FIN-FSA Board decision on macroprudential tools: countercyclical capital buffer requirement, higher risk weights for mortgage loans or activation of other macroprudential tools

The Board of the Financial Supervisory Authority (FIN-FSA), at its meeting on 28 September 2015, decided not to impose a countercyclical capital buffer requirement (variable capital add-on) as referred to in chapter 10, section 4 of the Credit Institution.

At the meeting in question, the FIN-FSA Board also decided not to introduce other macroprudential tools, i.e. higher than regulatory minimum capital requirements to be applied to exposures secured by mortgages on immovable property, as referred to in Articles 124 and 164 of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the Capital Requirement Regulation), and further decided not to apply Article 458 of said Regulation.[1]

Justification for the decision

The cyclical macroprudential outlook has evolved during the summer to the effect that the growth of the loan stock has picked up slightly in both corporate lending and housing loans. However, the credit cycle remains subdued.

According to the most recent observation, the value of the trend deviation of the credit-to-GDP ratio is 3.45 percentage points, which as a rule would suggest setting a 0.5 percentage points countercyclical capital buffer requirement for banks. The almost two-year long trend of consecutive quarterly decreases in the trend deviation ended in Q1/2015.

However, the complementary risk indicators as a whole do not indicate such an increase in the vulnerability of the financial system as would necessitate setting a countercyclical capital buffer requirement. Economic development is weak, and house prices have continued to decline. However, household indebtedness has continued to increase during the first half of the year.

The Board decision was made in line with a proposal by the Director General of FIN-FSA. The decision was based on an assessment of the need for use of macroprudential tools prepared in concert by experts from FIN-FSA, the Bank of Finland and the Ministry of Finance. Opinions of the Bank of Finland, the Ministry of Finance and the Ministry of Social Affairs and Health corroborated the decision. The European Central Bank indicated that it will offer no objections.

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[1] Chapter 15, section 11 of the Credit Institutions Act describes the loan-to-value ratio but does not enter into force until 1 July 2016.