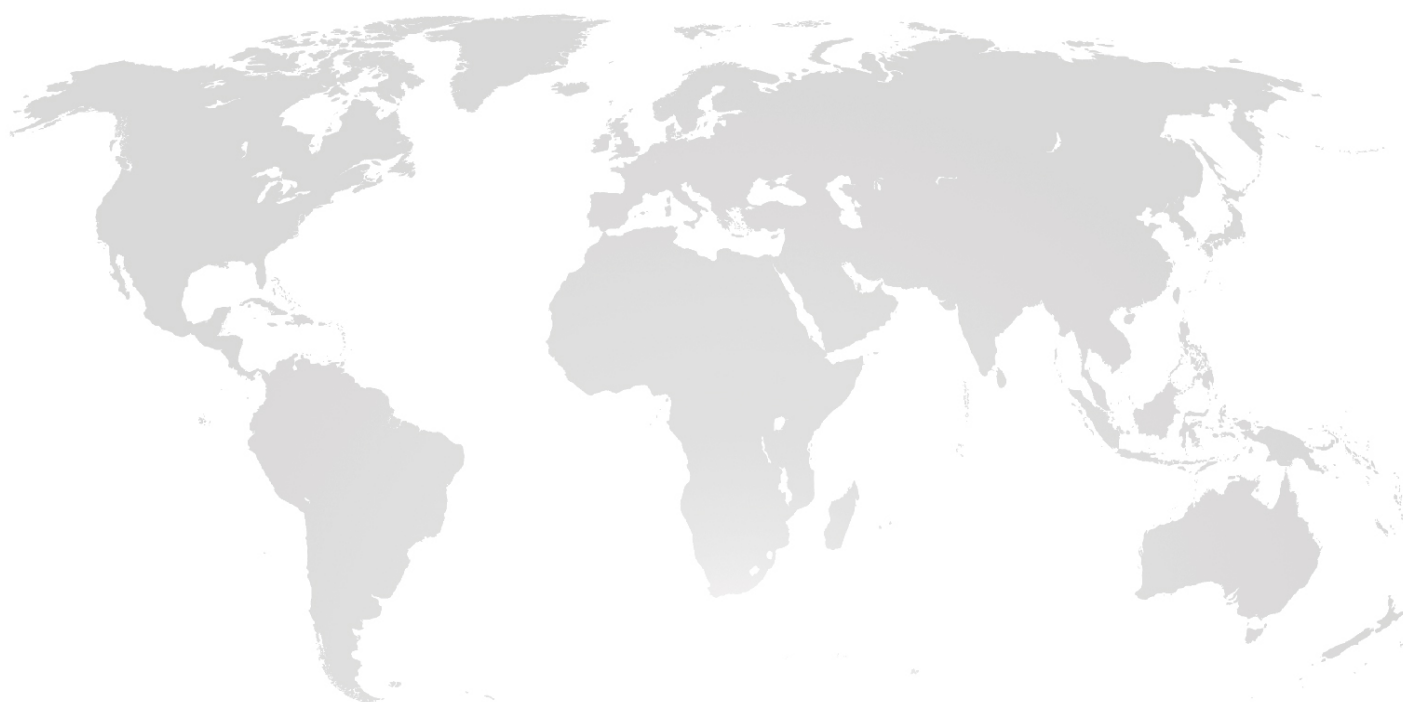




D&B Country Insight Snapshot: Portugal

January 2015



Overview

Overall Country Risk Rating : DB4c

A

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Rating Outlook: Stable →

Core Outlook

- + Structural reforms are expected to open the country to more competition, business and growth.
- + Although unemployment remains at a high level, labour market conditions are increasingly becoming more supportive.
- Strategic and longer-term reforms need to maintain a fast pace in order to sustain economic recovery.
- The low productivity of the labour force constitutes a factor that will slow down innovation and competitiveness.

Key Development

The economy, driven by a boost in private consumption and improved labour market conditions, recovers from a period of contraction to post marginal growth figures.

Credit Environment Outlook

A

Key Development has had a neutral impact on the outlook.

Supply Environment Outlook

A

Key Development has had a neutral impact on the outlook.

Market Environment Outlook

A

Key Development has had a neutral impact on the outlook.

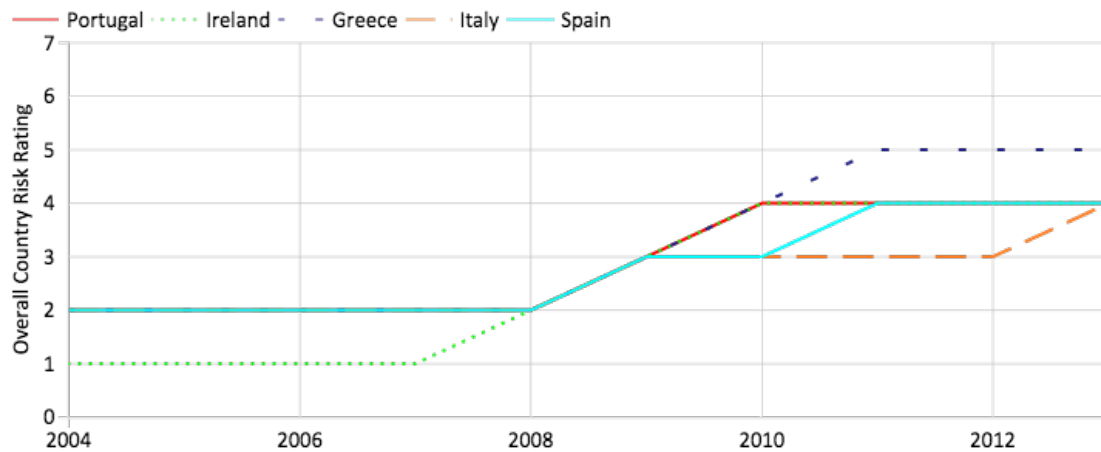
Political Environment Outlook

A

Key Development has had a negative impact on the outlook.

Key Indicators

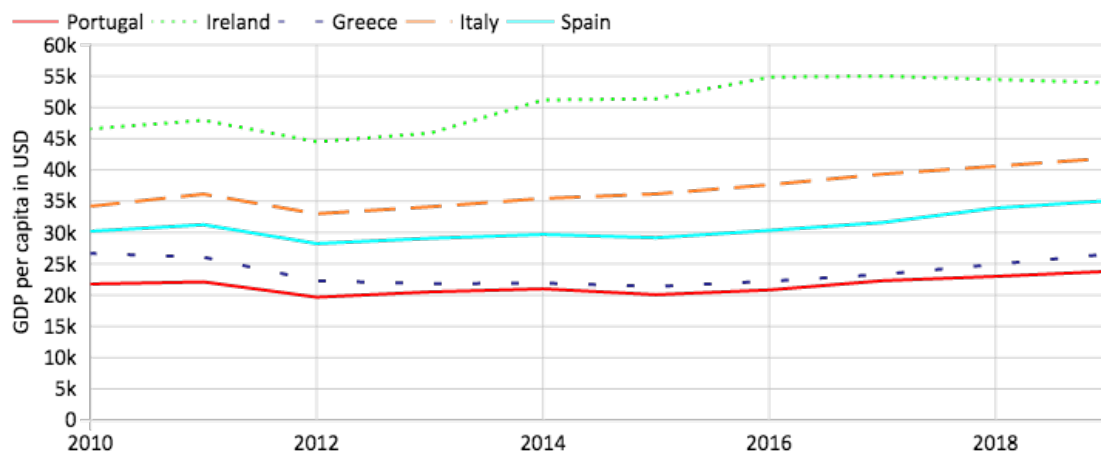
Rating History and Comparison



Source : D&B

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : D&B

Chart of the Month



Source : National Statistical Offices / Haver Analytics

Economic Indicators

| Indicator | 2011 | 2012 | 2013 | 2014f | 2015f | 2016f | 2017f | 2018f |
|--------------------------|------|------|------|-------|-------|-------|-------|-------|
| C/A balance % GDP | -6.5 | -1.6 | 0.2 | 0.3 | 0.8 | 1.0 | 1.2 | 1.4 |
| Govt balance, % GDP | -7.4 | -5.5 | -5.5 | -4.8 | -3.5 | -2.8 | -2.5 | -2.0 |
| Inflation, annual avge % | 3.7 | 2.8 | 0.6 | 0.2 | 0.8 | 1.0 | 1.5 | 1.6 |
| Real GDP Growth, % | -1.8 | -3.2 | -1.7 | 0.9 | 1.4 | 1.5 | 1.7 | 1.9 |
| Unemployment, % | 12.9 | 15.8 | 16.4 | 14.0 | 13.8 | 132.0 | 12.8 | 12.6 |

Source : Haver Analytics/D&B

Trade and Commercial Environment

Thanks to ambitious reforms, the World Economic Forum (WEF) ranks Portugal as the world's 36th most competitive economy amongst 148 countries assessed in 2014-2015. Compared to the 2013 report there has been a decisive improvement in the overall ranking. Furthermore, the country has reduced the red tape to start a business (5th), which is significant because complex bureaucracy is one of the Portugal's major drawbacks. However, the relatively low overall ranking compared to other northern European countries is a sign of a persisting competitiveness divide in Europe. Meanwhile, as we approach year-end, our projections indicate that payments performance is likely to remain weak over the 2015 period, with a slight risk of deterioration. Moreover, difficulties in fully overcoming spill over effects from the euro-zone debt crisis are likely to weigh on the financial sector; lending terms are tight and are not likely to be relaxed in 2015, while banks' EU-mandated obligations to boost capital buffers will mean access to credit remains difficult.

Trade Terms and Transfer Situation

Minimum Terms: SD

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 90-120 days

Normal period of credit associated with transactions with companies in the stated country.

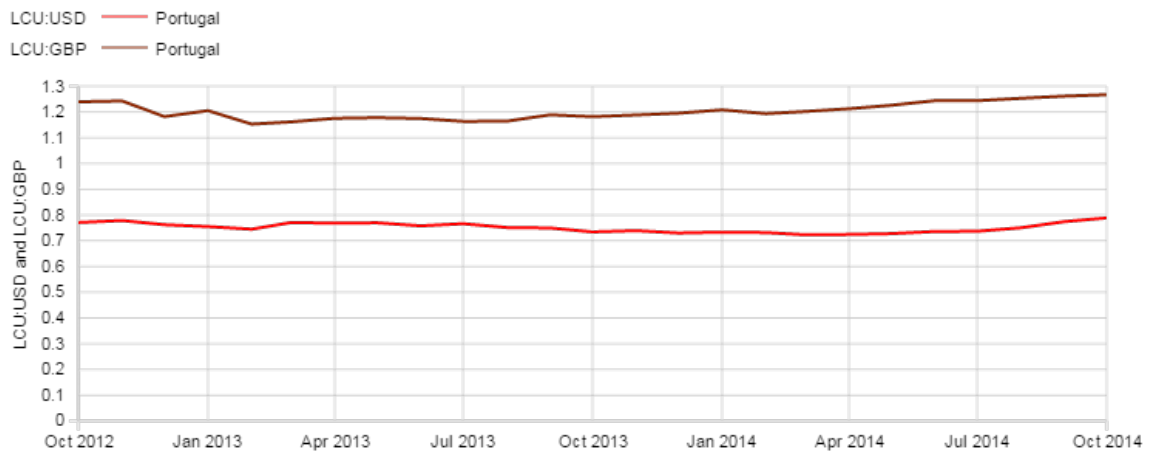
Local Delays: 0-1 month

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

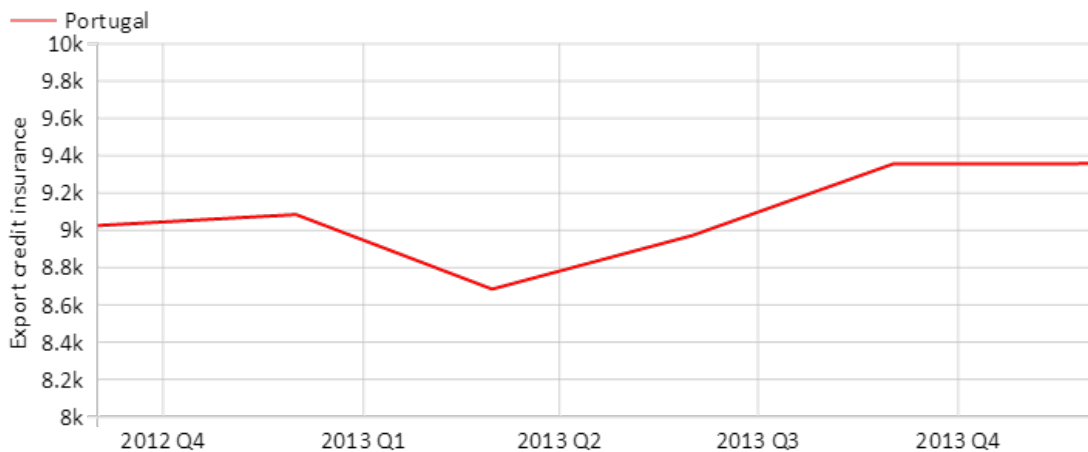
Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

LCU = Local Currency Unit

Credit Conditions



Source : Haver

Insured export credit exposures, USDm

Risks and Opportunities

Short-Term Economic Outlook

Economy recovers to record marginal growth

Boosted by ambitious tax and structural reforms, Portugal's Q3 real GDP grew by 0.3% q/q, which corresponds to an increase of 1.1% on a y/y basis. Higher consumer confidence and improved labour market conditions boosted domestic demand. Indeed, private consumption contributed positively by 1.3% q/q and offset the imbalances in net trade. In fact, net external demand weighed on growth as a rise in exports (up by 0.7% q/q) was more than offset by a higher increase in imports (up by 2.7% q/q). Export growth should pick up momentum in 2015, thus supporting growth, jobs creation and social inclusion. Overall, we expect the Portuguese economy to grow by 0.9% in 2014 and to gather steam from 2015 onward as internal as well as external macroeconomic conditions improves. However, risks are tilted to the downside, as deflation might become persistent. This might affect the pace of recovery and make debt reduction more challenging. The risk is particularly relevant as the corporate sector is highly indebted in Portugal. Moreover, the banking sector is weak, as Espirito Santo's collapse revealed, and the level of non-performing loans is persistently high (OECD estimates show that over 40% of firms with bank loans are unable to cover their debts from operating income).

Business Environment Quality

Some success for government plans to attract investors

Positively, Portugal's property market is reviving after years of stagnation. In particular, favourable tax-free residence for EU citizens and the 'golden visas' schemes are appealing to both traditional and new developers in the residential sector. On the other hand, the uncertainties in the market are still weighing on the recovery, and production in construction decreased by 6.4% y/y in Q3, recording a gentler but still significant rate of contraction than the one posted in Q2. In October, retail trade slowed and registered a change rate of 0.8% y/y (1.8% y/y in September). Forward looking indicators mirror the mixed economic trend: the economic climate diminished slightly in November to 0.5 points (from 0.7 points in October).

On the political front, the government has set in motion a proposal to gradually reduce the corporate tax rate to 17% by 2015 (currently it is at 25%). The aim of the measure is threefold: extending the corporate tax base, encouraging new investments from small-medium enterprises and attracting foreign investments. More generally, the government is firm in maintaining the business-oriented nature of its policy action. In fact, despite being at the centre of a corruption scandal, the government defended the 'golden visas' to foreigners willing to invest, as the scheme apparently brought in significant investments. In addition, the short-term strategy to tackle the high fiscal burden and to ease the investment climate is to focus on streamlining the public administration while meeting EU-mandated deficit reduction targets. This could, however, exacerbate social tensions as low-income earners are likely to be the most affected by public spending cuts.

Country Profile and Statistics

Overview

Situated on the Iberian Peninsula's western Atlantic coast, Portugal has a land border with Spain, its main trade partner. Despite a recent improvement, Portugal's international influence is limited to a few former African colonies. After the return to democracy in 1974, politics has been dominated by two main parties representing the centre-right (the Social Democratic Party or PSD) and the centre-left (the Socialist Party or PS). The incentive of EU membership encouraged the development of a modern democracy, and in 1986 the country joined what is now the EU. However, frequent political instability poses the risk of undermining government effectiveness. In June 2011, the PSD won the general election against the PS, ending the six-year rule of the PS.

Although Portugal has enjoyed some of the benefits of EU membership (better infrastructure and lower interest rates) the standard of living is well below those of Western Europe. The Portuguese economy remains specialised in low-added value manufactures (i.e. shoes and textiles) with a low-productivity agricultural sector. Low competitiveness led to weak economic growth even prior to the global financial crisis, exacerbating the 2010-11 debt crisis in the country.

Key Facts

| Key Fact | Detail |
|----------------------------|------------------------------------|
| head of government | Prime Minister Pedro Passos COELHO |
| Capital | Lisbon |
| Timezone | GMT |
| Official language | Portuguese |
| Population (millions) | 10.8 |
| GDP (USD billions) | 226.4 |
| GDP per capita (USD) | 20,991 |
| Life expectancy (years) | 80 |
| Literacy (% of adult pop.) | 93.3 |
| Surface area (sq km) | 92,090 |

Source : UN / Haver Analytics / D&B

Historical Data

| Metric | 2010 | 2011 | 2012 | 2013 | 2014 |
|------------------------------------|--------|--------|--------|--------|--------|
| Real GDP growth (%) | 2.19 | -1.83 | -3.2 | -1.7 | 0.9 |
| Nominal GDP in USDbn | 230.48 | 237.68 | 211.68 | 220.92 | 226.37 |
| Nominal GDP in local currency (bn) | 173 | 171 | 165 | 166 | 168 |
| GDP per Capita in USD | 21,764 | 22,103 | 19,660 | 20,497 | 20,991 |
| Population (year-end, m) | 10.59 | 10.75 | 10.77 | 10.78 | 10.78 |
| Exchange rate (yr avge, USD-LCU) | 0.75 | 0.72 | 0.78 | 0.75 | 0.74 |
| Current Account in USDbn | -22.81 | -15.44 | -3.28 | 0.44 | 0.68 |
| Current Account (% of GDP) | -9.9 | -6.49 | -1.55 | 0.2 | 0.3 |
| FX reserves (year-end, USDbn) | 0.3 | 0.32 | 0.33 | 0.33 | 0.35 |
| Import Cover (months) | 1.34 | 1.21 | 1.31 | 1.32 | 1.4 |
| Inflation (annual avge, %) | 1.4 | 3.7 | 2.8 | 0.6 | 0.2 |
| Govt Balance (% GDP) | -11.2 | -7.4 | -5.5 | -5.5 | -4.8 |

Source : D&B

Forecasts

| Metric | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------------------|--------|--------|--------|--------|--------|
| Real GDP growth (%) | 1.4 | 1.5 | 1.7 | 1.9 | 2 |
| Nominal GDP in USDbn | 216.3 | 224.5 | 240.5 | 248 | 256.7 |
| Nominal GDP in local currency (bn) | 170.86 | 175.13 | 180.39 | 185.98 | 192.49 |
| GDP per Capita in USD | 20,050 | 20,809 | 22,291 | 22,982 | 23,786 |
| Population (year-end, m) | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 |
| Exchange rate (yr avge, USD-LCU) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Current Account in USDbn | 1.7 | 2.2 | 2.9 | 3.5 | 3.6 |
| Current Account (% of GDP) | 0.8 | 1 | 1.2 | 1.4 | 1.4 |
| FX reserves (year-end, USDbn) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Import Cover (months) | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Inflation (annual avge, %) | 0.8 | 1 | 1.5 | 1.6 | 2 |
| Govt Balance (% GDP) | -3.5 | -2.8 | -2.5 | -2 | -1.9 |

Source : D&B

Comparative Market Indicators

| Indicator | Portugal | Ireland | Greece | Italy | Spain |
|---------------------------------------|------------|-----------|----------|------------|-----------|
| Income per Capita (USD) | 20,991 | 51,170 | 21,909 | 35,436 | 29,695 |
| Country Population (m) | 10.8 | 4.7 | 11.1 | 61.1 | 47.1 |
| Internet users (% of population) | 62.1 | 78.3 | 59.9 | 58.5 | 71.6 |
| Real GDP Growth (% p.a., 2014 - 2023) | -1.5 - 1.8 | 1.8 - 2.8 | -4.1 - 3 | -0.5 - 1.5 | 1.1 - 1.7 |

Source : D&B

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