Conselho das Finanças Públicas

GENERAL GOVERNMENT BUDGET OUTTURN IN 2025

EXECUTIVE SUMMARY

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In 2025, the general government (GG) 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 (SB/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 DSB/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, GG 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 DSB/2025 had already signalled an underestimation of tax and social security revenue. In the updated estimate for 2025 underlying the DSB/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 MF 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 MF'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 DSB/2026. 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.