



Decide with Confidence

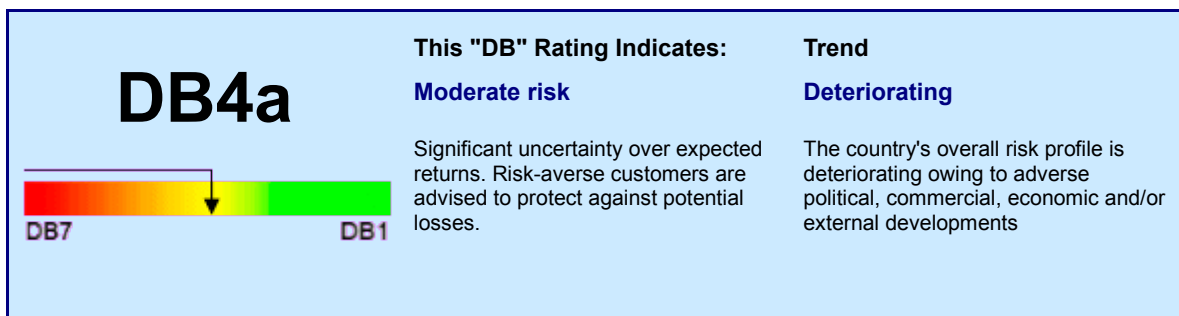
## D&B Country RiskLine Report

# PORTUGAL

Region : Western Europe

Edition : November 2010

### D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

<b>Population:</b>	10.7m
<b>Surface area (sq km):</b>	92,090
<b>Capital:</b>	Lisbon
<b>Timezone:</b>	GMT
<b>Official language:</b>	Portuguese
<b>Head of government:</b>	Prime Minister Jose SOCRATES
<b>GDP (USD):</b>	222.8bn
<b>GDP per capita (USD):</b>	20,813
<b>Life expectancy (years):</b>	78
<b>Literacy (% of adult pop.):</b>	93.3

### Country 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 September 2009, the PS lost its absolute majority in parliament and now governs as a (fragile) minority government.

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, and even Greece and Spain. The Portuguese economy remains specialised in low-added value manufactures (i.e. shoes and textiles) with a low-productivity agricultural sector. Increasing competition from low-cost labour countries has triggered the need for rapid reforms in the economy.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	SD
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	LC
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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.

<b>Usual Terms:</b>	90-120 days
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

<b>Local Delays:</b>	0-1 month
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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.

**Trade & Commercial Environment**

We expect payment risk to remain elevated in 2010-11 amid a weak economic outlook and ongoing credit constraints. D&B's proprietary payments performance data show that Portuguese firms paid 22.0% of their bills 30 or more days over terms in the year to end-Q3 2010, up significantly from 18.9% in the year to end-Q2. This performance compares unfavourably with the average posted in the six largest EU economies (France, Germany, Italy, the Netherlands, Spain and the UK). Moreover, the risk of non-payment remains heightened in light of rising business bankruptcy levels: new corporate insolvencies in Portugal rose by almost 40% year on year in Q3 2010, with the largest number of business failures recorded in the services and construction sectors.

**Export Credit Agencies**

<b>US Eximbank</b>	Full cover available
<b>Atradius</b>	Cover available subject to conditions
<b>ECGD</b>	Full cover available
<b>Euler Hermes UK</b>	Full ST cover available

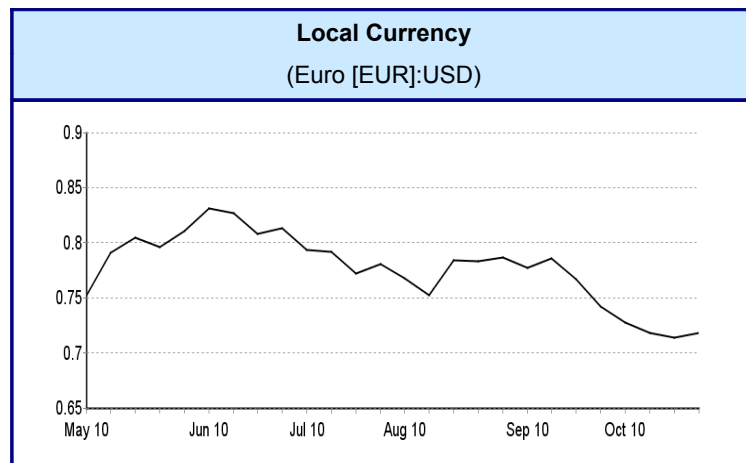
**Economic Indicators**

	2007	2008	2009	2010f	2011f
<b>Real GDP growth, %</b>	1.9	0.0	-2.7	1.3	-0.5
<b>Inflation, annual ave, %</b>	2.4	2.7	-0.9	1.2	0.9
<b>Govt balance, % GDP</b>	-2.8	-2.9	-9.3	-7.8	-5.2
<b>Unemployment, %</b>	8.1	7.7	9.6	10.7	11.2
<b>C/A balance, % GDP</b>	-10.5	-13.0	-10.8	-7.5	-7.0

"Payments Performance" chart reflects experiences of EU rather than US companies. Inflation and unemployment are based on EU-harmonised data.

## Currency Information

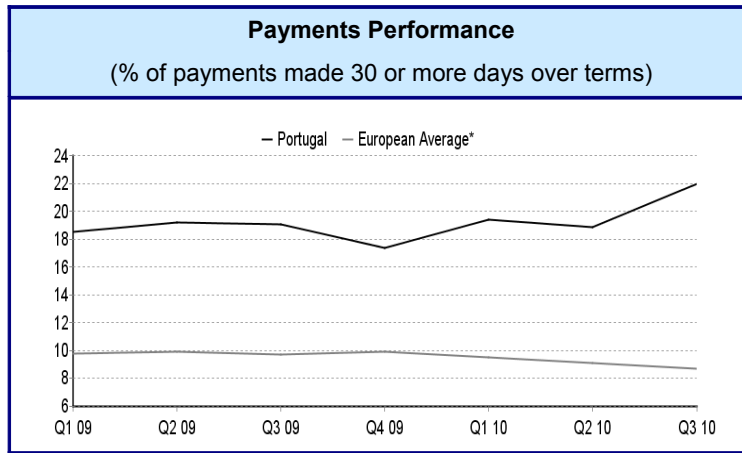
Exchange Rates	
(London, 25 Oct 10)	
GBP	1.1253
JPY*	0.882
USD	0.7182
*(x 100)	



**Local Currency**  
(Euro [EUR]:USD)

	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10
<b>Week 1</b>	0.752	0.831	0.794	0.768	0.778	0.728
<b>Week 2</b>	0.790	0.827	0.792	0.752	0.786	0.718
<b>Week 3</b>	0.805	0.808	0.772	0.784	0.766	0.714
<b>Week 4</b>	0.796	0.814	0.780	0.783	0.742	0.718
<b>Week 5</b>	0.811			0.786		

## Payments Performance



Data Table						
Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
18.5	19.2	19.1	17.4	19.4	18.9	22.0
9.8	9.9	9.7	9.9	9.5	9.1	8.7

## Risk Factor

D&B has downgraded Portugal's country risk rating by one quartile from DB3d ('Slight Risk') to DB4a ('Moderate Risk') amid elevated economic, political and commercial risks as the country struggles to reduce its high debt levels. The government's tough fiscal consolidation measures (aimed at reducing its wide budget deficit) threaten to derail the economic recovery. In mid-October the government presented to parliament its budget proposal for 2011, including sharp budget cuts such as a 5% cut in public sector wages and a 2 percentage point increase in VAT to 23%. These cuts, along with the urgent need for both banks and households to reduce their high debt levels, as well as persistently high unemployment, could suppress domestic demand significantly. Hence, the country will depend on exports to drive economic growth. Negatively, there are several downside risks to the export outlook. First, demand from Portugal's key export market Spain (as well as other EU countries) remains subdued. Second, there is a risk of a further sharp appreciation of the euro (dampening Portuguese export price competitiveness) in the wake of policies in countries such as the US, Japan and Brazil that weaken the local currencies there. In light of the fragile economic outlook, we have revised our real GDP forecast for 2011 downwards to a contraction of 0.5%.

The proposed budget cuts are not just highlighting the economic risks in the country, but are also linked to growing political risk. The government has threatened to resign if parliament fails to pass the budget bill; passage of the bill is not guaranteed given the fact that the Socialist Party (PS) currently rules as a minority government. The PS will depend on support (or at least abstention) from the main opposition party, the centre-right Social Democrats (PSD), to pass the bill. However, the PSD is pressing for a shift from tax hikes to public spending cuts in the budget. Hence, policy uncertainty and the risk of political deadlock weaken the country risk outlook further. A first vote on the budget's general guidelines will take place in early November. Additional tension comes from the threat of labour unrest: trade unions have announced a general strike for 24 November in protest at the proposed budget cuts. A political crisis could undermine financial markets' confidence in the government's ability to bring its public finances in order.

A weakening economic outlook, fragile business performance and banks' ongoing liquidity constraints all contribute to elevated payment risks. The payments performance of Portugal-based companies has deteriorated sharply in recent months, reflected in our payments performance data. We expect Portuguese firms' payments performance to remain weak in coming quarters amid challenging business conditions and rising insolvency risk.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

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:

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:

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

#### Local Delays:

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

#### F/X Bank Delays:

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.

#### C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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