

# Portuguese Republic

## Rating report

### Rating rationale

**Core euro area member:** Portugal's euro area membership provides access to a large and integrated market and contributes to the country's resilience to global shocks.

**Enhanced macro-economic stability:** Portugal's macro-economic stability is driven by sustained economic growth, long-term deleveraging, and improved labour market conditions. Despite a high negative net international investment position, the country has seen improvements, including decreased external debt. Structural reforms have attracted FDI, although Portugal's productivity remains relatively low.

**Strong record of prudent fiscal policy and debt reduction:** Portugal has a strong history of prudent fiscal policy and debt reduction. Despite a slowdown of GDP growth and higher interest expenses, Portugal achieved a fiscal surplus of 1.2% of GDP in 2023, reflecting resilient budgetary performance. However, sustaining debt reduction faces challenges, with Scope forecasting a gradual narrowing of budgetary flexibility and continued spending pressures in the medium term, despite expected declines in the debt-to-GDP ratio to 75% by 2029 from 94% in 2024.

**Debt profile and market access:** Portugal's public debt profile reflects resilience and prudent fiscal management, with robust affordability and stability despite a modest rise in debt costs. The country's diversified investor base, frontloaded debt issuance, and substantial cash buffer enhance its fiscal flexibility and resilience against market fluctuations, underscoring its solid financial foundation.

**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; and iii) vulnerability to shocks given the small, open economy and its limited diversification.

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	Portugal	- 1/3	A-	
Public finance risk	20%	aa			1/3		
External economic risk	10%	b-			- 1/3		
Financial stability risk	10%	aa+			0		
ESG risk	Environmental factors	5%			a		0
	Social factors	7.5%			b-		- 1/3
	Governance factors	12.5%	aa+	0			
<b>Sovereign Quantitative Model ****</b>	<b>a</b>			<b>-1</b>			
<b>Additional considerations</b>				<b>0</b>			

\*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. \*\*\*\*The rating committee approved an indicative SQM rating of 'a'. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Foreign currency

Long-term issuer rating/Outlook

A-/Positive

Senior unsecured debt

A-/Positive

Short-term issuer rating/Outlook

S-1/Stable

### Local currency

Long-term issuer rating/Outlook

A-/Positive

Senior unsecured debt

A-/Positive

Short-term issuer rating/Outlook

S-1/Stable

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### Credit strengths and challenges

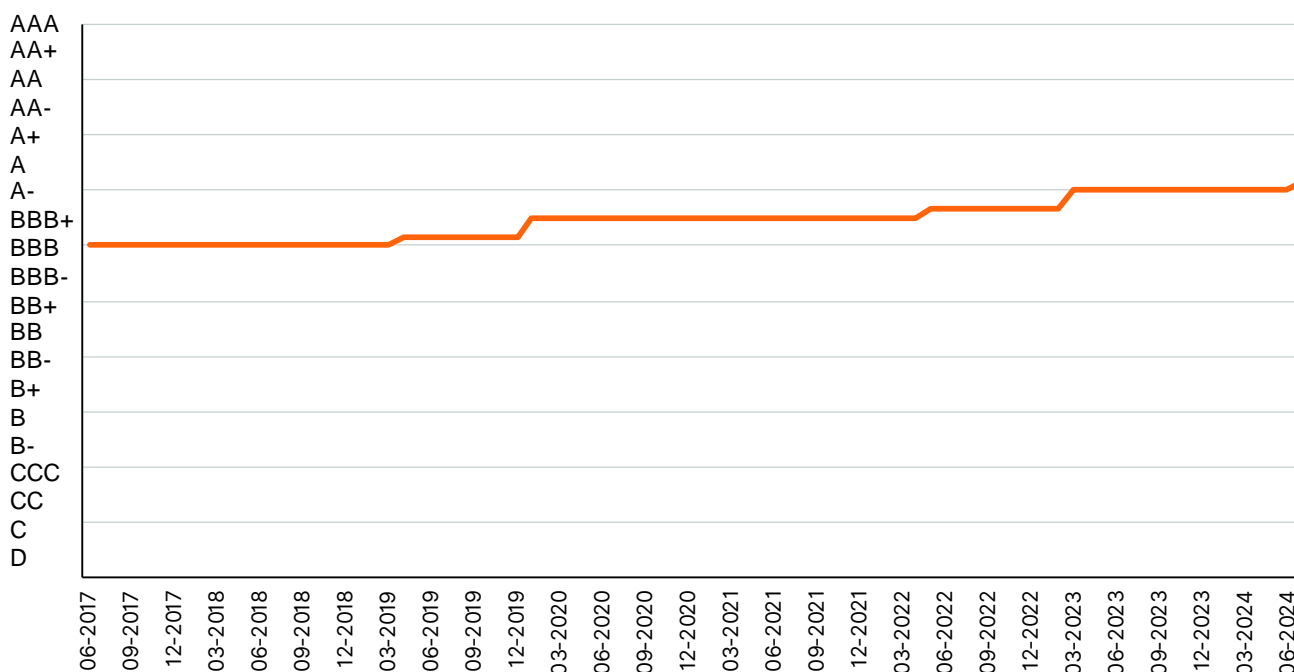
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>• Macro-economic resilience; EU and euro area member</li> <li>• Strong record of prudent fiscal policy and debt reduction</li> <li>• Favourable public debt profile</li> </ul>	<ul style="list-style-type: none"> <li>• Elevated stock of public debt</li> <li>• Moderate growth potential</li> <li>• Vulnerability to shocks as a small open economy</li> </ul>

### Outlook and rating triggers

The Positive Outlook reflects Scope's view that risks to the ratings are skewed to the upside over the next 12-18 months.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>• General government debt continues its downward trend supported by strong budgetary performance</li> <li>• Portugal maintains current account surpluses and further improves its external position</li> </ul>	<ul style="list-style-type: none"> <li>• Protracted fiscal deterioration results in weaker fiscal outlook</li> <li>• GDP growth prospects worsened materially, for instance, due to a fading commitment to structural reforms</li> </ul>

Figure 2: Rating history<sup>1</sup>



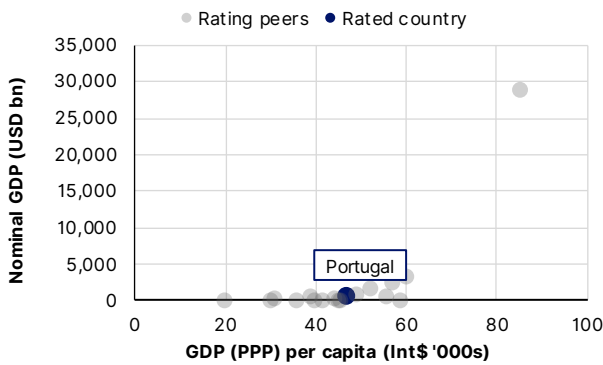
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

### Domestic economic risk

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

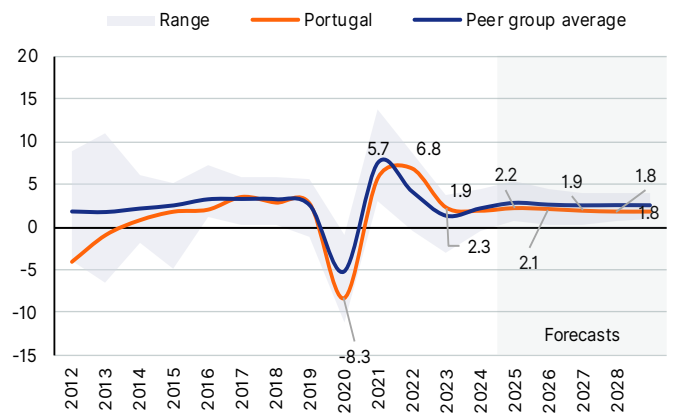
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Growth potential and outlook	Weak	-1/3	Low productivity growth and limited growth potential despite a wealth gap versus euro area peers
	Monetary policy framework	Neutral	0	The ECB is a credible and effective central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

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



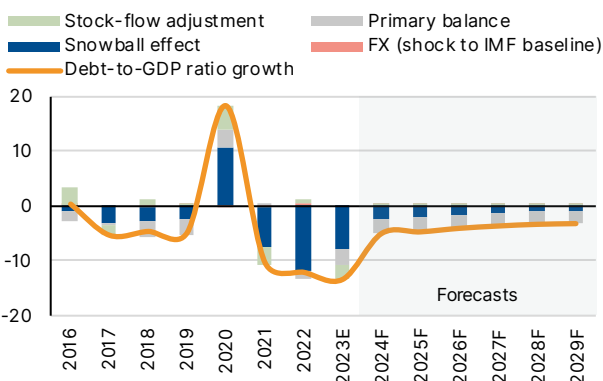
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

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

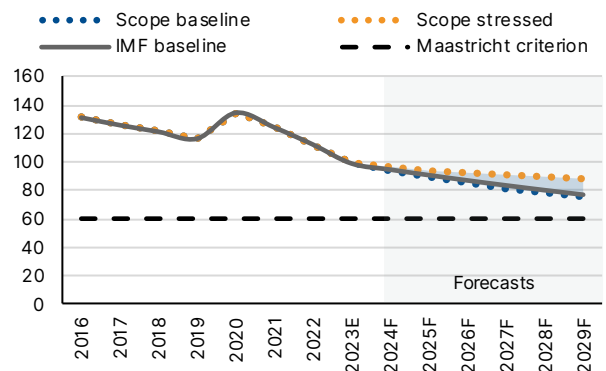
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Strong	+1/3	Strong record of prudent fiscal policy
	Long-term debt trajectory	Neutral	0	Robust debt dynamics, expected deceleration in declining debt-to-GDP ratio
	Debt profile and market access	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

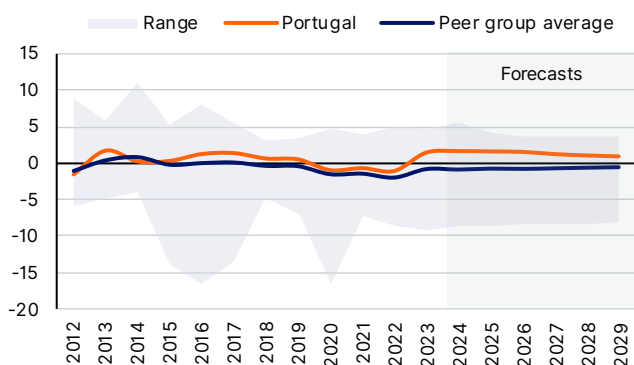
\*Sovereign Quantitative Model.

## External economic risk

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

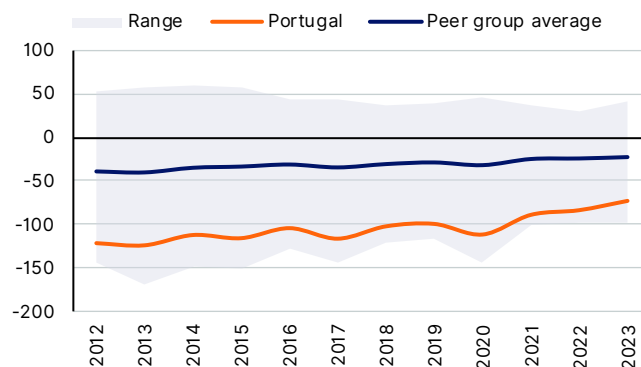
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b-	Current account resilience	Weak	-1/3	Open economic structure, high reliance on service exports, particularly on tourism
	External debt structure	Neutral	0	Elevated, albeit declining, external debt stock, with meaningful shares held by the government and central bank
	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



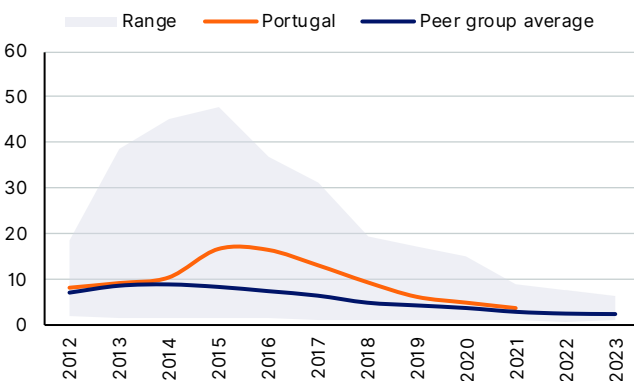
Source: IMF, Scope Ratings

## Financial stability risk

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

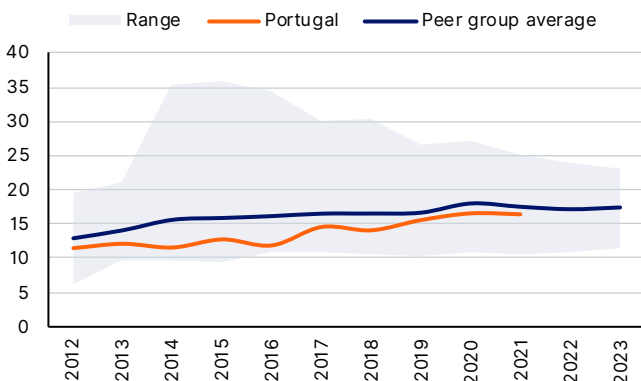
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Banking sector performance	Neutral	0	Banking-system capitalisation remains sound; higher NPL ratio compared to peers
	Financial sector oversight and governance	Neutral	0	Effective oversight under European Banking Union authorities and Banco de Portugal
	Financial imbalances	Neutral	0	Low savings and moderate private indebtedness

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

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



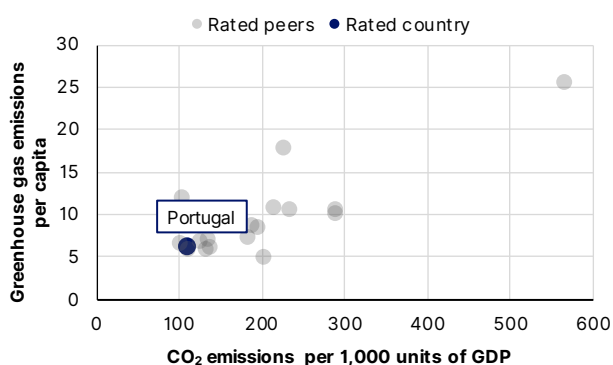
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

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

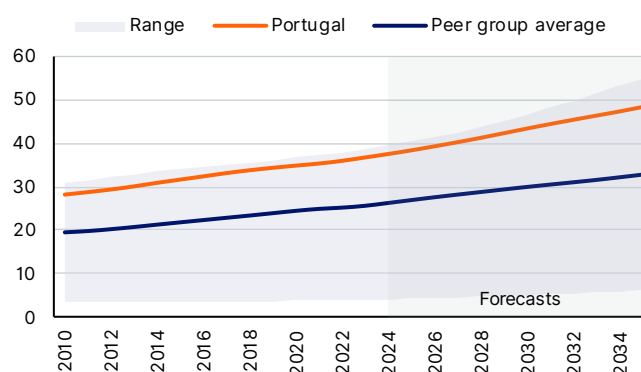
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Environmental factors	Neutral	0	Exposure to natural disasters, ambitious commitment to achieve carbon neutrality by 2050
	Social factors	Weak	-1/3	Rapidly ageing population with low birth rate; weak quality of job contracts and low wages relative to peers; high income inequality
	Governance factors	Neutral	0	Resilient institutional framework

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

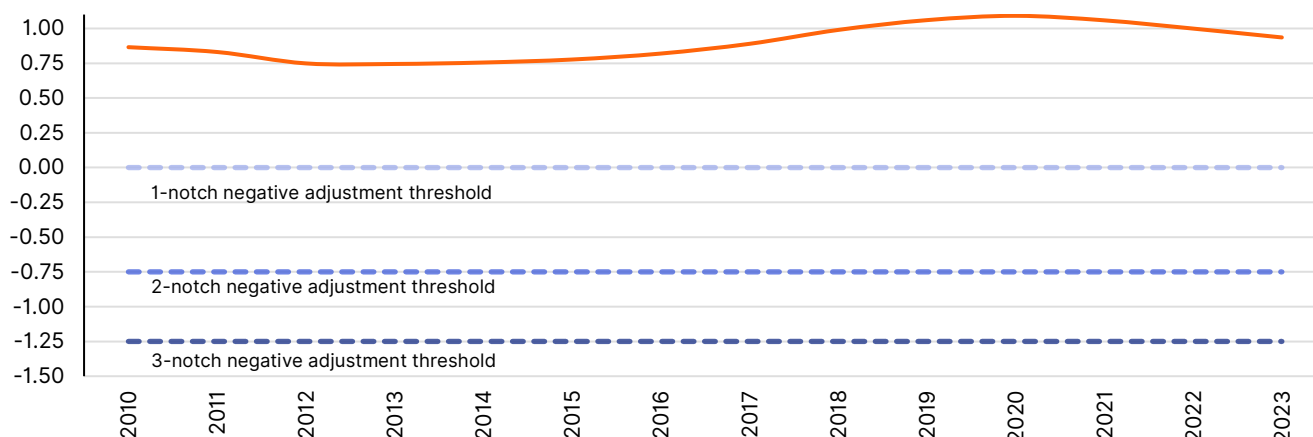
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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 14: WB Political Stability & Absence of Violence/Terrorism index, Portugal, 3-year moving average



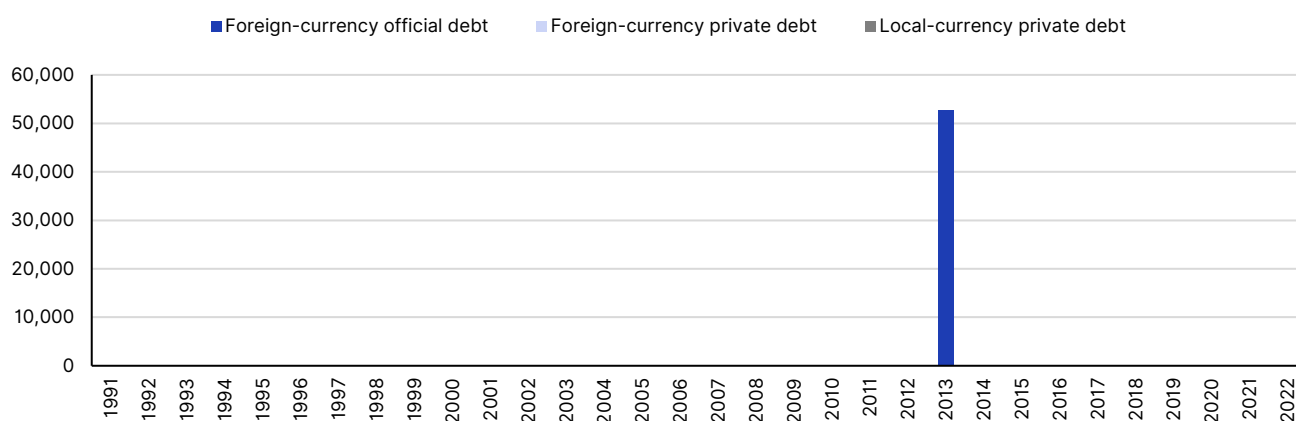
Source: WB, Scope Ratings

### Additional considerations

No adjustment was applied to the rating from additional considerations.

### Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



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 II. 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*
Bulgaria
Cyprus
Croatia
Estonia
Italy
Latvia
Poland
Slovakia
Spain

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

### Appendix III. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bp) as of 23 July 2024

35

## Appendix IV. 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	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	34.9	36.4	33.8	37.4	42.7	45.2
	Nominal GDP, USD bn	IMF	242	240	229	256	255	287
	Real growth, %	IMF	2.8	2.7	-8.3	5.7	6.8	2.3
	CPI inflation, %	IMF	1.2	0.3	-0.1	0.9	8.1	5.3
	Unemployment rate, %	WB	7.0	6.5	6.8	6.6	6.0	6.5
Public Finance	Public debt, % of GDP	IMF	121.5	116.6	134.9	124.5	112.4	99.0
	Net interest payment, % of government revenue	IMF	7.5	6.6	6.3	5.1	4.1	4.6
	Primary balance, % of GDP	IMF	2.9	2.9	-3.1	-0.6	1.5	2.9
External Economic	Current-account balance, % of GDP	IMF	0.6	0.4	-1.0	-0.8	-1.1	1.4
	Total reserves, months of imports	WB	2.5	2.5	3.5	3.1	2.6	2.8
	NIIP, % of GDP	IMF	-103.1	-100.3	-112.4	-90.0	-84.6	-
Financial Stability	NPL ratio, % of total loans	IMF	9.4	6.2	4.9	3.7	-	-
	Tier 1 ratio, % of risk-weighted assets	IMF	14.2	14.8	15.3	16.2	15.7	-
	Credit to the private sector, % of GDP	WB	97.0	93.4	104.3	99.1	90.1	81.7
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	145.9	129.1	123.8	113.7	111.3	-
	Income share of bottom 50%, %	WID	19.6	19.8	20.0	19.7	19.6	-
	Labour-force participation rate, %	WB	75.1	75.5	74.2	75.2	76.4	-
	Old-age dependency ratio, %	UN	33.7	34.2	34.7	35.2	35.8	36.6
	Composite governance indicators*	WB	1.0	1.0	1.0	1.0	1.0	-
	Political stability, index	WB	1.1	1.1	1.0	0.9	0.9	-

\*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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