

Statement of the Financial Stability Committee 23 September 2020

The battle to control the pandemic is proving more protracted than previously hoped, exacerbating uncertainty and adversely affecting financial institutions' loan portfolios. It is important that financial institutions work diligently on debt restructuring and that they use the scope provided by Government and Central Bank measures to support households and businesses.

The three large commercial banks are in a strong capital and liquidity position. Central Bank measures have significantly eased their access to liquidity, and credit spreads in international markets have narrowed. As a result, the banks have access to liquidity in both krónur and foreign currencies. They are therefore well positioned to address the repercussions of the pandemic.

The current low-interest environment creates new challenges for pension funds and financial institutions. The pension funds are dominant participants in the domestic financial market; therefore, the framework for their activities and the associated risks warrant further review.

The Financial Stability Committee is required to determine the value of the countercyclical capital buffer on financial institutions on a quarterly basis. In accordance with its statement of 18 March 2020, the Committee has decided to keep the buffer unchanged for the next six months.

The easing of the monetary policy stance has contributed to financial stability under the current circumstances.

The Committee reiterates that it is prepared to use every tool at its disposal to safeguard financial stability in Iceland.