

28 February 2022

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EBA-Op-2022-03

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# Opinion of the European Banking Authority on measures in accordance with Articles 131 and 133 of Directive 2013/36/EU

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## Introduction and legal basis

1. On 11 January 2021, the European Banking Authority (EBA) received a notification from the European Systemic Risk Board (ESRB) on the intention of the National Bank of Belgium (NBB) to apply Article 133 of Directive 2013/36/EU of the European Parliament and of the Council (Capital Requirements Directives, (CRD))<sup>1</sup> to activate a new systemic risk buffer (SyRB). The intended SyRB applies to a set of institutions and a specific subset of exposures, i.e. natural persons IRB retail exposures secured by residential property for which the collateral is in Belgium.
2. The EBA's authority to deliver an Opinion is based on the second subparagraph of Article 133(12) of the CRD in conjunction with Article 133(9) of the CRD and Article 131(5a) of the CRD in conjunction with Article 131(15) of the CRD.
3. The EBA may within six weeks of receiving the notification provide the Commission with its Opinion in accordance with Article 16a of Regulation (EU) No 1093/2010.
4. In accordance with Article 14(2) of the Rules of Procedure of the EBA<sup>2</sup>, the Board of Supervisors has adopted this Opinion.

## Description of the measure

5. The proposed measure introduces a systemic risk buffer (SyRB) for a subset of credit institutions on a subset of exposure categories identified in point (b) of Article 133(5) of the CRD. According to the notification and additional information provided by the NBB, the NBB

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<sup>1</sup> 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 and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176 27.6.2013, p. 338)

<sup>2</sup> Decision of the EBA concerning the Rules of Procedure of the Board of Supervisors of 22 January 2020 (EBA/DC/2020/307)

will apply the SyRB to IRB banks for (i) natural person, (ii) retail exposures; (iii) IRB portfolios; and (iv) exposures secured by residential property located in Belgium. The intended sectoral SyRB of 9% will be applicable to nine institutions in Belgium. For five institutions, the SyRB will be applied on a consolidated basis and for two institutions on an individual basis, while for two institutions which are subsidiaries whose parent is established in another Member State, the SyRB will be required on a sub-consolidated basis. The NBB intends to ask the ESRB to issue a recommendation to other Member States to recognise the SyRB according to Article 134(5) of the CRD.

6. The notified SyRB is intended to replace the existing measure under Article 458 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council (Capital Requirements Regulation, CRR)<sup>3</sup> and aims to target the same risks. The period of application of the measure under Article 458 of the CRR will remain in force until 30 April 2022. The intended date of entry into force of the SyRB is 1 May 2022. The measure is expected to remain in place until targeted risks materialise or disappear, but the NBB intends to review the level of the buffer going forward.
7. A similar macroprudential measure for the targeted exposures has been in place since 2013 and since 2014 based on Article 458 of the CRR. The measure under Article 458 of the CRR in its current form was firstly notified to the EBA on 22 January 2018.<sup>4</sup> The first request for extension was notified on 27 January 2020.<sup>5</sup> The second and last request for extension was notified on 22 January 2021.<sup>6</sup>
8. In its previous Opinion, the EBA did not object to the extension of the measure under Article 458 of the CRR. The EBA acknowledged the persistent high level of systemic risk in Belgian banks' mortgage portfolios and hence the persistence of macroprudential vulnerabilities in the Belgian financial system. However, the EBA raised concerns about the measure, including:
  - The level of IRB risk weights of retail exposures secured by residential real estate in Belgium which, according to the NBB, are too low from a macroprudential point of view and insufficient to cover all potential losses under severe stress scenarios. The

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<sup>3</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1)

<sup>4</sup> Opinion of the European Banking Authority on measures in accordance with Article 458 of Regulation (EU) No 575/2013 of 23 February 2018 (EBA/Op/2018/01), available at <https://eba.europa.eu/eba-issues-opinion-on-measures-to-address-macroprudential-ri-3>

<sup>5</sup> Opinion of the European Banking Authority on measures in accordance with Article 458 of Regulation (EU) No 575/2013 of 26 February 2020 (EBA/Op/2020/04), available at [https://www.eba.europa.eu/sites/default/documents/files/document\\_library/Publications/Opinions/2020/872842/EB-A-2020-Op-04%20-%20EBA%20Opinion%20on%20measures%20taken%20by%20Belgium%20in%20accordance%20with%20Art%20458.pdf](https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2020/872842/EB-A-2020-Op-04%20-%20EBA%20Opinion%20on%20measures%20taken%20by%20Belgium%20in%20accordance%20with%20Art%20458.pdf)

<sup>6</sup> Opinion of the European Banking Authority on measures in accordance with Article 458 of Regulation (EU) No 575/2013 of 19 February 2021 (EBA/Op/2021/01), available at [https://www.eba.europa.eu/sites/default/documents/files/document\\_library/Publications/Opinions/2021/1016520/EB-A%20Opinion%20on%20measures%20in%20accordance%20with%20Art%20458%20%28BE%29.pdf](https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2021/1016520/EB-A%20Opinion%20on%20measures%20in%20accordance%20with%20Art%20458%20%28BE%29.pdf)

EBA invited the competent authority to continue to remind Belgian IRB banks to review their internal models and address any potential deficiencies.

- The calibration of the measure relied on the scenarios originally used for the calibration on the measure notified in 2018. The EBA invited the NBB to reassess the stress scenarios when introducing sectoral SyRB in replacement of the Article 458 of the CRR measure.

9. The NBB assesses the overall risks to be comparable to the assessment made one year ago for the extension of the measure under Article 458 of the CRR. The intended sectoral SyRB follows up on the current Article 458 of the CRR measure and targets the same risks.

10. Most of the vulnerabilities affecting the intensity of macroprudential risk or systemic risk are still relevant and relate to:

- i. the protracted expansion of banks' exposures to mortgage lending to Belgian households, secured by too low IRB risk weights from a macroprudential perspective;
- ii. the persistent signs of overvaluation in housing prices;
- iii. the persistence of household indebtedness;
- iv. the intense competition between credit institutions on the mortgage loan market.

11. Belgian banks have continued to increase their exposure to the Belgian residential real estate market. The average mortgage lending growth rate on a year-on-year basis was 5.5% between the end of 2014 and September 2021. The ratio of mortgage loans to CET1 capital increased from 362% to 400% over the same period. Household debt stands at 64.3% of GDP, and the NBB considers that the share of outstanding loans to riskier borrower segments remains high. In light of this, the NBB deems the IRB risk weights, which currently stand at 9.8%, as a source of concern from a macroprudential perspective.

12. The strong competition between the main credit institutions in the Belgian mortgage market is also a concern to the extent that it might lead to under-pricing risk. Despite recent significant improvements in the risk profile of new mortgage loan borrowers, there is a concern that strong competition may result in the under-pricing of risks.

13. The NBB is also concerned about the potential overvaluation of residential real estate in Belgium. Residential real estate prices continued to increase during the first half of 2021 and their growth rate accelerated compared to 2020. It is, however, acknowledged that temporary demand and supply factors may have contributed to the price increases, and that overvaluation estimates are subject to uncertainty.

14. The NBB argues that given the current market situation, a severe downturn in the Belgian residential real estate market cannot be excluded and may have a substantial impact on institutions' solvency position. This may in turn entail unfavourable consequences for the Belgian real economy, given the importance of residential mortgage loans on the balance sheets of Belgian credit institutions.

15. The NBB deems the proposed measure to be effective and proportionate. The proposed measure is deemed effective for residential mortgage loans for which microprudential risk weights are considered too low compared to the observed persistent systemic risk. The proposed measure results in the same amount of capital as the existing measure under Article 458 of the CRR. No signs of any strong impact on overall credit supply (neither in pricing nor in volume terms) and, indirectly, on the real economy have been observed during the period of application of the current measure under Article 458 of the CRR which the notified SyRB aims to replace, nor have there been signs of disruption to the Single Market (through cross-border spill-overs).
16. According to the notification, the calibration of the measure is based on an assessment of credit losses under stress scenarios for the real estate market and aims to enhance the resilience of Belgian IRB banks. The calibration relied on a simulation using the same scenarios as for the calibration of the measure under Article 458 of the CRR. The simulation resulted in a reduction of EUR 200 million in the need for a macroprudential buffer. However, the NBB decided to adopt a cautious approach and did not take this into account. The NBB is of the opinion that recent default rates might be distorted downwards by support measures. Moreover, the NBB decided not to take into account the reduction observed in the current LTV profile of portfolios.
17. The impact of the measure in terms of IRB banks' CET1 capital is calculated at EUR 1.9 billion and remains the same compared to the impact of the measure under Article 458 of the CRR, if the latter was maintained in its current format. The measure is deemed proportionate, as it leads to the same increase in required CET1 capital amounts as the current measure under Article 458 of the CRR for which, and according to the notification, the NBB did not observe signs of a strong impact on the overall credit supply or indirectly on the real economy or signs of disruption to the Single Market.
18. The NBB does not expect the proposed measure to negatively affect the internal market, as it only applies to loans secured by residential real estate located in Belgium. On the contrary, given the important role of cross-border banking groups in Belgium and the openness of the economy, safeguarding financial stability is expected to yield positive benefits for the financial stability in Europe.

### Combination with other buffers

19. The SyRB rate applicable in Belgium to the total risk exposure amounts of institutions is currently 0%. Therefore, the notified sectoral SyRB will result in a combined systemic risk buffer rate, as calculated for the purposes of Article 133(12), of 9% for the targeted subset of exposures of the targeted credit institutions. Furthermore, given that six of the targeted credit institutions are subject to O-SII buffer requirements according to Article 131 of the CRD, the notified sectoral SyRB implies that the sum of the combined systemic risk buffer and the O-SII buffer rates for the targeted subset of credit institutions will range between 9.75% to 10.5%.

## Assessment and conclusions

20. The EBA acknowledges the macroprudential vulnerability concerns raised by the NBB. Based on the information provided by the NBB and the analysis conducted by the European Systemic Risk Board in 2019, the EBA does not object to the introduction of the described measure.<sup>7</sup>
21. The EBA welcomes the replacement of the measure under Article 458 of the CRR by the measure under Article 133 of the CRD. After the introduction of the sectoral SyRB in the CRD, the EBA is of the view that macroprudential authorities should consider whether the SyRB is suitable and effective to address the identified systemic risk before resorting to measures under Article 458 of the CRR.
22. The EBA welcomes the compliance of the notified measure to identify the subset of exposures according to the applicable EBA 'Guidelines on the appropriate subsets of sectoral exposures in the application of a systemic risk buffer' (EBA/GL/2020/13).
23. The EBA agrees with the NBB that the resulting buffer requirements will not entail disproportionate adverse effects on the financial systems of other Member States or of the Union as a whole.
24. The EBA invites the NBB to closely monitor any unintended interactions that the new measure might have with other prudential capital requirements. The expected impact in terms of CET1 capital corresponds to that of the measure under Article 458 of the CRR currently in place. The EBA notes however that the notified measure is different in design and application compared to the currently imposed risk weight add-on and multiplier.
25. The EBA acknowledges the current high level of uncertainty that surrounds systemic risks stemming from the Belgian residential real estate market. It is also acknowledged that the COVID-19 pandemic may have increased vulnerabilities in the Belgian housing market. The EBA notes the potential impact of structural changes in tele-working behaviour and policies on the residential real estate market.
26. The EBA notes that the estimated required capital amount remains nearly identical since the macroprudential measure under Article 458 of the CRR in its current form was put into place in 2018.
- The EBA encourages the NBB to assess further whether a reconsideration of the assumptions used in the simulations is warranted.
  - The EBA invites the NBB to assess the possible impact of the withdrawal of support measures on default rates and whether any adjustment in the SyRB requirement would be necessary.

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[https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation190923\\_be\\_recommandation~2cb5134896.en.pdf](https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation190923_be_recommandation~2cb5134896.en.pdf)

- The EBA invites the competent authority to continue to remind Belgian IRB banks to review their internal models and address any potential deficiencies affecting their resilience in the event of a severe downturn in the Belgian residential real estate market.

27. The EBA would like to invite the NBB to closely monitor non-targeted entities that may expand the real estate market business in response to this intended measure.

This Opinion will be published on the EBA's website.

Done at Paris, 28 February 2022

[signed]

José Manuel Campa

Chairperson  
For the Board of Supervisors