Creditreform Sovereign Rating

Creditreform Rating
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Rating Object	Rating Information	
REPUBLIC OF PORTUGAL	Assigned Ratings/Outlook: **BBB- /positive**	Type: Monitoring, unsolicited
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	28-10-2016 21-09-2018 “Sovereign Ratings”

Contents

Rating Action

Neuss, 21 September 2018

Creditreform Rating has raised its unsolicited long-term sovereign rating on the Republic of Portugal to “BBB-” from “BB+” and revised its outlook to positive from stable. Creditreform Rating has also raised Portugal’s unsolicited ratings for foreign and local currency senior unsecured long-term debt to “BBB-” from “BB+”.

Key Rating Drivers

1. Significant pick-up in economic growth, which we expect to remain robust going forward; potential growth converging towards EA-19 levels on the back of the ongoing labor market recovery; households and NFCs continue to deleverage, but private sector debt remains high
2. High quality of Portugal’s economic and political institutions; expectation of policy continuity and broad commitment to stability-oriented macroeconomic and budgetary policies
3. Very high public debt and interest-to-revenue ratio representing main weaknesses, compounded by improving but still weak asset quality in the banking sector, which entails notable contingent liability risks
4. Debt likely to decline significantly in 2018-19 on the back of robust growth and narrowing headline deficits, driven by expenditure containment and further falling interest expenses
5. Elevated but subsiding external vulnerability; risks related to a highly negative NIIP somewhat tempered by an increasing FDI share in external liabilities and sustained current account surpluses

Reasons for the Rating Decision

Creditreform Rating has raised its ratings on the Republic of Portugal to “BBB-” from “BB+“. The upgrade is driven by (i) Portugal’s favorable macroeconomic performance, in particular stronger real GDP growth and the improving labor market situation, and (ii) the debt trend moving onto a steeper downward trajectory owing to progress in debt-reduction.

Furthermore, we have revised our outlook on the Republic of Portugal to positive from stable. The positive outlook is underpinned by our expectation that (i) the Portuguese economy will experience robust growth and further improving labor market conditions over the coming years; (ii) the sovereign's debt-to-GDP ratio and interest outlays continue to decline in the medium term; and (iii) the restoration of the health of the banking sector continues, mitigating the state's contingent liability risks.

Regarding its macroeconomic performance, the economic recovery firmed last year, as Portugal experienced the fourth consecutive year with positive real GDP growth. Up from 1.6% in 2016, growth leapt to 2.7%, the highest rate in sixteen years (2000: 3.8%). Thus, the Portuguese economy posted stronger growth than the euro area as a whole (+2.4%) for the first time since 2009. Last year's economic expansion was entirely driven by strong domestic demand, with investment and private consumption contributing equally to the increase in total output. Private consumption expenditure remained on its growth trajectory and increased by 2.3% (2016: 2.1%), buttressed by further improving labor market conditions. Moreover, domestic demand benefited from a significant pick-up in investment, which skyrocketed by 9.2% y-o-y. After having stalled in 2016 (-0.3%), construction investment turned the corner and increased by 9.3% y-o-y, fostered by the ongoing recovery in real estate prices and vivid activity in tourism-related construction. Meanwhile, growth in machinery and equipment investment more than doubled from 5.2 to 13.6% y-o-y, reflecting capacity expansions in the automotive industry and brisk demand from abroad, which translated into robust export growth. In real terms, exports of goods and services increased by 7.9%, well above the 4.4% in the year before. In particular, tourism continued to boost Portugal's service exports. According to INE data, export receipts from travel were up 19.5% at the end of 2017. However, as imports responded to stronger investment activities (+7.9%), net exports slightly detracted (-0.1 p.p.) from last year's growth.

Looking into 2018, growth prospects remain favorable. Although we forecast the Portuguese economy to lose some momentum, real GDP should expand by a still robust 2.3%. Our expectation is underpinned by latest quarterly data, according to which y-o-y growth came in at 2.1 and 2.3% in Q1 and Q2-18. Domestic demand is set to remain the key driver of economic expansion. We expect spending of private households to hold up well, as higher minimum wages (Jan-18: +4.1%; 2014-17: +14.8%) combined with some tax relief should partly compensate for the projected slow-down in job creation. Moreover, we believe that Portuguese households have limited room to expand consumption by further dissaving. According to Banco de Portugal data, the savings rate dropped from 5.9 to 5.3% in 2016-17 which compares low to historical standards (avg.: 1995-2016: 9.1%). Investment should show robust growth, facilitated by favorable financing conditions, higher corporate profitability, and rising capacity utilization. Capacity utilization in the manufacturing sector continued to increase throughout 2017 and stood at 82.0% in Q3-18 – the highest reading in ten years (avg. 1987-2017: 81.1%). At the same time, MFI interest rates for NFCs edged down to 1.9% (Jul-18; AAR) – only slightly above euro area levels (1.8%). In addition, public investment should be buoyed by last year's pick-up in ESI fund allocation, translating into higher spending levels in 2018. As indicated by EU commission data, financial resources allocated to specific projects are reported to have risen from 45% of planned investment (EUR 14.5bn) at the end of 2016 to 67% (EUR 21.9bn) by 31-Dec-17. On the other hand, the impact of net exports on growth should be neutral at best in 2018. Nominal growth in total exports almost halved from 12.9 to 6.9% y-o-y in the first six months of the year. To be sure, Portuguese exports should be supported by a strongly performing automotive sector and a thriving tourism industry. Portugal appears to be heading towards another record year for tourism. Between January and June, hotels registered 5.86m foreign visitors as compared 5.75m in the same period one year before (INE data).

Portugal's output growth is likely to pull back to 1.8% next year, as growth in domestic demand should continue to moderate in light of slowing employment growth and limited gains in real compensation. Moreover, we believe that budget consolidation efforts will act as a drag on government consumption. With the global recovery becoming more mature, investment and external demand should also continue to soften. We do not expect net exports to provide any tailwinds to economic expansion in 2019, as exports should grow broadly in line with imports.

We note that medium-term growth prospects of the Portuguese economy have brightened significantly in recent years. Drawing on European Commission estimates, Portugal's growth potential has improved from 0.4% in 2015 to 1.6% in 2018, now closely aligned with the EA-19 (1.5%). Above all, a job-rich economic recovery has pushed up potential growth in the recent past. After increasing by 1.4% in 2016, employment growth stepped up a gear (3.3% in 2017, LFS data). Job creation was particularly strong in the construction and accommodation sector, where employment edged up by 6.1 and 16.3% respectively. Going into 2018, the labor market situation continued to improve. At the latest count, employment growth came in at 2.7% (Q2-18), and the participation rate reached a historic high (Q1-18: 75.0%). Concurrently, the number of unemployed continued to decrease. Falling from 9.2 to 7.0% in the year to Q2-18, the unemployment rate not only posted at the lowest level in sixteen years, but also significantly below euro area levels (8.3%). Though remaining at elevated levels, we note that long-term and youth unemployment have also decreased since our last review. Youth unemployment (less than 25y), which had peaked at 41.3% in Q1-13, fell from 23.8 to 20.5% between Q2-17 and Q2-18. Nevertheless, Portugal is still facing significant structural challenges when it comes to labor market duality. We note that fixed-term contracts still make up a significant share in employment (Q2-18: 22.1%). In particular, employees at age 15-24 are disproportionately affected by labor market segmentation. Posting at 63.1%, the share of younger workers with fixed-term contracts has decreased somewhat (Q2-17: 67.5%), but remains one of the highest in the EU-28.

To tackle labor market segmentation, the government has proposed limiting the reasons for fixed-term contracts. In addition, there could be limitations on the number of times a contract can be renewed and a special tax on excessive labor turnover. In general, we observe that the government's reform focus seems to have shifted somewhat. While earlier reforms mainly focused on lowering labor costs and increasing flexibility, authorities have recently stepped up their efforts to foster labor market inclusiveness by promoting collective bargaining and hiking minimum wages.

Despite increasing minimum wages and gradually declining slack in the labor market, wage growth remained muted last year. According to AMECO data, growth in real compensation per employee came in at -0.2% in 2017. However, productivity growth turned negative (-0.6%) after having stalled in 2016, leading to broadly unchanged real unit labor costs (+0.3%). At the current junction, risks related to cost competitiveness appear limited. From a cross-country perspective, Portugal's ULC adjustment still compares favorably to its main trading partners. Real ULC in the Portuguese economy have dropped by 7.8% in 2010-17. Thus, the improvement was stronger than in Spain (-5.4%). France and Germany even featured an increase in unit labor costs by 0.7 and 1.5% respectively. Furthermore, Portugal's export performance does not warrant immediate concerns about cost competitiveness. Exports are well diversified across industries and Portugal gained both in terms of volumes and market shares. While the volume of exported goods and services increased by 12.7% in 2015-17, Portugal's global export market share rose by 7.7% over the same period – with only few EA-19 members reporting stronger growth.

In contrast to the labor market, capital accumulation has not contributed to the improvement in potential growth yet. Further out, however, we anticipate investment and total factor productivity to take over from employment growth as the main drivers of potential growth. After a protracted period of subdued investment activity stemming from economic uncertainty and deleveraging efforts in the public and private sector, a recovery in investment is underway. The investment-to-GDP ratio of the private sector continued on an upward trajectory in 2017, rising from 13.8 to 14.4% - the fourth consecutive increase. Government investment also strengthened, edging up to 1.8% of GDP (2016: 1.5%). To be sure, at 16.2% of GDP, Portugal's total investment ratio was the second lowest in the EA-19 (20.5% of GDP), remaining well below pre-crisis levels (AMECO data). Still, we expect the current recovery in investment to be sustained. In particular, NFC investment should benefit from healthier corporate balance sheets and a robust economic outlook. Moreover, the ongoing implementation of government programs should be supportive to the business environment and in turn, buoy corporate investment. Portuguese authorities continue to facilitate access to finance for corporates and promote internationalization efforts of SMEs by including additional measures to "Semente" and "Capitalizar" which were launched in 2016.

We continue to believe that Portugal's strong institutional set-up, together with its integration into the European Union and European Monetary Union, represent credit strengths of the sovereign. As highlighted by the World Bank's World Governance Indicators (WGI), Portugal remains well-positioned in a worldwide comparison and its institutions are stronger than in other program countries such as Greece and Cyprus. We view judicial reforms, a new public procurement code, as well as ongoing reforms to reduce the administrative burden as beneficial to the sovereign's institutional conditions.

In general, we believe that the Portuguese economy continues to benefit from euro area membership, which entails broader and deeper capital markets as well as advantages related to the euro as a reserve currency. Still, membership in a monetary union reduces

Portugal's monetary flexibility, and we note that price developments and especially wages were not well synchronized with the euro area in the past.

While the country's macroeconomic performance and institutional framework are supportive to the sovereign's creditworthiness, our credit rating continues to be constrained by high general government debt levels and elevated vulnerabilities in the banking sector.

After net borrowing had sharply decreased from 7.2% (2014) to 2.0% in 2016, last year's deficit came in somewhat higher at 3.0% of GDP, reflecting one-off expenses in the amount of EUR 3.944bn (2.0% of GDP) related to the recapitalization of Caixa Geral de Depósitos (CGD). Excluding these costs, the deficit on the general government level would have decreased to 0.9% of GDP, outperforming the government's deficit target (1.5% of GDP) foreseen in the 2017 stability program by a wide margin. As regards recent trends in spending, the Portuguese government remained committed to expenditure containment in 2017. After two years of contraction, expenditure growth resumed. However, we consider the overall increase in government outlays (net off capital transfer to CGD) of 1.5% in 2017 to be moderate, comparing favorably with nominal GDP growth of 4.1%. This was in particular a result of subdued growth in the government's largest expenditure items social benefits (+1.4%) and compensation of employees (+1.9%).To be sure, lower debt service costs also had a dampening effect on expenditure dynamics. Interest expenses fell for the third consecutive year, leading to a drop of the sovereign's very high interest-to-revenue ratio from 9.7 to 9.0%. By contrast, developments on the revenue side had only a minor impact on last year's budgetary outcome. The revenue-to-GDP ratio remained broadly stable at 42.9% of GDP (2016: 43.0%). Tax and social security revenues continued to rise, driven by the cyclical upswing in the domestic economy. While growth in net social security contributions came in at 5.1% (2016: 4.0%), aided by sustained employment growth, taxes on income and wealth (including PIT- and CIT-receipts) expanded by 3.3%.

With a view to 2018, the government envisages to reach a deficit of 0.7% GDP – below the level projected in last year's stability program (1.0% of GDP). Revenues should come in somewhat above expectations, as the repayment of a state guarantee from Banco Privado Portugues worth 0.2% of GDP was postponed from 2017 to 2018. On the other hand, tax cuts applying to personal income, which entered into effect at the beginning of the year, should have a dampening effect on revenue growth. Under the new tax legislation, PIT rates and brackets saw some modifications. In order to enhance the purchasing power of households, the PIT-surcharge was completely eliminated, while the number of tax brackets and the tax-free allowance was increased. Revenue losses from the PIT reform should be partly offset by the introduction of a CIT surcharge, which has to be paid on top of the 21% CIT rate by corporates with revenues above EUR 35m.

Turning to the expenditure side, additional funds are allocated to the gradual unfreezing of promotions for public servants, which started at the beginning of the year, wildfire prevention, as well as to an extraordinary pension increase. Furthermore, Novo Banco will receive a capital injection worth 0.4% of GDP under the so-called contingency capital mechanism from the Resolution Fund. Against this backdrop, we expect fiscal effort to be mainly delivered by further decreasing interest payments and savings identified in the course of the ongoing spending review. Recently, the spending review was expanded into new areas such as healthcare, education and SOEs. Except for public investment, all major items included in primary expenditure items should lag nominal GDP growth this year. According to cash-based data on budget execution provided by the Ministry of Finance, Portugal appears on track as regards its fiscal consolidation plans. Between January and July 2018, the government accumulated a deficit of EUR 2.6bn – a 29.7% decline as compared with same period in 2017. Assuming no discretionary spending decisions, we expect the government to meet its fiscal targets.

With regard to 2019, we anticipate a further narrowing in the budget deficit, as the government should maintain its expenditure-based consolidation approach. However, the pace of fiscal consolidation should slow down somewhat in view of moderating GDP growth and a rising public wage bill. The unfreezing of careers coupled with an increasing headcount in the public sector is likely to put some pressure on the government accounts. Despite the implementation of a 2:1 replacement ratio for public employees, the number of civil servants continued to increase by 0.8% in Q1 and 1.1% in Q2-18. As a result, net borrowing should decrease to 0.4% of GDP next year. This forecast is, however, contingent on our assumption that no substantial spending decisions will be adopted ahead of the 2019 general election.

Even though the Portuguese state still displays the third highest debt-ratio in the euro area, progress was made with regard to deleveraging in 2017. After hovering around the 130% mark in 2013-16, the sovereign’s debt-to-GDP ratio decreased notably to 125.7% in 2017. Last year’s decline in the debt stock was driven by a small primary surplus (0.9% of GDP), but also by a reduction in the government’s cash buffers. What is more, decreasing bond yields combined with prudent debt management operations resulted in a further decline of the implicit interest rate on state debt. In the 12 months to Sep-18, the yield on Portuguese 10y-bonds fell from 2.43 to 1.85%. Thanks to further improving financing conditions, Portugal continued to buy back maturing bonds and replace IMF loans with cheaper market funding. As highlighted by IGCP data, the government voluntarily repaid EUR 10.844bn (since 2017) of its outstanding IMF loan before the maturity date, bringing the total sum of early repayments since 2015 up to EUR 23.788bn. In total, Portugal has paid down more than 80% of its IMF loan so far. Looking ahead, we expect the sovereign’s debt-to-GDP ratio to remain on a firm downward trajectory in 2018-19, predominantly driven by increasing primary surpluses. Nevertheless, public debt levels will remain high in the medium term, implying limited fiscal flexibility. Moreover, the materialization of budgetary risks may lead to a slowdown in debt reduction. Fiscal risks include pressure entailed by rising wages in the public sector, and lower-than-expected savings from measures related to the spending review. In addition, the repeated accumulation of arrears in the hospital sector, which amounted to EUR 1.1bn by the end of Jun-18, and a large debt stock in the state-owned enterprise sector, accounting for 16.3% of GDP in Q4-17 (Q4-16: 17.2% of GDP), poses some risks to public finances.

That being said, we consider the domestic banking sector to remain the most significant contingent liability, although we acknowledge that robust GDP growth and recapitalizations have contributed positively to the stability of Portuguese banks. Regarding the liquidity situation of banks, improvements could be observed in 2017-18. Down from 104.2% in Q2-17, the loan-deposit-ratio fell to 98.0% in Q2-18 (ECB data) on the back of significant deposit inflows from NFCs. Since Nov-18, NFC deposits have posted double-digit y-o-y growth. As of July 2018, NFC deposits were 10.2% above the previous year's level. Between Q1-17 and Q1-18, the CET1 ratio of the banking sector rose from 12.0 to 13.1% (EBA data). Nevertheless, banks' capital buffers remain among the lowest in the euro area. Only Spanish banks posted a lower CET1-ratio recently. Notwithstanding stronger liquidity and capital buffers, the large share of impaired assets on bank balance sheets remains a significant challenge for the financial sector. In Q1-18, the NPL ratio was reported at a still high 13.6%, but significantly lower than in than in Q1-17 (18.5%). Thus, the authorities' multi-pronged approach tackling non-performing loans appears to be paying off. Among others, measures were adopted to facilitate write-offs and sales of NPLs, the insolvency code was reformed to enable a more effective restructuring of financial liabilities, and banks were obliged to submit NPL reduction plans.

What is more, the recovery in real estate prices had a positive impact on asset quality. Growth in house prices gained further momentum and accelerated to 8.0% y-o-y in 2017 (2016: +6.1%). In the context of vividly rising house prices, Portuguese authorities adopted some macroprudential measures to rein in rapid mortgage expansion. Since July 2018, a debt service to income limit of 50% is applicable to new mortgage loans. In addition, LTV-limits ranging from 80 and 100% were introduced and the maturity of new mortgages capped at 40 years. At this stage, however, there are no signs of excessive credit growth, although new lending has picked up recently, in particular lending to households. As indicated by ECB data, the outstanding credit volume to the NFC sector has been in decline since mid-2011 and continued to post negative y-o-y growth in Jul-18 (-4.0% y-o-y). Contrarily, a moderate recovery in household lending is underway. In June and July, credit outstanding to households was broadly flat (Jul-18: +0.3%) after having contracted for seven years. Subdued credit demand is mirroring ongoing deleveraging in Portugal's private sector. Down from its peak at 318.4% of GDP in Q4-12, private entities have reduced their leverage to a still high 253.0% of GDP in Q1-18. Hence, we regard it as a positive that both household and NFC debt (non-consolidated) continued to decrease throughout 2017. While household debt fell from 86.1 to 82.2% of GDP between Q1-17 and Q1-18; NFC debt declined from 176.9 to 170.2% of GDP.

Our credit assessment also factors in elevated but subsiding external vulnerability risks. External imbalances are gradually unwinding, as the Portuguese economy carries on with deleveraging. Net external debt, which is still among the highest in the EU-28 (only surpassed by Greece and Cyprus), fell from 104.3 to 92.5% of GDP in 2014-17, resulting in an improvement of the net international investment position (NIIP) from -118.6 to -105.7% of GDP. Concurrently, the composition of the NIIP has become less risk sensitive, with FDI now accounting for 28.3% (2017) of external liabilities, up from 23.9% in 2014. The improvement in Portugal's NIIP in recent years was the result of rebounding GDP growth and a turnaround in the current account balance. Having averaged at -9.8% of GDP between 2000 and 2012, the economy exhibited a positive current account balance ever since. In 2017, Portugal's current account surplus of 0.5% of GDP remained broadly stable (2016: 0.6% of GDP). While the trade in goods deficit widened from 5.2 to 6.3% of GDP, reflecting higher energy prices and a briskly growing domestic economy boosting import demand, we saw some improvement in the trade in services balance. The country's already high trade in services surplus increased from 7.3 to 8.1% of GDP in 2017, mainly driven by strong tourism receipts. The pivotal role of tourism for Portugal's external balance is indicated by the fact that net receipts from travel accounted for 69.5% of the overall trade in services surplus in 2017.

Rating Outlook and Sensitivity

Our Rating outlook on the long-term sovereign rating is positive, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – is likely to improve over the next 12-18 months.

Factors which could translate into a rating upgrade include robust economic growth in line with our current expectations, coupled with a further recovery of the labor market. We could also consider an upgrade of our ratings if we see sustained and credible fiscal consolidation, as reflected by a durable reduction in the headline deficit and a steady decline of the sovereign's high debt-to-GDP ratio. Moreover, we could upgrade our rating if the high NPL-ratio continues to fall towards EU-28 levels, which would in turn reduce contingent liability risks.

While the positive outlook indicates that a downgrade is rather unlikely, downward pressure on the outlook or rating could arise if medium-term GDP growth falls significantly short of our current expectations. In particular, a global rise in protectionist policies could negatively impact Portugal's growth prospects. In the absence of additional consolidation measures, weaker growth would imply a further deterioration of the government's already stretched debt-to-GDP ratio. Public debt could also increase again if, contrary to our expectations, substantial public support for ailing banks is needed. Ahead of the 2019 general election, backtracking on structural reforms or the adoption of costly policy measures could lead to fiscal slippages, negatively affecting the government's credibility and in turn, increase refinancing costs. In the same vein, a sharp increase in risk premia on Portugal's long-term debt could lead to higher interest expenses.

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Ratings*

Long-term sovereign rating	BBB- /positive
Foreign currency senior unsecured long-term debt	BBB- /positive
Local currency senior unsecured long-term debt	BBB- /positive

*) Unsolicited

Economic Data

	2012	2013	2014	2015	2016	2017	2018e
Real GDP growth	-4.0	-1.1	0.9	1.8	1.6	2.7	2.3
GDP per capita (PPP, USD)	26,093	26,359	27,218	28,131	29,042	30,417	31,965
HICP inflation rate, y-o-y change	2.8	0.4	-0.2	0.5	0.6	1.6	1.2
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	80.6	80.9	81.3	81.3	81.3	n.a.	n.a.
Fiscal balance/GDP	-5.7	-4.8	-7.2	-4.4	-2.0	-3.0	-0.7
Current account balance/GDP	-1.8	1.6	0.1	0.1	0.6	0.5	n.a.
External debt/GDP	237.7	226.9	235.9	222.0	215.3	211.1	n.a.

Source: International Monetary Fund, Eurostat, own estimates

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	28.10.2016	BB /stable
Monitoring	27.10.2017	BB+ /stable
Monitoring	21.09.2018	BBB- /positive

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. Neither the rated sovereign nor a related third party participated in the credit rating process. Creditreform Rating AG had no access to the accounts, representatives or other relevant internal documents for the rated entity or a related third party. Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The rating was conducted on the basis of CRAG´s "Sovereign Ratings" methodology in conjunction with its basic document "Rating Criteria and Definitions". CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on the following internet page: www.creditreform-rating.de/en/regulatory-requirements/.

To prepare this credit rating, CRAG has used following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, Agência de Gestão da Tesouraria e da Dívida Pública – IGCP, Banco de Portugal and Instituto Nacional de Estatística.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

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