Reciprocity of the macroprudential measure applied by the National Bank of Belgium

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Analysis

On 22 January 2018, the National Bank of Belgium (hereinafter NBB), as macroprudential authority of Belgium, notified the European Parliament, the Council, the Commission, the European Systemic Risk Board (ESRB) and the European Banking Authority (EBA) of its decision to apply a macroprudential measure to loans secured by residential immovable property located in Belgium, under Article 458(2)(d)(vi) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (hereinafter CRR, acronym for Capital Requirements Regulation).

The aforementioned Article includes, inter alia, the possibility of increasing risk weights applied to exposures in the immovable property sector to prevent asset bubbles in that sector (residential and commercial immovable property).

Therefore, the measure applied by the NBB is based on a scaling up of the risk weight associated with loans secured by residential immovable property located in Belgium, applicable only to the banks that use the internal ratings based approach. The calculation is based on two components. The first component imposes a fixed increase in the risk weight of 5 percentage points. The second component includes a proportional increase in the risk weight, equivalent to 33% of the exposure-weighted average of the risk weights on exposures secured by residential immovable property in Belgium, thus penalising loans with higher average risk weights and therefore riskier.

The measure applied aims to improve Belgian banks' resilience to systemic risk from the residential immovable property market. According to the reasons given by the NBB, there has been a certain persistence of Belgian banks to grant loans to the residential immovable property market, in an environment of increased indebtedness of Belgian households combined with an increase in prices in the local residential immovable property market.

In addition, the measure aims to: (i) encourage a reduction in exposure of riskier loans to the residential immovable property market; (ii) issue a signal to banks of the importance of maintaining robust mortgage credit standards; and (iii) address the public Warning issued by the ESRB on 22 September 2016.

This macroprudential measure replaces another measure applied in 2014, also under Article 458 of the CRR, which expired in May 2017.

Within the scope of the application of this measure, the Belgian macroprudential authority requested that the ESRB recommend voluntary reciprocity by other Member States under the terms of Recommendation ESRB/2015/2. The ESRB analysed the request and published an amendment to the aforementioned Recommendation (ESRB/2018/5), recommending reciprocity of the measure for institutions with an exposure of EUR 2 billion or above to loans secured by residential immovable property in Belgium. It is worth mentioning that the Article 458(5) of the CRR allows for the voluntary recognition by other Member States of the measures set in accordance with the Article, applying them only to exposures through branches. In turn, Recommendation ESRB 2015/2 includes the possibility of reciprocity of the measures applied by other Member States, through the application of such measures or other measures of an equivalent nature, to exposure to the Member State concerned, be it directly or through branches, complementing the provisions in Article 458 of the CRR.

Thus, by the combination of Article 458(5) of the CRR and Recommendation ESRB/2015/2, the reciprocity of macroprudential measures applied to specific exposures concerns direct exposures in the balance sheet of banks operating in Portugal or indirect exposures of branches operating in the aforementioned Member State.

Banco de Portugal has assessed the materiality of exposures of banks that use an internal ratings based approach to the residential Belgian immovable property market, concluding that such exposures are not significant considering the EUR 2 billion threshold defined.

Although there are currently no material exposures, Banco de Portugal has decided to reciprocate the measure as a matter of principle, as provided for in point 15 of Recommendation ESRB/2015/2.

This decision will remain in force for as long as the measure applied by the NBB is in place, including any reviews thereof.

Given that the measure imposed by the Belgian macroprudential authority is provided for in the CRR, reciprocity will be operationalised through the same measure.