

FIRST SUPPLEMENT

(dated 17 March 2020)

to the

BASE PROSPECTUS

(dated 31 October 2019)



Banco Montepio

**CAIXA ECONÓMICA MONTEPIO GERAL,
CAIXA ECONÓMICA BANCÁRIA, S.A.**

(a Savings Bank (*caixa económica bancária*) incorporated as a public limited liability company under the laws of the Portuguese Republic)

Registered Office: Rua Castilho, 5, 1250-066 Lisbon

Share Capital: €2,420,000,000

**Registered with the Lisbon Commercial Registry Office under the sole
commercial registration and taxpayer number 500 792 615**

€6,000,000,000

**EURO MEDIUM TERM NOTE PROGRAMME
BASE PROSPECTUS**

This First Supplement dated 17 March 2020 (the “**Supplement**”) to the Base Prospectus dated 31 October 2019 (together, the “**Base Prospectus**”), constitutes a supplement to the Base Prospectus for the purposes of Article 23 of the Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”) prepared in connection with the €6,000,000,000 Euro Medium Term Note Programme (the “**Programme**”) established by Caixa Económica Montepio Geral, caixa económica bancária, S.A. (the “**Issuer**” or “**Banco Montepio**”). Terms defined in the Base Prospectus have the same meaning when used in this Supplement.

This Supplement has been approved by the Commission de Surveillance du Secteur Financier (the “**CSSF**”), as competent authority under the Prospectus Regulation. The CSSF only approves this supplement as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus. To the extent that there is any inconsistency between any statement in this Supplement and any other statement in or incorporated by reference in the Base Prospectus, the statements in this Supplement will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or material inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since the publication of the Base Prospectus.

This Supplement has been published on the website of the Luxembourg Stock Exchange (at www.bourse.lu)

I. RISK FACTORS

1. In the Chapter headed “**Risk Factors**” of the Base Prospectus, at the end of the section “**Risks related to the market generally**”, on page 35, the following text shall be added:

“Coronavirus impacting global economy and markets

Coronaviruses (CoV) are a large family of viruses that cause illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV). The novel coronavirus (named COVID-19 by the World Health Organisation), reportedly first discovered in Wuhan, Hubei Province, China, on 31 December 2019, is a new strain that has not been previously identified in humans.

In Portugal, the Directorate General of Health (*Direção-Geral da Saúde*) has been closely following the development of the COVID-19 outbreak and certain public health protocols have now been activated, including epidemiological monitoring and surveillance, risk management and communication, which are usual in these situations.

The impact of COVID-19 on global markets has been varied, increasing short-term volatility and leaving investors concerned over slowing economic growth in China and its contagion effect to the world economy, in particular in the near-term. As at the date of this Supplement, given the uncertainty of the lasting effect of the COVID-19 outbreak, the financial impact on the global economy cannot be determined. In the medium to long term, if the rapid spread of COVID-19 continues, it could adversely affect global economies and financial markets, resulting in a prolonged economic downturn. The economic recovery post-COVID-19 will be dependent on the continued spread of COVID-19. COVID-19 carries supply chain implications, including limitations on the global movement of people and goods, disruption of industrial production and the reduction of private consumption. The COVID-19 outbreak may, either directly or indirectly, impact on the Issuer, its clients, investors and credit markets which in turn may adversely affect the Issuer’s business, reputation, financial condition and results of operation or prospects.

Legislation changes regarding banking commissions

DECO, the consumers’ association (*Portuguese Association for Consumer Protection*), together with some political parties are seeking to build a consensus towards introducing a change in law in order to limit or reduce certain commissions charged by banks in Portugal. Certain proposals were passed in Parliament in late 2019, which are to be further discussed, detailed and voted upon in specialised committees. Other similar or broader initiatives may arise in the future, which content and range is still unknown. If those proposals are approved, or if other proposals arise, they may impose some limits to commissions charged by banks which may adversely affect the business and performance of the Issuer.”

II. DOCUMENTS INCORPORATED BY REFERENCE

2. In the Chapter headed “**Documents incorporated by reference**” of the Base Prospectus, on page 39, after paragraph no 3., the following text shall be added:

“4. the announcement dated 25 November 2019 setting out Banco Montepio’s disclosure of the unaudited interim results and the key financial indicators for the period of nine months ended 30 September 2019 (available at “https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/banco-montepio-consolidated-results-3rd-quarter-2019.pdf”) including the information set out at the following pages in particular:

NINE MONTHS 2019 CONSOLIDATED FINANCIAL INFORMATION

Consolidated Balance Sheet	11
Consolidated Income Statement	12”

III. DESCRIPTION OF THE ISSUER

3. On page 115 of the Base Prospectus, under the Chapter headed “**Description of the Issuer**”, under the section named “**Legal and arbitration proceedings**”, after the first paragraph regarding administrative proceeding (*processo de contraordenação*) no. 84/14/CO, the following entry shall be added:

“In January 2020, a decision was issued by the Banco de Portugal that determined that Banco Montepio had committed 16 administrative offenses, instead of the 142 administrative offenses that were originally alleged. The Banco de Portugal issued a single fine of €400,000. Banco Montepio intends to challenge the decision issued by the Banco de Portugal.”

4. On page 116 of the Base Prospectus, under the Chapter headed “**Description of the Issuer**”, under the section named “**Legal and arbitration proceedings**”, before the last paragraph, the following entries shall be added:

“On December 2019, Banco Montepio was notified by the Banco de Portugal of administrative proceedings relating to seven alleged violations of duties concerning accounting standards and internal control systems occurring between 2013 and 2015 (administrative proceeding (*processo de contraordenação*) no. 45/17/CO). The fines in relation to those alleged violations range from €3,000 (lowest minimum limit) to €5,000,000 (highest maximum limit), which can be issued as a single fine not exceeding twice the highest maximum limit. Banco Montepio intends to defend itself against these allegations.

On March 2020, Banco Montepio was notified by the Banco de Portugal of administrative proceedings relating to eleven alleged violations of the rules for the calculation of its own funds and for providing periodic information occurring during 2013, 2014 and 2016 (administrative proceeding (*processo de contraordenação*) no. 39/17/CO). The fines in relation to those alleged violations range between €3,000 (lowest minimum limit) and €5,000,000 (highest maximum limit), which can be issued as a single fine not exceeding twice the highest maximum limit. Banco Montepio intends to defend itself against these allegations.”

5. At the end of the Chapter headed “**Description of the Issuer**” of the Base Prospectus, on page 136, a section named “**Recent developments**” shall be added, and the following paragraphs shall be included:

“Recent Developments

Cancellation of Covered Bonds:

On 5 November 2019, Banco Montepio announced that, on that date, the covered bond issue “CEMG/2015 - EUR 500 M Floating R. Covered Bonds - DEC 2020 - ser. 5”, registered with the Central de Valores Mobiliários under the code CMGROE (ISIN PTCMGROE0021), was surrendered for cancellation, according to a decision of Banco Montepio as the issuer of such covered bonds.

Issue of Covered Bonds:

On 7 November 2019, Banco Montepio announced it has issued covered bonds in the amount of €500 million, with a tenor of 5 years, a fixed annual interest rate of 0.125 per cent. and an issue price of 99.568 per cent., reflecting a spread of 40 basis points over the 5-year mid-swap rate.

Supervisory Review and Evaluation Process (“SREP”) – The Banco de Portugal requirements for Banco Montepio:

As at the date of this Supplement, the Pillar 2 capital requirement applicable to Banco Montepio is 3.25 per cent., composed in accordance with Article 92(1) of Regulation (EU) No. 575/2013.

The prudential minimum capital requirements (P2R) include the components of minimum requirements (Pillar 1), specific requirements (Pillar 2) and combined buffers’ requirements, as shown in the table below:

Banco Montepio - Consolidated Basis				
	Minimum capital ratios requirements			
	Total Requirement	Pillar 1	Pillar 2	Buffers⁽¹⁾
CET1	9.016%	4.5%	1.828%	2.688%
T1	11.125%	6.0%	2.438%	2.688%
Total	13.938%	8.0%	3.250%	2.688%

⁽¹⁾ combined buffers requirement applicable in 2020, given by the countercyclical reserve and the reserve for other systematically important institutions.

Resignation from member of the Board of Directors:

On 6 March 2020, Banco Montepio announced that Carlos Miguel Lopez Leiria Pinto resigned as executive member of the Board of Directors. This resignation shall be effective as of 31 March 2020.”

IV. BOARD OF DIRECTORS AND OTHER GOVERNING AND CORPORATE BODIES OF THE ISSUER

- On 9 January 2020, the appointment of Pedro Manuel Moreira Leitão as Chief Executive Officer (CEO) was approved. Pedro Manuel Moreira Leitão holds no other positions. Furthermore, Rui Pedro Brás de Matos Heitor now holds an additional position as Secretary of the General Meeting Board of Montepio Gestão de Activos, Sociedade Gestora de Fundos de Investimento, SA. The table that identifies the current members of the Board of Directors on page 122 of the Base Prospectus, under the Chapter headed “**Board of Directors and Other Corporate and Governing Bodies of the Issuer**”, shall be deleted and replaced by the table as follows:

“

Name		Other positions
Carlos Manuel Tavares da Silva	Chairperson	Chairman of the Board of Directors of Montepio Investimento, S.A. Chairman of the Board of Directors of Montepio Holding, SGPS, S.A.
Dulce Maria Pereira Cardoso Mota Jorge Jacinto ¹	Executive member	Vice-President of the Executive Board of Directors
Luís Eduardo Henriques Guimarães ²	Non-executive member	No other positions
Amadeu Ferreira de Paiva	Non-executive member	No other positions
Manuel Ferreira Teixeira	Non-executive member	No other positions
Vítor Manuel do Carmo Martins	Non-executive member	No other positions
Rui Pedro Brás de Matos Heitor	Non-executive member	Member of the Board of Directors of HTA – Hotéis, Turismo e Animação dos Açores, S.A. Secretary of the General Meeting Board of Montepio Gestão de Activos, Sociedade Gestora de Fundos de Investimento, SA
Pedro Jorge Gouveia Alves ³	Non-executive member	Chairman of the Board of Directors of Montepio Crédito, Instituição Financeira de Crédito, S.A.
Carlos Francisco Ferreira Alves ⁴	Non-executive member	No other positions
Nuno Cardoso Correia da Mota Pinto	Executive member	Member of the Board of Directors of Montepio Crédito, Instituição Financeira de Crédito, S.A. Member of the Board of Directors of Montepio Holding, SGPS, S.A. Chairman of the Board of Directors of Finibanco Angola, S.A. Member of the Board of Directors of Montepio Investimento, S.A.
José Carlos Sequeira Mateus	Executive member	Member of the Board of Directors of Banco Montepio Geral Cabo Verde Member of the Board of Directors of Montepio Holding, SGPS, S.A. Member of the Board of Directors of Montepio Investimento, S.A.
Pedro Miguel Nunes Ventaneira	Executive member	Member of the Board of Directors of Finibanco Angola, S.A. Member of the Board of Directors of Montepio Investimento, S.A.
Carlos Miguel Lopez Leiria Pinto ⁵	Executive member	Chairman of the Board of Directors of Montepio Valor, S.A. Member of the Board of Directors of Montepio Investimento, S.A.

Helena Catarina Gomes Soares de Moura Costa Pina	Executive member	No other positions
Leandro Rodrigues da Graça Silva ⁶	Executive member	No other positions
Pedro Manuel Moreira Leitão ⁷	Executive member	No other positions

¹ Dulce Maria Pereira Cardoso Mota Jorge Jacinto took up her duties as an executive member of the Board of Directors on 9 January 2019.

² Luís Eduardo Henriques Guimarães resigned as a non-executive member of the Board of Directors, on 30 September 2019.

³ Pedro Jorge Gouveia Alves took up his duties as a non-executive member of the Board of Directors on 23 August 2018.

⁴ Carlos Francisco Ferreira Alves took up his duties as a non-executive member of the Board of Directors on 15 January 2019.

⁵ On 6 March 2020, Banco Montepio announced that Carlos Miguel Lopez Leiria Pinto resigned as an executive member of the Board of Directors. This resignation shall be effective as of 31 March 2020.

⁶ Leandro Rodrigues da Graça Silva took up his duties as an executive member of the Board of Directors on 9 November 2018.

⁷ Pedro Manuel Moreira Leitão took up his duties as an executive member of the Board of Directors on 9 January 2020.”

7. On pages 123-124 of the Base Prospectus, under the Chapter headed “**Board of Directors and Other Corporate and Governing Bodies of the Issuer**”, the table that identifies the areas of responsibility of each member of the Board of Directors and the respective alternate Directors of the Issuer shall be entirely deleted and replaced by the table as follows:

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Director	Area of Responsibility
Carlos Manuel Tavares da Silva	Audit and Inspection Division
	Management assistance office to the Board of Directors
	General Secretariat
	Economic and Financial Research Office
Pedro Manuel Moreira Leitão	Human Resources Division
	Innovation and Transformation Division
	Strategic Marketing Division
	Communication and Brand Division
Dulce Maria Pereira Cardoso Mota Jorge Jacinto	Commercial Division (North and Centre)
	Commercial Division (South and Islands)
	Business Support Office
	Operational Marketing Division
Nuno Cardoso Correia da Mota Pinto	Commercial Division (Corporate clients)
	Commercial Division (Public and Social Support sector)
José Carlos Sequeira Mateus	Financial and International Division
	Financial Assets Monitoring Office
	Strategic Planning and Control Division
Pedro Miguel Nunes Ventaneira	Risk Division
	Information Management Office

	Model Validation Office
	Accounting and Financial Report Division
	Credit Specialised Analysis Division
Helena Catarina Gomes Soares de Moura Costa Pina	Legal Division
	Litigation Division
	Compliance Division
	Data Protection Office
	Customer and Quality Office
Carlos Miguel Lopez Leiria Pinto ⁽¹⁾	Credit Recovery Division
Leandro Rodrigues da Graça Silva	IT Division
	Services and Operations Division
	Credit Analysis Division

⁽¹⁾ On 6 March 2020, Banco Montepio announced that Carlos Miguel Lopez Leiria Pinto resigned as executive member of the Board of Directors. This resignation shall be effective as of 31 March 2020.”

8. On pages 166-169 of the Base Prospectus, under the Chapter headed “**The Portuguese Economy**”, the whole text shall be deleted and shall be replaced by the following entry:

“THE PORTUGUESE ECONOMY

In May 2011, the Portuguese FAP was agreed between the European Central Bank (“**ECB**”), the International Monetary Fund (“**IMF**”) and the European Commission (“**EC**”, and together with the prior two entities, the “**Troika**”) and was implemented in 2012. The FAP comprised a total funding of €78 billion to be allocated during the period from 2011 to 2014. The FAP’s main objectives were to return the Portuguese economy to a path of sustained growth within a framework of financial stability and to restore the confidence of participants in the international financial markets. To this end, the FAP focused its assistance in three main areas: (i) a set of significant structural reforms to increase potential growth, create jobs and improve the economy's competitiveness; (ii) a strategy for credible fiscal consolidation, based on measures of a structural nature and greater budgetary control over all obligations of the State; and (iii) a process of orderly deleveraging of the financial sector through market mechanisms and supported by a fund to finance the recapitalisation of banks.

On 17 May 2014, the FAP came to an end, which constituted an important moment for the evolution of the Portuguese economy. During the implementation period, there was significant progress in the correction of certain macroeconomic imbalances and various structural measures were adopted where needed. Notwithstanding this progress, the return to normal market conditions in respect of funding to the Portuguese economy required sustained productivity. Such productivity was also crucial to bringing about a reduction in the high level of unemployment observed in the Portuguese economy (which in 2013 reached a maximum annual average of 16.2 per cent., having started a downward trajectory in 2014 reaching 6.5 per cent. in 2019).

Following its exit from the FAP, Portugal became subject to Post-Programme Surveillance by the EC and the ECB and to Post-Programme Monitoring by the IMF.

Portugal’s debt-to-GDP ratio was 131.5 per cent. of gross domestic product (“**GDP**”) in 2016, 126.0 per cent. in 2017 and 122.2 per cent. in 2018. The level of public debt is projected to continue its gradual declining

trend, with Portuguese Government forecasting new reductions to 119.2 per cent. in 2019 and to 116.0 per cent. in 2020, in the State Budget for 2020 (the “**SB 2020**”), and further reducing to 99.6 per cent. in 2023, according to the Stability Programme 2019-2023 (the “**SP 2019-2023**”). Given the current high level of government debt, Portugal still appears to face high fiscal sustainability risks in the medium-term. However, in the long-term, Portugal faces low fiscal sustainability risks, particularly due to the positive structural primary balances since 2012.

In addition, Portugal’s GDP grew by 2.4 per cent. in 2018, a decline compared to 3.5 per cent. growth in 2017, which represents the highest rate of growth since the beginning of the millennium. The economic growth registered in 2018 reflected the positive domestic demand contribution of 3.2 percentage points. The decline of this contribution (compared to 3.3 percentage points in 2017) mainly reflects the strong reduction in investment (“**GFCF**”), as private consumption and public consumption accelerated and investment in change in inventories saw the contribution increase. Private consumption expanded by 3.1 per cent. (compared to 2.1 per cent. in 2017), while GFCF rose by 5.8 per cent., strongly decreasing the growth of 11.5 per cent. in 2017. Public consumption rose 0.9 per cent. (compared with the slightly expansion of 0.2 per cent. in 2017) and the change in inventories had a positive contribution of 0.1 percentage points, after equal contribution in 2017 (+0.1 percentage points). Meanwhile, net exports showed a negative contribution of 0.8 percentage points, penalising growth for the fourth time in the past five years (+0.2 percentage points in 2017). The negative contribution of net exports in 2018 reflects increases of 3.8 per cent. in exports (compared to +8.4 per cent. in 2017) and 5.8 per cent. in imports (compared to 8.1 per cent. in 2017). Although net exports in 2018 have penalised growth, the economic recovery has continued to be sustained by exports, which at the end of 2018 were 53.9 per cent. higher than pre-adjustment programme levels (i.e. 2010). Exports of services, notably tourism, have continued to grow at a steady pace, as several Portuguese destinations consolidate their prestige in the international markets.

For 2019, the preliminary GDP data points to an average annual growth of 2.0 per cent., a decline compared to 2.4 per cent. growth in 2018. This is in line with growth projected by the Banco de Portugal (on 17 December 2019) and the European Commission (on 13 February 2019), but above the 1.9 per cent. forecast by the Portuguese Government in the SB 2020. This growth was also above the 1.9 per cent. anticipated by the IMF (on 15 October 2019), as well as the 1.8 per cent. forecast by the OECD (on 21 November 2019).

For 2020, the Banco de Portugal and European Commission forecasts a decline in GDP growth to 1.7 per cent. (+2.0 per cent. in 2019), below that projected by Portuguese Government (+1.9 per cent. in the SB 2020) and the 1.8 per cent. forecasted by OECD (on 22 November 2019), and slightly above the 1.6 per cent. growth forecasted by the IMF (on 15 October 2019).

However, growth prospects for the Portuguese economy will naturally be affected by the prospects for the evolution of the global economy. In October 2019, the IMF described, in its World Economic Outlook (“**WEO**”), the world economy as being in a synchronised decline, with increasing risks of a fall that could further hinder growth. However, in the update of the WEO carried out in January 2020, the IMF came to mention that, since then, some risks have partially receded, with the announcement of Phase I (signed on 15 January 2020) of the US-China trade agreement and the less likely a reduced likelihood of disorderly withdrawal of the United Kingdom from the European Union (“**Brexit**”). Monetary policy continued to support growth and financial conditions remained favourable. With these developments, there are now signs that global growth may be stabilizing, albeit at moderate levels. The IMF now projects global growth to increase modestly from 2.9 per cent. in 2019 to 3.3 per cent. in 2020 and 3.4 per cent. in 2021. The slight downward revision of 0.1 percentage points in 2019 and 2020 and from 0.2 percentage points for 2021 is largely due to the downward revisions made to India’s growth. The projected recovery for global growth remains uncertain, especially in light of the COVID-19 outbreak. The IMF continues to expect recoveries from emerging economies under greater stress and underperformance in recent years, as growth in advanced economies stabilises close to current levels.

In addition to making a new downward revision of global economy growth, in January WEO update the IMF found that the risks to the global economy remain downwardly skewed, despite positive trade news and lower concerns about a non-deal Brexit. However, new trade tensions between the US and the European Union may arise and US-China trade tensions may intensify. Such events, together with increased geopolitical risks and intensified social unrest, can reverse easy financing conditions, expose financial vulnerabilities and severely disrupt growth. The IMF stressed that, even though the negative risks seem a little less prominent than in 2019, the political space for response is also more limited. In this regard, the IMF considers it essential that those responsible for economic policy do not harm the prospects of economic agents and further reduce political uncertainty, both nationally and internationally. This will help to recover investment, which remains weak. The IMF suggests that monetary policy remains accommodative where inflation is still low. With the expectation that interest rates will remain low for a long time, macro prudential tools should be used proactively to avoid the accumulation of financial risks. Given historically low interest rates, coupled with weak productivity growth, countries with budgetary slack must invest in human capital and environmentally friendly infrastructure to increase potential output. Economies with unsustainable levels of debt will need to consolidate public finances, including through effective revenue mobilization. The IMF considers that countries need to cooperate on several fronts to increase growth and spread prosperity, saying that it is necessary to reverse protectionist barriers to trade and resolve the impasse over the World Trade Organization's court of appeal. Also noteworthy is the fact that the IMF said that countries should adopt strategies to limit global warming and the serious consequences of natural disasters related to climate.

On 19 February 2020, the IMF warned that the coronavirus epidemic has already disrupted economic growth in China, and a further spread to other countries could derail a "highly fragile" projected recovery in the global economy in 2020. For more information, see "*Risk Factors - Coronavirus impacting global economy and markets*".

In particular for the Portuguese economy, domestically, the main challenges are linked to: *i*) the persistently weak situation of the banking system, despite a reduction in non-performing loans; *ii*) the permanence of some political risks, in particular given the Portuguese Government minority, in a context in which the country remains committed to the objectives of consolidation of public finance in the medium term, the consequent need for structural reforms and the lack of support for such reforms which is exacerbated by a minority Government and no formal agreement to effect reform. Separately, the recovery of the labour market may continue to exceed expectations, supporting greater growth in domestic demand.

At the same time, despite the continued deleveraging process of the non-financial private sector in recent years, this sector is still highly indebted, implying that the effort to reduce debt will have to be further pursued for the main economic agents, households and non-financial companies to be able to continue to meet debt servicing requirements. If the deleveraging process does not continue, the risk of credit default might increase, with negative impacts on the asset quality of banks, especially in a scenario of a future rise in interest rates.

Externally, the Portuguese economy is still vulnerable to the changes in global demand, which in turn is susceptible to various risks, although the general expectation is that global demand levels will continue to increase. For example, the low price of oil (the average price of 2020 is expected to be below that observed in 2019, as measured by Brent futures) has various adverse effects on the global economy, however it is expected to continue to support the terms of trade for Portugal. Despite the risks associated with the recent coronavirus epidemic, see "*Risk Factors - Coronavirus impacting global economy and markets*", there is an expectation that the global economy will grow at a higher rate than currently envisaged, which in turn will benefit the Portuguese economy.

On the negative side, the following risks are highlighted: *i*) the political uncertainty in the Euro Zone (namely, parliamentary support to the governments of Spain and Germany); *ii*) the possibility of a recrudescence of tensions in financial markets, making the international panorama less favourable than that considered in the projections, negatively affecting the financing conditions of the Portuguese economy; *iii*) an overly rapid appreciation of the euro could constrain the competitiveness of the economy; *iv*) the effects of the future

reduction of the expansionary nature of the ECB's monetary policy on the yield rates of Portuguese debt; v) protectionism at a global level (which after the conclusion of phase one of the agreement between the United States and China has been easing); and vi) the high geopolitical risk, namely: a) uncertainty about the situation of Catalonia; b) uncertainty about the Brexit process; c) uncertainty relative to the economic and trade policy that will be conducted by the United States; d) geopolitical uncertainty in the Middle East (e.g. U.S. and Iran and Syria), in the Far East (e.g. North Korea, mitigated by the holding of the Singapore summit between North Korea and the U.S. leaders) and in Eastern Europe (Russia/Ukraine) and in U.S./Russia, U.S./Turkey, U.S./Saudi Arabia and U.S./Iran relations.

With respect to the labour market, the unemployment rate decreased from 7.0 per cent. in 2018 to 6.5 per cent. in 2019, continuing the trend of reduction from the historical peak reached at the beginning of 2013 (17.5 per cent.), with a further reduction being projected by the Banco de Portugal for 2020, to 5.9 per cent., and for 2021, to 5.6 per cent., which compares with the 6.1 per cent. for 2020 projected by the Government in the SB 2020.

On the other hand, the average rate of change of the Portuguese consumer price index (“**CPI**”) was 0.3 per cent. in 2019, declining from the 1.0 per cent. in 2018 (compared to 1.4 per cent. in 2017, 0.6 per cent. in 2016, 0.5 per cent. in 2015 and -0.3 per cent. in 2014), with core inflation (excluding energy, food and tobacco prices) at 0.5 per cent. in 2018 (compared to 0.7 per cent. in 2018 and 1.1 per cent. in 2017). When considering the harmonised consumer prices index (“**HCPI**”), an acceleration of inflation in 2020 is expected by the Banco de Portugal, to 0.9 per cent. (0.3 per cent. in 2019, 1.2 per cent. in 2018 and 1.6 per cent. in 2017), below the 1.1 per cent. projected in the SB 2020.

In Portugal, 2017 and 2018 were marked by a strong decrease in the country risk, reflected in the reduction of the spread of 10-year Portuguese Government bonds, a favourable trend that was maintained in 2019. GDP has grown more than anticipated and the unemployment rate has fallen more than expected, with better prospects for meeting the budget targets. In recent years, Portugal started a process of fiscal adjustment, despite the sharp increase in the deficit observed in 2017, caused by the recapitalisation of Caixa Geral de Depósitos (“**CGD**”). Indeed, following the budget deficit of 1.9 per cent. of GDP in 2016, in decline from the 4.4 per cent. deficit in 2015 - a reduction which benefited from some extraordinary effects - the budget deficit in 2017 amounted to 3.0 per cent. of GDP, representing an annual deterioration of the balance of 1.1 percentage point, mainly due to the impact of the recapitalisation of CGD. This positive performance continued in 2018, a year in which the deficit fell to 0.4 per cent., and for 2019, the Government estimated a further reduction of the budget deficit to 0.1 per cent. of GDP (in SB 2020), with these last two years observing the lowest deficit of the entire democratic history of Portugal, given that the previous lower deficit was, according to longer annual series, in 1974, of 1.0 per cent. of GDP. For 2020, the Government expects a budget surplus of 0.2 per cent. of GDP (in SB 2020), a forecast, in this case, above the 0.1 per cent. forecast by IMF (on 15 October 2019) and the 0.0 per cent. of GDP projected by the European Commission (on 7 November 2019) and by OECD (on 21 November 2019), being in turn below the 0.3 per cent. of GDP projected by the Portuguese Public Finance Council (on 13 December 2019),

Other favourable developments contributed to the reduction of the country risk during 2017, 2018 and 2019, such as Portugal's exit from the Excessive Deficit Procedure (“**EDP**”), positive developments in unemployment, general economic growth and favourable prospects for the achievement of budgetary targets. On 9 September 2017, Standard & Poor's increased the Portuguese Republic's rating to the first level of investment grade with a favourable outlook, and, on 15 September 2018, maintained the rating but improved the outlook from stable to positive. In turn, on 15 December 2017, Fitch increased its rating to two levels above "junk" maintaining the positive outlook, and reiterated this rating on 1 June 2018. On 12 October 2018, Moody's upgraded the Portuguese Republic's domestic and foreign long-term issuer rating one level above "junk" from Ba1 to Baa3, whereas the outlook has been changed from positive to stable. This update was driven by (1) Portugal's high general government debt move to a sustainable, albeit gradual, downward trend, with limited risks of reversal; and (2) the increased economic resilience following the broadening of Portugal's

growth drivers and a structurally improved external position. More recently, on 4 October 2019, DBRS increased the Portuguese Republic's rating from BBB to BBB (high) (outlook stable) and, on 13 September 2019, Standard & Poor's maintained the Portuguese Republic's rating at BBB, changing the outlook from stable to positive. This followed on from Moody's, on 9 August 2019, holding the Portuguese Republic's rating at Baa3, changing the outlook from stable to positive and Fitch maintaining the Portuguese Republic's rating at BBB, changing the outlook from stable to positive, on 24 May 2019 (reiterated on 22 November 2019).

Several challenges persist as fiscal consolidation is still unfolding, and private and public debt levels remain high. It is still unclear whether the Portuguese economy will begin to recover in a sustainable way, particularly through an increase in investment.”