

Statement of the Financial Stability Committee 8 December 2021

The state of financial stability is favourable on the whole, although some pandemic-related uncertainty remains. The three large commercial banks are highly resilient. Their capital and liquidity are well above regulatory minima, and they have ready access to funding.

The strong economic recovery that has taken place in the past few months has supported households and businesses. Share prices and property prices have risen steeply in the recent term. Systemic risk continues to grow, owing in particular to growth in household debt alongside rising house prices. The monetary and macroprudential policy stance has been tightened somewhat in recent months.

In its quarterly review of the countercyclical capital buffer (CCyB), the FSN decided to hold the buffer unchanged. The decision taken in September to increase the buffer from 0% to 2% will take effect at the end of September 2022. The FSN is considering the long-term neutral rate of the CCyB.

In November, the Committee confirmed the resolvability of the systemically important commercial banks. Now, it has also approved the MREL policy, which specifies, among other things, how credit institutions' minimum own funds and eligible liabilities (MREL) are determined. Under the MREL requirement, a financial institution's own funds and eligible liabilities must suffice to ensure that the institution can withstand unforeseen losses and can recapitalise its activities without additional public funding, if it is deemed to be failing or likely to fail.

The FSN reiterates that the operational security of payment systems must be provided for, and it urges system operators to bear in mind the importance of guaranteeing business continuity. It is vital to continue working towards the implementation of an independent domestic retail payment solution that is separate from international payment card infrastructure.

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