RECOMMENDATION OF THE EUROPEAN SYSTEMIC RISK BOARD

of 13 November 2023

regarding the Portuguese notification of its intention to set a sectoral systemic risk buffer rate in accordance with Article 133 of Directive 2013/36/EU

(ESRB/2023/11)

THE GENERAL BOARD OF THE EUROPEAN SYSTEMIC RISK BOARD,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board[1], and in particular Article 3(2)(j) thereof,

Having regard to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC[2], and in particular Article 133(8), (9) and (11) thereof,

Having regard to Decision ESRB/2015/4 of the European Systemic Risk Board of 16 December 2015 on a coordination framework for the notification of national macroprudential policy measures by relevant authorities, the issuing of opinions and recommendations by the ESRB, and repealing Decision ESRB/2014/2[3],

Whereas:

(1) Banco de Portugal, acting as the designated authority for the purpose of Article 133 of Directive 2013/36/EU, notified the European Systemic Risk Board (ESRB) on 4 October 2023 of its intention to set a sectoral systemic risk buffer (sSyRB) rate in accordance with Article 133 of that Directive.

(2) The sSyRB is to be set at a rate of 4 % and apply to internal ratings-based (IRB) retail exposures to natural persons secured by residential immovable property for which the collateral is located in Portugal. It applies to four domestic credit institutions, two of which are subsidiaries whose respective parent entities are established in another Member State.

(3) Setting the sSyRB rate would strengthen the resilience of the banking sector to absorb potential losses related to banks' residential real estate mortgage portfolios. In particular, this measure would

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[1] OJ L 331, 15.12.2010, p. 1.

[2] OJ L 176, 27.6.2013, p. 338.

[3] OJ C 97, 12.3.2016, p. 28.

address the risks stemming from: (i) rising interest rates that affect household solvency; and (ii) downside risks to house prices. The sSyRB rate applies only to credit institutions using the IRB approach because the level of risk weights applied by credit institutions using the standardised approach is considered sufficient in view of the systemic risk associated with banks' residential real estate mortgage portfolios.

(4) The sSyRB rate is expected to apply from 1 October 2024 and to remain in place for two years or until the targeted risks materialise or disappear.

(5) In accordance with Article 133(11) of Directive 2013/36/EU, where an institution subject to one or more systemic risk buffer rates above 3 % and up to 5 % is a subsidiary whose parent is established in another Member State, the ESRB must issue a recommendation on the measure within six weeks of receipt of the notification.

(6) To assess the measure notified by Banco de Portugal, the ESRB's assessment team referred to in Decision ESRB/2015/4 has issued an assessment note, which is annexed hereto.

HAS ADOPTED THIS RECOMMENDATION:

1. It is recommended that Banco de Portugal consider the proposed sSyRB rate notified under Article 133(11) of Directive 2013/36/EU justified, suitable, proportionate, effective and efficient to address the risks that it targets. In particular that:
   (a) the dimension of the identified systemic or macroprudential risk threatens the stability of the financial system in Portugal, justifying the introduction of a sSyRB rate of 4 % for IRB retail exposures to natural persons secured by residential immovable property for which the collateral is located in Portugal.
   (b) the proposed measure is likely to be effective and proportionate to mitigate the risk;
   (c) the proposed measure, including its application to subsidiaries whose parents are established in other Member States, does not entail disproportionate adverse effects on the whole or parts of the financial system of other Member States, or of the Union as a whole forming or creating an obstacle to the proper functioning of the internal market;
   (d) the proposed measure is reviewed by Banco de Portugal on a regular basis, at least every two years;
   (e) the proposed measure is not used to address risks that are covered by Article 130 and Article 131 of Directive 2013/36/EU.

2. The attached assessment note entitled 'Assessment of a Portuguese notification in accordance with Article 133 of Directive (EU) 2013/36/EU concerning the application of a systemic risk buffer set between 3% and 5%' is an integral part of this Recommendation.

Done at Frankfurt am Main, 13 November 2023.

Francesco Mazzaferro

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Head of the ESRB Secretariat, on behalf of the General Board of the ESRB