PORTUGAL: An Introduction to Portugal

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In the context of the sovereign debt crisis and the bailout advanced to Portugal in May 2011, the Portuguese Government put in place a severe austerity programme, which has caused a significant drop off in government funding for investment in projects and public infrastructure.

Also, construction companies and other promoters have experienced difficult conditions during this period, essentially due to liquidity constraints in connection with the economic crisis. Such restrictions led many of those companies to search for new opportunities in foreign markets, most specifically in the Portuguese speaking countries in Africa.

During this period, the most relevant activity in Portugal with regard to projects and public infrastructure has been focused on the renegotiation of PPP road contracts. The Portuguese Government launched this negotiation process with major road concessionaires with the purpose of reducing the public expenditure during the life of those contracts. The main idea was to bring public expending sustainability to the Portuguese road sector. To achieve such goal, some development projects were reduced in their scope in order to permit savings not only in the construction works and associated capital and financing costs, but also in operation and maintenance spending in the future. After several months (in some cases years) of hard negotiation, the Portuguese Government announced that agreements were reached with the relevant players, including concessionaires and financing institutions. Exception is made to three road concessions, the negotiations of which are still pending, since the relevant concessionaires are opposed to any reduction of the gains initially foreseen in the respective contracts. In this context, the Portuguese Government announced on April 9, 2015 the approval of the legal amendments to the decree-laws that govern each of the road concessions that were subject to a new agreement. According to the information provided by the Government, such pieces of legislation are to be enacted shortly. The total savings the Portuguese Government expects to obtain with such agreed solutions reach EUR7.2 billion, having in consideration the life period of the relevant contracts.

In spite of such difficulties in the last few years, and some new recent challenges, it should be noted that recently the economic and financial environment in Portugal has considerably improved.

In one hand, one cannot exclude that some hurdles subsist for the Portuguese companies, especially for those whose main activity depends on exports to the Portuguese speaking countries in Africa. In fact, the recent and significant slowing on the GDP growth, or even GDP drop, of some of those African countries – particularly Angola, due to the fall of the international prices of some commodities – may involve fewer imports from other countries, including Portugal. Such event shall obviously impact on the Portuguese exports rate outside the EU, in a context where such rate has been considerably improved in recent years. This item is particularly sensitive, as the exports' growth has been one of the key elements for the recovery of the Portuguese economy and to ensure sustainability to the public budget. Nevertheless, according to the information available at this moment, it is not likely that Portuguese global exports rate falls off significantly due to such event.

On the other hand, as the financial assistance programme came to an end in early 2014, and the financing conditions of the Portuguese Government became progressively more favourable, new opportunities seem to be coming out.

The Portuguese Government has approved in the last year a Strategic Plan for Transport and Infrastructure, which has earmarked a range of infrastructure projects that are expected to have a very important economic impact in Portugal. Such Strategic Plan was prepared also having in consideration the new cycle for European Funds (2014-2020). The execution and financing of such investments reach a global amount that exceeds €6 billion. The priority projects listed by the Portuguese Government in this Strategic Plan include the development and increase in capacity of major Portuguese ports and the modernisation of the Portuguese rail freight sector. Some projects in the road sector deemed essential to complete the road network were included in the Government's list, as well as an increase of capacity at Lisbon Airport. Also the construction of new hospitals is foreseen, including in Lisbon and Algarve, which may imply significant savings in the future, provided that new infrastructures shall involve the shutdown of old hospitals and consequently eliminate the inefficiencies on the provision of clinical services associated thereto.

The conclusion of the privatisations programme announced by the Government shall also bring some new hot deals in the near future. That may be the case of TAP Air Portugal (ongoing at the time of writing) and the sub-concession of the subway and bus companies in Lisbon.

In this new context, the fresh flow of capital resulting from the new cycle for European Funds (2014-2020) as well as the European Central Bank (ECB) recent programme of quantitative easing will probably impel economic activity and create many opportunities for investment. As a result, financial costs have been consistently dropping, allowing investors, for the first time in Portugal in many years, to have access to funds in acceptable market conditions in order to invest and promote new projects.

Also, the Euro's current rate in relation to the American Dollar and in relation to other foreign currencies is now much more favourable than a few months ago, creating better conditions for the development of exports and attracting foreign investment.

All those investments foreseen by the Portuguese Government, together with the improved performance of the Portuguese economy and the new flow of fresh capital resulting from the ECB quantitative easing programme and the new cycle for European Funds, are expected to bring new projects and consequently to give rise to many opportunities to promoters, financial institutions and financial and legal advisers in the coming years.