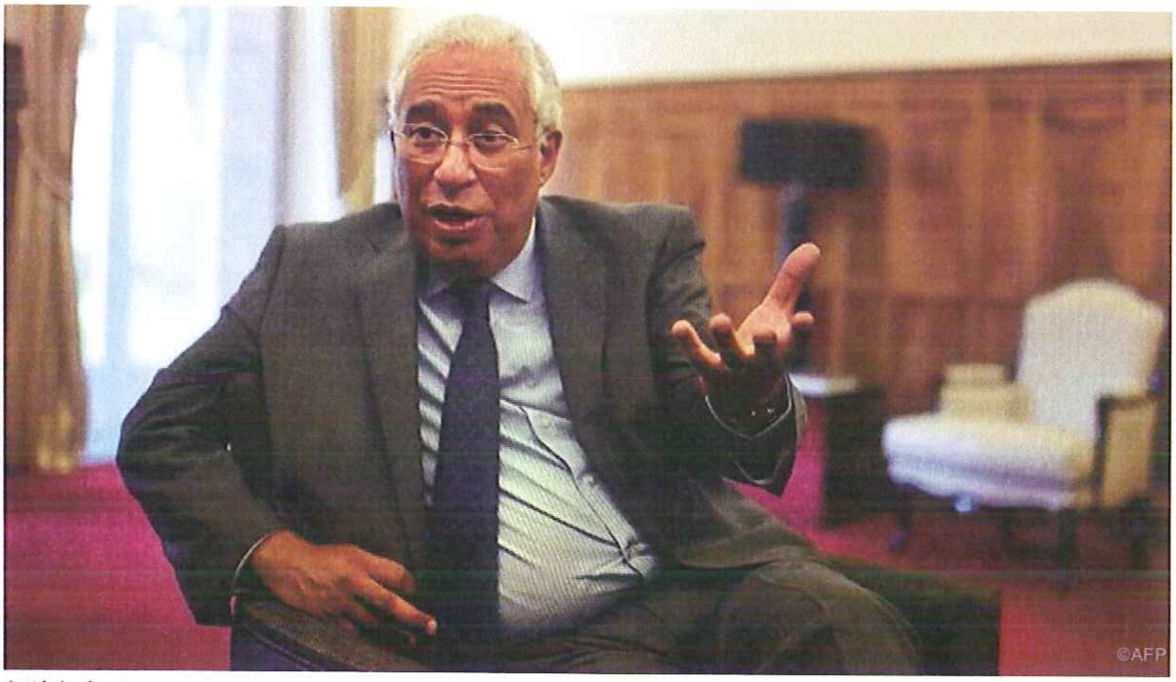
FINANCIAL TIMES

January 15, 2016 8:24 am

Portugal accused of picking fights with foreign investors

Peter Wise in Lisbon



António Costa

Portugal has collided head-on with international investors over a controversial decision to restructure one of the country's biggest banks as the new Socialist government tries to balance a business-friendly environment with a pledge to end years of punishing austerity.

Some of the world's biggest bond investors have threatened legal action after the Bank of Portugal imposed losses on almost €2bn of senior debt at Novo Banco. Moves to alter or annul deals in the transport sector, including privatising the national airline, have sparked similar protests from angered foreign companies.

The threats from investors have highlighted the narrow path António Costa, the new centre-left prime minister, has to tread between keeping Portugal open for business and retaining the support of the far left parties on which his minority government depends.

"[Mr Costa] faces the impossible task of reconciling competing demands between his leftwing partners and the international investment community," said Mujtaba Rahman of the Eurasia Group risk consultancy. This was likely "to have a negative impact on Portugal's business environment for several years".

Mr Costa took office in November by forging an "anti-austerity alliance" with the radical Left Bloc (BE) and hardline Communist party (PCP) after an inconclusive general election.

Pedro Passos Coelho, the former centre-right prime minister who steered Portugal through a three-year bailout, on Wednesday hit out at the new government for antagonising investors amid a precarious economic recovery. By "reversing and destroying" what the previous administration had done, Mr Costa was "undermining the confidence of foreign investors", he told Renescença radio.

Investor ire over Novo Banco, the good bank rescued from the wreckage of Banco Espírito Santo, once the country's largest publicly listed lender, is targeted at the Bank of Portugal and the European Central Bank for deciding in December to bail in some senior bonds 18 months after the initial bank resolution.

The government said it had expressed its concern to the Bank of Portugal over its decision to make a selective bail-in of senior creditors.

Ten days earlier the government had bailed out Banco Internacional de Funchal (Banif), spending €2.2bn to rescue a small bank and averting a liquidation. Mário Centeno, finance minister, said letting Banif collapse would have cost the state €10bn, put thousands out of work and shaken the stability of the financial system.

Banif's branch network and viable assets were sold to Spain's Santander for €150m. The government also pledged that no more taxpayers' money would be spent on bailing out banks, rescues already having cost the state €11.8bn between 2008 and 2014.

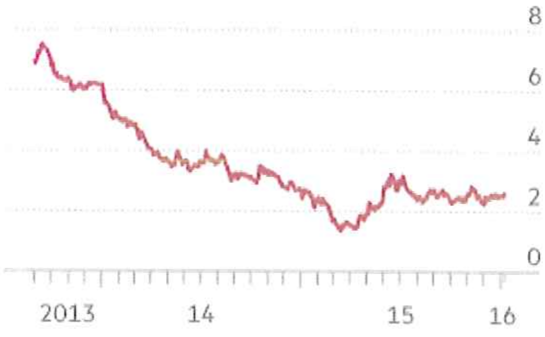
The promise was upheld when the Bank of Portugal intervened the following week to plug a €1.4bn capital shortfall at Novo Banco, imposing losses on senior creditors rather than calling on the bank resolution fund, to which all banks contribute, to top up the €4.9bn it had already put in the bank.

International investors hit by the ruling have warned that it could push up borrowing costs for other Portuguese lenders and also effect government borrowing rates.

Investors have also been angered by Mr Costa's efforts to reestablish public control over TAP-Air Portugal, the

Portugal's 10-year government bond yield

Per cent



Source: Thomson Reuters Datastream

national airline in which the previous government had sold a controlling stake to a consortium involving JetBlue founder David Neeleman and a Portuguese bus company.

The Socialist leader, calling into question the validity of a contract signed in November by a caretaker centre-right government, has said the state will regain a majority stake in TAP "come what may".

However, the consortium, which has paid €10m for 61 per cent of the heavily-indebted airline and have already paid in part a €338m investment commitment, are fighting to uphold the contract they signed.

"Reversing the privatisation would be a backwards step for TAP and Portugal," Mr Neeleman told reporters.

Meanwhile, the UK's National Express together with Spanish, French and Mexican companies are resisting a government decision to overturn the award of contracts, which had been awaiting final regulatory approval, to run bus, tram and light railway networks in Lisbon and Porto. The Mexican and British embassies in Lisbon have publicly expressed concern over the issue.