



PORTUGAL

June 2026

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PORTUGAL

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with Portugal, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 17, 2026 consideration of the staff report that concluded the Article IV consultation with Portugal.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 17, 2026, following discussions that ended on May 6, 2026, with the officials of Portugal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 28, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Portugal.

The documents listed below have been or will be separately released.

- **Selected Issues**
- **Financial System Stability Assessment**

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IMF Executive Board Concludes 2026 Article IV Consultation with Portugal

FOR IMMEDIATE RELEASE

- In an uncertain global environment, priorities should be to entrench the remarkable gains achieved in recent years in strengthening economic and financial resilience, while accelerating convergence toward higher living standards.
- Fiscal policy should continue focusing on debt reduction while reorienting public spending toward higher investment. Efforts should rely on tax reform, improved efficiency of spending, and measures to contain spending pressures from aging.
- Continued strengthening of the financial policy framework will help preserve stability and increase access to finance. Reinforcing the macroprudential policy toolkit, closely monitoring the real estate market, and fostering the growth of the NBFIs are key.
- Higher medium-term growth requires productivity-enhancing reforms, including measures to support innovation and firm growth, streamlined bureaucracy, product and labor market reforms, and continued improvement in education. Working with its EU partners, Portugal has much to gain from a deeper common market, the savings and investment union, and greater energy market integration.

Washington, DC – June 24, 2026: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Portugal.

Portugal's economic performance has been strong. After a remarkable post-pandemic recovery, Portugal's economy has been growing strongly, faster than the euro area average. The budget recorded a surplus for the third consecutive year in 2025, bringing public debt just below 90 percent of GDP, an impressive reduction from the 2020 peak of 134 percent of GDP. Although volatile, inflation has declined and is close to target. Despite weak external demand, strong tourism inflows supported a current account surplus. The banking system's stability indicators improved further and systemic risks remain moderate. The baseline outlook is favorable, but significant risks, mostly from the external environment, could lower growth or reignite inflation.

Executive Board Assessment²

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation

The Executive Directors commended Portugal's strong economic performance, with growth above the euro area average and inflation declining toward target. Directors noted that while the outlook remains positive, growth is expected to moderate. Furthermore, significant risks—particularly from an uncertain external environment, population aging, and low productivity growth—could push growth further down and inflation up. Directors called for policies and reforms to strengthen resilience and enhance productivity and potential growth.

Directors underscored the importance of additional measures to ensure broadly balanced fiscal positions, while prioritizing public investment. They cautioned that, in 2026, significant EU funds inflows could compound the inflationary impact of higher energy prices and may require tightening fiscal policy. Directors agreed that the fuel excise tax reduction implemented in response to the energy shock should be replaced by targeted support to lower-income households and viable firms under strain in energy-intensive sectors. They encouraged further saving measures to achieve medium-term targets, including reducing tax expenditures, increasing spending efficiency, and further reforming the pension system.

Directors welcomed that the banking sector is resilient to severe adverse macro-financial conditions. They nevertheless emphasized the importance of preserving financial sector stability and resilience by strengthening the financial policy framework, in line with FSAP recommendations. Noting the sizable exposures, Directors urged vigilance on housing-market risks and sovereign exposure. They also emphasized that reducing real-estate market imbalances will require supply-side measures, while reversing misdirected demand-support measures. Directors welcomed the introduction of a positive neutral countercyclical capital buffer and saw merit in further strengthening the macroprudential toolkit. They highlighted the importance of developing the financial sector beyond banks to expand savings and investment channels.

Directors welcomed the authorities' focus on boosting productivity to achieve sustained convergence with European peers. They underscored the need to enhance private investment and economic efficiency by streamlining bureaucracy. Directors also emphasized the need for continued efforts to improve education, reduce skill mismatches, prepare for AI diffusion, and for greater labor market flexibility to improve resource allocation. They encouraged further work with EU partners to deepen the single market, advance the savings and investment union, and better integrate the energy market.

Portugal: Selected Economic Indicators 2024-2028 (Percent, year-over-year, unless otherwise indicated)					
	Projections				
	2024	2025	2026	2027	2028
Real GDP	2.2	1.9	1.7	1.6	1.8
Private consumption	3.0	3.5	1.8	2.1	2.2
Public consumption	1.5	1.7	2.0	0.0	0.1
Gross fixed investment	4.3	3.5	8.1	-2.5	2.3
Exports	3.2	0.4	1.0	3.8	2.2
Imports	4.7	4.2	4.0	2.0	2.3
Contribution to Growth					
Total domestic demand	2.9	3.7	3.2	0.8	1.9
Foreign balance	-0.7	-1.8	-1.5	0.8	-0.1
Resource utilization					
Employment	0.8	2.2	1.7	1.3	0.9
Unemployment rate (percent, average)	6.5	6.0	5.9	5.9	5.8
Prices					
GDP deflator	4.9	3.9	3.2	2.3	2.4
Consumer prices (HICP, average)	2.7	2.2	3.4	2.3	2.4
Fiscal indicators (percent of GDP)					
General government balance	0.6	0.7	0.0	0.0	-0.2
Primary government balance	2.5	2.4	1.9	1.9	1.7
General government debt	93.5	89.7	85.6	82.3	79.2
Current account balance	2.2	1.2	0.1	0.5	0.6
Net international investment position	-58.9	-50.2	-45.2	-41.4	-37.5
Nominal GDP (billions of Euros)	289.8	306.7	322.0	334.7	348.9
Sources: BdP, Eurostat, INE, Haver Analytics, Portugal's Ministry of Finance, and IMF staff calculations/projections.					



PORTUGAL

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

May 28, 2026

KEY ISSUES

Context. Portugal's economy continued its strong performance in 2025. GDP grew faster than the euro area average. The budget recorded its third surplus in three years, bringing public debt below 90 percent of GDP, down from 134 percent in 2020. Employment remained strong. Inflation declined close to target. Strong tourism inflows kept the current account in surplus despite lower external demand. Systemic financial risks remained moderate. Yet, structural challenges persist: living standards are well below EU average, public debt is still high, and fast-rising housing prices weigh heavily on households. The baseline outlook is favorable, but significant risks, notably from the war in the Middle East, could lower growth or reignite inflation.

Policy Recommendations

Fiscal Policy. Entrenching fiscal sustainability while reorienting public spending toward growth-enhancing investment is a priority. The government's short and medium-term targets of broadly-balanced fiscal positions are appropriate to further reduce debt. However, achieving them while scaling up investment requires new measures to offset the expansionary policies introduced since 2024 and spending pressures from defense and aging. The effort should center on reducing tax expenditure, increasing public spending efficiency, and further reforming the pension system.

Financial Sector Policies. The FSAP found the banking sector to be resilient and the financial policy framework strong overall, notwithstanding areas for improvement. The introduction of a positive neutral countercyclical capital buffer (CCyB) was timely, and further strengthening the macroprudential toolkit may be needed. Given banks' large exposure to the overvalued real estate sector, associated risks should be closely monitored. Reducing imbalances in the housing market requires measures to foster higher supply, which will also improve housing affordability.

Productivity-Enhancing Reforms. Portugal's persistent income gap with euro area peers calls for reforms to increase productivity by removing disincentives to firm growth, streamlining bureaucracy, boosting investment in human capital, improving SMEs' access to finance, and addressing labor market duality. Deepening the European single market, advancing the savings and investment union, and integrating the EU energy market will also boost productivity and increase the resilience of the Portuguese economy to economic geo-fragmentation and trade policy uncertainty.

Approved by:
Kristina Kostial (EUR)
and Anna Ivanova
(SPR)

Discussions took place in Lisbon during April 23-May 6, 2026. The team comprised Jean-François Dauphin (head), Gohar Minasyan and Younghun Shim (both EUR). Carolina Bloch and Christoph Freudenberg (both FAD) participated remotely in some meetings. David Taylor Pereira (Senior Advisor, OEDIT) participated in the mission. Ranjit Singh (MCM), FSAP mission chief and Riccardo Ercoli (IMF Executive Director, OEDIT) joined the concluding meetings. Ayse Battal and Sharon Smith-Tohu (both EUR) assisted from IMF headquarters.

The team met with Banco de Portugal Governor Santos Pereira; Minister of State and Finance Miranda Sarmento; Minister Education, Science and Innovation Alexandre; Minister of Labor, Solidarity and Social Security do Rosário Palma Ramalho; Secretary of State for European Affairs Domingos; Deputy Minister and for the Budget Brandão de Brito; Secretary of State for Tax Affairs Reis Duarte; Secretary of State for Treasury and for Finance Silva Lopes; Secretary of State for Economy Ferreira; Secretary of State for Planning and Regional Development Reis; Secretary of State for Government Simplification Magro da Luz; Secretary of State for Housing Gonçalves Costa; and other senior officials, and representatives of the private sector, labor unions, and academia.

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Glossary

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASF	Insurance and Pension Funds Supervisory Authority (<i>In Portuguese: Autoridade de Supervisão de Seguros e Fundos de Pensões</i>)
BBM	Borrower-Based Measure
BdP	Banco de Portugal
CA	Current Account
CAPB	Cyclically-Adjusted Primary Balance
CCyB	Counter-Cyclical Capital Buffer
CGA	Special Pension Scheme for Civil Servants (<i>In Portuguese: Caixa Geral de Aposentações</i>)
CIT	Corporate Income Tax
CMVM	Securities Market Commission (<i>In Portuguese: Comissão do Mercado de Valores Mobiliários</i>)
CRE	Commercial Real Estate
CVAL	Net Value-Added Contribution (<i>In Portuguese: Contribuição sobre o Valor Acrescentado Líquido</i>)
CPI	Consumer price Index
CSI	Solidarity Supplement for the Elderly (<i>In Portuguese: Complemento Solidário para Idosos</i>)
DORA	Digital Operational Resilience Act
DSA	Debt Sustainability Analysis
EA	Euro Area
ECB	European Central Bank
ESMA	European Securities and Markets Authority
EU	European Union
FEFSS	Social Security Financial Stabilization Fund (<i>In Portuguese: Fundo de Estabilização Financeira da Segurança Social</i>)
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GVC	Global Value Chain
LSI	Less Significant Institution
LTV	Loan-to-Value (Ratio)
MiCAR	Markets in Crypto-Assets Regulation
NATO	North Atlantic Treaty Organization
NBFI	Nonbank Financial Institution
NFC	Nonfinancial Corporate
NIIP	Net International Investment Position
OECD	Organization for Economic Co-operation and Development
PIA	Public Interest Assessment
PIM	Public Investment Management

PIT	Personal Income Tax
pp	Percentage Points
PPP	Public-Private Partnership
RAM	Risk Assessment Matrix
REER	Real Effective Exchange Rate
RRF	Recovery and Resilience Facility
R&D	Research and Development
SIFIDE	Tax Incentive System for Business Research and Development (<i>In Portuguese: Sistema de Incentivos Fiscais à Investigação e Desenvolvimento Empresarial</i>)
SIP	Selected Issue Paper
SSI	Social Support Index
SMEs	Small and Medium-Size Enterprises
SOE	State-Owned Enterprise
ULC	Unit Labor Cost
VAT	Value Added Tax
WEO	World Economic Outlook

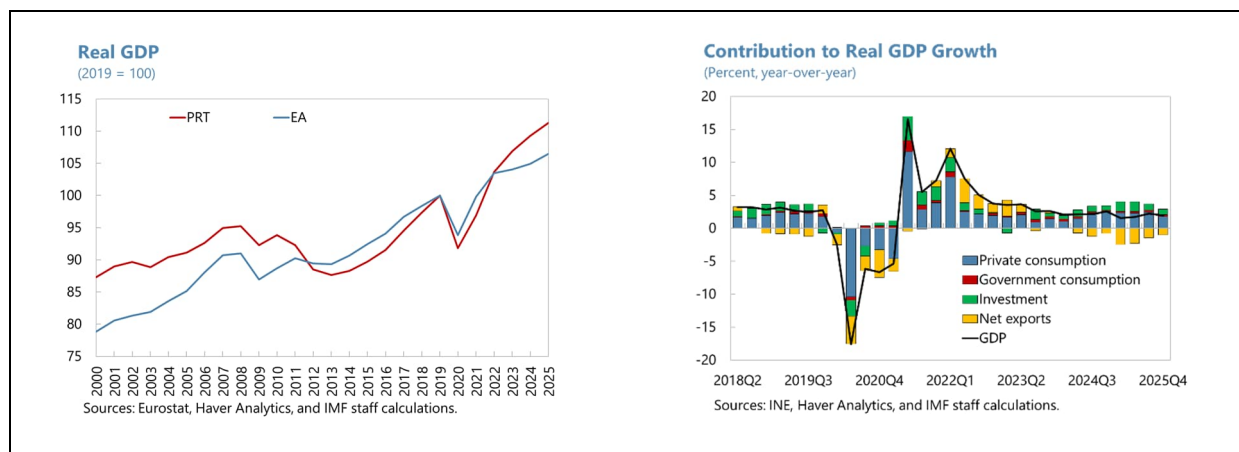
CONTEXT

1. Since the last Article IV consultation, Portugal’s economic performance has remained strong, but increasing living standards faces headwinds. With strong tourism inflows, EU Recovery and Resilience Facility (RRF) funding, and the payoff of past reforms, the economy has continued to grow faster than the euro area (EA) average. Inflation converged close to target, the fiscal and external balances remained positive, public debt continued its impressive decline, and banking sector stability indicators continued to improve. Yet, living standards are still below the European Union (EU) average as productivity has not caught up with peers, public debt remains high and vulnerable to change in market sentiments, and fast-rising housing prices burden households. Meanwhile, a turbulent and uncertain external environment weighs on the economy.

2. The government’s economic policies aim to maintain fiscal discipline and promote faster growth. The government, which took office in summer 2025, has included lowering taxes on labor and corporate income, simplifying bureaucracy, encouraging investment, and enhancing state efficiency as key policy priorities to accelerate growth. It remains strongly committed to prudent fiscal policy and further debt reduction. Stemming youth emigration and improving housing affordability are also high on its agenda.

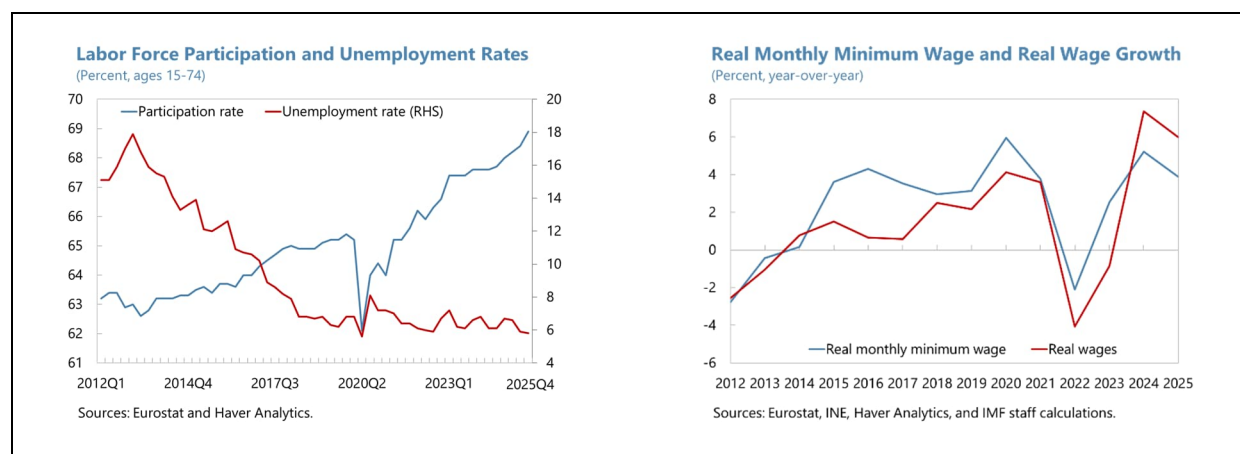
RECENT DEVELOPMENTS

3. Portugal’s growth rate continued to exceed the EA average. Real GDP grew at 1.9 percent in 2025, driven mainly by private consumption as strong labor markets and supportive fiscal policies boosted households’ real disposable income (Figure 1). Investment remained strong, supported by RRF funding. Robust domestic demand sustained import growth, while exports slowed due to weaker foreign demand.

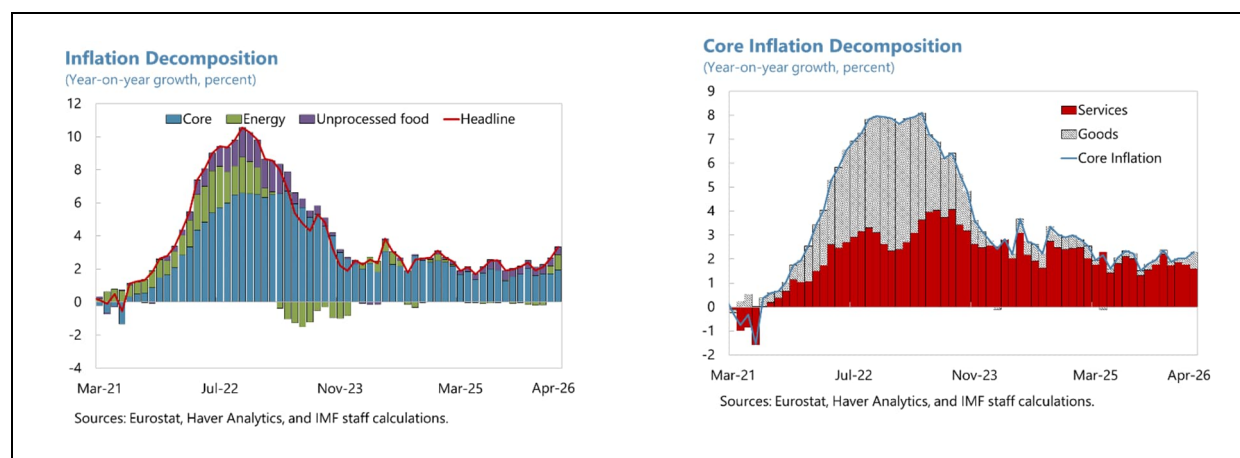


4. The labor market remains strong. The working-age population grew since 2023 reflecting immigration flows, while labor force participation also continued to increase. The unemployment rate remained at historically-low levels. With a high vacancies-to-unemployment ratio, real wages

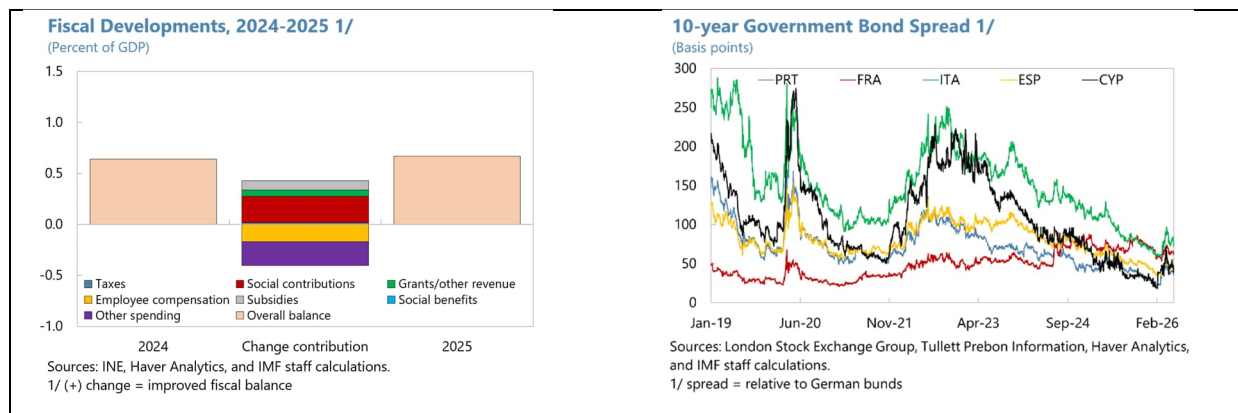
grew by 6.0 percent in 2025 (after 7.4 percent in 2024), outpacing productivity and weakening competitiveness (Figure 2).



5. Headline and core inflation continued to decline in 2025, but the energy price shock rekindled headline inflation. Headline (core) inflation averaged 2.2 (2.1) percent in 2025, down from 2.7 (2.8) percent in 2024. However, headline inflation rose again to 3.3 percent y/y in April 2026, reflecting the surge in oil prices due to the war in the Middle East. Core inflation remained broadly stable at 2.3 percent. Consistent with high real wage growth, service inflation has remained relatively high (2.8 percent in April).

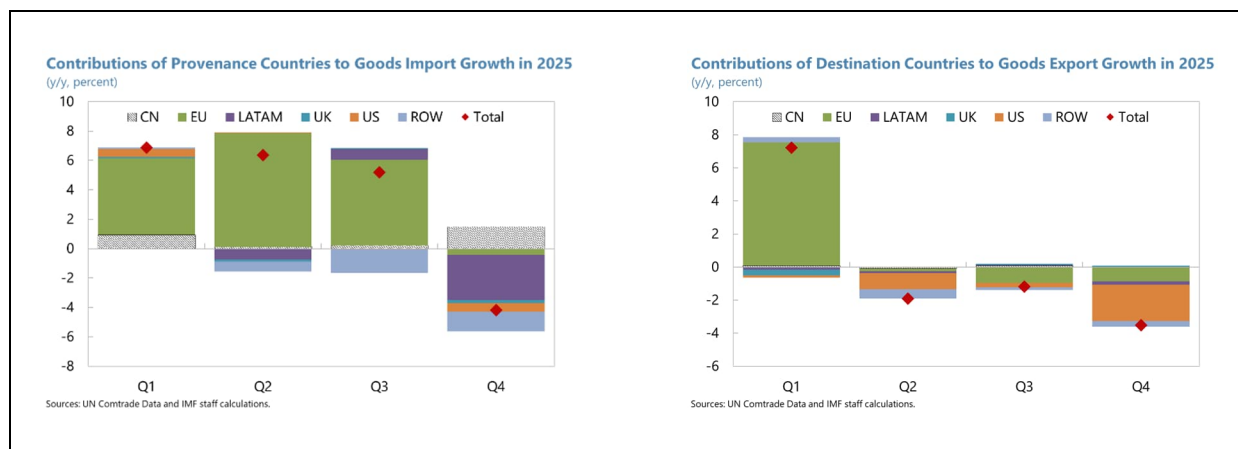


6. The fiscal position remained strong in 2025. For the third consecutive year, the fiscal balance recorded a surplus in 2025, at 0.7 percent of GDP, higher than anticipated. In line with the strong employment and wage growth, social contributions grew strongly (by 0.3 percentage points of GDP) and personal income tax (PIT) revenue increased (by 0.2 percent of GDP) despite reductions in tax rates. Indirect tax revenue also strengthened (by 0.2 percent of GDP), while corporate income tax (CIT) revenue decreased (by 0.3 percent of GDP) due to rate reductions. On the expenditure side, compensation of employees increased by 0.2 percent of GDP. (Figure 3). Due to a higher receipt of EU grants, the cyclically-adjusted primary balance (CAPB) excluding grants decreased by 0.2 percentage points (ppt) of potential GDP.



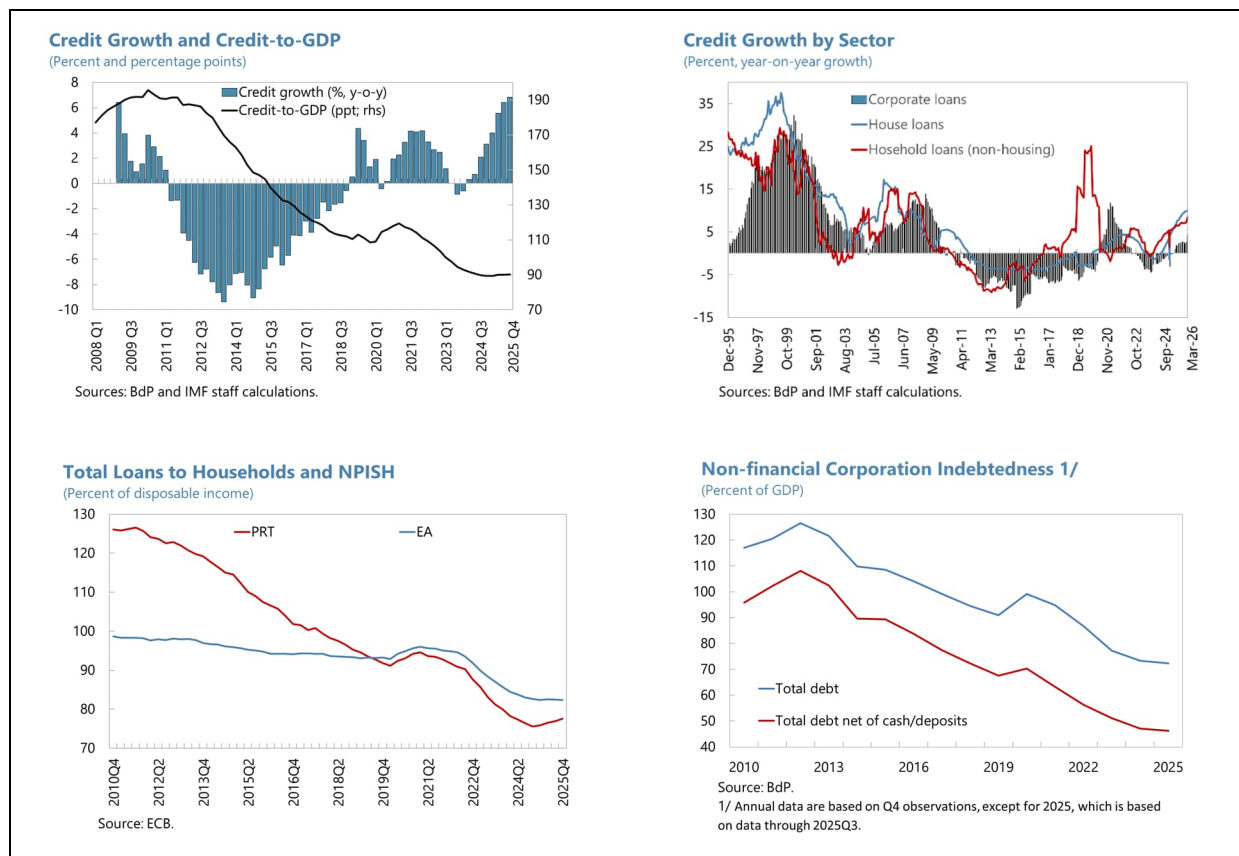
7. Public debt continued its impressive reduction. Supported by strong nominal GDP growth and the primary surplus, debt further declined by 3.8 ppt of GDP to 89.7 percent of GDP in 2025, down 44 ppt from 2020. Portugal's credit outlooks were further revised up in 2026Q1, and sovereign spreads declined further (although they widened slightly after the start of the war in the Middle East, while remaining below those of Spain and France).

8. As exports weakened and imports accelerated, the current account surplus narrowed. It declined from 2.2 percent of GDP in 2024 to 1.2 percent in 2025 (Figure 4). Goods exports fell—mainly due to weaker exports to the United States—while imports rose driven by strong consumption and investment. The current account nevertheless stayed in surplus, supported by robust tourism inflows, and the net international investment position (NIIP) improved. Overall, the external position in 2025 is assessed to be moderately stronger than implied by medium-term fundamentals and desirable policies (Annex I).



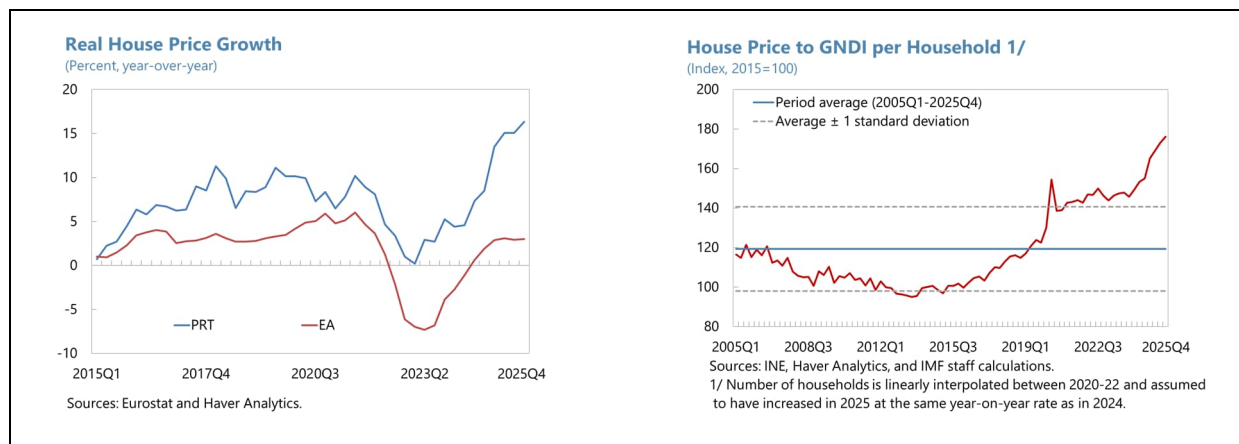
9. Private sector credit has picked up, with mortgage lending growing the fastest. The credit-to-GDP ratio plateaued after its long decline since the European debt crisis. Household debt edged up slightly to 80.8 percent of disposable income in 2025Q3 (from 79.2 percent in 2024Q4), as mortgage lending accelerated over the past year, with its growth reaching 10 percent yoy in 2026Q1. Corporate lending growth turned positive in 2025Q2 and reached 4.3 percent yoy in

2026Q1, but corporate debt continued to decline to 72.3 percent of GDP (46.2 percent net of deposits) in 2025Q3.

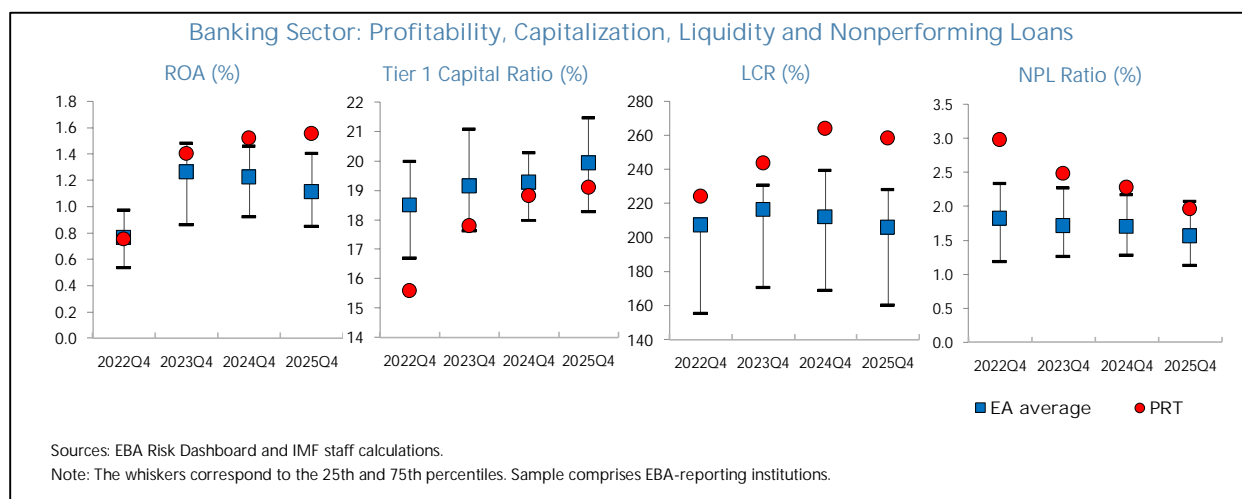


10. Residential real estate prices have surged. They rose by 19 percent yoy in 2025Q4, and by 180 percent since 2015, much faster than the EA average of 56 percent. The price-to-income ratio continued to increase and, as of 2025Q4, was more than two standard deviations higher than the average of the past two decades. House price overvaluation estimates range between 20 and 40 percent.¹ Structural factors continued to keep the supply response to price signal sluggish, with new dwellings staying below historical averages (Annex V).

¹ Based on price-to-income gap, price-to-rent gap, and ECB and ECFIN overvaluation models (Cousin et al. (2025)).



11. Most banking sector’s stability indicators continued to improve in 2025. Despite narrowing net interest margins as policy rates decreased, profits stayed high, supporting healthy capital ratios (17.9 percent in 2025Q4) that exceed the EA level (although lower than the unweighted average of the EA members). The nonperforming-loans ratio continued to decline, reaching 2.1 percent in 2025Q4 for all loans, and 0.9 percent for housing loans.



OUTLOOK AND RISKS

12. Activity is expected to slow in 2026 and 2027. Under staff’s baseline scenario, which assumes a return to normal of commodity markets by the end of the year, growth is projected at 1.7 percent in 2026, as negative spillovers from the war in the Middle East are expected to more than offset the impact of higher EU funds.² Severe storms dampened growth early in the year, but reconstructions and repairs are expected to subsequently boost activity, so the storms’ annual impact should be broadly neutral. The expected further slowdown in 2027 mostly reflects the end of

² Consistent with future market prices as of mid-May, staff’s baseline scenario assumes the same financial conditions and commodity prices as in the [April 2026 WEO](#) reference scenario, except for oil. The price of oil is assumed to be \$89/bl on average in 2026, opposed to \$82/bl in the reference scenario.

RRF-financed investment. Inflation is expected to increase to 3.4 percent in 2026, driven by commodity price increases and, to a lesser extent, wage pressures, before receding in 2027 as the fiscal stance turns contractionary and commodity prices return to normal.

13. Medium-term growth prospects are hindered by insufficient investment, relatively low productivity, and aging. The conclusion of RRF-financed projects is expected to significantly reduce public investment, although accelerated absorption of EU cohesion funds should cushion this decline. The working-age population is expected to decline over the medium term as population ages. Meanwhile, productivity growth is expected to stay lower than in most EA countries due to insufficient investment in physical and human capital and a constraining business environment. As the output gap closes and the labor market cools, inflation gradually stabilizes at 2 percent.

14. The current account surplus is expected to narrow. Higher commodity prices and weaker external demand are expected to reduce the trade balance by 1.6 percentage point (pp) of GDP in 2026. Over the medium term, the trade balance is expected to improve slightly, helped by continued strong tourism inflows, notwithstanding a stronger REER. Overall, the current account is expected to stay in surplus, sustaining improvement in the NIIP, to -27.3 percent of GDP in 2031.

15. There are significant risks to the outlook that could, alone or in combination, further push growth down and inflation up (Annex II). As a small open economy, Portugal is vulnerable to global shocks, although the importance of tourism and EU/EA membership are mitigants.

- *War in the Middle East.* Further commodity price increases could push inflation up, discourage investment, and dampen growth. Under an illustrative sensitivity analysis (based on the assumptions underlying the April 2026 WEO severe scenario), real GDP growth could decrease to 1.3 percent in 2026 and 1.0 percent in 2027, while annual inflation could reach 4.2 percent and 5.0 percent in 2026 and 2027, respectively. The fiscal balance would weaken, although debt would continue declining as a share of GDP. In such a global scenario, the severe downturn could also trigger a house price correction, which in turn could lead to lower household consumption through wealth effects, exacerbating the negative impact on growth. Significantly-tighter financial conditions associated with higher interest rates could slow public debt reduction. Possible tourism diversion from the Middle East may provide some mitigation to the risk to growth.
- *Other risks.* Domestically, labor shortages, climate change, and increased cyber threats constitute important structural risks. Also, wage pressures due to the tight labor market compounding spillovers from higher commodity prices to core may lead to higher inflation and for longer than expected.

Authorities' Views

16. The authorities broadly agree with staff's assessment of the economic outlook and risks. Their baseline projections are close to staff's April 2026 WEO reference scenario. They underlined that Portugal's relatively-high reliance on renewable energy mitigates the energy shock

stemming from the war in the Middle East, but noted that, the longer the war, the larger the impact on growth, especially if natural gas supplies are materially disrupted. They expect limited passthrough from energy prices to core inflation, contrary to 2022, when a demand shock compounded the supply shock. They do not anticipate inflationary pressures from the recent high wage growth, which they view as compensation for the real wage losses of the 2022-23 inflationary period. They also noted that inflation expectations remain well anchored. As staff, they see relatively low productivity growth as the key hindrance to medium-term growth prospects.

POLICY DISCUSSIONS

The consultation focused on policies to entrench gains in strengthening economic and financial resilience, while navigating a turbulent external environment and accelerating convergence toward higher living standards. Fiscal policy should continue focusing on debt reduction while reorienting public spending toward higher investment. Efforts should rely on tax reform, improved efficiency of spending, and reforms to contain spending pressures from aging. Continued strengthening of the financial policy framework, per FSAP recommendations, will help preserve stability and increase access to finance. Reinforcing the macroprudential policy toolkit, and fostering the growth of the NBFIs sector are priorities. Reducing imbalances in the real estate market primarily requires removing supply bottlenecks. Measures to support innovation and firm growth, product and labor market reforms, and continued improvement in education are needed to support higher productivity. Working with its EU partners, Portugal has also much to gain from a deeper common market, the savings and investment union, and greater energy market integration.

A. Fiscal Policy

17. The fiscal position is expected to be broadly balanced in 2026. The impact of storm-related spending is preliminarily estimated at about 0.3 percent of GDP. In response to the energy price shocks, the government reduced the fuel excise by the amount of expected higher value added tax (VAT) revenue from fuel, and postponed the planned carbon tax update. In addition, limited targeted subsidies were introduced for selected transport and agriculture subsectors at a marginal fiscal cost. Other measures from the original 2026 budget include further CIT rate cuts and a one-off solidarity-supplement for the elderly. While PIT rate reductions were anticipated for 2026 (as happened in 2024 and 2025), the government postponed them given the lack of fiscal space notwithstanding a positive carryover from the 2025 overperformance.

Key Measures Affecting the 2026 Fiscal Balance

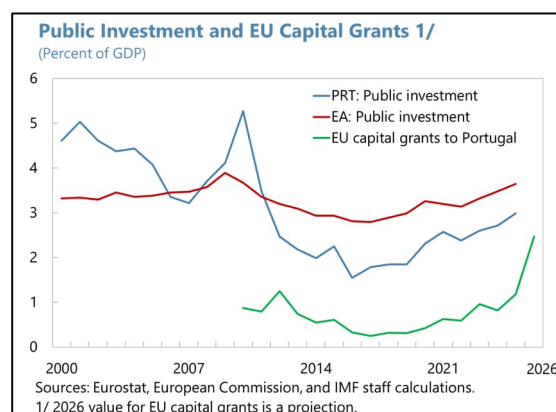
(Percent of 2026 GDP)

Total measures	-0.57
Revenue	
Fuel excise reduction net of higher VAT revenue	0.00
PIT residual effects from 2025 rate reductions and bracket changes	-0.06
CIT rate reduction	-0.13
Expenditure	
Storm-related capital repairs and social transfers	-0.34
Solidarity supplement for the elderly	-0.04

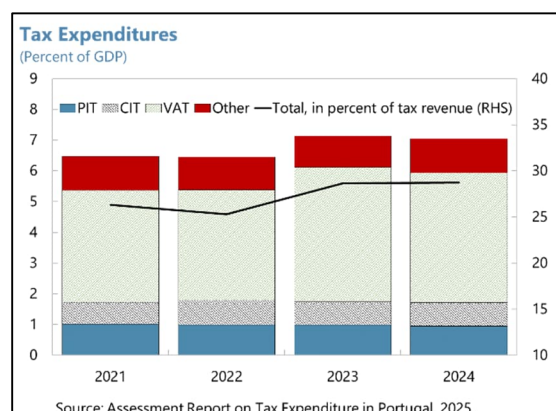
18. The 2026 fiscal budget will help address recent shocks, but its expansionary stance may compound inflationary pressures. The CAPB excluding grants is projected to decrease by 2.6 percent of potential GDP, implying a strong expansionary stance. However, this is mostly driven by the expected acceleration of RRF implementation in the final year of the program, which will have a significant import-content (thus helping reduce the strong external position) and will be largely reversed in 2027 when the end of the RRF will imply a contractionary stance by 1.6 pp of potential GDP. This expansionary stance reflects the needed full RRF implementation and the necessary storm-related additional spending, will help soften the impact of the energy price shock on growth, and remains consistent with a further large decline in public debt by 4.1 pp of GDP. However, with an output gap still positive, it will likely add to upward inflation risks even if the funds are spent gradually (including through the development bank), as planned. Thus, the authorities should monitor inflation developments closely and be ready to tighten fiscal policies if inflation pressures go beyond what would be expected from the energy shock.

19. Maintaining broadly-balanced fiscal positions over the medium term, as intended, is appropriate, but achieving them will require additional measures. The authorities' fiscal plans envisage small surpluses or balanced budgets over the medium term. This would continue to rapidly reduce debt, which would decrease below 60 percent of GDP by 2036, further rebuilding buffers and lowering the overall risk of sovereign stress. However, factoring spending pressures from [aging](#) (¶122), planned increases in defense spending to reach the NATO target of 3.5 percent of GDP by 2035 (from 2.0 percent of GDP in 2025), and the permanent impact of recent and planned tax reductions, staff projects growing fiscal deficits from 2028, reaching about 1¼ percent of GDP in 2031. The primary surplus is projected to be gradually eliminated, and debt to start increasing by 2035. Offsetting measures are thus required to reach the authorities' fiscal targets by closing growing fiscal gaps. Under this baseline projection, the risk of sovereign stress is assessed as moderate (Annex III).

20. Meanwhile, the composition of public spending should become more growth-friendly. Portugal's public investment has remained below the EA average since the sovereign debt crisis. Achieving a more growth-friendly fiscal composition requires boosting investment in infrastructure and education, which will also help reduce external imbalances. With the RRF ending, fiscal space needs to be made to finance productive projects, while improving implementation capacity. In addition to containing the wage bill growth after recent salary increases, as planned, efforts should be made to reduce other current expenditure in percent of GDP.



21. Tax reform can generate significant additional revenue and increase economic efficiency, notably by reducing tax expenditure. Numerous exemptions, reduced rates, and special regimes narrow tax bases and raise compliance costs—particularly for SMEs—undermining both efficiency and fairness (OECD, 2026). At 7.2 percent of GDP in 2024, tax expenditures are high by international standards. An assessment by the tax unit “U-Tax”, recommended reforms that would reduce tax expenditures by 0.5 percent of GDP, including the reduction of some CIT incentives for R&D investment (“indirect SIFIDE”), incorporated in the 2026 budget and expected to yield savings starting 2027. However, greater efforts are needed to eliminate provisions that no longer serve a policy priority, are ineffective, or are too costly for their benefits.

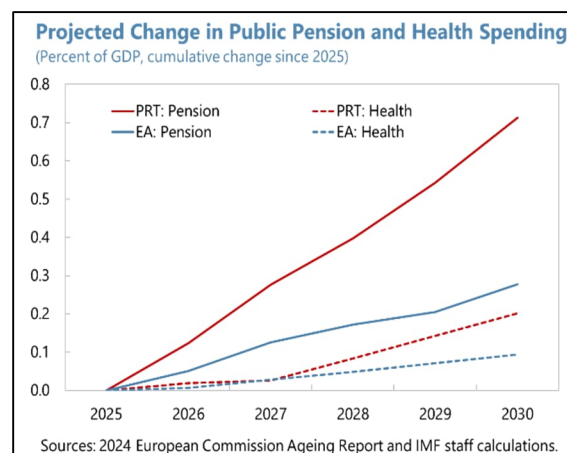


- *VAT* concentrates 60 percent of tax expenditure: revenues are weakened by extensive reduced rates and exemptions, often aimed at supporting specific sectors, such as hotels and restaurants (since 2016) and construction in the most-recent housing measures. The VAT base should be broadened by scaling back these not-well-targeted reduced rates and exemptions, while supporting low-income households through targeted social benefits instead.
- *PIT* revenue (24 percent of tax expenditures) is relatively low. Further reduction in rates, as intended, should only happen once concrete offsetting budgetary measures are in place. Preferential taxation of capital income is costly and regressive and should be better aligned with labor income. Youth-specific PIT exemptions add fiscal costs and complexity, without clear evidence of effectiveness in stemming emigration (2024 Article IV Report); they should be reversed. Other insufficiently-targeted exemptions should be gradually eliminated and replaced by targeted transfers.
- *CIT* revenue is in line with the EA average, but CIT is complex and fragmented, including a base rate, a state surtax, municipal surcharges, and size- and location-based reduced rates. Reforms should focus on improving the efficiency of CIT taxation, while keeping revenue stable. Rather than lowering the base rate, as planned, the size-contingent rate variations should be eliminated to foster corporate growth (2024 Article IV Report). Better targeting remaining R&D tax incentives, with a stronger focus on smaller and younger firms, and substituting them by direct R&D grants where appropriate will also increase efficiency.
- *Property taxation* relies heavily on transaction taxes, while recurrent taxes on property are low, in part due to outdated property value assessment. Combined with limited use of higher tax rates on vacant or underused dwellings, this leads to weaker revenue, discourages residential mobility, and mainly benefits wealthier homeowners. The recent reduction of transaction taxes, and update of the taxable property value formula are welcome; they should be supplemented with gradual increases in recurrent property taxation and more effective taxation of

underutilized properties. This would raise revenues, improve housing market efficiency, and increase the tax system's progressivity.

22. Curbing pressures from aging-related spending remains critical. The [2024 Ageing Report](#) estimates that, over 2026-31, pension and health spending will increase annually by 0.16 and 0.05 ppt of GDP, respectively, much faster than EA average (Annex III).

- *Pension.* Fiscal pressures from pension spending are expected to rise further through the mid-2040s before easing as past reforms—notably the phase out of the civil servants' special scheme—reduce average benefits. A recent study by experts ("[Livro Verde](#)") proposes reform directions. However, their fiscal impacts remain uncertain without further analysis. Simplifying accrual rates and indexation mechanisms, reforming survivor pensions, and instituting regular public actuarial reporting would strengthen the system (Annex IV).



- *Health spending.*³ While Portugal's health spending level is broadly in line with EU peers considering its income and demographic profile, benchmarking analysis suggests room to increase spending efficiency. Ongoing reforms, such as the integration of hospitals and primary care, and the shift towards capitation-based funding and program budgeting will help improve the allocation and management of resources, potentially leading to sizeable savings while maintaining or, even, improving health outcomes. Sustaining efficiency gains will require strengthening workforce management, controlling pharmaceutical spending, improving patient flow across levels of care, and reinforcing budgeting, governance, and accountability. Over the medium term, consideration could be given to reintroducing carefully-designed user fees, a standard tool to moderate demand.

23. Improvements in public investment management (PIM) are needed to reduce costs and increase growth return. [Recent IMF technical assistance](#) found that Portugal's PIM framework has strong foundations, including clear fiscal rules, effective oversight of PPPs and SOEs, and investment planning aligned with national and EU climate goals. However, gaps in planning and project costing need to be addressed by applying common appraisal and climate-risk checks to all major projects, linking investment plans to the budget, and identifying clear multiyear funding. Because central oversight of the overall investment portfolio and public assets is limited, the Ministry of Finance should be given a stronger role in reviewing projects before they are approved. Reforms should introduce clear multi-year capital budgets with transparent project costs, speed up procurement—as intended by the government—and funding releases to accelerate and increase the

³ Accompanying Selected Issues Paper (SIP).

predictability of project implementation, strengthen maintenance and asset management, and better integrate climate and disaster risks into infrastructure decisions.

24. Heightened uncertainty requires contingency planning. Fiscal measures, if needed to cushion the impact of higher energy import prices, should focus on temporary, targeted support to protect lower-income households and struggling, yet viable, firms, while higher prices pass through to end users to avoid muting the price signal. Fiscal policy also needs to be carefully calibrated to ensure that, together with the ECB monetary policy, the policy mix is appropriate to fend off possible second-round inflationary effects. Thus, discretionary support measures would, in most cases, need to be offset. For that, domestically-financed investment may need to be temporarily postponed, while efforts to reduce CIT and PIT tax expenditure should be accelerated (reducing VAT tax expenditure should be sequenced after current inflationary pressures have subsided). However, should the prolongation of the war trigger a persistent recession, fiscal balances could be weakened temporarily. The appropriate size of such relaxation would depend on the magnitude of the recession, the behavior of inflation, and the monetary policy stance. To increase the resilience of the economy, it will be important to accelerate the transition to renewable energy. Greater EU coordination can also improve efficiency and reduce financing costs.

Authorities' Views

25. The government agrees with many of staff's fiscal policy recommendations but trusts that balanced budgets can be achieved over the medium-term without additional saving measures. It expects tax revenues to remain buoyant despite rate cuts, social contributions to grow faster than GDP, and aging-related spending to increase more slowly than projected in the outdated 2024 Ageing Report. The government's commitment to balanced budgets implies that future PIT reduction is contingent on available fiscal space, as shown this year when the government decided not to reduce PIT rates to prioritize storm-related support. It noted that any additional measures in response to the energy price shocks, if needed, will be narrowly targeted and avoid distorting price signals. The government agrees with staff's advice to reduce tax expenditures, as feasible, but considers youth-specific lower PIT rate to be important to stem emigration. It does not intend to harmonize size-dependent CIT given the large share of SMEs in the economy. On pension, the government considers further study is needed to inform possible new reforms. On health, it is not planning to reintroduce moderating-fees at this stage. On public investment management, the government stressed efforts underway to simplify public tendering rules.

B. Financial Sector Policies

26. The banking sector is resilient, and systemic risks have remained moderate since the last Article IV report. The buildup of financial buffers, robust economic growth and employment, and the stronger fiscal position have further reduced financial sector vulnerabilities. FSAP analysis—conducted in the context of favorable macroeconomic conditions following a decade of significant deleveraging—finds that the banking sector is robust to adverse macro-financial conditions. Stress-test results show that no bank capital position would fall below the combined

regulatory buffers under an extreme adverse scenario including the materialization of credit, market, and interest rate risks, and that banks would continue to maintain strong liquidity positions. Sensitivity analyses show that the banking sector is expected to remain solvent under the April 2026 WEO severe scenario.

27. Continued vigilance is needed on banks' exposures to the real estate sector and to sovereign debt. While the largely-structural nature of imbalances makes a large and rapid house price correction unlikely at this stage, the recent acceleration of mortgage credit increases imbalances (Annex V). A sharp price correction could increase banks' credit risks both directly via mortgage lending (real estate exposures account for about a third of banks' total assets) and indirectly via spillovers to the broader economy, if the negative wealth effect on consumption outweighs the positive impact on households' real income net of housing costs. Stress tests including house-price declines and additional sensitivity analysis showed that banks' capital buffers and profitability can absorb cumulative house price shocks of 40 percent over three years (the upper-bound of overvaluation estimates). Policymakers should, nonetheless, continue to closely monitor housing market risks as bank credit growth started accelerating. Banks' exposure to sovereign debt accounts for about 20 percent of total assets. While domestic sovereign exposure has been decreasing, the portfolio remains fairly concentrated in EA countries, also calling for close monitoring.

	Household & NFC Vulnerabilities			Housing Cycle			Banking Resilience			Business & Credit Cycle			
	DSTI	Employment Sentiment	NFC loans-to-GDP	Price-To-Rent	Price-to-Income	House Prices Real Growth	NPL	Coverage Ratio	Profits Before Taxes (% of Assets)	CET1	Output Gap	Credit-to-GDP gap from trend	HH loans-to-GDP
2014	0.25	104.2	57.2	91.8	100.6	2.3	16.6	37.9	-0.1	11.3	-3.1	-25.9	74.3
2015	0.25	106.6	50.0	93.6	101.1	4.4	17.5	40.6	0.2	11.7	-2.4	-36.2	69.6
2016	0.24	108.5	45.1	98.5	104.4	6.8	17.2	45.4	-0.7	12.0	-2.0	-44.4	64.8
2017	0.24	114.4	40.4	106.6	109.0	8.9	13.3	49.9	0.3	13.3	-0.1	-45.8	60.6
2018	0.24	114.5	36.8	115.3	114.7	8.4	9.4	52.4	0.6	13.4	1.3	-47.6	57.6
2019	0.24	111.9	33.8	122.9	120.0	10.1	6.1	51.7	0.7	13.9	2.2	-45.1	55.7
2020	0.21	103.0	34.4	130.3	132.9	8.1	4.9	55.4	0.2	14.8	-5.2	-23.1	58.4
2021	0.23	111.3	36.1	140.1	142.1	9.0	3.6	52.6	0.6	15.3	-3.7	-24.9	58.4
2022	0.24	109.4	33.3	153.6	144.2	4.5	3.3	53.8	0.6	15.0	0.4	-30.2	54.8
2023	0.31	106.3	29.5	159.0	141.2	3.7	2.9	56.7	1.1	16.4	1.0	-37.6	50.0
2024	0.31	106.7	26.8	162.1	142.4	6.2	2.6	55.8	1.2	17.7	0.8	-37.2	46.9
2025Q1	0.30	107.3	25.7	172.4	150.5	13.5	2.3	52.9	0.4	17.9	0.5	-32.7	46.7
2025Q2	0.29	105.7	25.6	178.3	155.5	15.1	2.3	54.3	0.9	17.9	0.5	-30.1	46.9
2025Q3	0.29	104.8	25.4	183.8	159.3	15.1	2.3	54.4	1.3	17.7	0.5	-28.2	47.2
Euro area most recent	N/A	97.3	33.4	N/A	106.2	2.9	1.9	42.5	0.7	16.6	N/A	N/A	43.4

28. Reducing real-estate market imbalances and associated financial sector risks requires supply-side measures. Recent government measures to support young first-time homebuyers, including public guarantees and tax exemptions, aim to improve affordability but have increased

demand and further widened market imbalances; they should be reversed. The government's new housing reform package contains elements that may stimulate supply, but they increase tax expenditures (Annex V). To achieve lasting improvements in affordability, reforms should aim at reducing constraints to supply, such as easing licensing, permitting, zoning and land-use rules (as planned), rebalancing property taxation, and improving rental market functioning. Meanwhile, well-targeted support should be provided to vulnerable households through dedicated social housing and housing allowances.

29. The current macroprudential stance appears adequate but there is scope to further strengthen the macroprudential toolkit.

- *Capital buffers.* The positive neutral CCyB at 0.75 percent became effective in January 2026. Together with the sectoral systemic risk buffer at 4 percent for household loans secured by housing properties, for banks using the internal ratings-based approach, this brings the total releasable capital to 1 percent. Because substantially more capital could be required at the peak of the cycle than in a neutral environment, Banco de Portugal (BdP) should consider the range of releasable capital that may be needed to absorb losses during phases of the cycle when risks are elevated. Given banks' current high profitability, setting a higher CCyB would likely entail only limited costs.
- *Borrower-based measures (BBMs).* Since 2018, BBMs have effectively reduced the riskiness of the housing loans portfolio. In light of the increasing share of high LTV of new mortgages, BdP is considering tightening some of its BBMs. While this may help, the first-best policy remains to reverse recent measures that have fueled mortgage credit. Also, BdP currently lacks binding powers over BBMs, relying instead on banks' compliance. Granting BdP enforcement powers would prevent potential compliance erosion.

30. Resources available for AML/CFT supervision and addressing increasingly-complex cyber threats should remain adequate. AML/CFT supervision has strengthened steadily in recent years. However, an effective management of increasingly-sophisticated and cross-border financial risks requires maintaining a robust understanding of risks, including through deeper international cooperation, and enhanced data sharing and cooperation among domestic authorities. Portugal's cyber risk oversight is generally effective, but cyberthreats intensify while DORA, MiCAR and the AI Act expand supervisory mandates. Thus, the sector-wide cyber strategy should be finalized, analytical capabilities strengthened, and inter-agency cooperation formalized. These additional responsibilities compound existing difficulties in attracting and retaining specialists, calling for multi-year budget and staffing planning.

31. The crisis preparedness framework should be enhanced to ensure timely and effective crisis management. Financial safety net and crisis management responsibilities are shared between the BdP and European institutions. The crisis preparedness framework has many strengths, including BdP's well-established resolution function, advanced resolution planning, and broad resolution toolkit. Still, further legal, operational, and governance improvements are needed. A dedicated administrative bank liquidation regime should be introduced for LSIs with negative public-interest assessment (PIA), as the corporate insolvency process that it currently relies on is relatively slow,

opening risks of asset-value deterioration. Clearer crisis coordination arrangements and stronger backup-funding mechanisms would also strengthen the Deposit Guarantee Fund and the Resolution Fund.

32. The development of nonbank financial institutions (NBFIs) is a key priority to broaden savings and investment channels. Having contracted over the past decade, the NBFIs sector accounted for about a third of financial sector assets, with total assets of around 80 percent of GDP as of end-2024, far below the EA average of 363 percent. This limits household savings options (including for retirement), which are largely confined to bank deposits and real estate—the latter aggravating the housing affordability problem. It also constrains corporate financing, particularly for young and fast-growing firms (“gazelles”) that depend on long-term risk capital to support innovation and growth.⁴ In addition, developing catastrophe insurance and rental insurance would help increase resilience to climate shock, and incentivize greater supply of rental properties, respectively. Advancing domestic capital market development and the EU savings and investment union should therefore be priorities. In this context, as discussed in the [EA FSAP](#), key aspects of capital market supervision should gradually be moved to ESMA to ensure the resilience and effectiveness of the overall EU prudential framework. Meanwhile, the effective financial independence of the ASF and CMVM, currently constrained by limited budgetary rules, should be strengthened.

Authorities' Views

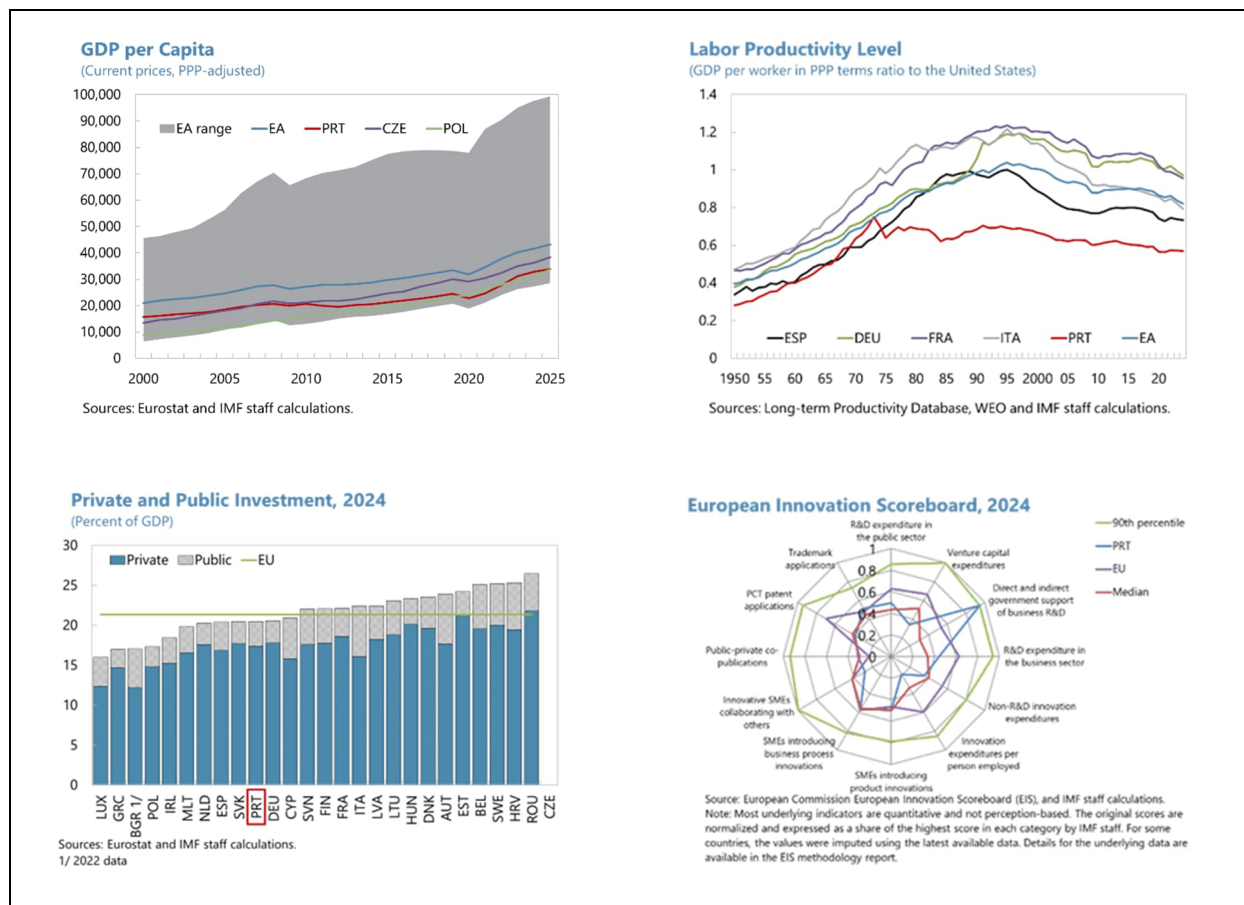
33. The authorities broadly agree with the systemic risk assessment and support most FSAP recommendations. They agree that the banking system is resilient but that the rapid house price growth requires close monitoring, especially as mortgage lending has been accelerating. They consider that, while banks remain significantly exposed to euro-area sovereign debt, their portfolios are diversified across countries. On macroprudential policy, they consider that the positive neutral rate for the CCyB is appropriately set. They agree about reviewing BdP powers over borrower-based measures while noting that compliance is high. They see it as critical to establish a multi-year staffing and retention strategy for all financial sector supervisory functions. On NBFIs oversight, they agree with exploring legal changes on the budgetary independence of nonbank financial regulators and board appointments. On financial integrity, they noted that leveraging international cooperation would help refine risk monitoring. On crisis management, they took note of the recommendation to consider the introduction of an administrative insolvency regime for LSIs with negative PIA. The authorities concur on the need to further develop the NBFIs sector, both to support a more efficient allocation of savings and to broaden alternative sources of financing for corporates.

C. Reforms to Increase Productivity and Potential Growth

34. Portugal's persistent GDP-per-capita gap relative to its peers reflects chronically-
weaker productivity growth. The income gap has been a key driver of emigration, an important

⁴ See accompanying SIP.

social issue in Portugal. This growth underperformance is largely due to low labor productivity, which stood at about 79 percent of the euro-area average in 2024, virtually unchanged since 1990. Weak productivity growth stems from insufficient investment in both human and physical capital, compounded by a constraining business environment.



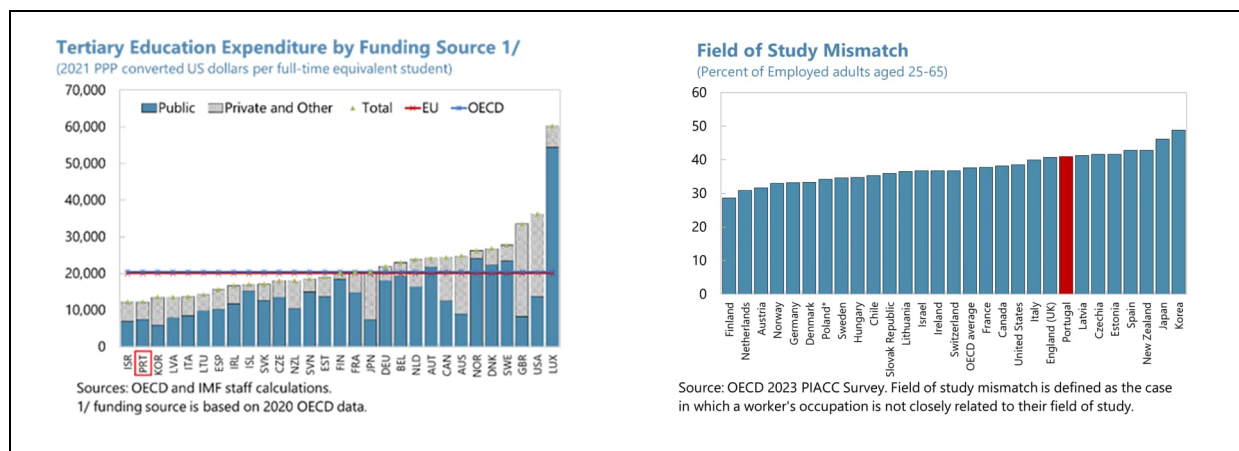
35. Low productivity coincides with low integration in global value chains (GVCs). Compared to EU peers, Portugal remains less integrated into GVCs. Its role as a supplier in other countries’ exports has stagnated in recent years (Box 1). Weaker GVC participation reduces opportunities for technological upgrading and productivity gains through learning and spillovers from foreign partners. Meanwhile, low labor productivity itself constrains deeper integration into GVCs. Breaking this cycle requires raising productivity, including upgrading production toward higher-technology and higher-value-added activities, and [diversifying input sourcing](#) to strengthen supply-chain resilience.

36. Insufficient firm dynamism is a key factor behind the productivity shortfall. Europe’s widening income-per-capita gap with the U.S. [has been linked](#) to the smaller role played by “gazelles” in Europe. This challenge is especially acute in Portugal, where “gazelles” are much rarer than the European average. Instead, small (fewer than 10 employees) and less productive firms are predominant. Portuguese firms tend to enter small and struggle scaling up. There is also insufficient

innovation, as reflected in lower patent applications and lower technological absorption capacity, likely linked to insufficient investment in R&D despite significant government support.

37. Bolstering firm growth requires removing tax disincentives and streamlining bureaucracy. Size-contingent corporate income tax provisions should be eliminated. Ongoing government efforts to streamline bureaucracy under a newly-created Ministry for State Reform are welcome, and local governments should join the effort (OECD, 2026). The government rightly prioritizes reducing the number of permits, shortening approval deadlines, expanding the use of tacit approval, and centralizing and harmonizing procedures. Those reforms are being first applied to construction and urban licensing, industrial permits, commerce and tourism licensing, and environmental approvals, before being expanded to other areas. The government also aims to foster digitalization to help cut red tape, including, for example, through the establishment of digital wallets for enterprises to eliminate repeated document requests.

38. Reforms to improve labor market efficiency, and further upskilling the labor force should remain a priority. Greater labor market flexibility remains a priority to reduce labor market duality and improve the allocation of resources toward the most productive sectors or firms. In addition to higher investment in education, ongoing efforts to align curricula with evolving labor-market needs and strengthen research collaboration with businesses should help reduce skill mismatches.



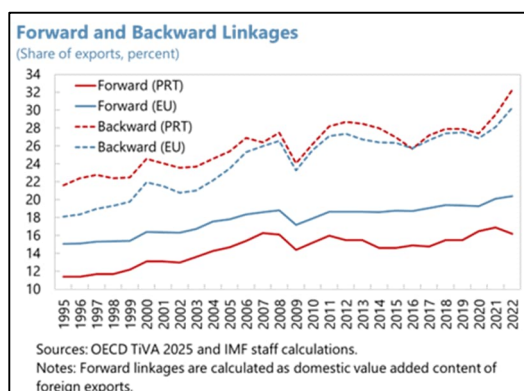
39. Deepening the European single market would also help boost productivity and increase the resilience of the Portuguese economy to global trade policy uncertainty. [Removing remaining barriers to trade within the EU](#) and harmonizing regulations and bankruptcy frameworks would give Portuguese firms easier access to a much larger market, thus providing buffers against the risk of further geo-fragmentation. Deeper integration in the EU energy market would lower energy price volatility, strengthen energy security, and allow Portugal to leverage its comparative advantage in renewables. In addition, improved access to finance, including venture capital, as the savings and investment union progresses, would help firms invest and scale up.

Authorities' Views

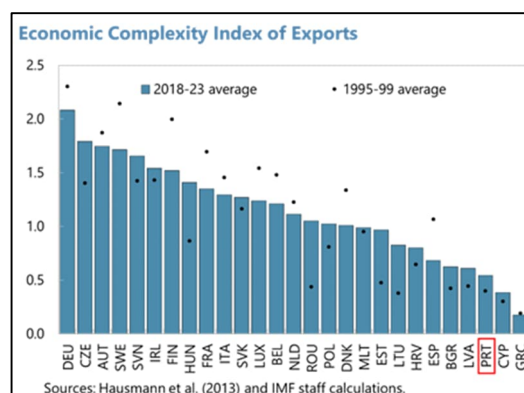
40. The authorities stressed that boosting productivity is a key priority. They underscored their commitment to streamlining red tape, including through simplifying and digitalizing government functions. They noted that active labor market policies have helped reduce skill mismatches, and that they are working with businesses to update school curricula. They emphasized that further increasing labor market flexibility remains a priority and a key focus of the ongoing social dialogue. On investment, they launched a large program (*Portugal Transformação, Recuperação e Resiliência*) to support recovery from natural disasters and upgrade infrastructure. They are supportive of EU-level reforms to deepen the single market, complete the banking union, progress on the savings and investment union, and better integrate the energy market.

Box 1. Portugal's Integration into Global Value Chains^{1/}

Portugal's integration in GVCs has lagged that of its EU peers. Forward linkages, which measure Portugal's value-added share in other countries' exports, remain below those of other EU countries on average. Since the global financial crisis, these linkages have largely stagnated, widening the gap with EU average. Conversely, Portugal's backward linkages—the share of foreign value added embodied in Portugal's gross exports—have been slightly higher than the EU average. These patterns suggest that Portugal is more strongly positioned as a downstream customer in GVCs than as an upstream supplier of value added.



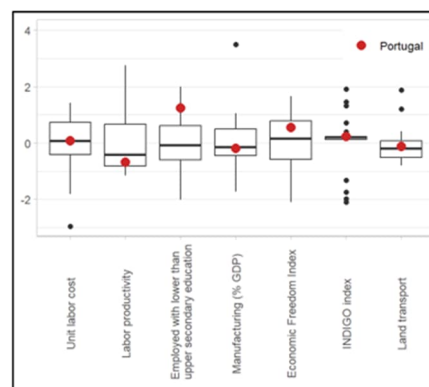
The economic complexity of Portugal's exports has been lower than that of other European countries. Portugal's economic complexity—measured by the uniqueness and diversity of its goods exports—remains below that of most EU countries. Other indicators of technological intensity, such as the share of high-technology goods and the share of knowledge-intensive services in exports, are also below the EU average. Conversely, Portugal's share in tourism-related services has been consistently higher than that of its peers. Since high-technology goods typically generate stronger forward linkages than tourism-related services, this export composition has contributed to Portugal's relatively weak forward linkages.



1/ Based on: Shim, Vassileva, and Wang, IMF [Working Paper 2026/002](#).

Box 1. Portugal's Integration into Global Value Chains continued

Lower labor productivity and human capital are obstacles to greater integration. Among the key factors associated with GVC integration, Portugal's institutional indicators—economic freedom and the Indigo index—exceed the EU average. However, Portugal exhibits significantly lower labor productivity and a higher proportion of workers with lower educational attainment. These gaps likely hamper the country's transition toward more knowledge-intensive activities and higher value-added production.



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41. Portugal's economic performance has been strong, but structural challenges and a risky external environment call for policies to entrench resilience and boost potential growth. The outlook is subject to significant risks that could weaken growth and raise inflation further than already assumed in the baseline scenario. Moreover, population aging, relatively low investment levels, and low productivity growth hamper convergence toward higher European living standards. In addition, the external position in 2025 is assessed to be moderately stronger than implied by medium-term fundamentals and desirable policies, reflecting insufficient investment.

42. The government's short and medium-term targets of balanced fiscal positions are broadly appropriate but require additional action. The targets are consistent with further reducing public debt and associated vulnerabilities. In 2026, significant EU funds inflow will help reduce external imbalances and mitigate the impact of higher energy prices on growth but may compound their inflationary impact. Thus, the authorities should monitor inflation developments closely and be ready to tighten fiscal policy if needed. Over the medium term, achieving the targets while increasing public investment requires further saving measures. Priorities should be to reduce high tax expenditures, including by reversing the untargeted VAT reduced rates and the costly youth-specific personal income tax benefits; harmonize size-contingent corporate income tax rates; increase spending efficiency, notably of infrastructure investment and health; and further reform the pension system. In the short term, the fuel excise tax reduction implemented in response to the energy shock should be replaced by targeted support to lower-income households and struggling but viable firms in energy intensive sectors.

43. Further strengthening the financial policy framework will help preserve the stability and resilience of the financial sector. FSAP stress tests show banks' resilience to severe adverse macro-financial conditions. Nevertheless, given sizable real-estate exposures and price overvaluation, vigilance on risks from the housing market is warranted. Also, significant exposures to sovereign debt, fairly concentrated in EA countries, call for close monitoring. The introduction of a positive neutral CCyB was timely, and further strengthening of the macroprudential toolkit may be needed. The financial policy frameworks should be further buttressed, per FSAP recommendations,

notably through a skills resource strategy; greater international cooperation on AML/CFT; and stronger crisis and cyber risk preparedness. Developing the financial system beyond the banking sector is a key priority to expanding savings and investment channels.

44. Reducing real-estate market imbalances requires supply-side measures. The priority should be to facilitate the construction of new housing and incentivize owners of unoccupied buildings or short-term rentals to sell or long-term lease their properties. Meanwhile, support for low- to middle-income households should rely on housing allowances and expanded availability of dedicated social housing. Misdirected demand-support measures that widen imbalances should be reversed, while caution is also warranted on costly tax incentives for construction and real estate activities.

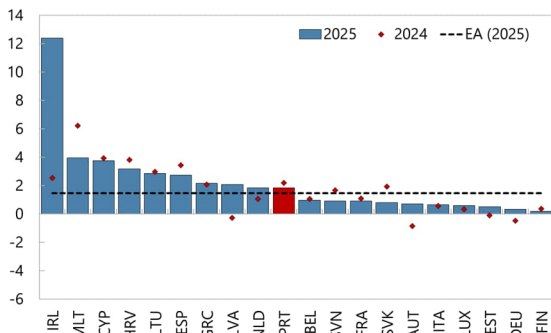
45. The government's reforms to boost productivity and potential growth are welcome. Streamlining central and local government bureaucracy, as prioritized by the government, is essential to help boost private investment and increase economic efficiency. Continued gains in education, efforts to reduce skill mismatches, and preparation for rapid AI diffusion are welcome. Greater labor market flexibility would improve resource allocation. EU-level reforms—deepening the single market, advancing the savings and investment union, and integrating energy markets—are also key.

46. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Portugal: Macroeconomic Developments

Although decelerating, growth in 2025 remained stronger than the EA average...

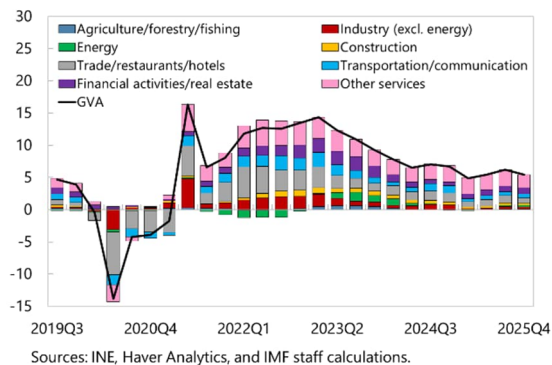
Real GDP Growth
(Percent, year-over-year)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

...with service sectors contributing the most.

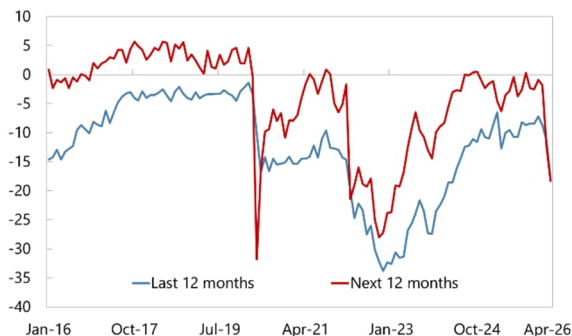
Gross Value Added Growth Decomposition
(Percent, year-over-year)



Sources: INE, Haver Analytics, and IMF staff calculations.

Household sentiment deteriorated since the start of the war in the Middle East...

Household Financial Situation
(Index, 0+=increase, NSA)



Sources: INE and Haver Analytics.

... the overall country economic sentiment also declined sharply.

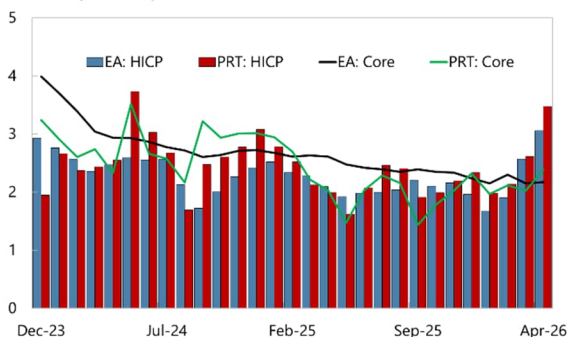
Country Economic Situation Sentiment
(Index, 0+=increase, NSA)



Sources: INE and Haver Analytics.

Headline inflation increased in recent months, but core inflation remained broadly stable.

Inflation
(Percent, year-over-year)



Sources: Eurostat and Haver Analytics.

...although inflation expectations have increased further.

Price Evolution Sentiment
(Index, 0+=increase, NSA)

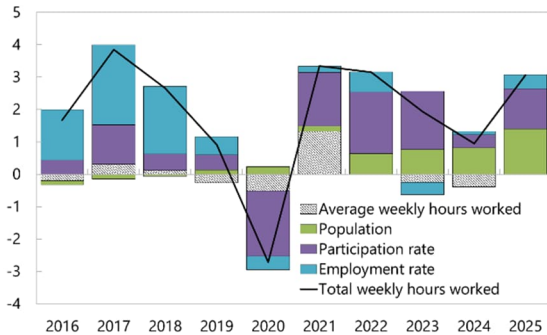


Sources: INE and Haver Analytics.

Figure 2. Portugal: Labor Market

Total hours worked increased, driven by higher working-age population and participation growth.

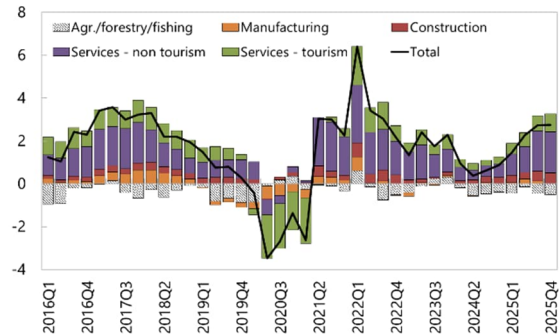
Total Weekly Hours Worked Growth Composition
(Percent, year-over-year)



Sources: Eurostat, INE, Haver Analytics, and IMF staff calculations.

Employment growth is mostly driven by services.

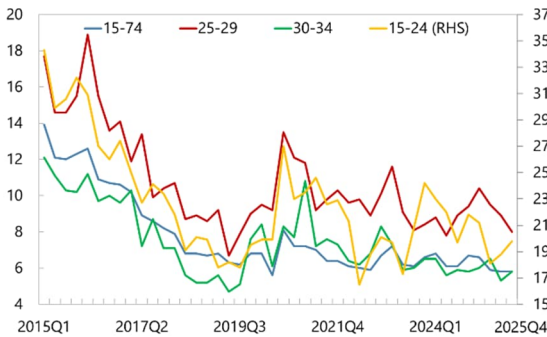
Contributions to New Employment
(Percent, year-over-year)



Sources: Haver Analytics and IMF staff calculations.

Unemployment rates have been declining across all age groups over the past 12 months.

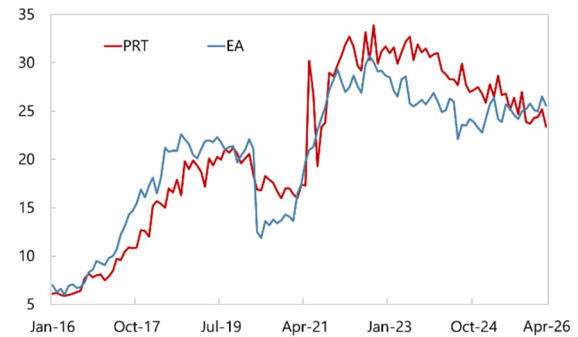
Unemployment Rate by Age Group
(Percent)



Sources: Eurostat and Haver Analytics.

Labor shortages in construction sector have been declining but remain high.

Labor Shortage in Construction
(Percent)

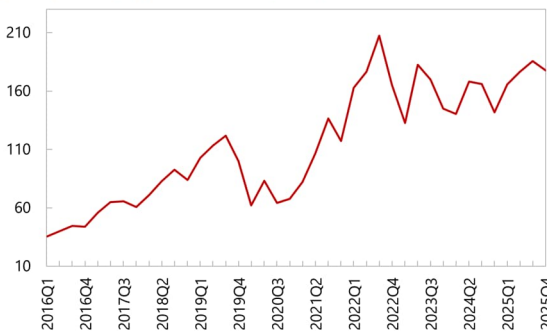


Sources: European Commission and Haver Analytics.

Labor market conditions have remained tight...

Labor Market Tightness

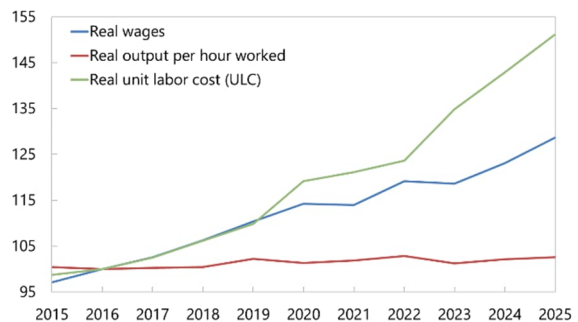
(Vacancy to unemployment ratio, 2019Q4 = 100)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

...and real wages continued to grow faster than labor productivity, pushing unit labor costs up.

Real Wages, Labor Productivity, and Real ULC Growth Indexes 1/
(2016 = 100)



Sources: Eurostat, INE, Haver Analytics, and IMF staff calculations.

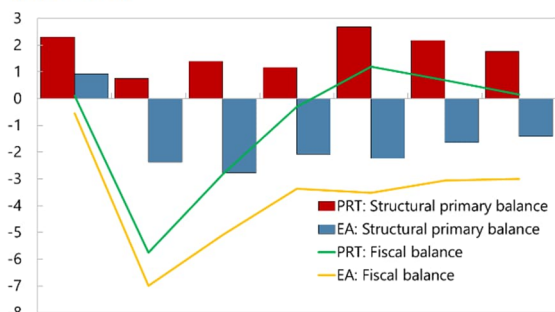
1/ real unit labor cost is real wages per unit of output

Figure 3. Portugal: Public Finances

Supported by high primary surpluses and strong growth...

Fiscal and Structural Primary Balance

(Percent of GDP)

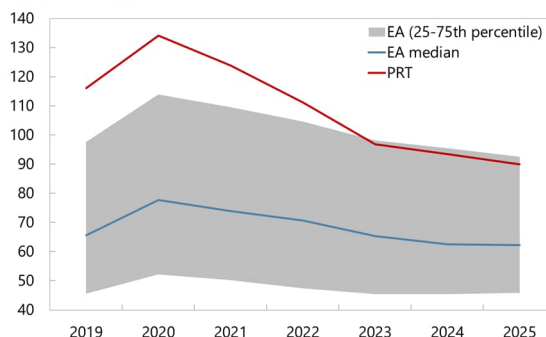


Sources: WEO Live and IMF staff calculations.

Portugal continued to swiftly reduce public debt, reaching below the 75th percentile level in the EA.

Public Debt

(Percent of GDP)

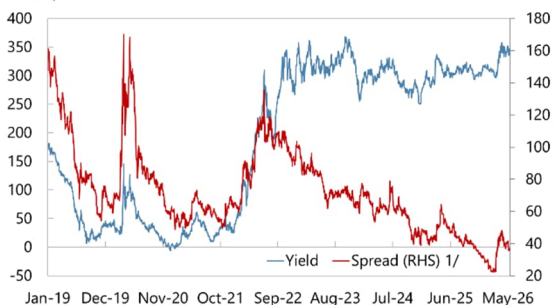


Sources: WEO Live and IMF staff calculations.

Bond spreads relative to German bunds continued declining, except widening slightly in early 2026.

10-year Gov. Bond Yield and Spread

(Basis points)

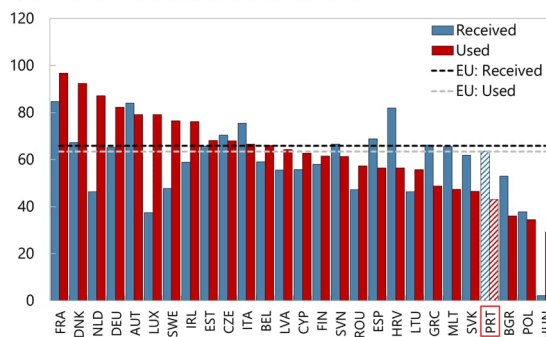


Sources: London Stock Exchange Group, Tullet Prebon Information, Haver Analytics, and IMF staff calculations.
1/ relative to German bunds

RRF funds disbursement has been slightly above the EA average.

Recovery and Resilience Fund (RRF) Grants

(Percent of total allocation, cumulative 2020-2025)

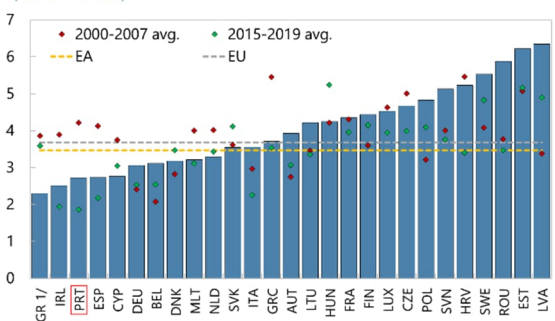


Sources: Eurostat and IMF staff calculations.

Public investment remains below the EA average.

Public Investment, 2024

(Percent of GDP)

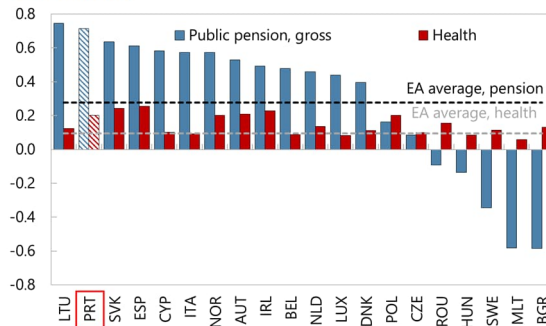


Sources: Eurostat and IMF staff calculations.
1/ 2022 data

Age-related spending increases are expected to be among the highest in the EA.

Projected Aging Cost: Change in Fiscal Outlays on Pensions and Health, 2025-2030

(Percent of GDP)



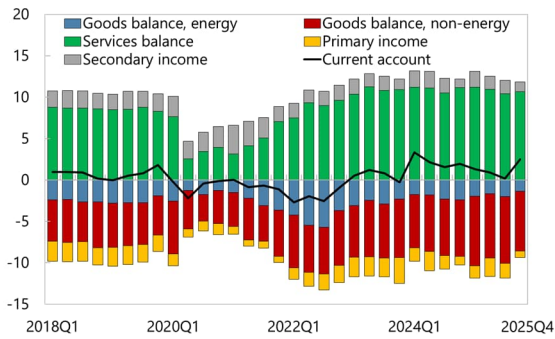
Sources: European Commission and IMF staff calculations.

Figure 4. Portugal: External Sector Developments

The current account surplus declined in 2025, driven by a further deterioration in the goods balance.

Current Account Decomposition

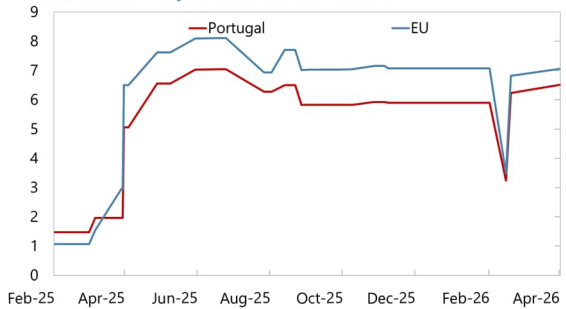
(Percent of GDP)



Sources: BdP, INE, Haver Analytics, and IMF staff calculations.

The average US import tariff rate rose from 1.5 percent to 6.5 percent, less than for the EU as a whole.

Effective US Import Tariff Rates (%) 1/

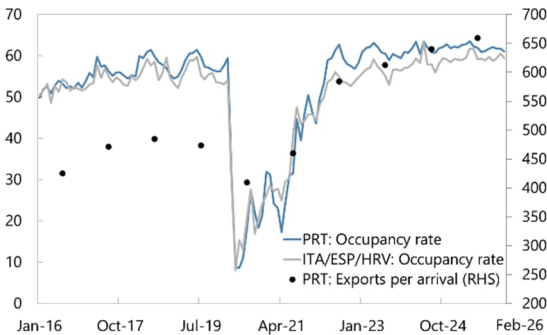


Sources: IMF-WTO tariff tracker, UN Comtrade data.
1/ Tariff rates are weighted by export values at product level. We assume zero tariff for service exports. EU is average tariff rates weighted by gross export value. The available data ends in April 6th 2026.

Tourism stayed strong, slightly outperforming regional competitors.

Occupancy Rate and Exports per Arrival

(Percent and Euros)

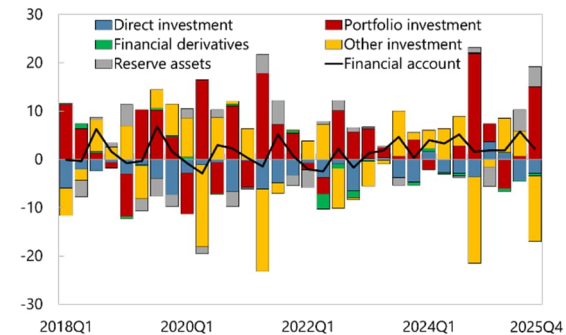


Sources: BdP, Eurostat, Haver Analytics, and IMF staff calculations.

The financial account stayed in surplus...

Financial Account Decomposition

(Percent of GDP)

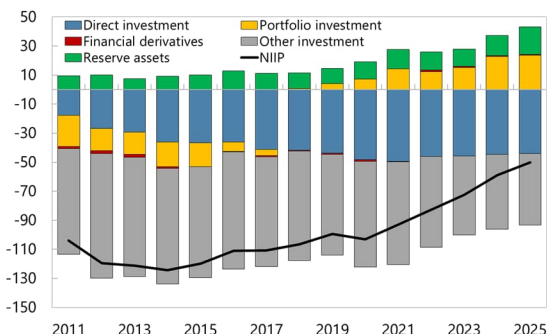


Sources: BdP, INE, Haver Analytics, and IMF staff calculations.

...and the net international investment position continued to improve significantly.

Net International Investment Position

(Percent of GDP)

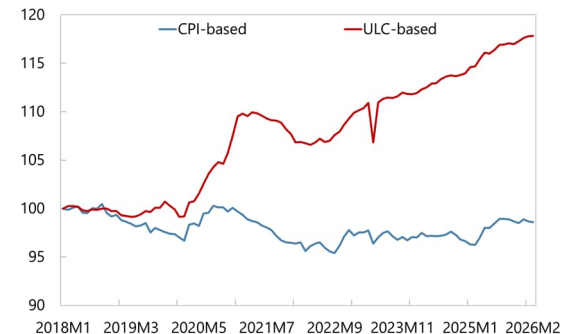


Sources: BdP, INE, Haver Analytics, and IMF staff calculations.

The ULC-based REER continued to appreciate.

Real Effective Exchange Rate

(2018Q1 = 100, increase = appreciation)

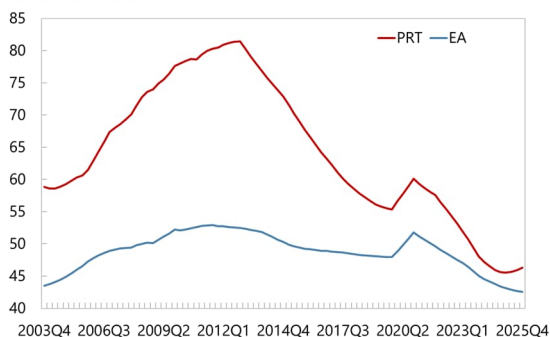


Sources: WEO and IMF staff calculations.

Figure 5. Portugal: Lending to NFCs and Households

Bank lending to households in percent of GDP has declined dramatically since the sovereign debt crisis...

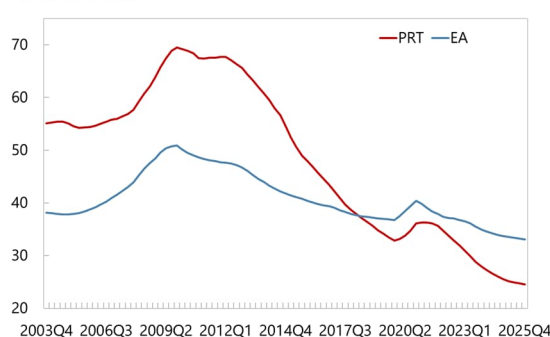
Bank Loans to Households
(Percent of GDP)



Sources: ECB, Eurostat, Haver Analytics, and IMF staff calculations.

...and lending to NFCs in percent of GDP has fallen below that in the EA.

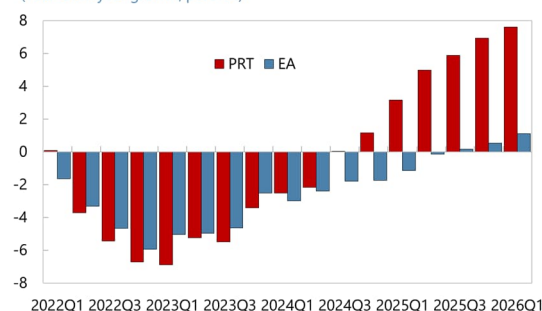
Bank Loans to Non-Financial Corporations
(Percent of GDP)



Sources: ECB, Eurostat, Haver Analytics, and IMF staff calculations.

Still, lending to households has been growing faster than in the EA...

Real Bank Loans to Households 1/
(Year-over-year growth, percent)

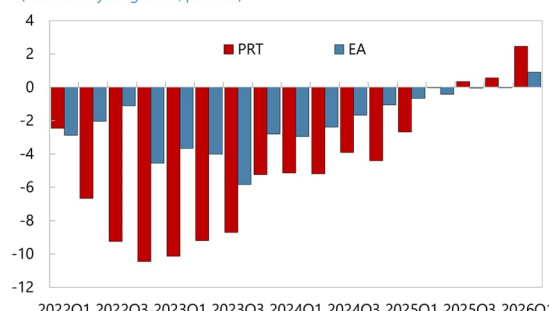


Sources: ECB, Haver Analytics, and IMF staff calculations.

1/ calculated by subtracting HICP growth from HH nominal lending growth.

...and lending to NFCs also started increasing.

Real Bank Loans to Non-Financial Corporations 1/
(Year-over-year growth, percent)

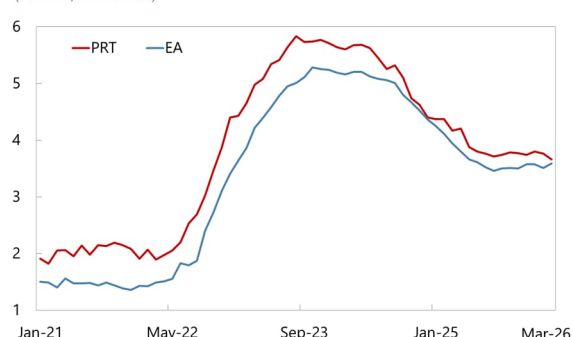


Sources: ECB, Haver Analytics, and IMF staff calculations.

1/ calculated by subtracting HICP growth from NFC nominal lending growth.

Borrowing costs for new loans remain higher than the EA average for NFCs...

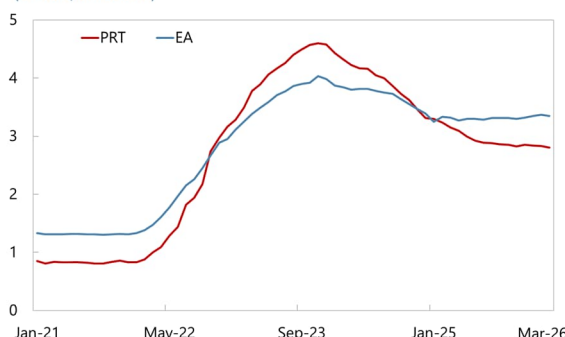
Non-Financial Corporation Borrowing Cost for Total New Loans
(Percent, annualized)



Source: ECB.

...but have been lower for households since 2025.

Household Borrowing Cost for Total New Mortgages
(Percent, annualized)

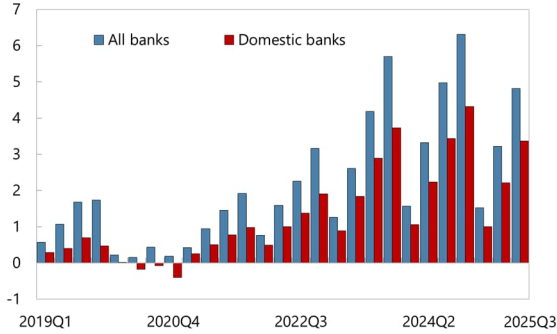


Source: ECB.

Figure 6. Portugal: Banking Sector Systemic Risks

Banks' profits have declined but remain high...

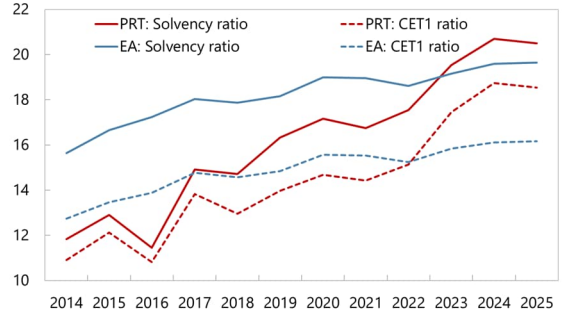
Profit/Loss from Continued Operations
(Billions of Euros)



Sources: ECB, Haver Analytics, and IMF staff calculations.

...contributing to capital adequacy ratios higher than the EA average.

Solvency and CET1 Ratios 1/
(Percent)

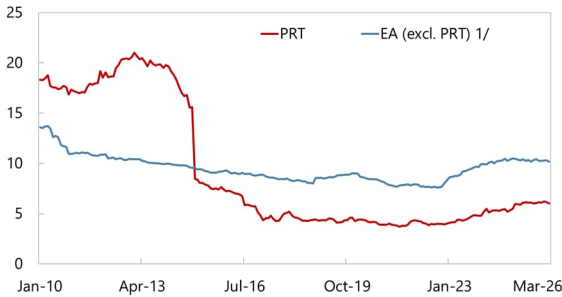


Source: ECB.

1/ Data are end-of-period (Q4), except 2025, which is based on 2025Q3.

Banks' business model relies on deposit funding...

Non-Deposit Funding Rate
(Percent)

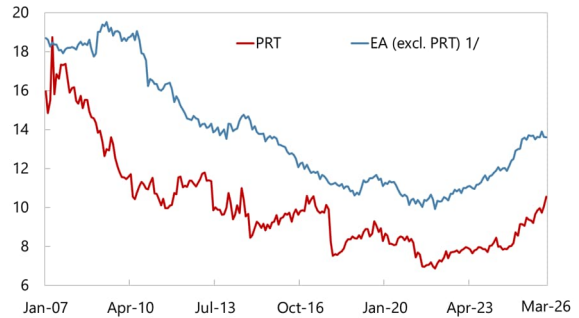


Sources: ECB, Haver Analytics, and IMF staff calculations.

1/ data are unavailable for FRA; HRV (before Dec. 2010); LVA (before Sep. 2010); and LTU (before Jun. 2010).

...and is less interconnected than in EA peers.

Interbank Loans
(Percent of total loans)

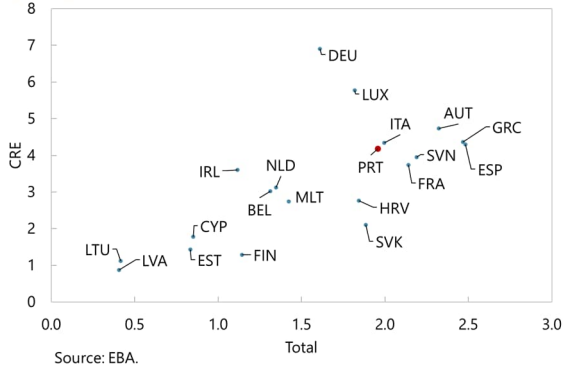


Sources: ECB, Haver Analytics, and IMF staff calculations.

1/ excludes FRA, HRV (before Dec. 2010), and LVA (before Sep. 2010).

Non-performing CRE loans were relatively high in Portugal...

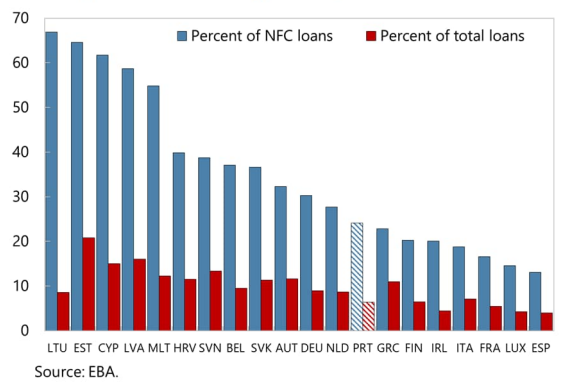
CRE and Total Non-Performing Loan Ratios, 2025Q4
(Percent)



Source: EBA.

...but banks' exposure to CRE lending is smaller than most EA peers'

CRE Exposures in Lending, 2025Q4



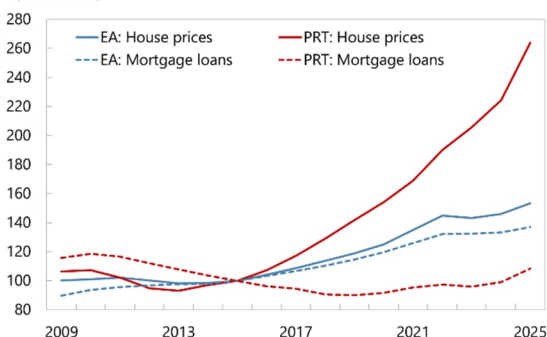
Source: EBA.

Figure 7. Portugal: Housing Market and Affordability

House prices have increased sharply since 2015, while mortgage loans did not.

House Prices and Mortgage Loans to Households Stock

(2015 = 100)

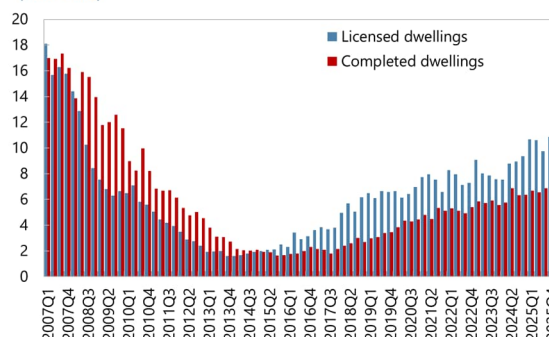


Sources: ECB, Eurostat, Haver Analytics, and IMF staff calculations.

Construction volumes are picking up but still are low relative to those observed in past years.

Construction of New Family Housing

(Thousands)

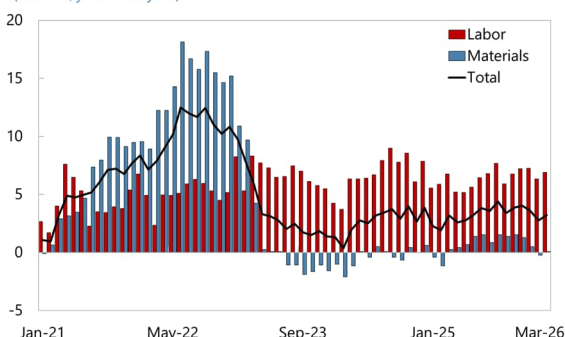


Sources: INE and IMF staff calculations.

While materials costs for construction have stabilized, labor costs' growth remains high.

Construction Cost Index Growth

(Percent, year-over-year)

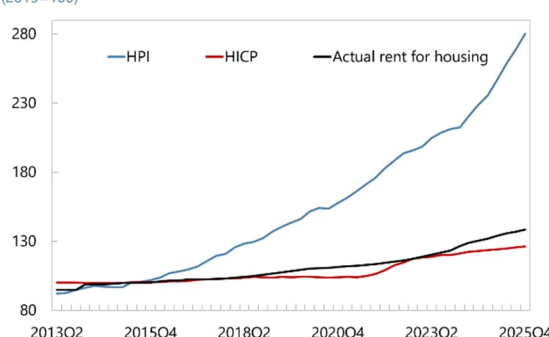


Sources: INE, Haver Analytics, and IMF staff calculations.

Rents have been increasing faster than CPI, but much slower than house prices.

House Prices, Consumer Prices, and Rents

(2015=100)

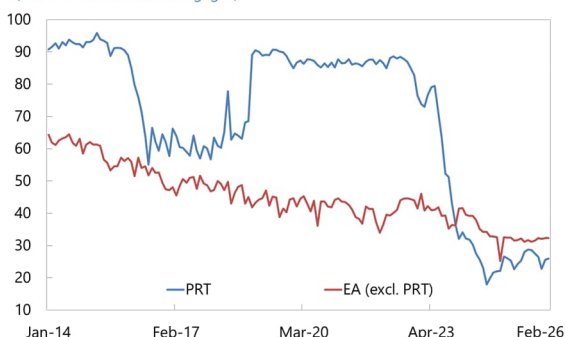


Sources: INE, Eurostat, Haver Analytics, and IMF staff calculations.

The share of variable-rate contracts for new mortgages has stabilized after having decreased sharply since 2023.

Variable-Rate Loans for New Mortgages

(Percent of total new mortgages)

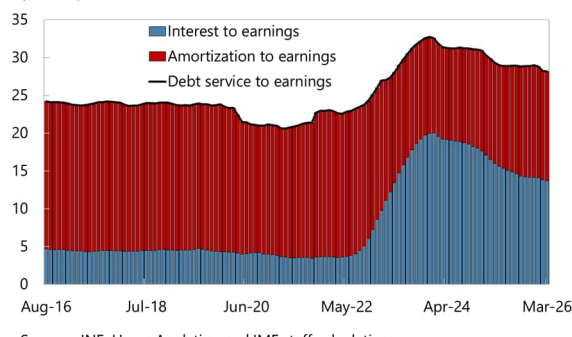


Sources: ECB, Haver Analytics, and IMF staff calculations.

Mortgage interest costs have been moderating but remain high.

Household Mortgage Cost Burden 1/

(Percent)



Sources: INE, Haver Analytics, and IMF staff calculations.

1/ earnings = regular gross monthly earnings.

Table 1. Portugal: Selected Economic Indicators
(Percent, year-over-year, unless otherwise indicated)

	2022	2023	2024	2025	Projections					
					2026	2027	2028	2029	2030	2031
Real GDP	7.0	3.1	2.2	1.9	1.7	1.6	1.8	1.7	1.7	1.6
Total domestic demand	4.7	2.2	2.9	3.7	3.1	0.8	1.9	1.9	1.9	1.8
Private consumption	5.6	2.4	3.0	3.5	1.8	2.1	2.2	2.1	2.1	2.0
Public consumption	1.7	1.8	1.5	1.7	2.0	0.0	0.1	0.2	0.1	0.1
Gross fixed investment	3.3	6.0	4.3	3.5	8.1	-2.5	2.3	2.3	2.6	2.5
Private	4.5	4.8	3.3	2.5	3.7	3.0	2.3	1.8	1.5	1.4
Government	-4.7	15.1	11.6	9.3	34.2	-27.9	2.5	5.9	9.3	8.8
Exports	17.2	4.3	3.2	0.4	1.0	3.8	2.2	2.1	2.0	1.9
Imports	11.3	2.3	4.7	4.2	4.0	2.0	2.3	2.4	2.5	2.3
Contribution to Growth										
Total domestic demand	4.9	2.2	2.9	3.7	3.2	0.8	1.9	1.9	2.0	1.9
Private consumption	3.5	1.5	1.8	2.2	1.1	1.4	1.4	1.4	1.4	1.3
Public consumption	0.3	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Gross fixed investment	0.7	1.2	0.9	0.7	1.7	-0.6	0.5	0.5	0.6	0.5
Stockbuilding	0.3	-0.8	-0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	2.1	0.9	-0.7	-1.8	-1.5	0.8	-0.1	-0.2	-0.3	-0.3
Savings-investment balance (percent of GDP)										
Gross national savings	19.3	21.1	22.6	22.3	22.5	21.8	21.7	21.7	21.7	21.7
Gross domestic investment	21.4	20.5	20.3	21.0	22.4	21.2	21.1	21.1	21.1	21.1
Credit to private nonfinancial sector	1.9	-1.6	4.5	2.9	3.5	3.2	3.8	3.9	3.7	3.6
Resource utilization										
Potential GDP	2.6	2.5	2.4	2.2	2.0	1.8	1.7	1.7	1.7	1.6
Output Gap (percent of potential GDP)	0.4	1.0	0.8	0.5	0.2	0.0	0.1	0.1	0.0	0.0
Labor										
Employment	3.8	2.0	0.8	2.2	1.7	1.3	0.9	0.6	0.4	0.3
Unemployment rate (percent, average)	6.2	6.6	6.5	6.0	5.9	5.9	5.8	5.7	5.7	5.7
Prices										
GDP deflator	5.3	7.5	4.9	3.9	3.2	2.3	2.4	2.2	2.0	2.0
Consumer prices (HICP)	8.1	5.3	2.7	2.2	3.4	2.3	2.4	2.2	2.0	2.0
Consumer prices excl. energy and unprocessed food	6.1	6.2	2.8	2.1	2.3	2.1	2.2	2.1	2.0	2.0
Fiscal indicators (percent of GDP)										
General government balance	-0.3	1.1	0.6	0.7	0.0	0.0	-0.2	-0.5	-0.9	-1.3
Revenues	43.6	43.2	43.0	43.4	44.5	42.8	42.7	42.7	42.7	42.7
Expenditures	43.9	42.0	42.4	42.7	44.5	42.8	42.9	43.2	43.6	44.0
Primary government balance	1.5	2.9	2.5	2.4	1.9	1.9	1.7	1.3	1.0	0.6
General government debt	111.2	96.9	93.5	89.7	85.6	82.3	79.2	76.8	74.9	73.6
External sector (percent of GDP)										
Trade balance (goods and services)	-2.0	1.5	2.2	1.2	-0.4	0.7	0.8	0.8	0.8	0.8
Current account balance	-2.0	0.6	2.2	1.2	0.1	0.5	0.6	0.6	0.6	0.6
Savings-investment balance (percent of GDP) 1/	-2.0	0.6	2.2	1.2	0.1	0.5	0.6	0.6	0.6	0.6
Net international investment position	-82.7	-72.4	-58.9	-50.2	-45.2	-41.4	-37.5	-33.9	-30.6	-27.3
REER based on ULC (2010 = 100) 2/	103.3	99.9	96.6	96.3	97.4	97.3	97.1	97.1	96.8	96.3
REER based on CPI (2010 = 100) 3/	94.4	95.1	95.1	94.9	96.1	96.3	96.4	96.6	96.5	96.5
Nominal GDP (billions of Euros)	244.0	270.4	289.8	306.7	322.0	334.7	348.9	362.5	375.9	389.6

Sources: BdP, Eurostat, INE, Haver Analytics, Portugal's Ministry of Finance, and IMF staff calculations/projections.

1/ National Accounts concept. Differences between the savings-investment balance and the current account in the balance of payments arise from a set of factors, including a different statistical treatment given to special purpose entities in the national accounts and the balance of payments.

2/ Real effective exchange rate as a ratio of a country's unit labor cost in the manufacturing sector to a weighted average of the unit labor cost in competing countries.

3/ Real effective exchange rate for all IMF members adjusted for relative changes in consumer prices.

Table 2a. Portugal: General Government Accounts^{1/}
(Billions of Euros, unless otherwise indicated)

	2022	2023	2024	2025	Projections					
					2026	2027	2028	2029	2030	2031
Revenue	106.3	116.7	124.7	133.0	143.4	143.4	149.0	154.6	160.6	166.4
Taxes	62.2	67.3	71.1	75.3	77.7	80.1	83.1	86.2	89.5	92.8
Taxes on production and imports	36.5	38.7	41.6	44.5	46.3	48.4	50.7	52.9	55.1	57.0
Current taxes on income, wealth, etc. and capital taxes	25.7	28.6	29.5	30.8	31.4	31.7	32.4	33.3	34.5	35.7
Social contributions	29.7	32.8	35.9	38.8	40.8	42.4	44.2	45.9	47.6	49.3
Grants and other revenue	14.4	16.5	17.7	19.0	24.9	20.9	21.8	22.6	23.4	24.3
Property income	1.7	2.1	2.3	2.6	2.7	2.8	2.9	3.0	3.1	3.2
Sales of goods and services	7.8	8.2	9.1	9.0	9.5	9.9	10.3	10.7	11.1	11.5
Other current revenue	3.4	3.3	3.7	3.6	4.8	3.1	3.2	3.3	3.4	3.6
Capital transfers and investment grants	1.6	2.9	2.6	3.8	8.0	5.2	5.4	5.6	5.8	6.0
Expenditure	107.1	113.7	122.9	130.9	143.2	143.3	149.8	156.6	163.9	171.6
Expense	107.5	113.6	122.3	129.8	139.0	142.8	149.2	155.7	162.2	169.1
Compensation of employees	26.0	27.8	30.3	32.6	34.2	35.5	36.8	38.2	39.6	41.1
Use of goods and services	13.2	14.0	15.1	15.7	16.5	17.1	17.7	18.4	19.1	19.7
Consumption of fixed capital	6.3	7.0	7.5	7.9	8.3	8.7	9.0	9.4	9.7	10.1
Interest	4.6	5.6	5.9	6.0	6.6	7.0	7.3	7.6	7.9	8.3
Subsidies	2.7	2.0	1.9	1.7	1.8	1.9	2.0	2.0	2.1	2.2
Social benefits	45.0	47.0	52.1	55.2	58.5	61.1	64.4	67.6	70.8	74.2
Grants and other expense	9.7	10.2	9.4	10.6	13.0	11.6	12.1	12.5	13.0	13.5
Other current expense	6.5	6.5	7.4	7.9	8.3	8.6	9.0	9.3	9.6	10.0
Capital transfers	3.2	3.7	2.0	2.8	4.8	3.0	3.1	3.2	3.3	3.5
Net acquisition of nonfinancial assets	-0.4	0.1	0.7	1.1	4.2	0.5	0.5	0.9	1.7	2.5
Gross fixed capital formation	5.9	7.0	8.0	9.1	12.6	9.2	9.6	10.3	11.4	12.6
Gross Operating Balance	5.1	10.0	9.9	11.1	12.7	9.3	8.8	8.3	8.1	7.4
Net lending (+)/borrowing (-)	-0.8	3.0	1.7	2.1	0.2	0.1	-0.8	-2.0	-3.4	-5.2
<i>Memorandum items:</i>										
Primary balance	3.7	7.9	7.2	7.4	6.1	6.4	5.8	4.9	3.7	2.2
Debt at face value (EDP notification)	271.4	261.9	270.9	275.1	275.6	275.5	276.3	278.3	281.6	286.9
Nominal GDP	244.0	270.4	289.8	306.7	322.0	334.7	348.9	362.5	375.9	389.6

Sources: BdP, Eurostat, INE, Haver Analytics, Portugal's Ministry of Finance, and IMF staff calculations/projections.

1/ GFSM 2001 presentation.

Table 2b. Portugal: General Government Accounts^{1/}
(Percent of GDP, unless otherwise indicated)

	2022	2023	2024	2025	Projections					
					2026	2027	2028	2029	2030	2031
Revenue	43.6	43.2	43.0	43.4	44.5	42.8	42.7	42.7	42.7	42.7
Taxes	25.5	24.9	24.5	24.5	24.1	23.9	23.8	23.8	23.8	23.8
Taxes on production and imports	15.0	14.3	14.3	14.5	14.4	14.5	14.5	14.6	14.6	14.6
Current taxes on income, wealth, etc. and capital taxes	10.5	10.6	10.2	10.0	9.8	9.5	9.3	9.2	9.2	9.2
Social contributions	12.2	12.1	12.4	12.6	12.7	12.7	12.7	12.7	12.7	12.6
Grants and other revenue	5.9	6.1	6.1	6.2	7.7	6.2	6.2	6.2	6.2	6.2
Property income	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Sales of goods and services	3.2	3.0	3.2	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Other current revenue	1.4	1.2	1.3	1.2	1.5	0.9	0.9	0.9	0.9	0.9
Capital transfers and investment grants	0.6	1.1	0.9	1.2	2.5	1.5	1.5	1.5	1.5	1.5
<i>Memo: EU grants</i>	0.9	1.2	1.2	1.5	3.8	2.3	2.3	2.3	2.3	2.3
Expenditure	43.9	42.1	42.4	42.7	44.5	42.8	42.9	43.2	43.6	44.0
Expense	44.1	42.0	42.2	42.3	43.2	42.7	42.8	43.0	43.1	43.4
Compensation of employees	10.6	10.3	10.5	10.6	10.6	10.6	10.6	10.5	10.5	10.6
Use of goods and services	5.4	5.2	5.2	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Interest	1.9	2.1	2.0	1.9	2.0	2.1	2.1	2.1	2.1	2.1
Subsidies	1.1	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Social benefits	18.5	17.4	18.0	18.0	18.2	18.3	18.4	18.6	18.8	19.0
Grants and other expense	4.0	3.8	3.3	3.5	4.0	3.5	3.5	3.5	3.5	3.5
Other current expense	2.7	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Capital transfers	1.3	1.4	0.7	0.9	1.5	0.9	0.9	0.9	0.9	0.9
Net acquisition of nonfinancial assets	-0.2	0.0	0.2	0.4	1.3	0.2	0.2	0.3	0.5	0.7
Gross fixed capital formation	2.4	2.6	2.8	3.0	3.9	2.7	2.7	2.8	3.0	3.2
Gross Operating Balance	2.1	3.7	3.4	3.6	3.9	2.8	2.5	2.3	2.1	1.9
Net lending (+)/borrowing (-)	-0.3	1.1	0.6	0.7	0.0	0.0	-0.2	-0.5	-0.9	-1.3
<i>Memorandum items:</i>										
Primary balance	1.5	2.9	2.5	2.4	1.9	1.9	1.7	1.3	1.0	0.6
Cyclically-adjusted balance (percent of potential GDP)	-0.6	0.7	0.0	0.0	-0.4	-0.7	-1.2	-1.4	-1.8	-1.1
Cyclically-adjusted primary balance (percent of potential GDP)	1.2	2.3	2.0	2.1	1.8	1.9	1.6	1.3	1.0	0.6
Debt at face value (EDP notification)	111.2	96.9	93.5	89.7	85.6	82.3	79.2	76.8	74.9	73.6
Nominal GDP (billions of Euros)	244.0	270.4	289.8	306.7	322.0	334.7	348.9	362.5	375.9	389.6

Sources: BdP, Eurostat, INE, Haver Analytics, Portugal's Ministry of Finance, and IMF staff calculations/projections.

1/ GFSM 2001 presentation.

Table 3a. Portugal: Balance of Payments
(In Billions of Euros)

	2022	2023	2024	2025	Projections					
					2026	2027	2028	2029	2030	2031
Current and Capital account	-2.6	5.3	9.6	8.3	8.6	7.1	7.5	7.9	8.1	8.4
Current account	-4.9	1.6	6.5	3.8	0.3	1.8	2.0	2.2	2.2	2.3
Balance on goods and services	-4.8	4.1	6.4	3.7	-1.2	2.4	2.8	2.9	2.9	2.9
Balance on trade in goods	-26.5	-25.2	-25.4	-29.4	-34.8	-33.4	-34.1	-35.4	-37.0	-38.6
Exports, fob	76.0	74.4	75.4	74.1	74.2	76.8	78.9	81.0	83.2	85.3
Imports, fob	102.5	99.6	100.8	103.5	109.0	110.3	113.0	116.4	120.2	123.9
Balance on trade in services	21.6	29.3	31.9	33.1	33.6	35.8	36.9	38.3	39.9	41.5
Exports	45.0	53.4	58.0	60.5	62.3	66.0	68.9	71.8	74.8	77.7
Imports	23.3	24.1	26.1	27.4	28.7	30.2	32.0	33.5	34.8	36.2
<i>Of which:</i>										
Balance on tourism	15.7	19.1	20.9	22.0	22.5	23.9	24.8	25.8	26.9	28.0
Exports	21.2	25.5	27.7	29.1	30.0	31.8	33.2	34.6	36.0	37.4
Imports	5.5	6.4	6.8	7.2	7.5	7.9	8.4	8.8	9.1	9.5
Primary income, net	-4.3	-6.8	-4.8	-4.8	-5.8	-6.0	-6.3	-6.6	-6.8	-7.0
Secondary income, net	4.2	4.3	4.9	4.9	7.3	5.4	5.6	5.8	6.1	6.3
Private remittances, net	5.9	5.9	6.2	6.3	6.6	6.4	6.6	6.9	7.2	7.5
Official transfers, net	-1.7	-1.6	-1.3	-1.4	0.7	-1.0	-1.0	-1.1	-1.1	-1.2
Capital account	2.3	3.7	3.1	4.5	8.3	5.3	5.5	5.7	5.9	6.2
Financial account	-2.4	5.5	10.2	9.0	8.6	7.1	7.5	7.9	8.1	8.4
Direct investment, net	-7.3	-5.5	-5.5	-1.8	-4.4	-4.6	-4.1	-3.7	-3.2	-3.3
Direct investment assets	5.3	5.3	6.2	5.4	5.6	5.9	6.1	6.3	6.6	6.8
Direct investment liabilities	12.6	10.7	11.7	7.2	10.0	10.4	10.2	10.1	9.7	10.1
Portfolio investment, net	7.0	8.8	16.7	10.5	29.9	26.5	23.6	23.5	22.2	26.1
Financial derivatives	-3.5	-0.9	0.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Other investment, net	1.2	3.4	-1.5	-2.4	-16.3	-14.3	-11.5	-11.4	-10.4	-13.9
Reserve assets	0.2	-0.5	0.5	3.7	0.6	0.6	0.6	0.6	0.6	0.6
Errors and omissions	0.2	0.2	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>										
Nominal GDP	244.0	270.4	289.8	306.7	322.0	334.7	348.9	362.5	375.9	389.6

Sources: Bdp, Eurostat, INE, Haver Analytics, Portugal's Ministry of Finance, and IMF staff calculations/projections.

Table 3b. Portugal: Balance of Payments
(In Percent of GDP)

	2022	2023	2024	2025	Projections					
					2026	2027	2028	2029	2030	2031
Current and Capital account	-1.1	1.9	3.3	2.7	2.7	2.1	2.2	2.2	2.2	2.2
Current account	-2.0	0.6	2.2	1.2	0.1	0.5	0.6	0.6	0.6	0.6
Balance on goods and services	-2.0	1.5	2.2	1.2	-0.4	0.7	0.8	0.8	0.8	0.8
Balance on trade in goods	-10.8	-9.3	-8.8	-9.6	-10.8	-10.0	-9.8	-9.8	-9.9	-9.9
Exports, fob	31.2	27.5	26.0	24.2	23.1	23.0	22.6	22.3	22.1	21.9
Imports, fob	42.0	36.8	34.8	33.7	33.9	32.9	32.4	32.1	32.0	31.8
Balance on trade in services	8.9	10.8	11.0	10.8	10.4	10.7	10.6	10.6	10.6	10.7
Exports	18.4	19.7	20.0	19.7	19.4	19.7	19.8	19.8	19.9	19.9
Imports	9.6	8.9	9.0	8.9	8.9	9.0	9.2	9.2	9.3	9.3
<i>Of which:</i>										
Balance on tourism	6.4	7.1	7.2	7.2	7.0	7.1	7.1	7.1	7.2	7.2
Exports	8.7	9.4	9.6	9.5	9.3	9.5	9.5	9.5	9.6	9.6
Imports	2.3	2.4	2.4	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Primary income, net	-1.8	-2.5	-1.7	-1.6	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Secondary income, net	1.7	1.6	1.7	1.6	2.3	1.6	1.6	1.6	1.6	1.6
Private remittances, net	2.4	2.2	2.1	2.1	2.1	1.9	1.9	1.9	1.9	1.9
Official transfers, net	-0.7	-0.6	-0.4	-0.5	0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Capital account	1.0	1.4	1.1	1.5	2.6	1.6	1.6	1.6	1.6	1.6
Financial account	-1.0	2.0	3.5	2.9	2.7	2.1	2.2	2.2	2.2	2.2
Direct investment, net	-3.0	-2.0	-1.9	-0.6	-1.4	-1.4	-1.2	-1.0	-0.8	-0.8
Direct investment assets	2.2	1.9	2.1	1.8	1.8	1.8	1.7	1.7	1.7	1.7
Direct investment liabilities	5.2	4.0	4.0	2.4	3.1	3.1	2.9	2.8	2.6	2.6
Portfolio investment, net	2.9	3.3	5.8	3.4	9.3	7.9	6.8	6.5	5.9	6.7
Financial derivatives	-1.4	-0.3	0.0	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other investment, net	0.5	1.3	-0.5	-0.8	-5.1	-4.3	-3.3	-3.1	-2.8	-3.6
Reserve assets	0.1	-0.2	0.2	1.2	0.2	0.2	0.2	0.2	0.1	0.1
Errors and omissions	0.1	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>										
Tourist receipts (percent of total exports)	17.5	19.9	20.8	21.6	22.0	22.3	22.5	22.6	22.8	23.0
Net international investment position	-82.7	-72.4	-58.9	-50.2	-45.2	-41.4	-37.5	-33.9	-30.6	-27.3
Annual Change in NIIP valuation (billions of Euros) 1/	0.0	3.5	15.4	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross external debt	165.5	146.6	144.7	145.3	138.2	133.2	128.5	124.2	120.7	116.5

Sources: BdP, Eurostat, INE, Haver Analytics, Portugal's Ministry of Finance, and IMF staff calculations/projections.

1/ end-of-period data

Table 4. Portugal: Selected Financial Indicators of the Banking System
(Percent)

	2019	2020	2021	2022	2023	2024	2025			
	2019Q4	2020Q4	2021Q4	2022Q4	2023Q4	2024Q4	2025Q1	2025Q2	2025Q3	2025Q4
Capital adequacy										
Regulatory capital to risk-weighted assets	16.9	18.0	18.0	18.2	19.6	20.6	20.4	20.4	20.5	20.6
Common Equity Tier 1 capital to risk-weighted assets	14.3	15.3	15.5	15.4	17.1	18.0	17.9	17.9	17.7	17.9
Regulatory tier 1 capital to risk-weighted assets	15.4	16.5	16.3	16.2	17.9	19.0	18.8	18.8	18.9	19.1
Capital to assets 1/	8.3	8.2	7.3	7.2	7.7	8.0	7.8	7.8	7.8	...
Asset composition and quality										
Non-performing loans to total gross loans	6.2	4.9	3.7	3.0	2.7	2.4	2.3	2.3	2.3	2.1
Sectoral distribution of loans										
Residents	93.4	93.6	93.6	92.8	92.3	91.6	91.7	91.4	91.5	91.2
Nonresidents	6.6	6.4	6.4	7.2	7.7	8.4	8.3	8.6	8.5	8.8
Earnings and profitability										
Return on assets	0.4	0.0	0.5	0.7	1.3	1.4	1.3	1.4	1.3	1.3
Return on equity	4.8	0.5	5.4	8.7	14.8	15.1	13.9	14.9	14.8	14.5
Interest margin to gross income	66.9	63.6	58.9	62.2	72.0	74.1	72.5	71.3	70.8	...
Liquidity										
Liquid assets to total assets 2/	18.1	21.5	25.3	23.2	24.6	26.8	26.1	26.1	25.6	...
Liquid assets to short-term liabilities 2/	20.9	24.3	41.6	33.1	36.6	38.8	37.7	37.8	36.8	37.0
Loans to deposits	87.1	84.7	81.1	78.2	78.0	74.9	74.9	75.4	75.7	76.0

Sources: BdP, ECB, and IMF staff calculations.

1/ On accounting basis; consolidated.

2/ National concept of asset quality.

Annex I. External Sector Assessment

<p>Overall Assessment: <i>The external position in 2025 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.</i> The NIIP-to-GDP ratio further improved from -58.9 percent in 2024 to -50.2 percent in 2025. Under baseline assumptions, it is projected to fall to -27.3 percent by 2031, reflecting both current account surpluses and sustained GDP growth. Further reduction in the NIIP would reduce external sustainability risks, especially as the importance of tourism in the current account makes Portugal susceptible to external demand shocks.</p> <p>Potential Policy Responses: The positive CA surpluses will keep reducing vulnerabilities associated with the large negative NIIP. Maintaining a balanced fiscal position, as the authorities intend, while reorienting public spending toward higher investment would help bring CA closer to its medium-term equilibrium. Structural reforms would further support rebalancing by stimulating private investment. Priorities include deepening the EU single market, removing tax disincentives to firm growth, and improving education. Increasing labor market flexibility while reducing labor market duality would also help lower precautionary saving and support higher consumption. Moreover, to mitigate downside risks from trade fragmentation and broader geopolitical tensions, further reforms to enhance diversification and deepen integration into global value chains would strengthen resilience.</p>					
Foreign Asset and Liability Position and Trajectory	<p>Background. The negative NIIP declined from its peak of 124 percent of GDP in 2014 to 50 percent of GDP in 2025. The improvement in 2025 reflects a larger increase in gross assets than liabilities in percent of GDP, supported by a current account (CA) surplus of 1.2 percent of GDP. The gross external debt position remained high, at 145.3 percent of GDP at end-2025. Both the negative NIIP and gross external debt are expected to continue decreasing during the projection horizon, but at a decelerating pace as the CA surplus becomes smaller.</p> <p>Assessment. The negative NIIP position has been reduced to a moderate level, alleviating external sustainability concerns. Still, the external debt induces vulnerabilities, particularly from substantial gross financing needs (estimated to average 48 percent of GDP over 2026-31). Past debt management efforts to reduce sovereign external risk, including by smoothing the profile for redemptions and lengthening the average maturity are important risk mitigants. Going forward, reflecting a sustained reduction in foreign liabilities, the NIIP is expected to continue improving and reach -27.3 percent of GDP by 2031, with the CA converging toward its norm.</p>				
2025 (% GDP)	NIIP: -50.2	Gross Assets: 173.2	Debt Assets: 167.2	Gross Liab.: 223.4	Debt Liab.: 38.9
Current Account	<p>Background. The current account declined from 2.2 percent in 2024 to 1.2 percent in 2025. This decline reflected strong growth in goods imports, driven by robust consumption and investments, along with weaker goods exports due to tariff hikes in the US and subdued demand in EU. Service exports remained strong as tourism kept growing, albeit at slower pace. Primary and secondary incomes remained similar to the previous year.</p> <p>Assessment. The EBA model estimates the cyclically-adjusted CA balance at 1.5 percent of GDP in 2025. The EBA CA model suggests a norm of 0.2 percent of GDP. Accounting for uncertainty in the estimates, this implies a CA gap in the range of 0.6 to 2.0 percent of GDP, with a point estimate of 1.3 percent of GDP. Policy gaps, reflecting deviations of current policy settings in Portugal from their desired settings, contribute 1.7 percent while the unexplained residual represents -0.4 percent. The high reliance of the CA surplus on tourism suggests a vulnerability to external shocks, for which the successful reduction in external debt provides welcome buffers.</p>				
2025 (% GDP)	CA: 1.2	Cyclically adjusted. CA: 1.5	EBA Norm: 0.2	EBA Gap: 1.3	

Real Exchange Rate	<p>Background. The CPI-based real effective exchange rate (REER) appreciated by 2.4 percent and the unit labor cost (ULC)-based REER appreciated by 1.3 percent between the end of 2024 and 2025.</p> <p>Assessment. Based on the staff-assessed CA gap range, the REER is undervalued in the range of 1.7 to 5.6 percent, with a midpoint of 3.6 percent (applying an estimated elasticity of the CA balance to the REER of 0.36). The EBA CPI-based REER index model suggests an overvaluation of 0.6 percent, while the level REER model's estimate indicates 3.7 percent undervaluation in 2025.</p>
Capital and Financial Accounts: Flows and Policy Measures	<p>Background. The financial account remained in a surplus at 2.9 percent of GDP, mainly driven by “Other investments”, partly offset by portfolio investment outflows. The capital account surplus has remained high, reflecting inflows associated with RRF funds. In addition, Portugal has continued to reduce its public debt, to 90 percent of GDP at end-2025. Portugal's credit ratings were improved by all major agencies between 2025 and early 2026, bringing them in the range of upper medium investment grade (as of February 2026, Portugal's ratings are: S&P: A+, Moody's: A3, Fitch: A, DBRS: A).</p> <p>Assessment. Portugal's active debt management has not only helped support external financing rollover needs for the near term in the public sector but has also had positive spillover effects on the private sector. 2025 saw consistent rating upgrades not only for the sovereign, but also for the private sector, which lowered funding costs. Still, existing external financing needs leave Portugal exposed to market volatility.</p>
FX Intervention and Reserves	<p>Background. The euro has the status of a global reserve currency.</p> <p>Assessment. Reserves held by the EA are typically low relative to standard metrics, but the currency is free floating.</p>

Annex II. Risk Assessment Matrix¹

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Global Risks			
Geopolitical Tensions and Intensification of Conflicts.	High Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	Medium Portugal has limited direct exposure to the conflict regions but faces indirect risks through potentially higher import prices and weaker growth among trading partners.	<ul style="list-style-type: none"> • Deliver temporary and well-targeted support to vulnerable households and firms to cushion the impact of higher energy import prices. • Reorient public investment toward areas that strengthen competitiveness and accelerate structural reforms to support labor reallocation.
Protectionism and Trade Disruptions.	High Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.	High Higher trade barriers and supply chain disruptions would dampen goods exports, slow growth, and increase inflation.	<ul style="list-style-type: none"> • Work with EU partners to deepen the single market and engage in new trade agreements. Pursue structural reforms that will help increase productivity, competitiveness, and the diversification of trade partners. • To address the impact on growth, automatic stabilizers should first be deployed. In a severe recession, temporary fiscal loosening may be needed to support the economy. A primary surplus consistent with further debt reduction should be preserved.
Commodity Price Volatility.	High Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	Medium Higher commodity price volatility may increase inflation, discourage investment, and dampen growth. In case of a resulting severe shock to domestic and/or foreign demand for real estate, house prices may decline sharply, exacerbating the downturn.	<ul style="list-style-type: none"> • In case of a persistent recession that impacts domestic demand, reintroduce temporary and well-targeted support to vulnerable households and struggling yet viable businesses, tying the level of support for businesses to their achievement of energy efficiency goals. To increase the resilience of the economy, accelerate the transition to renewable energy by increasing investment in this sector.
Fiscal Vulnerabilities and Higher Interest Rates.	High Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial	Medium The significant achievements in strengthening the fiscal position in recent years mitigate the risk of sharp rises in risk premia. Nonetheless, the debt level remains	<ul style="list-style-type: none"> • Stay the course on fiscal discipline to preserve recent gains in market confidence. Reorient public spending toward more investment to mitigate the impact of tighter financial conditions on private investment.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline. Likelihood reflects staff's subjective assessment: "low" (below 10 percent), "medium" (10-30 percent), and "high" (30-50 percent). The RAM captures staff views on the source of risks and overall concern as of the time of discussions with the authorities.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
	conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics.	high, and any increase Portuguese sovereign interest rates would raise rollover costs, constrain fiscal space, and slow the pace of deleveraging. Tighter financial conditions would also hold back the expected recovery of investment, affecting growth prospects.	
Portugal-Specific Risks			
Cyberthreats.	High Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	Low Operational disruptions and loss of confidence could disrupt provision of financial services.	<ul style="list-style-type: none"> • Implement FSAP recommendation to strengthen the resilience of domestic financial institutions to cyber risks. • Ensure other key institutions (e.g., utilities, government agencies, transportation companies) also proactively strengthen their protection against and resilience to cyber risks.
Labor Shortages and Remittances.	High Tighter immigration policies exacerbate labor shortages in aging destination economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues.	High Portugal is facing population aging and increasingly relies on immigration to sustain labor supply. Tighter immigration policies would reduce potential output and raise inflation.	<ul style="list-style-type: none"> • Continue fostering greater labor force participation and labor market flexibility through appropriate structural reforms.
Climate Change.	Medium Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium Extreme climate events, including storms, floods and wildfires, can further disrupt economic activity as seen in recent years.	<ul style="list-style-type: none"> • Deliver targeted fiscal support to households and firms affected by extreme events. • Strengthen public investment into adaptation infrastructure and accelerate structural reforms to enhance the resilience of productive activities.
Stickier Core Inflation.	Medium Real wages increasing faster than productivity could lead to higher inflation than in the EA.	Medium Higher inflation expectations may put upward pressure on wages, slowing inflation deceleration. External competitiveness could be negatively affected. Spillovers from higher commodity prices to core could compound second-round effects.	<ul style="list-style-type: none"> • In the absence of autonomous monetary policy, fiscal policy should carefully balance the growth and inflation objectives and recalibrate the fiscal stance as needed. Continue efforts to increase labor force participation.

Annex III. Sovereign Risk and Debt Sustainability Analysis

Table 1. Portugal: Risk of Sovereign Stress			
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting a moderate level of vulnerability in the medium-to-long-term as aging and defense related spending pressures, combined with the impact of recent tax cuts and wage increases, gradually worsen the fiscal position.
Near term 1/			
Medium term	Moderate	Moderate	Medium-term risk is assessed as moderate, as the implemented and planned tax reductions, combined with spending increases on social benefits related to aging as well as higher spending needs on defense are expected to erode the primary surplus. Despite the impressive decrease over the past years, the debt level stays relatively high.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test		...	
Long term	...	Moderate	Long-term risks are moderate but require addressing long-term aging related expenditures on health and pensions. Under the baseline scenario, debt-to-GDP stops decreasing in the mid 2030s.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Not required for surveillance countries.
Debt stabilization in the baseline			Yes
DSA Summary Assessment			
Commentary: Portugal is at a moderate overall risk of sovereign stress.			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

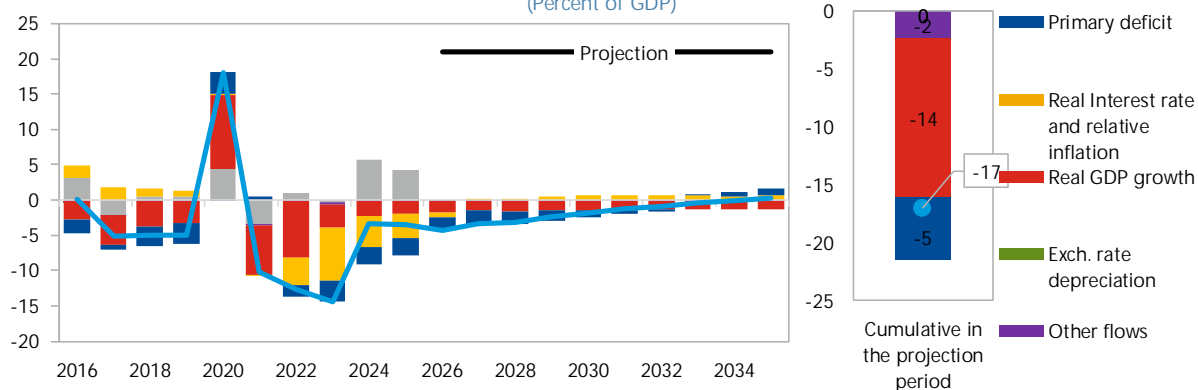
Table 2. Portugal: Debt Coverage and Disclosures

										Comments			
1. Debt coverage in the DSA: 1/		CG	GG	NFPS	CPS	Other							
1a. If central government, are non-central government entities insignificant?										n.a.			
2. Subsectors included in the chosen coverage in (1) above:													
Subsectors captured in the baseline										Inclusion			
CPS	NFPS	GG: expected	CG	1	Budgetary central government					Yes	Not applicable		
				2	Extra budgetary funds (EBFs)					No			
				3	Social security funds (SSFs)					Yes			
				4	State governments					Yes			
				5	Local governments					Yes			
				6	Public nonfinancial corporations					No			
				7	Central bank					Yes			
				8	Other public financial corporations					No			
3. Instrument coverage:		Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/							
4. Accounting principles:		Basis of recording		Valuation of debt stock									
		Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/							
5. Debt consolidation across sectors:		Consolidated			Non-consolidated								
Color code: █ chosen coverage █ Missing from recommended coverage █ Not applicable													
Reporting on Intra-Government Debt Holdings													
		Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total		
CPS	NFPS	GG: expected	CG	Issuer									
				1	Budget. central govt								0
				2	Extra-budget. funds								0
				3	Social security funds								0
				4	State govt.								0
				5	Local govt.								0
				6	Nonfin pub. corp.								0
				7	Central bank								0
8	Oth. pub. fin. corp								0				
Total		0		0		0		0		0			
<p>1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.</p> <p>2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.</p> <p>3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.</p> <p>4/ Includes accrual recording, commitment basis, due for payment, etc.</p> <p>5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).</p> <p>6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.</p> <p>7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.</p>													
<p>Commentary: A large fraction of central government's debt is held by the central bank and social security funds.</p>													

Table 3. Portugal: Baseline Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	89.7	85.6	82.3	79.2	76.8	74.9	73.6	72.8	72.3	72.2	72.4
Change in public debt	-3.8	-4.1	-3.3	-3.1	-2.4	-1.8	-1.3	-0.9	-0.5	-0.1	0.3
Contribution of identified flows	-7.8	-4.3	-3.3	-3.1	-2.4	-1.8	-1.3	-0.9	-0.5	-0.1	0.3
Primary deficit	-2.4	-1.9	-1.9	-1.7	-1.3	-1.0	-0.6	-0.2	0.2	0.6	1.0
Noninterest revenues	43.1	44.3	42.6	42.5	42.4	42.5	42.5	42.5	42.5	42.5	42.5
Noninterest expenditures	40.7	42.4	40.7	40.8	41.1	41.5	41.9	42.3	42.7	43.1	43.5
Automatic debt dynamics	-5.2	-2.2	-1.2	-1.3	-0.9	-0.6	-0.5	-0.5	-0.5	-0.6	-0.5
Real interest rate and relative inflation	-3.5	-0.7	0.2	0.2	0.5	0.6	0.7	0.7	0.6	0.6	0.6
Real interest rate	-3.5	-0.7	0.2	0.2	0.5	0.6	0.7	0.7	0.6	0.6	0.6
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.7	-1.5	-1.3	-1.5	-1.3	-1.2	-1.2	-1.2	-1.1	-1.1	-1.1
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	4.2	7.9	7.8	7.3	6.8	8.0	8.1	7.6	7.8	10.1	11.6
of which: debt service	6.9	10.0	9.9	9.2	8.3	9.2	8.9	8.0	7.8	9.7	10.8
Local currency	6.9	10.0	9.9	9.2	8.3	9.2	8.9	8.0	7.8	9.7	10.8
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	1.9	1.7	1.6	1.8	1.7	1.7	1.6	1.6	1.6	1.6	1.6
Inflation (GDP deflator; percent)	3.9	3.2	2.3	2.4	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	5.9	5.0	3.9	4.3	3.9	3.7	3.6	3.6	3.6	3.6	3.6
Effective interest rate (percent)	0.0	2.4	2.5	2.7	2.8	2.8	2.9	2.9	2.9	2.9	2.9

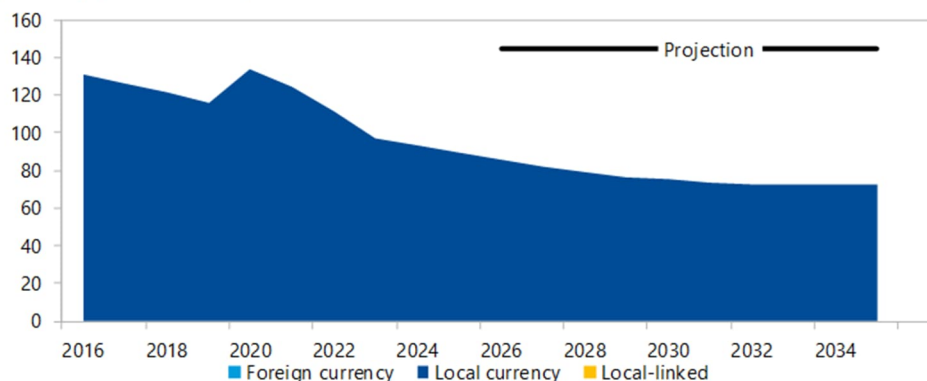
Contribution to Change in Public Debt
(Percent of GDP)



Commentary: Public debt is projected to decline until 2034 and start increasing in 2035 due to the reversal in the primary balance into deficit in 2033.

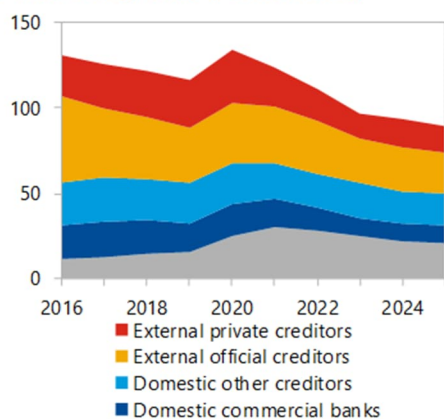
Figure 1. Portugal: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



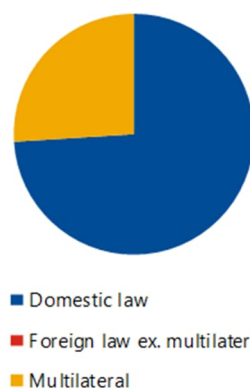
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (Percent of GDP)



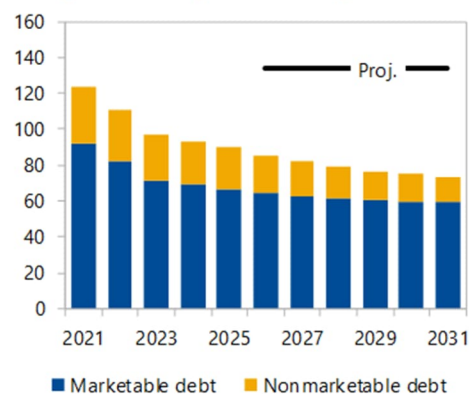
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2025 (Percent)



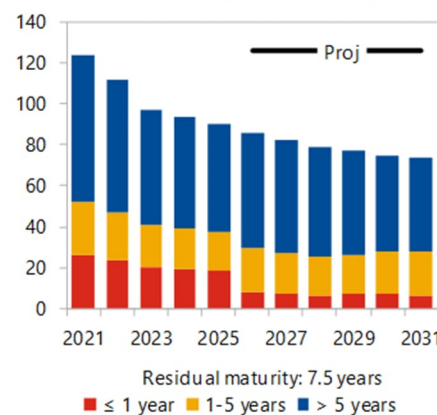
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

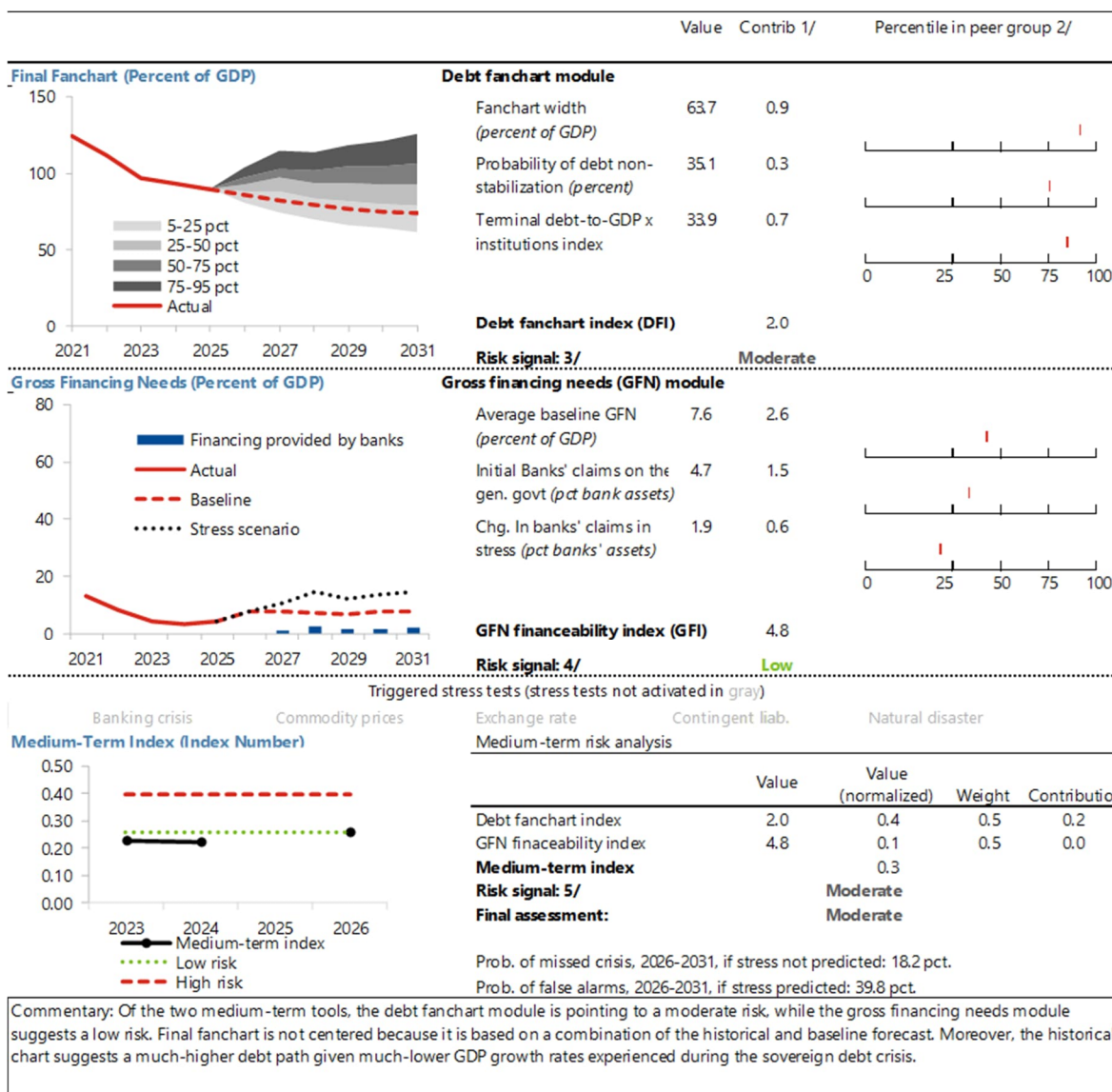
Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: Portugal's debt is local currency-denominated and is not exposed to exchange rate risk.

Figure 2. Portugal: Medium-Term Risk Assessment



Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

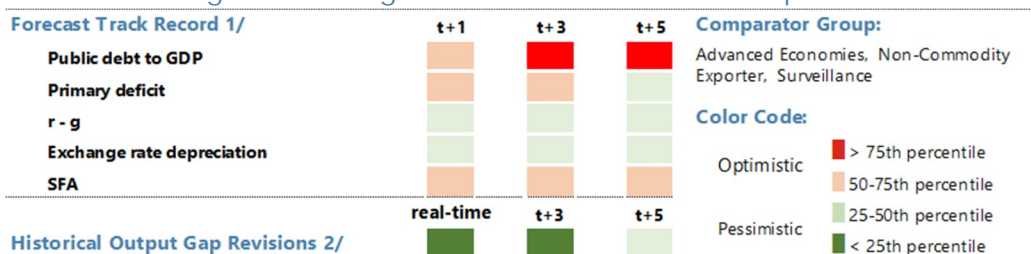
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

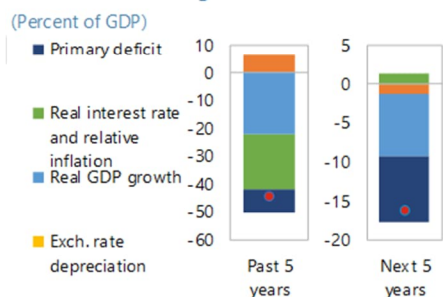
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

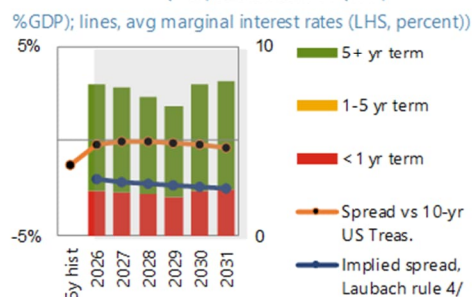
Figure 3. Portugal: Realism of Baseline Assumptions



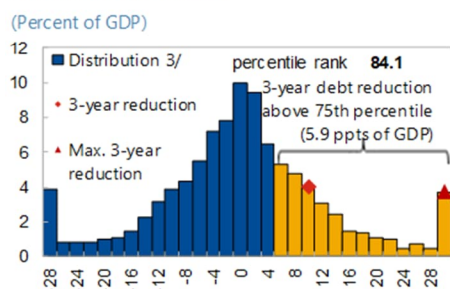
Public Debt Creating Flows



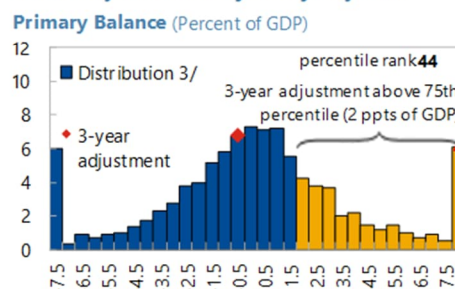
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



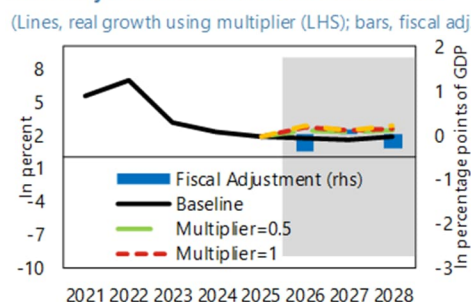
3-Year Debt Reduction



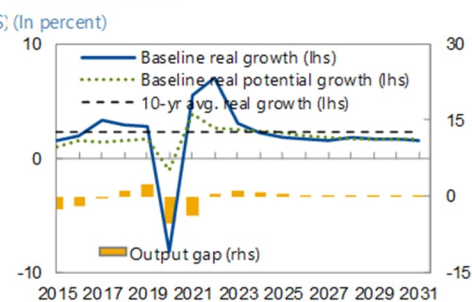
3-Year Adjustment in Cyclically-Adjusted Primary Balance



Fiscal Adjustment and Possible Growth Paths



Real GDP Growth



Commentary: Realism analysis shows that the public debt forecast is shown to be optimistic mainly due to the past two deep recessions Portugal experienced. Primary balance and r-g projections are well within norms. Public debt reduction in the past five years was supported by real GDP growth, real interest rate, and primary surplus. Over the next five year horizon, real GDP growth and primary surplus are projected to continue reducing the public debt. Three year debt reduction has been faster than other peers and is above the 80th percentile.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 4. Portugal: Triggered Modules

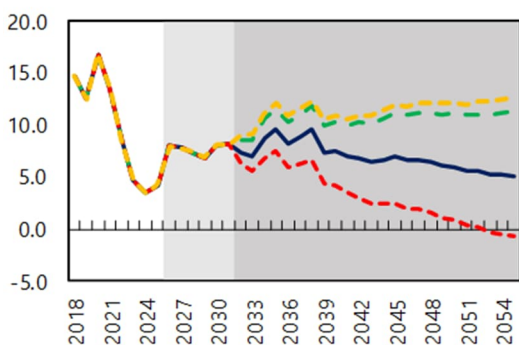
Large amortizations **Pensions** Climate change: Adaptation Natural Resources
 Health Climate change: Mitigation

Portugal: Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

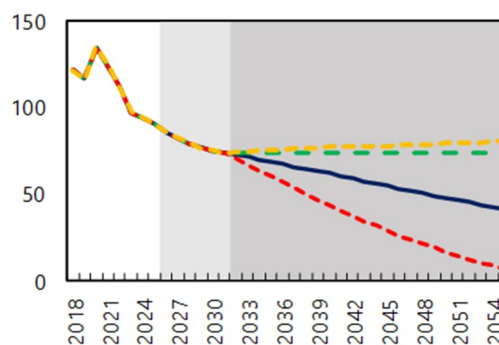
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Historical average assumptions	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Overall Risk Indication		■

Variable	2031	2032 to 2036 average	Custom Scenario
Real GDP growth	1.6%	1.6%	1.6%
Primary Balance-to-GDP ratio	0.6%	-0.6%	-1.1%
Real depreciation	-2.0%	-2.0%	-2.0%
Inflation (GDP deflator)	2.0%	2.0%	2.0%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



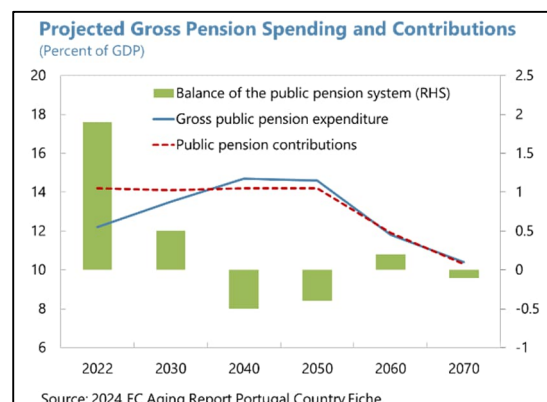
■ Long run projection
 ■ Projection
 — Baseline with t+5
 - - Baseline with t+5 and DSPB
 - - Historical 10-year average
 - - Custom

■ Long run projection
 ■ Projection
 — Baseline with t+5
 - - Baseline with t+5 and DSPB
 - - Historical 10-year average
 - - Custom

Commentary: In the long run, aging related spending pressures are expected to increase. The 2024 Aging Report estimates that, between 2032 and 2036, pension and health related spending will increase annually by 0.13 and 0.06 ppt of GDP respectively, and, between 2037 and 2041, by 0.08 and 0.05 ppt respectively. The combined pension and health spending is estimated to start declining around 2050. These assumptions are incorporated into the custom scenario, which shows debt gradually increasing.

Annex IV. Reforming the Pension System: Green Book Proposals and Other Options¹

1. Portugal's pension system is projected to continue exerting pressure on public finances over the long term. While public pension contributions (including state transfers) are expected to remain stable until 2050, expenditures are projected to continue rising as the population ages, leading to a peak annual deficit of 0.6 percent of GDP in 2046. Pension spending is projected to decline thereafter, mainly reflecting a significant decrease in the average pension benefit due to the phase-out of Caixa Geral de Aposentações (CGA)—a special pension scheme for civil servants—in 2005, with the system returning to surplus by mid-2050.



Pension projections are sensitive to assumptions underpinning the [Ageing Report](#) baseline and would worsen under less favorable productivity or immigration paths. The automatic indexation of retirement-age to life expectancy is an important mitigant to long term sustainability risks, while pension reserve fund, the Social Security Financial Stabilization Fund (FEFSS), which is projected to hold assets equal to 15 percent of GDP in 2026, provides a buffer. Meanwhile, government transfers to the pension system, which cover the CGA deficit and non-contributory benefits, are projected to rise from 2.7 percent of GDP to 4.5 percent by 2050, adding pressure to public finances.

2. The 2024 “Green Book” proposed directions for reforms. Prepared by an ad-hoc Commission for the Sustainability of Social Security, comprising a group of experts, the paper offers 18 broad recommendations to ensure financial sustainability, improve pension adequacy, guard against new risks, and enhance trust in the pension system. These recommendations are now being assessed by the new government. The main ones are:

- *Phasing out early retirement for long-term unemployed.* Under this scheme, long-term unemployed workers who became unemployed after age 52 and have contributed to the pension system for at least 22 years can access early retirement at age 57.
- *Indexing the minimum early retirement age* under other early retirement schemes (currently fixed at 60) to the statutory normal retirement age, which itself is already linked to life expectancy (it was last adjusted in December 2025 to 66 years and 11 months effective in 2027).
- *Introducing a net value-added contribution (CVAL)* after an impact assessment to gradually replace part of the employer's salary-based contribution. The goal is to share the financial burden of pension contributions between capital and labor.

¹ Prepared by Ippei Shibata (EUR), Christoph Freudenberg, and Boele Bonthuis (both FAD).

- *Conducting an actuarial analysis of social contribution rates.* The global contribution rate for all areas of the social security system (34.75 percent) has been unchanged since 1995. Although mandated by law every five years, no actuarial assessment has been conducted since 2009.
- *Assessing and rationalizing reduced contribution rates* that apply to some employers or employees under specific situations (e.g., self-employed).
- *Allowing a more flexible investment strategy for the FEFSS to increase its profitability.* Currently, a minimum of 50 percent of the FEFSS' investment needs to be in Portuguese public debt, while caps of 25 percent on securities and 15 percent on unhedged exposure to non-euro currencies apply.
- *Reforming the Solidarity Supplement for the Elderly (CSI).* CSI is a mean-tested transfer to low-income pensioners that can represent up to 29 percent of the average wage. The green book recommends linking it to the poverty threshold instead of the average wage.

3. Most of the green book's recommendations should help improve the pension system. While their precise fiscal impacts need further analysis, several measures could generate savings, including the reforms of early retirement schemes (which account for around 4 percent of pension expenditure), the rationalization of reduced contribution rates for specific groups, and higher return on the FEFSS' investments. The CSI reform can improve its adequacy but would be unlikely to generate savings.

4. However, the CVAL proposal raises concerns. The specific design and the macroeconomic, financial, and administrative implications of a CVAL, under which pension contributions would be levied on the firm's net value added, are uncertain. A thorough assessment of required additional administrative capacity, increased compliance costs, and clear accounting rules to prevent tax avoidance would also be needed. In addition, CVAL revenue could be more volatile than current revenue from labor income contributions. A comprehensive evaluation of CVAL and its alternatives would thus be essential.

5. Additional reform options could be considered to improve the sustainability, efficiency and fairness of the pension system. Some options, to be further evaluated based on careful costing, include:

- *Simplify and, if needed, reduce the accrual rate structure.* Currently, the rate at which pension benefit entitlement increases for each year of contribution is marginally decreasing with individual income, from 2.3 to 2 percent. For simplicity, the accrual rate should be uniform as distributional objectives could be more efficiently achieved through a well-targeted CSI. The accrual rate could also be lowered if needed to improve the pension system's sustainability: most European public pension systems have an accrual rate below 1.7 percent and the replacement ratio for pensions is among the two highest in the EU.^{2,3}

² See gross replacement rate at retirement shown in [European Commission \(2021\)](#) and net replacement rate of the [OECD \(2025\)](#).

³ [European Commission \(2024\)](#).

- *Simplify the pension indexation mechanism.* Currently, pension benefit increases vary based on real GDP growth, consumer price index (CPI) excluding housing, and the current pension level relative to the social support index (SSI), a base reference value for calculating social benefits (Table 1). The formula can lead to unpredictable and undesirable real pension adjustments including, in some cases, significant losses in real purchasing power. It should be replaced with a simpler CPI-based mechanism as in many other European countries. The potentially-higher resulting pension outlays should be offset by a reduction of new pension benefits (e.g., via lower accrual rates, as discussed above), calibrated to ensure fiscal sustainability of the pension system.

Table 1. Portugal: Pension Benefit Indexation Formula

	Real GDP growth < 2%	2% < real GDP growth < 3%	3% ≤ real GDP growth
Pension < 2 SSI	CPI		CPI + 20% of real GDP growth
2 SSI < Pension ≤ 6 SSI	CPI-0.5pp	CPI	CPI + 12.5% of GDP growth
6 SSI < Pension ≤ 12 SSI	CPI-0.75pp	CPI-0.25pp	CPI

Source: Instituto de Segurança Social

- *Reform survivor pensions.* Currently, individuals as young as 35 can qualify for lifelong survivor benefits. According to [the EU's 2024 pension adequacy report](#) the sum of survivors' own old age pension and survivor pension relative to total joint pension income before death is one of the highest across EU countries, at around 80 percent. Lowering the benefits, increasing the earliest eligibility age, or implementing incomes tests (as in Austria and Germany) could help reduce the high costs of the survivor pension system, which currently account for 1.9 percent of GDP, ranking third highest in the EU.⁴ Increasing the earliest eligibility age may also incentivize work.
- *Issuing regular reporting of the actuarial situation of the pension system.* Actuarial projections of the pension system should be conducted and published every three years. The reports (to parliament and the public) could also include assessments of pension adequacy and information on old-age poverty.

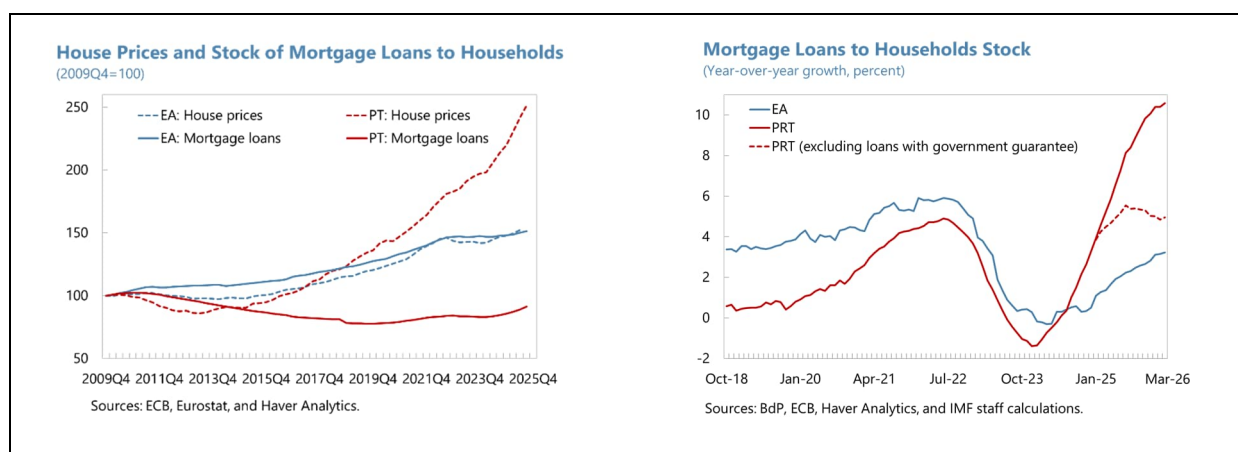
6. The government is prioritizing strengthening the sustainability of the social security system, while preserving its adequacy. An analytical report by an expert working group established by the government is expected by mid-2026 and will inform policy discussions. The government is also focusing on promoting medium- and long-term savings incentives for citizens through complementary schemes; reviewing the governance and investment framework of the FEFSS to improve the financial performance of pension assets; and enhancing financial literacy and retirement planning through the National Plan for Financial Education for younger workers, as well as through life-cycle-based training materials developed in coordination with the National Council of Financial Supervisors.

⁴ [European Commission \(2021\)](#).

Annex V. Housing Market Developments: Demand, Supply, and Structural Challenges¹

Sluggish construction, structural distortions limiting the effective use of the existing housing stock, and inefficiencies in the rental market have contributed to rapid housing price increases and worsening affordability. Reforms should focus on durably increasing housing supply, while ensuring that public resources are used equitably and efficiently.

1. House prices in Portugal have increased sharply in recent years, despite a limited role of mortgage credit. As of 2025Q4, house prices were 180 percent higher than in 2015, compared with an increase of 56 percent in the EA. Over the same period, the stock of mortgage loans in Portugal remained broadly unchanged, in contrast to the steady expansion observed in the EA. Housing transactions in Portugal rely relatively little on bank financing, with new housing credit accounting for less than half of the total value of house purchase transactions on average in recent years, one of the lowest ratios in the EA. This reflects both strong demand from nonresidents (which has remained resilient following the discontinuation of the golden visa program for residential real estate investors in 2023) and the sizable share of domestic household savings channeled into real estate, likely driven by limited alternative investment opportunities. Nevertheless, with the recent acceleration of mortgage lending, credit may be starting to contribute to house price growth.

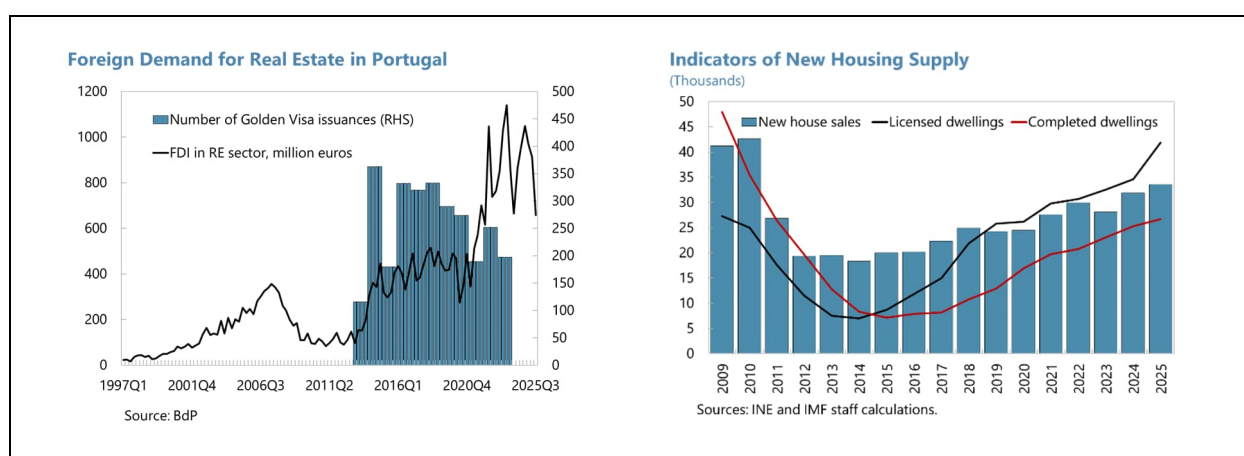


2. House prices show persistent deviations from levels determined by long-term income and demographic trends. Conceptually, the long-term equilibrium level of house prices depends on a measure of income, while short-term deviations arise from cyclical factors. The speed at which these deviations correct depends on the supply response, which, in turn, may be subject to shocks. FSAP-conducted empirical analysis found that the unemployment rate, financial conditions, and nonresident demand for houses in Portugal are important drivers of house price growth. At the same time, house price growth does not consistently adjust to reduce the gap between real prices and their long-term equilibrium levels implied by real gross disposable income per household. This

¹ Prepared by Gohar Minasyan (EUR). See FSAP 2026 Technical Note on Systemic Risk for further details.

pattern suggests that structural factors play a dominant role in driving the imbalances in the housing market, while domestic and external macroeconomic and financial conditions affect house price developments over the short term.

3. House supply has been responding sluggishly to growing demand, reflecting bottlenecks in the construction sector and owner disincentives to sell underused properties. Structural changes following the European debt crisis weakened the construction sector's capacity to expand, resulting in a persistently-low price elasticity of housing supply. Productivity in the construction sector is low—amplified by the predominance of small firms—and new house completions per capita in 2014-23 were the lowest in the EU.² Widespread skill shortages and mismatches, together with overly restrictive building regulations and lengthy permitting procedures, further constrain construction activity. The market for existing houses is negatively impacted by the heavy use of transaction taxes instead of recurrent property taxation, which disincentivizes the sale of underused properties and downsizing, thereby reducing supply.³ Empirical results also show that licensing for short-term tourist rentals—a factor in tourist-heavy areas in Portugal—is associated with lower sales of existing properties without necessarily boosting new construction.



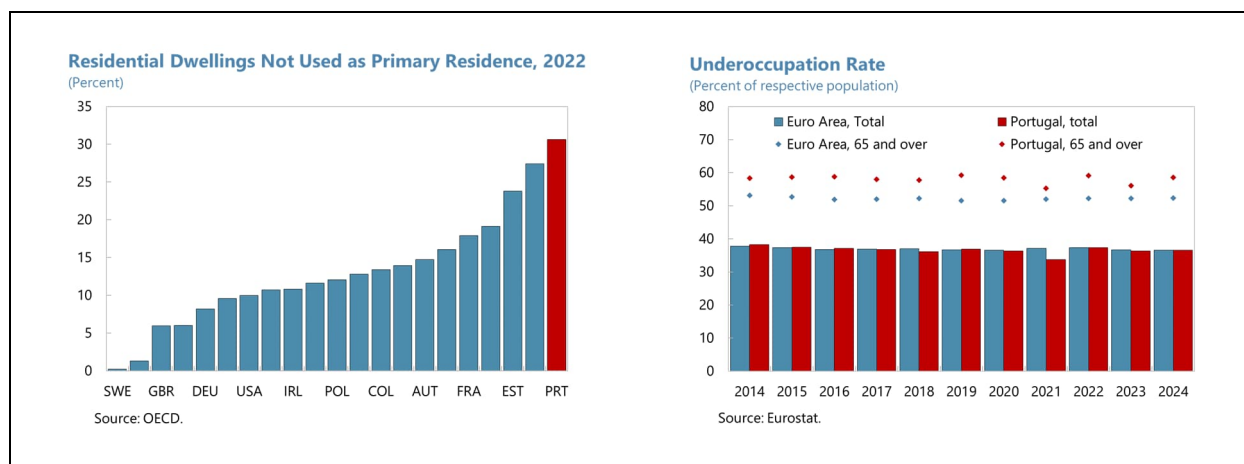
4. Structural inefficiencies in the rental market exacerbate housing market imbalances. Despite limited new construction in recent years, Portugal has a relatively large housing stock per capita, and the highest share of dwellings not used as a primary residence in the OECD. In 2021, only a small fraction of this stock was used for long-term rentals, while 19 percent served as holiday homes and 12 percent were vacant. The rental market remains small, with about 13 percent of the population renting (as compared to 23 percent in the EA), and is highly segmented. Older rental contracts are subject to strict rent caps and strong tenant protections, which discourage turnover and reduce the supply available for new contracts, pushing rents up for prospective tenants.⁴

² [European Commission \(2025\)](#).

³ While overall [under-occupation rate](#) (defined by Eurostat as the percentage of the population living in households that have more rooms than the common standard) in Portugal is at par with the EA average, it has been consistently higher for the 65 years old and above group.

⁴ [Rodrigues and others \(2022\)](#).

Difficulties in enforcing rental contracts are an additional deterrent for potential landlords. These regulatory practices limit the adjustment of rents to market conditions and discourage the use of existing housing for long-term rental purposes, thereby increasing demand for home purchases. Furthermore, Portugal’s social housing stock is among the smallest in the OECD, as is public spending on housing allowances. Historically, public housing has focused on supporting the poorest households, with access being managed through long waiting lists.

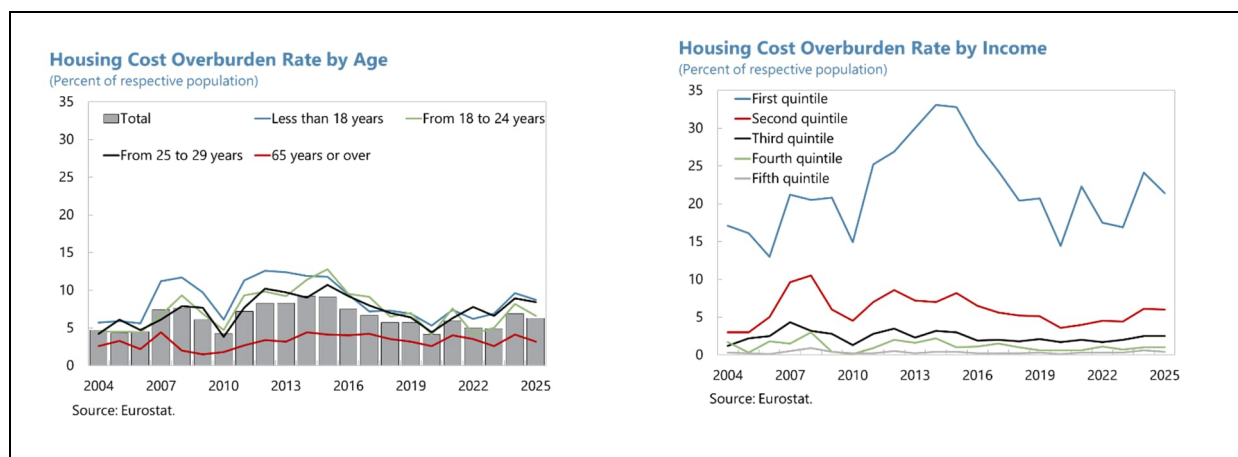


5. Housing affordability has deteriorated significantly in recent years, especially for vulnerable households. The housing cost overburden rate reached 6.9 percent in 2024, its highest level since 2016, and was especially high for the first income quintile, reaching 24.1 percent.⁵ Notably, renters appear to be disproportionately more overburdened in Portugal than in European peers, reflecting the segmented and inefficient rental market.⁶ There is also heterogeneity by age, with children and young people being more overburdened. At 8.2 and 8.9 percent respectively, the overburden rates of age groups 18-24 and 24-29 also likely understate the affordability challenge for young people who often need to continue living with parents due to prohibitive costs of housing. Indeed, the overcrowding rate for the 20-29 years old age group in 2022-24 was 17.7 percent on average, up from 15.5 percent in 2016-21.⁷

⁵ Eurostat defines the [housing cost overburden rate](#) as the percentage of the population living in households where the total housing costs (net of housing allowances) represent more than 40 percent of disposable income (net of housing allowances). Housing costs include all related expenses, including rent, mortgage payments, utilities, insurance, etc.

⁶ While at 6.9 percent, the total overburden rate in Portugal was lower than the EA average of 8.5 percent in 2024, for renters the rate was 30.3 percent as compared to the EA average of 18.6 percent.

⁷ The [overcrowding rate](#) is defined by Eurostat as the percentage of the population living in households that do not have a minimum number of rooms by a common standard.



6. The government's 2024 *Construir Portugal* program aimed to both stimulate construction and help young first-time homebuyers. It included reforming land-use rules, streamlining building permitting procedures, repurposing underutilized public assets for residential use, and construction of new public housing, in part supported by the RRF.⁸ These measures should help, but are expected to take time. Motivated by the urgency of the housing affordability problem and the consideration that greater home ownership would discourage youth emigration, the program also included two measures applying to individuals younger than 35: (i) a public guarantee of up to 15 percent of the house price for first-time buyers so they can finance 100 percent of the transaction value; and (ii) an exemption from the municipal tax and stamp duty, effective in 2024Q3. High-level preliminary estimates show that these measures have likely contributed to pushing house prices up while not leading to a statistically-significant increase in transactions. Supervisory data show that the public-guarantee scheme accounted for a sizable share of new lending in 2025. The distributional impact of the measure is not straightforward to assess, but the average size of guaranteed loans was about 10 percent higher than of nonguaranteed loans.⁹ The guarantee scheme also mechanically led to higher LTV ratios for new loans, with [the share of above 90 percent LTV loans rising from almost zero in 2024 to 19 percent in 2025](#). Associated higher risk is partly shifted from banks to the public sector.

7. The government's newly-adopted package of housing measures focuses on tax incentives to reduce market imbalances. It aims to boost supply of new owner-occupied and rental housing and rebalance it from the upper- to moderate- price range. The package includes: reduced VAT for construction, capital gains tax exemption for reinvestment in rental housing, and reduced PIT rates on rental income until 2029 for "moderate" price and rent segments, defined respectively as below €661,000 and €2,300 euros per month.¹⁰ Additional long-term tax incentives

⁸ This program has delivered about 18,500 units of public housing. While this is higher than in recent years, according to [OECD \(2026\)](#), catching up to the average share of public housing in OECD countries which, like Portugal, use a targeted approach aimed at very low-income households, would require a significantly larger increase.

⁹ FSAP 2026 Technical Note on Macprudential Policy.

¹⁰ The nationwide median value of family housing sales was €210,000 (347,000 in Lisbon) and the nationwide median monthly rent for new contracts was €830 (1,330) in 2025.

are introduced for construction of new rental housing, especially by institutional investors. The VAT reduction that excludes the luxury segment could help redirect supply towards mid-priced housing. However, given very low price elasticity of supply, it is unlikely to increase construction volumes and would more likely raise profit margins for construction firms. Lowering the property transaction taxes should help reduce disincentives to sell properties, while lowering rental-income taxation may help increase rental supply. Notably, these new tax incentives increase already-high tax expenditures, and should be carefully weighed against the expected gains in affordability.

8. Further reforms should focus on durably increasing supply and ensuring that support measures target those who need most help (Table 1). While tax benefits may affect economic incentives of market participants at the margin, to truly revitalize the construction sector, they need to be complemented with effective removal of administrative bottlenecks and improvement in land-use and zoning regulations. The government's current efforts to reduce the number of permits, shorten approval deadlines, expand the use of tacit approval, and centralize and harmonize procedures with respect to construction and urban licensing are thus welcome. They should be accelerated to the extent possible, ensuring that municipalities also streamline their bureaucracy. The reduction of property transaction taxes needs to be accompanied by increases in recurrent property taxation, which would further help incentivize residential mobility and compensate for revenue loss. For the rental market, fostering mechanisms to protect landlords from rent-compliance risk (e.g., unpaid-rent insurance, faster judicial procedures), and an effective vacant-property tax regime are needed. Importantly, for a comprehensive strategy to improve housing affordability, a stronger emphasis is needed on well-targeted support for vulnerable households by expanding dedicated public housing and improving the adequacy and targeting of housing allowances.

Table 1. Portugal: Policy Measures for the Housing Market

	Likely impact on market imbalances						Likely impact on affordability		
	Real Estate			Rental			Households funding / purchasing power	Price	Distributional impact
	Demand	Supply	Imbalance	Demand	Supply	Imbalance			
Current, newly adopted, and proposed measures									
Public guarantee for individuals younger than 35	↑	=	↑	n.a.	n.a.	n.a.	↑	↑	Regressive ?
Municipal tax and stamp duty exemption for individuals younger than 35	↑	=	↑	n.a.	n.a.	n.a.	↑	↑	Insufficiently targeted
Additional affordable housing funded by RRF and state budget	=	↑	↓	n.a.	n.a.	n.a.	n.a.	↓	Progressive ?
Simplifying regulation and relaxing land use rules, consolidating construction rules into a single Building Code	=	↑	↓	=	↑	↓	n.a.	↓	n.a.
Repurposing underutilized public assets for residential use	=	↑	↓	=	↑	↓	n.a.	↓	n.a.
Reduction of VAT for construction	=	↑?	?	=	↑?	?	n.a.	↓?	Insufficiently targeted
PIT reduction for landlords on rental income	n.a.	n.a.	n.a.	=	↑	↓	n.a.	↓?	Regressive
Capital gains tax exemption of reinvestment in rental housing	n.a.	n.a.	n.a.	n.a.	↑	↓	n.a.	=	Regressive
Tax incentives for corporate developers of rental housing	n.a.	n.a.	n.a.	=	↑	↓	n.a.	↓?	n.a.
Simplification of the Affordable Rental Program to incentivize construction of rentals at up to 80% of local median rent levels	n.a.	n.a.	n.a.	=	↑	↓	n.a.	↓	Progressive
Allowing separate sale of real estate assets under joint inheritance	=	↑	↓	n.a.	n.a.	n.a.	n.a.	↓	n.a.
Measures recommended by staff									
Expand better-targeted housing allowances	n.a.	n.a.	n.a.	=	↑	↓	↑	↑?	Progressive
Further expand social housing	n.a.	n.a.	n.a.	=	↑	↓	↑	↓	Progressive
Increase recurrent property taxation	↓	↑	↓	n.a.	n.a.	n.a.	↓	↓	Progressive
Foster mechanisms to protect landlords from rent-compliance risk (e.g., unpaid-rent insurance)	n.a.	n.a.	n.a.	=	↑	↓	n.a.	↓	n.a.
Effectively apply aggravated tax rates for vacant properties	=	↑	↓	=	↑	↓	n.a.	↓	n.a.
Import skilled labor in construction sector	=	↑	↓	=	↑	↓	n.a.	↓	n.a.
Improve efficiency of the court system	=	↑	↓	=	↑	↓	n.a.	↓	n.a.
Diversify saving instruments for households, including through promoting the Savings and Investment Union	↓	=	↓	n.a.	n.a.	n.a.	n.a.	↓	n.a.

Annex VI. Implementation of the 2024 Article IV Recommendations

2024 Article IV Key Recommendations	Authorities' Actions
Fiscal Policy	
Near term. Avoid further loosening the fiscal stance compared to the 2024 budget to balance ensuring deceleration of inflation and not further dampening growth. Maintain a neutral fiscal stance in 2025 consistent with a small positive overall balance to achieve a soft landing of the economy and continue reducing debt.	The fiscal balance recorded a surplus in 2025, as budgeted, however the stance was expansionary due to much higher RRF grants compared to 2024. Inflation continued to decline and public debt continued its impressive downward trend.
Medium term. Sustain the consolidation effort to mitigate public debt risks further and build fiscal space for higher public investment. Implement measures to offset the permanent negative impacts of the revenue and expenditure policies introduced in 2024.	The 2026 budget will deliver a further reduction of public debt. Carbon tax revenues are expected to further increase in 2026 and an inefficient CIT benefit for R&D spending was removed. Going forward, the government's medium-term fiscal targets, while appropriate, are not yet backed by sufficient offsets of the balance-reducing measures introduced since 2024.
Financial Policies	
Macroprudential measures. Consider implementing a positive neutral CCyB to help lock-in banks' temporarily high profits into releasable capital.	A positive neutral CCyB of 0.75 percent was adopted and became effective in January 2026.
Financial Policies	
RRE sector. Monitor the evolution of RRE risks to ensure that the calibration of the sectoral systemic risk buffer and borrower-based measures remains adequate.	Banks have continued to comply with the supervisor's recommendations on credit standards in the RRE sector, which has helped reduce the riskiness of their loan portfolio.
Implement measures to increase housing supply to alleviate real estate market imbalances.	The government's newly proposed housing package includes tax incentives that seek to revitalize the construction sector and rental markets.
Anti-money laundering. Monitor non-resident deposits in the banking sector, including their flows and beneficial ownership, to reduce money-laundering risks from remaining FDI avenues for Golden Visa programs. Further	Reforms have continued to strengthen the AML/CFT framework.

2024 Article IV Key Recommendations	Authorities' Actions
<p>upgrade the AML/CFT framework in line with the revised international standard. Leverage AML tools to tackle tax evasion and support domestic revenue mobilization.</p>	
<p>Structural Reforms</p>	
<p>Labor markets. Reduce labor market duality by making open-ended contracts more flexible to incentive their use instead of fixed-term contracts.</p>	<p>The recent labor reform proposed by the government includes measures to increase the flexibility of open-ended contracts extending the maximum duration and broadening the use of fixed-term contracts.</p>
<p>Product markets. Promote a competitive environment to help boost productivity, investment, and corporate growth. Streamline red tape at all levels of government.</p>	<p>In June 2025, the government launched “Reforma do Estado” to make the public sector leaner and more efficient. Measures include administrative simplification, digitalization of public services, and institutional reorganization.</p>

Annex VII. Data Issues

Table 1. Portugal: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating ¹							
A							
Questionnaire Results ²							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Intersectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity ³	A		A	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>¹The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>²The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>³The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Data provision is adequate for surveillance. Portugal's economic and financial statistics are comprehensive, generally of high quality, and are provided to the Fund in a comprehensive manner. The authorities regularly publish a full range of economic and financial data, as well as a calendar of dates for the main statistical releases. Portugal is also subject to the statistical requirements of Eurostat and the European Central Bank, including the timeliness and reporting standards, and it has adopted the European System of Accounts 2010. Portugal's relatively weak correlation between CPI and GDP deflator inflation can be attributed to its susceptibility to fluctuations in the terms-of-trade as an open, export-oriented economy.</p>							
Changes since the last Article IV consultation No weaknesses were identified in the last consultation and no new weaknesses have emerged since then							
Corrective actions and capacity development priorities N.A.							
Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates different from official statistics.							
Other data gaps. More detailed/recent data on commercial real estate would aid the team's assessment of the sector.							

Table 2. Portugal: Data Standards Initiatives

Portugal adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Table 3. Portugal: Table of Common Indicators Required for Surveillance
(As of May 20, 2026)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Expected Frequency ^{7,8}	Announced Frequency ⁸	Expected Timeliness ^{7,8}	Announced Timeliness ⁹
Exchange Rates	2026-05-19	2026-05-20	D	D	D	..	..	..
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	2026-04	2026-05	M	M	M	M	1W	NLT 1M
Reserve/Base Money	2026-04	2026-05	M	M	M	M	2W	2W
Broad Money	2026-04	2026-05	M	M	M	M	1M	1M
Central Bank Balance Sheet	2026-04	2026-05	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	2026-04	2026-05	M	M	M	M	1M	1M
Total assets of other depository corporations ²	2026-03	2026-04	Q	Q	M	M	1M	1M
Total credit from other depository corporations ²	2026-03	2026-04	Q	Q	M	M	1M	1M
Interest Rates ³	2026-05-19	2026-05-20	D	D	D	..	..	..
Consumer Price Index	2026-04	2026-05	M	M	M	M	1M	1D
Revenue, Expenditure, Balance and Composition of Financing ⁴ -General Government ⁵	2025-12	2026-03	Q	Q	A	..	2Q	..
Revenue, Expenditure, Balance and Composition of Financing ⁴ -Central Government	2026-03	2026-04	Q	Q	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	2025-12	2026-03	Q	Q	Q	Q	1Q	NLT 1Q
Total stock of General Government Debt ⁶	2025-12	2026-03	Q	Q	Q	Q	4M	1Q
External Current Account Balance	2026-03	2026-05	M	M	Q	M	1Q	8W
Exports and Imports of Goods and Services	2026-03	2026-05	M	M	M	M	8W	4D
GDP/GNP	2025-12	2026-03	Q	Q	Q	Q	1Q	85D
Gross External Debt	2025-12	2026-03	Q	Q	Q	Q	1Q	NLT 3M
International Investment Position	2025-12	2026-03	Q	Q	Q	Q	1Q	NLT 3M

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by

² Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

³ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic non-bank financing.

⁵ The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.

⁶ Including currency and maturity composition.

⁷ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁸ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".

⁹ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



PORTUGAL

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 28, 2026

Prepared By

European Department
(In Consultation with Other Departments)

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FUND RELATIONS	2
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FUND RELATIONS

(As of May 26, 2026)

Membership Status: Joined: March 29, 1961; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	2,060.10	100.00
Fund holdings of currency	1,527.29	74.14
Reserve position in Fund	532.83	25.86

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	2,780.99	100.00
Holdings	2,816.11	101.26

Outstanding Purchase and Loans: None

Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	May 20, 2011	June 30, 2014	23,742.00	22,942.00
Stand-By	Oct 07, 1983	Feb 28, 1985	445.00	259.30
Stand-By	Jun 05, 1978	Jun 04, 1979	57.35	0.00

Projected Payments to Fund:¹

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Principal					
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.01	0.01	0.01	0.01

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangements:

Portugal's currency is the euro. The exchange rate arrangement of the euro area is free floating. Portugal participates in a currency union (EMU) with 20 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies. Portugal has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than restrictions maintained solely for security reasons which have been notified to the Fund pursuant of Executive Board Decision No. 144 (52/51).

Article IV Consultations:

Portugal is on the standard 12-month consultation cycle. The previous consultation discussions took place during June 17-June 28, 2024, and the staff report (Country Report No. 24/308) was discussed on September 25, 2024.

Safeguards Assessment:

The first-time safeguards assessment of the Bank of Portugal (BdP), finalized in September 2011, found relatively strong safeguards in place. It recommended changes to the BdP Law to strengthen provision on BdP's autonomy and oversight, and to extend supervisory responsibilities of the Audit Board to other tasks such as oversight of internal control functions, financial reporting, and audit. The BdP implemented all safeguards recommendations, including formally proposing amendments to the BdP law; however, these have not been enacted.

**Statement by Mr. Riccardo Ercoli, Executive Director for Portugal
and Mr. David Taylor Pereira, Advisor to the Executive Director
June 17, 2026**

The current article IV consultation, enriched with the FSAP, marks a full return of Portugal to normality since the sovereign debt crisis. The report provides a clear stocktaking of a long journey that: 1. started with structural adjustments and strengthened macroeconomic fundamentals; 2. continued building on strong resilience enhancing the economy's capacity to absorb shocks and 3. resulted in sustained growth outperformance vis-à-vis the euro area, underpinned by gains in competitiveness and economic resilience.

*Over the past decade, firms have become more competitive, gaining export market share in higher value-added and knowledge-intensive sectors, alongside a gradual shift in employment towards these sectors and improvements in educational attainment. Private and public indebtedness have declined, with public debt falling by over 44 percentage points since 2020 to below 90 percent of GDP in 2025. These developments have been supported by adjustments in the financial sector, thereby acting as a source of stability for the Portuguese economy. The 2026 Financial Sector Assessment Program (FSAP)—**the first in 20 years**—assessed the system as resilient, with contained risks. Improvements in credit quality, reflected in declining non-performing loan ratios, have been accompanied by ample liquidity and strong capital buffers, supported by a prudent and pre-emptive macroprudential policy framework. Nevertheless, challenges persist amid an uncertain external environment, including geopolitical tensions. Authorities remain committed to boosting productivity and potential growth while maintaining fiscal discipline and a firm downward trajectory of public debt, alongside promoting social cohesion. They are also advancing policies to improve housing affordability and working to ensure long-term sustainability of social security.*

Economic activity and outlook

In 2025, Portugal's economy grew by 1.9 percent, slowing from 2024 but still outperforming the euro area. Growth was underpinned by robust domestic demand, while net exports weighed negatively on economic activity, and output was affected late in the year by a temporary refinery shutdown. Labor market conditions continued to improve, and inflation eased to 2.2 percent.

Authorities broadly agree with staff's economic outlook, with projections close to the April 2026 WEO. Economic activity softened in early 2026, reflecting the impact of severe storms and external spillovers from the conflict in the Middle East, however these effects are expected to be mitigated by reconstruction efforts and the rollout of National Recovery and Resilience Plan (RRP) projects (in May, with the penultimate payment request to the European Commission, Portugal reached an execution rate of 75 percent of the RRP). While private consumption is expected to moderate in 2026, growth should be supported by stronger investment and a gradual recovery in exports. Inflation has risen recently, driven by higher energy prices amid geopolitical tensions, mitigated by temporary fuel tax reductions. Looking ahead, inflationary pressures stemming from these tensions are expected to remain contained, supported by the high share of renewables in Portugal's energy mix, well-anchored expectations, and limited second-round effects from prior wage increases, which largely reflect compensation for past real income losses.

Going forward, authorities expect Portugal to continue its convergence with the euro area growth, while recognizing that relatively low productivity growth remains a key concern.

Fiscal policy

Portugal's strong fiscal performance is well recognized, with sustained fiscal surpluses contributing to a marked reduction in public debt. As a legacy of the debt crisis, authorities remain committed to maintaining broadly balanced fiscal positions over the medium term, with the continued decline in the debt-to-GDP ratio.

In 2025, the overall balance recorded a surplus of 0.7 percent of GDP, and the primary surplus reached 2.6 percent of GDP, contributing to a decline in public debt to 89.7 percent of GDP, its lowest level since 2009. For 2026, the government projects a balanced budget. The favorable carry-over from the stronger-than-expected 2025 fiscal outcome is expected to be largely offset by lower tax revenues associated with the storm, energy-price mitigation measures and tax relief policies, as well as higher spending on reconstruction, social support and public investment. Measures introduced to mitigate the effects of higher energy prices and natural disasters are designed to remain temporary, targeted and limited in fiscal cost, while avoiding undue distortions to price signals. Public debt is projected to decline further to 87.5 percent of GDP, supported by continued economic growth and a sustained primary surplus.

Looking ahead, the Portuguese government expects favorable revenue dynamics and prudent expenditure management to support the attainment of its fiscal objectives, in line with the European fiscal framework, without requiring additional consolidation measures. They stand ready to adopt measures should a gap materialize over the medium term. At the same time, efforts to strengthen spending efficiency, improve public investment management and create room for growth-enhancing investment will remain, while continuing to build fiscal buffers and contingency plans. Tax policy continues to play an important role in supporting growth and competitiveness. The government is pursuing a gradual reduction in the tax burden on households and firms, subject to available fiscal space, while reviewing and rationalizing tax expenditures. Targeted measures, namely youth-specific PIT relief, are seen as important to support opportunities for younger cohorts and help address emigration pressures. The government does not intend to harmonize size-dependent CIT provisions, given the prominent role of SMEs and the objective of supporting competitiveness. The Portuguese government also remains mindful of medium-term pressures from population aging, pensions, and health spending, and continue to assess policy options to safeguard the long-term sustainability of public finances.

Financial policies

In 2025, the Portuguese banking system remained resilient, supported by high profitability, capital, and liquidity, providing buffers to absorb shocks. This also reflects a favorable macroeconomic environment, with a robust labor market, growth above the euro area, and moderate indebtedness. Profitability remained elevated, albeit moderating, with ROA at 1.32 percent and ROE at 14.5 percent. Capital ratios have stabilized at historically high levels and above the euro area average and liquidity remained elevated, well above the regulatory requirements. At the same time, risks to financial stability have increased, notably from heightened geopolitical tensions, a potential correction in housing prices amid rising mortgage lending, and growing systemic cyber risks linked to digitalization. Macroprudential measures, including the build-up of a 0.75 percent Countercyclical Capital Buffer (CCyB) in 2026, continue to support resilience. Banco de Portugal remains ready to adjust instruments as needed.

The Portuguese authorities broadly agree with the systemic risk assessment and concurred with the FSAP stress tests findings that the banking system is resilient to severe macrofinancial shocks from both solvency and liquidity perspectives, supported by strong

structural profitability and a sustained risk-off stance. They agree that rapid house price growth constitutes a key vulnerability but noted that risks to the banking sector are mitigated by macroprudential measures on mortgage lending in place since 2018, as well as the limited use of bank financing in part of housing transactions. They also highlight that IMF tail-risk exercises point to banks' resilience to adverse developments in the real estate market. While stressing the need to continue monitoring housing developments, particularly as mortgage lending picks up, they noted that supply-side measures will take time to ease market pressures. Authorities consider that exposures to euro area sovereign debt do not pose significant risks, given the diversification of portfolios, and that household default risks remain contained, reflecting sustained deleveraging and effective borrower-based measures. Authorities support most FSAP recommendations and reaffirm their commitment to strengthening financial sector resilience. They recognize the value of building up releasable capital buffers while maintaining that the current CCyB rate is appropriate. They agreed on reviewing powers over non-harmonized tools, while emphasizing high compliance with borrower-based measures. On supervision, they welcomed the assessment of a robust framework and supported the establishment of a multi-year staffing and retention strategy, as well as improvements in cross-LSI monitoring, although the latter is not viewed as an immediate priority. They also concur with exploring reforms to the governance and independence of nonbank regulators. On financial integrity and cyber risks, authorities broadly agree with the FSAP findings and emphasized the importance of enhanced international cooperation, integrated strategies, and improved information-sharing. On crisis management, they welcome the recognition of significant progress, including in resolvability, and acknowledged the strengthening of the framework. They noted proposals regarding insolvency and cooperatives and supported further strengthening of deposit guarantee payout processes, while considering the existing framework broadly adequate.

Housing Market

Residential property prices continue to rise strongly (in 2025, housing prices in Portugal rose by 17.6 percent), reflecting robust demand and persistent supply constraints.

The policy response, notably reflected in the 2024 *Construir Portugal* strategy, combines measures to expand housing supply, promote public and affordable housing, mobilize land and public assets, accelerate RRP housing projects, and improve access for younger households. Recent measures have further strengthened these efforts through tax incentives and regulatory reforms aimed at supporting housing construction and rehabilitation, expanding rental housing supply, and improving affordability. While supply-side reforms

will take time to materialize, targeted measures continue to support access in the near term.

Structural policies

Portugal's growth differential vis-à-vis the euro area also reflects structural improvements in the economy. Firms have become more competitive, gaining market share in higher value-added and knowledge-intensive sectors, while employment has increasingly shifted towards these activities alongside rising educational attainment. These developments have strengthened economic resilience and supported potential growth. Maintaining this momentum calls for continued progress in resource allocation, product and labor market functioning, and human capital development, while enabling the economy to benefit from technological change and the energy transition.

Authorities agree that raising productivity remains a key challenge. Reform's efforts focus on improving the business environment through administrative simplification, streamlined licensing, digitalization, and support for innovation and investment, alongside public administration reforms to reduce burdens and enhance efficiency and service delivery. Human capital remains central to long-term growth. Education and training reforms aim to strengthen skills, reduce mismatches, and improve adaptability, while closer links between research institutions and firms are expected to support innovation and technology diffusion. Demographic challenges are being addressed through measures to promote active aging, strengthen labor market participation, and enhance social security sustainability, including the forthcoming National Strategy for Longevity and the assessment of more gradual retirement transitions. The Single Social Benefit (*Prestação Social Única*), recently proposed by the government, is expected to simplify access to social support, strengthen work incentives, and provide greater protection for those in vulnerable circumstances. Authorities remain mindful of medium-term pressures from population aging, social security, and health spending. In the health sector, reforms focus on improving efficiency through performance management, digitalization, integrated care, and centralized procurement. On social security, despite favorable short-term results, medium- and long-term sustainability challenges persist. Automatic adjustment of the statutory retirement age in line with changes in life expectancy and Social Security Reserve Fund (FEFSS) buffers mitigate long-term sustainability risks. Nevertheless, further efforts to strengthen social security sustainability include reinforcing the FEFSS, enhancing compliance through digitalization and anti-fraud measures, and assessing further Social Security system's sustainability.

Public investment will prioritize infrastructure, housing, digitalization, and climate-related projects to support productivity and resilience. The recently launched Portugal Transformation, Recovery and Resilience Plan (PTRR) complements these efforts through reforms and investments to enhance shock resilience and critical infrastructure. At the European level, further progress in deepening the Single Market, advancing the Savings and Investment Union, and strengthening energy integration would support growth and competitiveness.

Overall, Portugal's strong macroeconomic fundamentals, prudent policies, and resilient financial sector provide a solid basis to navigate current uncertainties. Continued efforts to raise productivity, address structural constraints, and preserve fiscal discipline will be key to sustaining convergence and long-term growth.

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