



your
questions
answered

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PORTUGAL: FROM AN ECONOMIC DISASTER TO AN ECONOMIC SUCCESS IN JUST A DECADE

An ideal location for Indian exporters and business persons to expand their business in Europe and South America

1. What is the historical, political and economic background of the relationship between India and Portugal?

India and Portugal share a long history of 700 years of colonial rule which ended in 1961. Portuguese traders came to India and settled at various ports, eventually becoming their rulers. After 1961, there was no diplomatic and economic relationship between the two countries until 1975.

However, due to its colonial history, Portugal currently has 70,000 people of Indian descent - 7% of its total population of 10 million. Though Portugal is a small country, it is of great strategic importance in Europe; having inherently European roots and the cultural diversity of Latin America. For Indian business persons and exporters, it can be an ideal location to enter the European market as well as the South American market.

The histories of India and Portugal are closely linked. The current Prime Minister of Portugal, Mr. António Costa (born in 1961 in Portugal and a lawyer by profession), is of Indian origin. He was felicitated with the prestigious Pravasee Bhartiya Sanman award by the President of India in 2017.

The former speaker of Portugal, Mr. Narana Coissoró, is also of Indian origin.

Apart from these personalities, there are quite a few notable politicians and business persons in Portugal who are of Indian origin.

2. How strong is the Portuguese economy today?

The mainstay of Portugal's economy is tourism and the industries related to it. It constitutes 17% of the country's economy. The economic crisis of 2008 had a devastating effect on Portugal's economy and financial bailout was provided by the European Union so that the country could come out of its worst known economic setback.

Interestingly, the constructive measures implemented by the Portuguese government in the last 10 years have greatly revived Portugal's economy, making it vibrant once again with a positive outlook.

The country's economic recovery has been noticed by EU and many economists around the world. The model adopted by Portugal is also being followed by other EU countries such as Spain, Greece and Ireland.

3. What measures has Portugal taken to revive its economy?

The Portuguese economy, bailed out by the European Union few years ago, is currently booming. It is enjoying its highest economic growth in nearly two decades, fuelled by record tourism, an upswing in the housing market, a growing tech sector and strong exports.

Wharton finance professor Joao Gomes, a native of Lisbon, said that Portugal's economic recovery is better understood in the context of the broader recovery across Europe, which he rated as "excellent." Portugal has benefited from Europe's economic recovery in a few ways: tourism, exports and increased domestic investment. These have helped reduce the unemployment rate from its peak of 17.5% in the first quarter of 2013 to 7.9% in the first quarter of 2018.

Some visible measures we see enacted include - reduction in government spending, reduction in VAT tax from 23% to 13%, giving tax exemption to foreign retirees and introducing the Golden Visa Program offering Portuguese residency to non-EU citizens, thereby providing access to the European Union market.

Rental laws have also been changed to allow landlords to renovate old buildings. The idea behind this was to create jobs within the community.

Though the Portuguese government is currently faced with huge debts, the future looks promising from several perspectives.

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4. How are the Portuguese financial markets faring in midst of the current global economic turmoil?

As part of the pan European exchange since 2002, Euronext Lisbon is a stock exchange based in Lisbon, Portugal.

The Euronext Lisbon trades equities, public and private bonds, participation bonds, warrants, corporate warrants, investment trust units, and exchange traded funds.

The BVL General Index is the exchange's official index, and includes all listed shares on the official market and settlement is T+2. Like most exchanges, it has derivatives as well. The trading hours are 8 a.m. to 4:30 p.m., Monday through Friday.

Interbolsa is Euronext's Central Securities Depository and is a leading provider of Settlement and Custody Services.

Despite the strong economic performance and sustained reform momentum over the past few years, Portugal entered the COVID-19 crisis with undersized capital markets. These markets must now be mobilised to support a resilient, dynamic and sustainable recovery, according to a new OECD report.

The improved economic conditions in the country over the recent years have not translated into a rise in the use of capital market financing by Portuguese companies. At the end of 2019, there were only 47 companies listed on the Portuguese stock market, only a third of the number listed back in 1997.

Instead, companies heavily rely on bank financing, with very few using long-term bond markets. The picture for private capital markets is similar. In 2019, the Portuguese share of European private equity investments was less than half of its share in the GDP of the European Union.

5. Why is real estate a very important market in Portugal?

In the year 2020, Portugal's housing prices continued to rise strongly amidst surging demand buoyed by low interest rates. Property prices in Portugal rose by 8.12% during the year to Q2 2020, slightly lower than the previous year's 10.09% growth.

On a quarterly basis, house prices fell slightly by 0.3% in Q2 2020.

The construction activity has weakened in 2020, mainly due to the COVID-19 pandemic. In the first half of 2020, the number of licensed dwelling permits in Portugal fell by 4.1% to 11,259 units from a year earlier, after rising by 18.4% in 2019 and 43.5% in 2018, based on INE figures.

Rents and rental yields are good in Lisbon, at around 5.45%.

Due to the Golden Visa Program and renovation of old buildings, the housing and real estate market is further showing a strong growth in Portugal, mainly in Lisbon and Porto city.

This growth offers two opportunities for Indian HNIs and business persons. Those interested in exporting or expanding their business can invest in real estate in Portugal, obtain residency and then expand their business in the European mainland.

Indian real estate developers interested in entering the European real estate market can do so by undertaking small renovation projects in Portugal thereby increasing their presence in the country, and subsequently, in Europe. However, construction activities are regulated and licensed in Portugal. This may necessitate the presence of a local partner or a company who has all the required licenses and permits to undertake renovation projects or new development projects in Portugal.

6. What are the programs under which Indian business persons and exporters can expand their business in Europe using Portugal as a base?

Under its Golden Visa Program, Portugal offers a variety of options for obtaining residency of Portugal. The residency status allows one to work, study or do business in Portugal.

Golden Residence Permit holders have access to free movement across all 26 Schengen countries and stays of up to 90 days in every 6 month period (from the date of entry) in these countries, which is a great advantage to foreign citizens, who are usually subject to strict EU immigration regulations and visas when travelling to or across Europe.

This Golden Visa scheme aims to attract wealthy foreign investors, business persons and exporters as well as their families, to help re-launch the Portuguese economy. It is a great opportunity for non-EU investors to buy luxury holiday homes in renowned resorts, to carry out financial investments or to set up business ventures in Portugal.

Application for Golden Visa can also be made from within Portugal. With extremely reduced minimum stay requirements, the Golden Visa is clearly one of the most attractive residency programs for the aforementioned category of individuals in the world. It is an excellent program whereby business persons can conduct their business in the European mainland without having to stay there on a long term basis.

7. What are the investment requirements to obtain residency of Portugal?

There are several passive or active investment options available.

One can choose to invest in one of the following investment options:

- i. Euro 500,000 in any real estate
- ii. Euro 350,000 in a real estate which is 30 years and older
- iii. Euro 250,000 in a restoration of heritage building
- iv. Euro 350,000 in a research and scientific activity
- v. Euro 1 million in financial instruments
- vi. Euro 350,000 in Investment fund or Venture fund
- vii. No definite investment but create 10 jobs for local Portuguese persons
- viii. Euro 350,000 investment in a company that will create 5 jobs for a period of 3 years in the National Territory Region.

These investments are for a period of five years and the resident permit can be renewed every 2 years. This resident permit allows access to other Schengen areas of Europe for visits up to 90 days. At the end of 5 years, one can apply for permanent residency or choose to apply for citizenship. Citizenship of Portugal allows the person to live, work and do business in any Schengen country.

In each of the above aforementioned investment categories, children under the age of 18 years can be included; if they are financially dependent on their parents, children up to the age of 25 years can also be included in the same application.

8. How can obtaining Portuguese residency be beneficial to Indian exporters and business persons?

The main aim behind obtaining Portuguese residency is not to leave India and immigrate, but to create a bigger customer base for Indian products and services in Portugal and Europe. If you try to export goods from India, you need to go through the whole bureaucratic process (including cumbersome paperwork) and delivery of goods can take several days, weeks or months.

If you are a resident of Portugal, you can register a company in Portugal, purchase or rent a warehouse and then distribute goods all across Europe within 2-3 days. You can receive payment in a local bank in Europe. Many exporters from China, Taiwan and Korea are doing business in Europe in this manner. If Indian business persons do not embrace this approach, they will soon be facing tough competition for exporting their goods to these countries from expat exporters. This is simply because importers in Europe will prefer local suppliers over Indian suppliers, unless their product or service is unique.

9. How can Indian SMEs start a business in Portugal?

Successful Indian business persons can prepare a business plan that explains the nature of the potential business they plan to start, the type and amount of investment they are willing to make and how they can productively contribute to the Portuguese economy.

Based on this, they can apply for a resident permit at the nearest Portuguese Consulate. If the application is approved, they will be granted a 4-month visa to enter Portugal and start a business after obtaining a resident permit from Serviço de Estrangeiros e Fronteiras (SEF). This permit can be renewed every two years.

The business persons must be actively involved in the business and must not be absent from Portugal for more than 6 consecutive months or 8 interpolated months.

10. How can Indian start-ups enter the Portuguese market and what are the opportunities?

Aligning with the EU's policies, the Portuguese government has introduced a very vibrant and active start-up program to attract global start-ups that will use Portugal as a base to enter the European and global market.

Indian start-ups may present their innovative ideas to government approved incubation centers and if their ideas are accepted, the Portuguese government will allow these start-ups to apply for the necessary resident permit for a period of one year.

Once the start-up is established in Portugal, the entire ecosystem and the government's support system will be accessible to the Indian start-up and they will be treated in par with Portuguese start-ups.

11. Is Portugal a good destination for retirees?

Of course. Portugal has beautiful Mediterranean weather and is a favoured destination in Europe for retirees. Due to its low cost of living, high quality of life and low crime rate, it's an ideal country to retire on the mainland of Europe.

In order to attract wealthy retirees to Europe, the government of Portugal has devised a special program. Under this program, applicants must show that they have sufficient income from investment or business operations outside of Portugal to financially support their stay in Portugal.

Prashant Ajmera (B Sc. LL.B. (India) ICSA (UK)) is a reputed Indian immigration lawyer, NRI and Canadian citizen with more than twenty-five years of experience in the field of corporate and migration law and international trade. He assists HNIs and UHNIs in making investments outside of India in real estate, stock markets, businesses and a second passport.

In recent times he has spoken at various financial events in India on the subject, "Why and how should Indian HNIs consider investing abroad?"

He is a member of the International Bar Association (IBA) and has addressed the IBA Annual Conference as a speaker on two occasions (Cancun-2001 & Durban-2002). Over the years he has authored a number of articles for various media and publications.

In January 2019, he published a first of its kind book, "Millionaires On The Move", which is available on Amazon.in. This book explains how one can obtain a second passport through business immigration by investing in residency and citizenship programs and Start Up programs of several countries.

His second book, "How to plan for your child's foreign education in 2020ne - Myth v/s Reality", is available on Google play and Amazon.in. It is a handy reference for Indian parents who wish to send their children abroad for higher education.