



FINANSTILSYNET

THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

Current issues in the effective implementation of a macroprudential approach to supervision

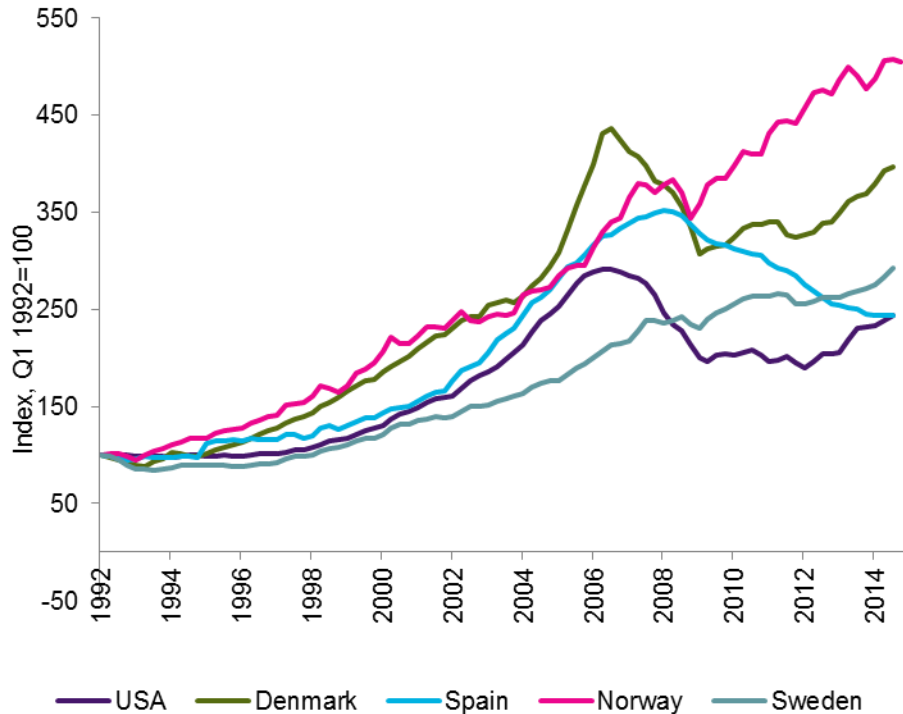
Capital and the countercyclical buffer in Norway

11th Asia-Pacific High Level Meeting on Banking Supervision
Manila, 10 February 2015

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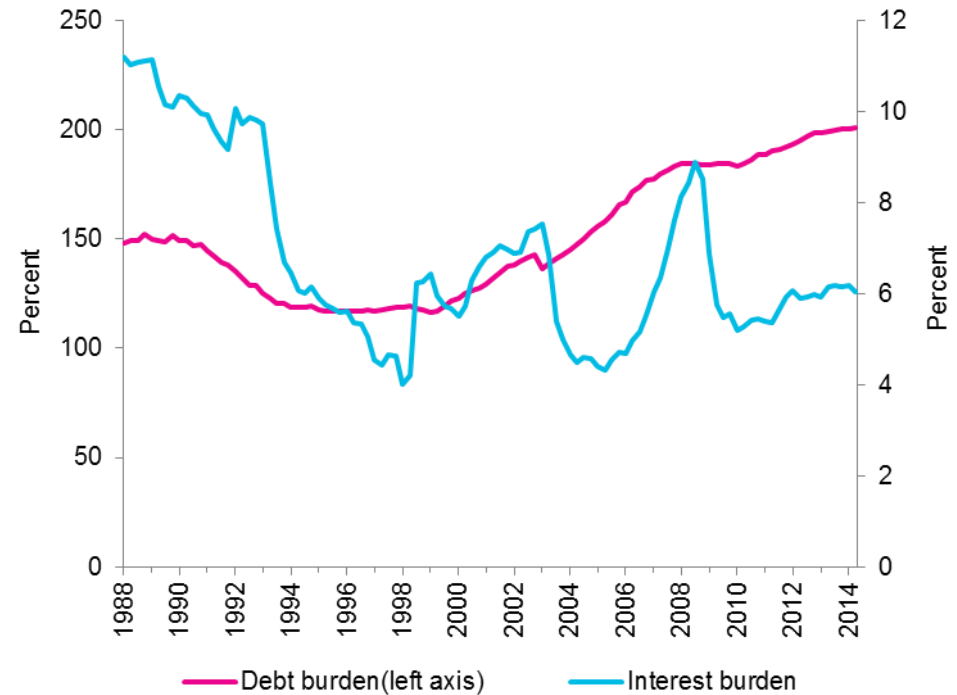
Household debt and property prices

Residential property prices



Sources: Thomson Reuters Datastream

Household debt and interest per cent of disposable income



Sources: Statistics Norway and Norges Bank

Policy measures

- Higher capital requirements, early implementation Basel III (2013-2016)
 - Conservation buffer, systemic risk buffer, D-SIB buffer, countercyclical buffer
 - Pillar 2 capital add-ons for systemic risk not covered by buffers

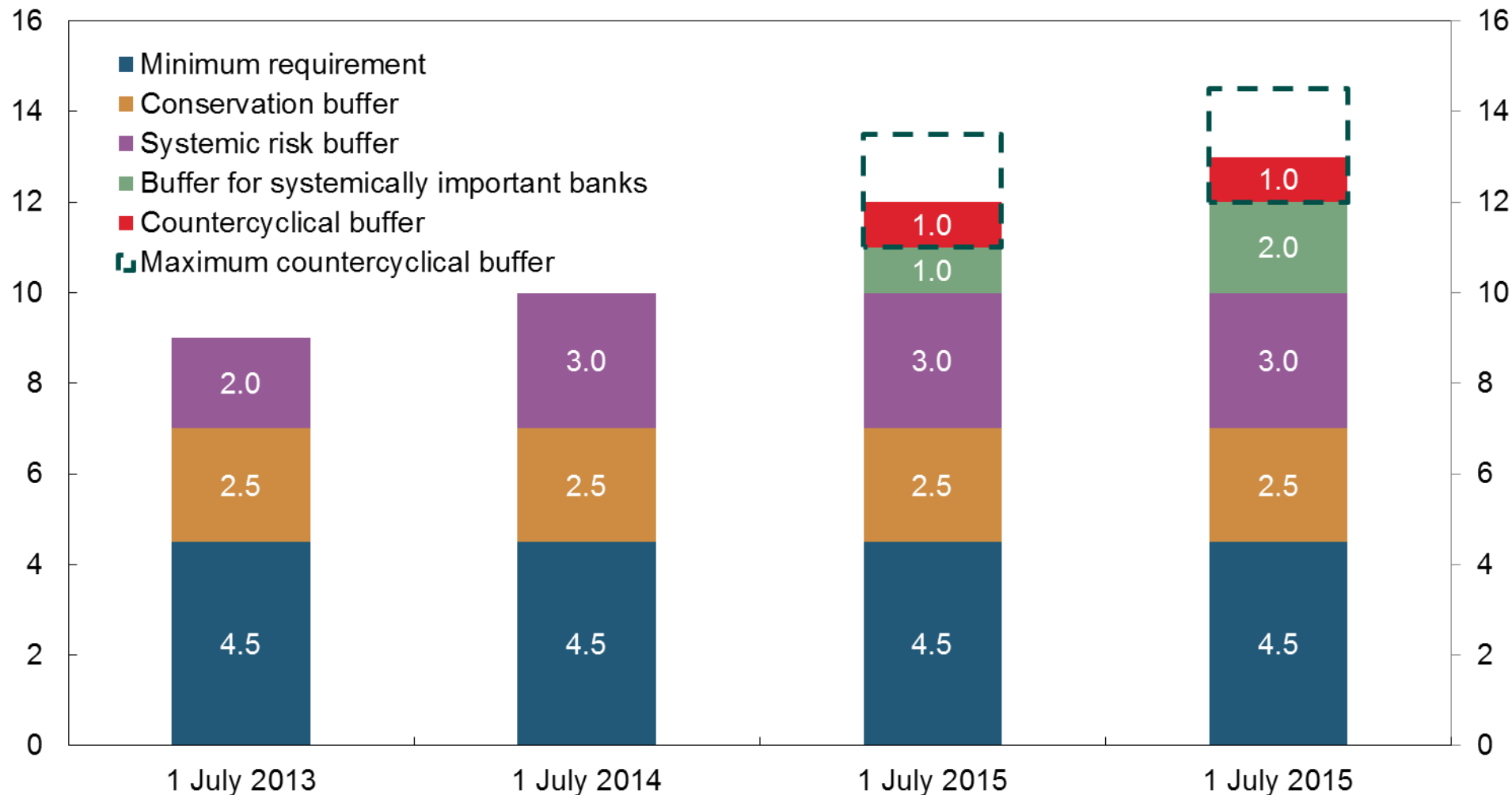
- Guidelines on prudent mortgage lending (2010, tightened 2011)
 - Debt-servicing ability stress tests, loan-to-value limits, amortisation

- Higher risk weights mortgage lending (2014)
 - LGD increased, stricter requirement for estimating LGD and PD, increasing RW from around 10 to 20-25%; Basel II-floor on RWA
 - Reciprocity foreign branches

- Monetary policy «leaning against the wind»

Common Equity Tier-1 capital requirements

per cent of risk-weighted assets



Objectives of the countercyclical buffer (CCB)

“The purpose of the countercyclical capital buffer is to strengthen the financial soundness of banks and their resilience to loan losses in a future downturn and mitigate the risk that banks will amplify a downturn by reducing their lending.”

Norwegian regulation on the CCB (Section 1)

Institutional set-up for CCB in Norway

- Macroprudential responsibilities split between authorities. The Ministry of Finance has the overall responsibility for financial stability
- Ministry of Finance sets the CCB each quarter
- The Central Bank prepares a decision basis and gives advice on the level
- Exchange of information and assessments with the FSA
- CCB first set December 2013 at 1 per cent, taking effect as of 1 July 2015. No changes the 4 following quarters, including December 2014
- FSA recommended increase in December 2014 due to an assessment of continued increasing imbalances

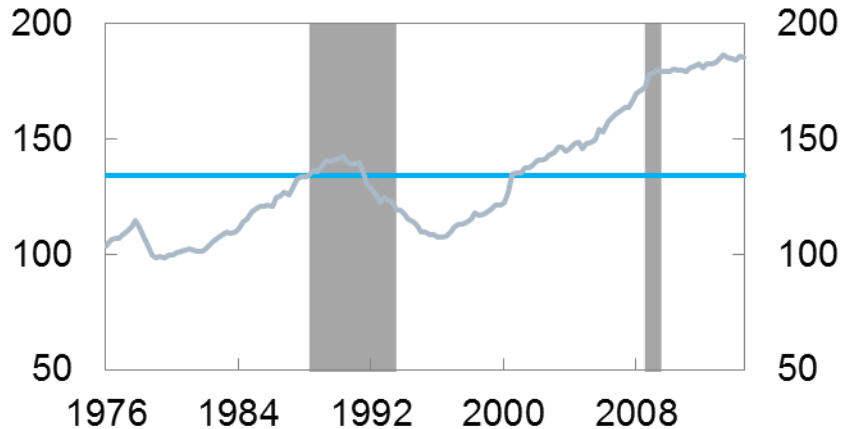
Decision basis for setting the CCB

“The decision basis shall contain an overview of the credit-to-GDP ratio and the extent to which it deviates from the long-term trend, as well as other indicators, and Norges Bank’s assessment of systemic risk that is building up or has built up over time.”

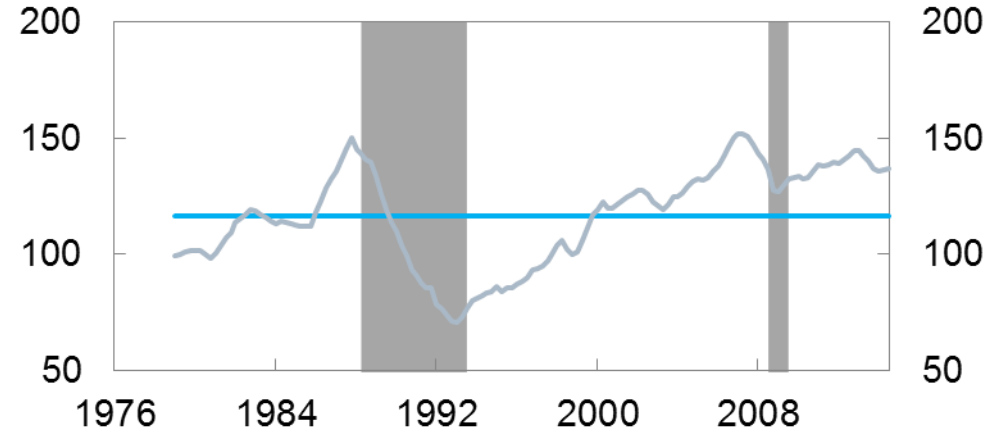
Regulation on the CCB (Section 3), 4 Oct 2013

Key indicators for build-up of CCB

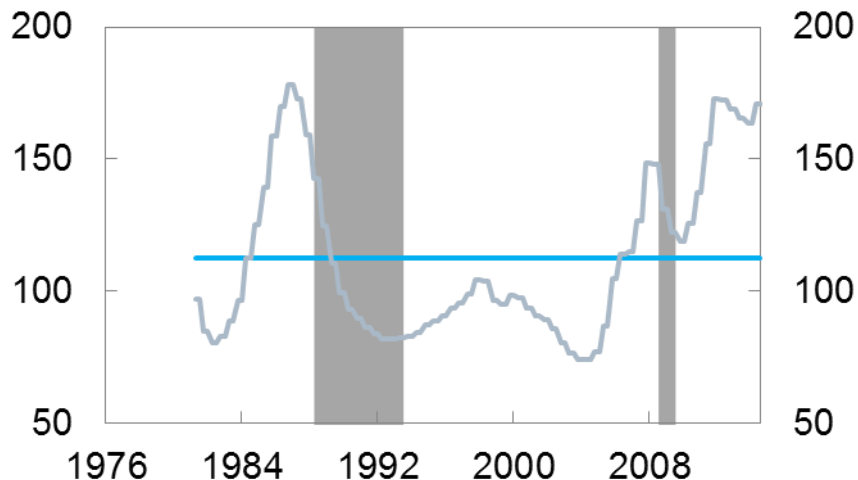
Credit/GDP



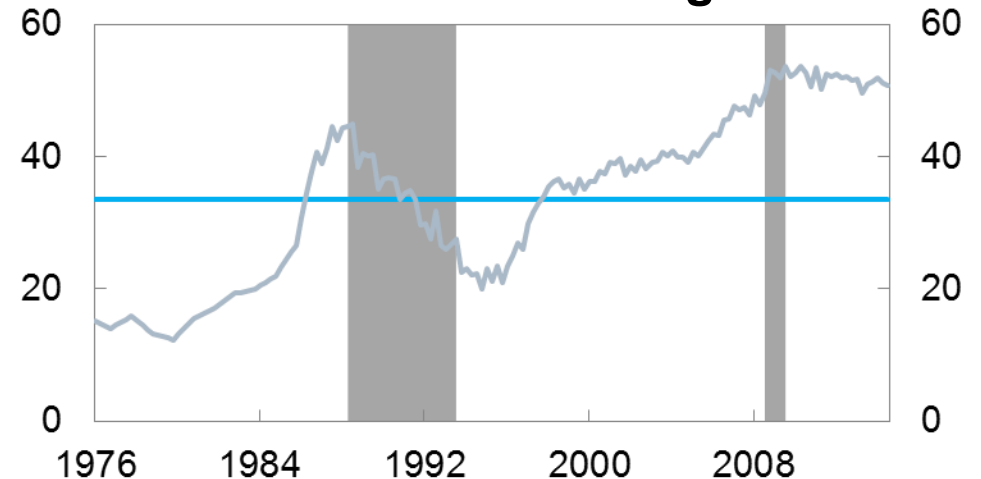
House prices/disposable income



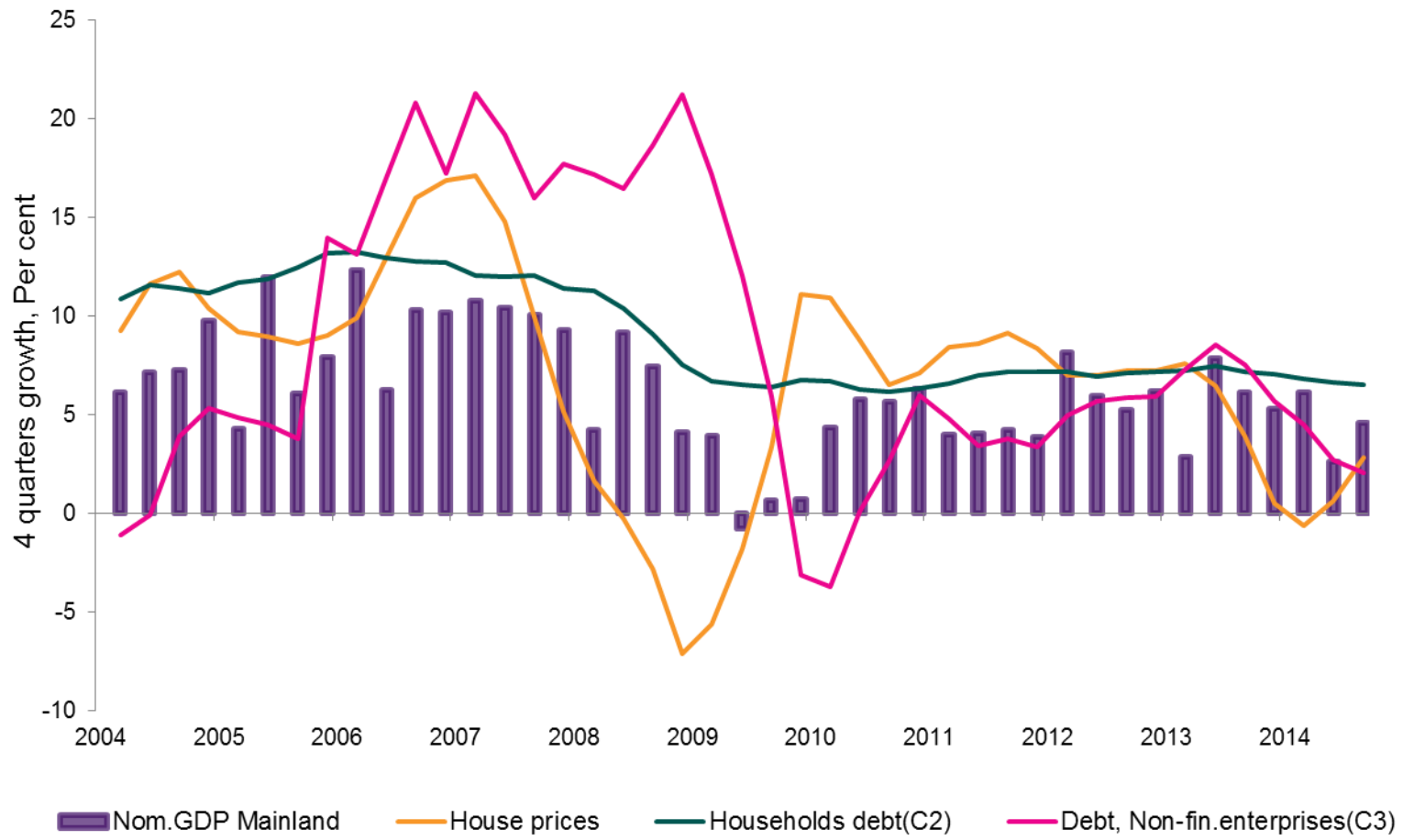
Real commercial property prices



Banks' wholesale funding ratio



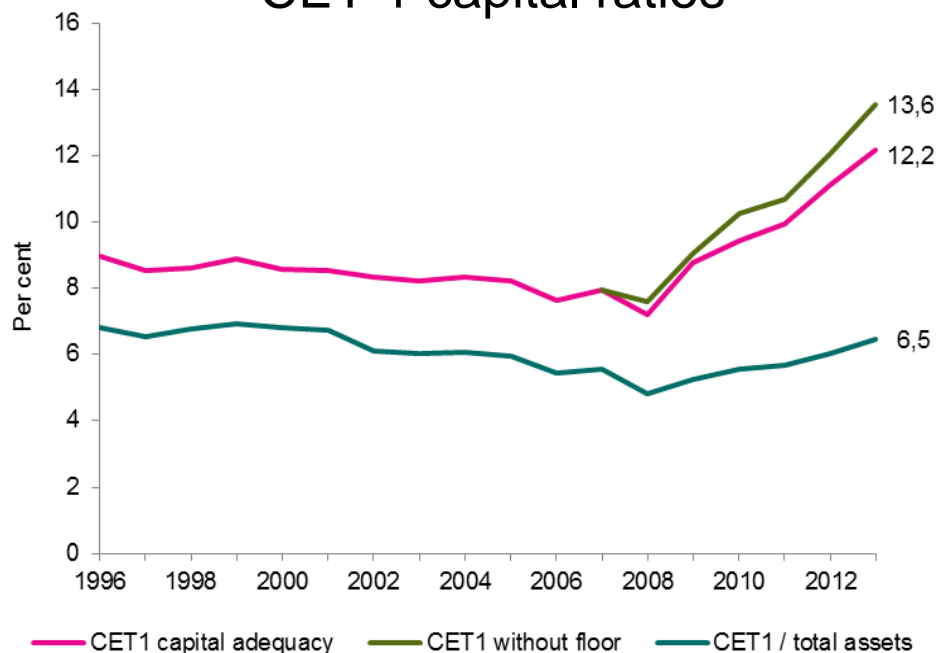
Growth in GDP, credit and house prices



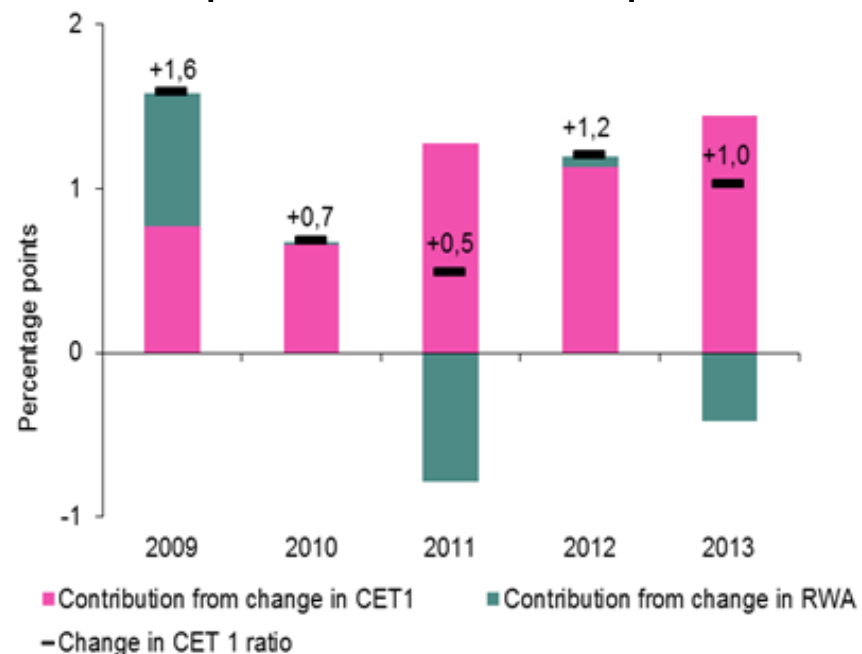
Sources: Statistics Norway, Norges Bank and Eiendomsverdi

High profitability, low dividends: Building Common Equity Tier-1 capital

CET-1 capital ratios



Decomposition CET-1 capital ratios



Source: Finanstilsynet

The countercyclical buffer – a view from Norway

- ❑ *Wide range of macroprudential measures taken to address systemic risk; higher capital requirements, pillar 2, risk weights, mortgage lending guidelines*
- ❑ *The countercyclical buffer is part of aggregate capital requirements, and the size must be viewed in the light of other requirements, including other buffers*
- ❑ *The CCB shall increase resilience to loan losses in a future downturn and reduce the risk of banks amplifying the downturn*
- ❑ *The CCB is a useful instrument for authorities to signal, to banks and the broader public, systemic risk from cyclical imbalances and the need for increased resilience*
- ❑ *The CCB is not an instrument for fine-tuning the economy or the financial cycle*

The countercyclical buffer – a view from Norway

- ❑ *The CCB should be increased when imbalances increases, but could also be increased if there are no clear signs that imbalances are reduced*
- ❑ *The CCB should not necessarily be reduced even if there are signs of receding financial imbalances. In long periods of rising asset prices, high credit growth and low loan losses, banks should normally hold a countercyclical buffer*
- ❑ *The decision to reduce the CCB must be based on an assessment of the situation in markets and the economy, loss prospects in the banking sector and the danger of a credit crunch amplifying the downturn*

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