Conselho das Finanças Públicas

GENERAL GOVERNMENT BUDGET OUTTURN 2025

May 2026

Report No.
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The Portuguese Public Finance Council is an independent body established by Article 3 of Law No. 22/2011 of 20 May, which introduced the fifth amendment to the Fiscal Framework Law (Law No. 91/2001 of 20 August, republished by Law No. 37/2013 of 14 June). The final version of the CFP's Statutes was approved by Law No. 54/2011 of 19 October.

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

This Report was prepared on the basis of information available up to 8 May 2026.

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

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NON-TECHNICAL SUMMARY

Fiscal Balance and Primary Balance

- The fiscal balance was 0.7% of GDP (€2.059 billion), above the 0.3% of GDP forecast in the 2025 State Budget and the 0.6% of GDP achieved in 2024, placing Portugal among the five European Union countries with a fiscal surplus in 2025.
- The fiscal outcome once again depended on the surplus of the Social Security Funds, which rose to 2.3% of GDP, in contrast to the Central Government, whose deficit widened from 1.5% to 1.8% of GDP.
- The balance excluding interest remained positive, falling to 2.6% of GDP.

Public debt

- Public debt ratio: 89.7% of GDP; -3.8 percentage points compared to 2024.
- Reduction driven by nominal GDP growth and the primary balance.

Fiscal Policy

- Fiscal policy was expansionary, providing a boost of 0.5% of GDP, of which 0.4% of GDP resulted from European funds, mainly from the RRP.
- The stimulus was reflected in an increase in primary current expenditure and a boost to public investment.

Public Expenditure

- Increase in expenditure (€8,136 million) driven by primary current expenditure (social benefits and staff costs), highlighting its structural nature and rigidity.
- Capital expenditure grew, supported by public investment, with similar contributions from European and national funds.
- General government investment net of fixed capital consumption remained positive and continued to grow, signalling a strengthening of the capacity to replace the capital *stock*.

Public Revenue

- Total revenue rose to 43.4% of GDP, driven by indirect taxation and social security contributions, pushing the tax burden up by 0.3 percentage points to 35.3% of GDP.

Recovery and Resilience Plan (RRP)

- Cumulative implementation up to 2025: €9,904 million (45.2%) of the total plan (€21,905 million).
- Expenditure of €3,917 million in 2025, equivalent to 50% of the amount forecast in the 2025 State Budget (excluding funds earmarked for capitalisation and financial resilience).

Comparison with fiscal planning documents

- Both the 2025 State Budget forecast and the 2025 estimate underlying the 2026 State Budget revealed significant deviations: an underestimation of revenue (taxes and contributions) and expenditure, particularly primary current expenditure, adversely affecting the balance and the net expenditure indicator.

- Public debt ratio (89.7% of GDP) below the 93.3% of GDP forecast in the 2025 State Budget and the 90.2% of GDP in the 2025 estimate underlying the 2026 Budget Plan.

EXECUTIVE SUMMARY

In 2025, the general government sector recorded a fiscal surplus for the third consecutive year, maintaining a structural position in surplus. The fiscal balance calculated by the national statistical authorities stood at 0.7% of GDP, 0.1 percentage points of GDP higher than in 2024, a performance that placed Portugal among the five European Union Member States with a fiscal surplus in 2025. This result exceeded the balance of 0.3% of GDP forecast in the 2025 State Budget (OE/2025), as well as the estimates for 2025 presented by the Government in April and October 2025, as part of the 2025 Annual Progress Report and the POE/2026. The Social Security Funds continued to be a key factor in this result, having increased their surplus to over €7 billion, from 2.1% to 2.3% of GDP, in contrast to the Central Government (CG), which recorded, for the second consecutive year, a widening of the fiscal deficit (from 1.5% to 1.8% of GDP). The primary balance, which excludes interest payments, remained in surplus, falling to 2.6% of GDP. Adjusting the fiscal balance for the effects of the economic cycle and *one-off* operations, the structural balance is estimated to correspond to a surplus of 0.8% of potential GDP.

The fiscal policy stance in 2025 was expansionary. This stance resulted in a fiscal stimulus of 0.5% of GDP, driven mainly by expenditure financed by European funds (0.4% of GDP), associated primarily with the implementation of the Recovery and Resilience Plan (RRP). Expenditure financed by national funds, net of discretionary revenue measures, contributed 0.1% of GDP, reflecting growth (6.4%) slightly above the nominal benchmark for potential output (6.1%). The composition of the stimulus was split between primary current expenditure and gross fixed capital formation (GFCF), both contributing 0.2% of GDP, signalling a fiscal stimulus based on current measures and the strengthening of public investment.

Growth in public revenue continued to reflect the favourable trend in tax and social security contributions. In 2025, general government revenue recorded nominal growth of 6.7%, driven primarily by tax and social security contributions, which accounted for around 85% of the total increase in revenue. Indirect taxes stood out – in particular VAT, excise duties and stamp duty – as did the robust growth in social contributions, underpinned by favourable wage trends. This performance of indirect taxation and actual social contributions led to an increase in the tax burden to 35.3% of GDP (+0.3 percentage points of GDP compared to 2024). Non-tax and non-contributory revenue also grew, driven mainly by transfers from the European Union associated with the RRP.

The nominal growth in public expenditure was reflected in permanent and rigid components of primary current expenditure. Public expenditure grew by 6.6%, corresponding to €8,136 million. Four-fifths of this increase was accounted for by primary current expenditure, particularly social benefits and staff costs. Interest charges increased slightly in absolute terms but fell as a ratio of GDP to 1.9% of GDP. Capital expenditure rose by 18.1% (0.3 percentage points of GDP), mainly due to GFCF, with the contribution of European funding to the increase in investment being relatively similar to that of domestic funds. General government net investment remained positive for the third consecutive year, with an increase compared to 2024, reflecting a greater capacity to replace the capital *stock*.

With one year to go before the deadline for implementing the RRP, expenditure recorded in the national accounts amounted to less than half of the total planned amount. By the end of December 2025, overall expenditure had reached €9,904 million (45.2% of the total plan), of which €1,102 million was allocated to financial assets, primarily for business capitalisation and financial resilience. Excluding this component, expenditure associated with RRP projects totalled €8,802 million, of which €7,001 million was financed by European Union (EU) grants and €1,802 million through the use of loans. Almost 80% of this expenditure was directed towards investment in the economy, mainly through support for projects developed by other sectors of the economy. Despite the acceleration recorded in 2025, expenditure in that year (€3,917 million) amounted to only 50% of the figure forecast in the 2025 State Budget, as a result of significant deviations in GFCF and primary current expenditure. In 2025, the use of loans not allocated to financial assets totalled €819 million, contributing to a fiscal balance that was €229 million lower than forecast in the 2025 State Budget.

The fiscal forecast for 2025, as well as subsequent estimates produced by the Ministry of Finance (MF) at various stages of that year's fiscal implementation, revealed significant forecasting errors in revenue and expenditure, which affected the balance and the *ex-ante* assessment of the operational indicator for net expenditure. Excluding the neutral effect associated with the implementation of European Union funds, in order to allow for a correct reading of the contribution of fiscal aggregates to the balance, it can be seen that the deviation recorded in the 2025 State Budget resulted from a more favourable performance of revenue (€3,798 million), in particular tax revenue (€2,671 million) and social contributions (€921 million). This performance more than offset the underspending on expenditure (by €2,543 million), almost entirely attributable to primary current expenditure. These deviations would have been almost €350 million higher had the company Comboios de Portugal not ceased to be part of the general government sector. The CFP's analysis of the 2025 Draft State Budget had already signalled an underestimation of tax and social security revenue. In the updated estimate for 2025 underlying the POE/2026, presented by the Government in October 2025, the magnitude of the revenue shortfall was reduced by almost half (€1,926 million). Even so, the deviations observed in the estimates for social security contributions and VAT were significant, contributing decisively to the deviation of approximately 0.6% of GDP observed in tax and social security revenue one quarter before the end of the year. On the expenditure side, the reduction in the shortfall was almost 70% compared to the initial budget forecast. Nevertheless, the Ministry of Finance underestimated expenditure by €815 million, particularly primary current expenditure, a shortfall that would have been higher without the sectoral reclassification of the CP. Thus, although between November 2024 and October 2025 there was a decrease in the deviations in revenue and expenditure in the Ministry of Finance's forecasts for 2025, the deviation in the balance remained virtually unchanged, exceeding €1,000 million in both cases. These deviations thus result from an underestimation of tax and social security revenue and of primary current expenditure, the latter being reflected in a deviation in the net expenditure indicator.

In 2025, the public debt ratio continued its downward trend, settling below 90% of GDP. At the end of the year, the ratio stood at 89.7% of GDP, lower than the 93.3% of GDP forecast in the 2025 State Budget and the 90.2% of GDP estimated for 2025 under the 2026 Medium-Term Fiscal Strategy. Compared with 2024, the debt ratio fell by 3.8 percentage points of GDP, as a result of a favourable dynamic effect, reflecting the contribution of nominal growth, and a positive primary balance. In the creditor structure, the share of non-residents consolidated, with them now holding 47.2% of total debt (44.7% in 2024), despite the reduction in debt financed under European programmes (European Financial Stability Facility and European Stability Mechanism). In the resident sector, of particular note is, on the one hand, the continued reduction in the Central Bank's portfolios under the PSPP and PEPP, and, on the other, the increase in debt held by households. The execution of the State's net financing fell significantly short of the forecast in the 2025 State Budget, particularly with regard to net issues of Treasury Bills (BT) and Treasury Bonds (OT). Fewer funds were also received from the RRP than envisaged in the 2025 State Budget, and an early repayment was made to the European Financial Stability Facility. The favourable perception of sovereign risk, reflected in successive *rating upgrades* throughout the year, enabled the State to maintain competitive financing conditions within the European context.

Table 1 – Public Finance Indicators Dashboard (as a % of GDP)

	2019	2020	2021	2022	2023	2024	2025
Receita Total	42,6	43,4	44,5	43,6	43,2	43,0	43,4
Receita corrente	42,2	42,8	43,3	42,9	42,1	42,1	42,1
Receita fiscal	24,8	24,6	24,6	25,5	24,9	24,5	24,5
Impostos indiretos	15,0	14,6	15,0	15,0	14,3	14,3	14,5
Impostos directos	9,7	10,0	9,6	10,5	10,6	10,2	10,0
Contribuições Sociais	11,8	12,7	12,6	12,2	12,1	12,4	12,6
Vendas e outra receita corrente	5,6	5,5	6,1	5,3	5,0	5,2	4,9
Receitas de capital	0,4	0,5	1,2	0,6	1,1	0,9	1,2
Despesa Total	42,5	49,1	47,3	43,9	42,0	42,4	42,7
Despesa Primária	39,6	46,3	45,0	42,0	40,0	40,3	40,7
Despesa Corrente Primária	36,7	41,9	41,2	38,3	36,0	36,9	36,9
Consumo intermédio	5,1	5,4	5,5	5,4	5,2	5,2	5,1
Despesas com pessoal	10,8	11,9	11,6	10,6	10,3	10,5	10,6
Prestações sociais	18,2	20,1	19,3	18,5	17,4	18,0	18,0
Subsídios e outra despesa corrente	2,7	4,4	4,7	3,8	3,2	3,2	3,1
Despesas de capital	2,8	4,4	3,8	3,7	4,0	3,5	3,9
FBCF	1,8	2,3	2,6	2,4	2,6	2,7	3,0
Outras despesas de capital	1,0	2,1	1,2	1,3	1,4	0,7	0,9
Saldo primário	3,0	-2,9	-0,5	1,6	3,2	2,7	2,6
Juros	2,9	2,8	2,4	1,9	2,1	2,0	1,9
Saldo global	0,1	-5,8	-2,8	-0,3	1,1	0,6	0,7
Medidas temporárias e não recorrentes	-0,6	-0,7	0,3	-0,1	-0,5	0,0	-0,1
Saldo ajustado de medidas one-off	0,7	-5,1	-3,2	-0,2	1,6	0,6	0,7
Componente cíclica	1,7	-3,5	-1,8	0,5	0,7	0,5	0,0
Saldo Estrutural	-1,0	-1,5	-1,4	-0,7	0,9	0,2	0,8
Variação anual do saldo estrutural	0,2	-0,6	0,2	0,6	1,6	-0,7	0,6
Saldo Primário Estrutural	1,9	1,3	1,0	1,2	2,9	2,2	2,7
Variação anual do saldo primário estrutural	-0,3	-0,6	-0,3	0,2	1,8	-0,7	0,5
Dívida Pública	116,1	134,1	123,9	111,2	96,9	93,5	89,7
Variação do rácio da dívida, decomposição:	-5,0	18,0	-10,2	-12,6	-14,4	-3,4	-3,8
Saldo primário	-3,0	2,9	0,5	-1,6	-3,2	-2,7	-2,6
Efeito dinâmico ou bola de neve	-2,5	10,6	-7,2	-12,1	-8,8	-4,4	-3,2
Ajustamento défice-dívida	0,5	4,5	-3,5	1,0	-2,4	3,8	2,0
Por memória:							
Taxa de juro implícita	*2,5%*	*2,3%*	*1,9%*	*1,7%*	*2,0%*	*2,3%*	*2,6%*
Outros indicadores orçamentais							
Carga fiscal (calculada pelo Sector das AP)	34,4	35,0	35,0	35,7	35,2	35,0	35,3
Despesa corrente	39,7	44,7	43,5	40,2	38,1	38,9	38,8
Consumo Público	16,9	18,9	18,5	17,4	16,7	16,8	17,0

Source: INE, BdP and CFP calculations. | Note: (i) the figures are influenced by the effect of *one-off* transactions, as detailed in Table 11 (attached); the account adjusted for *one-off* transactions for 2024 and 2025 is presented in Table 8 (also attached); (ii) The changes were calculated compared with the previous year and may not correspond to the differences in the figures as a percentage of GDP due to rounding; (iii) The cyclical component was calculated in accordance with the EC's common methodology for semi-elasticities, based on the output gap derived from the macroeconomic projections included in the CFP's "Economic and Fiscal Outlook" report of April 2026. Unless otherwise stated, in this report GDP is measured in nominal terms and corresponds to the figures calculated by INE for the years 2024 and 2025, amounting to €289,784 million and €306,765 million respectively (Table 4). In Chapter 3, nominal GDP corresponds to the figure presented by the Ministry of Finance in the fiscal planning documents relating to the forecast and estimate for 2025, namely the 2025 State Budget (OE/2025) and the 2026 Budget Plan (POE/2026).

1. INTRODUCTION

This report analyses budgetary developments in the General Government (GG) sector in 2025, assessing their evolution compared with the previous year and in relation to the targets set out in the State Budget for 2025 (OE/2025), as well as in relation to the estimate for 2025 underlying the fiscal forecast for 2026. The analysis focuses, in particular, on the main fiscal aggregates of revenue, expenditure, the budget balance and public debt.

The analysis is based on information released on 26 March 2026, drawn from the following statistical sources: the first notification of 2026 under the Excessive Deficit Procedure (EDP), the quarterly national accounts by institutional sector and financial accounts for the fourth quarter of 2025, published by the National Statistics Institute (INE) and the Bank of Portugal (BdP). This notification included the sectoral reclassification of CP – Comboios de Portugal, E.P.E., which in 2025 ceased to be part of the General Government sector (and was reclassified into the Non-Financial Public Corporations sector). This change in the sector classification of this company resulted in a reduction in General Government revenue and expenditure of around €350 million, with a marginal impact on the fiscal balance.

The data underlying this report are preliminary in nature and are therefore subject to revision, particularly at local government level. In the provisional estimate underlying the second notification of the EDP, to be published in September 2026, the calculation of this subsector's accounts will already benefit from financial reporting by municipalities in accordance with the Accounting Standards System for General Government (SNC-AP).

The fiscal aggregates are presented from a national accounts perspective. Where relevant, one-off transactions are identified and adjusted to allow for a more accurate assessment of fiscal execution trends.

The report is structured in three chapters. Following this introductory chapter, the second analyses fiscal developments in the general government sector in 2025. This analysis focuses on: (i) the evolution of the fiscal position and the direction of fiscal policy; (ii) the evolution of public revenue and expenditure, including an analysis of recent trends in primary current expenditure and an assessment of the degree of implementation of the Recovery and Resilience Plan (RRP); and (iii) the evolution of public debt, identifying, on the one hand, the factors other than the fiscal balance that explain its change and, on the other, the sectors responsible for its financing. The third and final chapter compares the observed results with the forecast underlying the 2025 State Budget, and also includes a comparison with the 2025 estimate that served as the basis for the 2026 fiscal forecast.

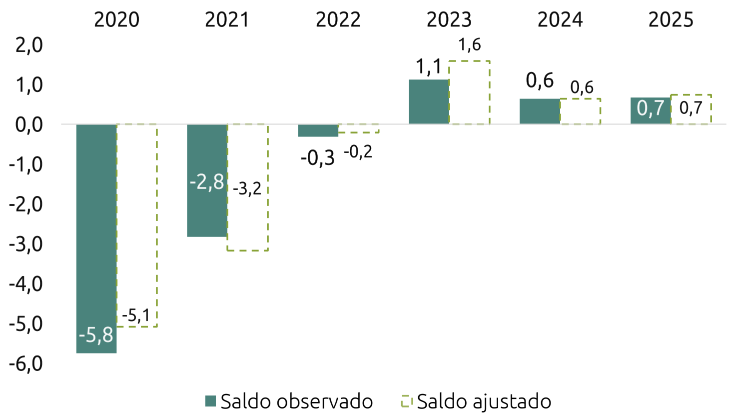
The preparation of this report benefited from the information regularly provided by INE and the Bank of Portugal, whose contribution is acknowledged in enhancing the transparency of public finances.

2. KEY FISCAL DEVELOPMENTS IN 2025

2.1 Balances, adjustment and fiscal stance

General government recorded a fiscal surplus for the third consecutive year. In 2025, the fiscal balance amounted to €2,059 million, corresponding to 0.7% of GDP. This figure, which refers to a preliminary estimate compiled by INE, represents an increase in the fiscal surplus of €196 million compared to that observed in 2024 (0.6% of GDP) – Chart 1. Excluding the impact of the restitution of the solidarity levy charged to the banking sector, considered a *one-off* operation in 2025, the balance would amount to €2,276 million (0.7% of GDP), €414 million higher than in the previous year. The primary balance, which excludes interest payments, fell by 0.1 percentage points of GDP compared with 2024, yet still maintained a surplus of 2.6% of GDP (€8,023 million).

Chart 1 – General government fiscal balance (as a % of GDP)



Source: INE. CFP calculations. Note: The adjusted balance corresponds to the observed balance net of *one-off* operations identified in Table 11, attached.

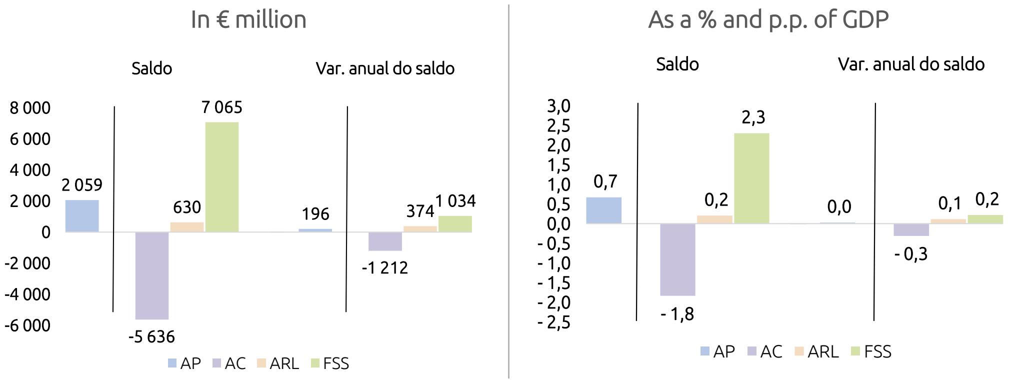
The surplus recorded by the Social Security Funds was once again a key factor in sustaining the general government's positive fiscal balance in 2025. The balance for this subsector reached 2.3% of GDP, 0.2 percentage points of GDP higher than in 2024, representing the highest GDP ratio on record since 1995. To a lesser extent, Regional and Local Government (RLG)[1] more than doubled its surplus compared with the previous year, reaching 0.2% of GDP in 2025.[2] In contrast, the Central Government (CG) subsector recorded, for the second consecutive year, a widening of the fiscal deficit to

[1] This subsector of the general government comprises the Regional Administration (AR), which includes the Autonomous Regions (RA) of the Azores (RAA) and Madeira (RAM), and the Local Administration (AL).

[2] This is still a preliminary estimate of the fiscal results for this subsector, which will be subject to revision in September as part of the provisional estimate. This revision will be based on the financial information reported by the municipalities, in accordance with the Standardised Accounting System for General Government (SNC-AP).

1.8% of GDP in 2025, 0.3 percentage points of GDP (€1.212 billion) higher than in 2024 – Chart 2.

Chart 1 – Balance and contribution of subsectors to the change in the general government deficit in 2025



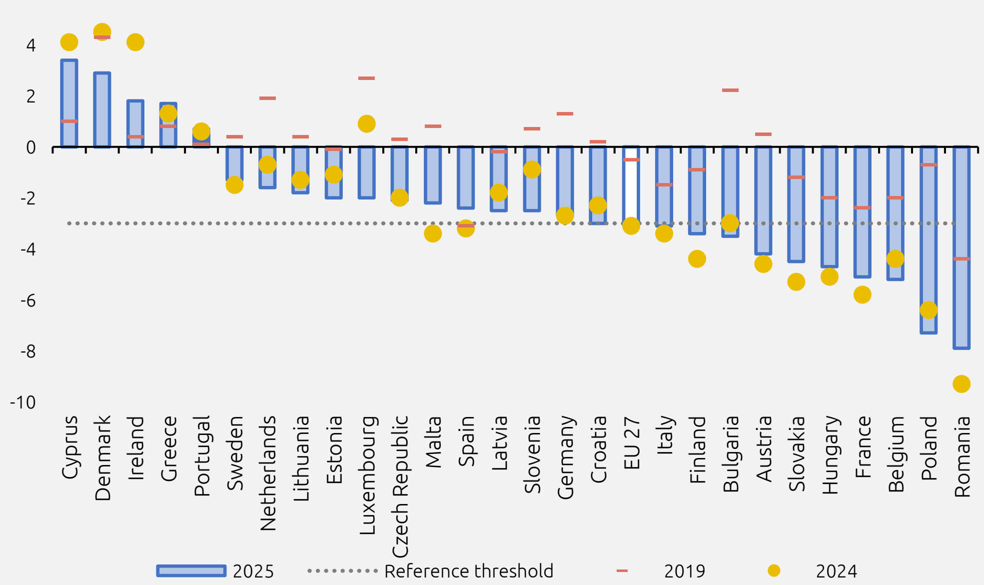
Source: INE. CFP calculations. | Notes: CA – Central Government; RLA – Regional and Local Government; SSF – Social Security Funds; GA – General Government. The total may not correspond to the exact sum of the figures shown in the chart for each subsector due to rounding.

Portugal was one of five European Union Member States to record a fiscal surplus in 2025. Over the last three years, Portugal, together with Denmark, Ireland and Cyprus, formed part of the select group of four Member States that recorded consecutive positive fiscal balances during that period (Box 1).

Box 1 – Fiscal balance and public debt in the European Union (EU)

In 2025, the EU's aggregate fiscal balance stood at -3.1% of GDP, the same as the previous year. Of the 27 EU Member States, 22 recorded negative fiscal balances, with 12 exceeding the reference threshold of -3% of GDP set out in the Treaty on the Functioning of the European Union (TFEU).

Chart 3 – Fiscal balance of EU countries (as a % of GDP), 2019–2025

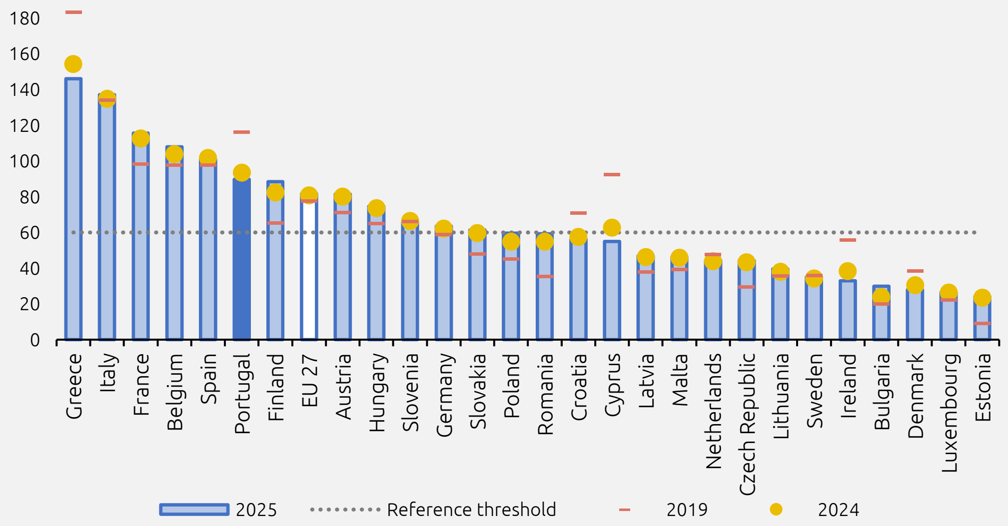


Source: Eurostat ([data released on 22 April 2026](#)).

Compared with 2024, 14 EU Member States recorded a deterioration in their fiscal balance, 11 of which were already in deficit. As in the previous year, Romania had the highest deficit as a percentage of GDP (7.9%), despite an improvement of 1.4 percentage points of GDP, followed by Poland (7.3%) and Belgium (5.2%). In contrast, only five countries recorded fiscal surpluses, notably Cyprus (3.4%), Denmark (2.9%) and Ireland (1.8%). In terms of change compared to 2024, the positive trend, as mentioned above, is evident in the fiscal balance of Romania (+1.4 percentage points) and also Malta (+1.2 percentage points), whilst Luxembourg (-2.9 percentage points) and Ireland (-2.3 percentage points) recorded the most significant deteriorations in this indicator – Chart 3. Compared with 2019, 22 Member States still had lower fiscal balances, reflecting the prolonged effects of the pandemic crisis and the adverse geopolitical context, which has since worsened.

With **regard to public debt, the ratio for the 27 EU countries as a whole rose to 81.7% of GDP in 2025.** This represents a deterioration of 1 percentage point of GDP compared with the previous year, and is now 4.2 percentage points of GDP above the pre-pandemic level. Twelve countries maintained debt ratios above the 60% of GDP threshold, of which five remain above 90%: Greece (146.1%), Italy (137.1%), France (115.6%), Belgium (107.9%) and Spain (100.7%). In 2025, Portugal remained in sixth place among the countries with the highest debt as a percentage of GDP (89.7%), although it recorded a reduction that brought this indicator below the 90% threshold for the first time since 2009.

Chart 4 – Public debt of EU countries (as a % of GDP), 2019–2025



Source: Eurostat (data released on 22 April 2026).

Despite the deterioration in the average debt ratio across the EU, eight Member States recorded reductions compared with 2024, with Greece (-8.1 percentage points) and Cyprus (-7.7 percentage points) standing out. Over the period 2019–2025, the largest adjustments in this indicator were achieved by these two countries and by Portugal, all with a reduction in the debt-to-GDP ratio of more than 25 percentage points. By the end of 2025, 17 Member States (two fewer than in 2024) still had both their fiscal balance and public debt-to-GDP ratios at levels less favourable than in the pre-pandemic period. Among these, Belgium, France and Italy stood out, as they continued to have public debt ratios above 90% of GDP, as well as fiscal deficits above 3% of GDP.

The surplus recorded in national accounts was more than three times that recorded in fiscal budgetary accounts. The balance recorded from the latter perspective was positive at €664 million (0.2% of GDP), 0.5 percentage points of GDP lower than that recorded from the national accounts perspective (0.7% of GDP). When the symmetrical impact of capital appropriations in general government entities is excluded, it is seen that this difference stems from adjustments relating to the specialisation of the financial year and other adjustments (Table 2, column 2025*). The positive result of the adjustments for the year's specialisation (0.2% of GDP) reflects, among other time lags, the cash-to-commitment adjustment for the CGA and the NHS (0.3% of GDP) and the time adjustment for taxes and social contributions (0.2% of GDP). The "other adjustments" category also contributed positively by 0.2% of GDP, notably including expenditure on military equipment and the adjustment of pension funds transferred in previous years to the general government sector.[3] Conversely, the *accrual* adjustment relating to public enterprises reclassified to the general government sector had a negative impact on the national accounts balance (-0.4% of GDP).

Table 2 – Reconciliation adjustment between accounting perspectives (as a % of GDP)

	2025	2025*
(1) Saldo em Contabilidade Pública	0,2	0,2
Administração Central e Segurança Social	0,0	0,0
Administração Regional e Local	0,2	0,2
(2) Ajustamentos de passagem à Contabilidade Nacional	0,5	0,5
Diferenças de universo	0,0	0,0
Especialização do exercício (Ajustamento Caixa-Compromissos)	1,1	0,2
*Impostos e contribuições sociais ** *	0,2	0,2
Diferença entre juros pagos e devidos	0,1	0,1
Outros desfasamentos temporais (dos quais)	0,9	0,0
Ajustamento caixa-compromissos CGA e SNS	*0,3*	*0,3*
Ajustamento de especialização às empresas públicas reclassificadas (das quais)	*0,5*	*-0,4*
Dotação de Capital em Entidades Públicas Reclassificadas	*0,9*	-
Outros ajustamentos (dos quais)	-0,6	0,2
Injeções de capital (das quais)	-0,9	0,0
Dotação de Capital em Entidades Públicas Reclassificadas	-0,9	-
Fundos de pensões	0,1	0,1
Material Militar	0,1	0,1
Reposições não abatidas aos pagamentos	0,0	0,0
(3) = (1)+(2) Saldo em Contabilidade Nacional	0,7	0,7

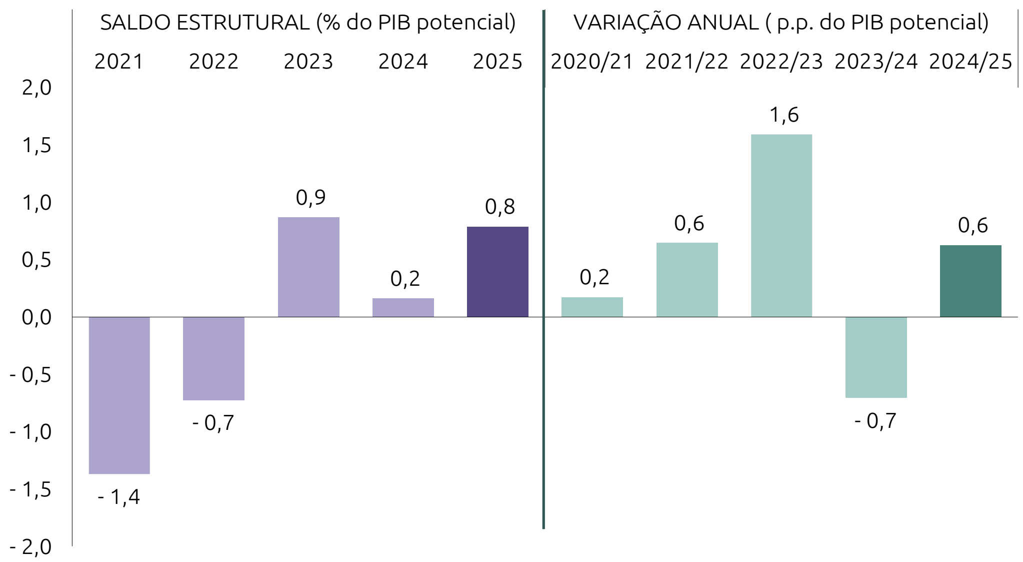
Source: INE. CFP calculations. | Note: CFP calculations | Note: (*) Excluding capital appropriations in Reclassified Public Entities; (**) Temporal adjustment. Positive/negative adjustments result in a balance in national accounts that is higher/lower than that obtained from the fiscal accounting perspective. The totals do not necessarily correspond to the sum of the components as a percentage of GDP due to rounding.

Adjusting the fiscal balance for the effects of the economic cycle and *one-off* measures, it is estimated that the structural balance remained positive in 2025. Based on the available information and the common methodology adopted at European Union level, the structural balance is estimated to have amounted to 0.8% of potential GDP. This

[3] The transfer of the balance from public accounts to national accounts in 2025 included adjustments relating to the RRP, but the net impact of these (€99 million) is less than 0.1% of GDP. The second reprogramming of the RRP (May 2025), having altered the financing arrangements for some projects, led to an adjustment that reduced the balance by €134 million. However, this adverse impact was more than offset (by €233 million) by the recording of RRP revenue at the time of expenditure, a procedure designed to ensure the neutrality of European funds.

estimate points to an improvement of 0.6 percentage points of GDP compared with the previous year, reversing the trend observed in 2024 and resuming the favourable trajectory recorded in recent years (Chart 5). It should be noted that these calculations are subject to the information available at the time of drafting this Report, in particular the estimate of the output gap, which is sensitive to GDP developments in the years following 2025.

Chart 2 – Structural balance (2020–2025, as a % of potential GDP)



Source: INE and CFP. | Note: Estimate based on the EU method and subject to the information available for calculating the output gap, which is, by definition, subject to revisions, with particular emphasis on the current period and the surrounding years.

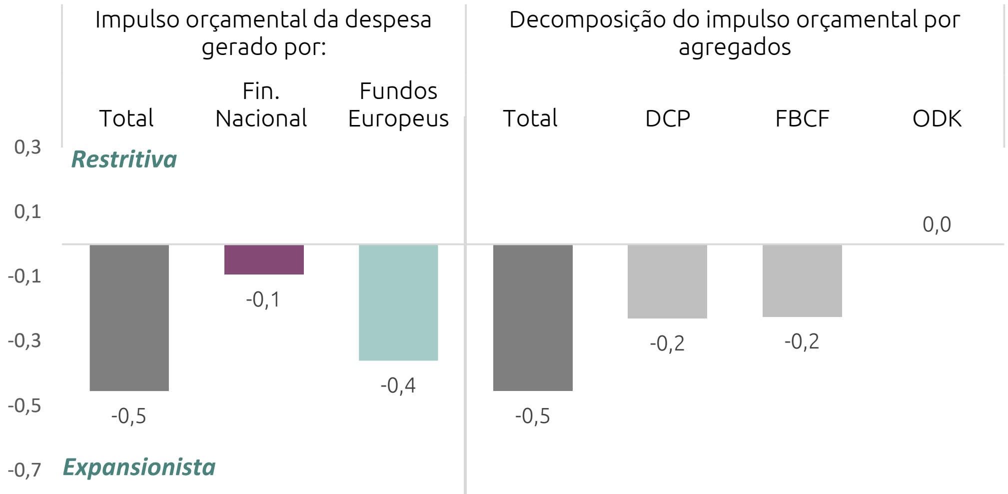
Under the new economic governance framework, the assessment of the fiscal policy stance focuses on a comparison between the rate of expenditure growth and the nominal reference growth rate of potential output.[4] In this approach, the calculation of the nominal growth rate of expenditure depends not only on primary expenditure financed at national level, net of discretionary revenue measures (net expenditure), but also on expenditure financed by European funds, the impact of which is also reflected in aggregate demand. These two factors are therefore central to the assessment of the fiscal stance. Net expenditure captures the short-term discretionary impulse of fiscal policy on the economy, as it focuses primarily on expenditure components that are largely non-cyclical and excludes, amongst other things, interest charges. Expenditure financed by European funds, although it does not involve financing through taxes or borrowing – and therefore has no negative impact on the balance or on public debt – constitutes a fiscal stimulus with effects on aggregate demand as well. Thus, when the rate of growth of expenditure exceeds the rate of growth of the aforementioned reference potential output, the fiscal impulse on aggregate demand is considered

[4] In line with the methodology used by the European Commission, this analysis assumes that the reference nominal potential GDP corresponds to the geometric mean of estimated real potential growth over a 10-year time horizon (between t-5 and t+4), with the nominal value obtained by applying the observed deflator for the year to which the calculation relates.

expansionary. In the opposite situation, the fiscal stance is characterised as restrictive. A neutral fiscal stance occurs when both growth rates evolve at the same pace.

Fiscal policy took on an expansionary stance in 2025. This stance resulted in a fiscal impulse of 0.5% of GDP, arising from the combination of two distinct factors (Chart 6).[5] Firstly, the contribution made by net expenditure financed from domestic sources, which contributed 0.1% of GDP, reflecting growth (6.4%) slightly higher than the nominal reference growth of potential output in 2025 (6.1%).[6],[7] Secondly, the impact of expenditure financed by European funds, which totalled 0.4% of GDP, driven by the increase in grants received under the RRP, which rose again in 2025 (see Box 3). The breakdown of the fiscal impulse by aggregates shows a split between primary current expenditure and GFCF, both contributing 0.2% of GDP, signalling a fiscal stimulus based simultaneously on current measures and on increased public investment.

Chart 3 – Fiscal policy stance relative to the economic cycle (% of GDP)



Source: INE. CFP calculations. | Notes: DCP – Primary current expenditure; GFCF – Gross Fixed Capital Formation; ODC – Other capital expenditure. A negative (positive) sign indicates expenditure growth that is higher (lower) than the nominal reference growth of potential output in 2025, which corresponds to an expansionary (restrictive) fiscal stance. In accordance with the European Commission's methodology, and for the purposes of decomposing the expenditure-driven impulse, discretionary revenue measures (DRM) are fully allocated to the primary current expenditure component.

[5] It should be borne in mind that, between 2021 and 2025, the estimated average growth in potential output is 2.5%, a relatively high figure resulting from the recovery from COVID-19; the GDP deflator (+3.9%) was also relatively high in 2025.

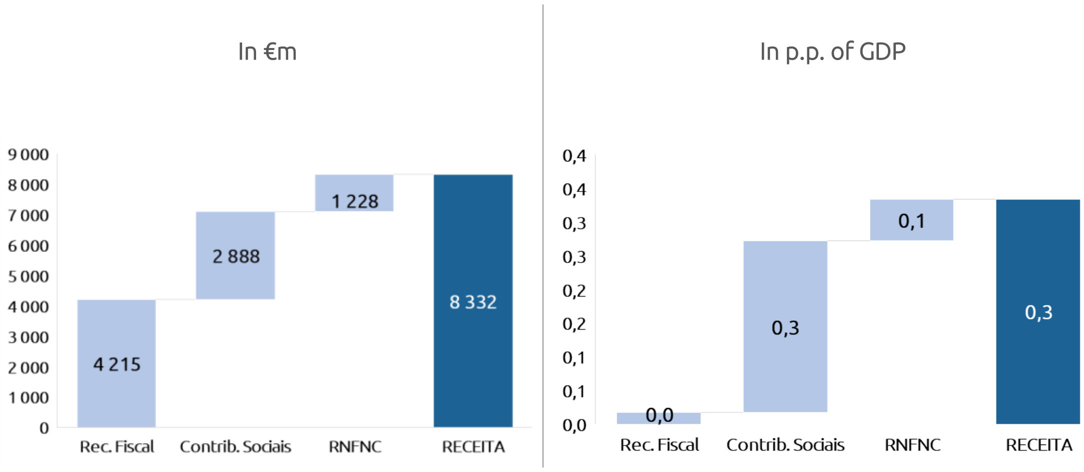
[6] In its Opinion on the 2026 Annual Progress Report, the CFP estimated a 6.4% increase in net expenditure in 2025. This increase would have been higher had the company CP - Comboios de Portugal, E.P.E. not been excluded from the general government sector.

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

2.2 Revenue analysis

In 2025, growth in public administration revenue continued to be driven primarily by trends in tax and social security contributions. The increase in tax and social security contributions accounted for around 85% of the nominal increase in public revenue (Chart 7 and Table 4). Tax revenue recorded a 5.9% increase, accounting for approximately half of the total growth in public revenue. More than two-thirds of this growth was driven by the favourable performance of indirect taxes. Social contributions also showed robust growth (8.0%), contributing just over a third to the increase in general government revenue. Alongside this trend, non-tax and non-contributory revenue grew by 6.9%, driven mainly by capital revenue, accounting for the remainder of the total revenue change. Overall, the nominal growth in general government revenue (6.7%), which exceeded that of nominal GDP (5.9%), resulted in an increase in its share to 43.4% of GDP (+0.3 p.p. compared with the previous year). Excluding the impact of the RRP, general government revenue would have grown by 5.9%, with its share remaining at 42.3% of GDP.

Chart 7 – Contributions to the change in general government revenue in 2025
(€m and p.p. of GDP)



Source: INE. CFP calculations. Note: (i) RNFNC stands for non-tax and non-contributory revenue.

Tax revenue **accounted for the largest share of the annual growth in tax and social security revenue.** This performance largely reflected the favourable trend in indirect taxation (7.1%), notably the IMT (25.3%), IEC (7.2%) and VAT (7.2%), as shown in Table 3. The growth in the latter tax accounted for approximately two-thirds of the increase in indirect tax revenue, underpinned by the robust rise in the respective gross revenue.[8] Direct taxes recorded an increase of 4.3%, driven primarily by the performance of PIT (8.8%). This development was largely driven by the impact of the extraordinary measure to reduce withholding tax in 2024, which boosted 2025 revenue by €1.54 billion through lower refunds and a higher volume of collection notices relating to income earned by individuals in 2024. This effect more than offset the decline in CIT revenue (-

[8] Net VAT revenue grew by 7.2% (€1,902 million), reflecting an increase in gross revenue (+6.8%; +€2,325 million) that exceeded the growth in refunds paid to taxable persons (+5.5%; +€423 million).

3.5%)[9] . Finally, the growth in social security contributions (8.0%) stemmed primarily from the trend in actual contributions, in line with the favourable performance of wages in 2025 (7.0%).

Table 3 – General Government Tax and Social Security Revenue in National Accounts

	Execução Orçamental				Variação			
	M€		% do PIB					
	2024	2025	2024	2025	M€	Tvh %	Ctvha (p.p.)	p.p. do PIB
RECEITA FISCAL E CONTRIBUTIVA	106 935	114 039	36,9	37,2	7 104	6,6	10,0	0,3
RECEITA FISCAL	71 053	75 268	24,5	24,5	4 215	5,9	5,9	0,0
Imp. Indiretos	41 567	44 514	14,3	14,5	2 947	7,1	4,1	0,2
IVA	26 301	28 203	9,1	9,2	1 902	7,2	2,7	0,1
IECs, *dos quais:*	5 606	6 010	1,9	2,0	404	7,2	1	0,0
ISP	3 602	3 864	1,2	1,3	262	7,3	0,4	0,0
IT	1 637	1 771	0,6	0,6	134	8,2	0,2	0,0
IABA	358	367	0,1	0,1	9	2,4	0,0	0,0
IMI	1 675	1 805	0,6	0,6	130	7,8	0,2	0,0
ISV	468	451	0,2	0,1	-17	-3,6	0,0	0,0
IMT	1 675	2 099	0,6	0,7	423	25,3	0,6	0,1
Outros imp. indiretos	5 842	5 947	2,0	1,9	105	1,8	0,1	-0,1
Imp. diretos	29 486	30 755	10,2	10,0	1 268	4,3	1,8	-0,1
IRS	17 649	19 202	6,1	6,3	1 553	8,8	2,2	0,2
IRC	10 993	10 607	3,8	3,5	-386	-3,5	-0,5	-0,3
Outros imp. diretos	843	945	0,3	0,3	102	12,1	0,1	0,0
CONTRIBUIÇÕES SOCIAIS	35 883	38 771	12,4	12,6	2 888	8,0	4,1	0,3
Contribuições Sociais Efetivas	30 452	33 046	10,5	10,8	2 594	8,5	3,7	0,3

Source: INE, MF and AT. CFP calculations.

The trend in social contributions and indirect taxes led to an increase in the tax burden in 2025. The general government tax burden, measured by revenue from taxes and actual social contributions, stood at 35.3% of GDP ([10]), corresponding to an increase of 0.3 percentage points compared with the previous year (Table 9). This trend reflects the increased share of effective social contributions and indirect taxes, which more than offset the reduction observed in direct taxes. In line with these developments, the indicators measuring the tax burden on its main macroeconomic bases of incidence also increased: effective social contributions rose to 28.5% of wages and salaries, whilst VAT and excise duties (IEC) amounted to 18.3% of nominal private consumption (Table 9), with these indicators reaching new highs since 2005. Conversely, PIT on specific labour income, as well as the CIT burden on gross operating surplus, recorded slight decreases to 10.6% and 16.6%, respectively.

[9] The decrease in net CIT revenue (-3.5%; -€386 million) largely reflected the negative performance of self-assessments (-17.9%; -€684 million), partially offset by the increase in payments on account in 2025 (+3.9%; +€253 million).

[10] The calculated tax burden corresponds to the revenue from actual taxes and social contributions collected by the institutional sector of general government (S13). The tax burden calculated by INE for the years 2024 and 2025 was 35.2% and 35.4% of GDP, respectively. These figures differ from those considered in this report because the national statistical authority includes, in the calculation of that indicator, information relating to other institutional subsectors, specifically the Rest of the World, which includes the institutions of the European Union (S212).

The **trend in non-tax and non-contributory revenue essentially reflected the growth in transfers received under the RRP.** The increase in revenue not derived from contributions and taxes (6.9%; €1,228 million) resulted both from the performance of capital revenue (47.6%; €1,236 million) and from other current revenue (3.2%; €190 million), both driven by the increase in funds received under the RRP (+€974 million and +€137 million, respectively). Conversely, the decline in sales of goods and services (-2.2%; -€197 million) mainly reflected the statistical effect associated with the removal of CP-Comboios de Portugal, E.P.E. from the general government sector.

Table 4 – General Government Account

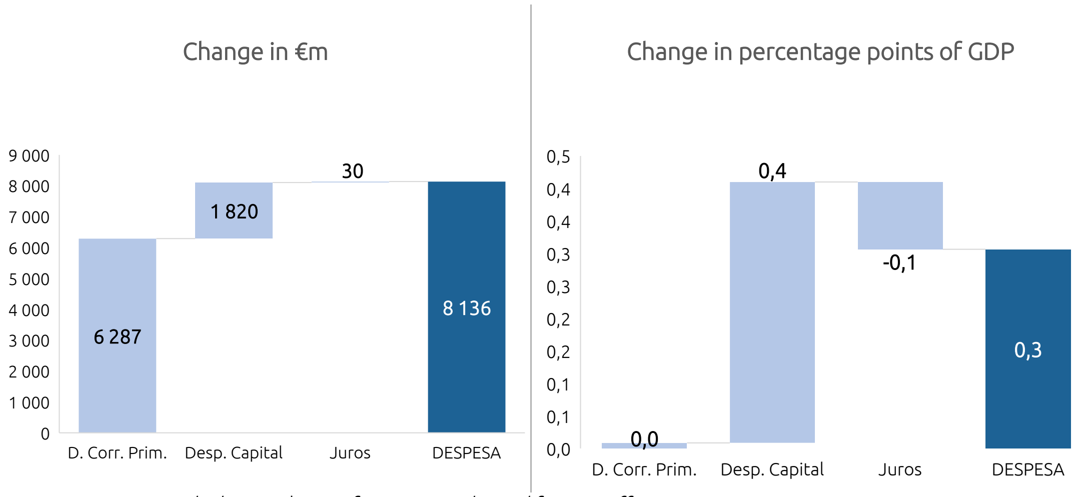
	M€		% do PIB		Variação 2024/2025			
	2024	2025	2024	2025	%	Ctvh	M€	p.p. PIB
Receita Total	**124 668**	**133 000**	**43,0**	**43,4**	**6,7**	**6,7**	**8 332**	**0,3**
Receita corrente	122 069	129 166	42,1	42,1	5,8	5,7	7 096	0,0
Receita fiscal	71 053	75 268	24,5	24,5	5,9	3,4	4 215	0,0
Impostos indiretos	41 567	44 514	14,3	14,5	7,1	2,4	2 947	0,2
Impostos diretos	29 486	30 755	10,2	10,0	4,3	1,0	1 268	-0,1
Contribuições sociais	35 883	38 771	12,4	12,6	8,0	2,3	2 888	0,3
Das quais: efetivas	30 452	33 046	10,5	10,8	8,5	2,1	2 594	0,3
Vendas e outras receitas correntes	15 134	15 127	5,2	4,9	0,0	0,0	-7	-0,3
Vendas de bens e serviços	9 150	8 952	3,2	2,9	-2,2	-0,2	-197	-0,2
Outra receita corrente	5 985	6 175	2,1	2,0	3,2	0,2	190	-0,1
Receitas de capital	2 598	3 834	0,9	1,2	47,6	1,0	1 236	0,4
Despesa Total	**122 805**	**130 941**	**42,4**	**42,7**	**6,6**	**6,6**	**8 136**	**0,3**
Despesa primária	116 871	124 977	40,3	40,7	6,9	6,6	8 106	0,4
Despesa corrente primária	106 834	113 121	36,9	36,9	5,9	5,1	6 287	0,0
Consumo intermédio	15 076	15 723	5,2	5,1	4,3	0,5	647	-0,1
Despesas com pessoal	30 322	32 612	10,5	10,6	7,6	1,9	2 290	0,2
Prestações sociais	52 143	55 198	18,0	18,0	5,9	2,5	3 054	0,0
que não em espécie	46 386	49 279	16,0	16,1	6,2	2,4	2 894	0,1
em espécie	5 757	5 918	2,0	1,9	2,8	0,1	161	-0,1
Subsídios	1 886	1 718	0,7	0,6	-8,9	-0,1	-167	-0,1
Outra despesa corrente	7 407	7 870	2,6	2,6	6,2	0,4	463	0,0
Despesas de capital	10 037	11 856	3,5	3,9	18,1	1,5	1 820	0,4
FBCF	7 881	9 167	2,7	3,0	16,3	1,0	1 286	0,3
Outras despesas de capital	2 156	2 689	0,7	0,9	24,7	0,4	533	0,1
Juros	5 935	5 965	2,0	1,9	0,5	0,0	30	-0,1
Saldo global	**1 863**	**2 059**	**0,6**	**0,7**	**:**	**:**	**196**	**0,0**
Saldo primário	7 797	8 023	2,7	2,6	:	:	226	-0,1
Receita fiscal e contributiva	106 935	114 039	36,9	37,2	6,6	5,8	7 104	0,3
Receita não fiscal e não contributiva	17 733	18 961	6,1	6,2	6,9	1,0	1 228	0,1
Carga fiscal	101 505	108 314	35,0	35,3	6,7	5,5	6 809	0,3
Despesa Corrente	112 769	119 085	38,9	38,8	5,6	5,1	6 316	-0,1
PIB nominal	289 784	306 765	:	:	5,9	:	16 981	:

Source: INE. CFP calculations. | Notes: figures not adjusted for *one-off* operations; the adjusted account is presented in Table 8, attached.

2.3 Analysis of expenditure

In 2025, nominal growth in public expenditure slowed, but was once again driven by primary current expenditure. In that year, public expenditure rose by 6.6% at current prices, 1.4 percentage points less than in 2024. Excluding the RRP, the increase in expenditure would have been 5.6%, 1.8 percentage points lower than in 2024.[11] Still in nominal terms, current primary expenditure accounted for almost four-fifths of the increase in public expenditure (left-hand panel of theChart 4), with all its components recording increases compared with the previous year, with the exception of subsidies.[12] Nevertheless, the growth rate of primary current expenditure slowed from 9.8% in 2024 to 5.9% in 2025. Capital expenditure and interest charges also recorded increases in nominal terms, albeit with a smaller contribution to overall expenditure growth.[13] As a percentage of GDP, the share of public expenditure increased by 0.3 percentage points of GDP to 42.7% in 2025, driven mainly by capital expenditure (+0.4 percentage points of GDP; right-hand panel of Chart 8), which led to public expenditure growing faster than nominal output (5.9%). Excluding the effect of the RRP, the share of capital expenditure would have stabilised and that of public expenditure would have fallen by 0.1 percentage points of GDP, to 41.4% of GDP in 2025.

Chart 4 – Contributions to the change in public expenditure in 202 5



Source: INE. CFP calculations. | Note: figures not adjusted for *one-off* operations.

[11] Expenditure under the RRP totalled €3,917 million in 2025, €1,397 million more than in 2024 (Box 3).

[12] The reduction in expenditure on subsidies, of €167 million (-8.9%), was influenced by the base effect associated with the recording, in the first quarter of 2024, of the additional allocation of funds from the Environmental Fund to the National Electricity System to reduce electricity tariffs (€366 million).

[13] The slight increase in interest charges (€30 million) was mainly due to the rise in interest on Treasury Bills. As a percentage of GDP, interest charges fell by 0.1 percentage points to 1.9% in 2025.

Staff costs and social benefits accounted for 85% of the increase in primary current expenditure in 2025, increasing the rigidity of this aggregate. Expenditure on social benefits rose by €3.1 billion, although its growth rate slowed from 11% in 2024 to 5.9% in 2025. Almost all of this increase (95%) was attributable to social benefits other than in kind, notably expenditure on pensions (+€2 billion or 5.7%;Table 10, attached).[14] Alongside this trend, staff costs rose by €2.3 billion, or 7.6%, which was lower than the rate observed in the previous year (9%). This growth mainly reflected the increase in the total wage bill for general government employees[15] and the growth in public sector employment, with the average number of general government employees rising by 1.6% in 2025, according to provisional data published by the DGAEP. This trend in social benefits and staff costs contributed to accentuating the rigidity of primary current expenditure (Table 2).

Intermediate consumption grew by 4.3%, which was lower than nominal GDP growth. In absolute terms, the increase was €647 million, of which €405 million was in the health sector. As a percentage of GDP, intermediate consumption fell by 0.1 percentage points to 5.1% in 2025.

Capital expenditure rose by 18.1%, benefiting from increased disbursement of RRP funding. This aggregate recorded an increase of €1,820 million, of which €1,286 million was in GFCF and €533 million in the 'other capital expenditure' category, which includes capital transfers to other sectors of the economy. The increase in GFCF was driven by investments made by local government (+€1,003 million), mainly in housing and other construction. The contribution of European funding to GFCF growth (€676 million, of which €387 million related to RRP grants) was relatively similar to that of the national funding component (€610 million). The growth rate of GFCF accelerated from 13.6% in 2024 to 16.3% in 2025.[16] Net investment by general government, which results from

[14] The increase in pension expenditure was driven by: (i) their regular indexation, in accordance with Ministerial Order No 372/2024 of 31 December; (ii) the composition effect resulting from the difference between the average pension of new pensioners and that of those leaving the system, and the net change in the number of pensioners; (iii) the amendment to the rules governing the indexation of pensions awarded by the social security system and the CGA, establishing as a principle the indexation of the pension amount from the year following the start of the pension, which took effect from 1 November 2024, pursuant to Decree-Law No. 74/2024 of 21 October.

[15] Of particular note is the cross-cutting effect of the adjustment of remuneration (Decree-Law No. 1/2025 of 16 January), the adjustment of the guaranteed minimum monthly wage (Decree-Law No. 112/2024 of 19 December) and the implementation of the special scheme for accelerated career progression (Decree-Law No. 75/2023 of 29 August). The impacts on the following sectors are also highlighted:

- Health: new nursing career scheme (Decree-Law No. 111/2024, of 19 December), revision of the career framework for pharmacists (Decree-Law No. 45/2025 of 27 March) and changes to the remuneration structure for medical staff (Decree-Law No. 46/2025 of 27 March);
- Education: phased restoration of teachers' length of service (Decree-Law No. 48-B/2024, of 25 July);
- Internal Security: salary increases for security forces (Decree-Law No. 50-A/2024, of 23 August);
- Defence: update of allowances for military status, residence and air service, and creation of allowances associated with the detection and neutralisation of explosive devices (Decree-Law No. 62/2024, of 30 September).

[16] Without the effect of the RRP, the acceleration in GFCF growth would have been less pronounced: from 9.1% in 2024 to 10.2% in 2025. As a percentage of GDP, GFCF increased by 0.3 percentage points, reaching 3% of GDP in 2025, but without the effect of the RRP the increase would have been only 0.1 percentage points, to 2.6% of GDP.

the difference between GFCF and consumption of fixed capital, remained positive for the third consecutive year, totalling €1,877 million. This figure represents an increase of €983 million compared to 2024 and contrasts with the negative annual average of €1,292 million observed in the period 2012–2022, highlighting a greater capacity to replenish the capital *stock*. The increase in 'other capital expenditure' was driven by the RRP (+€723 million), and was also influenced by a *one-off* expenditure of €218 million in 2025 (Table 11, attached). Excluding the impact of the RRP, this item would have recorded a reduction of €189 million.

Box 2 – Primary current expenditure: 2025 in perspective

Primary current expenditure is a key indicator for assessing the state of public finances, as highlighted by the CFP in September.[17] The budget balance – defined as the difference between public revenue and expenditure – makes it possible to assess the general government's financing needs (deficit) or financing capacity (surplus). However, analysing it in isolation has limitations for the conduct of fiscal policy. Indeed, the balance does not distinguish between current expenditure (associated with day-to-day operations)[18] and capital expenditure (investment). Furthermore, this indicator is influenced by the economic cycle and incorporates debt interest charges, which result from past borrowing decisions and are therefore not directly controllable by the fiscal policy-maker in the current period.

Primary current expenditure can be seen as an approximation of the concept of permanent general government expenditure. This excludes interest expenditure, investment and other capital expenditure. When adjusted for financing from European funds, as well as for the exclusion of transitory effects and expenditure on unemployment benefits (given its cyclical nature), this aggregate provides an approximate view of 'structural expenditure'. Its permanent and rigid nature justifies this classification.

The share of GDP accounted for by this adjusted primary current expenditure limits reductions in the tax burden without significantly worsening the fiscal balance. The high rigidity of this aggregate reduces the capacity to reallocate public resources to address emerging challenges, particularly in the areas of climate transition, costs associated with demographic ageing, defence and innovation. These limitations are particularly relevant in the context of the pressures and risks affecting public expenditure and the macroeconomic outlook.

The share of this adjusted expenditure increased in 2025 for the second consecutive year. After reaching 34.7% of GDP in 2023, the lowest level since 2002, current primary expenditure adjusted for the effects mentioned above rose sharply. In 2024 it reached 35.6% of GDP and in 2025 it reached 35.9%. This trend reflected a nominal increase of 6.9% compared with the previous year, driven mainly by social benefits (5.9%, totalling €3,054 million) and staff costs (7.6%, amounting to €2,290 million), which together accounted for over 80% of the change in this aggregate.

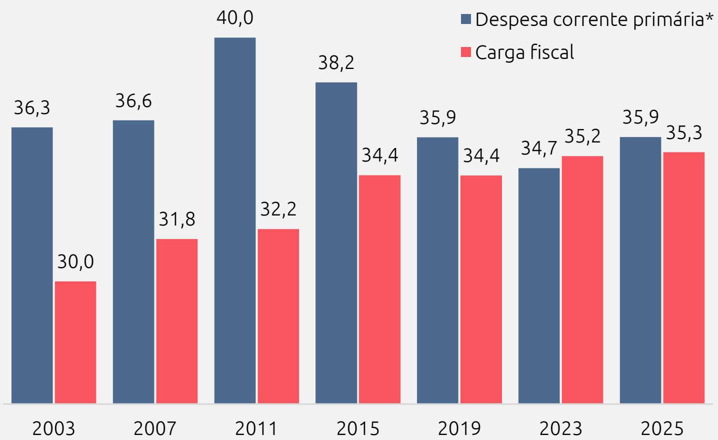
The increase in primary current expenditure undermines significant reductions in the tax and social security burden. Higher primary current expenditure increases reliance on an equally high tax and social security burden to finance it, or on borrowing to cover it. In 2025, the tax burden increased by 0.3 percentage points of GDP, reaching 35.3% of GDP (compared with 35.0% in 2024). Currently, adjusted current primary expenditure exceeds the tax burden by around 0.6 percentage points of GDP. This dependency, which resumed in

[17] Portuguese Public Finance Council (2025). 'Box 5 – Primary current expenditure: a snapshot of the rigidity of the fiscal structure'

[18] An overview of the costs of running the public administration, and its role in the provision of public goods and services (e.g. health, education, pensions and other social benefits).

2024, reduces the fiscal space available to finance public investment and accommodate other policy measures. This potential constraint on investment expenditure has broader implications for the potential growth of the Portuguese economy. In the absence of structural measures to contain expenditure, maintaining this trajectory could compromise the ability to respond to future challenges without increasing debt.

Chart 9 – Evolution of adjusted current primary expenditure and the tax burden, % of GDP



Source: INE. CFP calculations. Note: * Expenditure adjusted for financing from European funds, temporary effects (e.g. Recovery and Resilience Plan, pandemic crisis support and geopolitical shock) and expenditure on unemployment benefits.

Box 3 – Implementation of the Recovery and Resilience Plan, 2021––2025

With one year to go before the deadline for implementing the Recovery and Resilience Plan (RRP), expenditure in the national accounts amounts to less than half (45%) of the total planned amount. The overall value of the plan was revised downwards from €22.2 billion to €21.9 billion, following the third reprogramming of the RRP completed at the end of 2025.[19] By the end of 2025, almost €10 billion had been spent, of which €7 billion was financed by European Union grants. The remainder corresponded to the use of loans totalling €2.9 billion. Of this amount, €1.8 billion had an impact on public expenditure and the fiscal balance, and was allocated mainly to investment projects. The remaining portion was used to finance financial assets, namely for the capitalisation of companies and financial resilience, including the capitalisation of Banco Português de Fomento (BPF) and the creation and endowment of the Capitalisation and Resilience Fund (FdCR), with a direct impact on public debt.

Between 2021 and 2025, public expenditure under the RRP totalled €8.8 billion, of which almost four-fifths (approximately €7 billion) was allocated to investment in the economy. More than half of this amount was channelled indirectly through the 'other capital expenditure' heading, which includes support for investment projects carried out by institutional sectors

[19] The first amendment to the RRP was approved by the Council of the European Union in October 2023 (with the *RePowerEU* component then being added); the second in May 2025 and the third in December of the same year. This latest revision of the RRP led to a reduction of approximately €311 million in the RRP loan component, relating essentially to the removal from the RRP of the Lisbon metro projects (red line to Alcântara) and the Lisbon Eastern Hospital.

other than general government. Over the same period, the RRP contributed to an increase in public GFCF of €2.7 billion (Table 5, column (6)).

In 2025, expenditure under the RRP, including the financing of financial assets, grew by over 60% compared with 2024, totalling €4.4 billion. This sharp acceleration meant that almost half of the total RRP expenditure up to 2025 was concentrated in that same year.

Nevertheless, the implementation of the RRP fell short of what was initially forecast in the 2025 State Budget. Excluding the component allocated to the capitalisation and financial resilience of companies, expenditure financed by the RRP totalled €3,917 million, corresponding to an implementation rate of 50%. The most significant deviations occurred in GFCF and primary current expenditure (implementation rates of 41% and 27%, respectively). The use of loans saw a significant increase in 2025, although it remained below the level forecast in the 2025 State Budget. Of these loans, €493 million was allocated to capitalisation and financial resilience operations for companies, whilst €819 million financed other expenditure components, figures that were €197 million and €229 million below the 2025 State Budget forecast, respectively.[20]

Table 5 – Implementation of the RRP between 2021 and 2025

	Execução						OE/2025	
	2021	2022	2023	2024	2025	2021-25	Previsto	Desvio
	(1)	(2)	(3)	(4)	(5)	(6)=Σ(1) a (5)	(7)	(8) = (5) - (7)
RECEITA (1)	97	536	1 285	1 986	3 097	7 001	6 752	-3 655
Outra Receita Corrente	29	262	336	461	597	1 685	2 414	-1 816
Receita de Capital	68	274	949	1 525	2 500	5 316	4 339	-1 839
DESPESA* (2)	97	581	1 688	2 520	3 917	8 802	7 801	-3 885
Despesa Corrente Primária	29	267	344	533	645	1 819	2 428	-1 783
Despesa com pessoal	0	5	28	52	67	151	78	-11
Consumo Intermédio	6	47	102	167	244	566	928	-684
Prestações Sociais	0	0	0	17	44	61	83	-40
Subsídios	0	55	123	82	41	302	75	-34
Outra despesa Corrente	23	161	91	214	250	739	1 264	-1 014
Despesa de Capital	68	314	1 344	1 987	3 272	6 984	5 373	-2 102
Formação Bruta de Capital Fixo	22	262	405	734	1 307	2 731	3 215	-1 908
Outra Despesa de capital	46	52	939	1 252	1 965	4 253	2 158	-194
Juros	0	0	0	0	0	0	0	0
SALDO (3) = (1) - (2)	0	-46	-403	-534	-819	-1 802	-1 049	229
Por memória:								
Subvenções (4)	97	536	1 285	1 986	3 097	7 001	6 752	-3 655
Empréstimos com impacto no saldo (5)	0	46	403	534	819	1 802	1 049	-229
Empréstimos para financiamento de ativos financeiros** (6)	0	267	122	220	493	1 102	689	-197
DESPESA TOTAL PRR (7) = (2) + (6)	97	849	1 810	2 739	4 409	9 904	8 491	-4 081

Source: INE. CFP calculations. | * Allocation of RRP funds to non-financial expenditure. ** Loans with no impact on the fiscal balance at the time of expenditure, affecting only public debt.

In 2025, more than four-fifths of RRP expenditure not affecting financial assets was allocated to capital expenditure. Of this amount, more than half, almost €2 billion, relates to "other capital expenditure", a category that includes capital transfers to other sectors of the economy. These transfers mainly took the form of support for investment projects, particularly in the RRP's components relating to capitalisation and business innovation, and the decarbonisation of industry.

Investment expenditure by public administrations funded by the RRP increased by 78% in 2025, driving growth in public gross fixed capital formation. Key projects supported include: the "Mobilising and Green Agendas/Alliances for Business Innovation", the "Programme to support access to housing – 1st Right"; the construction phase of the Porto metro network

[20] Taking into account the 2025 estimate underlying the POE/2026, this deviation would be more than double for the use of loans affecting the balance (€538 million, corresponding to 0.2% of GDP).

extension (Casa da Música-Santo Ovídio); *"Missing Links"* and other interventions to improve road accessibility, as well as initiatives for the construction and renovation of schools and the modernisation of vocational training establishments.

The remaining portion of expenditure financed by the RRP relates to primary current expenditure, with particular emphasis on the category of "other current expenditure", which includes current transfers to other institutional sectors. In 2025, as in 2024, transfers from the Environmental Fund to households and businesses under the energy efficiency and sustainable bioeconomy components were of particular significance.

More than a fifth of the RRP expenditure implemented in 2025 with an impact on the general government account was financed by loans. This expenditure totalled €819 million, reducing the fiscal balance by 0.3% of GDP, the highest since 2021. Almost the entire amount (€772 million, or 94%) was allocated to capital expenditure, a higher proportion than that observed for grants (81%). This allocation of loans is consistent with the principles of sound fiscal management, according to which recourse to borrowing should preferably be directed towards financing capital expenditure rather than current expenditure, thereby ensuring intertemporal efficiency and intergenerational equity.

2.4 Public debt

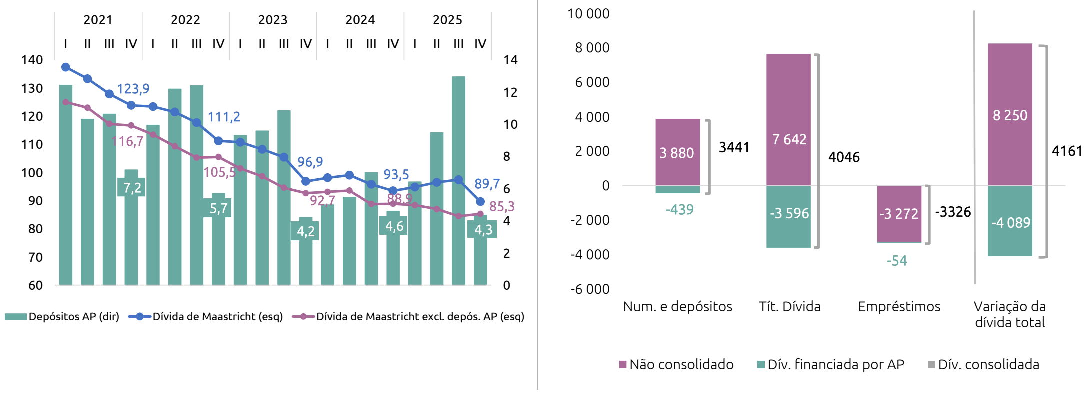
2.4.1 Maastricht debt

The public debt ratio continued the downward trend observed since 2021, falling below 90% of GDP in 2025. At the end of this year, the ratio stood at 89.7% of GDP, 3.8 percentage points lower than in 2024, reflecting a cumulative decrease of 44.4 percentage points of GDP over the last five years. In 2025, this reduction was driven mainly by the favourable dynamic effect, which reflected the contribution of nominal growth – in particular the price effect – which more than offset the adverse impact of interest rates. The positive primary balance also contributed to the reduction in the ratio, whilst the deficit-debt adjustment exerted upward pressure on the *stock* of debt (Table 12, attached). Net debt excluding deposits followed this downward trend, reflecting the maintenance of general government deposits at levels slightly above 4% of GDP (Chart 10, left-hand panel).

In nominal terms, consolidated general government debt increased. This increase of €4.2 billion is due to changes in: i) the debt securities item, notably the rise in long-term securities; and, to a lesser extent, ii) the cash and deposits item, driven by the net issuance of Savings Certificates. Conversely, loans recorded a decrease, particularly in long-term maturities, reflecting repayments associated with loans from the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM) (Chart 10, right-hand panel).

Chart 5 – Debt developments

Total debt and debt net of general government deposits (% of GDP) | Change in consolidated debt instruments in 2025 (in €m)



Sources: INE and BdP. CFP calculations.

The change in consolidated public debt (€4.2 billion) was driven by a significant increase in non-consolidated public debt, partially offset by a higher level of debt financed by general government subsectors. The €8.3 billion increase in non-consolidated debt essentially reflected higher debt issuance and growth in deposits, particularly in the Central Government subsector, which accounted for the bulk of net borrowing requirements. Conversely, public debt financed by general government subsectors increased by €4.1 billion, which helped to mitigate the rise in Maastricht debt. This financing is mainly provided by debt instruments issued by the State and held by general government entities, with particular relevance to Social Security Funds, namely through CEDICs and Treasury Bonds, intra-sectoral financial transactions eliminated in the calculation of consolidated public debt.

2.4.2 Deficit-debt adjustment

The general government's net lending in 2025 did not prevent a nominal increase in public debt that year. Had the evolution of debt depended exclusively on the general government's balance, it would have recorded a reduction of €2.1 billion in 2025. However, the deficit-debt adjustment more than offset this effect, resulting in an increase in public debt in nominal terms. In 2025, the deficit-debt adjustment amounted to €6.2 billion, reflecting a set of factors with a significant impact on debt developments (Chart 11, left-hand panel). Among its main components, the following stand out:

i) **the net acquisition of financial assets,** accounting for 48% of the total, driven by significant amounts in the debt securities and shares and other equity items[21] , reflecting, in particular, investment by Social Security Funds with non-residents and in Treasury Bonds, respectively;

ii) **transactions in liabilities not included in Maastricht debt**, which account for 33% of the total and cover the item “other accounts receivable and payable”, which includes European Union funds (in particular under the RRP)[22] , and liabilities associated with pension funds; and

iii) **other changes in the volume and price of liabilities included in the debt**, corresponding to the remaining 20%, notably below-par issues.

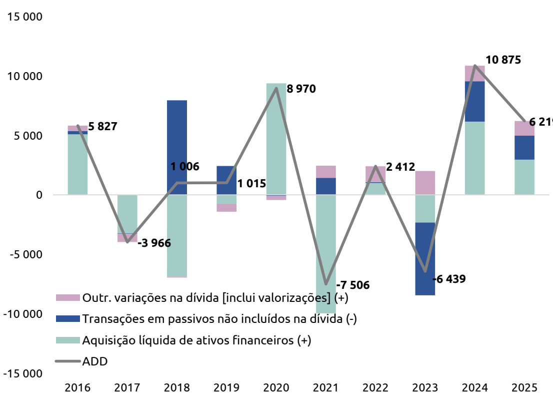
Looking ahead to 2024, a favourable trend in the fiscal balance of the general government is observed, accompanied by equally favourable dynamics in the main components of the adjustment. Nevertheless, it should be noted that the deficit-debt adjustment reached a historically high level in 2024 (Chart 11, right-hand panel).

Chart 11 – Deficit-debt adjustment

Composition of the deficit-debt adjustment
(in € million)

	2024	2025
(1) Saldo orçamental das AP	1 863	2 059
(2) Ajustamento défice-dívida = (3)+(1)	10 875	6 219
Aquisição líquida de ativos financeiros (+)	6 164	2 964
Numerário e depósitos	1 888	31
Títulos exceto ações	1 854	1 012
Empréstimos	-264	-53
Ações e outras participações	1 855	1 786
Outros ativos financeiros	831	189
Transações em passivos não incluídos na dívida (-)	-3 404	-2 027
Outr. variações na dívida [inclui valorizações] (+)	1 308	1 228
(3) Variação da Dívida das AP	9 013	4 161
(4) Dívida Pública (ótica de Maastricht)	270 902	275 063
Dívida Pública (% do PIB)	93,5	89,7
Por memória		
Juros	5 935	5 965
Taxa juro implícita (J/Dt-1)	2,3%	2,2%

Annual change in the deficit-debt adjustment
(in € million)



Sources: INE and BdP. CFP calculations.

2.4.3 Financing and financing sectors

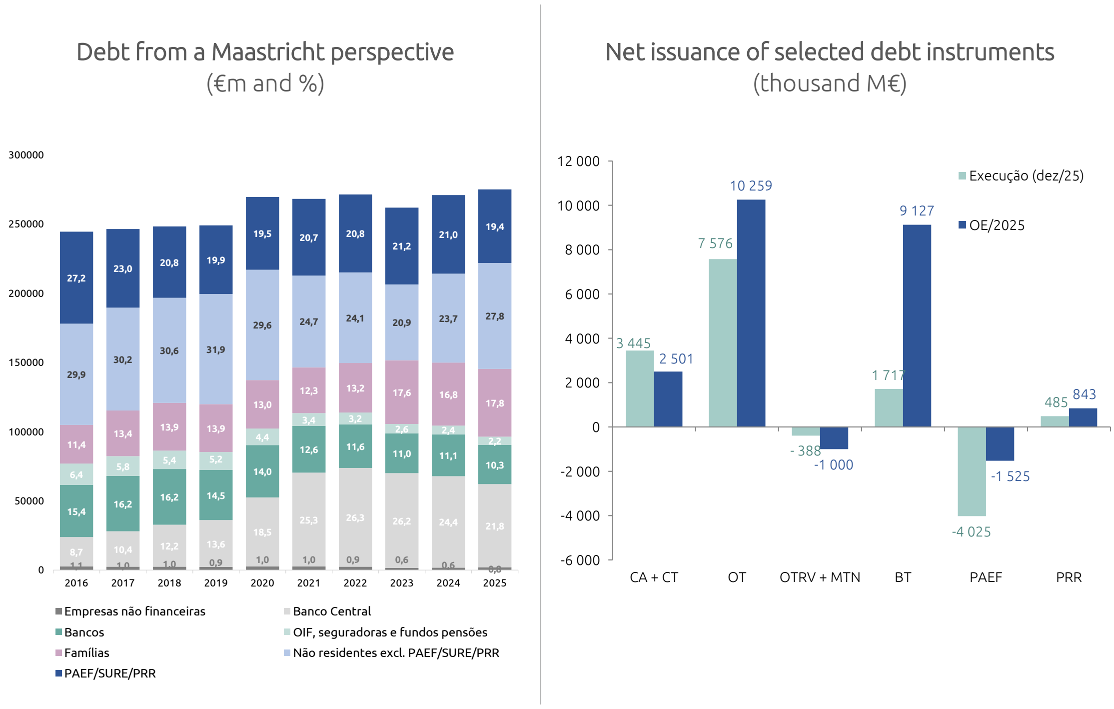
In 2025, the weight of the non-resident sector as a creditor of Portuguese debt increased. This trend, already observed in 2024, resulted in an increase in the share of debt held by non-residents to 47.2% of the total, compared with 44.7% in 2024. This increase resulted exclusively from the strengthening of positions in Portuguese debt securities by non-resident investors, which rose by €12.3 billion. In contrast, debt under European programmes recorded a reduction of €3.5 billion, reflecting repayments

[21] The ‘shares and other equity’ item also includes two smaller-scale transactions with opposite effects, namely the acquisition of Águas de Portugal shares by Parpública from CGD (+€376 million) and the Novo Banco capital reduction operation (-€275 million).

[22] In 2025, there was a greater distribution of RRP funds and EU flows to final beneficiaries compared to the amount received in that year. This lag (€2.1 billion) resulted in an unfavourable impact on public debt.

made to the EFSF and the EFSF. With regard to resident creditors, the continued reduction in debt held by the Central Bank ([23]) stands out, as a result of the gradual reduction in the PEPP and PSPP portfolios. Conversely, there was an increase in debt held by households of €3.4 billion, reflecting the attractiveness of the 'Certificados de Aforro' (Chart 12, left-hand panel).

Chart 6 – Maastricht debt financing



Sources: BdP, ECB, EO and IGCP. CFP calculations. | Note: OIF = Other Financial Institutions; CA = Savings Certificates; CT = Treasury Certificates; OT = Treasury Bonds; BT = Treasury Bills; RRP = Recovery and Resilience Plan. | The sum of the different components may differ from 100% due to rounding effects.

The execution of the State's net borrowing fell significantly short of the forecast in the 2025 State Budget. Net issuance below the 2025 State Budget forecast may be justified by net borrowing requirements that were also lower than forecast. In the 2025 State Budget, this forecast stood at €18 billion, whilst the estimate presented in the 2026 Budget Outlook pointed to €12 billion, due to lower net acquisition of financial assets. This favourable deviation in the execution of the State's net financing requirements compared to forecasts often results in a reduction in the financing to be raised from the market, particularly for short-term instruments. Greater precision in forecasting the State's financing requirements when drafting the State Budget would be desirable, allowing the financing programme to be better aligned with actual execution needs. Thus, net Treasury Bill issues amounted to €1.7 billion, compared with the €9.1 billion initially forecast (Chart 6 , right-hand panel). In line with this trend, net issues of Treasury Bonds were also lower than forecast at €2.7 billion, with funds received under

[23] According to data released by the Bank of Portugal, the Portuguese central bank held, at the end of 2025, 80.5% of the total accumulated net purchases made under the Public Sector Purchase Programme (PSPP) and the Pandemic Emergency Purchase Programme (PEPP). The remaining 19.5% is distributed between the ECB and other central banks, falling under debt held by non-residents.

the RRP also falling short of expectations. On the redemption side, there were fewer OTRV redemptions than forecast, whilst loans under the PAEF recorded a higher volume of redemptions than anticipated. Of particular note in this context is the early repayment to the MEEF, consistent with a strategy to reduce exposure to official creditors and improve the maturity profile and costs of public debt.

The favourable perception of sovereign risk, underpinned by the downward trend in the debt-to-GDP ratio and the soundness of public finances, enabled the government to maintain favourable borrowing conditions within the European context. In 2025, the average cost of new government debt issues stood at 3.4%, in line with the figure observed in 2024. The *yield* on 10-year Treasury bonds stood, on average, at 3.1%, showing some volatility throughout the year, linked to developments in expectations regarding the ECB's monetary policy, as well as geopolitical and trade uncertainty. Nevertheless, the spread against German debt remained relatively contained, fluctuating between 30 and 70 basis points, and lower than that observed in comparable economies such as Italy, Spain or France. This picture was reinforced by successive upward revisions to *the* sovereign credit rating throughout the year: in January, DBRS raised Portugal's sovereign rating from A to A (high), and in February it was S&P's turn, raising it from A- to A, before raising it again to A+ in August. In September, Fitch followed suit with an upgrade from A- to A.

The debt of public enterprises outside the scope of General Government increased for the first time since 2022. Central Government debt, the most significant aggregate, continued its upward trend in 2025, with a notable increase in the share of external financing, to the detriment of the financial sector. The debt of Regional and Local Government also recorded a slight increase, with the financial sector remaining the main creditor. Meanwhile, the debt of Public Enterprises included in the General Government continued to show a significant reduction since 2021, a trend also evident in Public Enterprises included in Central Government. Conversely, public enterprises not included in general government recorded a slight increase in debt in 2025, following several years of reduction, with external financing representing the most significant component (Table 6).

Table 6 – Debt financing sectors (€m)

	Composição (M€)					Estrutura	
	2021	2022	2023	2024	2025	2024	2025
Dívida da Administração Central	278 474	283 690	278 802	290 199	298 022	100%	100%
Exterior	119 768	119 898	108 622	119 271	128 375	41%	43%
Sector financeiro	103 504	103 708	96 027	94 510	85 714	33%	29%
Particulares, empresas e outros	55 202	60 084	74 152	76 417	83 933	26%	28%
Dívida da Administração Regional e Local	12 075	12 504	12 704	12 709	12 950	100%	100%
Exterior	1 559	1 470	1 442	1 338	1 341	11%	10%
Sector financeiro	7 300	7 748	7 968	8 142	8 520	64%	66%
Particulares, empresas e outros	3 216	3 286	3 294	3 229	3 089	25%	24%
Dívida das Empresas Públicas incluídas nas AP	24 385	23 760	17 110	16 009	15 953	100%	100%
Sector financeiro	2 047	2 239	1 818	1 854	2 006	12%	13%
Particulares	175	183	181	180	177	1%	1%
Exterior	5 230	4 553	3 325	2 644	2 280	17%	14%
Administrações Públicas	16 057	16 110	10 825	10 630	10 603	66%	66%
Empresas	876	676	961	701	889	4%	6%
Dívida das Empresas Públicas incluídas na AC	23 496	22 904	16 467	15 310	15 119	100%	100%
Exterior	4 823	4 185	3 219	2 557	2 207	17%	15%
Sector financeiro	1 762	1 960	1 492	1 452	1 454	9%	10%
AP e particulares	16 911	16 759	11 757	11 301	11 457	74%	76%
Dívida das Empresas Públicas incluídas na ARL	889	856	643	700	835	100%	100%
Exterior	407	367	106	88	73	13%	9%
Sector financeiro	314	279	328	402	552	58%	66%
AP e particulares	167	210	210	210	210	30%	25%
Dívida das Empresas Públicas não incluídas nas AP	7 215	7 305	6 663	6 483	6 815	100%	100%
Sector financeiro	2 338	2 126	2 128	1 895	1 895	29%	28%
Particulares	113	117	9	6	7	0%	0%
Exterior	2 972	3 331	2 913	2 885	3 150	45%	46%
Administrações Públicas	479	555	862	816	810	13%	12%
Empresas	1 314	1 176	751	880	953	14%	14%

Source: BdP. CFP calculations. | Notes: GA = General Government; CG = Central Government; RLG = Regional and Local Government. The financial sector includes debt held by the Eurosystem, and the external sector includes debt held under the PAEF/SURE/RRP.

3. COMPARISON WITH FISCAL PLANNING DOCUMENTS

This chapter presents a comparison between actual fiscal expenditure and the Ministry of Finance's forecast for 2025, using as a reference the national accounts forecast underlying the approved State Budget for 2025 (OE/2025). This comparison is influenced by the sectoral reclassification of Comboios de Portugal (CP) out of the general government sector, which took place in September 2025, affecting the analysis of that year's fiscal performance. In the absence of this reclassification, the deviations recorded in revenue and expenditure would have been almost €350 million higher.[24] In addition, the report 'Box 4 analyses the execution deviations relative to the Ministry of Finance's estimate for 2025, presented in October 2025 as part of the Draft State Budget for 2026 (POE/2026), with the aim of assessing the extent to which the information available on[25] regarding fiscal execution influenced the MF's expectations regarding the evolution of fiscal aggregates until the end of the year. In both comparison exercises, and in order to correctly assess the contribution of the various revenue and expenditure aggregates to the deviation in the fiscal balance recorded in 2025, an analysis was also carried out excluding transfers from the European Union,[26] which, as they have a neutral effect on the balance, do not explain the difference between the Ministry of Finance's forecast and the actual outcome.

Revenue

Revenue from public administrations came in below the Ministry of Finance's forecast in the 2025 State Budget, reflecting lower-than-expected disbursements from the RRP. Public revenue grew by 6.7%, below the 7.3% implied in the 2025 State Budget, resulting in a forecast shortfall of €761 million. This difference was explained by the unfavourable performance of capital revenue and other current revenue (€-2,362 million and €-1,820 million compared to the 2025 State Budget, respectively), resulting largely from the execution of RRP grants being €3,655 million lower than forecast in the 2025 State Budget (Table 5 from Box 3).[27] Conversely, tax and social security revenue exceeded the Ministry of Finance's forecast, growing by 6.6% (3.3% in the 2025 State Budget), reflecting a positive deviation of €3,592 million. This favourable performance was seen across all components – social contributions, direct taxes and indirect taxes – and reflected not only a more dynamic evolution of the macroeconomic

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[24] This calculation is based on the reclassification of the information from a national accounts perspective, using the entity's quarterly balance sheet report. It also includes the financial flow from the State to CP, namely compensatory payments, which were previously eliminated for the purposes of compiling the consolidated general government account.

[25] The available information on fiscal execution comprises the estimate of the general government account for the first half of 2025, in national accounts compiled by INE, as well as data on fiscal developments in public accounts for the first eight months of the year.

[26] Specifically in the form of RRP grants, or other transfers provided for in the European Union's Cohesion and Regional Development Policy Framework.

[27] The deviation in the implementation of grants associated with the RRP is reflected in the same way, and to the same extent, in the expenditure of RRP projects currently underway. This equivalence complies with the principle of neutrality of European funds, which establishes that transfers from the European Union cannot benefit or penalise the fiscal balance.

tax bases than initially forecast by the Ministry of Finance, but also an underestimation of the forecast for tax and social security revenue previously highlighted by the CFP in its analysis of the 2025 State Budget Proposal.

Table 7 – Deviations in actual figures from the MF's forecasts for 2025 (in € million)

	2025			Desvios face a:		Revisão da previsão
	OE/2025	Estimativa MF	Execução	OE/2025	Estimativa MF	
	nov/24	out/25	mar/26			
Receita Total	133 761	135 124	133 000	-761	-2 124	1 363
Receita corrente	127 565	129 675	129 166	1 601	-509	2 110
Receita fiscal	72 598	74 445	75 268	2 671	824	1 847
Impostos indiretos	43 231	44 147	44 514	1 282	367	915
Impostos diretos	29 366	30 298	30 755	1 388	456	932
Contribuições sociais	37 850	37 798	38 771	921	973	-52
das quais: efetivas	*32 224*	*32 097*	*33 046*	*822*	*948*	*-126*
Vendas e outras receitas correntes	17 118	17 432	15 127	-1 991	-2 306	315
Venda de bens e serviços	*9 123*	*9 281*	*8 952*	*-171*	*-329*	*158*
Outra receita corrente	*7 994*	*8 151*	*6 175*	*-1 820*	*-1 976*	*157*
da qual, fundos europeus	*3 210*	*3 407*	*1 113*	*-2 096*	*-2 294*	*198*
Receita de capital	6 196	5 449	3 834	-2 362	-1 615	-747
da qual, fundos europeus	*6 095*	*5 388*	*3 632*	*-2 463*	*-1 756*	*-707*
Despesa Total	132 958	134 176	130 941	-2 016	-3 235	1 218
Despesa Primária	126 521	127 905	124 977	-1 544	-2 928	1 384
Despesa corrente primária	112 266	114 154	113 121	855	-1 033	1 888
Consumo intermédio	16 163	15 916	15 723	-440	-193	-247
Despesas com pessoal	32 028	32 498	32 612	584	114	470
Prestações sociais	53 356	55 055	55 198	1 842	143	1 699
que não em espécie	48 214	49 159	49 279	*1 065*	*120*	*945*
em espécie	5 142	5 895	5 918	*776*	*23*	*754*
Subsídios	1 976	1 527	1 718	-257	192	-449
Outra despesa corrente	8 743	9 159	7 870	-874	-1 289	416
Despesa de capital	14 255	13 751	11 856	-2 399	-1 894	-504
FBCF	10 907	10 234	9 167	-1 740	-1 067	-673
Outras despesas de capital	3 347	3 516	2 689	-658	-827	169
Juros	6 437	6 271	5 965	-473	-307	-166
Saldo global	804	948	2 059	1 255	1 111	144
em % do PIB	*0,3*	*0,3*	*0,7*	*0,4*	*0,4*	*0,0*
Saldo Primário	7 241	7 219	8 023	782	804	-21
Receita fiscal e contributiva	110 448	112 243	114 039	3 592	1 796	1 795
Receita não fiscal e não contributiva	23 314	22 881	18 961	-4 353	-3 920	-433
Despesa corrente	118 703	120 425	119 085	382	-1 340	1 722
Dívida pública	274 438	276 028	275 063	625	-966	1 590
em % do PIB	*93,3*	*90,2*	*89,7*	*-3,6*	*-0,6*	*-3,0*
PIB nominal	294 271	305 873	306 765	12 495	892	11 602

Sources: Ministry of Finance (State Budget and estimate) and INE (actual figures). | Notes: the figures are influenced by *one-off* expenditure, detailed at Table 11 in the annex; the positive deviations in the overall balance and the primary balance correspond to favourable deviations compared to the 2025 State Budget and the MF's estimate for 2025 underlying the 2026 Medium-Term Budget Strategy; the forecast revision corresponds to the difference between the MF's October 2025 estimate and the 2025 State Budget approved in November 2024. The deviations recorded in the overall balance and public debt ratios are expressed in percentage points of GDP.

Expendíture

General government expenditure fell short of the forecast in the 2025 State Budget. Capital expenditure (-€2,399 million) and interest charges (-€473 million) contributed to the lower-than-expected expenditure in 2016. Conversely, primary current expenditure exceeded the Ministry of Finance's initial forecast by €855 million.

In terms of capital expenditure, the execution rate for gross fixed capital formation (GFCF) was once again significantly lower than forecast by the Ministry of Finance. Almost three-quarters of the shortfall in capital expenditure was attributable to GFCF (–€1,740 million; Table 7), whose execution rate (84.0%) remained below forecast. In fact, investment growth (16.3%) was less than half of what was implied in the 2025 State Budget (38.4%). This low execution of GFCF was due to the component financed by EU funds, which fell €2,453 million short of the initial forecast (of which €1,829 million under the RRP), with only 45.9% of the amount forecast in the 2025 State Budget having been executed. This result points to a more optimistic initial scenario, albeit with no impact on the fiscal balance, given the neutral nature of these transfers. Conversely, and given the limited information regarding the implementation of the RRP in local government, the component of GFCF implemented with national funding may have exceeded the forecast (€712 million).[28] 'Other capital expenditure', for the reasons described above, is likely to have fallen short of the forecast in the 2025 State Budget (€658 million), although the lower execution of expenditure under the RRP (-€194 million) was offset by the unforeseen impact of the *one-off* expenditure relating to the restitution of the solidarity surcharge levied on the banking sector (€218 million).

The higher-than-expected execution of primary current expenditure in the 2025 State Budget was mainly due to social benefits and, to a lesser extent, to staff costs. Expenditure on social benefits rose by 5.9%, significantly above the 2.3% implied in the 2025 State Budget, representing a deviation of €1,842 million. This deviation was mainly attributable to benefits other than in kind (Table 7), primarily because pension expenditure exceeded the forecast amount, even without taking new policy measures into account. Added to this was the impact of the payment of an extraordinary pension supplement, which was not included in the 2025 State Budget. As for staff costs, these exceeded the initial forecast by €584 million. Conversely, intermediate consumption and 'other current expenditure' were below forecast, mainly due to the RRP being implemented to a lesser extent than anticipated in the 2025 State Budget. Excluding the RRP effect, both items would have been implemented to a greater extent than forecast.

Balance

Reflecting lower-than-expected revenue and expenditure, the fiscal surplus recorded in 2025 was €1.3 billion higher than anticipated in the 2025 State Budget. From a national

[28] In this regard, it should be noted that GFCF financed by domestic funds may be overestimated, whilst the component financed by European funds may be underestimated, due to differences in statistical treatment. This situation is explained by the fact that the fiscal forecast incorporates, in the RRP data, local government investments under the GFCF heading, whilst the preliminary RRP estimate compiled by the statistical authority classifies them as 'other capital expenditure', due to limitations in identifying the sources of funding in the data reported by the municipalities.

accounts perspective, the 2025 State Budget projected a fiscal surplus of €804 million, corresponding to 0.3% of GDP.[29] According to data compiled by INE as part of the first notification of the Stability and Growth Pact, in March 2026, the fiscal budget surplus amounted to €2,059 million (0.7% of GDP) in 2025, the second highest figure in the comparable statistical series since 1995[30] and implying a forecast error of 0.4 percentage points of GDP.

To correctly assess the contribution of the various revenue and expenditure aggregates to the deviation in the fiscal balance in 2025, it is necessary to exclude transfers from the European Union. This approach is justified by the fact that, in national accounts, these transfers adhere to the principle of the neutrality of European funds: transfers received are recorded only when the expenditure is incurred and for the same amount, thus not affecting the fiscal balance. For this reason, although they influence revenue and expenditure levels, differences between the forecast and actual figures for transfers from the EU do not explain the deviation observed in the fiscal balance.[31]

Excluding the neutral effect of the disbursement of European Union funds, it can be seen that the positive shortfall in tax and social security revenue more than offset the underspending in the 2025 State Budget. The positive revenue shortfall of €3,798 million exceeded the expenditure shortfall, which amounted to €2,543 million (Chart 13). Approximately 95% of the deviation in public revenue was due to the more favourable performance of tax and social security revenue, with tax revenue and social security contributions coming in €2,671 million and €921 million above forecast, respectively. On the expenditure side, the deviation was mainly due to primary current expenditure, which, excluding the effect of RRP loans, exceeded the 2025 State Budget forecast by €2,918 million. Approximately 85% of this deviation was due to social benefits and staff costs. Also noteworthy is the unforeseen impact of a *one-off* expenditure of €218 million (Table 11). Capital expenditure, excluding RRP loans and *one-offs*, exceeded the MF's initial forecast by €109 million, reflecting opposing trends in its components: investment funded by domestic financing exceeded the forecast by €791 million ([32]), whilst 'other capital expenditure' fell short by €682 million. The deviations recorded in these two components are partly influenced by the aforementioned difference in statistical treatment regarding investments associated with the Local Government RRP. Conversely, interest charges were €473 million lower,

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[29] In 2025, the Government presented estimates for that year in two fiscal documents. In the Annual Progress Report, published in April 2025, the balance was revised slightly upwards to €814 million. Subsequently, in October, as part of the POE/2026, the Ministry of Finance updated the estimate for 2025, pointing to a surplus of €948 million. Despite these revisions, the balance forecast by the Ministry of Finance remained unchanged at 0.3% of GDP.

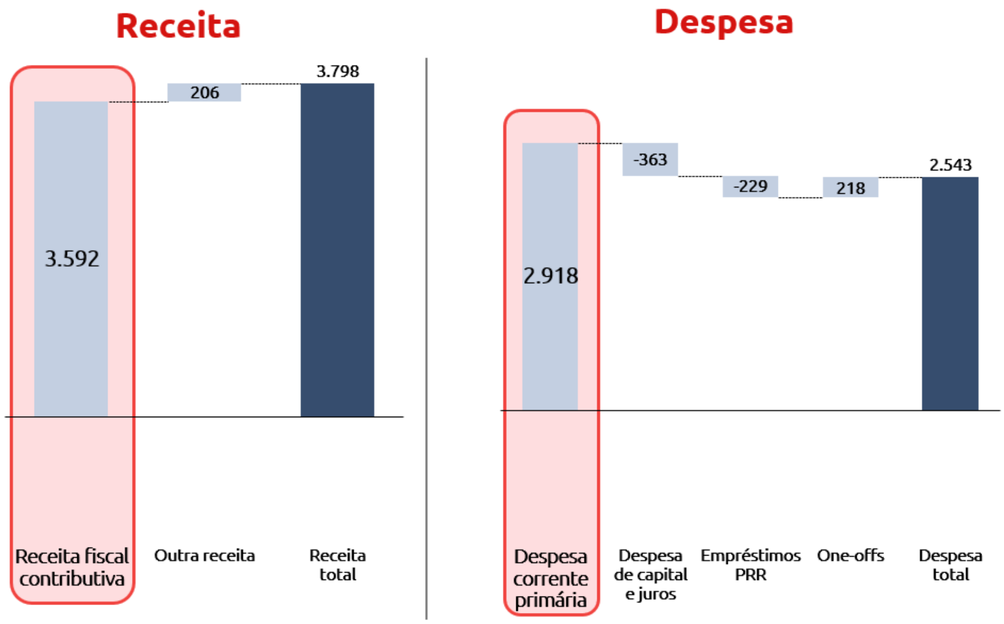
[30] In the statistical series available since 1995 for the general government (https://www.cfp.pt/pt/dados/series-temporais-das-ap/anuais), a first fiscal surplus was recorded only in 2019 (0.1% of GDP), followed by the peak observed in 2023 (1.1% of GDP). It should be noted that the fiscal balances for 2023 and 2024 were both revised as part of the first EDP notification in March 2026. In nominal terms, the 2023 balance was revised downwards and the 2024 balance upwards. Nevertheless, these changes led to a downward revision in % of GDP of approximately 0.1 percentage points for both years, taking into account the denominator effect resulting from the GDP update. These revisions were largely driven by changes in the recording of the first reprogramming of the RRP.

[31] The same does not apply to RRP loans, which do not constitute a grant but rather national financing, and therefore have an impact on the fiscal balance.

[32] The calculation of this deviation excludes the impact of loans under the RRP.

and public expenditure financed by loans under the RRP had a smaller negative impact on the fiscal balance than forecast in the 2025 State Budget (-€229 million).

Chart 13 – Deviations from the Ministry of Finance's forecast in the 2025 State Budget, excluding transfers from the European Union (€m)



Sources: MF and INE. CFP calculations. | Note: i) For the purposes of graphical representation, the deviation is quantified as the difference between the actual figure calculated by INE and the MF's forecast in the 2025 State Budget approved in November 2024, which translates into a level of revenue and expenditure higher than that forecast by the MF; **(ii) Tax and social security revenue** = Tax revenue + Social security contributions; **(iii) Other revenue** = Sales + Other current revenue + Capital revenue, excluding transfers from the European Union, which include RRP grants; **(iv) Primary current expenditure**, excluding RRP loans and excluding expenditure financed by current transfers from the European Union, which includes expenditure financed by RRP grants; **(v) Capital expenditure and interest**, excluding expenditure on GFCF and 'Other capital expenditure' funded by capital transfers from the European Union (which includes expenditure financed by RRP grants) and excluding RRP loans and *one-off* operations.

Public Debt

In 2025, the public debt ratio was below the MF's forecasts, standing at 89.7% of GDP. The difference of 3.6 percentage points of GDP compared to the figure forecast in the 2025 State Budget (93.3%) was due exclusively to higher-than-expected nominal GDP, whose favourable contribution of around 3.4 percentage points more than offset the unfavourable impact of a nominal debt stock slightly above forecast (0.2 percentage points of GDP).

Box 4 – Deviations from the MF's estimate for 2025, underlying the 2026 State Budget

In the updated estimate for 2025, which forms the basis for the 2026 fiscal forecast, general government revenue and expenditure were lower than the Ministry of Finance had anticipated. Based on the available information on the evolution of fiscal aggregates in national accounts in the first half of the year, as well as developments in public accounts up to the end of August, the Ministry of Finance has revised fiscal revenue and expenditure upwards compared to the 2025 State Budget. Despite this change, the estimated figures for these aggregates fell short of the actual figures by €2,124 million and €3,235 million, respectively (Table 7). These deviations would have been almost €350 million higher had the reclassification of the company Comboios de Portugal out of the general government sector not taken place.

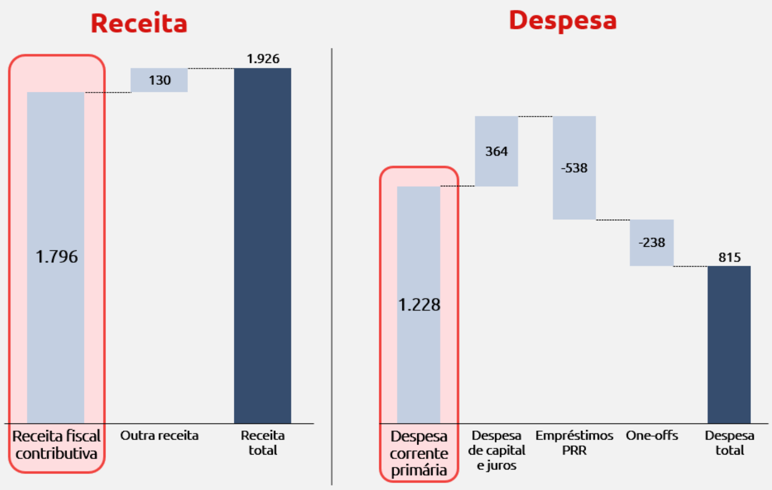
Funds from the European Union remained the main factor explaining the revenue shortfall, despite having been revised downwards by the Ministry of Finance. With regard to the RRP, the Ministry of Finance kept its forecast for grants unchanged (€6,752 million), but revised the remaining European funds downwards by €509 million. Even so, the revenue shortfall associated with European funds stood at €4,050 million below the actual figure, with approximately 90% of this shortfall explained by the RRP.

On the expenditure side, there was an upward revision of this aggregate compared to the 2025 State Budget, driven mainly by the more rigid components. In this estimate, expenditure was revised upwards by a further €1,218 million, of which €1,888 million relates to primary current expenditure, reflecting higher expected expenditure on staff costs (+€470 million) and social benefits (+€1,699 million). In contrast, capital expenditure was revised downwards by €504 million, although this was offset by an upward revision of RRP loans (+€308 million) and the inclusion of expenditure associated with *one-off* operations that were not initially forecast (€456 million). This revision was mainly driven by GFCF, determined by lower expected implementation of the European funds component not associated with the RRP.

Consequently, the general government balance was significantly higher than estimated by the Ministry of Finance. Excluding transfers from the EU (which have no impact on the general government balance), the revenue shortfall was more than double that recorded on the expenditure side. Compared with the October 2025 estimate, the general government balance was €1,111 million higher than expected by the Ministry of Finance, reflecting a positive revenue deviation of €1,926 million (Chart 14), more than enough to offset the deviation in expenditure (+€815 million), which would have been higher without the sectoral reclassification of the Public Pension Fund. The difference in public revenue was primarily due to the performance of tax and social security revenue, with results exceeding estimates by €973 million in social security contributions and €824 million in tax revenue, with VAT making a notable contribution to the latter. On the expenditure side, the deviation was mainly due to primary current expenditure which, excluding the effect of RRP loans, exceeded the MF's estimate by €1,228 million, reflecting above all higher spending on subsidies and intermediate consumption. Capital expenditure, excluding RRP loans and *one-offs*, exceeded the MF's estimate by €670 million as a result of opposing deviations in its components: investment financed by domestic funds was €907 million higher than estimated by the MF, whilst 'other capital expenditure' was €236 million lower. Conversely, public expenditure financed by RRP loans had a smaller negative impact on the fiscal balance than estimated by the Ministry of Finance in October 2025 (-€538 million), with interest charges and *one-off* expenditure being €307 million and €238 million lower, respectively.

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

Chart 7 – Deviations in actual expenditure from the Ministry of Finance's estimate for 2025 underlying the 2026 State Budget, excluding transfers from the European Union (€m)



Sources: INE and MF. CFP calculations. | Note: (i) For the purposes of graphical representation, the deviation is quantified as the difference between the actual figure calculated by INE and the MF estimate presented in October 2025, which translates into a level of revenue higher than that estimated by the MF and a level of expenditure higher than that anticipated by the MF; **(ii) Tax and social security revenue** = Tax revenue + Social security contributions; **(iii) Other revenue** = Sales + Other current revenue + Capital revenue, excluding transfers from the European Union, which include RRP grants; **(iv) Primary current expenditure**, excluding RRP loans and excluding expenditure financed by current transfers from the European Union, which includes expenditure financed by RRP grants; **(v) Capital expenditure and interest**, excluding expenditure on GFCF and 'Other capital expenditure' funded by capital transfers from the European Union (which includes expenditure financed by RRP grants) and excluding RRP loans and *one-off* operations.

Public debt stood at 89.7% of GDP, 0.6 percentage points below the 2025 estimate presented in the 2026 Budgetary Outlook (90.2%). This deviation reflects favourable contributions from both the denominator and the numerator of the ratio, resulting from higher-than-expected nominal GDP (0.3 percentage points of GDP) and lower-than-expected nominal public debt (0.3 percentage points of GDP).

4. ANNEXES

4.1 Tables

Table 8 – General government account adjusted for *one-offs*

	M€		% do PIB		Variação 2024/2025			
	2024	2025	2024	2025	%	Ctvh	M€	p.p. PIB
Receita Total	124 668	133 000	43,0	43,4	6,7	6,7	8 332	0,3
Receita corrente	122 069	129 166	42,1	42,1	5,8	5,7	7 096	0,0
Receita fiscal	71 053	75 268	24,5	24,5	5,9	3,4	4 215	0,0
Impostos indiretos	41 567	44 514	14,3	14,5	7,1	2,4	2 947	0,2
Impostos diretos	29 486	30 755	10,2	10,0	4,3	1,0	1 268	-0,1
Contribuições sociais	35 883	38 771	12,4	12,6	8,0	2,3	2 888	0,3
Das quais: efetivas	30 452	33 046	10,5	10,8	8,5	2,1	2 594	0,3
Vendas e outras receitas correntes	15 134	15 127	5,2	4,9	0,0	0,0	-7	-0,3
Vendas de bens e serviços	9 150	8 952	3,2	2,9	-2,2	-0,2	-197	-0,2
Outra receita corrente	5 985	6 175	2,1	2,0	3,2	0,2	190	-0,1
Receitas de capital	2 598	3 834	0,9	1,2	47,6	1,0	1 236	0,4
Despesa Total	122 805	130 724	42,4	42,6	6,4	6,4	7 918	0,2
Despesa primária	116 871	124 759	40,3	40,7	6,7	6,4	7 889	0,3
Despesa corrente primária	106 834	113 121	36,9	36,9	5,9	5,1	6 287	0,0
Consumo intermédio	15 076	15 723	5,2	5,1	4,3	0,5	647	-0,1
Despesas com pessoal	30 322	32 612	10,5	10,6	7,6	1,9	2 290	0,2
Prestações sociais	52 143	55 198	18,0	18,0	5,9	2,5	3 054	0,0
que não em espécie	46 386	49 279	16,0	16,1	6,2	2,4	2 894	0,1
em espécie	5 757	5 918	2,0	1,9	2,8	0,1	161	-0,1
Subsídios	1 886	1 718	0,7	0,6	-8,9	-0,1	-167	-0,1
Outra despesa corrente	7 407	7 870	2,6	2,6	6,2	0,4	463	0,0
Despesas de capital	10 037	11 639	3,5	3,8	16,0	1,3	1 602	0,3
FBCF	7 881	9 167	2,7	3,0	16,3	1,0	1 286	0,3
Outras despesas de capital	2 156	2 472	0,7	0,8	14,6	0,3	316	0,1
Juros	5 935	5 965	2,0	1,9	0,5	0,0	30	-0,1
Saldo global	1 863	2 276	0,6	0,7	:	:	414	0,1
Saldo primário	7 797	8 241	2,7	2,7	:	:	443	0,0
Receita fiscal e contributiva	106 935	114 039	36,9	37,2	6,6	5,8	7 104	0,3
Receita não fiscal e não contributiva	17 733	18 961	6,1	6,2	6,9	1,0	1 228	0,1
Carga fiscal	101 505	108 314	35,0	35,3	6,7	5,5	6 809	0,3
Despesa Corrente	112 769	119 085	38,9	38,8	5,6	5,1	6 316	-0,1
PIB nominal	289 784	306 765	:	:	5,9	:	16 981	:

Source: INE. CFP calculations. | Note: figures adjusted for *one-off* operations presented in Table 11.

Table 9 – Tax burden and weight of the main taxes and CSE in the main macroeconomic aggregates (%)

Carga Fiscal	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Carga Fiscal (em % do PIB)	34,0	34,1	34,5	34,4	35,0	35,0	35,7	35,2	35,0	35,3
Impostos diretos (em % do PIB)	10,1	9,9	10,1	9,7	10,0	9,6	10,5	10,6	10,2	10,0
Impostos indiretos (em % do PIB)	14,8	14,9	15,1	15,0	14,6	15,0	15,0	14,3	14,3	14,5
Contribuições sociais efetivas (em % do PIB)	9,1	9,2	9,3	9,6	10,4	10,4	10,2	10,3	10,5	10,8
Peso dos principais impostos e CSE nas respetivas bases macroeconómicas	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
IRS sobre o trabalho, CSE e IRC (em % do rendimento total dos fatores de produção)	30,1	30,7	31,2	31,1	32,1	31,4	32,0	31,5	31,4	31,1
CSE e IRS proveniente do trabalho (em % do rendimento total dos fatores de produção)	24,7	25,0	25,3	25,6	27,3	27,2	26,3	25,7	25,0	25,2
IRC (em % do rendimento total dos fatores de produção)	5,4	5,7	5,9	5,5	4,8	4,2	5,7	5,8	6,4	5,9
IRS proveniente do trabalho e CSE (em % dos salários e ordenados)	40,8	41,1	40,9	41,0	41,6	41,6	41,4	40,9	39,2	39,1
IRS proveniente do trabalho (em % dos salários e ordenados)	14,2	14,4	14,1	13,8	14,0	13,9	13,8	13,3	11,2	10,6
CSE (em % dos salários e ordenados)	26,6	26,7	26,8	27,2	27,6	27,7	27,6	27,6	28,0	28,5
IRC (em % do excedente bruto de exploração das sociedades)	13,6	14,5	15,5	14,6	14,0	12,2	15,7	15,6	17,7	16,6
IVA e IEC (em % do consumo privado nominal)	17,3	17,7	17,9	17,8	17,1	17,9	17,8	17,6	18,1	18,3
IVA (em % do consumo privado nominal)	13,1	13,5	13,7	13,8	13,2	14,1	14,8	14,5	14,9	15,1
IEC (em % do consumo privado nominal)	4,2	4,2	4,1	4,0	3,9	3,9	3,0	3,2	3,2	3,2

Source: INE and AT. CFP calculations. | Notes: CSE stands for Effective Social Contributions. The calculated tax burden corresponds to revenue from taxes and effective social contributions collected by the general government sector (S13). The share of capital taxes is negligible over the period and has therefore not been included in the table. The totals do not necessarily correspond to the sum of the components as a percentage of GDP due to rounding.

Table 10 – Evolution of social benefit expenditure

	2024	2025	2024	2025	Variação 2024/2025			
	M€		% do PIB		M€	%	Ctvh	p.p. PIB
Prestações sociais	52 143	55 198	18,3	18,0	3 054	5,9	5,9	-0,3
que não em espécie	46 386	49 279	16,3	16,1	2 894	6,2	5,5	-0,2
Pensões (das quais:)	35 551	37 578	12,5	12,2	2 027	5,7	3,9	-0,2
Pensões Segurança Social	23 745	25 174	8,3	8,2	1 429	6,0	2,7	-0,1
Prestações de desemprego	1 592	1 688	0,6	0,6	96	6,0	0,2	0,0
Outras	9 242	10 013	3,2	3,3	771	8,3	1,5	0,0
em espécie	5 757	5 918	2,0	1,9	161	2,8	0,3	-0,1

Source: INE. CFP calculations.

Table 11 – *One-off* and operations (in €m and as a % of GDP)

	M€						% do PIB					
	2019	2020	2021	2022	2023	2025	2019	2020	2021	2022	2023	2025
Medidas *one-off* (impacto no saldo)	-1 313	-1 337	748	-245	-1 261	-218	-0,6	-0,7	0,3	-0,1	-0,5	-0,1
Receita	55	36	1 177				0,0	0,0	0,5			
Devolução de comissão do FEEF (*prepaid margins*)			1 114						0,5			
Recuperação de garantia do BPP	55	36	63				0,0	0,0	0,0			
Despesa	1 368	1 374	429	245	1 261	218	0,6	0,7	0,2	0,1	0,5	0,1
Recapitalização do Novo Banco (NB)	1 149	1 035	429				0,5	0,5	0,2			
Parvalorem | Perdas adicionais de créditos não passíveis de recuperação					916						0,3	
Ativos por impostos diferidos		144		245	117			0,1		0,1	0,0	
Indemnização judicial à EDP					228						0,1	
Compensação à concessionária AEDL, S.A.	219						0,1					
Transferência do FGCAM por devolução ao BdP		81						0,0				
Decisão judicial relativa à obrigação de pagamento de retroativos de suplementos de férias não pagos à PSP e à GNR		114						0,1				
Devolução do adicional de solidariedade cobrado à Banca						218						0,1
Por memória (impacto por agregado orçamental)												
Receitas de capital	*55*	*36*	*1 177*				*0,0*	*0,0*	*0,5*			
Outras despesas de capital	*1 368*	*1 374*	*429*	*245*	*1 261*	*218*	*0,6*	*0,7*	*0,2*	*0,1*	*0,5*	*0,1*

Sources: INE and Ministry of Finance. | Notes: Calculations and classification by the CFP. No *one-off* operations were considered for 2024. Totals do not necessarily correspond to the sum of the components due to rounding. Figures may be subject to change should new information justify such adjustments.

Table 12 – Debt dynamics

	2024	2025
Dívida Pública (% do PIB)	93,5	89,7
Variação da dívida (em p.p. do PIB)	-4,5	-3,8
Saldo primário	-2,7	-2,6
Efeito dinâmico (bola de neve)	-5,5	-3,2
- efeito juros	2,0	1,9
- efeito crescimento nominal	-7,6	-5,2
efeito preço	-3,9	-3,5
efeito crescimento real	-2,5	-1,7
Ajust. défice-dívida	3,8	2,0

Sources: INE and Banco de Portugal. CFP calculations. | Note: A detailed explanation of the breakdown of the change in the debt ratio used in this table can be found in Box 3 of the CFP Note on Public Debt.

4.2 Main Sources of Statistical Information

Bank of Portugal (2026), BPstat General Government Debt and Financing

Portuguese Public Finance Council (2026), Economic and Fiscal Outlook 2026-2030

DGAEP (2026), Statistical summary of public employment – 4th quarter of 2025

INE (2026a), Quarterly National Accounts by Institutional Sector, 4th quarter of 2025

INE (2026b), Excessive Deficit Procedure (1st Notification of 2026)

Ministry of Finance (2024), State Budget Report for 2025

Ministry of Finance (2025), State Budget Report for 2026

4.3 List of Charts

4.4 List of Tables

4.5 Boxes