Conselho das Finanças Públicas

ECONOMIC AND FISCAL OUTLOOK 2024-2028 (UPDATE)

September 2024

Report no.

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The Portuguese Public Finance Council is an independent body created by Article 3 of Law No. 22/2011, of 20 May 2011, which made the 5th amendment to the Budget Framework Law (Law no. 91/2001, of 20 August 2001, republished by Law no. 37/2013, of 14 June). The final version of the CFP Statutes was approved by Law no. 54/2011, of 19 October.

The CFP began its activity in February 2012, with the mission of undertaking an independent assessment of the consistency, compliance and sustainability of fiscal policy, while fostering its transparency so as to contribute to the quality of democracy and economic policy decision-making, as well as reinforcing the Republic's financial credibility.

This Report was prepared based on the information available as at 6 September2024.

A spreadsheet containing the numerical data inherent to the charts and tables in this report is available at www.cfp.pt in the publications area. The main public finance concepts used in this Report are explained in the CFP Glossary available online.

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OVERALL ASSESSMENT

Portugal has been highly successful in reducing the public debt-to-GDP ratio. From a peak of 135% in 2020, this ratio has fallen to 99.1% in 2023. As this report makes clear, the debt-to-GDP ratio is expected to continue decreasing over the next five years, provided that current policies remain unchanged. Barring any negative surprises, the public debt-to-GDP ratio is projected to decrease to 78.3% by 2028. If achieved, it will be a remarkable accomplishment.

Part of this success in reducing the public debt ratio can be attributed to the European 'Recovery and Resilience Plan' (RRP), which, despite some delays, is driving public investment in Portugal, thereby stimulating economic activity in the country. The RRP is expected to continue delivering these favourable effects until 2026, when it is set to conclude.

This means, however, that from 2027 onwards public investment in Portugal is likely to experience a significant decline. This report projects that, if current policies remain unchanged, this decline in public investment will negatively affect total investment (GFCF) in the Portuguese economy. Indeed, for 2027, GFCF is projected to decrease by 2.4%. Although some recovery is anticipated in 2028, the total investment rate is expected to return to a relatively low level. All this will have negative consequences: in the short term, it will adversely affect economic activity; in the long term, it will slow the pace of investment necessary to successfully implement the energy transition in the Portuguese economy and to address the challenges posed by climate change, demographic shifts, and the digital transition.

Thus, there is a risk that the RRP could introduce a cyclical pattern in the Portuguese economy, characterised by a period of expansion from 2024 to 2026, during which economic activity is boosted and public investment contributes to making long-term economic growth more sustainable. However, this period of expansion is set to abruptly halt in 2027, at which point a reverse dynamic will commence, leading to negative consequences for growth in both the short and long term.

This projection of a future of acceleration and deceleration assumes that current economic policies remain in place. However, these policies may not remain unchanged. Starting in 2027, there will be opportunities for policy options that could help avert this cycle of acceleration and deceleration. These options arise from the fact that the public debt-to-GDP ratio is on a sharply declining trajectory, with reductions of 3 to 4 percentage points expected per year. Assuming there are no changes in policies, the debt-to-GDP ratio is expected to reach 81.5% in 2027.

The policy option arising from this favourable development is the potential to maintain and even strengthen productive public investment with national financing (as an alternative to strict preferences for permanent current public expenditures), even if this initially requires slowing the downward trajectory of the debt ratio to increase public investment. Indeed, well-planned and well-structured public investment can also have a virtuous effect on public debt, as it contributes to long-term economic growth. This would allow the Portuguese government to significantly mitigate the acceleration and deceleration scenario described above. By doing so, the government would help sustain economic activity in both the short and long term, without jeopardising the sustainability of public debt in Portugal.

EXECUTIVE SUMMARY

Macroeconomic outlook

Based on the available information, the Portuguese economy is expected to grow around 2%, on average, until 2028. After a slowdown to 1.8% in 2024, growth is projected at 2.4% in 2025 and 2.1% in 2026. This performance will be driven by the acceleration of public investment, particularly through the implementation of the Recovery and Resilience Plan (RRP) funds. Policy measures with an impact on household disposable income will contribute to the performance of private consumption in 2025.

The end of the RRP in 2027 will have a significant negative impact on investment, particularly on its public component, and on public consumption. Therefore, the public investment rate is expected to decrease from 4.1% in 2026 to 2.9% of GDP in 2027. This reduction accounts for the decline in GDP growth from 2.1% in 2026 to 1.6% in 2027. In 2028, real GDP growth is expected to recover to approximately 2%.

Summary of CFP's macroeconomic scenario (change, %)

	2023	2024	2025	2026	2027	2028
Gross Domestic Product	**2.3**	**1.8**	**2.4**	**2.1**	**1.6**	**2.0**
Private consumption	1.6	1.8	2.5	2.1	2.1	2.0
Public consumption	1.0	1.5	2.4	1.6	0.0	1.0
Gross Fixed Capital Formation	2.6	2.0	8.7	5.0	-2.4	2.7
Exports	4.1	3.6	2.8	2.6	2.4	2.2
Imports	2.2	3.6	5.0	3.4	1.0	2.2
Unemployment rate (% labour force)	6.5	6.5	6.4	6.2	6.2	6.0
Employment	0.9	1.4	0.7	0.3	0.1	0.0
Households' gross disposable income (nominal)	7.0	10.4	3.9	3.5	3.5	3.4
Net lending (% GDP)	2.7	3.2	4.0	3.9	2.5	2.4
GDP deflator	7.1	4.7	2.7	2.5	2.0	2.0
Harmonised Index of Consumer Prices	5.3	2.7	2.2	2.1	2.0	2.0

Sources: CFP projections (2024-2028) and Statistics Portugal (2023).

A slowdown in inflation is expected over the projection horizon. In 2024, the GDP deflator will still be growing at a high rate, because of terms of trade gains that will benefit nominal GDP growth, relevant for the calculation of budget ratios. Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), is expected to slow to 2.7% in 2024 and 2.2% in 2025, stabilising at around 2% from 2027 onwards. The slowdown in price growth will be affected by the ECB's monetary policy and the easing of inflationary pressures associated with energy commodities and food.

The projected growth is also based on the resilience of the labour market, notwithstanding the demographic challenges. Despite an economic slowdown in 2024, a greater pace of job creation is projected for that year, supported, among other factors, by an increase in the labour force and the participation rate. However, demographic constraints are expected to limit employment growth in the medium term, with projections indicating zero employment growth by the end of the projection horizon. The unemployment rate is expected to decrease from 6.5% in 2024 to around 6.0% in 2028.

Fiscal outlook

Compared to the projection made in April, the CFP is revising the budget balance for 2024 upwards. A balance of 0.7% of GDP is now projected for 2024. This revision (by 0.2 p.p. of GDP) results from better-than-expected performance in tax and contribution revenues, as well as dividends, which more than offset the impact of new policy measures and the adjustments to inflation response measures and geopolitical shocks. However, compared to 2023, a reduction in the adjusted balance for one-off effects is estimated at 1 p.p. of GDP, reflecting the impact of economic policy measures approved both in the SB/2024 and those already implemented in 2024.

In the medium term, for the years 2025 to 2028, the outlook for budget surpluses (0.4% of GDP by the end of the horizon) remains, although they are expected to be smaller than projected in April due to the impact of the measures approved in the meantime.

Under no policy change, the trajectory of the budget balance is primarily determined by the increasing use of loans from the RRP until 2026, followed by their phasing out, during a period when the economic context is expected to be less favourable for the budget balance and interest expenditure will continue to raise public expenditure. The primary balance, which excludes interest expenditure, is expected to remain in surplus throughout the projection horizon, averaging over 2.5% of GDP.

In line with the projected development of the budget balance, the trajectory of the structural balance, which removes the effects of the economic cycle and one-off operations, is expected to be positive overall, suggesting compliance with the common resilience margin outlined in the European governance reform. 'Net expenditure', which will become the main operational indicator for fiscal surveillance, is projected to have an average growth rate of 4.2% between 2025 and 2028. This nominal growth rate of net expenditure under no policy change exceeds the average rate of nominal potential growth of the Portuguese economy for that period (3.6%), according to the European Commission's spring forecast. This situation limits the scope for higher expenditure increases or revenue reductions without compensatory measures, although the relevant point of comparison will shift to the expenditure trajectory approved by the Council of the European Union.

This projection does not include the impact of the announced but yet-to-be-approved changes to the new PIT Youth regime by the Government. According to the simulation exercise conducted by the CFP, there would be a downward revision of the balance by 0.3 p.p. of GDP from 2025 to 2028, implying a return to a deficit situation in 2026 (0.2% of GDP).

Summary of the CFP's fiscal scenario (% of GDP)

	2023 INE	CFP Projection 2024	2025	2026	2027	2028
Total Revenue	**43,5**	**43,3**	**43,7**	**43,5**	**42,4**	**41,8**
Tax revenue and social contributions	37,5	37,4	37,2	37,1	37,2	37,0
Tax Revenue	25,2	24,8	24,7	24,7	24,8	24,8
Social Contributions	12,3	12,5	12,5	12,4	12,4	12,3
Other revenue	6,0	5,9	6,6	6,4	5,3	4,8
Primary Expenditure	**40,2**	**40,3**	**41,1**	**41,2**	**39,7**	**39,1**
Current primary expenditure	36,3	36,8	36,5	36,2	36,0	35,7
Capital expenditure	3,9	3,6	4,6	5,0	3,6	3,4
Primary balance	**3,4**	**2,9**	**2,6**	**2,3**	**2,8**	**2,7**
Headline Budget balance	2,2	2,2	2,2	2,2	2,3	2,3
Total Expenditure	**42,3**	**42,6**	**43,3**	**43,4**	**41,9**	**41,4**
Headline Budget balance	**1,2**	**0,7**	**0,4**	**0,1**	**0,5**	**0,4**
Adjusted budget balance from one-offs	1,7	0,8	0,4	0,1	0,5	0,4
Public debt	**99,1**	**92,4**	**88,0**	**84,5**	**81,5**	**78,3**

Sources: Statistics Portugal and CFP calculations.

As for public debt, it is projected to stand at 78.3% of GDP in 2028. This is a decrease of 20.8 p.p. in GDP compared to 2023. This trajectory will be determined by primary surpluses and, to a lesser extent, by a diminishing favourable dynamic effect resulting from the lower contribution of the price effect. A sensitivity analysis altering the costs of new financing by 50 basis points in each year of this period indicates a minimal impact on the public debt ratio by the end of the projection horizon, amounting to 0.4 p.p. of GDP. This impact is contained thanks to the relatively long maturity of the public debt stock, which in July 2024 had an average residual maturity of 7.7 years.

Risks and factors not considered in the projection under no policy change

The projections presented in this report are set against an external backdrop of significant uncertainty, including relevant geopolitical tensions, associated with the fragmentation of global trade and armed conflicts, the risk of volatility in financial markets – particularly due to inflation developments and, consequently, monetary policy that differ from expectations – and, more gradually, the risks associated with climate change and the degradation of natural capital. Domestic demand, on the other hand, may surprise on the upside, in a context of a higher households' propensity to consume , coupled with high savings rates, interest rate cuts, and fiscal policy measures with a positive impact on incomes. Thus, overall, the risks are broadly balanced, both for growth and inflation.

Macroeconomic uncertainty is also the main risk to the budgetary scenario. Additionally, there are factors that may affect the CFP's projection, particularly regarding the quantification of economic policy measures. Expenditure may be underestimated with regard to staff and health, due to the lack of complete and sufficient information regarding salary agreements and the Health Emergency and Transformation Plan. On another note, major public works, such as the New Lisbon Airport, the high-speed rail line, and the Eastern Lisbon Hospital, also bring uncertainties, particularly in terms of financing and risk-sharing.

The projection does not consider additional budgetary pressures on expenditure related to social benefits, health, defence, and security, in response to climate change mitigation and adaptation, nor does it include unapproved or insufficiently specified economic policy measures.

In terms of contingent liabilities, particular emphasis is placed on requests for financial restitution in public-private partnerships and liabilities of public enterprises outside the budgetary perimeter. In contrast, factors that could benefit the budgetary trajectory relative to expectations include: a potentially higher elasticity of tax and contribution revenues, unexpected dividends, more moderate growth in social expenditure, lower execution of nationally funded public investment, and reduced interest expenditure.

1. INTRODUCTION

As part of its mission, the Portuguese Public Finance Council (CFP) prepares economic and budgetary projections, and this Report presents an update of the macroeconomic and budgetary projections for the 2024-2028 period, in a no policy change scenario.

Compared to the report published in April, the projections presented herein incorporate the most up-to-date information on public finances and the Portuguese economy compiled by the national statistics authorities. As part of this exercise, the Ministry of Finance was asked to quantify and confirm the multiannual impact of several measures proposed by the Government, for which a response could not be obtained by the report's closing date. The absence of this information is a limiting factor in this projection exercise.

The document is structured as follows: Chapter 2 highlights the macroeconomic outlook for the Portuguese economy under no policy change scenario in 2024-2028, the respective external framework, recent developments and identified risks; Chapter 3 develops the outlook for public finances in the period covered by this work, the development of the different budgetary aggregates and public debt and the main risks for the medium-term budgetary scenario. The 'Appendix - Main technical assumptions for the evolution of budgetary aggregates', published together with the current report, shows the assumptions made in the projection of this scenario.

The CFP would like to thank all the entities contacted for the support and clarifications required for the preparation of this work.

The projections presented herein were prepared based on the information available as at to 6 September 2024.

2. MACROECONOMIC OUTLOOK

Following a slowdown in the growth rate of the Portuguese economy to 1.8% in 2024, the average growth of activity is projected to exceed 2% is projected for 2025 and 2026 (see Table 1). This performance is driven by the expectation of an acceleration in public investment, boosted by a greater implementation of the funds associated with the Recovery and Resilience Plan (RRP) in 2025 and 2026, with an execution in 2024 expected to be lower than that underlying the SB/2024. The recently adopted policy measures, with a direct impact on household disposable income, will impact the growth of private consumption at the end of 2024 and in 2025. This outlook is also based on a reduction, albeit gradual, in the ECB's key policy rates, associated with the convergence of inflation towards the monetary policy target, as well as a strong dynamism in exports, in line with the expected growth in demand in key export markets. The gradual phasing out of a series of supply shocks that took place in recent years also positively influences the growth outlook. Thus, during this period, the Portuguese economy is expected to grow at a rate higher than that projected for the Euro Area.[1] However, this projection occurs in the context of persistent uncertainty around the external environment, including ongoing geopolitical tensions, military conflicts, and significant elections in major economies.

The inflation rate, as measured by the Harmonised Index of Consumer Prices (HICP), is also expected to decline to 2.7% in 2024, 2.2% in 2025 and stabilise at around 2% from 2027 onwards. This dynamic is expected to be supported by the impact of the transmission of monetary policy on the economy, as well as the fading of inflationary pressures associated with the prices of energy and food commodities.

The labour market continues to surprise with its resilience and dynamism, with increases in the labour force mitigating emerging labour shortages. However, the demographic constraints associated with the projected trajectory of the working-age population will inevitably result in slower employment growth in the medium term. Thus, following an estimated increase of 1.4% in 2024 (compared to 0.9% in 2023), a significant moderation in employment growth is projected for the following years, with zero growth anticipated in 2028.[2] The unemployment rate is expected to decrease from 6.5% in 2024 to around 6.0% in 2028. Along with continued growth in real wages, real gains in household disposable income are anticipated over the projection horizon.

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[1] According to the latest projections published in June by the ECB (*Eurosystem staff macroeconomic projections for the Euro Area*), an average annual growth of 1.3% was anticipated between 2024 and 2026.

[2] In the April projections, an employment growth of 0.3% was projected for 2024.

Table 1 - CFP macroeconomic scenario

	2023	2024	2025	2026	2027	2028
Real GDP and components (change, %)						
GDP	**2.3**	**1.8**	**2.4**	**2.1**	**1.6**	**2.0**
Private consumption	1.6	1.8	2.5	2.1	2.1	2.0
Public consumption	1.0	1.5	2.4	1.6	0.0	1.0
Investment (GFCF)	2.6	2.0	8.7	5.0	-2.4	2.7
Exports	4.1	3.6	2.8	2.6	2.4	2.2
Imports	2.2	3.6	5.0	3.4	1.0	2.2
Contributions to real GDP change (p.p.)						
Domestic demand	1.4	1.8	3.5	2.5	0.9	2.0
Net exports	0.9	0.0	-1.0	-0.4	0.6	0.0
Prices (change, %)						
GDP deflator	7.1	4.7	2.7	2.5	2.0	2.0
Private consumption deflator	5.0	2.6	2.3	2.2	2.1	2.0
Public consumption deflator	4.9	4.9	3.2	3.0	2.3	2.2
Investment (GFCF) deflator	3.1	2.3	2.2	2.0	2.0	2.0
Exports deflator	0.7	1.6	1.9	1.9	2.0	2.0
Imports deflator	-3.9	-2.2	1.6	1.8	1.9	2.0
HICP	5.3	2.7	2.2	2.1	2.0	2.0
Nominal GDP						
Change (%)	9.6	6.6	5.2	4.7	3.6	4.0
Level ('000 M€)	265.5	283.1	297.9	311.7	323.0	336.1
Households' income						
Nominal gross disposable income (change, %)	7.0	10.4	3.9	3.5	3.5	3.4
Labour market (change, %)						
Unemployment rate (% labour force)	6.5	6.5	6.4	6.2	6.2	6.0
Employment	0.9	1.4	0.7	0.3	0.1	0.0
Compensation per employee	8.4	7.3	4.5	3.8	3.7	3.4
Apparent labour productivity	1.4	0.4	1.7	1.8	1.5	1.9
External sector (% GDP)						
Net lending	2.7	3.2	4.0	3.9	2.5	2.4
Current account	1.3	2.2	1.8	1.5	1.8	1.7
Trade balance	0.9	2.5	1.7	1.4	2.0	2.0
Balance of primary income and transfers	0.5	-0.4	0.1	0.1	-0.3	-0.3
Capital account	1.3	1.0	2.2	2.4	0.8	0.7
Cyclical developments						
Potential output (change, %)	2.3	2.3	2.5	2.3	2.0	1.9
Output gap (% potential output)	1.2	0.7	0.6	0.5	0.0	0.1

Source: CFP projections (2024-2028) and Statistics Portugal (2023). | Note: Cyclical developments are estimated according to the EU Commonly Agreed Methodology, parameterised in the EUCAM program based on the European Commission's Spring 2024 forecast.

The year 2027 will be impacted by the end of the RRP. Under a no policy change scenario, this fact has a significant negative impact on public investment, as well as on public consumption. Thus, the public investment rate declines from 4.1% to 2.9% of

GDP, approaching levels last seen in 2024. This accounts for the slowdown in GDP growth, from the 2.1% projected in 2026 to 1.6%.

In 2028, the growth rate of real GDP is projected to recover to around 2%. This growth rate is supported by the sustained increases in apparent labour productivity, which are historically high, facilitated by growth in available capital per worker over the projection horizon. The improvement in the average levels of education of the population is one of the factors supporting this projection, as is the significant reduction in both public and private debt, which translates into positive effects on the capacity to finance investment. The reduction in external indebtedness mitigates this structural vulnerability for the Portuguese economy, particularly in an environment of still high interest rates.

Compared to the scenario published in the Economic and Fiscal Outlook 2024-2028 in April, , this Report revises the real GDP growth rate upward by 0.2 p.p. for 2024 and by 0.5 p.p. for 2025. These revisions result from the incorporation of the Quarterly National Accounts for the second quarter of 2024 and an improvement in the outlook for private consumption and exports, due to the incorporation of new policy measures, representing about 1% of GDP of the second half of the year, as well as the update of assumptions for the evolution of external demand (see Box 1). In the case of GFCF, the downward revision for 2024 and upward revision for 2025 are the result of updating the assumptions regarding the absorption and execution profile of EU funds, especially from the RRP. There has also been an upward revision of the projected growth of the employed population, particularly in 2024, in line with the economic indicators that have been released so far this year.

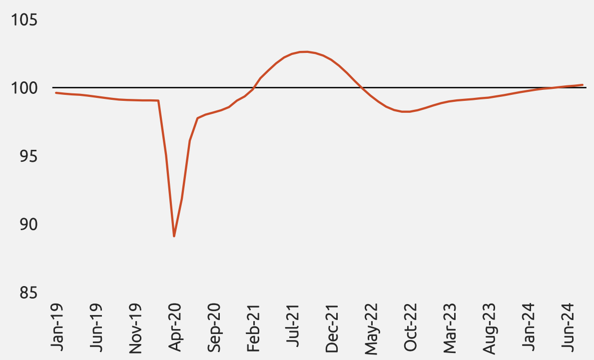
At the end of September, Statistics Portugal will release the national accounts with a new base year. Although there are regular revisions, limited to a few years, base revisions are introduced every 5 years,[3] with an impact on longer time series. The transition to the 2021 base, as well as the publication of final annual national accounts for 2022 and preliminary accounts for 2023, may result in statistically significant revisions, similar to what has been observed in the past.[4] This could lead to a significant material impact on the macroeconomic scenario presented in this report.

[3] The aim is to integrate new sources of information (e.g., Census 2021); increase the degree of consistency between financial, non-financial, and balance of payments accounts; and implement the 2022 edition of the General Government Deficit and Debt Manual. It is also an opportunity to refine methodologies and incorporate recommendations or decisions from Eurostat. For more information, please refer to 'Mudança de base de contas nacionais e balança de pagamentos em 2024: identificação das principais alterações', Conselho Superior de Estatística..

[4] Cardoso, et al. (2023).

The world economy is expected to maintain a relatively stable growth rate in 2024 and 2025. The latest macroeconomic projections released by the cut-off date of this report indicate that global economic activity is expected to grow by around 3.3% in 2024 and 2025. These projections, released in July by the International Monetary Fund, remain virtually unchanged compared to the figures anticipated by the same institution in April. Notwithstanding this stability, the annual GDP growth rate of the Euro Area and the United States is expected to accelerate in 2024, driven by strong consumption performance and anticipated easing of monetary policy.

Chart 1- Composite Leading Indicator



Source: OECD and CFP calculations. | Note: Simple average of the indicator for France, Germany, Italy, Spain, and the United Kingdom.

The projections indicate a modest increase in the growth rate of the European economy. Indeed, the most significant acceleration is expected within the Euro Area, with the GDP growth rate projected to increase from 0.5% in 2023 to 0.9% in 2024, and further to 1.5% in 2025.[5] This growth rate is roughly in line with the projections published by the European Central Bank in June, which forecast growth of 0.6% in 2023, 0.9% in 2024, and 1.4% in 2025. The acceleration in imports is stronger than that projected for activity. It is worth noting, however, that the outlook for the German economy has been revised downwards, highlighting the difficulties in the recovery of the industrial sector. In fact, it contracted by 0.1% in the 2nd quarter of this year, with the latest forecasts being revised downwards,[6] putting pressure on the growth outlook for the Euro Area as a whole for 2024 and 2025. Nevertheless, it is worth noting that the OECD Composite Leading Indicator[7] for the largest

[5] On 12 September, after the cut-off date for the external assumptions underlying the macroeconomic scenario presented in this report, the ECB published updated projections that revise euro area growth in 2024 downwards to 0.8% (-0,8 p.p. compared to June). For inflation, the projections remained unchanged at 2.5% for 2024, 2.2% in 2025, and 1.9% in 2026, with a slight upward revision (0.1 p.p.) of underlying inflation in 2024 and 2025 to be offset by more favourable developments in energy and food prices.

[6] In its autumn projections, the Kiel Institute now anticipates a slight contraction this year (-0.1%, following -0.3% in 2023; the summer forecast was +0.2%), with a recovery described as 'weak' in 2025 (0.5%, less than half the 1.1% previously anticipated). A similar perspective was released by ifo. According to both institutions, both cyclical and structural factors are at play, mainly linked to the transformation of the industrial sector.

[7] This is a time series that aggregates various indicators with a reasonably coincident relationship with the reference series (GDP), with the aim of capturing initial turning points in economic activity

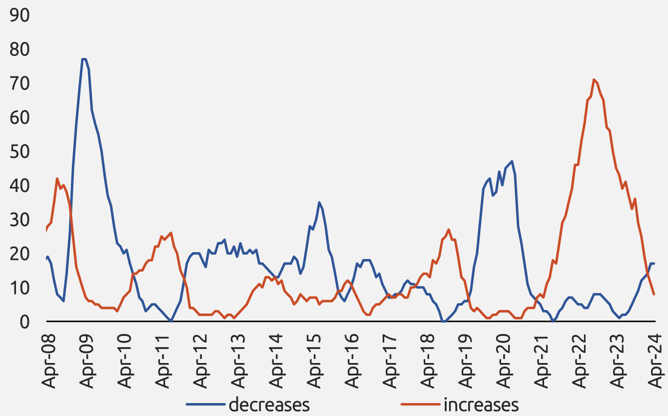
European economies (which includes Germany) continues to recover, indicating a slight acceleration of economic activity in Europe in the second half of 2024 (Chart 1).

In this context, the rate of change in external demand for Portugal is expected to recover. After an estimate of -0.8% in 2023 and 1.3% in 2024, it is expected to accelerate to 2.8% in 2025 (Table 2 and Chart 4). From that year onwards, external demand is expected to gradually moderate, reaching an annual growth rate of 2.2% by the end of the projection horizon (2028).

The latest projections for global inflation indicate that the ongoing disinflation process is set to continue. According to the IMF projections included in the *April World Economic Outlook*, the global inflation rate is expected to slow from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025. For the Euro Area, the inflation rate is projected to be 5.4% in 2023, 2.4% in 2024, and 2.1% in 2025. This projection is broadly in line with that published by the ECB in June (5.4% in 2023, 2.5% in 2024, and 2.2% in 2025). This has allowed Central Banks of the major economies to move forward, albeit at different paces and starting points, towards a process of reducing key interest rates. In fact, over the past 6 months, the number of rate cuts has already surpassed the number of increases, a situation not seen in over 3 years.

The technical assumptions underlying the projections are consistent with this scenario. The slowdown in the pace of price growth in major global economies has been driven not only by the restrictive monetary policies implemented by their respective Central Banks but also by the moderation in energy commodity prices following its peak in 2022, after the Russian Federation's invasion of Ukraine (with Brent oil reaching €98.5 per barrel and natural gas at €122.5/MWh in 2022). Based on the futures contracts for these commodities at the cut-off date of this Report, Brent oil and natural gas (per MWh) are expected to follow a downward trajectory until the end of the projection horizon (Table 2 and Chart 4), despite the risks and uncertainties related to the ongoing conflict in Ukraine and the high geopolitical tensions in the Middle East. The rate of change of export prices from key trading partners are expected to recover in 2024 and stabilise around 1.6%.

Chart 2 – Number of interest rate changes implemented in the last 6 months, G20 and other EU countries



Sources: World Bank and CFP calculations.

with a lead time of 6 to 9 months. Values above 100 and rising indicate an expansion, above 100 and falling indicate a slowdown, below 100 and rising indicate a recovery, and below 100 with decreasing values indicate a contraction. Please read the interpretation note here.

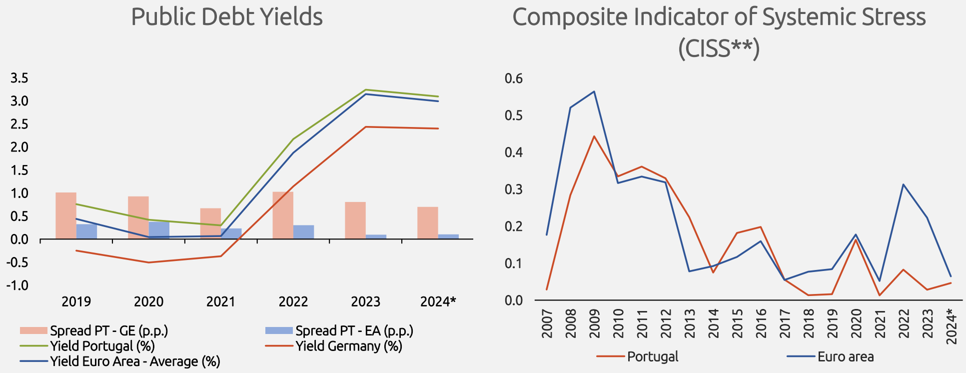
Table 2 – Technical assumptions for the external economic environment

	2023	2024	2025	2026	2027	2028
Assumptions						
Foreign demand (change, %)	-0.8	1.3	2.8	2.6	2.4	2.2
Main trading partners' export prices	0.5	1.5	1.6	1.6	1.6	1.6
Short-term interest rate (Euribor 3M, %)	3.4	3.6	2.3	2.1	2.1	2.1
EUR-USD Exchange rate	1.1	1.1	1.1	1.1	1.1	1.1
Oil prices (Brent, EUR)	77.5	76.2	68.3	65.8	64.3	63.4
Natural gas prices (€/MWh)	40.7	32.1	36.4	31.5	26.1	23.2

Sources: BdP, EC, IMF, *Investing*, ICE, and CFP estimates. | Note: The technical hypothesis for the EUR-USD exchange rate takes the average levels observed in the two weeks prior to the cut-off date of (6 September) and are kept constant throughout the projection horizon. The technical assumption for the price of oil is based on future contracts for Brent oil in USD. The 3-month Euribor rate is based on the future contracts for 2024-2028.

The 3-month Euribor rates have been experiencing a decrease since the beginning of 2024, consistent with the ongoing expectations of disinflation. After two years of less favourable financing conditions for the Euro Area economies, as a result of the ECB's response to the inflationary shock, particularly felt in 2022 and 2023, the monetary policy authority began lowering its key interest rates in June 2024, with a 25 basis point reduction (followed by a further and equal reduction in September). The technical assumption based on futures contracts traded at the cut-off date of this Report anticipate a gradual reduction in the short-term interest rate from an annual average of 3.6% in 2024 to 2.3% in 2028. It is also worth noting that the yields on public debt securities in the Euro Area have been gradually decreasing since the end of 2023. The spread of Portugal's 10-year bonds compared to the Euro Area average was close to zero in the first half of 2024, and in relation to the equivalent German Bunds, the spread recorded was the lowest since 2021 (Chart 3, left panel).

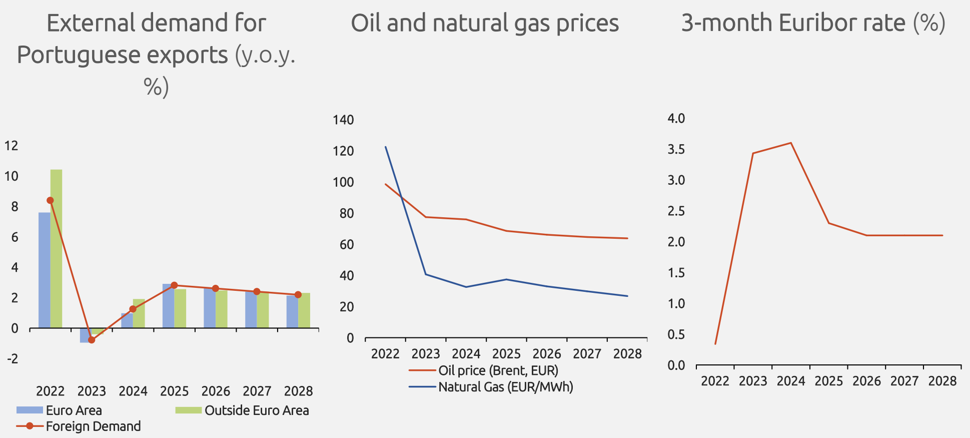
Chart 3- Implicit interest rate on Public Debt and Systemic Stress Index, Portugal



Sources: Eurostat and ECB; CFP calculations. | Notes: **Since the beginning of the year (YTD). ** Composite Indicator of Systemic Stress*

In this context, the ECB's Composite Systemic Stress Indicator shows historically low values for Portugal. This summarises various stress indicators relating to the financial intermediary sector, as well as the money, bond, equity, and foreign exchange markets, hinting at reduced volatility across the various components of the Portuguese financial system. It is worth noting that the current value of this indicator remains below that observed for the Euro Area since 2018, having persisted even during the peak of financial instability recorded in 2022, as a result of the Russian Federation's invasion of Ukraine (Chart 3, right panel).

Chart 4 - Technical assumptions



Source: EC, BoP, IMF, Eurostat, and CFP calculations.

2.1 Recent developments in the Portuguese economy and outlook for 2024

Following a strong performance in the first three months of the year, the Portuguese economy stagnated in the 2nd quarter. Economic activity grew by 0.1% quarter-on-quarter, following an expansion of 0.8% in the 1st quarter and 0.7% at the end of 2023. In year-on-year terms, GDP stabilised at a growth rate of 1.5%.

The macroeconomic scenario anticipates that the economy will be increasingly dynamic until the end of the year, projecting a real GDP growth rate of 1.8% in 2024. This represents an upward revision from the 1.6% projection presented by in April. This revision largely reflects the projected evolution of private consumption and exports in the second half of the year.[8]

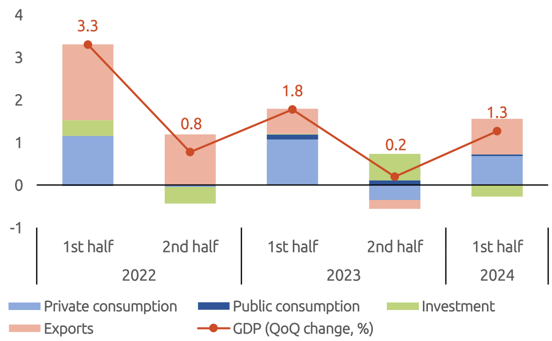
The first half of the year benefited from the performance of private consumption and exports, despite the contraction in investment (Chart 5)**.** In the first semester, consumption increased by 1.4% compared to the second half of 2023, during a period marked by a significant rise in real household disposable income.[9] This increase in disposable income was, however, largely channelled into savings, with the savings rate reaching 11.6% in the 1st quarter - a historically high figure and significantly above the 6.6% recorded in 2023. Exports increased by 3.4%, particularly driven by exports of goods, which rebounded from the decline seen in the second half of 2023, rising by 3.8% after a drop of 1%. Gross Capital Formation (GFCF) contracted in the first half of 2024by 1.9%, primarily due to the purchase of machinery and equipment.

[8] For a comparison of the projections for the Portuguese economy by other institutions, as well as their evolution, please refer to Box 1.

[9] Increase of 6.7% quarter-on-quarter in the first quarter.

Indeed, the investment rate[10] of non-financial corporations was 24.8% in the 1st quarter, a figure that compares unfavourably with the 25.4% reported in 2023. This occurred alongside a decline in profitability indicators. Investment in construction stagnated during this period (-0.1%).

Chart 5 - GDP chain rate of change in volume and net import contributions



Source: CFP calculations and Statistics Portugal - Quarterly National Accounts.

The recovery in the second half of the year is expected to be more pronounced for household consumption. The reduction in the negative impact of inflation on purchasing power, along with the momentum generated by significant policy measures, is expected to contribute to this outcome. Consumer confidence supports this outlook, having consistently recovered since the beginning of the year and currently standing at its highest level since October 2021. Investment is also expected to accelerate in the second half of the year, particularly public investment, reflecting an anticipated increase in the financial execution of the RRP. It is worth highlighting that this period will be characterised by less restrictive monetary and financial conditions, with the onset of a lowering of key interest rates - evident in the fall of average mortgage repayments - despite the ongoing lagged negative effects on economic activity.

The Portuguese economy is therefore projected to grow at a rate higher than that of the Euro Area in 2024. According to the ECB projections published in June, the Euro Area is expected to grow by 0.9%.[11] If confirmed, this would represent a growth differential of approximately 1 p.p..

From a sectoral perspective, in 2024 there has been a significant growth in services, particularly those related to trade, hospitality, and entertainment. These services, with a stronger component of personal interaction, recorded an average growth in GVA of approximately 3.0%, compared to zero growth in other services, according to the Quarterly National Accounts released by Statistics Portugal. At the same time, construction contracted in the first two quarters of the year; in industry, alongside increased volatility, GVA continues to fluctuate around levels close to those seen

[10] Gross fixed capital formation in relation to the gross value added of non-financial corporations.

[11] As already mentioned, on 12 September, after the cut-off date for the external assumptions underlying the macroeconomic scenario presented in this report, the ECB published updated projections that revise Euro Area growth in 2024 downwards to 0.8% (-0.1 p.p. compared to June).

before the pandemic, being 2.0% lower at the end of the 2nd quarter compared to the last quarter of 2019. This performance in the industrial sector is reflected across a broad range of European economies and is attributed, among other factors, to the impact of rising energy costs, as well as more moderate demand for investment and durable goods in a context of high interest rates.

The CFP's macroeconomic scenario projects an employment growth of 1.4% this year. This figure reflects an acceleration compared to 2023 (0.9%) and is primarily driven by the strong dynamism of the labour market at the beginning of 2024, particularly in the 1st quarter. The number of people employed in the 2nd quarter of 2024 was 1.3% higher than in the same period last year, equivalent to around 66,000 more people. The positive momentum in the labour market is reflected in the European Commission's employment expectations indicator, which stood in August at levels significantly above its historical average. This dynamism in employment, along with its composition, resulted in nearly zero growth in apparent labour productivity in the first half of the year. The current projection for 2024 assumes marginal growth in employment for the second half of the year. Thus, the labour force is expected to grow by 1.0% in 2024, with the unemployment rate remaining at around 6.5%.

In 2024, the Portuguese economy is expected to reach a financing capacity of 3.2% of GDP. This represents a significant improvement compared to 2023 (+0.5 p.p. of GDP), a result primarily based on a significant improvement in the external balance of goods and services to 2.5% of GDP (+1.6 p.p.), since a deterioration is expected in the external balances of primary income and transfers (-0.9 p.p. to -0.4% of GDP) and capital (-0.3 p.p. to 1.0% of GDP). The improvement in balance of goods and services are expected to be heavily influenced by the forecast of a significant increase in Portugal's terms of trade, which will account for nearly all the variation in the balance of goods and services during this period.

The GDP deflator continues to benefit from terms of trade gains. In terms of prices, data from Statistics Portugal show that the quarter-on-quarter change in the GDP deflator was 2.4% and 1.0% in the 1st and 2nd quarters, respectively (5.0% and 4.4% year-on-year). This outcome benefited from significant terms of trade gains in both the goods and services components. It is worth highlighting that the reversal of the terms of trade loss linked to the energy crisis and production chain disruptions in 2022 was complete at the end of 2023. The change in the GDP deflator is also explained by significant changes in compensation per employees (7.5% year-on-year in the first half of the year), which have not been offset by a compression of profit margins associated with gross operating surplus. The inflation rate, measured by the HICP, was influenced in the first seven months of the year by base effects related to the energy component and the reversal of zero VAT on a basket of food products. The average year-on-year change was 2.8%, down from 5.3% in 2023. Core inflation, which excludes energy and unprocessed food items, increased 2.7% (6.3% in 2023).

For the year as a whole, the pace of price growth is expected to slow down. The GDP deflator is projected to grow 4.7%, following the 7.1% recorded in 2023. This, however, represents a slower deceleration than anticipated in April, when the projection was for a 3% increase, accounting for almost the entire revision of nominal GDP. The overall deflators of the domestic demand components, except for public consumption, are expected to contribute to this moderation. The fading of inflationary pressures is also expected to result in a slowdown in the growth rate of the Harmonised Index of Consumer Prices (HICP) to 2.7% in 2024, particularly in its non-energy component.

Box 2 - Projections and forecasts for the Portuguese economy

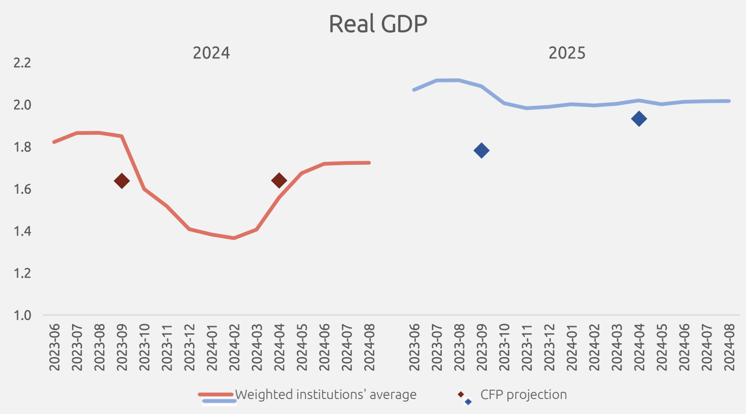
The projections for the Portuguese economy presented in this Box were published during the first half of the year. Therefore they did not benefit from the detailed information subsequently released by Statistics Portugal, regarding economic activity in the second quarter of 2024. It should also be noted that the scenarios published by the institutions were published at different points in time, based on different methodologies, assuming different technical assumptions, and incorporating different policy measures, which affects their comparability.

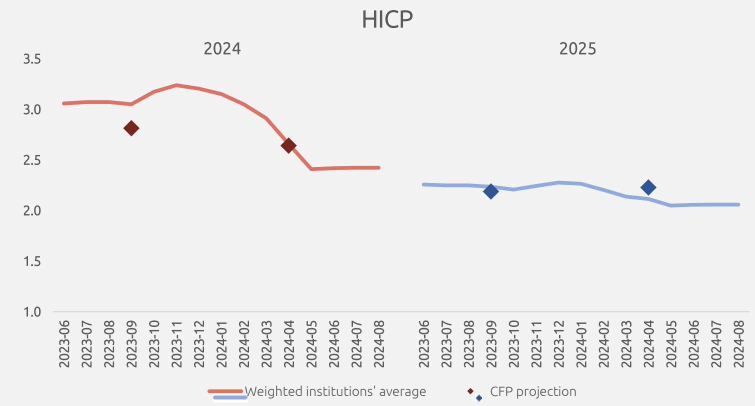
In 2024, there is a widespread expectation of a slowdown in the Portuguese economy, although the growth outlook has been revised upwards over the past year (see Chart 6 and Table3). Indeed, following a widespread downward revision of the expected growth for the current year between late 2023 and the early months of 2024, there has been an upward revision of forecasts. This coincided with a downward revision of inflation, which can be interpreted as a reversal of a negative supply shock. According to these projections, the real GDP growth rate is expected to be between 1.5% as anticipated by the Ministry of Finance (MF) and 2.0% projected by the Bank of Portugal (BoP). This outlook is influenced by a negative contribution from net external demand - attributed to a slowdown in exports - despite a greater dynamism in domestic demand, particularly through investment.

Regarding the labour market, it is estimated that the unemployment rate will stand between 6.3% as forecast by the OECD and 6.7% of the active population projected by the Ministry of Finance (MF), a figure close to the 6.5% recorded in 2023. Although there is a consensus on the continued net job creation, the projections vary regarding its magnitude: ranging from 0.2% (OECD) to 1.0% (IMF, EC, and BoP).

Regarding the outlook for inflation, the pace of price growth is expected to slow down this year, with the figures for the growth rate of HICP oscillating between the 2.2% projected by the IMF and the 2.5% estimated by the MF and BoP. The same applies to the GDP deflator, with a growth rate projected between 2.5% by the IMF and 2.9% by the Ministry of Finance (MF). Regarding the external sector, the expectation is that the net financing capacity of the Portuguese economy will remain significantly positive in 2024, with continued positive contributions from the goods and services balance.

Chart 6 - Weighted projections for real GDP and the HICP (annual rate of change, %)





Sources: Reports with macroeconomic projections between 2023 and 2024 from the following institutions: BdP, EC, CFP, IMF, MF, and OECD. | Note: The first marker indicates the CFP's projections published in the report 'Economic and Fiscal Outlook 2023-2027 (Update)' and the second marker represents the CFP projections published in the report 'Economic and Fiscal Outlook 2024-2028'. The projections are weighted according to the time elapsed between the publication date of each report and the reference month for the calculations.

For 2025, all institutions forecast greater dynamism in economic activity, with projections centred around 2.0%. This performance is primarily attributed to a significant acceleration in investment, expected to grow by at least twice the rate anticipated for GDP, in line with an expectation of increased execution rates for the funds associated with the RRP. Secondly, most institutions indicate that exports will work as a catalyst for growth, with growth rates projected between 2.0% (IMF) and 4.2% (MF). Finally, the outlook for private consumption is generally more positive than that for the previous year, in line with the improvement in household financing conditions, increases in real wages, and growth in employment, albeit at a slightly more moderate pace. Still regarding the labour market, it is expected that the unemployment rate will fall within a range of 6.2% (OECD) to 6.6% (BoP). The inflation rate is expected to continue its downward trajectory, reaching a level aligned with the ECB's monetary policy target of 2.0%. Regarding the external sector, it is anticipated that the net financing capacity of the economy will remain positive, with values ranging between 1.9% of GDP as projected by the EC and 4.4% of GDP as anticipated by the BoP. The balance of goods and services is expected to fluctuate between 0.2% (EC) and 1.8% of GDP (BoP).

Over the rest of the projection horizon, there is a consensus around a gradual slowdown in the growth rate of the Portuguese economy, converging at around 1.8%. It is worth noting that these expectations are underpinned by growth in apparent labour productivity that exceeds the average observed between 2000 and 2019 (0.9%). This anticipation is expected to be framed within a demographic outlook that will impose limitations on the growth of the labour force and, consequently, on employment.

Finally, it is worth noting that, in the case of the scenario presented by the MF, GDP growth in 2027 experiences a significant slowdown (from 2.0% to 1.5%), reflecting the conclusion of the RRP, which adversely affects public investment and consumption, an impact that is anticipated to be temporary.

Table3 - Other macroeconomic projections and forecasts for the Portuguese economy

Year	2023	2024					2025					2026			2027		2028	
Institution		MF	IMF	OECD	EC	BdP	MF	IMF	OECD	EC	BdP	MF	IMF	BdP	MF	IMF	MF	IMF
Publication date	Aug24	Apr24	Apr24	May24	May24	Jun24	Apr24	Apr24	May24	May24	Jun24	Apr24	Apr24	Jun24	Apr24	Apr24	Apr24	Apr24
Real GDP and components (change, %)																		
GDP	2.3	1.5	1.7	1.6	1.7	2.0	1.9	2.1	2.0	1.9	2.3	2.0	2.0	2.2	1.5	1.9	1.8	1.9
Private consumption	1.6	1.5	-	1.5	1.8	2.0	1.7	-	1.8	1.9	1.9	1.7	-	1.8	1.8	-	1.6	-
Public consumption	1.0	1.8	-	1.7	2.1	1.0	1.1	-	1.4	1.2	0.9	1.4	-	0.8	1.0	-	1.2	-
Investment (GFCF)	2.6	4.4	-	3.9	3.9	3.3	3.9	-	4.0	3.7	6.1	5.1	-	5.0	-0.5	-	2.8	-
Exports	4.1	3.1	2.8	3.1	2.8	4.2	4.2	2.0	3.3	2.5	3.7	3.9	2.0	3.4	3.8	2.0	3.8	1.8
Imports	2.2	4.0	3.4	4.2	4.1	4.3	4.5	2.9	3.6	3.2	4.3	4.6	2.9	3.5	3.1	2.6	3.9	2.5
Contributions to real GDP growth (p.p.)																		
Domestic demand	1.4	1.9	-	2.1	2.2	-	2.0	-	2.1	2.1	-	2.4	-	-	1.2	-	1.8	-
Net exports	0.9	-0.4	-	-0.5	-0.6	-	-0.1	-	-0.1	-0.3	-	-0.3	-	-	0.3	-	0.0	-
Prices (change, %)																		
GDP deflator	7.1	2.9	2.5	2.7	2.6	-	2.6	2.0	2.2	2.1	-	2.5	2.0	-	2.3	2.0	2.2	2.0
HICP	5.3	2.5	2.2	2.4	2.3	2.5	2.1	2.0	2.0	1.9	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP																		
Change (%)	9.6	4.5	4.3	4.4	4.4	-	4.5	4.1	4.3	4.0	-	4.5	4.0	-	3.8	4.0	4.0	3.9
Level ('000 M€)	265.5	-	277.2	277.2	277.1	-	-	288.5	289.1	288.3	-	-	300.2	-	-	312.0	-	324.3
Labour market (change, %)																		
Unemployment rate (% labour force)	6.5	6.7	6.5	6.3	6.5	6.5	6.5	6.3	6.2	6.4	6.6	6.3	6.3	6.6	6.1	6.2	5.8	6.2
Employment	0.9	0.4	1.0	0.2	1.0	1.0	0.4	0.4	0.3	0.9	0.8	0.5	-	0.8	0.4	-	0.3	-
External sector (% GDP)																		
Net lending	2.7	3.2	-	-	2.1	4.4	2.8	-	-	1.9	4.4	2.7	-	4.5	2.6	-	2.9	-
Balance of goods and services	0.9	0.4	-	0.6	0.4	2.4	0.4	-	0.4	0.2	1.8	0.2	-	2.1	0.7	-	0.7	-

Sources: 2023: Statistics Portugal. 2024-2028: MF - *Programa de Estabilidade* 2024-2028, April 2024; IMF - World Economic Outlook, April 2024; OECD - Economic Outlook No 115, May 2024; EC - Spring 2024 Economic Forecast, May 2024; BdP - Economic Bulletin, June 2024.

2.2 CFP projections for 2025-2028

The current CFP's macroeconomic scenario projects a real GDP growth rate of 2.4% in 2025, an acceleration of 0.6 p.p. compared to 2024. This dynamic reflects the expectation of a robust increase in the contribution of domestic demand, from 1.8 p.p. in 2024 to 3.5 p.p. in 2025, partially offset by a negative contribution from net exports (Table 1). The strengthening of the growth rate of domestic demand is mainly associated to the anticipation of significant accelerations in the growth rates of private consumption (+0.7 p.p.) and investment (+6.7 p.p.). In turn, the estimated reduction in the contribution of net exports reflects the combination of two effects: first, the expectation of a significant decrease in the growth rate of exports of goods and services (-0.8 p.p. to 2.8%); second, the anticipated acceleration of imports, in line with the global demand outlook.

The analysis of the contributions to real GDP growth net of imports confirms this assessment. The acceleration projected for 2025 is mainly driven by an increase in the contribution of domestic demand, particularly from investment, and, to a lesser extent, private consumption, since the contribution of exports is expected to fall (Table 4).

For the following years, the CFP scenario projects that the real GDP growth rate will decrease to 2.1% in 2026 and will decelerate even further to 1.6% in 2027. This reduction is explained by the end of the inflow of funds associated with the RRP and its execution in 2026,[12] which should translate into a contraction of the GFCF in 2027. This leads to a decline in the contribution of domestic demand to economic growth, falling from 2.5 p.p. in 2026 to 0.9 p.p. in 2027. In the medium term, the growth rate

[12] Despite assuming, in the exercise,some execution of funds associated with the RRP in 2027, albeit residual.

of the Portuguese economy is expected to converge to approximately 2%. The analysis of the contributions net of imports indicates that the GDP's growth profile is essentially determined by the dynamics of domestic demand (especially through private consumption, whose contribution is expected to converge to approximately 1 p.p.) and investment, since it is anticipated a convergence of the contribution of exports to approximately 0.6 p.p.

Table 4 - Contributions to real GDP growth net of imports (p.p.)

	2023	2024	2025	2026	2027	2028
Real GDP (change, %)	2.3	1.8	2.4	2.1	1.6	2.0
Private consumption	0.7	0.7	0.8	0.8	1.1	1.0
Public consumption	0.1	0.2	0.2	0.2	0.1	0.1
Investment	0.5	0.1	1.0	0.6	-0.3	0.3
Exports	1.0	0.8	0.4	0.5	0.7	0.6
Domestic demand	1.3	1.0	2.0	1.6	0.9	1.4

Source: CFP projections and calculations. For more details on the calculation of contributions net of imports, consult Box '*Contributions to real GDP growth net of imports*', published on the CFP's website.

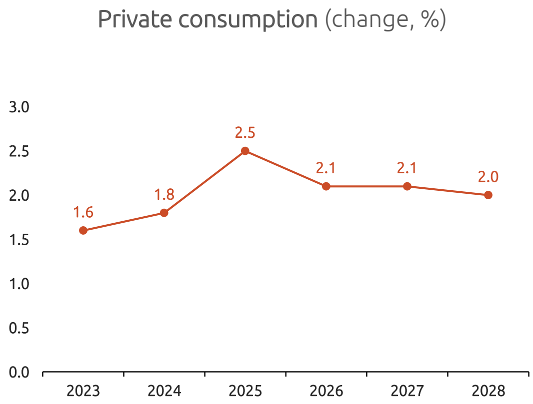
Evolution of GDP components

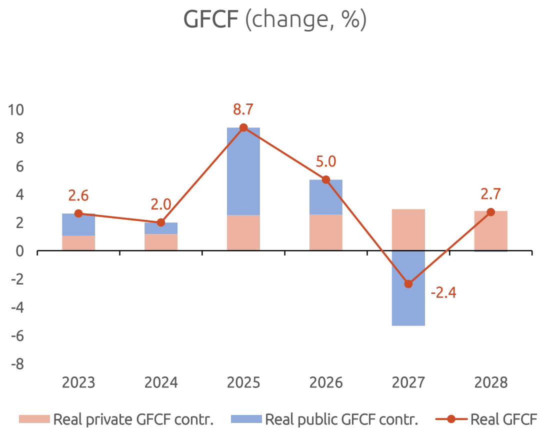
The CFP's macroeconomic scenario anticipates a strong acceleration in the private consumption growth rate in 2025 to 2.5%. This represents an increase of 0.7 p.p., compared to the estimate for 2024 (Chart 7). This consumption dynamic shall result essentially from the delayed impact of income stimulus policies that will be implemented at the end of 2024 (in particular the personal income tax (PIT) policy, through the announced reduction in withholding tax rates), focused in households with a high marginal propensity to consume. The financial situation of households also benefits from the expectation of reduced inflation, favourable prospects for the labour market, and the anticipation of a robust growth of compensations per employee, all of which contribute to a strong increase of the real disposable income. In fact, it is estimated that the savings rate will reach a high level, exceeding its historical average.[13] In 2025, consumers are expected to benefit from less restrictive financing conditions, which should result from the anticipated gradual reduction of interest rates conducted by the ECB.

In the remaining projection horizon, the growth rate of private consumption is expected to gradually converge to values around 2%, mainly reflecting the progressive slowdown in real wages per worker, and consequently, in households' disposable income. However, this is still expected to be supported by a reduction in the savings rate until the end of the projection horizon, which should nonetheless remain at levels higher than those observed in 2023.

[13] 9.2% between 2000 and 2019. In 2023, the savings rate was 6.6%.

Chart 7 - Private consumption and GFCF





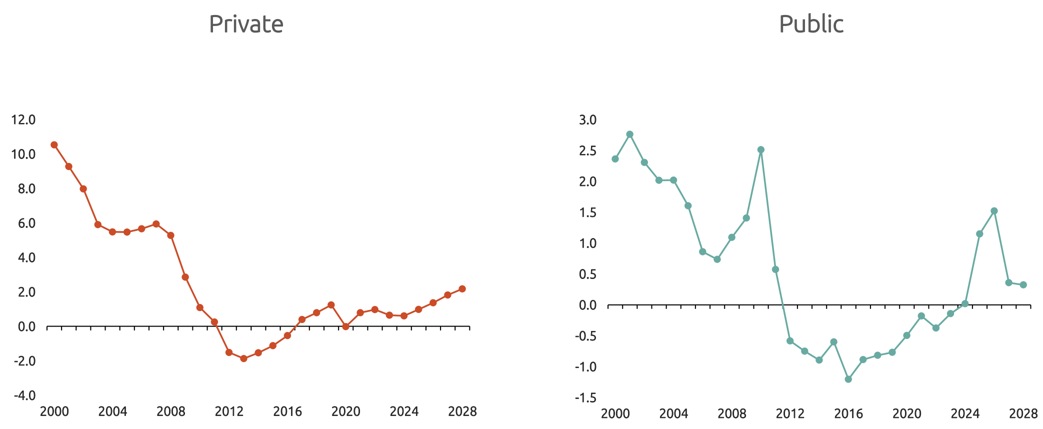
Sources: CFP and Statistics Portugal.

The growth rate of public consumption is expected to remain restrained. The scenario projects that it will accelerates to 2.4% in 2025, but that it will reach values close to 1% by 2028. This deceleration results from the projected evolution of spending on Public-Private Partnerships (PPPs), the expected dynamics of public employment, and the impact of the financial execution profile of the RRP.

A significant increase in investment is projected for 2025 and 2026 (Chart 7). For real GFCF, a growth rate of 8.7% is anticipated in 2025 and 5% in 2026, substantially higher than the forecast for economic activity.. This development primarily reflects the expectation in the pace of execution of the execution of European funds associated with the RRP, in line with the latest profile adopted following the reprogramming, which anticipates higher execution rates for the last two years of the programme. It is therefore expected that public investment will exhibit a profile of large positive annual variations. The implementation of this execution profile would result in a public investment rate of 4.1% in 2026, compared to the 2.6% expected for 2024. Regarding the private component, this performance benefits from the positive impact associated with less restrictive financing conditions for firms, as well a positive evolution in demand, both domestic and foreign .

The projected behaviour of GFCF throughout the projection horizon is conditioned by the impact of the funds associated with the RRP. The end of this programme will lead to a significant reduction in public investment, with a negative contribution to real GDP growth of 1.1 p.p. in 2027. Consequently, total GFCF is expected to contract by 2.4% that year, despite only a slight reduction in private investment. This effect is likely to be temporary, and investment growth should recover to approximately 2.7% in 2028. However, the investment rate of the economy is expected to benefit from increases in the private investment rate over the projection horizon, which is consistent with the investment needs of the economy in a context of multiple transitions and adaptations (e.g., digital, environmental). In contrast, following the expected boost from the RRP, the projection under no policy change indicates a net public investment rate, after depreciation, that is only marginally positive in 2027-28 (Chart 8).

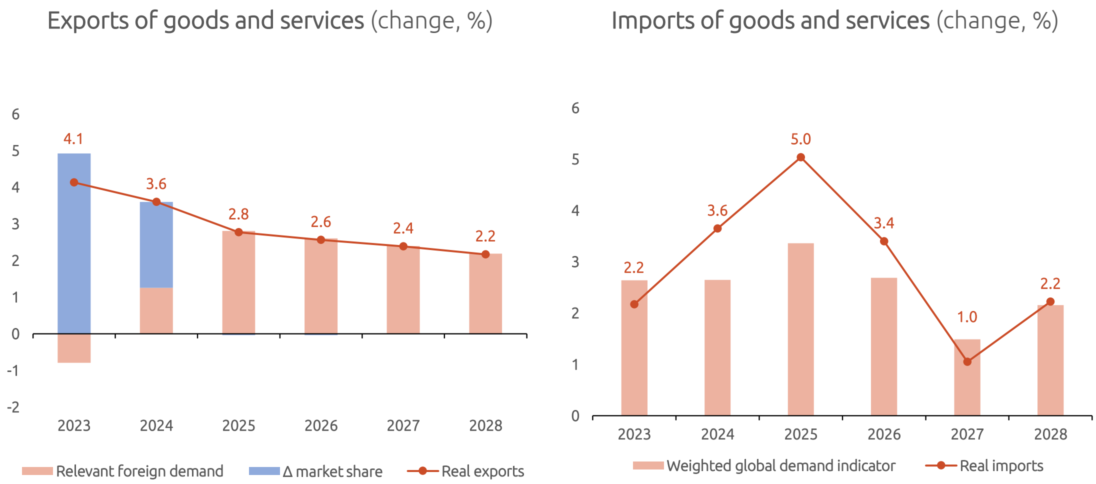
Chart 8 - Investment net of depreciation (% GDP)



Source: CFP calculations and Statistics Portugal - Quarterly National Accounts.

The growth rate of exports of goods and services in volume is expected to decrease in 2025. The scenario projects that the sales of goods and services abroad should grow 2.8%, which is 0.8 p.p. lower than the estimate for 2024 (Chart 9). This deceleration primarily reflects the intra-annual performance of exports in 2024 and its carry-over effect into 2025. Indeed, it is projected that the foreign demand directed towards the Portuguese economy will accelerate compared to 2023, reflecting expectations of a better outlook for Portugal's main trading partners.[14] In the medium term, the growth rate of exports of goods and services is expected to converge to 2.2% by 2028, in line with the projected trajectory for foreign demand, assuming stable market shares.

Chart 9 - Exports and imports



Source: CFP calculations, Statistics Portugal, and European Commission.

[14] CFP calculations are based on the spring forecasts of the European Commission for Portugal's main trading partners.

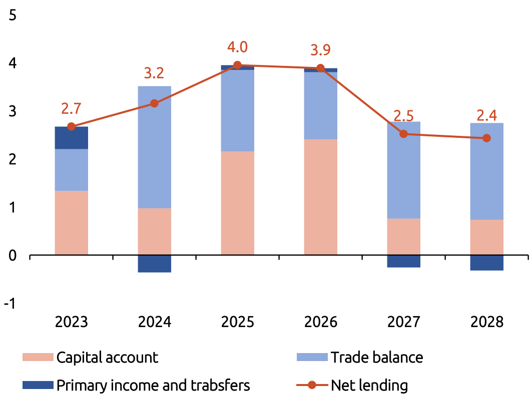
The projection for imports of goods and services is based on the projected developments in global demand. In fact, an acceleration of 1.4 p.p. to 5% is projected for 2025, with demand components that have a high imported content presenting greater dynamism. This will also benefit from a significant impact of relative prices due to lower import price variations when compared to those of domestic production (Chart 9). It is anticipated that in 2027, the growth rate of this component will fall to 1%, reaching 2.2% in the final year of the projection. As a result, it is estimated that the share of imports in global demand will continue on a slightly upward trajectory, in line with its historical trend.

External sector

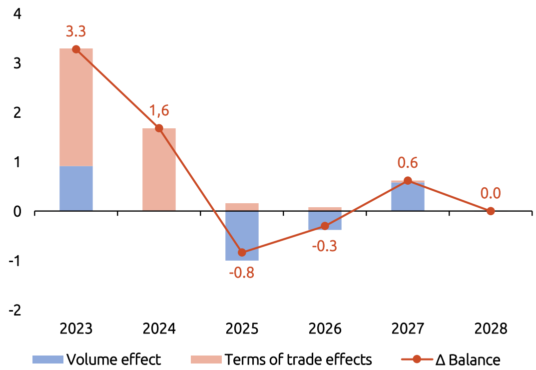
The net lending capacity of the economy is expected to increase in 2025 to around 4% of GDP. This represents an increase of 0.8 p.p. compared to 2024 (Chart 10). These figures reflect the profile of the absorption of EU funds, which is expected to accelerate significantly in 2025. As a result, a significant improvement in the capital account balance (+1.2 p.p. to 2.2% of GDP) and, to a lesser extent, in the primary income and transfers account (+0.5 p.p. to 0.1%) are expected. The acceleration in the execution of these funds is also expected to have a significant impact on imports, as already mentioned, which in the absence of significant terms-of-trade effects, will result in a deterioration of the balance of goods and services, which should remain positive (-0.8 p.p. to 1.7% of GDP in 2025).

Chart 10 - External sector

Net lending capacity (% GDP)



Balance of goods and services (change, p.p. of GDP)



Sources: CFP calculations and Statistics Portugal.

The net lending capacity is expected to gradually decrease to 2.4% of GDP by 2028, which is still an historically high value.[15] This results both from a significant reduction in the capital account balance (to 0.7% of GDP at the end of the projection horizon) as well as from a marginal decrease in the current account balance - particularly in its

[15] -7.8% between 2000 and 2011 and 1.4% of GDP between 2012 and 2019.

primary income and transfers component -, which is expected to turn negative from 2027 onwards. This stems from the end of the inflow of the RRP funds. However, even excluding transfers from the European Union, the outlook assumes the maintenance of a net lending capacity. Breaking down by institutional sector, it is worth mentioning the positive contribution from the net lending capacity by the general government. The projection of a positive external balance, averaging 3.2% of GDP between 2025 and 2028, is crucial for the ongoing reduction of the net external indebtedness of the Portuguese economy during this period.[16]

Price developments

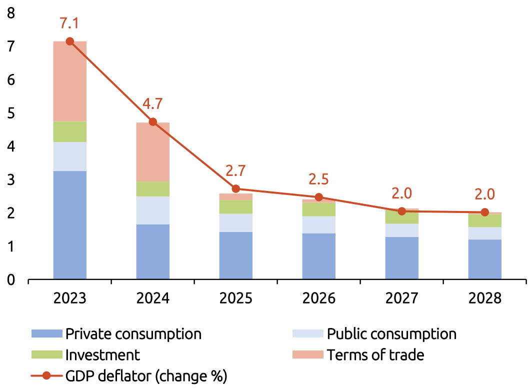
The growth rate of the GDP deflator is expected to decrease to 2.7% in 2025 and converge to around 2% in the medium term. This deceleration is driven by a lower contribution from terms of trade gains in 2025 (Chart 11). Also, from the expenditure approach, and over the same period, the deflators for most domestic demand components are also expected to converge to around 2%, in a context of anchored expectations and a reduction in pressures stemming both from internal and external sources. From the income approach, the anticipated deceleration of the GDP deflator reflects a lower contribution from labour costs and a relative stabilisation in the contribution of gross operating surplus. Similarly, the inflation rate, measured by the HICP, is expected to decrease to around 2%, in line with the ECB's price stability mandate, and reflecting a moderation of import prices for goods and services, including raw materials, as considered in the technical assumptions.

The combination of GDP volume and price effects should result in a nominal GDP growth of 5.2% in 2025. In the following years, growth is expected to keep a downward trend, stabilizing at 4% by the end of the forecast horizon.

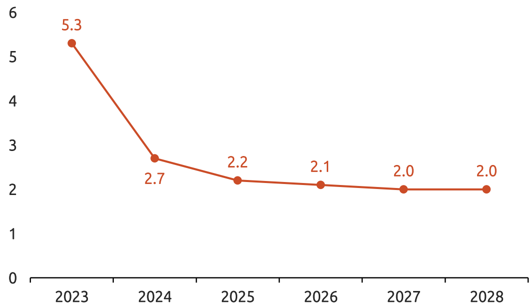
[16] Despite the progress made in recent years, the net international investment position stood at -66.1% of GDP in the 2nd quarter of 2024, still below the reference value from the European Semester Macroeconomic Imbalances Procedure (-35% of GDP).

Chart 11 - Price indicators

Contributions to the GDP deflator (p.p.)



HICP (change, %)



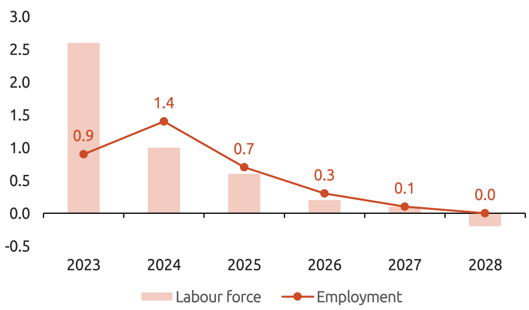
Sources: CFP calculations and Statistics Portugal.

Labour market

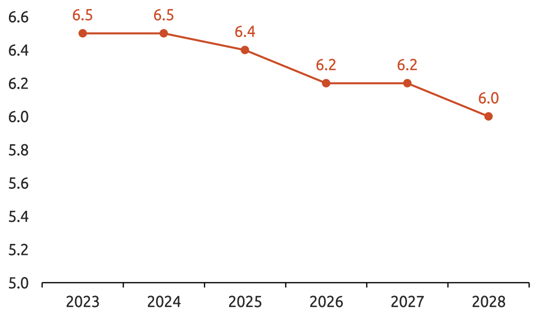
Employment growth is expected to decrease to 0.6% in 2025, and to gradually converge towards zero growth by the end of the forecast horizon. This growth profile is largely driven by demographic constraints, despite a convergence in the participation rate to around 70% from 2027 onwards (Chart 12). This compares to the 65.7% observed in 2019 and helps mitigating recruitment challenges and sustain supply. Over the same period, the unemployment rate is expected to continue on a downward trend, towards its equilibrium level, with projections converging to around 6% of the labour force by 2028.

Chart 12 - Labour market indicators

Employment and labour force (change, %)



Unemployment rate (% of labour force)



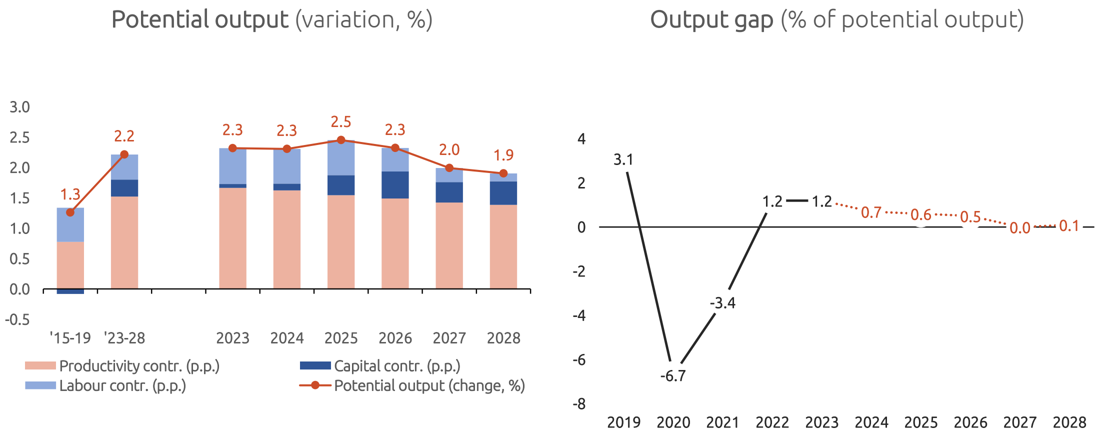
Sources: CFP and Statistics Portugal.

The growth rate of apparent labour productivity is expected to stabilise at around 2% in 2028. Following a significant recovery in 2025 to 1.7% (up from 0.4% in 2024), in line with the projected dynamics for economic activity and employment growth, productivity will benefit from an increase in capital deepening. Meanwhile, compensation per employee is expected to decelerate in line with the anticipated reduction in inflation, which will be more pronounced in 2025 (to 4.5%) and more gradual towards the end of the forecast horizon, reaching 3.4% in 2028. This dynamic is expected to lead to a convergence in the growth rate of compensation per employee towards the growth of productivity and inflation by 2027, compatible with a slight reduction in the share of remuneration in output.

Potential output and output gap

It is estimated that the potential growth of the Portuguese economy will be slightly above 2% during 2024-2026. This estimate is based on the current macroeconomic scenario and the Commonly Agreed Methodology of the EU.[17] In subsequent periods, and up to the end of the forecast horizon, the potential output growth rate is expected to decrease to 1.9% (Chart 13).

Chart 13 - Cyclical developments in the economy



Source: CFP calculations. Note: Cyclical developments are estimated according to the Commonly Agreed Methodology of the EU, parameterised in the EUCAM programme, provided by the European Commission jointly with its Spring 2024 forecasts. The contribution of productivity refers to total factor productivity (TFP).

The decrease in potential output growth should result from a lower contribution from the labour factor. This contribution is expected to decrease from 0.6 p.p. in 2024 to 0.1 p.p. in 2028, largely due to the contribution of the employment growth, which is projected to turn negative by the end of the forecast horizon. Over the same period, the contribution from capital accumulation is expected to increase to around

[17] Parameterized in the EUCAM programme, provided by the European Commission jointly with its Spring 2024 forecasts.

0.4 p.p.. If this materialises, it would represent the highest value since 2010, reflecting, among other factors, the strong dynamics of GFCF, associated with the implementation of the RRP and PT2030 funds.

The economy is therefore expected to converge to its potential output level over the forecast horizon. In the current scenario, the output gap shows a profile of gradual closure, falling from 0.7% of potential output in 2024 to a marginally positive value in 2028 (Chart 13).

2.3 Risks and uncertainty

Similar to the macroeconomic projections published in April, this exercise is conducted within a context of significant uncertainty, although the risks are regarded as broadly balanced for both growth and inflation.

On the external front, the following factors stand out:

- **Intensification of geopolitical tensions** (see Chart 14). The intensification of tensions may result in greater fragmentation of global trade, capital flows, and technological diffusion, with an impact on productivity growth.[18] These developments have the potential to trigger a sudden loss of confidence, a reduction in efficiency gains and economies of scale associated with specialisation, as well as an increase in the volatility of financial markets and commodity prices. A small open economy like Portugal's is particularly vulnerable in this context. A sensitivity analysis that seeks to quantify the impact of a materialisation of this risk is presented in Box 3.
- Confluence of multiple **armed conflicts**. These include the ongoing conflict in the Middle East, the continued invasion of Ukraine by Russia, and the marked deterioration of security conditions in certain regions of Sub-Saharan Africa. Although the impact has been moderate to date, the Middle East accounts for a significant portion of global oil production[19] and serves as a transit route for important maritime pathways, including the transport of liquefied natural gas (LNG), with the potential to introduce new disruptions in **global value chains** and to fuel the resurgence of **energy commodity prices**. Geopolitical uncertainty tends to undermine confidence and investment.
- Developments in **inflation**. A reversal or delay in the disinflation process, particularly in the US, could postpone the anticipated shift in monetary policy, leading to new episodes of stress in financial markets. The persistence of inflationary pressures in advanced economies would prolong the maintenance of **higher real interest rates**, resulting in a greater restrictiveness of financing conditions, which would adversely affect the economic activity of the Euro Area in general, and of a highly indebted

[18] At the financial level, volatility is exacerbated by the reduction in capital flows between geographies, limits on capital accumulation, and the weakening of risk-sharing (and consequent exposure to idiosyncratic risks). https://www.imf.org/en/News/Articles/2024/05/07/sp-geopolitics-impact-global-trade-and-dollar-gita-gopinath.

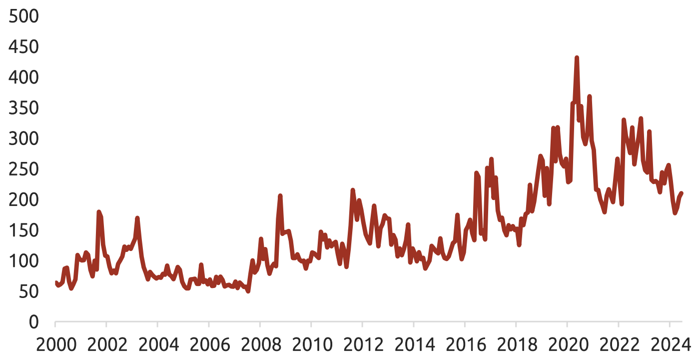
[19] According to simulations by the European Commission presented in its Winter forecast, a price increase of 30% would result in a growth loss of 0.2 p.p. of EU GDP in 2024 and 2025, along with an inflation increase of around 0.6 p.p. in both years.

country like Portugal in particular. On the other hand, a faster-than-projected reduction in inflation could lead to a faster easing of monetary policy by major Central Banks, with positive impacts on investment and economic activity.

- **China**'s economic performance. The fact that the growth rate of the Chinese economy remains below expectations, both in the short and medium term, may impact the projections for world trade.
- Risks associated with **climate change and the degradation of natural capital**. Although some of the economic costs materialise gradually, their magnitude and potential costs are underscored by the increasing frequency of adverse phenomena such as heatwaves, forest fires, droughts, and floods.

In terms of upside risks, **domestic demand** could surprise positively, especially in a context where a stabilisation of the savings rate is projected at relatively high levels compared to historical trends. The expected deceleration of inflation, real wage increases, and the anticipation of lower interest rates could boost household consumption more than anticipated. The impact of economic policy measures, particularly of a fiscal nature, may result in a higher marginal propensity to consume than assumed. Additionally, the recent increase of the working-age population - resulting from positive net migration - and increases in the participation rate may provide more favourable prospects for the potential growth of the Portuguese economy. Conversely, uncertainty regarding the approval of the State Budget for 2025 and the resulting ambiguity may lead to a postponement of investment decisions by economic agents, negatively impacting economic activity.

Chart 14 - Economic policy uncertainty index



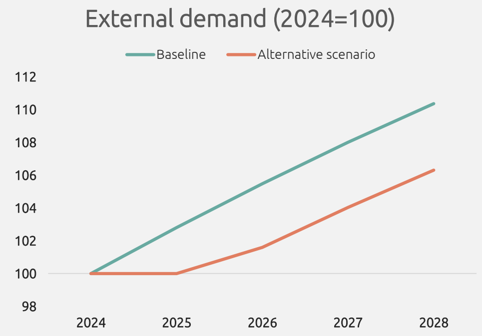
Source: Baker *et al.* (2016). Data accessible at www.policyuncertainty.com

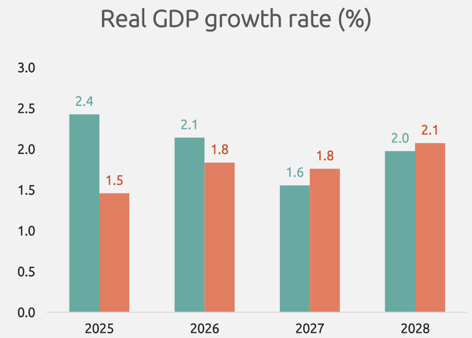
Box 3 - The sensitivity of the macroeconomic scenario to developments in external demand

The risks surrounding the short-term performance of the world economy have figured prominently in the economic analyses and projections published by major international institutions. Nonetheless, in the central scenarios published by these same institutions, there is a consensus around an acceleration in the growth of Portugal's main trading partners in 2025, with imports of goods and services from these partners - the reference variable for the evolution of Portuguese exports - expected to accelerate more sharply. It is important to consider that any forecast or projection exercise is surrounded by uncertainty: the nature of the models used, which are always a simplified representation of reality; the value of the estimated parameters; the quality of the underlying statistical information; the external assumptions made, are just a few examples. Even so, recognising and quantifying this uncertainty by drawing up alternative scenarios is an important transparency exercise.

This box presents a sensitivity analysis to a more adverse external demand, simulating the impact of a downward revision of the growth rate of external demand by 2.8 p.p. in 2025 and 1 p.p. in 2026. It is assumed that this shock results from a reduction in demand and not, for example, from supply constraints, which would additionally result in an increase in prices that would be more detrimental. The scenario is thus consistent with a stagnation of imports from main export markets in 2025 and a more modest growth of 1.6% in 2026. Taking into account the performance in the first half of this year, data for which is already available, a stagnation in demand in 2025 is consistent, on an annual average, with a slight contraction in demand in the first two quarters of 2025. In the exercise presented in this Box, the shock is assumed to be permanent. In other words, the level of external demand does not return to the baseline scenario in subsequent years, a hypothesis that would reflect a permanent loss of demand.

Chart 15- Sensitivity analysis to CFP projections





Sources: CFP calculations.

A stagnation in external demand would reduce GDP growth by approximately 1 percentage point in 2025. If external demand remains at a level similar to that recorded in 2024 - compared to the central scenario of 2.8% growth - it is estimated that real GDP would grow by around 1.5% in 2025. This would result from a significant revision in export growth - of a magnitude similar to that of external demand - but also in business investment and, to a lesser extent, private consumption. The latter would also be driven by lower employment growth and an upward revision of the unemployment rate by 0.2 p.p.. The budget balance would deteriorate by 0.2 p.p. of GDP compared to the 0.5% expected in the projection presented in this Report.

In 2026, growth is estimated at 1.8%, 0.3 p.p. lower than in the central scenario of this Report. Thus, in cumulative terms, the level of output would be 1.2% lower than projected for 2026. In subsequent years, the fading of the shock would allow the economy to recover gradually, albeit incompletely. Even so, the impact on the budget balance between 2026 and 2028 would be -0.3 p.p. of GDP, with the balance turning negative in 2026 (-0.2% of GDP) and transforming into marginal surpluses in 2027 and 2028.

3. FISCAL OUTLOOK

This chapter presents an update to the no policy change scenario for Portuguese public finances developments for the period 2024-2028. This update incorporates the revision in the macroeconomic scenario, the new economic policy measures approved or deemed sufficiently specified after the enactment of SB/2024,[20] as well as the expected impacts in 2024 and subsequent years of measures implemented in previous years, as detailed in section 3.6.

This projection should not be interpreted as a forecast. Rather, it reflects the likely developments in budgetary variables on the assumption of no changes in economic policy measures, meaning that it considers only the currently effective policy measures and those outlined under the conditions. The projection does not include new policy measures, nor measures already announced that have not been legislated and quantified in this regard, the impact of the proposed changes to the PIT Youth regime (IRS Jovem) and the announced changes to CIT by the current government are not considered. Nevertheless, considering the quantification presented by the government (in the No Policy Change Framework) of the impact of the new PIT regime, to be applied from 2025, the CFP prepared an alternative scenario where its effect on the budget balance and public debt is simulated, as presented in Box 4. Regarding the proposed changes to CIT, a similar exercise has not been carried out due to the lack of quantification or specification of the measure.

Incorporating the impact of approved policy measures as well as those that are planned and sufficiently specified, this projection provides a relevant indication of the trajectory of the main budgetary indicators over the next four years. In addition to the medium-term outlook for the trajectory of the budget balance and public debt, the growth rate of the underlying 'net expenditure' over the projection period is also put forward. The latter serves as the primary operational indicator for fiscal surveillance to assess compliance with the rules arising from the new framework for European economic governance, approved on 29 April 2024.

The statistical base used in the projection that the CFP is now updating will not be entirely comparable with the new national accounts base that will support the budget forecast in the National Medium-Term Structural Budgetary Plan (POEN_MP) to be presented by the Government next October. The projection exercise presented in this report will be the last conducted according to the 2016 national accounts base. The new national accounts base to be published simultaneously with the second notification of the excessive deficit procedure for 2024, on 23 September, will entail changes in the components of the budget aggregates for revenue and expenditure, affecting the budget balance and public debt. These changes, which will be reflected

[20] In this context, with regard to the military condition supplements planned for the Armed Forces, only the increase in the military condition supplement of € 200, which will reach € 300 at the beginning of 2026, has been considered. This supplement will increase from the current € 100 to € 300 this year with retroactive effects from 1 July to € 350 in 2025, and to € 400 in 2026. This is due to the lack of a complete specification and quantification of the other components of the measure approved in the Council of Ministers meeting on 5 September.

both in absolute terms and as a percentage of GDP, will require a revision of the quarterly and annual statistical series for the general government sector.

The technical assumptions on which the projection is based are detailed in the 'Appendix - Main technical assumptions for the evolution of budgetary aggregates', published together with the current report.

3.1 The starting point of the fiscal projection

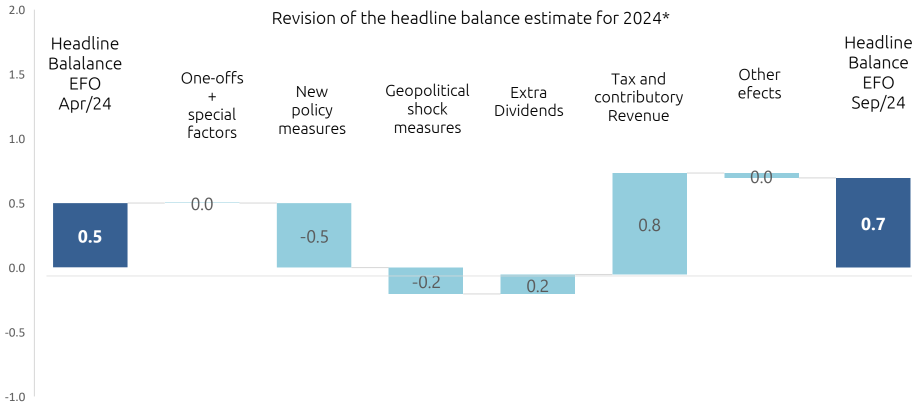
The update of the medium-term budgetary scenario is based on the CFP's own estimate for the year 2024. This estimate, which uses the 2016 national accounts base as a reference, updates the account presented in the April exercise, starting from the preliminary general government account for the 1st quarter of 2024, published by Portugal Statistics Office on 24 June. For the purposes of this year's estimate, information was also used on budgetary developments in the 2nd quarter and part of the 3rd quarter of 2024, obtained by the CFP as part of its duties to monitor budget implementation.

In the absence of new policy measures, the CFP's estimate for 2024 anticipates an upward revision of the budget balance to 0.7% of GDP, 0.2 p.p. more than projected in the April exercise. This revision points to a budget balance estimate better than anticipated in the fiscal programming documents presented in October of last year in the SB/2024 (a surplus of 0.2% of GDP) and in April in the SP/2024 (a surplus of 0.3% of GDP).

The main contribution to the revision of the budget balance estimate is primarily explained by the better performance of tax revenues and social contributions. Approximately 80% of this contribution (0.6 p.p. of GDP) is due to Tax on income and wealth, specifically revenue from corporate income tax (CIT), with the remaining 0.2 p.p. of GDP coming from social contributions. The first reflects the positive economic results generated by companies (including the financial sector), while the second reflects the resilience of the labour market, which continues to be marked by a level of employment that has sustained the growth of wages and social contributions above what was anticipated in the Government's budget programming documents Chart 16). In addition to these contributions, there were also gains from dividends (+0.2 p.p. of GDP) resulting from the extraordinary dividend distributed by Caixa Geral de Depósitos at the end of August, and the prospect of higher dividends to be obtained by the Social Security Funds, due to the strong year-on-year growth seen in the first half of the year.

It is anticipated that the combined magnitude of these factors will be more than sufficient to offset the negative impact on the budget balance resulting from new policy measures (0.5 p.p. of GDP), as well as the measures in response to inflation and the geopolitical shock (0.2 p.p. of GDP). In the first case, these are mainly measures with an impact on increasing expenditure (0.3 p.p. of GDP) and reducing revenue (0.2 p.p. of GDP), approved after the SB/2024 or soon to be implemented given their specification. On the expenditure side, the main items are the extraordinary supplement for pensioners and pay rises for the security and defence forces, as well as for teachers, the latter following the recovery of service time. On the revenue side, the main factors include the reduction of general PIT rates up to the 6th bracket, including the increase in specific deductions, the adjustment of the minimum income threshold, and the extraordinary decrease in tax withholdings in September and October to compensate for excess tax withheld since January. In the second case, the measures in response to inflation and the geopolitical shock include the reinforcement of support for Ukraine and compensation for the control of electricity tariffs.

Chart 16 - Explanatory factors for updating the budget balance estimate for 2024 (in % and p.p. of GDP)



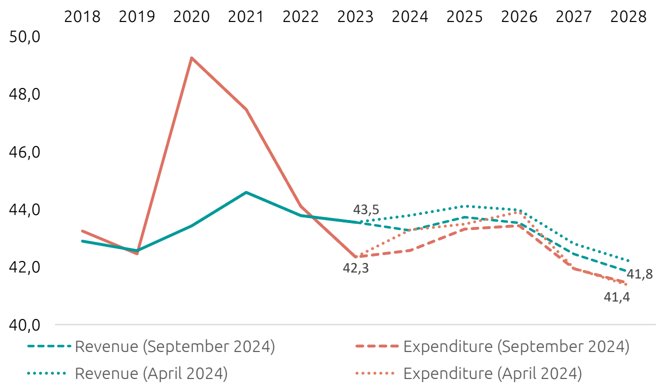
Source: Statistics Portugal, 2023 account; MF for the budgetary impact of one-off, new policy measures, and measures to mitigate the geopolitical shock. CFP calculations and annual account estimate for 2024, based on the CFP's own estimate for the annual implementation of measures to mitigate the Geopolitical Shock. | Note: (i) * contributes to the revision in p.p. of GDP; (ii) measures related to the geopolitical situation include measures in response to inflation.

Compared to 2023, the expected deterioration of the balance adjusted of one-offs is 1 p.p. of GDP in 2024. In unadjusted terms, the annual reduction in the surplus corresponds to 0.5 p.p. of GDP. However, the real point of comparison for 2023 is the amount of the budget balance which, excluding one-off factors, reached 1.7% of GDP. Thus, in 2024, the projected reduction in the adjusted balance is expected to reach 1 p.p. of GDP compared to 2023, reflecting the impact of the economic policy measures approved both in the SB/2024 and throughout 2024.

3.2 Expenditure and revenue development outlook

In the updated projection exercise, it is still anticipated a reduction in the weight of revenue as a percentage of GDP (-1.7 p.p. of GDP), as well as a decrease in expenditure (-0.9 p.p. of GDP) until 2028. Compared to the previous exercise, published in April 2024, this update includes a downward revision in the revenue projections across the entire analysis horizon. This change reflects the new policy measures impact approved after the SB/2024 was passed, with a particular effect on tax revenue, as described in subsection 3.7. Regarding public expenditure, there is a slight downward revision as a percentage of GDP, reflecting the update of the macroeconomic scenario, particularly the nominal GDP. Chart 17 and Table 5 show the projected evolution for revenue and expenditure, with Table 13, in the annex, presenting the evolution adjusted for one-off measures.

Chart 17 - Total revenue and expenditure (in % of GDP)



Source: Statistics Portugal. CFP calculations and projections.

Revenue

The weight of public revenue in GDP is expected to fall from 43.5% in 2023 to 41.8% in 2028.[21] The downward revision of the revenue estimate for 2024 is crucial for this aggregate evolution in the following years. This revision is heavily influenced by the postponement of transfers related to the RRP, primarily affecting capital revenue, as well as by new policy measures such as the reduction of PIT rates. As a result of the measures, the evolution of revenue diverges from the respective macroeconomic bases, particularly tax revenue, which is expected to stabilise at around 24.8% of GDP over the projection horizon. Despite the expected decrease in the revenue ratio for the period under analysis, in the years 2025 and 2026, a higher weight of this aggregate in GDP should be observed due to the intertemporal profile of the transfers to be received under the RRP.

The downward trend in the public revenue ratio reflects the projected reductions in current revenue (-1.3 p.p. of GDP) and, in the last two years of the horizon, in capital revenue (-0.4 p.p. of GDP). The reduction in current revenue is attributed to decreases in: (i) 'sales and other current revenues', reflecting a combined evolution of the respective macroeconomic bases that is lower than the growth rate anticipated for nominal GDP; and (ii) tax revenue, justified by the declining of direct taxes in percentage of GDP, primarily due to measures adopted within the PIT, as indirect taxes are expected to stabilise. Similarly, but to a lesser extent, social contributions are anticipated to reduce their weight in GDP between 2023 and 2028, even though their evolution is expected to be aligned with the growth rate of wages, which is projected to exceed GDP growth in the 2024-2025 period and be lower in the 2026-2028 period (Table 5).

[21] Despite the projected absolute increase in revenue, the projected trajectory for nominal GDP is higher than the change in macroeconomic bases (of social contributions, direct and indirect taxes and sales), which contributes to the reduction of their relative weight.

The behaviour of the capital revenue ratio is heavily influenced by transfers under the RRP and other transfers from the European Union (PT2030). Thus, primarily reflecting the deadline for the use of funds related to the RRP, the share of capital revenue is expected to increase until 2026 to 1.7% of GDP, before decreasing in the last two years of the projection period, reaching 0.5% of GDP by 2028 (Table 5). As in the previous report, the CFP incorporates a different amount and execution profile from the budget programming documents presented by the Government, from the SP/2024, since it is estimated that the execution of these funds in 2024 will be lower than forecast in that document. In this exercise, a global execution rate of 92.5% of the total value of the RRP was considered, encompassing the amounts related to grants and loans.

Table 5 - CFP's fiscal scenario (in % of GDP)

	INE	CFP Projection				
	2023	2024	2025	2026	2027	2028
Total Revenue	**43,5**	**43,3**	**43,7**	**43,5**	**42,4**	**41,8**
Current revenue	42,6	42,5	42,1	41,9	41,7	41,3
Tax Revenue	25,2	24,8	24,7	24,7	24,8	24,8
Indirect taxes	14,5	14,5	14,4	14,4	14,5	14,4
Direct taxes	10,7	10,3	10,3	10,3	10,3	10,3
Social Contributions	12,3	12,5	12,5	12,4	12,4	12,3
Sales and other current revenue	5,1	5,1	4,9	4,7	4,5	4,3
Capital Revenue	0,9	0,8	1,7	1,7	0,7	0,5
Primary Expenditure	**40,2**	**40,3**	**41,1**	**41,2**	**39,7**	**39,1**
Current primary expenditure	36,3	36,8	36,5	36,2	36,0	35,7
Intermediate consumption	5,3	5,3	5,4	5,4	5,3	5,2
Compensation of employees	10,5	10,4	10,4	10,3	10,3	10,2
Social Benefits	17,5	17,8	17,5	17,4	17,4	17,4
Subsidies and other current expenditure	3,1	3,3	3,2	3,1	3,1	3,0
Capital expenditure	3,9	3,6	4,6	5,0	3,6	3,4
Primary balance	**3,4**	**2,9**	**2,6**	**2,3**	**2,8**	**2,7**
Headline Budget balance	2,2	2,2	2,2	2,2	2,3	2,3
Total Expenditure	**42,3**	**42,6**	**43,3**	**43,4**	**41,9**	**41,4**
Headline Budget balance	**1,2**	**0,7**	**0,4**	**0,1**	**0,5**	**0,4**
Budget balance excluding RRP loans	1,2	0,8	0,7	0,9	0,6	0,4
Adjusted budget balance from one-offs	1,7	0,8	0,4	0,1	0,5	0,4
Public debt	**99,1**	**92,4**	**88,0**	**84,5**	**81,5**	**78,3**

Sources: Statistics Portugal and CFP. | Note: the figures are influenced by the effect of one-off measures, with an impact on the 2023-2024 period, as detailed in Table 12 in the annex. Table 13, in the annex, presents this scenario adjusted for one-off measures. Due to rounding, the totals do not necessarily correspond to the sum of the figures.

Expenditure

The downward trajectory of public expenditure results from the combined effect of the new policy measures already approved, whose impact is particularly relevant in 2024 and 2025, the phasing out of measures adopted in previous years, and the macroeconomic framework update. Thus, a decrease in the weight of public expenditure in GDP is expected, from 42.3% in 2023 to 41.4% of GDP in 2028. This reduction of 0.9 p.p. of GDP is related to changes in primary current expenditure (-0.6 p.p. of GDP) and capital expenditure (-0.5 p.p.), as a slight increase in interest expenditure (0.1 p.p. of GDP) is expected. Despite the projected decline in expenditure until 2028, it is worth noting that in the years 2025 and 2026, this aggregate is expected to increase its ratio to GDP, justified by the annual profile of the RRP.

The projected trajectory for the ratio of primary current expenditure results from the reduction of all the components that comprise it between 2024 and 2028. The weight of intermediate consumption expenditure in GDP should fall slightly from 5.3% in 2023 to 5.2% of GDP in 2028. its behaviour results from the macroeconomic outlook, as well as the effects of: (i) the elimination of measures adopted in previous years with an impact only in 2024; (ii) the allocation of a portion of the funds from the RRP to intermediate consumption expenditure; and (iii) the reduction of costs associated with PPPs. A similar magnitude of reduction is expected in the weight of 'subsidies and other current expenditures' (-0.1 p.p. of GDP), influenced by the execution RRP profile and the phasing out of measures adopted in previous years to mitigate the geopolitical shock and inflation (Table 5).

The ratio of personnel expenditure as a percentage of GDP is expected to decrease by 0.3 p.p. of GDP between 2024 and 2028. This expenditure projection incorporates salary updates, changes to the progression system[22] and other remuneration variations (price effect), combined with an increase in public employment (volume effect). Additionally, it also incorporates the effect of the measures recently adopted related to the restoration of service time for teachers and the increase in the fixed component of the Military Condition supplement, as well as the update of the service and risk supplement fixed component received both by the National Republican Guard military personnel and the Public Security Police personnel, as detailed in the Appendix.

The projection for expenditure on social benefits anticipates a marginal decrease in percentage of GDP. It is projected that between 2023 and 2028, its weight will decrease by 0.1 p.p. of GDP. This development is due to the expected decrease in social benefits in cash (-0.1 p.p. of GDP), as the weight of in-kind benefits is projected to remain stable as a percentage of GDP. It is worth noting that the starting point for this exercise, the year 2024, is influenced by the effect of policy measures to support families, which result in a permanent increase in this expenditure, as well as the

[22] Resulting from the application of the new Integrated System of Management and Performance Assessment in Public Administration (SIADAP).

measure regarding the extraordinary supplement for pensioners to be paid in October, amounting to 422 M€, which has a one-off impact.

The trajectory of capital expenditure is strongly influenced by the RRP's investment profile. This profile underpins the upward trajectory of capital expenditure as a percentage of GDP until 2026, when it is expected to reach 5% of GDP, decreasing to 3.6% of GDP in 2027 and to 3.4% in 2028. The projection of capital expenditure includes amounts related to expenditure financed by grants (without impact on the budget balance)[23] and by loans (with a negative impact on the budget balance), as well as the investments planned under PT2030. For 2027 and 2028, the investment profile ensured by national funding implicit in SP/2024 was considered, justifying the change in the projection at the end of the horizon when compared to the report published in April. It also refers to the effect of one-off measures amounting to 0.1% of GDP in 2024.

Conversely, interest expenditure are expected to see a slight increase in their weight in GDP, rising from 2.2% in 2024 to 2.3% in 2028. In the last two years of the projection, this expenditure is expected to reach its highest weight, reflecting the current context of higher interest rates, resulting in an increase in financing costs, mitigated by the reduction in the debt ratio and its relatively long maturity (see section 3.5).

3.3 Budget balance, primary balance and structural balance

Budget and primary balance

In the absence of new policy measures, the medium-term fiscal outlook points to continued budget surpluses until 2028, albeit lower than in 2023. The implementation of the RRP, which from 2024 will require a greater reliance on loans to carry out projects, will be one of the key factors contributing to the reduction of the balance during a period when grants from the European Union will be lower and will reflect the impact of the approved permanent measures. To a lesser extent, the economic conjuncture will also contribute to diminishing the budget balance (as evidenced by the reduction in the cyclical component of the budget balance), alongside interest expenditure, which will continue to increase public expenditure.

For 2025, the budget balance has been revised downwards to 0.4% of GDP. The impact of the new policy measures associated with revenue reduction and increased expenditure, as well as the effects of pension updates, salary increases and progressions, alongside the greater volume of expenditure financed by RRP loans will be decisive for this reduction in the projected surplus, despite the upward revision of economic growth.

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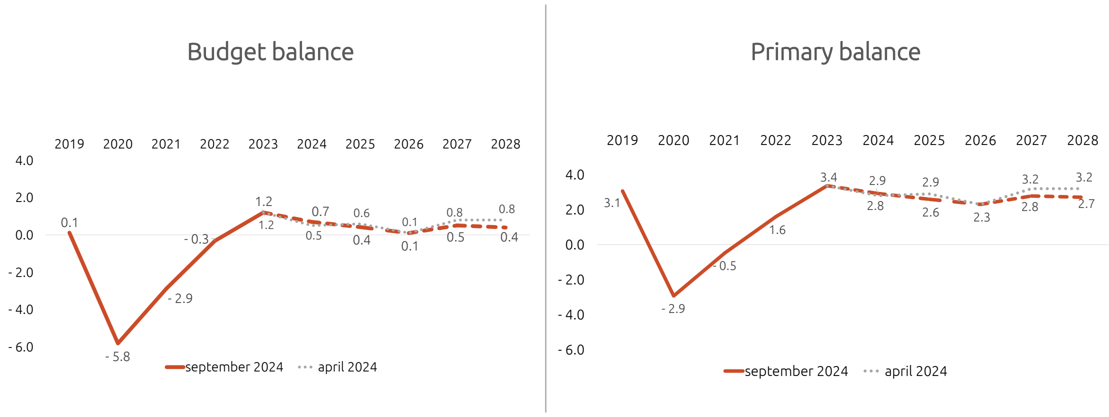
[23] The null impact is due to the application of subsidies to capital expenditure (GFCF and other capital expenditure) corresponding exactly to the amount considered in capital revenue. This equality results from the application of the principle of neutrality of Community Funds, which aims to ensure that transfers from the European Union cannot benefit or penalize the budget balance. This principle does not apply when loans from the European Union are involved, as they are not recorded as public revenue in national accounts.

In 2026, the more substantial use of RRP loans will reduce the budget balance to 0.1% of GDP. The magnitude of this RRP funding will be the main determinant in reducing the budget balance. Without the impact of expenditure financed by these loans, the budget balance would be 0.9% of GDP.

A recovery in the budget surplus is expected for 2027 and 2028. The phasing out of the impact of RRP loans on the financing of projects under that plan will lead to a mechanical improvement in the budget balance. Thus, a budget surplus improvement is projected for 2027, reaching 0.5% of GDP, which will stabilise at 0.4% of GDP in the following year. This represents a downward revision compared to the April exercise, reflecting the assumption of growth in investment supported by national financing in line with the projections in the SP/2024, as previously mentioned in section 3.2 regarding the analysis of the capital expenditure trajectory.

Chart 18 - General government budget balance and primary balance (in % of GDP)



Source: Statistics Portugal. CFP calculations and projections. | Note: The figures for the budget balance and primary balance for the 2019-2024 period are influenced by the effect of one-off measures, as detailed in Table 12 in the annex.

The primary balance, which excludes interest expenditure, is expected to remain in surplus throughout the projection horizon. It is projected that between 2024 and 2028, this indicator will average more than 2.5% of GDP, evolving from 2.9% to 2.7% of GDP, below, however, the result achieved in 2023 (3.4% of GDP or 3.8% if adjusted for one-offs). However, it is anticipated that the primary balance will fall by more than 0.2 p.p. of GDP in 2025 and 2026 since the implementation of the RRP in those years, as already mentioned, will require a reliance on loans that significantly exceeds the transfers from the European Union.[24]

[24] RRP expenditure financed by loans under that plan, except for that for company capitalisation and financial resilience, deteriorates the budget balance and increases public debt. In contrast, expenditure financed by RRP grants has no impact on the budget balance, nor on public debt, because it is financed by EU transfers (recorded under 'other current revenue' or capital revenue), as explained in footnote 23.

Structural balance

In line with the projected evolution of the budget balance, the trajectory of the structural balance points to an overall positive position. The structural balance aims to remove the effect of the economic cycle and is calculated based on the European methodology for the cyclical component of the budget balance and adjusted for the impact of one-off measures. The projection indicates a structural balance lower than that of 2023 throughout the entire projection horizon. There is also a decline in the structural balance in the final years of the projection compared to 2024, except for 2027. Excluding the impact of RRP loans, the structural balance would always be positive, ranging between 0.3% and 0.7% of potential GDP.

Table 6 - Projected developments of the structural balance between 2023 and 2028 (% of GDP)

	2023	2024	2025	2026	2027	2028
1. Headline Budget Balance	1.2	0.7	0.4	0.1	0.5	0.4
1b. Temporary and non-recurrent measures	-0.5	-0.1	0.0	0.0	0.0	0.0
1b. Cyclical component	0.7	0.4	0.3	0.2	0.0	0.1
2. Structural Balance [(1) - (1a) - (1b)]	**1.0**	**0.4**	**0.1**	**-0.1**	**0.5**	**0.3**
3. Change of Structural Balance	1.8	-0.5	-0.3	-0.2	0.6	-0.1
Memo						
	1.0	0.5	0.4	0.7	0.6	0.3
4. Structural balance of SP/2024	1.1	0.1	0.1	-0.1	0.6	0.4

Source: CFP and MF projections and calculations. | Note: Structural balance as a percentage of potential GDP. Cyclical developments are estimated according to the common methodology agreed upon in the EU, parameterised in the EUCAM programme, provided by the European Commission jointly with its spring 2024 forecasts.

The projection for the structural balance indicates compliance with the common resilience margin outlined in the European governance reform. According to this projection, the structural difference compared to the reference value of the deficit of 3% of GDP exceeds the common resilience margin of 1.5% of GDP. This margin is a safeguard for the resilience of the deficit, [25], allowing for a response to normal cyclical fluctuations without incurring in an excessive deficit situation and supporting the consolidation of the trajectory for reducing the public debt ratio. This safeguard replaces the previous convergence path towards the medium-term fiscal objective and the minimum reference value.

3.4 Net expenditure

The new framework for European governance reform introduces 'net expenditure' as the primary operational indicator on which fiscal surveillance will be based. This is an indicator that aims to capture the evolution of expenditure and revenue that is not explained by economic developments and, therefore, is under the control of the decision-maker. It is intended to be an indicator unaffected by the operation of

[25] Member States that have not yet secured this margin will need to make a fiscal adjustment until they reach this objective, corresponding to an annual improvement in the structural primary balance of 0.4% of GDP (0.25% in the case of an extension of the adjustment period).

automatic stabilisers (resulting from the economic cycle) or by other fluctuations in expenditures beyond the direct control of the State.

Net expenditure, in addition to excluding, among other items, interest expenditure, considers discretionary decisions on the revenue side.[26] Thus, the option for Member States to exceed a certain limit on expenditure growth is only possible if that additional expenditure is financed by new measures on the revenue side, particularly fiscal measures. This approach does not seek to limit the level of public expenditure but rather to ensure that the choices made by policymakers regarding its magnitude are accompanied by discretionary policy measures on the revenue side, rather than relying on gains that arise from economic conditions.

Under the no policy change scenario, the average growth rate of net expenditure between 2025 and 2028 is estimated at 4.2%. This average growth shows a marked downward profile over the horizon, with significantly higher increases in the nearest years. In this calculation, which does not incorporate the deduction of national co-financing due to lack of information, it is projected that the growth rate of 'net expenditure' will be 6% in 2025 and will decrease to 3.4% in 2028 (Chart 19).[27] The primary current expenditure accounts for the largest contribution to the growth of this indicator, which already takes into account the new policy measures that have been approved or specified, except for the measure related to the new PIT Youthregime, which is addressed in an alternative scenario (Box 4). The comparison between this trajectory for net expenditure under no policy change and the one that will be approved by the EU Council based on the medium-term national structural budget plan (POEN_MP) to be presented by the Government in October will provide an indication of the type of action - expansionary or contractionary - that may be either possible or necessary. It is worth noting, however, that the average nominal growth rate of net expenditure projected herein (4.2%) between 2025 and 2028 is above the average nominal potential growth rate for the economy during that period (3.6%), according to the European Commission's spring forecast. This inference limits the scope for increases in expenditure or reductions in revenue beyond certain levels without compensatory measures, although the relevant point of comparison will be with the trajectory that is ultimately approved.

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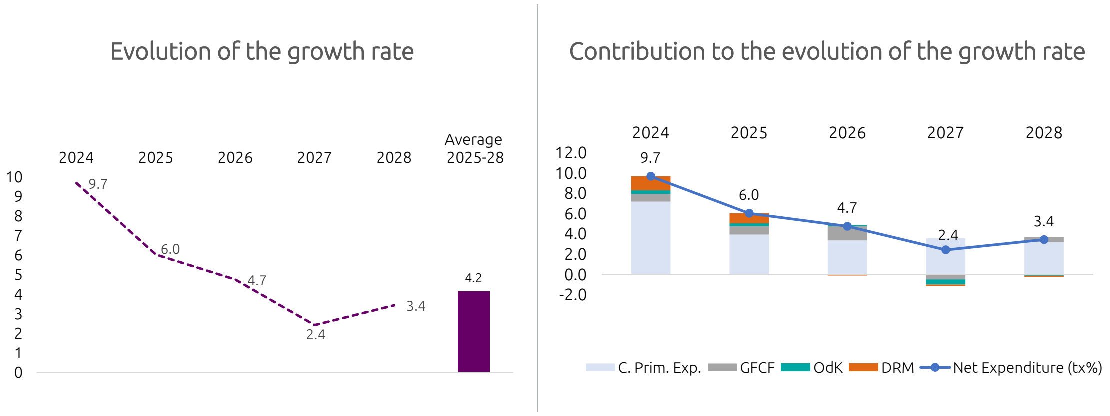
[26] This is defined as public expenditure net of interest expenditure, discretionary revenue measures (e.g., discretionary tax increases and reductions), expenditure related to Union programmes fully covered by revenue from Union funds, national expenditure related to co-financing Union-funded programmes, cyclical elements of expenditure related to unemployment benefits, and one-off and other temporary measures.

[27] The deduction of the national co-financing amount may lead to a reduction in these rates of variation.

Chart 19 - Net expenditure 2024-2028
(in % and p.p.)



Source: CFP projections and calculations. | Note: (i) C. Prim. Exp. - primary current expenditure;(ii) Odk - other capital expenditure; and (iii) MDR, means discretionary revenue measures. A positive contribution from the latter reflects revenue reduction measures, which are primarily fiscal in nature, increasing net expenditure and consequently its growth rate.

Box 4 - The impact of the new PIT Youth regime on the public balance and debt projection

The purpose of this box is to simulate the impact of the proposed change to the 'PIT Youth regime on the public balance and debt. To be implemented starting in 2025, this is a measure announced and quantified by the government at €1 billion, but not yet approved. The purpose of this exercise is to formulate an alternative projection of the budget balance and public debt for the years 2025 to 2028, differing from the central projection under no policy change presented in this report.

The impact of a policy measure on economic activity depends on the associated multiplier. This multiplier is not constant - neither over time nor across the policy instrument used.[28] As this is an estimate and not an observed value, the size of the multiplier effect is surrounded by uncertainty, namely due to the difficulty in isolating the direct impact of the measures on GDP[29], and there is extensive academic research on the subject, although not always consensual.[30] In this exercise, an approach was employed that allows for the incorporation of both structural characteristics of the Portuguese economy - such as the degree of openness, labour market rigidity, the size of automatic stabilisers, and the public debt ratio - and cyclical or temporary determinants, such as the position in the economic cycle and the orientation of fiscal and monetary policy.[31] All of these factors also influence the persistence

[28] The multiplier effect is typically different, and greater, when it comes to changes in public spending, such as increases in public investment or personnel expenditure, compared to changes in taxes on individuals or corporations. The nature of the investment made or the socioeconomic characteristics of the group benefiting from tax policy changes is also not indifferent; it matters whether the measure is temporary or permanent.

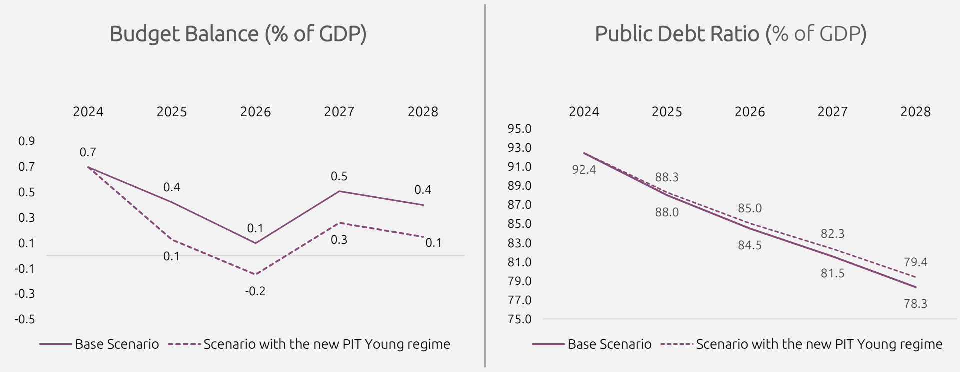
[29] Due to issues of circularity and causality. Other issues include the availability of adequate information.

[30] For a recent revision, please refer to Valerie A. Ramey (2019). 'Ten Years After the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research?'. Journal of Economic Perspectives.

[31] Batini, N., Eyraud, L. and Anke Weber (2014). 'A simple method to compute fiscal multipliers'. IMF Working Paper 14/93, Fiscal Affairs Department.

of the multiplier effect - i.e. the duration over time of the effects of a given measure on economic activity. As a result, a multiplier of around 0.8 was used. This figure is consistent with that used by the European Commission in its scenario regarding the evolution of public debt.[32]

Chart 20 - Impact of the new PIT Youth regime on the fiscal projection



CFP projections and calculations.

The simulation indicates a significant reduction in the projected surplus for 2025 and the risk of returning to a situation of budget deficit in 2026. Based on this simulation, the results indicate a deterioration of the budget balance by 0.3 p.p. of GDP compared to that projected in the no policy change scenario, reaching a deficit of 0.2% of GDP in 2026 and a balance at the end of the horizon (2028) of 0.1% of GDP, contrasting with the respective figures of 0.1% and 0.4% of GDP, shown in the projection under no policy change. In terms of public debt, the impact would result in a ratio of 79.3% of GDP, an increase of 1 percentage point of GDP compared to the figure presented in the projection.

A discretionary measure of this magnitude will have a significant impact on the new European Governance framework. Regarding net expenditure, in the absence of measures to offset the revenue loss generated by the new PIT Youth regime, the growth rate of this indicator would rise to 7% in 2025. This would result in an increase in the average growth rate of net expenditure from 4.2% to 4.4% over the 2025-2028 period.

3.5 Public debt development outlook

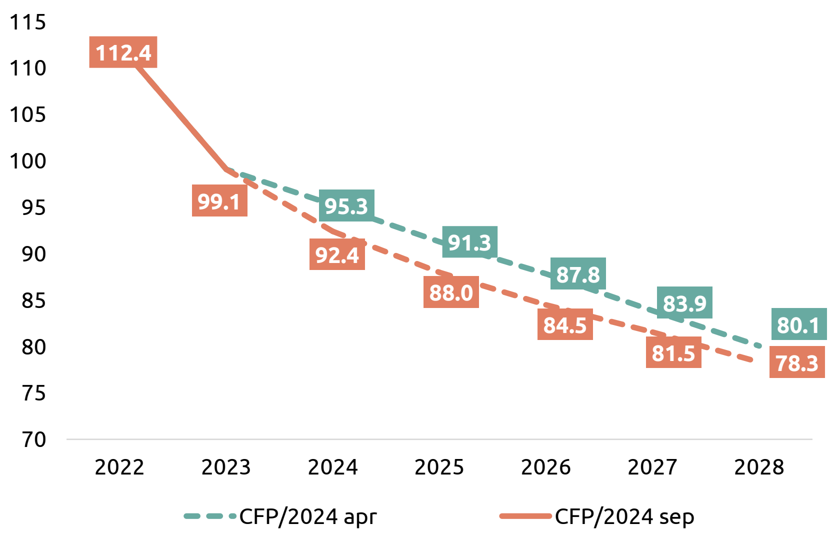
Maastricht debt development outlook

The CFP's projection for public debt indicates that it is expected to be 78.3% of GDP by 2028. This represents a decrease of 20.8 p.p. of GDP compared to 2023, with an

[32] The European Commission uses a figure of 0.75 - i.e., a fiscal consolidation measured by a change in the primary structural balance of 1 p.p. of GDP reduces GDP growth by 0.75 p.p. See 'Debt Sustainability Monitor 2023'. Institutional Paper 271, European Commission.

average annual reduction rate of 4.2 p.p. of GDP. In April, it was anticipated that the public debt ratio would stand at 80.1% in 2028. This difference is largely due to a higher projection in the current exercise for GDP growth over the accumulated five years (Chart 21).

Chart 21 - Public debt developments (% of GDP)



Sources: MF, Statistics Portugal and BdP. CFP calculations and projections.

The primary balance surplus is the main determinant of the decrease in the debt ratio. Specifically, the variation in debt over the next five years (-20.8 p.p. of GDP) can be explained by the significant contribution of primary balances (by 13.3 p.p. of GDP, accumulated) (Table 7). The dynamic effect - resulting from the difference between the nominal GDP growth rate and the implicit debt interest rate - explains the remaining decrease in the ratio (by 9.6 p.p. of GDP, accumulated), albeit decreasing over time. The lower, although positive, contribution of the price effect throughout the projection period results in a less significant growth effect, decreasing until 2027 and rising slightly in the final year due to the greater impact of real growth. Nonetheless, the growth effect (20.8 p.p. of GDP, accumulated) more than offsets the adverse impact of the interest effect (11.2 p.p. of GDP, accumulated). The deficit-debt adjustment is expected to have an adverse impact on the debt ratio (2.1 p.p. of GDP, accumulated).

Table 7 - Contributions to Maastricht debt developments (% of GDP)

	2023	CFP Projection 2024	2025	2026	2027	2028	Change 2023/2028
Public debt (% of GDP)	**99.1**	**92.4**	**88.0**	**84.5**	**81.5**	**78.3**	**-20.8**
Change in debt (in p.p. of GDP)	**-13.3**	**-6.7**	**-4.4**	**-3.5**	**-2.9**	**-3.2**	**-20.8**
Primary balance	-3.4	-2.9	-2.6	-2.3	-2.8	-2.7	-13.3
Dynamic effect (snow ball effect)	-7.6	-3.9	-2.4	-1.7	-0.7	-0.8	-9.6
- interest effect	2.2	2.2	2.2	2.2	2.3	2.3	11.2
- growth effect	-9.8	-6.2	-4.6	-3.9	-3.0	-3.2	-20.8
price effect	-7.3	-4.4	-2.4	-2.1	-1.7	-1.6	-12.1
real growth effect	-2.5	-1.8	-2.2	-1.8	-1.3	-1.6	-8.7
Stock-flow adjustment	-2.3	0.2	0.6	0.5	0.5	0.3	2.1
memo item:							
Implicit interest rate (%)	*2.1*	*2.4*	*2.5*	*2.6*	*2.8*	*2.9*	0.8

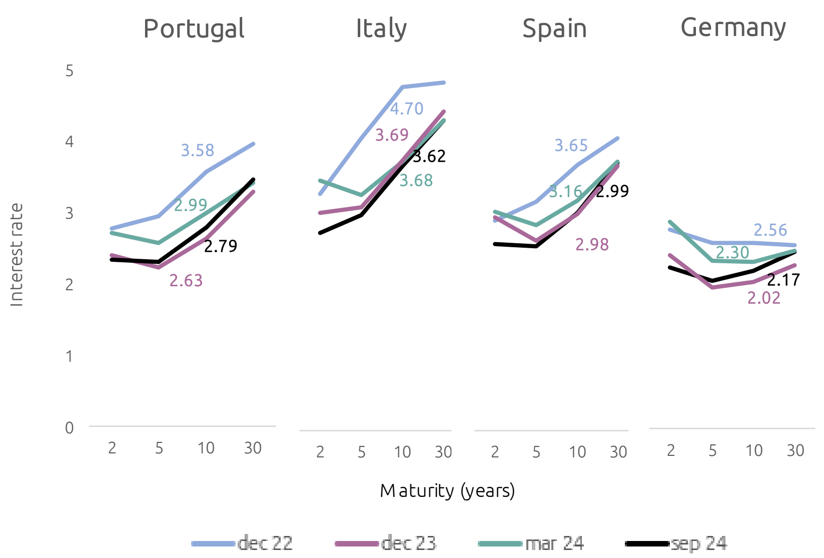
Sources: MF, Statistics Portugal and BdP. CFP calculations and projections. Note: the sum of the interest effect and the growth effect corresponds to the dynamic debt effect, also known as the snowball effect. For the breakdown of the nominal growth effect, the CFP followed equation 26 of the publication *A Practical Guide to Public Debt Dynamics, Fiscal Sustainability, and Cyclical Adjustment of Budgetary Aggregates; by Julio Escolano; IMF Fiscal Affairs Department; IMF Technical Notes and Manuals TNM/10/02; 27 January 2010*

Financing conditions

In 2024, the central banks of the major advanced economies have indicated that monetary policy may enter a less restrictive phase. The ECB and the Federal Reserve (Fed) emphasised, however, that their actions will depend on the macroeconomic data that becomes available. According to the ECB, 'the key interest rates will be set at sufficiently restrictive levels for as long as necessary' to ensure that inflation returns to the medium-term target of 2%. In September 2023, the ECB raised the key interest rate for the main refinancing operations by 2.5 p.p. to 4.5%, reaching levels only observed in 2000-2001. In 2024, with key interest rates at historically high levels and inflation falling, the financial market anticipated that central banks might begin the process of lowering key interest rates. Thus, after 9 months of maintaining the key interest rate, the ECB implemented its first rate cut in June, reducing it by 0.25 p.p., followed by another reduction of the same amount at the meeting on 12 September. In the 2nd half of 2024, the Eurosystem stopped reinvesting all principal payments on maturing securities purchased under the *Pandemic Emergency Purchase Programme* (PEPP), reducing the portfolio by an average of €7.5 billion per month. The ECB Council also intends to discontinue reinvestments under the PEPP by the end of 2024. In the United States, the Fed has continued to reduce its balance sheet since March 2023, and it is expected that by the September meeting, the target range for the reference interest rate, which was at 5.25%-5.5%, could move to lower levels.

Following the deterioration of the yield curve in the 1st quarter of the year, there was a progressive narrowing. This movement was also observed in other Member States, with particular emphasis on shorter maturities, which in some cases were at levels similar to those of longer maturities, indicating a degree of risk assigned by investors to the short term (Chart 22). The 10-year interest rate in the secondary market for Portuguese debt decreased from 3% at the end of March to 2.8% at the beginning of September, remaining above the levels recorded at the end of 2023, similar to Ireland, France, Belgium, and Germany.

Chart 22 - Yield curves of selected Member States (in %)



Source: Bloomberg. CFP calculations. | Notes: End-of-month data, except for September 2024, where the data goes back to the 6th. The data labels shown in the chart correspond to interest rates for bonds with 10-year maturities.

The cost of the new Portuguese debt issued[33] fell slightly, from 3.5% in 2023 to 3.4% by the end of August 2024. This decrease reflects financing through Portuguese Government Bonds, which more than offsets the increase in the cost of Treasury Bill issuances. In fact, the weighted average rate of PGB auctions ranged between 3.3% and 3.8% in 2024 (compared to a range of 2.4% to 3.5% in 2023). In the medium-term maturity, a new 10-year benchmark was issued this year, with a coupon rate of 3%. This rate, although higher than the implicit interest rate on Portuguese public debt projected by the CFP for 2024 (2.4%), is lower than the coupon rate of PGBs maturing in 2023-24, providing a favourable effect on financing cost. It is also worth noting the stabilisation of interest paid on Savings Certificates, following the suspension of Series E in June 2023.

For the following years, the assumptions adopted by the CFP consider a stabilisation of the interest rate on new issuances at 3.5% for the 10-year maturity. This substitution effect is slightly unfavourable, since the PGBs to be redeemed have lower coupon rates (Chart 23, right panel). It should be noted, however, that the percentage of new PGBs issued each year is around 10% of the stock outstanding, thus having a limited impact on the total cost of debt. Consequently, this exercise points to a gradual increase in the implicit interest rate on the debt, reaching 2.9% in 2028 (Chart 23, left panel).

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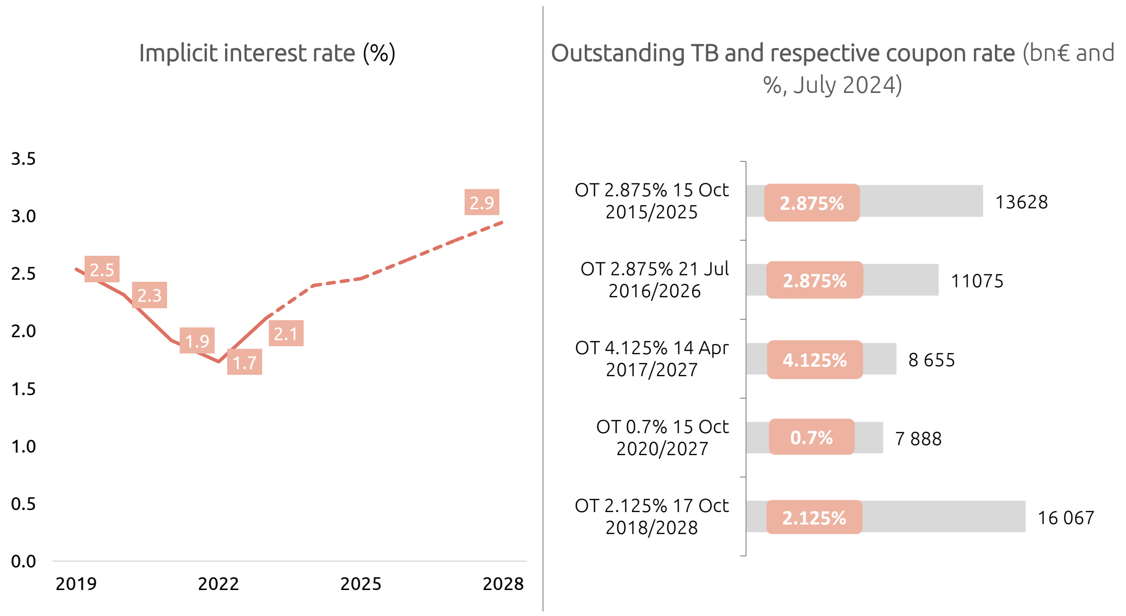
[33] Average cost of Treasury Bills, Treasury Bonds, Variable Yield Treasury Bonds and Medium Term Notes issued in the corresponding year, weighted by amount and maturity.

Chart 23 - Debt market conditions



Source: Statistics Portugal, BdP, and IGCP. CFP calculations and projections. | Note: TB = Treasury Bond.

3.6 Main risks and factors not considered in the fiscal scenario under no policy change

The CFP's projection exercise is based on a no policy change scenario and, therefore, under no circumstances, should it be interpreted as a forecast. Firstly, the assumptions underlying this scenario do not account for new economic policy measures or the extension of measures that were initially time-limited when announced.[34] In this context, the implementation of unanticipated or unplanned economic policy measures, as well as their discretionary extension, modification, or elimination, has implications for the evolution of fiscal variables and, potentially, for the macroeconomic scenario itself.

The main risk to the fiscal scenario continues to be the uncertainty associated with the global geopolitical and economic situation, as mentioned in the risks and uncertainty of the macroeconomic scenario (see point 2.3). Should this situation deteriorate more than expected, it will lead, via automatic stabilisers, to an unfavourable deviation in the projected trajectory for the budget balance (see point 3.3).

[34] It is worth noting the technical assumption that the direct fiscal impacts of one-off and extraordinary measures legislated to be in force until the end of a given year are cancelled out in the following year. This assumption alone leads to a direct and positive effect in that year, thus implying less fiscal pressure.

The budget trajectory may be influenced by factors not considered in the projection. One factor to note is a possible underestimation in the CFP's projection of compensation of employee's expenditure and changes to the solidarity supplement for the elderly (CSI). This is due to the fact that the MF has not provided enough information to allow for a more accurate quantification. In the first case, it would be necessary to assess the impact of the pay rise agreements signed with representative bodies for teachers, defence forces, and internal security (see point 3.7). In the second case, regarding the CSI, in addition to the impact of the increase in the reference value[35], it would be essential to obtain information on the expected variation in expenditure of this benefit due to the increase in additional health benefits and the expansion of the number of pensioners potentially covered as a result of the change in the criteria for granting this benefit, which removes the relevance of children's income.[36] This latter development may create significant pressure on expenditure by broadening the universe of individuals covered by this benefit.

Additionally, due to the unavailability of information, the fiscal cost of the measures included in the 'Emergency and Transformation Plan for Health', with potential impacts on various primary expenditure items, has not been quantified.

Another factor to consider is the uncertainty regarding the total and definitive impact on public accounts from the development of major public works. These include the New Lisbon Airport, the Porto-Lisbon high-speed line (LAV), and the Eastern Lisbon Hospital (HLO). The fiscal impact of these projects will depend on the allocation of risks between the public and private sectors, as well as the percentage of funding from European funds, where applicable. These projects will begin in the years considered in the budget projection but will extend beyond its time horizon.

There are ongoing additional fiscal pressures, particularly:

(i) **expenditure on social functions, specifically social benefits and health care**. These pressures arise mainly from the structural ageing of the Portuguese population, fuelled by economic and regional inequalities, and, in the case of health care, also by technological innovations in the provision of services, including medications.
(ii) **expenditure on defence and security**, particularly considering the international commitments undertaken by Portugal[37];
(iii) **expenditure on subsidies and 'other current expenditure'** arising from support to be granted **as a result of extreme weather events**, such as severe drought or forest fires;

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[35] Increase in the reference value by €50, from €550 to €600 per month.

[36] Regulated by Decree-Law No. 35/2024, of 21 May.

[37] Please refer to CFP Report No. 11/2023, *Fiscal Risks and Sustainability of Public Finances 2023*, pp. 54-59.

(iv) **capital expenditure required for measures to mitigate and adapt to climate change and other natural risks** (including seismic risk).[38]

In addition, there is a risk that GG contingent liabilities will materialise as expenditure. This can happen as a result of requests for financial rebalancing submitted by concessionaires under public-private partnerships (PPPs),[39] from the conversion of deferred tax assets, or the enforcement of standardised guarantees associated with credit lines with public guarantees.[40] This scope also includes the liabilities of non-financial public enterprises outside the budgetary perimeter that are owned directly or indirectly by GG entities. Notably, the liabilities within the Parpública group stand out, particularly those arising from the state holding's participation in Inapa, the privatisation process of EFACEC, as well as the risk of non-completion in 2024 of the Santa Casa da Misericórdia de Lisboa's divestments of its stake in CVP – Sociedade de Gestão Hospitalar, which operates the Red Cross Hospital. It is also worth noting that there may be additional expenditure in 2024 by the Resolution Fund (FdR) related to the early termination of the contingent capitalisation mechanism agreed with Novo Banco (yet undetermined and dependent on negotiations between the parties). However, this would be offset by additional dividends to be received by the State and FdR starting in 2025 (see next paragraph).

Conversely, the factors that could lead to a more favourable fiscal trajectory than projected by the CFP include the following:

(i) a **greater elasticity of tax revenue** in relation to tax bases;
(ii) a higher rate of growth in social contributions, driven by a higher growth in the labour force;
(iii) **higher dividends to be received from public enterprises,** particularly from the financial sector, which would temporarily benefit the 'other current revenue' item;[41]
(iv) The **anticipated closure of the Contingent Capitalisation Agreement established between the Resolution Fund** (FdR, an entity classified within the GG perimeter) and Novo Banco, **allowing for the distribution of dividends to shareholders, of which the GG** will receive 28.1%, starting from 2025 (without prejudice to the aforementioned risk of additional expenses by the FdR in 2024);
(v) **a more moderate growth of social expenditure**. In the case of social benefits, this possibility is primarily related to better-than-anticipated prospects regarding unemployment benefit expenditures, considering the robustness that the labour market continues to demonstrate;

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[38] As pointed out in CFP Report No. 11/2023, *Fiscal Risks and Sustainability of Public Finances 2023.*

[39] From the UTAP report for the 1st quarter of 2024, two key highlights are the REF request for the Brisa road concession (M€ 221.5) and the ANA airport concession (M€ 210.9).

[40] Based on the portfolio of active COVID-19 guarantees, it was estimated that the FCGM is expected to execute guarantees totaling M€ 33.7 in 2024.

[41] The likelihood of obtaining dividends at the levels recently observed in subsequent years is lower, given the profitability and resilience challenges faced by banks during a phase of financial cycle reversal (in this regard, please refer to the Financial Stability Report published by the Bank of Portugal in May 2024).

(vi) a **lower execution of public investment supported by domestic funding**[42];
(vii) **lower interest expenditure**, if the public debt follows a more favourable trajectory.

The main risks for the evolution of public debt relate to the outlook for inflation and the consequent actions of central banks. The assumption of stabilising financing costs in this exercise may prove conservative if inflation expectations approach the 2% target more quickly than anticipated. This would prompt the implementation of a less restrictive monetary policy, positively impacting financing costs and, consequently, the Portuguese debt. Conversely, if there is a reversal or delay in the inflation control process, financing costs could exceed projections. The end of the PEPP also posed a risk to financing costs, which is unfavourable in this case, although the demand for Portuguese debt remained stable in the context of the end of the ECB's net asset purchases, with no significant changes expected in the Portuguese yield curve. Moreover, since Portugal has already issued a considerable percentage of the estimated net financing needs for 2024, any potential changes in financing costs are expected to have a more significant impact only on the interest of general government in subsequent years. It is also important to highlight the potential adverse impact of any geopolitical tensions, with effects on the financial markets that are difficult to quantify in advance.

A sensitivity analysis indicates that changes in the cost of financing will have a contained impact, owing to the relatively long maturity of the public debt stock. As at July, it had a residual average maturity of 7.7 years. Thus, an increase (improvement) in financing costs by 50 basis points in 2024-2028, representing a maximum (minimum) 10-year yield of 4% (3%) in the projection horizon for 2025-2028, would lead to an increase (decrease) in the implicit interest rate to 3.1% (2.8%) at the end of the projection horizon in 2028, compared to 2.9% in the baseline scenario. This increase (decrease) in financing costs would result in a public debt ratio 0.4 p.p. of GDP higher (lower) than that projected in the CFP's base scenario (78.3% of GDP).

[42] The same applies to investment expenditure financed by RRP loans, which has an unfavourable impact on the budget balance (conversely, expenditure financed by grants, whether from the RRP or other European funds, has zero impact on the GG budget balance).

3.7 Main economic policy measures

This section analyses the impact that the main economic policy measures considered in the CFP's projection will have on the evolution of the GG budget balance in the 2024-2028 period, based on the assumptions detailed below. The CFP took into account its own classification of economic policy measures, based on the measures identified by the MF in the SB/2024 and in previous budget programming documents, as well as in the no policy change scenario recently sent to Parliament, which will be considered in the preparation of the SBP/2025.[43] Some measures adopted through standalone legislation were also taken into account. However, the CFP's projection does not include financial measures, such as credit lines guaranteed by the state, as these have no direct impact from a fiscal standpoint. However, they are contingent liabilities for the state, and there is a risk that they will materialise in public expenditure if the debtor defaults.

As of the closing date of this report, the CFP had not received a response from the MF regarding the request to quantify the multiannual impact of various policy measures. The measures in question include those already approved within the framework of the new legislature or with a firm intention for implementation, as well as measures that have been announced but not yet approved.[44] One of the most critical information concerned the multiannual impact of the agreements with teachers and the security and defence forces. Thus, in the case of the restoration of teachers' service time[45], the CFP calculated the multiannual impacts based on the structure of Scenario 3 presented in the report published by UTAO last June.[46] The multiannual impact resulting from the agreements with the security and defence forces is based on calculations made by the CFP, using employment statistics in volume by professional group, plus the price effect determined by the remuneration supplements allocated in stages as agreed between the government and union representatives.[47]

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[43] The no policy change scenario sent by the Government includes certain impacts that do not arise from policy measures but represent fiscal pressures. These pressures were incorporated into the CFP's projection but were not considered in this section, which focuses exclusively on the fiscal impact of policy measures.

[44] Regarding announced but not yet approved measures, information was requested on the multiannual impact of the 'Health Emergency", and 'Accelerate the Economy' plans, as well as the 'You Have a Future in Portugal' initiative. As this information was not provided, the respective fiscal impacts were not incorporated into the CFP's projection.

[45] Decree-Law No. 48-B/2024, of 25 July, approved the special system for the restoration of service time for early childhood educators and teachers in public pre-school and basic and secondary education establishments, whose counting was suspended between 30 August 2005 and 31 December 2007, and between 1 January 2011 and 31 December 2017.

[46] According to the CFP's calculations, based on the structure of Scenario 3 from UTAO Report No. 8/2024, the measure to fully restore teachers' service time is expected to generate a permanent gross expenditure of M€ 469 and a net expenditure of M€ 267, starting from the reference year 2028.

[47] The CFP's calculations indicate that the salary enhancement measures for the security and defense forces will result in a permanent gross expenditure of M€ 269 and a net expenditure of M€ 153, starting from the reference year 2027.

Compared to the CFP's April projection, it is also noteworthy that the fiscal impact of other one-off and permanent measures has been incorporated. As part of the one-off measures, notable mentions include the allocation of the extraordinary pension supplement[48]and the measures to mitigate the drought affecting the Algarve, which will have an impact of M€ 422 and M€ 103, respectively, in the current year. It should also be noted that the CFP has updated the fiscal impact of the measures adopted in the context of the geopolitical shock and inflation, based on more recent information published by the DGO.[49] In terms of permanent measures, it is worth highlighting that the abolition of tolls on the former SCUTs (which will result in a permanent loss of revenue amounting to M€ 180 starting from 2025, inclusive) and the measures already adopted under the new PIT Youth regime (IRS Jovem). The CFP's baseline scenario incorporates the expansion of the new PIT Youth regime, approved in the SB/2024 (which will result in a revenue loss of M€250 in 2025);[50] however, it does not consider the impact of the new regime created by the current Government, as the respective legislation[51] has yet to be approved. However, Box 4 shows a simulation incorporating the permanent loss of revenue of M€1000 from 2025 onwards,[52] resulting from the reduction in withholdings and tax settlements provided for under the new PIT Youth regime. No similar exercise was conducted for the possible change in CIT (corporate income tax), as it was not quantified and specified.

[48] According to Decree-Law No. 50-B/2024, of 23 August, the amount of the supplement will be €200 for pensioners with pensions of €509.26 or less; €150 for pensioners with pensions exceeding €509.26 and up to €1,018.52; and €100 for pensioners with pensions exceeding €1,018.52 and up to €1,527.78.

[49] Budget Execution Summary - July 2024.

[50] With the extension of the PIT Youth regime, young people up to 26 years old (or 30 if they have completed a PhD) who enter the labour market will not pay PIT (personal income tax) in the first year of employment, whether they work as employees or are self-employed. In the following years, the 100% exemption gradually decreases: 75% in the 2nd year, 50% in the 3rd and 4th years, and 25% in the 5th year.

[51] Draft Law No. 5/XVI/1.ª authorises the Government to amend the 'IRS Jovem' regime, introducing a maximum tax rate of 15% for all young people up to the age of 35, regardless of academic qualifications, except for those in the highest income bracket.

[52] Amount foreseen in the no policy change scenario recently sent by the Government to Parliament.

Table 8 - Impact of the main economic policy measures
(year-on-year change in M€ and in p.p. of GDP)

	CFP's Projection									
	Change in M€					Change in p.p. of GDP				
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028
Total Revenue	-1 351	-1 007	133	96	43	-0.5	-0.3	0.0	0.0	0.0
Current revenue	-1 351	-1 007	133	96	43	-0.5	-0.3	0.0	0.0	0.0
Tax Revenue	-1 392	-902	84	63	12	-0.5	-0.3	0.0	0.0	0.0
Indirect taxes	838	-134	0	0	0	0.3	0.0	0.0	0.0	0.0
Direct taxes	-2 229	-768	84	63	12	-0.8	-0.2	0.0	0.0	0.0
Social Contributions	40	76	49	33	31	0.0	0.0	0.0	0.0	0.0
Sales and other current revenue	0	-180	0	0	0	0.0	-0.1	0.0	0.0	0.0
Capital Revenue	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Primary Expenditure	1 347	-245	-267	106	100	0.4	-0.1	-0.1	0.0	0.0
Current primary expenditure	1 779	-379	-267	106	100	0.6	-0.1	-0.1	0.0	0.0
Intermediate consumption	-350	0	0	0	0	-0.1	0.0	0.0	0.0	0.0
Compensation of employees	130	245	157	106	100	0.0	0.1	0.0	0.0	0.0
Social transfers	996	-341	0	0	0	0.3	-0.1	0.0	0.0	0.0
Subsidies and other current expenditure	1 003	-282	-424	0	0	0.3	-0.1	-0.1	0.0	0.0
Capital expenditure	-432	134	0	0	0	-0.2	0.0	0.0	0.0	0.0
Primary balance	-2 698	-762	400	-11	-57	-0.8	-0.2	0.1	0.0	0.0
Interest paid	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	1 347	-245	-267	106	100	0.4	-0.1	-0.1	0.0	0.0
Budget balance	-2 698	-762	400	-11	-57	-0.8	-0.2	0.1	0.0	0.0
By memory:										
Impact in the change of budget balance from:										
Geopolitical and inflation measures	*513*	*434*	*321*	*0*	*0*	*0.2*	*0.2*	*0.1*	*0.0*	*0.0*
One-off measures	*1 025*	*236*	*0*	*0*	*0*	*0.4*	*0.1*	*0.0*	*0.0*	*0.0*
Other measures	*-4 236*	*-1 432*	*79*	*-11*	*-57*	*-1.5*	*-0.4*	*0.0*	*0.0*	*0.0*

Source: MF. CFP calculations. | Notes: the values reflect year-on-year change: for example, it is estimated that in 2024 the economic policy measures will imply a reduction in tax revenue of M€ 1392 compared to 2023 and an increase in expenditure on social transfers of M€ 996; the identification of the main economic policy measures considered in the CFP's projection is presented in Table 10 and Table 11 in the annex.

In 2024, the economic policy measures considered by the CFP imply a deterioration in the GG budget balance of M€ 2698 (0.8 p.p. of GDP), of which M€ 1351 is due to a reduction in revenue. It is important to highlight the decrease in tax revenue by M€ 1392, driven by direct taxes (M€ -2,229; Table 8), mainly due to measures with an impact on PIT, particularly the PIT reform (existence minimum, tax rate reductions, updating of brackets, as shown in Table 10, in the annex). Revenue from indirect taxes is expected to increase by M€ 838 due to the effects of measures, notably the end of the VAT reduction on essential foodstuffs, which will result in an increase of M€ 521 in the current year.

In terms of expenditure, an increase of M€ 1347 is anticipated due to economic policy measures. In 2024, the effects of measures unrelated to the geopolitical shock and inflation, as well as one-off measures, will lead to a rise in public expenditure of M€ 2324 (Table 10, in the annex), of which about two-thirds will be expenditure on social transfers, particularly the impact of the extraordinary supplement for pensioners (M€ 422). The measures to mitigate the geopolitical shock and inflation are expected to account for an increase in expenditure of only M€ 48 compared to 2023. Conversely, the net effect of one-off measures is expected to result in a reduction of M€ 1025 in expenditure this year, almost entirely in capital expenditure.[53]

In 2025 it is estimated that the economic policy measures will lead to a deterioration in the GG budget balance of M€ 762 (0.2 p.p. of GDP), driven by a decrease in revenue of M€ 1007. As seen in Table 8, the primary concern is the loss of tax revenue amounting to M€ 902, of which M€ 768 is from direct taxes (the loss from PIT is expected to reach M€ 640, mainly due to the reduction of general rates up to the 6th bracket and the expansion of the new PIT Young regime approved in the SB/2024). The abolition of tolls on the former SCUTs is expected to imply a loss of M€ 180 in 2025, with an impact on sales revenue.

The measures with an impact on expenditure in 2025 are expected to lead to a decrease of M€ 245. Indeed, the phasing out of both the one-off measure related to judicial compensation in 2024 under PPPs (M€ -236) and a significant portion of the measures adopted in response to the geopolitical shock and inflation (M€ -398) will more than offset the increase of M€ 390 resulting from other fiscal policy measures. This projected increase results from opposing effects (Table 11, in the annex). It is worth noting the increase in: (i) public investment (M€ 400, not including projects financed by the RRP or deliveries of military equipment); (ii) compensation of employees, following the agreements with teachers and the security and defence forces (which together are expected to result in a gross increase of M€ 245 compared to 2024); (iii) subsidies to mitigate the drought affecting the Algarve region (M€ 103). Conversely, it is worth noting the base effect resulting from the extraordinary supplement granted to pensioners in 2024 (M€ -422).

In 2026, it is expected that policy measures will have a positive impact of M€ 400 on the change in the budget balance. It is worth highlighting that the favourable impact is primarily driven by the complete elimination of measures aimed at mitigating the geopolitical shock and inflation (M€ -321), as well as the measure addressing drought mitigation in the Algarve region (-M€ 103).

In 2027 and 2028, policy measures are expected to cause a residual deterioration of the budget balance, of M€ 11 and M€ 57, respectively. In both cases, the deterioration is primarily related to the fiscal impact of the agreement for the phased restoration of teachers' service time (Table 11, in the annex).

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[53] On the one hand, the phasing out of one-off measures recorded in 2023 (related to additional losses from non-recoverable loans held by Parvalorem, as well as the conversion of deferred tax assets of Novo Banco into refundable tax credits and a judicial indemnity to EDP) leads to a reduction in expenditure of M€ 1,261 compared to 2023. On the other hand, the one-off measure resulting from a judicial indemnity related to PPPs will generate a cost of M€ 236 in 2024.

4. ANNEXES

4.1 Tables

Table 9 - CFP macro-fiscal scenario (September 2024 and April 2024)

		september 2024					april 2024				
	2023	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028
Real GDP and components (change, %)											
GDP	**2,3**	**1,8**	**2,4**	**2,1**	**1,6**	**2,0**	**1,6**	**1,9**	**2,1**	**2,0**	**2,0**
Private consumption	1,6	1,8	2,5	2,1	2,1	2,0	1,4	1,8	2,1	2,0	2,0
Public consumption	1,0	1,5	2,4	1,6	0,0	1,0	2,2	1,3	1,4	0,8	1,2
Investment (GFCF)	2,6	2,0	8,7	5,0	-2,4	2,7	3,6	5,6	5,2	2,9	2,6
Exports	4,1	3,6	2,8	2,6	2,4	2,2	2,8	2,5	2,2	2,2	2,2
Imports	2,2	3,6	5,0	3,4	1,0	2,2	3,0	3,6	3,5	2,4	2,3
Contributions to real GDP change (p.p.)											
Domestic demand	1,4	1,8	3,5	2,5	0,9	2,0	1,7	2,4	2,7	2,1	2,1
Net exports	0,9	0,0	-1,0	-0,4	0,6	0,0	-0,1	-0,5	-0,6	-0,1	-0,1
Prices (change, %)											
GDP deflator	7,1	4,7	2,7	2,5	2,0	2,0	3,0	2,4	2,2	1,9	2,0
HICP	5,3	2,7	2,2	2,1	2,0	2,0	2,6	2,2	2,0	1,9	1,9
Labour market (change, %)											
Unemployment rate (% labour force)	6,5	6,5	6,4	6,2	6,2	6,0	6,4	6,3	6,2	6,1	6,0
Employment	0,9	1,4	0,7	0,3	0,1	0,0	0,3	0,1	0,0	0,0	-0,1
External sector (% GDP)											
Net lending	2,7	3,2	4,0	3,9	2,5	2,4	3,3	2,3	2,3	0,9	0,8
Trade balance	0,9	2,5	1,7	1,4	2,0	2,0	0,8	0,5	-0,1	-0,1	-0,1
Fiscal projections											
Total revenue	43,5	43,3	43,7	43,5	42,4	41,8	43,8	44,1	44,0	42,8	42,2
Total expenditure	42,3	42,6	43,3	43,4	41,9	41,4	43,3	43,5	43,9	42,0	41,4
Primary expenditure	40,2	40,3	41,1	41,2	39,7	39,1	41,0	41,2	41,6	39,7	39,0
Interest	2,2	2,2	2,2	2,2	2,3	2,3	2,3	2,3	2,3	2,3	2,3
Budget balance	**1,2**	**0,7**	**0,4**	**0,1**	**0,5**	**0,4**	**0,5**	**0,6**	**0,1**	**0,8**	**0,8**
Primary balance	3,4	2,9	2,6	2,3	2,8	2,7	2,8	2,9	2,3	3,2	3,2
Adjusted budget balance from one-offs and t.m.	1,7	0,8	0,4	0,1	0,5	0,4	0,6	0,6	0,1	0,8	0,8
Public debt	**99,1**	**92,4**	**88,0**	**84,5**	**81,5**	**78,3**	**95,3**	**91,3**	**87,8**	**83,9**	**80,1**

Source: CFP projections (September 2024 and April 2024) and Statistics Portugal (2023). | Note: Cyclical developments are estimated according to the common agreed methodology, parameterised in the EUCAM programme based on the European Commission's spring 2024 forecast (September 2024 scenario) and autumn 2023 forecast (April 2024 scenario) .

Table 10 - Revenue: economic policy measures with fiscal impact
(year-on-year change, by measure, in M€ and in p.p. of GDP)

Designation	Change in M€					Change in p.p. of GDP				
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028
Mitigation of geopolitical shock and inflation	561	36	0	0	0	0.2	0.0	0.0	0.0	0.0
VAT reduction on essential food items	521					0.2				
VAT | Suspension of the carbon tax	9					0.0				
Tax on oil | Suspension of the carbon tax	40					0.0				
Extraordinary support for fuel costs in agriculture	-9	36				0.0	0.0			
Other measures	-1 912	-1 043	133	96	43	-0.7	-0.3	0.0	0.0	0.0
VAT reduction Beverages in restaurants	-40					0.0				
Increase in tobacco tax	177					0.1				
Increase in IABA	39					0.0				
Exemption from IMT and IS on the purchase of the 1st habitation for youths up to 35 y	-25	-60				0.0	0.0			
ISV, IMT and others taxes update	112					0.0				
Phased update of the circulation tax	14					0.0				
VAT | Extension of VAT on electricity to 6% for the first 200 kWh		-110					0.0			
PIT - Extraordinary support for families	6					0.0				
PIT additional (1% increase in the salary of civil servants)	21					0.0				
PIT reform (Minimum Existence Reform, tax reduction, brackets update)	-1 327					-0.5				
PIT | Reduction in general fees up to 6th bracket	-348	-450				-0.1	-0.1			
PIT | Update of minimum existence + extraordinary redection of the discounts in Sep a	-202					-0.1				
PIT | Phased increase in the deduction of housing expenses	-80					0.0				
PIT | Consignment increase from 0.5% to 1%		-40					0.0			
PIT | Increase in specific deduction	-100					0.0				
PIT | Reduction of withholdings to support housing costs	250					0.1				
PIT | Expansion of the Youth PIT	-200	-250				-0.1	-0.1			
PIT | compensation for limiting rent increases to 2%	-45	45				0.0	0.0			
PIT | "+ habitação" package	-110					0.0				
PIT | Efficiency gain in tax benefits	50	25	25	25		0.0	0.0	0.0	0.0	
PIT | Suspension of the increase in autonomous taxation for companies with tax losses	-15					0.0				
CIT | increased expenses with energy, fertilizers, feed, animal feed	60					0.0				
CIT | Efficiency gain in tax benefits	50	25	25	25		0.0	0.0	0.0	0.0	
CIT | SIFIDIE, RRFAI and others	-100	-163				0.0	-0.1			
CIT | Tax incentive for recovery	110	10	15			0.0	0.0	0.0		
CIT | Increase of the Incentive for company capitalization (ICE)	-180					-0.1				
CIT | Relief in autonomous taxation	-35					0.0				
CIT | Tax incentive for salary valorization	-50					0.0				
Agreement with Teachers	18	47	48	46	43	0.0	0.0	0.0	0.0	0.0
Security and Defense Forces	38	58	20			0.0	0.0	0.0		
Abolition of tolls in ex-SCUTs		-180					-0.1			
Total impact on revenue change	-1 351	-1 007	133	96	43	-0.5	-0.3	0.0	0.0	0.0

Source: MF. CFP calculations. | Notes: Due to rounding, the totals do not necessarily correspond to the sum of the figures; the figures correspond to year-on-year variations: for example, in 2024 it is estimated that the end of the VAT exemption on essential foodstuffs will increase revenue by M€ 521 compared to 2023; although this table does not include revenue from the RRP (because it is not an economic policy measure), its impact has been incorporated into the CFP's projection.

Table 11 - Expenditure: economic policy measures with fiscal impact
(year-on-year change, by measure, in M€ and in p.p. of GDP)

Designation	Change in M€					Change in p.p. of GDP				
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028
Mitigation of geopolitical shock and inflation	**48**	**-398**	**-321**	**0**	**0**	**0.0**	**-0.1**	**-0.1**	**0.0**	**0.0**
Bank Employees' Pensions	-16					0.0				
Support for needy/most vulnerable families	-341	-6				-0.1	0.0			
Complement to extraordinary support for children and young people	-196	-3				-0.1	0.0			
Support for food for needy families	-13					0.0				
Extraordinary support for holders of income and social benefits	-2	-1				0.0	0.0			
Support for refugees	3	-3				0.0	0.0			
Interest subsidy | Support for family housing credit	170	-200				0.1	-0.1			
Support Program - Tariff Reduction in public transport (PART)	-50					0.0				
Additional allocation of funds in the national electrical system to reduce the t	366					0.1				
Financing the cost of natural gas to companies	-76					0.0				
Support for renewable energy production and warehouse of electricity project	-12					0.0				
Subsidy to companies due to rising gas costs (bottled)	-53					0.0				
Support for agricultural production sectors	-202					-0.1				
Support to mitigate the effects of drought and inflation on the agricultural sec	221	-120	-101			0.1	0.0	0.0		
Support for the transport of passengers and goods	65	-65				0.0	0.0			
Support for the fishing sector	-38	-0.4				0.0	0.0			
Support for Ukraine	220		-220			0.1		-0.1		
One-off measures	**-1 025**	**-236**	**0**	**0**	**0**	**-0.4**	**-0.1**	**0.0**	**0.0**	**0.0**
Parvalorem | Additional credit losses not subject to recovery	-916					-0.3				
DTA (deferred tax assets)	-117					0.0				
Judicial compensation to EDP	-228					-0.1				
Judicial compensation in the scope of a public-private partnership	236	-236				0.1	-0.1			
One-off measures	**2 324**	**390**	**54**	**106**	**100**	**0.8**	**0.1**	**0.0**	**0.0**	**0.0**
Agreement with Teachers	41	110	111	106	100	0.0	0.0	0.0	0.0	0.0
Security and Defense Forces	89	134	46			0.0	0.0	0.0		
Spending Review	-100					0.0				
Acquisition of COVID-19 vaccines and medicines	-250					-0.1				
Extraordinary update of the CSI benchmark	110	70				0.0	0.0			
Increase of the CSI	422	-422				0.1	-0.1			
Family allowance increase (22€)	320					0.1				
Extraordinary Housing Support	50					0.0				
Childhood Warranty Package	70					0.0				
Reinforcement of social benefits to combat poverty	112					0.0				
Update of the social support index	110					0.0				
Progressive free day care	100	24				0.0	0.0			
Initiative "+ Public Transports"	141					0.0				
Free Sub23 Pass	126					0.0				
Porta 65 and "Porta 65+"	10					0.0				
Lease to sublease	5					0.0				
Mitigate the drought that particularly afflicts the Algarve region		103	-103				0.0	0.0		
Incentive for scrapping of end-of-life vehicles	129					0.0				
Return of tuition fees	215					0.1				
"ANDA" Program	4					0.0				
Delivery of military material	23					0.0				
Reinforcement of support for student accommodation	14					0.0				
Delivery of military equipment	267					0.1				
"Schools" Program	55					0.0				
Investments	427	400				0.1	0.1			
State support to EFACEC	-166					-0.1				
Execution of guarantees		-30					0.0			
Total impact on enpenditure change	**1 347**	**-245**	**-267**	**106**	**100**	**0.4**	**-0.1**	**0.0**	**0.0**	**0.0**

Source: MF. CFP calculations. | Notes: Due to rounding, the totals do not necessarily correspond to the sum of the figures; the figures correspond to year-on-year variations, for example, the extraordinary pension supplement is estimated to result in an expenditure increase of M€ 422 in 2024, with its subsequent elimination leading to a reduction of the same amount in 2025; although the table does not include the impact of expenditure under the RRP (because it is not an economic policy measure), nor the unfreezing and revision of careers (since this reflects the normal development of careers with promotions and progressions), these impacts were nonetheless incorporated into the CFP's projection.

Table 12 - One-off measures (% of GDP)

	2019	2020	2021	2022	2023	2024
One-off measures (impact in budget balance)	-0.6	-0.7	0.3	-0.1	-0.5	-0.1
Revenue	0.0	0.0	0.5			
Prepaid Margins Reimbursement (EFSF)			0.5			
BPP guarantee recovery	0.0	0.0	0.0			
Expenditure	0.6	0.7	0.2	0.1	0.5	0.1
Novo Banco (NB) capital injection	0.5	0.5	0.2			
Deferred Tax Assets (DTA)		0.1	0.0	0.1	0.0	
Compensation to the concessionaire AEDL, S.A.	0.1					
Transfer of FGCAM to FDG		0.0				
Judicial ruling related to the obligation to pay retroactive unpaid holiday supplements to PSP and GNR		0.1				
PPP judicial compensation						0.1
Judicial compensation to EDP					0.1	
Parvalorem | Additional credit losses not subject to recovery					0.3	
Memo items (impact by budget aggregate)						
Capital transfers received	0.0	0.0	0.5			
Other current expenditure					0.0	
Other capital expenditure	0.6	0.7	0.2	0.1	0.5	0.1

Sources: Statistics Portugal and Ministry of Finance. | Notes: The calculations and classification are the responsibility of the CFP. Due to rounding, the totals do not necessarily correspond to the sum of the figures. No one-off measures were considered from 2025 to 2028. The figures may change if new information becomes available.

Table 13 - CFP's fiscal scenario adjusted for temporary and one-off measures (% of GDP)

	2023	CFP Projection				
	INE	2024	2025	2026	2027	2028
Total Revenue	43,5	43,3	43,7	43,5	42,4	41,8
Current revenue	42,6	42,5	42,1	41,9	41,7	41,3
Tax Revenue	25,2	24,8	24,7	24,7	24,8	24,8
Indirect taxes	14,5	14,5	14,4	14,4	14,5	14,4
Direct taxes	10,7	10,3	10,3	10,3	10,3	10,3
Social Contributions	12,3	12,5	12,5	12,4	12,4	12,3
Sales and other current revenue	5,1	5,1	4,9	4,7	4,5	4,3
Capital Revenue	0,9	0,8	1,7	1,7	0,7	0,5
Primary Expenditure	39,7	40,3	41,1	41,2	39,7	39,1
Current primary expenditure	36,3	36,8	36,5	36,2	36,0	35,7
Intermediate consumption	5,3	5,3	5,4	5,4	5,3	5,2
Compensation of employees	10,5	10,4	10,4	10,3	10,3	10,2
Social Benefits	17,5	17,8	17,5	17,4	17,4	17,4
Subsidies and other current expenditure	3,1	3,3	3,2	3,1	3,1	3,0
Capital expenditure	3,4	3,5	4,6	5,0	3,6	3,4
Primary balance	3,8	3,0	2,6	2,3	2,8	2,7
Headline Budget balance	2,2	2,2	2,2	2,2	2,3	2,3
Total Expenditure	41,9	42,5	43,3	43,4	41,9	41,4
Headline Budget balance	1,7	0,8	0,4	0,1	0,5	0,4

Sources: Statistics Portugal and CFP calculations.

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