



MONETARY POLICY AND THE HOUSING MARKET

GOVERNOR ØYSTEIN OLSEN

Oslo, 6 November 2018

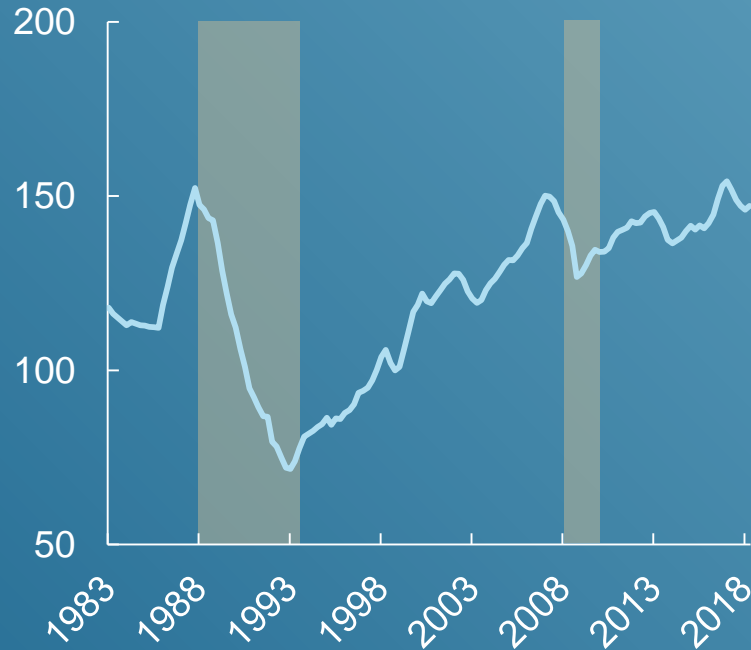
The key policy rate has been low for a long time

Key policy rate. Percent

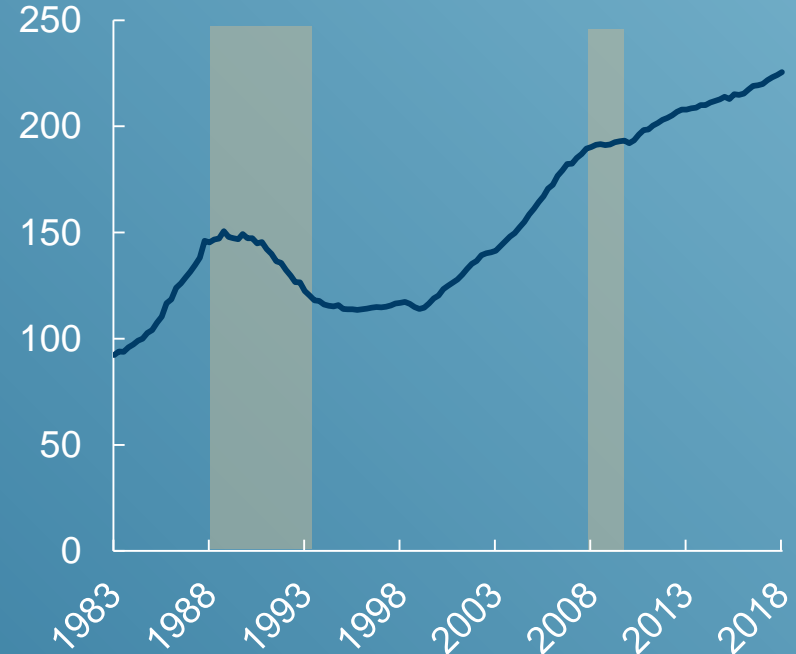


High house prices and increased leverage

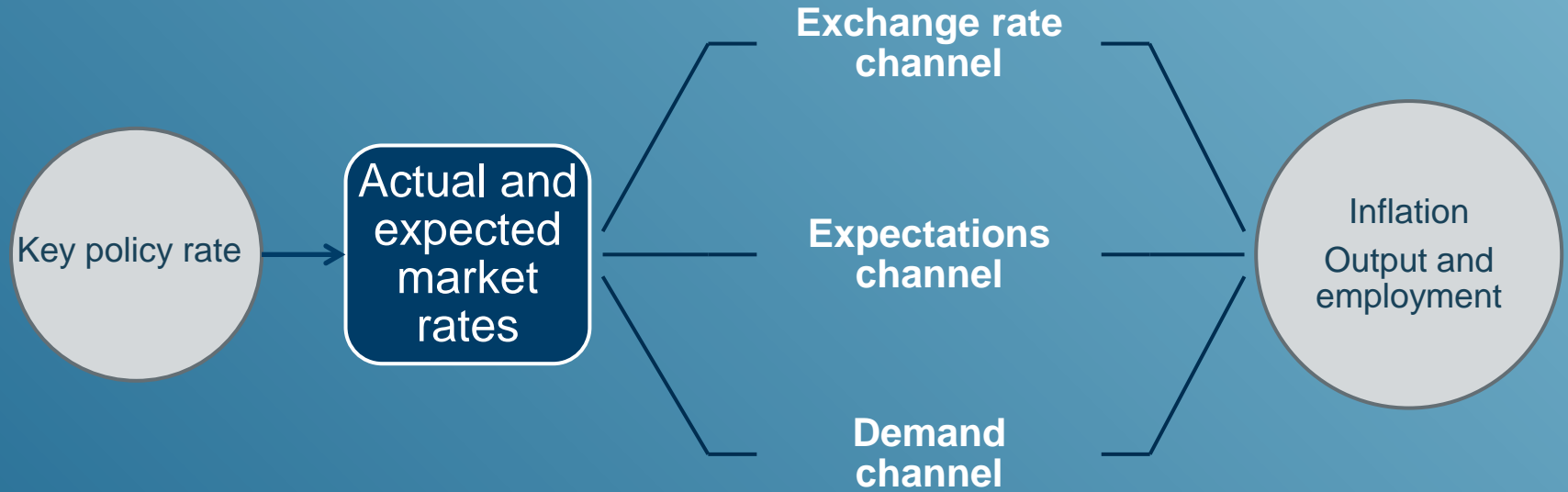
House prices relative to disposable income.
Index. 1998 Q4 = 100.



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



The key policy rate works through several channels



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.”

Regulation and surveillance of financial institutions are the first line of defence against shocks to the financial system



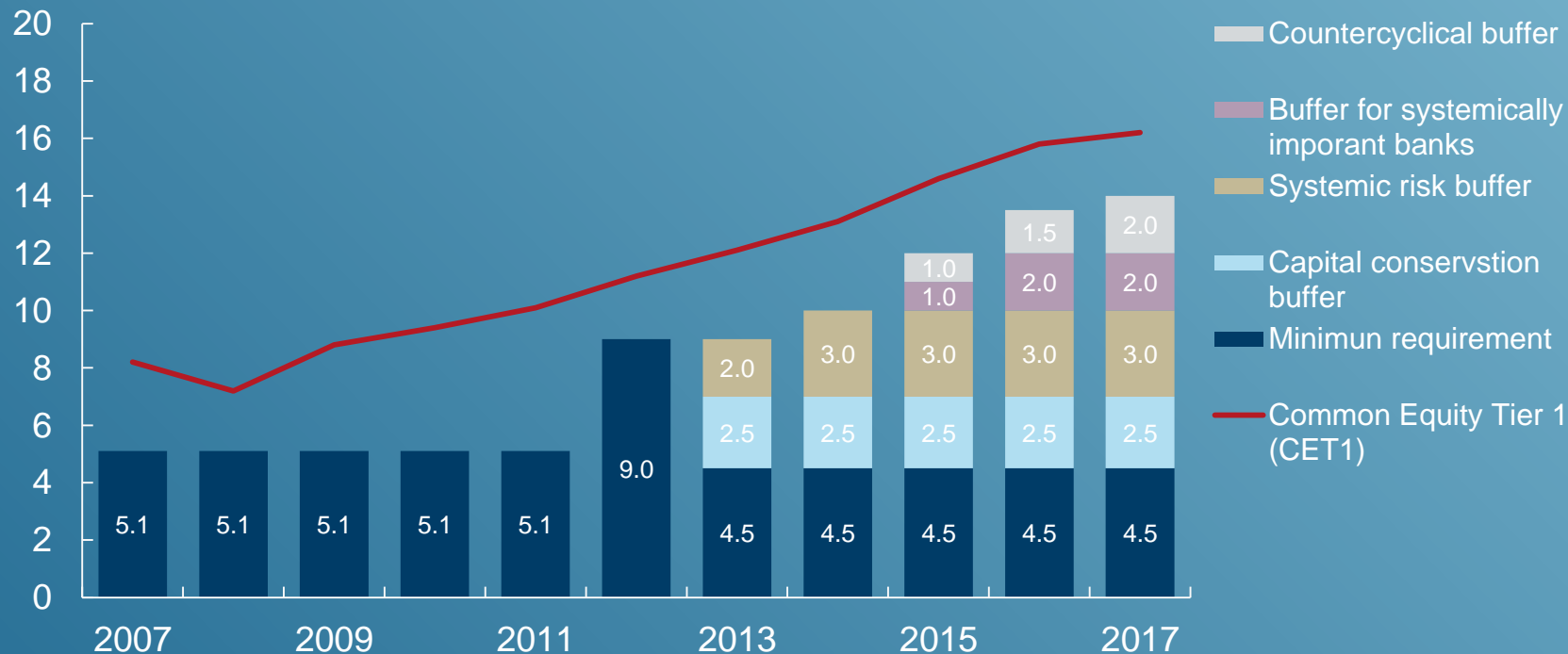
Mortgage lending regulation appears to have worked

Effect of debt-to-income (DTI) requirement. Twelve-month change in house prices in different areas



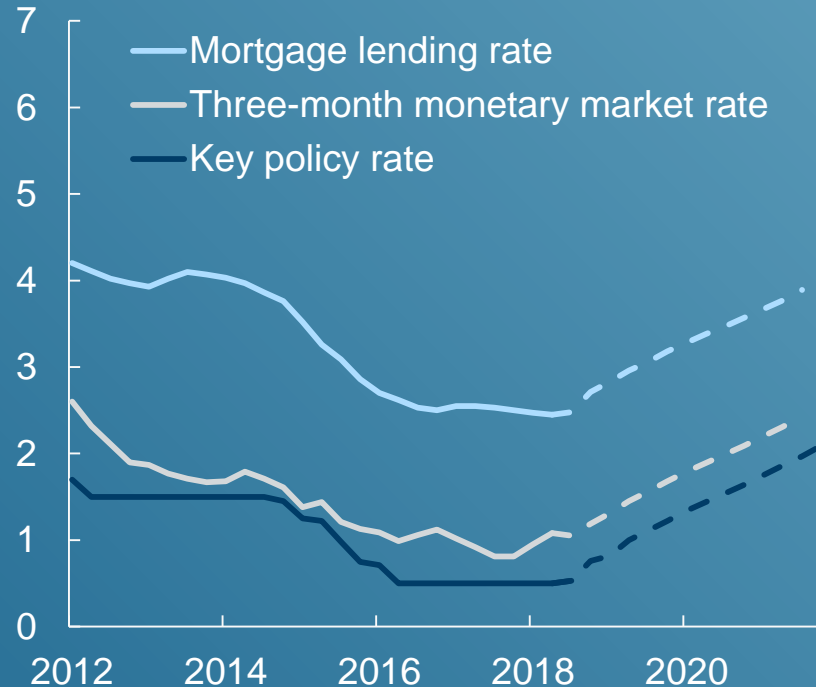
Banks more resilient

Banks' Common Equity Tier 1 (CET1) capital requirements



Outlook: Gradual rise in interest rates

Percent

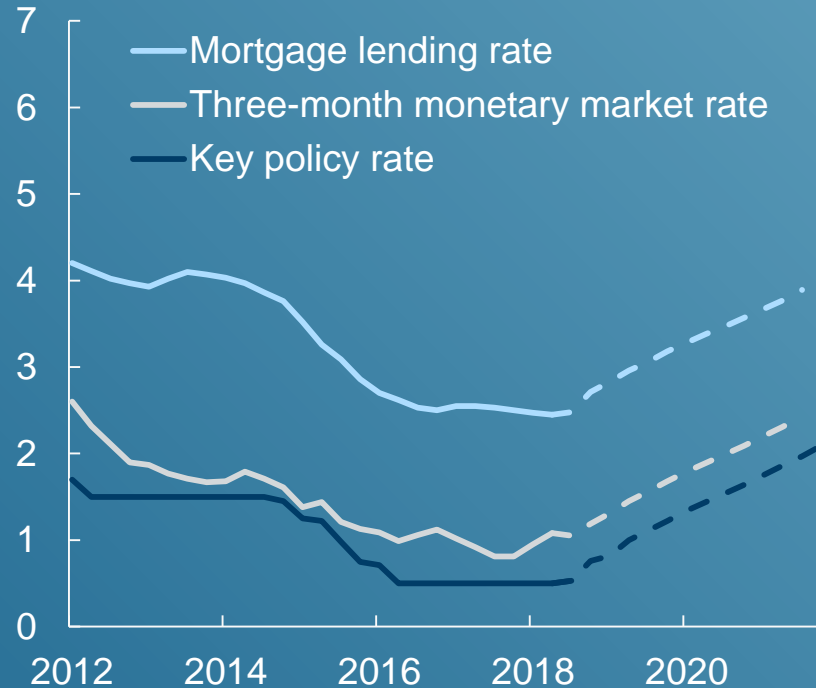


- Norges Bank's Executive Board decided to raise the key policy rate by 0.25 percentage point at its meeting in September.
- At the monetary policy meeting in October, the key policy rate was kept unchanged at 0.75 percent.
- The outlook and balance of risks imply a gradual rise in interest rates in the coming years.



Outlook: Gradual rise in interest rates

Percent

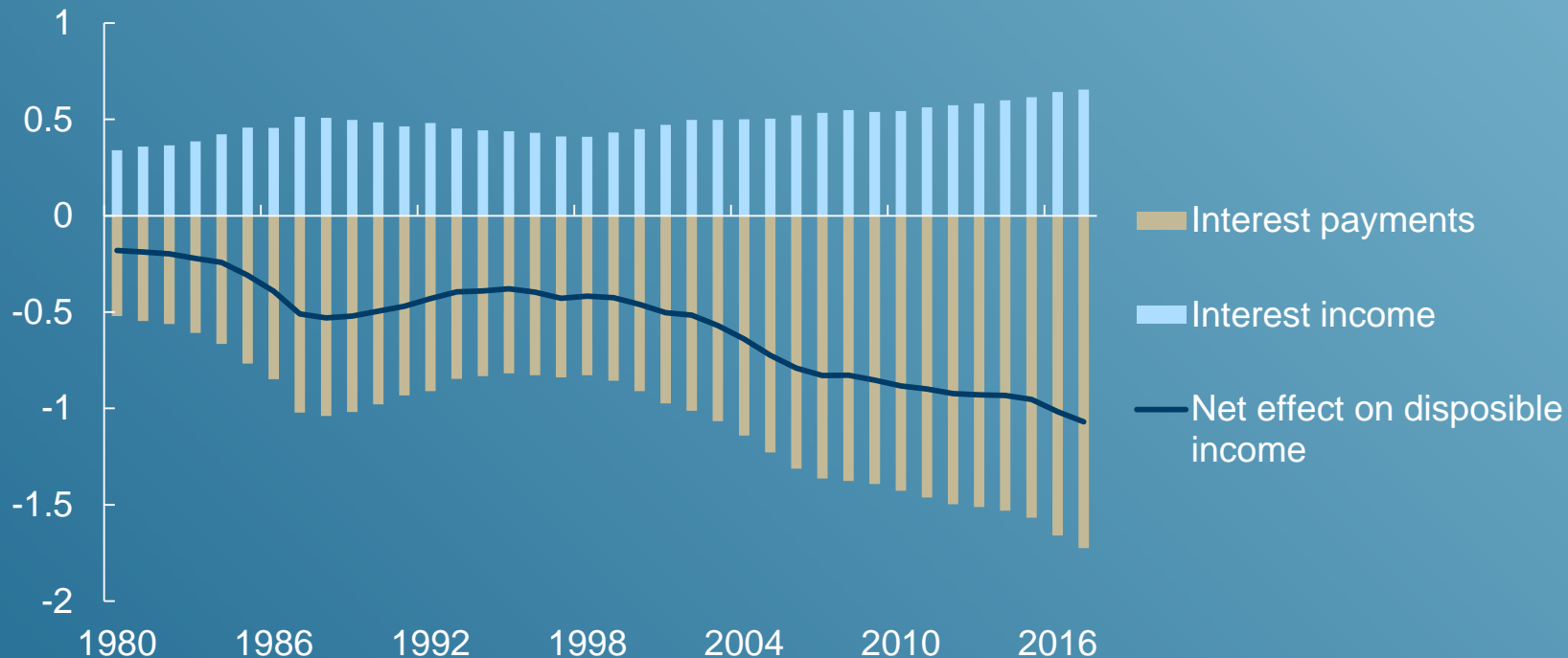


- ✓ *Has increased indebtedness changed the income effect?*
- ✓ *Does it matter how indebtedness is distributed?*



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.

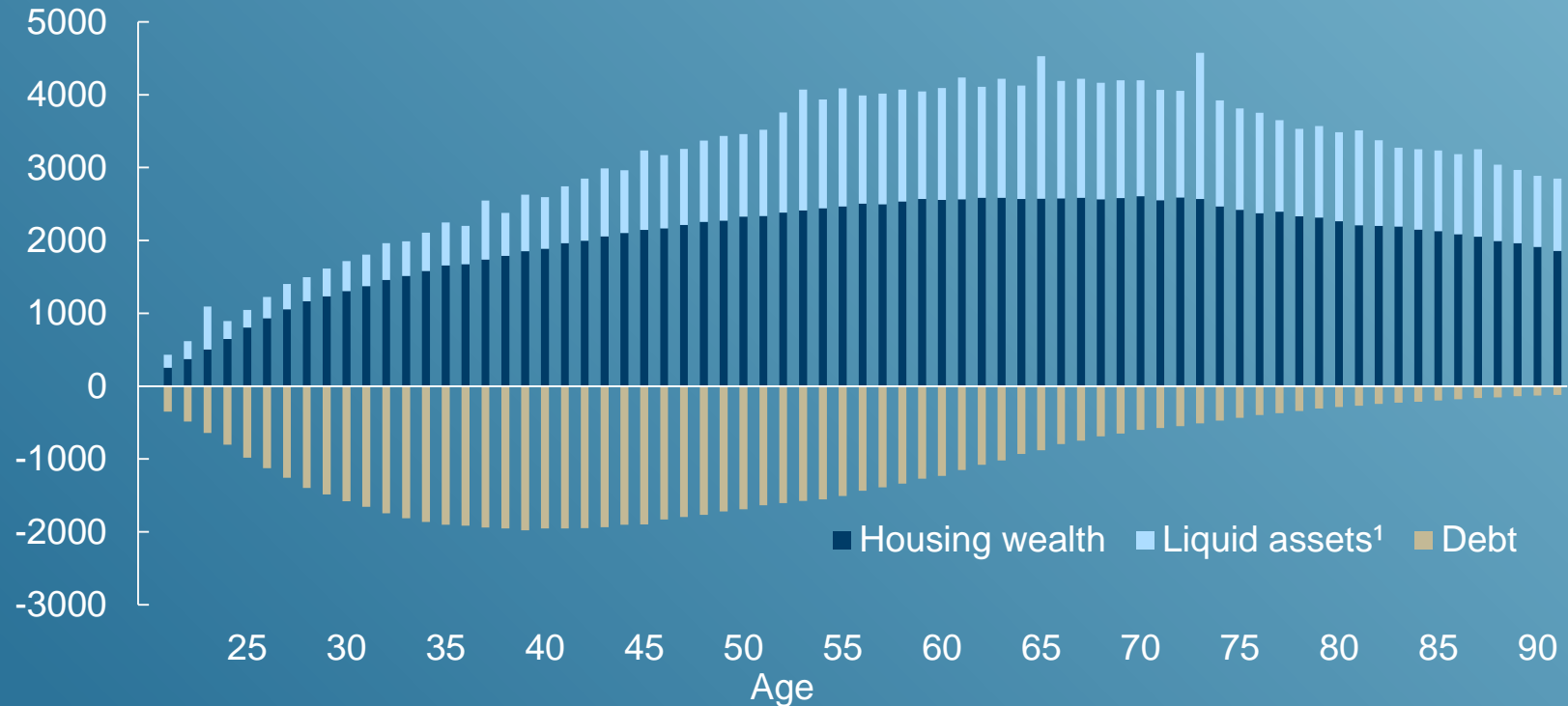


Sources: Statistics Norway and Norges Bank



Debt and wealth vary through the life cycle

Assets and debt by age of main wage earner. In 1000s NOK. 2016

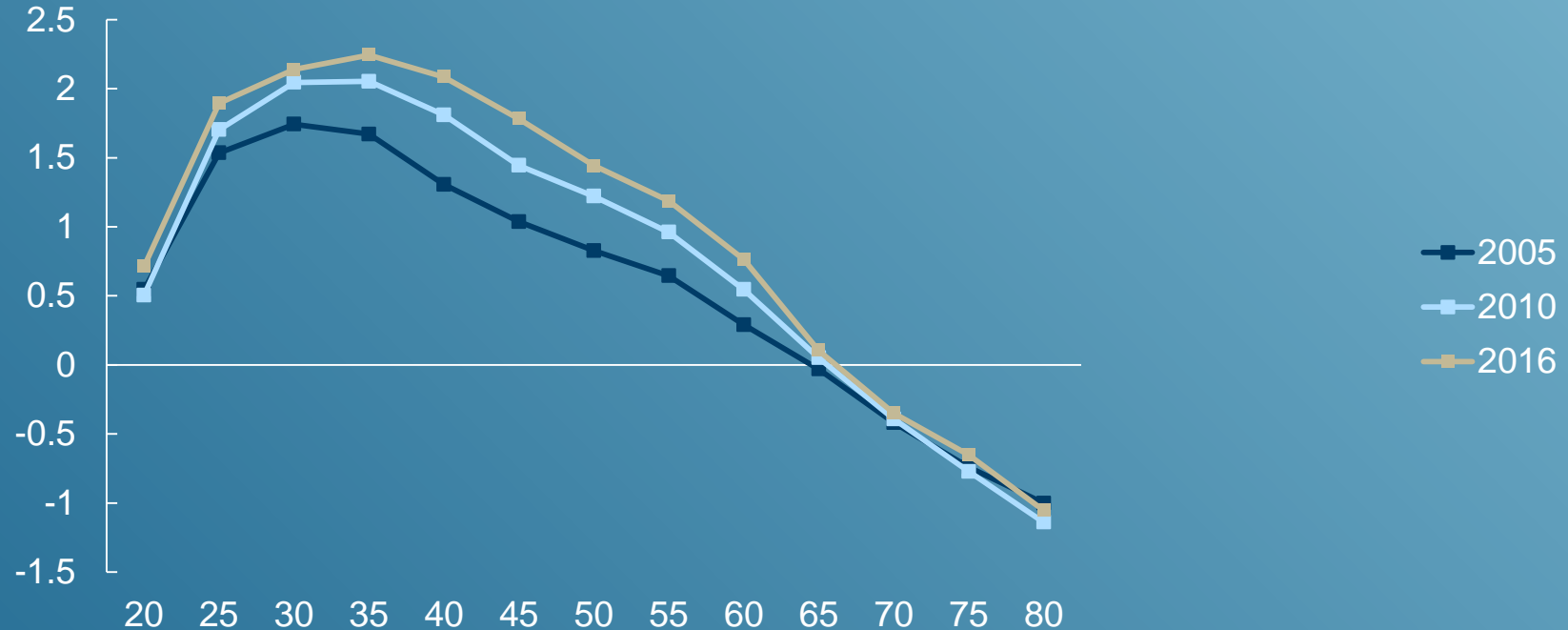


1) Bank deposits and other financial capital.
Sources: Statistics Norway and Norges Bank



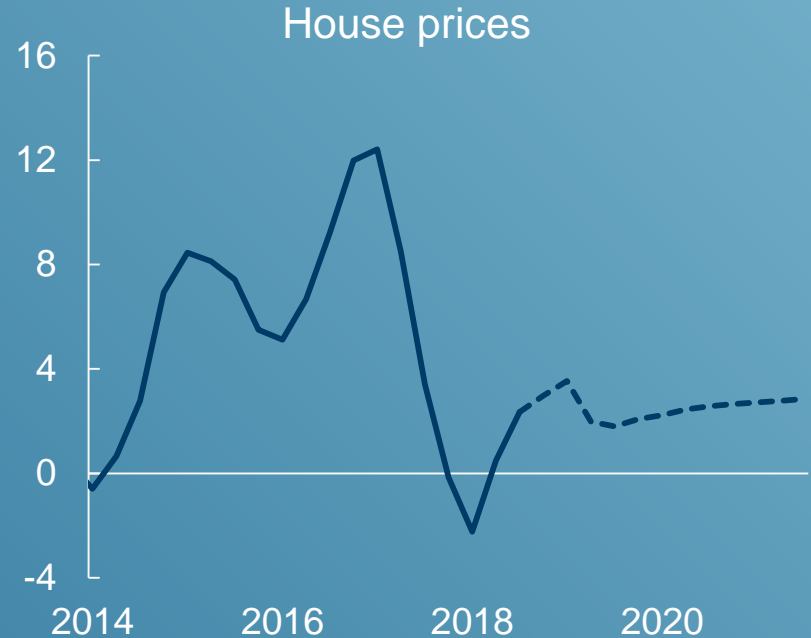
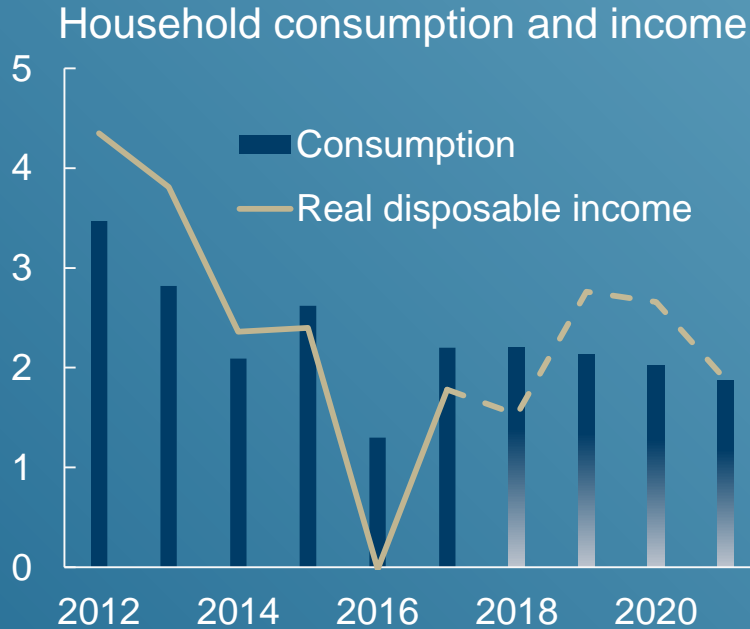
Higher interest expenses for many households

Changes in net interest expenses as a result of a 1 percentage point rise in the key policy rate. As a percentage of disposable income. By age of main wage earner



Housing market: A soft landing?

Annual change.¹⁾ Percent.



1) Projections for 2018 – 2021.

Sources: Eiendomsverdi, Finn.no, Norwegian Association of Real Estate Agents (NEF), Real Estate Norway, Statistics Norway and Norges Bank



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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