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MEMORANDUM



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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.¹

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 gives the banks the possibility of maintaining large parts of their lending activities, thus alleviating a downturn in the economy.²

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.³ 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 improving banks' ability to satisfy 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 the downturn in the economy. The fact that the banks also entered the crisis with robust capital buffers, combined with various support measures, has helped maintain the supply of credit.

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 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.

³ FI (2020), *Ändring av föreskrifter om kontracykliskt buffertvärde*. Published at www.fi.se on 16 March 2020, FI Ref. 20-6054. An English translation is available on the website.

The development on the credit market differs for households and non-financial firms. As house prices have continued to rise at an increasing rate, households have taken larger mortgages. At the end of Q3 2021, total household debt had grown by an annual rate of 5.8 per cent. Total household debt in relation to disposable income increased to 199.1 per cent. Non-financial firms have experienced a different trend. They are taking smaller loans, and their total debt is increasing at a significantly slower rate now than before. At end of Q3 2021, the debt of non-financial firms had grown by an annual rate of 2.3 per cent. This is 5.4 percentage points lower than in Q1 2020. This outcome is caused by a combination of factors. In Q2 and Q3 2020, non-financial firms raised significantly less financing via the capital markets, which was offset to some extent by the banks increasing their lending through credit facilities. Since then, the growth rate in capital market financing has remained at low levels while the growth rate in bank financing has gradually decreased. FI makes the assessment that this decrease is primarily due to a decrease in the firms' aggregate demand for bank loans, but the banks have also to some extent become more cautious in their lending.

Overall, total debt increased by 4.1 per cent at an annual rate at the end of Q1 2021. This is 2.5 percentage points lower than in Q1 2020 and is being driven by slower growth for non-financial firms' debt. Total debt now amounts to 175 per cent of GDP, which is 9.4 percentage points higher than in Q1 2020. The ratio has increased, despite the slow-down in credit growth, because the GDP is still recovering. However, the credit-to-GDP gap, calculated in accordance with the Basel Committee's standardised approach, decreased, compared to Q4 2020.⁴ The countercyclical buffer guide also decreased somewhat, to 1.6 per cent.

The economic downturn that occurred in conjunction with the spread of the coronavirus has not resulted so far in any widespread materialisation of systemic risks. Despite this, FI has delayed raising the countercyclical capital buffer due to the uncertainty surrounding both systemic risks and the economic recovery. Because of this uncertainty, it was important for the banks to have capital to maintain their lending activities and support the real economy. The real economy is now showing increasingly clearer signs of a recovery, and the feared spike in credit losses never occurred. The fact that systemic risks have not materialised, however, does not mean that they have decreased. The upswing in house prices together with the high growth rate of household debt points rather to an increase in the cyclical risks associated with these factors.

⁴ The buffer guide for Q4 2020 has been revised downward to 1.68 per cent following revisions to the GDP.

As the economic recovery picks up speed, the demand for loans from non-financial firms is also expected to increase. It is important that banks are able to meet this demand to the extent needed to support a continued recovery. At the same time, some support measures, which in 2020 were necessary to offset the economic impact of the crisis, create incentives for increased risk-taking and indebtedness. FI therefore has set a goal to raise the countercyclical buffer rate during the second half of the year, given that the economic recovery remains strong and the outlook continues to stabilise.

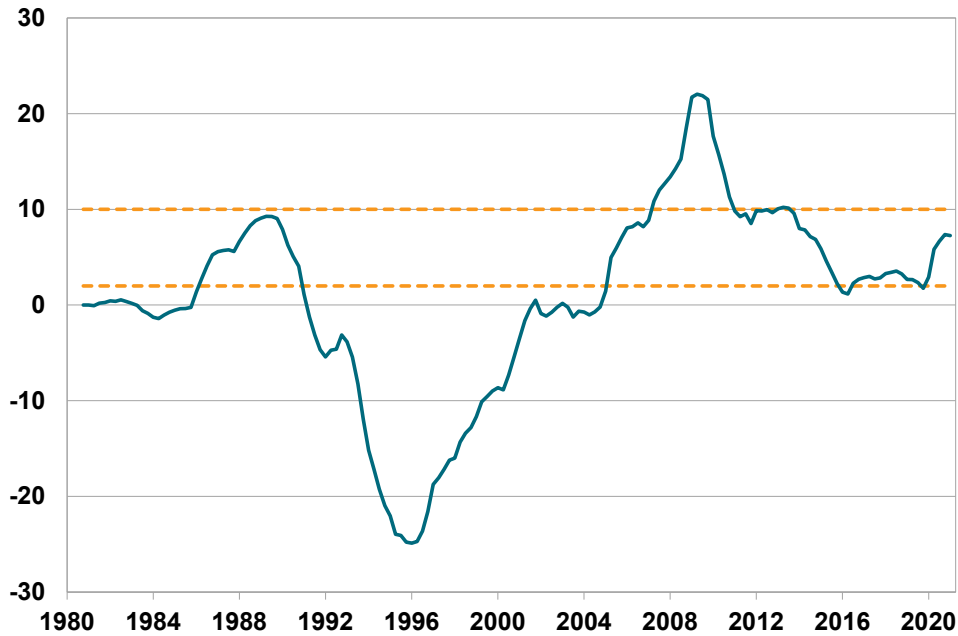
Future increases of the countercyclical buffer rate, like the increases that FI decided on during the period 2014–2018, will occur gradually. But, in contrast to earlier decisions, FI will raise the buffer rate at an earlier stage. The reason for this is that FI has now started applying a positive neutral level to the countercyclical capital buffer.⁵ Given the forecasts and the current developments in both the economy and the credit market, FI makes the assessment that an initial increase to the buffer rate will occur at the earliest in Q3 2021.

⁵ See the memorandum *Tillämpning av den kontracykliska kapitalbufferten* for a more detailed account of this principle. A translation is available at www.fi.se.

Appendix 1: Indicators

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

Deviation from trend in percentage points

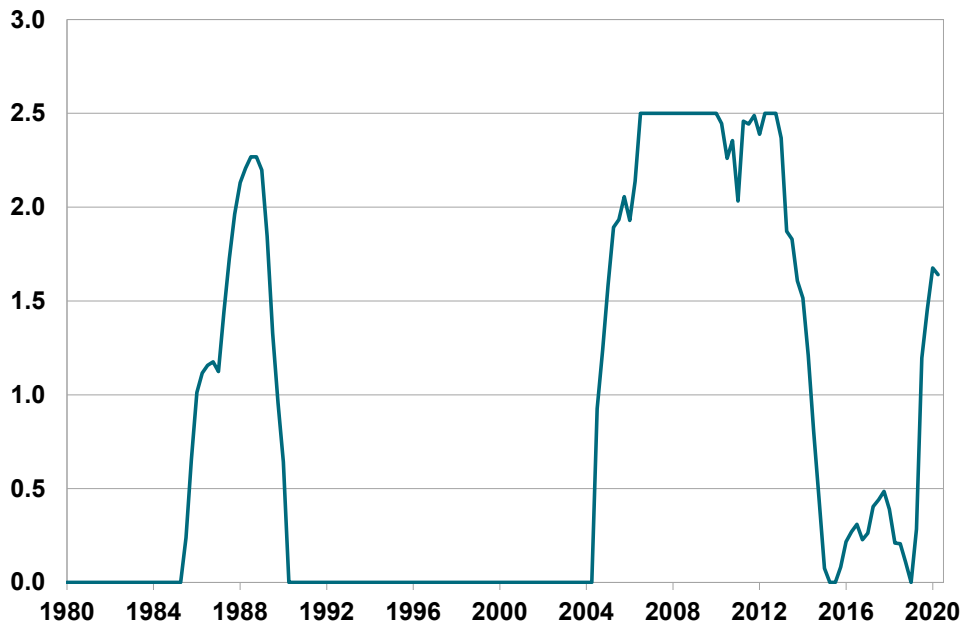


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

2 Buffer rate according to the standardised approach

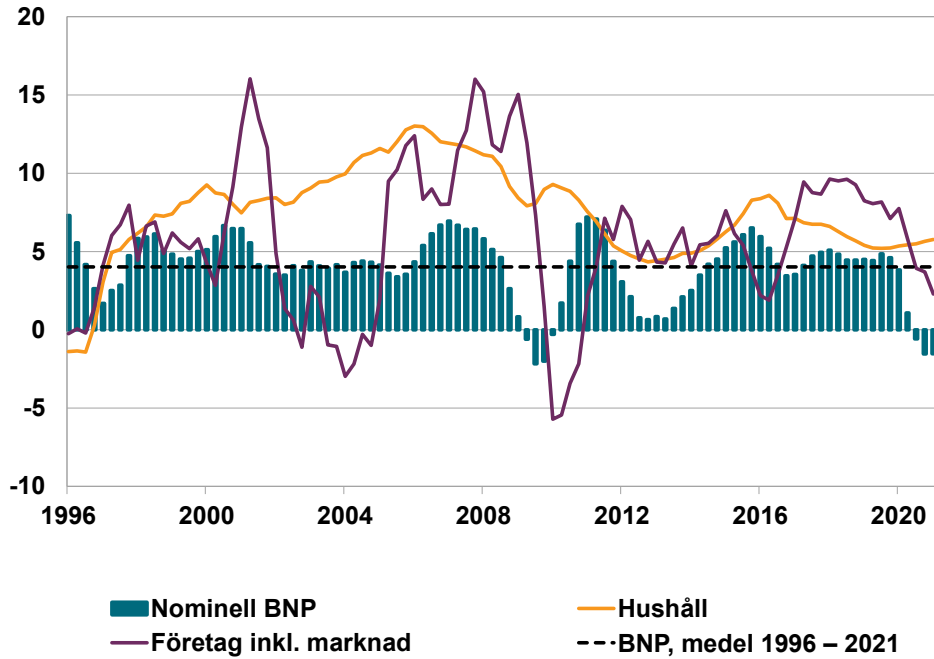
Per cent



Source: FI and Statistics Sweden.

3 Lending to households and firms and nominal GDP

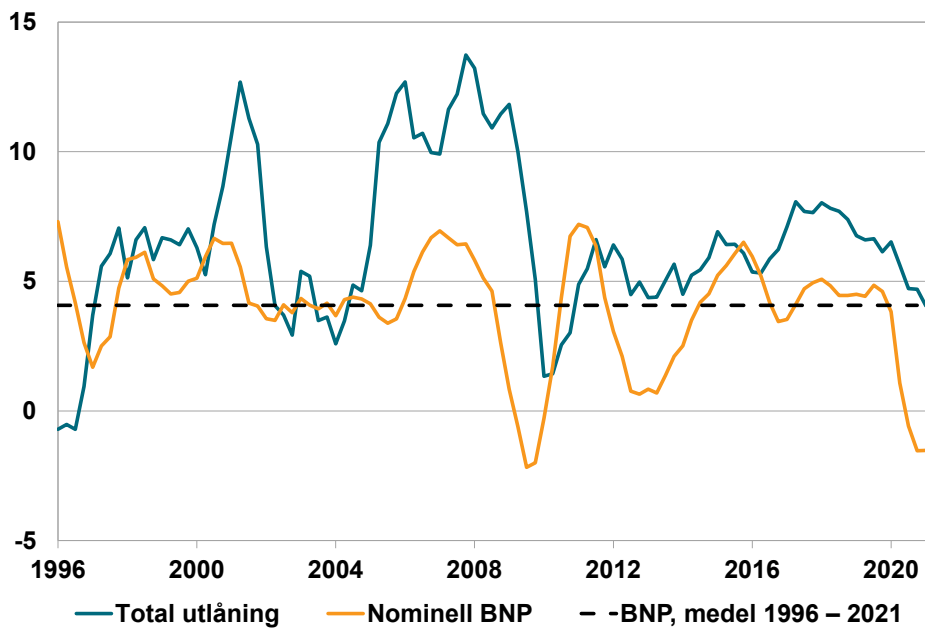
Annual change in per cent



Source: Statistics Sweden.

4 Total lending and nominal GDP

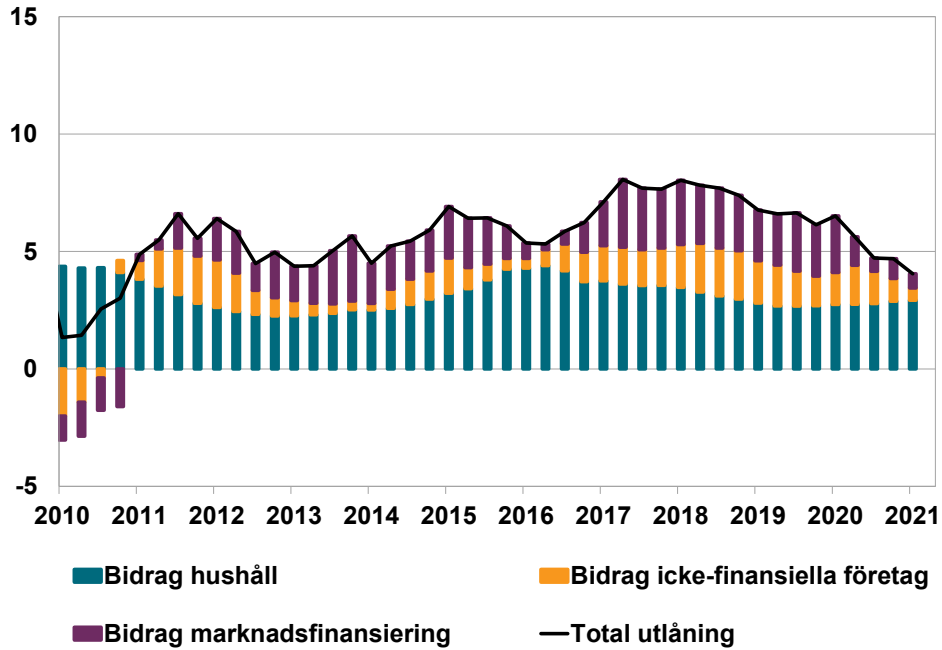
Annual change in per cent



Source: Statistics Sweden.

5 Contribution to total lending growth

Annual change in per cent

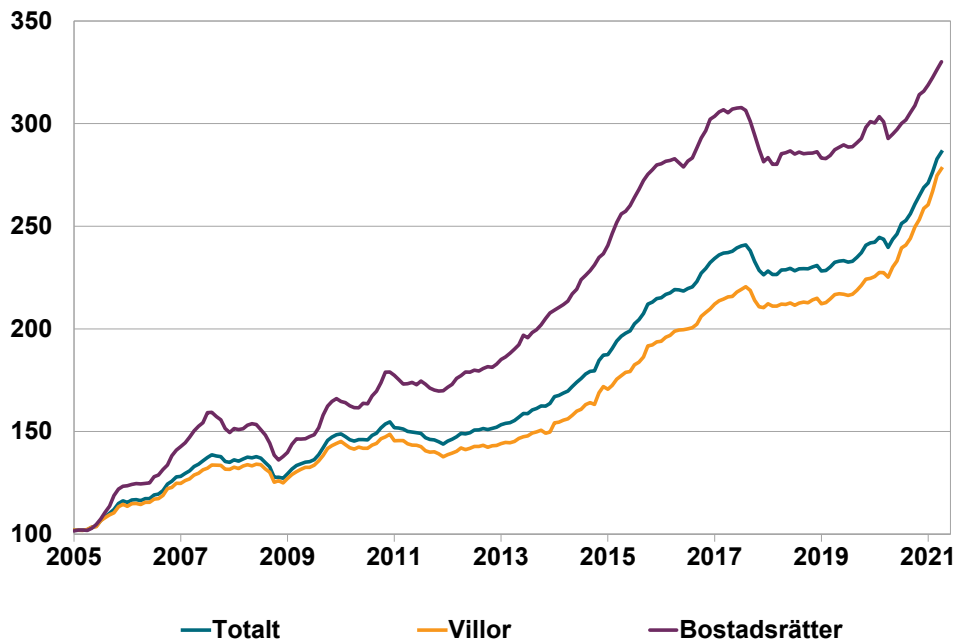


Note: Refers to total lending to households and corporates and their contribution to the annual rate of growth in per cent. Contribution of non-financial firms refers to MFI's lending to non-financial firms.
Source: FI and

Statistics Sweden.

6 House prices in Sweden

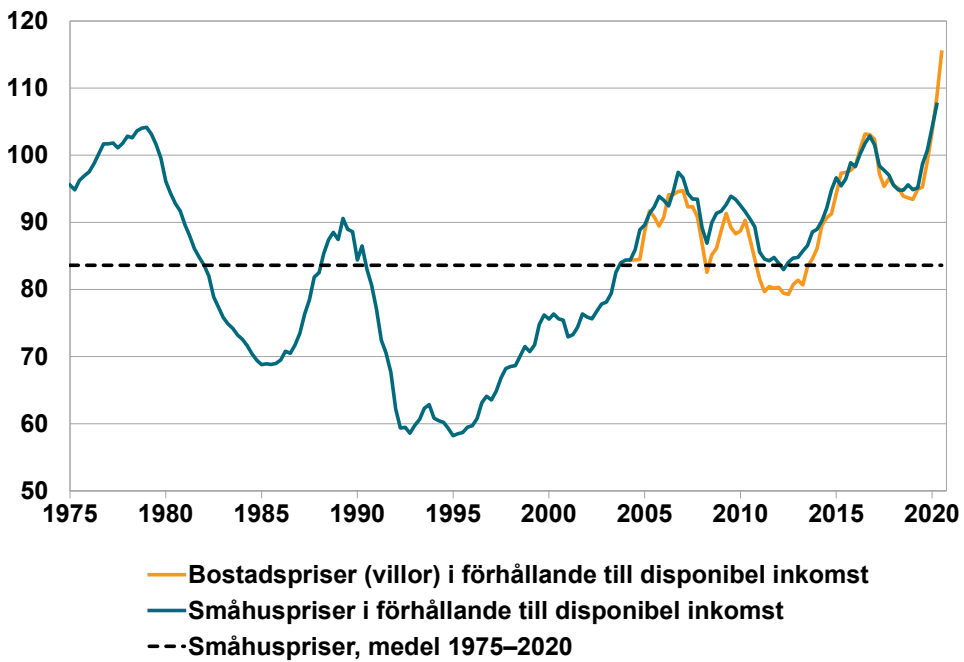
Index 100 = January 2005



Source: Valueguard.

7 House prices in relation to disposable income

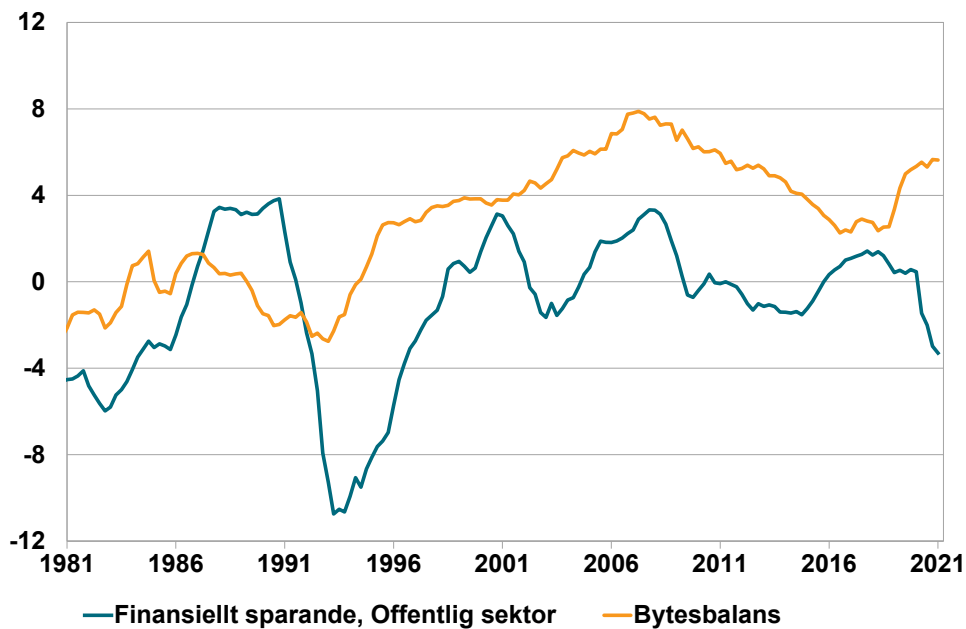
Index 100 = 1980



Source: Statistics Sweden and Valueguard.

8 Current account and financial savings in the public sector

Per cent of GDP

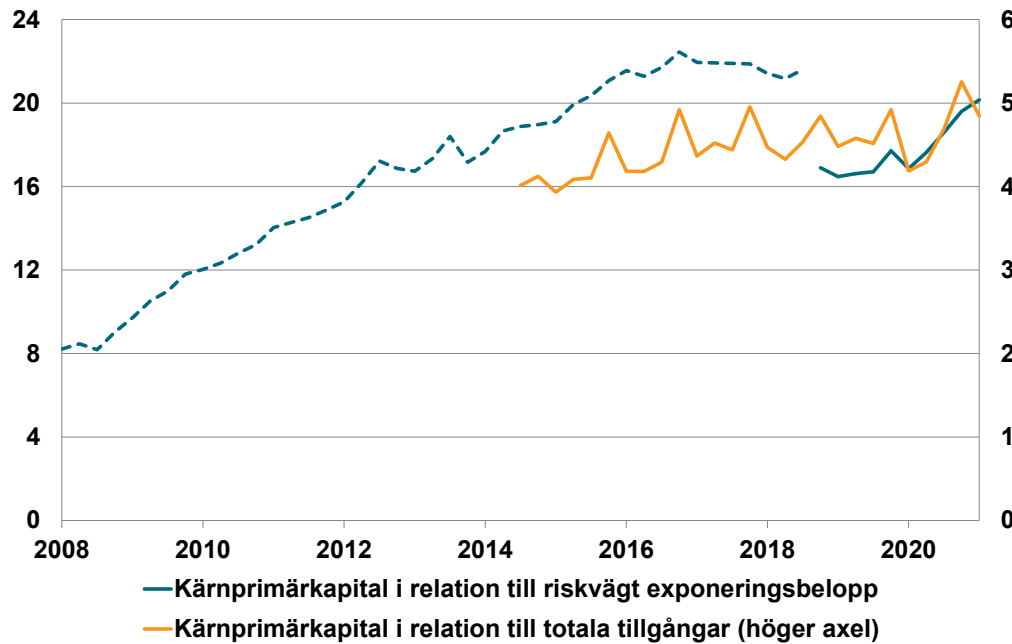


Note: The current account is estimated using the national accounts.

Source: Statistics Sweden.

9 CET 1 capital

Per cent

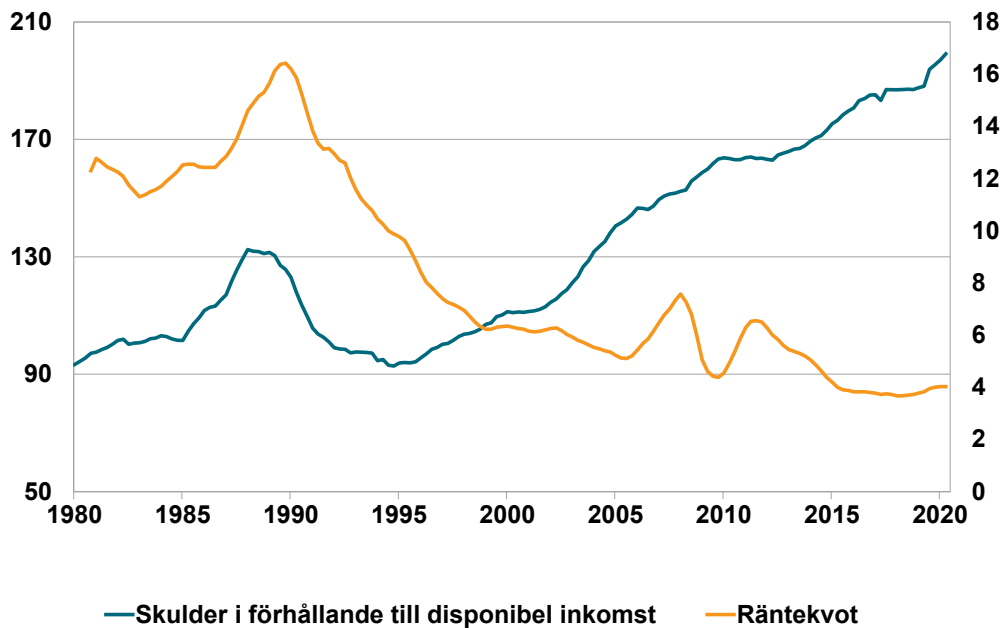


Note: The diagram shows an unweighted average for the three major Swedish banks. Since Q4 2018, the risk-weight floor for Swedish mortgages is applied in Pillar I through Article 458 of the Capital Requirements Regulation. This change means that the risk-weight exposure amount increased and the capital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

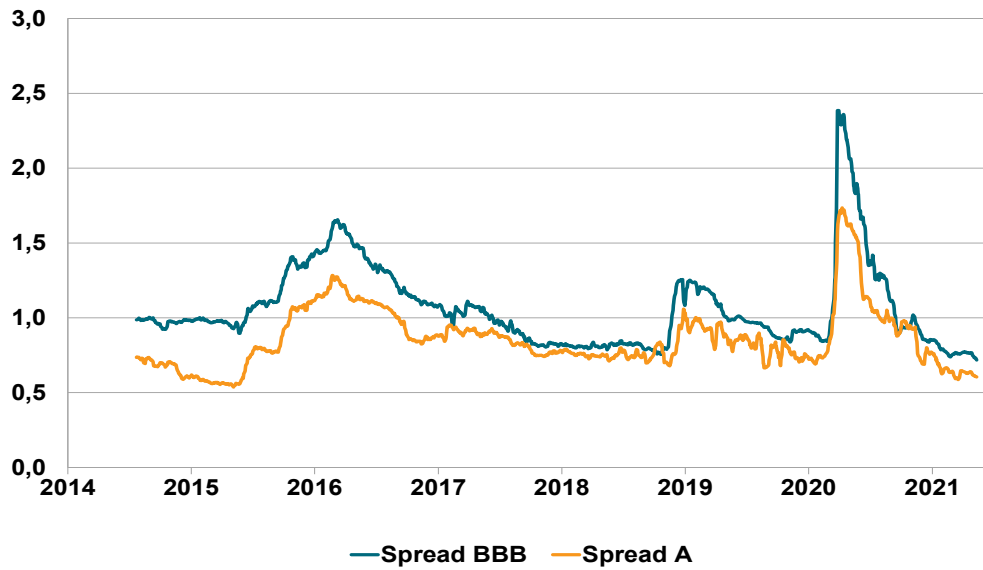
Per cent of disposable income



Source: Statistics Sweden.

11 Swedish risk premiums

Percentage points

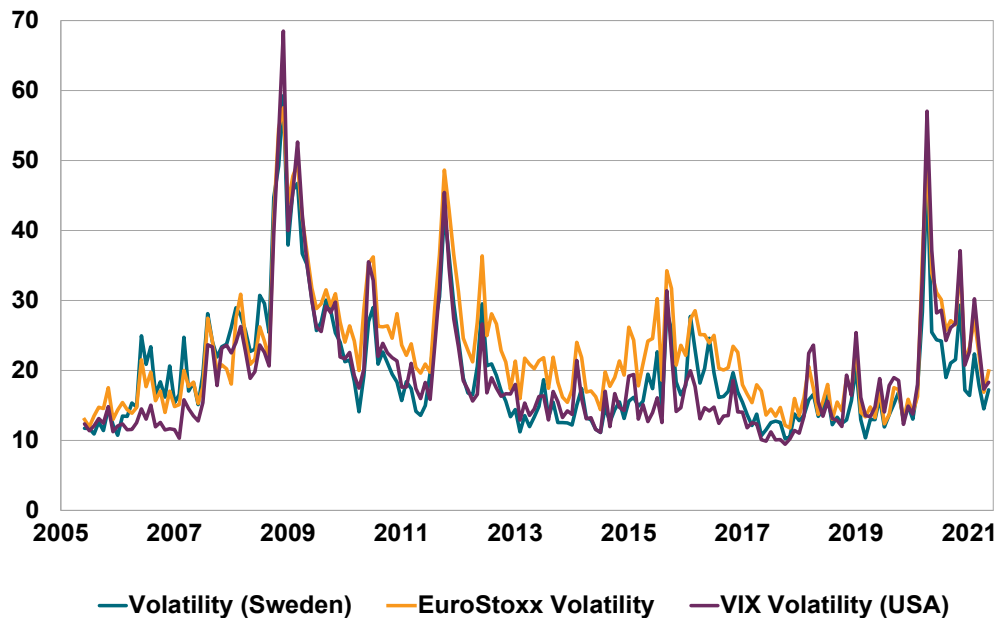


Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate. The diagram shows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