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Public Banking, Overlapping Emergencies, and the Eurozone Periphery: The Portuguese Case

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ABSTRACT

It is well known that public banks are important agents of crisis management in times of financial instability, but less is known about their potential to combat other disasters, such as public health emergencies and environmental breakdown. The dynamic theory of public banking has problematised these institutions as situated within capitalist, and often financialised, and class divided societies, but further inquiry is needed into their variegated characteristics and the way this is contingent on uneven and differentiated forms of integration into global capitalism. This article focuses on the case of Portugal, a country with a peripheral integration the Eurozone. It demonstrates that public banks showed a strong ability to tackle the socio-economic ramifications of the Covid-19 pandemic. Public banking measures that gave families and firms time to breathe included credit lines, often with state guarantees, and debt moratoria. Crucially, a new public financial institution was launched. When it comes to the climate crisis however, Portuguese public banking is limited by the EU's power over these institutions and its market-oriented approach.

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1. Introduction

The world is currently facing a multifaceted crisis. A series of disruptions simultaneously shake societies, and these range from financial crises, a public health emergency, severe weather events, higher-than-normal levels of inflation, and supply chain disruptions (Roubini 2022; Tooze 2023; Weber and Wasner 2023). While mainstream approaches have tended to conceptualise such catastrophes as exogenous 'shocks' that are external to the economy, others insist that they are interconnected and that what binds them together is contemporary capitalism, which must be understood as an overarching totality (Callinicos 2023). This approach overcomes a tendency to treat different 'moments' of a single crisis as isolated fragments (Morton 2024). For example, there is a strong relationship between environmental breakdown and public health crises since deforestation in combination with mass production of meat facilitate epidemics (Malm 2020;

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Environmental Audit Committee 2021). Thus, Wallace et al. (2016) suggest that the opening of forests ‘to global circuits of capital’ is a ‘primary cause’ of sickness. The relationship between public health and economic crises is no less evident since, the Covid-19 pandemic necessitated worldwide lockdowns and social distancing measures, which ensued in a deep global recession (IMF 2020).

Within this multifaceted crisis, what potential do public banks have as agents of crisis management? This question partly concerns public banks’ role as institutions that promote financial stability. It is widely acknowledged that public, or state-owned banks tend to lend countercyclically in times of economic crisis (Griffith-Jones 2022; Mazzucato and Penna 2016; Yeyati et al. 2007). As lending by private banks dries up, public banks step in. Even literature produced by major ‘neoliberal’ institutions that have pushed for the privatisation of public banks, has come to recognise this. For example, De Luna-Martínez and Vicente (2012) show that during the global financial crisis, most development banks in Latin America, Africa, Asia and Europe scaled up their lending, when private banks held back (cf. De Luna-Martínez et al. 2018). As such, they are important actors of crisis management. During an economic crisis their countercyclical lending has the potential to reduce the severity of recessions, encourage investments, and promote job retention, whilst also facilitating liquidity and thereby preventing waves of bankruptcies. During a public health emergency their role as actors of crisis management can potentially help facilitate public health policy, and thereby combat sickness and death. Indeed, the ‘rapid response’ volume titled *Public Banks and COVID-19: Combatting the Pandemic with Public Finance* has shown that public banks across the world took measures that helped people and businesses get through the Covid-19 pandemic (cf. Barrowclough and Marois 2022; McDonald et al. 2020).

The question of what role public banks play and should play within these overlapping crises also concerns these institutions’ role vis-à-vis processes of structural transformation. This is because the climate crisis and ecological emergencies necessitate transformations in production methods, industry, energy use, and transport. It is well known that state-owned development banks have played a crucial role in facilitating industrial change, both in processes of ‘late’ industrialisation, and at present, in advanced economies (Amsden 2001; Chang 1993; Mazzucato and Penna 2016; Naqvi et al. 2018). The concept of the ‘developmental state’ attributes a fundamental role to national development banks, which, in the context of ‘the rise of the rest’, were the main agents of investments and capital formation in countries such as South Korea, India, Mexico, and Brazil (Amsden 2001). Their lending was usually concessionary, and they were sources of patient finance — sometimes the only ones. Within this analysis of industrial change, infrastructure figures prominently, as it was a ‘major target’ for national development banks which allocated credit to highway construction, energy, sanitation and irrigation. Many of these insights are echoed by the mission-oriented approach to public banking, which emphasises how these institutions are market *shaping* rather than market *fixing*, contrary to what neoclassical perspectives on public banking maintain (Mazzucato and Penna 2016; Mazzucato and Macfarlane 2023).

While these heterodox literatures provide crucial historical insights regarding public banks’ historical role — which we can learn from today — and while some of them have offered valuable analytical correctives to neoclassical approaches that justify public banking functions such as countercyclicality and infrastructure promotion with

reference to market failures (see Mazzucato and Penna 2016), it is important to recognise that public banks are dynamic institutions. There are examples of both mainstream and developmentalist perspectives on public banking that essentialise public banks by virtue of their ownership form. By contrast, a ‘dynamic’ view of public banking rejects the view that public ownership determines a bank’s function (Marois, 2021a). Public banks are not static institutions with functions that are determined by their public ownership, and this implies that their ownership form does not necessitate neither a positive role (i.e., industrial development, social inclusion, or counter-cyclicality) or a negative role (i.e., corruption, vote maximisation, and rent seeking). They may or may not have a legally binding public mandate or a ‘public purpose mandate’ (Marois 2021a, p. 74; Barrowclough et al. 2020). Instead, public banks are socially contested institutions that exist within concrete capitalist societies, and that are subject to social forces and power relations (Marois, 2021b). While the dynamic theory of public banking has problematised these institutions as situated within capitalist, and often financialised, and class divided societies (Marois 2021a, 2021b; McArthur 2024) further inquiry is needed into their variegated characteristics and the way this is contingent on uneven and differentiated forms of integration into global capitalism. As such, Portugal presents a case of public banking within a former colonial power with a peripheral position in the European context (Lapavitsas et al. 2012; Rodrigues and Reis 2012; Rodrigues et al. 2016).

Thus, this article focuses on public banking in Portugal — a country with a contradictory integration into the world economy. Both aspects of the country’s integration into the world economy — the colonial past and the peripheral integration within the European project — continue to condition public banking today. The article examines the public banking responses to the Covid-19 pandemic and the climate crisis through the lens of public purpose. Reflecting Portugal’s articulation within the European project — with the opportunities and constraints that this represents — this article argues that while the country’s public banking response to the immediate crisis prompted by the Covid-19 pandemic was quite successful in its ability to soften the impact of the public health catastrophe, these institutions appear to be more limited in terms of their ability to facilitate structural changes in response to the climate crisis. Portugal’s only state-owned commercial bank, *Caixa Geral de Depósitos* (CGD or *Caixa*), played a prominent role within the government’s pandemic response and acted more swiftly and with bolder measures than the country’s private banks. The most remarkable aspect of Portugal’s public banking response, however, was the launch of a new public financial institution: *Banco Português de Fomento* (or the Portuguese Promotional Bank, BPF). As such, Portugal is an example of the ‘renaissance’ of public banks that can be witnessed in the aftermath of the global financial crisis and the Covid-19 pandemic (Griffith-Jones 2022, p. 3). CGD and BPF played complimentary roles in their immediate crisis response and countercyclicality. Notwithstanding their success in short-term crisis management, public banks in Portugal are rather limited as tools for long-term structural transformations that can address the structural aspects of the ongoing overlapping crises, i.e., the climate and environmental crisis. Portuguese public banking is limited by the neoclassical approach that dominates the EU’s approach to these institutions. To the extent to which public banks are justified and permissible by EU policy, their *raison d’être* takes perfectly competitive markets as a starting point, with neoclassical microeconomics providing the theoretical justification for their existence,

and with market failures providing a main rationale for their existence. This neoclassical conceptual framework lends itself to a neoliberal institutional design.

The article is informed by official data on bank lending, annual reports, press releases, news reports, and interviews with a senior member of staff from BPF and three current and former Members of the Portuguese Parliament (MPs). The interview with the BPF official was an in-depth open-ended interview that focused on the institution's institutional design, financial instruments, pandemic response, and approach to environmental sustainability. It was the intention to interview officials at CGD, but the bank declined to participate in the research. An official from the bank requested that the interview questions be sent by email, but subsequently directed me to the bank's annual report, saying that only *Caixa's* CEO can give interviews on behalf of the bank. As far as MPs are concerned, I contacted all parliamentary parties in the Portuguese Parliament. The parties that agreed to give interviews were the *Bloco de Esquerda* (Left Bloc), *Partido Comunista Português* (the Portuguese Communist Party, PCP) and the newly formed far-right party *Chega*. *Partido Socialista* (the Socialist Party, PS), *Partido Social Democrata* (the Social Democratic Party, PSD) and *Partido do Centro Democrático Social — Partido Popular* (the Social and Democratic Centre — People's Party (CDS-PP)) did not respond to the request for interviews. The interviews with MPs from the Left Bloc, PCP and *Chega* were structured around a set of questions focused on state ownership of banking, public banks' mandates, environmental sustainability and climate change, and the EU's role vis-à-vis public banking.

The article has four main sections after this introduction. Section Two defines the most important public banking institutions and maps Portuguese public banks on to the broader public financing landscape. Section Three provides an historical overview of public banking in Portugal and of contemporary public banking policy. Section Three examines Portugal's public banking response to the Covid-19 pandemic. Section Four reflects on BPF's ability to tackle the climate crisis. Section Five concludes.

2. Public Banking and Public Purpose

Public banks are public institutions that intermediate financial transactions, have banking functions, and they may have money creating powers (Barrowclough et al. 2020, p. 9; Marois 2021a, p. 71). They include development banks, commercial banks, universal banks, among others, and are typically defined by their full or partial public ownership (De Luna-Martínez and Vicente 2012, p. 4; Mazzucato and Macfarlane 2023, p. 3) although there may be other aspects to their 'publicness' such as a formal public purpose mandate or public representation within the bank (Barrowclough et al. 2020, p. 10; Marois 2021a, p. 74). Development banks have explicit responsibilities for developmental or socioeconomic goals in a country, region, economic sector, or market segment and may for example focus on industry, infrastructure, or agriculture (De Luna-Martínez and Vicente 2012, p. 4). Public commercial banks accept deposits from individuals and companies, operate in retail markets, and provide services such as loans, mortgages, and insurance. Public universal banks combine development and commercial banking functions (Barrowclough et al. 2020, p. 13). In other words, it is not given that a publicly owned bank has any particular focus on development or policies that are deemed economically, socially, or environmentally desirable.

Development banks have, in processes of industrial change, typically offered ‘patient’ finance on beneficial terms and they have been willing to take more risk than their private counterparts (Barrowclough et al. 2020, p. 13; Mazzucato and Macfarlane 2023; Naqvi et al. 2018, p. 674). Contemporary development banks may or may not operate in retail markets, as opposed to wholesale markets, although most of them do (De Luna-Martínez and Vicente 2012, p. 14). They commonly lend to the final beneficiary, i.e., they provide direct lending, but there are also institutions that do not, and that only lend to other financial institutions which subsequently on-lend to final beneficiaries (Barrowclough et al. 2020, p. 13; De Luna-Martínez and Vicente 2012, p. 14). The term development bank is often used interchangeably with various other terms, including development financial institutions, policy banks, investment or state investment banks, policy banks, and promotional banks (Barrowclough et al. 2020, p. 13; De Luna-Martínez and Vicente 2012, p. 2; Mazzucato and Penna 2016, p. 322).

Public banks operate at various geographical levels, including the global, regional, national, local, municipal, and provincial levels. For example, there are ‘multilateral’ development banks and ‘national’ development banks (Romero 2020, p. 30). There are multilateral public banks whose ownership is shared by various governments, such as the Council of Europe’s Development Bank (CEB), and there are national development banks whose lending spans their country of origin and other countries, or that pertain to economic groups that encompass financial institutions or subsidiaries across several continents.

The present focuses on financial institutions that are fully state-owned. CGD is a public universal bank with commercial banking functions that extends credit directly. It operates in the retail markets and accepts deposits from individuals, companies, and public sector agencies. It has an extensive branch network throughout Portugal. Moreover, it is part of a larger economic group — the CGD Group — which has banks and subsidiaries in Portugal and abroad. The new BPF on the other hand, which Portuguese authorities define as an ‘authentic’ promotional bank, provides no direct lending but rather on-lending. It is not a retail bank, has no branches that are open to the public, and it does not mobilise deposits.

3. A History of Portuguese Public Banking: From Colonialism to European Periphery

The Portuguese case illustrates the contested and dynamic nature of public banking exceptionally well, since over the last century or so, bank ownership and control have occupied a central place within major socio-economic shifts. CGD was founded in 1876, three decades after the Bank of Portugal, and almost four decades after the foundation of the Public Credit Board. CGD was created just before a financial crisis that engulfed Portugal, which followed from a period of rapid banking and credit expansion. Its role was related to public debt, as it was given the task to collect funds owed to the state. So far, public deposits had been scattered across the country among different institutions such as tax offices, which were privately run. Hence CGD, which was administered by the Public Credit Board, served to centralise public funds. In 1880 a savings bank for the general population was set up within *Caixa*’s structures and it became a

main destination for individual savings (Lains 2022, pp. viii–x, 16). CGD has been fully state-owned since its foundation (Antão et al. 2009).

Portugal's *Estado Novo* (New State) dictatorship (1933–1974) was based on corporatism, nationalism, fascism, and a revival of colonialism (Chilcote 2010, p. 78). The ideology of the *Estado Novo* emphasised the 'indivisibility of the Portuguese metropole and its colonies' (Pitcher 1993, p. 12), and the Constitution of 1933 was based on the values of God, the idea of the 'Organic nation' and the family, like fascist regimes elsewhere (Chilcote 2010, p. 78; Mann 2004; Rosas 2012, pp. 284–285). Banking was privately owned, with a monopolistic national bourgeoisie controlling the bulk of industry and finance. The exception was CGD which retained public ownership (Costa et al. 2010; Rosa 2014). CGD's function changed during the fascist period. In 1929, 90 per cent of CGD's deposits financed the public sector, but a series of reforms that year suspended this role, restructured the bank, and changed its name (CGD n.d.; Reis 1997). After all, Salazar, then a minister of finance, was committed to monetary stability and a balanced budget, i.e., austerity (Baklanoff 1992, p. 3). CGD was nevertheless an important institution through which the *Estado Novo* regime promoted the 'national interest'. In Salazar's view, 'the reconstruction of the country [could] not be achieved without a strong credit structure — in the metropole and in the colonies' (Salazar 1930, quoted in Reis 1997). Thus, public banking was envisaged as a central tool within Portugal's imperial ambitions.

The 1974 *Revolução dos Cravos* or the Carnation Revolution, ushered in a transition to democracy, an end to Portuguese colonialism in Africa, and a reorganisation of Portugal's financial architecture. In the aftermath of the 1974 coup *Caixa* was mobilised to finance agrarian reform, imports of essential goods, subsidised goods, and the cost of nationalising companies. As well as focusing on the public sector, housing and construction were among the priority areas (Lains 2022, pp. 175–176, 178). In March 1975 members of the country's bourgeoisie participated in a coup attempt which prompted the appointment of a Revolutionary Council. The council called for 'bold measures against the capitalist elite that control[led] finance and much of industry' (Noronha 2013) and within three days, the entire banking system was nationalised, except credit unions and institutions with foreign ownership (Noronha 2013; Rosa 2014). CGD became part of *Grupo Estado* (the 'State Group'), along with other state-owned banks (Rosa 2014, pp. 180–182). The Revolutionary Council's Decree-Law 132-A/75 highlighted the need for an 'economic policy that serve[d] the working classes and the most disadvantaged sections of the Portuguese population' and for a banking system that could 'serve as a lever' and 'dynamize economic activity and ... job creation'. It insisted on the need to safeguard the interests of small and medium-scale enterprises and depositors (Diário do Governo 1975). Credit allocation was coordinated by the Bank of Portugal and bank workers' trade unions fed into this process (Noronha 2013). Thus, a revolutionary 'public purpose' was built into the credit system, transforming both ownership and governance. With pressures on Portugal's financial equilibrium at a time of major changes to the international monetary and financial system due to the collapse of the Bretton Woods system, the CGD fared quite well, with increasing market shares in the years that followed. The first elected governments employed *Caixa* to facilitate investments in housing, to implement price controls, and to cover the operational deficit of some of the nationalised companies (Lains 2022, pp. 173, 175).

If trade liberalisation had constituted a first phase of Portugal's integration with Europe, a second stage revolved around money and finance (Antão et al. 2009, p. 33). European monetary integration was accompanied by an erosion of Portugal's external accounts, which came to be constitutive of the country's peripheral integration within the eurozone (Rodrigues et al. 2016; Lapavitsas et al. 2012). This resulted in large part from de-industrialisation (Stadheim 2023), and it went hand in hand with inwards financial flows and a simultaneous neoliberal restructuring of banking and finance (Rodrigues et al. 2016; Stadheim 2021). While the German KfW has played a constitutive role vis-à-vis that country's hegemonic role within the EU and economic ambitions on the world scale (see Naqvi et al. 2018), Portugal's trajectory as far as banking is concerned appears as a manifestation of the country's increasingly peripheral integration within the European project.¹

Caixa expanded its position in the domestic market between Portugal's accession to the EEC in 1986 and 1992 (Lains 2022, p. 173) and at that point, financial liberalisation gained pace. While the 1976 Constitution had defined the nationalisations as 'irreversible conquests of the working classes' (Rosa 2014), classical neoliberal reforms in the 1980s and 1990s led to banks gradually being opened to privatisation. The restructuring of finance included bank privatisation, interest rate liberalisation, and a swift elimination of capital controls. It was intimately interconnected with European integration and monetary integration, as it ensued from the implementation of the Single Market Programme Directives, the First and Second European Banking Directives, and the Maastricht Treaty (Lains 2022, p. 191; Pérez-Caldentey and Vernengo 2012, p. 11; Pinho 1997, p. 15). The privatisation of banking was largely completed by 1995. As this transition progressed, the market share of banks under public ownership decreased from 74 per cent to 24 per cent between 1990 and 1996. Thereafter, it remained stable (Antão et al. 2009, p. 432).

The Council for the Financial System, an advisory body under the Ministry of Finance was set up in 1988 to make proposals for the restructuring of banking and finance, and the resulting legislation sought to adapt the sector to European legislation and 'normalise' it after the revolutionary period (Lains 2022, p. 184). *Lei Bancaria* (Banking Law or Decree-Law No. 298/92) introduced 'universal banking' and thereby abolished the distinction between banks and credit institutions, hence allowing banks to operate in mortgage lending (Pinho 1997, p. 15). As for *Caixa*, the Council proposed a better definition of its role. It would retain its role as a policy tool and responsibility for public credit policy with the state defining its strategy. *Caixa* would undertake activities that were regarded essential for the development of the Portuguese economy but unattractive for private banks. While this suggests that *Caixa* would serve as a national development bank, the Council also recommended that it should be subject to the same regulation as other banks, adopt a universal banking model, diversify its activities, and seek 'the profitability of its operations'. Hence, there were some contradictions in the recommendations. The 1992 Banking Law determined that *Caixa* could undertake all activities permissible to other banks. The 1992 Maastricht Treaty, which established the European Monetary Union, ruled out state protection, and *Caixa* was turned into a public

¹The KfW has shown a remarkable ability to promote German industry and has expressly focused on the country's current account surplus (Naqvi, Henow, and Chang 2018), which is widely regarded to be at the heart of the country's position as a core economy within the EU/EMU (Lapavitsas et al. 2012).

limited company that was subject to the same legislation as other banks (Lains 2022, pp. 184–185, 191).

Financial liberalisation led to foreign banks entering the Portuguese market, and this meant increased competition for *Caixa* and for other banks, along with vulnerability to foreign acquisitions. However, the EMU and financial liberalisation more generally also opened opportunities, as Portuguese banks could now open branches abroad. *Caixa*'s strategic response to the new competitive environment emphasised 'modernisation', 'decentralisation', 'universalisation' and 'internationalisation'. While *Caixa*'s internationalisation from the 1960s had focused on locations with a strong presence of Portuguese emigrants, by now, Portugal's former colonies, as well as Spain, figured prominently as destinations for the CGD Group's operations. Brazil, Portuguese-speaking Africa, and Macao were particularly important. *Caixa* took advantage of bank sales and privatisation processes in former colonies and established a more strategic position in various locations. For the Portuguese government — *Caixa*'s owner — the institution served as an instrument to protect private domestic banking groups against the increased competition associated with the internationalisation of finance (Lains 2022, pp. 191–192, 194–195).² This shows that public banks are not only dynamically shaped by social forces at the domestic level; they may also play a constitutive role in the deliberate shaping of a country's modality of economic integration within the world economy. In this case, the public bank served as a tool through which the state could mediate the relationship between domestic and foreign finance capital.

In recent years, CGD has been Portugal's only remaining state-owned bank. Today it is an exclusively public limited liability company and its shared may only be owned by the Portuguese state (CGD 2021). CGD continues to be a universal bank with commercial banking functions. With assets worth ~€96.4 billion, it is by far the largest bank in Portugal (Bank Focus 2022; CGD 2020b; Table 1). With 542 branches in Portugal, it has a greater territorial presence than any private competitor. CGD is a leader in several markets, including individuals' deposits (30 per cent) and emigrants' deposits (53 per cent) (as of December 2021). This reflects its historical legacy as a 'large deposit bank for the people' and its efforts to attract remittances from Portuguese emigrants (Lains 2022, pp. 179–180). In Portugal, the 'minimum banking services account' gives access to banking services deemed 'essential' (Bank of Portugal 2015). CGD has a 42 per cent market share of these bank accounts, which suggests that it is somewhat geared towards the vulnerable (CGD 2022). In terms of its lending, CGD is more oriented towards households than companies. Finally, the government continues to be an important client of the CGD, both as a depositor and a borrower (CGD 2022) (Table 2).

As far as public banking is concerned, the CGD is a profit maximising bank, and this informs its sense of public purpose. CGD's mission is to make 'a decisive contribution to the development of the national economy in a framework of balanced evolution between profitability, growth and financial strength, accompanied by prudent risk management, to enhance the stability of the national financial system' (CGD, 2022). As such, it differs

²Today the CGD Group's subsidiaries in Portugal include *Caixa Gestão de Ativos*, *CGD Pensões*, *Caixa Banco de Investimento*, *Caixa Capital*, *Caixa Imobiliário*, and *Caixa Participações*, *SGPS*. Internationally the group has 27–100% stakes in *Banco Caixa Geral* (Brazil), *Banco Nacional Ultramarino* (Macao), *Banco Caixa Geral* (Angola), *Banco Comercial e de Investimentos* (Mozambique), *Imobci* (Mozambique), *Banco Interatlântico* (Cape Verde), *A Promotora* (Cape Verde) and *Banco Internacional de São Tomé e Príncipe* (CGD 2022).

Table 1. Portugal's five largest banks.

	Assets (€1,000)	Rank by assets, Portugal (world)	Established	Employees	Branches	Capital ratio	Net interest margin, %	Net loans/ total assets, %	Credit rating
Caixa Geral de Depósitos, SA	96,368,363	1(269)	1876	6,117	542	22.30	0.80	47.33	Moody's: A3 Fitch: BBB-
Banco Comercial Português, SA	69,326,942	2(291)	1985	6,549	421	15.80	1.44	53.25	Moody's: Baa2 S&P: BB Fitch: BB
Banco Santander Totta SA	58,900,196	3(455)	1843	3,272	344	27.30	1.40	62.02	Moody's: A3 S&P: BBB Fitch: BBB+
Novo Banco	44,341,445	4(568)	2014	3,918	311	10.10	1.63	49.38	Moody's: Ba2
Banco BPI SA	41,192,530	5(605)	1981	4,478	341	17.00	1.37	58.97	Moody's: A3 S&P: BBB Fitch: BBB

Notes: unconsolidated numbers as of 31 December 2021. The number of branches is from the first trimester of 2022.
Source: Bank Focus (2022) and Relvas (2022a).

Table 2. Caixa Geral de Depósitos' market shares.

Customer deposits	26%
Individuals' deposits	30%
Emigrants' deposits	53%
Minimum banking services account	42%
General government deposits	~31%
Loans and advances to individual customers	~20%
Loans and advances to corporations	~15%
Loans and advances to the government	~25%

Source: CGD (2022).

from some public banks in Europe, notably the KfW and the CEB which abstain from profit maximising by mandate (Marois 2020; Stadheim et al. 2022). In fact, not only is *Caixa* profit maximising; it is the state-owned enterprise that produces the largest volume of dividends for the Portuguese state (Villalobos 2022).

From the onset of the Eurozone crisis, Portugal's subordinate form of integration within the European project and the EMU came to manifest itself as an acute loss of national policy space, as Portuguese authorities came to accept an external bailout and a classical neoliberal structural adjustment programme under the 'Troika' of the IMF, European Commission (EC) and the European Central Bank. It appears that *Caixa* is increasingly affected by Portugal's peripheral position within the EU and EMU. While the early 2000s were marked by an active internationalisation strategy, the CGD has over the last decade and a half or so been under pressures to privatise, restructure, and downsize. During the eurozone crisis, the Troika sought to include the CGD's privatisation on the list of conditionalities in the structural adjustment programme. This was averted but CGD's insurance arm, *Caixa Seguros*, was listed for sale in the Memorandum of Understanding (Cardoso 2016; IMF 2011). CGD has regularly been recapitalised, and when this last happened, due to EU state aid rules, it was required to implement a 'Strategic Plan' (2017-2020) which Portuguese authorities drew up with the EC. The plan included a scaling down of the CGD Group's international operations, along with reductions in the bank's staffing, branches, and non-performing assets — leading to the departure of 2200 workers and 130 branch closures (CGD 2021; Senior BPF Official, interview 2022; Relvas 2022a). While this was no less than an austerity plan imposed on the bank, *Caixa's* leadership officially embraces the Strategic Plan. The CEO, Paulo Macedo, who was Minister of Health under the right-wing coalition government in charge of implementing the structural adjustment programme between 2011 and 2014, recently said that it was due to this plan that *Caixa* was able to transfer of €583.6 million in dividends to the state since 2019 (Relvas, 2022b). Instead of retaining and reinvesting profits, which KfW and CEB do (Stadheim et al. 2022), the mantra currently at work in the CGD Group is to 'downsize and redistribute'. CGD does this by cutting back on domestic and foreign operations and staffing, maximising profits and by transferring these to the shareholder — the Portuguese state.

3.1. Portuguese Political Parties' View of Public Banking

It can easily appear as if all political parties in Portugal support public banking in one shape or form. After all, the right-wing coalition of PSD and CDS-PP (2011-

2015) established *Instituição Financeira de Desenvolvimento, S.A.* (IFD) and called it a ‘promotional bank’ (Alves, interview 2022; European Commission 2015). The PS launched BPF in 2020, in response to the Covid-19 pandemic, and called an ‘authentic promotional bank’ (República Portuguesa 2020, emphasis own). The parties on the radical left — the PCP and the Left Bloc are in favour of a state-owned financial system as a matter of principle (Alves, interview 2022; Mortágua, interview 2022). Notwithstanding this impression, the right-wing parties played an active role in the privatisation programme implemented during the Eurozone crisis. The centre-right coalition oversaw the re-privatisation of two banks that had been nationalised in 2008. Before their re-privatisation, ‘good’ and ‘bad’ assets were separated, with the state retaining the latter (Stadheim 2017). Hence, a state-led socialisation of financial losses is recent history in Portugal.

The PCP sees banking services as an ‘essential service’ that is indispensable in life, but also stresses the need for public banks to play a developmental role (Alves, interview 2022). The Left Bloc advocates for public banking and believes state ownership of banking should feed into industrial policy (Mortágua, interview 2022). PCP believes Portugal lacks a genuine development bank, and that neither CGD nor BPF fulfils this role (Alves, interview 2022). In 2021, the party proposed a resolution titled ‘A Caixa Geral de Depósitos at the service of the national economy and the people’ where it insisted on the need to ‘finance families, micro, small and medium-sized companies, at the service of a development project ... that focuses on national production’. The PCP called for an end to CGD’s branch closures, more proximity to customers, transparency over the bank’s assets and strategic direction, an appreciation of bank workers, and an end to ‘unacceptable labour practices’. The party also called for ‘public banking action that ‘promotes investment in productive sectors, innovation and technology, financing for families and micro, small and medium-sized companies, ... with an emphasis on facing the economic and social crisis resulting from the COVID-19 outbreak’ (PCP 2021). PCP insists that CGD should use its market power, as the country’s largest bank, to set standards across the sector — notably in relation to bank fees (Alves, interview 2022; PCP 2021).

The newly formed far-right party *Chega* which uses rhetorics from Portugal’s fascist past, did not devote a single line to banking, let alone *public* banking, in their 2021 manifesto, but their representative maintained that the Party is in favour of some type of public bank. This was not yet official party policy. The party’s MP said that ‘it is expensive to have a bank account in Portugal’, and that ‘there are people who are unable to pay fees’. The MP acknowledged that vulnerable people and pensioners use CGD, and that the public bank has a ‘social role’ to play. However, the party’s representative was of the view this social role also causes losses, and that ‘the state injects money annually’. While this statement was inaccurate, *Chega* is strongly opposed to ‘state aid’ — a position that aligns with EU rules — and believes CGD should not enter competition with other banks. For the MP (interview, 2022) ‘it is not fair that a bank that competes with other banks receives help from the state’. *Chega* nevertheless believes Portugal should have a ‘social bank’. In the interview, it was suggested that CGD could be turned into a social bank, or, if this proves impossible, ‘one option is to privatise it’ and establish a new social bank (Anonymous, interview 2022). The

exact role of such a bank was poorly defined and it was unclear how it would avoid entering competition with private banks.

There are concerns over the absence of strategic, developmental, and social mandates in public banking, and there is a broad feeling in Portuguese society that CGD has come to operate increasingly like private banks (Alves, interview 2022; Mortágua, interview 2022) — a feeling that resonates with the idea that there is nothing inherent to a public bank just by virtue of its ownership form (Marois 2021a, 2021b). The PCP notes an ‘even greater alignment with private banking practices’ over the years of *Caixa’s* Strategic Plan (PCP 2021) and maintains that ‘due to the political choices of various governments, CGD has come to imitate private banks’ (Alves, interview 2022). The PCP and the Left Bloc struggle to see a notable difference between the direction of CGD’s lending and that of other banks (Alves, interview 2022; Mortágua, interview 2022). Therefore, for the Left Bloc, public ownership per se is insufficient, and it needs to be complemented by ‘a clear mandate’. The Left Bloc sees the inexistence of a clear mandate as a reason why CGD has engaged in inter-capitalist rivalries over the power to control privatised companies by financing specific shareholders. The party has a class-based conceptualisation of public banking and does not assume a dichotomy between the state and the private sector. Instead ‘the government and the state are a condensation of private interests’. The Left Bloc insists that public banks’ mandate must be discussed in parliament and established by law if these institutions are to have a different behaviour and facilitate industrial policy. The mandate should cover ceilings on the interest rate and the direction of credit (Mortágua, interview 2022).

PCP similarly maintains that ‘the existence of a public bank is a necessary but insufficient condition for the bank to be at the service of the economy’ (Alves, interview 2022). This hinges on ‘political choices’ and ‘courage’ (PCP 2021). PCP calls for a re-definition of CGD’s orientation and for a ‘re-approximation between its management criteria and the public interest’ (PCP 2021). Hence, the need for a public purpose mandate in public banking is very much on the minds of the political parties on the radical left in Portugal. Yet, Alves (interview 2022) warns that a legal mandate per se is not a guarantee, and that political will is crucial for it to be effective.

4. Public Banking Action in Pandemic Times

The public health emergency caused by the Covid-19 pandemic constituted an exceptional moment that was deemed to require ‘extraordinary action’ (White 2021). The Portuguese government, like other governments and EU institutions, implemented a series of ‘extraordinary’ measures to manage the public health catastrophe and the social and economic fallout. At EU and EMU levels, policies included a suspension of fiscal rules, the Pandemic emergency purchase programme, and the EU Recovery Fund (European Commission 2021, n.d.; European Central Bank 2024). In Portugal, a furlough scheme sought to retain jobs; a moratorium protected indebted families and firms; a new benefits scheme was set up for informal workers; there was a ban on terminating rental contracts due to delayed rent; and cancellation of essential services such as water, electricity, gas and electronic communication was banned (Mamede et al. 2020; Stadheim 2020). The public banking response must be understood within this broader national policy context.

4.1. A Resurgence of Public Banking: *Banco Português de Fomento*

State-owned financial institutions are dynamic reflections of the social order in which they are situated (Marois 2021a) and the launch of BPF shows how crises can provide moments of change in their institutional landscape. The Portuguese Socialist Party government announced the new public financial institution BPF in the Economic and Social Stabilisation Programme (June 2020) insisting it was ‘essential’ to proceed with the creation of an ‘authentic’ promotional bank (República Portuguesa 2020). BPF resulted from the merger of three state-owned investment societies: SPGM — Sociedade de Investimento, S.A. (‘SPGM’); PME Investimento (‘PME’) and IFD (which previously had been set up as a ‘promotional bank’). Decree-Law 63/2020 formally established BPF in September 2020. It inherited the responsibilities and mandates of its predecessors: coordinating the Portuguese Mutual Guarantee System, ‘boosting the availability of finance’ for enterprises, and receiving funds from the EU. BPF is 100 per cent state-owned, and the shares are distributed among the Portuguese state, the Agency for Competitiveness and Innovation, the Institute for Tourism in Portugal and the Portuguese Agency for Investment and External Commerce (Senior BPF Official, interview 2022; Diário da República 2020).

Unlike the predecessors, BPF is created to be a ‘true promotional bank’ and a ‘green bank’ (European Commission 2020; Senior BPF Official, interview 2022). BPF is designed under careful alignment with EU rules and norms concerning so-called ‘national promotional banks’, which the EC defines as ‘legal entities carrying out financial activities on a professional basis which are given a mandate by a Member State or a Member State’s entity at central, regional or local level, to carry out development or promotional activities’ (Diário da República 2020; European Commission 2015). The EU’s regulation concerning promotional banks which emphasises market failures, had been designed in the aftermath of the eurozone crisis. The EC acknowledged the low investment levels across the EU, which were ‘particularly severe in those Member States most affected by the crisis’ and a ‘consequence of fiscal constraints on Member States’ (European Commission 2015).

BPF is explicitly countercyclical (BPF 2021) and its responsibility for the National Guarantee System was particularly important during the Covid-19 pandemic. The government’s ‘exceptional’ measures included state guarantees for Portuguese enterprises. In 2020, an additional €62.79 million from the Portuguese state and the European Investment Fund were made available for the Mutual Counter Guarantee Fund. Public funds in the order of €3.09 billion were invested into the National System of Mutual Guarantees. This facilitated credit into companies worth €41.13 billion and investments worth €42.27 billion. BPF estimates the guarantees’ overall countercyclical role. In 2020, the Counter Guarantee Societies issued guarantees worth €23,970 million (up by 44 per cent from 2019) and these were supported by counter-guarantees worth €19,226 million (up by 57 per cent from 2019). This facilitated financing for microenterprises and SMEs in the order of €41,128 million, helping to induce €42,267 million in investments. BPF estimates that the mutual guarantee system assisted 144,000 enterprises which are responsible for 1.66 million workplaces in total (BPF 2021; Senior BPF Official, interview 2022). In a country with a labour force of under 5.3 million (World Bank 2022), this was highly significant. There can be no doubt that the BPF played a crucial role within the government’s crisis response, clearly helping to preserve jobs.

4.2. Caixa Geral de Depósito's Pandemic Response

CGD responded promptly to the Covid-19 pandemic, both as an autonomous agent of crisis management and as a government policy tool. The World Health Organization declared Covid-19 an international pandemic on 11 March 2020 and only two days later, CGD announced a credit line (CGD 2020a). During Portugal's state of emergency, CGD immediately launched a set of initiatives (CGD 2020c). In the bank's own words 'CGD promptly adjusted its offer, in line with the significant legislative changes to the incentives package (...) both as regards moratoria and lines of credit' (CGD 2021). Most of CGD's actions can be grouped into (1) credit lines and guarantees; (2) debt moratoria and a flexibility vis-à-vis debt repayment; and (3) digitalization of finance and financial inclusion. While these did constitute meaningful forms of financial generosity, they provided no significant rupture with regards to CGD's profit maximising mandate and they carefully aligned with EU banking regulation.

4.2.1. Credit Lines and Guarantees

To accommodate the 'abrupt reduction in demand in many sectors of economic activity' CGD introduced and reinforced a range of credit lines, most of which enjoyed state guarantees (CGD 2020a). The government-backed credit lines were channelled through the commercial banking system in general, and *Caixa* was not the only bank providing these loans. Despite this, it appears that *Caixa* played a more prominent role in channeling some of these loans than the private banks, and moreover, CGD also provided credit lines beyond the government's support package. CGD notes that it was 'the first credit institution in Portugal to launch a set of corporate treasury relief measures, even before the State Moratorium was launched' (CGD 2021). *Caixa*'s credit lines included *Covid-19 Capitalizar 2018*, *Linha de Apoio a Economia Covid-19* and *Linha de Apoio ao Setor Social Covid-19*, among others (Table 3). These credit lines enjoyed state guarantees, so in providing these, *Caixa* partnered with SPGM and later BPF (Senior BPF Official, interview 2022). Thus, Portugal's long-standing public bank and the newly designed institution BPF served as actors of crisis management by fulfilling complementary functions.

CGD's newly originated loans and advances backed by state guarantees amounted to ~€1.93 billion in 2020 (CGD 2021). The guaranteed credit lines targeted specific beneficiaries such as SMEs and microenterprises, social solidarity institutions, and economic activities located in the Acores and in Madeira. They tended to be conditional on certain criteria, such as the absence of economic difficulties prior to the pandemic, a specific threshold for the decline in the volume traded, and a commitment to retaining the full workforce. The amount provided often depended on whether the company was also a beneficiary of the furlough scheme. While conditionality has been highlighted as a desirable feature of public banks' successful support of processes of industrial change (Amsden 2001; Mazzucato and Macfarlane 2023), CGD employed conditionality in its crisis management. It did so to ensure that its countercyclical lending was socially effective in preserving jobs.

Despite the sharp contraction in economic activity, CGD expanded its lending in 2020. CGD's net loans and advances to customers were up by 5.7 per cent between 31 December 2019 and 2020 (from ~41.9 to ~44.3 billion) and they also expanded

Table 3. CGD's credit lines during the pandemic, 2020.

Credit line	Beneficiaries	Government initiative?	State guarantees	Provided by other banks?
<i>Covid-19 Capitalizar 2018</i>	SMEs, microenterprises, one-person enterprises, large corporations	Yes €400 million	Yes, 100%	Yes
<i>Linha Crédito Apoioar Madeira 2020</i>	SMEs and large enterprises in Madeira	Yes	Yes, 80%	Yes
<i>Linha de Apoio a Economia Covid-19</i>	Micro and small enterprises, medium-scale enterprises, small mid-caps and mid-caps	Yes	Yes, 80%	Yes
<i>Linha de Crédito Investe RAM Covid-19 (continued)</i>	Companies operational and based in Madeira, preferentially SMEs and microenterprises	Yes	Yes, 80%	Yes
<i>Linha Específica Covid19 Açores</i>	Micro and small enterprises, medium enterprises and small mid-caps	Regional government of Açores	Yes	Yes
<i>CaixaInvest Inovação Covid</i>	Customers not eligible for credit lines backed by mutual guarantee	No	Yes (EIF)	No
<i>CaixaInvest Covid Negócios</i>	Customers not eligible for credit lines backed by mutual guarantee	No	Yes (EIF)	No
<i>Caixa Invest Agro</i>	Companies in the agricultural sector	No	Yes, 70% (EIF)	
<i>CaixaInvest Cultura</i>	Enterprises in the creative sectors and culture. Customers not eligible for credit lines backed by mutual guarantee	Unlikely	Yes, 90% (EIF)	
<i>Linha de Crédito FIS</i>	Social economy entities, SMEs and micro-firms; social entrepreneurship initiatives	Most likely	Yes	Yes
<i>Linha de Apoio à Economia (LAE) COVID-19</i>	micro and small companies, small mid-caps and social support entities	Yes	Yes (90%)	Yes
<i>Linhas de Apoio ao Setor Social Covid-19</i>	Entities in the social economy, private social solidarity institutions, non-profit entities similar to micro-firms and SMEs	Yes	Yes	Yes
<i>Linha de Crédito de Apoio ao Setor da Pesca 2020</i>	SMEs in the fishing sector	Yes	No	Yes

Sources: BPF (2021), CGD (2021), SPGM, various bank websites.

somewhat in 2021 (Bank Focus 2022). Notwithstanding this, CGD was not the only Portuguese bank that expanded loans and advances, nor the one that did so the most (Figures 1 and 2). Among the five largest banks, three of them expanded the net loans and advances in 2020: CGD, BCP and Banco BPI. The moratoria, which

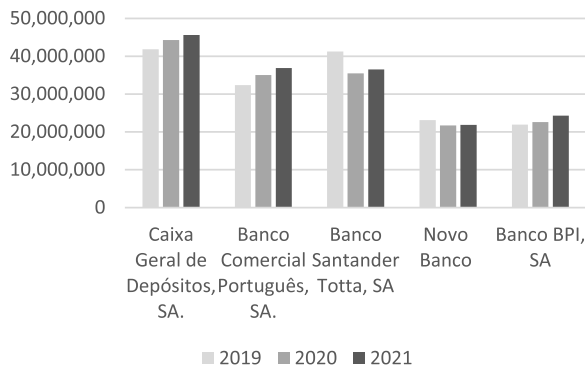


Figure 1. Net loans and advances to customers (€1,000). Source: Bank Focus.

Note: Unconsolidated data.

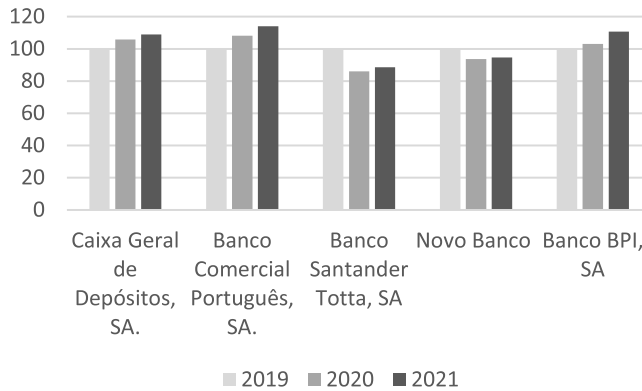


Figure 2. Net loans and advances to customers (2019 = 100). Source: Bank Focus.

Note: Unconsolidated data.

was legally compulsory for all banks, contributed to countercyclicality by increasing the amount of outstanding loans. BCP's loans and advances were up by ~8 per cent. *Banco Santander Totta* and *Novo Banco* contracted their lending by 14 and 6 per cent, respectively (Bank Focus 2022).

When evaluating banks' countercyclical lending, however, not only the volume, but also the direction or credit matters. CGD's lending to micro and small enterprises is particularly important in the Portuguese context. This is because of the sheer volume of jobs these create (Instituto Nacional de Estatística 2011).³ CGD's financing of micro and small enterprises doubled between 2019 and 2020, and medium to long term loans to these firms were up by 13 per cent. This was largely due to the Covid-19 credit lines (CGD 2021).

4.2.2. Moratoria

A second set of CGD's measures concerned debt moratoria and a flexible stance with regards to debt repayment. On the day Portugal entered a state of emergency, the Minister of Finance, Mário Centeno, outlined the 'possibility of constituting a moratorium on capital and interest' (Melo 2020), and the CGD announced initiatives along these lines the following day. It was thereby far ahead of legislation in implementing moratoria like measures (CGD 2020c). When Decree Law no. 10-J/2020 was passed on 26 March 2020, CGD was legally required to offer moratoria on principal and interests for up to six months. The state moratorium was extended until 1 March 2021 and subsequently until 30 September 2021, and as required by law, CGD applied these extensions. *Caixa* was proactive in signalling its willingness to extend the moratoria beyond the initial period (O Minho 2020). In addition to the state moratorium, several banks, including CGD, implemented private moratoria which complemented the legally required one. CGD's private moratoria covered some types of personal and mortgage debt not included in the state moratorium and had different eligibility criteria regarding income loss (Bank of Portugal 2020; CGD 2021).

³Out of approximately 3.7 million workers employed by non-financial enterprises in Portugal, micro firms accounted for over 1.6 million as of 2009 (Instituto Nacional de Estatística (2011).

The moratoria were among the most important forms of financial generosity that allowed Portuguese families and firms time to adjust during the most critical phase. Like elsewhere, there was a possibility of mass bankruptcies and mass unemployment. In comparison to other EU countries, the credit moratoria were crucial in Portugal. By the fourth quarter of 2020, almost 17 per cent of total loans and advances in the country were under moratorium. This was the second highest of all countries analysed by the European Banking Authority and much higher than in Greece, Spain, and Italy. In Portugal, a total debt worth €46 billion was covered by moratoria by the end of December 2020. Of personal loans, approximately 16 per cent were under moratorium by the end of 2020, and this amounted to a total of €20 billion. Almost 18 per cent of mortgages were covered by moratoria by December 2020. Of all debt protected by the moratoria mortgages accounted for 37 per cent (CGD 2021). As far as companies are concerned, enterprises of all sizes benefitted. There was no significant difference in the take-up across firm sizes. Hotels and restaurants were the sector that benefitted the most. Of total corporate loans in lodging and restaurants, no less than ~57 per cent were covered by moratoria by December 2020. In manufacturing and construction ~33 per cent of corporate loans were covered (CGD 2021). Thus, there can be no doubt that debt moratoria constituted a crucial financial measure that allowed both families and firms time to adjust, helping them avoid company closures and job losses, personal default, and bankruptcy.

Notwithstanding the fact that the moratoria represented a crucial form of financial generosity in times of a public health emergency, it needs to be contextualised within the market imperatives and the EU's regulative framework within which the public bank operates. The moratoria were socially inclusive, but they were also a financial stability measure. Defaults on debt represented a major risk, and the moratoria protected creditors as much as debtors. For the banks, it was important that these were not classified as 'non-performing loans' (NPLs) within the European framework, and the moratoria ensured this. The moratoria flexibilized debtors' contractual obligations vis-à-vis creditors, but it also helped the banks to avoid a large amount of non-performing loans in their portfolio (Bank of Portugal 2020, pp. 83–85; Melo 2020), and this may explain why *Caixa*, as well as the private banks, implemented private debt moratoria. The end of this scheme represented a significant risk for the Portuguese banking system given the vast amounts of debt covered by the moratoria, and in this regard CGD was no different from private banks (CGD 2021). When it ended, banks faced the possibility of a large amount of NPLs. In fact, new credit impairment doubled from €90.2 million the first half of 2021 to €180.4 million by September 2021. In August 2021 the Portuguese government passed legislation to force banks to restructure the debts of clients who had problems paying their debt after the moratoria ended. By early November 2021 *Caixa* had restructured 3,000 families' debt (for a total of €330 million) and 600 companies' debt (for a total of €150 million). Other banks did not disclose data on this matter (Soares 2021; Lusa, 2021).

4.2.3. Digitalisation and Financial Inclusion: Crisis as Opportunity

A last set of measures concerned a digitalization of finance, support for socially distant financial transactions and inclusion of the vulnerable. The public health emergency created a need for digitalisation and cashless solutions, and for *Caixa* this represented

a business opportunity. Although consolidated net income was down by 37 per cent in 2020 (CGD 2021), the pandemic facilitated an improved position in several markets. The CEO and the Chairman recall that ‘Faced with ... lockdown and mobility restrictions, CGD accelerated the process of digitalising its supply based on measures to incentivise contactless payments without the need to carry cash’ (CGD 2021). *Caixa* waived small merchants’ fees for Automatic Payment terminals with bills below €7,500 per month. For account holders without a debit card, *Caixa* waived the debit card fee for the first year. CGD stressed its commitment to protect the vulnerable. Customers with an income of up to 1.5 times the minimum wage and young people were exempt from fees (CGD 2020c).

Being a profit-seeking public bank in pursuit of shareholder value for the state, *Caixa* sought to expand its customer base. In *Caixa*’s own evaluation, the pandemic ‘enabled CGD to consolidate its leading position as the digital bank of Portuguese citizens’ (CGD 2020d, p. 8). Moreover, 2020 witnessed the launch of a new advertisement campaign with slogans such as ‘*Caixa* — for each and all’. *Caixa* explains that ‘for all’ alludes to the nation as a whole, and ‘for each’ stresses personalisation. CGD boosts an improvement in customers’ perception of the *Caixa brand* as the ‘Best Digital Bank’ (CGD 2021).

In a context of limitations to mobility disrupting demand, *Caixa*’s customer deposits increased by 9.4 per cent in 2020, helping the bank achieve market shares of 28.8 per cent in customer deposits (up from 25.1 per cent in 2019) and 29.7 per cent of individual deposits (up from 29 per cent in 2019). *Caixa* sees this as ‘indicative of customers’ confidence in and loyalty to CGD’ (CGD 2021). In 2020, the volume of mortgages increased by 12 per cent, and in 2021 mortgage lending agreements grew by an astonishing ~46 per cent, helping *Caixa* to achieve a 23.8 per cent market share (CGD 2021, 2022). Despite the large reduction in net income in 2020, net profits amounted to €492 million. This represented a return on equity of 6.1 per cent, which was above average among European and Portuguese banks (CGD 2021). Thus, the profit-making imperative, which for *Caixa* was reinforced by European financial integration, and by the Strategic Plan under the EC, was not suspended during the Covid-19 pandemic. In fact, many of the actions that were framed as ‘inclusive’ can best be understood with reference to the profit motive.

5. Public Purpose in Public Banking: The Pandemic and Beyond

While BPF and CGD together played an important role in implementing the government’s financial response to the pandemic, the former was created to confront challenges *beyond* the pandemic. As a new institution, BPF could offer real opportunities. The BPF has a legally established mission which may be regarded a ‘public purpose mandate’. BPF is by law a so-called ‘green bank’ and thereby has a legal obligation to direct finance towards environmental sustainability. Decree-Law no. 63/2020 establishes that BPF’s role includes *directly* financing and facilitating (alone or with the EIB and other IFIs) projects within ‘sustainable infrastructure’, ‘carbon neutrality’, the ‘circular economy’, the ‘energy transition’, and ‘environmental and energy infrastructure in the area of hydric resources and waste management’. The BPF will also finance ‘social investments’ in health, education, employment, social inclusion and housing (Diário da República 2020). The environmental mandate constitutes a new responsibility, which IFD, PME

and SPGM did not have (Senior BPF Official, interview 2022). As new institution, BPF is just starting to explore what a green mandate might mean in practice. BPF is not *yet* a green bank. When asked how BPF's financial instruments address carbon neutrality and the circular economy, the official at the institution said that 'it is something we are still in the very early stages of looking into'. Although BPF already finances projects that may be regarded 'green', she said that promoting carbon neutrality and sustainability 'is not something that we do now', that it is 'within our objectives and our strategy for the future'. Moreover, there are not *yet* any internal discussion in BPF about the risks of 'greenwashing' (Senior BPF Official, interview 2022).

It is questionable or unlikely that the tools currently at BPF's disposal lend themselves to facilitating a green transition. A green transition requires massive front up investments and a purposeful directing of credit (Mazzucato and Macfarlane 2017). Following EU guidelines, which were developed after the eurozone crisis and before the pandemic, before governments mobilised state capacity to combat what was often called a 'war-like enemy' (Benziman 2020), BPF has a neoliberal institutional design. Decree-Law 63/2020 which established BPF refers to EU guidance that envisions a 'smart' use of public resources to 'crowd-in' private actors in a context of limited fiscal space. Thus, austerity and fiscal consolidation are assumed to be the macroeconomic policy context in which promotional banks are designed. For the EC, promotional banks' *raison d'être* stems from market failures deriving from asymmetric information, externalities, or market power. The EC's approach to promotional banks is an example of what Mazzucato and Penna (2016) call the market failure theory justification of public banking. That is, the EC's approach to promotional banks is informed by neoclassical economics and takes perfectly competitive markets as a benchmark against which the need for promotional banks can be assessed. This framework, which aspires to free markets, and which often provides the intellectual rationale for neoliberal policy making (Fine and Saad Filho 2014; Nicholls 2010), assumes a theoretical possibility that no agents exercise power and that market transactions have no effects on third parties or on society. The EC warns promotional banks against 'crowding-out' private finance. To enhance a 'level playing field', the EC urges promotional banks to provide finance *indirectly* when serving markets already served by private banks (European Commission 2015). Once again, the EC prioritises competition between private actors.

In line with this, so far, BPF's financing comes almost entirely in the form of *indirect* finance. BPF 'always works alongside private investors', and offers three types of finance: guarantees, credit, and equity. While BPF provides some direct equity, the institution tends to provide equity indirectly, via business angels and venture funds (Senior BPF Official, interview 2022). Hence, it has a pro-private finance, and indeed a neoliberal institutional design and follows the principles of 'blended finance'. It seeks to 'correct market failures' and 'boost the availability of finance' for Portuguese enterprises. It does so by de-risking (Senior BPF Official, interview 2022). By always working 'alongside private investors' to ensure that there are private actors taking risk (Senior BPF Official, interview 2022), BPF effectively outsources risk analysis, whilst delegating the selection of investments to financial intermediaries (Senior BPF Official interview, 2022). This suggests that so far, BPF is not well placed to autonomously and purposefully direct financial resources in an environmentally sustainable direction.

When probed to think of a green shift as a structural transformation, the bank official said that BPF focuses on market failures and tends to focus on smaller projects. For example, BPF might assist a company setting up a solar farm, either through its own funds or in partnership with the EIB or CEB (Senior BPF Official, interview 2022). When asked whether BPF should provide direct finance and step in as the only creditor for ambitious projects in renewable energy, the official referred to a large project in hydrogen being planned by the Portuguese government and said that ‘those will not be funded by the BPF’, since ‘we don’t have the structure to do that’. She said: ‘That is not our goal. That is not our mandate. We are not meant to be directly financing those type of projects’ (Senior BPF Official, interview 2022). This appears to signal a different direction than what was laid out in Decree Law 63/2020, and it raises questions about whether BPF’s infrastructure and financial tools are sufficiently robust to act as a facilitator as a green structural shift.

As BPF takes shape, three recommendations can be made. First, BPF will need to build green capacity to evaluate projects. For the ‘dynamic view’ of public banking, the internal social content of public bank matters (Marois 2012). To build purposeful public banking with an effective mandate, responsibilities that are externally formalised through legislation should be complemented by ambitious action from within the bank. The board of directors, staff and bank officials should maximise the green agenda. So far, it seems likely that the greening of BPF’s portfolio will follow EU guidelines and occur alongside similar developments in the EIB. According to the official that was interviewed, the financial products geared towards the environmental objectives will need to fit within the Invest EU Framework, which emphasises the ‘do no significant harm principle’ (Diário da República 2020; Senior BPF Official, interview 2022). However, BPF has operational independence with regards to individual projects and acts autonomously when it comes to appointments. Thus, it should have sufficient autonomy to define an ambitious strategy as far as sustainability is concerned. BPF should aim to critically assess ‘just transition’ in a *global* perspective that considers the potential contradictions within net zero. To build bridges to society-wide institutions that can assist an ambitious green and socially just transition, BPF may seek inspiration from public banks that have civil society actors on the board of directors (Marois 2020).

Second, to better facilitate a green transition, BPF will need to lend *directly*. This is in line with BPF’s legal mandate, but it nevertheless requires changing its current neoliberal institutional design focused on boosting the availability of private finance. Direct lending is permitted by BPF’s legal mandate, and it is the intention for the future. But despite the expectations set out in Decree-Law 63/2020, bank officials expect this to take time (Senior BPF Official, interview 2022). BPF does not have a commercial bank’s infrastructure. While CGD has a large branch network and a colossal head office in Lisbon, BPF barely has a few corridors in its head office in Porto. To lend directly, BPF will need branches or spaces that borrowers can visit, a risk analysis team, and staff that can assess individual projects, as the bank official highlights (Senior BPF Official, interview 2022). Providing direct lending will also mean *in-sourcing* risk evaluation and project assessment, and this can be facilitated by building green internal capacity.

Third, BPF will need to finance the public sector. Decree Law 63/2020 makes it clear that BPF will ‘finance long-term investment projects to be developed by the public sector at central, regional and municipal level’ (Diário da República, 2020). Despite what the

legislation says, so far, BPF does not lend to the state (Senior BPF Official, interview 2022). The official at the bank noted that ‘There are issues with BPF financing [municipal] companies’ which relate to ‘a public company financing another public company’. She said this would necessarily have ‘to be assessed in the light of the EU’s laws and regulations on competition and state aid’. Moreover, she noted ‘the limitations these companies have in terms of the type [and amount] of financing they can use’ since ‘Portuguese municipalities are very limited in terms of how much debt they can take on’ (Senior BPF Official, interview 2022). Once again, EU rules and the legacies of austerity from the eurozone crisis serve as potential obstacles against sustainable public-public partnerships. It is crucial that BPF takes advantage of its legal mandate and starts developing public-public partnerships. The public sector plays a central role in terms of securing infrastructure that is climate resilient and sustainable. Public sector actors, notably municipalities, have crucial environmental responsibilities, for example in water and sanitation. While some of Portugal’s state-owned enterprises appear to have an abundance of financing options, this is not true for municipalities, which confront constraints connected to austerity, debt ceilings and competition rules (Stadheim 2022). Despite Portugal’s challenges with retaining and crafting public banking within the context of European integration, the decree law, which was approved by EU institutions, opens not only the possibility, but the necessity, of sustainable public-public financial collaborations.

6. Conclusion

This article has contributed to the debate about the nature and diversity of public banks and their capacity to respond to today’s multifaceted crisis which includes economic crises, public health emergencies, and ecological breakdown. This subject matter concerns public banks as agents of crisis management and as enablers of structural transformation. The point of departure was that public banks have no *inherent* features, in line with the ‘dynamic’ view of public banking (Marois 2021a), and that they are not *necessarily* counter-cyclical, developmental, or socially progressive. The recognition that public ownership may be a necessary but insufficient condition for them to play a socially progressive role necessitates a discussion of ‘public purpose’ in public banking. Hence, this article examined Portugal’s public banking response to the Covid-19 pandemic and the climate emergency with reference to ‘public purpose’ and mandate. It looked at the role of public banks and financial institutions within Portugal’s national approach to crisis management. The article assessed the launch of a new public financial institution — BPF in 2020, the BPF’s pandemic actions, along with those adopted by Portugal’s long-standing state-owned commercial bank, CGD. Moreover, the article assessed whether BPF, with its environmental mandate, is fit to tackle the climate crisis. The analysis was informed by interviews with an official from BPF and three current and former members of the Portuguese parliament — from the Left Bloc, PCP and *Chega*. These interviews shed light on the status of public banks in contemporary Portuguese society and political debates on the matter of mandate and public purpose.

The article showed that that BPF has a legally established sustainability mandate which can be regarded a ‘public purpose mandate’, whereas CGD has become reminiscent of private commercial banks. CGD has a competitive logic and an emphasis on profit-

making, and while this is not new in the institution's history (Lains 2022), legislation resulting from European financial integration and the Strategic Plan under the EC have reinforced this imperative. Portugal's peripheral form of integration within the eurozone has led *Caixa* to become increasingly subsumed to external pressures in recent years.

Notwithstanding these limitations, CGD as well as BPF played crucial roles within the Portuguese government's pandemic response. They are partners. Hence, they worked in complementary ways. BPF is responsible for the Portuguese Mutual Guarantee System and thereby guaranteed the loans banks gave out via the government credit lines. BPF guaranteed CGD's credit issuance. CGD was proactive and prominent in channelling these credits into Portuguese society and adopted some credit lines independently of the government. Both CGD and BPF responded promptly to the pandemic. In implementing the credit lines, they played a countercyclical role and helped to save jobs. The debt moratoria were also a crucial form of financial generosity. The uptake was particularly high in Portugal. All banks were legally required to adopt it, but CGD appears to have been particularly proactive and flexible in its stance to debt repayment — before the moratoria was compulsory by law and after. This helped to allow families and firms to stay afloat when incomes and trading plummeted. This generosity however, sometimes reflected CGD's own business interests, which were shaped in part by European banking regulation. Moreover, the pandemic provided a commercial opportunity for the bank.

Finally, the article assessed to what extent BPF is fit to tackle the climate crisis. The article argued that so far, BPF is limited in its potential to play a transformative environmental role. BPF's institutional design is not entirely fit for purpose. It has a neoliberal design focused on de-risking. BPF does not lend directly to clients, and it does not step in as the only creditor to finance ambitious large-scale projects in renewable energy. A green shift requires large up-front investments which necessitates patient finance, but this requires a degree of risk taking that goes beyond BPF's current strategy which focuses on working alongside private financial institutions. Moreover, the public sector has crucial environmental responsibilities. Yet so far, BPF does not lend to the state. Despite these limitations, this article has argued that there is scope for re-shaping BPF's institutional design. BPF is still in the making. It has a flexible mandate. The mandate permits it to lend directly, build 'green' internal capacity, and lend to public entities cross all geographical levels.

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APPENDIX: INTERVIEWS

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