



BANCO DE PORTUGAL
EUROSISTEMA

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Session1: Data needs of the Single Supervisory Mechanism

Enhancing the synergies between the SSM and statistical reporting



- 1. Synergies between the SSM data needs and statistical reporting: overview of the work done so far at European level**

- 2. Enhancing the synergies – experience at Banco de Portugal**
 - 2.1. Management of micro data bases
 - 2.2. Benefits from combining several sources of microdata: an example
 - 2.3. Analytical benefit from combining several sources of microdata
 - 2.4. Addressing SSM needs of forward looking information
 - 2.5. Additional data that might be useful for SSM

- 3. Concluding remarks**



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1. Overview of the work done so far

SSM data system advantages

- Explore synergies with the statistical reporting:
 - Data compilers will benefit from the existing infra-structure
 - Reduce reporting burden for reporting entities

Amendments to legal framework concerning transmission and use of confidential statistical information

- Such amendments support the role of:
 - European Central Bank
 - National competent authorities responsible for prudential supervision in the Member States
 - Member States and European Union authorities responsible for the financial system stability

Working Groups for data requirements harmonization

- Working Group on Supervisory Statistics
- Task Force on European Reporting Framework
- ESCB Task Force on Credit Registers
- Task Force on Analytical Credit Datasets



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Banco de Portugal: development of a data system based on micro-data

- Reduce the burden imposed on reporting institutions
- Allow for a wider and flexible range of detailed statistical information for supervisory purposes

Micro databases managed by Banco de Portugal

- **Central Credit Registers:** granular information on credit on a borrower-by-borrower basis and in some cases including details which provide loan-by-loan information
- **Central Balance Sheet Database:** accounting and financial information covering (almost) exhaustively the population of non-financial corporations
- **Securities Statistics Integrated System database:** security-by-security and investor-by-investor system of both securities holdings and issues
- **Micro database on interest rate statistics:** individual data on new bank loans and interest rates (above €50 million until end-2014; all operations after that).



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Creating an in-house credit assessment system (ICAS)

- Main driver in the Eurosystem: reduce the dependence on external sources to evaluate the collateral potentially pledged in monetary policy operations
- Advantages go beyond monetary policy:
 - Banking supervision: ICAS may be used as a benchmark for credit notations obtained by financial institutions with their internal notation system
 - Supervision and financial stability: input for stress-testing exercises
 - Financial stability: identification of sources of risk and vulnerability in the NFC sector.



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Allows exploring the heterogeneity hidden behind aggregate numbers

Banco de Portugal's projects based on micro data are illustrative examples of how combining micro databases on the real and financial sides of the economy will be inescapable going forward

- Analysis of high levels of indebtedness in the private and the underlying interlinkages with the financial sector
- Household data at the micro level also allow a better understanding about how real and financial assets and liabilities are distributed across families
- Combining financial and non-financial granular data has been useful in assessing banks' credit quality
- Critical in assessing the systemic nature of a given financial institution



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The Funding and Capital Plans (FCPs) proved to be a powerful supervisory tool, both at micro and macro levels

Funding and Capital Plans :

- ✓ Focus on the solvency, liquidity and profitability of the institutions
- ✓ Include detailed historical and prospective accounting and prudential information (overall strategies pursued in a 3-4 year time horizon)
- ✓ Are built over harmonized macro scenarios, guidelines and restrictions, which allow for full consistency among institutions

- ✓ Deeper understanding of the general strategies of the institutions and of the overall adjusting path of the banking sector
- ✓ Check the consistency of the expected evolution of key aggregates (credit, deposits) with the macro scenario
- ✓ Identification of outliers with deviant behaviors from the sector average, which could have systemic implications



2.4. Addressing SSM needs of forward looking information

Table 1 – Nominal GDP growth rates

| | Baseline scenario | | | | Adverse scenario | | | |
|--|-------------------|------|------|------|------------------|------|------|------|
| | 2012 | 2013 | 2014 | 2015 | 2012 | 2013 | 2014 | 2015 |

Portugal

Angola

Brazil

Cape Verde

China

France

Greece

Mozambique

Poland

Romania

South Africa

Spain

United Kingdom

United States

Notes: In percent scenario, values deviation from the figures presented

Table 2: Macroeconomic Scenario

| | Baseline Scenario | Adverse Scenario | Difference |
|---|-------------------|------------------|------------|
| External Demand (assumption) | | | |
| Short-term interest rate (3-month money market rate) | | | |
| EURUSD Exchange rate (a) | | | |
| Oil price (in euros) | | | |
| Gross Domestic Product | | | |
| Private Consumption | | | |
| Public Consumption | | | |
| Gross Fixed Capital Formation | | | |
| Domestic Demand (including inventories) | | | |
| Exports of Goods and Services | | | |
| Overall Demand | | | |
| Imports of Goods and Services | | | |
| Contrib. of dom. demand (excl. invent.) to real GDP growth | | | |
| Contribution of inventories to real GDP growth | | | |
| Contribution of net exports to real GDP growth | | | |
| Consumer Prices (HICP) | | | |
| Savings Rate | | | |
| Employment (private sector) | | | |
| Unemployment rate | | | |
| Compensation per employee (private sector) | | | |
| Current and Capital Account | | | |
| Goods and Services Account | | | |
| Notes: | | | |
| arc = annual rate of change; aav = annual average value. | | | |
| (a) The assumption for the long-term interest rate corresponds to an estimate | | | |
| (a) An increase corresponds to an appreciation of the euro. | | | |

Table 3 – Financial variables and real estate prices

| | Baseline scenario | | | | Adverse scenario | | | |
|--|-------------------|------|------|------|------------------|------|------|------|
| | 2012 | 2013 | 2014 | 2015 | 2012 | 2013 | 2014 | 2015 |

| | | | | |
|------------------------------|--|--|--|--|
| ECB reference rate | | | | |
| Average | | | | |
| End of period | | | | |
| Money market interest rate | | | | |
| Average | | | | |
| End of period | | | | |
| 10-yr bond yields - Germany | | | | |
| Average | | | | |
| End of period | | | | |
| Treasury Bills - Portugal | | | | |
| Average | | | | |
| End of period | | | | |
| 10-yr bond yields - Portugal | | | | |
| Average | | | | |
| End of period | | | | |
| Money market interest rate | | | | |
| Average | | | | |
| End of period | | | | |
| 10-yr bond yields - US | | | | |
| Average | | | | |
| End of period | | | | |
| Money market interest rate | | | | |
| Average | | | | |
| End of period | | | | |
| 10-yr bond yields - Japan | | | | |
| Average | | | | |
| End of period | | | | |
| Discount rate for actuarial | | | | |
| Global equity prices, end of | | | | |
| Real estate prices, end of | | | | |
| Non-residential real estate | | | | |
| Residential real estate | | | | |

Table 4 – Probabilities of default

| | Baseline Scenario | | | | Adverse Scenario | | | |
|---|-------------------|------|------|------|------------------|------|------|------|
| | 2012 | 2013 | 2014 | 2015 | 2012 | 2013 | 2014 | 2015 |
| Loans to Non Financial Corporations | | | | | | | | |
| Corporate - all sectors except commercial real estate | 6,3 | 5,6 | 3,4 | 3,3 | 6,3 | 6,5 | 4,8 | 3,7 |
| Dimension 1 | 4,7 | 4,1 | 2,5 | 2,3 | 4,7 | 4,9 | 3,5 | 2,6 |
| Dimension 2 | 6,6 | 5,9 | 3,6 | 3,4 | 6,6 | 6,9 | 5,1 | 3,9 |
| Dimension 3 | 7,0 | 6,3 | 3,9 | 3,7 | 7,0 | 7,3 | 5,4 | 4,2 |
| Retail | | | | | | | | |
| SME | 7,8 | 7,4 | 5,1 | 4,8 | 7,8 | 8,3 | 6,6 | 5,3 |
| Commercial real estate - pure | | | | | | | | |
| Corporate | | | | | | | | 5,0 |
| Retail-SME | | | | | | | | |
| Commercial real estate - construction | | | | | | | | |
| Corporate | | | | | | | | |
| Retail-SME | | | | | | | | |
| Loans to Households | | | | | | | | |
| Retail - Housing purposes | | | | | | | | |
| Retail - Other purposes | | | | | | | | |

Notes: In percentage. Estimations by Banco de Portugal. Information on bank-specific probabilities of default is based on the 15/2007, which mimics the CRD. Dimension 1 refers to companies exceeding 50 million euros; Dimension 2 refers to companies between 50 million euros; Dimension 3 refers to companies below 50 million euros. This decomposition may not be feasible for the aggregate line "Corporate".

BdP provides the baseline/ adverse scenarios, key assumptions and guidelines for the FCP exercise to be completed by the banking groups



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Banco de Portugal's specific inspection exercises have been a tool to deepen the knowledge of specific issues of institutions and the financial system, to assess potential weaknesses and develop a risk mitigation programme accordingly

Programme

Objectives

Special Inspections Programme

- Ensure that the capital requirements for credit risk were calculated appropriately

On-Site Inspections Programme

- Analyse the risk exposure to specific sectors (construction and real estate), and assess the adequacy of the impairment levels set by the banks for these sectors

Transversal Exercise for Credit Portfolio Impairment Review and Business plan analysis of relevant clients in the banking system

- Ensuring that the impairment levels were prudent and calculated according to the best practices

Special Assessment Programme

- Ensure that the capital requirements for credit risk were calculated appropriately

Asset Quality Review

- Assess the policies and procedures used by each of the participant institutions to handle distressed credit operations, covering the entire distressed credit life cycle



The use of granular data during these transversal onsite inspections also generates value for supervision functions as it contributes to the identification of several type of issues, such as:

- Exposures that need a revaluation using alternative methods - as the **discounted cash flow** method
- Specific debtors whose credits' **revaluation** is needed on a **more frequent** basis
- **Outdated valuations** of credit collaterals
- **Sectors of activity** where credit risk **constitutes** a **higher concern** (v.g. CRE, pharmaceutical industry)
- The need to **improve** Credit Institutions' internal **impairment models**



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- Integrating data collection and information systems generates large benefits: economies of scale for data compilers and a lower burden for the reporting entities.
- A wider spectrum of micro data generates benefits for analytical studies, allowing a better understanding and monitoring of the financial system and providing the supervisor a closer and more comprehensive perspective of the financial sector and of its relations with the other sectors in the economy.
- Integrating core supervisory data, granular credit data and ad-hoc data sets will generate value not only for the direct supervision but also for the horizontal functions of the SSM, including sector-wide reviews and identification of trends and emerging risks.
- To maximize the usefulness of all the new information that will be available for the SSM, further work should focus on its analysis and integration, to ensure that the higher reporting costs are reflected in a sounder framework for banking supervision, fostering financial stability at the EU level.



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Thank you

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