Portugal’s new Socialist Party government bails out another bank

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29 December 2015

One of the first acts of Portugal’s new Socialist Party (PS) government was the bailout of the Banco Internacional do Funchal SA (Banif). It is the country’s eighth-largest commercial bank and the main lender in the two Autonomous Regions of the Azores and Madeira, accounting for around a third of bank deposits.

The bank’s share price had nose-dived and customers began withdrawing their savings after it failed to repay €125 million of the €1.1 billion in aid and loans it had received in an earlier bailout in 2013.

The government has now broken up Banif, selling the “good” assets to Santander bank for €150 million and taking on toxic debts amounting to €2.26 billion. It rushed to complete the deal ahead of tighter European Union (EU) rules that come into effect in January that could impose losses on major bondholders and depositors of any bank that goes into liquidation.

Prime Minister António Costa said the rescue came “at a very high cost,” but was necessary “to defend the national interest.” He accused the troika, the European Commission, European Central Bank (ECB) and International Monetary Fund (IMF), of failing to monitor the country’s financial system.

Finance Minister Mário Centeno said, “This money comes from the state budget and will be reflected in the 2015 state deficit and will also be reflected in future deficits, in that it increases the debt of the country.” He reassured the troika that the bailout would not be allowed to derail the PS’s commitment to cut the country’s budget deficit in 2019 to levels below the Commission’s 2 percent target.

The bailout was only possible because of the actions of the Left Bloc (BE) and the Communist Party (PCP), whose support brought the minority PS government to power last month. As part of their “left government” agreement with the PS, both parties shelved their programmes, which included bank nationalisation, debt rescheduling and opposition to EU fiscal policies. They had previously declared that this was the only way to overcome Portugal’s economic crisis.

The PS presented the bailout proposals to parliament knowing that although the BE and PCP would vote against them, the opposition right-wing Social Democratic Party (PSD) would came to its rescue by abstaining in the vote. With the backing of the BE and PCP, the PS and PSD can act in concert as a “grand coalition” on all the major issues.

The BE and PCP have paved the way for another banking bailout, which the working class will be made to pay for.

Despite both parties feigning surprise and outrage at the PS’s decision, the course of the Banif events was entirely predictable.

In May 2014, the previous PSD-Democratic and Social Centre (CDS) government declared that Portugal was making a “clean exit” from the €78 billion bank bailout it received in 2011 and that the financial system was stable. Everyone knew this was a lie. Banif was bailed out in 2013 and in the following year, Banco Espírito Santo (BES), Portugal’s second largest bank, had to be rescued with a €4.4 billion bailout.

Finance Minister Centeno revealed a few days ago that eight plans for restructuring Banif were put forward under the auspices of the Bank of Portugal, but rejected. It is inconceivable that Centeno, who was an adviser to the Bank, was unaware of all this.

The same should be said of the BE. The party has its own economic advisers including new MP Mariana Mortágua, who made a name for herself investigating the BES scandal. Party leader Catarina Martins complained that the Banif case was the result of a “political game and concealment by the right-wing [PSD-CDS] government: First, with the complicity of the European institutions, not to affect the propaganda of the ‘clean exit’; then, with the complicity of the Bank of Portugal, in postponing a decision until after the elections.”

“The time has to stop now when private banks are cleaned with public money and then go back into private hands. We must ensure that there will be no other banks demanding a blank check,” Martins continued, knowing full well that another crisis is in the offing with the fallout from the BES bankruptcy. The sale of Novo Banco, the “good bank” that resulted from the collapse, has been shelved for months over price disagreements with potential buyers. Billions more of public money is likely to be involved.

Behind the rhetoric, the response of BE to the Banif case is to let the PS and themselves off the hook by calling for a Commission of Inquiry to look at separating the supervision and intervention powers of the Bank of Portugal and making the dismissal of the Governor easier. All of the parties have agreed, knowing the BE’s posturing represents no threat.

Michael Collins, Investment Commentator at Fidelity International, one of the world’s leading asset management companies, recognised this last week when he stated, “Encouragingly for investor, business and consumer confidence, Leftist coalition members are toning down anti-euro and anti-EU demands and comments”.

The Banif bailout can only lead to further attacks on the working class. Following the 2008 economic collapse, which saw Portugal’s economy shrink by six percent and government debt rocket to 130 percent of GDP—the third highest in the EU—the Portuguese ruling elite, like its European counterparts, carried out a social counter-revolution. Public services, jobs, wages and welfare were slashed.

Cuts of up to 10 percent for staff earning more than 1,500 euros ($1,620) a month came into force in 2011 and a super-tax (TSU) of 3.5 percent was levied on all wages. The National Minimum Wage (NMW) was frozen at €485 a month, as were pensions and social benefits. Unemployment shot up to 16 percent, and remains at 12 percent. Half a million people, five percent of the population, have been forced to emigrate in search of jobs.

In the last election the BE declared that a condition for supporting a PS minority government was a promise by the PS to reverse some aspects of this social decline. The BE declared three red lines—scrapping the TSU, unfreezing pensions and an end to “conciliatory layoffs.”

Even on these minor concessions the PS is dragging out. From next month, those earning up to €7,000 will no longer pay the TSU; this covers almost 3.5 million households or just over half of the families who presently pay the tax. The government has announced increases in pensions, but only pensioners earning less than €628 euros a month will see any benefit. Public sector wage cuts will be reversed, but only phased in to the levels they were several years ago without regard for inflation.

The NMW will rise to €530 on January 1 and €600 by 2019, but Labour Minister Josée Vieira da Silva said the government is willing to discuss ways to help companies absorb the increase, which can only mean workers will have to pay for it in other ways.

In the same month these meagre increases will come into effect, prices for electricity, rents, telecommunications and bread are all set to rise.

Meanwhile the EU has warned that Portugal must not deviate from austerity. “It is in the genuine interest of the Portuguese government and Portuguese society to keep the country on a track that improves fiscal sustainability and competitiveness,” one official said.

The PS government has yet to submit Portugal’s overdue 2016 budget to the European Commission (EC). An EC spokesperson, Annika Breidthardt, said Friday that contacts with the Portuguese authorities are ongoing. “We will need to see a draft budgetary plan before we can make any comment on the budgetary situation of this year.”