PORTUGAL REPUBLIC

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

Rating Analysis - 8/18/23

According to OECD, the projected Real GDP growth for 2023 is expected to reach 2.5%, followed by a slightly lower growth rate of 1.5% in 2024. The implementation of the Recovery and Resilience Plan (RRP) is anticipated to have a significant positive impact on public investment. However, there is a concern regarding potential delays in the implementation process. The strengthening of external demand is expected to boost exports, particularly in the services sector. Despite this positive outlook, the employment rate is projected to remain historically high, and wages are expected to accelerate.

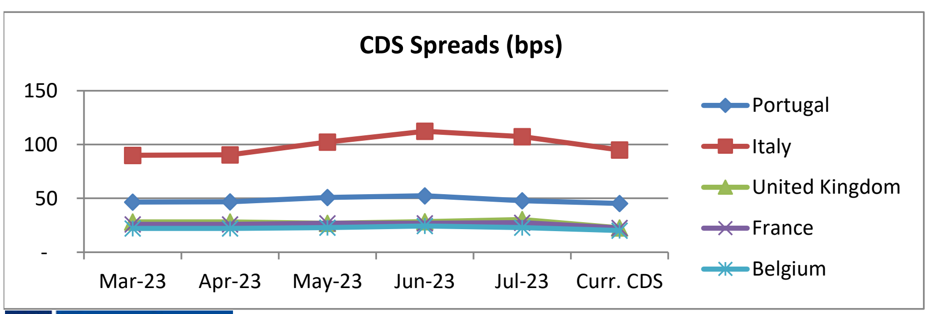
The headline consumer price inflation is estimated to be 5.7% in 2023 and 3.3% in 2024. This high inflation rate may lead to a reduction in purchasing power and subsequently affect consumption growth. To address mounting spending pressures caused by an aging population and increased investment needs, it is crucial to strengthen the fiscal framework and optimize spending efficiency. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2020	2021	2022	P2023	P2024	P2025
Debt/ GDP (%)	157.1	143.7	116.6	103.4	88.1	70.5
Govt. Sur/Def to GDP (%)	-6.2	-3.0	-0.7	2.4	5.9	9.5
Adjusted Debt/GDP (%)	157.1	143.7	116.6	103.4	88.1	70.5
Interest Expense/ Taxes (%)	11.8	9.7	7.6	6.6	5.8	5.1
GDP Growth (%)	-6.5	7.1	11.4	2.5	3.6	3.6
Foreign Reserves/Debt (%)	1.3	1.6	1.9	2.1	2.4	2.9
Implied Sen. Rating	BB	BBB-	BBB+	BBB+	A-	A-

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

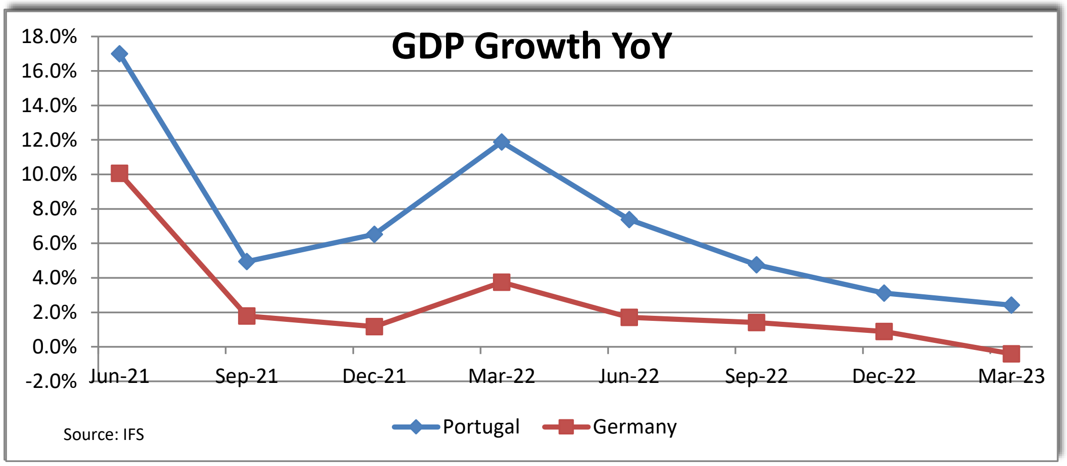
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	65.3	-2.6	65.3	2.7	7.4	AA-
French Republic	AA	117.1	-4.2	117.1	6.1	5.5	A-
Kingdom Of Belgium	AA	103.8	-3.4	103.8	5.1	9.3	BBB
Republic Of Italy	BBB-	151.3	-7.8	151.3	14.6	6.8	BB+
United Kingdom	AA	147.9	-5.5	147.9	15.0	9.7	BBB-



Country	EJR Rtg.	CDS
Portugal	BBB-	45
Italy	BBB-	95
United Kingdom	BBB	23
France	A+	23
Belgium	A+	20

Economic Growth

High energy and food prices, along with rising interest rates, have led to a decline in domestic demand. Consumer price inflation, although slightly eased to 6.9% in April, is impacting household purchasing power. However, the implementation of the Recovery and Resilience Plan (RRP), along with fiscal support measures equivalent to approximately 3.7% of GDP in 2023, and increased activity in trading partners, are supporting economic activity. Strong export growth contributed to a 1.6% quarterly increase in GDP in Q1 2023. Business confidence in services, retail, and industry is also rising, albeit from a low level. Despite a rise in the unemployment rate, historically high employment rates, rising wages, and government cash transfers are providing support to households. Monetary and financial conditions are becoming less favorable as interest rates rise rapidly. With approximately 90% of mortgages subject to rates fixed for up to one year, household consumption and investment are being constrained.



Fiscal Policy

Fiscal policy, including the Recovery and Resilience Plan (RRP), is bolstering growth in 2023 but contributing to inflationary pressures, and it is expected to become mildly restrictive in 2024. The RRP grants will result in increased spending, reaching 1.5% of GDP in 2023 and 1.3% of GDP in 2024. Measures to cushion the impact of inflation are projected to be 1.9% of GDP in 2022 and 3.7% of GDP in 2023, encompassing subsidies for electricity, gas, and fuel prices, as well as social transfers targeted at low-income households and families with children.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Portugal	-0.66	125.70	45.31
Germany	-2.62	64.10	15.01
France	-4.25	97.00	22.50
Belgium	-3.36	103.10	22.67
Italy	-7.83	131.80	95.04
United Kingd	-5.52	87.40	20.17

Sources: Thomson Reuters and IFS

Unemployment

In the first quarter of 2023, Portugal experienced an increase in the unemployment rate, reaching 7.2%. This is the highest level since the last quarter of 2020 and represents a rise from the previous period's rate of 6.5%. Comparatively, a year earlier, the unemployment rate was significantly lower at 5.9%. The youth unemployment rate stood at 19.6%, showing a decrease of 1 percentage point compared to the previous year.

Unemployment (%)	2021	2022
Portugal	6.59	6.04
Germany	3.58	3.07
France	7.88	7.32
Belgium	6.28	5.58
Italy	9.56	8.08
United Kingd	0.00	0.00

Source: Intl. Finance Statistics

Banking Sector

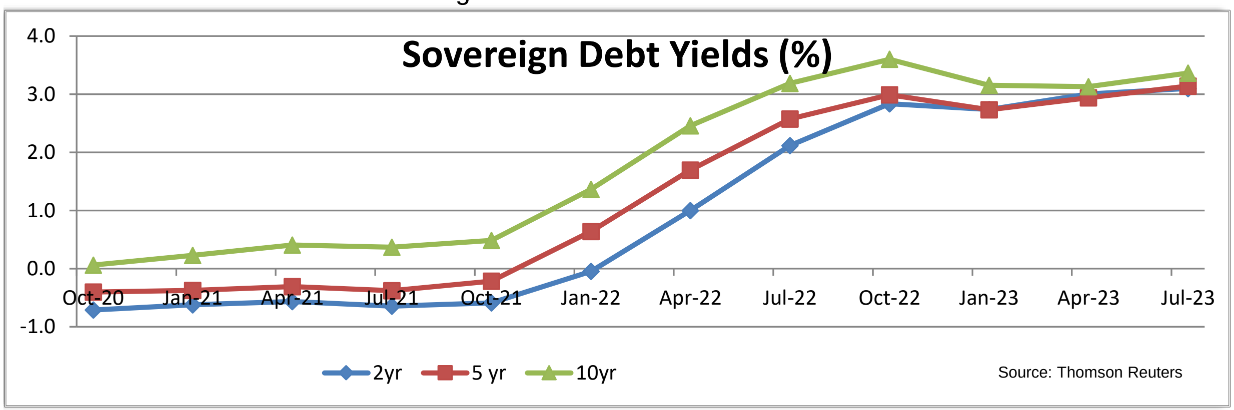
In Q1'23, the Portuguese banking system experienced a decrease in total assets by 1.9%. This decline was primarily driven by a reduction in cash balances at central banks (-2.3bps), partially offset by an increase in debt securities (+0.9bps). The loan-to-deposit ratio widened by 1.6bps, reaching 79.9%, as customer deposits decreased (-2.6%), slightly offset by a decline in customer loans (-0.5%). The gross non-performing loans (NPL) ratio in the first quarter of 2023 increased by 0.1bps to 3.1%. This rise was driven by a decrease in performing loans, although there was a slight reduction in NPLs.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
Banco Comercial Portugues SA	89.9	3.73
Banco BPI SA	38.9	5.48
Total	128.8	
EJR's est. of cap shortfall at 10% of assets less market cap		7.4
Portugal's GDP		239.2

Funding Costs

The Portugal 10Y Government Bond is currently yielding at 3.113%, and there is a 16.2 basis point spread between the 10-year and 2-year bonds. The yield curve shows a relatively flat pattern when comparing long-term and short-term maturities. The Central Bank Rate has been set at 4.00%, with the most recent modification occurring in June 2023.



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 69.5 for Economic Freedom with 100 being best.

Heritage Foundation 2023 Index of Economic Freedom
World Rank 69.5*

	2023 Rank**	2022 Rank	Change in Rank	World Avg.
Property Rights	89.9	89.9	0.0	53.3
Government Integrity	67.0	67.8	-0.8	44.4
Judical Effectiveness	90.7	92.1	-1.4	48.3
Tax Burden	60.5	60.4	0.1	78.1
Gov't Spending	34.7	39.5	-4.8	64.3
Fiscal Health	67.0	72.8	-5.8	54.5
Business Freedom	76.2	76.2	0.0	59.8
Labor Freedom	55.1	55.5	-0.4	55.5
Monetary Freedom	84.8	86.8	-2.0	72.1
Trade Freedom	78.6	79.2	-0.6	69.6

*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 16.6% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 16.6% per annum over the next couple of years and 14.9% 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 no 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%	7.9	16.6	**16.6**	**14.9**
Social Contributions Growth %	6.2	8.5	**9.0**	**9.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(8.4)	**(8.4)**	**(8.4)**
Total Revenue Growth%	7.3	10.2	**10.2**	**9.2**
Compensation of Employees Growth%	4.3	3.5	**3.5**	**3.5**
Use of Goods & Services Growth%	4.5	8.9	**8.9**	**8.9**
Social Benefits Growth%	3.5	7.4	**7.4**	**7.4**
Subsidies Growth%	(6.3)	(40.4)		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.7	**1.7**	
Currency and Deposits (asset) Growth%	(11.5)	0.0		
Securities other than Shares LT (asset) Growth%	(6.0)	0.0		
Loans (asset) Growth%	5.4	637.5	**400.0**	**360.0**
Shares and Other Equity (asset) Growth%	57.9	(209.2)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	(1.4)	3.2	**3.2**	**3.2**
Financial Derivatives (asset) Growth%	(28.7)	42.8	**16.6**	**14.9**
Other Accounts Receivable LT Growth%	3.5	13.0	**13.0**	**13.0**
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%	6.8	3.1	**3.1**	**3.1**
Currency & Deposits (liability) Growth%	(2.6)	14.9	**16.6**	**14.9**
Securities Other than Shares (liability) Growth%	(15.1)	(18.7)	**(13.1)**	**(13.1)**
Loans (liability) Growth%	2.6	0.7	**0.7**	**0.7**
Insurance Technical Reserves (liability) Growth%	2.8	(13.3)	**3.0**	**3.0**
Financial Derivatives (liability) Growth%	(18.0)	(101.7)	**(10.0)**	**(10.0)**
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL INCOME 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)

	2019	2020	2021	2022	P2023	P2024
Taxes	53,000	49,236	53,054	61,880	72,152	84,129
Social Contributions	25,359	25,600	27,267	29,598	32,262	35,165
Grant Revenue						
Other Revenue						
Other Operating Income	12,892	12,238	16,001	14,661	14,661	14,661
Total Revenue	91,251	87,074	96,322	106,139	119,075	133,956
Compensation of Employees	23,147	23,934	24,975	25,841	26,737	27,664
Use of Goods & Services	11,025	11,070	12,434	13,536	14,736	16,042
Social Benefits	38,827	40,196	41,609	44,694	48,008	51,567
Subsidies	920	3,642	4,276	2,547	2,547	2,548
Other Expenses				9,727	9,727	9,727
Grant Expense						
Depreciation	5,555	5,635	5,915	6,691	6,691	6,691
Total Expenses excluding interest	86,509	93,810	97,663	103,036	108,446	114,238
Operating Surplus/Shortfall	4,742	-6,736	-1,341	3,103	10,629	19,717
Interest Expense	6,324	5,786	5,170	4,687	4,766	4,846
Net Operating Balance	-1,580	-12,521	-6,511	-1,583	5,863	14,871

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	2019	2020	2021	2022	P2023	P2024
Currency and Deposits (asset)	14,472	23,890	15,544	13,923	13,923	13,923
Securities other than Shares LT (asset)	5,607	5,834	6,247	5,959	5,959	5,959
Loans (asset)	102	-104	-24	-177	-885	-4,425
Shares and Other Equity (asset)	664	338	-534	583	595	607
Insurance Technical Reserves (asset)	60	61	63	65	67	69
Financial Derivatives (asset)	655	458	535	764	891	1,039
Other Accounts Receivable LT	12,575	12,049	12,694	14,348	16,218	18,331
Monetary Gold and SDR's						
Other Assets					52,323	52,323
Additional Assets	44,954	47,332	50,466	52,323		
Total Financial Assets	79,089	89,858	84,991	87,788	89,090	87,825

LIABILITIES	2019	2020	2021	2022	P2023	P2024
Other Accounts Payable	12,196	12,105	13,086	13,493	13,913	14,345
Currency & Deposits (liability)	32,283	33,415	34,840	40,019	40,019	40,019
Securities Other than Shares (liability)	179,156	200,362	189,550	154,064	133,874	116,330
Loans (liability)	67,097	68,750	70,675	71,154	65,291	50,419
Insurance Technical Reserves (liability)		326	345	299	308	317
Financial Derivatives (liability)	870	717	238	-4	-4	-3
Other Liabilities	95	93	30	29	29	29
Liabilities	291,697	315,768	308,764	279,054	274,493	258,356
Net Financial Worth	-212,607	-225,910	-223,773	-191,266	-185,403	-170,531
Total Liabilities & Equity	79,090	89,858	84,991	87,788	89,090	87,825

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 adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "BBB-" whereas the ratio-implied rating for the 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

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+) other than those deep into speculative grade; for CC, C, and D there are no 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 methodology version #16 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 page 3 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 dependant 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 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings 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 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by 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%	16.6	20.6	12.6	A-	A-	A-
Social Contributions Growth %	9.0	12.0	6.0	A-	A-	A-
Other Revenue Growth %		3.0	(3.0)	A-	A-	A-
Total Revenue Growth%	10.2	12.2	8.2	A-	A-	A-
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	A-	A-	A-

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 18, 2023
……………………………………………

Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang
…………………………………………………………….. August 18, 2023
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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.