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Lending in Portugal after the Financial Crisis



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The recent financial crisis has put an extraordinary pressure on the resilience of the financial system, which was only able to avoid more extreme consequences with the aid of Governments around the world.

Although most Portuguese banks had a reduced exposure to US and Spanish mortgage markets, the reduced liquidity in the market prevented Portuguese banks from tapping into the international financial markets to fund their domestic activities.

With the collapse of Lehman Brothers in 2009, Portuguese banks were no longer able to securitise loan portfolios, which was one of their main sources of funding, as well as to access other forms of financing.

This situation forced some of the largest Portuguese banks (Caixa Geral de Depósitos, Millenniumbcp and Banco Espírito Santo) to make use of the €20 billion State guarantee scheme, made available by the Portuguese Government following similar measures put forward other EU and OCDE members, to support the banking system. Only BPI and Santander Portugal, ranking in the top five of Portuguese banks, did not issue debt under the Government guarantee scheme.

Like in most other countries around the world, the financial crisis lead to an economic recession, with a drop in Portuguese GDP of 3.9% in 2009 spite the steep increase in Government spending.

With a projected Government deficit of 8.3% for 2010 (falling merely 1% from a record 9.3% in 2009) and a debt of 76.6% of GDP, prospects for the Portuguese economy are not optimistic. All three major rating agencies, Moody's, Standard & Poors and Fitch, downgraded the rating of the Republic of Portugal recently and put Portugal on watch pending the approval by the European Commission of a new "Stability and Growth Plan" for the Portuguese economy to be presented in March.

Comparisons of the Portuguese situation with Greece's, now facing the risk of default, made it more difficult for Portugal to access the international debt markets at levels comparable with those that could be

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These comparisons with Greece's debt crisis also caused a massive exit from the Portuguese stock

exchange, with the Portuguese index, PSI 20, falling 7.4% and Portugal's CDSs to reach 227 basis points early in February.

Despite the efforts of the Portuguese Government and leading bankers to point out the differences between the Portuguese situation and that of Greece, it is a fact that the levels of the Portuguese Government deficit must be reduced before the Portuguese economy can be put back on track.

In any case, one cannot forget that historically Portugal has only defaulted on its sovereign debt in very few occasions and that, in general, the level of defaults of Portuguese companies involved in international financing transactions should be considered low by any standards.

However, the market's perception of an increased risk of the Republic of Portugal's debt is likely to put additional difficulties to Portuguese public authorities, municipalities, banks and other borrowers, in general, and will require lenders and borrowers to be more careful the way they document and negotiate new financings.

This paper reviews the main implications of the financial crisis in the manner lender and borrowers should approach transactions.

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