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DECISION



FI Ref. 20-19881

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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 chose to lower the buffer rate to counteract a credit crunch and in this way mitigate a downturn in the economy. Lowering the countercyclical buffer rate released capital so the banks could better maintain lending levels and thereby have better possibilities to meet a higher demand for credit.

Non-financial firms' market financing is growing considerably slower compared to the beginning of the year. In July, the growth rate for market financing was 2.7 per cent, which is a decrease of 10.1 percentage points compared to February 2020. This fall is mainly caused by the non-financial firms' financing through commercial paper. Banks have been able to absorb parts of the demand which are due to the difficulties for non-financial firms to issue new commercial paper and bonds during the spring. Since the end of February 2020, lending from Swedish monetary financial institutions (MFIs) to non-financial firms was slightly higher than at the beginning of the year. On an annual basis, lending to non-financial firms grew by 5.3 per cent in July. The growth rate in MFI's lending to households was 5.5 per cent. Total debt increased by 5.6 per cent on an annual basis in Q2 2020. Together with the weak GDP outcome for Q2 2020, this means that the credit gap, calculated in accordance with the Basel Committee's standardised approach, increased compared to Q1 2020 and amounted to 6.1 percentage points. This means that the countercyclical buffer guide is set at 1.3 per cent.³

Due to the current economic crisis combined with the uncertainty surrounding economic development and the future recovery, it is important for banks to have usable capital buffers to continue to grant loans and support the real economy. Given FI's decision on 16 March 2020, and assuming normal implementation periods, the countercyclical buffer rate of 0 per cent will remain until at least the spring 2022. An increase will only become relevant when both the economy has normalized and systemic risks motivate 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.

³ It should be noted that the credit gap is less relevant as an indicator directly following a large economic downturn as it impacts GDP faster than the growth of outstanding debt which means that it is not necessarily a sign of increasing systemic risks.

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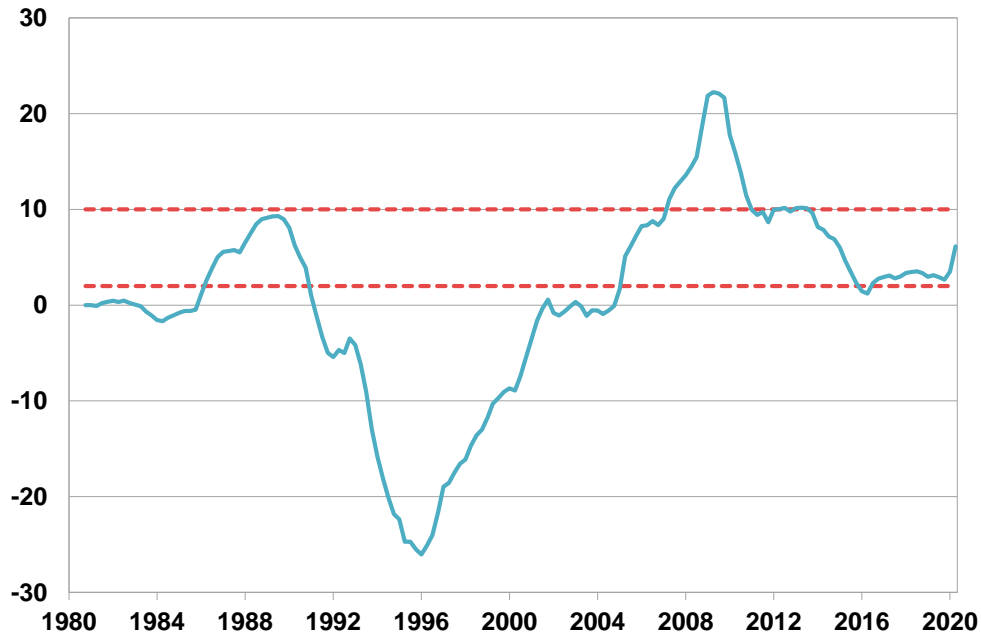
Erik Thedéen
Director General

Viktor Thell
Analyst

Appendix 1: Indicators

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

Deviation from trend in percentage points

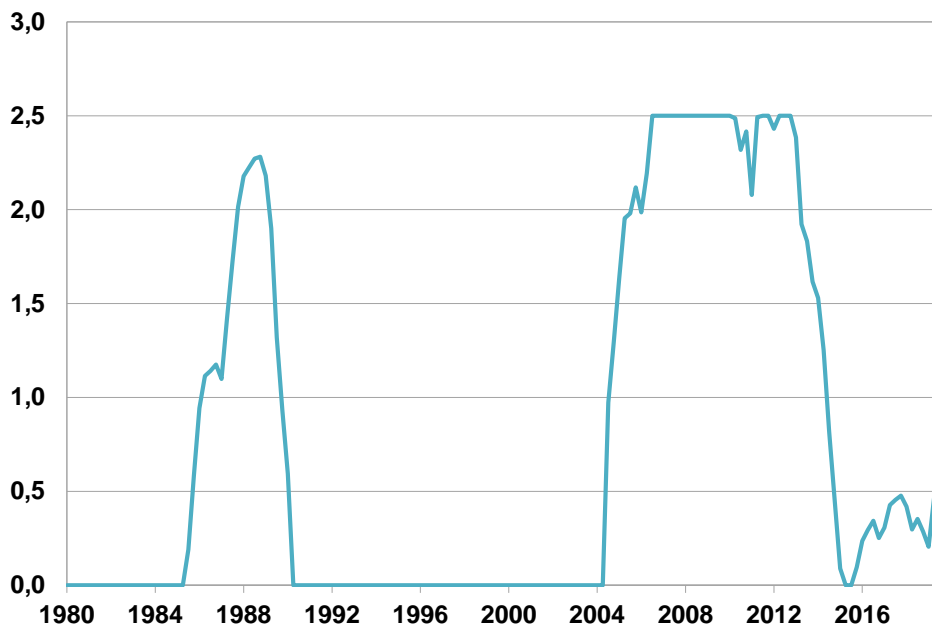


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

2 Buffer rate according to the standardised approach

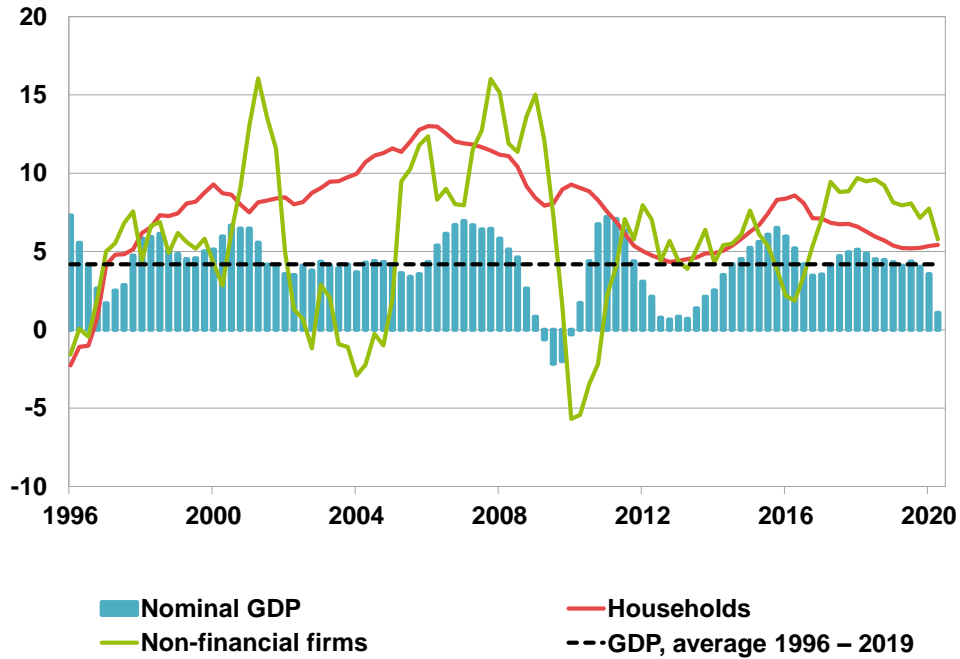
Per cent



Source: FI and Statistics Sweden.

3 Lending to households and firms and nominal GDP

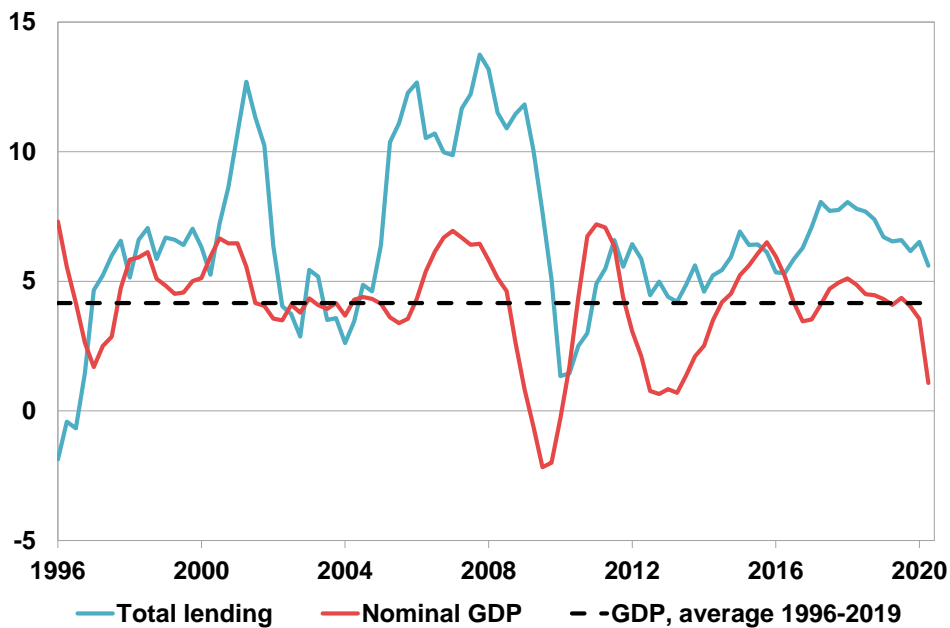
Annual change in per cent



Source: Statistics Sweden.

4 Total lending and nominal GDP

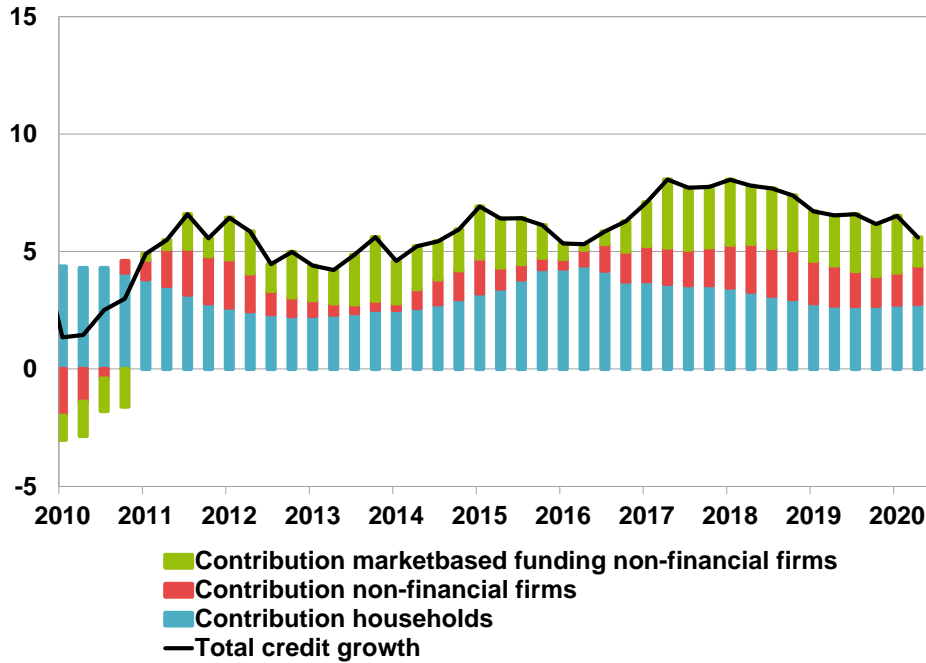
Annual change in per cent



Source: Statistics Sweden.

5 Contribution to total lending growth

Annual change in per cent

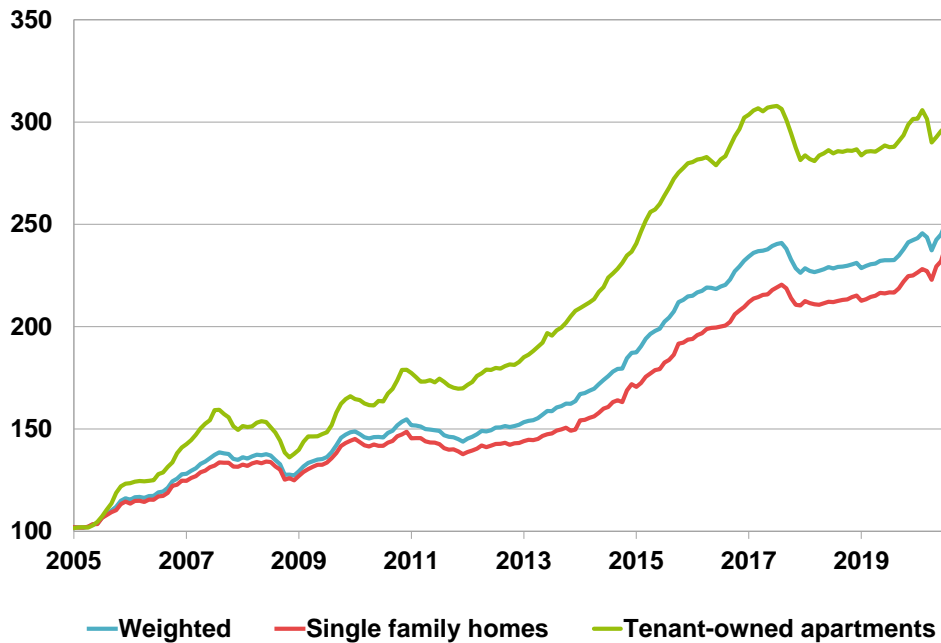


Note: Refers to total lending to households and corporates and their contribution to the annual rate of growth in per cent. Contribution of non-financial firms refers to MFI's lending to non-financial firms.

Source: FI and Statistics Sweden.

6 House prices in Sweden

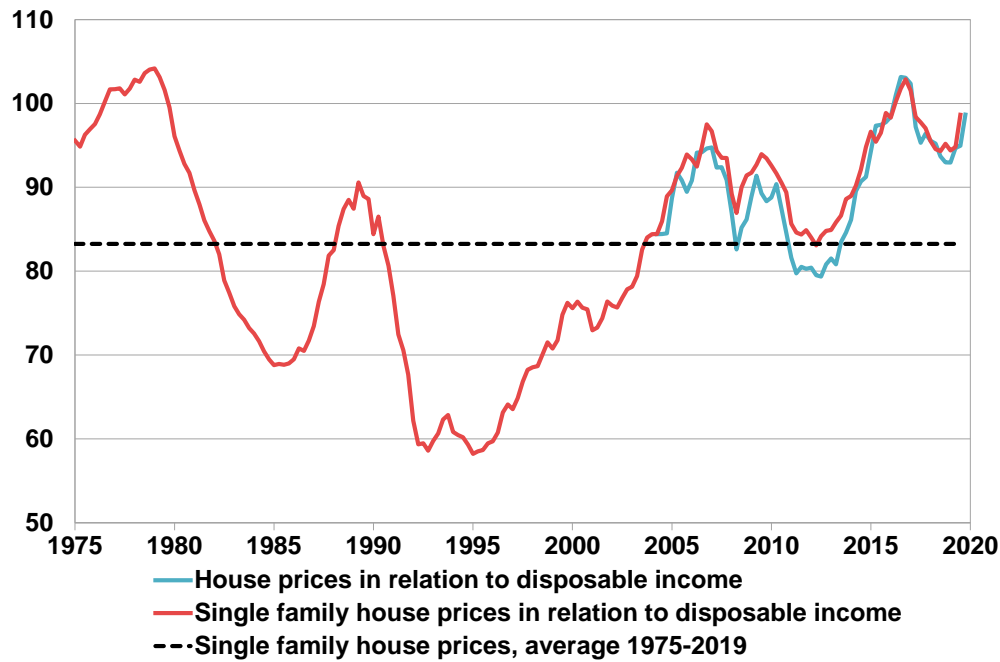
Index 100 = January 2005



Source: Valueguard.

7 House prices in relation to disposable income

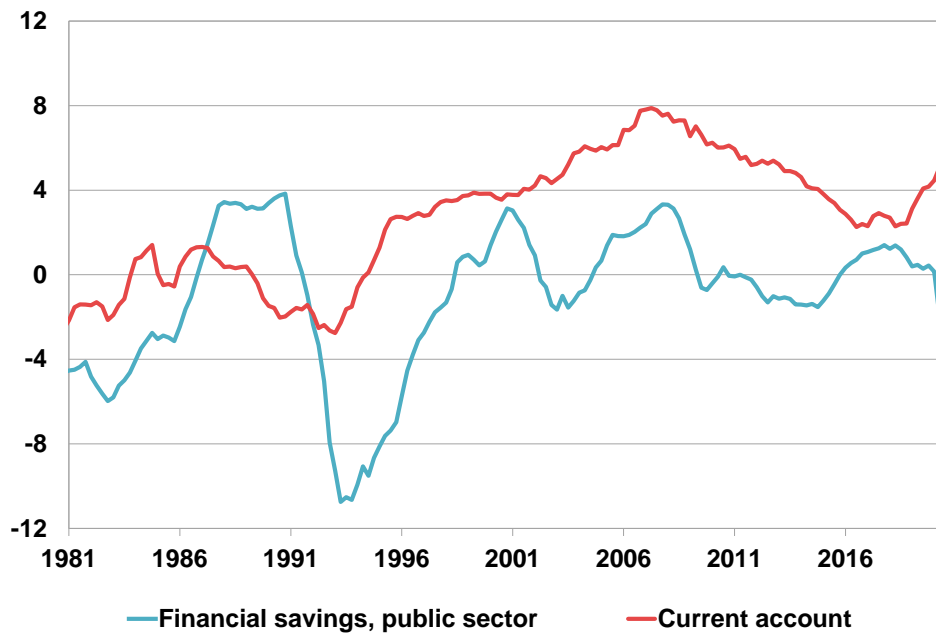
Index 100 = 1980



Source: Statistics Sweden and Valueguard.

8 Current account and financial savings in the public sector

Per cent of GDP

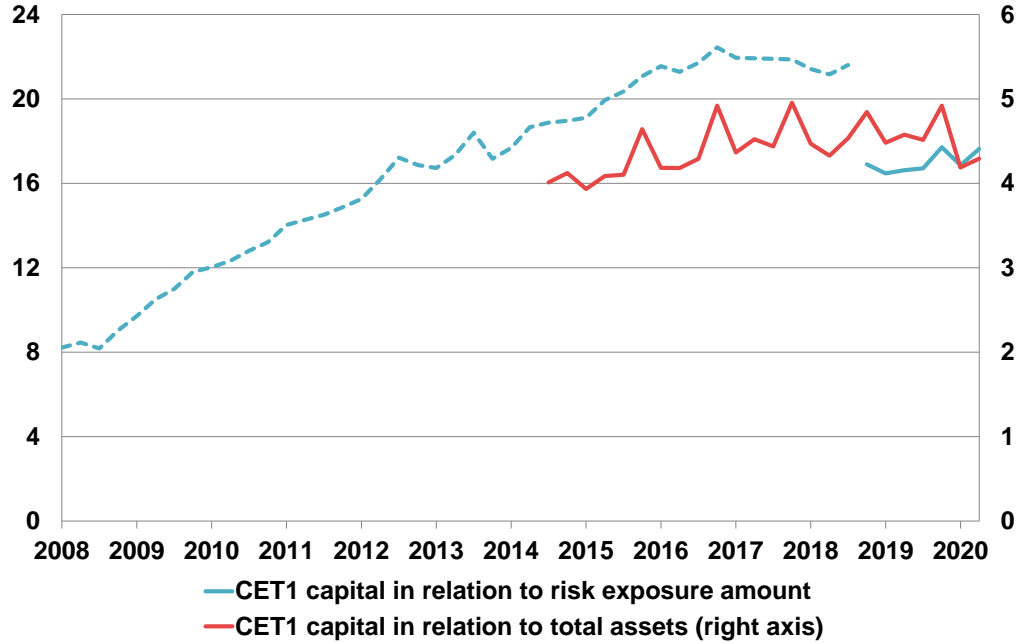


Note: The current account is estimated using the national accounts.

Source: Statistics Sweden.

9 CET 1 capital

Per cent

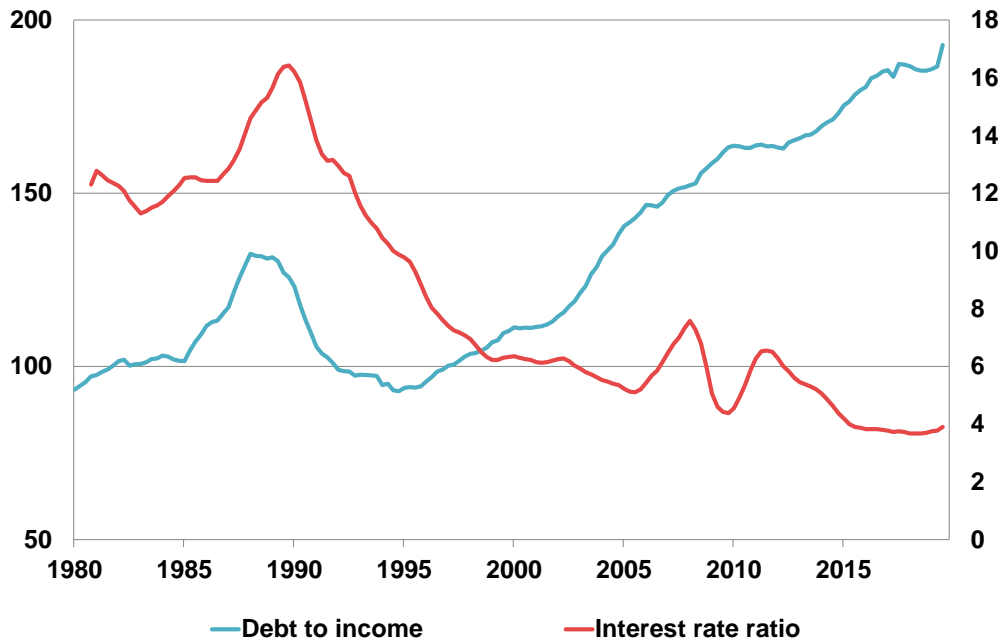


Note: The diagram shows an unweighted average for the three major Swedish banks. Since Q4 2018, the risk weight floor is applied to Swedish mortgages in Pillar I through Article 458 of the Capital Requirements Regulation. This change means that the risk-weight exposure amount increased and the capital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

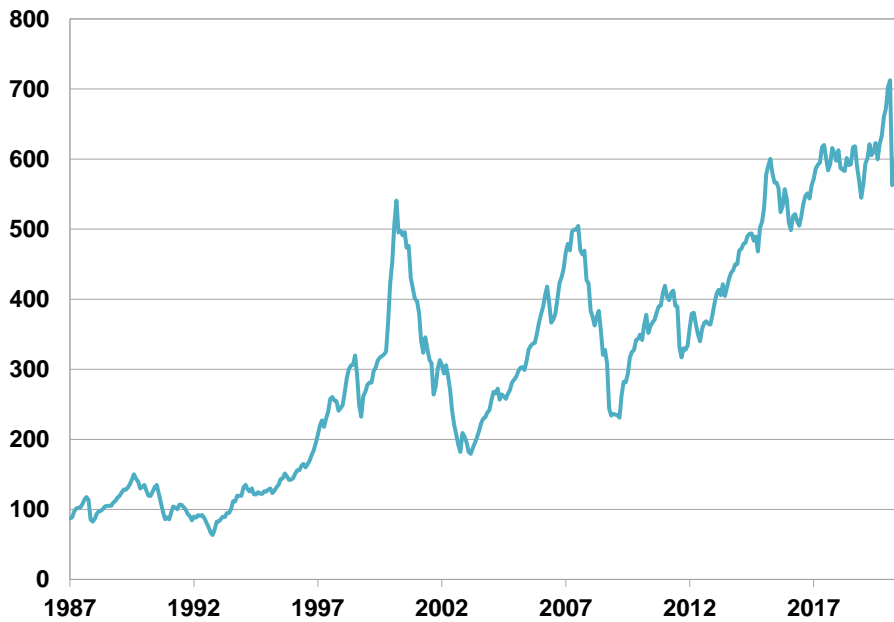
Per cent of disposable income



Source: Statistics Sweden.

11 Real share prices

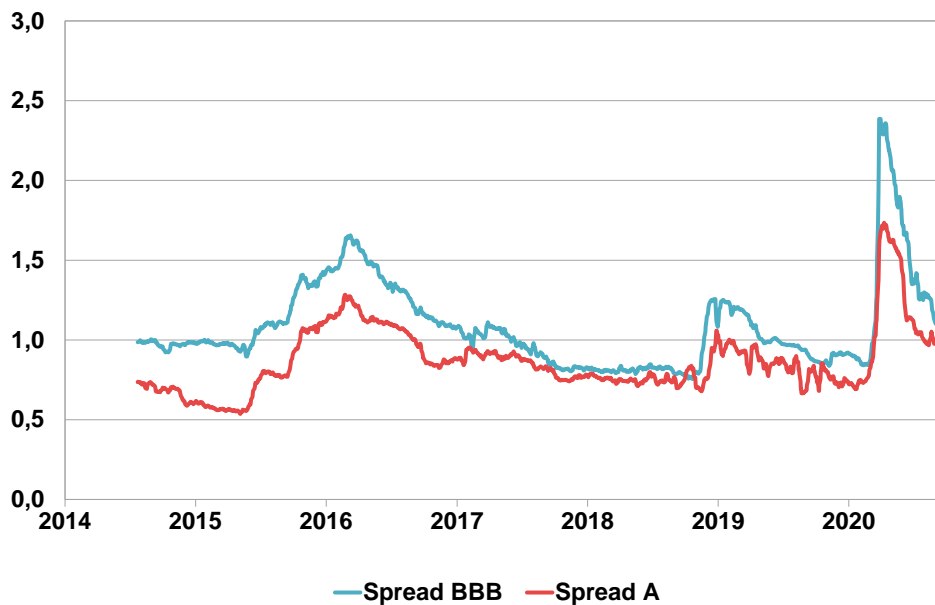
Index 100 = 1987



Source: Statistics Sweden and Refinitiv Datastream.

12 Swedish risk premiums

Percentage points

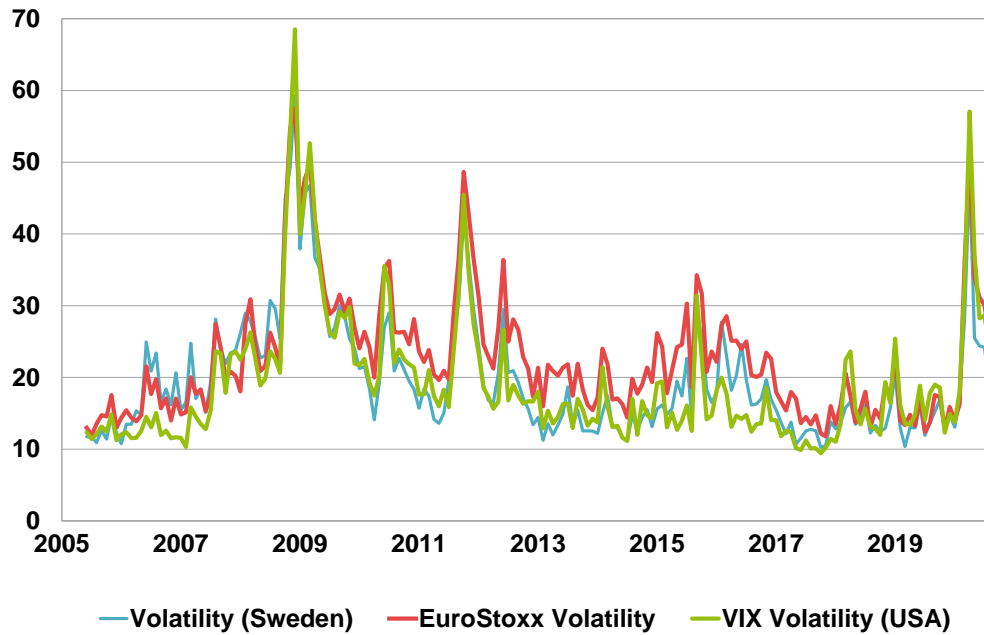


Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate. The diagram shows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