

COUNTERCYCLICAL CAPITAL BUFFER



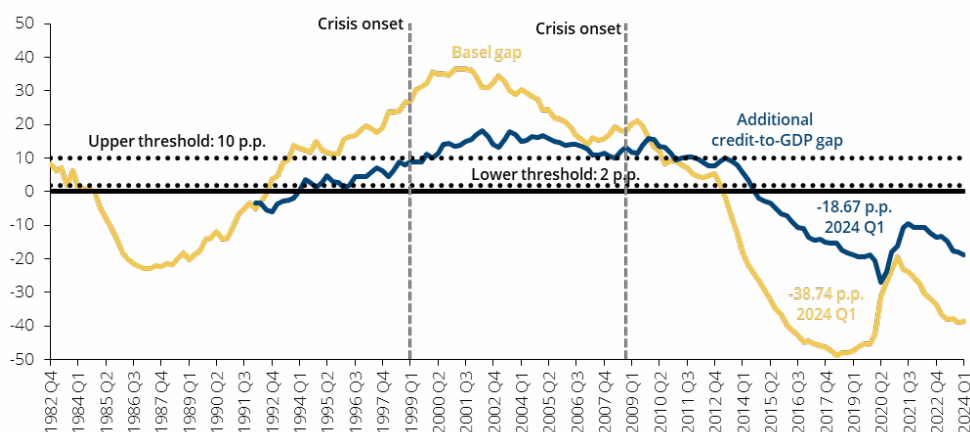
30 SEP. 2024

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

According to projections of the June 2024 *Economic Bulletin*, economic activity in Portugal will continue to grow close to potential and to outgrow the euro area for the next two years. Financing conditions remain tight with the inflation rate still above the target level of 2% over the medium term. The inflation rate is forecast to decrease towards that target in line with that of the euro area. Projections depend on geopolitical developments, a possible fragmentation of global trade or monetary policy developments other than anticipated outside the euro area.

In the first quarter of 2024, the two measures of the credit-to-GDP ratio used in this analysis remain far from 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, reached -38.7 p.p. and the additional credit-to-GDP gap stood at -18.7 p.p., which compares with -38.9 p.p. and -17.8 p.p. respectively in the previous quarter (Chart 1). This trend is expected to continue over the coming quarters, underpinned by economic activity and the expected maintenance of supply-side credit standards (July 2024 *Bank Lending Survey*).

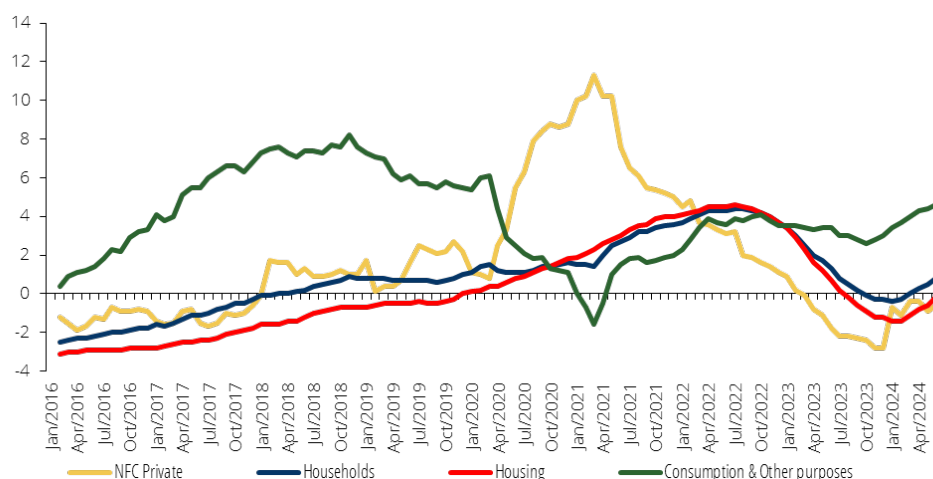
Chart 1 • Basel gap and additional credit-to-GDP gap | Percentage points



Sources: Banco de Portugal and Statistics Portugal.

The adjusted annual rate of change in bank loans to households has been increasing since early 2024 and reached 1.2% in June. These developments mainly reflected a rise in bank loans for consumption and other purposes, which reached 5% in June 2024, and in loans for house purchase, which in June grew for the first time since July 2023, by 0.1% (Chart 2). The annual rate of change in bank loans to non-financial corporations (NFCs) remained negative (-0.2%), despite recovering from previous quarters.

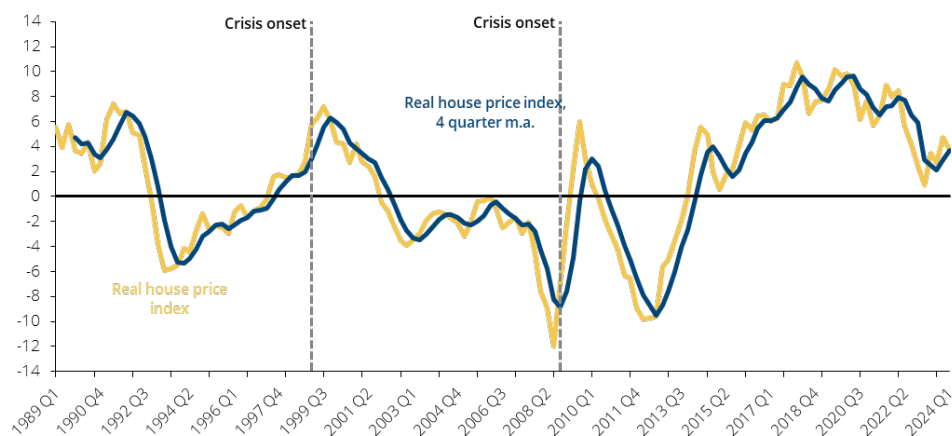
Chart 2 • Adjusted annual rate of change in bank credit to the non-financial private sector | Per cent



According to the July 2024 *Bank Lending Survey*, expectations for the third quarter of 2024 pointed to virtually unchanged credit standards for loans to firms and loans to households. Regarding the second quarter of 2024, the survey reported a slight decline in credit demand by firms, a slight increase in the consumption and other purposes segment, and virtually no change in loans for house purchase.

Residential real estate prices decelerated in the first quarter of 2024. The nominal house price index increased by 7.1% compared with the same period one year earlier, against a year-on-year growth rate of 7.8% in the fourth quarter of 2023. In real terms, the house price index continued to increase, reaching a growth rate of 3.8% (year on year), albeit decelerating compared with the previous quarter (Chart 3). The number of transactions in dwellings has fallen since the third quarter of 2022, by 4.1% compared with the same period one year earlier in the first quarter of 2024.

Chart 3 • Year-on-year rate of change of house prices, in real terms | Per cent



Limited supply, conditioned by low construction activity and high construction costs, and the increase in the participation of non-resident buyers have been some of 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*). A strong increase in house prices makes the banking system and the economy more vulnerable to a price correction in this market. However, in Portugal, this effect is mitigated by more moderate growth in the stock of loans for house purchase, as well as by the macroprudential measures taken.

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 fourth quarter of 2024.