Conselho das Finanças Públicas

ECONOMIC AND FISCAL OUTLOOK 2026-2030 (UPDATE)

EXECUTIVE SUMMARY

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Macroeconomic outlook under unchanged policies

The Portuguese economy proved to be more resilient than anticipated in the first half of 2026. Despite the Atlantic storms and the energy shock linked to the conflict in the Middle East and the closure of the Strait of Hormuz – the impact of which on prices weighed on the trade balance by 0.4% of GDP – real GDP grew by 0.8% in the second quarter compared with the previous quarter, compared with the 0.1% recorded in the first three months of the year. The composition of growth, driven by private consumption, suggests that households have used their savings to offset, in part, the rise in fuel costs, at a time when the labour market is at full employment.

The CFP forecasts growth of 2.2% in 2026, an upward revision from the 1.6% projected in April. The second half of the year faces adverse external constraints – the resumption of military operations in the Persian Gulf, the drought affecting around half of the EU's territory and the ECB's more restrictive stance (with the deposit facility at 2.5%) – alongside considerable domestic fiscal stimulus. Public investment rises by around 22.3% in nominal terms with the completion of the RRP, raising its share of GDP from 3% to 3.5% – the highest since 2011 – which partially cushions the external shocks. Added to this is the announcement of an extraordinary supplement for pensioners, which will take effect at the end of the year.

The energy shock brings an end to the trend of moderating inflation. The HICP is expected to rise from 2.2% in 2025 to 3.2% in 2026 (+0.3 percentage points compared with April), driven by fuel prices, with lagged indirect effects on transport, food and industrial goods. With the expected fall in energy prices, inflation is projected to ease to 2.6% in 2027, a trend counteracted by the food component, due to the rise in energy and fertiliser costs in 2026 and the risk of a halt to grain exports via the Black Sea, which affects two of the world's largest wheat exporters. Core inflation is easing more gradually, as indirect effects spread to transport services. With expectations anchored and in the absence of significant second-round effects on prices and wages, inflation is expected to stabilise at around 2% in subsequent years, in line with the ECB's target.

In the medium term, growth is set to converge towards 1.6%. Growth is projected at 1.8% in 2027, 1.7% in 2028–2029 and 1.6% in 2030. With less favourable net migration and an ageing population limiting the growth of the working-age population, employment growth slows to 1.1% in 2027 and stabilises at around zero growth in 2030, whilst the unemployment rate is expected to remain at around

5.7% of the labour force over the period 2027–2030. The projected population trends imply more limited contributions from private consumption to GDP. Growth will therefore depend essentially on productivity gains. Export growth is projected to be in line with assumptions regarding the evolution of external demand for Portuguese goods and services (2.5% on average over the period 2027–2030), with potential gains in market share constrained by the new US tariff regime and exchange rate appreciation. The drivers of growth in recent years – tourism, European funds and immigration – have made it possible to temporarily overcome labour shortages and low levels of investment, constraints that persist against a more adverse international trade backdrop.

One caveat should be borne in mind when interpreting these projections. The projections now published are based on population and employment series that have not yet been updated following the revision of INE's resident population estimates. This revision will only be reflected in the publication of the Labour Force Survey and the National Accounts in March 2027. At this stage, it is not possible to anticipate the magnitude or the exact direction of this revision, nor its impact on the different perspectives of GDP (e.g. income, expenditure and output) and the Sectoral Accounts, including the savings rate. It should be noted that the effects of this revision are not neutral for the analysis of public finances and the Portuguese economy.

To illustrate this uncertainty, Box 2 of this Report presents three alternative scenarios for the evolution of the Portuguese economy over the projection horizon. These explore the effect on the Portuguese economy of volatility in energy prices (oil and natural gas). In an adverse scenario, with a sharper and more persistent rise in energy prices compared with the central scenario – with the price of oil standing at over 100 dollars per barrel in the fourth quarter – but also an increase in uncertainty assumed to be similar to that experienced during the Russian invasion of Ukraine in 2022, GDP growth would be lower in both 2026 (-0.1 p.p.) and 2027 (-0.6 p.p.), and inflation would be higher in both years (0.2 p.p. and 0.6 p.p., respectively). Caixa also presents a more benign scenario and a more severe scenario. This analysis is strictly illustrative and does not assign probabilities to the results presented, assuming all factors to be temporary.

Fiscal outlook under unchanged policies

Excluding the announced PIT cut, the CFP maintains its outlook for a surplus this year. However, this projection is sensitive to the scale of the fiscal impact associated with the measures in response to the storms and the conflict in Iran, and to the failure to take into account the impact of the announcement of the new PIT reduction measure, due to a lack of detail regarding the terms of its implementation in terms of the withholding tax tables. This projection, which takes into account the one-off supplement to be paid to pensioners at the end of the year, points to a surplus of 0.2% of GDP. Compared with the balance estimated by INE for 2025 (in March), this represents a deterioration in the surplus of 0.5 percentage points of GDP. The fiscal impact of measures in response to the storms and the military conflict in Iran, together with the increased use of loans from the RRP, are driving this deterioration, which is partially offset by robust growth in tax and social security contributions, as well as by increased dividend income and proceeds from the sale of public sector property.

For 2027 and 2028, the fiscal position is projected to remain close to fiscal balance, but already in deficit. In those years, fiscal deficits of 0.2% and 0.5% of GDP are expected, respectively, reflecting the permanent effects of tax relief measures relating to PIT and CIT, as well as the increase in interest charges associated with higher debt refinancing costs. This development occurs despite the reduction, in 2027, in the impacts related to RRP loans and the phasing out of the extraordinary support granted following the adverse weather conditions and the conflict in Iran.

In the following years, the deficits are expected to widen to 1.0% of GDP in 2029 and 1.7% of GDP in 2030. More than half of the deterioration in these years (1.2 p.p. of GDP) will be attributable to investment (0.5 p.p. of GDP), mainly linked to the procurement of military equipment financed by the SAFE programme, and to the rise in interest payments (0.2 p.p. of GDP).

The current projection revises the growth in net expenditure upwards, beyond the commitment made by Portugal. This projection accentuates the deviation from the path agreed under the National medium-term fiscal-structural plan, pointing to growth of 7.4% in 2026 (compared with 6.9% projected in April), mainly as a result of a greater number of fiscal measures that reduce revenue. Growth of 4.2% and 4.5% is projected for 2027 and 2028, respectively.

The CFP projects that the public debt-to-GDP ratio will fall by 9.8 percentage points between 2025 and 2030, reaching 79.8% of GDP. This trajectory is explained both by the maintenance of primary surpluses, albeit declining ones, and by a favourable but gradually diminishing dynamic effect, resulting from rising interest rates and a reduced price effect. Consequently, the reduction in the public debt ratio averages 1 percentage point over the 2029–2030 biennium, compared with an average reduction of around 4 percentage points projected for 2025–2026.

Key risks and uncertainties

The CFP considers the balance of risks to be predominantly on the downside for economic activity and on the upside for inflation. In this context, it is worth highlighting the high level of uncertainty regarding price developments, against a backdrop of renewed military operations in the Middle East. According to the technical assumptions, the shock remains temporary, dissipating from the third quarter of 2026 onwards. However, a prolonged disruption could increase the risk of further upward pressure on prices. At the European level, this risk may be amplified by low natural gas stocks. Added to this is an increase in the frequency and magnitude of severe weather events. Finally, in financial terms, the ECB's monetary policy stance and tensions in the global sovereign debt market could result in more restrictive financing conditions for the public and private sectors, thereby affecting the viability of investment projects. At the same time, a correction in asset prices could increase financial volatility, against a backdrop of high levels of public debt, concerns about its sustainability and risks of a resurgence of inflationary pressures.

The CFP's no-policy-change projection does not take into account certain factors that could influence the fiscal trajectory. It should be noted that the following measures have not been incorporated, due to a lack of information: (i) the measure to reduce PIT rates up to the 6th bracket, owing to a lack of detail regarding the terms of its implementation in terms of the withholding tax tables; (ii) a portion of military expenditure financed by SAFE, corresponding to 30% of the total appropriation approved under that programme; no account has been taken of other defence expenditure allocations to meet commitments made within the framework of NATO, nor of additional support for Ukraine from 2027 onwards; and (iii) the 'PTRR – Portugal Transformation, Recovery and Resilience' programme. Furthermore, any revisions by INE in the context of the second notification of the EDP have not been taken into account.

The fiscal risks have predominantly downward effects on the general government balance. Of particular note are those arising from the high level of uncertainty associated with the escalation of geopolitical tensions, which means that the possibility of adopting additional measures to mitigate the negative impact on the economy and household income cannot be ruled out. Added to this is the risk that the fiscal impact of the measures, including those related to adverse weather conditions, may differ from the figures assumed. Also worth mentioning are: the possibility that the Resolution Fund may have to compensate certain common creditors of BES under the 'no creditor worse off' principle; other ongoing court rulings; and contingent liabilities, such as public-private partnerships and public guarantees, notably those relating to the youth housing scheme and the guarantees associated with the credit lines established in the wake of the aforementioned storms.

On the upside, there are factors that could lead to a more favourable fiscal trajectory. These include, in particular: (i) the potential collection of €335 million in revenue from corporation tax (IS), property transfer tax (IMT) and CIT resulting from the sale of EDP's dams; (ii) the revenue generated by the Temporary Solidarity Levy on the Oil Sector, due to come into force in 2026; (iii) potential European support in response to the storms; (iv) the possibility of lower public investment expenditure funded from national resources; and (v) the proceeds to be obtained from the partial disposal of the share capital of TAP, SATA Internacional and SATA Handling, which will have no effect on the fiscal balance but will contribute to a more pronounced reduction in the public debt ratio.