Conselho das Finanças Públicas

ECONOMIC AND FISCAL OUTLOOK 2026-2030

EXECUTIVE SUMMARY

April 2026

Report NO.
02/2026

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Macroeconomic outlook under no policy change

In 2025, the Portuguese economy grew by 1.9% in real terms, in line with the CFP's projections, representing a slowdown of 0.3 percentage points compared with 2024. Private consumption benefited from one-off measures in the second half of the year – the extraordinary pension supplement and the retroactive adjustment of income tax withholding tables – whilst business investment slowed and exports grew by just 0.4%, significantly below external demand. The performance of the Portuguese economy in 2025 demonstrated its resilience to a series of adverse events – notably changes in US trade policy – growing at a rate above the 1.5% recorded by the euro area.

The CFP projects real GDP growth of 1.6% in 2026, a downward revision of 0.2 percentage points compared to the September scenario, a figure that is nevertheless higher than the latest available projections for the euro area. Two events marked the start of 2026, with material consequences for the macroeconomic outlook:

- A series of Atlantic storms left 90 municipalities, with 2.3 million residents, in a state of emergency. In the medium term, the recovery of the affected areas faces more structural challenges, with investment projects potentially becoming unviable due to the risk of similar events recurring, should there be no investment in infrastructure to make these territories more resilient.

- The United States and Israel launched joint air strikes against Iran, triggering the blockade of the Strait of Hormuz – the greatest supply disruption in the history of the global oil market, according to the International Energy Agency. For Portugal – a net importer of oil and natural gas – the direct impact on consumer prices is compounded by indirect effects on production costs, as well as impacts on confidence, supply chains and the activity of key trading partners; and a possible rise in interest rates.

The CFP's projections are based on the technical assumptions available at the end of March, which point to significant increases in the price of oil and natural gas in 2026. The downward revision of growth in 2026 has a particular impact on the first half of the year, on consumption and on private investment. An increase in public investment of over 15%, linked to the end of the PRR, acts as a buffer against external shocks. The re- ation of external inflationary pressures is expected to result in a rise in consumer price inflation to

2.9%, both directly in the energy component and through second-round effects on food, transport and industrial goods.

For 2027, growth is projected to recover to 1.8%, supported by the easing of the energy shock, followed by a gradual convergence to 1.6% by the end of the projection horizon. The acceleration in 2027 is expected to be driven by improved export prospects, the dissipation of high levels of uncertainty and a temporary boost to disposable income associated with increased income tax refunds. In the medium term, growth is expected to stabilise at around 1.6%, reflecting the dissipation of the temporary effects of 2027, a gradual contraction in public investment following the end of the PRR, and less favourable prospects for labour productivity, taking into account the sectoral composition of growth and the anaemic performance of investment.

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

	2025	2026	2027	2028	2029	2030
Produto Interno Bruto	**1,9**	**1,6**	**1,8**	**1,7**	**1,7**	**1,6**
Consumo privado	3,5	2,1	2,2	2,0	1,7	1,6
Consumo público	1,6	2,0	0,8	1,0	1,0	1,0
Formação Bruta de Capital Fixo	3,6	4,3	1,1	1,4	1,3	1,2
Exportações	0,4	1,0	2,7	2,6	2,5	2,4
Importações	4,3	2,5	2,5	2,7	2,2	2,0
Contributo da procura interna (p.p.)	3,7	2,4	1,8	1,8	1,6	1,4
Contributo das exportações líquidas (p.p.)	-1,8	-0,7	0,0	-0,1	0,1	0,1
Taxa de desemprego (% pop. ativa)	6,0	5,8	5,7	5,7	5,8	5,8
Emprego	2,3	1,4	0,7	0,3	0,1	0,0
Cap. líq. de financiamento face ao exterior (% PIB)	2,5	1,6	1,8	1,3	0,3	0,3
Balança de bens e serviços (% PIB)	0,9	-0,3	0,0	0,2	0,4	0,6
Deflator implícito do PIB	3,9	2,7	2,6	2,3	2,1	2,0
Indice Harmonizado de Preços no Consumidor	2,2	2,9	2,3	2,1	2,0	2,0
Hiato do produto (% Produto potencial)	0,0	-0,4	-0,5	-0,3	0,0	0,3

Sources: Statistics Portugal (2025) and CFP Projections (2026–2030).

Budgetary outlook under no policy change

The 2025 fiscal outcome provides a more favourable starting point for the fiscal scenario projection than previously projected. The fiscal surplus reached 0.7% of GDP in 2025, exceeding the expectations of the Government and official national and international forecasters. The deviation from the CFP projection, excluding EU funds – which have a neutral impact on the balance – resulted mainly from a more favourable performance of tax and social security revenue, and capital expenditure (including one-off operations) that was lower than projected, as primary current expenditure remained broadly in line with projections.

For 2026, a budget balance close to equilibrium is now anticipated, subject to the scale of support related to storms and energy. The deterioration compared to 2025 is mainly explained by the impact of measures in response to the storms and the military conflict in Iran, as well as by greater use of PRR loans. However, a budgetary cost of such support higher than that assumed by the CFP, not offset by other effects, would result in a more unfavourable balance.

From 2027 onwards, the budget balance is expected to return to a deficit, reaching 1.0% of GDP in 2030. For 2027, a deficit of 0.4% of GDP is anticipated, despite the reduced use of PRR loans (0.3 percentage points of GDP lower than in 2026). This deterioration stems mainly from the reduction in personal income tax (PIT) revenue, linked to the end of the temporary effect of the extraordinary withholding tax rates, as well as the impact of the gradual reduction in the corporation tax rate, which contributes to a further decline in tax revenue. In the following years, the deficit is expected to widen to 0.6% of GDP in 2028, 0.8% of GDP in 2029 and reach 1.0% of GDP in 2030. This deterioration essentially reflects the permanent and cumulative effect of tax relief measures on personal income tax (IRS) and corporate income tax (IRC), as well as the increase in interest charges on public debt. Notwithstanding these developments, the primary balance, which excludes interest charges, will remain in surplus until the end of the projection horizon, continuing to contribute to the reduction in the public debt ratio.

The new budgetary scenario projects stronger growth in net expenditure compared with that presented in September, exceeding the commitment made by Portugal under the National Medium-Term Structural Budget Plan. This revision stems mainly from the greater impact of new fiscal measures with a discretionary revenue-reducing effect. For 2026, the projection points to a 6.9% increase in net expenditure.

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

	2025 INE	Projeção CFP				
		2026	2027	2028	2029	2030
Receita total	**43,4**	**44,1**	**42,4**	**41,6**	**41,1**	**40,4**
Receita fiscal e contributiva	37,2	37,6	36,7	36,4	36,0	35,7
Receita fiscal	24,5	24,9	24,0	23,7	23,5	23,3
Contribuições sociais	12,6	12,8	12,7	12,6	12,5	12,4
Receita não fiscal e não contributiva	6,2	6,4	5,7	5,2	5,1	4,8
Despesa primária	**40,7**	**42,0**	**40,7**	**40,0**	**39,7**	**39,2**
Despesa corrente primária	36,9	37,7	37,0	36,7	36,4	36,3
Despesa de capital	3,9	4,3	3,7	3,3	3,2	2,9
Saldo primário	**2,6**	**2,1**	**1,7**	**1,5**	**1,5**	**1,2**
Juros	1,9	2,0	2,1	2,2	2,2	2,2
Despesa total	**42,7**	**44,0**	**42,7**	**42,2**	**41,9**	**41,5**
Saldo orçamental	**0,7**	**0,1**	**-0,4**	**-0,6**	**-0,8**	**-1,0**
Saldo ajustado de medidas one-off	0,7	0,4	-0,4	-0,6	-0,8	-1,0
Dívida pública	**89,7**	**86,5**	**84,5**	**83,1**	**82,1**	**81,5**

Sources: CFP projections (2026–2030) and Statistics Portugal (2025).

The CFP's projection points to a public debt ratio of around 81.5% of GDP in 2030, reflecting a cumulative reduction of 8.1 percentage points between 2025 and 2030. The projection benefits from a more favourable starting point resulting from the upward revision of nominal GDP for 2024. Although Portuguese debt has shown resilience, continuing to record historically low spreads against Germany, the implicit interest rate is projected to rise gradually from 2.2% in 2025 to 2.8% in 2030, reflecting issuances at higher costs than those of the bonds being redeemed. Gross borrowing requirements are expected to remain moderate, although early buy-back operations may smooth the repayment profile.

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

The CFP considers the balance of risks to be predominantly tilted downwards for economic activity and upwards for inflation – for the first time since September 2023. On the external front, the magnitude of the impact of the conflict in the Middle East is, to a large extent, a function of the duration of the disruption: a short-term disruption essentially constitutes a supply shock to oil prices, whereas a prolonged disruption tends to turn into a broader shock to inflation and growth, in a context where Europe's fiscal capacity to support households and businesses is substantially more limited than in 2022. Added to this is the persistence of uncertainty surrounding US trade policy and the risk of instability in financial markets, against a backdrop of high levels of public debt in advanced economies and a possible new wave of inflationary pressures. On the domestic front, key factors include the implementation of investment linked to the conclusion of the Recovery and Resilience Programme (RRP), the increasing frequency and severity of extreme weather events, the evolution of migration flows in the light of recent legislative changes – with a downside risk to potential output – and the scale and timing of defence expenditure under the ReArm Europe plan, which is not incorporated into the CFP's central scenario.

The CFP's projection under unchanged policies does not take into account certain factors that could influence the budgetary trajectory. It should be noted that the following factors have not been incorporated, as the information requested from the Ministry of Finance regarding the timing and respective budgetary impacts was not made available: (i) the additional allocation of defence expenditure to meet the commitments undertaken within the framework of NATO, with no support for Ukraine after 2025 having been considered, nor the use of the European SAFE funding programme; (ii) measures to address adverse weather conditions, which have not been quantified; and (iii) the impact of the 'RRPT – Portugal Transformation, Recovery and Resilience' programme. The possible sale of up to 49% of the share capital of TAP, SA was also not considered.

Budgetary risks have predominantly downward effects on the general government balance. Of particular note are those arising from the high uncertainty regarding the duration and economic effects of the military conflict in the Middle East, which do not rule out the possibility of adopting additional measures to mitigate the negative impact on the economy and household income. There is also a risk that the budgetary impact of the measures, including those related to adverse weather conditions, may differ from the figures assumed. Also worth mentioning are: contingent liabilities, such as public-private partnerships and public guarantees, notably those relating to the youth housing package and the guarantees associated with the credit lines created in the wake of the aforementioned storms; the occurrence of new extreme weather events exacerbated by climate change; and the possible failure to meet the deadlines for the implementation of investments financed by the PRR, which could entail additional costs for the State Budget.

On the upside, there may be factors leading to a more favourable budgetary trajectory. These include: potential European support in response to the storms; greater elasticity of tax revenue; lower execution of nationally financed public investment (including through the loan component of the PRR) and lower interest charges, should the public debt scenario prove more favourable. The proceeds from the possible partial sale of the share capital of TAP, SA could contribute to a further reduction in public debt.