

# Portugal

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## Macroeconomic overview

The Portuguese economy experienced a sharp contraction which resulted in a real GDP decline by 2.7% that was consistent with a marked global economic recession and continued instability in financial markets. In this context, the inflation rate remarkably decelerated, down to negative levels (-0.9) while the unemployment rate sharply increased (from 7.7% in 2008 to 9.6% in 2009).

## Housing and mortgage markets

In 2009, housing prices went up slightly (+0.2%), following on from a reduction of 5.5% in 2008.

Total outstanding mortgage loans increased by 5.2%, probably due to a reduction in prepayments on loans. The value of new residential loans issued recorded a strong reduction of 31% due to crisis-related factors, such as rising unemployment, stagnation in households' disposable income and tighter lending criteria by banks.

Interest rates decreased in accordance with the ECB and EURIBOR rates. The decrease was by 367 basis points, i.e. from 5.92% in 2008 to 2.25% in 2009.

The value of performing residential loans increased by 19% on the previous year and the NPL ratio (i.e. Non-Performing Loans on total outstanding residential loans) rose from 1.5% in 2008 to 1.7% in 2009.

## Funding

Due to the growing funding problems in financial markets, banks decided to finance their mortgage lending activity mainly through deposits and ECB loans, as well as government-guaranteed bonds, and only to a lesser extent via mortgage bonds and securitisation. Securitisation operations were aimed at obtaining a pool of assets eligible for refinancing by the ECB.

	EU27, 2009	Portugal, 2009	Portugal, 2008
<b>GDP growth (%)</b>	-4.2	-2.7	0.0
<b>Unemployment rate (%)</b>	8.9	9.6	7.7
<b>Inflation (%)</b>	1.0	-0.9	2.7
<b>% owner occupied</b>	68.2	76.0	76.0
<b>Residential Mortgage Loans as % GDP</b>	51.9	67.5	63.3
<b>Residential Mortgage Loans per capita, EUR thousand</b>	12.37	10.42	9.91
<b>Total value of residential loans, EUR million</b>	6,125,727	110,685	105,210
<b>Annual % house price growth</b>	-6.8	0.2	-5.5
<b>Typical mortgage rate (euro area), %</b>	2.71	2.25	5.92
<b>Outstanding Covered Bonds as % outstanding residential lending</b>	23.2	18.3	14.5

Source: EMF, EUROSTAT, ECB, Bank of Portugal

### Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Portugal= 2006