



Pursuant to a decision of the Board of Directors of 14 March 2023, the countercyclical buffer rate for credit exposures to the domestic private non-financial sector will remain at 0% of the total risk exposure amount, with effect from 1 April 2023.

In the second quarter of 2023 economic activity in Portugal is forecast to grow slightly and the process of disinflation should continue. However, in view of the constraints resulting from Russia's invasion of Ukraine, the most recent financial stress and the erosion of purchasing power, economic developments remain surrounded by uncertainty.

This decision was taken on the basis of the abovementioned information and the assessment of a set of financial and macroeconomic indicators.¹

Credit-to-GDP measures declined, remaining at a lower level than their long-term trends

In the third quarter of 2022 the Basel gap reached -31.4 p.p., having decreased from the previous quarter (-30.0 p.p.). This was mainly due to a decline in the credit-to-GDP ratio, which outweighed the reduction in its long-term trend. Over the same period, the additional credit-to-GDP gap decreased slightly to -12.5 p.p. compared to -11.3 p.p. in the previous quarter. Both credit-to-GDP measures thus remain considerably below their long-term trends.

The credit-to-GDP ratio² decreased in the third quarter of 2022, to 157.8% (161.2% in the second quarter of 2022), maintaining the downward trend observed in previous quarters. The decline in the credit-to-GDP ratio reflects a significant increase in nominal GDP (10.9% year on year), still reflecting recovery from the pandemic crisis, which more than exceeded the increase in the stock of credit granted to the private non-financial sector. The latter grew by 1.9% in the third quarter compared to the same quarter a year earlier, driven by an increase in credit granted to non-financial corporations (NFCs) and households (1.0% and 3.4% year on year respectively). More recently, in December 2022, the annual rate of change in credit granted to the private non-financial sector adjusted for securitisation operations, reclassifications, sales, write-offs, and price and exchange rate revaluations was 2.5% (year on year), driven by an increase in credit granted to NFCs and to households (1.7% and 3.6% respectively).

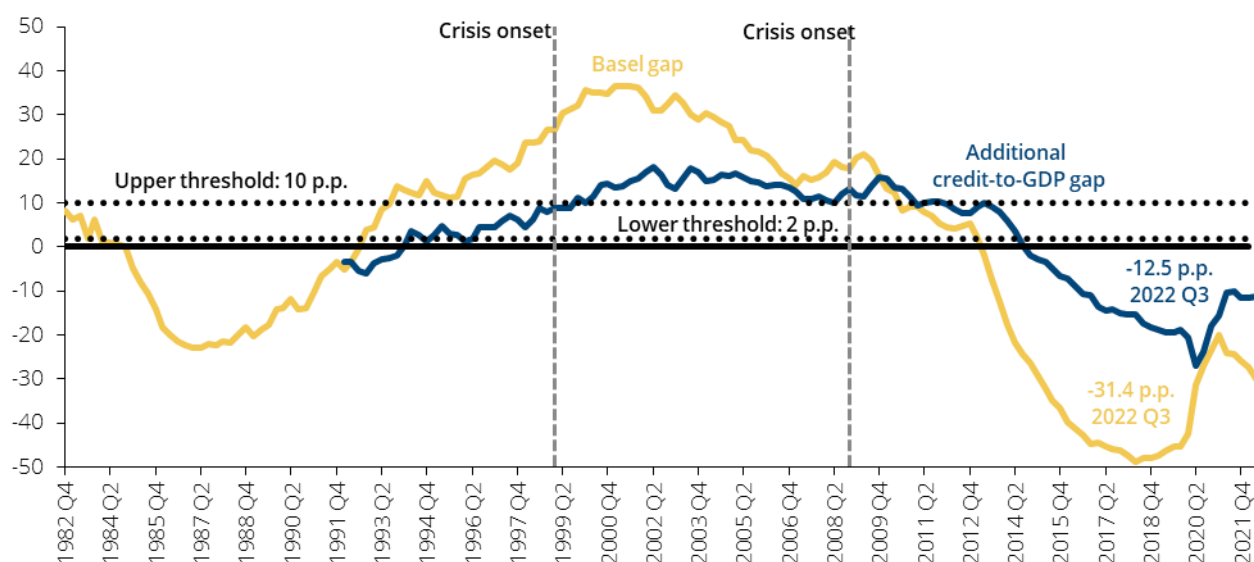
Projected GDP growth for 2023 was revised downwards (from 2.6% in June 2022 to 1.5%), according to the December 2022 issue of the *Economic Bulletin* of the Banco de Portugal. Recent developments in the Portuguese economy have been restrained by the effects of the Russian military aggression on Ukraine, in particular the increased geopolitical uncertainty and the energy crisis in Europe, which contributed to the exacerbation of the increase in costs and prices and the deterioration of economic agents' confidence. From the second half of 2023 onwards, however, economic activity should accelerate, reflecting the

¹ The assessment is based on data available up to 3 March 2023. Any differences in figures from previous assessments are due to revisions in underlying data.

² Total credit to the domestic private non-financial sector includes loans granted and debt securities held by the resident financial sector, other resident sectors and non-residents.

expectation of easing tensions in energy markets, a gradual recovery in real household income, an improvement in the external environment, and a higher absorption of European funds. The high level of uncertainty regarding the general economic outlook, which contributed to tighter credit standards, and the ongoing monetary policy normalisation process, which has been reflected in rising financing costs for firms and households, should contribute to reducing credit growth. Thus, both credit-to-GDP measures are unlikely to change in sign in the short term.

Chart 1 • Basel gap and additional credit-to-GDP gap³ | In percentage points



Sources: Banco de Portugal and Statistics Portugal. | Notes: The latest observation refers to 2022 Q3; p.p. stands for percentage points. Dates for crises onset as defined in the ESCB Heads of Research Group's banking crises database.

Adjusted nominal bank credit⁴ to the private non-financial sector continued to decelerate

The annual rate of change in nominal bank credit to the private non-financial sector adjusted for securitisation operations, reclassifications, sales, write-offs, and price and exchange rate revaluations has gradually decelerated since the beginning of 2021. In December 2022 this rate stood at 1.4% in nominal terms. Developments reflect an increase in credit granted to households (3.1%), which more than offset the fall in nominal bank credit granted to NFCs (-1.0%). For households, the adjusted annual rate of change reached 3.3% and 2.3% for house purchase and for consumption and other purposes respectively.

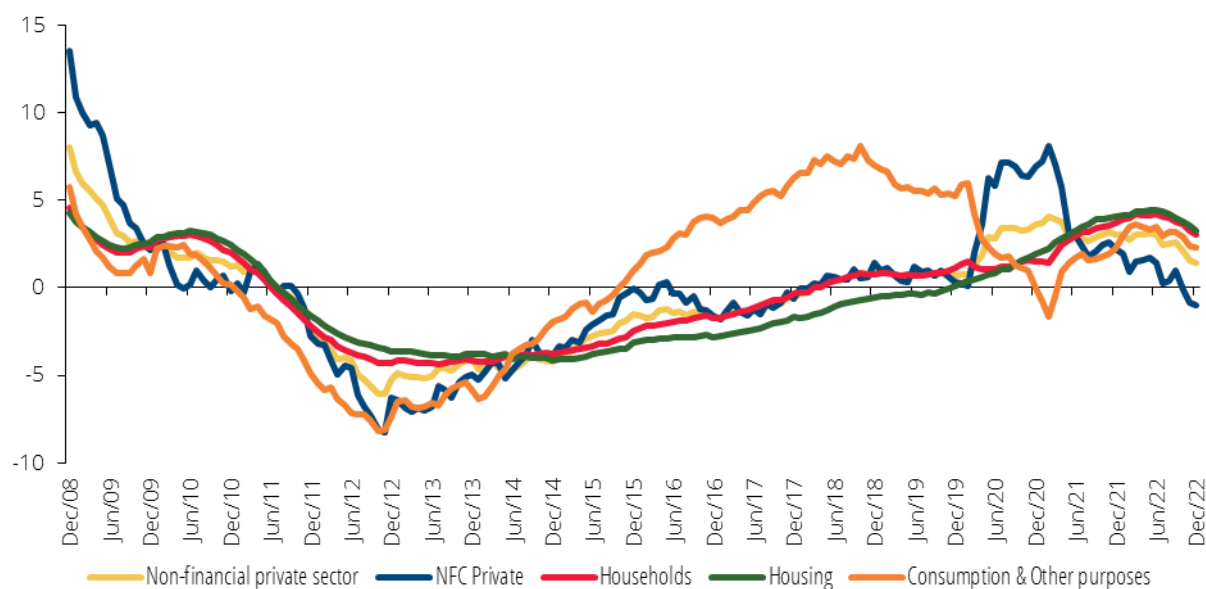
With regard to financing conditions, in December 2022 the interest rate on new loans to NFCs reached 4.4%, which accounted for an increase of 1.4 p.p. compared to September 2022 (and 2.5 p.p. compared to the figures recorded in April 2022). In the household segment, the interest rate on new loans for house purchase stood at 3.2%, i.e. increasing by 1.4 p.p. from September 2022 (and by 2.4 p.p. from January 2022). The interest rate on new loans for consumption and other purposes was 6.8% in December 2022, an increase from the figures observed in September 2022 (6.5%) and December 2021 (5.3%). Developments in interest rates on credit operations reflect on the one hand, the rise in Euribor rates and on the other, the narrowing of spreads. This trend is expected to continue, given that according to the ECB, interest rates are expected to remain on an upward path as inflation remains high and will remain above the medium-term objective for an extended period of time.

³ The credit-to-GDP gap is calculated as the percentage point difference between the observed credit-to-GDP ratio and its long-term trend, where the trend is estimated employing a one-sided HP filter with a smoothing parameter set to 400,000. The additional credit-to-GDP gap is computed as the percentage point difference between the observed credit-to-GDP ratio augmented with ARIMA (p,1,0) forecasts, using a maximum forecast horizon of 28 quarters, and its long-term trend, where the trend is estimated by employing a one-sided Hodrick-Prescott filter with a smoothing parameter set to 400,000. Until the first quarter of 2015, the optimal lag order (p) of the forecasting model is recursively determined. From the second quarter of 2015 onwards, p is set to three quarters, which is the optimal lag length when data until the first quarter of 2015 is used. Should the gap exceed 2 p.p., the benchmark buffer rate will increase linearly from 0% to the upper threshold of 2.5% of the total risk exposure amount, which is associated with a gap of 10 p.p. See Recommendation ESRB/2014/1, Annex, Part II, available on the ESRB's website. The Basel Committee on Banking Supervision's thresholds of 2 p.p. and 10 p.p. were determined using the Basel gap. Nevertheless, they are used as an approximation to map the additional credit-to-GDP gap into a benchmark buffer rate.

⁴ Annual rates of change were adjusted for securitisation operations, reclassifications, sales, write-offs, and price and exchange rate revaluations. Bank credit includes loans granted to the domestic private non-financial sector and debt securities issued by the domestic private non-financial sector and held by the banking sector.

Looking forward, according to the January 2023 *Bank Lending Survey*,⁵ over the first quarter credit standards are expected to tighten for NFCs (especially for small and medium-sized enterprises (SMEs) and broadly across different loan maturities) and to tighten slightly for households as regards house purchase. The rise in the general level of interest rates and the drop in consumer confidence make it possible to anticipate a slight decline in demand for credit. This contraction in demand is expected to be recorded in NFCs, particularly in the case of SMEs and long-term loans, as well as in household demand for loans, more markedly in the housing segment.

Chart 2 • Adjusted annual rate of change⁶ in bank credit granted to the private non-financial sector | Per cent



Source: Banco de Portugal.

Residential real estate prices continued to grow strongly

In the third quarter of 2022 the nominal house price index increased by 13.0% (year on year), compared to year-on-year growth rates of 13.2% and 12.9% in the second and first quarters of 2022 respectively. The real house price index continued to increase, reaching a growth rate of 5.1% (year on year), despite maintaining the deceleration trend seen since the third quarter of 2021 (Chart 3).

In this period, the number of housing transactions also fell slightly for the first time in more than a year, with a year-on-year rate of change of -2.8%, against 4.5% growth in the second quarter of 2022. Nevertheless, in value terms, housing transactions continued to show a positive year-on-year change (of 10%), with the price effect more than offsetting the volume effect. On the supply side, in the third quarter of the year building permits for new constructions and completed buildings in Portugal decreased by 5.8% and 3.4% respectively (year on year).⁷ The average value per housing transaction continued to increase, reaching a 13% year-on-year growth rate, in line with the last two quarters.

The December 2022 issue of the *Portuguese Housing Market Survey*⁸ provides an overview of moderating residential market momentum, pointing to a continued expectation of rising prices, albeit accompanied by a decline in demand from new buyers. This mixed scenario is influenced both by the macroeconomic environment and by market-specific features, i.e. while interest rate rises increase the cost of loans for house purchase, weakening demand, supply shortages exert a positive pressure on prices.

⁵ More information is available on the Banco de Portugal's [website](#).

⁶ Annual rates of change were adjusted for securitisation operations, reclassifications, sales, write-offs, and price and exchange rate revaluations. Bank credit includes loans granted to the domestic private non-financial sector and debt securities issued by the domestic private non-financial sector and held by the banking sector.

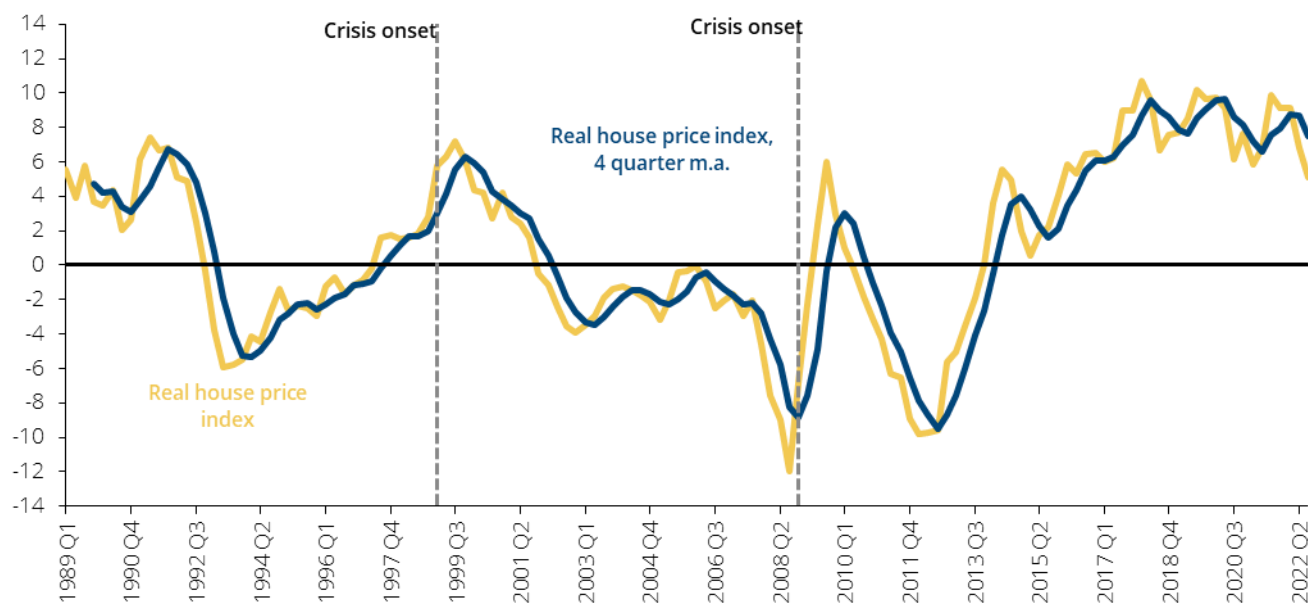
⁷ More information is available on Statistics Portugal's [website](#).

⁸ The Portuguese Housing Market Survey (PHMS), a joint initiative by Confidencial Imobiliário and the Royal Institution of Chartered Surveyors, provides a qualitative assessment of the sales and lettings markets, based on a monthly survey to a panel of real estate agents and developers.

According to the December 2022 *Survey on bank evaluation on housing*,⁹ the median value of bank appraisals grew by 13.5% year on year, i.e. slightly less than 13.9%, as recorded in the previous month. The number of bank appraisals decreased for the seventh consecutive month, falling by 20.2% from the same period a year earlier.

Overall, a loss in real household income and the expectation of a continued increase in interest rates will tend to translate into lower demand for housing from residents. The current environment, characterised by a higher credit cost, should thus lead to a moderation in residential real estate price growth, as the survey's results suggest.

Chart 3 • Real year-on-year rate of change in house prices¹⁰ | Per cent



Source: Organization for Economic Co-operation and Development. | Notes: The latest observation refers to 2022 Q3. m.a. stands for moving average. Dates for crises onset as defined in the ESCB Heads of Research Group's banking crises database.

The Economic Sentiment Indicator remained weak

The Economic Sentiment Indicator for December 2022, compared with September 2022, reflected lower confidence among economic agents, remaining below the average observed for the period 2000-22. The deterioration in consumer confidence remained the main factor underlying these negative developments, although the manufacturing and construction and public works sectors also contributed to the deterioration of the overall index. By contrast, both the services and the retail confidence indicators remained on a weak growth trend.

General assessment

Taking into account the available information and in compliance with previous risk assessments, the Banco de Portugal decided not to change the countercyclical capital buffer, maintaining its rate at 0% of the total risk exposure amount over the second quarter of 2023.

The Banco de Portugal will continue to monitor developments closely in cyclical systemic risk and, if warranted, may implement or adjust macroprudential measures to mitigate the build-up of systemic risk in the Portuguese economy.

⁹ More information is available on Statistics Portugal's [website](#).

¹⁰ Real house price index (2015=100) published by the Organization for Economic Co-operation and Development. The house price index is adjusted for inflation using the private consumption deflator (2016=100) taken from the National Accounts (ESA2010, base 2016) published by Statistics Portugal.