

REPORT ON PAYMENT SYSTEMS

2021



BANCO DE
PORTUGAL
EUROSYSTEM

Executive summary

In 2021 retail payments in Portugal increased again, following a decline in 2020 owing to the COVID-19 pandemic. This reflected the recovery in economic activity, largely as a result of the vaccination progress.

The Portuguese made 3.1 billion retail payments via the Interbank Clearing System (**SICOI**), amounting to €563.9 billion, a record high. These payments increased by 13.7% in volume and 12.5% in value from 2020 and by 3.3% and 7.8% from 2019.

Developments in the use of the payment instruments processed in this system were mixed, consolidating the trends already observed in previous years.

First, the preference for electronic payment instruments continued to increase, to the detriment of paper-based payment instruments. In 2021 transactions by cheque and bill of exchange declined by 18.3% in volume and 1.3% in value, year on year. In contrast, electronic payment instruments — transactions by payment card, direct debit and transfer (including instant transfers) — increased by 13.9% in volume and 14.4% in value and accounted for 99.5% of total payments processed in SICOI in 2021 (99.3% in 2020).

Individually, all electronic payment instruments saw an increase in the volume and value of transactions conducted compared with 2020, as can be seen in the infographic ‘Payments in figures | 2021’.

Other trends that continued in 2021 were the increase in the use of contactless technology and the rise of online purchases with domestic cards. Online purchases with domestic cards continued to be mostly conducted with foreign merchants (transactions with these merchants accounted for 65% of the volume and 66% of the total value of online purchases with cards issued in Portugal).

Payment service providers (PSPs) are required to report to the Banco de Portugal major operational or security incidents related to the provision of payment services. In 2021 PSPs reported 56 major incidents to the Bank, an increase of 40% from 2020. The commercial channels most affected by these incidents were homebanking and mobile banking.

The recovery in economic activity also had an impact on TARGET2. In 2021 the Portuguese component of this system — **TARGET2-PT** — processed around 1.8 million transactions, totalling €1.7 trillion, an increase of 10.3% in volume from 2020. The number of processed transactions even surpassed the pre-pandemic level seen in 2019. This increase in activity in TARGET2-PT was mostly due to growth in transactions between institutions, mainly customer payments. Despite the higher number of transactions, the value settled in TARGET2-PT decreased by 2.1% from 2020, largely due to a decline in the value of interbank payments.

In a context of high market uncertainty and widespread remote working arrangements, transactions in TARGET2, including its Portuguese component – TARGET2-PT –, were processed without any significant incidents, which attests to the high resilience and security of this system. Nevertheless, following the recommendations issued as part of the independent review of TARGET services motivated by the incidents that occurred in 2020, in December 2021 the Eurosystem published an action plan to be implemented over the course of 2022.

In the Portuguese component of **TARGET2-Securities**, approximately 207 thousand securities transactions were settled in 2021, amounting to €139 billion. Compared with the previous year, the number of transactions declined by 18.2% and the value processed by 12.2%, in line with the drop observed in the value of issues and redemptions of public and private debt in Interbolsa.

In the first full year of activity by Portuguese participants in TARGET Instant Payment Settlement (**TIPS**), the volume and value of instant transfers increased gradually. Portugal was the seventh most active country in TIPS, with 780 thousand transactions sent and received by payment service providers in the Portuguese community, totalling €1.1 billion. The steps taken by the Governing Council of the ECB in July 2020 to ensure the pan-European reach of instant payments, namely that the banks that have adhered to the SCT Inst scheme and are reachable in TARGET2 should have a TIPS account, resulted in a sharp increase in transactions settled in December.

The project consolidating TARGET2 and TARGET2-Securities and on the evolution of TARGET Services will be completed on 21 November 2022. The efforts of the national community have made it possible to comply with the Eurosystem milestones. In 2021 institutions made the preparations required for user testing and the Banco de Portugal participated in the testing phase for central banks. In order to help the national community prepare for the evolution of TARGET Services, the Banco de Portugal disseminated information, consulted participants and organised workshops.

The Banco de Portugal promoted and assessed compliance with the rules applicable to the provision of payment services, in particular under the PSD2 and its delegated regulations, namely: (i) strong customer authentication in online card purchases; (ii) provision of communication interfaces for common and secure communication with account information service providers, payment initiation service providers, and payment service providers issuing card-based payment instruments; and (iii) monitoring compliance with the IBAN non-discrimination rule.

In addition, the Bank continued to pursue initiatives supporting innovation in payment services both on an individual basis, for example through Fintech Meetings, and in cooperation with other entities, namely in the scope of Portugal FinLab, promoted by the National Council of Financial Supervisors.

In the first half of 2021, the Banco de Portugal provided technical support to the Ministry of Finance on legislative matters related to central bank tasks, in particular under the Portuguese Presidency of the Council of the European Union. In this context, the legal acts that are part of the European Commission's Digital Finance Package – of key relevance for payment services and systems – were discussed, in particular the Council conclusions on the Commission Communication on a 'Retail Payments Strategy for the European Union', the Regulation on Markets in Crypto-assets (MiCA) and the Regulation on digital operational resilience for the financial sector (DORA).

In 2021 work also progressed on the implementation of the National Strategy for Retail Payments | 2022 Horizon, under the aegis of the Payment Systems Forum, published by the Banco de Portugal in November 2020. At the end of 2021, a little over a year since its publication, 18 of the Strategy's 42 initiatives (43%) had already been completed, another 18 were under way, and only six were scheduled to begin in 2022. These achievements represent significant progress in the different lines of action established in the Strategy and were made possible by close cooperation among the various market players.

2021 was also marked by a crucial move towards the potential issuance of a **digital euro**: in July, the Governing Council of the ECB decided to launch the investigation phase of the project. This decision was based on a discussion on the reasons for issuing a digital euro, carried out in 2020, as well as the results of a public consultation and experimental work carried out by the ECB and the euro area central banks, published in 2021. The investigation phase of the digital euro, which started in October 2021 and will last 24 months, aims to establish models to issue and distribute a digital euro that maximise the advantages for users while minimising potential negative effects on financial stability.

Together with the launch of the investigation phase of a digital euro, the Governing Council of the ECB has also decided to study the use of new technologies in market infrastructures. In this context,

consideration was given to the possibility of applying new technologies to the provision of a wholesale central bank digital currency (wholesale CBDC) in order to improve the efficiency of current platforms while meeting the needs of market participants arising from the emergence of new assets and market segments. The use of new technologies is also being studied as part of the review of international payment infrastructures, with a view to promoting the efficiency of cross-border payments.

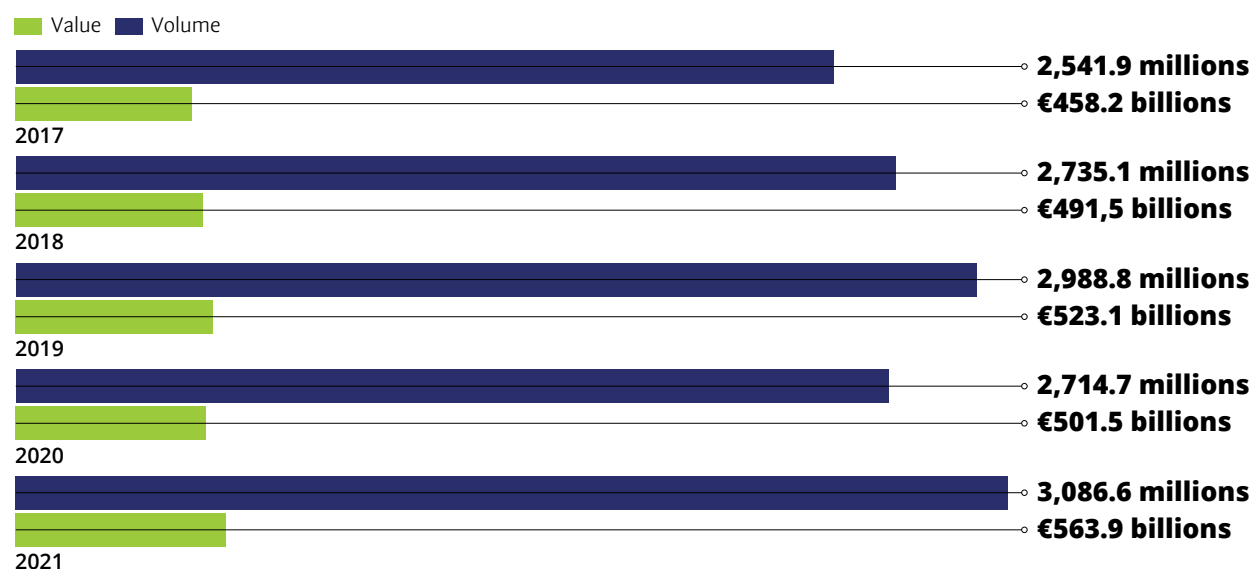
The Banco de Portugal continues to actively participate in the work of the Eurosystem on a digital euro and the use of new technologies in market infrastructures. Indeed, this active participation is a priority under the Strategic Plan of the Banco de Portugal for 2021-25.

Payments in figures | 2021

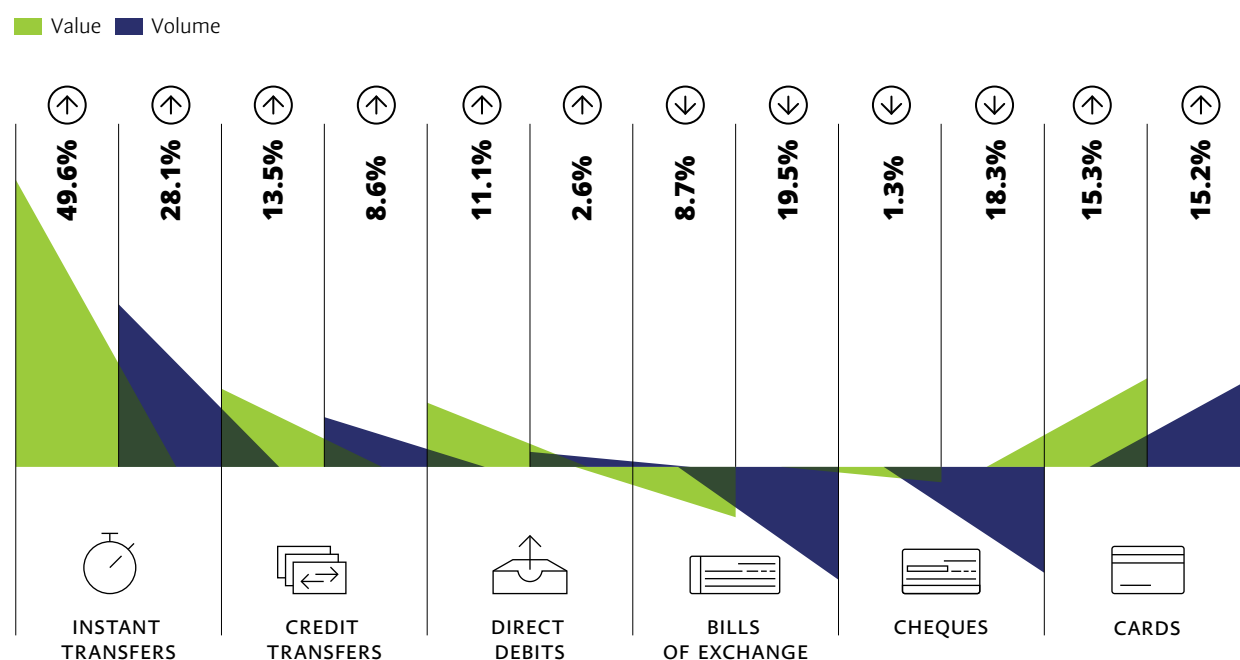
Retail payments in Portugal

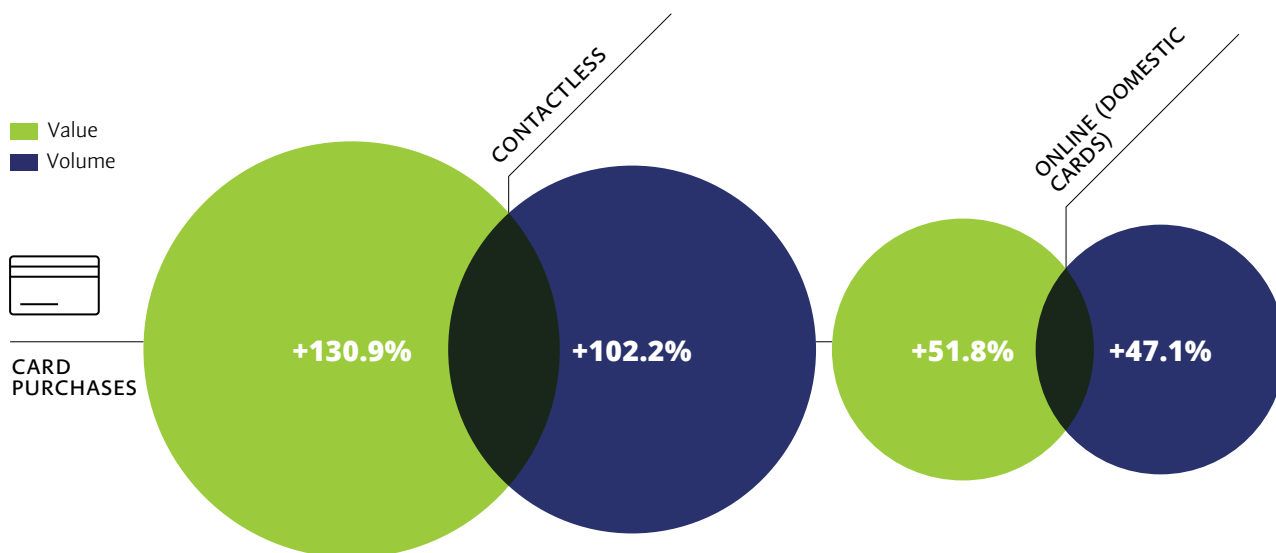
Evolution of payments in SICOI (2017-21)

In 2021 retail payments increased by 13.7% from 2020 and exceeded by 3.3% the level recorded in 2019, the last year before the pandemic. The value of payments also grew by 12.5% from 2020 and 7.8% from 2019. This reflected the recovery in economic activity.

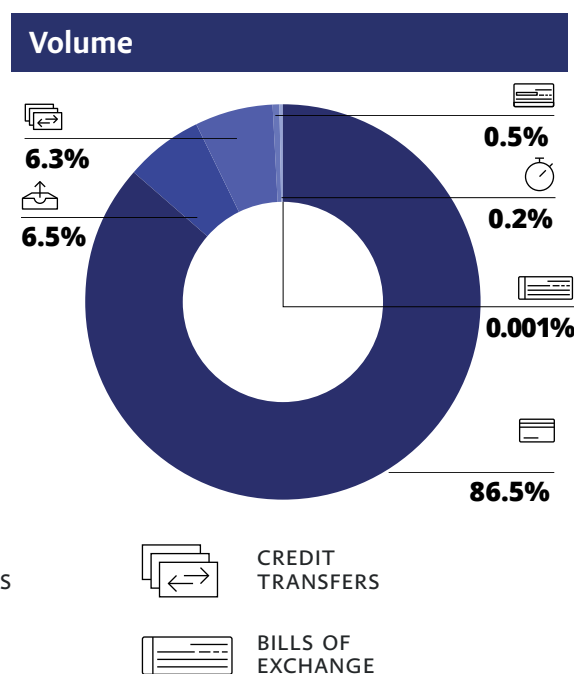
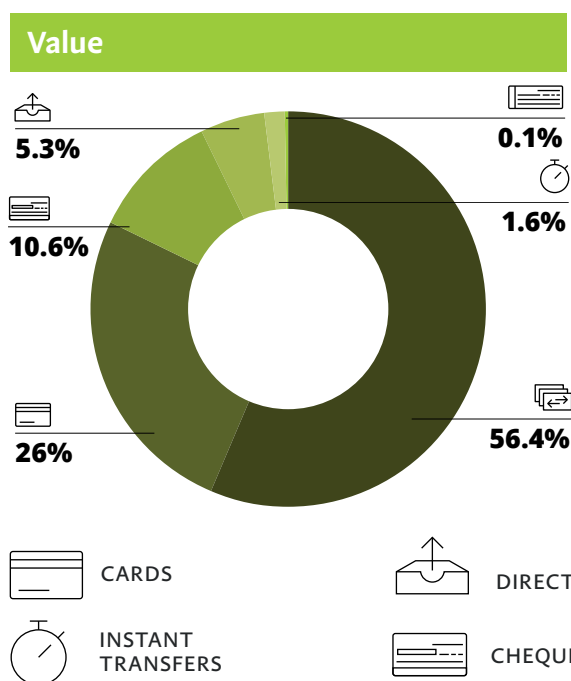


Change in the volume and value of payments in SICOI (2021-20)





Use of payment instruments



Other payments in Portugal

Transactions processed in **TARGET2-PT**

1.8 million VOLUME **€1,691 billion** VALUE
 +10.3% (up arrow) -2.1% (down arrow)
 which is 9.3 times the Portuguese GDP

Securities transactions by the Portuguese community settled in **TARGET2-Securities**

207 thousand VOLUME **€139 billion** VALUE
 -18.2% (down arrow) -12.2% (down arrow)

Instant transfers by the Portuguese community settled in **TIPS**

780 thousand TRANSACTIONS SENT AND RECEIVED **€1.1 billion** VALUE