

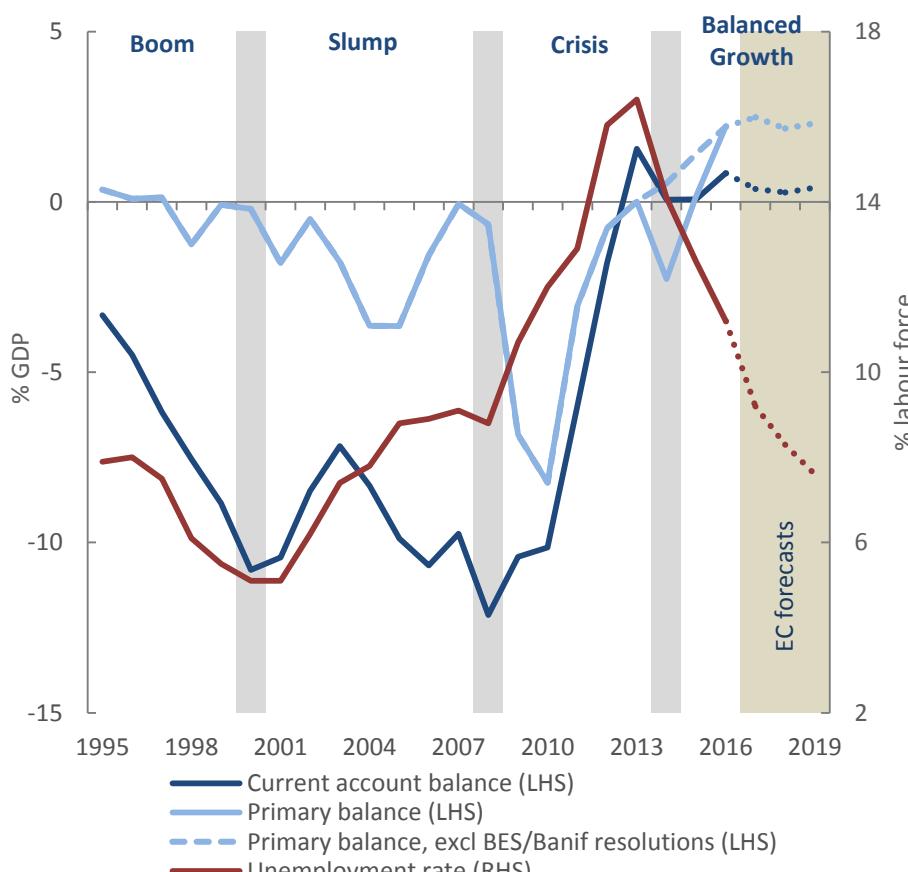
# PORTUGAL

## ECONOMICS & STATE FUNDING

July 5, 2019



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



## Outline

- Economic revitalization**, following a sustained recovery in the past 5 years. Portugal should continue to grow above EA average.
- Strong growth foundations** led to the correction of macroeconomic imbalances, resulting in successive current and capital account surpluses since 2013.
- Private sector turnaround**, following an extensive deleveraging process and balance sheet strengthening.
- Fiscal stabilization**, based on sizable fiscal adjustments, successive primary surpluses and lower interest charges, resulting in a sustained downward trend of GG debt.
- Resilient public debt structure**, enhancing shock-absorptive capacities.
- 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

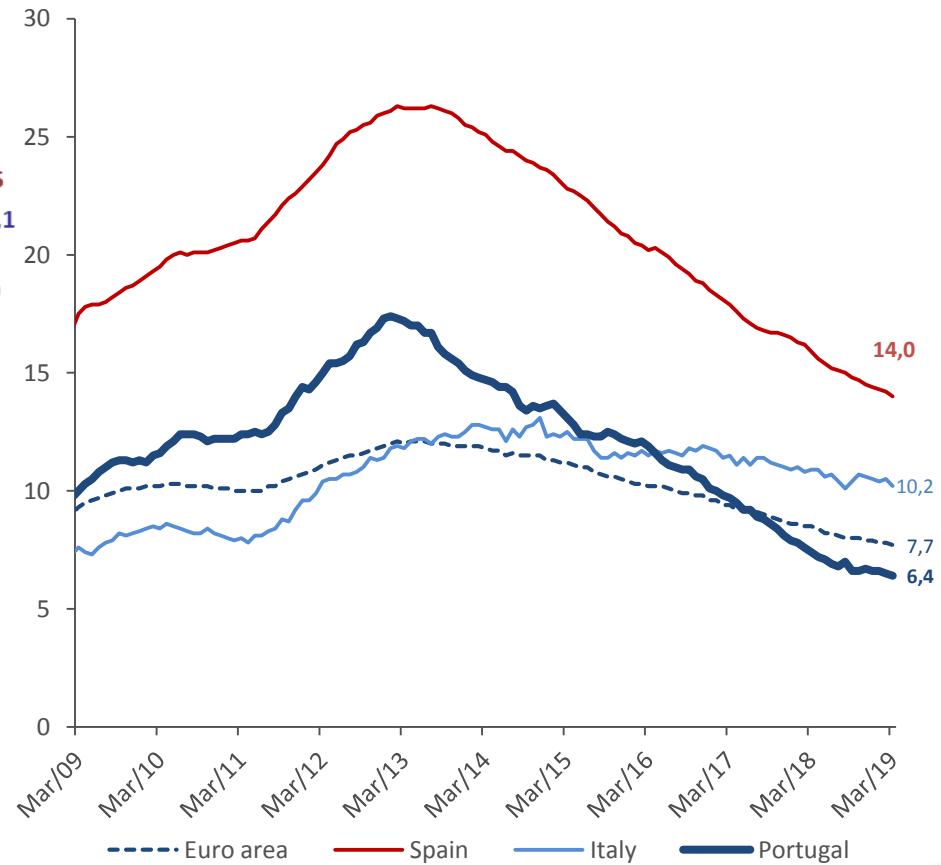
Robust GDP growth, above 2% in 2018

[Real GDP, YoY %]



Unemployment below pre-crisis level

[% labor force]



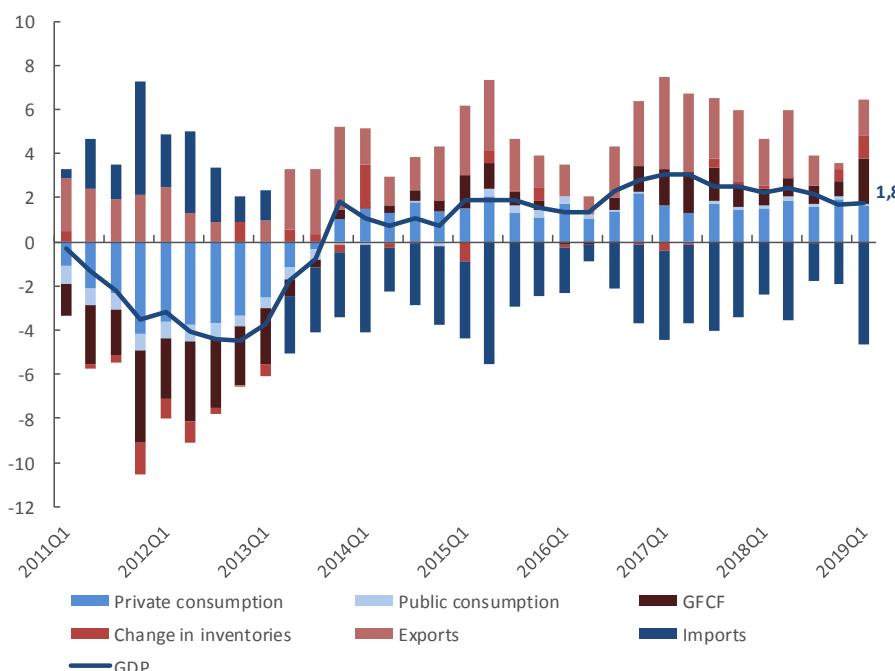
Source: Eurostat

Source: Eurostat

## Stronger GDP growth (1/2)

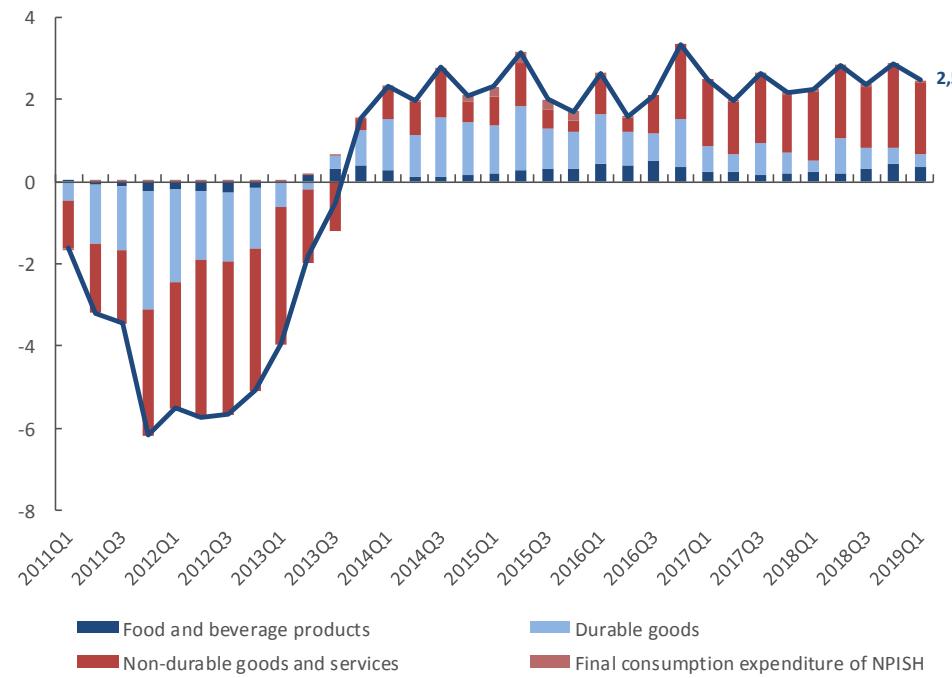
### Sustainable domestic and external demand

[GDP YoY % and pp]



### Improved confidence backs steady private consumption

[Contributions to YoY real private consumption growth, %]



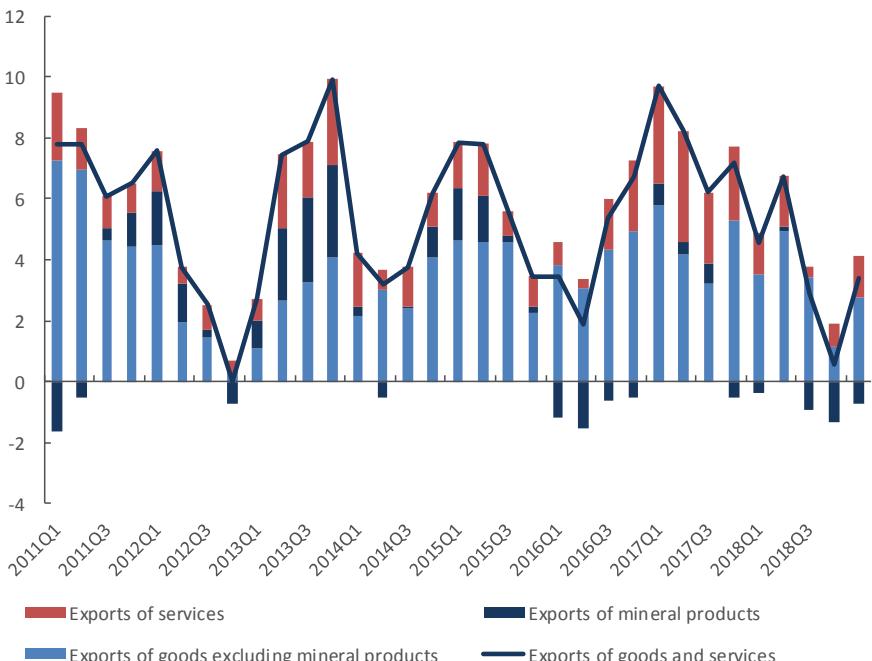
Source: Statistics Portugal

Source: Statistics Portugal

## Stronger GDP growth (2/2)

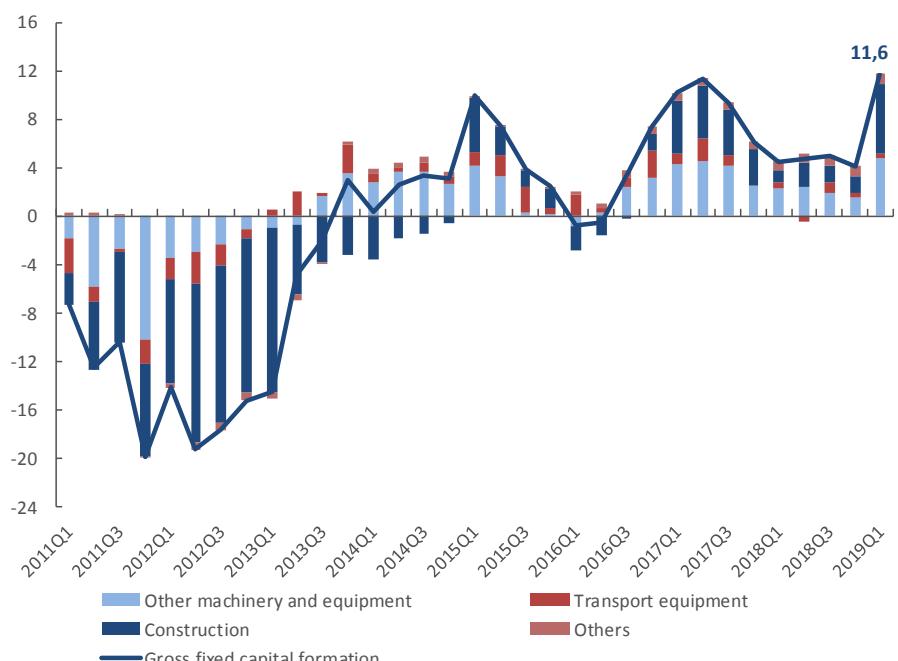
Robust exports growth ...

[Contributions to YoY real Exports growth, %]



... supported by a shift in investment pattern

[Contributions to YoY real GFCF growth, %]



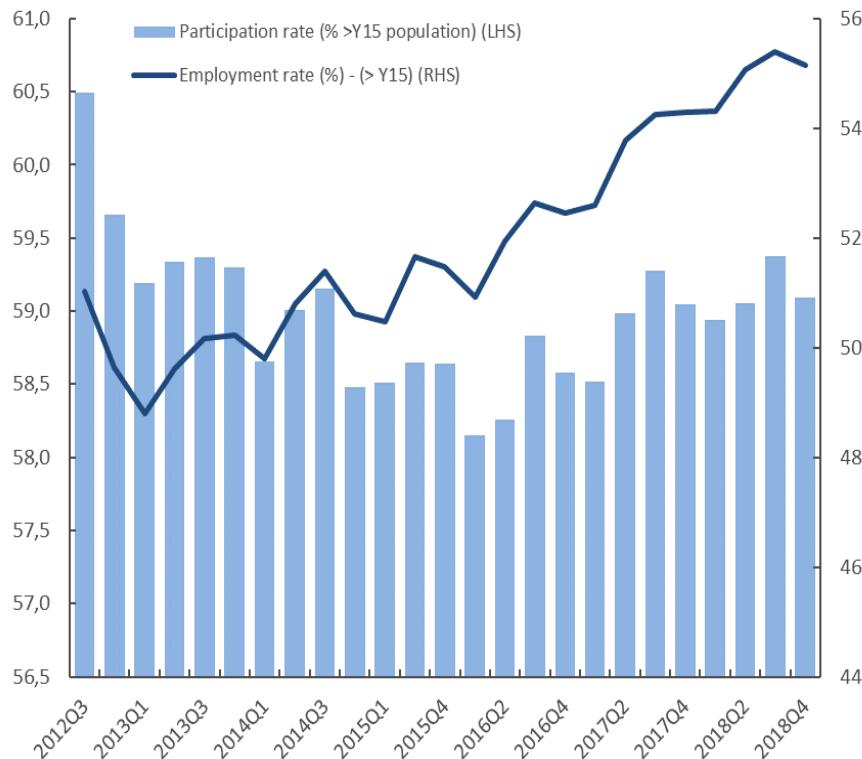
Source: Statistics Portugal

Source: Statistics Portugal

## Labor market supported by growth and reforms

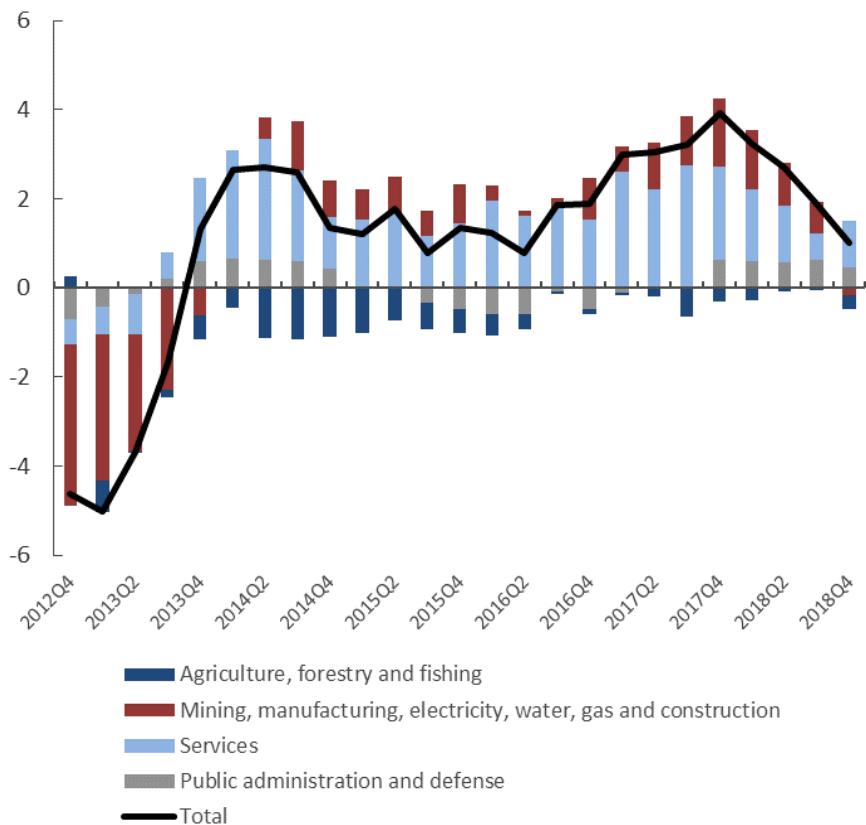
Both employment and participation rates are up

[% of total population]



Broad-based job creation

[Contributions to YoY employment growth, %]



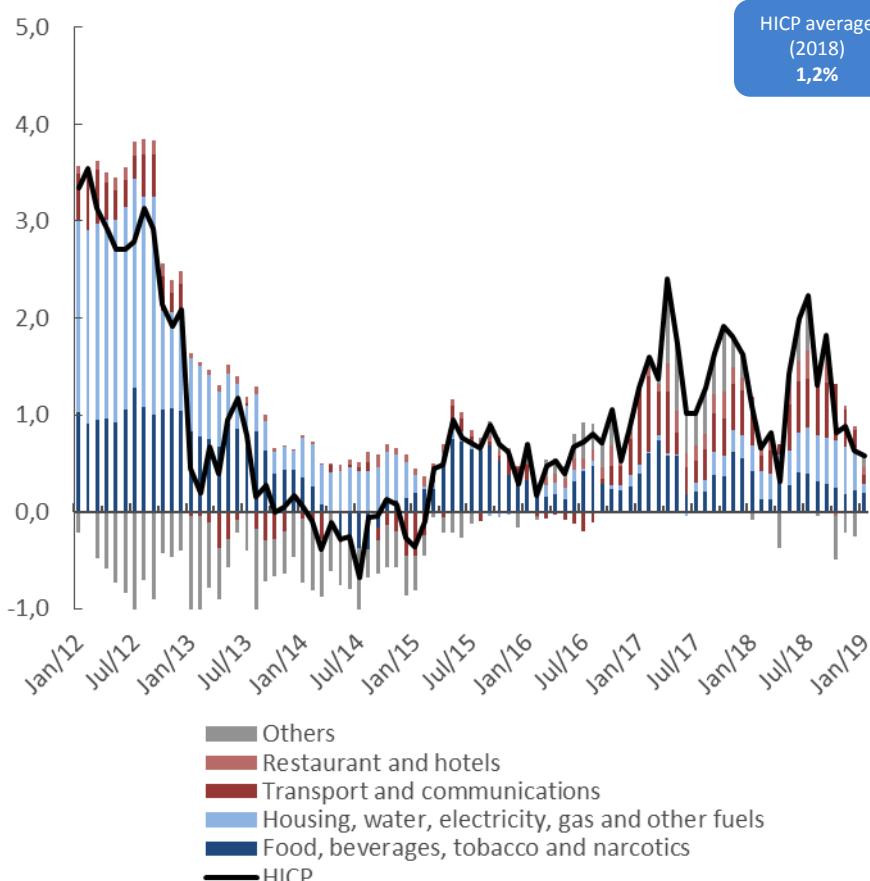
Source: Statistics Portugal

Source: Eurostat

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

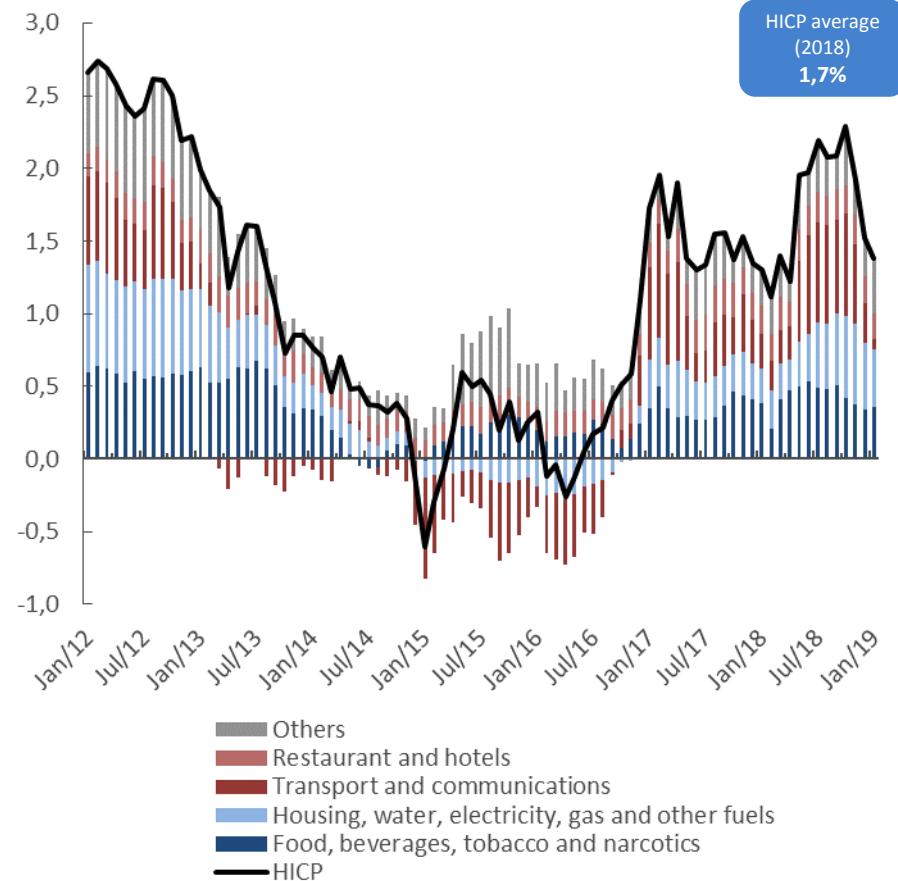
Portugal's inflation has been highly volatile...

[Contributions to yoy HICP growth, %]



... and not so much in the Euro Area.

[Contributions to yoy HICP growth, %]



Source: Eurostat

Source: Eurostat

# Steady growth cycle based on balanced growth and employment creation

## Main indicators for the Portuguese economy

[YoY %, unless otherwise stated]

Macroeconomic Scenario																	
					Min Fin: 2019 Stability Programme			Min Fin: 2019 State Budget		Banco de Portugal		International Monetary Fund		European Commission			
	2015	2016	2017	2018	2019 P	2020 P	2021 P	2022 P	2023 P	2018P	2019P	2019 P	2020 P	2019 P	2020 P		
<b>Real GDP (yoY%)</b>	<b>1,8</b>	<b>1,9</b>	<b>2,8</b>	<b>2,1</b>	<b>1,9</b>	<b>1,9</b>	<b>2,0</b>	<b>2,0</b>	<b>2,1</b>	<b>2,3</b>	<b>2,2</b>	<b>1,7</b>	<b>1,6</b>	<b>1,7</b>	<b>1,5</b>	<b>1,7</b>	<b>1,7</b>
Private Consumption	2,3	2,4	2,3	2,5	1,8	1,8	2,0	1,9	1,9	2,3	1,9	2,6	2,0	1,9	1,5	2,3	1,9
Public Consumption	1,3	0,8	0,2	0,8	0,2	0,6	0,5	0,5	0,5	1,0	0,2	0,5	0,5	1,6	1,3	0,8	0,5
GFCF	5,8	2,3	9,2	4,4	5,3	4,9	4,5	4,5	4,5	5,2	7,0	8,7	5,8	6,2	4,2	4,6	5,0
Exports	6,1	4,4	7,8	3,6	3,8	3,8	3,7	3,9	3,9	6,6	4,6	4,5	3,1	4,1	4,1	3,2	3,5
Imports	8,5	4,7	8,1	4,9	3,9	3,9	3,9	3,9	3,9	6,9	4,8	8,0	4,3	5,2	4,7	4,9	4,6
<b>Contributions to GDP growth (pp)</b>																	
Domestic demand	2,8	2,0	3,1	2,8	2,1	2,1	2,2	2,2	2,2	2,7	2,5	1,3	1,1	2,7	2,0	2,4	2,2
Net exports	-1,1	-0,2	-0,3	-0,7	-0,2	-0,2	-0,2	-0,1	-0,1	-0,3	-0,3	0,4	0,5	-0,7	0,5	-0,7	-0,5
<b>External sector (% GDP)</b>																	
Current account	-0,9	0,1	0,2	-0,9	-0,8	-0,7	-0,3	-0,6	-0,6	0,0	0,0	-	-	-0,3	-0,4	-1,0	-1,1
of which Goods and Services	0,6	1,1	0,8	0,1	0,2	0,2	0,2	0,2	0,2	0,7	0,7	-0,5	-0,7	-	-	-0,5	-0,9
Current and Capital account	0,3	1,0	1,1	0,2	0,4	0,5	0,9	0,6	0,6	1,0	1,2	0,1	0,2	-	-	0,0	0,1
<b>Unemployment (% labor force)</b>	<b>12,4</b>	<b>11,1</b>	<b>8,9</b>	<b>7,0</b>	<b>6,6</b>	<b>6,3</b>	<b>5,9</b>	<b>5,6</b>	<b>5,4</b>	<b>6,9</b>	<b>6,3</b>	<b>6,3</b>	<b>5,7</b>	<b>6,2</b>	<b>5,7</b>	<b>6,2</b>	<b>5,7</b>
<b>Prices (yoY%)</b>																	
GDP deflator	2,0	1,8	1,5	1,4	1,5	1,5	1,6	1,5	1,5	1,4	1,4	-	-	1,5	1,7	1,4	1,6
HICP (*)	0,5	0,6	1,6	1,2	1,3	1,4	1,5	1,4	1,5	1,3	1,3	0,9	1,2	1,1	1,5	1,1	1,6

(\*) CPI for State Budget and Stability Programme Projections.

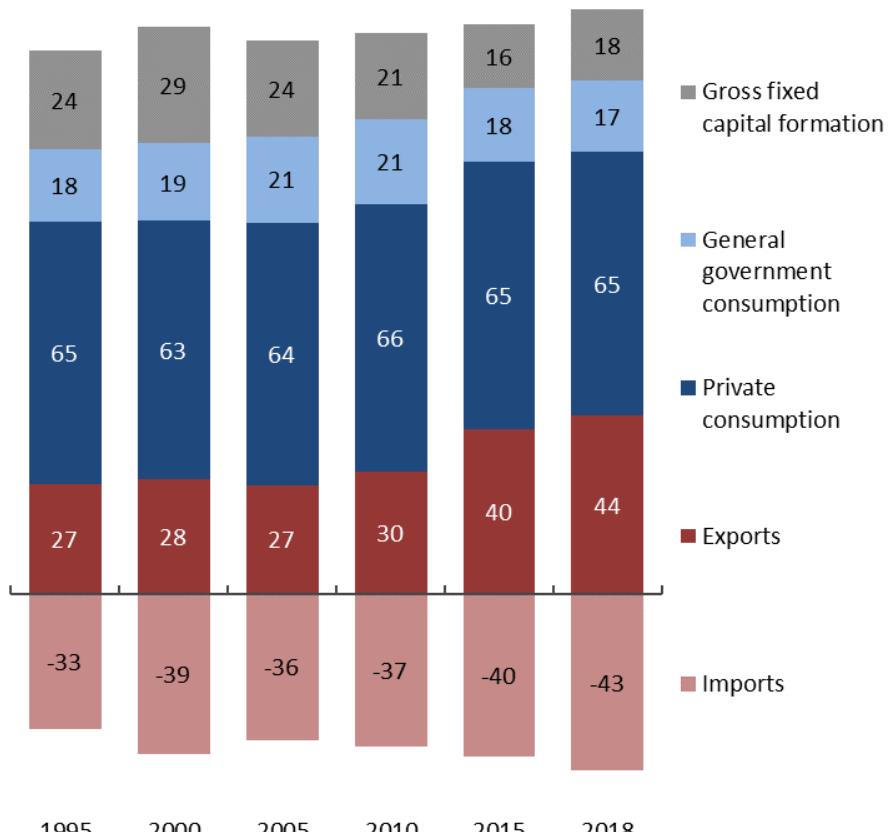
Sources: Statistics Portugal, Ministry of Finance, Banco de Portugal, International Monetary Fund and European Commission

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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)

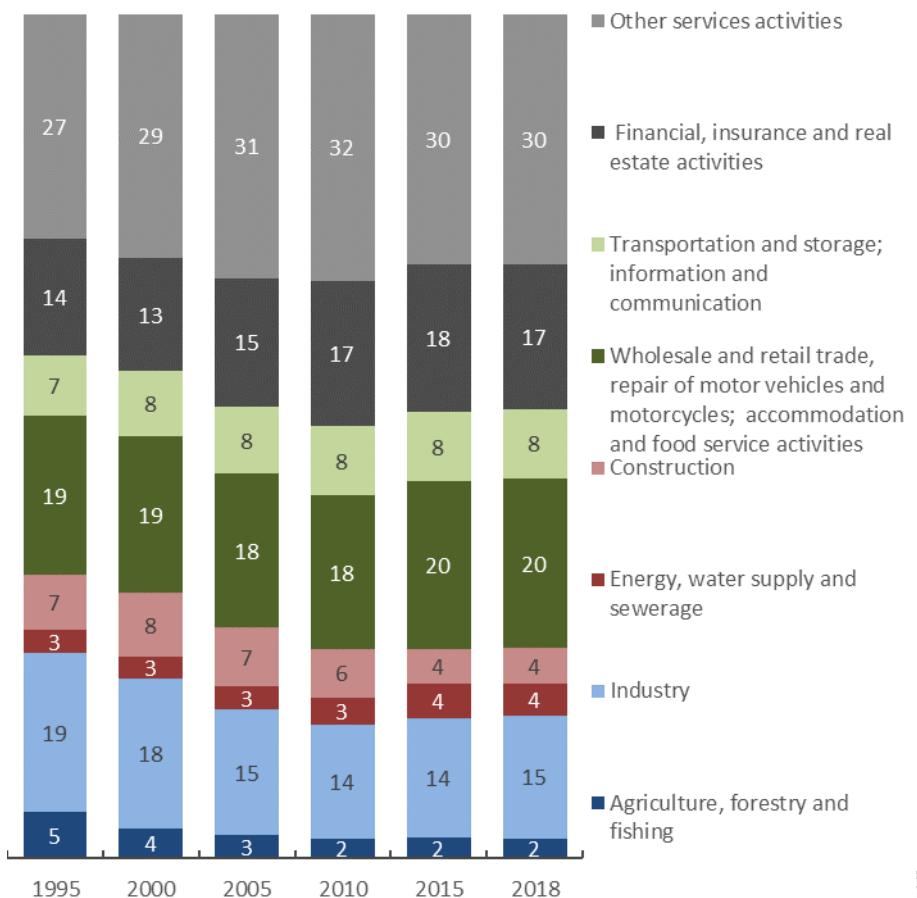
[% of GDP]



Source: Statistics Portugal

GVA composition (current prices)

[% of GVA]

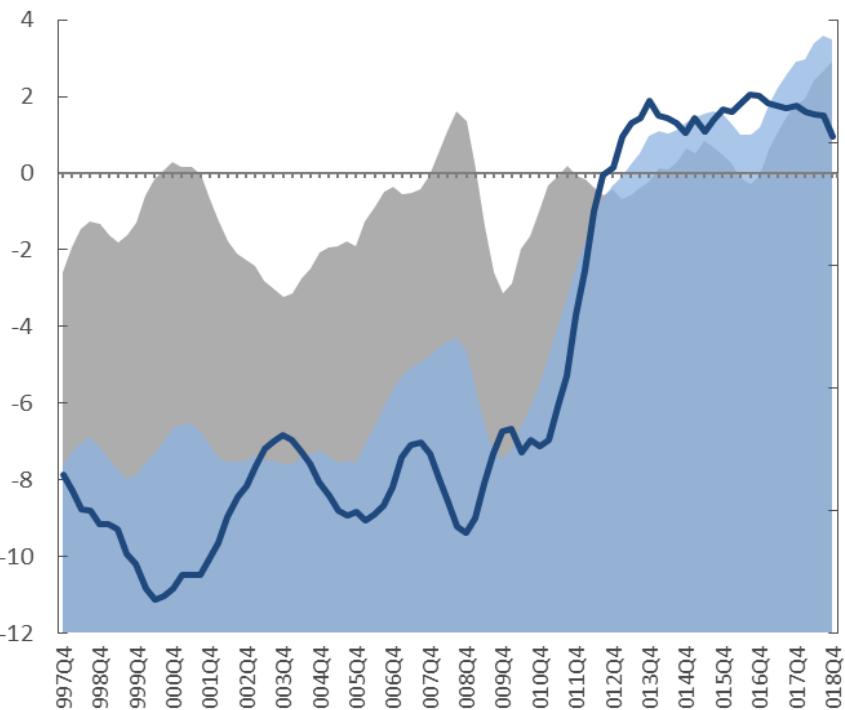


Source: Statistics Portugal

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

From chronic external deficits to sustained surpluses

[% GDP]

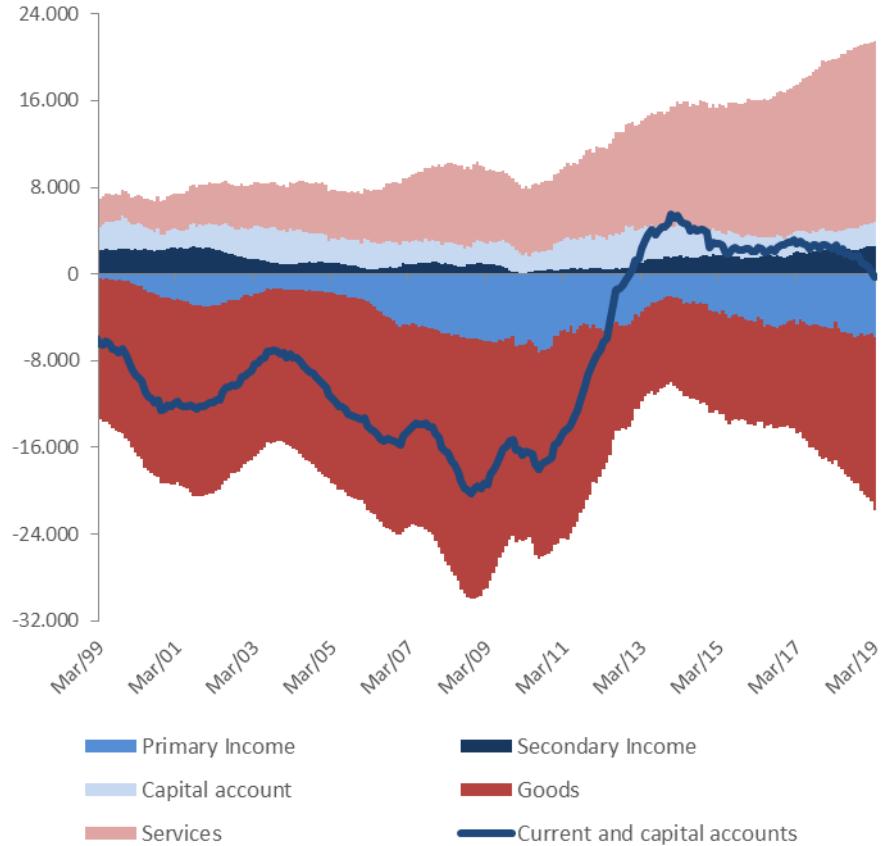


Imports of goods and services (rhs)  
Exports of goods and services (rhs)  
External balance of goods and services

Source: Eurostat

New composition of current and capital accounts

[EUR million]



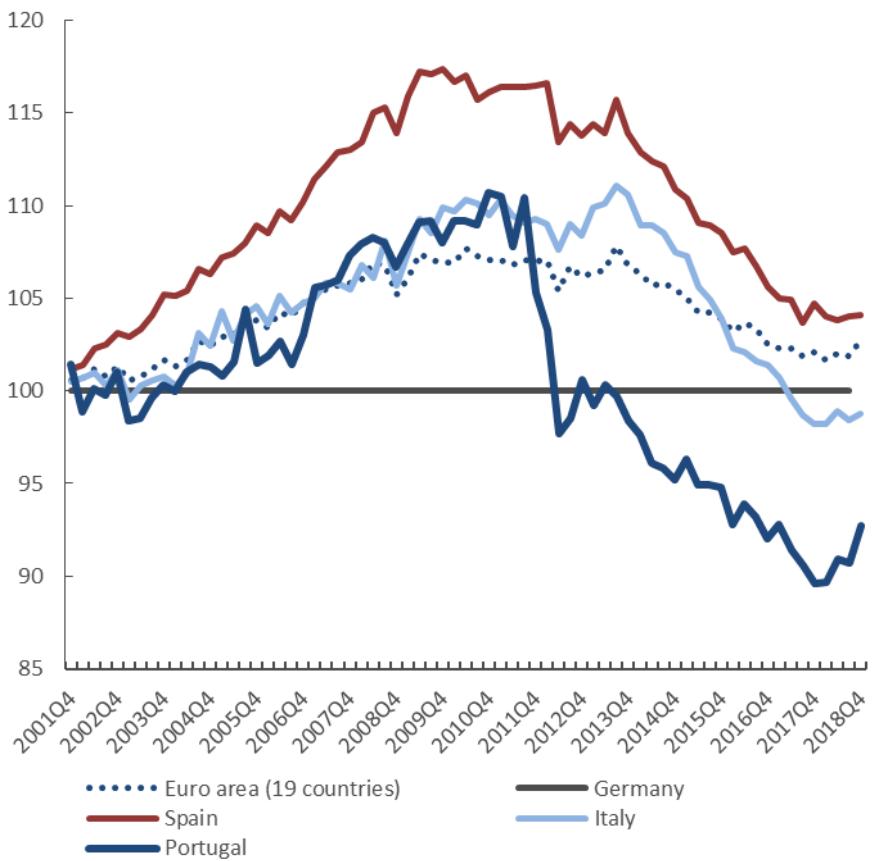
Primary Income  
Secondary Income  
Capital account  
Goods  
Services  
Current and capital accounts

Source: Banco de Portugal

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

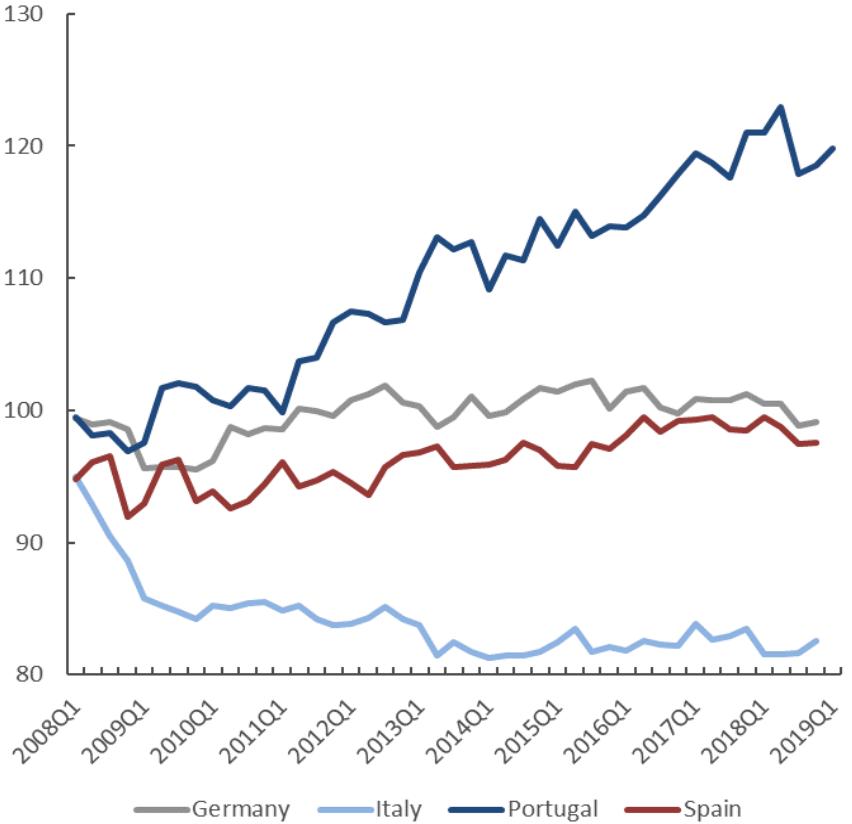
### Significant competitiveness gains since 2011

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



### Significant gains in exports' market share

[Index 1Q2007=100]



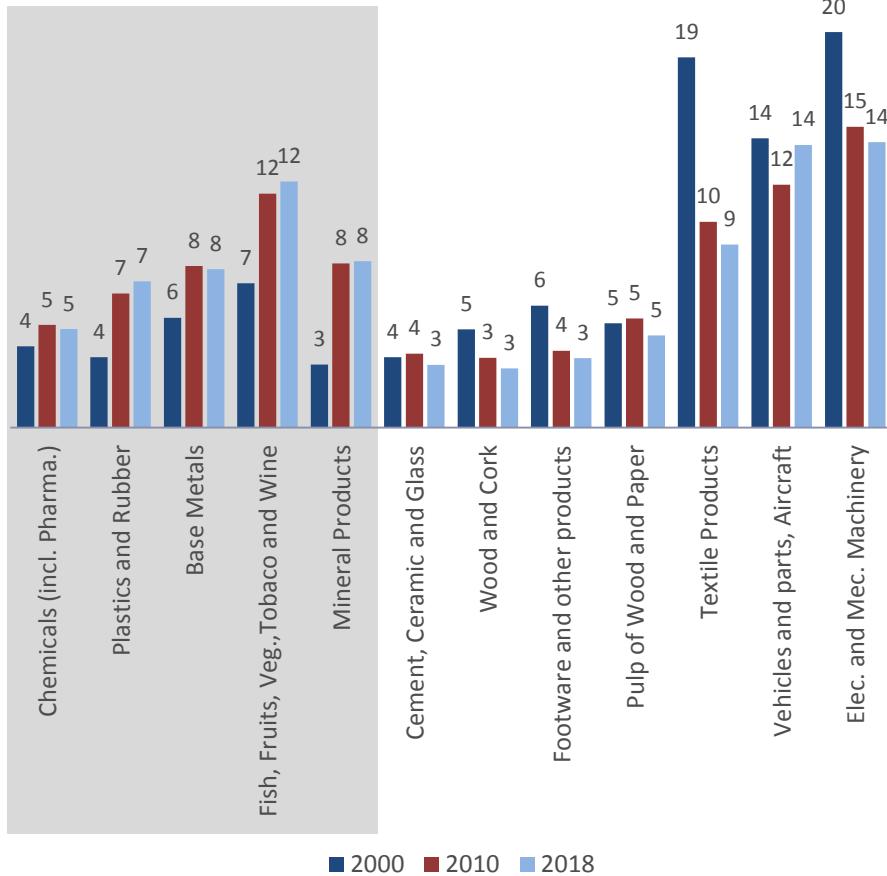
Source: Eurostat

Source: OECD

## Exports diversification improves resilience to external shocks

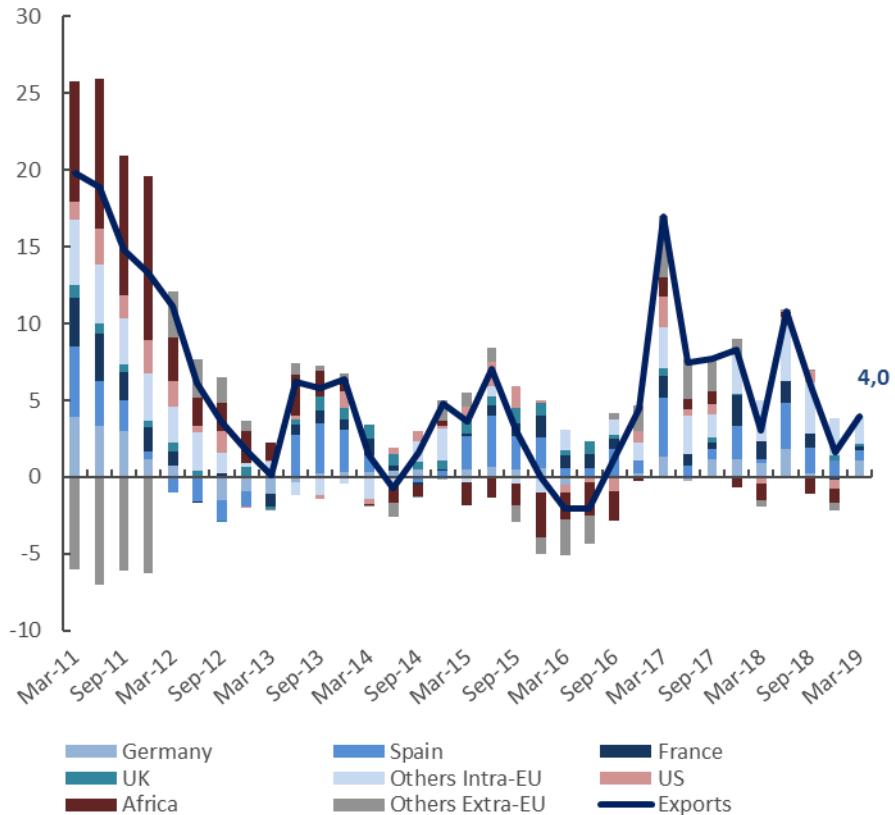
### Broader sectoral diversification

[Goods exports by sector, %]



### Geographical diversification sustaining exports growth

[Goods exports by destination, YoY 3mMA %]



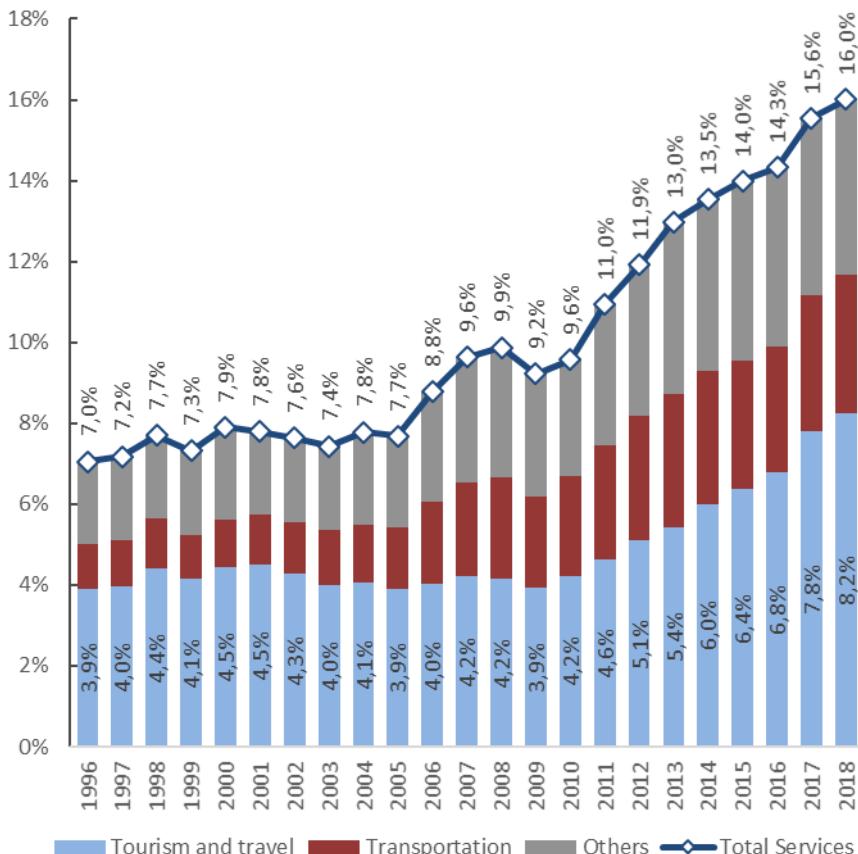
Source: Statistics Portugal

Source: Statistics Portugal

# Increase in services exports' weight led by tourism receipts

Weight of exports of services doubled since 2005

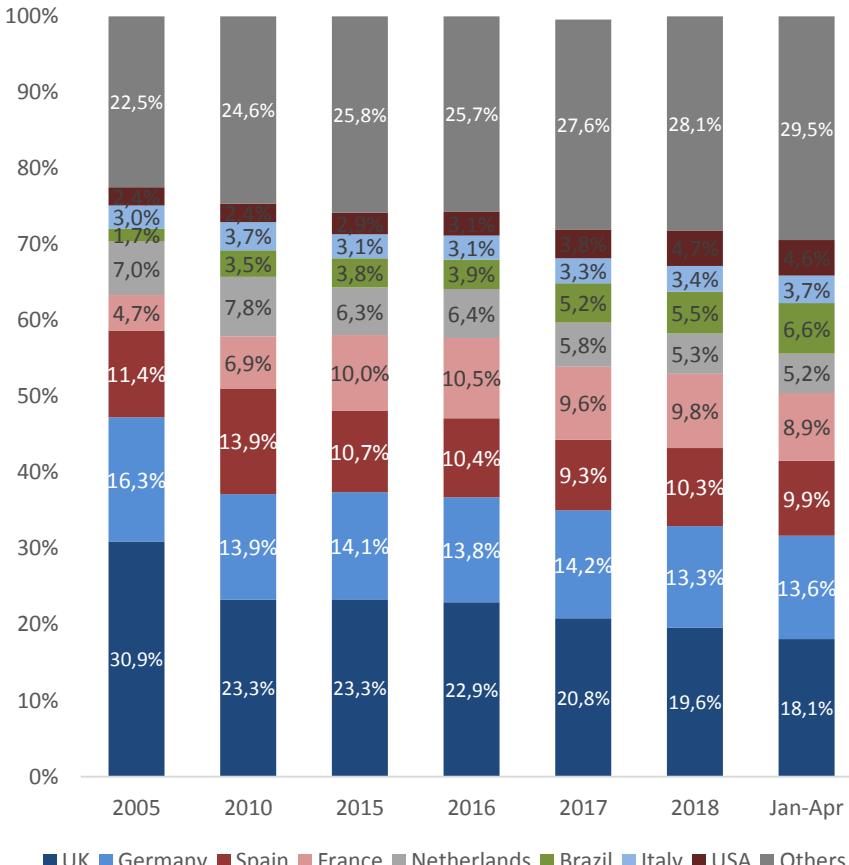
[% GDP]



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=2000Q1]



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]



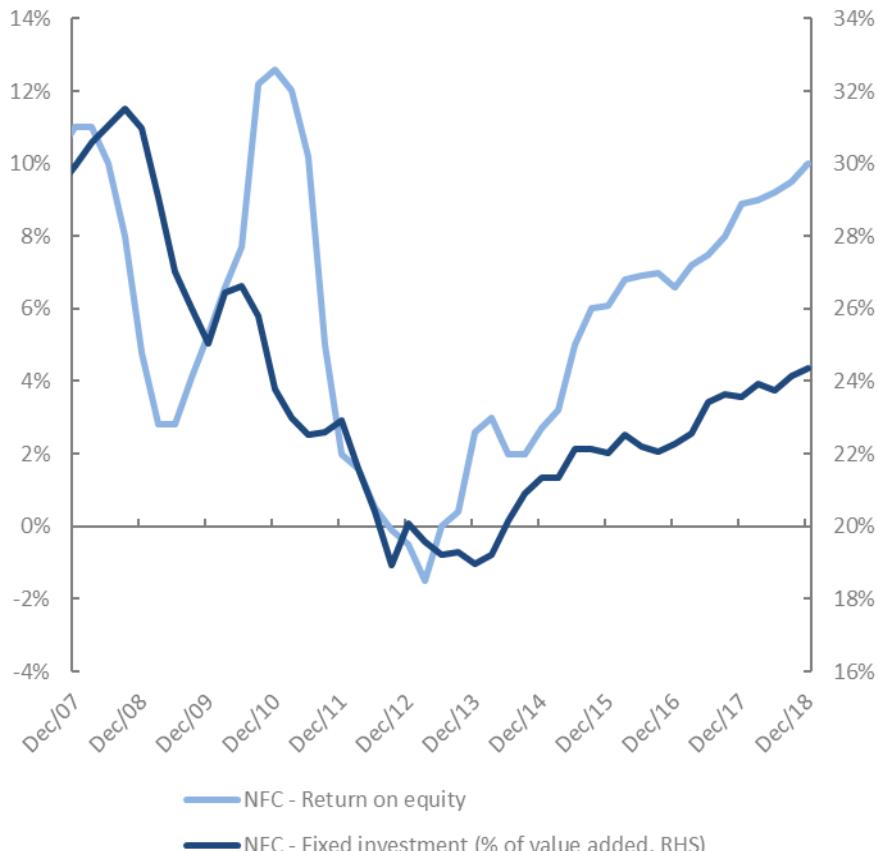
Source: Statistics Portugal, ECB

Source: Statistics Portugal

## Improved profitability and credit allocation

NFC profitability levels are being restored ...

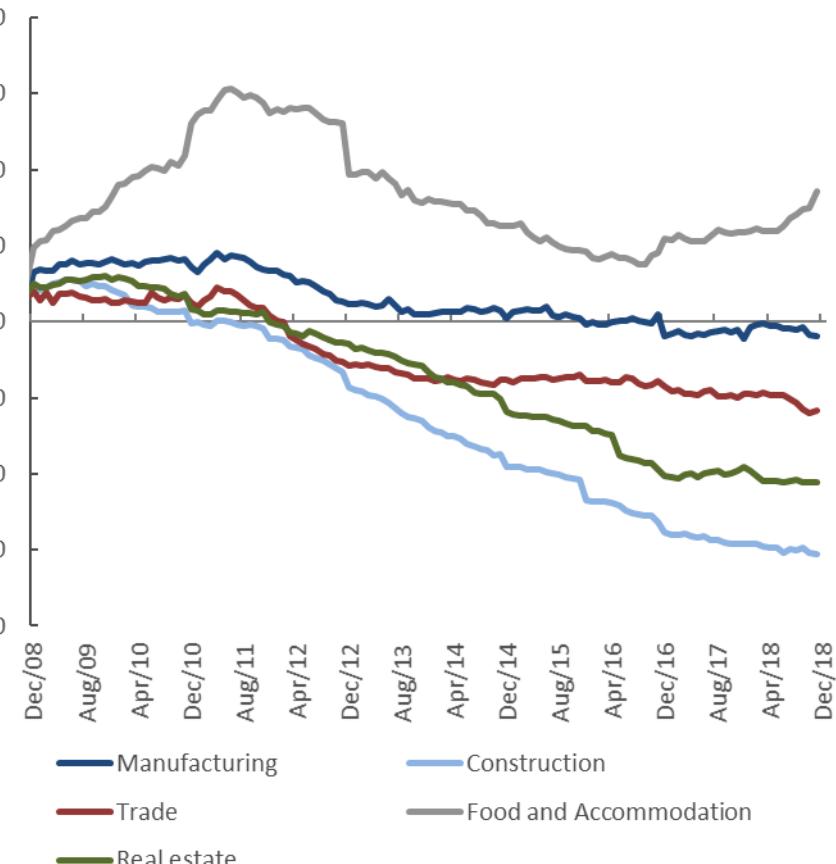
[Return on equity and Fixed investment as a % of GVA]



Source: Statistics Portugal

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

[Loans to NFC, Index 100 = Jan 2008]



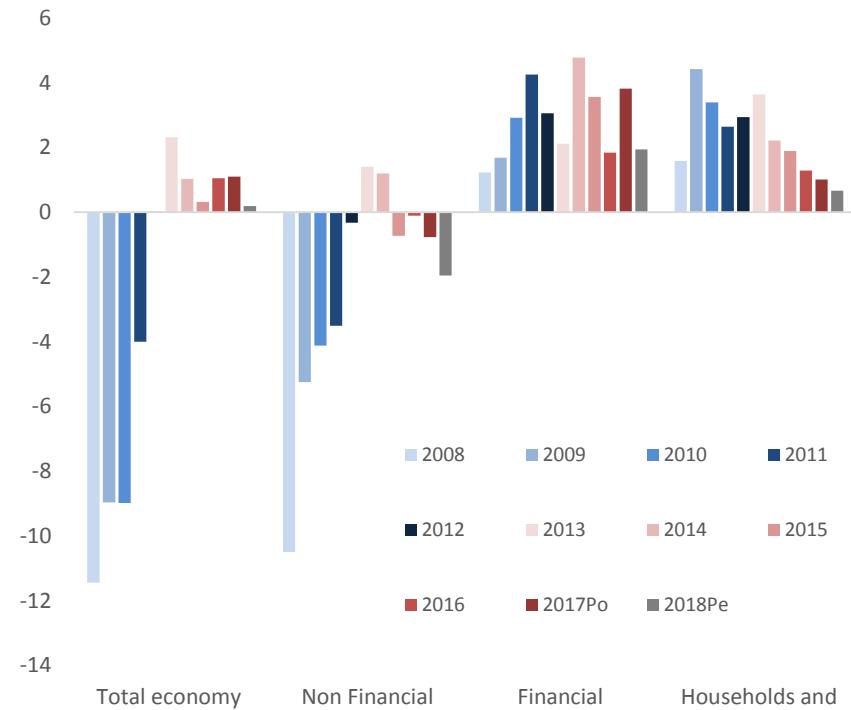
Source: Banco de Portugal

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## Improved profitability and balance sheet strengthening

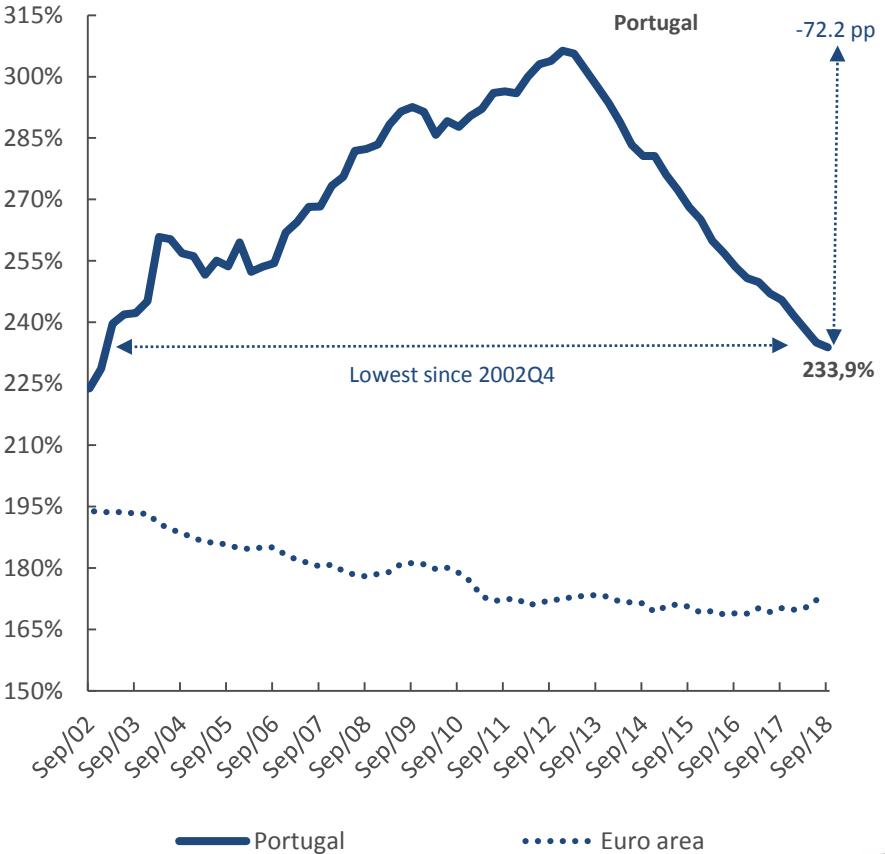
Consistent net lending positions...

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



... leading to private sector deleveraging

[Private sector debt/GDP]



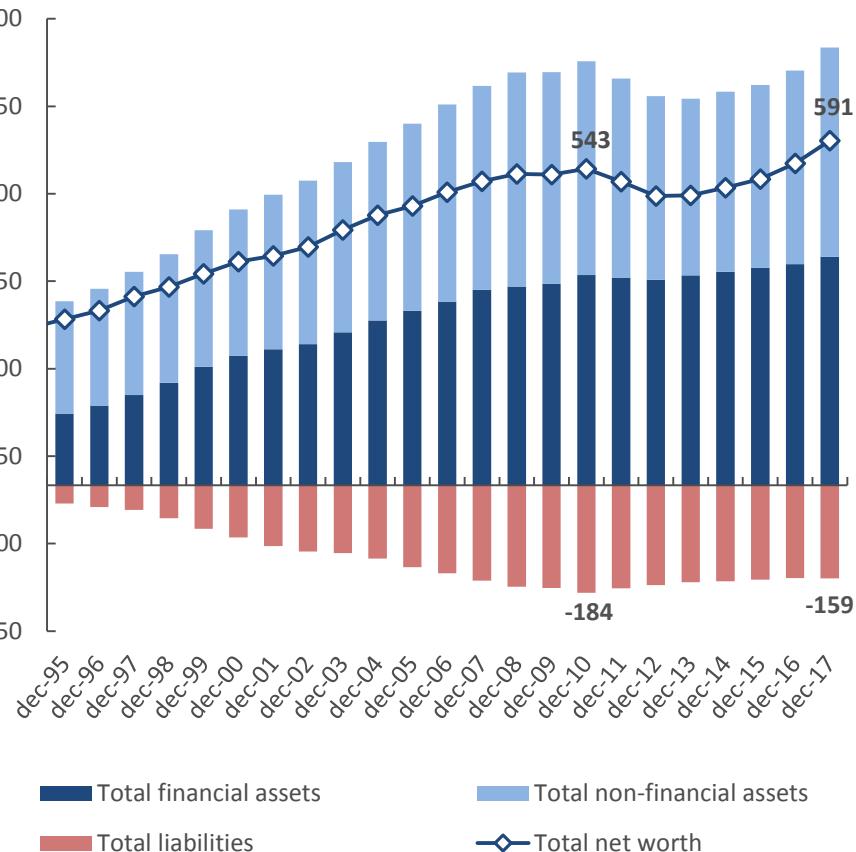
Source: Statistics Portugal

Source: ECB

## Households' net financial position improving

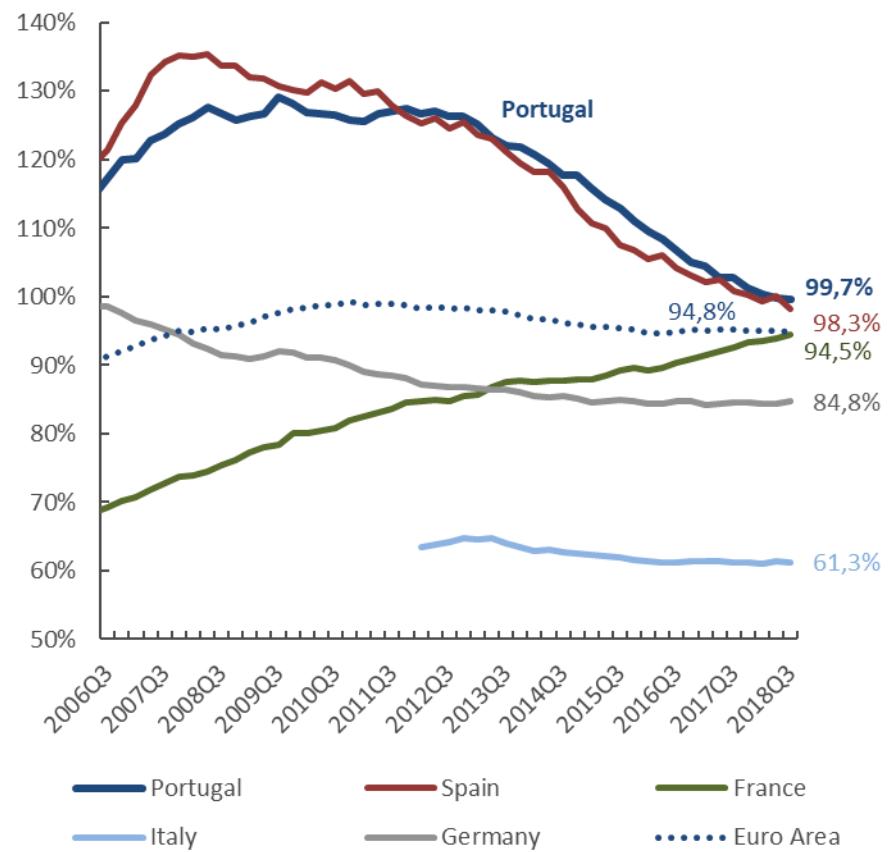
Net worth is now above pre-crisis levels ...

[EUR billion]



... driven by deleveraging

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



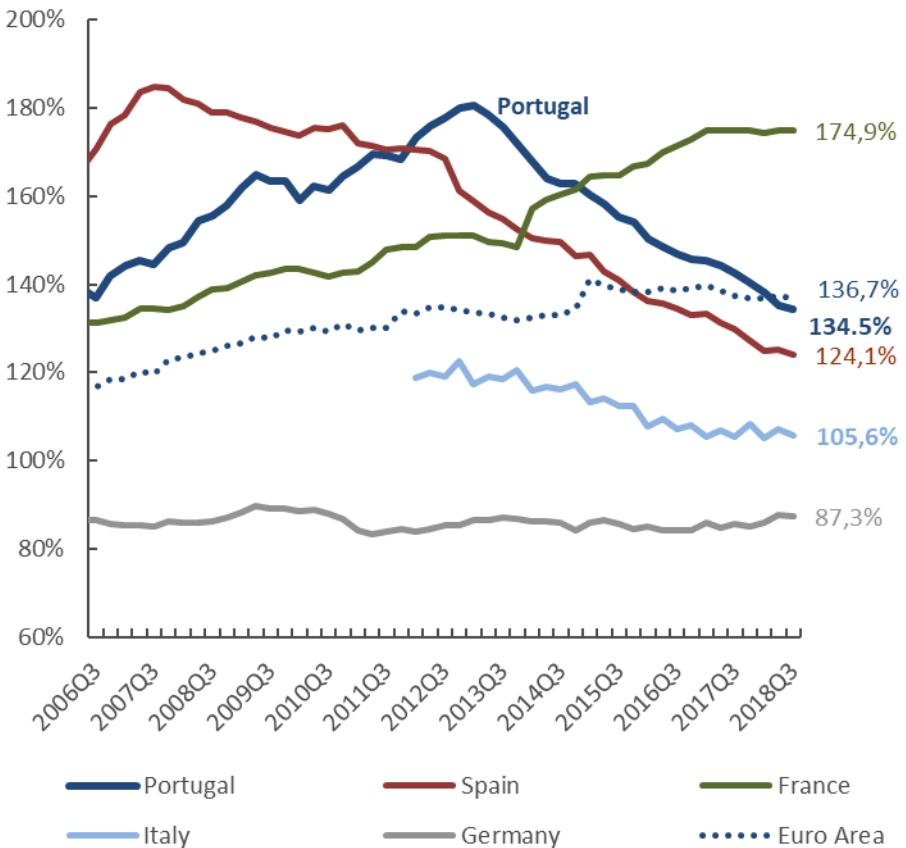
Source: Banco de Portugal

Source: ECB

## Strengthening of corporates' capital structure

### Strong decline of debt stock

[Debt/GDP; Non-consolidated]



### Improved solvency position

[Capital ratio = Equity/Assets]



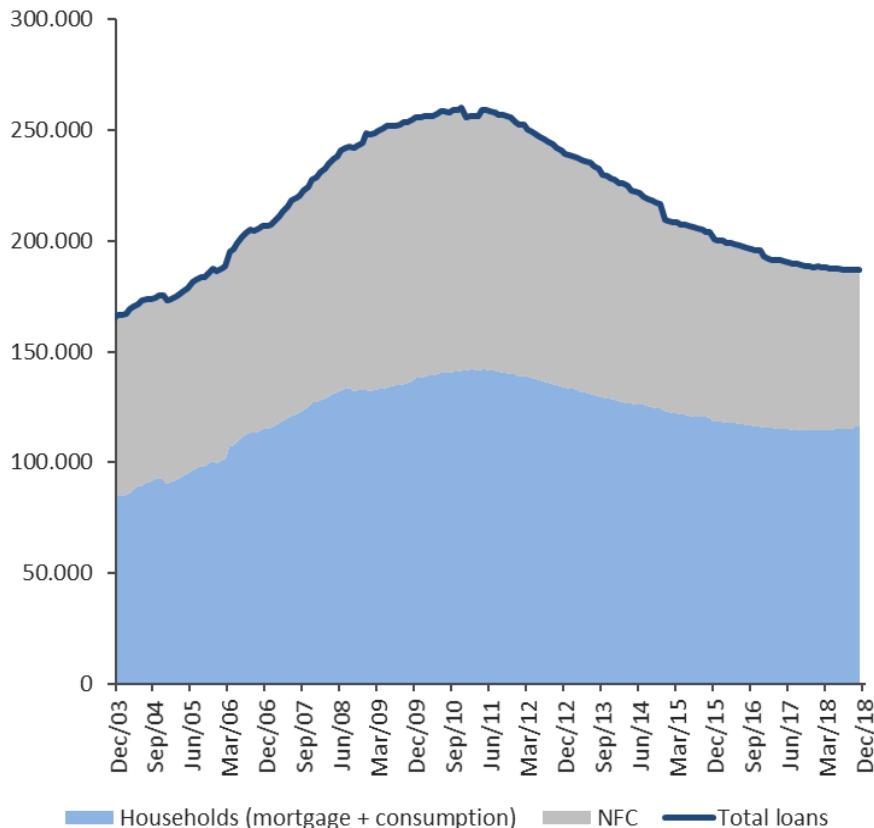
Source: ECB

Source: Banco de Portugal

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

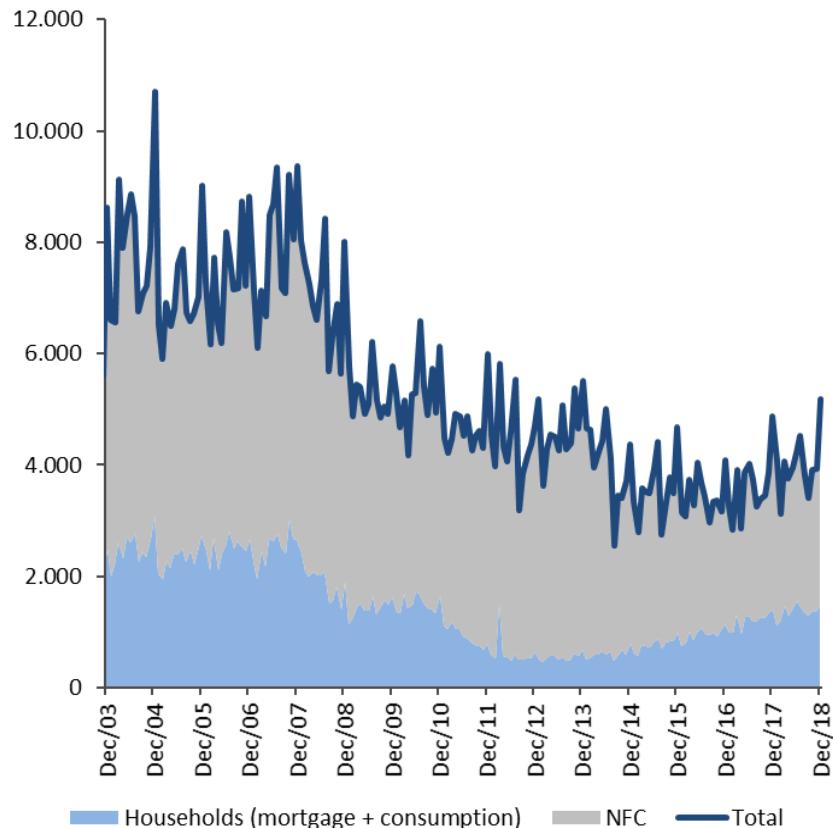
Total loans declined sharply since 2011...

[Total loans to households and NFC, billion €]



...while new lending operations remain subdued

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



Source: Banco de Portugal

Source: Banco de Portugal

## De-risking of the banks' capital structure ...

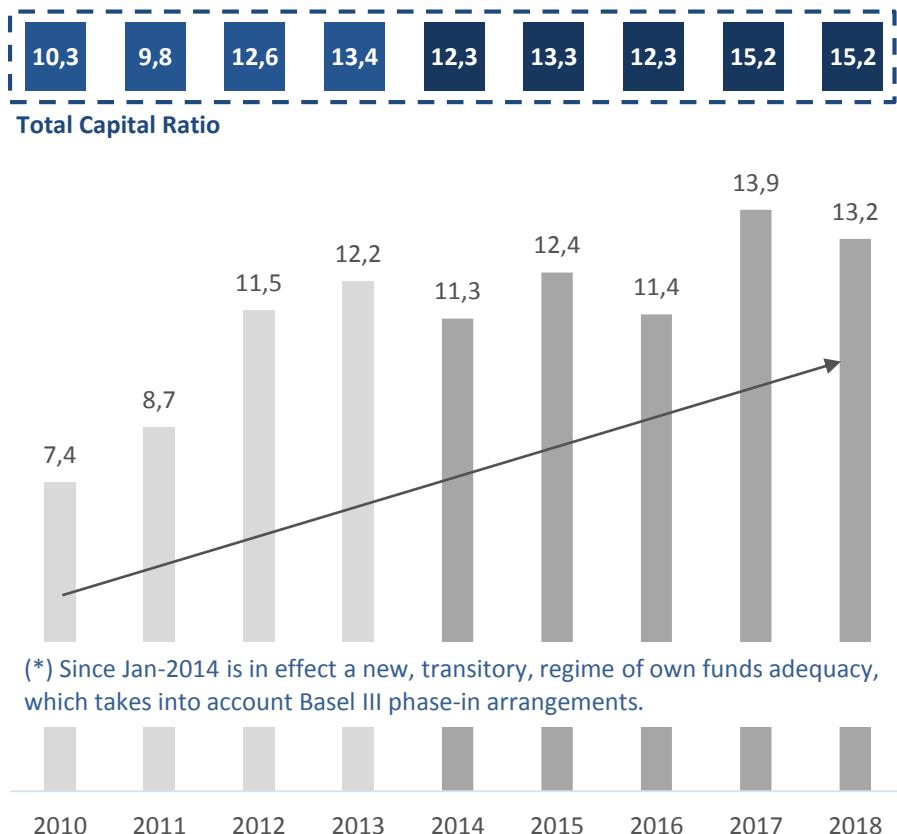
### More stable funding structure

[Loans to Deposits Ratio, %]



### Higher capital levels in a challenging context

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



Source: Banco de Portugal

Source: Banco de Portugal

## ... with increased resilience of major Portuguese banks



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



- NB bought back 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 € 250mn by the end of 2017). The Resolution Fund retains 25% of the capital.
- In 2018, Resolution Fund injected € 790mn into NB (CCA).



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



- 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%.

	2016	2017	2018
Net income	-1.859,5	51,9	496
Net interest income	1.197,3	1.241,4	1.204,8

Source: Bloomberg

	2016	2017	2018
Net income	-788,3	-2.298,0	-1.412,6
Net interest income	529,1	403,7	454,3

Source: Bloomberg

	2016	2017	2018
Net income	23,9	186,4	301,1
Net interest income	1.237,8	1.391,0	1.423,6

Source: Bloomberg

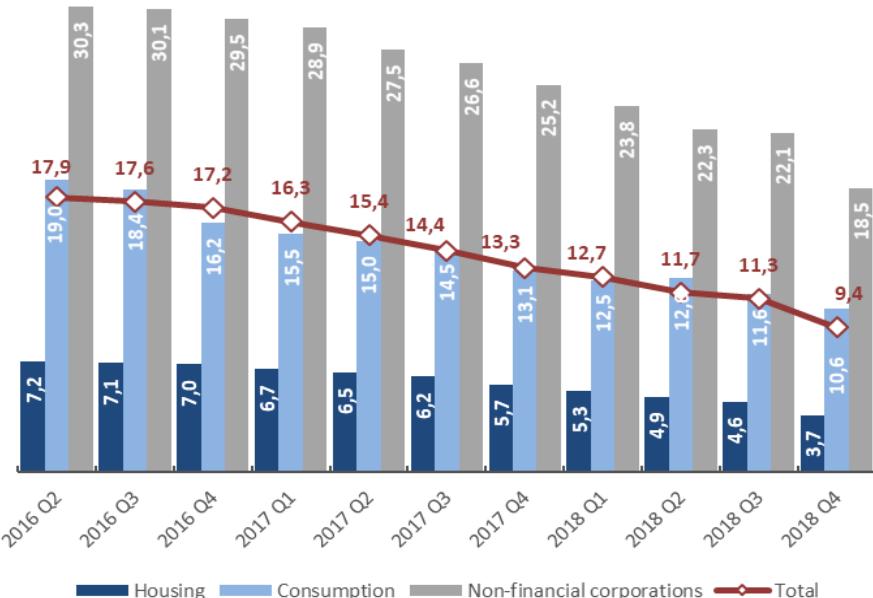
	2016	2017	2018
Net income	313,2	10,2	490,6
Net interest income	372,2	388,1	422,6

Source: BPI, CGD, Novo Banco and BCP

## Banks dealing with legacy assets

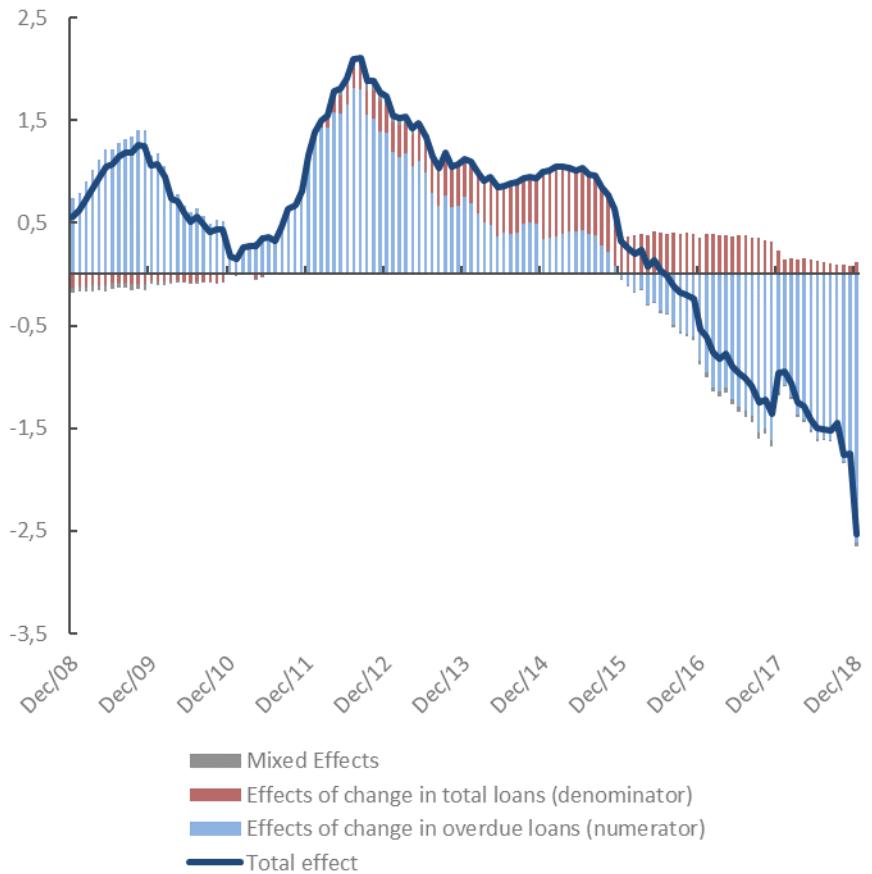
NPL ratio is receding ...

[% of gross credit; at end of period]



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

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



National authorities' 3-pillar strategy to reduce NPLs:

[+ EU-level action]

Prudential supervisory action

Legal and judicial reform

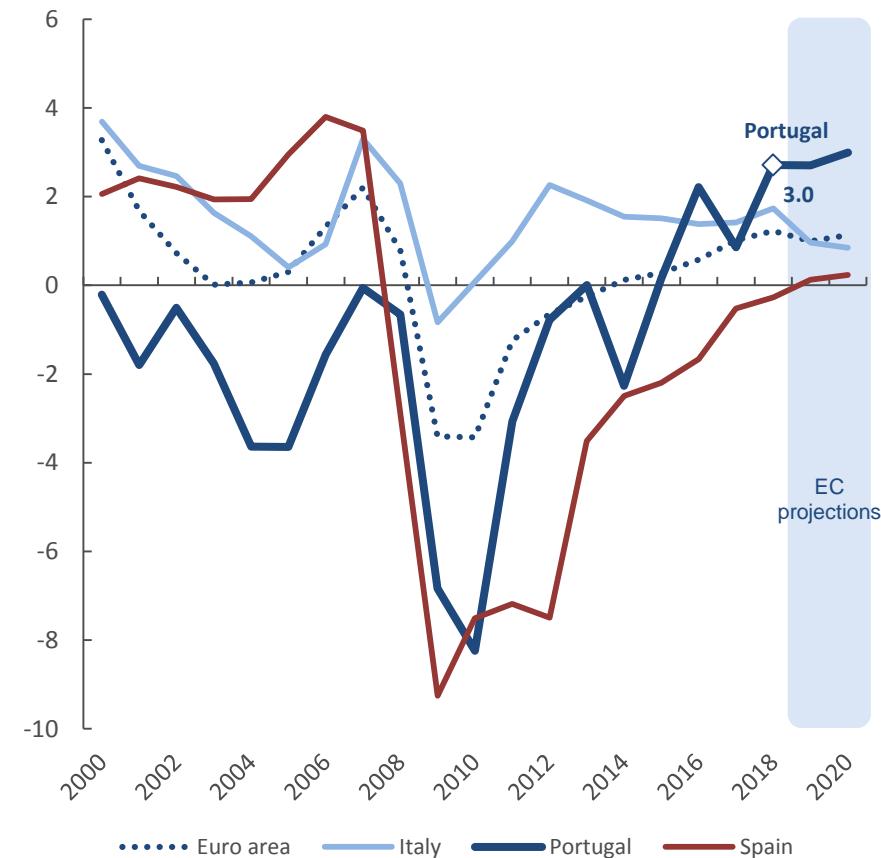
NPL management

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# Fiscal discipline has stabilized debt levels throughout economic and political cycles

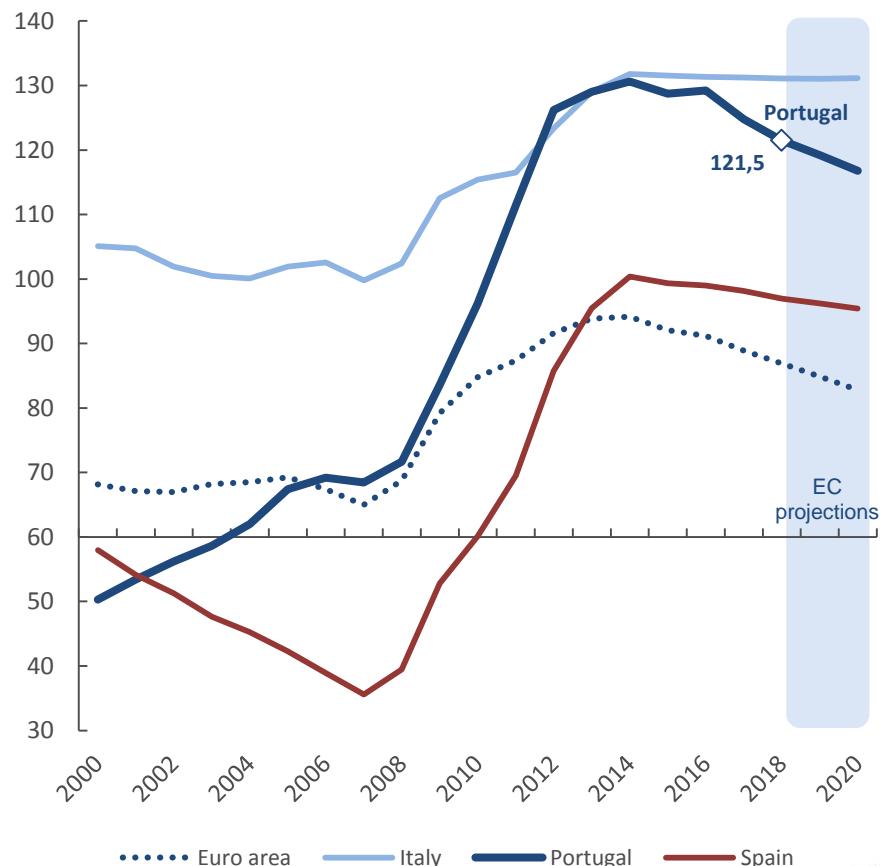
Strong primary surplus ...

[% of GDP]



... supporting public debt decline

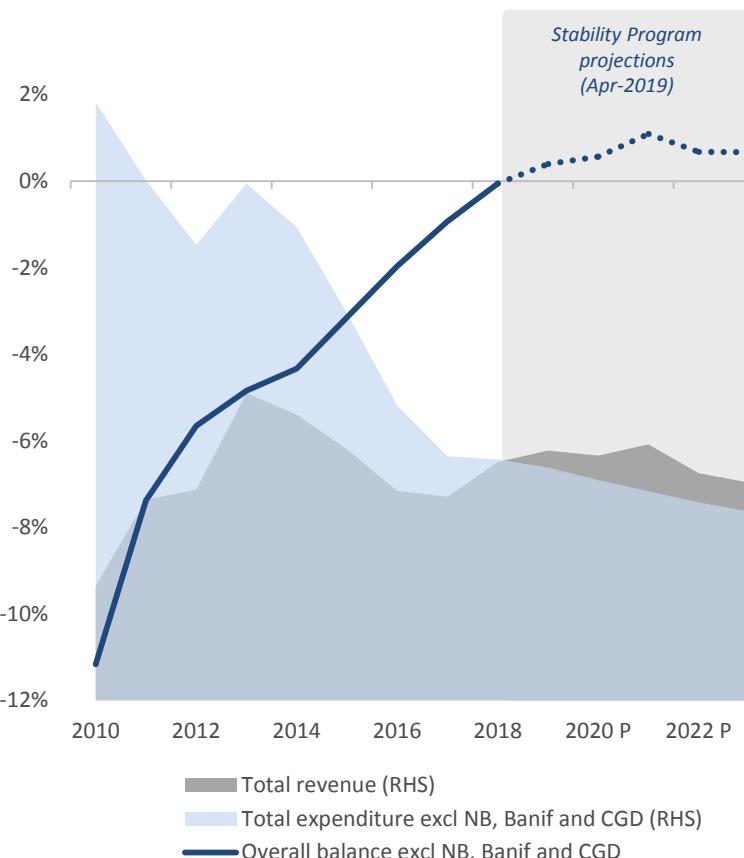
[EDP gross debt, % of GDP]



## Lowest deficits in over 40 years

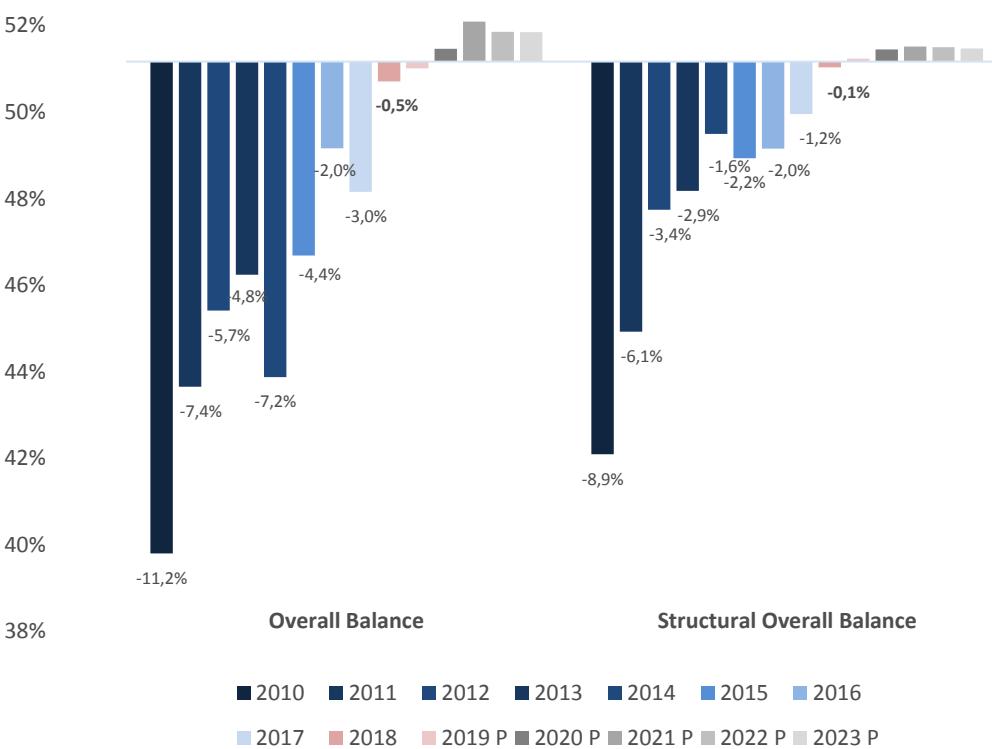
### Significant reduction of expenditure

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



### Structural adjustment

[% GDP]



Source: Statistics Portugal and Ministry of Finance

Note: NB, Banif and CGD impacts occur in 2014, 2015, 2017, 2018, 2019, 2020, 2021.

Source: Statistics Portugal and Ministry of Finance

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

## General Government Accounts

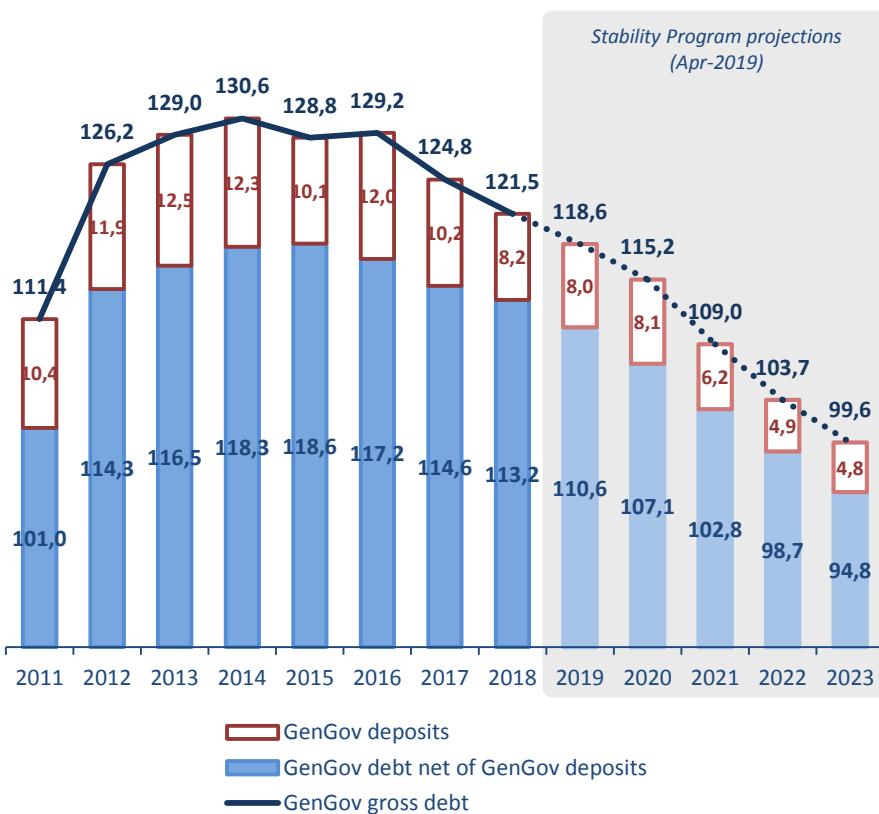
[% GDP]

General Government Account (accrual basis)														
(% GDP)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 P	2020 P	2021 P	2022 P	2023 P
<b>Total revenue</b>	<b>40,6%</b>	<b>42,6%</b>	<b>42,9%</b>	<b>45,1%</b>	<b>44,6%</b>	<b>43,8%</b>	<b>42,8%</b>	<b>42,7%</b>	<b>43,5%</b>	<b>43,8%</b>	<b>43,7%</b>	<b>43,9%</b>	<b>43,2%</b>	<b>43,0%</b>
Current revenue	39,4%	41,5%	41,1%	44,0%	43,6%	43,0%	42,3%	42,3%	43,1%	43,2%	43,1%	42,9%	42,7%	42,5%
Current taxes on income and wealth	8,5%	9,5%	9,0%	11,4%	11,0%	10,9%	10,2%	10,1%	10,4%	10,2%	10,1%	10,0%	10,0%	9,9%
Taxes on production and imports	13,2%	13,9%	13,9%	13,7%	14,2%	14,5%	14,7%	14,9%	15,3%	15,3%	15,2%	15,2%	15,1%	15,0%
Social contributions	11,9%	12,0%	11,4%	12,0%	11,8%	11,6%	11,6%	11,7%	11,8%	11,9%	12,0%	12,0%	12,0%	12,0%
Other revenue	5,8%	6,2%	6,9%	6,8%	6,6%	6,1%	5,8%	5,6%	5,6%	5,8%	5,7%	5,7%	5,6%	5,6%
Capital revenue	1,3%	1,1%	1,8%	1,1%	1,0%	0,8%	0,6%	0,4%	0,4%	0,6%	0,6%	1,0%	0,5%	0,5%
<b>Total expenditure excl CGD</b>	<b>51,8%</b>	<b>50,0%</b>	<b>48,5%</b>	<b>49,9%</b>	<b>51,8%</b>	<b>48,2%</b>	<b>44,8%</b>	<b>43,6%</b>	<b>44,0%</b>	<b>43,9%</b>	<b>43,4%</b>	<b>43,0%</b>	<b>42,6%</b>	<b>42,4%</b>
Current expenditure	44,6%	45,6%	45,3%	46,8%	45,6%	43,9%	42,9%	41,3%	40,8%	40,7%	40,3%	39,8%	39,5%	39,3%
Social benefits	18,6%	18,9%	19,6%	20,4%	19,7%	19,3%	18,9%	18,3%	18,2%	18,3%	18,3%	18,2%	18,1%	18,0%
Compensation of employees	13,7%	12,8%	11,7%	12,5%	11,9%	11,3%	11,2%	10,9%	10,8%	10,8%	10,7%	10,6%	10,5%	10,4%
Interest (EDP)	2,9%	4,3%	4,9%	4,9%	4,9%	4,6%	4,2%	3,8%	3,5%	3,3%	3,0%	2,9%	2,7%	2,7%
Intermediate consumption	5,9%	6,0%	5,8%	5,6%	5,7%	5,6%	5,5%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%
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%	0,4%
Other current expenditure	2,8%	2,9%	2,7%	2,7%	2,7%	2,6%	2,5%	2,3%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%
Capital expenditure excl CGD	7,2%	4,4%	3,3%	3,2%	6,2%	4,3%	1,9%	2,4%	3,2%	3,2%	3,1%	3,2%	3,1%	3,1%
Gross fixed capital formation	5,3%	3,5%	2,5%	2,2%	2,0%	2,2%	1,5%	1,8%	2,0%	2,1%	2,3%	2,5%	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%	1,2%	1,1%	0,7%	0,6%	0,5%	0,5%
<b>Overall balance excl CGD</b>	<b>-11,2%</b>	<b>-7,4%</b>	<b>-5,7%</b>	<b>-4,8%</b>	<b>-7,2%</b>	<b>-4,4%</b>	<b>-2,0%</b>	<b>-0,9%</b>	<b>-0,5%</b>	<b>-0,2%</b>	<b>0,3%</b>	<b>0,9%</b>	<b>0,7%</b>	<b>0,7%</b>
<i>Memo items</i>														
Primary expenditure excl CGD	48,9%	45,7%	43,6%	45,1%	46,9%	43,6%	40,6%	39,8%	40,5%	40,7%	40,3%	40,2%	39,9%	39,7%
Primary balance excl CGD	-8,2%	-3,1%	-0,8%	0,0%	-2,3%	0,2%	2,2%	2,9%	3,0%	3,1%	3,3%	3,8%	3,4%	3,4%
<b>Overall balance</b>	<b>-11,2%</b>	<b>-7,4%</b>	<b>-5,7%</b>	<b>-4,8%</b>	<b>-7,2%</b>	<b>-4,4%</b>	<b>-2,0%</b>	<b>-3,0%</b>	<b>-0,5%</b>	<b>-0,2%</b>	<b>0,3%</b>	<b>0,9%</b>	<b>0,7%</b>	<b>0,7%</b>
<b>Primary balance</b>	<b>-8,2%</b>	<b>-3,1%</b>	<b>-0,8%</b>	<b>0,0%</b>	<b>-2,3%</b>	<b>0,2%</b>	<b>2,2%</b>	<b>0,9%</b>	<b>3,0%</b>	<b>3,1%</b>	<b>3,3%</b>	<b>3,8%</b>	<b>3,4%</b>	<b>3,4%</b>

## Public debt to decline

Public debt downward trend ...

[Maastricht debt, % GDP]



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

### Decomposition of public debt dynamics

[pp GDP]

YEAR	2017	2018	2019 P	2020-23 P
Maastricht debt (% GDP)	124.8	121.5	118.6	99.6
Change (pp GDP)	-4.5	-3.3	-2.9	-19.0
Primary balance effect	-0.9	-3.0	-3.1	-13.8
Snowball effect	-1.6	-0.9	-0.7	-4.0
Interest costs	3.8	3.5	3.3	11.3
Nominal GDP	-5.4	-4.3	-4.0	-15.3
Other stock-flow adjustments	-2.0	0.6	1.0	-1.2

### Assumptions for public debt dynamics

YEAR	2017	2018	2019 P	2020-23 P
Real growth rate (yoY%)	2.8	2.1	1.9	2.0
GDP deflator (yoY%)	1.5	1.4	1.5	1.5
Overall balance (%GDP)	-3.0	-0.5	-0.2	0.6
Primary balance (%GDP)	0.9	3.0	3.1	3.5
Interest costs (%GDP)	3.8	3.5	3.3	2.8

Source: Ministry of Finance

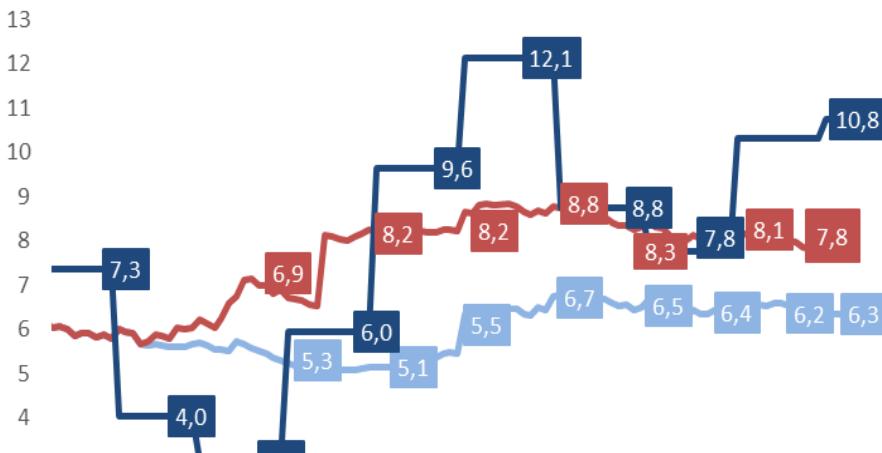


1. Economic revitalization
2. Stronger growth foundations
3. Private sector turnaround
4. Fiscal stabilization
- 5. Resilient public debt structure**
6. Improving market conditions

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

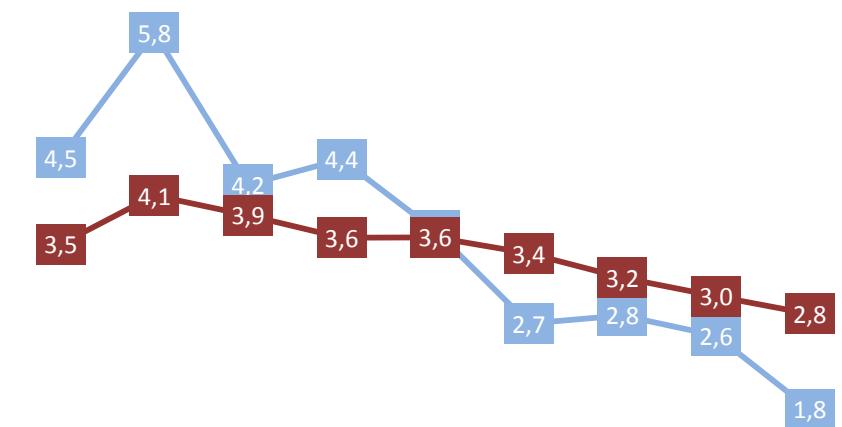
One of the longest average maturities ...

[Years]



... with a declining implicit interest rate

[%]



Average residual maturity excl EU-IMF loans

Average residual maturity

Average maturity of MLT debt issuance in each year

Cost of issuance per year

Cost of debt outstanding

Source: IGCP

Source: IGCP

## Prudent and stable funding plan

### State's borrowing needs and sources 2017-2023

[EUR billion]

	2017	2018 E	2019 P	2020 P	2021 P	2022 P	2023 P
<b>State borrowing requirements</b>	<b>28,3</b>	<b>20,6</b>	<b>18,1</b>	<b>13,5</b>	<b>19,1</b>	<b>18,1</b>	<b>15,3</b>
<b>Net financing needs</b>	<b>10,4</b>	<b>7,6</b>	<b>10,0</b>	<b>5,2</b>	<b>4,2</b>	<b>3,3</b>	<b>3,2</b>
Overall deficit <sup>(a)</sup>	4,8	3,6	4,4	1,8	0,9	1,8	2,1
Net acquisitions of financial assets <sup>(b)</sup>	5,2	4,0	5,6	3,4	3,3	1,4	1,1
One-off operations <sup>(c)</sup>	0,4						
<b>MLT Redemptions</b>	<b>17,9</b>	<b>13,0</b>	<b>8,0</b>	<b>8,3</b>	<b>14,9</b>	<b>14,9</b>	<b>12,1</b>
Tbonds (PGB + MTN) <sup>(d)</sup>	7,9	7,5	8,0	8,3	11,4	11,4	12,1
FRN/OTRV					3,5	3,5	
EU/IMF (executed)	10,0	5,5					
<b>State financing sources</b>	<b>28,3</b>	<b>20,6</b>	<b>18,1</b>	<b>13,5</b>	<b>19,1</b>	<b>18,1</b>	<b>15,3</b>
<b>Use of deposits</b>	<b>0,4</b>	<b>0,5</b>	<b>0,1</b>	<b>0,0</b>	<b>3,2</b>	<b>1,6</b>	<b>0,0</b>
<b>Financing in the year</b>	<b>27,9</b>	<b>20,1</b>	<b>18,0</b>	<b>13,5</b>	<b>15,8</b>	<b>16,6</b>	<b>15,3</b>
<b>Executed</b>	<b>27,9</b>	<b>20,1</b>	<b>11,6</b>				
Tbonds (PGB + MTN)	15,1	16,4	10,8				
FRN/OTRV	3,5	1,0					
Retail debt (net)	2,8	1,3					
Tbills (net)	0,3	-1,8	0,8				
Other flows (net) <sup>(e)</sup>	6,2	3,1					
<b>To be executed</b>			<b>6,4</b>	<b>13,5</b>	<b>15,8</b>	<b>16,6</b>	<b>15,3</b>
Tbonds (PGB + MTN)			4,8				
FRN/OTRV			1,0				
Retail debt (net)			0,4				
Tbills (net)			0,0				
Other flows (net) <sup>(e)</sup>			0,2				
<b>State Treasury cash position at year-end <sup>(f)</sup></b>	<b>9,8</b>	<b>9,3</b>	<b>9,3</b>	<b>9,3</b>	<b>6,0</b>	<b>4,5</b>	<b>4,5</b>

<sup>(a)</sup> State sub-sector cash deficit in 2017-19. Projection for GG deficit (adjusted) in 2020-23 (Stability Programme, Apr 2019).

<sup>(b)</sup> Includes refinancing of other public entities (namely SOEs), as well as the direct capitalization of CGD and redemption of CoCos in 2017, and

<sup>(c)</sup> Includes other operations that impact net financing needs (e.g. bank recapitalization in 2012-2013, privatization revenues)

<sup>(d)</sup> Includes net impact of exchange offers.

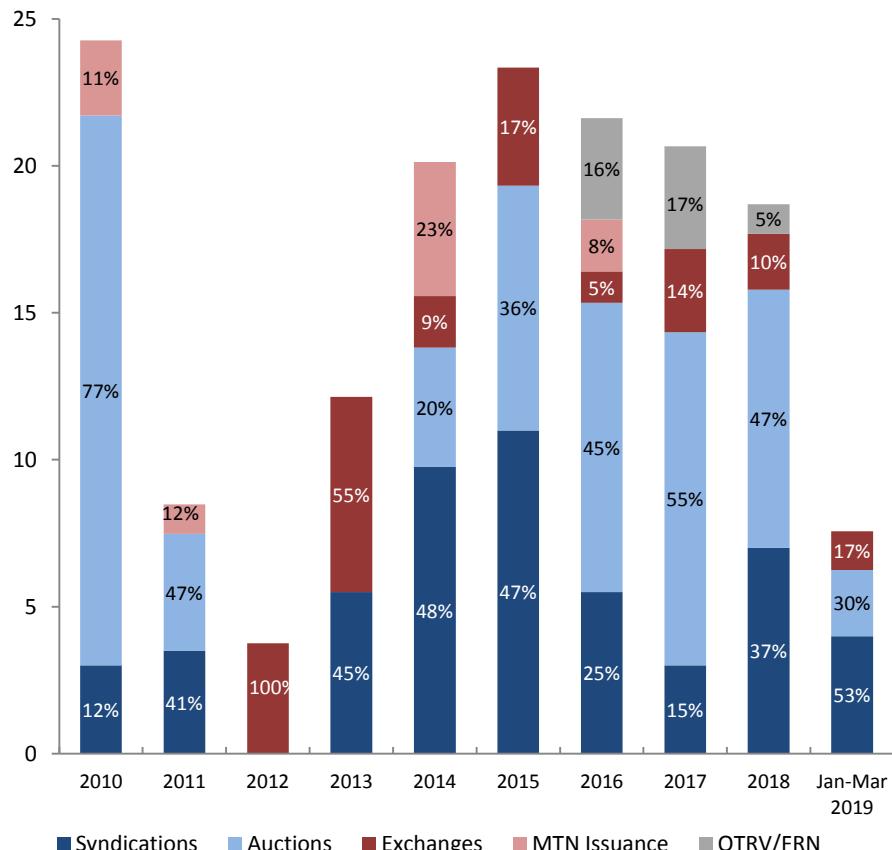
<sup>(e)</sup> Includes centralization of funds of other public entities in the Single Treasury Account.

<sup>(f)</sup> Excluding cash-collateral.

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

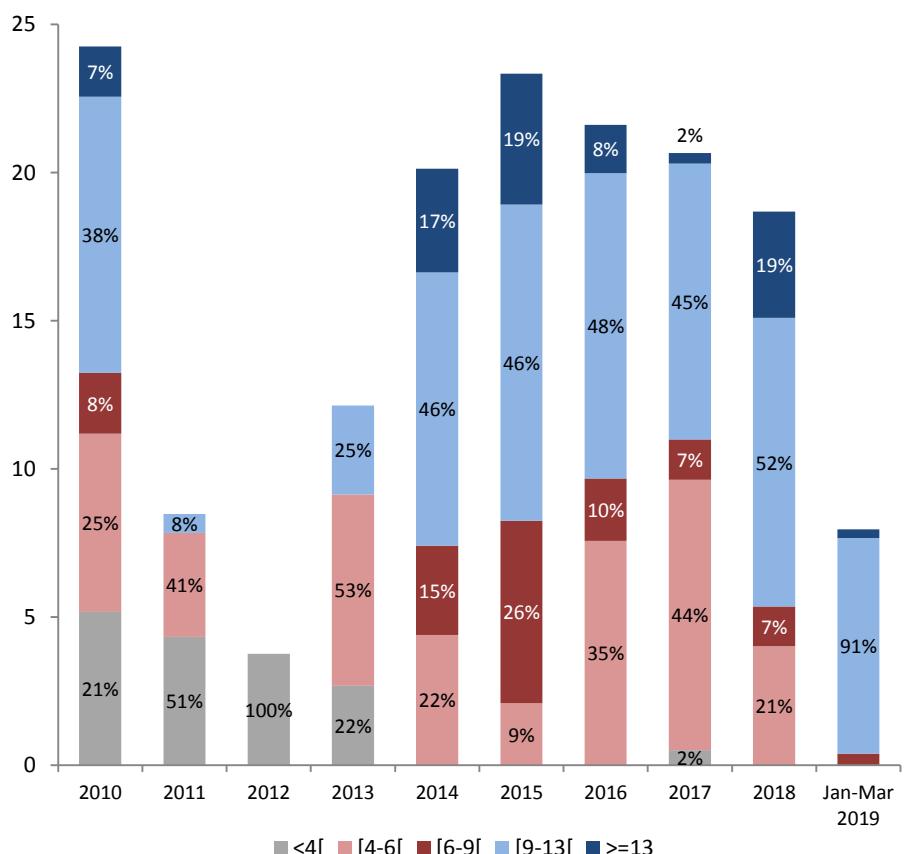
### Auctions regain the main role in the annual funding plan

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



### Supporting liquidity in different points of the curve

[MLT debt issuance per bucket; EUR billion]



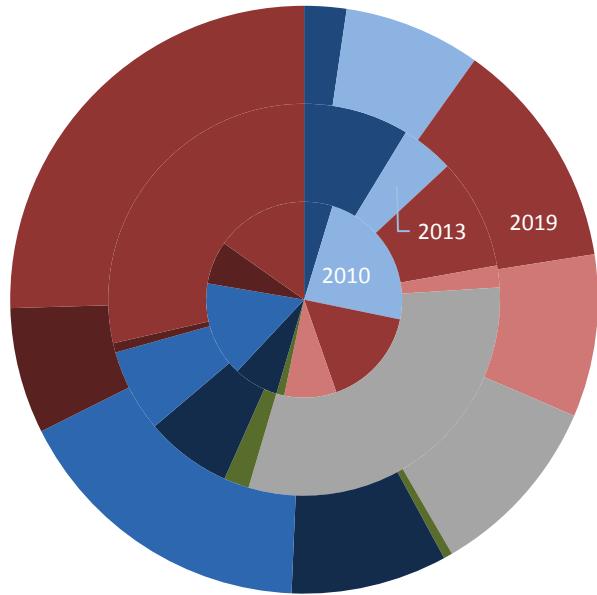
Source: IGCP

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

### Progressively regaining traditional investors

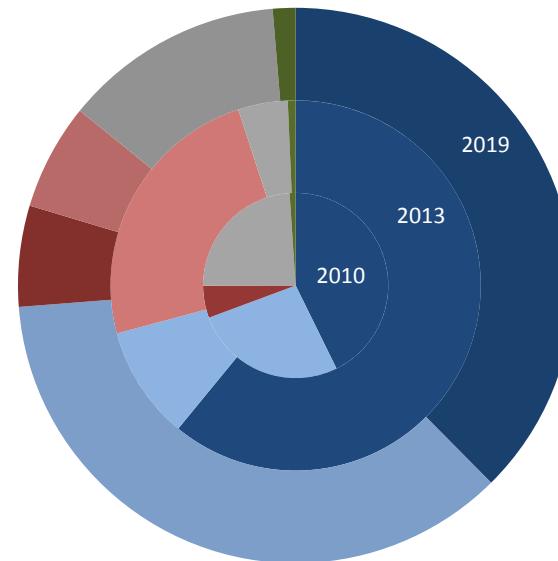
[Distribution by geography and investor type of 10-year syndications from 2010 to 2019]

Distribution by Geography



- Asia
- France
- Germany/Austria/Switzerland
- Nordics
- North America
- Other
- Other EU
- Portugal
- Spain
- UK

Distribution by Investor Type



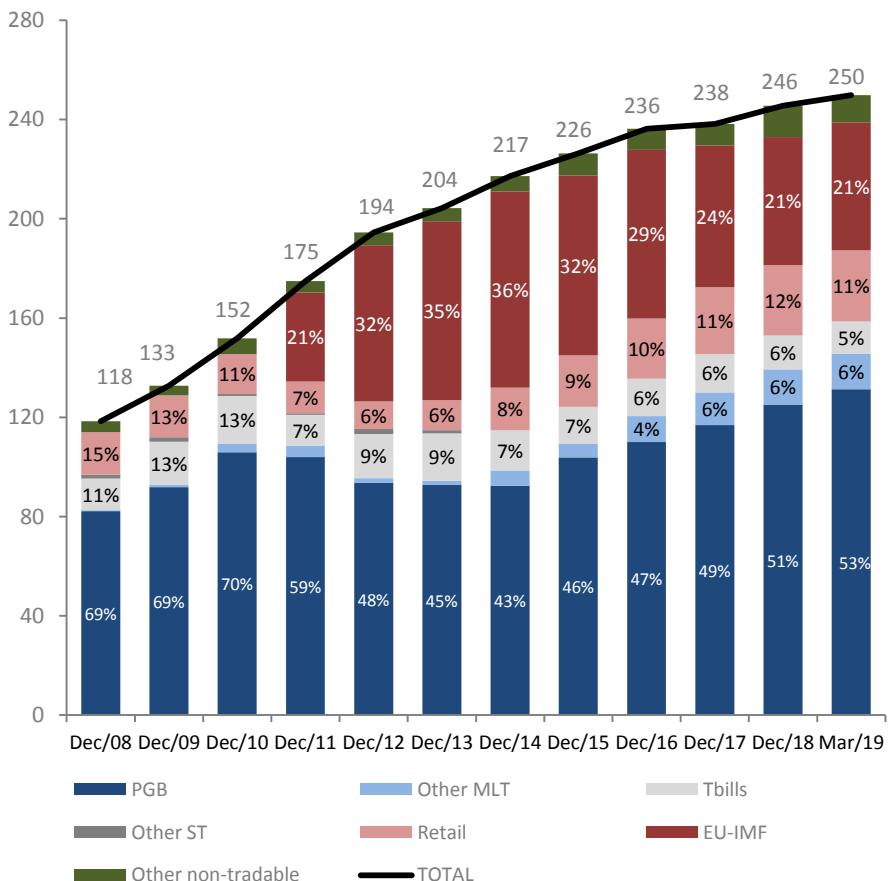
- Asset Managers
- Banks
- Official Institutions
- Hedge Funds
- Insurance / Pension Funds
- Others

Source: IGCP

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

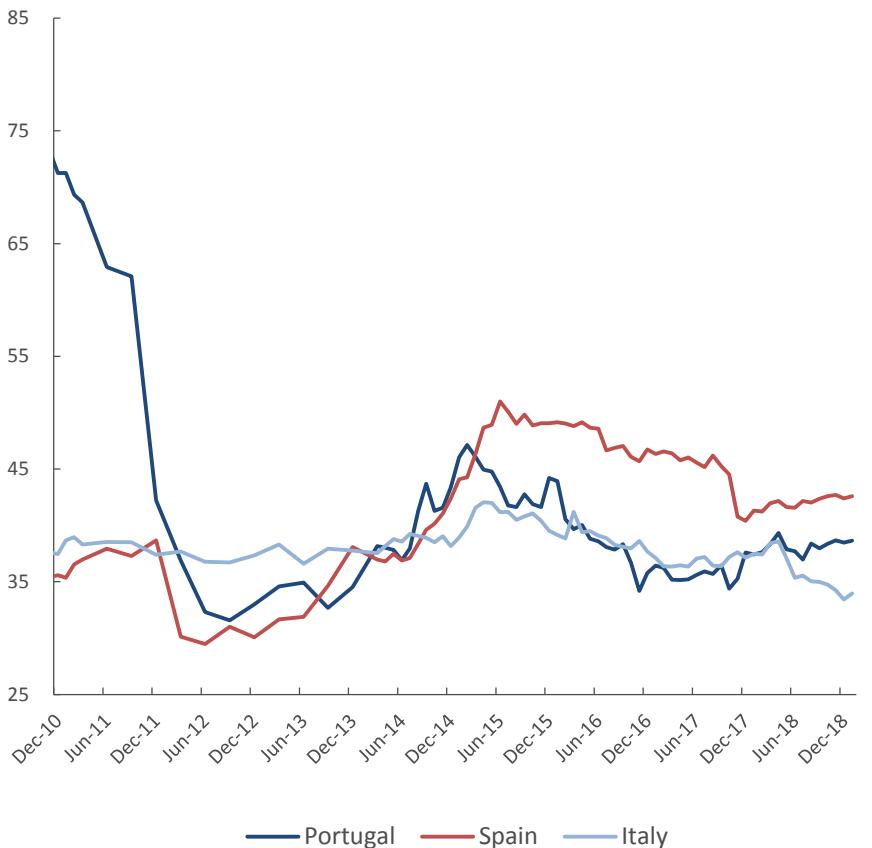
### More diversified public debt composition

[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

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	4,571	5,515
<b>TOTAL</b>	<b>22,942</b>	<b>28,472</b>

IGCP is actively buying back off-the-run PGBs

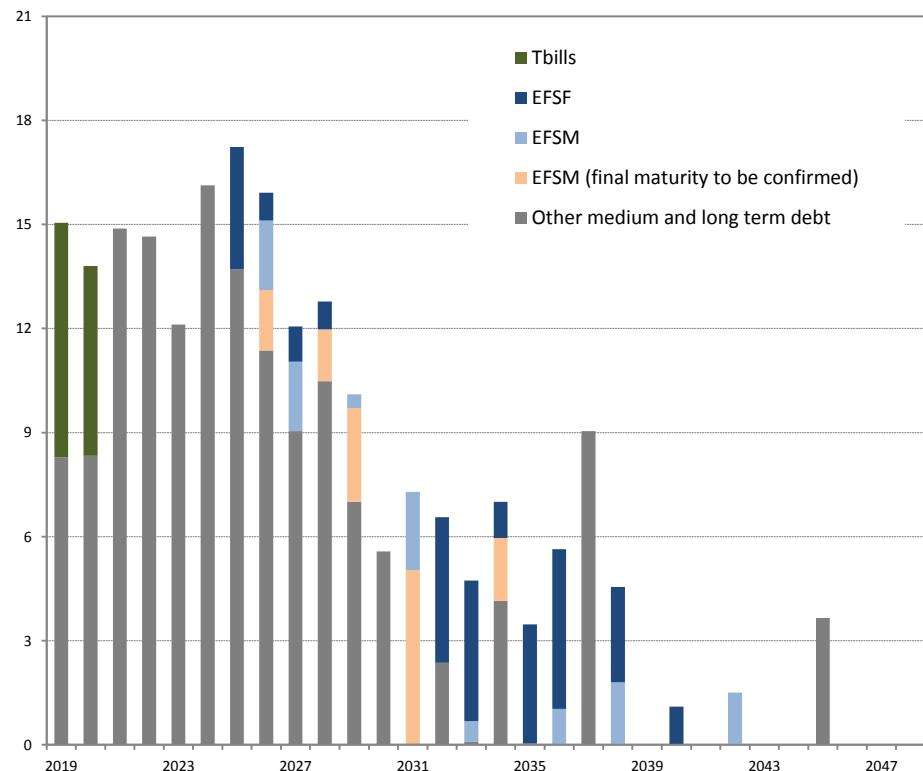
[PGB buybacks, 2018 and 2019]

Security	Outright buyback (EUR million)	Exchange (EUR million)
OT Jun 2019	778	-
OT Jun 2020	-	1,036
OT Apr 2021	100	870
OT Oct 2023	-	-341
OT Apr 2027		-1,565
<b>TOTAL 2018</b>	<b>878</b>	-
OT Jun 2020	-	702
OT Apr 2021	-	1361
OT Jul 2026	-	-742
OT Oct 2028	-	-619
OT Feb 2030	-	-702
<b>TOTAL 2019</b>	<b>-</b>	<b>-</b>

Source: IGCP

Maturity profile spread over a long time span

[Redemption calendar debt; May-2019+ rollover EFSM; EUR billion]



Source: IGCP

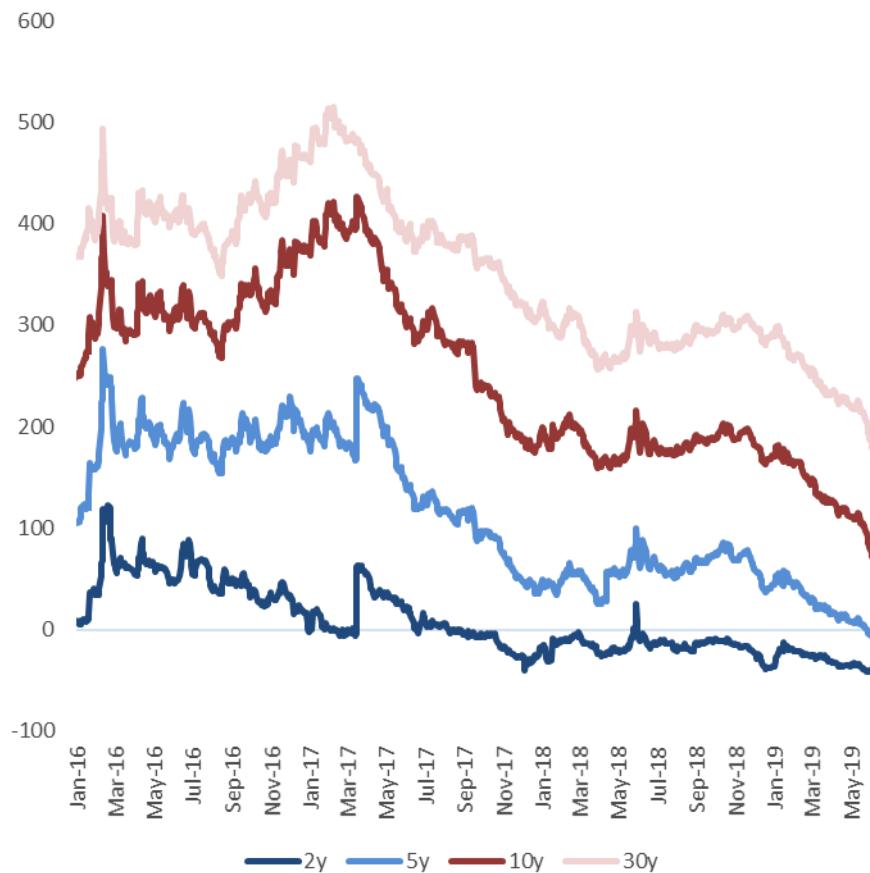
(\* ) Exact final maturity date of each EFSM individual loan will be defined when the original loans are rolled over (IGCP simulation in orange), but it is not expected that Portugal will have to refinance any of its EFSM loans before 2026.

- 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

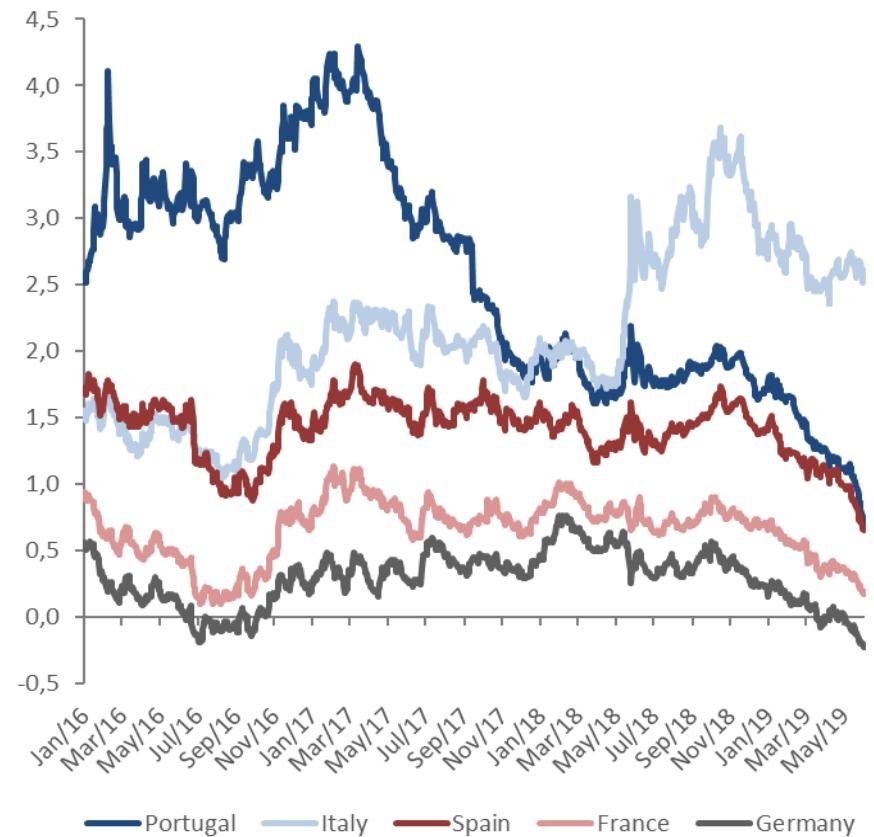
Portuguese yields declined sharply in all maturities...

[Secondary market yields, %]



...prompting a convergence with other EA issuers

[10-yr secondary market yields, %]



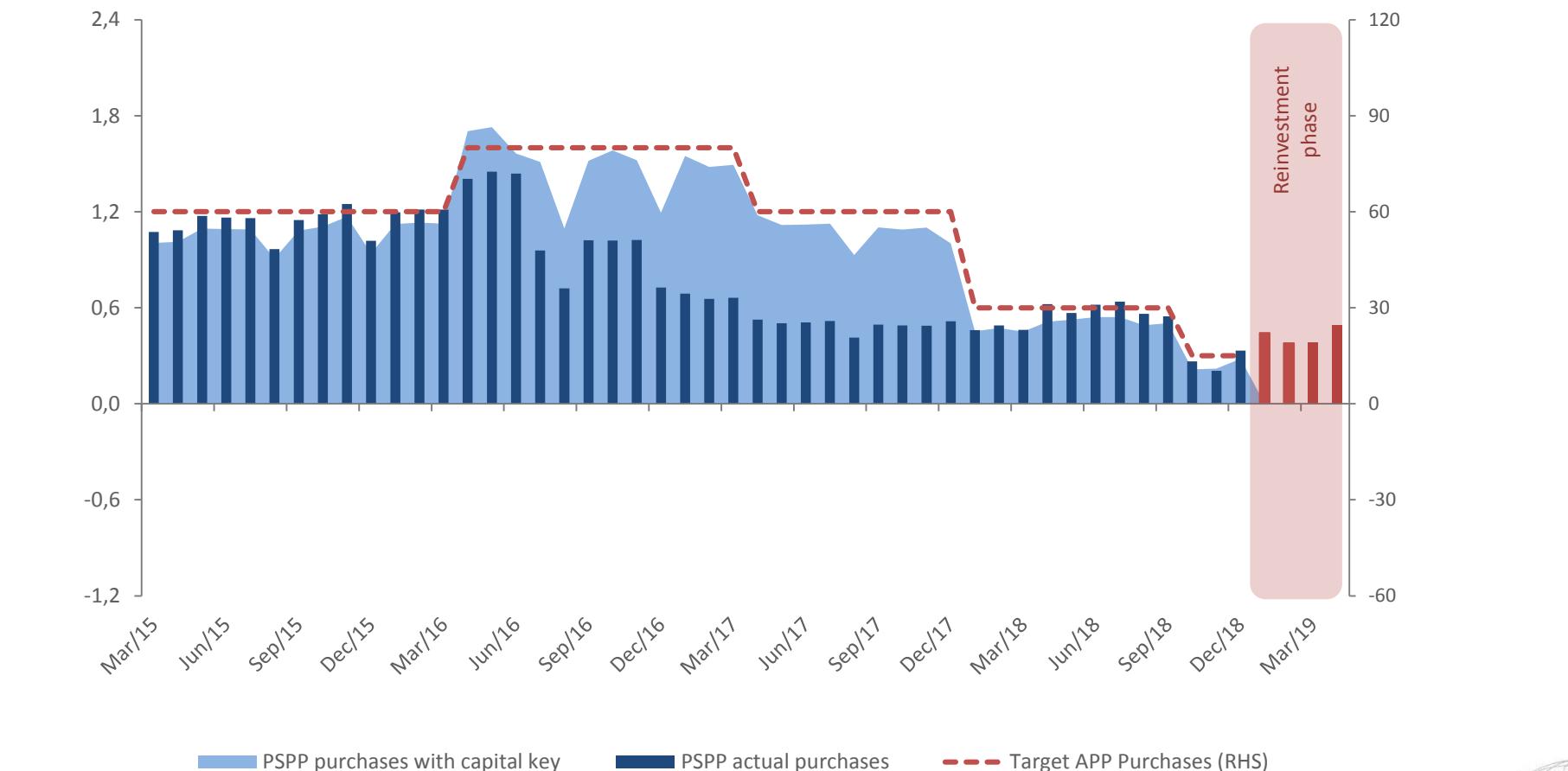
Source: Bloomberg

Source: Bloomberg

**ECB will continue reinvesting in full the principal payments from maturing securities aiming to maintain the size of its cumulative net purchases under each constituent programme**

### ECB PGB purchases under PSPP

[EUR billion]

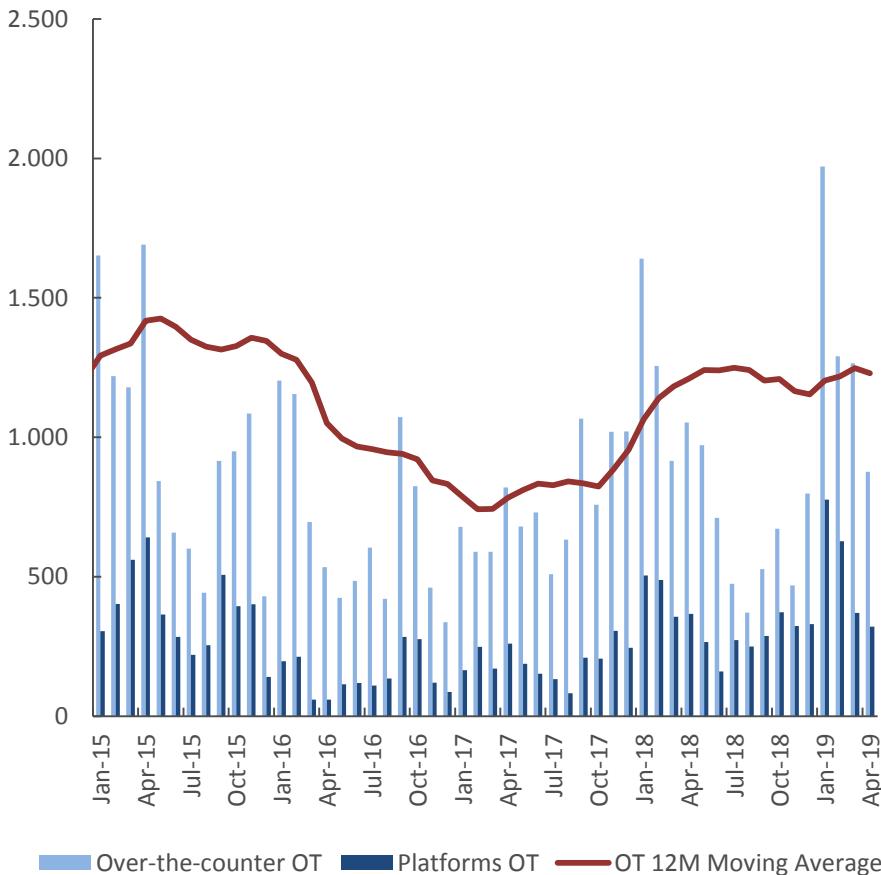


Source: ECB

## Average daily turnover stabilized and bid-offer spreads improved significantly

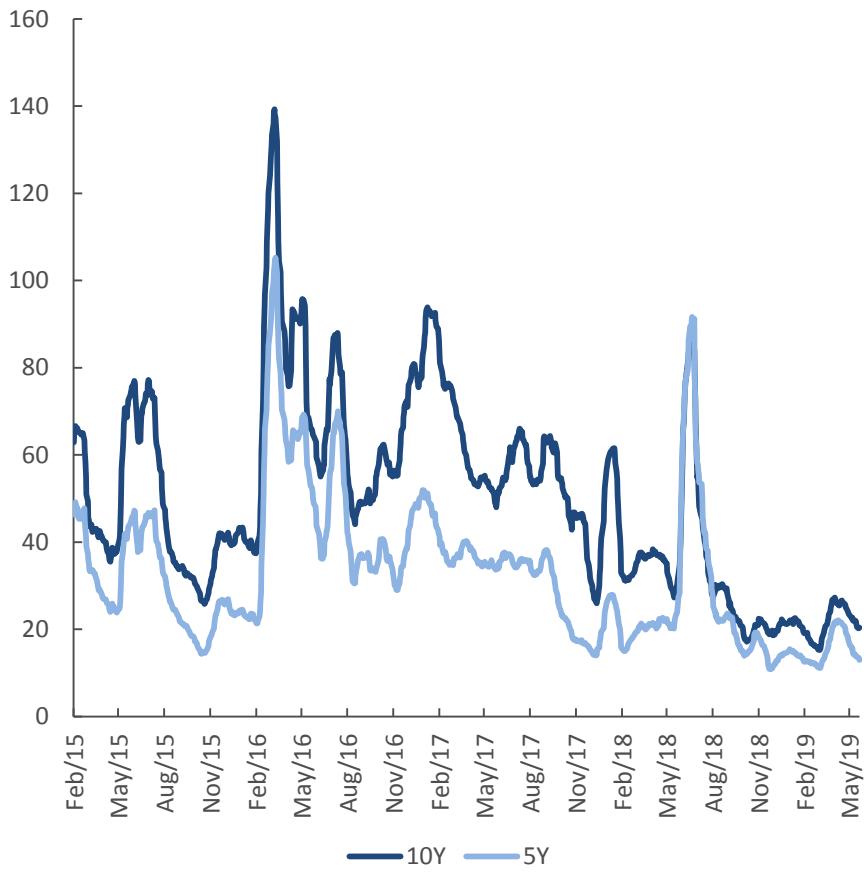
Average daily turnover stabilized...

[EUR million]



... while bid-offer spreads improved significantly

[price ticks; 1M moving average]



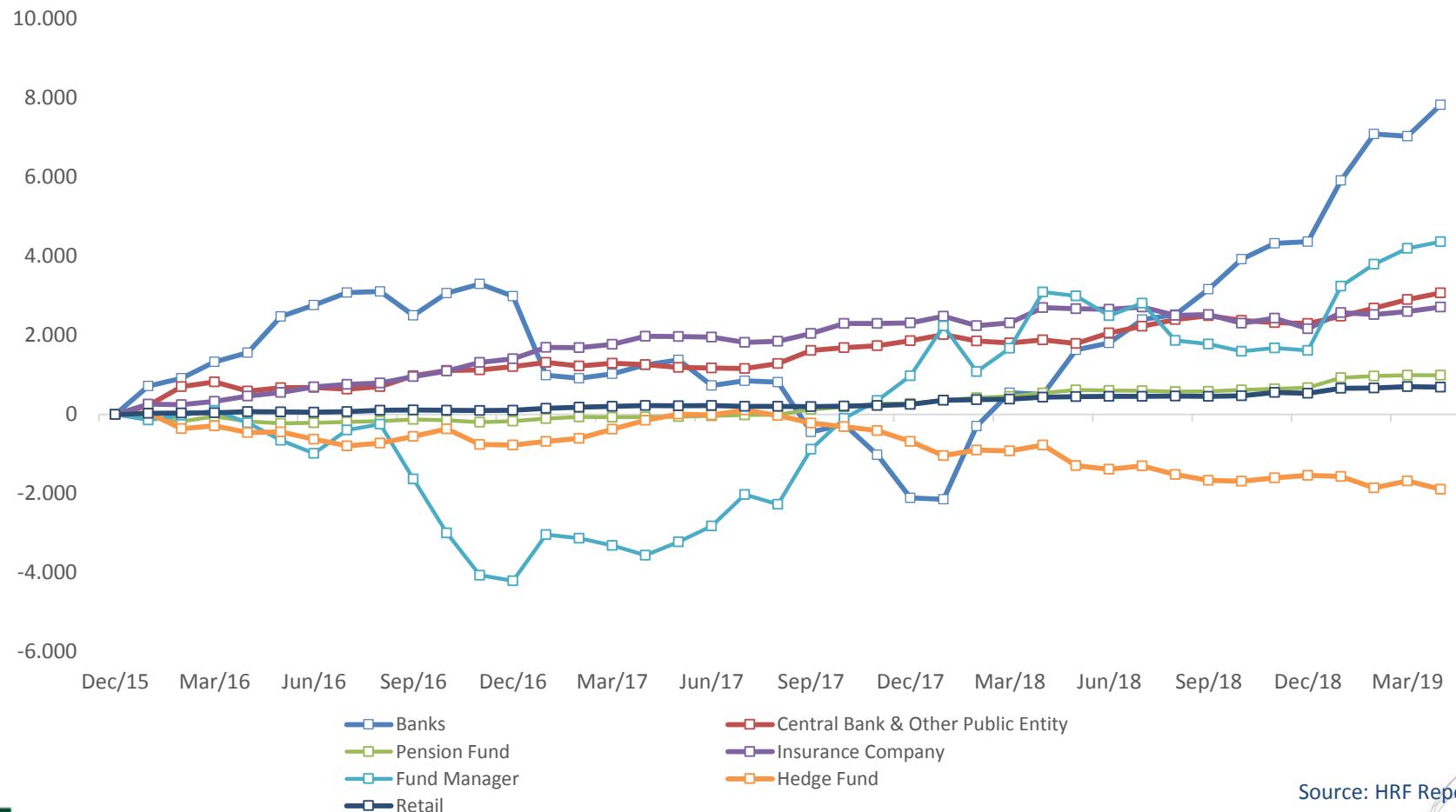
Source: IGCP

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 market, while other EU net flows have been positive since mid-2017

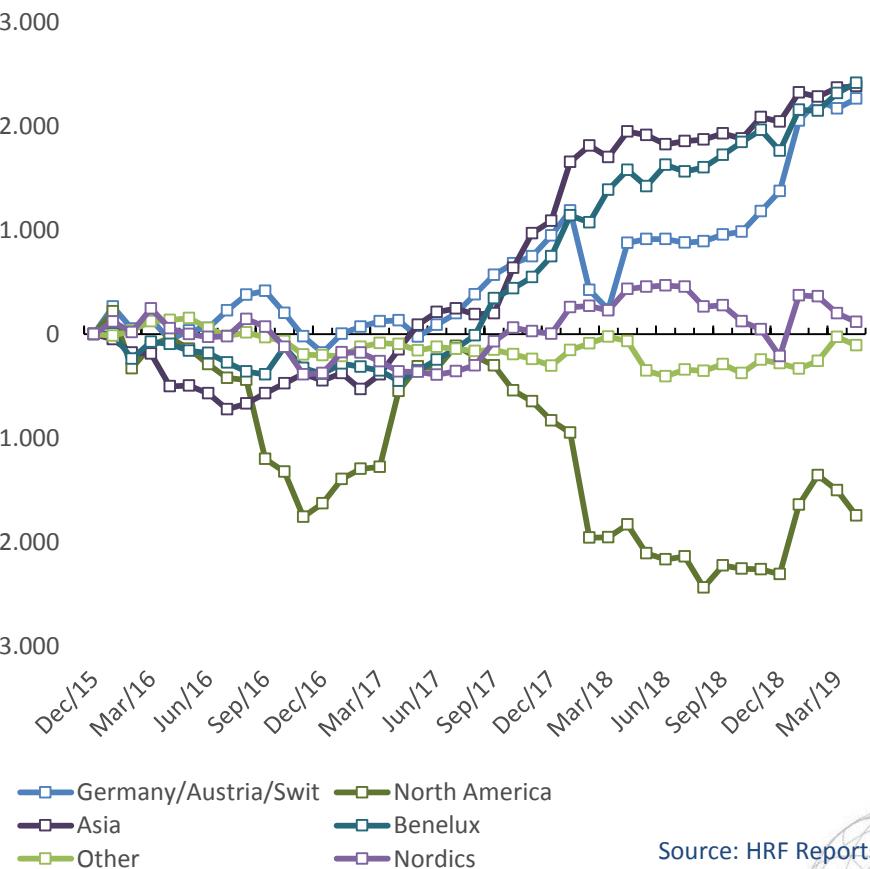
## Net flows of end-investors by region (top 5)

[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]

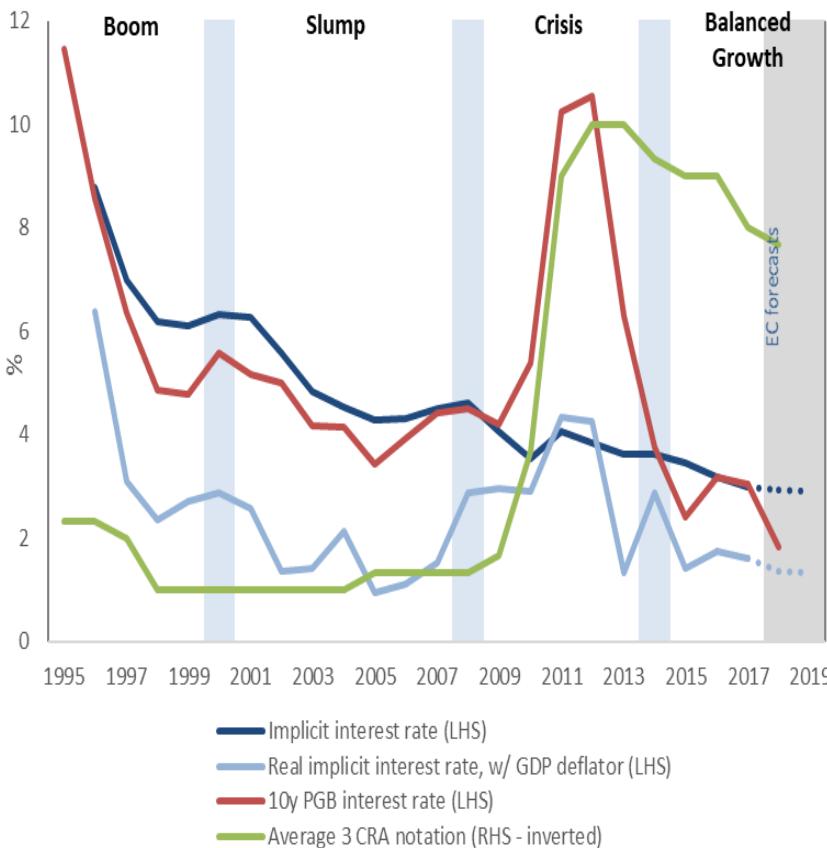


Source: HRF Reports

# 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 2019]

	DBRS BBB / Pos.	Fitch BBB / Pos.	Moody's Baa3 / Sta.	S&P BBB / Sta.
Aug-2019			9/08	
Sep-2019				13/09
Oct-2019	4/10			
Nov-2019		22/11		

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

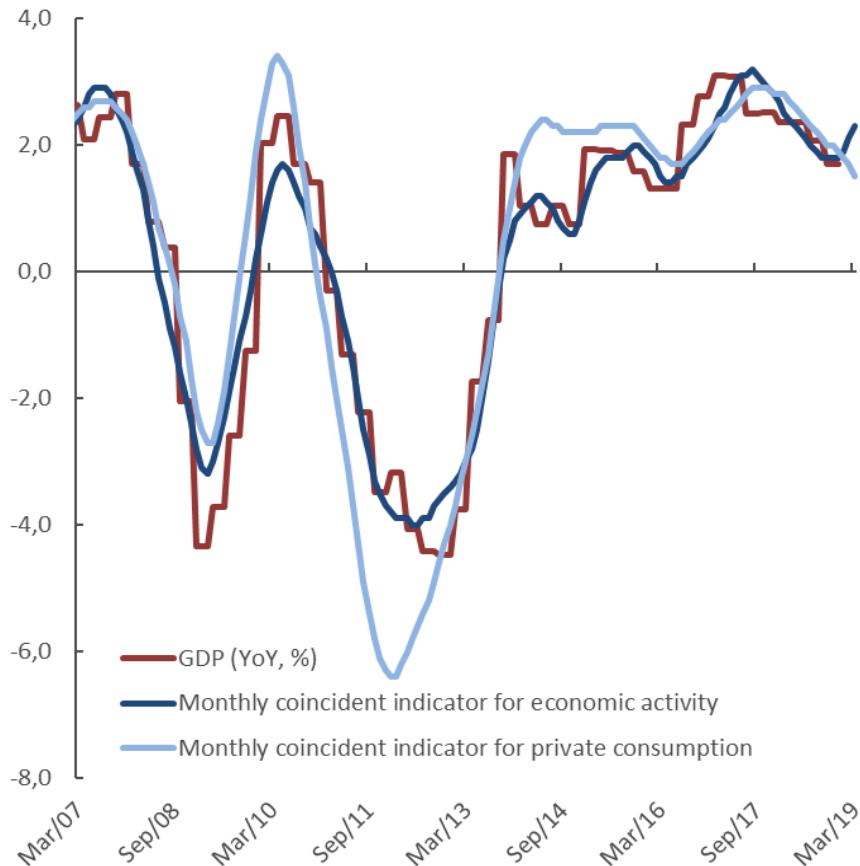
## Appendix

- 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 volatility and deceleration

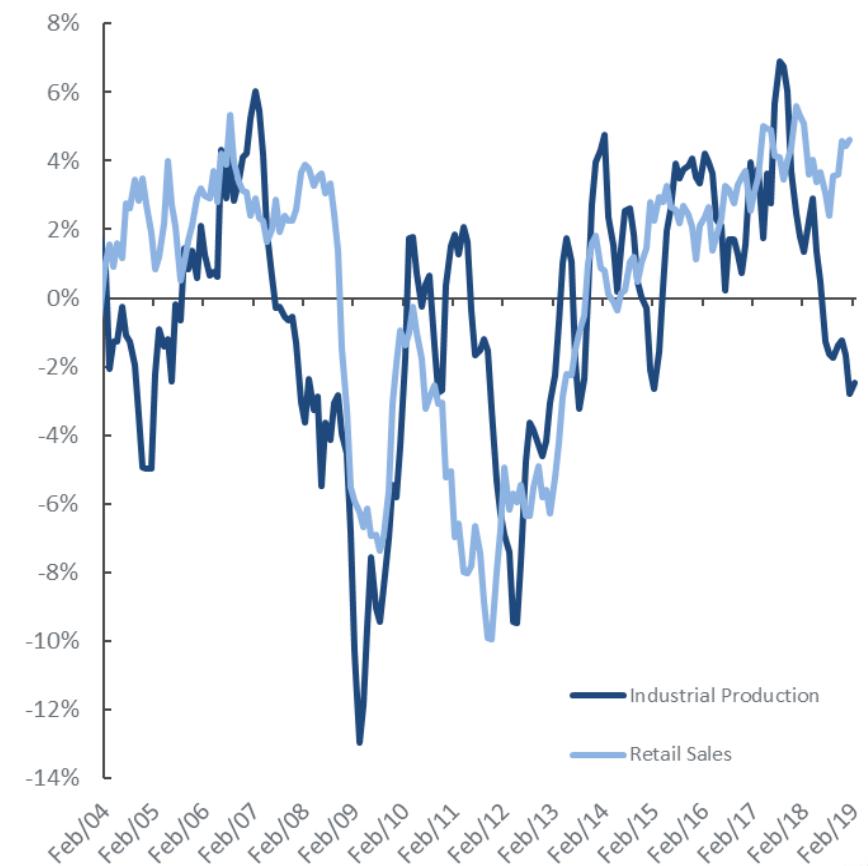
Coincident indicators and real GDP

[yoY %]



Retail sales and Industrial production

[3 month average, YoY%]



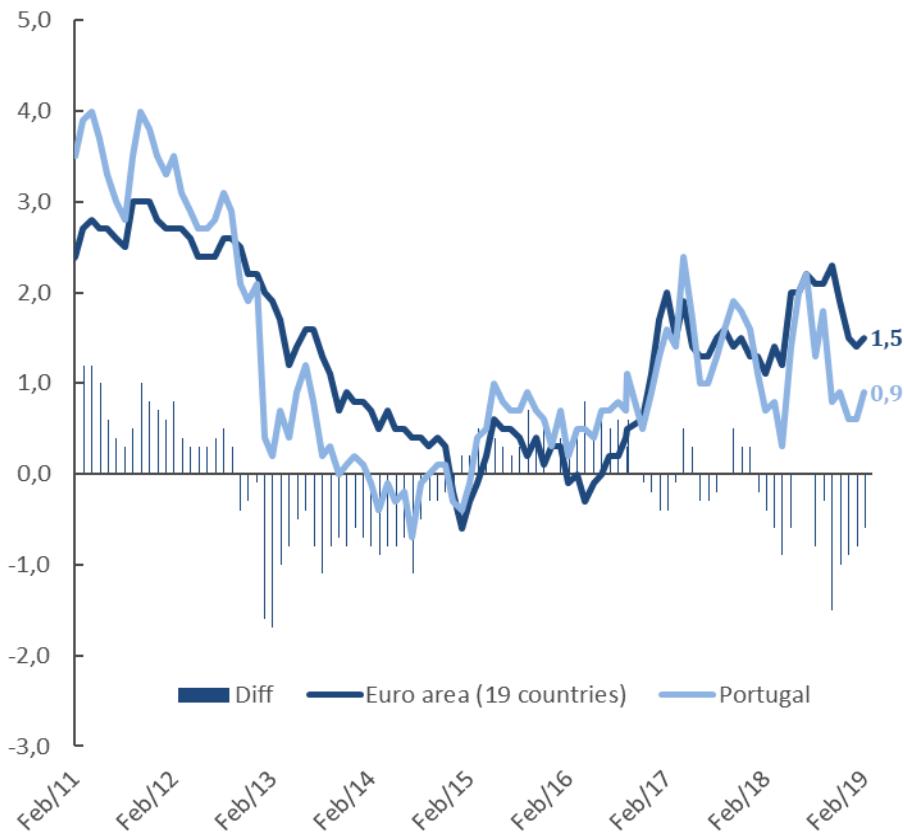
Source: Banco de Portugal, Statistics Portugal

Source: Statistics Portugal

## Both headline and core inflation in Portugal are below that of the Euro Area

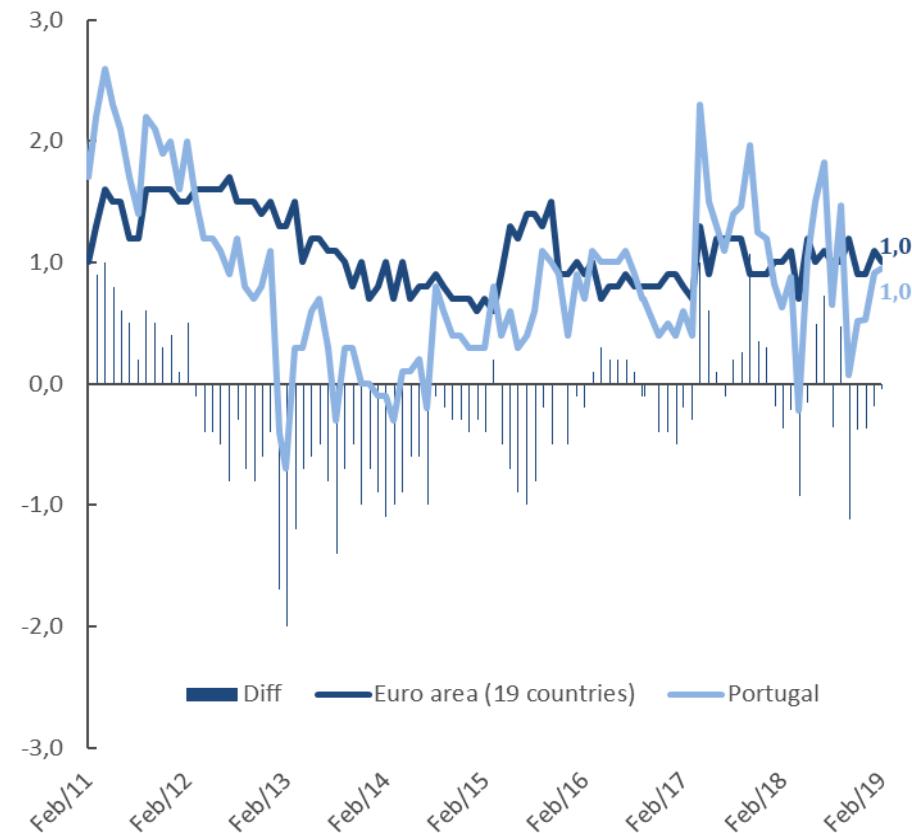
HICP

[Year-on-year growth, %]



Core HICP

[Year-on-year growth; %]



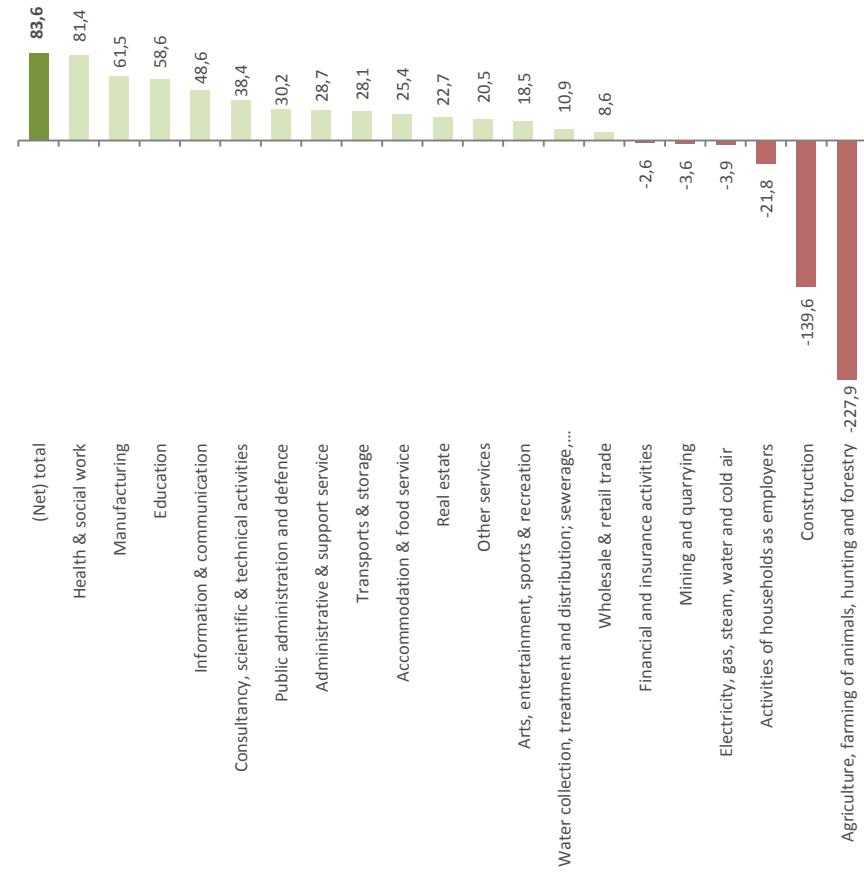
Source: Eurostat

Source: Eurostat

## Broad economic recovery

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

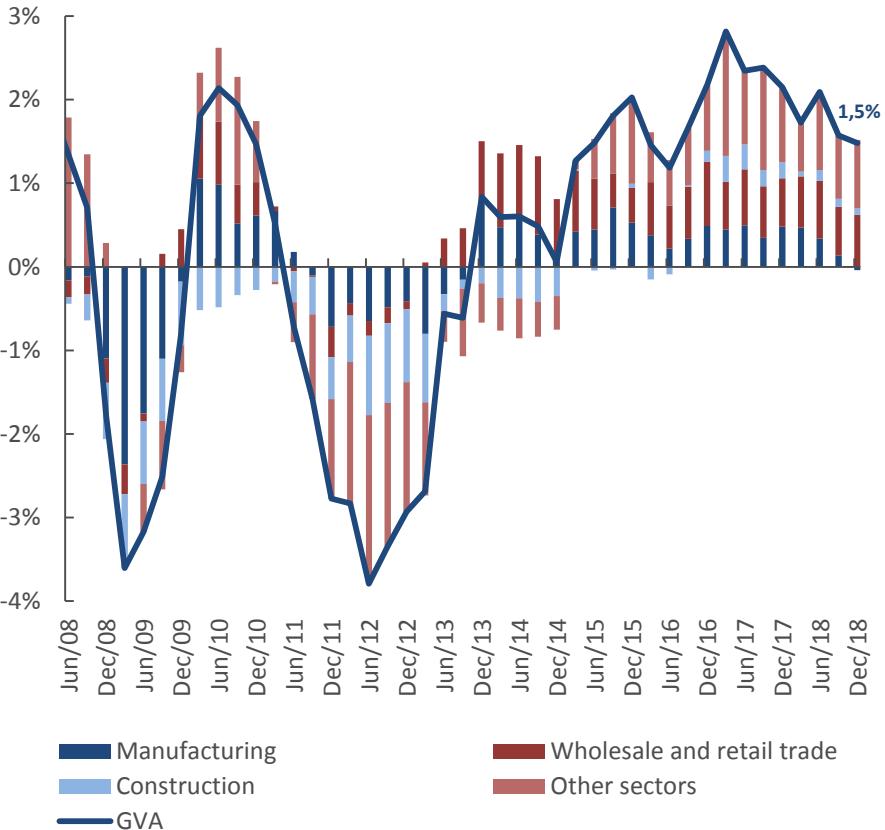
[Employment change vs. level in Jun-2011, thousands]



Source: Statistics Portugal

... cross-cut recovery in sectoral terms

[GVA YoY% and pp]

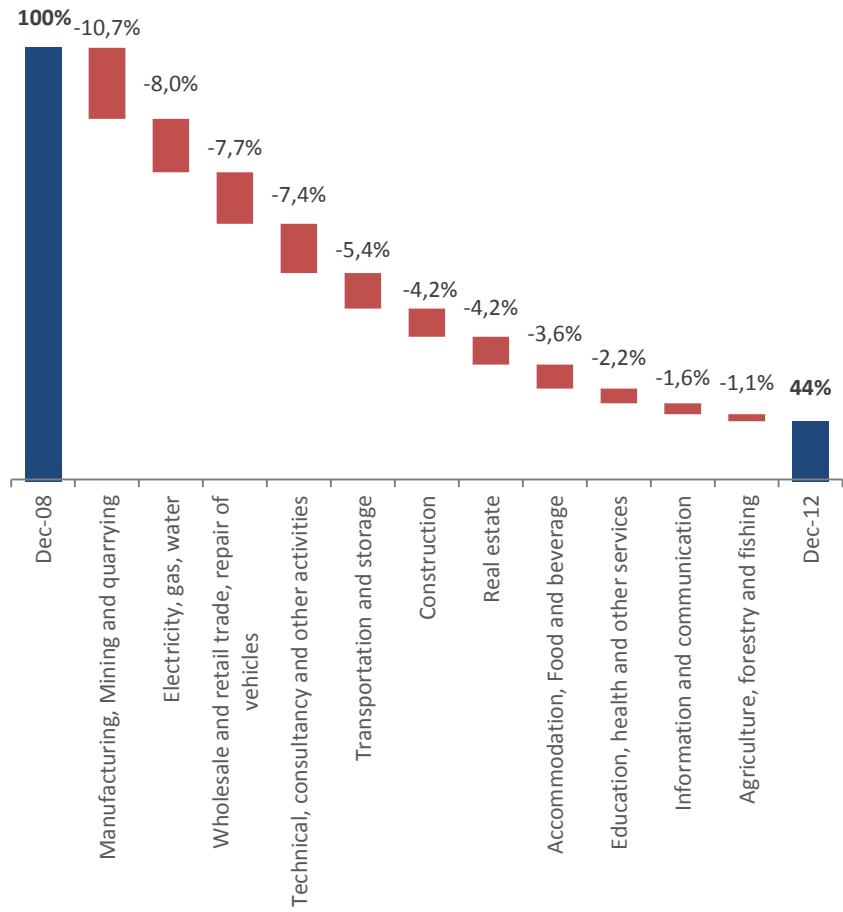


Source: Statistics Portugal

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

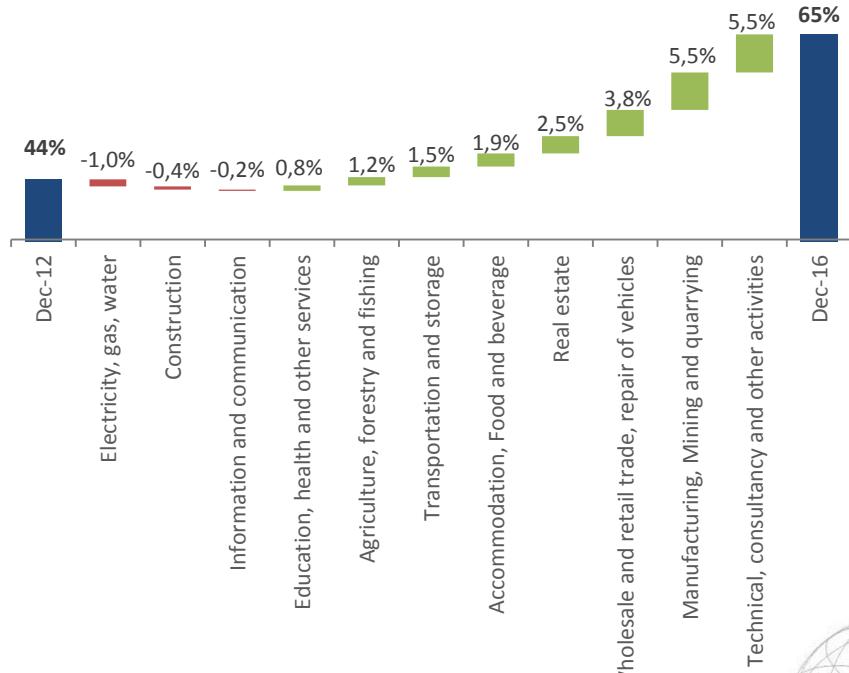
NFC investment declined sharply until 2012...

[GFCF; current prices; 100=2008]



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

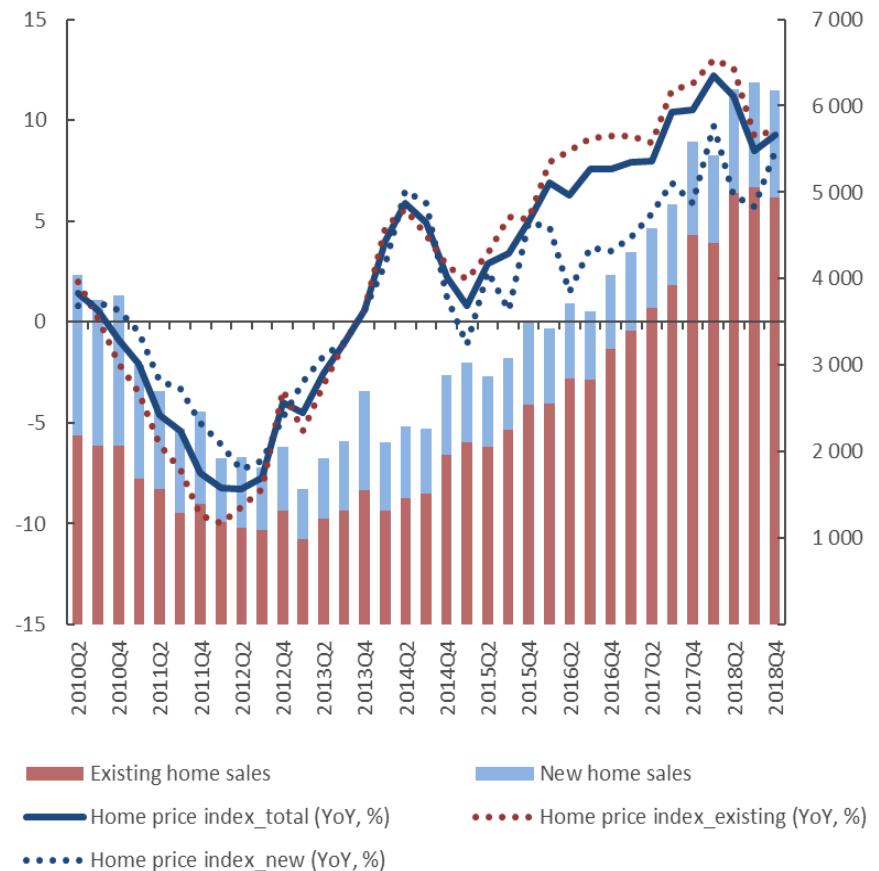
[GFCF; current prices; 100=2008]



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

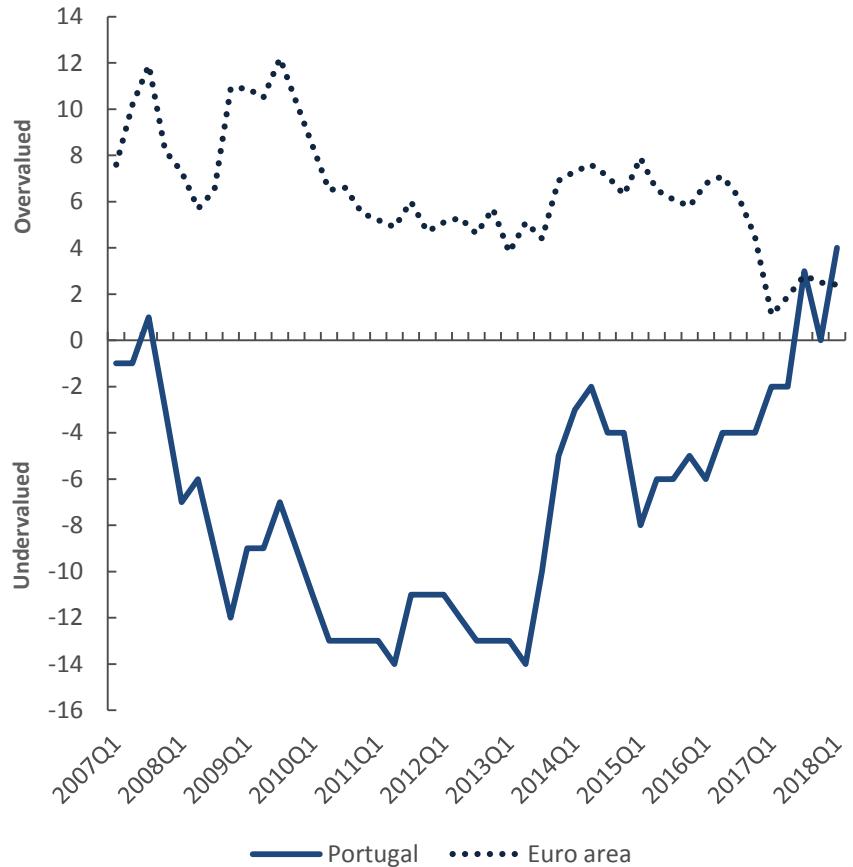
Prices reflect the increase in demand

[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 account, % GDP: 4QMA]



... leading to improvement in NIIP

[Net International Investment Position, % GDP]



Source: Eurostat

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 2018]

												Others	WORLD
Elec. and Mec. Machinery	1,91	1,50	3,38	1,26	0,52	0,39	0,29	0,65	0,29	0,12	4,01		14,3
Vehicles and parts, Aircraft	3,24	2,64	2,41	1,19	0,21	0,93	0,26	0,06	0,29	0,24	2,69		14,2
Textile Products	2,92	1,14	0,77	0,69	0,56	0,57	0,38	0,06	0,18	0,02	1,86		9,2
Mineral products	2,15	0,17	0,06	0,08	1,29	0,09	0,48	0,04	0,22	0,09	3,67		8,3
Base Metals	2,87	1,33	0,60	0,53	0,28	0,09	0,17	0,24	0,16	0,05	1,64		7,9
Plastics and Rubber	2,23	0,88	0,91	0,38	0,25	0,29	0,43	0,16	0,22	0,05	1,52		7,3
Prep. Food, Beverages and Tobacco	1,59	0,64	0,18	0,39	0,21	0,50	0,14	0,29	0,15	0,12	1,44		5,6
Chemicals (incl. Pharma.)	1,07	0,32	0,52	0,37	0,29	0,14	0,21	0,31	0,28	0,03	1,40		4,9
Pulp of Wood and Paper	1,07	0,47	0,47	0,23	0,19	0,24	0,30	0,09	0,06	0,02	1,48		4,6
Footware	0,34	0,73	0,63	0,22	0,13	0,10	0,47	0,03	0,08	0,00	0,75		3,5
Others	5,95	2,86	1,54	1,01	1,04	0,94	0,68	0,69	0,34	0,66	4,34		20,0
TOTAL	25,3	12,7	11,5	6,3	5,0	4,3	3,8	2,6	2,3	1,4	24,8		100

Source: Statistics Portugal

# Exports growth based on geographical and sectoral contributors

## Major sector and country contributions

[YoY % and contributions, YTD 2018]

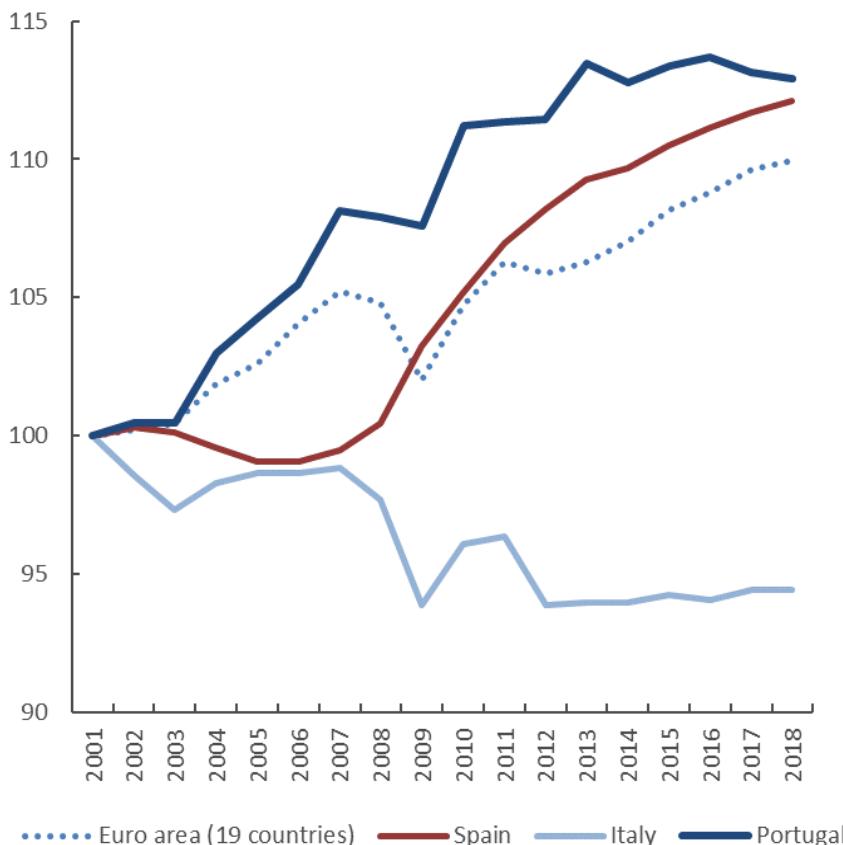
										Others	WORLD
<b>Vehicles and parts, Aircraft</b>	0,52%	0,57%	0,66%	0,39%	0,05%	0,12%	0,18%	-0,11%	0,00%	0,58%	<b>2,94%</b>
Optical / medical / precision instr.	0,03%	0,00%	0,00%	0,27%	0,03%	0,01%	-0,01%	0,00%	-0,01%	0,20%	<b>0,54%</b>
Base Metals	0,32%	0,00%	0,16%	0,05%	-0,06%	0,00%	0,03%	0,01%	-0,02%	0,02%	<b>0,50%</b>
Mineral products	0,36%	-0,10%	-0,10%	0,01%	0,10%	-0,12%	-0,03%	-0,16%	-0,01%	0,26%	<b>0,20%</b>
Textile Products	-0,13%	0,15%	0,01%	-0,01%	0,01%	0,04%	-0,03%	-0,01%	-0,02%	0,14%	<b>0,18%</b>
Prep. Food, Beverages and Tobacco	0,03%	0,25%	-0,08%	0,01%	0,00%	-0,04%	-0,02%	0,02%	-0,05%	0,04%	<b>0,16%</b>
Plastics and Rubber	0,06%	0,05%	0,01%	0,01%	-0,02%	-0,01%	0,00%	0,02%	-0,04%	0,06%	<b>0,14%</b>
Vegetable Products	0,12%	0,01%	-0,02%	0,01%	0,00%	0,03%	0,02%	-0,02%	-0,02%	0,04%	<b>0,17%</b>
Animal Products	0,04%	-0,02%	0,01%	0,00%	0,00%	0,00%	0,00%	0,01%	-0,03%	0,05%	<b>0,05%</b>
Manufactured Products	-0,05%	0,01%	0,04%	0,03%	-0,02%	-0,01%	0,00%	0,00%	-0,05%	0,04%	<b>-0,01%</b>
Footware	0,01%	0,00%	-0,03%	-0,04%	0,00%	-0,02%	0,00%	0,00%	-0,01%	0,00%	<b>-0,09%</b>
Others	0,20%	0,04%	0,15%	-0,01%	-0,04%	0,01%	-0,08%	-0,01%	-0,24%	0,45%	<b>0,49%</b>
<b>TOTAL</b>	<b>1,50%</b>	<b>0,96%</b>	<b>0,83%</b>	<b>0,71%</b>	<b>0,06%</b>	<b>0,00%</b>	<b>0,05%</b>	<b>-0,24%</b>	<b>-0,50%</b>	<b>1,89%</b>	<b>5,26%</b>

Source: Statistics Portugal

## Productivity gains leading to higher competitiveness

### Labor productivity: positive medium-term trend

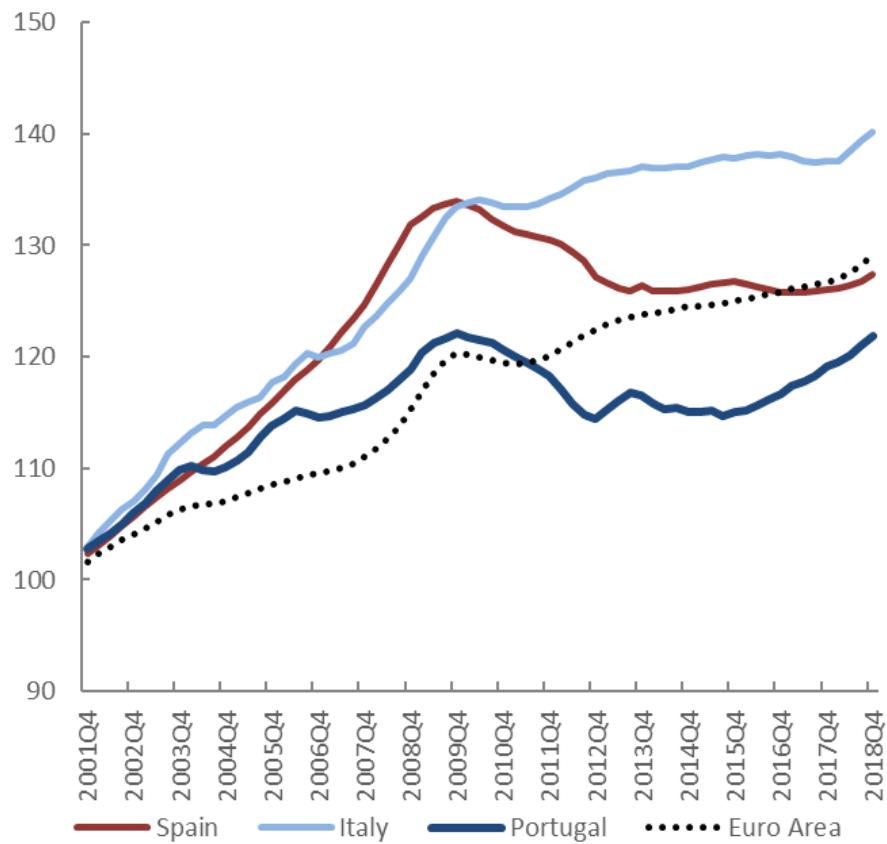
[2001 = 100]



Source: Eurostat

### ULC: down from a relatively modest competitive position

[2001 Q1 = 100; 12m MA]



Source: Eurostat

## Appendix

- 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 *Indústria 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

## Unemployment Benefits

Capped at:  
 26 months (38 months before)  
 2.5x IAS (3xIAS before) with 10% reduction after 6 months  
 Min. contribution period 12 months (15 before)  
 Extension to self employed <sup>(1)</sup>

## Severance Payment

12 days/year for new contracts;  
 18 days/year (old contracts first 3 years)  
 (30/36 days before)

Cap: 12 months

## Working time Arrangements

Introduction of individual bank of hours, capped at 150 hours (vs. 200 before);  
 Collective bank of hours  
 Vacations up to 22 (vs 25 days )

Reduce risk of long term unemployment  
 Encourage earlier return to labor market  
 Reduce contribution period that gives access unemployment insurance

Improve efficiency and eliminate labor market duality

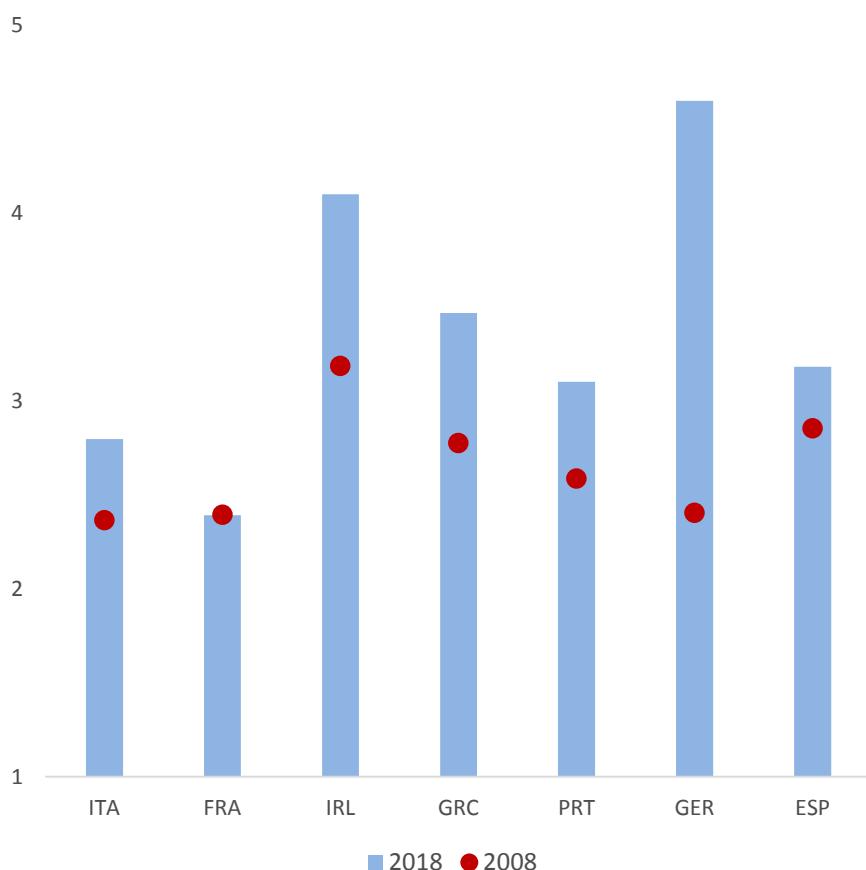
Increase flexibility in production cycle;  
 Improve productivity;  
 Improve production capacity adjustment to peak periods without increasing personnel costs

<sup>(1)</sup> 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

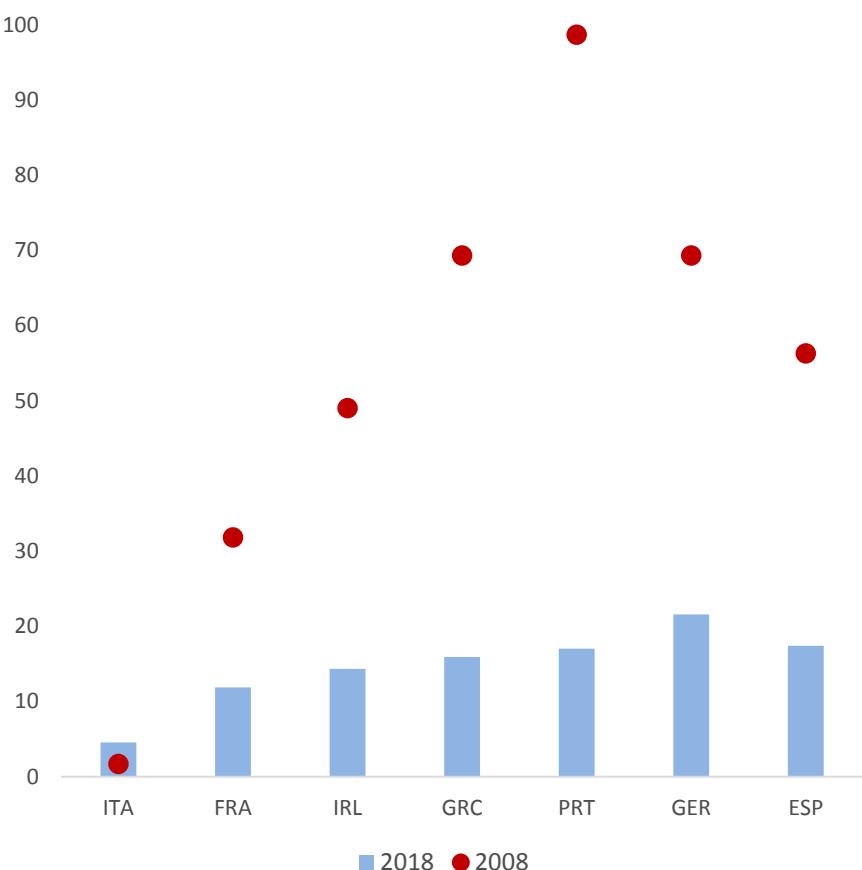
### Hiring and firing practices

[Index scale from 1 to 7 (best)]



### 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

Source: World Economic Forum

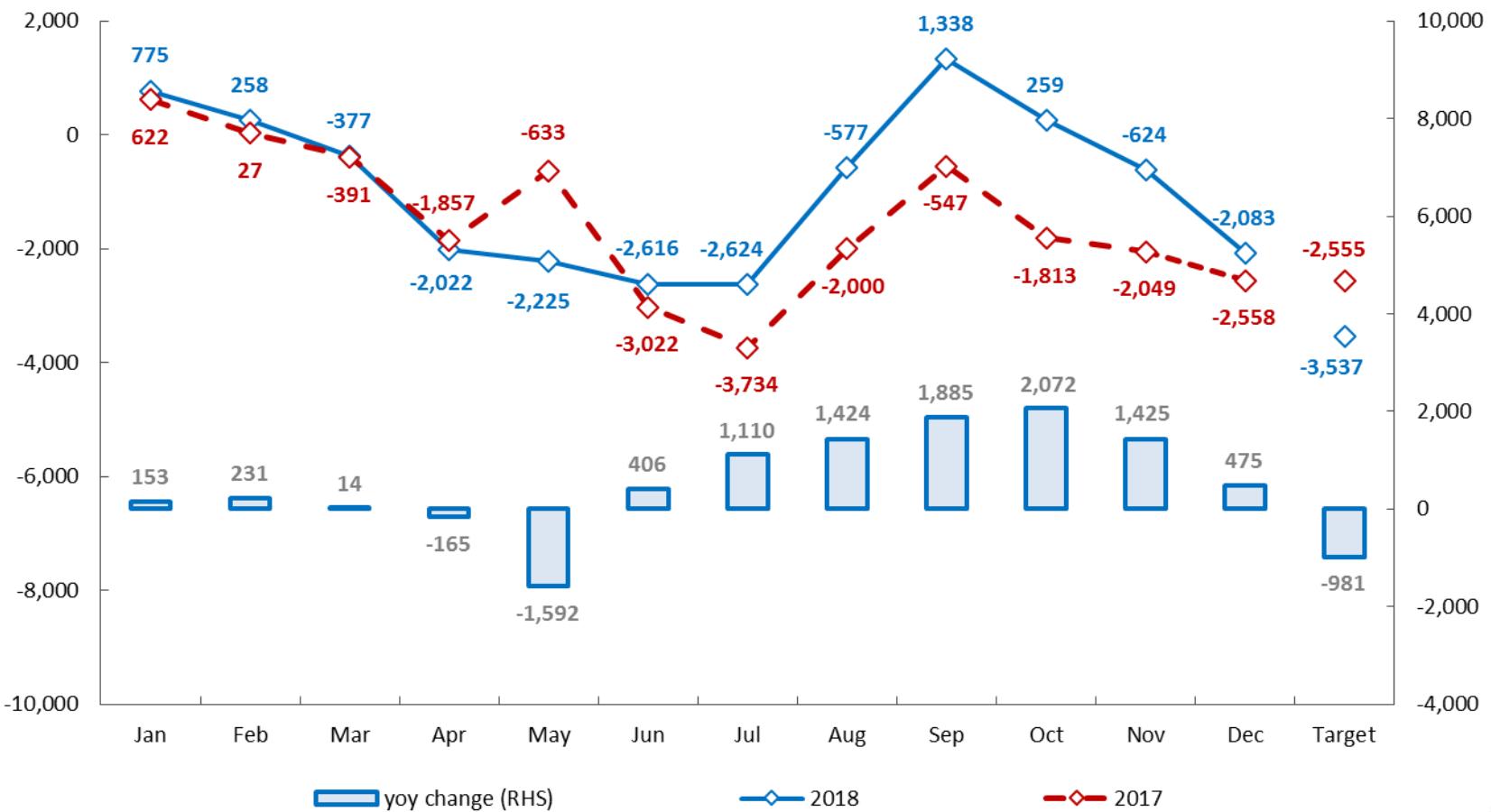
## Appendix

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

The overall balance of the GG on a cash basis stood at EUR -2,083 million in 2018, improving by EUR 475 million vis-à-vis 2017

### General Government (GG) balance

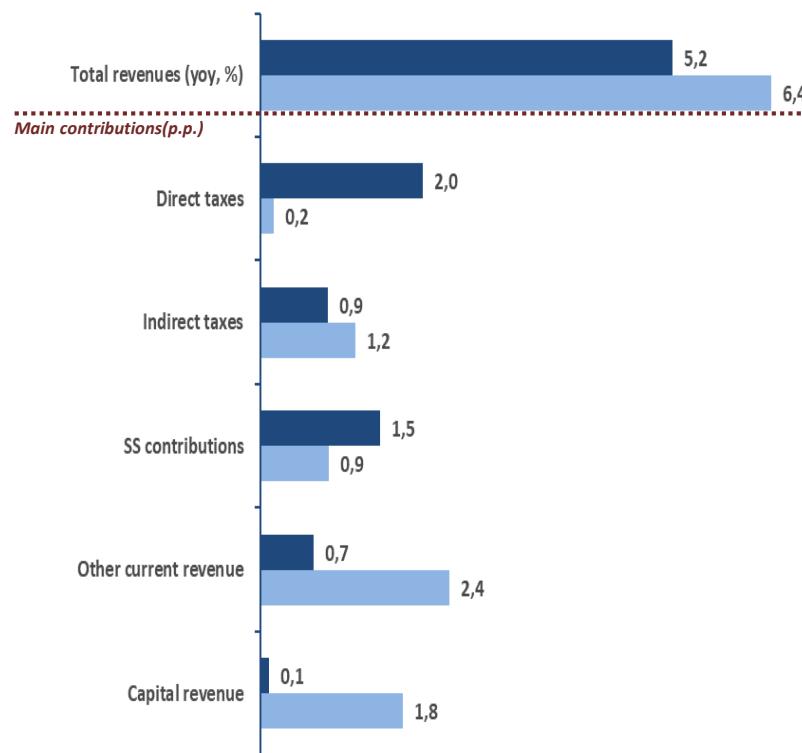
[EUR million; yoy change]



## 2018 budget execution (on cash basis)

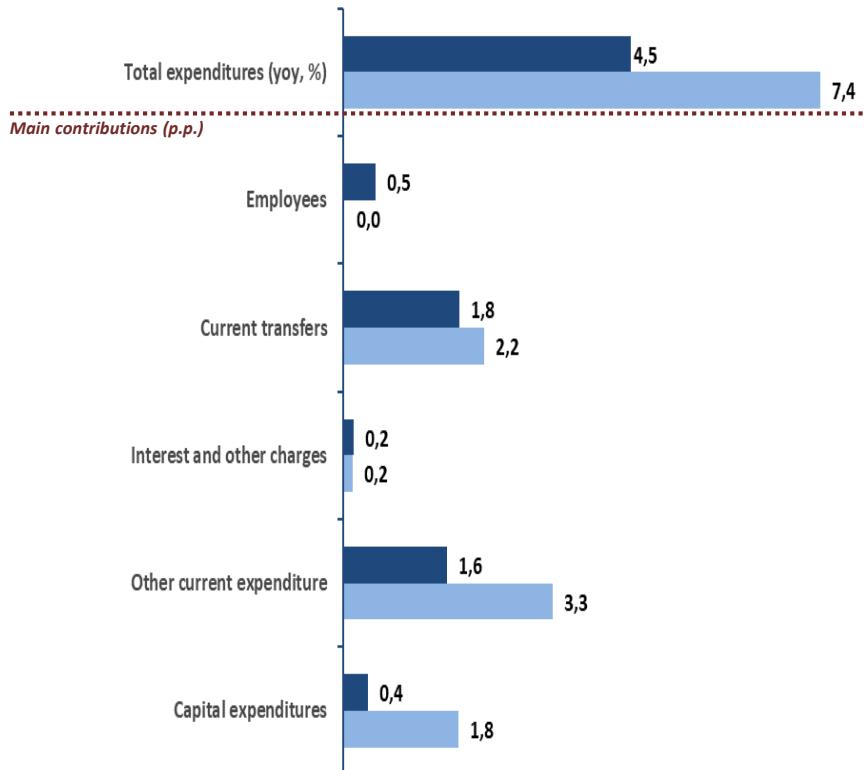
### General Government total revenue on cash basis

[% , pp]



### General Government total expenditure on cash basis

[% , pp]



Execution in 2018

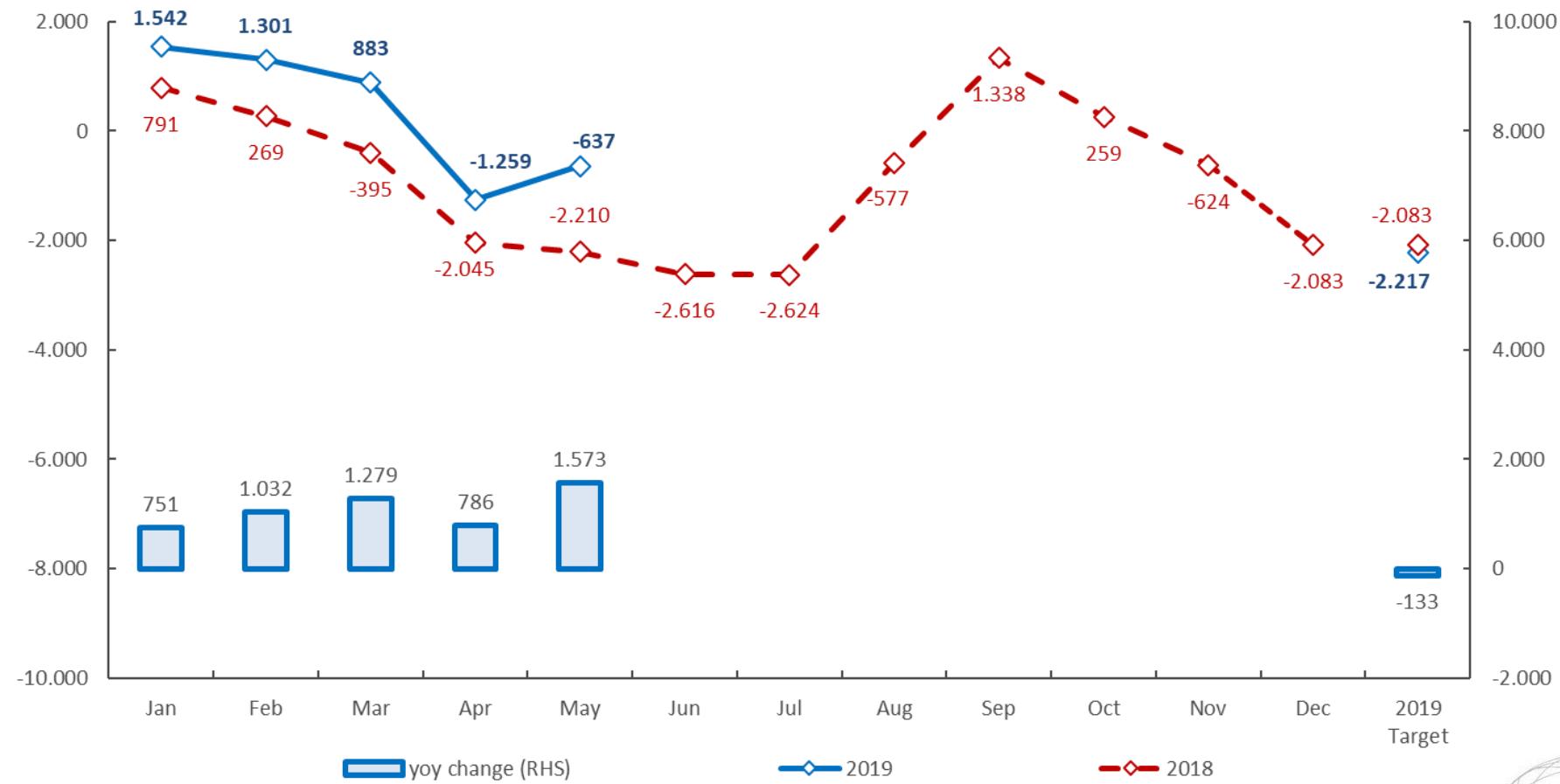
2018 Budget target

Source: Ministry of Finance

**Between Jan-May, the overall balance of the GG on a cash basis stood at EUR -637 million, improving by EUR 1,573 million vis-à-vis the same period last year**

### General Government (GG) balance

[EUR million; yoy change]

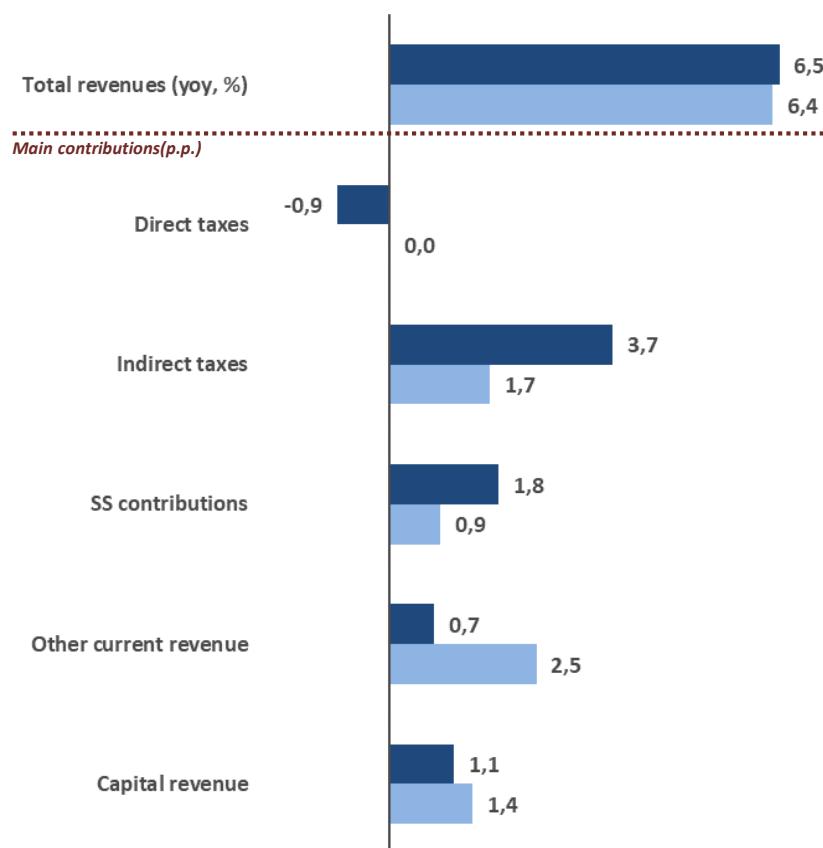


Source: Ministry of Finance

## 2019 budget execution: January to May

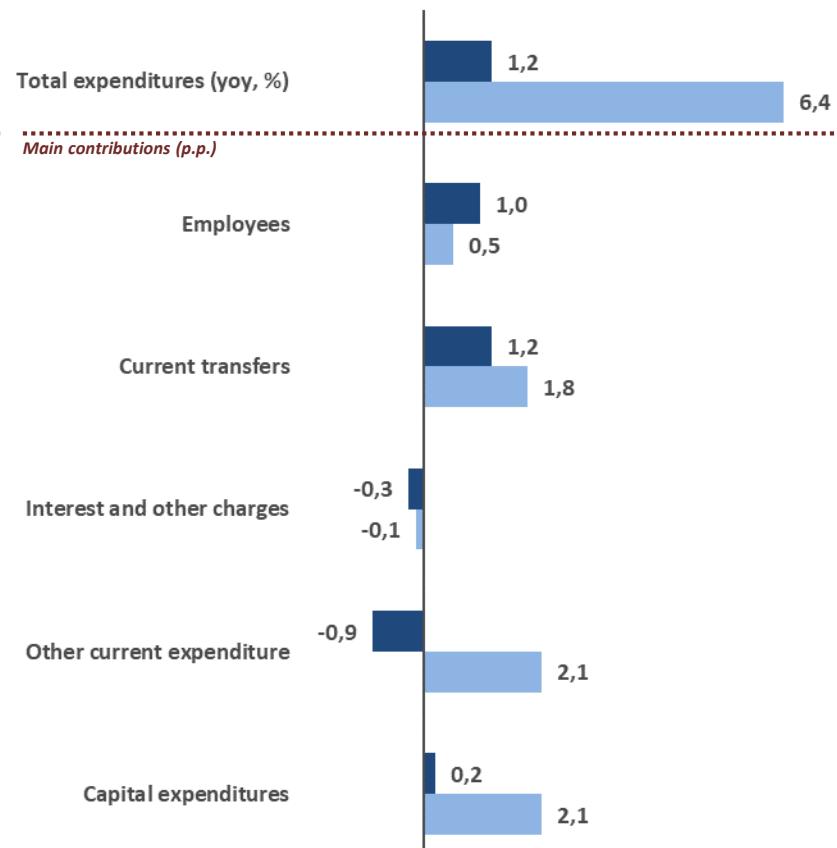
### General Government total revenue on cash basis

[% , pp]



### General Government total expenditure on cash basis

[% , pp]



Execution in 2019

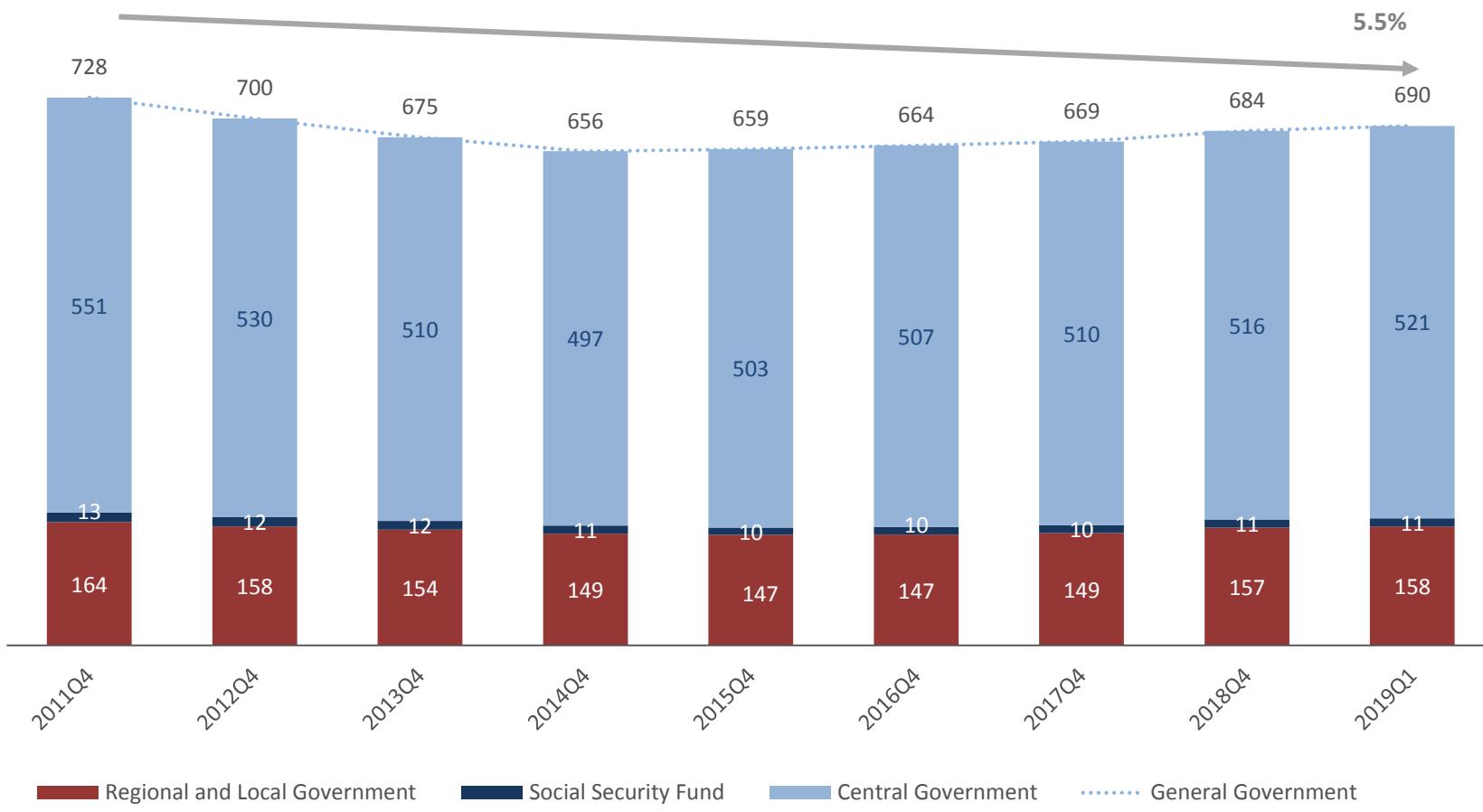
2019 Budget target

Source: Ministry of Finance

# The number of civil servants declined by about 6% 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

## Declining implicit interest rate on State direct debt

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

	2017	2018	2019 P	2020 P	2021 P	2022 P	2023 P
PGB	3.9%	3.5%	3.3%	2.9%	2.8%	2.9%	2.9%
Tbills	-0.1%	-0.3%	-0.3%	-0.2%	0.1%	0.3%	0.6%
Retail debt	2.8%	2.9%	2.7%	2.6%	2.5%	2.2%	2.3%
EU/IMF	2.5%	2.3%	2.2%	2.4%	2.2%	1.8%	1.7%
<b>Total</b>	<b>3.0%</b>	<b>2.8%</b>	<b>2.7%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.4%</b>

Source: IGCP

## Average maturity around 8 years

[State direct debt after swaps; May-2019]

	Outstanding (EUR bn)	Current average residual maturity (years)	Final average residual maturity (years)
EU	51.6	11.1	13.1
Other debt	199.9	6.3	6.3
<b>Total</b>	<b>251.5</b>	<b>7.3</b>	<b>7.7</b>

Source: IGCP

## Average cost of EU loans

[Estimates; May-2019]

Entity	Amount disbursed (EUR bn)	Estimated all in cost	Final average maturity from disbursement date (years)
EFSM	24.1	2.6%	19.5
EFSF	26.0	1.7%	20.8

Source: IGCP

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