

Conservative assumptions on GDP (0.7%) and fiscal revenues growth (no change as % GDP)

No tax increases in the year

Deficit decrease comes mainly from expenditure control

- ❖ No salary increases for civil servants;
- ❖ Continued reduction of civil servants (rule of 1 in per at least 2 out), now also applicable to local authorities;
- ❖ Reduction in the Central Government's investment, higher selectivity in projects;
- ❖ Social support measures are still necessary but will be phased out during the year;
- ❖ Stability and Growth Programme will give consistency to the consolidation path now resumed.

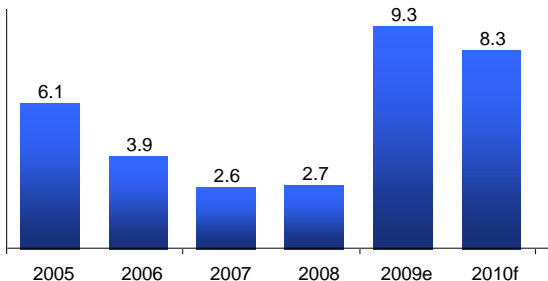
The budget consolidation strategy includes other measures, which will also have implications over the medium and long term, such as:

- ❖ Strengthening of budgetary discipline rules, and reinforcement of the powers of the Minister for Finance;
- ❖ Curbing the indebtedness of local and regional government;
- ❖ Resuming, from 2011, the pension updating rule, indexing pension increase to inflation according to actual economic growth and the value of the pension to be updated;
- ❖ Regular assessment and supervision of the requirements for the award of the Social Integration Income, in order to strengthen discipline and curb associated public spending;
- ❖ Controlling National Health Service expenditure, curbing the growth of expenditure, and rationalising overall costs.

Deterioration due to temporary effects. Important structural reforms were undertaken, increasing fiscal Sustainability;

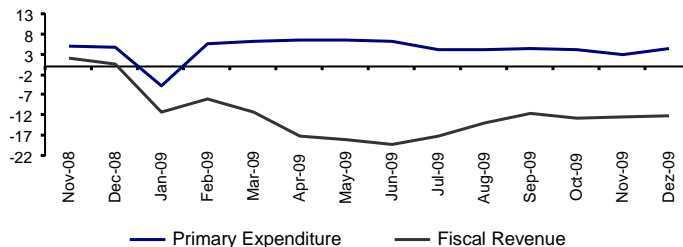
Sharp deterioration of public accounts following economic contraction, collapse in fiscal revenue, temporary economic stimulus package to support investments and social spending

Budget Deficit (%GDP)



Source: Portuguese Ministry of Finance

Budget Developments (cumulative Y-o-Y, %)



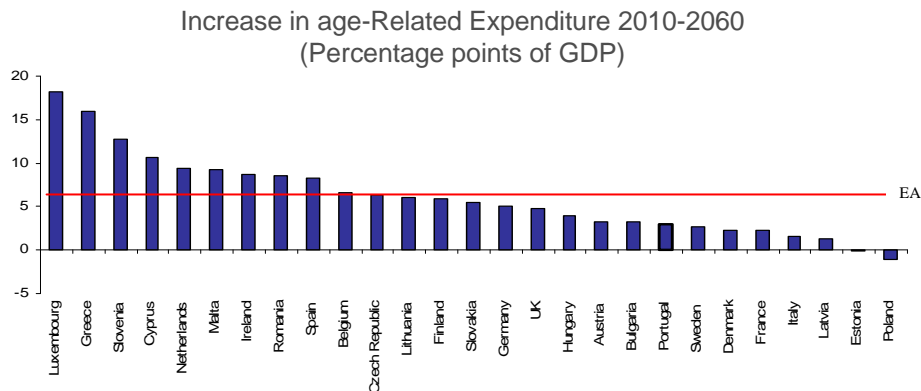
Source: Portuguese Ministry of Finance

Portugal's recently implemented reforms include a comprehensive set of measures, namely:

- ❖ Social security reform (retirement age increase for civil servants, sustainability factor for determination of pensions);
- ❖ Central government restructuring, including downsizing and rationalization of the public administration (human resources coordinated management, harmonizing the privileges of all groups of civil servants, shared resource management, rationalization of public real estate);
- ❖ Healthcare and educational system reforms.

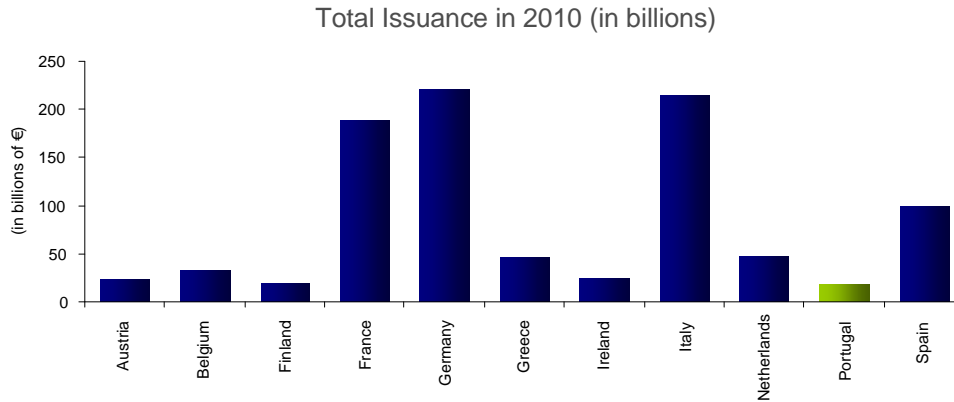
All these are structural reforms, expected to have a continued impact in the medium to long term, contributing to the sustainability of the public finances

“The reforms of old-age pension schemes adopted by Portugal in 2006 and 2007 contribute markedly to containing the increase in age-related expenditure and allow an improvement in **the rating of risks to the sustainability of public finances from high to medium risk,(...)**” - *Portugal: Macro Fiscal Assessment, an analysis of the December 2007 update of the Stability Programme - European Commission, Directorate General Economic and Financial Affairs – 27.02.2008*



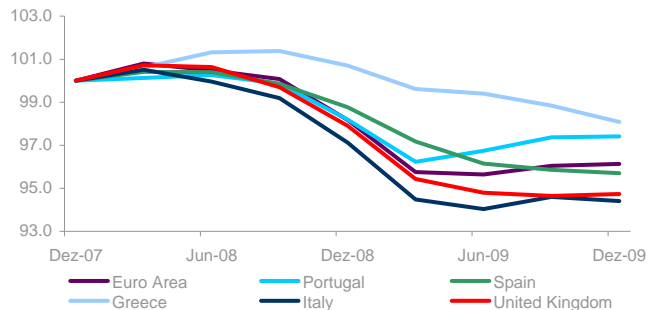
Source: European Commission, 2009 Sustainability Report

Portuguese Bond issuance is relatively low when compared with the other European Sovereigns (scarcity value) – gross bond issuance in 2010 in the range of EUR 18 to 20 billion.



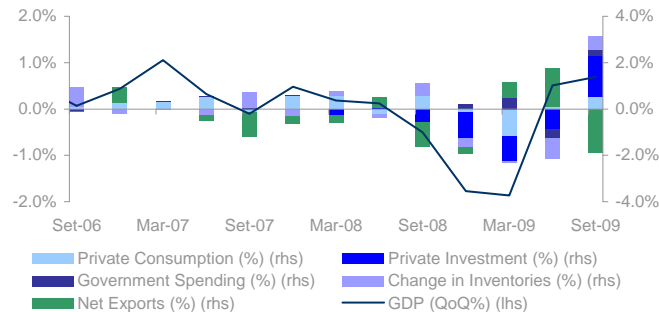
Source: Societ  Generale, *Portuguese Government Budget Proposal 2010

GDP (Dec 2007=100)



Source: Eurostat

Portugal: GDP Growth (QoQ%) - Component Contribution



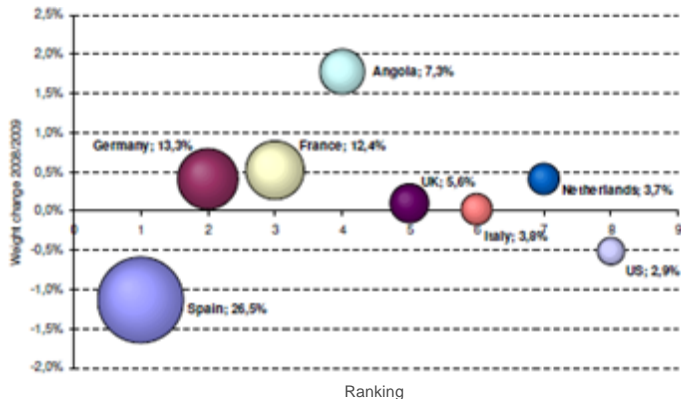
Source: INE

The Portuguese economy suffered the negative effects from the outside by the credit crisis in the context of an ongoing recovery.

Portugal has been one of the EU countries to recover faster from the global recession.

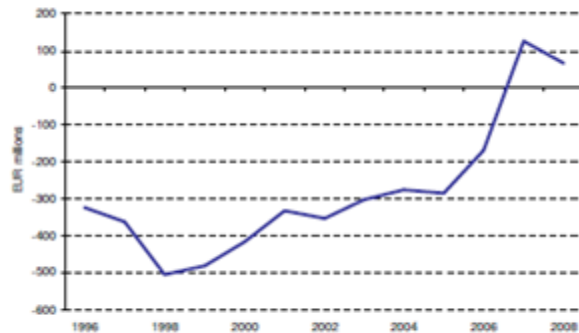
Economic growth in benefiting from stronger external demand.

Exports by Main Market of Destination (an-Oct)



Source: Statistic Portugal

Technological Balance of Payments

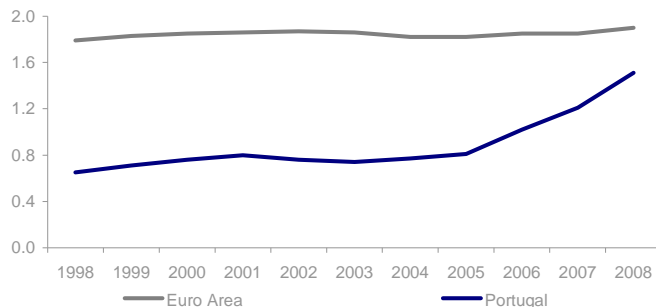


Source: Bank of Portugal

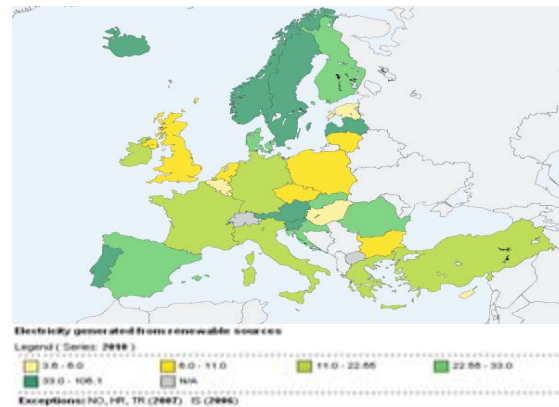
Portuguese firms have been successfully adjusting to new global economic environment, marked by lower growth in its traditional trade partners but by stronger growth in emerging markets.

The technological balance of payments exhibited in October 09 the highest positive balance since January 08.

Portugal: Gross domestic expenditure on R&D (% of GDP)



Source: Eurostat

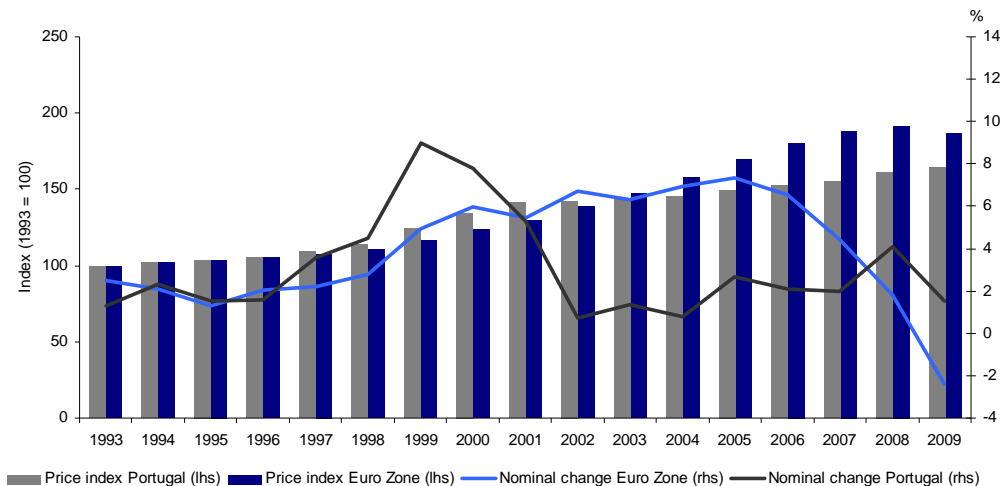


The expenditure on R&D as a weight in GDP has been increasing steadily and approaching Euro area average.

Portugal continues to increase the use of renewable energy sources and has currently a larger share of electricity generated from renewable sources in the total amount of electricity consumed than the EU.

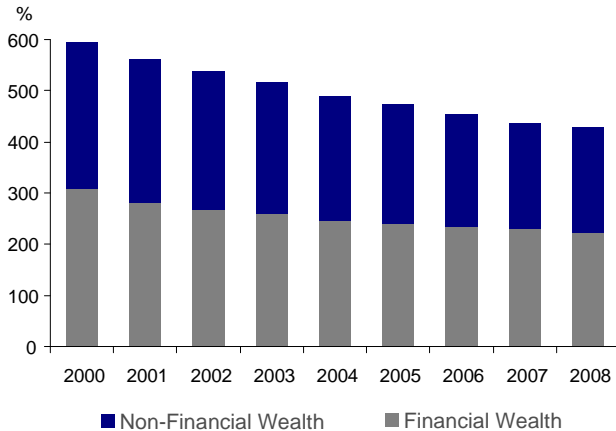
Portugal is currently the second country in the world in weight of wind generated electricity in consumption (over 15% in 2009).

House Prices, Portugal vs. Euro Area
(1988=100 and % annual nominal change)



Sources: Confidencial Imobiliário, ECB.

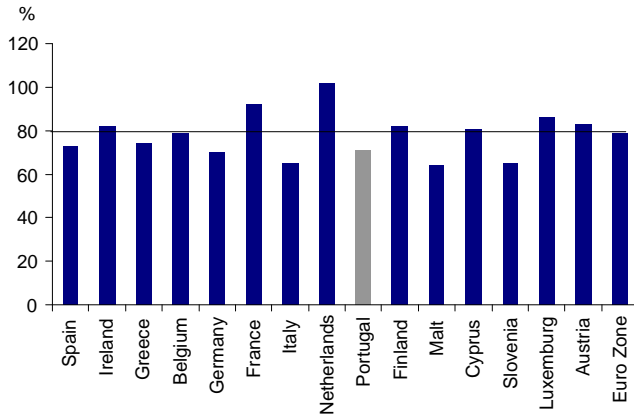
Households – Wealth to Debt Ratio (%)



Average Labour Monthly Earnings vs. Average Monthly Mortgage Payment (EUR)

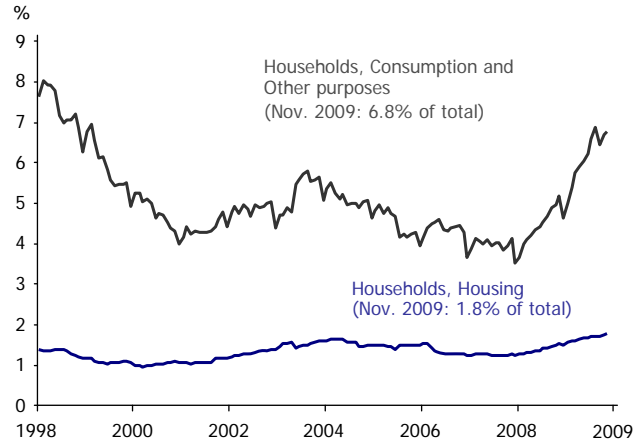


Loan-to-Value Ratio (%)



Sources: DGT, Bank of Portugal, INE, ECB.

Non-Performing Loans (% of total)



Relatively low-risk activities....

... no particular difficulties in raising capital

During 2009, banks successfully raised €3.3bn in capital (or 1.2% of RWA), with the majority of banks (accounting for more than

87% of banking sector assets) reaching Tier 1 ratios over 8% by end-September

| | 2007 | | 2008 | | 2009 |
|-----------------------|------|----------|------|----------|------|
| | June | December | June | December | June |
| Tier 1 ratio | 7.1 | 6.8 | 7.1 | 7.5 | 8.6 |
| Solvency ratio | 10.5 | 10.3 | 9.9 | 10.3 | 11.3 |

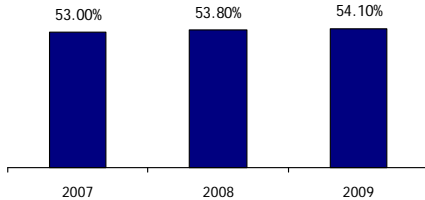
Source: BdP Financial Stability Report 2008 and IMF Staff Report on Portugal, Jan 2010

Note: Jun 2009 figures exclude BPN and BPP

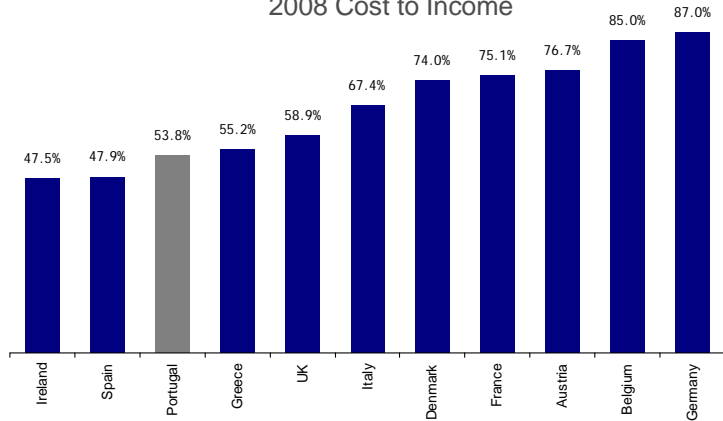
... allowing the banks to meet BdP's tighter Tier I recommendation

Portuguese banks have a strong focus on efficiency...

GOH Portugal Cost to Income evolution



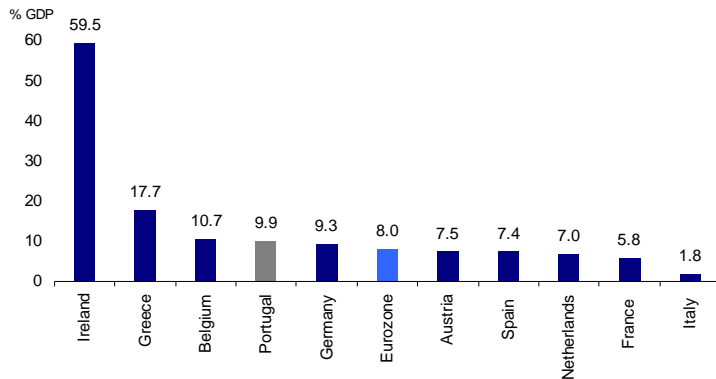
2008 Cost to Income



Source: GOH Portugal Figures as of Dec-09 except for Montepio(Sep-09)

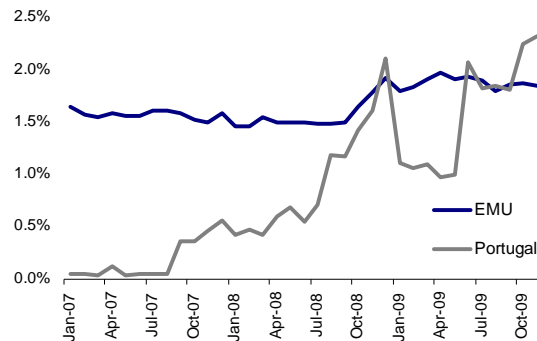
Source: EU Banking Sector Stability – August 2009

ECB Liquidity as % of GDP



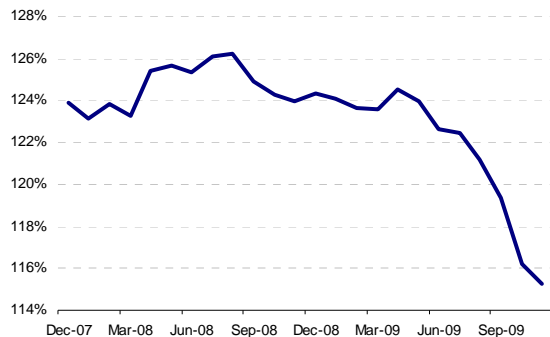
Source: Central Bank Figures as of Dec-09 except for Greece (Nov-09), Netherlands (Oct-09) and France (Sep-09)

ECB Funding / Total Assets



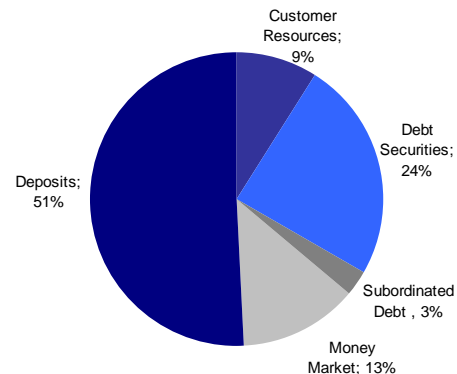
Source: Central Banks, ECB

Portugal - Loans / Deposits Ratio



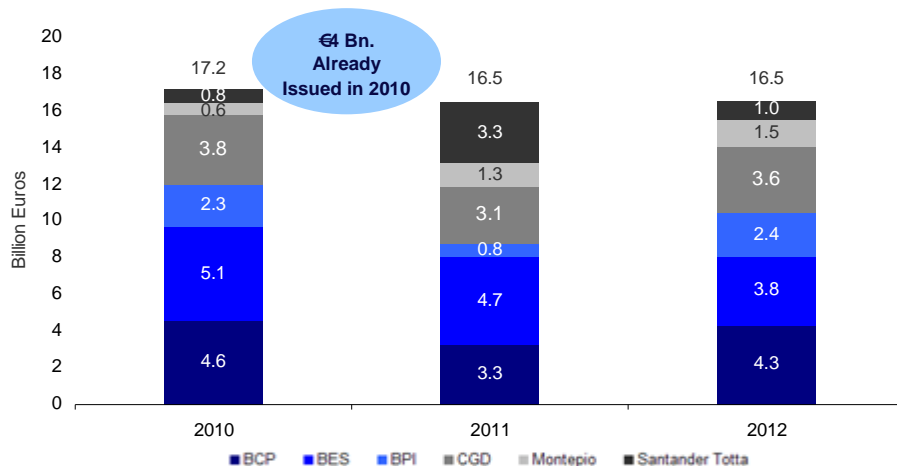
Source: ECB Loans and deposits to/from Euro Zone residents

GOH Portugal



Source: GOH Portugal_Figures as of Dec-09 except for Montepio (Sep-09)

Medium and Long Term Debt Maturity Profile (Dec-09)



Source: GOH Portugal