



Ministry of Finance  
P.O. Box 8008 Dep  
N-0030 Oslo

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12 March 2020

## Countercyclical capital buffer first quarter 2020

Finanstilsynet refers to Norges Bank's letter to the Ministry of Finance of 12 March 2020 with advice on the countercyclical capital buffer for the first quarter of 2020. Norges Bank has decided to advise the Ministry of Finance to reduce the countercyclical capital buffer requirement from 2.5 per cent to 1.0 per cent with immediate effect.

The outbreak of the coronavirus and the measures to limit contagion have had serious economic consequences and triggered extensive financial market turmoil. The economic outlook is very uncertain, and a pronounced economic downturn internationally and in Norway must be taken into account. Many industries are already strongly affected.

In this situation, it is important that the banks are able to absorb significant loan losses that may arise in the period ahead, while being able to provide new loans to creditworthy customers and to offer payment deferral to creditworthy customers facing liquidity problems. Insufficient access to credit may intensify the crisis.

In recent years, Norwegian banks have strengthened their liquidity and financial soundness. At the same time, they have generated profitable operations. A large share of the banks' profits is channelled back to the shareholders in the form of dividends and other distributions. In 2019, the banks showed a very strong performance, and the boards of directors of a number of banks have proposed high dividend payments.

In a situation where banks must be prepared for increased losses, their profits represent the first line of defence. In a situation where profits have been or look set to be drastically reduced, it is important that profits are retained to strengthen the banks' financial position.

In Finanstilsynet's view, Norwegian banks' financial soundness and level of profits provide a sound basis for maintaining a satisfactory credit offering to vulnerable customers, even if losses increase substantially. The amendments to the Capital Requirements Regulations that came into effect at the end of 2019 entailed a reduction in the banks' effective capital requirements, and the current requirements are met by an ample margin.

A reduced capital requirement in the form of a lower countercyclical capital buffer does not contribute to improving the banks' financial strength. On the contrary, a lower capital requirement may contribute to weakening banks' financial position as dividends and other repurchase of equity will be higher than in a situation where the capital requirement is not reduced. This would impair the banks' ability to absorb increased losses.

Finanstilsynet's acknowledges that situations may arise where banks' adjustment to binding capital requirements may cause them to reduce their supply of credit during an

economic downturn. In such situations, it is important that the authorities give the banks the opportunity to draw on their capital buffers and, in a worst-case scenario, reduce the buffer requirements. In Finanstilsynet's assessment, however, Norwegian banks are currently not in a situation where a reduced buffer requirement is necessary to ensure customers access to credit and necessary payment deferrals. As mentioned above, there is rather a risk that a reduced buffer requirement will contribute to higher dividends and weaker financial strength than would otherwise have been the case.

The countercyclical capital buffer requirement may be reduced at any time with immediate effect. However, in Finanstilsynet's opinion, the requirement should only be reduced when such a reduction is necessary to counteract an unfortunate tightening of the credit supply.

Finanstilsynet therefore does not endorse Norges Bank's recommendation to the Ministry of Finance and recommends that the countercyclical capital buffer be kept unchanged at 2.5 per cent in the first quarter of 2020.

Yours sincerely

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Director General

Per Mathis Kongsrud  
Deputy Director General, Digitalisation and Analysis

*This document has been electronically approved and does not require handwritten signatures*

A copy of this letter has been  
sent to:  
Norges Bank