

D E C I S I O N



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Countercyclical buffer rate

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 sustain the banks' resilience. The countercyclical capital buffer is a time-varying capital requirement. This means that the buffer is activated when financial imbalances, and hence systemic risks, are judged to be increasing. 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 on 27 April 2017 not to change the countercyclical buffer rate. This meant that the buffer rate of two per cent, which has applied since 19 March 2017, will continue to apply. The countercyclical buffer guide was set at 0 per cent.

Lending to the Swedish households is continuing to develop rapidly, even if the growth rate has decreased slightly. The rate at which debt is growing is closely linked to the housing market, which has long been characterised by rising prices. Housing prices increase at a slightly slower rate, but still

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.

relatively high, at almost 9 per cent annually. According to FI:s forecast model household lending growth is expected to decrease over time to 5.3 per cent annually in the end of 2018.³

Non-financial corporation's total indebtedness has increased sharply in 2017. During the second quarter total corporate debt increased at an annual rate of 6,8 per cent, which is significantly faster than the historical average of nominal GDP growth. However, as GDP is expected to grow slower in the future, growth rate of lending to non-financial corporation's is expected to slightly decrease.

The total liabilities i.e. lending to both household and non-financial corporations, grew at an annual rate of 6.6 per cent during the second quarter of 2017 and total liabilities currently amount to 148 per cent of GDP. FI:s forecast model for total liabilities indicates that it will increase at an annual rate of 5 to 6 per cent in the coming years, which indicates continued increased systemic risk. However, forecasts are always subject to uncertainty and the dampening of total debt that the stricter amortisation requirement is expected to result in, are not captured in the model. As a result, debt growth could slow down more quickly. Other indicators considered by FI indicates that the risks associated with debt development have not changed noticeably since the decision in April 2017.

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 no reason to change the buffer rate. At the same time, recent developments show that total debt again grows in a way that is not long-term sustainable. FI will therefore continue to monitor the development of debt carefully. An increase in the buffer value will be considered in the event of continued high debt growth. The credit gap, calculated in accordance with the Basel Committee's standardised approach, amounted in the second quarter to -0.79 per cent. This means that the countercyclical buffer guide is set at 0 per cent.⁴

A decision in this matter was made by Finansinspektionen's Acting Director General Martin Noréus following a presentation by Analyst Niclas Olsén Ingefeldt. The Chief Economist Henrik Braconier also participated in the final proceedings.

³ Which is a slightly higher annual rate than previous forecast due to previous statistics were revised up and higher housing prices than forecast.

⁴ According to the Basel Committee's standardised approach, a credit-to-GDP gap that is lower than 2 per cent should result in a buffer guide of 0 per cent.

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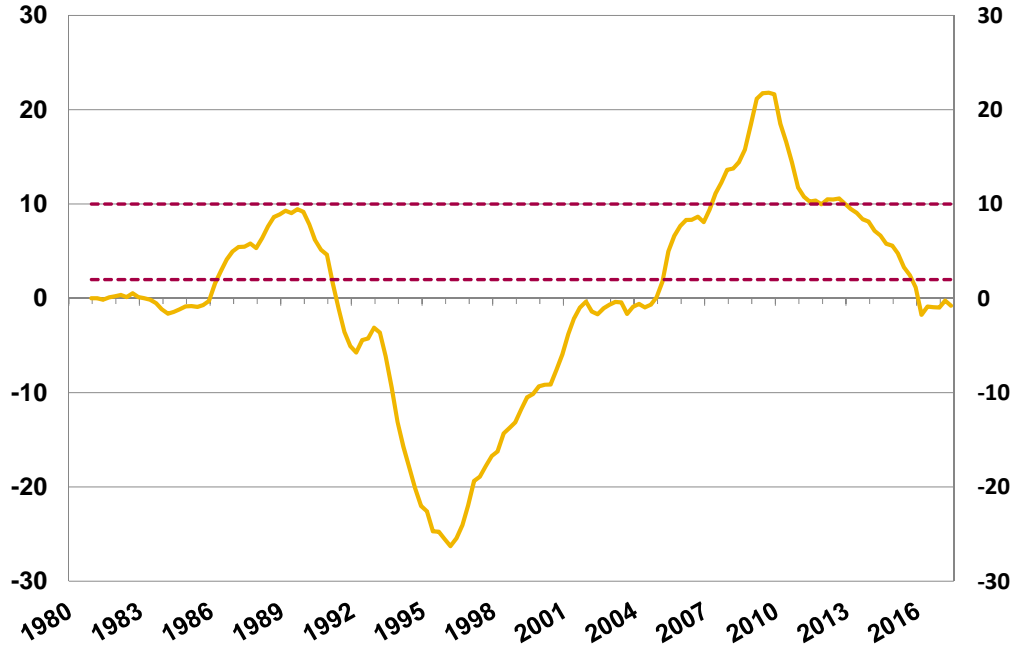
Martin Noréus
Acting Director General

Niclas Olsén Ingefældt
Analyst

Appendix 1: Indicators

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

Deviation from trend in percentage points

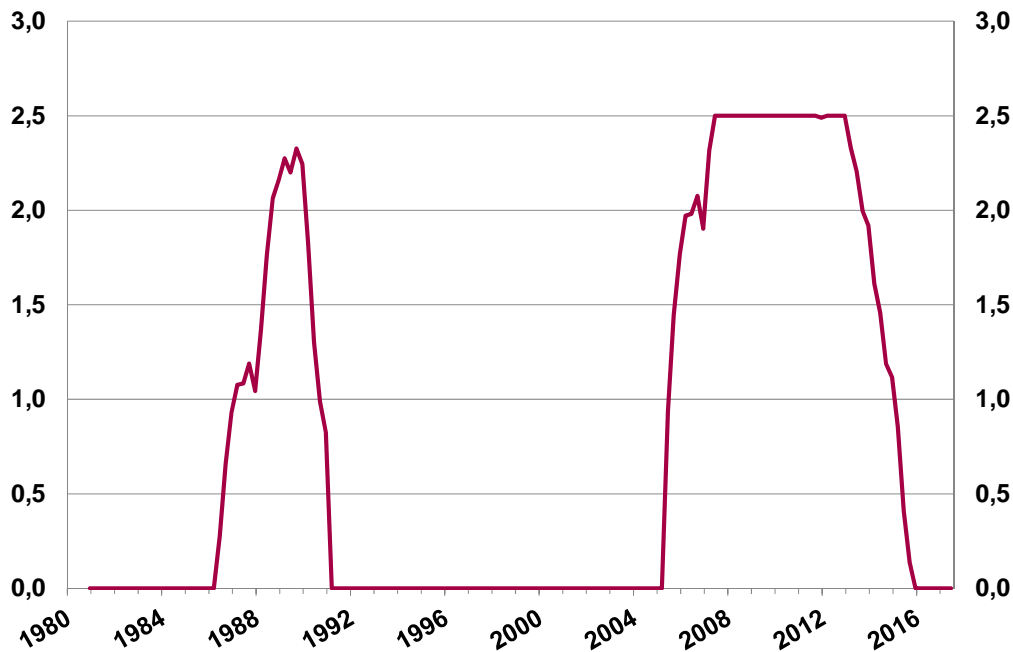


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

2 Buffer level according to the standardised approach

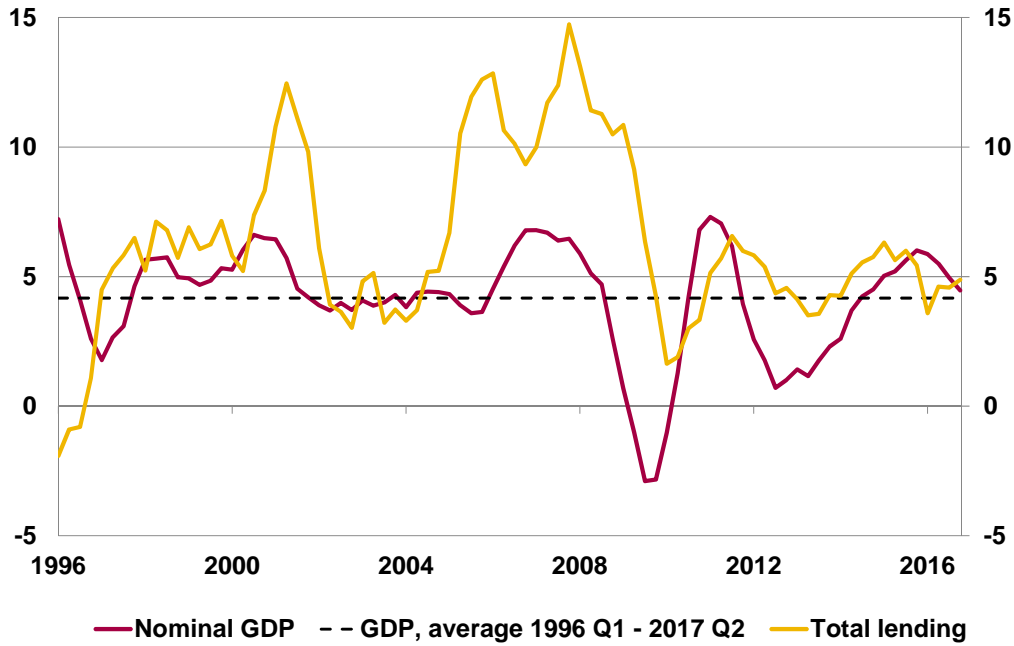
Per cent



Source: FI and Statistics Sweden.

3 Total lending and nominal GDP

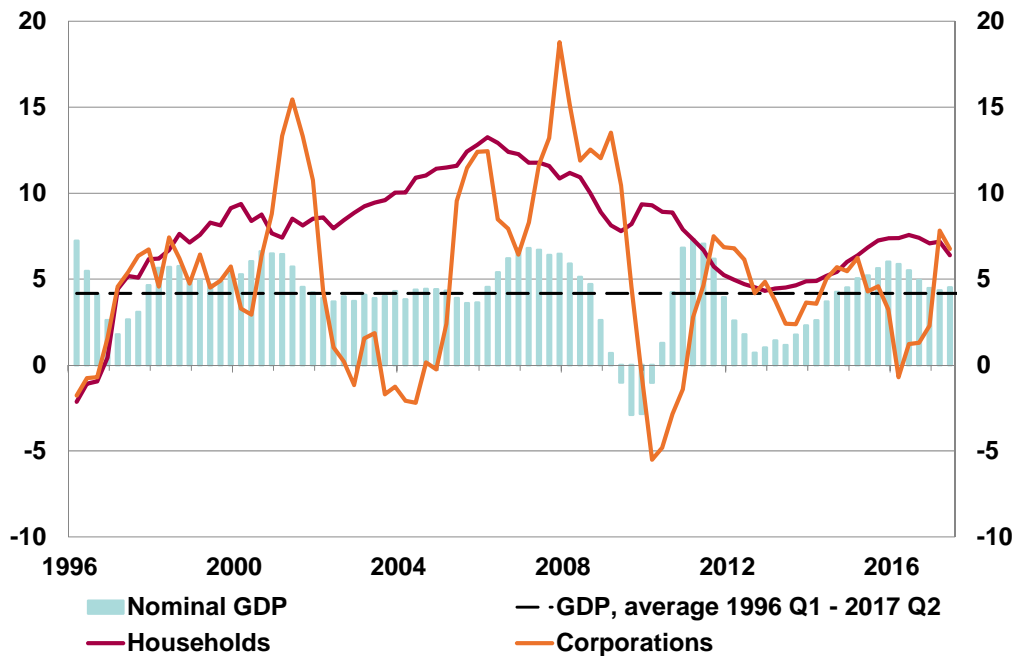
Annual change in per cent



Source: Statistics Sweden.

4 Lending to households and firms and nominal GDP

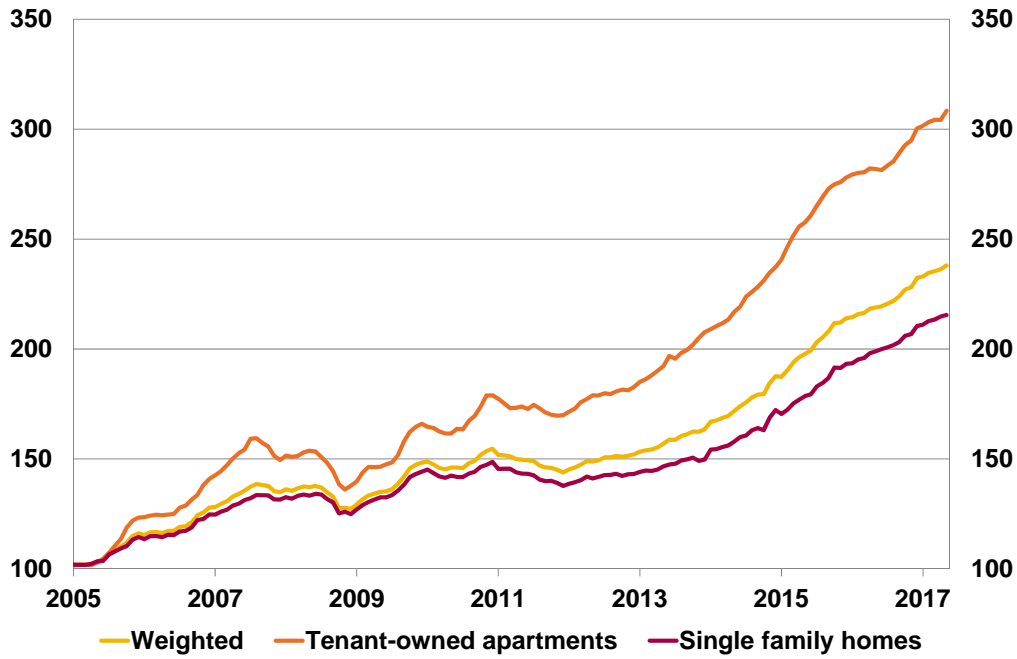
Annual change in per cent



Source: Statistics Sweden.

5 House prices in Sweden

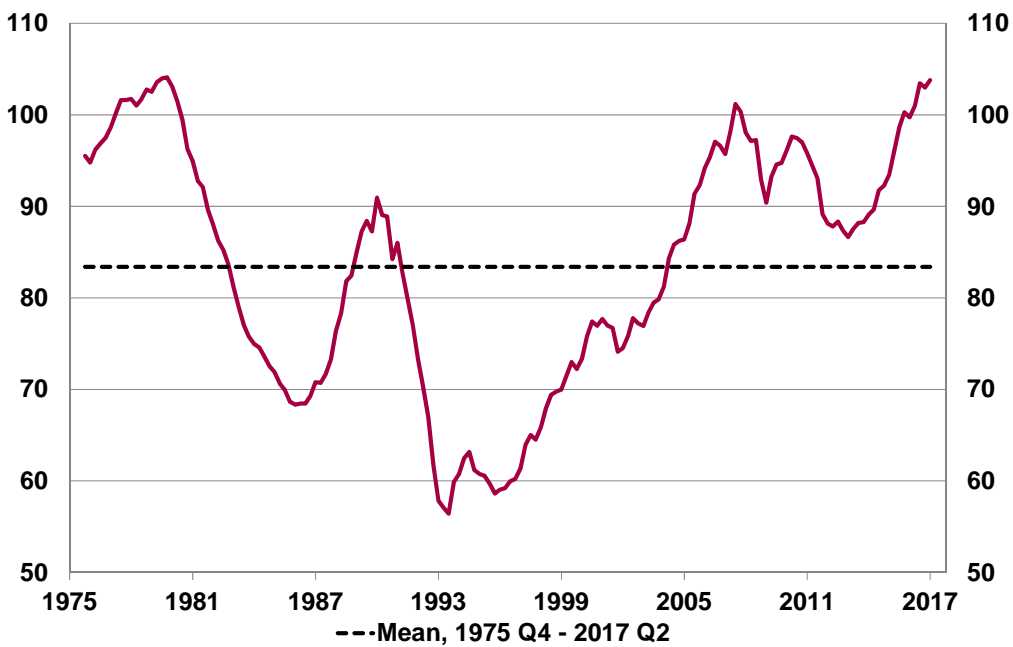
Index 100 = January 2005



Source: Valueguard and FI.

6 House prices in relation to disposable income

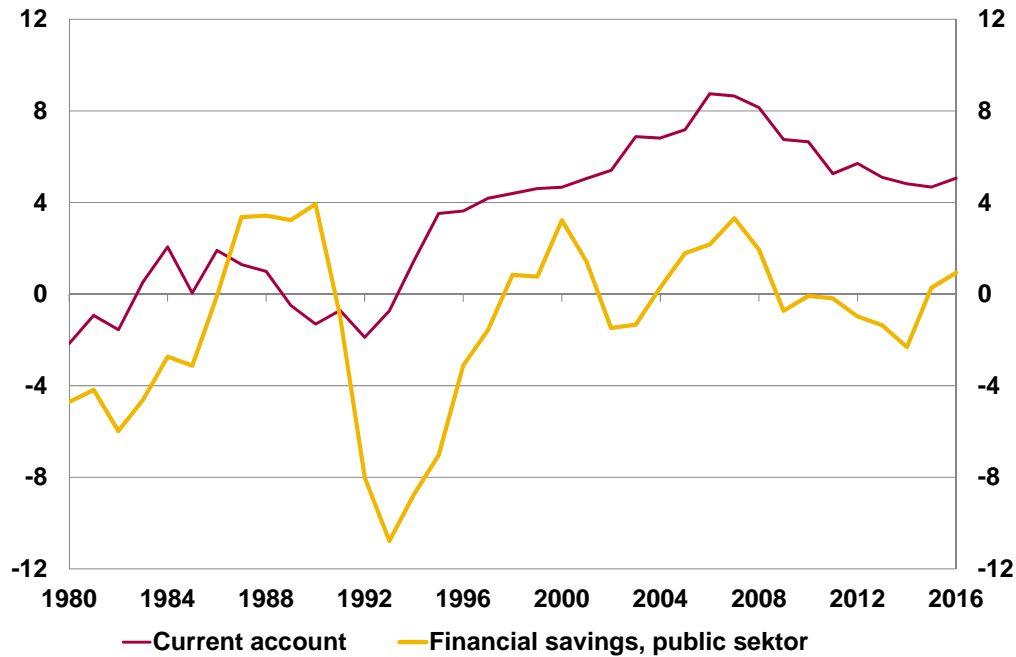
Index 100 = 1980



Source: Statistics Sweden.

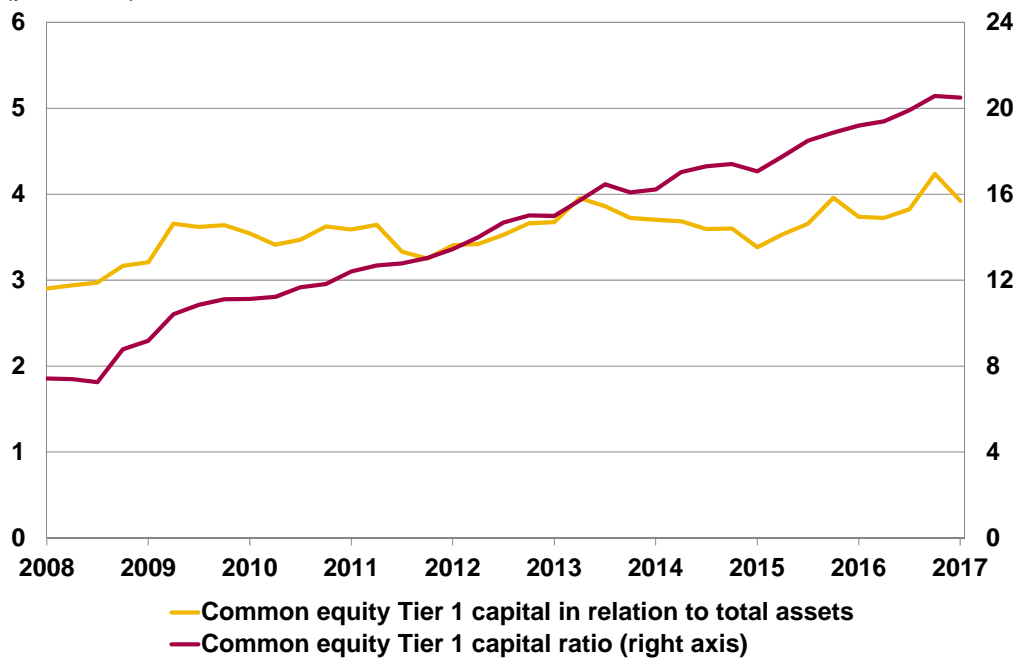
7 Current account and financial savings in the public sector

Share of GDP



Source: Statistics Sweden.

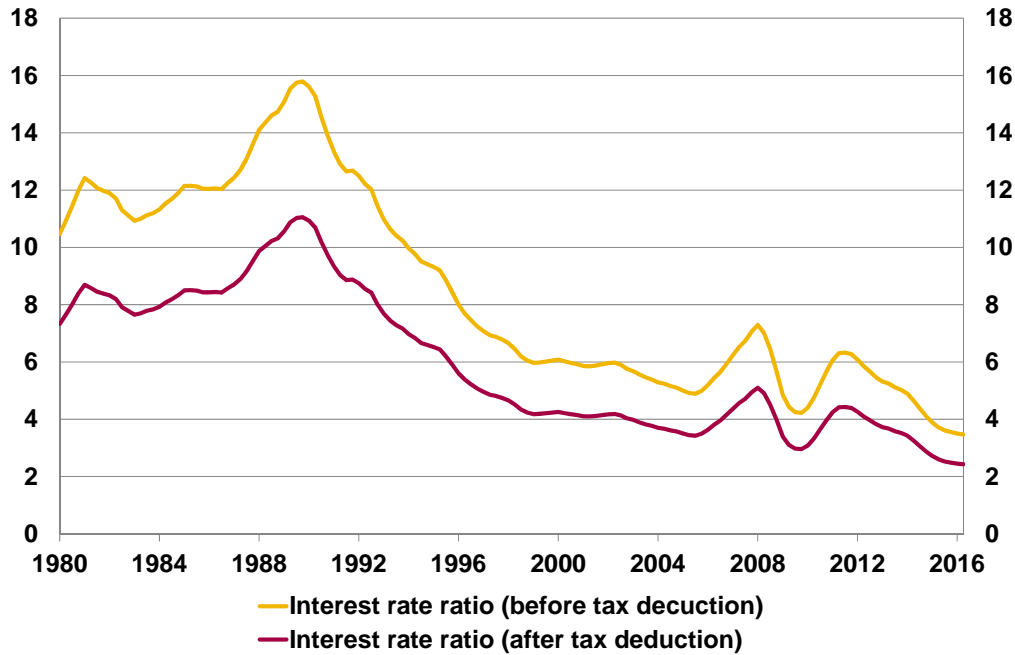
8 CET 1 capital in relation to total assets and the CET 1 capital ratio (per cent)



Source: FI.

9 Households' interest-to-income ratio

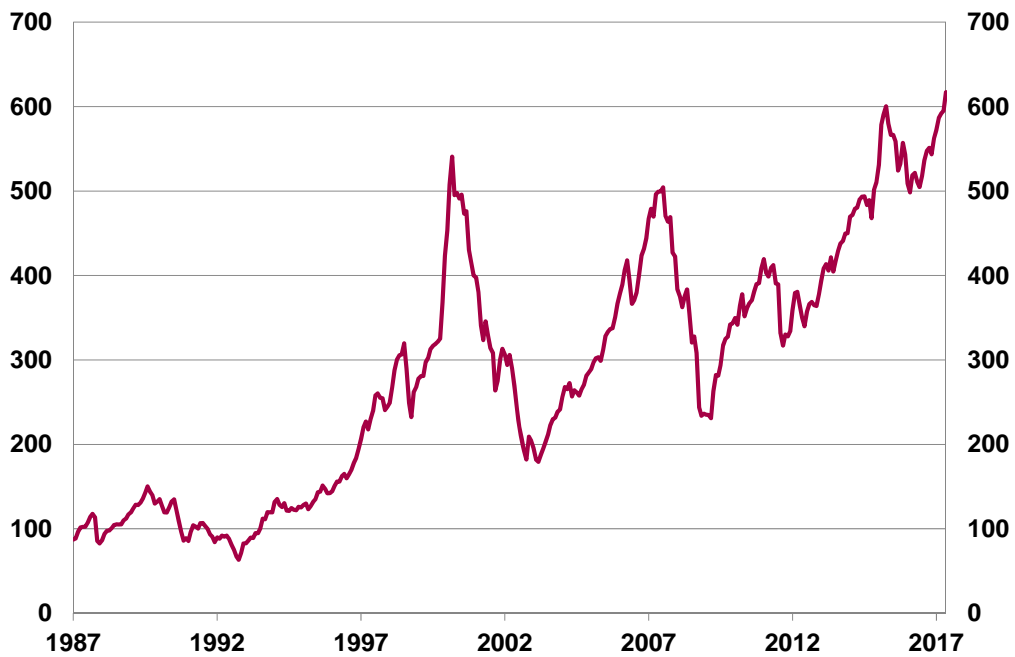
Per cent of disposable income



Source: Statistics Sweden.

10 Real share prices

Index 100 = 1987

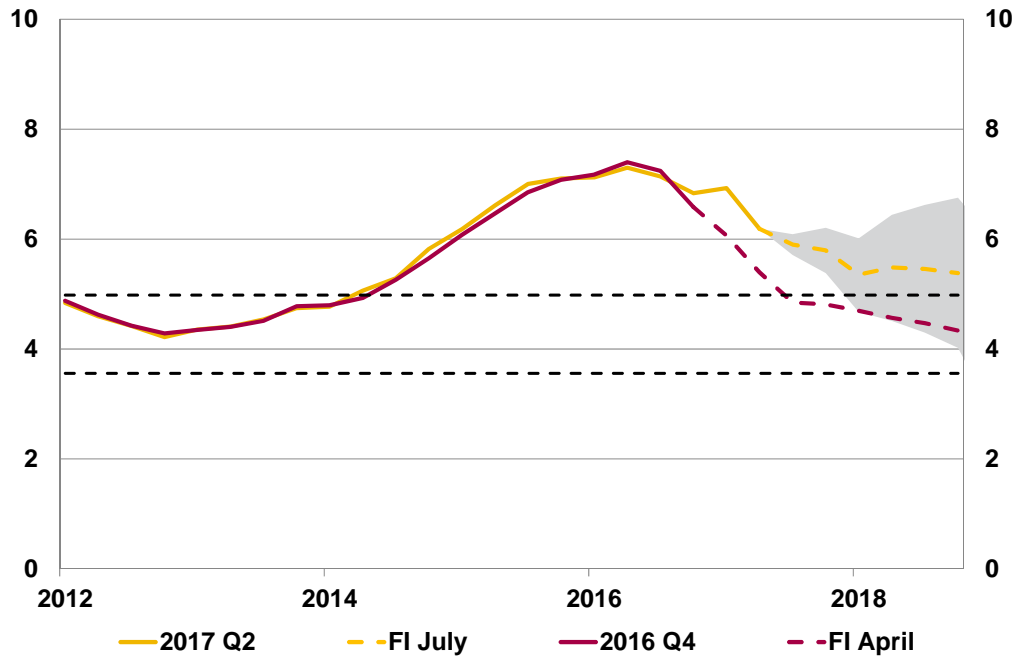


Note: Real share prices have been calculated by dividing OMX by KPIF.

Source: Statistics Sweden and Thomson Reuters Datastream.

11 Households' nominal debt

Annual change in per cent

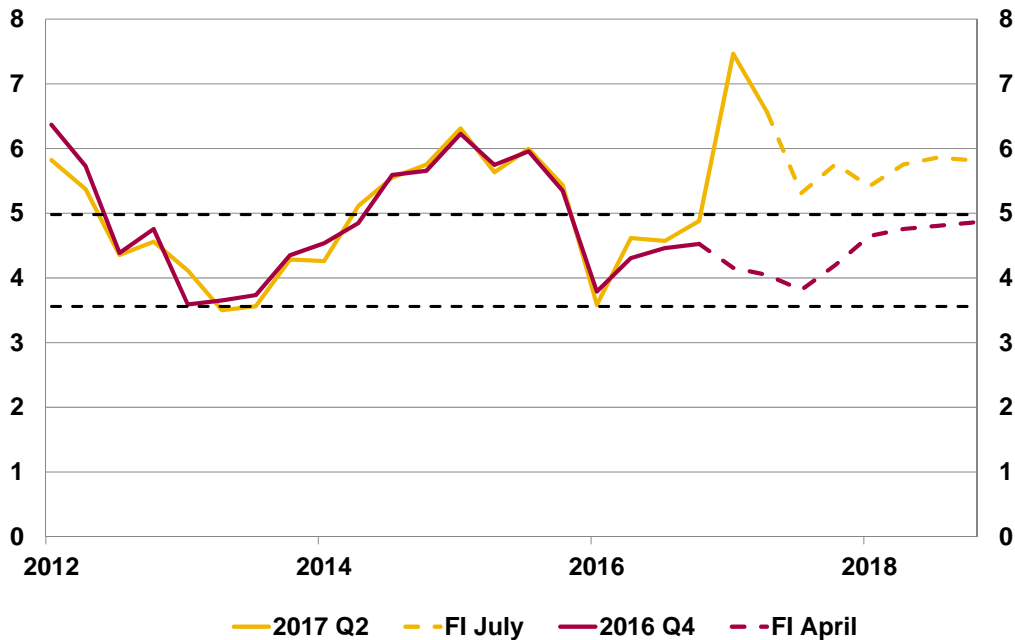


Note: The grey area shows the 68-per cent probability interval for the current prognosis. The area between the black, dashed lines marks a 95-per cent probability interval for growth of nominal GDP in a normal state. April refers to the forecast from the decision regarding countercyclical rates from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

Source: FI and Statistics Sweden.

12 Total nominal liabilities

Annual change in per cent



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

Source: FI and Statistics Sweden.