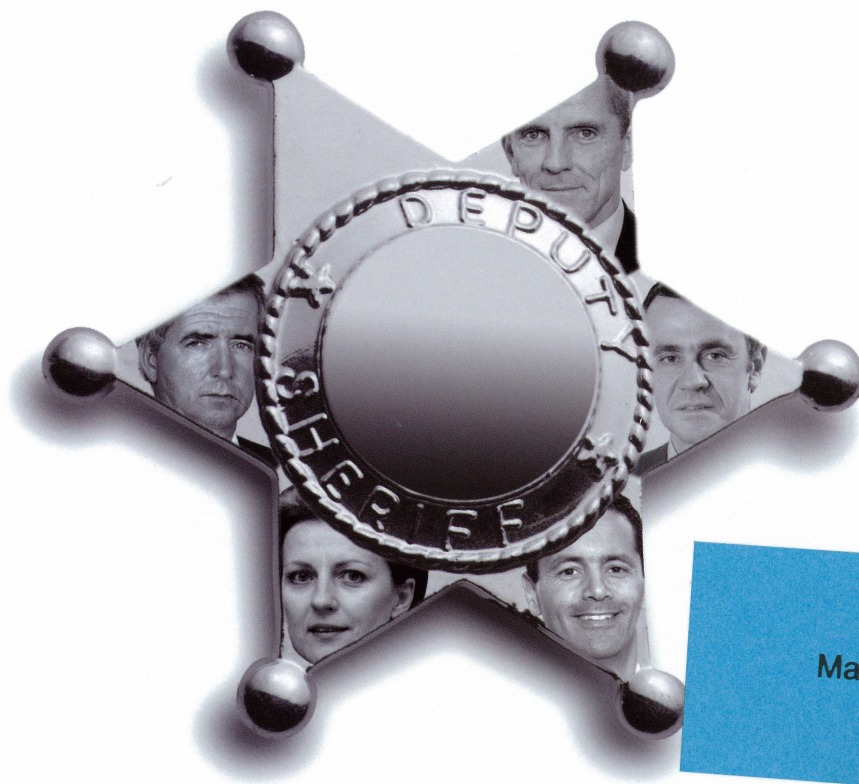


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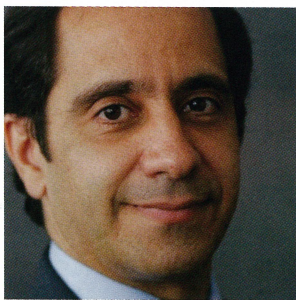
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Planning Portugal's real connection to Europe

ANALYSIS BY PAULO CÂMARA, ASSOCIATED PARTNER, SÉRVULO & ASSOCIADOS

Resetting the Portuguese economy



Paulo Câmara

Los principales obstáculos que está se presentan en la economía portuguesa siguen siendo la falta de confianza en el mercado y el problema de liquidez en las empresas, pero lo fundamental para una recuperación sostenible es la solidez de los bancos, comenta Paulo Câmara de Sérvulo.

The main issues holding back the Portuguese economy remain a lack of market confidence and business liquidity, but fundamental to a sustainable recovery is the solidity of the country's major banks, says Paulo Câmara of Sérvulo & Associados.

"Portugal has traditionally been a bank-centred economy and it is important that the major domestic players perform well. It is very much a structural thing. Many banks are performing relatively well but they remain cautious and there has been no reduction in their risk assessment profiles."

The government's rescue last year of Banco Português de Negócios (BPN), which had accumulated losses of €700m, has proved more costly than anticipated but the government has announced that it will look for a purchaser in the first half of 2010 and recoup some of the money invested, he says.

"Next year may see the beginning of the end of the banking crisis for Portugal but the challenge remains how to encourage business growth. Many businesses are adapting to the current reality but there is a

much higher level of due diligence being performed in transactions and lending and refinancing criteria remain very tight."

There may also have been an upturn in the performance of the stock markets but volatility remains and retail investors are still very much tainted by the crisis, believes Câmara. "There have been a number of debt offerings, which are always considered the first signs of a recovery, but successful share and rights issues demand stability."

Nonetheless he sees investment funds doing positive business, open-ended real estate funds have been consistently active throughout the economic crisis, while mutual funds too are beginning to demonstrate growing interest in market opportunities.

Next year may therefore see the Portuguese economy being reset, he says. "We are anticipating some equity financing and capital raising as well as the quiet emergence of alternative investment funds and new financing routes – despite the prominence of Portugal's banks, going forward, we may however see less rigid reliance on them by business or to underwrite projects."