

Ministry of Finance  
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## Advice on the countercyclical capital buffer 2019 Q3

Norges Bank's Executive Board has decided to advise the Ministry of Finance to keep the countercyclical capital buffer rate at 2.5 percent from the end of 2019.

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. Under the Financial Institutions Act, the countercyclical capital buffer shall as a rule be set between 0 and 2.5 percent of banks' risk-weighted assets, but may be set higher in exceptional circumstances. The buffer is currently set at 2.0 percent, and the Ministry of Finance decided to raise the buffer rate to 2.5 percent in December 2018, effective from 31 December 2019. The decision basis for Norges Bank's advice in 2019 Q3 is presented in the September 2019 Monetary Policy Report.

Banks should build up and hold a countercyclical capital 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. In the event of a downturn and prospects for large bank losses, the buffer rate can be reduced to prevent tighter bank lending standards from amplifying the downturn. The buffer rate should not necessarily be reduced even if there are signs that financial imbalances are receding.

Norges Bank's assessment of financial imbalances is based on a broad range of indicators. Particular weight is given to developments in credit and property prices and banks' wholesale funding ratios. The current countercyclical capital buffer of 2 percent and the decision to increase the buffer to 2.5 percent reflect the build-up of financial imbalances over a long period.



Household debt-to-income ratios are high. Household debt continues to rise faster than income, although the difference has narrowed in the past year, owing to both higher growth in disposable income and lower growth in household debt. Growth in corporate credit from domestic sources remains elevated and has outpaced growth in the economy since 2017 Q2.

Property prices are high after rising rapidly for many years. House price inflation has been moderate over the past two years and the housing market remains buoyant. House prices relative to household disposable income continue to decline. In the CRE market, selling prices for prime office space in Oslo have risen at a more moderate pace over the past year.

Banks' profitability is solid, losses are low and banks have ample access to wholesale funding. Banks are well positioned to comply with current and proposed capital requirements.

Norges Bank's assessment of financial imbalances has not changed substantially since 2019 Q2. Household debt-to-income ratios remain high and property prices are high after rising rapidly for many years. Over the past two years, however, the rate of household debt growth has slowed and is now close to the rate of growth in disposable income. At the same time, house price inflation has been moderate. The sharp rise in CRE prices has abated in the past year. Slower debt growth and house price inflation reflect the lending requirements for banks and interest rate increases of the past year. Looking ahead, the higher interest rate level and continued moderate house price inflation are expected to curb debt growth further.

Norges Bank's Executive Board has decided to advise the Ministry of Finance to keep the countercyclical capital buffer rate at 2.5 percent from the end of 2019. The decision was unanimous.

In preparing its advice on the countercyclical buffer, Norges Bank has exchanged information and assessments with Finanstilsynet (Financial Supervisory Authority of Norway).

Sincerely,

Øystein Olsen

Torbjørn Hægeland

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