Conselho das Finanças Públicas

ANALYSIS OF THE DRAFT STATE BUDGET FOR 2027

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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 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 Report has been drawn up on the basis of information available up to 21 October 2026.

The spreadsheet file containing the figures underlying all the charts and tables in this report is available at www.cfp.pt, in the 'Publications' section. The key public finance concepts used in this Report are explained in the CFP Glossary, which is available online.

CONTENTS

Overall Assessment 4

Executive Summary 6

1. Introduction 9

2. Analysis of the DSB/2027 fiscal scenario 10

2.1 Fiscal balances 10

2.2 Net expenditure 12

2.3 Analysis of the consistency of the fiscal forecast 15

2.4 Incorporation of new policy measures into the CFP's projection 21

2.4.1 Fiscal balance 21

2.4.2 Public Debt 24

2.4.3 Net expenditure 24

3. Trends in public debt 27

3.1 Trends in absolute terms 27

3.2 Debt dynamics 27

3.3 Financing requirements and sources 29

4. Fiscal risks 34

5. Annexes 36

5.1 Statistical tables 36

5.2 Index of Charts 45

5.3 List of Tables 45

5.4 Box Index 46

OVERALL ASSESSMENT

The fiscal forecast underlying the Draft State Budget for 2027 (DSB/2027) points to a general government surplus of 0.1% of GDP, i.e. 0.1 percentage points above the Government's estimate for 2026. When analysed in the light of the macroeconomic scenario underpinning the DSB/2027, the observed fiscal outturn and the CFP's updated projection, the trajectory of the balance for 2027 presented by the Ministry of Finance (MF) appears plausible. The CFP's own projection, when incorporating the measures specified in the DSB/2027, points to a deficit in 2027 of 0.1% of GDP – a difference of 0.2 percentage points of GDP which does not alter the overall assessment, given that both indicate a situation close to fiscal balance. Nevertheless, the composition of the balance forecast in the DSB/2027 warrants attention. The aggregate general government surplus combines a central government deficit of 2.8% of GDP – the highest since 2017, excluding the pandemic years – with surpluses of 2.6% of GDP in the Social Security Funds (SSF) and 0.2% in Regional and Local Government (RLG). The overall result therefore remains dependent on the performance of the social security subsector, which is particularly exposed to the economic cycle.

Excluding the effect of the RRP, the draft budget forecasts expenditure will rise by 0.4 percentage points of GDP, with nominal growth of 5.7%. Almost 70% of this increase stems from primary current expenditure – essentially social benefits and staff costs – the least flexible components of expenditure. Whilst the commitments made increase the State's rigid expenditure, it should also be borne in mind that tax revenue does not yet fully reflect the effects of recent tax cuts. The impact of these measures has been partly deferred through excessive adjustments to personal income tax (PIT) withholding rates, which has shifted tax collection to the following year(s). As these tax reduction effects take hold (which will happen in the final phase of the current parliamentary term), the revenue base underpinning such expenditure may prove less robust than it currently appears, which poses a risk to fiscal balance in the coming years. Public investment has also benefited in recent years from the impetus provided by the RRP, reaching 2.9% of GDP in 2025 – a figure not seen in the last decade, a period during which the general government's gross fixed capital formation (GFCF) consistently remained below that level. Even so, it remained below the European Union average. Without the effect of the RRP, GFCF would have stood at 2.4% of GDP in that year. Adjusting for this effect, GFCF is expected to rise to 2.8% of GDP in 2026 and stabilise at this level in 2027, remaining

below 3% of GDP and the European average. The capacity to carry out public investment using domestic resources therefore remains limited.

With regard to net expenditure – an operational indicator under the new European framework for economic governance – The DSB/2027 Report shows a cumulative deviation in the reference balance of 0.5% of GDP for 2027 (after applying the flexibility associated with the national derogation clause for defence expenditure) and 0.9% of GDP (before applying that flexibility), compared with the maximum threshold of 0.6%. This conclusion is influenced by various methodological choices that appear to diverge from the European Commission's methodology. According to the updated projections from the CFP, the deviation is even greater: 1.1% of GDP in 2026 and 2.0% of GDP in 2027.

A position close to balance is therefore projected for the second consecutive year, with the debt-to-GDP ratio continuing to fall. This result is based, however, on a growing central government deficit – increasingly less offset by the social security surplus – as well as on expenditure growth that is heavily concentrated in the least flexible components (disregarding the base effect of the RRP) and on a net expenditure trajectory whose achievement depends on a methodological approach that warrants further clarification. It is important to promote more efficient management of resources across the various sectors of the State, and first and foremost within the Central Government sector, by increasing the scope for fiscal manoeuvre to meet new public investment needs in various areas, with a view to preserving the fundamental social balances in our country.

EXECUTIVE SUMMARY

Balance, fiscal policy stance and net expenditure

The fiscal forecast underlying the DSB/2027 points to a surplus of 0.1% of GDP in 2027, an improvement of 0.1 percentage points compared with the Government's estimate for 2026. The reduction in expenditure (3.0 percentage points of GDP) is slightly greater than that in revenue (2.9 percentage points), reflecting above all the end of loan-financed RRP expenditure.

The DSB/2027 forecasts a further widening of the Central Government deficit to 2.8% of GDP, the highest level since 2017, excluding the pandemic period. As in the previous year, this widening is offset mainly by the surplus of the SSF, and to a lesser extent by the surplus of RLG. However, unlike in 2025, the surplus of the SSF is not sufficient to fully offset the Central Government deficit. Fiscal performance therefore remains dependent on the SSF sub-sector, a sub-sector particularly exposed to the the economic cycle.

Net Expenditure

The DSB/2027 Report indicates that the net expenditure trajectory will be met in 2027; however, this depends on methodological assumptions that significantly influence the calculation of the cumulative deviation. The DSB/2027 Report presented by the MF forecasts a cumulative deviation of 0.5% of GDP for 2027 after defence flexibility and 0.9% of GDP before flexibility. However, this figure for the cumulative deviation, which is below the 0.6% of GDP threshold permitted in the control account, is sensitive to certain methodological choices. Furthermore, the DSB/2027 Report does not include sufficient information to support the claim that the cumulative increase in defence expenditure (in national accounts) will amount to 0.4 percentage points of GDP compared with 2021.

Projected fiscal developments for revenue and expenditure in 2027

In this executive summary, fiscal developments relating to revenue and expenditure are net of the RRP effect, given that this programme *ends* in 2026.

The forecast for public revenue is broadly consistent with the macroeconomic scenario set out in the DSB/2027, which anticipates that the tax burden will stabilise. According to the MF, in 2027 the share of public revenue will fall by 0.1 percentage points of GDP. The tax burden is expected to remain at 35% of GDP, with the increase in the share of actual social security contributions (0.3 percentage points of GDP) offsetting a reduction of the same magnitude in tax revenue. Excluding the impact of the policy measures envisaged by the MF, tax and social security revenue would grow by 5.0%, broadly in line with nominal GDP. However, the forecast for PIT partly reflects the positive effect in 2027 of the one-off reduction in withholding tax due to take place in November 2026.

The DSB/2027 points to an increase in public expenditure of 0.4 percentage points of GDP, to 42% of GDP, driven by interest payments. In nominal terms, the projected growth in expenditure excluding the RRP, which slows from 6.9% in 2026 to 5.7% in 2027, stems from trends in primary current expenditure, namely social benefits and staff costs. Capital expenditure is expected to rise by 8.2%, mainly driven by investment funded from domestic sources (excluding RRP loans). As for interest charges, the DSB/2027 points to an increase of €1.5 billion, almost double the figure indicated in the 'unchanged policies' scenario provided by the MF to the Assembly of the Republic on 31 August and above the CFP's projection, which suggests a possible overestimation. Conversely, the fiscal forecast for some expenditure items appears to be underestimated, particularly non-cash social benefits not related to pensions. In the absence of a response to the requests for clarification, it was not possible to assess the consistency of the MF's forecast for capital expenditure components with economic policy measures and the macroeconomic scenario.

Public Debt

The DSB/2027 forecasts that the public debt ratio will fall to 84.5% of GDP in 2027, continuing its downward trajectory. This reduction of 3.0 percentage points of GDP stems from nominal economic growth and the maintenance of primary surpluses, partially offset by an increase in interest expenditure, which rises from 2.0% to 2.4% of GDP, and by a deficit-debt adjustment of 0.9 percentage points of GDP. In absolute terms, public debt increases by €3,000 million. The MF forecasts that the State's gross borrowing requirements will rise by €4,900 million in 2027, mainly due to an increase in net borrowing requirements associated to the acquisition of financial assets and the redemption of Treasury Bonds (OT). OTs remain the main source of funding, but their share of net funding falls to 65% (81% in 2026), with greater recourse to Treasury Bills, against a backdrop of rising market interest rates. In July 2026, the portfolio's refinancing profile complied with the defined limits, but the greater weight of Treasury Bills and variable-rate debt increases the exposure of interest charges to movements in market rates.

Assessment of the fiscal scenario for the DSB/2027

An assessment of the fiscal forecast underpinning the 2027 DSB/2027 Bill suggests that the fiscal trajectory presented by the MF is plausible. Although there are still factors which can potentially impact the results – notably the statistical treatment of the closure of the RRP – the MF's forecast (in line with the CFP's projection) points to a fiscal position close to balance in 2027. The differences between the MF's forecast and the CFP's projection relate mainly to the composition and quantification of certain fiscal aggregates. These differences would be mitigated if the measures not sufficiently specified in the MF's forecast were incorporated in the latter.

Based on the updated CFP budget projection, net expenditure in 2026 and 2027 is expected to continue to grow at a rate exceeding the commitment made by the Portuguese State in the National medium-term fiscal-structural plan (POEN-MP). The CFP projects that net expenditure will grow by 7.6% annually in 2026 and by 3.5% in 2027. Taking the cumulative deviation in 2025 in the monitoring account established by the European Commission as a starting point and, , after taking into account the

flexibility associated with the national derogation clause relating to defence expenditure, the cumulative deviation is expected to amount to 1.1% of GDP in 2026 and 2.0% of GDP in 2027, above the maximum threshold of 0.6% of GDP.

The slowdown in net expenditure growth in 2027 reflects a reduction in the fiscal impulse compared with 2026, giving fiscal policy a restrictive stance. This translates into a fiscal impulse of 0.7% of GDP, driven by expenditure funded by the national budget (0.3% of GDP) and by the reduction in expenditure financed by European funds (0.4% of GDP), linked primarily to the decline in RRP grants. This stance contrasts with the forecast for 2026, a year for which an expansionary fiscal impulse of 1.4% of GDP is estimated.

Fiscal Risks

The fiscal forecast for 2027 entails downside risks. Among the risks identified, the following stand out: (i) lower-than-expected growth in the economy's total wage bill, affecting PIT and social security contributions; (ii) a lower-than-expected impact of the measure to combat fiscal fraud in the fuel sector; (iii) the adoption of policy measures that could jeopardise the fiscal targets set out in the DSB/2027; (iv) the possibility that the Resolution Fund may have to compensate certain common creditors of BES; (v) the materialisation of public expenditure associated with general government contingent liabilities, relating to claims by private partners in public-private partnerships (PPPs) and other ongoing legal proceedings, as well as public guarantees, notably those relating to the youth housing scheme, those granted to SATA by the Regional Government of the Azores, and those associated with credit lines to private companies.

On the other hand, there are factors that may improve the fiscal outlook. These include: (i) a more favourable than expected trend in prices or economic activity, which would be reflected in tax revenue; (ii) a lower-than-expected increase in interest payments; and (iii) a more restrained use of expenditure allocations due to fiscal restraint measures.

1. INTRODUCTION

Pursuant to Article 7 of the Statutes of the Portuguese Public Finance Council (CFP), this Report analyses the Draft State Budget for 2027 (DSB/2027). This Report was preceded by the CFP's Opinion on the macroeconomic forecasts underpinning the State Budget, drawn up in accordance with the combined provisions of Article 8 of the Fiscal Framework Law (Law No. 151/2015 of 11 September, as currently worded),[1] Article 6(a) of the CFP's Statutes, approved by Law No. 54/2011 of 19 October, as amended by Law No. 82-B/2014 of 31 December, Article 4(4) and Article 6(3)(f), both arising from Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013.

The analysis carried out in this Report is based on the information contained in Draft Law No. 110/XVII/2nd, which approves the State Budget for 2027, hereinafter referred to as DSB/2027, submitted to the Assembly of the Republic on 8 October, in the Draft Fiscal Plan for 2027 (DBP) sent to the European Commission (EC) and the information provided by the MF to the CFP up to the cut-off date of 21 October.

The CFP thanks the MF for the timely submission of the requested information and for the clarifications provided. These clarifications were not, however, complete, and no conclusive response was received regarding three issues: (i) the impact on national accounts of the sale of property (capital assets); (ii) the breakdown between investment (GFCF) and other capital expenditure of the expenditure arising from Storm Kristin, with a contradiction remaining between its classification as other capital expenditure in the DBP tables and the clarification that it is mainly classified under GFCF; and (iii) the reconciliation between the trend in defence expenditure in public accounts and its cumulative increase since 2021 of 0.4 percentage points of GDP in the national accounts, in respect of which confidentiality grounds were invoked.

This Report is structured as follows: Chapter 2 assesses the fiscal forecasts for 2027; Chapter 3 analyses the public debt fiscal trajectory; Chapter 4 identifies the risks underlying the MF's fiscal scenario for 2027.

[1] Act No. 151/2015 of 11 September was amended by Acts 42/2016 of 28 December, 2/2018 of 29 January, 37/2018 of 7 August, 41/2020 of 18 August and 10-B/2022 of 28 April.

2. ANALYSIS OF THE DSB/2027 FISCAL SCENARIO

2.1 Fiscal balances

With the RRP due to end in 2026, the DSB/2027 concentrates the recording of all outstanding revenue and expenditure associated with the plan in the year 2026. On the revenue side, this includes the final tranche of funding, which is due to be received in December 2026. Accordingly, for 2026, the MF estimates that grants receivable under that plan will amount to €9,077 million (2.8% of GDP) and that loans intended to finance RRP expenditure will amount to €2,029 million (0.6% of GDP), totalling €11,106 million. With regard to the first half of 2026, the preliminary estimate of expenditure incurred under the RRP, as reflected in the general government account in the national accounts, points to an outturn of €2,443 million, which is €972 million higher than that recorded in the corresponding period of the previous year. Achieving the annual estimate (€11,106 million) presupposes a very significant acceleration in the implementation of the RRP during the second half of 2026, which will need to exceed the figure for the second half of 2025 by €6,150 million.

The DSB/2027 forecasts a fiscal surplus of €275 million (0.1% of GDP) in 2027, slightly above a balanced budget. This forecast represents an improvement of 0.1 percentage points of GDP compared with the virtually zero balance estimated by the MF for 2026 (Table 1). Contributing to this is a reduction in expenditure of 3.0 percentage points of GDP, slightly higher than that of revenue, at 2.9 percentage points of GDP, both driven by the end of the RRP. The primary balance remains in surplus (2.5% of GDP) and improves more than the fiscal balance, given the MF's forecast of a 0.4 percentage point increase in interest payments as a proportion of GDP.

Table 1 – Budget indicators

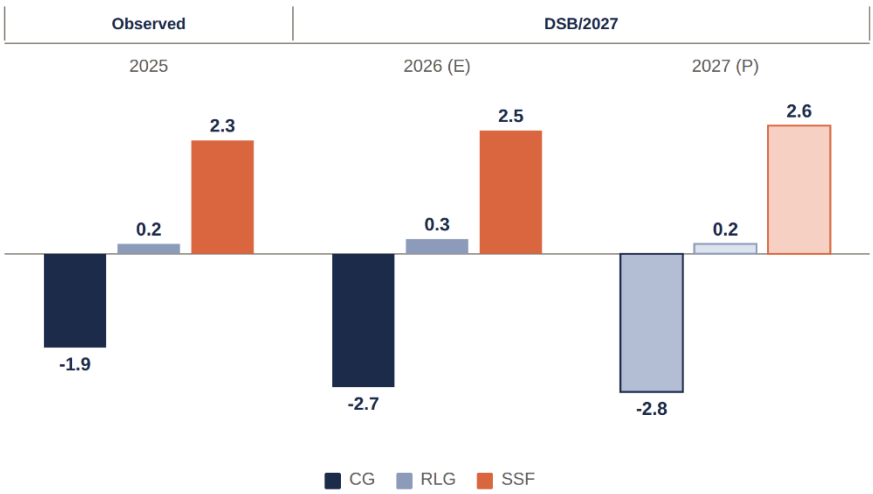
	In % of GDP			Change (GDP p.p.)	
	2025	DSB/2027		DSB/2027	
		2026	2027	2025/26	2026/27
Primary	**2.6**	**2.1**	**2.5**	**-0.5**	**0.4**
Actual (headline)	**0.7**	**0.0**	**0.1**	**-0.6**	**0.1**
Adjusted of *one-off* measures	0.7	0.5	0.3	-0.2	-0.2
Cyclically adjusted	0.6	-0.1	0.0	-0.7	0.0
Structural	**0.7**	**0.4**	**0.2**	**-0.3**	**-0.2**
Structural primary	2.6	2.5	2.6	-0.2	0.1
memo items					
one-off measures	-0.1	-0.5	-0.2	-0.4	0.3
output gap*	0.1	0.2	0.2	0.1	0.0
cyclical component	0.1	0.1	0.1	0.0	0.0
interest payments	2.0	2.0	2.4	0.1	0.4

Sources: INE, MF. CFP calculations, taking into account the common methodology agreed in the EU for the cyclical component of the budget balance. Note: * The output gap corresponds to the difference between the observed output of the economy (GDP) and the estimate of potential output, as a percentage of potential output. The variations may not necessarily correspond to the differences in the values as a percentage of GDP due to rounding. The structural balance is obtained by the difference between the budget balance adjusted for *one-off* measures and the cyclical component. The classification of *one-off* measures is that of the Ministry of Finance.

The MF's forecast points to an improvement in the structural primary balance of 0.1 percentage points of GDP and a deterioration in the structural balance of 0.2 percentage points of GDP. This deterioration in the structural balance stems from the increase in interest expenditure forecast for 2027. Structural indicators have lost relevance within the framework of the new European economic governance, although they continue to allow for the monitoring of changes in balances net of the effects of the economic cycle and of temporary and non-recurring measures (*one-off* measures).

As the CFP has been pointing out,[2] the positive fiscal performance of recent years has been based, to a large extent, on surpluses from the SSF against a backdrop of a widening Central Government (CG) deficit. The DSB/2027 forecasts a further widening of the CG deficit from 2.7% of GDP in 2026 to 2.8% in 2027 (Chart 1). Excluding the period affected by the pandemic, this deficit will be the highest since 2017. In RLG, the surplus is expected to fall to 0.2% of GDP. The deterioration in the balance of these two subsectors is, nevertheless, offset by the increase in the surplus of the SSF, which the MF forecasts will reach 2.6% of GDP in 2027. If the MF's forecasts are confirmed, there is, however, a significant qualitative change. In 2025, the SSF surplus was more than sufficient to offset the CG deficit on its own. In 2026 and 2027, this will no longer be the case, and only the combined surpluses of the RLG and the SSF will be sufficient to offset the projected CG deficit (Chart 1).

Chart 1 – Balance by subsectors of the general government, in % of GDP



Source: INE (2025, EDP of september 2026) and Ministry of Finance (2026 and 2027). CFP calculations. E - Estimate; P - Forecast. CG - Central Government; RLG - Regional and Local Government; SSF - Social Security Funds; GG- General Government. Note: the sum of the subsector balances may not correspond to the GG balance due to rounding.

[2] See, for example, the Report on the Fiscal Development of General Government in 2025. Under 'General Government time series', the annual time series for General Government, including those for the sub-sectors, can also be consulted.

2.2 Net expenditure

In June 2026, the European Commission (EC) established the control account for Portugal, which recorded a cumulative deviation of 0.4% of GDP after taking into account the flexibility for the year 2025. This control account was established under Article 22 of Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024[3] , which sets out the preventive arm of the Stability and Growth Pact. This account records the annual and cumulative deviations, both positive and negative, of actual net expenditure from the path set by the Council, with debits and credits calculated annually on the basis of implementation data and expressed as a percentage of GDP (Article 22(2) to (6)). Deviations authorised under the national derogation clause, activated to accommodate the increase in defence expenditure compared with the reference year of 2021 (Article 26), are not recorded as debits (Article 22(7)). In the case of Member States that have activated this defence-related flexibility, only the cumulative deviation is relevant for assessing the degree of compliance with the net expenditure trajectory recommended by the Council of the EU (based on their respective National Defence Expenditure Plans – MP). Thus, if the cumulative excess growth in net expenditure results from an increase in defence expenditure compared with the reference year, up to a limit of 1.5% of GDP between 2025 and 2028, the Member State is considered to be in compliance. Based on actual expenditure data, the Commission calculated a cumulative deviation of 0.4% of GDP in 2025 in the monitoring account[4] , after applying the flexibility associated with defence expenditure. It should be noted that the maximum permitted cumulative deviation is 0.6% of GDP. For the following years, the EC's spring 2026 forecast, assuming unchanged policies, projected a cumulative deviation of 0.6% of GDP for 2026 and a deviation of 2.1% of GDP for 2027, i.e. a deviation above the maximum permitted threshold.

The DSB/2027 Report presents a cumulative deviation in net expenditure for 2027, after flexibility, of 0.5% of GDP, which is below the maximum of 0.6% of GDP. This result benefits from the aforementioned flexibility relating to a cumulative increase in defence expenditure (from the perspective of national accounts) of 0.4 percentage points of GDP compared with 2021. Before applying the flexibility clause, the MF reports a cumulative deviation of 0.9% of GDP in 2027 (0.4% in 2026).

However, the conclusion that the target will be met in 2027 depends on confirmation of the projected increase in defence expenditure, as well as on methodological choices made by the MF that appear to diverge from the European Commission's methodology. Even assuming the level of primary expenditure forecast in the DSB/2027, the cumulative deviation in net expenditure presented therein only falls below the threshold by resorting to these choices and a temporal inconsistency in the classification of a measure. In particular:

[3] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral fiscal surveillance, and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30 April 2024).

[4] European Commission (2026), 2026 European Semester – Spring Package, Communication COM(2026) 200 final, 3 June 2026, Table 3.

— **Dependence on the increase in defence expenditure:** as stated, the absence of a deviation below the 0.6% of GDP threshold depends on deducting the cumulative increase in defence expenditure forecast for 2027 of 0.4 percentage points of GDP compared with 2021 (broken down into 0.2 p.p. in 2026 and a further 0.2 p.p. in 2027, with no increase in 2025).[5] Without this deduction, the cumulative deviation calculated by the MF (0.9% of GDP for 2027) would exceed the permitted maximum. However, the DSB/2027 Report does not include sufficient information to justify this increase in defence expenditure in the national accounts or its consistency with the expenditure figures in public accounts. Indeed, the defence-related appropriations in public accounts show figures that differ from the aforementioned increase, namely:

  i. in public accounts, total expenditure under the Defence Programme is reduced by 0.1 percentage points of GDP.

  ii. the allocation recorded under financial assets (and consequently not included in actual expenditure) in the MF's exceptional expenditure (SAFE loans)[6] , also falls by 0.1 percentage points of GDP (from €1,200 million in 2026 to €818.1 million in 2027),[7] given that the drawdown of these loans only translates into expenditure in the national accounts when deliveries of military equipment take place or other expenditure financed by them is incurred;

  iii. the table entitled 'Transfer of balances from public accounts to national accounts' does not provide information enabling an understanding of the proportion of these SAFE loans which, although not included in expenditure in the public accounts, might have been allocated to the deliveries of military equipment in both 2026 and 2027.

— **An unusually high level of national co-financing for EU-funded programmes in 2027:** The DSB/2027 provides for €4.4 billion in expenditure financed by EU funds and national co-financing of €2.4 billion, corresponding to 54% of that amount, compared with an average of 36.9% over the 2023–2025 period, excluding RRP grants. Although the end of the RRP and the acceleration of the PT2030 may justify some increase in this ratio in 2027, an increase of this magnitude appears unlikely. Since national co-financing is deducted from net expenditure, an overestimated figure reduces the growth rate of this

[5] See Table 6 of the DBP.

[6] The Security Action for Europe (SAFE) instrument is an EU instrument that provides loans to help EU Member States rapidly and significantly increase their defence investments through joint procurement. As this is an entry under financial assets, it is not reflected in the national accounts.

[7] The amounts relating to the SAFE instrument presented in the DSB/2027 Report are not directly reconcilable. The projected loan disbursements (€876 million in 2026 and €1,241 million in 2027; Tables 4.28 and 4.29) show a time profile opposite to that of expenditure on SAFE military investments, recorded in the table relating to exceptional expenditure by the MF (€1,200 million in 2026 and €818.1 million in 2027; Table 5.13), although the DSB/2027 Report does not explicitly state the correspondence between the two. Over the two years as a whole, the amounts differ by approximately 0.1 thousand M€.

expenditure and, consequently, the cumulative deviation in the control account.[8]

- **No adjustment for the break in the statistical series:** no correction is made for the break in the series resulting from the reclassification of SATA Air Açores and SATA Gestão de Aeródromos (SGA) into the general government sector from 2024 onwards, and from the reclassification of CP – Comboios de Portugal out of the general government sector from 2025 onwards, a correction which the EC considers necessary so that the trend in net expenditure reflects the direction of fiscal policy rather than a change of a statistical nature, as these reclassifications affected the level of expenditure in the years in which they occurred, artificially reducing the rate of expenditure growth in 2024 and increasing it in 2025.
- **Combating VAT fraud in the fuel sector:** the revenue expected from combating VAT fraud in the fuel sector, amounting to 300 million euros, is treated as a discretionary revenue measure (DRM). The inclusion of this amount lowers the growth rate of net expenditure. According to the EC's methodology, initiatives to combat tax fraud and evasion (strengthening controls and compliance monitoring, incentives for compliance, penalties or efficiency gains in tax administration) are, as a rule, a routine activity of the administration, continuing from year to year without any change in policy direction; they therefore form part of the no-policy-change scenario and do not constitute a fiscal policy measure.[9] Even when they constitute a measure, their incremental revenue is difficult to estimate both *ex ante* and *ex post*, and must be quantified with great caution and reviewed in the light of actual implementation. Unlike changes to parameters of the tax system, such as tax rates or tax bases, this revenue cannot, therefore, be deducted from net expenditure.[10]
- **Failure to take into account the indexation of the subsistence minimum threshold for PIT:** for 2027, the indexation of the subsistence minimum (which reduces PIT revenue by €121 million) was not considered by the MF as a discretionary revenue measure (DRM). As net expenditure is calculated by deducting the DRMs (Article 2(2) of Regulation (EU) 2024/1263), an MDR that reduces revenue increases net expenditure and, consequently, a potential deviation from the recommended path.

Adjusting the calculation of these last three effects would increase the adverse deviation to 0.7% of GDP, a deviation above the threshold. Taking the break in the statistical series into account would, in itself, raise the cumulative deviation to 0.6% of

[8] Applying the ratio of 37.3% assumed by the EC in its spring forecasts, and keeping the remaining MF figures unchanged, the cumulative deviation in 2027 would rise from 0.5% to 0.7% of GDP.

[9] European Commission (2025), Report on Public Finances in the EMU 2024, European Economy – Institutional Paper 325, September 2025, Part II, Chapter 3, Sections 3.2 (definition of fiscal policy measures) and 3.4 (more complex cases).

[10] Highlighting the risk associated with treating this as a discretionary revenue measure, the UTAO, in its recent analysis report on this same draft DSB, notes: "The DSB/2027 provides for additional revenue of €300 million associated with this measure, without, however, presenting information to substantiate the estimate or assess its feasibility. There therefore remains a risk that the actual outcome will be lower than forecast, given the track record of anti-fraud measures whose actual implementation has proved to be lower, or for which the General State Account has not provided sufficient information to assess the results achieved' (p. 51).

GDP. If, in addition, the DRM relating to the minimum threshold for PIT were added and the impact of revenue from combating VAT fraud were not taken into account, the unfavourable deviation would amount to 0.7% of GDP. Taking these factors into account, even assuming the flexibility of the defence as assumed by the MF, the cumulative deviation in 2027 would exceed the cumulative threshold of 0.6% of GDP, above which, pursuant to Council Regulation (EC) No 1467/97, as amended by Regulation (EU) 2024/1264, the European Commission prepares a report under Article 126(3) of the Treaty on the Functioning of the European Union, unless the fiscal position is close to balance or in surplus. This therefore reinforces the importance of Portugal not recording a fiscal deficit in excess of 0.5% of GDP.[11]

2.3 Analysis of the consistency of the fiscal forecast

This section analyses the consistency between the macroeconomic scenario and the fiscal scenario of the DSB/2027, as well as the temporal consistency of the latter. Box 1 analyses the consistency of the MF's estimate for 2026 with the data available up to the second quarter.

Revenue

The ratio of public revenue to GDP forecast by the MF for 2027 is expected to decline, reflecting primarily the end of the RRP. The DSB/2027 forecasts that general government revenue will fall to €143,356 million and account for 42.1% of GDP in 2027, 2.9 percentage points of GDP lower than estimated for 2026 (Table 2 and Table 9). This trend is explained, essentially, by the end of the RRP, which accounts for a reduction in transfers from the European Union of €9,077 million (-2.8 percentage points of GDP), only partially offset by an increase in funding from other European funds (€1,241 million). Excluding the effect of the RRP, revenue would fall by 0.1 percentage points of GDP (Table 11, reflecting revenue growth of 4.3%, close to the nominal growth of the economy (4.6%).

The increase in tax and social security revenue is expected to result, primarily, from the positive impact of the macroeconomic scenario underlying the DSB/2027. Excluding the impact of the main policy measures envisaged by the MF (Table 12), tax and social security revenue is expected to grow by 5.0%, slightly above the expected growth in economic activity (at current prices), although the dynamics of its components will differ.

The forecast for tax revenue in 2027 points to slightly higher growth than would be expected based on the macroeconomic scenario underlying the DSB/2027. This result is explained, above all, by the forecast for PIT revenue, which could even appear to be overestimated if only the measures set out in the DSB were taken into account. However, it can be inferred that the forecast incorporates a positive effect in 2027 associated with the one-off reduction in withholding tax, due to take place in November

[11] According to recital 14 of that Regulation: "The fiscal position should be considered close to balance if the general government deficit does not exceed 0.5% of GDP."

2026, which is likely to have a higher magnitude than the expected reduction in personal income tax rates. Conversely, the opposite is true of the MF's estimate for 2026, where, based on the CFP's calculations, PIT revenue is implicitly set to fall by a higher amount than would result from the reduction in tax rates (which the MF quantifies at €400 million). In the case of VAT revenue, net of the impact of the measures set out in the DSB/2027 (Table 12), the implied elasticity is consistent with the underlying macroeconomic scenario. Although the forecast for some other indirect taxes suggests a slight underestimation, this effect is partially offset by the expected increase in revenue from excise duties (IEC). Overall, indirect taxes are broadly in line with the underlying macroeconomic outlook.

The MF projects that actual social security contributions will grow faster than wages, but in line with the elasticity observed for the trend in that fiscal variable in recent years. Social security contributions are expected to grow by 6.7%, reflecting an elasticity relative to the growth in wages forecast by the MF of 1.2, in line with that observed in recent years, resulting in a projection for contribution revenue that is broadly in line with expected developments in the macroeconomic scenario. However, as noted in the CFP's opinion, the MF's forecasts for employment growth and wages per worker are the highest amongst the reference institutions; consequently, the combined effect of these two factors may result in increased risks to revenue derived from the wage bill.

The MF forecasts that the tax burden will remain at 35% of GDP in 2027. This stabilisation reflects an increase in the share of actual social security contributions in GDP of 0.3 percentage points, offset by a reduction of the same magnitude in tax revenue (Table 2).

The sharp reduction forecast for non-tax and non-contributory revenue in 2027 stems almost exclusively from the end of transfers associated with the RRP. The nominal reduction of €8,588 million forecast by the MF for this component of revenue essentially reflects a base effect linked to the reduction in RRP funding (–€9,077 million). This impact is only partially offset by the projected increase in transfers from other European Union funds (+€1,241 million) and, to a lesser extent, by the growth in revenue from the sale of goods and services (+€187 million) and other capital revenue (+€10 million). At the same time, the 'other current revenue' heading, excluding European Union funds, is expected to fall by €949 million in 2027. Contributing to this trend are, on the one hand, the projected reduction of €174 million in dividends receivable and, on the other, the decrease of €730 million in other current transfers from resident institutional sectors (given that current revenue from European Union funds – excluding the RRP – more than doubles in 2027). With regard to the decrease in these other transfers, the DSB/2027 Report does not provide any information that could enable the identification or justification of the factors underlying the projected reduction.

Table 2 – General government account of the DSB/2027

	M€			% of GDP		
	2025	2026 E	2027 P	2025	2026 E	2027 P
Total revenue	**132,694**	**146,559**	**143,356**	**43.0**	**45.0**	**42.1**
Current revenue	**128,849**	**138,620**	**140,879**	**41.8**	**42.6**	**41.4**
Tax revenue	75,314	78,322	80,886	24.4	24.1	23.8
Indirect taxes	44,510	46,746	48,667	14.4	14.4	14.3
Direct taxes	30,804	31,576	32,219	10.0	9.7	9.5
Social contributions	38,745	41,815	44,636	12.6	12.8	13.1
of which: actual soc. contr. received	33,045	35,721	38,258	10.7	11.0	11.2
Sales & other current revenues	14,790	18,483	15,357	4.8	5.7	4.5
Sales	8,761	8,940	9,127	2.8	2.7	2.7
Other current revenues	6,029	9,543	6,230	2.0	2.9	1.8
Capital transfers received	**3,845**	**7,939**	**2,477**	**1.2**	**2.4**	**0.7**
Total expenditure	**130,648**	**146,472**	**143,081**	**42.3**	**45.0**	**42.0**
Primary expenditure	**124,620**	**139,803**	**134,864**	**40.4**	**43.0**	**39.6**
Current primary expenditure	**112,815**	**122,378**	**124,218**	**36.6**	**37.6**	**36.5**
Intermediate consumption	15,408	17,440	16,744	5.0	5.4	4.9
Compensation of employees	32,631	34,171	35,983	10.6	10.5	10.6
Social benefits	55,011	57,801	59,991	17.8	17.8	17.6
other than in kind	49,064	51,456	53,455	15.9	15.8	15.7
in kind	5,947	6,344	6,536	1.9	1.9	1.9
Subsidies	1,788	2,222	1,936	0.6	0.7	0.6
Other current expenditure	7,976	10,744	9,564	2.6	3.3	2.8
Capital expenditure	**11,805**	**17,425**	**10,646**	**3.8**	**5.4**	**3.1**
GFCF	8,843	14,035	9,687	2.9	4.3	2.8
Other capital expenditure	2,962	3,390	959	1.0	1.0	0.3
Interest paid	**6,028**	**6,669**	**8,217**	**2.0**	**2.0**	**2.4**
General government balance	**2,045**	**86**	**275**	**0.7**	**0.0**	**0.1**
Primary balance	8,074	6,756	8,492	2.6	2.1	2.5
Tax revenue and social contributions	114,059	120,137	125,522	37.0	36.9	36.9
Fiscal burden	108,359	114,043	119,144	35.1	35.0	35.0
Non tax and non contribution revenue	18,635	26,422	17,834	6.0	8.1	5.2
Current Expenditure	118,843	129,047	132,435	38.5	39.6	38.9
Nominal GDP	308,538	325,495	340,535	-	-	-

Source: INE (2025) and Ministry of Finance (2026 and 2027). CFP calculations. "E" stands for estimate and "P" stands for projection.

Expenditure

The DSB/2027 forecasts a decline in public expenditure, strongly influenced by the end of the RRP. In 2027, nominal expenditure is expected to fall by €3,391 million to €143,081 million. As a percentage of GDP, the MF forecasts a reduction of 3 percentage points of GDP, to 42% of GDP. This trend is influenced by the end of the RRP in 2026, implying a reduction in public expenditure of €11,106 million compared with 2026, of which €7,586 million relates to capital expenditure and €3,520 million to primary current expenditure.

Consequently, for the purposes of comparison, the analysis of public expenditure presented below has been adjusted to exclude the base effect of the RRP (grants and loans). Excluding this effect, public expenditure increases by 0.4 percentage points of

GDP, rising from 41.6% of GDP in 2026 to 42% of GDP in 2027, mainly due to interest payments. In nominal terms, the projected increase is €7,715 million (5.7%).

Primary current expenditure accounts for almost 70% of the increase in public expenditure forecast for 2027. Primary current expenditure is expected to remain unchanged as a share of GDP at 36.5%, increasing in nominal terms by €5,361 million or 4.5%, compared with the 6% growth estimated by the MF for 2026. More than three-quarters of the projected increase for this sub-aggregate is attributable to social benefits and staff costs. The latter are expected to grow by 5.5% in 2027 (4.8% in 2026), exceeding the growth in nominal GDP (4.6%), as a result of the fiscal pressures identified in Table 12. Growth in expenditure on social benefits is expected to fall from 5.1% in 2026 to 3.9% in 2027, a slowdown largely based on the assumption that the payment of the extraordinary pension supplement will not be repeated in 2027 (Table 12). Nevertheless, the CFP's assessment suggests that the forecast for non-cash social benefits not related to pensions may be underestimated, taking into account the explanatory factors set out in the DSB/2027.

The DSB/2027 forecasts a very significant increase in interest expenditure. The MF forecasts that this expenditure will reach €8,217 million (2.4% of GDP), reflecting an increase of €1,548 million – more than twice the increase expected for 2026 and the highest since 2011. In the no policy change scenario presented to the Assembly of the Republic on 31 August 2026 – at a time when interest rates were already rising across the board – the MF had projected an increase of €776 million. Just one month later, in the DSB/2027, this figure was revised to almost twice that amount.

Although to a lesser extent, capital expenditure is also expected to rise, driven mainly by investment. Capital expenditure is forecast to grow by 8.2% in 2027, just over half the rate estimated for 2026. The projected increase is €806 million, of which €617 million relates to Gross Fixed Capital Formation (GFCF), the growth of which is expected to slow from 20.8% in 2026 to 6.8% in 2027.[12] As a percentage of GDP, after reaching 2.4% in 2025, GFCF excluding the RRP is expected to rise to 2.8% in 2026 and stabilise at that level in 2027.

The lack of detail in the information provided by the MF makes it impossible to assess the consistency of the capital expenditure forecast. The CFP requested clarification from the MF on certain factors having a significant impact on the projected trend in capital expenditure. In particular, it requested a breakdown, by component, of the estimated impact of the measures taken in response to the disaster situation in 2026 and 2027. In response, the MF did not provide such a breakdown, merely stating that, in the national accounts, capital expenditure relating to those measures is allocated primarily to GFCF.[13] This lack of detail made it impossible to assess the consistency of

[12] Domestically financed GFCF (excluding RRP loans in 2026) is expected to increase by €453 million in 2027. Excluding the base effect of expenditure financed by RRP loans, domestically financed GFCF decreases by €147 million (calculation based on Table 6 – Fiscal projections from the Draft Budget Plan for 2027).

[13] This clarification from the MF is not consistent with the information reported to the European Commission in Table 7 – Discretionary Measures of the Draft Fiscal Plan for 2027, in which the impact of these measures on capital expenditure was classified in full under the heading 'other capital expenditure'.

the forecast for each of the components of capital expenditure. Furthermore, no information was available on the estimated proceeds from the sale of property in 2026, which, in national accounts, are deducted from GFCF. The CFP also asked the MF to quantify the share of property income arising from transactions with entities outside the general government sector, as shown in Table 4.3 of the 2027 State Budget Report; however, the MF stated that it was not possible to identify this share. Taken together, lack of information made it impossible to assess the consistency of the forecast for total capital expenditure.

Box 1 – Estimate for 2026: expected expenditure in the second half of the year

Using the available statistical data, it is possible to break down the MF's (MF) estimate for 2026 into the actual expenditure recorded in the first half of the year and the expenditure required in the second half to achieve the annual figure. Based on the publication by INE on 23 September of the national accounts by institutional sector up to the second quarter of 2026, it is possible to assess, for the various components of revenue and expenditure, the implied growth in the second half of the year. As in the analysis of the DSB/2026, the aggregates have been adjusted to exclude subsidies from the RRP and other European funds – which have no impact on the balance – thereby eliminating a potential source of divergence. This adjustment is particularly relevant in 2026, the final year of the RRP's implementation: the MF's estimate implies total expenditure financed by the RRP of €8,663 million in the second half of the year, compared with €2,443 million in the first half – that is, around 78% of the projected annual amount (€11,106 million, including loans).

Excluding European funds (grants), the MF's estimate implies a slowdown in revenue and an acceleration in expenditure in the second half of the year, with a net negative effect on the balance. The result for the second half of the year would amount to a deficit of a size almost similar to the surplus recorded by the statistical authority in the first half, reflecting a slowdown in year-on-year revenue growth from 5.6% in the first half to 4.6% in the second, and an acceleration in expenditure from 6.6% to 6.8%.

On the revenue side, the MF's estimate points to a slowdown in the second half of 2026, explained mainly by a shift in the trend of other current revenue. For this component, the MF anticipates a year-on-year fall of 14.2% following strong growth of 18.7% in the first half. Whilst a slowdown in this category is plausible – given that this year's growth in property income benefited from a historically high dividend distributed by CGD – the year-on-year reduction estimated by the MF for other transfers from resident institutional sectors not belonging to the general government appears to be overly cautious, as the actual figures for this item in recent years have consistently shown higher expenditure in the second half of the year than in the first. With regard to tax revenue, the MF's estimate for indirect taxes points to a slowdown, whilst still maintaining robust growth, consistent with trends in private consumption. Conversely, the estimate for direct taxes points to revenue growth in the second half of the year, following the year-on-year decline recorded in the first half, supported by trends in PIT and consistent with

the impact of the extraordinary 50% reduction in withholding tax implemented in November 2026.

Table 3 – Annual estimate for 2026 underlying the DSB/2027 (1st half observed and 2nd half implied in the Ministry of Finance's estimate)

	Billions €			Year-on-year change (%)		
	1st half	2nd half	Year	1st half	2nd half	Year
Total revenue	**61.3**	**73.0**	**134.3**	**5.6**	**4.6**	**5.0**
Current revenue	**61.3**	**72.9**	**134.1**	**5.6**	**4.5**	**5.0**
Tax revenue	33.8	44.5	78.3	3.1	4.7	4.0
Indirect taxes	22.0	24.7	46.7	5.7	4.5	5.0
Direct taxes	11.8	19.7	31.6	-1.3	4.9	2.5
Social Contributions	19.8	22.0	41.8	7.8	8.1	7.9
Sales	4.4	4.5	8.9	7.9	-3.1	2.0
Other current revenues	3.1	1.9	5.0	18.7	-14.2	3.7
Capital transfers received	**0.1**	**0.2**	**0.2**	**-23.3**	**23.8**	**5.5**
Total expenditure	**60.5**	**73.7**	**134.3**	**6.6**	**6.8**	**6.7**
Primary expenditure	**57.6**	**70.0**	**127.6**	**6.8**	**6.2**	**6.5**
Current primary expenditure	**54.0**	**63.9**	**117.9**	**6.1**	**5.1**	**5.6**
Intermediate consumption	7.2	8.7	15.9	4.4	6.2	5.4
Compensation of employees	16.7	17.5	34.2	6.2	3.3	4.7
Social benefits	25.5	32.3	57.8	5.0	5.2	5.2
Subsidies & other current expenditure	4.6	5.4	10.0	15.1	9.0	11.7
Capital expenditure	**3.6**	**6.1**	**9.7**	**19.6**	**18.4**	**18.8**
GFCF	3.1	4.5	7.6	25.7	4.4	12.2
Other capital expenditure	0.5	1.6	2.1	-9.7	86.3	50.7
Interest paid	**3.0**	**3.7**	**6.7**	**1.4**	**19.3**	**10.6**
General government balance	**0.8**	**-0.7**	**0.1**			
Primary balance	3.8	3.0	6.8			
Nominal GDP	157.3	168.2	325.5	6.0	5.0	5.5

Source: INE and CFP projection. | Note: The figures shown in the table exclude the effect of RRP grants and other European Union funds accounted for in capital revenue and GFCF.

On the expenditure side, a slight acceleration estimated for the second half of the year is driven by interest payments, as primary expenditure growth slows. The near-zero growth in interest payments in the first half of the year, followed by a significant acceleration in the second half, although partly justified by the rise in interest rates, suggests a prudent estimate. Conversely, the slowdown in the implicitly projected in the growth rate for the second half of the year in primary current expenditure – based largely on the prospect of a slowdown in the year-on-year growth of staff costs – no longer appears prudent. This estimate of a reduction to around half the level observed in the first half of the year highlights a trend that is difficult to reconcile with the rigidity of this item. As regards capital expenditure, although the MF's estimate points to year-on-year growth close to that seen in the first half of the year, there appear to be inconsistencies in the breakdown between GFCF and other capital expenditure. Although the sharp acceleration in the growth of other capital expenditure is to be expected given the concentration of RRP loans in the second half of the year, as well as some of the storm relief measures yet to be implemented, once these effects are stripped out, its level is below the average of recent years. The same does not hold true for the estimated trend in GFCF, where the sharp slowdown in the second half of the year implied by the MF's annual estimate (from year-on-year growth of 25.7% in the first half to 4.4%) can only be justified by the disposal of property, which in the national accounts is deducted from GFCF, but for which the CFP has not received any clarification from the MF.

2.4 Incorporation of new policy measures into the CFP's projection

Preliminary note: This section updates the CFP's projection by incorporating the new economic policy measures as a means of assessing the plausibility of the DSB/2027 scenario. To provide a clearer picture of the factors determining the evolution of fiscal aggregates, the figures presented in this section exclude grants associated with the RRP and other EU funds, as their impact on the fiscal balance is, by definition, zero.

This exercise incorporates the policy measures set out in the DSB/2027 within the 'no-policy-change' scenario of the CFP published in September 2026. This exercise is an essential element in assessing the consistency and plausibility of the fiscal balance, public debt and growth in net expenditure presented in the DSB/2027.

The CFP's fiscal projection for 2026 and 2027 has been updated on the basis of the latest available information. Compared with the projection published on 23 September (Economic and Fiscal Outlook Report), this update incorporates the provisional estimate of the general government accounts for 2025 published by INE in the second notification under the excessive deficit procedure (EDP), the measures set out in the DSB/2027, the most up-to-date information on fiscal developments observed up to August, and additional data subsequently provided by the MF. In this exercise, the CFP has revised downwards its estimate for the 2026 budget balance by 0.1 percentage points of GDP. This revision also incorporates the effect of the reduction in PIT rates up to the 6th bracket, which has since been approved by the Assembly of the Republic. As had already been noted in the Economic and Fiscal Outlook Report, the impact of this new policy measure could justify a less favourable projection of the fiscal balance by the CFP. The reduction in rates will take effect in PIT deductions at source in November.[14] As has been the case in recent years, the reduction in withholdings of tax is expected to exceed the estimated cost of the measure (€371 million).[15] This potential excess has not been taken into account in this projection.

2.4.1 Fiscal balance

The CFP projects a fiscal balance of 0.1% of GDP for 2026, similar to that estimated by the MF (Table 4)**.** For 2026, the CFP projects a balance that is €282 million better than that presented in the DSB/2027. There are, however, differences in the composition of revenue and expenditure.

For 2027, incorporating the new policy measures, the CFP now anticipates a fiscal deficit of 0.1% of GDP. Compared with the September projection, the following have

[14] According to Order No. 12523-A/2026 of the Office of the Minister of State and Finance dated 14 October, the reduction of the withholding tax to 50% applies, during the month of November 2026, to the following taxpayers: (i) Recipients of income from employment (wages); (ii) Pensioners; and (iii) Residents in Portuguese territory, excluding residents of the Autonomous Regions of the Azores and Madeira.

[15] The CFP's estimate is based on its own quantification of this impact, using the EUROMOD microsimulation model.

been taken into account: the permanent impact of the further reduction in PIT rates approved in 2026, the increase in the Solidarity Supplement for the Elderly (CSI) and the update to the minimum subsistence level. Although these measures exert downward pressure on the fiscal balance, their effect has been largely offset by the favourable impact associated with the Investment Support Tax Regime (RFAI), the partial incorporation of revenue from the disposal of real estate as forecast by the MF,[16] as well as the positive carry-over effect resulting from the updating of certain budget headings in 2026. As a result, the projected fiscal balance is now 0.1 percentage points of GDP higher than that published in September. Unlike the DSB/2027, however, this update does not take into account the impact on VAT revenue expected from the measure to combat fuel fraud, quantified by the government at €300 million (0.1% of GDP), nor does it take into account the positive effect on PIT revenue resulting from the extraordinary reduction in withholding tax applied in 2026, which may result, at the time of tax assessment, in a lower volume of refunds and an increase in tax demands, thereby contributing to higher net PIT revenue in 2027. Due to the factors mentioned above, no increase in defence expenditure has been assumed.

Table 4 – CFP budget projection scenario underlying the DSB/2027, excluding the effect of RRP grants and other European Union funds (in M€)

	Billions €			% GDP		
	2026	2027	Change (%)	2026	2027	Change (p.p.)
Total revenue	**135.3**	**139.1**	**2.8**	**41.6**	**40.9**	**-0.7**
Current revenue	**135.0**	**138.8**	**2.8**	**41.5**	**40.8**	**-0.7**
Tax revenue	79.1	80.7	2.1	24.3	23.7	-0.6
Indirect taxes	46.9	49.5	5.7	14.4	14.6	0.1
Direct taxes	32.2	31.2	-3.3	9.9	9.2	-0.8
Social Contributions	41.4	43.5	5.0	12.7	12.8	0.0
Sales	9.1	9.4	2.7	2.8	2.8	-0.1
Other current revenues	5.3	5.2	-2.3	1.6	1.5	-0.1
Capital transfers received	**0.2**	**0.2**	**4.7**	**0.1**	**0.1**	**0.0**
Total expenditure	**134.9**	**139.5**	**3.4**	**41.5**	**41.0**	**-0.5**
Primary expenditure	**128.4**	**132.5**	**3.1**	**39.5**	**38.9**	**-0.6**
Current primary expenditure	**118.2**	**122.6**	**3.7**	**36.4**	**36.0**	**-0.3**
Intermediate consumption	15.8	16.3	3.7	4.8	4.8	0.0
Compensation of employees	34.6	36.1	4.4	10.6	10.6	0.0
Social benefits	57.7	60.2	4.3	17.8	17.7	-0.1
Subsidies & other current expenditure	10.2	10.0	-1.8	3.1	2.9	-0.2
Capital expenditure	**10.2**	**9.9**	**-3.3**	**3.1**	**2.9**	**-0.2**
GFCF	7.9	8.0	1.1	2.4	2.3	-0.1
Other capital expenditure	2.3	1.9	-18.4	0.7	0.6	-0.2
Interest paid	**6.4**	**7.0**	**9.0**	**2.0**	**2.1**	**0.1**
General government balance	**0.4**	**-0.4**		**0.1**	**-0.1**	
Primary balance	6.8	6.6		2.1	1.9	
Nominal GDP	325.1	340.3	4.7			

Source: CFP projection. | Note: The figures shown in the table exclude the effect of RRP grants and other European Union funds.

For 2027, the CFP projects a reduction in revenue of 0.7 percentage points of GDP, due to a decline in the share of tax revenue in GDP. Compared with the DSB/2027, the CFP

[16] Given the uncertainty surrounding the disposal processes, the CFP has included, in its updated projection for 2026, one-third of the €146 million as published in Table 5 – Economic classification of public revenue in the Central Government sub-sector.

projects a less favourable trend in tax and social security revenue, partially offset by a more robust trend in other revenue. Social security contributions are the main factor underlying this less favourable trend, reflecting a more moderate outlook for growth in wages[17] and imputed social security contributions. As regards direct taxes, the difference stems essentially from two factors. The first is the failure to incorporate, in the CFP's projection, the impact of the extraordinary reduction in PIT withholding tax applied in November 2026, which is expected to result in lower refunds and higher collection notices in 2027, thereby increasing net PIT revenue, which the DSB/2027 appears to include. The second is the more moderate growth in wages underlying the CFP's macroeconomic scenario. Conversely, the CFP projects stronger growth in indirect taxes, in line with a more dynamic trend in nominal private consumption than that implied in the macroeconomic framework of the DSB/2027. As regards other revenue as a whole, the CFP's projection points to marginal growth, whilst the MF forecasts a reduction, explained mainly by other transfers from resident institutional sectors other than the general government, a projected trend which is neither supported nor explained in the DSB/2027 documentation, as noted in the analysis of the consistency of the fiscal forecast.

With regard to public expenditure, the CFP forecasts a fall of 0.5 percentage points of GDP by 2027. In nominal terms, the trend is broadly in line with the MF's forecast, although the CFP forecasts a less pronounced increase in capital expenditure, particularly in 'other capital expenditure' (which, in the MF's forecast, is influenced by measures relating to storms) and interest payments. The CFP projects slight nominal growth in GFCF, whilst the DSB/2027 forecasts a 1.9% reduction, which may, in part, be linked to revenue from the sale of property.[18] With regard to interest, the DSB/2027 forecast points to nominal growth in these costs (23.2%) at a rate that is more than double that projected by the CFP (9%). In primary current expenditure, the projected nominal growth is close to that forecast in the DSB/2027, albeit with different contributions from its components.

In conclusion, an assessment of the fiscal forecast underpinning the DSB/2027 suggests that the fiscal balance trajectory presented by the MF is plausible, although there remain factors that could influence its materialization. Indeed, in 2027, the 0.2 p.p. of GDP difference between the CFP's projection and the MF's forecast is not materially significant, given that both point to a fiscal position close to balance, differing only in the composition and quantification of certain revenue and expenditure aggregates. Based on the available information, if the CFP's projection incorporated the effects of measures that have not been sufficiently specified (combating VAT fraud in the fuel sector and other revenue from the sale of real estate), as well as the impact on PIT settlements resulting from the extraordinary reduction in withholding tax in November 2026, the CFP's projection would result in a surplus close to the figure in the DSB/2027.

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[17] As stated in the CFP's Opinion, the wage growth assumption underlying the MF's forecast constitutes a risk factor for tax and social security revenue, since a less favourable trend in this variable could result in lower-than-expected tax revenue.

[18] However, the impact of these disposals on GFCF in the DSB/2027 Budget Outline is unknown. In the national accounts, these are deducted from GFCF (as negative expenditure).

2.4.2 Public Debt

The CFP's projection points to a debt ratio lower than that forecast by the MF, reflecting differences both in the projected reduction and in the factors explaining it. Although both institutions anticipate a downward trajectory for the debt ratio in 2026–2027, the CFP projects a sharper reduction over the period as a whole (-5.9 p.p. of GDP) than the MF (-4.7 p.p. of GDP). The difference is concentrated in 2026 and stems almost exclusively from the deficit-debt adjustment, which the MF estimates at 3.0 percentage points of GDP, compared with 1.0 percentage points in the CFP's scenario; the contributions from the primary balance and the stock-flow effect are virtually identical. In 2027, the order is reversed: the MF forecasts a greater reduction in the ratio than the CFP (-3.0 p.p. compared with -2.2 p.p.). This difference is mainly due to a more favourable primary surplus (2.5 p.p. compared with 1.9 p.p.) and a less unfavourable stock-flow adjustment (0.9 p.p. compared with 1.4 p.p.). Conversely, the CFP projects a more favourable dynamic effect (-1.8 p.p. compared with -1.4 p.p.), which partially mitigates the divergence.

Table 5 – Debt dynamics in the CFP projection scenario (% of GDP)

	BdP	CFP		
	2025	2026	2027	Change (p.p.)
Public debt	**89.2**	**85.5**	**83.3**	**-2.2**
Debt ratio change, decomposition:	-3.9	-3.7	-2.2	1.4
(-) Primary Balance	2.6	2.1	1.9	-0.2
(+) Snow ball effect	-3.3	-2.6	-1.8	0.8
(+) Stock-flow adjustment	2.0	1.0	1.4	0.4

Source: BdP and CFP projection.

2.4.3 Net expenditure

Based on the updated fiscal projection from the CFP, in 2026 and 2027, net expenditure is expected to continue to grow at a rate exceeding the commitment made by the Portuguese State in the POEN-MP. Using the quantification of discretionary measures considered by the CFP (Table 18, attached),[19] and taking as a starting point the cumulative deviation in the control account established in June by the European Commission, net expenditure is projected to grow by 7.6% in 2026 and to slow to 3.5% in 2027 (Table 17, attached). This trend, which lies above the trajectory agreed with the Council of the EU, reflects annual deviations of 0.9% of GDP in 2026 and 2027, exceeding the maximum annual deviation of 0.3% of GDP permitted in the control account. However, for countries that have invoked the national derogation clause regarding defence expenditure, only the cumulative deviation will be assessed against an expanded control account.[20] Thus, in cumulative terms, compared with 2023,

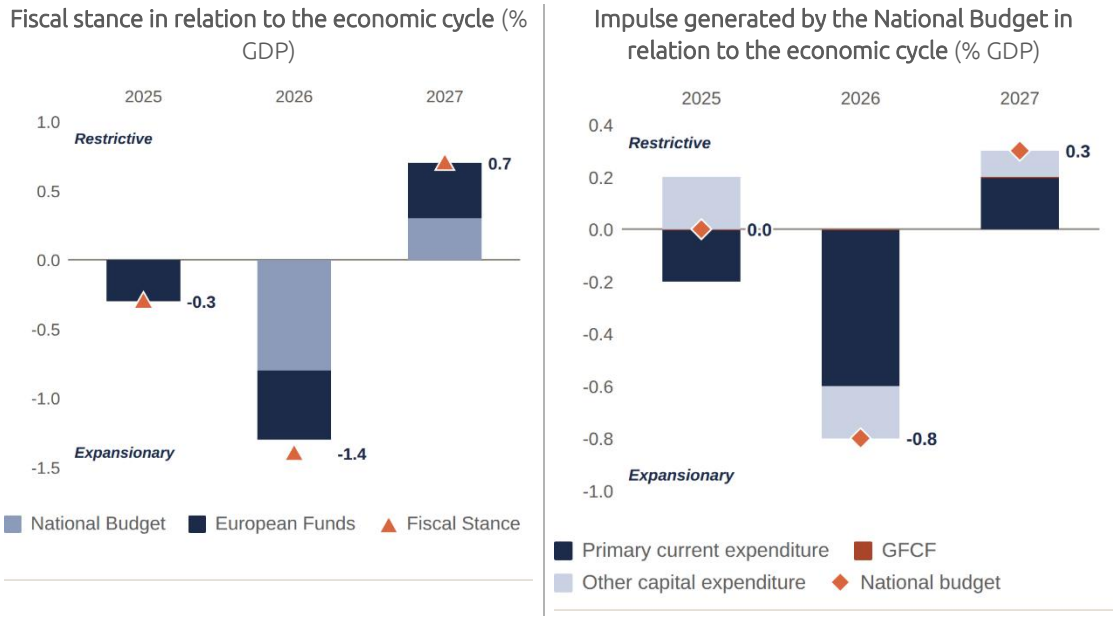
[19] The CFP uses a quantification of discretionary revenue measures (DRMs) that does not fully coincide with that of the MF. This difference in quantification is explained by the updating of the impact of measures based on the Fiscal Expenditure Report for 2025, as well as by the estimated impact of certain policy measures based on the CFP's own calculations, which utilise the EUROMOD model interface.

[20] See European Commission Communication C(2025) 2000 final, dated 19 March 2025.

the cumulative growth rate of net expenditure is projected to be 27.2% in 2026 and 31.7% in 2027, which is also higher than the recommended maximum growth rates of 23.4% and 24.9% respectively, resulting in a cumulative deviation in the control account of 1.2% of GDP in 2026 and 2.0% of GDP in 2027.

Given the margin of flexibility associated with the national derogation clause applicable to the increase in defence expenditure, the cumulative deviation in net expenditure exceeds the ceiling of 0.6% of GDP set out in the EU's new fiscal governance framework. This deviation is the relevant indicator for monitoring the compliance of the net expenditure path with the agreed path. Defence expenditure implicit in the CFP projection (COFOG definition)[21] shows a near-stabilisation compared with 2021, at 0.9% of GDP in 2026 and 0.8% in 2027. This results in an increase equivalent to 0.1% of GDP in 2026 and zero in 2027, implying that the cumulative deviation in the control account will fall to 1.1% of GDP in 2026 and remain unchanged at 2% of GDP in 2027, above the maximum threshold set (0.6% of GDP, Table 17 in the annex).

Chart 2 – Fiscal stance



Source: MF. CFP calculations. | Notes: a negative (positive) sign indicates higher (lower) net expenditure growth relative to potential GDP growth in the medium term, which corresponds to an expansionary (restrictive) fiscal stance. It should be noted that the analysis is based on preliminary figures and is subject to revision.

[21] COFOG – Classification of the Functions of Government. For an understanding of this concept, see Box 7 – Defence expenditure: recent developments and NATO commitments, published in Report No 2/2025 on the Economic and Fiscal Outlook 2025–2029.

The slower growth of net expenditure growth in 2027 implies a reduction in the fiscal impulse compared with 2026, pointing to a contractionary fiscal stance. The assessment of the fiscal policy stance is based on a comparison between the average growth rate of potential output over a 10-year horizon in nominal terms and the growth rate of net expenditure.[22,23] In 2027, this stance is expected to result in a contractionary fiscal impulse of 0.7% of GDP, arising from the combination of two distinct factors (Chart 2). Firstly, the contribution from net expenditure financed by domestic sources, which amounted to 0.3% of GDP, reflects growth (3.5%) that is lower than the nominal reference growth rate of potential output in 2027 (5.0%).[24] A breakdown of the impulse by aggregates highlights the predominant role of primary current expenditure, with a contribution of 0.2% of GDP, signalling a reduction in the fiscal stimulus generated by the discretionary actions of policymakers. Secondly, the impact of expenditure financed by European funds contributes 0.4% of GDP to the restrictive stance of fiscal policy, reflecting above all the decline in grants associated with the RRP. The restrictive nature of fiscal policy for 2027 contrasts with that anticipated for 2026, when an expansionary impulse of 1.4% of GDP is estimated, driven by 0.8% from domestic funding and 0.5% from European funds.

[22] As with the European Commission, this analysis assumes that medium-term nominal potential GDP corresponds to the geometric mean of estimated real potential growth over a 10-year time horizon (between t-5 and t+4), applying the observed (or projected) deflator for each year.

[23] The fiscal impulse on aggregate demand is considered expansionary if the growth rate of net expenditure exceeds the average growth of potential output over the medium term. Conversely, the fiscal stance is characterised as restrictive.

[24] The stance is usually assessed using ranges, as it cannot be estimated with precision, being influenced by the composition of any measures, as well as by their multiplier effect. It is therefore conventionally accepted that a neutral contribution corresponds to a fiscal impulse of between -0.25% and 0.25% of GDP. It should be borne in mind that the analysis is based on preliminary figures and is subject to revision.

3. TRENDS IN PUBLIC DEBT

3.1 Trends in absolute terms

Despite the projected fiscal surplus, the stock of public debt under the Maastricht criteria is expected to rise in 2027. According to the DSB/2027, the stock of debt is expected to rise from around €284.8 billion in 2026 to approximately €287.8 billion in 2027, an increase of approximately €3 billion, even though the ratio to GDP is set to fall by 3.0 percentage points.[25] This increase comes in a year in which the MF forecasts a fiscal budget surplus of €275 million (0.1% of GDP). As mentioned, the projected fiscal surplus results from a combination of a central government deficit of 9,400 M€ (2.8% of GDP), a surplus in the SSF of 8,900 M€ (2.6% of GDP) and a surplus in the RLG of 0,800 M€ (0.2% of GDP). The trend in consolidated public debt is also influenced by stock-flow adjustments, such as the acquisition of financial assets.

The social security surplus stems largely from the pay-as-you-go pension system, whose surpluses are transferred to the Social Security Financial Stabilisation Fund (FEFSS). The balance of the pay-as-you-go pension system forecast for 2027 is expected to reach 2.1% of GDP, representing around four-fifths of the sub-sector's surplus. These balances are the main source of funding for the FEFSS, whose portfolio is expected to amount to around €58.5 billion by the end of 2027 (17.2% of GDP). The FEFSS must invest at least 50% of its portfolio in Portuguese government debt or debt guaranteed by the State. At the end of 2025, this component accounted for 50.8% of the portfolio, whilst foreign government debt accounted for 24.7%.

The portion of the social security system's surplus that is not invested in Portuguese government debt does not contribute to the reduction of consolidated debt. Portuguese government debt securities held by the FEFSS constitute debt between subsectors of the general government and are therefore not included in consolidated public debt. By contrast, the portion invested in the debt of other countries, shares or other financial assets constitutes an acquisition of assets outside the general government sector. The central government deficit continues to be financed through debt issuance in the market, whilst part of the social security surplus is invested in financial assets other than Portuguese public debt. This effect contributes to the deficit-to-debt adjustment forecast for 2027 (0.9 p.p. of GDP), although the information in the DSB/2027 does not allow for its quantification.

3.2 Debt dynamics

The DSB/2027 forecasts a public debt ratio falling to 84.5% of GDP in 2027, continuing on a downward trajectory. The ratio is expected to fall by 3.0 percentage points of GDP compared with 2026 (87.5% of GDP), a sharper decline than that estimated for 2026 (1.6 percentage points of GDP). Contributing to this trend are nominal GDP growth (-3.9

[25] Between 1999 and 2025, the stock of public debt increased in nominal terms in almost every year, having fallen in only two: 2021 and 2023.

percentage points), broken down into the deflator effect (-2.1 percentage points) and real growth (-1.8 percentage points), and the primary surplus (-2.5 percentage points). Conversely, the interest effect (+2.4 p.p.) and the stock-flow adjustment (+0.9 p.p.) contribute to an increase in the ratio (Chart 3, right-hand panel).[26] The stock-flow adjustment forecast for 2027 (0.9 p.p.) is lower than that estimated for 2026 (3.0 p.p.) and for 2025 (2.0 p.p.), approaching the average for the last two decades (0.6 p.p. of GDP).

As a result of the slowdown in nominal GDP and the rise in the implicit interest rate, the dynamic effect forecast by the MF is the least favourable for the period 2024–2027. The dynamic effect for 2027 is expected to stand at –1.4 percentage points of GDP. Nominal GDP growth slows from 5.5% to 4.6%, and general government interest expenditure rises from 2.0% of GDP in 2026 to 2.4% of GDP in 2027 (Table 6). The trend in interest expenditure in the DSB/2027 Budget is underpinned by an increase in the implicit interest rate from 2.3% in 2026 to 2.8% in 2027, representing the second-largest increase in this rate since 2000 (the largest increase having been recorded in 2011, with a rise of 0.8 p.p.).

Table 6 – Developments in public debt and Ministry of Finance's forecast (% of GDP)

	BdP		MF		
	2024	2025	2026	2027	Change (p.p.)
Public debt	**93.0**	**89.2**	**87.5**	**84.5**	**-3.0**
Debt ratio change, decomposition:	-3.8	-3.9	-1.6	-3.0	-1.4
(-) Primary Balance	2.8	2.6	2.1	2.5	0.4
(+) Snow ball effect	-4.9	-3.3	-2.5	-1.4	1.1
(+) Stock-flow adjustment	3.8	2.0	3.0	0.9	-2.1

Source: BdP and MF.

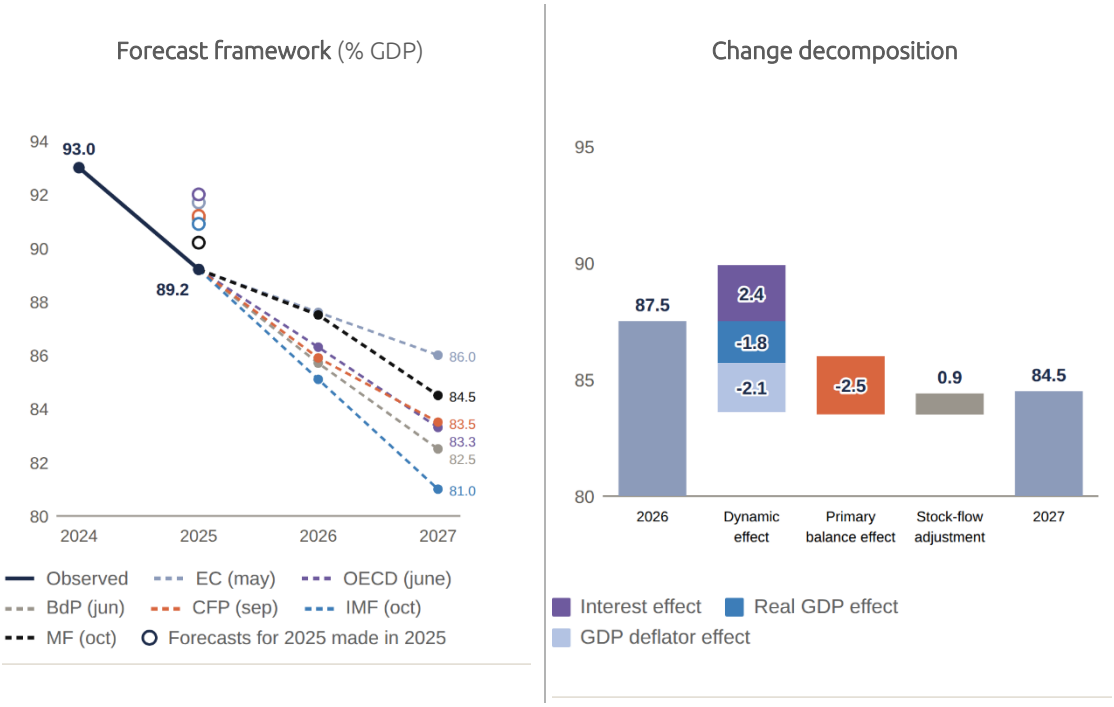
The reduction in the ratio in 2026 is expected to fall short of the forecast in the DSB/2026, despite a lower level of debt being projected. The MF now estimates a ratio of 87.5% of GDP for 2026, 0.3 percentage points below the forecast made a year ago (87.8%). This outcome stems from a more favourable starting point (the ratio stood at 89.2% of GDP in 2025, below the 90.2% estimated at the time) combined with a smaller estimated annual decline for 2026 of 1.6 percentage points (as opposed to the 2.4 percentage points of GDP forecast in the DSB/2026). This smaller annual reduction results from an upward revision of the 2026 stock-flow adjustment (from 1.7 percentage points of GDP to 3.0 percentage points of GDP), only partially offset by a more favourable dynamic effect (-2.5 percentage points, compared with -2.1 percentage points).[27]

[26] The stock-flow adjustment corresponds to the change in the stock of public debt that does not stem directly from the fiscal balance, reflecting, for example, financial transactions, changes in assets and liabilities, or timing differences in the execution of funds. According to the MF, in 2026 the impact of funds relating to the RRP accounts for 80% of the adjustment.

[27] In the DSB/2026, the MF forecast for 2026 a primary balance effect of -2.1 p.p., a dynamic effect of -2.1 p.p. and a deficit-debt adjustment of 1.7 p.p. of GDP (CFP Report No. 08/2025, Table 11).

According to the DSB/2027, the rise in market interest rates is increasing pressure on interest expenditure in 2027. Between the end of 2025 and September 2026, yields on Portuguese debt rose by more than 100 basis points for maturities of up to five years, 82 basis points for 10-year maturities and 34 basis points for 30-year maturities, whilst the spread vis-à-vis 10-year German debt remained at around 40 basis points. Forward rates point to a continuation of this rise in 2027, which is already factored into the MF's forecasts and reflected in the provision for interest and other charges in the Public Debt Management programme.

Chart 3 – Public debt developments (% of GDP and GDP p.p.)



Left panel – Source: MF, BdP, EC, IMF and OECD.| Right panel – Source: MF.

Projections from the main institutions point to a further reduction in the debt-to-GDP ratio in 2027, but the dispersion of these projections increases as the forecast horizon extends. The range between projections widens from around 2.5 p.p. of GDP in 2026 (between 85.1% and 87.6%) to 5.0 p.p. in 2027 (between 81.0% and 86.0%), a range within which the MF's forecast (84.5%) fits. The reduction forecast by the MF for 2027 (-3.0 percentage points) falls within the range projected by the other institutions (Chart 3, left-hand panel). In 2025, the observed ratio (89.2% of GDP) was below all the forecasts made a year ago, which ranged from 90.2% of GDP (MF) to 92.0% of GDP (OECD).

3.3 Financing requirements and sources

The DSB/2027 forecasts an increase in the central government's gross financing requirements to 75.5 thousand M€ in 2027, driven mainly by net requirements.

According to the MF's forecast, around 72% of the increase in the central government's gross financing requirements (€4.9 billion) is attributable to the rise in net requirements in 2027 (€3.5 billion). The remainder is due to an increase in repayments of government debt. Contributing to the rise in net requirements are, in particular, the increase in the net acquisition of financial assets (by €2,555 million) and, to a lesser extent, the rise in the central government fiscal deficit (by €161 million). Unlike in 2026, no privatisation proceeds are forecast for 2027 (Table 7. The increase in redemptions mainly reflects higher repayments of Treasury Bonds (OT), partially offset by a reduction in redemptions of short-term debt in euros (Treasury Bills) and savings products. For 2026, the MF has revised gross borrowing requirements upwards compared with the forecast in the DSB/2026 (by €2.2 billion above the DSB/2026 forecast). According to the DSB/2027, the revision reflects support measures following the storms, rising energy prices and the plan to reduce arrears by the NHS.

Table 7 – State borrowing requirements in 2026-2027 (M€)

Financing Needs	2026		2027		Change 2026/27	
	Amount	Weight (%)	Amount	Weight (%)	Amount	%
1. Net Financing Needs (a) + (b) - (c)	**13,261**	**18.8**	**16,744**	**22.2**	**3,483**	**26.3**
a) Budget deficit	9,405	13.3	9,566	12.7	161	1.7
b) Net purchasing of financial assets (except privatisation)	4,623	6.5	7,178	9.5	2,555	55.3
c) Privatisation revenues	767	1.1	0	0.0	-767	0.0
2. Redemptions and cancellations [funded debt] (d) + (e) + (f) + (g) + (h)	**57,367**	**81.2**	**58,746**	**77.8**	**1,378**	**2.4**
d) SC + TC	5,152	7.3	5,061	6.7	-91	-1.8
e) Short-term euro-denominated debt	35,431	50.2	34,482	45.7	-949	-2.7
f) Medium and long term euro denominated debt	16,786	23.8	19,203	25.4	2,417	14.4
g) Non-euro denominated debt	0	0.0	0	0.0	0	0.0
h) Swaps capital flows (net)	-1	0.0	0	0.0	1	0.0
3. Gross Financing Needs (1) + (2)	**70,628**	**100.0**	**75,489**	**100.0**	**4,861**	**6.9**

Source: MF. CFP calculations.

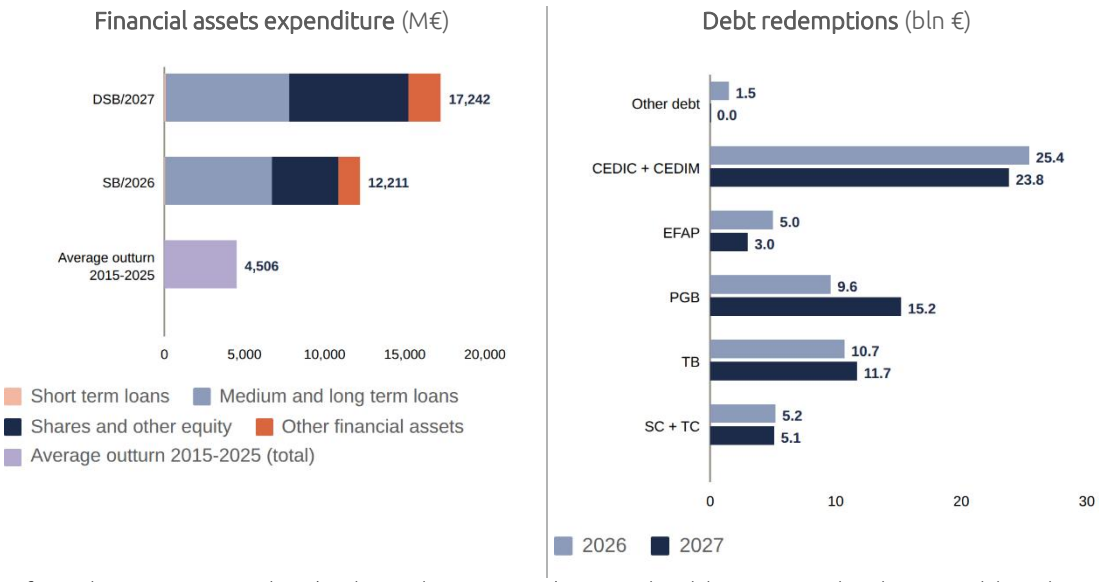
The increase in debt repayments in 2027 stems from the redemption of Treasury Bonds. In 2027, the MF forecasts an increase in Treasury Bond (OT) repayments of 5.6 thousand M€, bringing the total to 15.2 thousand M€, which more than accounts for the rise in medium- and long-term debt repayments in euros (+2.4 thousand M€, to 19.2 thousand M€). Similarly, an increase in BT redemptions is expected, reflecting the increase in the outstanding balance of these securities in 2026. Conversely, decreases are forecast in repayments of: i) CEDIC and CEDIM,[28] instruments subscribed by public entities and therefore having no impact on market financing; ii) EFAP loans, with repayments of minus €2.0 billion to the MEEF and minus €1.0 billion to the FEEF; iii) other long-term debt; and iv) savings products (Chart 4, right-hand panel).

In 2027, projected expenditure on financial assets rises significantly once again and is concentrated on loans and capital grants to public sector entities. The allocation amounts to €17.2 billion, 41% more than in the 2026 State Budget, which corresponds to around 3.8 times the average expenditure for 2015–2025. According to the MF, the majority of the expenditure on financial assets forecast for 2027 is earmarked for: i) medium- and long-term loans (€7.7 billion), notably loans to the IHRU (€1.0 billion) and

[28] Special Short-Term Debt Certificates (CEDIC) and Medium- and Long-Term Debt Certificates (CEDIM).

to Parpública (€0.3 billion), with €5.5 billion going to unspecified public entities; ii) shares and other equity interests (€7.4 billion), notably capital injections into non-financial public enterprises outside the scope of unspecified public administrations (€4.0 billion) and Infraestruturas de Portugal, S.A. (€2.6 billion); and iii) expenditure on other financial assets (€2.0 billion), of which €0.8 billion corresponds t to military investments under the SAFE instrument (€1.2 billion in the 2026 State Budget) and €1.1 billion not specified (Chart 4, left-hand panel).

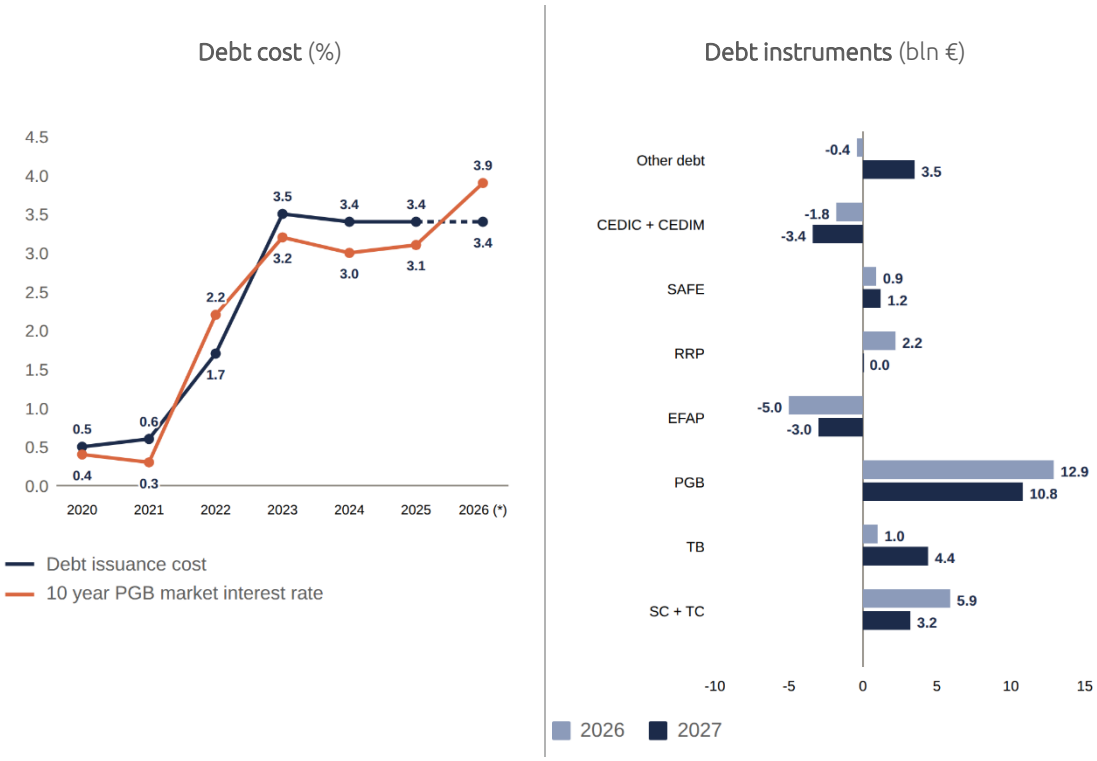
Chart 4 – State borrowing requirements in 2027



Left panel – Sources: DGO and MF. | Right panel – Source: MF. | Notes: Other debt = CEDIM, Other short-term debt, Other long-term debt, Non-euro debt and *swaps* (net); TB = Treasury Bills and PGB = Portuguese Government Bonds; SC = Saving Certificates and TC = Treasury Certificates; EFAP = Economic and Financial Assistance Programme; CEDIC = Special Short-term Debt Certificates.

In 2027, OTs will remain the main source of funding, but will account for a smaller share of net funding. Net financing from treasury bills is expected to amount to €10.8 billion (€12.9 billion in 2026), representing 65% of the government's net financing (€16.7 billion), compared with 81% in 2026. T-bills are expected to increase their share of net financing, rising from €1.0 billion to €4.4 billion, as is other long-term debt (€3.5 billion, compared with -€0.4 billion in 2026). With regard to Savings Certificates and Treasury Certificates (CA and CT), according to the DSB/2027, their contribution is expected to remain positive, albeit lower (€3.2 billion, compared with €5.9 billion in 2026), resulting from net CA issues of €3.8 billion and net CT redemptions of €0.6 billion (Chart 5, right-hand panel). Conversely, the contribution from European loans is expected to be negative, due to the cessation of RRP loans (€2.2 billion in 2026) and the continued repayment of EFAP loans (–€3.0 billion), despite SAFE disbursements totalling €1.2 billion. This financing strategy is consistent with the favourable trend in the cost of long-term debt, underpinned by the Portuguese State's credibility in the financial markets. The average cost of government debt has remained stable at around 3.4%, but the interest rate on 10-year Treasury bonds rose to 3.9% in October 2026, the highest level since 2023 (Chart 5, left-hand panel).

Chart 5 – State borrowing sources



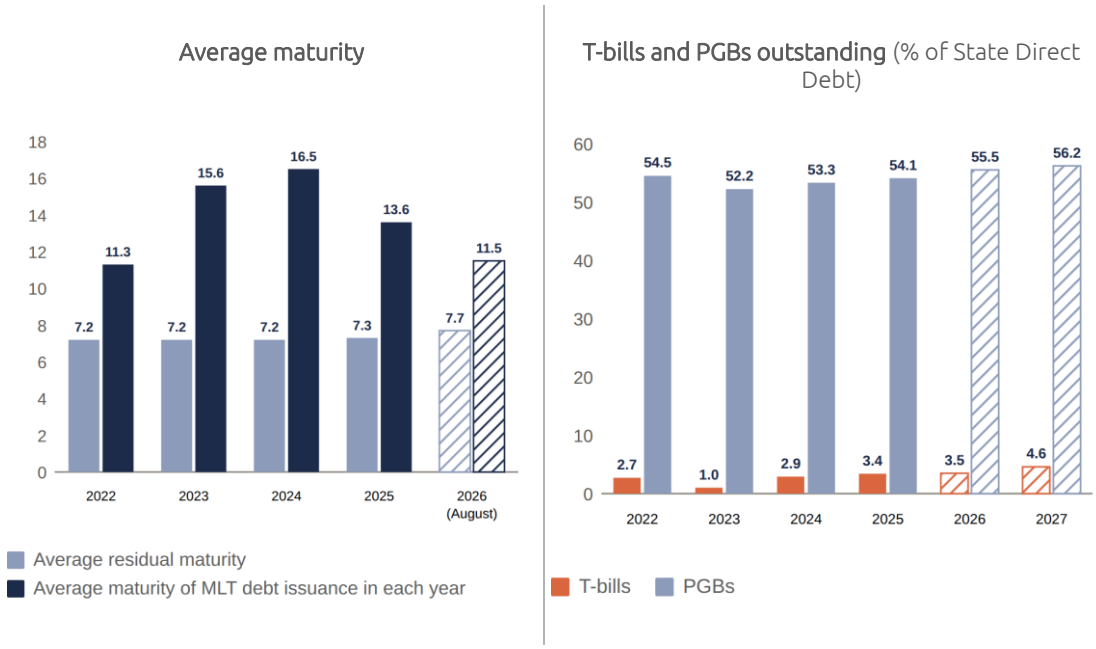
Left panel – Sources: MF, IGCP, Macrobond. | Notes: (*) The market interest rate on 10-year OTs for the year 2026 corresponds to the rate observed on 16 October 2026. | Right panel – Source: MF. | Notes: Other debt = CEDIC+ CEDIM (Special Short-Term Public Debt Certificates and Special Medium and Long-term Debt Certificates), Other short-term debt, Other long-term debt, Non-euro debt and swaps (net); TB = Treasury Bills and PGB = Portuguese Government Bonds; SC = Saving Certificates and TC = Treasury Certificates; RRP = Recovery and Resilience Facility; EFAP = Economic and Financial Assistance Programme.

The share of BTs in direct government debt will increase in 2027, but refinancing risk indicators remain within the defined limits.[29] Direct government debt is projected to reach 350.0 thousand M€ by the end of 2027 (+5.5%), following 331.8 thousand M€ in 2026 (+5.3%). The share of BTs rises from 3.5% to 4.6% and that of OTs from 55.5% to 56.2% (Chart 6, right-hand panel).[30] The DSB/2027 assumes a continued decline in EFAP loans (from 11.6% in 2026 to 10.2% in 2027). At the end of August 2026, the average maturity of the portfolio stood at 7.7 years (Chart 6, left-hand panel) and variable-rate debt accounted for 14.9% of the total (14.4% at the end of 2025). This profile indicates a contained refinancing risk, although the greater weight of short-term and floating-rate debt increases the exposure of interest charges to rising market rates.

[29] According to the Guidelines for Public Debt Management, which set limits of 15% and 45% on the proportion of the portfolio maturing within 12 months and five years, respectively.

[30] At the end of July 2026, the portion of the portfolio maturing within 12 months stood at 11.8% (9.4% at the end of 2025) and the portion maturing within five years at 36.3%, below the 15% and 45% limits set out in the Guidelines for Public Debt Management.

Chart 6 – Maturity of State direct debt



Sources: MF and IGCP.

4. FISCAL RISKS

The fiscal forecast for 2027 entails downside risks, namely:

- The macroeconomic scenario underlying the 2027 DSB/2027 Proposal is subject to external risks and uncertainties, which are tilted to the downside, as set out in the CFP's Opinion on the macroeconomic forecasts underlying the 2027 DSB/2027 Proposal, published in October 2026. The Opinion highlights, in particular, that the MF's forecasts for employment and wages per worker are the highest amongst the benchmark institutions. Lower-than-expected growth in the wage bill will result in lower-than-expected revenue from PIT and social security contributions;
- The uncertainty surrounding the estimated impact of the measure to combat fraud in the fuel sector, which contributes €300 million to the VAT revenue forecast, could result in lower-than-projected revenue;
- The persistence or worsening of the adverse international economic climate may justify the adoption of measures to mitigate its negative effects on the economy and household incomes;
- The possible continuation of support for Ukraine in 2027, given that this measure was not identified by the MF in the tables of the DSB/2027 Budget Policy Report;
- The possibility that the Resolution Fund may have to compensate certain common creditors of BES under the *'no creditor worse off'* principle, a fundamental principle of the bank resolution regime in Portugal and the European Union, noting that the Fund's 2025 Annual Report and Accounts recorded, for the first time, a provision of €630 million to compensate approximately 31.7% of ordinary claims, already recognised by a court order issued in the BES liquidation proceedings;[31]
- The materialization of public expenditure associated with contingent liabilities of general government, relating to claims by private partners in the context of public-private partnerships (PPPs)[32] and to other ongoing court proceedings, as well as public guarantees, namely those relating to the youth housing scheme, those granted to SATA by the Regional Government of the Azores and those associated with credit lines to private companies.

On the other hand, a number of factors have been identified that could support the fiscal scenario forecast by the MF, namely:

- Higher price inflation than that incorporated into the macroeconomic scenario could result in an increase in nominal tax revenue, particularly from VAT, mitigating

[31] The Bank of Portugal has already initiated the administrative procedure to pay the respective compensation from 1 December 2026. Recently, the Lisbon Court of Appeal recognised that the funds of the Luxembourg-based company Oak Finance should be considered ordinary creditors, thereby enabling it to recover around €170 million.

[32] The DSB/2027 does not incorporate expectations regarding the outcome of the ongoing negotiation processes; the total value of claims submitted by concessionaires and sub-concessionaires amounts to €2,867.2 million, of which €2,388.2 million relates to the road sector (almost double the amount indicated in the 2026 State Budget Report, due to the progress of the negotiation process with Brisa, in the course of which that concessionaire quantified part of its claims or matters for negotiation at €1,122.5 million).

any shortfalls in other revenue components. It should be noted that the CFP identifies predominantly upside risks to inflation in 2027;

- Tax revenue may exceed the MF's forecast if economic activity proves to be more favourable than implied in the underlying macroeconomic scenario, leading to stronger performance in consumption- and wealth-related taxes, such as the ISV and the IMT;
- A smaller-than-expected increase in interest expenditure, taking into account the overestimation noted previously;
- A more restricted use of expenditure allocations relating to fiscal restraint instruments (Box 2).
- The extent of the upward revision to nominal GDP by INE, which will be announced in March 2027 and which could result in a reduction in the public debt-to-GDP ratio greater than that forecast in the DSB/2027, due to a statistical effect.

Box 2 – Fiscal restraint instruments

The total amount of the fiscal restraint instruments provided for in the DSB/2027 is lower than that approved for 2026 reflecting, above all, a reduction in the reserve which can only be mobilized by the Minister of Finance. In 2027, these instruments total €3,761.9 million (1.1% of GDP), of which more than half (€1,928 million) corresponds to the sum of the sectoral reserve and the MF's reserve, with approximately one-third of this amount accounted for by the legacy programmes 'Education' and 'Infrastructure and Housing'. Compared with the 2026 State Budget, total reserves have fallen by €125 million, mainly due to the reduction in the legacy 'Finance' programme, particularly within entities in the economic and financial sector. The share of the reserve which is mobilized exclusively by the Minister of Finance – corresponding to 2.5% of the allocation for each budget programme – has decreased by €276 million. Conversely, the share of the reserve mobilized by Government members in line ministries has increased by €151 million. The amount of the remaining expenditure control instruments, which fall within the exclusive remit of the Minister of Finance, remains the same as that approved for 2026: the provisional allocation to cover unexpected and urgent expenditure is €500 million, and the so-called centralised allocations total €1,334 million.

Table 8 – Budgetary containment instruments (M€)

Designation	SB/2026	DSB/2027	Change
1. Provisional allocation	500.0	500.0	0.0
2. Reserves:	2,053.2	1,928.0	-125.2
Sectorial reserve	1,243.6	1,394.1	150.5
MF reserve	809.6	533.9	-275.7
3. Centralized allocations:	1,333.9	1,333.9	0.0
Regularization of liabilities and application of assets	1,278.9	1,278.9	0.0
Overall national public contribution	50.0	50.0	0.0
Participatory budgeting	5.0	5.0	0.0
Total	**3,887.1**	**3,761.9**	**-125.2**

Source: MF. CFP calculations. | Notes: values in cash basis accounting, including expenditure on financial assets and liabilities; until 2025, the sectorial reserve corresponded to the budgetary retentions and the MF reserve was designated by Budgetary reserve.

5. ANNEXES

5.1 Statistical tables

Table 9 – General government account, in national accounts

	M€			Change				% of GDP			Change	
				M€		%					p.p. of GDP	
	2025	2026 E	2027 P	2025/26	2026/27	2025/26	2026/27	2025	2026 E	2027 P	2025/26	2026/27
Total revenue	**132,694**	**146,559**	**143,356**	**13,865**	**-3,203**	**10.4**	**-2.2**	**43.0**	**45.0**	**42.1**	**2.0**	**-2.9**
Current revenue	**128,849**	**138,620**	**140,879**	**9,771**	**2,259**	**7.6**	**1.6**	**41.8**	**42.6**	**41.4**	**0.8**	**-1.2**
Tax revenue	75,314	78,322	80,886	3,008	2,564	4.0	3.3	24.4	24.1	23.8	-0.3	-0.3
Indirect taxes	44,510	46,746	48,667	2,236	1,921	5.0	4.1	14.4	14.4	14.3	-0.1	-0.1
Direct taxes	30,804	31,576	32,219	772	643	2.5	2.0	10.0	9.7	9.5	-0.3	-0.2
Social contributions	38,745	41,815	44,636	3,070	2,821	7.9	6.7	12.6	12.8	13.1	0.3	0.3
of which: actual soc. contr. received	33,045	35,721	38,258	2,677	2,536	8.1	7.1	10.7	11.0	11.2	0.3	0.3
Sales & other current revenues	14,790	18,483	15,357	3,693	-3,126	25.0	-16.9	4.8	5.7	4.5	0.9	-1.2
Sales	8,761	8,940	9,127	179	187	2.0	2.1	2.8	2.7	2.7	-0.1	-0.1
Other current revenues	6,029	9,543	6,230	3,513	-3,313	58.3	-34.7	2.0	2.9	1.8	1.0	-1.1
Capital transfers received	**3,845**	**7,939**	**2,477**	**4,094**	**-5,462**	**106.5**	**-68.8**	**1.2**	**2.4**	**0.7**	**1.2**	**-1.7**
Total expenditure	**130,648**	**146,472**	**143,081**	**15,824**	**-3,391**	**12.1**	**-2.3**	**42.3**	**45.0**	**42.0**	**2.7**	**-3.0**
Primary expenditure	**124,620**	**139,803**	**134,864**	**15,183**	**-4,939**	**12.2**	**-3.5**	**40.4**	**43.0**	**39.6**	**2.6**	**-3.3**
Current primary expenditure	**112,815**	**122,378**	**124,218**	**9,563**	**1,840**	**8.5**	**1.5**	**36.6**	**37.6**	**36.5**	**1.0**	**-1.1**
Intermediate consumption	15,408	17,440	16,744	2,032	-696	13.2	-4.0	5.0	5.4	4.9	0.4	-0.4
Compensation of employees	32,631	34,171	35,983	1,540	1,811	4.7	5.3	10.6	10.5	10.6	-0.1	0.1
Social transfers	55,011	57,801	59,991	2,789	2,190	5.1	3.8	17.8	17.8	17.6	-0.1	-0.1
other than in kind	49,064	51,456	53,455	2,392	1,998	4.9	3.9	15.9	15.8	15.7	-0.1	-0.1
in kind	5,947	6,344	6,536	397	192	6.7	3.0	1.9	1.9	1.9	0.0	0.0
Subsidies	1,788	2,222	1,936	433	-286	24.2	-12.9	0.6	0.7	0.6	0.1	-0.1
Other current expenditure	7,976	10,744	9,564	2,768	-1,180	34.7	-11.0	2.6	3.3	2.8	0.7	-0.5
Capital expenditure	**11,805**	**17,425**	**10,646**	**5,620**	**-6,780**	**47.6**	**-38.9**	**3.8**	**5.4**	**3.1**	**1.5**	**-2.2**
GFCF	8,843	14,035	9,687	5,192	-4,349	58.7	-31.0	2.9	4.3	2.8	1.4	-1.5
Other capital expenditure	2,962	3,390	959	428	-2,431	14.5	-71.7	1.0	1.0	0.3	0.1	-0.8
Interest paid	**6,028**	**6,669**	**8,217**	**641**	**1,548**	**10.6**	**23.2**	**2.0**	**2.0**	**2.4**	**0.1**	**0.4**
General government balance	**2,045**	**86**	**275**	**-1,959**	**188**	**-**	**-**	**0.7**	**0.0**	**0.1**	**-0.6**	**0.1**
Primary balance	8,074	6,756	8,492	-1,318	1,736	-	-	2.6	2.1	2.5	-0.5	0.4
Tax revenue and social contributions	114,059	120,137	125,522	6,078	5,385	5.3	4.5	37.0	36.9	36.9	-0.1	0.0
Non tax and non contribution revenue	18,635	26,422	17,834	7,787	-8,588	41.8	-32.5	6.0	8.1	5.2	2.1	-2.9
Current Expenditure	118,843	129,047	132,435	10,204	3,388	8.6	2.6	38.5	39.6	38.9	1.1	-0.8
Nominal GDP	308,538	325,495	340,535	16,957	15,040	5.5	4.6	-	-	-	-	-

Source: INE (2025) and Ministry of Finance (2026 and 2027). CFP calculations. "E" stands for estimate and "P" stands for projection.

Table 10 – General government account adjusted from one-offs, in national accounts

	M€			Change				% of GDP			Change	
				M€		%					p.p. of GDP	
	2025	2026 E	2027 P	2025/26	2026/27	2025/26	2026/27	2025	2026 E	2027 P	2025/26	2026/27
Total revenue	**132,694**	**146,559**	**143,356**	**13,865**	**-3,203**	**10.4**	**-2.2**	**43.0**	**45.0**	**42.1**	**2.0**	**-2.9**
Current revenue	**128,849**	**138,620**	**140,879**	**9,771**	**2,259**	**7.6**	**1.6**	**41.8**	**42.6**	**41.4**	**0.8**	**-1.2**
Tax revenue	75,314	78,322	80,886	3,008	2,564	4.0	3.3	24.4	24.1	23.8	-0.3	-0.3
Indirect taxes	44,510	46,746	48,667	2,236	1,921	5.0	4.1	14.4	14.4	14.3	-0.1	-0.1
Direct taxes	30,804	31,576	32,219	772	643	2.5	2.0	10.0	9.7	9.5	-0.3	-0.2
Social contributions	38,745	41,815	44,636	3,070	2,821	7.9	6.7	12.6	12.8	13.1	0.3	0.3
of which: actual soc. contr. received	33,045	35,721	38,258	2,677	2,536	8.1	7.1	10.7	11.0	11.2	0.3	0.3
Sales & other current revenues	14,790	18,483	15,357	3,693	-3,126	25.0	-16.9	4.8	5.7	4.5	0.9	-1.2
Sales	8,761	8,940	9,127	179	187	2.0	2.1	2.8	2.7	2.7	-0.1	-0.1
Other current revenues	6,029	9,543	6,230	3,513	-3,313	58.3	-34.7	2.0	2.9	1.8	1.0	-1.1
Capital transfers received	**3,845**	**7,939**	**2,477**	**4,094**	**-5,462**	**106.5**	**-68.8**	**1.2**	**2.4**	**0.7**	**1.2**	**-1.7**
Total expenditure	**130,431**	**144,902**	**142,395**	**14,471**	**-2,507**	**11.1**	**-1.7**	**42.3**	**44.5**	**41.8**	**2.2**	**-2.7**
Primary expenditure	**124,403**	**138,233**	**134,178**	**13,830**	**-4,055**	**11.1**	**-2.9**	**40.3**	**42.5**	**39.4**	**2.1**	**-3.1**
Current primary expenditure	**112,815**	**121,983**	**124,218**	**9,168**	**2,235**	**8.1**	**1.8**	**36.6**	**37.5**	**36.5**	**0.9**	**-1.0**
Intermediate consumption	15,408	17,440	16,744	2,032	-696	13.2	-4.0	5.0	5.4	4.9	0.4	-0.4
Compensation of employees	32,631	34,171	35,983	1,540	1,811	4.7	5.3	10.6	10.5	10.6	-0.1	0.1
Social transfers	55,011	57,801	59,991	2,789	2,190	5.1	3.8	17.8	17.8	17.6	-0.1	-0.1
other than in kind	49,064	51,456	53,455	2,392	1,998	4.9	3.9	15.9	15.8	15.7	-0.1	-0.1
in kind	5,947	6,344	6,536	397	192	6.7	3.0	1.9	1.9	1.9	0.0	0.0
Subsidies	1,788	1,827	1,936	38	109	2.1	6.0	0.6	0.6	0.6	0.0	0.0
Other current expenditure	7,976	10,744	9,564	2,768	-1,180	34.7	-11.0	2.6	3.3	2.8	0.7	-0.5
Capital expenditure	**11,588**	**16,250**	**9,960**	**4,662**	**-6,290**	**40.2**	**-38.7**	**3.8**	**5.0**	**2.9**	**1.2**	**-2.1**
GFCF	8,843	14,035	9,687	5,192	-4,349	58.7	-31.0	2.9	4.3	2.8	1.4	-1.5
Other capital expenditure	2,744	2,215	274	-530	-1,941	-19.3	-87.6	0.9	0.7	0.1	-0.2	-0.6
Interest paid	**6,028**	**6,669**	**8,217**	**641**	**1,548**	**10.6**	**23.2**	**2.0**	**2.0**	**2.4**	**0.1**	**0.4**
General government balance	**2,263**	**1,657**	**960**	**-606**	**-697**	**-**	**-**	**0.7**	**0.5**	**0.3**	**-0.2**	**-0.2**
Primary balance	8,291	8,326	9,177	35	851	-	-	2.7	2.6	2.7	-0.1	0.1
Tax revenue and social contributions	114,059	120,137	125,522	6,078	5,385	5.3	4.5	37.0	36.9	36.9	-0.1	0.0
Non tax and non contribution revenue	18,635	26,422	17,834	7,787	-8,588	41.8	-32.5	6.0	8.1	5.2	2.1	-2.9
Current Expenditure	118,843	128,652	132,435	9,809	3,783	8.3	2.9	38.5	39.5	38.9	1.0	-0.6
Nominal GDP	308,538	325,495	340,535	16,957	15,040	5.5	4.6	-	-	-	-	-

Sources: INE (2025) and Ministry of Finance (2026 and 2027). CFP calculations. | Note: details of the adjustments made can be found in Table 14.

Table 11 – Impact of the RRP on the general government account (% of GDP)

	2025	2026 E		2027 P		RRP	
		with RRP	without RRP	with RRP	without RRP	2026	2027
Total revenue	**43.0**	**45.0**	**42.2**	**42.1**	**42.1**	**2.8**	**0.0**
Current revenue	**41.8**	**42.6**	**41.5**	**41.4**	**41.4**	**1.1**	**0.0**
Tax revenue	24.4	24.1	24.1	23.8	23.8	0.0	0.0
Indirect taxes	14.4	14.4	14.4	14.3	14.3	0.0	0.0
Direct taxes	10.0	9.7	9.7	9.5	9.5	0.0	0.0
Social contributions	12.6	12.8	12.8	13.1	13.1	0.0	0.0
of which: actual soc. contr. received	10.7	11.0	11.0	11.2	11.2	0.0	0.0
Sales & other current revenues	4.8	5.7	4.6	4.5	4.5	1.1	0.0
Sales	2.8	2.7	2.7	2.7	2.7	0.0	0.0
Other current revenues	2.0	2.9	1.9	1.8	1.8	1.1	0.0
Capital transfers received	**1.2**	**2.4**	**0.7**	**0.7**	**0.7**	**1.7**	**0.0**
Total expenditure	**42.3**	**45.0**	**41.6**	**42.0**	**42.0**	**3.4**	**0.0**
Primary expenditure	**40.4**	**43.0**	**39.5**	**39.6**	**39.6**	**3.4**	**0.0**
Current primary expenditure	**36.6**	**37.6**	**36.5**	**36.5**	**36.5**	**1.1**	**0.0**
Intermediate consumption	5.0	5.4	4.9	4.9	4.9	0.4	0.0
Compensation of employees	10.6	10.5	10.5	10.6	10.6	0.0	0.0
Social benefits	17.8	17.8	17.7	17.6	17.6	0.0	0.0
other than in kind	15.9	15.8	15.8	15.7	15.7	0.0	0.0
in kind	1.9	1.9	1.9	1.9	1.9	0.0	0.0
Subsidies	0.6	0.7	0.7	0.6	0.6	0.0	0.0
Other current expenditure	2.6	3.3	2.7	2.8	2.8	0.6	0.0
Capital expenditure	**3.8**	**5.4**	**3.0**	**3.1**	**3.1**	**2.3**	**0.0**
GFCF	2.9	4.3	2.8	2.8	2.8	1.5	0.0
Other capital expenditure	1.0	1.0	0.2	0.3	0.3	0.8	0.0
Interest paid	**2.0**	**2.0**	**2.0**	**2.4**	**2.4**	**0.0**	**0.0**
General government balance	**0.7**	**0.0**	**0.6**	**0.1**	**0.1**	**-0.6**	**0.0**
Primary balance	2.6	2.1	2.7	2.5	2.5	-0.6	0.0
Tax revenue and social contributions	37.0	36.9	36.9	36.9	36.9	0.0	0.0
Non tax and non contribution revenue	6.0	8.1	5.3	5.2	5.2	2.8	0.0
Current Expenditure	38.5	39.6	38.6	38.9	38.9	1.1	0.0

Sources: INE (2025) and Ministry of Finance (2026 and 2027). CFP calculations. | Note: figures of the year 2025 include RRP.

Table 12 – Main policy measures with impact in 2027 (in M€)

Component/measure	No-policy-change scenario	New Measures DSB/2027	Total
Total revenue	**-767**	**179**	**-588**
Direct taxes	**-673**	**-121**	**-794**
PIT | Housing - Reduction of the PIT rate on moderate rents from 25% to 10%	-209		-209
PIT | Update on specific deduction and tax brackets	-431		-431
PIT | Update of the PIT minimum subsistence threshold		-121	-121
CIT | Tax rates reduction	-300		-300
CIT | Indirect SIFIDE (reversion)	124		124.2
CIT | Investment Support Tax Scheme (RFAI) and SIFIDE	143		142.6
Indirect taxes	**-94**	**300**	**206**
VAT | Housing - reduction in VAT on construction from 23 per cent to 6 per cent	-94		-94
VAT | Combating fraud in the fuel sector		300	300
Total expenditure	**5,562**	**100**	**5,662**
Intermediate consumption	**418**		**418**
General government commitments that constitute structural expenditure	418		418
Compensation of employees	**1,231**		**1,231**
Increase due to the Income Agreement	587		587
Progressions and promotions	283		283
Minimum wage increase	116		116
Salary agreements	244		244
Social transfers	**1,475**	**100**	**1,575**
Reinforcement of the Solidarity Supplement for the Elderly (CSI)		100	100
Pensions | composition effect + regular update	1,475		1,475
Other current expenditure	**273**		**273**
Transfer to the EU budget	273		273
GFCF	**617**		**617**
Public Investment (excluding RRP)	617		617
Interest	**1,548**		**1,548**
Interest due by General Government	1,548		1,548
Impact on the budget balance change	**-6,329**	**79**	**-6,249**

Source: MF. | Note: The impacts identified in the NPC scenario column result from the criteria adopted by the CFP.

Table 13 – Incremental impact of the main policy measures considered in CFP's projection (in M€ and in p.p. of GDP)

Designation	Change in M€		Change in p.p. of GDP	
	2026	2027	2026	2027
Total Revenue	**-1,348**	**-344**	**-0.4**	**-0.1**
Current revenue	**-1,348**	**-344**	**-0.4**	**-0.1**
Tax revenue	**-1,313**	**-344**	**-0.4**	**-0.1**
Indirect taxes	**87**	**239**	**0.0**	**0.1**
Housing Package: Reduction of the VAT rate on construction from 23% to 6%		-94		0.0
Update of the fuel and carbon taxes	173		0.1	
Temporary Petroleum Tax Discount - Iran conflit (9 months)	-295	295	-0.1	0.1
End of the exemption for advanced biofuels	156		0.0	
Single Real Estate Tax Rate for Non Residents	53	38	0.0	0.0
Direct Taxes	**-1,400**	**-583**	**-0.4**	**-0.2**
2024 PIT Package				
Youth PIT Regime	144		0.0	
Increase in the Tax Deduction for Housing Expenses	-17	-36	0.0	0.0
2025 PIT Package				
Youth PIT Regime	-510		-0.2	
2026 PIT Package				
Tax Rate Reductions	-33		0.0	
PIT | Update of minimum subsistence limit	-121		0.0	
PIT | Additional rate cut up to the 6th bracket	-371		-0.1	
2027 PIT Package				
PIT | Update of minimum subsistence limit		-121		0.0
Automatic Indexation of Personal Income Tax (IRS) Specific Deductions to the Social Support Index (IAS)	-108	-102	0.0	0.0
PIT | Automatic update of brackets (productivity component in the part exceeding inflation)	37	-41	0.0	0.0
Housing Package: Reduction of the PIT Rate on Moderate Rents from 25% to 10%		-209		-0.1
Strengthening of Corporate Income Tax (IRC) Incentives for Business Capitalisation (ICE)	-136		0.0	
Tax Incentive for Recovery (IFR) and Other Related Measures (RFAI, SIFIDE)	33	143		
Extraordinary Investment Tax Credit (2021, COVID-19)	10		0.0	
CIT | 1 p.p. reduction in the standard and reduced CIT rates	-328		-0.1	
CIT | 1 p.p. reduction in the standard rate in 2026, 2027 and 2028, plus a 1 p.p. reduction in the reduced CIT rate in 2026		-341		-0.1
CIT | Indirect SIFIDE (reversal)		124		0.0
Sales	**-35**	**0**	**0.0**	**0.0**
Extension of Toll Elimination on Former SCUT Motorways	-35		0.0	
Capital Revenue	**0**	**0**	**0.0**	**0.0**
Expenditure	**760**	**-384**	**0.2**	**-0.1**
Current primary expenditure	**734**	**-364**	**0.2**	**-0.1**
Compensation of employees	348	309	0.1	0.1
Salary agreement with professional groups	348	309	0.1	0.1
Social tranfers	152	-300	0.0	-0.1
Support for needy/most vulnerable families	-4		0.0	
Complement to extraordinary support for children and young people	-0.2		0.0	
Extraordinary support for holders of income and social benefits	-1		0.0	
Extraordinary pension supplement	17	-400	0.0	-0.1
Exceptional pension supplement	-0.01		0.0	
CSI reinforcement	140	100	0.0	0.0
Subsidies	153	-153	0.0	0.0
Additional support for farms affected by Storm Claudia	3	-3	0.0	0.0
Iran Conflict | Support for freight/passenger transport, agriculture, firefighters and taxis (3 months)	150	-150	0.0	0.0
Other current expenditure	82	-220	0.0	-0.1
Expenditure and Scheduling of Multiannual Charges for the "BPF Invest Export" Guaranteed Financing Line of the "Reforçar" Program				
Financial support to IPSS for the opening of new preschool classrooms	6		0.0	
Support for Ukraine	76	-220	0.0	-0.1
Capital expenditure	**26**	**-20**	**0.0**	**0.0**
GFCF	26	-20	0.0	0.0
Modernization of justice sector buildings	26	-20	0.0	0.0
Interest	**0**	**0**	**0.0**	**0.0**
Budget balance	**-2,108**	**40**	**-0.6**	**0.0**

Source: MF. | Note: Whenever possible, CFP's own calculations were used to quantify the measures identified in this table; the figures reflect year-on-year changes; the table only includes policy measures, excluding other effects and one-offs.

Table 14 – Impact of one-off measures on the budget balance

	% of GDP		
	2025	2026 E	2027 P
***One-off* measures (impact in budget balance)**	**-0.1**	**-0.5**	**-0.2**
Expenditure	**0.1**	**0.5**	**0.2**
Return of the solidarity surcharge charged to Banks	0.1		
Support measures aimed at responding to the state of calamity		0.5	0.1
Judicial process - Algarve's PPP			0.1
Memo items (impact by budget aggregate)			
Subsidies		*0.1*	
Other capital expenditure	*0.1*	*0.4*	*0.2*

Sources: INE (2025) and Ministry of Finance (2026 and 2027). | Notes: Calculations and classification by CFP. Totals do not necessarily correspond to the sum of the percentages of GDP due to rounding. "2026 E" denotes estimate and "2027 P" denotes forecast.

Table 15 – Ministry of Finance budgetary scenario underlying the DSB/2027, excluding the effect of RRP grants and other European Union funds (% of GDP)

	Billions €			% GDP		
	2026	2027	Change (%)	2026	2027	Change (p.p.)
Total revenue	**134.3**	**139.0**	**3.4**	**41.3**	**40.8**	**-0.5**
Current revenue	**134.1**	**138.7**	**3.4**	**41.2**	**40.7**	**-0.5**
Tax revenue	78.3	80.9	3.3	24.1	23.8	-0.3
Indirect taxes	46.7	48.7	4.1	14.4	14.3	-0.1
Direct taxes	31.6	32.2	2.0	9.7	9.5	-0.2
Social Contributions	41.8	44.6	6.7	12.8	13.1	0.3
Sales	8.9	9.1	2.1	2.7	2.7	-0.1
Other current revenues	5.0	4.1	-18.8	1.5	1.2	-0.3
Capital transfers received	**0.2**	**0.2**	**4.6**	**0.1**	**0.1**	**0.0**
Total expenditure	**134.3**	**138.7**	**3.3**	**41.2**	**40.7**	**-0.5**
Primary expenditure	**127.6**	**130.5**	**2.3**	**39.2**	**38.3**	**-0.9**
Current primary expenditure	**117.9**	**122.1**	**3.6**	**36.2**	**35.9**	**-0.4**
Intermediate consumption	15.9	16.7	5.1	4.9	4.9	0.0
Compensation of employees	34.2	36.0	5.3	10.5	10.6	0.1
Social benefits	57.8	60.0	3.8	17.8	17.6	-0.1
Subsidies & other current expenditure	10.0	9.4	-6.2	3.1	2.8	-0.3
Capital expenditure	**9.7**	**8.4**	**-13.5**	**3.0**	**2.5**	**-0.5**
GFCF	7.6	7.4	-1.9	2.3	2.2	-0.1
Other capital expenditure	2.1	1.0	-54.8	0.7	0.3	-0.4
Interest paid	**6.7**	**8.2**	**23.2**	**2.0**	**2.4**	**0.4**
General government balance	**0.1**	**0.3**		**0.0**	**0.1**	**0.1**
Primary balance	6.8	8.5		2.1	2.5	0.4
Nominal GDP	325.5	340.5	4.6			

Source: MF. | Note: The figures shown in the table exclude the effect of RRP grants and other European Union funds accounted for in capital revenue and GFCF.

Table 16 – DSB/2027 net expenditure (in M€)

	Formulas	Unit	2025			2026			2027		
			DBP 2027	Stat. Adjust.	DRM Sensib.	DBP 2027	Stat. Adjust.	DRM Sensib.	DBP 2027	Stat. Adjust.	DRM Sensib.
Total expenditure (excluding)	**(1)**	**Billions €**	**130.6**	**130.6**	**130.6**	**146.5**	**146.5**	**146.5**	**143.1**	**143.1**	**143.1**
Interest paid	(2)	Billions €	6.0	6.0	6.0	6.7	6.7	6.7	8.2	8.2	8.2
Cyclical unemployment expenditure	(3)	Billions €	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
EU funded expenditure	(4)	Billions €	4.8	4.8	4.8	12.2	12.2	12.2	4.4	4.4	4.4
National co-financing of EU programmes	(5)	Billions €	0.6	0.6	0.6	1.5	1.5	1.5	2.4	2.4	2.4
One-offs expenditure (levels, excl. EU funded)	(6)	Billions €	0.2	0.2	0.2	1.6	1.6	1.6	0.7	0.7	0.7
Net expenditure before DRMs	**(7)=(1-2-3-4-5-6)**	**Billions €**	**118.9**	**118.9**	**118.9**	**124.5**	**124.5**	**124.5**	**127.4**	**127.4**	**127.4**
p.m. Series-break adjustment	**(7A)**	**Billions €**		**-0.3**	**-0.3**						
Annual Change in net expenditure before DRMs	(8)=(7(t)-7(t-1))	Billions €	6.4	6.4	6.4	5.6	5.6	5.6	2.9	2.9	2.9
Growth in net expenditure before DRMs	**(9)=(7(t)/7(t-1))**		**5.7%**	**6.0%**	**6.0%**	**4.7%**	**4.7%**	**4.7%**	**2.4%**	**2.4%**	**2.4%**
Discretionary revenue measures (annual incremental impact, excl.one-offs)	(10)	Billions €	-0.2	-0.2	-0.2	-1.2	-1.2	-1.5	-0.1	-0.1	-0.3
Net expenditure after DRMs	**(11)=(7)-(7A)-(10)**	**Billions €**	**119.1**	**119.4**	**119.4**	**125.7**	**125.7**	**126.0**	**127.6**	**127.6**	**127.7**
Annual change in net expenditure (after DRMs)	(12)=(11(t)-7(t-1))	Billions €	6.6	6.9	6.9	6.8	6.8	7.1	3.1	3.1	3.2
Net expenditure trajectory											
Annual growth											
Net expenditure growth	**(13)=(11(t)/7(t-1))**	**Δ %**	**5.9%**	**6.2%**	**6.2%**	**5.7%**	**5.7%**	**6.0%**	**2.5%**	**2.5%**	**2.6%**
POEN-MP	(14)	Δ %		5.0%			5.1%			1.2%	
Cumulative growth											
Net expenditure growth	(15)	Δ %	18.0%	18.3%	18.3%	24.7%	25.1%	25.3%	27.8%	28.1%	28.6%
POEN-MP commitment	(16)	Δ %	17.4%	17.4%	17.4%	23.4%	23.4%	23.4%	24.9%	24.9%	24.9%
Deviations in the trajectory of net expenditure											
Annual deviation	(17)=((13-14) x 7)	Billions €	1.0	1.3	1.3	0.8	0.8	1.1	1.6	1.6	1.7
Cumulated deviation	(18) = (cum. of 17)	Billions €	0.6	0.9	0.9	1.4	1.7	2.0	2.9	3.2	3.6
Nominal GDP	(19)	Billions €	308.5	308.5	308.5	325.5	325.5	325.5	340.5	340.5	340.5
Control account											
Annual balance	(20)=(17/19)	% GDP	0.3	0.4	0.4	0.2	0.2	0.3	0.5	0.5	0.5
Cumulated balance	(21)=(18/19)	% GDP	0.2	0.3	0.3	0.4	0.5	0.6	0.9	0.9	1.1
Defence expenditure	(22)	% GDP	0.8	0.8	0.8	1.0	1.0	1.0	1.2	1.2	1.2
Flexibility from increases in defence expenditure	(23)	% GDP	0.0	0.0	0.0	0.2	0.2	0.2	0.4	0.4	0.4
Cumulated balance after flexibility	**(24)=(21)-(23)**	**% GDP**	**0.2**	**0.3**	**0.3**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**	**0.7**

Source: INE (2025), Ministry of Finance (MF), and CFP calculations. Note: Statistical Adjustment refers to net expenditure recalculated by the CFP after incorporating the statistical correction applied by the European Commission as part of the ex post assessment conducted in 2025 to determine the cumulative deviation recorded in the control account. Accordingly, the change in net expenditure in 2024 and 2025 was corrected to reflect breaks in the series for total expenditure resulting from: (i) the reclassification of SATA Air Açores and SATA Gestão de Aeródromos (SGA) into the general government sector from 2024 onwards, with an impact of €37.1 million on total expenditure; and (ii) the reclassification of CP – Comboios de Portugal outside the general government sector from 2025 onwards, with an impact of €341 million on total expenditure. DRM Sensitivity refers to an additional recalculation exercise of net expenditure which, while already incorporating the aforementioned statistical correction, excludes the anti-fuel fraud measure (€300 million) from the classification of discretionary revenue measures (DRMs) and includes, as a DRM, the revenue loss associated with the Minimum Income Threshold (Mínimo de Existência) (€121 million).

Table 17 – Calculation of net expenditure projected by the CFP

	Formulas	Unit	2025		2026		2027	
			CFP Proj.	EC (SF26)	CFP Proj.	EC (SF26)	CFP Proj.	EC (SF26)
Total expenditure (excluding)	**(1)**	**Billions €**	**130.6**	**130.9**	**141.7**	**143.5**	**145.2**	**143.5**
Interest paid	(2)	Billions €	6.0	6.0	6.4	6.4	7.0	6.9
Cyclical unemployment expenditure	(3)	Billions €	0.1	0.1	0.1	0.1	0.1	0.0
EU funded expenditure	(4)	Billions €	4.8	4.7	6.8	9.5	5.7	3.9
National co-financing of EU programmes	(5)	Billions €	0.6	0.6	0.9	0.5	1.5	1.0
One-offs expenditure (levels, excl. EU funded)	(6)	Billions €	0.2	0.2	0.8	0.9	0.0	0.2
Net expenditure before DRMs	**(7)=(1-2-3-4-5-6)**	**Billions €**	**118.9**	**119.3**	**126.6**	**126.1**	**130.9**	**131.4**
p.m. Series-break adjustment	**(7A)**	**Billions €**	**-0.3**	**-0.3**				
Annual Change in net expenditure before DRMs	(8)=(7(t)-7(t-1))	Billions €	6.8	6.9	7.7	6.8	4.2	5.3
Growth in net expenditure before DRMs	**(9)=(7(t)/7(t-1))**	**% GDP**	**6.0%**	**6.1%**	**6.5%**	**5.7%**	**3.3%**	**4.2%**
Discretionary revenue measures (annual incremental impact, excl.one-offs)	(10)	Billions €	0.6	0.6	-1.3	0.1	-0.2	-1.6
Net expenditure after DRMs	**(11)=(7)-(7A)-(10)**	**Billions €**	**118.6**	**119.1**	**127.9**	**126.0**	**131.1**	**133.0**
Annual change in net expenditure (after DRMs)	(12)=(11(t)-7(t-1))	Billions €	6.1	6.2	9.0	6.6	4.5	6.9
Net expenditure trajectory								
Annual growth								
Net expenditure growth	**(13)=(11(t)/7(t-1))**	**Δ %**	**5.5%**	**5.5%**	**7.6%**	**5.6%**	**3.5%**	**5.5%**
POEN-MP	(14)	Δ %	5.0%		5.1%		1.2%	
Cumulative growth								
Net expenditure growth	(15)	Δ %	18.2%	18.7%	27.2%	25.2%	31.7%	32.1%
POEN-MP commitment	(16)	Δ %	17.4%	17.4%	23.4%	23.4%	24.9%	24.9%
Deviations in the trajectory of net expenditure								
Annual deviation	(17)=((13-14) x 7)	Billions €	0.5	0.6	2.9	0.5	3.0	5.4
Cumulated deviation	(18) = (cum. of 17)	Billions €	0.8	1.3	3.8	1.8	6.7	7.2
Nominal GDP	(19)	Billions €	308.5	306.8	325.1	320.8	340.3	335.1
Control account								
Annual balance	(20)=(17/19)	% GDP	0.2	0.2	0.9	0.2	0.9	1.6
Cumulated balance	(21)=(18/19)	% GDP	0.3	0.4	1.2	0.6	2.0	2.1
Defence expenditure	(22)	% GDP	0.8	0.8	0.9	0.8	0.8	0.8
Flexibility from increases in defence expenditure	(23)	% GDP	0.0	0.0	0.1	0.0	0.0	0.0
Cumulated balance after flexibility	**(24)=(21)-(23)**	**% GDP**	**0.3**	**0.4**	**1.1**	**0.6**	**2.0**	**2.1**

Source: INE (2025), European Commission (SF26 - Spring Forecast 2026), and CFP calculations and projections. The cumulative deviations projected by the CFP for 2026 and 2027 are based on the cumulative deviation identified by the European Commission in the control account established in 2025, updated to incorporate new statistical information that must be taken into account.

Table 18 – List of Discretionary Revenue Measures 2026-2027 considered by the CFP (in M€)

Discretionary Revenue Measures	2026	2027
VAT	**0**	**-94**
Housing Package: Reduction of VAT on construction from 23% to 6%		-94
Other indirect taxes	**34**	**295**
End of exemption for advanced biofuels	156	
Changes to the Petroleum tax and suspension of the carbon tax	173	
Temporary Petroleum discount - Iran conflict (9 months)	-295	295
PIT	**-854**	**-371**
PIT 2024 Package (1)	144	
IRS Jovem (youth PIT regime)	*144*	
2025 PIT package	-510	
IRS Jovem (youth PIT regime)	*-510*	
2026 PIT package	-525	
Rate reduction	*-33*	
Update of tax bands	*0*	
Update of the minimum subsistence level	*-121*	
Additional rate reduction September 2026 (Government proposal)	*-371*	
2027 PIT package		-121
Update of the minimum subsistence level		*-121*
Automatic update of tax bands (productivity component in excess of inflation)	37	-41
Housing Package - Reduction of PIT on moderate rents from 25% to 10%		-209
CIT	**-421**	**-74**
Extraordinary tax credit for investment (2021, COVID)	10	
CIT - Indirect SIFIDE (reversal)		124
1 p.p. reduction in the standard and reduced CIT rates	-328	
1 p.p. reduction in the standard CIT rate in [2026-2028] and 1 p.p. in the reduced rate in 2026		-341
Tax Incentive for Recovery - IFR and related measures	33	143
Tax Regime for Investment Support (RFAI)	*8*	*143*
System of Tax Incentives for Business R&D (SIFIDE)	*12*	
Tax Incentive for Recovery	*13*	
Extension/reinforcement of the Incentive for Company Capitalisation (ICE)	-136	
Other revenues	**-35**	
Extension of toll elimination on former SCUT motorways	-35	
Total discretionary revenue measures	**-1,276**	**-244**

Source: MF and CFP calculations.

5.2 Index of Charts

Chart 1 – Balance by subsectors of the general government, in % of GDP 11

Chart 2 – Fiscal stance 25

Chart 3 – Public debt developments (% of GDP and GDP p.p.) 29

Chart 4 – State borrowing requirements in 2027 31

Chart 5 – State borrowing sources 32

Chart 6 – Maturity of State direct debt 33

5.3 List of Tables

Table 1 – Budget indicators 10

Table 2 – General government account of the DSB/2027 17

Table 3 – Annual estimate for 2026 underlying the DSB/2027 (1st half observed and 2nd half implied in the Ministry of Finance's estimate) 20

Table 4 – CFP budget projection scenario underlying the DSB/2027, excluding the effect of RRP grants and other European Union funds (in M€) 22

Table 5 – Debt dynamics in the CFP projection scenario (% of GDP) 24

Table 6 – Developments in public debt and Ministry of Finance's forecast (% of GDP) .. 28

Table 7 – State borrowing requirements in 2026-2027 (M€) 30

Table 8 – Budgetary containment instruments (M€) 35

Table 9 – General government account, in national accounts 36

Table 10 – General government account adjusted from one-offs, in national accounts 37

Table 11 – Impact of the RRP on the general government account (% of GDP) 38

Table 12 – Main policy measures with impact in 2027 (in M€) 39

Table 13 – Incremental impact of the main policy measures considered in CFP's projection (in M€ and in p.p. of GDP) 40

Table 14 – Impact of one-off measures on the budget balance 41

Table 15 – Ministry of Finance budgetary scenario underlying the DSB/2027, excluding the effect of RRP grants and other European Union funds (% of GDP) 41

Table 16 – DSB/2027 net expenditure (in M€) 42

Table 17 – Calculation of net expenditure projected by the CFP..... 43

Table 18 – List of Discretionary Revenue Measures 2026-2027 considered by the CFP (in M€) 44

5.4 Box Index

Box 1 – Estimate for 2026: expected expenditure in the second half of the year 19

Box 2 – Fiscal restraint instruments..... 35