How can a resilient Portugal become a platform for sustainable investment in the future?

EY Attractiveness Survey
Portugal

July 2020

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

Building a better
working world

Contents

We would like to extend our gratitude to ...

Pedro Siza Vieira, Minister of State for the Economy and the Digital Transition, **Eurico Brilhante Dias**, Secretary of State for Internationalization, **Castro Henriques**, Chairman & CEO, AICEP – Portuguese Trade & Investment Agency, **Luís Araújo**, President, Turismo de Portugal.

We would also like to thank **Amazon Web Services** for their viewpoint on Digital in Portugal and **Planetiers World Gathering** for their view on Sustainability and Clean-techs in Portugal.

Furthermore, we would like to thank the hundreds of 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 coming years.

Editorial

After record-breaking FDI numbers, Portugal's resilience and attractiveness will now be more important than ever

Portugal's economic performance over the last years had 2019 as another highlight. Gross domestic product (GDP) growth remained stable, unemployment nearly halved in four years, investment remained high and exports showed resilience amid a global demand slowdown. The country also recorded its first government surplus in over four decades and the debt to GDP ratio declined by 13.8 p.p. in the last three years.

Foreign direct investment (FDI) shows a similar story. The EY European Investment Monitor reveals that the number of FDI projects in Portugal more than tripled between 2015 and 2019. The country also achieved a record-breaking number of 158 projects last year.

However, the unexpected onset of COVID-19 has caused major shockwaves across the globe and Portugal is not immune. This "black swan" event has been causing tremendous disruptions in people's lives and in economic activity, including FDI.

COVID-19 is already testing countries' economies, finances and social and political stability. The same is true for FDI, and Portugal's recent performance, resilience and attractiveness are also being put to the test.

Although our preliminary analysis seems to show that Portugal might prove more resilient than many of its peers in the short run, how the country acts now will be decisive for the recovery and to determine how it will fare in the medium and long term.

The world is already seeing major changes which are expected to define the economies of the future. Digitalization and technology adoption accelerated very quickly practically overnight. Sustainability and the green economy have seen their appreciation enhanced by both consumers and businesses. Supply chains are being deeply reevaluated globally, with a much higher focus on resilience, flexibility and agility.

FDI, as a major element of global investment, will have a major role to play in all these changes, making attractiveness more important than ever before. The pace and breadth of change occurring as well as the large uncertainty about the future must be taken into account. Doing so is unavoidable if we are to properly understand and capitalize on the future role of FDI.

Therefore, this year's report does not focus solely on what is happening now, with the onset of COVID. It addresses what might happen next, as the world deals with the fallout and works on recovering, and it looks beyond to how FDI in Portugal might look in a post-COVID world.

We end the report with four recommendations that we consider relevant to take in consideration to enhance Portugal's FDI prospects.

We hope you enjoy this report and that it proves useful for all interested parties.

Miguel Farinha
Strategy and Transactions Leader
Partner
Ernst & Young, S.A.

Florbela Lima
EY-Parthenon Leader
Partner
Ernst & Young, S.A.

Executive summary

1 **Now** Portuguese performance up to COVID-19 hit

Steady economic recovery and growing international recognition

2.2% ↑

GDP growth in 2019.

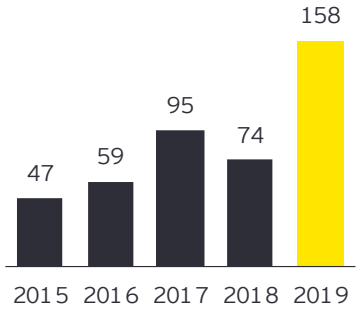
0.2% ↑

government accounts' surplus in 2019.

17.6% ↑

compound annual growth rate (CAGR) of inward FDI stocks in Portugal between 2011 and 2018.

Record-breaking FDI, with Portugal more than doubling its European share of projects



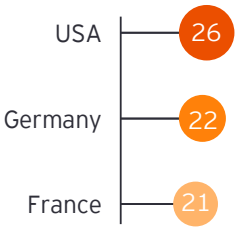
158

FDI projects announced in 2019 (from 74 in 2018).

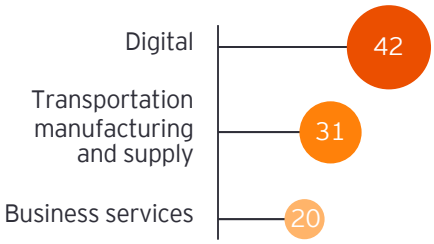
12,549

new jobs announced in 2019 (from 6,100 in 2018).

Top investors



Top sectors



2 **Next** COVID-19 impact in 2020 and 2021

Investment projects are subject to a major revision in the face of market uncertainty, the cost of the crisis, and its dramatic effects on certain sectors

Historic economic downturn

-9.8% ↓

estimated GDP decrease in 2020.

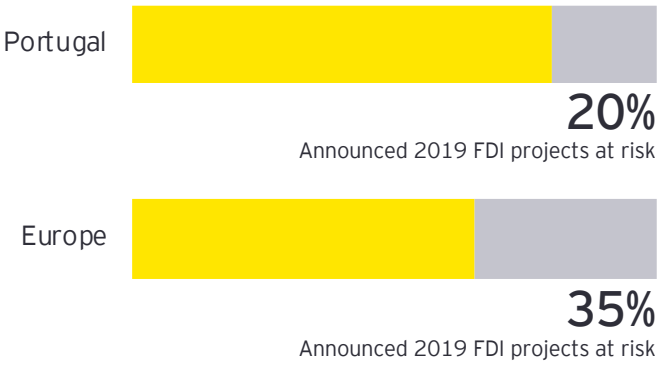
- Tourism and leisure
- Aviation and marine
- Automotive
- Construction and real estate

Potentially most affected sectors in the short term

35% to 50%

expected overall decrease in FDI in Europe in 2020.

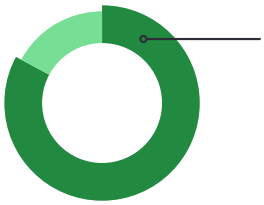
FDI in Portugal is expected to stay more resilient than many European peers but it is uncertain when and how fast the upswing will occur in each location



The way governments deal with COVID-19 and the pace of recovery will define countries' short-term attractiveness

94.7
cumulative number of COVID-19 tests per thousand people in Portugal as of June 9th

4th
highest in the EU, behind Luxembourg, Lithuania and Denmark



80%
of surveyed business leaders in Europe claim that the nature and weight of stimulus packages will influence their future location choices.

Portugal's success in containing the first wave of COVID-19 and the relatively low mortality rate per capita has been a topic of discussion and debate in various international outlets and institutions.

47%
of investors surveyed during March believed Portugal's attractiveness will improve in the short term. 36% believe it will stay the same.

3 **Beyond** FDI in Portugal in a post COVID-19 world

Mega-trends expected to drive investment plans in Europe in a post-COVID world

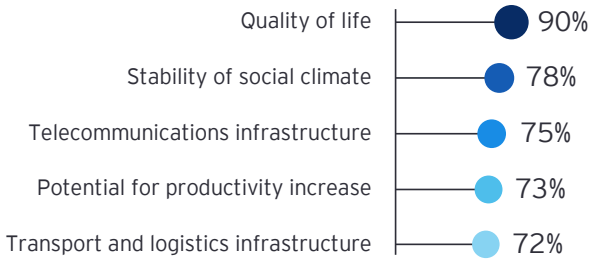
Acceleration of technology adoption

Focus on climate change and sustainability

Reconfiguration of supply chains

Keeping the trend of Portugal's growing attractiveness will rely on capitalizing its strengths to be at the forefront of the post COVID-19 world

Top five attractiveness factors in Portugal
(Percentage of respondents who find it attractive)



Top three areas of focus to remain competitive

1. Support high-tech industries and innovation
2. Develop education and skills
3. Reduce taxation

Recommendations to retain and increase Portugal's attractiveness

- Invest in the recovery now, without jeopardizing the future
- Reach out to investors
- Invest in talent and education, especially in skills in high demand
- Increase support for technology and innovation

1

Now

How can Portugal maintain its pre COVID-19 resilience?

158 projects

FDI projects in 2019 spiked to an all-time high

20%

of projects announced in 2019 could be at risk as a result of COVID-19

As the world braces to face a tough new challenge, Portugal's stability and resilience will be put to the test

After a set of positive years marking the recovery from its adjustment program, Portugal must now prepare to navigate through turbulent seas as the world faces a tough new challenge.

During the first complete year after having paid back its International Monetary Fund (IMF) loan, signaling the symbolic end to the challenging adjustment program, Portugal continued to grow and improve its structural balance.

Although there has been a relative slowdown over the past two years, economic activity in Portugal has been expanding at a fairly steady pace, especially when compared with the first half of the decade. This economic performance is also marked by a pronounced decrease in unemployment, which nearly halved these past four years.

This positive moment also finds parallel in the government's finances. Improving structural balance and higher economic growth has led the debt to GDP ratio to a decline of 13.8 p.p. in the last three years. In this regard, 2019 was also a hallmark for Portugal, with the government's accounts presenting the first surplus (0.2% of GDP) since the democratic regime was adopted in 1974.

Table 1: Main macroeconomic indicators

	2016	2017	2018	2019	2020*E
GDP (annual growth rate)	1.9	2.8	2.4	2.2	(9.8)
GDP (billion €)	186.5	195.9	204.3	202.3	-
GDP per capita (EU28=100)	77.2	76.6	76.8	77	-
Private consumption (annual growth rate)	2.4	2.3	3.1	2.3	(5.8)[a]
Public consumption (annual growth rate)	0.8	0.2	0.9	0.8	2.4[a]
Gross fixed capital formation (annual growth rate)	2.3	9.2	5.8	6.4	(8.6)[a]
Exports (annual growth rate)	4.4	7.8	3.8	3.7	(14.1)[a]
Public debt (against GDP %)	131.5	126.1	122.0	117.7	131.6[a]
Inflation (annual rate)	0.6	1.6	1.2	0.3	0.0
Unemployment rate (%)	11.1	8.9	7.0	6.5	9.7[a]

Sources: Statistics Portugal; Economic bulletin March 2020 issued by the BoP; Strategy and Studies Bureau (GEE) of the Portuguese Ministry of Economy; European Commission – Eurostat; European Commission – European Economic Forecast Spring 2020; European Commission - European Economic Forecast Summer 2020 (Interim)
E: Estimate
[a] data refers to the European Commission's Spring 2020 forecast, the most recent available for this indicator

Investment remained high

In 2019, investment remained a significant driver of the recent economic performance. After a bump in 2018, it bounced back up to 6.4%, with gross fixed capital formation growing consistently at a higher rate than GDP as whole since 2012.

According to the Bank of Portugal (BoP), although regular corporate investment (e.g. in machinery and equipment) retained the largest share of investment in 2019, a significant part of the year's growth can be attributed to real estate investment, both housing as well as large-scale infrastructure.

However, growing concerns over the deceleration of some of the largest economies, combined with growing trade tensions and uncertainty may have an impact in companies' decisions to invest all over Europe, including Portugal.

Resilient exports performance amidst demand slowdown

Exports have been a significant component of Portugal's recovery and growth during this decade.

Over the past two years, decreasing foreign demand due to deceleration of the largest Eurozone economies combined with growing tension and uncertainty, due to factors such as protectionist policies and the delays of Brexit, has led to a slowdown in the growth of Portuguese exports.

However, exports still grew by 3.7% in 2019 and the country continued to increase its market share in many sectors, most notably automotive and tourism, with this last sector's exports growing at a compound annual growth rate (CAGR) of 12.9% over the past three years.

Challenging times ahead

Global economies, Portugal included, are about to be put to the test.

Previous fears of a possible looming recession due to economic slowdown and increasing trade tensions are now strongly overshadowed by the very significant threat posed by this year's pandemic crisis originated by COVID-19 and its profound impacts leading to a deep economic crisis.

This "black swan" event, unpredictable and highly disruptive on a global scale, led to significant demand-side and supply-side shocks simultaneously, resulting in a strong decrease in both consumer demand as well as productive activity (as multiple companies all over the world suspended their operations).

The scale of this event, the time it could last and the economic consequences for individuals, companies and nations has led governments and international institutions to take unprecedented measures, such as record breaking fiscal and monetary stimulus packages.

Portugal is "on the same boat", having taken multiple measures to try to mitigate the effects of the pandemic and its socioeconomic aftershocks, especially given the current economic importance of investment, exports and some sectors in particular such as tourism.

Portugal: a solid choice for FDI

Strong FDI performance

According to OECD data, in 2018 the cumulative stock of FDI inflows to Portugal amounted to about 61.5% of GDP, above the average for groups such as the EU, the G20 or the OECD member countries themselves. This value represents a 23.5 p.p. increase over the last decade, which started with a stock of 38% in 2009. The EY European Investment Monitor has reveals a similar picture, with Portugal securing an increasing number of projects, from 47 in 2015 to 158 in 2019 (a CAGR of 35.4%).

Business-friendly environment

Fostering a business-friendly environment and reducing administrative costs has been a priority for Portugal. According to the World Bank's report Doing Business 2020, Portugal is a top performer when it comes to ease of registering property and ranks 15th out of 190 countries in resolving insolvency procedures. Recent labor regulation changes have also been well received by companies.

Growing strategic appeal

Portugal is a member of the European Union with a strong integration in global value chains and located at the intersection of some major global shipping routes. It also has privileged relations with Portuguese-speaking countries, serving as an entry way for an emerging combined market of over 250 million people spread over 4 continents.

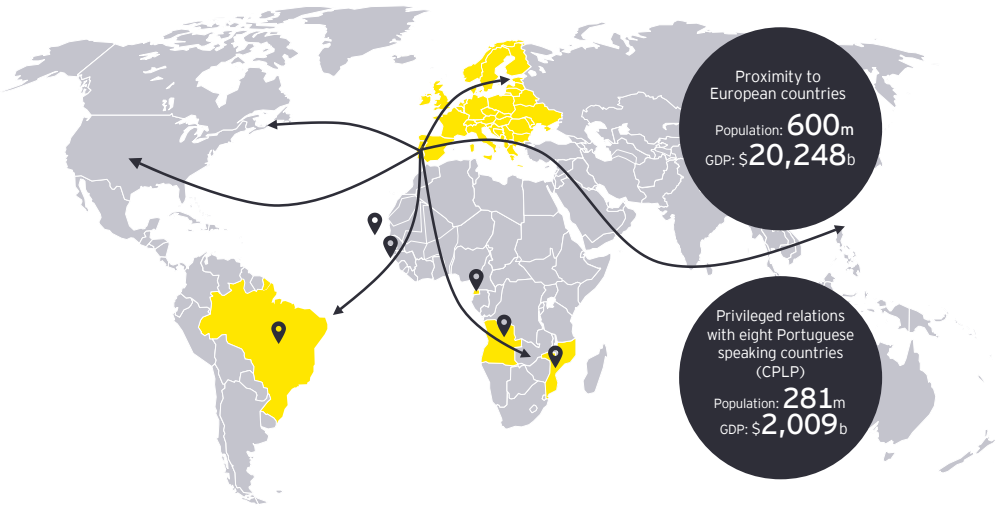
Quality transport and ICT infrastructure

Eighty one percent of established investors participating in this year's survey consider Portugal's transport infrastructure to be attractive. This number rises to 91% when it comes to telecommunication infrastructure.

The country is served by multiple well-connected international airports (Lisbon is a hub to Brazil and several African countries), relevant seaports (e.g. Lisbon, Leixões or Sines) and the road network is extensive.

ICT infrastructure also remains a major selling point for investment. According to the "Digital Economy and Society Index 2019", 50% of households have taken-up ultrafast broadband, compared to the EU average of 20%.

Figure 1: Portugal's strategic appeal



Source: United Nations Database - World Population Dashboard 2019; National Accounts Main Aggregates 2017.

34th

Global Competitiveness Index 4.0 2019

World Economic Forum
140 countries

39th

Doing Business 2020

The World Bank
190 countries

21st

Infrastructure rank

Global Competitiveness Index 4.0 2019

World Economic Forum
140 countries

2nd

Ultrafast broadband take-up

Digital Economy and Society Index 2019

European Commission
28 countries

32nd

Global Innovation Index 2019

Cornell University, INSEAD and World Intellectual Property Organization

126 countries

8th

Digitalization Index 2020

European Investment Bank

30 countries

28th

Global Talent Competitiveness Index 2020

INSEAD, Adecco Group and Tata Communications

125 countries

12th

English Proficiency Index 2019

Education First

100 countries

A rapid growing technology and innovation ecosystem

Portugal's status as a tech and innovation hub continues to grow.

According to the European Innovation Scorebard 2020, from the European Commission, Portugal joined the rank of Strong innovators this year.

Lisbon's tech and start-up scene has cemented its status as a hotpot and the city has been regularly hosting high-profile events such as the Web Summit, Europe's largest tech event and, more recently, MoneyConf, a fintech conference for leading global banks, tech firms, and start-ups.

Other cities, such as Porto, are also on the rise internationally. In 2018 alone, Porto was noted as the "Best Startup-Friendly City of Europe" by the World Business Angels Investment Forum as well as Europe's third fastest-growing tech hub, in Atomico's State of European Tech report for that year.

Portugal also ranks among the strong countries on the EIBIS Digitalization Index. The country displays digital adoption rates above the EU average for all sectors except manufacturing and above the US average for the services sector. This positive difference is even higher for infrastructure.

Also, according to the Observatory of Public Sector Innovation, an OECD initiative, by the end of May Portugal was leading the COVID-19 Innovative Response Tracker, responding for 35 of 390 innovative projects to face the pandemic, followed by Austria with 28.

The country is experiencing a rapid shift toward tech and innovative activities, especially as younger generations enter the workforce. According to information presented in the State of European Tech report for 2019, the number of tech job searches per capita in Portugal grew 45% between the first half of 2017 and the first half of 2019. This was the second highest growth rate in Europe, only surpassed by Belgium.

Highly skilled talent

International recognition of Portugal's workforce, especially the younger generations, as a highly skilled, flexible and adaptable labor pool with high language skills has been growing.

While employment has been growing in many sectors of the economy, highly skilled and tech based job demand has been experiencing a boom over this past decade.

According to a survey present in Atomico's "State of European Tech" report, Portugal's tech talent pool is also the most open to global mobility, followed by Sweden and Ireland. This global mindset, especially in times of ample local job opportunities, further enhances its attractiveness to large multinational companies.

The rapid growth of Portugal's tech hub and increased presence of international companies is causing some demand pressures and leading the country to implement measures to boost the growth rate in local talent supply.

Simultaneously, Portugal is able to complement its local workforce with foreign talent. The country ranks 1st on InterNations' Quality of Life Index, 3rd on the overall Top Expat Destinations and 13th on the Global Competitiveness Report's Ease of Hiring Foreign Labor. Also, Portugal ranks 3rd place on the Global Peace Index.

Viewpoint

EY viewpoint

Miguel Farinha
Strategy and Transactions Leader Ernst & Young, S.A. in Portugal

FDI in Portugal
A growing success story

Turning point

This last decade has been an eventful one for Portugal. After a first couple of years where it was particularly hit by the European sovereign debt crisis, the country has managed to bounce back and has been experiencing a period of economic growth, investment, financial and fiscal consolidation and rising international recognition.

The country has been enacting a series of reforms aiming at addressing the main shortcomings that led to its previous, more vulnerable situation. GDP was growing faster than it has for most of the past two decades, the country paid back its IMF loan earlier than initially planned and 2019 marked the first year with a government surplus in over four decades. Also, after decades of deficits close to 10% of GDP, trade balance has been positive for the past 8 years, benefiting from record breaking goods exports as well as a boom in tourism.

> Portugal has always been recognized by factors such as climate, social and political stability or its friendly and hard-working population.

Portugal establishing itself as an attractive FDI destination

Investment, including FDI, has been a key driver of the past years.

Portugal has always been recognized by factors such as climate, social and political stability or its friendly and hard-working population. However, its FDI success story is in no small part due to more recent efforts taken toward improving international attractiveness and addressing some of the country's main competitive shortcomings.

These have been leading to the growing recognition of Portugal's new image as a more business and investment friendly country (red tape has been reduced and some regulatory regimes have been reformed), with a skilled and internationally-minded talent pool, world-class infrastructure, a vibrant tech and innovation ecosystem and increasingly helpful local authorities. International investors have also been receptive to the country's special tax and residency regimes for foreign investors.

Numbers prove this trend as this year's EY European Investment Monitor reveals a record of 158 FDI projects in 2019, a number three times higher than in 2015 - and two times higher than last year's number of projects. EY teams experience at the EY organization reflects this trend, as we have been seeing a demand for various support services by international investors.

The country has been successful in attracting growing investment from highly developed economies such as the US or Germany, this year's two main origin countries. Skilled activities are also on the rise: the digital sector nearly tripled the number of projects from last year (from 15 to 42) and a similar situation can be seen in R&D projects, which rose from 9 to 26.

There is no doubt that 2020's pandemic crisis will affect Portugal, but past years' work and results will be key to ensure that Portugal's attractiveness for investors stays high, as it is linked to structural "assets" that are leading FDI trends around the world.

Viewpoint

External viewpoint

Pedro Siza Vieira
Minister of State for the Economy and the Digital Transition

This year's edition of the EY Attractiveness Survey Portugal recognizes the importance of the indicators related to foreign direct investment in Portugal. In 2019, new records were reached with more than 1,100 million euros of investment contracted by the Portuguese Trade & Investment Agency (AICEP), corresponding to the creation of more than 7,200 jobs.

The Government has been working on diversifying the geographic origin of investors, the sectors in which they invest and the regions where they choose to locate. The goal is to promote balanced economic growth, based on the creation of qualified jobs, national added value and greater territorial cohesion. The Survey reflects the current breakdown of 68% of FDI projects in Portugal originating in Europe and 32% in the rest of the world, compared to 80% and 20%, respectively, in 2018.

Portugal's strategy of an economy based on knowledge and innovation as engines of growth and competitiveness has also been contributing to the rise of foreign investment decisions and, in many cases, of reinvestment in Portugal, in areas of increasing incorporation of technology, talent and content integration in value chains, such as digital, transport and business services. The signs of resilience shown in this Survey regarding the lower rate of investment projects at risk of revision in Portugal (20%) compared to Europe (35%) are, in this context, encouraging despite the uncertainty.

Faced with an active pandemic and a "new normal" in society, which imposes a dimension of uncertainty on economic activity, Portugal must continue working on its economic positioning and attractiveness as an investment destination, as well as the reputation achieved in certain sectors. The attractiveness factors highlighted in the Survey - quality of life, social stability, quality of infrastructure and potential for productivity increase - are an interesting baseline for the business case of destination Portugal. In the same vein, the attractiveness factors that, in 2020, showed greater increases in perception by investors - incentives, tax burden and regulatory environment - are relevant as a potential to invest in Portugal.

The 2020 edition of the European Innovation Scoreboard places Portugal as one of the seven strong innovators among the 27 countries, which represents a climb in innovation category and a clear approach to the frontier of our technological and innovative ecosystem, including companies, technological centers and knowledge centers.

On a more structural level, the Government has a long-term commitment to the set of areas of attractiveness identified by investors in the Survey - talent, innovation and incentives.

Portugal remains committed to qualifications, whether in the education of the younger generations, or in the reorientation of the active population's skills, especially toward technological areas in greater demand. We also continue to invest in intensifying Research and Development activities by increasing the number of researchers in the active population, the expenditure on R&D, or the internationalization of the national higher education system.

We have been strengthening the link between companies and universities and research centers. The Interface Program, with a focus on supporting collaborative innovation, has been giving support through, for example, collaborative laboratories. In 2019, we already had 21 laboratories, in various areas of knowledge, working on innovative solutions with and for companies. In the same collaborative spirit, and via the competitiveness clusters, we signed Pacts for Competitiveness and Internationalization in 16 sectors, including Health, Automobile, Engineering & Tooling, Information Technologies, Communication and Electronics or Architecture, Engineering and Construction.

The period we are experiencing, of a health crisis with an abrupt and widespread impact on the economy and society, is being addressed by policy makers as an opportunity to structurally accelerate the processes of change toward a more qualified, more digital, greener and more resilient economy and society. The Government will continue to invest in education and training, technology and innovation, in simplifying the business environment and in the international exposure of the economy, be it through exports or through investment attraction. Stability, infrastructure, but, above all, people are our best asset and one in which we will continue to invest.

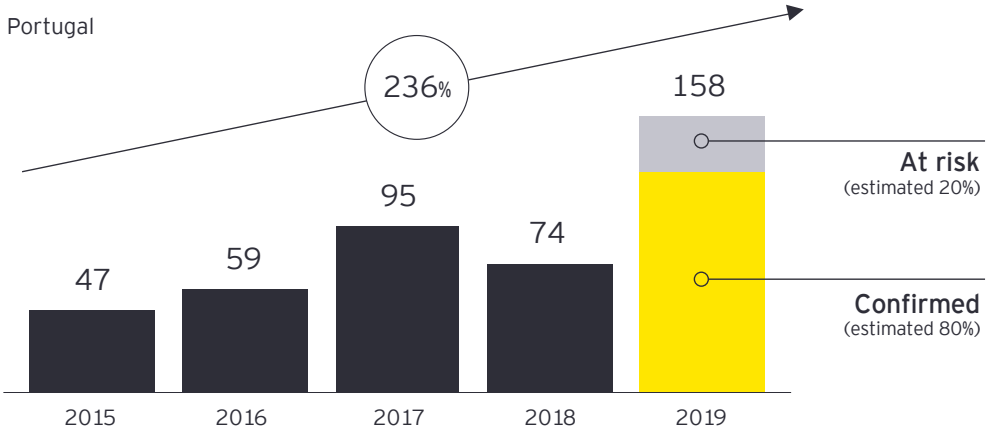
Foreign investment spiked in 2019, with a risk of non-implementation lower than in Europe

Last year marked another highlight in Portugal's recent trend for accelerated FDI growth. The number of projects hit a new record of 158, a mark 66% higher than the previous 95 projects in 2017. The number of projects between 2015 and 2019 grew at 35.4% CAGR, increasing about 3.4 fold.

These projects resulted in the creation of at least 12,549 jobs, a number which also more than doubles last year's (6,100).

Historically the number of projects announced that end up not being realized is marginal. However, COVID-19 will have a definite impact on FDI projects announced in 2019. A EY analysis based on discussions with national investment promotion agencies estimates that out of the 158 projects announced, approximately 20% could be at risk of being delayed, strongly adjusted or cancelled.

Figure 2: FDI projects in Portugal



Source: EY European Investment Monitor (EIM), 2015-2020; EY European Attractiveness Survey 2020.

An uneven and uncertain impact of COVID-19 on European FDI

Although a significant portion of FDI projects announced in 2019 have already been realized, a lot of uncertainty remains about how intensely will COVID-19 impact FDI in different countries and different sectors.

EY estimates a realization rate of about 65% for the 6, 142 FDI projects announced in Europe in 2019, with the remainder 35% being at risk of being delayed, strongly adjusted or cancelled.

However, this impact should not be equal for all countries. In highly competitive, service-oriented countries such as Ireland, Poland or Portugal, where a large portion of FDI involves software development, R&D activities or shared service centers, the impact is expected to be less severe. In these cases, the realization rate is estimated at about 80%.

Figure 3: Estimated impact of COVID-19 on FDI projects announced in 2019

Source: EY European Attractiveness Survey 2020.

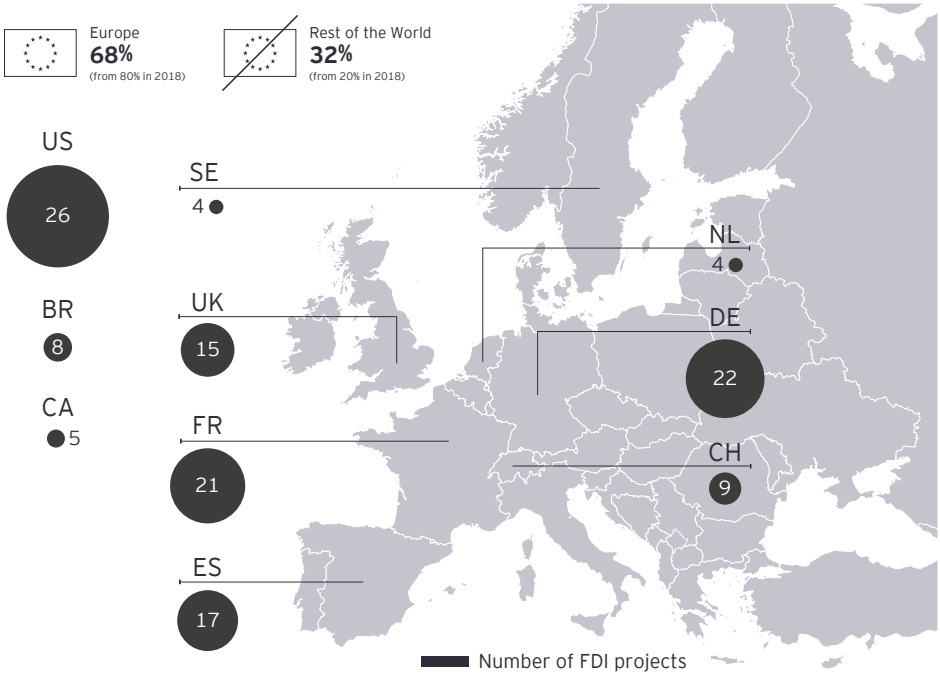
Portugal is diversifying origins of FDI, while reinforcing traditional geographies.

In a year marked by uncertainty and growing trade tensions, Portugal managed to diversify origin countries and attract highly qualified geographies.

While the number of inbound FDI projects originating from Europe grew from 59 to 108, the region's share of FDI in Portugal decreased from 80% in 2018 to 68% in 2019, as the country attracted more than triple the number of last year's non-European investors (from 15 to 50).

The United States were Portugal's largest investor in 2019, responding for 26 projects. France, the previous year's leader, only grew by one additional project and dropped to 3rd place, behind Germany, with 21 and 22 projects respectively. The United Kingdom more than doubled the number of projects, from 6 to 15.

Figure 4: FDI projects in Portugal by main countries of origin (2019)



Source: EY European Investment Monitor (EIM), 2020.

Portugal's share of European projects jumped in 2019 and the country passed peers like Italy.

Portugal's best FDI performance on record has resulted in the country more than doubling its European share in 2019, from 1.2% to 2.5%, jumping from 17th place to 11th place. The country was the 8th largest receiver of FDI in the EU in 2019.

Portugal's Iberian neighbor Spain was also a strong performer last year. It remains to be seen how the ongoing pandemic situation affects the country, whose domestic economy was one of the most disrupted in the first half of 2020.

Table 2: Portugal's position in FDI in Europe

Rank	Country	Share in 2019	Share in 2018	Project growth rate
1	France	18.7%	16.2%	+17% ↑
2	United Kingdom	17.3%	16.6%	+5% ↑
3	Germany	15.1%	15.3%	0% ↓
4	Spain	7.6%	4.9%	+55% ↑
5	Belgium	4.2%	4.4%	-4% ↓
6	Netherlands	4.0%	3.6%	+11% ↑
7	Poland	3.1%	4.3%	-26% ↓
8	Ireland	3.0%	3.2%	-7% ↓
9	Russia	3.0%	3.3%	-9% ↓
10	Turkey	2.7%	4.1%	- 33% ↓
11	Portugal	2.5%	1.2%	+114% ↑

Source: EY European Investment Monitor (EIM), 2019-2020.

Regional FDI factsheet

Figure 5: FDI projects in Portugal by region (2018 and 2019)

Northern Portugal

51 FDI projects

↑ 27 projects up from 2018

5,722 FDI jobs created

↑ 2,968 jobs up from 2018

Top investors:

#1 Germany and United States
#2 France
#3 Spain

Key sectors:

#1 Transportation manufacturing and supply
#2 Digital

Main activities:

#1 Manufacturing
#2 R&D
#3 Sales and marketing

Lisbon Area

62 FDI projects

↑ 32 projects up from 2018

4,090 FDI jobs created

↑ 2,678 jobs up from 2018

Top investors:

#1 United States
#2 United Kingdom
#3 Spain

Key sectors:

#1 Digital
#2 Business services

Main activities:

#1 Sales and marketing
#2 R&D
#3 Manufacturing

Azores

Madeira

1 FDI projects

↑ 1 projects up from 2018

0 FDI jobs created

equal number of jobs compared to 2018

Top investors:

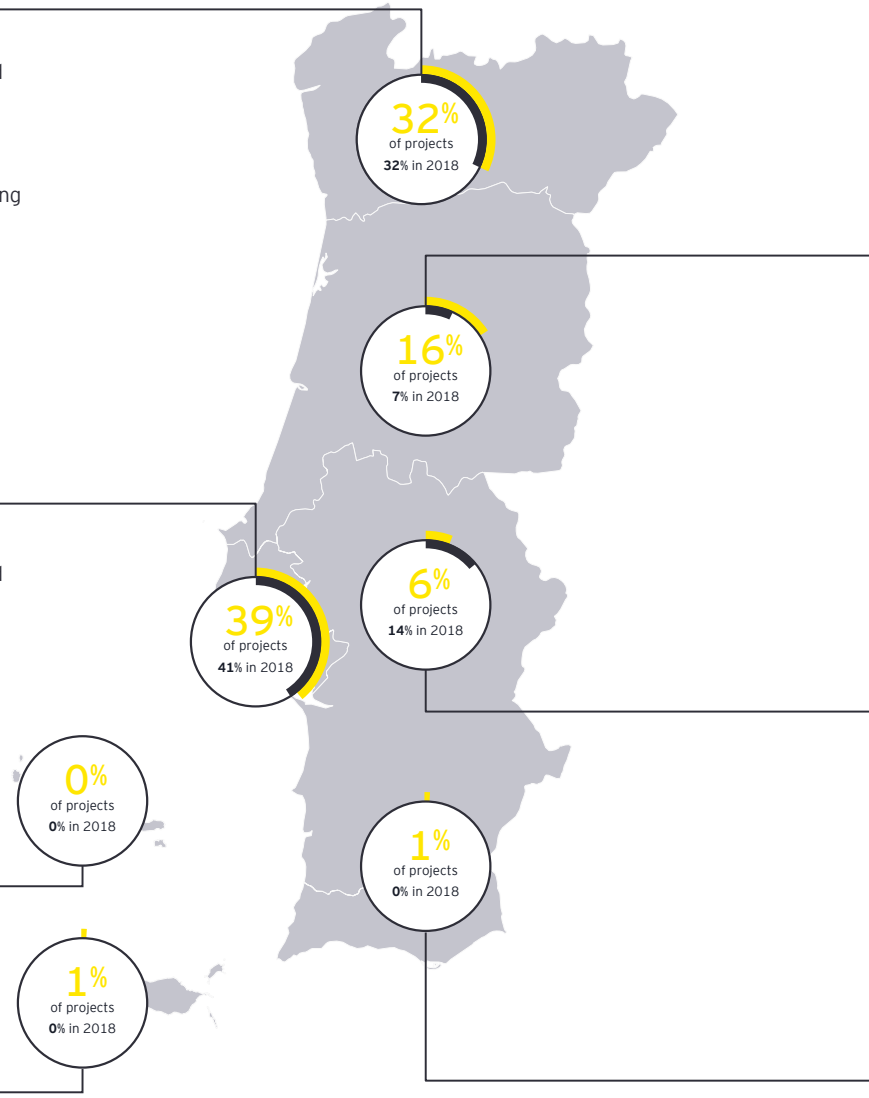
#1 Canada

Key sectors:

#1 Pharmaceuticals

Main activities:

#1 Manufacturing



Share of total FDI projects in 2019

Share of total FDI projects in 2018

Note: jobs created must be interpreted as a minimum estimate as it was not possible to find this value for every project entry in the FDI database, only those that announced it.
Source: EY European Investment Monitor (EIM), 2018-2020.

Central Portugal

26 FDI projects
↑ 21 projects up from 2018

1,518 FDI jobs created
↑ 1,397 jobs up from 2018

Top investors:
#1 Germany
#2 France, Switzerland and United States
#3 Spain

Key sectors:
#1 Transportation manufacturing and supply
#2 Agri-food

Main activities:
#1 Manufacturing
#2 Logistics

Alentejo

9 FDI projects
↓ 21 projects up from 2018

879 FDI jobs created
↑ 1,397 jobs up from 2018

Top investors:
#1 France

Key sectors:
#1 Agri-food
#2 Transportation manufacturing and supply

Main activities:
#1 Manufacturing

Algarve

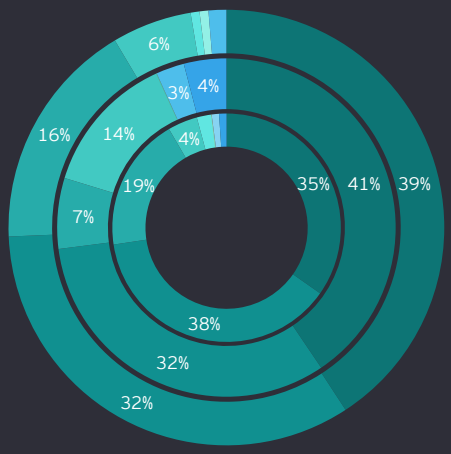
1 FDI projects
↑ 1 project up from 2018

80 FDI jobs created
↑ 80 jobs up from 2018

Top investors:
#1 France

Key sectors:
#1 Digital

Main activities:
#1 Internet data center



- Lisbon area
- Northern Portugal
- Central Portugal
- Alentejo
- Algarve
- Madeira
- Azores
- Multiple
- Not specified

1 The Lisbon Area and Northern Portugal remain the largest FDI receivers in the country, with a combined share of 72% in 2019. The Lisbon Area retained the top spot, achieved in 2018.

2 Alentejo and Central Portugal have been fluctuating in opposite directions, with the later returning to the 3rd spot after having lost it in 2018 to the former.

3 After a significant rise last year, Alentejo is the only region showing a decline in the number of projects this year, with 9 projects versus last year's 10.

4 After having no projects last year, Algarve and Madeira both received one FDI project in 2019. The Azores remains the only region with no recorded projects this year, with the last one being in 2017.

Source: EY European Investment Monitor (EIM), 2017-2020.

FDI in Portugal by sector

In a year of overall growth, digital, transportation manufacturing and supply and business services further reinforced their previous status as leading FDI sectors in Portugal. These three sectors combined represented 93 projects, more than half of total projects (59%), as well as 73% of jobs (9,123 out of 12,549).

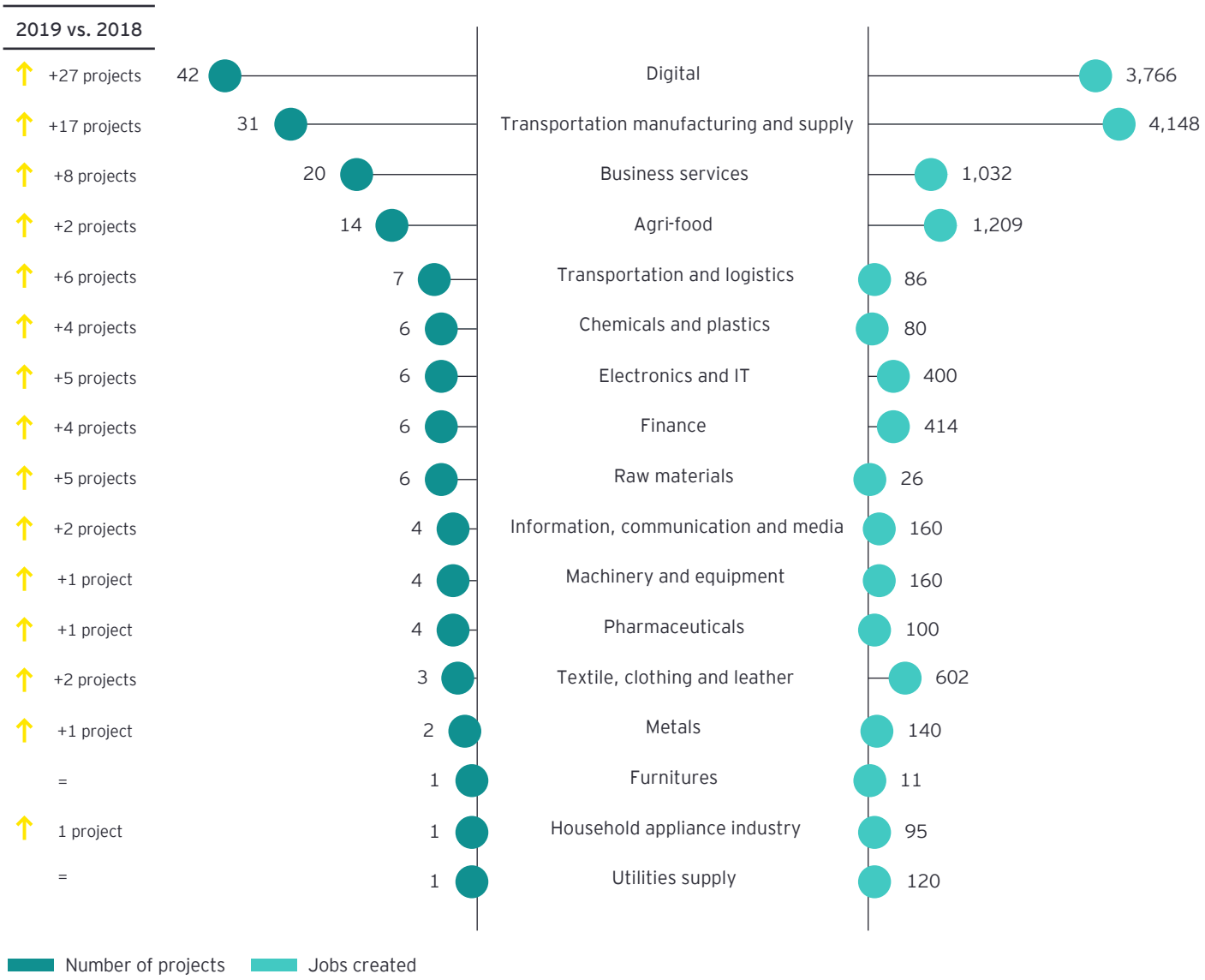
Agri-food, another usual strong contender in Portugal, dropped to 4th place and saw a more modest growth.

It remains, however, a relevant target for FDI in Portugal.

While the top sectors did reinforce their combined share of total FDI projects, it is also relevant to notice that no sector saw a drop in projects in 2019.

There was a rise in number of projects for most sectors and some of these grew by a relatively substantial margin, such as transportation and logistics, chemicals and plastics, electronics and IT, finance or raw materials.

Figure 6: FDI projects in Portugal and jobs created by sector (2019)



Source: EY European Investment Monitor (EIM), 2020.

Digital reinforced its leadership position, more than doubling the number of projects and jobs created.

Portugal's fast-growing digital ecosystem has been attracting an increasing amount of foreign investment. In 2019 the number of projects nearly tripled (from 15 to 42) and the number of jobs created grew from 1,610 to 3,766.

The sector saw a diverse range of projects in 2019. Qualitest, a large services provider of QA and testing solutions, announced they were opening their first Portuguese office in Lisbon. Oracle opened a new internet data center. After having opened its first office in Lisbon in 2018, Amazon Web Services chose the country to open a new CloudFront location in 2019. Huawei opened a network optimization center in Lisbon. In Matosinhos, Xing established an R&D center which would be followed by a second office in Porto.

Transportation manufacturing and supply retains its position as a major component of Portugal's industrial base and an attractive prospect for foreign investors.

The sector more than doubled the amount of projects, from 14 to 31 and was the largest job creator in 2019, with 4,148 jobs.

Automotive remains a major driver for FDI in Portugal and according to INE (national statistics bureau), this sector is responsible for 7 of Portugal's 10 largest exporters.

This year saw multiple high-profile investments. Continental invested €114 million in expanding its production facilities in Vila Nova de Famalicão and announced a new €100 million investment to create an engineering center in Porto, creating a total of about 400 new jobs.

The aeronautics cluster also continues to be an emerging source of FDI in Portugal. Stelia Aerospace (Airbus Group) announced a €40 million investment in new a plant in Santo Tirso and the Lauak Group announced a €33 million expansion project of its facilities in Grândola.

Business services are now the 3rd largest sector for FDI in Portugal.

The majority of this year's projects, just as in 2018, are mostly focused on sales and marketing. The number of projects rose from 12 to 20 and the sector was responsible for at least one thousand new jobs. Everis, a tech consultancy firm belonging to the NTT DATA Group, chose Lisbon to set up its first Portuguese office. Another significant example in 2019 was Grupo Konecta, which opened a contact center in Lisbon, creating around 650 new jobs.

After last year's significant growth, agri-food projects remained stable in 2019.

The sector was responsible for 14 projects, fairly well spread between the regions of Northern Portugal (3), Central Portugal (4), Lisbon Area (3) and Alentejo (4). It also remains one of the largest job creators.

Some of the this year's notable instances were Fresh-52's €50 million investment in a carrot processing facility in Almeirim or Nestlé's €11 million investment in its plant in Avanca to produce a new line of baby organic food.

Amazon Web Services

External viewpoint

Shaping Portugal Digital Future with Amazon Web Services

The importance of Digital has become increasingly more evident around the world. The situation in the last months worldwide has highlighted how important digital assets have become to the economies in the way that they really help to sustain the societies, allowing work to continue mainly remotely, helping business continuity, keeping services for citizens, boosting the collaboration on medical research, among other benefits.

Amazon Web Services helps Portuguese businesses and organizations to boost the digital transformation that is already in progress. In that context, the first AWS office was opened in Lisbon in September 2018 followed by a formal point of presence in the following year. The AWS office purpose is to use our services and expertise for contributing to the development of a more sustainable and inclusive society with impact on public services, businesses and citizens. This means working together with all kind of organizations, starting from small innovation driven start-ups to well established organizations, including public sector agencies. Shaping Portugal Digital Future with AWS means to boost all efforts together to encourage the adoption of cloud-computing solutions to consolidate the innovative ecosystem and fostering the sustainable economic growth engine for the country.

FDI by project activity

Manufacturing projects continue to lead FDI in Portugal and R&D emerges as growing interest for foreign investors.

Thirty-eight percent of FDI projects in Portugal were manufacturing projects, a share similar to last year's 39%. This activity is now the largest job creator, responding for 41% of identified new jobs. Transportation manufacturing and supply and the agri-food businesses were responsible for than half of manufacturing projects, with 27 and 12, respectively.

Volkswagen Autoeuropa in Palmela, the largest exporter in Portugal, €110 million expansion project reflects the ongoing dynamism of the transportation manufacturing sector in Portugal. Bosch Car Multimedia, also in the same sector and Portugal's 4th largest exporter, invested €38 million in expanding its manufacturing facilities as well as €26 million in a new R&D center, in a partnership with the University of Minho, creating a total of over 300 new jobs.

R&D, in fact, saw a very large rise in the number of FDI projects in 2019, nearly tripling from 9 to 26. The same happened for job creation, with R&D's share nearly doubling from 12% to 23%, making this activity the 2nd largest FDI job creator in 2019.

Out of 26 R&D projects, 15 were in the digital sector, reflecting the country's ongoing efforts to bolster its innovation and digital ecosystem. A notable example is Critical Techworks, a JV software company formed by the BMW Group and Critical Software to develop high-end software solutions for the automotive industry, which already employs about 600 people.

After a year with no observed FDI projects, testing and servicing was also a relevant activity in 2019, with 8 projects, some of them fairly significant such as Continental's €100 million engineering center in Porto or Nokia's technological center in Lisbon aimed at developing 5G, cloud and IoT services. Another example is Fujitsu's new technological center in Viseu.

Shared services centers lost share in this year's number of projects, representing 4% of total. These projects, however, remain the third largest responsible for FDI employment. As for examples, Sitel chose Lisbon to open its 4th Portuguese location, creating 600 new jobs. Adidas also announced the recruitment of 600 new workers, in Maia, as well as new installations. This location is already responsible for the company's financial, administrative and tech services for Europe, North America and Latin America.

Figure 7: FDI projects in Portugal and jobs created by main activities (2019)

Rank	Activity	Project growth 2018-2019		FDI projects in 2019		Jobs created in 2019	
				Number	Share	Number	Share
1	Manufacturing	+32	+114%	60	38%	5,183	41%
2	Sales and marketing	+12	+48%	37	23%	400	3%
3	R&D	+17	+189%	26	16%	2,873	23%
4	Internet data center	+6	+300%	8	5%	400	3%
5	Testing and servicing	+8	-	8	5%	620	5%
6	Logistics	+5	+500%	6	4%	0	0%
7	Shared services center	+1	+20%	6	4%	1,821	15%
8	Contact center	+3	+300%	4	3%	1,250	10%
9	Headquarters	+1	+100%	2	1%	2	0%
10	Education and training	=	=	1	1%	0	0%

Note: jobs created must be interpreted as a minimum estimate as it was not possible to find this value for every project entry in the FDI database, only those that announced it.
Source: EY European Investment Monitor (EIM), 2019-2020.

2

Next

How might COVID-19 impact FDI on the short-term?

89%

of business leaders decreased their investment plans in Europe for 2020

47%

of investors surveyed in Portugal in March believed the country's attractiveness would improve over the next three years

The outbreak of COVID-19 is having a major impact on the economy and on short-term FDI plans

The sudden and rapid onset of COVID-19 during the first half of 2020 is expected to cause a significant economic recession.

According to INE, the Portuguese GDP in the first quarter of 2020 fell 3.9% when compared to the previous quarter, with this being the largest quarterly fall since 1977. It is also worth noting that the majority of this fall was in March, when disruptions became more intense and the country went into lockdown.

Exports, a Portuguese success over the last decade, also dropped by 7.3% this last quarter, a rate not seen since the collapse of international trade in 2008-2009 (when exports played a smaller role on the Portuguese economy).

This scenario should continue over the 2nd quarter as the lockdown remained in effect until the beginning of May, when a shy and multi-stage recovery of economy activity is expected to begin. Overall, the European Commission estimates a drop of 9.8% of the Portuguese GDP in 2020. The United Nations (UN) also expects 2020 to experience the largest yearly global GDP contraction since the Great Depression.

A different type of crisis and an uncertain shape of recovery.

The ongoing economic crisis is unlike all others, characterized by sudden and simultaneous supply and demand shocks which can not be easily addressed by conventional means.

Although production is starting to resume and the unprecedent levels of workforce furlough begin to decrease, it is doing so at a slow and uneven pace, over many stages.

Uncertainty about the shape and strength of recovery is also a major factor, especially when there is still the possibility of a 2nd wave of the virus outbreak which could lead to further lockdowns or economic disruptions.

73%

of businesses expect COVID-19 to have a severe impact on the global economy, according to EY Capital Confidence Barometer launched in March 2020.

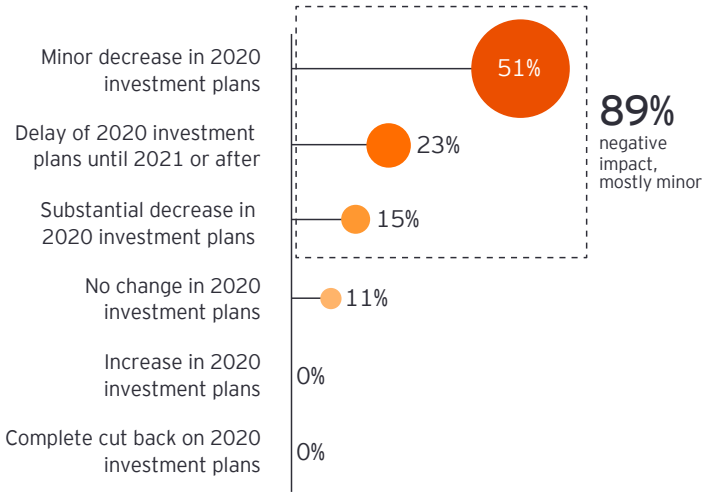
Investment intentions in Europe for 2020 have seen a major review. While there is a definite decrease, it is not a complete cut back.

The negative economic outlook, the constraints in implementing projects in the first half of 2020 and the uncertainty about the next steps of the ongoing pandemic and the shape of recovery have forced business to reevaluate their previous investment plans.

According to a recent EY Flash Survey, investment intentions in Europe for 2020 have seen a significant decline. Only 11% of business leaders are considering maintaining their previous investment plans.

However, it is worth noting that more than half of businesses are only planning a minor decrease compared to their previous investment plans and no respondent mentioned a complete cut back on previous plans either.

Figure 8: To what extent have business leaders changed their 2020 investment plans because of COVID-19



Source: EY Flash Survey May 2020 (113 C-suite interviews)

FDI in Portugal in the short-term could prove to be more resilient than most of its peers

Although to a smaller degree, the immediate impact of COVID-19 on FDI is already being felt in projects announced in 2019.

The immediate impact on existing investments and investment projects currently under construction is more limited than the one expected for new projects planned for 2020.

However, this varies significantly across sectors. Airlines, automotive or real estate are taking the largest hits while sectors such as ITC, e-commerce or life sciences stay more resilient.

Out of the 6,142 FDI projects announced for Europe in 2019, EY estimates that about 35% are at risk of being delayed, strongly adjusted or cancelled, especially projects announced during the later part of the year and belonging to the most affected sectors.

Job creation should be the most affected, with EY estimating between 30%-50% fewer jobs created by projects announced in 2019 than those anticipated in the original business plans.

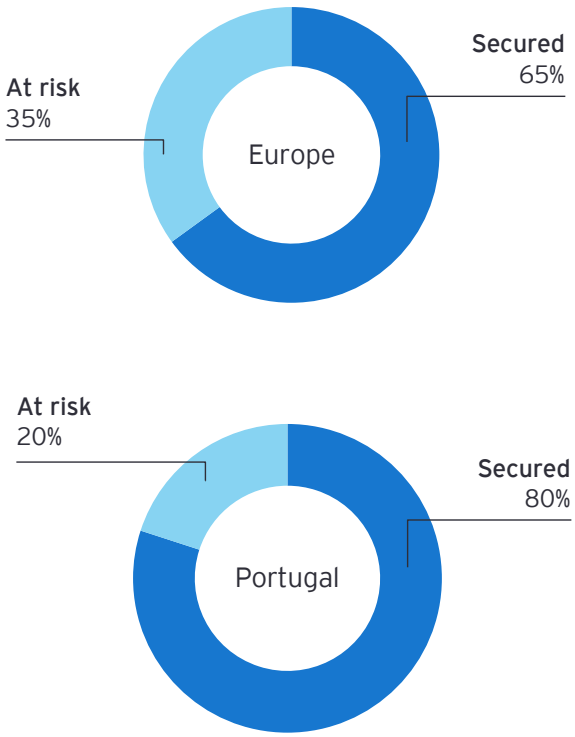
Portugal's impact is expected to be less severe, partially due to the profile of the projects in the country.

In highly competitive, service-oriented countries where a large portion of FDI projects involve activities such as software development, R&D or shared service centers, the short-term impact of COVID-19 is expected to be less severe. Portugal, along with peers such as Ireland or Poland, belongs to this group.

The country also benefits from solid assets (e.g. digital infrastructure and adaptable workforce) which reinforced its competitive position in many of the most resilient sectors during this crisis.

Out of the 158 FDI projects announced for Portugal in 2019, EY estimates that about 20% are at risk of being delayed, strongly adjusted or cancelled.

Figure 9: Portugal's FDI projects announced in 2019 are estimated to be at a lesser risk than Europe's projects as a whole



Source: EY estimates

Viewpoint

External viewpoint

Luís Castro Henriques
Chairman & CEO of AICEP
Portuguese Trade & Investment Agency

Portugal is Open for Business

Portugal was experiencing a good economic evolution and reached, in the past two years, new and unseen investment milestones. The country has become a reliable choice for FDI, with an increasing diversification of countries of origin, such as the USA, and a rapid growing bet on Digital, just like AICEP anticipated.

Like other countries, the Portuguese economy also suffered from the lockdown, but early action secured relatively high levels of business continuity. Respecting the requirements of the pandemic context, many companies continued their activity, showing resilience and adaptability. In addition, Portugal is a country with a stable and a business-friendly environment that ensures the functioning of global value chains and, proving the importance of its Atlantic Frontier, with a door that is always open to the world.

Furthermore, the competitive advantages Portugal had before the pandemic remain the same and, in some cases, were even strengthened; for instance, its stability and low operational risk, as ranked by the European Commission, but also talent and innovation that have become key components of the country's story of success.

The availability of talent, especially in highly skilled tech jobs, combined with multi-language skills, has contributed significantly to the recent record investment rates in the country. Portugal is open to foreign investment from around the world; it offers strong incentives schemes, in particular one of the most competitive R&D frameworks in the EU, and high quality transport and ICT infrastructures, namely excellent connectivity. Moreover, Portugal is a pleasant and safe country to live in, being the 3rd safest country in the world (1st in the EU), according to the Global Peace Index, and the 3rd most attractive country for expats, according to InterNations.

During these global challenging times, political, economic and social stability and the response to the pandemic are definitely key factors for the investors. The 8 projects that Portugal has already managed to attract since the beginning of March, therefore during the pandemic, in the tech sector, prove that. Also, Portugal was the first European country to receive the Safe Travels Label.

In conclusion, Portugal managed to turn its early resilience into success potential. Portugal is ready and Open for Business!

An uneven impact between sectors

FDI is most at risk in sectors most affected by COVID-19

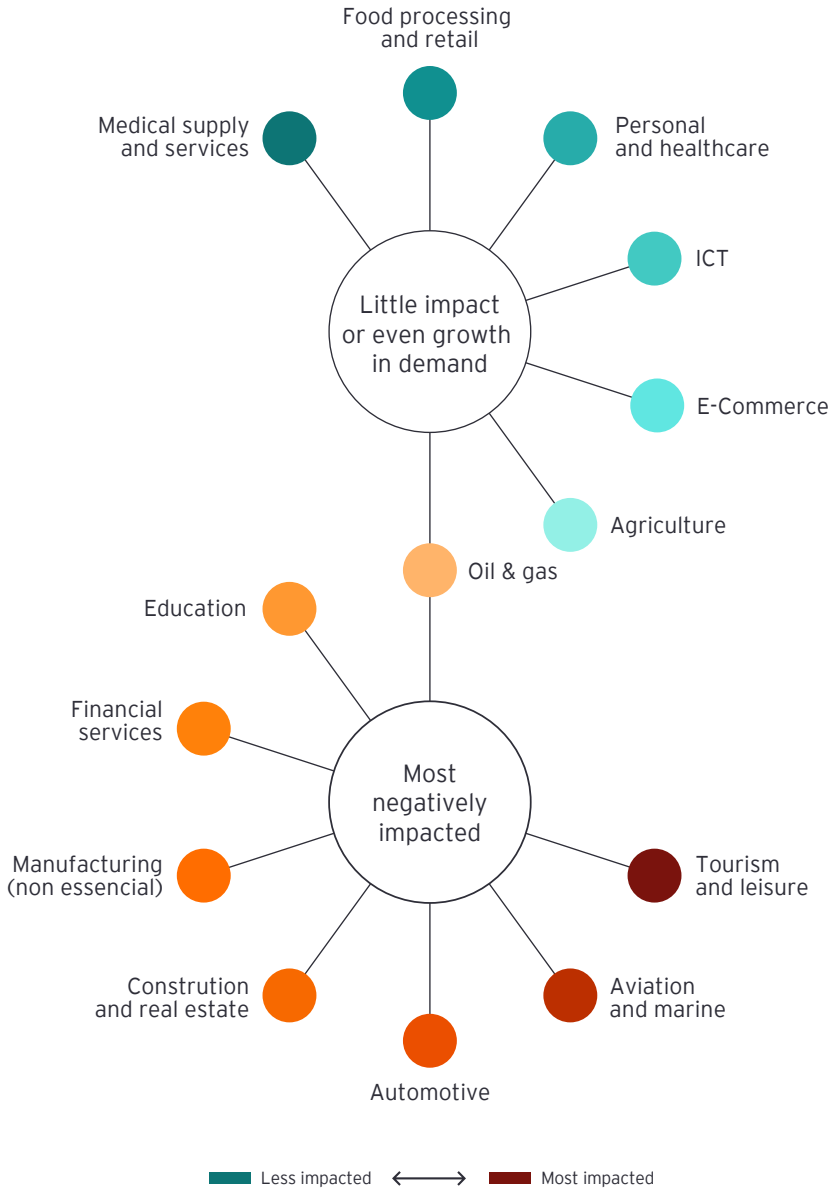
The impact of COVID-19 varies significantly by sector, with a direct knock-on effect on FDI.

Sectors experiencing a surge in demand due to COVID-19 (e.g. life sciences, essential consumer goods, e-commerce or online entertainment) are more likely to maintain the bulk of their investment plans. The same can not be said of other sectors where COVID-19 caused a massive drop in demand and/or led to measures which severely constrain production and distribution.

Tourism is at the forefront of the crisis, with a majority of businesses suspending operations and furloughing most of the workforce, and an estimated 75 million jobs worldwide at risk. The sector is also expected to recover more slowly, as uncertainty and health safety are expected to remain a concern for consumers for some time.

The automotive sector is also facing disruptions in production, global supply chains and a decrease in consumer demand. The sector is expected to be hit fairly hard as far as FDI is concerned, along with other non-essential manufacturing sectors. On a European level, transportation manufacturing projects announced in 2019 are amongst the ones at a higher risk of being delayed, strongly adjusted or cancelled.

Figure 10: COVID-19's overall global short-term impact on sectors



Source: EY, Dcode EFC analysis.

Some of the sectors most affected by COVID-19 have been growth drivers for Portugal.

In this year's attractiveness survey, which is still influenced by pre-COVID scenarios, investors expected real estate and construction and tourism to be 2 of the 3 biggest growth drivers in Portugal. These sectors play a large role in the Portuguese economy, with tourism accounting for about 15% of GDP and real estate experience a boom over the past years.

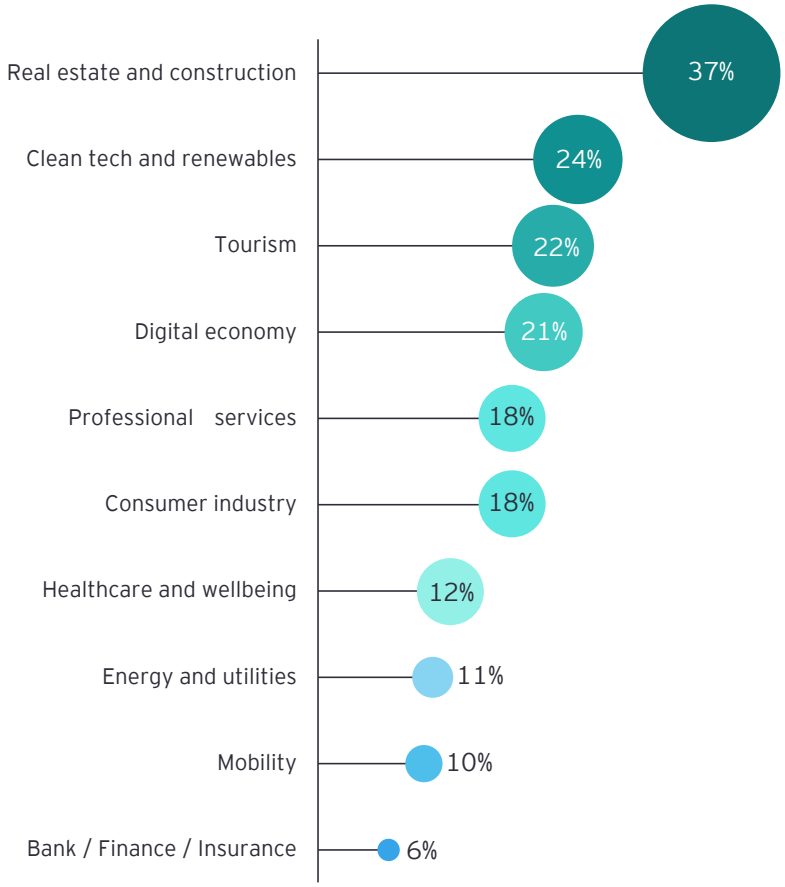
The strong impact is already being felt. Data for April shows that compared to the same month last year the number of guests in tourist accommodation establishments in Portugal dropped 97.1%.

As for real estate, uncertainty about economic recovery and eventual permanent changes in consumer preferences are hampering the sector's performance. According to a recent EY sector survey taken in May (Portugal Real Estate Survey - Initial impact of COVID-19), in the short-term residential and hospitality are expected to be the most affected segments, with an estimated drop in demand of 40%, followed by retail (30%) and office (20%). Industrial and logistics are expected to be more resilient and experience a more marginal impact.

On the other hand, clean tech and renewables surged to 2nd place and investor's expectations are high about Portugal's potential. While not immune to COVID-19 on the short-term, as companies try to contain capital and operating expenses, multiple governments have been providing support.

As for the digital economy, the ongoing pattern of its growing relevance is now rapidly accelerating as a direct result of COVID-19. Portugal is well positioned to capitalize on this, as recent FDI trends show, with digital consistently leading the number of projects, along with the growing international recognition of its infrastructure, talent and tech ecosystem.

Figure 11: Business sectors expected to drive future growth in Portugal in a pre-COVID scenario



Source: EY Attractiveness Survey 2020 (3-20 March 2020, 203 respondents: 114 established in Portugal, 86 not established in Portugal)

Viewpoint

External viewpoint

Luís Araújo
President of Turismo de Portugal

Portugal is still the world's best destination

Portugal has established itself as an international example in the control and management of the pandemic situation, thanks to a combined Public Health strategy with clear and objective measures, to the implementation of a series of initiatives to support companies and to the strict compliance by citizens of the recommendations issued by governmental entities.

It is clear that the crisis generated by the COVID-19 pandemic is deeply affecting the tourism industry, forcing managers and investors around the world to change and adjust their strategies in the face of significant revenue losses and in an environment of great uncertainty. Portugal is no exception and, aware of this, Turismo de Portugal, through the various measures and initiatives it has been promoting, has signaled to companies that the sector will gradually recover and resume normal activities.

The entire sector, from companies and private operators to the various agents of the public sector, are prepared so that the opening and resuming of activity can generate maximum confidence in visitors and tourists, fulfilling all hygiene and safety conditions.

The economic support measures for companies and entrepreneurs were crucial and the training and consultancy we provided online during these months of interruption were very important - the training actions implemented by Turismo de Portugal's Schools managed to train more than 30,000 people in 8 weeks. In the area of Business and Customer Support, Turismo de Portugal reinforced its response capacity with an online consultancy service, which has already addressed more than 3,500 requests.

But a series of other measures were necessary to support entrepreneurs and professionals in the sector going through this more turbulent phase.

In this context, the creation of the Clean & Safe stamp of approval was decisive. This initiative has already been voluntarily adopted by more than 17,000 companies and activities in the sector (and others that are directly or indirectly connected to it). Turismo de Portugal also promoted the necessary training to implement all the measures that must be ensured, having already guaranteed the training of more than 20,000 people.

This initiative earned Portugal an invitation by the WTO (World Tourism Organization) to present best practices for the sector in this phase of recovery at the organization's World Assembly and had a decisive contribution so that Portugal itself was the first country in Europe to be awarded the "TravelSafe" seal by the WTTC (World Travel & Tourism Council).

Equally important was keeping Portugal in the top of mind of tourists. And we did it, in a combined way, considered as exemplary internationally, with the launch of several awareness campaigns, as was the case of #CantSkipHope, as well as with the direct involvement of Tourism Teams abroad, through the implementation of public relations actions with the mainstream media in order to maintain the perception that Portugal is now, as always, the best holiday destination. And we continue, every day, working to do even more and better.

As for the future, bets must be structural and not cyclical. Continue to invest in training, diversification (of products and markets) in R&D applied to tourism, keeping the central objective of having tourism all throughout the territory, all year. Our strategy, despite the obvious and necessary adjustments due to the current context and future perspectives, continues having clear and objective goals whose success depends on the collaboration and involvement of society and all agents in the sector, public and private, continuing to lead the tourism of the future.

Establishing trust is crucial for companies and tourists to recognize Portugal as a safe and quality destination. We are optimistic on being able to win this challenge, given the (fair) perception that we did everything we could to control the pandemic, that we are transparent with regards to the data presented and that we are one of the most demanding countries in terms of hygiene and safety rules in tourism enterprises and establishments.

The world may have changed, but what sets us apart from the rest and makes tourists want to return is still here. We are an authentic, diverse, attractive, inclusive and safe destination. We uphold the purpose and commitment of being good hosts, respect differences and ensure that everyone who visits us can travel around the country safely and confidently.

Viewpoint

EY viewpoint

João Moura
SaT - Head of Real Estate, Hospitality, Construction & Infrastructure
Ernst & Young, S.A. for Portugal

Portugal Real Estate Market

Considered by Forbes as the best destination to live after the pandemic, there is a broad view that Portugal will remain attractive or eventually increase its attractiveness as a destination for international real estate investment.

If by one side it is now clear that a global economic crisis will take place, by other side it may not impact all countries in the same way.

Portugal has been for 3 years consecutively elected as the 'world's best destination' for tourism, the real estate sector had the best performance in 2019 and keep on growing since 2015.

Investment in real estate surpassed €26 Bn in 2019, more than doubling the €13 bn observed in 2015 and, in the same period, prices have doubled in some segments, especially in the residential market.

The results of our survey, conducted in May to 300 professionals of the Real Estate market to estimate the impact of the COVID-19, shows that while the general view is that the market will go through a period of contraction, it is important to highlight that a recovery is expected in 24 months and that some optimism is observed in specific segments due to the attractiveness of the Portuguese Real Estate market.

Regarding the general market sentiment, the conclusions are that the factors that will mostly influence the future location of FDI in Europe are the robustness of the domestic market and the protection and security measures implemented to prevent a future crisis.

Resilience is the key word brought by the COVID-19 and on that matter industrial and logistics are regarded by the market players as the more resilient sectors, that will likely be less impacted and eventually play a major role in the future context.

On the other hand, sectors as retail and hospitality that were directly affected, are seen as the less resilient and the ones that will face a slower recovery.

The major conclusions are a temporary crisis with different segments recovery periods, from 12 to 24 months.

While the general view is that in the short-term an impact will be felt in several segments, there are signs that underpin the view that some investors will seek to gain or increase exposure in some segments of the Portuguese market.

The exceptional performance of Tourism in the last years and the high value of the "Portugal" brand will be the drivers that some investors will consider when facing investment opportunities in this sector.

A recovery is expected in 24 months and some optimism is observed in specific segments due to the attractiveness of the Portuguese Real Estate market.

The pace of recovery will determine short-term attractiveness

Although to a smaller degree, the immediate impact of COVID-19 on FDI is already being felt in projects announced in 2019.

COVID-19 has drastically reset investors' perceptions on which countries are more attractive, especially in the short-term.

With businesses still feeling the effects of the first wave and the uncertainty about whether a second wave will occur, investors could be more inclined to favor FDI in countries less affected by the first wave (e.g. Germany or Portugal).

The shape and pace of recovery will also play a key role in the attractiveness of countries. In the event of a V-shaped scenario, in which economic activity rebounds strongly in the second half of the year, FDI could also recover strongly. Conversely, W-shaped or uneven saw-shaped scenarios of prolonged and fluctuating recovery would dampen FDI prospects for a larger period of time.

The shape of recovery will depend on factors such as countries' exposure to global value chains as well as their ability to simultaneously control and manage the spread of COVID-19 while minimizing the impact on economic activity. In the particular case of FDI, recovery also depends heavily on the origin countries of each specific destination country and their respective economic recoveries and capacity to invest.

Portugal displayed a good performance in containing the spread of COVID-19, with fairly low number of cases and, especially, mortality rates.

As of June 9th, the country had close to 35 thousand confirmed cases and 1,485 confirmed deaths and was already on the last of three stages of its plan to ease lockdown restrictions and return to normal activity.

The country's success is being analyzed and compared in international media outlets such as the Financial Times, Forbes or the New York Times to the situation on some of its usual peers such as Italy and its neighbor Spain, both particularly impacted by COVID-19. While Spain has about 4.5 times the population of Portugal, as of June 9th the country had 18.3 times as many confirmed deaths (27,136 vs. 1,485).

Portugal's good performance and comparative success is especially interesting given the country's ageing population, high levels of urbanization and cultural similarities to Spain.

The reasons for this evolution are diverse. The Portuguese authorities and population were quick to realize the warning signs coming from Italy and Spain and acted early.

A significant proportion of the population took the initiative of going into voluntary confinement or reducing contact with other people, decreasing the risk of early spread, and have been respecting instructions from health authorities with only few exceptions. The proactive and disciplined attitudes taken by the Portuguese have been frequently mentioned as an important differentiating factor of the country.

The government was also quick to act, enacting lockdown measures and declaring state of emergency much faster than other European countries. By the time it was declared, the country had recorded 642 confirmed cases and two deaths, compared to Spain's near 5,800 cases and 200 deaths. The government also enacted an array of financial support measures such as the simplified lay-off scheme, where furloughed workers are entitled to receive two-thirds of normal gross earnings, 70% of which paid for by Social Security and 30% by the company.

The stability of social and political climate was also a factor, with both government and opposition working together and the cooperation of most other institutions (e.g. trade unions or associations) and the society at large.

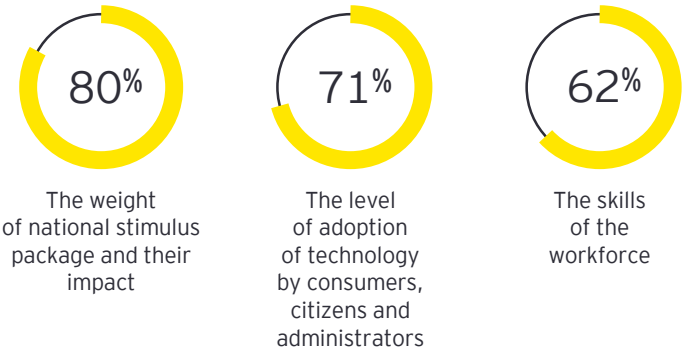
Testing was also an important factor, with the country benefiting from a large collaborative network and scoring highly in European comparisons for number of tests. As of June 9th Portugal ranked in 4th place for cumulative testing per thousand people in the EU, with approximately 94.7 tests, only behind Luxembourg, Lithuania and Denmark.

National stimuluses, technology and workforce skills are expected to be decisive factors for short-term attractiveness.

According to a EY flash survey from May, the weight and impact of national stimulus packages are going to play a decisive factor in short-term attractiveness of countries, with 80% of surveyed business leaders selecting it. Notwithstanding emergency measures taken to mitigate the impact of the pandemic (e.g. wage subsidies), Portugal has not yet committed to major forward-looking economic stimulus package with the same ambition as some other European countries (the largest being Italy and Germany with 22% and 21% of GDP, respectively). The country places substantially better on other factors such as technology and skills.

These results bring to light the possible value of targeted FDI support by the various countries. However, current budget restraints and priorities may leave little scope for it. In fact, the impact in public finances from the measures currently undergoing (e.g. wage subsidies) and the way countries chose to address them in the future (e.g. higher taxes or targeted budget cuts) will themselves be an important factor of distinction between countries.

Figure 12: Main three factors expected to influence companies' future location choices



Source: EY Flash Survey May 2020 (113 C-suite interviews)

Despite global uncertainty, Portugal has the potential to remain a resilient and attractive FDI destination

Portugal's FDI short-term resilience and long-term attractiveness will rely on successfully leveraging the country's strengths and growing recognition.

Perceptions in this year's attractiveness survey, which are still heavily influenced by a pre-COVID scenario, pointed toward Portugal's attractiveness remaining solid despite growing uncertainty from factors such as Brexit or rising trade tensions.

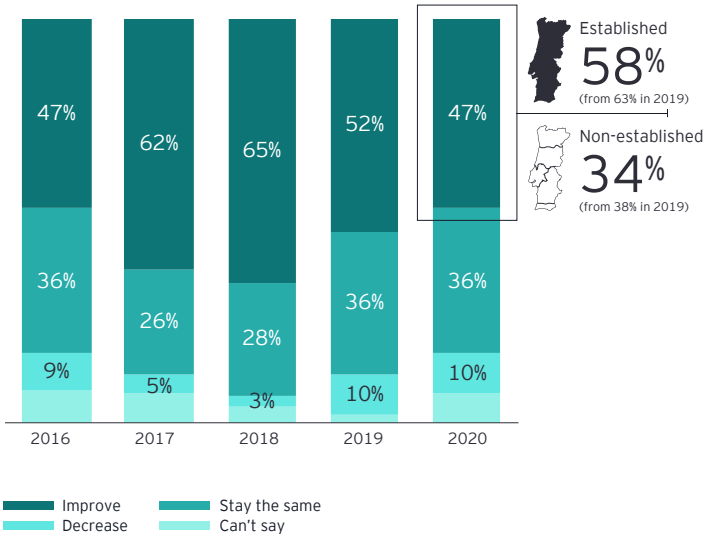
Overall, confidence continued to stabilize after a period of strong gains in 2017 and 2018 and the country was outperforming most of its peers and Europe as a whole (where 39% believed attractiveness would improve, when compared to Portugal's 47%).

These results were mostly based on investors' views on Portugal's solid assets, improving economic conditions and increasingly favorable perception of Portugal's performance on most FDI attractiveness factors, leading to growing international recognition.

Although COVID-19 is bound to have a severe impact on short-term investment intentions, Portugal's growing FDI attractiveness has mostly been fueled by a continued trust in the country's assets and improving structural conditions, which are expected to remain attractive for the foreseeable future (e.g. quality of life, stability of social climate, infrastructure or talent).

Portugal must continue leveraging these, in order to attain resilience in the short-term and continued FDI growth in the long-term. On the short-term, the country's success in containing the first wave of COVID-19 and the apparent resilience of ongoing FDI projects are a positive sign. For the longer-term, Portugal must continue the trend of strengthening its performance on most standard FDI attractiveness factors while simultaneously preparing its positioning in a post-COVID landscape.

Figure 13: How investors believed Portugal's attractiveness would evolve over the next three years in a pre-COVID scenario



Source: EY Attractiveness Survey 2020 (3-20 March 2020, 203 respondents: 114 established in Portugal, 86 not established in Portugal)

Viewpoint

Portugal's strategic positioning in the post-COVID economy

EY viewpoint

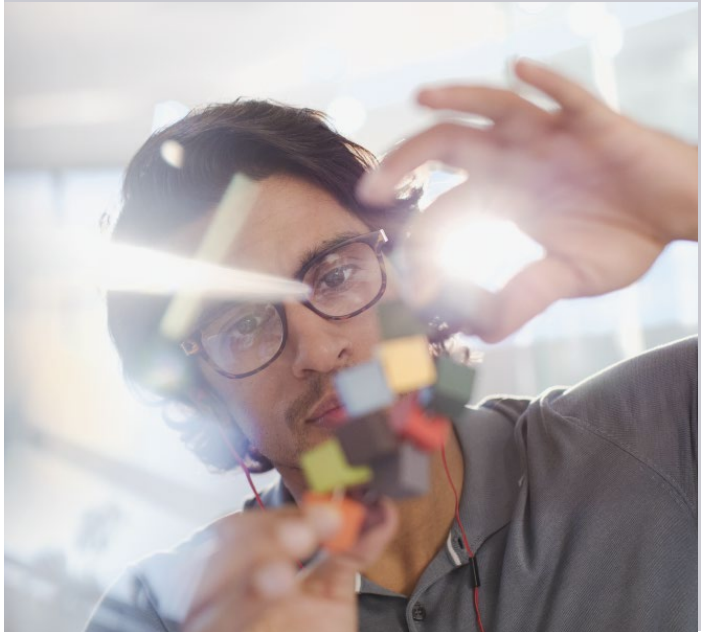
Florbela Lima
Leader EY-Parthenon
Ernst & Young, S.A., Portugal

A possible reconfiguration of global supply chains

The sudden and unexpected supply and demand shocks caused by COVID-19 and the containment measures taken to minimize its public health impact have led to an unprecedented economic crisis.

Severe disruptions to global supply chains have also exposed how the focus in maximizing cost-efficiency can make businesses particularly vulnerable to such events. As a result of these lessons, new KPIs such as resilience, responsiveness or reconfigurability are gaining more relevance in business and investment decisions.

Businesses are reassessing their current supply chain models and even more so their upcoming investment plans, placing a larger focus on resilience. FDI will play a major role as companies are looking to adapt their future global operations via elements such as reducing the dependence from dominant source countries, moving some operations closer to client markets or looking for more flexible and agile solutions from suppliers.



Portugal's strategic positioning in the post-COVID global economy

The higher focus on resilience, flexibility and agility may be capitalized to enhance Portugal's strategic positioning.

Many Portuguese companies already have a good track record of participating in highly qualified global value chains via a market strategy of innovation, flexibility, agility and higher value added (e.g. automotive or aeronautics). While many countries focused on more traditional cost-driven and largely inflexible mass-scale production may struggle to adapt to a new, more resilient and flexible reality, Portugal's international competitiveness may see a boost in its status.

Portugal benefits from being an EU country, located on its western shores, with good transport and ITC infrastructure, social and political stability, high levels of technology adoption and a fast-growing skilled talent pool. This could also work in its favor since according to a recent EY Flash Survey conducted in late April, technology and skills are expected to bear more weight in companies' future location choices.

Also, in the same survey, 83% of international business leaders expect companies to move some operations to nearshoring areas just outside the EU and in Africa. Portugal's regional proximity to northern Africa and privileged relations with Portuguese-speaking emerging economies could also benefit its participation in future global chains.

However, as always, experience and potential notwithstanding, it is important to act now to help ensure that these scenarios do come to fruition when all the dust has settled.

3

Beyond

How will FDI in Portugal be in a post-COVID world?

82%

of business leaders in Europe expect technology adoption to accelerate as a result of COVID-19

65%

of surveyed investors in Portugal state that strong clean-tech policies and standards are important in determining where to invest

Portugal's attractiveness factors

Tackling shortcomings while maintaining strengths to ensure Portugal's continued resilience and success

Portugal has been successfully tackling some of its biggest shortcomings from previous years while maintaining a strong perception on its main assets.

Portugal's assets will be key to the country's short-term resilience and long term attractiveness.

Investors' perceptions on some of Portugal's least favorable attractiveness factors have grown significantly over the last year.

The largest changes reflect the ongoing efforts by the government and local authorities toward making Portugal a truly business-friendly environment, by actively addressing previously identified shortcomings.

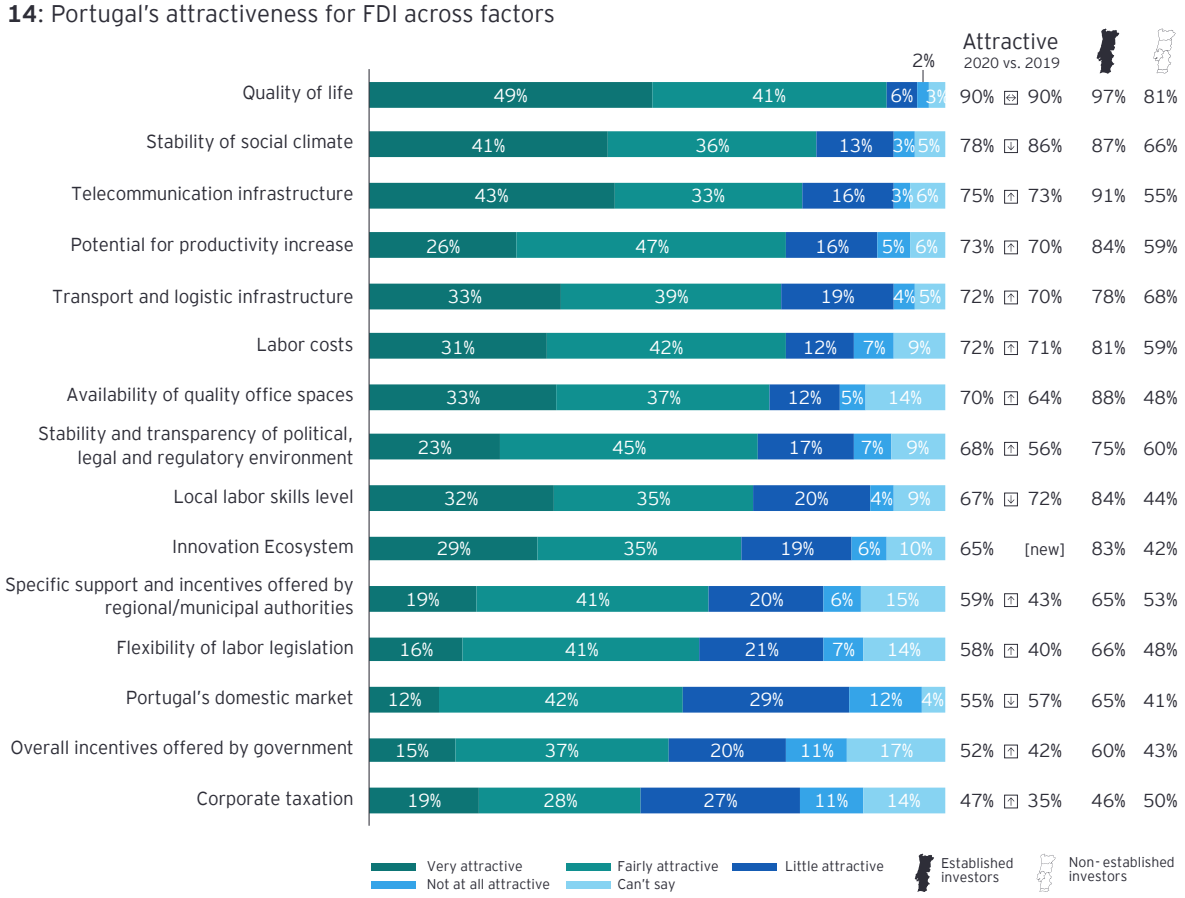
This progress is reflected by the growth in attractiveness factors such as: flexibility of labor legislation (18 p.p.); specific support and incentives offered by regional/municipal authorities (16 p.p.); corporate taxation (12 p.p.); stability and transparency of political, legal and regulatory environment (12 p.p.); overall incentives offered by government (10 p.p.).

At the same time, Portugal retains or even slightly improves most of its more attractive factors such as quality of life, telecom and transport infrastructures or potential for productivity increase.

This year's exception was the stability of social climate, a similar situation to other European countries, influenced by global developments such rising trade tensions, Brexit and the ongoing COVID-19 pandemic.

The survey results also reflect the rising difficulty in hiring the right talent, motivated by the rapidly growing demand and the relative lag in supply to adjust.

Figure 14: Portugal's attractiveness for FDI across factors



Source: EY Attractiveness Survey 2020 (3-20 March 2020, 203 respondents: 114 established in Portugal, 86 not established in Portugal)

COVID-19 is accelerating megatrends which will be key in driving future investment plans

COVID-19 will accelerate ongoing megatrends such as the forth industrial revolution, digitalization, protectionism, populism or the drive for sustainability. At the same time, it may put the brakes or even reverse other trends such as globalized and highly optimized supply chains.

Companies will likely need to reorganize toward creating long-term value for customers, employees and investors, while more explicitly demonstrating they are meeting societal needs. Risk management will become more important than ever, both as a strategy for individual resilience but also as a requirement to avoid future instances where costs are externalized to governments and taxpayers.

These trends will have a significant impact on FDI and businesses will have to consider their plans carefully, especially in stages where uncertainty is still high.

According to EY research, corroborated by a recent flash survey to business leaders in Europe, executives making investment decisions expect three megatrends to drive investment plans in a post-COVID world: acceleration of technology adoption, focus on climate change and sustainability and a reconfiguration of supply chains.

Figure 15: Mega-trends expected by business leaders in Europe to drive investment plans in a post-COVID world

Source: EY Flash Survey May 2020 (113 C-suite interviews)

Technology adoption and investment is set to rapidly accelerate

COVID-19 radically changed consumers' and business' relationship with digital technologies. Both B2B and B2C demand for digital solutions surged abruptly as a result of the pandemic: digital services are booming, e-commerce reached new peaks of demand and logistics chains were quick to adapt.

Companies are planning to enhance digital customer access and virtualize B2C interactions. In parallel, businesses are also expected to accelerate investment in automation and robotization of both manufacturing as well as transactional services such as IT, HR or finance.

Accelerated technology adoption will make digital competitiveness an even more important factor than it already was. Digital infrastructure, skills and a dynamic tech ecosystem will reinforce their status as key drivers for investment decisions.

Portugal places well in this matter, supported by widely appreciated infrastructure, a dynamic talent pool and vibrant tech and innovation ecosystems in some of its major cities. According to the Digitalization Index 2020, from the European Investment Bank, Portugal also has digital adoption rates above the EU average for most sectors and also above the US for the services sector and infrastructure.

But the country must not rest on its laurels as competition is about to become more fierce than ever before.

Portugal must ensure its skilled talent pool continues to grow and is able to keep up with demand. ITC Infrastructure investment must also keep its momentum while increasing focus in more remote areas, as citizens may now be attracted away from large dense cities (and it may also no longer be necessary for businesses to locate offices in such cities as work-from-home policies become more common).

82%

of business leaders surveyed in Europe at the end of April expect technology adoption to accelerate as a result of COVID-19.

91%

of investors established in Portugal consider the country's telecommunication infrastructure to be attractive.

55%

of business leaders surveyed in Europe at the end of April plan to enhance digital customer access to services.

50%

of households in Portugal have taken-up ultrafast broadband, compared to the EU average of 20%.

Sustainability and clean-tech will play a leading role in future economies and investment decisions

Sustainability as a major factor in investment decisions is here to stay.

COVID-19 appears to be accelerating the ongoing trend of increasing awareness for sustainability. The slowdown in economic activity has led to an increased appreciation of lower pollution and the reduced impact of human activity on the ecosystem. Therefore, consumers will increasingly demand that businesses actively address some of these major societal challenges such as climate change and human impact.

Business leaders seem to recognize this. According to a EY Flash Survey done in May, 57% of surveyed business leaders in Europe anticipate a renewed focus on sustainability and climate change in the next three years due to COVID-19.

The rising role of clean-tech policies and standards: a requirement for most investors.

Surveyed investors in Portugal are adamant about the role of clean-tech policies and standards for modern economies, with 65% stating they are important to determine whether to invest in a country or region.

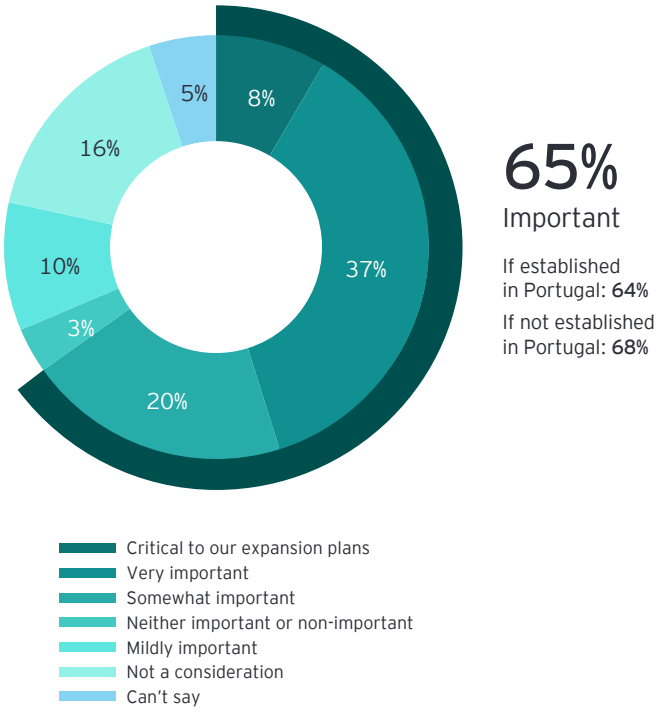
Portugal may stand to benefit from these expectations, as clean-techs are expected to become the second biggest growth driver in the country in the coming years (and the first driver in Europe as a whole). The country's natural resources, talent pool and universities and R&D centers are some of the factors expected to fuel this growth.

Renewable energy has been a strong priority and according to the International Energy Association Portugal is a world leader at integrating generation from wind and solar photovoltaic power. 56% of electricity produced in Portugal in 2019 came from renewable sources. It also reached an important milestone in march of 2018, when electricity production from renewable sources reached 103.6% of the country's needs for the month.

The country has also been a pioneer in tech and innovation, hosting projects such as WindFloat Atlantic, the first implementation of floating wind farms, with larger turbines which can also be placed in deeper waters.

Also, the government has recently announced the National Strategy for Hydrogen (EN-H2), which estimates a potential €7 billion worth of investment until 2030. The strategy aims to reduce carbon footprint while supporting the transition to a greener economy. One of its planned flagship projects is the production of hydrogen in Sines using renewable power sources, an investment that could reach about €2.85 billion.

Figure 16: How important are strong clean-tech policies and standards in determining whether respondents invest in a country or region?



Source: EY Attractiveness Survey 2020 (3-20 March 2020, 203 respondents: 114 established in Portugal, 86 not established in Portugal)

Viewpoint

External viewpoint

Planetiers World Gathering

Sustainability and clean-techs in Portugal

Portugal has made great progress in recent years in terms of entrepreneurial innovation. The bet on the presence of Web Summit in Portugal is a good example of the work that has been done. An entire innovation ecosystem has been developing, with a considerable number of incubators and accelerators. The education system itself has clearly evolved in Portugal, with several Business Schools reaching relatively high positions in European rankings and good engineering universities - all supporting the establishment of some multinational digital hubs in Portugal.

It is therefore not surprising that Portugal is part of the 'Strong Innovators' group in the European Innovation Scoreboard 2020.

The country has also evolved a lot in the last two decades towards the adoption of new energy solutions, has a significant weight of renewable energies in the total mix and does not have a large weight of polluting industries - such as coal power plants.

However, Portugal, due to a low weight of the secondary sector in its economy, and a surprising but still recent entrepreneurial environment, does not yet have an ecosystem favourable to the development of industrial-based solutions in terms of innovation. As a result, we have not yet seen the emergence here of any major new generation player in aspects that are called Clean-tech.

However, the situation shows signs of evolution, as there is a bet to establish in Portugal a large international investment in the area of green hydrogen production.

From the point of view of Sustainability, and speaking from our experience, we would say that there has been some evolution from what is called materiality to systemic thinking. The acceleration of the issue of the circular economy, with good expression in Europe, will have contributed to this. However, systemic thinking calls for long-term planning approaches, something that is still very absent from a 'Latin' country such as Portugal. In fact, even today, the agenda of Portuguese business leaders is still not very much on this type of issues, and they are still very much on *compliance* imperatives.

We are at the dawn of a major acceleration of sustainability, with the new European Commission launching the Green Deal in the second half of 2019 - in which it raises the bar for decarbonisation targets in Europe for this decade from 40 to 55%. To this end, Planetiers created the World Gathering, a major international sustainability event aligned with Lisbon European Green Capital in 2020, and is setting in motion a major disruptive innovation programme for the decade.

> There is a bet to establish in Portugal a large international investment in the area of green hydrogen production.

Supply chains are expected to reconfigure for resilience, flexibility and agility

The sudden and deep impact of COVID-19 on global supply chains, the risk of future pandemics, the increased geopolitical tension, and climate change, exposed the vulnerability to shocks and has led companies to re-evaluate their operations, reinforcing the need for resilient, flexible and agile supply chains.

Business plans and investment horizons may have to lengthen and scenario planning became increasingly complex. Although it may impact efficiency, companies are now considering the relevance of establishing redundancies and diversifying sources as a risk management measure to safeguard against both future disruptions as well as growing uncertainty.

FDI will have a strong role to play in these changes and each countries' attractiveness might dictate where they will land in future global supply chains.

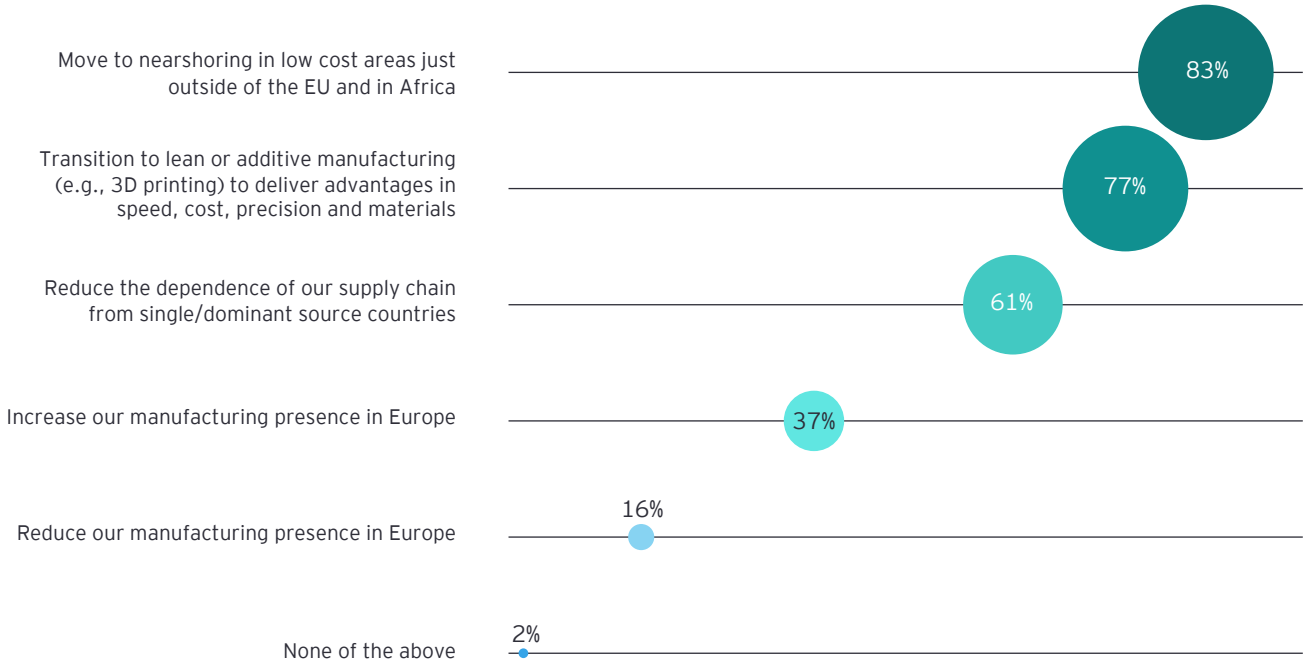
83% of surveyed executives in Europe expect some regionalization of supply chains, mostly based on the movement of some production sites and their value chains to the borders of the EU and in Africa.

Technology will also play an important factor on the reconfiguration of supply chains, with 77% of businesses planning to transition to lean or additive manufacturing to deliver advantages in speed, cost, precision and materials.

Portugal's integration in global value chains benefits from a wide range of attractiveness factors such as good transport infrastructure (international airports, seaports and road network), good ITC infrastructure, skilled workforce, political and social stability, geographical location or its time zone.

Leveraging these, in conjunction with others such as privileged relations to emerging countries in South America and Africa, could prove invaluable both in securing short term resilience as well as an improved global standing in the long run.

Figure 17: How business leaders are planning to change their supply chain models in response to COVID-19



Source: EY Flash Survey May 2020 (113 C-suite interviews)

Expected megatrends are also reflected on investors' areas of focus selected for Portugal

This year's survey results show an increased perception of Portugal's competitiveness but investors point that there's still work to be done on major competitiveness pillars.

Although they are still influenced by a pre-COVID scenario, this year's survey results already reflect the importance of focusing on areas directly related to megatrends accelerated by the onset of the pandemic.

Supporting high-tech industries and innovation, developing talent and reducing taxation are the main concerns mentioned. However, for all 3 areas there was a decrease in its incidence, especially for innovation. These results point to a positive evolution during 2019.

Tech and digital talent and infrastructures are set to further rise in relevance for investment decisions as a direct consequence of the ongoing pandemic, as digital industries and practices are quickly gaining a larger foothold in the economy.

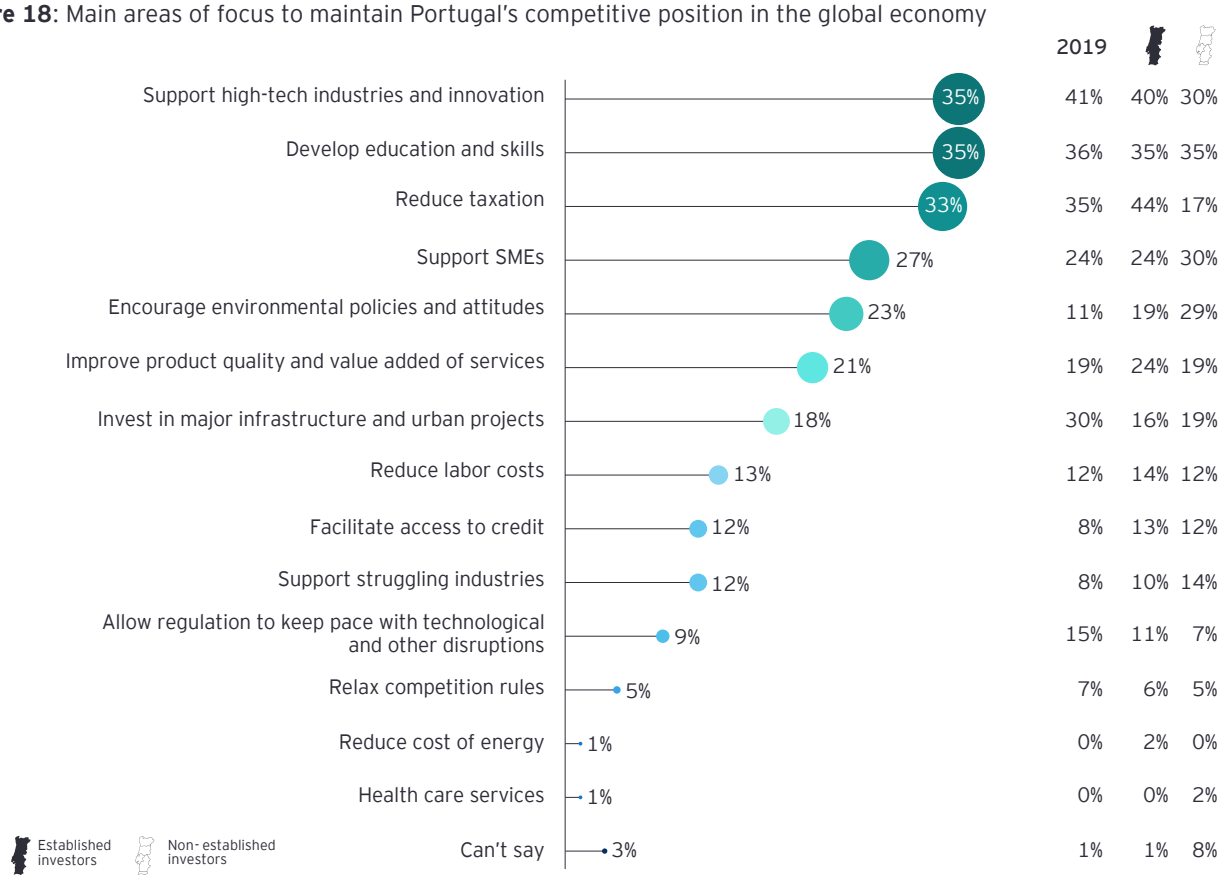
Tech and talent are also the most commonly mentioned in other European countries. More than just the onset of COVID-19, this reflects the dynamism of highly skilled industries in western Europe and the fast growing demand for talent in tech jobs.

Infrastructure saw its incidence decline to nearly half of what it was in 2019, from 30% to 18%. This reflects the overall perception that Portuguese investment in infrastructure, especially digital, has been paying off.

Taxation remains an overall concern in most European countries and Portugal is no exception. However, its worth noting that Portugal has a more favorable tax regime for foreign investment as well as a friendly residence permit regime, both designed specifically to attract FDI.

Another highlight of this year's survey has to do, once again, with investor's expectations regarding the encouragement of environmental policies and attitudes, whose incidence more than doubled from 11% to 23% (overtaking, for example, infrastructures).

Figure 18: Main areas of focus to maintain Portugal's competitive position in the global economy



Source: EY Attractiveness Survey 2020 (3-20 March 2020, 203 respondents: 114 established in Portugal, 86 not established in Portugal)

4

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

50%

of surveyed investors highlight the relevance of improving education and training in new technologies

75%

of the non-established investors surveyed have never received information about Portugal's attractiveness

1. Invest in the recovery now, without jeopardizing the future

Portugal's first government surplus in four decades and the balancing efforts of the past years have been overshadowed by the onset of COVID-19 and the need to help citizens and businesses weather the impact of the pandemic.

However, funding is not only needed to address the current economic and financial issues from COVID-19. It is also essential to fuel the recovery and to invest in the economy of the future, in areas such as technology or sustainability.

Investing now in infrastructure, in revamping the education system or in helping businesses and regions rebound from COVID-19 will not only be important in limiting the short term impacts but also in adapting the country to the economy of the future. This, in turn, could help soften the medium to long term financial and economical blow of the current measures when the bill has to be paid.

However, attention must also be paid to the country's previous financial situation and the fact that it had just stabilized from a difficult financial situation that had led to the need for international assistance. Therefore, the government must strive to minimize the impact of current measures (e.g. social spending) on future economic competitiveness (e.g. by increasing taxes or delaying investment) at the risk of compromising those objectives and reducing the country's international competitiveness in a time when FDI could prove essential.

The current crisis has also further brought to light the importance of resilience, agility and having safeguards in place such as solid financial reserves to minimize the impact of future shocks.

This highlights the relevance of the fiscal consolidation effort of the past years, not only as a way to address current imbalances but also to allow Portugal to be able to more easily withstand similar high impact events. The same principle holds true for individuals and businesses.

2. Reach out to investors

COVID-19 is expected to galvanize geographical shifts in global value chains, both in procurement as well as some degree of relocation of production facilities. This, combined with other high-profile events such as Brexit or rising trade tensions between major economies, will lead to a new wave of opportunities as countries scramble to enhance their position in the post-COVID global economy.

Competition for investment is going to be more intense and investors will be looking out for opportunities and for safe havens. Now, more than ever, it is critical to ensure that valuable information makes it to investors quickly and successfully.

Portugal has been able to achieve good international recognition and its image is better than ever. However, according to this year's survey results, the perception of Portugal as an attractive FDI destination still sees a large divide between established and non-established investors. This signals the need to understand why information is not reaching most investors (70% of non-established) and to ensure that it does so in the future.

Results show that 70% or more of established investors consider Portugal to be attractive in 10 out of the 15 attractiveness factors surveyed.

Conversely, this assessment only happens for one attractiveness factor (quality of life) for non-established investors.

On average, there's a 22 percentage point difference in score between established and non-established investors in each of the surveyed factors.

However, this difference is particularly intense in some of Portugal's main selling points mentioned in previous chapters, which also are amongst the top attractiveness factors mentioned by established investors. Among them, the difference in 4 particular factors stand out: local labor skills level (84% vs. 44%); innovation ecosystem (83% vs. 42%); availability of quality office space (88% vs. 48%); telecommunication infrastructure (91% vs. 55%).

Ensuring that investors, especially non-established, receive accurate information about Portugal and that all necessary support is provided proactively could be a valuable tool to secure short term resilience as well as fuel the country's longer term FDI prospects and positioning in global value chains.

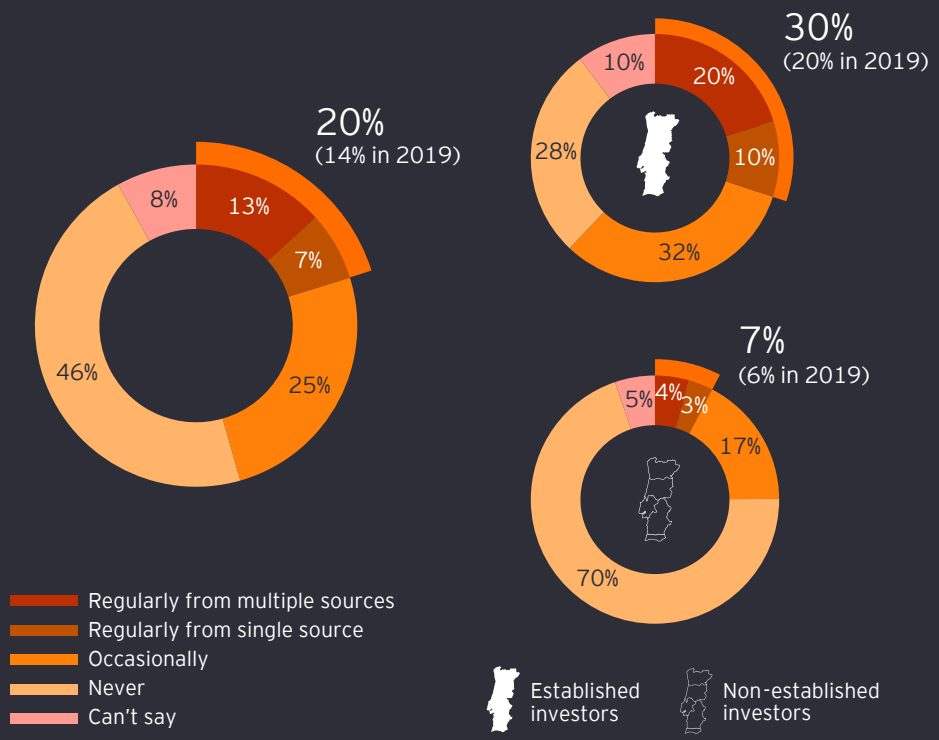
Information about Portugal's attractiveness is reaching more investors but it tends to reach mostly those already established

Investors have been receiving information about Portugal's FDI attractiveness more regularly.

However, the gains have mostly occurred with investors already established in Portugal, who are more aware of the country's strengths.

Currently, about 70% of non-established investors have never received information and only 7% claim to receive some information on a regular basis.

Information dissemination could be one of the main ways to address the observed perception gap between established and non-established investors. More regular and widespread information could have a relevant role in shortening this gap.



3. Invest in talent and education, especially in skills in high demand

Investors in Portugal can rely on a skilled and adaptable talent pool in a variety of sectors. Overall, 60% of investors believe it is easy to attract and recruit skilled talent in Portugal, while 26% believe it is difficult and 14% can't say. As for specific skills, the shares of investors that perceive it to be easy to find the talent they need is: language skills (71%); management and finance (63%); manufacturing (60%); IT (59%); engineering (58%); R&D (52%).

Language skills and an international mindset are some of the most differentiating assets of Portugal's talent pool.

Rapidly increasing demand and the growing international recognition of Portugal is pressuring available talent, as demand outgrows supply. Atomico's State of European Tech reports that Portugal is seeing a rise in the rate of hard-to-fill positions in some tech jobs (e.g. software development).

Although demand for skilled jobs in Portugal is booming, supply has also been adjusting. According to the same Atomico report for 2019, tech job searches per capita in Portugal grew 45% in just two years, the second highest growth in Europe.

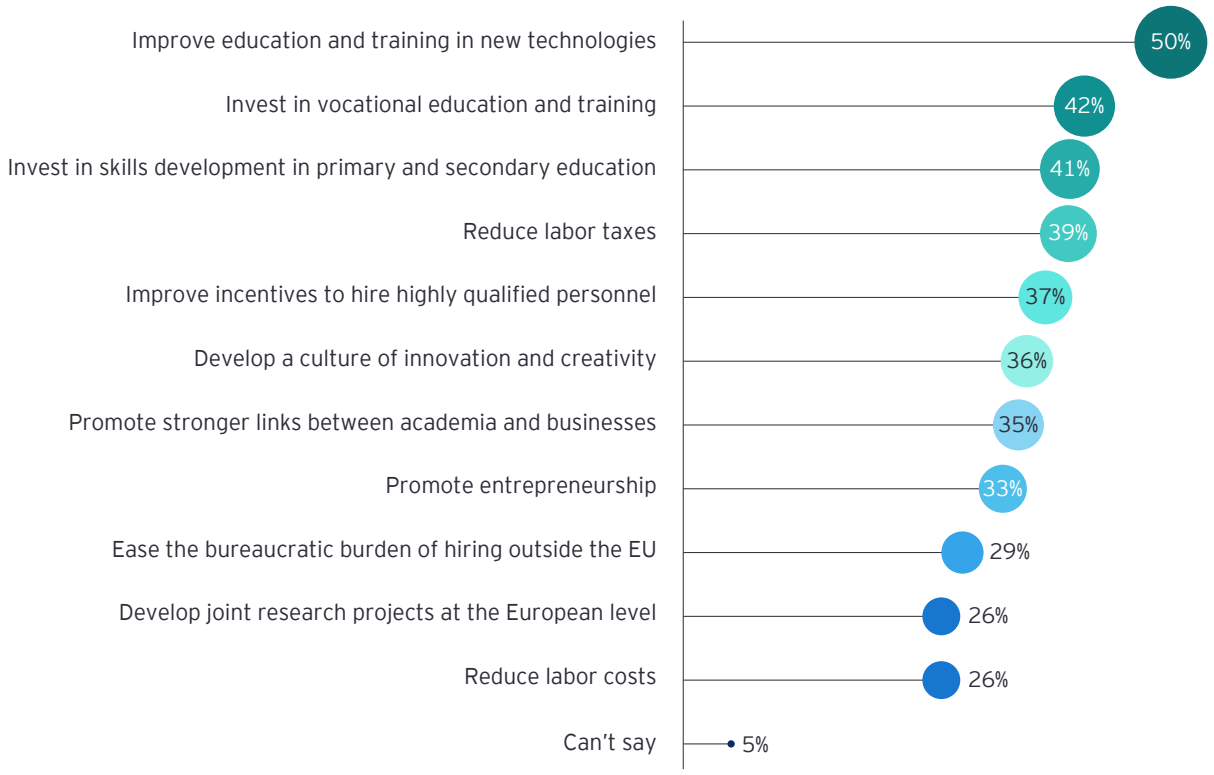
Portugal is also implementing an array of measures such as increasing enrollments in STEM fields, international protocols and partnerships (e.g. MIT Portugal Program) and reinforcing the role of key competences for ICT in formal curriculums.

Other examples are the INCoDe.2030 program, which has been in effect since 2017, and Portugal Digital, an action plan currently being designed wit the goals of digitally empowering citizens and assisting companies' and the state's digital transformation.

Skilled talent will increasingly be a baseline condition for attractiveness, something which is set to intensify in a post-COVID world and that reinforces the need to further invest in skills, as businesses everywhere are paying close attention to what is happening in global talent pools.

Surveyed investors in Portugal are also quick to point that out, highlighting key areas of reform such as training in new technologies, vocational education or revising school curriculums to focus more in skills development. Increasing the role of digital technologies in training and education has also gained more relevance as a direct result of COVID-19.

Figure 19: Main areas of reform to make Portugal a leader in talent-competitiveness



Source: EY Attractiveness Survey 2020 (3-20 March 2020, 203 respondents: 114 established in Portugal, 86 not established in Portugal)

4. Increase support for technology and innovation

Innovation and technology are also a must have for attractiveness, something which has only intensified with the onset of COVID-19.

Perceptions on the main pillars of innovation – talent, infrastructure and culture – are improving, as previous efforts pay dividends.

Twenty-eight percent of investors place Portugal above the EU's average as a source of innovation, with 44% placing it on average and only 19% considering it below average. Additionally, individual perceptions on the startup ecosystem and on the collaboration between academia/R&D centers and businesses grew the most this year.

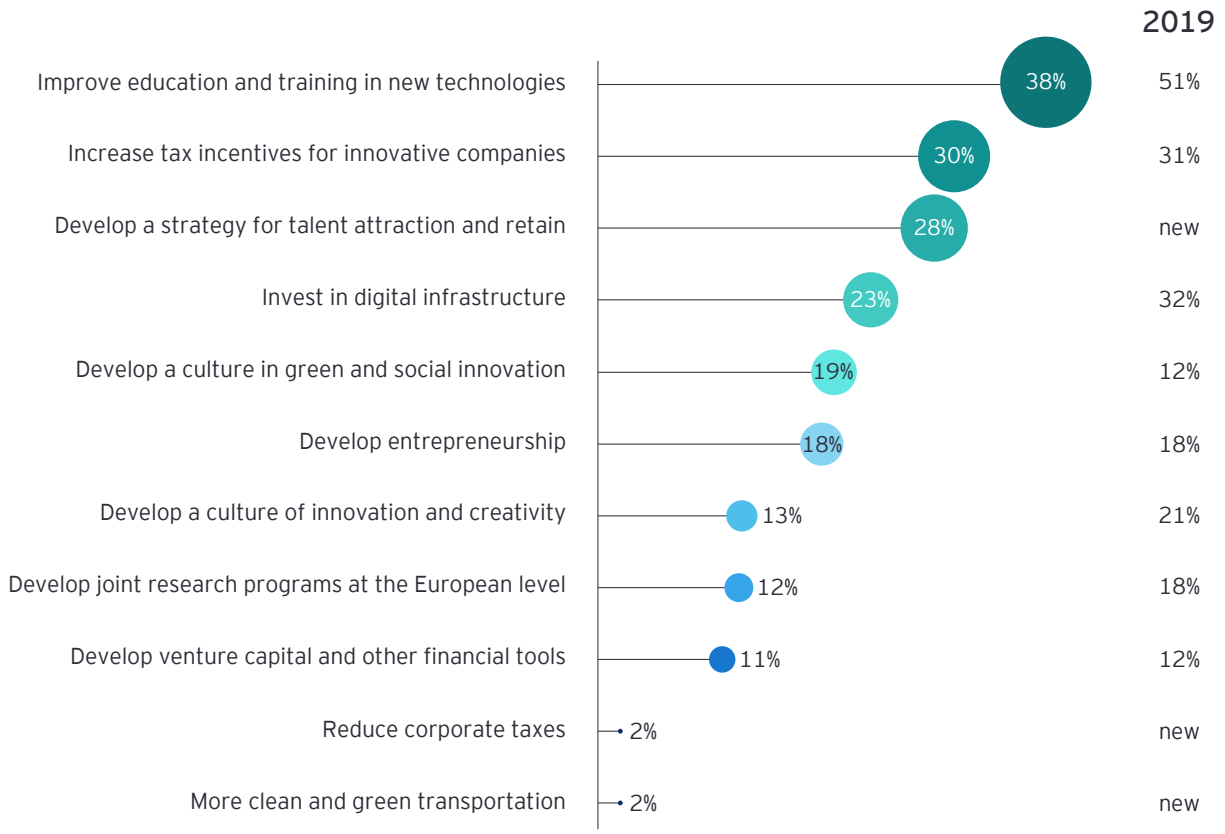
These improving perceptions have been boosting Portugal's position as an interesting European destination for innovation and leading to concrete results, as R&D FDI projects jumped from 9 in 2018 to 26 in 2019. Altran, Bosch, Vestas and the BMW Group are some of this year's examples.

Increasing recognition of Portugal's start-up scene and the rise of cities such as Lisbon and Porto as relevant European tech hubs is also fueling the country's international positioning as a digital and innovation destination. FDI projects in the digital sector nearly tripled in 2019, with the sector retaining its leadership position.

However, investors are also aware of the need to enhance support if Portugal is to become an innovation leader. Training talent in new technologies and increasing the size of its pool and tax incentives for innovation are considered the main priorities.

The need to invest in clean-techs and support the transition to a more green and digital economy is also not lost on investors. The National Strategy for Hydrogen or the Portugal Digital action plan are some of the steps being taken in this regard.

Figure 20: Main areas of reform to make Portugal a leader in innovation



Source: EY Attractiveness Survey 2020 (3-20 March 2020, 203 respondents: 114 established in Portugal, 86 not established in Portugal)

The need to invest in clean-techs and support the transition to a more green and digital economy is not lost on investors.

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 the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and 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 its management. FDI includes equity capital, reinvested earnings and intracompany loans.

However, our figures also include investments in physical assets, such as plant and equipment. And 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 throughout 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. To confirm the accuracy of the data collected, the research team aims to directly contact more than 70% of the companies undertaking these investments. 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)

* 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.

The perceived attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country's or area's ability to provide the most competitive benefits for FDI. The field research was conducted by the CSA Institute in March 2020 via telephone interviews, based on a representative panel of 203 international decision-makers.

A second perception survey was conducted from 15 April to 29 April to reflect decision-makers' perception changes due to the COVID-19 crisis. This online survey was led by Euromoney, based on a representative panel of 113 international decision-makers.

Assessing the impact of COVID-19 on FDI in Europe

To estimate the share of FDI declared in 2019 that would remain secured in 2020 despite the COVID-19 crisis, we combined data from three sources:

- A modeling exercise to assess FDI vulnerability
- A Euromoney survey, based on 113 international decision-makers
- Webinars with 30 European investment promotion agencies to collect field data

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognized by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyzes 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 19-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:
ey.com/attractiveness #EYAttract

How can EY teams help?

Services for investors and multipliers

With offices in Lisbon and Porto, EY offers a broad scope of services across its service lines: Assurance, Tax, Consulting and Strategy and Transactions.

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 enables 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, services 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 policies and design of 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.

Assessments of attractiveness

- Identification of existing attractiveness factors 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, refunctionalisation and impact of equipment and heritage
- Development of local and regional development strategies
- Conceptualisation of governance models and partnerships

- Financial, tax, commercial, 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

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 templates 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 analyses
- Evaluation and impact analysis of programs, public and sectorial policy
- Strategic plans for public goods and services
- Technical assistance and support to public management

EY | Assurance | Tax | Strategy and Transactions | Consulting

About EY
EY is a global leader in assurance, tax, strategy and transactions, and consulting services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2020 Ernst & Young, S.A.
All Rights Reserved.

EYG no. 004632-20Gbl

ED None

In line with EY commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as legal, accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com

The views of third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

EY contacts

Florbela Lima
Ernst & Young, S.A.
Partner, EY-Parthenon Leader
+351 217 949 341
florbela.lima@parthenon.ey.com

Telma Franco
Ernst & Young, S.A.
Director and Press Relations, BMC
+351 217 912 292
telma.franco@pt.ey.com