ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
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Notification template for measures to be taken under Article 458 of the Capital Requirements Regulation (CRR)

Template for notifying the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission of stricter national measures pursuant to Article 458(2) CRR and for requesting the ESRB to issue a recommendation to other Member States to reciprocate the measures pursuant to Article 458(8) CRR

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- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism Regulation (SSMR)[1]);
- notifications@esrb.europa.eu when notifying the ESRB;
- FISMA-E-3-NOTIFICATIONS@ec.europa.eu when notifying the European Commission.

The ESRB will forward this notification to the European Parliament, the European Council and the European Banking Authority (EBA) without delay. This notification will be made public by the ESRB after the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please submit the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Norwegian Ministry of Finance
1.2 Country of the notifying authority	Norway
1.3 Categorisation of the measure	The Ministry intends to implement a stricter national measure regarding risk weights for targeting asset bubbles in the residential property sector, pursuant to Article 458(2)(d)(iv) of the CRR. A similar measure targeting the commercial property sector is the subject of a separate notification.
1.4 Request to extend the period of application of an existing measure for up to two additional years **(Article 458(9) CRR)**	The measure would extend the average risk weight floor targeting asset bubbles in the residential property sector, which was initially implemented with effect from 31 December 2020. The measure would extend the existing risk weight floor of 20 pct. from 31 December 2024 until 30 June 2025 and increase the risk weight floor to 25 pct. from 1 July 2025 until 31 December 2026. The existing risk weight floor was implemented due to increased systemic risk resulting from high household debt and high housing prices.

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).
[2] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

	Since then, housing prices have continued to increase, and there is also increased concentration of debt in households with high debt-to-income (DTI) ratios. A risk weight floor of 25 pct. is considered appropriate. The Ministry is continuously assessing the need to amend the floor or introduce other measures in light of relevant developments. See further elaborations on the systemic risks related to the residential real estate market in section 4.1.
1.5 Notification of a measure to which Article 458(10) CRR applies ('notification only procedure')	The intended extension of the measure applicable from 30 December 2024 to 30 June 2025 is subject to the procedure set out in Article 458 (10) of the CRR, as it is expected to increase the risk weights of each Norwegian IRB bank by less than 25%. Article 458(10) does not apply in respect of the proposed measure as applicable from 1 July 2025.
2. Description of the measure	
2.1 Draft national measure **(Article 458(2)(d) CRR)**	The intended measure comprises a floor for (exposure-weighted) average risk weights of 25 pct. for Norwegian residential real estate exposures, with a phase-in period until 30 June 2025 where the existing floor of 20 pct. will be applicable. Where the exposure-weighted average risk weight is lower than the floor, the total risk-weighted assets (RWA) should be increased correspondingly. Each institution's increase in risk-weighted assets would be the following: Applicable from 31 December 2024 until 30 June 2025: $\Delta RWA = max(0, 20\% - RWRRE)*EADRRE$ Applicable from 01 July 2025 until 31 December 2026: $\Delta RWA = max(0, 25\% - RWRRE)*EADRRE$ Where RWRRE and EADRRE are the exposure-weighted average risk weight for non-default exposures for the residential real estate portfolio. The measure is implemented in the CRR/CRD regulation § 4.
2.2 Scope of the measure **(Article 458(2)(d) CRR)**	The risk weight floor would be applicable for all Norwegian institutions with the relevant exposures and using the Internal Ratings Based Approach (IRB institutions). This includes one subsidiary whose parent is established in another Member State.[3] Moreover, the Ministry requests the ESRB to issue a recommendation to other Member States to reciprocate the measure, see section 6.3.
2.3 Calibration of the measure	The calibration of the 25 per cent floor is based on appropriate minimum portfolio levels for PD and LGD, 0.9 to 1 and 20 to 23 per cent, respectively. Applying these levels directly in the risk weight formula in CRR article 154 (without the 1.06 calibration factor) provide risk weights in the range 23 to 29 per cent. Given the uncertainty in the estimates and the particularly high sensitivity of risk weights to low PD values, this approach is considered appropriate and 25 per cent an appropriate minimum level. Furthermore, a 2013 study applying data going back to the banking crisis in the early 1990s, suggested that such risk weights should be around 20 to

[3] Nordea Eiendomskreditt AS

	30 pct.[4] Given the prevailing risk level in the Norwegian residential property market, a minimum risk weight level in the middle of this interval is considered appropriate. As of 31 December 2024, Norwegian IRB banks' average risk weights for residential real estate exposures range from 19 to 24 per cent (before application of the current 20 per cent floor). The exposure-weighted average for all Norwegian IRB banks is 21 per cent. For the Norwegian IRB credit institutions, the increased floor effective from 01 July 2025 would increase the aggregate risk weighted exposure amount by about 75-80 billion NOK (as of December 2024), requiring 14 billion NOK to maintain the current CET1 ratios, compared to the current 20 per cent floor. The risk weighted exposure amount of foreign branches is increased by 3 billion NOK by the current 20 per cent floor, which would increase to 5 billion NOK with a 25 per cent floor.
2.4 Suitability, effectiveness and proportionality of the measure **(Article 458(2)(e) CRR)**	The calibration of the proposed measure is considered to be proportionate with the intensity of cyclical systemic risks associated with Norwegian property markets, and in particular with the risk of potential asset bubbles in the residential property sector (see section 4.1). The measure is suitable to ensure that domestic institutions meet a certain minimum standard as regards risk-weighting at the portfolio level. If reciprocated, it would also be the most effective measure to target Norwegian branches of foreign IRB institutions. Reciprocation by other EEA States will be crucial to ensure appropriate treatment of such exposures by foreign institutions, as well as to avoid leakages and regulatory arbitrage (see section 6).
2.5 Other relevant information	A draft measure proposed by Finanstilsynet to increase the floor was on a public consultation until 4 September 2024.
3. Timing for the measure	
3.1 Timing for the decision on the measure	06/12/2024
3.2 Timing for publication	06/12/2024
3.3 Disclosure	The Ministry will publish this notification on the same day as it is submitted, as an attachment to a news item.

[4] Andersen, Henrik (2013), How high should risk weights be on Norwegian residential mortgages? Norges Bank Staff Memo 10/2013.

3.4 Timing for application (Article 458(4) CRR)	31/12/2024: risk weight floor of 20 pct. until 30 June 2025 01/07/2025: risk weight floor of 25 pct. until 31 December 2026
3.5 Duration of the measure **(Article 458(4) CRR)**	The measure is intended to be in effect for a minimum of two years. The Ministry of Finance will assess the need to renew the measure well before the term would expire. After implementation of the measure, the Ministry will monitor and regularly assess risk developments and the need to amend the measure, including the need for deactivation before the term expires.
3.6 Review **(Article 458(9) CRR)**	The appropriateness of the measure will be assessed regularly, and the measure will be reviewed with a view to renew or deactivate it well in advance of the expiration of the two year-term.
4. Reason for the activation of the stricter national measure	
4.1 Description of the macroprudential or systemic risk in the financial system **(Article 458(2)(a) CRR)**	**Overview** The key vulnerabilities in the financial system in Norway are high household debt, high housing prices and high commercial property prices. Residential real estate and commercial real estate represent the two largest lending segments for Norwegian institutions, and combined they constitute more than ¾ of institutions' lending. The significant and prolonged increase in real estate prices and household debt have led to a build-up of financial imbalances, and an increase of systemic risk related to credit institutions' real estate exposures in Norway. Finanstilsynet and Norges Bank regularly carry out analyses of systemic risks in Norway. The evidence presented in this notification is based on these authorities' latest risk reports.[5] **Risk associated with high household debt** Household debt currently corresponds to 111 pct. of GDP for Mainland Norway. Norwegian household debt is on a very high level, both historically and in an international context, although as a percentage of GDP it has remained stable with a slight decline over the last two years. Household debt has long risen faster than household income, increasing household leverage. While debt-to-disposable income (DTI) has declined somewhat in recent years, household DTI is still at a high level. Furthermore, the debt is very unevenly distributed, and many households have raised their debt level considerably during the protracted period of low interest rates. The share of households with high DTI has increased significantly over the last years. Finanstilsynet's residential mortgage lending survey reveal that a large share of new mortgages is taken up by households with high debt burden.[6] New mortgage borrowers had a total debt burden of 323 pct. of gross income. Credit institutions' loans to households are mainly residential mortgage loans. The institutions' losses on loans to households have been low, but

[5] Finanstilsynet's Financial Outlook June 2024 and Financial Outlook December 2024 and Norges Bank's Financial Stability Report 2024 H1 and Financial Stability Report H2.
[6] Finanstilsynet's residential mortgage lending survey 2024 (only in Norwegian)

	the high level of debt makes the households vulnerable to increases in interest rates or loss of income. The average interest rate burden for households has increased from 4.8 pct. of disposable income in Q2 2021 to 11.9 pct. in Q3 2024. Only a small proportion of household debt carries fixed interest rates. While there are few signs of difficulties with servicing debt among households, interest rates may remain at high levels for some time. If it persists, the high interest rate burden may amplify future negative shocks, by leading to a stronger response in household consumption. This may reduce earnings in the corporate sector and impair their debt servicing capacity, with subsequent higher losses on banks' corporate exposures. **Risks stemming from the housing market** Developments in household debt are strongly linked to price developments in the housing market. Higher house prices give a rise in housing wealth, and increase the collateral value of the real estate, which in turn provides scope for increased borrowing secured by real estate property. Over time, this interdependence has contributed to strong growth in both house prices and debt. Since the banking crisis at the start of the 1990s, house prices have grown considerably more than disposable income per capita. In its 2020 Financial Sector Assessment Programme (FSAP) of Norway, the IMF points out that real estate prices have risen strongly over past decades. This is, as the IMF highlights, a continuation of an uptrend that started in the 1990s. As of June 2020, residential real estate prices increased by more than 70 pct. over the last decade, while rising more in large cities (particularly in Oslo, where they doubled).[7] As of July 2024, Norwegian housing prices increased by 2,6 pct. over the last two years, where most of the increase occurred in the last year. Looking ahead, prices for existing homes are expected to rise on the back of a low supply of new homes, increased household purchasing power and lower residential mortgage rates further out. Household vulnerabilities could increase in the future if looser financial conditions result in rapidly rising house prices and debt. High house prices remain a key vulnerability in the financial system in Norway. Sharp and sudden declines in house prices may trigger tightening of household consumption and result in increased losses on banks' loan portfolios. The covered bond market may also be weakened, which may cause funding shocks.
4.2 Analysis of the serious negative consequences or threat to financial stability **(Article 458(2)(b) CRR)**	Norwegian and foreign IRB institutions are crucial for the credit supply to households and corporates in Norway. The IRB institutions have a combined market share of approximately ¾ in the Norwegian credit market. A disruption of the credit supply could have severe consequences for the real economy. For example, a negative shock in domestic property markets or tightened consumption may cause a significant increase in credit losses, and in turn constrain institutions' capacity to provide new credit. The negative dynamic that could develop between the institutions and the real

[7] See Norway: Financial System Stability Assessment; Press Release; and Statement by the Executive Director for Norway, IMF Country Report No. 2020/259

	economy, may destabilise the financial system and amplify a downturn in the Norwegian economy. As institutions established in other Nordic countries have significant operations in Norway, turbulence in the Norwegian financial system may easily spread to neighbouring systems.
4.3 Indicators prompting the use of the measure	The main indicators are: • The volume of institutions' residential real estate lending relative to all lending • Household debt-to-income ratio • Household debt service ratio • Share of floating-rate residential mortgage loans • Housing prices relative to disposable income • Institutions’ losses on retail market loans in percent of gross retail market lending • Average risk weights for real estate exposures in IRB institutions Data files are available upon request.
4.4 Justification for the stricter national measure **(Article 458(2)(c) CRR)**	**Objective** The measure will ensure that all Norwegian IRB institutions employ appropriate risk weights at the portfolio level for their residential real estate exposures in Norway, given the prevailing systemic risks associated with these exposures. The measure functions as a backstop for uncertainty in IRB models, stemming from data being collected over periods of particularly positive development for the Norwegian real estate market. **Other measures considered** *Article 164* of the CRR with changes following regulation EU 1623/2024 enables authorities to increase the minimum LGD input values per exposure for IRB institutions’ residential real estate exposures. The assessment methodology of the N-FSA for IRB-models encompasses strict requirements for LGD modelling and such requirements are considered more suitable than overall minimum input value requirements according to article 164. Input value minima for LGD at the exposure level is also not considered sufficient to ensure overall proper risk-weighing of portfolios of residential real estate portfolios. *Article 133* of the CRD allows for requiring a systemic risk buffer to target long-term systemic risks. The Ministry of Finance has set a buffer requirement at a level which is commensurate with the level and intensity of such risks in the Norwegian financial system. While structural and cyclical systemic risks may not always be easily distinguishable, the risk-weight floor for residential real estate exposures is primarily intended to mitigate risks associated with potential asset bubbles and financial imbalances, which have built up over many years in the Norwegian economy. Although systemic risk buffers may apply specifically to real estate exposures, they would not ensure that the increased risks in the real estate markets are reflected in the risk weighted exposure amounts underlying the capital and buffer requirements. As cyclical systemic risks are particularly present and elevated in regard to real estate exposures, IRB risk weight

	floors would be the more efficient tools to apply in the current environment. Heightened systemic risk buffer rates would disproportionately affect institutions with proper risk weights for the residential real estate portfolio and would thus be less targeted and have unintended consequences. *Article 136* of the CRD requires the setting of a countercyclical capital buffer to address time-varying systemic risks. The buffer rate in Norway has been 2.5 pct. since 31 March 2023. The countercyclical capital buffer does not target residential real estate exposures in particular, and it does not promote an adequate level of average risk weights across all IRB institutions in Norway. **Output floor** Regulation EU 1623/2024 introduces an output-floor for total risk weighted assets (TREA) equal to 50 percent of the TREA calculated without the use of internal models (S-TREA) at the date of entry into force of the regulation. The output floor will increase to 72,5 percent of S-TREA from the year 2030 onwards. The output floor addresses the issue of potential underestimation of risk-weights using internal models but is not targeted at credit risk in the residential real-estate market as the output floors concerns all areas of risk and all portfolios. The isolated effect on the residential real estate portfolio would thus depend on properties of the institutions business profile and use of internal models that is not directly related to risks in the residential real estate market.
5. Sufficiency, consistency and non-overlap of the policy response	
5.1 Sufficiency of the policy response	The measure will contribute to resilience in the Norwegian financial system, by maintaining mortgage risk weights to sufficiently prudential levels.
5.2 Consistency of application of the policy response	The proposed measure is consistent with Finanstilsynet's general practices for IRB-supervision. Moreover, to ensure consistency across member states and across institutions operating in the Norwegian market, it is important that the risk weight floor also applies to foreign institutions operating in Norway.
5.3 Non-overlap of the policy response	The risk weight floor is non-overlapping but complementary to the level of the systemic risk buffer requirement. The Ministry of Finance has set a systemic risk buffer requirement at a level which is commensurate with the level and intensity of structural long-term risks in the Norwegian financial system. While the structural and cyclical dimensions of systemic risk are not easily distinguishable, especially when it comes to debt and real estate prices, the risk weight floor is primarily intended to mitigate the cyclical systemic risks associated with potential asset bubbles and financial imbalances related to the residential real estate market, which have built up over many years in the Norwegian economy (see section 4.1).

	The risk weight floor is also considered complementary insofar as the systemic risk buffer increases the pillar 1 capital requirement for all exposures in Norway, whereas the risk weight floor is intended to help prevent underestimation of the risk-weighted exposures.
6. Cross-border and cross-sector impact of the measure	
6.1 Assessment of cross-border effects and the likely impact on the Internal Market **(Article 458(2)(f) CRR and Recommendation ESRB/2015/2[8])**	The measure will promote domestic financial stability in Norway by contributing to an average risk-weight of residential real estate exposures that is considered appropriate in the current risk environment. If authorities of other EEA states reciprocate the measure, it may have a positive impact on other EEA markets where the relevant institutions have activities, since it could increase institutions' loss-absorbing capacity related to Norwegian credit exposures. A misalignment of risks and loss-absorbing capital associated with the Nordic institutions' Norwegian operations may have repercussions for the institutions' ability to serve other markets. For several institutions domiciled in other Nordic countries, lending in the Norwegian market constitutes a significant portion of their total lending. Reference is made to the MoU signed by the relevant Nordic ministries in 2016, which acknowledges ESRB recommendations as a "minimum standard for reciprocity in macro-prudential matters".[9]
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	The measure is not expected to contribute to leakages or regulatory arbitrage within the Norwegian financial system. Experiences with current capital levels in Norwegian institutions do not suggest that there is significant potential for migration to "shadow banking" or other sectors of the financial system. The scope for regulatory arbitrage is generally very limited within the Norwegian financial system, owed to a consistent adherence to the principle of "same risk, same regulation". If domestic macroprudential policy measures are not reciprocated, however, there may be risks associated with leakage from the domestic financial system to other EEA systems. The effectiveness of the measures would then be undermined.
6.3 Request for reciprocation by other Member States **(Article 458(8) CRR and Recommendation ESRB/2015/2)**	Do you intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure in accordance with Article 458(8) CRR? Yes

[8] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).
[9] Memorandum of understanding between the Finnish, Norwegian and Swedish Ministries of Finance and the Danish Ministry of Business on cooperation regarding significant branches of cross-border banking groups , published on the Ministry of Finance website on 19 December 2016.

6.4 Justification for the request for reciprocation by other Member States **(Article 458(8) CRR and Recommendation ESRB/2015/2)**	The measure comprises an extension of the current floor for average risk weights, with an increase from 20 to 25 pct. for Norwegian residential real estate exposures from 1 July 2025. Institutions established in other Member States have significant exposures and activities in the Norwegian lending market and should be subject to the same requirements as Norwegian institutions. Lending from branches of banks from other Nordic countries constitutes about 10% of Norwegian lending collateralised by residential real estate. Lending from subsidiaries of foreign banks constitutes about 9% of Norwegian lending collateralised by residential real estate. The Ministry of Finance requests the ESRB to issue a recommendation to other Member States to reciprocate the measure, on an individual, sub-consolidated, and on a consolidated basis. The reciprocation of macroprudential capital requirements, on an individual, sub-consolidated, and on a consolidated basis, limits regulatory arbitrage and thus promotes the overall effectiveness of the notified measure. In an integrated financial system like the Nordic banking market, strong policy coordination is needed to ensure the effectiveness of national macroprudential policies. Coordination based on the competence of national authorities to assess which macroprudential measures are necessary to facilitate financial stability given national vulnerabilities, is a matter of common interest. Reciprocity will be crucial in order to avoid leakages and regulatory arbitrage, in addition to ensuring that the foreign institutions' loss-absorbing capacity is aligned with their risk exposure in the Norwegian market. ESRB has previously recommended reciprocation of the current Norwegian risk-weight floor at 20 pct. for all exposures in Norway. The materiality threshold for reciprocation of the current risk-weight floor was set to 1 per cent of institutions' gross RRE lending to Norwegian customers (a gross lending of NOK 32.3 billion), adjusted to account for branches' share of total lending in Norway, confer the Ministry of Finance's letter to the ESRB of 2 February 2021. The Ministry of Finance proposes to maintain the materiality threshold at 1 per cent of institutions' gross RRE lending to Norwegian customers, corresponding to NOK 37.8 billion as of 30 September 2024.
7. Miscellaneous	
7.1 Contact person(s)/mailbox at notifying authority	Tormod Fauske Tho Phone: +47 22 24 45 11 / +47 22 24 45 21 E-mail: tho@fin.dep.no
7.2 Any other relevant information	The Ministry of Finance first submitted this notification regarding both the intended extension of the measure concerning a floor for average risk weights for residential real estate exposures applicable from 31.12.2024 to 30.06.2025, and an increase of said floor applicable from 01.07.2025, on 19.12.2024. The present notification clarifies that the measures applicable from 31.12.2024 and 01.07.2025 are subject to different procedures; see section 1.5. The Ministry of Finance has submitted another notification together with this notification, which notifies the intended use of measures in accordance with

	Article 458 (10) of the CRR (a floor for average risk weights for commercial real estate exposures).
7.3 Date of the notification	Please provide the date on which this notification was uploaded/sent. 10/04/2025