

D E C I S I O N



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Decision regarding the countercyclical buffer rate

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

The case

Finansinspektionen, in accordance with Chapter 7, section 1 of the Capital Buffers Act (2014:966), shall set a countercyclical buffer guide¹ and a countercyclical buffer rate each quarter. On 14 March 2016, FI decided to raise the countercyclical buffer rate from 1.5 per cent to 2 per cent. This rate has been applied as of 19 March 2017.²

Finansinspektionen's assessment

The purpose of the countercyclical capital buffer is to strengthen the banks' resilience. The countercyclical capital buffer is a time-varying capital requirement. This means that the buffer is activated when there is a risk that financial imbalances, and hence systemic risks, will increase. In an ensuing recession or in the event of major losses for the banks, the buffer requirement may be reduced to counteract more restrictive lending and thereby alleviate the economic downturn.

FI decided in December 2016 not to change the countercyclical buffer rate. The risk overview has not changed significantly since the decision in December.

Lending in the Swedish economy in general is continuing to develop as it has previously. Lending to households continues to grow faster than both nominal GDP and disposable income, but the rate at which it is growing has slowed slightly. The rate at which debt is growing is closely linked to the housing market, which has long been characterised by rising prices. Since 2015, the rate

¹ The buffer guide constitutes the point of departure for Finansinspektionen's assessment of what the countercyclical buffer rate should be.

² FI (2016), *Amendment to regulations regarding the countercyclical buffer rate*. Published on www.fi.se on 15 March 2016, FI Ref. 16-742.

at which house prices have been increasing slowed slightly, but is still relatively high, at almost 9 per cent.

Lending to corporates from monetary financial institutions (MFIs) increased at the same time as the firms' market funding decreased. FI currently does not see any signs of excessive lending in the business sector.

Total lending amounted in Q3 2016 to 145 per cent of GDP. The credit-to-GDP gap, calculated in accordance with the Basel Committee's standardised approach, amounted in the same quarter to -1.06 per cent. This means that the countercyclical buffer guide is set at 0 per cent.

The forecast for total debt, i.e. for both corporates and households, is that growth will be slower compared to the previous forecast. This is primarily because household debts are judged to be increasing at a slower rate than before. Total debt growth is now considered to be within an interval that is considered to be sustainable in the long run.

Other indicators that Finansinspektionen takes into consideration are showing that the risks associated with the debt growth have not changed appreciably since the decision in December 2016.

The most recent decision regarding the countercyclical buffer rate set the rate at 2 per cent and has been applied since 19 March 2017. Given this background, FI believes there to be no grounds on which to decide to change the buffer rate.

A decision in this matter was made by Finansinspektionen's Director General (Erik Thedéen) following a presentation by Senior Analyst Thomas Eisensee. The Chief Economist (Henrik Braconier) also participated in the final proceedings.

Finansinspektionen

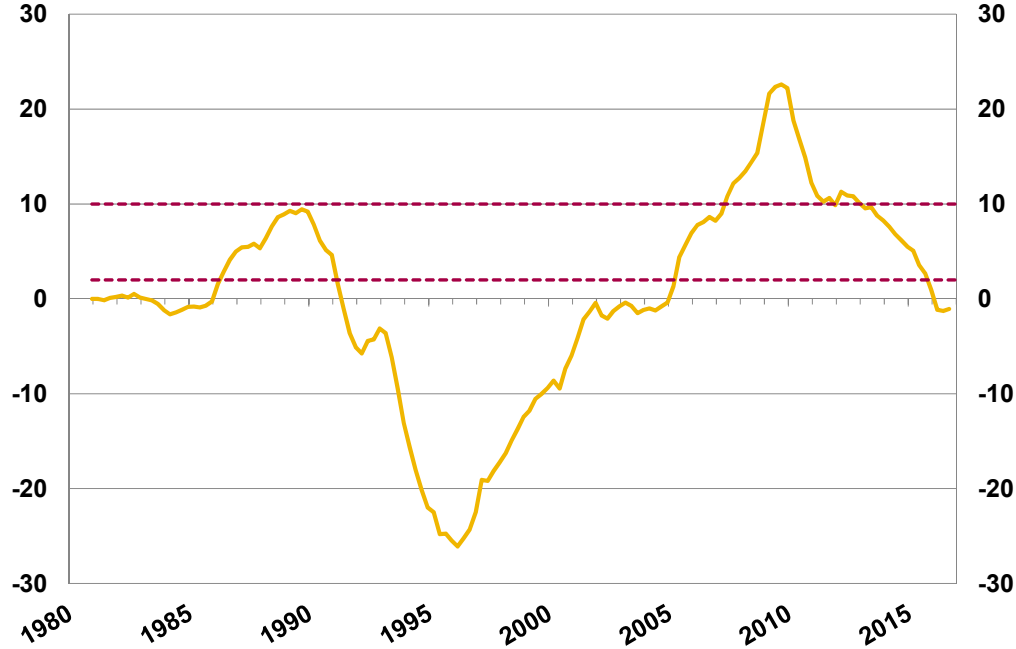
Erik Thedéen
Director General

Thomas Eisensee
Senior Analyst

Appendix 1: Indicators

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

Deviation from trend in percentage points

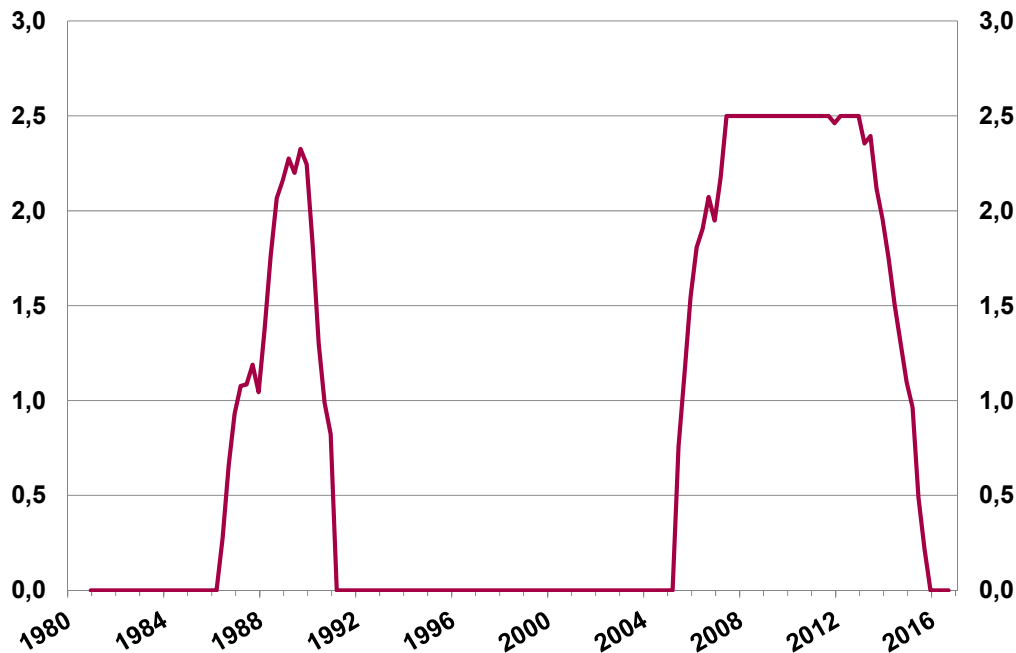


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

2 Buffer level according to the standardised approach

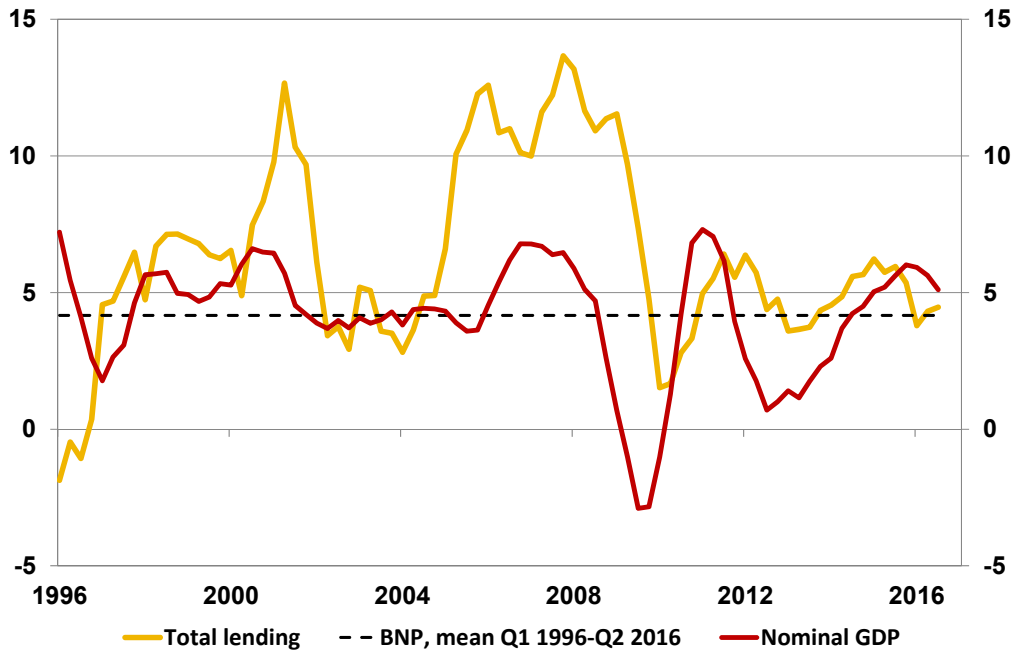
Per cent



Source: FI and Statistics Sweden.

3 Total lending and nominal GDP

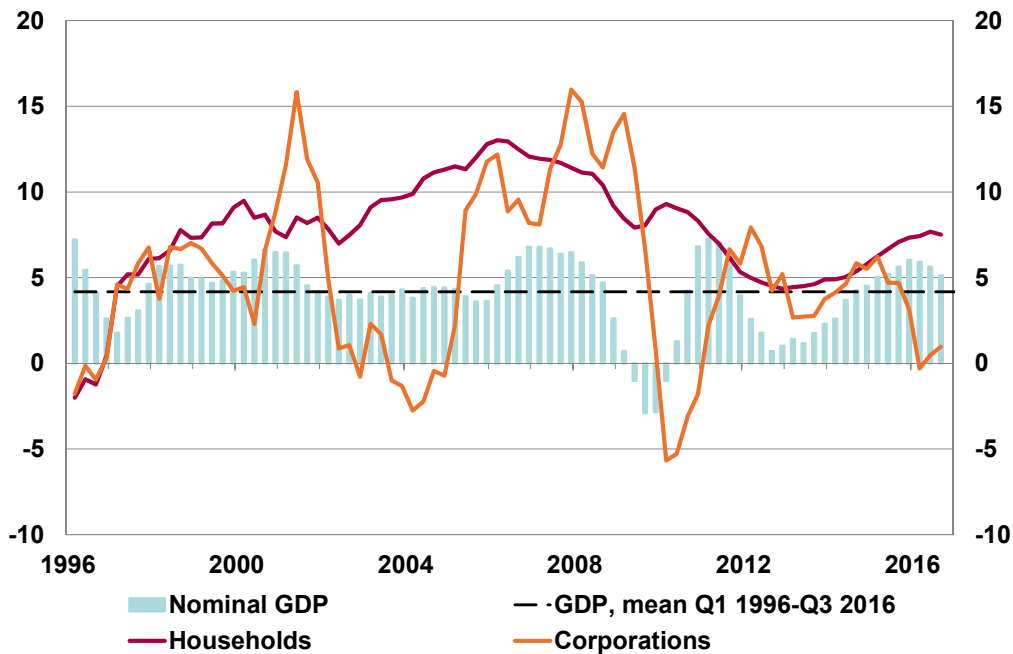
Annual percentage change



Source: Statistics Sweden.

4 Lending to households and firms and nominal GDP

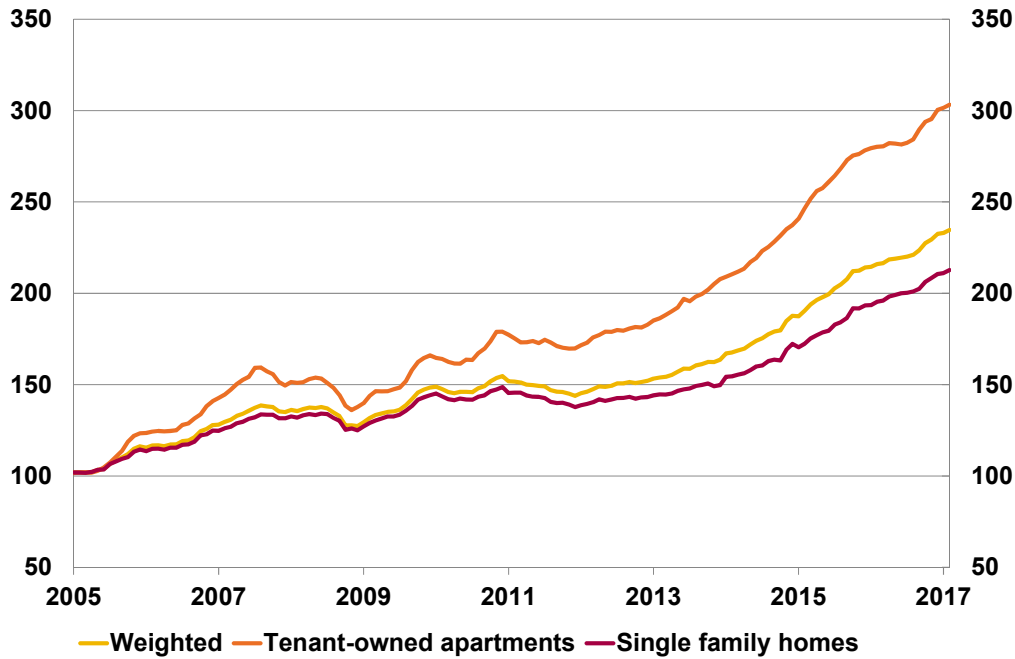
Annual percentage change



Source: Statistics Sweden.

5 House prices in Sweden

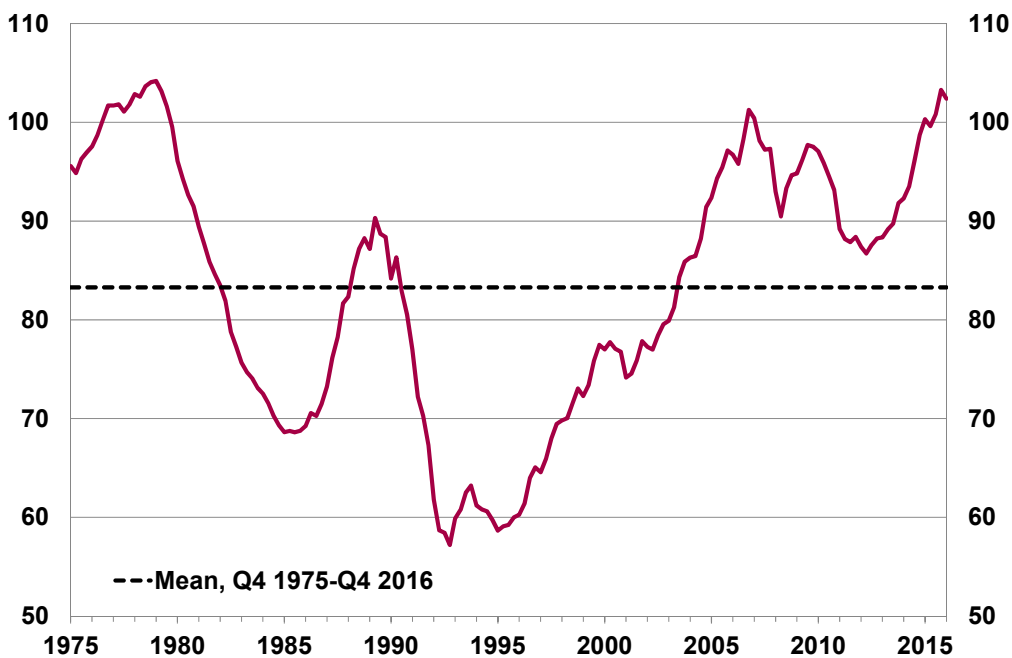
Index 100 = January 2005



Source: Valueguard and FI.

6 House prices in relation to disposable income

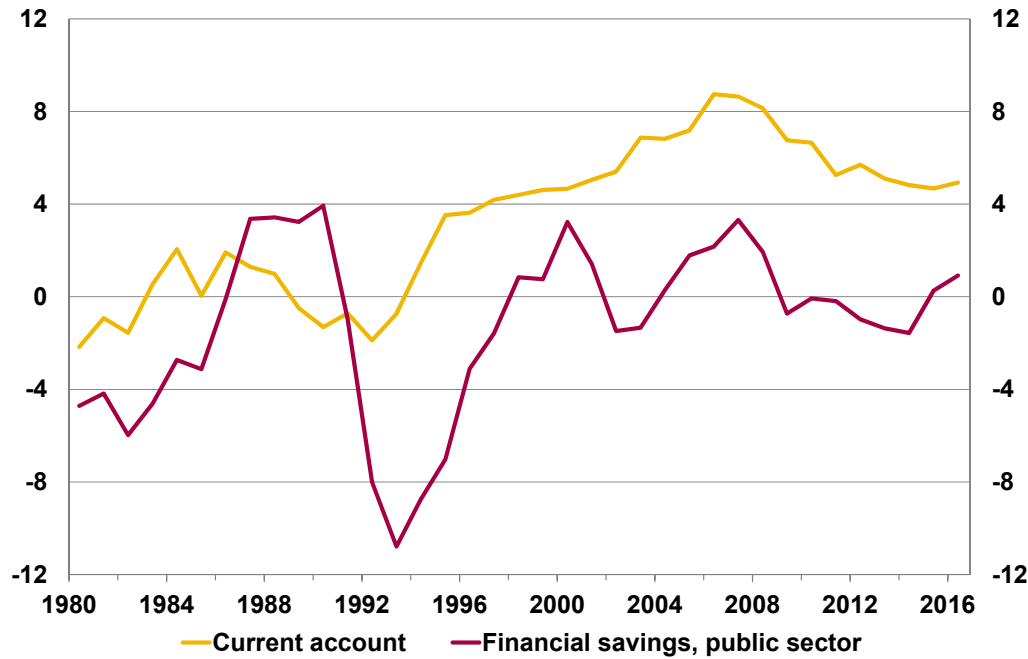
Index 100 = 1980



Source: Statistics Sweden.

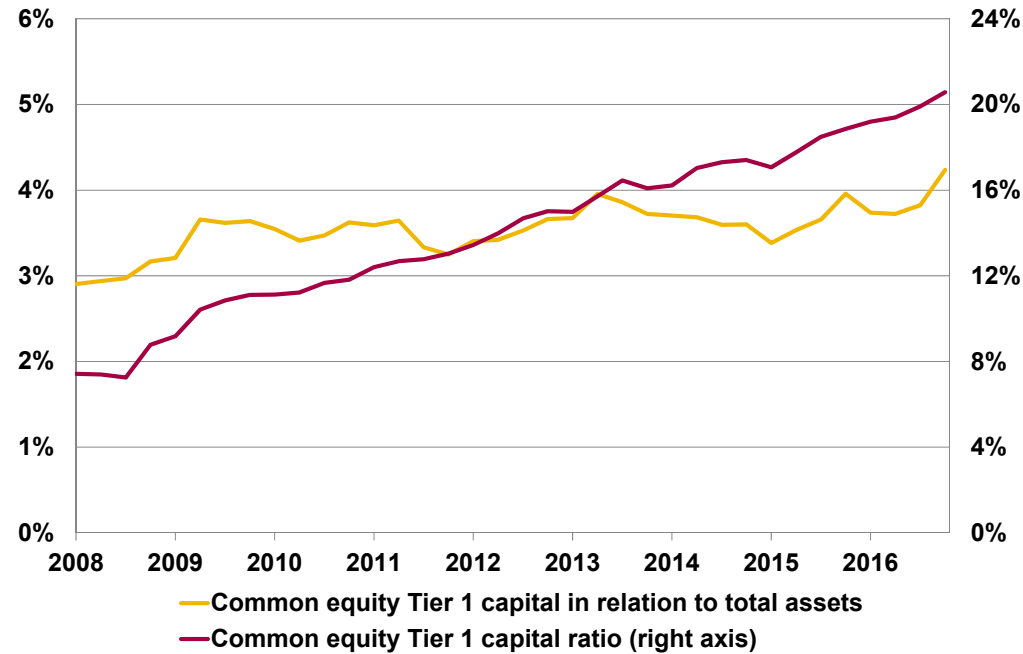
7 Current account and financial savings in the public sector

Share of GDP



Source: Statistics Sweden.

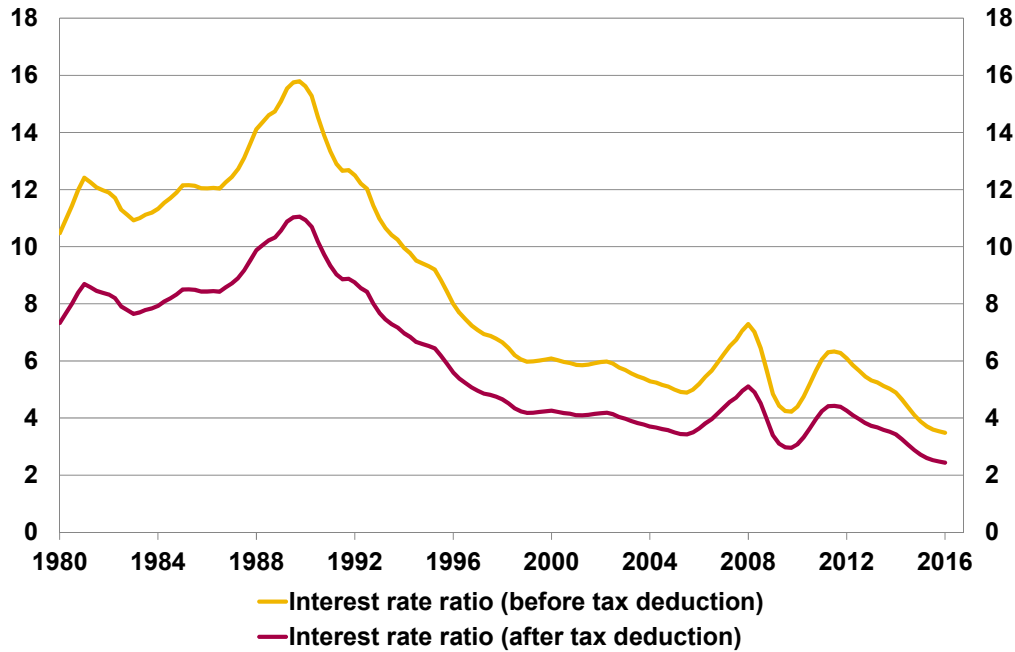
8 CET 1 capital in relation to total assets and the CET 1 capital ratio (per cent)



Source: FI.

9 Households' interest-to-income ratio

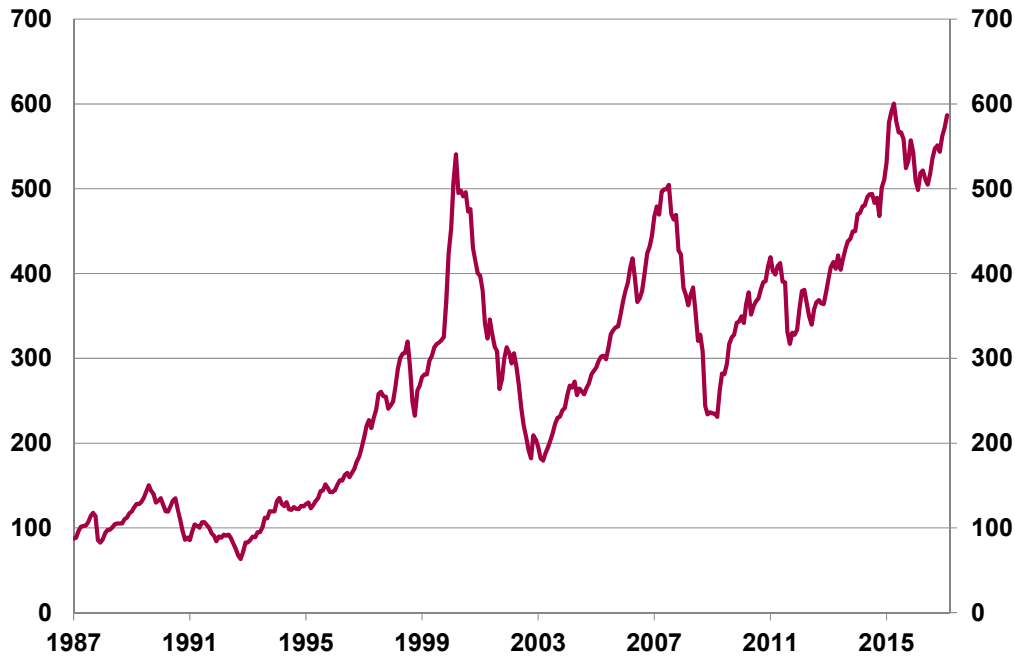
Per cent of disposable income



Source: Statistics Sweden.

10 Real share prices

Index 100 = 1987

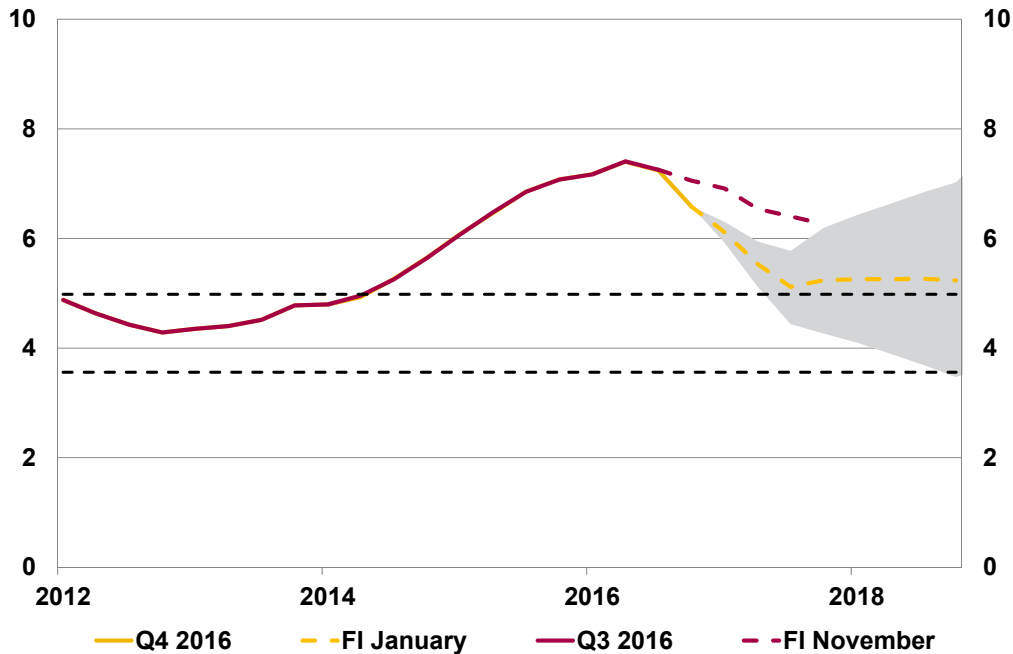


Note: Real share prices have been calculated by dividing OMX by KPIF.

Source: Statistics Sweden and Thomson Reuters Datastream.

11 Households' nominal debt

Annual percentage change

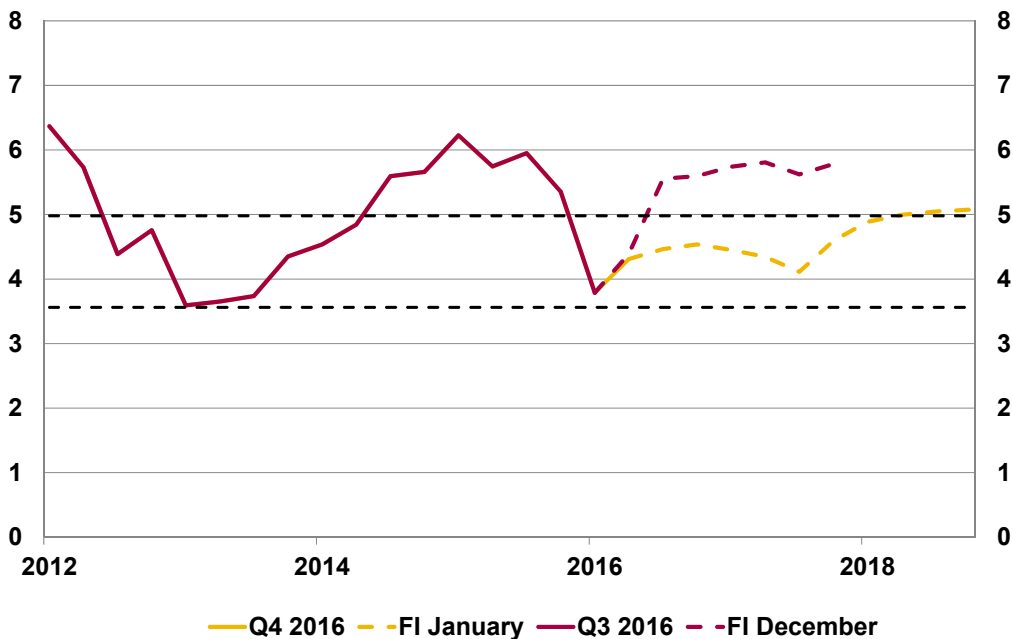


Note: The grey area shows the 68-per cent probability interval for the current prognosis. The area between the black, dashed lines marks a 95-per cent probability interval for growth of nominal GDP in a normal state. January refers to the forecast from the decision regarding countercyclical rates from January 2017.

Source: FI and Statistics Sweden.

12 Total nominal liabilities

Annual percentage change



Note: The area between the black, dashed lines marks a 95-per cent probability interval for growth of nominal GDP in a normal state. January refers to the forecast from the decision regarding countercyclical rates from January 2017.

Source: FI and Statistics Sweden.