

Press Release: Neuss, 23 September 2019

Creditreform Rating raises the Republic of Portugal's ratings to BBB /positive

Creditreform Rating has raised its unsolicited long-term sovereign rating on the Republic of Portugal to "BBB" from "BBB-". Creditreform Rating has also raised Portugal's unsolicited ratings for foreign and local currency senior unsecured long-term debt to "BBB" from "BBB-". The outlook remains positive.

Portugal's sovereign ratings and the related rating outlook were published on 23 September 2019 at 11:30pm CET. According to Creditreform Rating's Sovereign Rating Calendar 2019, the publication was originally scheduled for 20 September 2019. The deviation from the announced publication date is due to factual remarks, which were provided by Agência de Gestão da Tesouraria e da Dívida Pública (IGCP) on Friday, 20 September 2019, and had to be thoroughly reviewed.

Creditreform Rating staff, inter alia, discussed the IGCP's additional information and comments on the Portuguese banking sector and the public debt ratio. Furthermore, some statistical figures had to be double-checked as authorities cited differing sources from the ones that were employed during compiling the rating report.

IGCP was informed of the deviation from the publication date in a timely manner, and took notice of the postponement.

The published rating report represents an updated version, which was augmented in response to the factual remarks of IGCP during their review. However, the rating outcome as well as the related outlook remained unchanged.

Creditreform Rating has raised its ratings on the Portuguese Republic to "BBB" from "BBB-". The upgrade is underpinned by (i) reinvigorated and robust economic activity, which evolved in line with our expectations and was supported by significantly improving labor market metrics; and (ii) headway in fiscal consolidation, which has resulted in a considerable reduction of the sovereign's heavy debt burden.

The outlook on the Republic of Portugal remains positive, reflecting our expectation that (i) the Portuguese economy will continue to post solid economic growth over the next two years; (ii) the positive labor market momentum will be sustained; and (iii) the debt-to-GDP ratio will remain on a firm downward path driven by resilient economic growth and large and recurring primary surpluses.

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Creditreform Rating

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The key rating drivers are:

1. Solid GDP growth should remain in place in 2019/20, mainly buttressed by rebounding investment and healthy household spending, while dragged down by increasing external headwinds; medium-term growth prospects are held back by high NFC debt, curbing investment, and subdued productivity growth
2. Sovereign is characterized by a strong institutional setup; expectation of broad policy continuity including sustained commitment to prudent public finances with a view to the October 2019 general elections
3. Benefiting from robust economic activity, expenditure containment, and falling interest expenses, fiscal consolidation is making headway; in the absence of significant discretionary policy changes in the aftermath of the elections, budget should be broadly balanced in 2020
4. Although government debt is set to remain on a firm downward trajectory, it should remain high over the years to come, representing the sovereign's main credit weaknesses; improving but still comparatively weak asset quality in the banking sector continues to carry contingent liability risks
5. Elevated but gradually subsiding external vulnerabilities; risks related to a highly negative NIIP and high levels of net external debt somewhat tempered by shifts in the composition of the external debt stock and expectation of moderate current account deficits going forward

The rating outlook on Portugal's sovereign ratings is positive, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – is likely to improve over the next 12-24 months.

Visit www.creditreform-rating.de to read the full rating report, which contains the rating outcome as well as the reasons for the rating decision and the related outlook.