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

At its meeting on 27 March 2024, the Board of the Financial Supervisory Authority (FIN-FSA) decided that the countercyclical capital buffer (CCyB) requirement referred to in chapter 10, section 4 of the Act on Credit Institutions (610/2014) will be kept at 0.0%. The Board also decided that the maximum loan-to-collateral (LTC) ratio referred to in chapter 15, section 11 of the Act on Credit Institutions and in section 14 of the Act on the Registration of Certain Credit Providers and Credit Intermediaries (186/2023) will remain at its standard level of 90%. The maximum loan-to-collateral (LTC) ratio for first-home loans will also be kept at its standard level of 95%.

Justification for the decision

Countercyclical capital buffer requirement

The outlook for global economic growth is still very subdued. Euro area economic growth remained unchanged (0%) quarter-on-quarter in the fourth quarter of 2023, and the purchasing managers' indices both for manufacturing and for services also point to a decline in output in the coming months. Euro area inflation slowed significantly during the autumn due to lower energy prices, tighter monetary policy and weaker demand. The macroeconomic projections made by European Central Bank (ECB) staff were revised downwards in March. They now expect the euro area economy to grow by 0.6% in 2024 (0.8% in their December projections).

Finland's economic activity fell sharply and extensively in the latter half of 2023. The level of public consumption grew, and this helped underpin economic growth. Growth was also supported by net exports, although the growth in net exports was a consequence of imports contracting more than exports. The employment rate has been declining since the end of 2022, and, conversely, the unemployment rate was rising during 2023. However, companies' employment expectations have already taken a tentative turn for the better. The economic outlook remains weak: according to the Bank of Finland's March interim forecast, Finland's GDP will contract by 0.5% in 2024, although economic growth will start to recover in the latter half of the year.

Indicators of private sector indebtedness and credit stock growth suggest that the financial cycle is still in a contractionary phase, and there are no signs of a strong upturn in the economy. At the end of September 2023, the primary risk indicator – the deviation of the private sector credit-to-GDP ratio from its long-term trend, or the credit-to-GDP gap – stood at -16.2 percentage points. Even when calculated using a narrower definition of the credit stock, the credit-to-GDP gap was clearly negative (-13.3 percentage points). The stocks of loans granted by credit institutions to both nonfinancial corporations and households have shrunk, whereas the stock of loans to housing corporations has grown.

Neither do supplementary risk indicators point to a significant increase in the stability risks associated with total lending. The financial markets have functioned without major disruptions, and the financial market stress indicator was low at the end of 2023. Real house prices continued to fall in the autumn, reflecting subdued cyclical conditions. The debt-servicing burden of households and of the private sector as a whole grew in the autumn along with rising interest rates. The markets are, however, expecting interest rates to decline during 2024. Although the current account deficit may indicate imbalances in the economy, the deficit shrank in the autumn. An overall assessment based on the risk indicators used therefore suggests that there are no grounds for the application of the CCyB.

In its opinion concerning the Director General's proposal on the application of macroprudential instruments, the Bank of Finland stated that there is good reason to begin a legislative process for enabling a so-called positive neutral CCyB requirement. The FIN-FSA Board shares the Bank of Finland's view and notes that the European Commission, in its report on the review of the macroprudential framework published in January, emphasises the need to increase the use of capital buffers which can be released on the basis of cyclical conditions.[1]

Maximum loan-to-collateral ratio

Housing sales slowed in January–February 2024, after having picked up markedly in November–December 2023. Purchases by first-time buyers, in particular, are estimated to have increased temporarily following the Government's proposal in October to remove the transfer tax exemption for first-home purchases at the beginning of 2024. The newly amended Asset Transfer Tax Act (931/1996) entered into force at the beginning of 2024, but the lower tax rates introduced by it have been applied retroactively to transactions by non-first-time buyers as from 12 October 2023. The lower transfer tax rates may also have boosted house sales at the end of 2023.

In January 2024, the prices of existing dwellings in housing companies fell, reaching their lowest level since the current price decline started in the second half of 2022. In the country as a whole, the prices were 5.6% lower on average than in January 2023, and 12.9% lower than at their peak in June 2022. The fall in prices of existing homes has been greater in the Helsinki metropolitan area than elsewhere in Finland. The prices of new dwellings have declined notably less than those of existing dwellings. Construction companies have offered discounts on housing company charges and various

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[1] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024DC0021

other benefits to buyers, but despite this, the stock of new homes completed but not yet sold has grown.

In the fourth quarter of 2023, there were no significant year-on-year or quarter-on-quarter changes in the average size of new housing loans and the proportion of mortgages with high loan-to-collateral (LTC) ratios. Mortgages with a loan term longer than 30 years have accounted for a declining share of the nominal value of new housing loans since the entry into force (1 July 2023) of the 30-year maximum repayment period and the 10% deviation from this for lenders permitted by law. The average interest rate on new mortgages fell slightly in December 2023.

The persistent upward trend in household indebtedness was reversed in 2022–2023 as inflation increased, interest rates started to rise, demand for household credit fell and nominal income growth accelerated. Household indebtedness decreased further in the fourth quarter of 2023. Household interest expenditure, on the other hand, continued to grow in the fourth quarter, but the ability of households to adjust to the rapid rise in costs and interest rates has so far remained good, on average. Although credit risks are forecast to increase, they are not expected to threaten stability if the economy and interest rates follow the anticipated path.

Sales in the housing market slowed in early 2024 and are expected to remain low in the coming months. However, they are anticipated to gradually increase compared with the previous year as 2024 progresses, provided that interest rates fall as expected and the economy starts to recover as forecast. Household demand for credit is expected to rebound gradually in the course of 2024 but to remain subdued. Household indebtedness is projected to decline further during 2024. Consumer confidence in the economy was still weak in January–February 2024, but it had improved since the latter part of 2023. In addition, consumers expressed more positive views on whether it was a favourable time for taking out a loan, and borrowing intentions increased.

Market expectations of interest rate decreases weakened in early 2024, and there is still considerable uncertainty over the path which interest rates and the economy will take. Housing construction will contract sharply in 2024, increasing downside risks to the economy and the labour market. No surge in housing sales or housing prices is yet in sight, or even discernible in the longer term. Economic forecasts suggest that the level of household indebtedness will rise in 2025–2026 but will remain below its 2021 peak.

In December 2023, the Board of the FIN-FSA decided to return the maximum LTC ratio for new housing loans other than first-home loans to its statutory standard level of 90%. In the FIN-FSA's assessment, there have been no significant changes in the macroprudential environment since December 2023 that would lead to an exceptional increase in financial stability risks and require the maximum LTC ratio to be readjusted from the current standard level. Although there is currently no acute threat to stability from an overheating of the housing market or growth in outstanding housing loans held by households, the high level of household indebtedness continues to involve structural risks and vulnerabilities, which need to be vigilantly monitored.

Finally, as regards the entry into force (1 April 2024) of the FIN-FSA Board's decision of 29 March 2023 on the systemic risk buffer (SyRB) requirement, the Board concluded at its meeting on 27 March 2024 that, based on the risk indicators guiding the imposition of this requirement, the systemic risks in the Finnish financial sector have remained largely unchanged from 2023. It is not expected that the entry into force of the SyRB requirement will have a negative impact on the functioning of the credit market.