

Portugal

After a significant contraction of 8.3% in 2020, caused by measures enacted to contain and mitigate the COVID-19 pandemic, the Portuguese economy grew by 5.5% in 2021. This evolution resulted from positive contributions of all components (net of imports), but mainly from exports (2.4 percentage points) and private consumption (1.5 percentage points). The evolution of exports resulted largely from the recovery of the tourism component, which nonetheless remained significantly below the level of 2019 (-45%). The evolution of GDP did not occur homogeneously throughout the year, as output still fell by 4.9% year-on-year in the first quarter due to the lockdown measures implemented in that period.

The Portuguese banking sector has shown to be resilient and well prepared to face the demanding shock caused by the COVID-19 pandemic, particularly in terms of liquidity and solvency and played a critical role in supporting the financing and liquidity needs of the economy.

At the end of 2021, the Portuguese banking system comprised 145 institutions, 61 of which were banks, 81 mutual agricultural credit banks, and three savings banks, with the five largest banks accounting for 77% of total assets. The number of bank employees stood at 43,726 (0.8% of the country's employment).

Solvency continued to be reinforced and is at historically high levels: CET1 reached 15.5% in 2021 (versus Core Tier 1 stood at 7.4% in 2010). Furthermore, Liquidity indicators registered a very positive evolution: loan-to-deposit ratio stood at 81.1% versus 158.7% in June 2010; liquidity coverage ratio at 259.9%. This comfortable position of the Portuguese banking system in terms of liquidity has allowed it to play an essential role in mitigating the impacts of the COVID-19 crisis on companies and families. Moreover, asset quality improved significantly over the last years and profitability recovered after the pandemic impact, with RoE reaching 5.4% in 2021 (versus 0.5% in 2020), slightly above 2019 level (4.8%).

Total assets rose 8.0% year-on-year, driven by increases in cash and cash claims on central banks (74.7%) and loans to customers (4.1%). Considering the domestic activity, and in terms of the annual growth rate adjusted for securitization and liquidity-providing operations, loans to non-financial corporations (NFC) rose 4.5% to €75.7 billion and loans to households rose 3.7%, mainly driven by the growth in new lending for house purchase.

Asset quality continued to improve on the back of the ambitious strategies implemented to reduce NPL. Since the peak in June 2016, the NPL ratio decreased from 17.9% to 3.7%, with non-performing loans falling by €38.3 billion, and the NPL coverage ratio increased from 43.2% to 52.5%. In 2021, the net NPL ratio stood at 1.8% (-0.4 p.p. year-on-year).

Customer deposits continued to increase significantly in 2021 (+8,7% YoY).

The profitability of the banking system recovered after a significant decrease in 2020, with net income reaching €2,019 billion, versus €459 million in 2020 and €1,852 billion in 2019. This evolution reflected an increase in total operating income, mostly from income from financial operations and net income from services and commissions, but mainly due to a significant decrease in the flow of impairments as a result of lower restrictions related to the pandemic crisis and the economic recovery.

Digital transformation is a priority for Portuguese banks and strong progress has been achieved on this front. Internet banking users have increased from 38.1% in 2010 to 64.2% in 2021, and 69.9% of current accounts have online access. The number of payment cards issued totalled 21.2 million, and the number of online purchases represented 14.5% of card purchases comparing to 7.5% in 2019. Card payments using contactless technology increased significantly and grew by 102% in volume and 131% in value. At the end

of 2021, approximately 44% of purchases in terminals (30% in terms of value) were made using this technology.

The Portuguese government is strongly committed in promoting a more efficient, sustainable and inclusive economy. At the end of 2021, the Climate Basis Law was published, aligning Portuguese policies on climate change with the targets and objectives of the Paris Agreement, the European Green Deal and the European Climate Law. The main goal of the law was to achieve climate neutrality by 2050, but just a few months later, in the COP27, it was announced that Portugal was on track to bring forward the goal of carbon neutrality to 2045, given the progress made regarding public transport, hydrogen and ending coal-fired power stations. The Portuguese National Recovery and Resilience Plan has the commitment to have, at least 38% of expenditure in investments and reforms supporting climate objectives.

The Portuguese banking system is also embracing the sustainability agenda. In 2021, the Portuguese Banking Association became a supporting institution of the UN-convened Net-Zero Banking Alliance and the first issuance of green bonds and social bonds by Portuguese credit institutions took place.