

(BN) Portugal Regains Investment Grade Rating From S&P on Growth

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By Joao Lima

(Bloomberg) -- Portugal's credit rating was restored to investment grade by S&P Global Ratings as the country's economic growth accelerates.

The rating was revised to BBB- from BB+, which was one level below investment grade, S&P said in a statement on Friday.

The outlook is stable. Portugal had been rated junk by S&P since January 2012, when the country was going through a bailout program provided by the European Union and the International Monetary Fund.

"The upgrade reflects our improved forecast for Portugal's growth during 2017-2020, as well as the solid progress it has made in reducing its budget deficit and the receded risk of a marked deterioration in external financing conditions," S&P said. The company raised its forecast for the country's economic growth through 2020 to an average of about 2.2 percent a year.

Tourism and exports have been boosting the economy, with the Bank of Portugal forecasting growth will accelerate to 2.5 percent this year. The faster growth is helping the country's minority Socialist government manage the budget deficit, which last year was the narrowest as a percentage of gross domestic product in four decades of Portuguese democracy.

Prime Minister Antonio Costa took office at the end of 2015 and has increased indirect taxes while reducing the working week for state workers as he aims to reverse some measures introduced during the bailout program. While Portugal exited that three-year international aid program in 2014, it's still dealing with pending issues including bad loans at banks.

The government aims to cut the deficit to 1.5 percent of GDP in 2017 from 2 percent last year, and sees debt falling to

127.7 percent of GDP this year from 130.4 percent in 2016. The debt ratio increased in 2016 as the government raised funds for the 2.5 billion-euro capital injection in state-owned bank Caixa Geral de Depositos SA that was carried out this year.

The country's debt is rated below investment grade by Fitch Ratings and Moody's Investors Service. Moody's on Sept. 1 followed Fitch in raising the outlook on Portugal's bond rating to positive from

stable. Portugal already had an investment grade rating from DBRS Ltd., which secured eligibility of the country's debt for the European Central Bank's bond purchase program.

"We believe that risks of a marked deterioration in external financing conditions have receded, and that the ECB will ensure a smooth transition toward a less accommodative monetary stance," S&P said.

Portugal's 10-year bond yield was at 2.8 percent on Friday, down from 4 percent six months ago. It peaked at 18 percent in

2012 at the height of the euro region's debt crisis.

To contact the reporter on this story:

Joao Lima in Lisbon at jlima1@bloomberg.net To contact the editors responsible for this story:

Vidya Root at vroot@bloomberg.net

Anabela Reis, Henrique Almeida