

POLITICAL WRANGLING IN PORTUGAL COULD POTENTIALLY DETER - ESQUÍVEL ADVOGADOS

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The markets were relatively unaffected by the recent Portuguese elections, but there are concerns that with the government lacking a majority, privatisations and concessions could be delayed

The re-election of Portugal's existing coalition government, led by Prime Minister Pedro Passos Coelho, appear to be a welcome sign of stability for the country's economy. However, according to José Luís Esquível, founding partner of Esquível Advogados in Lisbon, while the election has had little effect on the markets, an increase in political wrangling – given the opposition's increased strength – could have the effect of deterring potential investors from making acquisitions in Portugal.

Esquível believes that the next few months will be critical if Portugal is to remain attractive to foreign investors. "While the same group that has governed for the last four years was successfully elected, it also lost its majority in the Portuguese parliament," he notes. "This now means that the government will be relying on support from the opposition to deliver its mandate."

Radical parties lack power

The coalition won almost 38 per cent of the vote, while the socialists received around 32 per cent. The coalition secured 104 seats in the 230-seat parliament, which is 12 seats below the threshold needed to form a majority. The government must, accordingly, be able to reach agreements with the main opposition, led by Antonio Costa.

Esquível suggests that the indications are that the opposition are broadly supportive of reforms and share the desire to press ahead with them. He adds that, consequently, the markets remained largely unaffected by the election "There was very little movement in the Portuguese markets on the Friday and Monday around the election because both sides support the bailout and the drive to reduce public debt," he says. "In addition, the more radical parties remain without decisive political power."

Wrangling could cause delays

However, Esquível says the political dimensions of public contracts could prove to be problematic and could potentially lead to future privatisations and concessions falling foul of political wrangling. "There will be a lot of scrutiny when contracts or concessions come up for healthcare, transport or infrastructure matters," he adds. "I do not expect direct rejection of proposals will be the problem, more so the concern that the government does not have absolute power so the time involved in negotiating with the opposition may result in lengthy delays and uncertainty." The concern is that such delays could begin to deter potential investors, according to Esquível. "If this results in a number of projects stalling, then suddenly Portugal will begin to look like a market lacking stability," he says.

Investors' priorities

Esquível explains that the three main priorities for investors are stability, confidence and "knowing the rules of the game". If political posturing or prolonged negotiations mean that internal decisions are not being made, then investors may develop reservations about Portuguese ventures. "A company that wants to build a factory or buy an asset has to know what the rules of the game are," Esquível says. "If the government and opposition are not able to agree then that would have a knock-on effect in terms of the budget for 2016 as well as various regulations – for example, if the budget is not clear on matters such as tax or benefits or the legal frameworks are under constant debate, then a company may think twice about the viability of contract."

Coming months crucial

The situation could escalate if the parliament finds itself at an impasse and general elections become a more regular occurrence. The Portuguese economy could find itself very unstable, which would not only dissuade new projects but also make investors in existing projects nervous. "The next few weeks and months will be vital in establishing whether the Portuguese parliament will be able to create a strong base of understanding," Esquível concludes. "It will be a benefit to the economy as a whole – as well as confidence in the country – if they can."