

Ministry of Finance  
P.O. Box 8008 Dep  
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## Advice on the countercyclical capital buffer 2019 Q1

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 Q1 is presented in the March 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 a downturn. The buffer rate 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, significant credit supply tightening and prospects for substantial bank losses.

Norges Bank's assessment of financial imbalances is primarily based on 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 ratios are high and have built up over many years. Following a long period of rapid growth, property prices are now at historically high levels.

Household debt is still growing faster than income, although the pace of growth has slowed. Corporate credit growth remains elevated and is higher than the rate of growth in the economy. Enterprises have ample access to credit.



Housing market activity is high, but house price inflation is moderate. Following several years of rapidly rising commercial real estate (CRE) prices, the rise in estimated selling prices for prime office space in Oslo has edged down in the past quarter. Yields have recently remained fairly stable, after having fallen for several years. Rents have also remained stable over the past quarter.

Growth in the Norwegian economy is solid. Bank profitability is solid and losses are low, and banks have ample access to wholesale funding. Banks are well positioned to comply with changes to capital requirements, including the increase in the countercyclical capital buffer, which was decided in December 2018.

Norges Bank's assessment of financial imbalances has not changed substantially since 2018 Q4. In the period ahead, gradually rising interest rates and moderate house price inflation are expected to dampen household debt growth. There are signs that the rapid rise in CRE prices may slow.

On the basis of an overall assessment, Norges Bank's Executive Board has decided to advise the Ministry of Finance to keep the buffer rate at 2.5 percent from end-2019. The decision was unanimous.

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

Sincerely,

Øystein Olsen

Torbjørn Hægeland

Copy: Finanstilsynet