

Material Third Countries for the Portuguese Banking System

29 June 2018



Pursuant to a decision of the Board of Directors of Banco de Portugal of 20 June 2018, the updated list of material third countries for the Portuguese banking system, valid until the second quarter of 2019, 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 2018 identification exercise based on supervisory data with reference date of 31 December 2017 and presents the updated list of material third countries for the Portuguese banking system.²

The identification methodology analyses three indicators – risk-weighted exposures, original exposures and defaulted exposures as a percentage of the respective total exposure amount – and the entry criteria adopted by Banco de Portugal, that are also laid down in Decision ESRB/2015/3. According to the entry criteria, the countries that are identified as material for the Portuguese banking system are those for which at least one of the three indicators is equal to or higher than 1% in each of the last two quarters and on average in the last eight quarters preceding the reference date. This exercise also considers for the first time the exit criteria, i.e. those used to exclude a country from the list, given that there are now sufficient data points to perform the assessment.

Against this background, **Banco de Portugal decided to maintain in 2018 the list of third countries to which the Portuguese banking system is materially exposed, which includes Angola, Mozambique and Macao.** This decision is supported by the fact that these countries did not overpass the exit thresholds and no other third country met the entry criteria used by Banco de Portugal.³ As such, the list of third countries remained unchanged compared to the 2017 identification exercise.

In the fourth quarter of 2017, the relative total exposure to third countries ranged from 5.40% of the total amount of relevant credit exposures, if measured by original exposures, to 6.78% of the total amount of relevant credit exposures, if measured by risk-weighted exposures. Defaulted exposures in relative terms to

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 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.

third countries have gained weight along the previous years, while risk-weighted and original exposures have contracted (Table 1).

Table 1 · Amount of relevant credit exposures in identified third countries in relation to the total amount of relevant credit exposures | Per cent.

Relative Exposures	Third countries	2015				2016				2017			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Risk-weighted exposures	All third countries	8.15	7.93	8.00	7.92	7.84	7.81	7.61	8.11	7.59	7.02	6.76	6.78
	Angola	2.17	1.87	1.87	1.95	1.81	1.39	1.34	1.48	0.97	0.99	1.12	1.16
	Macao	1.01	1.05	1.17	1.28	1.72	1.80	1.78	1.72	1.69	1.68	1.34	1.53
	Mozambique	1.84	2.09	2.06	1.83	1.56	1.73	1.57	1.76	1.68	1.62	1.67	1.43
Original exposures	All third countries	6.00	6.06	6.41	6.68	6.33	5.89	5.82	6.23	5.66	5.53	5.50	5.40
	Angola	1.66	1.48	1.46	1.58	1.37	0.98	0.95	0.99	0.49	0.49	0.51	0.52
	Macao	0.89	1.15	1.31	1.38	1.52	1.58	1.59	1.76	1.73	1.67	1.63	1.63
	Mozambique	1.23	1.28	1.24	1.22	1.03	0.83	0.77	0.86	0.84	0.90	0.92	0.88
Defaulted exposures	All third countries	2.66	3.05	4.44	4.73	4.49	4.71	4.55	5.59	5.80	6.29	6.50	6.18
	Angola	0.49	0.52	0.62	0.55	0.58	0.27	0.29	0.51	0.36	0.42	0.46	0.49
	Macao	0.03	0.03	0.02	0.03	0.07	0.06	0.11	0.12	0.16	0.16	0.16	0.19
	Mozambique	0.48	0.47	0.47	0.53	0.42	0.59	0.45	0.76	0.91	1.20	1.19	1.09

Sources: COREP and Banco de Portugal calculations. | Notes: (a) Based on COREP data on a consolidated or individual basis, as applicable, with reference date of 31 December 2017. The assessment is based on data available up to 14 June 2018. (b) 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. (c) Cells in light blue stand for relative exposures equal to or above 1%. (d) The universe of institutions used in each identification exercise may change.

Although the exposures to each identified third country were still higher than 1% of the total exposure amount for at least one of the measurement metrics, over the four quarters of 2017 the relative exposure amount to each individual material third country – as measured by original and risk-weighted exposures – tended to be lower compared to the respective quarters of the previous year. This was driven by the reduction of exposures to individual material third countries, although the relevant credit exposure amount of Portuguese resident banks to all countries has also declined, but less intensively.

Considering each indicator alone, the relative risk-weighted exposures to Angola, Macao and Mozambique decreased in the fourth quarter of 2017 with respect to the same period of 2016, as well as the relative original exposures to Angola and Macao. The decline in both the amount of risk-weighted and original exposures to Angola was more substantial than the reduction in the amount of exposures to Macao and Mozambique, mainly due to the partial sale of a stake in an Angolan bank by a Portuguese bank. In end-2017 the relative exposures in default remained close to those observed in end-2016 for the three countries. Relative defaulted exposures to Angola hovered around 0.5% in end-2016 and end-2017, while there was an increase in relative defaulted exposures of Portuguese resident banks to Mozambique and Macao in every quarter of 2017 compared to equal period of 2016. In particular, relative defaulted exposures to Mozambique increased from 0.76% in the last quarter of 2016 to 1.09% in the same period of 2017, crossing the 1% threshold.

None of the third countries identified as material for the Portuguese banking system is monitored by the ESRB and, therefore, Banco de Portugal will continue to monitor the cyclical systemic risk in the third countries deemed as material using the set of macroeconomic and financial indicators described in the methodology.⁴ 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.⁵

⁴ According to Decision ESRB/2015/3, the current list of material third countries for the Union's banking system, as adopted by the ESRB on 8 June 2018, includes Brazil, China, Hong Kong, Russia, Singapore, Switzerland, Turkey, and United States of America. The cyclical systemic risk in these countries is, therefore, directly monitored by the European Systemic Risk Board.

⁵ 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 28 June 2019.