



NORGES BANK

Ministry of Finance
P.O. Box 8008 Dep
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Advice on the countercyclical capital buffer 2019 Q2

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 in December 2018, the Ministry of Finance decided to raise the buffer rate to 2.5 percent effective from 31 December 2019. The decision basis for Norges Bank's advice in 2019 Q2 is presented in the June 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. 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 at historically high levels.

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 be reduced automatically 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.



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

Over the past two years, the housing market has been characterised by moderate house price inflation and high turnover, and a large number of homes have been listed for sale. House prices relative to household disposable income have declined through the period. The rise in house prices has recently been clearly lower than growth in disposable income. In the commercial real estate (CRE) market, estimated selling prices for prime office space in Oslo have risen sharply in recent years, although the rise in prices is currently somewhat more moderate.

Bank profitability is solid and losses are low, and banks have ample access to wholesale funding. Banks are well positioned to meet the 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 the preceding quarter. Household debt ratios are high and have built up substantially over many years. Following a long period of rapid growth, both residential and commercial property prices are at historically high levels. Higher interest rates and moderate house price inflation are expected to dampen household debt growth further. In the CRE market, somewhat weaker price developments are expected ahead.

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 capital buffer, Norges Bank has exchanged information and assessments with Finanstilsynet (Financial Supervisory Authority of Norway).

Sincerely,

Øystein Olsen

Torbjørn Hægeland

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