Countercyclical capital buffer – criteria for use and interaction with monetary policy

Governor Øystein Olsen
18 April 2013
GDP, advanced economies
Actual GDP and estimated trend. Index. 2005 = 100

* Trend estimated using an HP filter on years from 1968 to 2007

Sources: IMF and Norges Bank
Consumer price inflation in advanced economies
12-month change. Percent. Moving 10-year average and variation*

* The variation is measured as the average +/- one standard deviation

Sources: IMF and Norges Bank
New Common Equity Tier 1 (CET1) capital adequacy requirements – phasing-in

Percent

* As a general rule, the countercyclical buffer shall be between 0 and 2.5 percent

Source: Ministry of Finance
Criteria for an appropriate countercyclical capital buffer

1. Banks should become more resilient in good times
   - ... the requirement will be increased when financial imbalances are building up

2. The size of the buffer should be viewed in the light of other requirements applying to banks

3. Stress in the financial system should be alleviated
   - ... in the event of rising bank losses, the requirement will be decreased
Key indicators for the countercyclical capital buffer

Credit/GDP

House prices

Office space prices

Wholesale funding

Sources: Statistics Norway, IMF, real estate industry in Norway and Norges Bank
Ways for banks to boost capital ratios

- Raise additional capital
  - Equity issues
  - Retain earnings
  - Boost earnings/reduce costs

- Reduce risk-weighted assets
  - Curb lending growth
  - Shift to loans with a lower risk weight
Bank interest margins
Percent

Households
- Risk premium 5-year covered bonds
- Money market premium
- Key policy rate
- Bank lending rate, mortgages (credit lines)
- Estimated funding costs, mortgages

 Enterprises
- Risk premium 5-year bank bonds
- Money market premium
- Key policy rate
- Bank lending rate, corporate loans
- Estimated funding costs, corporate loans

Sources: DNB Markets, Statistics Norway and Norges Bank
Common Equity Tier 1 capital ratio at year-end

Percent

<table>
<thead>
<tr>
<th>Bank/Group</th>
<th>2011</th>
<th>2012</th>
<th>New requirements as from 1 July 2013</th>
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<tbody>
<tr>
<td>DNB Bank</td>
<td>9.3</td>
<td>10.5</td>
<td></td>
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<tr>
<td>Nordea Bank Norge</td>
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<td>10.7</td>
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<td>SpareBank 1 SR-Bank</td>
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<td>Sparebanken Vest</td>
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<tr>
<td>SpareBank 1 SMN</td>
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<td>8.9</td>
<td></td>
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<tr>
<td>SpareBank 1 Nord-Norge</td>
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<td>10.3</td>
<td></td>
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<tr>
<td>All Norwegian banks</td>
<td>9.9</td>
<td>11.1</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Banking groups’ earnings reports, Finanstilsynet and Norges Bank
The monetary policy response pattern and criteria for an appropriate interest rate path

1. The inflation target is achieved
2. The inflation targeting regime is flexible
3. Monetary policy is robust
Inflation
CPIXE. Four-quarter change. Percent

Sources: Statistics Norway and Norges Bank
Capacity utilisation
Output gap. Percent

Sources: Statistics Norway and Norges Bank
The interest rate path with different criteria

Source: Norges Bank
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