

COUNTERCYCLICAL CAPITAL BUFFER



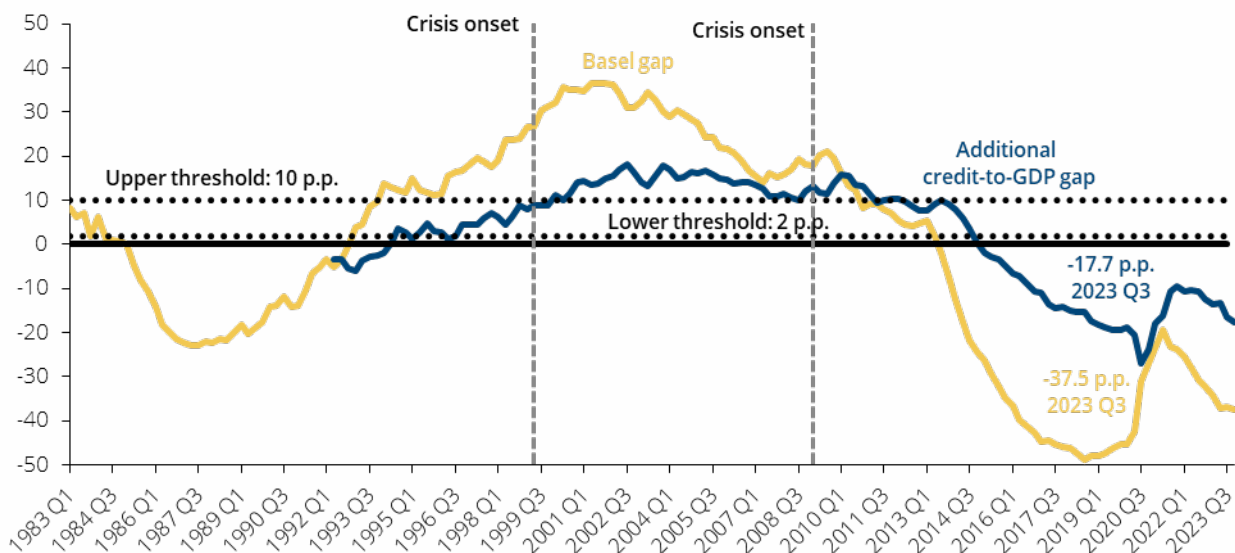
27 MAR 2024

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

Tight financial conditions partly reflecting tight monetary policy, together with an international environment characterised by high uncertainty, pose challenges to financial stability. In addition, renewed geopolitical tensions in the Black Sea and the Middle East increase the risk that supply disruptions may lead to soaring energy commodity prices, with a potential impact on inflation and economic growth. Amid a change of political cycle, the prospects of an economic slowdown are mitigated by the resilience of the Portuguese banking sector on account of favourable developments in liquidity, asset quality, solvency and profitability, increasing its ability to maintain financial intermediation functions in a context of potential risk materialisation.

In the third quarter of 2023, the Basel gap and the additional gap, which measure the difference between credit as a percentage of GDP and its long-term trend, remained well below the threshold signalling excessive growth in credit to the non-financial private sector (Chart 1). The Basel gap reached -37.5 percentage points (p.p.) (-36.8 p.p. in the previous quarter), mostly driven by the decrease in the credit-to-GDP ratio. In turn, the additional credit-to-GDP gap reached -17.7 p.p. (-16.3 p.p. in the previous quarter). Taking into account prospects of continued tight credit standards, this trend in both credit-to-GDP measures is unlikely to change in the short term.

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 (in nominal terms) to households has remained negative since September 2023 (Chart 2). In December 2023 this rate stood at -0.4%. Loans for house purchase, with an annual rate of change of -1.4%, were

the main factor behind these developments, given that the consumption and other purposes segment grew above the figures seen in the more recent past, reaching an annual rate of change of 3.4%. The annual rate of change in bank loans to non-financial corporations (NFCs) remained negative (-0.7%), despite recovering from previous quarters.

Looking forward, according to the January 2024 Bank Lending Survey,¹ credit standards are expected to remain basically unchanged for loans to firms and loans to households for house purchase during the first quarter. For consumption and other purposes, the general economic situation and outlook and, to a lesser extent, consumers' creditworthiness may contribute to tightening credit standards. In addition, credit demand is expected to remain unchanged for firms and to decline slightly for households.

Residential real estate prices decelerated further in the third quarter of 2023. The nominal house price index increased by 7.3% (year on year), compared to 8.8% and 9.0% in the second and first quarters of 2023 respectively. The real house price index continued to increase, recording a growth rate of 0.8% (year on year), the lowest since 2014 (Chart 3). Nevertheless, the number of housing transactions posted a year-on-year rate of change of -18.9%, declining less than in the previous quarter (-22.9%).

Despite recent deceleration, constraints on new housing supply and rising construction costs have contributed to the resilience of residential real estate market prices, together with demand by non-residents and resident foreign citizens, as well as housing demand for tourism activities and as a form of investment. However, in an international context characterised by heightened geopolitical tensions and uncertainty surrounding the length of monetary policy tightening, a potential worsening economic outlook may increase the probability of a price correction in the residential real estate market, notwithstanding existing mitigating factors.

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

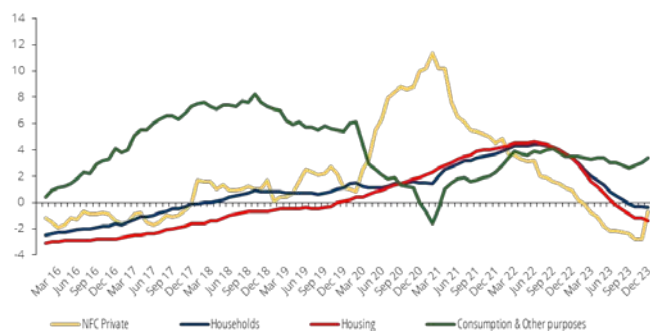


Chart 3 • Real year-on-year rate of change in house prices | Per cent



General assessment

Considering 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 non-financial private sector at 0% during the second quarter of 2024.

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.

¹ More information is available on the Banco de Portugal's [website](#).