

**FOR
INFORMATION**

FO/DIS/20/159

July 15, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Norway—Financial System Stability Assessment—Statement by the Executive Director**

Board Action: Executive Directors' **information**

Additional Information: The attached statement from the Executive Director for Norway, is being issued on Norway—Financial System Stability Assessment (SM/20/102, 7/8/20), which is being considered on a lapse of time basis.

Statement by Mr. Pösö and Mr. Evjen on Norway—Financial System Stability Assessment

On behalf of the Norwegian authorities, we would like to thank staff for the Financial System Stability Assessment (FSSA) report on the Norwegian financial system and the valuable discussions we have had over the last year. Although the coronavirus has changed the economic and financial outlook significantly, most of the recommendations will still be valid after the pandemic has subsided. The Norwegian authorities note in particular that the report concludes that Norway has taken welcome steps to strengthen the financial system since the last FSAP. At the same time, we agree that several vulnerabilities and challenges remain. The analyses and policy recommendations are valuable inputs to the authorities' work on improving the robustness of the Norwegian financial system.

Macroprudential tools have been used actively

Norway has used the macroprudential toolkit actively in recent years to address financial stability risks and gained some experiences regarding the effects of various instruments. Still, we appreciate the comprehensive discussions on the use of the macroprudential toolkit. An effective use of macroprudential policy tools requires close coordination and cooperation between the authorities concerned. In Norway, both formal and informal channels are well established and actively used by Finanstilsynet, Norges Bank, and the Ministry of Finance. The extensive exchange of information and views promotes a common understanding of risks and vulnerabilities, and helps identify the need for policy action. The open discussions naturally also include occasionally differing views among the authorities, but these differences have not prevented an active use of the macroprudential instruments.

A key forum for interaction on financial stability matters, the triparty meetings, was established nearly 15 years ago. The authorities note the recommendations on how the triparty meetings may be used more effectively, and we recognize that it may be timely to consider possible improvements given the developments in the years since the forum was established. Any changes to the format of the meetings would have to be made with due regard to the individual authorities' roles and responsibilities.

Regarding the recommendation on developing and publishing a macroprudential strategy, we agree that more transparency could improve accountability and effectiveness of the different measures. However, we believe there are clear limits to how far an ex ante transparent strategy will contribute to financial stability, for example regarding ex ante signals on how LCR requirements will be managed in periods of liquidity stress.

Banking regulation and supervision – continuous assessment of the division of responsibility between Finanstilsynet and the Ministry of Finance

On banking regulation and supervision, we note the recommendations on giving Finanstilsynet more independence in its regulatory powers, operations, and budget. We would like to emphasize, however, that the Ministry's competence in this area is based on constitutional principles governing relations between the various parts of the executive

branch, while the question of which powers should be delegated to Finanstilsynet, is subject to a continuous assessment. In this context, it should also be mentioned that Finanstilsynet has put forward a proposal to the Ministry of Finance to appoint a law committee mandated to review the Financial Supervision Act, hereby reviewing the integrity of Finanstilsynet. This proposal is now being considered by the Ministry of Finance.

We note the recommendation on increasing the number of inspections in smaller banks and strengthen the AML/CFT oversight. The annual budget proposals from the Ministry are based on a consideration of both the appropriate level of supervision and the resources needed to perform other tasks at Finanstilsynet. It must also be taken into account that the budget procedures are designed to enable the Storting to set the general spending level and prioritize resources across all sectors, based on a comprehensive proposal from the Government.

Regarding AML/CFT more in general, the FSSA has taken into account the recent assessment by the FATF. Norwegian authorities acknowledge the need to make improvements in some areas, and will continue the work in order to improve effectiveness and be fully compliant with the standards in reasonable time. Since June 2019, Finanstilsynet has been sanctioning non-compliance with the law, giving an important signal to reporting entities that non-compliance will not be tolerated. The Norwegian government has recently published a new strategy for AML/CFT with an ambition to strengthen the work in this important area.

A good crisis management framework needs both close cooperation and a clear division of labor among the authorities involved

On financial safety nets, the FSSA notes that the BRRD framework would be further enhanced if Finanstilsynet were made able to autonomously execute the resolution authority's mandate without undue interference from the government or the industry. We agree that Finanstilsynet should be able to execute its mandate autonomously and that there should be clear lines of responsibility. On the other hand, Norway has a long history of cooperation between Finanstilsynet and the Ministry, which has proved to be well functioning, exemplified by i.a. the Norwegian banking crisis in the 1990s and the global financial crisis. Decisions to resolve important banks may in itself severely affect financial stability and the economy as a whole, and could inflict significant losses for stakeholders. We believe it is important to ensure that such decisions have the necessary democratic legitimacy. Moreover, effective crisis management requires close coordination between the authorities concerned. As is the case in the conduct of macroprudential policy, the formal and informal channels for interaction on crisis management are well established and actively used by Finanstilsynet, Norges Bank, and the Ministry of Finance.

Norwegian authorities note the FSSA's proposal to establish a high-level coordinating body for contingency planning and crisis prevention and management. Coordination between Finanstilsynet, Norges Bank, and the Ministry of Finance is of course paramount in a crisis, but a new body may not be the best contribution to effective crisis management. There may be a risk that the establishment of such a body could blur the division of responsibilities between the authorities and delay the crisis response. Having said that, the authorities will continue to seek improvements in the legislation, the institutional set-up, and the framework in general.

Other Issues

We welcome the analysis and recommendation in the novel report on cybersecurity risk supervision and oversight. The report recommends improving incidence reporting and crisis management frameworks for systemic cyber incidents. We agree that the collection, sharing and handling of information on cybersecurity incidents could be further improved. However, as the report notes, Norway already has well-established requirements and processes for reporting of ICT incidents, including cybersecurity incidents, which promotes the timely sharing of information.

Due to the Covid-19 pandemic and the measures introduced to contain it, the Norwegian economy is in a severe downturn, although mitigated by extensive measures introduced by the authorities. Government measures are now supporting both the supply of and demand for credit. Still, credit growth has fallen, and credit losses have increased and are likely to stay at elevated levels the coming quarters. At the same time, financial market volatility has been reduced, risk premiums on banks' wholesale funding have fallen, and both turnover and prices in the housing market rebounded significantly after a sharp fall in March. The supplementary Covid-19 stress test illustrates possible consequences going forward. Stress tests are valuable tools to illustrate the banks' sensitivities to different outcomes. In the authorities' view, there is significant uncertainty going forward and it is important that policy decisions and regulatory actions contribute to the soundness of financial undertakings, households, and firms in order for them to be able to meet challenging times going forward.