Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
REPUBLIC OF PORTUGAL	Assigned Ratings/Outlook: **BBB /stable**	Type: Monitoring, unsolicited with participation
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	28-10-2016 18-09-2020 “Sovereign Ratings” “Rating Criteria and Definitions”

Rating action

Neuss, 18 September 2020

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of “BBB” for the Republic of Portugal. Creditreform Rating has also affirmed Portugal’s unsolicited ratings for foreign and local currency senior unsecured long-term debt of “BBB”. The outlook remains stable.

Contents

Key Rating Drivers

1. Due to several years of solid growth above that of the euro area, Portuguese economy in a favorable starting position; while high-frequency data suggests that this year’s exceptional Covid-19-related plunge should be transitory, impact will be harsh and long-felt; already beginning recovery highly susceptible to setbacks and subject to extreme uncertainty, not least because of pivotal tourism industry

2. Substantial progress in cleaning up balance sheets, resulting in strengthened risk-bearing capacities of private non-financial sector, but resilience awaiting to be tested once state support measures subside; labor market conditions had improved persistently, but clouded prospects going forward

3. Institutional conditions generally strong and sound policy-making likely to continue; structural reform momentum should be revitalized, but could be hampered by political constellation, as minority government may face challenging times in passing new bills beyond Covid-19; EU/EMU membership an instrumental support in overcoming corona crisis

4. Public finances will deteriorate markedly amid Covid-19 measures and collapsing economic activity, putting a sudden stop to hitherto steady decline in the sovereign’s high debt-to-GDP ratio; banking system in better shape than prior to previous crises, but vulnerabilities prevail and may be deepened by adverse macroeconomic context

5. Improved economic fundamentals, past consolidation success, and sound debt management along with historically low interest rates which have led to more affordable debt over time give us some confidence that public debt ratio should resume its favorable trend

6. Still elevated external risks, reflected by deeply negative, though improving net international investment position; NIIP increasingly explained by net FDI; only moderate widening current account deficit as adverse tourism effects likely cushioned by falling energy prices

Reasons for the Rating Decision and Latest Developments

Our credit assessment continues to reflect a robust macroeconomic performance profile which builds upon Portugal's relatively wealthy economy and its more recent track record of solid and stable economic growth alongside improving labor market conditions and steady progress in unwinding macroeconomic imbalances. Medium-term potential growth remains subdued, partly reflecting sluggish labor productivity growth and moderate though improving capital accumulation.

Thanks to strong reform impetus mainly in the years 2011-14 and the broader economic recovery of the euro area as a whole, the Portuguese economy enjoyed a run of sustained strong economic growth which moderated last year, but was nevertheless sufficient to outpace euro area growth for the fourth consecutive year. Though easing from 2.6% to 2.2% in 2018-19, real GDP growth has averaged at 2.6% since 2016, well above the euro area average of 1.9%. Accordingly, Portugal made progress in income convergence after years of stagnating GDP per capita as measured against the weighted EU27 average, having risen from 77% to 79% in 2018-19. We note that investment activity had gained traction prior to the Covid-19 outbreak, with gross fixed capital formation now standing at 18.3% of GDP (2019, EA19: 21.9%) after hitting its trough of 14.8% of GDP back in 2013, significantly contributing to GDP growth since 2017. Furthermore, the marked output expansion was accompanied by considerable competitiveness gains, underscored by an increase in Portugal's global export market share from 0.39% to 0.43% in 2015-19.

Although the economy is thus in a more favorable starting position than prior to previous crises, Covid-19 will deal a substantial blow to the Portuguese economy. As shown by Eurostat data, real GDP has fallen drastically – by 9.3% in the first half of 2020 compared to the same period in the previous year. Household spending, which accounts for almost 65% of GDP (Q4-19), declined by 13.6% q-o-q in Q2 alone. Exports contracted by 36.1% q-o-q in the second quarter, with services exports' plunging by 53.2% q-o-q, illustrating the devastating effects of the corona crisis on tourism in particular. Construction investment was a bright spot (+3.0% q-o-q), cushioning the fall in investment (-8.9% q-o-q), with machinery and equipment taking the brunt (-30.3% q-o-q).

We assume that we have seen the worst for now, with no further nationwide infection wave necessitating another round of strict confinement measures, as witnessed in the first half of the year. The state of emergency lasted from 22 March to 2 May, and since then confinement measures have gradually been unwound. Apart from consumer confidence, sentiment indicators have improved across the board through August. The newly established Fast and Exceptional Enterprise Survey also hints at gradual improvements in the corporate sector. With total output prospectively rebounding sharply in Q3 and the economy following a gradual recovery path going forward, we project real GDP to plunge by 9.2% this year before recovering by 6.2% in 2021. Reaching the pre-Covid-19 output levels, however, should take at least until early 2022.

Still, these estimates are subject to extreme uncertainty, as an effective and tested vaccine is not yet available. As a corollary, the path to recovery is highly dependent on the Covid-19 trend. With repeatedly rising infections and lingering uncertainty weighing on economic activity, the recovery is highly susceptible to setbacks. The 14-day cumulative infection number is on the rise again, standing at 53.1 (per 100k inhabitants, 11 September, ECDC data) after hitting a temporary trough in mid-August.

Uncertainty regarding economic prospects is compounded by the situation of the crucial tourism industry, which has been key to Portugal's recovery and is a major component of employment and exports. The tourism sector has witnessed vivid growth over recent years, further accelerating in 2019 with non-resident tourism revenue amounting to roughly EUR 19bn or 8.7% of GDP. Taking into account indirect tourism services, WTTC reckons that travel and tourism contribute 16.5% to GDP and 18.6% to total employment (2019 data). Despite extensive aid measures (see below), Portugal's tourism industry was hit particularly hard by the Covid-19 pandemic as tourism activities came to a virtual standstill in this year's second quarter. The number of guests in hotels and other accommodations declined by 64.1% y-o-y in H1-20, with yearly rates of -97.7% and -94.8% in April and May. The number of overnight stays fell by 65.9% y-o-y in the first half of 2020. Latest Statistics Portugal estimates for July point to a very gradual recovery, with overnight stays increasing to a mere 2.63m (only 34% non-residents), 68.0% below the previous year's level. We think that tourism activity may remain disappointing as long as there is no effective medical treatment available. The European Travel Commission estimates that European tourism growth will remain below 2019 levels until as late as 2023.

The ongoing labor market improvement will experience a significant setback this year. The Covid-19 impact is thus beginning to become visible in labor market metrics and we expect these to deteriorate further going forward. The preliminary monthly unemployment rate jumped to 8.1% in July (May-20: 5.9%), the highest reading since October 2017, whilst employment fell by 0.8% and 2.8% q-o-q in Q1 and Q2 respectively (Statistics Portugal). Mirroring the large number of absent workers, hours actually worked per employee dropped markedly by 12.2% y-o-y in Q2 (INE LCI data). The number of registered unemployed has decreased somewhat since peaking in May, but remained very high at 407,302 in July, 37% above the previous year's level (IEFP data). To be sure, without the adopted support measures labor market data would have been significantly worse, as almost a fifth of the employed population had been placed under the short-time working scheme as of May. At present, we assume that the labor market should be able to recover gradually beyond 2020, although risks are skewed to the downside as tourism prospects are shrouded in uncertainty.

We note positively that the non-financial private sector's risk-bearing capacities have been significantly enhanced, as NFCs and households have made substantial progress in cleaning up their balance sheets in recent years. NFC debt amounted to 97.0% of GDP at the end of Q1-20, down from 100.7% of GDP a year before and 44.1 p.p. below the peak recorded in Q4-12 (Eurostat non-consolidated financial balance sheet data). While deleveraging in the household sector was mainly driven by denominator-effects more recently, the outturn is nevertheless remarkable, with household debt having dwindled to as low as 63.9% of GDP in Q1-20. The greater financial robustness is also reflected by NFC's declining debt-to-equity ratio and rising return on equity (2014-18 data), as well as by a sustainably falling household debt-to-income ratio, which came in at 92.4% in Q1-20 (Q1-19: 95.2%, Q1-15: 113.7%). That said, the private sector's resilience is awaiting to be tested once the important state support measures such as credit moratoria and the possibility to defer tax payments subside, so we will closely follow developments in this regard.

The sovereign's credit ratings remain buttressed by generally strong institutional conditions, and we expect that the government will continue to engage in sound and generally reform-oriented policy-making. We think that EU/EMU membership is and will be instrumental in overcoming the challenges entailed by the Covid-19 pandemic.

While the World Bank's Worldwide Governance Indicators underscore the high quality of the sovereign's governance framework, the government's recent swift action in the corona crisis pays testament to its effective and responsive policy-making. The authorities' decisive policy action was thus vital in containing the Covid-19 pandemic, scaling up health and care capacities and preventing an even larger economic fallout. The government rapidly implemented a wide range of containment and support measures, e.g. adopting short-term work schemes, support for the self-employed and companies in the affected industries, as well as state-guaranteed credit lines and deferrals of tax payments. To mitigate adverse consequences of the pandemic and relaunch its economy, the Portuguese government enacted the Economic and Social Stabilization Program (PEES) in early June, foreseeing a raft of measures geared towards facilitating employment, supporting corporate liquidity, improving social welfare, and enhancing the institutional framework.

We will monitor carefully whether deep-rooted reforms are carried forward, as Portugal's minority government may face challenging times in passing new bills in the time beyond the Covid-19 pandemic. At the current juncture, we expect that the government will continue to engage in sound policy-making. As a case in point, policy-makers are forging ahead in a bid to cut red tape. Along the lines of the SIMPLEX program, the government thus presented a new self-assessment tool by which public administrative capacities shall be fostered and aligned with the goal of promoting innovation. Furthermore, the government approved a bill which amends the Administrative Procedure Code, and aims at streamlining administrative procedures, inter alia, by facilitating cooperation between public entities and shortening decision deadlines. More recently, the government tabled its medium-term strategy geared towards the combat of corruption. Judging by the EU Justice Scoreboard published in July, Portugal made further headway in reducing its otherwise still considerable backlog of pending litigious cases, while the estimated time to resolve cases may be deemed as relatively high.

Institutional conditions are supported by the country's integration into the EU and the euro area. The latter seems particularly beneficial considering substantial support to the financial system through the ECB's monetary policy, including the asset purchase programs and bank supervisory decisions in the face of Covid-19. Portugal will also draw considerable benefits from the recently-agreed recovery plan for Europe (NGEU), of which the Recovery and Resilience Facility (RRF) represents the largest chunk, and the newly established labor market instrument SURE. We believe that in light of the exceptional health and economic crisis the aforementioned factors more than offset the loss of monetary flexibility entailed by being part of the EMU.

Portugal's main credit weakness, public finances, will be compounded in the wake of the corona crisis. Covid-19 will put a sudden stop to the hitherto favorable debt trend, leaving its debt-to-GDP ratio very high whilst interest outlays remain at an elevated level. Likewise, improvements in banking sector soundness may be threatened, as the elevated NPL ratio may see a renewed rise against the unfavorable macro backdrop. At this stage, we expect that the public debt ratio will resume its favorable trend, reflecting improved economic fundamentals, past consolidation success, and sound debt management.

Before Covid-19 hit with tremendous force, the correction of fiscal imbalances had progressed faster than expected. In this vein, latest data for 2019 confirms that the general government budget has continued to improve. Its headline budget improved by 0.6 p.p. of GDP to a historic surplus of 0.2% of GDP. By contrast, Portugal's public finances for the current year will deteriorate substantially due to collapsing economic activity and the extensive, though indispensable, fiscal response to Covid-19 pandemic. With a view to markedly increasing social benefits and a significantly lower tax intake on the one hand, and sizable discretionary Covid-19 measures on the other, we pencil in a headline deficit of 7.1% of GDP in 2020, which should narrow markedly next year as the economy bounces back and support measures wane due to their largely temporary nature.

The simplified layoff regime was one of the key initiatives, with fiscal support amounting to approx. 1.5% of GDP and an additional support of EUR 700mn as part of PEES. As regards measures which should be budget-neutral, authorities initially implemented state-guaranteed credit lines in the amount of roughly EUR 3bn which were eventually topped up to EUR 13bn (approx. 6.7% of GDP), more recently via PEES. Other notable liquidity measures relate to tax and social contribution deferrals (~4.0% of GDP) as well as credit moratoria for companies and households (~5.8% of GDP). We note that the Portuguese government stepped in to prevent the collapse of the ailing airline TAP, which policy-makers deem as strategically important. The European Commission greenlighted a EUR 1.2bn rescue loan, of which up to EUR 1bn is accounted for in the government's 2020 deficit target.

Recent budget execution data provided by the Budget Directorate (DGO) underscore dismal prospects for this year's fiscal performance, as revenues decreased by 10.5% y-o-y between January and July, whereas outlays rose by 5.3%. On a cash basis, Portugal's general government balance declined by over EUR 7.8bn y-o-y in the first seven months of the year, dropping to approx. EUR 8.3bn. Hence, the already high debt-to-GDP ratio will very likely surge to new heights in 2020, temporarily reversing the downward trend witnessed over the recent years. Sound debt management and rising primary surpluses (2019: 3.2% of GDP) amid robust economic activity had seen the public debt ratio edging down from 131.5% of GDP in 2016 to a still high 117.7% of GDP in 2019, corresponding to the third-highest reading in Europe. Driven by the primary balance's shift into deficit, plunging economic growth, and a considerable stock-flow-adjustment, which the government puts at 2.9% of GDP, we expect general government debt to spike to roughly 137% of GDP in 2020, before falling significantly next year, mainly due to a marked pick-up in nominal GDP.

Past consolidation success, improved economic fundamentals, and sound debt management which has led to more affordable debt, a stable and relatively long average residual maturity (Jul-20: 7.7y), as well as to a diversified and generally broadening investor base, give us confidence that the public debt ratio should resume its favorable trend. Furthermore, economic and financial assistance programs (EFSF, EFSM) total EUR 49.6bn as of 31 July, making up for approx. 19.1% of total state debt.

We believe that the sustainability of the current and prospective debt levels hinges on nominal GDP growth and the affordability of debt. While a recovery of nominal GDP growth represents our base scenario at this stage, debt has become increasingly affordable over time. To be sure, interest expenses remain relatively high as compared to other European peers, accounting for 7.0% of revenues in 2019. However, we observe a firm downward trend and - arguably more importantly - we expect this trend to remain in place in the near to medium term, resulting in a significantly more favorable debt composition going forward as higher-yielding debt is replaced by lower-yielding debt. Long-term government bond yields remain at historically low levels, posting at 0.405% at the end of August (weekly quote, 28-Aug-20). As per IGCP, the implicit interest rate on outstanding debt diminished from 3.2% in 2016 to 2.5% in 2019. Concurrently, the cost of issuance per year has fallen sharply over recent years, standing at 1.1% in 2019, and 0.6% up to July.

Financing conditions are aided by the ECB's very accommodative monetary policy. Shortly after the onset of the corona crisis, the ECB initiated its Pandemic Emergency Purchase Program (PEPP), now totaling EUR 1,350bn and running at least until the end of June 2021. Reinvestments of maturing principal payments from securities purchased under PEPP until at least the end of 2022 will add further to the accommodative stance. An additional envelope of EUR 120bn to the Asset Purchase Program until the end of the year remains in place, as do a number of measures to ensure liquidity to the banking sector, a comprehensive set of collateral measures to mitigate the tightening of financial conditions across the euro area, and measures to temporarily mitigate the effects of rating downgrades on counterparties' collateral availability.

We view the historic deal clinched on the large-scale recovery effort under NGEU as a further factor mitigating fiscal sustainability risks over the medium term. Portugal will gain access to grants amounting to an estimated EUR 13.2bn or approx. 6.2% of 2019 GDP under NGEU. The EU Parliament's consent to NGEU is still pending, but we do not expect this to present a major obstacle with regard to the implementation of the RRF. By the same token, Portugal is set to receive EUR 5.9bn (approx. 2.8% of 2019 GDP) in financial support via SURE.

Contingent liability risks for the state balance sheet associated with the large, though declining, debt stock of non-financial state-owned enterprises (approx. 11.7% of 2019 GDP in Q2-20, UTAM data), as well as with the banking sector remain in place. Vulnerabilities in Portugal's banking system prevail and may deepen due to the adverse macroeconomic context, since we expect that insolvencies will inevitably increase in the wake of the pandemic, giving rise to NPLs at some point of time. That said, Portuguese banks are in far better shape than prior to previous crisis episodes. As highlighted by EBA data, the NPL ratio dropped sharply from 9.6% in Q1-19 to 6.2% in Q1-20, but is still more than twice as high as the European average of 3.0%. At the same time, capital buffers continued to improve, with the CET 1 ratio having risen to 13.7% in Q1 (Q1-19: 13.4%), albeit standing below the EU average.

In addition, we continue see downside risks pertaining to mounting budgetary pressure concerning the public wage bill and pension costs, as well as to Novo Banco, which has received yearly payments from the Resolution Fund under the 8-year Contingent Capital Agreement. The Portuguese fiscal council CFP flagged that the bank, which generates considerable losses, may need further substantial cash amounts going forward. In May 2020, Novo Banco received a payment of EUR 1,035mn, well above the EUR 600mn estimate considered for 2020.

We still note considerable external risks, mainly reflected by Portugal's deeply negative though improving net international investment position (NIIP). As adverse tourism effects will likely be cushioned by falling energy prices, we expect to see only moderate current account deficits in the near term.

Portugal's NIIP continued on its firm upward trend, totaling -100.0% of GDP at the end of the first quarter of 2020 (Q1-19: 106.6% of GDP). Despite the favorable trend and increasingly favorable composition, the very large NIIP remains among the most negative in Europe, hinting at sizable external vulnerabilities. We note that its NENDI, i.e. excluding non-defaultable debt, is significantly lower, amounting to -48.7% of GDP. Still, Portugal exhibits one of the most negative readings among EU27 member states on that count as well.

Sustained improvement came on the back of brisk economic growth and a run of persistent current account surpluses, although the current account shifted into negative territory at the end of 2019 (-0.1% of GDP). Looking forward, we assume that Portugal's current account deficit will be contained, also due to significantly falling energy prices. Fears of new outbreaks and structural pandemic-related challenges to tourism engender serious threats to Portugal's key industry, posing a downside risk to Portugal's services balance which displayed large surpluses over the last five years (average 7.8% of GDP).

Rating Outlook and Sensitivity

Our rating outlook on the Republic of Portugal's long-term sovereign ratings is stable, as we see risks associated with the significantly adverse economic and fiscal backdrop emanating from the corona crisis as broadly balanced by the aforementioned factors mitigating fiscal risks, and our expectation of a short-lived, though harsh, recession. We have to highlight that the evolution of the corona pandemic is extremely uncertain. Accordingly, any assessment of further economic development is extraordinarily uncertain and significantly more difficult than usual, as is the case for other metrics, e.g. from the fiscal realm.

We could lower Portugal's credit rating or outlook if we observe that the gradual recovery is fading amidst a renewed nationwide infection wave which necessitates severe lockdown measures, as witnessed in the first half of the year. Further rating downsides relate to a heavier and longer-lasting impact on the tourism industry, which has been key to Portugal's post-crisis recovery and the current account composition, as well as to markedly rising non-financial private debt that may constrain medium-term potential output via limited investment growth. Higher private debt may also give rise to financial stability risks if households and NFC face increasing difficulties in servicing debt. In turn, a re-emerging vicious cycle of higher private indebtedness and financial instability may translate into bailouts, engendering further pressure on public finances, as is the case with a longer-lasting Covid-19 crisis. More generally, downward pressure could result from public finances failing to recover and the public debt ratio failing to resume its downward trajectory over the medium term.

Although rather unlikely at the current juncture, we could raise the sovereign's ratings or outlook if Portugal's economy recovers significantly faster and lost output is recouped earlier than expected. Upward pressure could also stem from a swiftly-reversing debt trend so that the public debt ratio declines considerably and sustainably, and from diminishing contingent liability risks entailed by the banking sector.

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Ratings*

Long-term sovereign rating	BBB /stable
Foreign currency senior unsecured long-term debt	BBB /stable
Local currency senior unsecured long-term debt	BBB /stable

*) Unsolicited

Economic Data

[in %, otherwise noted]	2014	2015	2016	2017	2018	2019	2020e
Real GDP growth	0.8	1.8	2.0	3.5	2.6	2.2	-9.2
GDP per capita (PPP, USD)	27,301	28,197	29,156	30,822	32,412	33,665	n.a.
HICP inflation rate, y-o-y change	-0.2	0.5	0.6	1.6	1.2	0.3	0.1
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	81.3	81.3	81.3	81.6	81.5	n.a.	n.a.
Fiscal balance/GDP	-7.4	-4.4	-1.9	-3.0	-0.4	0.2	-7.1
Current account balance/GDP	0.2	0.2	1.2	1.3	0.4	-0.1	n.a.
External debt/GDP	231.0	217.1	206.9	201.2	196.4	193.0	n.a.

Source: International Monetary Fund, Eurostat, own estimates

ESG Factors

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Labor market metrics constitute crucial goalposts in Creditreform Rating's considerations on macroeconomic performance of the sovereign, and we regard the ESG factor 'Labor' as significant to the credit rating or adjustments thereof.

While Covid-19 may have significant adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing concerning economic prospects and public finances. To be sure, we will follow ESG dynamics closely in this regard.

ESG Factor Box

Environmental Quality	Ecological Risks	Ressource Management	Education	Health	Demographics
Labor	Equality	Technology & Infrastructure	Safety & Security	**Judicial System**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liberties/ Political Participation**	Market Access	Business Environment	Data Transparency

Environment	Social	Governance	Highly significant	Significant	Less significant	Hardly significant

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	28.10.2016	BB /stable
Monitoring	27.10.2017	BB+ /stable
Monitoring	21.09.2018	BBB- /positive
Monitoring	23.09.2019	BBB /positive
Monitoring	03.04.2020	BBB /stable
Monitoring	18.09.2020	BBB /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. Agência de Gestão da Tesouraria e da Dívida Pública (IGCP) participated in the credit rating process as IGCP provided additional documents and commented on a draft version of the rating report during the credit rating process. Thus, this 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.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG has used following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, Blavatnik School of Government, Agência de Gestão da Tesouraria e da Dívida Pública (IGCP), Banco de Portugal, Direção-geral da administração e do emprego público (DGAEP), and Instituto Nacional de Estatística, UTAM, WTTC, ECDC.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as “initial rating”; other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “affirmed”, “selective default” or “default”.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating issued by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the entity or the issue under review.

When assessing the creditworthiness of sovereign issuers, Creditreform Rating AG relies on publicly available data and information from international data sources, governments and national statistics. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. Hence, this rating is no statement of fact but an opinion. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at investment decisions. Ratings are not meant to be used as substitutes for one’s own research, inquiries and assessments. Thus, no express or implied warranty as to the accuracy, timeliness or completeness for any purpose of any such rating, opinion or information is given by Creditreform Rating AG in any form or manner whatsoever. Furthermore, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings.

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