2020-11-24

D E C I S I O N

FI Ref. 20-26555

Finansinspektionen
Box 7821
SE-103 97 Stockholm
[Brunnsgatan 3]
Tel +46 8 408 980 00
Fax +46 8 24 13 35
finansinspektionen@fi.se
www.fi.se

Countercyclical buffer rate

Decision by Finansinspektionen

Finansinspektionen decides that the countercyclical buffer rate shall not be changed, and it is therefore set at 0 per cent. This means that FI's regulations (FFFS 2014:33) regarding the countercyclical buffer rate will not be amended.

The case

Finansinspektionen (FI), in accordance with Chapter 7, section 1 of the Capital Buffers Act (2014:966), shall set a countercyclical buffer guide and a countercyclical buffer rate each quarter.[1]

The purpose of the countercyclical capital buffer is to maintain and strengthen the banks' resilience when systemic risks increase. It is then possible to lower the buffer requirement or completely remove it in the event of a financial crisis or when circumstances otherwise justify a decrease. This releases capital, which gives the banks the possibility of maintaining large parts of their lending activities and thus alleviate a downturn in the economy.

The last time FI decided to change the countercyclical buffer rate was on 16 March 2020, at which time FI decided to lower it from 2.5 to 0 per cent.[2] This buffer rate was applied as of 16 March 2020. A decision to lower the countercyclical buffer rate shall contain information about how long the lower buffer rate is expected to apply. FI therefore communicated that the authority expects the new lower buffer rate to apply for at least twelve months. Assuming normal implementation periods, this means that the buffer rate can be expected to remain at 0 per cent until at least 16 March 2022.

[1] The countercyclical buffer rate is changed in multiples of 0.25 percentage points. There is no maximum buffer rate, but automatic reciprocity applies only up to 2.5 per cent.
[2] FI (2020), *Ändring av föreskrifter om kontracykliskt buffertvärde*. Published on www.fi.se on 16 March 2020, FI Ref. 20-6054. An English translation is available on the website.

Finansinspektionen's assessment

Up until 2018, FI gradually raised the countercyclical buffer rate as systemic risks increased. The spread of the coronavirus and the significant efforts to limit its spread have created disruptions in the economies of many countries and turbulence on the financial markets. On 16 March 2020, FI announced a decision to lower the buffer rate to counteract a credit crunch, thus giving banks better possibilities for meeting an increase in the demand for credit. Lowering the countercyclical buffer has freed up capital so that the banks can maintain lending with a higher margin to the capital requirement, thereby mitigating a downturn in the economy.

The market financing of non-financial firms is growing significantly slower now than it was at the beginning of the year. In September, market financing grew at a rate of 3.3 per cent, which is a decrease of approximately 10 percentage points compared to February 2020. This slow-down has been caused by a significant decrease in the non-financial firms' commercial paper-based financing. Banks have been able to absorb part of the demand that arose from the difficulties in the spring to issue new commercial paper and bonds. During the spring and summer, lending from Swedish monetary financial institutions (MFIs) to non-financial firms increased at a slightly faster rate than at the beginning of the year. During the autumn, the increase in lending was somewhat slower, approximately at the same rate as at the beginning of the year. MFIs' lending to households has been stable during the year and increased in September at an annual rate of 5.5 per cent.

Overall, total debt increased by 4.7 per cent at an annual rate in Q3 2020. This is approximately 2 percentage points slower than in Q1 2020. Together with the weak GDP figures, this means that the credit gap, calculated in accordance with the Basel Committee's standardised approach, increased compared to Q2 2020 and amounted to 7.5 percentage points.[3] The countercyclical buffer guide is thus set at 1.7 per cent.[4]

The sharp economic downturn in the spring combined with the uncertainty surrounding future economic development means that it is important for banks to have capital buffers that enable them to issue loans and support the real economy. The economic downturn which has followed the spread of the coronavirus has thus far not caused systemic risks to materialize on a large

[3] GDP for the third quarter is calculated using the GDP indicator.
[4] It should be noted that the credit gap is less appropriate as an indicator immediately after a major economic downturn since it has a faster impact on GDP than growth in the credit supply. Subsequently, it is not necessarily a sign of elevated systemic risks.

scale. At the same time, the uncertainty makes it difficult to assess how systemic risks will develop in the future. FI makes the assessment that a decision to increase the buffer rate becomes relevant first when both the economy and its forecasts have stabilised at the same time as the systemic risks justify a higher buffer rate. Future increases to the countercyclical buffer rate, like the increases that FI decided on during the period 2014–2018, will occur gradually given such a scenario.

FINANSINSPEKTIONEN

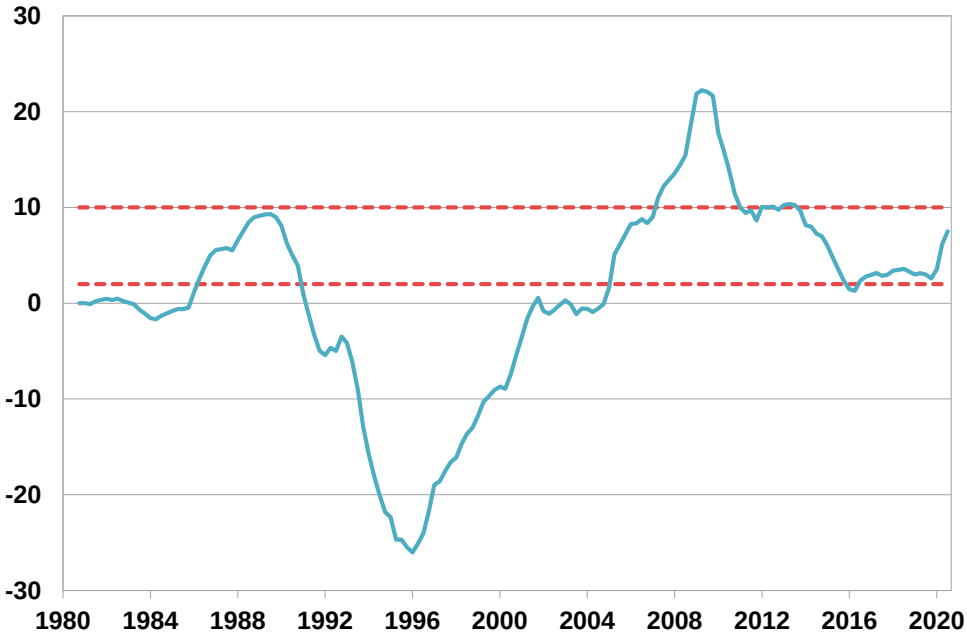
Erik Thedéen
Director General

Viktor Thell
Analyst

Appendix 1: Indicators

1 Credit-to-GDP gap according to the standardised approach

Deviation from trend in percentage points

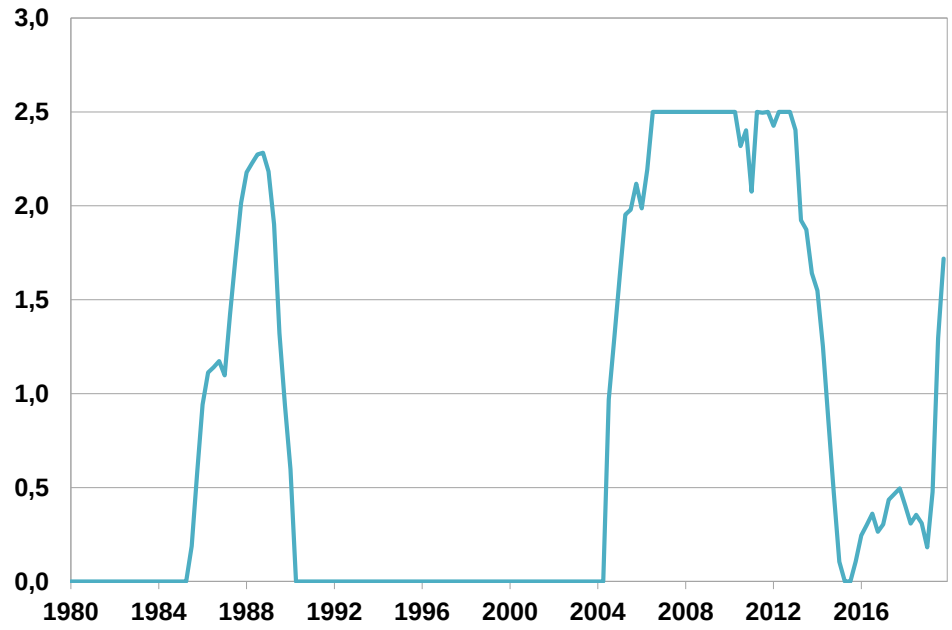


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

2 Buffer rate according to the standardised approach

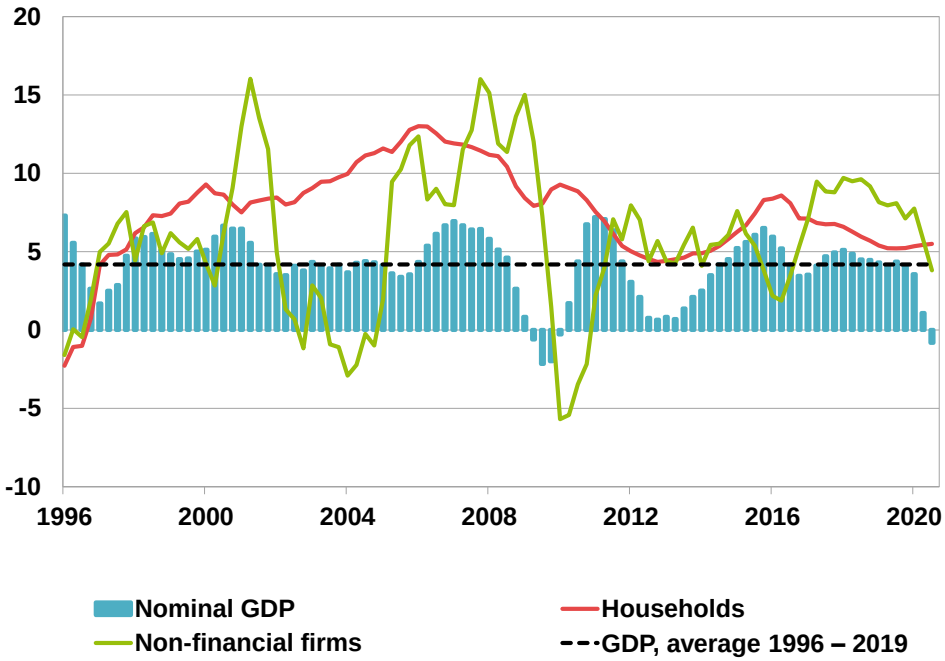
Per cent



Source: FI and Statistics Sweden.

3 Lending to households and firms and nominal GDP

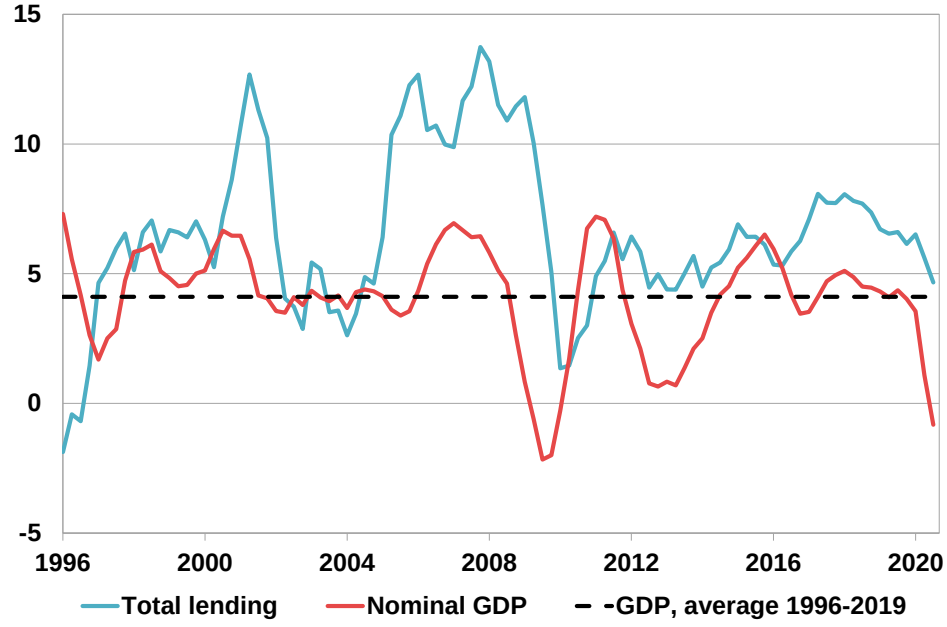
Annual change in per cent



Source: Statistics Sweden.

4 Total lending and nominal GDP

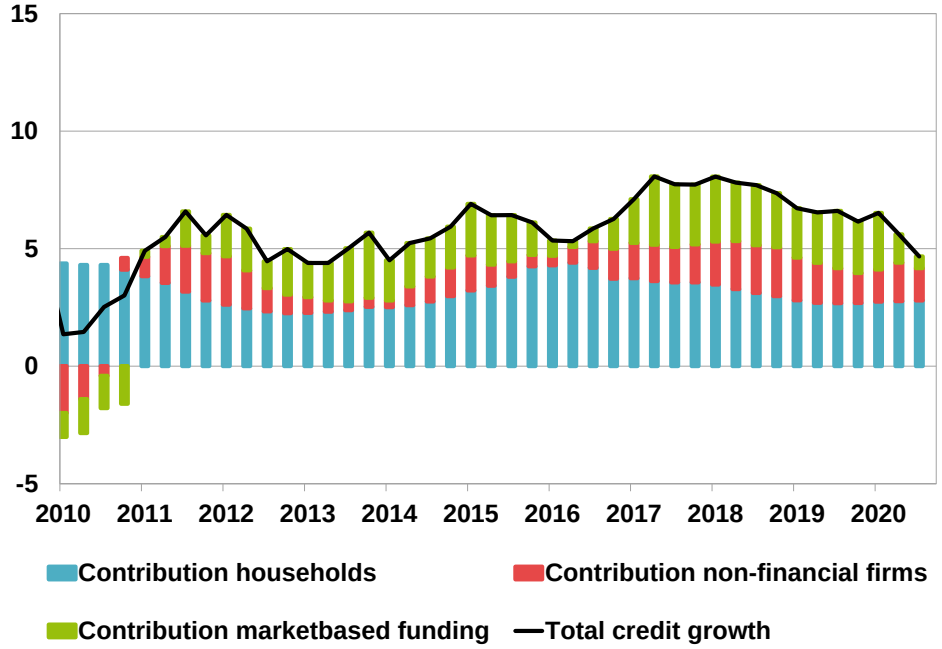
Annual change in per cent



Source: Statistics Sweden.

5 Contribution to total lending growth

Annual change in per cent

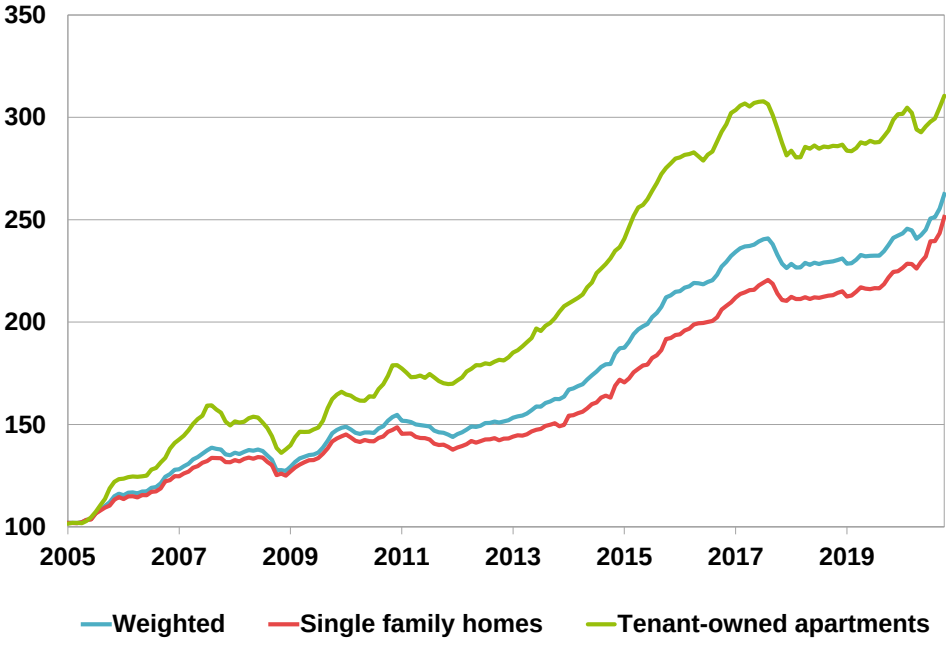


Note: Refers to total lending to households and corporates and their contribution to the annual rate of growth in per cent. Contribution of non-financial firms refers to MFI's lending to non-financial firms.

Source: FI and Statistics Sweden.

6 House prices in Sweden

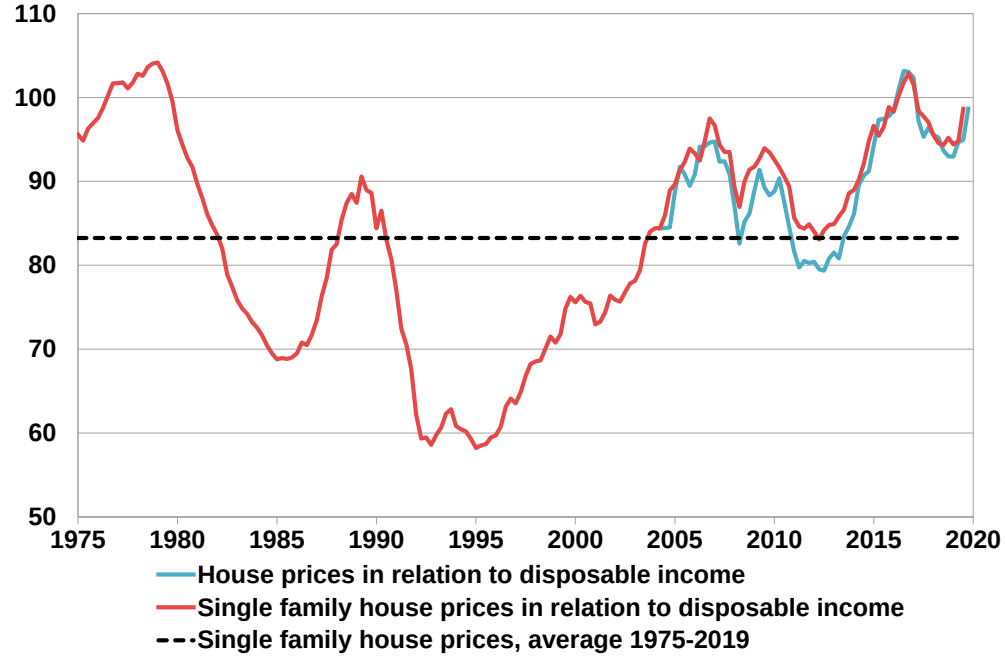
Index 100 = January 2005



Source: Valueguard.

7 House prices in relation to disposable income

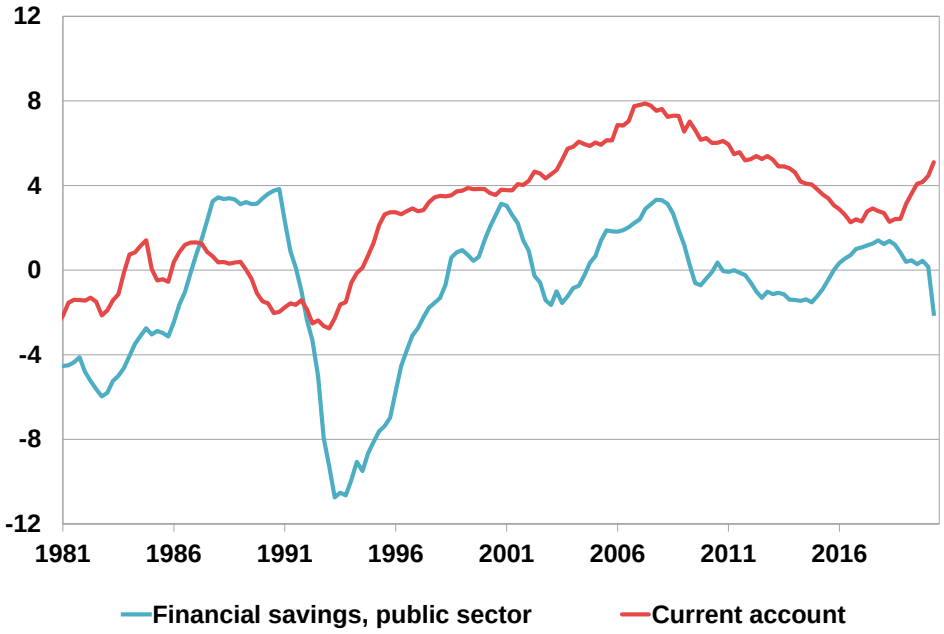
Index 100 = 1980



Source: Statistics Sweden and Valueguard.

8 Current account and financial savings in the public sector

Per cent of GDP

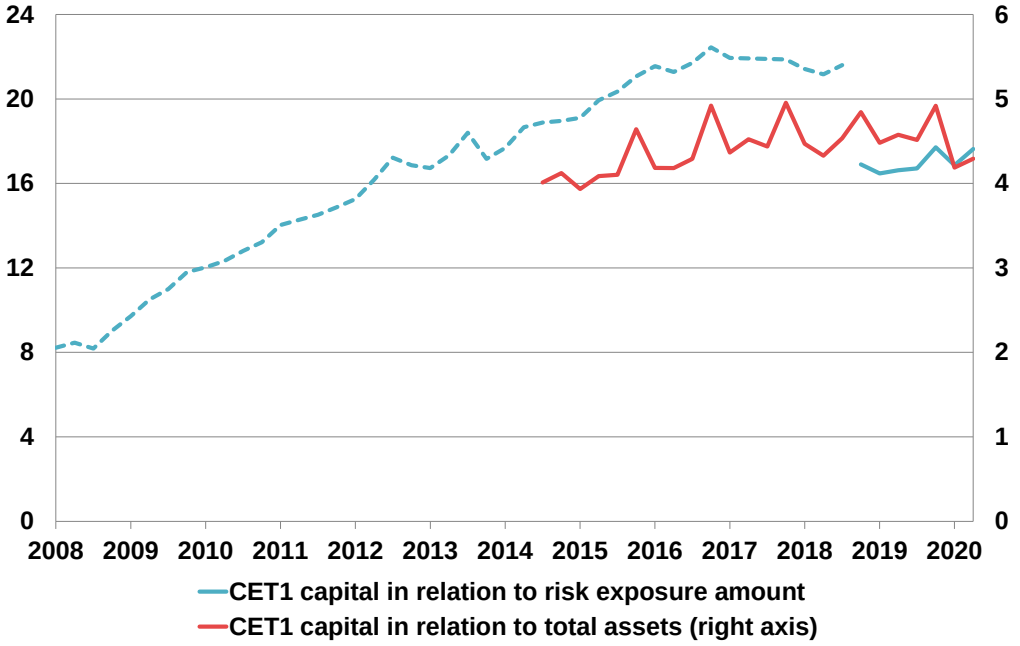


Note: The current account is estimated using the national accounts.

Source: Statistics Sweden.

9 CET 1 capital

Per cent

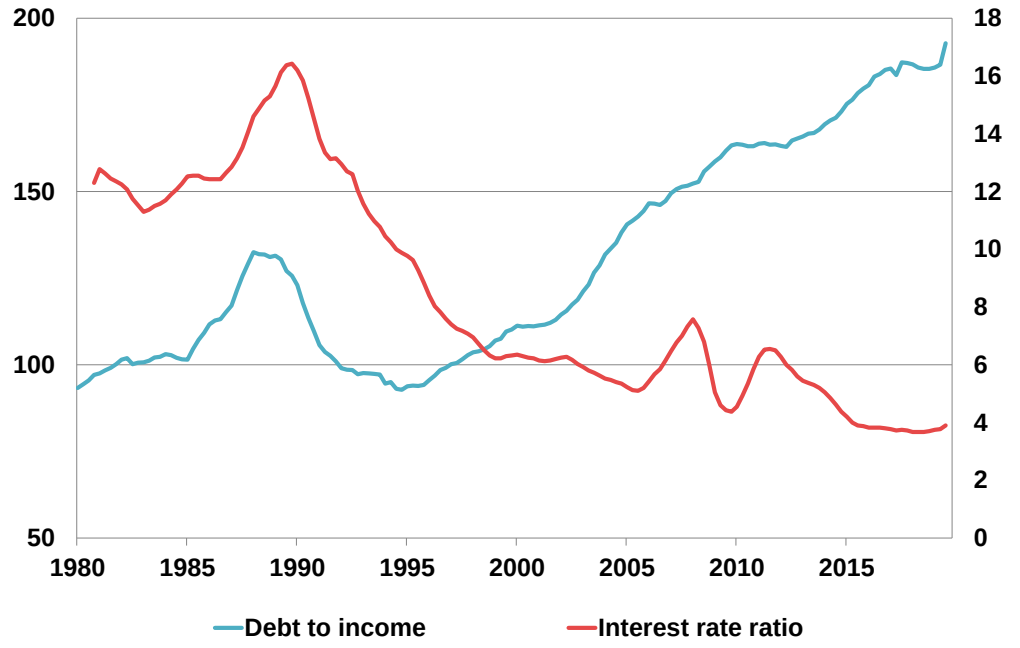


Note: The diagram shows an unweighted average for the three major Swedish banks. Since Q4 2018, the risk-weight floor for Swedish mortgages is applied in Pillar I through Article 458 of the Capital Requirements Regulation. This change means that the risk-weight exposure amount increased and the capital requirement as a per cent of the risk-weighted exposure amount decreased. The effect on capital levels and capital requirements in SEK was limited. Total assets refer to the banks' consolidated situation.

Source: FI.

10 Household debt and interest rate payments in relation to income

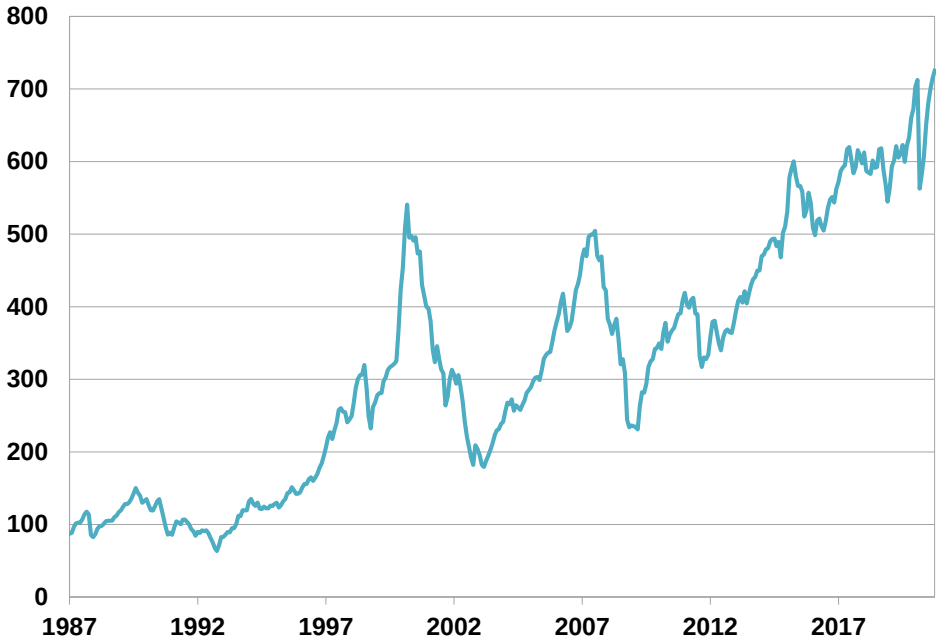
Per cent of disposable income



Source: Statistics Sweden.

11 Real share prices

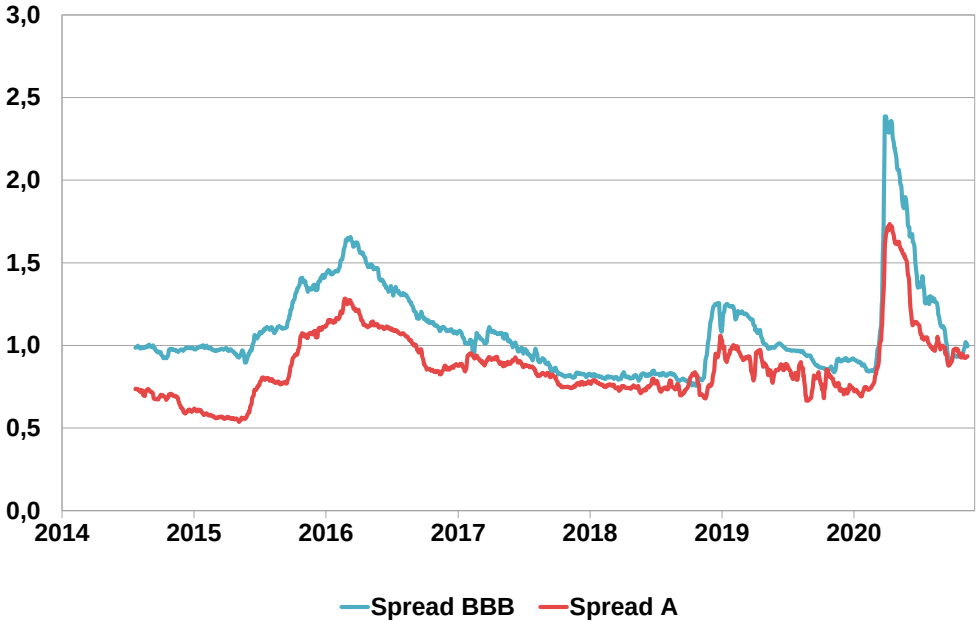
Index 100 = 1987



Source: Statistics Sweden and Refinitiv Datastream.

12 Swedish risk premiums

Percentage points

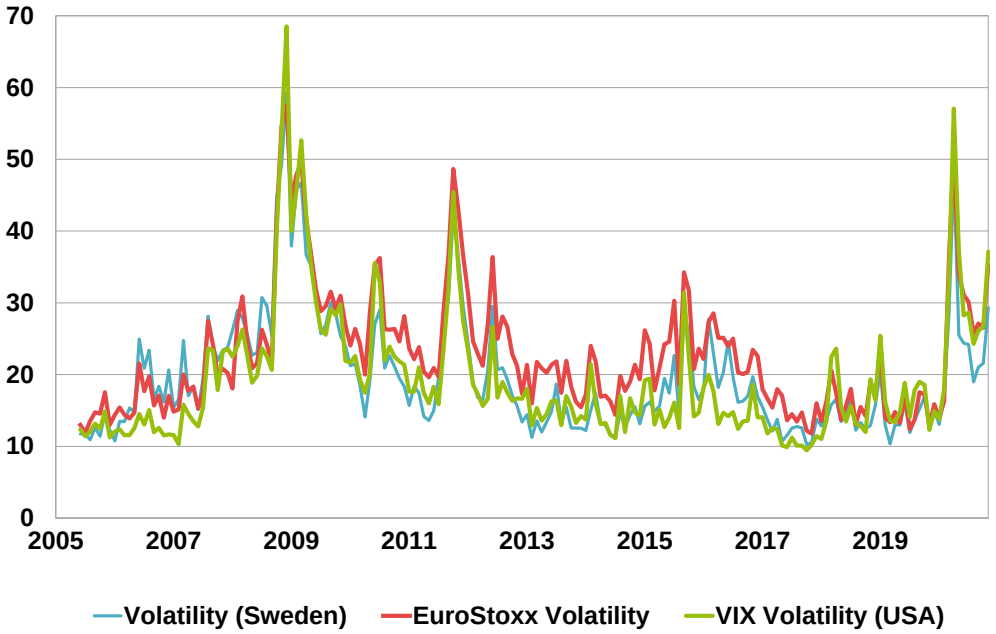


Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate. The diagram shows five trading days' moving average.

Source: Refinitiv Datastream.

13 Volatility index

Standard deviation



Note: Implicit volatility calculated from index option prices. For Volatility (Sweden), SIX Volatility is used until September 2018. Starting in October 2018, an average of OS30C implicit volatility estimated for calls and puts is used instead.

Source: Refinitiv Datastream.