Portugal

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IN A NUTSHELL

- → House prices increased 12.6%, after a 9.4% increase in in 2021.
- → The number of residential property transactions grew less rapidly (+1.3%; +20.5% in 2021).
- → Participation of non-residents in the real estate market continued to increase.
- → Supply remains below demand. 14,800 buildings were completed, a decrease of 3.2%.
- → The government introduced measures to increase the supply of houses.

MACROECONOMIC OVERVIEW

GGDP grew by 6.7%, the highest growth rate since 1987 (after 5.5% in 2021 and -8.3% in 2020 due to the effects of the pandemic). Overall, the GDP in 2022 is 3.3% higher than in 2019.

Domestic demand made a significant positive contribution to growth, but less than in 2021, with more private consumption but a slowdown in investment. Net external demand was positive, after being negative in 2021, with an acceleration of exports and a deceleration of imports.

Unemployment fell from 6.6% in 2021 to 6.0%. Inflation (HCPI) increased from 0.9% in 2021 to 8.1% in 2022. As elsewhere inflation spread from energy and food prices to most classes of goods and services through the year.

There was a reduction in the budget deficit, from 2.9% in 2021 to 0.4% of GDP and in the debt to GDP ratio by 11.5 pps from 125.4% to 113.9%.

The current account deficit worsened, from 0.8% of GDP to 1.3%, mainly due to the rise in prices of imported commodities, mainly energy.

The private savings rate dropped, from 9.9% to 6.1%, after the marked rise observed in 2020, to 11.9%, due to the drop in consumption caused by the pandemic.

LOOKING AHEAD

Due to the impact of the political crisis in Ukraine on prices and monetary tightening, a marked slowdown in GDP growth is expected, with the government assuming a rate of 1.8%. That rate is below forecasts published later by international organisations. The IMF projected 2.6% in May 2023, in view of the economy's performance in the 1st quarter of the year (+1.6% q-o-q and +2.5% y-o-y). The OECD predicted 2.5% in June 2023 and the European Commission 2.4% in May 2023.

Unemployment is expected to increase in 2023, with the Government predicting an average value of 6.7%. Inflation (HCPI) is, expected to decline in 2023, but continuing at high levels, as the Government foresees an average value of 5.1% in 2023.

The normalisation of monetary policy, inflationary pressures, the phasing out of public support to families and companies and end of moratorium programs, in line with European requirements, will be relevant challenges in 2023, as they contribute to the deterioration of the financial situation of families and companies, increasing the number of insolvencies in some sectors of activity.

As uncertainty remains high, growth prospects have downward risks (and inflation upward risks), naturally being greatly affected by the duration of the crisis in Ukraine, the respective impact on financial markets, and economic policy, particularly the normalisation of monetary policy observed throughout 2022, which is expected to continue during 2023.

HOUSING MARKETS

According to the analysis carried out in the Financial Stability Report (FSR) of November 2022 by the Bank of Portugal, prices in the residential real estate market increased more rapidly in 2022. According to Statistics Portugal, house prices increased 12.6%, 3.2 pps above the previous year. The increase for existing dwellings (13.9%) outpaced for new dwellings (8.7%). House prices were again at historic maximum levels, having more than doubled since the beginning of 2015 and reinforced belief in overvaluation.

The number of residential property transactions remained grew at a slower rate. According to Statistics Portugal, 167,900 dwellings were transacted, 1.3% more than in 2021, (165,682, in turn +20.5% from the previous year). The 1.3% growth was the lowest growth since 2012 (except for the pandemic effected 2020). In value, transacted dwellings totalled EUR 31.8 bn, an increase of 13.1% over the previous year.

According to the Bank of Portugal, the participation of non-residents in the real estate market continued to increase in 2022. The Bank of Portugal expects that the fall in real income and expectations of higher interest rates will reduce demand for housing by residents. Additionally, macroeconomic and geopolitical factors will determine demand by non-residents. Also, relevant factors are the maintenance of the golden visa regime (although with limitations in terms of the place of investment), tax benefits for non-habitual residents and the recent creation of a regime for "digital nomads".

Housing supply has remained unable to respond to demand. According to Statistics Portugal, in 2022, 24,500 buildings were licensed, and 14,800 buildings were completed, an annual decrease of 3.5% and 3.2%, respectively (which in turn was +8.2% and +3.6%, relative to the previous year). Overall comparing 2022 with 2019 (pre-pandemic period), the increases were 0.7% concerning building permits and 8.1% regarding completed buildings. Licensing difficulties are compounded by disturbances in supply chains, a lack of labour and the increase in the cost of production factors. The increase in construction costs, including labour costs, may reinforce the upward trend in house prices.The economy is now less dependent on the construction sector and the exposure of the banking system, as in the sovereign debt crisis.

According to the Bank of Portugal, signs of overvaluation of residential real estate in Portugal persist. However, as they have previously said, this does not directly consider factors such as demand from non-residents and tourist activities. However, the Bank of Portugal considers that the increase in the cost of credit, could translate into slower house price growth.

In the FSR of November 2022, the Bank of Portugal considered resorting to the rental market to reduce demand for properties, moderating the growth in prices and mortgage loans. According to Statistics Portugal, in 2022, the median value of rents and the number of new lease contracts continued to increase, growing by 8.4% and 6.0%, respectively (+9.4% and +7.7%, in 2021). However, the dynamism of the rental market has remained lower than that of the housing purchase and sale market, as a result of which the rental yield – the indicator that measures the profitability of homes, which results from dividing rents by housing prices – has been down in Portugal (and in the euro area).

MORTGAGE MARKETS

New loans to households for house purchase reached the highest value since 2007, at EUR 16.2 bn, a 6% increase from 2021, according to Banco de Portugal. The average rate on these new loans reached 3.24% in December 2022, more than three times the rate of a year previously. The average rate on outstanding loans rose to 2.32%, a 1.49 pps increase compared to 2021.

The stock of outstanding residential mortgage loans increased by 3.5%.

There were 168,996 borrowers involved in 117,253 new housing loan contracts, with a median amount of EUR 112,514 (56% were between EUR 50,000 and EUR 150,000).

The ratio of NPL continued to decrease, from 3.7% at year-end 2021 to 3.0% at the end of 2022. The NPL ratio for house purchase loans also decreased, from 1.6% at year-end 2021 to 1.1% at the end of 2022. The coverage ratio of the non-performing mortgage loans increased 7.7 pps, since the end of 2021, to 40.4% at the end of 2022.

To mitigate the impact of the rate rises, Banco de Portugal introduced rules for loans with an outstanding value up to EUR 300,000, between the 26th November 2022 until the end of 2023. Among those measures, banks were required to evaluate the increase in debt-service-to-income and adopt appropriate measures to prevent future higher indebtedness (e.g. increasing loan maturities or offering grace periods on capital amortisation). During this period, banks are also prohibited from charging fees on partial or total early repayment in variable interest rate contracts.

In order to meet housing demand, the government prepared the program "Mais Habitação" ("More Housing") with measures to increasing the supply of available houses, facilitate access to affordable housing in the medium term and streamline administrative licensing procedures in construction, in order to speed up the construction market.

Measures are expected to be approved and implemented periodically throughout 2023, namely (i) the requirement that banks make credit available at a fixed rate, (ii) the subsidized interest on mortgages, which will vary according to the families' income, (iii) subsidies to pay the monthly rent of the house, (iv) tax benefits to encourage the housing rental market at affordable prices, (v) commitment from the Government (as owner) to lease houses to private individuals (vi) cancelation of new licenses for local accommodation (AL), excluding rural lodging in certain municipalities, with incentives to change houses from AL to rental, (vii) stop granting new golden visas, (viii) limitation on rent values for new lease contracts and (ix) forced lease of private apartments vacant for more than 2 years. Some of these measures may reduce the appetite for investment in the housing market with an impact on houses sales.

The Government estimated a total cost of EUR 900 mn for this package, excluding, among other expenditures, the value of the housing repairs or purchases to be made.

MORTGAGE FUNDING

The banking system's liquidity position remained comfortable, with a loan-to-deposit ratio of 78.2% at the end of 2022, decreasing from 81.1% and 84.7% at the end of 2021 and 2020, respectively, due to growth in deposits.

The liquidity coverage ratio was 229.2%, decreasing from 260.0% at the end of 2021 and from 245.9% in 2020, while highly liquid assets were reduced from 27.2% at the end of 2021 to 25.2% at the end of 2022. Funding from central banks represented 3.6% of total assets in 2022 (9.2% at the end of 2021 and 7.7% at the end of 2020).

Both among Portuguese and European Economic Area (EEA) banks, the weight of liquidity in total assets has been rising in recent years. However, compared to December 2021, this weight decreased during the 2nd half of 2022 by 1.2 pps in the EEA and 0.7 pps in Portugal, to 14% and 15%, respectively, in December 2022.

Despite an increase in the weight of loans on total assets during the 2nd half of 2022 (+2.5 pps since June 2022), Portuguese banks have considerably decreased this weight in recent years (58% in December 2022 vs 66% in September 2014).

Historically, Portugal has had a higher weight of debt securities on assets than the EEA average, but this disparity has narrowed since the second half of 2020, with this weight in Portugal reaching 20.1% in December 2022, compared to 11.6% in the EEA, while the gap between these figures has shrunk from 11 to 9 pps.

	PORTUGAL 2021	PORTUGAL 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	5.5	6.7	3.5
Unemployment Rate (LSF), annual average (%) (1)	6.6	6.0	6.2
HICP inflation (%) (1)	0.9	8.1	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	78.3	77.8	69.1
Gross Fixed Investment in Housing (annual change)(1)	8.9	3.6	1.5
Building Permits (2015=100) (2)	343.5	366.8	125.8
House Price Index - country (2015=100) (2)	172.8	192.4	164.6*
House Price Index - capital (2015=100) (2)	n/a	n/a	163.8*
Nominal house price growth (%) (2)	11.6	11.3	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	98,149	101,700	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	11,417	11,668	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	64.4	62.2	71.5
Gross residential lending, annual growth (%) (2)	34.1	5.8	-6.5
Typical mortgage rate, annual average (%) (2)	0.8	3.2	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:
(1) Eurostat
(2) European Mortgage Federation – Hypostat 2023, Statistical Tables.

PORTUGAL FACT TABLE

Which entities can issue mortgage loans in your country?	Credit institutions (according to Decree-Law No. 349/98 of Nov/11 and within the limits established in articles 3 and 4 of DL No. 34/86, of Mar/3 for commercial and investment banks). The types of credit institutions and respective activities are defined by the Legal Framework of Credit Institutions and Financial Companies (articles 3 and 4).
What is the market share of new mortgage issuances between these entities?	In 2022, the largest credit institutions are expected to have continued representing the bulk of new mortgage production, with market shares generally reflecting the current market structure of the Portuguese banking sector (as per question three).
Which entities hold what proportion of outstanding mortgage loans in your country?	The seven largest institutions in Portugal are CGD, Santander Totta, Millennium BCP, BPI, Novo Banco, Banco Montepio and Crédito Agricola, which hold market shares ranging from c.4% of Crédito Agrícola to c.25% of CGD as of December 2022. *Source: Annual Reports; Banco de Portugal (Monetary and Financial Statistics).*
What is the typical LTV ratio on residential mortgage loans in your country?	Since 1 July 2018, new residential credit agreements should observe the following LTV limits: 90% for credit for own and permanent residence; 80% for other purposes than the latter; 100% for purchasing immovable property held by the credit institutions themselves and for property financial leasing agreements. In 2022, the bulk of new credit operations (99.7%) had an LTV ratio equal or below 90% (53,5% with LTV ≤80% and 46,2% with 80%<LTV≤90%). *Source: Banco de Portugal (Macroprudential measure within the legal framework of credit for consumers).*
How is the distinction made between loans for residential and non-residential purposes in your country?	Loans for residential purpose comprise (i) mortgage loans, which include credit agreements for the acquisition or construction of permanent, secondary or for-rental housing, and (ii) other related-mortgage loans, which comprise loans celebrated with individuals that are subject to the mortgage loans rules. *Source: Banco de Portugal (Bank Customer Website).*
What is/are the most common mortgage product(s) in your country?	The most common mortgage products are written with variable interest rate indexed to Euribor rate. As of December 2022, 89.6% of the mortgage contracts portfolio were written with variable interest rate, 6.4% with mixed rate and 4% with flat rate. Of the contracts written with variable interest rate, 43% were indexed to Euribor 12m, 32.4% to Euribor 6m, 22.2% to Euribor 3m and only 2.5% were indexed to other reference rates.
What is the typical/average maturity for a mortgage in your country?	Mortgage loans granted in 2022 had an average maturity of 30.7 years (32.5 years in 2021), 2.8 years lower comparing to the portfolio's (33.5 years as of December 2021, latest available data). *Source: Banco de Portugal (Retail Banking Markets Monitoring Report 2021; Recommendation on new credit agreements for consumers – progress report 1st quarter 2023).*
What is/are the most common ways to fund mortgage lending in your country?	From the banks perspective, retail and wholesale funding are the main sources of funding of the national banking system, with deposits becoming the main source (LTD ratio of 78.2% as of December 2022). From the point of view of customers, commercial banks are the most common providers of mortgage. *Source: Banco de Portugal, Portuguese Banking System: latest developments, 4th quarter 2022.*

What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	There are bureaucratic charges related with the necessary procedures (at the Land Registry, Municipality Council and Notarial Office), and specific taxes related with house transaction, as the municipal taxes on real estate (IMI) and on onerous transfer of property (IMT). In purchases through loans, banks usually charge commissions related to the credit process (study and opening), which often include asset-evaluation costs.
What is the level (if any) of government subsidies for house purchases in your country?	Since September 2012 it is not possible to hire mortgages loans with a subsidised system scheme. Currently there are special conditions for disabled people with a disability grade greater than 60% and for family households in very difficult economic situation (Law 58/2012 of Nov/9). Following the increase of reference interest rates, a new decree law (Decree Law 20-B/2023 of Mar/23) entered into force in March 2023 that aims to concede temporary support to households with mortgage loans contracted before 15 March 2023. Borrowers eligible to benefit from this support may have temporary interest subsidy when the index of their credit contract is equal or greater than a threshold of 3%. This subsidy will be 75 or 50% (depending on the applicant household's income level) of the value of the interest corresponding to the difference between the index value determined contractually and the index threshold (3% or higher). Are eligible for this subsidy the households and contracts that meet the following conditions: (I) loans contracted before 15 March 2023; (II) have an initial contracted amount equal to or less than 250,000€; (III) are written with a variable interest rate regime or, in the case of mixed interest rate contracts, are in a variable interest rate period; (IV) have no overdue payments; (V) have a debt-service-to-income rate equal to or greater than 35% of their annual income (considering only the respective mortgage loan payments); (VI) have an annual income equal to or below 38,632€ (by reference to the last annual tax return) or, if above, that demonstrate that they have suffered a drop in income of more than 20% that places them below the limit of 38,632€; (VII) have no financial assets (which include deposits, financial instruments, capitalization insurance or savings or treasury certificates) with a total value greater than 29,786€ (by reference to the social support index). This support will be granted until December 2023.