PORTUGAL REPUBLIC

Rating Analysis - 11/27/19

*EJR Sen Rating(Curr/Prj) BBB/ BBB
*EJR CP Rating: A2
EJR's 3 yr. Default Probability: 2.0%

The recovery of the Portuguese economy which started in 2013 is still underway, although now with some signs of slowing down. With GDP forecasted to grow at 1.9 percent in 2019, there are few concerns which point at growth prospects being capped around the 2 percent limit.

Stronger GDP growth, unemployment levels which continue to fall (and are now below those recorded before the crisis), and the new government's commitment to continue to reduce debt/GDP are key factors which support the rating view. The country's left-wing coalition has prioritized private investment and economic growth over public services such as housing, education, and forest fire prevention - a pos. Minor negatives such as NPLs being above the European average, but still much lower than a few years ago, remain a concern. We are upgrading.
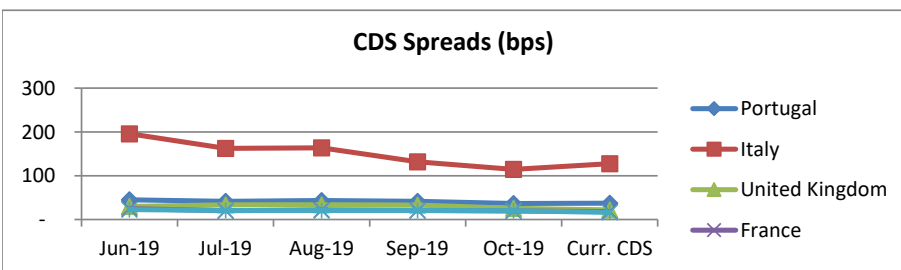
Annual Ratios (source for past results: IMF)

CREDIT POSITION	2016	2017	2018	P2019	P2020	P2021
Debt/ GDP (%)	145.3	144.3	139.0	136.4	132.7	127.8
Govt. Sur/Def to GDP (%)	-3.2	-3.8	-1.2	0.0	1.1	2.1
Adjusted Debt/GDP (%)	145.3	144.3	139.0	136.4	132.7	127.8
Interest Expense/ Taxes (%)	16.8	15.3	13.4	12.9	12.4	12.1
GDP Growth (%)	3.8	5.1	4.1	3.8	3.8	4.0
Foreign Reserves/Debt (%)	3.3	2.6	2.4	1.7	1.5	0.9
Implied Sen. Rating	BB+	BBB-	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	69.2	1.8	69.2	3.9	3.1	AA
French Republic	AA	122.1	-2.4	122.1	5.6	2.5	BBB+
Kingdom Of Belgium	AA	119.9	-0.4	119.9	7.2	2.6	A+
Republic Of Italy	BBB-	147.3	-2.7	147.3	12.9	1.7	BB+
United Kingdom	AA	113.2	-0.4	113.2	9.0	3.3	A+

CDS Spreads (bps)

Country	CDS
Portugal	37
Italy	127
United Kingdom	22
France	18
Belgium	16

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

The Portuguese economy advanced by 0.3% on quarter in the three months to September 2019, slowing from an upwardly revised 0.6% expansion in the previous period. It was the weakest growth rate since the second quarter of 2016, as net external demand contributed negatively while the contribution of domestic demand was positive. Prospectively, the IMF has revised up its forecasts for Portuguese economic growth in 2019 and 2020 to 1.9% and 1.6%, respectively. Looking ahead, the economy is seen losing more momentum next year, owing to softer private consumption growth amid downbeat consumer confidence and a notable deceleration in fixed investment due to a reduced absorption of EU funds. A less supportive external environment is also projected to weigh on growth.

GDP Growth YoY

Source: IFS

Portugal — Germany
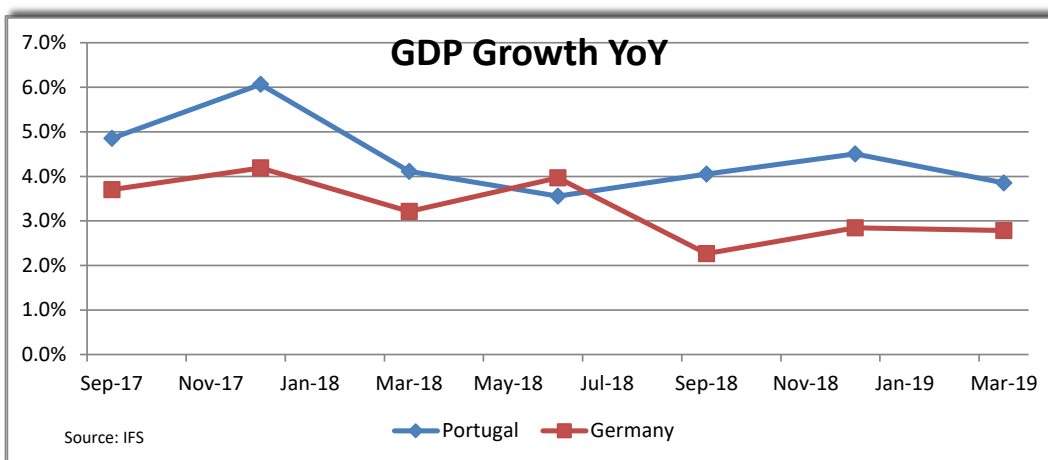
Fiscal Policy

The center-left Socialist Party (PS) led by Prime Minister António Costa has decided not to renew a formal pact with the Left Bloc and the Communist Party that propped up his previous administration over the last four years, although the overall policy direction is set to remain constant. Costa's new program, which was approved by Parliament on 31 October, revealed the government would aim to cut the public debt to around 100% of GDP in the next four years as it turns its focus to fiscal prudence.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Portugal	-1.18	125.70	36.94
Germany	1.77	64.10	9.61
France	-2.35	97.00	18.06
Belgium	-0.40	103.10	21.92
Italy	-2.67	131.80	127.18
United Kingdc	-0.39	87.40	16.18
Sources: Thomson Reuters and IFS			

Unemployment

Unemployment is projected to reach an annual average of 6.2% in 2019 and 5.7% in 2020. The slack on the market is meanwhile set to decline accordingly and wages to accelerate somewhat, helped also by the unfreezing of career progressions in the public sector. These expectations have been further reinforced by the wage reports for Q1'19, pointing to a growth of around 3% YOY in Q1'19 as compared to 2% in 2018.

| Unemployment (%)		
	2017	2018
Portugal	9.02	7.05
Germany	3.76	3.40
France	9.43	9.11
Belgium	7.10	5.90
Italy	11.23	10.62
United Kingd	4.40	4.09
Source: Intl. Finance Statistics		

Banking Sector

Portugal's banks' asset quality is improving, reflecting strong investor interest and bank-specific factors. The national strategy to tackle NPL continues to be based on the three pillars: supervisory, legal and judicial, and private NPL management solutions.

The end of 2018 was marked by the reduction in the NPL ratio below the psychological mark of 10% for the first time since the financial crisis in Portugal. Capital ratios meet all supervisory requirements, but remain on the low side.

Bank Assets (billions of local currency)		
		Mkt Cap/
	Assets	Assets %
Banco Comercial Portugues SA	75.9	4.03
Banco BPI SA	31.6	6.75
BANIF BANCO INTERNACIONAL D	13.1	1.76
Total	120.6	
EJR's est. of cap shortfall at		
10% of assets less market cap		6.6
Portugal's GDP		203.9

Funding Costs

Sovereign financing and the capacity to repay are currently sound. Active debt management has smoothened the debt redemption profile and reduced interest costs through swaps and early repayments. Yields have dropped further over the past months but remain vulnerable to market conditions due to the still high, albeit declining, public debt.
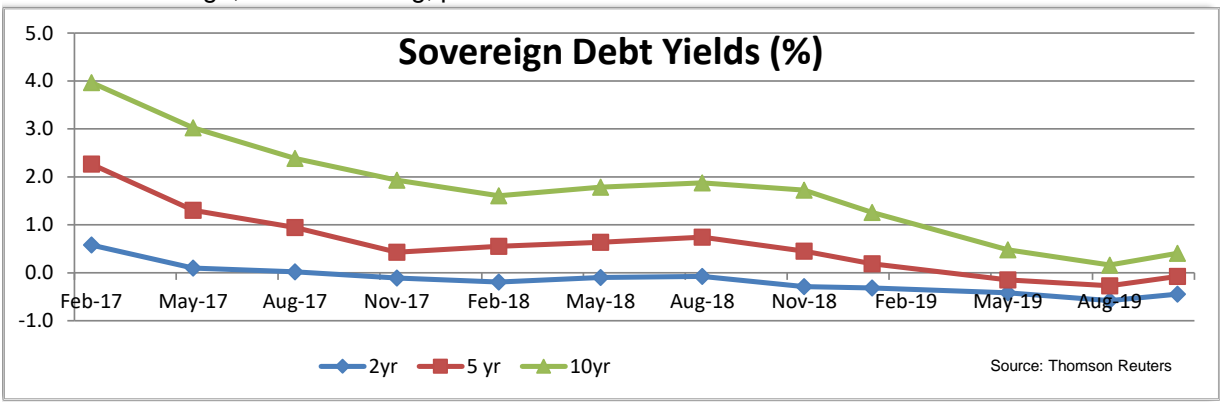
Ease of Doing Business

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*			
	2019 Rank	2018 Rank	Change in Rank
Overall Country Rank:	**39**	**29**	**-10**
Scores:			
Starting a Business	63	48	-15
Construction Permits	60	32	-28
Getting Electricity	52	58	6
Registering Property	35	28	-7
Getting Credit	119	105	-14
Protecting Investors	61	57	-4
Paying Taxes	43	38	-5
Trading Across Borders	1	1	0
Enforcing Contracts	38	19	-19
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 65.3 for Economic Freedom with 100 being best.

Heritage Foundation 2019 Index of Economic Freedom World Rank 65.3*				
	2019 Rank**	2018 Rank	Change in Rank	World Avg.
Property Rights	71.5	69.2	2.3	52.3
Government Integrity	64.3	56.8	7.5	44.9
Judical Effectiveness	59.5	70.1	-10.6	41.5
Tax Burden	59.9	59.8	0.1	77.2
Gov't Spending	35.6	29.8	5.8	64.2
Fiscal Health	69.8	46.0	23.8	66.0
Business Freedom	79.7	83.2	-3.5	63.5
Labor Freedom	44.3	44.1	0.2	59.4
Monetary Freedom	83.0	85.3	-2.3	75.1
Trade Freedom	86.0	86.9	-0.9	74.3
*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				

PORTUGAL REPUBLIC

Rating Analysis - 11/27/19

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

*EJR CP Rating: A2

EJR's 3 yr. Default Probability: 2.0%

Credit Quality Driver: Taxes Growth:

PORTUGAL REPUBLIC has grown its taxes of 6.4% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 6.4% per annum over the next couple of years and 5.8% 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%	4.0	6.4	**6.4**	**5.8**
Social Contributions Growth %	3.5	4.9	**5.0**	**5.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	3.3	**3.3**	**3.3**
Total Revenue Growth%	3.4	5.5	**5.5**	**5.0**
Compensation of Employees Growth%	3.0	2.2	**2.2**	**2.2**
Use of Goods & Services Growth%	4.1	3.5	**3.5**	**3.5**
Social Benefits Growth%	2.4	3.1	**3.1**	**3.1**
Subsidies Growth%	3.4	(7.1)		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.5	**2.5**	**2.5**
Currency and Deposits (asset) Growth%	3.0	0.0		
Securities other than Shares LT (asset) Growth%	3.5	0.0		
Loans (asset) Growth%	(0.5)	(2.2)	**(2.2)**	**(2.2)**
Shares and Other Equity (asset) Growth%	0.0	1.3	**1.3**	**1.3**
Insurance Technical Reserves (asset) Growth%	(0.7)	0.0		
Financial Derivatives (asset) Growth%	0.0	(20.6)	**(10.0)**	**(10.0)**
Other Accounts Receivable LT Growth%	(1.2)	1.2	**1.2**	**1.2**
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	(6.7)	**3.0**	**3.0**
Currency & Deposits (liability) Growth%	2.3	4.6	**4.6**	**4.6**
Securities Other than Shares (liability) Growth%	(0.1)	4.4	**3.1**	**3.1**
Loans (liability) Growth%	(0.6)	(8.7)	**0.5**	**0.5**
Insurance Technical Reserves (liability) Growth%	(22.8)	0.0		
Financial Derivatives (liability) Growth%	0.0	(41.1)	**(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)

	2015	2016	2017	2018	P2019	P2020
Taxes	45,598	46,397	48,760	51,864	55,183	58,715
Social Contributions	20,784	21,625	22,685	23,801	24,991	26,241
Grant Revenue						
Other Revenue						
Other Operating Income	12,368	11,868	11,665	12,049	12,049	12,049
Total Revenue	78,750	79,890	83,110	87,714	92,223	97,005
Compensation of Employees	20,349	20,897	21,299	21,765	22,241	22,728
Use of Goods & Services	9,995	10,317	10,565	10,930	11,308	11,698
Social Benefits	34,711	35,152	35,647	36,750	37,887	39,059
Subsidies	1,123	1,023	858	797	797	797
Other Expenses				7,370	7,370	7,370
Grant Expense						
Depreciation	5,238	5,252	5,339	5,545	5,545	5,545
Total Expenses excluding interest	79,467	78,094	83,159	83,157	85,148	87,198
Operating Surplus/Shortfall	-717	1,796	-49	4,557	7,075	9,807
Interest Expense	8,211	7,800	7,437	6,955	7,129	7,307
Net Operating Balance	-8,927	-6,005	-7,487	-2,398	-54	2,500

PORTUGAL REPUBLIC
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*EJR CP Rating: A2
EJR's 3 yr. Default Probability: 2.0%

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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

Base Case — **(MILLIONS EUR)**

ASSETS	2015	2016	2017	2018	P2019	P2020
Currency and Deposits (asset)	18,207	22,520	19,880	16,638	21,618	21,618
Securities other than Shares LT (asset)	3,356	3,387	2,723	3,260	3,260	3,260
Loans (asset)	5,189	5,285	5,314	5,197	5,083	4,971
Shares and Other Equity (asset)	33,025	33,850	34,651	35,115	35,585	36,062
Insurance Technical Reserves (asset)	68	59	62	63	63	63
Financial Derivatives (asset)	2,538	2,194	549	436	392	353
Other Accounts Receivable LT	10,741	12,256	12,415	12,563	12,713	12,864
Monetary Gold and SDR's						
Other Assets						
Additional Assets	-1					
Total Financial Assets	73,123	79,551	75,594	73,272	78,714	79,191

LIABILITIES						
Other Accounts Payable	16,029	15,786	15,902	14,831	15,276	15,734
Currency & Deposits (liability)	23,320	27,284	29,952	31,334	31,334	31,334
Securities Other than Shares (liability)	135,189	140,093	160,486	167,520	172,660	177,957
Loans (liability)	93,651	87,839	76,426	69,806	69,860	67,360
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)	1,311	1,214	1,504	886	797	718
Other Liabilities	1,390	1,317	1,620	-561	-561	-561
Liabilities	270,890	273,533	285,890	283,816	289,312	287,289
Net Financial Worth	-197,767	-193,983	-210,296	-210,544	-210,598	-208,098
Total Liabilities & Equity	73,123	79,550	75,594	73,272	78,714	79,191

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

*EJR CP Rating: A2

EJR's 3 yr. Default Probability: 2.0%

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 adjustmen 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.

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

*EJR CP Rating: A2

EJR's 3 yr. Default Probability: 2.0%

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 #13 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.

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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%	6.4	10.4	2.4	BBB	BBB	BBB-
Social Contributions Growth %	5.0	8.0	2.0	BBB	BBB	BBB-
Other Revenue Growth %		3.0	(3.0)	BBB	BBB	BBB
Total Revenue Growth%	5.5	7.5	3.5	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	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:
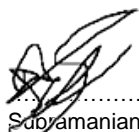This credit rating is not assigned to an asset-backed security.

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.
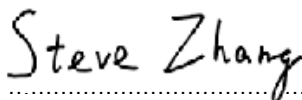
Analyst Signature:

Today's Date

November 27, 2019

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Subramanian NG
Senior Rating Analyst

Reviewer Signature:

Today's Date

November 27, 2019

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Steve Zhang
Senior Rating Analyst