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State aid: Commission approves Portuguese support scheme for financial institutions

The European Commission has approved, under EC Treaty state aid rules, a Portuguese rescue package aimed at stabilising financial markets by providing guarantees to financing operations of eligible credit institutions. The Commission found the scheme to be in line with its Guidance Communication on state aid to overcome the financial crisis (see IP/08/1495). In particular, the guarantee is limited in time and scope, is available on a non-discriminatory basis and beneficiaries will pay a market oriented premium. The Commission therefore concluded that the package was an adequate means to remedy a serious disturbance of the Portuguese economy and as such in line with Article 87.3.b of the EC Treaty.

Competition Commissioner Neelie Kroes said: "After intensive exchanges with the Portuguese authorities, the scheme is now an appropriate tool for boosting investor confidence without creating undue market distortions."

On 15 October, the Portuguese Authorities notified to the Commission a guarantee scheme aimed at facilitating credit institutions' access to financing in the context of the current financial crisis. .

The scheme provides state guarantees for financing agreements and the emission of non subordinated short and medium term debt of solvent credit institutions incorporated in Portugal. The total budget of the scheme is €20 billion. Guarantees will be available for instruments with a maximum maturity of three years, or exceptionally five years only when duly justified by the Portuguese Central Bank.

The measure constitutes state aid but contains several provisions aimed at ensuring its adequacy and proportionality under the EU state aid rules, in accordance with the Commission's guidance document (see IP/08/1495).

The scheme provides for non discriminatory access, as it will be open to all solvent banks incorporated in Portugal, and for a market oriented remuneration of the guarantee, in line with the recommendations of the European Central Bank. The duration of the scheme is limited until 31 December 2009. The proportionality of the measure is ensured by various safeguards aimed at minimising distortions of competition. In particular, the beneficiary who has called on a guarantee has to reimburse the state in full, either by paying back the loan or by exchanging it for preferential shares. In addition, the Portuguese authorities have committed to notify a viability plan for these beneficiaries to the Commission. The decision also includes safeguards to prevent abusive expansion. This helps to ensure that support is limited to what is necessary for restoring the normal functioning of the markets.

In light of the strict conditions framing the use of the guarantee, the Commission concluded that the scheme was an appropriate and proportionate means to restore confidence in the Portuguese financial markets. The non-confidential version of the decision will be made available under the case number NN 60/2008 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.