ALGARVE CLIPPING

November, 2008

Algarve unaffected by Spain's property crisis


Portugal, and particularly the Algarve, seem to be unaffected by the current property crisis that has hit Spain.

DESPITE LAST year's property crisis in Spain, where more than 100,000 people lost their jobs as half the country's small real estate agents closed down due to a downturn in sales, the Algarve property market appears to be unaffected.

In 2006, around 40,000 of Spain's 80,000 small estate agents were forced to close following a dive in sales over the last two years and industry experts believed that this signalled the end of the Spanish property boom, which has been a driving force for the country's economy for years. However, others believed that the industry was merely balancing itself out after the market became saturated with estate agents.

Former editor of The Resident, Brian Adams, has had many years of experience in the Spanish property industry and said part of the reason for the downturn is that "buyers are discovering other markets, including Eastern Europe" and with more affordable house prices, they are getting more for their money. "People have grown tired of the same old thing", he said. The property market and construction industry appear to be far more regulated in Portugal, Mr Adams said, adding "there was a free for all in Spain".

"I don't see why a domino effect should occur in Portugal. This problem appears to be indigenous to Spain".

He also said that there is still so much green open space in the Algarve and local councils are preserving these areas. "If the Portuguese government has done enough in creating demand, the market will be in a strong position". The US Sub prime crisis and the subsequent credit crunch have made people reconsider their investments and hesitate about tying up money in property but Algarve estate agents believe that this will not affect the local property market.

They do believe that buyers are more aware of the potential problems and take longer to consider their options.

The Resident, 31-01-08

Portugal resistant

By CHRIS GRAEME
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PORTUGAL SHOULD withstand the worst fallout from the economic crisis in Europe and the United States despite suffering some "scratches and bruises."

Vitor Constâncio, Governor of the *Bank of Portugal*, said Portugal was not "at the centre of the hurricane."

The small dimensions of the Portuguese financial and banking sector, far from the principal centres of New York, London, Paris, Frankfurt and Tokyo, coupled with negligible investments in high risk credit and hedge fund vehicles means that the country is unlikely to be severely affected.

However, he warned that when the crisis was touching the very heart of the financial centre "no one was completely immune".

Following the collapse of investment bank *Lehman Brothers*, the nationalisation of the United States' largest insurance entity *AIG*, the absorption of *Merryl Lynch* into the *Bank of America* – all of which caused stock markets around the world to crash to their lowest levels in years – investors were temporarily buoyed up by news last week that the *United States' Federal Reserve* would provide a 700 billion bail-out package to buy up bad loans and stabilise the financial system.

Without the power to influence outside events, Portuguese banking leaders have by and large chosen to remain silent given that many of Portugal's largest companies are multinationals or have significant international participations.

Those financial entities such as *Banco Espírito Santo* (BES), *Banco Português Investimento* (BPI) and *Banco Comercial Português* (BPC) have interests in largely smaller countries developing financial sectors such as Greece, Turkey, Poland, Romania, Angola and Mozambique.

This means that 70 per cent of these Portuguese banks' available investments, hit hard over the last two years by a series of financial scandals and the economic downturn, have been ploughed into developing the banking entities in these countries leaving little capital profit to invest on the international money markets.

However, there are negative impacts that these Portuguese banks cannot escape from, namely the increasing climate of suspicion and fear among businesses, investors, clients and lenders, in a banking sector already damaged by failed mergers (BPI and BCP) and financial fraud scandals (BPC).

The withdrawal of credit from banks and clients, and the resulting higher inter-banking interest rates, means that Portuguese companies wanting to invest in a project or business cannot get the funds at a reasonable rate. This, in turn, leads to the country's economic growth reaching a standstill.

Under such circumstances where getting credit on the open markets is too expensive for small Portuguese banks, the only option open to them is raising capital, which Portuguese banks had already done last year and earlier this year.

Banks can also sell their assets, institute more efficient management policies to control costs, close branches and lay off staff, merge with other banks or go with cap in hand to the European Central Bank.

The Resident, 03-10-08

Faro airport expects millions

AN ENVIRONMENTAL impact study for an 18.5 million euro project to increase facilities at Faro airport by 2012 is currently under public consultation.

The study, which was necessary because of the airport's proximity to two sensitive areas, the *Ria Formosa* Natural Park and the *Rede Natura 2000*, will be under public consultation until October 28.

Details can be viewed in the parish council offices of Montenegro, Faro, and Almancil, Loulé.

If the study is approved, Faro airport will have the capacity to increase the number of hourly flights from 22 to 30, which, in the space of three years, will cater for an extra 1.2 million more passengers than in 2007. This increase in passenger numbers is expected to continue in the coming years.

ILS system

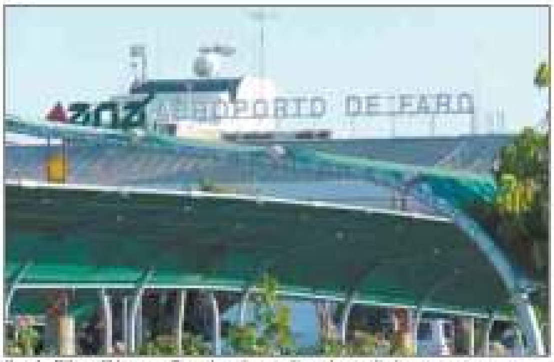
According to the study, the number of passengers at Faro airport is expected to increase by 35 per cent until 2020, which represents more than three million extra people.

To meet the demands of this projected increase of passengers, airport management company *ANA Aeroportos* is due to go ahead with the plans to construct the additional infrastructure for an instrument landing system (ILS) on runway 10. This system guides planes to land and will avoid pilots diverting to other airports in case of bad weather conditions.

As well as the ILS system, Faro airport also plans to increase the platforms and runway accesses, which will reduce waiting times, allowing planes to leave the runway more quickly. Also planned are a new hangar and other support buildings.

The construction of the ILS system on runway 10 and runway accesses is due to start in April, 2009, with completion forecast for September 2011.

A preliminary study is currently being carried out for plans to modernise and increase the size of the main airport building. This work is predicted to start in February 2010 and be completed in July 2012.



New facilities will increase Faro airport's security and capacity for more passengers

The Resident, 10-10-08

Algarve remains a top place for property investment

By CECÍLIA PIRES
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THE ALGARVE is still strongly recommended to people who want to invest in a luxury second home or to those who are just looking to experience a new concept of retro holiday with friends or family.

In a report published by the UK newspaper *The Telegraph*, experts from the real estate sector say the country will hold its position despite the impact of the international crisis generated by the US sub-prime market last year.

This, the newspaper said, is because banks are less exposed to that market and also because the housing boom that over-supplied other countries in recent years, like neighbours Spain and France, did not hit Portugal with the same intensity.

Tourism and real estate experts insist that prices in the Algarve region have "risen faster" than in the rest of the country in recent years.

However, prices only increased by 0.11 per cent in 2007, after a six per cent increase in 2006 (see *The Resident edition of September 28*).

The slowdown has affected some of the lowest categories of the real estate business but experts believe it is not seriously affecting the up-market developments such as golfing or marina luxury homes.

According to *Shelter Offshore*, an online publication dedicated to information about investment and life offshore for British people, "golf and marina property in Portugal is certainly worth a little closer inspection" for those looking for a place to invest.

It also says a new trend is in place with marinas overtaking golf "as the key driver at the top end of second-homes market".

"Anyone who buys now is getting in on a market where there is demand, affluence and affordability – factors seriously lacking elsewhere in the world of real estate."

Retro holidays

The Telegraph report also makes much of what is described as retro-holidaying. "Even time-honoured vacation settings like Carvoeiro and Albufeira are going retro and becoming fashionable again, for holiday makers and real estate investors."

Included are many other villages in the Algarve, such as Praia da Luz, Ferragudo, Aljezur, Tavira, Silves and Loulé, where tradition is still mixing with safe and friendly environments for families.

Contrasting with the high end tourism concept that is associated with the growing golf and luxury resorts, the retro tourism trends aim to go back to the old fishing villages where tradition and ancient arts coexisted with clean and spacious beaches.

Go retro in Carvoeiro!

Photo: JORGE FONSECA

Portuguese banks are sound say leading bankers

By CHRIS GRAEME
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NO PORTUGUESE banks are at risk of collapsing claimed the country's four leading bankers on Monday evening.

In an unprecedented step, the presidents of *Caixa Geral de Depósitos*, *Millennium bcp*, BPI and *Banco Espírito Santo* appeared on national television to calm the general public's nerves over the fate of their savings and pensions.

Appearing on *RTP 1*'s current affairs programme *Prós & Contras* (For & Against) all the bankers, Ricardo Salgado (BES), Fernando Ulrich (BPI), Faria de Oliveira (CGD) and Carlos Santos Ferreira (*Millennium bcp*), stressed that the problems in the Portuguese banking system resulted from a lack of confidence and liquidity and not because of risky investments.

The decision to put on a joint front, burying their bitter differences from failed mergers and financial scandals over the past 12 months, followed the *Bank of Portugal*'s decision to extend a line of credit backed by guarantees worth 20 billion euros in the medium term, representing 12 per cent of Portugal's GNP, to get banks lending to one another.

Despite bankers maintaining that the Portuguese banking system was solid, the Portuguese central bank has taken two extraordinary measures.

Last week the Minister of Finance, Fernando Teixeira dos Santos, assured the Portuguese public that all their deposits in banks in Portugal were safe since the government would not allow a single Portuguese bank to collapse.

This was followed on Sunday, after a European Union wide strategy, by a guarantee to banks that they would get finance should they need it from a Recapitalisation Fund.

German banks got guarantees of up to 400 billion euros, with 80 billion worth of recapitalisation funds, Irish banks got 400 billion and 40 billion worth of funds, British banks were assured 330 billion, France 320 billion, Holland 200 billion, Spain 100 billion, and Austria 85 billion.

Sources at the broadcast speech shortly before the programme was aired, the President of the European Commission, Jose Manuel Durão Barroso, said the measures were designed not to "allow the financial markets, the economies and investment to go under".

"Europe succeeded in responding relatively quickly to the crisis" but what had "clearly failed were the public supervision authorities in the United States and Europe. "We can't just say that this was a United States error, it was Europe's fault as well."

"The government's action was positive in that it is a commitment from the authorities to the economy and financial system and will be important if the markets continue to be shut down, in helping inject confidence into the system," said Fernando Ulrich, the President of BPI, who added that "Portugal did not have a liquidity problem."

Sensible

He said that Portugal was far away from the hurricane and its banks had not invested significantly in high risk loans.

That was why, unlike what had happened in some European countries, the government's offer to inject capital into the banks was not aimed at saving the system but keeping liquidity and credit lines open.

Ricardo Salgado (BES) said that the Portuguese had been sensible in their borrowing and went on to praise the Portuguese banking system in its lending behaviour and mortgage concessions adding that the banks had "played an excellent role."

He said that only a small percentage of debt had been defaulted on and that the largest slice of debt in Portugal resulted from mortgages and personal loans rather than consumer spending and credit cards.

"We did not have a bull waiting to burst in the property area. Mortgage lending and property prices have been relatively stable in the last few years and the kind of sub-prime lending seen in the United States isn't applicable here," he stressed.

It was an opinion backed up by Fernando Ulrich, the President of BPI who said that the last two or three years had seen "fairly balanced credit growth for both mortgages and companies."

But Faria de Oliveira (CGD) believed that even with the measures announced by European governments wouldn't be sufficient to stave off "problems in liquidity and financing."

"A lot will change in the financial system, particularly with regards to the risk model and criteria for obtaining credit," he warned, admitting that the measures announced by European governments were "clear, coherent and apparently effective."

On criticisms over bank director fat cat salaries and bonuses, Ricardo Salgado, President of BES, said bonuses and salaries were well behind those in the United States which were "scandalous" and considerably lower than in Spain.

Following the decisions taken over the weekend by European Central Banks and the *Bank of Portugal* to provide lines of liquidity worth billions of Euros to the financial sector, the Lisbon Stock Market shot up 10.20 per cent at the close of business on Monday, while Euribor lending interest rates fell a welcome 0.4 points for a six month period – the timeframe most used for calculating mortgage interest rates in Portugal.

In a satellite broadcast speech, the President of the European Commission, Durão Barroso, said Europe succeeded in responding relatively quickly to the crisis

The Resident, 17-10-08

Retirement destination

TWO INDEPENDENT surveys have revealed that Portugal is rated as the third most desirable place in the world for Britons to retire to.

The surveys, carried out by *NatWest International* and Saga, both said lower living costs, a mild climate and good healthcare facilities were the primary reason for Brits choosing to retire to Portugal.

According to the *NatWest International* survey, by 2050 the number of British citizens opting to retire abroad is set to increase to 3.3 million.

Banks can be trusted

By CHRIS GRAEME
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President of Portugal, Cavaco Silva, is concerned about the threat of increased unemployment due to the global financial crisis

Photo: SUPPLIED

THE PORTUGUESE have nothing to worry about when it comes to the state of the nation's banks, said President Cavaco Silva last week.

"The banks are able to resist the crisis and the Portuguese can put their trust in their banking system," the President told weekly newspaper *Expresso*.

"There are not, for the moment, solvency problems in the banks. *The Bank of Portugal* and Portuguese banks have all the necessary conditions to face any difficulty that could arise," he said.

Cavaco Silva said he was, however, worried about the threat of increased unemployment as a result of the present world financial crisis and praised the decision by European leaders in helping to re-establish confidence in the financial market in guaranteeing thousands of millions of euros to unblock inter-bank credit and get banks lending to each other again.

"It was the right decision in that it allowed banks to get credit," he said in the interview, adding that it was a "fundamental issue to avoid the scarcity of credit available to companies and families," said the President.

"If this doesn't happen, many companies will face difficulties and we could face a big increase in unemployment," he added.

Prime Minister José Sócrates, however, said that the 20 billion euro guarantee that the state would give to the banking sector was to help companies and families and was not a blank cheque for bankers.

Speaking on Saturday at the opening of a PS Party rally in Loures, the Prime Minister said: "What we did was not to bail out the banks, it was to ensure there was liquidity in the banks to serve our economy and families," he said "The lack of credit and liquidity that we are experiencing is putting company investment and family credit at risk."

Law

The law that was rushed through parliament two weeks ago permits the state to underwrite bank loans and credit. It was passed on Thursday, October 16, in the *Assembleia da República* with votes in favour from the PS, PSD, and CDS-PP, with votes against from the left-wing *Bloco Esquerda*, PCP communist party and the *Verdes* Party (Greens). The law was ratified the following day by the President of the Republic in record time, only half-an-hour after having been delivered to the Presidential Residence, the Palácio de Belém.

José Sócrates also said that the proposed State Budget for 2009 was not an electioneering stunt but rather a means of helping companies and families resist the effects of the international crisis.

Sócrates highlighted increases in family credit and tax breaks, credit for pregnant women, extra cash for the elderly and for school children from impoverished families. The Prime Minister also referred to increases in deductions for IRS Income Tax and for housing expenses.