

Portuguese Republic

This annex refers to the release of the monitoring note of 11 June 2021.

Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

| Implied rating of core variable scorecard (CVS) | | bbb+ |
|--|--|-----------------|
| Reserve currency adjustment | | 1 |
| Weight | Qualitative scorecard (QS) for long-term issuer ratings | |
| 20% | Growth potential of the economy | Weak |
| | Monetary policy framework | Neutral |
| | Macro-economic stability and sustainability | Weak |
| 20% | Fiscal policy framework | Neutral |
| | Debt sustainability | Neutral |
| | Debt profile and market access | Neutral |
| 20% | Current account resilience | Neutral |
| | External debt structure | Neutral |
| | Resilience to short-term shocks | Neutral |
| 20% | Banking sector performance | Neutral |
| | Banking sector oversight | Neutral |
| | Financial imbalances | Neutral |
| 20% | Environmental risks | Neutral |
| | Social risks | Weak |
| | Institutional and political risks | Strong |
| QS adjustment (notches) | | -1 |
| Additional considerations (notches) | | 0 |
| Final rating | | BBB+ STA |

Annex II: Selected indicators

| | 2016 | 2017 | 2018 | 2019 | 2020E | 2021F | 2022F |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| GDP per capita (USD '000s) | 20.0 | 21.5 | 23.6 | 23.3 | 22.5 | 25.1 | 27.1 |
| Real GDP, % change | 2.0 | 3.5 | 2.8 | 2.5 | -7.6 | 3.9 | 4.8 |
| CPI, % change | 0.6 | 1.6 | 1.2 | 0.3 | -0.1 | 0.9 | 1.2 |
| General government balance, % of GDP | -1.9 | -3.0 | -0.3 | 0.1 | -6.1 | -5.0 | -1.9 |
| General government debt, % of GDP | 131.5 | 126.1 | 121.5 | 116.8 | 131.6 | 131.4 | 125.6 |
| Current account balance, % of GDP | 1.2 | 1.3 | 0.6 | 0.4 | -1.2 | -0.6 | 0.3 |
| Gross external debt, % of GDP | 205.5 | 197.8 | 192.8 | 190.3 | 198.7 | - | - |

Source: Macrobond, IMF, Bank of Portugal, Scope Ratings GmbH

Annex III: Economic development and default indicators

IMF Development Classification²

AE

5y USD CDS spread (bps) as of 10 June 2021

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¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scooperatings.com. In line with this methodology, movements between indicative ratings are not immediate but executed after analyst review of CVS results. The rating committee approved an implied rating of core variable scorecard (CVS) of 'bbb+'.

² AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

| Portugal | January 2021 | Assessment | Rationale |
|--------------------------|---|------------|---|
| Peers* | Bulgaria, Hungary, Italy, Poland, Slovakia, Spain | | |
| Domestic economic risk | Growth potential | Weak | Moderate growth potential |
| | Monetary policy framework | Neutral | Highly credible and effective central bank; appropriate response to the 2020 global crisis |
| | Macro-economic stability & sustainability | Weak | Small economic base with limited diversification; fragmented labour market |
| Public finance risk | Fiscal policy framework | Neutral | Track record of prudent fiscal policy, including elevated primary surpluses prior to Covid-19 shock |
| | Debt sustainability | Neutral | Debt expected on a downward trajectory after the shock, although to remain elevated longer term |
| | Debt profile & market access | Neutral | Strong market access in line with peers; high cash buffer and safe debt composition |
| External economic risk | Current account resilience | Neutral | Dependence on tourism sector may temporarily weaken external trade |
| | External debt structure | Neutral | Elevated debt stock, with meaningful shares by the government and central bank |
| | Resilience to short-term shocks | Neutral | Euro area membership shields against short-term external shocks |
| Financial stability risk | Banking sector performance | Neutral | Banking-system capitalisation remains sound, but declining profitability |
| | Banking sector oversight | Neutral | Effective oversight under European Banking Union authorities and the Bank of Portugal |
| | Financial imbalances | Neutral | Low savings and high private indebtedness |
| ESG risk | Environmental risks | Neutral | Exposure to natural disasters, ambitious commitment to achieve carbon neutrality by 2050 |
| | Social risks | Weak | Adverse demographics, income inequality and risk of social exclusion |
| | Institutional and political risks | Strong | Resilient institutional framework; comparatively stable and reform-oriented political environment |

*Peers relate to selected sovereigns with a similar indicative rating per Scope's Core Variable Scorecard.