

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

At its meeting on 18 December 2020, the Board of the Financial Supervisory Authority (FIN-FSA) decided that the countercyclical capital buffer (CCyB) requirement, as referred to in chapter 10, section 4 of the Credit Institutions Act (610/2014), will remain at 0.0%.

There have been no significant changes in the economic and housing market outlook since the previous macroprudential decision of the FIN-FSA Board on maximum loan-to-collateral (LTC) ratios that would require a deviation from the standard levels, pursuant to chapter 15, section 11 of the Credit Institutions Act, of the maximum LTC ratios for first-home loans or other than first-home loans.

In the current exceptional and highly uncertain situation, careful assessment of borrowers' ability to pay is of prime importance. Lenders are justified in exercising restraint in granting loans that are very large with regard to the borrowers' income and have a longer than usual repayment period.

Justifications for the decision

Countercyclical capital buffer requirement

The economic outlook remains uncertain due to the coronavirus pandemic and its second wave. In Finland, the housing market and mortgage lending have recovered from the spring downturn, but the employment outlook is weak. There is high uncertainty about the future development of exports.

The provisional value of the primary risk indicator – the private sector credit-to-GDP gap – was -1.57 at the end of June. The level of the primary risk measure is affected by the growth of the credit stock and the contraction of GDP.

The credit stock grew rapidly relative to economic conditions in the first half of the year, particularly in the business sector. Instalment-free periods and support measures contributed to this growth. Due to the pandemic and uncertainty related to economic development, the demand for corporate credit is expected to weaken.

Based on supplementary risk indicators and other available indicators and statistics, there are no clear signs of overheating in the credit market. It is justified to maintain the countercyclical capital buffer requirement at 0%.

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Public

Maintaining maximum LTC ratios at their statutory standard levels

At its meeting on 29 June 2020, the FIN-FSA Board decided to restore the maximum LTC ratio for residential mortgage loans other than first-home loans from 85% to its statutory standard level of 90%. The decision sought to counter the cyclical risks arising from the coronavirus crisis that jeopardise the stable functioning of the housing market. The maximum LTC ratio for first-home loans has been at its standard level of 95% since the entry into force of the statutory requirement.

Sales of old apartments in housing companies, withdrawals of new housing loans and renegotiations of old housing loans returned during the third quarter to their levels of the previous year after exceptional developments in April/May. In the third quarter, real prices of homes rose in the Helsinki Metropolitan Area and fell on average elsewhere in Finland compared with a year ago. Regional differences in price development remained large.

Household indebtedness relative to disposable income continued to increase in July-September. Long repayment periods of new housing loans became more common. The long repayment periods, combined with widespread instalment-free periods, increased household indebtedness compared to a situation in which the loans would be repaid more quickly.

There have been no significant changes in the economic and housing market outlook since the previous macroprudential decision of the FIN-FSA Board on maximum loan-to-collateral (LTC) ratios that would require a deviation from the statutory standard levels of the maximum LTC ratios. In the current exceptional and uncertain situation, careful assessment of borrowers' ability to pay is of prime importance, however. Lenders are justified in exercising restraint in granting loans that are very large with regard to the borrowers' income and have a longer than usual repayment period.