



Pursuant to the decision of the Board of Directors of 14 June 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 July 2023.

In the third quarter of 2023, economic activity is forecast to continue growing, in tandem with a gradual decline in inflation. However, the impact of the interest rate hike, increased volatility in international financial markets, a potentially more persistent evolution of inflationary pressures and the conflict in Ukraine pose risks of uncertain scale to economic activity. Thus, economic developments remain surrounded by uncertainty.

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

Both credit-to-GDP measures remain below their long-term trends

In the fourth quarter of 2022 the Basel gap reached -33.4 p.p., having decreased from the previous quarter (-31.2 p.p.) (Chart 1). This was mainly due to a decline in the credit-to-GDP ratio, outweighing the reduction in its long-term trend. Over the same period, the additional credit-to-GDP gap decreased slightly to -13.4 p.p. compared to -12.5 p.p. in the previous quarter. Both credit-to-GDP measures remain considerably below their long-term trends.

The credit-to-GDP ratio² decreased in the fourth quarter of 2022 to 153.9% (158.1% in the third quarter of 2022), maintaining the downward trend observed in previous quarters. The recent decline in the credit-to-GDP ratio mostly reflects a significant increase in nominal GDP, amid recovery from the pandemic crisis. The stock of credit granted to the private non-financial sector grew by around 1% year on year in the fourth quarter of 2022. These developments reflect the increase in credit granted to households (3.2% year on year), as the stock of credit granted to non-financial corporations (NFCs) decreased slightly (-0.4%). More recently, in March 2023, 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 1.4% (year on year), reflecting the increase in credit granted to households (2.3%) and, to a lesser extent, to NFCs (0.7%).

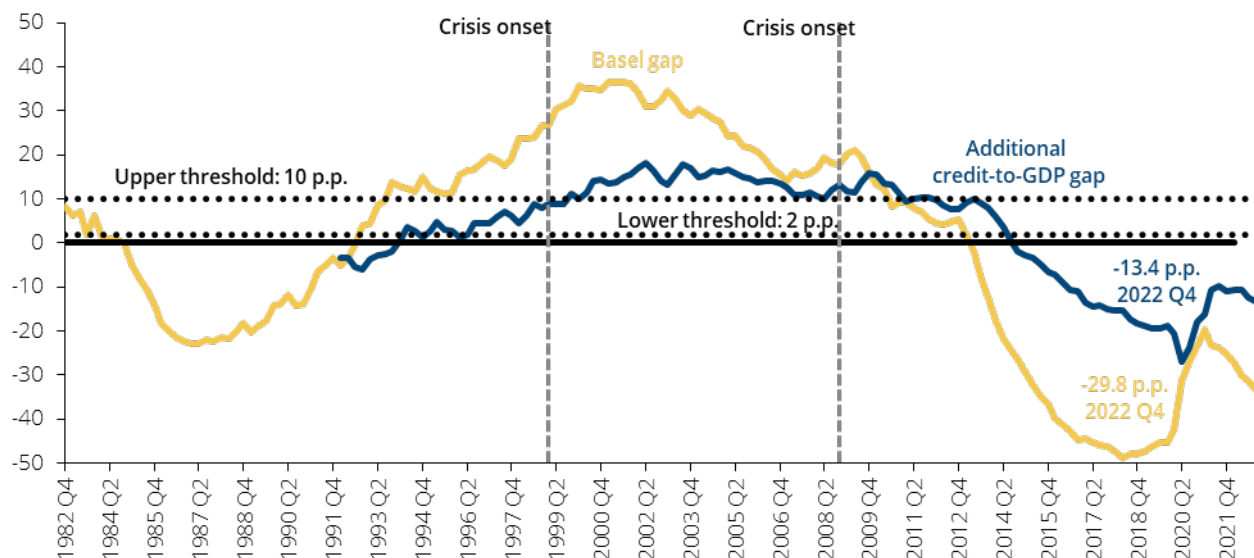
As released in the June 2023 issue of the *Economic Bulletin* of the Banco de Portugal, GDP growth projections for 2023 have been revised upwards to 2.7% (from 1.8% in March 2023). This upward revision of economic activity benefits from higher growth in real household income, easing tensions in energy markets and the inflow of European funds. Nevertheless, the Portuguese economy continues to face risks, mainly stemming from the impact of a restrictive monetary policy, increased volatility in international financial markets and geopolitical tensions, associated with the conflict in Ukraine and the

¹ The assessment is based on data available up to 16 June 2023. Any differences in figures from previous assessments are due to revisions in underlying data.

² 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.

deterioration in China-US relations. 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 not expected 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 Q4; p.p. stands for percentage points. Dates for crises onset as defined in the ESCB Heads of Research Group's banking crises database.

Bank credit⁴ to households continued to decelerate, while credit to NFCs entered negative territory

The annual rate of change in nominal bank credit to households adjusted for securitisation operations, reclassifications, sales, write-offs, and price and exchange rate revaluations has gradually decelerated since the second quarter of 2022. In April 2023, this rate stood at 1.3% in nominal terms (Chart 2). The adjusted annual rate of change for the housing and consumption and other purposes segments stood at 1.1% and 1.9% respectively. In both segments, these rates reflect a decline from those observed in the most recent past. As regards NFCs, the adjusted annual rate of change entered negative territory at the beginning of 2023, reaching -1.6% in April.

In terms of financing conditions, the interest rate on new loans to NFCs reached 5.1% in March 2023, an increase of 0.6 p.p. compared to December 2022 (and 3.2 p.p. compared to the figures recorded in March 2022). In the household segment, the interest rate on new loans for house purchase stood at 3.9%, i.e. increasing by 0.6 p.p. from December 2022 (and by 2.8 p.p. from March 2022). The interest rate on new loans for consumption and other purposes was 7.5% in March 2023, an increase from the figures observed in December 2022 (6.8%) and March 2022 (6.1%). Developments in interest rates on new credit operations reflect, on the one hand, the rise in Euribor rates and, on the other, the narrowing of spreads.

Looking forward, according to the April 2023 *Bank Lending Survey*,⁵ over the second quarter credit standards are expected to tighten for firms, especially for small and medium-sized enterprises (SMEs) and broadly across different loan maturities. Credit standards are expected to remain stable for house purchase and slightly tighter for consumption and other purposes. The

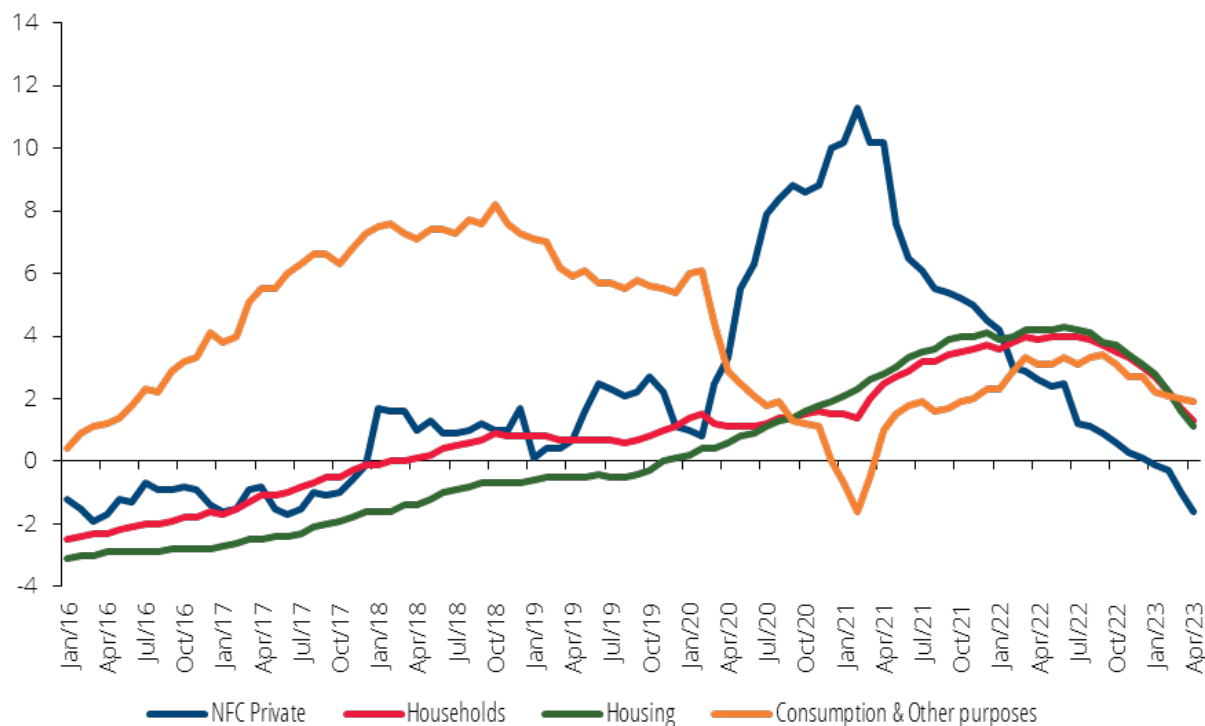
³ The credit-to-GDP gap is calculated as the percentage point difference between the observed credit-to-GDP ratio and its long-term trend, where the trend is estimated employing a one-sided HP filter with a smoothing parameter set to 400,000. The additional credit-to-GDP gap is computed as the percentage 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, 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 comprises loans to the resident non-financial sector, excluding general government.

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

rise in the general level of interest rates and, to a smaller extent, falling consumer confidence and the prospects for the residential real estate market contributed to a decline in credit demand. Therefore, credit demand is forecast to contract from NFCs, in particular from SMEs and for long-term loans, as well as from households for housing loans.

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 decelerate at the end of 2022

In the fourth quarter of 2022 the nominal house price index increased by 11.3% (year on year), compared to year-on-year growth rates of 13.1% and 13.2% in the third and second quarters of 2022 respectively. The real house price index continued to increase, reaching a growth rate of 3% (year on year), despite maintaining the slackening trend seen since the third quarter of 2021 (Chart 3).

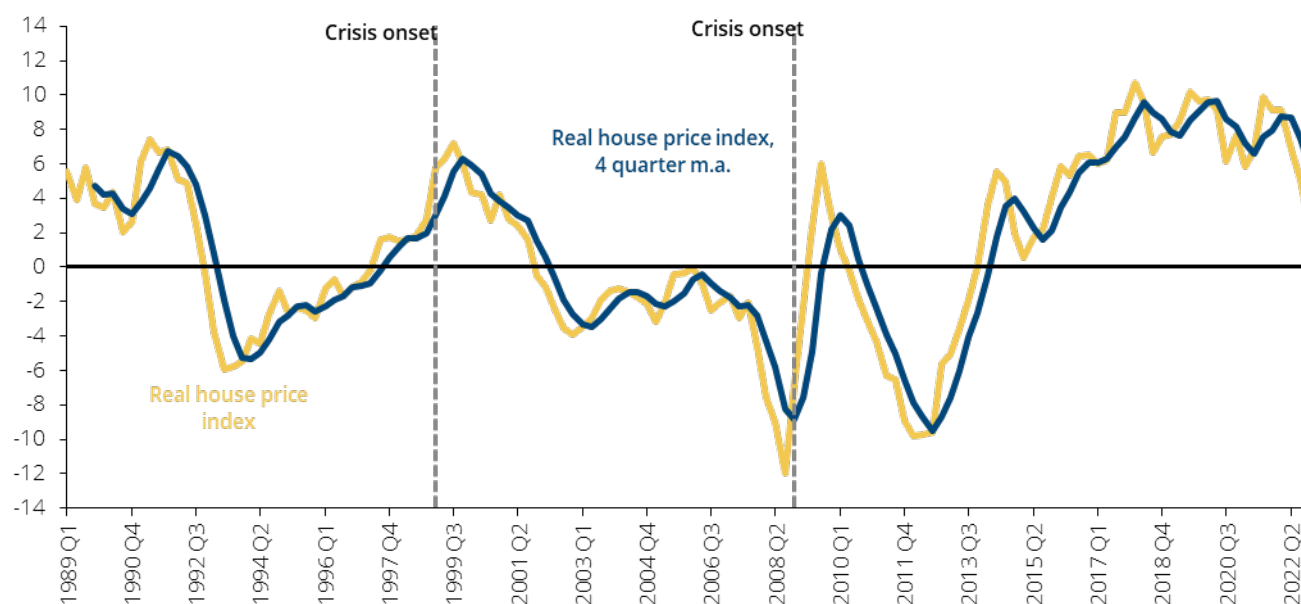
In the fourth quarter of 2022, the fall in the number of housing transactions that had begun in the previous quarter continued, with a year-on-year rate of change of -16.0% (-2.8% in the third quarter). For the first time since the first quarter of 2021, housing transactions recorded a negative year-on-year rate of change in terms of value (of 10.5%), with the volume effect more than offsetting the price effect. On the supply side, in the fourth quarter of the year building permits for new constructions and completed buildings in Portugal decreased by 3.8% and 4.1% respectively (year on year).⁷ The average value per housing transaction continued to increase, reaching a 6.6% year-on-year growth rate, though lower than in the last two quarters (12.8% and 14.4% respectively).

Rising construction costs, demand from non-residents and foreign citizens residing in Portugal, as well as demand for tourism activities, have contributed to price developments in this market, compounded by constraints on new housing supply. However, despite the observed geographical heterogeneity, the share of credit-financed transactions (excluding renegotiations) is on a declining path, averaging 46%, as it did in 2018-2022. Thus, this indicator remains considerably below that observed in the period prior to the sovereign debt crisis. In addition, the current environment, characterised by an increase in the cost and lower domestic demand for credit for house purchase, may contribute to a moderation in price growth or even a correction, particularly in geographical areas where demand from non-residents is less relevant and demographic pressure is lower.

⁶ Annual rates of change were adjusted for securitisation operations, reclassifications, sales, write-offs, and price and exchange rate revaluations. Bank credit comprises loans to the resident non-financial sector, excluding general government.

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

Chart 3 • Real year-on-year rate of change in house prices⁸ | Per cent



Source: Organization for Economic Co-operation and Development. | Notes: The latest observation refers to 2022 Q4. 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 rose to stand above the 2000-22 average

In April 2023 the Economic Sentiment Indicator increased compared with December 2022, reflecting an improvement in confidence among economic agents and returning to figures above the average observed for the period 2000-22. The services confidence indicator proved critical to the positive development in the overall index, followed by the retail confidence indicator. In contrast, consumer confidence continues to be the main factor curbing developments in this indicator.

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 third quarter of 2023.

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

⁸ 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.