

## **Decision of the Board of the Financial Supervisory Authority on the application of macroprudential instruments**

At its meeting on 29 September 2025, the Board of the Financial Supervisory Authority (FIN-FSA Board) decided that the countercyclical capital buffer (CCyB) requirement referred to in chapter 10, section 4 of the Act on Credit Institutions (610/2014) will be kept at 0.0%. The Board also decided that the maximum loan-to-collateral (LTC) ratio referred to in chapter 15, section 11 of the Act on Credit Institutions and in section 14 of the Act on the Registration of Certain Credit Providers and Credit Intermediaries (186/2023) will remain at its standard level of 90%. The maximum LTC ratio for first-home loans will also be kept at its standard level of 95%.

Moreover, in accordance with Article 458(5) of the Capital Requirements Regulation (CRR) (EU) N:o 575/2013 and section 10, subsection 1, paragraph 6 of the Act on the Financial Supervisory Authority, the FIN-FSA Board has decided to apply the average risk weight floors set by Norway's Finansdepartementet for Norwegian residential and commercial real estate exposures to credit institutions registered in Finland. This minimum risk weight is 25% for Norwegian residential real estate credit and 35% for Norwegian commercial real estate credit. These minimums apply on a consolidated, subconsolidated and individual basis to such credit institutions that have adopted IRB approaches for credit risk and whose credit exposures in Norway exceed 37.8 billion Norwegian krone for residential real estate and 9.3 billion Norwegian krone for commercial real estate. The decision on the risk weight floor for commercial real estate credit enters into force immediately and the decision on the risk weight floor for residential real estate credit on 1 January 2026.

### **Keeping the countercyclical capital buffer requirement at the level of 0.0%**

The Finnish economy began to expand in 2024 but growth weakened again towards the end of the year and into the first half of this year. However, there have been small signs of a cyclical pick-up in recent months. According to the trend indicator of output, Finland's economic output grew year-on-year both in April and May. The upward trend in unemployment also seems to have stopped in the spring. On the other hand, a recovery in residential construction is slow to arrive and consumer confidence remains weak.

The Bank of Finland's September 2025 interim forecast predicts economic growth of 0.3% this year. In 2026 and 2027, growth is expected to be 1.3% and 1.7%, respectively. Nevertheless, the unemployment rate is forecast to remain high in the following years. The forecast still includes both downside and upside risks. Recovery of the housing markets is cautious, and the short-term outlook remains uncertain due to risks related to the Finnish economy as well as international economic policy and geopolitics.

Based on developments in the core risk indicators for the countercyclical capital buffer (CCyB), no clear upturn in the financial cycle is in sight. In the first quarter, the value of the primary risk indicator, i.e. the deviation of the private sector credit-to-GDP ratio from its long-term trend, was -16.9 percentage points using a broad definition of the credit stock and -11,8 percentage points with a narrow definition.

Total lending remained sluggish in the first quarter of 2025, and credit stocks have contracted except for loans to housing corporations. Credit demand is estimated to recover in the next few years, but the growth of both household and corporate loan stocks is expected to remain moderate. Neither do supplementary risk indicators point to any increase in cyclical stability risks associated with total lending.

### Keeping the maximum LTC ratio at standard level

The gradual recovery of the housing market has continued. The sales of old dwellings have picked up gradually this year, increasing the drawdowns of new housing loans from the two previous years. In relative terms, the euro volume of new buy-to-let mortgage loans has increased more than that of owner-occupied mortgage loans. The demand for housing has remained sluggish overall, relative to the supply on the market. This has kept housing prices mainly subdued across the country and prolonged the downswing of new-build construction in particular.

Vulnerabilities related to household indebtedness have somewhat eased in recent years. Aggregate household debt and the housing loan stock have declined since 2022 relative to growing nominal income. Loan-servicing costs in proportion to income are lower than at their peak in 2023–2024 but clearly higher than during the preceding period of exceptionally low interest rates. Households' willingness to take on new debt is moderate for the time being, reflecting general uncertainty and persistently high unemployment. Borrowing is estimated to recover steadily over the following years, and the amount of debt relative to income is not expected to grow materially from current levels.

For the time being, there are no signs of any exceptional growth in positive or negative risks to financial stability. The analysis did not identify any such factors that directly jeopardise the stability of the financial system and/or the economy in relation to (i) the growth in the stock of residential mortgages to households (ii) the threat of overheating in the housing market or (iii) other developments pertaining to the macroeconomy or another significant threat that might have an impact on residential mortgage and housing markets.

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At present, there are no grounds to reduce the maximum LTC ratio for housing loans from its statutory standard level. However, risks associated with mortgage lending and household indebtedness as well as long-term vulnerabilities and pertinent changes in the operating environment and legislation must be monitored closely.

### **Reciprocation of Norwegian risk weight floors for residential and commercial real estate credit**

On 6 December 2024, the Norwegian Ministry of Finance (Finansdepartementet), which functions as the macroprudential authority for Norway, decided to extend the validity of the bank-specific minimum risk weights (risk weight floors) applicable to IRB credit institutions' residential and commercial real estate exposures, established pursuant to the derogation under Article 458(10) of the Capital Requirements Regulation (CRR) until the end of 2026 while raising the risk weight floor for residential real estate credit from the previous 20% to 25% as of 1 July 2025 and keeping the risk weight floor for commercial real estate credit unchanged at 35%. On 13 January 2025, Finansdepartementet submitted updated notifications on the risk weight floors to EU authorities.

According to Finansdepartementet's notification, the increase of the risk weight floor for residential real estate credit to 25% is primarily due to updated estimates of probability of default and loss given default, based on which corresponding risk weights that guide the calibration of the floor have been calculated using a calculation formula in accordance with the CRR. Another justification for the re-calibration was an analysis by Norges Bank of the need for risk weight floors based on data from the banking crisis of the 1990s.

In Finansdepartementet's new notification, updated on 10 April 2025, the increase of the risk weight floor for residential real estate credit is not based on the derogation under Article 458(10) of the CRR, but it follows the EEA-level reciprocation procedure under Article 458. On 11 June 2025, the EFTA Surveillance Authority decided it will not, in line with the opinions of the ESRB and the EBA, propose to the Standing Committee of the EFTA States to reject Finansdepartementet's decision concerning risk weights for Norwegian residential real estate credit.<sup>1</sup> On 9 July 2025, the European Systemic Risk Board (ESRB) adopted a recommendation on the reciprocation of the Norwegian risk weight floors in other EU/EEA Member States in accordance with Finansdepartementet's request.

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<sup>1</sup> <https://www.eftasurv.int/cms/sites/default/files/documents/gopro/Case%2093707%20College%20Decision%20081%2025%20COL%20-%20Norway%20-%20Notification%20under%20Art%20458%20CRR.pdf>

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The ESRB recommends the application of both risk weight floors at the consolidated, sub-consolidated and individual level. According to the notifications, the threshold values under the ESRB Recommendation for credit institutions (at the consolidated level) to apply the risk weight floors in terms of credit volume are 37.8 billion Norwegian krone for residential real estate credit and 9.3 billion Norwegian krone for commercial real estate credit. Application of the risk weight floors is recommended at the latest three months after the publication of the ESRB Recommendation.

Finansdepartementet originally decided on corresponding risk weight floors in December 2020, at which time the minimum level was set at 20% for residential real estate credit and 35% for commercial real estate credit, for two years starting from 31 December 2020. In December 2022, Finansdepartementet extended the validity of the abovementioned risk weight floors by a further two years until the end of 2024.

The FIN-FSA Board decided on the application of risk weight floors imposed by Finansdepartementet on Norwegian residential and commercial real estate credit to Finnish credit institutions applying IRB approaches for credit risk initially in August 2021. In February 2023, a decision was made to extend the validity of the risk weight floors.

In accordance with Article 458(5) of the CRR, other Member States may recognise measures adopted in accordance with said Article and apply them to domestically authorised institutions with branches or exposures in the Member State authorised to apply the measure. In accordance with paragraph 7, when deciding whether to recognise the measures set in accordance with said Article, the Member State shall take into consideration the criteria set in paragraph 4.

The FIN-FSA has considered the criteria laid out in Article 458(4) of the CRR and finds that the justifications presented in the notification show that the changes in the intensity of macroprudential or systemic risk are of such nature that they pose a risk to financial stability of the Member State and that the macroprudential instruments established in the Credit Requirements Directive 2013/35/EU are not as suitable or effective in addressing the identified macroprudential or systemic risks as the proposed risk weight floors. Moreover, the FIN-FSA finds that the floors do not entail disproportionate adverse effects on the financial system in other Member States or in the EU as a whole by forming or creating an obstacle to the functioning of the internal market, and that they promote financial stability more extensively and on an international scale.

The reciprocation of the Norwegian risk weight floors in Finland is also supported by the need to reinforce the effectiveness of macroprudential policy and to support a level playing field among credit institutions. In their own assessments, the ESRB and the European Banking Authority (EBA) recognise

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the macroprudential risks that the updated risk weight floor for residential real estate credit was established to address. The ESRB and EBA do not consider the adjusted risk weight floor to entail significant adverse effects on the operation of the internal market and therefore do not oppose to the adjustment of the floor.<sup>2</sup> However, the authorities invite the Norwegian authority to continue reviewing the appropriateness of the updated calibration and adjust it if it ceases to be proportionate to the level of systemic risk observed. The authorities also emphasise the need to avoid any overlaps with other micro- and macroprudential requirements.

In light of the most recent data, increasing the risk weight floor for residential real estate credit would not have a significant direct impact on Finnish credit institutions. In the second half of 2024 and the first half of 2025, the average risk weight for Norwegian housing loans subject to IRB approaches has been very close to the increased risk weight floor level of 25%. At present, the risk weight floor for commercial real estate credit is not assessed to have an impact on the effective capital requirements for Finnish banks, either, due to microprudential model constraints that are more restrictive than the applicable risk weight floor.

The FIN-FSA finds no justification to deviate from the institution-specific threshold values proposed by Finansdepartementet and also recommended by the ESRB. Accordingly, the risk weight floor on residential real estate credit shall apply where a credit institution's residential real estate lending in Norway exceeds 37.8 billion Norwegian krone, and the risk weight floor on commercial real estate credit shall apply where a credit institution's commercial real estate lending in Norway exceeds 9.3 Norwegian krone. To promote financial stability, the application of the floors is warranted to be implemented, in accordance with the ESRB Recommendation, at the consolidated, sub-consolidated and individual level.

As the risk weight floor for commercial real estate credit remains unchanged at 35%, the entry into force of the relevant decision does not, in the FIN-FSA's view, require any particular entry-into-force period, but the risk weight floor can be enforced immediately. In contrast, for the entry into force of the risk weight floor for residential real estate credit, which increases from 20% to 25%, a 3-month transitional period is warranted.

In accordance with section 34 of the Administrative Procedure Act (434/2003), on 25 August 2025, prior to decision-making on the matter, credit institutions applying IRB approaches were provided an opportunity to express an opinion on the matter and to submit an explanation of claims

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<sup>2</sup> <https://www.esrb.europa.eu/pub/pdf/other/esrb.opinion250617~842477708f.en.pdf?2eff4358244b1add48f431f5655089e3> and <https://www.eba.europa.eu/publications-and-media/press-releases/eba-issues-opinion-measure-address-macroprudential-risk-following-notification-norwegian-ministry>

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and evidence which may influence the decision. The FIN-FSA received a written response from Nordea Bank Abp.

According to the response, Nordea Bank Abp does not have major objections to the application of the Norwegian risk weight floors to Finnish credit institutions. In Nordea Bank Abp's view, the measure levels the playing field in the EEA internal market.

Nordea Bank Abp also notes that the risk weight floor applying to residential real estate may, in some cases, lead to higher risk weights for credit institutions using internal models than those using the standardised approach.

Nordea Bank Abp calls for a more nuanced analysis by authorities of overlaps in risks covered by various requirements rather than merely focusing on the different purpose of the various requirements (such as micro- and macroprudential requirements). Nordea Bank Abp also finds harmonisation in this respect across the EU area important.

Moreover, Nordea Bank Abp expects authorities to phase out the risk weight floors as the output floor enters into force and to also reduce overlaps with other requirements.