ECONOMIC RESEARCH DEPARTMENT

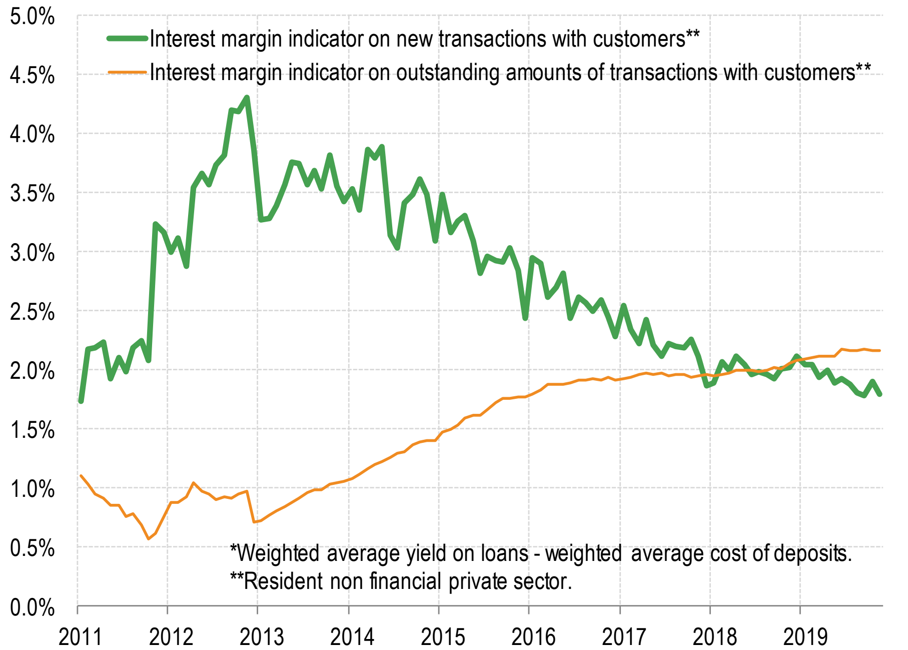
CHART OF THE WEEK

## Portugal: towards a compression of interest margin on outstanding amounts of transactions with customers?

In a period of declining interest rates, the interest margin on transactions with customers has widened due to greater inertia on the downside of yields on bank assets compared to that of the cost of resources. Portuguese banks, however, hold a large share of variable rate loans which tends to accelerate the downward adjustment of the yield on the loan portfolio.

In a context of durably low interest rates and close to zero cost of resources from customers, the sustainability of the interest margin will depend essentially on the ability of Portuguese banks to maintain the current rates applied on new loans[1]. A further decrease in interest rates on new loans would drive the margin on new transactions well below the margin on outstanding amounts. This would put an end to the widening of the latter, as observed since 2013.

**Portugal: Interest margin indicator* on transactions with customers****




Source: ECB, BNP Paribas

[1] In Portugal, circular 33/2009/DBS prevents banks from applying negative interest rates on deposits from non-financial corporations and households.