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

At its meeting on 17 March 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% and that the decision to lower the maximum loan-to-collateral ratio (LTC), 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.

Justification for the decision

Countercyclical capital buffer requirement

Finland's economic growth slowed towards the end of 2019. Recent forecasts suggest that growth for 2020 will deteriorate markedly due to the coronavirus pandemic. The global economic outlook is exceptionally uncertain and the pandemic is increasing the risks to economic developments and the financial system.

The primary risk indicator for setting the CCyB requirement – the domestic private sector credit-to-GDP gap – has remained steadily negative in recent years. According to preliminary data, at the end of the third quarter of 2019, the credit-to-GDP gap was -10.3 percentage points.

Of the supplementary risk indicators, the current account was in surplus in the third quarter of 2019. 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 of financial system risks as would necessitate a rise in the CCyB requirement.

Maximum loan-to-collateral 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 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.

Growth in housing finance was fairly unchanged in the latter part of 2019, at just over 4% p.a. in March 2019. Growth was slightly more concentrated directly on residential mortgage lending, whereas the growth rate of lending to housing corporations slowed. The terms of new residential mortgage loans are still loose by historical standards.

Changes in the LTC ratios of new residential mortgage loans have been relatively minor. The average repayment period of a new residential mortgage loan lengthened further at the end of 2019.

Considering the level and structure of households' overall debt, the decision to lower by 5 percentage points the maximum LTC ratio for residential mortgage loans other than first home loans pursuant to chapter 15, section 11, subsection 5 is still justified.