Portugal COVID-19

Corona Aid in Portugal

Being highly dependent on tourism and services, sectors that have been particularly hit by the COVID-19 outbreak, the Portuguese economy can be expected to be affected by the coronavirus pandemic more severely than many other EU Member States, also due to the comprehensive lockdown imposed by the government with effect from 22 March. The impact is exacerbated by the fact that the Portuguese economy is dominated by small and medium-sized enterprises, representing ca. 99% of the total number of undertakings, and by the fact that the private sector displays a significant degree of indebtedness and a high dependence on (especially short-term) bank loans.

Against this background, the Portuguese government acted quickly and adopted a set of generally applicable (non-aid) measures to mitigate the economic impacts of the epidemic outbreak, supporting enterprises and safeguarding employment, such as deferral of fiscal and social security obligations, a lay-off regime allowing for a temporary suspension of employment contracts or a reduction in working hours and an assumption by the state of part of the salary costs and a moratori-

um/rescheduling of repayments of bank loans.

Seeking to ensure that the real economy continues to have access to finance in order to address shortages of liquidity, the Portuguese government also adopted a comprehensive and several specific guarantee schemes. Four specific guarantee schemes for SMEs and Mid-Caps (non-SMEs with a staff headcount of < 3,000) in the tourism and restaurant sectors and in certain extractive (ornamental rocks) and manufacturing industries (textiles, clothing, footwear, wood, cork) with a total budget of €3 billion were notified to and approved by the Commission based on the new Temporary Framework.¹

These four guarantee schemes largely follow the minimum criteria established in the Temporary Framework but they also feature some specificities, including the following:

- beneficiaries must show that their activities in March 2020 and following months have been reduced due to the COVID-19 outbreak;
- beneficiaries must commit to maintaining their permanent headcount as of 1 February 2020

throughout the term of the loan or be subject to the specific lay-off regime mentioned above;

- guarantees are available for lending from any credit institution and are granted directly to the beneficiary who can shop around and choose the bank offering the best conditions;
- guarantee premiums are progressive, in order to incentivise early repayment, meaning that in case of a loan with a 4-year maturity, 25bps apply to the first year, 50bps to the 2nd and 3rd year and 100bps to the 4th year;
- in addition to the thresholds defined in the Temporary Framework, the loan principal is fixed at €50k (micro enterprises), €500k (small enterprises) and €1.5m (medium enterprises and Mid-Caps);
- the interest rate of the loan is capped in the sense that the loan can have a fixed or variable interest rate with a spread of up to 1.5%.

The above reflects the current status as at 27 March. However, the situation may change quickly, as new COVID-19-related proposals and legislation are being discussed and adopted almost on a daily basis. Since most of the existing support does not apply to large enterprises, is limited to guarantees and does not foresee compensation to undertakings in particularly affected sectors for damages caused by the COVID-19 outbreak, it does not seem unlikely that additional measures are taken in the short or medium term.

DOI: 10.21552/estal/2020/1/22

¹ Commission decision of 22 March 2020, SA.56755 – Portugal, guarantee schemes related to Covid-19.

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