CareEdge Global assigns 'Stable' outlook to the rating of the Republic of Portugal

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge A+' (Unsolicited)

Issuer rating	CareEdge A+/ Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the Republic of Portugal (Portugal) while reaffirming the Long-Term Foreign Currency rating of 'CareEdge A+ (Unsolicited)'.

Portugal's credit profile is underpinned by a relatively high GDP per capita, a buoyant tourism sector, strong institutions and an improving banking sector. Portugal has also demonstrated a strong record of implementing structural reforms and improving economic and fiscal conditions. Notwithstanding these positives, the economy continues to be burdened by high debt and a deeply negative net international investment position. Moreover, it remains susceptible to external shocks due to a slowdown in the European Union, which constitutes 71% of its total trade.

Looking ahead, continued commitment to bringing out reforms and increasing investment associated with the European Commission's National Resilience and Recovery Plan (NRRP) could further aid economic growth. Though there are expectations of policy continuity, reforms implementation under the minority government and sustainability of debt reduction path would be key monitorables.

Rating Outlook: Stable

The stable outlook reflects Portugal's strong government effectiveness witnessed in commitment to the general government debt deleveraging, reduction in external vulnerabilities and stable economic growth. The country is characterized by robust institutional framework with support from EU governance framework. The recently approved Budget 2025 plan aims at lower fiscal surplus of 0.3% of GDP in 2025 vis-à-vis 0.4% of GDP in 2024 which augurs well with the country's aim to balance growth and fiscal pressures. The risks from high interest rates are partially offset by reduction in expected general government debt.

Upside scenario

The outlook could be revised to positive in case of a faster-than-expected debt reduction path or higher growth trajectory driven by tourism receipts and higher investments.

Downside scenario

The outlook could be revised to negative in case of further deterioration of general government debt levels or external position. Furthermore, any larger shock to Portugal's growth or the EU's growth could negatively impact the outlook.

Key Rating Drivers

Economic Structure & Resilience

Portugal is a small economy with a Nominal GDP of USD 287 billion and a relatively high GDP per capita of USD 42,552 (constant PPP basis) in 2023. After the financial crisis of 2011, Portugal's economy has undergone a remarkable transformation by focusing on exports, lowering labour costs, improving labour skills, putting impetus on tourism and restructuring the banking system. As a result, the unemployment rate has been secularly declining from the highs of 2013 at 16.2% to 6.6% in December 2023. The contribution of exports to GDP increased to about 47% in 2023 from 37% in 2014. The average GDP growth was steady at 1.9% in the pre-pandemic period (2015-19), which was higher than the Euro Area average of 1% for the same period. Economic growth moderated to 2.3% in 2023, following a strong 6.7% in 2022, primarily due to weaker external demand and slowing private consumption demand amidst higher interest rates and high base effects. Portugal's GDP grew by 1.9% year-on-year in the third quarter of 2024, up from 1.6% in Q2 2024, which aligns with preliminary estimates. Going further, Portugal is expected to grow at 1.9% on average till 2028 vis-à-vis the Euro Average of 1.2%.

Tourism contributes a high 17% to GDP. However, Portugal's excessive reliance on the EU for tourism and a high share of intra-EU trade amid a slowdown in the region are key risks to economic growth. Portugal has one of the lowest gross fixed capital formation as a per cent of GDP at 19% in 2023 in comparison with its similarly rated peers like Spain (20%) and Chile (24%). Further, unfavorable demographics continue to be a concern.

Fiscal Strength

Despite displaying commitment to fiscal consolidation in recent years, Portugal's fiscal assessment continues to be burdened by the past. The debt-to-GDP ratio is high at 99% of GDP in 2023, but it is expected to moderate to 87% by 2028, supported by fiscal surplus. Portugal had a fiscal surplus of 1.2% of GDP in 2023, likely to remain in 2024 (0.4% of GDP) and 2025 (0.3% of GDP), according to a draft budgetary plan for 2025.

Even with reforms, Portugal has high fixed expenditure in the form of elevated pension spending of 12.4% of GDP vis-à-vis the OECD average of 7.7% of GDP in 2022. Portugal has access to the NextGen EU Fund via NRRP, which amounts to about EUR 22.2 billion (8.3% of GDP) for the 2021-2027 period, which could bolster investment. The government has recently requested the sixth disbursement of the NRRP, the largest one, indicating that implementation of the plan is on track.

External Position & Linkages

Portugal's deeply negative net international investment position (NIIP) at 74.3% and high external debt at 150% of GDP in 2023 is a legacy of its past. Although these numbers seem very high, they are lower than the negative NIIP of 100% and external debt of 192% in 2019. Despite the de-leveraging cycle, the economy remains exposed to external shocks.

The current account returned to a surplus in 2023, reaching 1.4% of GDP, primarily due to the thriving tourism sector and favourable terms of trade. Net Foreign Direct Investment (FDI) inflows as a percentage of GDP were robust, averaging 3.2% between 2019 and 2023, attributable to relatively lower labour costs, the availability of skilled workers, and a commitment to energy transition. Portugal also benefits from its membership in the European Monetary Union.

Monetary & Financial Stability

Portugal's HICP inflation for 2024 came in at 2.7%, slightly higher than the Euro average of 2.6%, mainly driven by a rise in minimum wages and elevated housing prices. Inflation is expected to remain above 2% in 2025 due to tight labour markets.

The NPL ratio declined to 2.7% in December 2023 from 3% in December 2022 as banks continued to dispose of NPLs through sales and write-offs. Credit quality remained resilient to the withdrawal of pandemic-related measures. Also, banks have a better loan-to-deposit ratio at 78% in 2023 from the peak of 146% in 2015, implying most of the credit is now funded internally. The private sector continued to deleverage as the corporate debt ratio fell to 129% in 2023 from 211% in 2012. Household debt declined to 55% in 2023 from 91% in 2012.

Institutions & Quality of Governance

After 2011, Portugal managed its fiscal and external situation by bringing in reforms. Portugal repaid its debt obligations to the IMF and EU five years before the schedule. This highlights the government's effectiveness and healthy institutional framework. Luis Montenegro, head of the centre-right Democratic Alliance (AD), was appointed the country's prime minister, forming a minority government in April 2024 after eight years of Socialist rule. Despite a minority government at the helm, there is the expectation of policy continuity, especially on fiscal reforms and implementation of NRRP.

Portugal – Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	242	240	229	256	255	287	299	310
GDP Per Capita (Constant-PPP)	USD	39,249	40,293	36,909	39,036	41,684	42,552	43,328	44,301
Real GDP Growth	%	2.8	2.7	-8.3	5.7	6.8	2.3	1.7	2.1
GFCF/GDP	%	17.5	18.1	19.2	20.2	20.1	19.4	-	-
Gross Domestic Savings/GDP	%	18.8	18.9	17	17.8	18.2	20.4	-	-
Exports (G&S)/GDP	%	43.4	43.5	37	41.4	49.6	47.4	-	-
Working-Age (15-64) Population (% Share in Total)	%	64.5	64.4	64.2	64.1	63.9	63.7	63.4	63.2
Old-Age (65+) Population (% Share in Total)	%	21.7	22	22.3	22.6	22.9	23.3	23.7	24.1
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-0.3	0.1	-5.8	-2.9	-0.3	1.2	0.4	0.3
Revenue/GDP	%	42.9	42.5	43.4	44.6	43.8	43.4	43.4	43.3
Expenditure/GDP	%	43.2	42.4	49.2	47.5	44.1	42.4	43.2	43.1
GG Gross Debt/GDP	%	121.5	116.6	134.9	124.5	112.4	99	94.7	90.8
GG External Debt (by Creditor)/GG Gross Debt	%	52.2	55	52.4	47.7	42.5	40.7	-	-
Interest/Revenue	%	8.9	7.9	7.6	6.1	5.1	-	-	-
External Indicators									
Current Account Balance/GDP	%	0.6	0.4	-1.0	-0.8	-1.2	1.4	1.6	1.5
FDI, Net Inflows/GDP	%	3.2	4.3	1.7	3.1	3.7	3.4	-	-
Outstanding FII Liabilities/GDP	%	60.5	66.5	77.9	60.4	53.0	49.0	-	-
NIIP/GDP	%	-103.1	-100.3	-112.4	-90	-84.6	-74	-	-
Foreign Exchange Reserves	USD Billion	24.9	25	29.5	32.6	32.3	35.3	-	-
Import Cover	Months	2.9	2.9	4	3.5	2.9	3.2	-	-
External Debt/GDP	%	-	191.6	204.8	189.9	166	150.4	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.2	0.3	-0.1	0.9	8.1	5.3	2.7	2.4
Exchange Rate (Average)	LC per USD	0.8	0.9	0.8	0.8	0.9	0.9	0.9	-
Non-Performing Loans/Total Gross Loans	%	9.4	6.2	4.9	3.7	3	2.6	-	-
Private debt, loans and debt securities/GDP	%	167.1	160.9	176.6	169.7	153.7	-	-	-

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 2023

Solicitation Status
The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating (Long Term Foreign Currency)	Unsolicited	CareEdge A+/ Stable	February 03, 2025
Issuer Rating (Long Term Foreign Currency)	Unsolicited	CareEdge A+	October 3, 2024

Criteria Applied
CareEdge Sovereign Rating Methodology

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