

Early Christmas present for Portugal

A two-notch rating upgrade by a leading rating agency acknowledges the economic progress Portugal has made.



Source: istock

Another rating upgrade

Rating agency Fitch has raised its rating for Portugal to investment grade. The two notch upgrade, from BB+ to BBB and so skipping BBB-, has never happened before for Portugal. Last September, the other two rating agencies of the “Big Three” already altered their view on Portugal for the better. Standard and Poor’s upgraded Portugal’s rating to investment grade. Moody’s did not change its rating, but upgraded the outlook from stable to positive. Moody’s reviews Portugal’s rating on 13 January 2018 and so might follow the other two rating agencies and upgrade Portugal’s debt to investment grade.

BBB

Current Fitch credit rating

Upgraded by two notches

2017 was a great year

The state of the Portuguese economy certainly improved in 2017 and this justifies the upgrades. In the third quarter the economy grew by 2.5% year-on-year. The unemployment rate continues to decline and equalled 8.5% in October, and business and consumer confidence are at high levels. As main reasons for the upgrade, Fitch cites the decline of the debt-to-GDP ratio, the fifth consecutive annual current account surplus and the recapitalisation of the two largest banks.

Yields

Due to the rating upgrade, Portuguese debt can now be included in more bond indices and this could increase the demand for these bonds as more investors are now allowed to hold the debt. Having said that, Portuguese bonds already performed quite well in 2017 and so downward pressure on yields might be limited.