



BANKING & FINANCE | Troika's Memorandum of Understanding and Bank of Portugal Notice no. 3/2011

The Portuguese State will execute today the document “*Portugal: Memorandum of Understanding on Specific Economic Policy Conditionality*” (“Memorandum”), which contains a set of measures to be adopted by Portugal in the context of the financial aid requested to the International Monetary Fund and to the European Union.

Times of crises are certainly times of increased regulation, but also contexts of new opportunities. This Flash aims at highlighting the following measures, among others contained in the Memorandum, which may have a greater impact on the banking and finance sector:

- (i) the privatisation programme to be implemented by the Portuguese State which will include companies such as ANA, TAP, CTT, GALP, EDP, REN and *Caixa Seguros* universe (insurance sector of group *Caixa Geral de Depósitos, S.A.*);
- (ii) the commitment to facilitate the issuance of government guaranteed bank bonds for an amount of up to 35 billion Euros, including the existing package of support measures; and
- (iii) the obligation for Portuguese banks to comply with Core Tier 1 capital ratios not inferior to 9% until 31 December 2011 and not inferior to 10% until 31 December 2012. In case banks are not able to comply with these standards in time, the Memorandum foresees the possibility of the Portuguese state to participate in the bank's capital up to an amount of 12 billion Euros.

In what concerns this latter measure, it should be noted that the Bank of Portugal had very recently issued Notice no. 1/2011 imposing that Portuguese banks should strengthen their Core Tier 1 capital ratio to an amount of not less than 8% of their risk weighted asset, until 31 December 2011. However this Notice was today revoked by the Bank's of Portugal Notice no. 3/2011, published on the Portuguese Official Gazette (*Diário da República*), which, in line with the Memorandum's measures, strengthens the capitalization levels of the banking national system. Notice no. 3/2011 may be viewed [here](#).

