# REGULATORY PRESSURE IMPACTING ON BANKS' CASH FLOWS - SÉRVULO

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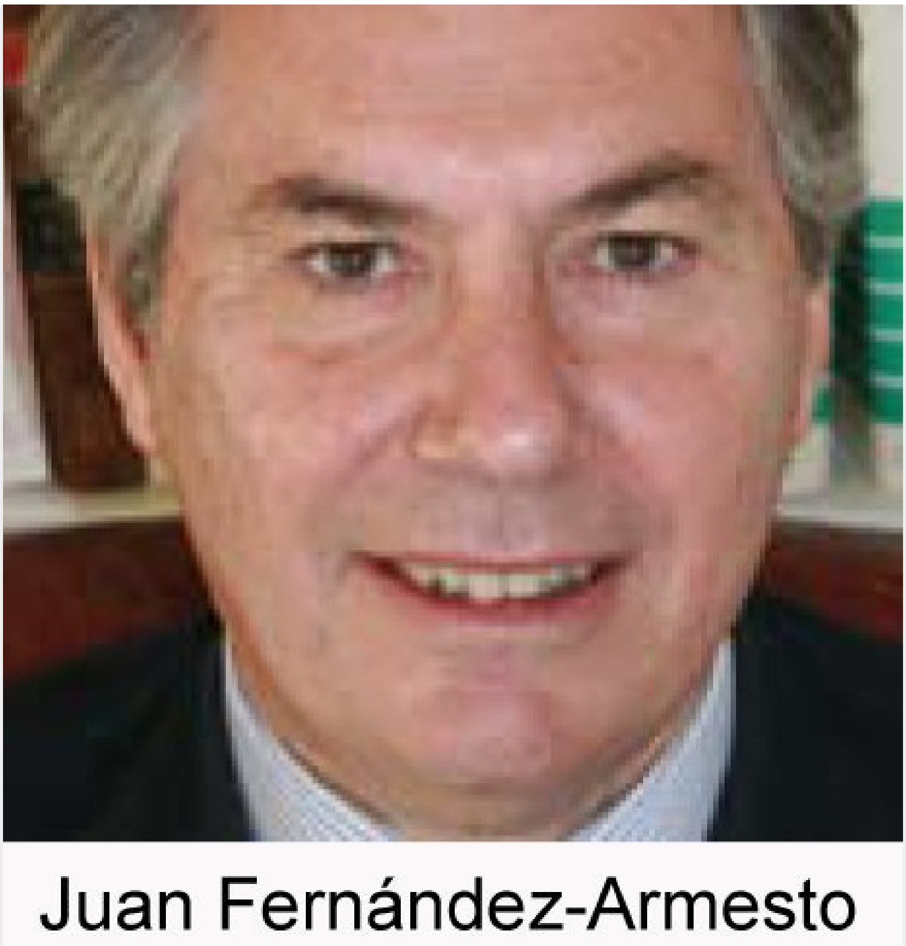


**Category:** Uncategorized

**New regulatory pressures on Portuguese banks are adding to liquidity concerns, including the demand to raise tier one capital ratios, says Manuel Magalhães, finance Partner with Sérvulo in Lisbon.**

"The Portuguese National Bank had already demanded that domestic banks raise their capital ratios to nine percent by June this year, but under the terms of the financial bailout they must now raise their core capital ratios to 10 percent by December."

Such a move is intended to safeguard against bad debt liabilities, but institutions' ability to raise new capital is not helped by a lack of liquidity in the wider economy. Fewer savings are being placed on deposit, while the credit rating downgrade of the Portuguese Republic and the sovereign debt crisis has also meant a reduced ability to rely on the Government for support.

“In terms of new lending, some banks are effectively out of the market as they now concentrate on managing their own financial situations. The result has been that most Portuguese institutions have had to look to the European Central Bank as a lender of last resort, or to purchase bonds, in order to maintain liquidity.”

The need to increase available funds has prompted institutions to clean their balance sheets and to divest non-core operations and assets, says Magalhães. Compliance needs are also becoming more significant as European and international regulatory demands increase, as does the prospect of a Europe-wide transaction tax.

“Domestic banks have yet to draw on the €12bn set aside under the terms of the bailout for recapitalisations having thus far tried to resolve their own issues, but the market pressure is increasing and we may see institutions request access to the bailout fund sooner rather than later.”