Republic of Portugal's rating reaffirmed at 'CareEdge A+/Stable'

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

Rating action

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

Rationale

The rating reaffirmation reflects Portugal's significant improvement in general government debt levels over the past few years, with the debt-to-GDP ratio projected to reach 75.5% by 2030. Portugal also benefits from a relatively high GDP per capita, a buoyant tourism sector, strong institutions, 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 also has a strong track record of implementing structural reforms to enhance competitiveness, alongside improvements in fiscal discipline and debt management.

However, structural challenges remain. Despite improvement, relatively high public debt and a deeply negative net international investment position (NIIP) constrain fiscal and external flexibility. Demographic pressures from an ageing population and relatively low public investment weigh on medium-term growth potential, while rising age-related social expenditure and higher defence spending commitments are expected to exert increasing pressure on the medium-term fiscal outlook.

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). The gradual increase in defence and related infrastructure investment could also generate positive spillover effects for economic activity over the medium term. CareEdge Global will continue to closely monitor economic growth and fiscal balance as these funds phase out after 2026.

Outlook: Stable

The stable outlook for Portugal reflects CareEdge Global's expectation that the government will remain committed to reducing public debt, albeit at a more gradual pace than before. The country continues to benefit from a well-established institutional framework and strengthened banking sector. Economic growth is expected to remain resilient, underpinned by a vibrant labour market, rising minimum wages, and personal income tax cuts. Concurrently, continued disbursements from the NRRP will temporarily boost public investment through 2026.

Upside scenario
The outlook could be revised to positive if Portugal reduces its public debt burden faster than expected, 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 European Union (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 381 billion and a relatively high GDP per capita of USD 43,882 (PPP basis) in 2026. Over the past decade, it has become more competitive and export-oriented, supported by a gradual diversification towards higher value-added sectors such as financial services, information, communication and technology (ICT), and professional services, while tourism remains an important growth driver.

We expect Portugal to steadily outperform the Euro Area average, with growth averaging 1.8% during 2026-30, supported by a resilient labour market, NRRP-funded investment, strong domestic demand and a relatively high share of renewable energy in electricity generation, which also provides some insulation from external energy price shocks. The economy could also benefit from a shift in tourism flows amid geopolitical tensions in West Asia.

Climate-related risks faced by Portugal are also rising. The country experienced widespread forest fires and flooding in 2025, followed by severe storms in early 2026. While the storms temporarily disrupted economic activity, the impact is expected to be largely offset by reconstruction and repair efforts later in the year, leaving the overall effect on annual growth broadly neutral. Further, Portugal's growth prospects remain constrained by its high dependence on the EU, adverse demographic trends, and below-Euro Area-average labour productivity levels.

Fiscal strength

Portugal is expected to maintain its commitment to fiscal consolidation, supported by prudent budget management and favourable macroeconomic conditions, albeit at a more gradual pace than in recent years. The fiscal surplus of 0.7% of GDP in 2025 exceeded earlier expectations of 0.3%, reflecting revenue outperformance and lower-than-expected expenditure. The government targets a broadly balanced budget in 2026 despite storm-related spending of around 0.3% of GDP and temporary measures to cushion higher energy prices. Sustained primary surpluses are expected to support a steady decline in the public debt ratio from around 90% of GDP in 2025 to approximately 79% by 2028.

The revenue impact of the planned reductions in corporate and personal income taxes is expected to be largely offset by stronger economic activity. In addition, the recently launched EUR 22.6 billion Transformation, Recovery and Resilience Plan envisages significant investment over a nine-year horizon, with around 37% of the programme expected to be financed through national public funding alongside private sector participation and European funding, thereby limiting the near-term impact on government finances.

Despite the improving debt trajectory, Portugal's public debt burden remains elevated, while fiscal and primary surpluses are expected to gradually narrow over the medium term as EU funding winds down and spending pressures increase. Fiscal flexibility also remains constrained by structurally high age-related expenditure and rising defence spending commitments. Portugal met NATO's earlier defence spending benchmark of 2% of GDP in 2025 and is expected to increase defense-related expenditure gradually over the coming years to meet the Alliance's enhanced spending targets, which are likely to place additional pressure on the fiscal position.

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 1.2% of GDP in 2025 and is expected to continue registering surpluses over the next five years, albeit smaller ones.

Improvement in external balance is expected to continue, supported by sustained external adjustment and deleveraging. Portugal's NIIP has narrowed significantly to -52% in 2025 from -124% of GDP in 2014, while external debt has declined from 231% to around 145% of GDP over the same period. Portugal also remains an attractive destination for foreign investment, particularly in financial services and ICT, with FDI net inflows remaining healthy at 2.4% of GDP in 2025. In addition, the country benefits from its membership of the European Monetary Union.

Despite these improvements, external vulnerabilities remain. External debt continues to be elevated, while the still-negative NIIP reflects a sizeable stock of external liabilities.

Monetary & financial stability

Portugal's inflation accelerated to 3.2% in June 2026, primarily reflecting higher energy prices stemming from geopolitical tensions in West Asia. Inflation is expected to moderate but remain slightly above the European Central Bank's (ECB) 2% target through 2026. The ECB's decision to hold policy rates steady in July, following its June 2026 rate hike, is expected to help anchor inflation expectations and contain second-round effects from the energy price shock. Tighter monetary conditions may weigh modestly on domestic demand and borrowing activity.

Meanwhile, Portugal's banking sector continues to strengthen, supported by improving asset quality, profitability, and capital buffers. Non-performing loan (NPL) ratios declined to around 2.3% in 2025, converging towards the Euro Area average of 2%. Private sector deleveraging is expected to continue, with private sector debt declining to around 130% of GDP in 2024 from a peak of 231% in 2012.

Institutions & quality of governance

Portugal is currently governed by the centre-right Democratic Alliance (AD) minority coalition under Prime Minister Luís Montenegro. Despite its minority status, there is broad political consensus on key policy priorities, particularly fiscal discipline and the implementation of EU-funded investment programmes. The government's reform agenda focuses on strengthening infrastructure resilience, addressing housing shortages, reducing youth emigration, and lowering the tax burden on households and businesses.

Nevertheless, political fragmentation remains a mild concern. The far-right Chega party has emerged as the main opposition force and has been gaining political prominence, contributing to a more fragmented and potentially polarised political environment. While political conditions are broadly stable, increased fragmentation could slow reform momentum and complicate policy implementation, as illustrated by the recent parliamentary rejection of the government's labour reform package.

Select indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027F**
Economic indicators									
Nominal GDP	USD billion	229	256	257	292	314	346	381	396
GDP per capita (constant-PPP)	USD	36,734	38,691	41,152	41,989	42,451	42,942	43,882	44,785
Real GDP growth	%	-8.2	5.6	7.0	3.1	2.2	1.9	1.9	1.8
GFCF/GDP	%	19.5	20.5	20.6	20.5	20.4	20.7	-	-
Gross domestic savings/GDP	%	18	20	19	21	23	22	23	23
Exports (G&S)/GDP	%	37.3	41.6	49.5	47.2	46.0	43.8	-	-
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	1.1	0.6	0.7	0.0	0.0
Revenue/GDP	%	43	45	44	43	43	44	44	42
Expenditure/GDP	%	49	47	44	42	43	44	44	43
GG gross debt/GDP	%	134	124	111	97	93	90	86	82
GG external debt (by creditor)/GG gross debt	%	53	43	45	43	43	49	-	-
Interest/revenue	%	6.5	5.3	4.3	4.7	4.7	4.5	-	-
External indicators									
Current account balance/GDP	%	-0.7	-0.7	-2.0	0.6	2.2	1.2	0.5	0.7
FDI, net inflows/GDP	%	1.8	3.6	5.1	4.0	4.4	2.4	-	-
Outstanding FII liabilities/GDP	%	77.0	60.6	52.3	48.2	46.3	57.0	-	-
NIIP/GDP	%	-110.4	-88.9	-83.9	-74.1	-56.4	-52.2	-	-
Foreign exchange reserves	USD Billions	30.0	33.2	33.1	35.3	42.2	68.1	-	-
Import cover	Months	3.9	3.5	2.9	3.2	3.7	5.5	-	-
External debt/GDP	%	204	190	165	147	145	145	-	-
Monetary and financial indicators									
CPI inflation	%	-0.1	0.9	8.1	5.3	2.7	2.2	3.1	2.3
Exchange rate (average)	LC per USD	0.9	0.9	1.0	0.9	0.9	0.9	-	-
Non-performing loans/total gross loans	%	5.6	4.6	3.6	3.1	2.8	2.3	-	-
Private debt, loans and debt securities/GDP	%	176.2	168.3	152.2	137.1	130.6	-	-	-

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 2025

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	July 24, 2026
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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