BEST'S COUNTRY RISK REPORT

Portugal

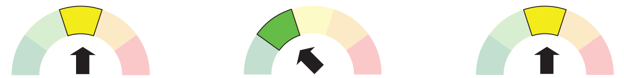
CRT-3

August 22, 2018

Region: Western Europe

Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers



Economic Risk | Political Risk | Financial System Risk

- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Portugal, a CRT-3 country, has a low level of political risk and moderate levels of economic and financial system risk. Real GDP growth is expected at 2.4% in 2018, down from 2.7% in 2017. Medium-term growth is forecast to be between 1.0% and 2.0%.
- Economic growth will be supported by a rise in investment spending, a strong labor market, increased exports of good and services, and a low-inflation environment.
- A.M. Best categorizes a majority of the countries pictured in the map below as CRT-1 and CRT-2. Notable exceptions are many of the Eastern European countries such as Belarus, Romania, and Ukraine.

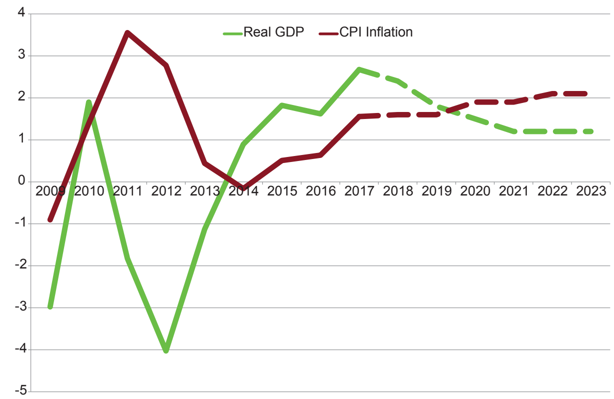
Vital Statistics 2017		
Nominal GDP	USD bn	218.06
Population	mil	10.3
GDP Per Capita	USD	21,161
Real GDP Growth	%	2.7
Inflation Rate	%	1.6
United Nations Estimates		
Literacy Rate	%	95.7
Urbanization	%	64.6
Dependency Ratio	%	53.4
Life Expectancy	Years	79.4
Median Age	Years	42.2
Insurance Statistics		
Insurance Regulator	Insurance and Pension Funds Supervisory Authority	
Premiums Written (Life)	USD mil	8,101
Premiums Written (Non-Life)	USD mil	5,142
Premiums Growth (2016 - 2017)	%	5.3
Regional Comparison		
	Country Risk Tier	
Portugal	CRT-3	
Spain	CRT-2	
France	CRT-1	
Germany	CRT-1	
Italy	CRT-2	
Switzerland	CRT-1	

Source: IMF, UN, Swiss Re, Axco and A.M. Best

Regional Summary: Western Europe

- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing consumer and business confidence, lower unemployment rates, and credit growth.
- The European Central Bank (ECB) has decided to end its three-year EUR2.4 trillion quantitative easing program by the end of 2018, although it did signal that any rise in interest rates before September 2019 was unlikely. The policy rate has been below 1.0% since July 2012 and has been at 0.0% since March 2016.
- Concerns include political instability in certain countries, ongoing uncertainty about Brexit and its potential implications, and below-trend growth and inflation.

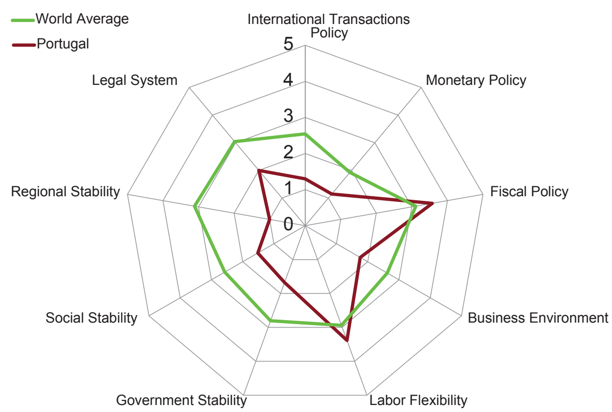
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

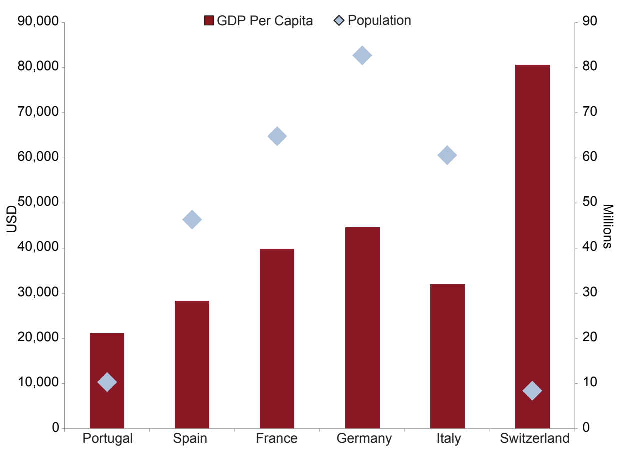
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- Portugal's economy has become increasingly export-oriented, as exports now account for 40% of total GDP. Tourism and industrial production have also both seen large increases in recent years.
- The labor market continues to strengthen, with unemployment falling to 7.4% in 2018, below the eurozone average. In addition, real wages continue to increase. With the labor market becoming tighter, companies are now having difficulty filling highly skilled job openings.
- Domestic demand has been strong in recent years, as consumer confidence remains high.
- Long-term economic expansion will rely on Portugal making key investments in education and the development of a highly skilled work force. The IMF recommends reforms such as the streamlining of regulation, comprehensive bankruptcy and corporate restructuring laws, and improving the ease of operating a business.

Political Risk: Low

- Portugal is a member of the European Union and was one of the original 11 countries to adopt the euro as its currency, in 1999. Membership in the EU has led to increased political and financial system stability.
- Prime Minister António Costa is the current leader of the governing center-left Socialist Party. The Socialist Party is a minority government that relies on far-left parties to pass legislation. The coalition government is stable, but there is potential for infighting over further spending cuts.
- The legal system is independent but backlogged with cases, hampering quick case resolution. However, the government has attempted to improve this, and Portugal currently ranks above the OECD average for contract enforcement time.
- Active unions raise the risk of strikes and are likely to oppose any unfavorable labor reforms. Protests, however, are likely to be peaceful.

Financial System Risk: Moderate

- The supervisory authority for the insurance industry is the Insurance and Pension Funds Supervisory Authority (ASF). As of the end of 2016, Portugal had 88 active insurance companies.
- Rising home prices could pose a risk to the financial system in the event of an economic slowdown, owing to the importance of mortgages on bank balance sheets.
- Non-performing loans continue to decline, standing at 13.3% at the end of 2017. Bank capital ratios have also improved recently. The IMF recommends that Portugal's banking supervisors strengthen corporate governance and risk management.
- Access to credit is improving, which should help further diversify the economy and boost growth.