

**XV CONFERÊNCIA
A CRISE EUROPEIA E AS REFORMAS NECESSÁRIAS**

**PORTUGAL E O CAMINHO
PARA O FUTURO:
A BANCA E O SEU PAPEL**

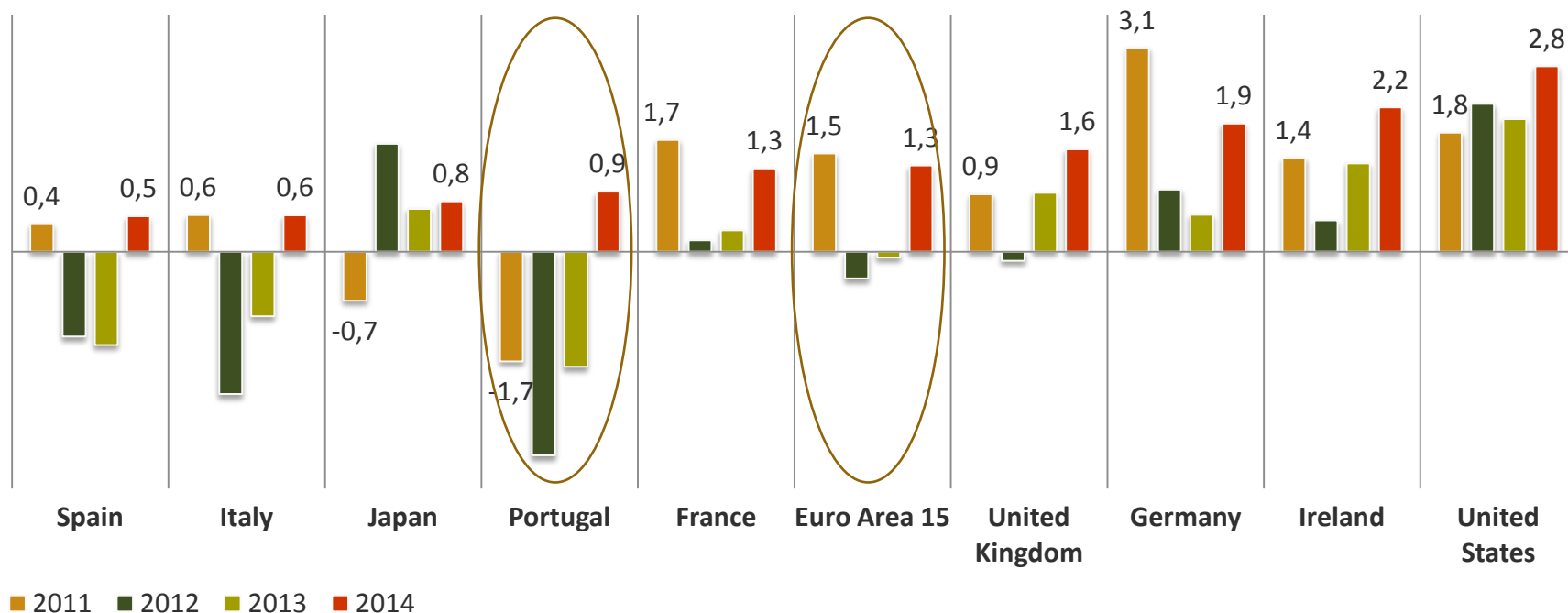
FERNANDO FARIA DE OLIVEIRA

AGENDA

- **European Context:**
From the Actual Crisis to Growth and More Integration
- **Portugal:**
Economic Adjustment Program and Economic Growth
- **Portuguese Banking Sector:**
Main Aspects and Challenges

Growth estimates: a slow path for Europe

Real Gross Domestic Product growth estimates (%)



Source: OECD Economic Outlook

European issues

- Structural imbalances
- Financial fragmentation
- No lender of last resort
- Decision making process

Estimates for 2012:

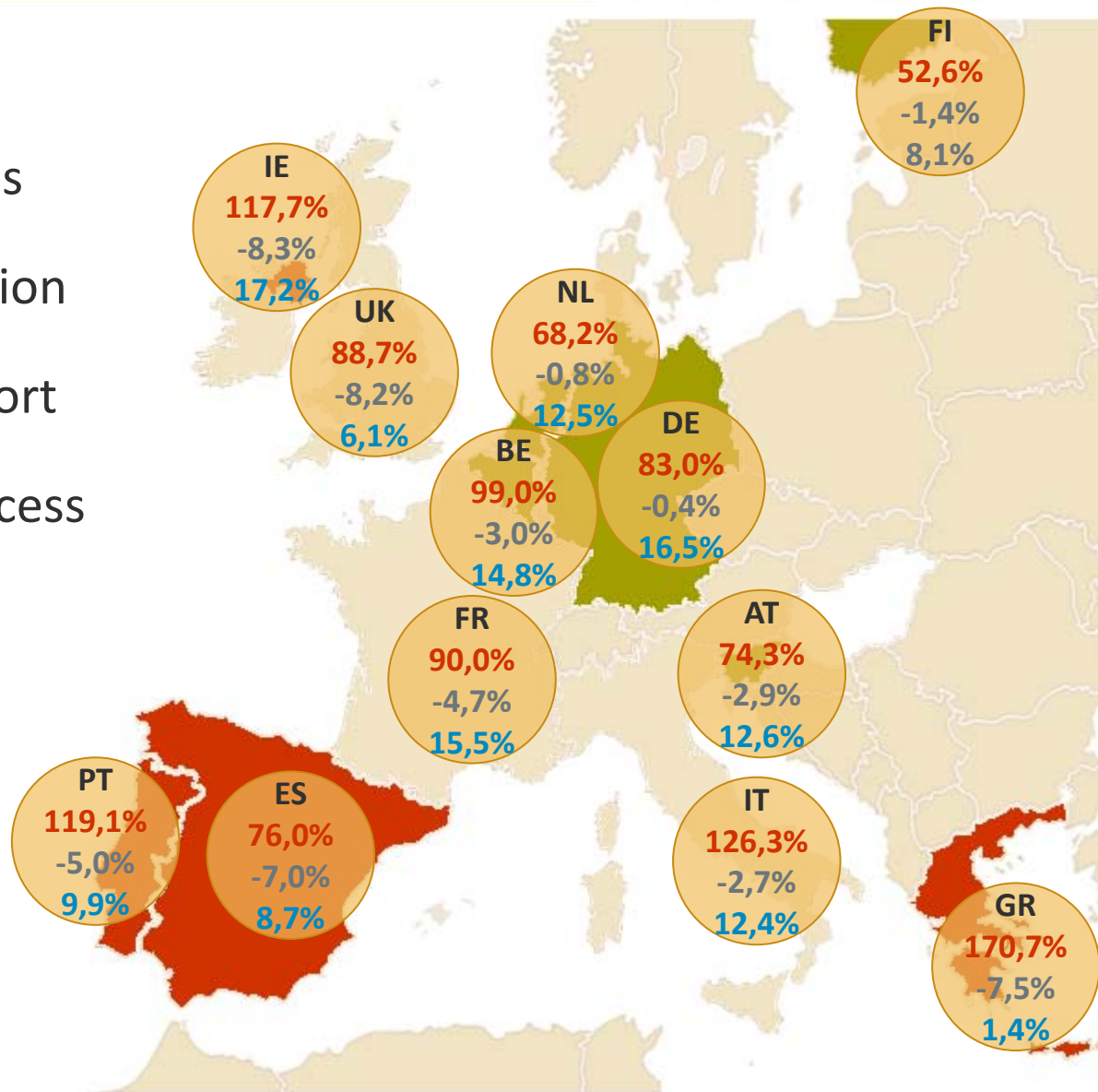
Country

Public debt as % of GDP

Public deficit as % of GDP

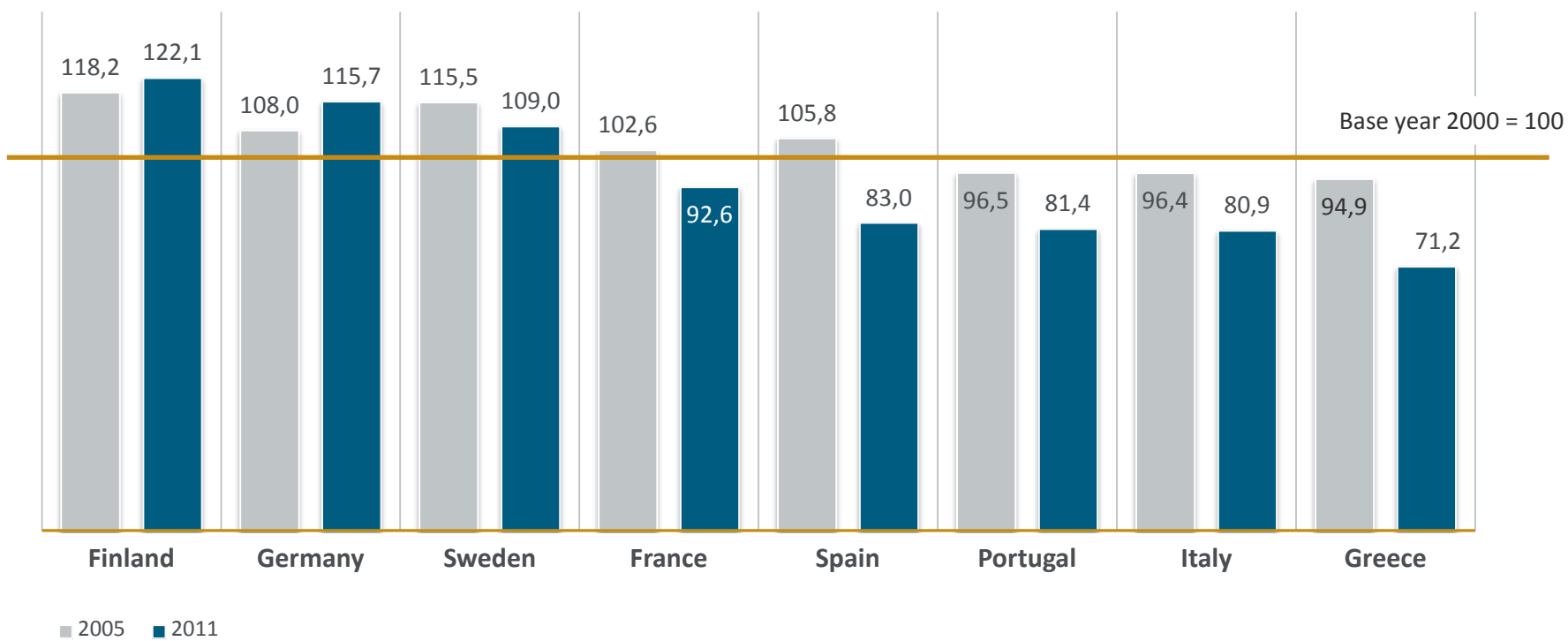
Households' gross saving rate (gross savings as % of gross disposable income)

Source: Ameco, IMF



The process of deindustrialization in Europe affected mainly the periphery countries.

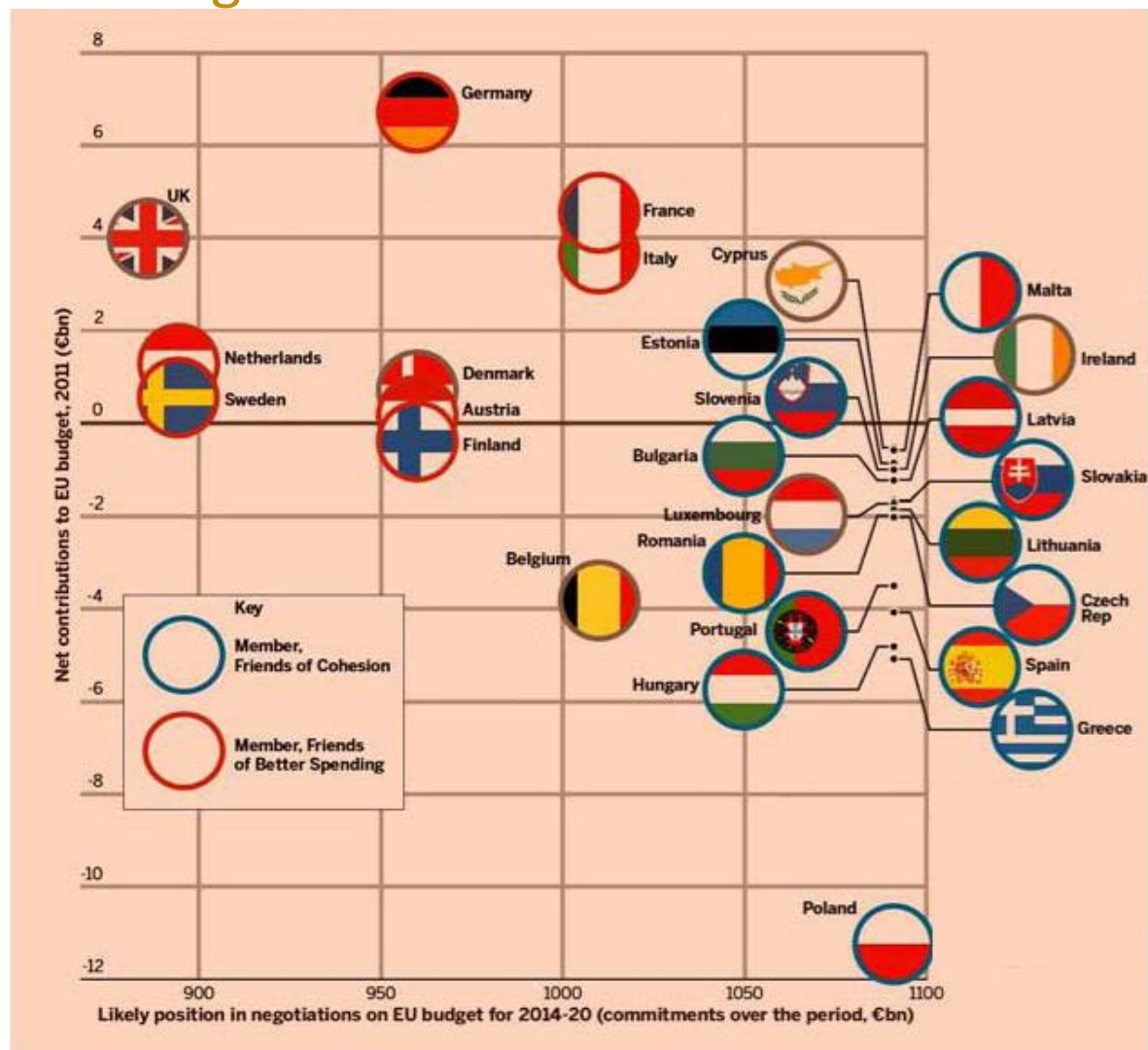
Index of industrial production (Base year 2000=100)



Source: National Statistics Institutes

European Union policy and budget

- 3 objectives:
 - Cohesion
 - Convergence
 - Solidarity

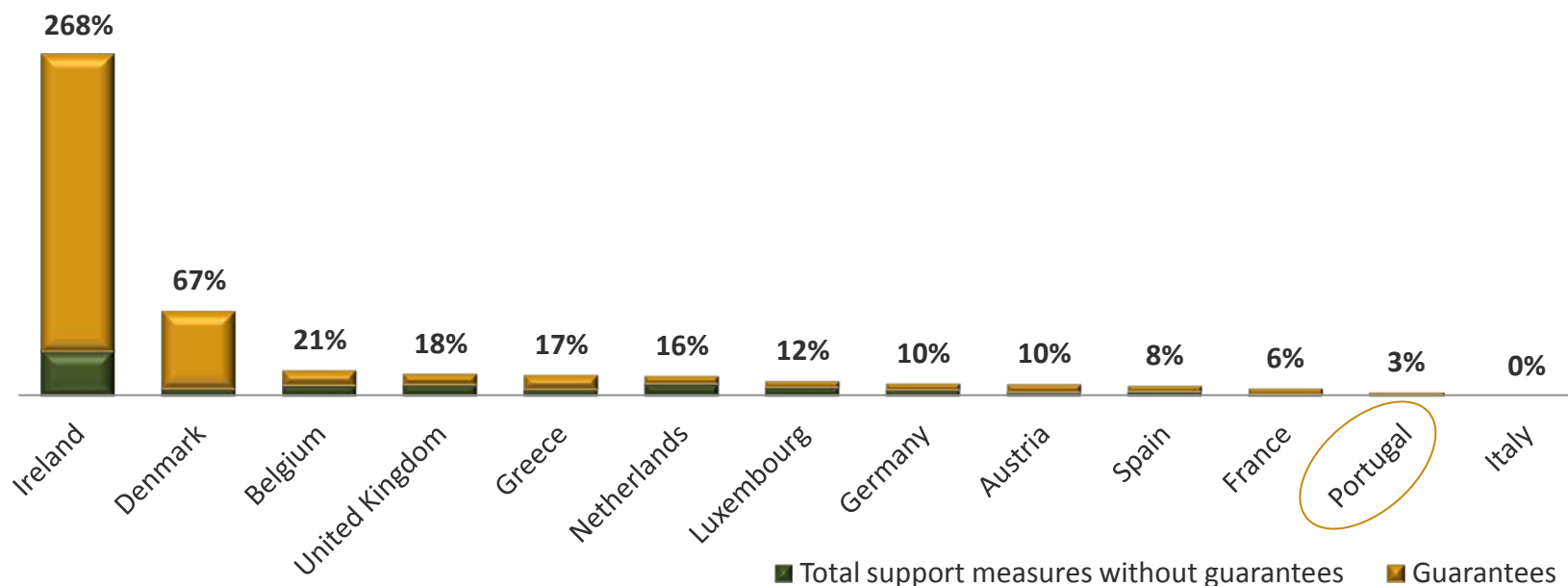


Source: Financial Times

State support to banks during the financial crisis 2008-2010

- The Portuguese banking sector has demonstrated great resilience
 - Limited State intervention

State support to the financial sector as a percentage of GDP (2008-2010)



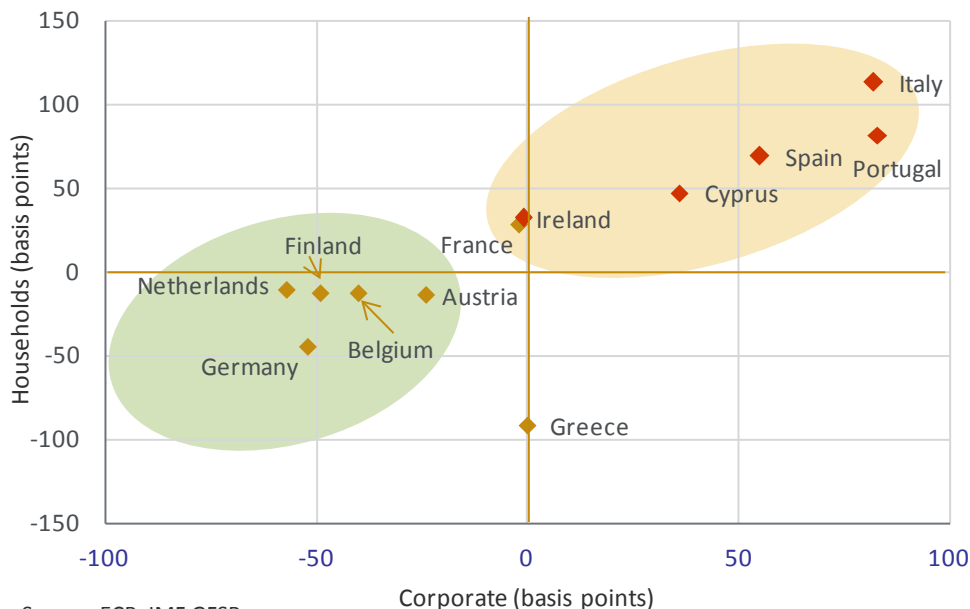
Source: European Commission

Core vs. periphery countries: competitive disadvantages

Interest rates on new loans to non-financial corporations (September 2012):

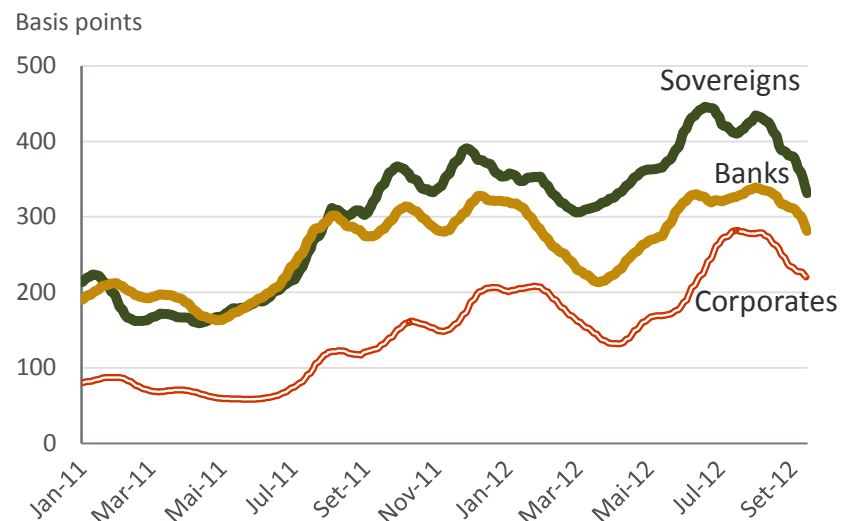
- Portugal: 6,13%
- Germany: 2,37%

Change in interest rates on new bank loans (December 2010 to July 2012)



Source: ECB, IMF GFSR

Difference in credit default swap spreads of periphery and core countries*

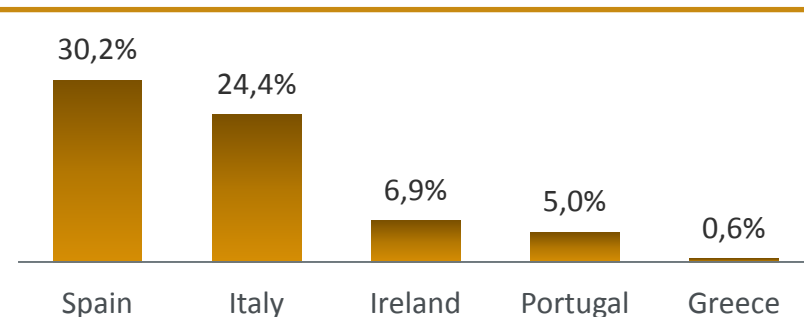


* Core countries: Austria, Belgium, Finland, Germany and Netherlands. Periphery countries: Greece, Ireland, Italy, Portugal and Spain.

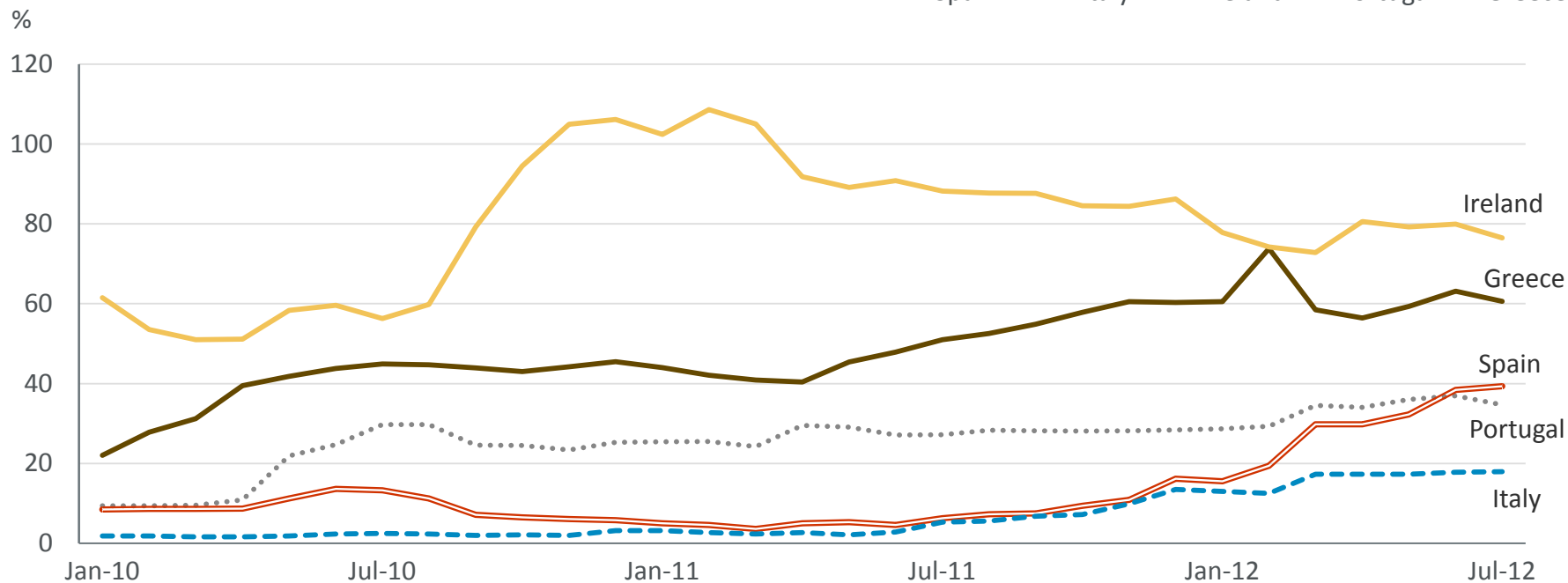
Source: IMF GFSR

Borrowing from the ECB

Percentage share in total ECB lending (September 2012)



Borrowing from central banks as a percentage of nominal GDP



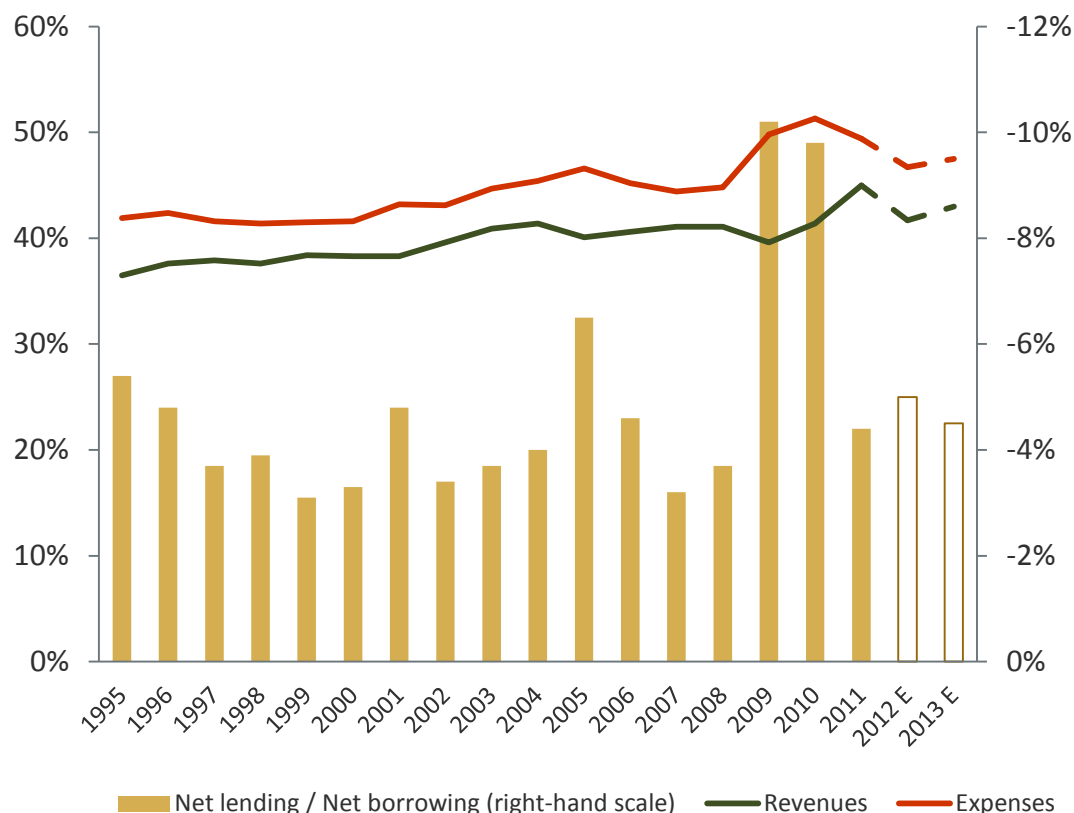
Source: ECB, IMF, National Central Banks

Budget deficit: commitment to fiscal consolidation

5th Review of the Economic Adjustment Programme

- “While spending in 2012 has continued to perform better than budgeted, revenues are lagging behind.”
- “The reliance so far on raising new revenues and their disappointing performance so far, (...) put a premium on completing the planned expenditure review and rebalancing the adjustment effort.”

Public sector revenues, expenses and deficit (as % of nominal GDP)



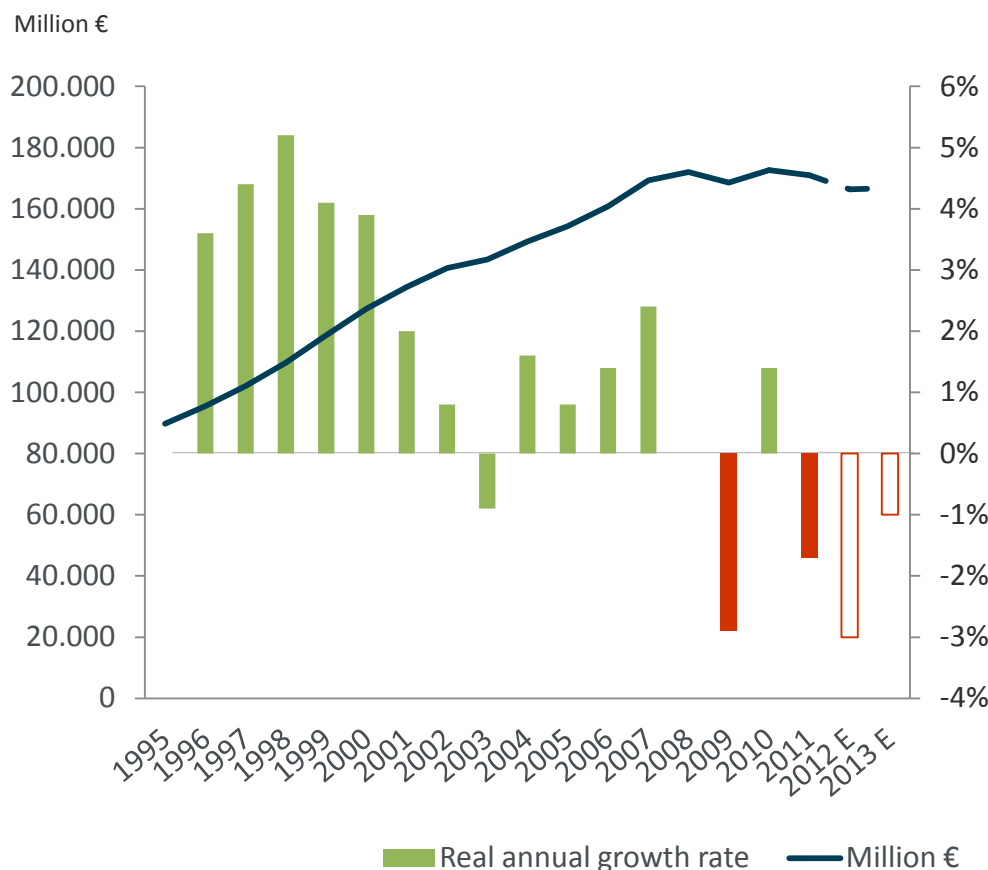
Source: Eurostat, IMF

Challenges for Portuguese recovery

Drivers of growth

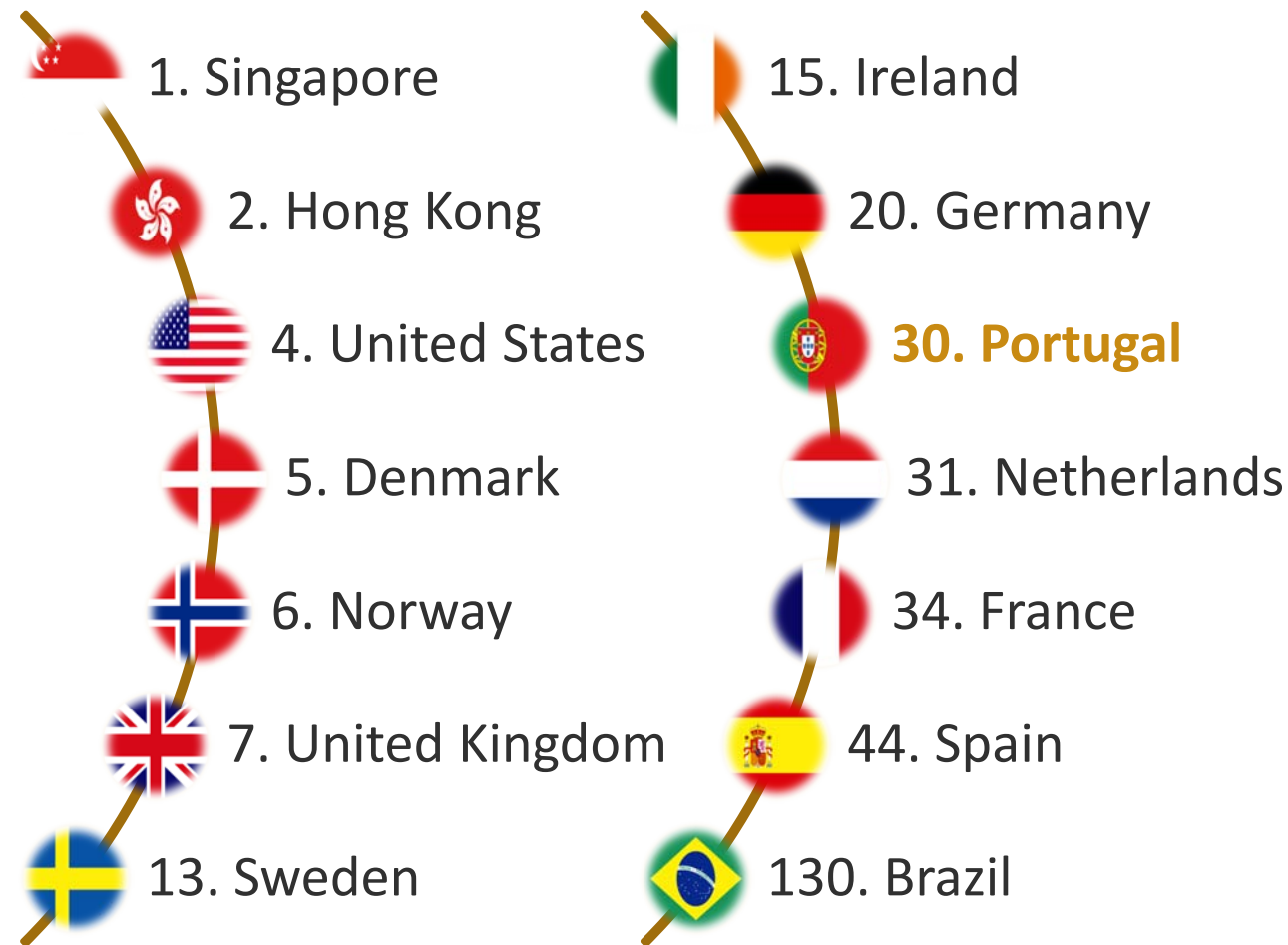
- Business capacity – entrepreneurship
- Capturing investment
- Tax policies
- Financing ability
 - Banking
 - Markets

Nominal Gross Domestic Product and real growth rate YoY



Source: Eurostat, IMF

Ease of doing business rank for small and medium enterprises - I



- Study conducted to assess regulations affecting domestic firms in 185 countries.
- Evaluates 10 parameters:
 - Starting a business
 - Dealing with construction permits
 - Getting electricity
 - Registering property
 - Getting credit
 - Protecting investors
 - Paying taxes
 - Trading across borders
 - Enforcing contracts
 - Resolving insolvency

Source: Doing Business (The World Bank and International Finance Corporation)

Ease of doing business rank for small and medium enterprises - II



Total tax rate:
Ireland 26,4%
Denmark 27,7%

Switzerland 30,2%
United Kingdom 35,5%
Spain 38,7%

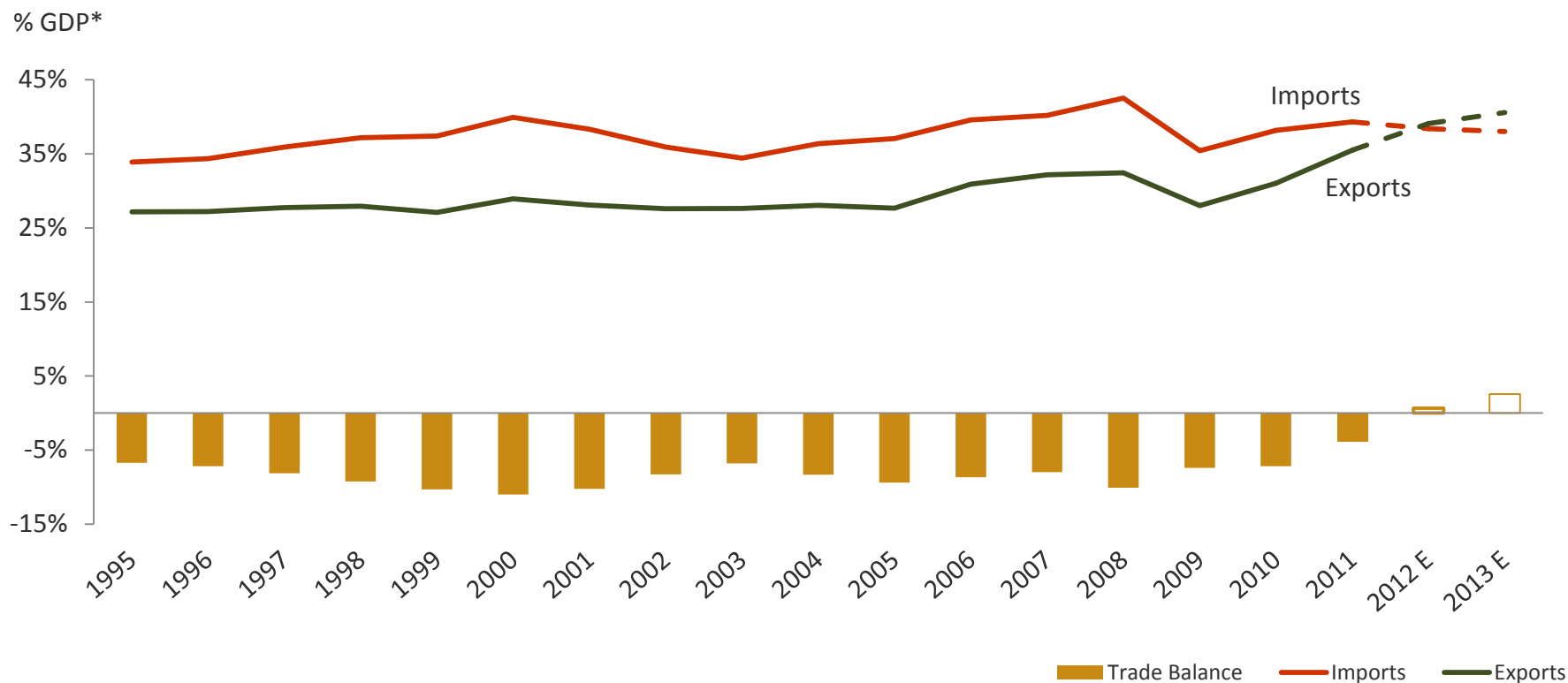
Finland 40,6%
Portugal 42,6%
Greece 44,6%

France 65,7%
Italy 68,3%

Source: Doing Business (The World Bank and International Finance Corporation)

Exports as a source of growth

Portuguese exports, imports and trade balance of goods and services as a percentage of GDP*

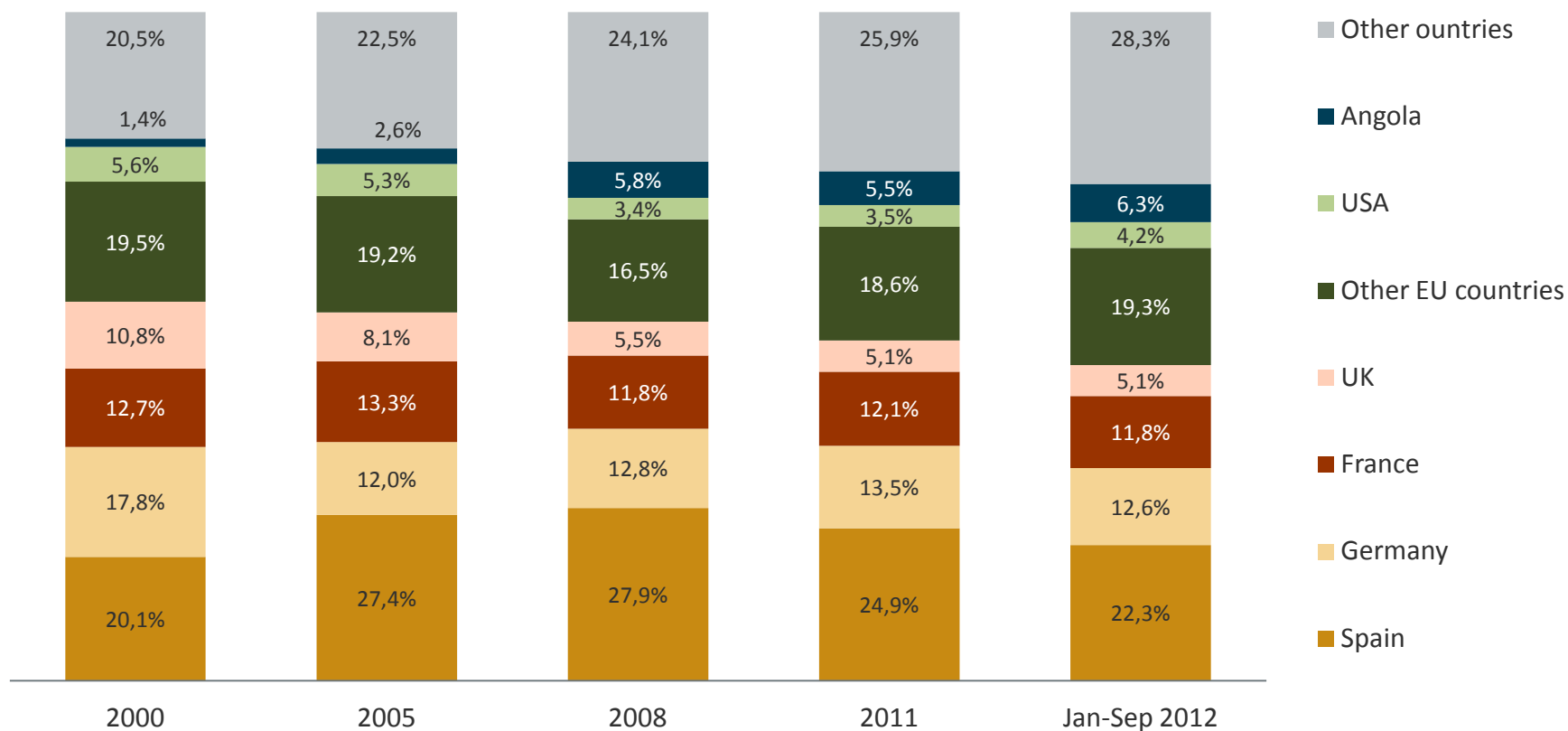


* Nominal Gross Domestic Product.

Source: IMF, Statistics Portugal

Diversification of markets

Portuguese exports, percentage share by destination



Source: Statistics Portugal

Main aspects of the Portuguese banking sector

I.

Solvency position has been evolving in a positive way

- Increase of Core Tier 1 Ratio mainly through higher capital
- Improvements in the composition of overall solvency

II.

Positive signs in terms of **funding and liquidity**

- Deposit growth both in volume and in terms of weight in the financing structure
- Reduction of the Loan-to-Deposit Ratio to levels close to 120%

III.

Deterioration trend in **credit quality**

- Specially in loans to non-financial corporation and consumer credit, although the latter has little weight on total credit

IV.

Profitability was affected, specially due to the recording of impairments resulting directly from the deterioration in the quality of loans

Conclusion

- European Union: on the way to a better integration
 - Need to reinforce cohesion, converge and solidarity
 - New strategy for growth and employment
 - Strong and coherent financial regulation

- Portugal: the challenge to go from recession to growth
 - Fulfilment of the Economic Adjustment Programme
 - A new model of growth, based on tradable goods
 - Maintain social peace and political compromise

- Portuguese banking sector: great resilience
 - High level of soundness
 - Capacity to implement a strict deleveraging process

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