NPL&REO in Portugal 2021

SPRING UPDATE

Even though the pandemic remains the main priority, the country continued to reduce NPL in 2020. Nevertheless, the transaction of this type of portfolios plummeted to about €1.0 billion. 2021, however, promises to be different, with around €700 million in deals already completed and another €1.2 billion in pipeline, not to mention the impact that the end of moratoria could have on the supply of new NPL portfolios.

Economy

To counter the spread of the COVID-19 pandemic, unprecedent containment measures were introduced in Portugal, including shutting down large parts of the economy - which entered a sudden recession, falling by 7.6% in 2020. This is the first fall in economic activity since 2013, when Portuguese GDP decreased 0.9%, following a 3-year recessive cycle at the time of international financial bailout.

With the introduction of a more stringent lockdown in mid-January 2021, GDP is projected to fall again in Q1, before starting to recover as of Q2, with a major rebound in the summer months.

In full-year terms, GDP is projected to grow by 4.1% in 2021 and 4.3% in 2022. A full return to pre-pandemic levels is expected towards the end of 2022 but risks remain significant due to the country's large dependence on foreign tourism, which continues to face uncertainties related to the evolution of the pandemic. However, measures specified in Portugal's draft Recovery and Resilience Plan, beyond those planned in the budget for 2021 are not factored in the forecast and constitute an upside risk.

Property Market

Despite the negative impact of the pandemic, reflected by some annual decrease in the activity across most of its segments - exception for logistics, which followed booming and in counter cycle - overall, Portugal's property market showed its resilience along 2020. In commercial real estate investment alone, even with an annual slowdown of little more than 20%, the €2.9 billion invested have put 2020 among one of the best years ever for the activity. As for the residential market, estimates show the number of dwellings sold recorded an annual decrease below 10% (-7.5% until the end of Q3, according to last data available) and that the sale volume should have been similar to that of 2019. Until September, 122,066 houses were sold and contrary to the expectations of many consumers there was not a drop in sales prices. In fact, there was even an increase, with prices showing an annual growth of 7.1% by the end of Q3. Amid this background, the mortgage granting also continued to growth along last year (7.5% y-o-y), with the volume of new loans for house purchase totalling €11.5 billion, reaching a new maximum since 2008.

Commercial real estate should continue to expand, with investment hitting €3.0 billion by the end of 2021, while demand in key occupancy markets like offices and logistics is expected to rise. As for residential, a still scarce supply of new housing should guarantee some stability in the market throughout 2021.

GDP GROWTH 2021 (FORECAST)
(SOURCE: INE/DG ECFIN)

4.1%

HOUSING SALES (Q3 2020/YTD)
(SOURCE: INE)

122,066

GROWTH OF HOUSING PRICES
(Q3 2020/ YOY) (SOURCE: INE)

7.1%

NEW HOUSING CREDIT GRANTED (2020)
(SOURCE: BANK OF PORTUGAL)

€11.5bn

NPL Stock and Ratio

Even though the COVID-19 outbreak had dramatically changed the economic and financial background in Portugal, it didn't stop the downward trend in non-performing loans (NPLs). By the end of September 2020, the NPL stock amongst Portugal's banking system totalled €13.4 billion, shrinking by almost a third (-32%) from the €19.6 billion stockpiled one year before (Q3 2019). In quarterly terms, the reduction over Q3 stood at 5.6%. This means that, in absolute terms, Portugal has now (as of Q3 2020) €6.2 billion less in NPL in its financial system than it had one year ago. Over the quarter, the reduction has of €800 million.

The largest stock of NPL in Portugal is concentrated in the companies' sector (NFC's), amounting for €8.7 billion as of Q3 2020, i.e. 65% of total stock, and backing 6.5% q-o-q. About 70% of the corporate NPL stock is allocated to the Small and Medium Enterprises (SME) sector, totalling €6.1 billion and declining almost 5% from Q2 2020. Also, to note is the amount of NPL in the NFCs segment that is collateralised by Commercial Real Estate, totalling €3.8 billion in a decrease of 5% over the quarter. NPL stock in Household segment stands at €3.7 billion as of Q3 2020, of which €2.1 billion correspond to mortgage, i.e., NPL secured by residential real estate. In both cases the stock declined by 5% q-o-q.

Likewise, the NPL ratio within the country's banking system followed the trend, going 2.8 percentage points down from the 8.3% recorded in Q3 2019, standing now at 5.5%. Even though all the significant achievement over the years, having reduced 12.4 percentage points since its 17.9% peak in June 2016, Portugal's NPL ratio continues, however, to be Europe's fourth highest, only surpassed by Greece, Cyprus and Bulgaria. Nevertheless, is still difficult to assess the real impact of the pandemic over the deleveraging efforts, as by the end of Q3 there was still €46 billion in loans subject to the moratoria regimes created during the pandemic, a volume that ammounts to 19% of total loans.

NPL RATIO TOTAL (Q3 2020)
(SOURCE: EBA)

5.5%

NPL STOCK (Q3 2020)
(SOURCE: EBA)

13.4bn

NPL Potential Deals

Trying to avoid the mistakes from the past, most Portuguese banks seem to be putting even more pressure on accelerating on cleaning up NPL from their balance sheets through sales, while improving provisions to face a possible flood on bad credit when the moratoria regime is over.

Due to the unexpected pandemic, many of the NPL sales processes launched in the beginning of 2020 were delayed or even redefined. However, since September seems to be a renewed buoyancy in the Portuguese market, with the completion of at least 6 sales until the end of 2020, with almost €1 billion of NPL changing hands from the banks to their new owners. This is a sharp brake on the approximately €8.0 million transacted in 2019, even though pre-Covid forecasts were already anticipating 2020 as a slowdown in sales. 2021, however, promises to be a more dynamic year, with some €663 million of sales already completed to date and another €1,2 billion in the pipeline, comprising both ongoing deals and identified portfolios for sale.

However, these figures may strongly be boosted until the end of the year since the moratoria regime is coming to its end, scheduled for September. Some €46,0 billion in loans are freeze du to this regime and there are many concerns about how many of this volume can turn into NPL. The real impact will only become visible from Q4 2020, but one possible scenario is considering that 15% of current loans in moratoria would become NPL. This would mean another €6.9 billion entering the stock, which then would go up to over €20,0 billion, bringing "fresh" portfolios to the market. So, even though all the uncertainty on the end moratoria, one thing is right: the NPL stock will grow in Portugal along the next 18 months, as well as the deal potential.

LOANS SUBJECT
TO THE MORATORIA (Q3 2020)
(SOURCE: EBA)

€46.0bn

NPL SALES 2020
(ESTIMATED)

€1.0bn

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Established in 2005 and since 2018 a part of Gloval, a leading property services group that provides integrated valuation, engineering and consulting services, Prime Yield delivers valuation, research and advisory/consultancy services and has been focusing on the NPL&REO market, specializing in Europe and Latin America. The company has an NPL&REO specialized business area, supported by Prime AVM&Analytics, an advanced technological solution that allows NPL's investors and sellers to have property valuations in a fast, simple and reliable way both for single assets and entire portfolios. Prime Yield is regulated by RICS and REV-TEGoVA, also holding a certification in Quality (NP EN ISO 9001).

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