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GLOBAL COMPETITION REVIEW

DG Comp approves Portuguese bank state aid

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Katy Oglethorpe

The European Commission has temporarily approved €1.7 million in state aid to prop up Portuguese state-owned bank Caixa Geral de Depósitos (CGD).

Caixa Geral de Depositos

Portugal must submit a restructuring plan for the bank within six months

Portugal has in return committed to providing a restructuring plan for CGD within six months of receiving the aid, after which the commission will take a final decision on the compatibility of the capital injection with EU state aid rules.

Portugal notified the DG Comp of recapitalisation in June, designed to improve the capital of CGD so that it complies with the European Banking Authority's stress test requirements. These tests aim to assess the resilience of financial institutions to adverse market developments and to contribute to the overall assessment of systemic risk in the EU financial system.

CGD is the biggest Portuguese banking group and has operations across the world. At the end of 2011, it held total assets amounting to €120.6 billion.

DG Comp found that the recapitalisation measures constituted state aid, as they used state resources and allowed the bank to quickly raise capital, and assessed it accordingly.

"The commission found that the measures were well-targeted, limited to the minimum necessary and contained sufficient safeguards limiting distortions of competition," it says.

The measures are approved until the end of December, unless Portugal submits a restructuring plan before that date.

Jacques Derenne, at Hogan Lovells in Brussels, says the state aid award and restructuring commitments signifies "business as usual" for the commission

"The commission has adopted a consistent approach since 2008," he says. "The restructuring plan is a systematic requirement once rescue aid is granted to a bank in distress – if CGD does not restructure within six months it will have to be liquidated."

Ana Rita Andrade, at SRS Legal in Lisbon, says the aid to CGD fits within the temporary rules on state aid for banking recapitalisations during the crisis, but falls outside the scope of the Troika financing measures, which apply only to private banks.

"This is not going to have a direct reflection on Portuguese companies, but overall it will strengthen the Portuguese banking system and hopefully will act as a broad-spectrum incentive to the economy," she says.

Counsel to Portugal's government

Vieira de Almeida & Associados

Partner Miguel Mendes Pereira in Lisbon