



**Conselho das
Finanças
Públicas**

Macroeconomic forecasts underlying the 2027 Draft State Budget

7 October 2026

Opinion no.
05/2026

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

The initiative to establish it followed the publication of the final report of the Task Force for the European Council on the economic governance of Europe 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's Statutes was approved by Law No. 54/2011 of 19 October.

The CFP commenced its activities in February 2012, with the remit to carry out an independent assessment of the consistency, compliance and sustainability of fiscal policy, whilst promoting its transparency, in order to contribute to the quality of democracy and economic policy decisions and to strengthen the State's financial credibility.

This Opinion was drawn up on the basis of information available up to 7 October 2026.

INTRODUCTION

This Opinion focuses on the macroeconomic forecasts underlying the Draft State Budget for 2027 (DSB/2027), presented by the XXV Constitutional Government in the XVII Parliament, 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', dated 6 February 2015.

In accordance with the provisions of the aforementioned Protocol, the Government formally notified the Portuguese Public Finance Council (CFP) on 11 August that the DSB/2027 would be submitted to the Assembly of the Republic on 9 October ('D-day' for the purposes of the timetable set out in section 5 of the Protocol), requesting, if possible, that the Opinion be submitted on 7 October.

In accordance with the Protocol, on 8 September (D-20), the Ministry of Finance (MF) submitted its trend macroeconomic forecasts – based on the no-policy-change scenario. On 24 September, the MF submitted a policy scenario (which includes the impact of any policy measures) to the CFP. A technical meeting took place on 29 September. On 30 September, the MF submitted an updated version of the macroeconomic scenario to the CFP for its Opinion.

This Opinion focuses on the figures used by the MF for the external and technical assumptions, as well as for the macroeconomic forecasts underlying that scenario, presented in Table 1. The analysis carried out by the CFP's technical team:

- highlights the revisions, and their justification, compared with the latest macroeconomic scenario published by the Ministry of Finance;
- assesses consistency with the most recent statistical data available for the first half of 2026, produced by the national statistical authorities – the National Statistics Institute (INE) and the Bank of Portugal (BdP);
- quantifies the year-on-year growth forecast for 2027, taking into account the estimated carry-over effect from 2026;
- verifies the estimate presented for potential output growth and the output gap;
- validates the external assumptions used, and takes into account the policy measures communicated to it;
- compares the scenario with the CFP's projections and with the available forecasts and projections produced by other leading institutions: BdP, the European Commission (EC), the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD);
- assesses the likelihood of the forecasts, taking into account the confidence intervals calculated using past forecast errors for the Portuguese economy;
- takes into account the written and verbal technical clarifications provided by the Ministry of Finance (MF) regarding the forecasts presented.

MACROECONOMIC SCENARIO UNDERLYING THE DSB/2027

Presentation of the Ministry of Finance's forecast for 2026 and reconciliation with previous forecasts

In the macroeconomic scenario of the DSB/2027, the Ministry of Finance forecasts that Gross Domestic Product (GDP) in volume terms will grow by 2.3 per cent in 2026, an upward revision of 0.3 percentage points compared with the 2.0 per cent in the scenario underlying the Annual Progress Report (APR/2026). This forecast compares favourably with the 1.9 per cent recorded in 2025. The revision reflects a more favourable outlook for growth in private consumption (+1.3 percentage points) and exports (+2.0 percentage points), whilst public consumption and investment show marginal revisions (+0.1 percentage points in both cases). These increases are only partially offset by an upward revision to import growth (+3.4 percentage points).

The projected growth is based on stronger investment and export growth (Table 1). Indeed, the Ministry of Finance's macroeconomic scenario anticipates a more robust acceleration in the growth rate of investment (+1.4 p.p. to 5.7 per cent) compared with 2025, influenced by a one-off project relating to a data centre in Sines (around 1 p.p.) and by the planned implementation of the final phase of the RRP¹. This contrasts with the expected slowdown in the growth rate of private consumption (-0.6 p.p. to 3.1 per cent) and public consumption (-0.4 p.p. to 1.7 per cent)². Taken together, this represents a reduction in the contribution of domestic demand to growth (from 4.0 p.p. to 3.5 p.p.). The contribution from net exports, on the other hand, is expected to recover partially in 2026, as a result of a faster growth rate in exports (+3.5 p.p. to 3.5%) than in imports (+1.4 p.p. to 6.0%).

The scenario underlying the DSB/2027 forecasts a slowdown in the growth rate of the implicit GDP deflator to 3.1 per cent (4.0 per cent in 2025). This trend is expected to be driven primarily by a deterioration in the terms of trade (-0.9 per cent, following a gain of 1.5 per cent in 2025), resulting from the sharp rise in energy and raw material prices on international markets. This deterioration translates into a rise in the import deflator (+4.7 p.p. to 3.9%) that is greater than that estimated for the export deflator (+2.4 p.p. to 3.0%). The slowdown in most domestic demand deflators, with the exception of the private consumption deflator, also contributes to this trend. The forecast for the GDP deflator represents an upward revision of 0.6 percentage points compared with the APR/2026. In this context, the Ministry of Finance forecasts growth of 5.5 per cent for nominal GDP, above the 4.6 per cent projected in the APR/2026.

¹ Indeed, the Ministry of Finance forecasts a 58.7 per cent increase in nominal public investment and 2.2 per cent growth in private investment. The fact that growth has been lower than GDP since then reflects a decline in the private investment-to-GDP ratio.

² In nominal terms, public consumption has been revised upwards from an expected growth rate of 4.9% in the APR/2026 to 6.8%, equivalent to €1,300 million.

The substantial rise in energy commodity prices is also expected, according to the Ministry of Finance, to trigger a rise in the inflation rate. Measured by the Harmonised Index of Consumer Prices (HICP), inflation is forecast to reach 2.9 per cent in 2026, an increase of 0.7 percentage points compared with the figure recorded in 2025. Compared with the Annual Progress Report (APR), this represents an upward revision of 0.4 percentage points. In its Opinion on the Annual Progress Report, the CFP concluded that:

“The macroeconomic outlook points to a rise in inflation, as measured by the HICP, of 2.5 per cent, which is lower than anticipated in the most recent projections presented by other leading institutions. The analysis also confirmed that these forecasts do not fall within the 30 per cent confidence interval, when past forecasting errors are taken into account. (...) It is considered that the Ministry of Finance’s forecast may underestimate the spillover effects of rises in energy prices (...).”

As regards the labour market, the scenario anticipates slower growth in employment in 2026. The Ministry of Finance forecasts that the number of people in employment will grow by 1.7 per cent in 2026 (-0.6 percentage points compared with 2025); nevertheless, this represents an upward revision compared with the forecasts published in the APR/2026 (1.2 per cent). The Ministry of Finance’s scenario also anticipates that the unemployment rate will fall to 5.8 per cent of the labour force (-0.2 percentage points compared with 2025 and compared with the APR/2026). These forecasts assume a 0.6% increase in the working-age population in 2026, a decrease of 0.2 percentage points compared with 2025, implying that the Ministry of Finance anticipates a labour force participation rate of around 69.7%, compared with 69.1% in the previous year. Compensation per employee is expected to slow slightly to 4.7% (+0.1 percentage points compared with the APR/2026), whilst apparent labour productivity recovers to 0.6% (+1.0 percentage points compared with 2025), although this is below the April forecast (-0.2 percentage points). These forecasts imply growth in unit labour costs of around 4 per cent in 2026.

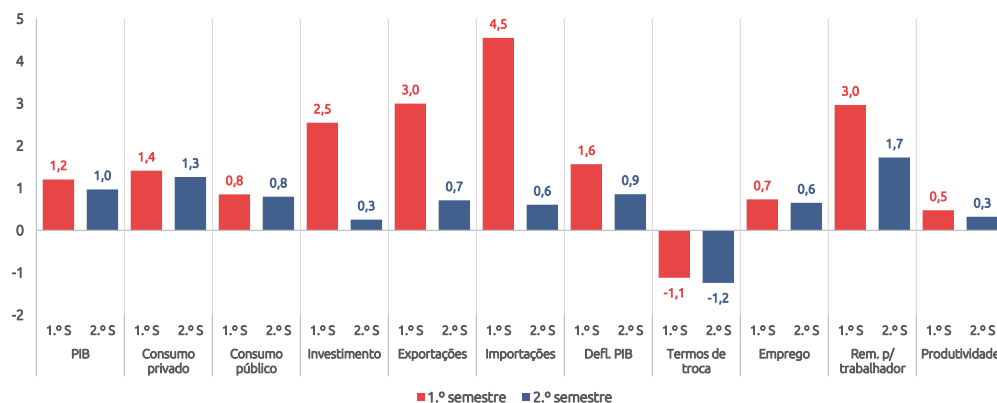
Reconciliation with available data for 2026

The realisation of the estimated real GDP growth in 2026 is consistent with a slowdown in economic activity in the second half of the year compared with the preceding half-year. The GDP growth rate in the first half of 2026 was 1.2% compared with the previous half-year. Thus, growth of 1.0% in the second half of 2026 would be sufficient for the Ministry of Finance’s forecast of 2.3% to materialise. This equates to quarter-on-quarter growth of around 0.3% in each of the last two quarters of the year. In fact, even if economic activity were to stagnate in the second half of the year, annual GDP growth would stand at around 2.1 per cent. The implied slowdown is more pronounced in exports (from 3.0% growth to 0.7%), accompanied by an equally sharp slowdown in imports (from 4.5% to 0.6%). In the case of investment, the projected slowdown (from 2.5 per cent to 0.3 per cent) is influenced by a base effect, linked to a one-off project involving a data

centre in Sines³. Private consumption and employment are maintaining a pace close to that observed. The half-yearly growth rates are illustrated in Chart 1.

The risks for the second half of the year are predominantly on the downside, although their impact on annual growth in 2026 will be limited. The second half of the year faces adverse external constraints, as identified in September in the CFP's *Economic and Fiscal Outlook* (PEO). These include the resumption of military operations in the Persian Gulf, a significant rise in the price of refined petroleum products, particularly diesel, and the ECB's more restrictive monetary policy stance, which raised the deposit facility rate to 2.5 per cent. These factors are partially offset by considerable domestic fiscal stimulus: on the one hand, public investment driven by the completion of the RRP; on the other, temporary measures to boost incomes (namely, the one-off supplement for pensioners, and the adjustment to the withholding tax scales resulting from the reduction in PIT rates up to the 6th bracket, with retroactive effect from January). Given the growth already observed in the first half of the year, the potential materialisation of these risks would automatically affect, above all, the starting point for 2027 – through a reduced carry-over effect (Box 1) – rather than the forecast for 2026. By way of illustration, in the adverse scenario presented by the CFP in the September Economic Outlook, with the price of oil above USD 100 per barrel in the fourth quarter of 2026, GDP growth would be 0.1 percentage points lower in 2026 and 0.6 percentage points lower in 2027.

Chart 1 – Growth compared with the previous half-year: observed (first half of 2026) and implied by the forecasts (second half)



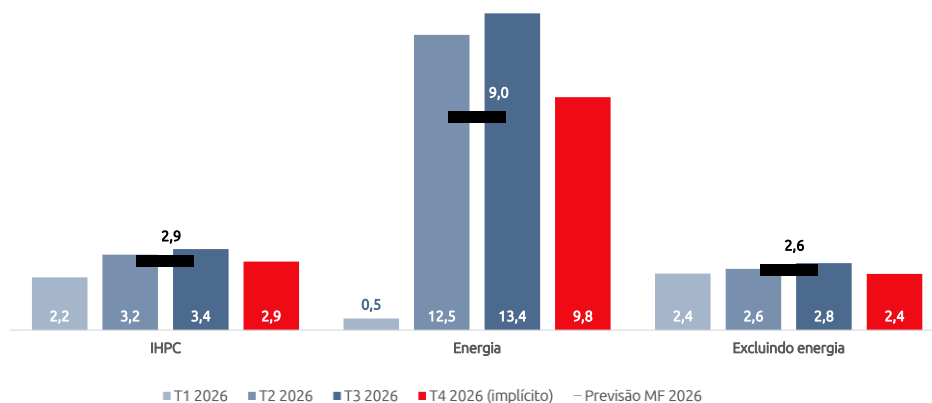
Source: Ministry of Finance – DSB/2027, INE and CFP calculations.

However, even these updated forecasts may underestimate inflationary pressures, which, in the current geopolitical climate, are affecting the Portuguese economy. Taking into account the data observed up to September, the Ministry of Finance's

³ An order for chips worth around €600 million. This one-off effect accounts for around 1 percentage point of the annual investment growth forecast by the Ministry of Finance for 2026 (5.7%). As this involves imported equipment, its impact on GDP is negligible due to the increase in imports in the same quarter. Excluding this effect, it is estimated that the Ministry of Finance's forecast implies investment growth of around 2 per cent in the second half of the year, following around 0.8 per cent in the first half.

forecast implies a slowdown in inflation by the end of the year, particularly in the energy component. In this component, the forecast of 9.0 per cent for 2026 implies an average year-on-year change of 9.8 per cent between October and December, compared with the 17.1 per cent recorded in September (Chart 2). This implies that, in December, the price level of energy products will be approximately 7 per cent below that recorded in September. Based on the historical relationship between the price of a barrel of Brent crude and the energy component of the HICP, a cumulative fall of more than 20 per cent in the price per barrel would be required for this to occur. Finally, regarding the component excluding energy, the Ministry of Finance anticipates a slowdown from 2.6 per cent, on average, between January and September, to 2.4 per cent in the final quarter. According to clarifications provided by the Ministry of Finance, the forecast for the HICP in 2026 corresponds to the average of the figures recorded between January and August, an approach justified by the difficulty of obtaining robust forecasts given the uncertainty of the external environment.

Chart 2 – HICP and components: quarterly averages for 2026 vs. MF forecast (year-on-year, %)



Sources: INE, MF – DSB/2027 and CFP calculations.

An exercise that extends the usual price behaviour in each month of the year through to December⁴ points to an average annual inflation rate (HICP) of 3.2% in 2026. To assess the MF's forecast of 2.9%, this exercise was repeated by adding to the last three months of the year the price surprises⁵ recorded in each year

⁴ Of the twelve months of 2026, nine are already known. For October, November and December, the basket was divided into 11 components (food, industrial goods, fuels, electricity and gas, and services such as transport, housing, travel and accommodation). It is assumed that the price of each component varies each month by the same amount as it has varied on average in that month over the last 20 years. The exception is fuels, which are held constant as they do not have a stable seasonal pattern.

⁵ The surprise for a given month is the difference between the actual price change recorded and the usual change for that month. Surprises can be positive or negative and reflect shocks such as changes in oil prices, weather conditions or tax changes. Each scenario applies the surprises from October to December of a given year to all components at once, preserving the way in which the shocks propagated collectively.

between 2006 and 2025. In only 2 of these 20 scenarios would average annual inflation be equal to or below 2.9%; in the remaining 18 it would be higher (between 3.0% and 3.5%). Given the historical accuracy of this exercise when carried out in September⁶, the probability of inflation being equal to or below 2.9% lies between 12% and 25%. The exercise does not anticipate any policy measures (for example, changes to fuel taxation under the Special Consumption Tax (ISP)).

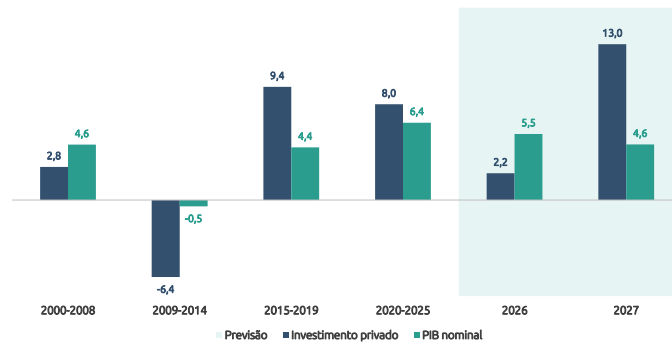
Presentation of the Ministry of Finance's forecast for 2027

For 2027, the Ministry of Finance's macroeconomic scenario projects a slowdown in the rate of real GDP growth to 2.1 per cent (Table 1), resulting from weaker momentum across most components of demand. The Ministry of Finance projects a slowdown in private consumption growth of 1.0 percentage points to 2.1 per cent, in line with the slowdown in the growth of household disposable income (from 5.6 per cent in 2026 to 4.8 per cent in 2027, in nominal terms), and a slowdown in public consumption of 0.5 percentage points to 1.2 per cent. The forecast of a moderation in investment growth to 2.0 per cent reflects two opposing effects: on the one hand, the fall in public investment (-31.0 per cent in nominal terms) associated with the end of the RRP; on the other, an expected increase in nominal private investment of 13.0 per cent. This increase in private investment, should it materialise, would be the highest since 2017, excluding the period marked by the pandemic (2020–2022), and compares with an average increase of 9.4 per cent between 2015 and 2019 and 8.0 per cent between 2023 and 2025 (Chart 3).⁷ It should be noted that this forecast is at odds with the expectation of tighter financing conditions for households and businesses, resulting from the ECB's monetary policy decisions, which poses challenges to the realisation of this forecast. Exports are expected to slow by 0.4 percentage points to 3.1 per cent, in line with the projected trend in external demand for the Portuguese economy and consistent with virtually zero gains in market share.

⁶ For each year between 2010 and 2025, the exercise was repeated using only the information available at the end of September of that year, and the result was compared with the actual inflation rate recorded. The probability was calculated based on the distribution of historical errors from the exercise.

⁷ In the absence of detailed information, one possibility is for the forecast to incorporate one-off, large-scale business investment flows, notably relating to data centres and other infrastructure for artificial intelligence operations, as well as an expansion of TAP's fleet concentrated in 2027, following the completion of the company's Restructuring Plan. This type of investment, with a high proportion of imported content, would have a limited impact on GDP, which could partly explain the contrast between strong growth in private investment and more moderate growth in nominal GDP.

Chart 3 – Average growth rate of nominal private investment (GFCF) and nominal GDP (%)



Source: Ministry of Finance – DSB/2027, INE and CFP calculations.

It should be noted, however, that, according to the Ministry of Finance, the breakdown of investment between the public and private sectors in 2026–2027 is subject to uncertainty regarding the timing of flows associated with the RRP. Over the two-year period, the Ministry of Finance forecasts average annual growth of 7.5 per cent for private investment and 4.7 per cent for public investment, in nominal terms.

Table 1 – Macroeconomic forecasts underlying the DSB/2027

	2025	2026	2027
PIB real e componentes (variação, %)			
PIB	1,9	2,3	2,1
Consumo privado	3,7	3,1	2,1
Consumo público	2,1	1,7	1,2
Investimento (FBCF)	4,3	5,7	2,0
Exportações	0,0	3,5	3,1
Importações	4,6	6,0	2,8
Contributos para a variação real do PIB (p.p.)			
Procura interna	4,0	3,5	2,1
Exportações líquidas	-2,1	-1,2	0,1
Preços (variação, %)			
Deflator do PIB	4,0	3,1	2,5
Deflator do consumo privado	2,5	3,0	2,4
Deflator do consumo público	5,7	5,0	2,4
Deflator do investimento (FBCF)	4,1	4,0	2,3
Deflator das exportações	0,6	3,0	2,0
Deflator das importações	-0,8	3,9	1,9
IHPC	2,2	2,9	2,3
PIB nominal			
Variação (%)	6,0	5,5	4,6
Rendimento e poupança das famílias			
Rendimento disponível nominal	5,7	5,6	4,8
Taxa de poupança (% do rendimento disponível)	12,3	11,8	11,9
Mercado de trabalho (variação, %)			
Taxa de desemprego (% pop. ativa)	6,0	5,8	5,7
Emprego	2,3	1,7	1,4
Remuneração média por trabalhador	4,8	4,7	4,5
Produtividade aparente do trabalho	-0,4	0,6	0,7
Desenvolvimentos cíclicos			
PIB potencial (variação, %)	2,5	2,3	2,1
Hiato do produto (% PIB potencial)	0,1	0,2	0,2
Pressupostos			
Procura externa (variação, %)	4,5	2,7	3,2
Taxa de juro de curto prazo (média anual, %)	2,2	2,5	3,4
Taxa de câmbio EUR-USD (média anual)	1,13	1,16	1,17
Preço do petróleo (Brent, USD/barril)	68,1	92,6	86,1

Source: Ministry of Finance – Information submitted on 30 September 2026.

With regard to prices, the macroeconomic scenario underlying the DSB/2027 projects a slowdown in the GDP deflator to 2.5 per cent in 2027 (3.1 per cent in 2026). According to the Ministry of Finance, this development is expected to result from a slowdown in most domestic demand deflators, particularly public consumption (-2.6 percentage points to 2.4 per cent) and investment (-1.7 percentage points to 2.3 per cent), partially offset by a slight improvement in the terms of trade (0.1 per cent, following -0.9 per cent in 2026). Over the same period, for inflation, as measured by the HICP, the Ministry of Finance forecasts a moderation to 2.3 per cent in 2027, based on the stabilisation of energy prices and a slight moderation in inflation excluding energy (from 2.6 per cent to 2.5 per cent).

As regards the labour market, the Ministry of Finance anticipates that employment will grow by 1.4 per cent in 2027.⁸ The Ministry of Finance also forecasts that the unemployment rate will fall marginally to 5.7% of the labour force over the same period. These forecasts are consistent with the assumption of 0.6% growth in the working-age population, which translates into an increase in the labour force participation rate to 70.2% (+0.5 p.p. compared with the previous year). Under this scenario, apparent labour productivity growth is expected to rise slightly to 0.7 per cent, whilst compensation per employee remains robust, growing by 4.5 per cent – a figure only marginally lower than that projected for 2026 (4.7 per cent). This pattern is primarily driven by the expected slowdown in the private sector (-0.2 p.p. to 4.5 per cent), as the Ministry of Finance anticipates that growth in average public sector wages will stabilise at around 4.8 per cent. These forecasts imply growth in unit labour costs of around 3.8 per cent, once again exceeding that of the GDP deflator, which suggests a continued squeeze on unit profit margins.

The Ministry of Finance's forecast points to a slightly positive output gap in 2026 and 2027 (0.2% of potential GDP). This estimate is consistent with the macroeconomic scenario presented and with the common EU methodology, with the CFP having successfully replicated these figures. There is a slowdown in the rate of potential growth of the Portuguese economy from 2.3 per cent in 2026 to 2.1 per cent in 2027. This slowdown mainly reflects a lower contribution from the labour factor, whilst the contribution from total factor productivity remains stable, with growth of 0.8 per cent.

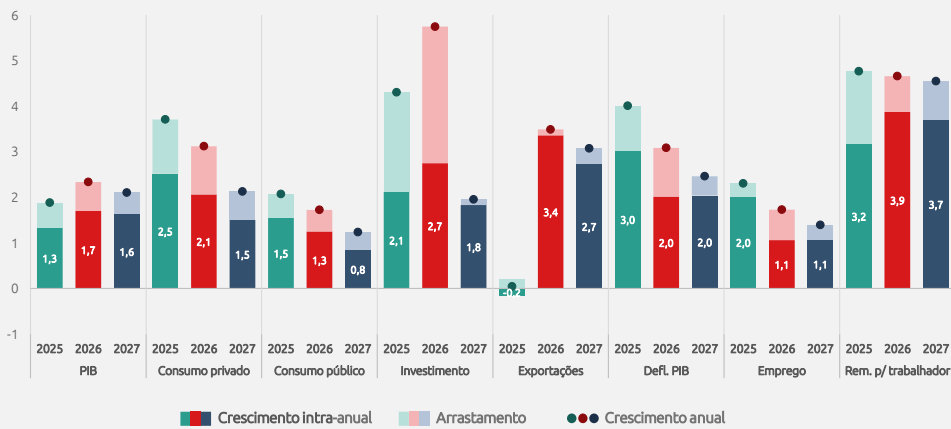
⁸ Growth in the working-age population has been slowing recently: on average, it increased by 28,000 people per quarter in 2025, but by only 10,000 in 2026, a reduction that is likely to reflect a lower net migration balance. Quarterly flows based on the Labour Force Survey show that the rise in employment in the first half of 2026 was largely due to a reduction in the non-working population. However, this reserve is finite and has fallen by approximately 200,000 people since the end of 2021, whilst the number of unemployed has remained stable. Consequently, the rise in employment depends on the maintenance of positive net migration and continued increases in the labour force participation rate.

Box 1 – The year 2027: the carry-over from 2026 and projected intra-annual growth

A forecast of annual economic growth can be broken down into the carry-over effect from the previous year's growth and the projected intra-annual growth (specific to that year). In this analysis, the carry-over effect is measured by the average level of the second half of each year relative to the respective annual average⁹. Intra-annual growth corresponds to the difference between annual growth and this effect. Data from the Quarterly National Accounts for the first half of 2026, combined with the trajectory implied by the Ministry of Finance's forecast for the second half of the year, allows us to estimate this breakdown for the different components of the macroeconomic scenario in 2026 and 2027 (Chart 4). It is thus possible to isolate the forecast growth over each year, which is the actual focus of the forecast.

Although the projected year-on-year growth for 2027 is close to that of 2026, the Ministry of Finance's forecast assumes an acceleration in quarterly growth in economic activity compared with the pace implied for the end of the current year. For the forecast growth of 2.1 per cent to materialise, year-on-year growth would need to stand at 1.6 per cent, following 1.7 per cent in 2026. In 2025, against a less challenging macroeconomic backdrop, year-on-year GDP growth stood at 1.3 per cent. Should the downside risks identified in this Opinion materialise, this forecast would become more challenging. In quarterly terms, the Ministry of Finance's forecast implies an average quarter-on-quarter growth rate of around 0.6% throughout 2027¹⁰, double that implied for the second half of 2026 (0.3%) and above the average observed in 2025 (0.5%).

Chart 4 – Breakdown of the annual growth forecast by the Ministry of Finance between carry-over and intra-annual growth



Source: Ministry of Finance – DSB/2027 and CFP calculations. Note: the darker shades represent the year-on-year growth for each year, whilst the lighter shades represent the carry-over effect. The total forecast growth is represented by the coloured circles.

Exports remain the most dynamic component in 2027. Indeed, the Ministry of Finance's forecast for exports calls for year-on-year growth of 2.7 per cent, compared with 3.4 per cent in 2026. The year 2026 benefited from the reversal of a number of temporary

⁹ This methodological choice is due to the absence of public quarterly forecasts from the Ministry of Finance. Consequently, growth in the second half of the year is that implied by the Ministry of Finance's annual forecast and does not depend on the quarterly distribution. This methodology differs from the usual measure (fourth-quarter level).

¹⁰ Assuming identical growth in each of the four quarters of the year.

effects that weighed on growth in 2025, notably the scheduled shutdown of the Sines refinery, which makes the growth forecast for 2027 particularly challenging.

A slowdown in year-on-year growth in domestic demand is anticipated compared with 2026. The forecast for private consumption (from 2.1 per cent to 1.5 per cent), public consumption (from 1.3 per cent to 0.8 per cent) and investment (from 2.7 per cent to 1.8 per cent) points to weaker growth in 2027. In terms of investment, the forecast is likely to be influenced by the one-off effect of the data centre in Sines in 2026. Excluding this effect, year-on-year growth would be similar in both years. The analysis of investment cannot be broken down by institutional sector (public and private) due to the lack of official seasonally adjusted data.

The forecast for the GDP deflator points to a stabilisation of year-on-year growth at 2.0 per cent, despite the expected recovery in the terms of trade (from –1.7 per cent to 0.8 per cent). The evolution of the terms of trade is framed by the external assumptions underlying the exercise, in particular the evolution of energy prices following the increase recorded in 2026. From an income perspective, the slowdown in compensation per employee (from 3.9% to 3.7%) is more pronounced than that in productivity (from 0.6% to 0.5%).

International framework assumptions

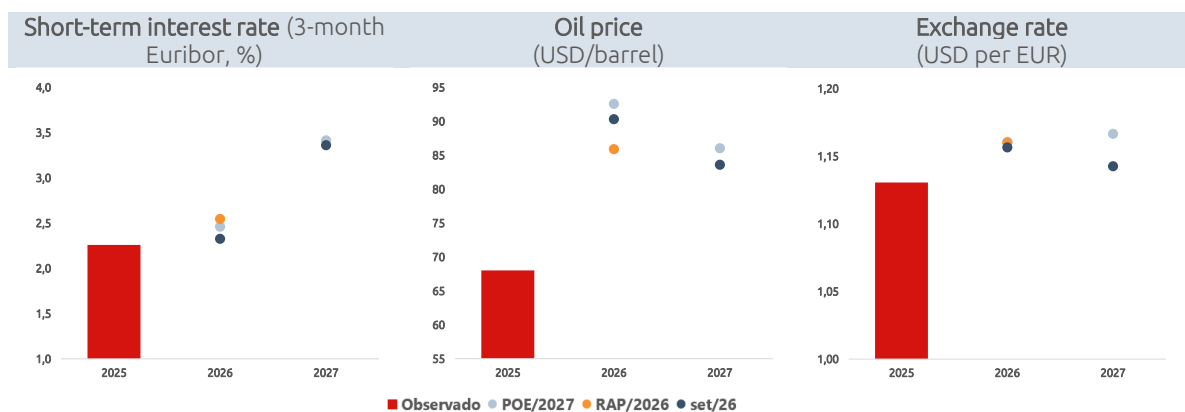
This section analyses the technical assumptions considered by the Ministry of Finance (MF) that provide the framework for the macroeconomic scenario forecasts, including growth in external demand for goods and services. The figures assumed in the DSB/2027 for the evolution of the euro-dollar exchange rate, the price of oil and the short-term interest rate are validated by reference to market rates at the time of drafting this Opinion and, for 2026, placed in perspective against the assumptions of the APR/2026 (Chart 5).

- **The oil price scenario takes into account the shock associated with the conflict in the Middle East and assumes that prices will remain high until the end of the year.** The DSB/2027 forecasts a 36% increase in the price of Brent in 2026, to 92.6 USD/bbl, followed by a 7% fall in 2027, to 86.1 USD/bbl (26% above the 2025 average). The forecast for 2026 is 8 per cent higher than that assumed in the APR/2026, reflecting the continuation of tensions in the Middle East. Futures markets anticipate US\$90.4/bbl for 2026 and US\$83.6/bbl for 2027, figures lower than those assumed by the Ministry of Finance, and the DSB/2027 assumption therefore appears prudent.
- **The exchange rate assumption is based on a continued appreciation of the euro against the dollar.** An appreciation of the euro against the dollar is assumed in 2026 and 2027, of 2.8 per cent and 0.5 per cent respectively, to \$1.16/€ and \$1.17/€. In the 10 working days up to 29 September, the euro depreciated by 1.8 per cent to \$1.13/€. If the average level for this period (1.14 \$/€) were to hold, the exchange rate in 2027 would be around 2 per cent below the Ministry of Finance's assumption, which would favour exports but add pressure to import prices.
- **The scenario is based on an expected increase in the short-term interest rate of 124 basis points over 2026 and 2027 combined.** This reflects the ECB's return to a more restrictive monetary policy stance in response to

the energy price shock: following a year of stability in key interest rates, which followed the cycle of cuts that began in June 2024, the ECB raised the deposit facility rate in June (25 basis points) and in September 2026 (25 basis points), to 2.5 per cent. The markets assign a high probability to a further 25 basis point rise by the end of the year. The DSB/2027 forecasts that the 3-month Euribor will rise to an average of 2.5 per cent in 2026 and 3.4 per cent in 2027 (the futures markets forecast 2.3 per cent and 3.4 per cent for 2026 and 2027, respectively). This rise in interest rates will increase the cost of borrowing for businesses and put pressure on the financial situation of households with mortgage debt.

- **The assumption for external demand is for growth of 2.7 per cent in 2026 – compared with 2.1 per cent in the APR/2026 – and growth of 3.2 per cent in 2027.** The projection for next year is in line with the assumption made by the Bank of Portugal (3.2 per cent), but is higher than that assumed by the CFP (2.3 per cent) and the CE (2.6 per cent). Notwithstanding the favourable trend in international trade, driven by a substantial increase in trade in goods associated with artificial intelligence (AI), particularly in the semiconductors and computer equipment sectors, Portugal may not benefit fully from this momentum, given its limited specialisation in these products.

Chart 5 – Technical assumptions underlying the DSB/2027, APR/2026 and market- d figures



Source: Ministry of Finance – DSB/2027, APR/2026 and Macrobond.

Policy measures

The Ministry of Finance estimates that the measures to support household incomes, which will take effect at the end of 2026, will have a limited macroeconomic impact. The measures planned for 2027 will have a limited impact. The Ministry of Finance estimates a figure of €400 million for both the one-off supplement for pensioners and the reduction in PIT rates up to the 6th bracket, with retroactive effect from January (around 0.25 per cent of GDP as a whole). The combined impact reported by the Ministry of Finance is around 0.04 percentage points on real GDP growth in 2026, which corresponds to an implicit multiplier of around 0.2. This figure appears modest, given the high marginal propensity to consume among the households covered, particularly pensioners. In addition, the Ministry of Finance also anticipates a positive, albeit marginal, impact in 2027

(around 0.01 percentage points). It should be noted that the increase in disposable income will be concentrated towards the end of 2026, fading away in early 2027. On the other hand, the lag between adjustments to the withholding tax tables and legislative changes to PIT has been significant, creating uncertainty regarding the trend in tax refunds and tax demands and, consequently, regarding households' disposable income in 2027. According to information provided by the Ministry of Finance, the measures planned for 2027 will have an impact on the 2027 balance of less than €100 million; consequently, they will not have a material effect on the macroeconomic scenario.

Reconciliation with projections from other institutions

This section compares the projections for 2027 underlying the DSB/2027 with those presented by other leading institutions. It should be noted that the comparability of the Ministry of Finance's macroeconomic scenario with that of other institutions is naturally limited by the fact that it includes the direct and indirect impact of the policy measures considered by the DSB/2027, whilst the scenarios presented by other institutions usually incorporate only the impact of policy measures that had been enacted at the time of their preparation (no-policy-change scenarios). Nevertheless, given the small scale of the policy measures communicated to the CFP for 2027 – less than 0.1 per cent of GDP – their impact does not appear to be relevant for the comparison. Furthermore, when interpreting the macroeconomic scenarios, one must take into account the fact that they were drawn up at different points in time, based on different technical assumptions and using distinct methodologies, which affects their comparability. In this exercise, only the scenarios from the Bank of Portugal (BdP) and the Ministry of Finance (MF) reflect the most recent revision of the national accounts (in the quarterly accounts by institutional sector for the second quarter of 2026, revisions to the 2025 accounts and the final accounts for 2024). The following analysis takes into account the limitation of the time lag when interpreting the differences between the projections.

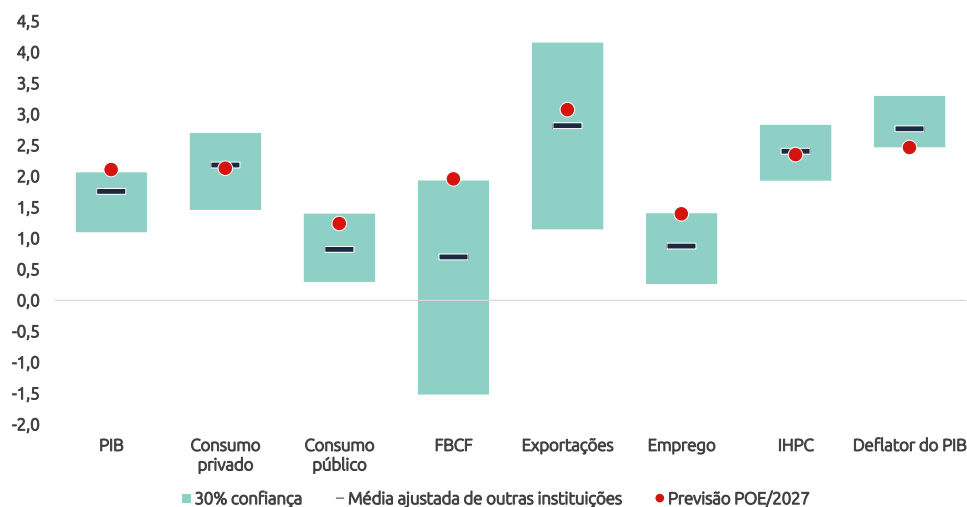
This analysis also considers the degree of risk inherent in the Ministry of Finance's forecasts. To illustrate this risk, confidence intervals are presented around the adjusted average projection of the other leading institutions. These confidence intervals take into account the past performance of the projections by the main reference institutions between 2000 and 2025, and assume that errors follow a skewed normal distribution.¹¹ The results are presented in Chart 6.

The Ministry of Finance's forecast for real growth in the Portuguese economy in 2027 is higher than that of all the leading institutions. The Ministry of Finance

¹¹ For further details regarding the methodology used to calculate the average projection and the database employed, see [Leal, Martins and Marujo \(2024\), "Back to the Future: A database of macroeconomic and fiscal projections for the Portuguese economy in the 21st century", Portuguese Public Finance Council](#). The average projection takes into account only the projections from the Bank of Portugal (BdP), the Commission for Economic Analysis (CE), the CFP, the IMF and the OECD. The calculation of the square root of the mean squared error used to define the confidence intervals drew on the projections compiled in the aforementioned database for the second half of the year; it was decided to exclude the projections for the years 2020 to 2022.

forecasts real GDP growth of 2.1 per cent, around 0.3 percentage points above the adjusted average projection of the other institutions (1.8 per cent), and at the upper limit of the 30 per cent confidence interval for the benchmark forecasts (Chart 6). It is also higher than any of the point forecasts considered, which range from 1.6 per cent (IMF) to 1.8 per cent (EC, CFP and BdP) (Table 2). Nevertheless, the MF's forecast assumes an acceleration in economic activity throughout 2027, with an implied quarter-on-quarter growth rate of around 0.6 per cent, higher than the 0.4 per cent implied in the CFP and BdP scenarios and double the rate implied for the second half of 2026 (Box 1).

Chart 6 – MF forecast and confidence intervals for the forecasts of the reference bodies for 2027 (change, %)



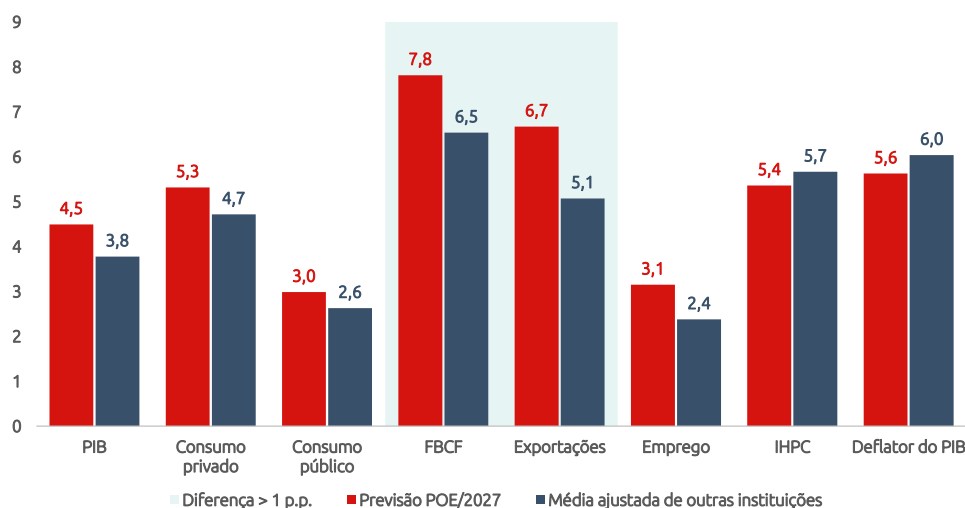
Source: Ministry of Finance – DSB/2027 and CFP calculations. The confidence intervals were calculated on the basis of the forecast deviations from 228 macroeconomic scenarios produced by the BdP, the EC, the CFP, the IMF and the OECD between 2000 and 2025 (excluding the years 2020 to 2022), which were produced in the second half of each year. An asymmetric normal distribution of projection errors was assumed. For further details regarding the methodology used to calculate the average projection and the database employed, see Leal, Martins and Marujo (2024). The calculation of the average projection took into account only the most recent projections from the BdP, CE, CFP, IMF and OECD.

The growth differential is based on a higher contribution from domestic demand, in particular from investment and public consumption. For gross fixed capital formation (GFCF), the Ministry of Finance forecasts growth of 2.0 per cent, above all the point projections (ranging from –2.5 per cent, by the IMF, to 1.7 per cent, by the OECD) and the adjusted average (0.7 per cent). This figure is also slightly above the upper limit of the 30 per cent confidence interval (1.9 per cent). In cumulative terms (2026 and 2027), the gap is more pronounced (7.8 per cent in the DSB/2027, compared with 6.5 per cent on average) (Chart 7). In 2027, the first year following the completion of the RRP, the Ministry of Finance anticipates a sharper contraction in public investment (–32.5%) than the average forecast by the institutions (–18.6%), surpassed only by the European Commission's forecast (–33.1%). This decline is, however, offset by a strong recovery in private investment (10.4 per cent), more than double the average forecast by the institutions (4.9 per

cent) and comparable only to the EC's projection (10.5 per cent).¹² The Ministry of Finance's forecast is thus based on the expectation that private investment will partly offset the end of the RRP's stimulus. This may prove difficult to achieve, given the expected rise in interest rates, which will make corporate financing more expensive and lead to a further squeeze on profit margins. It should be noted, however, that the Ministry of Finance's ' ' considers the annual breakdown between public and private investment in 2026–2027 to be subject to uncertainty; therefore, the sector-by-sector comparison should be interpreted with caution.

As regards the other components of demand, the deviations from independent projections are less pronounced in 2027, with the exception of public consumption and, in cumulative terms over the two years, exports. For public consumption, the Ministry of Finance's forecast (1.2 per cent) is higher than most point forecasts (only the Bank of Portugal presents a higher figure – 1.4 per cent) and the adjusted average (0.8 per cent), although it remains within the 30 per cent range. Conversely, the forecast for private consumption (2.1 per cent) is in line with the institutions' average. For exports (3.1 per cent) and imports (2.8 per cent), the Ministry of Finance's forecasts are above the average (2.8 per cent and 2.5 per cent, respectively), but in line with the point forecasts. However, in cumulative terms, the growth in exports forecast by the Ministry of Finance for 2026 and 2027 (6.7 per cent) exceeds the institutions' average (5.1 per cent) by 1.6 percentage points (Chart 7).

Chart 7 – Real GDP growth and its components, prices and cumulative employment in 2026–2027 under the DSB/2027 scenario and the average scenario of the reference institutions



Source: CE, OECD, BdP, IMF, CFP, MF – DSB/2027 and CFP calculations. The adjusted average refers to the average of the projections by the BdP, CE, CFP, IMF and OECD, weighted by their informative content. For further details on the methodology used to calculate the average projection and the database employed, see Leal, Martins and Marujo (2024).

¹² Real growth rates were calculated assuming a deflator for public and private GFCF identical to the deflator for total GFCF.

In terms of prices, the MF's forecasts for 2027 are below the average of the institutions' projections, which, in nominal terms, offsets the higher real growth. The forecast for the GDP deflator (2.5 per cent) is lower than the adjusted average (2.8 per cent), lying at the lower end of the 30 per cent confidence interval and above only the IMF's projection (2.3 per cent). For the HICP, the Ministry of Finance's forecast (2.3%) is also below the average (2.4%) and matches the lowest of the point projections (IMF and EC). Although the HICP forecast falls within the 30% confidence interval, it appears inconsistent with the technical assumptions of the scenario itself. For 2027, the Ministry of Finance assumes the highest oil price among the scenarios considered (USD 86 per barrel, compared with an average of USD 79.2), as well as the smallest reduction compared with 2026 (–7.1 per cent, compared with reductions ranging from –9.8 per cent to –19.7 per cent in the other institutions). As noted in the Opinion on the APR/2026, combining this assumption with inflation below the other reference projections poses an upside risk to the HICP forecast. As a result, the nominal GDP growth forecast by the Ministry of Finance (4.6 per cent) is in line with the average of the reference projections.

The forecast for employment growth is the highest of all the scenarios considered and lies at the upper limit of the 30 per cent confidence interval. The Ministry of Finance anticipates employment growth of 1.4 per cent in 2027, above the adjusted average (0.9 per cent) and all point projections, which range from 0.4 per cent (OECD) to 1.3 per cent (IMF) (Chart 6). In cumulative terms (2026 and 2027), the difference amounts to 0.7 p.p. (3.1% compared with 2.4%) (Chart 7), which corresponds to employment growth around 32% higher than that forecast, on average, by the other institutions. The forecast for 2027 is based on a 1.3 per cent increase in the labour force (0.9 per cent on average), in a context where the Ministry of Finance forecasts an increase of just 0.6 per cent in the working-age population, which implies a significant rise in the labour force participation rate. By contrast, apparent labour productivity is expected to grow by 0.7 per cent, below the average for the institutions (0.9 per cent). The higher real growth forecast by the Ministry of Finance is thus based on the labour factor rather than on productivity gains. The forecast for the unemployment rate (5.7 per cent) is broadly in line with the reference figures.

The forecast for compensation per employee is higher than that of all the reference institutions. The Ministry of Finance forecasts a 4.5 per cent increase in 2027, above the adjusted average (3.9 per cent) and any of the specific projections available, which range from 3.7 per cent (CE) to 4.1 per cent (BdP). With productivity growing by just 0.7 per cent, this forecast implies an increase of around 3.8 per cent in nominal unit labour costs, well above the projected inflation rate (2.3 per cent). In real terms, unit labour costs would thus rise by approximately 1.4 per cent, compared with 0.6 per cent in the institutions' average scenario. This trend suggests a squeeze on corporate profit margins, which is hardly compatible with the projected recovery in private investment. Furthermore, wages constitute a significant source of tax and social security revenue; consequently, any overestimation of their growth is directly reflected in the fiscal projections.

In summary, compared with the projections of the reference institutions, the Ministry of Finance's scenario for 2027 shows a slight upward bias in a number of variables expressed in real terms, and a downward bias in those relating to prices.

This bias stems less from the magnitude of the deviations in each variable – with the exception of real GDP, GFCF and employment, for which the projections lie at the upper limit of the 30 per cent confidence interval or outside it – than from their systematic trend: forecasts for real variables are, as a rule, above the institutions' average, whilst those for price variables are below it. The forecast for nominal GDP, which is close to the average, reflects the balance between these two effects.

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

Table 2 – Forecasts and projections for the Portuguese economy

Ano Instituição Data de publicação	2025	2026							2027						
		CE	OCDE	FMI	CFP	BdP	Média	MF	CE	OCDE	FMI	CFP	BdP	Média	MF
	set/26	mai26	jun26	jun26	set26	out26	ajustada	out26	mai26	jun26	jun26	set26	out26	ajustada	out26
PIB real e componentes (variação, %)															
PIB	1,9	1,7	1,8	1,7	2,2	2,3	2,0	2,3	1,8	1,7	1,6	1,8	1,8	1,8	2,1
Consumo privado	3,7	1,9	1,9	1,8	3,2	3,1	2,5	3,1	2,3	1,9	2,1	2,4	2,1	2,2	2,1
Consumo público	2,1	2,1	1,4	2,0	1,7	1,8	1,8	1,7	1,1	0,8	0,0	0,7	1,4	0,8	1,2
Investimento (FBCF)	4,3	3,9	5,2	8,1	5,9	5,6	5,8	5,7	1,6	1,7	-2,5	1,5	1,0	0,7	2,0
Público	8,8	46,5	23,4	34,2	17,8	24,3	27,9	52,7	-33,1	-19,6	-27,9	-6,3	-14,0	-18,6	-32,5
Privado	3,6	-3,3	2,1	3,7	3,9	2,7	2,1	-1,7	10,5	6,1	3,0	3,0	3,8	4,9	10,4
Exportações	0,0	0,6	0,8	1,0	3,6	3,5	2,2	3,5	2,2	2,4	3,8	2,5	3,0	2,8	3,1
Importações	4,6	2,0	2,1	4,0	6,5	6,0	4,5	6,0	2,5	2,4	2,0	2,4	2,9	2,5	2,8
Contributos para o crescimento real do PIB (p.p.)															
Procura interna	4,0	2,3	2,3	3,2	3,6	3,6	-	3,5	1,9	1,8	0,8	1,9	1,8	-	2,1
Exportações líquidas	-2,1	-0,6	-0,5	-1,5	-1,5	-1,2	-	-1,2	-0,1	0,0	0,8	0,0	0,0	-	0,1
Preços (variação, %)															
Deflador do PIB	4,0	2,8	2,9	3,2	3,1	3,6	3,2	3,1	2,6	2,8	2,3	2,8	3,1	2,8	2,5
IHPC	2,2	3,0	3,2	3,4	3,2	3,1	3,2	2,9	2,3	2,5	2,3	2,6	2,4	2,4	2,3
PIB nominal															
Variação (%)	6,0	4,6	4,7	5,0	5,4	6,0	5,2	5,5	4,5	4,6	3,9	4,7	5,0	4,6	4,6
Nível (mil M€)	308,5	320,8	321,3	322,0	323,2	327,1	323,3	325,5	335,1	336,3	334,7	338,3	343,3	338,1	340,5
Mercado de trabalho (variação, %)															
População em idade ativa	1,4	0,6	0,3	-	0,6	0,2	0,4	0,6	0,6	0,0	-	0,5	0,2	0,3	0,6
População ativa	2,7	1,0	0,9	1,8	1,9	1,3	1,4	1,5	0,8	0,4	1,3	1,1	0,6	0,9	1,3
Taxa de desemprego (% pop. ativa)	6,0	5,9	5,8	5,9	5,9	5,6	5,8	5,8	5,8	5,8	5,9	5,8	5,6	5,8	5,7
Emprego	2,3	1,1	1,1	1,7	1,7	1,7	1,5	1,7	0,9	0,4	1,3	1,1	0,7	0,9	1,4
Remuneração média por trabalhador	4,8	4,4	4,2	-	4,9	4,5	4,5	4,7	3,7	4,0	-	3,9	4,1	3,9	4,5
Público	6,0	-	-	-	4,4		-	4,8	-	-	-	4,1		-	4,8
Privado	4,5	-	-	-	5,1		-	4,7	-	-	-	3,9		-	4,5
Produtividade aparente do trabalho	-0,4	0,6	0,7	0,0	0,5	0,6	0,5	0,6	0,9	1,3	0,3	0,8	1,1	0,9	0,7
Desenvolvimentos cíclicos															
PIB potencial (variação, %)	-	2,0	2,1	2,0	2,0	-	2,0	2,3	1,8	1,8	1,8	1,8	-	1,8	2,1
Hiato do produto (% PIB potencial)	-	0,0	0,4	0,2	-0,4	-	0,0	0,2	0,0	0,3	0,0	-0,5	-	-0,1	0,2
Hipóteses externas															
Procura externa (variação, %)	-	1,8	-	-	1,6	2,7	2,1	2,7	2,6	-	-	2,3	3,2	2,7	3,2
Preço do petróleo (Brent, USD)	68,3	91,2	91,8	89,0	87,8	96,2	91,3	92,6	78,2	80,2	71,5	79,1	85,0	79,2	86,1
Taxa de juro de curto prazo (%)	2,2	2,4	2,2	2,0	2,4	2,4	2,3	2,5	2,6	2,2	2,0	3,0	3,4	2,7	3,4
Taxa de câmbio	1,13	1,17	1,18	1,18	1,16	1,16	1,17	1,16	1,17	1,18	1,18	1,16	1,15	1,17	1,17

Sources: 2025: INE. 2026–2027: EC – *Spring 2026 Economic Forecast*, May 2026; OECD – *Economic Outlook Volume 2026 Issue 1*, June 2026; IMF – *2026 Article IV Staff Report*, June 2026; CFP – *Economic and Fiscal Outlook 2026–2030* (update), September 2026; BdP – *Economic Bulletin*, October 2026; MF – *Macroeconomic scenario* submitted on 30 September 2026. Adjusted average calculated in accordance with the methodology used in Leal, Martins and Marujo (2024).

KEY CONSIDERATIONS

This Opinion has once again been drawn up against a backdrop of high uncertainty. In the September Economic and Fiscal Outlook, the CFP assessed the risks surrounding the macroeconomic scenario as being predominantly on the **downside**. It highlighted the resumption of military operations in the Persian Gulf, the rise in the price of oil and refined products, and the ECB's more restrictive monetary policy stance. Domestically, it noted the end of the RRP, which will make investment growth more dependent on the private sector.

Taking the risks into account, the macroeconomic scenario underlying the DSB/2027 appears, on the whole, to be statistically probable. Nevertheless, as explained in this Opinion, it should be noted that there are downside risks to the forecast for real GDP growth in 2027. With regard to inflation, there is a potential underestimation in both 2026 and 2027.

- In 2026, the forecast GDP growth of 2.3 per cent (in volume terms) is highly likely to materialise. Given the growth observed in the first half of the year, growth of just 1 per cent in the second half of the year would be sufficient to achieve this. Even if economic activity were to stagnate, annual growth would stand at around 2.1 per cent.
- In 2027, the forecast real growth of 2.1 per cent exceeds that of all benchmark institutions and lies at the upper limit of the 30 per cent confidence interval for those forecasts and projections. The Ministry of Finance's forecast assumes an acceleration in economic activity over the coming year: quarter-on-quarter growth of approximately 0.6 per cent per quarter, double the rate implied for the second half of 2026.
- The macroeconomic scenario points to inflation of 2.9 per cent in 2026, which appears unlikely. According to clarifications provided by the Ministry of Finance, the inflation forecast for 2026 corresponds to the average of the figures recorded between January and August. The forecast implies that energy prices will be, by the end of the year, approximately 7 per cent lower than those recorded in September. This is inconsistent with the oil price trajectory assumed by the Ministry of Finance itself. The forecast for 2027 is below the average of the projections by leading institutions, despite the Ministry of Finance assuming the highest oil price among the scenarios considered. This poses an upside risk to the inflation forecast.
- The analysis confirmed that the nominal growth forecast by the Ministry of Finance for 2027 is in line with the latest available independent projections. This is due to a forecast for the GDP deflator that is considered prudent and plausible.
- The employment forecast (1.4 per cent) is the highest amongst the benchmark institutions and lies at the upper limit of the 30 per cent confidence interval. It is based on growth in the labour force (1.3 per cent) exceeding that of the working-age population (0.6 per cent), which implies a significant increase in the labour force participation rate. The Ministry of Finance's forecast for compensation per employee is also the highest amongst the benchmark institutions. The combined effect of these two factors may result in increased risks to revenue derived from the wage bill.

CONCLUSION

The conclusion of this analysis by the Portuguese Public Finance Council takes into account the principles set out in Article 8 of the Fiscal Framework Law (Law No. 151/2015 of 11 September, as currently worded): “The fiscal projections underlying fiscal planning documents must 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 in Council Directive 2011/85/EU of 8 November 2011 (revised), which lays down the requirements applicable to Member States’ fiscal frameworks.

Pursuant to Article 4(4) of Regulation No 473/2013 of the European Parliament and of the Council of 21 May 2013, following an analysis of the macroeconomic forecasts underpinning the Draft State Budget for 2027 of the XXV Constitutional Government, based on currently available information and taking into account the identified risks, and given that **the projected nominal growth for 2027 complies with the aforementioned legal principles, the Portuguese Public Finance Council endorses the macroeconomic forecasts presented**, noting that the risks to real growth are tilted downwards.