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ANALYSIS OF THE **2026 STATE BUDGET PROPOSAL**

OCTOBER 9, **2025**

THE 2026 **STATE BUDGET**

Four months after the second government led by Luís Montenegro took office, the State Budget proposal for 2026 was delivered to the Portuguese Parliament on October 9th. Unlike the previous year, the 2026 budgetary process is taking place in a more predictable and stable political environment, although still without a parliamentary majority.

BETWEEN STABILITY AND RESTRAINT: THE POLITICAL CONTEXT OF THE 2026 STATE BUDGET

The political framework of the 2026 State Budget presents significant differences from the previous year. The Government maintains its flexible negotiation strategy, refusing to disclose their preferential partners and seeking agreements on both the right and the left, depending on the nature of the issues under discussion. However, given the current budgetary landscape - surplus of only 0.1% - they've recognized the margin for negotiation is very slim.

Chega has consolidated its position as the second political force and leader of the opposition, while the Socialist Party, under new leadership and undergoing a process of internal reorganisation following its resounding defeat in the May 18th legislative elections, has already opened up the door to approving the budget, following the Government's positive response to some of their main claims. Added to this is the institutional deterioration resultant from two general elections in just over a year, which has contributed to a more prudent attitude towards preserving government stability. The result is a budgetary process conducted in a less tense political environment, even if it is conditioned by the minority support of the parties that back the government in Parliament.

A BUDGET PROPOSAL DESIGNED TO FACILITATE UNDERSTANDING

The Government has underlined that the State Budget for 2026 seeks to counter past practices, becoming less of an 'instrument of public policy' and more of an exercise in rigour and responsibility. The internal characterisation that this is the "most boring budget of all time" reflects this deliberate choice for a technically sound and politically prudent document, intended to minimise friction and increase the probability of parliamentary approval. In that sense, the Executive has opted to autonomise the most sensitive matters - such as the reduction in Corporate Income Tax, the measures included in the housing package or the changes to labour legislation - by referring them to separate legislation.

THE LOCAL ELECTIONS FACTOR

The local elections of October 12th have already conditioned the calendar and the political and media environment leading up to the presentation of the State Budget. The pre-campaign period dominated summertime, focusing media attention and reducing the space for budgetary discussion. Now, the election results might influence the behaviour of the main political forces in parliamentary debate: if PSD strengthens its local power, PS will enter the budget discussion in a more politically fragile position, while a good performance by Chega could mark a new phase of consolidation for the party and strengthen its ability to influence parliamentary negotiations. However, there will be little room for manoeuvre: when presenting the proposal, the Minister of State and Finance, Joaquim Miranda Sarmento, stressed that 'if the country does not want to return to deficit', the margin for including proposals from other parties, such as a permanent increase in pensions, 'is close to zero'.

ROGÉRIO FERNANDES FERREIRA
FOUNDING PARTNER OF RFF LAWYERS AND FORMER SECRETARY OF STATE FOR FISCAL AFFAIRS.

A proposal with no Budgetary Riders

The Government presented the proposal for the State Budget Law for 2026 in record time, which is understandable and welcome, given the proximity of the local elections.

In macroeconomic terms, the proposal presents positive scenarios, with economic growth higher than in 2025, maintaining a budget surplus in a context of public debt reduction, estimated in a context where GDP growth and lower public and private consumption are also projected, all anchored in a forecast of increased investment on the path to a more even trade balance, an increase in exports of goods and services, and a decrease in imports. These are positive forecasts, but they will certainly be subject to unpredictable fluctuations that must also be taken into account in the current international context.

With regard to fiscal measures, the 2026 State Budget proposal is quite lean - and rightly so! - with no 'budgetary riders'. The Government announces that this is a prophylactic measure, aimed at 'simplifying and rationalising the budgetary process', with the intention that the State Budget proposal should not contain any non-budgetary measures. However, it is undeniable that the current political context requires this essentially pragmatic and tactical political stance: the proposal removes potential sources of tension in the negotiations for the approval of the draft budget law in Parliament, with the main fiscal measures, which may not be agreed upon by all political parties, being presented in separate bills.

Regardless of the motivation, there is no criticism of this outcome. For many years, we have been saying that tax reforms and other changes that have nothing to do with public revenue and expenditure should not be included in the State Budget proposal. These lack the necessary study and discussion, which would greatly benefit from their separate presentation, and both require an autonomous legislative process that is more appropriate to the time needed to consider all new laws.

The result is a prudent — even conservative — document that avoids ruptures, favours continuity and distributes small gains selectively. The PLOE 2026 is essentially an exercise in political management, containing only adjustment measures, tax rates and brackets, and other meaningless changes that are in line with economic and social council agreements.

Until all the autonomous bills the Government will present are known, it will be difficult to understand whether the 2026 State Budget is defective. We believe that some measures may have been deliberately allocated to the specialised phase so they can be better prepared for voting – consider, for instance, the extension of the System of Tax Incentives for Business R&D - SIFIDE II, which would otherwise end in 2025.

To sum up, this Budget Bill is a proposal that presents positive economic indicators – hopefully not too optimistic, given the international context. And it is a document that seeks to survive the political circumstances rather than carry out fiscal policy. But it will certainly be widely discussed over the coming months, particularly when the full proposals that the Government will present on corporate taxation, investment and housing are known.

MACROECONOMIC **SCENARIO**

	GDP GROWTH	INFLATION RATE	UNEMPLOYMENT RATE	EXPORTS GROWTH (% OF GDP)	IMPORTS GROWTH (% OF GDP)	CAPITAL ACCOUNT BALANCE (% OF GDP)
2025	2.0%	2.2%	6.1%	1.5%	4.0%	2.0%
2026	2.3%	2.1%	6.0%	1.8%	3.6%	2.3%

BUDGETARY **SCENARIO**

	BUDGET BALANCE (AS A % OF GDP)	PUBLIC DEBT RATE (AS A % OF GDP)	TAX REVENUE (AS A % OF GDP)	TOTAL EXPENDITURE (AS A % OF GDP)
2025	0.3%	90.2%	24.3%	43.9% [WITH PRR]
2026	0.1%	87.8%	24.1%	43.7% [WITH PRR]

THE MAIN **MEASURES ANNOUNCED**

INCOME POLICY

- Updating the Personal Income Tax brackets by 3,51%.
- Reducing the 2nd to 5th Personal Income Tax brackets by 0,3%.
- €50 increase of the minimum wage, to 920 euros in 2026.
- Update of the minimum subsistence level to €12,880 (or 14 times 920 euros), these being the earnings that should be exempt from personal income taxation next year.
- €40 increase in the Solidarity Supplement for the Elderly (CSI), from €630 to €670.

CORPORATE TAXATION

- Update of the wage increase incentive under Corporate Income Tax to 4.6% (previously applicable to increases of at least 4.7%)
- Reduction of Corporate Income Tax by one percentage point to 19% (in separate legislation).
- Reduction of Corporate Income Tax to 15% for the first 50 thousand euros in profits for micro, small and medium sized enterprises (in separate legislation).
- Simplification and improvement of the efficacy of the tax system to reduce compliance costs for citizens and businesses, as well as costs for the fiscal administration.
- Maintaining extraordinary contributions on banking, energy and the pharmaceutical industry.
- Maintaining taxation relating to the tax on vehicles (ISV) and the single circulation tax (IUC).
- Maintaining the single circulation tax surcharge applicable to class A and B diesel vehicles.

FINANCIAL SECTOR

- Maintaining the extraordinary contribution on the banking sector.
- Ending the solidarity surcharge on the banking sector.

HOUSING AND REAL ESTATE

- The Housing and Urban Rehabilitation Institute (IHRU) will allocate around €800 million to programmes supporting access to housing.
- The public affordable housing stock will receive €360 million, the emergency housing fund a total of €28 million, and the renovation of the housing stock €10 million.
- Update of Municipal Tax on Onerous Transfers of Real Estate (IMT) brackets in accordance with inflation.
- Update of the Municipal Tax on Onerous Transfers of Real Estate for the Youth (IMT Jovem) brackets, increasing the exemption limit.
- Promotion of increased housing supply, streamlining of construction and promotion of affordable renting.
- Adoption of exceptional simplification and incentive measures: faster and less bureaucratic urban licensing and creation of new areas for urban expansion, in partnership with local councils, to increase supply in metropolitan areas.
- Implementation of a single national platform for urban licensing.

TRANSPORT AND INFRASTRUCTURE

- Implementation of the high-speed rail project, with the new Lisbon–Porto high-speed line and connection to Spain.
- Launch of the second PPP (public-private partnership), between Oiã and Soure, by the end of 2025, and the third PPP, between Soure and Carregado, in 2026, as part of the Lisbon-Porto high-speed project.
- Continuation of the development process for the new airport in the Lisbon region.
- Increase in the supply and quality of public transportation, opening the market to concessions and sub-concessions, by acquiring less polluting vehicles and increasing service frequency, including in low-density areas.
- Continuation of investment, refurbishment and modernisation programmes for the National Railway Network.
- Execution of priority road projects with the aim of improving strategic connections within the territory, particularly in inland areas and cross-border connections.
- Implementation of the Strategy for Continental Commercial Ports 2025-2035, titled ‘Ports 5+’.

ENVIRONMENT AND ENERGY

- Extraordinary contribution to the energy sector remains in place.
- Single Circulation Tax (IUC) remains in place.
- Operationalization of the Climate Agency.
- Stimulation of the Voluntary Carbon Market, creating financing conditions for multiple projects.
- Operationalisation of the strategy “Água que une”.
- Modernisation of the National Water Resources Information System.
- Implementation of the Social Climate Plan, introducing new support measures for decarbonisation and combating energy poverty.
- Strengthening support provided through the Environmental Fund to projects aimed at decarbonising the economy, encouraging energy efficiency or promoting sustainable mobility, as well as in areas of circular economy and water management.
- Implementation of the Coastline Resilience Action Programme 2025-2040.
- Creation of the Bio+ Nature Credits Programme to strengthen funding for the protection of species and habitats.
- Expansion of the national network of marine protected areas, contributing to the goal of classifying 30% by 2030.

TOURISM

- Support for the internationalisation of national tourism enterprises.
- Launch of a programme to expand air connectivity, in coordination with national and regional partners.
- Support for *last mile* mobility solutions at destinations, meaning easier mobility solutions in the final stages of tourists' journeys.
- Launch of an Innovation Agenda for Tourism, which will serve to guide funding for start-ups and R&D projects.
- Promotion of a plan for more accessible tourism, which reconciles the needs of resident communities with those of visitors and adapts tourist infrastructure, equipment and services.
- Valuing the historical and cultural heritage of national defence, with the aim of creating a National Military Tourism Network.

HEALTHCARE

- Continuation of decentralisation and involvement of municipalities, continuing the transfer of healthcare competences to local councils, in coordination with intermunicipal communities and metropolitan areas, in order to adapt responses to territorial specificities.
- Strengthening the capacity for planning, monitoring and evaluating the performance of the National Health Service (SNS) through continuous improvement of management tools.
- Modernising infrastructures and equipment through a Multiannual Health Investment Plan.
- Expanding proximity care:
  - Extension of coverage by a General Practitioner;
  - Reinforcement of family health units of models B and C;
  - Establishment of agreements with the private and social sectors for the assignment of a General Practitioner;
  - Expansion of home hospitalisation;
  - Expansion of home hospitalisation and strengthening of integrated continuing care and palliative care networks.
- Strengthening cancer and non-cancer screening programmes, combating obesity, promoting oral health and active ageing, and implementing prevention and treatment measures for addictive behaviours and dependencies.
- Deepening digital transformation in healthcare, promoting system interoperability, teleconsultation, and remote monitoring of chronic patients.
- Implementation of the Single Electronic Health Record.
- Strengthening international cooperation, intensifying collaboration with CPLP countries, with an emphasis on professional training programmes, sharing best practices and providing technical support in the development of resilient health systems.
- Consolidation of Portugal's integration into European health networks through cooperation in biomedical research, response to health emergencies, and joint procurement mechanisms for medicines and vaccines within the EU.

TECHNOLOGY & DIGITALISATION

- Implementation of the National Digital Strategy and the National Agenda for Artificial Intelligence, aligned with the objectives of the European Union's Digital Decade 2030.
- Creation and implementation of three cybersecurity public policy instruments:
  - New National Cyberspace Security Strategy;
  - National Plan for Response to Cybersecurity Crises and Incidents;
  - National Reference Framework for Cybersecurity.
- Creation of the c*hief information officer* of the State and the Agency for Digital Affairs.
- Creation of a single digital interface platform between the State and users.
- Consolidate «Startup Portugal» as a national entrepreneurship platform, support the adoption of artificial intelligence by businesses, and create an international acceleration programme for deep tech start-ups.

EDUCATION, HIGHER EDUCATION AND SCIENCE

- Decentralisation of education, with redistribution of responsibilities, so as to give greater autonomy to municipalities and school clusters.
- Investment in training and attracting teachers and specialised technicians.
- Promotion of programme contracts with higher education institutions for teacher training over the next five years, strengthening funding for courses in the field of education.
- Investment in information systems to obtain accurate information on the functioning of the education system, namely on the number of pupils not attending classes.
- Construction, acquisition, adaptation and renovation of residences for higher education students.
- Hiring of linguistic and cultural mediators.
- Investment in international partnerships and participation in European projects, namely European laboratories and technologies, with a focus on the internationalisation of higher education.
- Revision of the Science Law to clarify the role of different entities and instruments for financing science and innovation.

AGRICULTURE

- Reinforcing farmers' incomes to ensure the economic viability of farming and the attractiveness of rural areas.
- Strengthening animal health protection and promoting animal welfare.
- Launch of programmes to support and encourage active forest management, promotion of rural land consolidation and strengthen prevention and response measures in the field.
- Boosting production and forest management by promoting management models that encourage investment, professionalisation and innovation in the sector.
- Strengthening surveillance systems, early response and active control in priority areas for pests, diseases and invasive species in forests.
- Encouraging research in the agroforestry, fishing and marine sectors.
- Creation of favourable conditions for investment in aquaculture, to increase the competitiveness and resilience of the sector and reduce the agri-food balance deficit.
- Incentivising actions to promote ocean literacy.

DEFENCE

- Implementation of the strategic defence investment reinforcement plan, with the goal of ensuring that the branches of the Armed Forces have modern, efficient and interoperable systems and platforms at their disposal.
- Modernisation of national air defence, within the framework of the European Sky Shield initiative.
- Investment in energy efficiency projects in defence infrastructure.
- Revision of the Military Programming Law and the Military Infrastructure Law.

TV POLITICAL REACTIONS

JOAQUIM MIRANDA SARMENTO
MINISTER OF STATE AND FINANCE

"The estimate for this year is an economic growth of 2%, and for next year, 2.3%, driven by a stronger acceleration of public and private investment. (...) Public debt will end this year very close to 90% and, next year, around 87.8%. (...)."

"2026 will be the most demanding budgetary year, as we have around €2.5 billion to execute. (...) If the country wants to avoid falling back into deficit, the margin [to include proposals from other parties] is close to zero."

HUGO CARNEIRO
VICE-PRESIDENT OF PSD PARLIAMENTARY GROUP

"It is a State Budget that, for the first time, presents budgetary programs with indicators and concrete measures that the Government intends to achieve. (...) It is a Budget that leaves out so-called "budget riders" - only what truly belongs in the Budget is included. Therefore, it is expected that the Parliament, which is often prolific in making amendments to the Budget, will refrain from adding matters that do not typically fall within its scope (...) and thus avoid distorting the budget balance, since surely no Portuguese citizen would want the country to return to running deficits."

ANDRÉ VENTURA
LEADER OF CHEGA PARTY

"If the Government truly intends to maintain a high tax burden and increase fuel prices, then frankly, there is little room for action. This is simply a warning about what we consider important. This document was delivered today, and I hope there will now be room for changes. (...) The document seems to go in the direction of maintaining the same level of fiscal pressure and tax collection, particularly on consumption taxes - VAT and personal income tax - which once again suggests that families will face an unpleasant surprise next year. (...) If that's the case, then everything is wrong."

JOSÉ LUÍS CARNEIRO
GENERAL SECRETARY OF THE SOCIALIST PARTY

"The Government has met the demands put forward by the Socialist Party, namely regarding labour issues, the National Health Service, public social security, and the handling of fiscal matters outside the budget. (...) For that reason, I will respect and honour the commitment I made to the Portuguese people to contribute to political stability in our country."

MARIANA LEITÃO

LEADER OF INICIATIVA LIBERAL PARTY

“The budget is not ambitious for the Portuguese people, it is not ambitious for Portugal - it is a budget for the State. (...) We will not give up on presenting proposals during the detailed discussion phase, we will fight for them, because it is indeed important for the Government to understand that it must respond to the needs of the Portuguese people. (...) This budget puts the State first instead of putting the Portuguese people first.”

PATRÍCIA GONÇALVES

MEMBER OF THE PARLIAMENT OF LIVRE

“It is a budget that lacks concrete measures, shows little political ambition, and tries to serve as a management tool, whereas Livre believes that a State Budget is a political instrument.”

PAULA SANTOS

PARLIAMENTARY LEADER OF COMMUNIST PARTY

“This is a budget that faces total opposition from the PCP (...) it is a budget that worsens fiscal injustices (...) and weakens Social Security.”

PAULO NÚNCIO

PARLIAMENTARY LEADER OF CDS-PP

“"The CDS calls for political responsibility, especially from the two main opposition parties. It is important to show a sense of state and for the parties to understand the current financial framework of the State. (...) The negotiating margin for the 2026 budget is limited (...) this does not mean that the margin will not be greater in the coming years, as the issue of the Recovery and Resilience Plan (PRR) will apply specifically and particularly clearly in 2026.”

INÊS SOUSA REAL

LEADER OF THE PEOPLE ANIMAL NATURE PARTY

“Neither [Prime Minister] Luís Montenegro nor the Minister of Finance even met with all political forces, and the Portuguese people do not care whether the solutions presented are from the left or the right; what they want are real solutions to improve their lives and quality of life. PAN will analyse the budget in detail and will put forward proposals to strengthen it.”

MARIANA MORTÁGUA

COORDINATOR OF BLOCO DE ESQUERDA PARTY

“This is, and seems to be, the Budget of fiscal inequality, where once again we see big banks and large investment funds paying less tax, while most people suffer because they cannot even afford to pay their rent.”

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STATE BUDGET CALENDAR

DELIVERY OF THE STATE BUDGET BILL - OCTOBER **9**

DISCUSSION IN THE PLENARY

HEARING OF THE MINISTER OF FINANCE
OCTOBER 24 AT 10AM

HEARING OF THE MINISTER OF LABOR, SOLIDARITY AND SOCIAL SECURITY
OCTOBER 24 AT 3PM

PLENARY DISCUSSION - OCTOBER 27 AND 28

CONTINUATION OF THE PROCESS DEPENDENT ON APPROVAL IN GENERALITY

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DISCUSSION IN THE COMMITTEES AND PLENARY

BETWEEN THE **OCTOBER 29 AND NOVEMBER 7**, HEARINGS FOR GOVERNMENT MEMBERS WILL TAKE PLACE IN PARLIAMENTARY COMMITTEES

NOVEMBER 7 AT 6PM: END OF THE DEADLINE FOR PARTIES TO SUBMIT AMENDMENTS

BETWEEN **NOVEMBER 20 AND 26**, THE ANALYSIS AND VOTING IN COMMITTEES WILL TAKE PLACE

BETWEEN **NOVEMBER 20 AND 27**, THE DISCUSSION WILL TAKE PLACE IN PLENARY

NOTE: THE PARLIAMENTARY SESSION IS SUSPENDED FOR THE SOLEMN SESSION OF NOVEMBER 25

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FINAL GLOBAL VOTING
NOVEMBER 27

FINAL WORDING BY DECEMBER 12.
PROMULGATION BY THE PRESIDENT OF THE REPUBLIC UNTIL DECEMBER 31 AND PUBLICATION IN THE OFFICIAL GAZETTE

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