



# MONETARY POLICY, HOUSE PRICES AND DEBT

DEPUTY GOVERNOR EGIL MATSEN

Trondheim, 6 November 2018

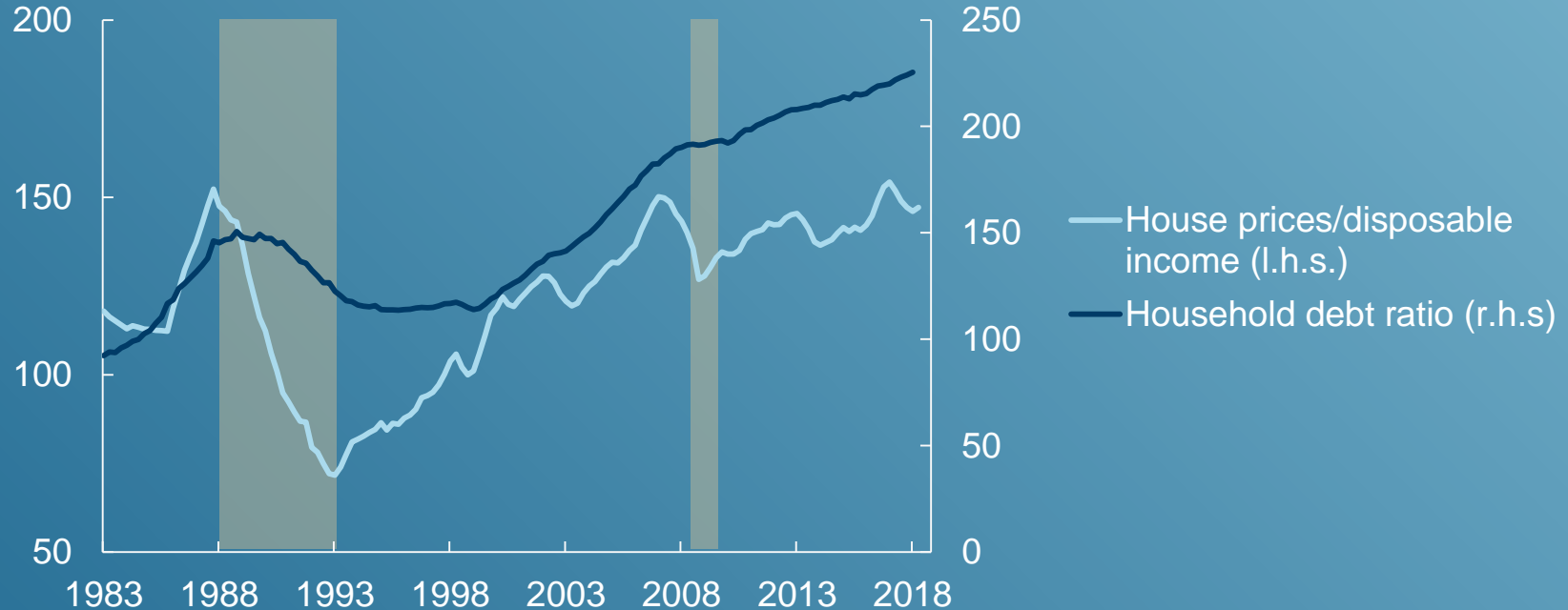
# HIGH HOUSEHOLD LEVERAGE



# High house prices and increased leverage

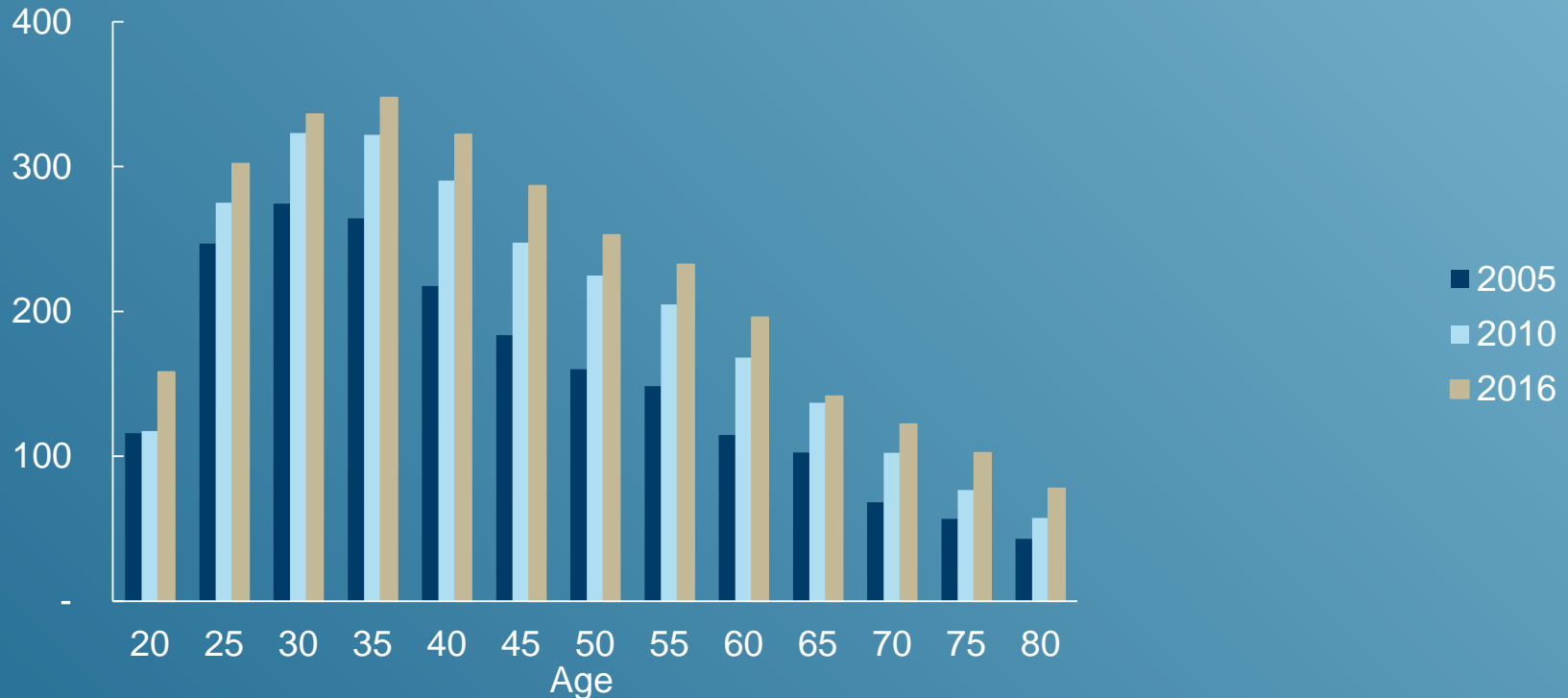
House prices relative to disposable income. Index. 1998 Q4 = 100

Households' loan debt as a percentage of disposable income. Percent



# Higher leverage in all age groups

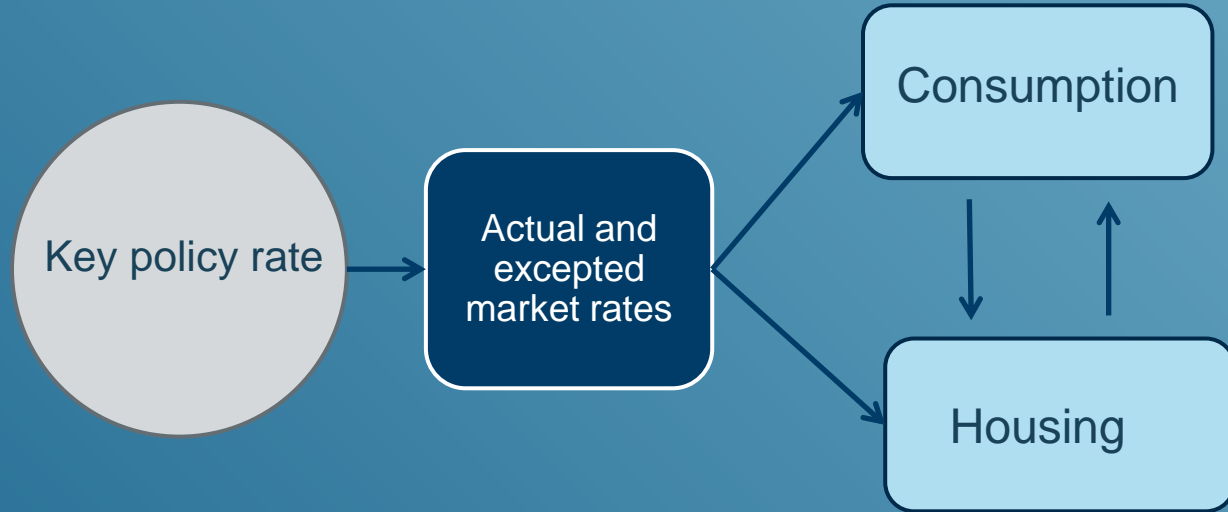
Debt relative to disposable income. By age of main wage earner.



# **MONETARY POLICY AND FINANCIAL STABILITY**



# How does the key policy rate affect household behaviour?



# Monetary policy trade-offs

## Regulation on Monetary Policy

Section 3 *“The operational target of monetary policy shall be annual consumer price inflation of close to 2 percent over time.*

*Inflation targeting shall be forward-looking and flexible so that it can contribute to high and stable output and employment and to counteracting the build-up of financial imbalances.”*



# Other policies with an impact on house prices and debt

## Regulatory requirements for banks' residential mortgage lending

Debt-to-income ratio	Total debt < five times gross annual income
Interest rate stress test	Must tolerate an interest rate increase of five percentage points
Loan-to-value ratio	Loans secured on dwellings < 85% of the dwelling's value
Principal repayment requirements	2.5% annually if LTV ratios > 60%
Flexibility	Up to 10% (8% in Oslo) of the value of new loans can deviate from one or more of the requirements





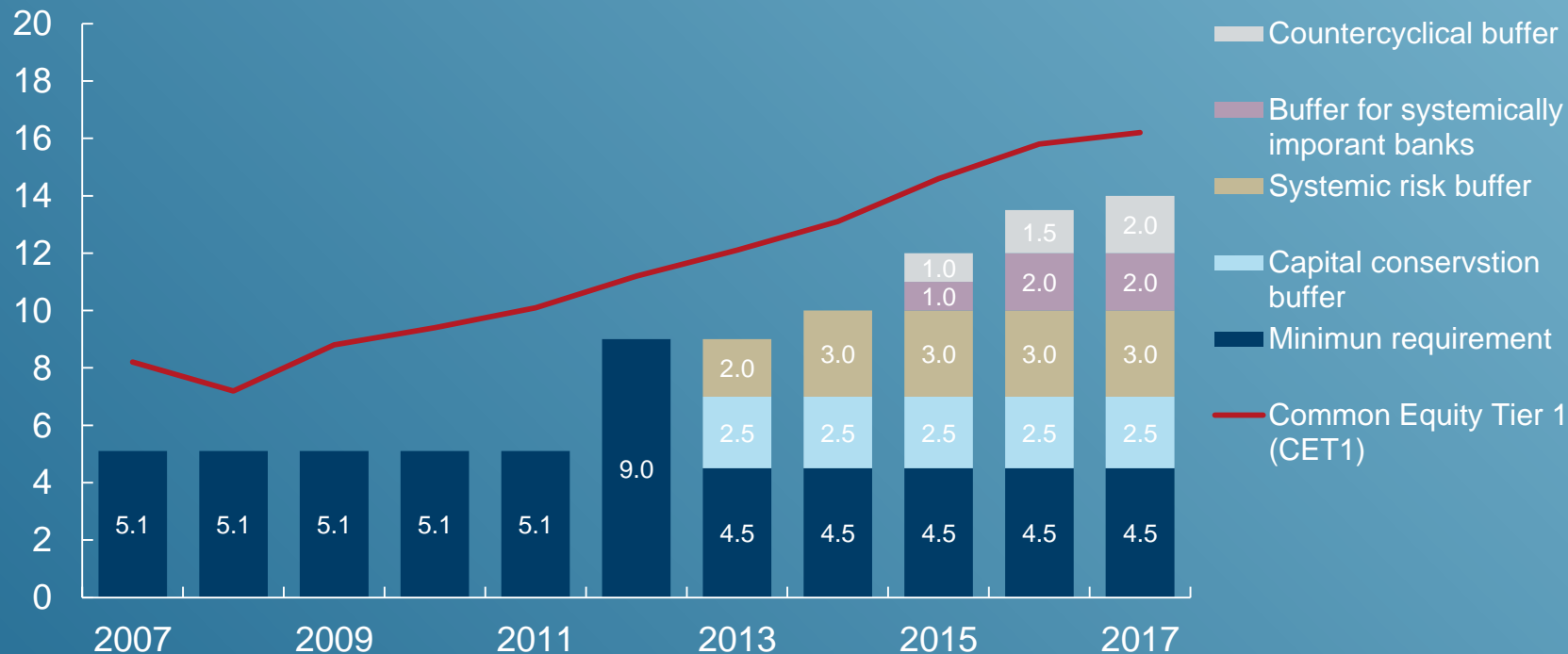
# Debt-to-income (DTI) requirement appears to have worked

Twelve-month change in house prices in different areas



# Banks more resilient

## Banks' Common Equity Tier 1 (CET1) capital requirements



# GRADUAL RISE IN INTEREST RATES



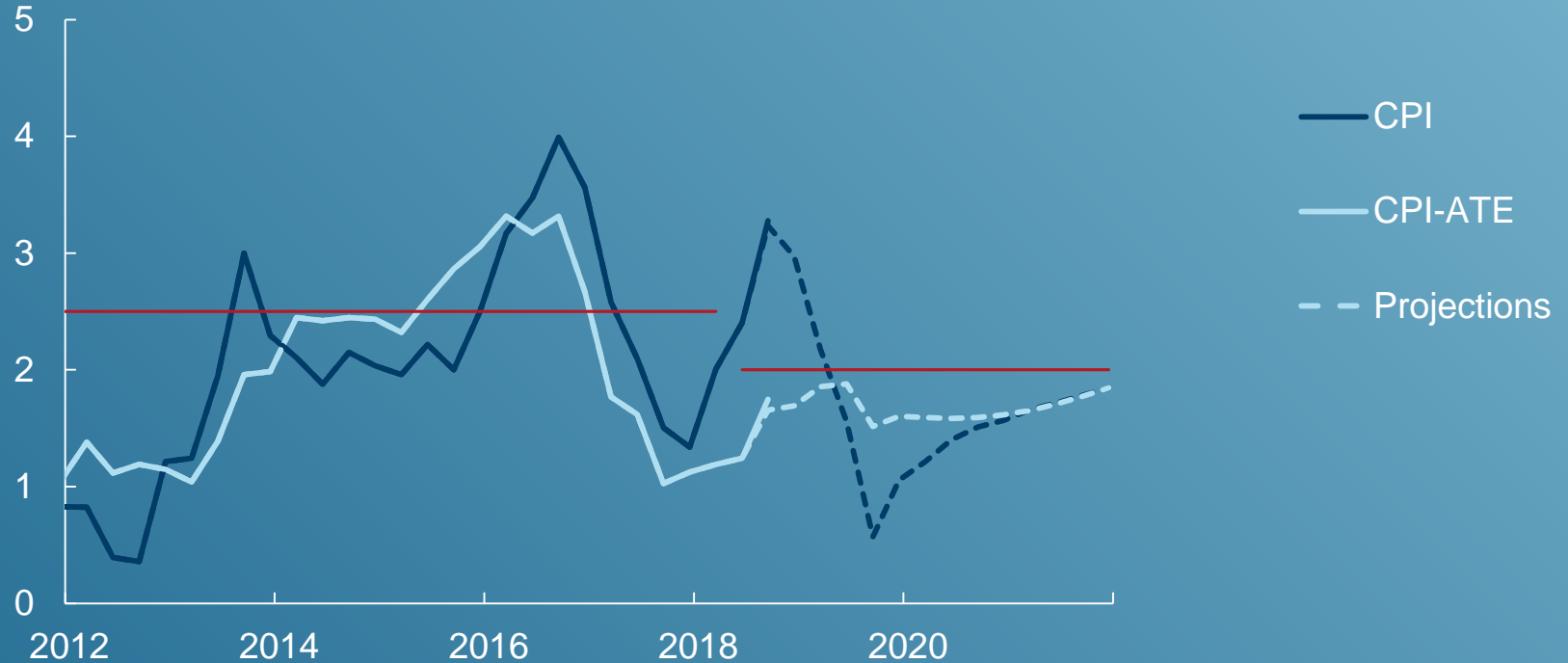
# Growth has gained momentum in Norway

GDP for mainland Norway. Quarterly change. Percent

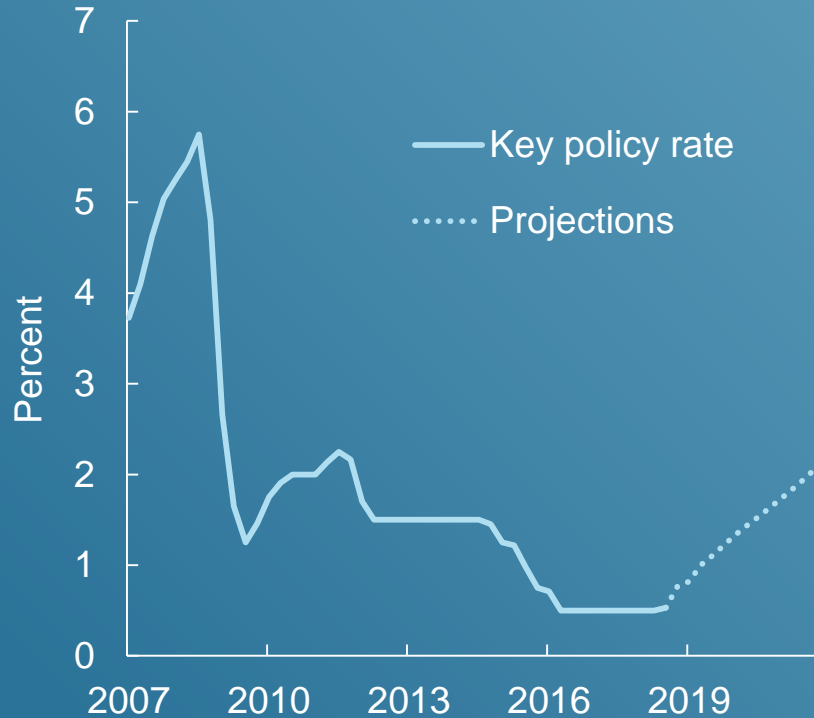


# Inflation close to target

Twelve-month rise. Percent



# Interest decisions in the autumn

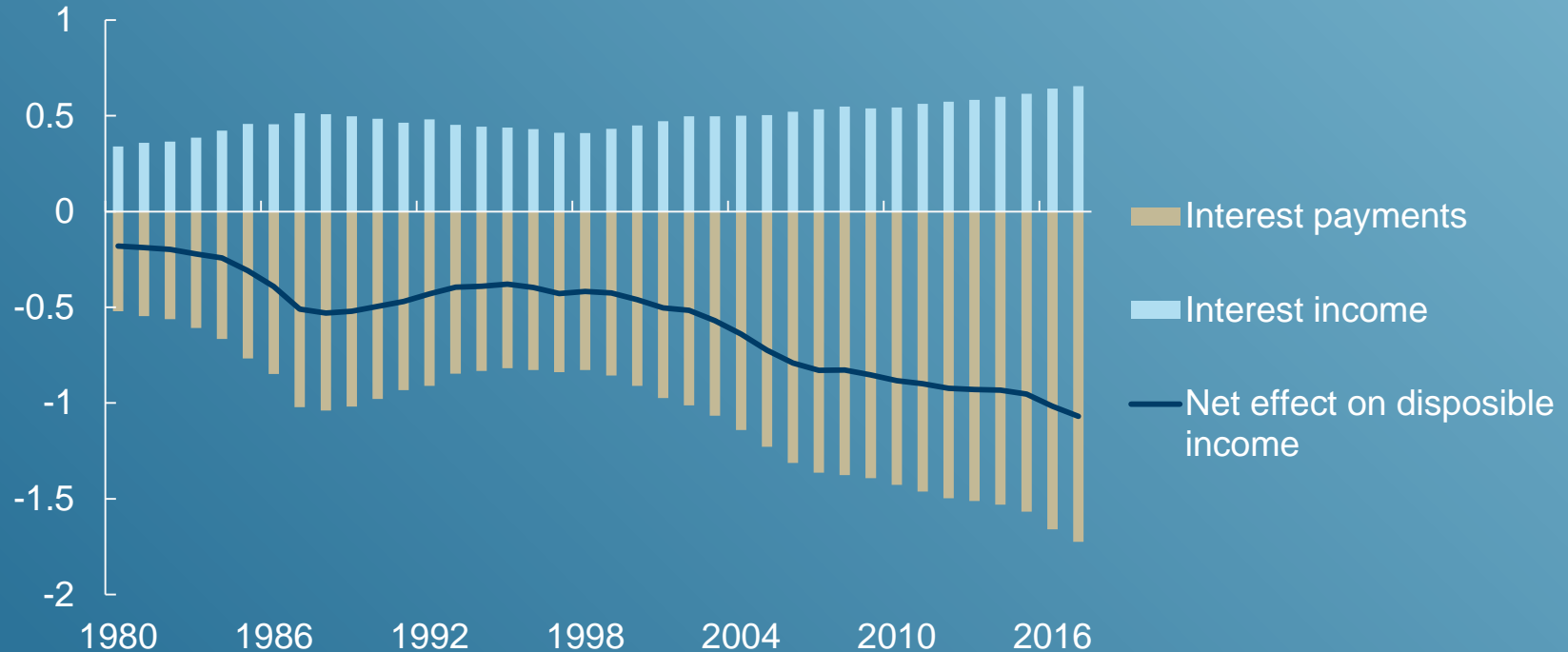


- The Executive Board decided to raise the key policy rate by 0.25 percentage points at its meeting in September
- At the monetary policy meeting in October, the key policy rate was kept unchanged at 0.75 percent
- The outlook and balance of risks imply a gradual increase in the key policy rate in the coming years



# Greater impact of higher interest rates on disposable income

Effect of 1 percentage point rise in interest rate levels. As a percentage of disposable income.

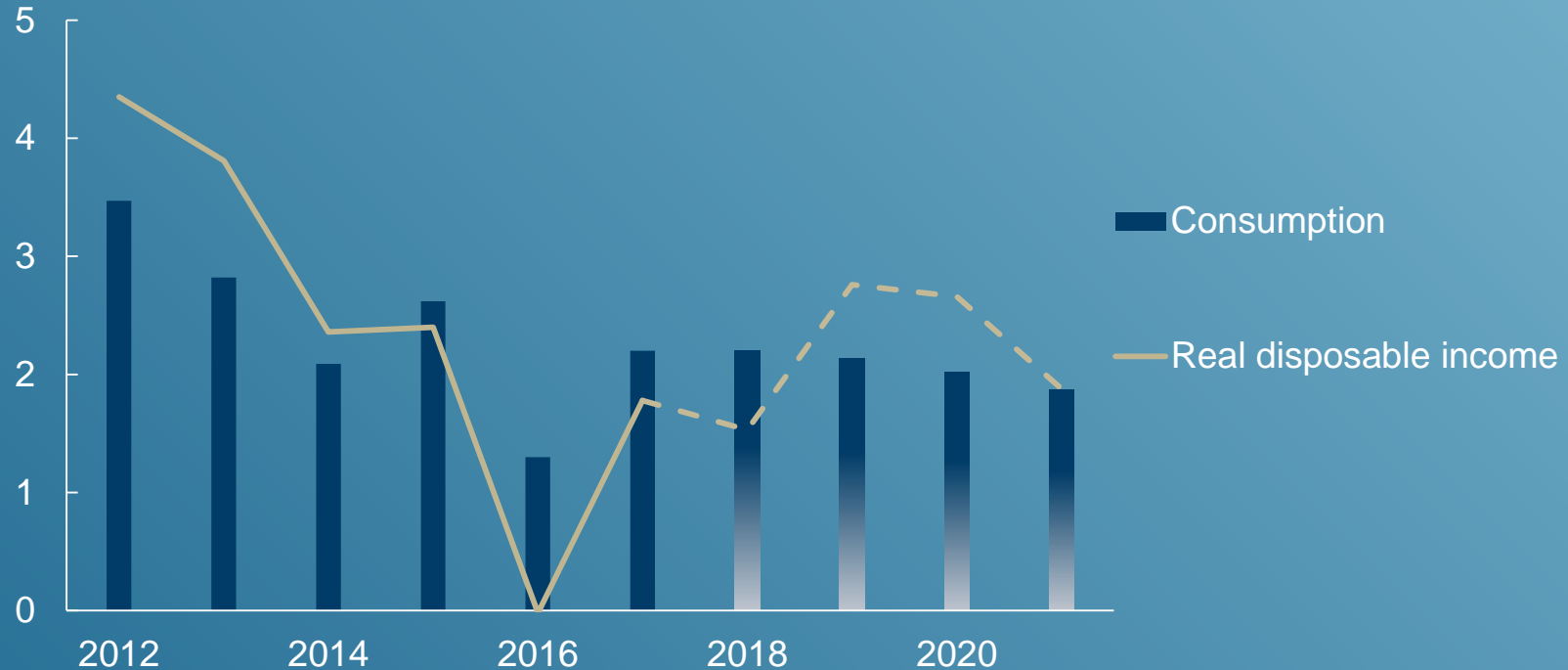


Sources: Statistics Norway and Norges Bank



# Consumption growth remains solid

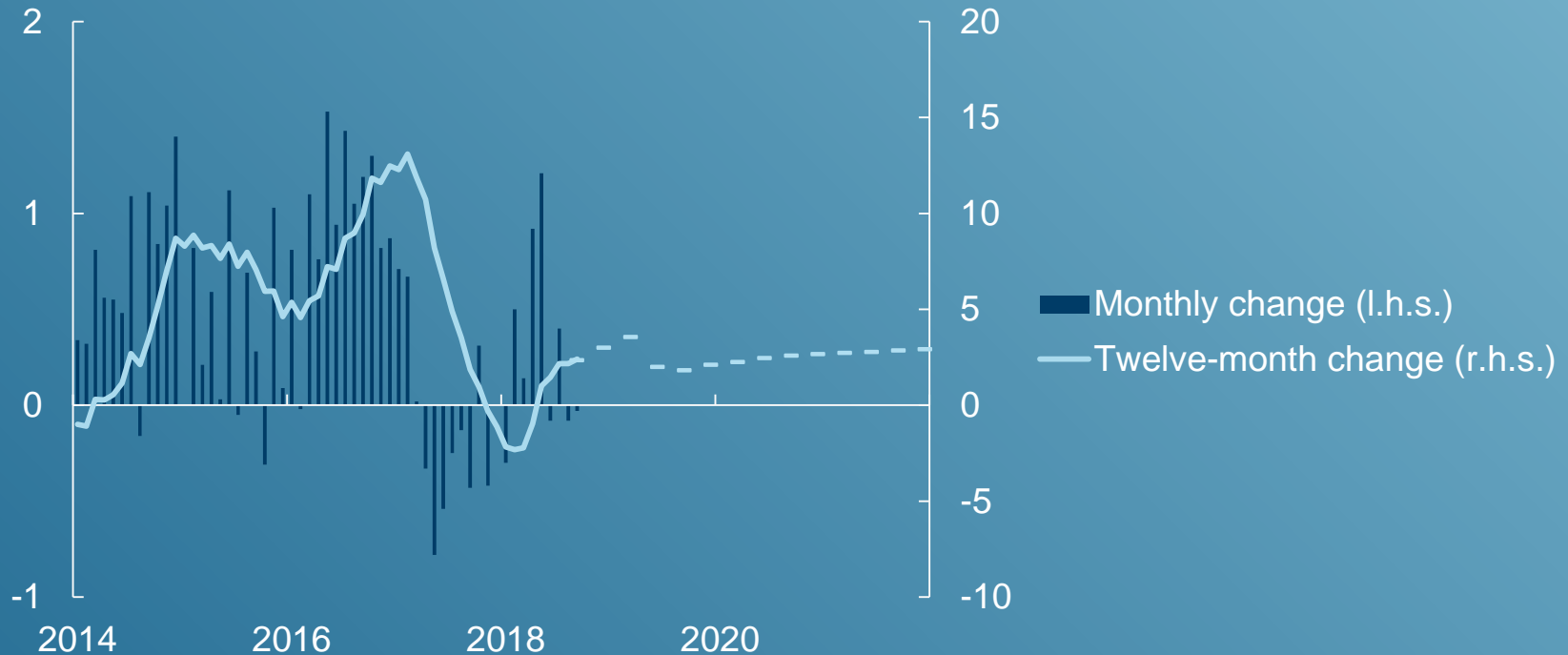
Household consumption and disposable income. Annual change. Percent





# Moderate house price inflation ahead

Twelve-month change and seasonally adjusted monthly change. Percent



# Summary

- Norges Bank has “leaned against the wind”
  - But cannot assume the main responsibility for counteracting financial imbalances
- The key policy rate is now on the way up
- Prospects for a soft landing in the housing market?





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