Measuring the evolution of monetary and financial services in Portugal

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Introduction

This paper aims to describe, in a concise way, the evolution of monetary and financial services in Portugal since the Portuguese accession to the European Economic Community, highlighting some of the principal milestones that were achieved along the way.

Financial services (other than insurance, pension funding and compulsory social security) cover a broad range of activities regarding the obtaining and redistributing of funds. They include monetary intermediation, eg the receiving of deposits and/or close substitutes for deposits, and the extending of credit or lending of funds through a variety of forms (such as loans, mortgages and credit cards). In the EU context, those activities are carried out by the so-called monetary financial institutions (MFIs), a category that encompasses central banks, credit institutions (as defined in EU law) and other resident financial institutions that fulfil the MFI definition, irrespective of the nature of their business (eg money market funds). A second class of financial services, which could be called non-monetary financial intermediation, comprises the activities of, for example, holding companies, trusts, funds and similar financial entities (excluding money market funds), financial leasing companies, credit-granting by institutions other than MFIs, other financial service activities primarily concerned with distributing funds other than loans and own-account investment activities. A last category of financial services concerns activities that are auxiliary to financial services and insurance activities involved in, or closely related to, financial service activities, but which do not themselves provide financial services.

Our attention throughout this paper will be centred specifically on the first of those three groups. The monetary sector plays a key role in the economy through the provision of monetary and financial intermediation and payments services. In this way, MFIs enable an efficient allocation of savings and investments, and allow financial transactions to take place at minimum cost. The MFI sector is, by far, the main contributor to financial service activities in Portugal. In addition, this sector has a superior statistical coverage, as compared to that of, for example, non-monetary financial institutions. In Portugal, the monetary sector comprises the Banco de Portugal – which is the Portuguese central bank and, as such, exercises control over key aspects of the financial system – and four other types of monetary institutions: universal or all-purpose banks, which account for most of the monetary intermediation activity; mutual agricultural credit banks; small savings banks; and money market funds.

Given the lack of comprehensive and reliable micro data (census- and/or survey-based) and the methodological difficulties inherent in the measurement of access to finance, the focus of this paper will be on the provision of, rather than the access to, financial services. The virtual absence of significant non-price barriers for firms and households in the use of financial services in Portugal, on the one hand, and the fact that the provision of financial services

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may be seen as an indicator of the potential access to financial services, on the other, mitigate the possible detrimental consequences derived from following this approach.

Finally, considering that Portugal is a member of the European Union, this paper will dedicate a few words to a number of initiatives brought about by such participation, which has substantially contributed to improving the efficiency of the Portuguese financial services industry. In particular, this paper will address: (i) the Portuguese response to the policy orientations in connection with the European Commission's policy framework i2010 – European Information Society 2010; and (ii) the ongoing European financial markets integration process – one of the cornerstones of the so-called Lisbon Strategy, set out by the European Council in Lisbon in March 2000 to make the European Union "the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010".

Turbulent beginning

Since 1986, the year that marked the Portuguese accession to the European Economic Community (EEC) – the forerunner of the European Union – the growth in the provision of financial services in Portugal has been remarkable, especially if compared with the situation at the time of the revolution of April 1974 that put an end to almost 50 years of relative isolation under an authoritarian regime.

After the completion of democratic consolidation in Portugal, which took place in the second half of 1982 following the first constitutional revision that enforced popular suffrage as the only source of public power, the Portuguese financial system underwent a number of noteworthy changes to its legal framework and, concurrently, to its functioning, as part of a major structural reform that was taking place within the context of an IMF agreement during the 1983–85 period of macroeconomic adjustment. This, in turn, had a significant impact on the provision and usage of financial services in Portugal.

First and foremost, the banking sector was reopened to private initiative in 1984, thus ending a seven-year period in which the private sector was not allowed to set up new banks in Portugal. In addition, new legislation allowed for the introduction of innovative financial instruments (eg new types of deposits and certificates of deposit), which, in turn, brought about a more diversified portfolio of financial assets available to savers – and other types of financial intermediaries (eg investment funds and non-monetary credit institutions, such as financial leasing companies, factoring companies and hire-purchase financing companies), particularly in markets in which banks were not allowed to be present. The capital markets (both primary and secondary) that had been virtually inactive since the 1974 revolution were restructured and a number of initiatives (such as the granting of tax incentives for investment in the capital market) were taken with a view to its revival.

This movement towards greater liberalisation and innovation gained further momentum after Portugal joined the EEC, on 1 January 1986, beginning with the passing of legislation to further align the Portuguese legal framework with existing Community law. This legislative alignment has focused, inter alia, on the following aspects: defining credit institutions; rules for granting and revoking licences to establish credit institutions; rules for the operation and supervision of credit institutions; solvency and liquidity ratios; and the promotion of competition.

In particular, the opening up of the banking sector to private investors, on the one hand, and the denationalisation of state-owned banks, insurance companies and other public enterprises allowed by the passage of the so-called Re-privatisation Law (April 1990) – most of the resident banks had been nationalised in September 1974 and March 1975 (only foreign banks evaded nationalisation) – on the other hand, provided a strong impetus towards diversification, modernisation and competition in the Portuguese financial system.

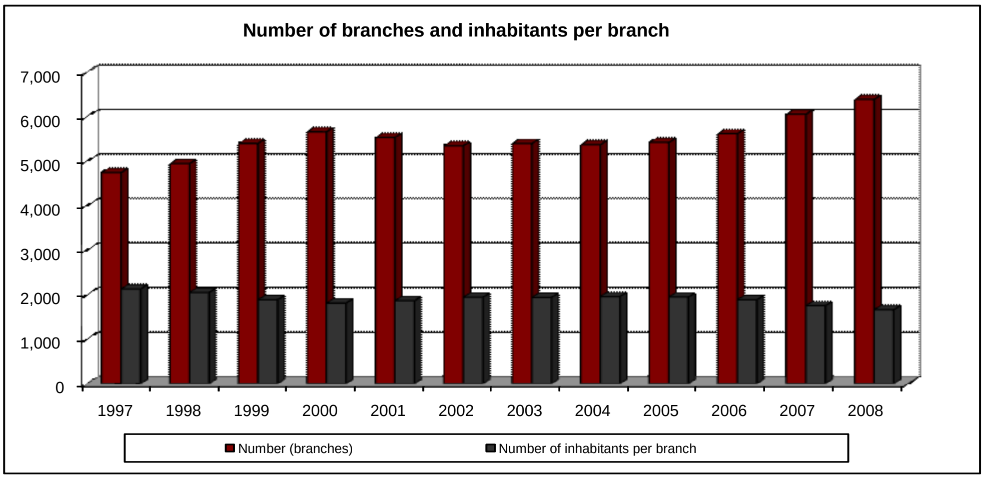
A new legal framework for the financial sector, published in 1992, introduced the concept of “universal banks”; most banks took this opportunity to extend the range of their activities, leading to an increase in competition and innovation, emphasised by the emergence of new types of financial institutions. The prospect of the single market and the establishment of an increasing number of foreign banks in Portugal led to the expansion of new markets.

In parallel with these developments, the Portuguese economy experienced a striking recovery in the years that followed EEC accession: for the first time since World War II, the country recorded five consecutive years of economic growth. In fact, Portugal’s GDP, led by strong exports and a healthy capital formation, grew by an annual rate of 4.6% from 1986 to 1990, one of the highest growth rates among OECD countries.

The new competitive framework introduced incentives for innovation and the introduction of more advanced technologies. Since the late 1990s, the technological progress and narrowing margins in business as a whole have fostered the rationalisation of the production and distribution of financial products, with the gradual substitution of labour for new technologies. The strong growth of other administrative costs in 1997–99 revealed the need to meet the massive investments at the communication and information system levels – partly linked to the ongoing restructuring operations within newly built banking groups – which also contributed to the rationalisation of the use of labour.

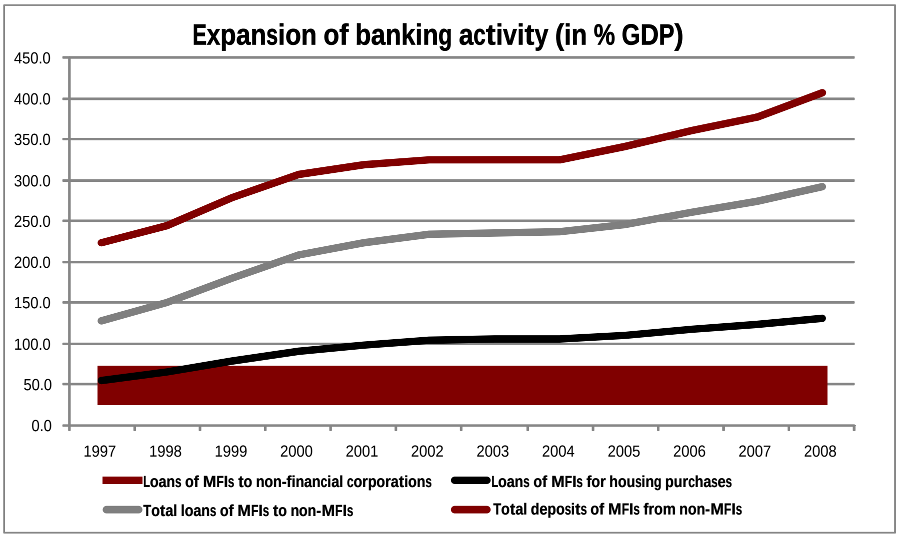
The successive reductions in the number of credit institution employees per branch (from 13.6 in 1997 to 9.8 in 2008) underscore this fact: the decrease resulted both from staff reduction and the increase in the size of branch networks (6,391 branches in 2008 compared with 4,746 in 1997). Consequently, staff costs fell as a percentage of total average assets and as a proportion of total costs: the ratio between staff costs and total operating costs fell from 76% in 1985 to 63% in 1997 and to 54% in 2008. Moreover, the number of people served per branch (see Figure 1) decreased from 2,130 in 1997 to 1,663 in 2008.

Figure 1



Banking activity witnessed a strong growth over this period (see Figure 2): loans to non-financial corporations reached 68.2% of GDP in 2008 (30.4% in 1997) and housing loans amounted to 62.9% of GDP in 2008 (24.6% in 1997). Total non-monetary deposits grew from 95.7% of GDP in 1997 to 114.5% in 2008.

Figure 2



Boom in retail financial services

One of the most striking developments that took place during that period was the substantial increase in the application of technological innovations (mainly in telecommunications), which made it possible to implement teleprocessing networks, either within the larger banks or through interbank links, with visible benefits for the provision of financial services, particularly in the field of retail payments. This increase was backed by the creation of Sociedade Interbancária de Serviços (SIBS), a company that was founded in 1983 by a number of resident banks (today, the company's shareholders stand for practically the whole Portuguese retail banking sector). Its aim was to introduce a single payment platform that met the banking establishments' needs, while developing their facilities and technology and extending their international scope. In 1985, the network became operational under the Multibanco name.

Multibanco, a sophisticated network shared by every bank operating in the economy which fully integrates automated teller machines (ATMs) and electronic funds transfer at point of sale (EFTPOS) terminals, revolutionised the way retail operations are carried out in Portugal. Since its implementation, new features have been constantly added to the system, involving no extra cost to its users.

In addition to cash withdrawals and balance enquiries, customers can carry out a wide range of operations through Portuguese ATMs, such as: money transfers (both to other customers in the same bank and to other banks); utility bill payments; payments to the state and social security; mobile phone top-ups; transport ticketing; event booking and ticketing, etc. Currently, more than 60 different services are available to ATM users, of which around half may also be accessed via EFTPOS terminals.

Both the volume of transactions carried out through the system and its demographic and geographic coverage have been expanding at a fast pace, as illustrated by the following facts:

- The number of ATMs installed in Portugal (see Table 1 below), including the limited-access ATMs operated by credit institutions, was 16,885 by end-2008 (provisional figures), equating to 158.9 ATMs per 100,000 people, and 183.3 ATMs per 1,000 km^2, compared to 821 in 1990 – 7.7 and 8.9, respectively.

  The demographic ATM penetration is currently one of the highest in the world. According to a 2008 World Bank policy research report (see references below), Portugal ranked fifth among the 99 countries covered by the study (second in the European Union after Spain); the geographic ATM penetration was also very high (12th and sixth, respectively).

Figure 3

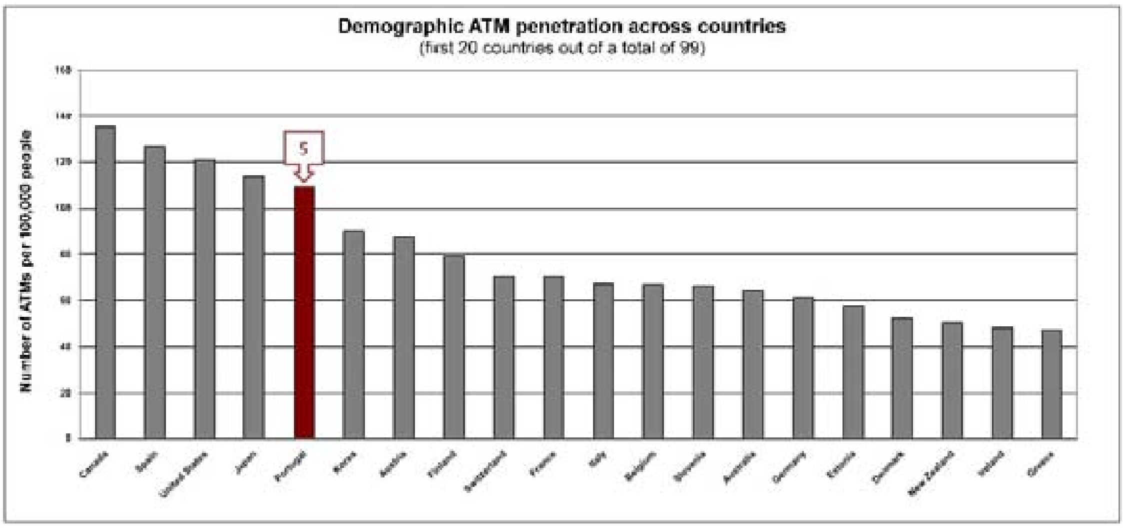
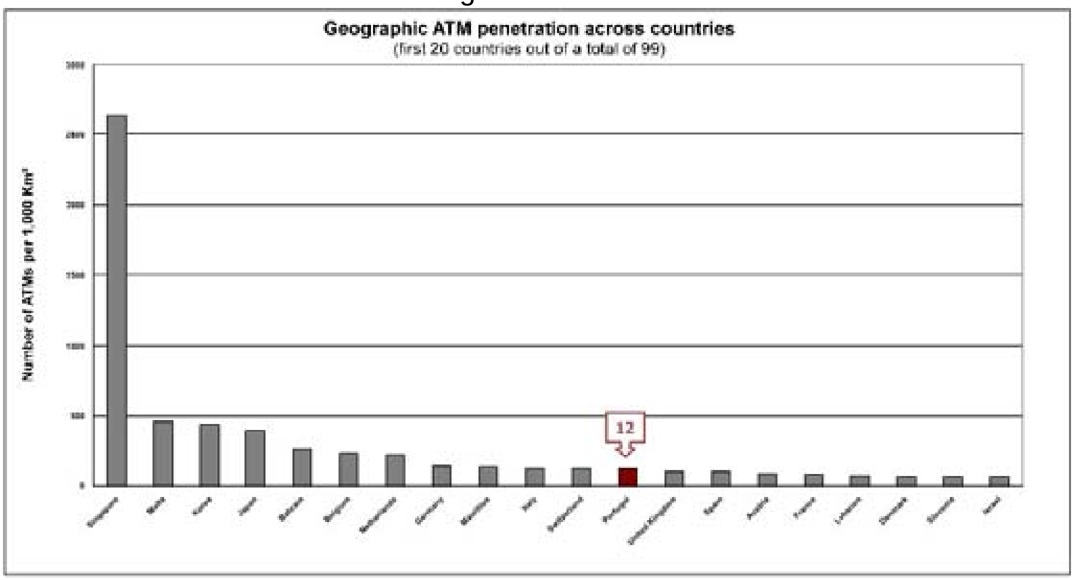


Figure 4



- In 2007, 476.8 million transactions (cash withdrawals and debit payments) were carried out in both open and limited-access ATMs (39.2 million in 1990), amounting to approximately €32.8 billion. The number of (debit) cards valid for the Multibanco network reached 18.2 million (2.4 million in 1990).
- EFTPOS terminals also expanded rapidly. At the end of 2008 (provisional figures), there were 226,118 terminals (2,127.7 per 100,000 people and 2,454.7 per 1,000 km^2) – mainly installed in retail outlets and at filling stations – compared with 2,672 in 1990 (25.2 per 100,000 people and 29.0 per 1,000 km^2). In 2007, the ETFPOS terminals registered an annual turnover of €25.3 billion, compared with €0.23 billion in 1990. These turnover figures corresponded to 781.3 million operations in 2007, compared with 7.8 million in 1990.

Table 1

Payment cards and terminals

(Number of units)

	2006	2007	Rate of change (%)	2008	Rate of change (%)
Active cards *	**17,642,048**	**18,178,388**	**3.0**	**19,767,925**	**8.7**
Debit cards	10,721,586	10,854,984	1.2	11,029,146	1.6
Credit cards	6,920,462	7,323,404	5.8	8,738,779	19.3
Number of terminals	**188,394**	**218,230**	**15.8**	**243,003**	**11.4**
ATMs	14,688	15,860	8.0	16,885	6.5
POS terminals	173,706	202,370	16.5	226,118	11.7

* Cards used at least once in a payment card accepting device.

Table 2

Use of payment instruments in Portugal

(Number in millions, and composition)

	1989		1998		2008	
	Number	%	Number	%	Number	%
Cheques	194,1	80.6	258,8	37.2	173,3	12.4
Payment cards [1]	7,6	3.2	315,8	45.5	893,6	64.1
Transfers	27,6	11.5	45,1	6.5	136,2	9.8
Direct debits	11,4	4.7	66,1	9.5	190,7	13.7
Other [2]	0,0	0.0	9,0	1.3	0,9	0.1

[1] Cash withdrawals not included.
[2] Including commercial effects and e-purse *Multibanco*.

The activity of SIBS was instrumental in generating economies of scale derived from a more rational and effective use of the financial, technical and human resources needed to develop more advanced payment instruments and systems. In addition, SIBS made the Multibanco network open to all those taking part in payment system operations, which allowed for network economies and the safety inherent in a single system.

Further, this scheme has returned to its users a substantial part of the productivity gains generated from ongoing technological and organisational developments both directly, through the supply of a service that is increasingly wider, of a better quality and at a better price, and indirectly, through increasing efficiency in the banking system as a whole.

A Banco de Portugal study of July 2007 estimates that, during 2005, cash withdrawals from ATMs, rather than at bank counters, saved consumers 11.2 million hours in processing time, and banks participating in this study cut costs by 46%. For cash deposits at ATMs, estimated gains were around 443,000 hours for customers in terms of processing time and cost cuts for the banks amounted to €4.3 million. With credit transfers through ATMs, gains were estimated to be around 491,000 hours in processing time and €5.1 million in transaction costs. Consumers also gained around 1.5 million hours in checking balances and account entries through ATMs instead of over-the-counter. Taking gross average salaries as a point of reference (as detailed in the statistics for OECD countries in 2005), the benefit for the consumer is around €86 million, corresponding to 13.6 million hours of processing time.

Another successful example of the application of new technologies to the payments systems is the so-called Via Verde (literally, "green-light way") – an innovative electronic toll collection system used in Portugal since 1991 that allows drivers to proceed through motorway and bridge tolls without stopping, the amount due being electronically controlled and automatically charged to their bank accounts. Via Verde is Europe's first and most advanced electronic toll payment system and was the first to be universally applied to all the tolls in a country. In addition, it shows the highest rate of penetration in Europe: more than one third of Portuguese tolls are currently equipped with Via Verde. Since its launch, the range of services provided through this system has continued to increase. The application of this technology has been successfully extended to, inter alia, payments for petrol in filling stations, car parking payments and, more recently, vehicle access control systems aiming at restricting private car entry in central areas of the capital, Lisbon. Currently, Via Verde has more than 2.1 million users and accounts for around 62% of all motorway toll transactions in Portugal (around 70% in urban areas).

The availability of information and communication technologies (ICT) has also led Portuguese banks to make considerable efforts to modernise customer access to financial services in new, cheaper ways, and to more people. As a complement to "in-person" services, online connections with corporate customers, home banking and mobile banking (m-banking) are now extensively available in Portugal and increasingly used by firms and households.

Home banking has become the third most preferred channel to get in touch with a bank – after ATMs and face-to-face contact with the bank teller. In 2007, around 19% of people in Portugal with access to a wide range of transaction banking services that are appropriate to their needs and socioeconomic status (ie the "fully banked", following the terminology in the Commission's 2008 report) favoured home banking – more than seven times the percentage in 2000 (2.7%). The rising number of Portuguese households with at least one computer at home (in the period 2004–08 the average annual growth rate was 6%) and access to a broadband internet connection (35%) is likely to increase the use of home banking as an alternative to traditional banking outreach.

With m-banking, banks transmit information to their customers wherever their location and at reduced cost. This is vital for a number of banking services (eg alerts), as well as for traditional marketing campaigns. From the demand-side viewpoint, people frequently do not have time to get to a bank branch, and the internet may not be an option in some cases – such circumstances favour the use of a more straightforward channel. For a sizeable part of the Portuguese population, using mobile phones to obtain access to certain financial services, such as checking bank balances or conducting other basic operations, is second nature. The Portuguese are clearly a phone-savvy nation. For many, the mobile phone is the organisational hub of their lives. In 2008, the number of mobile phone subscribers amounted to almost 15 million, corresponding to a market penetration rate of around 152%, one of the highest among the EU-25 member states and well above the EU-25 average (119%). Additionally, the total number of possible users of Universal Mobile Telecommunication System (UMTS) services was 4.3 million.

The continuous expansion of both internet and m-banking in Portugal should contribute to a noticeable improvement in access to financial services, by offering services that are, concurrently, more affordable and more suited to the prospective customers, particularly to the so-called "marginally banked" (ie people with a deposit account that has no electronic payment facilities and no payment card or cheque book), who have a bank account but rarely use the related electronic payment facilities and cards.

To conclude this point, it is safe to say that the Portuguese retail payment system is widely recognised today as highly developed, in terms of technology, accessibility, time-saving features and nationwide coverage. The system processes millions of operations on a daily basis, both counter-based at thousands of bank branches and electronically through the ATM/EFTPOS system. Last but not least, its overall quality can be recognised by what is, in relative terms, a very small number of complaints on the part of the banks' clientele.

Role of the Banco de Portugal

The Banco de Portugal is the Portuguese central bank and is an integral part of the European System of Central Banks (ESCB). As such, it pursues the objectives and participates in the performance of the tasks entrusted to the ESCB, particularly the maintenance of price stability, viewed as a precondition for increasing economic welfare and the growth potential of an economy. The Banco de Portugal is also accountable for the efficient and safe functioning of the country's payment systems, including the issuance of banknotes and clearing services – an essential condition for the sound operation of the economy. In addition, the Banco de Portugal provides a wide range of services both to banks, such as the running of the Central Credit Register (including the centralisation of information on protested bills and cheque defaulters) and the Interbank Money Market operation, and to non-financial companies, eg the maintenance of the Central Balance Sheet Data Office (CBSO). Moreover, the Banco de Portugal supervises the resident credit institutions and other financial companies, thus providing for the stability and soundness of the financial system and ensuring the efficiency of its operation, the safety of deposits and depositors and the protection of consumers of financial services. Last but not least, another service provided by the Banco de Portugal includes the compilation, analysis and dissemination of monetary, financial, exchange and balance of payments statistics, which are instrumental to decision-making; in this way, it influences the financial service activities in the economy.

Services related to the payment systems

Being the legal entity responsible for the regulation and oversight of payment systems, the Banco de Portugal has lent its full support to the modernisation of the Portuguese payments industry, which has undergone considerable changes in recent years. The oversight function is performed by monitoring payment systems, assessing their compliance with the Core Principles for Systemically Important Payment Systems (approved by the Committee on Payment and Settlement Systems of the G10 central bank governors and adopted by the Eurosystem in 2001), issuing regulations, exercising moral suasion and providing settlement services for banks or payment and clearing systems. It also plays a catalyst role in developing these systems and promoting coordination among the relevant parties.

The Banco de Portugal is both manager and settlement agent for the interbank clearing system and the real-time gross settlement system (RTGS). The main objectives of the RTGS are to: (i) minimise credit, liquidity and systemic risks; and (ii) provide participants with information in the course of the day on the balance of their accounts with the Banco de Portugal and on queuing and other operations that have been carried out. As such, it constitutes an essential instrument to enable participants to manage their funds. In preparation for Stage Three of the EMU, the Banco de Portugal worked on connecting the RTGS to the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET) – a payment system in which processing and settlement take place continuously ("in real time") rather than in batch processing mode; transactions can be settled with immediate finality, and each transfer is settled individually instead of on a net basis. The TARGET system replaced the arrangement in force prior to the introduction of the euro and the launching of a single monetary policy in 1999, according to which, payments between EU countries mainly relied on correspondent banking. In February 2008, Portugal migrated to the new TARGET 2 system.

Services related to the Central Credit Register (CCR)

CCR is a database managed by the Banco de Portugal on the basis of credit-related information (including potential liabilities, such as unused amounts on credit cards and open credit lines) that is supplied by the participants (all resident credit-granting institutions). The main aim of the CCR is to provide information to back up the participants in their assessment of the risks attached to extending credit. To this end, the participants can access aggregate information on the credit liabilities of each client vis-à-vis the financial system. Any person has the right to be informed about the data recorded in his/her name in the CCR and, where necessary, ask the participant responsible for reporting to the Banco de Portugal to correct and update such information.

Box 1

Ranking of public CCR coverage (in % of adult population)

1	**Portugal**	**81.3**
2	China	62.1
3	Belgium	56.5
4	Malaysia	48.5
5	Latvia	46.5
6	Spain	45.3
7	Ecuador	37.2
8	Mauritius	36.8
9	Bulgaria	34.8
10	Argentina	34.3

Source: World Bank, *Doing Business 2009.*

Other noteworthy figures about the Portuguese CCR

- Threshold: minimum of 50 € per credit balance
- 5.6 million private individuals registered
- Over 280,000 corporations registered
- 216 participants (i.e., reporting agents)
- 15 types of financial products
- 20.5 million monthly records
- 245 million annual movements

Source: *Banco de Portugal.*

The CCR database fulfils all the requirements for data protection, as laid down by the National Commission for the Protection of Data. Moreover, the Banco de Portugal is legally authorised to use the CCR information for purposes such as: (i) the supervision of credit institutions and other financial companies; (ii) the analysis of the stability of the financial system; (iii) monetary policy operations and intra-daily credit; and (iv) quality control and compilation of statistics (eg the distribution of credit by branch of activity). In particular, the CCR:

- ensures the centralisation and the subsequent dissemination throughout the banking system (generally on a daily basis) of credit incidents (protested bills) submitted to the Notary Public Offices by financial institutions, thus providing the financial institutions with an additional means to better evaluate the risks of their active operations and
- is responsible for checking compliance with the duties assigned to the credit institutions as regards the use of cheques (still a very popular means of payment in Portugal), centralises the information reported by credit institutions and discloses through the banking system the list of cheque defaulters.

Services related to the Central Balance Sheet Data Office (CBSO)

CBSO is a repository of economic and financial data from a representative sample of Portuguese non-financial corporations. This database is chiefly built on individual and unconsolidated corporate accounting data, submitted at quarterly and annual frequencies. Among its various possible uses, the database enables a more informed assessment of the developments in the economic and financial situation of non-financial corporations, provides reporting companies with information relevant to their management function, including an understanding of their positioning within their respective sectors of economic activity, and allows the Banco de Portugal to compile statistics that, besides complementing the existing ones, serve as an additional means to crosscheck their internal consistency.

In 2007, the annual survey was substituted as a data source for the CBSO by the information concerning corporate annual accounts reported under the so-called IES arrangement. Formally developed in January 2007 through the joint efforts of the Banco de Portugal, Statistics Portugal (the Portuguese national statistics office), and the Portuguese Ministries of Finance and Justice, IES aims to define a harmonised solution for the collection of annual data from the financial statements of non-financial corporations. IES, which stands for Informação Empresarial Simplificada (meaning "simplified corporate information"), is the electronic submission of accounting, fiscal and statistical information that companies usually have to provide to the above-mentioned authorities. IES allows companies to fulfil four reporting obligations to four different authorities via one single electronic submission at one moment in time. This innovative solution contributes to bringing significant cost savings to both the reporting corporation and the public entities involved, and makes it possible to construct statistics from information collected through administrative acts.

Services related to market conduct supervision

In a market characterised by contractual freedom and financial innovation, it is incumbent upon the Banco de Portugal to check for compliance with the minimum requirements of information supplied to customers on the financial conditions applied to the different banking operations and services, as well as on the respective risks. This mission will be referred to here as market conduct supervision (MCS), as opposed to prudential supervision, which is more focused on guaranteeing the soundness of financial undertakings and contributing to the stability of the financial system.

Informed decision-making by the banks' clientele, who are especially aware of the risks inherent in financial products and services, is a key requirement for the efficient operation of the retail financial markets and the mitigation of risk in the financial system. The disclosure by credit institutions of relevant information concerning their products and services in a transparent, intelligible and standardised way promotes such decision-making. However, the dissemination of information along those lines may not be sufficient, given that clients' decisions are also determined by their level of financial literacy. Therefore, it is also necessary to foster financial education among the public at large.

The Banco de Portugal's MCS is structured on the basis of a number of reciprocally complementing guiding rules, ranging from the requirement for credit institutions to observe the principle of transparency and rigour when informing their clients along the various stages of the marketing of banking products and services, to the development of the normative framework that governs the conduct of credit institutions in the retail financial markets. Concurrently, they include monitoring compliance with regulations – eg via surveillance activity related to the commercialisation or promotion of financial products and services, by responding to clients' complaints and through comprehensive on-site inspections – as well as fixing cases of non-compliance and, in the most serious situations, applying administrative sanctions.

Another guiding principle consists in promoting the quality of the demand for financial products and services by fostering initiatives that contribute to raising clients' competences in assessing costs, expected income and risks related to those products and services.

Building up the Information and Knowledge Society – a few milestones

- In May 2000, during the Portuguese Presidency, the EU adopted the eEurope initiative with a view to: (i) making the internet cheaper, faster and safer; (ii) investing in people and their qualifications; and (iii) stimulating the use of the internet. These ideas were effectively implemented as a central component of the European Commission's policy action.
- In November 2002, the Knowledge and Innovation Mission Unit (UMIC) was established to define and coordinate the policies on the Information Society and the e-Government in Portugal. Its action plan was based on seven points: (i) an Information Society for all; (ii) new abilities; (iii) quality and efficiency in public services; (iv) better citizenship; (v) health within everybody's reach; (vi) new ways of creating economic value; and (vii) attractive contents.
- UMIC presented the Broadband National Initiative in August 2003. This initiative was approved by the Government with the purpose of intensifying the use of, and access to, broadband internet in Portugal, contributing, on the one hand, to an increase in the productivity levels and competitiveness of the national economy and, on the other hand, to greater social cohesion.
- In 2005, the European Commission launched the i2010 – European Information Society for growth and employment initiative. One of the objectives of this strategy is of special interest in this context: "An Information Society that is inclusive provides high quality public services and promotes quality of life" (Objective 3). To reach this goal, it is necessary, first, to foster ICT growth and, second, to guarantee that ICT: (i) benefits all citizens, by making ICT products and services more accessible and providing people with basic digital competence; (ii) promotes better, more cost-effective and more accessible ICT-based public services; and (iii) improves the quality of life (via, for example, ICT-enabled health and welfare services).
- The Connecting Portugal initiative, one of the strategic components of the Portuguese Government's Technology Plan, may be viewed as a response to the challenges of i2010. The priorities of this initiative are to extend the progress accomplished in the area of the social use of ICT in Portugal, namely in the scope of the international comparisons required by the Lisbon Strategy, and the independent, regular and transparent evaluation of the information systems of public services and administration. The objectives underlying this initiative are, inter alia: (i) to promote a modern citizenship which is informed, conscious and active, and for which the use of ICT is a natural tool to access information, education, cooperative work and public debate; (ii) to guarantee a competitive national telecommunications market, especially regarding costs of services both to citizens and to companies, and the wide availability of high-quality advanced services, assuring competitiveness at the same level as the best European practices; and (iii) to promote the increasing use of ICTs by companies, supporting them in their modernisation, as a key condition for their competitiveness in the international market, and to assure the development of new technology-based companies, namely those producing software.

Towards a single market in financial services in the European Union

Portugal has been actively involved in the European Union's efforts to create an integrated Europe-wide single market in financial services through a framework of legislation, cooperation and practice within which financial services can operate as a whole across borders to achieve the free movement of capital and services. An important step in that direction took place at the Lisbon summit in March 2000, when the EU Heads of State and

Government formally launched the Financial Services Action Plan (FSAP), an ambitious legislative and regulatory programme aimed at removing barriers to the cross-border flow of financial services and achieving a single market in financial services by 2005.

According to a November 2000 report from the so-called group of "Wise Men" chaired by Baron Lamfalussy, a single market should provide:

- Improved allocation of capital, by means of: (i) more efficient, deeper and broader security markets, enabling savings to flow more efficiently to investment; (ii) lower transaction costs and improved market liquidity; (iii) more diversified and innovative financial systems; and (iv) more opportunities to pool risk.
- More efficient intermediation between savers and investors, through: (i) intensified competition among financial intermediaries across Europe, leading to fewer inefficiencies; (ii) giving users greater freedom of choice; and (iii) the opportunity to reap economies of scale and scope across a larger market.
- Stronger, faster-growing European economy, resulting from the above.

A single market for financial services structured along those lines was far from being achieved in the time envisaged, despite the legislative work on the FSAP having been completed. The FSAP had mostly succeeded in enhancing the integration of the securities and wholesale markets. The next steps were to implement, at the national level, the measures already adopted and to assess their impact on the market. Less successful, however, were the efforts to create an internal market for retail customers, where further action was still required. Although indirectly benefiting from the integration of wholesale markets, the European Union's retail financial markets remained fragmented. Cross-border transactions for individuals and small- and medium-sized enterprises remained limited, and a high level of heterogeneity still existed on various key aspects – eg prices, available products and distribution channels. Integration had mainly occurred on the supply side of the market through firms establishing subsidiaries and branches outside domestic markets.

When Portugal reassumed the rotating Presidency of the EU Council during the second half of 2007, the strengthening of the EU strategy for financial services was among its main concerns. The priorities in this area were, inter alia: (i) promoting the completion of the single payments area; (ii) increasing the integration of the retail financial services market; (iii) enhancing market integration in the field of clearing and settlement of securities transactions; and (iv) improving the efficiency of regulatory and supervisory frameworks.

As of today, EU financial integration is an ongoing process. While several legal and cultural factors will continue to play an important role in hindering full integration, recent initiatives to reduce fragmentation in payment infrastructures could promote further integration and lead to a reduction in consumer prices.

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