

Statement of the Financial Stability Committee 30 June 2021

Accommodative monetary and macroprudential policies and measures taken by the Government have supported households and businesses during the pandemic. In recent months, there have been signs of a strong economic recovery, and asset prices have risen materially.

The three large banks are in a strong position, their capital and liquidity are well above regulatory minima, and they have ready access to liquidity in both krónur and foreign currencies. As a result, they are highly resilient.

At its meeting, the Financial Stability Committee (FSN) decided to set special rules on derivatives trading on the basis of the new Foreign Exchange Act. The Rules are simpler and provide for fewer restrictions than before.

Because rising real estate prices have gone hand-in-hand with increased household debt, the Committee considers it appropriate under current circumstances to lower the maximum loan-to-value ratio for consumer mortgages from 85% to 80%. The maximum ratio for first-time buyers will remain unchanged at 90%, however. The FSN considers the above-specified measure conducive to safeguarding households' and borrowers' resilience and counteract an increase of systemic risk.

Furthermore, the FSN has decided to give closer consideration to the application of the debt service-to-income ratio pursuant to Article 27 of the Act on Mortgage Lending to Consumers, no. 118/2016.

The Committee has decided not to increase the countercyclical capital buffer on financial institutions at this time; therefore, the buffer is unchanged at 0%. Nevertheless, the Committee deems it likely that it will be necessary sooner rather than later to consider raising the buffer.

The Financial Stability Committee will continue to use the tools at its disposal to safeguard financial stability in Iceland.