

Reciprocity of the macroprudential measure applied by the Ministry of Industry, Business and Financial Affairs of Denmark

Analysis

On 10 October 2023, the Danish Ministry of Industry, Business and Financial Affairs, in its capacity as the designated macroprudential authority of Denmark, submitted a request to the European Systemic Risk Board (ESRB) for reciprocation of the sectoral measure adopted, in accordance with Article 133 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (hereinafter “CRD” – Capital Requirements Directive). This measure consists in applying a 7% systemic risk buffer rate to exposures to non-financial corporations operating in real estate activities and in the development of building projects identified in accordance with the statistical classification of economic activities in the Union (NACE), set out in Regulation (EC) No 1893/2006, with the exception of the part of each exposure that lies within a loan-to-value (LTV) ratio range of 0% to 15% (exception notified to the ESRB on 7 June 2024). This measure covers all the institutions authorised in Denmark both on an individual and consolidated basis.

This measure aims to mitigate the risks to the banking sector of exposures to real estate companies in a macroeconomic and financial environment conducive to increased sources of risk. The exception for exposures within an LTV ratio range of 0% to 15% was introduced to ensure that the sectoral systemic risk buffer only covers the part of the exposures with higher risk (those with a higher LTV ratio), excluding the least risky part of each exposure. In addition, the Danish authorities do not expect the increased capital requirement to lead to a tightening of credit conditions, given the current high levels of bank profits in Denmark. The sectoral systemic risk buffer has been in force since 30 June 2024 and will be reviewed by the macroprudential authority at the latest two years after the initial application.

According to the Danish Ministry of Industry, Business and Financial Affairs, the request for reciprocation is warranted to prevent the materialisation of negative cross-border effects in the form of leakages and regulatory arbitrage between jurisdictions, as well as to contribute to the effectiveness of the national measure in mitigating risks to financial stability. In its assessment of the measure, the ESRB deemed it appropriate, being effective and proportionate to mitigate the identified risk over time, with limited negative impact on the economy. In addition, the measure was seen by the ESRB as complementing other macroprudential tools applied in Denmark, without apparent overlap.

Following the request for reciprocation of the aforementioned measure, the ESRB amended Recommendation ESRB/2015/2 through Recommendation ESRB/2024/3, recommending that the measure be reciprocated in other Member States on an individual and on a consolidated basis.

It was concluded that, as at the reference date of 30 June 2024, the exposures of each Portuguese credit institution under this measure stand considerably below the specific materiality threshold set by the Danish authority (€200 million). Therefore, under the de minimis principle and in accordance with the threshold set by the designated authority of Denmark, the Banco de Portugal has decided to exempt Portuguese credit institutions from reciprocating this macroprudential measure.

This decision will remain valid for as long as the macroprudential measure established by the Danish macroprudential authority is in force, including any reviews thereof, provided that the exposures of each Portuguese credit institution in question for purposes of the measure's reciprocity, where the de minimis principle is applied, stay below the materiality threshold established. The Banco de Portugal will regularly monitor the materiality of the exposures subject to this measure.