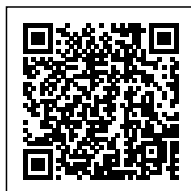


THE MEASURES UNDERWRITING PORTUGAL'S BANKS

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Portugal's banks have proved no more immune to the global financial crisis as elsewhere in Europe, but the Government has responded with a series of pragmatic measures, says Pedro Ferreira Malaquias of Uria Menéndez in Lisbon.

A la vista de la crisis económica mundial, el gobierno portugués ha actuado rápidamente para reforzar el sistema bancario del país, comenta Pedro Ferreira Malaquias, de Uria Menéndez en Lisboa. El resultado ha sido un

incremento del fondo de garantía de los depósitos, la garantía por parte del estado de los préstamos y de la deuda mientras que otras medidas para fomentar la re-capitalización todavía se están esperando.

"Portugal's banks have found difficulties in funding their operations through the money markets or the issue of medium term debt and naturally this has had as a consequence a more demanding position when granting new credit lines to clients, or even at the renewal of existing credits."

The State has however responded in a number of ways to help restore consumer and financial confidence in the domestic banking system, he says. Among the measures taken has been an increase from €25,000 to €100,000 for deposits covered by the Deposit Guarantee Fund (Fundo de Garantia de Depósitos), and the approval of a special facility for the granting of a guarantee for loans of debt issues made by banks, with a minimum term of three months and a maximum term of three years. 

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"The current facility extends up to a total of €20bn but an additional facility is also being prepared intended to reinforce the financial solidity of Portuguese credit institutions. This latest facility may be implemented either through capitalisation operations or through the participation in recovery schemes but has yet to be officially enacted."

Eligibility to the guarantee scheme requires a bank to have its registered head office in Portugal and to prove a need to assure the normal funding of its activity, explains Ferreira Malaquias.

"The bank must also accept that, in case of enforcement of the guarantee, that the State will subrogate the creditor's position until full payment is achieved and, if and to the extent it is necessary to protect its assets, it may also convert the credit into share capital of the bank, in particular through preferential stock."

In addition, the Government may also take decisions relating to "good corporate governance" and appoint directors to the board. "Despite such terms, three of the five major players in the market have already asked for the guarantees to cover the issue of notes to be made under stand alone issues or under existing programmes. The guarantees for these three banks alone are expected to total €5bn."