FIN-FSA Board's decision on the application of macroprudential instruments

At its meeting on 28 June 2019, the Board of the Financial Supervisory Authority (FIN-FSA) decided as follows:

- the countercyclical capital buffer (CCyB) requirement ('variable add-on') as referred to in chapter 10, section 4 of the Credit Institutions Act will remain at 0%;
- the decision on a lower maximum loan-to-collateral (LTC) ratio, taken on 19 March 2018 under chapter 15, section 11 of the Credit Institutions Act, will remain in force. With this decision, the Board lowered the maximum LTC ratio for residential mortgage loans other than first-home loans by 5 percentage points.

In accordance with chapter 10, section 8 of the Credit Institutions Act, the FIN-FSA has reviewed the additional capital requirements (O-SII buffers) of other institutions significant for the Finnish financial system (O-SIIs) which it had imposed on 29 June 2018 and which became effective on 1 January 2019. The Board of the FIN-FSA states that, based on the review, there is no need to change the requirements on O-SIIs.

Justification for the decision

Countercyclical capital buffer requirement

According to preliminary data, the primary risk indicator for setting the CCyB requirement – the private sector credit-to-GDP gap – was -11.4 percentage points at the end of 2018. The primary risk indicator has recently remained well in negative territory.

Credit growth has mainly been fuelled by housing corporation loans, consumer credit and corporate loans. However, it is difficult to find any signs of a strong acceleration in Finnish credit dynamics. Economic growth and credit developments are currently subject to considerable uncertainties and downward risks. Based on these factors, too, setting a CCyB requirement is not justified under the present circumstances.

As regards the supplementary risk indicators, the current account, which measures the accumulation of external debt by an economy, has been in deficit almost uninterruptedly since 2011. Overall, the indicators of credit growth and growth in financial market risk appetite as well as other supplementary risk indicators are not signalling such a build-up of financial system risks as would necessitate a rise in the CCyB requirement. In the current situation, raising the CCyB rate could also prove to be detrimental, as it would be a procyclical measure.

Maximum loan-to-collateral ratio for residential mortgage loans

The maximum loan-to-collateral (LTC) ratio for residential mortgage loans restricts the amount of a residential mortgage to 90% at most (in the case of a first home purchase, to 95% at most) of the current value of collateral posted at loan approval. In order to limit any exceptional build-up of risks to financial stability, the Board of the FIN-FSA may decide to reduce these maximum amounts by no more than 10 percentage points. In addition, it may decide to restrict the taking into account of any other collateral security except real security in calculating the LTC ratio. On 19 March 2018, the FIN-FSA Board lowered the maximum LTC ratio for residential mortgage loans other than first-home loans by 5 percentage points to contain household indebtedness. The decision became effective on 01 July 2018.

Housing finance has continued to grow at a steady pace in the latter half of 2018 and in early 2019. Housing finance mediated by credit institutions continued to grow at an annual rate of about 4%. The growth rate of residential mortgage loans has moderated to below 2%, but loans to housing corporations are growing at an annual rate of about 10%. The proportion of housing corporation loans in housing finance mediated by credit institutions has risen to 25%. Considering growth in households' overall debt levels, the decision taken by the FIN-FSA Board on 19 March 2018 to lower by 5 percentage points the maximum LTC ratio for residential mortgage loans other than first-home loans is still justified. The level of the LTC ratio will be reviewed in connection with the autumn macroprudential decisions.

Additional capital requirements of other systemically important institutions (O-SIIs)

Systemically important credit institutions are those that pose a systemic risk so great that, if realised, it would have a highly negative impact on the entire financial system and the real economy.

Authorities seek to mitigate the risks from systemically important credit institutions for the entire financial sector and the economy by strengthening the institutions' loss absorbency, thereby reducing the probability of their failure. The objective of additional capital requirements imposed for O-SII credit institutions (O-SII buffers) is to prevent macroprudential risks arising from structural factors on the financial markets.

Under chapter 10, section 8 of the Credit Institutions Act, national systemically important credit institutions (O-SIIs) refer to credit institutions

1. the balance sheet total of which is at minimum EUR 1 billion, and
2. the insolvency of which would jeopardise the stability of the financial markets in Finland or in another European Union Member State.

The FIN-FSA is required to identify the group of O-SIIs on an annual basis. The identification of Finnish O-SIIs is based on the EBA guidelines on the assessment of O-SIIs[1] and the Guideline's four core criteria and 10 related indicators.

Under the Credit Institutions Act, the FIN-FSA is required to apply the following principles when categorising O-SIIs and setting their O-SII buffers:

1. the size of the credit institution measured by its total liabilities or the balance sheet total or consolidated balance sheet total;
2. the liabilities of the credit institution and undertakings within its consolidated supervision to other credit institutions and receivables from other credit institutions as well as other direct connections with the financial system;
3. the substitutability of the critical functions of the credit institution and undertakings within its consolidated supervision in the event of an undertaking losing its capacity to continue its operations;
4. the extent and significance of cross-border operations of the credit institution and undertakings within its consolidated supervision in Finland and in the European Economic Area.

Based on data as at end-2018, and as in the previous year, Nordea, OP Group and Municipality Finance are identified as other systemically important credit institutions (O-SIIs) in Finland.

Based on the analysis, there is no need to change the additional capital requirements currently applied to Finnish O-SIIs. Therefore, the O-SII buffers will remain as follows:

- Nordea 2.0%
- OP Group 2.0%
- Municipality Finance Plc 0.5%

[1] EBA/GL/2014/10.