Portugal



							Forecast	
	2020	2021	2022	2023	2024	2025	2026	2027
GDP growth (%)	-8.2	5.6	7.0	3.1	2.2	1.9	2.3	1.9
CPI inflation (%)	0.0	1.3	7.8	4.3	2.4	2.3	3.0	2.4
Fiscal balance (% of GDP)	-5.8	-2.8	-0.3	1.1	0.6	0.7	-0.2	-0.4
Primary fiscal balance (% of GDP)	-2.9	-0.5	1.6	3.2	2.8	2.6	1.9	1.6
Public debt (% of GDP)	134.1	123.9	111.2	96.9	93.5	89.7	86.3	83.2
10-year bond yield (%)	0.4	0.3	2.2	3.2	3.0	3.1	3.5	3.5
Reference rate (depo) (%)	-0.5	-0.5	0.1	3.3	3.7	2.3	2.2	2.7
Exchange rate (EUR/USD)	1.1	1.2	1.1	1.1	1.1	1.1	1.2	1.2
Current balance (% of GDP)	-0.7	-0.7	-2.0	0.6	2.2	1.2	0.4	0.6

Notes: * Annual average. CaixaBank Research forecasts for GDP, CPI, the fiscal balance, the primary fiscal balance, public debt, interest rates and the exchange rate. Figures and forecasts for the 10-year bond yield, Bloomberg.
Source: CaixaBank Research, using data from Thomson Reuters Datastream.

Outlook

Portugal has shown strong momentum so far this year and we expect it to continue growing at a rate above the euro area average in the coming years. Indeed, GDP exceeded expectations in the first half of the year, growing by 2.5% year-on-year, driven mainly by domestic demand. The key economic indicators suggest that this momentum will continue into the second half of the year. The Portuguese economy continues to enjoy a robust labour market, with strong job creation and an unemployment rate at a historic low of around 5.7%. This trend has led to a significant increase in household disposable income in recent years and has helped to keep the savings rate at high levels (12.2% in 2025 vs. 6.9% in 2019). Furthermore, the non-financial private sector's debt has fallen considerably (158% of GDP in Q2 2026, compared with a peak of 263% in Q4 2012) and public debt stands at around 90% of GDP, its lowest level since 2009. Additionally, in the coming months, the Portuguese economy will continue to benefit from the momentum generated by the final phase of the roll-out of NGEU funds. Population growth has also made a positive contribution in recent years, and we expect this favourable demographic trend to continue, albeit at a slower pace than in the past, due to a shift towards more restrictive immigration policies from 2025 onwards. Overall, we expect growth to stand at 2.3% in 2026 and 1.9% in 2027.

Tariff policies and the entrenched conflict in the Middle East are increasing uncertainty. The rise in prices of imported goods, and specifically energy, has led to higher inflation, which is expected to stand at around 3% in 2026 and to ease from 2027 onwards. In the face of the energy crisis, a lower dependence on imported energy goods, due to the increased use of renewable sources (which account for the production of around 80% of electricity consumed), provides a degree of protection. According to the Bank of Portugal, the drivers of growth in recent years (tourism, demographics, etc.) have made it possible to temporarily overcome other factors that have hampered growth, such as labour shortages in certain sectors and low levels of investment. Against this backdrop, and in the face of a more challenging business climate, these factors lead us to expect growth to slow in the medium term.

Economic policies

The fiscal balance will return to a deficit in 2026, but public debt-to-GDP ratios will remain close to historic lows. In 2025, the budget balance stood at 0.7% of GDP and public debt fell to 89.7% of GDP. In 2026, debt is expected to remain stable, although fiscal space will narrow due to expenditure rising faster than revenue.

Closing date of this edition: 19 October 2026

Given the proportion of government spending allocated to fixed costs – primarily associated with the expected rise in spending linked to an ageing population – if this trend continues over the coming years, there is a risk of a decline in the public accounts, which are also under pressure from the procurement of military equipment due to increased defence investment.

Fiscal policy has been moderately expansionary since the pandemic, which has helped to sustain economic activity, but with a cautious approach that has managed to maintain positive primary fiscal balances – a trend that is expected to continue in the coming years. The Bank of Portugal's most recent forecasts point to expenditure rising slightly above the level agreed with the European Commission, which would widen the deviation from the fiscal path set out in the Medium-Term Fiscal Plan. Consequently, a slowdown in the rate of expenditure growth is to be expected in the coming years.

Risks

The risks facing the Portuguese economy are slightly skewed to the downside (and slightly to the upside in the case of inflation). The main risk factors are as follows:

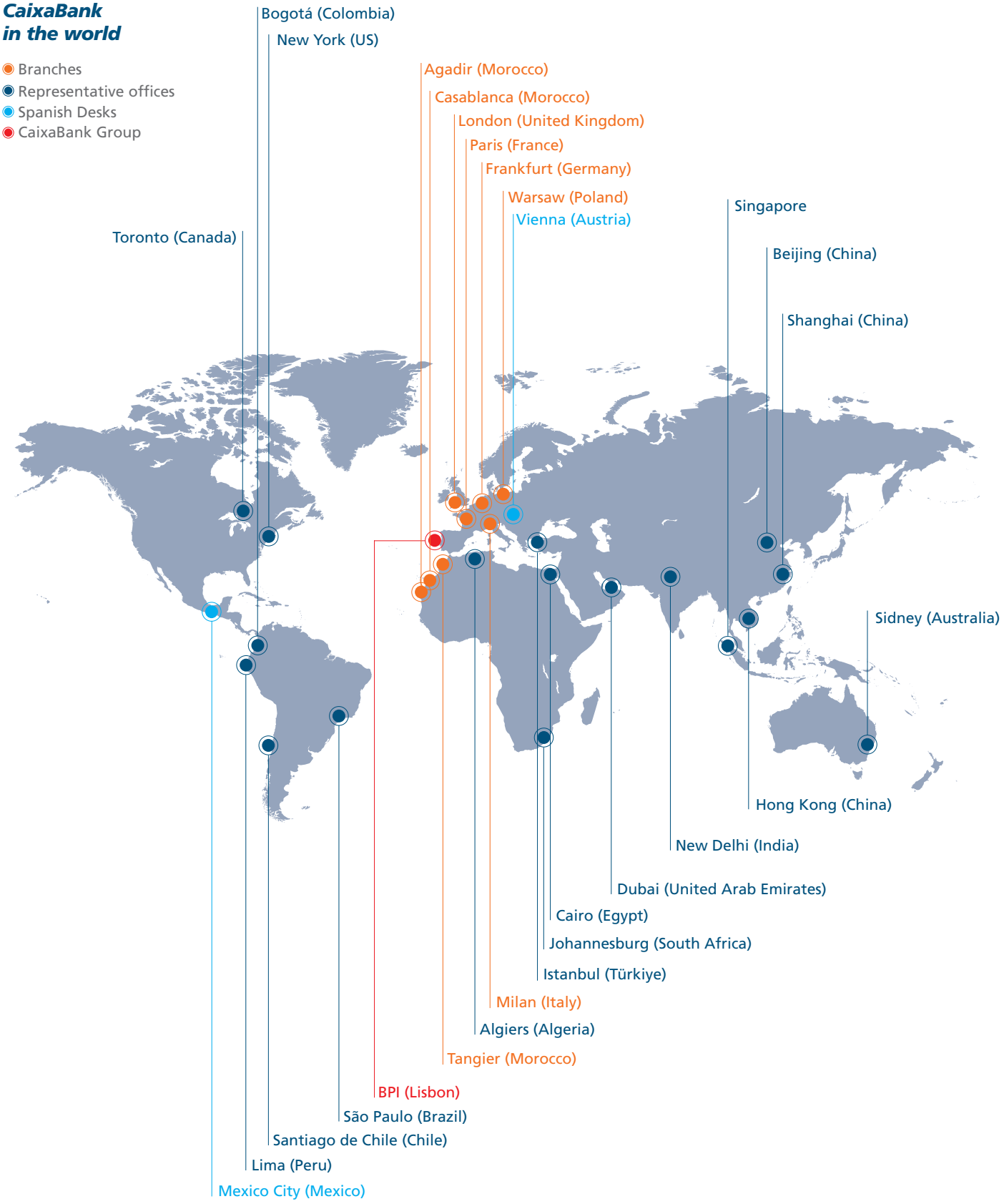
- **Political risk**. The fragmentation of the Portuguese Parliament and the inability of the main parties to reach a lasting consensus are hindering its ability to push through structural reforms in key areas (for example, social security, healthcare, education, the tax system, housing, etc.). Furthermore, due to the minority government, uncertainty remains regarding the approval of the budget, which makes dialogue and negotiation between the government and the various parliamentary groups all the more important.
- **Financial risk**. The ECB's shift in monetary policy (interest rate hikes) and tensions in the debt markets, with rising sovereign bond yields, may result in tighter financial conditions for the private and public sectors. This has implications for the viability of investment projects and, consequently, for growth and productivity. A return to budget deficits may increase the Portuguese economy's exposure, although the starting point for public debt is comfortably low. A potential correction in international markets could also heighten financial volatility, against a backdrop of concerns about the sustainability of public debt in some regions and further inflationary pressures. In this context, Portugal's sovereign risk premium remains comfortably below that of other euro area countries (around 35 bp on 10-year bonds, on average in Q3, vs. 46 bp in Spain and 87 bp in France), reflecting a sound fiscal position.
- **Real estate market**. Housing prices continue to rise at a rate above the European average (+16.5% in Q2 2026 vs. 17.6% in 2025). Against this backdrop, despite a slight slowdown in the number of transactions (–6.4% year-on-year in Q2), prices continue to rise and the decoupling between housing prices and household incomes is gathering pace. The market continues to be characterised by sustained demand and a structural shortage of supply, which we expect to be mitigated by a recovery in the pace of construction and the deployment of EU funds in this area.
- **Inflationary risks due to the energy crisis**. The conflict between the US and Iran has dragged on longer than expected, and its ultimate duration and scale remain uncertain. The impact on Portugal is felt primarily through interest rates and energy prices (almost two-thirds of the energy consumed in Portugal in 2024 were imported). So far, the knock-on effect of rising energy prices on other sectors has been limited, but if the energy market remains under strain, more severe secondary effects cannot be ruled out. However, lower labour market turnover, with employment appearing to have peaked, could minimise the risk of second-round effects.

Sovereign credit rating				
Rating agency	Rating*	Last changed	Outlook	Last changed
STANDARD &POOR'S	A+	29/08/25	Positive	27/02/26
MOODY'S	A3	17/11/23	Stable	17/11/23
FitchRatings	A+	04/09/26	Stable	04/09/26

Note: *A shaded cell indicates «investment grade» and an unshaded cell indicates «speculative grade».

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