



## AMENDMENT TO THE RECOMMENDATION OF THE BANCO DE PORTUGAL WITHIN THE LEGAL FRAMEWORK OF NEW CREDIT

### AGREEMENTS FOR CONSUMERS

#### Preamble

In its capacity as the national macroprudential authority, the Banco de Portugal is entrusted with defining and implementing macroprudential policy. The mandate established in its Statute entrusts the Banco de Portugal with the responsibility for identifying, monitoring and assessing sources of systemic risk, as well as proposing and adopting measures to prevent, mitigate or reduce this risk, to reinforce financial sector resilience. In accordance with its mandate, in July 2018 the Banco de Portugal implemented a macroprudential measure in the form of a Recommendation on new credit agreements for consumers (the 'Recommendation'). The Recommendation introduces limits to some of the criteria that institutions should comply with when assessing borrowers' creditworthiness and thus aims to ensure that credit institutions and financial companies do not take excessive risks when granting new credit. This is to reinforce financial sector resilience to potential adverse shocks and promote access to sustainable funding by borrowers, minimising default risk.

In the context of the COVID-19 pandemic and to pursue its financial stability objective, the Banco de Portugal, as the national macroprudential authority, assessed whether the Recommendation issued in July 2018 remained suitable.

Considering the abrupt and significant changes in economic and financial conditions caused by the COVID-19 pandemic, and notwithstanding the elements of flexibility already provided for in the Recommendation, the Banco de Portugal considered it necessary to amend the Recommendation, by introducing an additional flexibility measure of an exceptional and temporary nature, with a view to ensuring household liquidity in the very short term.

Therefore, a new Article 10-A was added to the Recommendation establishing that new agreements concluded between 1 April and 30 September 2020, regarding personal credit with maturities of up to two years and duly identified as intended to mitigate households' temporary liquidity shortage situations would no longer have to comply with the debt service-to-income (DSTI) ratio limit provided for in the Recommendation, and would also be exempted from observing the recommendation of regular principal and interest payments.

However, within the framework of regular monitoring of the implementation of the macroprudential measure, the Banco de Portugal has concluded that in a sample of 13 institutions representing around 93% of new household credit business, no new credit was granted under the supplementary flexibility measure set forth in Article 10-A of the Recommendation. Given that paragraph 3 of this Article sets out the reassessment of any exceptional measures maintained since 30 September 2020, the Banco de Portugal considers that, in the absence of suitable justification, the duration of these measures should not be extended, leading to the express repeal of that provision as from 1 October 2020.

In view of the above, pursuant to Article 16-A of its Statute, the Banco de Portugal, in the capacity of national macroprudential authority, hereby repeals the following section of the Recommendation:



**BANCO DE PORTUGAL**

EUROSISTEMA

### Single Article

Repeal of Article 10-A of the Recommendation of the Banco de Portugal within the legal framework of new credit agreements for consumers

Article 10-A of the Recommendation of the Banco de Portugal within the legal framework of new credit agreements for consumers is repealed as from 1 October 2020.