Follow-up on the decision by the Minister for Industry, Business and Financial Affairs to activate a sector-specific systemic risk buffer for corporate exposures to real estate companies

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On 3 October 2023, the Systemic Risk Council (the Council) recommended the Minister for Industry, Business and Financial Affairs to activate a sector-specific systemic risk buffer for exposures to real estate companies at a rate of 7 per cent effective from 30 June 2024 (link).

In its recommendation, the Council recommended that the measure include exposures to real estate companies, i.e. companies in the sectors ‘Development of building projects' and 'Real estate activities' sectors, while excluding exposures to 'social housing companies' and ‘Cooperative housing societies’ in the 'real estate activities' sector.

The credit institutions have significant exposures to real estate companies, and they have increased further in recent years. During the financial crisis, real estate exposures were one of the areas where impairment charges were highest. Failing credit institutions also tended to have prior high loan growth and a high concentration of large exposures to the real estate sector.

The Minister for Industry, Business and Financial Affairs published the government’s decision to comply with the Council’s recommendation to activate a sector-specific buffer for exposures to real estate companies at a rate of 7 per cent on 26 April 2024. The measure covers exposures to real estate companies as defined in the Council’s recommendation. However, exposures secured by real estate in the 0 to 15 per cent loan-to-value range will be exempt from the measure, which was not part of the Council’s recommendation.

The Council finds that the activation of a sector-specific systemic risk buffer by the Minister for Industry, Business and Financial Affairs will address the systemic risks identified sufficiently. The purpose of the sector-specific systemic risk buffer is to increase the capitalisation of credit institutions so that they are better able to withstand impairment charges and losses on their loans to real estate companies. This will help to ensure financial stability by ensuring credit institutions still have the lending capacity to lend to creditworthy individuals and businesses despite any losses.