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## Countercyclical buffer rate

### Decision by Finansinspektionen

Finansinspektionen has decided not to amend Finansinspektionen's regulations (FFFS 2014:33) regarding the countercyclical buffer rate.

### The case

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

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 counteractive measures. This releases capital, which gives the banks the possibility to maintain 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 18 September 2018. FI decided then to raise it from 2 to 2.5 per cent.<sup>2</sup> This means that the new buffer rate of 2.5 per cent will apply as of 19 September 2019.

### Finansinspektionen's assessment

In Q1 2019, the total debt for households and non-financial firms grew by 6.6 per cent on an annual basis. This can be compared to 8.1 per cent when FI last changed the buffer rate and 7.2 per cent in Q4 2018. As a result, total debt rose to 162.6 per cent of GDP, which is 3.2 percentage points higher than in the same quarter the previous year.

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<sup>1</sup> 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.

<sup>2</sup> FI (2018), *Ändring av föreskrifter om kontracykliskt buffertvärde*. Published on [www.fi.se](http://www.fi.se) on 18 September 2018, FI Ref. 18-11833. An English translation is available on the website.

The slow-down in the growth rate for total debt in Q1 2019 was primarily attributable to slower growth of non-financial firms' debt. Non-financial firms' total debt increased with 8.2 per cent on an annual basis during Q1 2019. This is -0.9 percentage points lower than the previous quarter and 1.5 percentage points lower than when FI most recently raised the buffer rate. In Q1 2019, non-financial firms' market financing increased by 11.7 per cent on an annual basis compared to 12.8 per cent in the previous quarter. At the same time, the growth of lending from Swedish monetary financial institutions (MFIs) to Swedish non-financial firms has also decreased. In Q1 2019, it grew by 6.0 per cent on an annual basis compared to 6.9 per cent in the previous quarter. The growth of household debt has gradually decreased over a longer period. In Q1 2019, it increased by 5.2 per cent on an annual basis. This is 0.3 percentage points lower than the previous quarter and 1.5 percentage points lower than when FI most recently raised the buffer rate. The credit-to-GDP gap, calculated in accordance with the Basel Committee's standardised approach, amounted to 2.12 per cent in Q1 2019. This means that the countercyclical buffer guide is set at 0.04 per cent.<sup>3</sup>

Interest rates in general continue to be low, and several central banks have continued to revise their interest rate curves downwards during 2019. At the same time, Swedish and European risk premiums have decreased somewhat. However, they are still above the levels from the summer of 2018, especially for non-financial firms' with lower credit ratings. The conditions on the financial markets as a whole are judged to continue to be expansive. Residential real estate prices have remained stable and have increased roughly in line with inflation. Relative to households' disposable incomes house prices have decreased and their ratio is now roughly at the same level as recorded during the autumn of 2015. Stable residential real estate prices are a sign that the growth rate in lending to households may continue to slow.

FI's forecast shows that household debt will continue to grow at a slower rate, and it is expected to grow in line with the historical average growth of GDP. FI's forecast for household debt has been revised upwards since the last decision.<sup>4</sup> A continued slow-down of household debt means that the risks are decreasing. FI's assessment is that the total debt to households and non-financial firms will continue to grow approximately in line with today's level. FI's forecast show that the total debt will grow with an average of 6.6 per cent

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<sup>3</sup> It should be noted that the buffer guide is most suitable as an indicator of any increases in the buffer rate – not decreases.

<sup>4</sup> The main cause is a stronger than expected outcome for GDP.

on an annual basis through Q1 2020. This continues to be faster than nominal GDP and what FI considers to be sustainable in the long run.

The overall assessment of indicators show that the systemic risks in the financial system continue to be elevated. FI's assessment is therefore that there is reasons to keep the countercyclical buffer rate at 2.5 per cent with the purpose that banks shall continue to have a satisfactory resilience. FI has also taken already communicated changes of capital requirements into consideration. Given the overall development, Finansinspektionen has decided not to amend Finansinspektionen's regulations (FFFS 2014:33) regarding the countercyclical buffer rate.

A decision in this matter was made by Director General Erik Thedéen following a presentation by Analyst Viktor Thell. Chief Economist Henrik Braconier and Analyst Niclas Olsén Ingefældt also participated in the final procedure.

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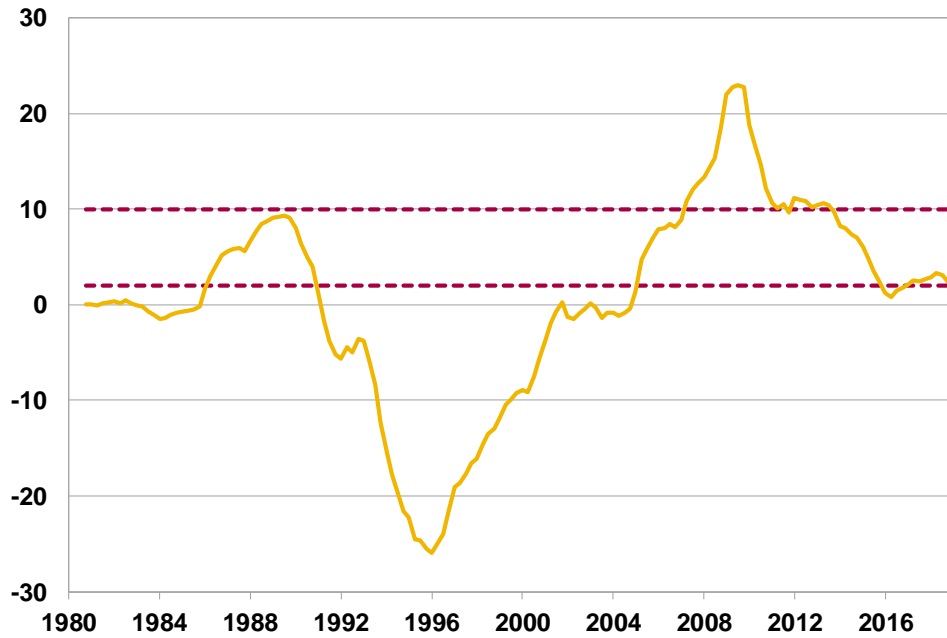
Erik Thedéen  
*Director General*

Viktor Thell  
*Analyst*

## Appendix 1: Indicators

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

Deviation from trend in percentage points

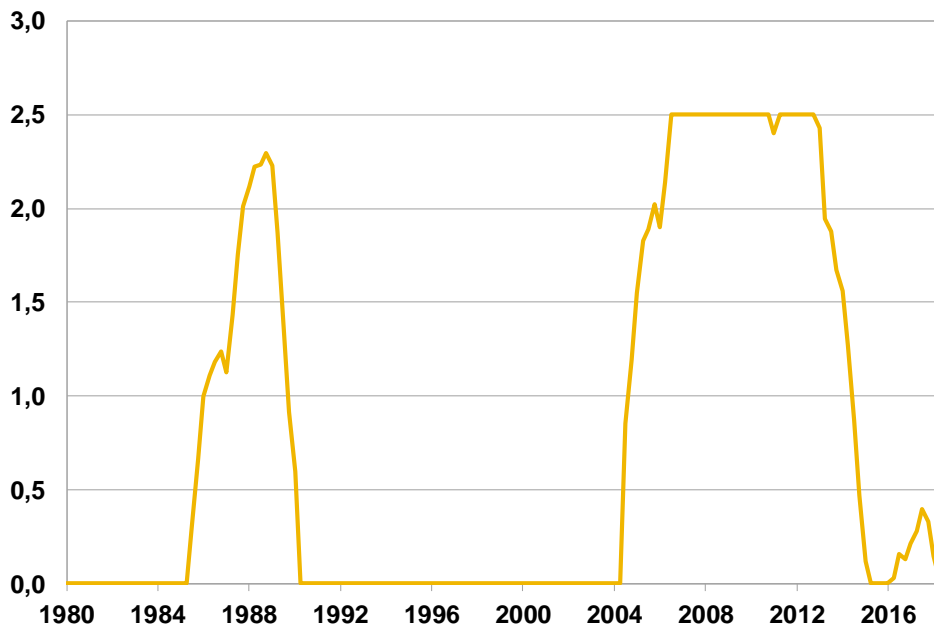


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

### 2 Buffer rate according to the standardised approach

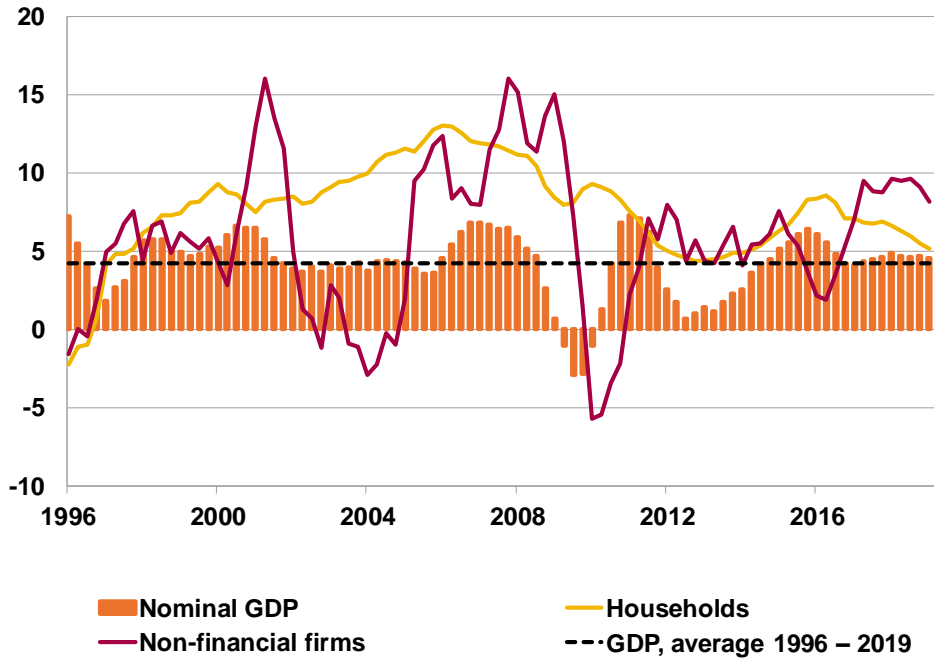
Per cent



Source: FI and Statistics Sweden.

### 3 Lending to households and corporates and nominal GDP

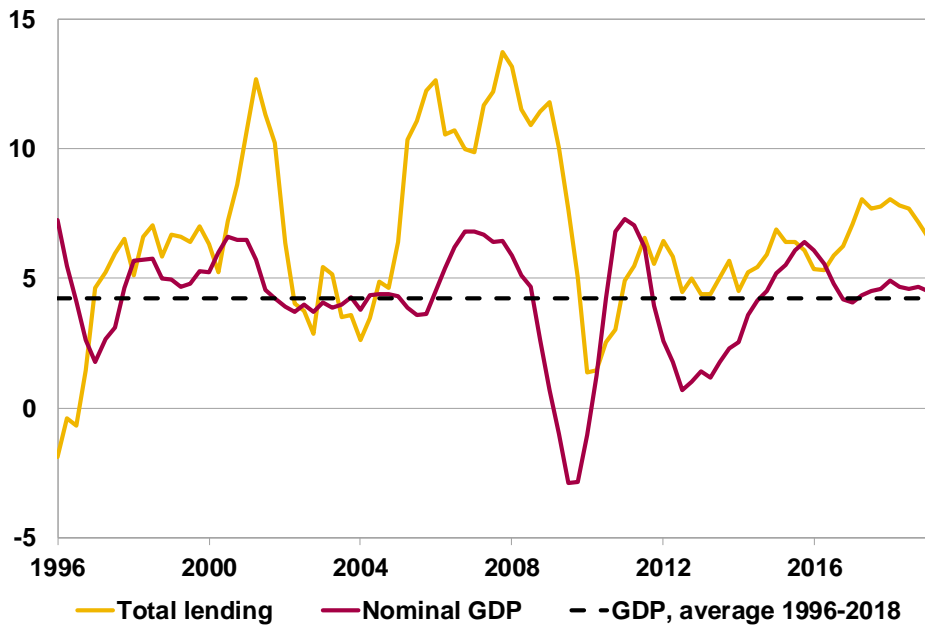
Annual change in per cent



Source: Statistics Sweden.

### 4 Total lending and nominal GDP

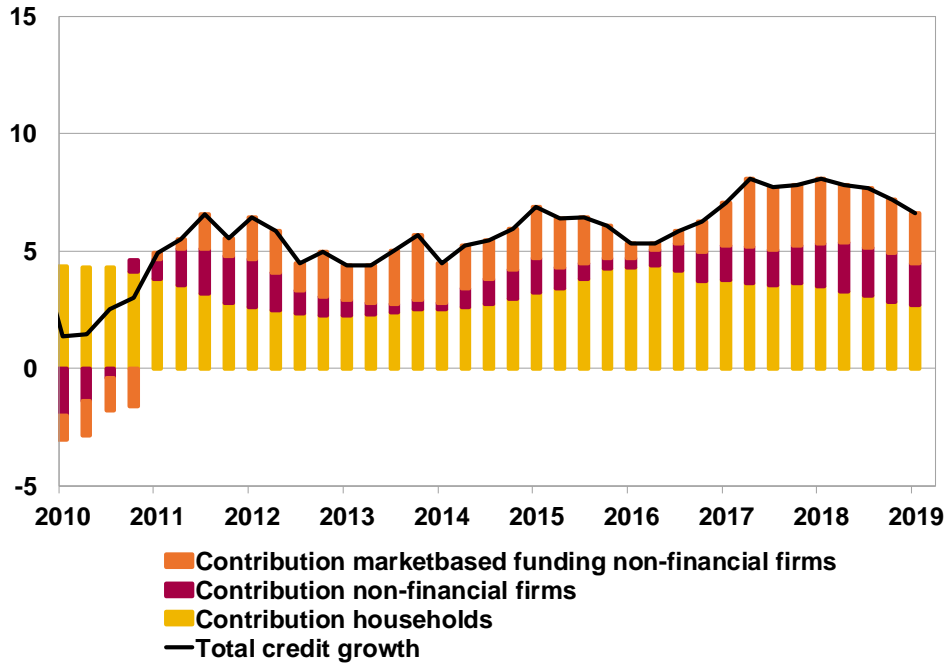
Annual change in per cent



Source: Statistics Sweden.

### 5 Contribution to change in total lending growth

Annual change in per cent

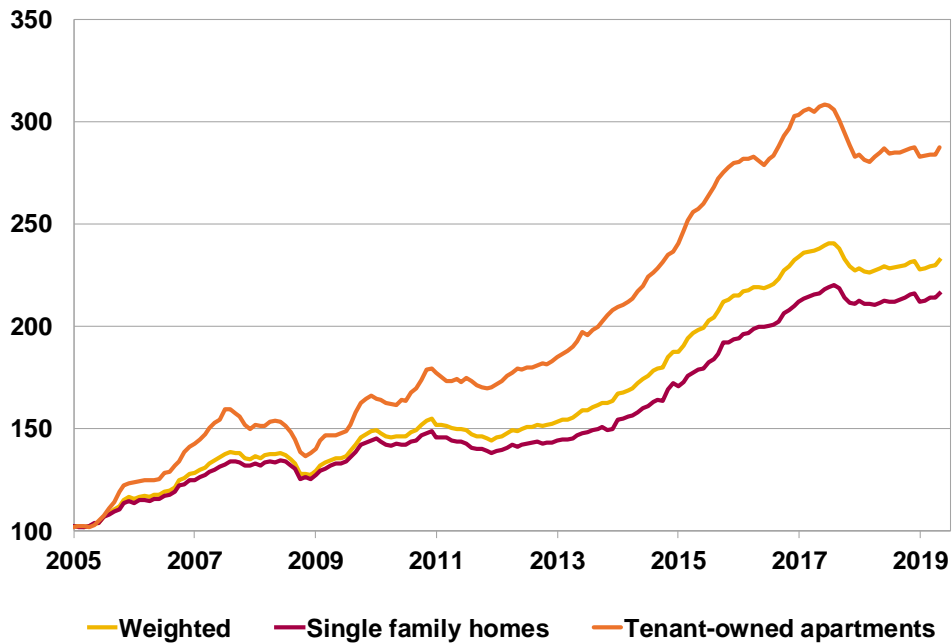


Note: Refers to total lending to households and corporates and their contribution to the annual rate of growth in per cent. Contribution of non-financial firms refers to MFI's lending to non-financial firms.

Source: FI and Statistics Sweden.

### 6 Residential real estate prices in Sweden

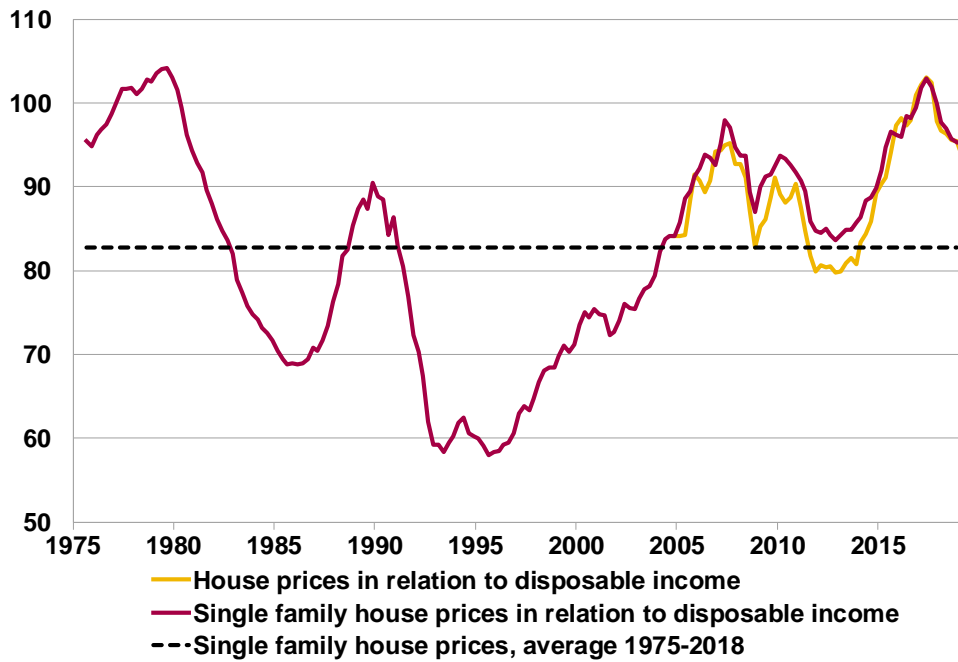
Index 100 = January 2005



Source: Valueguard.

### 7 House prices in relation to disposable income

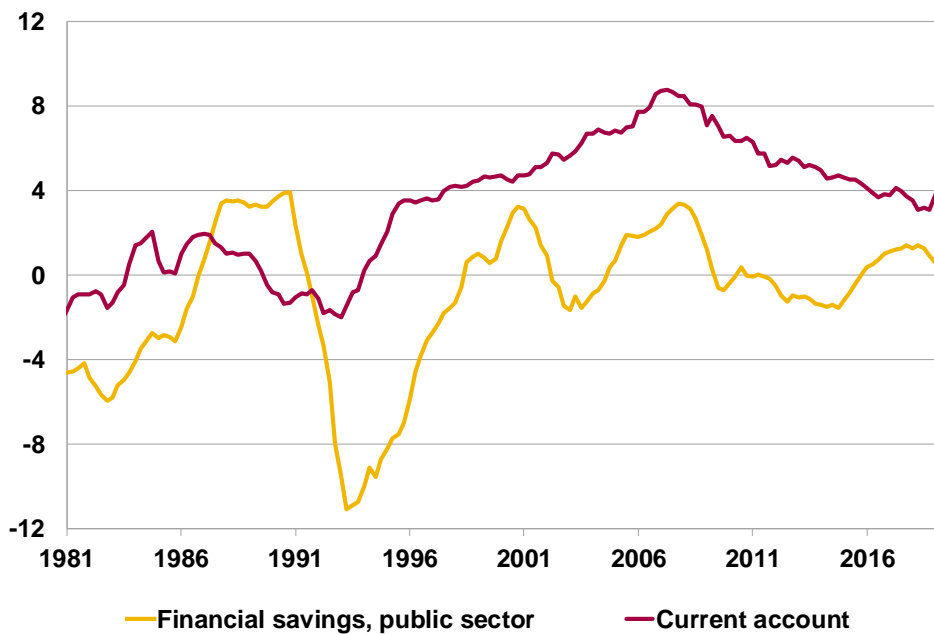
Index 100 = 1980



Source: Statistics Sweden and Valueguard.

### 8 Current account and financial savings in the public sector

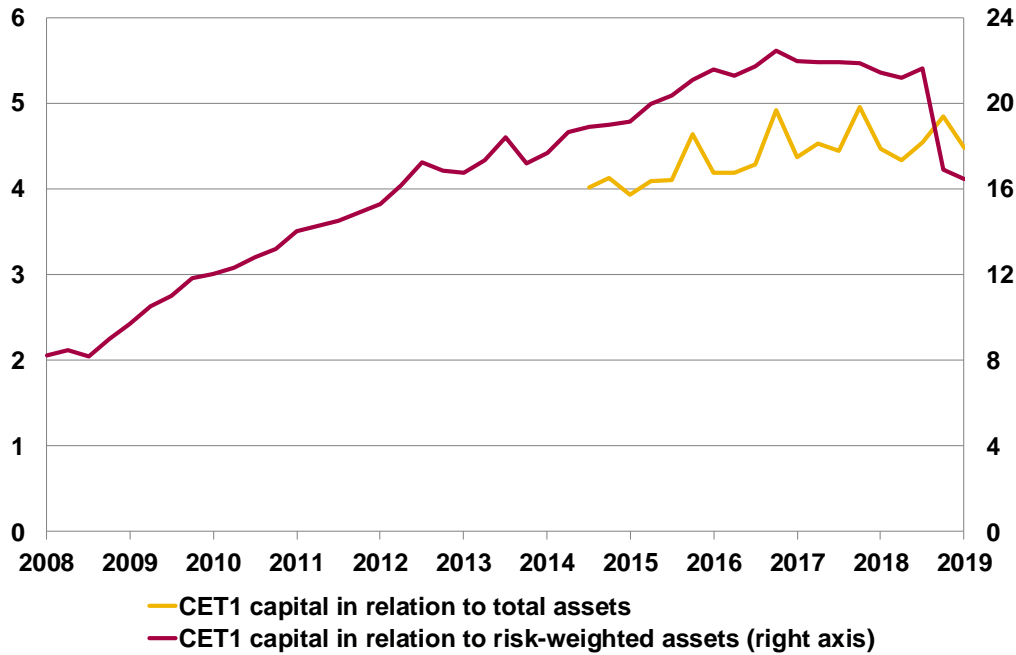
Per cent of GDP



Source: Statistics Sweden.

### 9 CET 1 capital

Per cent

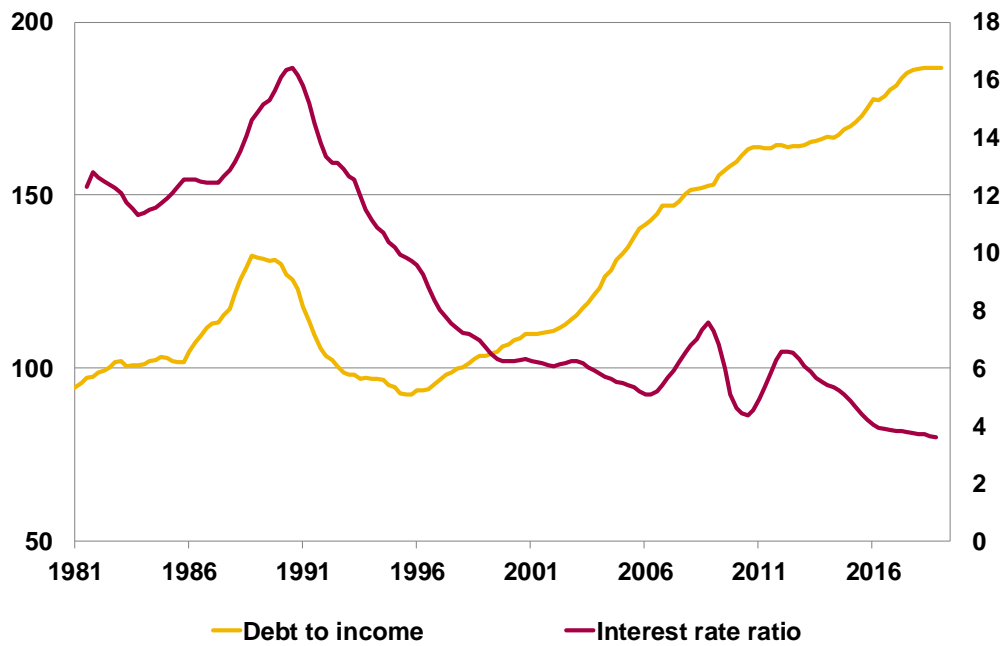


Note: The diagram shows an unweighted average for the three major Swedish banks. Total assets refer to the banks' consolidated situation. The reduction in CET1 ratio during Q4 2018 was due to the changed method of the risk weight floor for Swedish mortgages (see previous decision).

Source: FI.

### 10 Household debt and interest payments in relation to income

Per cent of disposable income

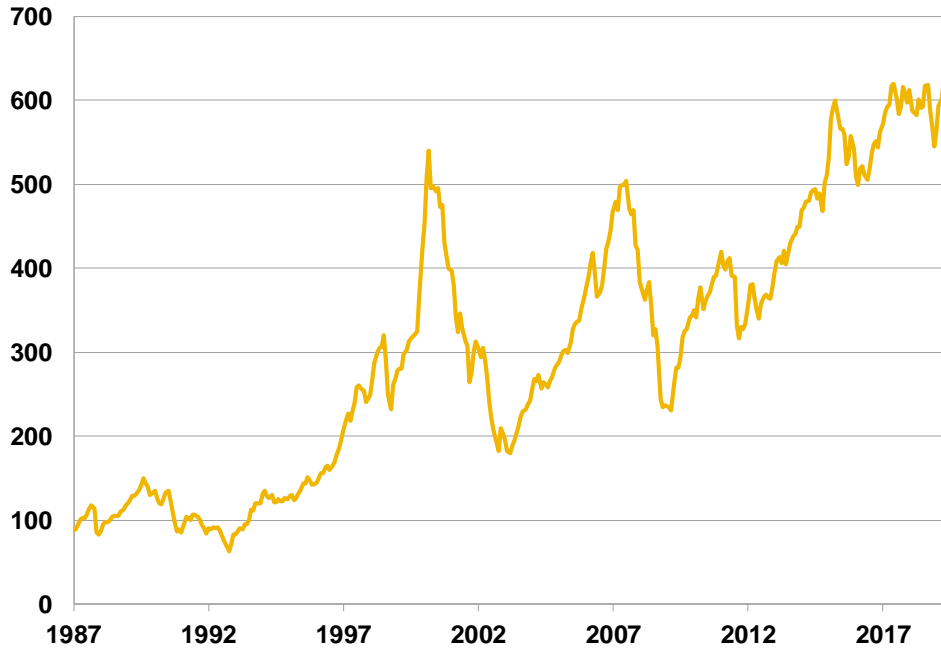


Source: Statistics Sweden.



### 11 Real equity prices

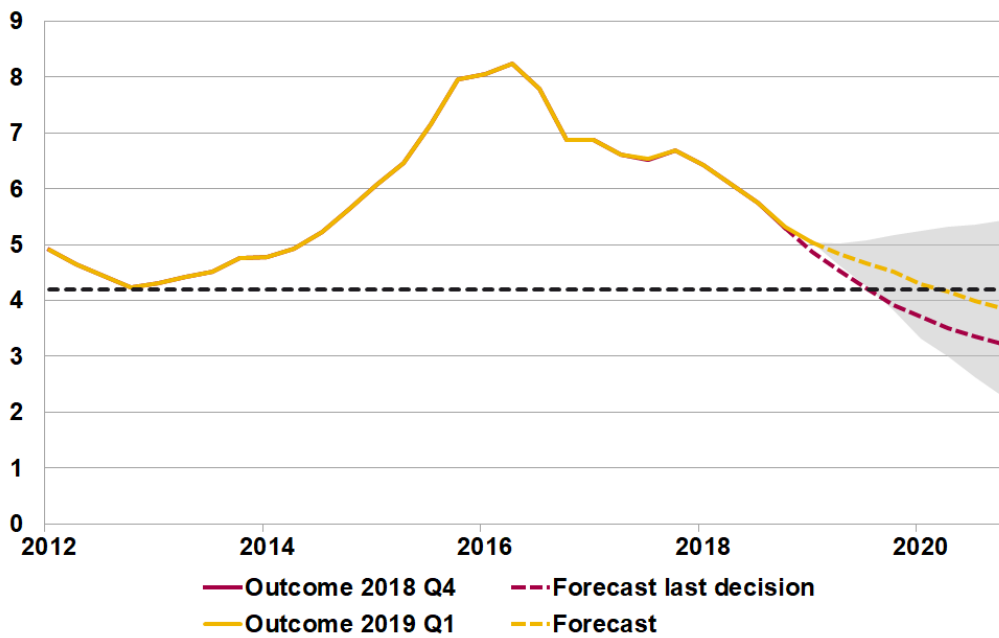
Index 100 = 1987



Source: Statistics Sweden and Thomson Reuters Datastream.

### 12 Forecast for household nominal debt

Annual change in per cent

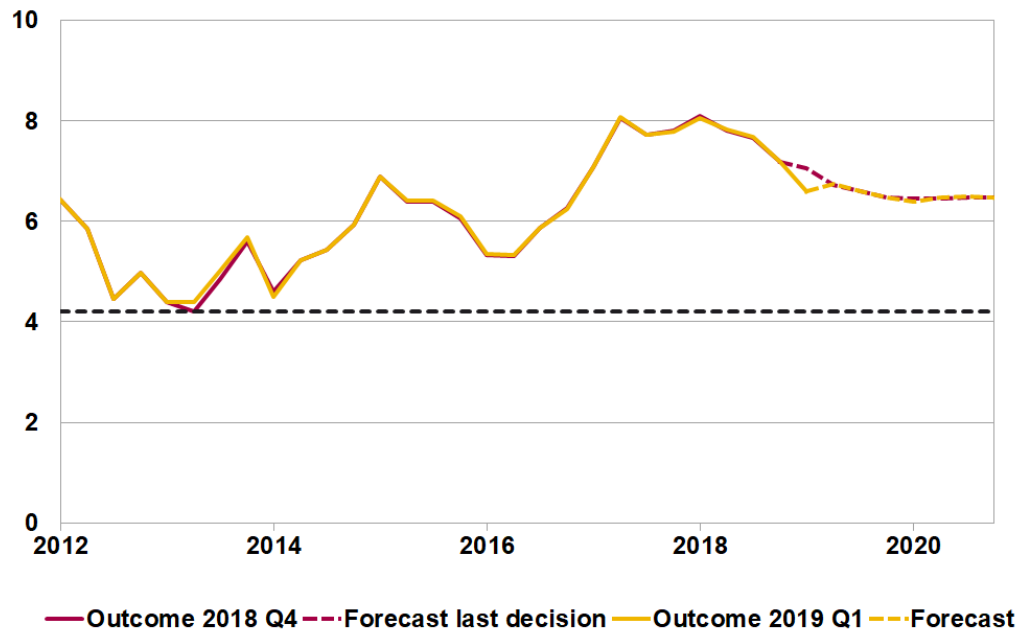


Note: The dotted black line marks the average growth in nominal GDP.

Source: FI and Statistics Sweden.

### 13 Forecast for total lending

Annual change in per cent

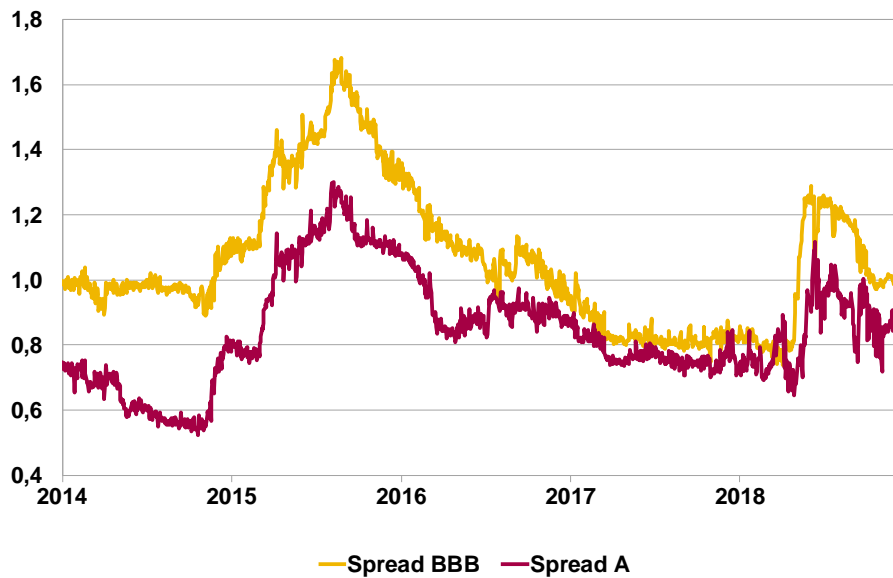


Note: The dotted black line marks the average growth in nominal GDP.

Source: FI and Statistics Sweden.

### 14 Swedish risk premiums

Percentage points

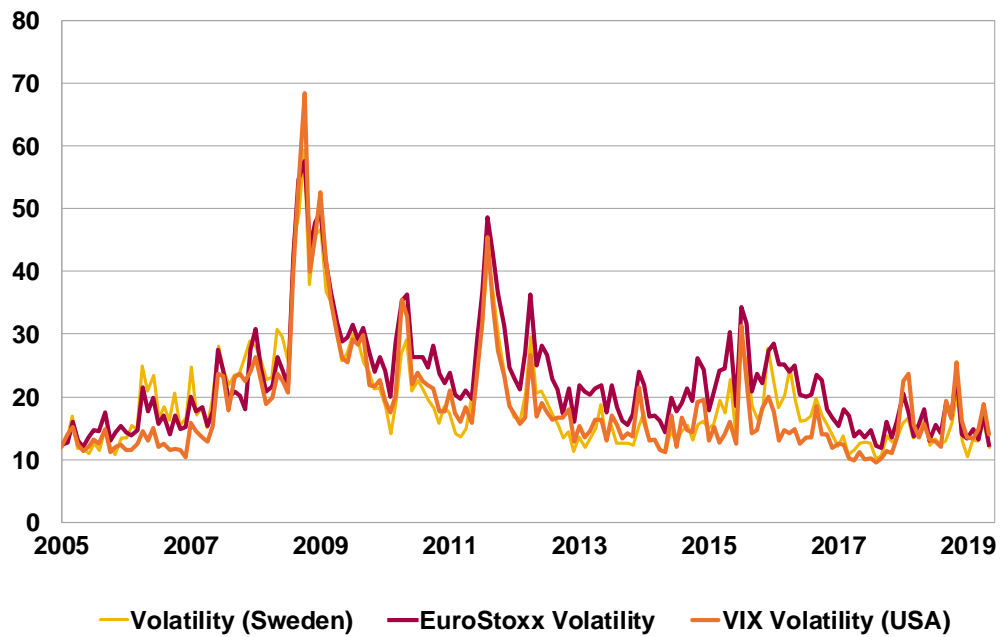


Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate.

Source: Thomson Reuters Datastream.

## 15 Volatility indices

Standard deviation



Note: Implicit volatility calculated from index option prices. The Swedish series is a combination of SIX Volatility, until Q3 2018, and thereafter an average of OS30C implicit volatility estimated for calls and puts.

Source: Thomson Reuters Datastream.