



Decide with Confidence

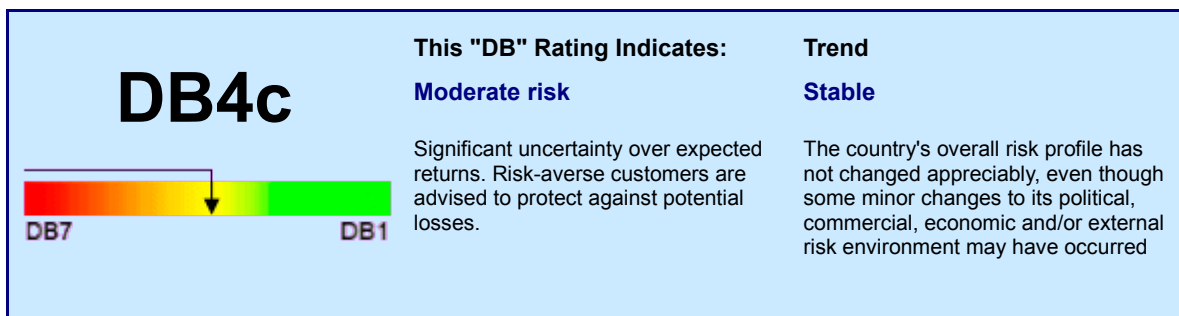
D&B Country RiskLine Report

PORTUGAL

Region : Western Europe

Edition : May 2013

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

Population:	10.7m
Surface area (sq km):	92,090
Capital:	Lisbon
Timezone:	GMT
Official language:	Portuguese
Head of government:	Prime Minister Pedro Passos COELHO
GDP (USD):	230.4bn
GDP per capita (USD):	21,581
Life expectancy (years):	78
Literacy (% of adult pop.):	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 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.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	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.

Recommended Terms:	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.

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

Transfer Situation

Local Delays:	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

Payments performance in Portugal is likely to deteriorate considerably in the outlook period due to several downside factors. First, the macroeconomic slowdown will decrease companies' revenues, making it harder for them to fulfil their payment obligations (Portugal's economy is set to remain in recession in 2013). Second, negative spillovers from the ongoing debt crisis in the euro zone are likely to weigh on the Portuguese financial sector: lending terms are already tight, and likely to tighten further, while banks' EU-mandated obligation to increase capital buffers will also contribute to making access to credit more difficult. Against this backdrop, the weakness in private consumption (expected to remain subdued over 2013-14) will continue to be a major drag on growth.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Cover available subject to conditions
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

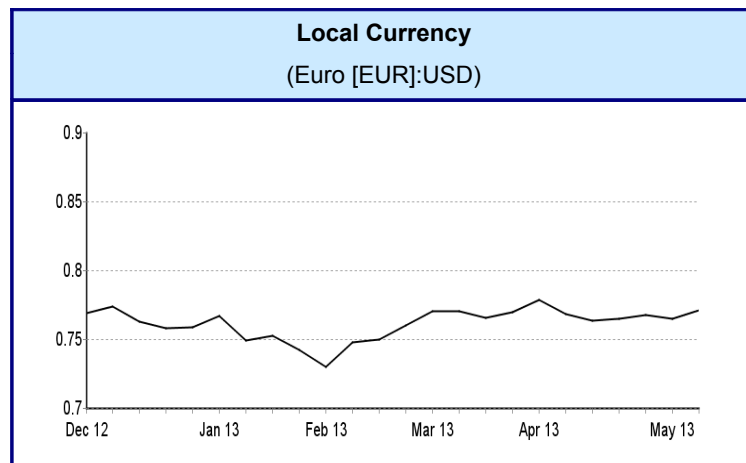
Economic Indicators

	2010	2011	2012	2013f	2014f
Real GDP growth, %	2.1	-1.6	-3.2	-2.3	0.6
Inflation, annual ave, %	1.4	3.7	2.8	2.0	1.5
Govt balance, % GDP	-9.8	-4.4	-5.0	-4.7	-2.8
Unemployment, %	12.0	12.9	15.9	15.8	15.5
C/A balance, % GDP	-9.9	-6.5	-3.5	-2.3	-3.5

Inflation and unemployment are based on EU-harmonised data.

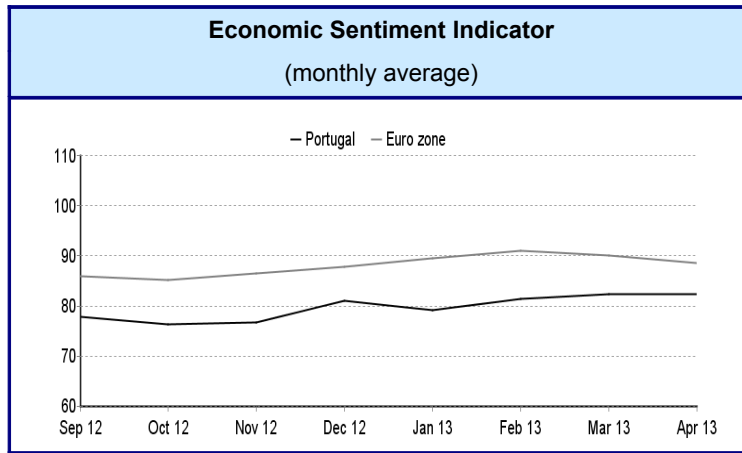
Currency Information

Exchange Rates	
(London, 06 May 13)	
GBP	1.1866
JPY*	0.7804
USD	0.7649
*(x 100)	



Local Currency						
(Euro [EUR]:USD)						
	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13
Week 1	0.769	0.767	0.730	0.770	0.778	0.765
Week 2	0.774	0.749	0.747	0.770	0.768	0.771
Week 3	0.763	0.752	0.750	0.765	0.764	
Week 4	0.758	0.742	0.760	0.769	0.764	
Week 5	0.758				0.768	

Economic Sentiment Indicator



Data Table					
Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13
76.3	76.7	81.1	79.2	81.5	82.4
85.2	86.6	87.8	89.5	91.1	90.1

Risk Factor

The short-term outlook for Portugal's country risk environment continues to be affected by the ongoing negative performance of the euro area's economy, which we expect to contract by 0.3% in 2013 as a whole. However, the ECB's recent decision to cut interest rates by 25 basis points to 0.5% has created a more favourable environment for the peripheral economies: the yield on Portugal's 10-year bonds dropped to 5.5% in May. Notwithstanding this, it is likely that Portugal's economy will remain in recession; we forecast that real GDP will fall by 2.3% this year as the government aims at lowering the budget deficit which, in turn, will weigh on already-weak domestic consumption. The situation is worsened by a decrease in exports of 4.5% month on month (m/m) in February. Furthermore, the unemployment rate hit a record-high in March, standing at 17.6%, creating another factor that curbs private consumption over the year. Nevertheless, the recovery is expected to pick up slowly towards the end of 2013, sustained by an export-oriented pattern towards markets outside the EU and a prospective positive balance of trade. This should pave the way for 0.6% real GDP growth in 2014, although the positive net export contribution to growth will be partially offset by subdued domestic demand and weak labour market conditions.

On the industrial front, recent high frequency indicators reflect the downward pressure on the economy. Although industrial production increased marginally by 0.8% year on year (y/y) in March, manufacturing output fell by 2.4% y/y (after shrinking by 3.6% y/y in February). Over the same period, total retail trade dropped by 6.0% y/y, while private final consumption shrank by 5.4% y/y. Following the same downward trend, the index for industry new orders posted a reading of 105.8 points in February, down from 113.7 in January. Accordingly, confidence indicators maintain relatively low levels, although showing a tentative improvement: in April, the Economic Climate indicator rose to -3.6 points (from -3.9 in March) while the Consumer Confidence indicator eased to -54.20 (from -55.3 in March).

Politically, economic pressures could result in social unrest. On the one hand, the Government aims to reduce corporate taxes (currently 24%) to foster the domestic economy. However, on April 30, it presented a new fiscal strategy for the 2013-17 period to secure fiscal consolidation and the extension of rescue loans. The perspective is to save EUR4.8bn by 2015 through public spending cuts, with a deficit equivalent to 4% of GDP in 2014 and 2.5% in 2015. This could hamper political stability, as the leader of the opposition (PS) rejected any prospect of co-operation, and the CDS-PP (the right-wing party in the coalition government) has put a time limit to the plan.

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

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Usual Terms:

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

Local Delays:

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F/X Bank Delays:

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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

Customer Service & Support

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D&B Country Risk Services

For information relating to D&B's Country Risk Services.

UK

Telephone: 01628 492700

Fax: 01628 492929

Email: CountryRisk@dnb.com

USA Inquiry

Telephone: 1-800 234-3867 option 1, 1 and then 2

Email: CountryRiskServices@dnb.com

Rest of World

Telephone: +44 1628 492700

Email: CountryRisk@dnb.com

D&B Customer Services

For all other information or queries relating to D&B products and services.

UK

Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)

Email: CustomerHelp@dnb.com

USA

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