

**Double ratings boost for Portuguese economy**  
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The Portuguese economy received a double boost yesterday as ratings agency Moody's raised its debt rating one notch to Ba2, hours after fellow agency Standard & Poor's upgraded the country's credit outlook.

The announcements provided a timely vote of confidence after Lisbon announced on Sunday it would make a clean exit from its multi-billion-euro EU-IMF bailout package, following in the footsteps of Ireland by foregoing a credit line.

Portugal's Prime Minister Pedro Passos Coelho on Thursday said Lisbon would present its plans for the country's financial future on May 17, the day it exits its three-year 78-billion-euro (US\$108 billion) bailout programme. Unlike Ireland, however, Portugal has already managed to return to debt markets before the end of its aid programme.

Moody's, in raising Portugal's debt rating said a further upgrade was possible as the country begins to pull away from its financial crisis.

"Portugal's fiscal situation has improved more rapidly than initially targeted and the public debt ratio will start declining this year," Moody's said.

A Ba2 rating leaves Portugal in junk bond territory, two notches below investment grade.

Moody's noted that the country's fiscal deficit had been reduced by one percentage point more than expected last year, "indicating the government's strong commitment to fiscal consolidation".

**'Sizeable cash buffers'**

Portugal has already managed to return to debt markets before the end of its aid programme.

Moody's said Portugal will not likely need to lean on the European Stability Mechanism for more protective support after it exits its bailout programme.

"Portugal has regained access to the public debt markets and in addition the government has built up sizeable cash buffers."

Its economic recovery "is gaining momentum, with signs of broadening beyond exports, which continue to perform strongly".

Moody's said it has the country now under review for another upgrade, adding that the government's creditworthiness "can improve" in the short term.

Earlier yesterday Moody's rival Standard & Poor's upgraded the outlook for Portugal's creditworthiness, citing the bailed-out nation's unexpectedly strong economic and deficit-cutting performance.

Standard & Poor's said it had raised the outlook to "stable" from "negative" for Portugal's long-term sovereign debt, which is rated at a junk-bond equivalent BB, and its short-term sovereign debt, which is rated at B.

### **Faster recovery than projected**

"The economy and the labour market are recovering faster than we projected, with better-than-expected budgetary performance," the New York-based rating agency said in a statement.

Portugal's recession in 2013 had been shallower than expected, helping Lisbon to curb the general government deficit to the equivalent of 4.9% of economic output in 2013, unexpectedly beating its 5.5% target, Standard & Poor's said.

Lisbon snatched an economic lifeline from the European Union and International Monetary Fund in 2011 in return for enacting budget-slimming austerity measures, which sparked mass popular protests.

"The government has fully implemented the terms of the EU-International Monetary Fund economic adjustment programme," Standard & Poor's said. In addition, the agency said, Portugal's surplus in its balance of payments with the rest of the world was large enough to gradually reduce the economy's large stock of net external debt.

Nevertheless, Standard & Poor's said, Portugal's net general government debt ratio, equal to 118% of annual economic output, was among the highest of all rated sovereigns.

The agency said it expected Portugal's economy to grow on average by about 1.4% a year during 2014 to 2015, largely because of sustained export growth.

"We also expect a gradual recovery in domestic demand as private sector hiring continues to recover," it said, citing labour market reforms and falling unit labour costs.

Standard & Poor's warned of risks, however, with high corporate and household debt, along with declining nominal incomes, reining in demand. Low employment levels would restrain the economy over the longer term, it added. – AFP, May 10, 2014

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