

NPL&REO in Portugal 2023

SPRING UPDATE

Against a background of challenging economic conditions and after the sharp drop of approximately 44% in the sales volume of NPL portfolios in Portugal in 2022, which amounted to around €1.7 billion, the trading activity is expected to remain stable in 2023.

Economy

Despite challenging conditions, Portugal's economy continued to grow in 2022. GDP annual growth is estimated at 6.7%, up from 5.5% in 2022, with private consumption and net exports contributing significantly to the expansion, benefiting from a strong rebound in tourism after the lifting of the pandemic restrictions.

For 2023, growth is forecast to slow down to 1.0% (Ecofin's estimates). The outlook for the first quarter of the year remains weak as consumer and businesses are still facing uncertainties about energy costs in the winter months, with growth projected to improve somewhat in the second quarter of 2023 and to further pick up thereafter, reaching a full-year rate of 1.8% in 2024 against the backdrop of assumed stronger external demand and more favourable commodity prices.

As for the inflation, projections for the forecast period indicate a slowdown from 8.1% in 2022 to 5.4% in 2023 and 2.6% in 2024.

Property Market

In 2022, a total of 167,900 houses were sold in Portugal, an activity that levels with 2021, when 165,700 were transacted. About 82% are existing houses (137,960 units) and the other 18% are new houses (30,000 units).

Sales volume totaled €31.8 billion in 2022, 13% more than the €28.1 billion recorded in 2021. Of the total value, €24.1 billion (+12% y-o-y) corresponded to transactions of existing dwellings and €7.6 billion to new houses (+18% y-o-y).

In 2022, the annual rate of change housing prices stood at 12.6%, above the 9.4% increase recorded in 2021. Existing units recorded higher price increases than new houses, up 13.9% and 8.7% respectively.

The transactions led by foreign buyers totaled 10,700 dwellings in 2022, accounting 6% of total housing sales in the country and showing an annual increase of 20%. In terms of value, international investment increased 25% to €3.6 billion, representing 11% of the total amount.

As for the new credit for housing purchases, a total of €16.2 billion was granted in new loans in 2022, a 6% increase facing the €15.2 billion recorded in 2021.

GDP GROWTH 2023 (FORECAST)
(SOURCE: EUROPEAN COMMISSION)

1.0%

HOUSING SALES (2022)
(SOURCE: INSTITUTO NACIONAL
DE ESTADÍSTICA)

167,900

GROWTH OF HOUSING PRICES
(2022 Y-O-Y) (SOURCE: INSTITUTO
NACIONAL DE ESTADÍSTICA)

12.6%

NEW MORTGAGES GRANTED (2022)
(SOURCE: BANCO DE PORTUGAL)

€16.2_{bn}

NPL Stock and Ratio

Following the uninterrupted downward observed since the pre-Pandemic, Portugal's non-performing loans (NPL) stock totalled €7.2 billion as of Q3 2022, showing an annual reduction of 14% (-€1.2 billion) from the €8.4 billion recorded in the same quarter of 2021. Quarterly, there was a decrease of 4%, equivalent to €0.3 billion euros, from the €7.5 billion of Q2.

The Household (HH) sector is responsible for 32% of the NPL, holding €2.3 billion in bad debt as of Q3 2022, a 4% less than the €2.4 billion recorded in the previous quarter, and in annual decrease of 12% from the €2.6 billion in Q3 2021. About 44% of the household NPL stock, €1 billion, came from Mortgages, with this class of bad debt showing a 9% decrease against the €1.1 billion from the previous quarter and a 23% decline from the €1.3 billion recorded one year before.

However, the largest stake (64%) of the Portuguese NPL is on the hands of the Non-Financial Corporations (NFC's), amounting for €4.6 billion as of Q3 2022, even though this is 4% less than the €4.8 billion recorded in the previous quarter and 10% less than the €5.1 billion from the same quarter of 2021. About 76% of the corporate NPL stock was allocated to the Small and Medium Enterprises (SME) sector, totalling €3.3 billion and showing decreases of 6% and 3% in quarterly and annual terms, respectively. Also, about 39% from the NPL owned in the NFCs segment is collateralised by Commercial Real Estate (CRE), hitting €1.8 billion, 5% less both y-o-y and q-o-q.

Following a similar trend, the NPL ratio within the country's banking system went 0.8 percentage points (p.p.) down from the 3.9% recorded in Q3 2021 and other -0.2 p.p in quarterly terms, standing now at 3.1%. This remains, however, well above the European average, which reached 1.8%.

NPL Potential Deals

After the sharp drop of approximately 44% in the sales volume of NPL portfolios in Portugal in 2022, with annual traded volumes amounting to around €1.7 billion, transactional activity levels for this type of assets is expected to remain stable in 2023.

This projection reflects the fact that there is a reduced number of sales processes currently underway, a situation that mirrors the maturity of the Portuguese NPL market, where there has been a sharp rise in the stock of defaulted credit held by the national financial system over the past decade, at the same time that there is a greater optimisation in the recovery processes for this type of debt.

The continued reduction in the NPL stock observed over the last few years, results, on the one hand, from the acceleration in the pace of sales and, and on the other, from an increasing caution on the banking side, that has now more restrictive conditions for borrowers. These combined circumstances progressively reduced the supply of NPL portfolios available for sale, as the majority of Portuguese banks have increasingly contained NPL ratios and no new waves of defaulted credit have emerged. In fact, even if in this more troubled phase of the economy, marked by high inflation, rising interest rates and loss of purchasing power, some increase in defaults by both companies and private individuals is to be expected, but not with an immediate effect.

At this stage, it is estimated that the sale processes in progress in the first quarter of 2023 add up to a value of less than €1.5 billion, in a movement led by Caixa Geral de Depósitos, which currently has two mandates in progress, with a view to the disposal of the Saturn project, valued at €600 million, and another portfolio worth €500 million, comprising assets with and without guarantees. It is, however, expected that this volume will increase in the coming months, as new sale mandates come to the market, with 2023's results closing in line with those of 2022, of about €1.7 billion.

NPL RATIO (Q3 2022)
(SOURCE: EBA)

3.1%

NPL STOCK (Q3 2022)
(SOURCE: EBA)

€7.2bn

SHARE IN EUROPE'S TOTAL NPL
(Q3 2022)
(SOURCE: EBA)

2.0%

NPL SALES 2023
(ESTIMATED)

€1.7bn

About Prime Yield part of Gloval NPL&REO Services

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 and Environmental Management (NP EN ISO 9001 and NP EN ISO 14001).

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Contacts

SPAIN

Av. de Manoteras, 44 - 4ª planta | 28050 Madrid
T.: (+34) 915 613 388

PORTUGAL

Av. Columbano Bordalo Pinheiro, 75-9º, | Fração 9.06
1070-061 Lisboa | T.: (+351) 217 902 540

GREECE

1, Neofitou Vamva Street | GR-106 74 - Athens
T.: (+30) 210 68 01 786 int. 16

BRAZIL

Av. Brigadeiro Faria Lima, 1.461 - 4º, Torre Sul
Pinheiros | CEP 01452-002 | São Paulo - SP
T.: (+55) 11 3382-1536

e.: nplreo@prime-yield.com
www.nplreo.prime-yield.com

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