RECAPITALISING EXPENDITURE - PBBR

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Despite a multi-billion euro recapitalisation programme in 2012, Portugal's banks remain reluctant to lend. Alexandre Jardim, a Partner at pbbr in Lisbon, believes that two of the main reasons for this is a lack of liquidity and the conversion-to-transfer ratio imposed by the Troika

"The banks did receive a capital injection last year, but they are mainly using this liquidity to trade in sovereign debt rather than support the wider economy," he says.
"Likewise, the lending ratio requires that for every €120 a bank wants to lend it must have €100 to avoid a major shortfall."
When such factors are combined with the continuing poor performance of the economy – such as the quality or asking
price of certain assets put on the market – it has meant that financial institutions are choosing not to offer funding lines, he adds. This is leading to a slowdown in lending and problems for businesses in obtaining lines of credit.
Credit is expensive and banks are still saddled with many non-performing loans, which means that any debt they do offer will come at a high price, Jardim says.
"In fact, there is hardly any new credit in the market and most of the deals tend to be for

restructuring or refinancing existing facilities. This means there is no support for new projects just for trying to sort out existing portfolios."

Companies have few other alternatives either. The capital markets are very quiet with hardly any equity issues, whether IPOs or rights offerings.

In addition, while there have been a handful of retail bonds issued, the debt capital markets are also slow-moving.

"Until liquidity has improved and the economy grown more confidence," says Jardim, "there is no expectation of new financing or financial products coming into the market at any time soon."