

The Portuguese economy: short essays on structural changes

Stabilization of the financial sector Some issues for discussion



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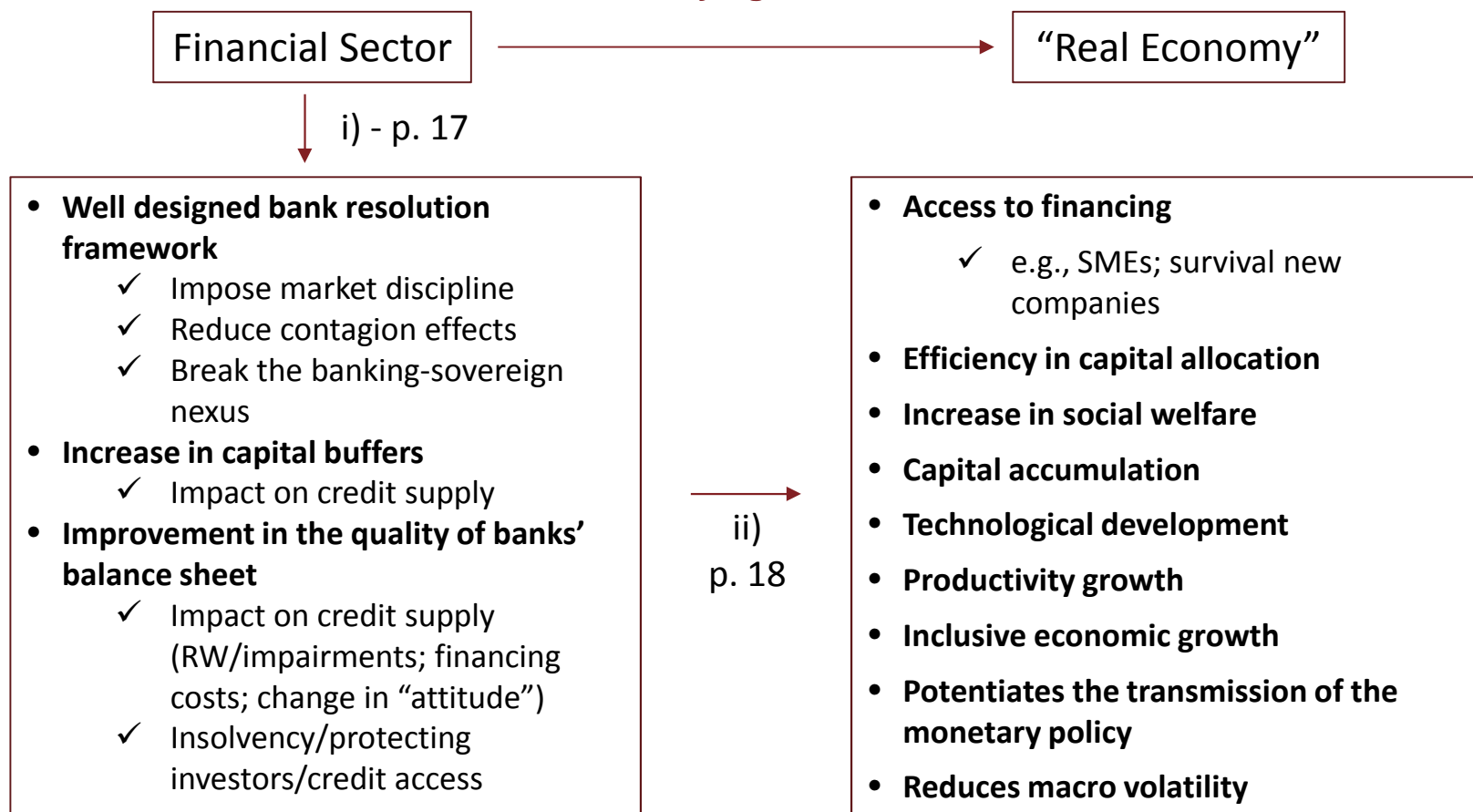




Stabilization of the financial sector – an overview of the economic impacts

Motivation of the study: discuss “the expected macroeconomic impacts generated by the recent stabilization of the Portuguese banking sector” (p. 15)

Potential transmission mechanisms underlying the review of literature:





Stabilization of the financial sector – an overview of the economic impacts

Some challenges still faced that may restraint the transmission mechanism

Financial Sector

i)

- **Well designed bank resolution framework**

- ✓ Impose market discipline
- ✓ Reduce contagion effects
- ✓ Break the banking-sovereign nexus

- **Increase in capital buffers**

- ✓ Impact on credit supply

- **Improvement in the quality of banks' balance sheet**

- ✓ Impact on credit supply (RW/impairments; financing costs; change in "attitude")
- ✓ Insolvency/protecting investors/credit access

A bank resolution framework under an incomplete Banking Union

- ✓ **SSM**
- ✓ **SRM**
 - Backstop for the SRF ✗
- **EDIS ✗**

+ Challenges underlying the implementation of the BRRD



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- The link between the two must be taken into account

- The constraints underlying a significant transfer of NPLs away from the system should not be neglected

- ✓ Transfer price and the underlying impact on banks' capital
- ✓ Public finances and the EU regulatory framework (BRRD, State Aid)

- **Impact on credit supply:** need to analyze credit supply vs credit demand effects to assess whether the supply effect is, in fact, binding

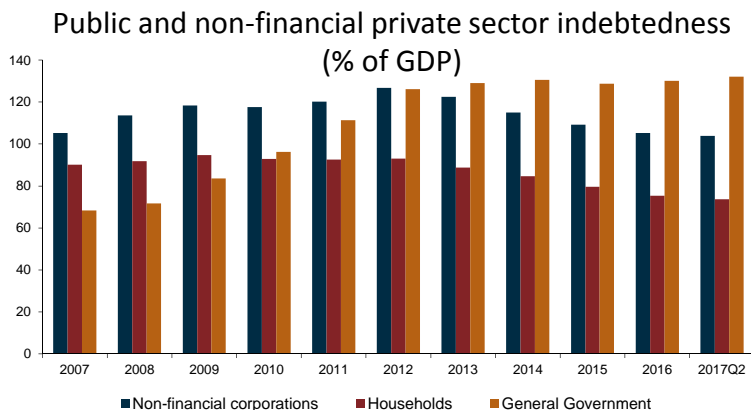


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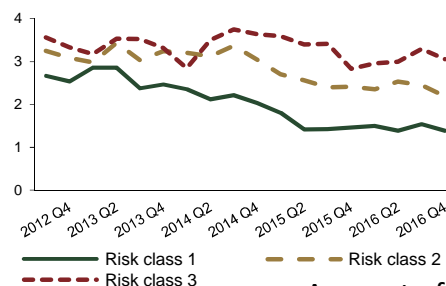
The levels of indebtedness are still high



Source: Banco de Portugal
 Note: Public debt calculated in accordance with the definition used in the Excessive Deficit Procedure, i.e. consolidated general government gross debt at nominal or face value.

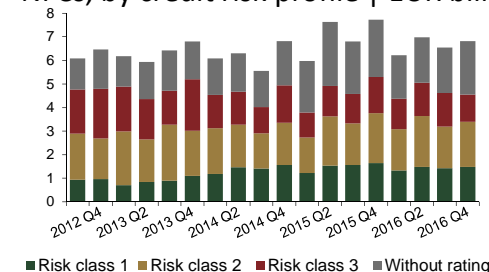
The allocation of resources plays a key role

Average spread on new bank loans to private NFCs, by credit risk profile | Per cent



Source: Banco de Portugal (Financial Stability Report, Dec 2017)
 Loans granted by the seven largest banking groups operating in Portugal. Spreads weighted by loan amounts. Lower- (higher-) credit-risk firms lie in risk class 1 (risk class 3).

Amount of new bank loans to private NFCs, by credit risk profile | EUR billions





Obrigada!