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Vieira de Almeida's Pedro Cassiano Santos on the new interest in Portuguese debt markets
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Comment | Pedro Cassiano Santos

Portuguese debt capital market profile on the rise

Over the last 18 months, the Portuguese capital markets have been stirred into life by a number of interesting trades, many involving the acquisition of shares in Portuguese-listed companies by foreign investors.

This trend reached a new high in recent weeks when Brazilian industrial group Companhia Siderurgica Nacional (CSN) launched a takeover bid for Cimpor, a major Portuguese-based cement company. Two other Brazilian groups (Votorantim and Camargo Correa) have taken a significant interest in Cimpor, acquiring stakes in the company with deals for €1bn (£893m) and €1.3bn (£1.2bn) and generating additional excitement in the market.

The CSN takeover bid was ultimately unsuccessful, but the interest shown in the Portuguese capital markets by so many international players – particularly the large Brazilian groups – certainly indicates a radical change in the market profile.

On the debt side, the situation has also undergone profound changes over recent months. When looking at the condition of Portuguese debt capital markets since September 2008, it is hard not to mention the way in which increasing pressure to obtain liquidity has forced Portuguese financial institutions to be creative in their search for funding, tapping into sources that, until then, had been under-used.

During this period, issues of covered bonds (mostly backed by mortgage loans) by Portuguese banks have soared and helped to create liquidity for Portuguese banks, allowing them to enjoy an AAA rating. A total already in excess of €22bn (£19.7bn) has been issued during this period and all of the six major Portuguese banks have established programmes allowing them to continue issuing in the coming years.

In particular, two of Portugal's banks have issued public sector bonds, enabling them to refinance their lending to the Portuguese public administration. These instruments, mostly by virtue of their senior rating, have created a handy tool for Portuguese banks to post collateral with the European Central Bank and access its liquidity lines.

As in the US and European economies, the state also played a part in helping distressed credit institutions to obtain liquidity. In Portugal, the state provided an optional guarantee scheme for debt issues by credit institutions, making available a total of €20bn (£17.9bn) for guaranteeing debt issuances of up to three years (or five years, in exceptional cases).

'The interest shown in the Portuguese capital markets means a radical change in the market profile'

In total, no less than seven Portuguese credit institutions entered into these state-guaranteed deals, for a total issued amount of almost €5bn (£4.5bn). This number is less than originally anticipated, which illustrates the advantage extracted by banks when using the covered bond route.

In another interesting development in Portuguese debt capital markets, the use of foreign-based vehicles (for instance, the Dutch BV) have become less popular, as issuers turned to Interbolsa Notes, cleared and settled through a Portuguese-based system directly connected to international clearing systems and benefiting from withholding tax exemption on interest payments made to investors from white-listed jurisdictions.

For a small jurisdiction in the Eurozone, the ability to stay afloat in the turbulent seas of the liquidity crisis during the latest months is already an achievement. The question now is how Portugal will perform when markets sail more smoothly and in favourable winds.

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