PORTUGAL REPUBLIC

*EJR Sen Rating(Curr/Prj) BBB-/ BBB-

Rating Analysis - 8/30/22

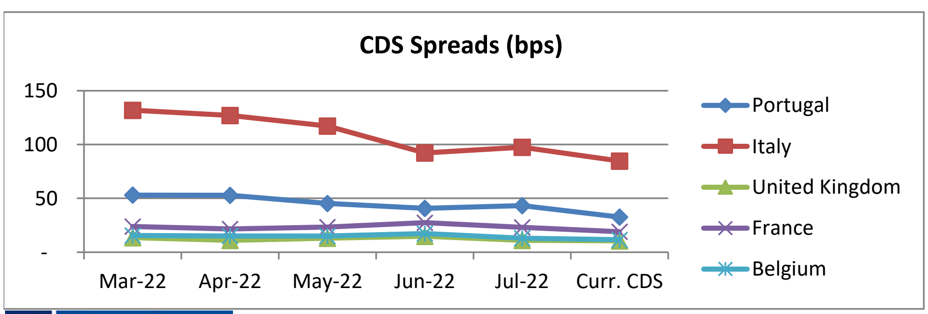
After a deeper pandemic-induced recession than the rest of the euro area in 2020, the Portuguese economy gained ground in 2021, and growth strengthened further in Q1 2022. Real GDP is projected to grow by 5.4% in 2022 and 1.7% in 2023. Robust public investment, boosted by EU funds, and the return of tourism exports are set to support the recovery. Yet, the war in Ukraine, supply chain disruptions and increases in energy and commodity prices will weigh on activity, lowering confidence and purchasing power.

Although spare capacity remains, increases in energy and food prices are expected to push inflation to 6.3% in 2022 and 4% in 2023 and Wages will accelerate as hours worked reach pre-pandemic levels, but not enough to protect households' purchasing power against rising inflation. Given the high levels of public debt, maintaining prudent fiscal policy and defining a credible medium-term fiscal consolidation plan will be key to secure favourable financing conditions. Portugal's policies need to balance short-term urgencies with a smooth transition to private-led growth, rebuilding fiscal space and advancing reforms for stronger growth and a more resilient economy. Affirming.

	Annual Ratios (source for past results: IMF)					
CREDIT POSITION	2019	2020	2021	P2022	P2023	P2024
Debt/ GDP (%)	135.6	157.2	145.5	140.8	135.2	128.8
Govt. Sur/Def to GDP (%)	-0.7	-6.4	-3.1	-2.0	-0.9	0.1
Adjusted Debt/GDP (%)	135.6	157.2	145.5	140.8	135.2	128.8
Interest Expense/ Taxes (%)	11.9	11.7	9.8	9.3	8.8	8.4
GDP Growth (%)	4.5	-6.7	5.6	4.7	4.6	4.0
Foreign Reserves/Debt (%)	1.5	1.3	1.6	1.6	2.0	1.9
Implied Sen. Rating	BBB	BB	BBB-	BBB-	BBB	BBB

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	77.8	-3.6	77.8	2.4	6.0	AA
French Republic	AA	137.3	-6.0	137.3	4.6	8.2	A-
Kingdom Of Belgium	AA	128.0	-5.0	128.0	5.6	10.8	BBB
Republic Of Italy	BBB-	173.7	-7.2	173.7	11.9	7.2	BB+
United Kingdom	AA	190.8	-8.9	190.8	9.4	7.8	BBB

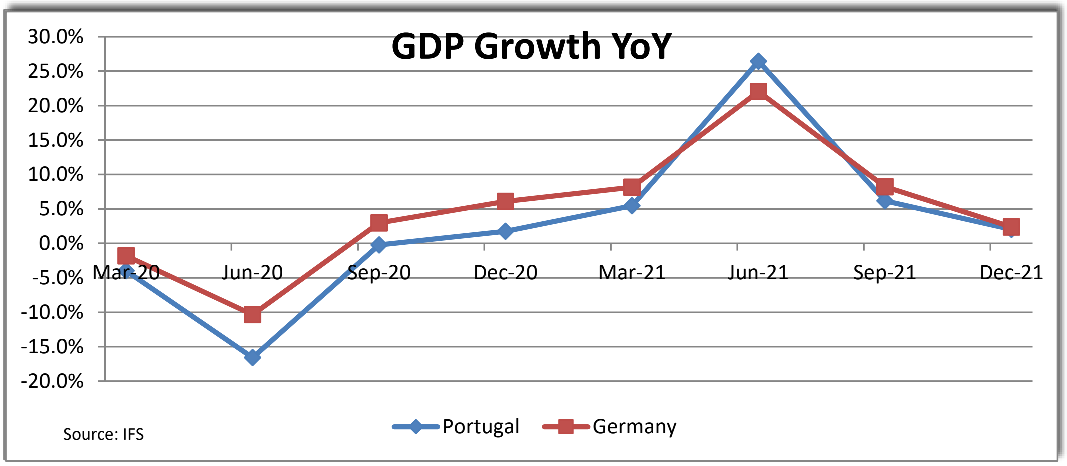


Country	EJR Rtg.	CDS
Portugal	BBB-	33
Italy	BBB-	85
United Kingdom	BBB	11
France	A+	19
Belgium	A+	12

Egan-Jones Ratings Company

Economic Growth

Strong private consumption growth and a rebound in tourism supported GDP growth in early 2022. The pace of the recovery is easing, with elevated uncertainty, surging commodity and energy prices and declining real wages. Consumer prices increased by 8.1% in the year to May and price pressures became more broad-based. Consumer confidence has fallen sharply and retail sales have moderated. Portugal's GDP expanded 2.6 percent on quarter in Q1 2022, accelerating from a 1.7 advance in the previous quarter. The acceleration of GDP was determined by the positive contribution of domestic demand, reflecting the acceleration of private consumption mostly due to the increase of expenditure in services' activities, after the removal of most restrictions on economic activity imposed in the context of the COVID-19 pandemic. Robust public investment, boosted by EU funds, and the return of tourism exports are set to support the recovery.



Fiscal Policy

Despite the accommodative fiscal stance in 2021, the headline fiscal deficit dropped to 2.8 percent of GDP, reflecting buoyant tax revenues and some capital underspending. In 2022, the fiscal deficit is expected to narrow to 2.2 percent of GDP, reflecting the recovery and unwinding of remaining temporary Covid-19 economic support measures Fiscal policy is expected to be supportive in 2022. Fiscal policy is expected to be broadly neutral in 2023 as pandemic-related measures are eliminated. Near-term fiscal policy should remain accommodative and better targeted.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Portugal	-3.09	125.70	32.67
Germany	-3.62	64.10	22.28
France	-5.97	97.00	19.05
Belgium	-4.98	103.10	10.61
Italy	-7.19	131.80	84.74
United Kingd	-8.88	87.40	11.63
Sources: Thomson Reuters and IFS			

Unemployment

Employment and labor force participation in 2021 already surpassed the 2019 level and unemployment reached 5.9 percent by March 2022. Total hours worked in Q1 2022 stood around 1 per cent above the 2019 level, but employment indicators lag for contact-intensive sectors. Unemployment Rate in Portugal is expected to be 6.70 percent by the end of this quarter, according to Trading Economics global macro models and in the long-term, the Portugal Unemployment Rate is projected to trend around 6.20 percent in 2023.

Unemployment (%)	2020	2021
Portugal	7.12	6.60
Germany	3.83	3.58
France	8.03	7.88
Belgium	5.73	6.28
Italy	9.30	9.56
United Kingd	0.00	0.00
Source: Intl. Finance Statistics		

Banking Sector

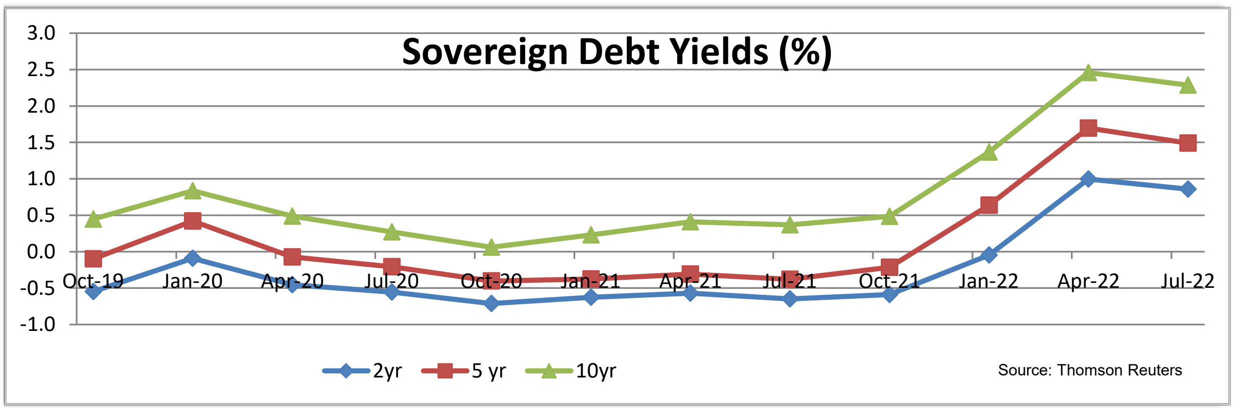
The corporate sector has withstood recent shocks well so far, although solvency gaps are estimated at more than 2 percent of GDP. Credit quality deterioration after the end of the relatively extensive loan moratoria has yet to fully materialize. Bank capital, profitability, and asset quality have steadily improved in 2021 but remain below Euro Area averages. NPLs continue to decline, despite the fact that debt moratoria have already expired. The NPL ratio declined by 1 tenth to 3,6% in Q1'22.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
Banco Comercial Portugues SA	92.9	2.63
Banco BPI SA	41.4	5.15
Total	134.3	
EJR's est. of cap shortfall at 10% of assets less market cap		8.9
Portugal's GDP		211.3

Funding Costs

Portugal 10Y Bond Yield was 2.47 percent and is expected to trade at 2.68 percent by the end of this quarter, according to Trading Economics global macro models. Looking forward, market consensus estimates it to trade at 3.57 per cent in 12 months' time.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 39 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*

	2021 Rank	2020 Rank	Change in Rank
Overall Country Rank:	**39**	**39**	**0**
Scores:			
Starting a Business	63	63	0
Construction Permits	60	60	0
Getting Electricity	52	52	0
Registering Property	35	35	0
Getting Credit	119	119	0
Protecting Investors	61	61	0
Paying Taxes	43	43	0
Trading Across Borders	1	1	0
Enforcing Contracts	38	38	0
Resolving Insolvency	15	15	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Portugal is above average in its overall rank of 67.5 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom
World Rank 67.5*

	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	74.1	75.4	-1.3	53.6
Government Integrity	68.5	68.9	-0.4	45.9
Judical Effectiveness	68.2	65.6	2.6	45.4
Tax Burden	60.0	59.6	0.4	77.7
Gov't Spending	42.4	39.8	2.6	67.1
Fiscal Health	78.2	74.4	3.8	72.1
Business Freedom	75.9	76.5	-0.6	63.2
Labor Freedom	44.1	44.1	0.0	59.5
Monetary Freedom	85.0	83.0	2.0	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:
PORTUGAL REPUBLIC has grown its taxes of 7.2% per annum in the last fiscal year which is average. We expect tax revenues will grow approximately 7.2% per annum over the next couple of years and 6.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
PORTUGAL REPUBLIC's total revenue growth has been more than its peers and we assumed a 8.2% growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	11.6	7.2	**7.2**	**6.5**
Social Contributions Growth %	6.7	6.0	**6.0**	**6.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	29.9	**14.4**	**14.4**
Total Revenue Growth%	9.1	10.0	**8.2**	**7.4**
Compensation of Employees Growth%	3.1	4.0	**4.0**	**4.0**
Use of Goods & Services Growth%	6.6	8.1	**8.1**	**8.1**
Social Benefits Growth%	1.2	2.8	**2.8**	**2.8**
Subsidies Growth%	9.0	15.2		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.7	**1.7**	
Currency and Deposits (asset) Growth%	3.3	0.0		
Securities other than Shares LT (asset) Growth%	2.0	0.0		
Loans (asset) Growth%	(71.8)	(73.1)	**7.2**	**7.2**
Shares and Other Equity (asset) Growth%	(4.5)	(718.2)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	2.7	0.0		
Financial Derivatives (asset) Growth%	(7.4)	16.8	**7.2**	**7.2**
Other Accounts Receivable LT Growth%	(1.8)	4.2	**4.2**	**4.2**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	2.2	5.8	**5.0**	**5.0**
Currency & Deposits (liability) Growth%	1.8	4.3	**4.3**	**4.3**
Securities Other than Shares (liability) Growth%	2.6	(5.6)	**(3.9)**	**(3.9)**
Loans (liability) Growth%	0.7	2.8	**2.8**	**2.8**
Insurance Technical Reserves (liability) Growth%	2.3	6.1	**6.1**	**6.1**
Financial Derivatives (liability) Growth%	0.0	(66.8)	**(10.0)**	**(10.0)**
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are PORTUGAL REPUBLIC's annual income statements with the projected years based on the assumptions listed on page 5.

ANNUAL REVENUE AND EXPENSE STATEMENT
(MILLIONS EUR)

	2018	2019	2020	2021	P2022	P2023
Taxes	51,621	53,000	49,296	52,834	56,638	60,716
Social Contributions	23,860	25,359	25,605	27,148	28,777	30,503
Grant Revenue						
Other Revenue						
Other Operating Income	12,525	12,892	12,140	15,768	15,768	15,768
Total Revenue	88,006	91,251	87,041	95,750	101,183	106,987
Compensation of Employees	22,029	23,147	23,925	24,881	25,875	26,909
Use of Goods & Services	10,847	11,025	11,315	12,230	13,219	14,288
Social Benefits	37,248	38,827	40,316	41,436	42,587	43,770
Subsidies	799	920	3,663	4,219	4,219	4,220
Other Expenses				8,438	8,438	8,438
Grant Expense						
Depreciation	5,467	5,555	5,635	5,914	5,914	5,914
Total Expenses excluding interest	83,437	86,509	93,990	97,118	100,253	103,539
Operating Surplus/Shortfall	4,569	4,742	-6,949	-1,368	930	3,448
Interest Expense	6,902	6,324	5,792	5,169	5,256	5,344
Net Operating Balance	-2,333	-1,580	-12,740	-6,537	-4,326	-1,896

ANNUAL BALANCE SHEETS

Below are PORTUGAL REPUBLIC's balance sheets with the projected years based on the assumptions listed on page 5.

	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
Base Case						
ASSETS	2018	2019	2020	2021	P2022	P2023
Currency and Deposits (asset)	16,645	14,508	23,952	15,623	15,623	15,623
Securities other than Shares LT (asset)	3,242	5,607	5,834	6,248	6,248	6,248
Loans (asset)	-33	102	-104	-28	-30	-32
Shares and Other Equity (asset)	668	664	88	-544	-555	-566
Insurance Technical Reserves (asset)	75	60	61	63	63	63
Financial Derivatives (asset)	436	655	458	535	574	615
Other Accounts Receivable LT	12,590	12,674	12,111	12,620	13,150	13,703
Monetary Gold and SDR's						
Other Assets					50,227	50,227
Additional Assets	40,183	44,955	47,334	50,227		
Total Financial Assets	73,806	79,225	89,734	84,744	85,300	85,881
LIABILITIES						
Other Accounts Payable	12,895	12,224	11,734	12,410	13,031	13,682
Currency & Deposits (liability)	31,334	32,283	33,415	34,840	34,840	34,840
Securities Other than Shares (liability)	167,720	179,156	200,362	189,101	181,661	174,514
Loans (liability)	69,697	67,097	68,736	70,655	74,981	76,877
Insurance Technical Reserves (liability)			326	346	367	390
Financial Derivatives (liability)	886	870	717	238	214	193
Other Liabilities	94	95	94	28	28	28
Liabilities	282,626	291,725	315,384	307,618	312,500	314,976
Net Financial Worth	-208,819	-212,500	-225,651	-222,874	-227,200	-229,096
Total Liabilities & Equity	73,807	79,225	89,733	84,744	85,300	85,881

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustmer which are reflected in the results for the projected ratings. We have assigned a rating of "BBB-" whereas the ratio-implied rating for most recent period is "BBB-"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:
For the issuer PORTUGAL REPUBLIC with the ticker of 1174Z PL we have assigned the senior unsecured rating of BBB-. There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:
We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15a available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:
The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:
Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:
Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:
EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:
Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:
EJR uses publicly available information from the IMF, governmental filings and other similar sources for ratings on sovereign issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:
This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:
Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:
Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:
Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	7.2	11.2	3.2	BBB	BBB	BBB-
Social Contributions Growth %	6.0	9.0	3.0	BBB	BBB	BBB
Other Revenue Growth %		3.0	(3.0)	BBB	BBB	BBB
Total Revenue Growth%	8.2	10.2	6.2	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	4.2	6.2	2.2	BBB	BBB	BBB

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:
This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM
In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:
1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature: **Today's Date**

August 30, 2022

Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

August 30, 2022

Steve Zhang
Senior Rating Analyst

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.