

Statement of the Financial Stability Committee 1 July 2020

The most recent GDP growth forecasts for Iceland assume that GDP will contract by 8% this year. Measures adopted by the Central Bank of Iceland and the Government in response to the COVID-19 pandemic have afforded financial institutions greater scope to support households and businesses during this challenging time.

The three large commercial banks have strong capital and liquidity positions. Although there is uncertainty about the real value of their loan portfolios under the current circumstances, the Central Bank's scenario analysis indicates that their capital position is strong enough to withstand the strain. It is important to expedite loan restructuring to the extent possible. Moratoria on payment alone will not solve the problems facing the most distressed borrowers.

The Financial Stability Committee is required to determine the value of the countercyclical capital buffer on financial institutions on a quarterly basis. In accordance with its statement of 18 March 2020, the Committee has decided to keep the buffer unchanged for the next nine months.

The risk exists that the Central Bank's easing of policy instruments could push asset prices higher and increase the likelihood that systemic risk will accumulate in individual sectors or in the economy more broadly. The Committee reiterates that it is ready to apply the policy instruments at its disposal in order to preserve financial stability in the wake of the pandemic.