

Portugal

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IN A NUTSHELL

- House Prices increased by 9.1%.
- The number of residential property transactions fell by 14.5%.
- The participation of non-residents decreased.
- The Government has introduced new measures to support young people in purchasing their first homes.

MACROECONOMIC OVERVIEW

GDP growth slowed down to 1.9% (2.6% in 2023 and 7.0% in 2022) Final domestic consumption increased, while investment slowed down and net external demand was negative in 2024, after two positive years. Imports increased while exports grew at a similar pace to the previous year.

Unemployment fell to 6.4% (from 6.5% in 2024) and inflation fell to 2.7% (5.3% in 2023).

The budget balance had a surplus of 0.7% of GDP (surplus of 1.2% in 2023).

The current account had a surplus of 2.2% (0.6% in 2023).

The savings rate was 12.2%, its highest since 2003.

LOOKING AHEAD

Further growth is expected in the range +1.4% to +2.4% subject to risks for the global economy, including the trade war, and the financial capacity of consumers given high interest rates and house prices. The government forecasts a growth of 2.1% in the State Budget 2025.

The unemployment rate is expected to decline in 2025, from 6.4% to 6.3% (according to Montepio projections).

The inflation (measured by the HCPI) is expected to decline in 2025, to between 1.5% and 2.5% (Montepio projections, with downside risks).

According to Bank of Portugal (BoP), the risks surrounding economic projections were underestimated including geopolitical risks, difficulties on the use of European funds, which could imply less investment.

HOUSING MARKETS

According to the Financial Stability Report (REF) of the BoP, real estate prices continued to grow above the inflation rate in 2024, with signs of overvaluation. The Housing Price Index (IPHab) increased 9.1% in 2024 (+8.2% in 2023). The BoP consider that prices have continued to grow above the historical trend,

and that signs of overvaluation have persisted since 2019, although noting that these signs began to decrease since Q4 2022.

According to Statistics Portugal, the number of transactions increased to 156,325 for €33.8 billion (an increase of 14.5% and 20.8% respectively y-o-y). Existing dwellings' sales increased by 14.8% (number) and 21.1% (value), new dwellings, 13.4% and 20.0%.

The participation of non-residents in the real estate market decreased. In 2024, 93.7% of purchases were buy tax residents 16.2% more than in 2023.

The BoP recognizes that this underestimates the relevance of foreigners as many now have tax residence.

Over the last 10 years, an increase in the participation of non-resident buyers has characterized the residential real estate market.

Housing supply has remained unable to meet demand, despite recent easier licensing. According to Statistics Portugal, 25.4 thousand buildings were licensed and 16.0 thousand buildings completed, (an increase of 8.2% and a reduction of 7.5% respectively). Restrictions remain, disruptions in material supply chains, lack of labour, increased costs and the growth in financing costs. The slight easing of criteria for granting construction credit may mitigate this. According to the BoP analysis, the limited supply of new housing and the lack of an accumulated stock of available homes mitigates the impact on prices in the event of a reduction in demand. Throughout 2024, construction costs stabilized, but labour costs continued to rise.

According to the BoP, sales are expected to increase as are property prices. The limited supply of new housing, due to labour and material shortages, and the lack of sufficient inventory of available housing, are expected to continue to put upward pressure on property prices.

MORTGAGE MARKETS

Strongly supported by the rise in new mortgage loans (+34%), the net pure new mortgage loans (new mortgage loans, excluding renegotiated loans and net of early repayments) hit a record volume of EUR 6.1 bn, nearly four times more than the previous year, while renegotiated loans decreased by 36% to EUR 7.3 bn (EUR 11.4 bn in 2023). As a percentage of the total loans renegotiations were 29% (from 47% in 2023).

A total of 89,738 residential mortgage loan contracts were signed, a 32% increase y-o-y, with an average value of €154,147 (+5.6%).

The stock of mortgage loans rose by EUR 3.5 bn (3.6% YoY), to EUR 102.4 bn by year-end. The early repayments decreased by 3.6%.

Most loans remain floating rate (70% of the stock, -14 p.p. vis-a-vis 2023), but new loans were increasingly mixed interest rate (Loans with an initial period of

fixed rate followed by variable rate) regime (as in 2023). These were 73% of new loans, an increase of 37 percentage points compared to the previous year. This type of mortgage peaked in August at 80% of total origination.

The average mortgage rate was 4.66% in January 2024, the highest level since 2009, then decreased by 0.5 p.p., to 4.1% by year end. The average outstanding has been increasing to €68,470 by year end, mainly triggered by the prolonged rise in housing prices, leading to a 12% increase in the average monthly instalment to EUR 404 (12% above the average in 2023).

The NPL ratio of mortgage loans remained around 1.3%, similar to the levels since December 2023.

According to Banco de Portugal, credit institutions continued to comply with the recommendation on new residential mortgage loans which focuses on loan-to-value (LTV), debt service-to-income (DSTI) ratio and maturity limits, to ensure responsible lending and protect borrowers from over-indebtedness. Accordingly, the average LTV remained stable at 69%, after falling in 2023 (from 75% in 2022). The recommended limits is 90% for main dwellings. 92% of new loans had a DSTI equal to or less than 50%, (91% in 2023). For outstanding loans this was 26.1% (26.7% in 2023). The recommendation is 50% or less (with some exceptions), and maturities averaged 31 years (longer than the European average) below the 2021 peak of 33.7 years. The recommendation is that the average maturity of new loans should be less than or equal to 30 years.

Several legal measures have been approved and implemented by the Portuguese Government to assist young people (up to 35 years) to purchase their first home. According to Banco de Portugal, these measures boosted the level of loans granted to borrowers under the age of 35, which accounted for 47% of the total new loans from August 2024 onward (compared to 37% between January and July 2024).

MORTGAGE FUNDING

Deposits remain the primary source of funding for banks, representing 61% of their liabilities (from 59% in 2023). In 2024, interest-bearing accounts held by households and non-financial institutions accounted for 53% of total savings deposits, an increase of 3 percentage points compared to 2023.

GREEN FUNDING

ESG financing continued to grow to EUR 13.6 bn in December (+28% YoY), 70% of which were green bonds (+2 p.p. vs. 2023). Non-financial companies issued most, EUR 10.2 bn (75% of the total), while the financial sector accounted for the remaining EUR 3.4 bn. Some banks continued to offer mortgage loans with a discount on the interest rate or other benefits if the collateral had a higher Energy Performance Certificate (EPC) grade.

The energy efficiency in buildings (component C13) is a vital aspect of the "Climate Transition" under the Recovery and Resilience Plan (PRR), reflecting Portugal's dedication to achieving carbon neutrality by 2050. It aims to encourage the energy renovation of private residential buildings, implement energy-efficient solutions, replace outdated equipment, and enhance installed capacity to

promote energy and resource efficiency. Additionally, it seeks to strengthen renewable energy and address energy poverty. These measures are expected to result in an average reduction of at least 30% in primary energy consumption and a 20% decrease in water supply consumption in participating buildings. Out of a total target of 610 million euros to be allocated, 57% has already been approved, and 27% has been disbursed as of March 2025.

	PORTUGAL 2023	PORTUGAL 2024	EU 27 2024
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)*	2.6	1.9	1.0
Unemployment Rate (LSF), annual average (%) (1)	6.5	6.5	5.9
HICP inflation (%) (1)	5.3	2.7	2.6
HOUSING MARKET			
Owner occupation rate (%) (1)	76.0	73.4	68.4
Gross Fixed Investment in Housing (annual change) (1)	-1.1	3.4	-4.3
Building Permits (2015=100) (2)	391.1	420.7	136.9
House Price Index - country (2015=100) (2)	207.5	231.4	179.8
House Price Index - capital (2015=100) (2)	n/a	n/a	171.5
Nominal house price growth (%) (2)	7.8	11.6	4.9
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	100,370	104,105	6,879,667
Outstanding Residential Loans per capita over Total Population (EUR) (2)	9,589	9,785	15,311
Outstanding Residential Loans to disposable income ratio (%) (2)	56.6	55.9	71.3
Gross residential lending, annual growth (%) (2)	34.0	13.2	3.9
Typical mortgage rate, annual average (%) (2)	4.1	3.7	4.34

(1) Eurostat Data

(2) European Mortgage Federation – Hypostat 2024, Statistical Tables

* Eurostat Reviewed

** EU 2024 to be confirmed

¹ In July 2024, the government approved Decree-Law 44/2024, establishing a guarantee for credit institutions to assist young people (up to 35 years) to purchase their first home covering up to 15% of the transaction for up to 10 years. Additionally, to further support young first time buyers, the government exempts those under 35 years from paying the Municipal Property Transfer Tax (IMT) and stamp duty and prohibits early repayment fees on mortgage loans with variable interest rates until the end of 2025.

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 2024, 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 Agrícola, which hold market shares ranging from c.3% of Crédito Agrícola to c.25% of CGD as of December 2024. <i>Source: Annual Reports; Banco de Portugal (Monetary and Financial Statistics).</i>	
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; 100% for purchasing immovable property held by the credit institutions themselves and for property financial leasing agreements. In 2024, the bulk of new credit operations (99.8%) had an LTV ratio equal or below 90% (64% with $LTV \leq 80\%$ and 36% with $80\% < LTV \leq 90\%$). <i>Source: Banco de Portugal (Macprudential measure within the legal framework of credit for consumers).</i>	What is the level (if any) of government subsidies for house purchases in your country?
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. <i>Source: Banco de Portugal (Bank Customer Website).</i>	Since September 2012 it is not possible to take 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). In order to support access to housing among younger generations, the Portuguese government has recently approved a set of new measures. As of 1 August 2024, young individuals up to 35 years old benefit from exemptions on the municipal tax on onerous property transfers (IMT) and stamp tax when purchasing their first permanent residence. Full exemption applies to properties with a value up to €316,772. For purchases between €316,772 and €633,453, the exemption applies only to the portion up to the €316,772 threshold, with the remainder taxed at the standard rate. To benefit from this measure, buyers must be 35 years old or younger, not be considered tax dependents in the year of acquisition, and the property must be intended for permanent residence. In addition, under Decree-Law No. 44/2024, a state-backed guarantee was introduced to support young people purchasing their first home. This measure allows the state to provide a personal guarantee of up to 15% of the purchase price, thereby facilitating access to loans covering up to 100% of the property value. Eligible individuals must be aged between 18 and 35, have their fiscal residence in Portugal, earn an annual taxable income not exceeding the 8th IRS bracket (i.e., up to €81,199), and not own residential property at the time of application. The property must be used as a permanent residence and its value must not exceed €450,000. The beneficiaries must also have no outstanding tax or social security obligations. The state guarantee is valid for a period of 10 years from the date of the mortgage agreement. These measures aim to reduce the financial burden for young adults entering the housing market and facilitate homeownership within this age group. In addition, until 31 December 2025, no partial or total prepayment commission is due on mortgage loans of permanent housing with a variable interest rate.
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 2024, 59% of the mortgage contracts portfolio were written with variable interest rate, 33% with mixed rate and 5% with flat rate. Of the contracts written with variable interest rate, 33% were indexed to Euribor 12m, 38% to Euribor 6m, 26% to Euribor 3m and only 4% were indexed to other reference rates.	
What is the typical/average maturity for a mortgage in your country?	Mortgage loans granted in 2024 had an average maturity of 31.0 years (30.6 years in 2023). <i>Source: Banco de Portugal (Macprudential measure within the legal framework of credit for consumers).</i>	
What is/are the most common ways to fund mortgage lending in your country?	From the bank's 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 75% as of December 2024). From the point of view of customers, commercial banks are the most common providers of mortgage lending. <i>Source: Banco de Portugal, Portuguese Banking System: latest developments, 4th quarter 2024</i>	
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.	