FINANCIALISATION IN THE EUROPEAN PERIPHERY AND THE SOVEREIGN DEBT CRISIS: THE PORTUGUESE CASE

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ABSTRACT

The financial sector has acquired great prominence in most developed economies. Some authors argue that the growth of finance is at the root of the financial and economic difficulties of the past decade. This paper aims to analyse this claim by looking at financialisation in the European periphery, focusing on the Portuguese case. The emergence of this phenomenon is contextualised from a historical, economic and international perspective. Based on the analysis of several indicators, the paper concludes that the Portuguese economy exhibits symptoms of financialisation that are typically found in Southern European countries and that these differ significantly from the patterns characterising financialisation processes in more advanced economies. The paper discusses how the increasing importance of financial actors and motives in the Portuguese economy played a decisive role in the emergence of the crisis.

KEYWORDS

Portugal, Financialisation, Liberalisation, Deregulation, Globalisation, and Sovereign Debt Crisis.

JEL CLASSIFICATION

B50, E44 and E60.

1. INTRODUCTION

In recent years, finance has acquired great prominence and assumed growing dominance over the economy in most developed economies (e.g. Greta R. Krippner, 2005 and 2011; Gerald Epstein, 2005; Thomas Palley, 2007; Özgür Orhangazi, 2008; and Gerald F. Davis, 2009), such that '*it is difficult to escape the impression that we live in a world of finance*' (Krippner, 2005, p. 173). This process, which according to Basak Kus (2012), began in the US during the early 1980s following deregulatory reforms under the Reagan Administration, has been referred to as financialisation.

An increasingly diverse body of literature has addressed the causes, patterns and consequences of financialisation. In the wake of the Great Recession, many authors suggest it has contributed to the subprime crisis and thus to exacerbating the levels of anaemic growth, unemployment, inequality and poverty that had existed before this crisis (e.g. Palley, 2007; Richard B. Freeman, 2010; and Kedrosky and Stangler, 2011).

Our goal in this paper is to study financialisation in Portugal. We build upon and develop previous research on the growth of finance in Portugal by Sérgio Lagoa *et al*. (2013), Ana Santos *et al*. (2015), Nuno Teles (2015) and Ricardo P. Mamede *et al*. (2016), by using the financialisation literature to bring together a wide set of specific indicators and then put these into a historical and institutional perspective. This paper describes the financialisation process and its connection to the crisis dynamics in a country that does not follow the pure neo-liberal financialisation model observed in more developed countries (to which the literature pays greater attention). Portugal belongs to a monetary union and has an intermediate development level, sharing characteristics of both developed and peripheral countries.

We find that the strong growth of the financial sector in Portugal was preceded by widespread privatization, liberalisation and deregulation of financial activities. Other features of the financialisation process include the heavy indebtedness of the non-financial sector, and the involvement of non-financial corporations (NFCs) in financial activities. Initially, and until the late 1990s, financialisation implied strong economic dynamics, mainly underpinned by high credit growth. However, the economy started to lose momentum at the turn of the millennium and its structural weaknesses emerged clearly; later, this gave rise to the sovereign debt crisis. We argue that the financialisation process played an important role in creating the conditions that led to the Portuguese debt crisis.

The remainder of the paper is organised as follows. Section 2 presents a selected literature review on the concept of financialisation, its manifestations and main implications around the world. The change in the regulatory framework of the financial sector in Portugal is discussed in Section 3. Section 4 highlights the main signs of financialisation in the Portuguese economy. In Section 5, we emphasise the role of financialisation in the emergence of the Portuguese sovereign debt crisis. Section 6 concludes.

2. FINANCIALISATION AND ITS CONSEQUENCES: A REFERENCE TO THE LITERATURE

For many years, the financial system worldwide was subject to such strict regulations and restrictions on interest rates, products, and the volume and allocation of credit that some authors talked about financial repression (Malcolm Sawyer, 2014). However, a strong drive for the liberalisation and deregulation of the financial system began in the 1980s on the grounds that financial development was thought to be crucial to higher economic growth as it had a positive effect on savings and thus investment; this view was supported by both theoretical (Ross Levine, 2005) and empirical arguments (Levine, 2005; James B. Ang, 2008; and Arestis *et al*., 2015). As a result, regulations were slackened, ceilings on interest rates removed, reserve requirements lowered, directed credit programmes abolished, and international capital controls eliminated (Sawyer, 2014 and 2015).

The deregulation and liberalisation of the financial sector resulted in its strong growth, not only through deposits, loans and stock market, but also derivatives, securitisation, and shadow banking (Epstein, 2005). This originated excessive financial deepening, casting doubts on the "finance-growth nexus" (Sawyer, 2014). Empirical studies confirm the decrease or even reverse in the relationship between financial development and economic growth (Kose *et al.*, 2006; Prasad *et al*., 2007; Rousseau and Wachtel, 2011; Cecchetti and Kharroubi, 2012; Barajas *et al.*, 2013; and Dabla-Norris and Srivisal, 2013). Excessive financial deepening and its negative impacts on the economic system have been referred to as financialisation or finance-dominated capitalism.[1] Although there is no single and generally accepted definition of financialisation (Krippner, 2004; and Leiva and Malinowitz, 2007), one of the broadest concepts defines it as '*[…] the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operations of the economy and its governing institutions, both at the national and international level*' (Epstein, 2001, p. 1).

Besides the simple quantitative growth of finance, financialisation encompasses other diverse phenomena: higher profit accumulation of financial activities and financial corporations compared with other activities and NFCs, respectively (Epstein, 2005; Krippner, 2005; Engelbert Stockhammer, 2010; and Botta *et al*., 2015); "shareholder value orientation"; greater use of financial products (credit, insurance, fully funded pension funds, among others) by individuals; increasing international capital mobility (Stockhammer, 2010); and financial interests dominating over economic, social, environmental and political interests (Robin Blackburn, 2006; James R. Crotty, 2007; Ben Fine, 2010; and Alessandro Vercelli, 2013), with the encroachment of finance into the realms of everyday life (Natascha van der Zwan, 2014).

[1] These two expressions are normally used interchangeably. Henceforth, we will only refer to the concept of financialisation.

Following Fine (2011), FESSUD (2011) discusses the following features of financialisation: development and proliferation of financial markets; deregulation of the financial system and of the economy in general; the emergence of new financial instruments, services, institutions and markets (for example, the growth of the shadow banking system and securitisation – Stockhammer, 2010); the dominance of finance over other industries in the areas of investment, production and employment; significant growth of consumption supported by the increase in household debt (Botta *et al*., 2015); the diffusion of market and financial logics in economic and social areas previously unaffected by these logics; and a culture oriented to individualism, self-interest, rationalism and market values.

Some authors have argued that financialisation contributed to the subprime crisis in the USA in 2007 and to the Great Recession in Europe in 2008-2009 (Freeman, 2010; Stockhammer, 2010; Kedrosky and Stangler, 2011; Eckhard Hein, 2012; and Tomaskovic-Devey *et al.*, 2015).

In this context, many authors have drawn attention to the negative effects of financialisation, which have been summarised by FESSUD (2011) as follows. Firstly, it reduces the level and efficacy of real investment as funds are diverted to financial activities; this results in the decoupling of the financial sector from the non-financial sector (Menkhoff and Tolksdorf, 2001) and slower economic growth. Secondly, corporations normally seek to maximise their short-term financial value, overlooking their long-run survival and social values, with NFCs becoming increasingly involved in financial activities (Crotty, 2005; Krippner, 2005). Thirdly, public policies are pushed into accepting market mechanisms in all areas of economic and social life, sometimes with deleterious consequences in terms of efficiency and equity. There is a rise in income inequality due to market-oriented mechanisms and wage stagnation. Jacob Assa (2012) and Kus (2012) state that financialisation has had negative consequences on income equality, growth and employment in OECD countries. Fourthly, growing areas of economic and social life are exposed to volatility and crises, which often characterise financial markets. In general, there is greater vulnerability to debt-inflation episodes (Palley, 2007) and financial crises (Stockhammer, 2010; Freeman, 2010; and Sawyer, 2014).

Although financialisation is more developed in the USA and UK economies (Fine, 2011; Palley, 2007; and French *et al*., 2011), it is present in most economies, albeit with some heterogeneity in time and space (Power *et al*., 2003; Jayadev and Epstein, 2007; Leiva and Malinowitz, 2007; Palley, 2007; Orhangazi, 2008; Sawyer, 2013 and 2015; and Vercelli, 2013). This heterogeneity is related with the dichotomy between "bank-based (or dominated) financial systems" and "market-based (or dominated) financial systems" (Sawyer, 2014), although both types of financial system support financialisation (Sawyer, 2015).

Stockhammer (2010) and Hein (2012) confirm that financialisation is not homogeneous across countries and propose classifying long-run development patterns into three paths: the 'debt-led consumption boom'; 'domestic demand-led' development; and 'export-led mercantilist' development.

While differences are found in the financialisation of core countries, its dynamics on the periphery are even more dissimilar. Although this aspect is often neglected (Becker *et al*., 2010; and French *et al.*, 2011), there are few studies analysing the specificities of financialisation in peripheral economies. Erinc Yeldan (2000) concludes that the financialisation process has negatively impacted economic growth, unemployment and income distribution in Turkey. Leiva and Malinowitz (2007) suggest that it has worsened the real economic performance of Southern (developing) economies as well as those in the North (developed), namely implying weak growth rates and lower levels of employment due to a decline of productive investments. Similarly, Becker *et al.* (2010) focus on financialisation in two Latin American (Brazil and Chile) and two Eastern Europe (Serbia and Slovakia) countries, finding that this phenomenon has been extremely crisis-prone in the four cases.

In an analysis of the changes in the financial systems of Southern European economies in the last 15 years, Orsi and Solari (2010) conclude that they are "bank-based" and that the banks control credit, the stock exchange and investment in shares by acting as advisers, mediators, issuers, treasurers and investors. The authors claim that universal banks in these countries are able to decide who can invest, where to invest, and who makes a profit. They also consider that the most evident sign of financialisation in these economies is the great importance of banks, which sustain the dynamism of the economy by granting high levels of credit, especially for durable goods.

In what follows, we discuss the evidence and specificities of the financialisation process in the Portuguese case by looking at the points underlined by the literature: the long-run development model, deregulation of financial markets and institutions, relevance of bank credit versus financial markets, increase in financial sector profits and assets and the emergence of new financial institutions, involvement of NFCs in financial activities, expansion of market mechanisms across society and the role of public policies, and the importance of financialisation in creating crisis dynamics.

3. THE CHANGE IN THE REGULATORY FRAMEWORK: CREATING THE CONDITIONS FOR FINANCIALISATION

The development of the Portuguese financial system occurred later than in other European Union (EU) countries, mainly due to the nationalisation of the banking system in the aftermath of the 25th April 1974 Revolution[2] and the two agreements established with the IMF

[2] The revolution put an end to 48 years of conservative dictatorship, and instituted a democracy.

in 1977 and 1983. After the 1974 Revolution, a socialist-oriented policy was adopted and in 1974 and 1975 the government announced the nationalisation of the banking activity in order to prevent capital flight and to control the development of the economy. In 1976, the irreversibility of the nationalisations and the prohibition of banking activity by private agents were enshrined in the new Portuguese Constitution.

In the early 1980s, most of the banks were State-owned as a result of the nationalisation process and only mutual and cooperative institutions (*Caixas Económicas* and *Crédito Agrícola*) and foreign banks remained beyond direct State control. By 1991, the State-owned banks accounted for nearly 75% of the assets of the banking system (Antão *et al.*, 2009). On the other hand, banking activities were subject to restrictive regulations, namely on interest rates and the amount of credit. The financial system was characterised by weak levels of competition, innovation and efficiency (Caixa Geral de Depósitos, 2010).

In the aftermath of the revolution, Portugal experienced difficulties with its balance of payments and public finances due to the combination of high oil prices, weak external demand, substantial capital flight (associated with widespread nationalisations), disruptions in production (related to labour unrest), and real appreciation in the exchange rate (partially associated with real wage increases). Ultimately, this culminated in the need for external financial aid in 1977 and 1983. These two IMF agreements also slowed the development of the financial system as they attempted to correct external imbalances by imposing measures to contain the growth of domestic demand and money supply. These measures included credit limits, administrative control of interest rates, and limitations on the number and location of bank branches.

In 1986, Portugal joined the European Economic Community (now European Union) and started integration into the European Single Market, which required the gradual dismantling of the constraints on the financial system and, in particular, of the State ownership of banks and insurance companies. Even though the elimination of restraints had already begun in 1983 with banking and insurance activities again opened to national and international private corporations, a new set of liberalising measures were adopted in the late 1980s that included the progressive elimination of administrative limits on interest rates, credit growth, the number and location of bank branches, and compulsory investment in national public debt (Gabriela L. Castro, 2007). The latter element was important as it allowed banks to disinvest in public debt and free resources to finance the private sector. As an alternative, the State gradually increased the sale of bonds to foreign investors (in 2008 they owned 78% of public debt), but this made it more vulnerable to capital flights, as we will see below when discussing the debt crisis.

Consequently, a significant number of foreign banks opened activity in Portugal from the mid-1980s onwards, but they still remained a relatively small share of the domestic market. Concurrently, new domestic banks were created and the number of domestic and foreign banks increased considerably from the mid-1980s, with the number of branches more than doubling.

Whereas Portugal had 22 banks in 1985, this had risen to 62 in 2000 (Bank of Portugal, 1997 and 2000).

In 1989, amendments to the Constitution abolished the principle of the irreversibility of nationalisations, allowing the re-privatisation of banks to begin. By the end of this process in 1996, *Caixa Geral de Depósitos* was the only bank that remained Stated-owned, with around 20% of the assets of the banking system, a share it still held in 2015 (Banking System Statistics from Bank of Portugal, *Associação Portuguesa de Bancos* and Antão *et al.,* 2009).

The re-privatisation of banks was an important milestone in the evolution of the financial system, enhancing competition. Both banks and other public companies were re-privatised mainly through public offers to promote "popular capitalism", thus contributing to the development of the stock market. Commercial banks profited from this process by giving credit to small investors wishing to buy stocks, whereas investment banks gained by advising the government on the re-privatisation operations.

Subsequently - and especially after 1994 - rationalisation efforts and the threat of foreign takeovers gave rise to several waves of bank mergers and acquisitions that increased market concentration. Either by mergers and acquisitions or by internal growth, the re-privatisation process boosted the formation of large financial groups, consolidating the dominance of five of these. Since 1996, these five banking groups have controlled around 80% of the banking system in terms of assets, credit, resources and profits.

The adoption of European law contributed decisively to the liberalisation and deregulation of the Portuguese financial system, as evidenced by the new Organic Law of the Central Bank (1990), the transposition of the Second Banking Coordination Directive into the Portuguese law (1992), and the implementation of the EU Capital Adequacy Directive (1990-1993). From 1989 to 1994, the reduction in the legal requirement for reserves to the European level (2%) also allowed banks to easily extend the supply of loans at low interest rates.

Despite the liberalisation process, no financial crisis occurred for two decades in Portugal, contrary to what happened in other OECD countries (Kaminsky and Reinhart, 1999).

In the first six years of EU membership, Portugal's GDP per capita (in purchasing power parity) rapidly converged with the EU15 average, from 54% in 1986 to 68% in 1992. The economic dynamism until 1992 was partially explained by the faster growth of credit, to which the liberalisation of the banking system had contributed. GDP growth was also boosted by political stability and accession to the EU (which involved a substantial transfer of structural funds), access to loans from the European Investment Bank and significant inflows of FDI.

From the mid-1980s and particularly after 1990, the Portuguese economic policy was committed to the nominal convergence strategy that was inherent to the process of monetary integration in the EU. The Portuguese government implemented a strategy of disinflation, characterised by restrictive monetary policy, anchoring of the exchange rate to the German Mark, and fiscal policies aimed at reducing the public deficit and debt. This policy strategy, especially the high real appreciation of the currency, and the crisis of the European Monetary System (EMS) in 1992-1993, led to a recession that interrupted the catching-up process.

However, the 1993 recession was rapidly overcome, and in the remainder of the 20th century the Portuguese economy benefited from the improved performance of the international economy and the sharp reduction in real interest rates from the mid-1990s, which rapidly increased consumption and investment. The drop in interest rates was the result of the aforementioned 'nominal convergence' (in anticipation of the EMU), the liberalisation of the banking sector, and the free movement of capital within the European single market. Banks ensured the financing of the economy, borrowing money internationally and lending it internally. Portugal had a strong economic dynamism until the late 1990s, with the country converging in real terms with Europe and maintaining the public deficit under control. This dynamism was despite Portugal having the highest exchange rate appreciation of the (future) euro area countries between 1994 and 1998, due to the maintenance of a peg to the Mark in the face of larger inflation rates than in other European countries. Given the high rates of GDP growth between 1995 and 2000 (4.3% annually) and the scenario of low interest rates, the public deficit was controlled and the levels of indebtedness looked relatively sustainable.

The good economic performance was also the result of the positive momentum of the international economy, low oil prices, favourable exchange rate developments (with the dollar appreciating against the European currencies) and the rise in social expenditures and public investment. The expansionary fiscal policy was also visible through the high level of construction of new infrastructures (namely roads and motorways), largely thanks to the EU structural funds (Orlando Abreu, 2006).

4. EVIDENCE OF FINANCIALISATION IN PORTUGAL

This section addresses financialisation in Portugal. We start by examining the dimensions of the process that were more marked in southern Europe than in other countries in the past few decades (section 4.1). These include the increasing indebtedness of the private nonfinancial sector and the growth of the financial sector. This is followed in section 4.2 by the analysis of other aspects of the financialisation process that are common in more advanced economies but also occurred in Portugal, albeit less strongly: the increase in financial assets held by economic agents, the engagement of NFCs in financial activities, the broadening of market interests to other areas of the economy, and the orientation of public policy towards the interests of the financial sector.

4.1. INDEBTEDNESS OF THE PRIVATE NON-FINANCIAL SECTOR AND GROWTH OF THE FINANCIAL SECTOR

The steep increase in the indebtedness of the private non-financial sector and the correlated growth of the financial sector are the two key features of the financialisation process in Portugal. In the early 2000s, Portuguese households and corporations were among the most indebted of the euro area. During the 1980s, the real growth of credit (obtained from the difference between the nominal growth and the inflation rate) was very low and even negative in some years (Figure 1) as a result of slow economic growth, nominal instability and also the IMF intervention. The growth in credit started a strong upward cycle in 1995, reaching more than 25% per year in 1999; this can be explained by changes in both the demand and supply of the credit market.

On the demand side, the 'nominal convergence' strategy in anticipation of the EMU in combination with a favourable external economic context led to an increase in current and expected output, and a sharp decline in nominal and real interest rates. Initially, economic agents interpreted these changes as permanent, fostering a substantial rise in credit demand.

On the supply side, greater competition between banks – accruing from the opening up of the financial sector to private investment, the widespread privatisation of previously nationalised banks, and the arrival of foreign financial firms – also increased the availability, sophistication and diversification of financial products, particularly in the credit segment. The greater availability of credit was made possible by the domestic banks' easier access to international financial markets, which occurred even before the arrival of the euro due to the elimination of capital controls and a marked reduction in exchange rate risk. After Portugal joined the euro, the exchange risk disappeared and the access to European financial markets became even easier. Portuguese banks could diversify their funding sources by selling government bonds from their portfolios and borrowing on the euro interbank and bond markets, or from the European Central Bank (ECB).

Still on the supply side, the increased use of loans' securitisation made it easier for banks to offer financing at a lower cost. Securitisation operations began in 1997, and initially used non-resident special-purpose vehicles, due to the lack of national legislation. In 2000, specific legislation was created and this led to the rapid development of the securitisation market, especially after 2002. Loans securitised by banks, as a proportion of total credit to the private non-financial sector, grew from 1.6% in 2001 to 20.5% in 2011. Most securitisation operations were of mortgage loans, but consumer and loans to small and medium enterprises were also used (Bank of Portugal, 2008). Securitised loans recognised on the balance sheet increased from 2004, and from 2008 they represented the majority of securitised credit. In 2001, new financial institutions in the form of securitisation companies and funds started to grow exponentially, and reached 62% of the assets of all Other Non-Monetary Financial Institutions in 2011. Note that the emergence of new financial institutions is typical of a financialisation process.

The main effects of credit securitisation were to both facilitate and reduce the cost of banks' financing, allowing them to sustain credit growth during a period of already low economic growth; however, the effect on banks' risk-taking behaviour was relatively small. The accounting standards in Portugal and in the euro area did not allow banks to use securitisation operations to remove credit risk from the balance sheet (Antão *et al.*, 2009). Thus, unlike the US, these operations did not make banks take excessive risks when credit granting in Portugal. Moreover, the use of securitisation to reduce the need for capital was not significant because banks normally retained on the balance sheet the securities with greater subordination (equity tranche), which had high capital requirements (Bank of Portugal, 2008).

[Figure 1 around here]

[Figure 2 around here]

[Figure 3 around here]

In this context, the easier financing allowed banks to satisfy the demand for credit, feeding the increase in household and corporate indebtedness (Figure 2 and Figure 3). The high levels of household debt are essentially explained by the rise in mortgages from the early 1990s; house ownership boomed in Portugal, with around two-thirds of householders owning their home and 20% having a second house. House ownership was fostered by a malfunctioning rental market, the existence of subsidised mortgages by the government until September 2002, and fiscal benefits for savings designed to buy a house. By actively promoting house ownership acquired through bank credit (among other policy initiatives), the government played a significant role in shaping the patterns of financialisation in Portugal (Ana Santos *et al.*, 2015).

Housing or mortgage credit represented around 80% of total credit to households in 2011, with the remainder for consumption and other purposes, including credit cards and credit for car purchases. Loans were also used for purposes other than financing a house, such as the transaction costs for the house purchase, and for buying cars, furniture, home appliances and other consumption goods. According to the ECB (2009), this phenomenon was significant in the Portuguese market with 20% of the mortgage loans used for other purposes compared with 5% in the euro area. Nonetheless, credit to households was mainly directed to house purchase and, thus, was not a key driver of private consumption as it was in the US in 1997-2007 (Brown, 2007).

In relation to NFCs, medium and long-term credit to finance investment was the segment that exhibited the largest growth (Lagoa *et al.*, 2013).

In sum, the strong growth of household and NFCs indebtedness from 1995 is a decisive feature of the financialisation of the Portuguese economy.

The growth of bank credit supported the growth of the financial sector. From 1995 to 2011, the gross value added in the financial sector rose considerably from 3.4% of total gross value added in 1995 to 8.1% in 2011 (Figure 4). In 1995 the Portuguese financial sector was one of the smallest in the euro area in terms of value added (Figure 4), but by 2011 it was higher than the euro area average.

[Figure 4 around here]

The rapid growth of credit created profit opportunities for banks. Before the 2008 financial crisis, the average ROA of Portuguese banks was one of the largest in the euro area (EA). For instance, the average ROA of Portuguese banks in 2005 and 2006 was 0.93% and the unweighted average ROA of EA12 was 0.69% (ECB, 2007).

The growth of bank credit created two fragilities in the Portuguese financial system. The first was a sharp decline in banks' capital adequacy ratios, which in 2010 were among the lowest of the EA11. In 2010, the ratio of the Portuguese banking system was 10.3% compared with 13.6% in the EA11 (data from ECB Statistics on consolidated banking data). Additionally, because the growth of credit was not accompanied by that of deposits due to the decline in internal savings, the loans-to-deposits ratio rose sharply from 57% in 1989 to 172% in 2008, making banks over-dependent on market financing (data from the Bank of Portugal).

Another weakness of the banking system resulting from the evolution described above was the heavy concentration of loans in the real estate sector (households, construction and real estate corporations): the weight of these loans in total loans to the private non-financial sector went up from 17% in 1980 to 59% in 2008. For the purposes of comparison, in 2008 the weight of residential real estate as a proportion of total loans (including to government and non-residents) was much larger in Portugal (32%) than in Austria, Germany, Italy and the Netherlands (18%).[3] The importance of credit to the real estate sector exposed banks to a crisis in this sector.

The extent of the credit-led financialisation of the Portuguese economy is also captured by the growth in financial assets[4] and their distribution across financial sectors. Massimo Cingolani (2013) claims that an upward trend in financial assets indicates the relative speed at which financial stocks and productive revenues develop over time and, therefore, indirectly measures the accumulation of "financial rents". In Portugal, financial assets accounted for around 719% of GDP in 2010, which is the fourth highest value in EA11 (Table 1). The growth of financial assets in Portugal was particularly fast in the period 1995-2000.

[Table 1 around here]

[3] This is based on IMF Financial Soundness Indicators; for Italy we used 2011 data and for Germany 2007 data.

[4] According to Eurostat, financial assets include currency and deposits, securities and other shares, loans, shares and other equity, insurance technical reserves and other instruments receivable/payable.

Meanwhile, like in EA17, most of the financial assets in Portugal were owned by financial corporations (including the central bank, banks and other non-monetary financial institutions). From 1995 to 2011, there was a rapid rise in financial assets held by financial corporations. In 1995, financial assets owned by households and financial corporations represented each around 175% of GDP; by 2011, financial corporations had basically doubled their assets to 337% of GDP, while those of households increased only to 224% of GDP. The latter increase occurred between 1995 and 1997 and then roughly stagnated until 2011; this is consistent with the drop in savings and the rise in household indebtedness, mostly driven by mortgages. Note that the growth of financial corporations' assets led to Portugal's convergence with the euro area in terms of distribution of assets by the institutional sector (Figure 5 and Figure 6). The rapid growth of financial assets held by financial corporations may reflect a transfer of wealth from the productive sector (NFCs) and households to the financial sector (Cingolani, 2013). Within the financial sector, banks were largely responsible for the growth of financial assets together with other credit institutions and credit securitisation companies and funds. Loans were the banks' fastest growing financial assets, in line with the above-mentioned rise in credit to households and NFCs.

In the same period, 'the rest of the world' registered an even larger growth in the holdings of financial assets in share of GDP. This is a consequence of the high current account deficit, which was financed by transferring assets to foreign investors.

Krippner (2005) claims that the financialisation of the economy is usually accompanied by a growing proportion of the economy's profits coming from financial corporations. In Portugal, financial sector's contribution to the surplus of the economy grew more than that of the non-financial sector after 1995: the gross operating surplus (GOS) of financial corporations in relation to the GOS of NFCs increased from 14% in 1995 to 26% in 2008. As GOS includes the remuneration of capital (rents, interests and profits), this evolution means that a larger share of the remuneration of capital came from the financial sector.

[Figure 5 around here]

[Figure 6 around here]

4.2. OTHER FEATURES OF FINANCIALISATION IN PORTUGAL

As described in the previous section, the financialisation process in Portugal is particularly marked by the strong expansion of credit and the corresponding indebtedness of private agents and the growth of the financial sector. Nonetheless, other features can be identified in the Portuguese case, albeit less expressive, that typically characterise the financialisation process in more advanced economies.

First, financialisation is often associated with a change in the behaviour of NFCs through two different channels (Hein, 2012). On one hand, NFCs become increasingly involved in financial activities and so divert funds away from real activities. As a consequence, their financial profits grow more than profits from productive activities (Krippner, 2005; and Botta*et al.*, 2015). On the other hand, NFCs are pressed by financial markets and shareholders to increase their financial payments (interest, dividends and/or stock buybacks), which leads to lower retention ratios and fewer funds for long-term productive projects.

Indeed, despite some oscillations in the Portuguese case, it shows an overall positive trend in financial receipts as a percentage of GOS, especially between 2003 and 2008 (Figure 7). Looking at the components of financial receipts (interest and dividends), we observe that only dividends had a clearly positive trend from the mid-1980s.

Regarding financial payments as a proportion of GOS, they declined until 2003 due to the fall in interest paid caused by the large cut in interest rates operated by the central bank; however, financial payments increased significantly between 2004 and 2008, followed by a slightly downward trend thereafter (Figure 8). Analysing the components of financial payments, the rise in interest paid from 2006 to 2008 is explained by the increase in interest rates in the period; this clearly illustrates the risks associated with interest rate rises in a context marked by high corporate debt ratios. On the other hand, there was a moderate rise in dividends paid from the mid-1990s, followed by more rapid growth in the mid-2000s before stabilising thereafter. Importantly, there is evidence that the rise in financial payments by NFCs between 2003 and 2008 and financial receipts by NFCs between 2004 and 2008 may have contributed to the observed decrease in NFCs' investment in that period (Barradas and Lagoa, 2017).

[Figure 7 around here]

[Figure 8 around here]

The banks' behaviour in terms of credit allocation is another feature of the Portuguese case that is also common in the financialisation of more advanced economies (Costas Lapavitsas, 2011; and Bill Lucarelli, 2012). In particular, banks increased the financing to non-monetary financial institutions even more than credit to NFCs, suggesting that the Portuguese financial system was steadily decoupling from the non-financial sector. Effectively, credit to non-monetary financial institutions in proportion of the credit to NFCs jumped from 2.1% in 1980-89 to 21.7% in 1990-99, and rose to 24.1% in 2000-10 (Bank of Portugal data).

A third feature of the Portuguese financialisation process, which is commonly found in other economies, regards the deeper penetration of private-financial interests in areas previously reserved to the State (FESSUD, 2011). These include domains such as health provision, water provision, and construction and management of public infra-structures (mainly highways). Overall, these changes largely reflect the increasing influence of financial and construction groups (which are often interlinked) in key Government decisions involving large infrastructural investments (Nuno Teles, 2015).

The use of public-private partnerships (PPPs) was first established in the health and infrastructures sectors in 2002. In the health sector, these partnerships almost always include the construction, maintenance and management of the infrastructure. The typical PPP for hospitals is led by a private corporation responsible for obtaining finance and constructing and managing the infrastructure. Banks finance the operation and the leading corporation of the partnership may also belong to a banking group. Thus, PPPs also seem to be a profitable business for banks. The State pays a rent over several years to the private corporation in exchange for the construction and management of the hospital.

Teles (2015) also emphasises the concessions established through PPPs in the water provision system in Portugal, particularly after 1993 with the publication of Law nº 372/93 that allowed the participation of private capital in this sector. These partnerships have guaranteed heavy investment in the sector, improving both the coverage and quality of the service provided. The financial sector benefited from this investment due to the flows of private credit into water sector, the use of derivatives and issuance of bonds (mainly by *Águas de Portugal*, the state-owned holding that dominates the water management sector) and the adoption of a pricing model, total-cost recovery, that minimizes project risk for corporations and financing banks, and transfers it to consumers and local authorities. The construction sector also profited from the investment in the building of huge infrastructures, many of them too large for the potential demand. In addition, construction corporations have direct participations in the water concessionaries, which in most cases are owned by stock-listed construction corporations, usually in combination with financial groups.

In sum, the financialisation of the Portuguese economy is distinct from that of Anglo-Saxon core countries, mostly due to the greater reliance on banks as a source of financing and the less important role played by capital markets. The Portuguese financialisation process is also unusual when compared to that of more advanced economies given the extent of the State's role in boosting the financial sector and its reach in the national economy since the late 1980s. This took place in the form of the fast and widespread privatisation of banks, the liberalisation of the banking and financial markets, tax incentives for mortgages and for households buying shares of newly-privatised firms, the generalised used of PPPs in infrastructure investment, among others. We now turn to the discussion of how this pattern of financialisation contributed to the Portuguese crisis in the aftermath of the Great Recession.

5. THE ROLE OF FINANCIALISATION IN THE PORTUGUESE CRISIS

The widespread privatisation, liberalisation and deregulation of financial activities, together with the active role played by the government in promoting credit-based activities, resulted in a sharp increase in public and private indebtedness. In this section, we discuss the channels through which this facilitated the spread of the global financial crisis to Portugal.

5.1. THE LONG-RUN DEVELOPMENT PATTERN AND THE TURN OF THE MILLENNIUM: THE FIRST SIGNS OF CRISIS AND ITS CAUSES

Hein (2012) classifies the long-run development patterns in the financialisation era into three types of development path: the 'debt-led consumption boom'; 'domestic demand-led' development; and 'export-led mercantilist' development. On the other hand, Ricardo P. Mamede *et al*., (2016) argue that the Portuguese development is best characterised by a '*debt-led domestic demand'* (not merely consumption) boom. Indeed, although private consumption has made a strong contribution to GDP growth and there has been a sharp decline in the net lending position of households in recent decades, like Ireland, Greece, and Spain, the boom in private investment was the main force underlying the subsequent high rates of growth, especially after 1995.[5]

The boom in economic growth is intrinsically related to the aforementioned patterns of financialisation of the Portuguese economy. The widespread privatisation and liberalisation of the financial sector, together with the active promotion of housing construction by the Government and a quite favourable international economic context, gave rise to a period of strong economic growth fuelled by credit, just as in other peripheral euro area economies. However, in sharp contrast with Spain, Greece and Ireland where there were high rates of growth until the eve of the Great Recession, economic growth in Portugal had lost momentum by the turn of the century due to a combination of four factors: structural weaknesses, competitiveness shocks, very high levels of private debt, and Portugal's participation in the EU's monetary arrangements.

The Portuguese economy faces several structural problems that have blocked its growth potential in the past. Andrade and Duarte (2011) and Mamede *et al*. (2014) note that the following are the most relevant constraints to development: the low levels of education in the labour force, aggravated by underinvestment in public education during the dictatorship; the profile of economic specialisation, which is still dominated by industries with low value-added and low technology intensity; and Portugal's peripheral location in relation to the main European and world markets, which entails relevant cost disadvantages in some industries. Structural asymmetries between core and periphery countries are often seen as a main determinant of the euro area crisis. For example, Alberto Botta (2014) shows that the productive

[5] In the second half of the 1990s, Portugal was the EU country where investment gave the highest contribution to GDP growth, mostly as a result of private investment – both by households and NFCs (Mamede *et al*., 2016). Household debt in Portugal was mostly used to finance house purchases, not current consumption.

structures in small peripheral euro area countries such as Greece, Portugal and Ireland feature highly concentrated export structures, characterised by a state of backwardness in the production of capital goods, and are therefore very different from the prevailing structures in Germany. Differences in specialisation profiles, and hence income elasticities of exports and imports, are known to be one of the potential sources for current account imbalances in a currency union (see, for example, Hein and Detzer's (2015) balance-of-payments-constrained model, addressing the euro area crisis). Storm and Naastepad (2016) forcefully argue that the low technological complexity of the Mediterranean export structure lies at the heart of the competitiveness hurdles of euro area peripheral countries. In the same vein, Simonazzi *et al.* (2013) not only suggest that the export base of Southern EU economies largely explains their loss of competitiveness, but that it prevents them from obtaining the same benefits from the spill-over effects of German business as other euro area economies, notably Germany's neighbouring countries in Central and Eastern Europe that rely on the exports of intermediate goods.

Portugal's structural problems became very evident in the early 2000s, when its economy had to endure the consequences of growing competition from emerging Asian economies that were in part due to agreements reached by the EU in the World Trade Organisation and other forums. This had a substantial impact on a number of traditional industries that employed a significant proportion of the manufacturing work force – namely, textiles, wearing apparel, footwear, wood and paper, metal products and non-metallic minerals (e.g. IMF, 2008).[6] Moreover, after the enlargement of the EU to the Eastern European countries in 2004, many multinational corporations (especially in the automotive and related industries), in particular German ones, shifted their productive capacity to some of the new member states (e.g. Simonazzi *et al.*, 2013), taking advantage of their lower wages, higher educational levels, and geographical proximity to the main European markets.

These competitiveness shocks hit hard on the Portuguese economy, which was characterised both by significant long-term weakness and a recent rapid increase in private indebtedness. Private sector debt as a percentage of GDP almost doubled between 1995 (82%) and 2001 (150%), by far the fastest growth in private indebtedness of all EU countries in the period (68 p.p. of the GDP, followed by Spain with 35 p.p.); it left Portugal with the fourth highest rate of private indebtedness in the EU, after Cyprus, Netherlands, and Denmark.[7]

[6] Simonazzi *et al.* (2013) argue that the deleterious impact of Asian competition on Southern European exports was reinforced by the more-stringent income constraints on poorer German families (associated with the Hartz reforms and other policy choices), which explain both the reduction in demand for domestically produced consumption goods (reflected in the low growth of German imports from the euro area Southern periphery) and the substitution of consumption goods of intermediate quality imported from the European periphery with lower-quality products imported from emerging countries, especially China.

[7] Source: Eurostat (available at: http://ec.europa.eu/eurostat/web/products-datasets/-/tipspd20).

Portugal's participation first in the European Monetary System (EMS) and later in the euro area was crucial to the financialisation process and the resulting high levels of indebtedness. Membership of the EMS and the EMU helped to legitimise and accelerate the widespread liberalisation of the financial and banking markets; moreover, it gave the country access to large amounts of external financing at low interest rates due to the elimination of the exchange rate risk premium, even in the face of increasing current account deficits, which led to excessive domestic demand. In addition to the elimination of the exchange rate risk, the almost zero spreads between the yields on peripheral public debt and German public debt after the euro entered into force suggests that, until the advent of the Great Recession, market investors assumed the absence of a credit risk. The fact that they did so seems at odds with the 'no-bailout' clause included in the EU Treaty. Wim Kösters (2010) and Andrea Terzi (2014) suggest that the systematic disrespect for the rules of the Growth and Stability Pact by the signatories themselves made financial market agents believe that the rules would ultimately be abandoned and discretionary policy would be used to save any ailing government. As a result, they were willing to give loans to southern European euro area member states at roughly the same interest rates as to Germany, France and others.[8]

If Portugal had not been in the euro area, it would have been impossible to sustain a large external deficit for so long without an increase in interest rates, and ultimately credit growth would have been smaller.[9] Moreover, the participation of Portugal in the EU monetary arrangements implied a real exchange rate appreciation that had a negative impact on exports and helped to foster imports (Charles Wyplosz, 2013).

The high levels of private indebtedness placed a heavy burden on the Portuguese economy as it entered the new millennium. Soon after the formation of the ECB, it tightened monetary policy in the euro area; one year later, it increased its interest rate for main refinancing operations from 2.5% in late 1999 to 4.75% following what appeared to be signs of overheating in the euro area. The main interest rate in the euro area remained above its 1999 levels until late 2002. Given the high level of private sector indebtedness, this had a significant negative impact on Portuguese domestic demand. Thus, the aforementioned competitiveness shocks after 2000 hit an already heavily indebted economy. The Portuguese economy was to experience a long period of stagnation due to net exports constrained by competitiveness hurdles and real exchange rate appreciation, private domestic demand limited by high levels of households and corporate debt, and public finances under pressure to comply with EU budgetary rules, all of which were already evident several years before the Great Recession.

[8] Finn M. Körner and H.-M.Trautwein (2015) use data of sovereign bond ratings from 1990 until 2012 to show that EMU countries received a rating bonus on euro-denominated debt before the European debt crisis.

[9] Note, incidentally, that other peripheral financialised economies outside the euro area have higher interest rates (Becker *et al*., 2010).

5.2. THE SUBPRIME CRISIS

At the end of 2007 and in 2008, the international economy was affected by the collapse of the subprime credit segment in the USA. As a result, some segments of interbank money markets in the euro area, particularly for longer maturities, dried up, leading to a liquidity shortage with direct effects in the reduction of bank credit and the rise in interest rates on loans.[10] The credit restraint hit confidence, consumption and business investment, namely the consumption of durable goods and home purchases, causing the steepest downturn on record since the Great Depression. The strong trade connections between countries also facilitated the rapid cross-country propagation of the economic crisis.

Neither Europe in general nor Portugal in particular had a subprime market like that of the USA (Bank of Portugal, 2008) and there are therefore marked differences between the mortgage market in the USA and Portugal (Bank of Portugal, 2008). First of all, the percentage of households with mortgages is substantially smaller in Portugal (30%) than the USA (45%), or indeed in other European countries like the Netherlands (38%) and the UK (40%). On the other hand, Portugal has one of the lowest ratios of credit instalments-to-income in the euro area (around 14%), and has also exhibited a low loan-to-value ratio. Finally, households with mortgages are relatively well off (Santos *et al*., 2015).

Moreover, Portuguese house prices rose more modestly than in other countries like the UK, Ireland or Spain. It should be noted that nominal Portuguese house prices increased much less than the euro area average between 2000 and 2011 (21.1% and 54.2%, respectively). Bank of Portugal (2010) stresses that house prices in Portugal have evolved in line with the fundamentals. From the mid-1990s, the increase in the supply of new houses avoided a surge in house prices and a housing price bubble, and a continuous stream of banking credit for households to buy houses maintained demand and sustained prices (Reis *et al.*, 2013).

In addition, Portuguese banks had no "toxic financial products" in their portfolios, so the main difficulty arising from the subprime crisis was that of obtaining funding in financial markets. The high level of mistrust between banks caused the risk premium between Euribor and T-Bills to jump and the amount of funds traded fell sharply. Nevertheless, the funding difficulties of Portuguese banks were overcome due to a State guarantee to new issues of securitised debt by banks, as well as by the large liquidity offered by the ECB at low interest rates. Additionally, the increase in the demand for deposits by households - at a time of high risk aversion – coupled with the aggressive marketing strategies adopted by banks to attract deposits helped mitigate their funding difficulties. More generally, the downward trend in the savings rate at the start of the century was reversed.

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[10] It should be noted that interbank loans are not related with mortgage backed securities. Instead, they are mostly unsecured loans between deposit-taking institutions for a period that can go from one day to one year, which aim to reallocate liquidity between institutions: the ones that have excess liquidity lend funds to the ones that are short of liquidity.

The increase in the perceived credit risk led Portuguese banks to increase credit spreads, which implied a considerable deceleration of credit (see Figure 1) and domestic demand. The difficulty in obtaining credit has increased more quickly than other limitations to investment from 2007, becoming the third most important limiting factor to investment in 2011 (INE, *Inquérito Qualitativo de Conjuntura ao Investimento*).

5.3. THE SOVEREIGN DEBT CRISIS

In this context and like most international economies, the Portuguese economy slipped into a recession in the third quarter of 2008 that was unprecedented in the post-war period. However, the Portuguese economy was initially less affected by the subprime crisis than the euro area, with GDP falling less than in the euro area in 2009. That was due to the government's counter-cyclical response (largely explained by automatic fiscal stabilisers) in 2009, following the European guidelines (Bank of Portugal, 2011). The support to the financial sector was also responsible for the increase in public spending, as in the EU.[11] Consequently, there was a sharp rise in the fiscal deficit in 2009, exceeding that of other euro area countries, so that in 2010 Portugal had one of the largest fiscal deficits in the euro area (10.2% for Portugal and 6.4% for EA12) and thus public debt went from close to the euro area average in 2009 to considerably over that average in 2010 and 2011.

The financialisation process made the country vulnerable in many ways. Firstly, the growth of private indebtedness funded by foreign debt made it difficult to finance the country at a time of increasing risk aversion in the financial markets. Secondly, the growth of debt was not accompanied by significant economic growth. The debt-led domestic demand model of growth was not sustainable because it depended on a continuing rise in debt. There had been signs of agents' difficulties in coping with the levels of credit since 2008 as non-performing loans rose considerably, especially in credit to consumption and some industries. Moreover, the investment made did not lead to increased productivity, as it went mainly to the non-tradable goods sector dependent on domestic demand and with less potential for productivity growth. Thirdly, indebted households and corporations became more exposed to increases in interest rates and to fluctuations in the business cycle.

The high levels of debt in the private and public sectors, a large proportion of which was held by foreigners, triggered doubts among international investors about the capacity of the Portuguese economy as a whole to pay its debts in a scenario of low structural economic growth. From 2007 onwards, in a global context of greater risk aversion and aggravated by the Greek situation, the increased perception of the risk of Portuguese public debt meant that the interest rates paid by the government – and, consequently, banks, which kept relevant amounts

[11] According to UNCTAD (2011), the measures to support the financial sector in the EU27 (including recapitalisation schemes, guarantees, asset relief interventions and liquidity measures) accounted five times the overall amount of State aid to other sectors.

of public bonds in their balances – began soaring, making the financing of the State and banks more costly.

The continuous deterioration of the Portuguese situation, especially on the bond market, was also connected to the rating agencies' downgrading of the Portuguese sovereign debt in 2010, followed by the reduction in the credit rating of most Portuguese companies.

In a context where individual countries could no longer pay their public debt by printing money (Kösters, 2010), the reluctance of the ECB to act as a lender of last resort made the euro area sovereign bond markets particularly prone to speculative attacks. The sovereign debt crisis showed that there were no institutions or mechanisms in the euro area that could give the necessary financial support to countries facing liquidity crises, which rapidly turned into solvency crises (Paul De Grauwe, 2011).

Within a few months, the Portuguese private and public debt fell to junk status, worsening funding conditions in the international financial markets. As a result, the Portuguese government requested financial assistance from the EU, the IMF and the ECB (the so-called Troika) in April 2011. The financial assistance covered the period between 2011 and 2014 with total funding of 78 billion euros. In exchange for financing, Portugal agreed to a set of so called “structural reforms” to increase potential output growth, the deleveraging of the financial system and a trajectory of fiscal consolidation. After the programme ended in 2014, the Portuguese State was able to obtain financing in the debt market at more moderate interest rates; economic growth returned, albeit modestly, after three years of deep recession. However, the effects of the crisis endured. By the end of 2016, Portuguese GDP was still 4% below pre-crisis levels, employment 10% below, and Gross Fixed Capital Investment 32% below these levels.

6. CONCLUSION

This paper examined the financialisation of the Portuguese economy over the last three decades. Although the growth of the financial sector occurred later than in other EU countries, the privatisation, liberalisation and deregulation of the financial system after EU integration in the mid-1980s created the conditions for finance to play a leading role in Portugal’s development.

Our first major finding is significant evidence of financialisation in Portugal, namely in the increasing importance of the financial sector and financial assets to GDP, the emergence of new financial institutions, the heavy indebtedness of the private sector, larger credit growth directed towards the non-tradable goods sector, the involvement of NFCs in financial activities, the privatisation of State corporations, and finally the increase in financial interests in the health-care and water provision sectors, and in the construction and management of public infrastructures. However, we identified marked particularities in the Portuguese financialisation and an important contribution of the country's euro area membership for its financialisation process.

Like Orsi and Solari (2010), we conclude that banks played a key role in the financialisation of Southern European economies, mainly through the expansion of credit. Moreover, there are some similarities between the evolution in Portugal and Spain, notably the strong growth of credit to NFCs and to households to buy houses, and the increase in interest and dividends paid and received by NFCs (Jesús Ferreiro *et al*., 2016). However, unlike Spain, there was no housing bubble in Portugal.

The growth of the Portuguese economy in the second half of the 1990s was boosted by the greater availability of credit at lower interest rates, resulting in very robust domestic demand in accordance with a debt-led domestic demand growth model. Nevertheless, Portuguese economic growth started to slow down in the early 2000s due to the combination of high levels of private indebtedness and structural weaknesses. Portugal was then confronted with the Great Recession, the increase in the budget deficit, and the greater risk aversion of international bond investors, in addition to the vulnerabilities created by the financialisation process (high levels of private and public debt financed externally) in a context marked by slow structural growth; the resulting rapid decline in funding conditions forced the Portuguese government to request financial assistance from the IMF and EU funds. In sum, our second major finding is that the financialisation process made the economy more vulnerable to the global financial crisis.

This nexus is found in many economies. In Eastern Europe and Latin America, Becker *et al*. (2010) find that financialisation originated crises, while in Turkey and North and South America, Yeldan (2000) and Leiva and Malinowitz (2007), respectively, show that financialisation has been linked to a decline in economic growth. In Spain, the growth of credit together with the excessive external imbalance meant that the crisis in international financial markets had a stronger impact than in other countries (Ferreiro *et al*., 2016). Similarly, in Greece, financialisation resulted in an increase in the current account deficit, in particular; this made the economy vulnerable during the international crisis and at a time when the EMU rules prevented the use of policy instruments for an adequate response (Yanis Varoufakis and Lefteris Tserkezis, 2016).

The troika formed by the IMF, the ECB and the EU imposed on Portugal a demanding austerity programme with the aim of achieving "internal devaluation", increasing potential output growth, ensuring the deleveraging of the financial system and a trajectory of fiscal consolidation. This programme triggered a strong deterioration in the Portuguese economy so that fiscal consolidation was difficult to achieve, while the balance sheets of the financial sector worsened even further. A sustained economic recovery seems difficult to achieve without resolving the structural supply weaknesses in the Portuguese economy and the debt legacy that hampers the economic performance of all institutional sectors and the national economy as a whole.

Future research on the Portuguese case should focus on understanding the mechanisms and impacts of financialisation in specific areas, such as NFCs, sectoral distribution of credit, housing, pensions, and income inequality. It would also be interesting to assess the extent to which the crisis is leading to a steady decline in the influence of financial actors and motives on the economy, as opposed to a mere recomposition of the main players.

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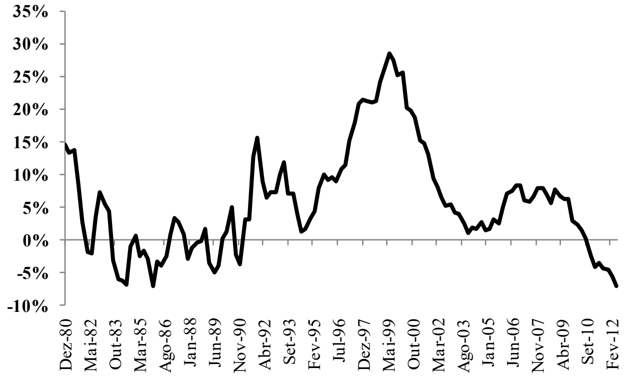
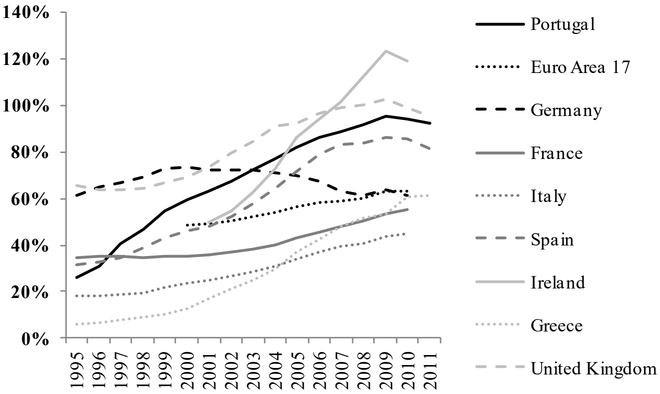
Figure 1 – Total loans (annual real growth rate)



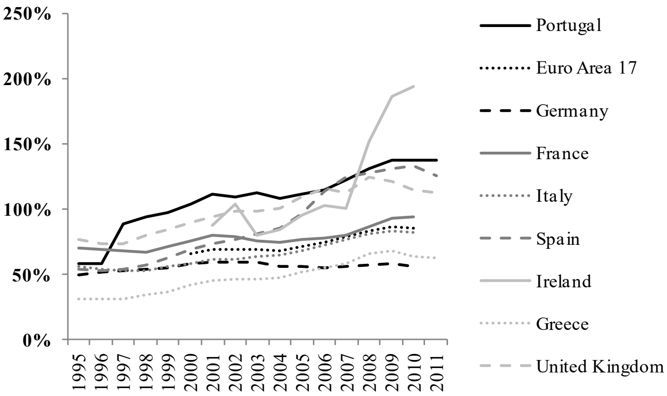
Note: Excluding financial non-monetary institutions and securitised credit.
Source: Bank of Portugal

Figure 2 – Household debt (% of GDP)



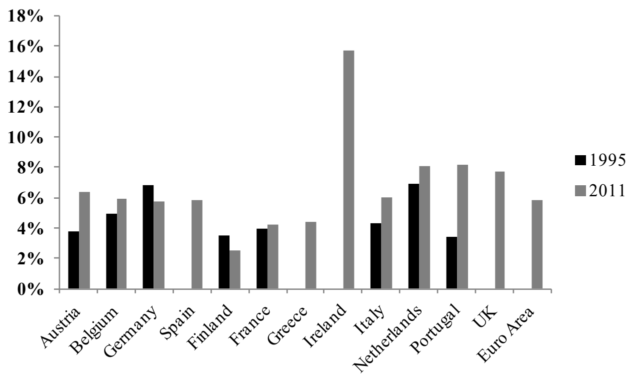
Source: Eurostat.

Figure 3 – Corporative debt (% of GDP)



Note: Debt includes loans, securities other than shares and trade credit.
Source: Eurostat.

Figure 4 – The importance of the financial sector (% of gross value added)



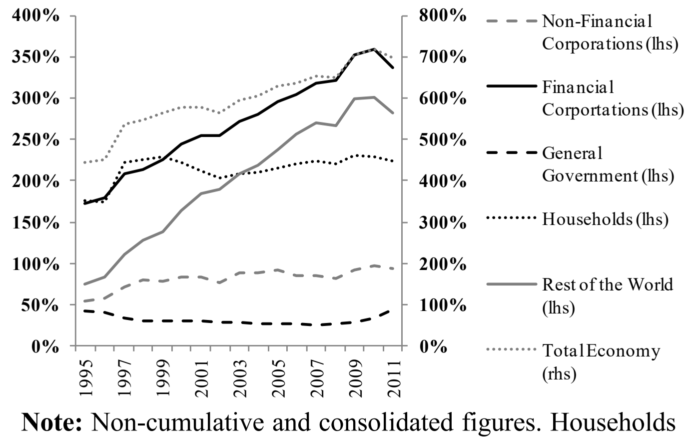
Note: The values for the euro area reflect the "changing composition".
Source: Eurostat.

Table 1 – Financial assets of the economy (% of GDP)

Country	1995	2000	2010	Change 1995-2000 (p. p.)	Change 2000-2010 (p. p.)
Euro Area 17	n.a	418%	563%	n.a.	145
Belgium	218%	350%	480%	262	130
Germany	474%	670%	722%	249	52
Ireland	n.a.	n.a	2389%	n.a.	1284
Greece	57%	59%	105%	48	47
Spain	353%	467%	586%	232	119
France	88%	177%	272%	184	95
Italy	51%	105%	116%	65	11
Netherlands	847%	1091%	1447%	600	357
Austria	384%	469%	633%	249	165
Portugal	**445%**	**579%**	**719%**	**274**	**140**
Finland	316%	403%	684%	369	282

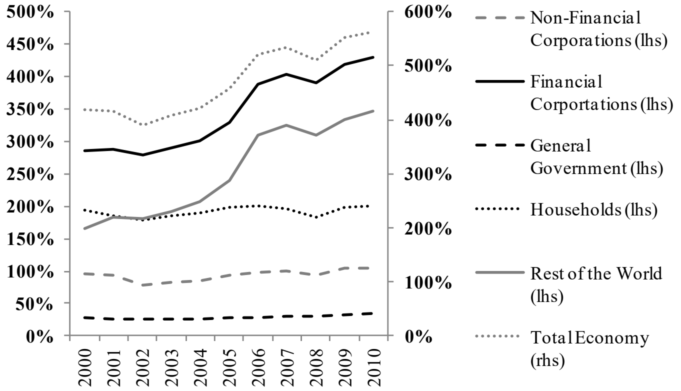
Note: Consolidated figures. The change for Ireland corresponds to the period between 2001 and 2010.
Source: Eurostat (Annual Sector Accounts).

Figure 5 – Financial assets by institutional sector in Portugal (% of GDP)



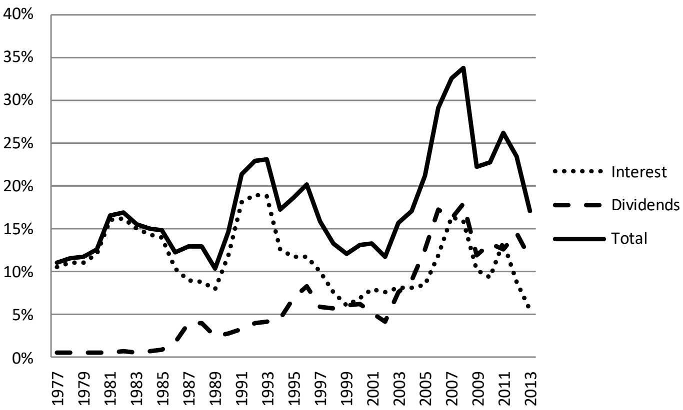
Note: Non-cumulative and consolidated figures. Households includes non-profit institutions.
Source: Eurostat (Annual Sector Accounts).

Figure 6 – Financial assets by institutional sector in the EA 17 (% of GDP)



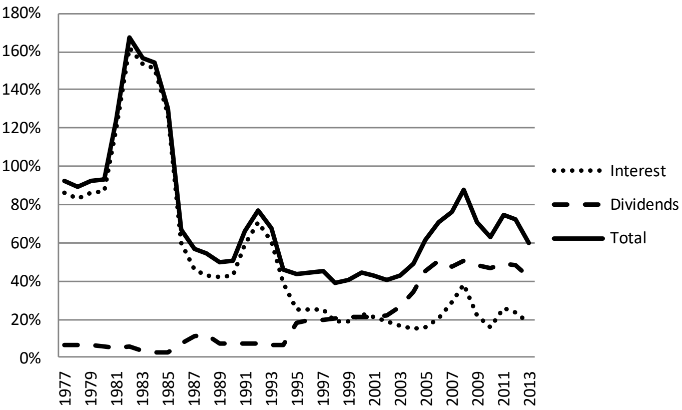
Note: Non-cumulative and consolidated figures. Households includes the non-profit institutions
Source: Eurostat (Annual Sector Accounts)

Figure 7 – Receipts of NFC (% of GOS)



Source: INE (Annual Sector Accounts).

Figure 8 – Payments of NFC (% of GOS)



Source: INE (Annual Sector Accounts)