

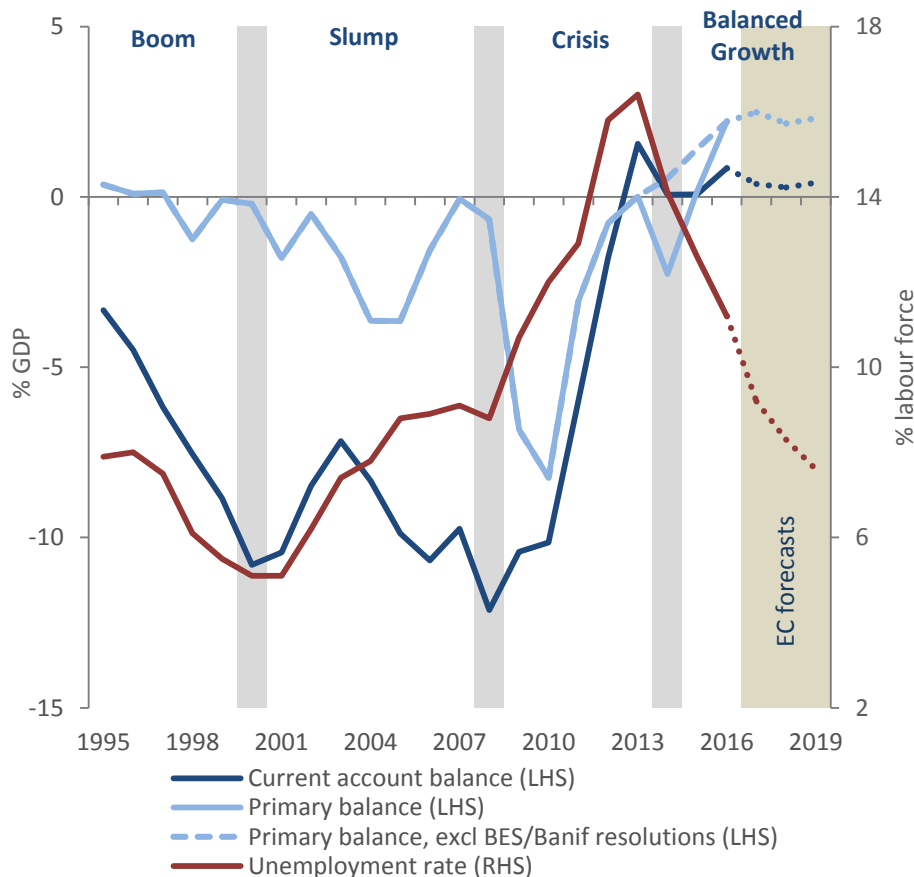
PORTUGAL

ECONOMICS & STATE FUNDING

September 3, 2018

Executive summary

Portugal has turned the corner from the European crisis, with economic rebalancing and structural reforms underpinning the recovery



Source: EC, IGCP

Outline

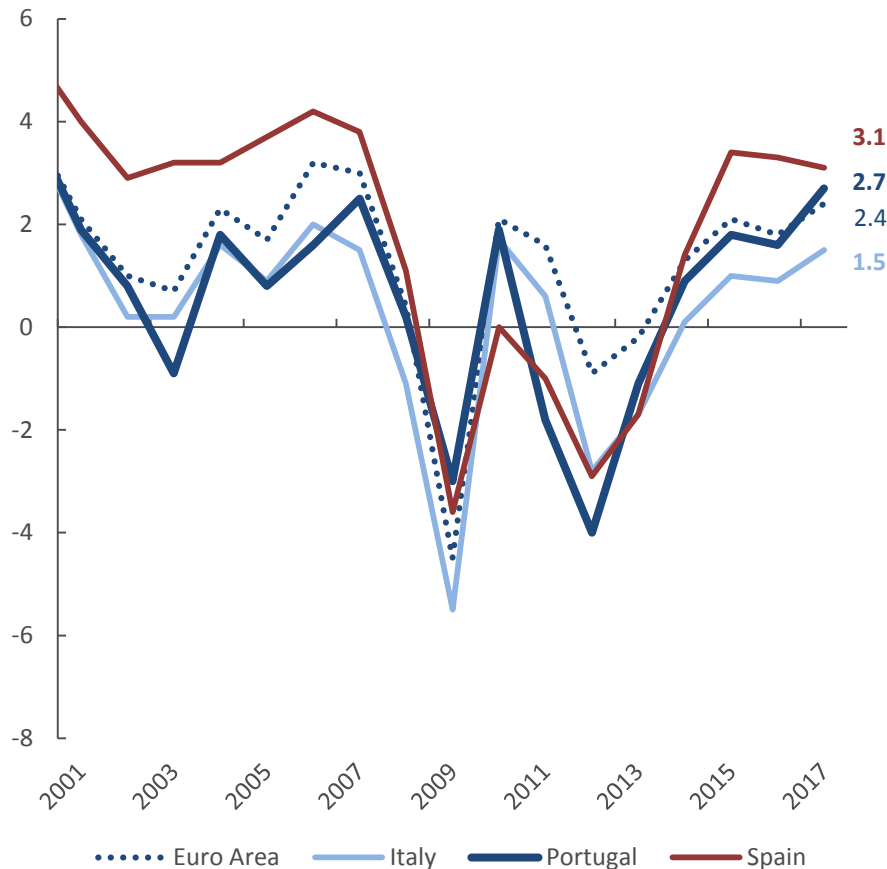
- 1. Economic revitalization**, following a sustained recovery in the past 4 years. Currently, Portugal stands as one of the fastest-growing economies of the EA
- 2. Strong growth foundations** led to the correction of macroeconomic imbalances, resulting in successive current and capital account surpluses since 2013
- 3. Private sector turnaround**, following an extensive deleveraging process and balance sheet strengthening
- 4. Fiscal stabilization**, based on sizable fiscal adjustments, successive primary surplus and lower interest charges, resulting in a sustained downward trend of GG debt
- 5. Resilient public debt structure**, enhancing shock-absorptive capacities
- 6. Improving market conditions**, based on lower financing costs and broadening investor base

- 1. Economic revitalization**
2. Stronger growth foundations
3. Private sector turnaround
4. Fiscal stabilization
5. Resilient public debt structure
6. Improving market conditions

Clear economic revitalization, underpinned by structural reforms

Sizable acceleration of GDP growth in 2017

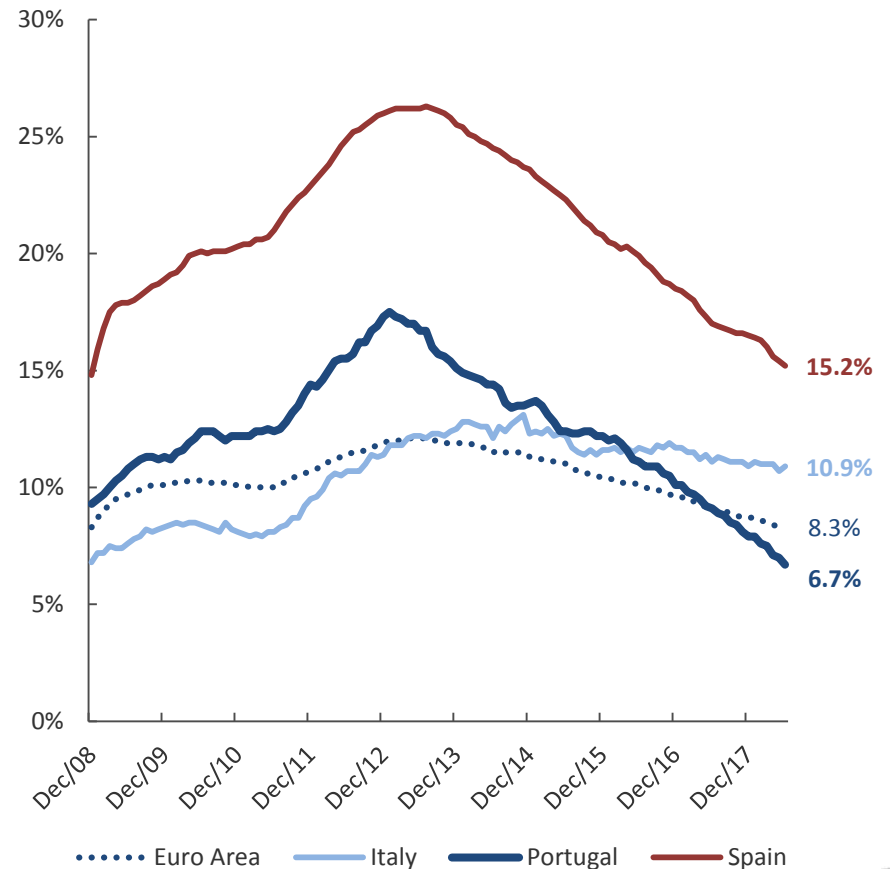
[Real GDP, YoY %]



Source: Eurostat

Unemployment below pre-crisis level

[% labor force]

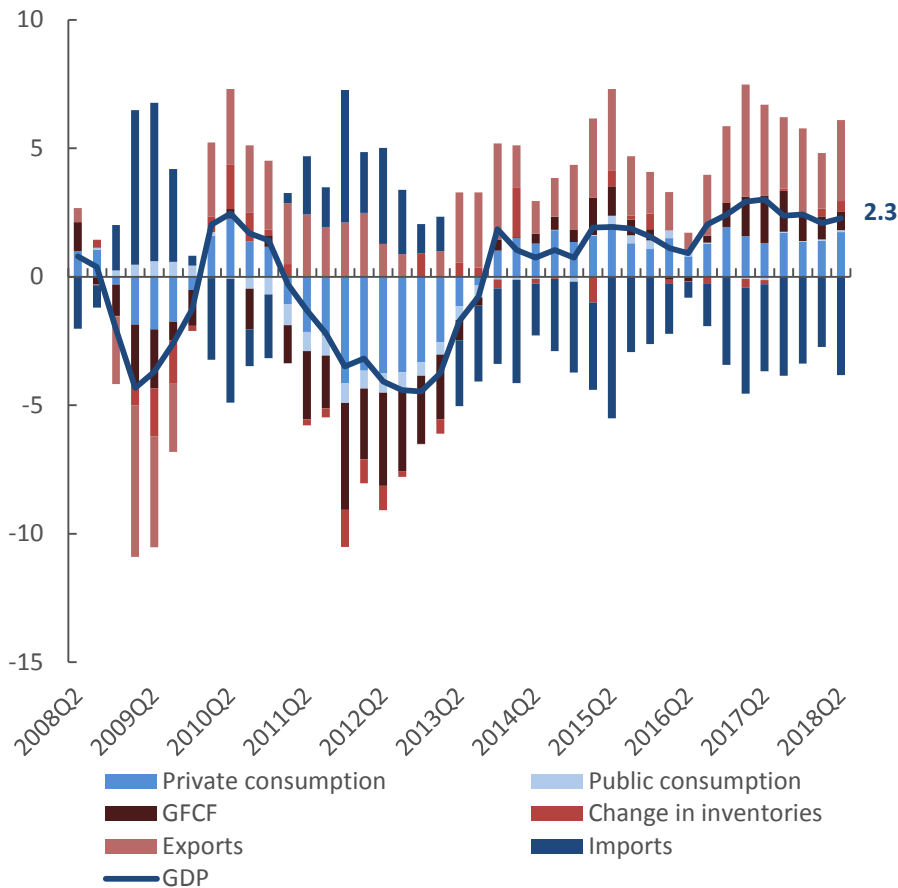


Source: Eurostat

Stronger GDP growth (1/2)

Sustainable domestic and external demand

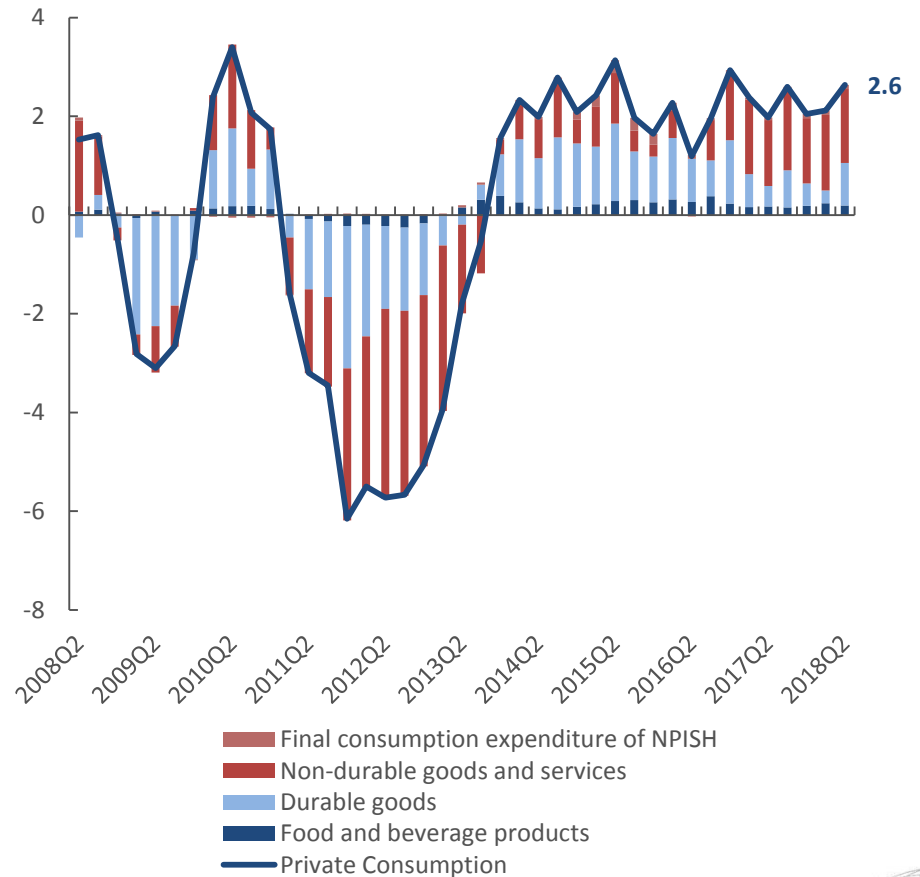
[GDP YoY % and pp]



Source: Statistics Portugal

Improved confidence backs steady private consumption

[Contributions to YoY real private consumption growth, %]

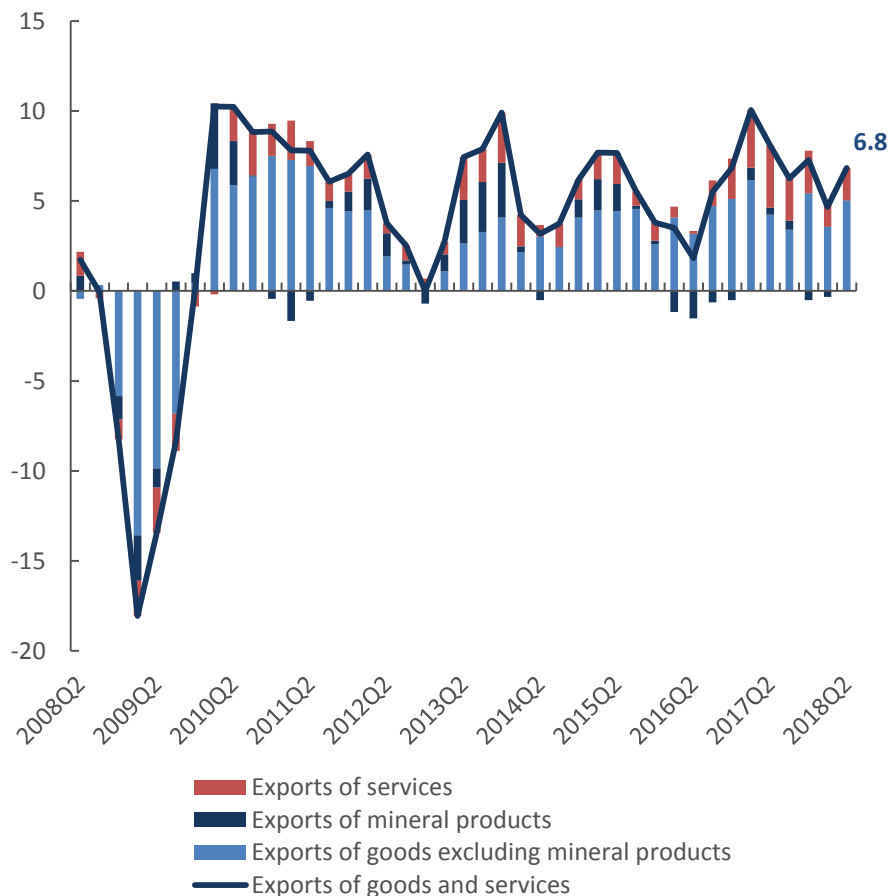


Source: Statistics Portugal

Stronger GDP growth (2/2)

Robust exports growth ...

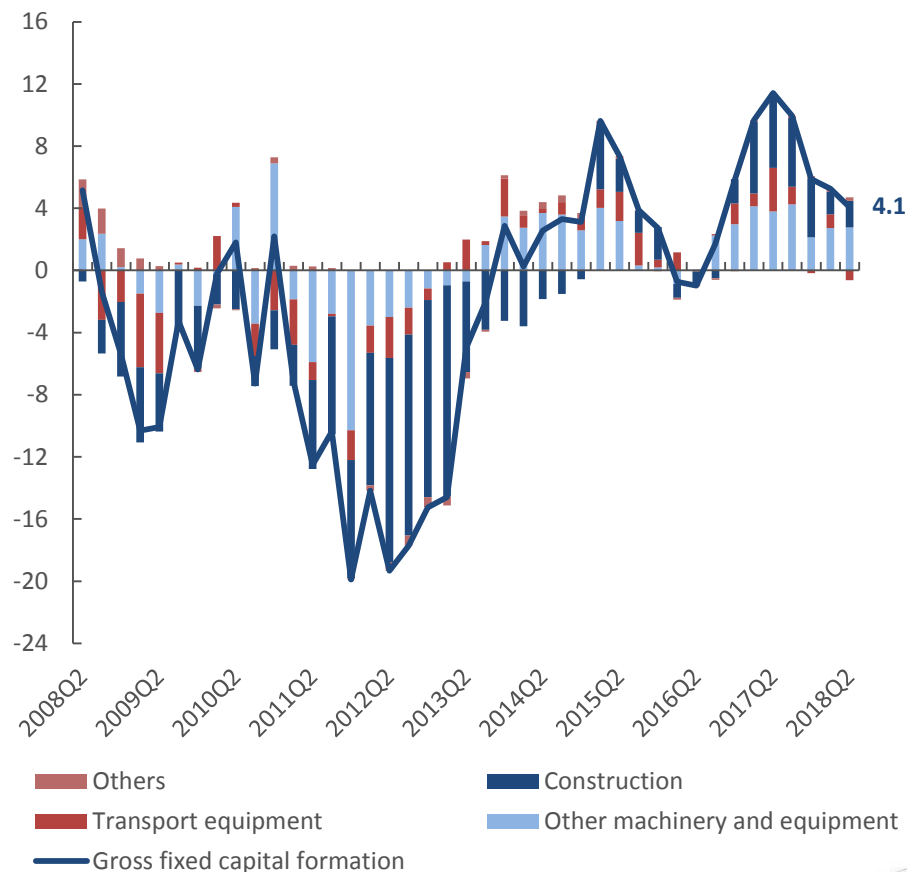
[Contributions to YoY real Exports growth, %]



Source: Statistics Portugal

... supported by a shift in investment pattern

[Contributions to YoY real GFCF growth, %]

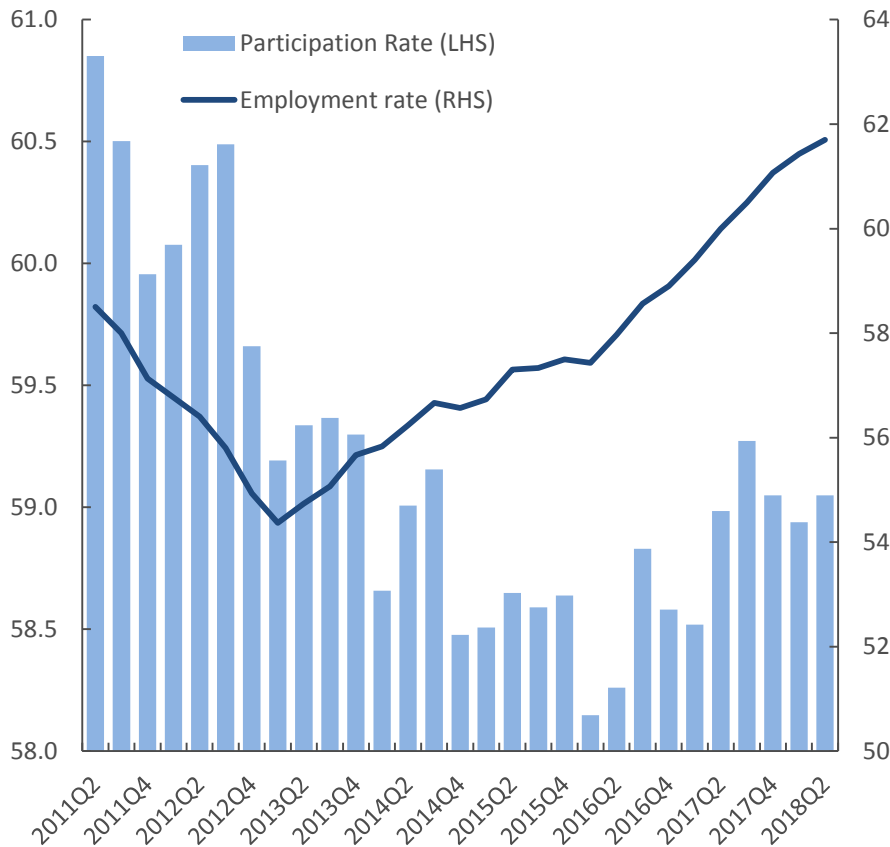


Source: Statistics Portugal

Labor market supported by growth and reforms

Both employment and participation rates are up

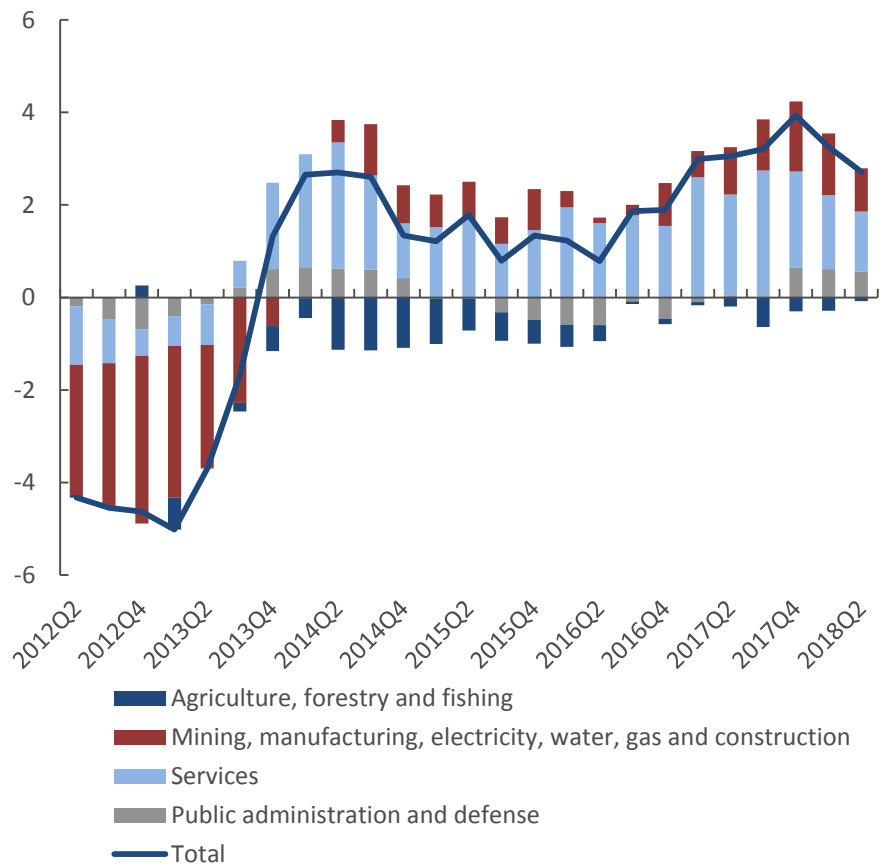
[% of total population]



Source: Statistics Portugal

Broad-based job creation

[Contributions to YoY employment growth, %]

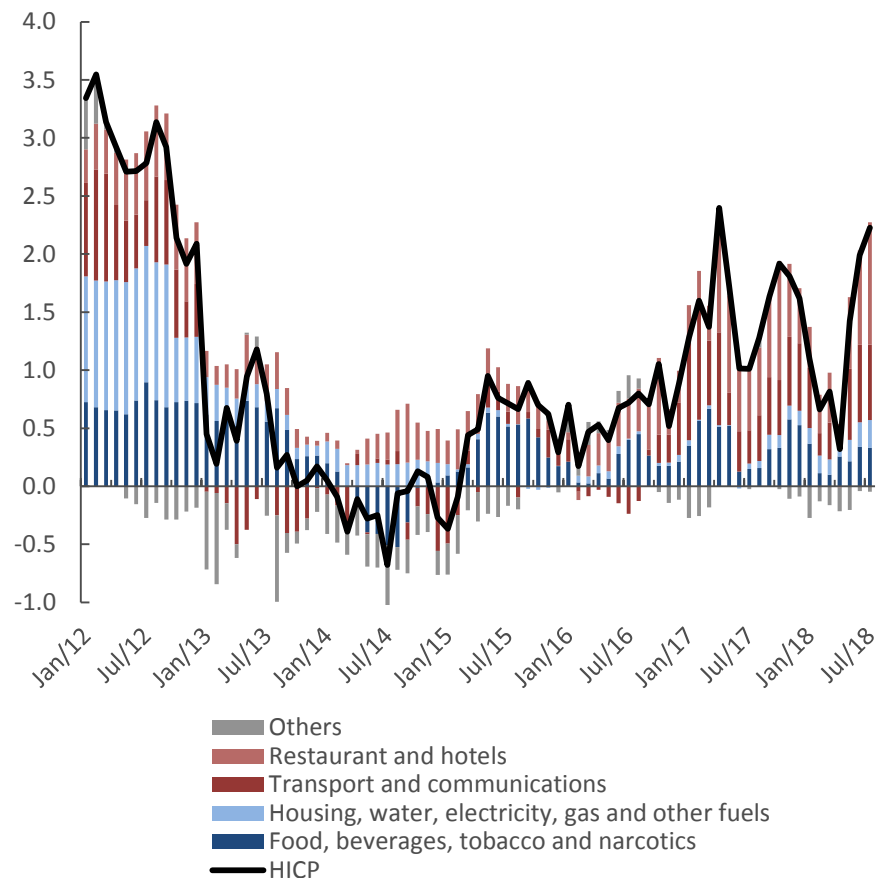


Source: Statistics Portugal

Inflation in Portugal is in line with that of the Euro Area, with most sectors contributing positively

Portugal's inflation recently surpassed 2%

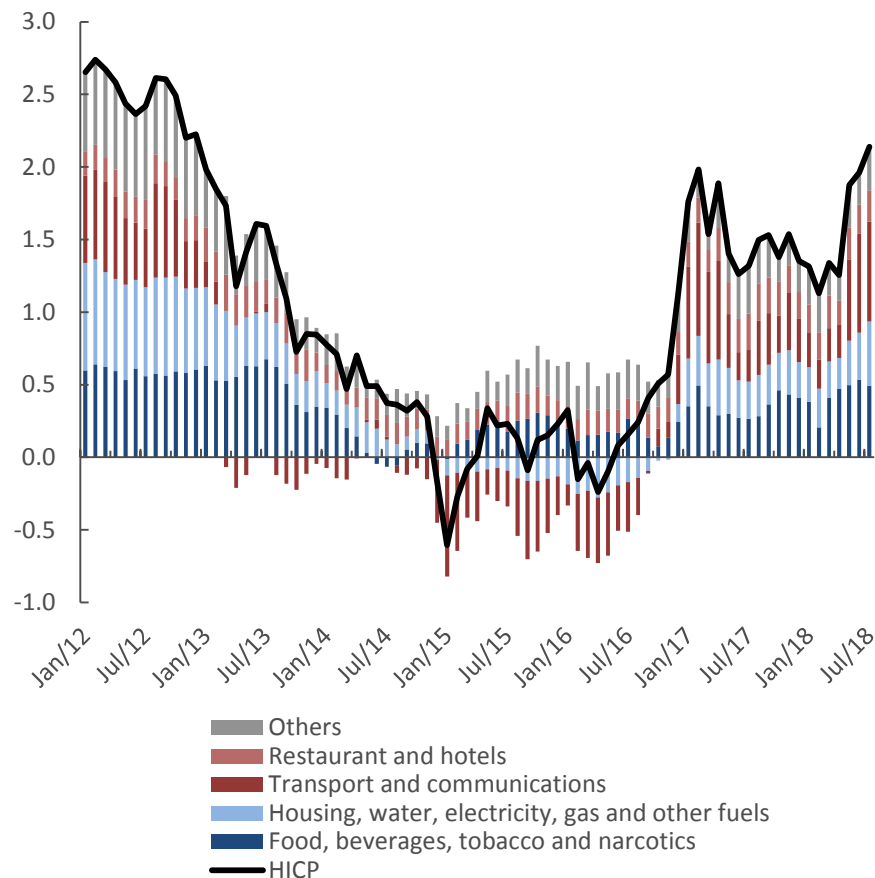
[Contributions to yoy HICP growth, %]



Source: Eurostat

... as did inflation in the Euro Area

[Contributions to yoy HICP growth, %]



Source: Eurostat

Converging expectations around accelerating growth

Portugal exceeded expectations in 2017, prompting significant upward revisions of growth forecasts

Macroeconomic Scenario														
	INE Statistics Portugal			Min Fin: 2018 Stability Programme			Banco de Portugal			International Monetary Fund			European Commission	
	2015	2016	2017	April 2018			June 2018			April 2018			April 2018	
				2018 P	2019 P	2020 P	2018 P	2019 P	2020 P	2018 P	2019 P	2020 P	2018 P	2019 P
Real GDP (yoy%)	1.8	1.6	2.7	2.3	2.3	2.3	2.3	1.9	1.7	2.4	1.8	1.5	2.3	2.0
(previous forecasts)				(2.2)	-	-	(2.3)	(1.9)	(1.7)	(2.2)	(1.8)	-	(2.2)	(1.9)
Private Consumption	2.3	2.1	2.2	2.0	2.0	2.0	2.2	1.9	1.7	-	-	-	2.0	1.8
Public Consumption	1.3	0.6	0.1	0.7	-0.1	-0.1	0.8	0.1	0.2	-	-	-	0.7	0.3
GFCF	5.8	1.5	9.0	6.2	7.0	7.1	5.8	5.5	5.4	-	-	-	5.7	5.3
Exports	6.1	4.4	7.9	6.3	4.8	4.2	5.5	4.6	4.3	7.4	4.7	4.3	6.8	5.5
Imports	8.5	4.2	7.9	6.3	5.0	4.5	5.7	5.0	5.0	7.2	4.5	4.3	6.9	5.6
Contributions to GDP growth (pp)														
Domestic demand	2.8	1.6	2.9	2.5	2.6	2.6	1.1	1.0	0.9	-	-	-	2.3	2.1
Net exports	-1.1	0.0	-0.2	-0.2	-0.2	-0.3	1.2	0.9	0.8	-	-	-	0.0	0.0
Contributions to GDP growth net of imports (pp)														
Domestic demand	-	0.7	1.2	-	-	-	-	-	-	-	-	-	-	-
Exports	-	0.9	1.5	-	-	-	-	-	-	-	-	-	-	-
External sector (% GDP)														
Current account	-0.9	0.1	0.5	0.7	0.7	0.7	-	-	-	0.2	-0.1	-0.5	0.6	0.6
of which Goods and Services	0.6	1.1	1.0	1.0	1.0	0.8	0.9	1.0	0.9	-	-	-	-	-
Current and Capital account	0.3	1.0	1.4	1.6	1.8	1.8	1.8	1.8	1.8	-	-	-	1.5	1.5
Unemployment (% labor force)	12.4	11.1	8.9	7.6	7.2	6.8	7.2	6.2	5.6	7.3	6.7	6.2	7.7	6.8
Prices (yoy%)														
GDP deflator	2.0	1.5	1.4	1.4	1.4	1.5	-	-	-	1.5	1.6	1.7	1.3	1.4
HICP	0.5	0.6	1.6	1.5	1.5	1.5	1.4	1.5	1.4	1.6	1.6	1.9	1.2	1.6

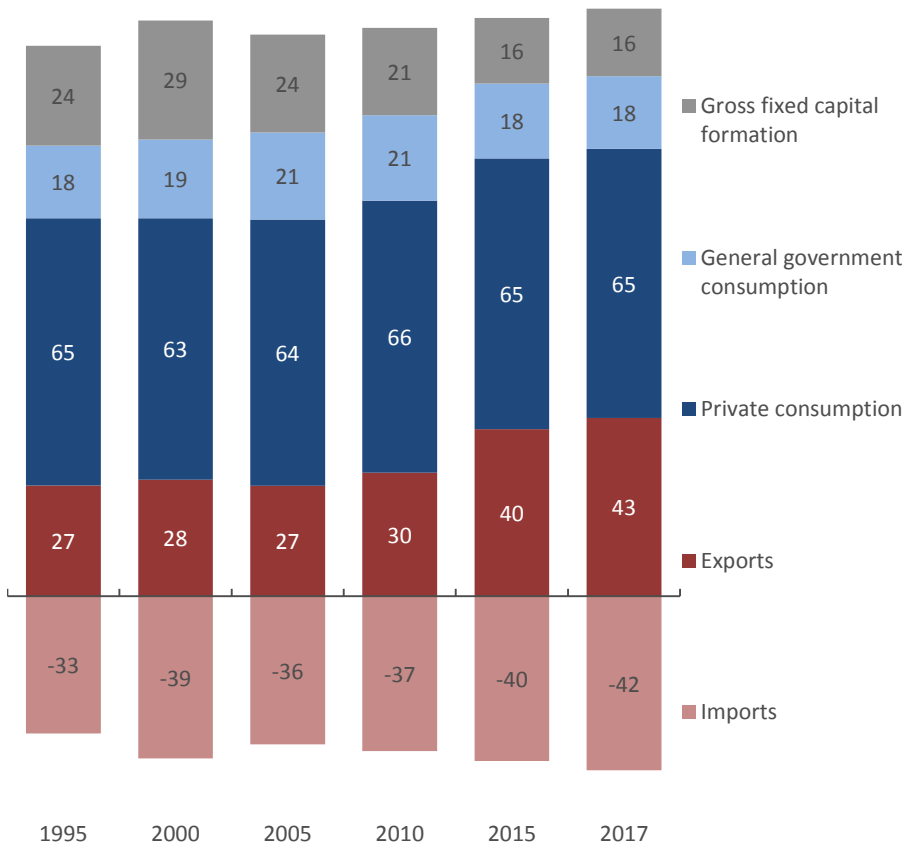
Sources: Statistics Portugal, Ministry of Finance, Banco de Portugal, International Monetary Fund, and European Commission

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- 2. Stronger growth foundations**
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Economic structure better adapted for sustainable recovery cycle, as exports now weigh more than 40% of GDP

GDP composition (current prices)

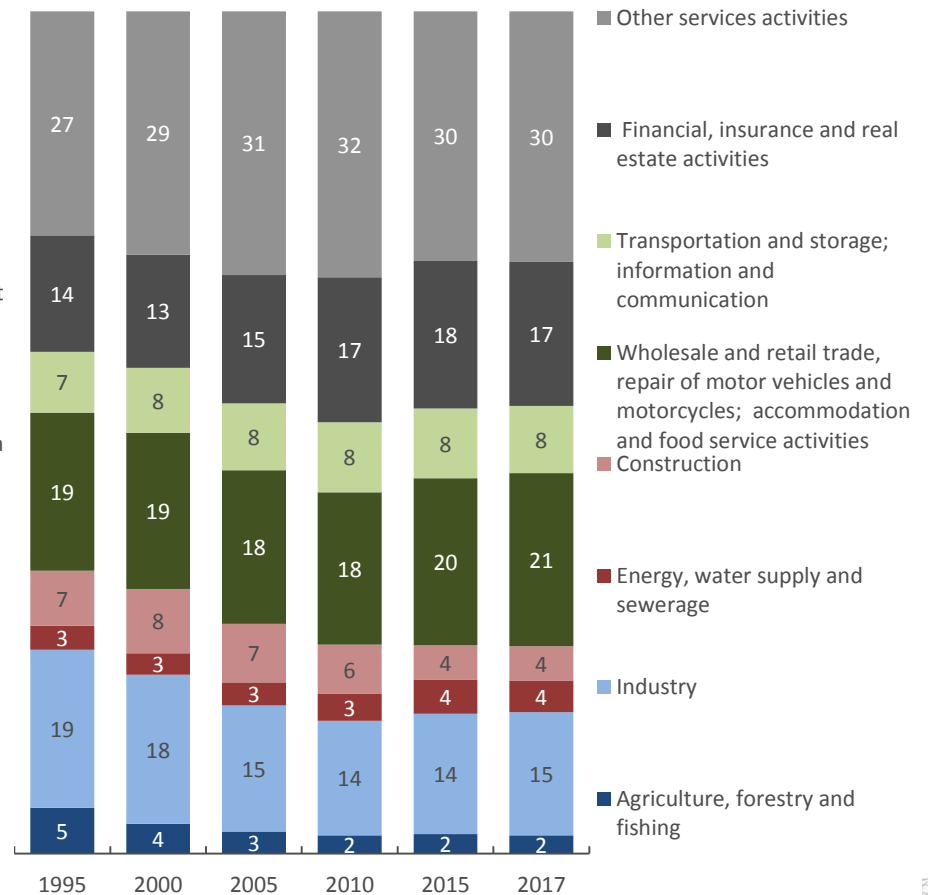
[% of GDP]



Source: Statistics Portugal

GVA composition (current prices)

[% of GVA]

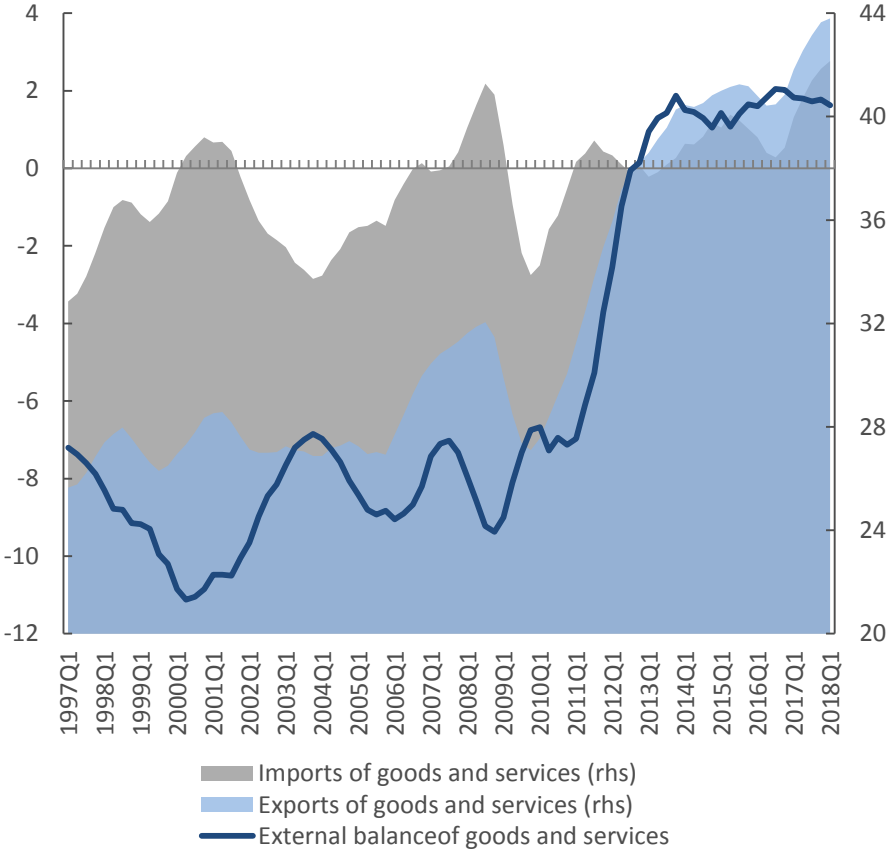


Source: Statistics Portugal

Strong reversal of external imbalances based on structural dynamics...

From chronic external deficits to sustained surpluses

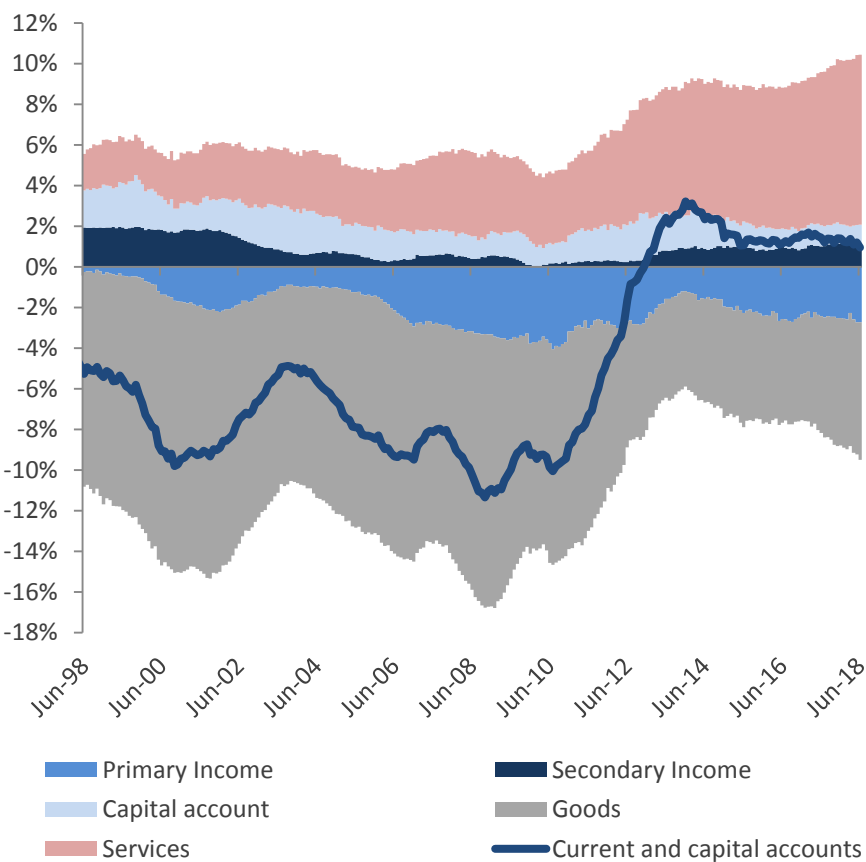
[% GDP]



Source: Statistics Portugal

Improved goods and services accounts

[EUR million]

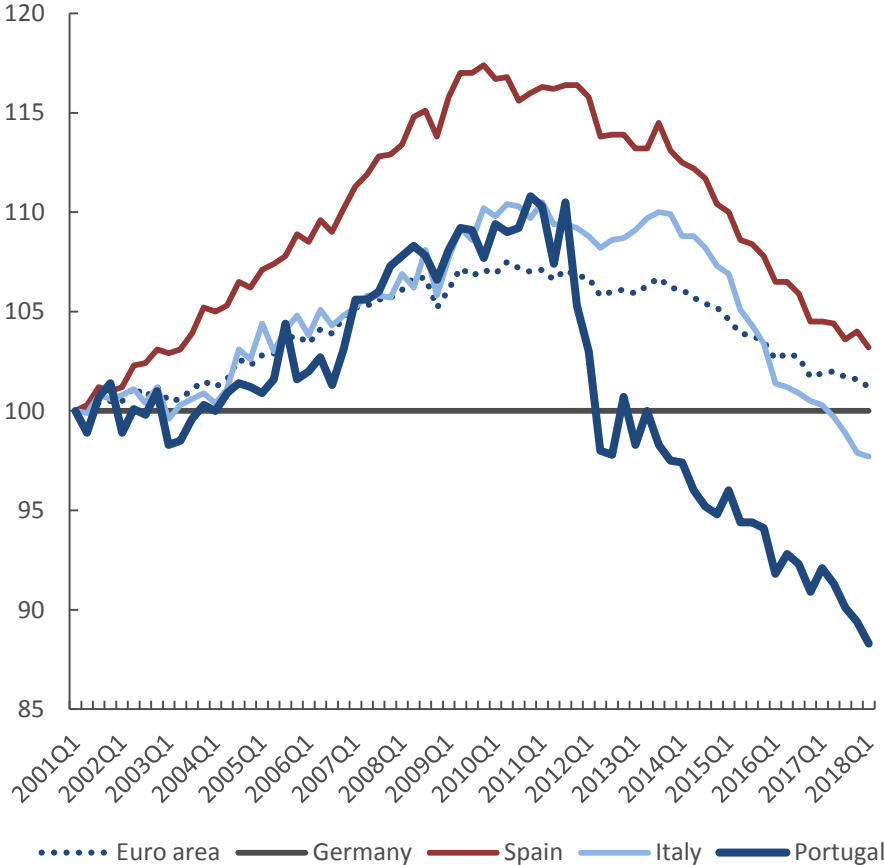


Source: Banco de Portugal

...buoyed by strong gains in exports' market share

Significant competitiveness gains since 2011

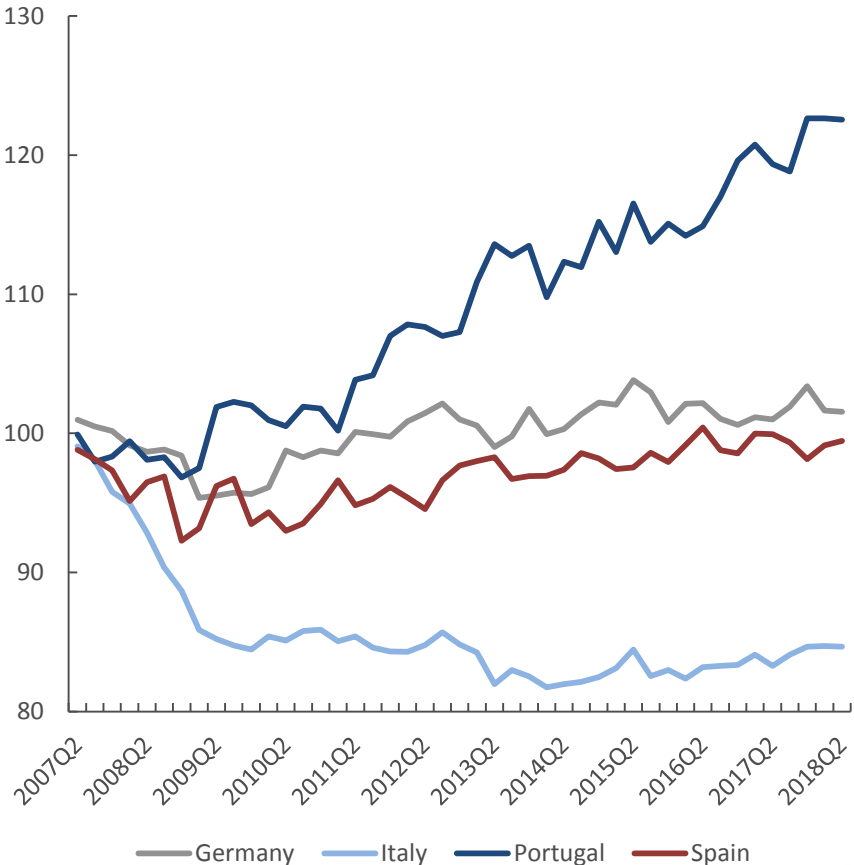
[Labour cost index vs. Germany, 2001Q1=100]



Source: Eurostat

Significant gains in exports' market share

[Index 1Q2007=100]

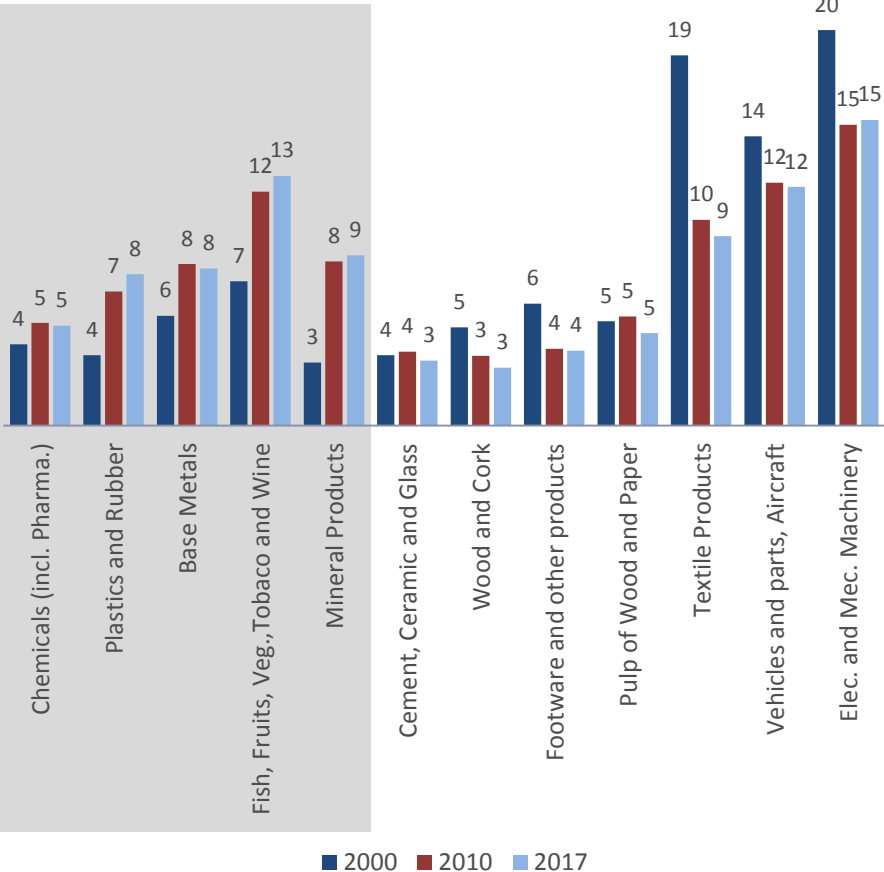


Source: Eurostat

Exports diversification improves resilience to external shocks

Broader sectoral diversification

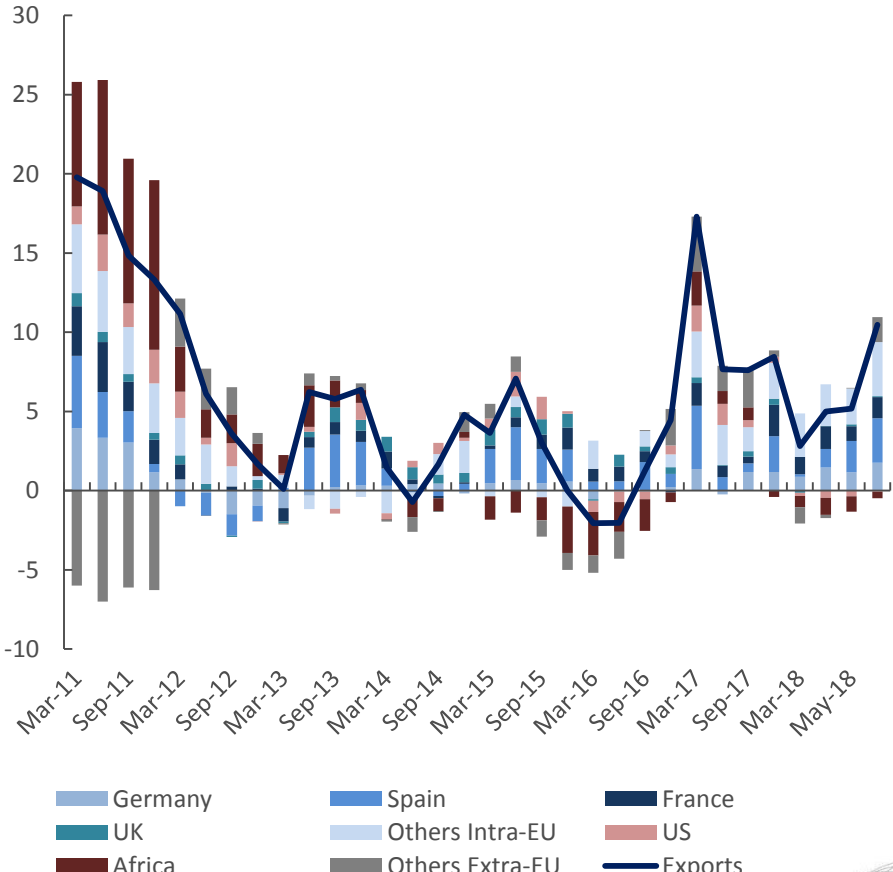
[Goods exports by sector, %]



Source: Statistics Portugal

Geographical diversification sustaining exports growth

[Goods exports by destination, YoY 3mMA %]

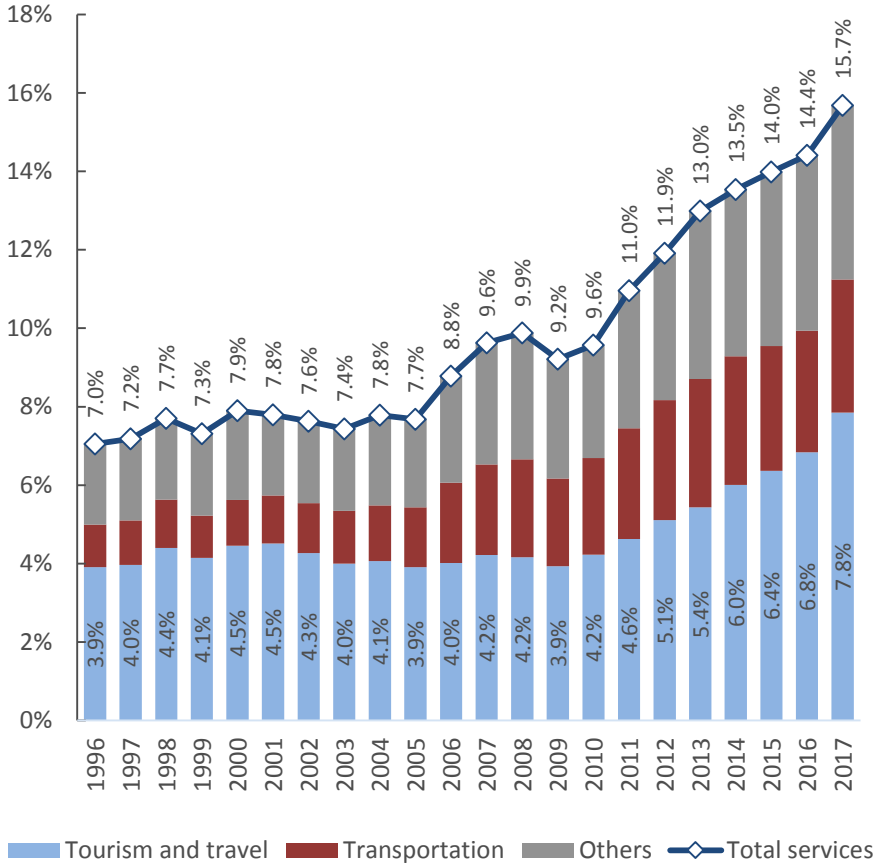


Source: Statistics Portugal

Increase in services exports' weight led by tourism receipts

Weight of exports of services doubled since 2005

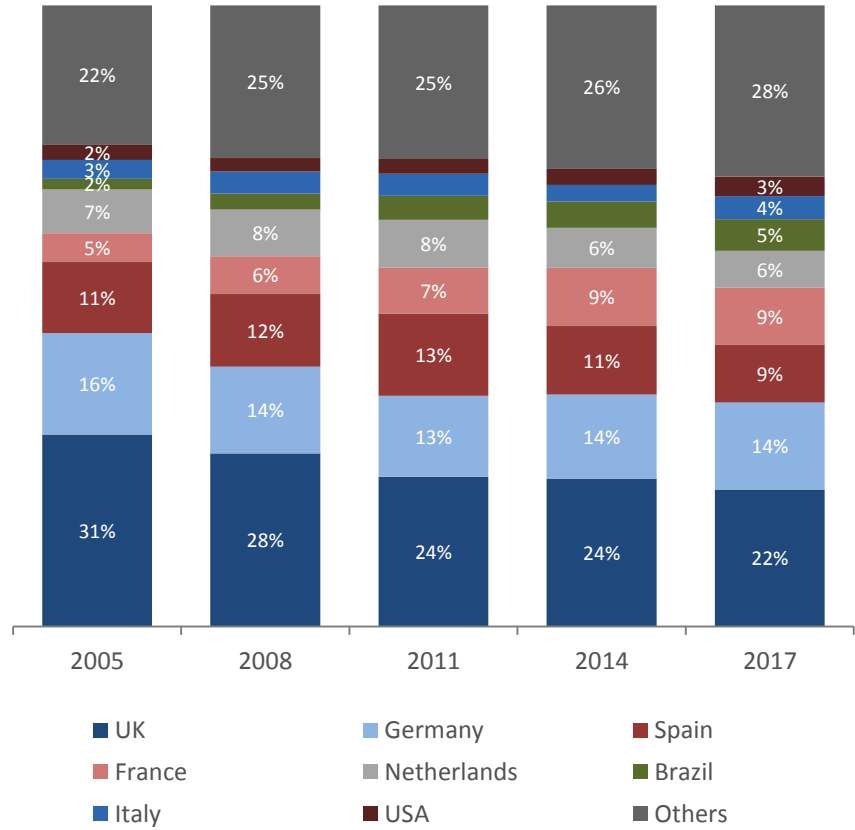
[% GDP]



Source: Banco de Portugal

Greater diversity of countries of origin in tourism

[% of non-resident overnight stays by country of origin]



Source: Statistics Portugal

Strong fixed investment growth despite subdued GFCF in construction

Construction explains 99% of GFCF contraction

[GFCF in construction and excluding construction, 100=20001]



Source: Statistics Portugal

Capacity utilization levels imply stronger investment

[Capacity utilization in manufacturing and NFC GFCF as % of GDP]



Source: Statistics Portugal

Healthy acceleration of fixed investment

Increase in fixed investment despite debt reduction

[NFC debt and NFC fixed investment as % of GDP]



...while NFC savings rate remains well above pre-crisis

[NFC savings and investment as a % of GVA]



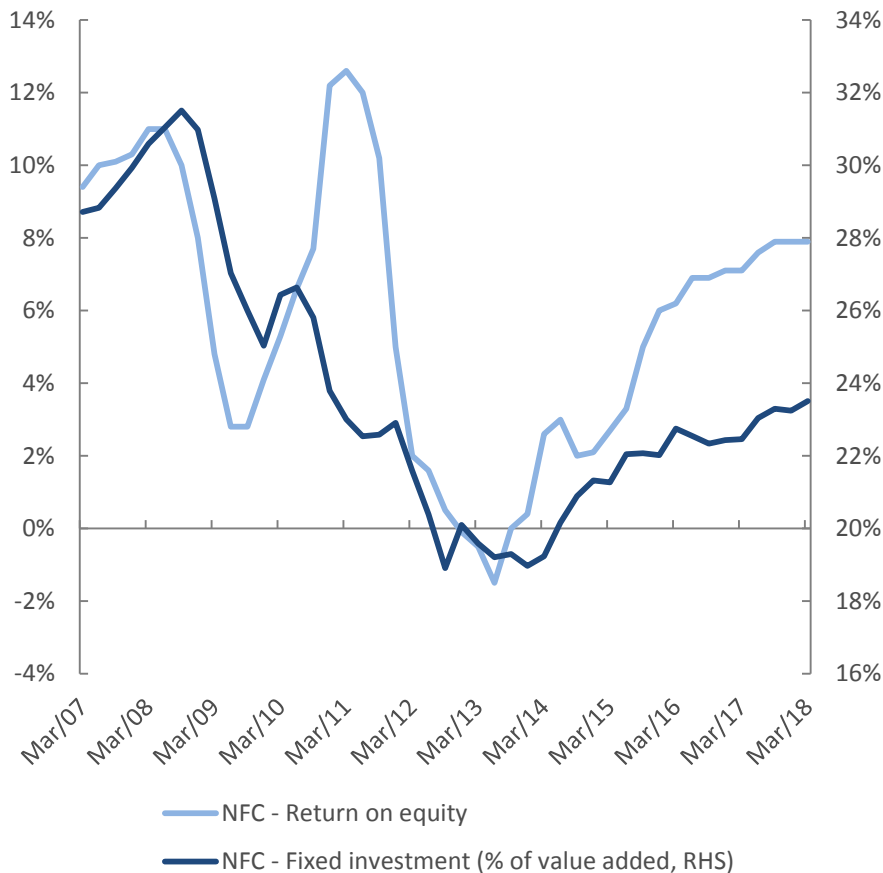
Source: Statistics Portugal, ECB

Source: Statistics Portugal

Improved profitability and credit allocation

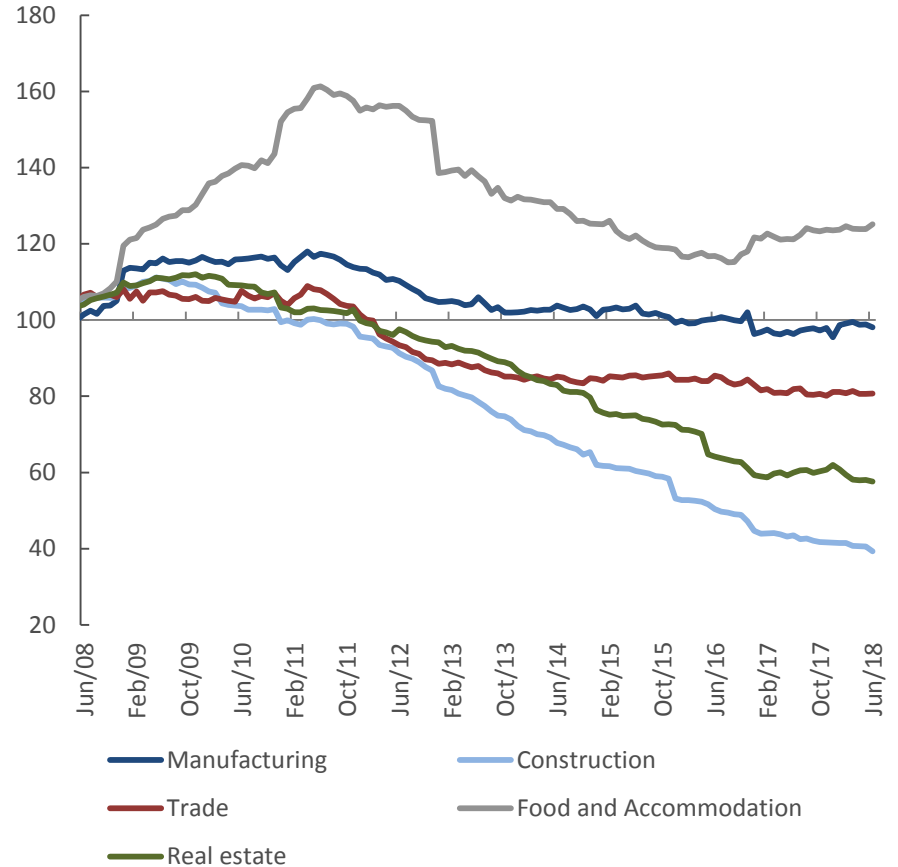
NFC profitability levels are being restored ...

[Return on equity and Fixed investment as a % of GVA]



Stabilization of loans to manufacturing, trade and tourism related sectors, while construction declines

[Loans to NFC, Index 100 = Jan 2008]



Source: Statistics Portugal

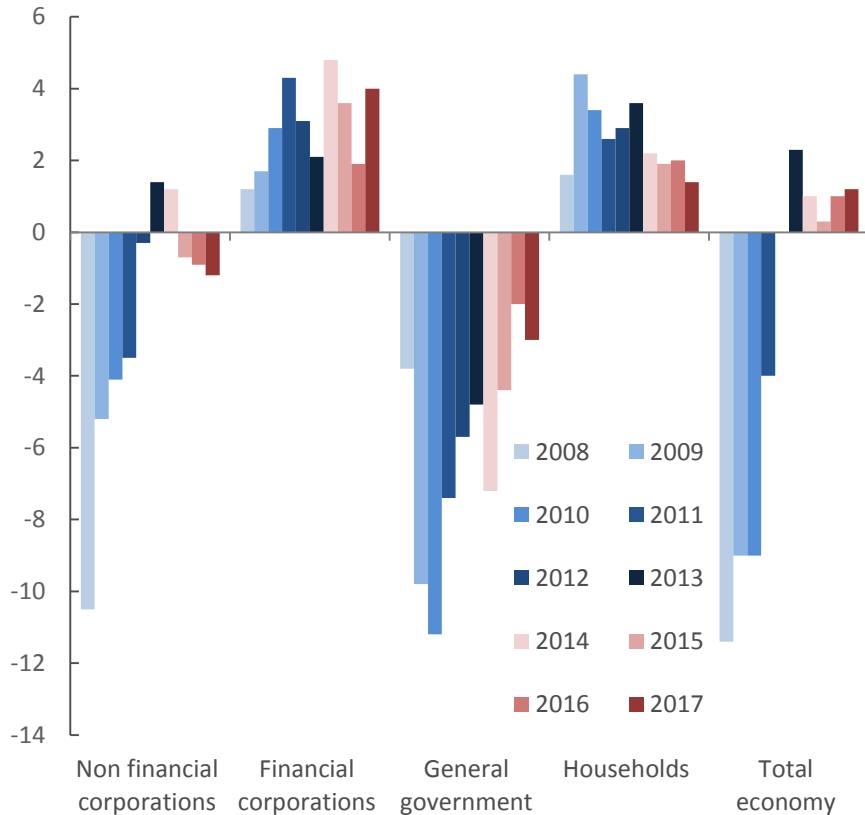
Source: Banco de Portugal

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Improved profitability and balance sheet strengthening

Consistent net lending positions...

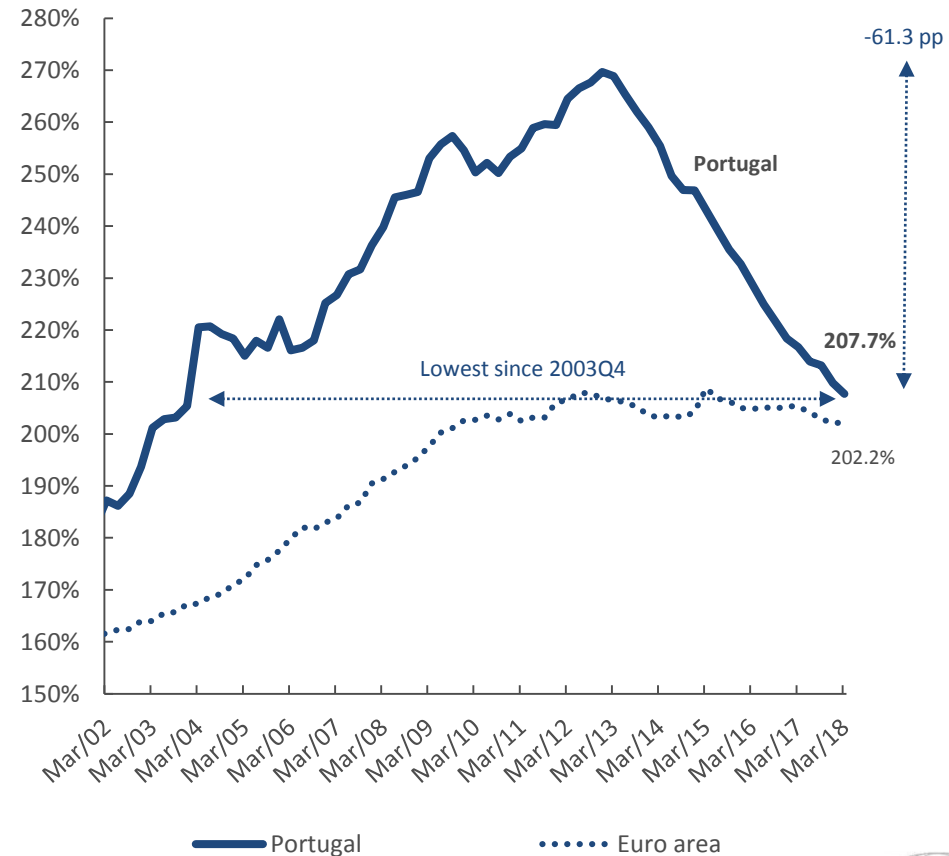
[Net lending (+)/ Net borrowing (-) in % of GDP]



Source: Statistics Portugal

... leading to private sector deleveraging

[Private sector debt/GDP]

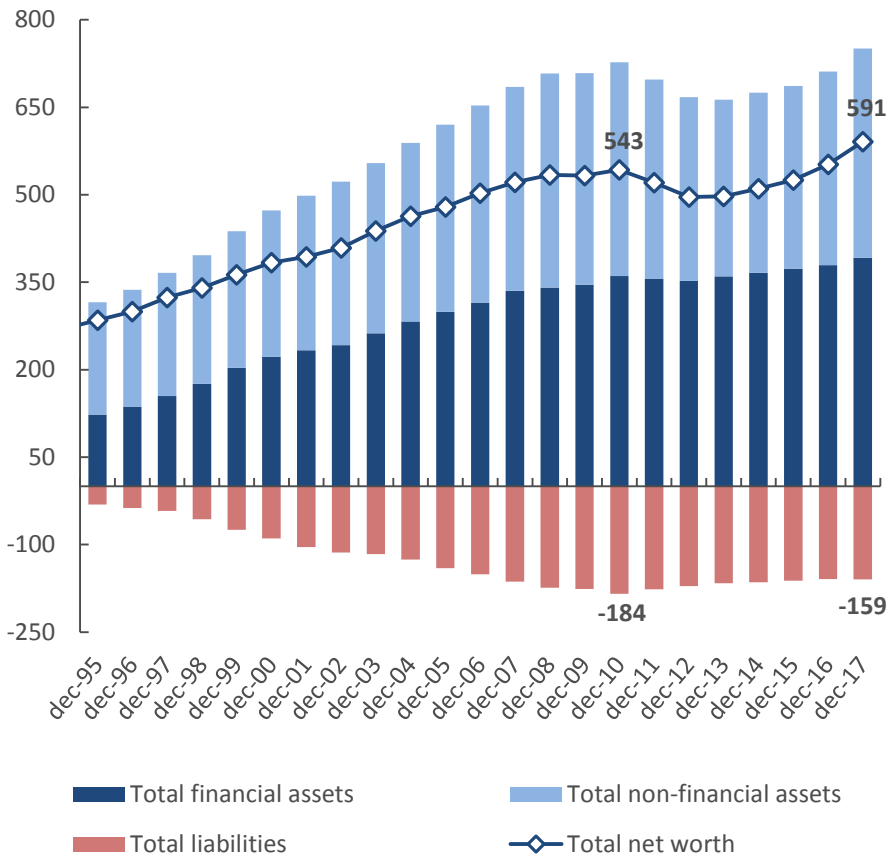


Source: ECB

Households' net financial position improving

Net worth is now above pre-crisis levels ...

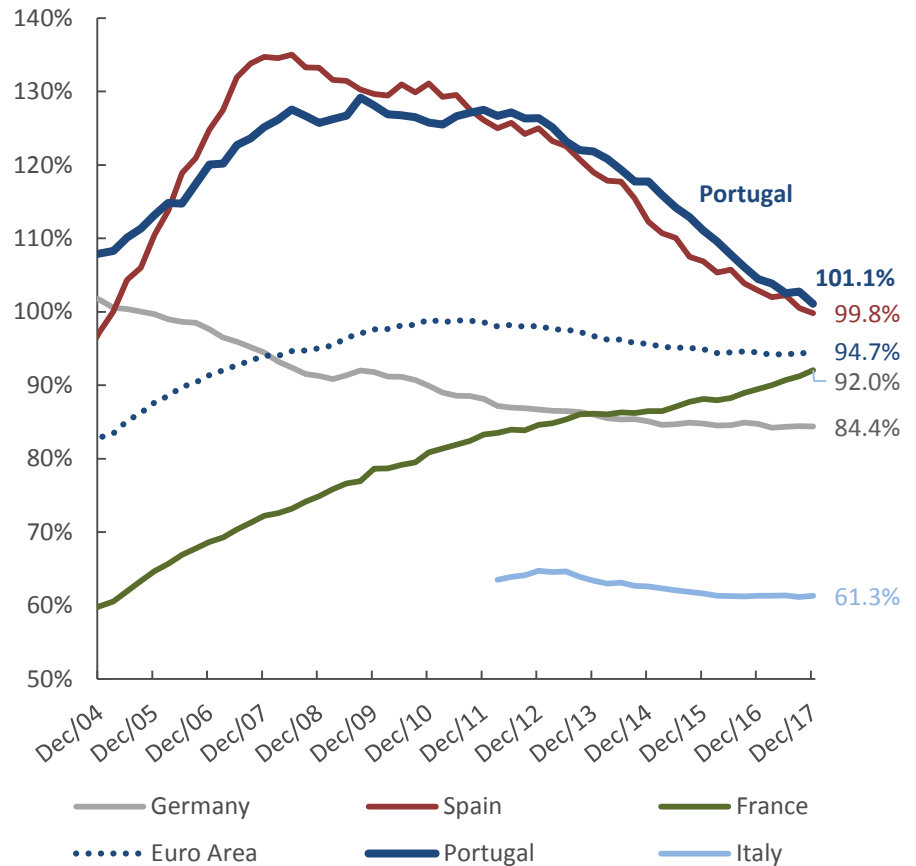
[EUR billion]



Source: Banco de Portugal

... driven by deleveraging

[Debt/GDP; Non-consolidated; Nominal values]

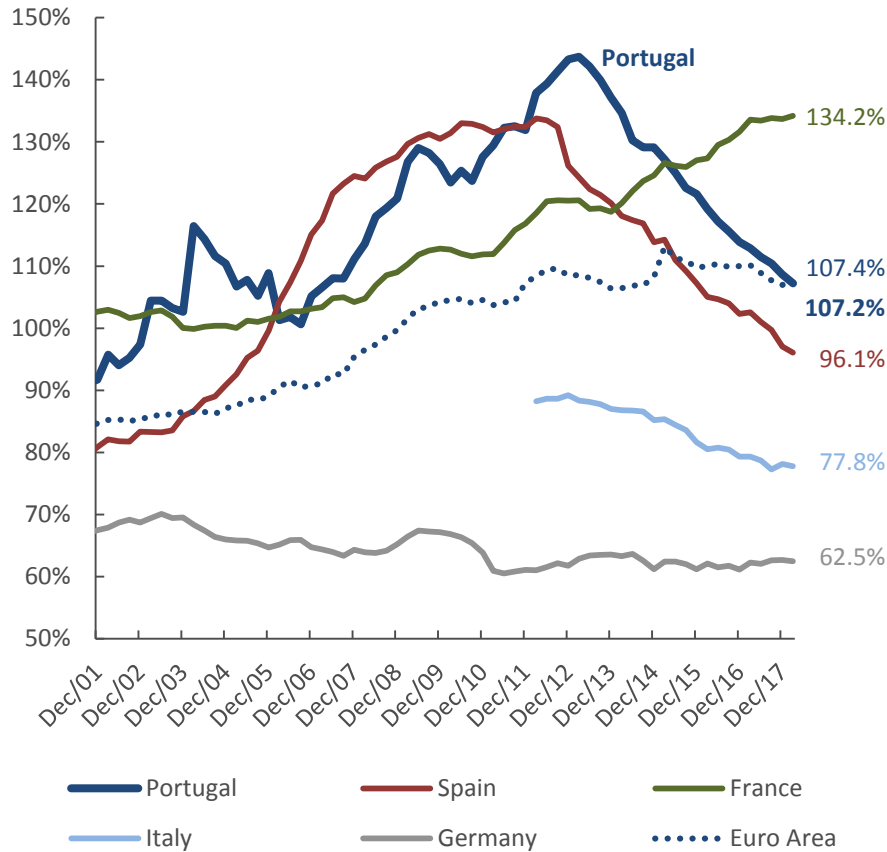


Source: ECB

Strengthening of corporates' capital structure

Strong decline of debt stock

[Debt/GDP; Non-consolidated]



Improved solvency position

[Capital ratio = Equity/Assets]



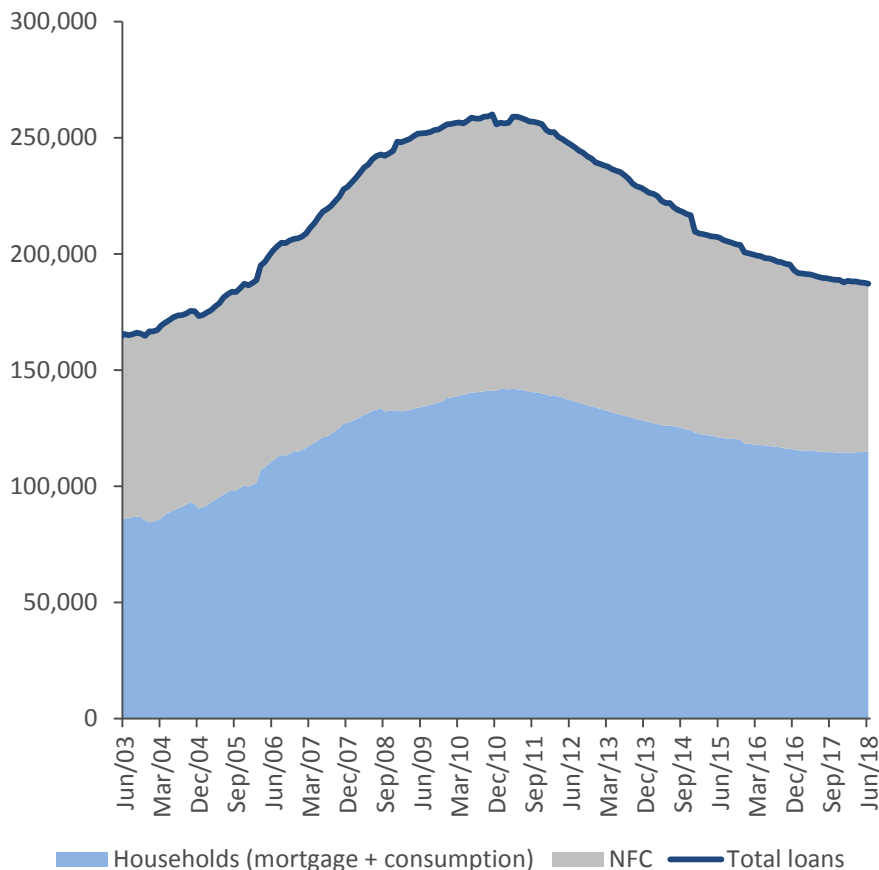
Source: ECB

Source: Banco de Portugal

Deleveraging process results in declining loan stock and diminished new lending operations

Total loans declined sharply since 2011...

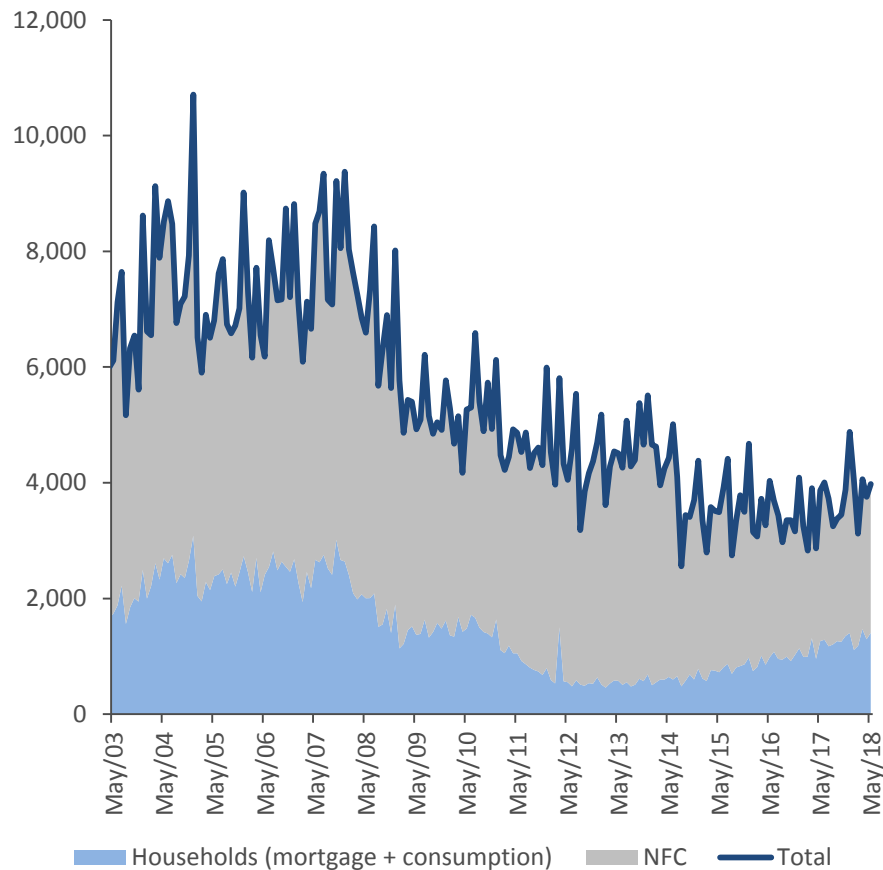
[Total loans to households and NCF, billion €]



Source: Banco de Portugal

...while new lending operations remain subdued

[New lending operations to households and NCF, billion €]

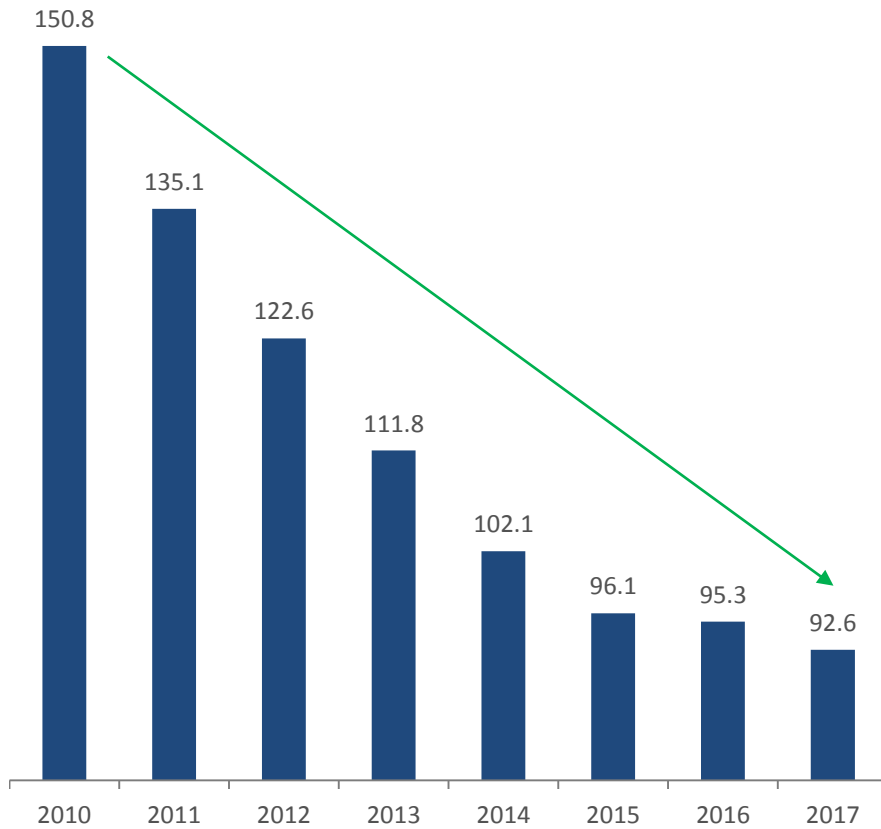


Source: Banco de Portugal

De-risking of the banks' capital structure

More stable funding structure

[Loans to Deposits Ratio, %]



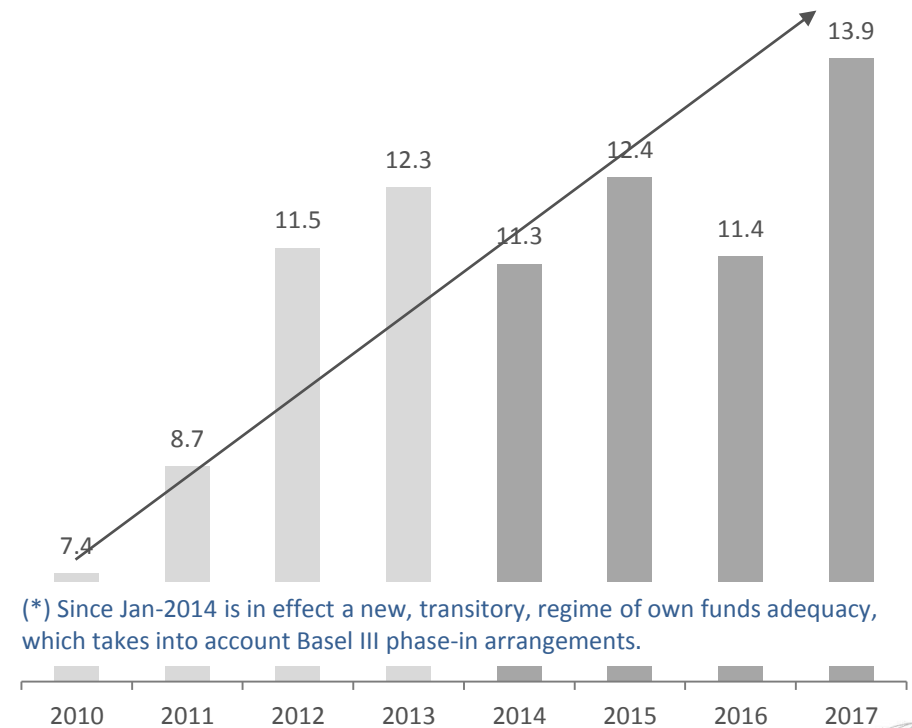
Source: Banco de Portugal

Higher capital levels in a challenging context

[Core tier 1 | Common Equity tier 1, %]



Solvency Ratio



(*) Since Jan-2014 is in effect a new, transitory, regime of own funds adequacy, which takes into account Basel III phase-in arrangements.

Source: Banco de Portugal

Strengthening of banks' capital structure

CGD

- The 2nd stage of CGD's recapitalization was concluded in Mar-17, with issuance of €0.5 bn of subordinated bonds and State capital injection of €2.5 bn

Novo Banco

- NB redeemed all its State-guaranteed debt between Nov-16 and Feb-17 (€3.5bn)
- NB bought back of senior bonds maturing between 2019 and 2052, ensuring a capital increase of €500mn
- A 75% stake in NB was sold to Lone Star, resulting in an immediate capital injection of €750 mn (and an additional €250 mn by the end of 2017). The Resolution Fund will retain 25% of the capital.

BCP

- Capital increase of €1.33 bn finalized in Feb-2017, which allowed the reimbursement of the remaining €700 mn of CoCos
- Following the capital increase, Fosun share reached 23.5%

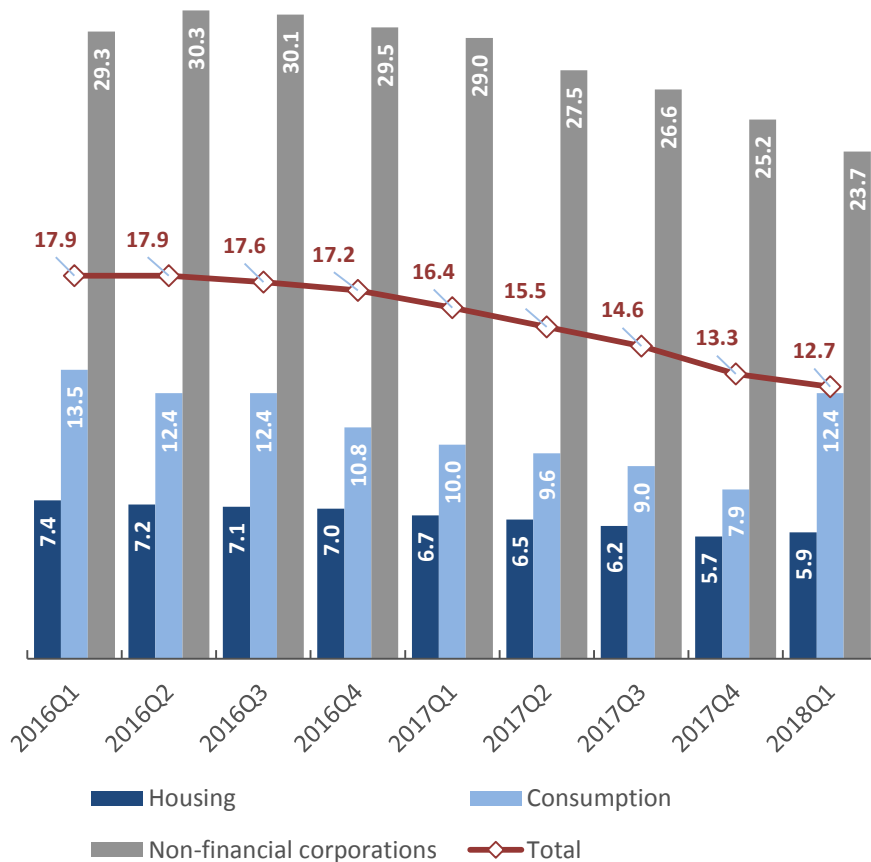
BPI

- The removal of the voting rights limit opened the door for a successful public offer by *CaixaBank*, finalized in Feb-2017, which increased its share to over 84.5%

Banks dealing with legacy assets

NPL ratio is receding ...

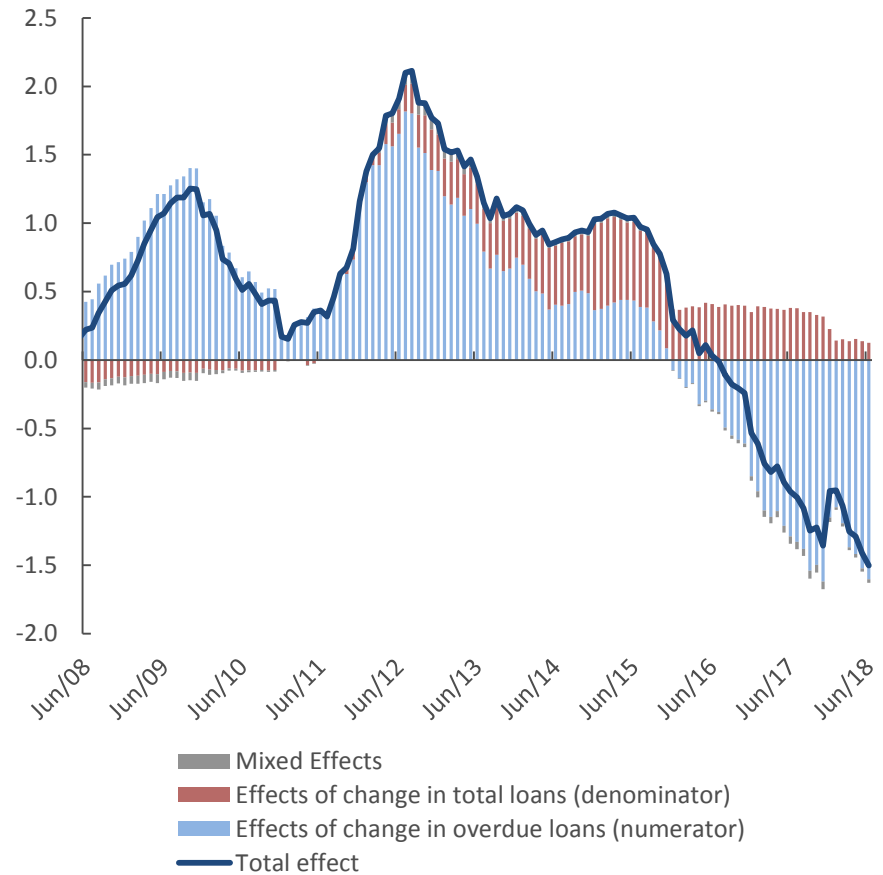
[% of gross credit; at end of period]



Source: Banco de Portugal

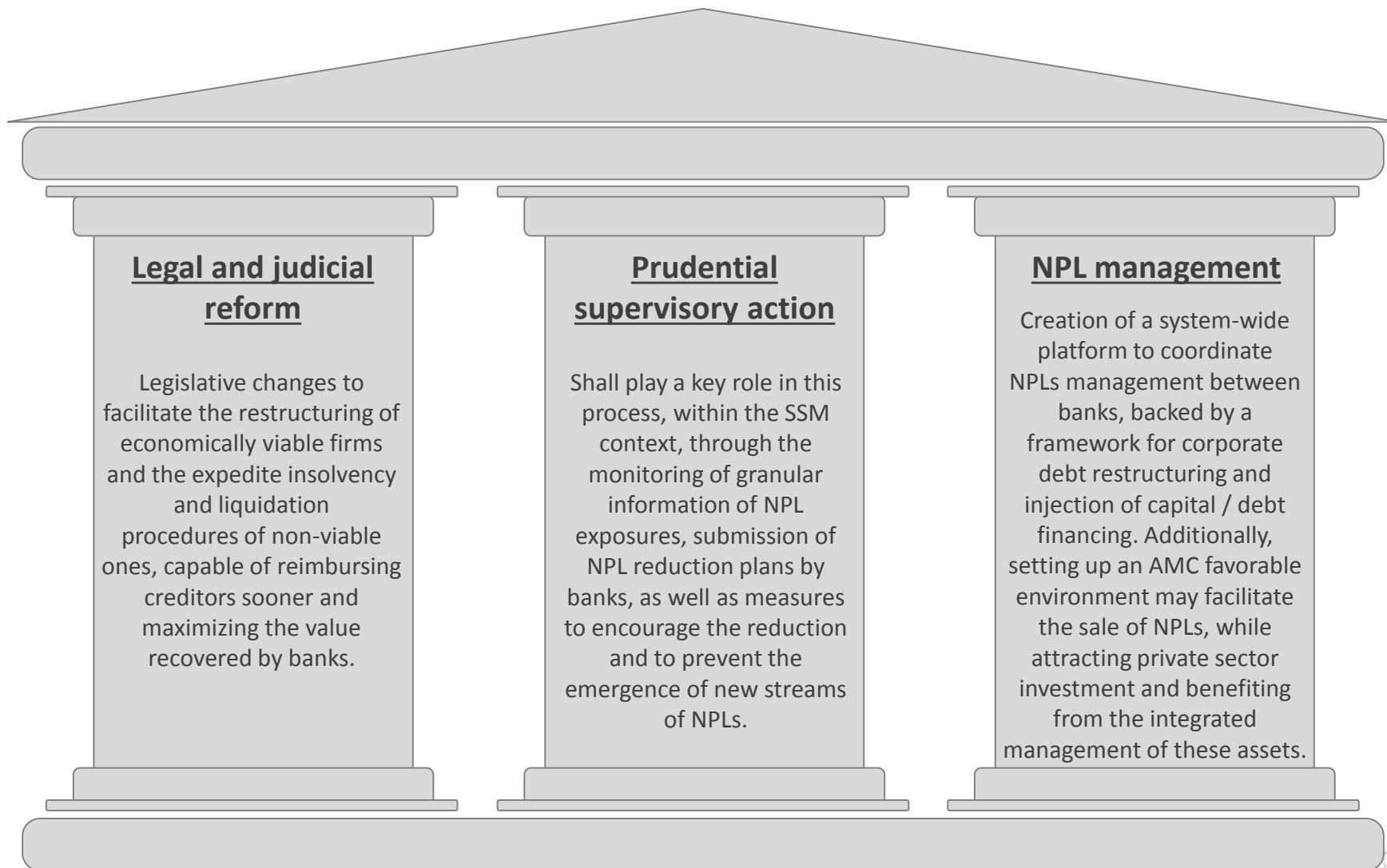
... as does overdue credit ratio despite lower total loans

[Overdue credit ratio, YoY change in pp and contributions]



Source: Banco de Portugal

A three pillar strategy is being followed by the Authorities to deal with NPLs

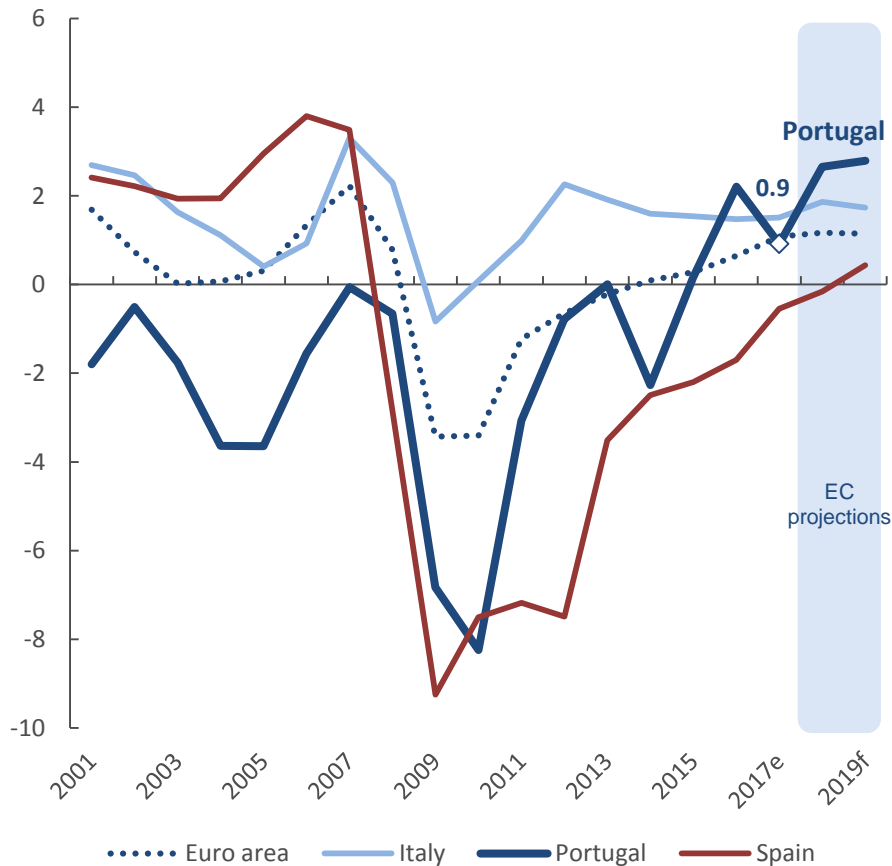


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Fiscal discipline has stabilized debt levels throughout economic and political cycles

Strong primary surplus ...

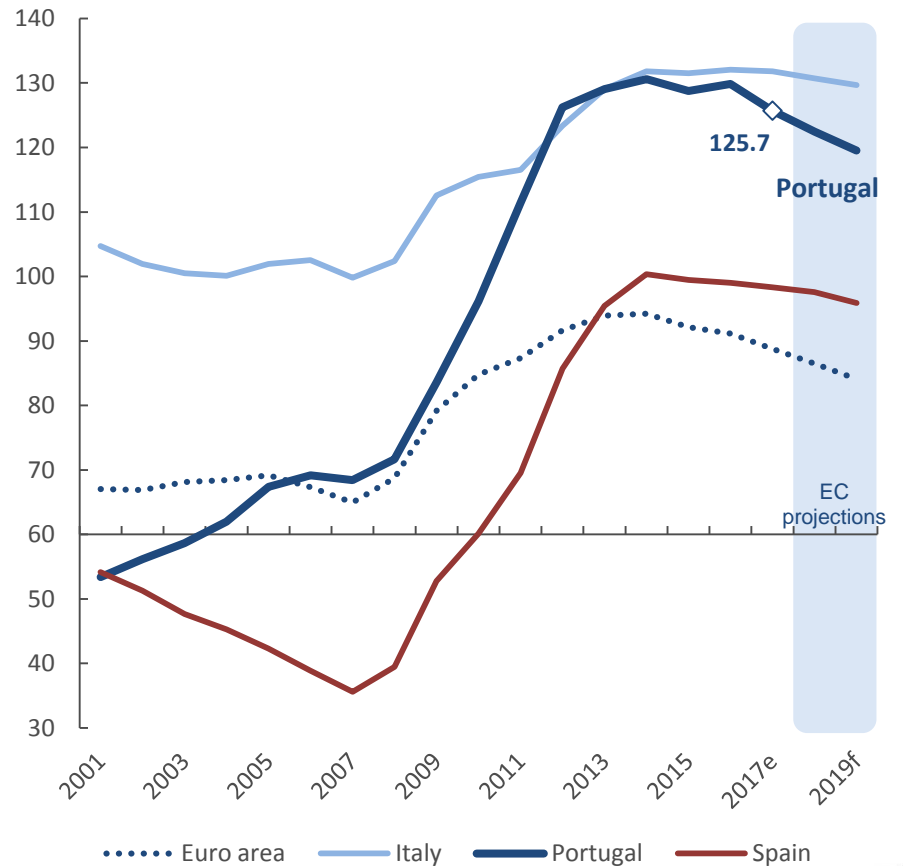
[% of GDP]



Source: European Commission

... supporting public debt decline

[EDP gross debt, % of GDP]

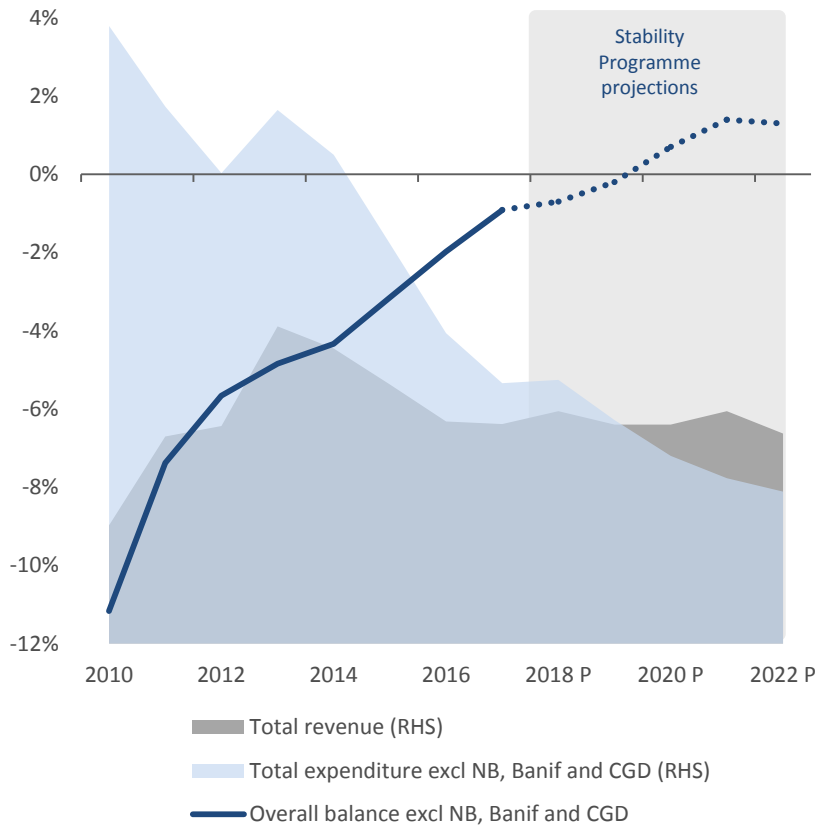


Source: European Commission

Lowest deficits in over 40 years, with the structural balance reaching 1.0% of GDP in 2017

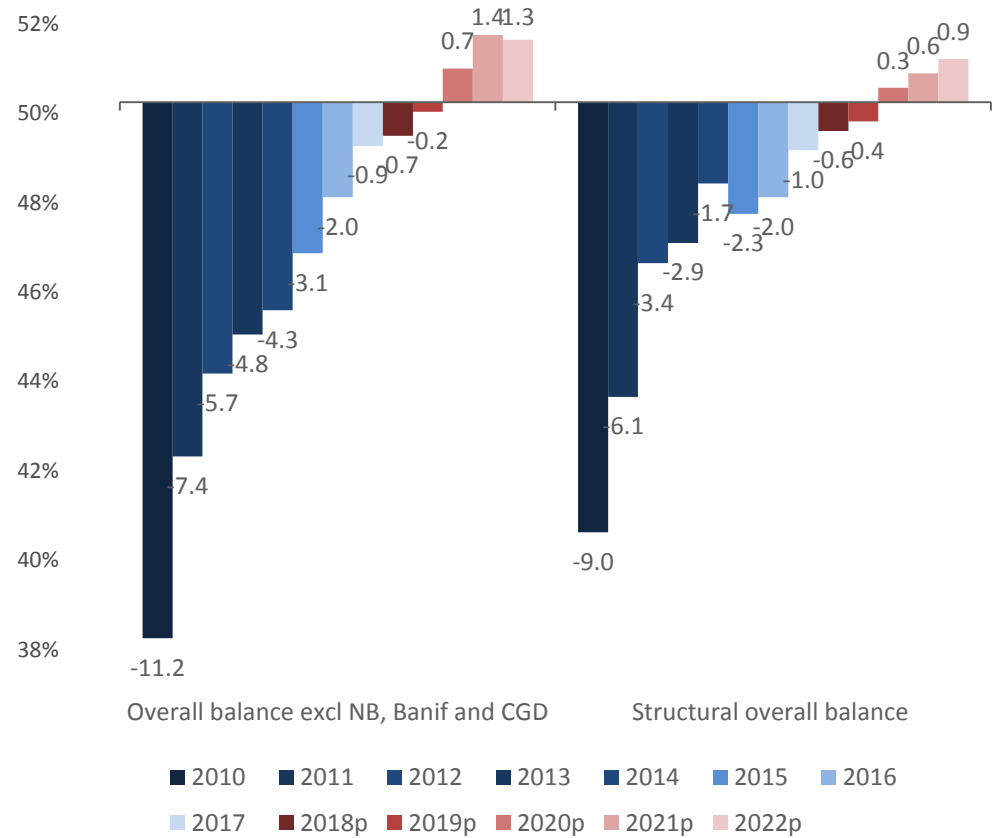
Significant reduction of expenditure

[Total revenue, total spending and overall balance; % GDP]



Structural adjustment

[% GDP]



Source: Statistics Portugal and Ministry of Finance

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Fiscal consolidation through a strong improvement of the primary surplus and declining interest costs

General Government Accounts

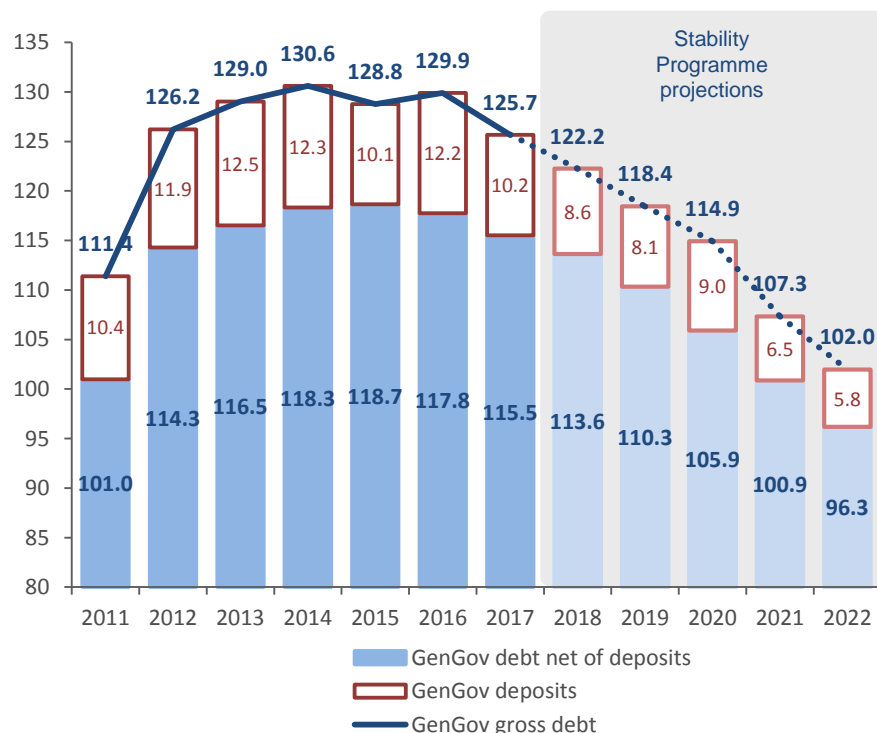
[% GDP]

(% GDP)	General Government Account (accrual basis)												
	2010	2011	2012	2013	2014	2015	2016	2017	2018 P	2019 P	2020 P	2021 P	2022 P
Total revenue	40.6%	42.6%	42.9%	45.1%	44.6%	43.8%	43.0%	42.9%	43.2%	42.9%	42.9%	43.2%	42.7%
Current revenue	39.4%	41.5%	41.1%	44.0%	43.6%	43.0%	42.5%	42.5%	42.4%	42.2%	42.1%	41.9%	41.9%
Current taxes on income and wealth	8.5%	9.5%	9.0%	11.4%	11.0%	10.9%	10.3%	10.2%	9.9%	9.7%	9.7%	9.5%	9.5%
Taxes on production and imports	13.2%	13.9%	13.9%	13.7%	14.2%	14.5%	14.7%	15.0%	15.2%	15.2%	15.2%	15.2%	15.2%
Social contributions	11.9%	12.0%	11.4%	12.0%	11.8%	11.6%	11.6%	11.8%	11.8%	11.8%	11.8%	11.9%	11.9%
Other revenue	5.8%	6.2%	6.9%	6.8%	6.6%	6.1%	5.9%	5.5%	5.6%	5.4%	5.4%	5.4%	5.4%
Capital revenue	1.3%	1.1%	1.8%	1.1%	1.0%	0.8%	0.4%	0.4%	0.8%	0.7%	0.8%	1.3%	0.8%
Total expenditure excl CGD	51.8%	50.0%	48.5%	49.9%	51.8%	48.2%	44.9%	43.8%	43.9%	43.0%	42.2%	41.7%	41.4%
Current expenditure	44.6%	45.6%	45.3%	46.8%	45.6%	43.9%	43.0%	41.5%	40.9%	40.1%	39.3%	38.8%	38.4%
Social benefits	18.6%	18.9%	19.6%	20.4%	19.7%	19.3%	18.9%	18.4%	18.3%	18.2%	17.9%	17.8%	17.7%
Compensation of employees	13.7%	12.8%	11.7%	12.5%	11.9%	11.3%	11.3%	11.0%	10.8%	10.6%	10.4%	10.2%	10.0%
Interest (EDP)	2.9%	4.3%	4.9%	4.9%	4.9%	4.6%	4.2%	3.9%	3.5%	3.4%	3.2%	3.1%	3.1%
Intermediate consumption	5.9%	6.0%	5.8%	5.6%	5.7%	5.6%	5.6%	5.4%	5.3%	5.2%	5.1%	5.1%	5.0%
Subsidies	0.7%	0.7%	0.6%	0.6%	0.7%	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Other current expenditure	2.8%	2.9%	2.7%	2.7%	2.7%	2.6%	2.5%	2.3%	2.4%	2.3%	2.3%	2.2%	2.2%
Capital expenditure excl CGD	7.2%	4.4%	3.3%	3.2%	6.2%	4.3%	1.9%	2.3%	3.1%	2.9%	3.0%	3.0%	3.0%
Gross fixed capital formation	5.3%	3.5%	2.3%	2.3%	1.9%	2.4%	1.5%	1.8%	2.3%	2.4%	2.6%	2.6%	2.6%
Other capital expenditure excl CGD	1.9%	0.9%	1.0%	0.9%	4.2%	1.9%	0.4%	0.5%	0.8%	0.5%	0.3%	0.3%	0.3%
Overall balance excl CGD	-11.2%	-7.4%	-5.7%	-4.8%	-7.2%	-4.4%	-2.0%	-0.9%	-0.7%	-0.2%	0.7%	1.4%	1.3%
<i>Memo items</i>													
Primary expenditure excl CGD	48.9%	45.7%	43.6%	45.1%	46.9%	43.6%	40.8%	40.0%	40.4%	39.7%	39.0%	38.6%	38.3%
Primary balance excl CGD	-8.2%	-3.1%	-0.8%	0.0%	-2.3%	0.2%	2.2%	3.0%	2.8%	3.2%	3.9%	4.5%	4.4%
Overall balance	-11.2%	-7.4%	-5.7%	-4.8%	-7.2%	-4.4%	-2.0%	-3.0%	-0.7%	-0.2%	0.7%	1.4%	1.3%
Primary balance	-8.2%	-3.1%	-0.8%	0.0%	-2.3%	0.2%	2.2%	0.9%	2.8%	3.2%	3.9%	4.5%	4.4%

Public debt to decline

Public debt downward trend ...

[Maastricht debt, % GDP]



(*) State-guaranteed debt not considered in the Maastricht debt currently amounts to about 6pp of GDP.

... is supported by strong primary surpluses and decreasing interest costs

Decomposition of public debt dynamics

[pp GDP]

YEAR	2016	2017	2018 P	2019-22 P
Maastricht debt (% GDP)	129.9	125.7	122.2	102.0
Change (pp GDP)	1.1	-4.2	-3.5	-20.2
Primary balance effect (excl CGD)	-2.2	-3.0	-2.8	-16.0
Snowball effect	0.2	-1.2	-1.1	-3.8
Interest costs	4.2	3.9	3.5	12.8
Nominal GDP	-3.9	-5.1	-4.6	-16.6
Other stock-flow adjustments	3.1	-0.1	0.4	-0.3

Assumptions for public debt dynamics

YEAR	2016	2017	2018 P	2019-22 P
Real growth rate (yoy%)	1.6	2.7	2.3	2.2
GDP deflator (yoy%)	1.4	1.3	1.4	1.5
Overall balance excl CGD (%GDP)	-2.0	-0.9	-0.7	0.8
Primary balance excl CGD (%GDP)	2.2	3.0	2.8	4.0
Interest costs (%GDP)	4.2	3.9	3.5	3.2
Implicit interest rate (%GGDebt t-1)	3.4	3.1	2.9	2.9

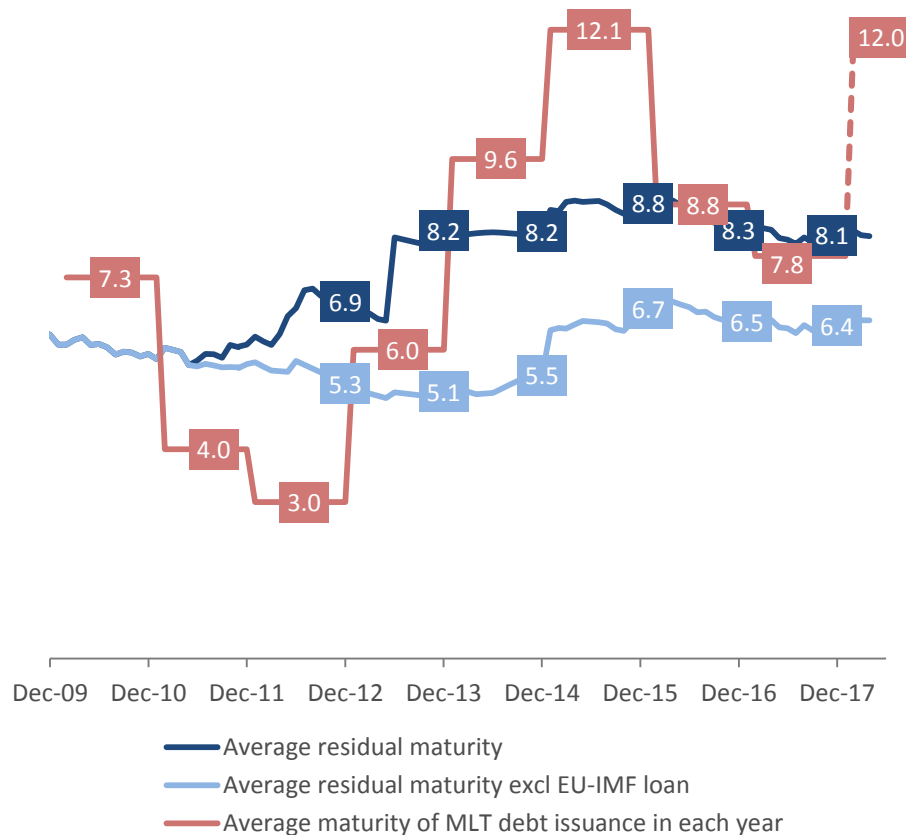
Source: Ministry of Finance

1. Economic revitalization
2. Stronger growth foundations
3. Private sector turnaround
4. Fiscal stabilization
- 5. Resilient public debt structure**
6. Improving market conditions

A significant improvement in the debt structure is a key source of resilience

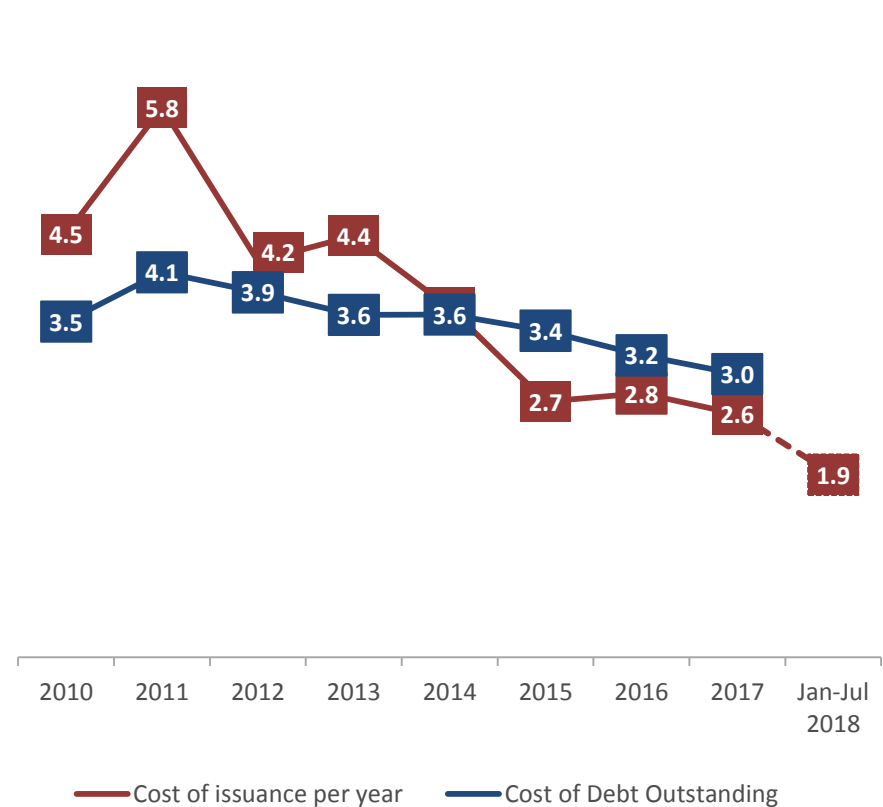
One of the longest average maturities ...

[Years]



... with a declining implicit interest rate

[%]



Source: IGCP

Source: IGCP

Prudent and stable funding plan

State's borrowing needs and sources 2016-2022

[EUR billion; as of 31 August, 2018]

	2016	2017	2018 P	2019 P	2020 P	2021 P	2022 P
State borrowing requirements	22.5	27.9	18.8	15.3	13.0	20.9	18.1
Net financing needs	8.3	10.0	10.9	6.5	3.0	2.0	1.6
Overall deficit *	6.2	4.8	5.5	1.6	0.3	-1.0	-0.3
Other net acquisitions of financial assets **	2.1	5.2	5.4	4.8	2.7	3.0	2.0
MLT Redemptions	14.2	17.9	7.9	8.9	10.0	19.0	16.4
Tbonds (PGB + MTN)	9.7	7.9	7.1	8.9	10.0	13.6	11.1
FRN/OTRV						3.5	3.5
IMF (executed)	4.5	10.0	0.8				
IMF (to be executed)						1.9	1.8
<i>p.m. IMF (original maturity of outstanding loan)</i>			0.0	0.0	0.0	1.9	1.8
State financing sources	22.5	27.9	18.8	15.3	13.0	20.9	18.1
Use of deposits	-3.6	0.4	1.9	0.5	-2.6	5.0	1.0
Financing in the year	26.1	27.5	17.0	14.8	15.6	15.9	17.1
Executed	26.1	27.5	14.5				
Tbonds (PGB + MTN)	17.4	15.1	13.2				
FRN/OTRV	3.5	3.5	1.0				
Retail debt (net)	3.5	2.8	1.0				
Tbills (net)	0.1	0.3					
Other flows (net) ***	1.7	5.8	-0.7				
To be executed			2.5	14.8	15.6	15.9	17.1
Tbonds (PGB + MTN)			2.2				
FRN/OTRV							
Retail debt (net)							
Tbills (net)							
Other flows (net) ***			0.3				
State Treasury cash position at year-end ****	10.2	9.8	7.9	7.4	10.0	5.0	4.0

* State sub-sector cash deficit in 2016-18. Projection for GG deficit (excl SS) in 2019-22 (Stability Program, Apr 2018).

** Includes refinancing of other public entities (namely SOEs), as well as the redemption of CoCos and the direct capitalization of CGD in 2017, and credit lines to the Single Resolution Board and the National Resolution Fund in 2018-19.

*** Includes centralization of funds of other public entities in the Single Treasury Account.

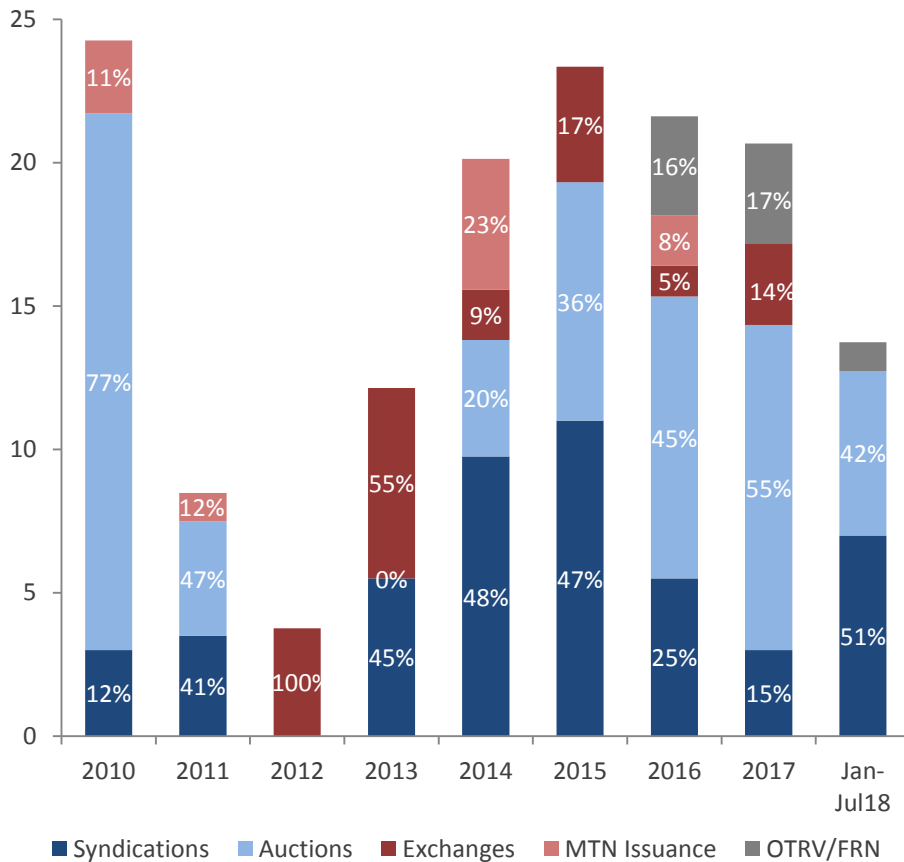
**** Excluding cash-collateral.

Source: IGCP
and Ministry
of Finance

Regular issuance of MLT debt through different channels and across the curve

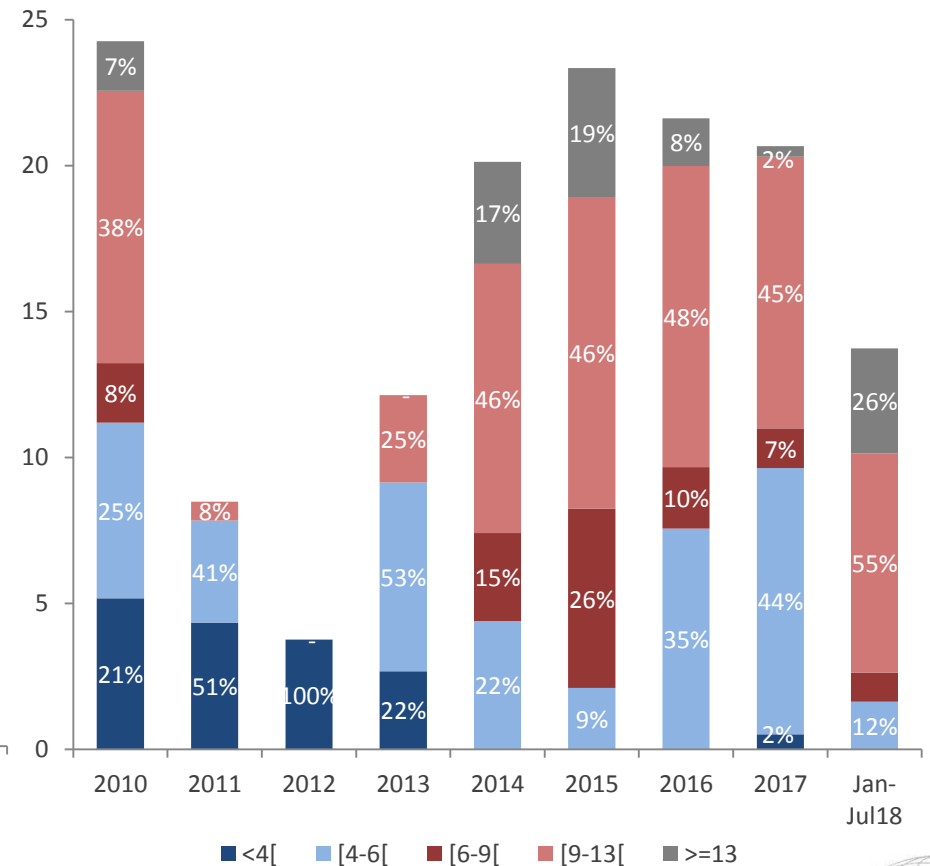
Auctions regain the main role in the annual funding plan

[MLT debt issuance per method of issuance; EUR billion]



Supporting liquidity in different points of the curve

[MLT debt issuance per bucket; EUR billion]



Source: IGCP

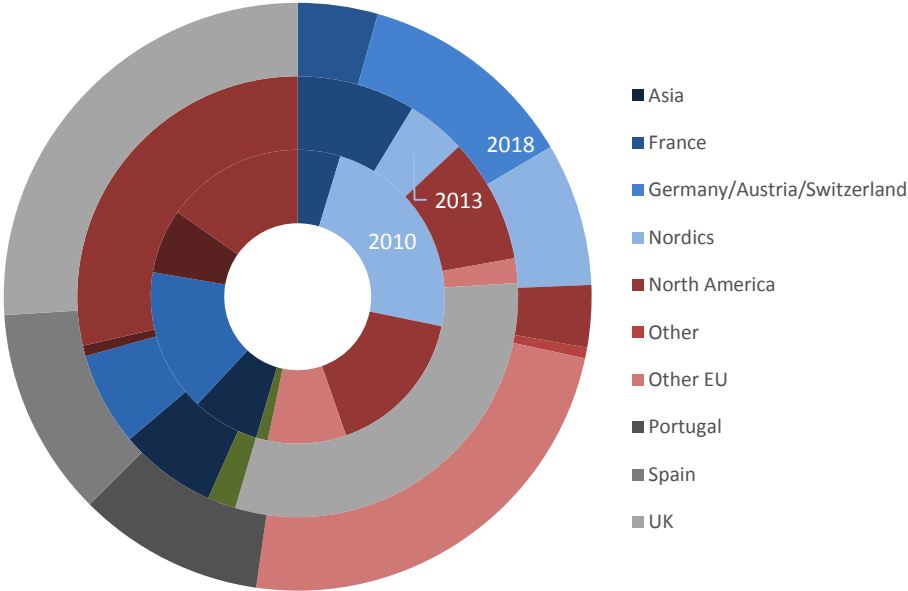
Source: IGCP

The diversification of investors ensures a stable base of debt holders (1/2)

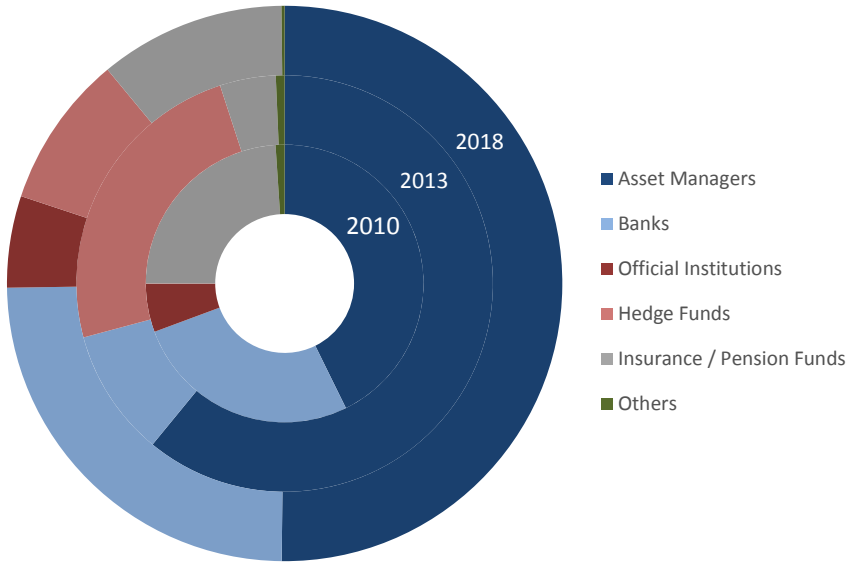
Progressively regaining traditional investors

[Distribution by geography and investor type of 10-year syndications from 2010 to 2018]

Distribution by Geography



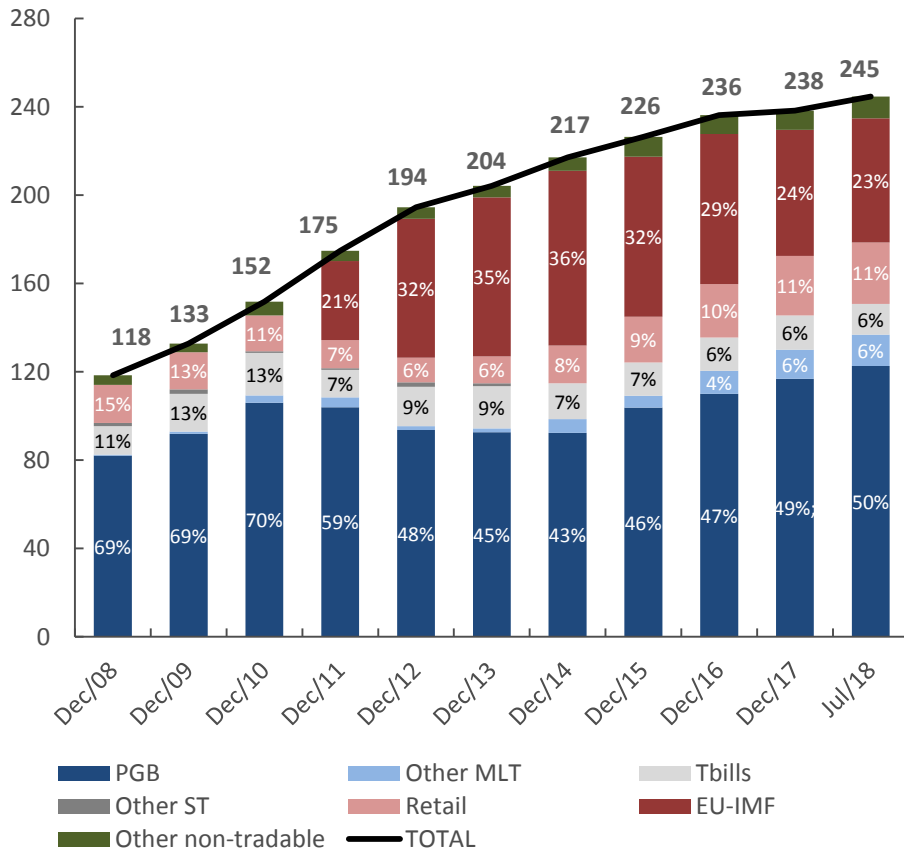
Distribution by Investor Type



The diversification of investors ensures a stable base of debt holders (2/2)

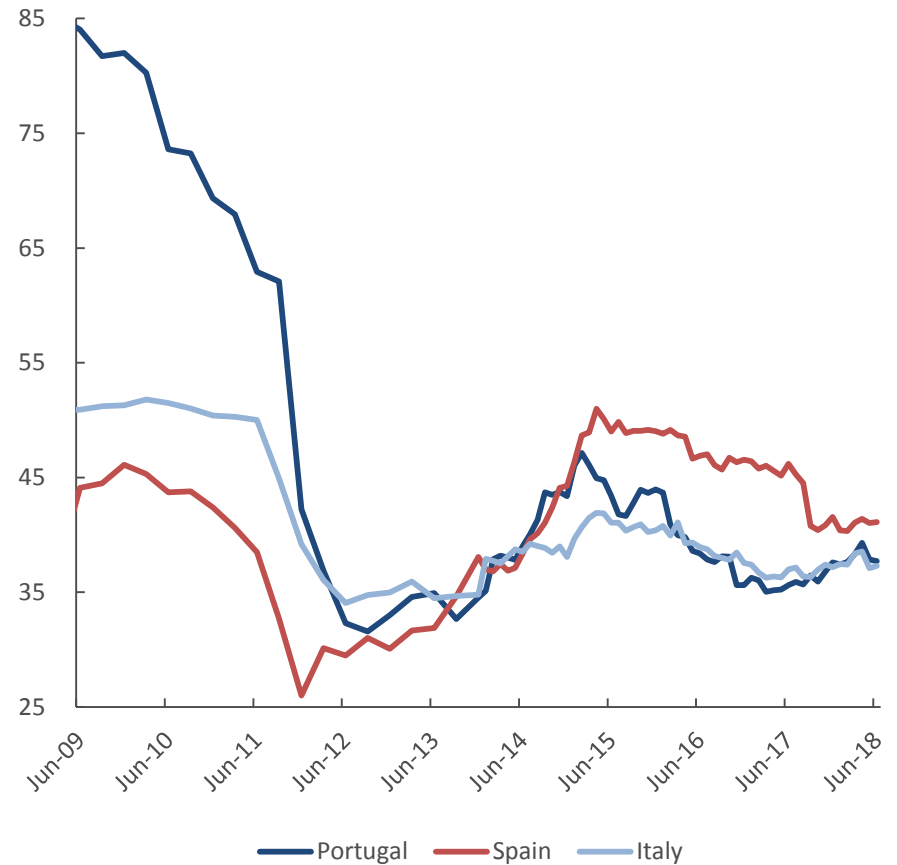
More diversified public debt composition

[EUR billion and % of total State debt]



Non-domestic holdings in line with EU peers

[% of total State debt securities]



Source: IGCP

Source: IGCP

Liability management operations have smoothed the redemption profile

83% of the IMF loan has been fully repaid

[Repurchases of IMF loan]

Date	SDR million	EUR million
2015	6,579	8,448
2016	3,560	4,496
2017	8,232	10,013
2018	708	831
TOTAL	19,079	23,788

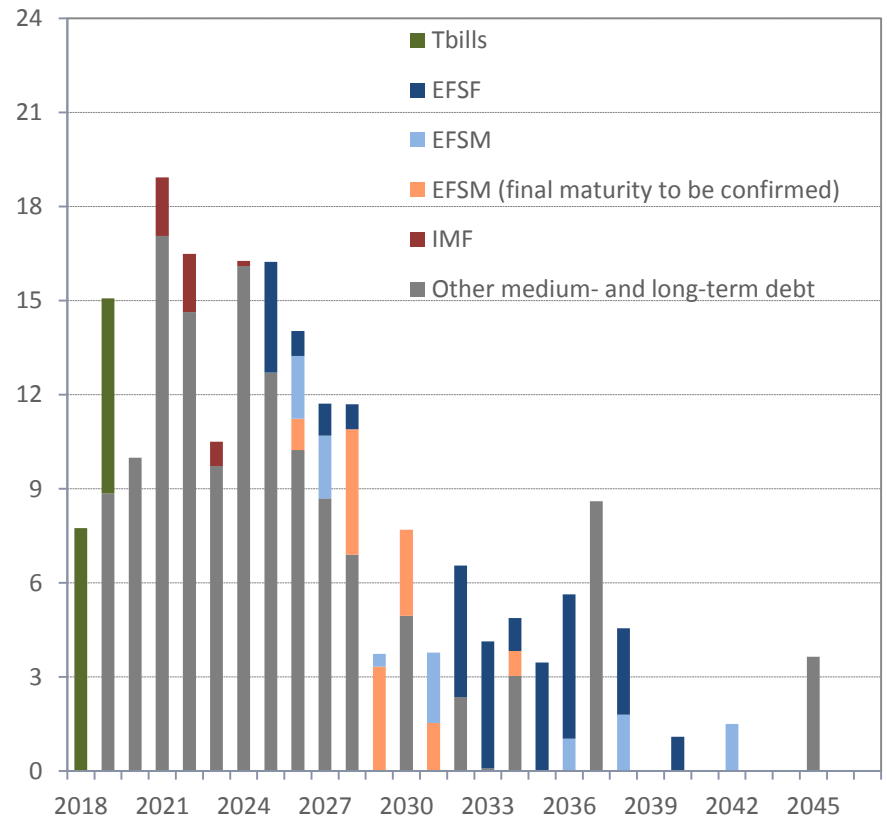
IGCP is actively buying back off-the-run PGBs

[PGB buybacks, Jan-Jul 2018]

Security	Outright buyback (EUR million)	Exchange (EUR million)
OT Jun 2019	150	-
OT Apr 2021	100	-
TOTAL	250	-

Maturity profile spread over a long time span

[Redemption calendar MLT debt; Apr-18 + rollover EFSM; EUR billion]



Source: IGCP

Source: IGCP

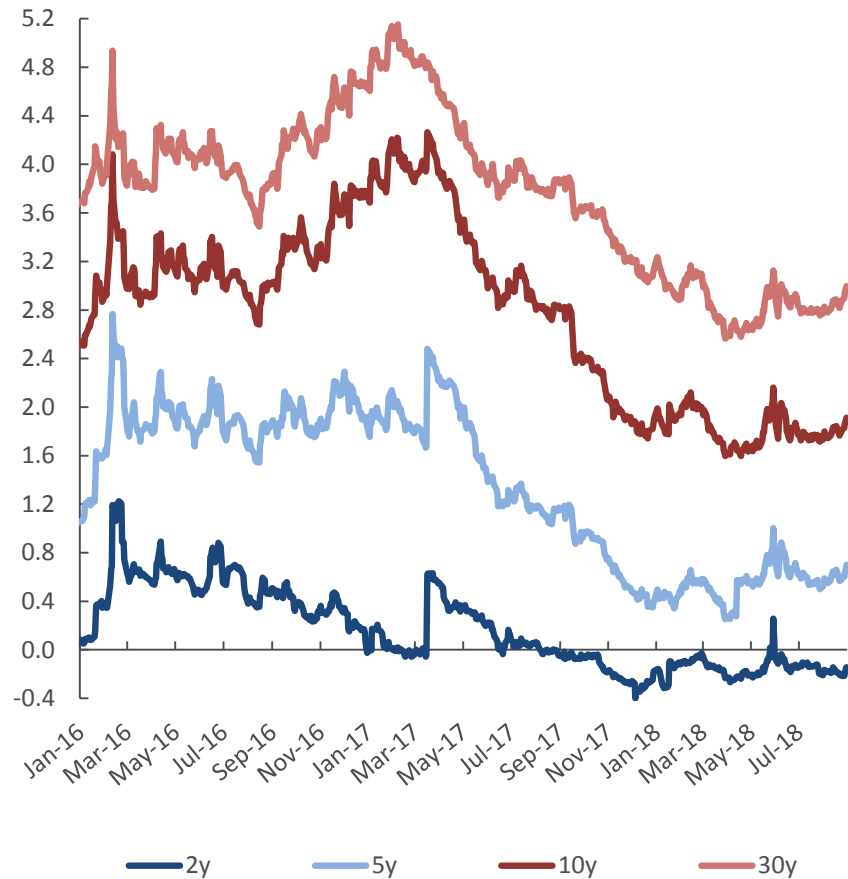
(*) Exact final maturity date of each EFSM individual loan will be defined when the original loans are rolled over (IGCP simulation in orange), **but it is not expected that Portugal will have to refinance any of its EFSM loans before 2026.**

1. Economic revitalization
2. Stronger growth foundations
3. Private sector turnaround
4. Fiscal stabilization
5. Resilient public debt structure
- 6. Improving market conditions**

Sizable decline in funding costs and in risk premium

Portuguese yields declined sharply in all maturities...

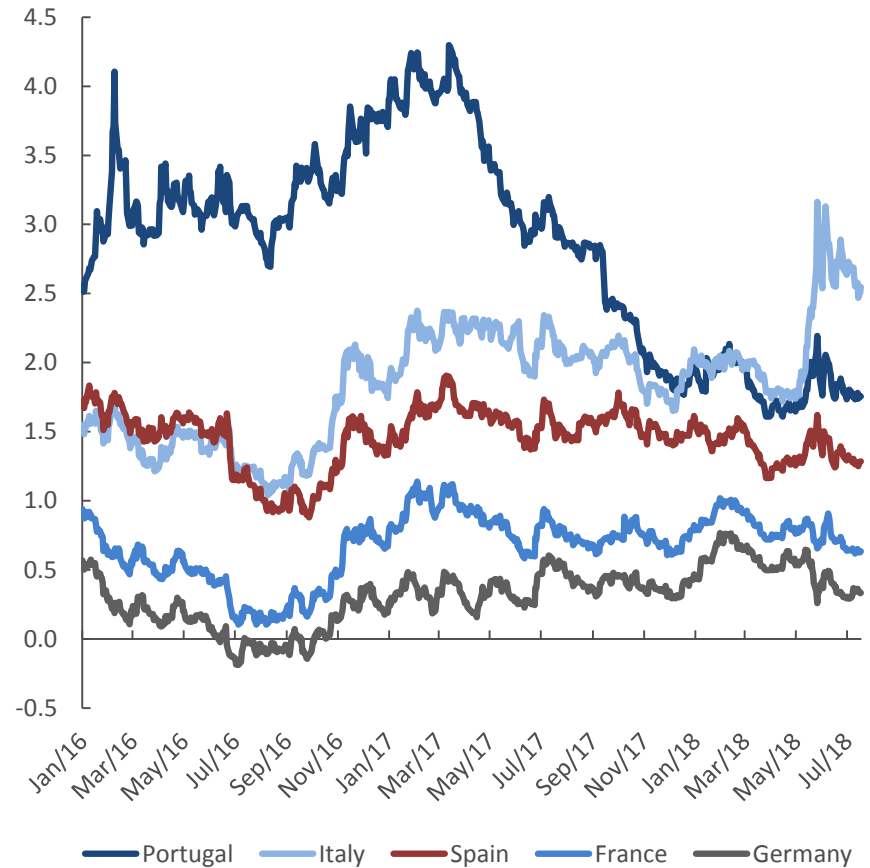
[Secondary market yields, %]



Source: Bloomberg

...prompting a convergence with other EA issuers

[10-yr secondary market yields, %]

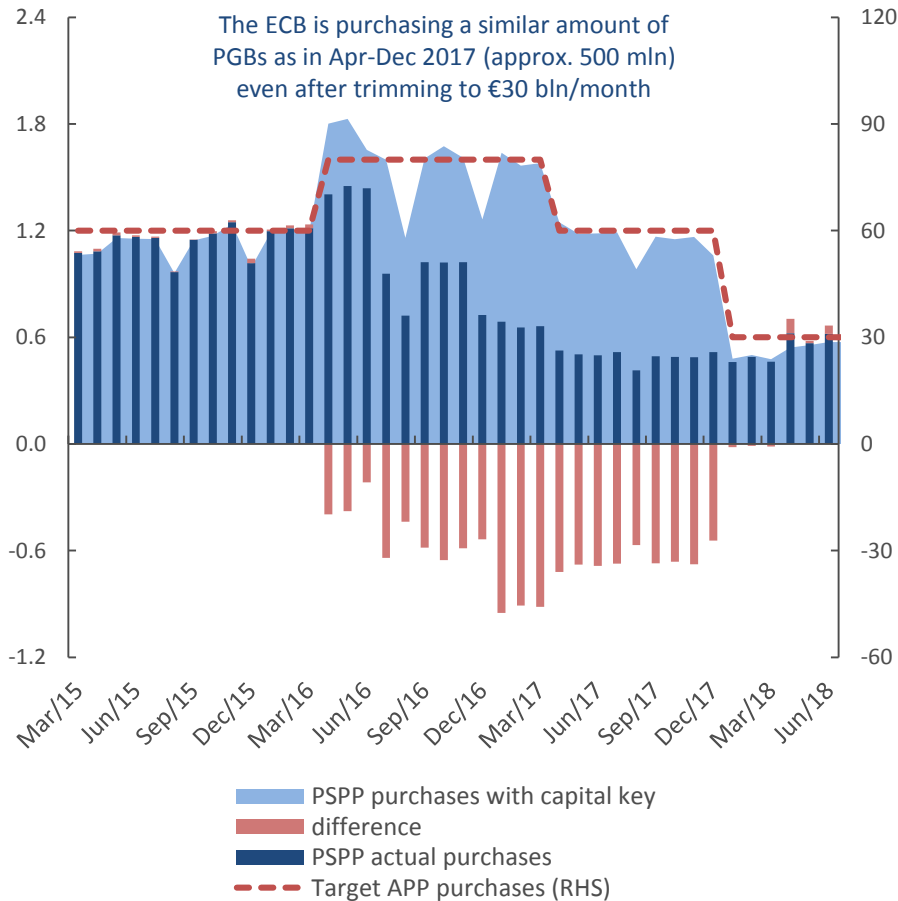


Source: Bloomberg

Between April 2016 and December 2017, ECB purchases of PGBs have been lower than what would be executed from applying the capital key

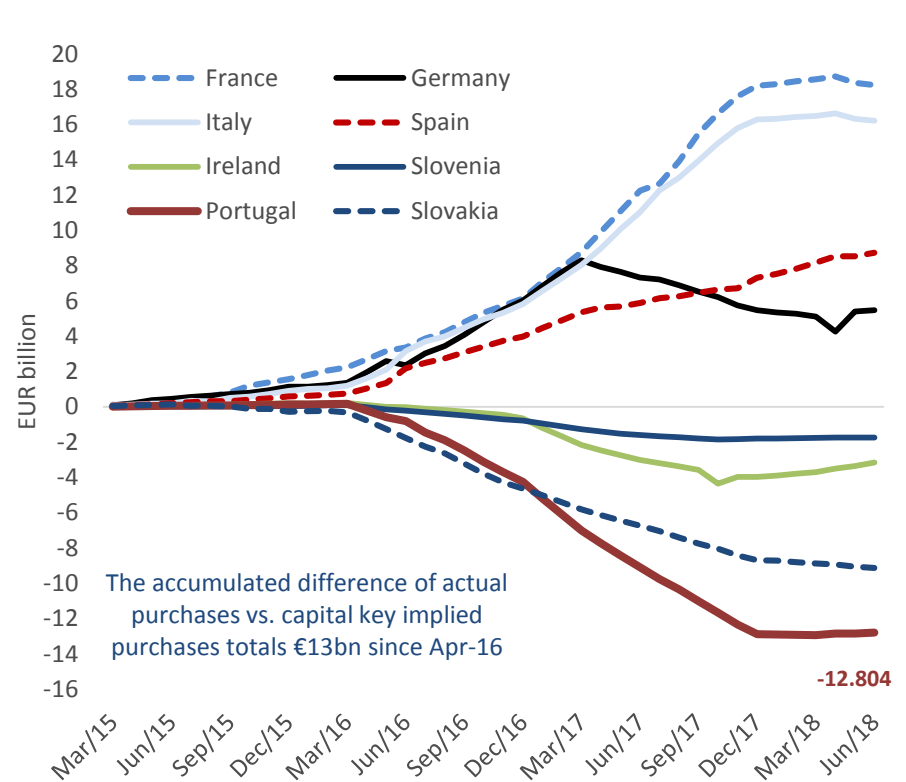
ECB PGB purchases under PSPP

[EUR billion]



PSPP purchases (cumulative diff vs capital key)

[EUR billion]



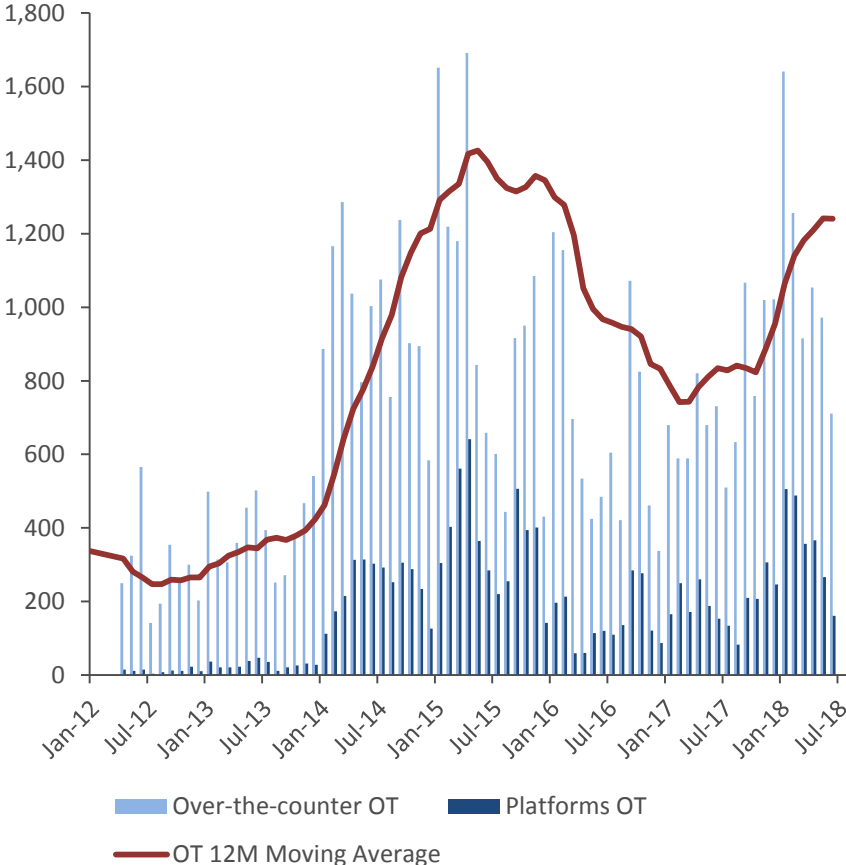
Source: ECB

Source: ECB

Average daily turnover stabilized and bid-offer spreads improved significantly

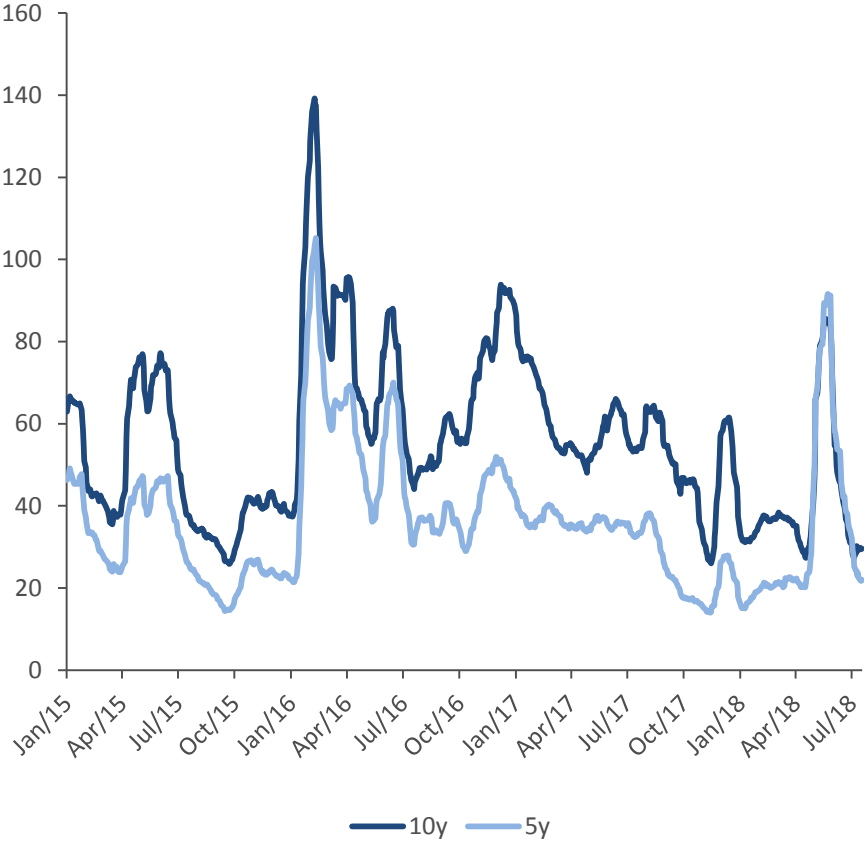
Average daily turnover stabilized...

[EUR million]



... while bid-offer spreads improved significantly

[price ticks; 1M moving average]



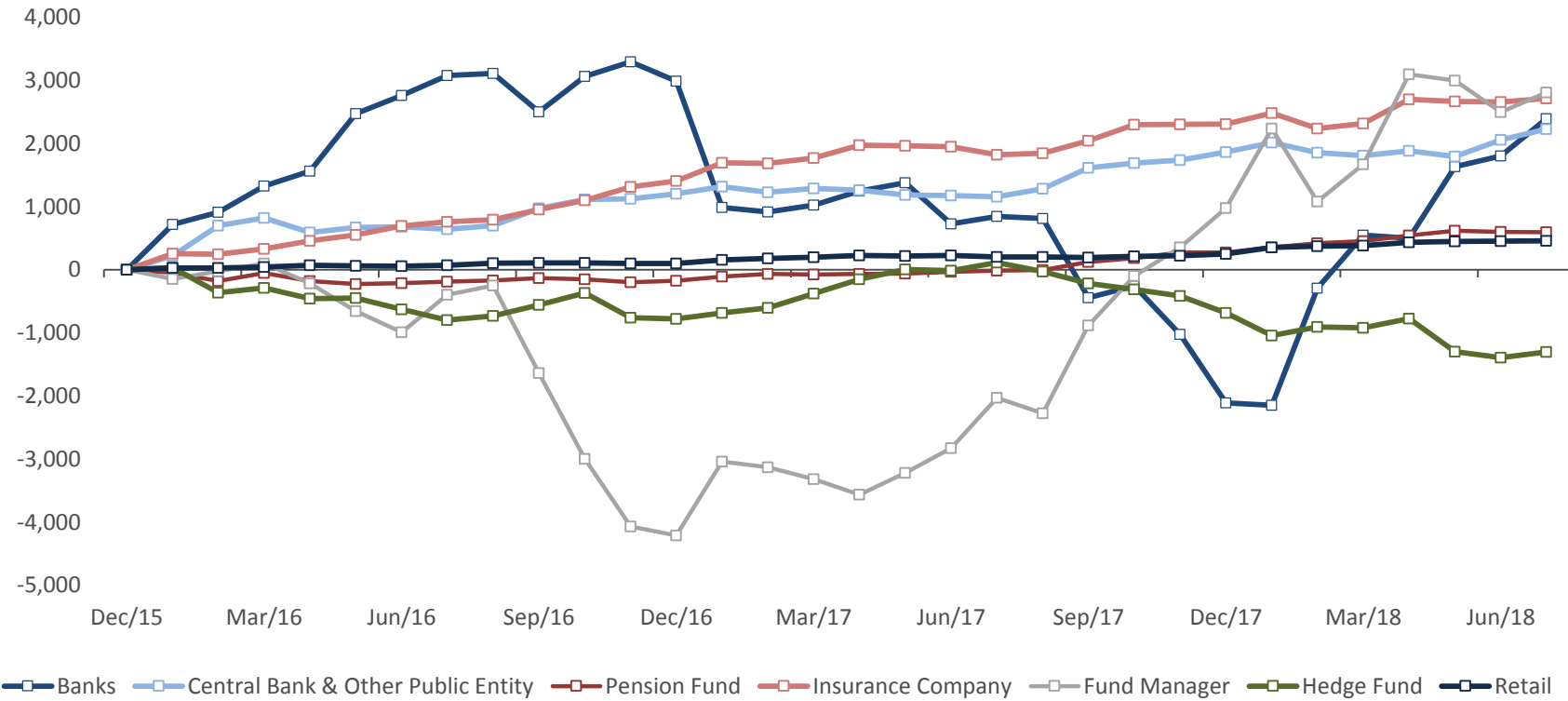
Source: IGCP

Source: IGCP

Fund managers have reengaged with the PGB market since early 2017...

Net flows of end-investors by investors' type

[EUR million; Cumulative net flows of end-investors (excl PDs) since Dec-2015]

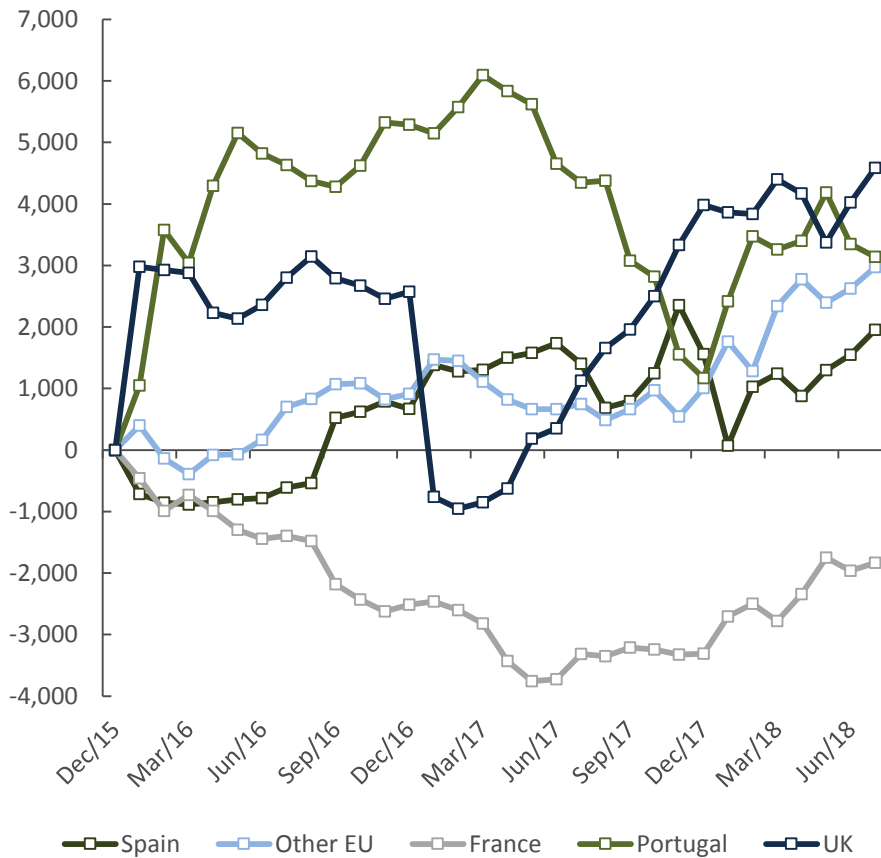


Source: HRF Reports

...as did the UK and US markets, while other EU net flows have been positive since mid-2017

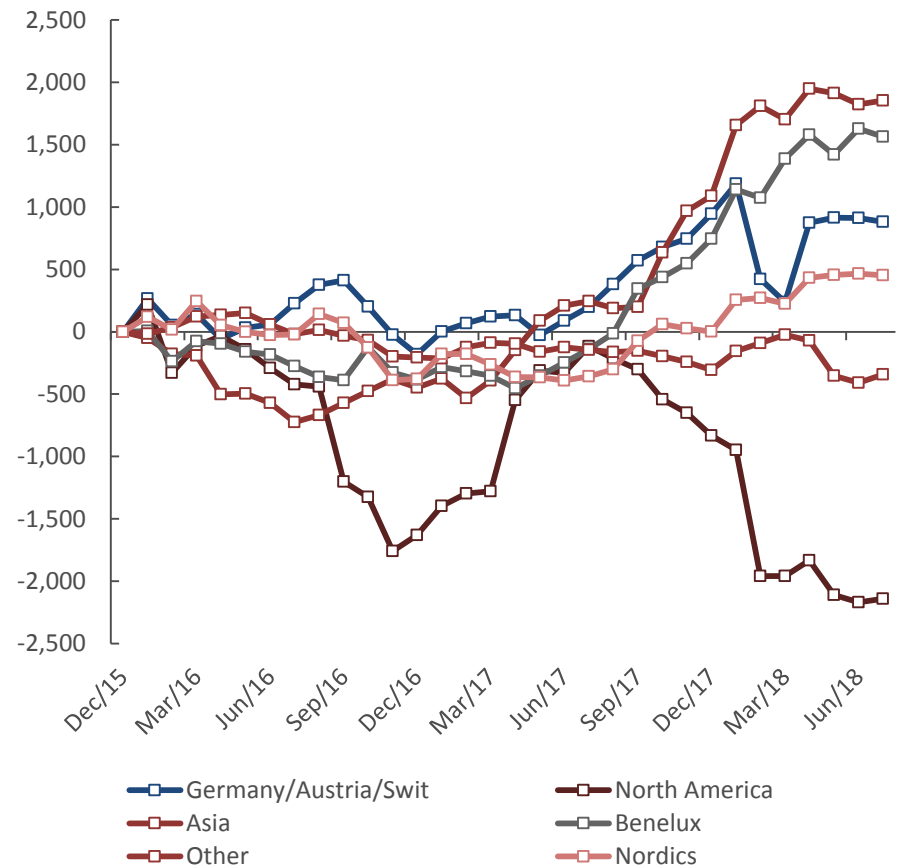
Net flows of end-investors by region (top 5)

[EUR million; Cumulative net flows of end-investors (excl PDs) since Dec-15]



Net flows of end-investors by region

[EUR million; Cumulative net flows of end-investors (excl PDs) since Dec-15]

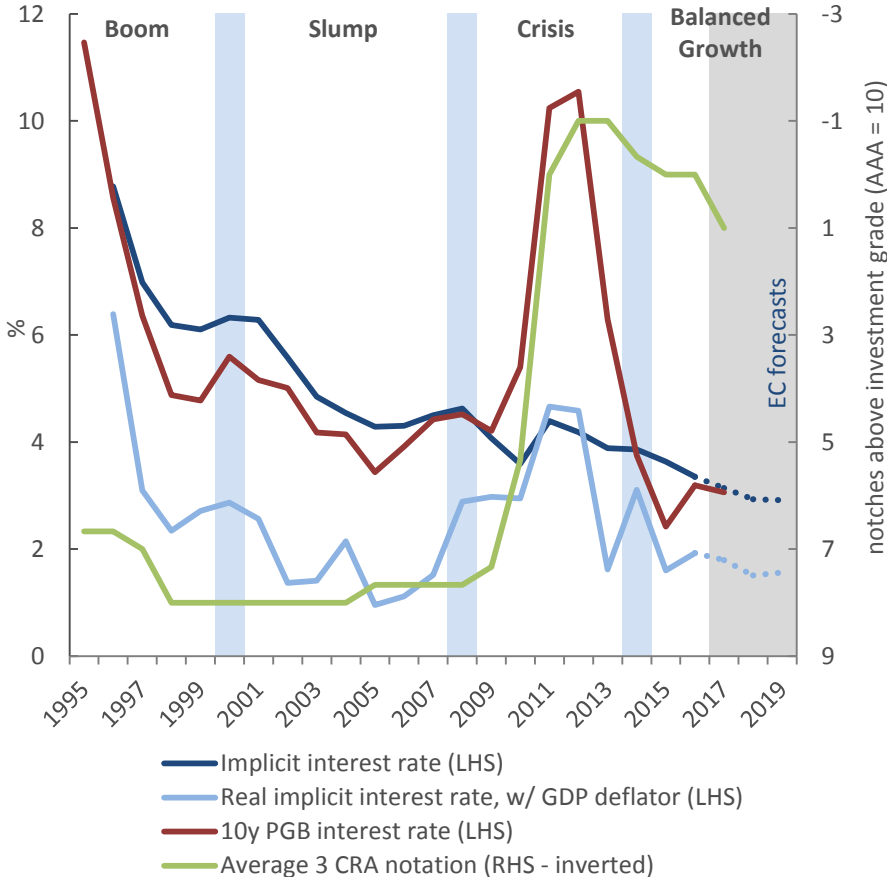


Source: HRF Reports

Rating upgrades unravel a new paradigm, as Portugal reenters main benchmark indexes

Interest rates and sovereign rating

[%; notches above investment grade (AAA=10); inverted scale]



Source: European Commission, Fitch, Moody's e S&P

Recent and upcoming rating decisions

[Announced rating calendar for 2018]

	DBRS BBB(low) / Sta.	Fitch BBB / Sta.	Moody's Ba1 / Pos.	S&P BBB- / Sta.
Sep-2017			1/09 (Positive)	15/09 (BB+ to BBB-)
Nov-2017	3/11 (Affirmed)			
Dec-2017		15/12 (BB+ to BBB)		
Mar-2018				16/03 (Affirmed)
Apr-2018	20/04 (BBB (low) to BBB)			
Jun-2018		01/06 (Stable)		
Sep-2018				14/09
Oct-2018	12/10		12/10	
Nov-2018		31/11		

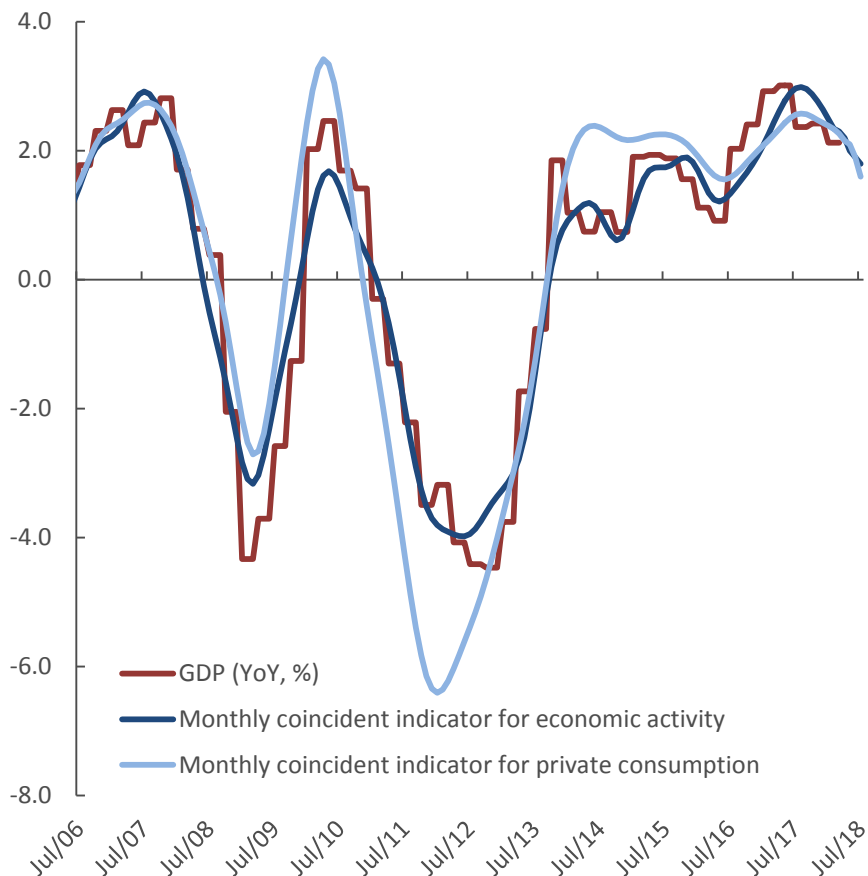
Source: S&P, Fitch, Moody's and DBRS

- A. Macroeconomic indicators**
- B. Structural reforms**
- C. Fiscal indicators**

Positive medium and long-term trend in soft and hard data economic indicators, despite some recent additional volatility and deceleration

Coincident indicators and real GDP

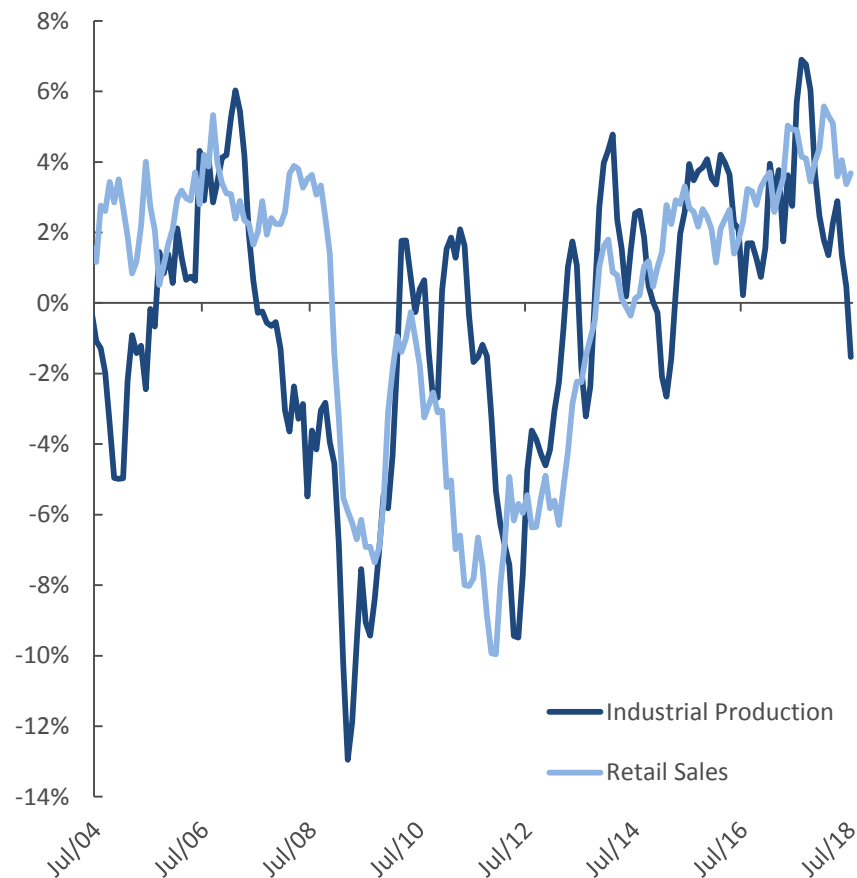
[yoy %]



Source: Banco de Portugal, Statistics Portugal

Retail sales and Industrial production

[3 month average, YoY%]

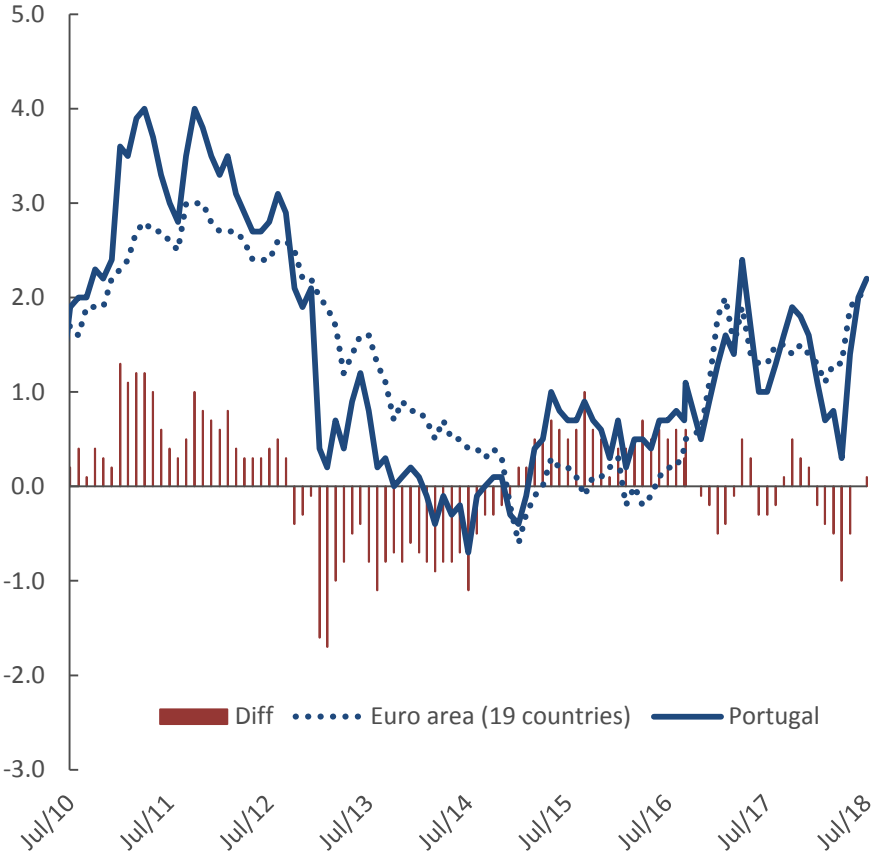


Source: Statistics Portugal

Inflation in Portugal is in line with other European countries, despite some additional volatility in recent figures

HICP

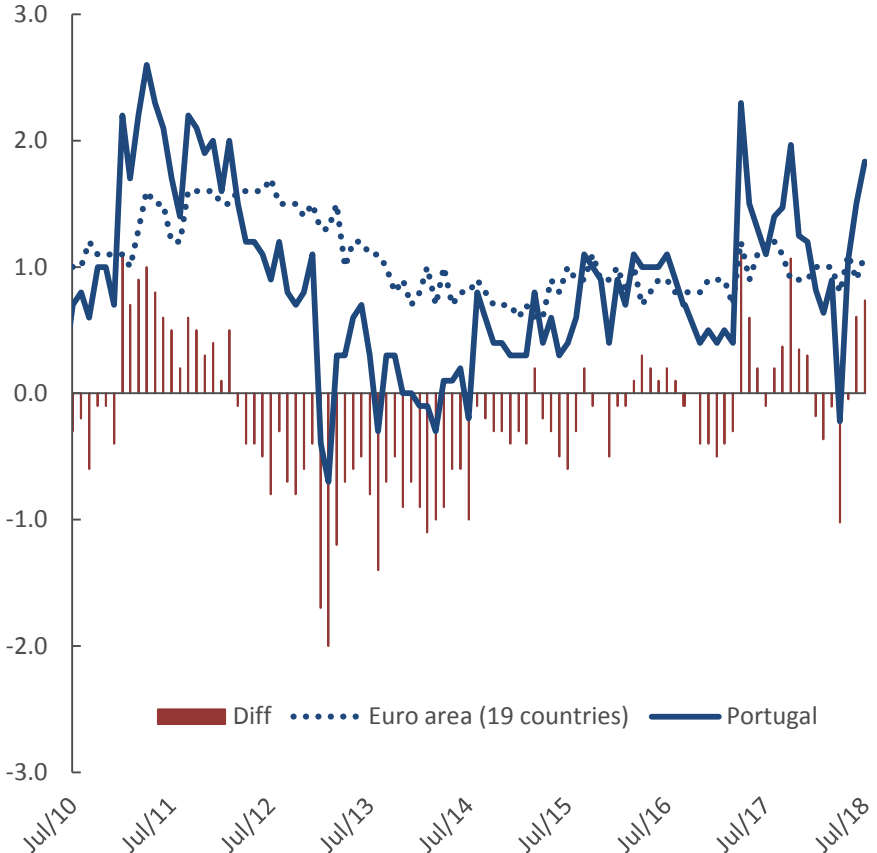
[Year-on-year growth, %]



Source: Eurostat

Core HICP

[Year-on-year growth; %]

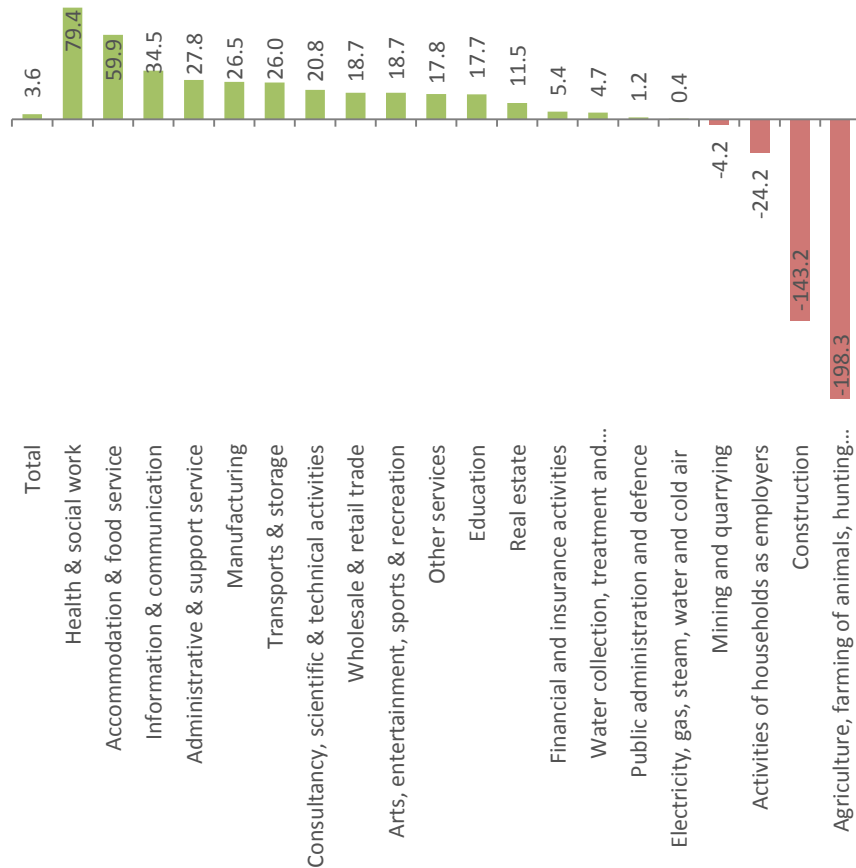


Source: Eurostat

Broad economic recovery

Most sectors have now closed the gap vs. Jun-2011

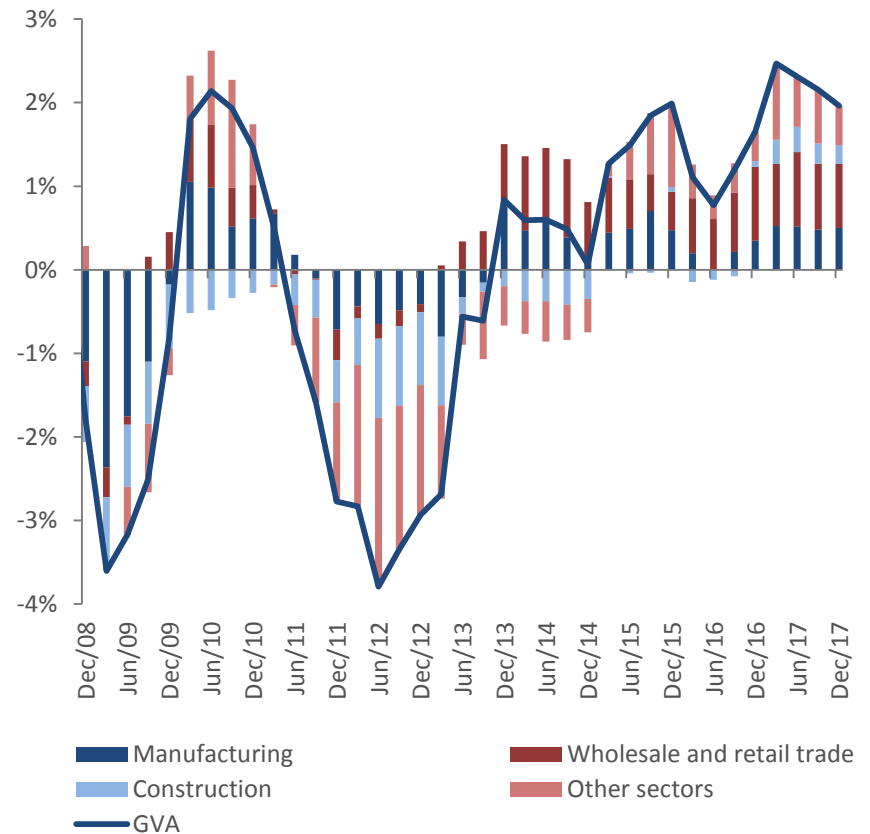
[Employment change vs. level in Jun-2011, thousands]



Source: Statistics Portugal

... cross-cut recovery in sectoral terms

[GVA YoY% and pp]

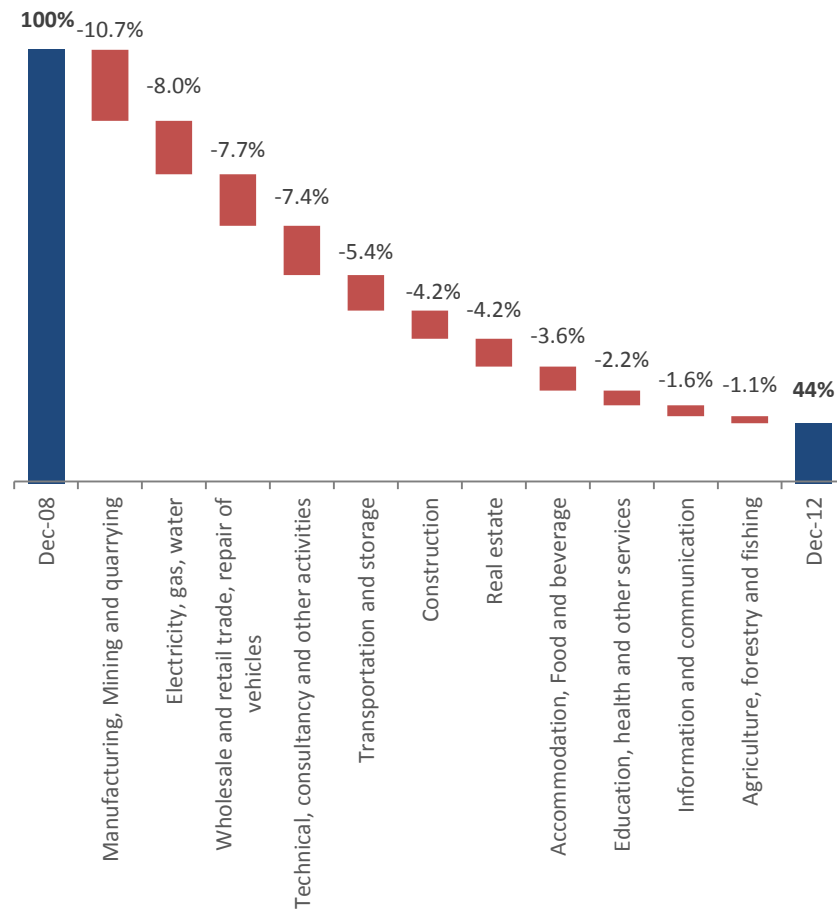


Source: Statistics Portugal

Fixed investment bounced back in almost all sectors, after a widespread contraction between 2008-2012

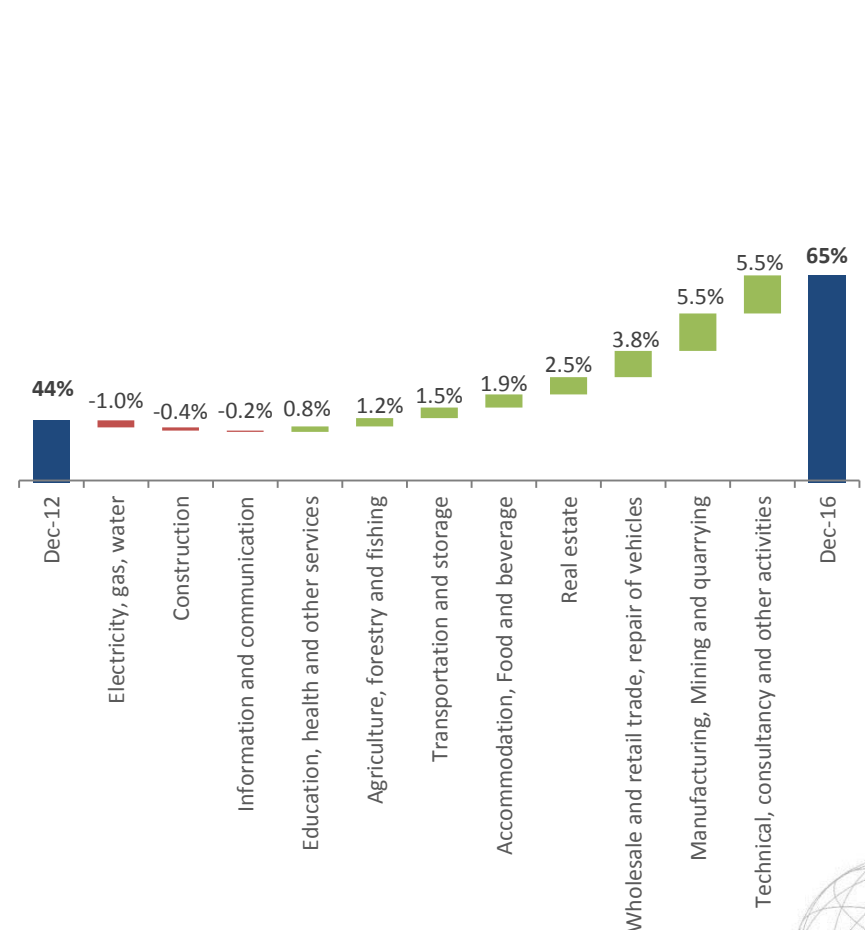
NFC investment declined sharply until 2012...

[GFCF; current prices; 100=2008]



... and has shown signs of broad recovery ever since

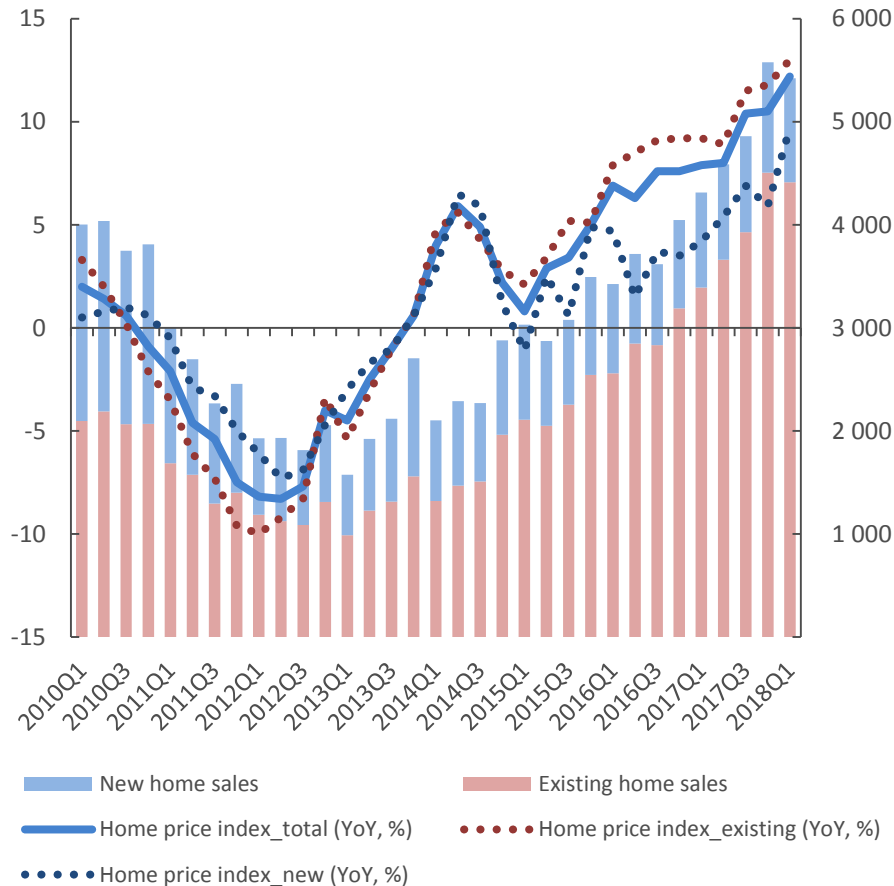
[GFCF; current prices; 100=2008]



Revamp in real estate based on a less debt-driven demand

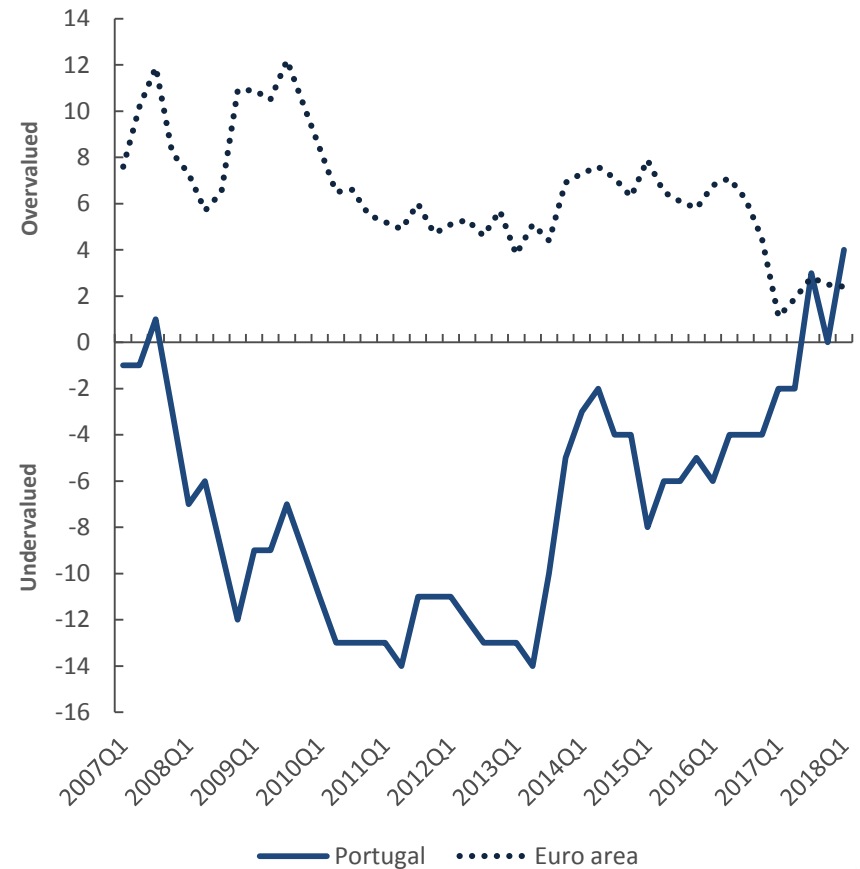
Prices reflect the increase in demand

[Current prices; 100=2015; M€]



Market is starting to show some overvaluation in PT

[Average valuation of residential property vs. equilibrium]



Source: Statistics Portugal

Source: ECB



Improving net external debt position

Reversed historical net borrower position ...

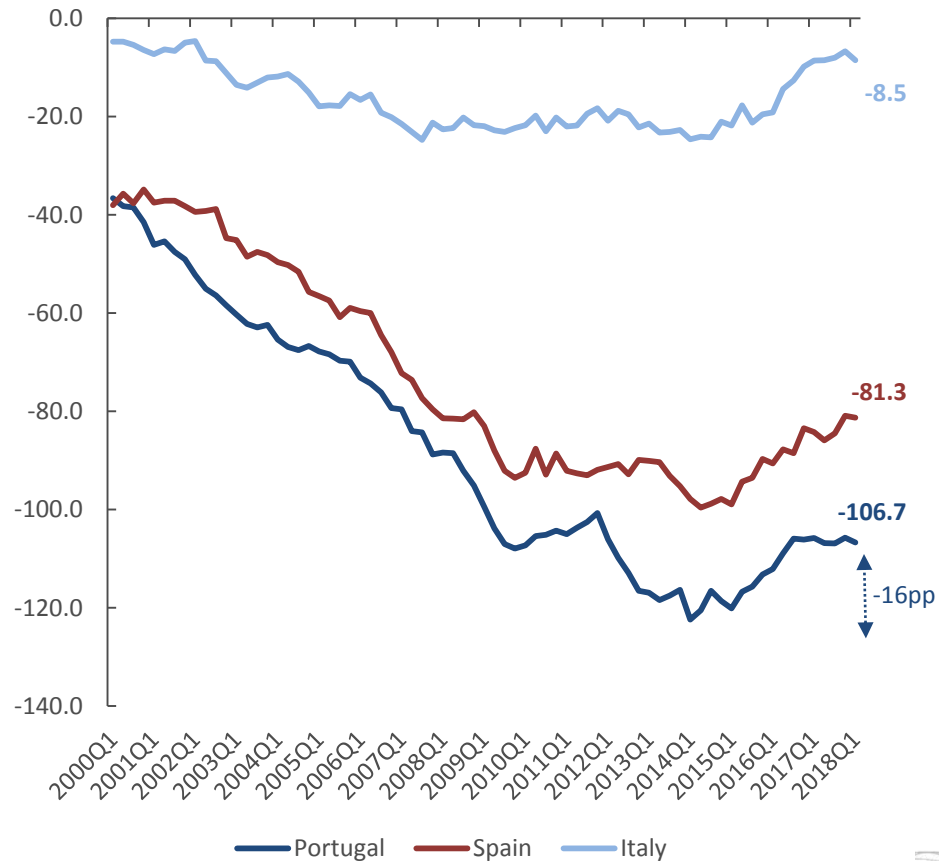
[Current & capital account, % GDP: 4QMA]



Source: Eurostat

... leading to improvement in NIIP

[Net International Investment Position, % GDP]



Source: Eurostat

Well diversified exports distribution, with limited sectoral or geographical concentration

Portuguese goods exports by major destination and sector

[% total exports by destination and sector; YTD Mar-2018]





















 Others WORLD










											Others	WORLD
Elec. and Mec. Machinery	1.95	1.56	3.66	1.33	0.50	0.28	0.40	0.57	0.32	0.11	3.76	14.5
Vehicles and parts, Aircraft	3.39	2.69	2.43	1.25	0.44	0.27	0.91	0.05	0.34	0.31	2.80	14.9
Textile Products	2.88	1.35	0.89	0.72	0.51	0.40	0.56	0.06	0.20	0.07	1.88	9.5
Mineral products	2.00	0.19	0.09	0.22	1.13	0.58	0.03	0.03	0.32	0.11	3.34	8.0
Base Metals	3.04	1.32	0.65	0.46	0.19	0.21	0.10	0.17	0.19	0.05	1.55	7.9
Plastics and Rubber	2.30	0.93	0.93	0.42	0.23	0.39	0.30	0.19	0.23	0.05	1.61	7.6
Prep. Food, Beverages and Tobacco	1.49	0.67	0.16	0.31	0.18	0.14	0.31	0.26	0.16	0.13	1.43	5.2
Chemicals (incl. Pharma.)	1.01	0.34	0.50	0.38	0.28	0.22	0.15	0.26	0.36	0.02	1.09	4.6
Pulp of Wood and Paper	1.06	0.46	0.50	0.19	0.20	0.32	0.21	0.09	0.06	0.09	1.17	4.3
Footware	0.38	0.88	0.64	0.21	0.12	0.48	0.12	0.03	0.10	0.02	0.78	3.8
Others	5.70	2.97	1.41	1.04	0.97	0.67	0.90	0.73	0.36	0.13	4.80	19.7
TOTAL	25.2	13.4	11.8	6.5	4.8	4.0	4.0	2.4	2.6	1.1	24.2	100

Source: Statistics Portugal

Exports growth based on geographical and sectoral contributors

Major sector and country contributions

[YoY % and contributions, YTD Mar 2018]

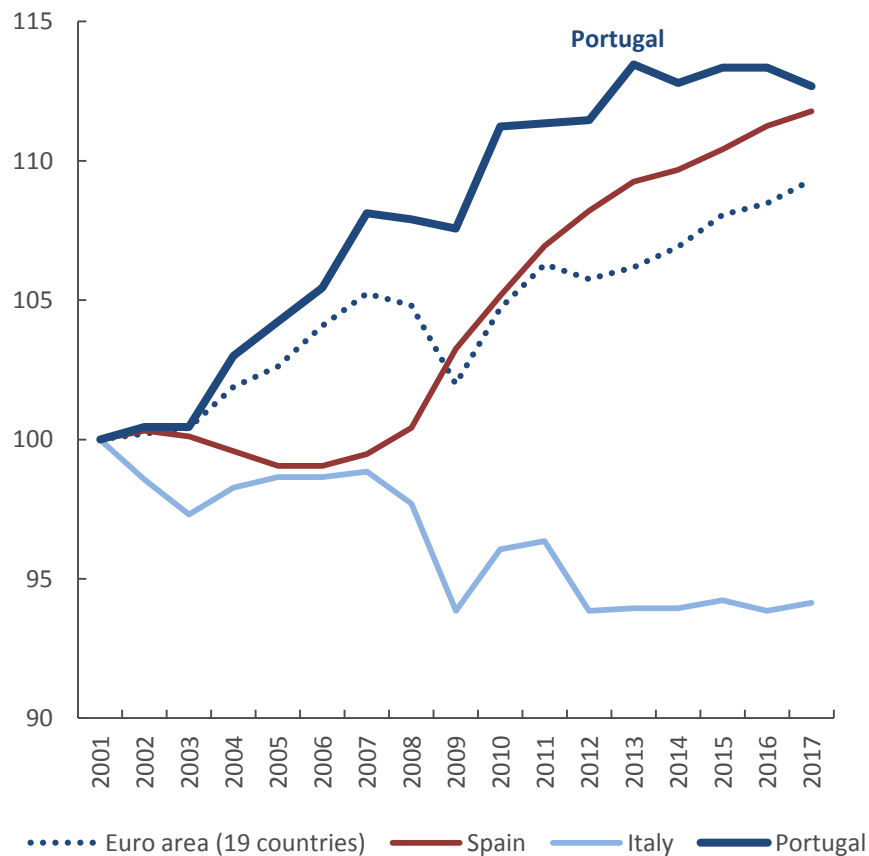
										Others	WORLD
Vehicles and parts, Aircraft	0.74%	0.42%	0.04%	0.16%	0.43%	0.33%	-0.15%	0.13%	0.00%	1.89%	3.99%
Optical / medical / precision instr.	0.00%	0.22%	0.01%	0.01%	0.01%	-0.01%	-0.03%	0.05%	-0.01%	0.20%	0.45%
Base Metals	0.13%	0.10%	0.01%	0.03%	0.27%	-0.03%	-0.02%	-0.05%	-0.10%	0.09%	0.44%
Plastics and Rubber	0.03%	0.00%	0.05%	-0.04%	0.07%	0.04%	0.00%	-0.08%	-0.01%	0.15%	0.21%
Animal Products	0.03%	0.01%	0.00%	0.01%	0.08%	0.00%	-0.01%	0.01%	-0.01%	0.03%	0.14%
Vegetable Products	-0.06%	0.01%	0.00%	0.01%	0.10%	0.07%	0.00%	0.00%	-0.07%	-0.02%	0.03%
Manufactured Products	0.09%	0.04%	0.00%	0.00%	-0.14%	0.01%	0.00%	-0.02%	-0.03%	0.05%	0.00%
Textile Products	0.07%	0.00%	0.00%	0.03%	-0.25%	-0.06%	0.02%	0.00%	-0.03%	0.18%	-0.02%
Prep. Food, Beverages and Tobacco	-0.21%	-0.02%	0.03%	-0.06%	-0.05%	-0.06%	-0.01%	-0.02%	-0.07%	0.29%	-0.17%
Footware	-0.05%	-0.04%	0.00%	-0.03%	-0.01%	0.00%	0.00%	-0.01%	-0.02%	-0.02%	-0.19%
Mineral products	-0.02%	0.03%	0.16%	-0.10%	-0.35%	-0.02%	0.03%	0.07%	-0.02%	-0.50%	-0.73%
Others	0.35%	0.06%	0.18%	0.11%	-0.05%	-0.25%	-0.21%	-0.52%	-0.35%	-0.74%	-1.42%
TOTAL	1.10%	0.83%	0.47%	0.13%	0.12%	0.02%	-0.37%	-0.44%	-0.72%	1.59%	2.73%

Source: Statistics Portugal

Productivity gains leading to higher competitiveness

Labor productivity: positive medium-term trend

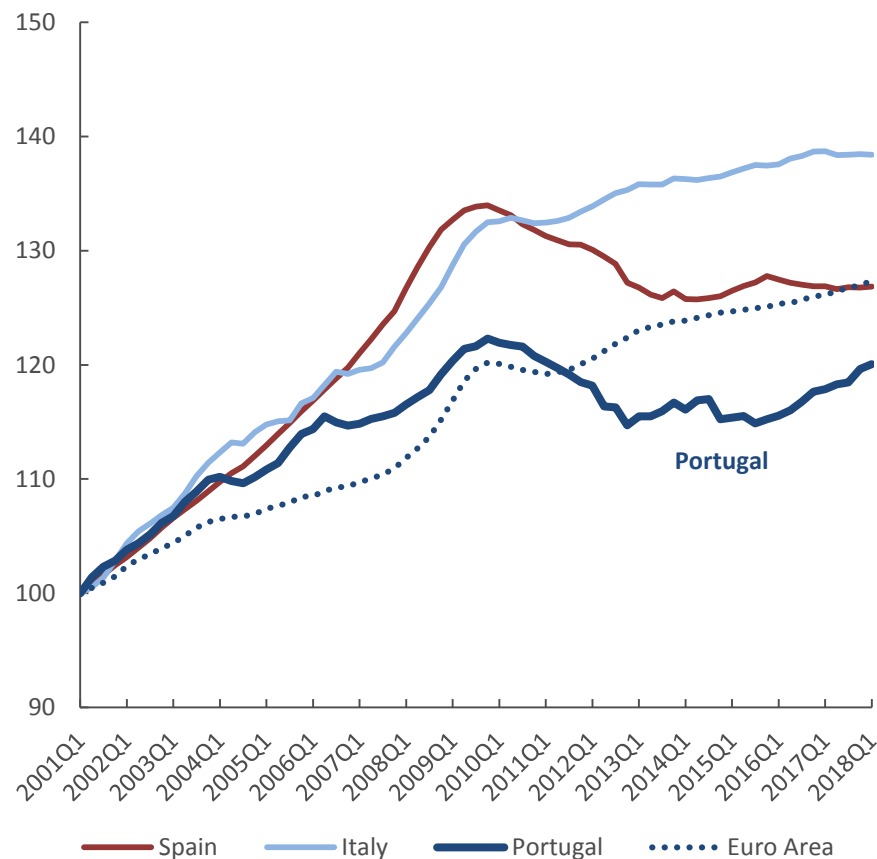
[2001 = 100]



Source: Eurostat

ULC: down from a relatively modest competitive position

[2001 Q1 = 100; 12m MA]



Source: Eurostat

- A. Macroeconomic indicators
- B. Structural indicators**
- C. Fiscal indicators

Structural reforms key to sustain a balanced growth environment

✓ What has been achieved:

Labor market

- Reduced severance payments and unemployment benefits
- More flexible working arrangements

Product market

- Reduced firms' administrative burden (e.g. licensing)
- Lower costs of context (e.g. communications, railways, ports)
- Rental market reform

Public sector

- Social Security reform
- Improved effectiveness: reduction of civil servants (-10% since 2011) and SOEs restructuring
- Simplified tax compliance + reduced fraud and fiscal evasion
- New Budgetary Framework Law
- Privatization program
- Judicial system reform

Financial sector

- Improved efficiency of credit allocation by banks
- Resolution Fund: State loan extended for up to 30y, with maturity contingent on final outstanding amount (after NB sale)



Underway:

Corporate sector

- Program *Capitalizar*: promote reduction of indebtedness levels and increase capital holdings
- Initiative *Industria 4.0*: designed to revitalize most traditional sectors (agroindustry, auto, fashion, retail and tourism)
- Program *Semente*: new fiscal framework to promote Start Up investment

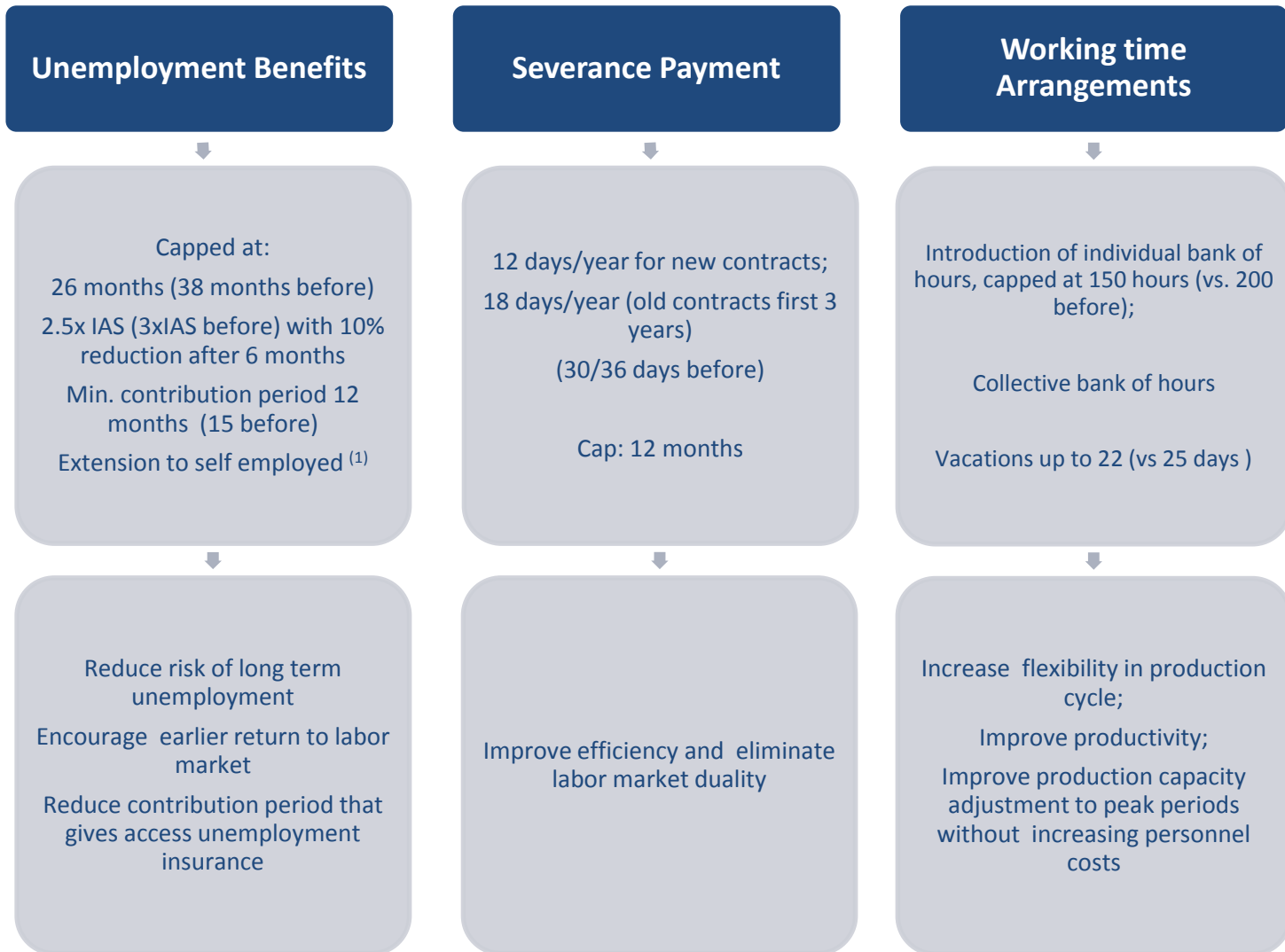
Public sector

- Program *Simplex+*: improve efficient use of public resources and simplify administrative burden
- Spending review focused on: (i) health and education sectors; (ii) procurement; (iii) real estate; and (iv) SOEs
- Automatic income declaration for Personal Income Tax

Financial sector

- NPLs: working group preparing measures to facilitate debt restructuring, including fiscal treatment of write-offs
- Improve efficiency of insolvency and debt restructuring frameworks

Labor market reforms

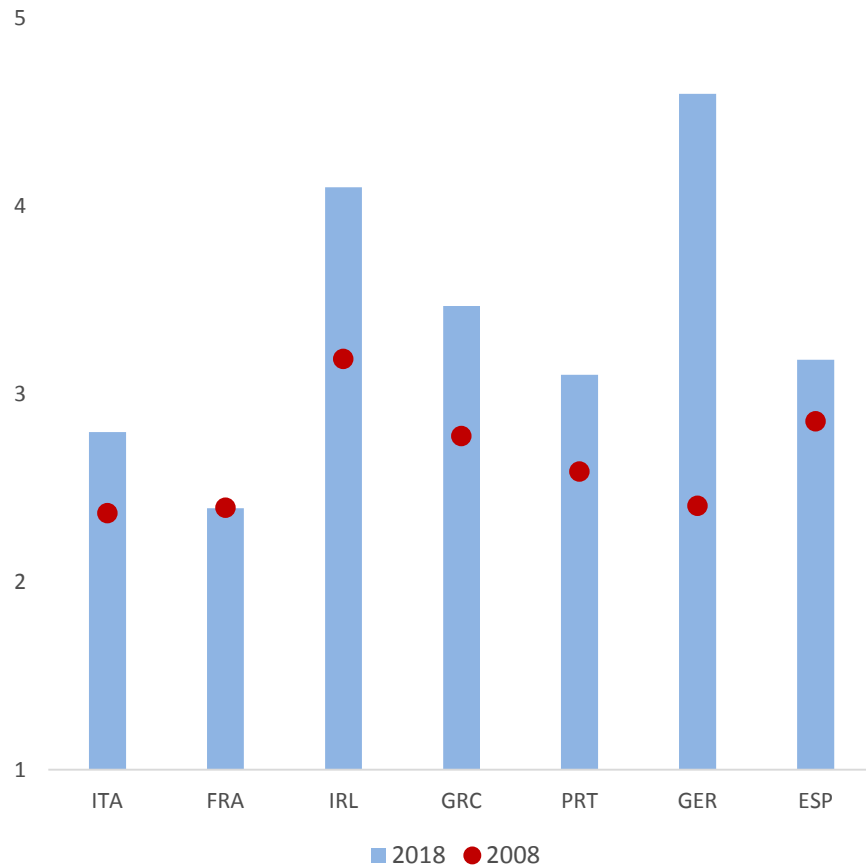


⁽¹⁾ Unemployment benefit has been extended to certain self employed categories (+80% of wage needs to come from one employer)

Hiring and firing is now easier and less costly

Hiring and firing practices

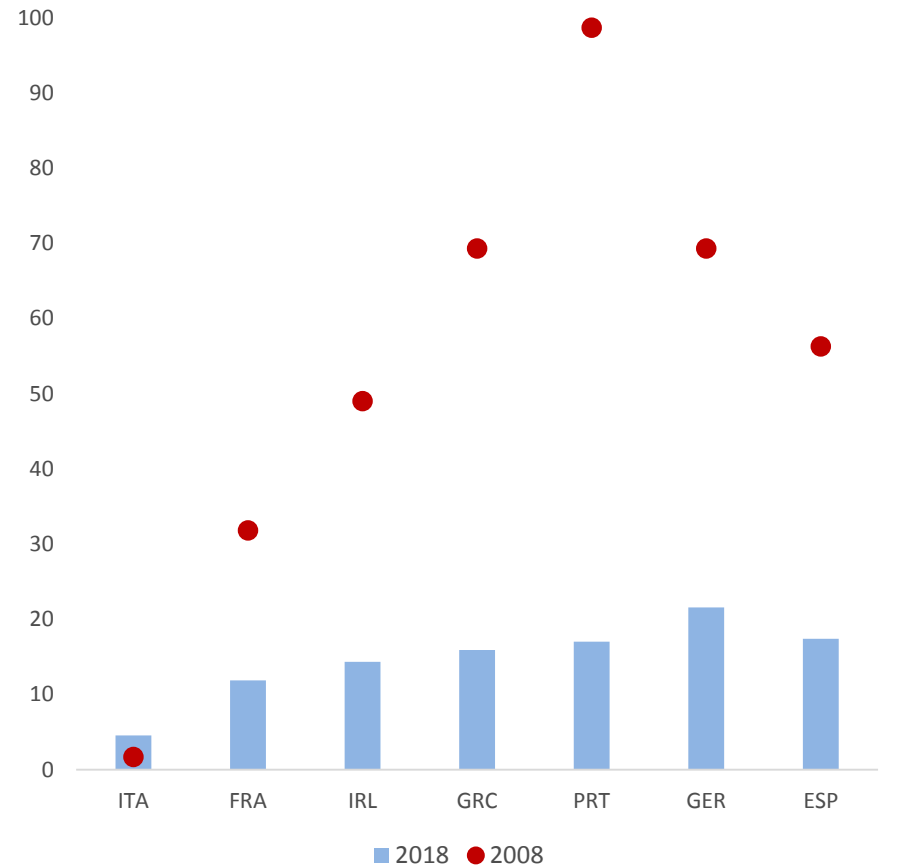
[Index scale from 1 to 7 (best)]



Source: World Economic Forum

Redundancy costs

[Cost of advance notice requirements, severance payments, and penalties due when terminating a redundant worker, expressed in weekly wages]



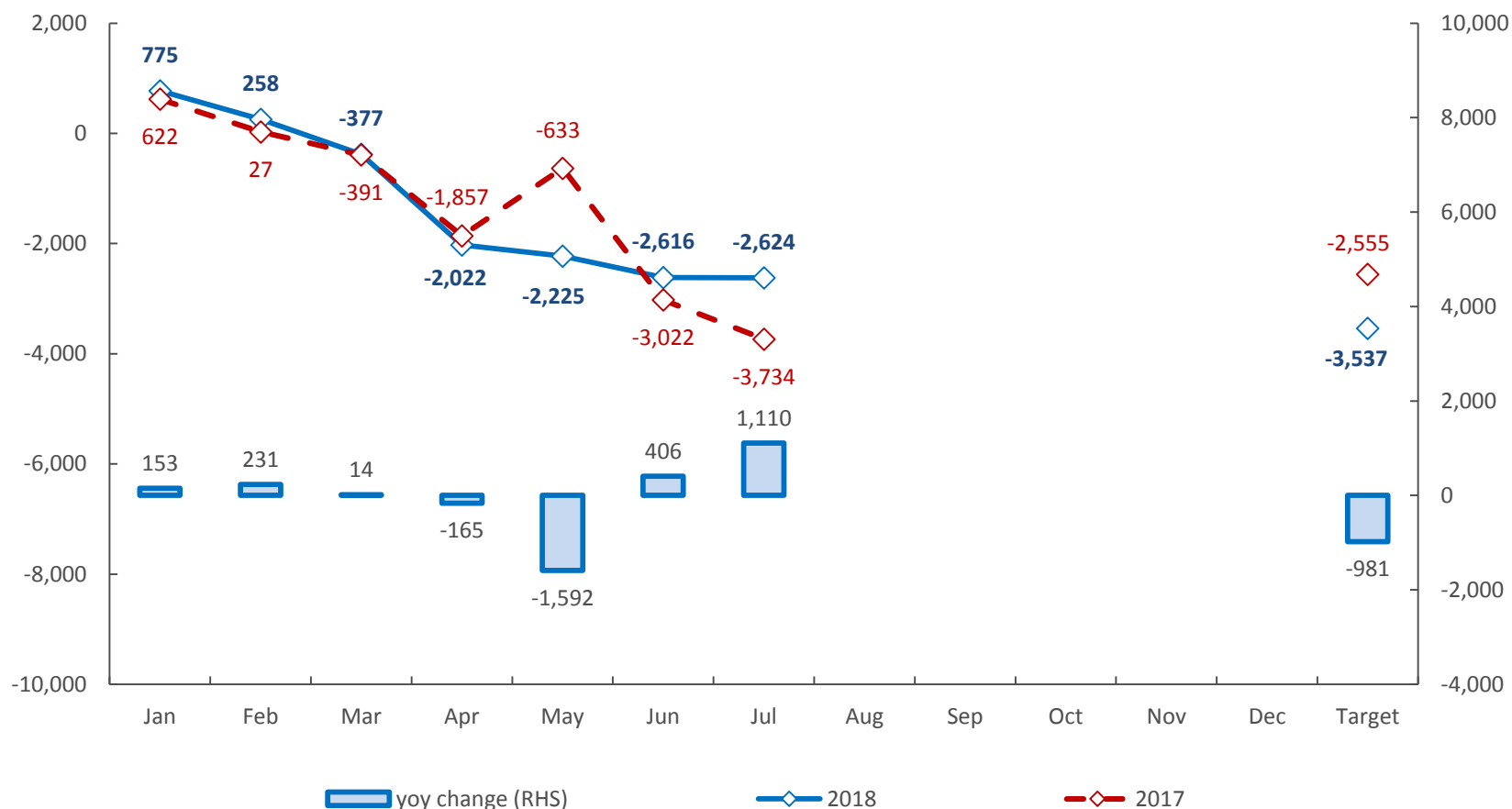
Source: World Economic Forum

- A. Macroeconomic indicators
- B. Structural reforms
- C. Fiscal indicators

The overall balance of the GG on a cash basis stood at EUR -2,624 million between Jan-Jul 2018, EUR 1,110 million above the 2017 figure

General Government (GG) balance

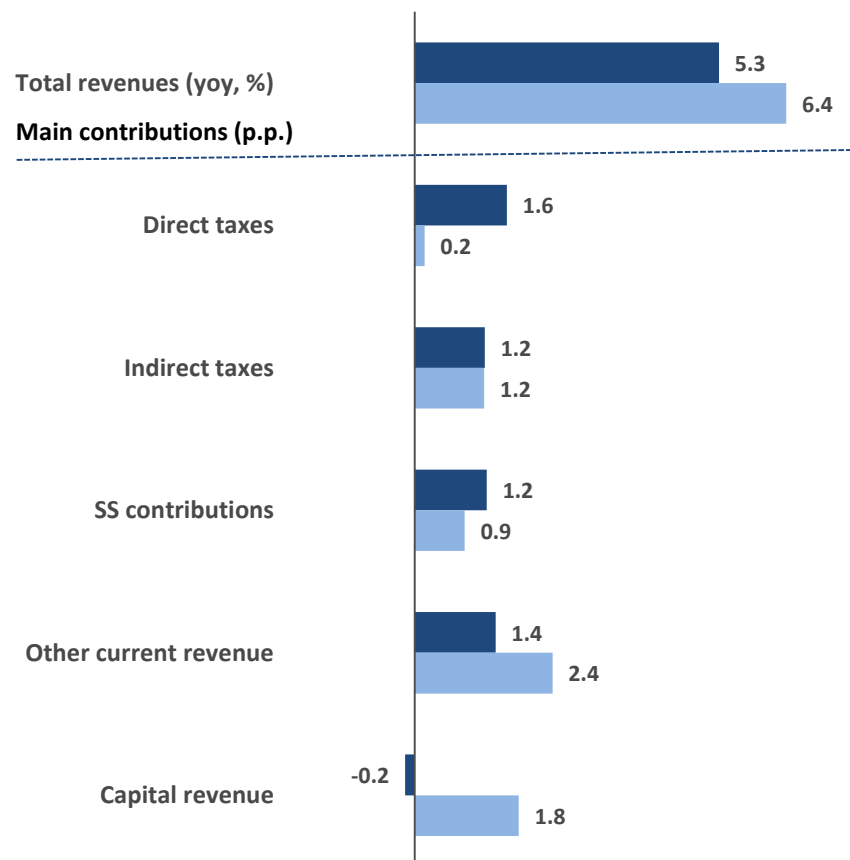
[EUR million; yoy change]



Jan-Jul 2018 budget execution (on cash basis)

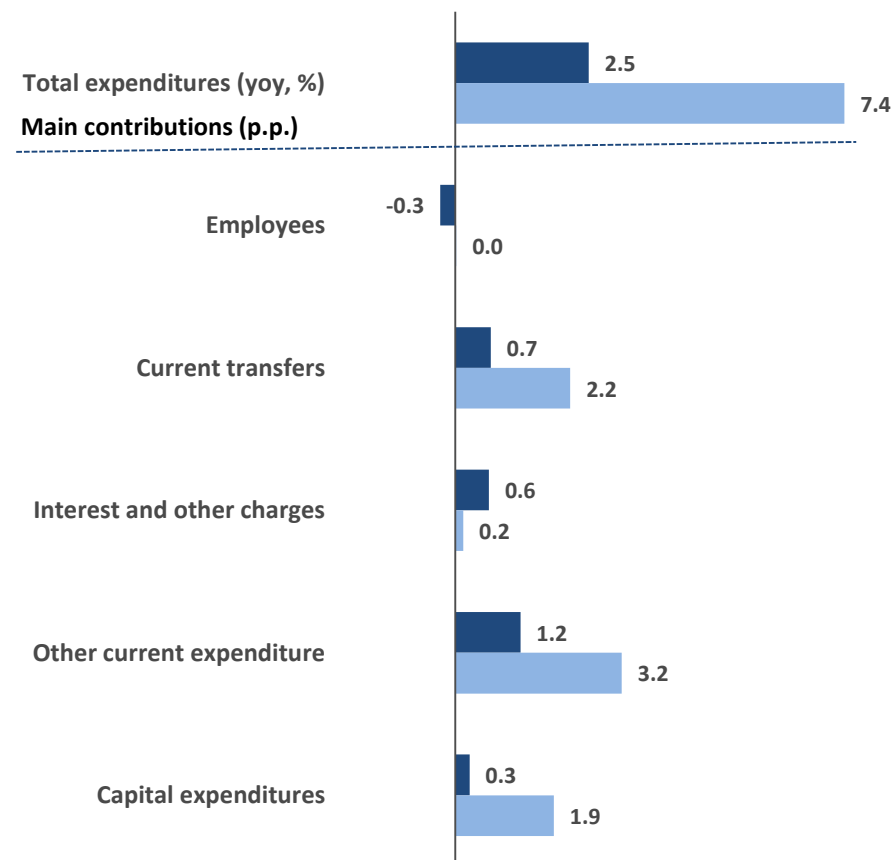
General Government total revenue on cash basis

[% , pp]



General Government total expenditure on cash basis

[% , pp]



■ Execution until July 2018

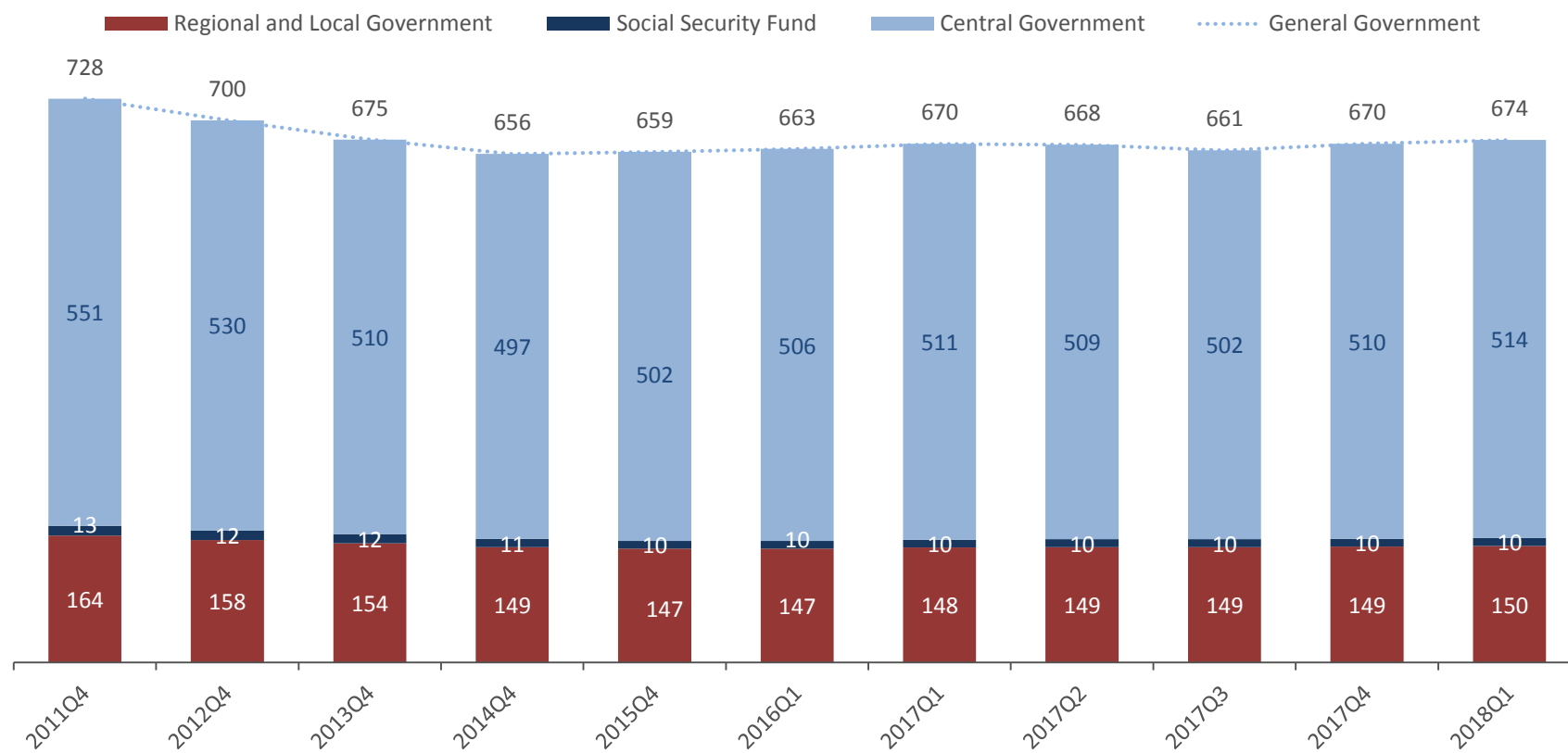
■ 2018 Budget target

Source: Ministry of Finance

The number of civil servants declined by about 8% since Dec-11, putting a lid on current expenditure

Number of civil servants

[thousands]



Source: DGAEP

Average implicit interest rate anchored in historically low level, given the relatively long average maturity

Implicit interest rate on State direct debt ...

[%; Interest costs in t / Average debt stock at the end of t-1 and t]

	2016	2017	2018 P	2019 P	2020 P	2021 P	2022 P
PGB	4.0%	3.9%	3.5%	3.3%	3.1%	2.9%	3.1%
Tbills	0.0%	-0.1%	-0.3%	-0.1%	0.3%	0.8%	1.6%
Retail debt	3.3%	2.8%	2.9%	2.8%	2.6%	2.4%	2.2%
EU/IMF	2.8%	2.5%	2.3%	2.3%	2.4%	2.3%	1.8%
Total	3.2%	3.0%	2.8%	2.7%	2.6%	2.6%	2.6%

Source: IGCP

... resilient to interest rate shocks

[Alternative scenario with immediate shock of +100bp]

	2016	2017	2018 P	2019 P	2020 P	2021 P	2022 P
PGB	4.0%	3.9%	3.5%	3.3%	3.3%	3.3%	3.5%
Tbills	0.0%	-0.1%	0.1%	0.9%	1.4%	2.1%	2.9%
Retail debt	3.3%	2.8%	3.3%	3.2%	3.0%	2.9%	2.8%
EU/IMF	2.8%	2.5%	2.4%	2.5%	2.6%	2.6%	2.3%
Total	3.2%	3.0%	2.9%	2.9%	2.9%	3.0%	3.1%

Source: IGCP

Average maturity around 8 years

[State direct debt after swaps; Dec-2017]

	Outstanding (EUR bn)	Current average residual maturity (years)	Final average residual maturity (years)
EU-IMF	57.1	11.6	13.5
Other debt	180.5	6.4	6.4
Total	237.5	7.6	8.1

Source: IGCP

EU/IMF loans with average cost of around 2.5%

[Estimates; Dec-2017]

Entity	Amount disbursed (EUR bn)	Estimated all in cost	Final average maturity from disbursement date (years)
EFSM	24.1	2.7%	19.5
EFSF	26.0	1.8%	20.8
IMF	26.3	4.3%	5.4
Total EU-IMF	76.5	2.5%	15.1

Source: IGCP

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