Portuguese Republic Rating Report

SCOPE BBB POSITIVE OUTLOOK

Credit strengths

- Euro area membership
- Ongoing unwinding of imbalances
- Sustained primary surpluses
- Favourable public debt profile

Credit weaknesses

- High public and external debt
- High private sector debt
- Elevated ageing-related liabilities
- Low potential growth

Rating rationale and Outlook:

The BBB rating is supported by Portugal's euro area membership, economic recovery, on-going reduction of economic, fiscal and external imbalances, strengthening banking sector, resilient debt structure and commitment to fiscal consolidation. Very high public, private and external debt levels, including elevated ageing-related obligations, and comparatively low potential growth rates, pose challenges.

The Positive Outlook reflects i) Scope's view that, in the context of relative political stability, the Portuguese authorities' commitment to reducing the elevated public debt stock will continue even after the elections in October – regardless of the next government formation – and despite the cyclical slowdown and ii) the continuous unwinding of economic imbalances.

Figure 1: Sovereign scorecard results

Scope's sovereign risk categories	Portugal	Peer comparison	
		Average	Spain
Domestic economic risk			
Public finance risk			
External economic risk			
Financial risk			
Political and institutional risk			
Qualitative adjustment (notches)	-		2
Final rating	BBB		A-

AAA AA A BBB BB B CCC CC C

NB. The comparison is based on Scope's Core Variable Scorecard (CVS), which is determined by relative rankings of key sovereign credit fundamentals. The CVS peer group average is shown together with one selected country chosen from the entire CVS peer group. The CVS rating can be adjusted by up to three notches depending on the size of relative credit strengths or weaknesses.

Positive rating-change drivers

- Steady reduction in public debt
- Higher growth potential
- Reduction of imbalances

Negative rating-change drivers

- Reversal of fiscal consolidation
- Markedly lower GDP-growth
- Increases in imbalances

Ratings and Outlook

Foreign currency

Long-term issuer rating	BBB/Positive
Senior unsecured debt	BBB/Positive
Short-term issuer rating	S-2/Stable

Local currency

Long-term issuer rating	BBB/Positive
Senior unsecured debt	BBB/Positive
Short-term issuer rating	S-2/Stable

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Related research

Portugal, Spain and Italy: Fiscal Convergence or Divergence?
1 February 2019

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Bloomberg: SCOP

Domestic economic risk

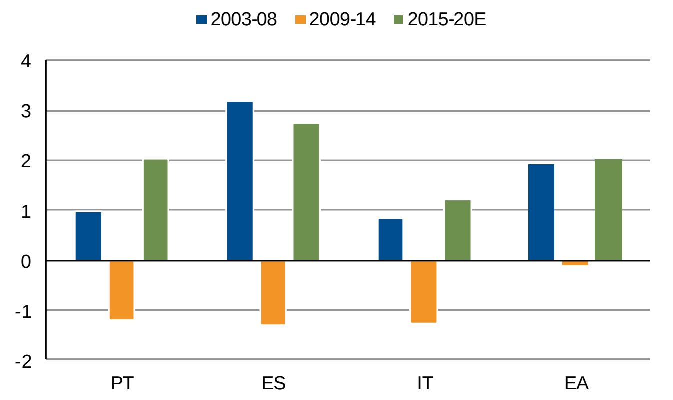
Growth potential of the economy

Structural turnaround resulting in growth rates in line with euro area

Following two consecutive shocks, namely the Great Financial Crisis and the euro area crisis, during which Portugal lost full market access and requested financial assistance in May 2011 amounting to EUR 78bn, the Portuguese economy has undergone a significant structural adjustment. Since Portugal exited the three-year economic adjustment programme in June 2014, its economy has grown, on average, around 1.9%, in line with the euro area average, driven by the rebalancing of the economy towards the tradable sector, in particular tourism, strong private consumption due to the turnaround in the labour market and a sustained rebound in investment.

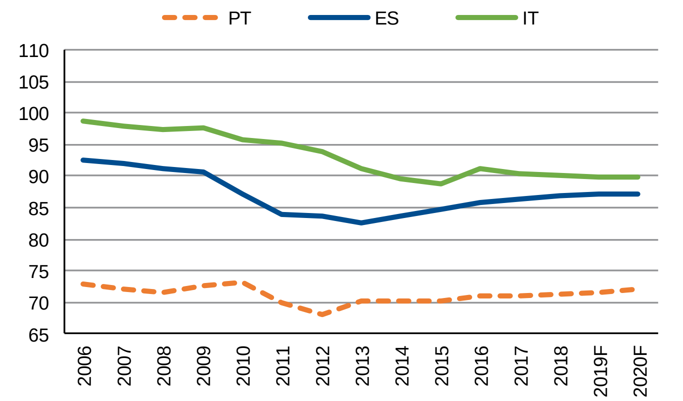
Portugal has also benefited from the European Central Bank's accommodative monetary policy and favourable external conditions, particularly in the euro area. Finally, the stabilisation of the banking system is now also facilitating the efficient reallocation of resources thus contributing to the investment recovery of the Portuguese economy. Still, to date, the recovery has been insufficient to facilitate convergence in terms of income per capita levels, which remain close to pre-crises levels and below peers and the euro area average.

Figure 2: Average real GDP growth, %



Source: Haver, INE, Scope Ratings

Figure 3: Gross national income per capita, % EA average



Source: Haver, EC, Scope Ratings

Moderate growth rates over the medium-term

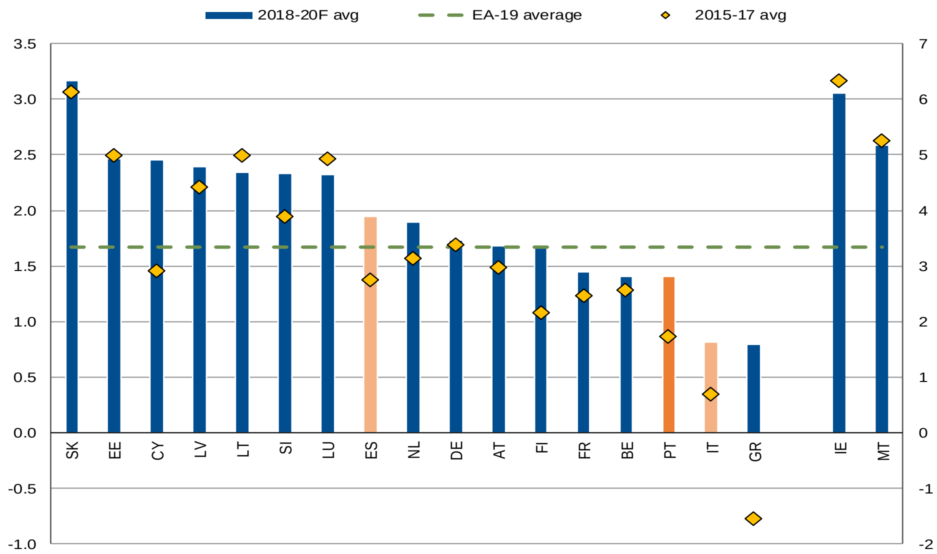
Going forward, Scope expects growth rates to slow down from the 2.1% level recorded in 2018 to around 1.5% over the medium-term, in line with the long-term growth potential of the economy. As the output gap remains positive in the subsequent years and growth gradually converges towards potential, Scope expects fiscal policy support to remain mildly positive, and private consumption and investment to soften gradually. Continued household deleveraging, in light of low savings rates, and a slowdown in employment growth is likely to dampen consumption somewhat, despite modest wage increases. Investment growth is expected to remain robust over the medium term due to the need to rebuild capital stock, the use of EU structural funds and the maintenance of favourable financing conditions[1]. However, downside risks coming from the heightened uncertainty in the international environment may dampen investments, as well as the contribution to growth from net exports, which is expected to remain broadly in balance over the medium term, reflecting weaker external demand.

[1] European Commission, Country specific recommendation, February 2019

Subdued productivity growth and demographic challenges constrain growth potential

Still, Portugal's long-term economic growth prospects face considerable challenges. The IMF estimates potential growth at around 1.4%, in line with the European Commission's estimate, constrained by structural bottlenecks, including weak productivity growth, in part due to low investment levels, skill shortages and unfavourable labour force demographics. These constraints are reflected in Portugal having the third lowest potential GDP growth rate among the euro area members, just above Italy and Greece.

Figure 4: GDP potential growth, 3Y average (2018-2020F), %



Source: Haver, AMECO, Scope Ratings
Nb. IE and MT on RHS.

Economic policy framework

Comprehensive reforms during crisis period…

Economic growth has also benefited from an overall effective economic policy framework, and in particular from the comprehensive reforms of the Portuguese authorities combined with the changes in the institutional architecture of the euro area, along with the on-going accommodative monetary policy pursued by the European Central Bank. During the crisis, and since the economic adjustment programme, the Portuguese authorities demonstrated an ability to legislate and implement comprehensive economic, fiscal and financial sector reforms that are underpinning Portugal's economic recovery.

…at the national…

In this context, Scope notes the implementation of structural reforms to boost potential growth, create jobs and improve competitiveness, a fiscal consolidation strategy, supported by structural fiscal measures and better fiscal control over public-private partnerships and state-owned enterprises, and a financial sector strategy based on recapitalisation and deleveraging[2].

…and European level.

At the same time, Portugal, along with all euro area member states, benefited from the overhaul of the euro area architecture, which now provides for a greater degree of resilience to adjust to crises as and when they emerge. While further progress is needed to deepen the Economic and Monetary Union – notably the completion of the Banking and Capital Markets unions – the establishment of the European Stability Mechanism as the conditional lender of last resort for sovereigns, along with the ECB's unconventional and accommodative monetary policy programmes[3], has been appropriate for Portugal.

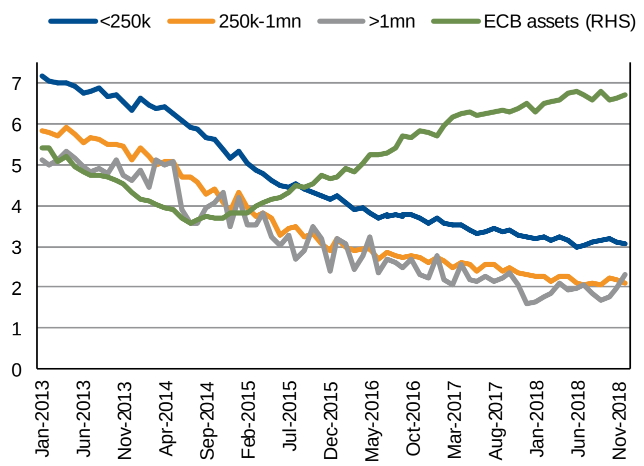
[2] European Commission.
[3] The ECB's accommodative monetary stance is determined by the low level of interest rates, the expectation that they will remain low over a prolonged period, the large volume of securities acquired via the Asset Purchase Programme, and the commitment to reinvest securities as they mature for as long as may be necessary.

Significant decline in financing rates for economy

In Scope's opinion, the national structural reforms, combined with the euro area governance reforms and the ECB's actions, have led to a significant decline in financing rates for all sectors of the economy including non-financial corporations, whose borrowing rates have dropped between 400 and 500bp depending on loan size and maturity.

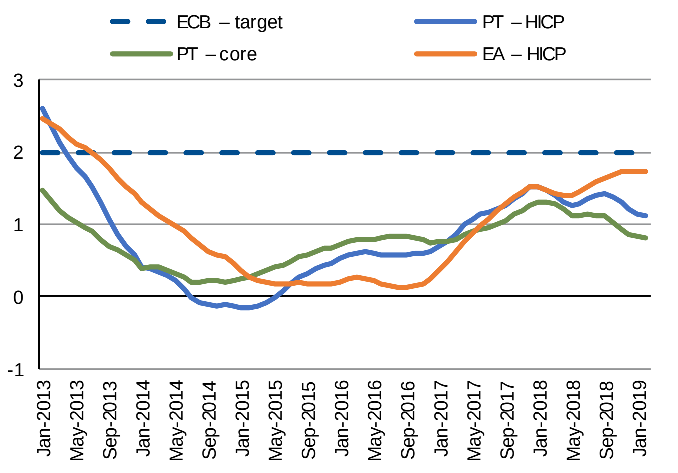
At the same time, Scope notes that in the case of Portugal, the sustained accommodative monetary policy stance is also adequate in light of still-subdued price levels. While headline inflation rose to 1.2% last year driven by higher energy prices, the price level is again declining towards core inflation of around 1%. This is still markedly below the ECB's target of close to but below 2%. In the subsequent years, inflation is expected to remain at moderate levels at around 1.5%, as upward pressures from a tighter labour market (and consequently raising wages) as well as rising housing prices will be partially offset by a decline in global energy prices.

Figure 5: NFC borrowing rates (%) and ECB assets (% of GDP)



Source: Haver, ECB, Scope Ratings

Figure 6: Harmonised index of consumer prices, %



Source: Haver, ECB, Eurostat, Scope Ratings

Macro-economic stability and sustainability

Labour market turnaround…

Scope identifies two macro-economic vulnerabilities, specifically, Portugal's high-share of low-income jobs and subdued investment levels. Scope notes positively that, based on INE data, Portugal has recovered around 530k of the 800k jobs lost during the crisis and reduced unemployment to 6.6% as of December 2018, the lowest level since 2002, and indeed a level below the euro area average of 8.4% (2018E). In addition, even if at a slower pace, employment is still growing despite recent minimum wage rises to EUR 600.

…but high share of low-wage earners persists despite growth in jobs with higher levels of education

Since 2013 most jobs were created in sectors related to real estate, water and sanitation, ICT and financial services, that is, jobs for employees with higher levels of education. While Scope views this positively, the share of employees covered by the minimum wage remains elevated at around 20%, and around 70% of employees earn less than EUR 1.200 per month (73% in 2013). Similarly, the percentage of the low skilled labour force, defined as individuals with lower secondary education or below, remained high at 46% in 2017, down from 61% in 2011 but still markedly above the EU average of 20%.

In this respect, the EC commends the government's introduction of programmes and active labour market policies to improve education and skills. In fact, the youngest segment of the labour market (25-39 years) shows improvements: the share of low skilled employees dropped to 30% in 2017 from 43% in 2012, which however, remains the highest share in the euro area.

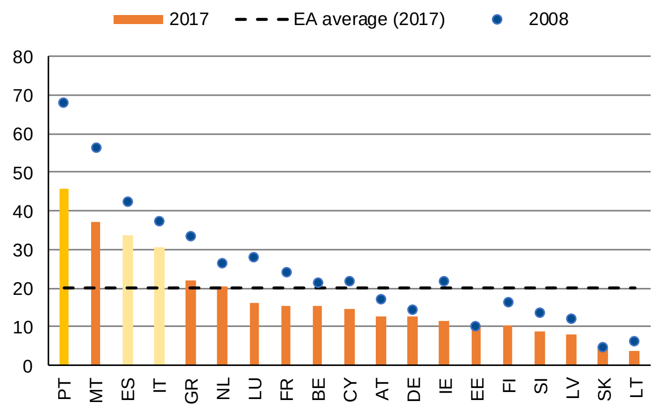
In Scope's opinion, the high, albeit declining, level of low-skilled, low-income jobs, could weigh on productivity in the long run and amplify inequality. Portugal's in-work poverty rate, at 10.8% in 2017 according to Eurostat data, is among the highest in the euro area, even if slightly lower than peers. In this context, the recent increase in the minimum wage may reduce some immediate social pressures. However, given the overall relatively low level of wages, the education premium could be reduced, hampering incentives to invest in skills and thus adversely affecting productivity over the medium-term.

Low investment level constitutes a potential long-term productivity challenge

At the same time, Scope notes that despite the recent recovery in investments, the overall investment-level of the economy, at 17.1% of GDP for 2018, remains significantly below the euro area average of 20.9% of GDP. This reflects the sharp decline in gross-fixed capital which is down around 3pp of GDP since 2010; a substantial decline since the peak of 28% of GDP recorded in 2000. Conversely, Scope notes that investments excluding the construction sector have recovered since Q2 2013 and are now almost back to the pre-crisis level.

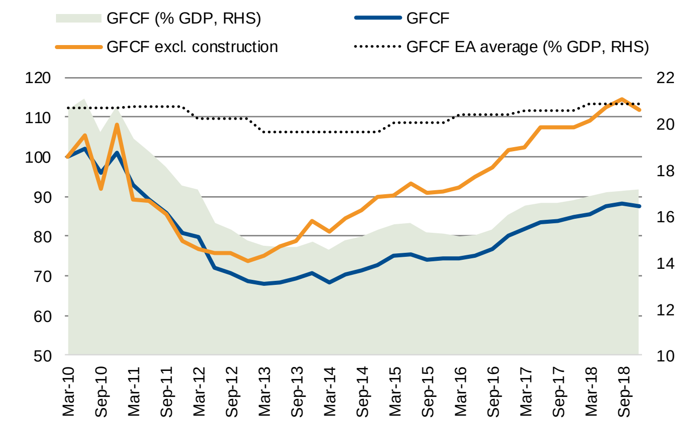
Challenges for further investment are mainly structural as Portugal's economy remains anchored in low value-added and technology sectors and the share of SMEs, which face size constraints, remains high. In this context, Portuguese authorities are intervening with an ambitious agenda for fostering innovation and R&D investments, as well as improving access to finance for businesses. Increasing foreign direct investments are also helping to reduce the investment gap. Finally, given the importance of EU funds for co-financing public investment projects, Scope notes that public investment – although it remains below pre-crises levels and peers – is likely to gather pace in the coming years.

Figure 7: Share of low skill employed, 15-64 years (%)



Source: Haver, INE, Scope Ratings

Figure 8: Investment
Gross fixed capital formation; 2010=100; % of GDP (RHS)



Source: Haver, INE, AMECO, Scope Ratings

Public finance risk

Fiscal policy framework

Comprehensive fiscal framework at EU and euro area level

As a European Union member, Portugal is part of the EU's fiscal policy framework, which is centred around the 1997 Stability and Growth Pact (SGP)[4]. In addition to these rules

[4] This pact has been modified via the 2005 reforms, the 2011 Six Pack (five regulations and one directive), and the 2013 Two Pack (two regulations), as well as the Treaty on Stability, Coordination, and Governance of 2012 (Fiscal Compact). The 1997 SGP included three EU-wide rules: ceilings of 3% of GDP for the overall fiscal deficit and 60% of GDP for public debt (corrective arm), and a requirement for medium-term budget positions to be 'close to balance or in surplus' (preventive arm). The 2005 reform of the SGP aimed at enhancing the economic rationale underlying the rules and improving their flexibility by introducing country-specific medium-term objectives (MTOs) set in structural terms. The Six Pack reform in 2011 was designed to improve enforcement by adding an expenditure benchmark to the preventive arm and making the debt criterion in the corrective arm operational. The Fiscal Compact and Two Pack reforms of 2012 and 2013 reinforced monitoring and surveillance in the euro area and called for anchoring EU rules at the national level. In 2015, revised guidance on the implementation of the SGP increased its flexibility to encourage investment and structural reforms and to account for the economic cycle.

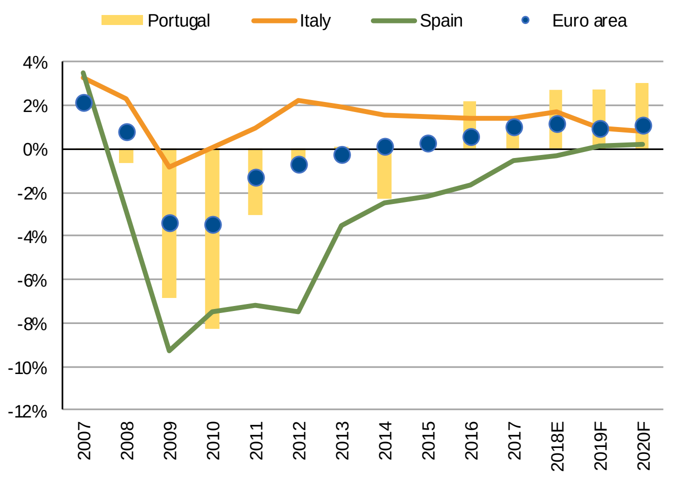
national legislation also sets a multi-annual limit for expenditure financed by general revenue, specifically the Multi-annual Budgetary Planning Framework (MBPF).

In this context, Scope notes that the full effective implementation of the Budget Framework Law – designed to make budget units more accountable and strengthen the medium- to long-term focus of public finances – has been postponed by 1.5 years to April 2020. Thus, only the 2021 budget is planned to be prepared under the new rules, which aim to ensure a growth-friendly path for structural fiscal consolidation.

High primary surpluses sustain fiscal consolidation

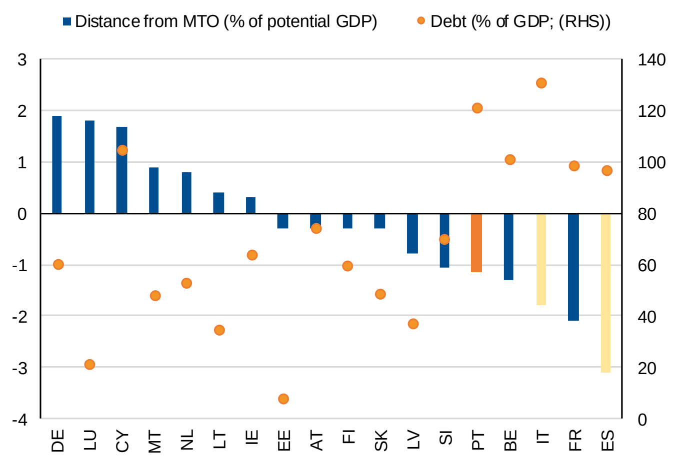
Against this backdrop, Scope notes that Portugal reduced its fiscal balance to 2.0% in 2016, down from 11.2% in 2010, which led to the country's exit of the EU's Excessive deficit procedure in June 2017. While in 2017 the government deficit stood at 3.0% of GDP, interrupting the path of reducing the nominal deficit, mainly due to the Caixa Geral de Depósitos (CGD) recapitalisation operation, Portugal's fiscal balance stood at -0.5% in 2018 and is expected to stay close to balance, and even in surplus, over the coming years[5]. The strong consolidation is supported by the favourable, albeit moderating growth outlook, but especially the high primary surpluses, which Scope – conservatively compared to the government, the IMF and the EC – expects to remain at around 2% to 2.5% of GDP in the medium term, among the highest in the euro area.

Figure 9: Primary balances, % of GDP



Source: Haver, AMECO, Scope Ratings

Figure 10: Differences between structural balances and medium-term objective, 2019E, based on November 2018 data



Source: ECB, Scope Ratings. NB. Based on EC data published in November 2018

Mostly cyclical adjustment…

Scope notes the mostly cyclical nature of the adjustment due to the favorable economic environment, improving labour market conditions, resulting in lower benefits, and the lower interest charges stemming from improved market financing conditions and early repayments of IMF loans[6]. In addition, as highlighted by the EC, the adjustment has also been accompanied by a steady reduction in public investment.

…but gains expected to be sustained with unchanged fiscal policy resulting in high primary surpluses

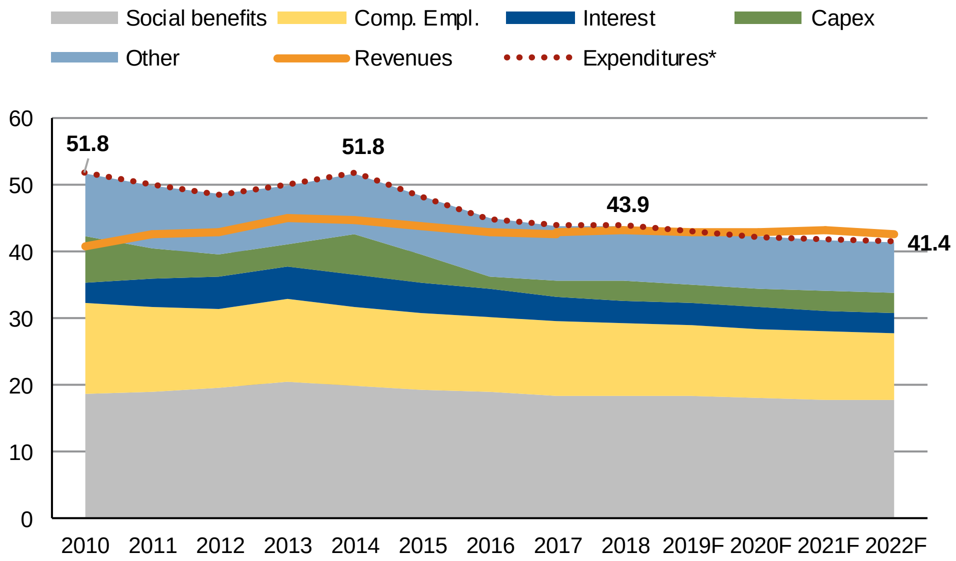
Looking at expected revenue and expenditure developments, Scope notes that tax revenues are likely to remain unaltered over the coming years. Conversely, the EC estimates minor increase in the number of employees and the wage bill, at around 0.2% of GDP in 2018 and 2019. However, these expenditure increases are also partially off-set by the ongoing spending review which is expected to yield savings of EUR 236 million (around 0.1 % of GDP) as it is gradually expanded to new sectors including justice and internal affairs, in addition to education, healthcare, State Owned Enterprises, public

[5] In 2017 one-offs include in particular the 2.0% of GDP impact of the public recapitalisation of Caixa Geral de Depósitos. In 2018 the one-offs include in particular the 0.4% of GDP impact of the activation of the Novo Banco contingent capital mechanism.
[6] http://www.cfp.pt/news/cfp-analyses-the-local-government-budget-outturn-for-2017/?lang=en#.Www-NkiFOUk

sector real estate management and centralised public procurement. Finally, Scope also notes positively that the steady decline in public investment, which stood at 1.8% of GDP in 2017 down from 5.3% in 2010, is expected to reverse, albeit modestly, over the coming years to around 2.5% of GDP.

Overall, Scope expects a broadly unchanged fiscal policy stance over the coming years, with the structural deficit remaining at around 1% of GDP for the 2018-20 period, significantly above peers such as Italy (-2.8%) and Spain (-3.2%). As a result, even in the absence of additional consolidation efforts, the EC's baseline assumptions for the 2019-23 period point to an average structural primary balance of 2.2% of GDP for Portugal, markedly above those of Italy (0.4%) and Spain (-1.1%).

Figure 11: Portugal's total revenues and expenditure composition, % of GDP



Source: IGCP, Statistics Portugal, Scope Ratings

Debt sustainability

On-going fiscal consolidation but debt levels still high

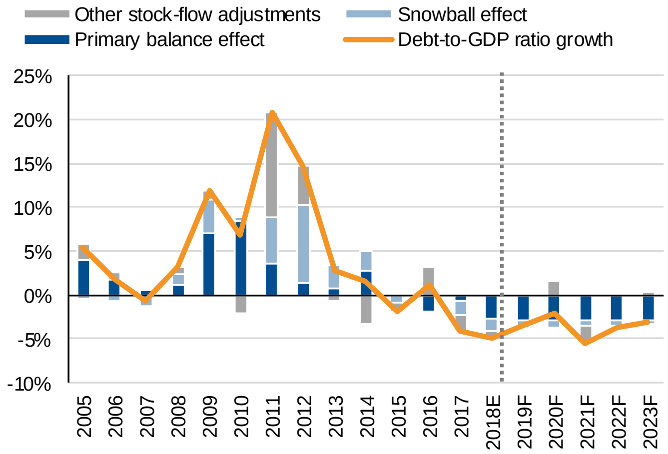
On this basis, Portugal's general government debt level, which peaked in 2014 at 130.6% of GDP, has gradually declined to 121.5% in 2018, which is below the level of Italy (131.1%) but significantly above Spain (96.9%) and the 60% Maastricht criterion. In Scope's opinion, this elevated debt burden constitutes a major rating constraint, as it is harmful to economic growth and entails a source of vulnerability for the economy, in addition to reducing the stabilising capacity of the public budget.

Marked decline in debt level driven by primary surpluses and negative snowball effect

Scope's public debt sustainability analysis, based on IMF forecasts and a combination of growth, interest-rate and primary-balance shocks, confirms that Portugal's debt trajectory still faces significant risks, given a sizeable debt burden and elevated gross financing needs. On the basis of Portugal's high debt level, expected narrowing fiscal deficits going forward, and more moderate growth rates, Scope's baseline scenario is for the debt-to-GDP ratio to fall around 102.8% by 2023, while even a more adverse scenario assuming a combined 1 percentage point shock to real GDP growth (lower) and interest payments (higher) and a 2 percentage point shock to the primary balance (lower) for each year over the forecast horizon would leave the debt-to-GDP ratio essentially unchanged at around 123.3% by 2023.

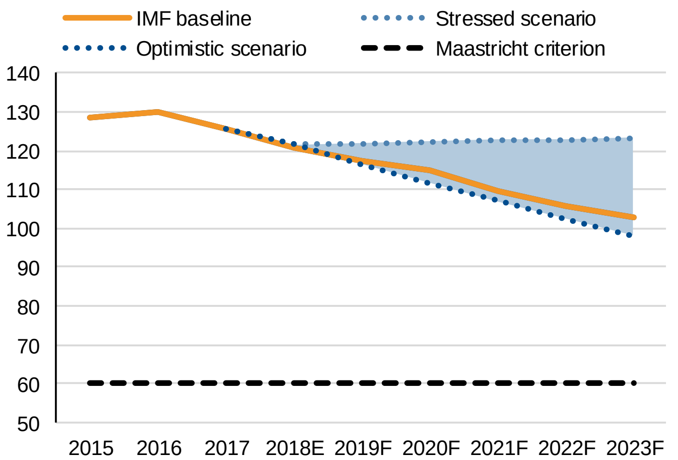
Scope notes that despite this projected decline, below the 131% peak of 2014 and Italy's debt level (131%), the debt-to-GDP ratio would still be at a high level, markedly above, even if converging to, the debt level of Spain (98%), the IMF's debt burden benchmark for advanced economies of 85% of GDP and the 60% Maastricht criterion. Portugal thus remains vulnerable to macro-economic and financial market shocks pointing to the need to maintain relatively high growth rates as well as sustain a significant level of fiscal consolidation over a multi-year period.

Figure 12: Contribution to gov. debt changes, % of GDP



Source: IMF, Scope Ratings. NB: Other includes stock-flow adjustments.

Figure 13: Government debt, % of GDP



Source: IMF, Scope Ratings

Scenario	Time period	Real GDP growth avg. (%)	Primary bal. (% of GDP)	Real eff. int. rate (%)	Debt end period (% of GDP)
History	2013-2018*	1.4	0.3	1.5	120.8
IMF baseline		1.5	2.9	0.9	102.8
Optimistic scenario	2019-2023	2.0	3.2	0.7	98.0
Adverse scenario		0.5	0.9	1.5	123.3

Source: *IMF October 2018, Scope Ratings. NB. For consistency Scope relies on IMF data for this analysis, which however has become slightly outdated. Debt at end 2018 stood at 121.5% of GDP; the average primary balance was 0.7%. See March 2019 Portuguese Public Finance Council publication.

Scope notes that Portugal's debt sustainability can also be affected by contingent liabilities, including ageing-related expenditure, the financial sector, State Owned Enterprises (SOEs), and state guarantees. While these risks are present, the potential impact on the government's budget has, with the exception of ageing-related expenditure, declined over the past few years.

Moderate pension liabilities but elevated implicit healthcare liabilities

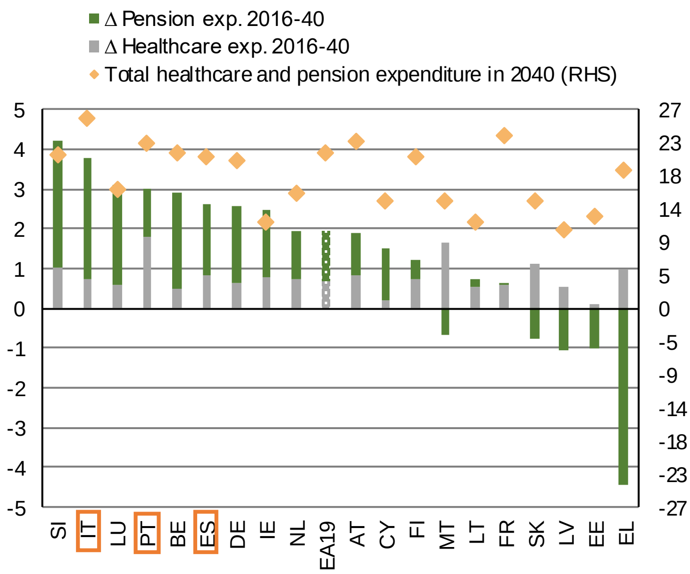
In line with peers, the ageing population is contributing to fiscal pressures in Portugal. Following several reforms which have improved the long-term sustainability of the pension system, albeit, according to the IMF via a backloading effort to protect current pensioners, pension-related expenditure is expected to decrease slightly over the 2070 horizon, in line with Spain and Italy, according the latest EC ageing report. Still, Scope notes that Portugal's 2016 pension spending of 13.5% of GDP, was the fifth highest among the EU28 members. In addition, Portugal's healthcare-related expenditure is set to increase from 5.9% of GDP in 2016 to 7.7% by 2040, above the levels of Spain (6.7%), Italy (7.0%) and the euro area average of 7.5%[7].

Scope also notes that following additional state budget transfers of EUR 1.4bn in 2018, hospital arrears have declined to around EUR 520mn as of February 2019. While the

[7] EC 2018 Ageing Report

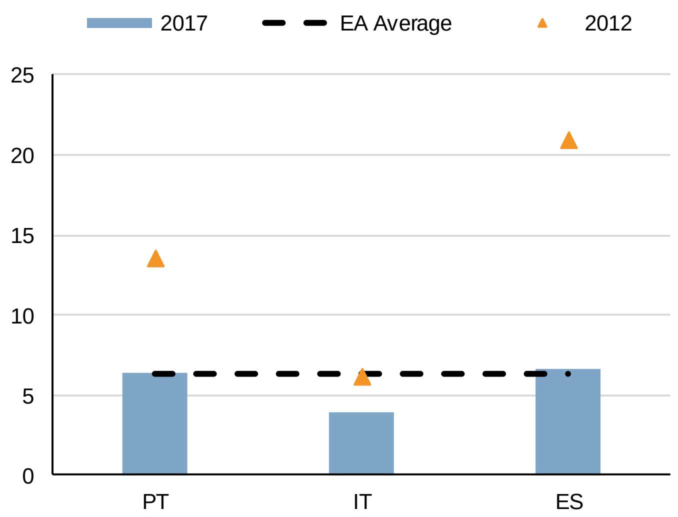
Portuguese authorities aim to enhance hospital governance and funding models, the pattern of periodic financial support points to the ongoing risk of further financial needs.

Figure 14: Implicit liabilities, % of GDP



Source: Haver, EC, Scope Ratings

Figure 15: Government guarantees, % of GDP



Source: Haver, EC Ageing Report 2018, Scope Ratings

Contingent liabilities from financial sector, SOEs and government guarantees contained

Looking at the financial sector, Scope notes the possible deficit increasing impact of further support measures from an additional activation of the Novo Banco contingent capital mechanism beyond the amount already included in the DBP 2019 of around 0.2% of GDP up to the annual limit of 0.4% of GDP. The total limit of this mechanism is around EUR 3.9bn. Similarly, SOEs remain a source of vulnerability given recurring, though decreasing losses. Specifically, while SOEs' total net income has improved from a loss of EUR 1.3bn in 2014 to a loss of around 0.5bn in 2017, losses are also expected in 2018 of around 118mn, with a one-year delay on the policy target of net income in equilibrium, now postponed to 2019. Finally, general government guarantees amount to 6.4% of GDP as of 2017, in line with those of Spain (6.7%) but above Italy (3.9%).

Market access and funding sources

Significantly smoothened debt profile

Scope notes that in the coming years Portugal's gross financing needs should remain below 20% of GDP, the IMF's vulnerability benchmark for advanced economies. Specifically, Portugal's active debt management including accelerated full early repayment to the IMF, bond buy-backs and exchanges as well as longer-term issuances, has smoothened the redemption profile. Gross financing needs are estimated at EUR 16.9bn for 2019, down from EUR 20.6bn in 2018, and EUR 10.3bn in 2020[8]. It is only in 2021 that financing needs rise again to EUR 17.0bn. At the same time, the Treasury's cash buffer is projected to increase from EUR 9.3bn last year to EUR 10bn in 2020 ahead of the high redemptions in 2021. As a result, over the 2019-2021 period, the cash buffer will remain well above 50% of the following year's gross financing needs before dropping to around 41% in 2021 (for the expected 2022 financing needs).

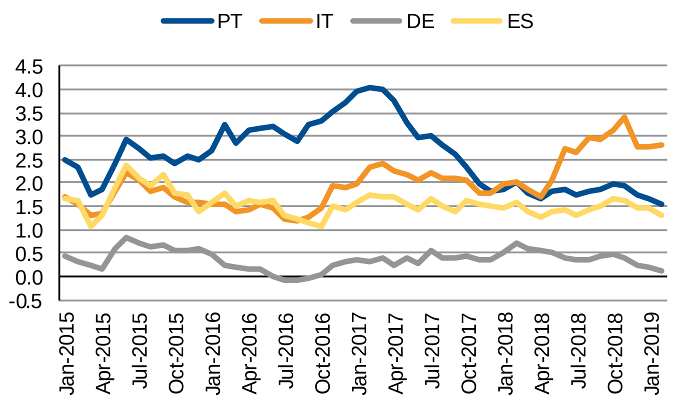
Lower funding costs, extended maturity, stable investor base

In the current favourable financing environment, which has resulted in the cost of debt outstanding dropping from 4.1% in 2011 to below 3.0% in 2018, the treasury's prudent debt funding strategy extended the average life of debt outstanding from 5.3 years in 2012 to 6.2 years in December 2018, excluding EU-IMF loans. Once these are included,

[8] IGCP, Investor relation, March 2019

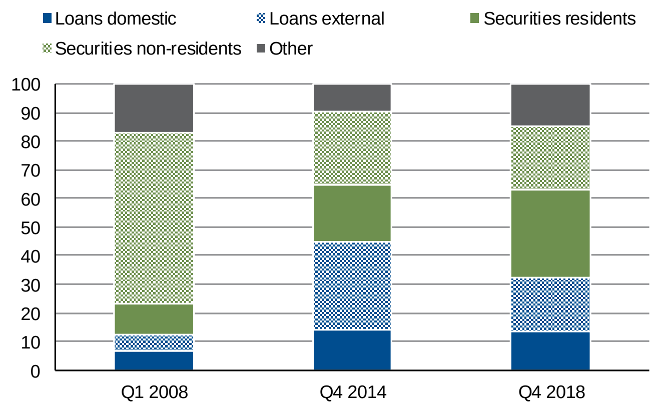
the average maturity rises to 7.8 years, above that of Spain or the euro area average (seven years). In Scope's opinion this favourable maturity structure, combined with the treasury's solid cash buffer, limits the near-term risk of temporary market fluctuations or rising yields, as observed when Italian yields spiked during 2018 and, contrary to previous confidence shocks, Portuguese yields remained largely unaffected.

Figure 16: Spread on 10-year Government bond yield



Source: FT, BdI, TPI, BDE

Figure 17: Government debt holders, % of total



Source: Haver, Bank of Portugal, Scope Ratings

ECB's purchases shift investor base

As a result of the financial assistance programme as well as the ECB's public-sector purchase programme, the composition of Portugal's debt holders has changed markedly over the past few years. Prior to the crisis non-residents held most of Portuguese debt which in a first step was substituted with the bilateral loans from the public creditors. In a second step, the Eurosystem, specifically, the Bank of Portugal, has purchased debt securities on the market, and as of December 2018 holds around EUR 36.8bn in Portuguese bonds, or around 29.5% of total issued debt.

Both developments have resulted in a pronounced drop in the share of non-resident debt securities holdings, which, as a share of general government debt declined to around 22.2% in Q4 2018, down from around 60% in Q1 2008 whereas measured as a share of debt securities only, non-resident holdings fell from above 80% to around 42% over the same 10-year period.

As the ECB's net asset purchases have ended (though reinvestments of principal will continue), future demand is now likely to come from domestic banks and possibly fund managers which have re-engaged with the Portuguese market since 2017. In addition, the recent increase in retail issuance is also an important development to both diversify sources of financing and provide an alternative vehicle for household savings.

ESM permanent regional financing arrangement

Finally, from an institutional perspective, Scope views positively that the ESM has been established as a credible, conditional lender of last resort to all euro area member states, further enhancing the resilience and sustainability of Portugal's market access.

External economic risk

Current-account vulnerabilities

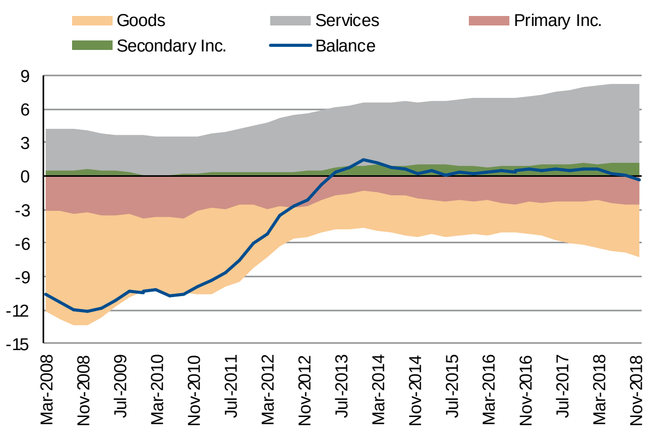
Balanced current account to slow external rebalancing in the medium term

Portugal has recorded minor current account surpluses since 2013, a significant turnaround after posting a deficit of 12.1% in 2008. This structural adjustment was driven by a strong performance for services exports, in particular tourism and transport, a declining negative goods balance, a mild decline in the primary (income) balance due to lower interest rates and recently a slight uptick in the secondary income reflecting higher inflows from EU funds. During this rebalancing process, Portugal's economy has become much more open, with the proportion of exports of goods and services relative to GDP increasing from 28.0% in Q4 2009 to 43.1% by the end of 2018.

However, in 2018 the current account weakened slightly to -0.6% of GDP down from 0.5% last year, driven by a larger goods deficit. Scope expects the current account to remain broadly in balance over the medium term, with the deterioration in the balance of goods and services partially offset by the projected increase in the absorption of EU funds and lower interest costs for domestic borrowers. Scope notes Portugal's cost-competitiveness gains as well as structural improvements in its export base, reflected in a broader sectoral and geographical exporting diversification.

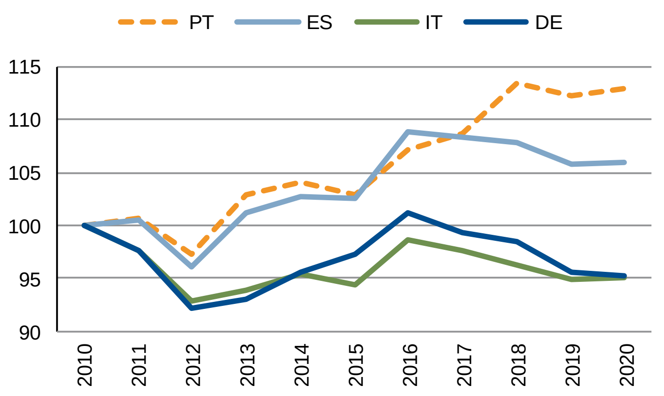
These improvements have allowed Portugal to increase its share of world merchandise exports, in contrast to most euro area peers. In this context, Scope also notes that increasing wage pressures, weighing negatively on labour productivity, have so far had only a modest impact on cost competitiveness as unit labour costs continue to move in line with trading partners. Still, the weakening of the current-account surplus points to a slowdown in the improvement of Portugal's significant net debt position, which remains a source of vulnerability.

Figure 18: Current-account in balance, % of GDP



Source: Haver, Bank of Portugal, Scope Ratings

Figure 19: Share of world exports (incl. EU), 2010 = 100



Source: Haver, AMECO, Scope Ratings

External debt sustainability

Negative net IIP a credit vulnerability

Positive economic growth and current-account surpluses have led to a minor decline in Portugal's external debt and an improvement in the country's net international investment position, which remains markedly below that of its peers at negative 100.8% of GDP as of Q4 2018. In addition, Scope is mindful that the reduction in Portugal's net IIP has been somewhat offset by valuation effects due to an increase in the market value of portfolio debt securities issued by Portuguese residents. Still, Portugal's net IIP remains far below the European Commission's threshold of negative 35% of GDP used in its macro-economic imbalance procedure to identify external vulnerabilities.

High level of external debt…

Scope notes that while the level of the NIIP is key for external sustainability, and in the case of Portugal it is a credit constraint, both the size and the composition of the international balance sheet also matter when assessing external vulnerabilities. In this context, Scope notes that the size of gross external liabilities remains elevated, with Portugal's total external debt at around 203% of GDP as of Q3 2018, slightly down since Q1 2010 (234%) but still above that of Spain (167%) and Italy (122%).

…but improved composition…

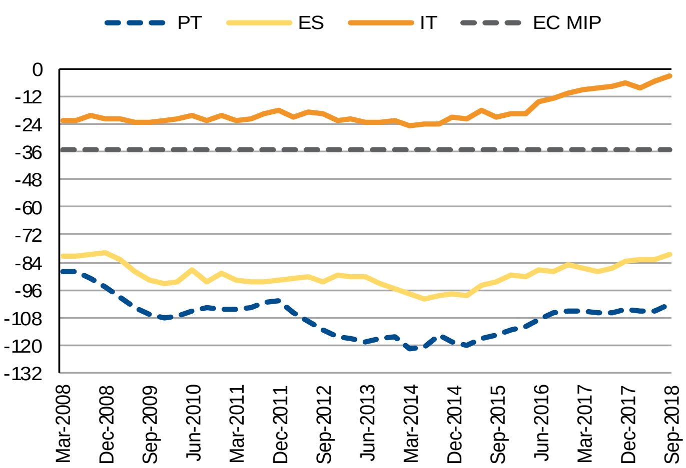
Yet risks have abated given the change in the composition of external debt. Specifically, the government and central bank's share has increased from around 37% of total external debt to above 60% while financial institutions have, in the context of the on-going deleveraging process, reduced their share of Portugal's total external debt from 48% to around 15% over the same period. In addition, Scope notes the favourable maturity structure of external debt in the public sector.

…and debt-equity mix.

The share of portfolio debt securities of Portugal's foreign liabilities, whose non-contingent nature may complicate the absorption of shocks, has fallen markedly from around 32% in Q1 2010 to around 18% as of Q4 2018, speaking to an improvement in the debt-equity mix and also reflective of the official loans; a stable source of external funding reducing Portugal's external vulnerability.

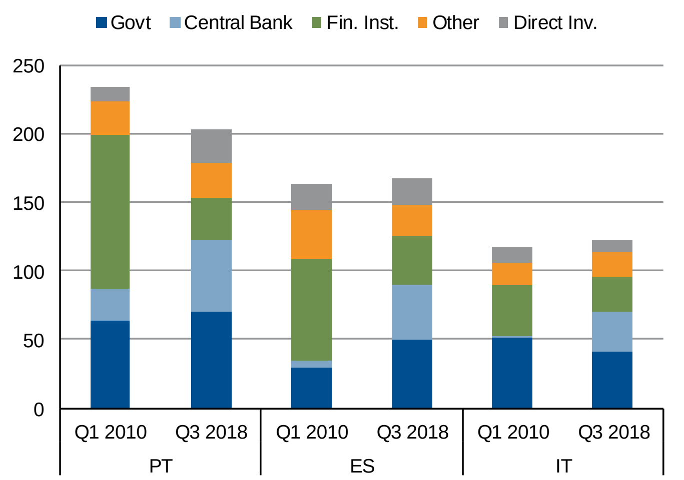
Finally, the NIIP burden has stabilised in recent years which reflects a broad-based decline in aggregate yields, particularly for portfolio debt and 'other investment'. While Scope is mindful that the net payments associated with Portugal's external position could increase markedly if euro area interest rates were to normalise, the expected gradual normalisation of the ECB's monetary policy along with the structural improvements in Portugal's external balance sheet should mitigate these risks.

Figure 20: Net international investment position, % of GDP



Source: Haver, national central banks, Eurostat, Scope Ratings

Figure 21: External debt composition, % of GDP



Source: Haver, national central banks, Eurostat, Scope Ratings

Vulnerability to short-term external shocks

Limited vulnerability to short-term shocks at current juncture

Portugal's still-negative net international investment position is high at around 101% of GDP, exposing the sovereign to shocks or sudden shifts in market sentiment. However, it is Scope's opinion that the structural improvements in Portugal's external sector, combined with the strengthened euro area architecture and the ECB's accommodative monetary policy stance, markedly reduce Portugal's risk to external shocks. Scope expects Portugal's external imbalances, a legacy issue from the crisis, to be unwound over a sustained period of time.

Financial stability risk

Financial sector performance

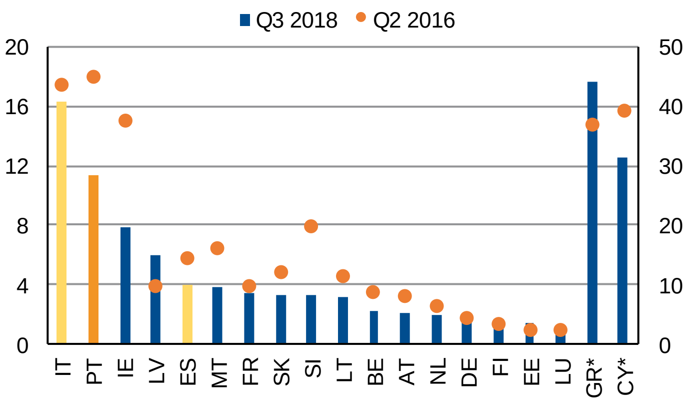
Portugal's stronger economic performance combined with recent capital increases has resulted in an overall more resilient financial system. Banks are restructuring their business models leading to a reduction in their distribution networks and selling non-core business activities contributing to the clean-up of the banks' balance sheets, which is gradually allowing them to perform credit intermediation[9].

Better-capitalised banking sector with improving asset quality…

As a result, solvency and profitability have improved for most banks despite low interest rates. Capitalisation has improved due to the recapitalisations as well as falling risk-weighted assets, with a Common Equity Tier 1 (CET1) ratio of 13.2%. In addition, in 2018 banking system profitability increased significantly compared to the same period in 2017 reflecting a reduction in the flow of impairments and, to a lower extent, a reduction in staff costs, with the system-wide return on equity at 7.1% (versus 4.7% in 2017). The Bank of Portugal estimates that the cost-to-income ratio stands at around 60.3%, excluding one-off restructuring processes.

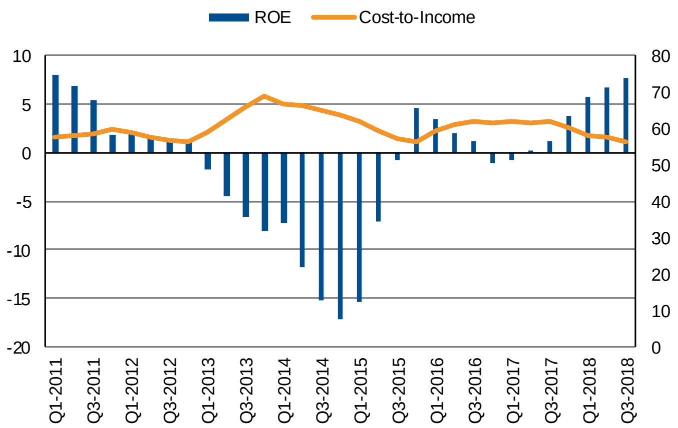
Scope also notes that the three-pillared strategy to deal with NPLs – including legal and judicial reforms, prudential supervisory action and NPL management – has reduced the non-performing loans ratio gradually, down to 9.4% of total loans in Q4 2018 from the peak of 17.9% recorded in Q2 2016; a EUR 24.6bn reduction in the stock of NPLs. In addition, Scope notes that the coverage ratio for NPLs stands at 51.9%[10].

Figure 22: Banking sector asset quality, Non-performing loans to total gross loans, %



Source: Haver, IMF, Scope Ratings. NB. *RHS.

Figure 23: Banking sector profitability: ROE and Cost-to-income ratio, 4-quarter moving average, %



Source: Haver, IMF, Scope Ratings.

…and ECB's third TLTROs ensures ample liquidity

Banks are also benefiting from ample liquidity and cheap funding due to the ECB's targeted longer-term refinancing operations, with a third series starting in September 2019 and ending in March 2021, each with a maturity of two years. However, Scope notes that financing from the central bank continued its downward trend with borrowing from the Eurosystem falling from its peak in Q2 2012 of EUR 60.5bn to EUR 18.7bn as of Q4 2018, thus constituting only around 5.4% of banks' total liabilities. Similarly, the loan to deposit ratio has fallen markedly from 156.5% in Q1 2010 to 89% in Q4 2018, underpinning Scope's view that liquidity issues remain a limited risk.

[9] EC, Post-programme
[10] Bank of Portugal; Portuguese Banking System: latest developments; 3rd quarter 2018

Concentrated exposure to government bonds and real estate assets a potential source of risk

Despite the overall stabilisation of the Portuguese banking sector, Scope is mindful that the cyclical slowdown could adversely affect banks' profitability going forward, not least, given the procyclicality of reducing NPLs and impairments. In addition, Scope points to the risks stemming from the relatively high exposure of the Portuguese banking system to government bonds (12.7% of total assets, 9% of which related to Portugal and 3.2% to Spain and Italy combined) and real estate assets (around 38.9%).

While Scope does not expect an idiosyncratic shock to Portugal over the medium-term, a global reassessment of risk leading to higher government yields, would expose Portuguese banks particularly given their relatively high share of long-duration sovereign debt[11]. In addition, while Scope does not expect a drop in real estate prices, the high exposure to this asset class needs to be seen in the context of i) first signals of an over-valuation of aggregated real estate prices; ii) the potential adverse effects of the weakened external environment, since non-residents have played an important role in the real estate market; and iii) the fragility of the household segment, in the context of a historically low savings rate, heavy indebtedness and with loans often exceeding the borrowers' working lives.

Financial sector oversight and governance

Oversight and governance shared between the Bank of Portugal and European institutions

Macro-prudential oversight for banking is a shared responsibility between the Bank of Portugal and the ECB. As the national macroprudential authority, Banco de Portugal defines and executes macroprudential policy and regularly analyses the financial system to identify vulnerabilities, and existing and potential risks, under both baseline and adverse scenarios[12].

Use of macro-prudential tools to strengthen banking sector

The Bank of Portugal has identified four objectives to ensure macro-prudential stability, namely, to mitigate and prevent excessive credit growth and leverage as well as excessive maturity mismatch and market illiquidity and to limit direct and indirect exposure concentrations as well as incentives for excessive risk-taking by systemically important institutions.

- The Bank of Portugal has identified six banks as "other systemically important institutions (O-SIIs)" which can be subjected to **higher capital requirements**, between 0 and 2% of the total risk exposure amount. As of January 2019, the O-SII capital buffer levels – ranging from 0.125% to 0.5% apply – and will be gradually increased to 1% by 2021, depending on the institution[13].
- The **countercyclical buffer**, which corresponds to an additional buffer of Common Equity Tier 1 capital that should be built up to protect the banking sector in periods when risks of system-wide stress are growing due to excessive credit growth, which can range between 0% and 2.5% of the total risk exposure, is set at 0% as of 1 January 2019[14].
- The **capital conservation buffer** aims to accommodate losses from a potential adverse scenario, allowing institutions to maintain a stable flow of funding to the real economy. This buffer is gradually implemented, from 0.625% of the total risk exposure amount in 2016 to 1.25% in 2017, 1.875% in 2018 and 2.5% in 2019[15].
- Finally, as of 1 July 2018, the following **lending limits** apply[16]: i) Limits to the loan-to-value ratio (LTV) of 90% for own and 80% for non-permanent residential property

[11] Bank of Portugal, financial stability report, December 2018
[12] https://www.bportugal.pt/en/page/macro-prudential-policy?mlid=1144
[13] Caixa Geral de Depósitos (1.0%), Banco Comercial Português (0.75%), Novo Banco (0.5%), Santander Totta, SGPS (0.5%), Banco BPI (0.5%), Caixa Económica Montepio Geral (0.25%). https://www.bportugal.pt/en/page/o-sii-capital-buffer
[14] https://www.bportugal.pt/en/page/countercyclical-capital-buffer
[15] https://www.bportugal.pt/en/page/capital-conservation-buffer
[16] https://www.bportugal.pt/en/page/ltv-dsti-and-maturity-limits

while a 100% limit applies if the property is for financial leasing agreements; ii) Limits to the debt service-to-income ratio (DSTI) of 50%[17]; iii) Limits to the maturity of loans of 40 years for mortgages and 10 years for consumer loans; and iv) New loans should be granted with the requirement of regular payments of interest and capital. The Bank of Portugal notes that since the limits apply only to new credit agreements, its effect on the stock of credit will be gradual.

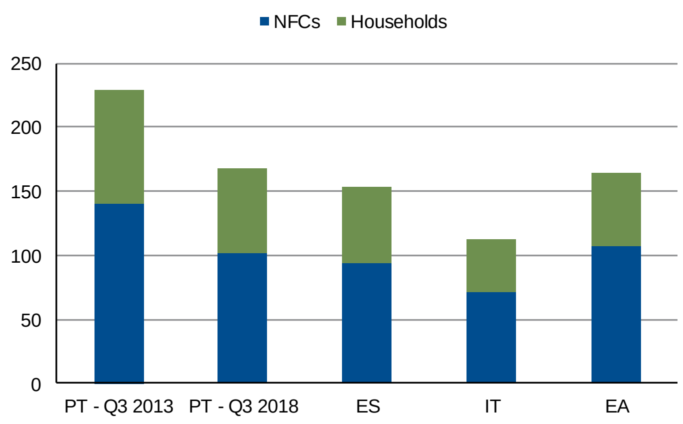
Overall, in Scope's opinion, the introduction and application of these measures is an appropriate regulatory response in light of the four bank failures over the past decade.

Macro-financial vulnerabilities and fragility

On-going private-sector deleveraging process

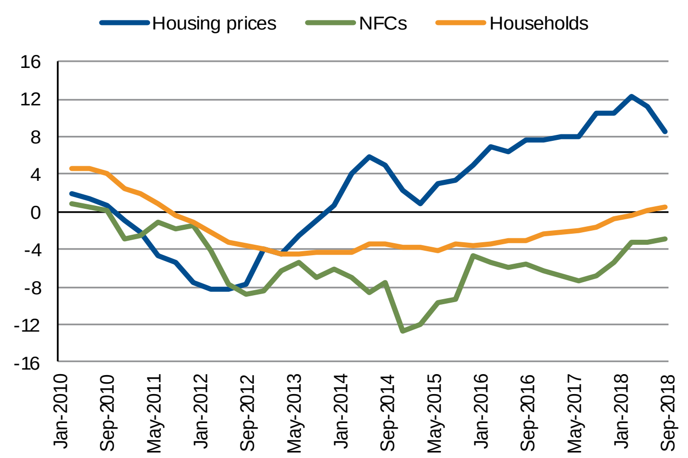
Over the past few years, the Portuguese private sector has significantly reduced its indebtedness to levels similar to those of its euro area peers. Based on ECB data, non-financial corporates (NFCs) have reduced their liabilities by around EUR 34.4bn since Q1 2013. In turn, households reduced their liabilities more gradually given that most loans are long-term mortgages, but still by around EUR 16.3bn over the same period. As a result, corporate sector indebtedness fell from 141.5% of GDP to 101.3% as of Q3 2018, slightly below the euro area average of 107.1%, while household indebtedness decreased from 90.0% to 67.1%, just above the euro area average of 57.6%. This marked decline in liabilities, and thus vulnerabilities, has so far been compatible with investment and private consumption given the increase in confidence, employment, and economic stability; a development Scope expects to continue over the medium term.

Figure 24: Private sector debt, % of GDP



Source: Haver, ECB, Scope Ratings

Figure 25: Housing prices and credit, %, y-o-y growth



Source: Haver, ECB, Scope Ratings

Slowing deleveraging process along a pick-up in credit growth

The significant deleveraging process has resulted in weak demand for credit despite declining lending rates. However, even if overall credit growth to corporates remains negative, the contraction is slowing, while in the case of households, credit growth became positive for the first time in Q2 2018. Going forward Scope expects deleveraging to be mainly driven by real GDP growth along with a pick-up in credit growth, particularly among the most solvent and productive corporates, contributing to the investment recovery.

Finally, Scope notes that the savings rate of Portuguese households, measured as gross disposable income, has dropped to 4.6% in 2018 (down from 10.8% in Q4 2009), which is

[17] Unless the total amount of credit granted by the institution in each year is less than 20% (5%), then a 60% (no limit) DSTI applies.

well below the euro area average of 12.3% (Q3 2018) and raises concerns in the context of high household indebtedness, with loans often exceeding working lives. In Scope's opinion, this limits the potential increase in credit demand for mortgages over the medium term.

House price increases not driven by debt accumulation; concentrated in tourist areas

Housing prices, which have steadily recovered since Q4 2013, now exceed their pre-crisis levels by 20%. However, the stock of mortgage loans is still declining, with redemptions still outweighing new loans, despite double digit growth in the latter, dampening the upward pressure on house prices with the price rebound not being generated by debt accumulation. Moreover, price increases are concentrated in tourist areas particularly in Lisbon and growing supply from new construction is likely to catch up with demand, thus moderating price increases going forward, as data from Q3-2018 already seem to point out. In Scope's view, rising house prices are not a source of imbalance at this stage but given first signals of real estate price overvaluation[18] as well as the importance of this sector to banks, closely monitoring of these developments is warranted.

Overall, the Portuguese economy is in a low phase of the financial cycle, along with a gradual economic recovery that limits vulnerabilities stemming from credit and real estate prices. However, Scope is mindful that the still elevated debt burden of the non-financial private sector and extreme events in the financial markets pose vulnerabilities.

Institutional and political risk

Perceived willingness to pay

Portugal joined the EU in 1986 and has fully adopted the EU's regulatory framework, providing an anchor for institutional stability and predictability. In Scope's view, Portugal is as likely as any EU peer to honour debt obligations in full and on time. Portugal's request to the EU-IMF for a financial assistance package in May 2011, the clean exit from the programme in June 2014, the successful post-programme monitoring reviews, and early repayment to the IMF, speak to Portugal's willingness to repay its creditors on time.

Recent events and policy decisions

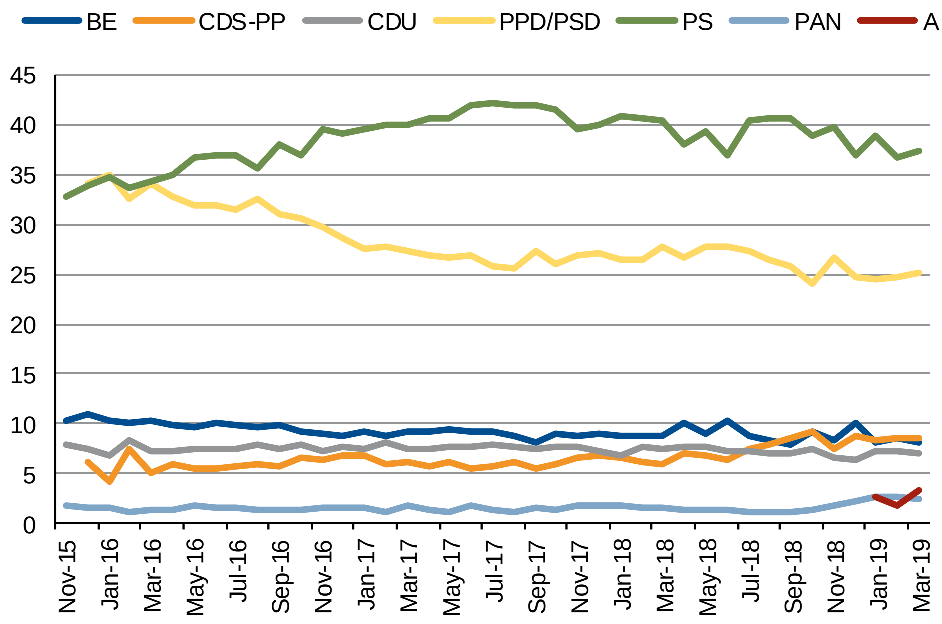
Political stability and policy continuity key to sustain long-term commitment to fiscal adjustments

Since November 2015 Portugal has been governed by a minority centre-left Socialist Party (PS) administration, led by Primer minister António Costa. The government benefits from an alliance with three left-wing parties, specifically, the radical Left Bloc, the Portuguese Communist Party and the pro-communist Greens.

To date, the government has managed to balance raises in the minimum wage and pensions as well as unfreezing the public career progression, with ensuring a growth-friendly consolidation process. Scope notes that despite Portugal exiting the EU-IMF programme, the country will remain under the EU's post-programme surveillance, which allows the EU Council to issue recommendations for corrective actions if necessary, which will last at least until 75% of the financial assistance has been repaid, and thus at least until 2026. Under this umbrella, major policy shifts are unlikely which is also evidenced in the relative stability of polls in favour of the governing Socialist Party.

[18] Bank of Portugal, Financial stability report, December 2018

Figure 26: Poll of polls since last elections in October 2015, %



Source: pollofpolls.eu, Scope Ratings GmbH
PS = Socialist Party; PPD/PSD = Social Democratic Party; CDS/PP = CDS People's Party; BE = Left Bloc; PCP-PEV = Unitary Democratic Coalition; A = Alliance

Political stability unlikely to result in major policy shifts

Scope expects relative political stability and resulting policy continuity also after the elections on 6 October 2019 and which, based on current polls, are likely to lead to another PS-led government. In Scope's opinion, political stability and policy continuity are essential to further implement reforms to raise Portugal's growth potential and ensure fiscal discipline over a multi-year period to reduce the elevated debt burden.

Geopolitical risk

Portugal has been a member of NATO since 1949, is not engaged in any bilateral wars, and is thus, in Scope's opinion, just as likely to be affected by geopolitical threats as its European partners.

Methodology

The methodology applicable for this rating and/or rating outlook, Public Finance Sovereign Ratings, is available at www.scoperatings.com.

Historical default rates from Scope Ratings can be viewed in Scope's rating performance report at https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA) at http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's definition of default and definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is not automatically ensured, however.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on the relative rankings of key sovereign credit fundamentals, provides an indicative "bbb" (bbb) rating range for the Portuguese Republic. This indicative rating range can be adjusted by up to three notches on the Qualitative Scorecard (QS) depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative findings.

For the Portuguese Republic, the following relative credit strengths have been identified: i) economic policy framework and ii) market access and funding sources. Relative credit weaknesses are: i) macro-economic stability and sustainability. The combined relative credit strengths and weaknesses generate no adjustment and indicate a sovereign rating of BBB for the Portuguese Republic. A rating committee has discussed and confirmed these results.

Rating overview	
CVS category rating range	bbb
QS adjustment	BBB
Final rating	BBB

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 24 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lowercase.

Within the QS assessment, analysts conduct a comprehensive review of the qualitative factors. This includes but is not limited to an economic scenario analysis, a review of debt sustainability, fiscal and financial performance, and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analysts' recommendation to the rating committee.

Foreign- versus local-currency ratings

The Portuguese Republic has almost no foreign-currency-denominated public debt. Consequently, Scope sees no reason to believe that Portugal would differentiate between any of its contractual debt obligations based on currency denomination. Furthermore, the recent history of sovereign defaults does not provide a strong justification for a rating bias in favour of either local-currency or foreign-currency debt.

II. Appendix: CVS and QS results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exchange rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	
Indicative rating range	**bbb**
QS adjustment	**BBB**
Final rating	**BBB**

QS

Maximum adjustment = 3 notches

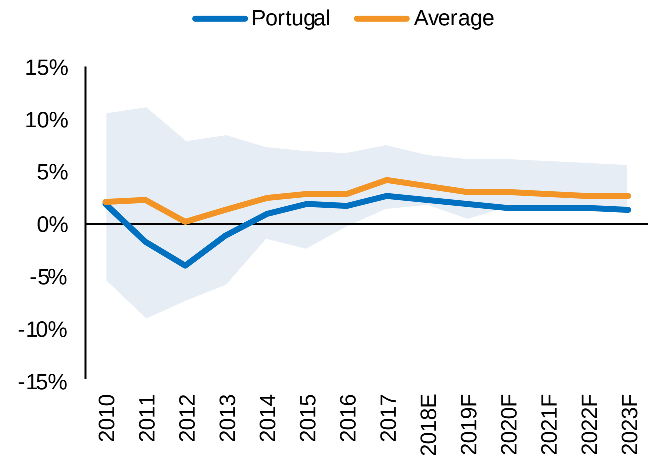
	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	◉ Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential well under trend or negative
Economic policy framework	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Macro-economic stability and sustainability	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate
Fiscal policy framework	○ Exceptionally strong performance	○ Strong performance	◉ Neutral	○ Weak performance	○ Problematic performance
Debt sustainability	○ Exceptionally strong sustainability	○ Strong sustainability	◉ Neutral	○ Weak sustainability	○ Not sustainable
Market access and funding sources	○ Excellent access	◉ Very good access	○ Neutral	○ Poor access	○ Very weak access
Current account vulnerability	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
External debt sustainability	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Vulnerability to short-term external shocks	○ Excellent resilience	○ Good resilience	◉ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Geopolitical risk	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Banking sector performance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Banking sector oversight and governance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial imbalances and financial fragility	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate

* Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10

Source: Scope Ratings GmbH

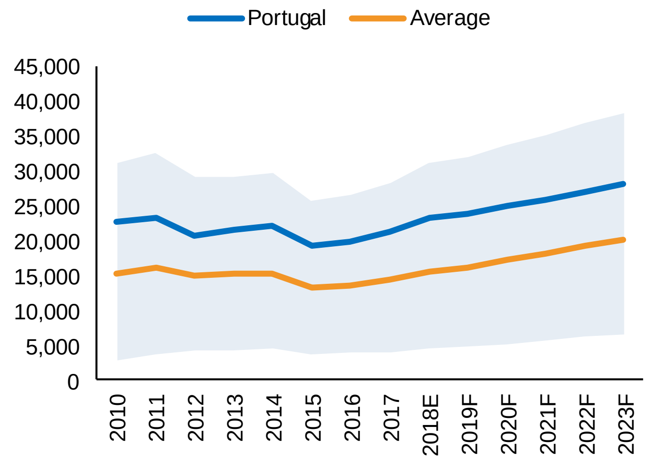
III. Appendix: Peer comparison

Figure 27: Real GDP growth



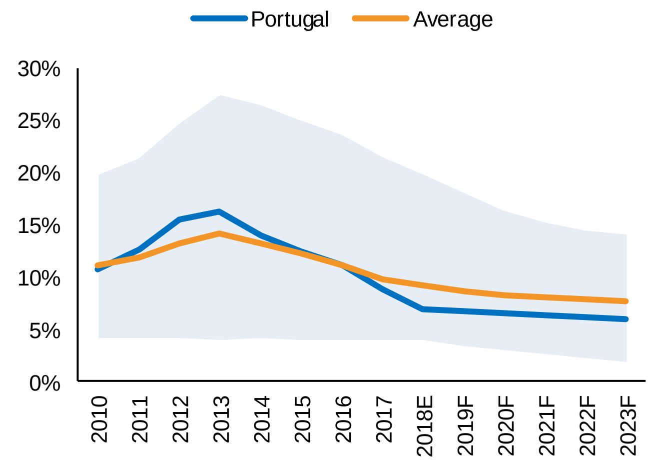
Source: IMF, Calculations Scope Ratings GmbH

Figure 28: GDP per capita, USD



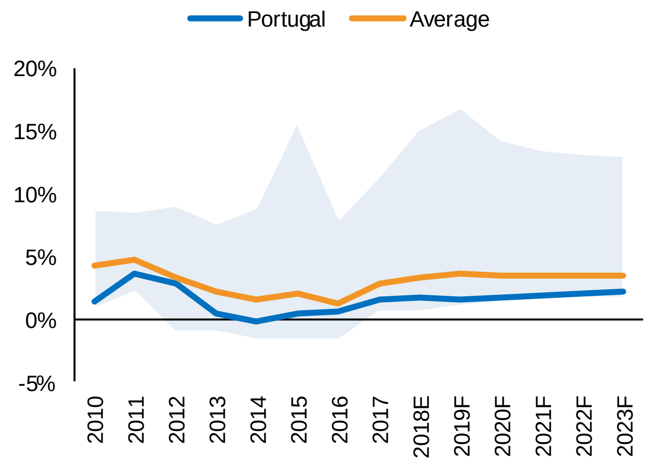
Source: IMF, Calculations Scope Ratings GmbH

Figure 29: Unemployment rate, %



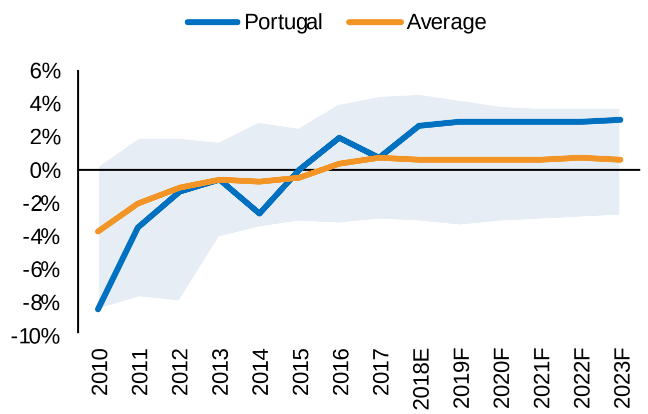
Source: IMF, Calculations Scope Ratings GmbH

Figure 30: Headline inflation, %



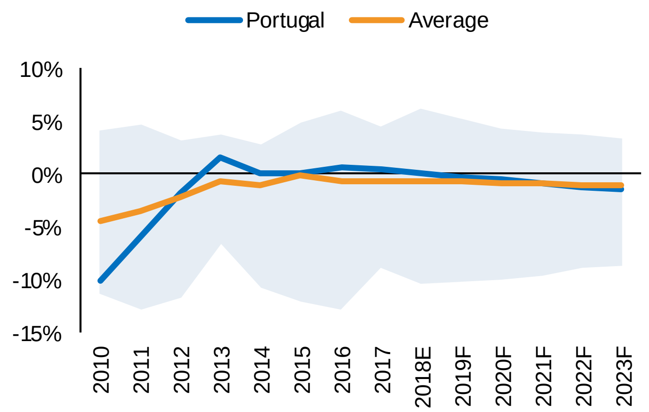
Source: IMF, Calculations Scope Ratings GmbH

Figure 31: General government primary balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 32: Current account balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

IV. Appendix: Statistical tables

	2014	2015	2016	2017	2018E	2019F	2020F
Economic performance							
Nominal GDP (EUR bn)	173.1	179.8	185.5	193.1	200.6	207.5	214.2
Population ('000s)	10,401.0	10,358.0	10,326.0	10,303.0	10,268.0	10,233.0	10,198.0
GDP per capita PPP (USD)	28,746.7	29,532.4	30,658.6	31,672.7	-	-	-
GDP per capita (EUR)	16,640.5	17,359.3	17,964.7	18,738.9	19,540.5	20,278.7	21,009.5
Real GDP, % change	0.9	1.8	1.6	2.7	2.1	1.8	1.5
GDP growth volatility (10-year rolling SD)	2.2	2.3	2.3	2.3	2.4	2.2	2.2
CPI, % change	-0.2	0.5	0.6	1.6	1.2	1.6	1.8
Unemployment rate (%)	14.1	12.6	11.2	9.0	7.1	6.3	5.9
Investment (% of GDP)	15.3	15.8	15.5	16.3	17.1	18.4	19.1
Gross national savings (% of GDP)	15.4	15.9	16.1	16.8	17.4	18.1	18.6
Public finances							
Net lending/borrowing (% of GDP)	-7.1	-4.3	-2.0	-3.0	-0.5	-0.3	-0.2
Primary net lending/borrowing (% of GDP)	-2.7	0.0	1.9	0.7	2.6	2.9	2.9
Revenue (% of GDP)	44.6	43.8	43.0	42.9	43.2	43.3	43.3
Expenditure (% of GDP)	51.7	48.1	44.9	45.9	43.9	43.6	43.5
Net interest payments (% of GDP)	4.4	4.3	3.9	3.7	3.3	3.2	3.1
Net interest payments (% of revenue)	9.8	9.7	9.1	8.6	7.7	7.4	7.1
Gross debt (% of GDP)	130.6	128.8	129.9	125.7	121.5	117.2	115.1
Net debt (% of GDP)	112.8	113.9	113.1	110.8	107.6	104.6	101.7
Gross debt (% of revenue)	292.8	294.0	302.3	292.9	279.7	270.8	265.8
External vulnerability							
Gross external debt (% of GDP)	235.9	222.0	214.1	209.4	204.7	-	-
Net external debt (% of GDP)	104.3	100.7	94.0	91.7	89.0	-	-
Current-account balance (% of GDP)	0.1	0.1	0.6	0.5	-0.6	-0.3	-0.6
Trade balance (% of GDP)	-4.7	-4.5	-4.3	-5.4	-6.0	-6.5	-6.9
Net direct investment (% of GDP)	-1.5	-0.7	-1.7	-4.3	-	-	-
Official forex reserves (EOP, EUR mn)	2,776.0	4,574.0	9,063.0	7,276.0	6,779.0	-	-
REER, % change	-0.5	-2.9	1.7	0.7	0.9	-	-
Nominal exchange rate (AVG, USD/EUR)	1.3	1.1	1.1	1.1	1.2	-	-
Financial stability							
Non-performing loans (% of total loans)	11.9	17.5	17.2	13.3	-	-	-
Tier 1 ratio (%)	11.4	12.6	11.7	14.5	-	-	-
Private debt (% of GDP)	190.5	179.4	169.3	162.2	-	-	-
Credit-to-GDP gap (%)	-30.5	-42.1	-49.4	-50.6	-	-	-

Source: IMF, European Commission, European Central Bank, Bank of Portugal, World Bank, Haver Analytics, Scope Ratings

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