GOVERNO DE PORTUGAL

# The recovery of Portugal

Government of Portugal | Ministry of Economy

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# Portuguese adjustment is on track

EC, ECB and the IMF Mission concluded that **Portugal completed the 8th and 9th evaluations successfully**.

> **"The program remains broadly on track, with the authorities determined to achieve its objectives"**
>
> **EU-IMF Statement October 2013**

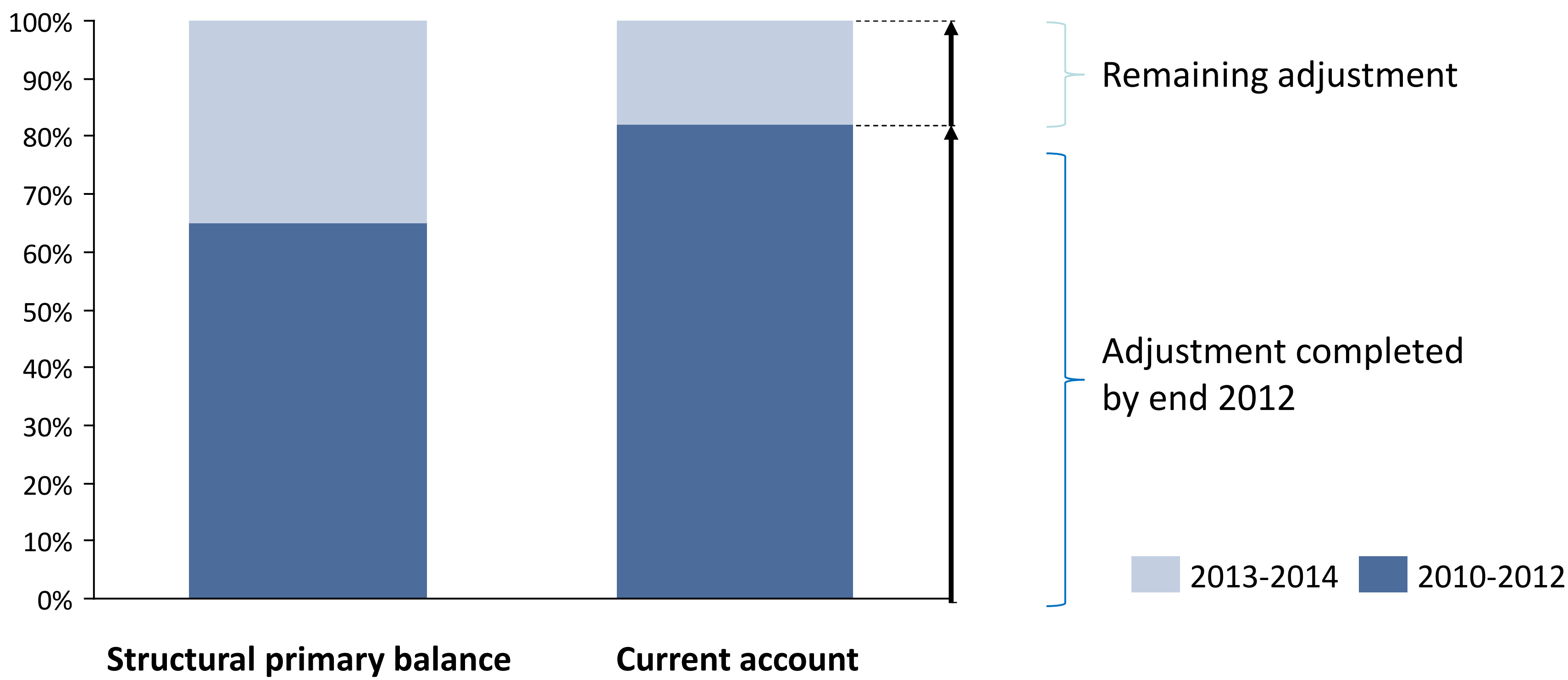
- **General terms of 2014 budget approved**, in line with the economic adjustment program
- **Strong political commitment** from the parties that support the current government;
- **Borrowing needs for 2013 fully covered**

# Portuguese adjustment is on track



## Fiscal adjustment

*% of initially projected 2010-2014 adjustment*



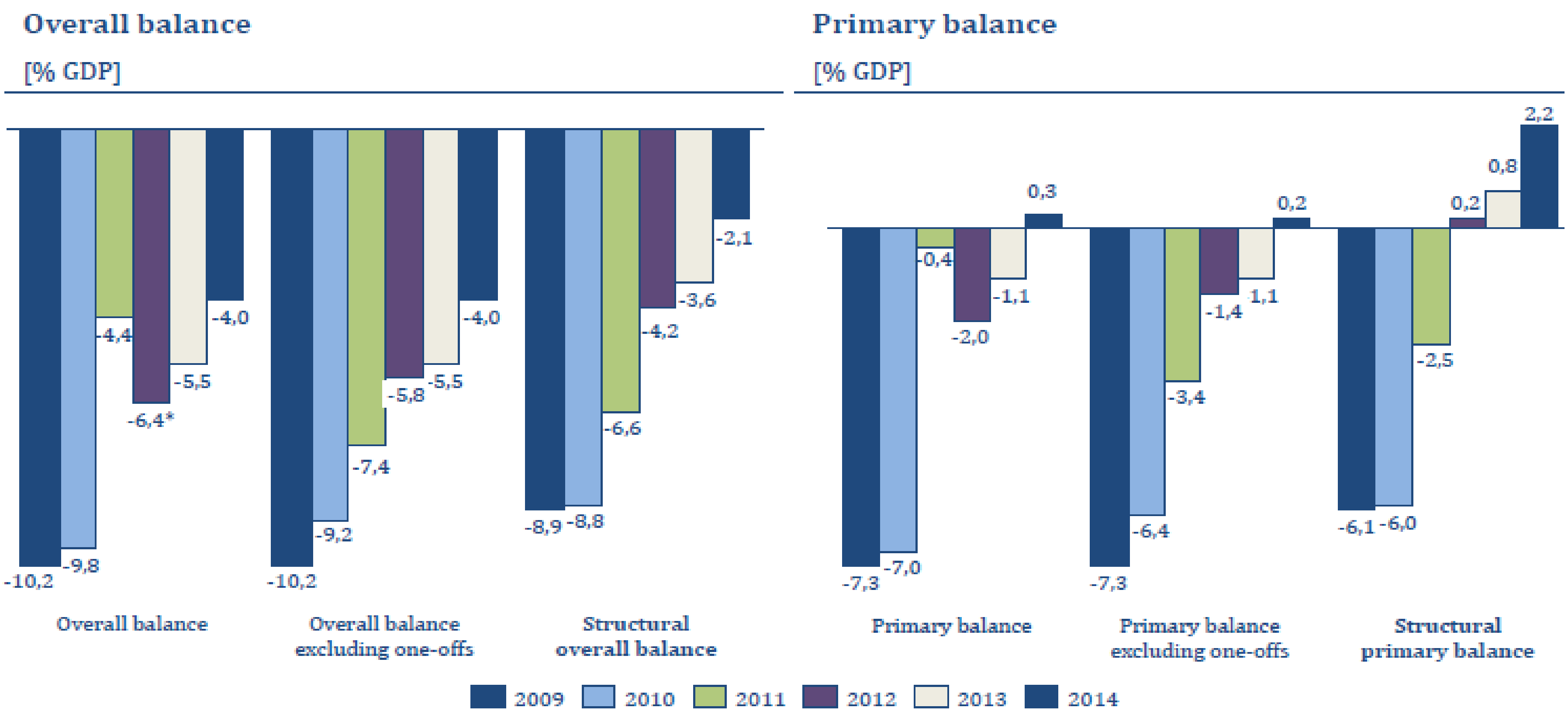

**Roughly 2/3 of the structural primary balance adjustment and 4/5 of the external adjunstment initially programmed were acheived in the end of 2012**

Source: IMF

## Portuguese adjustment is on track

### Fiscal adjustment

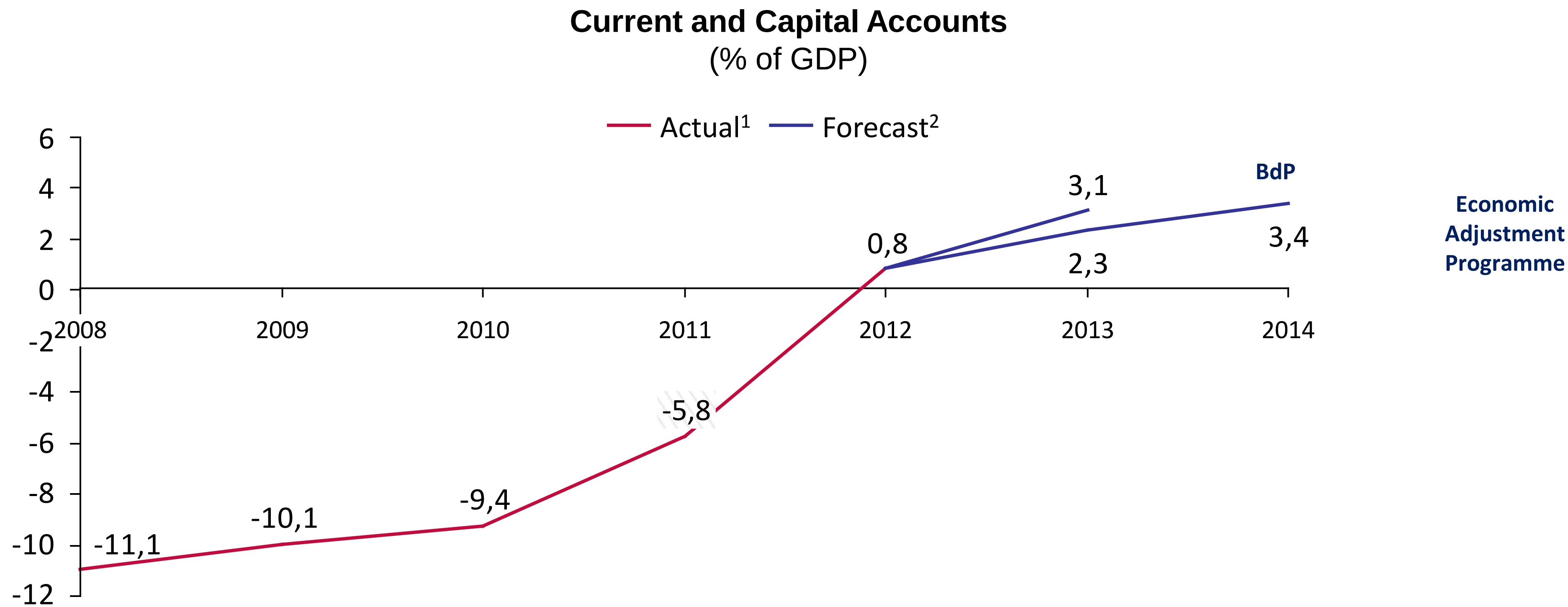
- General government deficit should **fall below 3% of GDP in 2015**
- Primary balance becomes **positive in 2014**




* In 2012, the overall deficit compatible with Programme rules, i.e. excluding a number of reclassifications decided by the statistical authorities, stood at 4.7% (within the target of 5%)

## Better than expected external adjustment

- Portugal moved from a external deficit (Current and Capital Account) of 9,4% in 2010 to a **surplus of +0,8% of GDP**
- **Good perspectives** for 2013 and 2014




1. BdP (Banco de Portugal ) and INE (Instituto Nacional de Estatisticas)
2. BdP Boletim – Outuno and Economic Adjustment Programme – 8th and 9th review

# Portuguese adjustment is on track

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## Aiming to level the playing field

| Frontloaded structural reforms | Strengthen the financial sector | Balanced fiscal consolidation |
|---|---|---|
| Promote competitiveness and productivity | Improve capacity to finance the economy | Ensure fiscal sustainability |

| Reforms | Objectives | Outcome |
|---|---|---|
| • Labour market<br>• Judicial system<br>• Competition framework | • Orderly deleveraging<br>• Improve capitalization<br>• Re-open access to interbank and bond markets | • Government budget on upward path<br>• Improved efficiency and monitoring of the public sector |

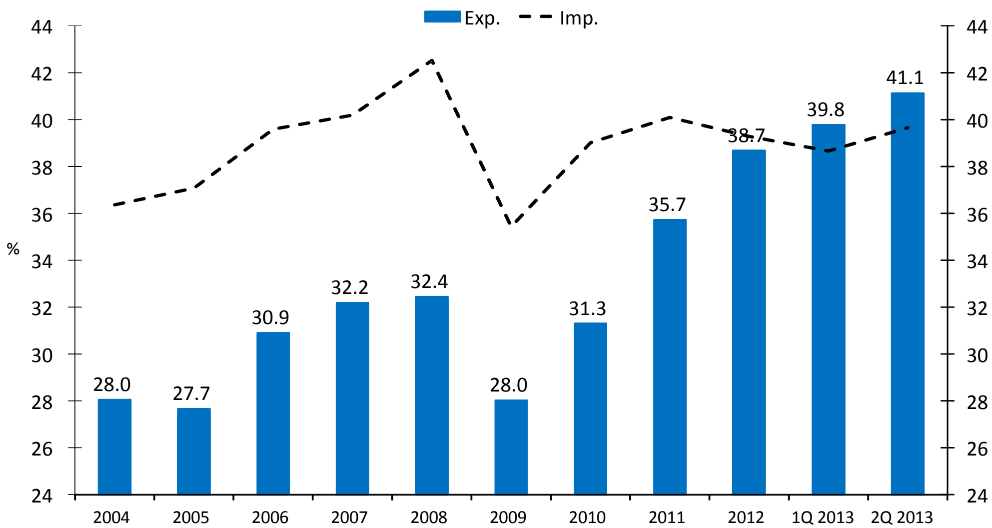
## **More favorable macroeconomic** scenario for 2013- 2014

- There are clear **signs of a recovery in economic activity**, with high frequency indicators showing a positive tone.
- **Domestic demand** indicators show a slow recovery is under way and **exports performance remains strong**.
- Current GDP projections point to a 1.8% contraction in 2013 (vs 2.3% previously) and a **0.8% expansion in 2014** (vs 0.6% previously).
- **GDP growth** was **1.1% in Q2** and **0.2% in Q3** (not annualized)
- **Unemployment rate revised downwards** and expected to remain below 18% over the projection horizon.
- Unemployment fell substantially in the last two quarters: from 17.7% in Q1 to 16.4% in Q2 and **15.6% in Q3**

# Economic recovery

## Total exports and imports of goods and services

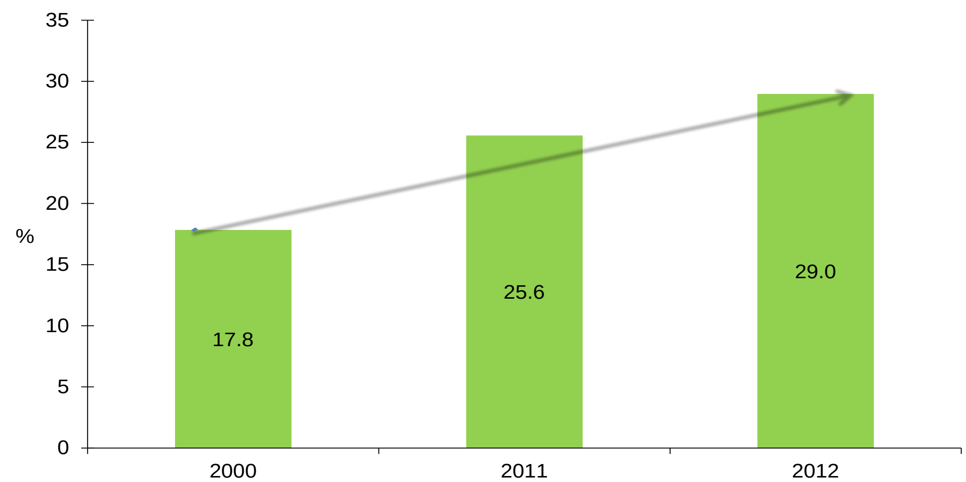
(% GDP)




Source: Statistics Portugal

## Extra-EU exports

(% share in total exports)



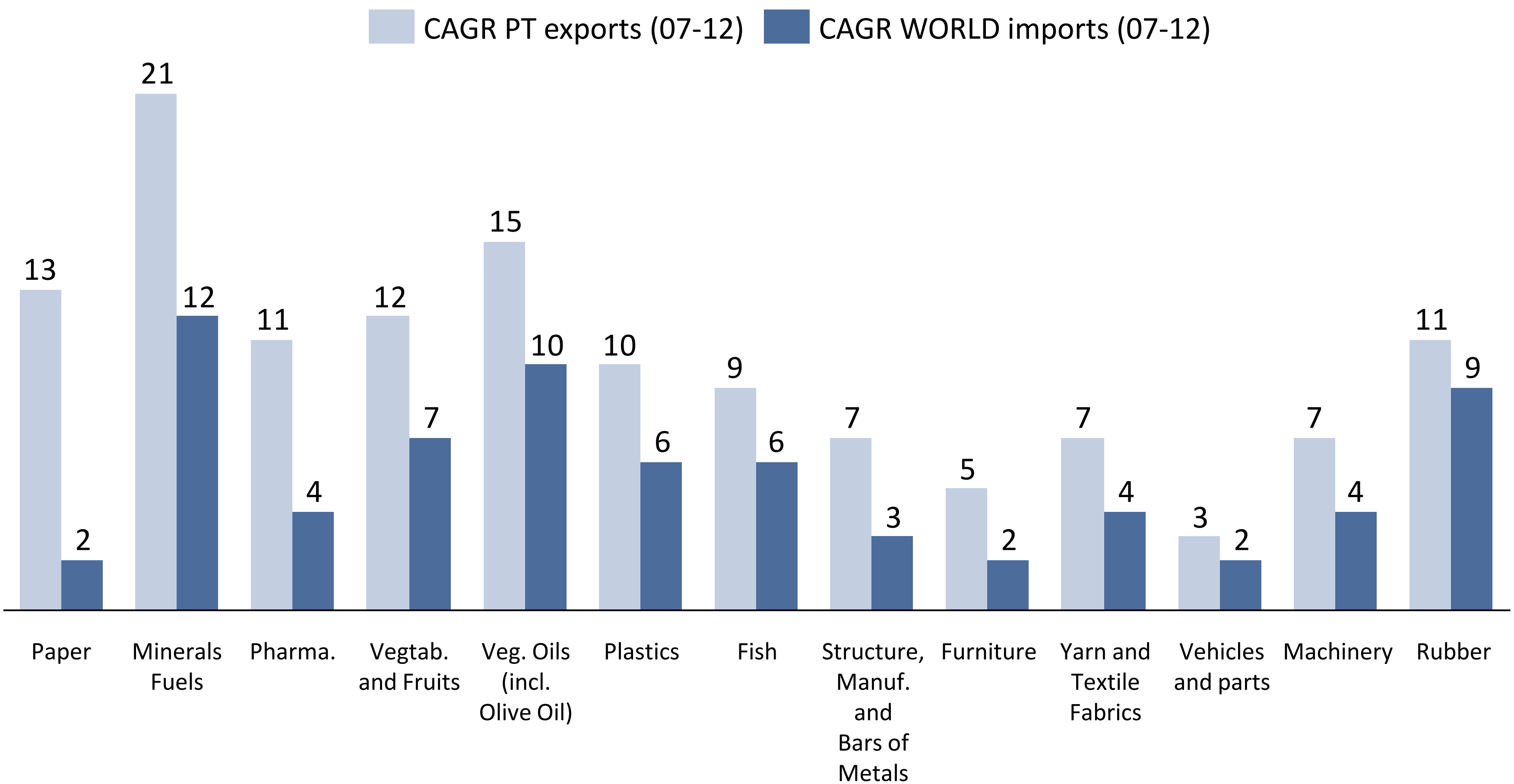

Source: Statistics Portugal

**Strong export growth**
reaching 41,1% GDP in 2Q2013

**Consistent market diversification**
share to outside EU27 grew from 17,8% in 2000 to 29% in 2012

Portugal had the **highest export growth within the EU15 between 2Q2011 to 2Q2013**, ahead of countries like Germany, France, Spain and Italy

## Growth of Portuguese exports and world imports




Source: UNICSTAD

## Different sectors are showing first signs of recovery…

- Revenues from the **tourism sector grew up to 7 %** in the 2013 (until September)
- **Industrial production** rose in the last two quarters
- The **retail trade has been improving**

## … as well as improving confidence and economic climate indicators

- **Confidence Indicators** started to improve in the end of last year (INE, Eurostat)
- **Consumer Confidence** increased significantly reaching its highest value since November 2010.
- **Economic climate indicator** has been on a steady upward trend for 10 months - confidence improved in **the 4 main sectors: manufacturing industry, construction, retail trade, services**.

# Investment: Now is the Time

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Specific Investment promotors

- **Coordinating Council for Economic Affairs and Investment**
  - Chaired by the Vice Prime Minister, every 15 days
  - Improves the efficiency and speed in investment implementation

- **Permanent Commission of the Investor**
  - Monitoring PIN projects (Projects of National Interest) and projects that are awaiting a decision by the Public Administration for more than 12 months
  - Corporate Tax Reform
  - Super tax credit 2013
  - Tax Regime for Investment Support (20% tax credit for investments in production sector until 2017 - approved in May 2013)

Other iniciatives

- **External promotion**. In coordination with the external network of Portugal - embassies, consulates, and AICEP Portugal Global and Tourism of Portugal - Roadshow to attract investment (2nd half of October).

- **Golden Residence Permit Programme** for Capital transfer with a value equal to or above 1 million Euros; Creation of, at least, 10 job positions; or the acquisition of real estate with a value equal to or above 500 thousand Euros.

## Portugal made key improvements in its business environment

- Portugal is now the **11th best country to do business within the EU28** (Doing Business rank, World Bank)
- The **best among all southern European countries**, ahead of countries like the Netherlands, Belgium, France, Italy and Spain
- Portugal is ranked 20th (out of 145 countries) according to the 2013 Forbes Best Countries to do Business

Further policy measures **to simplify the business environment** were recently introduced

- **SIMPLEX Exports**, to reduce administrative burdens related with the use of national ports and airports and the application for exemption from VAT;
- "**Branche of the Entrepreneur**", where all formalities related with the creation and operation of a business are in a single location;
- **"License Zero" program**: simplifies the establishment of small retail businesses by extinguishing licences, permits, validations, certifications and registers;
- These simplification measures were extended to the local level under **SIMPLEX *Autárquico***.

## Innovation

- Portugal climbed **from 22nd, in 2006, to 16th, in 2011**, in the Innovation Union Scoreboard ranking, changing from a modest to a moderate innovator
- Number of innovative enterprises in Portugal **exceeds European average**

**Ranking - Top Countries with the Largest Innovative Activity in its Business**

| Country | Share |
|---|---|
| Germany | 79% |
| Luxembourg | 68% |
| Belgium | 61% |
| Portugal | 60% |
| Sweden | 60% |
| Ireland | 60% |
| UE27 average | 52% |

*Source: Eurostat*

Note: Results are calculated through a survey made to companies about the degree of innovation of products, processes and marketing

## Human Capital

- Portugal had the biggest overall OECD improvement in education (Pisa 2009, OECD)
- Foreign languages: Portugal has the **7th highest score in English tests** (TOEFL, 2011)
- The highest share of **Science and Engineering** degrees in EU (NSF 2012, USA)
- Between 2008 and 2012 Portugal had the second smallest hourly labour cost increase (+0.4%) within the EU (average 8.7% increase in the euro area)

## In addition:

1. **Portugal ranks number one** among EU countries in terms of public services online (European Commission)
2. Portugal has world **renowned logistics and infrastructure** in rail, airways and sea, both for passengers and cargo;
3. **New Competition Law** and **new Competition Court**, **new Bankruptcy Law** and a **new industrial licensing regime** (98% of cases with no licensing requirements)

## Reform of Corporate tax starting in 2014

Lower corporate tax

2014

2016

2018

- Statutory Corporate tax rate **reduction by 2 p.p**. (from **25% to 23%)**
- Small enterprises tax rate **reduction by 8% p.p** ( from 25% to 17%)
- Top Corporate tax rate to be 17% in 2018 from actual 31,5%
- Exemption participation regime for shareholder s position above 5%

Compares with corporate tax of 30% in Spain and 26.5% in the Euro Area

Framework that provides stability of firms' income taxation

| Other Tax iniciatives | |
|---|---|
| | • Simplification of the taxation system for smaller businesses<br>• Tax Regime for Investment Support: Automatic tax credit of 20% of the investment in the tradable sector;<br>• Creation of an office tax for international investors |

## Portuguese Government has an ambitious privatization program with an highlight to the transport concessions

- Privatizations of EDP, ANA, GALP, REN, CGD Health (HPP) and CTT (the Portuguese National Postal Service) have been completed with **€ 7,1 billion revenues vs. € 5 billion target**
- **Preparatory works** for the award of public transport services (bus, metro and rail) in Lisbon and Oporto, maritime concessions

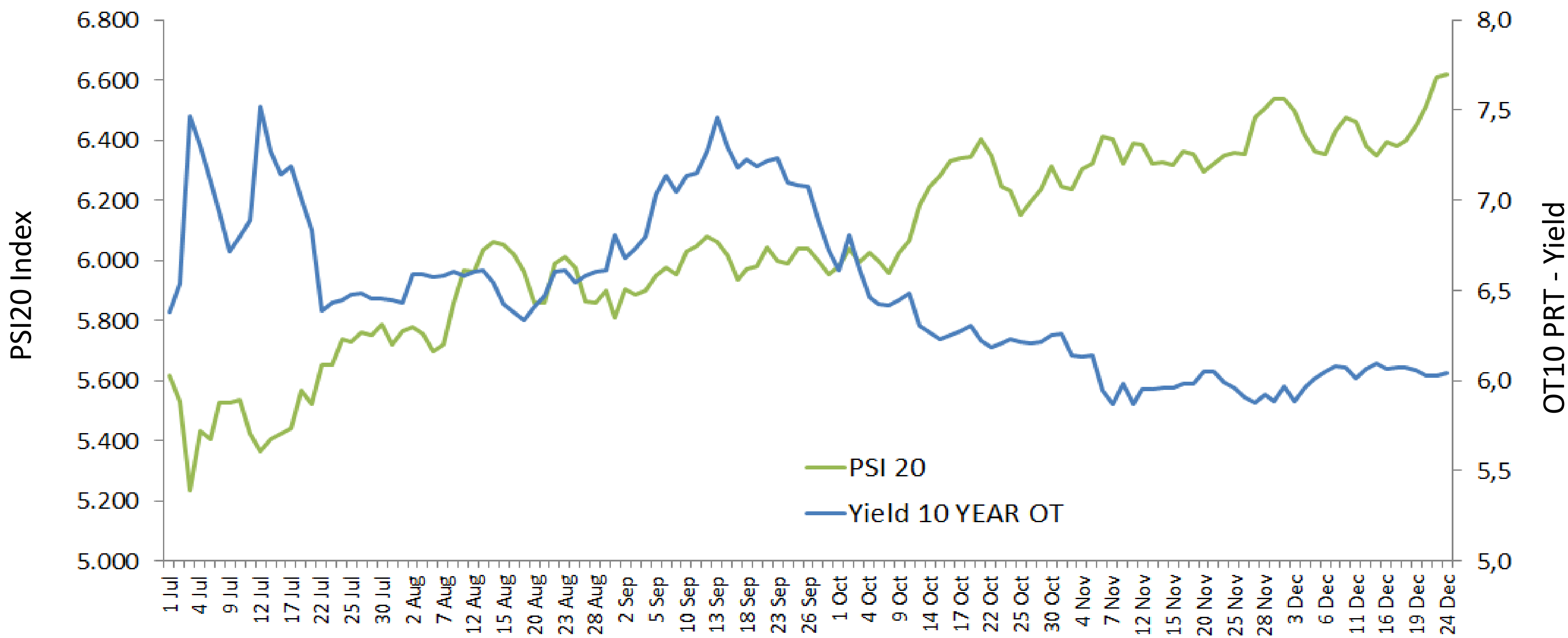
| Concession of Lisbon Public Transport Services | Concession of Oporto Public Transport Services | Maritime Operations | Rail Concession and freight privatization | Privatization of national airline carrier | Leading Health Insurance company | Leading solid urban waste manager |
|---|---|---|---|---|---|---|
| | | | | | Caixa Seguros | |
| Transport | | | | | Health Insurance | Waste Management |

## Main Export/Investment Clusters

- Automotive
- Aeronautic
- ICT
- Health, Pharma and Life Sciences
- Agriculture, Fishing and Food Industry
- Forest, Pulp and Paper
- Petrochemical and Chemical
- Mining
- Textile, Clothes and Fashion
- Building Materials
- Renewable energy
- Business Service Sector
- Moulds
- Metal Working
- Tourism

## PSI 20 – Lisbon's Stock market main Indicator

- 3rd July to 24th December 2013 – **26,4 % increase**
- Portuguese 10 Year Bond Yield **decreased from 7,5% to 6,0%**



# Now is the time to Invest in Portugal!