

# COUNTERCYCLICAL CAPITAL BUFFER



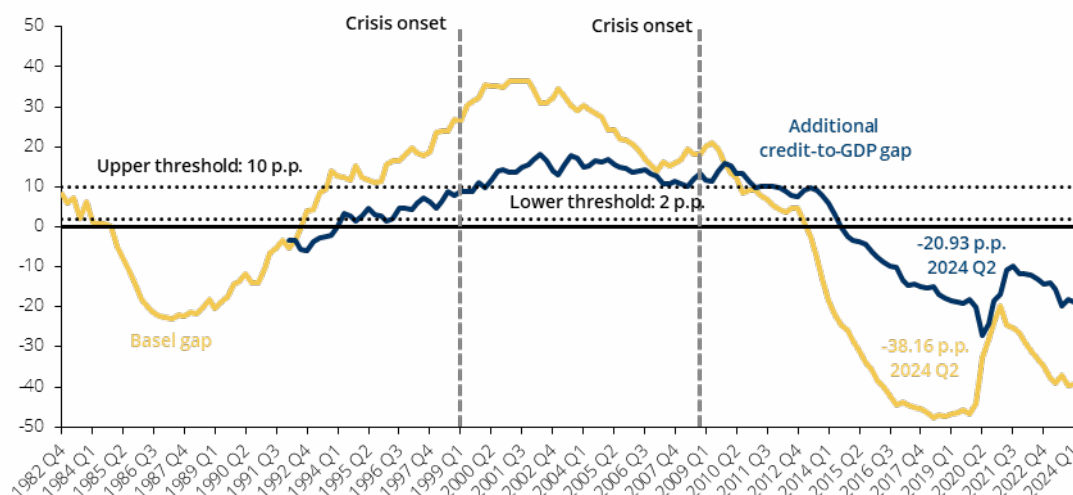
31 DEC. 2024

The Banco de Portugal will maintain the countercyclical capital buffer rate at 0% in the first quarter of 2025, before increasing to 0.75% from January 1, 2026

Portuguese economic growth will remain moderate, sustained by private consumption and exports, according to the [December 2024 Economic Bulletin](#). This trend of growth in the Portuguese economy will continue until 2026 given the expected momentum in investment, resulting from a relief in the financial conditions and European fund inflows. In a context of decelerating wage costs and moderate external pressures, inflation is expected to decrease to levels consistent with price stability in the next few years. However, the evolution of international geopolitical tensions, the fragmentation of global trade and the potential lag of monetary policies create uncertainty around the current projection.

In the second quarter of 2024, both the Basel gap and the additional credit-to-GDP gap remained negative and below the threshold signalling excessive growth in credit to the non-financial private sector (Chart 1). The Basel gap, which measures the difference between the credit-to-GDP ratio and its long-term trend, and the additional credit-to-GDP gap stood at -38.16 p.p. and -20.93 p.p. (-38.74 p.p. and -18.67 p.p. in the previous quarter) respectively. Given the growth in economic activity and the maintenance of supply-side credit standards, the trend in these indicators is unlikely to change in the short term ([October 2024 Bank Lending Survey](#)).

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

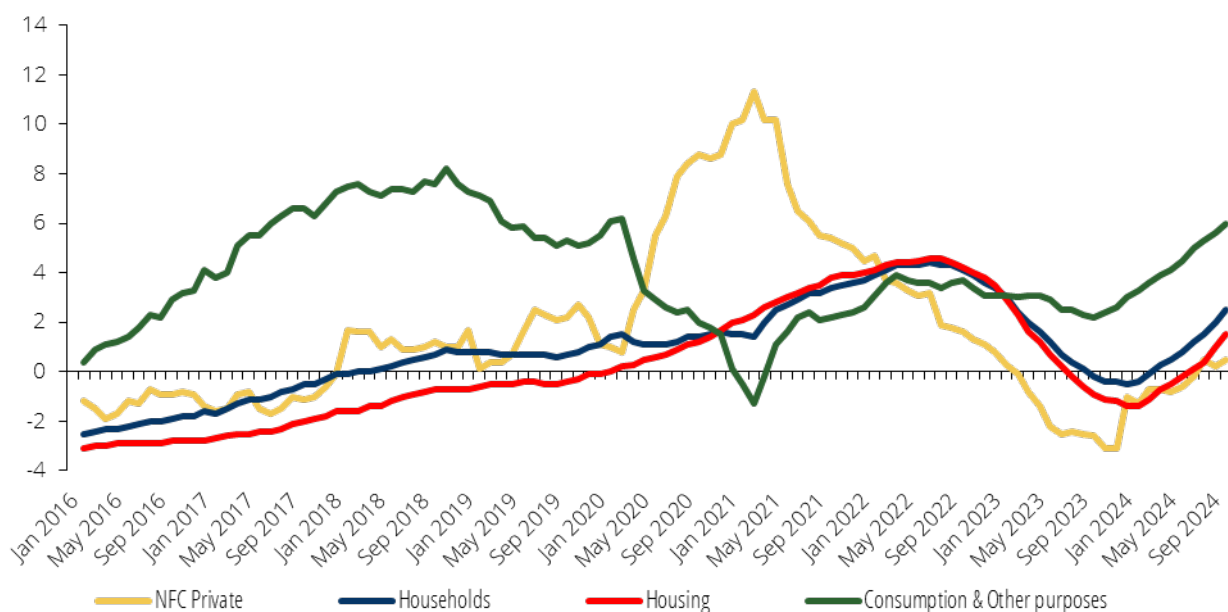


Sources: Banco de Portugal and Statistics Portugal.

The adjusted annual rate of change in bank loans to households continued to increase, having reached 2.5% in September 2024 (Chart 2). These developments reflect a rise in bank loans for consumption and other purposes (6%) and in loans for

house purchase (1.5%). The annual rate of change in bank loans to non-financial corporations (NFCs) continues to recover from previous quarters, having increased by 0.6%.

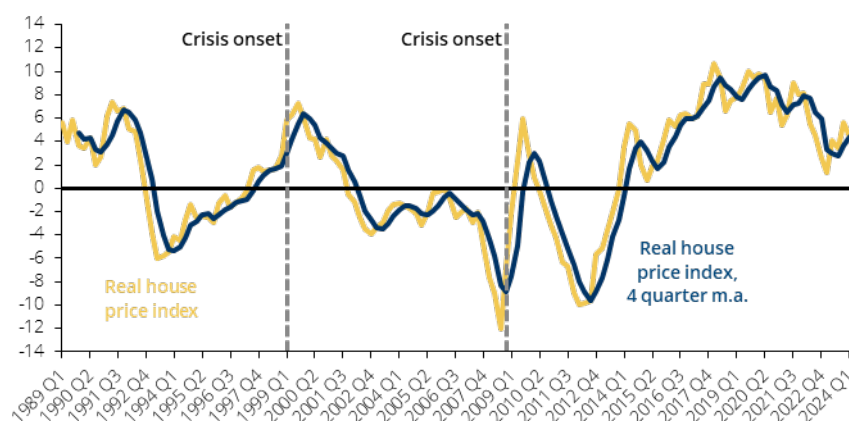
**Chart 2 • Adjusted annual rate of change in bank credit to the non-financial private sector | Per cent**



In the third quarter of 2024, the housing segment recorded a slight increase in the demand for loans, driven by amendments to the tax regime of the housing market and, to a lesser degree, by consumer confidence, in a context of lower reference interest rates. In the fourth quarter of 2024, credit standards are expected to remain broadly unchanged, both for loans to firms and loans to households, according to the [October 2024 Bank Lending Survey](#). In addition, credit demand by firms, particularly SMEs and for long-term loans, is projected to increase. Regarding households, demand in the consumption and other purposes segment should remain unchanged and demand for loans for house purchase is expected to rise slightly.

**Residential real estate prices continued to increase in the second quarter of 2024.** The nominal house price index increased by 7.8% compared with the same period one year earlier. In real terms, the house price index continued to increase, reaching a growth rate of 4.6% year on year (Chart 3). The number of transactions in dwellings posted a year-on-year rate of change of 10.4%, reverting the declining trend observed since the third quarter of 2023.

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



The resilience observed in residential real estate prices can be explained by limitations in supply, reflecting low construction activity and completion of new homes, which restricted the growth of the housing stock. On the other hand, on the demand side, an increase in participation of non-resident buyers occurred in the recent years. Recent government measures are expected to contribute to an increase in the demand for housing, with a possible impact on price increases ([November 2024 Financial Stability Report](#)). Even though a strong increase in housing prices makes the banking system and the economy more vulnerable to price corrections in this market, in the Portuguese case, this effect is mitigated by the set of macroprudential measures taken and by the fact that the representation of new housing loans (excluding transfers represented, in the first quarter of 2024, 35% of the amount of housing transactions) is lower than the average of 42% in the period between 2018 and 2023 ([November 2024 Financial Stability Report](#)).

## General assessment

In a context in which indicators do not present signs of cyclical systemic risk build-up, the Banco de Portugal has decided to maintain the countercyclical capital buffer rate at 0% in the first quarter of 2025, before increasing to 0.75% from January 1, 2026. The implementation of this countercyclical capital reserve rate aims to increase releasable capital buffers in the initial phase of the financial cycle, in order to put institutions in a better position to absorb losses resulting from unexpected shocks, without significantly constraining the granting of credit. This approach mitigates the potential costs to economic activity, taking into account, in particular, the current geopolitical uncertainty and the current context of high capitalisation and profitability levels in the Portuguese banking system.