

# Immediate Insight: Portugal

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## Portugal finally faces facts

Portugal is seeking a bailout from the European Union, the third country to do so after Greece and Ireland. The country's ability to borrow in capital markets has been hit hard after the government collapsed in March, in the wake of a failed attempt to get austerity measures approved by parliament. Yesterday Portugal was forced to pay 5.9% to borrow funds for 12 months, more than Ireland is paying on its EU bailout loans, which have an average maturity of 7.5 years.

That Portugal has finally acknowledged it needs funds from the EU should be of little surprise to seasoned eurozone observers. While the country probably has enough reserves to repay maturing bonds of some €4 billion in April, it is unlikely to have enough for another €5 billion maturing in June. Insight believes that ultimately both an aid package and new austerity measures will be agreed, but a resolution is unlikely to be swift due to a number of factors:

- The current (socialist) government is now a caretaker administration, with limited powers until elections are held June 5. From the point of the view of the EU, this makes negotiations much more difficult. The EU will be seeking broad-based support for any measures it suggests, and will be unwilling to commit to any resolution unless it is confident that whoever comes to power has the ability to keep to their side of the agreement.
- The form the bailout will take is not certain. Like Ireland, Portugal will undoubtedly seek to tap the European Financial Stability Facility (EFSF), the European Financial Stabilisation Mechanism (EFSM) and the IMF for funds. However, unlike Ireland, the participation of non-eurozone countries such as UK, Denmark and Sweden in bi-lateral loans to Portugal is far from certain. For the UK, this will be hard to push through politically. In addition, Ireland was able to contribute several billion euros of its own resources, something which Portugal does not have the ability to do.

### Insight's positioning

Insight's European portfolios have been zero-weighted in Portugal for some time now. With Portugal facing a bailout of anything between €60 billion and €100 billion (and probably towards the upper end of the range), we will continue to be zero-weighted over the coming months.

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