

COUNTERCYCLICAL CAPITAL BUFFER



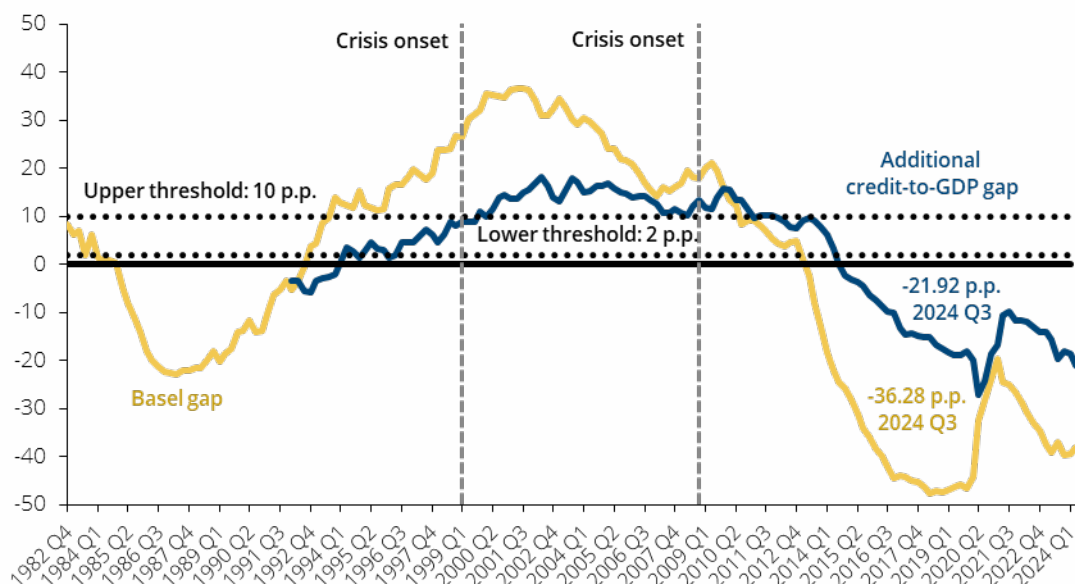
31 MARCH 2025

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

Economic activity in Portugal should show more momentum in the next two years, driven by a more favourable framework, characterised by an improvement in financing conditions, an acceleration in external demand and an increase in European funds (*March 2025 Economic Bulletin*). Economic growth should slow down in 2027, largely due to the end of the Recovery and Resilience Plan's (RRP) execution. Inflation should stabilise at 2% in the 2026-27 period. These projections remain subject to downside risks, namely those arising from intensifying geopolitical conflicts and worsening trade protectionism.

In the third 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 and the additional gap recorded values of -36.3 p.p. and -21.9 p.p. respectively, from -38.1 p.p. and -20.9 p.p. in the previous quarter. Given the expected maintenance of credit standards, there should be no significant change in the trend of these indicators (*January 2025 Bank Lending Survey*).

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

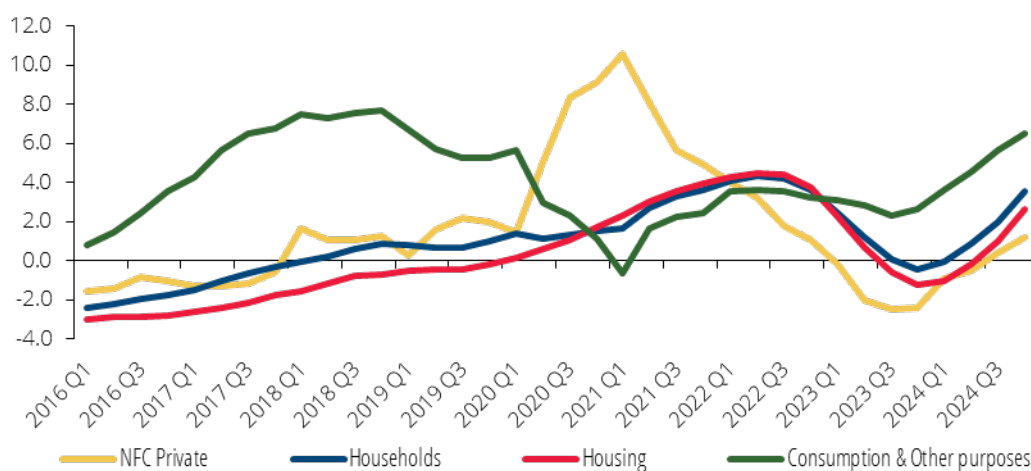


Sources: Banco de Portugal and Statistics Portugal.

The adjusted annual rate of change in bank loans to households and non-financial corporations continued its growth path, reaching 3.5% and 1.2% in the last quarter of 2024 respectively (Chart 2). For households, this development reflects the rise in the growth rate of bank loans for house purchase (2.7%), driven by interest rate levels and, to a lesser degree, by consumer

confidence and the regulatory and tax regime of the housing market, as well as the rise in the growth rate of bank loans for consumption and other purposes (6.5%).

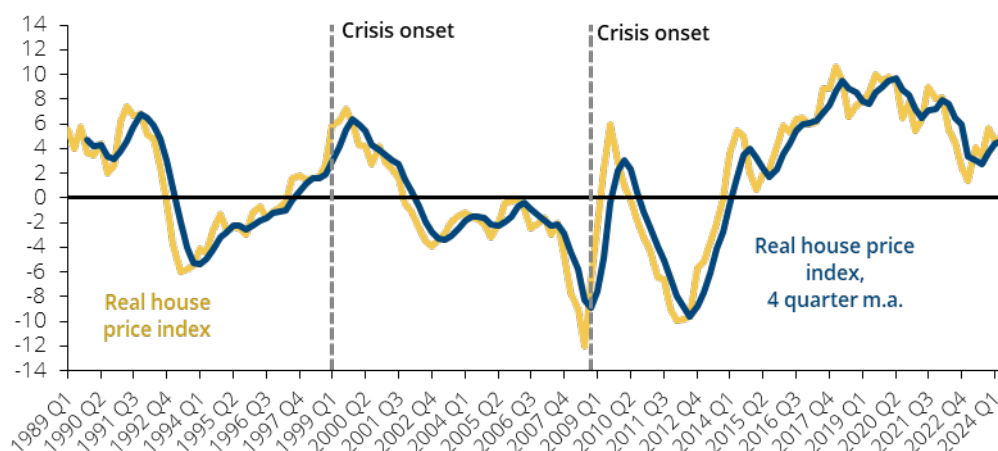
Chart 2 • Adjusted annual rate of change in bank credit to the non-financial private sector | Per cent



According to the [January 2025 Bank Lending Survey](#), an increase in households' demand for loans for house purchase is expected, while credit demand for consumption and other purposes should remain unaltered. In the case of firms, a slight increase in the demand for loans is expected.

Residential real estate prices rose in the third quarter of 2024 (Chart 3). The nominal house price index increased by 9.8% year on year, compared to 7.8% in the second quarter of 2024. The real house price index recorded a 7.2% year-on-year rate of change. The number of housing transactions rose by 19.4% compared with the same period a year earlier.

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



The ongoing increase in residential real estate prices in Portugal is largely due to the shortage of housing supply. On the demand side, interest rate developments, together with new government measures and the participation of non-resident buyers, should drive the demand for housing, with a possible impact on real estate valuations ([November 2024 Financial Stability Report](#)). This trend has intensified the pressure on cyclical systemic risk. However, the adoption of macroprudential measures has reinforced the resilience of financial institutions, mitigating potential adverse impacts caused by a reduction in house prices.

General assessment

In a context in which indicators do not present signs of cyclical systemic risk build-up, the Banco de Portugal will maintain the countercyclical capital buffer rate at 0% in the second quarter of 2025, before increasing it to 0.75% from 1 January 2026. This percentage is being raised in order to increase free releasable capital buffers at the beginning of the financial cycle. This puts institutions in a better position to absorb losses that might be the result of unexpected shocks, without significantly constricting the granting of credit.