

# Finance needs to support the recovery, digitalisation and the green transition

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BANCO DE ESPAÑA  
Eurosistema



BANCO DE PORTUGAL  
EUROSISTEMA

European  
Investment  
Bank





# I. FINANCE NEEDS TO SUPPORT THE RECOVERY

## ■ Ability of banks to lend

- Strong Solvability and Balance Sheet  
(NPL 2017:13,3 | 2021:3,6)
- Significant Liquidity
- Strong Incentives
- Banks were essential to overtake economic effects of Covid Crisis
- Alignment between monetary and fiscal policy
- This time was different

- Greater effort in Portugal (2X Spain) related to moratoriums VS Public spending
- Positive exit from moratoriums
- Financial costs will increase, still, real interest rates will remain on negative grounds by the end of 2022/2023?
- Maturity extended of private debt
- Deleveraging of private sector



# Challenges to the banking industry

1. **Transmission of monetary policy to the economy**
2. **Positive evolution of risk indicators**
3. **Reduction of credit exposure to highly leveraged clients**
4. **Make sure that structural deficiencies are corrected** through efficient digitalization strategies and reinforced governance
5. Leading role in **climate and environmental risks**
6. Banks continue to be reliable Institutions
7. Reduced use of cash
8. **Competition more fierce** - new competitors big techs
9. New wave of adjustments to the balance sheet and P/L? 3rd adjustment to balance sheet and P/L in a dozen years
10. Sensitivity to interest rate shocks and credit differentials
11. **Financial system resilient, as part of the solution**

HOW MUCH DO YOU TRUST?  
Out of 5

**3,9** Banking

**3,5** Social media  
and gaming

**3,6** Telecom



# I. FINANCE NEEDS TO SUPPORT THE RECOVERY

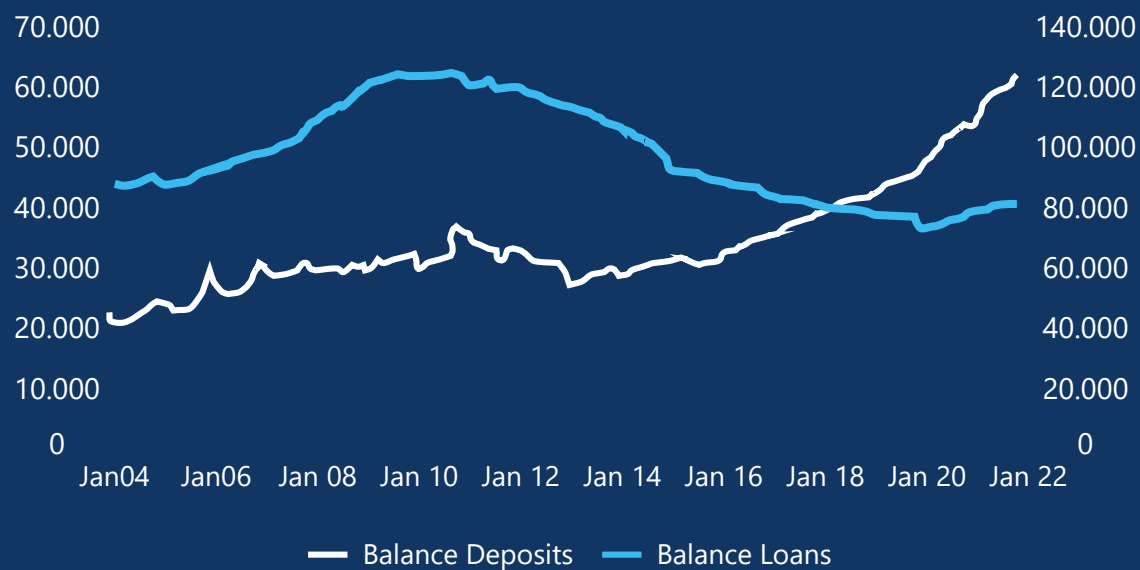
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## Portugal | Non Financial Companies

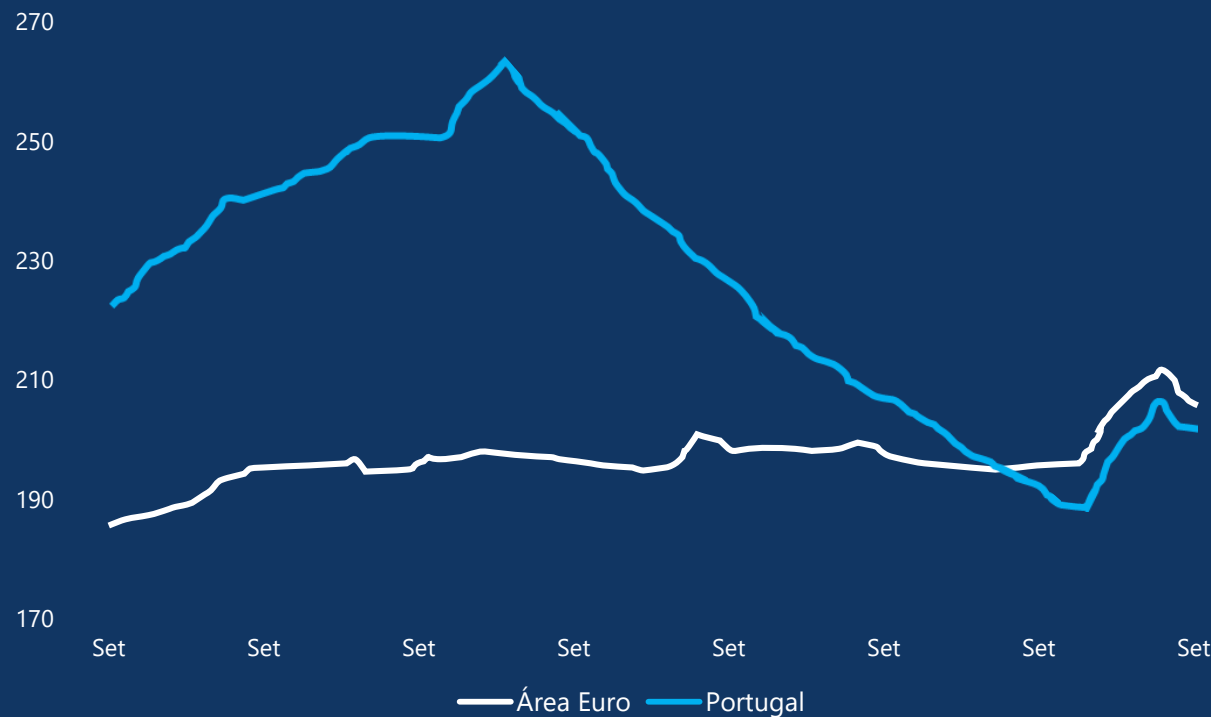
### Deposits and Loans



As a whole, the **companies** continued to strengthen their equity and **financial autonomy** (measured by the weight of equity in the balance sheet) **increased** to 38.1% in **2020** (36.5% in 2019)

BdP | 25/01/2022

## Public and Private debt



Fonte: Banca Financiamento e Desenvolvimento, Manuel Rodrigues 2021;  
Gabinete de Estudos da Caixa

# Solutions to respond to corporate needs:

## 1. Caixa will continue to support, the recovery through:

- **Supporting the application of EU Funds** (Disbursement of funds has been slow)
- **Investments needed in the actual crises**
- **Sectors temporally affected**

1. diversification of sources of funding and capitalization for corporates, going beyond bank debt and including access to the venture capital ecosystem

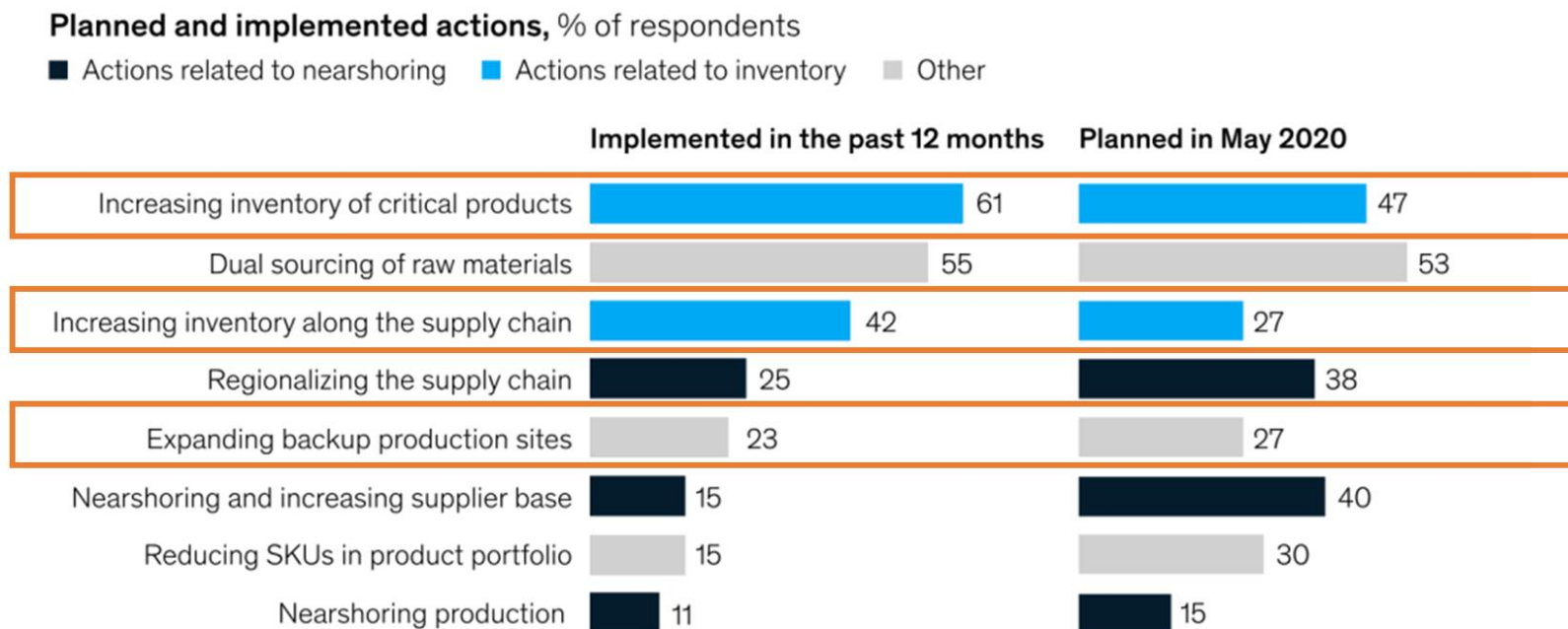
2. making corporates aware of the different instruments available

3. payment of funds to beneficiaries

4. availability of treasury solutions to anticipate payment of grants

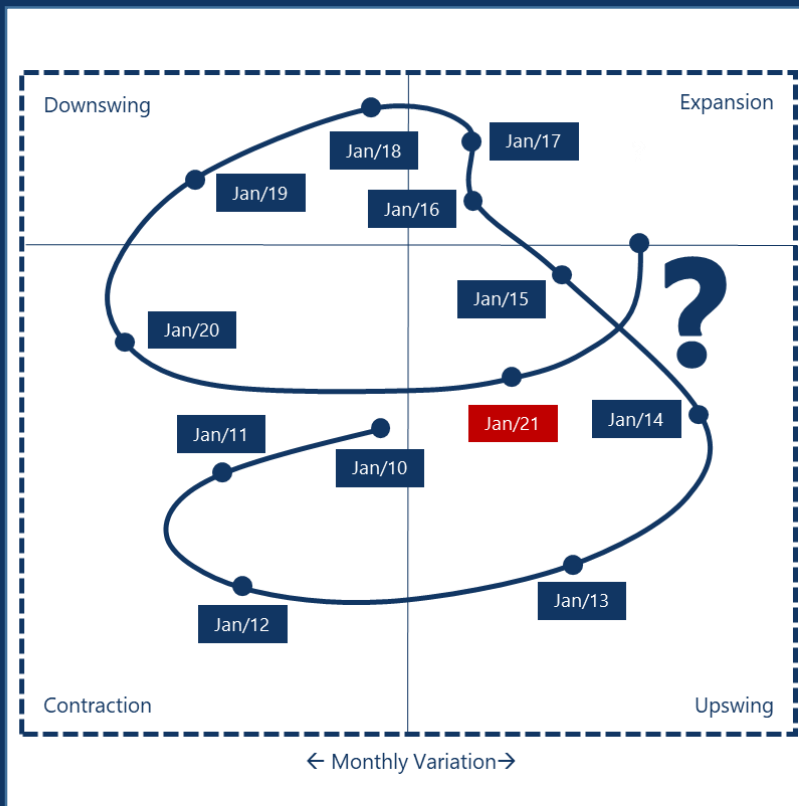
5. implementation of financing solutions complementary to the grants

6. providing consultancy/advisory services to corporates



Source: McKinsey survey of global supply-chain leaders (May 4–June 16, 2021, n = 71)

## Economic sentiment indicator

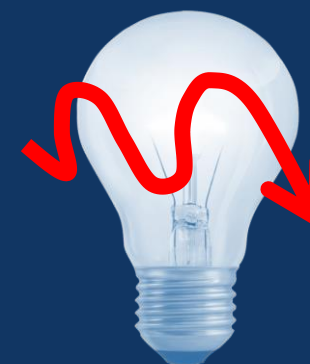


Source: Helder Reis, Conferência da Ordem de Economistas, Março de 2022

# NEXT CHAPTERS? Stop or Go?



- Endemic COVID + End of war in Europe
- Interest rate levels at historical lows – gradual increase expected, with potential for lower real interest rates
- Perspectives for sustained economic growth
- Higher inflow of EU funds and their effective use



- *Hawkish* action by the ECB from political pressure regarding inflation – increase (sudden) in interest rates
- Prolonged or worsening of the conflict with more indirect pressure points “operational risk”
- High level of volatility in financial markets
- Risk aversion substantially higher



# We must design our strategy around things that will last

I almost never get the question: 'What's not going to change in the next 10 years?' And I submit to you that that second question is actually the more important of the two -- because you can build a business strategy around the things that are stable in time.

Jeff Bezos, 2021

Customers will want low prices and added value

Customers need to trust their Bank

Customers demand a better, simpler and faster service

Customers need to be sure they are secure

...

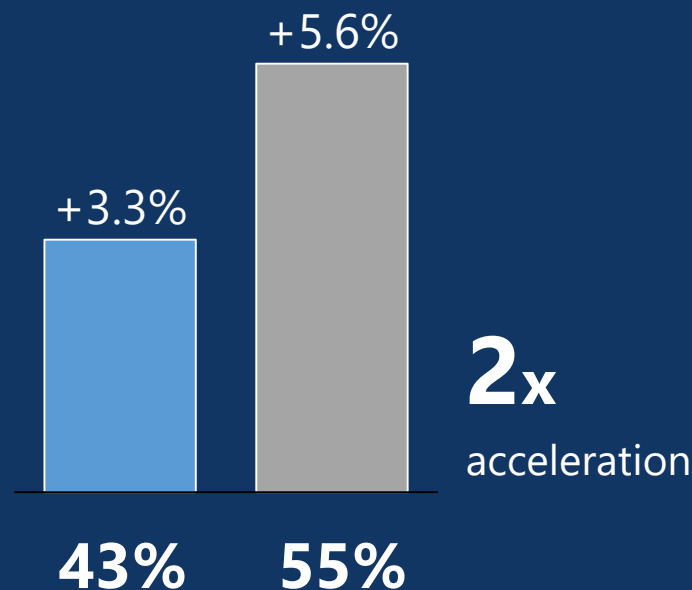
# COVID-19 brought a significant acceleration of digitalisation

x% Share of total costumers/sales

■ Average of 2015-19 ■ 2020

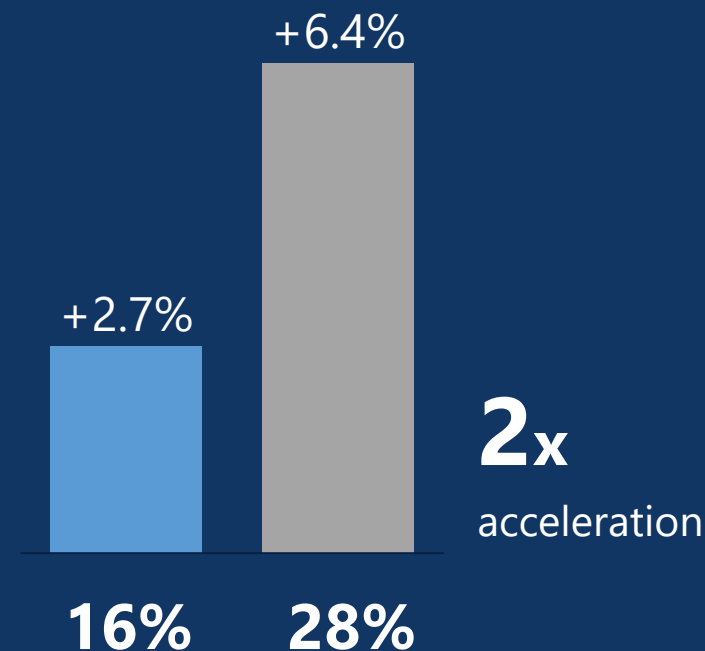
## Digitally active banking customers<sup>1</sup>

Average increase per year



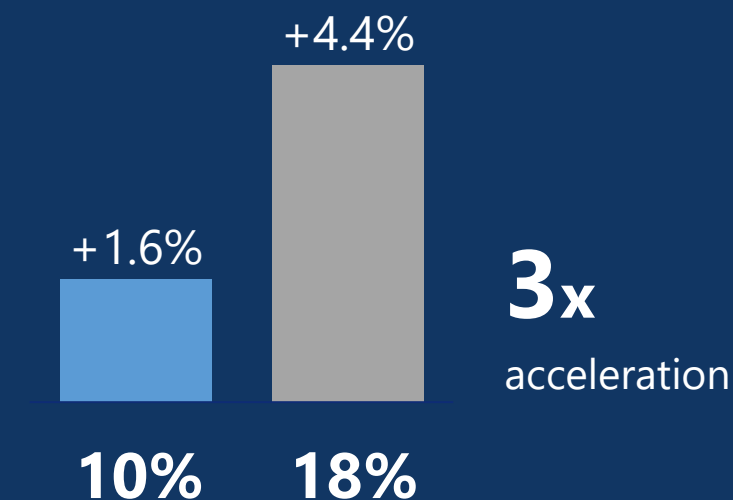
## Digital core product sales<sup>2</sup>

Average increase per year



## E-commerce within retail sales

Average increase per year



1. Day active digital (online + mobile) users/Total active customers

2. Digital product sales/total product sales; sales data reflects product units

# CGD is an example that Banks can play an important role in terms of digital inclusion by skilling customers and leveraging new technologies

## Digital Inclusion: EUSOUDIGITAL Programme

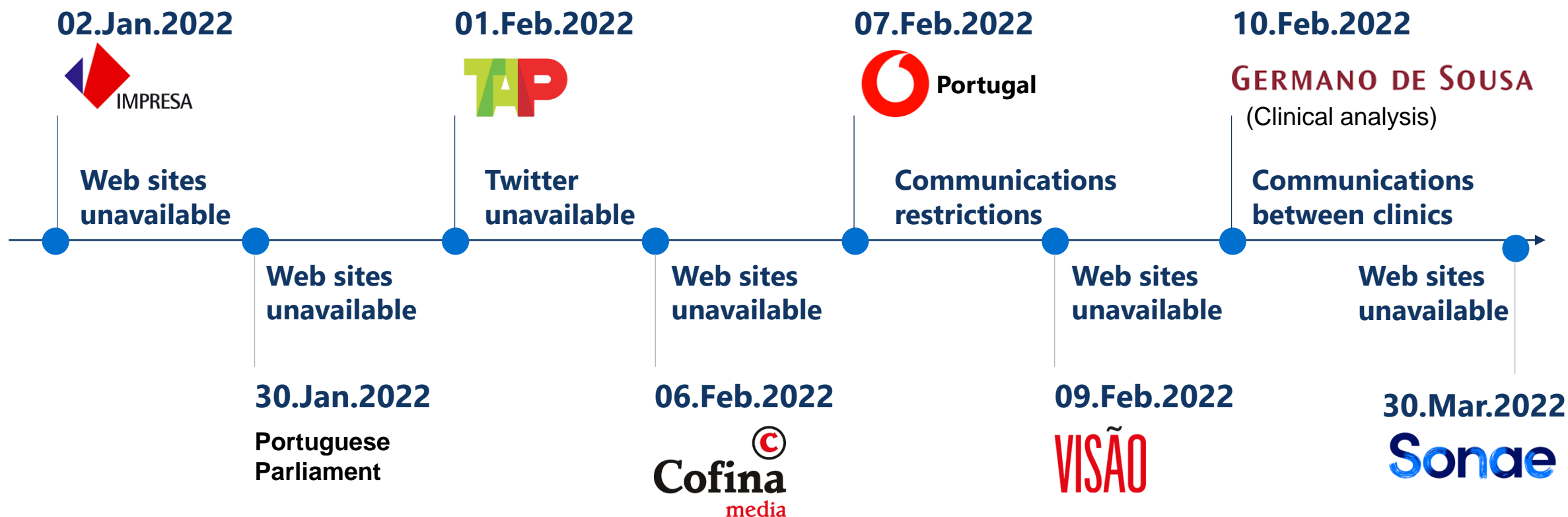


In 2021 CGD has strengthened its position as a sustainable and inclusive bank becoming the Social Investor of the EUSOUDIGITAL programme.

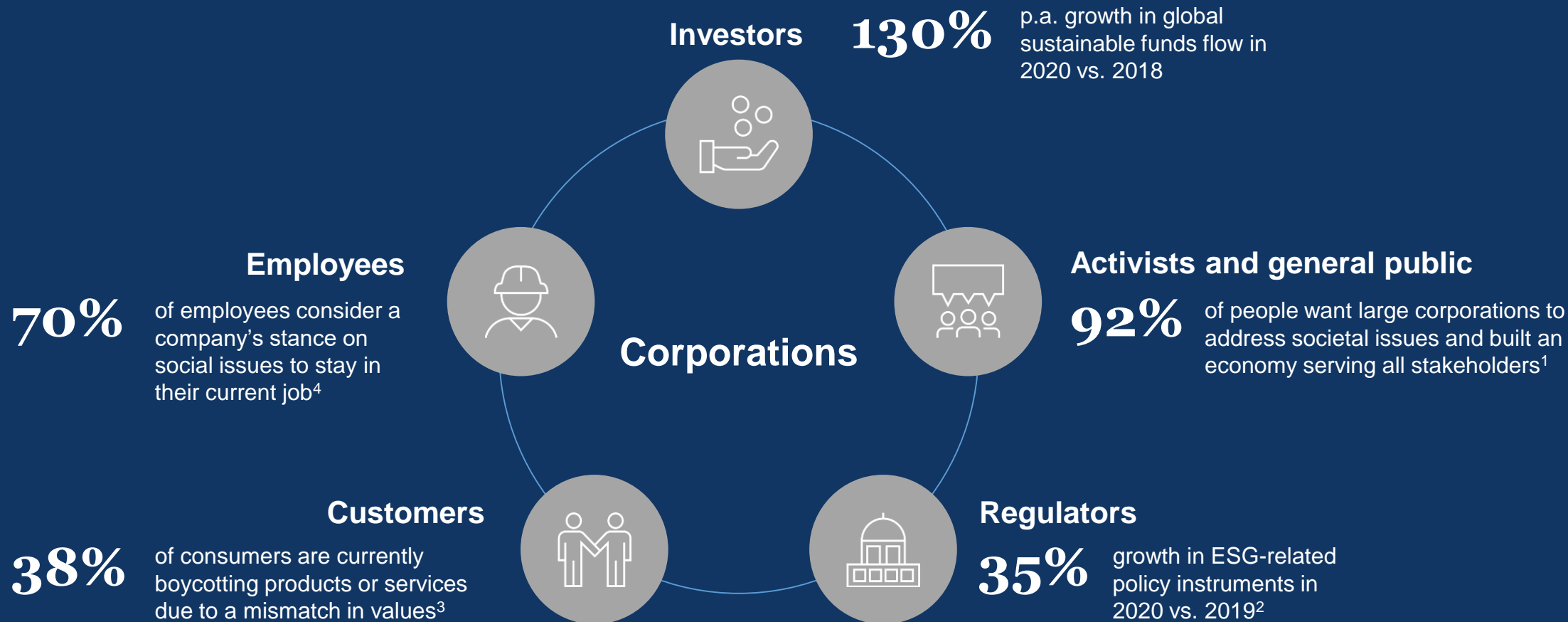
- The EUSOUDIGITAL Programme aims to promote digital empowerment of 1 million adults in Portugal by the end of 2023 through the development of a national network of thousands of volunteers supported in more than 1,500 spaces throughout the country.
- Empowering adults over 45 years old who have never used the internet, the EUSOUDIGITAL Program promotes the creation of digital empowerment actions developed by volunteers in the family context or in places of proximity in their community.

# Digitalisation demands a significant investment in cybersecurity

- **Ukraine war has a particular profile in terms of operational risk**
- Portugal



# A shift in non-market stakeholder attitudes has driven interest in purpose and ESG



1. Just Capital 2020 Roadmap for Stakeholder Capitalism; 2. According to PRI; 3. 2020 Compare Cards survey – 87% of consumers say they would boycott according to a 2017 Cone communications CSR study; 4. 2019 Brunswick Insight survey

Source: McKinsey Consumer Survey, April 2019

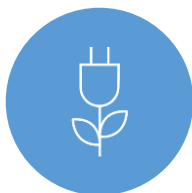




# CGD's ESG strategy has five key pillars

## Ambition

CGD's **ESG strategic vision**: "to be the leader on **sustainable financing** in the Portuguese market, supporting the **transition to a low carbon economy** and financing projects with **social impact** on people's lives"



### Sustainable and Inclusive Finance

To be the **leader on sustainable financing** in the Portuguese market supporting the transition to a low carbon economy and financing projects with social impact on people's lives



### Climate Risk Management

**Accelerate the transition to a thriving low-carbon** global economy by identifying, assessing and **managing climate-related risks**



### Digital & Financial inclusion

"**Leave no one behind**" by being an inclusive organization that prioritizes well-being within the institution and society



### Transparent Governance Models

Be an **organization with efficient governance models**, that drives performance in a responsible, diverse and inclusive way



### Sustainability Disclosure

Make regular and **transparent disclosures to communicate CGD's progress** according to best guidelines and practices, aligned with stakeholders' expectations

## Strategy Pillars and Goals

# Sustainability



**negócios**

MERCADOS • OBRIGAÇÕES  
**Caixa paga 0,4% para emitir 500 milhões em dívida verde. Procura superou 3 vezes a oferta**

O banco estatal concluiu com sucesso a colocação da primeira emissão de obrigações sustentáveis. A procura superou em quase três vezes o montante emitido.



*Leadership (A/A-): Implementing current best practices*  
*Management (B/B-): Taking coordinated action on climate issues*  
*Awareness (C/C-): Knowledge of impacts on, and of, climate issues*  
*Disclosure (D/D-): Transparent about climate issues*

# Integrate ESG criteria in financing

## RATING ESG

**CGD's ESG Rating Model** for its corporate clients

- Covers all business sectors
- Weighted average of 15 indicators (12 quantitative + 3 qualitative )



The ESG Rating makes it possible to:

- Assess and rank companies in terms of sustainability, according to a given rating scale (Strong, Good, Satisfactory or Weak), which may contribute to define credit pricing;
- Combine this assessment of non-financial aspects with the traditional financial assessment (divided between investment grade and non-investment grade ratings), generating a matrix with four possible sustainable financing strategies: Ponder, Capture, Divest or Enhance.

These were some aspects of lessons learned  
and actions that are being taken in order to  
assure that society will continue to have  
finance support from Banks.

Thank you for having me

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