



NORGES BANK

Ministry of Finance  
P.O. box 8008 Dep  
0030 Oslo

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Your ref.:  
Our ref.: 18-5342

## Advice on the countercyclical capital buffer 2018 Q3

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 in 2018 Q3 is presented in the September 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 may 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.

Large Norwegian banks are posting solid profits and low losses, and meet the total Common Equity Tier 1 (CET1) capital requirement. In 2018 Q2, banks' profitability increased. At the same time, banks' lending increased and capital ratios have remained broadly unchanged since 2018 Q1. Norwegian banks have ample access to wholesale funding, and wholesale funding ratios have been fairly stable for a long period.

Household debt ratios are high, and debt has long risen faster than income. Debt growth has slowed somewhat in recent years, but has been stable in recent months.

Corporate credit growth has slowed somewhat in recent months. Credit to enterprises has risen faster than GDP since 2017 Q2. Norwegian banks have increased their corporate lending, and activity in the bond market is high. Enterprises have ample access to credit, and credit growth is broadly even across sectors.



House price inflation has been low in recent months, following a recovery from the fall in prices in 2017. In the commercial real estate market, estimated selling prices for prime office space in Oslo continue to increase rapidly. So far in 2018, prices have risen as a result of higher rents, while yields have remained stable.

The current 2 percent countercyclical capital buffer rate reflects the build-up of financial imbalances resulting from a persistent rise in household debt ratios and high property price inflation over a long period.

Household debt ratios continue to rise further, but debt growth has slowed somewhat over the past year. Looking ahead, gradually rising interest rates, housing completions and low population growth are expected to restrain house price inflation. The pronounced rise in commercial real estate prices in recent years has increased the risk of a marked decline in prices further out. The Bank's overall assessment of financial imbalances is little changed since 2018 Q2.

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 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 (Financial Supervisory Authority of Norway).

Sincerely,

Øystein Olsen

Torbjørn Hægeland

Copy: Finanstilsynet