



Decide with Confidence

D&B Country RiskLine Report

PORTUGAL

Region : Western Europe

Edition : April 2011

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 Jose SOCRATES
GDP (USD):	230.4bn
GDP per capita (USD):	21,466
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 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

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

D&B's proprietary payments performance data show that Portuguese firms paid 21.9% of their bills 30 or more days over terms in the year to end-Q4 2010. This was only a marginal improvement on 22.0% in the 12 months to end-Q3 and is still significantly up from 17.4% in the year to end-Q4 2009. The performance in the year to end-Q4 2010 also compares unfavourably with the average posted in the six largest EU economies (France, Germany, Italy, the Netherlands, Spain and the UK). We expect payment risks to remain elevated in 2011-12 amid a weak economic outlook; companies' ongoing credit constraints will also remain a problem, given the expected deterioration in the quality of corporate credit in 2011 (amid concerns over banks' funding, liquidity and asset quality).

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

	2008	2009	2010e	2011f	2012f
Real GDP growth, %	0.0	-2.5	1.4	-1.0	0.3
Inflation, annual ave, %	2.7	-0.9	1.4	2.3	1.5
Govt balance, % GDP	-2.9	-9.3	-7.8	-5.4	-4.6
Unemployment, %	7.7	9.6	11.0	11.3	11.5
C/A balance, % GDP	-12.6	-11.0	-9.8	-8.1	-7.4

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

Currency Information

Exchange Rates

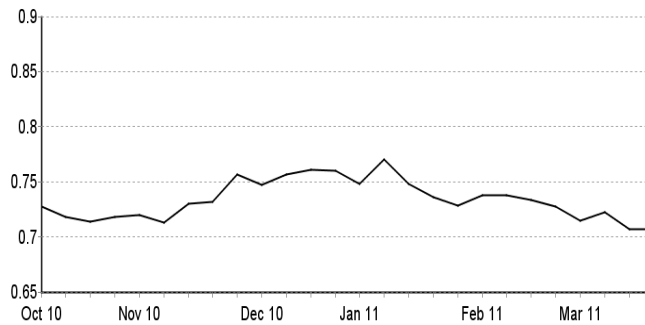
(London, 28 Mar 11)

GBP	1.1373
JPY*	0.8715
USD	0.707

*(x 100)

Local Currency

(Euro [EUR]:USD)

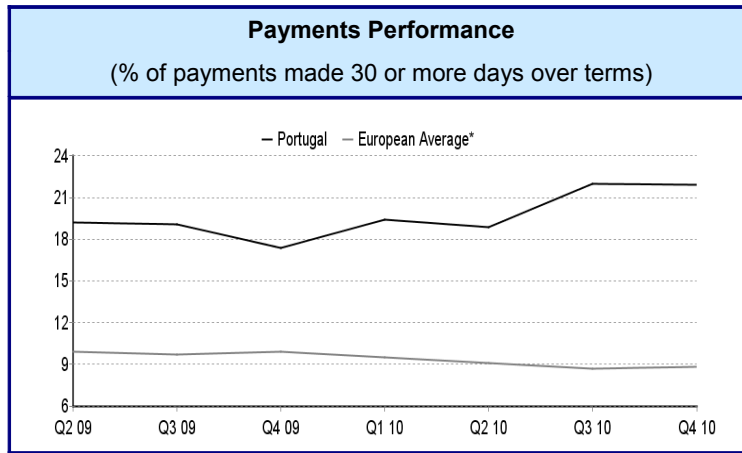


Local Currency

(Euro [EUR]:USD)

	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11
Week 1	0.728	0.720	0.747	0.748	0.738	0.715
Week 2	0.718	0.713	0.756	0.770	0.738	0.723
Week 3	0.714	0.730	0.760	0.748	0.733	0.707
Week 4	0.718	0.732	0.760	0.736	0.727	0.707
Week 5		0.757		0.728		

Payments Performance



Data Table						
Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
19.2	19.1	17.4	19.4	18.9	22.0	21.9
9.9	9.7	9.9	9.5	9.1	8.7	8.8

Risk Factor

D&B has downgraded Portugal's risk rating by two quartiles from DB4a to DB4c as the country plunges into a deep political crisis that threatens to exacerbate the sovereign debt crisis. On 23 March, Prime Minister Jose Socrates of the centre-left Socialist Party (PS) offered his resignation to President Anibal Cavaco Silva after losing a crucial vote in parliament on the government's fiscal austerity plan. This move threatens to create a political vacuum, raising the risk of early elections and increasing the likelihood that Portugal will have to request an international bail-out (as in Greece and Ireland) to finance its large debt burden. As a result of the political crisis, Portugal's borrowing costs have risen to new euro-era highs: the yield on five-year government bonds has climbed above 8% for the first time. Moreover, the main sovereign credit rating agencies such as Moody's and S&P have also downgraded Portugal, exacerbating Portuguese bank's liquidity difficulties; further downgrades would reduce banks' ability to use government bonds as collateral for ECB financing, on which they remain highly dependent.

The latest set of austerity measures, including cuts in state pensions and welfare payments, had been drawn up by the PS minority government in collaboration with the European Commission and the ECB. As the government's previous budget cuts had been supported by most opposition parties (on which it relies in parliament to pass legislation), notably the centre-right Social Democratic Party (PSD), the PS assumed that it would be the same in this case; however, the government failed to consult opposition parties sufficiently on its latest plans and announced them in Brussels, fuelling the suspicion that the government was focused on pleasing an international audience rather than a domestic one.

We expect the president to announce a snap election for late May/early June. In the meantime, Socrates' government will continue in a caretaker capacity that will lack the authority to pass a credible fiscal austerity plan. The government may succeed in repaying a bond redemption due in April (to the tune of EUR4.3bn) but is unlikely to repay the EUR4.9bn due in June without external aid from the EU and IMF. Such a bail-out would reduce immediate funding risks but would exacerbate other risks, such as the risk of capital flight and a sharp decline in bank deposits. With or without the bail-out, even a new PSD-led government would have to continue a policy of fiscal restraint. Domestic demand is set to remain sluggish as a result of the budget cuts already implemented (including a 5% cut in public sector wages and an increase in VAT to 23%) and any additional ones. Household purchasing power is already under pressure from rising unemployment, soaring inflation and still-tight credit conditions. We expect the economy to contract by 1.0% in 2011, followed by meagre growth of 0.3% in 2012.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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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:

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

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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