PORTUGAL REPUBLIC

Rating Analysis - 9/2/21

*EJR Sen Rating(Curr/Prj) BBB-/ BBB-
*EJR CP Rating: A2
EJR's 3 yr. Default Probability: 2.3%

The Portuguese GDP is projected to increase by 3.7% in 2021 and 4.9% in 2022. Consumption will strengthen, with a gradual reduction in saving, as the sanitary situation improves and containment measures are phased out. Strong activity in the manufacturing sector and the absorption of EU funds will support investment and exports. Unemployment has increased, especially for low-skilled and young workers, calling for reinforcing the capacity of public employment services to provide job search support and training.

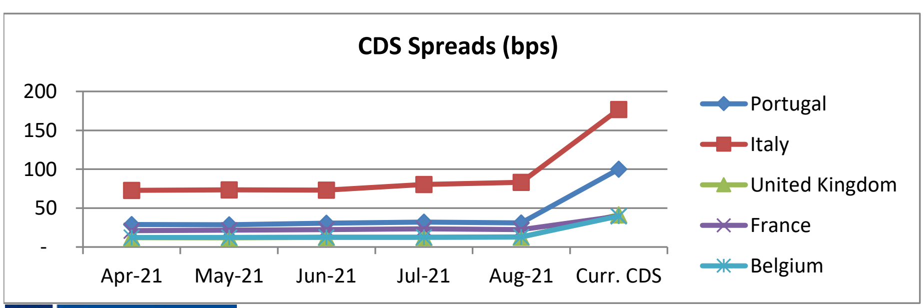
Accelerating the implementation of the Recovery and Resilience Plan, while promoting competition-friendly regulation, efficiency gains in public services and green investment, will be key for a strong and sustainable recovery. Tourism, and contact-intensive services will recover only gradually, until the pandemic is fully under control. Fiscal policy is expected to remain supportive in 2021 until the recovery is firmly underway. A package of support measures was announced in March 2021, including tax deferrals, grants to firms which are positive initiatives and likely to harken a speedy recovery. We are affirming with a developing watch.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	137.3	136.0	155.1	149.9	146.0	141.7
Govt. Sur/Def to GDP (%)	-1.1	-0.7	-6.3	-7.9	-8.9	-8.5
Adjusted Debt/GDP (%)	137.3	136.0	155.1	149.9	146.0	141.7
Interest Expense/ Taxes (%)	13.4	12.0	11.8	12.9	14.1	14.3
GDP Growth (%)	4.7	4.3	-5.4	4.7	4.6	4.0
Foreign Reserves/Debt (%)	2.3	1.5	1.3	0.5	0.4	-0.2
Implied Sen. Rating	BBB	BBB	BB	BB+	BB+	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	79.7	-4.2	79.7	2.9	-3.3	A
French Republic	AA	145.9	-8.8	145.9	4.2	-5.5	BB-
Kingdom Of Belgium	AA	142.4	-9.0	142.4	6.5	-5.3	BB
Republic Of Italy	BBB-	184.1	-9.7	184.1	11.9	-7.8	B-
United Kingdom	AA	187.8	-12.8	187.8	7.2	-4.8	B

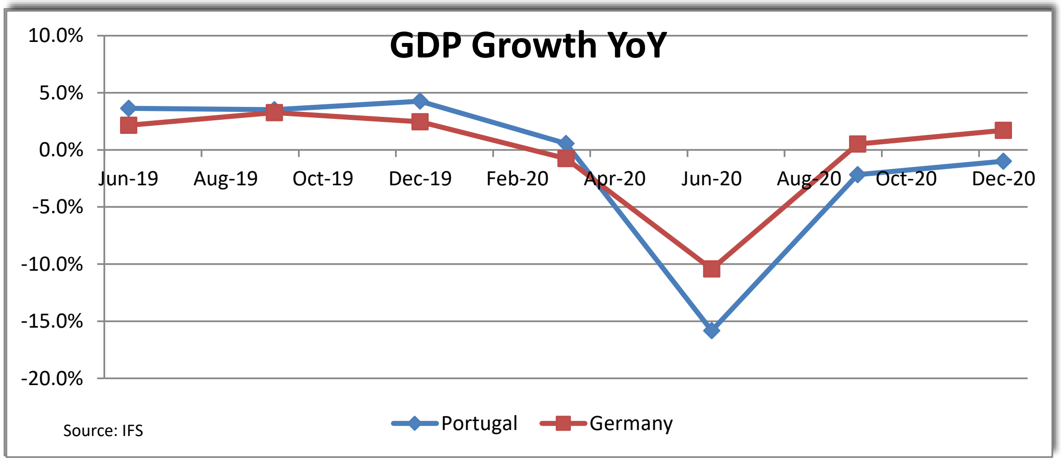


Country	EJR Rtg.	CDS
Portugal	BBB-	100
Italy	BBB-	177
United Kingdom	BBB	41
France	A+	40
Belgium	A+	40

Egan-Jones Ratings Company

Economic Growth

After a sharp rebound in the third quarter of 2020, GDP growth lost momentum. The impact of the second lockdown on activity has not been as strong as the first one, but contact-intensive services have been hit hard again. Portuguese economy advanced 4.9% on quarter in the three months to June 2021, the same as in the preliminary estimate and recovering from a 3.2% drop in the first quarter when the country was under a coronavirus lockdown. Internal demand contributed 5.4 percentage points to growth and the contribution from external demand was less negative than in the previous period. Year-on-year, the economy expanded at a record 15.5%, following a record 16.4% slump a year earlier. The Portuguese government expects the economy to grow 4% in 2021.



Fiscal Policy

Fiscal policy is expected to remain supportive in 2021 until the recovery is firmly underway. A package of support measures was announced in March 2021, including tax deferrals, grants to firms in the most affected sectors, new credit lines with state guarantees and the extension of the short-time work schemes until September 2021. The implementation of the Recovery and Resilience Plan that includes EUR 13.9 billion of grants for the 2021-2026 period will gain momentum at the end of 2021.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Portugal	-6.26	125.70	99.99
Germany	-4.19	64.10	22.28
France	-8.79	97.00	39.75
Belgium	-8.97	103.10	41.42
Italy	-9.72	131.80	176.76
United Kingdc	-12.82	87.40	39.72

Sources: Thomson Reuters and IFS

Unemployment

The unemployment rate in Portugal edged lower to 6.7% in the second quarter of 2021, from 7.1% in the previous three-month period. It was the lowest rate in a year as the number of unemployed fell by 4.0% to 345.7 thousand and employment increased by 2.8% to 4.81 million. Similarly, the labor underutilization rate dropped to 12.3% from 14.1%, as the number of inactive persons available to work but not seeking a job decreased.

Unemployment (%)	2019	2020
Portugal	6.46	7.20
Germany	3.20	4.31
France	8.43	8.62
Belgium	5.36	5.55
Italy	9.95	9.31
United Kingd	3.74	4.34

Source: Intl. Finance Statistics

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Banking Sector

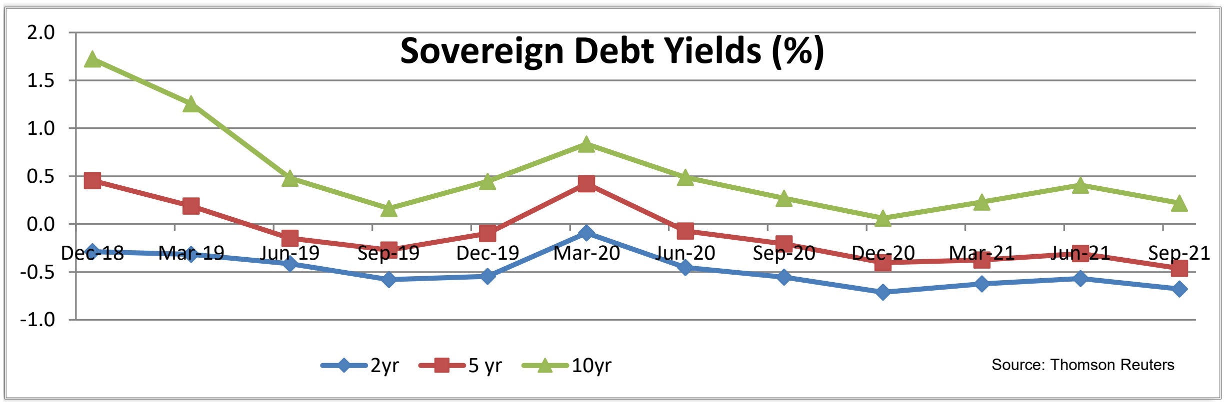
Portuguese banks lost 2,066 employees and 655 branches in 2020, compared to 2019, reaching the lowest number of branches since 1996 and the lowest number of employees at least since 1992. The decrease in employees in 2020 occurred mainly in the external activity of banks, which ended last year with 45,745 employees, the lowest value since the beginning of the long series of Banco de Portugal (BdP) data.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
Banco Comercial Portugues SA	85.7	1.84
Banco BPI SA	37.8	5.64
Total	123.5	
EJR's est. of cap shortfall at 10% of assets less market cap		8.6
Portugal's GDP		202.4

Funding Costs

Bank Lending Rate in Portugal increased to 2.17% in June from 2.15% in May 2021. Bank Lending Rate in Portugal averaged 5.14% from 2003 until 2021, reaching an all-time high of 8.08% in October 2008 and a record low of 1.63% in May 2020.



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 67.5 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom
World Rank 67.5*

	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	74.1	75.4	-1.3	53.6
Government Integrity	68.5	68.9	-0.4	45.9
Judical Effectiveness	68.2	65.6	2.6	45.4
Tax Burden	60.0	59.6	0.4	77.7
Gov't Spending	42.4	39.8	2.6	67.1
Fiscal Health	78.2	74.4	3.8	72.1
Business Freedom	75.9	76.5	-0.6	63.2
Labor Freedom	44.1	44.1	0.0	59.5
Monetary Freedom	85.0	83.0	2.0	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*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 seen a decline in taxes of 6.9% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 6.9% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
PORTUGAL REPUBLIC's total revenue growth has been less than its peers and we assumed a 5.9% decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	(6.4)	(6.9)	**(6.9)**	**0.5**
Social Contributions Growth %	(1.2)	1.2	**1.2**	**1.2**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(9.2)	**(9.2)**	**(9.2)**
Total Revenue Growth%	(4.5)	(5.0)	**(5.9)**	**(5.3)**
Compensation of Employees Growth%	2.9	3.7	**3.7**	**3.7**
Use of Goods & Services Growth%	2.8	1.4	**1.4**	**1.4**
Social Benefits Growth%	8.0	3.5	**3.5**	**3.5**
Subsidies Growth%	28.1	321.6		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.8	**1.8**	
Currency and Deposits (asset) Growth%	22.9	0.0		
Securities other than Shares LT (asset) Growth%	2.2	0.0		
Loans (asset) Growth%	10.8	(108.8)	**(6.9)**	**(6.9)**
Shares and Other Equity (asset) Growth%	(23.8)	(86.6)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	2.5	0.0		
Financial Derivatives (asset) Growth%	2.0	(30.1)	**(10.0)**	**(10.0)**
Other Accounts Receivable LT Growth%	8.0	(6.7)	**(6.7)**	**(6.7)**
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%	3.8	(6.6)	**3.0**	**3.0**
Currency & Deposits (liability) Growth%	0.7	3.5	**3.5**	**3.5**
Securities Other than Shares (liability) Growth%	14.5	11.8	**8.3**	**8.3**
Loans (liability) Growth%	3.6	2.4	**2.4**	**2.4**
Insurance Technical Reserves (liability) Growth%	10.3	0.0		
Financial Derivatives (liability) Growth%	10.1	(17.6)	**(17.6)**	**(17.6)**
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL OPERATING 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)

	2017	2018	2019	2020	P2021	P2022
Taxes	48,569	51,621	52,915	49,239	45,842	42,678
Social Contributions	22,694	23,860	25,274	25,566	25,861	26,160
Grant Revenue						
Other Revenue						
Other Operating Income	11,842	12,525	12,972	11,782	11,782	11,782
Total Revenue	83,105	88,006	91,161	86,587	83,485	80,621
Compensation of Employees	21,386	22,029	22,905	23,743	24,612	25,512
Use of Goods & Services	10,572	10,847	11,149	11,307	11,467	11,630
Social Benefits	36,013	37,248	38,745	40,112	41,527	42,992
Subsidies	823	799	853	3,596	3,596	3,597
Other Expenses				9,022	9,022	9,022
Grant Expense						
Depreciation	5,236	5,467	5,541	5,689	5,689	5,689
Total Expenses excluding interest	83,251	83,437	86,306	93,469	95,913	98,442
Operating Surplus/Shortfall	-146	4,569	4,855	-6,882	-12,429	-17,821
Interest Expense	7,398	6,902	6,331	5,787	5,894	6,002
Net Operating Balance	-7,544	-2,333	-1,477	-12,669	-18,322	-23,824

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	2017	2018	2019	2020	P2021	P2022
Currency and Deposits (asset)	19,887	16,645	14,508	23,934	23,934	23,934
Securities other than Shares LT (asset)	2,689	3,242	5,630	5,856	5,856	5,856
Loans (asset)	19	-33	102	-9	-8	-8
Shares and Other Equity (asset)	202	668	670	90	92	94
Insurance Technical Reserves (asset)	75	75	60	61	61	61
Financial Derivatives (asset)	549	436	655	458	412	371
Other Accounts Receivable LT	11,979	12,590	12,676	11,821	11,024	10,280
Monetary Gold and SDR's						
Other Assets					47,500	47,500
Additional Assets	40,428	40,183	44,939	47,500		
Total Financial Assets	75,828	73,806	79,240	89,711	88,870	88,088

LIABILITIES	2017	2018	2019	2020	P2021	P2022
Other Accounts Payable	13,787	12,895	12,383	11,571	11,918	12,276
Currency & Deposits (liability)	29,952	31,334	32,283	33,415	33,415	33,415
Securities Other than Shares (liability)	160,274	167,720	179,156	200,369	216,976	234,960
Loans (liability)	76,449	69,697	67,097	68,692	87,014	110,838
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)	1,504	886	870	717	591	487
Other Liabilities	2,276	94	95	95	95	95
Liabilities	284,242	282,626	291,884	314,859	332,340	355,381
Net Financial Worth	-208,415	-208,819	-212,644	-225,147	-243,469	-267,293
Total Liabilities & Equity	75,827	73,807	79,240	89,712	88,870	88,088

*EJR Sen Rating(Curr/Prj) BBB-/ BBB-
*EJR CP Rating: A2
EJR's 3 yr. Default Probability: 2.3%

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 "BB"; 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 (Non-NRSRO)

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+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have 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 Methodologies for Determining Credit Ratings (Main Methodology) version #15a 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 projections on pages 1, 6, and 7 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 dependent 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 information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting and other issues. Such issues 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 publicly available information from the IMF, governmental filings and other similar sources for ratings on sovereign 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%	(6.9)	(2.9)	(10.9)	BB	BB	BB-
Social Contributions Growth %	1.2	4.2	(1.8)	BB-	BB	BB-
Other Revenue Growth %		3.0	(3.0)	BB-	BB-	BB-
Total Revenue Growth%	(5.9)	0.1	(7.9)	BB-	BB-	BB-
Monetary Gold and SDR's Growth %	(6.7)	(4.7)	(8.7)			
				BB-	BB-	BB-

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**

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Subramanian NG
Senior Rating Analyst

September 02, 2021
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Reviewer Signature: **Today's Date**

Steve Zhang
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Steve Zhang
Senior Rating Analyst

September 02, 2021
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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.