QUANTITATIVE EASING: WHAT DOES IT MEAN FOR PORTUGAL

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The announcement by the European Central Bank (ECB) of its quantitative easing programme met the applause, more or less enthusiastic, of those who have been advocating the end of the austerity programs across Europe and in Portugal.

It is expected that the ECB's quantitative easing programme will create a monetary stimulus by allowing banks and other investors to sell certain debt securities to the ECB, which will release funds to finance the economy.

For Portugal, the problem with this reasoning is the premise on which it is based on: that the fall in investment is the result of the credit crunch.

The fact is that, after three years of austerity, the Portuguese economy remains over indebted. According to the Bank of Portugal, in September 2014, the total private sector debt represented 231.8% of GDP and the corporate debt was 145.3%. The current debt-to-GDP ratio is significantly lower than in 2012, which was 255.4%, and it results from the contraction of the credit granted to companies and individuals in a staggering amount of €22,262 million.

The deleveraging process is the direct result of the downturn of the Portuguese economy and the pressure put on Portuguese banks to recognize and provision for bad debt. In 2014, Portuguese banks recognized as impaired credit 15% of their corporate loans portfolio, €21,163 million, which compares with €10,917 million in 2009. The deleveraging process will help the Portuguese economy to free up from the debt burden and will produce results in the not so distant future.

On the other hand, since 2012, average interest rates charged by Portuguese banks on corporate loans fell from 5.69% to 2.23%, but this did not lead to an increase in investment. This shows that quantitative easing measures cannot be seen as the panacea for Portugal's economic illnesses, which would unleash credit and restore growth, as many local Keynesian gurus believe.

The first effect of the ECB's quantitative easing programme was, as anticipated by the markets, a steep decline of the Euro, which is positive for exports to countries outside the Euro Zone but has no effect on transactions within the Euro Zone and does not correct the imbalances in the current trade balances countries between north and south European countries.

The ECB's quantitative measures will also intensify the decline in interest rates, which will further reduce the financial costs of existing and new loans.

These effects can be positive for the Portuguese and give a boost to growth prospects. However, the increase in liquidity resulting from the quantitative easing measures may also lead to the financing of poorer projects, to the creation of speculative bubbles, particularly in the real estate market, and to the appropriation by financial investors of the benefits of the liquidity provided by the ECB. It is curious to note that, Portuguese left and right wing Keynesians, the main advocates of quantitative easing, did not raise any objections against a programme that will, primarily, benefit financial investors, who will, in many instances, use the liquidity created by the ECB to fund speculative investments.

We should not forget, although memory is usually short, that monetary stimulus policies, when prolonged in time, have always led to inflation and/or to the creation of speculative bubbles in the stock and in real estate markets. This is what the Bundesbank fears and was on the basis, according to some media, of its rejection of Mr Draghi's quantitative easing programme. This should also be the main concern of the ECB and the monetary authorities in the Euro Zone when they assess the progress of the programme and as they supervise banking ongoing activity, in particular in over-indebted countries like Portugal.

The consequences will be severe if the Portuguese economy deleveraging process loses momentum and Portuguese banks use the abundance of liquidity made available under the ECB's quantitative easing programme to fund unsustainable companies and new bubbles in the real estate and stock markets. The backlash will be hardly felt in the next financial crisis, which could be just around the corner.

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