Decision by the Board of the Financial Supervisory Authority on the application of macroprudential instruments

At its meeting on 27 September 2019, 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% and that the decision to lower the maximum LTC ratio, made on 19 March 2018 pursuant to chapter 15, section 11 of the Credit Institutions Act, will remain in force. With the decision of 19 March 2018, the Board of the FIN-FSA lowered the maximum LTC ratio for residential mortgage loans other than first-home loans by 5 percentage points.

On 26 August 2019, the European Commission made a decision not to propose to the EU Council that it object to the decision of the Board of the FIN-FSA of 28 June 2019 on the minimum risk weight applicable to residential mortgage loans. In accordance with the Board's decision, the period of application for the minimum risk weight applicable to residential mortgage loans will therefore be extended by one year from 1 January 2020.

Justifications for the decision

Countercyclical capital buffer requirement

The domestic private sector credit-to-GDP gap, used as the primary indicator for setting the CCyB requirement, was −9.2 percentage points at the end of first quarter of 2019, thus giving a reference value of 0.0% for the CCyB requirement.

Credit growth has been fuelled mainly by housing corporation loans, consumer credit and corporate loans, but its overall development shows no signs of overheating. The indicators of credit growth and growth in financial market risk appetite as well as other supplementary risk indicators are not, overall, signalling such a build-up in financial system risks as would necessitate an increase in the CCyB requirement. Finland's economy has grown more slowly than expected, forecasts have been adjusted downwards, and significant uncertainties are currently associated with economic development. In the current situation, raising the CCyB rate could also prove to be detrimental, as it would be a procyclical measure.

Maximum LTC ratio

The maximum 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 not 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.

Household indebtedness relative to income remains close to record levels. Indebtedness is expected to remain at a high level as moderate credit growth continues, but somewhat faster than growth in incomes and the economy. In July 2018, the decision of the Board of the FIN-FSA to lower the maximum LTC ratio for residential mortgage loans other than first-home loans entered into force. After the entry in force of the decision, changes in the LTC ratios of new residential mortgage loans have, as expected, been moderate. The proportion of new residential mortgage loans accounted for by residential mortgage loans with LTC ratios between 80 and 85% has grown slightly following the decision.

To curb household indebtedness, it is justified to maintain the maximum LTC ratio for residential mortgage loans other than first-home loans at 85% pursuant to chapter 15, section 11, subsection 5 of the Credit Institutions Act.