

RECIPROCITY OF THE MACROPRUDENTIAL MEASURE APPLIED BY LIETUVOS BANKAS



28 JUL. 2022

Analysis

On 1 December 2021, Lietuvos Bankas (the National Central Bank of Lithuania), as the macroprudential authority of the Republic of Lithuania, submitted a request to the European Systemic Risk Board (ESRB) for reciprocation of the sectoral measure adopted, introducing a 2% systemic risk buffer rate for all retail exposures to natural persons resident in the Republic of Lithuania that are secured by residential property, in accordance with Article 133 of Directive 2013/36/EU. The measure is applicable from 1 July 2022 to all credit institutions authorised in Lithuania at the highest level of consolidation and to central credit union groups that fall outside the scope of Regulation (EU) No 575/2013 on a consolidated basis. The systemic risk buffer only applies to institutions whose relevant sectoral exposures exceed the materiality threshold of €50 million, approximately 0.5% of the relevant exposures of the total credit institution sector in Lithuania. Accordingly, national authorities may opt not to reciprocate the measure when the relevant exposures of each domestic institution do not exceed this materiality threshold.

Lietuvos Bankas identified a source of systemic risk arising from the banking sector's high exposure to the residential real estate sector, given the context of rapid growth in the housing loan portfolio, together with accelerated growth in house prices and potential overvaluation. The sectoral measure was introduced in order to increase the financial system's resilience and foster a deceleration in new loans for house purchase in order to prevent imbalances in the residential real estate market and reduce the concentration of housing loans in banks' balance sheets. The sectoral measure is part of a package of measures that also includes introducing tighter credit standards for the purchase of a second or subsequent home, as well as in cases of an increase in the amount of previous housing loans, with exemptions.

After assessing the materiality of the exposures of each of the Portuguese credit institutions in question to reciprocate this measure, the Banco de Portugal concluded that, as at the reference date of 31 March 2022, these exposures stand considerably below the institution-specific materiality threshold of €50 million established by Lietuvos Bankas. Under the *de minimis* principle, and in accordance with the threshold established by the macroprudential authority of the Republic of Lithuania, the Banco de Portugal decided to exempt Portuguese credit institutions from reciprocating this macroprudential measure.

This decision will remain in force for as long as the macroprudential measure applied by Lietuvos Bankas is in place, including any reviews thereof. The Banco de Portugal will regularly monitor the materiality of the exposures subject to this measure.