



# MACROPRUDENTIAL POLICY IN A SMALL OPEN ECONOMY – THE NORWEGIAN EXPERIENCE

BUFFERS AND RECIPROCITY

*Henrik Borchgrevink, Norges Bank  
Bank of Ireland 19 December 2019*

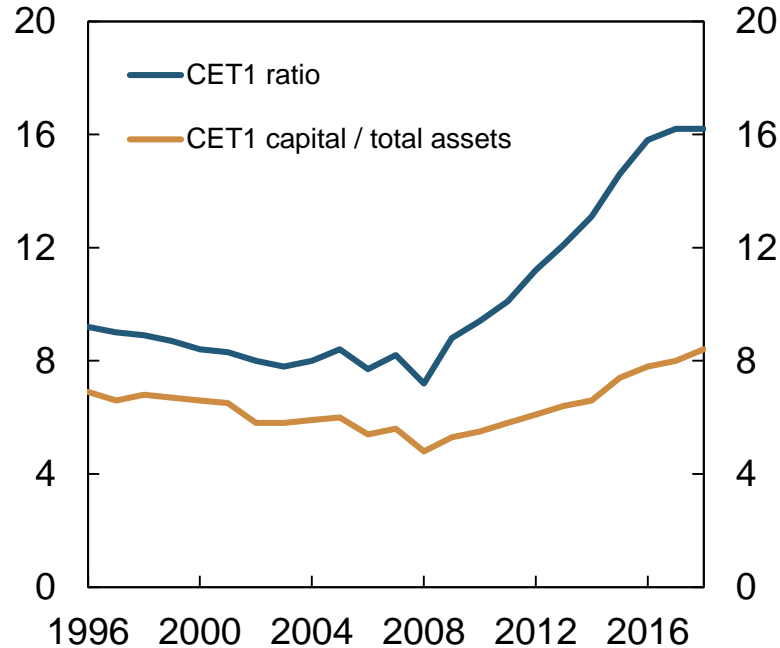
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# Norwegian macroprudential policy

## More capital



## Borrower-based measures introduced

LTV limit	85%
“Stress test”	5 percentage p.
DTI limit	5 x income
Amortization req.	For LTV > 60%
Secondary dwellings	LTV 60% in Oslo
Flexibility quotas	10% 8% in Oslo

Source: Financial Supervisory Authority of Norway

# Build and hold buffers – no fine-tuning!

- “The objective of the buffer is to increase banks’ resilience in downturns and should not be changed frequently in an attempt to manage credit growth or asset prices.” <https://www.norges-bank.no/en/topics/financial-stability/macprudential-supervision/Countercyclical-capital-buffer/framework-countercyclical-capital-buffer/>
- “If financial imbalances build up, the countercyclical capital buffer for banks may be increased. The authorities may also have to consider other, more targeted measures in response to rapid rises in house prices and debt in order to mitigate the risk associated with the high level of household debt.” [https://www.norges-bank.no/en/news-events/news-publications/Speeches/2015/12\\_02\\_2015\\_Olsen\\_annual\\_address/](https://www.norges-bank.no/en/news-events/news-publications/Speeches/2015/12_02_2015_Olsen_annual_address/)
- “[..] prudent mortgage lending requirements should be regarded as a permanent structural measure and should not be changed frequently.” [Norges Bank consultation response to mortgage lending requirements 2015](#)



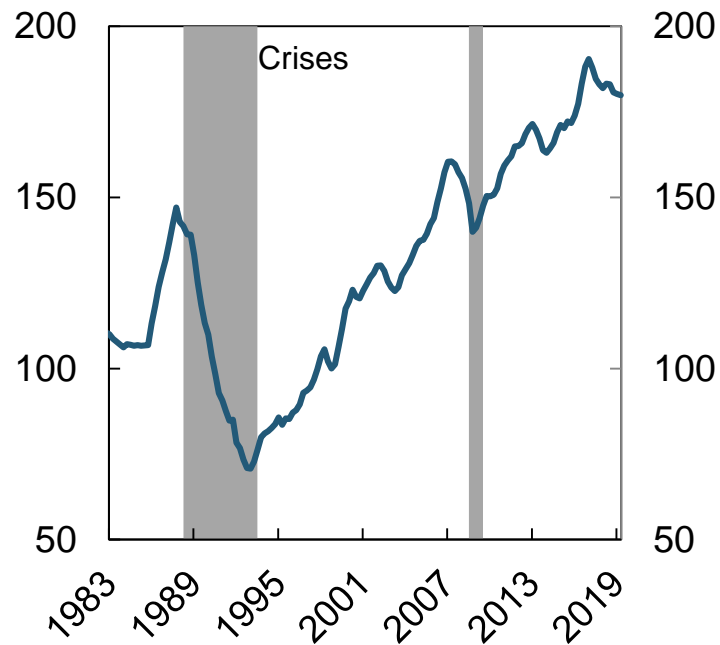
# REASONS FOR HIGH CAPITAL BUFFER REQUIREMENTS



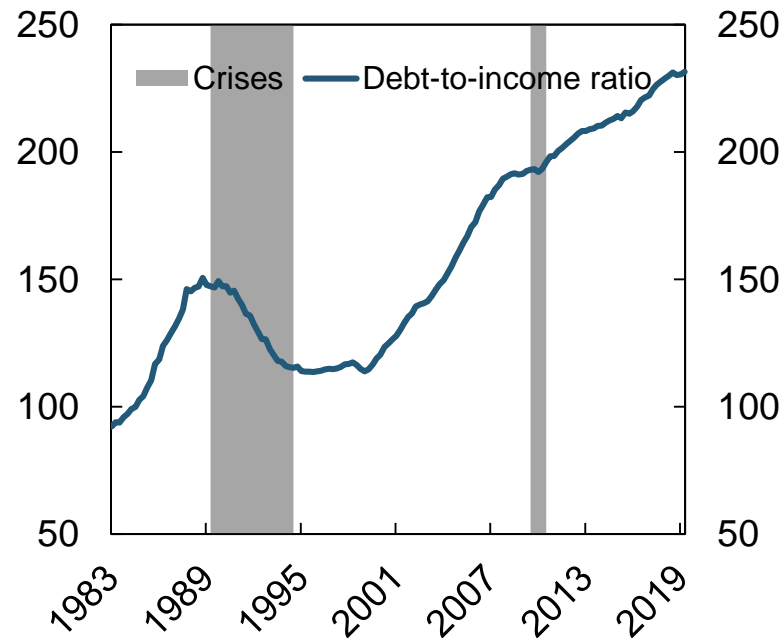
# 1990s banking crisis and the GFC

And high household debt and high house prices

House prices to disposable income. Index



Household debt to disposable income. Percent



# A small open economy

Percent of GDP

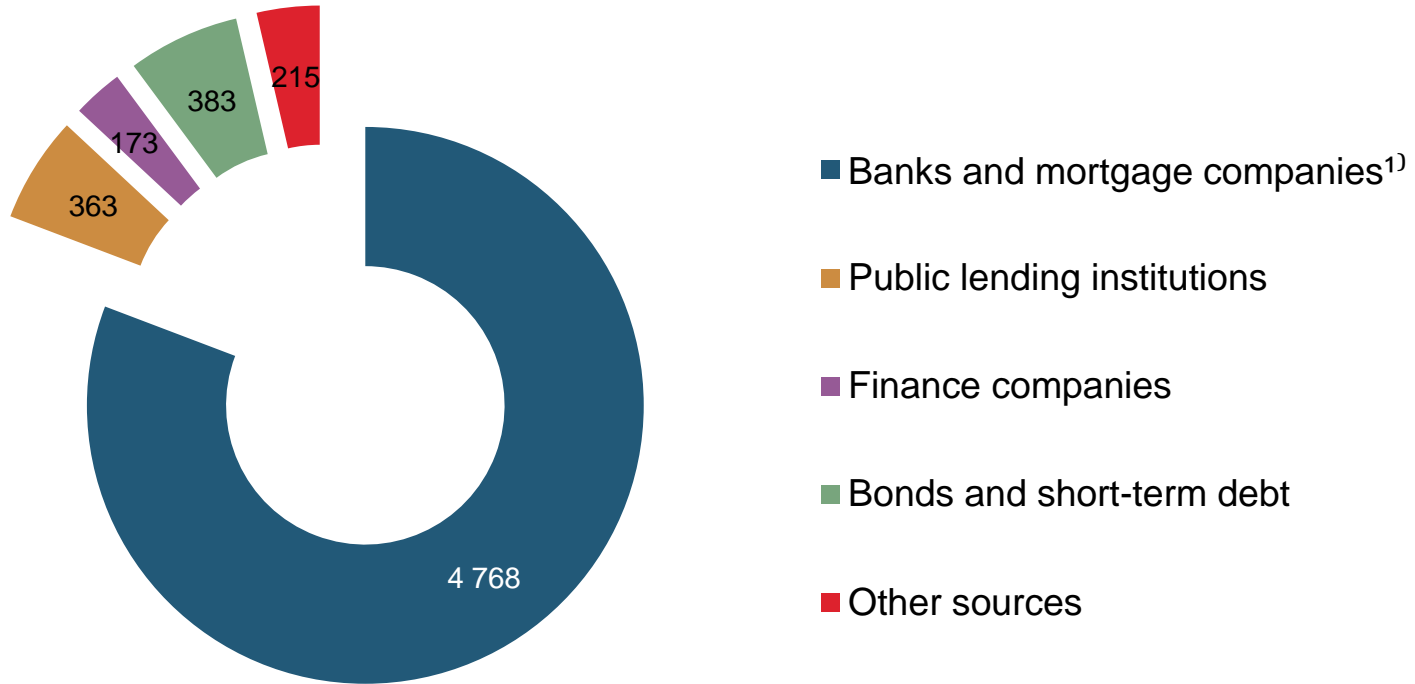


Source: Statistics Norway



# Bank-dominated financial system

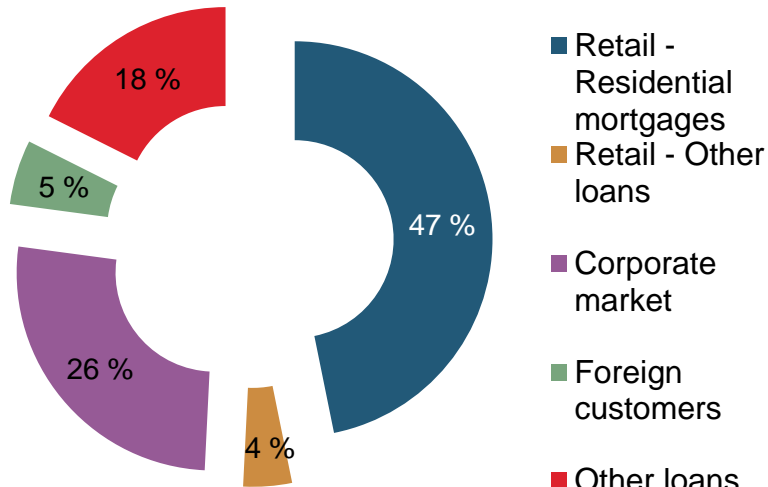
Gross domestic lending to non-financial sector. Bn of NOK. Q2 2019.



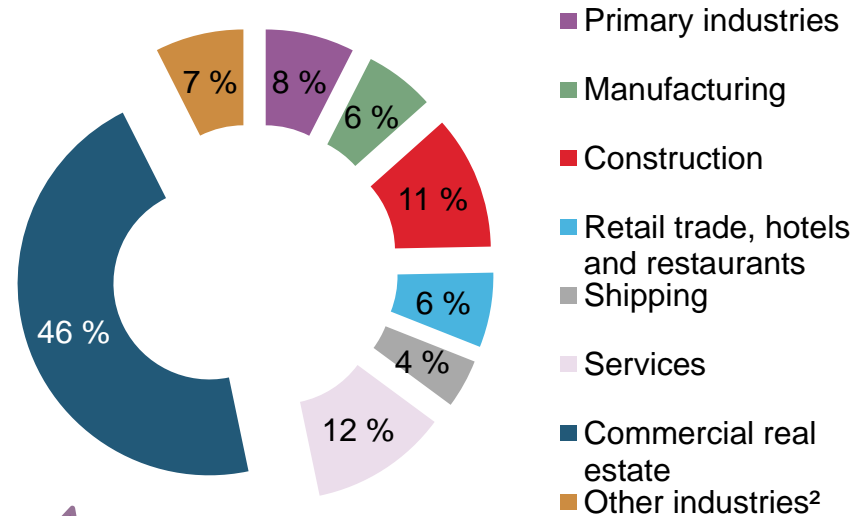


# A high share of lending is to real estate

## Total lending

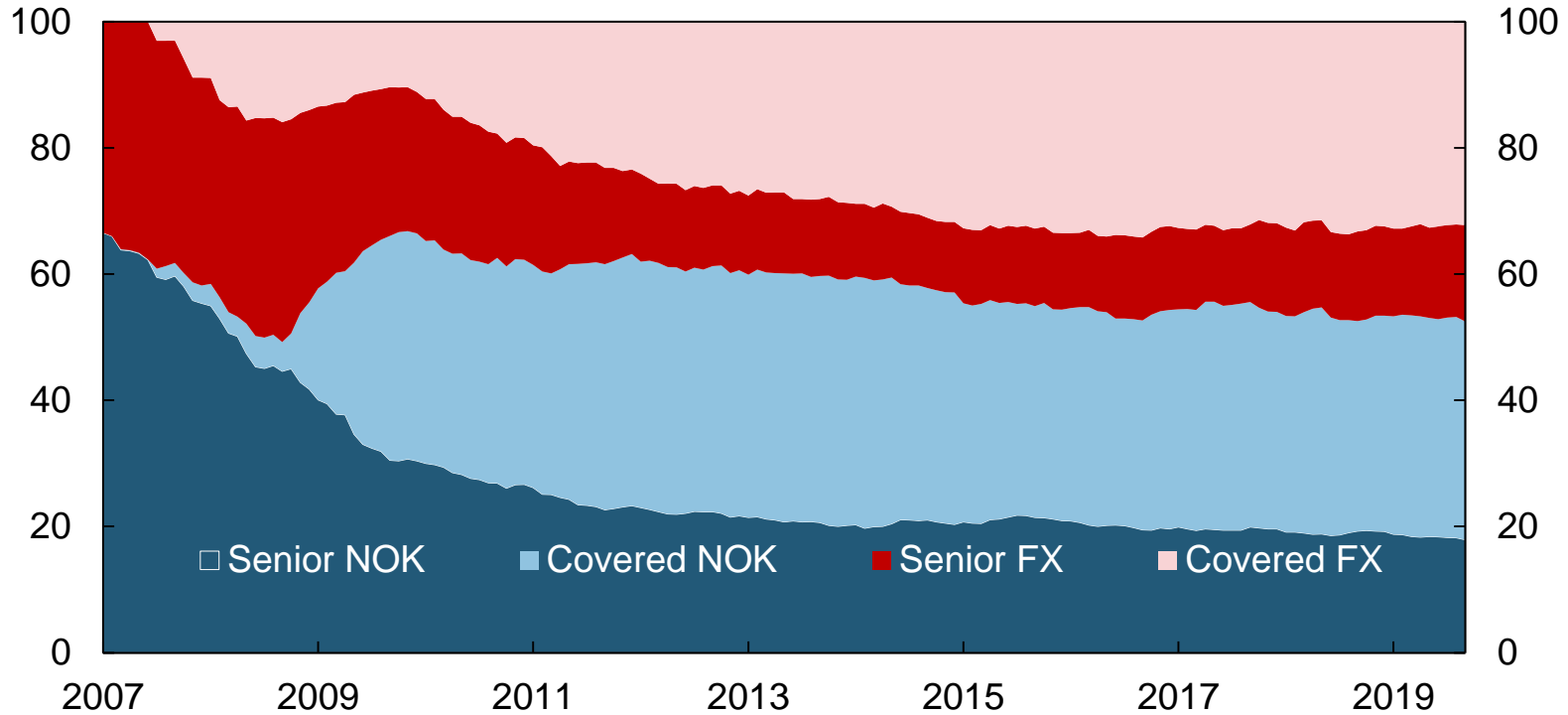


## ...the corporate market



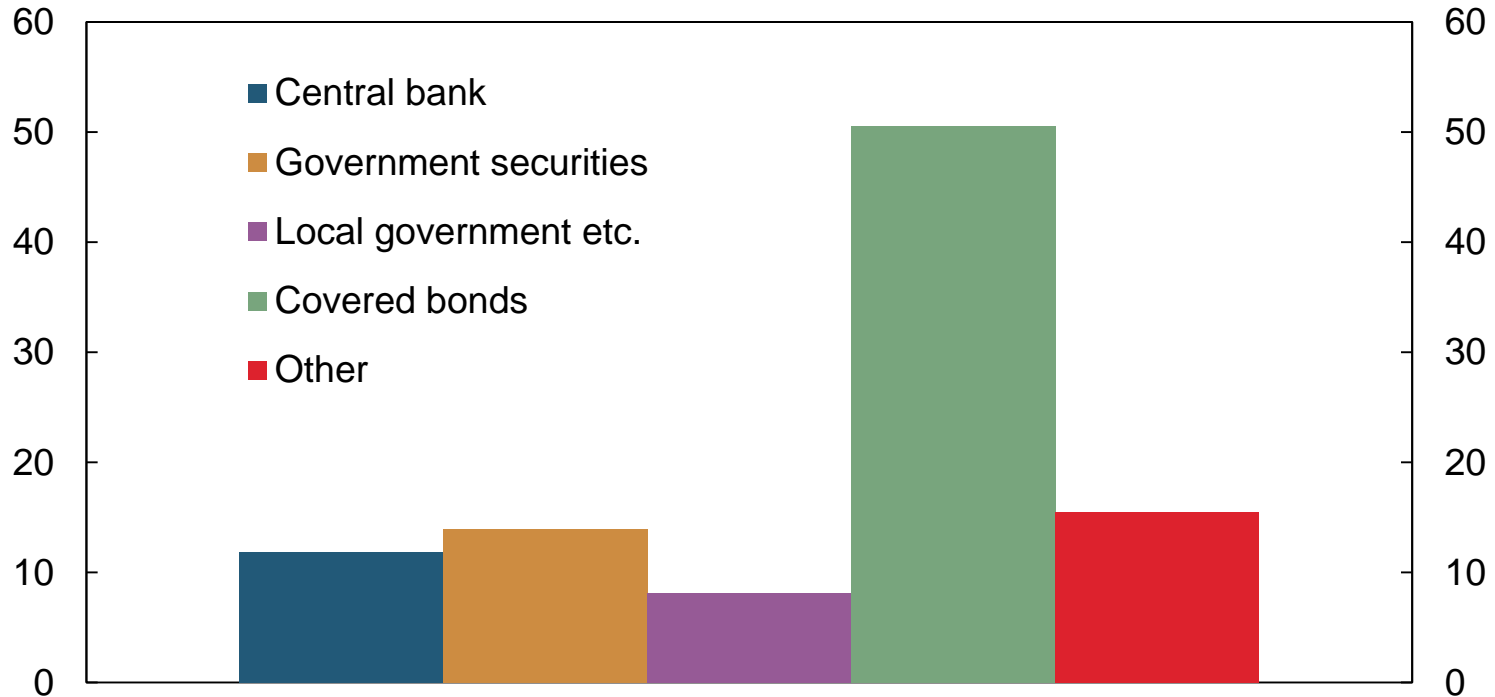
# High share of foreign funding

Bonds of Norwegian banks and mortgage companies.



# Norwegian banks dependent on covered bonds

Stock of liquid assets in NOK. Percent. At 30 June 2019

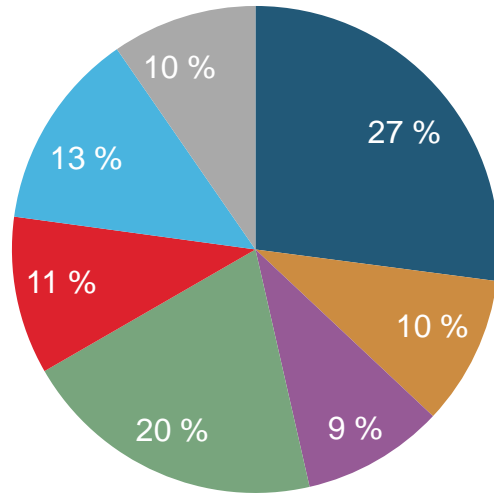


Source: Financial Supervisory Authority of Norway

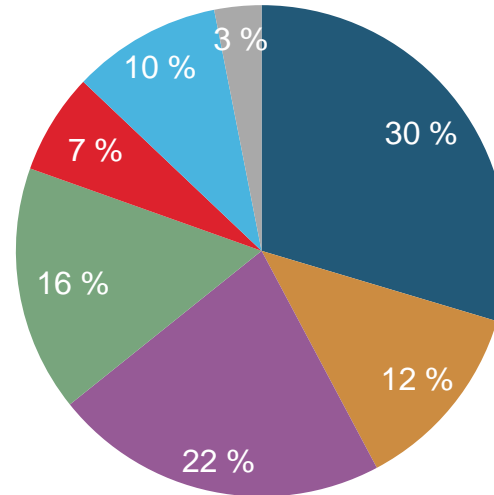


# One big domestic, several big foreign banks

Lending market shares. Percent. Q2 2019.



Retail market

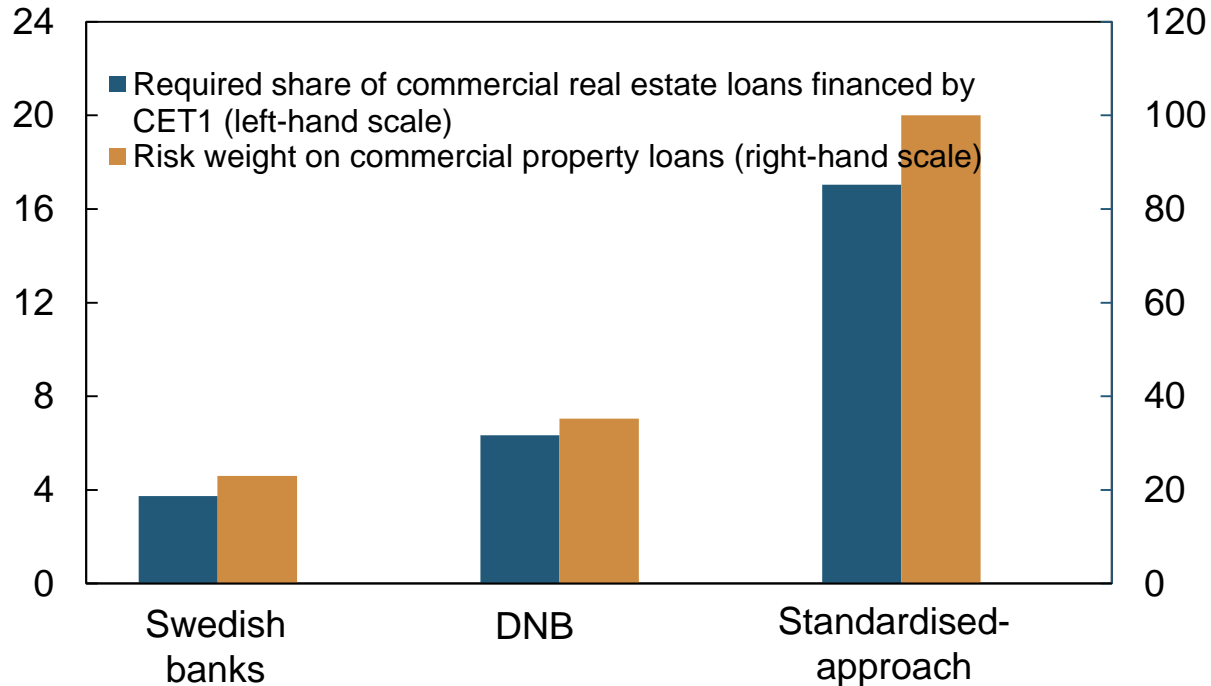


Corporate market

- DNB Bank
- Other branches of foreign banks in Norway
- Eika Alliance
- Other commercial banks

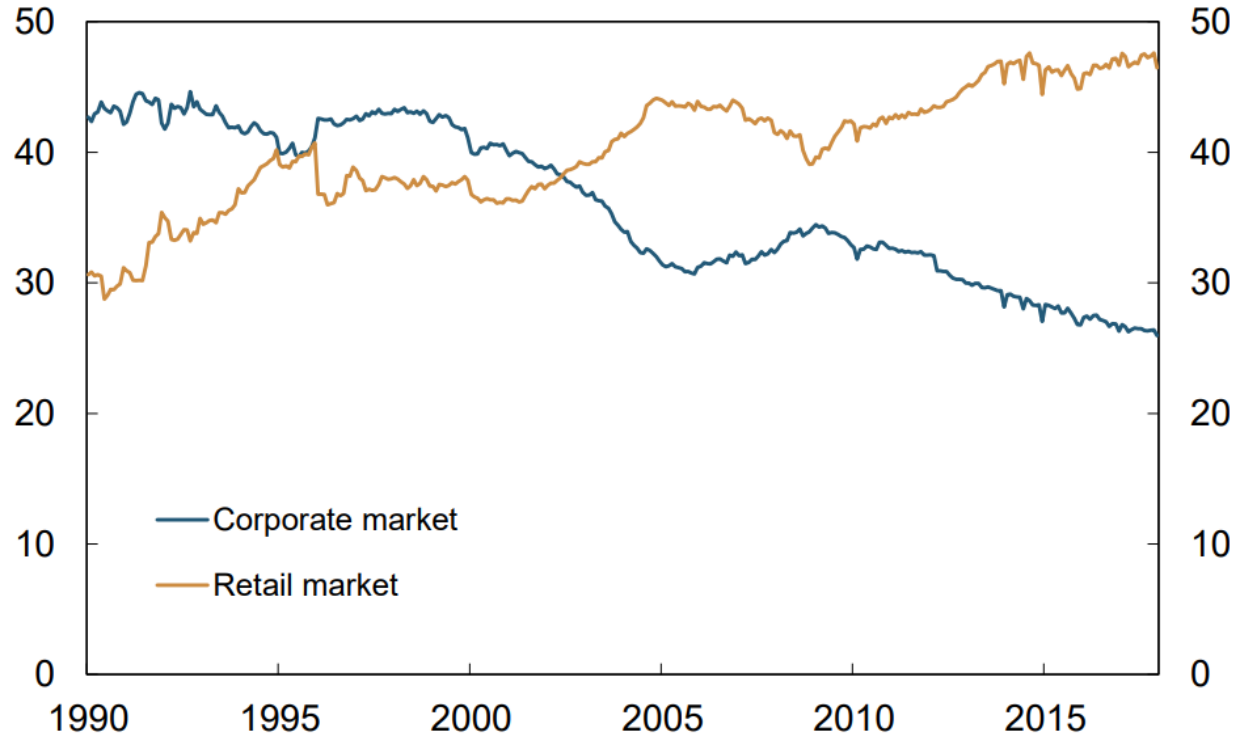
- Nordea
- SpareBank 1 Alliance
- Other savings banks

# Risk-weight differences is a challenge



# Possible side-effects

Norwegian bank and mortgage companies. Share of total lending. Percent



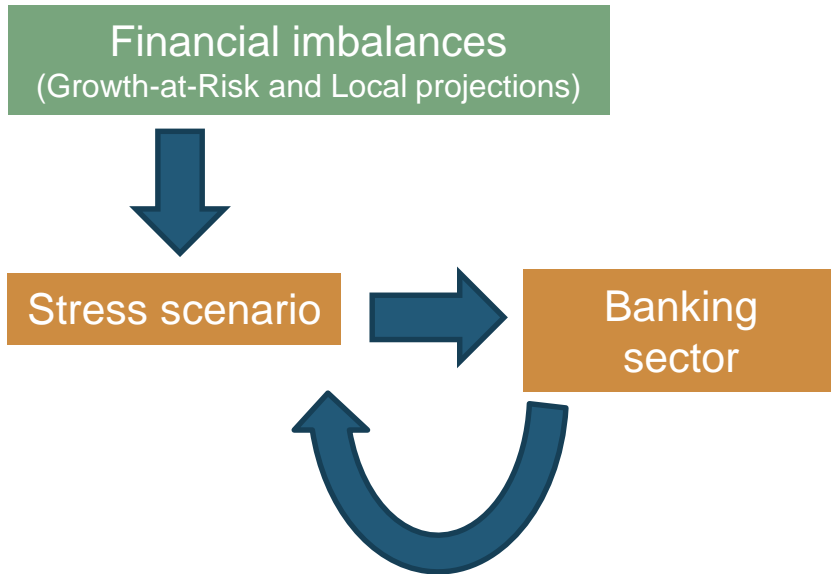
Source: Norges Bank (FSR 2018)



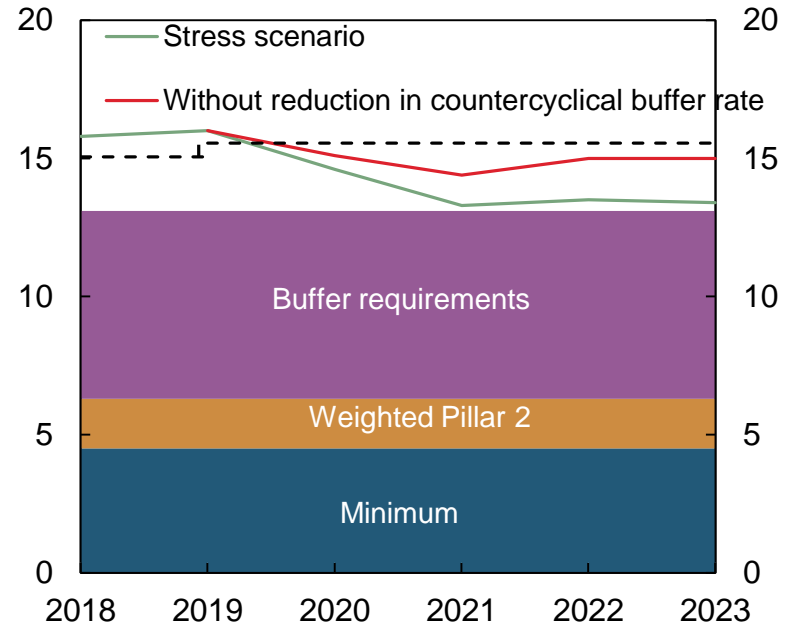
# Stress tests help calibration

Framework to evaluate buffer levels given level of financial imbalances

«Macro stress test»

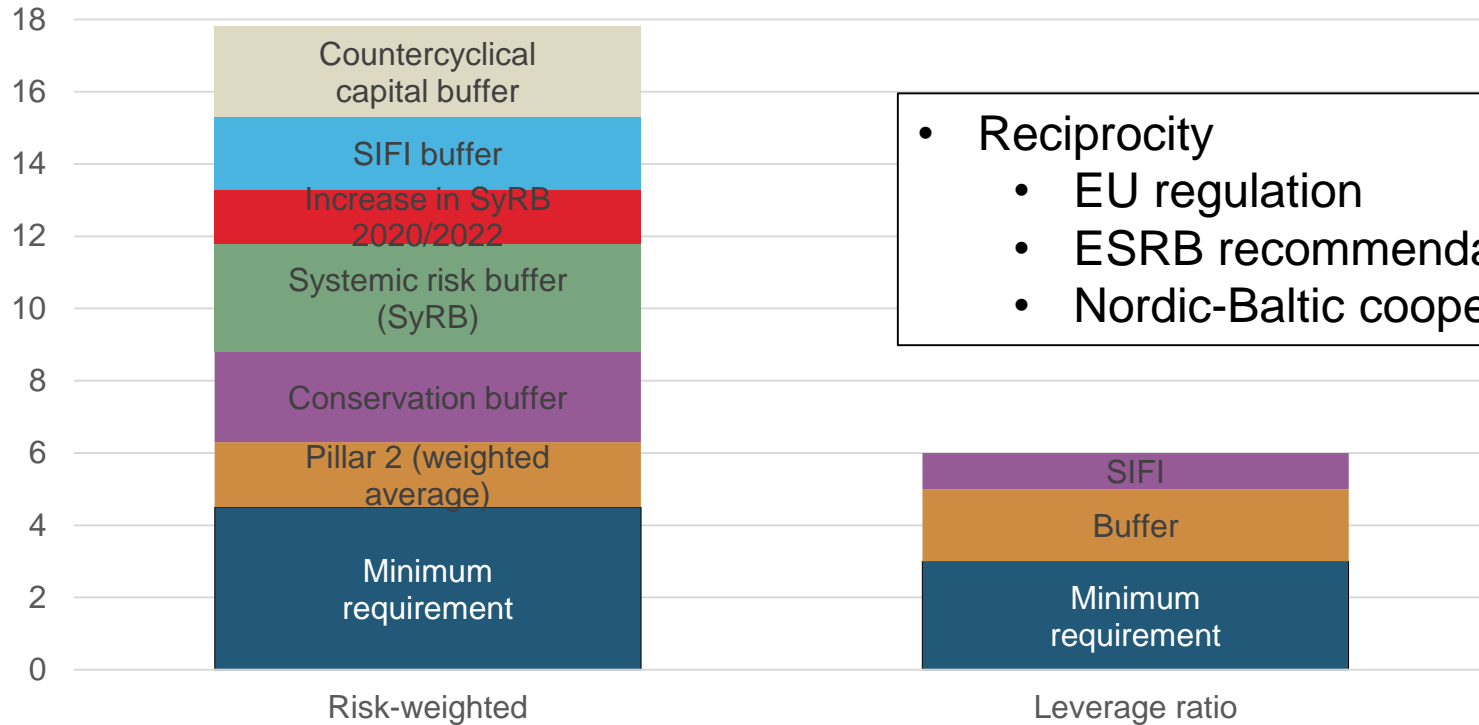


Stress test 2019



# Norwegian capital requirements

Percent



Source: Norges Bank







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# Some references

- <https://www.norges-bank.no/en/news-events/news-publications/Reports/Financial-Stability-report/financial-stability-2019/>
- <https://www.norges-bank.no/aktuelt/nyheter-og-hendelser/Signerte-publikasjoner/Staff-Memo/2019/sm-11-2019/>
  - Available in English soon
- [https://www.regjeringen.no/contentassets/d781118d26a14747bbe2eb6ee66cbfc0/2019-12-11-mof\\_memo\\_systemic\\_risk\\_buffer\\_requirement\\_norway.pdf](https://www.regjeringen.no/contentassets/d781118d26a14747bbe2eb6ee66cbfc0/2019-12-11-mof_memo_systemic_risk_buffer_requirement_norway.pdf)

