

# RECIPROCITY OF THE MACROPRUDENTIAL MEASURE APPLIED BY THE FINANSDEPARTEMENTET



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## Analysis

On 2 February 2021, the Finansdepartementet (the Norwegian Ministry of Finance), as the macroprudential authority in Norway, requested the European Systemic Risk Board (ESRB) for reciprocation of the following macroprudential measures: the change in the Systemic Risk Buffer (SyRB) rate applicable to credit institutions authorised in Norway, in accordance with Article 133 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (hereinafter CRD IV<sup>1</sup>); and the implementation of average risk weight floors for residential and commercial real estate exposures of credit institutions authorised in Norway which use the internal ratings based (IRB) approach,<sup>2</sup> in accordance with Article 458(2)(d)(vi) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR<sup>3</sup>).

Since 31 December 2020, credit institutions authorised in Norway are subject to (i) a 4.5% SyRB rate, which applies to exposures in Norway, except for credit institutions that do not use the advanced IRB approach, which are subject to a rate of 3% until 31 December 2022 and 4.5% thereafter; (ii) a 20% average risk weight floor applicable to exposures collateralised by residential real estate located in Norway; and (iii) a 35% average risk weight floor applicable to exposures collateralised by commercial real estate located in Norway.

According to the Finansdepartementet, the requirement of a SyRB rate is justified by the sources of structural systemic risk identified by the Norwegian authority, such as: (i) high reliance of credit institutions on market funding, with a significant share denominated in foreign currency, (ii) concentration of credit institutions' exposures, in particular to the real estate market, and (iii) high concentration of the banking sector, where the five largest banks hold more than half of domestic loans.

As stated by the Finansdepartementet, the application of average risk weight floors for exposures collateralised by residential and commercial real estate aims to mitigate the sources of systemic risk associated with the high level of indebtedness of individuals resident in Norway and the strong and protracted increase in real estate market prices in Norway, as well as to lessen uncertainties associated with IRB models due to the fact that most of the data used in these models are from periods characterised by favourable economic conditions.

Within the scope of the application of these macroprudential measures, the Finansdepartementet requested that the ESRB recommend voluntary reciprocation by other Member States of the European Union (EU) under the terms of Recommendation ESRB/2015/2. After analysing the request for reciprocity by the Norwegian designated authority, the ESRB recommended the reciprocation of the measure in question through Recommendation ESRB/2015/2 (as amended by Recommendation ESRB/2021/3), i.e. its application by the EU Member States to credit institutions which: (i) for the SyRB rate, have a risk-weighted exposure amount to Norway of more than NOK 32 billion; (ii) for the average risk weight floor for residential real estate exposures located in Norway, have an exposure above NOK 32.3 billion, and (iii) for the average risk weight floor for commercial real estate exposures located in Norway, have an exposure amount of more than NOK 7.6 billion.

After assessing the materiality of the exposures of each of the Portuguese credit institutions in question for purposes of reciprocation of this measure, the Banco de Portugal concluded that these exposures are non-material, taking into account the thresholds set by Recommendation ESRB/2015/2 (as amended by Recommendation ESRB/2021/3).<sup>4</sup> Nevertheless, in

<sup>1</sup> Abbreviation for Capital Requirements Directive.

<sup>2</sup> The average risk weight is the average of the risk weights of the individual exposures, calculated in accordance with Article 154 of the CRR, weighted by the relevant exposure value.

<sup>3</sup> Abbreviation for Capital Requirements Regulation.

<sup>4</sup> Assessment based on data as at 31 March 2021.

accordance with point 15 of Recommendation ESRB/2015/2, the Banco de Portugal has decided to reciprocate these macroprudential measures as a matter of principle.

This decision will remain in force for as long as the macroprudential measures applied by the Finansdepartementet are in place, including any revisions thereof.

Given that the first measure imposed by the Norwegian macroprudential authority is provided for in CRD IV, transposed into Portuguese law by Decree Law No 157/2014 of 24 October 2014 amending the Legal Framework of Credit Institutions and Financial Companies, reciprocity will be operationalised through the adoption of the same measure, i.e. through the imposition of a 4.5% systemic risk buffer rate for exposures of Portuguese banks to Norway, either directly or through branches located in Norway, except for credit institutions that do not use the advanced IRB approach, which are subject to a rate of 3% until 31 December 2022 and 4.5% thereafter.

As the other two measures imposed by the Norwegian macroprudential authority are provided for in the CRR, reciprocity will be operationalised through the adoption of the same measure, i.e. by imposing a specific 20% average risk weight floor for residential real estate exposures in Norway and a specific 35% average risk weight floor for commercial real estate exposures in Norway, addressed to Portuguese institutions using the internal ratings based approach and with exposures to Norway, either directly or through branches located in Norway.