

In a more uncertain world, is Portugal the right place to be?

EY Attractiveness Survey
Portugal
September 2023



The better the question. The better the answer.
The better the world works.



Building a better
working world

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We would like to extend our gratitude to ...

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Furthermore, we would like to thank the many
business leaders and EY professionals who have
taken time to share their thoughts and insights with
us about the possibilities that await us in Portugal
in the upcoming years.

Foreword



Miguel Farinha
Strategy and
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Ernst & Young S.A.
(EY Portugal)



Miguel Cardoso Pinto
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EY Portugal

In a year that was marked by an unstable geopolitical context spread all over the world, but especially in Europe, and by strong inflationary trends, Portugal featured economic and financial stability. The country's resilience has been crucial in navigating the challenges arising from the ongoing turmoil.

Despite the challenges faced in 2022, Portugal registered the third highest growth in the European Union, demonstrating that it is a welcoming country for investment. Last year, the country showed the highest growth in Foreign Direct Investment (FDI) projects among the top-10 European countries, with 248 FDI projects, which allows a very positive outlook on the country's future.

The Software and IT Services is the leading sector for FDI projects, totalizing 99 FDI projects, with 76 of them representing companies establishing their operations in Portugal for the first time, demonstrating the country's attractiveness toward the digital economy.

In line with the high number of FDI projects registered, Portugal's attractiveness had an outstanding growth in 2023: 72% of the surveyed investors have plans to establish or expand operations in Portugal over the next year.

In terms of Portugal's future attractiveness, the outlook is also positive, since 59% of investors expect Portugal's attractiveness to improve over the next three years. This positive expectation was higher than the expectation perceived in other European economies, such as Belgium, Italy, France, UK or Ireland.

The most attractive factors pointed out by investors in Portugal were the quality of life the country offers and its stable social climate, confirming that Portugal's stability is crucial in a context of geopolitical instability.

Still, there is room for improvement, specially in terms of regulatory burdens, political instability and incentives.

Sales and marketing take first place, as the most appealing area for investors to increase their footprint in Portugal. Followed closely by R&D and business services.

Given the fast-paced technology dynamics, investment in software and IT services becomes more relevant. Additionally, changes in regulation (to keep pace with technological and other disruptions), environmental policies and support to small and medium-sized enterprises (SMEs) may improve the country's competitive position.

In comparison to Europe, Portugal is well-positioned in the startup ecosystem: 72% of the surveyed investors considers Portugal is at least similar to its European peers with this regard.

The availability and quality of the talent pool is very well-developed, with "preparing learners for the world of work" standing-out as a highly appreciated characteristic by investors. Education, financial tools and fiscal policies are also considered key factors to become a leader in innovation, however, there are some problems in promoting relationships between technology startups, firms and R&D institutions.

When it comes to environmental sustainability, it was pointed out that Portugal should increase the power of cleantech and renewables, while mitigating hydropower liabilities.

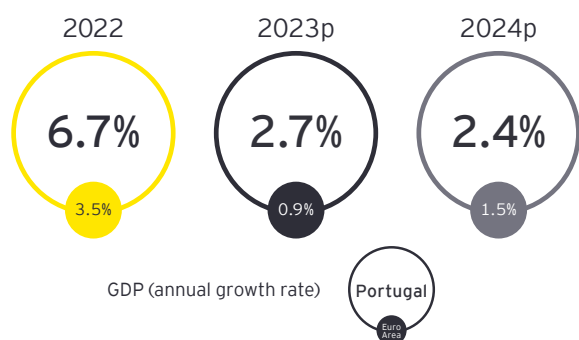
The purpose of the EY Portugal Attractiveness Survey 2023 is to drive conversations and discussion toward FDI and Portugal.

We would like to thank all of those who shared their assessments and expertise in this survey and helped in the development of a more insightful perspective on Portugal's attractiveness to FDI.

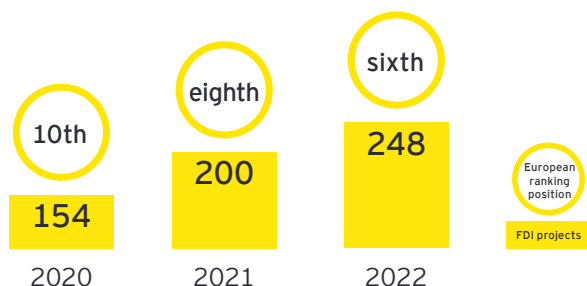
Executive summary

1 Portugal's performance: macroeconomic overview and Portugal's attractiveness to FDI

It is expected that Portugal continues to present a higher GDP growth than the Euro Area for the next years ...

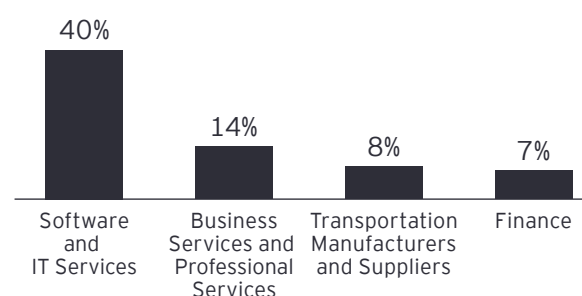


2022 was another record year for FDI projects in Portugal, allowing the country to register the highest growth in FDI projects among the top-10 European countries ...



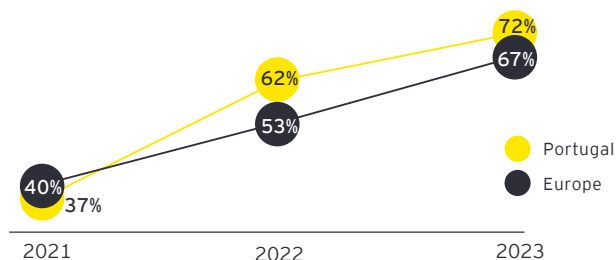
From the 2022 FDI projects announced ...

The Software and IT Services sector dominated the FDI investments.



2 Engines of attractiveness: attractiveness and risk factors that Portugal faces

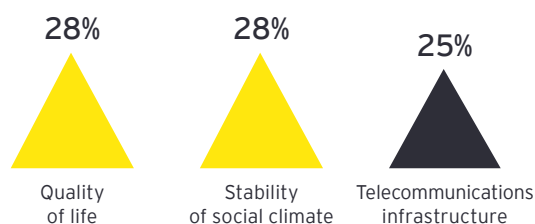
Does your company have plans to establish or expand operation over the next year in Portugal or in another European country? Answer = Yes



59%

... of investors expect Portugal's attractiveness to improve over the next three years ...

Portuguese factors of greater attractiveness ...

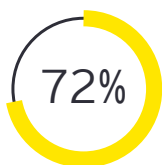


Investors think Portugal should concentrate its efforts in order to maintain its competitive position on ...

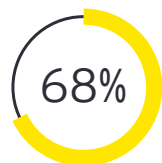


3 Looking ahead dynamics that boost FDI's attractiveness in Portugal

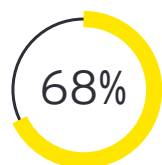
The investors' perception about some aspects:



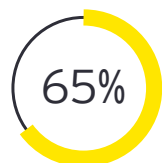
... of investors consider the startup ecosystem in Portugal to be similar or even above average within Europe



... of investors consider Portugal to be similar or even above average within Europe in talent availability and quality



... of investors consider Portugal to be similar or even above average within Europe in environmental sustainability



... of investors consider Portugal to be similar or even above average within Europe in the collaboration between academia, R&D centers and businesses

Some topics to be aware:

01 Talent

Portugal has a good education system and for this reason the country gathers a broad consensus about the quality of its talent.

- ▶ Talent is a factor in which Portugal is in a better position in comparison to other European countries
- ▶ About 29% of the investors perceive that Portugal is above European average in talent availability and quality

02 Innovation

Portugal must improve its awareness to innovation, but it is in line with Europe concerning data protection and availability of workforce with technology skills.

- ▶ Education, financial tools and fiscal policies are key factors to become a leader in innovation
- ▶ Portugal should promote "marriage" between companies and academia, namely R&D and technological institutions, so that innovation's results reach the markets

03 Sustainability

Portugal has made commendable progresses in reaching 2030 climate targets, demonstrating its commitment to tackle the pressing issue of climate change.

- ▶ There is a positive mindset in Portugal in accelerating the energy transition in order to gain competitive edges

1

Portugal's performance: macroeconomic overview and Portugal's attractiveness to FDI

248

FDI projects
in 2022

sixth

European country with
the highest number
of FDI projects in 2022

2.7%

2023 GDP's
growth (expected)

7.8%

2023 Exports'
growth (expected)

Portugal continues to converge with Europe, presenting the third highest growth rate in 2022

It is expected that Portugal continues to present a higher economic growth than the Euro Area for the next years

The favorable evolution of the labor market, along with the implementation of public measures designed to support families and greater inflows of European funds, outweighed the negative effects of high inflation and high interest rate on domestic demand.

In the upcoming years, the Portuguese economy is expected to grow at a higher rhythm than the Euro Area, fueled by the increase of the country's exports and private consumption.

In fact, in 2022, Portugal registered the third highest growth in the European Union, continuing its strong COVID-19 recovery¹.

A slowdown in inflation is expected, as well as a decrease in public debt

Portugal, as well the rest of the world, has been severely impacted by rising prices. Even so, it is expected that the inflation rate lowers to roughly 2% by 2025, with Portugal following the European trend on that matter.

Moreover, it is forecasted that the Portuguese public debt will drop to 92.5% of GDP by 2025, a significant decrease, compared to 135.2% in 2020 - a positive sign that may, nevertheless, boost government spending.

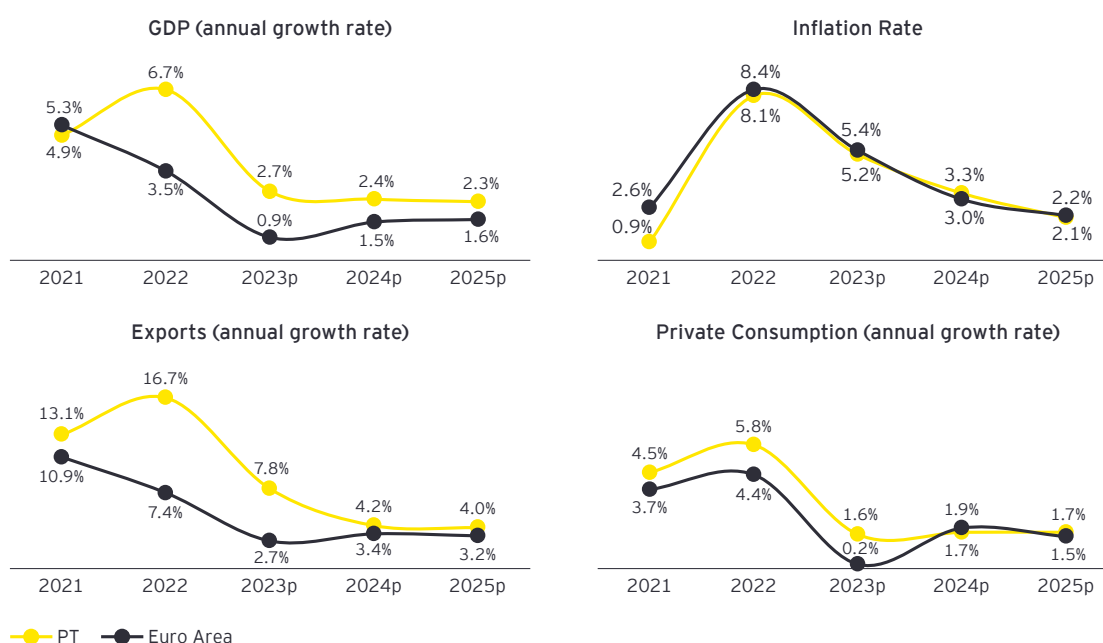
The short-term outlook for the Portuguese economy is brighter

As for the next years, Portugal appears to continue to be a friendly country for investment, namely in highly qualified sectors, by combining a capable labor force with its strategic geographical position.

As a result, the country shall continue to increase its exports, which, in 2022, were responsible for 50% of its total GDP, the highest weight ever registered.

This indicator is aligned with the high number of FDI's projects that Portugal attracts, demonstrating the openness of the Portuguese economy.

Figure 1: Portugal macroeconomics



Source: Bank of Portugal, Economic Bulletin, June 2023; ECB, ECB staff macroeconomic projections for the Euro Area, June 2023.

¹ Source: European Commission - Eurostat

Portugal climbs two positions in the European ranking as a FDI destination, reaching the sixth position in 2022

Investors are confident in a resilient Europe

2022 was marked by the conflict in Ukraine and rising prices, boosting higher inflation rates, in which Central Banks had to work on, by rising interest rates.

Such context did not jeopardize investors' confidence in a strong, resilient and high skilled Europe, with a strong rise in the number of FDI projects in most countries.

Sectors such as Utilities Supply, Business Services and Telecommunications experienced high growth rates in 2022 across Europe.

The rise of Southern Europe

Despite the instability experienced throughout Europe in 2022, some Southern countries stand out in the number of FDI projects, mostly explained by the reconfiguration in global supply chains.

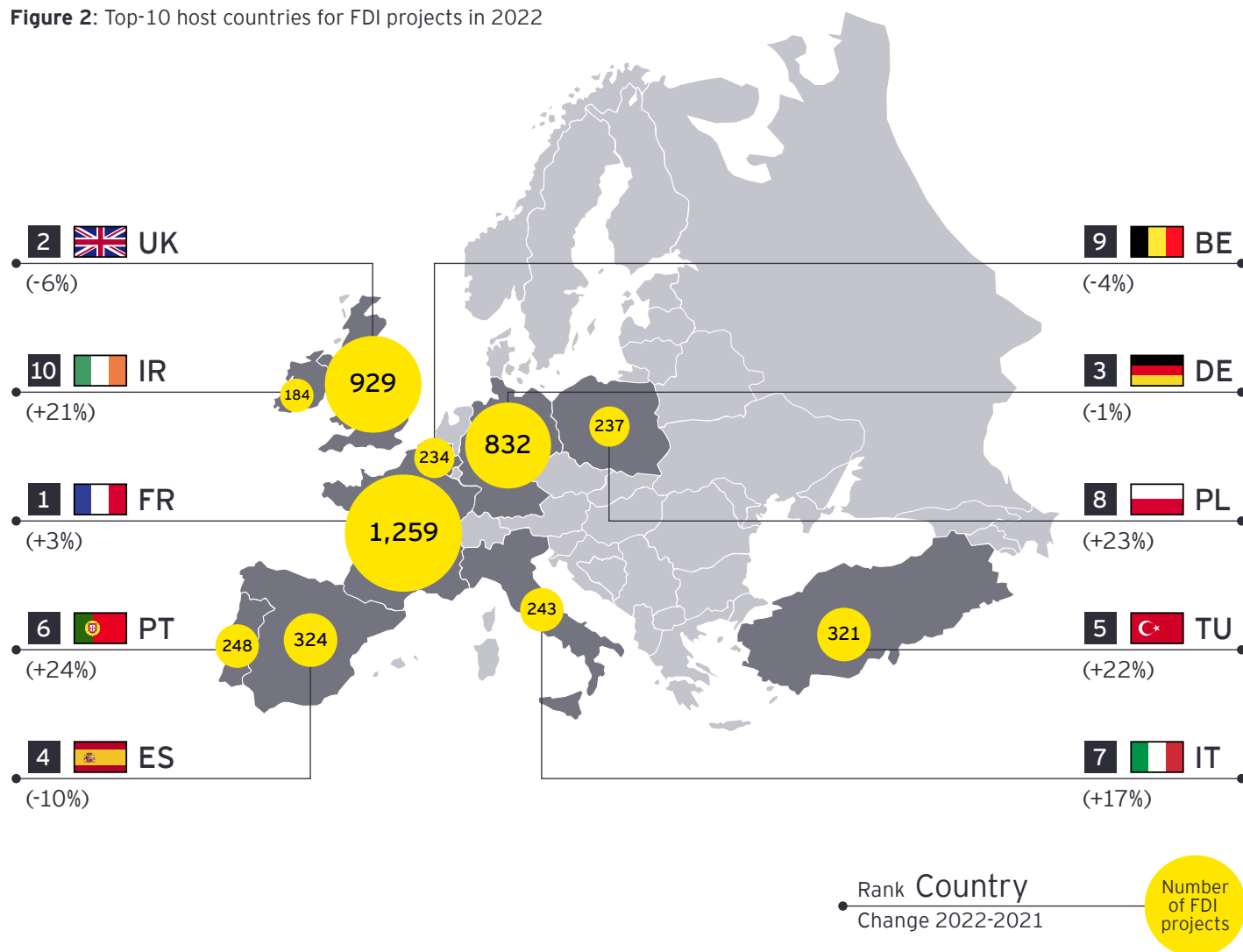
Impressively, Portugal registered the highest growth in FDI projects among the top-10 European countries, allowing the country to reach the sixth place in the ranking.

Despite the economic turmoil, 2022 was a year of economic growth, enabling optimistic prospects for the Portuguese economy in the short-term ...



“

Impressively, Portugal registered the highest growth in FDI projects among the top-10 European countries.

Figure 2: Top-10 host countries for FDI projects in 2022

Source: EY European Investment Monitor 2023

Internal viewpoint



Miguel Farinha

Strategy and Transactions Leader Portugal
EY Portugal

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FDI results coupled with a higher economic growth demonstrate, not only Portugal's increasing attractiveness and resilience, but also its ability to carry out foreign and innovative investments, even in times of global turmoil.



Portugal, a safe country for foreign investment and in the frontline on innovation and environmental sustainability's issues

2022 was marked by commercial tensions between US and China, the conflict in Ukraine and rising inflation and interest rates, impacting negatively economies, financial markets and investments, as identified by the EY Geostrategic Business Group.

These factors led the IMF to forecast a slowdown on worldwide economic growth, from 3.4% in 2022 to 2.8% in 2023, and, when only taking into consideration advanced economies, 2.7% and 1.3%, respectively.

Despite this negative economic outlook, in 2022, Portugal attracted the highest number of FDI projects ever registered (248) and the highest growth among top-10 European FDI destinations. Besides, it presented the third highest economic growth (6.7%), measured in GDP's terms, in the EU-27.

FDI's results, coupled with a higher economic growth, demonstrate, not only Portugal's increasing attractiveness and resilience, but also its ability to carry out foreign and innovative investments, even in times of global turmoil. Over the next year, 73% of the surveyed investors wish to invest in Portugal, compared to 67% for the European average.

Between 2020-22, Portugal was the fourth European country to attract the higher number of projects in Software and IT. The country combines several attractiveness factors for innovation-driven sectors and, today, it has seven unicorns, more than Italy, Spain and Greece combined, and one of the biggest Venture Capital firms in the world (Sequoia Capital) considers that Lisbon and Porto are top clusters for app development and hotspots for server and cloud talent.

The country needs to continue to attract investments that power future prosperity and that contribute to Portugal's vision of the future: a resilient economy, based on innovation, digital transformation and sustainability, principles included in the national Recovery and Resilience Plan (RRP).

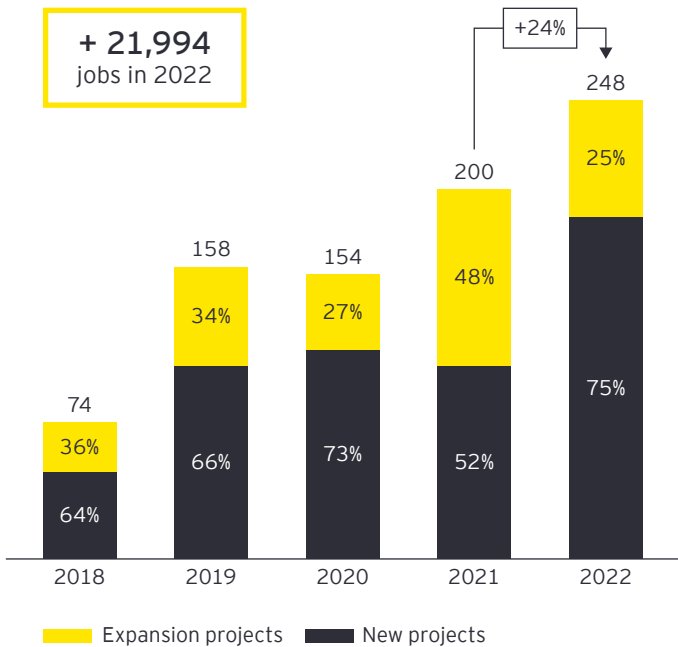
This vision finds translation in a high level of public investment estimated for the next few years: €60b in renewable energy until 2030, for example. Also, pioneer projects have emerged concerning renewable energy sources, such as WindFloat Atlantic (offshore floating wind) and EDP in Alqueva (floating solar panels). Other measures have been implemented, such as Startup Voucher, designed for young entrepreneurs, and the Digital Nomads Visa, designed to attract remote workers.

As for the Government, it needs to continue to support the industries most affected by the economic turmoil, by unleashing emergency funding programs and increasing the tax regime's attractiveness.

Finally, EY teams are here to continue its cooperation with all stakeholders to further develop Portugal's foreign perception, economic growth and support FDI projects. EY teams remain committed in providing services of excellency to their clients, by offering a broad approach for connecting strategy, transactions, integration and technology.

2022 was a record year for Portugal: 248 FDI projects attracted for the first time, namely concerning new investment projects

Figure 3: FDI projects in Portugal



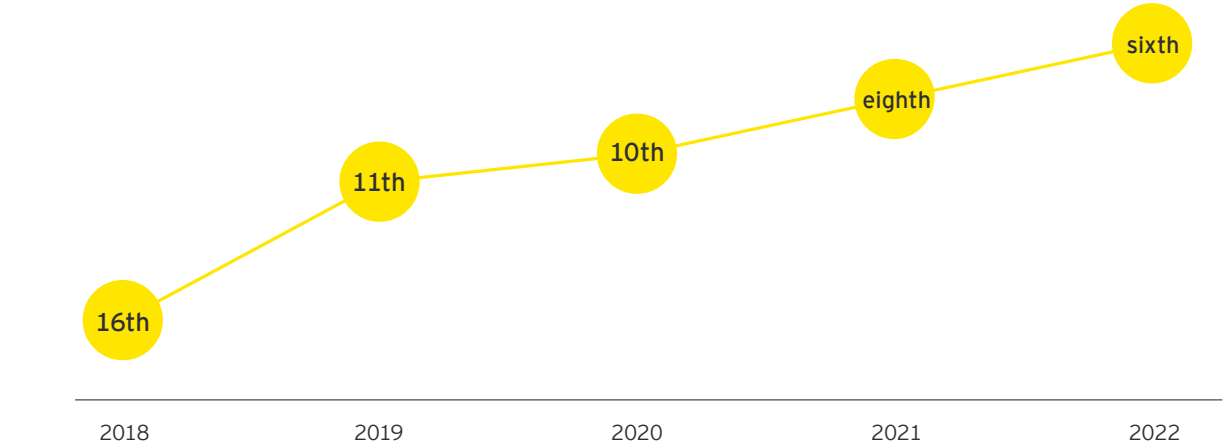
Portugal attracted 248 FDI projects, the highest number ever recorded by the country

Despite the economic uncertainty in 2022 in Europe, Portugal was able to attract 248 FDI projects, the highest number ever presented, which are expected to generate at least 21,994 new jobs, according to the EY European Investment Monitor.

This figure represents a 24% growth compared to 2021, the highest among top-10 European countries with the highest FDI projects and a 35% CAGR during the 2018-22 period. On top of this, 75% of FDI operations in 2022 concern new projects, which shows the country's higher attractiveness for new foreign investors and their willingness to take higher risks in a country they are not so familiar with.

Source: EY European Investment Monitor 2023

Figure 4: Portuguese ranking position on top European countries for FDI projects



Source: EY European Investment Monitor 2023

Portugal is on the investment radar of Germany, US, France, UK and Spain, even though other emerging investors arise ...

Table 1: Top-6 countries of origin of FDI projects in Portugal

Rank		Country	FDI projects in 2021	FDI projects in 2022	Share in 2022
↑	#	EU	150	182	73.4%
↑	1	Germany	30	36	14.5%
↓	2	United States	30	35	14.1%
→	3	France	29	25	10.1%
→	4	United Kingdom	25	24	9.7%
→	5	Spain	23	21	8.5%
↑	6	Switzerland	13	20	8.1%
↑		Other countries	49	87	35.1%
		Total	200	248	100.0%

Source: EY European Investment Monitor 2023

In 2022, Germany surpassed the United States in number of FDI projects targeting Portugal

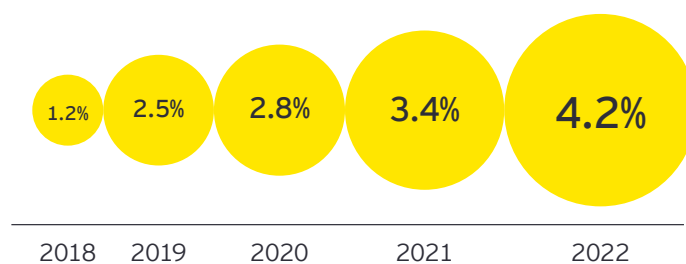
Individually, Germany reached the first position as the main investor in Portugal, with 36 projects. The country surpassed the United States as the main foreign investor in 2022.

The investments from Germany, the United States and France were mainly directed to Software and IT Services (39 projects), with these three countries accounting for 39.4% of the sector's total projects in 2022.

The number of FDI projects in Portugal coming from new countries is increasing

Despite the fact that the 6 highest investing countries in Portugal have consolidated their position, new countries are growing their relevance as well. For example, the Netherlands and Denmark rose from four and two projects to 14 and eight projects, respectively.

Figure 5: Share of Portugal in Europe FDI projects



Source: EY European Investment Monitor 2023

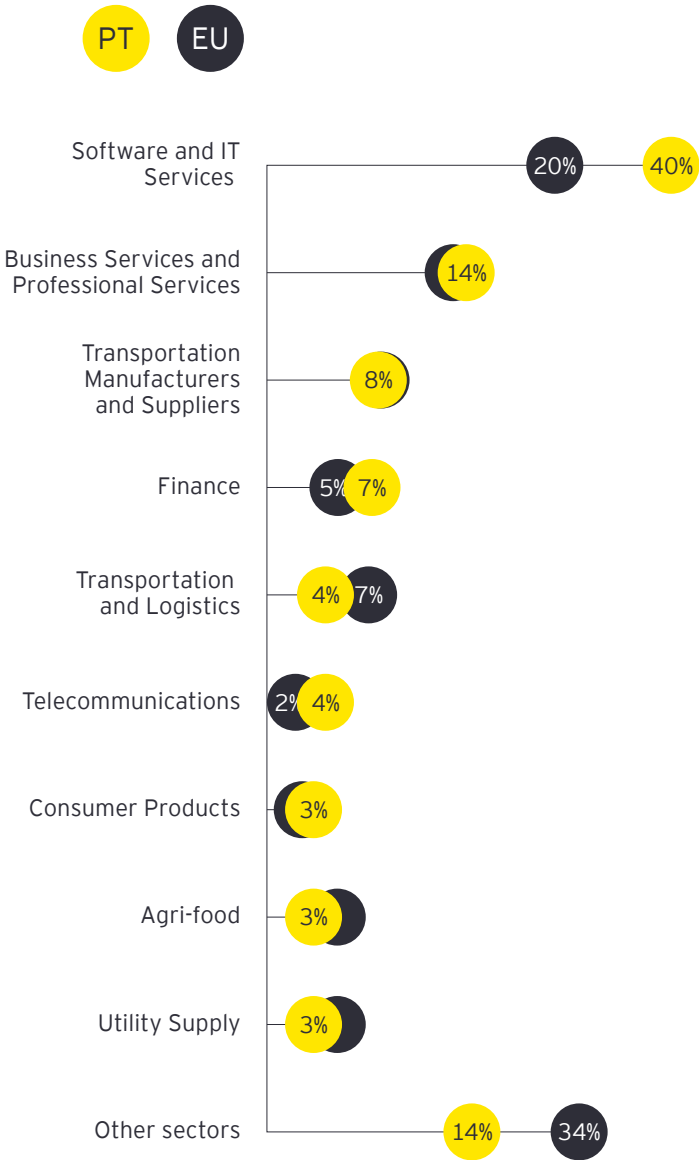
Portugal's share of European FDI projects rose 3.0 p.p. between 2018 and 2022

Portugal's importance in total European FDI projects has also been increasing. Between 2018 and 2022, the relative weight of Portugal in total FDI projects in Europe rose from 1.2% to 4.2%.

Moreover, the jobs created in Portugal represented 6.4% of total employment created in Europe, meaning that Portugal has been attracting higher dimension projects (when measured through number of employees).

Software and IT Services lead FDI projects, followed by Business Services and Professional Services, with Finance as a sector to pay attention

Figure 6: Distribution of FDI projects in Portugal and Europe by sector (%), 2022



Software and IT Services continues to be the leading sector for FDI projects, confirming the country's attractiveness in the digital economy

Software and IT Services' FDI projects grew 52% in comparison to 2021, totalizing 99 FDI projects, with 76 of them representing companies establishing their operations in Portugal for the first time. Most projects are in Porto and Lisbon, with potential to create at least 7,300 new jobs (average of 105 employees per project, meaning that these are typically high dimension projects).

These projects are mostly from big and international corporations from the United States, France, Germany and Netherlands, looking to be part of the innovation ecosystem that the country has established over the years.

In fact, Portugal is already known internationally as an innovation ecosystem, since, between 2020-22, it was the fourth European country to have attracted the most FDI projects in Software and IT Services (214), only behind France (428), Germany (500) and the United Kingdom (774).

Finance, a sector with a boosting performance

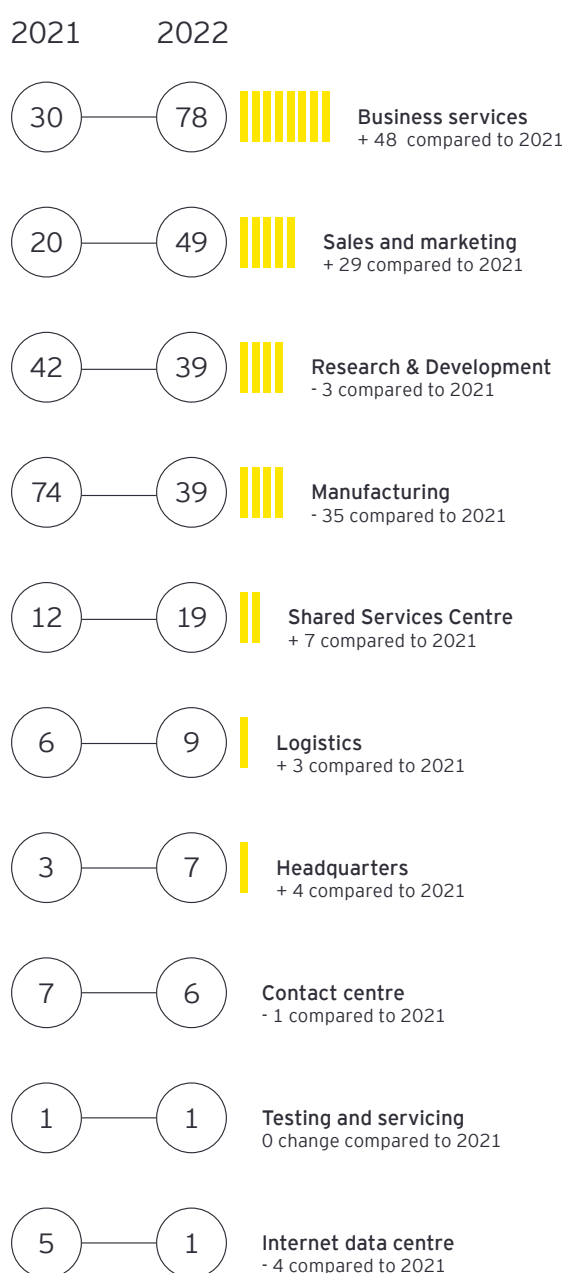
Portugal was able to attract 18 projects in Finance, which translates into a 200% growth when compared to 2021.

Such growth can be explained by two major factors. The first one regards Investment Funds establishing their operations in Portugal, in order to be closer to the growing national startup ecosystem. The second one FinTechs looking to Portugal as a market to implement their innovative business solutions.

Source: EY European Investment Monitor 2023

FDI projects are focusing on services, with Business Services and Sales and Marketing leading, followed by Research & Development

Figure 7: FDI projects in Portugal by main activities



Strong increase in Business Services, while maintaining R&D importance

By analyzing the FDI projects developed in Portugal in 2022, their activities' profile suffered a change. Firstly, innovation retained its importance, reinforced by Business Services and Sales and Marketing, while manufacturing fell abruptly.

Business Services and Sales and Marketing rising from third and fourth in 2021 to first and second

Business Services and Sales and Marketing were responsible for 31% and 20% of FDI projects in 2022, a surge, considering that they represented 15% and 10%, respectively in 2021. The results demonstrate the Portuguese capability to attract more service-oriented companies.

Despite the slight decrease, R&D reaches the podium

R&D projects in Portugal fell in line with the European average, around 5 p.p. compared to 2021, while still attracting those related to innovation of new technologies, such as Klarna's hub in Lisbon, a Swedish FinTech dedicated to developing new payment solutions, which will create at least 500 new jobs.

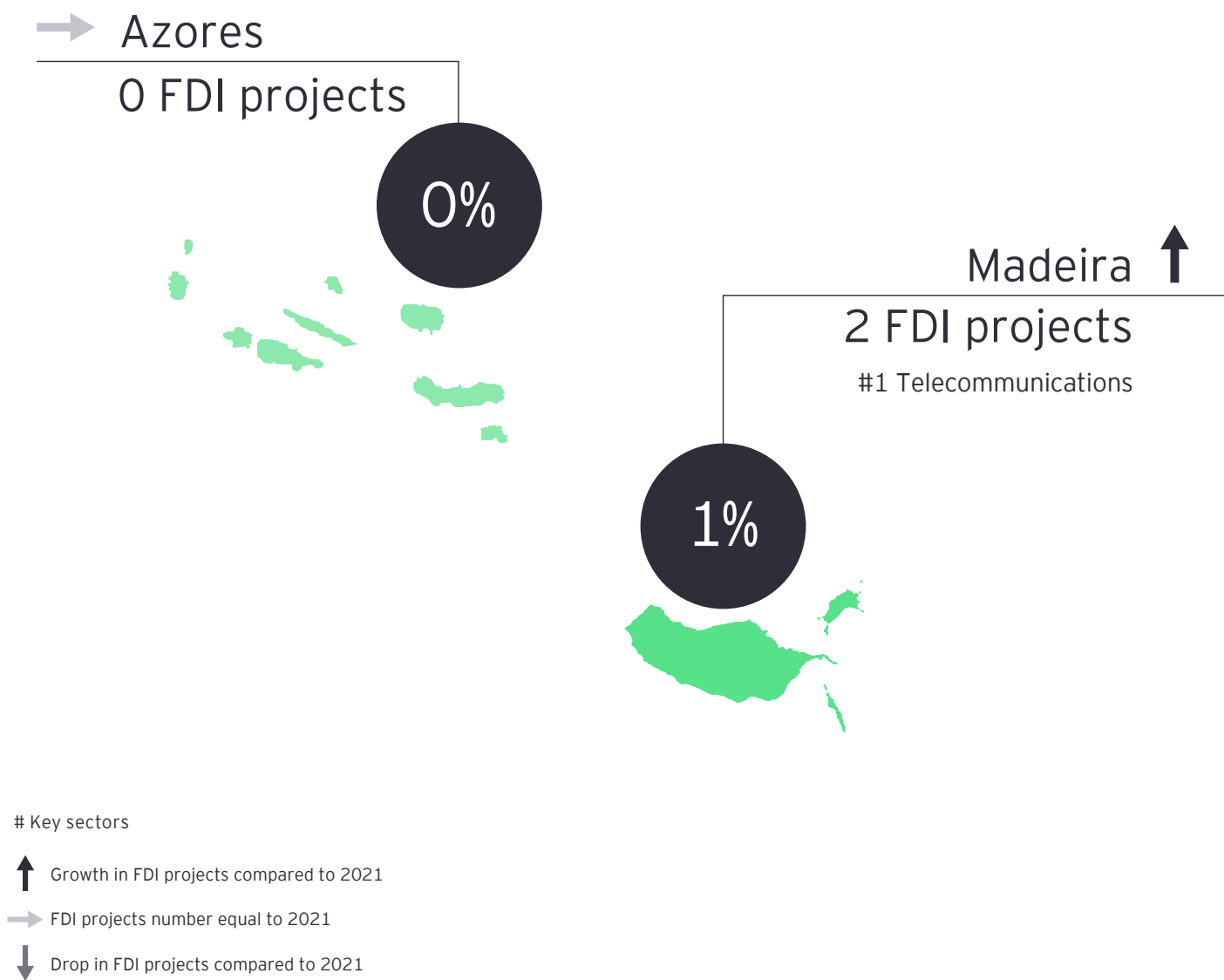
Negative trajectory of manufacturing projects

Despite the existing trends regarding nearshoring and companies' intentions to decrease supply chain distances, manufacturing projects fell by 47% compared to previous year. Notwithstanding, 36% of the projects concerned expansion and the number of projects is still above 2020 (39 versus 37), showing investors' confidence in Portugal.

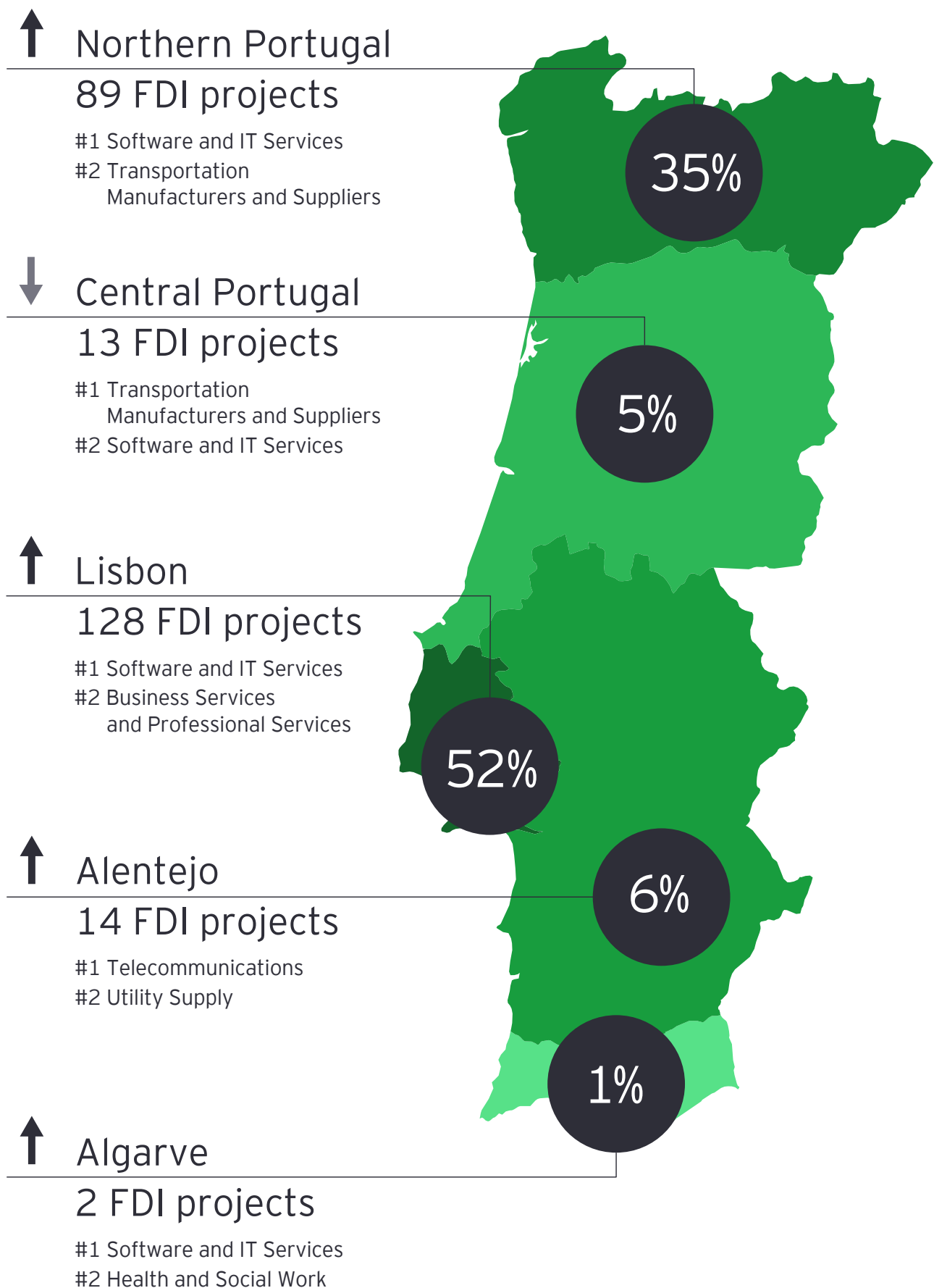
Source: EY European Investment Monitor 2023

Lisbon and Northern Portugal (mainly Porto) are the most attractive regions for investors, representing 87% of FDI projects carried out in 2022

Figure 8: Distribution of FDI projects (%) by region in 2022



Source: EY European Investment Monitor 2023



External viewpoint



Ricardo Valente

City Councilor for Economy,
Employment and Entrepreneurship

“

Porto lives with its doors open to the world and its eyes set on the future, tolerant to change and capable of fulfilling the ambitions of those who feel inspired to take risks in a multicultural and international setting.

Porto: a city shaping a sustainable future

Porto has become a hotspot for foreign direct investment in Southern Europe, attracting over €2.7b in investment projects and being able to create 17,400 jobs over the last three years. The volume of investment by foreign companies reached a record level of €600m in 2022, overcoming the barrier of €1b in the last seven years. With an upward trajectory in recent years, Porto's strategy of promoting foreign direct investment has been placed at the top of the 2023 European Cities and Regions of the Future, under the category "FDI strategy - Large cities", by the Financial Times.

We have more than 2,250 companies with headquarters in Porto's Metropolitan Area controlled by foreign owners, including technology and IT services centers of global companies such as Natixis, Euronext, Continental, Vestas, Kantar, TeamViewer, BNP Paribas, FedEx, Maersk, Five9, ISS, FinTru, and Critical Techworks, a Joint Venture (JV) between BMW and Critical Software, among many others.

Porto's value proposition as a global hub of the future stems from the region's vast pool of talent, world-class universities, thriving innovation and entrepreneurship environment, optimal location with a modern digital infrastructure and a great connectivity to EU and global markets, as well as Porto's exceptional quality of life and welcoming nature.

These structural factors, together with the unique combination of cultural heritage and innovation, make Porto an ideal business hub for 21st century companies to develop highly innovative projects and quickly adapt to today's challenges.

2

Engines of attractiveness: attractiveness and risk factors that Portugal faces



72%

of investors have plans to establish or expand operations in Portugal over the next year

59%

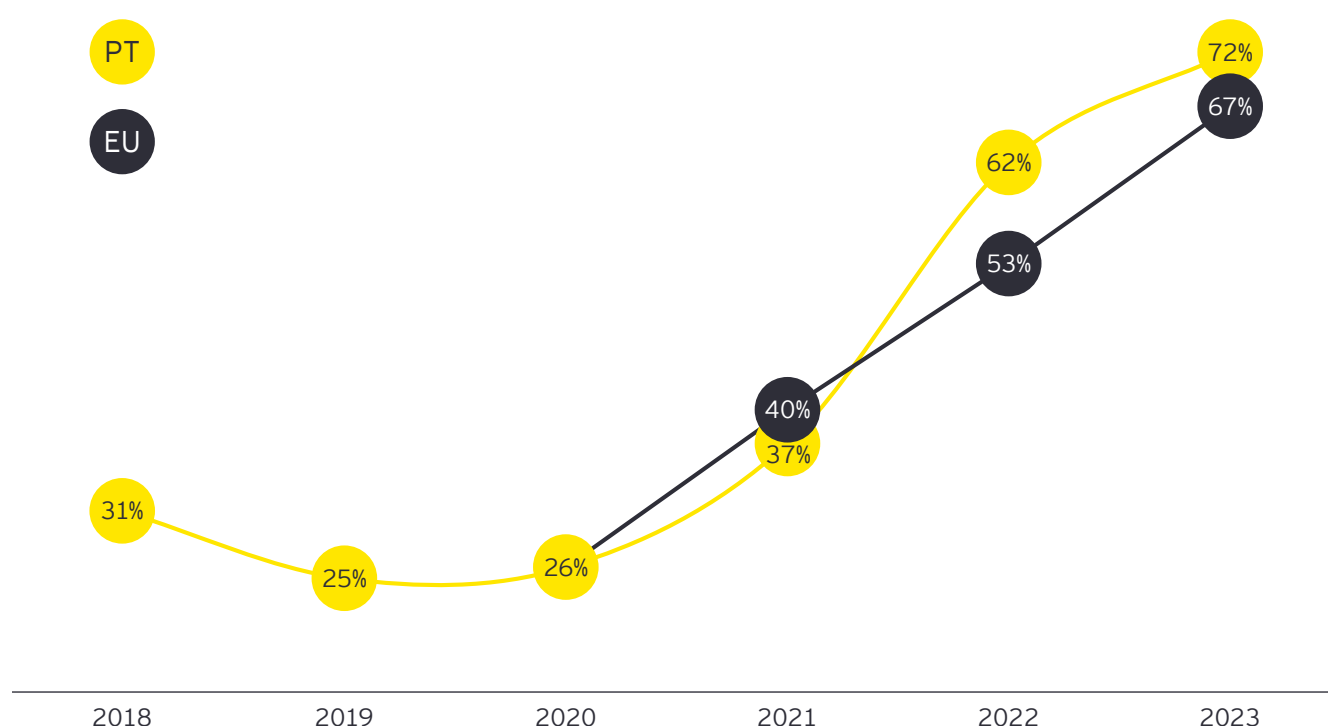
of investors expect Portugal's attractiveness to improve over the next three years

41%

of investors consider Portugal's tax policy makes it a more attractive investment destination for their company

Portuguese attractiveness' survey* reported an outstanding growth in 2023, in line with the higher number of FDI projects

Figure 9: Does your company have plans to establish or expand operation over the next year in Portugal or in another European country? Answer = Yes



Source: EY Attractiveness Survey Portugal 2022; EY Attractiveness Survey 2023 (total respondents: 202).

Europe has maintained the confidence of international investors

The war between Ukraine and Russia has affected all European countries. However, Europe took steps to reduce dependence on Russia and the effects of the war, somehow, were not so catastrophic as forecasted.

In fact, two-third of investors aim to either establish or expand operations in Europe in 2023, resulting in an increase of 14 p.p. compared to 2022. This increase reflects Europe's recovery and the confidence of international investors.

Portugal's attractiveness increased meaningfully in the last two years

Despite Europe's good performance in terms of attractiveness, Portugal reports even higher figures in 2023.

More than 70% of surveyed investors expressed willingness to invest in Portugal over the next year. So, we can conclude that the instability that has affected Europe does not seem to pinch Portugal's attractiveness.

Portugal remains resilient and stable, which seems to be a decisive factor when investors choose where to establish their operations.

*The 2023 survey took place between February and April 2023.

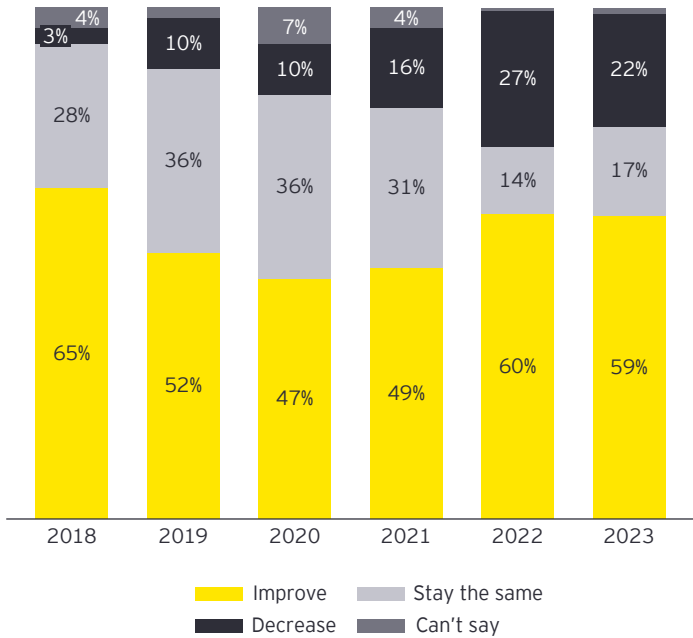
Despite the remarkable results on Portugal's attractiveness, the country can improve even more

Portugal is well positioned in terms of its attractiveness in relation to major European economies but has room for improvement

There has been a rise in Portugal's potential attractiveness since 2020. This year, the expectation that Portugal's attractiveness will improve over the next three years was higher than the expectation perceived in major European economies, such as Belgium, Italy, France, UK and Ireland. There are still 22% of investors who believe that Portugal's attractiveness will decrease in the coming years, but this negative expectation decreased by 5 p.p. compared to the previous year.

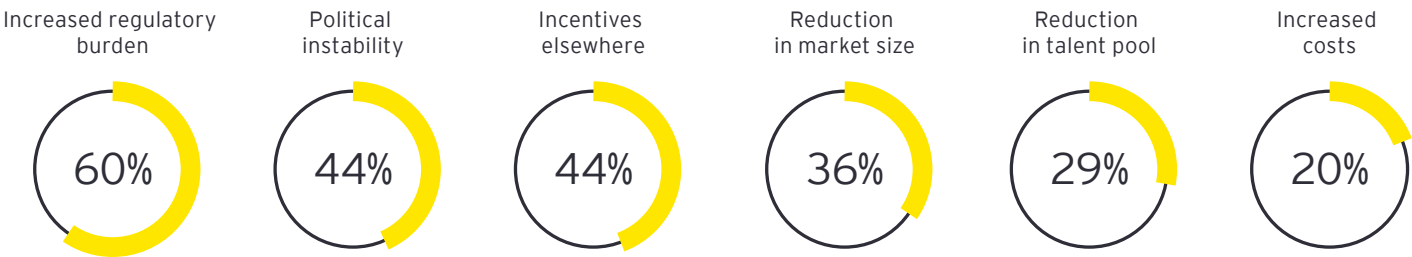
Most of the reasons pointed out for the decrease of Portugal's attractiveness are mainly related to increased regulatory burden, political instability and incentives elsewhere. The first two were also mentioned on a European level, even to a higher degree. Incentives elsewhere was one of the least quoted reasons for an expected decrease in attractiveness on a European level, but in Portugal it was one of the most mentioned factors, so it is crucial for the country to understand what other competitor countries are doing in this matter.

Figure 10: How do you expect Portugal's attractiveness to evolve over the next three years?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

Figure 11: You said that you expect Portugal's attractiveness to decrease, why do you say that?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

The quality-of-life Portugal offer and its social stability are key factors of Portugal's attractiveness

The quality-of-life that Portugal offers and its social stability represent key factors of country attractiveness

The surveyed investors agree that Portugal is very attractive in relation to the quality of life it offers. However, there is a significant fall in the assessment of this indicator in relation to the previous year: 46% of investors selected quality of life as a very attractive factor in 2022, while 28% mentioned this year.

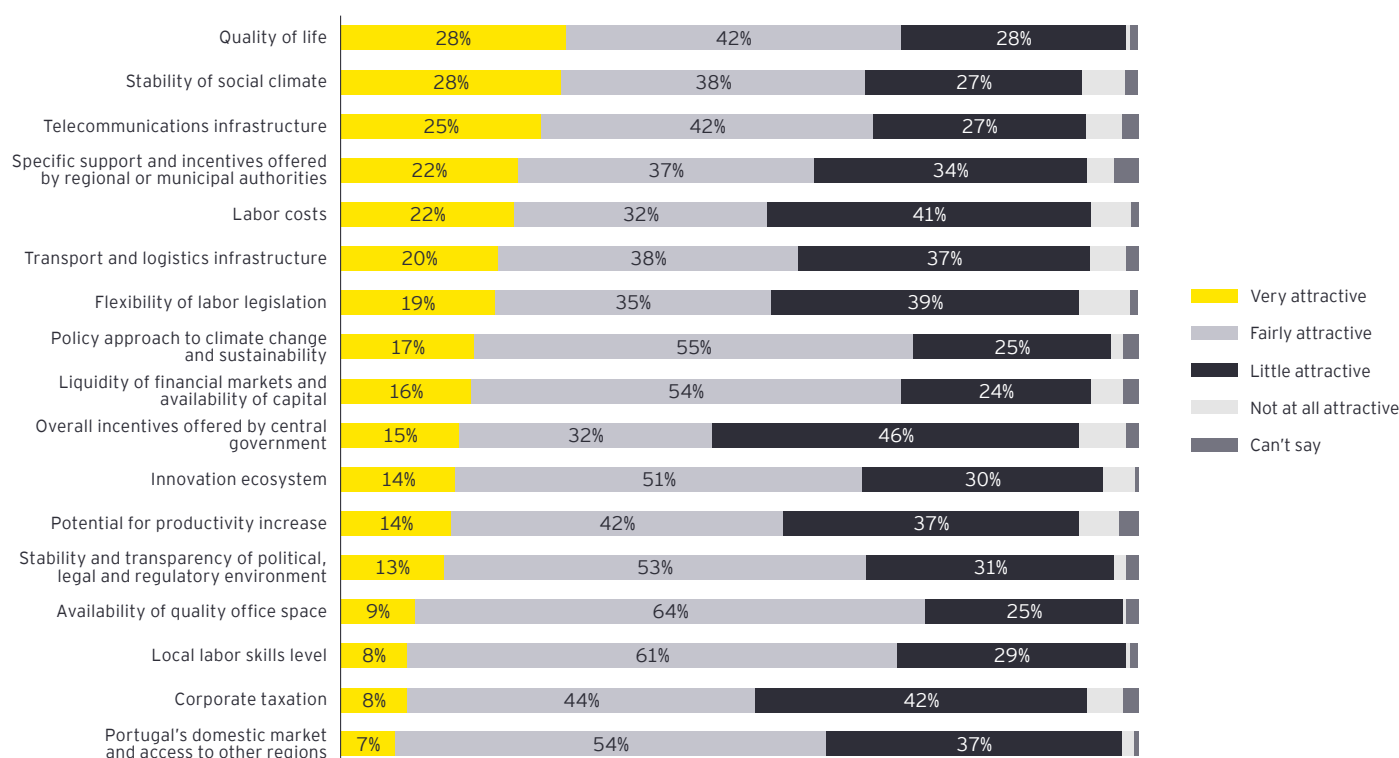
Due to the war between Ukraine and Russia, stability becomes a more and more relevant factor for investors. The resilience and stability Portugal offers became a crucial factor of attractiveness.

The supportive telecommunications infrastructure and the incentives offered by regional authorities remain at the top of Portugal's main attractive factors

Telecommunication infrastructures remain a very attractive factor for FDI, despite having dropped one position compared to the previous year.

The incentives offered by regional authorities also work as a FDI attractive factor for Portugal when compared to other countries (59% of the investors consider that the specific support and the incentives offered represent an attractive factor in Portugal in 2023 - this represents a 6 p.p. growth compared to 2022).

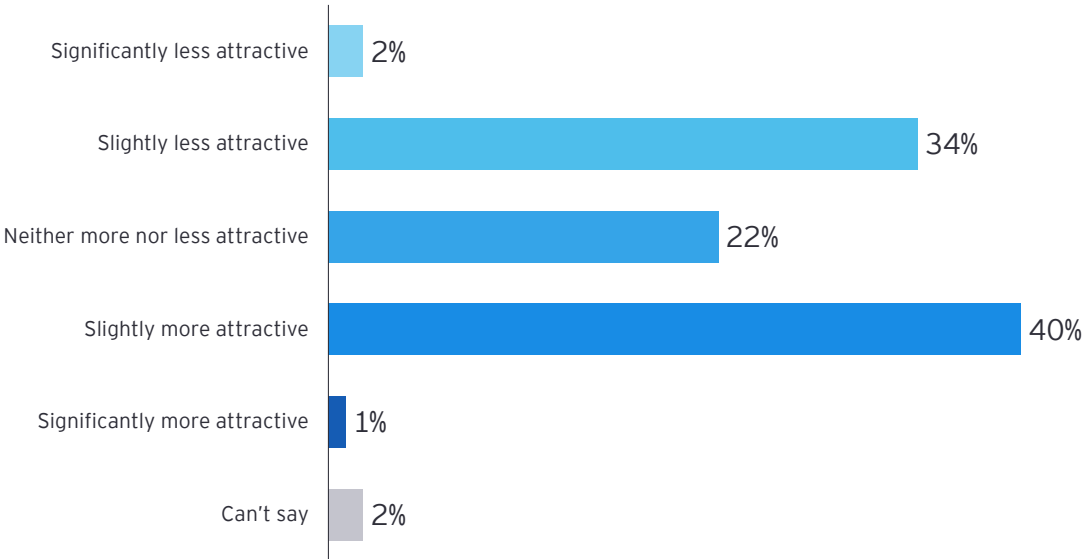
Figure 12: For each of the following criteria, how would you rate Portugal as a foreign direct investment destination from your company's point of view?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

Portugal's tax policy is seen better by 40% of investors as an attractive factor in the investment destination decisions

Figure 13: Comparing Portugal to other countries for your investments, does Portugal's tax policy make it a more or less attractive investment destination for your company?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

Portugal's tax policy is seen by 40% of investors as slightly more attractive than other countries

Portugal's tax policy is considered by 41% of investors as an attractive factor, while only 36% of investors consider that Portugal's tax policy is less attractive for investment. Simplifying, the tax policy would facilitate processes and could attract more FDI. Portugal has taken steps toward simplifying processes and reducing bureaucracy.

Also, Portugal has several tax incentives that are a strong competitive factor and can attract even more FDI. However, the tax burden and regulatory environment seem to be damaging the attractiveness of Portugal to FDI. Thus, Portugal's tax policy still has room for improvement, in order to promote the country as a place where FDI is not only recommended, but effectively rewarded with tax benefits.

“

Portugal has several tax incentives that are a strong competitive factor and can attract even more FDI.



External viewpoint



Filipe Santos Costa

Chairman and CEO of AICEP
Portuguese Trade and Investment Agency

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The upward trajectory of FDI into Portugal is driven by many factors, from the quality of its institutions and legal and fiscal frameworks, its insertion in global logistics, the increased availability of internet and green electricity and, not least, the steady improving academics and professional training of the Portuguese workforce (...).

FDI: the key for Portugal's energy transition and digital transformation

Portugal is a trending location for FDI, 2022 was a record year for value-added projects coming to Portugal via foreign investors, helping to change the national economic landscape toward the targeted energy transition and digital transformation goals, with key IT and green industrial projects, and growing technological intensity, that Portugal can absorb and enhance.

The upward trajectory of FDI into Portugal is driven by many factors, from the quality of its institutions (with a safe and stable social, political, legal, fiscal, and financial environment), the streamlined global logistics (both seaward and to the European hinterland), the increased availability of internet and green electricity and, not least, the improving academics and professional training of the Portuguese workforce (with noticeable yearly achievements in the national output of talent, with excellent results in Science, Technology, Engineering and Math (STEM), medical sciences, business administration and foreign languages skills).

The Portuguese Trade & Investment Agency (AICEP) is continuously working on making the country a more attractive destination for FDI, by improving the framework and conditions to setup all types of investment, from digital hubs to factories, and developing its grants and incentives schemes. Now, more than ever, Portugal is a trending location for FDI.

The main risks for Portugal's attractiveness landscape: emerging markets, as well as political and economical instability in Europe

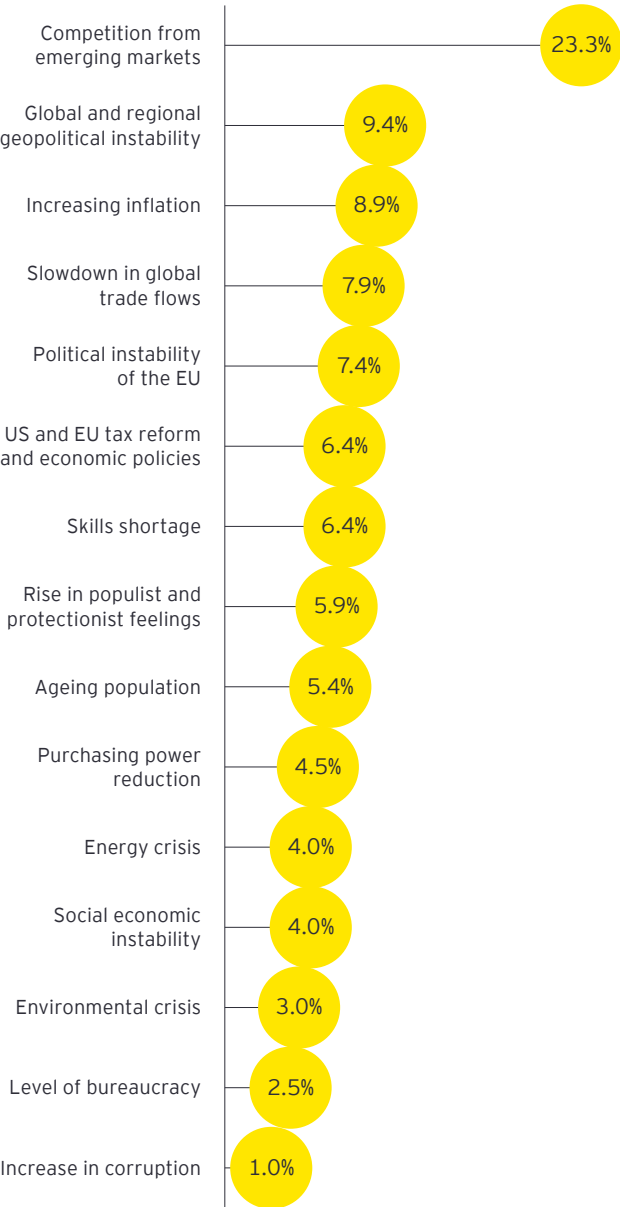
Emerging markets are the biggest threat to Portugal's attractiveness

The main risk pointed out by the investors concerning Portugal's attractiveness is the competition from emerging markets. To be more competitive and mitigate the competition from emerging markets, it should be crucial to focus in the qualification of the human resources, in R&D and innovation, in differentiation and scaling up effects. In fact, taking advantage of national talent and the skills of its human resources to produce high added value goods and services, as well as, ensuring a favorable and stable economic environment for domestic and foreign investment represent critical aspects to consider for the next few years. The focus on these matter is critical for the country to stand out from emerging countries, whose competition is essentially based on low production costs, namely wages.

The challenges of the political and economical instability in the world's economy

Political and economical uncertainty in the world's economy, namely the global and regional geopolitical instability, increasing inflation, slowdown in global trade flows and political instability in the EU, were other top factors perceived as hazardous for the Portuguese economy. The Russia-Ukraine war triggered a massive shock to the global economy, especially to energy and food markets, squeezing supply and pushing up prices to unprecedented levels. This is especially true in the Euro Area, since it is a highly open economy, which makes it vulnerable to disruptions in global markets and value chains. According to the European Commission, Portugal was one of the least vulnerable countries regarding the Ukraine war. Still, some effects are being felt in the country, namely high inflation rates. Despite Portugal's resilience, investors still point out economic and political instability as one of the main risks, regarding Portugal's overall attractiveness.

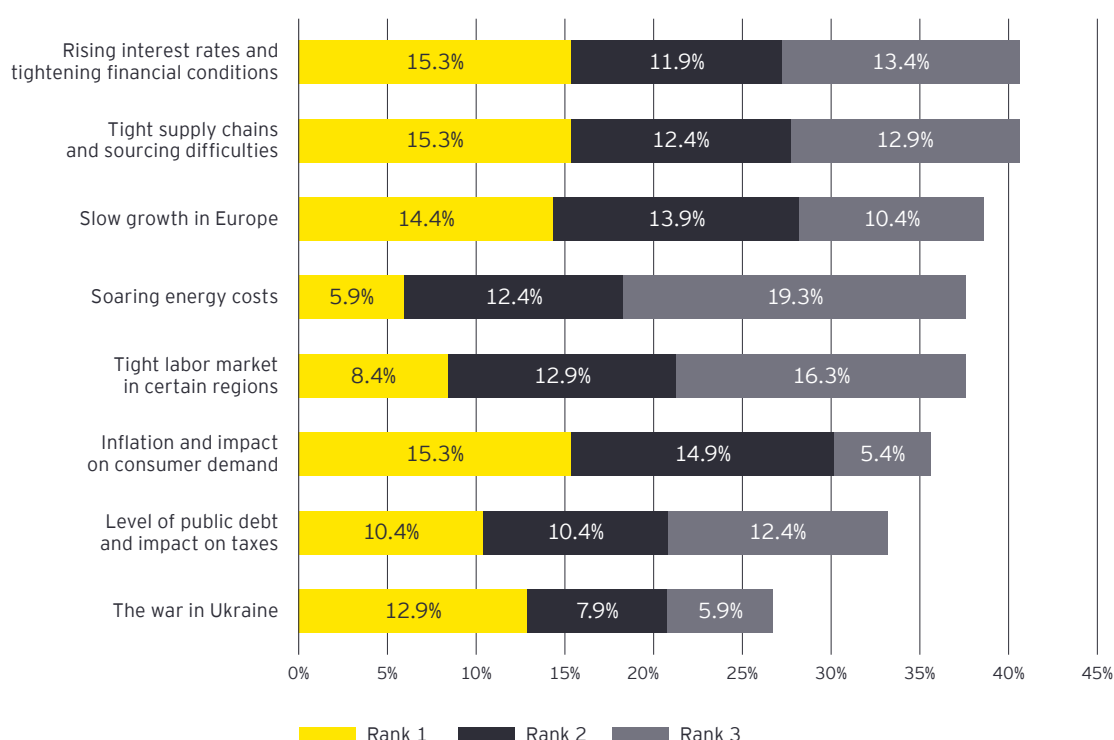
Figure 14: What do you perceive to be the most important risk regarding Portugal's overall attractiveness as an investment destination?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

Despite the resilience, stability and low dependence on Russia-Ukraine war, some effects of the war are felt in Portugal by investors

Figure 15: Which three of the following economic risks have impacted your 2023 investment plans in Portugal the most?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

Economies are put to the test: high interest rates, tight supply chains and lower growth

Rising interest rates and tightening financial conditions, as well as tight supply chains and sourcing difficulties were placed in the top three risks that have impacted 2023 investment plans in Portugal, according to almost 45% of investors.

The war between Ukraine and Russia led to the highest annual inflation rate in decades in EU, in 2022 (9.2%, according to Eurostat). The war contributed heavily to the inflationary pressures building up in Europe during the post-pandemic recovery and pushed up consumer prices, especially for energy and food. However, Portugal's low dependency from Russia allowed the country to better sustain the pressure.

In 2023, it is expected that the Portuguese inflation will stand at 5.2%, decreasing to 3.3% in 2024 and 2.1% in 2025, according to Banco de Portugal's projections. In the coming quarters, this downward trajectory will be based on lower energy and food prices. Still, inflation is identified by 15.3% of investors as the main risk to impact their 2023 investment plans.

At the European level, despite several positive developments, there are still some major challenges: consumers and businesses continue to face high energy costs and inflationary pressures are still broadening. Monetary tightening is, therefore, set to continue, exerting a drag on investment and on consumption.

External viewpoint



Jorge Rosa

President of Mobinov

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Recognized for its know-how in automotive production, with emphasis on the R&D component, the Portuguese automotive cluster has arguments to stand out in strategic dossiers, such as the energy transition or the commitment to leadership in hydrogen.

FDI importance for the current and future competitiveness of the automotive sector in Portugal

The automotive production in Portugal grew by almost 30% in the first quarter of 2023. In addition to its importance to the national economy (more than €3b Gross Added Value (GVA)), the sector - which aggregates 1,315 companies and employs 71,000 workers - is responsible for a volume of exports that exceeds €8b.

Recognized for its know-how in automotive production, with emphasis on the R&D component, the Portuguese automotive cluster has arguments to stand out in strategic dossiers, such as the energy transition or the commitment to leadership in hydrogen. The goal is to attract more companies oriented toward the vehicle of the future, which will foster innovation, promote carbon neutrality and the circular economy.

The focus on all these dossiers is what will make the sector attractive for raising strategic capital for the country. Recent investments by Stellantis, Bosch or Renault are just three of these examples. It is time to think about the sector, enhancing the transformation it needs and, with government measures that value green mobility and digitalization, build a path for the future.

Sales and marketing, R&D and business services are becoming very attractive areas for investors to increase their footprint in Portugal

Investors believe that sales and marketing is the go-to area for increasing their footprint in Portugal

Among the investors that intent to invest in Portugal in the next three years, sales and marketing represents 52% of potential investment decisions, with a very low percentage of investors decreasing their footprint (8%).

The rising trend in sales and marketing in Portugal is strengthened by the growing importance of data and information and new processing technologies that help defining go-to market strategies and, ultimately, increase clients' retention.

R&D takes the second place as the category investors are most inclined to bet on

R&D is continuously observing a high level of investment. In fact, Portugal's government and other public agencies, like Aicep Portugal Global - Trade & Investment Agency (AICEP), Institute of Support to Small and Medium Enterprises and Innovation (IAPMEI) and Portuguese Innovation Agency (ANI) developed a variety of programs and initiatives that help supporting and financing investments in these fields.

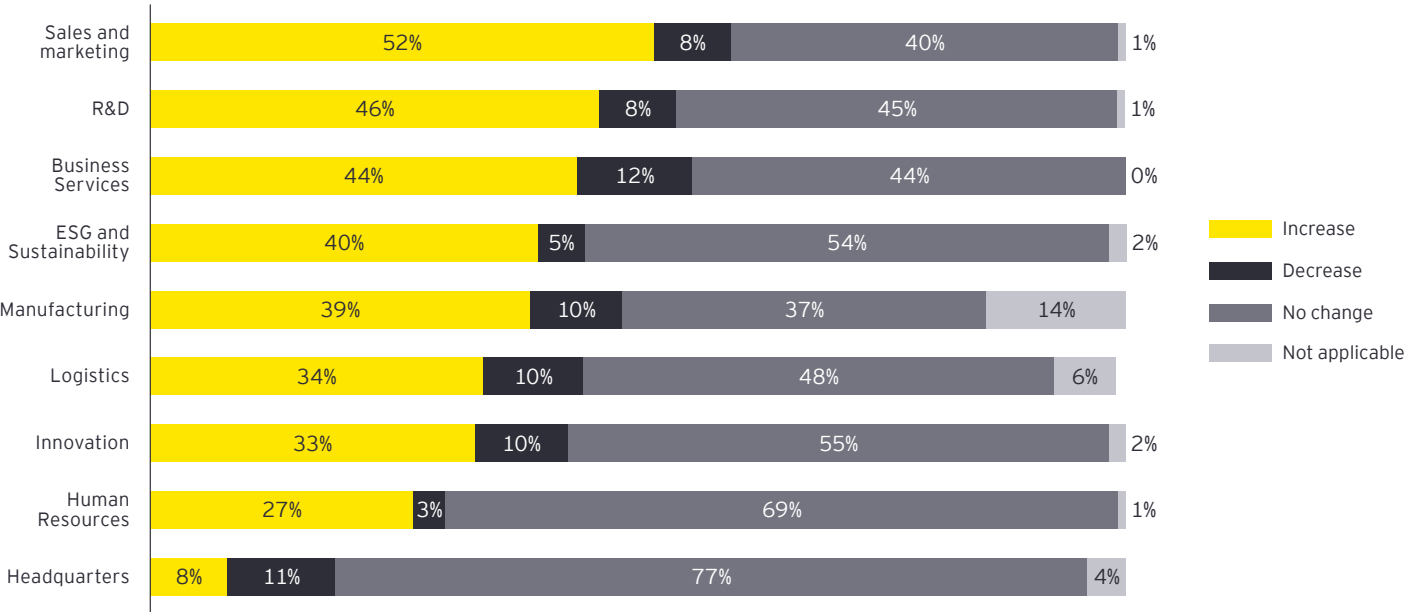
Business services reaches the podium in the third place

With 44%, business services ranks third as the area investors want to increase their footprint, in Portugal.

The higher level of FDI projects in this area benefits Portugal's position, as they deliver solutions to manufacturing and other service sectors.

They are also progressively being used to enhance the value of products through new combinations of goods and services and play a central role in the "servitization" of the Portuguese economy.

Figure 16: In the next three years and in the following categories, how do you expect to change your current footprint in Portugal?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

Investors identify software and IT Services, Construction and Utility Supplying as the main sectors that will ensure Portugal's continuous growth

Investors rank software and IT services as the sector with the most impact

For 26% of surveyed investors, the Software and IT services will be the main business sector that will drive Portugal's growth in the upcoming years.

Over the last few years, there has been an increase of technology use and Portugal, according to the International Trade Administration, is one of Europe's fastest-growing tech ecosystem, with many STEM graduates, entrepreneurs and startups that will ensure the consistency of its development.

Construction takes second place as investors expect it to increase Portugal's growth

Construction has 14% of positive answers, however, it is a decrease compared the previous year (28%).

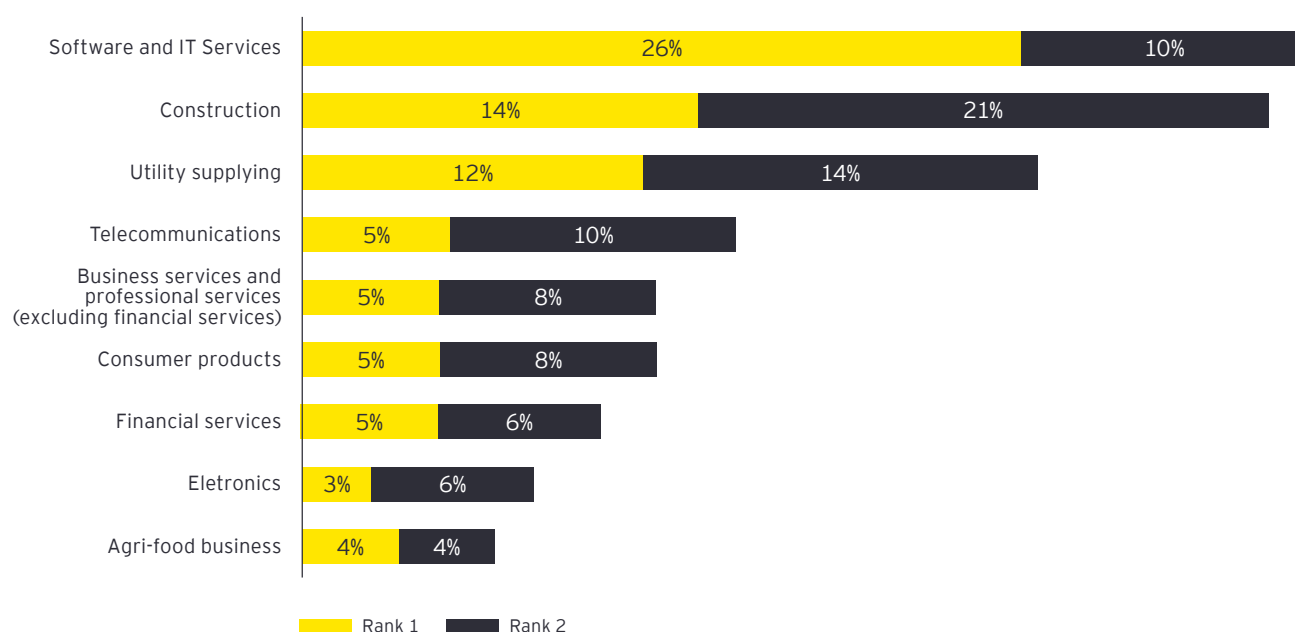
In fact, construction has a high level of importance in Portugal as it provides the necessary infrastructure, either to its population or industries, and mobilizes a valuable and extensive supply chain.

Utility supplying reaches the third place in investors perceived relevance

The Energy Police Review shows that Portugal supports energy policy development and encourages the exchange of best practices and experiences that help drive and secure affordable energy transitions.

Portugal's energy and climate policies push for carbon neutrality, primarily through broad electrification of energy demand and a rapid expansion of renewable electricity generation, along with increased energy efficiency.

Figure 17: Rank the top two business sectors that you expect to drive Portugal's growth in the coming years



Source: EY Attractiveness Survey 2023 (total respondents: 202)

External viewpoint



Bernardo Ivo Cruz

Secretary of State for Internationalization

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Environmental, social and good governance requirements will impact markets. Portugal's government is committed to, not only help companies comply, but also leverage this as a competitive advantage.

Portugal is performing well in comparison to the EU zone and OECD

The uncertainty surrounding the global economic outlook weighed negatively on the investors' sentiments and intensified the competition for international investment.

Following a global pandemic and faced by an armed conflict at the heart of Europe, companies realized the importance of having a solid, resilient, and closer relationship with their supply chains, as well as the urgency of becoming more energy-efficient, aiming at results that foster economic growth in equal terms with sustainable development mindful of the environment, local communities and people.

In these circumstances, economic data and investment intentions seem to indicate that Portugal is performing well in comparison to the EU zone and OECD, with over €2b in new investments in 2022, making it our second highest registered year for FDI.

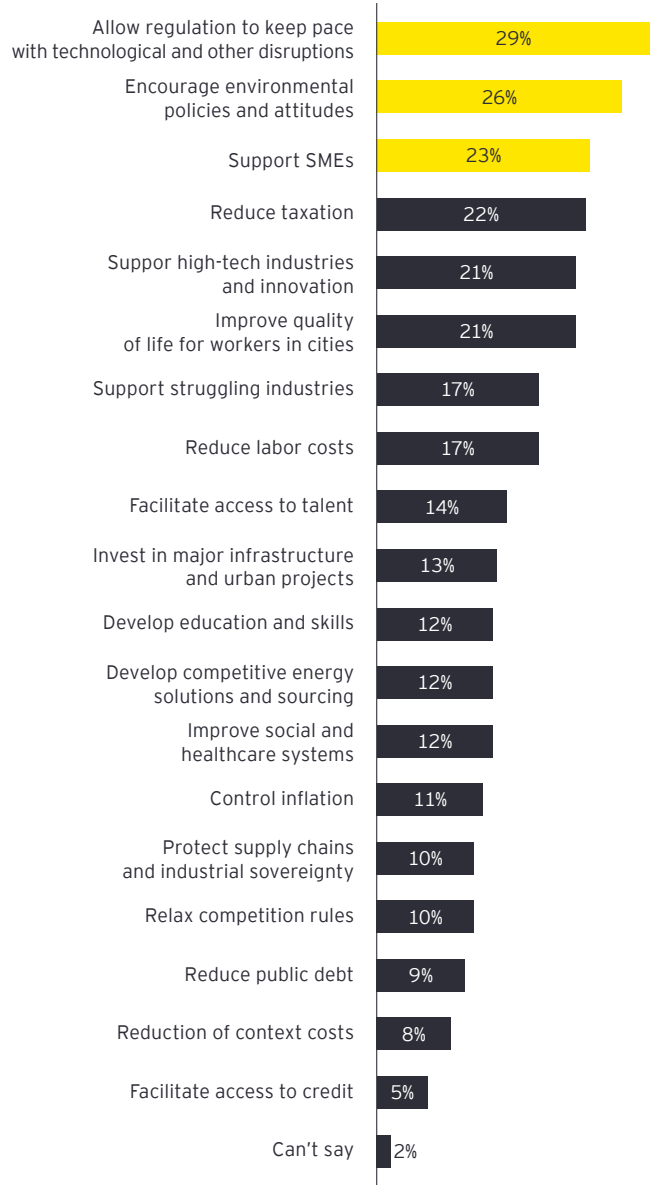
2022 was also the year in which the EU and other international authorities have announced major steps in the commitment toward sustainability, which will no longer be a desk exercise, but placed on equal footing with the financial reporting and serve as a lever for competitiveness.

In this context of a "global call-to-action" for a more balanced and sustainable economic activity, Portugal is leading by example with 72% of the total electricity consumption produced by renewable sources in the first quarter of the year and growing as a tech hub in Europe with submarine data cables connecting to Asia, Africa, Americas and Middle East, and prioritizing public policies that promote responsible digitalization and social development opportunities.

Environmental, social and good governance requirements will impact markets. Portugal's government is committed to, not only help companies comply, but also leverage this as a competitive advantage. Portugal's attractiveness for FDI depends on this and we must play our part in the transition to a more responsible world.

Many investors believe that, in order for Portugal to maintain its competitive position in the global economy, improvements should be made in some major issues

Figure 18: In your view, where should Portugal concentrate its efforts in order to maintain its competitive position in the global economy?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

Improvement on major competitiveness matters associated with highly skilled industries is still needed

It is crucial to reflect on the fundamental drivers of growth and productivity, not to fall behind the megatrends globally. Regulation adjustments, environmental policies and SMEs support are the main areas that investors believe will help Portugal maintain its competitive position.

The current slow pace of legislation development is a no-go for the investors

The continuous technological development is helping to transform R&D and innovation ecosystems. The evolution of digital tools and products, such as artificial intelligence or metaverse are opening doors to attract new companies and new opportunities. Ultimately, betting on these will increase business efficiency and productivity.

With the right policies, strategies and vision, the Portuguese digital strategy transition is expected to observe a rapid kickstart and be sustainable for a long period of time. Developing new and easy to understand legislation can help attracting startups from various parts of the world.

A more environmentally sustainable country

While being involved in several projects that address environmental challenges, investors believe there is more to be done when it comes to environment sustainability and circularity policies.

In fact, Portugal has taken a pioneer position in the United Nations Sustainable Development Goals by approving an action plan toward circular economy and planning a roadmap to reach carbon neutrality in 2050.

Supporting SMEs is crucial to create value for Portugal

Due to their importance on the economical landscape, further investments on SMEs will help boost Portugal's resilience, which is vital to face economic and financial recessions and increase productivity levels.



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The evolution of digital tools and products, such as artificial intelligence or metaverse are opening doors to attract new companies and new opportunities.

External viewpoint



Pedro Cruz

Board Member of NeoGreen Hydrogen Portugal

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Portugal is in a privileged position to become a preferred fuelling station for the global shipping industry that sails through its waters.

Portugal should take advantage of its low costs in the carbon neutral electricity

NeoGreen Hydrogen Portugal results from a JV between NeoGreen Hydrogen Corp (a global Hydrogen developer based in Canada) and Frequent Summer (a leading renewable energy developer in Portugal). It is an integrated green hydrogen developer, focused on producing green hydrogen and its derivative energy products.

Our Sines project aims to produce E-Methanol from the synthesis of green hydrogen and carbon dioxide to supply zero carbon fuels to the global shipping industry.

The shipping industry is considered as one of the “hard to abate” sectors and the only clear solution for decarbonization is via the use of green fuels like e-methanol.

New EU regulations like RFNBO, FuelEU Maritime and EU ETS have fostered the demand of e-fuels from ship owners, like Maersk, CMA CMG, MSC, etc, which have already deployed significant CAPEX to run their future fleets on green methanol.

We believe that Portugal should take advantage of its geographic location, placed on the key maritime routes between the North of Europe and the rest of the World, together with its low costs for carbon neutral electricity, such as wind and solar. Portugal is in a privileged position to become a preferred fueling station for the global shipping industry that sails through its waters.

The pioneering role that Portugal is playing in renewable energy is attracting global players, bringing strong industry expertise, which will further increase the country's competitiveness.

If, as a country, we are able to create engagement between the global industry players already present in Portugal and our highly skilled universities, we can create a virtuous cycle of technical knowledge within the industry, providing Portugal with a long-term competitive advantage.

3

Looking ahead: dynamics that boost FDI's attractiveness in Portugal

72%

of investors consider
the startup ecosystem
in Portugal to be
similar or even above
average

68%

of investors consider
Portugal to be
similar or even above
average in talent
availability and quality

Portugal is well-positioned in talent, but presents some delay in innovation

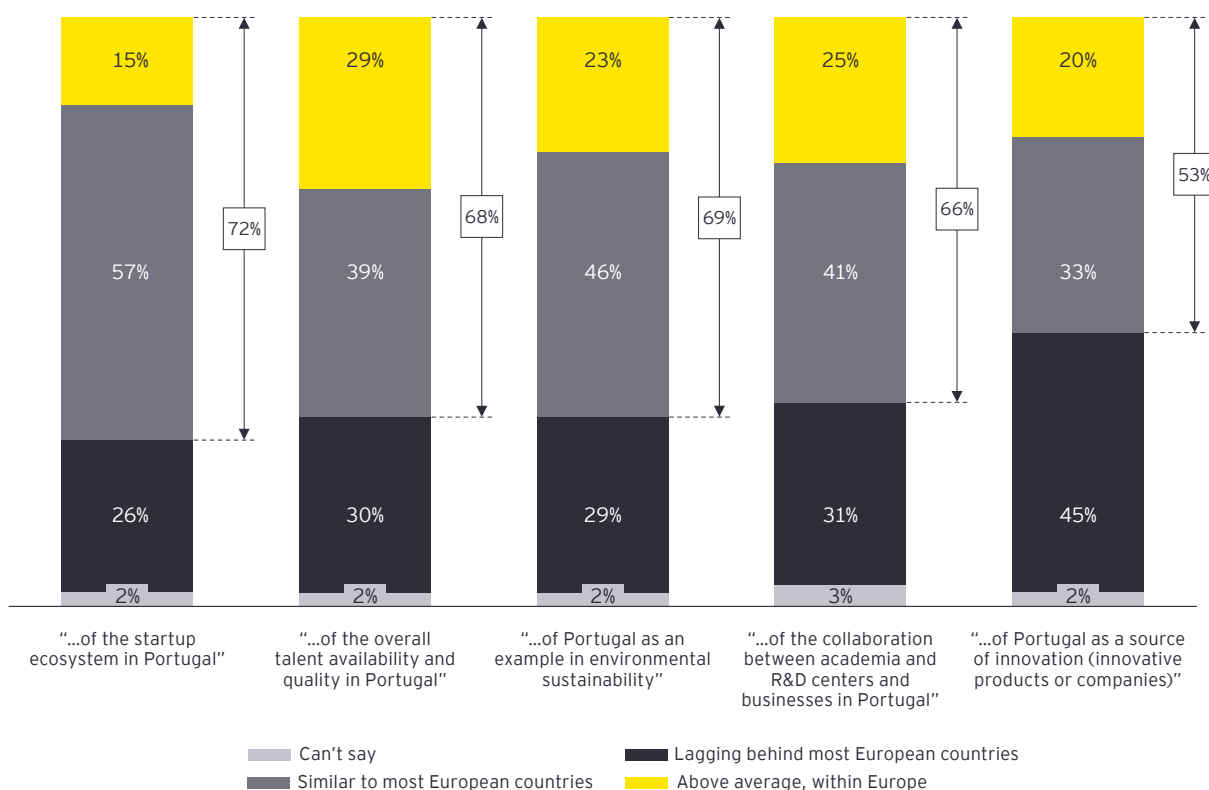
Portugal is in a similar or higher position compared to most of the European countries in several competitiveness factors, such as environmental sustainability, R&D and innovation, talent...

The startup ecosystem is the factor that gathers the highest approval, as 72% of surveyed investors consider that Portugal is at least equal to the best than its European peers. This assumption is aligned with StartupBlink, that indicates that Portugal occupies the 28th position worldwide in the Global Startup Ecosystem Report, being the 16th European country with the best ranking.

Talent is also a factor in which Portugal is in a better position in comparison to other European countries. About 29% of the investors perceive that Portugal is above European average in talent availability and quality. Corroborating this, according to the OECD, Portugal ranks 16th out of 38 countries in attractiveness factors related to qualified talent.

Portugal as a source of innovation, namely innovative products or companies, is the competitiveness factor in which the country presents less encouraging results. About 45% of the surveyed investors consider that the country is behind most European countries in this matter.

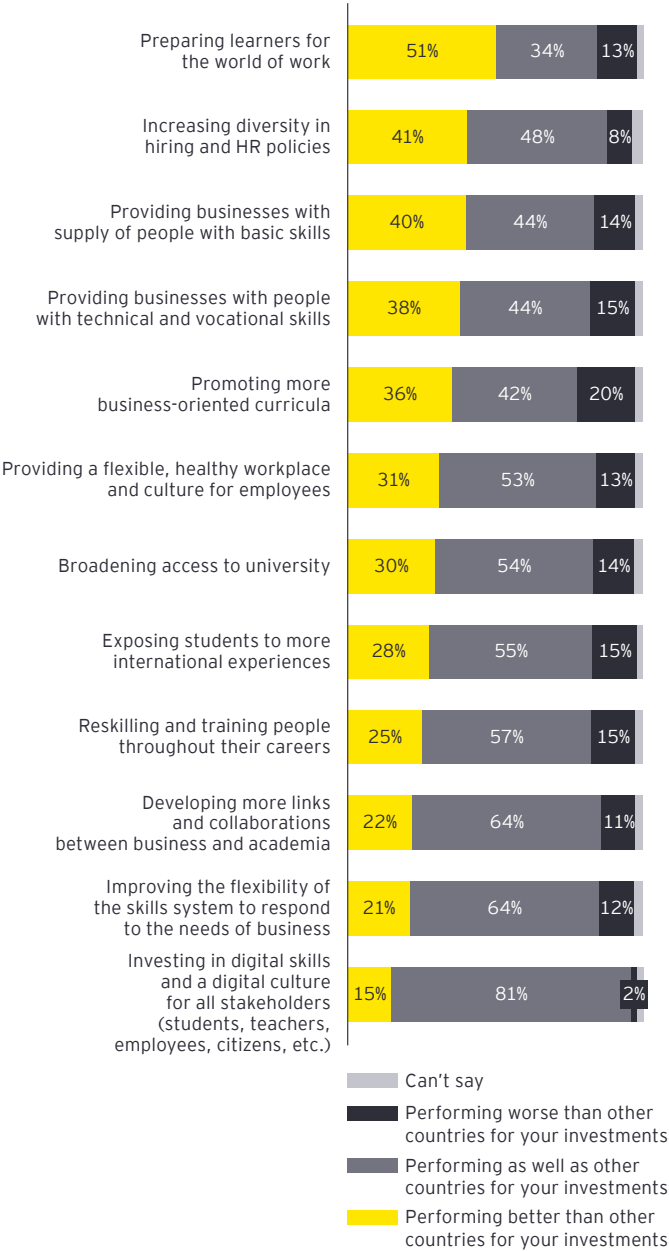
Figure 19: What is your perception?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

An intergenerational and more diverse education system is the next step for Portugal to continue to stand out regarding its talent

Figure 20: In your view, how does Portugal perform with regard to the following talent-related areas?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

Portugal gathers a broad consensus about the quality of its talent that results from a good education system

At least 75% of the surveyed investors consider that Portugal performs equal or better in all talent-related areas when compared to the other countries where they have executed investments.

Preparing learners for the world of work is where Portugal mostly stands out, while promoting more business-oriented curricula is where there is more room for improvement (20% of the surveyed investors consider that Portugal is performing worse than other countries).

The investors' perception is in line with the latest international studies on the education system in Portugal

Educational attainment has been increasing at a strong pace in Portugal, especially in relation to the tertiary level. According to OECD, the share of 25-34 year-old with tertiary education increased from 13%, in 2000, to 48%, in 2021, in Portugal, representing a 14p.p. variation, above OECD average growth. Nowadays, the share of 25-34 year-old with tertiary education in Portugal is similar to OECD average (48%).

Reforming the academy is key for Portugal to further improve its talent

Despite the progress made, the education system is still not able to face some specific problems. In particular, the OECD points out the need for the Portugal's higher education system to contribute further to adults' upskilling and reskilling.

This point is in line with the perception of investors: Portugal does not stand out in factors, such as investing in digital skills and a digital culture, improving the flexibility of the skills system and reskilling and training people throughout their careers (<25% of investors consider that Portugal is not performing better in these factors).

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Preparing learners for the world of work is where Portugal mostly stands out, while promoting more business-oriented curricula is where there is more room for improvement.



Internal viewpoint



Anabela Silva

People Advisory Services Leader Portugal
EY Portugal

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Talent continues to play a pivotal role in the attraction of foreign investment and Portugal can boost its competitive advantage through both its national pool of talent, as well as the ability to attract foreign talent.

Leveraging the national and foreign pool of talent to boost Portugal's competitiveness

It is widely recognized that in recent years businesses have been engaged in a fierce war for talent, and new ways of working – anyway, anyhow, anywhere – have brought greater expectations for workforce flexibility, talent strategy and technological investment.

At country level, this means that countries that are able to attract and retain talent are also those that will thrive in the future.

Talent continues to play a pivotal role in the attraction of foreign investment and Portugal can boost its competitive advantage through both its national pool of talent, as well as the ability to attract foreign talent.

As the Attractiveness Survey for Portugal shows, 68% of investors consider Portugal to be similar or even above average in talent availability and quality. However, investors also note talent scarcity in certain fields, with difficulties to find talent specialized in R&D, as well as in IT.

To keep its competitive advantage, developing next-generation talent, by investing in digital skills and mindset, improving the flexibility of the skills system and reskilling and training people throughout their careers will be key to develop the local pool of talent in Portugal. Investing in public measures to avoid the brain drain of young educated people is also of the utmost importance.

Notwithstanding, Portugal should also capitalize on its ability to attract foreign talent. Portugal consistently ranks high in terms of quality of living and work for expatriates and has ranked fourth in the Best Places to work and live in Expat Insider 2022.

In fact, not only does Portugal offer a competitive tax system for highly skilled employees that move to Portugal and were not tax residents of Portugal in the previous five years (the so-called “non habitual residents regime”), but it also offers a friendly environment and tolerance toward individuals from different nationalities and backgrounds – as the current conflict in Ukraine has shown, with Portugal welcoming both Ukrainian and Russian individuals and their families.

Of course this creates pressure on our public services with immigration being one of the top concerns of the foreign (non-EU) individuals moving to Portugal, namely in what refers to family regrouping. Digitalization of the immigration process and prioritizing tech talent can be routes to reduce the costs of context and enhance Portugal's attractiveness to foreign talent.

One final word regarding the Portuguese diaspora, whose return may represent an opportunity to further increase Portugal's national pool of talent and contribute to mitigate the trend toward ageing population. The return of this Portuguese skilled workforce has strategic relevance and should be further enhanced namely through boosting the tax and financial incentives known as “*Programa Regressar*” or introducing other public measures alike.

After all, winning the race of talent will be key to put Portugal in the pole position for foreign investment.



There is a high demand for specialized talent which is causing shortages in the market, which could be mitigated, in part, by the upskilling and reskilling of talent

Competition for talent is intense in Portugal

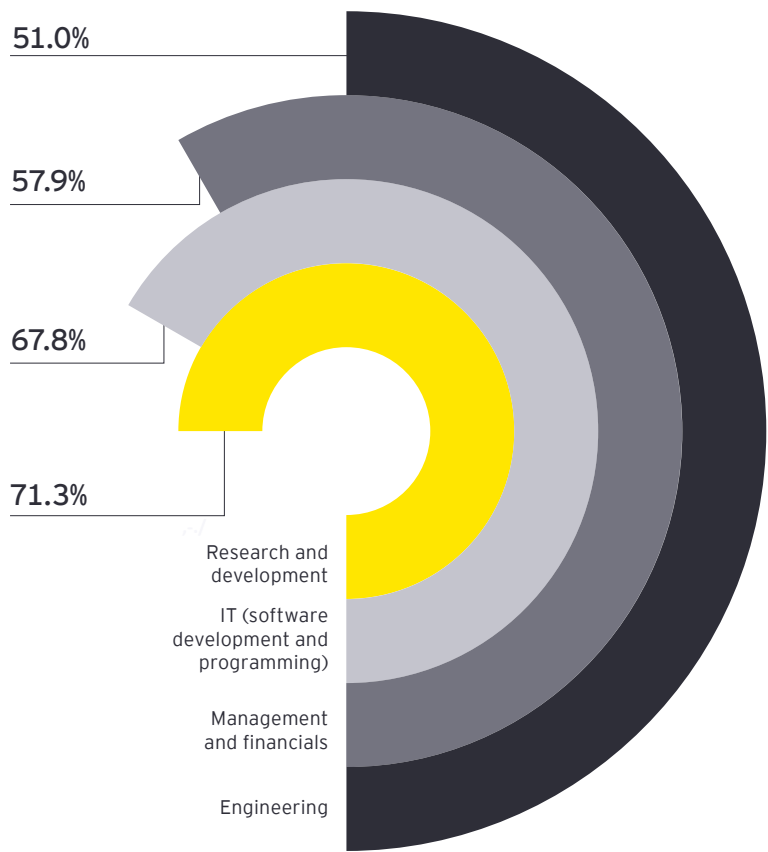
As mentioned earlier, among other factors, Portugal stands out in availability of workforce with technology skills, which favors innovation.

However, this has caused pressures on the labor market that are identified by surveyed investors. About 71.3% of investors consider it difficult to find talent specialized in R&D, while 67.8% refer to the shortage of talent specialized in IT (software, development and programming).

Rounding out the top four hardest-to-find skills for investors, talent specializing in management and financials and engineering were mentioned by 57.9% and 51.0% of surveyed investors.



Figure 21: What specific types of skilled talent do you consider to be the hardest to attract?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

External viewpoint



Glenn Luis

General Manager of Fresenius Kabi Pharma Portugal

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Portugal offers many characteristics that make it an attractive destination for investment. However, to attract FDI, Portugal needs to concentrate on reducing bureaucracy and creating a favorable economic environment.

Strategic location and a skilled workforce are pillars in Portugal's attractiveness

Fresenius Kabi will continue to invest in enhancing its manufacturing facilities in Portugal, much in line with the European Pharmaceutical Strategy, looking to increase our EU footprint in this area with sustainable practices and environmentally friendly processes.

Portugal offers many characteristics that make it an attractive destination for investment.

I consider the following as pillars to this success:

- ▶ A stable social and economic environment in a strategic geographical location leads to an excellent gateway to international markets
- ▶ Its skilled workforce, with highly qualified professionals is a strategic advantage to attract local investments. This is linked to the growing innovation ecosystem in place now throughout
- ▶ The overall quality of life in Portugal along with a competitive costs' structure attracts talents and investments locally

To increase FDI, Portugal needs to concentrate on reducing bureaucracy and creating a favorable economic environment, with transparent and predictable sector-specific frameworks.

As geo-political tensions increase, with protectionism measures rising in many countries, it's fundamental that Portugal creates investor-friendly policies that promote investments and allow us to stand out when compared to competing countries.

We must provide and promote sector-specific incentives, as tax incentives or other types of grants, to foster and attract foreign investors.

These incentives should be given to increase production capacity in the country and for R&D initiatives, where innovation should always be fostered.

And when we discuss innovation, Portugal should foster it, investing in the education of our skilled workforce and attracting foreign talents through organized programs.

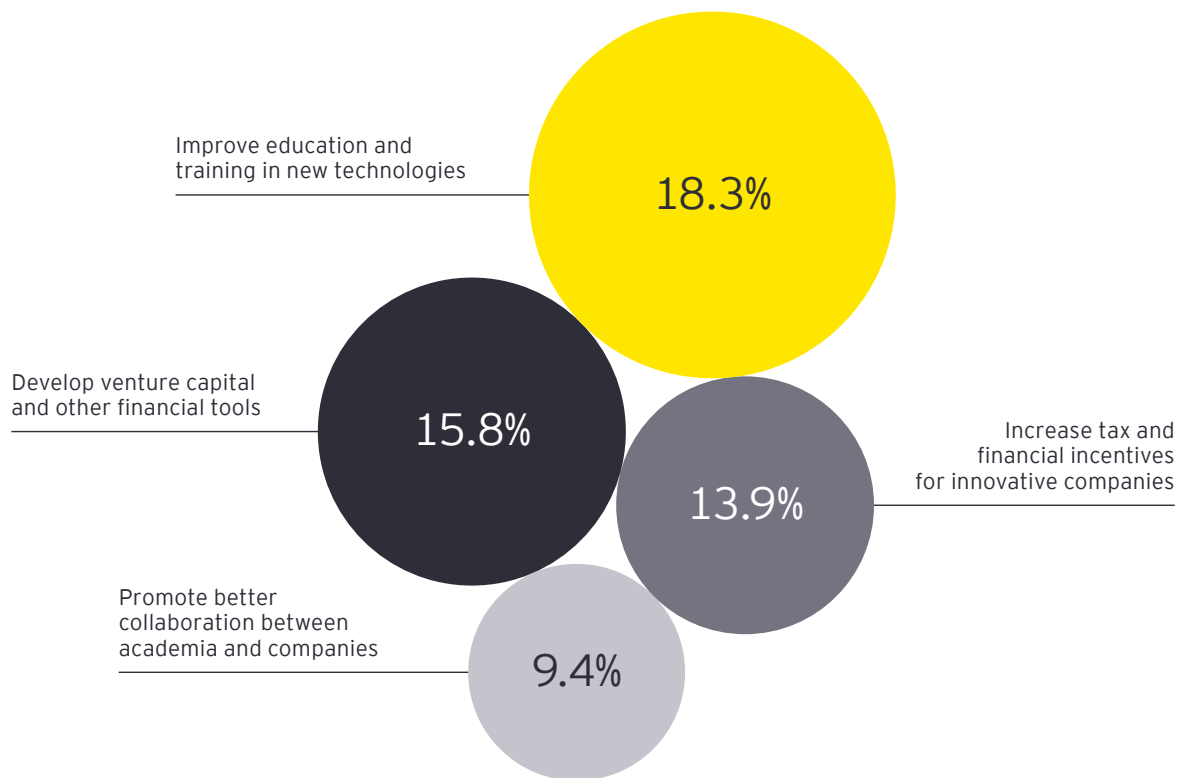
Education and policies to promote investment-friendly environment is the road for Portugal to become a leader in innovation

Education, financial tools and fiscal policies are key factors to become a leader in innovation

Among several factors mentioned by investors, it is possible to highlight those related to talent formation. For 18.3% of investors, Portugal should invest in improving education and training in new technologies and, for 9.4% of investors, the country should promote better collaboration between academia and companies.

Investors also identify other challenges for the innovation ecosystem in Portugal, namely easing access to financing and turning the tax system more attractive. About 15.8% of investors believe that the country needs to further develop a venture capital market and other financial tools and 13.9% consider it could benefit from tax or financial incentives for innovative companies.

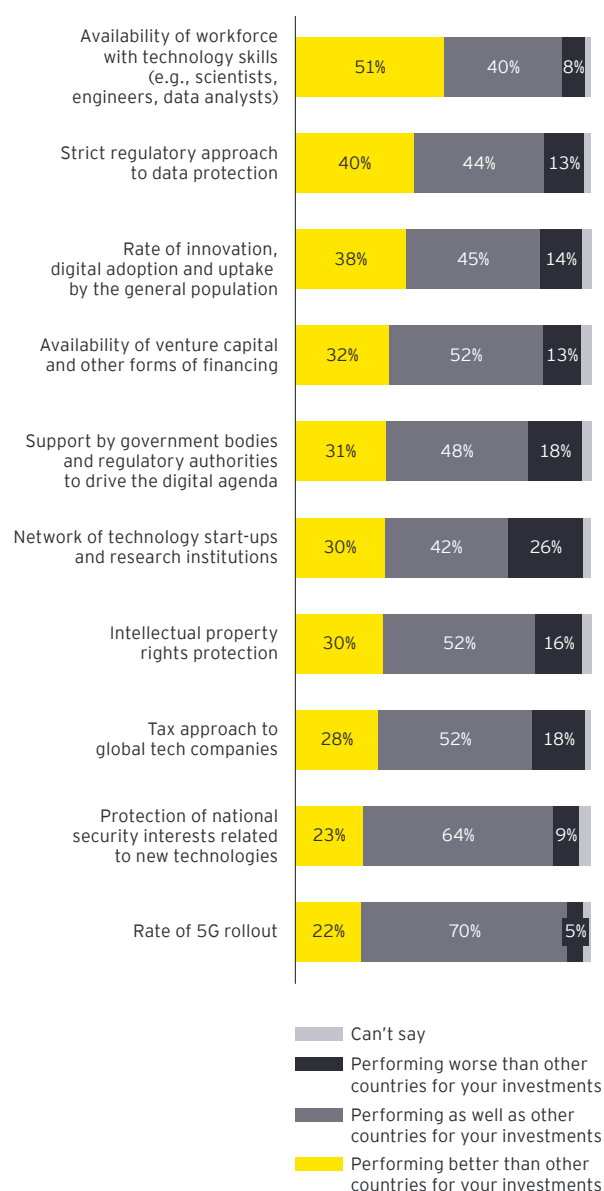
Figure 22: Which one of the following would have the biggest impact on making Portugal a leader in innovation?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

The availability of workforce with technology skills stands out as an advantage, but the delay in tech-networks is pointed out as a weakness

Figure 23: In your view, how does Portugal perform with regard to the following technology-related factors?



Surveyed investors agree that Portugal has an advantage regarding workforce's availability

About 51% of investors consider that Portugal is in a better position than other countries in terms of specialized talent in technology.

This perception is in line with the European Innovation Scoreboard, which points out the high level of qualification of its population as one of the main advantages of Portugal.

However, there are some problems in promoting relationships between technology start-ups and research institutions

The collaboration between the academy and companies is a point where Portugal needs to improve, if it wishes to increase its specialization as a digital and technological economy.

Moreover, the creation of networks among the Innovative SMEs themselves is also pointed out as a weakness by the European Innovation Scoreboard.

This indicates that, in fact, the country has a fundamental problem in establishing innovation networks that translate in effective economic growth. This may require political intervention at the level of coordination and promotion of these synergies.

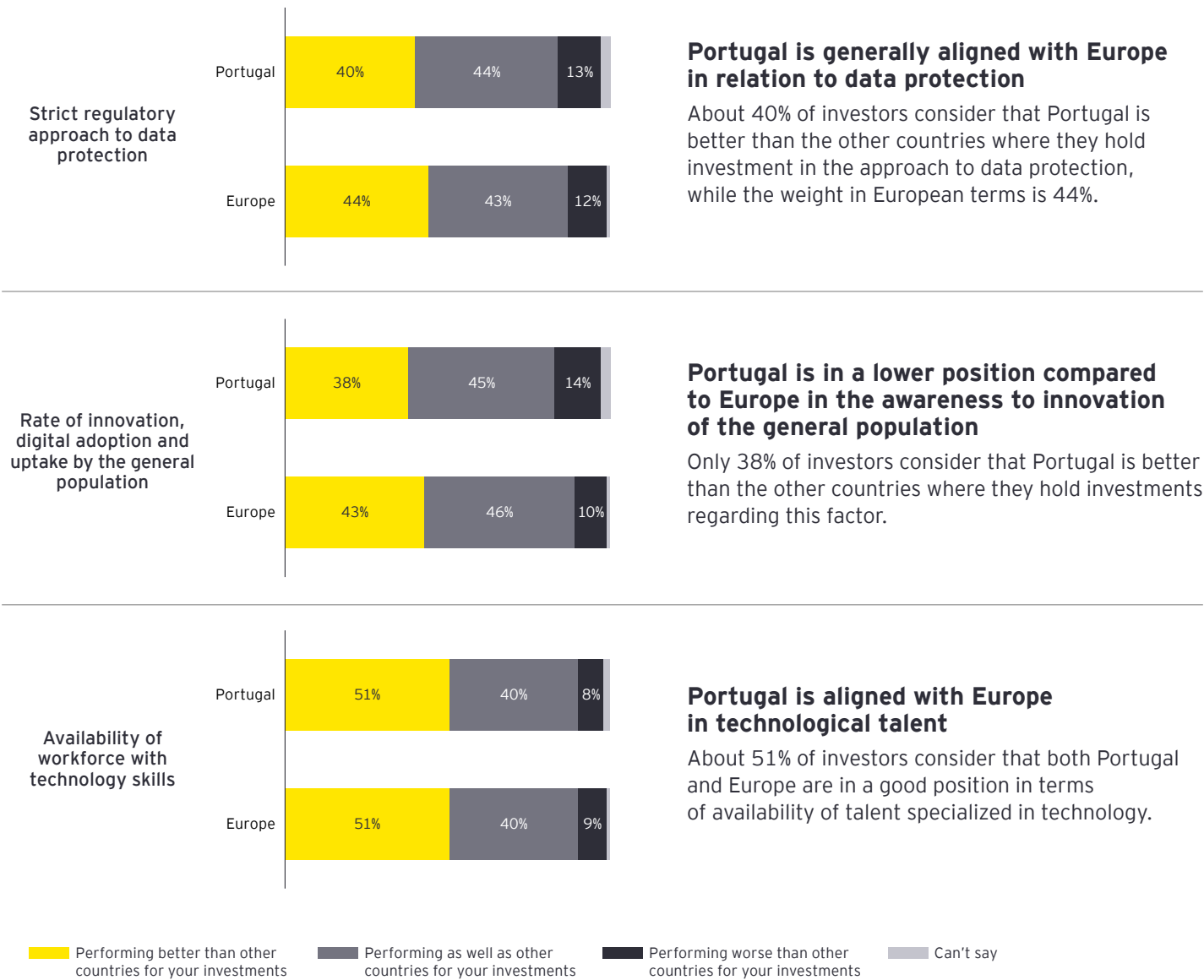
A need for fiscal policies and more focused government support for innovation

The tax approach to global tech companies and the support by government bodies and regulatory authorities to drive the digital agenda are the other points where investors consider that Portugal is worse off than its peers.

Source: EY Attractiveness Survey 2023 (total respondents: 202)

Compared to Europe, Portugal is below in awareness to innovation, but it is in line concerning data protection and availability of workforce with technology skills

Figure 24: In your view, how does the country perform with regard to the following technology-related factor?



Source: EY Attractiveness Survey 2023 (total respondents: 202)



Internal viewpoint



Miguel Cardoso Pinto

Partner EY-Parthenon Portugal
EY Portugal

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In order to promote an ecosystem that is attractive to investment, Portugal needs to develop conditions to foster innovation.



Harnessing innovation as the key for global market differentiation

In a world characterized by constant disruption and transformation, innovation stands out as the primary catalyst for achieving growth expectations. As our global landscape continues to evolve at an unprecedented pace, the significance of innovation becomes even more pronounced. Companies are compelled to nurture a resilient innovation capacity, ensuring they can perpetually recalibrate their business models while venturing into new domains, products, and processes that seamlessly synchronize with the ever-shifting dynamics of the market.

A strive forward for Portugal in promoting innovation can be seen in the realm of R&D investment. In 2021, Portugal's total national investment on R&D reached €3.6b, representing 1.68% of Portuguese GDP. This marks an increase of 12% compared to 2020. Such investments lay in the foundation for future advancements and foster a favorable environment for innovation-driven initiatives. However, it is not enough to simply possess knowledge - it must be effectively applied. This underscores the importance of bridging the gap between theory and practice in order to generate tangible outcomes.

While Portugal's innovation landscape exhibits promising potential, managers grapple with the challenge of resource scarcity. The scarcity of talent, particularly in technological fields, poses a persistent issue (only 10% of PhDs in Portugal are employed by the private sector).

This disparity hinders the Portuguese businesses from achieving the necessary levels of competitiveness. To address this, it is critical to emphasize the role of the scientific system in creating value. In fact, the work of scientists and academics increasingly finds practical applications in process optimization, operational efficiency, reducing waste and developing new products with enhanced functionalities and superior environmental performance.

Achieving innovation requires a harmonious collaboration among academia, companies, and the government. The integration of the academia and business sector, which was once challenging, has become increasingly common. Concerning organizations' internal environment, fostering knowledge-sharing across departments, business areas, and among individuals with diverse skills and professional backgrounds is key.

On an external front, open innovation between different entities serves as a catalyst for overcoming internal limitations by tapping into external resources, new technologies, fresh ideas and specialized expertise. By leveraging the expertise of both internal and external stakeholders, Portugal can forge a path toward sustained economic growth and success in the global market.

Portugal currently holds the 17th position in the European Innovation Scoreboard (EIS) 2022, being classified as a Moderate Innovator. While this acknowledgment can be commendable, it also highlights the need for further progress and innovation within the country's landscape. The stakes are too high to allow any further delay, as the risk of falling irreversibly behind looms.

There is a positive mindset in accelerating the energy transition in order to gain competitive edges

Establishing synergies between environmental consciousness and policy integration drive sustainable development

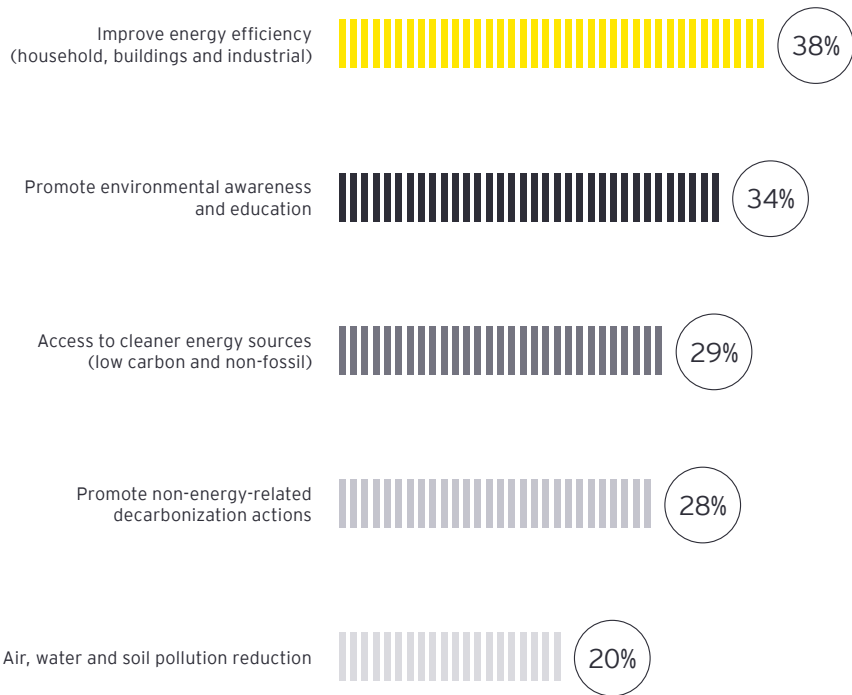
Portugal has made commendable progresses in reaching 2030 climate targets, demonstrating its commitment to tackle the pressing issue of climate change. While the current trajectory shows sustained and comprehensive action, it is imperative to ensure Portugal's success in meeting the ambitious goal of carbon neutrality by 2050. This is where education and policies play a pivotal role in. Such initiatives create a sense of urgency and responsibility, motivating individuals to take proactive steps in their daily lives.

By equipping individuals and industries with knowledge, skills and attitudes that prioritize environmental stewardship, Portugal should continue to fulfill its commitments to the environment.

Effective policies also play a crucial role in driving sustainable change. The tax on single-use plastic bags has yielded significant results in reducing their usage. Building upon this success, Portugal can consider implementing further reforms aimed at promoting sustainability and effectively dealing with environmental issues.

These measures should align with the country's long-term goals and commitments, ensuring Portugal's resilience in meeting its environmental obligations.

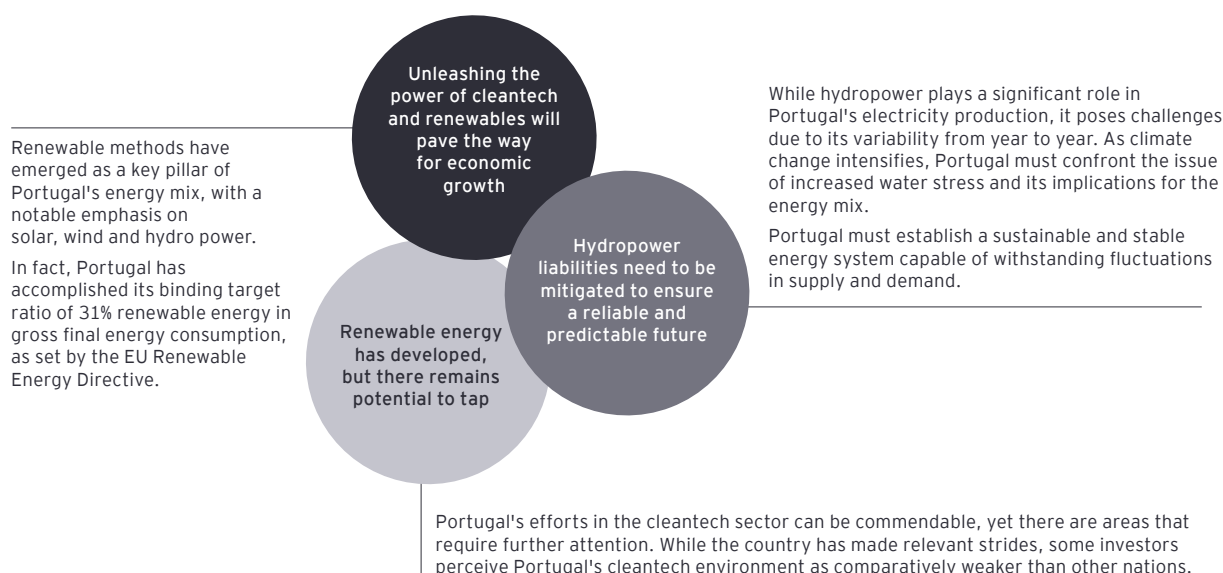
Figure 25: What are the main areas of reform to make Portugal a leader in environmental sustainability?



Source: EY Attractiveness Survey 2023 (total respondents: 202)

For Portugal to become a leader in environmental sustainability, the adoption of several measures should take place

Figure 26: Key features for Portugal to become a leader in environmental sustainability



Sources: COP26; OECD; APA.

Propelling Portugal's competitiveness through environmental reforms and sustainability leadership in Europe

In its pursuit of economic revitalization through the Next Generation EU funds for the period 2021-2026, Portugal has demonstrated its commitment to sustainability.

Notably, Portugal has allocated a significant 38% of its Recovery and Resilience Plan (RRP) budget toward climate objectives. The climate-focused segment of Portugal's RRP rightly prioritizes enhancing energy efficiency, reducing GHG emissions, diminishing reliance on fossil fuels and tackling energy poverty.

The growing number of companies embracing sustainability showcases Portugal's dedication to environmental responsibility

Companies are demonstrating an increasing commitment to sustainability. Encouragingly, statistics reveal that

93% of Portuguese companies have already made sustainability commitments. In terms of strategic actions, 55% of companies have developed, approved and actively monitor a sustainability strategy, while 54% publish regular sustainability reports, according to Business Council for Sustainable Development (BCSD) Portugal.

Exploring new, innovative ways to decarbonize supply chains and keeping pace with European countries

Portugal is seen by surveyed investors as performing as well as other European countries when it comes to decarbonization. Nevertheless, only 9% of investors believe that Portugal has better potential than the EU average (21%) for implementing net-zero supply chains.

External viewpoint



Hee-Joung Moon

Head of Entity CS WIND PT

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Portugal's strategic location and resilient legal and regulatory schemes supporting renewable energy projects provide stability and assistance to foreign investors.

Portugal's strategic location allows for an easier renewable energy production

CS WIND Portugal has two facilities in Aveiro district manufacturing onshore towers in Sever do Vouga and offshore towers in Port of Aveiro, supporting the strategy of the multinational Group CS WIND with a clear target of becoming the no.1 player worldwide in the wind tower production.

An investment of €100m in the Offshore sector will triple the production capacity, increase the annual growth in 50% to reach €400m in 2025 and over 1,000 employees.

With this project focused on renewable energy infrastructure, we aim to contribute significantly to the country's renewable energy capacity.

Portugal's attractiveness for FDI is driven by its strategic geographical location facilitating renewable energy production, as it is exposed to abundant sunlight and strong winds, resilient legal and regulatory schemes supporting renewable energy projects, that provide stability and assistance to foreign investors and incentives, a skilled workforce as an appealing for knowledge-intensive industries and advanced technological capabilities.

There are still some challenges to overcome: construction of relevant port infrastructures to handle big and heavy structures of offshore wind energy, significant financial benefit for FDI to lessen their burden on initial investment, improving energy storage solutions, reinforce interconnections and compatible policies prioritizing long-term sustainability instilling investor's confidence.

Nevertheless, with continuous efforts, Portugal can pioneer the transition toward a greener future.



What can Portugal do to keep up its attractiveness in these uncertain times?

Uncertainty seems to be the rule in these times of change, nevertheless investors seem to be optimistic toward Portugal, betting consecutively in the country.

In the next page, five top priorities to promote Portuguese FDI attractiveness in the long run will be presented.

01 Boost talent and education, namely in skills facing higher demand

Access to a skilled talent pool will increasingly be a key condition for attractiveness, and even though demand for highly skilled jobs in Portugal is growing, supply has also been adjusting. Strong language skills along with an international mindset are some of the most distinguishing assets of Portugal's talent pool.

In fact, investors in Portugal can count on a skilled and adaptable talent pool through out a wide variety of industries.

Thus, promoting policies to retain and attract talent becomes critical, as well as improving the proximity between businesses and academia and keeping up with the high level of the education systems in Europe.

02 Reinforce Portugal's positioning in environmental sustainability

Portugal is focused on investing heavily on environmental sustainability, namely via supporting business through RRP and Portugal 2030's funds.

Encouraging environmental awareness and access to low-carbon energy sources are critical factors to guarantee Portugal is walking side by side with other European countries in order to achieve sustainability-related milestones.

03 Reaching out to investors

Portugal's image is better than ever and the country was able to reach an excellent international recognition.

Confirming that investors get accurate, regular and personalized information about Portugal and effective support when establishing their business in Portugal is crucial for the development of a successful operation abroad and to boost the country's FDI prospects and positioning in global value chains.

04 Promote a tax system designed to attract investment

Portugal needs a supportive tax system as a baseline to encourage FDI projects.

In order to achieve this, the country needs to develop a more simplified, efficient and stable tax system that can compete in similar terms with other foreign tax policies.

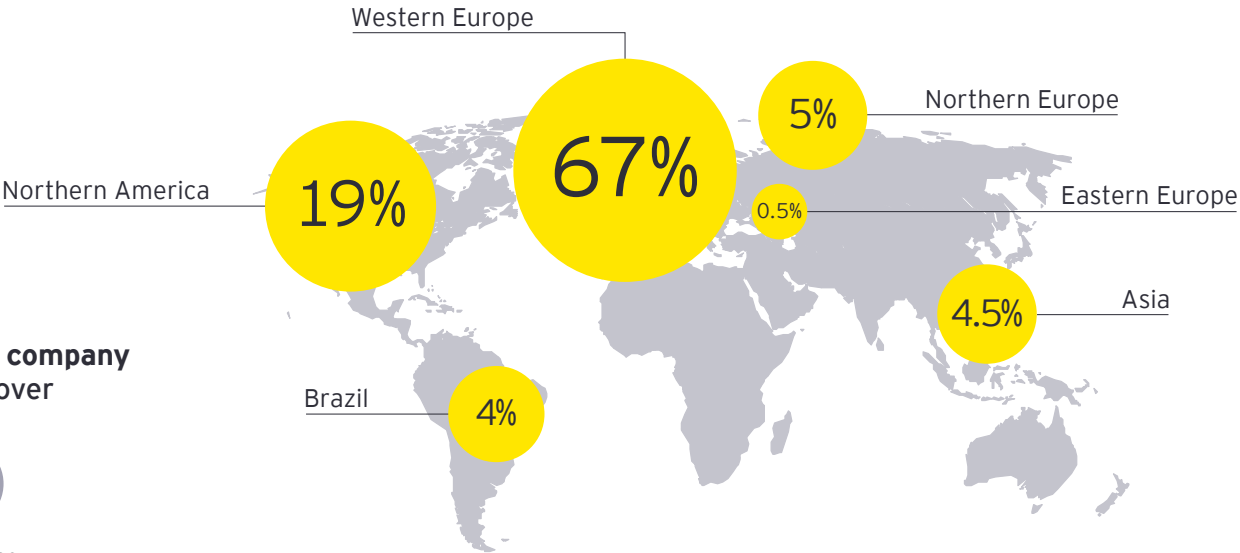
Moreover, it still needs to ensure efficiency of processes concerning both regulation and bureaucracy in order to increase the country's attractiveness.

05 Foster innovation through networks and specialized talent

Innovation and technology represent a must have for boosting attractiveness. Portugal presents conditions to move up in value chains through FDI. But in order for this to happen, the country needs to consolidate its innovation system, ensuring that the Portuguese talent continues to meet the needs of innovative organizations and that companies play a central role in converting innovation in economic and tradable value.

Methodology

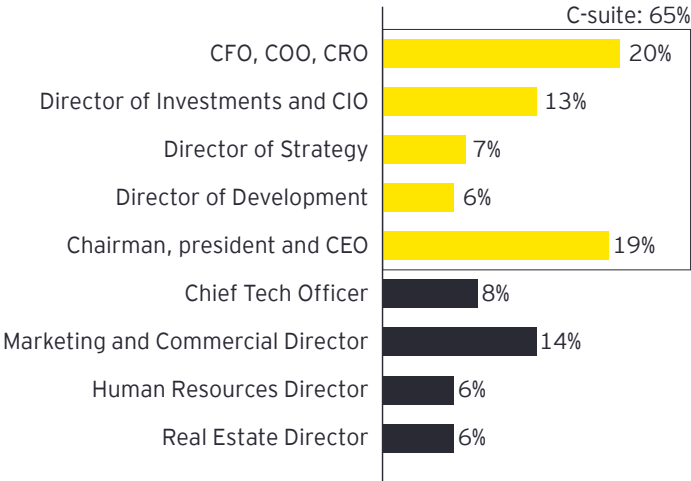
Companies questioned for Portuguese survey (n=202) between February and April 2023
Country of origin



Size of the company
Sales' turnover



Job title of the interviewees



Detailed activity sector



The “real” attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), the EY proprietary database produced in collaboration with OCO. This database tracks FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment, in manufacturing and services by foreign companies across the continent. Data on FDI is widely available.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in management.

FDI includes equity capital, reinvested earnings, and intracompany loans.

However, our figures also include investments in physical assets, such as plant and equipment. This data provides valuable insights into:

- ▶ How FDI projects are undertaken
- ▶ What activities are invested in
- ▶ Where projects are located
- ▶ Who is carrying out these projects

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends across Europe. The EY EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources.

The following categories of investment projects are excluded from the EY EIM:

- ▶ M&A and joint ventures (unless these result in new facilities or new jobs being created)
- ▶ License agreements
- ▶ Retail and leisure facilities, hotels and real estate*
- ▶ Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- ▶ Extraction activities (ores, minerals, and fuels)*
- ▶ Portfolio investments (pensions, insurance, and financial funds)
- ▶ Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- ▶ Nonprofit organizations (charitable foundations, trade associations and government bodies)

The “perceived” attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country's or area's ability to provide the most competitive benefits for FDI. The case studies presented throughout the report regard investments or operations partly or fully undertaken in the reference year in Portugal or to be implemented in the medium term, and those are seen for the society as role model examples or strategic in the FDI scope. The field research was conducted by Euromoney in February, March and April 2023 via online surveys, based on a representative panel of 202 international decision-makers. This panel was made up of decision-makers of all origins, with clear views and experience regarding Europe:

- ▶ Western Europe: 67%
- ▶ Asia: 4.5%
- ▶ Northern America: 19%
- ▶ Northern Europe: 5%
- ▶ Brazil: 4%
- ▶ Eastern Europe: 0.5%

Overall, 62% of the 202 investors surveyed have presence in Portugal.

About the EY Attractiveness program

EY *Attractiveness Surveys* are widely recognized by EY clients, media, governments and major public stakeholders as key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, removes barriers to growth. A two-step methodology analyses both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 20-year legacy and has produced in-depth studies for Europe, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:

ey.com/attractiveness #EYAttract

* investment projects by companies in these categories are included in certain instances, e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

How can EY teams help?

Services for investors and multipliers

With offices in Lisbon, Porto, Luanda and Maputo, EY teams offer a broad scope of services across its service lines: Assurance, Tax, Advisory and Transaction Advisory Services.

EY teams work closely with the financial system, private equities, venture capitalists and privately owned businesses. Alongside private and public clients, we provide support to the development of economic and commercial promotional strategies in Portugal and overseas.

An in-depth knowledge of the local market helps us to offer a set of services that covers all stages of the investment process:

Identification of acquisition opportunities

- ▶ Support on the decision-making process concerning new investments either related to new geographies, products or markets
- ▶ Identification of potential targets, based on the investor's requirements
- ▶ Preliminary contact (respecting non-disclosure agreements) leading to in-depth negotiations with selected targets

Acquisition and integration support

- ▶ Support in the development of growth and business diversification strategies, through both the identification and negotiation of acquisition opportunities and/or in finding additional funding (assisted funding or new investors) and the analysis of business restructuring strategies
- ▶ Assessment of existing compensation packages matching compliance with local regulations and the investor's own policies

Services for the public sector

Building on EY global's legacy, we have been developing a significant rapport with governments, investment promotion agencies, regions, municipalities, and public companies in the completion of market screening and economic impact assessments. Efforts have also been undertaken to improve attractiveness, reinforce competitiveness, attract, support and accompany FDI leads.

Assessment of attractiveness

- ▶ Strategic intelligence - Production and systematization of knowledge that has value for the internationalization process of national companies and potential investors
- ▶ National awareness and capacity building to attract investment and promote internationalization
- ▶ Identification of existing attractiveness factor and areas of intervention to increase FDI and promote exports
- ▶ Creation of investment attractiveness dashboards to measure results

Reinforcement of regions' and cities' attractiveness

- ▶ Analysis of regional and local development factors and of creation of touristic value
- ▶ Assessment of attractiveness, functionalization and impact of equipment and heritage
- ▶ Elaboration of local and regional development strategies
- ▶ Conceptualization of governance models and partnerships

- ▶ Financial, tax, commercial, operational, IT, environmental and regulatory due diligence
- ▶ Asset valuation and business model validation
- ▶ Assessment of tax implications
- ▶ Technical support to acquisition negotiations
- ▶ Operations assessment and identification of performance improvement opportunities
- ▶ Definition and support on buy and integrate and sell and separate strategies

Assessment of greenfield opportunities

- ▶ Initial business model preparation reflecting investment, financial and operational costs based on local conditions
- ▶ Site selection based on location requirements for investment and business expansion
- ▶ Intermediation with local stakeholders and identification of funding opportunities, including tax and EU-funded financial incentives

- ▶ Preparation and assistance to on-site visits and formal contacts with national and local stakeholders
- ▶ Identification and selection of local suppliers, based on sourcing requirements

Investment promotion

- ▶ Identification and validation of targets for FDI promotion
- ▶ Compilation of the Doing Business report series with regional sector-specific investment brochures
- ▶ Initial setup and definition of procedures for the update of data sets typically required by investors
- ▶ Preparation of regional business model template for specific sectors
- ▶ Setting up and facilitation of roadshows and one-to-one meetings with potential investors, government authorities and business partners

Investment intention's assessment

- ▶ Validation of business models
- ▶ Investor due diligence
- ▶ Assessment of regional impacts
- ▶ Investment economic and commercial viability - investment sustainability

Efficiency of policies and public investments

- ▶ Macroeconomic analysis
- ▶ Evaluation and impact analysis of programs, public and sectorial policy
- ▶ Strategy plans for public goods and services
- ▶ Technical assistance and support to public management

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