



ISSUER RATING
LongTerm

OUTLOOK
Stable

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Rating action and Rationale

EthiFinance Ratings affirms the Republic of Portugal's unsolicited long-term rating at A-, maintaining its Stable outlook.

The rating is based on Portugal's balanced macroeconomic performance, prudent fiscal performance, and stable institutional environment. The main limiting factor continues to be the high level of public debt, which remains above the euro area average despite gradual fiscal consolidation.

Economic activity is projected to grow by 1.7% in 2025 and 2.0% in 2026, following growth of 1.9% in 2024. The short-term outlook reflects moderate domestic demand and a slowdown in external trade, partially offset by ongoing investment supported by EU Recovery and Resilience funds. Fiscal indicators remain consistent with the government's medium-term objectives. Portugal continues to record primary surpluses, maintains favourable financing conditions, and benefits from an average debt maturity of 7.4 years. However, public debt increased in absolute terms, reaching €312 billion in August 2025, and remains close to 93% of GDP, limiting fiscal flexibility.

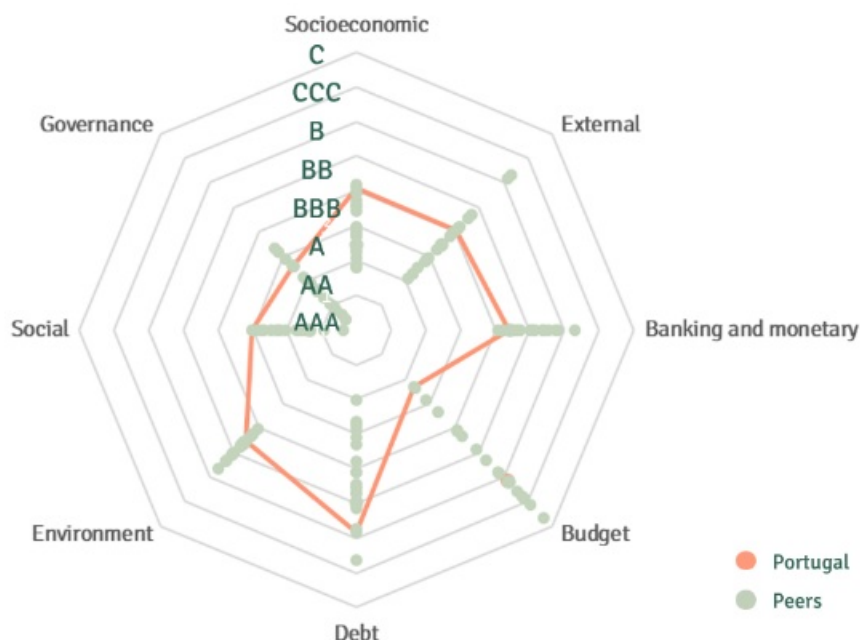
The financial sector remains stable, supported by adequate capitalisation, declining non-performing loans (2.3%) and adequate profitability (ROA of 1.4%).

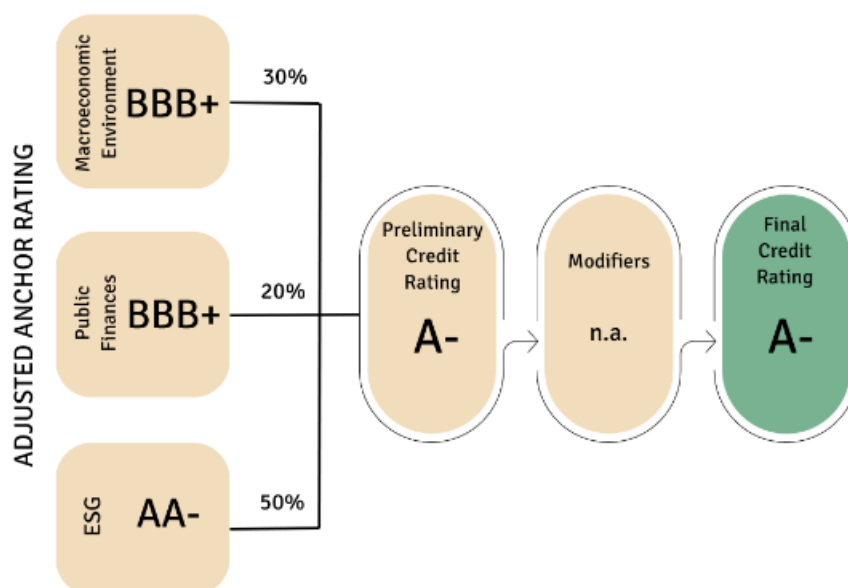
The ESG profile, assessed at AA-, reflects institutional stability, social cohesion and the ongoing implementation of the national climate and energy transition strategy.

The combination of BBB+ macro-fiscal anchors with a AA- ESG assessment, as determined by EthiFinance's double-entry table, results in a final rating of A-.

Figure 1: Deriving the credit rating

Figure 2: Anchor rating by sub-pillar.





Macroeconomic Environment Pillar

The BBB+ anchor rating assigned to this pillar remains aligned with Portugal's favourable macroeconomic environment, although it has been negatively adjusted to reflect the weaker-than-expected performance in the first quarter of 2025, partially improved during the second quarter.

After expanding by 1.9% in 2024, EthiFinance Ratings now projects GDP growth of 1.7% in 2025, below the 2.3% considered in our April review, before stabilising at 2.0% in 2026. Growth continues to rely on solid private consumption, a dynamic tourism sector, rising foreign investment, and the effective execution of EU Recovery and Resilience Facility funds.

The global outlook to 2026 remains fragile although improving, with world growth expected to slow from 3.3% in 2024 to around 3.1% according to IMF, amid persistent geopolitical uncertainty and a renewed rise in protectionist policies. For an open economy such as Portugal—where exports account for nearly half of GDP—these headwinds represent a material downside risk. The Bank of Portugal estimates that the new tariff regime could reduce GDP growth by between 0.7% and 1.1% over the next three years, reflecting both the direct impact on exports and indirect effects through European supply chains.

The EU-U.S. trade agreement reached on 27 July 2025, which introduced a uniform 15% tariff on most European products, helped avert more punitive measures but still affects several Portuguese industries, including non-metallic minerals, electronics and wine, while pharmaceuticals and cork remain exempt.

To mitigate the impact, the government launched the *"Reforçar – Competitividade, Exportação e Internacionalização"* programme, mobilising more than €10 billion through credit lines, export incentives and insurance schemes. By August 2025, over 14,000 applications had been submitted, with a large portion already approved and disbursed. These measures, together with strong domestic demand and a resilient tourism sector, have limited the macroeconomic damage of the tariffs.

The banking sector remains stable. Portuguese banks continue to strengthen their balance sheets, supported by healthy profitability and sound capital levels. The non-performing loan ratio declined further to 2.3%, reflecting improved asset quality, while return on assets (ROA) remains in the 1.4%. Banks have continued deleveraging, with household and corporate debt now below 165% of GDP, enhancing the system's resilience to interest rate fluctuations. Credit growth remains moderate but supported by improved liquidity and the gradual easing of monetary conditions following the ECB's latest rate cuts. At EthiFinance Ratings we do not foresee any additional interest cut by the ECB in the following months.

Finally, Portugal maintains a robust labour market, with unemployment expected to average 6.3% in 2025 and 6.1% in 2026, supporting consumption and fiscal stability. Inflation has eased towards the ECB's 2% target, while the Bank of Portugal remains credible and aligned with the common monetary stance.

Overall, Portugal's macroeconomic fundamentals remain resilient, combining moderate growth, external balance, and a sound financial system. Yet, high private indebtedness and strong dependence on tourism constrain upward

momentum, supporting the maintenance of the BBB+ rating for this pillar.

Public Finance Pillar

The BBB+ anchor rating assigned to this pillar reflects Portugal's continued fiscal prudence and effective debt management, counterbalanced by the persistence of a high and only slowly declining public debt burden, which remains the country's main credit constraint.

Portugal continues to display strong fiscal discipline, maintaining recurrent primary surpluses and balanced budgets underpinned by prudent expenditure execution and sustained revenue collection. Fiscal policy remains broadly aligned with the EU's medium-term objectives, and the government has reaffirmed its commitment to gradual debt reduction over the coming years.

Nevertheless, public debt has increased in absolute terms, reaching €312.4 billion in August 2025 under the State Direct Debt definition. While this reflects the impact of temporary support measures and pre-funding operations, it also illustrates the difficulty of translating fiscal surpluses into faster debt reduction amid modest nominal growth and higher interest costs. The debt-to-GDP ratio remains close to 92%, one of the highest among euro area sovereigns with similar ratings, and continues to represent the principal constraint on Portugal's credit profile.

The debt structure remains robust and prudently managed. Long-term Portuguese Government Bonds (OTs) form the core of the funding strategy, complemented by retail savings instruments and short-term Treasury Bills, which together provide a stable and diversified investor base. Official loans related to the EU-IMF and EU facilities represent about €57 billion, ensuring predictability in financing conditions.

Portugal's debt maturity profile continues to improve. The average residual maturity stands at 7.4 years, one of the longest in the euro area, while short-term maturities account for less than one-fifth of total medium- and long-term debt. This strategy mitigates refinancing risk and provides insulation from market volatility.

In terms of cost, the average interest rate on the debt stock rose slightly to 2.0% in 2025, compared with 1.7% in 2024, while the cost of new issuances increased more sharply to 3.4%, reflecting the tighter monetary environment. Although financing costs have risen, the Treasury's proactive liability management and long-duration issuance strategy continue to limit the budgetary impact.

EthiFinance Ratings views the fiscal outlook as broadly stable. The combination of structural budget surpluses, declining debt to GDP ratios, and robust market access supports the BBB+ anchor rating assessment to this pillar.

Environmental, Social and Governance Pillar

The AA- anchor rating assigned to this pillar reflects Portugal's favourable ESG profile, supported by strong institutional quality, low social vulnerability and a credible environmental transition strategy in line with EU objectives.

Portugal continues to progress toward the objectives set in its National Energy and Climate Plan (NECP 2030) and the European Green Deal, with a commitment to achieve carbon neutrality by 2050 and to reduce greenhouse gas emissions by 55% by 2030 relative to 1990 levels. According to the indicators considered in EthiFinance's methodology, CO₂ emissions per capita have declined steadily to around 4.8 metric tons, remaining below the EU average, while the share of renewable energy in total final consumption exceeds 35%.

The country also maintains one of the highest proportions of protected natural areas in Southern Europe (approximately 22% of total land area). However, exposure to physical climate risks, including droughts and wildfires, remains material, and decarbonisation in the transport and industrial sectors is progressing more slowly. Future progress will depend on the continuity of investment and the effective use of Recovery and Resilience Facility funds for green infrastructure and energy efficiency.

Portugal's social indicators continue to support the sovereign's credit profile. The Human Development Index (HDI) stands at 0.89, among the highest globally, while the Gini coefficient remains low at 32.0, reflecting moderate income inequality. Vulnerable employment accounts for roughly 10% of total employment, below pre-pandemic levels, and the female-to-male labour participation ratio continues to improve, reaching 0.90 in 2025. These metrics, combined with comprehensive public healthcare and education systems, demonstrate strong social inclusion and contribute to stable domestic demand.

The governance component remains robust despite a more fragmented political landscape. The current government was formed after the early elections of 18 May 2025, which produced a minority administration led by Prime Minister Luís Montenegro of the Democratic Alliance (AD). The AD obtained 91 of 230 seats, while Chega became the second-largest parliamentary force with 60 seats, ahead of the Socialist Party (PS) with 58. The government operates without a formal majority but has benefited from broad institutional continuity, as confirmed by the parliamentary approval of its programme in June 2025 and the positive outcome of the October 2025 municipal elections, which strengthened the position of the PSD at the local level. The commitment of both PS and Chega not to systematically block legislation, and the constitutional impossibility of calling new elections before mid-2026, provide a temporary period of political stability.

EthiFinance's governance indicators—covering rule of law, government effectiveness, regulatory quality, voice and accountability, control of corruption and political stability—remain well above the global median. Nonetheless, the rise of anti-establishment sentiment and the recurrence of corruption allegations against former administrations indicate a gradual erosion of public trust. The government's capacity to maintain reform momentum and administrative efficiency will be key to preserving governance strength in the medium term.

Modifiers

For this credit analysis, we have not applied any modifiers as no extraordinary situations with immediate impact on the sovereign credit situation have been identified.

Main Figures

	2020	2021	2022	2023	2024	2025E
Real GDP (% change)	-8.2%	5.6%	7.0%	2.5%	1.9%	1.7%
GDP per capita (current, €)	19,358	20,801	23,203	25,328	26,725	27,797
CPI (annual change, %)	-0.1%	0.9%	8.1%	5.3%	2.7%	2.3%
Unemployment rate (% labor force)	7.1%	6.7%	6.2%	6.5%	6.5%	6.2%
Dependence ratio (<19 and >65 y/20-64 y)	56.6%	57.3%	57.9%	58.3%	58.5%	
NPLs	4.9%	3.7%	3.0%	2.7%	2.4%	2.3%
ROA (financial sector)	0.1%	0.5%	0.7%	1.3%	1.38%	-
Current Account Balance (% GDP)	-1.0%	-0.8%	-1.1%	1.4%	2.2%	1.5%
NIIP (% GDP)	-102.1%	-99.2%	-87.6%	-76.0%	-58.3%	-57.8%
Fiscal Balance (% GDP)	-5.8%	-2.9%	-0.3%	1.2%	0.7%	0.1%
Public Debt (% GDP)	134.9%	124.5%	112.4%	97.9%	94.9%	91.7%
CO2 emissions per capita	5.3	5.0	5.3	4.8	-	-
Consumption of Renewable Energy	33.9%	33.9%	34.7%	35.1%	-	-
Human Development Index	86	86	87	89	-	-
Gini Index	31.2	33.0	32.0	33.7	31.9-	-
World Governance Indicators	81.7	80.9	80.1	80.1	-	-

Fundamentals

Strengths

- Sustained fiscal discipline and effective debt management, reflected in recurrent primary surpluses, a long average debt maturity (7.4 years) and contained refinancing risks.
- Resilient macroeconomic framework, supported by solid private consumption, a strong tourism sector and a positive external balance.
- Stable and profitable banking system, with declining non-performing loans (2.3%) and improved profitability

(ROA 1.4%), reinforcing financial stability.

- Robust institutional and social framework, characterised by strong governance, low inequality (Gini 32) and high human development (HDI 0.87).

Weaknesses

- High public debt burden, near 92% of GDP and rising in absolute terms, remains the main constraint on Portugal's credit profile.
- Moderate growth potential, with GDP growth below 2% and dependence on tourism and EU funds for investment momentum.
- Political fragmentation and limited parliamentary majority, which may slow reform implementation and increase policy uncertainty.
- Exposure to global trade tensions and protectionist measures, with potential spillover effects on export-oriented industries and external demand.

Outlook

Our Stable outlook is based on our expectation that the rating fundamentals will remain broadly unchanged over the next 12 months. There are several areas with positive trends, particularly fiscal metrics, with the country achieving budget surpluses and a declining debt ratio. In addition, steady economic growth and resilient employment levels reinforce Portugal's socioeconomic profile. However, there are potential global developments which could lead to renewed upward pressure on inflation.

Sensitivity Analysis

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

Positive factors (↑).

The credit rating and/or outlook could be upgraded if economic growth exceeds expectations, surpassing its potential rate over 2.2% in the medium term and facilitating convergence of GDP per capita toward the EU average. Additionally, sustained inflation around the ECB's 2% target would further support an upgrade. On the fiscal front, maintaining fiscal surpluses that reduce debt levels closer to the 60% threshold would be a positive factor. Finally, continued political cohesion, with agreements among different political parties to help ensure the implementation of key measures and maintain government stability, would also bolster the rating.

Negative factors (↓).

The credit rating and/or outlook could be downgraded if the risk factors - such as a renewed rise in inflation- leading to sustained below-potential growth and negatively affecting other key rating fundamentals like the labor market, external sector, and public finances - intensify. Moreover, any move away from fiscal responsibility, with the return of deficits in the fiscal balance that lead to the debt level rising above 100% of GDP, could also negatively impact the rating.

Rating Committee

The rating committee has agreed to affirm the unsolicited credit rating of Portugal. The main topics discussed during the committee have been macroeconomic forecasts, fiscal stability, public debt trajectory and the government situation, among others.

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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