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Post-Programme Surveillance Report

Portugal, Autumn 2024

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European Commission
Directorate-General for Economic and Financial Affairs

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Portugal, Autumn 2024

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Institutional Paper 300

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The report was prepared in liaison with staff from the ECB ([2]). Staff from the European Stability Mechanism (ESM) also provided comments.

This report reflects information available and policy developments that have taken place until 31 October 2024. Therefore, the macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission's Autumn 2024 Economic Forecast released on 15 November 2024 (with cut-off date 31 October 2024).

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([1]) The executive summary of this report was adopted as Commission Communication C(2024)9067 on 25 November 2024. The rest of the report reflects the findings of the Staff Working Document (SWD(2024)967) accompanying this communication.

([2]) European Central Bank (ECB) staff participated in this mission, and the drafting of this report, in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

ABBREVIATIONS

BFL	Budgetary Framework Law
CA	Current account
CET1	Common equity tier 1
ECB	European Central Bank
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
ESM	European Stability Mechanism
GDP	Gross domestic product
HICP	Harmonised index of consumer prices
IGCP	Portuguese Treasury and Debt Management Agency
IMF	International Monetary Fund
INE	Portugal's National Statistical Office
MREL	Minimum requirement for own funds and eligible liabilities
LCR	Liquidity coverage ratio
NFCs	Non-financial corporations
NHS	National Health Service
NIIP	Net international investment position
NPLs	Non-performing loans
PPS	Post-programme surveillance
q-o-q	Quarter-on-quarter
RoE	Return on equity
RoA	Return on assets
RRF	Recovery and Resilience Facility
RRP	Recovery and resilience plan
SMEs	Small- and medium-sized enterprises
SOEs	State-owned enterprises
VAT	Value-added Tax
y-o-y	Year-on-year

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EXECUTIVE SUMMARY

The 20th post-programme surveillance mission to Portugal took place from 30 September to 1 October 2024. This mission involved European Commission staff in liaison with European Central Bank staff. European Stability Mechanism (ESM) staff participated on aspects relating to its Early Warning System.

Portugal's economic growth is recovering from a temporary slowdown. Economic growth slowed down in the first half of 2024 reflecting subdued external demand and weak business sentiment. However, economic sentiment improved in the third quarter of the year and growth is expected to gradually pick up over 2025 and 2026. In full-year terms, GDP growth is projected to continue outperforming the euro area average. The employment rate remained at a record high, driven mainly by net migration flows, although the pace of job creation moderated and the unemployment rate edged down only marginally until September 2024. Meanwhile, inflation continued to slow down despite significant volatility in tourism-related prices. The overall balance of risks to the economic performance remains on the downside, reflecting significant geopolitical risks and uncertainty.

The budget surplus is expected to decrease, amid increasing expenditure pressures. Portugal's general government balance is expected to decrease to a surplus of 0.6% in 2024, following the surplus of 1.2% of GDP recorded in 2023. Over the forecast horizon, the balance is expected to decrease further while remaining at a surplus (0.4% of GDP in 2025 and 0.3% of GDP in 2026) driven by increasing current spending and a pick-up in the pace of implementation of public investment financed by the Recovery and Resilience Facility loans by 2026. The public debt-to-GDP ratio is set to continue on a downward path, albeit at a slower pace. It is forecast at 95.7% in 2024, 2.2 percentage points lower than in 2023, and 92.9% in 2025 and 90.5% in 2026. Risks to the fiscal outlook are overall on the downside. Portugal is gradually implementing measures on the country's public finance sustainability, with key fiscal-structural measures yet to be implemented under the country's recovery and resilience plan. In addition, in mid-October Portugal presented its medium-term fiscal-structural plan, as required by the new economic governance framework.

The Portuguese financial sector remained resilient in the first half of 2024. Banks continued to record exceptionally high levels of profitability, on the back of wide net interest margins. The large share of variable-rate mortgages in Portugal pushed banks' returns well above the average of EU peers. Furthermore, banks' capital positions were strengthened, liquidity remained ample, and credit quality did not deteriorate. However, some financial stability risks remain, against a background of geopolitical uncertainty possibly also affecting international financial markets. Banks are expected to see their profits moderate in the coming quarters. Finally, developments in the real estate market also warrant close monitoring considering the significant house price hikes over the past years and the high house-price-to-income ratio. However, several factors, such as relatively low loan-to-value ratios in banks' mortgage portfolios, mitigate underlying risks for the financial sector.

Portugal retains the capacity to service its debt. Portugal's economic, fiscal and financial situation remains sound overall despite the projected slowdown in 2024 against the background of substantial geopolitical risks. According to the Commission's debt sustainability analysis, medium-term risks to Portugal's fiscal sustainability are medium overall, but low in the short and long term. Meanwhile, financing needs decreased substantially in 2024 as compared to the initial government projections, reflecting the improved budget performance on cash basis and lower net acquisitions of financial assets. The next repayments to the European Financial Stability Facility and the European Financial Stabilisation Mechanism are scheduled for 2025 and 2026, respectively. Financial market perceptions of Portugal's sovereign debt remain favourable, reflected in a series of rating upgrades and narrowing spreads on government bonds.

1. INTRODUCTION

Staff from the European Commission (EC), in liaison with staff from the European Central Bank (ECB), undertook the twentieth post-programme surveillance (PPS) mission to Portugal from 30 September to 1 October 2024. Staff from the European Stability Mechanism (ESM) participated in the meetings on aspects related to its Early Warning System. IMF staff also participated in the meetings. Under PPS, the Commission carries out regular review missions to euro area Member States that have had a financial assistance programme. The objective of the PPS missions is to assess the economic, fiscal and financial situation to ensure the Member State maintains its capacity to service its debt. ([3])

From mid-2011 until mid-2014 Portugal implemented an economic adjustment programme with the European Union and the International Monetary Fund (IMF). The overall financial package was agreed at EUR 78 billon. In June 2014, Portugal exited the programme.

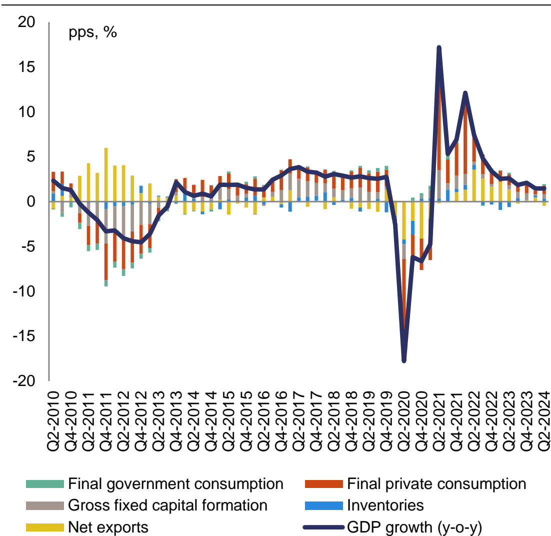
This report reflects information available and policy developments that have taken place until 31 October 2024. The macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission's Autumn 2024 Economic Forecast released on 15 November 2024 (with cut-off date 31 October 2024).

([3]) Under Regulation (EU) N°472/2013, PPS will continue until at least until 75% of the financial assistance received under the programme has been repaid. Under the current repayment schedule, PPS on Portugal will last until 2035.

2. ECONOMIC DEVELOPMENTS

Portugal's GDP growth moderated in the first half of 2024. In line with the subdued external demand and weak business sentiments, Portugal's economic growth slowed down from 0.8% (q-o-q) in the last quarter of 2023 to 0.6% and 0.2% in the first and second quarters of 2024. In y-o-y terms, the growth rate slowed from upwardly revised 2.5% in 2023 to 1.4% and 1.6% in the first and second quarters of 2024. In the first quarter of 2024, the end of the cycle for the use of Cohesion Funds for the 2014-2020 period resulted in a substantial contraction in investment, followed by a modest recovery in the second quarter. Private consumption was also subdued in the first quarter but picked up substantially afterwards. Overall, private consumption contributed the most to economic growth in the first half of 2024 in the context of a strong increase in both household income and saving rates. In net terms, the external sector had a limited impact on growth as exports and imports rose. Across the main business sectors, services and particularly tourism continued to support growth while industrial producers faced weak demand for exports of goods. Construction was mostly flat in q-o-q terms but increased by 2.0% in the first half of 2024 relative to a year earlier.

Graph 2.1: **Real GDP growth and components**



Source: Portugal's National Statistical Office (INE)

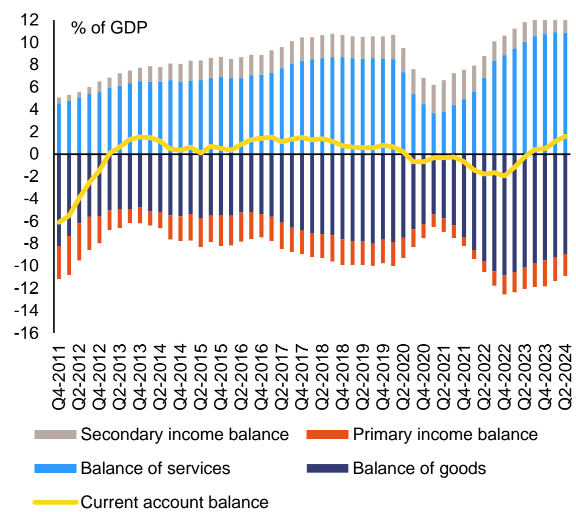
Recent indicators, particularly the rebound in economic sentiment, point to some improvement in the second half of 2024 despite the weakness in the industrial sector. Monthly indicators released in the third quarter of 2024 suggest that the weakness in the industrial sector continued but the expectations in the sector started to improve. Retail trade and services moderated somewhat while construction picked up in August, paced by the residential segment. The economic sentiment indicator, based on the European Commission's business and consumer surveys, improved to an average of 102.2 in the third quarter relative to 101.1 in the previous quarter. This was due to a more notable uptick in September, driven primarily by the service sector but also by improved expectations in the industry sector. Growth in tourism has slowed in the summer months in annualised terms. However, Eurocontrol flights statistics point to some rebound in the air traffic in Portugal as of the second half of September relative to a year earlier, which would be supportive for the country's tourism sector given its high dependence on airline passengers.

In full-year terms, GDP growth is projected to slow down in 2024 and to gradually increase thereafter. Taking into account the flash GDP estimate of 0.2% (q-o-q) for the third quarter of 2024, full-year GDP growth is projected at 1.7% in 2024, which is above the projected growth of 0.8% in the euro area Portugal's growth is then expected to reach 1.9% in 2025 and 2.1% in 2026, supported by private consumption and investment as well as the projected rebound in demand from the main trading partners. Investment is projected to benefit substantially from the implementation of the Recovery and Resilience Plan (RRP) until 2026.

The balance of risks to Portugal's growth outlook remains on the downside. This reflects significant uncertainty in the external environment, including the high volatility in commodity prices and geopolitical tensions affecting global trade of goods. On the positive side, country-specific risks linked to Portugal's high share of variable interest rate loans to households subsided somewhat. This improvement was due to the moderation in interest rates and increased use of fixed-rate loans since 2023, supported by policy measures that facilitated household debt renegotiations. In addition, recent data revisions show that household savings are higher than previously reported, indicating a stronger resilience to adverse economic scenarios.

The current account continued to improve in the first half of 2024. The current account posted a surplus of 2.0% of GDP in the first half of 2024 compared to a deficit of 0.2% a year earlier. In annualised terms, the surplus widened from 0.5% of GDP in 2023 to 1.6% for the 12-month period ending in June 2024. The main improvement came from the balance of goods and services while the accounts of primary and secondary income remained relatively stable. Both goods and services benefited substantially from favourable terms of trade, as prices of energy imports continued to decline, while tourism revenues were boosted by the increase in services prices, particularly for accommodation. In volume terms, imports of goods and services rose slightly faster than exports in the first half of 2024 relative to a year earlier. This was due to a rebound in import of goods while tourism growth continued to support the balance of services, albeit at a slower pace. As of the second half of 2024, the projected rebound in investments is set to raise demand for imports of investment goods, resulting in a larger deficit in the trade of goods. Tourism is expected to continue improving, though at a somewhat slower pace, reflecting some moderation in both volume and prices. In full-year terms, the surplus in the current account is projected to increase in 2024, taking into account the strong performance in the first half of the year, but is set to moderate in 2025 and 2026 against the backdrop of a strong domestic demand.

Graph 2.2: **Current account balance**

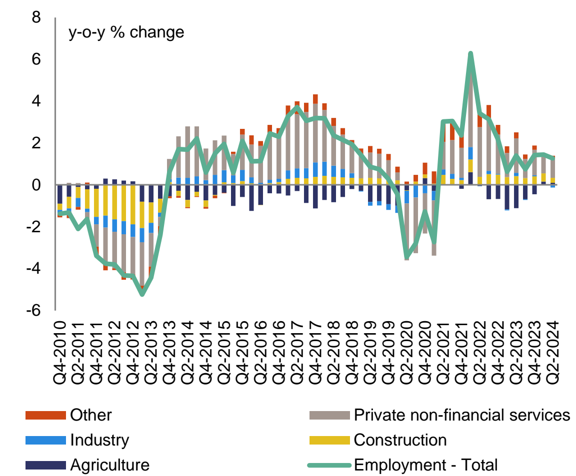


Source: Banco de Portugal

Portugal's net international investment position (NIIP) retained its strong pace of improvement. In line with the positive developments in the trade balance, Portugal's NIIP rose further from -72.3% of GDP at the end of 2023 to -65.4% as of June 2024. The change also reflected positive price revaluations accounting for around 40% of the NIIP improvement. The NIIP ratio had been on a strongly improving path since 2014, barring a temporary deterioration in 2020 due to the outbreak of the COVID-19 pandemic. Consequently, the negative NIIP share in GDP has been nearly halved over the past 10 years, and the outlook remains favourable.

Employment growth is slowing down. According to the monthly labour force surveys, employment growth slowed down from 2.1% in 2023 to 1.6% (y-o-y) in September 2024 and an average of 1.4% (y-o-y) in January-September 2024. A similar slowdown was observed in labour activity while the unemployment rate dropped only marginally from 6.5% in 2024 to 6.4% in both September 2024 and January-September 2024. The employment rate (16 to 74 years) remained stable at a record-high of around 64%. The working-age population continued growing at a stable rate of 0.8% (y-o-y) in January-September 2024 as compared to 0.7% in both 2022 and 2023. Net migration flows substantially contributed to the growth in the working-age population and employment over the past years, mitigating to some extent the negative contributions from ageing and the natural growth of the population. Across sectors, job creation was mainly influenced by services while employment in manufacturing contracted

Graph 2.3: **Employment evolution by sectors**



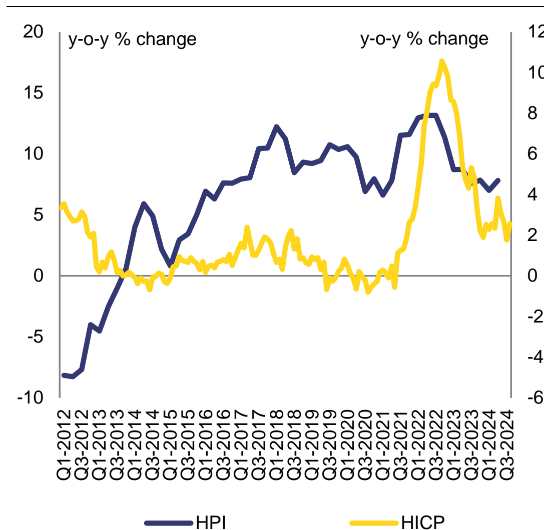
Source: Eurostat

in the first half of 2024. Employment growth is projected to moderate further in the short term in line with the projected moderation in tourism and the weakness in the manufacturing sector. Labour supply is expected to move broadly in line with employment, keeping the unemployment rate relatively stable.

Disinflation continues despite elevated prices of services and processed food. Inflation (HICP) slowed down from 5.3% in 2023 to 2.3% (y-o-y) in the third quarter of 2024. However, the disinflation path faced some constraints due mainly to tourism-related services prices. In the second quarter of 2024, inflation temporarily rose to 3.1% (y-o-y) reflecting transitory effects in accommodation prices as well as increased network fees in the electricity sector. Inflation remained volatile also in the summer months, as the headline rate dropped to 1.8% in August but then rebounded to 2.6% in September because of another abrupt shift in accommodation prices. Across the main price groups, non-energy industrial goods and unprocessed food contributed consistently to the slowdown in inflation. Energy prices rebounded above the headline rate in the first half of the year but then dropped again in the third quarter. On the flipside, prices of processed food decoupled from the index of unprocessed food, rising above the headline inflation rate in the third quarter of 2024. Services remained substantially above the headline inflation rate but were nevertheless slowing down. Overall, core inflation (HICP excluding energy, food, alcohol and tobacco) moved very close to the headline rate in the third quarter of the year. Setting aside monthly volatilities, inflation is set to continue moving towards the ECB's 2% medium-term target, broadly in line with the projections for the euro area. As some sectors of the economy, particularly construction, continue to experience tight hiring conditions, wages are expected to continue growing faster than inflation, which is likely to keep core inflation slightly above the headline rate. In the low-income segment of the labour market, wage growth will also be supported by the tripartite agreement for raising the minimum monthly wage by EUR 50 per year from EUR 820 in 2024 to EUR 1020 in 2028.

House prices continue growing faster than headline inflation. Following a two-year period of moderation, growth in house prices increased again from 7.0% (y-o-y) in the first quarter of 2024 to 7.8% (y-o-y) in the second quarter. The deflated house price index, adjusted for the private consumption deflator, rose accordingly from 4.3% to 4.6%. The growth rate however appears broadly in line with the estimated increase in the disposable income of households and is not expected to have a major impact on the housing demand, considering also the recent moderation in the mortgage interest rates. In the second quarter of 2024, the housing property market increased by 10.4% (y-o-y) in terms of transactions and by 14.1% in terms of value. The market for existing dwellings increased at a slightly faster pace. The number of buyers with foreign tax residency dropped by 2.8% and their share on the market was estimated at 6.6% in terms of transactions. The number of completed dwellings grew by 12.3% (y-o-y) in the second quarter of 2024 after a drop by 5.7% in the previous quarter. However, newly issued building permits rose 6.6% in the second quarter of 2024 after a steep drop by 19.4% in the previous quarter. Despite the reported increase in residential construction, it appears that housing supply is still insufficient to catch up with demand.

Graph 2.4: **HICP and House Price Index**



Source: Eurostat

3. PUBLIC FINANCE DEVELOPMENTS

3.1. FISCAL PERFORMANCE AND OUTLOOK

The budget surplus is expected to decrease, with increasing expenditure pressures. Portugal's general government balance in 2024 is expected to reach a surplus of0.6% of GDP, a decrease of 0.7 percentage points of GDP compared to the previous year. Government revenue is projected to remain dynamic. Taxes on production and imports will continue to expand, amidst the projected disinflation for the year, supported by the phase-out of temporary measures such as the reduced value-added tax (VAT) for selected good, the sustained economic activity and higher households' disposable income. Although partly toned down by the cost of the revised personal income tax framework, taxes on income and wealth are set to benefit from the buoyant corporate income tax revenues expected for the year. The positive performance of social contributions, even if employment growth is slowing down, is projected to continue. Pension lump-sum payments by the end of the year and an increased public wage bill are set to weigh on expenditure, expected to expand faster than government revenues. Such upward pressures on government current spending, particularly on the public wage bill and social transfers, are expected to continue over the forecast horizon. In 2025 and 2026, albeit remaining at a surplus, the general government balance is projected to decrease to 0.4% and 0.3% of GDP, respectively. These developments capture the impact of balance-deteriorating fiscal policy measures, such as the update to the youth personal income tax rates and additional public wage increases. These are expected to be only partly compensated by the phase-out of emergency energy measures such as the unfreeze of the carbon tax component of the fuel tax. Public investment is expected to pick up, driven by the implementation of projects financed by Recovery and Resilience Facility (RRF) loans by 2026.

Public debt is expected to continue declining, albeit at a slower pace. The public debt-to-GDP ratio is projected to decline to 95.7% in 2024. This represents a decrease of 2.2 percentage points of GDP from the previous year, which compares to the exceptionally strong decrease of 13.3 percentage points of GDP recorded in 2023. The expected decline in the public debt-to-GDP ratio in 2024 is driven by the forecast primary surpluses and the debt-reducing snowball effect, as nominal GDP is anticipated to continue growing at a pace exceeding the implicit interest rate on government debt. These effects more than compensate the debt-increasing effect stemming from a positive stock-flow adjustment. The maintained primary balance surpluses and debt-reducing snowball effect are expected to keep the public debt-to-GDP ratio on a downward path. Going forward, the ratio is projected at 92.9% in 2025 and 90.5% in 2026.

Risks to the fiscal outlook are overall tilted to the downside. Portugal's public finances risks relate, among others, to ongoing requests for financial rebalancing of public-private partnerships (PPPs), including those related to the impact of COVID-19 on their activities, and vulnerabilities in some public corporations. More frequent and intense natural hazards represent a relevant risk to the country's fiscal outlook. The risks identified in Portugal's macroeconomic outlook (see Section 2) also apply.

3.2. POLICY ISSUES

Portugal continues to take steps to enhance public finance sustainability. As part of the country's Recovery and Resilience plan (RRP), an information technology solution for the State Accounting Entity has to be implemented, to serve as an accounting representation that collects budgetary execution data across public entities. New pilot projects on programme budgeting are planned to be deployed as part of the 2025 State Budget. The RRP also includes the incorporation of spending reviews in the country's medium-term budgetary planning process. According to the authorities, more expenditure areas are set to be analysed as part of this workstream. As part of the RRP's reform on the simplification of the country's tax system, a legal act creating a technical tax policy unit ('*Unidade Técnica de Avaliação Tributária e Aduaneira*' or U-TAX) was

approved ([4]), with a focus on analysing tax benefits. In addition, in mid-October Portugal presented its medium-term fiscal-structural plan, as required by the new economic governance framework. By the cut-off date of this report (31 October 2024), the plan was under assessment by the Commission.

The financial situation of the health system, without additional State Budget transfers, is expected to deteriorate. According to the authorities' preliminary estimates, without additional transfers from the State Budget, the National Health System (NHS) budget is expected to reach a deficit of EUR 0.9 billion (0.3% of GDP) by end-2024. This would represent an increase in the budget deficit, as compared to 2023, of approximately 0.2 percentage points of GDP. Health sector wage updates, and the increased acquisition of medical supplies are expected to weigh on the NHS budget balance for the year. The level of NHS financial arrears and debt continued to expand during the second half of 2024, reaching EUR 0.3 billion (0.1% of GDP) and EUR 1.7 billion (0.6% of GDP), respectively, by end-August 2024.

There are signs of financial stabilisation of the state-owned enterprises. According to the authorities' preliminary data, the improvement in the financial performance of state-owned enterprises (SOEs) observed in 2023 is expected to continue in 2024. This sector debt appears to have decreased throughout the first half of 2024, while still expected to remain elevated. The authorities reported an increased number of budget and activity plans for SOEs. These are consistently being approved in 2024, above previous year's recordings. Additional equity injections were performed in key SOEs operating in the infrastructure and transport sectors. In this context, the financial performance of this set of SOEs appears to have stabilised after the negative impact of the COVID-19 pandemic. The authorities are also preparing the process for reprivatisation of the Portuguese airline TAP Air Portugal.

Net payments to public-private partnerships are expected to decline. Net payments to PPPs during the first half of 2024 are lower than initially projected in the 2024 State Budget. While net payments to PPPs operating in the motorway sector increased due to the compensation for the lower revenues resulting from legislated toll discounts, net payments to the health sector decreased significantly with a postponement of the start of the Cascais hospital expansion. A decrease in outstanding PPPs' net payments is forecast as of 2024. According to the authorities' estimates, potential new infrastructure projects, such as the new Lisbon hospital and a high-speed railway, may result in an increase in net payments in the medium-term. Initial steps are being undertaken for the development of a new Lisbon airport, with the intention to carry it out through a public-private partnership. Financial rebalancing requests related to the impact of the COVID-19 pandemic on PPPs are still under assessment or discussion.

([4]) Decree-Law No. 19/2024 of 2 February (published in Portugal's Official Journal, 'Diário da República', No. 24/2024, first series of 2 February 2024, pages 7-12), which entered into force on 3 February 2024.

4. FINANCIAL SECTOR DEVELOPMENTS

Portuguese banks' profitability soared, on the back of high net interest margins. Banks improved further their returns and in the first half of 2024 recorded historically high levels of returns on assets, at 1.47% and up by 31 bps y-o-y, and returns on equity, at 16.3% and up by 260 bps y-o-y. Credit institutions in Portugal benefitted particularly from the high share of variable-rate loans in their portfolio, higher than the EA average (Q2 figures). While interest income increased significantly, costs of deposits remained contained with a large share of deposits on overnight accounts. Interest rates on term deposits remained relatively flat in the first half of 2024. In August 2024, rates on households' term deposits stood at 2.07%, 46 bps below the EA average, and at 2.92% for NFCs, 53 bps below the EA average. Portuguese banks benefitted also from past efforts in improving their cost efficiency, as well as from the good performance of the Portuguese economy, which curtailed new loan impairments. In this respect, in the first half of 2024 banks' recorded loan loss charges of 0.12%, a 0.34 percentage points decrease compared with the first half of 2023, due to the fall in credit impairment losses, as both NFCs and households remained resilient to the recent economic shocks. In June 2024, the core cost-to-income ratio of Portuguese banks stood at 40%, one of the lowest levels in the EA, where the recorded average was 61%.

Going forward, several factors could reduce the sector's profitability. Banks are expected to see a moderation in their returns going forward, following the narrowing of net interest margins. The current market expectations of a steady reduction in official rates over the coming quarters would significantly impact the yields of banks' variable rate loans. This could be particularly relevant for Portuguese banks, given their large share of outstanding loans on variable rates. In this respect, banks' income from deposits held at the ECB is also expected to decline significantly, while new loan origination remains sluggish. The economic shock following the outbreak of the COVID-19 pandemic could also have some delayed effects on credit quality, possibly increasing banks' cost of risk. Despite these aspects, the recent shifts from variable-rate to mixed-rate loans, locking-in borrowers on higher rates, should smoothen banks' profitability outlook. Moreover, the ample supply of customers' deposits reduces the scope for an increase in retail financing costs.

Banks strengthened their capital buffers and report ample liquidity. The good profitability of the past quarters allowed Portuguese banks to increase further their capital levels. Despite important distributions to shareholders, in the first half of 2024 the CET1 and total own funds ratios increased to 17.8% (+140 bps) and 20.5% (+190 bps), respectively. Capital levels in Portugal are very comfortable and well above regulatory requirements and above the EA average. Banks issued further MREL([5])-eligible liabilities in the first half of 2024, generally at more favourable terms than in 2023, and met their MREL requirements. The recently introduced sectoral systemic risk buffer([6]) on real estate exposures did not materially impact banks' capital headroom. In October 2024, the central bank opened a consultation on the possibility of introducing a 0.75% countercyclical capital buffer. Banks' liquidity levels remain high, with the liquidity coverage ratio at 273% in June 2024, up from 218% in June 2023 and well above the 100% requirement. The increase was driven by an overall increase in customers' deposits, as well as by some customers' transitions from sight- to term-deposits. In this respect, the loan-to-deposit ratio declined to 75% in June 2024, a new historical low.

Portugal's non-performing loan (NPL) ratio continues to improve, though it remains above the euro area average. Portugal's banking sector has seen a continuous improvement in its NPL ratio, which decreased to 2.6% in the second quarter of 2024, down 0.1 percentage points from the previous quarter. This positive trend is attributed to the strength of the domestic economy, proactive policy measures aimed at enhancing credit quality, and a rise in total credit to the private sector, particularly in household lending, which grew consistently in 2024. The NFC sector recorded a notable improvement in its NPL ratio, which fell from 6.2% in mid-2023 to 4.9% in June 2024. Meanwhile, the household sector maintained its NPL ratio at 2.5% despite a slight increase in NPLs in the housing segment. The coverage ratio for NPLs in the NFC sector improved to 61.5%, reflecting higher provisions against potential losses, while the household sector's coverage ratio dropped slightly to 49.4%. The decline in households' coverage indicates a more modest rise in

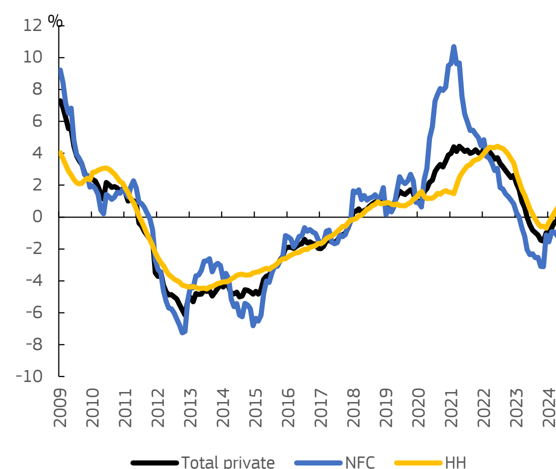
([5]) Minimum requirement for own funds and eligible liabilities

([6]) Buffer of 4% on real estate exposures of banks using an internal ratings-based approach, in force as of October 2024

impairments relative to the increase in NPL stock. Despite these gains, Portugal's gross NPL ratio remains significantly above the euro area average of 1.9%. The net NPL ratio is also above, albeit closer, to the euro area average. This underscores lingering vulnerabilities, particularly in an environment of still high interest rates and rising production costs. Supply chain disruptions and geopolitical risks also present challenges that could affect borrowers' repayment capabilities, especially for more vulnerable firms.

Non-financial corporations (NFCs) in Portugal continue to deleverage, with internal funding becoming a major source of financing. Portugal's NFCs have maintained a steady trajectory of deleveraging, allowing the country's NFC debt-to-GDP ratio to align more closely with the euro area average. This is largely due to companies relying more on internal funding, which has remained stable at around 20% of gross value added (GVA). NFCs are increasingly financing their activities through retained earnings, reducing their dependence on bank loans. This trend has been further supported by higher interest rates since mid-2022, which have curbed demand for new credit, prompting companies to dip into their significant stock of deposits to meet financing needs. The annual growth rate of bank loans to NFCs was negative from February 2023 to June 2024, underscoring the shift away from external credit. Despite this, recent developments suggest a stabilisation in the demand for bank loans, particularly as interest rates on new loans began to decrease in 2024 after peaking at 5.94% in November 2023. In this respect, bank lending increased notably in the construction and real estate sectors. The manufacturing sector has not experienced the same recovery, with continued contraction in loan volumes.

Graph 4.1: **Loans to the private sector**



(1) Change y-o-y, adjusted
(2) Annualised data
Source: ECB

Household credit has rebounded, with consumer credit driving growth and housing loans showing signs of recovery. Household credit in Portugal has shown significant growth in 2024, with consumer credit playing a key role in this resurgence. Consumer loans have gained momentum throughout the year, as demand increased despite tight supply conditions. Bank lending for house purchases, while initially dampened by high borrowing costs, among other reasons, has also begun to recover. In September 2024, the total amount of loans granted to individuals by banks was EUR 130.9 billion, a 2.6% increase compared to September 2023. The housing loan segment reached EUR 100.8 billion, a EUR 472 million rise since the previous month, marking the highest level of housing loan stock since February 2015. However, the overall volume of new housing loans, excluding and transfers of credit to other banks, declined in 2022 and early 2023 and only started to recover in 2024. This drop can largely be attributed to elevated borrowing costs, which deterred potential homebuyers amid the buoyant housing market.

Portugal's housing market remains resilient, with low loan-to-value (LTV) ratios and strong demand countering economic risks. Portugal's housing market has shown remarkable resilience over the last years. One of the key factors supporting this stability is the relatively low LTV ratios in mortgage portfolios, with only 6% of loans exceeding an 80% LTV ratio. This suggests that banks are well-positioned to absorb potential declines in real estate prices without incurring significant losses. Over the past seven years, housing prices have nearly doubled, reflecting sustained demand and limited supply. However, a sharp decline in housing prices remains improbable. In the first half of 2024, only around 35% of housing transactions were financed through credit, highlighting the substantial role played by cash buyers and non-resident investors, which has helped shield the market from fluctuations in borrowing costs. Furthermore, the limited supply of housing combined with rising construction costs and shortages of labour supply reduces the likelihood of a significant price correction in the near term. Additionally, Portugal's strong labour market and the recent decline in interest rates are expected to bolster households' capacity to service debt, sustaining steady demand for housing. It is important to note also that government support measures on variable rate

Table 4.1: **Soundness indicators**

in %	2017	2018	2019	2020	2021	2022	2023	2024-Q1	EU 2024-Q1	Median 2024-Q1
	Financial stability indicators: Portugal									
Non-performing loans	13.3	9.4	6.1	4.9	3.6	3.0	2.7	2.7	1.9	2.7
o/w NFC sector	25.2	18.5	12.3	9.8	8.1	6.5	5.0	5.0	3.4	5.0
o/w HH sector	7.1	5.1	3.7	3.4	2.8	2.3	2.4	2.5	2.2	2.5
Coverage ratio	49.9	52.4	51.7	55.4	52.6	55.4	56.3	56.3	42.7	56.3
Return on equity[1]	-0.8	2.7	4.3	0.0	4.9	8.7	13.8	15.4	10.2	15.4
Return on assets[1]	0.0	0.3	0.5	0.0	0.4	0.7	1.3	1.4	0.7	1.4
Total capital ratio	15.2	15.2	16.7	18.1	18.0	18.1	19.6	19.7	19.9	19.7
CET 1 ratio	13.9	13.2	14.1	15.4	15.5	15.3	17.1	17.1	16.5	17.1
Loan to deposit ratio	78.9	76.2	76.4	72.1	68.9	71.8	72.6	71.2	95.2	71.2

Source: ECB and FISMA E2 calculations.

1-3 | 4-10 | 11-17 | 18-24 | 25-27 — Colours indicate performance ranking among 27 EU Member States.

(1) Data is annualised
(2) Last data: Q1 2024
Source: ECB - CBD2 - Consolidated Banking data; own calculations.

mortgages, including temporary fee waivers for early repayments and interest subsidies, have mitigated the impact of the interest rates increase on households. However, the general uptake of these measures has been modest so far. Despite the relative stability, real estate markets remain vulnerable to economic fluctuations that can impact property values, such as downturns, shifts in interest rates, and changes in employment. These factors still warrant close monitoring. On the regulatory front, macroprudential measures, such as the 2018 recommendation on new loans to households and the recently introduced sectoral systemic risk buffer, are set to further enhance the resilience of both banks and borrowers. Portuguese banks' exposure to commercial real estate (CRE) remains limited, with CRE loans accounting for only 5% of total system assets. In addition, financial stability risks are further mitigated by capital requirements being generally higher for CRE exposures, compared to residential real estate exposures.

Overall, financial stability risks in Portugal are receding, but some vulnerabilities remain. The strong results of the Portuguese banking sector over the past two years increased the sector's resilience. However, uncertainty remains high, especially concerning geopolitical developments. In Portugal, the residential real estate market keeps warranting close monitoring, despite important risk mitigants such as the relatively low LTV ratios of mortgages. The past years' surge in house prices was supported by strong market presence of non-resident owners and buyers, as well as by supply bottlenecks. However, house price increases were not matched by a proportionate growth in households' income, exacerbating affordability issues and increasing uncertainty on price developments in the longer run. Finally, banks' profitability is expected to moderate as interest margins narrow and demand for loans remains sluggish.

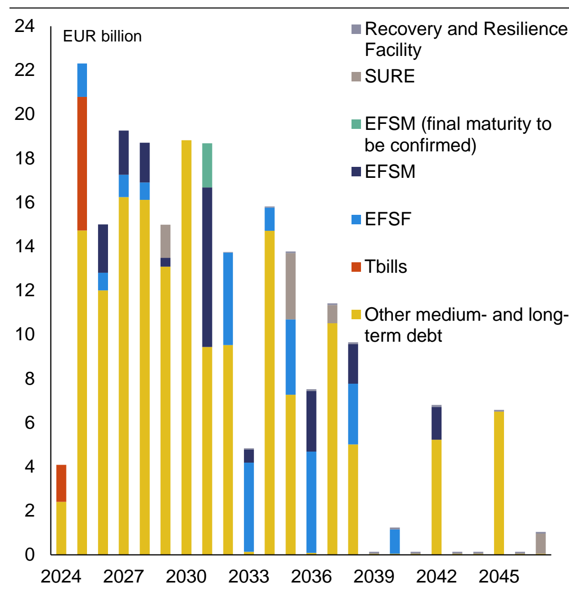
5. SOVEREIGN FINANCING AND CAPACITY TO REPAY

Financing needs by end-2024 are considerably below original plans. With the projected improvement in the budget balance on a cash basis and lower net acquisitions of financial assets, financing needs by end-2024 are expected at EUR 15.8. billion (5.6% of GDP), approximately EUR 4.8 billion below the plans at the beginning of the year ([7]). This represents a decrease of EUR 4.4 billion (1.6% of GDP) compared to 2023, also motivated by the lower debt redemption scheduled for 2024. Portugal's financing strategy during the first half of 2024 focused on government bonds issuances, which covered most of the financing needs for the year. T-bills issuances continue to be a relevant short-term debt financing instrument, with regular placements scheduled throughout the year. These debt financing instruments compensated the lost *momentum* of retail debt net issuances via saving certificates ('*Certificados de Aforro*')([8]), projected to be negative in 2024. Deposits are expected to remain a marginal source of funding in 2024. The cash buffer (as measured by general government deposits) is expected to increase to EUR 14.9 billion (5.3% of GDP) in 2024, EUR 3.6 billion above that recorded in 2023.

European Union funding continues to be a relevant financing source. A total of EUR 0.7 billion (0.3% of GDP) in grants was disbursed to Portugal in the first nine months of 2024 as part of the country's Recovery and Resilience Plan (RRP). In addition, on 7 July 2024, Portugal submitted its fifth payment request under the RRP. It consists of a total of EUR 2.9 billion (1.0% of GDP) – of which EUR 1.7 billion in grants and EUR 1.2 in loans, to be released conditional on the satisfactory fulfilment of the relevant milestones and targets.

Debt management focused on smoothing the redemption profile. Debt redemptions are expected to peak in the medium term (see Graph 5.1). To contain the associated refinancing and refixing risks, Portugal focuses on government bond issuances targeting long-term maturities and is active in debt management operations such as exchanges. On 22 May 2024, Portugal conducted a EUR 3 billion syndicated issuance of a new 30-year government bond. It achieved nearly a fourfold over-subscription, with investors being predominantly banks based in France, Italy, and Spain. On 25 September 2024, Portugal exchanged for longer maturities approximately EUR 1 billion of government bonds otherwise due in 2026 and 2027. The average residual maturity of Portugal's public debt is expected to remain unchanged in 2024 as compared to 2023, at 7.2 years.

Graph 5.1: **Redemption profile of public debt**



(1) Last update: 18-10-2024

Source: Portuguese Treasury and Debt Agency (IGCP)

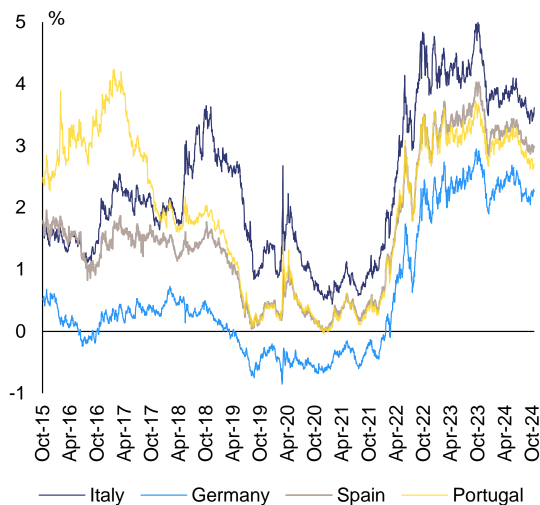
Portugal continues to enjoy a favourable market perception. Credit-rating agencies improved their assessment of Portugal's sovereign debt referring to the improved state of public finances, with an expected budget balance surplus and the expected sustained decline in public debt in 2024. Since last April 2024, DBRS and Fitch updated their outlook from 'stable' to 'positive' and confirmed their respective credit ratings ('A' from DBRS and 'A-' from Fitch). By the cut-off date of this report (end-October 2024), the 10-year Portuguese government bond yields stood at 2.8%. This represents a 0.7 percentage points decrease compared to the same period of the previous year, confirming

([7]) Financing programme of the Portuguese Republic for 2024', Portuguese Treasury and Debt Agency (IGCP), 21 December 2023.

([8]) Saving certificates ('*Certificados de Aforro*') are non-tradable and retail distributed, only to be subscribed by households. The saving certificate '*série F*' is currently the unique series available for subscription (Government Order No 149-A/2023 of 2 June). By the cut-off date of this report, the maximum limits for subscription under this series were widened (Government Order No 11797/2024 of 7 October).

the downward trajectory followed since end-2023 after the surge recorded as of December 2021 ([9])(see Graph 5.2). Spreads against the German bund have consistently narrowed, with Portugal trading below its main euro area peers. Syndications and auctions remain the main debt issuance methods. The investor base remained stable and diversified across regions and types throughout 2024, with efforts placed to attract investors from the Asian continent.

Graph 5.2: **10-year government bond yields**



Source: European Commission

Debt sustainability risks are medium in the medium term. The Portuguese public debt-to-GDP ratio reached 97.9% in 2023 and is expected to continue to decline between 2024 and 2026, although remaining at a high level (see Section 3). The implicit interest rate on Portugal's public debt is forecast to reach 2.4% in 2024, 0.1 percentage point higher than in 2023. According to the Commission's debt sustainability analysis (see Annex 2), medium-term risks to Portugal's fiscal sustainability are medium overall, and low in both the short and long term.

Portugal retains the capacity to service its debt. The country's capacity to repay is supported in the short term by its comfortable cash buffer, the maturity structure of its debt, most of which with fixed rates, stable and diversified financing sources, and its debt currency denomination. Financial assistance loans were fully repaid to the IMF in December 2018. The outstanding debt to the European Financial Stability Facility (EFSF) is EUR 25.3 billion. Debt outstanding to the European Financial Stabilisation Mechanism (EFSM) is EUR 22.3 billion, after the repayment of EUR 1.5 billion executed in November 2023. The next repayments to the EFSF and the EFSM are scheduled for 2025 and 2026, respectively (see Graph 5.1).

([9]) Since June 2024, the ECB has lowered the deposit facility rate – the rate through which it steers the monetary policy stance – by 50 basis points (from 4.0% to 3.5%). Furthermore, the Eurosystem portfolios acquired under the asset purchase programme and the pandemic emergency purchase programme have continued to decline over recent months.

ANNEX 1: MAIN MACROECONOMIC AND FINANCIAL INDICATORS

	2020	2021	2022	2023	2024	2025	2026
Real economy			*(percent change)*				
Real GDP	-8.2	5.6	7.0	2.5	1.7	1.9	2.1
Domestic demand incl. inventories	-5.1	5.8	4.7	1.7	2.0	2.3	2.5
Private consumption expenditure	-6.8	4.9	5.6	2.0	2.5	2.1	2.2
Government consumption expenditure	0.4	3.8	1.7	0.6	1.5	1.3	1.7
Gross fixed capital formation	-2.3	7.8	3.3	3.6	0.8	3.7	4.2
Exports of goods and services	-18.3	12.0	17.2	3.5	3.8	3.0	3.2
Imports of goods and services	-11.6	12.3	11.3	1.7	4.6	4.1	4.1
Contribution to growth			*(percentage points)*				
Domestic demand (excl. inventories)	-4.6	5.4	4.5	2.1	1.9	2.3	2.5
Foreign trade	-3.0	-0.3	2.1	0.8	-0.3	-0.5	-0.4
Changes in inventories	-0.5	0.5	0.3	-0.3	0.0	0.0	0.0
Inflation			*(percent change)*				
GDP deflator	2.1	2.0	5.3	6.9	3.8	2.5	2.2
HICP	-0.1	0.9	8.1	5.3	2.6	2.1	1.9
Labour market			*(percent change, unless otherwise stated)*				
Unemployment rate (% of labour force)	7.1	6.7	6.2	6.5	6.4	6.3	6.2
Employment	-2.0	1.4	3.7	1.0	1.1	0.9	0.8
Compensation per employee	1.9	6.1	5.6	8.0	6.5	3.6	3.4
Labour productivity	-6.3	4.1	3.1	1.5	0.6	0.9	1.3
Unit labour costs	8.8	2.0	2.4	6.5	5.9	2.6	2.1
Public finance			*(percent of GDP)*				
General government balance	-5.8	-2.8	-0.3	1.2	0.6	0.4	0.3
Total revenue	43.4	44.5	43.6	43.6	43.5	43.4	43.3
Total expenditure	49.1	47.3	43.9	42.4	42.9	42.9	43.0
General government primary balance	-2.9	-0.5	1.6	3.3	2.6	2.5	2.5
Gross debt	134.1	123.9	111.2	97.9	95.7	92.9	90.5
Balance of payments			*(percent of GDP)*				
Current external balance	-0.9	-0.9	-2.3	0.2	0.9	0.6	0.4
Ext. bal. of goods and services	-2.0	-2.8	-2.4	0.9	1.6	1.3	1.0
Exports goods and services	37.3	41.5	49.5	47.3	46.9	47.4	47.8
Imports goods and services	39.3	44.3	51.9	46.4	45.3	46.1	46.8
			(EUR bn)				
Nominal GDP	201.0	216.5	244.0	267.4	282.2	294.7	307.5

Source: European Commission

ANNEX 2: DEBT SUSTAINABILITY ANALYSIS

This annex assesses fiscal sustainability risks for Portugal over the short, medium and long term. It follows the multi-dimensional approach of the European Commission's 2023 Debt Sustainability Monitor, updated based on the Commission 2024 autumn forecast.

1 – Short-term risks to fiscal sustainability are low overall. The Commission's early-detection indicator (S0) does not signal major short-term fiscal risks (Table A2.2) ([10]). Government gross financing needs are expected to increase in 2024 and then stabilise at around 7.0% of GDP over 2025-2026 (Table A2.1, Table 1). Financial markets' perceptions of sovereign risk are investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to decline but remain at a high level in the medium term (at around 75.0% of GDP in 2035) (Graph 1 and Table 1) ([11]). The debt reduction is supported by the assumed structural primary surplus (excluding changes in cost of ageing) of 2.5% of GDP in 2025. This appears ambitious compared with past performance, suggesting limited fiscal room of manoeuvre (Table A2.2) ([12]). The debt decline also benefits from a still favourable but strongly declining snowball effect (and being nil as of 2034), notably thanks to the impact of Next Generation EU (NGEU). Government gross financing needs are expected to stabilise over the projection period and reach around 7.4% of GDP in 2035.

The baseline projection is stress-tested against four alternative deterministic scenarios to assess the impact of changes in key assumptions (Graph 1). For Portugal, all four scenarios lead to higher debt levels than the baseline in 2035, with particularly adverse developments under the *historical structural primary balance (SPB) scenario* (i.e. the SPB returns to its historical 15-year average of 0.7% of GDP). Under this stress scenario, the debt ratio would be higher than under the baseline by about 15.0 pps. of GDP in 2035. Under the *adverse interest-growth rate differential scenario* (i.e. the interest-growth rate deteriorates by 1.0 pp. compared with the baseline), the debt ratio would be higher than under the baseline by around 7.0 pps. of GDP in 2035. Under the *financial stress scenario* (i.e. interest rates temporarily increase by 1.3 pps. compared with the baseline) the debt ratio would be higher by only around 1 pp. in 2035. Finally, the debt ratio is expected to remain broadly unchanged in 2035 under the *lower structural primary balance scenario* (i.e. the projected cumulative improvement in the SPB over 2024-2025 is halved).

The stochastic projections indicate medium risks, pointing to moderate sensitivity of these projections to plausible unforeseen events over the next five years ([13])**.** These stochastic simulations indicate a 23.0% probability that the debt ratio will be higher in 2029 than in 2024, implying medium risks given the current high debt level. In addition, the uncertainty surrounding the baseline debt projections is high

([10]) The S0 is a composite indicator of short-term risk of fiscal stress. It is based on a wide range of fiscal and financial-competitiveness indicators that have proven to be a good predictor of emerging fiscal stress in the past.

([11]) The assumptions underlying the Commission's 'no-fiscal policy change' baseline include in particular: (i) a structural primary deficit, before changes in ageing costs, of 2.5% of GDP from 2025 onwards; (ii) inflation converging linearly towards the 10-year forward inflation-linked swap rate 10 years ahead (which refers to the 10-year inflation expectations 10 years ahead); (iii) the nominal short- and long-term interest rates on new and rolled over debt converging linearly from current values to market-based forward nominal rates by T+10; (iv) real GDP growth rates from the Commission 2024 autumn forecast, followed by the EPC/OGWG 'T+10 methodology projections between T+3 and T+10 (average of 0.9%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper 279, April 2024). For information on the methodology, see the 2023 Debt Sustainability Monitor (European Commission, Institutional Paper 271, March 2024). Note that the anchoring of the structural primary balance on the first forecast year (T+1) as opposed to the second forecast year (T+2) implies that several projected variables, including debt, budget balance and GDP, for T+2 (in this case 2026) can differ from the Commission 2024 autumn forecast.

([12]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past. Technically, this consists in looking at the percentile rank of the projected SPB within the distribution of SPBs observed in the past in the country, taking into account all available data from 1980 to 2023.

([13]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

(as measured by the difference between the 10th and 90th debt distribution percentiles), as the debt ratio is expected to be within a large range of 46.0 pps. of GDP in 2029 (Graph 2).

3 – Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([14]). This assessment is driven by the favourable initial budgetary position and projected increase in ageing costs. Hence, these results are conditional on Portugal maintaining a sizeable SPB over the long term, and duly implementing legislated pension reforms.

The S2 indicator points to low risk. The indicator shows that, relative to the baseline, Portugal could relax its fiscal position by 1.9 pps. of GDP and still ensure debt stabilisation over the long term. This result is mainly driven by the favourable initial budgetary position (contribution of -2.0 pps. of GDP), (Table A2.1, Table 2).

The S1 indicator also points to low risk. The indicator shows that Portugal does not need to improve its fiscal position to reduce its debt to 60.0% of GDP by 2070. This result is mainly driven by the favourable initial budgetary position (contribution of -2.4 pps. of GDP), which is partly offset by the projected ageing-related public spending (1.7 pps.) and the debt requirement (0.7 pp.) (Table A2.1, Table 2).

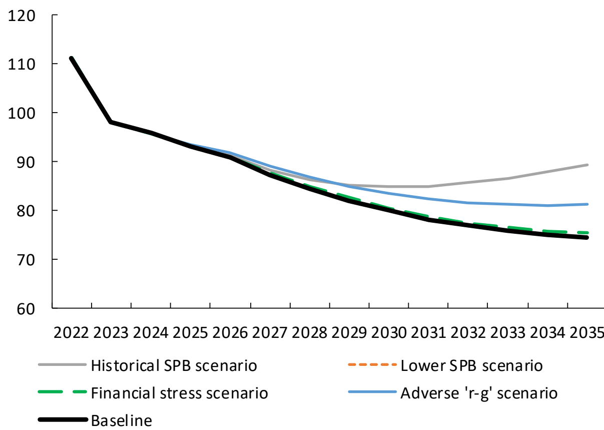
4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to country-specific factors as the ongoing requests for a financial rebalancing of PPPs and vulnerabilities in some public corporations, and Portugal's negative net international investment position. On the other-hand, risk-mitigating factors include Portugal's comfortable cash buffer, the maturity structure of its debt, most of which with fixed rates, relatively stable financing sources (with a diversified and expanding investor base) and the large share of debt denominated in euro. Portugal's debt management strategy targeting the smoothening of the debt redemption profile also contributes to mitigate risks.

([14]) The S2 fiscal sustainability indicator measures the permanent SPB adjustment in 2025 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the permanent SPB adjustment in 2025 needed to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both the S1 and S2 indicators, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See the 2023 Debt Sustainability Monitor for further details.

Table A2.1: **Debt sustainability analysis – Portugal**

Table 1. Baseline debt projections	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Gross debt ratio (% of GDP)	**111.2**	**97.9**	**95.7**	**92.9**	**90.7**	**87.3**	**84.5**	**82.0**	**79.9**	**78.1**	**76.8**	**75.8**	**75.0**	**74.5**
Changes in the ratio	-12.6	-13.3	-2.2	-2.8	-2.3	-3.4	-2.8	-2.5	-2.1	-1.7	-1.4	-1.0	-0.7	-0.5
of which														
Primary deficit	-1.6	-3.3	-2.6	-2.5	-2.5	-2.3	-2.1	-1.9	-1.7	-1.4	-1.1	-0.9	-0.7	-0.5
Snowball effect	-12.1	-7.7	-3.1	-1.9	-1.6	-1.1	-0.7	-0.6	-0.4	-0.3	-0.2	-0.1	0.0	0.0
Stock-flow adjustments	1.0	-2.3	3.5	1.7	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs (% of GDP)	10.5	4.5	7.5	6.4	7.0	5.4	5.2	5.1	4.7	7.4	6.3	6.5	5.9	7.4

Graph 1. Deterministic debt projections



Graph 2. Stochastic debt projections 2025-2029

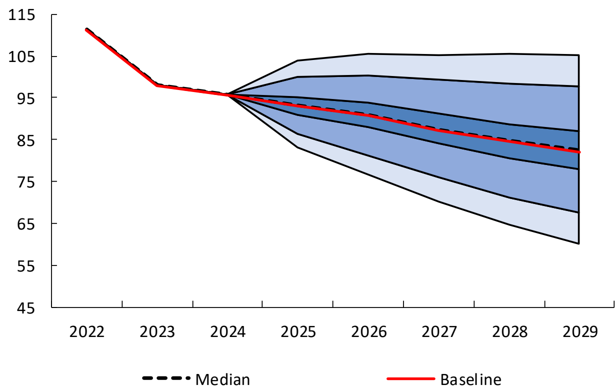


Table 2. Breakdown of the S1 and S2 sustainability gap indicators

		S1	S2
Overall index (pps. of GDP)		**0.0**	**-1.9**
of which			
Initial budgetary position		-2.4	-2.0
Debt requirement		0.7	
Ageing costs		1.7	0.0
of which	*Pensions*	0.4	-1.6
	Health care	0.9	1.1
	Long-term care	0.3	0.4
	Others	0.1	0.1

Source: Commission services

Table A2.2: **Heat map of fiscal sustainability risks – Portugal**

Short term	Medium term - Debt sustainability analysis (DSA)								Long term		
			Deterministic scenarios								
Overall (S0)	Overall		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress	Stochastic projections	S2	S1	Overall (S1+S2)
LOW	MEDIUM	Overall	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	LOW	LOW	LOW
		Debt level (2035), % GDP	74.5	89.2	74.5	81.2	75.3				
		Debt peak year	2025	2025	2025	2025	2025				
		Fiscal consolidation space	10%	43%	10%	10%	10%				
		Probability of debt ratio exceeding in 2029 its 2024 level						23%			
		Difference between 90th and 10th percentiles (% GDP)						46.1			

(1) Debt level in 2035. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the baseline. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2029 its 2024 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) the difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

Source: Commission services (for further detailed on the Commission's multidimensional approach, see the 2023 Debt Sustainability monitor)

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