THE TRENDS SHAPING PORTUGAL'S BANKING SECTOR - BARROCAS SARMENTO NEVES

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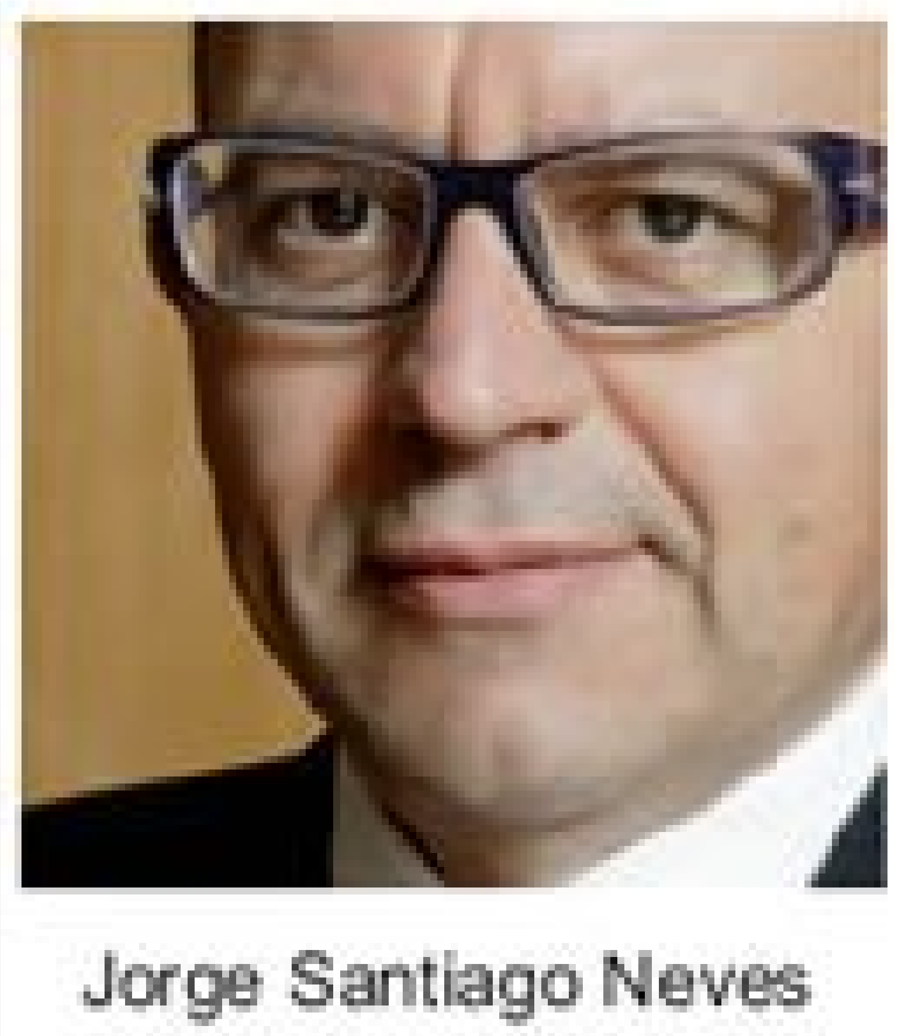

Category: Banking & Finance

Soundly regulated and safe financial institutions are crucial for financial stability in the European Union (EU), and must have as their foundation a common framework ensuring prudential oversight and consumer protection throughout the internal market.

The key policy instrument to achieve this goal is the development, implementation and application of EU banking and financial legislation covering all stakeholders, with prudential rules for credit institutions, financial conglomerates and investment firms.

Las recientes tendencias del mercado financiero y bancario en Portugal reflejan las tendencias internacionales donde las debilidades inherentes a las instituciones bancarias han aflorado. No

obstante, comenta Jorge Santiago Neves, socio de Barrocas Sarmento Neves, en Portugal los principales bancos han mantenido buenas relaciones con sus clientes y ahora están efectuando nuevos modelos de negocio, adaptándolos para afrontar la nueva época de postcrisis.
This includes the correct and timely transposition of legislation and the pursuit of any necessary infringement procedures, as well as the development of any useful interpretative guidance on the EU banking legislation.

Achieving an integrated market for banks and financial conglomerates is not merely an inward-looking exercise. The external dimension of the EU-banking and financial conglomerates policy as illustrated through the"regulatory dialogues" between the US and Switzerland on the equivalency of supervisory objectives, is an essential component of the European Commission's (EC) policy in this area.

There is no doubt a compelling case for finding synergies in an increasingly globalised market.

Representatives of these services participate in a number of international fora, notably the G-10 Basel Committee on Banking Supervision, the Banking Supervision Committee of the European Central Bank and the Joint Forum on Financial Conglomerates.

Recent trends in Portugal reflect wider trends during the financial crisis, where inherent institutional weaknesses have come to the surface. Nonetheless, Portugal's leading banks have retained good terms with their customers through the upheavals caused by the crisis.

Those banks that pay careful attention to maintaining close and co-operative relationships with corporate clients amid the current turbulence will also gain an advantage in what will become a "distinguishing characteristic" of future competition.

Demand for lending has fallen substantially and banks have tightened control over credit risk but managing risk also involves helping companies in trouble, giving advice, assisting them in restructuring loans and maturities and in finding new partners. The same applies to high net worth individuals who need to restructure their liabilities.

Portuguese banks are also evolving business models they believe will be better adapted to the post-crisis environment. Stand-alone investment banks are seen as something of a threatened species. Portugal's five big finance groups already operate as universal banks and some are taking measures to further integrate their investment banking arms.

In the future, there may be very few institutions that are purely investment banks as tougher regulation will create a less friendly environment. In Portugal, investment banking continues to make sense, but not in the form of separate units. It will become increasingly integrated within corporate banking.

There is a lot of concern on matters such as capital ratios, close control and a need for more constant inspection.

Like most other countries, the debate has been around how much of a guarantee may be provided to depositors. The existing deposit scheme provides limited guarantees, but when there is a danger of systemic failure, then suddenly we find governments are happy to announce the provision of full guarantees to all depositors, particularly, as in the case of Portugal, where we have elections coming up this year.

Concerns in Portugal it would seem are arguably not very different from those elsewhere.

The current Portuguese government has had to implement successive measures to shore up the banks and big business from the crisis. In late 2008 the government approved state guarantees worth €20 billion (bn) to advert a banking crisis.

Shortly afterwards, it announced a package of over €4bn was to be made available to banks to help resolve problems arising from a lack of liquidity in the system while steps were also taken to "nationalise" Banco Portuguñs de Negócios, a mid-sized retail bank.

A consequencem of the global financial crisis is that Portugal's leading banks are now focusing on improving relations with both corporate clients and individuals, as well as consolidating overseas expansion as a means to boost their ailing profit margins.

Jorge Santiago Neves is a partner and head of Banking & Finance at Barrocas Sarmento Neves.

He can be reached via jsneves@barrocas.com.pt