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Is Portugal Still An Interesting Country For Investors To Look At?

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Saying that "Portugal is an interesting country for investors to look at" may seem a bold statement. We take the risk of putting forward such statement, but we also take the opportunity to give substance to it and have a glance on some of the existing opportunities and a few others coming up soon.

Portugal has suffered significantly from the financial crisis and as a result is was forced to request the financial assistance from the European Financial Stabilisation Mechanism. For that purpose, the Portuguese government has negotiated and signed the "Memorandum of Understanding on Specific Economic Policy Conditionality" (MoU) and has undertaken the commitment of carrying out significant changes to the way public funds are spent.

Differently from what happened in other Mediterranean Member States, and in spite of the natural protests against the most social-sensitive cuts in public spending and the increase of the unemployment rates, the social environment in Portugal has been calm and stable and is far from the turmoil seen, for example, in Greece and in Spain.

The fact that Portugal is under constant analysis by international organisations (e.g. the International Monetary Fund) and still being able to ensure economic and social stability became an asset in convincing investors to maintain their interest in Portuguese economy.

In fact, both private and institutional investors have kept their confidence in the economic recovery of Portuguese economy. According to the Portuguese Central Bank and to private banks such as Barclays, deposits in the Portuguese banking system have increased circa 2% between June 2011 and March 2012 whereas in the same period were falling 1% in Ireland, 2% in Italy, and 3% in Spain. On the other hand, Portuguese companies have been successfully issuing retail bonds, finding in private investors an efficient alternative way of funding their business and show publicly the investors' confidence in their medium to long term performance.

Portugal became also the gateway for Chinese investment in Europe, as Three Gorges bought to the Portuguese government a stake of more than 20% in the Portuguese power company ("EDP") back on December 2011. More recently, Three Gorges took part in enhancing the international business of EDP by granting a €1 billion loan – notably the first loan by China Development Bank ever made to a non-Chinese company outside of Chinese territory. Furthermore, Portuguese government has been fostering economic diplomacy between Portugal and China and it is expected that new investments are made in the future in Portuguese companies.

It should be said that the investment of Three Gorges in EDP was also a milestone in the privatisation process in course, pursuant to the MoU. In the queue is still the privatisation of the State's stake in major Portuguese companies such as TAP Portugal (the main Portuguese airline), Aeroportos de Portugal (the airport management company), CP Carga (the cargo train company), CTT (the postal service), Caixa Seguros (the insurance business of the public-owned bank, Caixa Geral de Depósitos), Águas de Portugal (the national-wide water supply company) and RTP (the public television).

In light of the above, we take the view that the crisis raised the opportunity to fine tuning Portuguese economic policy and setting more specific goal for attracting foreign investment. Although for some it may come as a surprise the significant interest of foreign investors in a small economy such as the Portuguese, one should look further than the Portuguese borders to realise the potential of taking Portuguese companies as an investment vehicle for entering in markets such as Brazil, Angola, Mozambique and even in China. As a matter of fact, the historical, cultural, social and political ties between Portugal and the Portuguese speaking community (and in Asia the close links to Macau and Timor) has facilitated the development of mutual cross-border investments in various areas, from natural resources, infrastructure, banking and finance, to telecoms and media.

In addition to the above, we note the fact that the Portuguese tax system fosters the use of Portuguese corporate vehicles for investing in the above economies. On the one hand, there is a domestic participation exemption rule applicable specifically to dividend distributions arising out of Portuguese speaking African countries. At the tax treaty level, Portugal also offers quite efficient opportunities, such as a 95% dividend exemption under the Portugal-Brazil double tax treaty and a tax sparing credit under the Portugal-Mozambique double tax treaty. Naturally, since Portugal is a Member State of the European Union, Portuguese companies (namely the holding companies – "SGPS") may also benefit from the tax regimes applicable under European Tax Law (such as the Parent Subsidiary Directive and the Interest and Royalties Directive).

On the other hand, Portugal has been following a path into economic development. To that end, some very interesting scientific clusters have been created, namely in the area of biotechnologies, and in recent years Portuguese universities have been working together with entrepreneurs in Research and Development ("R&D") projects. Also from a tax perspective, companies are welcome to invest in R&D, benefiting from a specific tax regime ("SIFIDE") similar to other European "IP Box" systems. Significant investments in Portugal may also be granted contractual tax benefits as specifically set forth in the Investment Tax Code.

Portugal is also aware that companies may not succeed without the human capital. Therefore, in order to attract individuals of "high added value", the Government enacted the first Portuguese expatriates tax regime – the non-habitual residents regime. Based on an exemption for foreign-sourced income and a 20% flat tax for Portuguese-sourced income, this regime is very competitive as to other European regimes, bearing in mind that it does not require any minimum annual tax amount and foreign income is exempt even if it is remitted to Portugal.

All summed up, Portugal is making a significant effort to overcome the crisis and it is doing so not only by ways of cutting public spending but also by focusing its economic and tax policy in boosting the confidence of Portuguese and foreign investors.

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