

Country Insight Snapshot

Portugal

September 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: March 2023 (DB4b → DB4c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

WorldWatch Headline

The Golden Visa scheme is likely to be modified to exclude property investment in order to prevent overheating of the Lisbon and Porto real estate markets.

Recent Changes

- Producer prices have declined continuously since June 2022 and contracted for the fourth consecutive month in July.
- Tourist arrivals rose 12.3% y/y between January and May 2023 compared with the same period in 2019, prior to the pandemic; tourism accounts for around 15% of Portugal's GDP.
- Forecasters are now predicting that there is a 95% chance of El Niño continuing through the winter of 2023-24; for Portugal, this could mean a generally wetter and warmer autumn.

Events to Watch

- The tourism sector is expected to continue growing strongly over the near term, with arrivals from the US in particular recording buoyant expansion.
- Portugal has been the country most affected by wildfires in Europe in recent years, with an average of 80,000 hectares lost every year between 2009 and 2021.
- There is uncertainty about whether the 'Golden Visa' scheme is being completely cancelled, with further legislative developments in this regard expected in September 2023.

Call to Action

- Factor in a moderate weakening in economy-wide payments performance in Portugal as growth slows this year and into 2024, partly driven by tighter credit due to higher ECB interest rates.
- Closely monitor the development of the El Niño weather pattern; consider adjusting terms on any trade conducted with Portuguese counterparts involved in agriculture.
- Also closely monitor the situation regarding the Golden Visa scheme; be prepared to quickly adjust your commercial exposure accordingly.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: March 2023 (DB4a → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- The tourism sector is expected to continue growing strongly over the near term, with arrivals from the US in particular recording buoyant expansion.
- The government's near-term investment plans are partly based on a significant uptick in EU funding dispersals, which are designed to increase Portugal's competitiveness and boost growth potential.
- Uncertainty over the near- and long-term implications of the Russia-Ukraine conflict still looms over the economic outlook for Portugal and Europe.
- The government's infrastructure plans will get a major boost from EU funding over the coming years, especially with respect to transport.
- Weak links between universities and businesses inhibit productivity and competitiveness, as do a segmented labour market and high youth unemployment.

Trade Terms

Description	Terms
Minimum Terms	SD
Recommended Terms	SD
Usual Terms	90-120 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Limited cover available

Source: Export Credit Agencies

Call to Action

- Factor in a moderate weakening in economy-wide **payments performance** in Portugal as growth slows this year and into 2024, partly driven by tighter credit due to higher ECB interest rates.
- Watch out for government announcements regarding public investment and the spending of EU funds; adjust your commercial exposure accordingly.
- Closely track economic conditions in Europe, especially against the backdrop of the continued (and unpredictable) Russia-Ukraine conflict.
- Be aware of limitations within the Portuguese labour market, which is characterised by generally low productivity and skills shortages.
- Note that low competitiveness in the domestic business sector is forcing highly skilled young people to leave Portugal in search of better jobs.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: May 2023 (DB3c → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- Portugal has been the country most affected by wildfires in Europe in recent years, with an average of 80,000 hectares lost every year between 2009 and 2021.
- In response to ongoing drought conditions, the government had to impose water restrictions in the Algarve in June 2023, with a particular focus on the east of the region.
- A new complex is being built in the Douro River Basin; it includes three dams, plants and a pumped-storage station and will improve Portugal's electricity infrastructure in the long run.
- The Portuguese legal system is notorious for being extremely slow; it also has a reputation for being expensive, and can be difficult to navigate.
- Foreigners can establish operations in all parts of the economy that are open to private firms, but government approval is needed for non-EU investment in some sectors.

Call to Action

- Note that there will be more demand in Portugal for companies that can help **cut emissions**, particularly in the electricity, agriculture and transport sectors.
- Ensure that you maintain and, if necessary, strengthen your IT defences against possible cyberattacks if you conduct business in Portugal.
- Closely monitor the development of the El Niño weather pattern; consider adjusting terms on any trade conducted with Portuguese counterparts involved in agriculture.
- Engage with Portuguese policymakers to try to influence the ongoing debate surrounding investment incentives and regulations.
- We urge companies looking to conduct business in Portugal to actively seek expert local advice to navigate the business environment.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: June 2023 (DB4d → DB4b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- As the 2024 US presidential election gets closer, solid progress towards resolving the EU-US trade argument will be harder to achieve.
- An EU proposal that would see it fast-track trade deals will feed into the narrative – in some quarters – that the bloc is at risk of becoming more anti-democratic.
- Under a Generalised Scheme of Preferences Plus (GSP+) deal, the Philippines is currently able to export nearly 6,300 product lines to the EU tax-free; however, this arrangement is due to expire at the end of 2023.
- Movements in the value of the euro will continue to be partly driven by the relative growth dynamics in the US and Europe, and ECB interest rate changes.
- A recent decline in bankruptcies should be seen as encouraging as it comes despite the ongoing slowdown in economic activity.

Call to Action

- Consider expanding your e-commerce presence in Portugal as more public investment is ploughed into digitisation; do not expect any increase in non-tariff barriers and tariffs.
- Watch trade deal negotiations between Australia and the EU; **bilateral talks** are set to resume in late August 2023 with the aim of resolving the disagreement over meat and sugar access.
- Follow any developments relating to mooted trade talks between the Philippines and the EU; bilateral trade in goods was worth over EUR18bn in 2022.
- Note that eurozone importers should expect – and plan for – a possible mild overall strengthening in the euro this year, although there could be some depreciation next year as ECB rate hikes likely come to an end.
- Monitor trends in NPLs as a proxy for banking system performance, as the Portuguese economy records a period of slowdown.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: May 2023 (DB3a → DB3c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- The government faces various challenges, including high living costs and associated strikes, elevated taxes, low wages and pensions, housing shortages and the effects of climate change.
- Although the TAP scandal was an embarrassment to the government, the Costa administration looks to be reasonably secure in office; the next general election is scheduled to take place on or before 11 October 2026.
- The decision to ban Mainland China from the 5G network has led to Beijing threatening retaliation; Chinese companies hold significant stakes in various Portuguese firms, including BCP Bank and the electric utilities group, EDP.
- There is uncertainty about whether the Golden Visa scheme is being completely cancelled, with further legislative developments in this regard expected in September 2023.
- The National Programme for Support to Investment in the Diaspora allows investment support and incentives for members of the Portuguese diaspora investing in Portugal.

Call to Action

- Factor in that pay disputes look set to continue across various sectors; ensure that you plan for possible disruption.
- Expect to see further official efforts to maintain a positive relationship between Lisbon and Brussels, to prevent a rise in euroscepticism.
- Closely watch Beijing's response to the 5G ban; some degree of retaliation, whether economic and/or political, seems to be inevitable.
- Closely monitor the situation regarding the Golden Visa scheme; be prepared to quickly adjust your commercial exposure accordingly.
- Note that the risk of competitors or lobbying activities influencing official regulation, standards and licensing in Portugal is low.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	2.8	2.7	-8.3	5.5	6.7	2	1.8	2.2	2	1.8
Nominal GDP in USDbn	242	240	229	254	252	276	295	312	328	343
Nominal GDP in local currency	205.2bn	214.4bn	200.5bn	214.7bn	239.2bn	254.3bn	265.2bn	276.9bn	288.0bn	298.4bn
GDP per Capita in USD	23,541	23,323	22,194	24,685	24,545	26,936	28,828	30,605	32,207	33,763
Population (year-end, m)	10.3	10.3	10.3	10.3	10.3	10.2	10.2	10.2	10.2	10.1
Exchange rate (yr ave, USD-LCU)	0.8	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Current Account in USDbn	1.3	1	-2.4	-1.9	-3.4	-2.2	-1.5	0.5	0.5	0.8
Current Account (% of GDP)	0.6	0.4	-1	-0.8	-1.3	-0.8	-0.5	0.1	0.2	0.2
FX reserves (year-end, USDbn)	378.4	386.6	422.9	568.7	591.8	622	673.2	743.1	836.4	978.5
Import Cover (months)	1.3	1.4	1.6	2	2.2	2.1	2.1	2.2	2.3	2.6
Inflation (annual ave, %)	1	0.3	0	1.3	7.8	4.3	2.5	2.2	2	1.8
Govt Balance (% GDP)	-0.3	0.1	-5.8	-2.9	-0.4	-0.2	-0.1	-0.2	-0.1	-0.1

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Portugal	Ireland	Greece	Italy	Spain
Income per Capita (USD)	26,936	68,243	22,223	28,659	31,889
Country Population (m)	10.2	5.1	10.8	60.1	47.5
Internet users (% of population)	78.3	92	78.1	70.5	93.2

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	0-1 week
Local Delays	0-1 week

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Portugal	Western & Central Europe	OECD Average
Restrictions on non-Residents' Accounts	0	0	0.06
Restrictions on Payments for Imports	0	0.12	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0.36	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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User Guide

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