



Ministry of Finance  
P.O. Box 8008 Dep  
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## Advice on the countercyclical capital buffer 2018 Q1

Norges Bank's Executive Board has decided to advise the Ministry of Finance to keep the buffer rate unchanged at 2 percent.

Norges Bank is responsible for preparing a decision basis and advising the Ministry of Finance on the level of the countercyclical capital buffer for banks four times a year. The decision basis for Norges Bank's advice on the countercyclical capital buffer in 2018 Q1 is presented in the March 2018 Monetary Policy Report.

Banks should build up and hold a buffer when financial imbalances are building up or have built up. Financial imbalances increase the risk of an abrupt decline in demand and bank loan losses. The buffer rate can be reduced in the event of an economic downturn and large bank losses, with a view to mitigating the procyclical effects of tighter bank lending.

Norges Bank's assessment of financial imbalances is based on developments in credit and property prices and banks' wholesale funding ratios. The buffer rate is not an instrument for fine-tuning the economy and should not be reduced automatically even if there are signs that financial imbalances are receding. Advice to reduce the rate will be based on factors such as information about market turbulence, and prospects for substantial bank losses and significant credit supply tightening.

The largest banks increased their capital levels through 2017. Taking account of proposed dividends, capital levels at the end of 2017 Q4 are in line with banks' long-term targets. Loan losses as a share of gross lending decreased slightly in 2017 Q4 and were lower than at the same time in 2016. Norwegian banks have ample access to wholesale funding and wholesale funding ratios have been stable for a long period.

Household debt has long risen faster than household income and debt ratios have increased. Growth in household credit edged down in autumn 2017, but picked up again towards the end of the year. Owing to the high level of debt, household debt service ratios are high, despite the low interest rate level. The regulation on requirements for new residential mortgage loans is intended to mitigate the risk of a substantial increase in debt among particularly vulnerable households. Finanstilsynet's (Financial Supervisory Authority of Norway) residential mortgage lending survey for



2017 showed that fewer new loans in breach of the regulatory requirements were granted in 2017 than in 2016. The decline is most pronounced among younger borrowers, which is a group with high debt-to-income and loan-to-value ratios. Both Finanstilsynet and Norges Bank have recently recommended retaining the requirements in the regulation except for the special requirements for Oslo.

In Norges Bank's Survey of Bank Lending for 2017 Q4, banks reported that no changes in credit standards for households and enterprises were expected in 2018 Q1. Corporate credit growth has risen through autumn. Growth in credit from both banks and the bond market has increased, and has risen in several sectors.

House prices have long risen faster than household income. House prices have fallen since spring 2017, but housing market turnover has remained elevated and the price decline has been moderate. In the commercial real estate market, estimated selling prices for prime real estate in Oslo continued to rise through 2017, following a sharp rise over several years. The rise in estimated selling prices is mainly the result of higher office rents. The rise in prices for office space in other large cities has been moderate in recent years.

Financial imbalances have built up, owing to a persistent rise in household debt ratios and high property price inflation over a long period. The housing market correction has reduced the risk of an abrupt and more pronounced decline further out. At the same time, growth in household debt remains high. Over time, lower house price inflation will curb household debt accumulation, and thereby help to reduce the vulnerability of the household sector. Enterprises have ample access to credit and bank losses are low and profitability is solid.

Norges Bank's Executive Board has decided to advise the Ministry of Finance to keep the buffer rate unchanged at 2 percent. The decision was unanimous.

In preparing its advice on the countercyclical capital buffer, Norges Bank has exchanged information and assessments with Finanstilsynet.

Sincerely,

Øystein Olsen

Torbjørn Hægeland

Copy: Finanstilsynet