# BANK LENDING SURVEY

## RESULTS FOR PORTUGAL

APRIL 2025

BANCO DE PORTUGAL
EUROSYSTEM

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# Contents

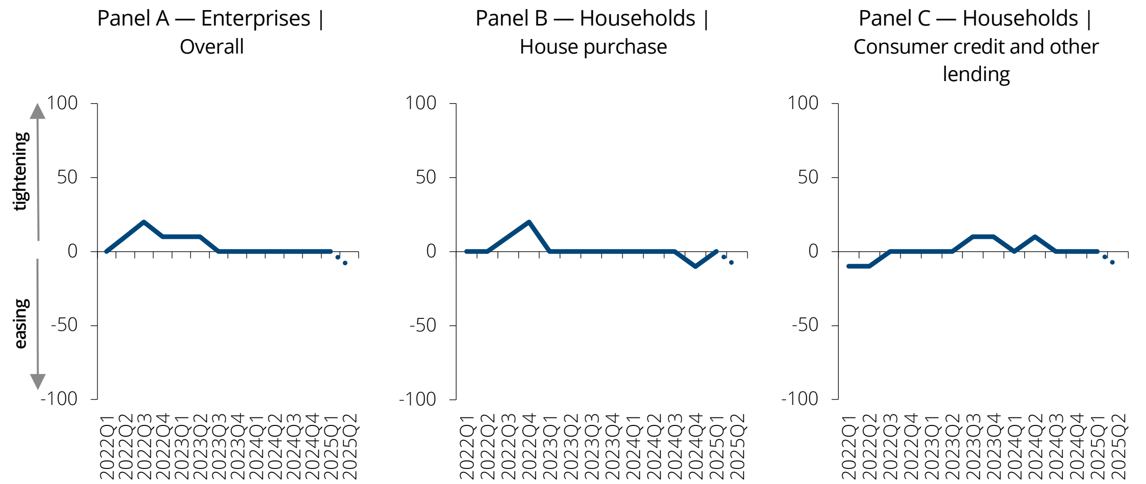
# Presentation of the results

The questionnaire for this round of the survey was sent to the banks on March 10, 2025, and the responses were received by March 24. The assessment of supply and demand refers to the **1st quarter of 2025** in comparison with the previous quarter. Expectations refer to the 2nd quarter of 2025.

## Supply

- **Credit standards for loans:** unchanged, both for firms and households.
- **Terms and conditions:** for firms, a slight decrease in the interest rate and in the spreads applied to average risk loans (for all firm sizes). For housing loans, a slight decrease in the spreads applied to average risk loans and easier conditions associated to the ratio between the loan value and the value of the collateral (loan-to-value). No changes in loans for consumption and other purposes.
  - **Factors:** in loans to firms, the competition from other banks contributed slightly to easier terms and conditions. Similarly, in housing loans this factor contributed slightly to reduce spreads applied to average risk loans.
- **Share of rejected loan applications:** unchanged in loans to firms and a slight increase in loans to households, in both segments.
- **Expectations:** slightly easier credit standards in loans for both firms (SMEs and in all loan maturities) and households.

**Chart 1** • Credit supply | Diffusion index

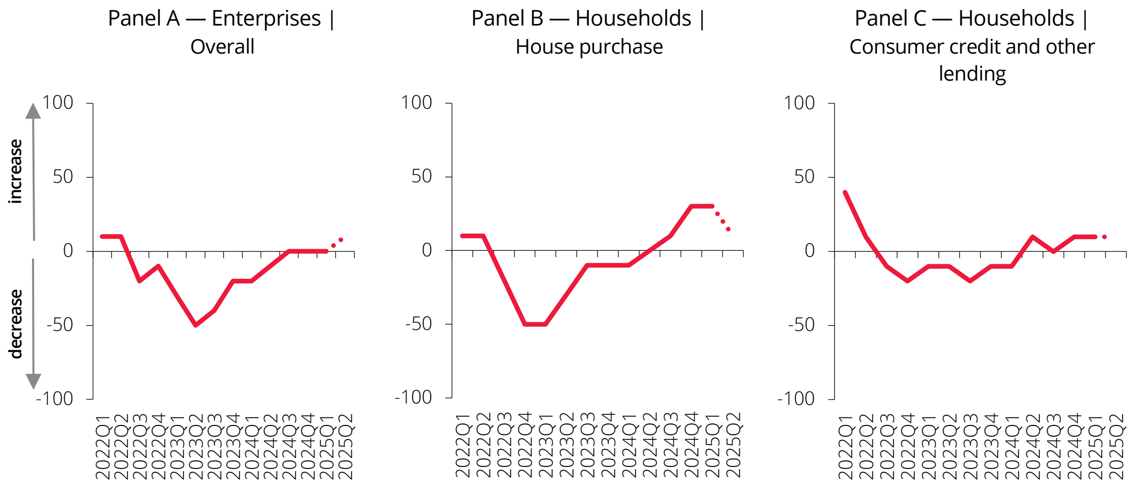



Notes: Credit supply corresponds to credit standards. The diffusion index varies between -100 and 100. Values below (above) zero correspond to an easing (a tightening) of credit standards. The zero value means basically unchanged. Figures for the last quarter are banks' expectations.

# Demand

- **Demand for loans by firms:** slight increase by SMEs and for long-term loans and, in the opposite direction, slight decrease by large firms.
  - **Factors:** the general level of interest rates and, to a lesser extent, the need to finance fixed investment contributed to increase demand. Conversely, the use of internal financing as an alternative source of financing contributed slightly to reduce the demand for loans by firms.
- **Demand for loans by households:** increased, especially for housing loans.
  - **Factors:** in the housing loans segment, the general level of interest rates, the regulatory and fiscal regime of the housing market and, to a lesser extent, consumer confidence contributed to increase demand. In the consumer and other purposes segment, consumer confidence contributed slightly to increase loan demand.
- **Expectations:** slight increase in demand for loans both by firms (for long-term loans and all firm sizes) and households.

**Chart 2 • Credit demand | Diffusion index**




Notes: The diffusion index varies between -100 and 100. Values below (above) zero correspond to a decrease (an increase) in credit demand. The zero value means basically unchanged. Figures for the last quarter are banks' expectations.

## *Ad hoc* questions

This section presents the results for a set of additional questions of non-permanent nature.

**On retail and wholesale funding**

- **Past three months:** slight improvement in access to finance through short-term deposits.
- **Next three months:** slight improvement in access to finance by issuance of medium to long-term debt securities, through securitisation of loans to firms, as well as in the ability to transfer credit risk off-balance.

**On the impact of changes of the ECB's monetary policy asset portfolio**

- **On the balance sheet and financial position**
  - **Past six months:** slight increase in banks' total assets, namely euro area sovereign bond holdings.
  - **Next six months:** slight increase in euro area sovereign bond holdings and slight decrease in banks' overall profitability via net interest income.
- **On the lending policy and lending volumes**
  - **Past/next six months:** no impact on credit standards, terms and conditions and lending volumes to firms and households.

**On the impact of banks' non-performing loan ratios and other indicators of credit quality**

- **Past three months:** no impact on credit standards and terms and conditions in loans to firms and households, despite the slight contribution of banks' risk tolerance to tighten.
- Next three months slight contribution of banks' perception of risk and risk tolerance to a tighter lending policy without an aggregate impact on it.

**On the impact of ECB key interest rates decisions on bank profitability**

- **Past six months:** decrease in banks' overall profitability, mainly due to a reduction in net interest income, via a negative margin effect, and, to a lesser extent, due to a decrease in non-interest income and to higher needs for provisioning and impairments.
- **Next six months:** impacts broadly similar to those of the last six months, but more marked, resulting from a decrease in net interest income, via a negative margin effect, and, to a lesser extent, higher needs for provisioning and impairments.

  See Box 1 for an analysis of the responses of Portuguese and euro area banks to this *ad hoc* question.

The complete set of the survey results is presented in the annex "Results for Portugal – Tables".

## Box 1 • Bank profitability in the recent monetary policy interest rates cycle

Between July 2022 and September 2023, in response to inflationary pressures, the ECB Governing Council increased interest rates by 450 basis points (b.p.). Since June 2024, based on its assessment of inflation dynamics and outlook, the ECB has been gradually reducing the degree of tightening of monetary policy, with accumulated interest rate cuts amounting to 150 bp to date.

Monetary policy has multiple effects on bank profitability. In general, periods of rising interest rates or of anticipated increases tend to benefit bank profitability via net interest income (difference between interest received on assets, mostly loans, and interest paid on liabilities, mostly deposits). At these times, lending rates, associated with longer maturities, tend to be higher than deposit rates, associated with shorter maturities. In fact, in the rate hike phase between 2022 and 2023, the profitability of euro area banks, measured relative to equity, increased in aggregate terms compared to the values recorded during the previous period of very low interest rates (Chart B1.1 – panel A). In Portugal, the increase in the banking system profitability was much more marked, reaching historical maximum levels in June 2024.

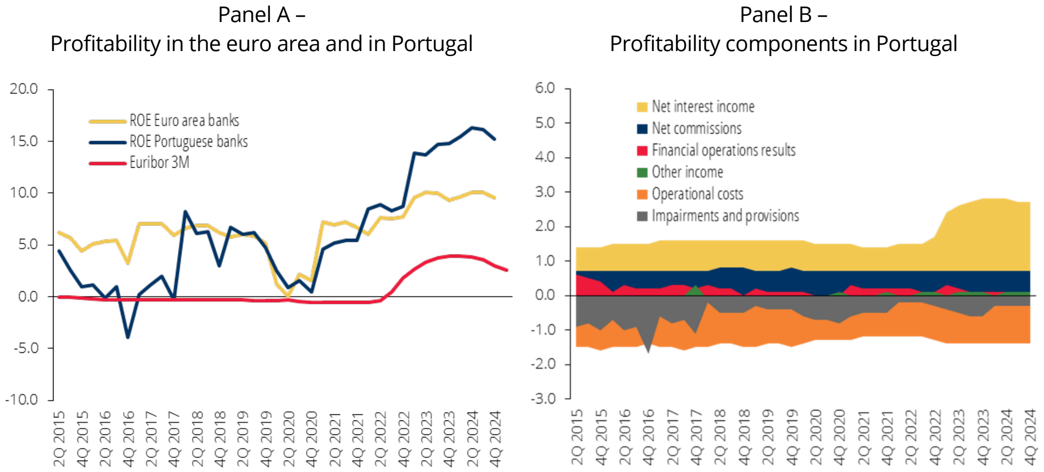
In addition to the interest rate level, different developments of factors specific to banks (notably, financing conditions, debt levels, credit quality, business model and operational efficiency), as well as factors related to the economic situation and outlook of the countries where they operate, are relevant in determining the profitability of national banking systems. In Portugal, during the period of high interest rates, the increase in net interest income contributed significantly to increase banks' profitability (Chart B1.1 – panel B).

These developments are generally corroborated by banks' responses to the *ad hoc* question of the *Bank Lending Survey* (BLS) regarding the impact of past or expected ECB key interest rate decisions on bank profitability (Chart B1.2). According to Portuguese banks, increases in policy rates contributed to increase net interest income, mainly via margin effect, slightly mitigated by a negative volume effect.[1] The same was noted for euro area banks as a whole, albeit with a more marked negative volume effect. During this period, both Portuguese and euro area banks reported that the need to set up provisions and impairments, resulting from policy rate decisions, contributed slightly to lower profitability.

In mid-2024, when the ECB started to decrease the key interest rates, especially since the last quarter of the year, bank profitability in the euro area and in Portugal decreased slightly (Chart B1.1 – panel A). According to the BLS, both Portuguese banks and those in the euro area as a whole identify a strong negative contribution from the margin effect, resulting from monetary policy decisions, to reduce net interest income and, consequently, bank profitability (Chart B1.2). In the Portuguese case, the increased need to establish provisions and impairments also contributes to a decrease in profitability, although to a much lesser extent.

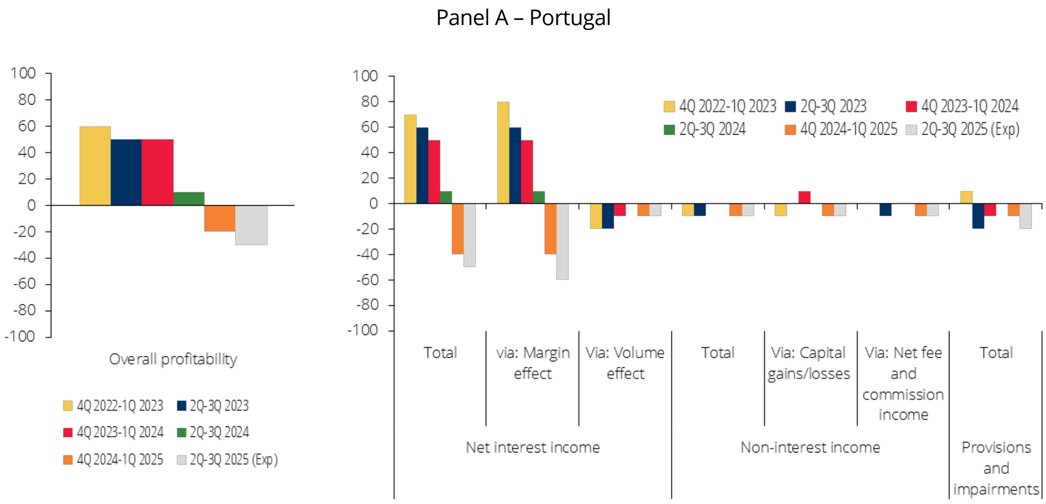
[1] See Box "Rise in monetary policy interest rates and bank profitability" from the April 2023 *Bank Lending Survey*, on the factors underlying the increase in the net interest income resulting from the margin and volume effects. The margin effect is the change in the net interest income that would take place as a result of changes in the interest rates received and paid by banks and in a situation where the volume of the interest-earning assets and of the interest-bearing liabilities were to be kept constant. The volume effect is the effect that would occur in the net interest income if only the amounts of interest-earning assets and interest-bearing liabilities were to change, and the interest rates were to be kept constant.

**Chart B1.1** • Bank profitability | In percentage

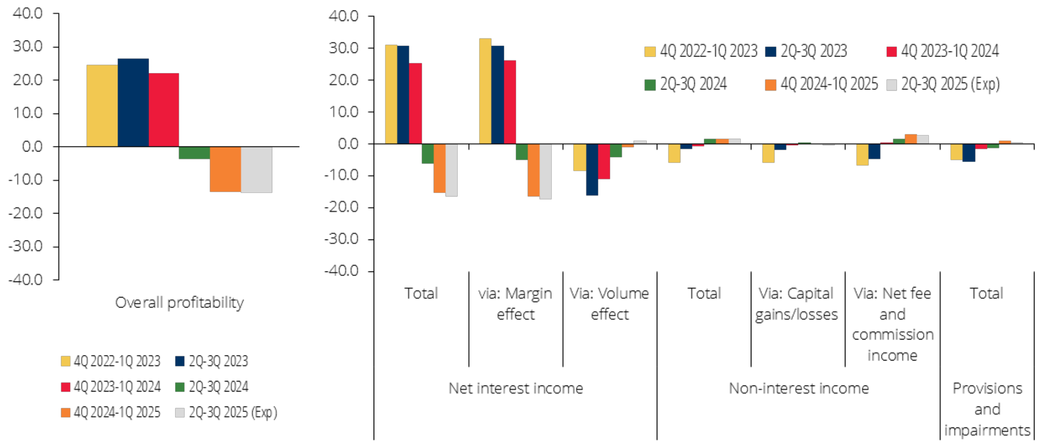



Sources: ECB and Banco de Portugal. | Notes: In panel A, the series of profitability correspond to the annualized value of net result as a percentage of equity (ROE), at the end of the quarter. The euro area series includes only the set of credit institutions classified as "significant" in the European Union countries participating in the Single Supervisory Mechanism. The 3-month Euribor interest rate was considered as the reference rate for the interbank market, the values of which correspond to quarterly averages. In panel B, the series are components of the profitability of the Portuguese banking system as a percentage of average assets (weighted moving average of assets).

**Chart B1.2** • Impact of ECB key interest rate decisions on bank profitability and on profitability components | Diffusion index



Panel B – Euro area




Sources: Banco de Portugal and ECB. | Notes: Data refer to responses of banks surveyed in the BLS to the question: "Over the past six months, have the ECB key interest rates decisions taken in the past and/or expected by your bank led to a change in your bank's profitability? And what will be the impact over the next six months?". Data for the second/third quarters of 2025 correspond to banks' expectations for the next six months made at the end of the first quarter of the year. The diffusion index varies between -100 and 100. Values above (below) zero correspond to a positive (negative) impact or a contribution to an increase (a decrease). The value zero corresponds to the situation "basically unchanged" or "with no impact". The fact that the diffusion index for the euro area results from the aggregation of the responses of several countries, with possibly different banking business models among themselves, may contribute to the smaller range in the diffusion index values for the euro area, in relation to Portugal.