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PORTUGAL

FINANCIAL SYSTEM STABILITY ASSESSMENT

June 2026

This paper on Portugal was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on May 15, 2026.

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KEY ISSUES

Context: The Portuguese financial sector has been resilient to shocks over the past decade, reflecting substantial deleveraging after the 2012 European debt crisis. Banks dominate the financial landscape, with strong capital and liquidity buffers and high profitability relative to peers. Credit growth is recovering after years of decline; while risks are currently moderate, ongoing monitoring is needed as the cycle evolves and the Middle East conflict unfolds. The sector has so far been resilient to rising global uncertainty.

Findings: Financial stability risks in Portugal are currently moderate. Banks demonstrate resilience under severe adverse stress tests, including shocks similar in magnitude to those during the European debt crisis. Rapidly rising real estate prices warrant close monitoring, as mortgage lending is now accelerating. Several macroprudential measures help limit systemic risks. The supervisory framework for less significant institutions (LSIs) is robust; further strengthening of supervisory prioritization and consistency across LSIs is needed. All financial regulators face challenges in hiring and retaining specialized staff. Legal provisions limit nonbank regulators' budgetary independence.

Policy advice: Authorities should ensure adequate resources to address emerging challenges. Housing market risks require close monitoring, and Banco de Portugal (BdP) should continue to develop tools to monitor banking sector risks. The macroprudential framework and tools should be further strengthened to enhance their effectiveness and prevent risk accumulation. System-wide institutional and cooperation arrangements for cyber risk oversight and crisis management should be formalized. The deposit insurance fund should be enhanced by gradually strengthening payout capacity and establishing a public backstop.

Approved By
Michaela Erbenova
Prepared By
Monetary and Capital Markets Department

This report is based on the work of the Financial Sector Assessment Program (FSAP) mission that visited Portugal in November 2025 and February 2026. The FSAP findings were discussed with the authorities during the Article IV consultation mission in May 2026.

- The FSAP team was led by Ranjit Singh and included Silvia Iorgova (Deputy Mission Chief), Jean Christine Armas, Guillaume Arnould, Antonio Pancorbo, and Laura Valderrama (all MCM), Gohar Minasyan (EUR), Arz Murr (LEG), David Hoelscher, Michelle Monsees, and Rhiannon Sowerbutts (external experts). Meiko Xie was the research analyst and Evelyn Schimpf provided administrative support. The FSAP team collaborated closely with the Portugal Article IV team.

- The team met with the Governor Álvaro Santos Pereira of the Banco de Portugal (BdP) and senior BdP staff; Minister Joaquim Miranda Sarmento, Minister of State and Finance (MoF); Luís Laginha de Sousa, President/Chair of the Management Board of the Portuguese Securities Market Commission (CMVM); Gabriel Bernardino, President of the Board of the Portuguese Insurance and Pension Funds Supervisory Authority (ASF); Lino Santos, Head of the National Cybersecurity Center (CNCS); José Oliveira, Vice-Chairman of the Council for Civil Emergency Planning (CNPCE) and other senior officials of these agencies, as well as industry associations and select domestic banks and private sector representatives.

- FSAPs assess the stability of the financial system as a whole and not that of individual institutions. They are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. Certain categories of risks affecting financial institutions, such as operational or legal risk, or risk related to fraud, are not covered in FSAPs.

CONTENTS

Glossary

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ANACOM	National Communications Authority (*In Portuguese:* Autoridade Nacional de Comunicações)
ASF	Insurance and Pension Funds Supervisory Authority (*In Portuguese:* Autoridade de Supervisão de Seguros e Fundos de Pensões)
BBM	Borrower-Based Measure
BdP	Banco de Portugal
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1
CMVM	Securities Market Commission (*In Portuguese:* Comissão do Mercado de Valores Mobiliários)
CNCS	National Center for Cybersecurity (*In Portuguese:* Centro Nacional de Cibersegurança)
CNSF	National Council of Financial Supervisors (*In Portuguese:* Conselho Nacional de Supervisores Financeiros)
CRM	Credit Risk Mitigation (Measure)
DORA	Digital Operational Resilience Act
DSP	Banking Prudential Supervision Department (*In Portuguese:* Departamento de Supervisão Prudencial)
DSTI	Debt-Service-to-Income (Ratio)
EA	Euro Area
EBA	European Banking Authority
ECB	European Central Bank
ESRB	European Systemic Risk Board
FGD	Deposit Guarantee Fund (*In Portuguese:* Fundo de Garantia de Depósitos)
FSAP	Financial Sector Assessment Program
GFM	Global Macro Financial Model
ICT	Information and Communication Technology
ISP	Instituto de Seguros de Portugal (Former insurance supervisor)
LCR	Liquidity Coverage Ratio
LSI	Less Significant Institution
LQER	Framework Law of Regulatory Entities (*In Portuguese:* Lei-Quadro das Entidades Reguladoras)
LTV	Loan-to-Value (Ratio)
MoF	Ministry of Finance
MoIH	Ministry of Infrastructure and Housing (*In Portuguese:* Ministério das Infraestruturas e da Habitação)
MtM	Mark-to-Market
NBFI	Nonbank Financial Institution
NFC	Nonfinancial Corporate

NII	Net Interest Income
NPL	Nonperforming Loan
NSFR	Net Stable Funding Ratio
O-SII	Other Systemically Important Institution
PCN	Positive Cycle Neutral (rate)
PD	Probability of Default
PIA	Public Interest Assessment
RWA	Risk-Weighted Assets
SI	Significant Institution
SRB	Single Resolution Board
SRF	Single Resolution Fund
SSM	Single Supervisory Mechanism
SyRB	Systemic Risk Buffer
WEO	World Economic Outlook

EXECUTIVE SUMMARY

Despite high global uncertainty, financial stability risks in Portugal remain moderate. The banking sector, which dominates the financial landscape, has contracted markedly in size since the European debt crisis, with banks boosting capital buffers and shifting to more stable funding sources. Systemic risk has declined, with banks exhibiting strong profitability and liquidity. Bank credit growth between the early 2010s and late 2024 remained sluggish, with credit declining steadily relative to GDP. Credit growth has accelerated since then, with risks for now moderate but warranting close monitoring as the cycle evolves. The sovereign-bank nexus has also weakened, as banks have rebalanced investments from domestic into euro area (EA) sovereign debt holdings. The greater cross-EA sovereign exposures could expose banks to EA repricing shocks and should be monitored closely.

A key forward-looking vulnerability is the interplay of rapidly rising house prices, easing credit conditions, and a possible further rise in household indebtedness. House prices have risen sharply, by 169 percent since 2015 (against an EA average of 55 percent) and by 18 percent in the year to September 2025. Housing-related risks to financial stability are currently subdued, in part since limited reliance on mortgage lending mitigates banks' credit risks. Household indebtedness relative to disposable income has declined markedly over the past two decades and has been below the EA average since 2022. The impact of a potential extreme house price correction on the banking sector is currently manageable. FSAP analyses show that banks can absorb cumulative house price shocks of 40 percent over three years, supported by strong capital buffers and the improved risk profile of real estate portfolios, reflecting borrower-based measures (BBMs). Banks' credit risk could rise if mortgage lending expands significantly and household indebtedness rises.

FSAP stress tests show that the banking sector is resilient to severe adverse shocks. Banks' credit quality has significantly improved over the past decade, marked by a sharp decline in nonperforming loans (NPLs). Their capital positions are strong, and profitability high, supported by robust interest income margins and higher efficiency than euro-area (EA) peers. Solvency stress tests confirm the banking sector's robustness against severe adverse macroeconomic shocks; even extreme combined credit, market, and interest rate shocks do not deplete any bank's capital buffers. The sector and all individual banks remain resilient to extreme stress under the assumption of worst historical losses. Sensitivity analyses show that the potential impact of the ongoing conflict in Middle East does not change these conclusions. Liquidity counterbalancing capacity is also robust.

Portugal has a robust macroprudential policy framework underpinned by effective communication and coordination; however further refinements are warranted. Banco de Portugal (BdP)—the macroprudential authority in Portugal—has full control over EU-harmonized instruments but should be granted binding powers over instruments beyond the EU-harmonized toolkit. Among these, multiple BBMs have successfully been employed but could be further streamlined given their complexity. In line with many EU countries, a positive cycle neutral (PCN) rate for the countercyclical capital buffer (CCyB) has been introduced, calibrated for risks in normal times**.** The range of releasable capital for periods of elevated risk should also be determined.

The supervisory framework for less significant institutions (LSIs) is robust and aligned with SSM methodologies, though some areas require further attention. BdP's supervisory tools and processes are well developed, and the supervisory cycle is conducted with discipline. The next step is to strengthen system-level prioritization and responsiveness by consolidating data on findings, severity, follow-ups, and escalations to ensure consistency of supervisory judgment across LSIs. Establishing an internal supervisory risk tolerance statement would improve prioritization and ensure consistency in supervisory decision-making and resource allocation. Implementing further prudential limits and standardized reporting for related-party exposures, and proportionate corrective actions and sanctions would support bank discipline. BdP also needs a multi-year staffing strategy to address challenges in hiring and retaining specialized mid-career professionals amid expanding mandates.

Legal amendments are required to ensure budgetary independence of nonbank financial regulators and strengthen their board appointment process. Although financially autonomous and fully self-funded, the ASF and the CMVM have limited independence due to inclusion in the state budget framework. Reviewing the Budget Framework Law's (LEO) application to the two regulators' budget execution would allow them to freely use their own resources for staffing, procurement, and expenditures. The appointment of the ASF and CMVM boards by the executive alone also poses a risk to their perceived independence. The adoption of appointment safeguards compatible with the constitutional framework is needed.

The cyber risk oversight framework is strong but should be further enhanced. Supervisory processes follow clear procedures and methodologies aligned with EU standards. Finalizing a cyber risk strategy for the financial sector and adopting new-generation cooperation protocols across regulators would strengthen integrated supervisory oversight. Developing a multi-year staffing plan is vital to attract and retain skilled cybersecurity professionals. Standardizing information-sharing and incident reporting across the sector will improve system-level oversight. Guidance on recovery time and point objectives should be developed for critical functions, and institutions' business continuity knowledge reinforced through formal policies.

Portugal has improved financial crisis preparedness and management, but further progress is needed. BdP should develop a staffing strategy to retain specialized staff. Multiple resolution tools are in place, though bail-in powers could be strengthened and the sale of business tool refined. The legal framework for cooperatives should be amended to enable coordinated resolution of cooperatives. An administrative insolvency regime for LSIs with negative public interest assessment (PIA) should be introduced to prevent asset value erosion. The Deposit Guarantee Fund's (FGD's) functioning should be enhanced and a public liquidity backstop facility established.

Most of the FSAP's work was conducted before the outbreak of the Middle East conflict in March 2026. Given the FSAP's focus on medium-term challenges and vulnerabilities, its findings and recommendations for strengthening policy and institutional frameworks remain valid. This report provides quantitative estimates of the possible impact of the conflict on the banking sector's solvency.

Table 1. Portugal: 2026 Key FSAP Recommendations		
Recommendation	**Agency**	**Timing***
Systemic Risk Analysis		
Monitor closely risks from real estate overvaluation, interest rate movements, bank debt portfolios, and vulnerable households.	BdP	ST
Further develop tools to monitor banking sector risks, including reverse stress testing and interest income models to better capture interest rate passthrough.	BdP	MT
Financial Regulators' Autonomy and Resources		
Develop multi-year staffing and retention strategies for BdP, ASF, and CMVM focused on mid-career professionals and Information and Communication Technology (ICT)/ data/AI skills to strengthen internal capacity.	BdP, ASF, and CMVM	ST
Reduce risks to BdP's perceived independence by considering improved board member appointment methods aligned with the constitutional framework, while ensuring robust internal governance safeguards.	MoF, BdP	MT
Review the LEO execution regime applicable to ASF and CMVM to support predictable and timely use of supervisory resources.	MoF	MT
Strengthen independence safeguards by introducing additional checks in ASF and CMVM board appointments, and clarifying statutory legal protection.	MoF	MT
Systemic Risk Monitoring and Macroprudential Policy		
Grant BdP binding powers for non-harmonized (BBM) instruments.	MoF	ST
Streamline the package of BBMs holistically to avert redundancies where possible but preserve original intent.	BdP	ST
Assess releasable capital needs for periods of elevated cyclical risk.	BdP	ST
LSI Regulation and Supervision		
Amend the legal framework to grant BdP more discretion to apply enforcement actions proportionate to a breach, combining corrective measures and sanctioning procedures.	MoF	MT
Establish prudential limits on all related-party exposures and require standardized periodic reporting.	MoF, BdP	MT
Formalize integrated cross-LSI monitoring to ensure supervisory actions are proportional, timely, and progressively escalated	BdP	MT
Develop internal supervisory risk tolerance based on existing thresholds and triggers to guide prioritization, proportionality, and resource allocation.	BdP	MT
Cyber Risk Oversight		
Finalize and implement a financial sector cyber strategy, including new-generation cooperation protocols across financial regulators, to enable integrated supervisory oversight.	CNSF, BdP, CMVM, ASF	ST
Strengthen data-driven cyber risk analysis, monitoring, and mitigation at the system-wide level, including via data sharing, to enhance financial stability efforts.	BdP	ST
Add legal provisions empowering the National Communications Authority (ANACOM) to require telecom operators to apply controls against spoofing and other cybercrime.	MoIH	ST
Financial Integrity		
Improve understanding of cross-border transactions by comparing transaction flows and economic fundamentals in corridors and leverage international cooperation.	BdP	ST

Table 1. Portugal: 2026 Key FSAP Recommendations (concluded)		
Recommendation	**Agency**	**Timing***
Strengthen domestic cooperation to monitor supervisory impacts and effectively mitigate misuse risks related to legal persons and arrangements.	BdP	ST
Continue targeted information-sharing with reporting entities and among competent authorities to support mitigation of risks related to the Golden Visa program.	BdP	MT
Financial Safety Net and Crisis Management		
Adopt an administrative bank insolvency regime applicable to all financial entities with a negative PIA.	MoF, BdP	MT
Enhance information sharing between BdP's resolution and supervisory functions to facilitate earlier transmission of information on distress in institutions.	BdP	ST
Undertake legal changes to enable resolvability of cooperative group entities.	MoF	MT
Strengthen FGD governance: exclude banking representatives from the board; legally protect board members' good faith actions; implement a public backstop funding facility; and remove government approval for payouts.	MoF, BdP	ST
* I: Immediate = less than one year; ST: short term = 1-2 years; MT: medium term = 3–5 years.		

BACKGROUND

A. Macrofinancial Context

1. Portugal's economy has grown robustly, outpacing the euro area (EA) average. Real GDP rose by 1.9 percent in 2025, mainly driven by private consumption, supported by strong labor markets and fiscal policies boosting real disposable income. Inflation declined to an average of 2.2 percent in 2025, but service inflation remained elevated, consistent with high real wage growth (6 percent) amid persistent tight labor markets (Figure 2). Unemployment is at historical lows. The budget recorded a surplus for a third consecutive year in 2025, and public debt continued to decline to around 90 percent of GDP from 134 percent in 2020.

2. Economic activity is projected to slow in 2026 and 2027. Growth is expected to slow in 2026, as negative spillovers from the Middle East conflict offset gains from higher expected EU-funded investments. Severe storms early in the year slowed growth, but reconstruction efforts should minimize their overall annual impact. The current account surplus is expected to narrow due to higher commodity prices and weaker external demand. The expected growth slowdown in 2027 mainly reflects the end of Recovery and Resilience Facility investment. As a small open economy, Portugal is vulnerable to global disruptions that could reduce growth and increase inflation, though tourism reliance and EU/EA membership help mitigate risks (Table 6).

B. Financial Sector Structure

3. The financial system is bank-dominated and has contracted considerably in recent years (Table 2). Banking sector assets represent 65 percent of the EUR 775 billion financial system, or 165 percent of GDP, down from 293 percent of GDP at end-2012—reflecting a significant balance sheet clean-up post-European debt crisis. Banks have rebalanced their portfolios, moving away from customer lending toward government debt, which now accounts for 20percent of assets, with decreased domestic sovereign exposure and rising investments in select EA countries (e.g., Italy, Spain, France). The nonbank financial sector has also contracted sharply**,** with assets at 91 percent of GDP, down from 200 percent at end-2010. Captive financial institutions and money lenders are the main nonbank players. Insurance companies, pension funds, and investment funds have a smaller presence compared to the rest of the EA.

FINANCIAL STABILITY ASSESSMENT

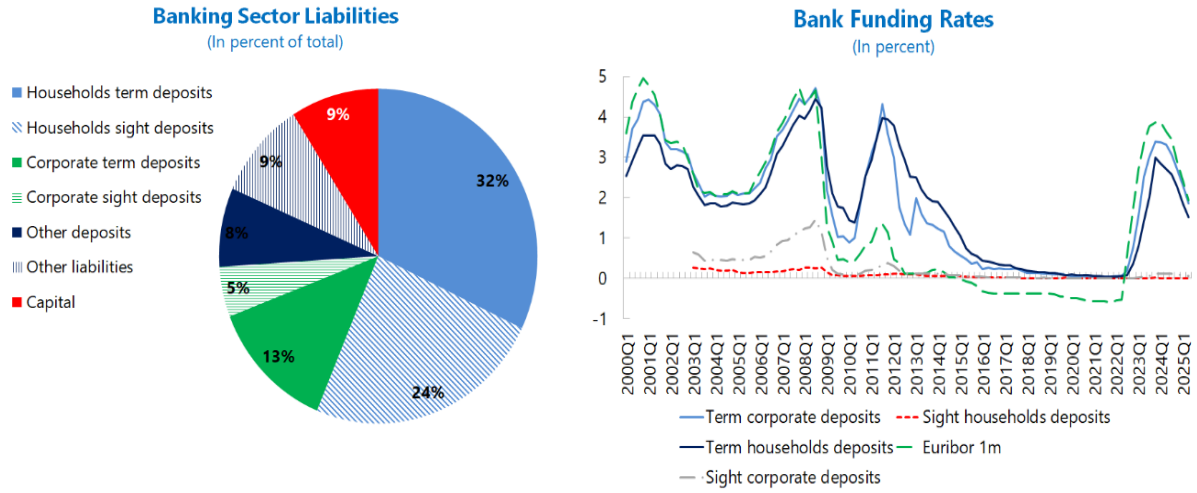
A. Key Risks and Vulnerabilities

4. The banking sector's resilience has greatly improved since the European debt crisis, and it is now highly profitable and well capitalized. At end-September 2025, the common equity Tier 1 ratio was 17.7 percent. Profitability, measured by annualized return on assets, remained strong at 1.3 percent in the first three quarters of 2025, after peaking at 1.5 percent in the second quarter

of 2024, driven by high interest income (Figure 2). Portuguese banks rely heavily on interest income, with interest-earning assets and interest-bearing liabilities comprising 85 percent of total assets and 80 percent of total liabilities, respectively. Higher efficiency, reflected in lower cost-to-income ratios, compared to EA peers, also contributes to profitability.[1]

5. Banks' strong profitability is structurally underpinned by a large deposit base and high policy rate pass-through to lending rates. Funding mainly comes from sight deposits (29 percent of total liabilities; Figure 1), reflecting limited depositor investment options, risk aversion, and the prevalence of small-sized deposits. Funding costs are low, as sight deposit remuneration is close to zero, unlike term deposits which track the Euribor. Net interest margins benefit from a high pass-through of policy rates to lending rates, reflecting prevalence of short-term and variable-rate loans. The effect is asymmetric: increases in policy rates boost asset returns faster than funding costs, enhancing profitability.

Figure 1. Portugal: Banking Sector Funding Profile



Source: Banco de Portugal.

6. Bank lending has accelerated after contracting in the 2010s, but loans continued to decline relative to GDP until a marginal increase in mid-2025—a sign of a possible shift in the credit cycle. Lending grew by 6.8 percent in 2025 but continued its decade-long decline relative to GDP to 89.5 percent of GDP at end-March 2025 (from 191 percent at end-2010), with a slight uptick in the rest of 2025. Household lending, including mortgages, surged 8.9 percent in 2025, driven by stronger demand, lower policy rates, and government housing support such as the guarantee

[1] Post-European debt crisis consolidation and branch rationalization have enabled Portuguese banks to achieve larger cost reductions than most euro area peers.

scheme for young first-time homebuyers introduced in 2024.[2] Corporate lending rose by 2.8 percent in 2025, signaling the start of a credit cycle shift, as household lending growth bottomed out in early 2024 and corporate lending began recovering in early 2025.[3]

7. While deleveraging continues, signs suggest household indebtedness may be reversing its downward trend. Nonfinancial corporate (NFC) debt declined to 104 percent of GDP at end-September 2025, down from 176 percent at end-March 2012. NFCs are increasingly funded by internal equity, supported by strong profitability (Figure 4). Year-on-year EBITDA for NFCs at end-September 2025 was 9.2 percent of total assets, considerably higher than in the preceding decade. Household indebtedness continued to decline relative to GDP but exhibited a slight upward reversal relative to disposable income in September 2025, following over a decade of deleveraging (Figure 5). The rise in the household savings rate to 12.5 percent in June 2025, from 7.3 percent in 2022, provides a buffer against shocks.

8. Banks' credit quality has improved significantly in the past decade, but the rapid growth in house prices warrants close monitoring. NPLs declined to 2.3 percent of total assets at end-September 2025 from 17.3 percent at end-2015, as banks pursued aggressive strategies to restore asset quality after the European debt crisis (Figure 3).[4,5] The rapid rise in house prices outpaced household income. Mortgage lending grew 9.6 percent in 2025, the fastest since 2010. Risks are mitigated by a sectoral systemic risk buffer (SyRB) on residential real estate and by increases in disposable income and the savings rate. Shares of new loans with high loan-to-value (LTV) and debt-service-to-income (DSTI) ratios declined through end-2024 but have recently risen due to government guarantees for first-time homebuyers.

9. Systemic risk has declined since the European debt crisis, but rising household credit may signal a shift in the credit cycle. Banks' credit quality and liquidity have been strong over the past decade. Reduced lending and expanded deposit funding lowered the aggregate loan-to-deposit ratio from 123 percent at end-2012 to 76 percent at end-September 2025. Banks maintain substantial liquidity buffers, with the liquidity coverage ratios (LCRs) and the net stable funding ratios (NSFR) well above the regulatory minimums.[6] With lending growth accelerating, the loan-to-deposit ratio rose slightly at end-September 2025, suggesting a potential increase in risk-taking, the evolution of which should be closely monitored.

10. Domestic interlinkages are limited; however cross-border banking activities warrant ongoing monitoring. Institutional interconnectedness has diminished over the past decade.

[2] Most real estate loans are to households; CRE loans account for 25 percent of the total—one of the lowest levels in the EA; most are to firms with construction and real estate activities and firms with real estate-related collateral.

[3] A large share of outstanding corporate debt (46 percent) goes to the services sector; 16 percent go to industry.

[4] Bank NPLs were low across portfolios at end-September 2025 (1 percent for housing loans to 6.1 percent for consumption loans). The loan loss charge was 0.14 percent of total loans, close to its lowest since 2008.

[5] Banks' NPL reduction strategies included large-scale portfolio sales to specialized international investors and asset management companies starting as early as 2014.

[6] At 251 percent at end-September 2025, the aggregate banking-sector LCR is the second highest in the EU.

Bilateral links between banks and nonbank financial institutions (NBFIs) have declined significantly both on the asset and liabilities side. At end-March 2025, banks' asset exposures to NBFIs were 3.9 percent of total assets, and funding from NBFIs was 3.9 percent of total liabilities, down from 10.1 percent and 12.6 percent, respectively, at end-2013. The sovereign-bank nexus has eased, reflecting a decline in banks' direct domestic public debt exposure. Banks' exposure to other EA countries' sovereign debt is increasing and should be monitored, including concentration risk. Cross-border banking operations are modest but warrant monitoring, given the significant presence of Spanish bank subsidiaries in Portugal (23 percent of sectoral assets).[7]

11. The ongoing Middle East conflict is likely to have a limited direct impact on the financial sector, but second-round credit quality effects could be more significant. Depending on its duration and intensity, the conflict could create cost-of-living pressures. Although low-income households would face the highest overall burden, they account for a limited share of mortgage borrowers, thereby limiting direct effects on the banking sector. The tourism, manufacturing, and transport sectors could be negatively affected. Second-round effects from energy shocks, inflation, and higher interest rates if the conflict persists or intensifies can hurt banks' credit quality and create balance sheet pressures if EA sovereign debt stress emerges. Higher interest rates mitigate risks, as they improve bank profitability.

B. Bank Stress Testing and Systemic Risk Analysis

Stress Testing Scenarios

12. The resilience of the banking sector and the private nonfinancial sector (NFCs and households) was assessed under three macrofinancial scenarios (Table 7). The baseline scenario aligns with the October 2025 IMF World Economic Outlook (WEO) projections. Two severe adverse scenarios capture risks from the Risk Assessment Matrix (RAM; Table 6).[8] These scenarios are consistent with the EA FSAP and were simulated via the IMF's Global Macro Financial Model (GFM).

13. The adverse scenarios assume a sharp global economic slowdown, with a significant decline in Portugal's exports and tourism receipts. The first, *recessionary scenario* involves a synchronized global downturn, amplified by sovereign debt distress in the EA, widening credit spreads, term-premium decompression, and confidence loss that dampens aggregate demand. Accommodative monetary policy helps cushion this demand decline. The second, *geopolitical scenario* involves an escalating geopolitical conflict, with higher commodity price volatility and global supply chain disruptions. Trade wars slow growth. Countries with adequate fiscal space partly offset the demand shock. Rising inflation prompts monetary tightening. Both scenarios are aligned

[7] Spanish banking groups' use of single-point-of-entry resolution strategies increases reliance on intragroup support and contagion risks.

[8] The baseline scenario reflects the WEO projections of global and local macrofinancial conditions as of October 2025, including GDP growth, unemployment, headline inflation, and house prices, as well as labor costs and oil price.

with past stress episodes and are more severe than the 2025 European Banking Authority's (EBA's) stress test scenario. Each scenario includes a severe house price correction. Both scenarios also include market risk shocks, with an assumed rise in EA sovereign credit spreads.

Solvency Risk

14. Solvency stress tests evaluated the impact of the macro scenarios on banks' capital positions. The banks' resilience to macrofinancial shocks was assessed over three years for several risk types, including *credit risk* from loan exposures and securities held to maturity; *market risk* from revaluations of debt securities held at fair value; and *interest rate risk*. Resilience was assessed against three capital adequacy hurdles (Table 7). Banks' balance sheet was assumed constant, with capital built up via retained earnings. Household and NFC vulnerabilities were analyzed and linked to the stress tests using joint probability of default (PDs) estimates.

15. Extreme but plausible house price shocks were calibrated using external overvaluation estimates and analysis of past global downturns. Shocks of 20 and 25 percent were assumed for the recessionary and geopolitical scenarios, respectively.[9] These shock magnitudes considerably exceed past price corrections in Portugal. As of end-June 2025, real house prices were 21 percent above their long-term alignment with real gross national disposable income (GNDI) per household. The shocks were applied in the GFM model to estimate scenario-consistent macroeconomic paths (Figure 6).

16. The solvency stress tests show the banking system is resilient to extreme stress. Combined credit, market, and interest rate shocks do not deplete any bank's capital buffers (Figure 7). The aggregate Common Equity Tier 1 (CET1) ratio falls to 17.1 percent and 16.3 percent in the first year under the geopolitical and recessionary scenarios, respectively (17.7 percent in the baseline), in the first case even recovering to 17.8 percent by the end of the stress testing horizon. Corporate and household loan PDs rise significantly but remain below levels reached during the European debt crisis, supporting strong bank balance sheets and profitability, which underpin their resilience. Net interest income (NII) closely follows short-term interest rate dynamics, rising markedly under the geopolitical stress scenario and declining in the recessionary scenario.[10] Market losses are contained, despite sizeable exposures to EA sovereign debt and a severe credit spread shock, as most sovereign holdings are held at amortized cost. The sector remains resilient even under a quasi-reverse stress test assuming PDs at past peaks, with no capital buffer depletion.[11,12]

[9] The 25 percent shock is within the top 5th percentile of past house price collapses globally. It is more extreme than the Portugal-specific shock assumed by the 2025 EA FSAP and is in line with EBA's stress test (25 percent).

[10] This reflects a high estimated pass-through to loans—mostly short-term or floating-rate—while pass-through to deposits, the main funding source, is low (see the FSAP Technical Note on Systemic Risk Analysis and Stress Testing).

[11] FSAP analysis shows that the banking sector also remains resilient under the extreme but implausible assumption of a 40 percent drop in house prices near the historical upper extreme of shocks observed globally.

[12] The implicit tail shocks in the reverse stress test exceed the shocks assumed to be associated with an extension of the ongoing conflict in the Middle East. Further deepening BdP's reverse stress testing capacity and developing tools for analysis of macrofinancial feedbacks and net interest income dynamics will be beneficial.

17. Losses vary across banks, but no bank becomes undercapitalized. The stress test results are driven by significant institutions (SIs), with less impact on LSIs and foreign subsidiaries. SIs face higher capital losses in both scenarios—driven by more compressed NII, higher credit and market losses, and a sharper rise in risk-weighted assets (RWAs)—leading to lower CET1 ratios than other bank groups. LSIs and foreign subsidiaries show greater resilience—supported by stronger, more stable NII and lower losses—while foreign subsidiaries, despite lower initial CET1, generate the largest capital gains over the horizon.

Sensitivity Analyses

18. Single-factor sensitivity analyses assessed the banking sector's vulnerability to isolated shocks. The shocks included simultaneous defaults of banks' largest common exposures to assess concentration risk, and mark-to-market (MtM) revaluations of amortized-cost sovereign debt securities to assess the sovereign-bank nexus. The banking system's concentration risk exposure is contained due to credit risk mitigation (CRM) measures such as eligible collateral and guarantees. Banks' large exposures, mainly to NFCs across multiple sectors, are substantial relative to Tier 1 capital, but net exposures decline considerably after accounting for CRM measures. The system-wide shortfall of the revaluation of amortized-cost securities remains manageable at 0.5 percent of aggregate RWAs.

19. Further analyses show the banking sector is expected to remain solvent in case of economic spillovers from the ongoing Middle East conflict. These included: (i) bank credit loss estimations on loans to the tourism, transportation, and manufacturing sectors (11.9 percent of total bank lending), assuming a rise in defaults to historical peaks (up to about three times the levels in the geopolitical scenario); and (ii) a household stress test, assessing the impact of a conflict-related WEO severe scenario on household budgets via higher living costs and mortgage repayments.[13] The household stress test shows that up to 40 percent of households could become overburdened, with 32 percent of bank debt at risk.[14] The combined credit losses for sectoral losses and rising household defaults are assessed to be up to 140 basis points, with banking sector capitalization remaining considerably above the minimum capital requirements given sizable bank buffers.[15]

Liquidity Risk

20. FSAP liquidity stress tests indicate that banks have strong liquidity buffers. Alongside static assessments of LCR and NSFR, cash flow-based stress tests evaluated liquidity shortfalls under three scenarios: general risk aversion, sovereign market distress, and severe idiosyncratic funding

[13] The household stress test is based on the micro model used for household vulnerability analysis and uses the WEO severe scenario as of April 2026. The GDP growth shock for Portugal in the scenario is markedly less severe than the FSAP's adverse scenarios, even though the inflation path is similar to the geopolitical scenario. Oil prices reach about $110 per barrel in 2026 and about $125 in 2027, while gas prices for Europe and Asia increase by 200 percent over the same period, and food commodity prices rise by 5 percent in 2026 and 10 percent in 2027

[14] Households account for 57 percent of bank loans.

[15] This analysis does not capture other transmission channels, such as the impact of a rise in the loan rate, which could be beneficial for banks.

shocks over various horizons (from overnight to one year). This approach assessed banks' potential cumulative net contractual gaps and available liquidity buffers to offset outflows during stress. Banks demonstrated robust liquidity counterbalancing capacity. Banks' high LCRs reflect sustained growth in high-quality liquid assets (HQLA) in recent years. Under the milder scenarios, all banks maintained positive net liquidity positions over a one-year horizon. In the severe idiosyncratic shock scenario, three banks faced minimal shortfalls.

Corporate and Household Sector Risks

21. The FSAP also evaluated the vulnerabilities of the corporate and household sectors. Corporate sector vulnerability has significantly declined since the European debt crisis, mainly due to markedly lower leverage, resulting in lower PDs under extreme shocks to sales, profitability, and interest rates. Vulnerabilities vary widely, with large firms less exposed than micro firms; and construction firms facing the highest risks. Household risks warrant close attention: in the adverse geopolitical scenario, 25 percent of households become vulnerable, with banks' debt-at-risk rising to 20 percent.[16]

House Prices

22. The sharp rise in house prices over the past decade poses a key vulnerability (Box 1). Direct credit risks to banks are mitigated by the limited role of mortgage loans in house purchases, with less than half of house purchases financed by banks. However, close monitoring remains essential because of broader economic effects and the recent reversal in the bank lending cycle.

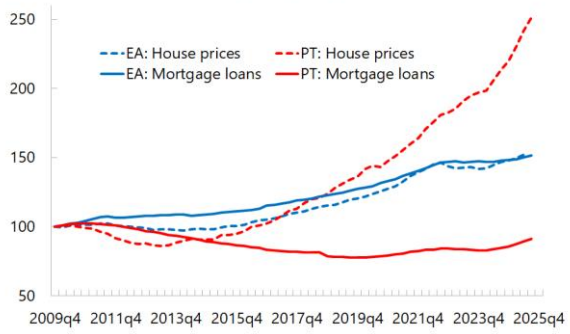
Box 1. Portugal: Housing Market Vulnerabilities: Key Issues and Policy Considerations

House prices have been rising sharply in recent years, persistently diverging from long-term fundamentals. Prices have risen by 169 percent since 2015 (EA average of 55 percent), up by 18 percent in the year to end-September 2025 alone. Credit has not been a major driver, as mortgage lending has grown considerably more slowly than house prices (figure). The ratio of new housing credit to total value of house purchase transactions (about 50 percent) is low by EA standards, partly reflecting nonresidents' role and high household savings in real estate. This may change, as mortgage growth has been outpacing the EA average since 2023 (figure). The persistent deviation of house prices from their long-term equilibrium relative to income levels suggests that structural rather than cyclical factors dominate housing market imbalances.

[16] The FSAP used the ECB's 2021 Household Finance and Consumption Survey (HFCS) survey to identify vulnerable households; HFCS was "aged forward" to end-2024 to reflect recent economic conditions. Households are deemed vulnerable if their "overburden rate"—the share of household income used for essential payments that include housing costs, debt service, and essential consumption—exceeds a vulnerability threshold.

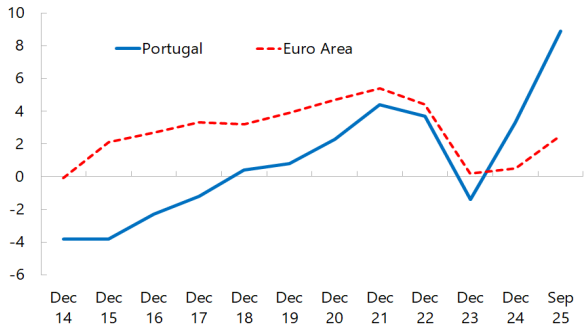
Box 1. Portugal: Housing Market Vulnerabilities: Key Issues and Policy Considerations (concluded)

House Prices and Stock of Mortgage Loans to Households
(2009q4=100)



Sources: ECB, Eurostat, Haver Analytics

Mortgage Loans to Households
(year-on-year percent change)



Sources: Banco de Portugal

Sluggish housing supply remains a major structural bottleneck. Since the European debt crisis, housing supply has become less responsive to price changes, reflecting structural shifts in the sector. Productivity in the construction sector is low, and house completions per capita in 2014-23 were the lowest in the EU. Inefficiencies arise from skill shortages and mismatches, restrictive building regulations, and lengthy permit procedures. Heavy reliance on transaction taxes over recurrent property taxes, discourages sales of underused properties. Use of properties for short-term tourist rentals—especially in tourist-heavy areas—reduce sales of existing properties without boosting new construction.

Structural issues in the rental market also exacerbate house market imbalances. Despite limited new construction, housing stock per capita is high and the share of non-primary residences is the highest in the OECD. The rental market is small (12 percent of households rent). Rental caps and other regulations that are stricter for older rental contracts have contributed to the decoupling of house prices from rents since the European debt crisis. Rent rigidity discourages long-term rentals and increases demand for house purchases.

The government has in recent years taken measures to improve housing affordability with varying success. Initiatives have sought to revitalize the construction sector by simplifying procedures and offering tax incentives. Measures to support young first-time homebuyers have also been introduced, including a public guarantee covering up to 15 percent of the home value, along with exemptions from municipal tax and stamp duty. High-level estimates suggest these measures have likely contributed to house price increases without significantly boosting house purchases.

Short–term banking risks from a house price correction are limited but could rise as housing lending accelerates. Corrections impact banks directly through mortgage exposures and indirectly via broader economic spillovers. Current risks are mitigated by strong capital buffers and the improved risk profiles of banks' real estate portfolios, supported by the BBMs since 2018. The new government guarantee scheme for first-time homebuyers has increased LTV ratios and loan maturities. Direct risks are mainly fiscal but second-round macroeconomic effects are possible. BBMs are unlikely to influence the housing market due to credit's limited role in house transactions but strengthen household and bank resilience, thereby mitigating macrofinancial spillovers. BdP is encouraged to conduct a study of the possible medium- to long-term macrofinancial impacts of the government measures on financial stability, in addition to the analyses it is already conducting.

FINANCIAL SECTOR OVERSIGHT

A. Systemic Risk Monitoring and Macroprudential Policy

23. BdP's relies on advanced models for systemic risk monitoring and policy analysis but needs broader powers to collect data on emerging risks. Its analytical toolkit is wide ranging, including multiple quantile regression ("at risk"), house price valuation, machine learning, and DSGE models; a core bank solvency stress testing model with ad hoc scenario capabilities supports regular analysis. While a liquidity stress testing model has been developed, it needs refinement to better capture short-term liquidity shocks and interbank interactions for system-wide oversight. BdP has high-quality data and data collection, but these are limited to ad hoc analyses and should be expanded to regular data gathering.

24. The institutional framework for macroprudential policy is robust and follows best practices, but BdP lacks enforcement powers for instruments beyond the EU-harmonized toolkit. BdP holds the macroprudential policy mandate, while CMVM and ASF also have financial stability roles. BdP has full control over EU-harmonized instruments like the CCyB and OSII buffers but lacks binding powers beyond these, for tools such as BBMs. Compliance is currently high in the risk-off environment but may decline as banks shift to risk-on behavior and if new lenders enter the market. BdP should be granted binding powers by legislators to enforce instruments beyond the EU-harmonized toolkit.

25. Macroprudential coordination and communication are effective, though BdP's public communications could be further streamlined. Coordination functions effectively within BdP and with financial authorities and EU macroprudential bodies. An internal BdP committee regularly discusses macroprudential issues. The National Council of Financial Supervisors (CNSF) coordinates macroprudential policy across agencies and offers non-binding advice, supported by a high-level risk dashboard. BdP participates in working groups of the European Central Bank (ECB) and the European Systemic Risk Board (ESRB) and engages in extensive EU consultations. Public communication on macroprudential policy uses multiple channels; however, an efficiency review of these is advised. Creating a centralized online BdP macroprudential hub should be considered.

26. BdP has developed a comprehensive macroprudential toolkit for the banking sector. The toolkit has been methodically expanded, most recently introducing a positive neutral CCyB rate of 0.75 percent in January 2026, aligning Portugal more closely with EU practice. Releasable capital buffers include the CCyB and a sectoral SyRB addressing residential real estate risks, which has been effective since October 2024. A buffer for other systemically important institutions (O-SIIs) was introduced in 2018 and fully applied in 2023. BBMs, including LTV and DSTI limits, have been in place since 2018, and a conservation capital buffer since 2016.

27. BdP is now focused on building resilience earlier in the financial cycle. The PCN CCyB rate of 0.75 percent, though lower than in other countries, is appropriate in the current "normal" phase. It is based on the EBA 2023 adverse scenario and rises to about 1 percent of releasable

capital when combined with the sectoral SyRB, also releasable under stress.[17] BdP's policy clearly defines the PCN CCyB calibration for "neutral" times, but the extent of releasable capital needed for the "elevated" risk phase is yet to be determined. This is especially crucial since many Portuguese banks, being foreign subsidiaries, do not raise equity through capital markets. Studies show that significantly more capital may be needed at the cycle's peak compared to the neutral phase.

28. BBMs have strengthened resilience to real estate risks, but rising house prices may challenge this resilience and warrant possible toolkit streamlining. Multiple BBMs implemented by BdP have helped mitigate the risks from rising house prices. Over time, the toolkit has become complex, now including three LTV limits, a DSTI limit (with two exceptions), three age-based maturity limits, regular payment requirements, and an average maturity limit for banks. A comprehensive review and streamlining of these measures could be beneficial to reduce administrative complexity and improve financial stability by facilitating compliance monitoring and enforcement, while still ensuring banks and households remain resilient.

B. LSI Regulation and Supervision

29. BdP's LSI supervision framework is robust and aligned with Single Supervisory Mechanism (SSM) methodologies. LSI supervision has strengthened markedly through ongoing framework improvements, collaborative decision-making, clear delegation, transparent communication, and a commitment to integrity. The supervisory process now includes structured SREP assessments, enhanced onsite inspections, use of digital tools, and strengthened core risk oversight. BdP's supervisory mandate and role within the SSM are defined in its statute. Recent EU legislation adds responsibilities for cyber-resilience, oversight of critical entities, crypto asset supervision, and prudential powers over material holdings, restructurings, asset transfers, and penalties.

30. BdP's prudential supervision of LSIs is backed by broad and effective legal powers. Under its statute and the Banking Law, BdP can issue binding regulations, require corrective actions, order special audits, impose early intervention measures, and apply sanctions. It has full access to information and can require LSIs to address supervisory deficiencies. BdP holds critical national rulemaking powers for non-fully harmonized areas.[18] It applies rules directly to LSIs and acts under ECB direction regarding SIs, consistent with the SSM. To maintain proportionality and align with international standards, BdP should continue to regularly update its secondary regulations, especially when EU guidance is limited.

31. BdP's supervisory independence is articulated in national law, with governance safeguards and the EU framework; however, actions are needed to protect its perceived independence. BdP's statute guarantees its institutional, functional, and financial independence. Its

[17] FSAP sensitivity analysis shows that credit losses are not highly sensitive to scenario variations of equal severity; the current PCN rate thus likely adequately guards against mild adverse shocks in the neutral cycle phases.

[18] Non-fully harmonized areas include related-party transactions, major acquisitions, country and transfer risk, and concentration risk.

supervisory function is legally separate from other central bank functions. Internal safeguards cover collective decision-making, accountability, incompatibility, decision and document traceability, and conflicts of interest. BdP staff and board members have legal protection for good-faith supervisory actions. However, executive-only board appointments may undermine its perceived independence. New appointment procedures aligned with constitutional rules and subject to strong governance safeguards are needed to address this risk. Regular reviews of profit-distribution arrangements are necessary to ensure sufficient and flexible supervisory funding.

32. BdP effectively supervises LSIs within its current resources but needs to develop a multi-year staffing strategy. BdP's Banking Prudential Supervision Department (DSP) faces high staff turnover which reduces mid-career supervisory capacity and creates a structural vulnerability. This hampers BdP's ability to secure and retain specialist skills—particularly in ICT, data, and AI—needed for its expanding supervisory responsibilities. No forward-looking plan links staffing levels and skills to emerging supervisory needs. A plan to address these gaps and a retention strategy based on these findings will be considered by BdP's board. Developing a multi-year staffing and retention strategy is critical to maintain supervisory quality and consistency and meet evolving responsibilities.

33. BdP's supervisory framework uses a structured risk-based approach of supervisory intensity, which could be further enhanced. Its risk-based prioritization of LSIs, which follows the ECB's LSI Classification Methodology, and its minimum engagement requirements are integrated in a coherent annual cycle. Responses to emerging risks are flexible, with supervisory intensity adjusted through the risk-based supervisory process. Creating an internal supervisory risk tolerance statement by consolidating existing risk-tolerance parameters would improve supervisory prioritization and consistency of decision-making and resource allocation. Supervisory consistency would also benefit from consolidating data on findings, severity, follow-ups, and escalations. Expanding supervisory efficiency indicators to cover the full supervisory cycle would enhance planning and better align supervisory intensity with risk profiles.

34. Certain cross-cutting issues need to be addressed to further enhance LSI supervision effectiveness. Bank discipline can be strengthened by setting further prudential limits and standardized reporting for related-party exposures, as well as applying sanctions more proportionately. The supervisory framework for related-party transactions is effective but would benefit from regular reporting requirements and horizontal or thematic reviews to improve BdP's systemic risk view and supervisory consistency. The ability to apply corrective measures and sanctions proportionately remains limited; changes to the governing legal framework are needed to ensure that enforcement measures can be applied flexibly and commensurately with the severity of breaches.

C. Independence of NBFI Oversight and Resource Adequacy

35. The two NBFI supervisors have institutional and operational independence, but limited

budgetary autonomy, weakening resource management.[19] ASF and CMVM have clear legal mandates and institutional frameworks and, under LQER, hold broad supervisory, regulatory, and enforcement powers, along with administrative and management autonomy. Their funding comes solely from supervised entities, with no regular state budget transfers. Governance safeguards include rules on board terms, dismissal, conflicts of interest, and accountability. However, their budgetary independence is restricted by inclusion in LEO's State Budget execution perimeter. Annual budgets and surplus usage require MoF approval and must be fully spent within the fiscal year due to carry-over rules. Staffing, procurement, and spending depend on authorization through the annual budget process. This hinders multi-year planning and investments despite available internal funds. A timely LEO review is needed to enable predictable supervisory resource use.

36. Certain NBFI supervisors' governance practices should be revisited, in part to reduce risks to perceived supervisory independence. Board appointment procedures are legally defined and transparent but grant sole decision-making authority to the executive: ASF and CMVM do not formally participate in board member selection, and parliamentary hearings are non-binding. This setup may undermine the supervisors' perceived independence. Consideration should be given to shared-approval or double-veto appointment process, or another safeguard consistent with the constitutional framework. Board members and staff have legal protection under general state liability provisions and statutory rights, though these remain untested in supervisory litigation. Explicit statutory indemnification clauses should be included in the law to remove legal ambiguity. Post-employment cooling-off requirements in LQER need review, as the current two-year restriction on board members and senior staff and limited compensation discourage recruitment and retention of experienced staff.

D. Cyber Risk Oversight

37. Cyber risk oversight is guided by an evolving strategy and governance processes that should be further aligned across the financial sector. The framework is aligned with EU standards, including the Digital Operational Resilience Act (DORA). Supervisory verification of financial institutions' ability to resume critical operations after a cyber event is conducted via mandated DORA testing, benchmarking mechanisms, onsite inspections, and supervisory stress tests. The supervisory authorities—BdP, ASF, and CMVM—coordinate via the CNSF. The sector-wide cyber risk strategy under consideration should be finalized, and cooperation protocols incorporating cybersecurity adopted to align system-wide oversight. Formalization of BdP's arrangements with the National Data Protection Agency on data leakage incidents should also be considered. All three supervisory authorities face challenges in cyber risk oversight capacity and retaining specialized staff. A multi-year staffing and retention strategy is needed to meet expanding needs.

38. Significant progress has been made in monitoring, response, and recovery, but further improvements are needed. BdP actively monitors threats and has undertaken cyber risk mapping,

[19] The challenges to the independence of the NBFI oversight bodies related to budgetary execution were first identified in the 2007 FSAP.

which requires further elaboration. Quantitative analyses are also being developed. A bottom-up sectoral stress testing exercise was previously conducted. Cybersecurity testing frameworks like the ESRB cyber resilience scenario testing framework and TIBER-PT are deployed, and data recovery tools nearing completion. BdP oversees cyber-attack simulations ("red teaming"), but wider sectoral coverage is necessary. Integrated monitoring by the three financial regulators and a Generic Threat Landscape report should be considered. Crisis testing warrants further attention. A sector-wide crisis exercise was conducted but not against standardized resilience metrics and objectives; conducting such an exercise would be beneficial. Tabletop exercises should continue to be deployed.

39. Cyber deterrence is supported by well-established legal mechanisms, but better institutional partnerships are needed. Formal escalation procedures for sector-wide incidents and improved coordination with law enforcement should be established. Information sharing and incident reporting are guided by EU-level frameworks, but sector-wide standardization is needed to strengthen system-level oversight. Collaboration with telecoms should be enhanced. The intended adoption of legal changes to empower the National Communications Authority (ANACOM) to require telecom operators to implement technical controls against spoofing and related cybercrime is paramount to enable proactive cybercrime prevention.

E. Financial Integrity

40. BdP's should continue strengthening Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) supervision to ensure effective risk mitigation. Significant progress has been made in assessing of money laundering and terrorist financing (ML/TF) risks of cross-border transactions. The economic basis for corridors of high-risk economic activities is analyzed to detect anomalies that require further scrutiny. While these measures are effective, international cooperation should be leveraged to better understand these flows and associated ML/TF risks and develop mitigation strategies. BDP guidance, controls, and supervision are being used to mitigate the ML/TF risks of misuse of crypto assets. A newly established legal framework enables EU crypto asset service providers to operate in Portugal. However, regular ML/TF risk assessments of crypto assets and the development of suitable supervisory tools are needed to effectively address emerging risks. Adequate AML/CFT supervisory resources should be maintained.

41. ML/TF risks in the real estate sector and the Golden Visa program need attention. Misuse risks of the Golden Visa program are rising due to more complex transactions. Domestic information-sharing on high-risk transactions has enabled targeted supervisory guidance distributed to reporting entities to enhance due diligence. As the impact of these measures remains unclear, supervisors should evaluate effectiveness using feedback from the financial intelligence unit and law enforcement. Continued information sharing on Golden Visa beneficiaries will help BdP supervisors implement effective preventive measures.

42. A key concern ahead of the update of Portugal's national risk assessment is the high misuse risk of legal persons and arrangements.[20] Legal entities are prone to misuse for ML, tax evasion, and sanctions avoidance. Rapid company formation in Portugal and challenges verifying beneficial ownership of foreign entities pose major risks. Legal entities linked to foreign investments and programs are especially vulnerable. A 2022 thematic bank inspection found gaps in identifying beneficial ownership, leading to supervisory follow-ups. Enhanced cooperation among supervisors and national authorities is needed to improve information-sharing, assess supervisory impact, and enhance risk mitigation.

FINANCIAL SAFETY NET AND CRISIS MANAGEMENT

43. BdP's resolution function is well-established, though several areas such as staff retention require attention. The EU resolution framework is transposed into Portuguese law. BdP and the Single Resolution Board (SRB) share responsibility for bank resolution: SRB leads on SIs and cross-border LSIs, while BdP handles domestic LSIs. BdP is responsible for resolution execution for both SIs and LSIs. BdP staff retention is a notable challenge requiring a multi-year staffing strategy to retain specialized personnel and maintain stable staff levels. While BdP's resolution department and DSP regularly exchange information during normal times, crisis cooperation protocols should be reviewed to ensure early information exchange. Legal reforms are needed to improve cooperative groups' resolvability by enabling joint resolution of their central body and affiliated cooperatives.[21] Resolution funding will mainly come from the EU's Single Resolution Fund (SRF), subject to strict limits on minimum use of the bank's own funds and subject to maximum SRF contribution. A financial stability exemption for these limits, as recommended by the recent EA FSAP, should be introduced.

44. Multiple resolution tools have been implemented, but further enhancement is needed. These tools include bail-in, sale of business, bridge bank, and asset management vehicles. Bail-in powers can be strengthened. While the legal framework allows bail-in of securities within the EU, BdP is working to enable bail-in under third-country law. BdP has used the sale of business and asset management vehicle tools to resolve BANIF and the bridge bank tool for BES in 2014-15. The sale of business tool should be further refined to enable BdP to auction packages of failed bank assets and deposits to external buyers during resolution or liquidation.

45. LSIs with negative PIA are liquidated through the corporate insolvency regime, **which is inefficient; an administrative insolvency regime should be implemented.** Court-based insolvency proceedings are slow, raising the risk of asset value erosion. Adopting an administrative bank insolvency regime which includes transfer powers for institutions with negative PIA, including

[20] A national ML/TF risk assessment update will be conducted in 2026. It will cover various issues, including the risk of misuse of legal persons and crypto assets, and the breach of foreign sanctions regimes.

[21] Cooperative groups in Portugal are often federated or mutual based, meaning that the group includes a central institution and numerous smaller affiliated cooperatives.

cooperatives, should address this issue. The decision-making framework for selecting resolution strategies requires improvement to better manage the liquidation of entities with negative PIA.

46. FGD's governance and effectiveness should be strengthened and funding backup mechanisms established. Additional full-time permanent staff are required. The FGD Board should exclude banking industry representatives to prevent conflicts of interest. Government involvement in FGD's decision-making—such as portfolio requirements and MoF expense approvals—should be removed. FGD's payout capacity should be gradually enhanced. An automatic emergency liquidity backup facility from the MoF, or temporarily from BdP, should be created.

47. A permanent inter-agency body should be created to ensure coordination of crisis policy responses. The CNSF holds a crisis-coordination mandate, but current arrangements are mainly bilateral. BdP is the primary technical and operational authority in crises, except when the risks involve non-banks. BdP coordinates with MoF, CMVM, and SRB and oversees bank resolution. Bilateral arrangements are being developed to improve crisis information sharing and decision-making. BdP, CMVM, and ASF have agreed to develop a trilateral crisis management protocol for cooperation in recovery and resolution planning and implementation of actions, which should be finalized.

AUTHORITIES' VIEWS

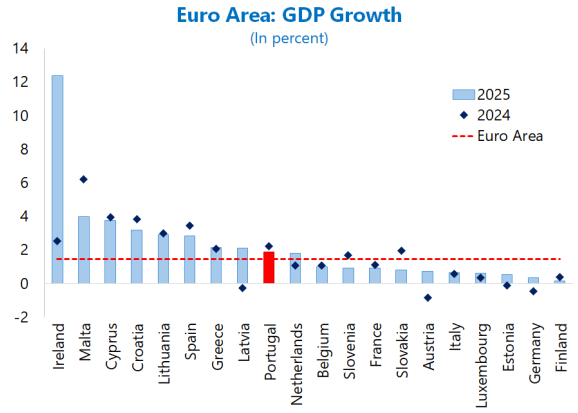
48. The Portuguese authorities greatly appreciated the FSAP engagement and the collaborative spirit in which the discussions were held. They appreciated the constructive exchange of views with the team and the in-depth assessment of systemic risks and banking regulatory framework.

49. The authorities broadly agreed with the systemic risk assessment. They concurred with the FSAP stress test findings that the banking system is resilient to severe macrofinancial shocks from solvency and liquidity perspectives. The authorities argued that banks' high structural profitability and risk-off stance over the past decade support their soundness under stress. They concurred that the rapid house price growth in the past decade constitutes a key macroeconomic vulnerability. However, risks to the banking sector are mitigated by adequate macroprudential measures on residential mortgage lending in force since 2018, as well as by the fact that a relevant part of housing acquisitions have not been financed through bank loans. Additionally, the authorities also noted that the IMF's tail shock exercise for the residential real estate market indicates resilience of Portuguese banks to adverse developments in this sector. The authorities supported fully the need to continue monitoring housing market dynamics, particularly now that the credit cycle is reversing and bank mortgage lending accelerating. They recognized that supply-side measures are important to ease market pressures but noted that these take longer to take effect. The authorities also averred that the high share of bank investments in euro-area sovereign debt securities does not pose a risk since the portfolios are well diversified across countries. They noted also that household default risks remain muted, reflecting decade-long deleveraging and adequate macroprudential BBMs.

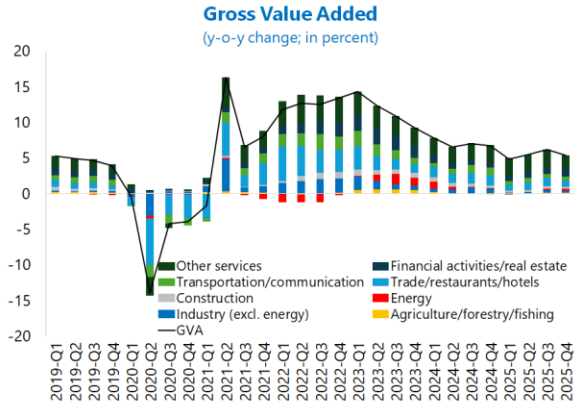
50. The authorities supported most FSAP recommendations and reaffirmed their commitment to strengthening financial sector resilience. On the macroprudential framework, they recognized the value of defining a range of releasable capital for periods of elevated risks but reiterated that the PCN rate for the CCyB is appropriately set. They agreed about reviewing BdP powers over non-harmonized tools, which could strengthen the macroprudential framework, but asserted that BBM compliance is high. On LSI supervision, the authorities welcomed the FSAP's assessment that the supervisory framework is robust. They endorsed as critical the FSAP's recommendation to establish a multi-year staffing and retention strategy (also beyond the supervisory function). The need to formalize systematic cross-LSI monitoring and establish an internal supervisory risk tolerance statement were supported but not viewed as a pressing priority. On NBFI oversight, the authorities concurred on the need to explore legal changes to existing rules on the budgetary independence of nonbank financial regulators and board appointments. On financial integrity, the authorities concurred with the FSAP's findings and noted that leveraging international cooperation to improve understanding of ML/TF risks related to corridors of higher-risk economic activities would help them refine risk monitoring. On cyber security risk oversight, the authorities welcomed the FSAP's assessment of the oversight framework as robust. They concurred about the need to adopt an integrated sector-wide strategy and cooperation protocols across financial regulators. All regulators also recognized the need to develop strategies to attract and retain skilled professionals and enhance information-sharing, as well as consolidate incident reporting across the financial sector. On crisis management, the authorities welcomed the recognition that significant progress has been made, including with regard to resolvability, and acknowledged the successful resolution of two banks, as well as the strengthening of the crisis management regime, with the operationalization of the tools well underway. They took note of the IMF position on the need to consider introduction of an administrative insolvency regime for LSIs with negative PIA and endorsed the need to amend the legal framework for cooperatives. They supported the need to further strengthen FGD's payout process over time, while considering the existing tools as globally adequate.

Figure 2. Portugal: Macrofinancial Developments

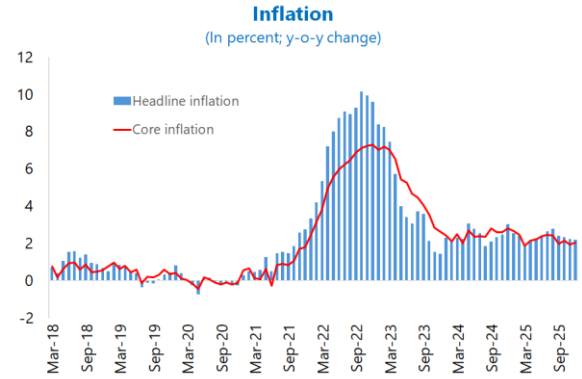
Economic activity in 2025 slowed down but remained more brisk than in many countries of the EA…



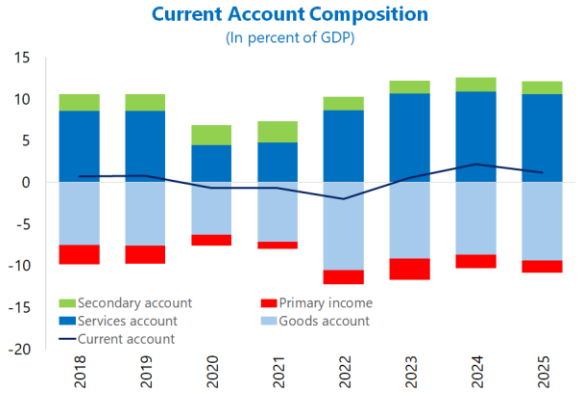
…with services, including the tourism sector, responsible for most of the growth.



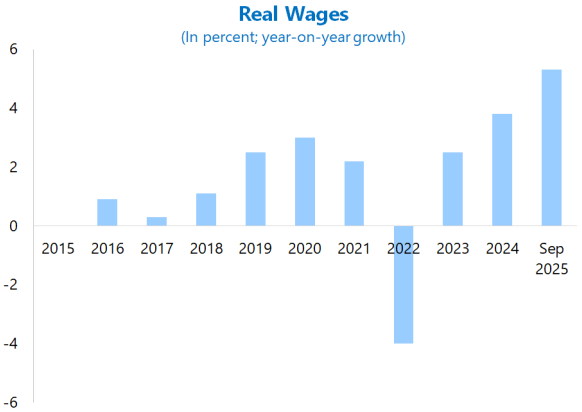
Inflation has stabilized at a lower level (~2%) after a sharp uptick in 2022.



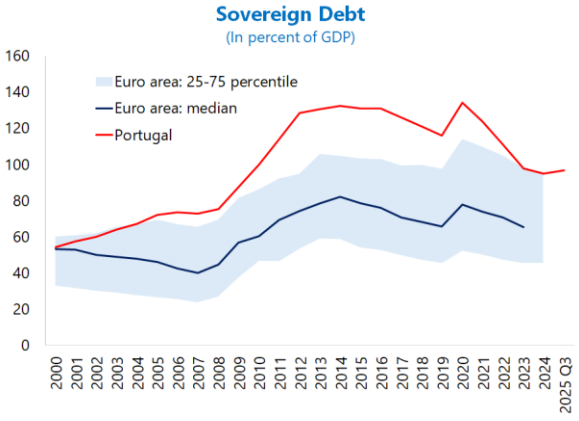
The current account surplus persisted in 2025 driven by a services surplus, including from tourism.



Households' economic position has improved, with real rising at their fastest pace in a decade.



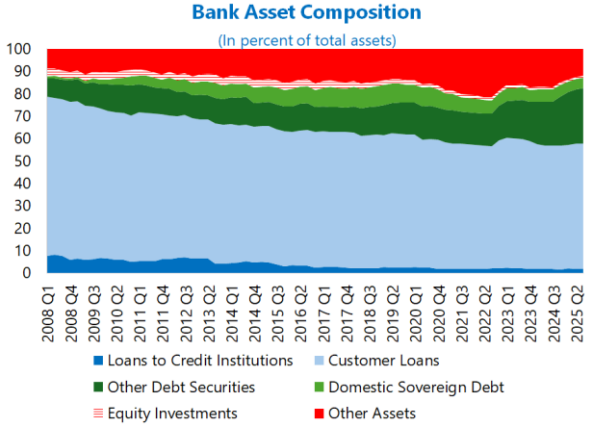
The fiscal position has improved, with public indebtedness contracting but still high.



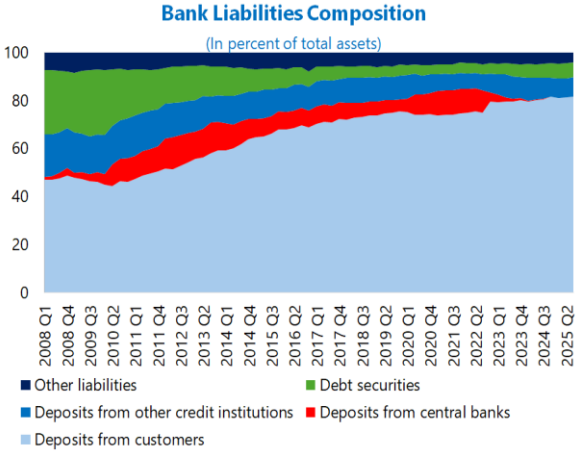
Sources: BdP; Instituto Nacional De Estadistica; IMF, *World Economic Outlook*, and IMF staff calculations.

Figure 3. Portugal: Banking Sector Structure and Developments

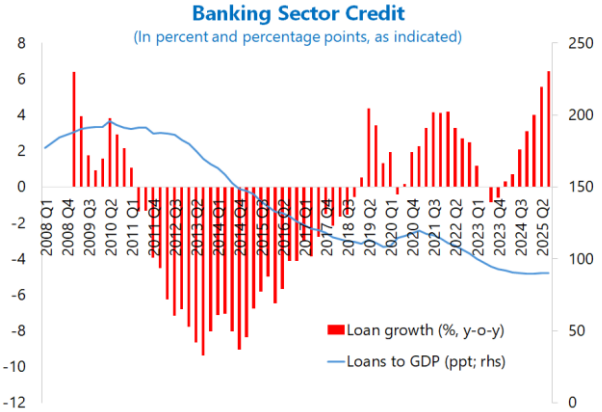
Banks have diversified asset holdings away from loans; a large share of assets (29%) is now in debt securities.



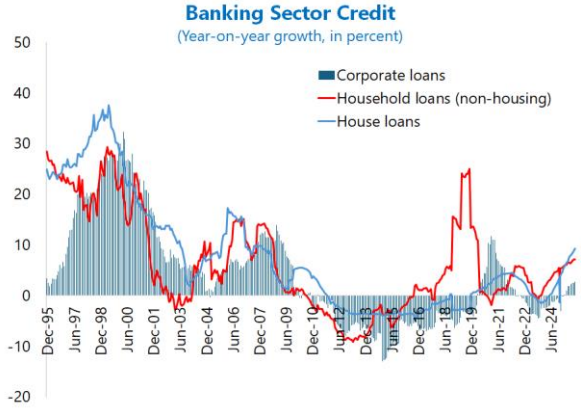
Non-deposit funding has declined since 2010 and banks are now mostly deposit funded (82% of total).



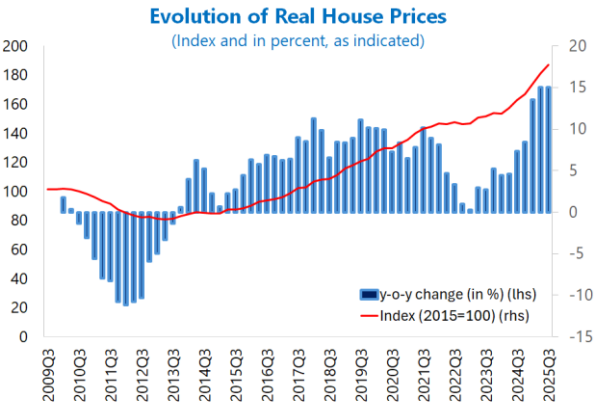
Credit growth has picked up after declining in the 2010s, but credit to GDP has fallen further and first edged up in 2025Q2



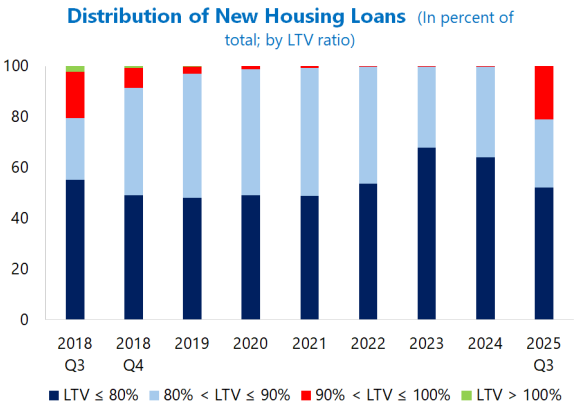
Most credit growth now is in house and other household lending, while corporate lending remains subdued.



Banks' real estate exposures are high (~ 1/3 of total assets) and real house prices have continued to rise…



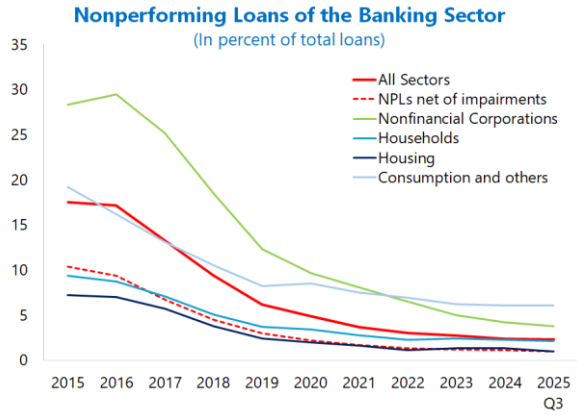
…bank real estate risks had since 2019 been mitigated by the lower share of high-LTV loans, with a reversal in 2025.



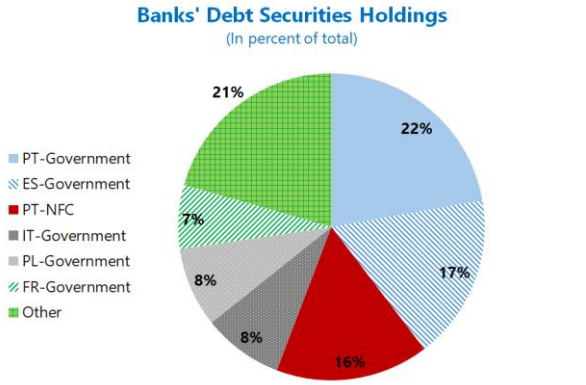
Sources: BdP; and IMF staff calculations.

Figure 3. Portugal: Banking Sector Structure and Developments (concluded)

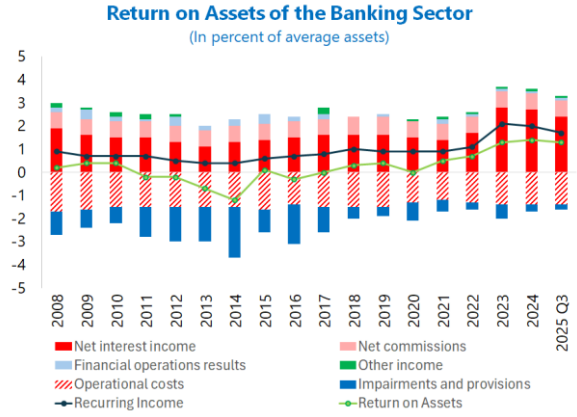
Asset quality has improved markedly since the 2010s crisis, with the NPL ratio down to 2.3 percent in 2025Q3…



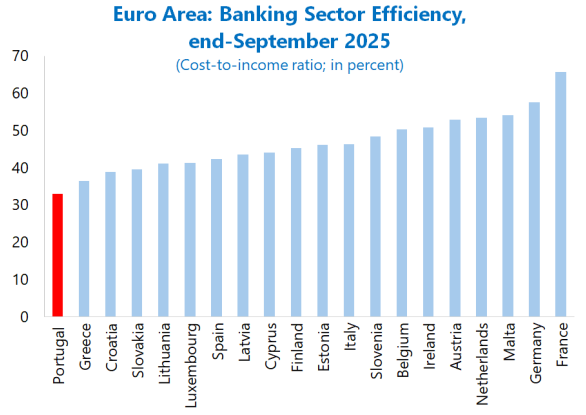
…and banks have diversified away from domestic sovereign bond holdings to other EA sovereign bonds.



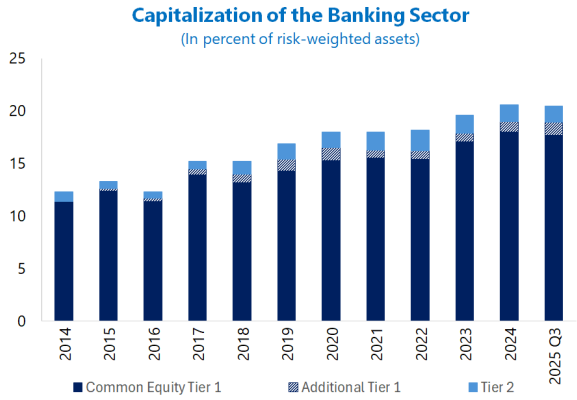
Banks' profitability is at a historic high, with ROA reaching 1.4 percent, driven by high interest margins…



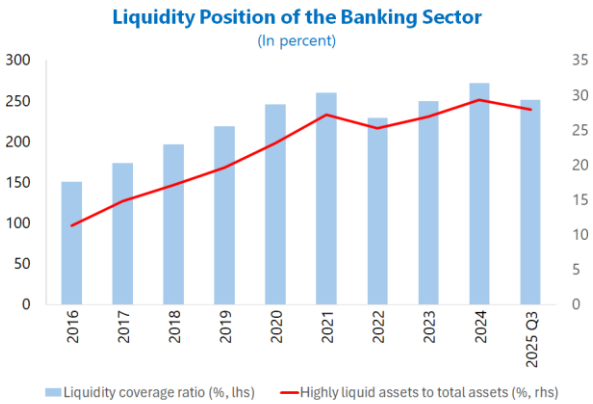
…recent ECB cuts compress interest margins, but high cost efficiency relative to peers supports profitability.



High profitability has supported banks' capital adequacy, the Tier 1 capital ratio rising steadily in the past decade.



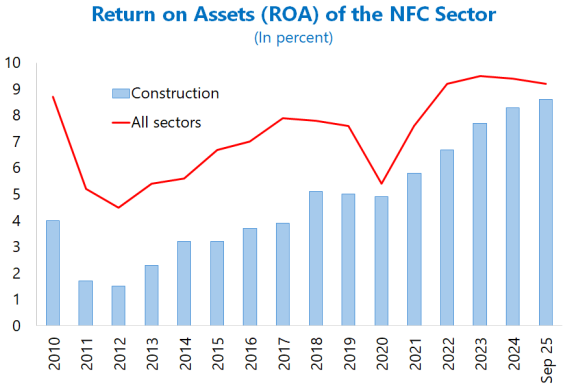
Banks have built strong liquidity positions.



Sources: BdP; European Banking Authority; and IMF staff calculations.

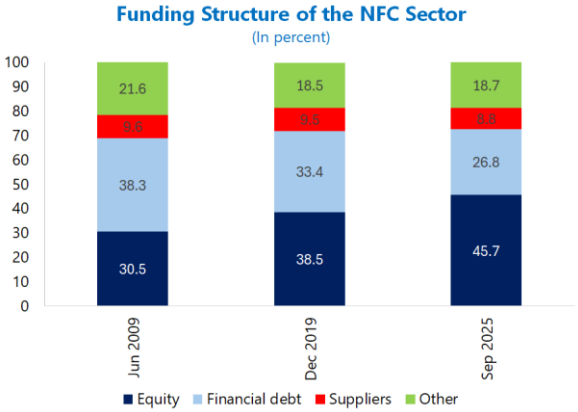
Figure 4. Portugal: NFC Sector Developments

NFC profitability has been strong but moderating, with the ratio of EBITDA to total assets edging down in 2025…

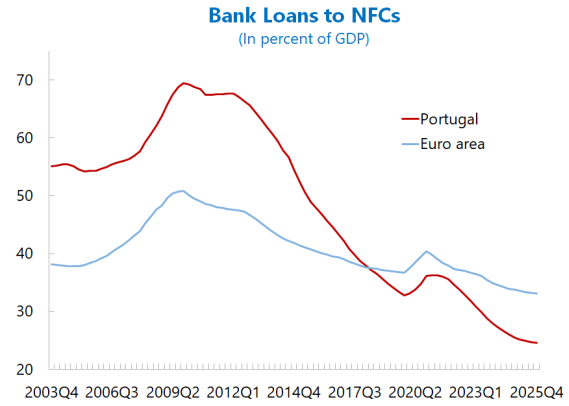


Note: The ROA metric here is based on EBITDA.

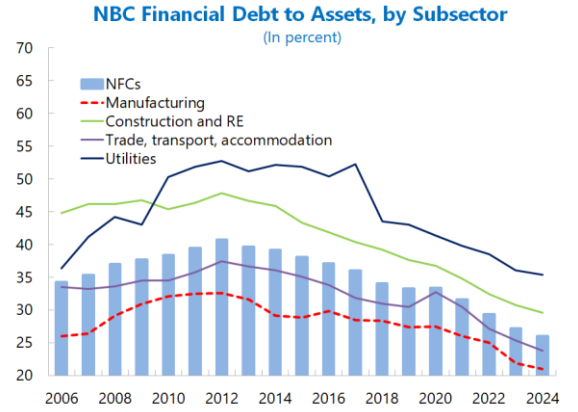
NFCs have been increasingly funded by internal equity, with NFC indebtedness declining over the last decade…



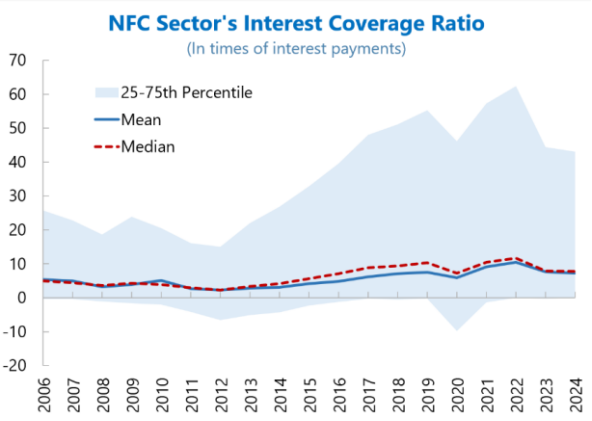
Bank loans to NFCs have declined sharply relative to GDP in the past decade…



NFC debt has declined steadily in percent of GDP across sectors…

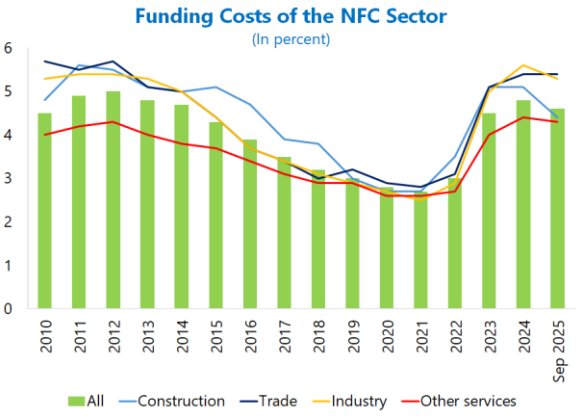


The NFC aggregate interest coverage ratio has been stable but declined in 2024; it has a weak lower quantile…



Note: The interest coverage ratio is the ratio of EBITDA to interest payments.

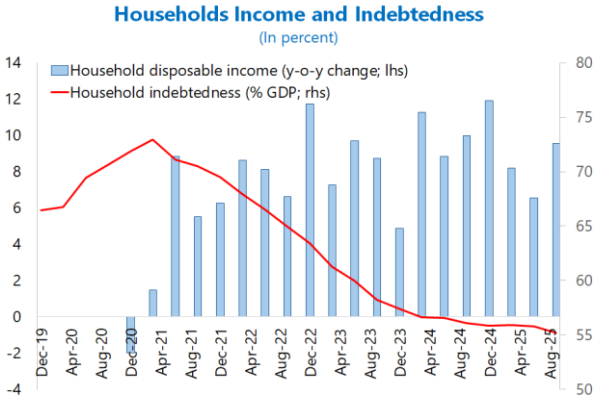
…and NFCs faced higher financing costs in 2023 and 2024, which edged down by September 2025.



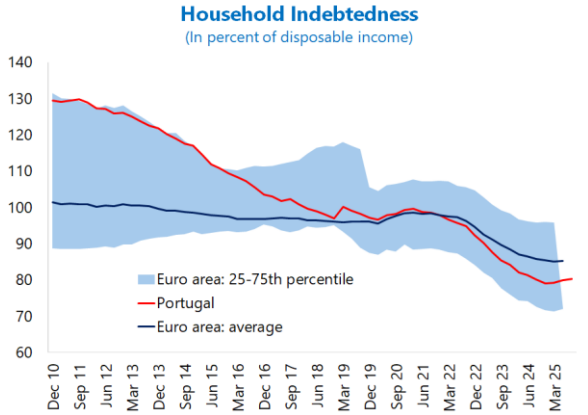
Sources: BdP; ECB, Eurostat; Haver Analytics; and IMF staff calculations.

Figure 5. Portugal: Household Sector Developments

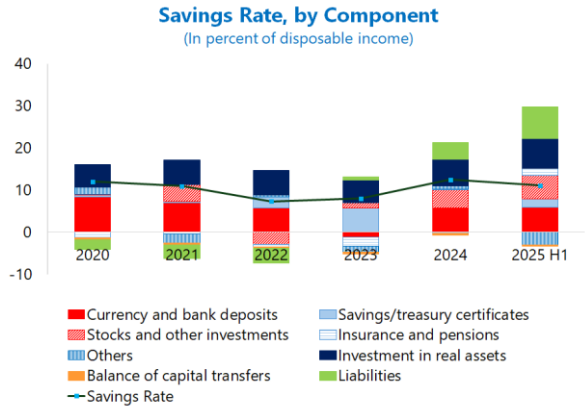
Household indebtedness has declined markedly relative to GDP since 2021…



Household indebtedness relative to disposable income has been below the EA average since 2021 but reversed and rose in September 2025.

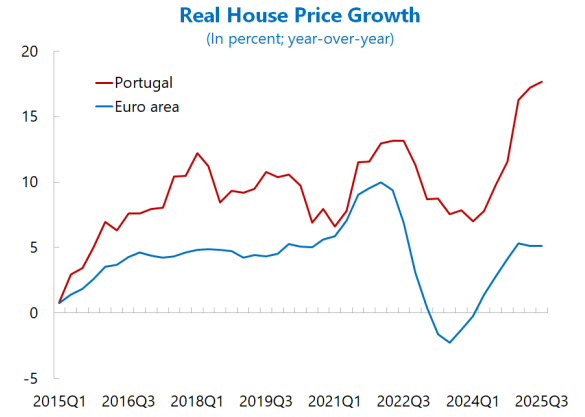


The household savings rate edged lower in 2025H1 but remains a mitigant against potential shocks.

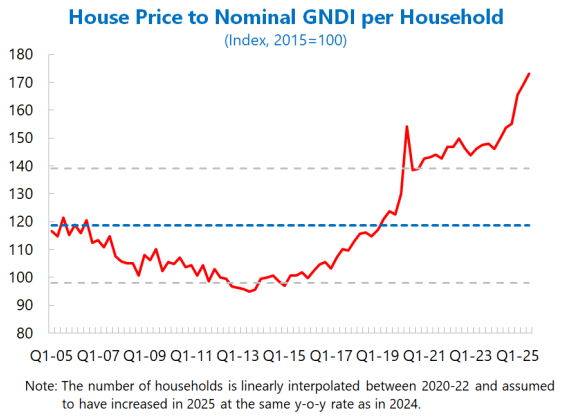


Household confidence has improved significantly since 2022 and is just below neutral.

House prices have been increasing rapidly, significantly outpacing the EA average…



…with the house price-to-income ratio exceeding two standard deviations above its 20-year average at 2025Q3.

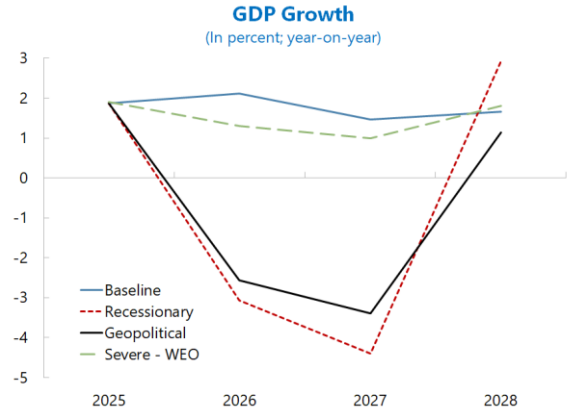


Note: The number of households is linearly interpolated between 2020-22 and assumed to have increased in 2025 at the same y-o-y rate as in 2024.

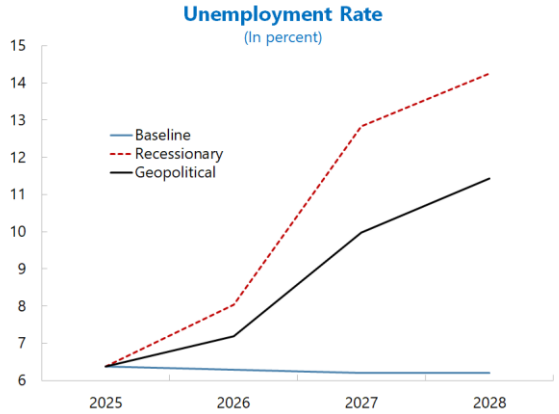
Sources: BdP; ECB, Eurostat; INE ; Haver Analytics; and IMF staff calculations.

Figure 6. Portugal: Macroeconomic Scenarios

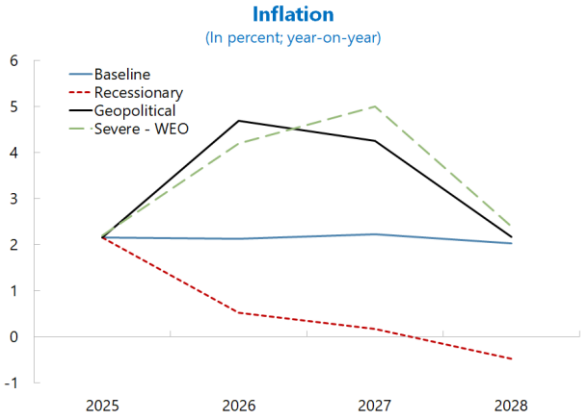
Real GDP growth drops to -3.1/-2.6 percent in 2026, with a 2-year cumulative growth drop of 7.5/6.0 percent…



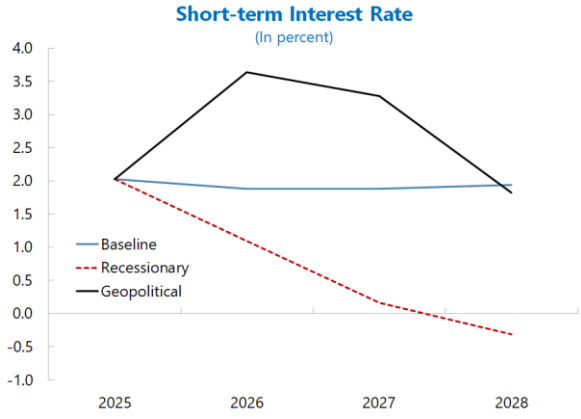
…and unemployment rises to 14.3/11.4 percent by 2028. .



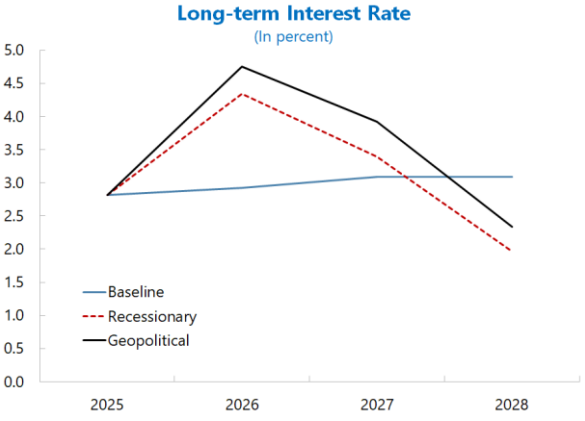
Inflation drops/rises to -0.5/2.2 percent by 2028/2026…



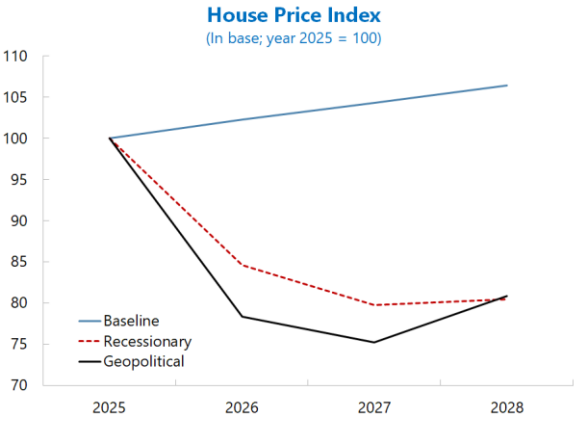
…and the short-term rate drops/rises to -0.3/3.6 percent by 2028/2026.



The long-term rate rises to 4.3/4.8 percent in 2026…



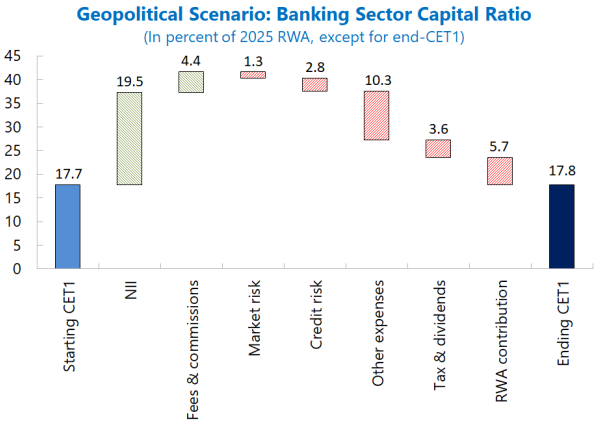
…and house prices drop by 20.2/24.8 percent by 2027.



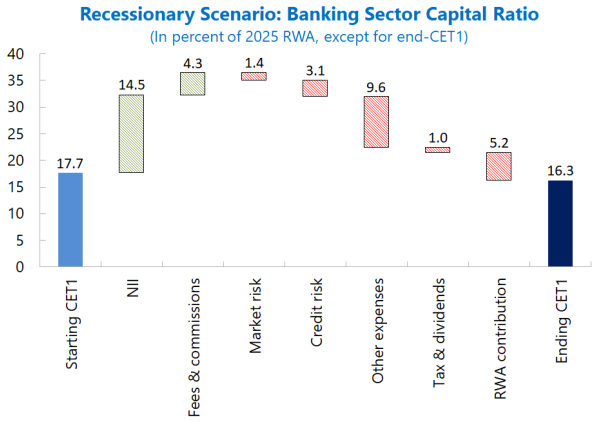
Sources: IMF staff calculations.

Figure 7. Portugal: Stress Testing Results

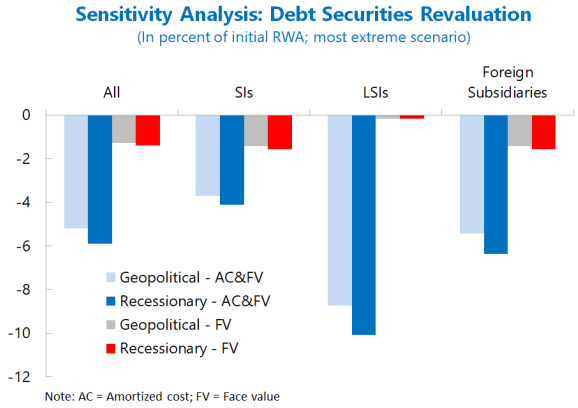
The banking sector's capital adequacy remains above the prudential minimum in the adverse geopolitical scenario…



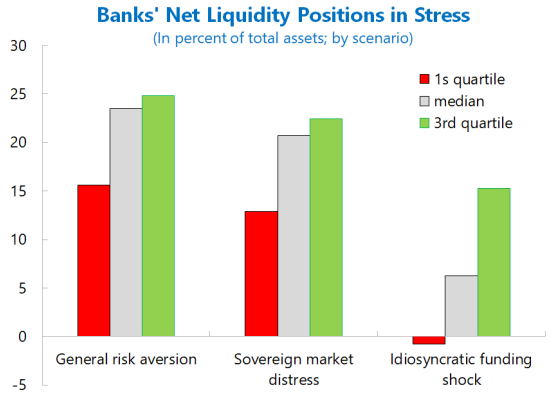
…and in the recessionary scenario—a finding that also applied to all individual banks.



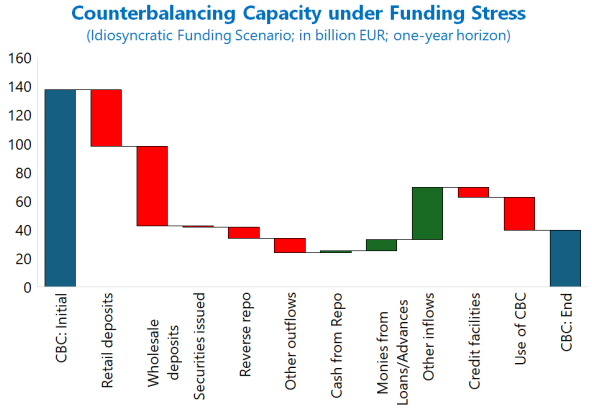
Banks' large euro-area sovereign debt holdings (mostly HtM) can lead to losses if MtM in an extremely remote liquidity tail event (beyond the FSAP's adverse scenarios).



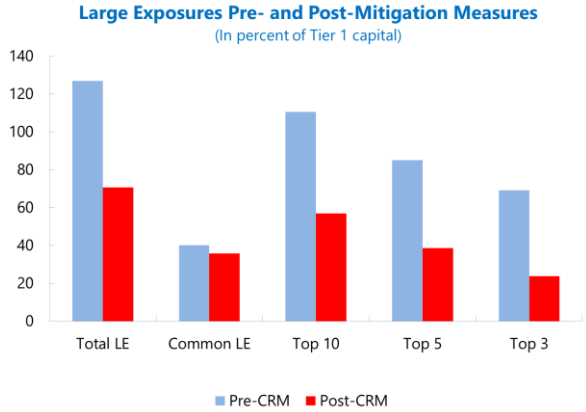
Banks' net liquidity positions are more dispersed under the severe idiosyncratic funding scenario, indicating that liquidity pressures are limited to only a few banks.



The sharp decline in banks' counterbalancing capacity under extreme liquidity shocks is driven by retail and wholesale deposit outflows, reflecting banks' funding structure.



Banks' large exposures are significant (multiples of capital); they contract markedly after netting out CRM measures.

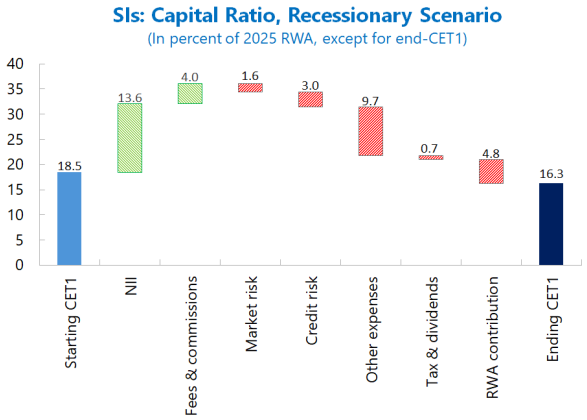


Sources: BdP and IMF staff calculations.

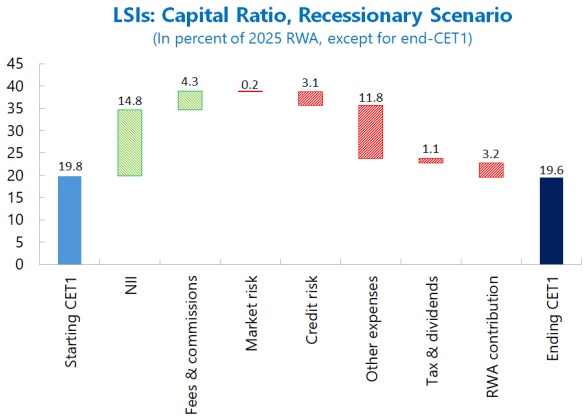
Figure 7. Portugal: Stress Testing Results (concluded)

Recessionary Scenario

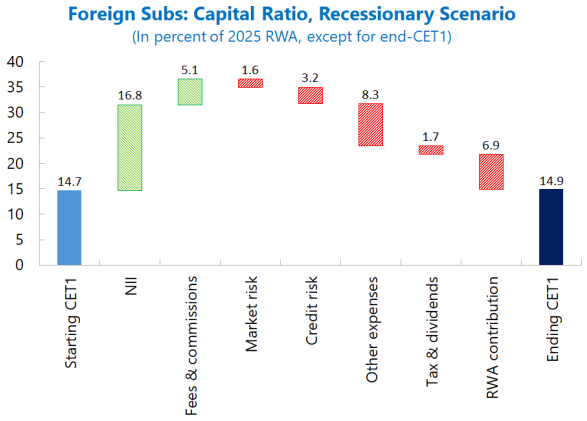
For SIs, compressed NII and elevated credit and market losses reduce the CET1 ratio by 220 bps…



For LSIs, the CET1 ratio remains stable as a higher starting CET1 ratio and larger NII (compared to SIs) offset credit and market losses…

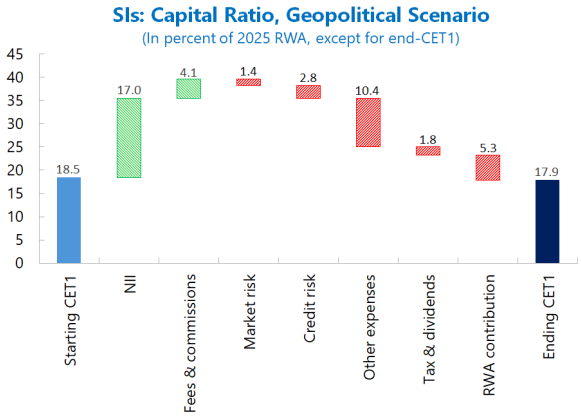


For foreign subsidiaries, yet larger NII offsets credit and market losses, and keeps the CET1 ratio stable…

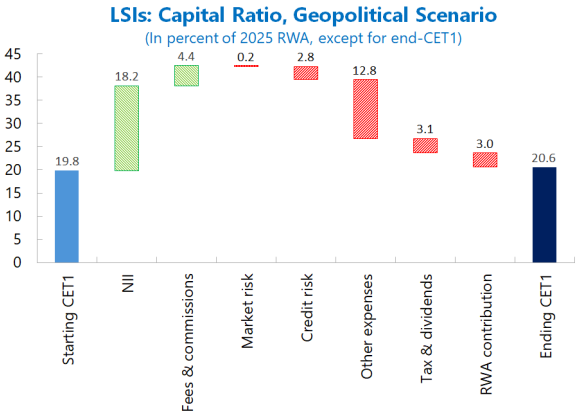


Geopolitical Scenario

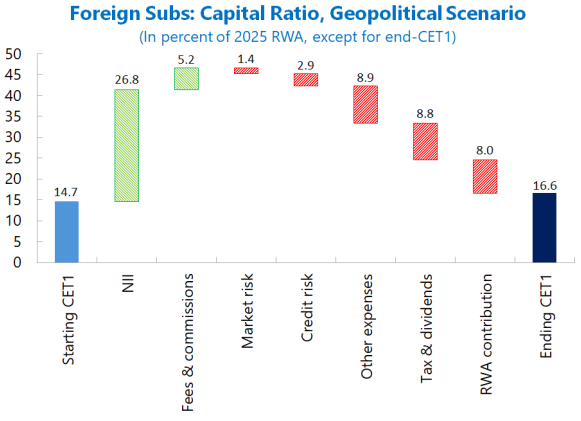
…higher revenues compared to the recessionary scenario account for a lesser reduction in the CET1 ratio—60 bps.



…higher revenues and lower credit losses contribute to higher CET1 ratio—up by 80 bps.



…higher NII outweigh marginally higher credit losses and expenses, raising the CET1 ratio by 190 bps.



Sources: BdP and IMF staff calculations.

Table 2. Portugal: Structure of the Financial System, End-September 2025

	Number of institutions	Assets		
		in mln €	in percent of total assets	in percent of GDP
Financial System	**12,433**	**774,637**	**100.0**	**256.3**
Banking System	**137**	**499,374**	**64.5**	**165.2**
NBFIs	**12,296**	**275,264**	**35.5**	**91.1**
Captive Financial institutions and Mone	4,021	97,278	12.6	32.2
Financial Auxiliaries	6,452	7,825	1.0	2.6
Pension Funds	241	20,058	2.6	6.6
Investment Funds	904	60,269	7.8	19.9
Insurance Companies	148	61,163	7.9	20.2
Other Financial Intermediaries	530	28,671	3.7	9.5

Sources: BdP and IMF staff calculations.
Note: The numbers are on non-consolidated basis.

Table 3. Portugal: Selected Economic Indicators[1]

		Projections					
	2025	2026	2027	2028	2029	2030	2031
Real GDP	1.9	1.9	1.7	1.8	1.7	1.6	1.6
Private consumption	3.5	2.2	2.4	2.1	2.0	1.9	1.8
Public consumption	1.7	2.7	1.7	1.7	1.8	1.9	1.9
Gross fixed investment	3.5	5.5	-2.7	1.4	2.0	2.5	2.6
Exports	0.4	2.0	3.2	2.5	2.2	1.9	1.7
Imports	4.2	4.2	2.2	2.5	2.7	2.6	2.4
Contribution to Growth							
Total domestic demand	3.7	3.0	1.3	1.9	2.0	2.1	2.0
Foreign balance	-1.8	-1.1	0.4	-0.1	-0.3	-0.4	-0.4
Resource utilization							
Employment	2.2	1.7	1.3	0.9	0.6	0.4	0.3
Unemployment rate (percent, average)	6.0	5.9	5.9	5.8	5.7	5.7	5.7
Prices							
GDP deflator	3.9	3.2	2.4	2.5	2.2	2.1	2.1
Consumer prices (HICP, average)	2.2	3.1	2.2	2.3	2.2	1.9	1.9
Fiscal indicators (percent of GDP)							
General government balance	0.7	0.0	0.0	-0.2	-0.6	-0.9	-1.3
Primary government balance	2.4	1.9	1.9	1.6	1.3	1.0	0.6
General government debt	89.9	85.6	82.1	79.0	76.6	75.0	73.9
Current account balance	1.2	0.8	0.7	0.7	0.7	0.6	0.5
Net international investment position	-50.2	-44.1	-40.7	-37.3	-34.2	-31.4	-28.8
Nominal GDP (billions of Euros)	306.7	322.7	335.8	350.4	364.3	378.0	391.9

Sources: BdP, Eurostat, INE, Haver Analytics, Portugal's Ministry of Finance, and IMF staff calculations/projections.
[1] Based on information available as of March 20, 2026.

Table 4. Portugal: Financial Soundness Indicators (FSI)

	2019	2020	2021	2022	2023	2024	2025
Capital adequacy							
Regulatory capital to risk-weighted assets	16.9	18.0	18.0	18.2	19.6	20.6	20.4
Common Equity Tier 1 capital to risk-weighted assets	14.3	15.3	15.5	15.4	17.1	18.0	17.9
Regulatory tier 1 capital to risk-weighted assets	15.4	16.5	16.3	16.2	17.9	19.0	18.8
Capital to assets 1/	8.3	8.2	7.3	7.2	7.7	8.0	7.8
Asset composition and quality							
Non-performing loans to total gross loans	6.2	4.9	3.7	3.0	2.7	2.4	2.3
Sectoral distribution of loans							
Residents	93.4	93.6	93.6	92.8	92.3	91.6	91.7
Nonresidents	6.6	6.4	6.4	7.2	7.7	8.4	8.3
Earnings and profitability							
Return on assets	0.4	0.0	0.5	0.7	1.3	1.4	1.3
Return on equity	4.8	0.5	5.4	8.7	14.8	15.1	13.9
Interest margin to gross income	66.9	63.6	58.9	62.2	72.0	74.1	72.5
Liquidity							
Liquid assets to total assets 2/	18.1	21.5	25.3	23.2	24.6	26.8	26.1
Liquid assets to short-term liabilities 2/	20.9	24.3	41.6	33.1	36.6	38.8	37.7
Loans to deposits 3/	87.1	84.7	81.1	78.2	78.0	74.9	74.9

Sources: BdP; ECB; and IMF staff calculations.
1/ On accounting basis; consolidated.
2/ National concept of asset quality.
3/ Data reflects information from Instruction No 23/2004 of BdP (until 2015Q3); from 2015Q4, data are based on the ITS reporting framework.

Table 5. Portugal: Recommendations of the 2006 FSAP

(No self-assessment of the recommendations' status by the authorities due to lapse of time)

Recommendations	Timing
Short-term Stability Issues	
1. Continue to carefully monitor key risk areas: household debt, esp. more vulnerable sub-groups of household borrowers; corporate debt developments; banks' lending concentrations; and banks' external borrowing and the associated pricing and liquidity risks.	ST
2. Continue to ensure bank capital levels are consistent with the evolving risk outlook and if necessary impose additional capital requirements using the discretion available under Basel II.	ST
3. Improve statistics on housing market, in particular, as regards property prices.	ST
4. Continue to foster banks' systems to accurately measure, monitor, and adequately control risks and further strengthen BdP's supervisory capacity in this area.	ST
5. Perform further stress testing on the financial system at appropriate intervals, taking into account banks' linkages with the insurance sector and their employee pension funds.	ST
Structural and Longer-term Issues	
6. Improve the judicial framework for debt recovery by speeding up court processes in particular.	MT
7. Enhance the financial independence of the securities and insurance supervisors, Comissão do Mercado de Valores Mobiliários (CMVM) and the Instituto de Seguros de Portugal (ISP).	MT
8. Transfer the management of the guarantee fund for Motor Third Party and workers compensation from the ISP to other organizations.	MT
Refinements to Supervisory and Safety Net Arrangements	
9. Fully implement the new system for risk profile assessment of credit institutions and other financial intermediaries, as planned.	MT
10. In insurance supervision, set appropriate fit and proper criteria for members of governing bodies of insurance undertakings and intermediaries, strengthen corporate governance requirements and establish rules or guidelines on market conduct regarding the problem of fraud.	MT

Table 6. Portugal: Risk Assessment Matrix (RAM)

Overall Level of Concern		
Source of Risk	**Likelihood (1-3 years)**	**Impact**
Global Risks		
Geopolitical tensions and intensification of conflicts (§G1). Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	**High**	Adverse spillovers weaken Portugal's economic growth, and higher risk premia elevate funding costs. The economic slowdown impairs banks' asset quality, with a negative impact on profitability, leading to possible solvency distress for some institutions. Any pre-existing governance challenges could intensify banks' solvency distress.
Protectionism and trade disruptions (§G2). Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.	**High**	Trade-related shocks raise economic uncertainty and undermine economic growth. A deterioration of corporate balance sheets and growth slowdown impact negatively banks' asset quality and profitability, leading to possible solvency distress for some institutions. Pre-existing governance challenges could intensify banks' solvency distress.
Commodity price volatility (§G3). Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	**High**	The rise in global uncertainty, which underpins the commodity price volatility, impairs economic activity and capital inflows, with a sharp slowdown of the economy. A possible rise of commodity prices can get passed through to domestic price and an uptick of inflation. Exports slow down as exporters in key sectors face higher uncertainty in expected returns.
Fiscal Vulnerabilities and Higher Interest Rates (§G4). Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics.	**High**	Sharp swings in global real interest rates, risk premia, and asset repricing amid economic slowdowns and policy shifts could raise the government's external funding costs or preclude a debt rollover. This would exacerbate fiscal pressures and impair growth, with a negative impact on financial institutions' asset quality.
Domestic Risks		
Cyberthreats (§D1). Cyber-attacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	**High**	Large-scale disruptions in the continued delivery of payment and other financial services, with possible adverse impact on the overall soundness of financial institutions.
A rapid correction of house prices (§D2). Banks' high direct and indirect exposures to the real estate market make them vulnerable to a downward correction in the housing market.	**Medium**	A rise in interest rates or an economic slowdown could impair borrowers' repayment capacity and worsen banks' asset quality. A contraction in consumption to support debt servicing could have second-round crippling effects on growth.
Climate Change (§D3). Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity,	**Medium**	A rise in the frequency and intensity of extreme weather would have adverse impacts on economic growth and on specific sectors, such as agriculture. Financial institutions would, as a result, see a rise in credit, liquidity, and operational risks.

Table 7. Portugal: Stress Testing Matrix (STeM)		
A. Banking Sector: Solvency Stress Test		
Top-down by FSAP Team		
1. Institutional Perimeter	Institutions Included	• 9 banks, of which 3 are SIs, 3 are LSIs and 3 are foreign bank subsidiaries.
	Market Share	• 85 percent of the banking sector assets.
	Data and Baseline Date	• Data vintage: 2025:Q2. • Supervisory data: Bank balance sheet and supervisory statistics (including FINREP and COREP), information on interest rate risk in the banking book (IRRBB), short-term exercise (STE), provided by the ECB. • Data from Banco de Portugal: (i) historical PDs, loan portfolio maturity structure and interest rates derived from national credit register, and (ii) debt portfolio maturity structure disaggregated by sector, country and accounting treatment derived from the granular securities portfolio database (SHSG). • Household analysis relies on household survey microdata from the 2021 (latest) HFCS survey, covering 83,000 households across 22 countries (EA, CZ, and HU) and 200,000 personal files. Montecarlo simulations of unemployment shocks at the person level. Projections of households' balance sheets, consumption, and debt repayments, allowing for new issuances of maturing loans. • Corporate analysis: data from Orbis, Capital IQ and disaggregated data series derived from company-level data from Portugal's Central Balance Sheet Database (CBSD) and Central Credit Register were used. The data is annual and covers 2006-24. Company-level data from CBSD was also used in an exercise performed by BdP in a partnership with the IMF team. • Real estate analysis: publicly available data from INE (Portuguese National Institute of Statistics), Bank of Portugal, and Eurostat • Market and publicly available data, such as information from ECB's MIR on funding and lending rates for new businesses by type of asset and funding portfolios, complemented with commercial databases such as Capital IQ. • Scope of consolidation: highest level of consolidation for banks having their headquarters in Portugal and sub-consolidation level of all Portuguese activity for foreign subsidiaries. • Coverage of sovereign and non-sovereign securities exposures: debt securities measured through fair value (FVPL and FVOCI) and amortized cost (AC) account.
2. Channels of Risk Propagation	Methodology	FSAP team satellite models and methodologies. • For internally modelled exposures (IRB), projection of PiT and TTC PDs, PiT and DT LGDs, EAD, and RWA. For SA exposures, projection of new flows of defaulted exposures and RWA based on risk weights for performing and nonperforming loans separately. Provisioning for IRB and SA modeled using IFRS 9 transition matrix approach. • Static balance-sheet approach, allowing the re-issuance of maturing loans at current market rates, keeping the maturity structure constant.

Table 7. Portugal: Stress Testing Matrix (continued)		
		• Provisioning for IRB and SA are modeled using IFRS9 transition matrix approach. • Traded risk impact from the revaluation of debt securities held at fair value (FVPL and FVOCI, excluding hedging instruments) assessed the interest rate and credit risk deltas projected in the market scenarios. The market stress scenarios are one-off shocks, happening at the start of the scenarios and whose narrative is aligned to the macro scenarios (e.g., in the geopolitical scenario, the one-off market stress event features higher interest rates and commodity prices, while the opposite occurs in the recessionary scenario). Risk factors include interest rate, commodity, equity, FX, and credit spread.
	Satellite Models for Macrofinancial Linkages	Models for credit losses, funding costs, lending rates: • Within EA, for household, PD are estimated using micro-data at individual household (based on household survey, HFCS). For Poland (the only material non-EA country), PDs are estimated as a weighted average of peer countries. Corporate PDs are estimated using Tressel and Ding (2021) based on company-level data from Portugal's Central Balance Sheet Database (CBSD) and Central Credit Register were used. The data is annual and covers 2006-24. • LGD shocks for collateralized exposures are linked to paths for real estate prices in the scenario using a smoothing factor to account for the TTC regulatory approach. • Interest income and expense projected at the portfolio segment level using a structural approach applying interest rate shocks on new business and the repricing structure of the portfolio.
3. Tail Shocks	Stress Test Horizon	• 2026 – 2028 (three years)
	Scenario	Three scenarios: • A baseline scenario drawn from the October 2025 WEO macroeconomic projections. • Adverse scenario 1: A geopolitical scenario featuring an escalation of geopolitical conflicts. • Adverse scenario 2: A recessionary scenario showing a synchronized global slowdown amplified by sovereign debt distress in EA. The two adverse scenarios rely on GFM, a structural macro econometric model of the world economy, disaggregated into 40 national economies, documented in Vitek (2015).
	Second-round Effects and Sensitivity Analysis	• Household 'consumption at risk,' defined as the consumption of "economically vulnerable households" (for which the sum of debt service and consumption exceeds gross income) as a share of aggregate consumption. The elasticity of unemployment to changes in consumption will be used to test second-round effects on default risk.
4. Risks and Buffers	Risk Covered	• Risks covered include credit (on loans and debt securities), market (valuation impact of financial instruments with respect to market risk

Table 7. Portugal: Stress Testing Matrix (continued)		
		factors such as interest rates, foreign exchange, credit spread, equity prices) and interest rate risk. • Sensitivity analyses on revaluation of debt securities portfolio held at amortized cost, quasi-reverse stress test on credit risk using more severe PDs, and assessment of large exposures.
	Behavioral Adjustment	• Static balance sheet approach: size of portfolios (gross of NPLs) remains constant throughout the stress testing horizon (with no write-offs allowed). • In projecting RWAs, standardized and IRB portfolios are differentiated. For the standardized portfolios, RWAs change due to the shift in the composition of performing and non-performing exposures. For the IRB portfolios, through-the-cycle-PDs, downturn LGDs and EAD for each asset class/industry are used to project risk weights. • Interest income from nonperforming loan is not accrued. • Dividends are paid out by banks that remain profitable and adequately capitalized. The tax rate is based on historical bank-level tax rate, while the dividend rate is set at 80 percent to account for the transfer of profits from the foreign subsidiaries to the headquarter.
5. Regulatory and Market-based Standards and Parameters		• Consider two hurdle rates: (i) "minimum capital hurdle" consists of SREP capital requirements (the Basel III 4.5 percent CET1 ratio) plus P2R; and (ii) "combined buffers requirement" includes the SREP minimum capital requirement and the CCoB and O-SII capital buffers. The CCyB and sSyRB are assumed to be zero in the adverse scenarios. • Leverage ratio during the stress test horizon assessed against the 3 percent Basel III minimum requirement.
6. Reporting Form for Results	Output Presentation	• Aggregate capital path for each scenario by groups of banks, categorized by bank groups. • Outputs also include information on impact of different result drivers, including profit components.
B. Banking Sector: Liquidity Test		
Top-Down by FSAP Team		
1. Institutional Perimeter	Institutions Included	• 9 banks, of which 3 are SIs; 3 are LSIs; and 3 are foreign bank subsidiaries.
	Market Share	• 85 percent of the banking sector assets.
	Data and Horizon	• Data vintage: 2025Q2. • Data: Supervisory data from Implementing Technical Standards (ITS) files (COREP). • Scope of consolidation: highest level of consolidation for banks having their headquarters in Portugal and sub-consolidation level of all Portuguese activity for foreign subsidiaries.
2. Methodology	Methodology	• Structural analysis: evolution of LCR, NSFR, asset encumbrance, and funding structure. • Dynamic analysis: Cash flow-based stress test.

Table 7. Portugal: Stress Testing Matrix (concluded)		
	Stress Test Horizon	• 1-year horizon for cash flow analysis.
3. Type of Analyses	Scenario Analysis	• For cash flow liquidity stress tests, various stress scenarios are considered, including general risk aversion, market sovereign distress, and idiosyncratic funding to examine potential liquidity shortfalls from overnight up to one-year horizon.
4. Buffers	Buffers	• Capacity of banks to generate liquidity from inflows and from assets under stress (i.e., counterbalancing capacity).
5. Regulatory Standards	Regulatory/ Accounting and Market-based Standards	• For the LCR and NSFR, the hurdle rate is set at 100 percent at the aggregate currency level (per Basel III and domestic regulation). For cashflow analysis, the outcomes of interest are the Net Liquidity Position and the survival period.
6. Reporting Format for Results	Output Presentation	• Output includes (i) descriptive analysis of LCR, NSFR, asset encumbrance, funding structure, and stock of CBC; and (ii) Net liquidity position over the horizon for the cash flow analysis.