GREEN/20/53

July 17, 2020

Joint Green Statement from Mr. Ronicle, Ms. Andreicut, Mr. De Lannoy, Mr. Hanson, Ms. Levonian and Mr. Mooney on Norway—Financial System Stability Assessment (SM/20/102)

We thank staff for a comprehensive report and Mr. Pösö and Mr. Evjen for their buff statement, helpfully providing details of the authorities' views.

COVID-19

We very much welcome staff efforts to continue monitoring financial stability in countries with a systemically important financial sector such as Norway. We appreciate this is challenging given competing COVID-19 demands but also judge the timing to be particularly important, as COVID-19 presents a "real-world stress test" worth reflecting on.
In this context, we found the solvency stress tests of the banking sector particularly useful. While COVID-19 is likely to have an impact on bank capital, all banks are expected to continue meeting capital requirements. The picture is also encouraging on the liquidity side, although we appreciate staff identify some vulnerabilities over the medium-term. We welcome banks' overall resilience and see this as further evidence that post-GFC reforms have served us well and allowed the financial sector to support the real economy, rather than amplify shocks.

Progress since previous Financial System Stability Assessment (FSSA)

We commend the authorities on progress made since the 2015 FSSA, reflected particularly in an enhanced regulatory toolkit. Nonetheless, we note that several weaknesses identified in the last FSSA have not been addressed and that some of the previous recommendations are being revisited in the current FSSA. We welcome the additional information provided in Table 2, which explains steps taken and remaining challenges. We would have however welcomed a summary in the main body of the FSSA recommendations, clearly highlighting the most significant outstanding actions and staff's expectations that they would be addressed as follow up to the 2020 FSSA.

This particularly holds true for the macroprudential toolkit. Staff recommend in the 2020 FSSA that Norges Bank be given recommendation powers over capital and liquidity tools that can be relaxed. A similar recommendation was provided under the 2015 FSSA, where staff called for greater delegation of decision-making powers over macroprudential instruments to Norges Bank.

Further detail on challenges in the implementation of this 2015 recommendation would have been helpful in order to improve the traction of current FSSA advice.

Emerging risks

We thank staff for the detailed analysis of emerging risks relevant to Norway's financial sector, namely climate and cybersecurity. We support the use of flexibility in the FSSA approach in order to capture these risks. This is well-aligned with the ongoing review of the Financial Sector Assessment Program (FSAP) and we hope to see this type of analysis also in future FSAPs.

Climate

We very much welcome the first assessment of climate-related transition risks in an FSAP and encourage staff to conduct such exercises also in other countries which are particularly susceptible to transition risks. We invite staff to continue engaging in international discussions on climate stress testing and scenario analyses, particularly through the Network for Greening the Financial System (NGFS) as this will facilitate international collaboration and exchanges of best practices in such a novel field. The recent NGFS publication of "Climate scenarios for central banks and supervisors" provides very useful material. Several regulators, including the Bank of England and De Nederlandsche Bank, are also starting to develop their climate stress testing approaches and the Fund can play an important role in monitoring progress across the membership. Going forward, we think it would be useful to also compare the relative merits of different stress testing approaches in FSAPs compared to those taken by NGFS members.
In the case of a major oil exporter such as Norway, we welcome staff's focus on two relevant climate variables: the domestic carbon price and global oil demand. We welcome the finding that a sharp increase in carbon prices would have a manageable impact on banks' loan losses. We note however that a permanent fall in global demand for oil would result in significant loan losses. We would have welcomed staff's views on policy recommendations to address such transition risks and further detail on actions taken by the authorities and by banks to prepare for a green transition. Going forward, staff could explore whether banks are considering changes to their business models in order to reduce exposures to at-risk sectors and redirecting capital to other sectors. We would also welcome staff's analysis of a broader range of direct and indirect transmission channels for physical risks arising from extreme weather events and transition risks. This could include increased demand for energy-efficient housing and falling property values where buildings require significant improvements in energy efficiency; corporate legal liability due to mismanagement of transition risks etc.

Cybersecurity

We welcome staff's analysis and recommendations on cybersecurity and take note of concerns that a cyber attack on a payment infrastructure could severely impact the country's largely cashless system. We commend the authorities for their already comprehensive approach to cybersecurity but agree with staff that there is further to go. This includes mandatory audits or on-site inspections of critical payment services providers.