

# Portugal: Progress on Financial Stability



**Carlos da Silva Costa**

OMFIF- Golden Series

30 October 2013, London



*Banco de Portugal*

EUROSISTEMA



## Portugal: Progress on Financial Stability

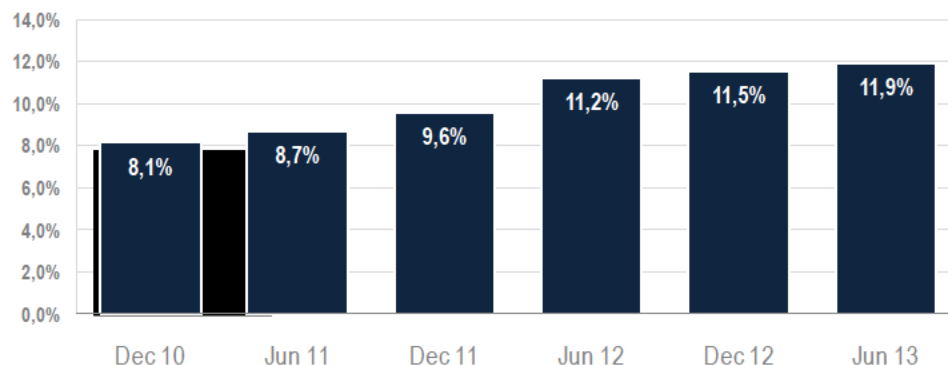
### Outline

- 1. Strengthening solvency and liquidity**
- 2. Strengthening the regulatory framework and the supervisory model**
- 3. Main challenges ahead**

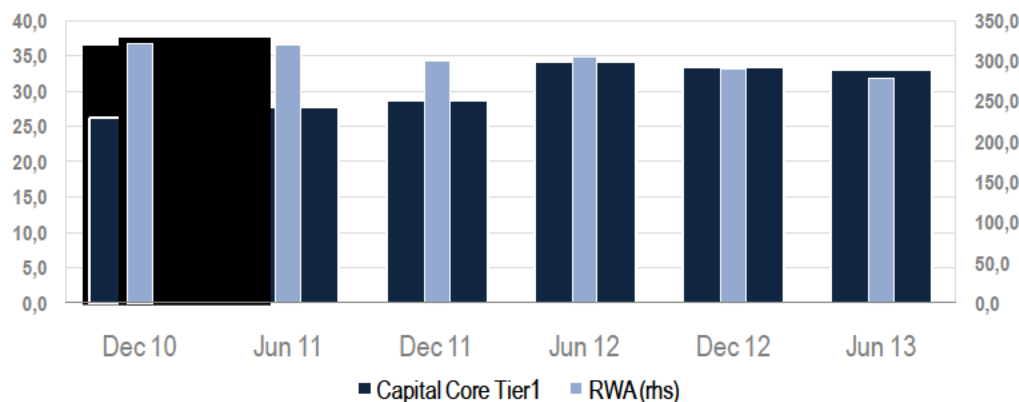


# 1. Strengthening solvency and liquidity

## Core Tier1 Ratio (Basel 2.5) with positive trend



## Solvency reinforcement achieved mostly through higher level of capital (Bn €)

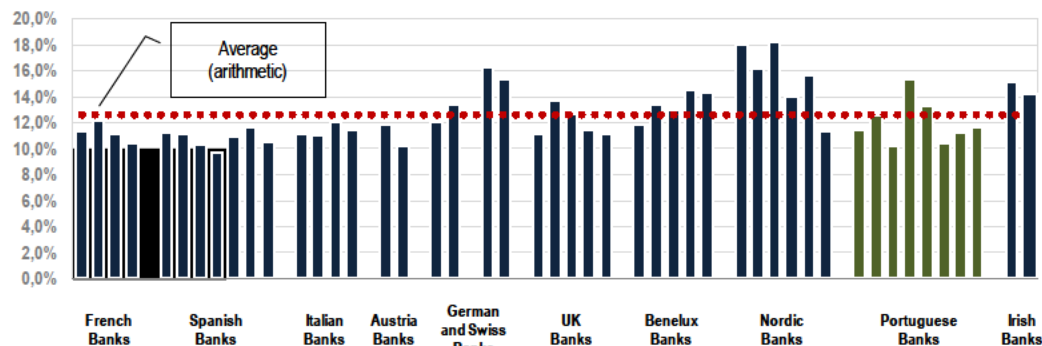


**Solvency reinforced  
in the Portuguese  
banking system**

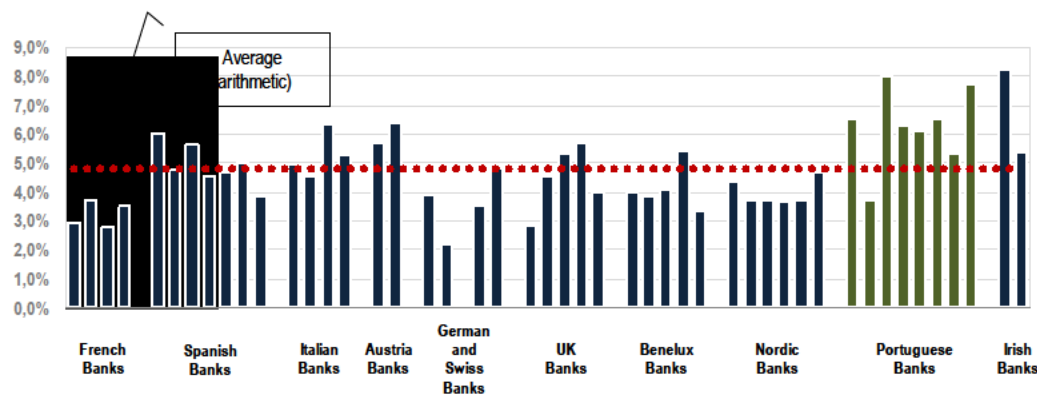


# 1. Strengthening solvency and liquidity

Core Tier1 Ratio (Basel 2.5) - European banks context (June 2013)



Core Tier1 Capital as % of Assets (June 2013)



Banks:

ABN, AIB, BANIF, BANKIA, BARC, BBVA, BCP, BELFIUS, BKIR, BKT, BNP, BPCE, BPI, BST, CA, CAIXABK, CEMG, CGD, CMZB, CS, DANSKE, DB, DNB, ERSTE, ESFG, HSBC, ING, ISP, KBC, LLOY, MPS, NORDEA, POPSM, RABOBK, RBS, RZB, SAB, SANT, SEB, SG, SHBS, SICAM, STAND CHART, SWEDA, UBI, UBS, UCG.

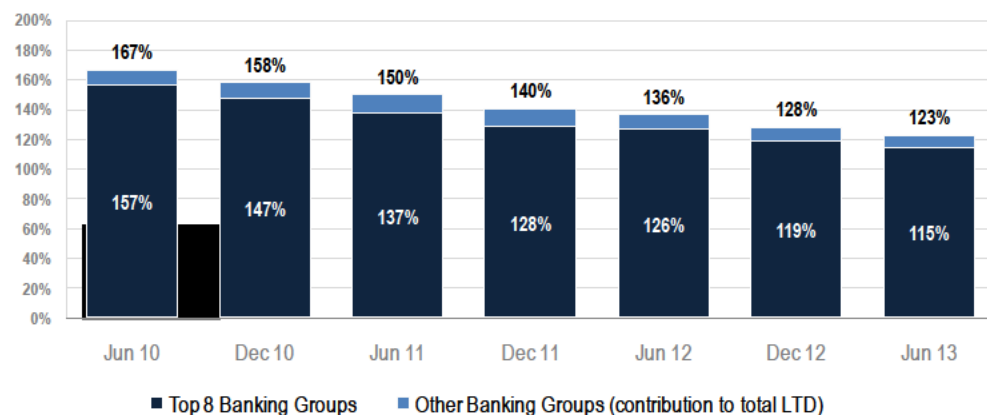
Portuguese banks  
capitalization levels  
compare favourably  
with other European  
banks





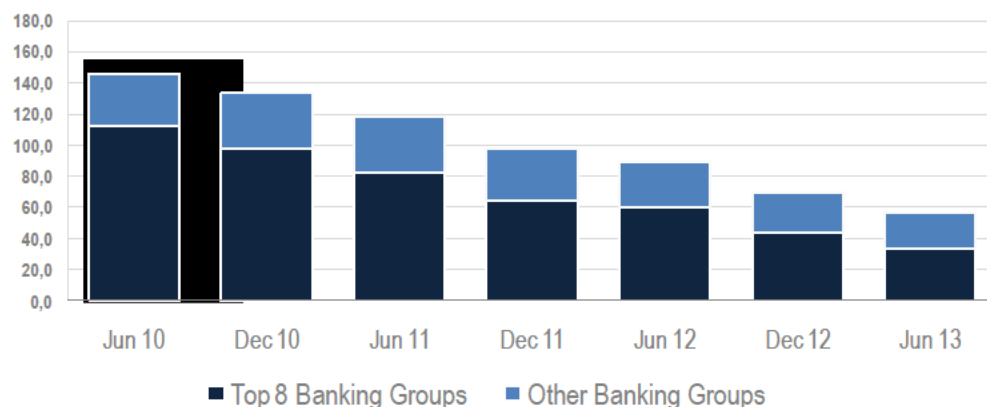
# 1. Strengthening solvency and liquidity

## LTD ratio trending down from the highs of June 2010



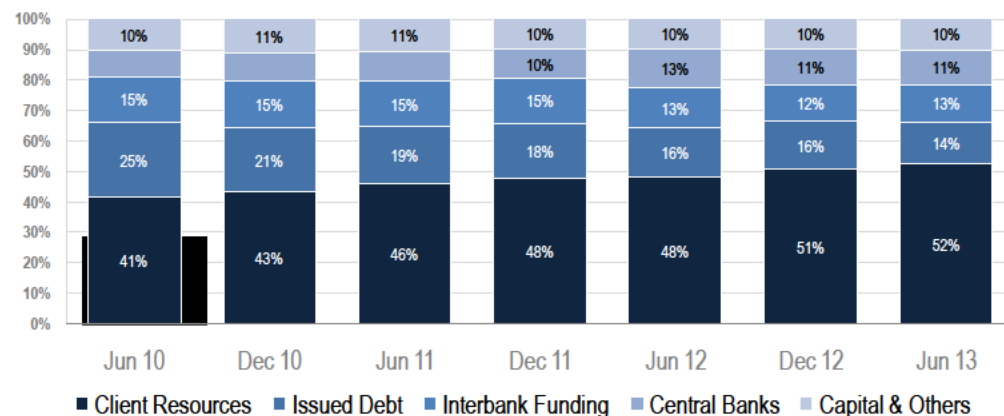
**Liquidity position  
has improved  
significantly**

## Commercial funding gap (Bn €) decreased sharply



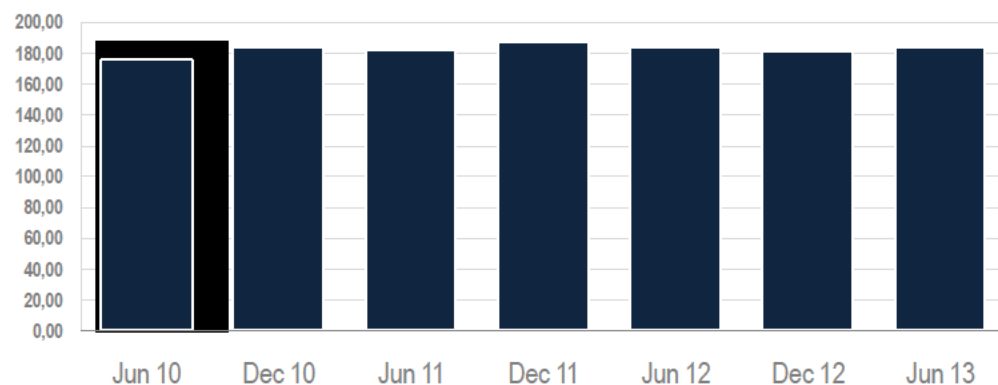
# 1. Strengthening solvency and liquidity

## Consistent evolution in the funding structure (% of assets)



**Funding structure  
with increasing  
deposits weight.  
Stabilisation of ECB  
financing.**

## Resilience in the domestic private sector deposits (Bn €)





## 2. Strengthening the regulatory framework and the supervisory model

### Major upgrade in governance and in the supervision model:

#### Legal framework

- Banco de Portugal entrusted with an **explicit mandate for macroprudential policy**.
- Banco de Portugal **designated resolution authority**.
- Comprehensive and coherent legal framework for the **recapitalization of banks**, the **deposit guarantee system** and the **prevention and management of arrears situations**.

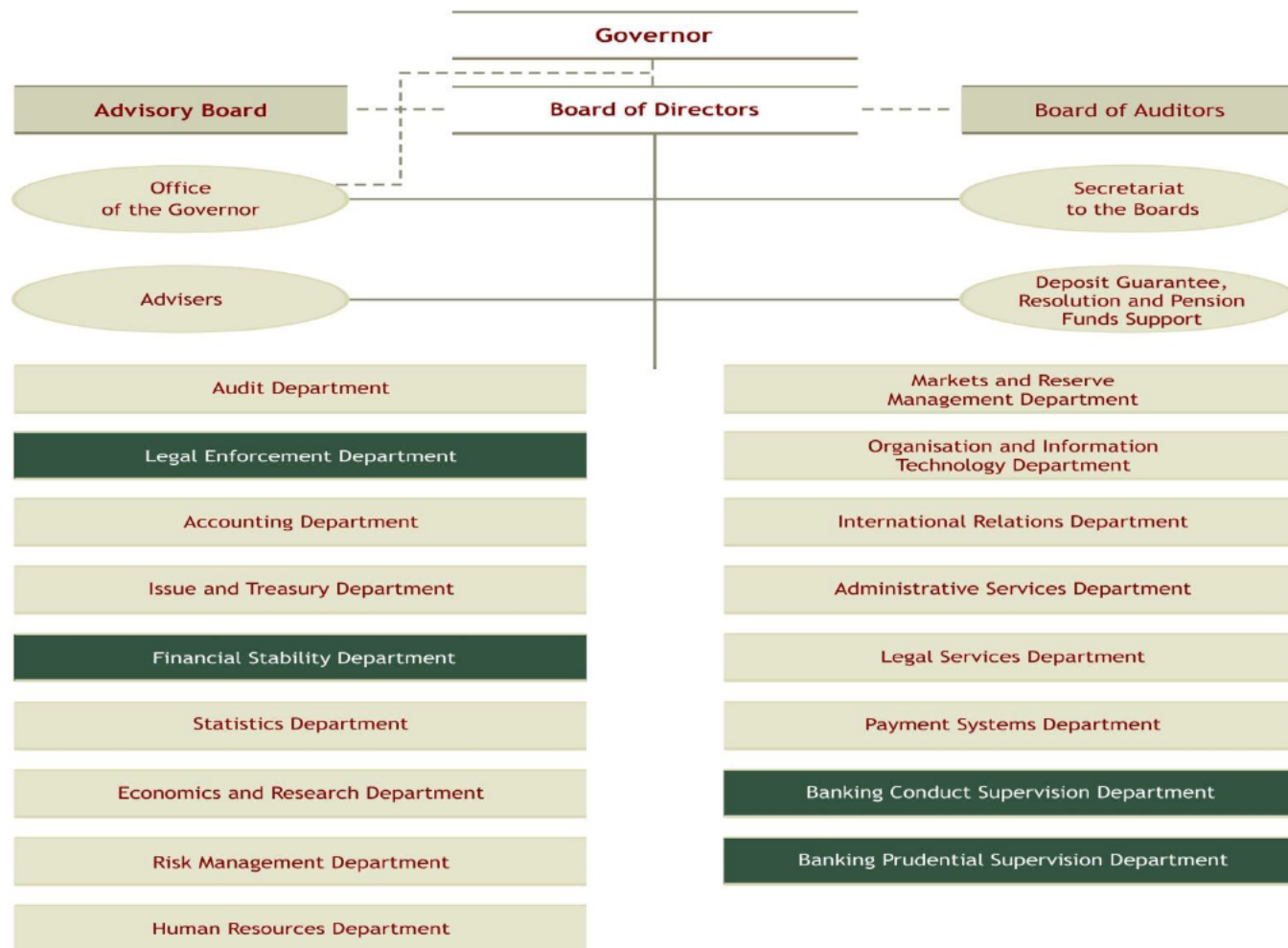
#### Major reorganization of the supervisory function

- Separation of functions: macroprudential policy, prudential supervision, conduct supervision and legal enforcement **attributed to different departments**.
- Internal coordination mechanisms: **Specialized Commission for Supervision and Financial Stability** – being headed by the Governor.
- 40% increase in the number of staff devoted to supervisory areas in 3 years.





## 2. Strengthening the regulatory framework and the supervisory model







## 2. Strengthening the regulatory framework and the supervisory model

**The range of instruments was considerably expanded in tandem with a change in the conceptual and operational approach to supervision**

### **New supervision approach:**

- Greater **interaction** between micro and macroprudential functions
- **Forward-looking** and **systemic** view
- **Risk-focused** and **intrusive** supervision

### **New set of instruments:**

- Banks **Funding and Capital Plans**
- **Stress tests**
- **Horizontal inspections**





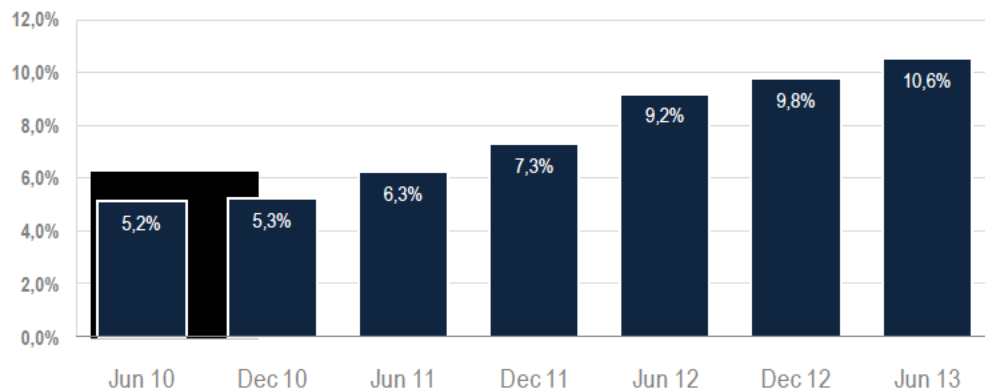
## 2. Strengthening the regulatory framework and the supervisory model

### 3 Major inspection programs made in the last 3 years

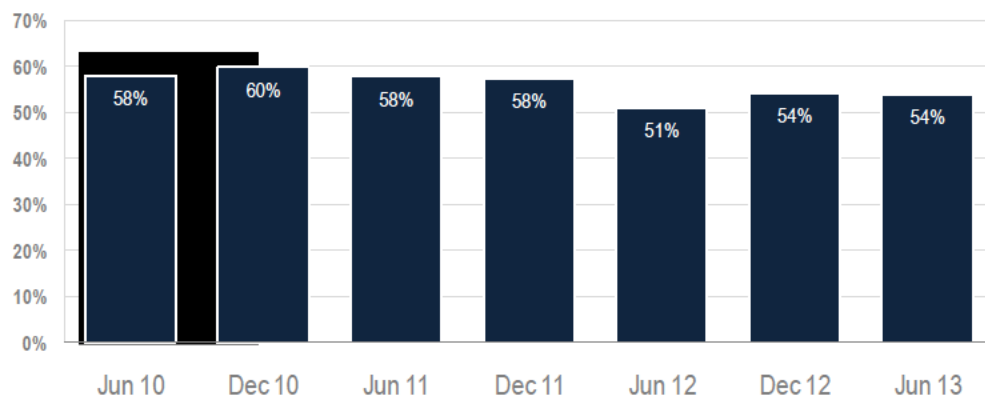
	SIP (2011)	OIP (2012)	ETRICC (2013)
Scope	All credit portfolio	Construction and real estate portfolio	All credit portfolio (excluding retail mortgage, consumer credit and sovereign exposures)
Reference date	June 2011	June 2012	April 2013
Population in scope	€281 Billion	€69 Billion	€93 Billion
% of total asset	65%	16%	23%
Sample for individual assessment	51%	56%	48%
# sampled entities	5 651	2 856	2 206
# BdP resources	69	31	27
# External resources	226	98	191
Public disclosure	16-dec-2011	3-dec-2012	2-Aug-2013

## 2. Strengthening the regulatory framework and the supervisory model

### NPL ratio with sustained increase throughout the last years



### NPL coverage remaining broadly stable



### Stable impairment coverage of NPL

- A new definition of NPLs was introduced in 2011, in line with the IMF definition (FSI) and more conservative than European average. Definition of NPL:

Credit with payments of principal or interest past due by three months (90 days) or more.

Restructured credit, where the principal or interest payments were past due by 90 days or more and have been capitalized, refinanced, or rolled over, except when guarantees have been adequately increased or the interest and other liabilities fallen due have been fully paid by the debtor.

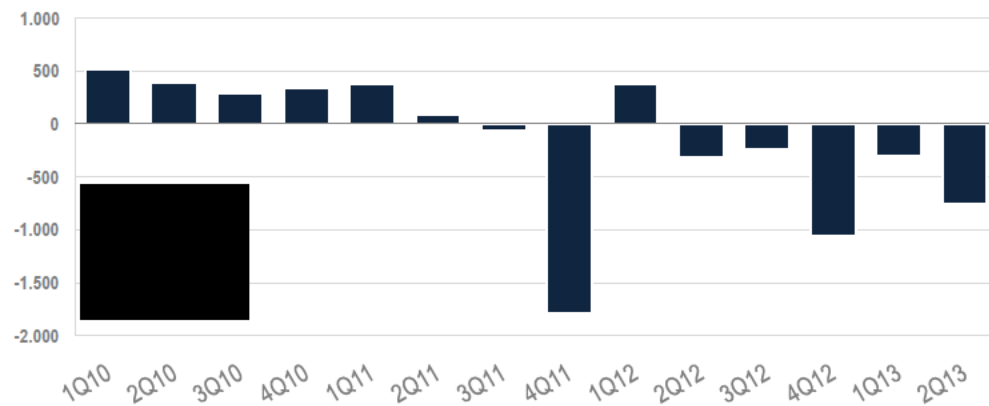
Credit with payments which are less than 90 days past due but where there is evidence that justify the classification as non performing, such as when the debtor files for bankruptcy.



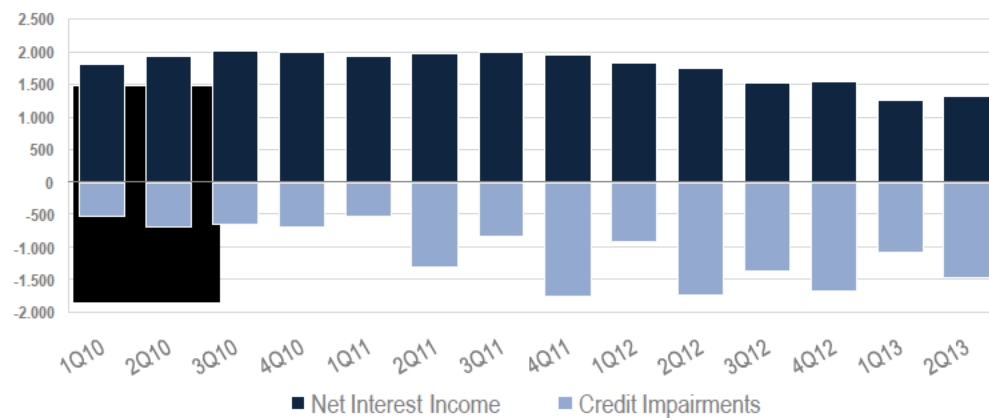


### 3. Main challenges ahead

**Sector net profit (M €) under pressure**



**NII and high credit impairments (M €) main sources of pressure**



**Profitability  
remains  
challenging**





### 3. Main challenges ahead

#### Conclusion:

We are now in a much better position to handle financial strains than we were at the outset of the current financial crisis:

- The Portuguese banking system is currently **more capitalized, more transparent** and in a **more favourable liquidity position**.
- We benefit from **improved supervision** and a **stronger regulatory framework**.





**Thank you!**

