PORTUGAL REPUBLIC

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

Rating Analysis - 8/16/24

In 2023, economic growth decelerated to 2.3%, marking a widespread slowdown across all key GDP components. The most significant decline occurred during the second and third quarters, followed by a recovery in the final quarter. The rebound was driven by substantial increases in private consumption and investment, facilitated by the stabilization of interest rates.

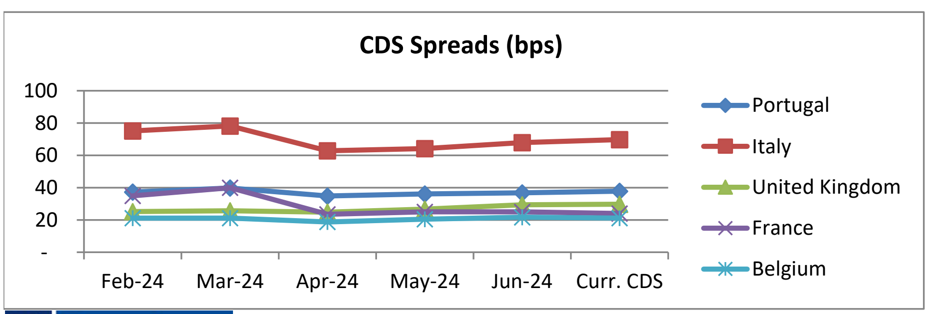
Considering the recent rise in household incomes and stable interest rates, economic growth is expected to shift towards a more domestically driven model in the forecast period. Growth is projected to moderate to 1.7% in 2024 and then rebound to 1.9% in 2025. Investment is anticipated to grow robustly, supported by the implementation of the Recovery and Resilience Plan and improved economic sentiment. On the external front, imports are expected to outpace exports due to increased demand driven by investment and, to a lesser extent, private consumption. Although foreign tourism will continue to be a significant growth contributor, its pace will slow compared to the past two years. Overall, Portugal's current account balance is projected to decrease but remain positive in 2024 and 2025. Upgrading.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2021	2022	2023	P2024	P2025	P2026
Debt/ GDP (%)	142.8	115.2	105.8	98.5	90.0	80.2
Govt. Sur/Def to GDP (%)	-3.0	-0.7	1.1	2.5	4.1	5.6
Adjusted Debt/GDP (%)	142.8	115.2	105.8	98.5	90.0	80.2
Interest Expense/ Taxes (%)	9.8	7.5	8.6	8.1	7.7	7.3
GDP Growth (%)	7.7	12.2	9.6	2.5	3.6	3.6
Foreign Reserves/Debt (%)	1.6	1.9	1.7	1.8	1.9	2.1
Implied Sen. Rating	BBB-	BBB+	BBB+	A-	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

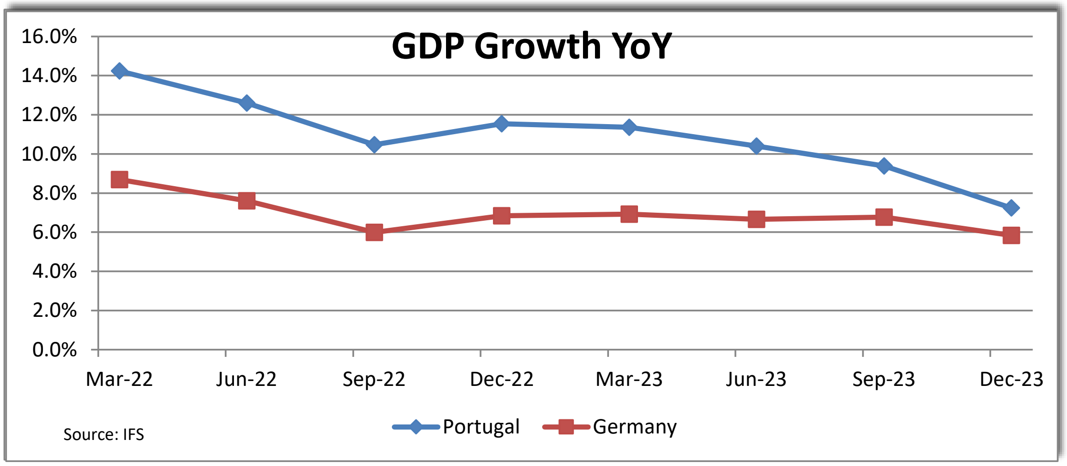
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	64.0	-2.6	64.0	3.8	6.3	AA
French Republic	AA	117.2	-4.8	117.2	5.9	6.2	A-
Kingdom Of Belgium	AA	108.6	-3.9	108.6	6.8	5.5	BBB
Republic Of Italy	BBB-	151.4	-6.8	151.4	12.7	6.2	BB+
United Kingdom	AA	143.8	-6.2	143.8	10.5	7.2	BBB-



Country	EJR Rtg.	CDS
Portugal	BBB-	38
Italy	BBB-	70
United Kingdom	BBB	30
France	A+	24
Belgium	A+	21

Economic Growth

Economic reports from the Central Bank confirmed that sequential GDP growth rose to 0.8% in Q1 2024, up from 0.7% in Q4 2023, surpassing the Euro area average. This growth was primarily driven by the external sector, where a decrease in imports offset a slowdown in exports. Additionally, private spending growth reached a one-year high, while government spending remained flat and fixed investment declined. Looking ahead to Q2, the economists expects a slowdown, though current data presents an optimistic outlook. Economic sentiment improved in April and May, with monthly retail sales growth and goods exports both showing positive trends in April. However, industrial output contracted during the same month. In political developments, the minority government faced challenges in Parliament on June 5th when the far-right Chega party joined the opposition to block an income tax cut for the middle class, casting doubts on the approval of the 2025 budget.



Fiscal Policy

Portugal's general government balance improved to a surplus of 1.2% of GDP in 2023, driven by robust tax revenue and social contributions, supported by dynamic economic activity, high inflation, and a strong labor market. The general government surplus is projected to narrow to 0.4% of GDP in 2024 and remain stable in 2025, assuming current policies continue. This forecast considers the anticipated economic slowdown, moderated inflation, and balance-reducing fiscal measures.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Portugal	1.08	125.70	37.73
Germany	-2.55	64.10	11.51
France	-4.84	97.00	24.00
Belgium	-3.85	103.10	29.72
Italy	-6.85	131.80	69.77
United Kingdı	-6.24	87.40	21.16

Sources: Thomson Reuters and IFS

Unemployment

In 2023, Portugal's unemployment rate increased from 6.2% to 6.5%, driven by strong growth in both labor supply and employment. The labor force survey indicates that employment growth remained robust in early 2024, but unemployment edged up slightly due to rising labor supply. A significant increase in the working-age population in early 2024, attributed to positive migration flows, contributed to this trend. Unemployment is expected to decline slightly in the coming months as job creation gradually absorbs the

Unemployment (%)	2022	2023
Portugal	6.16	6.58
Germany	3.07	3.03
France	7.32	7.34
Belgium	5.58	5.53
Italy	8.08	7.67
United Kingd	3.90	3.80

Source: Intl. Finance Statistics

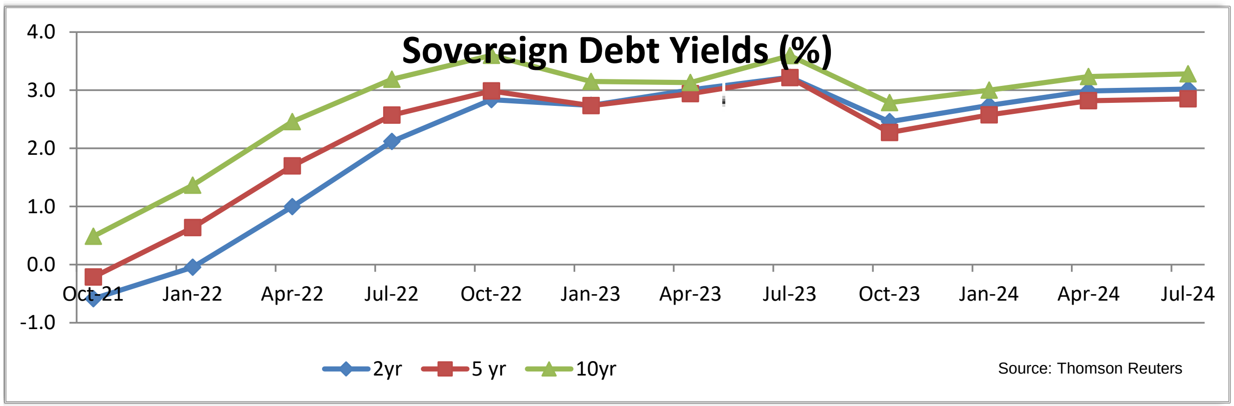
Banking Sector

The labor market remains strong and is expected to worsen only moderately. This, combined with the improved leverage positions of households and firms, suggests that the impact of rising interest rates on credit quality should remain contained. The banking sector's strengthened position and ongoing macroprudential measures further support this outlook. In the mortgage credit sector, the rate of decline continued to reduce, with the stock decreasing by 0.8% in March 2024. However, new operations in the same period accelerated by 21.4%, indicating a potential shift in the declining trend observed since July 2023.

Bank Assets (billions of local currency)	Assets	Mkt Cap/ Assets %
Banco Comercial Portugues SA	94.4	5.57
Banco BPI SA	38.9	5.48
Total	133.3	
EJR's est. of cap shortfall at 10% of assets less market cap		5.9
Portugal's GDP		265.5

Funding Costs

Currently, the yield on Portugal's 10-year government bond stands at 3.082%. The spread between the 10-year and 2-year government bonds is 13.2 basis points. Additionally, the current quotation for Portugal's 5-year Credit Default Swap (CDS) is 33.12 basis points, indicating an implied probability of default of 0.55%.



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 68.7 for Economic Freedom with 100 being best.

Heritage Foundation 2024 Index of Economic Freedom
World Rank 68.7*

	2024 Rank**	2023 Rank	Change in Rank	World Avg.
Property Rights	89.4	89.9	-0.5	53.4
Government Integrity	65.5	67.0	-1.5	43.7
Judical Effectiveness	90.6	90.7	-0.1	48.8
Tax Burden	59.8	60.5	-0.7	78.1
Gov't Spending	33.0	34.7	-1.7	64.2
Fiscal Health	65.2	67.0	-1.8	52.1
Business Freedom	79.3	76.2	3.1	62.1
Labor Freedom	57.6	55.1	2.5	55.9
Monetary Freedom	75.0	84.8	-9.8	67.2
Trade Freedom	79.2	78.6	0.6	69.8

*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 7.9% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 7.9% per annum over the next couple of years and 7.1% 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 8.9% 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%	5.2	7.9	**7.9**	**7.1**
Social Contributions Growth %	4.5	10.4	**10.0**	**10.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	10.9	**15.8**	**15.8**
Total Revenue Growth%	4.4	9.0	**8.9**	**8.0**
Compensation of Employees Growth%	6.1	7.6	**7.6**	**7.6**
Use of Goods & Services Growth%	5.1	5.0	**5.0**	**5.0**
Social Benefits Growth%	4.8	3.4	**3.4**	**3.4**
Subsidies Growth%	(2.5)	(25.5)		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.0	**2.0**	
Currency and Deposits (asset) Growth%	(6.9)	0.0		
Securities other than Shares LT (asset) Growth%	8.2	0.0		
Loans (asset) Growth%	(57.9)	429.4	**400.0**	**360.0**
Shares and Other Equity (asset) Growth%	(74.8)	126.3	**126.3**	**113.7**
Insurance Technical Reserves (asset) Growth%	8.3	4.6	**4.6**	**4.6**
Financial Derivatives (asset) Growth%	(3.2)	(93.1)	**(10.0)**	**(10.0)**
Other Accounts Receivable LT Growth%	1.5	(8.2)	**(8.2)**	**(8.2)**
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%	0.8	40.0	**5.0**	**5.0**
Currency & Deposits (liability) Growth%	(2.1)	22.3	**7.9**	**7.9**
Securities Other than Shares (liability) Growth%	9.1	(6.3)	**(4.4)**	**(4.4)**
Loans (liability) Growth%	(0.5)	(4.2)	**0.5**	**0.5**
Insurance Technical Reserves (liability) Growth%	2.8	(30.4)	**3.0**	**3.0**
Financial Derivatives (liability) Growth%	0.0	(25.0)	**(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)

	2020	2021	2022	2023	P2024	P2025
Taxes	49,236	53,172	62,020	66,889	72,173	77,875
Social Contributions	25,600	27,333	29,642	32,720	35,992	39,591
Grant Revenue						
Other Revenue						
Other Operating Income	12,238	15,813	14,432	16,012	16,012	16,012
Total Revenue	87,074	96,318	106,094	115,621	124,177	133,478
Compensation of Employees	23,934	25,039	25,824	27,787	29,899	32,172
Use of Goods & Services	11,070	12,189	13,370	14,045	14,754	15,499
Social Benefits	40,196	41,708	44,841	46,347	47,904	49,512
Subsidies	3,642	4,261	2,685	2,001	2,001	2,001
Other Expenses				9,705	9,705	9,705
Grant Expense						
Depreciation	5,635	5,973	6,687	7,122	7,122	7,122
Total Expenses excluding interest	93,810	97,702	103,093	107,007	111,385	116,012
Operating Surplus/Shortfall	-6,736	-1,384	3,001	8,614	12,792	17,466
Interest Expense	5,786	5,192	4,663	5,751	5,869	5,989
Net Operating Balance	-12,521	-6,576	-1,662	2,865	6,923	11,477

ANNUAL BALANCE SHEETS

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

Base Case ASSETS	2020	2021	2022	2023	P2024	P2025
			ANNUAL BALANCE SHEETS (MILLIONS EUR)			
Currency and Deposits (asset)	23,890	15,544	13,923	11,422	16,940	16,940
Securities other than Shares LT (asset)	5,834	6,247	5,959	7,604	7,604	7,604
Loans (asset)	-104	-29	-214	-1,133	-5,665	-28,325
Shares and Other Equity (asset)	338	-534	589	1,333	3,017	6,827
Insurance Technical Reserves (asset)	61	63	65	68	71	74
Financial Derivatives (asset)	458	535	764	53	48	43
Other Accounts Receivable LT	12,049	12,804	14,531	13,336	12,239	11,233
Monetary Gold and SDR's						
Other Assets					54,265	54,265
Additional Assets	47,295	50,467	51,269	54,265		
Total Financial Assets	89,821	85,097	86,886	86,948	88,519	68,661

LIABILITIES	2020	2021	2022	2023	P2024	P2025
Other Accounts Payable	12,105	13,291	13,718	19,211	20,172	21,180
Currency & Deposits (liability)	33,415	34,840	40,019	48,958	48,958	48,958
Securities Other than Shares (liability)	200,362	189,550	154,067	144,437	138,117	132,074
Loans (liability)	68,750	70,516	70,995	68,038	61,115	49,637
Insurance Technical Reserves (liability)	326	345	299	208	214	221
Financial Derivatives (liability)	717	238	-4	-3	-3	-2
Other Liabilities	93	29	29	29	29	29
Liabilities	315,768	308,809	279,123	280,878	275,525	244,191
Net Financial Worth	-225,948	-223,712	-192,237	-193,930	-187,007	-175,529
Total Liabilities & Equity	89,820	85,097	86,886	86,948	88,519	68,661

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%	7.9	11.9	3.9	A-	A-	A-
Social Contributions Growth %	10.0	13.0	7.0	A-	A-	A-
Other Revenue Growth %		3.0	(3.0)	A-	A-	A-
Total Revenue Growth%	8.9	10.9	6.9	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**

Aug 16, 2024

Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

Aug 16, 2024

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.