
The economy and the banking sector: recent developments

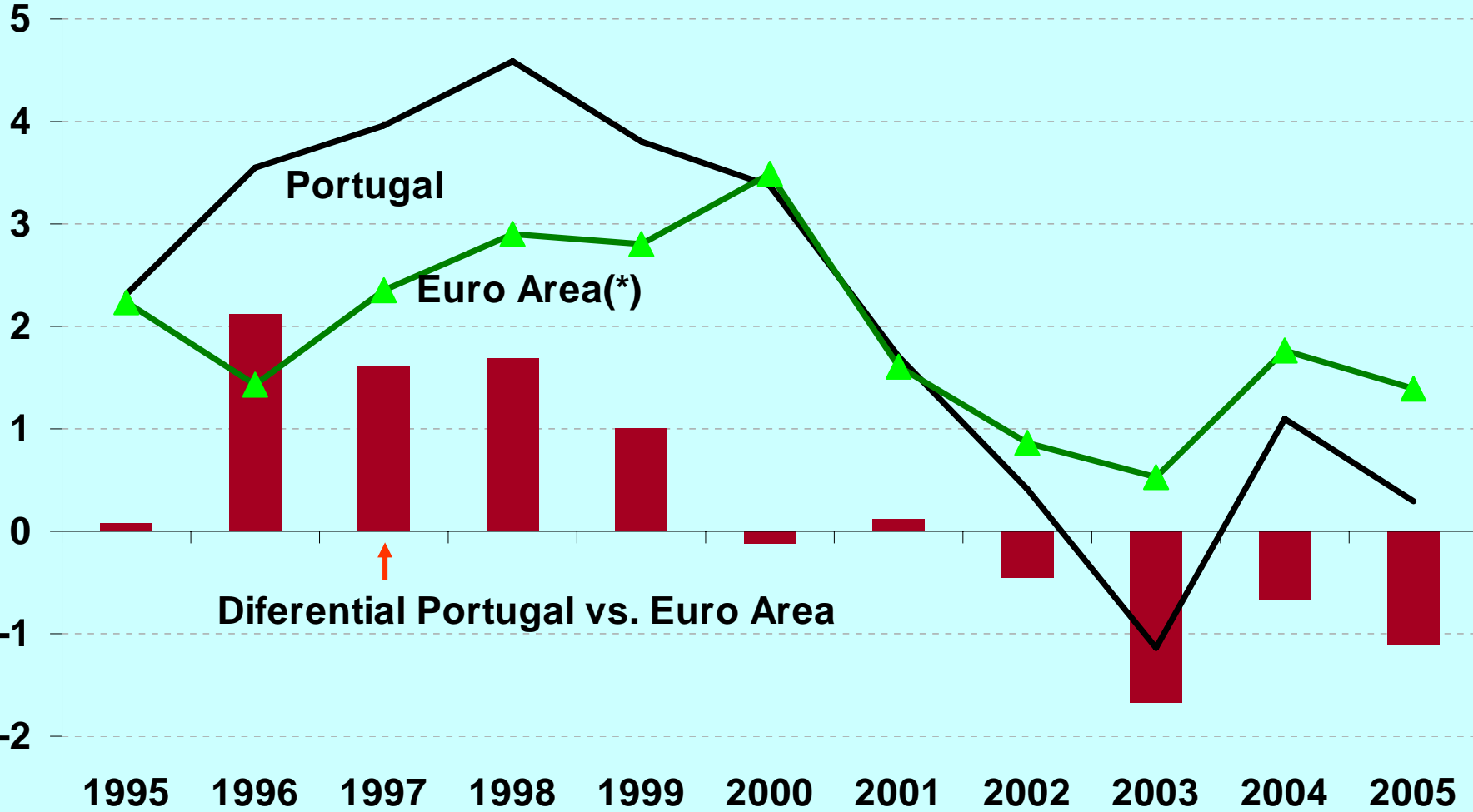


VÍTOR CONSTÂNCIO

January 2006

- **Recent performance of the economy and prospects**
 - **Factors behind the period of slow growth**
- **Challenges to the Banking Sector**
 - **Regulatory changes and effects of the economic environment**
 - **Risk management (credit, liquidity, capital)**
- **Structural problems and long term economic potential**

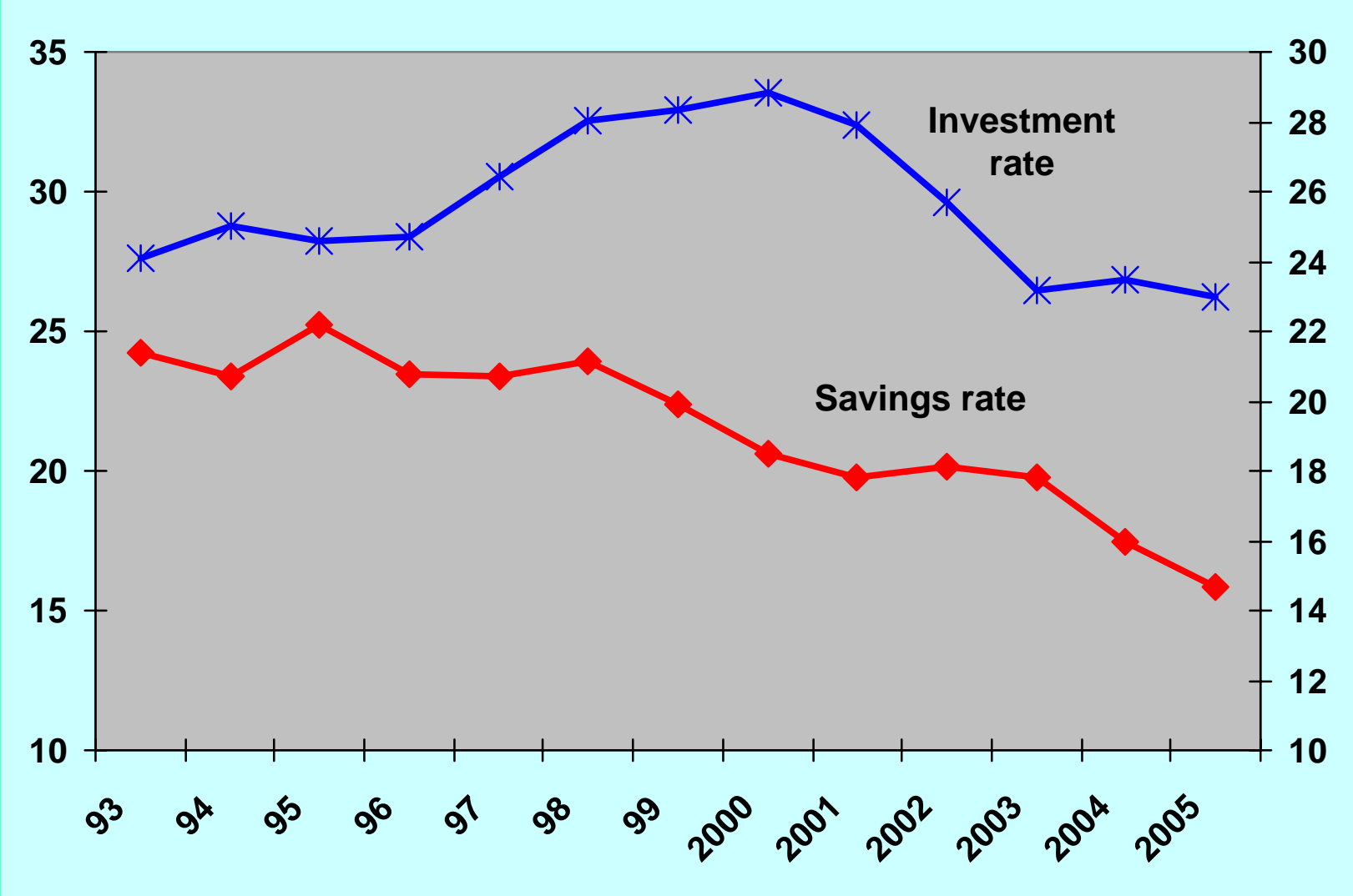
GDP growth rates (%)



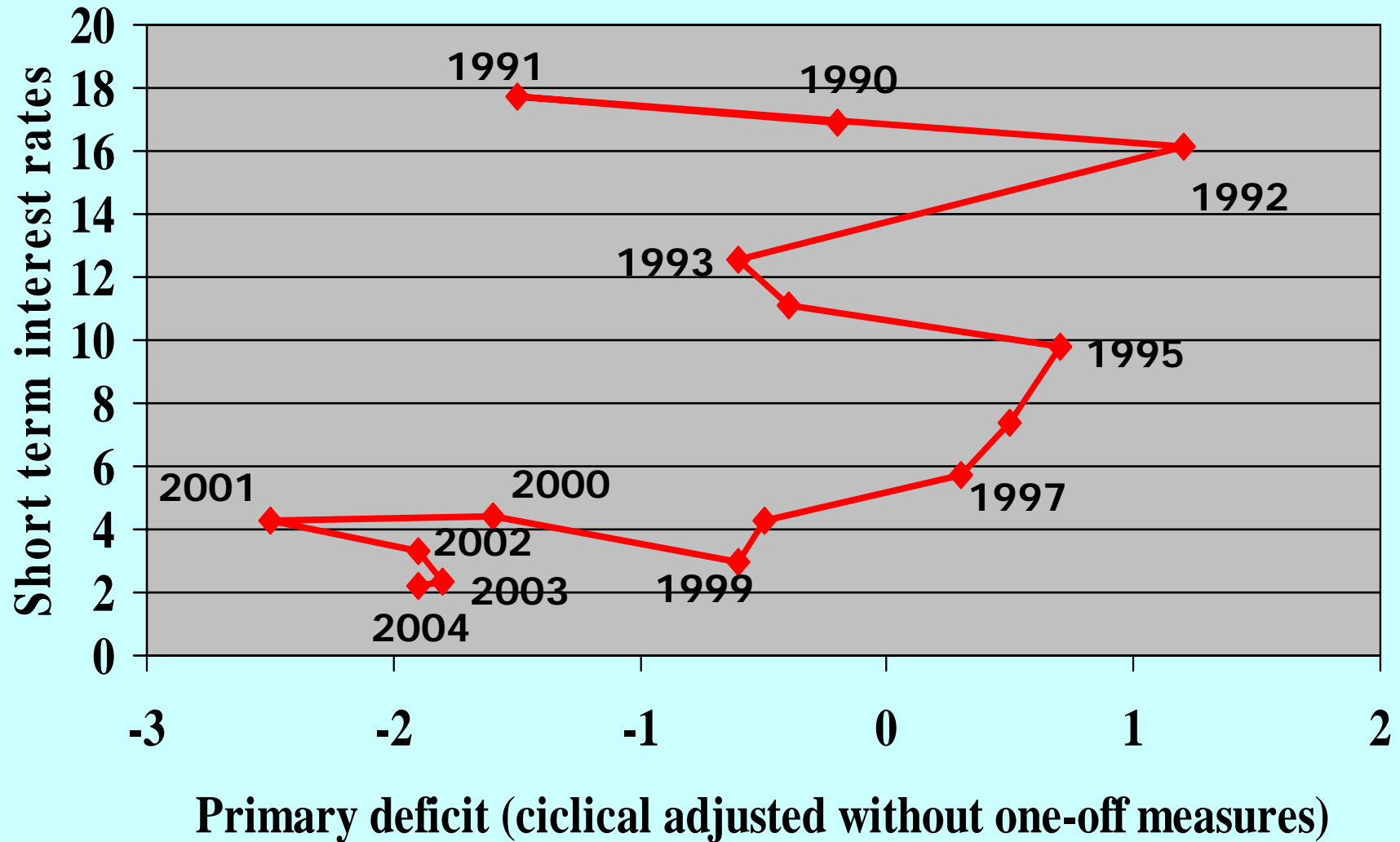
Factors behind the period of slow growth

- Cyclical pattern of slight overheating and subsequent deceleration associated with joining a monetary union coming from a regime of higher inflation**
- Pro-cyclical fiscal policy**
- External demand shocks**
- Significance of the oil shock**
- Competitiveness problems in the context of enlargement and globalisation**

Investment and domestic savings rate (% of GDP)

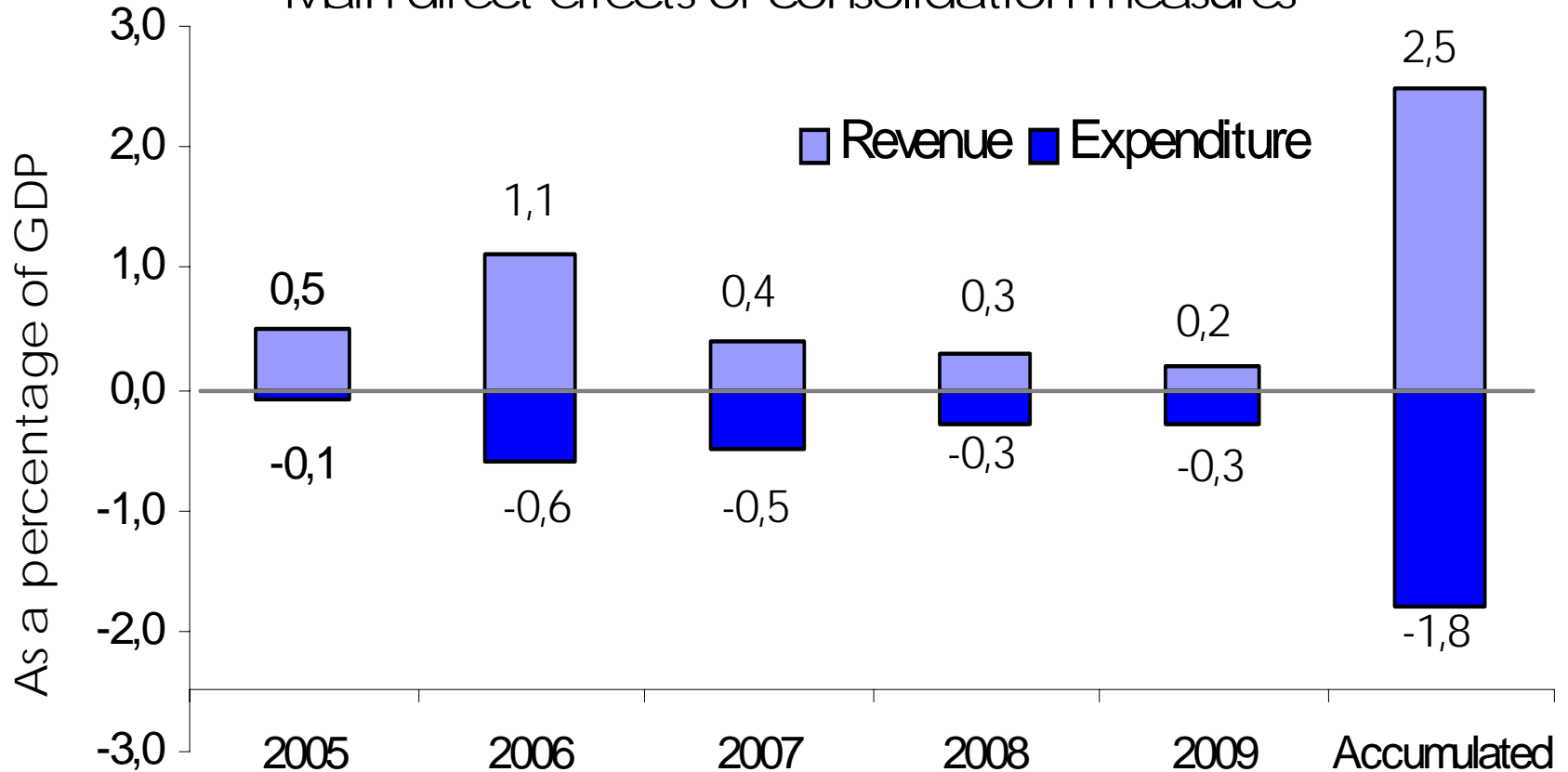


Macroeconomic policy stance



Stability and growth programme

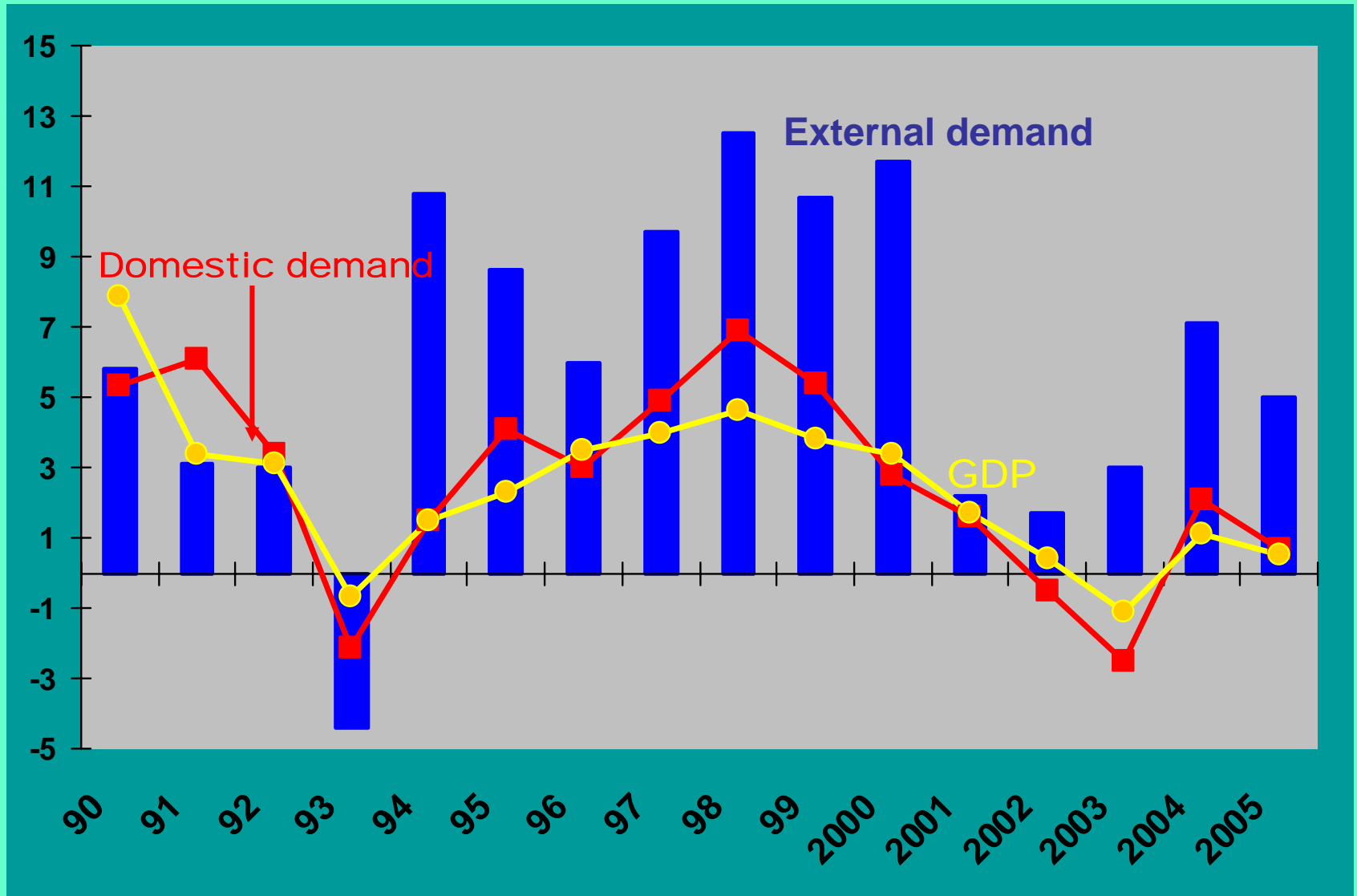
Main direct effects of consolidation measures^(a)



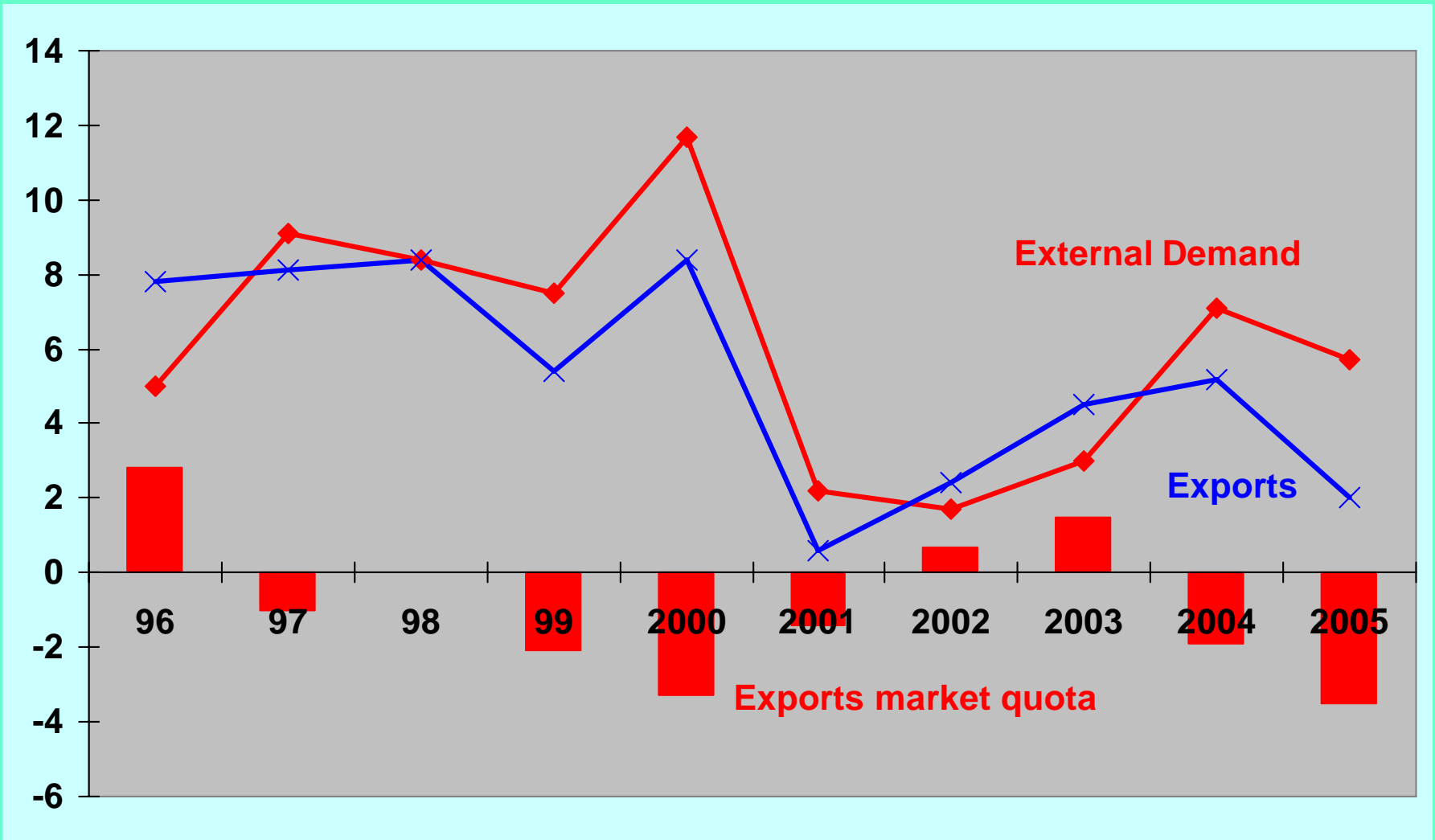
Source: Stability and growth programme, June 2005

(a) Yearly, direct effects of discretionary measures included in the SGP.

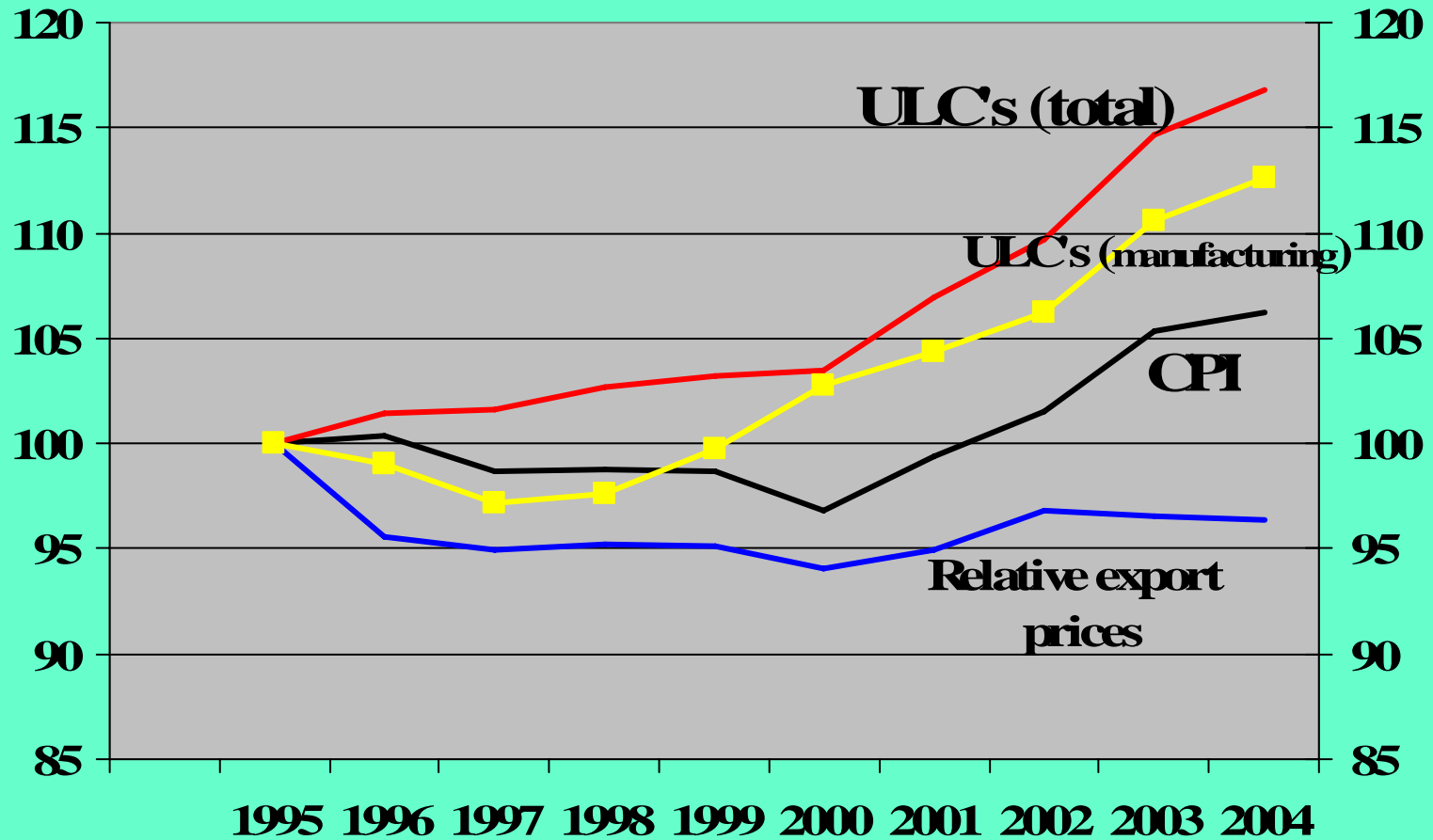
Growth rates of GDP, Domestic Demand and External Demand directed to the Portuguese economy



Growth rates of external demand and portuguese exports



Competitiveness Indicators: relative ULC's, CPI and export prices with the 13 main trading partners (1995=100)



(Source: BP AMECO e OECD)

Technological content of Exports (% of total)					
	Low technology		High technology		
	1985-89	2000-01	1985-89	2000-01	Variation
Euro Area	38	30	14	21	7
Ireland	49	14	30	46	16
Holand	42	31	19	35	16
Finland	59	38	9	32	23
Germany	26	21	15	21	6
France	38	28	14	21	7
Austria	51	37	12	18	6
Portugal	82	61	5	14	9
Italy	47	44	12	13	1
Belgium	54	41	9	12	3
Spain	57	41	6	11	5

Composition of Exports

	1985-1989	2000-2004	Variação
Agriculture & Food, Wood,Cork, Paper , Leather, Textiles, Clothing, Footwear	61,1 %	40,2%	-20,9 p,p
Electronics, Machines, Transport equipment, Chemicals, Energy	27,0 %	45,8%	+18,8 p,p
Other	11,8 %	14,0%	+2,2 p,p

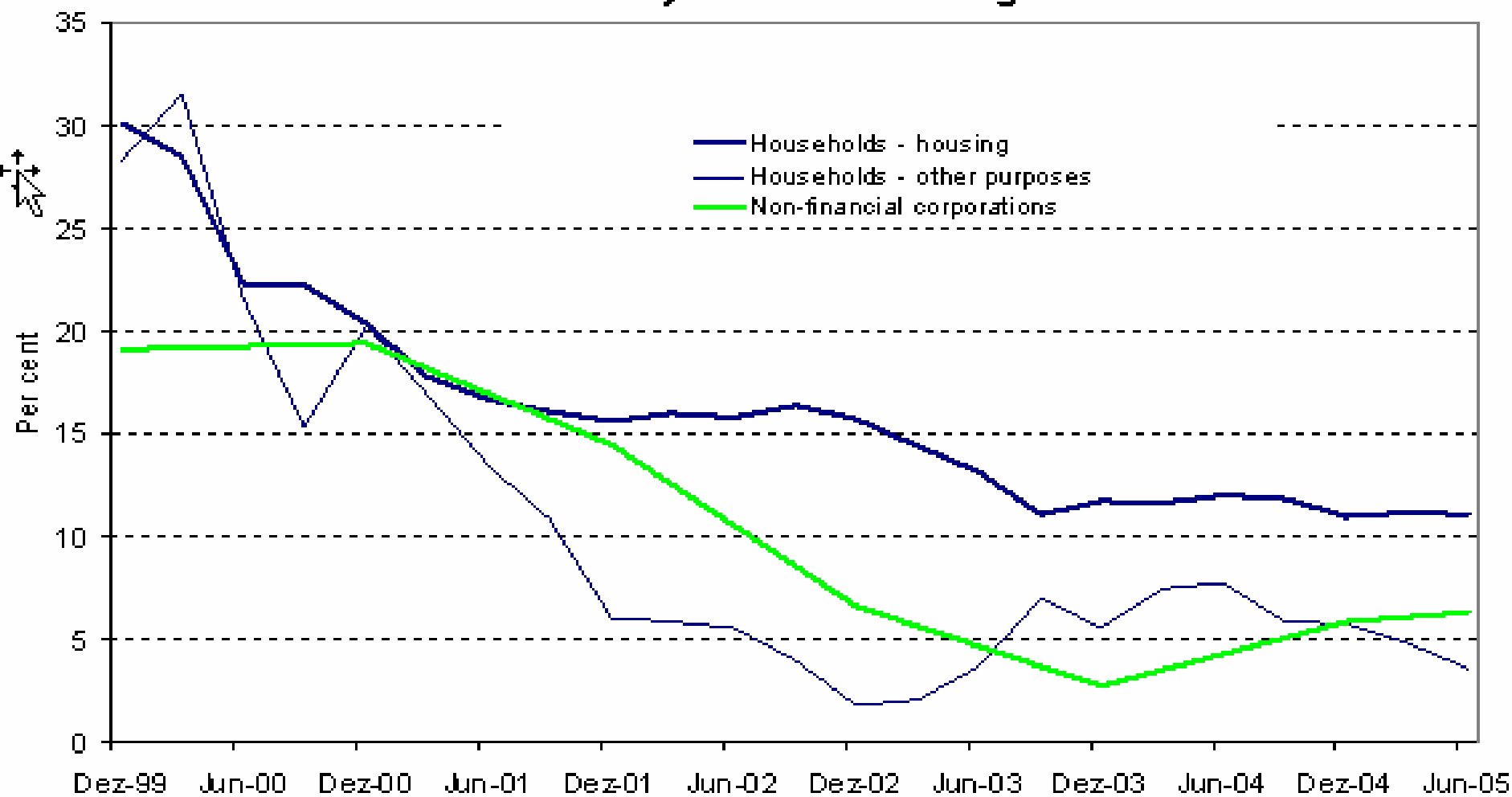
Bank of Portugal's Economic Forecasts

Growth rates (%)	2004	2005	2006	2007
GDP	1.3	0.3	0,8	1,0
Private Consumption	2.3	1.8	1.2	1.1
Public Consumption	2.6	1.1	0.7	0.4
Gross Fixed Investment	0.2	-3.1	-1.1	-0.8
Domestic Demand	2.1	0.6	0.6	0.6
Exports of goods and services	5.4	1.8	4.0	5.2
Imports of goods and services	6.8	2.4	2.8	3.2
Inflation rate (HICP)	2.5	2.1	2.5	2.3

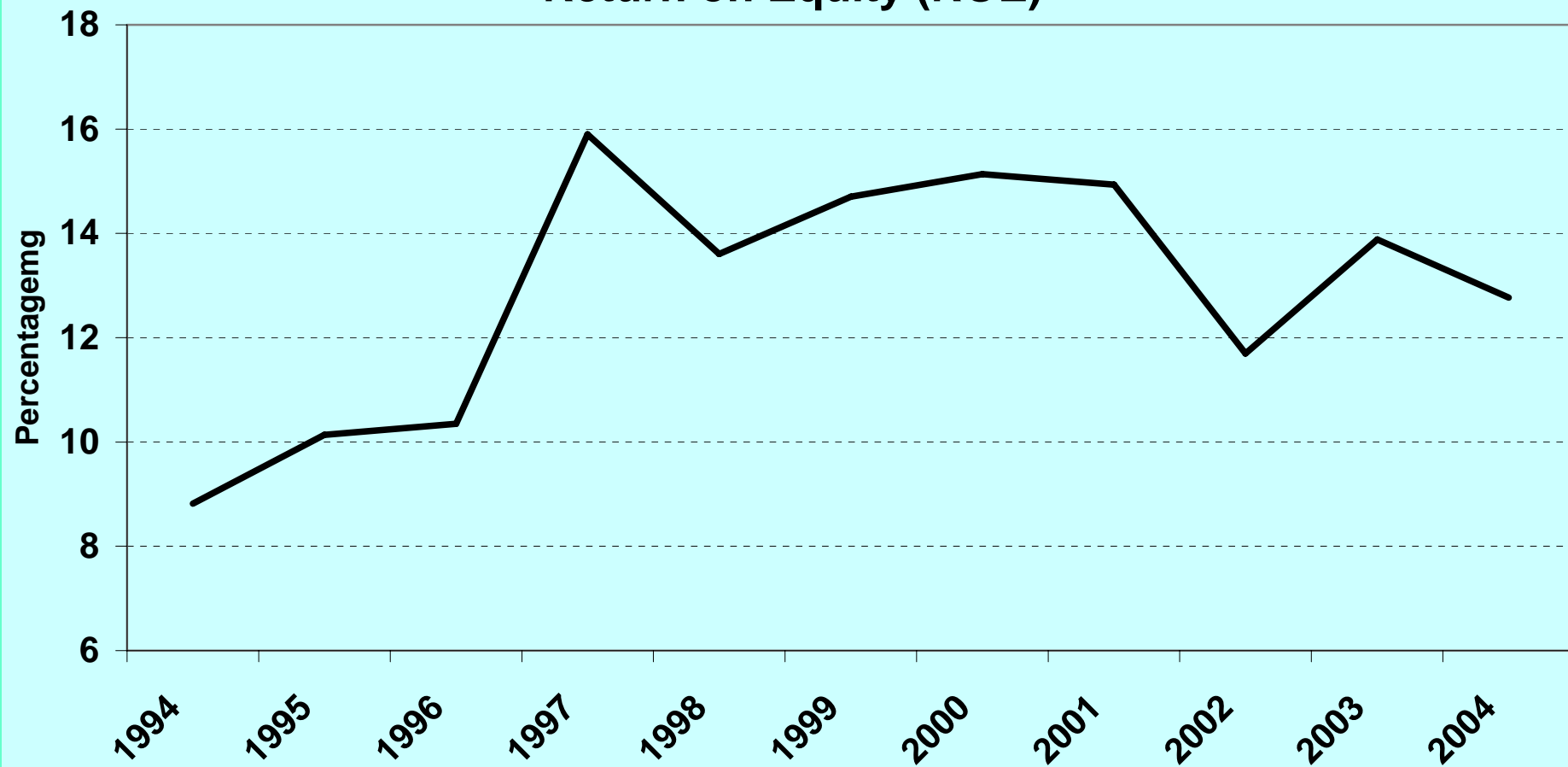
- **Recent performance of the economy and prospects**
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Credit to households and non-financial firms

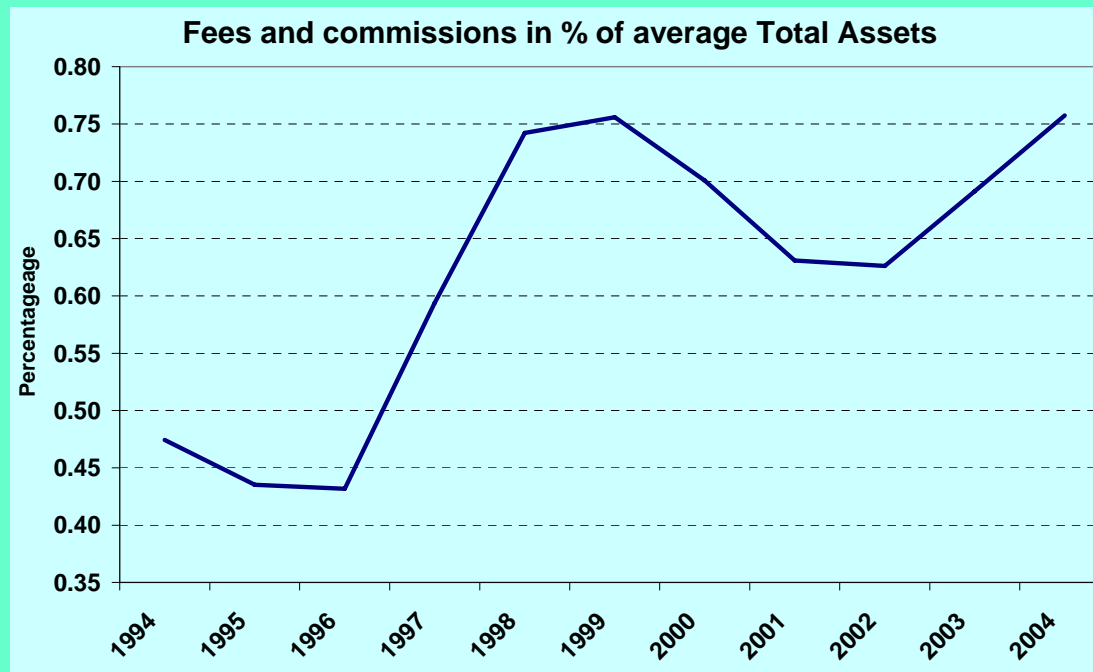
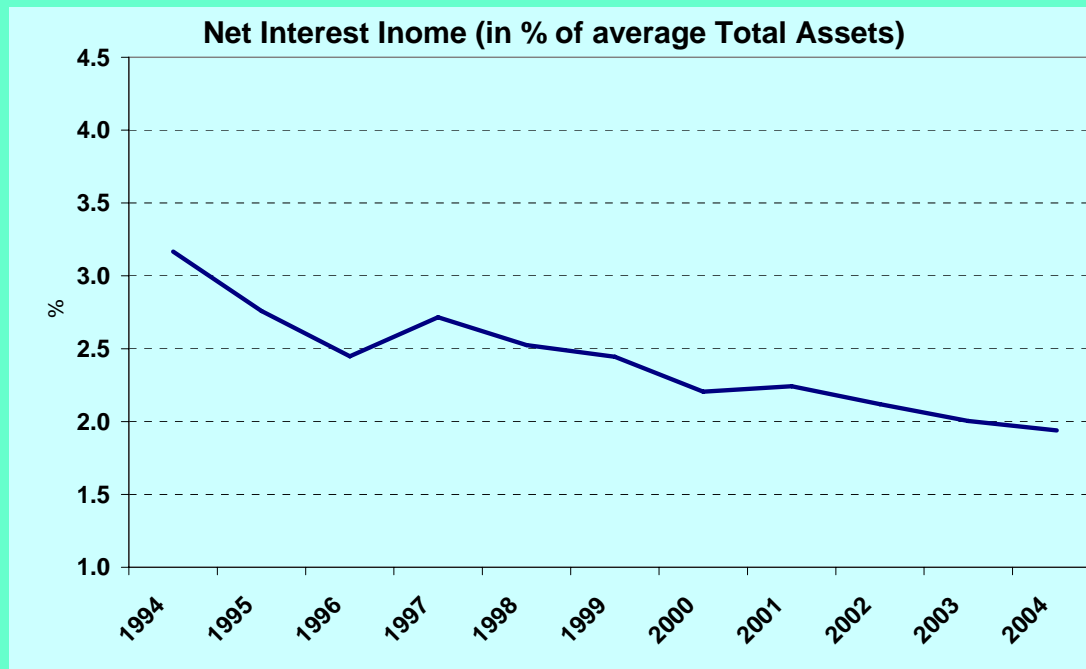
Year-on-year rate of change



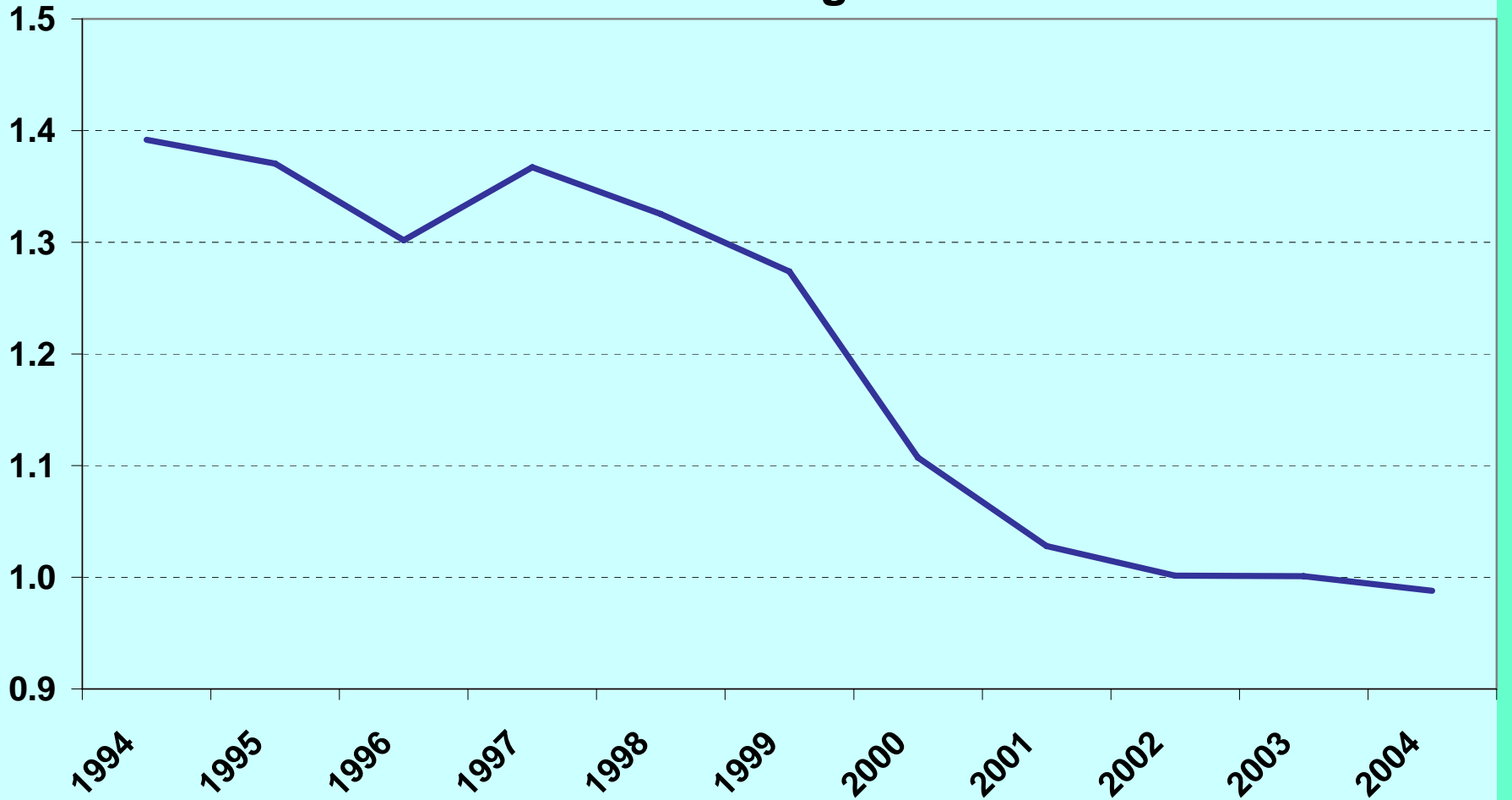
Return on Equity (ROE) ^(a)



(a): ROE defined as net profit over average own funds (consolidated accounts)

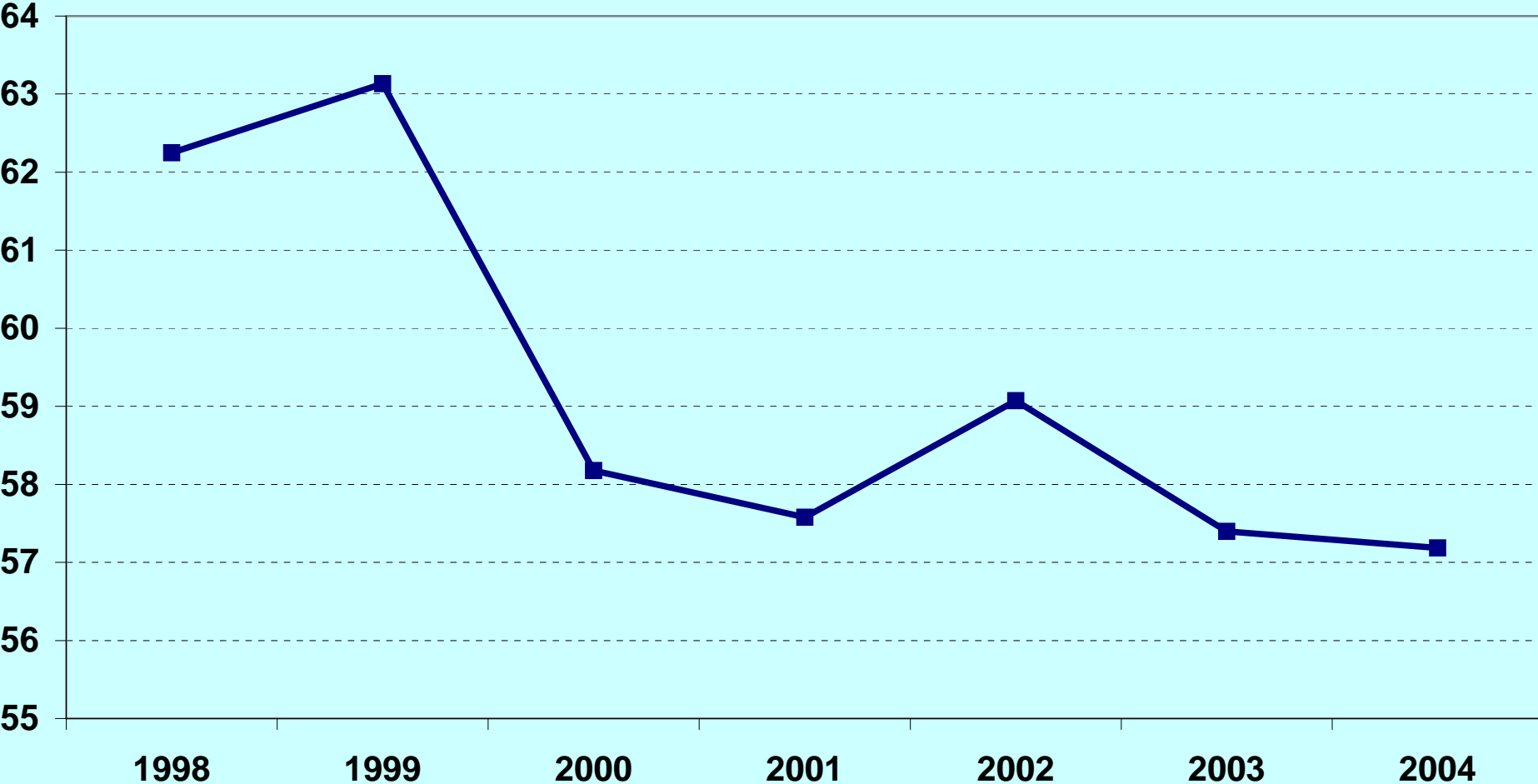


Staff Costs in % of average Total Assets



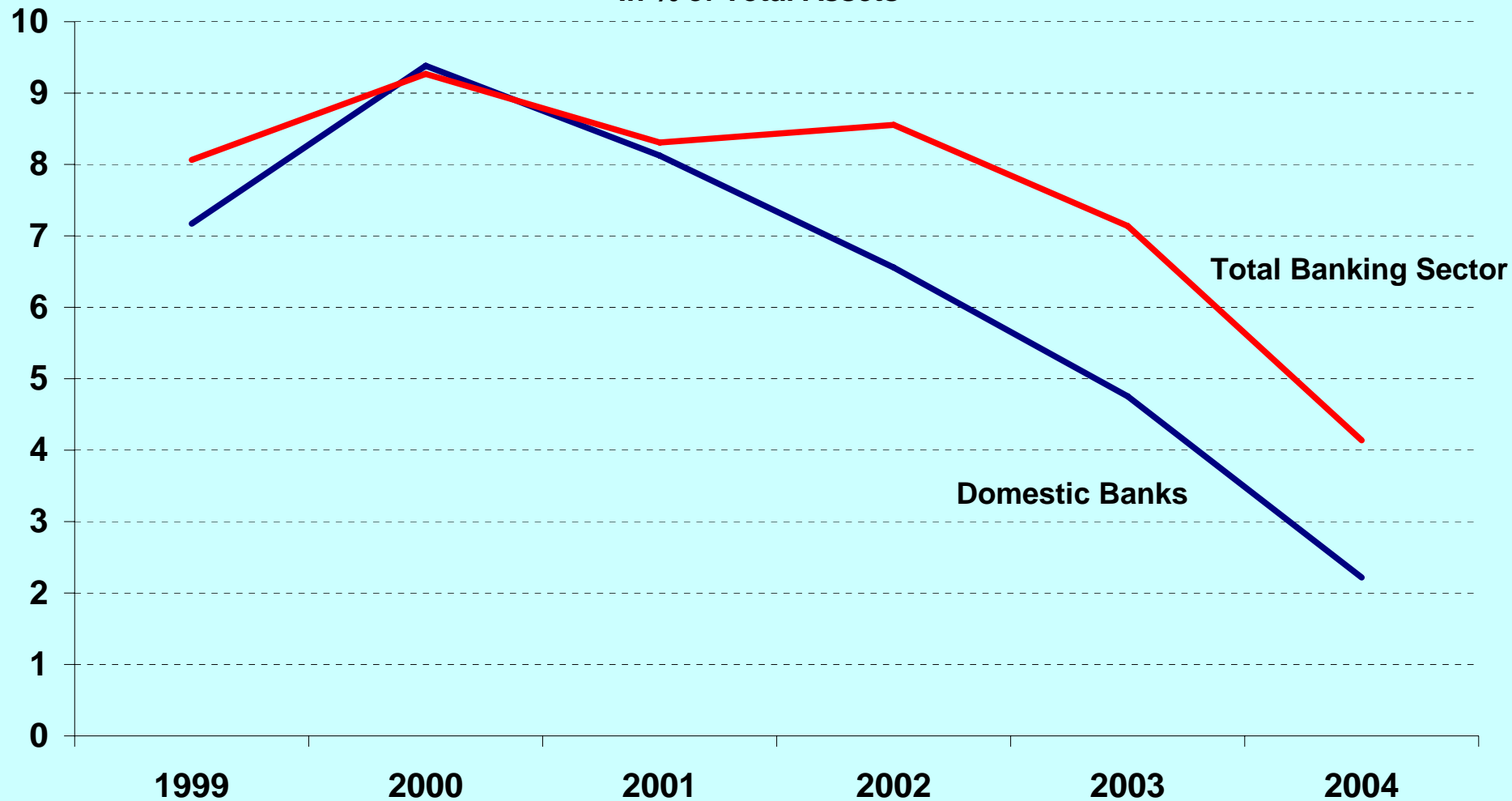
Consolidated accounts

Cost / Income Ratio (in %)

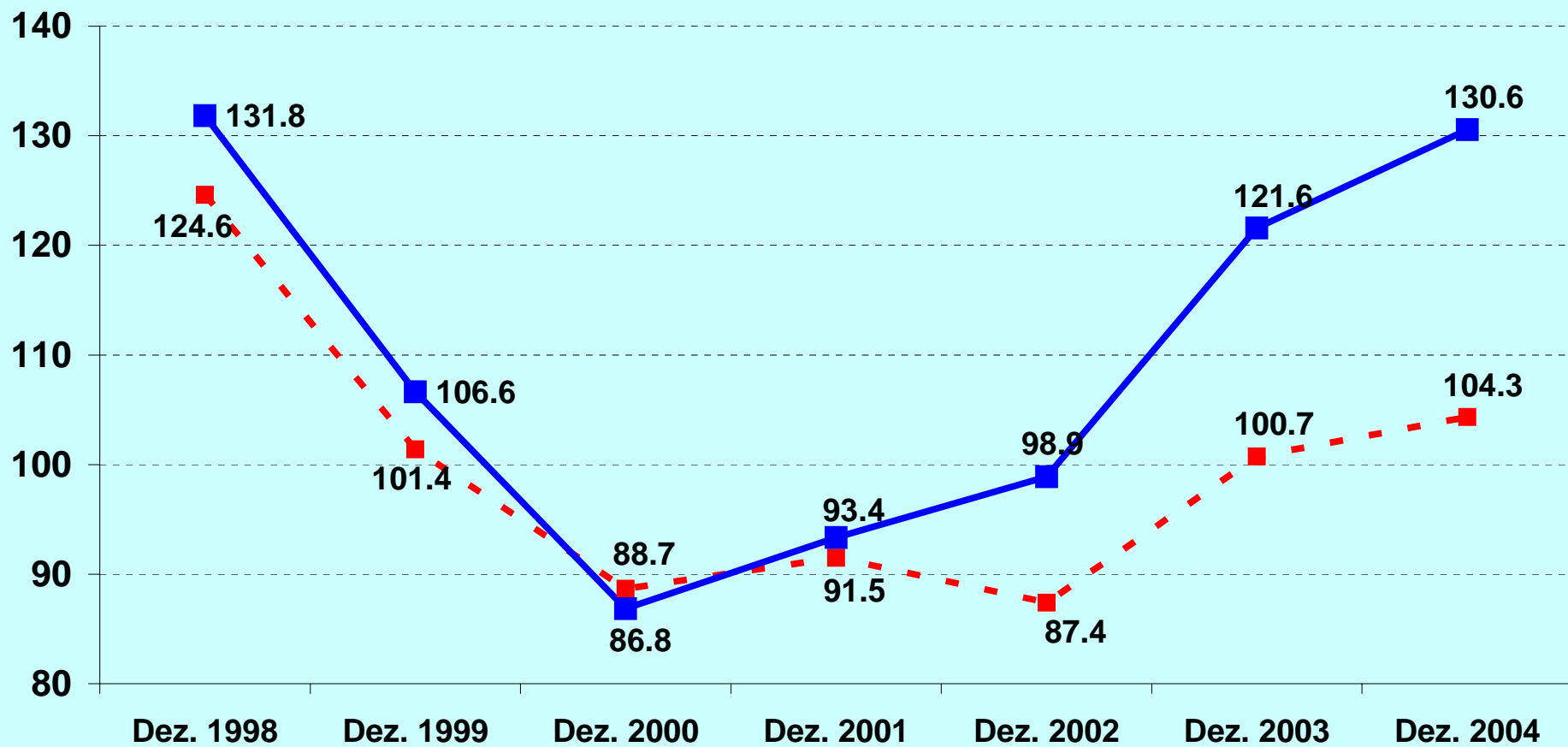


Interbank liabilities (net of interbank assets)

In % of Total Assets

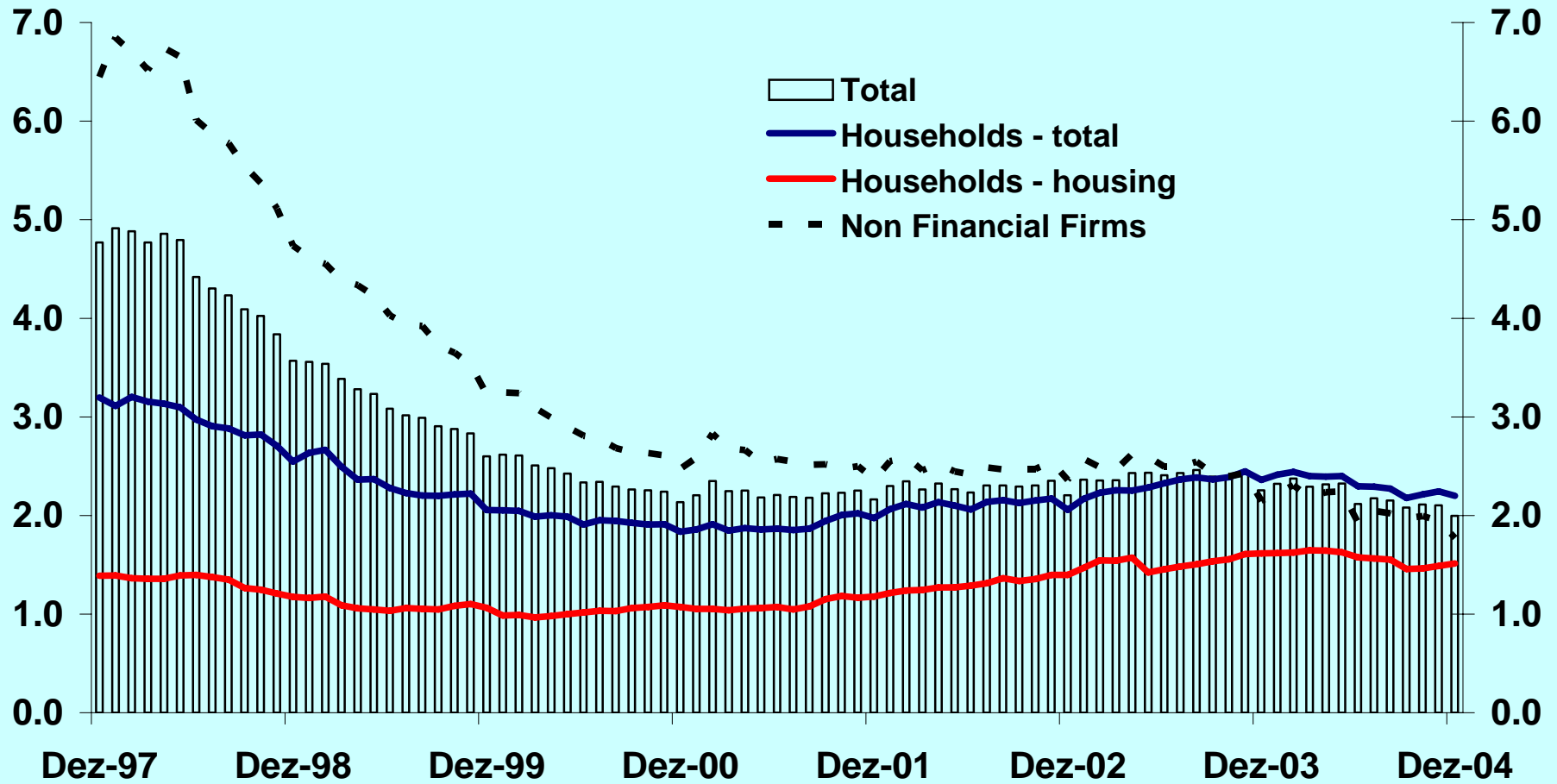


Ratio of high liquid assets over interbank liabilities

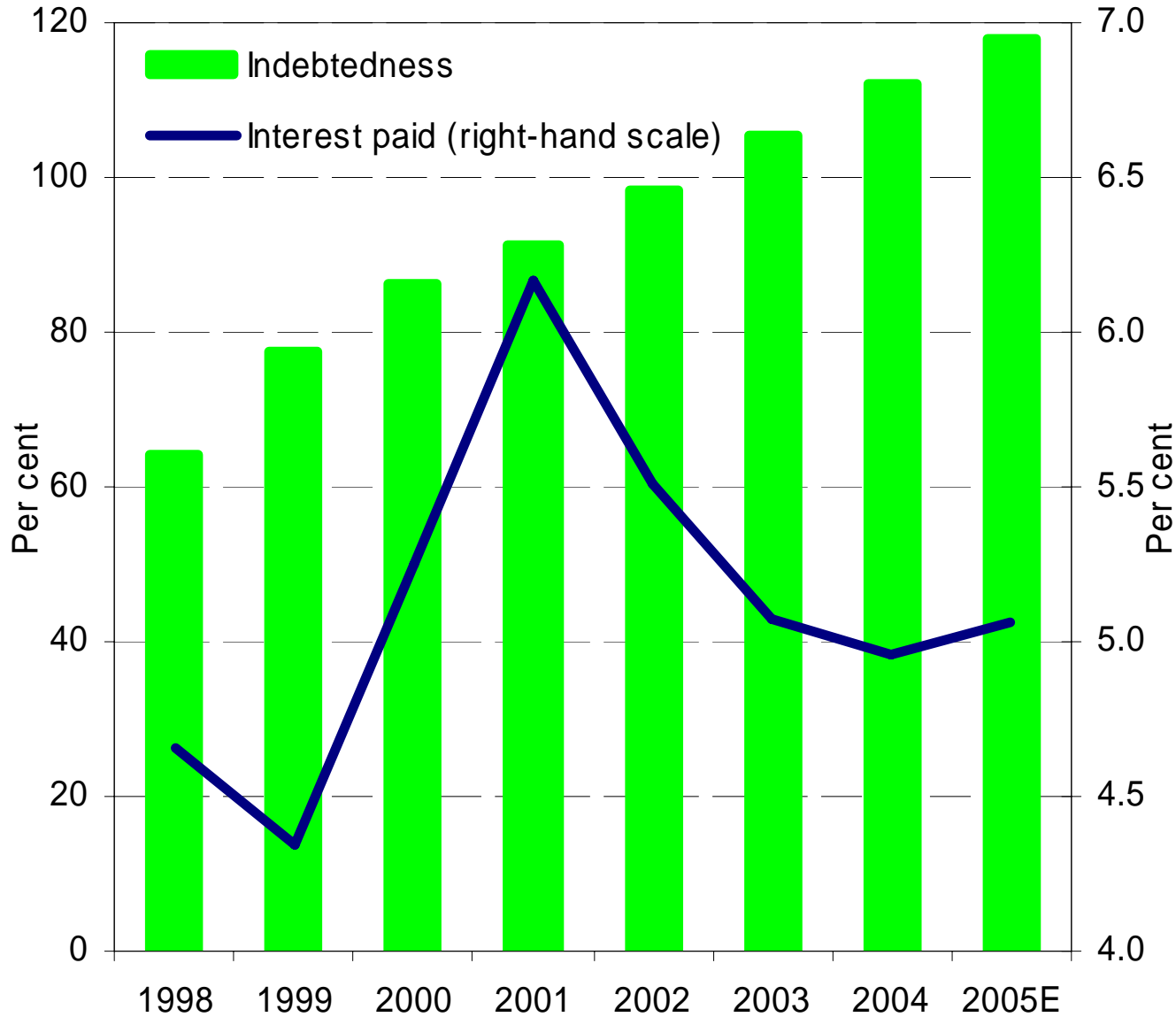


Note: High liquid assets include Interbank Assets (Banks and Central Banks) and Public Sector securities.

Non Performing Loans in % of Total Credit



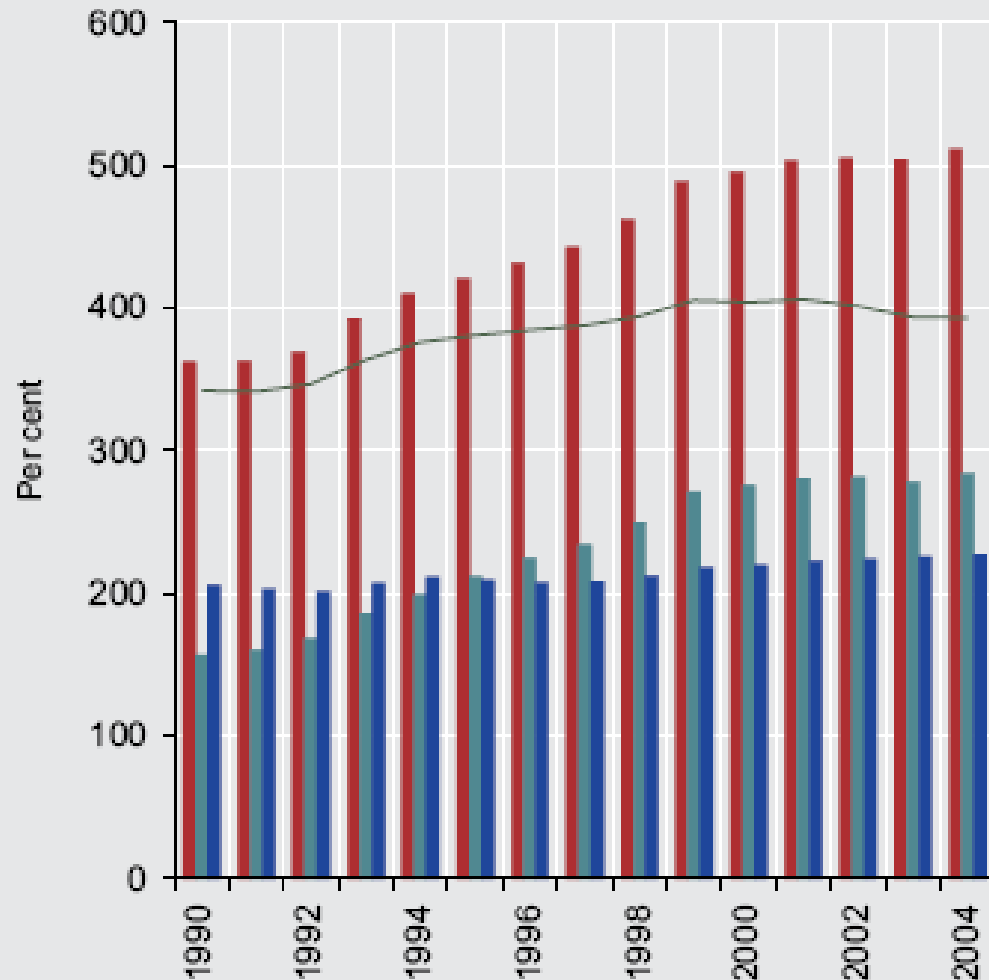
HOUSEHOLDS INDEBTEDNESS AND INTEREST PAID As a percentage of disposable income



HOUSEHOLDS' WEALTH

As a percentage of disposable income

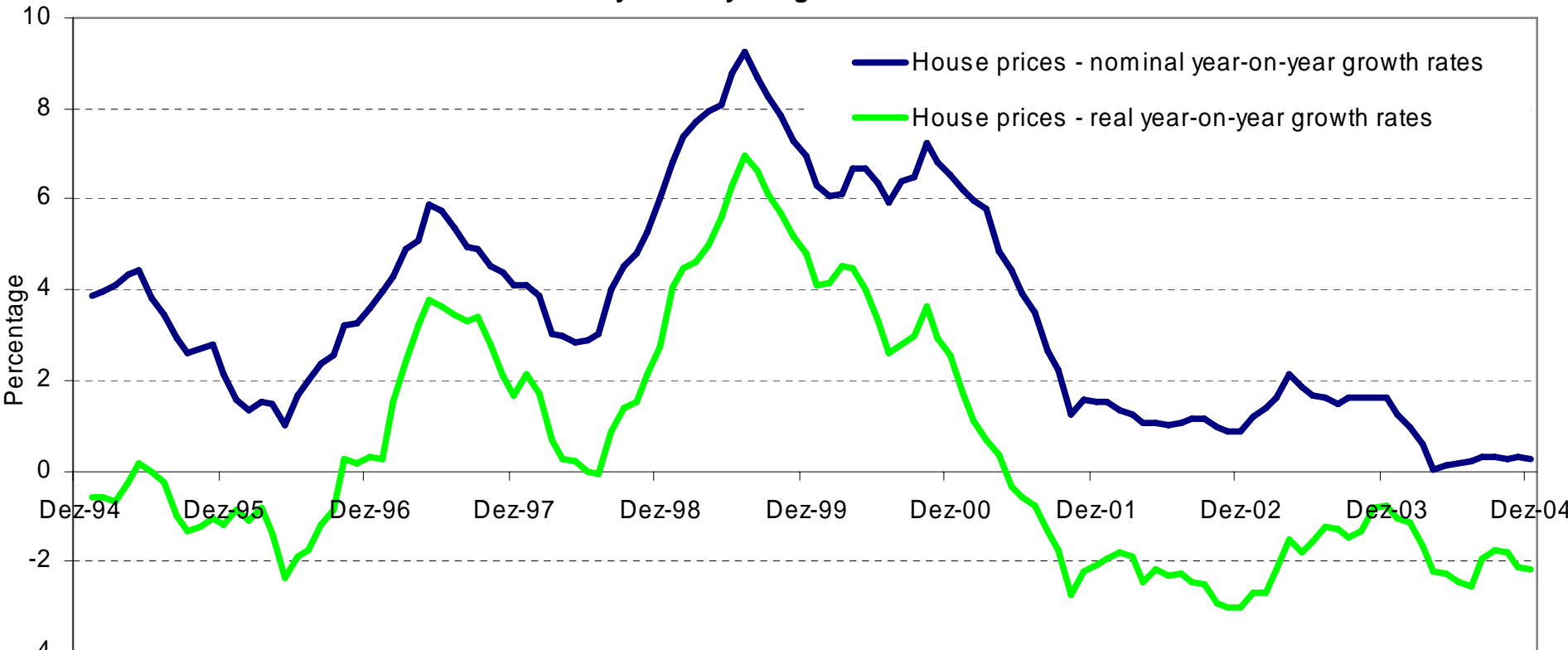
■ Total wealth ■ Financial wealth ■ Housing — Net wealth



The aggregate debt-to-assets ratio increased but net wealth is estimated at a comfortable 400 percent of disposable income. Household debt is mainly comprised of housing mortgages, with direct coverage by non-financial assets (housing – in particular for owner occupation).

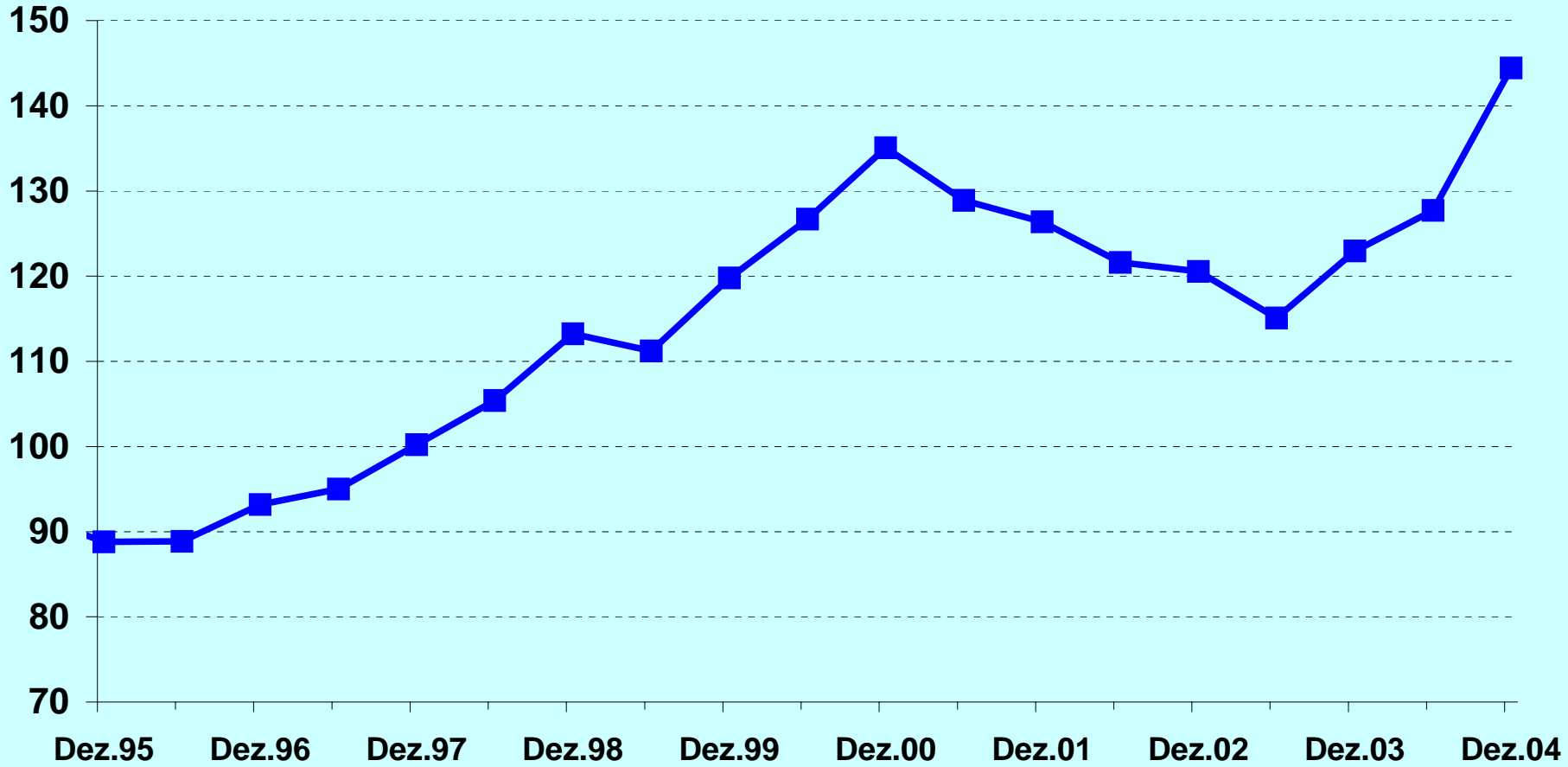
HOUSE PRICES IN PORTUGAL

year-on-year growth rates

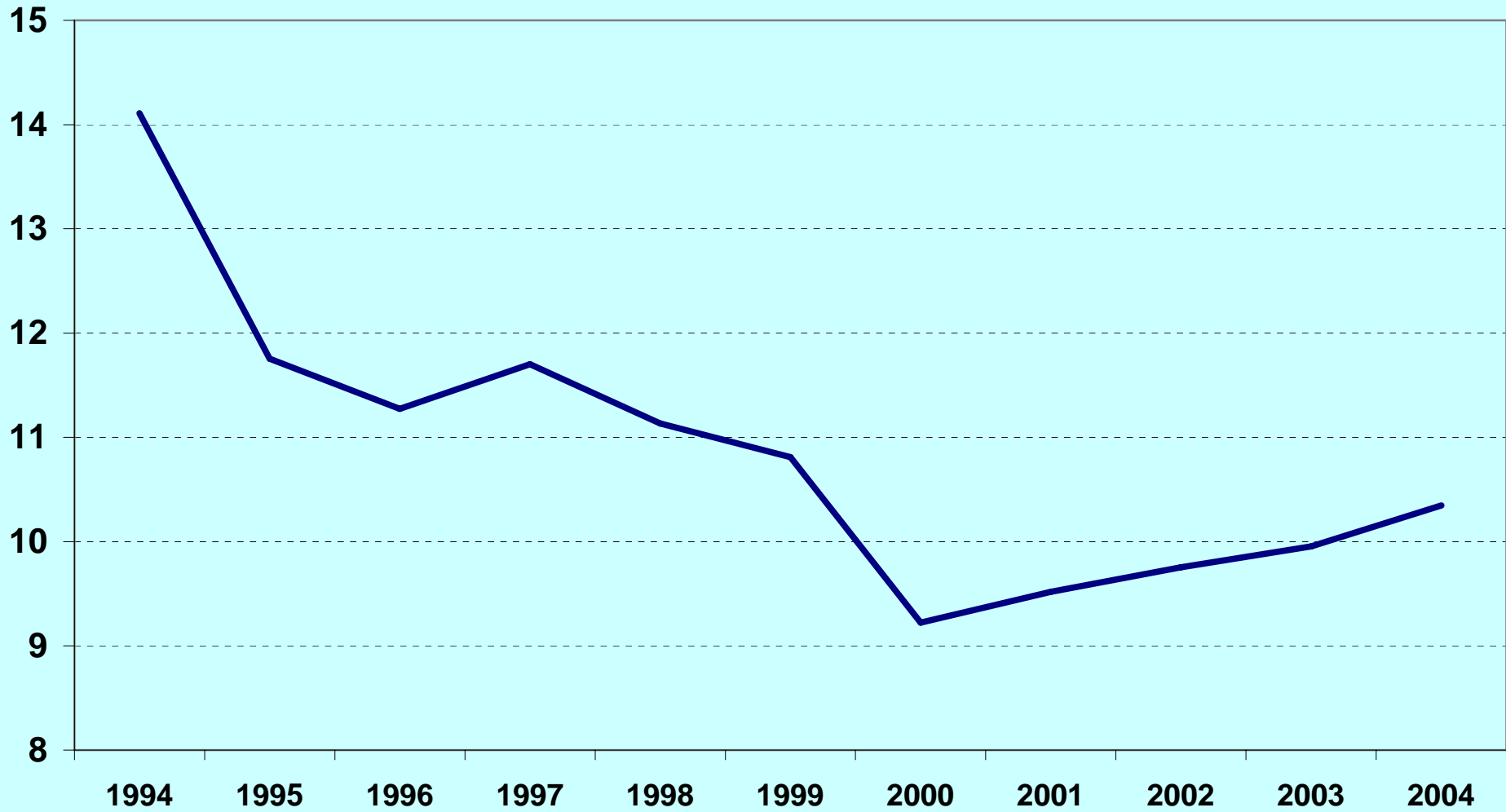


Source: Confidencial Imobiliário New sletter.

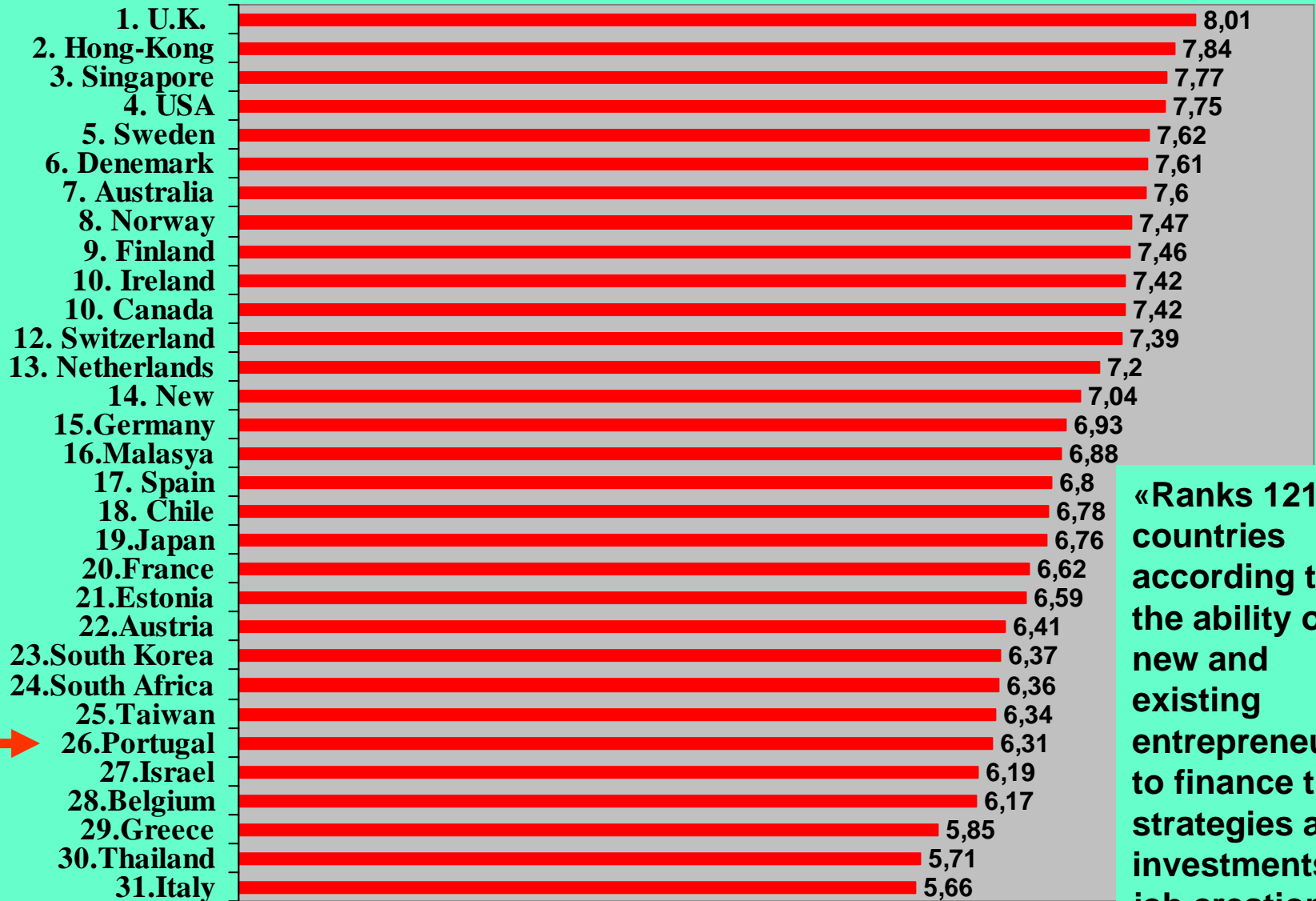
Total Provisions in % of Non Performing loans



Regulatory Capital Ratio (own funds)



Capital Access Index (2005)



«Ranks 121 countries according to the ability of new and existing entrepreneurs to finance their strategies and investments for job creation and capital formation»

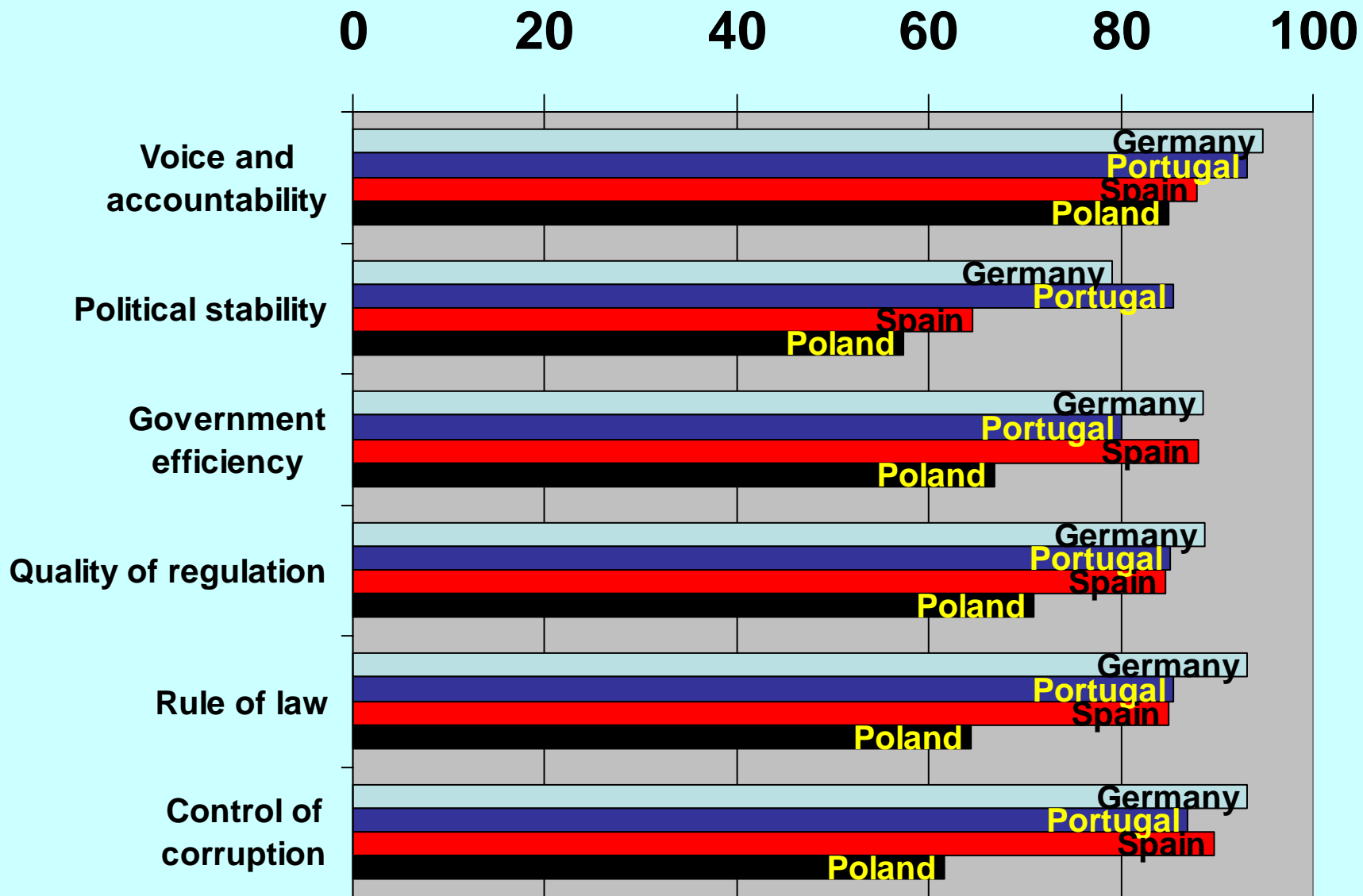
Source: Milken Institute, USA

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Growth competitiveness index (WORLD FORUM 2005)

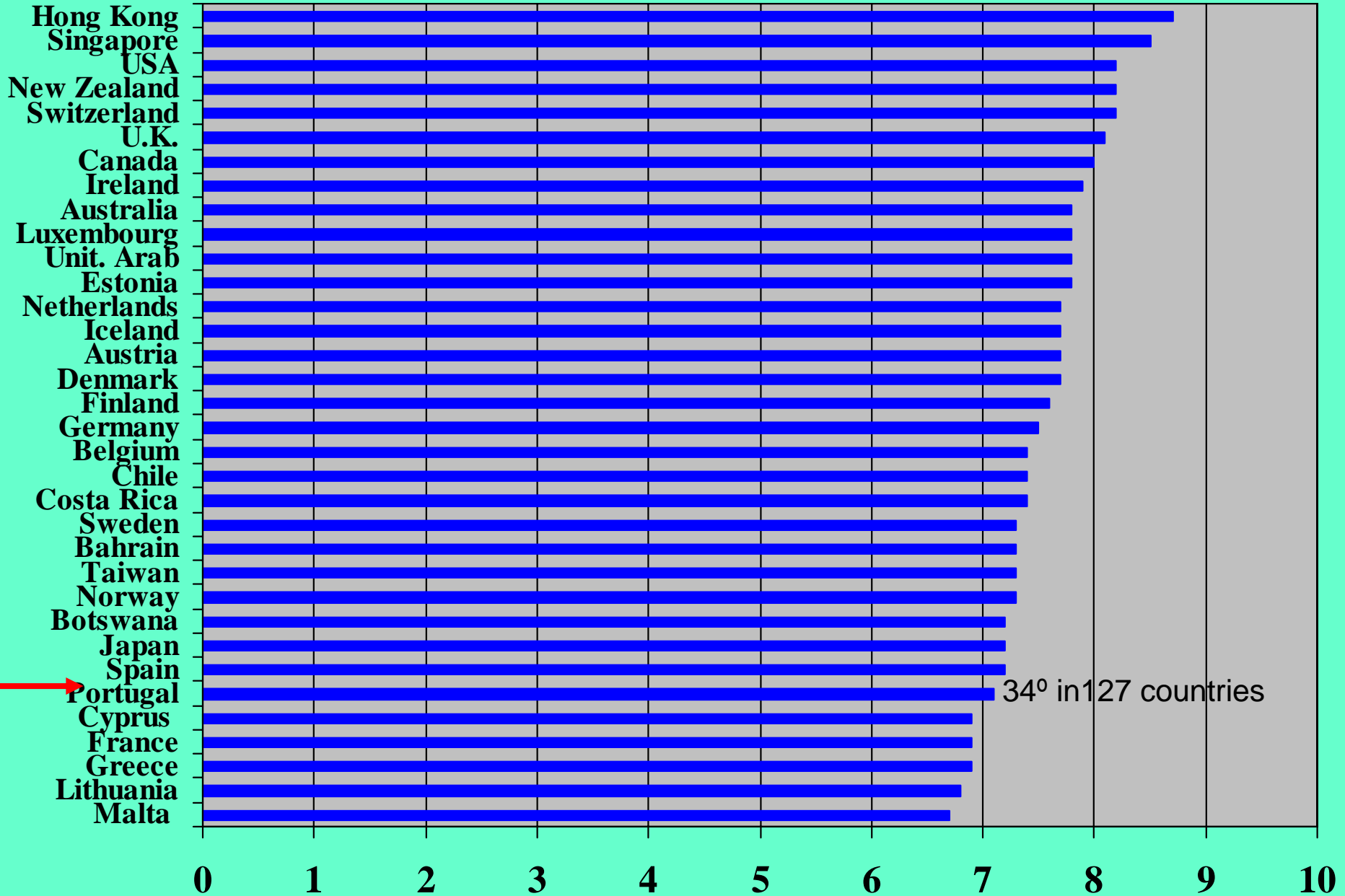
	Total	Quality of Institutions	Technological absorption	Macroeconomic environment
Finland	1	5	2	4
USA	2	18	1	23
Sweden	3	17	4	12
Denmark	4	2	5	3
Taiwan	5	26	3	17
Singapore	6	4	10	1
Iceland	7	3	9	11
Switzerland	8	9	6	13
Norway	9	6	13	2
Australia	10	10	14	14
.....				
Portugal	22	15	20	37
Spain	29	38	27	24
Ireland	26	13	31	7
Greece	46	43	37	51

World Bank Indicators of «Governance» (2004)

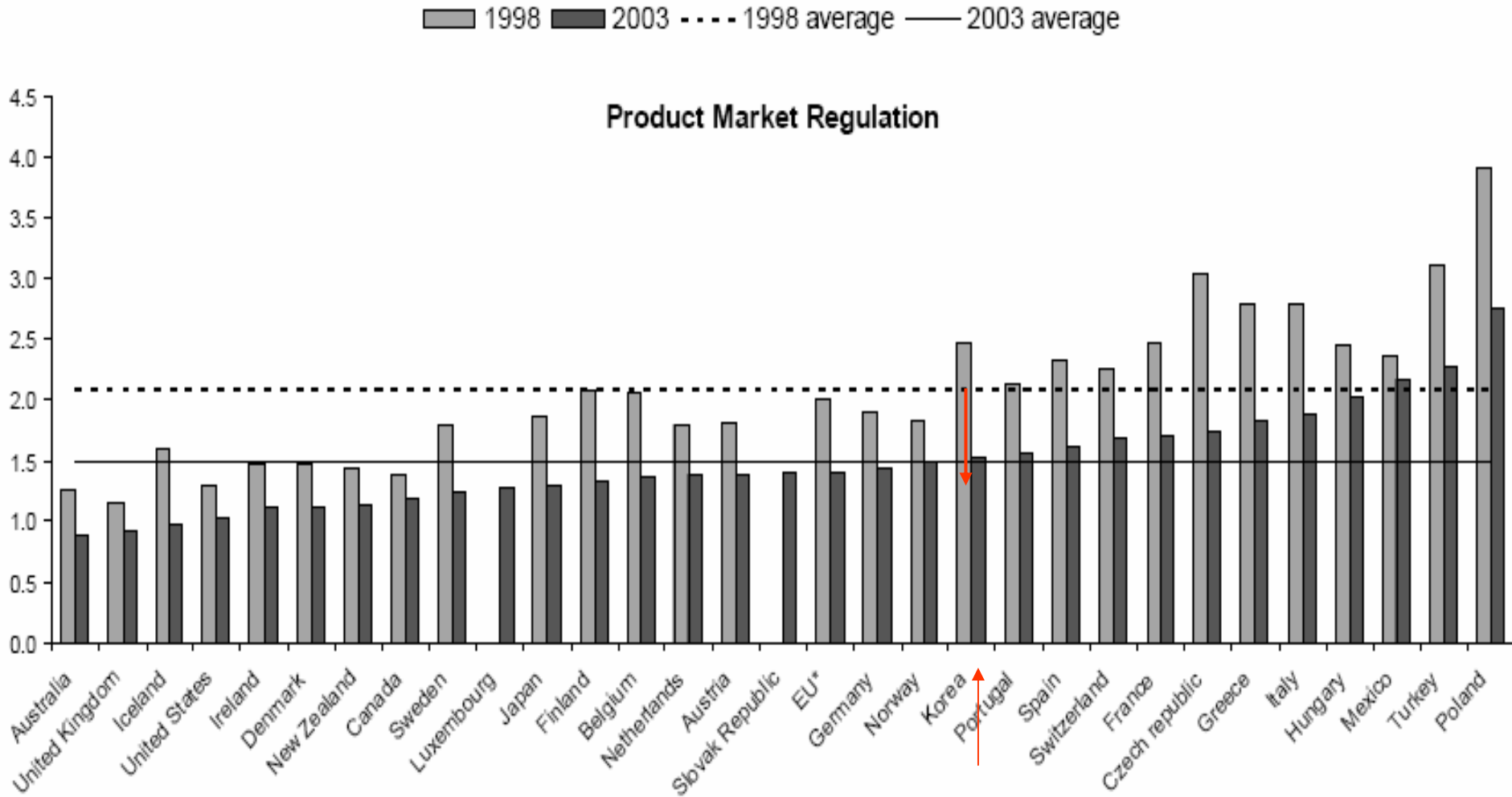


Source: World Bank "Governance Indicators for 1996-2004", 2005

Index of economic freedom (Fraser Institute 2003)

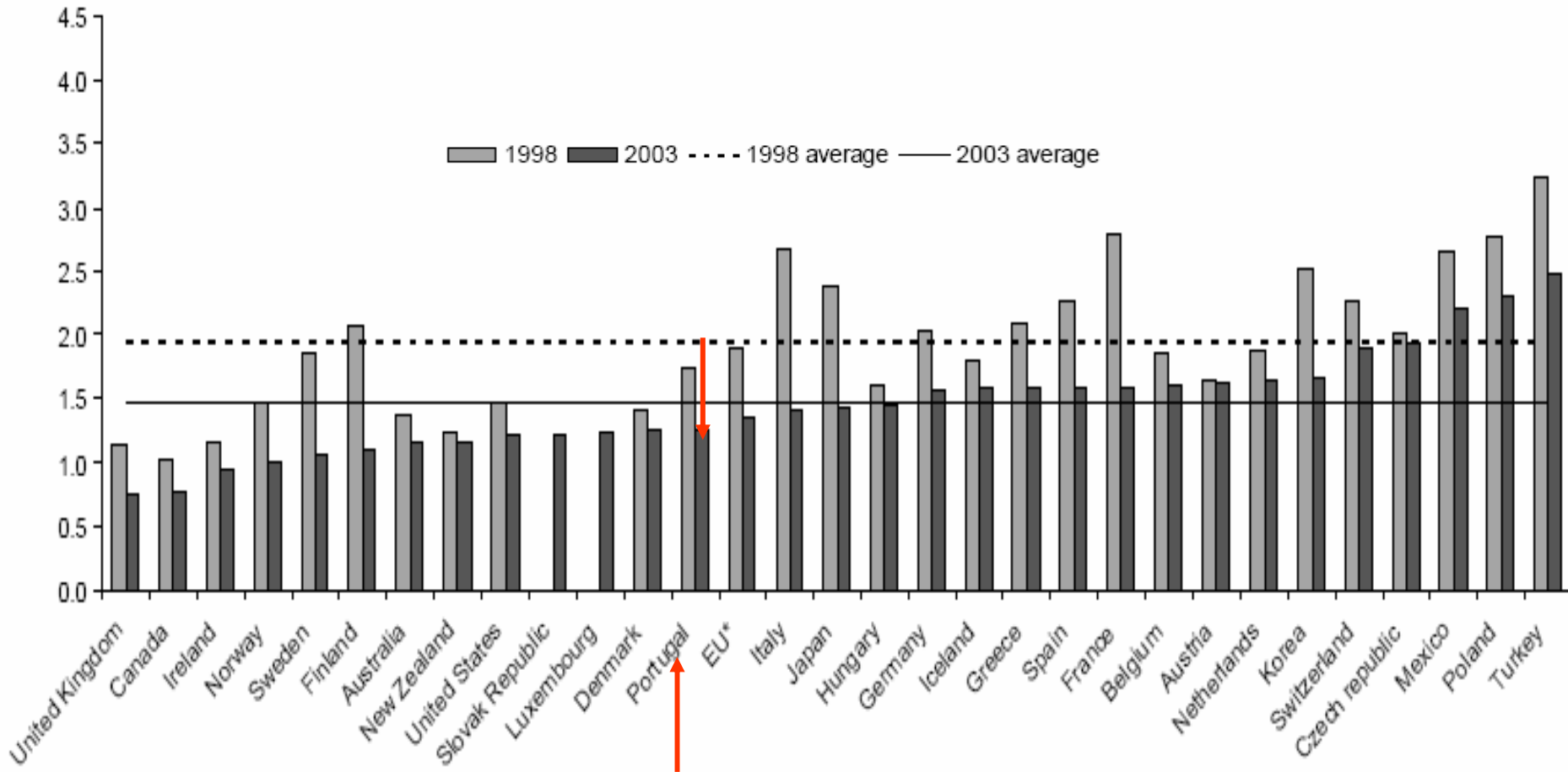


OECD Regulation Index (1998-2003)



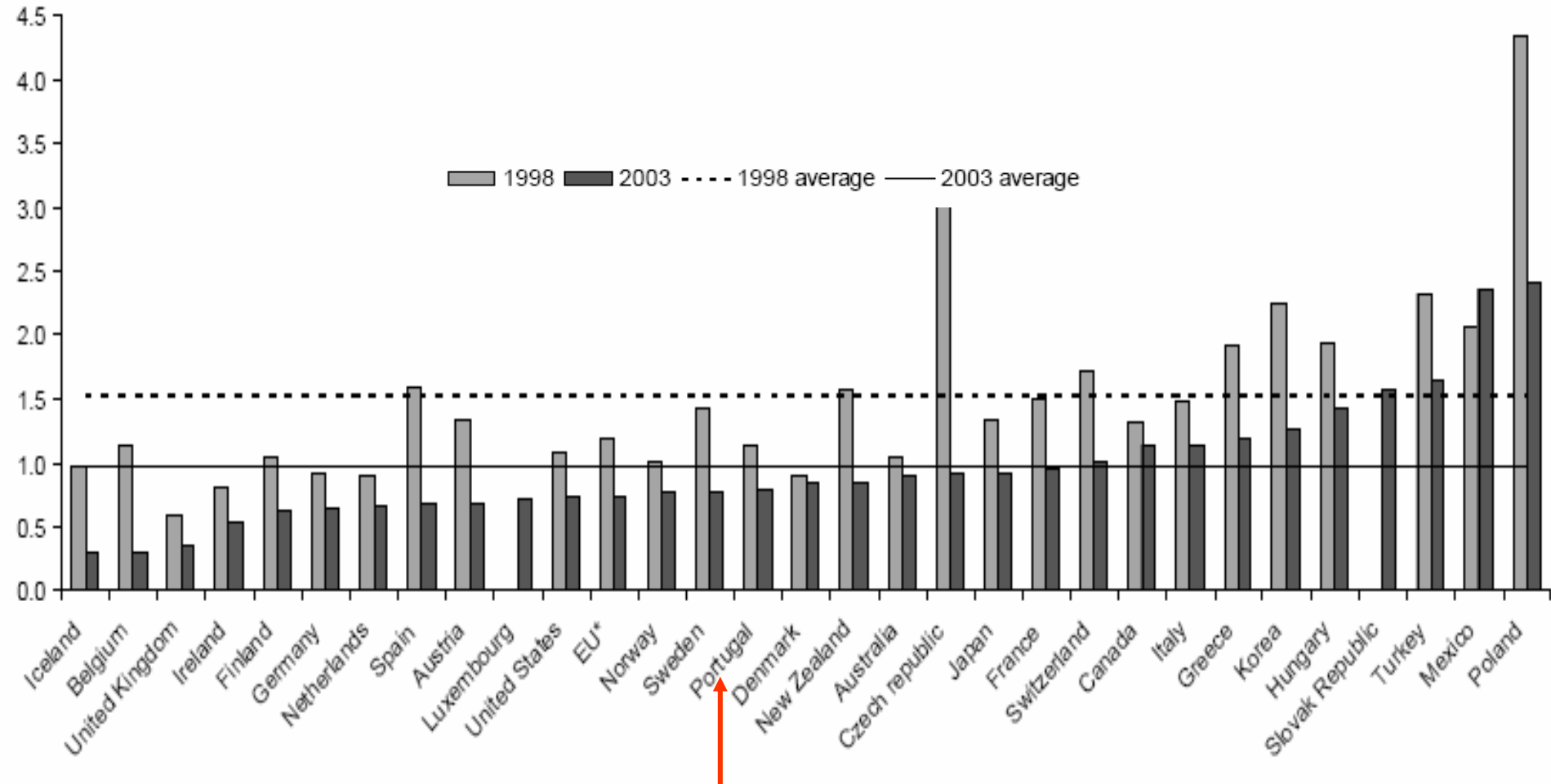
OECD Regulation Index (1998-2003)

Barriers to Entrepreneurship



OECD Regulation Index (1998-2003)

Barriers to Trade and Investment



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