

Material third countries for the Portuguese banking system



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Pursuant to a decision of the Board of Directors of Banco de Portugal of 12 June 2017, the updated list of material third countries for the Portuguese banking system, valid until the second quarter of 2018, includes the Republic of Angola, the Republic of Mozambique and Macao Special Administrative Region of the People's Republic of China.

According to Recommendation ESRB/2015/1 of the European Systemic Risk Board (ESRB), Banco de Portugal should identify, on an annual basis, the third countries to which the Portuguese banking system is materially exposed and monitor the risks stemming from excessive credit growth in those countries.¹ This note summarises the main results of the 2017 identification exercise based on end-2016 supervisory data and presents the updated list of material third countries for the Portuguese banking system.²

In the fourth quarter of 2016, the Portuguese banking system was directly exposed to 172 third countries but the majority of the exposures were very low. Panel (a) of Chart 1 presents the total amount of the relevant credit exposures of the Portuguese banking system to third countries as a percentage of the total amount of the relevant credit exposures to all countries between the fourth quarter of 2014 and the fourth quarter of 2016, for the three exposure metrics defined in the methodology.³ In comparison with the fourth quarter of 2015, which was the reference date used in the identification exercise conducted in 2016, there was an increase in the relative exposure to third countries in terms of risk-weighted exposures and exposures in default and a decrease in terms of original exposures in the fourth quarter of 2016. Nevertheless, the geographical distribution of the total relative exposures remained broadly unchanged over 2016 in comparison with 2015, for every exposure metric used.

In 2016, Angola, Mozambique and Macao were identified as the third countries to which the Portuguese banking system was materially exposed. Based on data for the fourth quarter of 2016, the exposures to these three countries still represented, individually, more than 1 per cent of the total exposure amount, for at least one of the measurement metrics (see panels (b) to (d) of Chart 1). The relative risk-weighted exposures to Angola and Mozambique decreased 0.5 and 0.1 percentage points, respectively, in the fourth quarter of 2016 when compared to the same period in 2015. These results are largely driven by the reduction in the exposure amount to these countries, which may be linked to the deterioration of the economic conditions in those countries during 2016. Similar conclusions can be drawn from the analysis of the original exposures and exposures in default, except for the case of the relative exposure in default to Mozambique where an increase occurred (see panels (b) to (d) of Chart 1). In contrast, there was a year-on-year increase of 0.4 percentage points in the relative risk-weighted

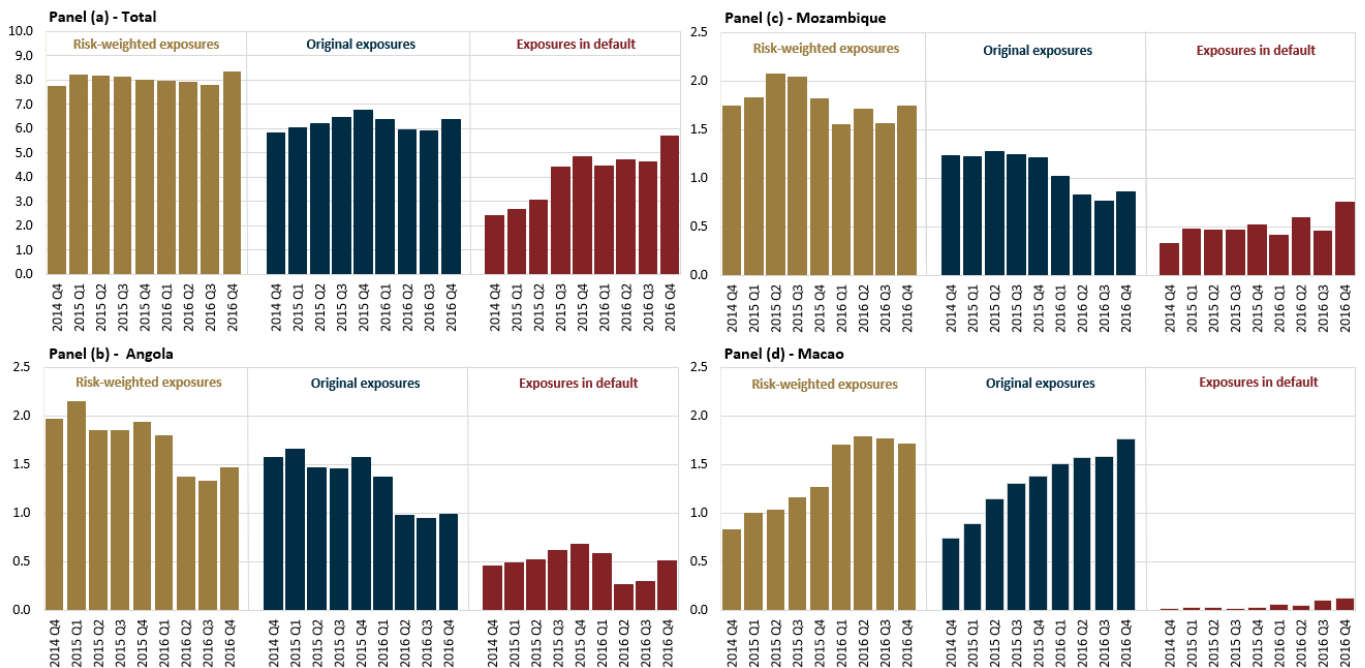
¹ A third country is any jurisdiction outside the European Economic Area. The European Economic Area includes the European Union Member States, Iceland, Liechtenstein and Norway.

² The identification of material third countries for the Portuguese banking system follows the methodology described in https://www.bportugal.pt/sites/default/files/anexos/documentos-relacionados/institution_specific_countercyclical_capital_buffer.pdf.

³ For further details on the definition of relevant credit exposures and exposure metrics see the methodological note.

exposure to Macao in the fourth quarter of 2016, which may be associated with the strong credit expansion observed in China during 2016. Due to data limitations related to the length of the time series, the criteria for excluding a country from the list were not considered in this identification exercise.

Chart 1 – Amount of relevant credit exposures in third countries in relation to the total amount of relevant credit exposures (in per cent).



Sources: COREP and Banco de Portugal calculations.

Notes: Based on data with reference date of 31 December 2016. The relevant credit exposures comprise exposures to the private non-financial sector in the banking and trading books of credit institutions subject to own funds requirements associated with credit risk, counterparty risk and free deliveries.

Finally, no other third country complies with the criteria presented in the methodological note to be added to the initial list of material third countries for the Portuguese banking system published in 2016 and, as a result, the initial list remains unchanged.⁴ Accordingly, the updated list of material third countries, valid until the second quarter of 2018, includes the Republic of Angola, the Republic of Mozambique and the Macao Special Administrative Region of the People's Republic of China. None of the third countries identified as material for the Portuguese banking system is monitored by the European Systemic Risk Board and, therefore, Banco de Portugal will monitor the cyclical systemic risk in all the third countries deemed as material using the set of macroeconomic and financial indicators described in the methodology.⁵ Banco de Portugal will only disclose its risk assessment if there is the need to take a decision on the countercyclical buffer rate applicable to exposures to a country included in the list of material third countries.⁶

⁴ See https://www.bportugal.pt/sites/default/files/anexos/documentos-relacionados/list_of_material_third_countries.pdf for details on the initial list of material third countries for the Portuguese banking system.

⁵ According to Decision ESRB/2015/3, the initial list of material third countries for the Union's banking system includes the Federative Republic of Brazil, the Hong Kong Special Administrative Region of the People's Republic of China, the People's Republic of China, the Republic of Turkey, the Russian Federation and the United States of America. The cyclical systemic risk in these countries is, therefore, directly monitored by the European Systemic Risk Board.

⁶ Decisions cover the recognition of a countercyclical buffer measure implemented by a third country authority or the setting of the countercyclical buffer rate for exposures to a third country.

This list shall be updated annually on the basis of the criteria established to guide the entry/exit of countries into/from the list. The tentative date for the next release of the list of material third countries for the Portuguese banking system is 29 June 2018.