Decision of the Board of the Financial Supervisory Authority on the application of macroprudential instruments (draft)

At its meeting on 18 March 2021, 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 per cent.

At this stage, the FIN-FSA Board does not consider it justified to tighten the maximum loan-to-collateral (LTC) ratio, as referred to in chapter 15, section 11 of the Credit Institutions Act.

The FIN-FSA Board closely monitors the functioning of the housing market and household indebtedness, assessing the need to tighten macroprudential requirements in the future in order to contain risks.

In the current exceptional and uncertain situation, careful assessment of borrowers' ability to pay remains 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.

In addition, the FIN-FSA Board decided at its meeting that the preliminary publication dates of macroprudential decisions will be published in advance at the beginning of each calendar year. The final publication date will be confirmed in good time prior to the decision date. The goal is to publish the decisions at 9.30 a.m. on the next working day following the decision, before the start of stock exchange trading. Actors subject to the decision will be informed of the decision before its publication.

Justifications for the decision

Countercyclical capital buffer requirement

The second wave of the coronavirus pandemic is slowing economic growth and maintaining uncertainty. The labour market is slowly recovering from the coronavirus pandemic. According to the Bank of Finland's forecast, private consumption will turn the Finnish economy to 2.2 per cent growth in 2021, and growth will accelerate to 2.5 per cent in 2022.

The provisional value of the primary risk indicator – the private sector credit-to-GDP gap – was -2 at the end of September 2020. Credit stock growth has been quite rapid during the coronavirus pandemic, particularly in the business sector. Recently, however, growth in banks' corporate credit stock has slowed. Relative to the general economic situation and the associated uncertainty, housing finance has grown rather quickly.

Based on supplementary risk indicators and other available indicators and statistics, there are no clear signs of overheating in the credit market. It is therefore justified to maintain the countercyclical capital buffer requirement at 0.0 per cent.

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 per cent to its statutory standard level of 90 per cent. 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 per cent since the entry into force of the statutory requirement.

As expected, the easing of the maximum LTC ratio in the second half of 2020 was reflected in the lending ratios of new residential mortgage loans other than first-home loans. The proportion (c. 12 per cent) of the euro amount of new borrowing accounted for by LTC ratios exceeding 85 per cent was of the same magnitude in the last quarter of 2020 as in the second quarter of 2018 before the tightening of the maximum LTC ratio. Large LTC ratios of more than 90 per cent for first-home loans continued to become more common, accounting for almost a quarter of new borrowing.

The easing of the LTC ratio and the low interest rates on housing loans, as well as instalment-free grace periods, have maintained activity in the housing market. Housing sales and mortgage lending returned to their levels of a year ago in the summer and picked up in the autumn compared with previous years. The year-on-year gap that arose in the spring of 2020 narrowed towards the end of the year, so that the annual levels of housing sales and new housing loans did not differ significantly from a year earlier.

Longer-than-usual housing loans continued to become more common, and the proportion of new housing loans accounted for by housing loans exceeding 26 years in length continued to grow in 2020. According to the latest survey data (2019/II–2020/II), average new housing loans and borrowers’ total debt increased relative to borrowers’ incomes.

House prices have continued to rise, particularly in some of the largest cities, while remaining unchanged or declining elsewhere in Finland in 2020. Price development in January–December did not, however, deviate significantly from longer-term trends.

Household debt relative to disposable income grew to 131% in the third quarter of 2020. The debt-to-income ratio was 0.7 percentage points higher than in the previous quarter and 4.3 percentage points higher than a year earlier. Annual growth in debt remained unchanged at 3.7

per cent, while growth in annual incomes slowed to 0.3 per cent. Debt also increased in ratio to GDP.

The recovery in the housing market described above and the increase in housing loans granted towards the end of 2020, together with structurally high household indebtedness, may point to an increase in financial stability risks in the current economic context. The recovery in the housing market that began in the second half of the year may, on the other hand, be partly down to a correction following the dip in the market in April-May. As the economic outlook and the situation overall are still governed by significant uncertainties, it is not justified at this stage to tighten the maximum LTC ratios. Close monitoring of the situation is required, however.