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

At its meeting on 23 September 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% and that the period of validity of the decision on a tighter maximum loan-to-collateral (LTC) ratio, taken on 28 June 2021 pursuant to chapter 15, section 11 of the Credit Institutions Act, will be extended. With the June decision, the maximum LTC ratio for new residential mortgage loans other than first-home loans was lowered by 5 percentage points, to 85%.

Lenders are justified in carefully assessing borrowers' ability to pay and in exercising restraint in granting loans that are large with regard to the borrowers' income and have a longer-than-usual repayment period. The risks to the stability of the financial system have remained high in an environment of rising household debt levels and uncertainties caused by the pandemic.

Justification for the decision

Countercyclical capital buffer requirement

Accommodative monetary and fiscal policies are supporting the outlook for global economic growth even though new COVID-19 variants have spurred the pandemic-related uncertainty during the summer. The Bank of Finland's September interim forecast sees the Finnish economy growing faster in 2021 than previously projected, driven especially by private consumption. Economic growth will also be supported by a pick-up in investment and export demand. The labour market is forecast to improve as the economy recovers. From a global perspective, however, the so far low level of vaccination coverage and new virus variants will increase uncertainty associated with the evolution of the pandemic, thereby also intensifying the downward risks to economic developments.

According to a preliminary estimate, the private-sector credit-to-GDP gap, which is used as the primary risk indicator for setting the CCyB requirement, was -4.7% at the end of March 2021. If calculated using the narrow definition of the credit stock, with the latest available data from the end of 2020, the gap was close to zero. The primary risk indicator is less susceptible to revisions using the narrow credit stock, but the data are available with a lag. If the economy resumes growth as forecast, the credit-to-GDP gap figures are likely to trend downward.

Residential mortgage lending has recently grown briskly considering the uncertainty surrounding the economic outlook, but growth in the total private-sector loan stock has slowed. Growth in the corporate loan stock has abated particularly rapidly following the strong peak recorded in spring 2020. However, the economic recovery and rebound in investment demand are expected to stimulate demand for corporate credit in the coming months.

Based on supplementary risk indicators and other available indicators and statistics, there are no clear signs of such a build-up of cyclical risks as would require an increase in the CCyB rate.

Extension of the decision on a tighter maximum loan-to-collateral ratio

House sales and mortgage lending continued at a brisk pace in spring 2021. In the first half of 2021, sales of old dwellings in housing companies and drawdowns of new housing loans were markedly higher than in previous years. The annual growth rate of the housing loan stock strengthened to about 4% in the spring. In the early part of 2021, the rise in house prices also accelerated in the Greater Helsinki region and the largest cities.

Household debt relative to disposable income reached a record high level once again in early 2021, at 133.6%. During the pandemic, household debt levels have risen especially due to growth in housing loans. The growth of housing corporation loans, which has been the main driver of indebtedness in previous years, has in turn slowed down.

Large loan amounts with longer-than-usual repayment periods have become more common, which has contributed to accelerating the growth of household indebtedness. In the first half of 2021, housing loans with a repayment period of over 26 years accounted for more than 13% of the total amount of new housing loans, compared with 9% a year earlier and ca. 5% two years earlier. Longer-than-usual housing loans are more common in the sub-regions of large cities, and these loans are also typically larger than other new housing loans.

The average size of new housing loans grew further in the first quarter of 2021. However, the share of loans with the highest LTC ratios decreased slightly for both new first-home loans and other new housing loans.

As a whole, the financial stability risks associated with mortgage lending have increased during the pandemic, which supports the use of macroprudential instruments for containing growth in household indebtedness and the risk of overheating in the housing market. In this respect, the decision taken by the FIN-FSA Board in June 2021 and effective in October to tighten the maximum LTC ratio to 85% for new residential mortgage loans other than first-home loans is still justified in terms of curbing the number of large housing loans in relation to collateral.

The maximum LTC ratio for first-home loans will not be tightened at this stage. It is justified to tighten macroprudential policies gradually and moderately. This is particularly important in the current uncertain cyclical situation. Tightening the maximum LTC ratio for first-home loans could also lead to undesirable side effects related to first-time homebuyers’ access to the housing market.