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Business Conditions Snapshot

- Portugal's socialist minority government was re-elected in 2019, which lends stability to the country's foreign and trade policy settings and leaves unchanged the good relationship with Australia. Portugal is a firm supporter of open markets, and fully supports a swift conclusion of the Australia–European Union (EU) Free Trade Agreement (FTA).
- Before COVID-19, the Portuguese economy had expanded continuously since exiting an EU/International Monetary Fund (IMF)-led economic adjustment program in 2014. The country's economic turnaround restored confidence in Portugal and was held up as an example of a European path out of austerity.
- The pandemic has derailed Portugal's economic comeback. Tourism—the sector fuelling most of the growth in the recent past—has been the most affected sector. The IMF expects an 8.5 per cent economic recession this year and a budget deficit of 7.3 per cent of GDP. Public debt is set to jump to 137.2 per cent of GDP. Private debt is also projected to increase. The current account balance is forecast to fall to -3.1 per cent of GDP. Inflation is expected to be zero (0.0 percent), while unemployment is estimated to rise to 8.1 per cent.
- The government's response to combat the negative effects of the pandemic has included a range of measures to support the economy and jobs. Portugal's recovery efforts will be supported by resources from the European Recovery and Resilience Fund, which envisages providing the country with €15.3 billion in grants and €15.7 billion in loans.
- Portugal's debt-to-GDP ratio remains among the highest in the EU (117.6 per cent of GDP in 2019). The banking system also remains fragile due to a high level of non-performing loans. Successive governments have prioritised private investment and economic growth over public services. Low productivity and burdensome regulation are features of the economy. The Organisation for Economic Cooperation and Development has noted Portugal should improve governance, institutions and regulatory quality; and tackle corruption in the public and business sectors.

Key facts and figures

- Population: 10.3 million (2018)
- GDP growth: 1.9 per cent (2019)
- GDP per capita: US$23,030.8 (2019)
- Political system: unitary semi-presidential constitutional republic
- Two-way trade: A$479.3 million (2018-19)
- Major Australian Exports: hides and skins, civil engineering and electrical circuits equipment
- Major Australian Imports: footwear, cork manufactures, textiles
- Two-way investment: A$444 million (2018)

- Portugal conducts the overwhelming majority of its external trade with the rest of the European Union (75 per cent of exports and 78 per cent of imports). Significant non-EU trading partners are the United States, China, Brazil and Angola. The tourism sector was playing an increasingly important role pre-pandemic, as were the services and technology sectors.
- Together with its low effective tax burden, Portugal's attractiveness as an Foreign Direct Investment (FDI) destination is enhanced by its special tax-regime for non-habitual residents (a flat income tax rate of 20 per cent for 10 years), an advantageous residence permit regime (Golden Visa scheme), and free remittance of funds.

Trade and Investment Opportunities

- Australia is generally seen as a friendly investment destination, with a stable regulatory environment that ensures security and predictability for investment.
  - Australia's economic growth, including its resilience during the global financial crisis, is recognised.
- Portugal is focused on attracting foreign investment and diversifying investment sources to support its COVID-19 recovery, and says it would welcome more Australian investment.
  - After initial interest, some Australian companies have decided to move their business elsewhere – mainly due to unexpected hurdles, including in sectors the government has prioritised. The Australian business presence is modest.
- Future commercial opportunities for Australian companies may arise from the government's 'Strategic vision for the economic and social recovery plan for Portugal 2020–2030'.
  - The plan envisages several infrastructure projects, including the expansion of metro lines in Lisbon and Porto, and a new bridge over the Douro river.
  - Plans also include overhauling the national railway network, building new hospitals, a second international airport in the Lisbon area, and a new container terminal in the deep seaport of Sines.
- The government is promoting renewable energies, specifically solar and wave power, which may also create investment opportunities.
  - A recently adopted national strategy for hydrogen includes creating an important green hydrogen production centre in the port of Sines.
  - This will feed into the government's strategy to transition to a decarbonised economy.
  - The government points out that by 2030 hydrogen may generate investments of about seven billion to nine billion euros.
- Portugal pitches itself as an emerging technology and innovation leader in Europe. An accelerator program—Start-up Portugal—and visa regimes have been

established to attract new and aspiring third-country entrepreneurs (Startup Visa) and qualified workers in technology and innovation (Tech Visa).

Trade Policy Focus

- Portugal is committed to free trade and believes there is great potential for an FTA between Australia and the EU. It aims to push for progress in the negotiations during its EU Presidency in the first half of 2021.
- Portugal wants a Double Taxation Agreement with Australia for greater trade and investment.

Insight current as at December 2020.