Portuguese Republic

Rating report

Rating rationale

Fiscal discipline and debt reduction: Portugal has achieved substantial progress in reducing public debt, with the debt-to-GDP ratio declining from 134.1% in 2020 to 94.9% in 2024, supported by high primary surpluses and prudent fiscal management. Debt levels are projected to decrease further, albeit at a slowing rate, to around 84% by 2027 and 75% by 2030, driven by resilient economic growth and fiscal discipline despite budgetary challenges from rising social benefit costs and initiatives to support the income of families and companies.

Economic resilience and structural improvements: Portugal's economic growth remains robust, outpacing the euro area average, with GDP growth forecasted at 2.1% in 2025 and 1.9% in 2026. Labour market improvements, tax incentives to retain young talent, and investments from the Recovery and Resilience Plan bolster domestic demand and enhance economic stability.

External position and energy transition: Portugal's external position has improved, with net external debt declining to around 44% of GDP in Q4 2024, alongside a modest current account surplus. The high and growing share of renewable energy in production is reducing import dependence and bolstering the energy trade balance, reflecting structural advancements in Portugal's energy sector. Efficient use of EU funds further strengthens Portugal's economic resilience and sustainability.

Rating challenges include: i) an elevated, albeit declining stock of public debt; ii) limited growth potential reflecting ageing demographic trends, impacting the labour force and public spending, as well as low productivity; and iii) vulnerability to shocks given the small, open economy and its high reliance on foreign capital compared to peers.

Figure 1: Portugal's sovereign-rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk		35%	aa-	EUR [+1]	Portugal [-0]	- 1/3	A
Public finance risk		20%	aa			0	
External economic risk		10%	b+			- 1/3	
Financial stability risk		10%	aaa			- 1/3	
ESG risk	Environmental factors	5%	a+			0	
	Social factors	7.5%	b-			- 1/3	
	Governance factors	12.5%	aa+			- 1/3	
Sovereign Quantitative Model		**aa-**				**-2**	
Additional considerations						**0**	

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.
**The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.
***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's Sovereign Rating Methodology.

Foreign currency

Long-term issuer rating/Outlook
A/Stable

Senior unsecured debt
A/Stable

Short-term issuer rating/Outlook
S-1/Stable

Local currency

Long-term issuer rating/Outlook
A/Stable

Senior unsecured debt
A/Stable

Short-term issuer rating/Outlook
S-1/Stable

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Credit strengths and challenges

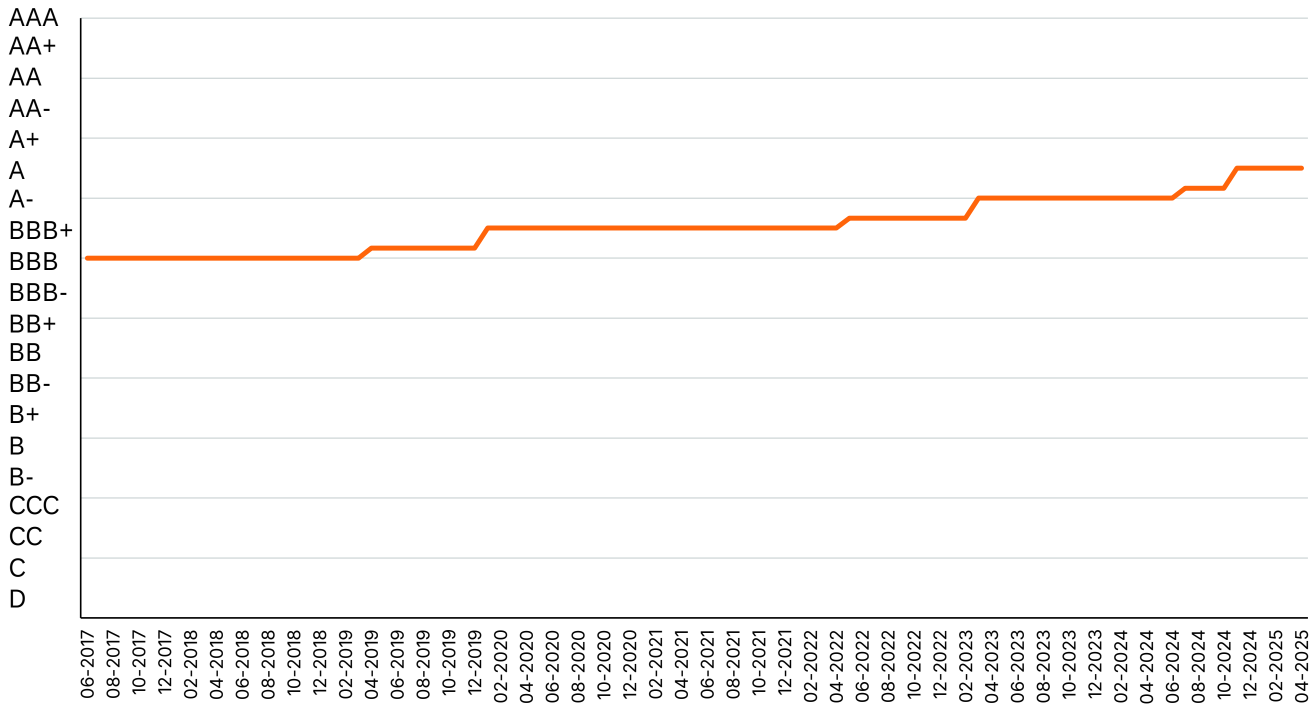
Credit strengths	Credit challenges
• EU membership, improved macro-economic resilience • Strong record of prudent fiscal policy and debt reduction • Favourable public debt profile	• Elevated public debt stock • Moderate growth potential • External vulnerability to shocks, high reliance on foreign capital

Outlook and rating triggers

The Stable Outlook reflects the view that risks for the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
• Greater economic diversification, higher wealth levels, sustained current account surpluses and further improving external position and enhancing economic resilience • Significant reduction in the debt-to-GDP ratio driven by strong fiscal discipline	• Sustained fiscal weakening, reversing progress in debt reduction and undermining the fiscal outlook • Material weakening of GDP growth prospects, for example, driven by stalled structural reforms or declining reform momentum

Figure 2: Rating history



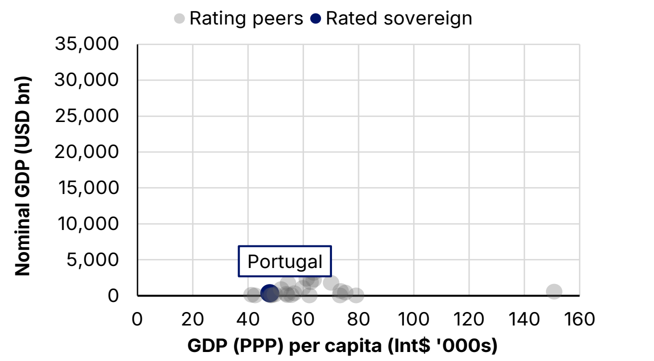
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.
Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Portugal's *Domestic Economic Risk*

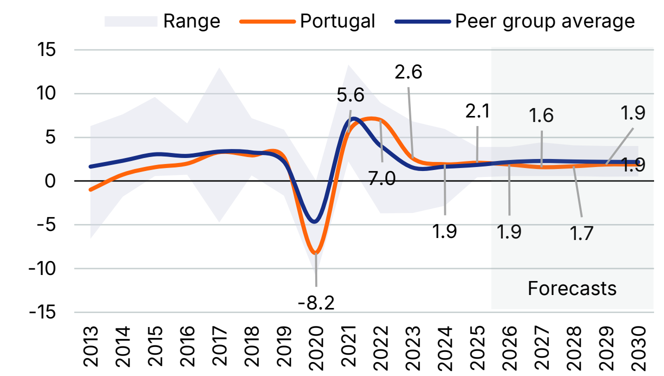
SQM[1] indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Growth potential and outlook	Weak	- 1/3	Modest although improving productivity growth and limited growth potential; wealth gap versus euro area peers
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank over the cycle
	Macroeconomic stability and sustainability	Neutral	0	Improving diversification of the economy, bolstered by significant FDI inflows

Figure 3: Nominal GDP and GDP per capita (2025F)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



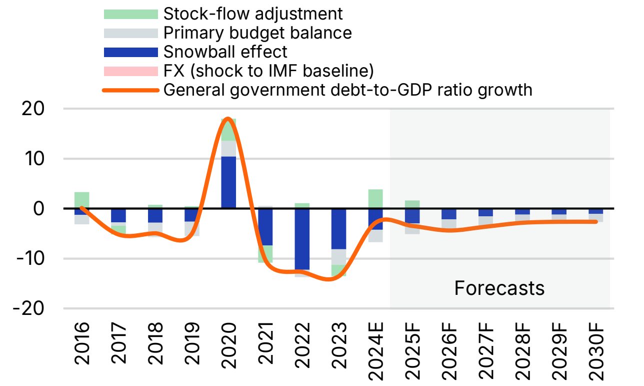
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Portugal's *Public Finance Risk*

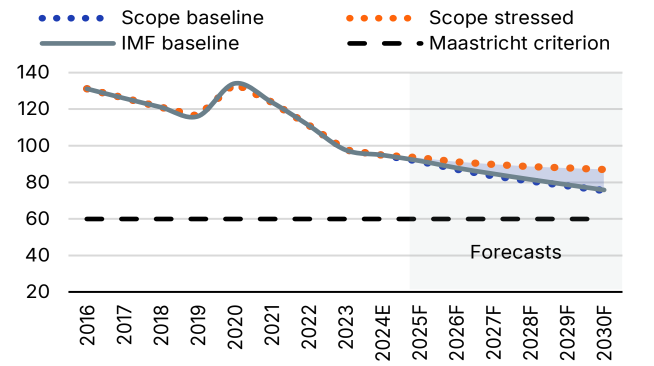
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Strong record of prudent fiscal policy, but lower fiscal surpluses are projected going forward due to the implementation of measures to support growth and increase public sector wages.
	Long-term debt trajectory	Neutral	0	Robust debt dynamics, expected deceleration in declining debt-to-GDP ratio
	Debt profile and market access	Neutral	0	Strong market access in line with peers, high cash buffer and resilient public debt structure

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



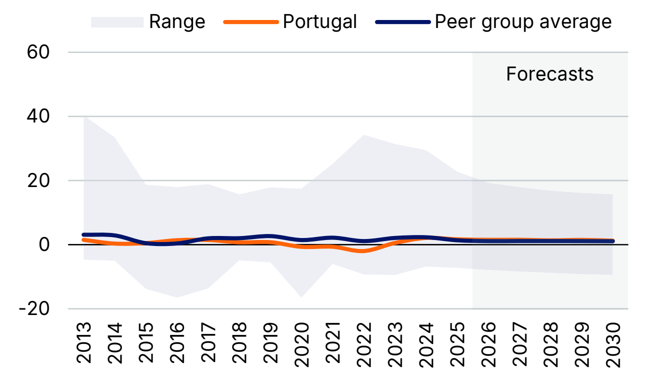
Source: IMF WEO, Scope Ratings forecasts

External economic risk

Overview of Scope's assessments of Portugal's *External Economic Risk*

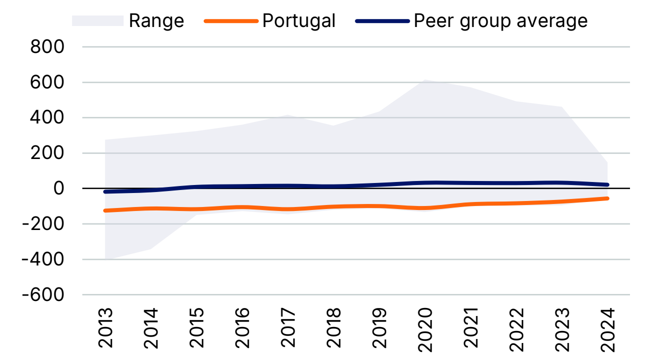
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Current account resilience	Weak	- 1/3	Open economic structure, high reliance on service exports, particularly on tourism
	External debt structure	Neutral	0	Elevated, albeit declining, external debt stock, with meaningful share of government liabilities
	Resilience to short-term external shocks	Neutral	0	Some vulnerability to external economic shocks, although mitigated by euro area membership

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



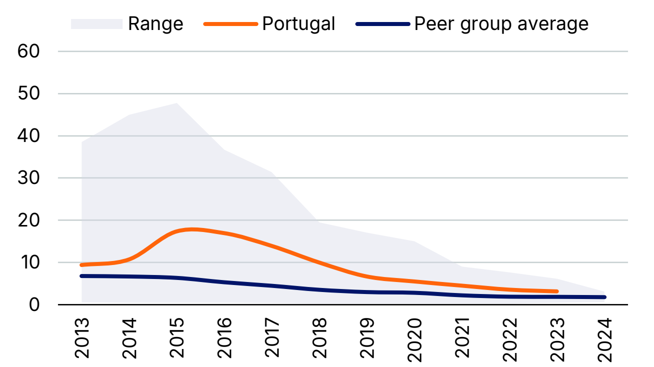
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Portugal's *Financial Stability Risk*

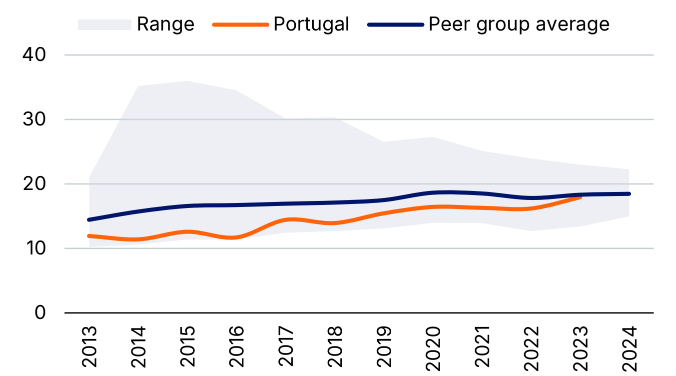
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Banking-system capitalisation remains sound; higher NPL ratio compared to peers
	Financial sector oversight and governance	Neutral	0	Effective oversight under European Banking authorities and Banco de Portugal
	Financial imbalances	Weak	- 1/3	Strong house price growth in recent years, low savings but moderate and declining private indebtedness

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



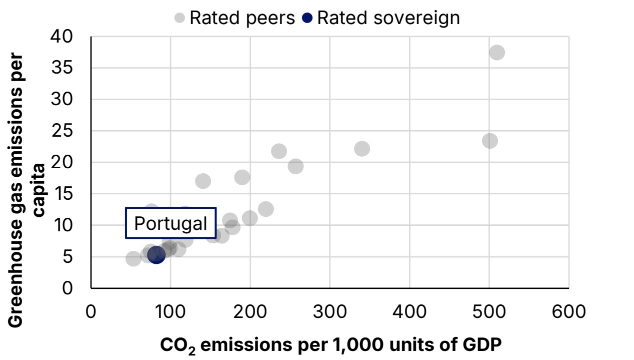
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Portugal's *ESG Risk*

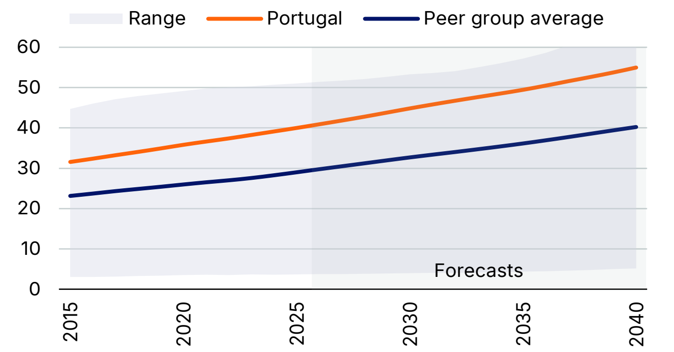
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Environmental factors	Neutral	0	Exposure to natural disasters, ambitious commitment to achieve carbon neutrality by 2050
	Social factors	Weak	- 1/3	Rapidly ageing population with low birth rate; weak quality of job contracts and low wages relative to peers; high income inequality
	Governance factors	Weak	- 1/3	Resilient institutional framework; parliamentary fragmentation and minority government and increasing political instability. Snap elections have been called for May 18, 2025.

Figure 11: CO_2 emissions per capita/GDP (2023), $mtCO_2e$



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

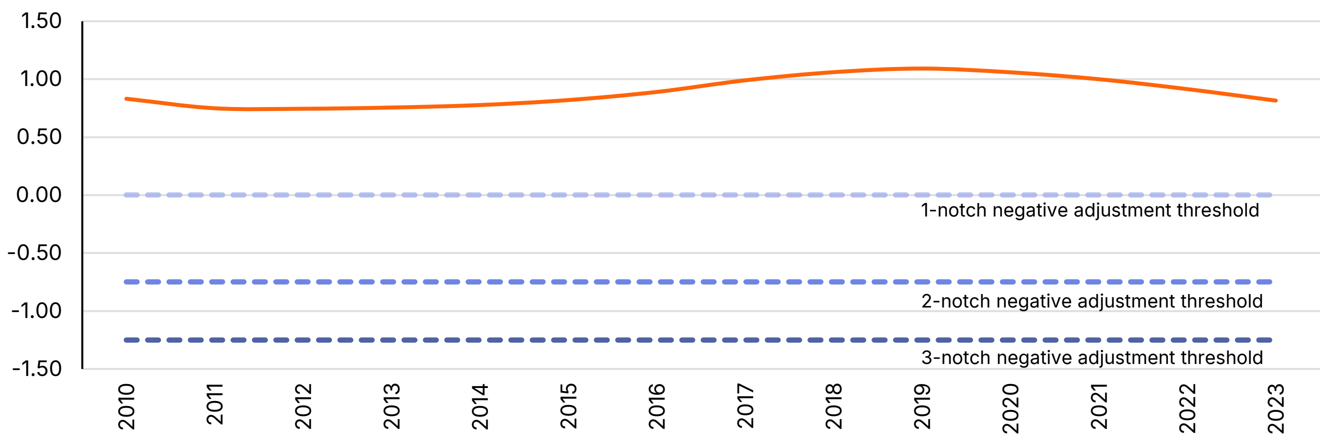
IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	**Euro**	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	**29.3**	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	**1**	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Portugal, three-year moving average



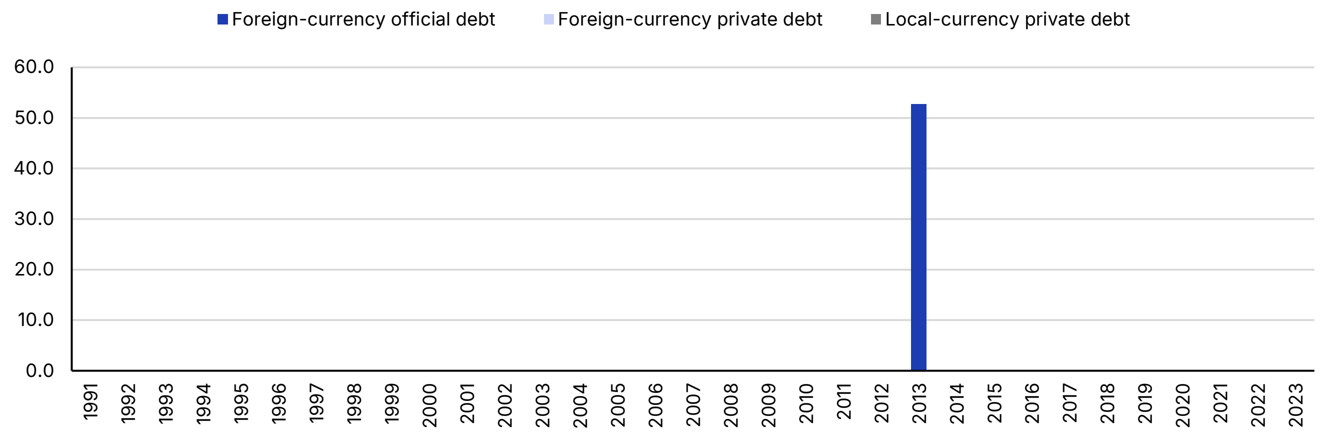
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix 1. Sovereign default history

Sovereign default history, USD bn



Depicted private-debt defaults may not always constitute a credit event under Scope's credit-rating definitions.
Source: Bank of Canada–Bank of England Sovereign Default Database, Scope Ratings.

Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Belgium
Cyprus
Czech Republic
Estonia
France
Japan
Latvia
Spain

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix 3. Economic development and default indicators

IMF Development Classification	Advanced economy
5-year USD CDS spread (bps) as of 16 May 2025	26.5

Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2019	2020	2021	2022	2023	2024
Domestic Economic	**GDP per capita (PPP)**, Int$ '000s	IMF	37.6	35.7	38.7	44.1	46.4	48.0
	Nominal GDP, USD bn	IMF	240	229	256	257	290	309
	Real growth, %	IMF	2.7	-8.2	5.6	7.0	2.6	1.9
	CPI inflation, %	IMF	0.3	-0.1	0.9	8.1	5.3	2.7
	Unemployment rate, %	WB	6.5	6.8	6.6	6.0	6.5	6.4
Public Finance	**Public debt**, % of GDP	IMF	116.1	134.1	123.9	111.2	97.7	94.9
	Net interest payment, % of government revenue	IMF	6.6	6.3	5.1	4.1	4.4	4.2
	Primary balance, % of GDP	IMF	2.9	-3.1	-0.6	1.5	3.1	2.5
External Economic	**Current-account balance**, % of GDP	IMF	0.8	-0.7	-0.7	-2.0	0.6	2.2
	Total reserves, months of imports	WB	2.5	3.5	3.1	2.6	2.7	-
	NIIP, % of GDP	IMF	-99.8	-110.8	-89.0	-83.7	-73.9	-55.9
Financial Stability	**NPL ratio**, % of total loans	IMF	6.7	5.5	4.5	3.5	3.1	-
	Tier 1 ratio, % of risk-weighted assets	IMF	14.8	15.2	16.2	15.7	16.4	17.9
	Credit to the private sector, % of GDP	WB	93.4	104.1	98.8	89.5	81.1	-
ESG	**CO_2 per EUR 1,000 of GDP**, $mtCO_2e$	EC	112.6	107.7	97.5	92.0	82.4	-
	Income share of bottom 50%, %	WID	-	-	-	-	-	-
	Labour-force participation rate, %	WB	75.5	74.2	75.2	76.4	77.7	77.8
	Old-age dependency ratio, %	UN	34.9	35.8	36.6	37.4	38.3	39.1
	Composite governance indicators*	WB	1.0	1.0	1.0	1.0	0.9	-
	Political stability, index	WB	1.1	1.1	1.1	1.0	0.9	0.8

*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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Related research

Sovereign Outlook 2025: Normalising economic fundamentals, rising fiscal pressures and geopolitical uncertainty balance the sovereign outlook, December 2024

Applied methodology

Sovereign Rating Methodology, January 2025

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