CareEdge Global reaffirms rating of Republic of Portugal at 'CareEdge A+/Stable'

Issuer rating (Long-Term Foreign Currency)	CareEdge A+/Stable (Unsolicited)

Rating Action

CareEdge Global has reaffirmed its Long-Term Foreign Currency issuer rating for Republic of Portugal at **'CareEdge A+/Stable'** (Unsolicited).

Rationale

The reaffirmation of Portugal's rating continues to reflect the country's significant improvement in government debt levels over the past few years, coupled with an expectation of reaching 77% of GDP by 2030. Portugal also benefits from a relatively high GDP per capita, a buoyant tourism sector, strong institutional quality, and a steadily improving banking system. Economic growth continues to outperform the Euro area average, supported by resilient domestic demand and services exports. The country has also demonstrated a strong track record of implementing structural reforms to enhance competitiveness, alongside improvements in fiscal discipline and debt management.

Notwithstanding these strengths, the economy continues to face structural challenges. Despite improvement, high public debt and a deeply negative Net International Investment Position (NIIP) constrain fiscal and external flexibility. Demographic pressures from an ageing population, low public investment, and expectations of rising defense and social spending further weigh on medium-term growth potential.

In addition, ongoing housing market imbalances and the outflow of skilled labour represent notable social and economic risks. Looking ahead, Portugal's growth prospects could be supported by the continued implementation of reforms and the effective use of funds from the European Commission's National Resilience and Recovery Plan (NRRP).

Outlook: Stable

The Stable Outlook for Portugal reflects CareEdge Global's expectations of a continued commitment to reducing public debt. The country continues to benefit from a well-established institutional framework, reinforced by European Union (EU) governance mechanisms, which has supported fiscal discipline, structural reforms, and the strengthening of the banking sector. Economic growth is expected to remain resilient, underpinned by a vibrant labour market, rising minimum wages, and personal income tax cuts. At the same time, continued disbursements from the NRRP will temporarily boost public investment.

Upside Scenario

The outlook could be revised to positive if Portugal achieves a faster-than-expected reduction in its public debt burden or demonstrates a structurally stronger growth trajectory, supported by sustained gains in tourism receipts, higher investment, increased export diversification, and a further strengthening of external balances.

Downside Scenario

The outlook could be revised to negative if general government debt or the external position deteriorates further, or if the economy experiences a significant domestic or EU-wide growth shock, thereby weakening fiscal and external resilience.

Key Rating Drivers

Economic Structure & Resilience

Portugal is a small, open economy with an estimated nominal GDP of nearly USD 338 billion and a relatively high GDP per capita of USD 42,669 (PPP basis) in 2025. Over the past decade, the economy has undergone a notable structural transformation, driven by a stronger focus on exports, moderation in labour costs, improvements in labour skills, and a sustained impetus on tourism, alongside gradual diversification into higher value-added services, including financial services, Information, Communication & Technology (ICT), and professional services. Portugal has outperformed the Euro Area in its post-COVID recovery and is expected to continue to do so, growing at nearly 1.7% over the next five years (2026-30).

The labour market remains tight, supporting private consumption and domestic demand. Tourism remains a key pillar, contributing nearly 11.9% of GDP in 2024, while EU RRF funds, of which nearly 63% had been disbursed by December 2025, are expected to support investment and medium-term growth. In addition, Portugal has developed a strong green infrastructure base, with over 60% of electricity generation sourced from renewables, strengthening energy security and supporting the green transition.

Despite these strengths, Portugal's economic growth prospects remain constrained by structural challenges. The economy is highly reliant on trade with the EU, leaving it exposed to any prolonged slowdown in the region. Gross fixed capital formation remains relatively low, at 20.4% of GDP in 2024. Unfavorable demographic trends, including population ageing and outward migration of skilled youth, continue to weigh on labour supply and potential growth. Moreover, youth unemployment remains structurally elevated at an average of around 19.5% in 2025, nearly three times the national unemployment rate, reflecting persistent labour-market mismatches and skills gaps.

Fiscal Strength

Portugal continues to demonstrate a strong commitment to fiscal consolidation, supported by prudent budget management and favourable macroeconomic conditions. The general government is expected to record a fiscal surplus of 0.3% of GDP in 2025 and 0.1% of GDP in 2026, according to the 2026 budget. The sustained primary surpluses underpin a steady decline in the public debt ratio, which, while elevated at 95% of GDP in 2024, is projected to fall to around 81.5% by 2028. The government has also initiated targeted tax reforms, including a reduction in the Corporate Income Tax rate from 20% in 2025 to 19% in 2026, with a further cut to 17% by 2028, alongside planned reductions in Personal Income Tax. These measures aim to enhance business competitiveness, attract investment, and improve labour market conditions, with the associated revenue impact expected to be largely offset by economic buoyancy.

Despite the improving debt trajectory, public debt levels remain high, reflecting the legacy of the past. Moreover, Portugal's fiscal flexibility is constrained by structurally high rigid expenditures, particularly pension spending, which accounts for around 13% of GDP, limiting the scope for discretionary spending adjustments. Additional pressure is expected from higher defense expenditure requirements.

External Position & Linkages

Portugal's external position has strengthened in recent years, supported by resilient services exports. The country recorded a current account surplus of 2.1% of GDP in 2024 and is expected to continue registering surpluses over the next five years, albeit smaller ones. NIIP has improved significantly, narrowing from a peak of -124% of GDP in 2014 to around -53% by Q3 2025, reflecting sustained external adjustment and private sector deleveraging. Portugal also remains an attractive destination for foreign investment, particularly in financial services and ICT. FDI net inflows stood strong at 4.4% of GDP in 2024. Additionally, Portugal benefits from its membership in the European Monetary Union.

Despite these improvements, external vulnerabilities remain. Portugal's externally held debt remains elevated, at around 151% of GDP as of Q3 2025. While the deleveraging trend is ongoing, the still-negative NIIP indicates a sizeable stock of external liabilities.

Monetary & Financial Stability

Portugal's inflation stood at 2.2% in December 2025, slightly above the Euro area average of 2%, and remained broadly above the ECB's 2% target throughout 2025. Inflation is expected to remain slightly above the 2% target due to tight labour markets and the ECB's neutral monetary policy stance, with limited scope for rate cuts this year. Inflation is expected to reach the ECB target by 2028.

Non-performing loan (NPL) ratios have declined to around 2.4%, converging toward the Euro Area average of close to 2% as of Q3 2025. Portuguese banks have also shown improving profitability and stronger capital buffers, enhancing the sector's resilience to macro-financial shocks. At the same time, the private sector deleveraging trend remains intact, with private sector debt declining to around 130% of GDP in 2024, from a peak of 231% in 2012.

Institutions & Quality of Governance

Portugal's institutional effectiveness and policy credibility are reflected in its early repayment of IMF and EU financial assistance, completed five years ahead of schedule. The country is currently led by a center-right minority coalition government (Democratic Alliance) under Prime Minister Luís Montenegro. Despite the minority status, there remains a broad policy consensus, particularly on fiscal discipline and implementation of the NRRP. The government's reform agenda is focused on addressing the housing shortage, managing migration, and reducing the tax burden on households and firms.

Political fragmentation presents a moderate source of uncertainty. The far-right party Chega has emerged as the largest opposition force and continues to gain visibility, potentially contributing to a more polarized political landscape over time. While political conditions remain broadly stable at present, heightened fragmentation could slow reform momentum and pose implementation risks to the government's policy agenda.

Portugal – Select Indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 F**	**2026 F**	**2027F**
Economic Indicators									
Nominal GDP	USD Billion	229	256	257	290	309	338	365	377
GDP Per Capita (Constant-PPP)	USD	36,734	38,691	41,152	41,791	42,179	42,669	43,685	44,437
Real GDP Growth	%	-8.2	5.6	7.0	2.6	1.9	1.9	2.1	1.5
GFCF/GDP	%	19.5	20.5	20.6	20.5	20.4	-	-	-
Gross Domestic Savings/GDP	%	18.3	20.3	19.4	21.0	22.2	21.4	21.5	20.7
Exports (G&S)/GDP	%	39.2	42.6	45.6	42.9	41.4	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	63.8	63.6	63.3	63.0	62.7	62.3	62.0	61.6
Old-Age (65+) Population (% Share in Total)	%	22.9	23.3	23.7	24.1	24.5	24.9	25.4	25.8
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-5.8	-2.8	-0.3	1.2	0.7	0.2	0.0	-0.2
Revenue/GDP	%	43.4	44.5	43.6	43.5	43.5	43.8	44.1	42.4
Expenditure/GDP	%	49.1	47.3	43.9	42.3	42.8	43.7	44.0	42.6
GG Gross Debt/GDP	%	134.1	123.9	111.2	97.7	94.9	90.9	86.9	83.9
GG External Debt (by Creditor)/GG Gross Debt	%	52.9	43.5	45.5	43.0	42.9	-	-	-
Interest/Revenue	%	6.5	5.3	4.3	4.7	4.7	-	-	-
External Indicators									
Current Account Balance/GDP	%	-0.7	-0.7	-2.0	0.6	2.1	1.8	1.9	1.6
FDI, Net Inflows/GDP	%	1.8	3.6	5.1	4.0	4.4	-	-	-
Outstanding FII Liabilities/GDP	%	77.3	60.7	52.2	48.6	47.2	-	-	-
NIIP/GDP	%	-110.8	-89.0	-83.7	-74.5	-56.8	-	-	-
Foreign Exchange Reserves	USD Billions	30.0	33.2	33.1	35.3	42.5	-	-	-
Import Cover	Months	3.9	3.5	2.9	3.2	3.7	-	-	-
External Debt/GDP	%	204.45	189.79	165.48	146.47	144.85	-	-	-
Monetary and Financial Indicators									
CPI Inflation	%	-0.1	0.9	8.1	5.3	2.7	2.2	2.1	2.2
Exchange Rate (Average)	LC per USD	0.9	0.9	1.0	0.9	0.9	0.9	-	-
Non-Performing Loans/Total Gross Loans	%	4.89	3.68	3.00	2.70	2.40	-	-	-
Private debt, loans and debt securities/GDP	%	176.16	168.34	152.22	137.07	130.55	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2024

Solicitation Status

The rating is unsolicited, but with limited interaction with the relevant authorities of the Government.

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A+/Stable	January 30, 2026
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A+/Stable	February 03, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A+	October 03, 2024

Criteria Applied

CareEdge Sovereign Rating Methodology

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CIN-U66190GJ2024PLC151103