



ISSUER RATING
LongTerm

OUTLOOK
Positive

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Rating Action and Rationale

EthiFinance Ratings affirms the long-term rating of the Republic of Portugal at A- and revises the outlook to Positive from Stable.

The outlook revision reflects a structural improvement in the sovereign’s credit profile, primarily supported by fiscal consolidation and a sustained reduction in public debt, which enhance the government’s capacity to meet its financial obligations over the medium term.

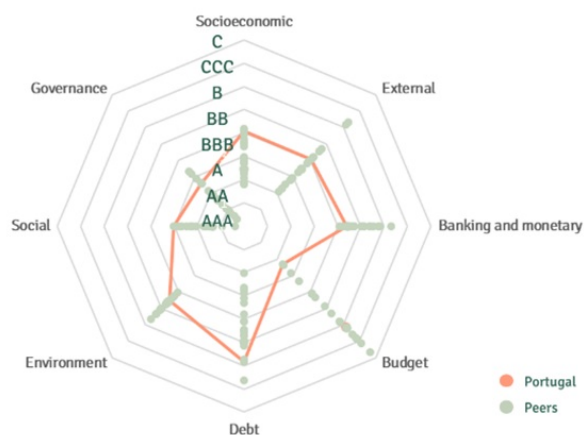
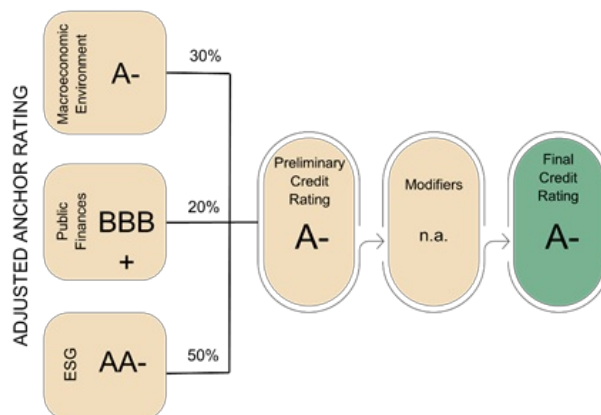
In particular, public debt declined to 91.3% of GDP in 2025, from 94.9% in 2024 and 97.9% in 2023, consolidating a significant deleveraging trajectory. Projections point to a continued decline to 89.2% in 2026 and around 88% in 2027.

At the same time, the fiscal balance has moved toward equilibrium, reaching 0.0% of GDP in 2025, following surpluses of 0.5% in 2024 and 1.2% in 2023. This dynamic reflects a meaningful improvement in structural revenue generation capacity and expenditure control, reducing the need for additional financing.

However, the rating remains constrained by the still elevated level of debt in absolute terms and by moderate potential growth, which limits further improvement in the credit profile.

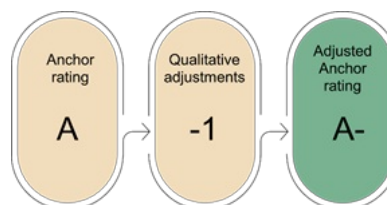
The final rating of A- is determined by combining a BBB+ macro-fiscal pillar and an AA- ESG pillar under the methodological matrix (after applying the double-entry table cap) with no modifiers applied..

Figure 1: Deriving the credit rating



Macroeconomic Environment Pillar

The macroeconomic subpillar is assessed at A- reflecting an economy that maintains a reasonable degree of stability, although its growth potential remains structurally constrained, yet gradually improving.



In this regard, real GDP growth stood at 1.9% in 2025, in line with 1.9% in 2024, but below 2.5% in 2023, confirming the normalization of the economic cycle. Forecasts point to a modest increase to 2.1% in 2026, followed by a moderation to 1.8% in 2027. This growth pattern is broadly aligned with estimated potential output, but it limits debt reduction through the denominator effect and reinforces the importance of fiscal discipline as the primary anchor of the credit profile.

Similar to its European peers, Portugal has been affected by the deterioration in the international environment stemming from the ongoing conflict in the Middle East. Although Portugal's direct trade exposure to Iran is negligible, its status as a net energy importer implies high sensitivity to external shocks, particularly given the global energy shock triggered by the conflict, which pushed Brent prices above USD 100–110 per barrel, increasing energy costs across Europe.

As a result, the Bank of Portugal has revised down its 2026 growth forecast to around 1.8%, reflecting the combined impact of higher energy prices and tighter financial conditions. Nevertheless, EthiFinance Ratings notes that direct physical exposure to supply disruptions remains limited due to diversified sourcing. Therefore, the impact is primarily price-driven rather than volume-driven, mitigating the risk of severe supply disruptions.

The energy shock also carries inflationary implications. After moderating to 2.3% in 2025, inflation is expected to rise to around 2.8% in 2026, driven by higher energy prices (versus previous forecast of 2%). While this increase remains contained, it could weigh on domestic consumption through reduced household purchasing power. EthiFinance Ratings expects this to be a temporary shock, with inflation normalizing toward 2.0% in 2027.

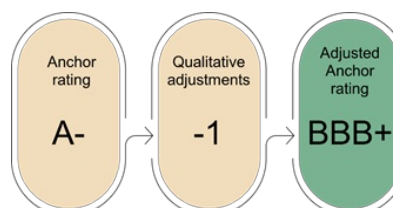
At the same time, other macroeconomic fundamentals continue to support stability. GDP per capita reached EUR 28,515 in 2025, with a forecast of EUR 29,525 in 2026, although it remains below the euro area average, limiting structural revenue capacity. The labor market remains robust, with an unemployment rate of 6.0% in 2025, supporting fiscal revenues and reducing pressure on social spending.

The banking sector stands out for its stability. The non-performing loan (NPL) ratio is around 2.3%, well below sovereign crisis levels, while profitability (ROA) remains in close to 1.3%. This improvement significantly reduces contingent liability risks for the sovereign.

In line with our methodology, we have adjusted the anchor rating down by one notch due to the size of the economy and the fact that GDP growth remains below its potential.

Public Finance Pillar

The public finance pillar is assessed at BBB+, representing the main driver of improvement in the sovereign's credit profile.



Portugal has achieved significant fiscal consolidation in recent years. The balanced budget in 2025 (0.0% of GDP) reflects an enhanced ability to finance public expenditure without increasing debt, directly improving fiscal sustainability.

The decline in public debt to 91.3% of GDP in 2025, with projections of 89.2% in 2026 and around 88.2% in 2027, is a key factor underpinning the rating. It is important to note that lower debt levels reduce exposure to interest rate

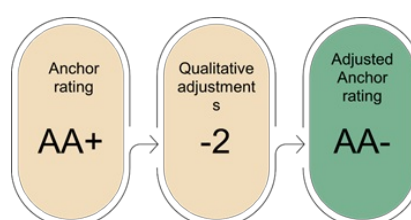
shocks and improve access to financing under favorable conditions.

Debt servicing costs remain contained, with interest payments at around 4.9% of revenues in 2025, although they are expected to rise to 5.3% in 2026, reflecting the lagged impact of a higher interest rate environment. However, it should be noted that part of the fiscal improvement remains supported by nominal growth and cyclical factors, introducing some uncertainty regarding its sustainability in a lower-growth environment.

Following our methodology, we have adjusted the anchor rating down by one notch because, although the debt is improving, it is still well above EU limits. We do not expect this situation to improve in the short term.

Environmental, Social and Governance (ESG) Pillar

The ESG pillar is assessed at **AA-**, representing a key structural support to the rating, reflecting a strong institutional framework, high levels of social cohesion, and continued progress in the energy transition.



From a governance perspective, Portugal demonstrates strong performance in international comparisons, with high scores in regulatory quality, government effectiveness, and rule of law. This positioning reduces uncertainty in economic policymaking and enhances sovereign credibility in financial markets, serving as a key component in the assessment of willingness to pay.

In this context, the **2026 presidential elections** broadly reinforce institutional stability. The decisive victory of António José Seguro (around **66–67% in the second round**) over André Ventura highlights the political system’s capacity to generate broad majorities around moderate options, even in a context of increasing parliamentary fragmentation. From a credit perspective, this outcome reduces the risk of institutional drift or abrupt shifts in economic policy direction.

At the same time, the electoral process—featuring a second round for the first time in decades—demonstrated strong voter mobilization and a significant consolidation of centrist support, albeit alongside increasing political fragmentation and polarization. While Portugal’s institutional framework—particularly the moderating role of the presidency—acts as a buffer against these risks, the growing presence of disruptive political forces may complicate the implementation of structural reforms, particularly in areas such as productivity, labor markets, and long-term fiscal sustainability.

From a social standpoint, Portugal displays indicators consistent with advanced economies, with sustained improvements in employment, social cohesion, and access to public services. The low unemployment rate (**6.0% in 2025**) supports internal stability and fiscal sustainability by limiting social spending pressures and sustaining the tax base. However, structural challenges persist, including population aging and moderate productivity growth, which may generate additional fiscal pressures over the medium term, particularly in pensions and healthcare.

On the environmental front, Portugal benefits from a relatively favorable positioning within Europe, supported by a high share of renewable energy in its energy mix. However, the recent energy shock linked to the Middle East conflict highlights that this structural advantage does not eliminate dependence on energy imports. Despite progress in renewables, the economy remains sensitive to fluctuations in global energy prices, introducing volatility in inflation, external balances, and growth. Additionally, physical risks associated with climate change—including extreme weather events—and transition-related costs remain relevant factors that could have fiscal implications over the medium term.

Modifiers

No modifiers have been applied in this analysis, as no extraordinary events with an immediate impact on the sovereign’s credit quality have been identified.

Main Figures

Indicator	2023	2024	2025e	2026f	2027f
Real GDP (%)	2.5	1.9	1.9	2.1	1.8
GDP per capita (€)	25,328	27,126	28,515	28,525	30,880
CPI(%)	5.3	2.7	2.3	2.8	2.0
Unemployment rate (%)	6.5	6.5	6.0	5.9	5.9
Dependence Ratio (%)	58.3	58.5	58.5		
NPL(%)	3.5	3.2	3.0		
ROA (%)	1.28	1.38	1.35		
Current Account Balance (%)	0.6	2.1	1.2	1.2	0.8
NIIP (% GDP)	-76.0	-58.3	-52.7		
Fiscal Balance (% GDP)	1.2	0.5	0.0	-0.3	-0.5
Public Debt (%GDP)	97.9	94.9	91.3	89.2	88.2
CO2 Emission per capita	4.8	4.8			
Consumption of Renewable Energy	35.1	36.3			
Human Development Index	0.89				
GINI Index	33.7	31.9	30.9		
Governance Indicators (average)	90.6	89.8			

Fundamentals

Strengths

- Sustained fiscal consolidation, with a balanced budget in 2025 (0.0% of GDP) following consecutive surpluses.
- Clear and credible downward trajectory in public debt, declining to 91.3% of GDP in 2025 and projected to fall below 90% in the near term.
- Strong institutional framework and governance quality, reinforced by EU and euro area membership.
- Resilient banking sector, characterized by low NPL ratios (~2%), stable profitability, and limited contingent liability risks for the sovereign.
- Solid ESG profile, particularly in governance and the relatively high penetration of renewable energy.

Weaknesses

- Public debt remains elevated in absolute terms relative to similarly rated sovereigns.
- Moderate potential growth, limiting the speed of debt reduction through economic expansion.
- Structural constraints, including low productivity and adverse demographic trends.
- Continued reliance on imported energy, exposing the economy to external price shocks.
- Increasing political fragmentation, which may weigh on policy effectiveness and reform implementation over time.

Outlook

The Positive outlook reflects the expectation that the downward trajectory of public debt will continue and consolidate in the short term, in addition to fiscal balance stability, strengthening the sovereign's credit profile. However, an upgrade will depend on the ability to sustain this trajectory in a context of moderate growth and elevated external uncertainty.

Sensitivity Analysis

Detailed below are the factors that individually or collectively would impact Portugal's rating:

Positive factors (↑).

As reflected through the current positive outlook, an upgrade could occur if public debt continues to decline sustainably below 90% of GDP and fiscal balance is maintained. In addition, sustained economic growth in line with or above potential would further support an upward rating action.

Negative factors (↓).

Conversely, a more pronounced economic slowdown, a reversal of fiscal consolidation, or a sustained increase in financing costs could exert downward pressure on the rating.

Rating Committee

The Rating Committee has approved affirming the current rating with a change in the outlook from stable to positive. Topics discussed by the committee included macroeconomic and monetary forecasts, fiscal consolidation, the governance situation after the presidential elections and other issues in the context of current geopolitical uncertainty.

Sources of information

The credit rating issued in this report is unsolicited. The main sources of information used are the following:

1. Public information from public access sources, mainly official statistics institutes, central banks, and other government sources, in addition to the OECD, Eurostat, World Bank, European Central Bank and International Monetary Fund, among others.
2. Own information of EthiFinance Ratings.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
 - Sovereign Rating Methodology : https://files.qivalio.net/documents/methodologies/CRA_157_V2_Sovereign-Rating-Methodology.pdf
- The rating scale used in this report is available at <https://www.ethifinance.com/en/ratings/ratingScale>.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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