



FI Ref.19-22825

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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 the Capital Buffers Act (2014:966), shall set a countercyclical buffer guide and a countercyclical buffer rate 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 a decrease. This releases capital, which gives the banks the possibility of maintaining 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 rate went into effect on 19 September 2019.

### Finansinspektionen's assessment

In Q2 2019, the total debt of households and non-financial firms increased by 6.5 per cent on an annual basis. This can be compared to 8.1 per cent when FI last changed the buffer rate and 6.7 per cent in Q1 2019. The decrease in the growth rate for total debt in Q2 corresponds approximately to the decrease in GDP growth during the same period. As a result, total debt in Q2 2019 amounted to 162.4 per cent of GDP, which is 3.3 percentage points higher than

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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 same quarter the previous year and 13 percentage points higher than the same quarter in 2016.

Total debt is now increasing at a slower rate than in Q1 2019 because both household and non-financial firms' debts are increasing at a slower rate. In Q2 2019, household debt increased at the same rate as household disposable income, 5 per cent on an annual basis. Compared to when FI last changed the buffer rate, the growth rate for both household and non-financial firm debt have decreased by 1.6 percentage points. Non-financial firms' market financing is also increasing at a slower rate than before, but from a higher level. In Q2, market financing increased by 11.7 per cent on an annual basis, which is 4.5 percentage points lower than when FI last raised the buffer rate. The credit-to-GDP gap calculated in accordance with the Basel Committee's standardised approach amounted to 2.5 per cent in Q2 2019. This means that the countercyclical buffer guide is set at 0.16 per cent.<sup>3</sup>

Interest rates in general continue to be low, and several central banks lowered their policy rates in 2019 and ECB has communicated continued quantitative easing. This contributed to the decrease in Swedish and European risk premia. However, the premia are higher than what they were in the summer of 2018, particularly for firms with lower creditworthiness. The conditions on the financial markets as a whole are judged to continue to be expansive. House prices have been stable and are now growing at an annual rate of approximately 2 per cent. Relative to household disposable income, house prices continued to decrease slightly. Stable house prices are a sign that the growth rate in lending to households may continue to slow in the future.

FI's forecast shows that household debt is expected to continue to grow at a slower rate in the future and at approximately the historic average for the GDP. The gradual slow-down in the growth of household debt implies a reduction in the build-up of risk. FI makes the assessment that total debt in the coming year will increase at a slightly lower rate than today.

Taken together, the indicators show that the systemic risks in the financial system continue to be elevated. FI therefore makes the assessment that the countercyclical buffer rate of 2.5 per cent should be kept in order for banks to continue to have satisfactory resilience. FI also took into consideration in its assessment previously communicated changes in the capital requirements. Given the overall development, Finansinspektionen has decided not to amend

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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.

Finansinspektionen's regulations (FFFS 2014:33) regarding the countercyclical buffer rate.

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

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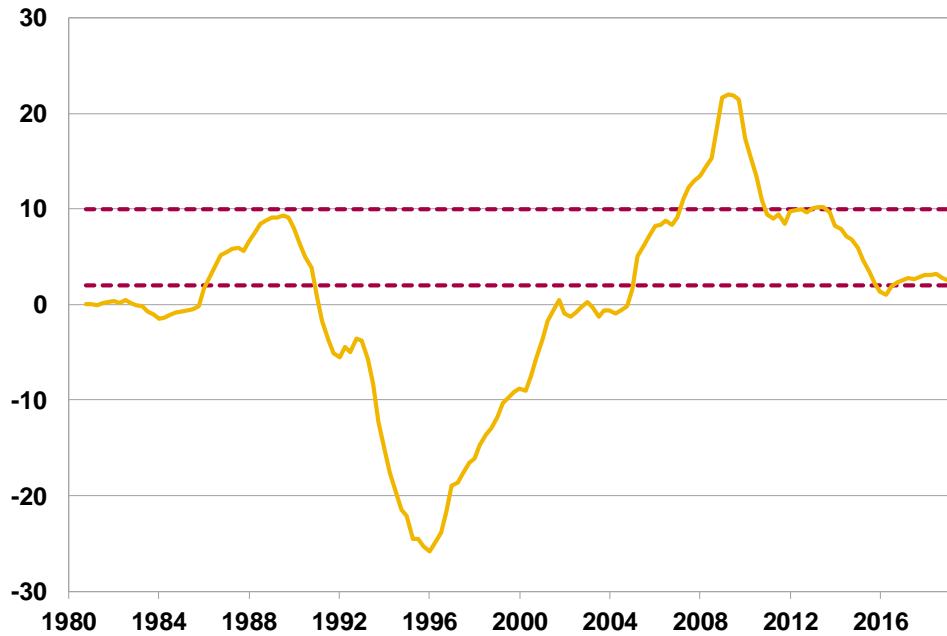
Erik Thedéen  
*Director General*

Viktor Thell  
*Analyst*

## Appendix 1: Indicators

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

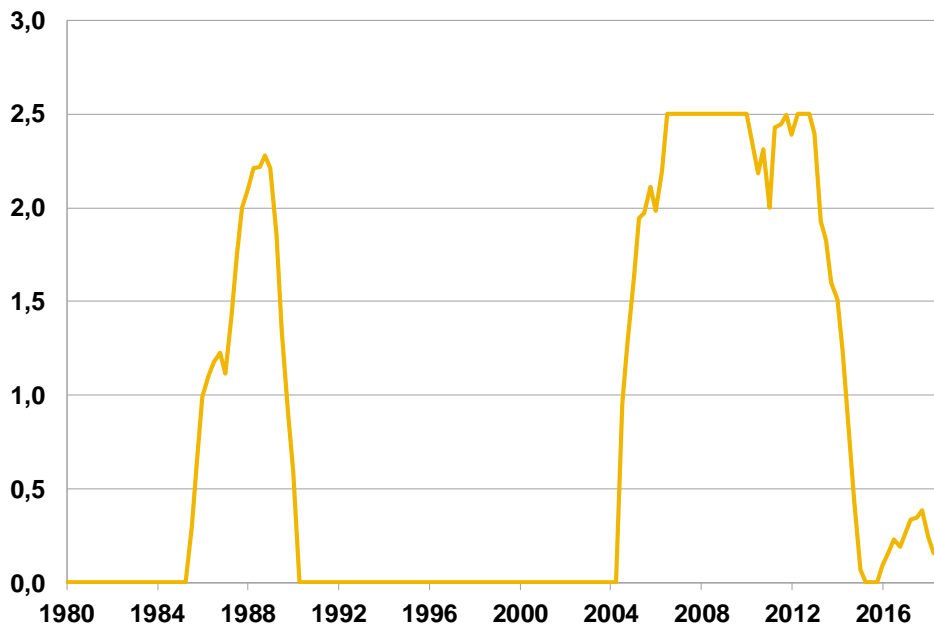
Deviation from trend in percentage points



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.  
Sources: FI and Statistics Sweden.

### 2 Buffer rate according to the standardised approach

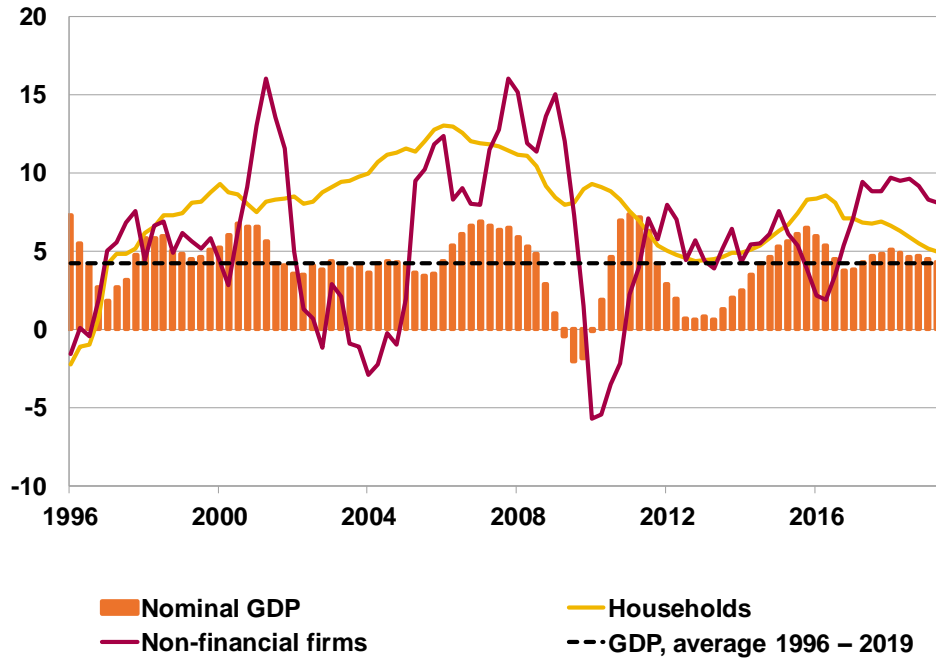
Per cent



Sources: FI and Statistics Sweden.

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

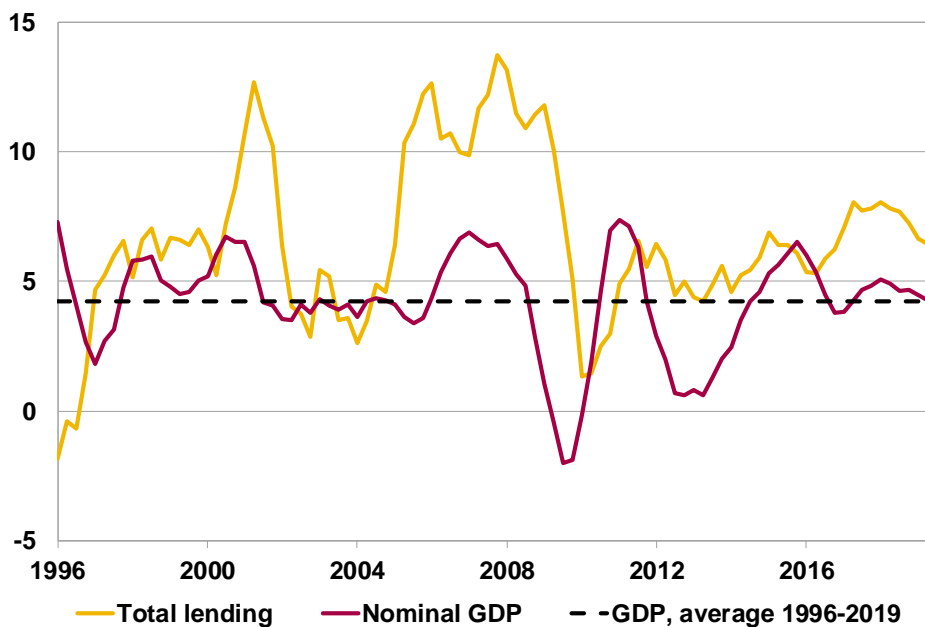
Annual change in per cent



Source: Statistics Sweden.

### 4 Total lending and nominal GDP

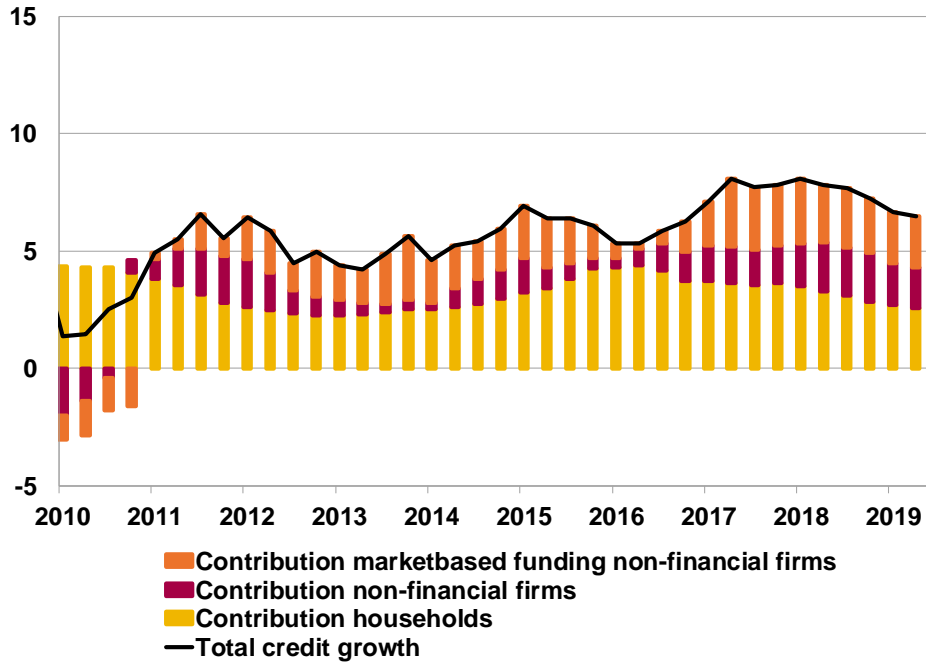
Annual change in per cent



Source: Statistics Sweden.

### 5 Contribution to change in total lending growth

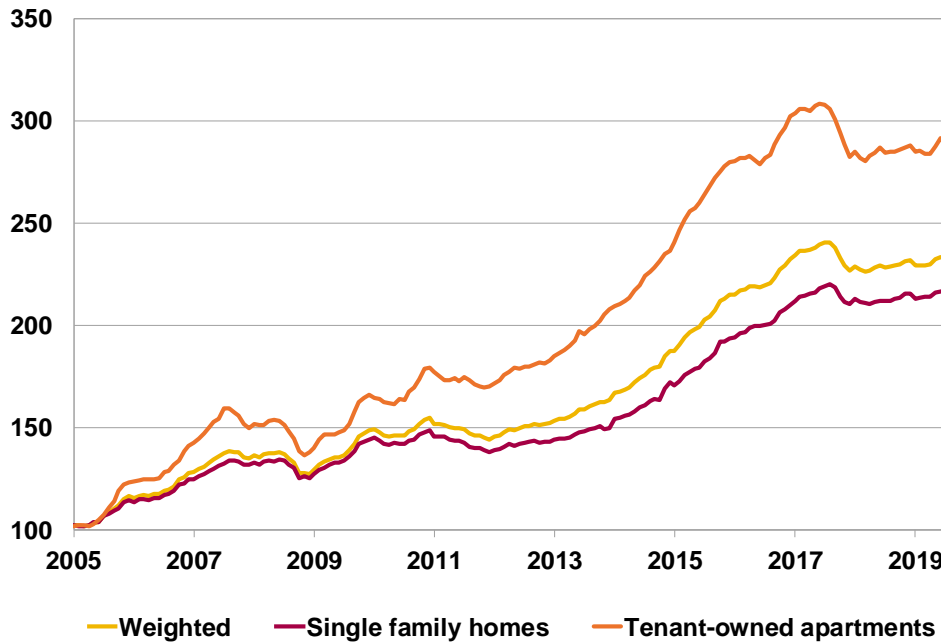
Annual change in per cent



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.  
Sources: FI and Statistics Sweden.

### 6 House prices in Sweden

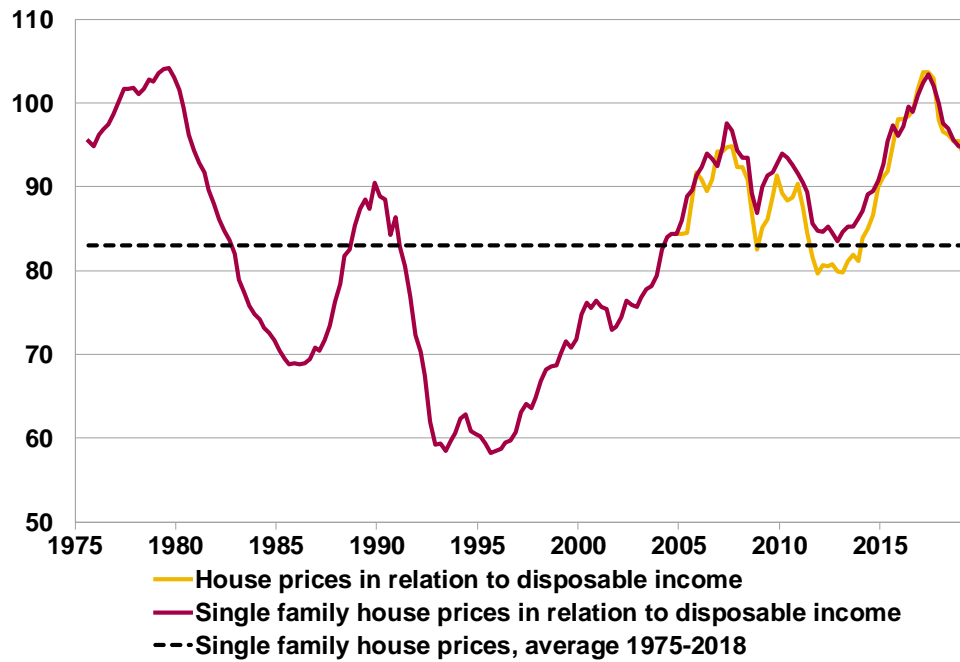
Index 100 = January 2005



Source: Valueguard.

### 7 House prices in relation to disposable income

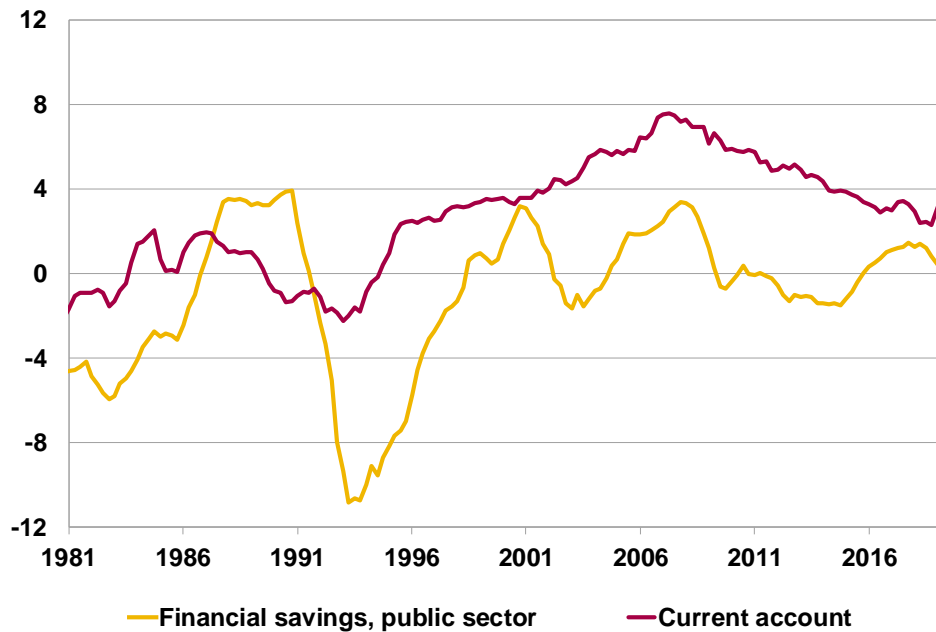
Index 100 = 1980



Sources: Statistics Sweden and Valueguard.

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

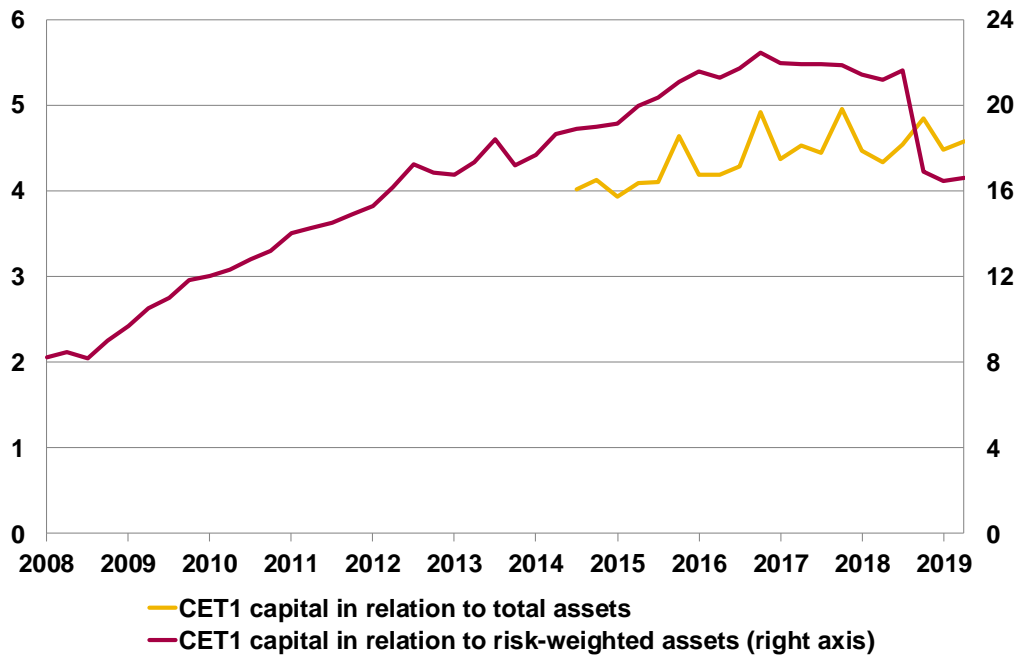
Per cent of GDP



Source: Statistics Sweden.

### 9 CET 1 capital

Per cent

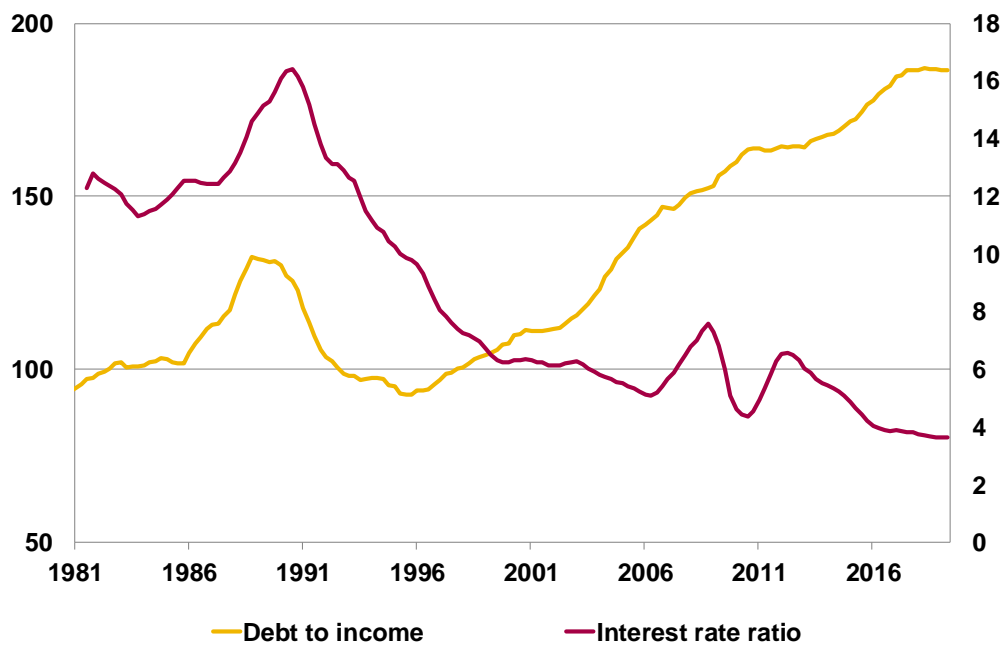


Note: The diagram shows an unweighted average for the three major Swedish banks. Total assets refer to the banks' consolidated situation. The decrease in the CET 1 ratio in Q4 2018 was the result of the changed method for the application of the risk weight floor for Swedish mortgages (see the decision for Q2 2019, FI Ref. 19-9265).

Source: FI.

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

Per cent of disposable income

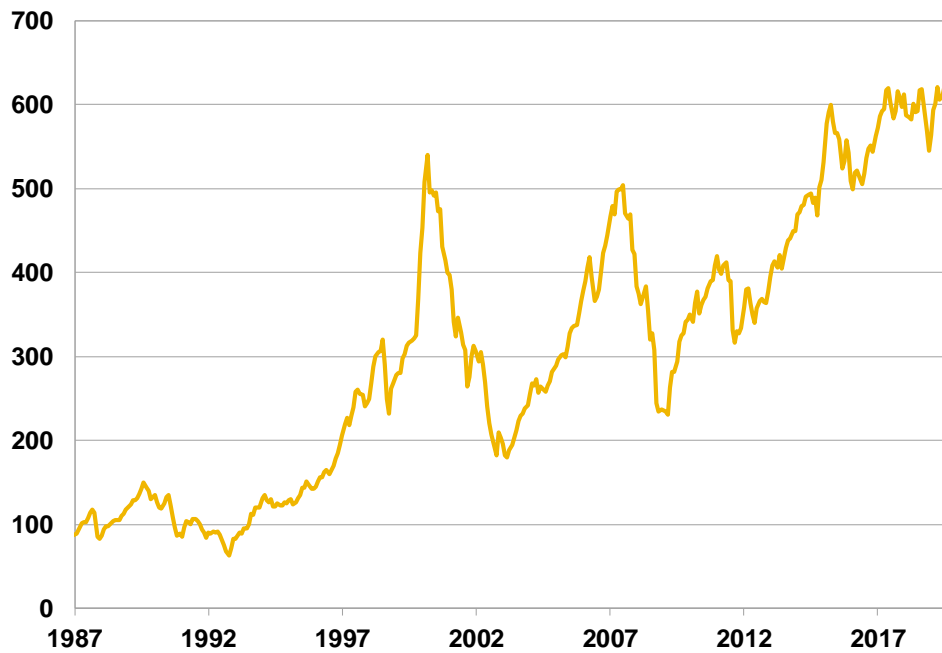


Source: Statistics Sweden.



## 11 Real equity prices

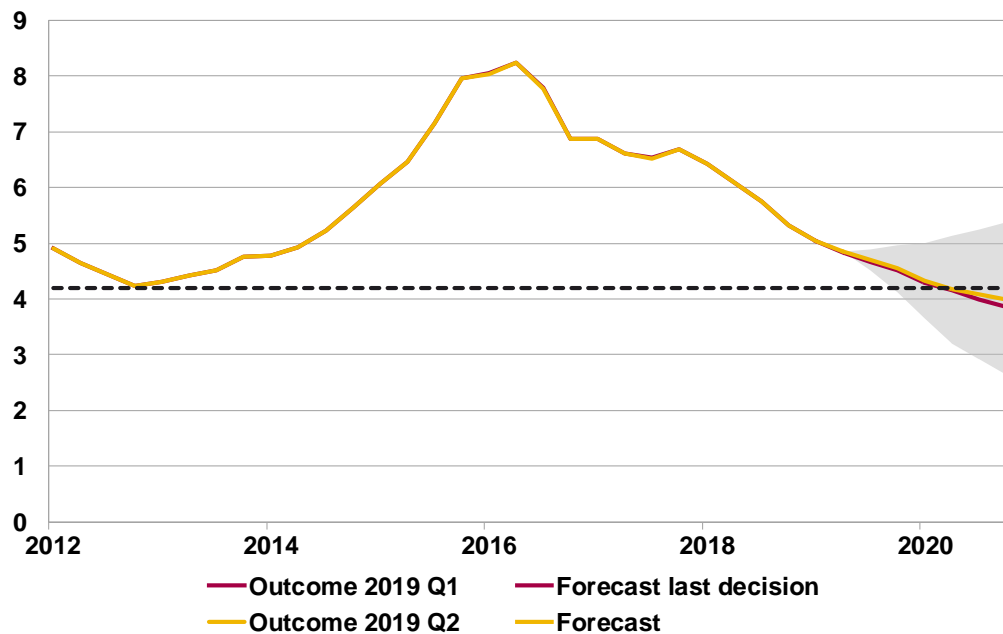
Index 100 = 1987



Sources: SCB and Refinitiv Datastream.

## 12 Forecast for lending to households

Annual change in per cent

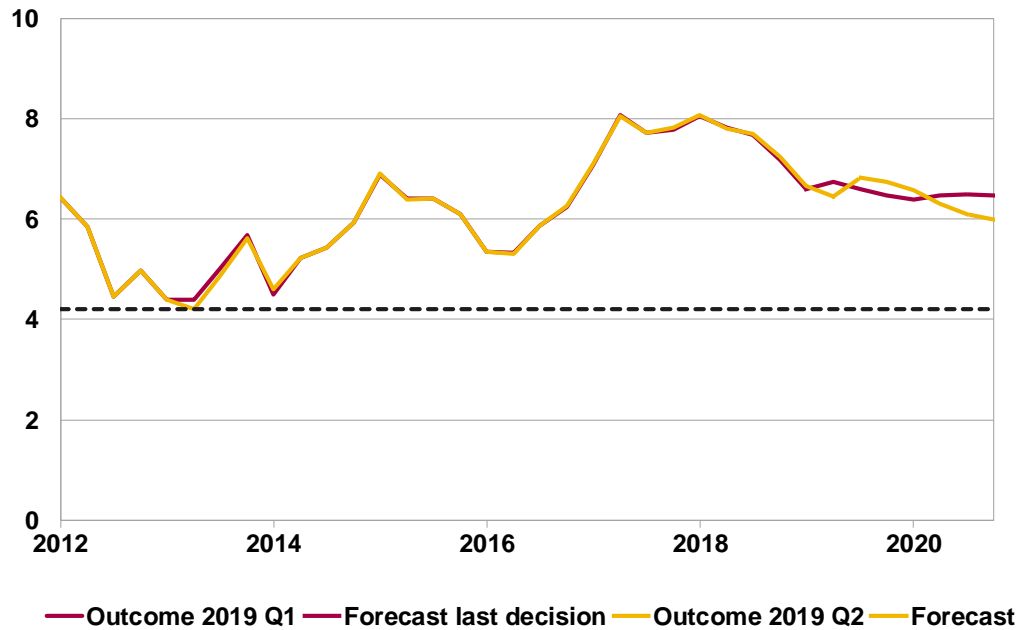


Note: The dotted black line marks the average growth in nominal GDP.

Sources: FI and Statistics Sweden.

### 13 Forecast for total lending

Annual change in per cent

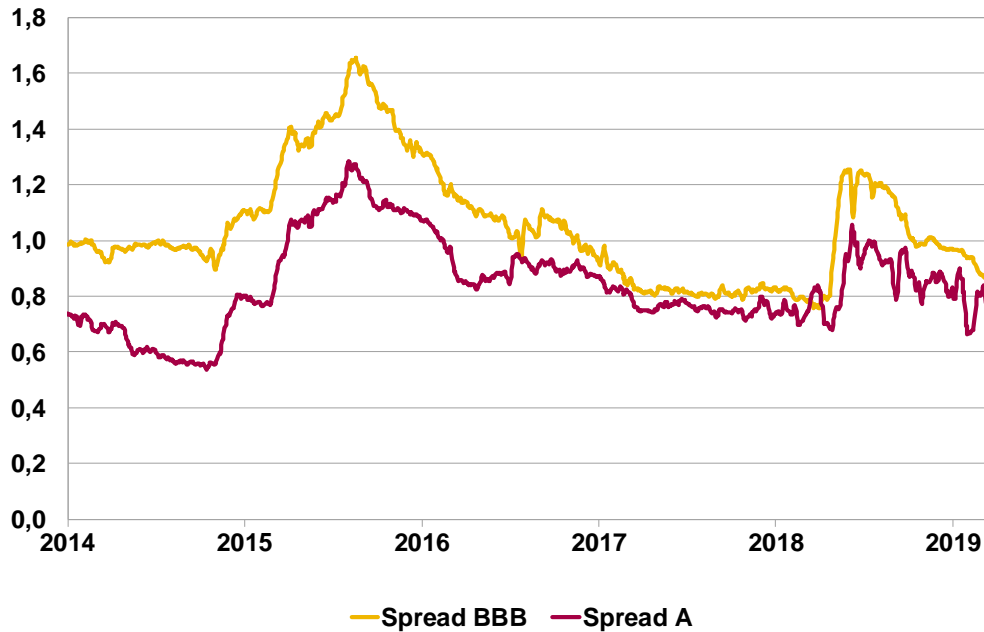


Note: The dotted black line marks the average growth in nominal GDP.

Sources: FI and Statistics Sweden.

### 14 Swedish risk premiums

Percentage points

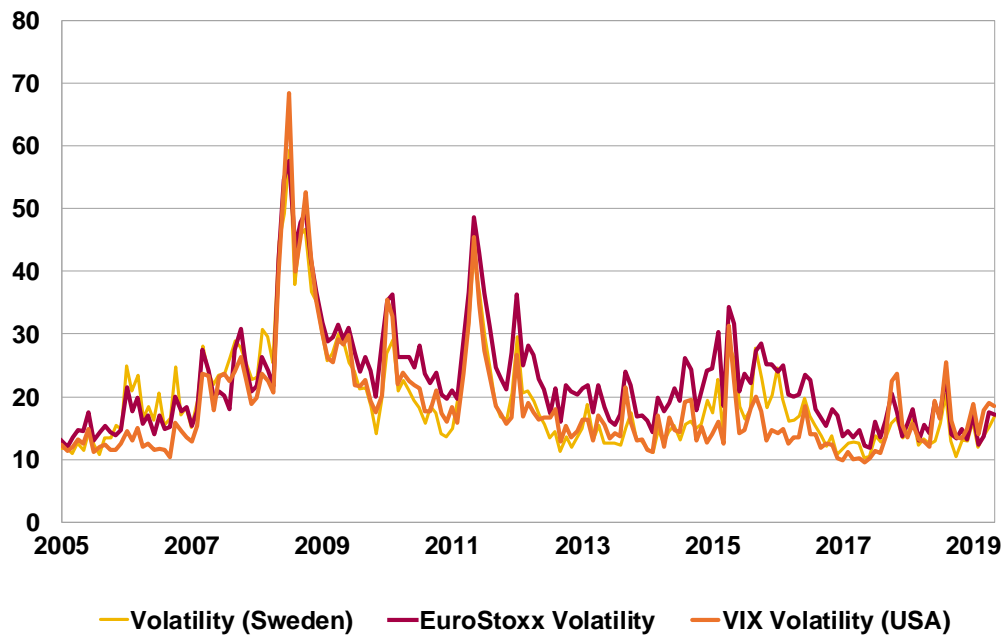


Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate. The diagram shows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

Source: Refinitiv Datastream.

## 15 Volatility index

Standard deviation



Note: Implicit volatility calculated from index option prices. Volatility (Sweden) is represented by SIX Volatility through September 2018. An average of OS30C implicit volatility estimated for calls and puts is used instead starting in October 2018.

Source: Refinitiv Datastream.