

# COUNTERCYCLICAL CAPITAL BUFFER



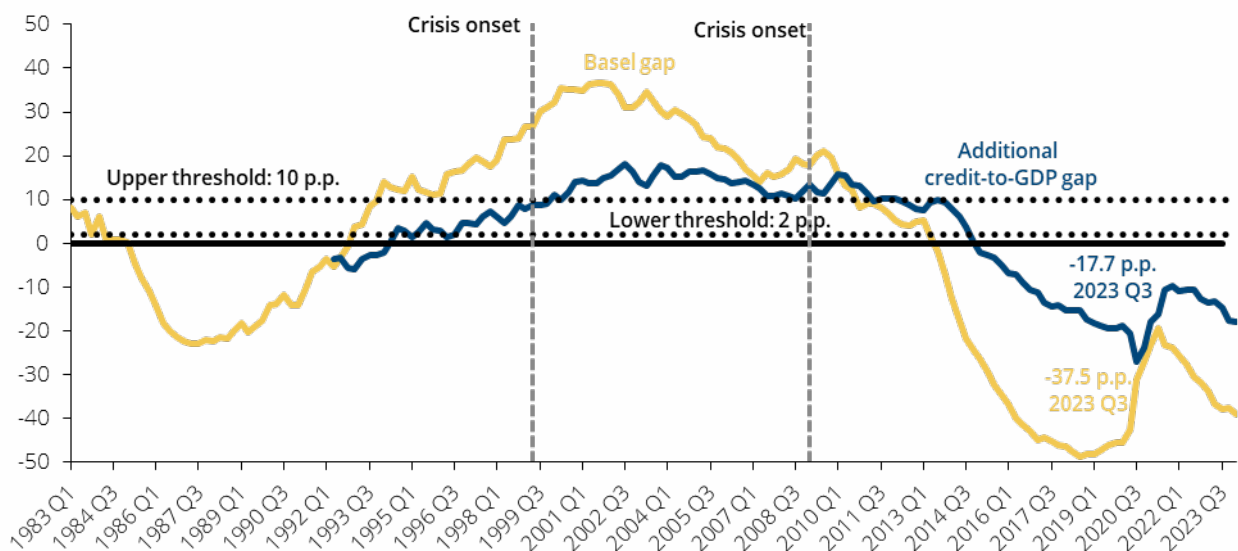
28 JUN 2024

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

The key challenges for developments in the Portuguese economy are, to a large extent, a result of the potential consequences that geopolitical tensions and protracted tight monetary conditions may have on economic activity. According to the June *Economic Bulletin* projections, economic activity will continue to outgrow the euro area, with a buoyancy close to potential, and inflation will remain on its downward path.

**In the fourth quarter of 2023, both the Basel gap and the additional credit-to-GDP gap remained negative and far from the threshold signalling excessive growth in credit to the non-financial private sector.** The Basel gap reached -38.9 p.p. and the additional credit-to-GDP gap stood at -17.9 p.p., which compares to -37.7 p.p. and -17.8 p.p. respectively in the previous quarter. Given that the supply-side credit standards reported in the April 2024 *Bank Lending Survey* were maintained and the projected GDP growth advanced in the June *Economic Bulletin* was revised upwards, the trend followed by these indicators 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.

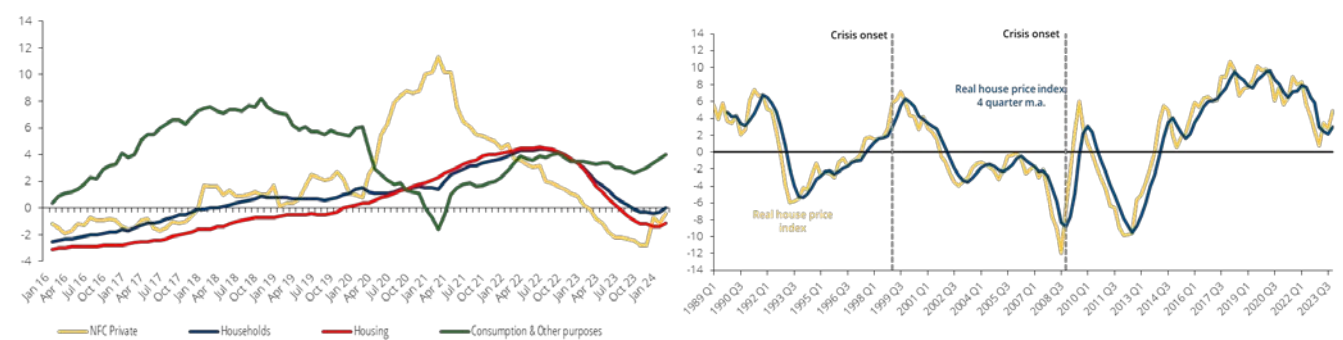
**The adjusted annual rate of change in bank loans to households reached positive values in March 2024 (0.3%).** These developments reflected the increase in bank loans for consumption and other purposes, which continued to grow (4.3%), while loans for house purchase fell (-0.8%), albeit less than in the most recent past (Chart 2). The annual rate of change in bank loans to non-financial corporations (NFCs) remained negative (-0.4%) in March 2024.

According to the April 2024 *Bank Lending Survey*,<sup>1</sup> expectations for the second quarter of 2024 pointed to virtually unchanged credit standards for loans to firms and loans to households for house purchase, and slightly tighter credit standards for consumption and other purposes. As regards the first quarter of 2024, a slight reduction was reported in credit demand by both firms and households. This reduction was sustained by the general level of interest rates, declining consumer confidence in the case of households and lower investment financing needs in the case of firms. However, banks reported a reversal in the trend in demand for loans for house purchase in the second quarter of 2024.

**Residential real estate prices increased further in the fourth quarter of 2023.** The house price index in nominal terms grew by 7.8% from the same period a year earlier. In real terms, the house price index continued to rise, reaching a 4.9% growth rate (year-on-year) (Chart 3). The number of housing transactions fell by 18.7% in 2023 compared with the same period a year earlier.

Developments in supply, conditioned by reduced construction activity and high construction costs, and the increased participation of non-resident buyers are among the most important factors contributing to the resilience of residential real estate prices (for more information, see the Banco de Portugal's May 2024 *Financial Stability Report*). While a strong increase in house prices makes the banking system and the economy more vulnerable to a price correction in this market, in the Portuguese case this effect is mitigated by more moderate growth in the stock of loans for house purchase and the fact that the share of real estate transactions financed with recourse to credit (46% in 2023, including renegotiations and transfers) has fallen significantly below pre-financial crisis levels (76%).

**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 has 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 third 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, given how important it is for institutions to have releasable buffers to address potential risk materialisation.

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