

Statement of the Financial Stability Committee 16 March 2022

The state of financial stability is favourable, and the systemically important banks are highly resilient. Their capital and liquidity are well above regulatory minima, giving them ample scope to support households and businesses.

In 2022, the economic recovery will probably be weaker than was previously expected, owing to the pandemic and the Russian invasion of Ukraine, particularly if the war drags on.

Icelandic households are generally well positioned, and household credit growth has eased. Real disposable income has been rising year by year, and households' equity position has grown stronger. Unemployment has fallen and the labour participation rate has risen. Households' sound position will better enable them to cover higher debt service if interest rates rise further, and they have access to various types of mortgages in order to react to inflation. Arrears have declined since the onset of the pandemic and now account for less than 1% of the banks' loans to households.

Many companies were not adversely affected by the pandemic, but those that suffered severe revenue losses are still vulnerable. It is vital that the banking system continues to work on restructuring their debt.

In its quarterly review of the countercyclical capital buffer (CCyB), the Financial Stability Committee (FSN) has decided to hold the buffer unchanged. The decision taken in September 2021 to increase the buffer from 0% to 2% will take effect at the end of September 2022. The Committee has also decided to hold the systemic risk buffer unchanged at 3%.

Developments in the real estate market and household indebtedness are monitored closely. The FSN considers the current stance regarding borrower-based measures sufficient, as the effects of previous decisions have not yet come fully to the fore.

The FSN stresses the importance of safeguarding Iceland's cybersecurity and the operational security of telecommunications and financial market infrastructure. The current situation underscores how vital it is to bolster resilience in payment intermediation and expedite the implementation of an independent domestic retail payment solution. The Committee reiterates that it is critical for operators to guarantee payment system security and business continuity.

The Financial Stability Committee will continue to apply the policy instruments at its disposal so as to preserve financial stability, thereby enabling the financial system to mediate credit and payments and redistribute risks appropriately.