

Q1 2026

PORTUGAL

Resilience Under Pressure: Portugal's Economy in a Shifting Global Landscape

Macroeconomic Report

Executive Summary

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Portugal's economy is having a moment. Against sluggish European growth, the country posted real GDP of 1.9% in 2025 (INE) - well above the Eurozone's 1.3%. Growth increased from 1.6% in Q1 to 2.4% in Q3 before settling at 1.9% in Q4, suggesting an economy finding a sustainable pace. Banco de Portugal projects 2.3% in 2026, moderating to 1.7–1.8% in 2027–2028 as EU funds support taper. The question is whether the underlying drivers are durable enough to sustain this outperformance.

Table 1.1: PORTUGAL: KEY ECONOMIC INDICATORS 2025-2028

Banco de Portugal central projections, annual percentage change unless otherwise indicated

Indicator	2025	2026	2027	2028
Real GDP Growth (%)	1.9	2.3	1.7	1.8
Unemployment Rate (%)	6.0	6.3	6.3	6.3
Private Consumption (%)	2.3	2.1	1.4	1.5
Gross Fixed Capital Formation (%)	4.6	5.1	2.3	2.5
Budget Balance (% GDP)	0.0	-0.4	-0.9	-1.0
Public Debt (% GDP)	89.8	85.8	82.5	79.5
Current & Capital Account (% GDP)	1.3	1.2	1.0	1.0

Source: Banco de Portugal, Economic Bulletin, December 2025.

Note: Projections subject to revision. HICP = Harmonized Index of Consumer Prices.

The short answer: domestic demand is doing the heavy lifting. Private consumption grew 2.3% in 2025, fueled by tax cuts, pension top-ups, and minimum wage increases from €820 to €870. Crucially, households are not stretching themselves thin - the savings rate held at 12.5–12.6% of disposable income (INE), meaning consumption levels are still sustainable in the near future. Confidence improved from -15.2 in December 2025 to -14.5 in January 2026 (INE), a modest but encouraging signal.

The labour market is arguably even stronger. Unemployment averaged 6.0% in 2025 - the lowest since 2011 - falling to 5.6% by December, a level not seen since 2002 (INE). The economy added 163,000 jobs (+3.2%), pushing employment to an all-time high of 65.9% in Q4. Real wages grew 2.6%YoY in Q3 2025, with the minimum wage rising to €920 in 2026. This kind of broad-based tightening of labor markets tends to be self-reinforcing through consumption.

Investment is more nuanced. GFCF grew 3.5% in 2025, underpinned by the EU Recovery and Resilience Plan (€22.2 billion allocation, 34% disbursed). Construction is booming - output up 3.0%, building permits up 14% - but machinery investment contracted 10.0% (INE). The divergence suggests firms are investing in physical infrastructure while holding back on equipment amid trade policy uncertainty.

The external sector is the clear weak spot. Through November 2025, goods exports barely grew at 0.6% while imports surged 4.3% (INE), widening the trade deficit to EUR 29.1 billion (+15% vs. 2024). US tariff escalation could shave 1.1pp off cumulative GDP through 2027 (Banco de Portugal).

Table 1.2: PORTUGAL: FISCAL AND SOVEREIGN RISK INDICATORS

Indicator	Value	Trend
10-Year Bond Yield (Dec 2025)	3.14%	Stable
Spread vs German Bund	28 bps	Compressed
S&P Rating	A+	Upgraded Aug 2025
Moody's Rating	A3	Stable
Fitch Rating	A	Upgraded Sep 2025
Interest Expenditure (% GDP)	2.5%	Stable

Source: Banco de Portugal, BPstat; S&P; Moody's; Fitch.

On the price front, the disinflation story is largely playing out as expected. HICP averaged 2.2% in 2025 (down from 2.7% in 2024), and core inflation converged to 2.1% by December (INE) - essentially at the ECB's target. With the ECB's deposit rate at 2.0% since June 2025, the monetary policy backdrop is now broadly supportive rather than restrictive.

Perhaps most impressive is the fiscal trajectory. The budget is projected near balance in 2025, with only a 0.4% deficit in 2026 (Banco de Portugal), though based in what happened in previous years, the government expenditures will adjust to ensure that there will be no deficit. Debt continues to fall - from 93.6% in 2024 toward 79.5% by 2028, which would place Portugal below the EU-27 average for the first time since euro adoption. Markets have noticed: S&P (A+), Fitch (A), and DBRS (A high) all upgraded in 2025. Bund spreads at 28 bps confirm growing sovereign confidence.

In conclusion, and going back to the posed question, the balance of risks seems to be roughly even - but the direction of travel, for now, is encouraging. As shown, the macroeconomic scenario is favorable and tourism, being one of the main drivers of the Portuguese economy, seems to answer positively to this question, maintaining its structural resilience with 68.9 million airport passengers through November 2025 (+4.7% YoY). Faster EU fund deployment and real wage momentum could also extend the cycle.

The global scenario, however, might pose a threat to sustained growth. What could go wrong? European weakness, an overheating housing market (+17.7% YoY in Q3 2025), and the fiscal cliff when RRP funds wind down post-2026 represent significant domestic challenges. Furthermore, external shocks caused by US tariffs, wars in the Middle East, supply chain disruptions, and the positions taken by the EU to face such shocks might drastically reshape the trends of the Portuguese economy. Relying on tourism alone to offset a structural trade gap that might be worsened by these external factors is not a sustainable strategy.

To explore how these global geopolitical shifts, alongside Portugal's evolving fiscal policies and structural labor market changes, will impact the medium-term macroeconomic landscape, we invite you to read our comprehensive analysis in the full Q1 2026 report.

BFF Banking Group

Rua Barata Salgueiro 37
1250-042 - Lisboa

Communications & Institutional Relations

+34 912 102 151
newsroom@bff.com

Authors: NOVA SBE - Pedro Brinca, João B. Duarte and Vasco Cardoso
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