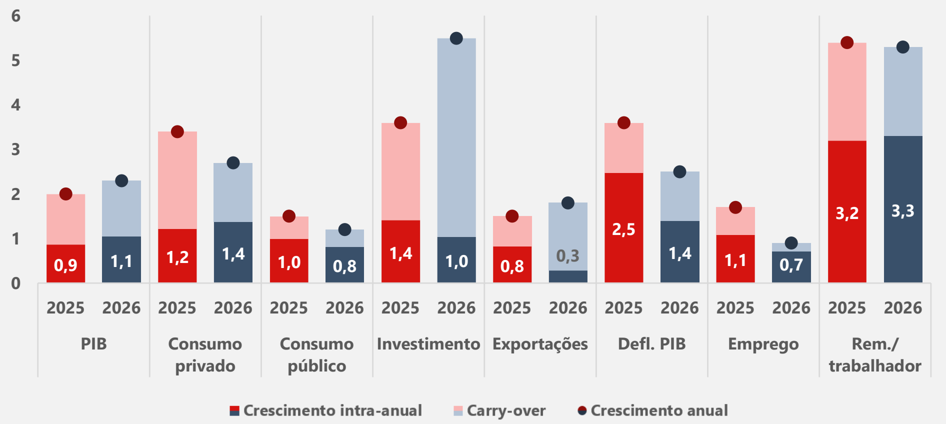
The analysis reveals that private consumption is the only component of overall demand with higher intra-annual growth forecast for 2026. The MF forecast for household consumption is consistent with intra-annual growth of 1.4% in 2026, compared to the 1.2% forecast for 2025. As mentioned above, it should be noted that in 2025, private consumption will benefit from the temporary impact of significant pro-cyclical measures to stimulate consumption implemented during the second half of the year. In the absence of policy measures with a similar impact, as assumed by the MF, it is unlikely that private consumption will be more dynamic in 2026 than in the current year, which points to downside risks to the forecast presented.

For the remaining components of aggregate demand, the forecast points to lower intra-annual growth. It should be noted that, unlike 2025, when intra-annual growth in private consumption is close to that expected for investment and exports, this balance is absent in 2026. In the case of **investment,** intra-annual growth is expected to be 0.4 p.p. lower than the 1.4% growth expected in 2025, with growth coming from the carry-over effect (**Erro! A origem da referência não foi encontrada.**). For **exports** of goods and services, the forecast also anticipates a slowdown, with intra-annual growth of 0.3% in 2026, compared to 0.8% in the current year. This means that the volume of exports at the end of 2026 will be close to that expected for the last quarter of 2025. For public consumption, a slowdown in intra-annual growth to 0.8% is also anticipated, compared to the 1.0% growth forecast for 2025.

In line with the downward trend in inflation, the forecast for GDP deflator growth is lower in 2026. The MF forecast anticipates a 0.9 p.p. reduction in the intra-annual growth rate. Although this expectation is consistent with the easing of domestic inflationary pressures, the MF forecast anticipates a slight acceleration in the growth rate of compensation per employee, which seems implausible. In fact, the intra-annual growth forecast for average wages in 2026 is 3.3% (0.1 p.p. above the expected growth of 3.2% in 2025).

With lower intra-annual employment growth in 2026, the GDP forecast is dependent on productivity gains. The MF forecast anticipates intra-annual employment growth of 0.7% in 2026, compared to 1.1% growth this year. Thus, the GDP growth forecast implies intra-annual productivity growth of 0.3%, compared to an intra-annual reduction of 0.2% in 2025.

Chart 3 – Breakdown of annual growth forecast by the MF between *carry-over and* intra-annual growth



Source: DSB/2026 and CFP calculations. | Note: the darker colour corresponds to intra-annual growth.

International framework assumptions

The starting point for drawing up a macroeconomic scenario for the Portuguese economy, a small open economy in the international context, is the set of external framework assumptions, which are exogenous to the exercise. This section briefly analyses the technical assumptions considered by the MF. These include the evolution of the euro exchange rate against the dollar, the price of oil, the short-term interest rate and the growth of external demand for goods and services. The figures assumed in the DSB/2026 are validated by reference to the figures traded on the market at the date of preparation of this document and, for the year 2025, put into perspective with those on which the RAP/2025 was based (**Erro! A origem da referência não foi encontrada.**). The DSB/2026 also presents assumptions for the long-term interest rate, for real growth in the European Union (EU), as well as for global economic growth excluding the EU.[6] However, these are not part of the information sent to the CFP for endorsement. This section also reports the total global policy measures communicated to the MFF, which may help to explain the difference in forecasts between a scenario of unchanged policies and a programme scenario.

The assumption regarding the evolution of the price of a barrel of Brent is in line with market values and with a reduction in external pressures on consumer price inflation. The DSB/2026 anticipates a 14% reduction in oil prices this year and a 5%

[6] In the GEP/2025, these are presented in Table 1 of Chapter 3 of the informative and supplementary elements.

reduction in 2026, to around $65/bbl. For both years, these figures are in line with the average market futures traded in the ten days prior to the preparation of this Opinion. The updated assumption for 2025 is in line with that assumed in the RAP/2025.

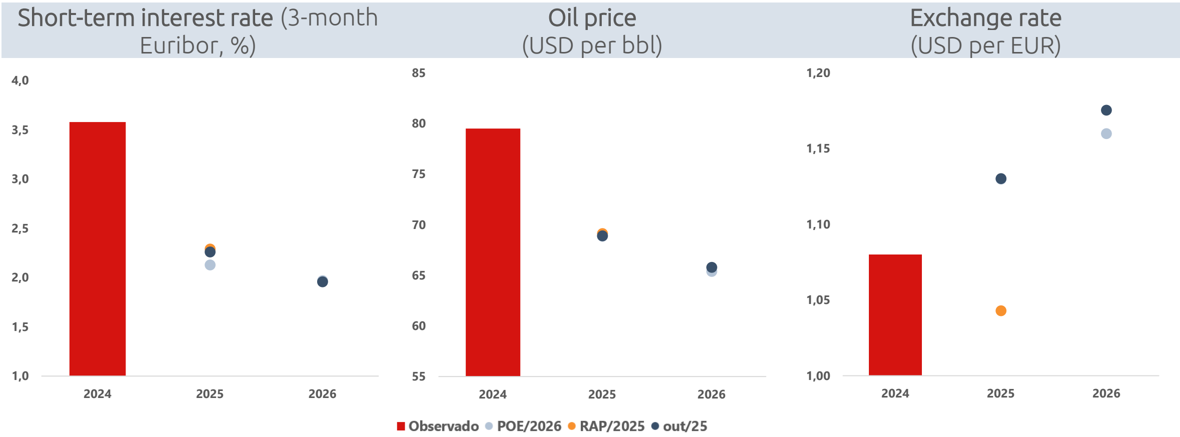
The exchange rate assumption is corroborated by market values and points to a significant appreciation of the euro, which will be reflected in import prices. The DSB/2026 assumes a significant appreciation of the euro exchange rate against the US dollar in 2025 and 2026 (4.6% and 2.7%, to $1.13/€ and $1.16/€ respectively). It should be noted that the expectation for 2025 is 8.3% higher than the assumption considered in the RAP/2025, which assumed a depreciation, which influenced the terms of trade gains recorded to date. Based on market prices in the ten days preceding the date of preparation of this Opinion, the reference assumption is for an annual average exchange rate of $1.13/€ in 2025 (appreciation of 4.6% compared to 2024) and $1.18/€ in 2026 (annual appreciation of 3.9%). There are therefore no significant deviations to report.

There is consensus that the short-term interest rate will stabilise at around 2.0%. The DSB/2026 anticipates a reduction in the 3-month Euribor to 2.1% in 2025 and 2.0% in 2026. In April, the RAP/2025 assumed a short-term interest rate of 2.3% in 2025. For this year, the futures markets anticipate a slower reduction to 2.3% (+0.2 p.p. compared to the assumption in the DSB/2026). In order to achieve the MF assumption for 2025, an average reduction of around 50 basis points would be necessary by the end of the year, compared to current market expectations, which appears to be unfeasible given the ECB's recent monetary policy *guidance*[7] . The 2.0% scenario for 2026 is in line with market expectations (Chart 4).

In light of the current international context, the assumption for external demand points to a slowdown in its growth in 2026. For 2025, the DSB/2026 presents an assumption identical to that of the BdP (3.3%), although higher than the figures considered by the CFP (2.3%) and the EC (2.0%). This represents an upward revision of 0.9 p.p. compared to the 2.4% assumption in the RAP/2025. For 2026, the DSB/2026 assumes growth of 1.9%, in line with the assumption made by the CFP and the BdP.

[7] European Central Bank, 11 September 2025.

Chart 4 – Technical assumptions underlying the DSB/2026, RAP/2025 and figures as at 3 October 20



Source: MF - DSB/2026, RAP/2025 and Macrobond.

According to information provided by the MF, DSB/2026 includes the negative budgetary impact of €211 million in policy measures compared to a scenario of unchanged policies (Table 2). This amount is distributed between changes in direct taxes on household income and social benefits (equivalent to a negative impact of €336 million), partly offset by measures with a positive impact on corporate income taxes (€125 million). The budgetary value of these measures does not imply macroeconomically relevant differences compared to a scenario of unchanged policies.

Table 2 – Fiscal policy measures with an impact in 2026

	Medidas existentes		Novas medidas		Total	
	M€	% PIB	M€	% PIB	M€	% PIB
Receita	716	0,22	-71	-0,02	645	0,20
Despesa	975	0,30	140	0,04	1 115	0,35
Impacto	-259	-0,08	-211	-0,07	-470	-0,15

Source: MF – DSB/2026. Note: the new fiscal policy measures include: on the revenue side, updating the minimum subsistence level and further reducing personal income tax rates; and reversing the indirect SIFIDE (corporate income tax); on the expenditure side, strengthening the Solidarity Supplement for the Elderly (CSI).

Reconciliation with the projections of other institutions

This section presents a comparison of the macroeconomic scenario of the DSB/2026 with that presented by other reference institutions. It should be noted that the comparability of the MF's macroeconomic scenario with that of other institutions is naturally limited by the fact that it includes the direct and indirect impact of policy measures, while the scenarios presented by other institutions do not incorporate the impact of policy measures that have not yet been legislated at the time of their preparation (unchanged policy scenarios). Nevertheless, given the size of the policy measures communicated to the CFP – 0.07% of GDP in 2026 – their impact is not considered relevant. Also, when reading the macroeconomic scenarios, it should be borne in mind that they were prepared at different points in time, based on different technical assumptions and using different methodologies, which affects their comparability. The following discussion takes into account the limitation of the time lag in interpreting the differences between projections.

This analysis also considers the degree of risk inherent in the MF's forecasts. In order to illustrate this risk, confidence intervals around the weighted average projection of the other institutions are presented. These confidence intervals consider the past performance of the projections of the main reference institutions between 2000 and 2024 and assume that the errors follow a normal distribution.[8] The results are presented in the web**Erro! A origem da referência não foi encontrada.** .

The MF's projection for Portuguese economic growth is higher than the average projection of the other institutions for both 2025 and 2026. This difference, which is around 0.1 p.p. in 2025 and 0.3 p.p. in 2026, places the projection underlying the DSB/2026 for both years outside the 30% confidence interval (**Erro! A origem da referência não foi encontrada.**). In the case of 2025, the projection is only comparable to that presented by the IMF in April – the most recent of the various exercises considered.[9] The projection for 2026 is higher than any of the specific projections considered, the maximum value of which is 2.2%, by the EC and the BdP. In cumulative terms, the real growth projected by the MF for the 2025-2026 biennium (4.3%) is higher than the average projection of the other institutions (3.9%). Furthermore, it should be noted that in the DSBNMP, the cumulative growth projection was similar to that of the other institutions. Since then, the MF has maintained its cumulative projection, while the average projection of the other institutions has fallen significantly (-0.4 p.p.) (**Erro! A origem da referência não foi encontrada.**).

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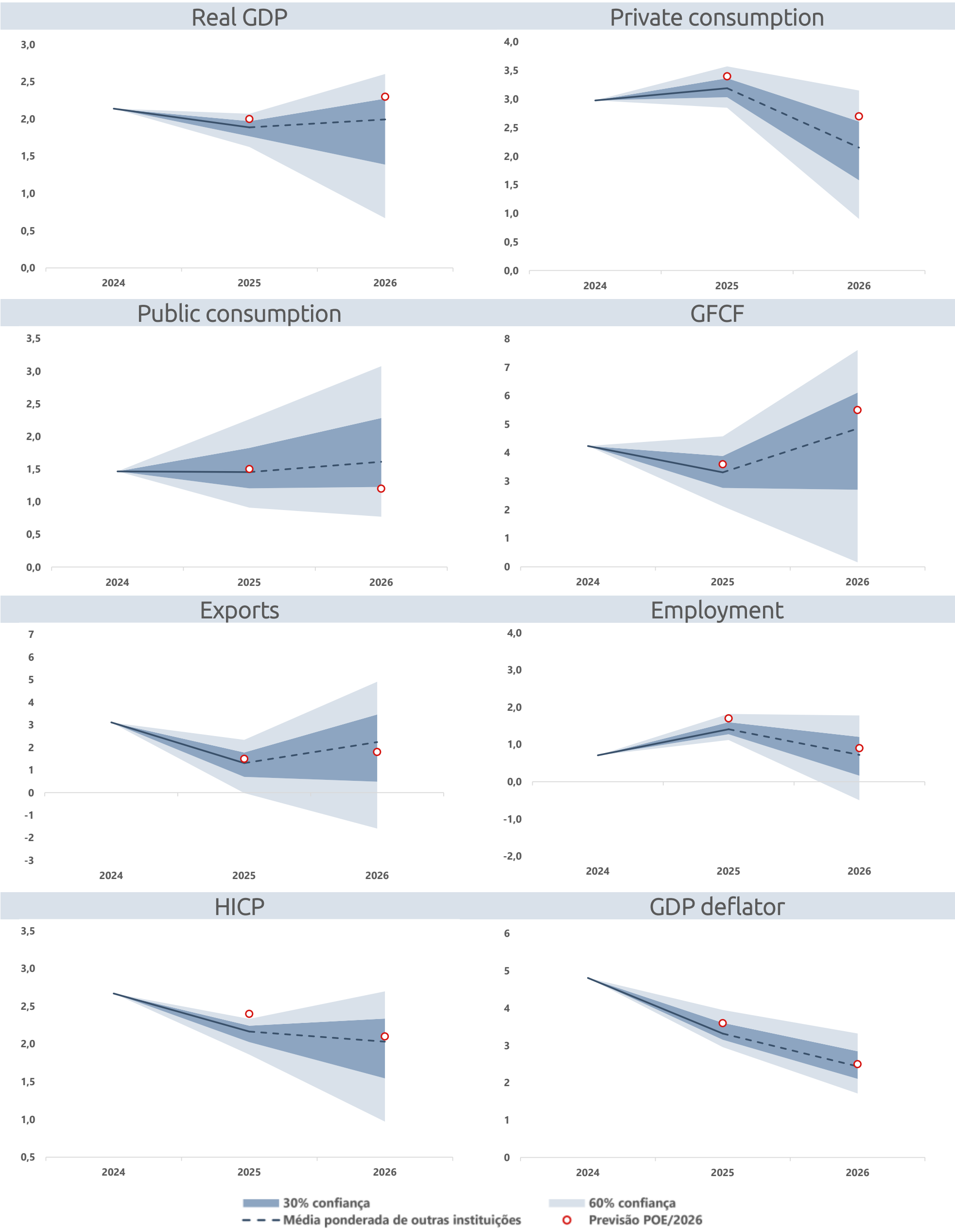
[8] For more details on the methodology used to calculate the average projection and the database used, see Leal, Martins and Marujo (2024), 'Back to the future: A database of macroeconomic and budgetary projections for the Portuguese economy in the 21st century', Portuguese Public Finance Council. The average projection only considers the projections of the BdP, EC, CFP, IMF and OECD. The calculation of the square root of the mean square error used to define the confidence intervals used the exercises compiled in the aforementioned database carried out in the second half of the year, with the decision to exclude the projection exercises for the years 2020 to 2022.

[9] The IMF will present an updated scenario on 14 October with the publication of *the World Economic Outlook.*

With regard to prices, the MF's forecasts for 2026 are in line with the independent projections available. The forecast presented for the GDP deflator in 2025 is identical to that of the CFP (3.6%) and, in 2026 (2.5%), it lies between the CFP projection (2.4%) and that of the BdP (2.9%). In the particular case of the HICP, the MF forecast for 2026 is close to the average of the projections of the other institutions. The only exception concerns the projection for 2025 (2.4%), which is outside the 60% confidence interval (Chart 5 and Table 3) and is the highest compared to any of the point projections considered.

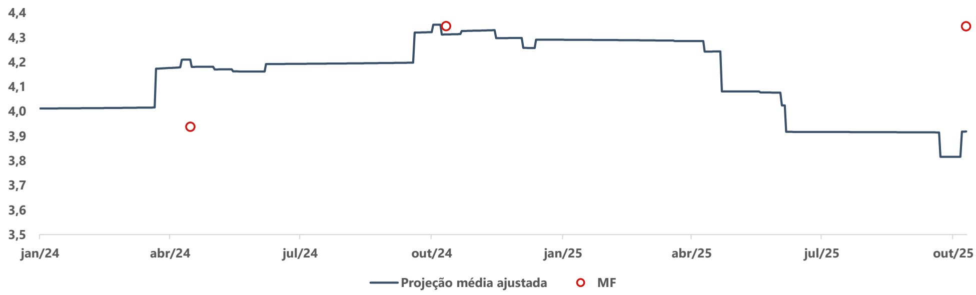
Chart 5 – Forecast intervals associated with MF forecasts (variation, %)



Source: DSB/2026 and CFP calculations. The confidence bands were calculated based on the projection deviations of 167 macroeconomic scenarios from the BdP, EC, CFP, IMF, MF and OECD, between 2000 and early 2025 (excluding the years 2020 to 2022), carried out in the second half of each year. An asymmetric normal distribution of projection errors was assumed. For more details on the methodology used to calculate the average projection and the database used, see Leal, Martins and Marujo (2024). The calculation of the average projection only considered the most recent projections from the BdP, EC, CFP, IMF and OECD.

These growth differentials are reflected in an estimate for the real output level of the Portuguese economy in 2026, which is higher than anticipated by the other institutions. The cumulative growth differential impacts the expected level of activity, which will serve as the economic basis for the budgetary scenario projections (**Erro! A origem da referência não foi encontrada.**). In particular, cumulative GDP growth in volume in 2025 and 2026, at 4.3%, compares with the BdP's projection of 4.1%, the second most favourable. Nevertheless, as a result of the forecast for the GDP deflator, this positive differential is not observed in the case of nominal GDP, where the MF forecast (10.8%) lies between that of the BdP (11.6%) and that of the CFP (10.8%).

Chart 6 – Average projection for cumulative real GDP growth and MF projections (2025-2026, %)



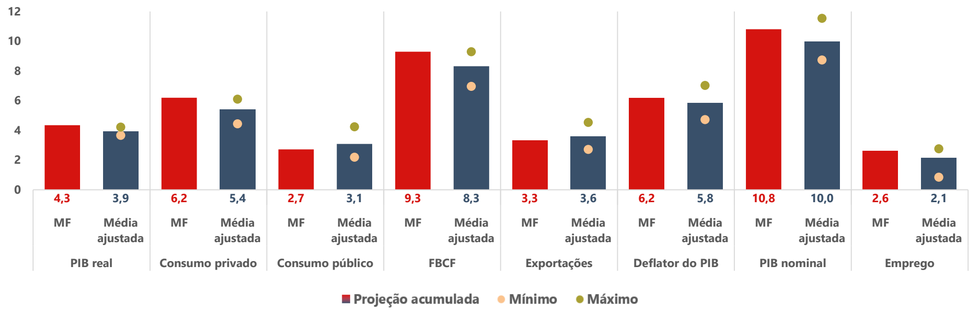
Source: DSB/2026, MTP, Stability Programme 2024-2028 and CFP calculations. For more details on the methodology used to calculate the average projection and the database used, see Leal, Martins and Marujo (2024). The calculation of the average projection only considered the projections of the BdP, EC, CFP, IMF and OECD.

In terms of the composition of growth, the main deviation arises in the projections for private consumption. More specifically, the MF projection for private consumption growth in 2025 (3.4%) is higher than any of the point projections considered and than the average of the institutions' projections (3.2%), which is also outside the 30% confidence interval. For 2026, there is a widening of the gap to 0.5 p.p. between the MF projection (2.7%) and the average projection of the institutions (2.2%), with the MF projection only lower than the EC projection (published in May). As a result, the difference in projections for this item in 2025 and 2026 is expected to result in real private consumption being approximately 0.7% higher. The projections put forward by the MF for the remaining components are broadly in line.

The forecast for compensation per employee in 2026 is higher than that of the other institutions. In terms of compensation per employee, the evolution envisaged by DSB/2026 in 2025 (5.4%) is in line with the figures presented by the other institutions (which range from 4.9% to 6.3%) and in line with the reference average. However, in 2026 (5.3%), the forecast is above the figures projected by the other institutions (the highest of which, 4.2%, was put forward by the CFP). Thus, the MF anticipates cumulative growth in the 2025/2026 biennium for compensation per employee of 11.0%, higher than the average of the other institutions (9.6%).

The expected evolution of productivity in 2025 and 2026 is close to the average reference projection. This projection for labour productivity growth results from a forecast that is higher than the average of the institutions for both economic activity and employment growth (Graph 5 and Table 3). Even so, the projection for employment in these two years can be considered plausible, as it is in line with the figures put forward by both the CFP (1.5% and 0.9% for 2025 and 2026, respectively) and the BdP (1.8% and 0.9%), the only institutions whose scenarios incorporate the economic developments observed for the first half of the year as a whole.

Chart 7 – Cumulative growth in 2025-2026: DSB/2026 and average adjusted by the informative content of the scenarios of the reference institutions



Source: DSB/2026 and CFP calculations. Note: The adjusted average refers to the average of the projections of the BdP, EC, CFP, IMF and OECD, weighted by their information content. For more details on the methodology used to calculate the average projection and the database used, see Leal, Martins and Marujo (2024).

Table 3

Ano	2024	2025							2026						
Instituição		FMI	CE	OCDE	CFP	BdP	Média	MF	FMI	CE	OCDE	CFP	BdP	Média	MF
Data de publicação	set25	abr25	mai25	jun25	set25	out25	ajustada	out25	abr25	mai25	jun25	set25	out25	ajustada	out25
PIB real e componentes (variação, %)															
PIB	2,1	2,0	1,8	1,9	1,9	1,9	1,9	2,0	1,7	2,2	1,9	1,8	2,2	2,0	2,3
Consumo privado	3,0	-	3,3	2,8	3,3	3,3	3,2	3,4	-	2,8	1,6	2,3	2,0	2,2	2,7
Consumo público	1,5	-	1,2	1,2	1,6	1,6	1,5	1,5	-	1,2	1,0	2,6	1,3	1,6	1,2
Investimento (FBCF)	4,2	-	3,5	3,2	3,6	3,0	3,3	3,6	-	4,3	3,7	5,5	5,3	4,9	5,5
Exportações	3,1	2,0	1,7	1,3	0,9	1,1	1,3	1,5	1,9	2,8	2,6	1,8	2,2	2,2	1,8
Importações	4,8	2,9	4,3	2,3	4,2	4,7	3,8	4,0	2,7	4,1	2,7	3,7	2,8	3,2	3,6
Preços (variação, %)															
Deflator do PIB	4,8	2,6	3,1	2,5	3,6	4,1	3,3	3,6	2,3	2,2	2,1	2,4	2,9	2,4	2,5
Deflator do consumo privado	2,8	-	2,1	1,9	2,6	-	2,2	2,4	-	2,0	2,2	2,2	-	2,1	2,2
Deflator do consumo público	6,6	-	4,4	4,4	5,4	-	4,8	5,1	-	2,8	2,2	3,0	-	2,7	2,2
Deflator da FBCF	2,5	-	1,7	2,5	2,6	-	2,3	2,6	-	1,6	1,9	1,8	-	1,8	2,7
Deflator das exportações	0,8	-	1,3	1,7	0,3	-	1,0	0,7	-	1,2	2,2	1,2	-	1,5	1,0
Deflator das importações	-2,4	-	-0,3	1,6	-0,9	-	0,0	-0,8	-	0,7	2,1	0,8	-	1,1	0,5
IHPC	2,7	1,9	2,1	2,1	2,3	2,2	2,2	2,4	2,1	2,0	2,1	2,1	1,9	2,0	2,1
PIB nominal															
Variação (%)	7,1	4,7	4,9	4,4	5,5	6,1	5,3	5,7	4,0	4,5	4,1	4,3	5,2	4,5	4,8
Nível (mil M€)	289,4	298,5	299,2	297,8	300,9	-	-	305,9	310,6	312,8	310,1	313,9	-	-	320,6
Mercado de trabalho (variação, %)															
Taxa de desemprego (% pop. ativa)	6,4	6,4	6,4	6,4	6,1	6,2	6,3	6,1	6,3	6,3	6,4	6,0	6,3	6,2	6,0
Emprego	0,7	0,5	1,0	1,8	1,5	1,8	1,4	1,7	0,4	0,9	0,3	0,9	0,9	0,7	0,9
Remuneração média por trabalhador	7,5	-	4,9	4,9	6,3	5,1	5,4	5,4	-	4,0	3,5	4,2	4,1	4,0	5,3
Produtividade aparente do trabalho	1,4	1,5	0,7	0,1	0,3	0,1	0,4	0,3	1,3	1,3	1,6	0,9	1,3	1,3	1,4
Custo de trabalho por unidade produzida	6,0	-	4,1	4,8	6,0	5,0	4,9	5,1	-	2,6	1,9	3,3	2,7	2,7	3,8
Sector externo (% PIB)															
Capacidade líquida de financiamento	2,8	-	2,4	-	2,8	3,6	-	3,1	-	2,0	-	2,3	4,2	-	3,0
Balança corrente	1,7	1,7	1,2	1,1	1,2	-	-	1,1	1,5	0,9	1,1	0,6	-	-	0,8
Balança de bens e serviços	1,8	-	1,4	1,4	0,8	1,6	-	1,4	-	1,0	1,4	0,1	1,6	-	0,9
Balança de rend. primários e transf.	-0,1	-	-0,1	-0,6	0,4	-	-	-0,3	-	-0,1	-0,6	0,4	-	-	-0,1
Balança de capital	0,9	-	1,1	-	1,7	-	-	2,0	-	1,1	-	1,7	-	-	2,3
Desenvolvimentos cíclicos															
PIB potencial (variação, %)	-	2,1	2,2	2,1	2,6	-	-	2,6	1,8	2,0	2,0	2,1	-	-	2,4
Hiato do produto (% PIB potencial)	-	0,5	0,2	0,4	0,1	-	-	-0,1	0,4	0,4	0,3	-0,1	-	-	-0,2

Sources: 2024: INE. 2025-2026: IMF - *World Economic Outlook*, April 2025; EC - *Spring 2025 Economic Forecast*, May 2025; OECD - *Economic Outlook Volume 2025 Issue 1*, June 2025; CFP - Economic and Budgetary Outlook 2025-2029 (update), September 2025; BdP - Economic Bulletin, October 2025; MF - Draft State Budget for 2026 - October 2025. Adjusted average calculated according to the methodology used in Leal, Martins and Marujo (2024).

This is an automatic translation that has not yet been reviewed. Only the Portuguese version is authentic.

KEY CONSIDERATIONS

This Opinion has been prepared at a time of high uncertainty in the macroeconomic outlook. In its latest projections, the CFP noted that the global economy continues to be affected by high levels of uncertainty, exacerbated by the unpredictability of the US administration's trade policy and escalating geopolitical tensions. It therefore assessed the risks surrounding the central macroeconomic scenario as predominantly downward and listed those it considered relevant, both internally and externally. In particular, at the domestic level, it highlighted investment growth projections, which reflect the expectation of greater financial execution of the PRR, with a positive impact on public investment, which in recent years has proven challenging to achieve.

Taking the risks into account, the macroeconomic scenario underlying the DSB/2026 appears to be statistically probable overall. Nevertheless, it should be noted that there are predominantly downside risks, as highlighted in this Opinion, particularly with regard to real GDP growth, which would warrant a greater degree of caution and should be taken into particular consideration when monitoring the economic situation in 2026.

- As explained in this Opinion, in 2025, the forecast growth is based on an expectation of export growth in the second half of 2025 that appears difficult to achieve and on lower import growth, despite more significant growth in all components of demand with high import content.
- The macroeconomic scenario for 2026 points to real growth in the Portuguese economy higher than anticipated in the most recent projections presented by other leading institutions. The analysis also confirmed that the real growth forecasts of 2.3% are not within the 30% confidence interval when weighted by past forecasting errors inherent in the projections.
- In 2026, the acceleration in real GDP growth is influenced by the expectation of higher intra-annual growth in household consumption than in 2025. This expectation by the MF is not justified by the size and nature of the policy measures that were communicated to the CFP. The analysis carried out reinforced that the forecast for private consumption is the furthest from the most recent projections of the other institutions and does not fall within the most likely range when weighted by past forecast errors inherent in the projections.
- Nevertheless, the analysis confirmed that the nominal growth forecast by the MF for 2025 and 2026 is in line with the latest independent projections available. This is due to a forecast for the GDP deflator in both years that is considered prudent and plausible.
- Finally, the forecast for growth in compensation per employee for 2026, which is close to that expected for 2025, is not in line with the forecast presented for inflation and productivity and is also significantly higher when compared to known independent projections.

CONCLUSION

The conclusion of this analysis by the Portuguese Public Finance Council takes into account the principles of Article 8 of the Budgetary Framework Law (Law No. 151/2015 of 11 September, in its current wording): "The budgetary projections underlying budgetary planning documents shall be based on the most likely macroeconomic scenario or on a more prudent scenario." This same guiding principle of using realistic forecasts for the conduct of fiscal policies is also enshrined in European legislation, in particular in the Stability and Growth Pact and Council Directive No. 2011/85/EU of 8 November 2011 (revised), which lays down the requirements applicable to Member States' budgetary frameworks.

In accordance with Article 4(4) of Regulation No 473/2013 of the European Parliament and of the Council of 21 May 2013, as a result of the analysis of the macroeconomic forecasts underlying the Draft State Budget for 2026 of the XXV Constitutional Government, based on the information currently available and considering the risks identified, the **Portuguese Public Finance Council endorses the macroeconomic forecasts presented, with the reservation of a possible overestimation of real GDP growth for 2026, whose components (domestic and external) are subject to various unfavourable risks, as noted in this opinion.** In this regard, there is a need to ensure greater prudence in the budgetary projections underlying the State Budget for 2026.