

COUNTERCYCLICAL CAPITAL BUFFER



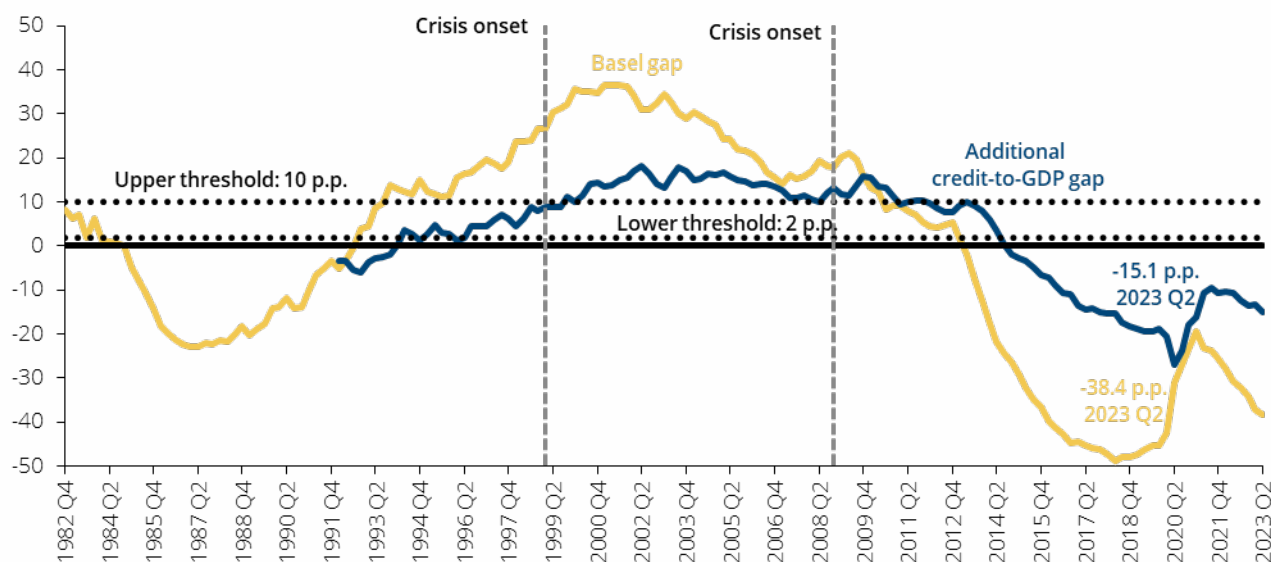
29 DEC. 2023

Banco de Portugal maintains the countercyclical capital buffer rate at 0%

Monetary policy tightening, prospects of a slowdown in economic activity and the international geopolitical situation are the main challenges to short to medium-term developments in the Portuguese economy. The recent political uncertainty experienced in Portugal is also a source of risk, partly mitigated by the recent upward revision by Moody's of the rating of both sovereign debt and the largest Portuguese banks. Future developments in the economic and financial situation should thus continue to be marked by an environment of uncertainty.

Both measures of the credit-to-GDP ratio remain far below the threshold signalling excessive growth in credit to the non-financial private sector. The Basel gap, which measures the difference between the credit-to-GDP ratio and its long-term trend, and the additional credit-to-GDP gap¹ remain negative (-38.4 p.p. and -15.1 p.p. respectively) (Chart 1). This trend is expected to continue in the coming quarters, supported by the economic outlook presented in the October 2023 issue of the Banco de Portugal's *Economic Bulletin* and a context of tight credit standards.

Chart 1 • Basel gap and additional credit-to-GDP gap | Percentage points



Sources: Banco de Portugal and Statistics Portugal.

The annual rate of change in bank loans to households was negative in September 2023 (-0.2%). These developments mainly reflected a fall in loans for house purchase (-0.9%), given that bank loans for consumption and other purposes continued to

¹ For more details on the additional credit-to-GDP gap, see the methodological document [The countercyclical capital buffer in Portugal](#).

grow (by 2.6%), albeit slightly decelerating from the recent past (Chart 2). The annual rate of change was negative for the non-financial corporations (NFC) sector, reaching -2.7% in September 2023.

According to the October 2023 Bank Lending Survey,² credit standards for loans to NFCs are expected to remain unchanged in the fourth quarter. For households, credit standards are expected to ease slightly for loans for house purchase and tighten slightly for loans for consumption and other purposes. According to respondent banks, risk perception and the general economic outlook have been contributing to tightening credit standards. In addition, demand for loans by NFCs and households is also expected to decrease. The general level of interest rates and declining consumer confidence are expected to contribute to lowering loan demand among households, while lower financing needs for investment and the general level of interest rates should help lower corporate loan demand, which is more pronounced in long-term loans.

In the second quarter of 2023, residential real estate prices continued the trend of general deceleration observed since the third quarter of 2021. The nominal house price index increased by 8.7% compared with the same period one year earlier, against a year-on-year growth rate of 11.3% in the fourth quarter of 2022 (Chart 3). In real terms, the house price index continued to increase, reaching a growth rate of 1.8% (year-on-year), albeit decelerating from the recent past. During the second quarter, the number of housing transactions recorded the largest drop since the first quarter of 2020 (-22.9% compared to the same period a year earlier), increasing the downward trend of the previous quarters.

Constraints on new housing supply, high construction costs (albeit decelerating in recent months), demand as a form of investment and demand from non-residents have been the main drivers of the resilience of residential real estate prices (for additional information, see the Banco de Portugal's *Financial Stability Report*³.

Chart 2 • Adjusted annual rate of change in bank credit to the private non-financial sector | Per cent

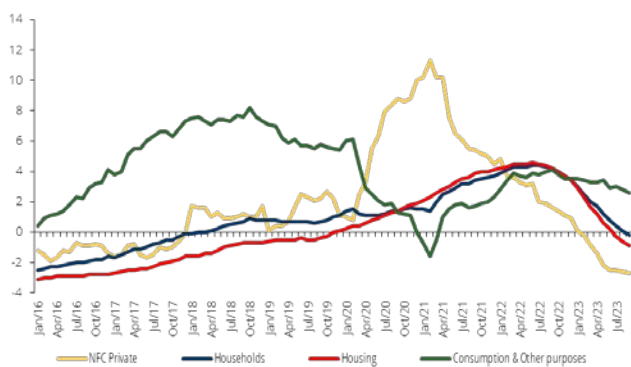
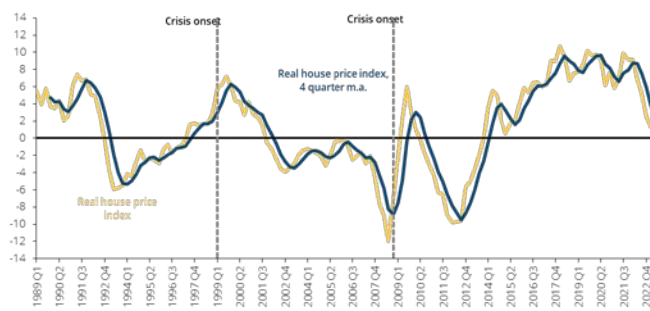


Chart 3 • Real year-on-year rate of change in house prices | Per cent



General assessment

Taking into account the outlook for the macrofinancial environment, the Banco de Portugal decided to maintain the countercyclical capital buffer rate for the domestic banking sector's credit exposures to the private non-financial sector at 0% in the first quarter of 2024.

However, on 15 November 2023, the Banco de Portugal announced the implementation of a sectoral systemic risk buffer on the risk-weighted exposure amount of the household portfolio secured by residential real estate.⁴ The Banco de Portugal will continue to monitor developments in cyclical systemic risk and, where appropriate, may adopt or adjust macroprudential measures with a view to promoting the resilience of the Portuguese banking system.

² More information is available on the Banco de Portugal's [website](#).

³ For the moment, only the Portuguese version is available.

⁴ For more information, see the Banco de Portugal's [press release](#).