



FI Ref. 21-7246

**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

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

The purpose of the countercyclical capital buffer is to maintain and strengthen the banks' resilience to shocks. 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 frees up capital, which aids banks to maintain their lending activities and thus alleviates a downturn in the economy.<sup>2</sup>

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.<sup>3</sup> The new rate entered into force immediately.

### Finansinspektionen's assessment

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.

Over the past year, the developments on the credit market for households and non-financial firms diverged. The debts of non-financial firms are growing significantly slower now than at the beginning of the 2020. In January 2021,

---

<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> See the memorandum *Tillämpning av den kontracykliska kapitalbufferten* for a more detailed description of the tool's purpose and how FI applies it. An English translation is available at [www.fi.se](http://www.fi.se).

<sup>3</sup> FI (2020), *Ändring av föreskrifter om kontracykliskt buffertvärde*. Published on [www.fi.se](http://www.fi.se) on 16 March 2020, FI Ref. 20-6054. An English translation is available on the website.

the growth rate was 2.8 percent, which is approximately 5 percentage points lower than in January 2020. This slow-down has been primarily caused by a significant decrease in the non-financial firms' commercial paper-based financing. Both the economic recovery and the functioning of the credit market are impacted at the same time by the support measures introduced in 2020. It is also probable that the firms' demand for credit may increase as the economic recovery picks up and the support measures are rolled back.

Households are experiencing different conditions. After house prices fell at the beginning of the pandemic, they began to rise sharply during the summer and autumn. In February 2021, house prices increased at an annual rate of 12.6 per cent. This is the fastest price movement since the start of 2016. MFI lending to households during the year increased gradually, and in January 2021 the annual rate of increase was 5.7 per cent. This figure is 0.4 percentage points higher than in January 2020.

Overall, total debt increased by 4.6 per cent at an annual rate in Q4 2020. This is just under 2 percentage points lower 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 Q3 2020 and amounted to 8.6 percentage points. The countercyclical buffer guide is thus set at 2.1 per cent.<sup>4</sup>

The sharp economic downturn in the spring combined with the uncertainty surrounding future economic development mean that it is important for banks to continue to have capital buffers that enable them to issue loans and support the real economy during the recovery. The economic downturn that occurred in conjunction with the spread of the coronavirus has so far not resulted in any widespread materialisation of systemic risks. The expected upswing in the banks' credit losses has not yet been realised. However, there remains considerable uncertainty, primarily related to the timing and impact of a future roll-back of the fiscal policy support measures taken during the crisis, since these measures have played a central role in supporting the resilience of non-financial firms.

FI makes the assessment that a decision to increase the buffer rate will become relevant first when both the economy and its forecasts have stabilised further.

---

<sup>4</sup> Experience has shown that the credit gap has some inherent weaknesses that make it less suitable as an indicator. This applies in particular immediately after a major economic downturn since the downturn impacts GDP faster than growth in the credit supply, which is not necessarily a sign of elevated systemic risks.

Future increases to the countercyclical buffer rate, like the increases that FI decided on during the period 2014–2018, will be made gradually. Unlike earlier decisions, however, FI will increase the buffer rate at an earlier stage. The reason for this is that FI has now switched to applying a positive neutral level for the countercyclical capital buffer.<sup>5</sup> Given current forecasts as well as the developments in both the economy and the credit market, FI makes the assessment that an initial increase of the buffer rate will be made at the earliest in Q3 2021.

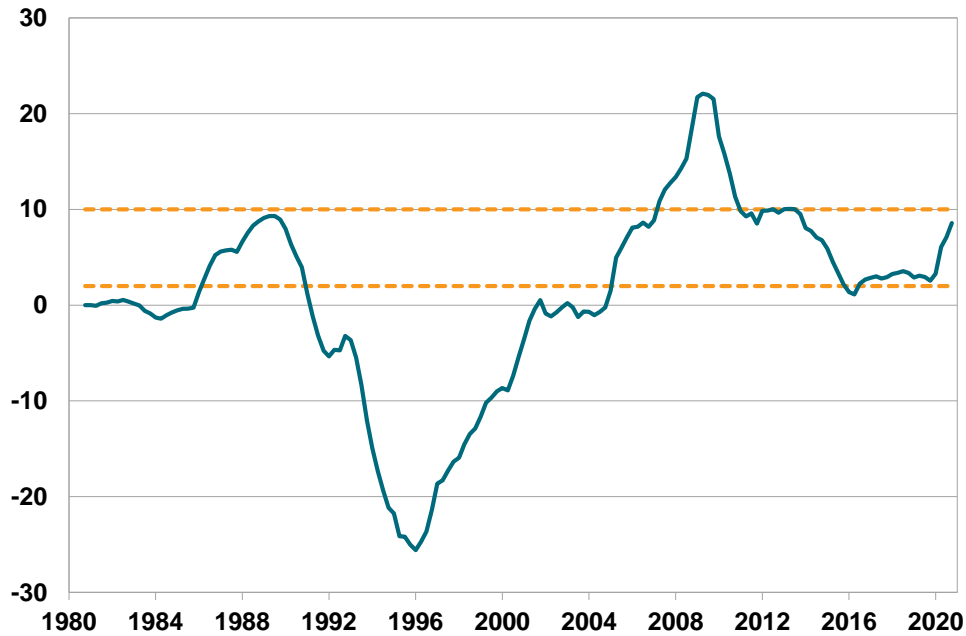
---

<sup>5</sup> See the memorandum *Tillämpning av den kontracykliska kapitalbufferten* for a more detailed account of this principle.

## Appendix 1: Indicators

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

Deviation from trend in percentage points

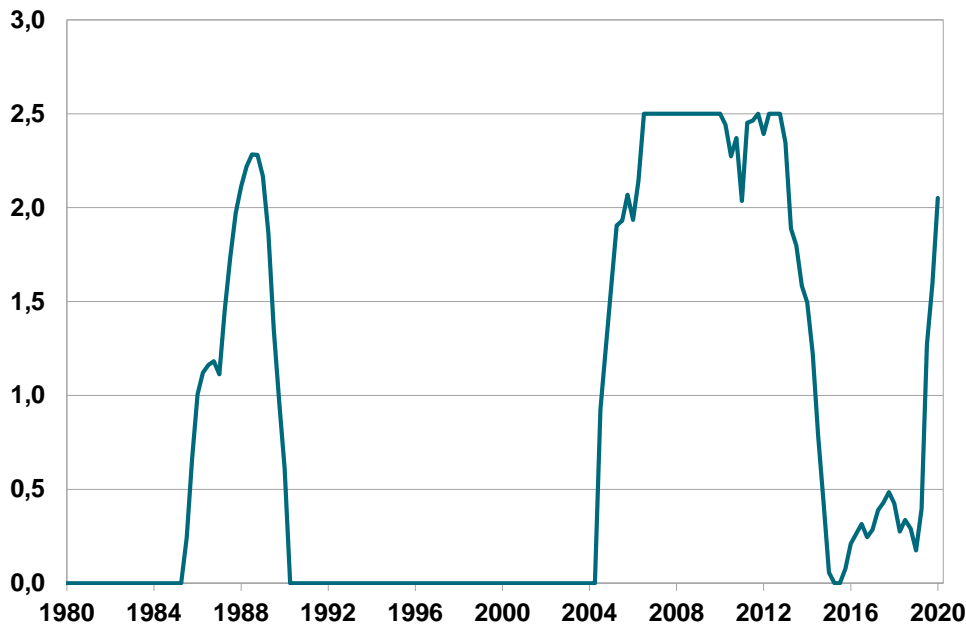


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

### 2 Buffer rate according to the standardised approach

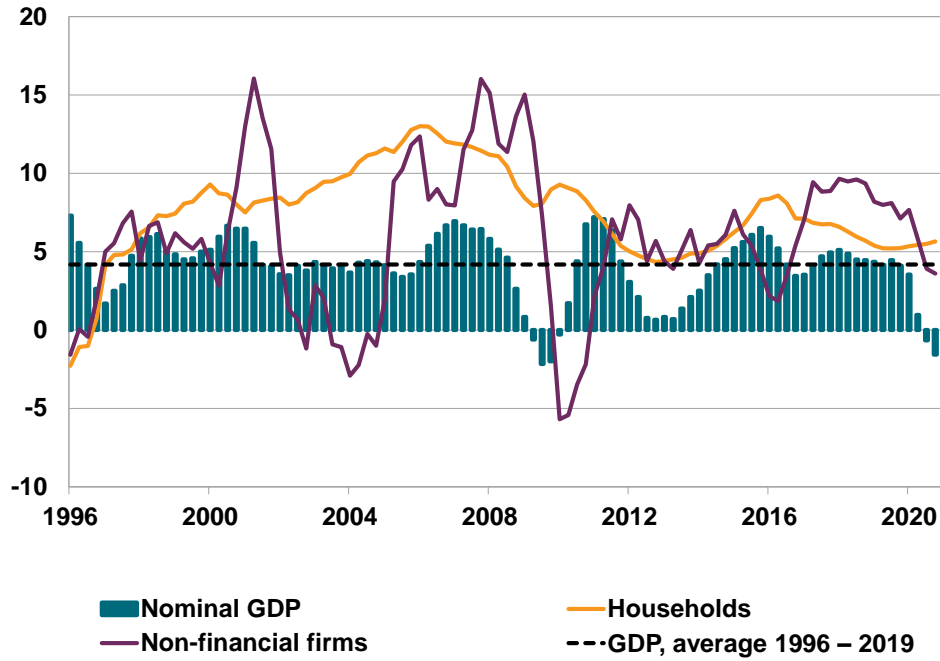
Per cent



Source: FI and Statistics Sweden.

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

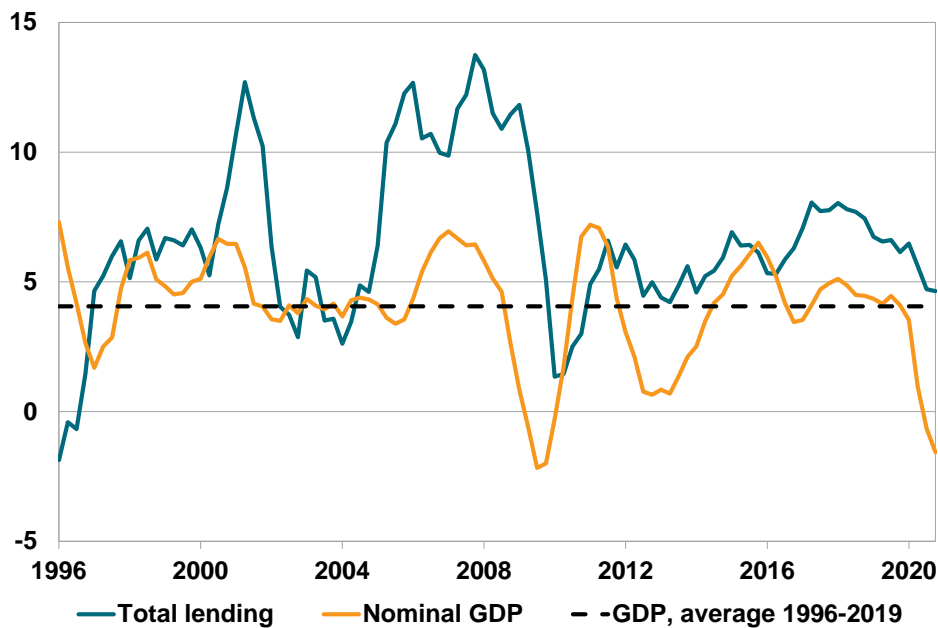
Annual change in per cent



Source: Statistics Sweden.

### 4 Total lending and nominal GDP

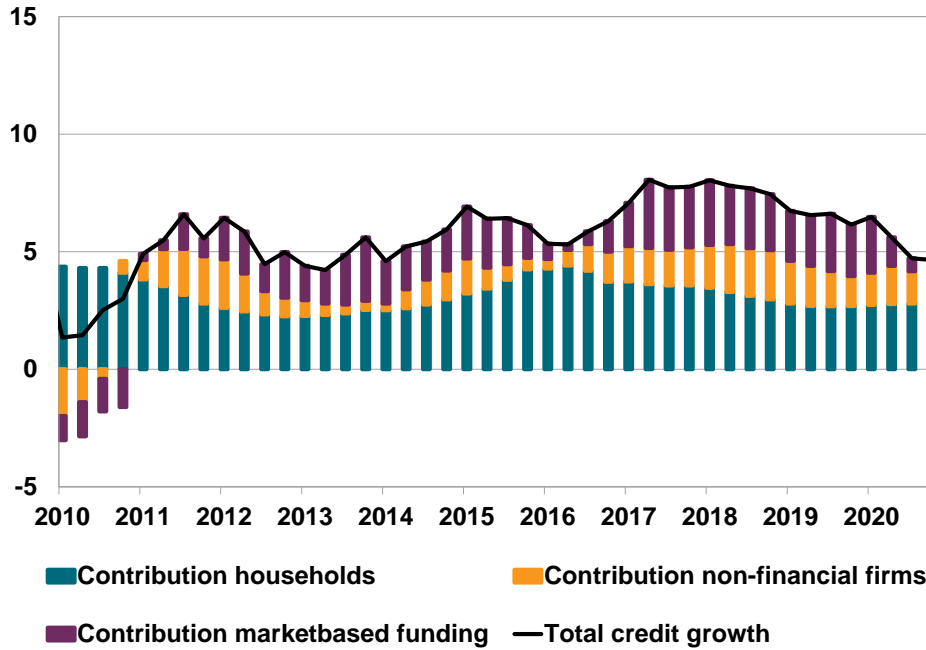
Annual change in per cent



Source: Statistics Sweden.

### 5 Contribution to total lending growth

Annual change in per cent

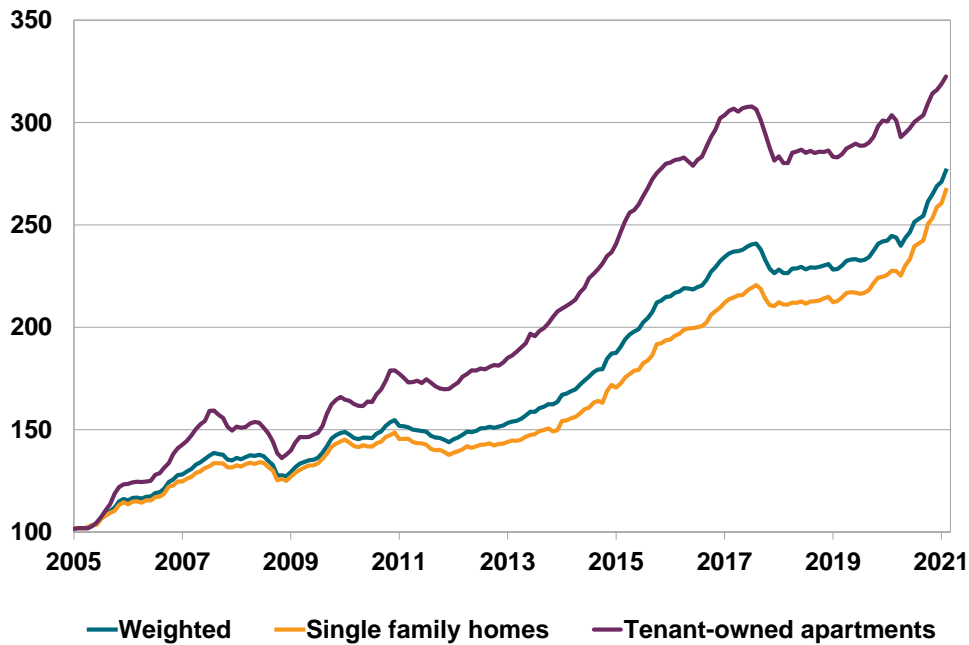


Note: Refers to total lending to households and corporates and their contribution to the annual rate of growth in per cent. Contribution of non-financial firms refers to MFI's lending to non-financial firms.

Source: FI and Statistics Sweden.

### 6 House prices in Sweden

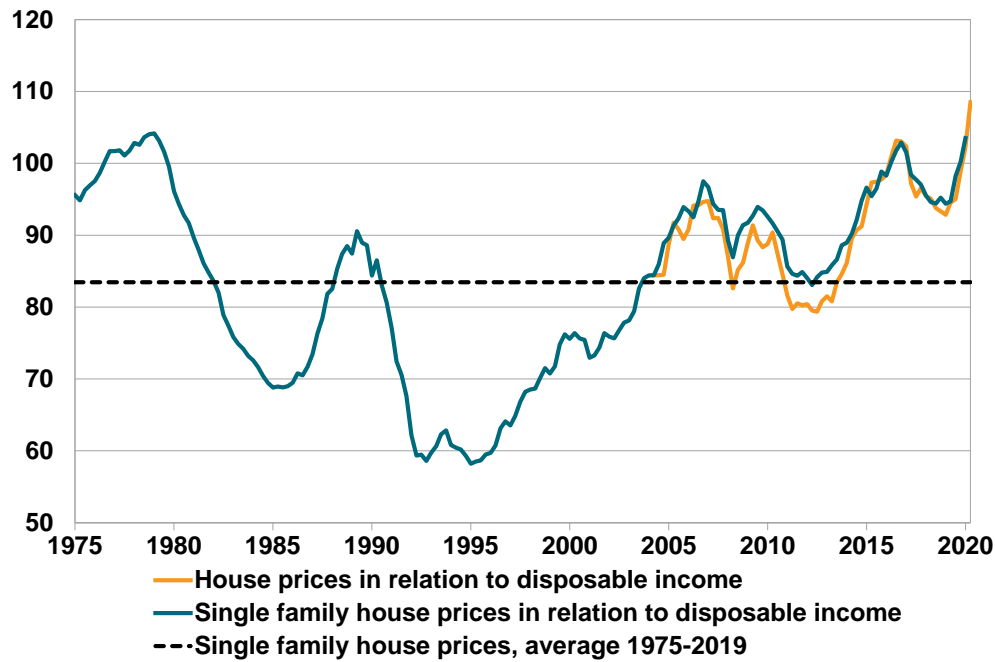
Index 100 = January 2005



Source: Valueguard.

### 7 House prices in relation to disposable income

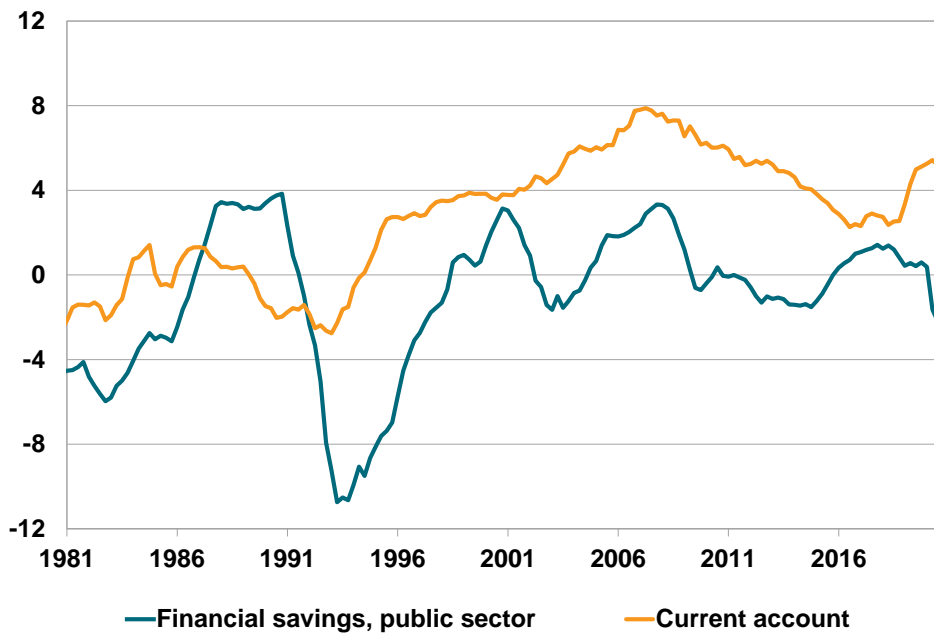
Index 100 = 1980



Source: Statistics Sweden and Valueguard.

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

Per cent of GDP

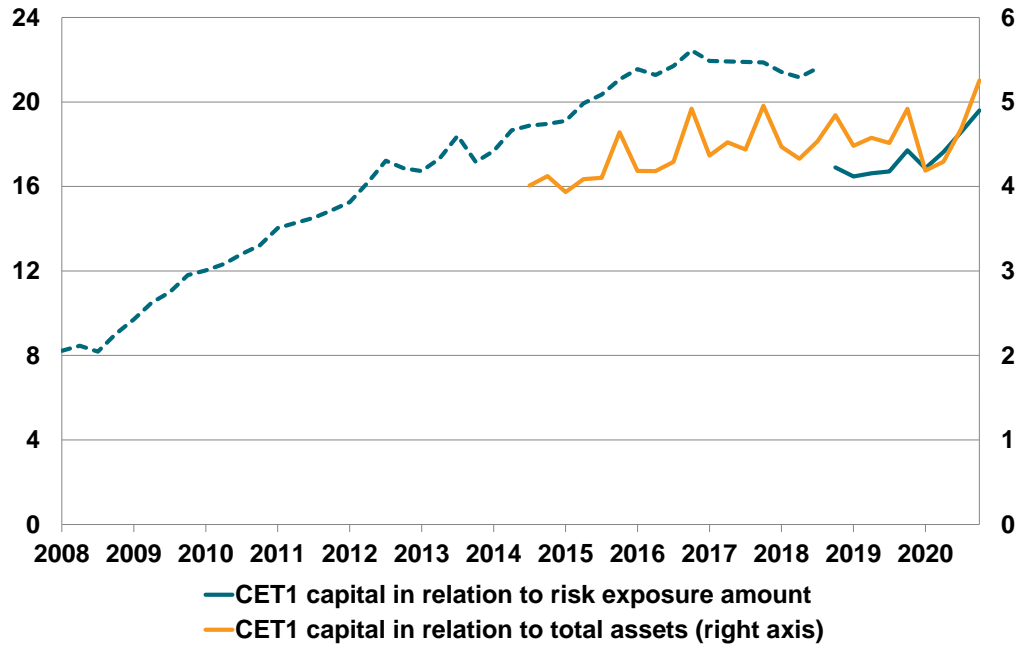


Note: The current account is estimated using the national accounts.

Source: Statistics Sweden.

### 9 CET 1 capital

Per cent

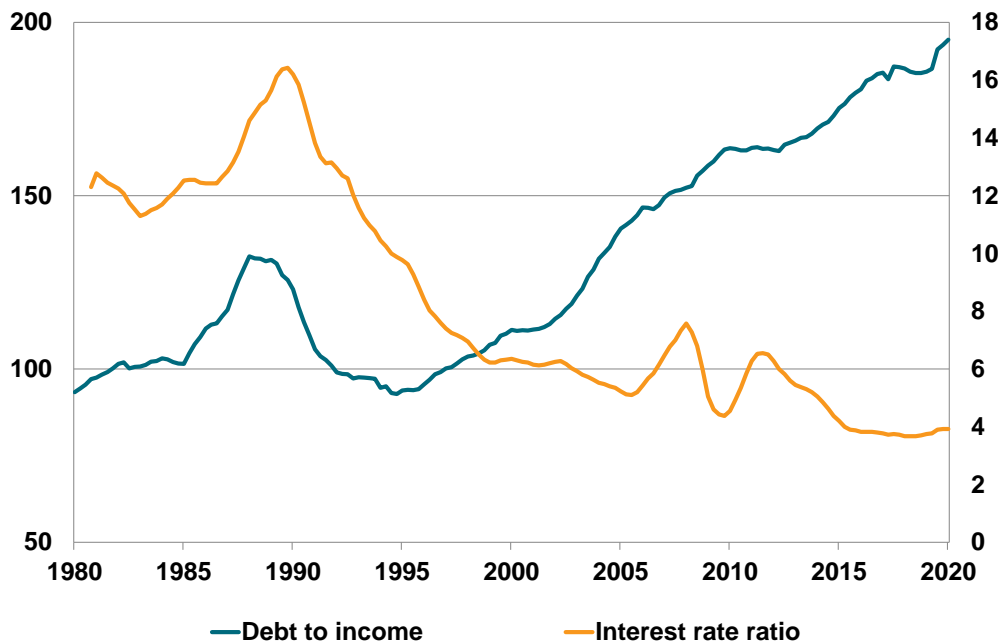


Note: The diagram shows an unweighted average for the three major Swedish banks. Since Q4 2018, the risk-weight floor is applied to Swedish mortgages in Pillar I through Article 458 of the Capital Requirements Regulation. This change means that the risk-weight exposure amount increased and the capital 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

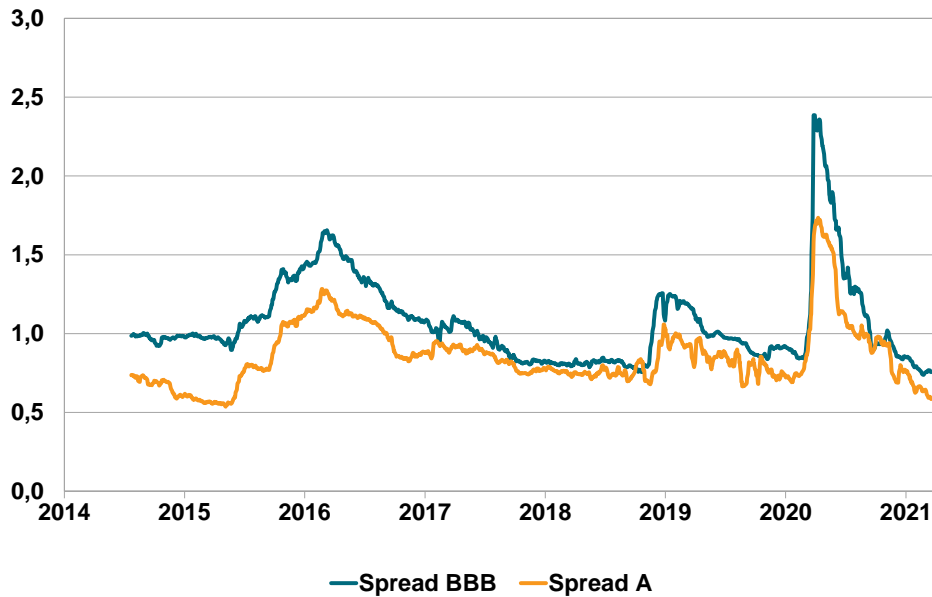


Source: Statistics Sweden.



### 11 Swedish risk premiums

Percentage points

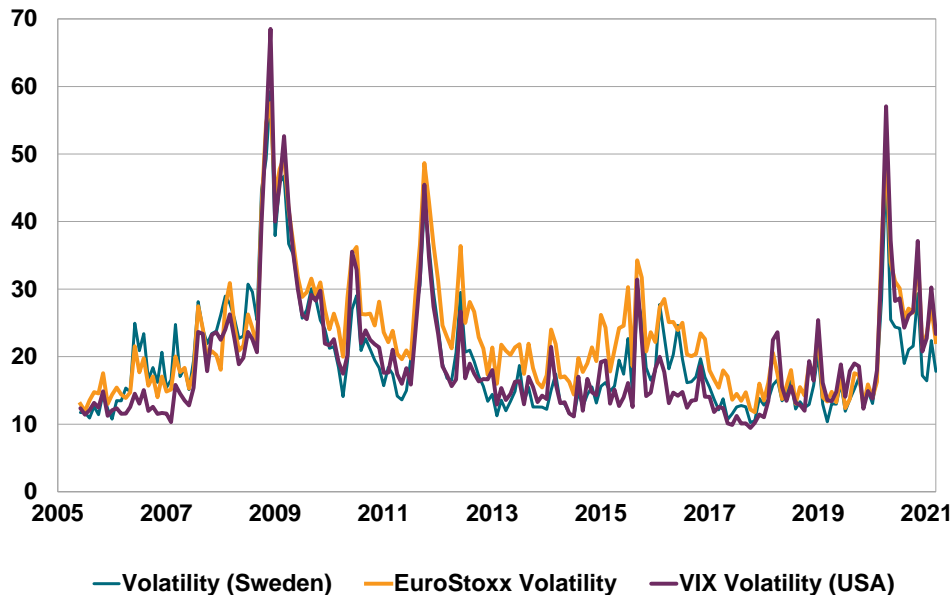


Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate. The diagram shows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

Source: Refinitiv Datastream.

### 12 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.