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Banking concentration and financial reorganization: Greece, Portugal, and Spain in the post-crisis period

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Abstract:

This article aims to analyze how banking concentration and financial reorganization have occurred during the post-crisis period in Greece, Portugal and Spain, highlighting the continuity of three worrisome trends related to financial stability: an increase in bank asset volume, centralization of capital, and lower average profitability for banking activities. The methodological approach combines the review of the heterodox economic literature with the analysis of the financial statistics of the main banks in the three countries in the interpretation of the crisis. The article is divided into four sections: the first part briefly discusses the theoretical nature of the process of concentration and centralization of bank capital; the second section discusses the role of banks in the Eurozone crisis; the third section examines some statistics on the dynamics of the banking sector in both countries; and some conclusions are made in the final section.

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This article begins with the hypothesis that the process of banking concentration and centralization was accelerated by the process of financial internationalization, which began when the banking systems of Spain and Portugal (1998) and Greece (2001) entered into international capital flows and the financial circuits of the European Monetary Union (EMU). Along with this, it can be stated that Greek, Portuguese and Spanish banks had recurring crises

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within the financialization[1] framework that deepened both trends. On the one hand, entrance into a unique monetary space was fertile territory for granting investors greater profitability, while, on the other hand, it created the basis for financial fragility. Once the crises had settled, the dispute over reducing non-performing portfolios and increasing profitability for economic agents gave rise to bank mergers and mega-mergers and, at the same time, a financial reorganization within a low-profitability scenario, which became the hallmark of the entire post-crisis period.

The root of this crisis begs the analysis of the destabilizing behavior of banks operating in Greece, Spain and Portugal and, above all, "megabanks."[2] Banks made an unprecedented increase in the availability of loanable cross-border funds, setting the stage for the Eurozone financial crisis. Examples are the German and French institutions that systematically acquired a substantial portion of peripheral bonds, magnifying financial fragility within the European bloc.

The main purpose of this article is to analyze how the topics set forth above took shape in the specific examples of these three countries. Thus, in the first section, a brief theoretical discussion on the process of concentration and centralization of banking capital is presented. In the second section, the Eurozone crisis is analyzed from a banking historical perspective. The third section comparatively examines some basic statistics on the financial sector behavior of the countries of Spain and Portugal, in addition to setting forth a more detailed approach to the dynamics of the banking sector in the three countries. Finally, the article offers some reflections for continuing the debate over the potential disintegrating effect that finance, when highly deregulated, may have on the future of the European Union (EU) and the less developed countries of that region.

1. Banking concentration and centralization: initial considerations

Along with daily banking operations using incessant financial innovation for the purpose of risk diversification (condensed into the term "securitization"), the continuous creation of new products and markets as investment options, and the relative loss of the relevance of acquiring sector income via the lending and borrowing rate differential of a traditional credit transaction, banks were met with new institutional investors – investment and pension funds, insurance companies, and other financial companies – in the disputed third-party money management sector. The emergence of new actors, such as institutional investors, added new complexity and reconfigured the role of banking – whether commercial banking, investment banking, or a combination of the two – into one universal banking entity that comprises multiple functions. This may even be a bank holding company (as it is known in the United States), a legal entity that is at the height of financial conglomeration.

Heterodox literature tends to point out that the change in the way banks operate in the era of deregulated finance is one of the channels that adds instability to financial markets and

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[1] Gerald Epstein defines the concept of financialization as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein, 2005, p. 3).

[2] Megabanks are financial entities which, due to their colossal size and countless points of connection to affiliate banks, are "too big to fail" in their local markets, meaning that they are so big that a business' individual bankruptcy would destabilize the whole system, and therefore the State has the prerogative to intervene in any solvency or liquidity problems that these institutions present (Cömert et al., 2016, p. 2).

can potentiate future crises. Thus, we can relate the following elements as a source of the growing financial instability: a) the constitution of megabanks, as a result of the concentration and centralization of capital in the sector and the result of the deregulation whereby the same entity could operate simultaneously as a commercial bank and an investment bank; b) the complex framework of cross-border banking transactions; c) the nature of bank revenues, increasingly dependent on the operations that generate commissions, such as operations in the derivatives markets and/or the currency market, which are the result of the differential of rates in loans to productive activity (Cömert Hasan et al., 2016); d) the incessant financial innovation, which catapults the trinomial securitization-leverage-risk to levels hitherto unpublished; and e) the continuous transfer of high-risk operations out of the bank's accounting balance sheet, i.e., the practice of setting up new companies to remove from the bank's balance sheet operations with risk assets that are not compatible with banking regulations, which greatly increases shadow finance (Prates and Farhi, 2015).

In sum, both banking sector trends mentioned above, as well as the centralization and concentration of capital, as understood through the classic Marxian categories indicated in the *Capital* of Karl Marx ([1867] 2004, vol. I, chap. 23), cohabitate in the framework of financialization. Additionally, this begins to give greater significance to bank incomes derived from third-party wealth management commissions. It is also important to underline commercial banks' turn towards managing household financial resources instead of cash flow for large businesses, which affects credit dynamics and investment levels (Lapavitsas et al., 2011). According to contemporary Marxist economic literature, financialization has transformed the economic and social organization and, in this context, the role of the State has been essential to impose, conduct and manage the internationalization of finance (Fine, 2013, p. 58). On the other hand, Cédric Durand (2017) argues that financialization is not an epiphenomenon, but rather it is a process that arises from the structural characteristics of world capitalism today where accumulation and trade of fictitious capital predominate.

In order to fulfill its primary objective, this article will now jump into a discussion of critical thought on finances at the beginning of the twenty-first century for the purpose of anchoring the point that, in the process of financial globalization, the liberalization of capital flows at the global level and deregulation of local financial markets are accompanied by a sharp increase in capital concentration and centralization trends, especially in relation to banking capital (Girón, 2007).[3] In the case of the Eurozone economies, in addition to the financial concentration and centralization of large banks and institutional investors, an unprecedented increase in inter-bank transaction flows was encouraged, which fortified the presence of primary financial investors in a large portion of the Member States (Girón, 2007, p. 13).

[3] In the words of the author: "bank mergers and mega-mergers encouraged within the domestic sector of national financial systems and their entanglement with groups established as multinational financial conglomerates are a response to the structural changes to the productive sphere caused by the large-scale transformation of the economic and socio-political order within the framework of the internationalization and globalization of capital. These mega-mergers of large multinational banks are the result of the financial globalization process, accompanied by financial deregulation, liberalization, and innovation that was deepened by the economic crises" (Girón, 2007, p. 13; our translation).

2. Crisis, banking, and the euro: the perfect storm

The crisis of 2007-2009 first manifested in the American real estate market. Between the subprime mortgage crisis and the bankruptcy of Lehman Brothers – the beginning of a domino effect that destabilized worldwide credit circuits – the crisis entered into a period of *credit crunch*, which explained the banking failure and virtual disappearance of investment banks. This was accompanied by stock market crashes and, even more notoriously, the stagnation of growth rates around the globe. During this series of events, the explosion of the securitization crisis was set off, affecting financial circuits internationally, but with an immediate impact on the monetary circuits of the euro, thus unleashing a public debt crisis in peripheral countries. Like a house of cards, the crisis impacted other international economies due to financial globalization.

The USA-Europe financial connection was made possible thanks to risk diversification. The original mortgage lien holders securitized the mortgages using an enormous chain of investment brokers so complex that all that was needed to affect and cause the collapse of the financial system was for one link to break: the American mortgage industry. Thus, the exposure of financial entities to subprime mortgages became evident, the French bank BNP-Paribas being the first institution to suffer the negative effects of such a connection. When studying the crisis of 2007-2009, the greater flexibility of banks should be taken into consideration, as securitization gave these banks access to an endless number of new instruments for risk diversification (Guillén, 2009, p. 34). When awarding loans, this framework of new financial products was exactly what allowed risks to be spread among a large number of investment brokers while also simultaneously fostering the creation of systemic risk.

The effect of the subprime crisis spread rapidly throughout the financial sectors of other countries; bailouts spread to European banks, and it is estimated that the impact of the crisis in Europe could have been worse than in the United States.

In Europe, rescue programs and nationalizations of certain affected institutions were launched. The Netherlands announced the nationalization via buy-out of multinational bank Fortis for 49% of its capital by the governments of Holland, Belgium, and Luxembourg. On the other hand, Great Britain was searching for a buyer for the bank Bradford and Bingley, the bank with the eighth-highest number of assets in the country. The German government and a group of banks agreed on a new rescue package for the endangered bank Hypo Real Estate, which included a provision for additional liquidity. Hypo was the fifth German bank to be rescued as a result of credit market turbulence. According to this agreement, commercial banks and insurance companies provided Hypo with 15 billion euros in liquid assets, in addition to the 35 billion euros already promised by the Bundesbank (Guillén, 2009, p. 37). According to Girón and Solorza (2013), the greatest problem in Ireland seems to have been the banking sector, and they mention how, in 2008, the Irish government announced the insolvency of its banks and, as a result, injected liquidity to reactivate credit in the national economy.

It is clear that the crisis affected the Eurozone financial circuits, but this did not represent just an exogenous shock. The intensification of the Eurozone crisis lies in the origin of the EMU itself; thus, this shock wave brought to light the serious defects and latent omissions in the internal structure supporting the monetary union, disrupting the trustworthiness and credibility of this initiative (Panico, 2015, p. 19). The creation of the EMU increased confidence in international markets, lowering interest rates to equal those in Germany. Therefore, for a long time a false idea existed of an "implicit guarantee" that Germany would somehow back the debt of the members of the Eurozone, which caused the undervaluation of the inherent risks for loans granted to the rest of the members, whose bond issues were made in much cheaper conditions than what they should have been in reality (Chapoy, 2010).

Entry into the EMU provided peripheral European countries an easier way to acquire debt, contributing to the increase in public debt in these economies. However, when the effects of the American crisis became apparent, all the restrictions on the EMU also became evident, along with the lack of economic policy instruments to overcome the crisis, which increased the lack of trust regarding the successful management of the monetary union. In short, the impossible nature of the European Central Bank (ECB) financing these governments influenced the change in financing modality: these countries arrived at international markets equipped with great confidence in themselves generated by their entrance into the EMU, although structural differences between the participating economies still existed, and the resulting debts accumulated over the first years that the union was in operation until the debt overhang was quite evident. It was at this time that the financial agents noticed that, even after ten years, the economies had never converged, which ultimately impacted interest discrimination for government bonds between central and peripheral countries, causing the risk premium to shoot up, resulting in the debt of the latter (Doménech, 2013, pp. 121-122).

Additionally, becoming a member of the EMU implied renouncing monetary sovereignty, and therefore relinquishing decision-making to supranational authorities, that is, the European institutions. In addition, upon signing the Maastricht Treaty, each member of the EMU subsumed to the provisions of the ECB, such that the countries were left without a central bank to perform the lender-of-last-resort role when both the ECB as well as the national central banks were prohibited from financing member state governments (Toporowski, 2012, p. 4).

In 2010, various elements converged to form the perfect storm that burst open the sovereign debt crisis of the European periphery, among which the most significant were debt overhang, loss of confidence among government bond holders, and the absence of a clear institutional edifice to respond to a crisis event involving the banking system and the local government of a member state. According to Guillén (2011), the reduction of differences remained at the superficial level. Consequently, when difficulties presented themselves in a crisis context, not only did the EMU restrictions established in both of those agreements become more pronounced, but so did the austerity practices for public finance management (Flassbeck and Lapavitsas, 2015).[4]

Therefore, intensifying austerity as an orthodox measure for overcoming a crisis was the result of a lack of other, more appropriate instruments to overcome it. In general, the bailout and austerity plan imposed by the Troika in Portugal and a fiscal conservative policy adopted in Spain and all member states implied budget cuts and a reduction in State participation for the purpose of reducing public debt and the national budget deficit (Magone, 2016a; 2016b). However, when an "economic bailout" is mentioned in such terms, what is really being said is "a bailout for private investors that fear that the securities in their possession will be rendered uncollectible". The excessive amount of sovereign debt and the debt crisis are consequences of a crisis "for which the responsibility fundamentally lies in private banking and other financial institutions" (Garzón, 2011). Meanwhile, the weight of recessive adjustment falls upon the

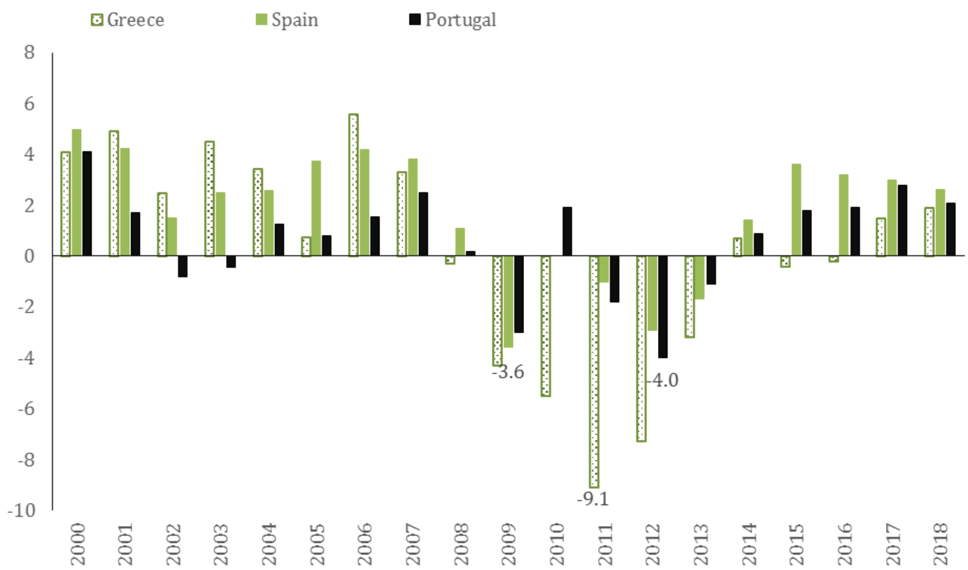
[4] Taken from a critique much harsher than this one: "Europe is condemned either to die or to change! The change requires the permanent dismantling of what caused this tragedy in Europe, the entire Eurozone structure. Compromise is not possible! All that destroyed the conditions of financial stability is destroying and could destroy the global economy" (Parguez, 2010, p. 231).

majority of the population. It is no coincidence that various authors have highlighted the "family resemblance" between the Eurozone crisis, which was followed by austerity practices, and the foreign debt crisis that overcame Latin American economies in the 1980s (Girón and Solorza, 2015).

3. Greece, Spain, and Portugal: banking concentration and low profitability in the post-crisis period

This section seeks to empirically support the topics examined up until this point, primarily resting on the analysis of some basic macroeconomic statistics as well as some related to the functioning of the financial sector in the aggregate. Subsequently, it goes on to a more specific exploration of how the banking systems of Greece, Spain and Portugal behaved in the post-crisis period, the largest banks in particular.

Figure 1 – *Greece, Spain and Portugal: GDP (annual % change), 2000-2018*

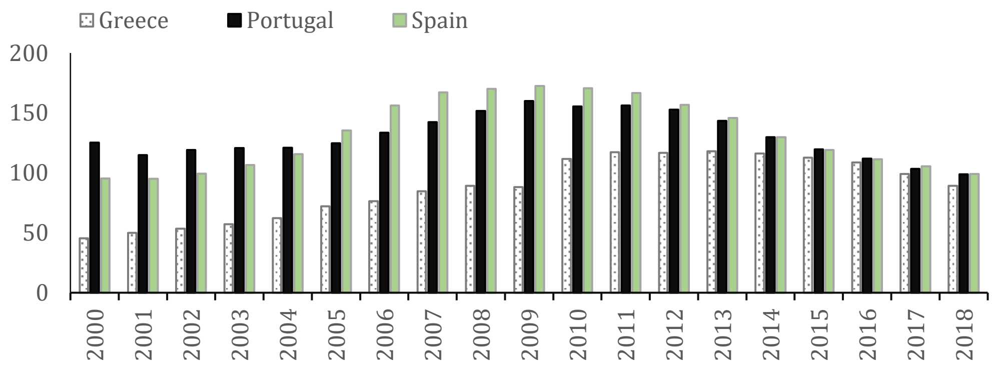


Source: elaboration on data from the European Central Bank: *Statistical Data Warehouse*.

In conformance with the information shown in figure 1, in the last seventeen years, the behavior of Greek, Spanish and Portuguese GDPs has been volatile; upon analyzing the period from 2000 to 2017, three different periods can be observed: (i) from 2000 to 2008, the three economies showed positive growth rates – between 3% and 5% for Spain and between 2% and 3% for Portugal – except in 2002-2003, when the Portuguese economy contracted by about 1%, and the contraction of Greece in 2008; (ii) from 2009 to 2013, these economies had negative growth rates in almost all the years of that period except for 2010, proving that the Eurozone crisis inaugurated a recession period: Spain recorded its worst year in 2009, with a negative growth rate of 3.6%, while Portugal had its worst year in 2012 with a negative growth rate of 4% and Greece in 2012 with a negative growth rate of 9.1%; and (iii) finally, after 2014 there are signs of recovery, Spain growing at 3%, Portugal at 2.8% and Greece at 1.9% in 2018.

However, two themes stand out and depend on the consolidation of a new financial year: the continuity of extremely speculative banking behavior currently in operation and the new political events in the region which increase the uncertainty facing the future of European integration. The first period, with positive GDP, Greece, Spain and Portugal – even taking into account the previously mentioned exception of Portugal in 2003 – it can be seen that, starting from when the countries of the Iberian Peninsula and Greece entered the EMU until the international financial crisis, the ideals of economic convergence between southern Europe and the developed countries of the European bloc were not so unobtainable. However, with the bitter recession due to the Eurozone crisis, and with the peripheral European countries entrenched in a still timid withdrawal scenario, the gap between countries intra-bloc not only broadened the discussion about the long-awaited convergence of per capita income levels in the EU but lurched it forward.

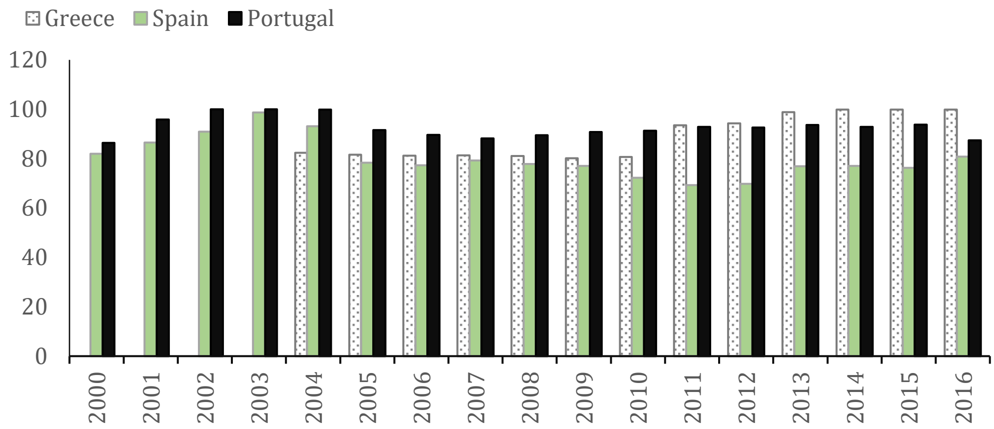
Figure 2 – *Greece, Spain and Portugal: domestic credit to private sector* (*% of GDP*), *2000-2018*



Source: elaboration on data from the World Bank: *Global Financial Development.*

Taking the same period, from 2000 to 2018, into consideration, figure 2 shows the domestic credit allocated to the private sector as a percentage of the GDP of each economy. This indicator functions as a proxy for the generalized behavior of the financial sector. In both cases, an upward trend of credit availability can be noticed from 2001 to 2009, at which time the trend was reversed. Going into a bit more detail, it is interesting to point out that, at the beginning of the decade, Portugal's domestic credit represented 125% of its GDP, much greater than that of Spain (which was around 95% of its GDP) and Greece (45% of its GDP). However, since 2015, this indicator has had more or less the same value for the three economies. The year that marks the inflection point in the tendency was 2011, also a result of the credit crunch outbreak observed at other latitudes, where the domestic credit of these economies entered into an acute downward trend.

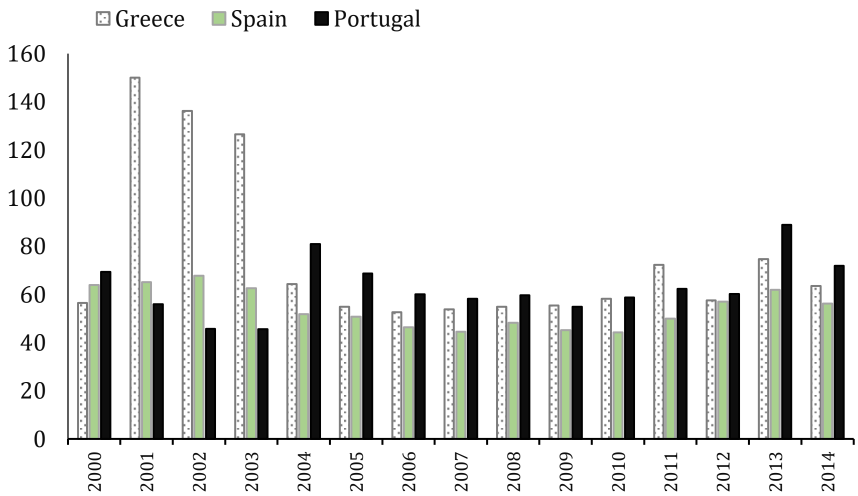
Figure 3 – *Greece, Spain, and Portugal: asset concentration of top five banks, 2000-2016*



Source: elaboration on data from the World Bank: Global Financial Development.

Figure 3 shows the asset concentration of the five largest banks in Greece, Portugal and Spain, showing the percentage representing the sum of the assets of these five banks in relation to the total assets in the banking sector for each country. In the particular case of Portugal, the five largest banks had asset concentration of about 90% over the last 16 years, even reaching 100% between 2002 and 2004. In the case of Spain, banking concentration has not been as intense, around 80% in the same period; nonetheless, Spain also had values near 100% in 2003. Finally, for the case of Greece, the asset concentration also has been increasing during the period.[5]

Figure 4 – *Greece, Spain, and Portugal: operational costs of the banking industry as a percentage of its income, 2001-2014*

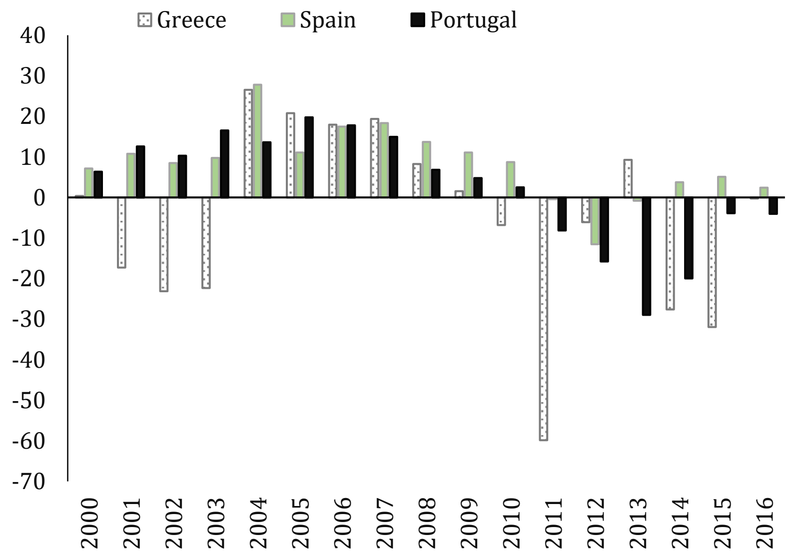


Source: elaboration on data from the World Bank: Global Financial Development.

[5] It bears mentioning that, as will be seen below in tables 1 and 2, the asset volume of Spanish banks is much greater than that of Portuguese banks when controlling for GDP size, which in any case could suggest, at least, a more "voluminous" process of banking concentration and centralization in Spain.

Another trend marking the behavior of the banking sector in the post-crisis period is an increase in costs. Figure 4 shows how the ratio between the operational costs of the banking industry with respect to income increases in 2011 and thereafter for Spain and Portugal, except for a decrease in costs in the first quarter of 2014. In addition to the noticeable rise in operational costs for the banking industry in both economies beginning with the euro crisis, it can be noticed how the cost gap between Spain and Portugal has widened, this being systematically greater in Portugal.

Figure 5 – *Greece, Spain, and Portugal: bank returns on capital* (*before-tax ROE %*), *2000-2016*



Source: elaboration on data from the World Bank: Global Financial Development.

Continuing with an analysis of financial development indicators, figure 5 shows the evolution of bank returns on equity (ROE). This indicator decreased after the world financial crisis of 2007-2008 but collapsed in spectacular fashion after the Eurozone crisis and began to show negative levels. It is clear that, even today, Portugal's banking activity remains in a difficult situation, generally speaking, continuously pulling negative profitability even farther down. In addition, it can be seen how the Portuguese banking industry ROE showed a negative profitability index to the tune of 4% in 2016, which may be substantially better than the negative profitability index of 29% evidenced in 2013, but does not cease to be worrisome. In terms of profitability, Greece presents the most critical behavior of the three countries (in 2011, this indicator had a negative value of almost 60%). With regards to the Spanish banking industry, the before-tax ROE would have shown equally negative values in the immediate post-crisis period, though at more moderate levels. In fact, the lowest ROE recorded was in 2012, with a negative value of 11.53%. However, in this case, the Spanish banking industry achieved a slight improvement in 2014 upon reaching a positive ROE of 3.75%, which in 2016 decreased to 2.41%, demonstrating the fragility of its "recovery". In summary, a profit squeeze scenario for the banking industry is demonstrated here, which stimulates banks to look for new sources of income and, in the long run, contributes to an environment of growing financial innovation in support of greater returns while continuing to sabotage a more stable financial framework.

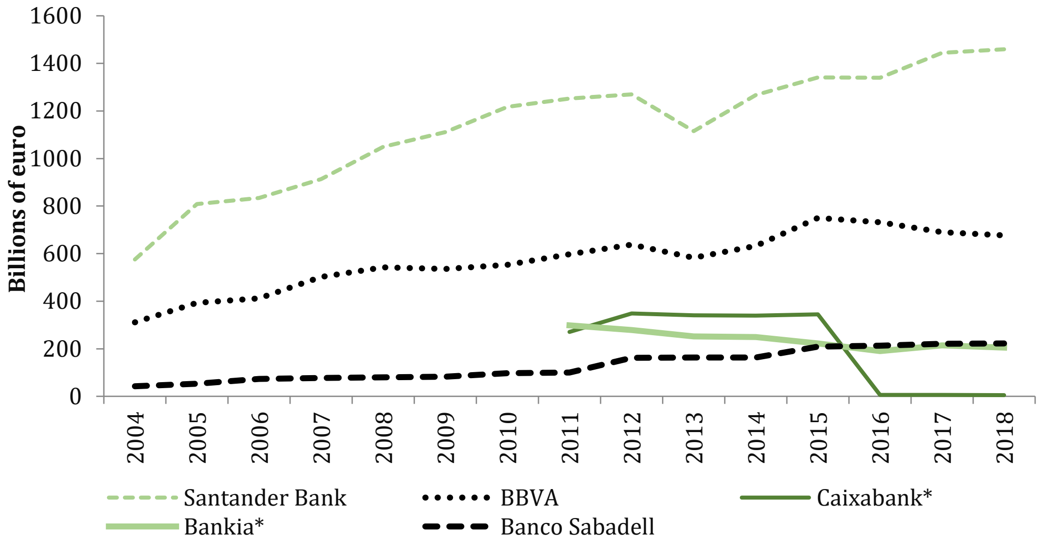
Table 1 – *Spain: five largest banks by assets, 2018*

No.	Bank	Assets (billions of euros)	% of GDP
1	Santander	1,459.3	120.8%
2	BBVA	676.7	56.0%
3	Banco Sabadell	222.3	18.4%
4	Bankinter	76.5	6.3%
5	Deutsche Bank	17.3	1.4%
	Total, five largest banks	2,452.1	202.9%

Source: elaboration on data from the Spanish Banking Association (AEB) and the European Central Bank, *Statistical Data Warehouse*.

With the intention of examining the primary actors of the Greek, Spanish and Portuguese banking system in greater detail, this article goes on to analyze the five largest banks of three economies more carefully through an asset value ranking. Once again, the focus of the analysis is the process of concentration and centralization of capital that underlies large mergers and the persistent trend of low profitability, but now with a different aggregate level. In table 1, the composition of the Spanish banking sector is analyzed more specifically, keeping in mind that the three largest banks in the country – Santander, BBVA, and Banco Sabadell, respectively – together concentrated 2.358 billion euros in assets at the close of 2018, a value equivalent to almost two times the average Spanish GDP in the same year. The large disparity that exists between associates in the “club de los cinco” (club of five) is worth mentioning. For example, the 222 million euros of assets belonging to Banco Sabadell, the third largest bank in the country, represented a fifth and a half of that year’s assets for Santander, the bank with the largest asset volume. Therefore, it is no exaggeration to observe that the Spanish banking sector is prevalently centralized by two large banking institutions (Santander and BBVA), whose operations span the length and width of the globe. Continuing to think in terms of these two multinational megabanks, two key elements of financialized capitalism can be seen: (i) their asset volume, which is truly disproportionate, with a consolidated BBVA recording assets that add up to 65% of the Spanish GDP, while Santander’s holding contains asset totals to the tune of 120% of the GDP of its host country; and (ii) the political power that the financial magnitude of their business deals gives these megabanks, political interference that also seeps over their national borders.

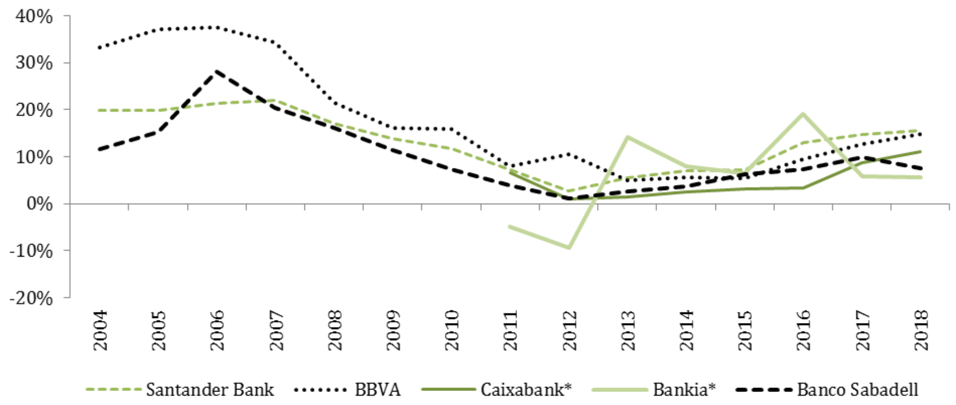
Figure 6 – *Spain: assets of top five banks, 2004-2018*



* Banks created recently, began information reporting in 2011.
Source: elaboration using information from the annual reports of each bank: consolidated balance sheets through 31 December of each year.

With respect to the progressive expansion of the assets held by the five top Spanish banks, significant differences between the performances of each bank can be seen in figure 6. Although, in general, the trend of increasing asset volume took a downturn in 2012, it made a comeback in 2013 and later years. In fact, it was in 2013 that Santander restructured its operations, emphasizing its merger with Banesto, which caused a 3,500-job reduction and closed almost 1,000 offices (*Cinco Días*, 2016). The savings bank sector also went through profound restructuring during this period (Cadena, 2016), with special emphasis on the controversial merger of several of these banks with Bankia. Since its creation at the end of 2010, Bankia has seen its assets systematically reduced, reflected in the disappearance of agencies and massive job destruction. Meanwhile, during the same period of transformation of savings banks, a new private retail bank was created, CaixaBank, which holds third place in the ranking of Spanish banks. Finally, in regards to Banco Sabadell, it has managed to achieve a better position within the Spanish banking sector bit by bit, already coming very close to Bankia, the bank holding fourth place in assets. As observed, the restructuring of the banking sector in those years ended up strengthening the large financial groups.

Figure 7 – *ROE: five largest Spanish banks, 2004-2018*



* Banks created recently began information reporting in 2011.
Source: elaboration using information from the annual reports of each bank and *The Banker*: consolidated balance sheets through 31 December of each year.

As was mentioned in regards to the aggregate data, another one of the primary features that appeared after the crisis of 2007-2009 was the decrease and relative paralysis of bank profitability levels in Spain. The concern expressed by the Bank of Spain when its governor, Luis Linde, announced that, although the losses from 2012 were a thing of the past and positive, growing profitability had been obtained, these were still not sufficient to cover the cost of capital (*El País*, 2015a). Examining the ROE of the primary Spanish banks in more detail, which can be observed in figure 7, the drop becomes even more evident. First, the profitability of the three largest banks (Santander, BBVA, and Sabadell) increased from 2004 to 2006, subsequently dropping dramatically during the period comprising 2007 until 2013, while the period from 2013 to 2018 emphasized a stable low level of profitability.

In summary, following the crisis, the Spanish banking industry underwent significant restructuring, which would result in a decrease in the number of competitors, while at the same time contributing to the largest banking entities in the country commanding even more assets within a decreasing profitability context. Accordingly, in 2009, the Fund for Orderly Bank Restructuring (FROB) was created, whose purpose was and continues to be credit entity restructuring and resolution. Thus, a good part of the post-crisis period was characterized by bank mergers and acquisition proceedings. A recent example of these proceedings was Santander's acquisition of Banco Popular – which at the time was the sixth largest bank, at risk of bankruptcy due to exposure in the Spanish real estate market – acquired for the symbolic quantity of one euro (*El Mundo*, 2017). Additionally, in 2012, Santander's closest competitor, BBVA, acquired Unnim Banc for the same quantity at public auction; Unnim Banc was a Catalan entity which had previously been nationalized and which had at one time been the result of a merger between several savings banks, at the time possessing total assets valued at around 29.3 million euros (Unnim Banc S.A.U., 2012). Some of the mentioned buying and selling operations were closely monitored by the government, which acted in response to lobby pressures from large banks.

Table 2 – *Portugal: five largest banks by assets, 2018*

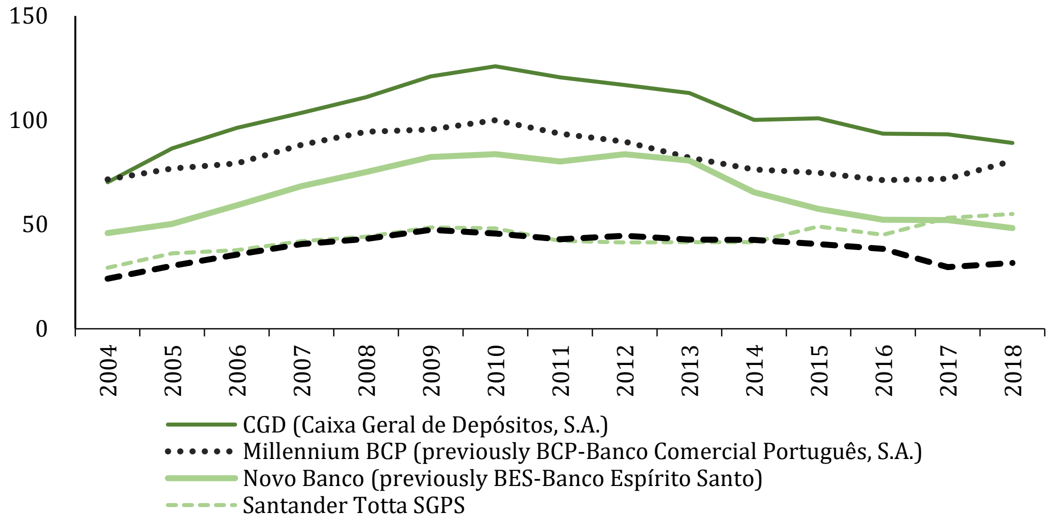
No.	Bank	Assets (billions of euros)	% of GDP
1	Caixa Geral de Depósitos	89.1	47.9%
2	Millennium Banco Comercial Portugués	80.5	39.9%
3	Novo Banco	48.3	23.9%
4	Santander Totta	55.0	27.3%
5	Banco Portugues de Inversión	31.6	15.7%
	Total, five largest banks	304.4	151.0%

Source: elaboration on data from the Portuguese Banking Association (APB) and the European Central Bank: *Statistical Data Warehouse.*

The Portuguese banking industry was also restructured at various times as a result of the global financial crisis of 2007-2008, along with a new wave of reorganizations after the Eurozone crisis. In 2011, the Portuguese government agreed to the Economic and Financial Assistance Program (EFAP) with the EU and the International Monetary Fund (IMF), an agreement which included financial assistance totaling 78 billion euros from 2011-2014, of which 52 billion would originate from the European Financial Stabilization Mechanism and the European Financial Stability Fund, and the rest (26 billion) would correspond to IMF financing. From this total, 12 billion euros were allocated to the public support mechanism for banking sector solvency. Moving on to a more detailed analysis, according to table 2, in 2018 the five largest banks by asset size were: Caixa Geral de Depósitos (CGD), Millennium Banco Comercial Portugués (BCP), Novo Banco, Santander Totta, and Banco Portugués de Inversión (BPI), which together recorded more than 300 billion euros in assets at the close of the 2018 financial year.[6] A third of these assets, equivalent to 50% of the Portuguese GDP for the same year, were concentrated in CGD alone, a public banking entity. In second place in the ranking is the private institution BCP, whose asset number was equivalent to 40% of the country's GDP. Additionally, it is important to highlight the infiltration of the Spanish banking industry into the Portuguese market. A clear example is the growing participation of Santander Totta, a group that has recently gained ground even when far behind its closest competitors within the Portuguese banking industry, having made a significant advance after its parent company absorbed Banco Popular in Spain (*El País*, 2017b). According to the information presented in figure 8, the asset evolution of this select group of the five largest Portuguese banks is represented in two periods: (i) from 2004-2010, a growth period; and (ii) beginning with the Eurozone crisis, a contraction period, except for Santander Totta and Millenium BCP. Both increased their assets considerably in 2017-2018, for Santander this can be explained by the acquired of Banif-Banco Internacional do Funchal.

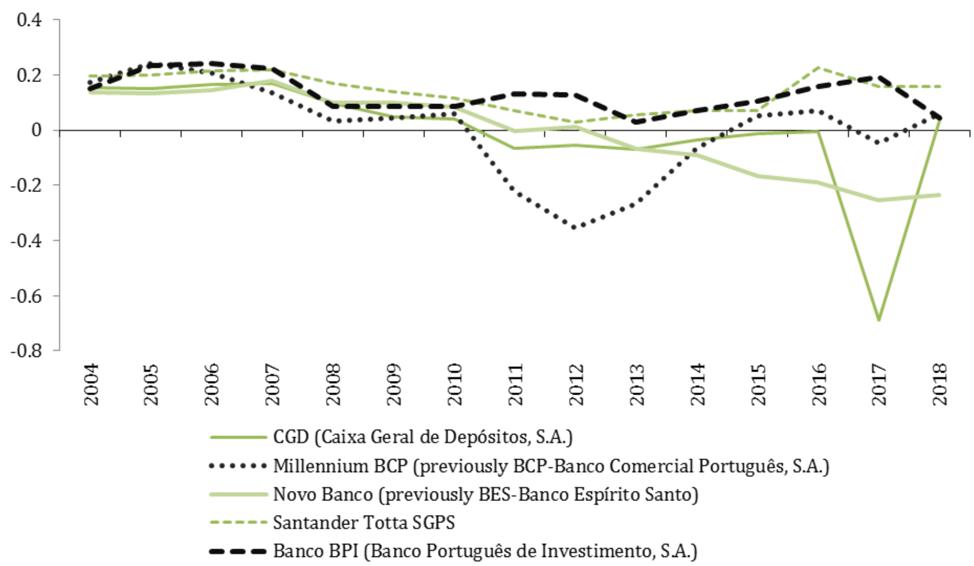
[6] Fosun, a Chinese conglomerate, bought 17% of Millennium BCP and is now the bank's largest shareholder. The same group is now no longer the majority shareholder for the primary Portuguese insurance company (*The Economist*, 2016).

Figure 8 – *Portugal: assets of top five banks, 2004-2018*



Source: elaboration using information from the Portuguese Banking Association.

Figure 9 – *ROE: top five Portuguese banks, 2004-2018*



Source: elaboration using information from the annual reports of each bank and *The Banker*: consolidated balance sheets through 31 December of each year.

The trend towards low profitability in the Spanish banking industry can also be observed in the Portuguese industry after the 2007-2008 crisis, and it intensified during the period following the Eurozone crisis (see figure 9). In fact, in 2015, two of the five top Portuguese banks still maintained worrisome negative ROE levels: CGD at negative 1.3% and Novo Banco at negative 16.4%. This is the opposite of the profitability trend for BCP, which had its worst drop in 2012, recording a negative ROE of 35.4%, but managed to recover positive profitability in 2015. With regards to the above, the panorama for the Portuguese banking industry is still uncertain. Above all, this is because its primary entity, the CGD, is going through major recapitalization problems. Since the crisis, the government has lent CGD 900 million euros, which it still has not repaid; in addition, it has had five years of negative returns (more than 2 billion euros) and has 5 billion euros in unpaid credit (*El País*, 2016).[7]

In conclusion, the Portuguese banking sector still suffers from the havoc wreaked from the last global crisis, despite the measures that were implemented following the EFAP. In this respect, various analysts have indicated multiple weaknesses in the Portuguese banking sector. The Bank of Portugal itself, in its Financial Stability Report (2016), indicated the following as unresolved vulnerabilities: (i) the elevated number of assets in bank accounting balances that are not generating returns, such as expired credit portfolios; (ii) the heightened exposure of local banks to domestic bonds and lines of credit with the real estate sector; and (iii) the sustainability of the current banking business model faced with an economically stagnant context, combined with low interest rates (Banco de Portugal, 2016, p. 7).[8] Even the Organisation for Economic Co-operation and Development (OECD) noted in one of its reports that the points of greatest fragility for the Portuguese economy are elevated debt and the recapitalization of the banking industry (*El País*, 2017a).

Table 3 – *Greece: five largest banks by assets, 2018*

No.	Bank	Assets (billions of euros)	% of GDP
1	Piraeus Bank AE	61.9	33.5%
2	National Bank of Greece	59.3	32.1%
3	Alpha Bank	55.2	29.9%
4	Eurobank Ergasias SA	50.3	27.2%
5	Attica Bank SA	3.4	1.8%
	Total, five largest banks	230	124.5%

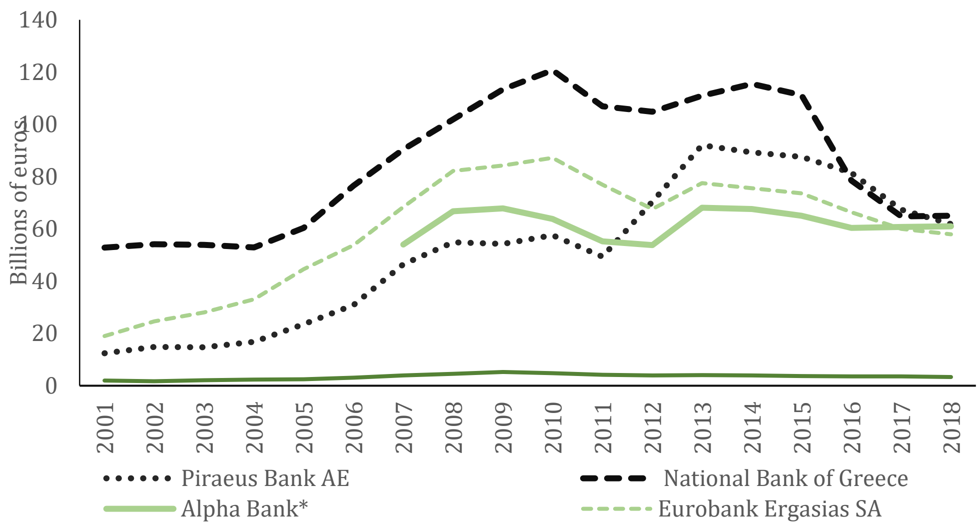
Source: elaboration on data from the Portuguese Banking Association (APB) and the European Central Bank: *Statistical Data Warehouse.*

Piraeus Bank is the first bank in the ranking by assets in Greece. It is a national private bank that has been active since 1919 and greatly expanded its size after a series of acquisitions

[7] The crash of Espírito Santo (BES), now Novo Banco, the primary bank for production enterprise funding, created a precedent and a solution unheard of in Europe until that point: "create a good bank and let BES rot. This good bank, Novo Banco, was born with all the good assets of Espírito Santo, plus a government injection of 4.9 billion euro; in theory, a good bank had been conceived. However, in 2015, losses had risen to 980 million" (*El País*, 6 March 2016; our translation). For this reason, the Bank of Portugal has recently looked for a new buyer for Novo Banco.
[8] In addition, in the talk given by Fernando Faria de Oliveira, President of the Portuguese Bank Association (APB), the high risk exposure of the banking industry has not been nor does it continue to be the root cause: "The root cause explaining the sector's current situation can actually be found in the effects of the sovereign debt crisis following the global financial crisis. It was the sovereign debt crisis that affected the banks, and not the banks who created the crisis" (Faria de Oliveira, 2017, p. 7; our translation).

in 2014, mainly the purchase of Cypriot insolvent banks after the crisis in that country. The bank dominates the Hellenic banking market and has branches in Germany, Ukraine, and the UK. In close second place, and also with operations in other countries, is the National Bank of Greece (NBG). Founded in 1841, this national private capital bank is one of the oldest commercial banks that are still active. After the euro crisis and the banking bailouts of 2012, the bank was still in difficulty and, in 2013, in search of greater strength, it tried to merge with one of its main competitors, Eurobank Ergassias (originally from Luxembourg, and the fourth in the ranking), generating a great rise in the share values of both. However, despite the advanced negotiations, the merger was ultimately not authorized by local regulatory authorities due to pressure from the IMF and the ECB (Reuters, 2013).

Figure 10 – *Greece: assets of top five banks, 2004-2018*



Source: elaboration using information from the consolidated balance sheets of the banks, from 31 December 2001 to 2018.

As in Portugal and Spain, we can identify a period of growth of the assets of the five biggest Greek banks, from 2002 to 2011, followed by a stage of a sharp decrease in the volume of assets. The only exception is the performance of Piraeus Bank, which increased its assets from 2011 to 2013. However, mistrust in the Greek banking sector remains, and after 2014 the fall in the volume of assets of the main banks in Greece was sharper than that observed in Portugal. The purchase of healthy assets of the state-owned Agricultural Bank of Greece (ATEbank) explains the increase in Piraeus Bank’s assets. The purchase was finally confirmed in 2012 and was followed by a massive injection of financial resources in the context of the Greek central bank's bank bailout program. The merger has allowed Piraeus Bank to jump to the second position in the ranking by assets (Hope, 2012).

4. Conclusions

In October 2012, the results from a panel of experts were published – the Liikanen Report – and the proposals for structural reform of the EMU banking sector it offers are quite interesting (Liikanen, 2012). There is a clear parallel between the effort to regulate the activity of the European banking industry vis-a-vis the ideas expressed in the regulatory measures set forth with the Dodd-Frank Act in the United States. An increase in capital requirements has been proposed in the European example, but it also includes a review of the nature of operations and separation of legal liability between typical investment versus commercial banking activities. In that sense, it is also important to mention that, within the framework of the ECB, a specific bank supervision mechanism was created (ECB, 2014).

These are commendable measures in terms of improving the institutional mechanisms for supervising and regulating banking activity, but a sufficient regulatory framework has still not been built to effectively lessen the possibility that, in the near future, the same banks that have been responsible for the extreme financial fragility observed in the Eurozone will produce the same spiral of speculative transactions. This is to say that, although the measures taken up until now represent a clear step forward with respect to the prevailing official pre-crisis discourse from the European Commission, worrisome focal points of instability can still be found, ripe with continuities with the previously mentioned banking activity trends, such as: (i) a worsening of the processes of concentration and centralization of capital; (ii) an increase in the market power of large financial groups; and (iii) the continuous influence of banking lobbies on political agents.

In addition to the previously mentioned inertia in terms of bank operational methods, which still have not been dismantled by regulatory authorities, there is at least one new element that was not previously present and which is now more clearly noticeable in the post-crisis period: traditional banking sector profitability is substantially lower. This feature, unlike what was observed in the previous context, adds more tension to the "war" of oligopolistic competition between the large banks of the region. Likewise, in this profit squeeze scenario, we see that financial reorganization could increase banks' predisposition to individually search for unprecedented formulas that involve operations patterned on financial innovation in their search for extra earnings, contributing to even deeper entrenchment in high-risk products in order to generate new sources of income for the sector.

With attention to the ways in which the key elements for contention of the possible destructive potential of deregulated finances have not yet been warped, the authors would like to emphasize the absolute necessity of a more in-depth discussion on banking activity regulation in the realm of the European integration process. Mastromatteo and Esposito (2016), supported by the teachings of Hyman Minsky (1986; 1992), adamantly state that the best possible solution for the construction of a stable financial environment is to enforce a restriction on the absolute size of large banks. In their proposal, they assert a view that pays more attention to regulation based on size restrictions, banking concentration, and the power of large financial groups through: a) determining a ceiling, an absolute value for the amount of assets a bank can have, corrected annually for periodic inflation; or b) set a specific percentage of the national GDP that a bank's asset value may not surpass. Only with a banking system concentrated on smaller banking activity can the political-economic power held by large financial corporations be broken and the occurrence of banking crises that dismantle economic activity as a whole as they unfold, affecting peripheral economies such as Spain and Portugal in particular, be definitively reduced.

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