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Banking in Portugal

Anabela Sérgio

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To my mother Ângela and my husband José António

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Foreword

The Portuguese banking system was essentially ignored before the recent financial crisis that swept through a good part of the western world. In that respect it was like that of most small economies. Policy makers and scholars took for granted that banking systems in such economies were either too small to matter to the outside world, or that they were exactly like those elsewhere, or they even believed both propositions. Of course, any knowledge of the history of banking crises would have shown that such crises can originate in surprising places.

The Baring Crisis in London in 1890, for example, originated with Argentina. One of the best known banking failures of the nineteenth century, it came about because of links between government and a bank. Financial problems in Argentina had such an impact on Barings, a well-known international bank based in London, that prompt and skilled management by the Bank of England was required to ensure that the difficulties were contained and did not damage the rest of the British banking system and possibly also the standing of London as a financial center. The episode provides many warnings, which if heeded could have led to useful action before the recent crisis.

However, these warnings were not heeded and the result was that banks in small, open economies caused major problems that extended well beyond these economies. These problems came about and spread so widely in part because the banks in these economies were implicitly, indeed sometimes explicitly, supported by the governments of their home economies. These bank–government links, whether actual or merely hoped for, led to problems for both. In some cases the problems were of almost catastrophic seriousness. Cyprus and Greece come to mind.

But there were also problems elsewhere, for example in the Iberian Peninsula. This book will, it is hoped, contribute most usefully to the prevention of future problems in one country in that peninsula, Portugal. In addition, there are clear implications for nations elsewhere.

Its chapters, including a most useful introduction, guide us through all aspects of Portugal's banking system. We get a clear summary of its main features, together with descriptions of retail, commercial, investment, and private banking (including asset management). These chapters tell us what the system does. We also have chapters on how well it does these things, on how risk is managed in the system, and on the role of the central bank. Very usefully, and indeed essential to full understanding, we can also read about governance and how it changed over time, the expansion of these banks into former Portuguese territories, and how the crisis and sovereign debt problems interacted and thus affected the system.

This admirable short book by Anabela Sergio and her distinguished team of co-authors gives us a thorough overview of the Portuguese banking system – how it evolved, how the crisis affected it, and how it is now. It will be useful to all researchers interested in the varieties of national banking systems, and can guide and inform plans for the integration of banking systems in the eurozone, as well as any similarly ambitious plans that may exist elsewhere.

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Contributors

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