Portugal

Portugal: The response to Covid-19 and its implications to the financial sector

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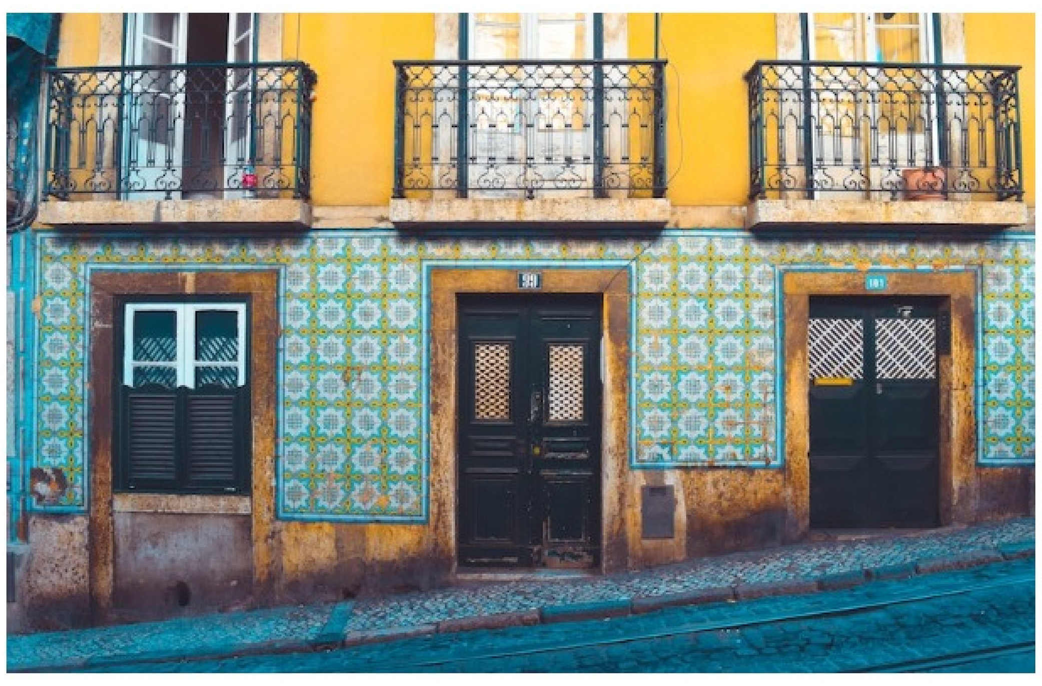

In the context of the public health emergency and the classification of the coronavirus as a pandemic by the World Health Organization, countries have launched unprecedented measures to protect their economies against the impact of Covid-19.

In Portugal, the government has implemented a series of measures to support the financial sector through the exceptional framework approved by Decree-Law no. 10-J/2020 of March 26 (Decree-Law), with the aim of protecting the credits and cash flow of families, companies, private institutions of social solidarity and other entities of the social economy.

The Decree-Law was subsequently amended by Law no. 8/2020 of April 10, Decree Law no. 26/2020 of June 16 and Law no. 27-A/2020 of July 24, by means of which the deadline for adherence to moratorium measures and its application period were extended to September 30, 2020 and March 31, 2021 respectively.

Portugal is one of the countries that has implemented the longest moratoriums in Europe. Pursuant to the Decree-Law, the beneficiary individuals/entities may opt for the following moratorium measures in relation to credit arrangements, for the period in which these measures are in force (from March 27, 2020 to March 31, 2021):

- prohibition on total or partial revocation of agreed lines of credit and loans, in the amounts approved at the date of entry into force of the Decree-Law;
- extension for all loans in force on the date of entry into force of the Decree-Law where payments of capital are due at the end of the loan term. The extension of the loan term applies to all related elements of the loan including interest, and any guarantees, including those provided by way of insurance or securities; and
- suspension, with respect to partial repayments of loan capital or other loan instalments, of the payment of capital, rents and interest due in respect of loans reaching maturity during that period. Under this arrangement, contractual payment plan for the instalments of capital, rent, interest, commissions and other charges are automatically extended to ensure that there are no charges arising from the implementation of the extension (other than those that may arise from the variability of the interest rate). The extension also applies to all related arrangements, such as any security granted in relation to the loan.

In the context of the protection mechanisms of the credit exposure established for this exception period, extending the payment term shall not give rise to:

- contractual breach;
- activation of early repayment clauses;
- suspension of interest due during the extension period, which will be capitalised in the loan amount with reference to the time when they are due at the rate of the current contract; and
- ineffectiveness or termination of security granted by entities benefiting from the measures or by third parties, namely the effectiveness and validity of insurance, sureties and/or guarantees.

Data recently revealed by the Bank of Portugal show that requests for adherence to moratoria on credit made between the end of March 2020 and June 2020 covered 841,856 contracts, being 741,623 contracts to which the moratoria was applied, in which 44% were housing credit contracts and other mortgage loans, 26% were consumer credits, and 30% were credit contracts with enterprises, individual entrepreneurs and others.

Although the government's moratorium measures may mitigate the impact of the recession, it is a temporary solution. In case the Covid-19 pandemic continues, the economic and financial consequences could extend far beyond the expected end of the moratorium period which might result in deterioration in asset quality and profitability of Portuguese banks, as nonperforming loans may increase due to the breakdown of the economy and the decline in the capacity of households and businesses to repay the debts. It is, therefore, important that the moratorium measures are accompanied by other supportive measures to boost the Portuguese economy as well as to foster the liquidity of different economic players, so that the concerns surrounding bad loans may be alleviated.

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