

DECISION



FI Ref 17-16986

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

Decision by Finansinspektionen

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

The case

Finansinspektionen (FI), 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 maintain 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 14 July 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, would continue to apply.³ The countercyclical buffer guide was set at 0 per cent.

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

² FI (2016), *Ändring av föreskrifter om kontracykliskt buffertvärde*. Published on www.fi.se on 15 March 2016, FI Ref. 16-742. An English translation is available on the website.

³ This decision is based on data up to and including Q2 2017, as in the previous decision. Prior to this, decisions were in part based on forecast outcomes for Q2 2017. The current decision uses instead actual outcomes for the second quarter.

Total debt is increasing faster than what previously available data indicated, primarily due to a sharp upward revision of historical data for market financing for non-financial firms.⁴ Following the revisions, total debt during the period Q1 2016 to Q1 2017 increased on average 1.2 percentage points more than what previous data indicated.

In Q2 2017, total debt increased sharply, 7.4 per cent compared to Q2 2016. This growth is primarily due to the increase in the debt of non-financial firms, which rose 8.1 per cent on an annual basis. Lending to Swedish households also continued to increase rapidly, 6.8 per cent on an annual basis. Total debt amounted in Q2 2017 to 150 per cent of GDP. The house prices-to-income ratio is also at a historically high level.

FI's forecast for both total debt and lending to households has been revised sharply upward since the last decision. Total debt is expected to increase between 6 and 7 per cent on an annual basis in the next year. This is because GDP has been revised upward both historically and in the forecast and house prices have increased more than expected.⁵ Growth in lending to households is expected to be approximately 6.2 per cent on average on an annual basis until the end of 2018, and the debt of non-financial firms is expected to rise somewhat faster.

There are therefore several indications that systemic risks are continuing to accrue. House prices are increasing somewhat slower than before, and on average they increased by 6.7 per cent on an annual basis in September 2017, which is slower than in the previous months. Because house prices are an early indicator of how much household debt is increasing, they can also be a sign that lending to households will slow. The stricter amortisation requirement, which is proposed to enter into force on 1 March 2018, is also expected to reduce the growth of debt slightly. Other indicators that Finansinspektionen takes into consideration are showing that the risks associated with the growth in debt have not changed appreciably since the decision in July 2017.⁶

⁴ Total debt refers to lending from monetary financial institutions to households and non-financial firms and market financing (i.e. interest-bearing securities issued by non-financial firms). Market financing for non-financial firms has been revised upward for the period 2013–2017.

⁵ Statistics Sweden revised GDP upward for the period 2015–2017, and NIER revised the forecast for GDP growth upward until 2018.

⁶ Some of these indicators are reported in Appendix 1.

Total debt continued to grow at a rate that is not sustainable in the long run. FI is therefore more carefully monitoring continued developments, but is not changing the buffer rate for the current quarter. However, an increase in the buffer rate may become relevant if FI makes the assessment that systemic risks are continuing to build.

FI also considered in its decision that the stronger growth in debt in the outcome and forecast is in part due to the upward revision of the figures for market financing. Market financing issued by credit institution may not create the type of systemic risks that the countercyclical requirement aims to prevent to the same extent that debt does.

The credit-to-GDP gap calculated in accordance with the Basel Committee's standardised approach amounted to 0.7 per cent in Q2 2017. According to Chapter 7, section 1 of the Capital Buffers Act (2014:966), FI shall set a countercyclical buffer guide for each quarter. Because the credit-to-GDP gap is lower than 2 per cent, the countercyclical buffer guide is set at 0 per cent.⁷

A decision in this matter was made by Director General Erik Thedéen following a presentation by Senior Analyst Thomas Eisensee and Analyst Niclas Olsén Ingefældt. Chief Economist Henrik Braconier also participated in the final proceedings.

FINANSINSPEKTIONEN

Erik Thedéen
Director General

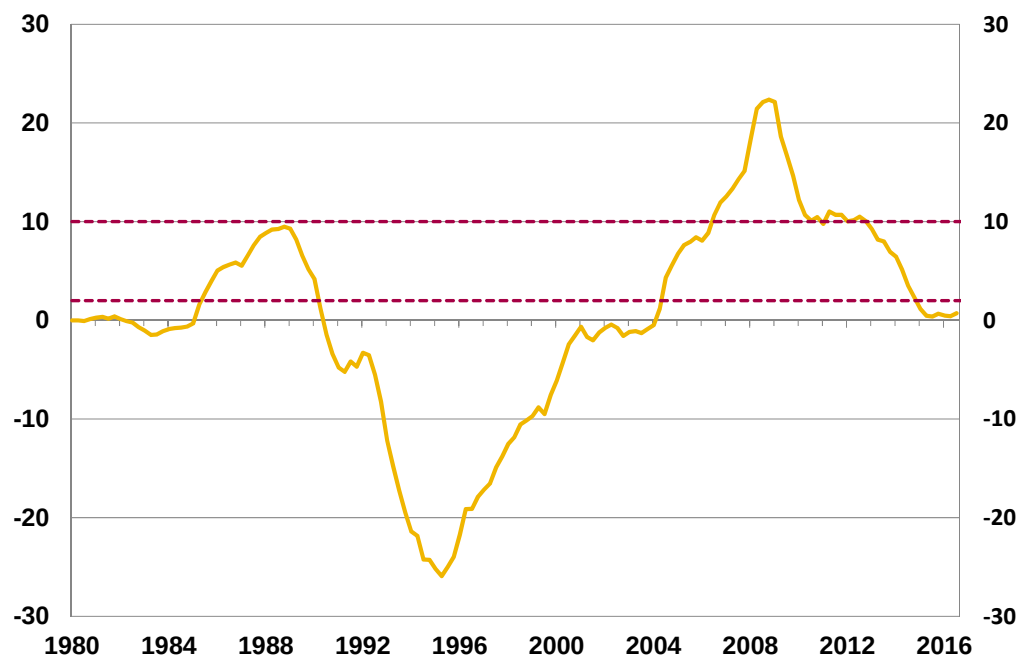
Thomas Eisensee
Senior Analyst

⁷ 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. It should be noted that the buffer guide is most suitable as an indicator of increases in the buffer rate - not decreases.

Appendix 1: Indicators

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

Deviation from trend, percentage points

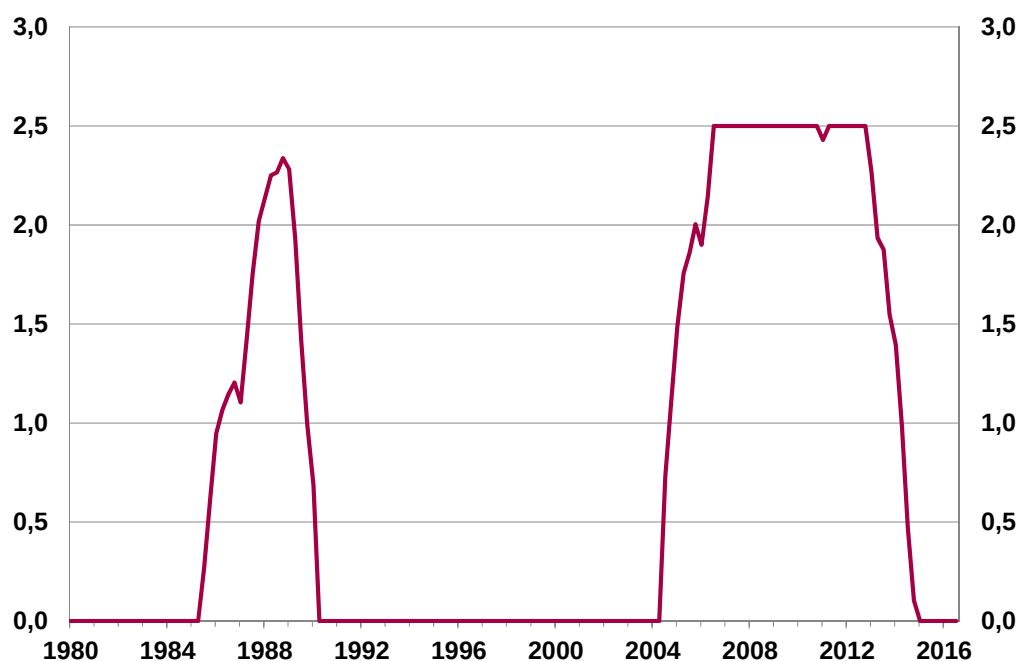


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

2 Buffer level according to the standardised approach

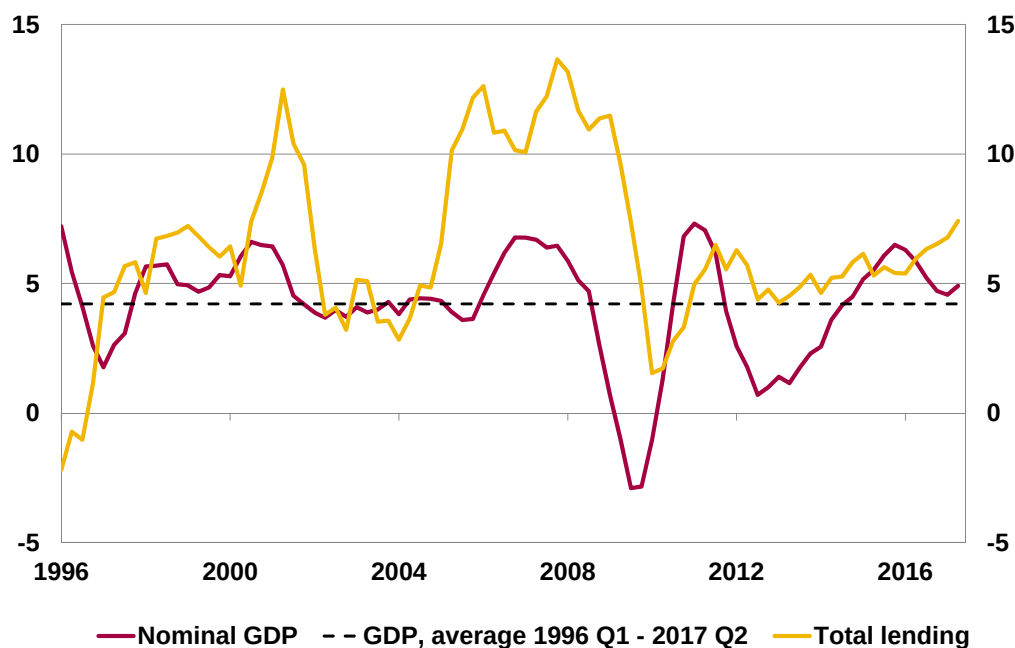
Per cent



Source: FI and Statistics Sweden.

3 Total lending and nominal GDP

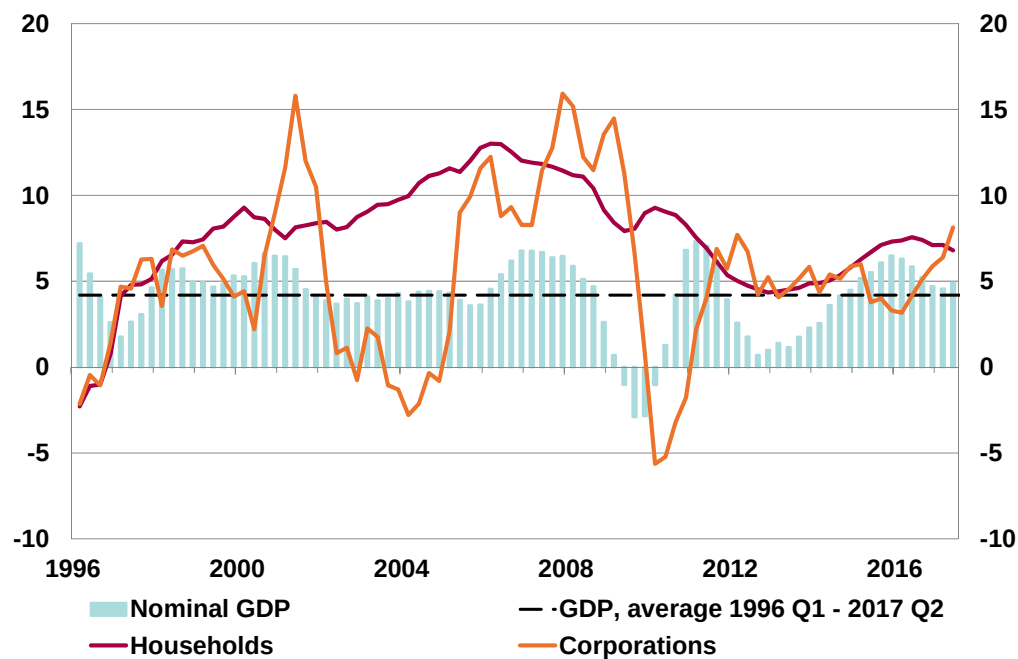
Annual change in per cent



Source: Statistics Sweden.

4 Lending to households and firms and nominal GDP

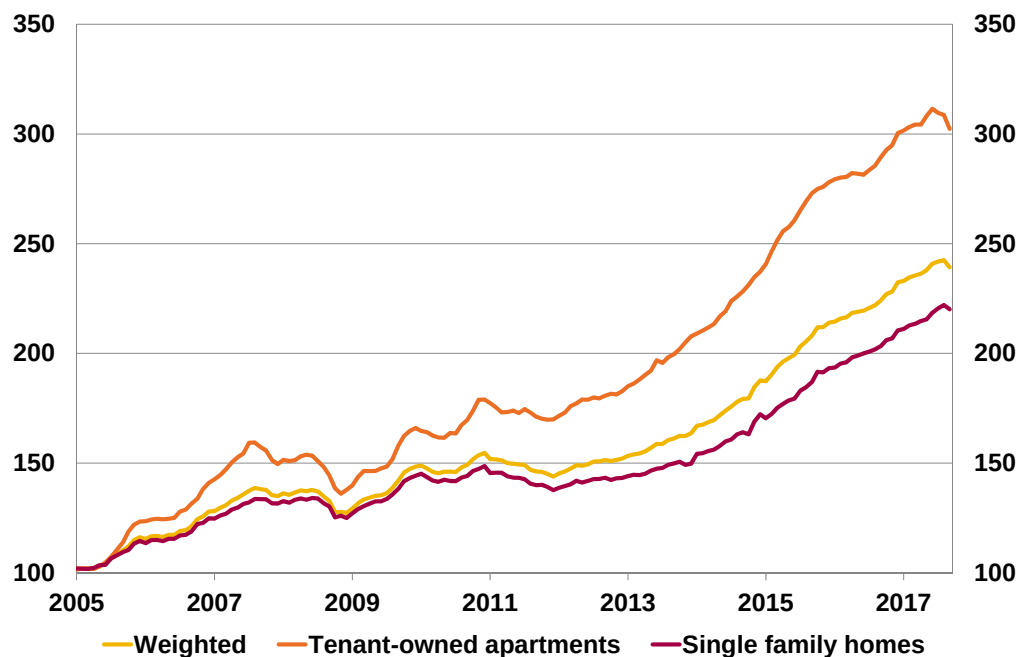
Annual change in per cent



Source: Statistics Sweden.

5 House prices in Sweden

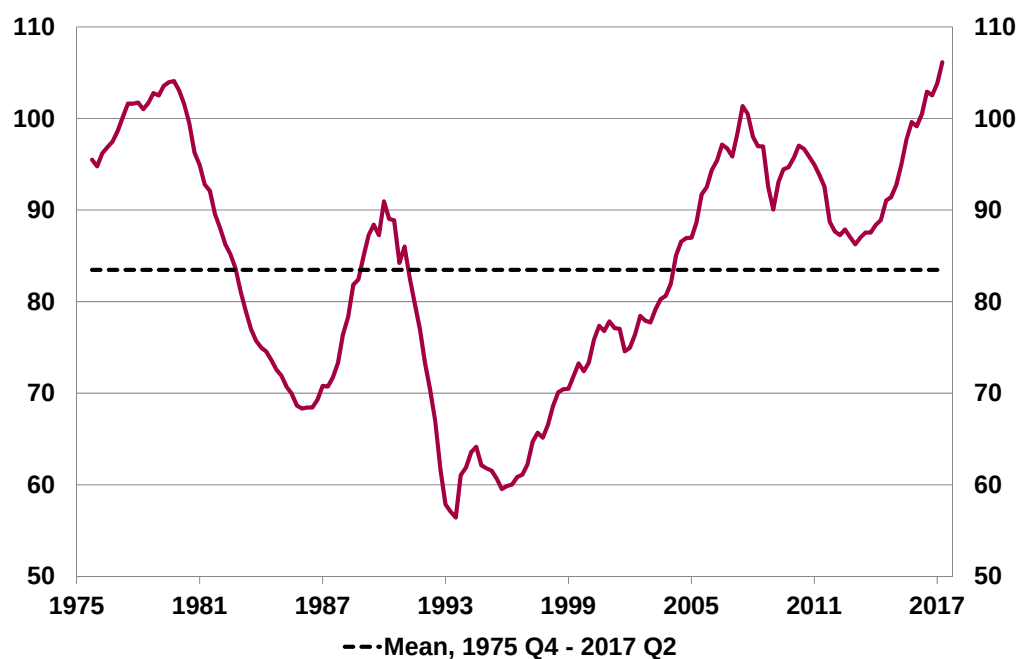
Index 100 = January 2005



Source: Valueguard and FI.

6 House prices in relation to disposable income

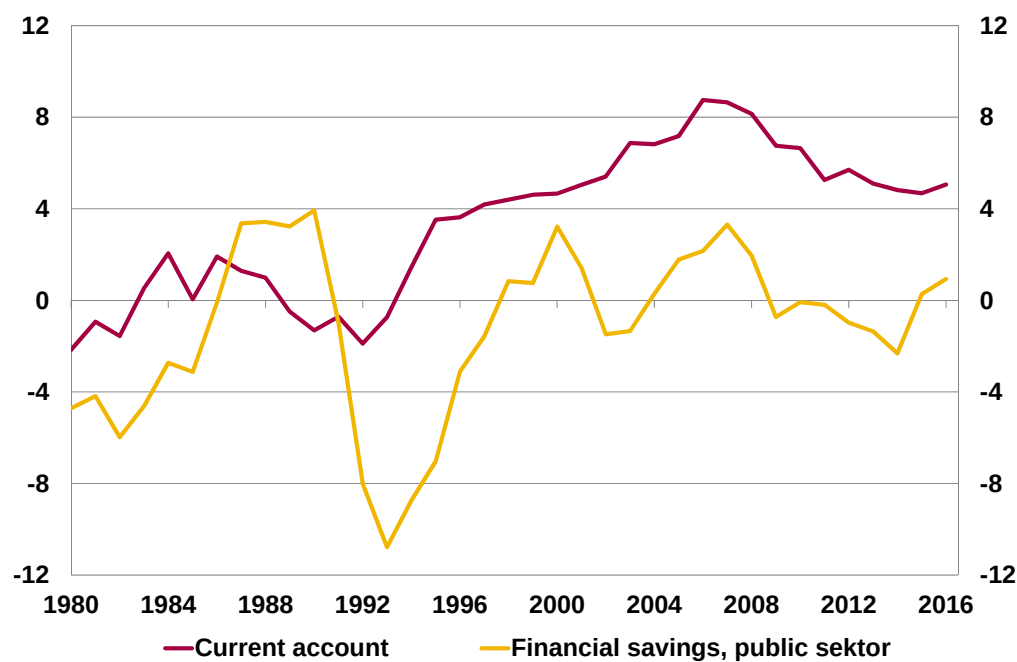
Index 100 = 1980



Source: Statistics Sweden.

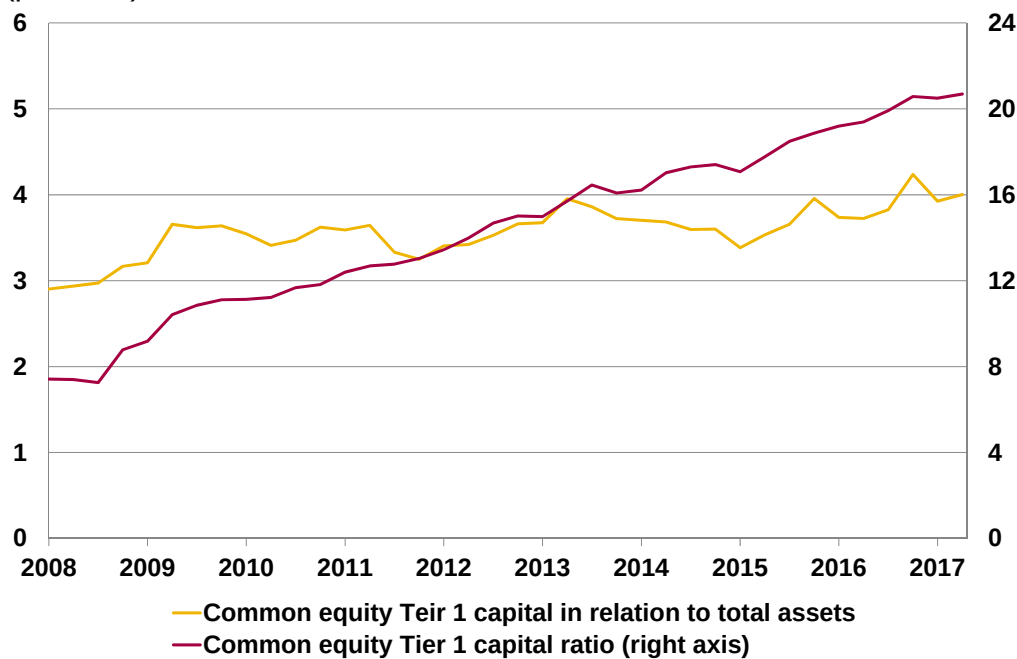
7 Current account and financial savings in the public sector

Share of GDP



Source: Statistics Sweden.

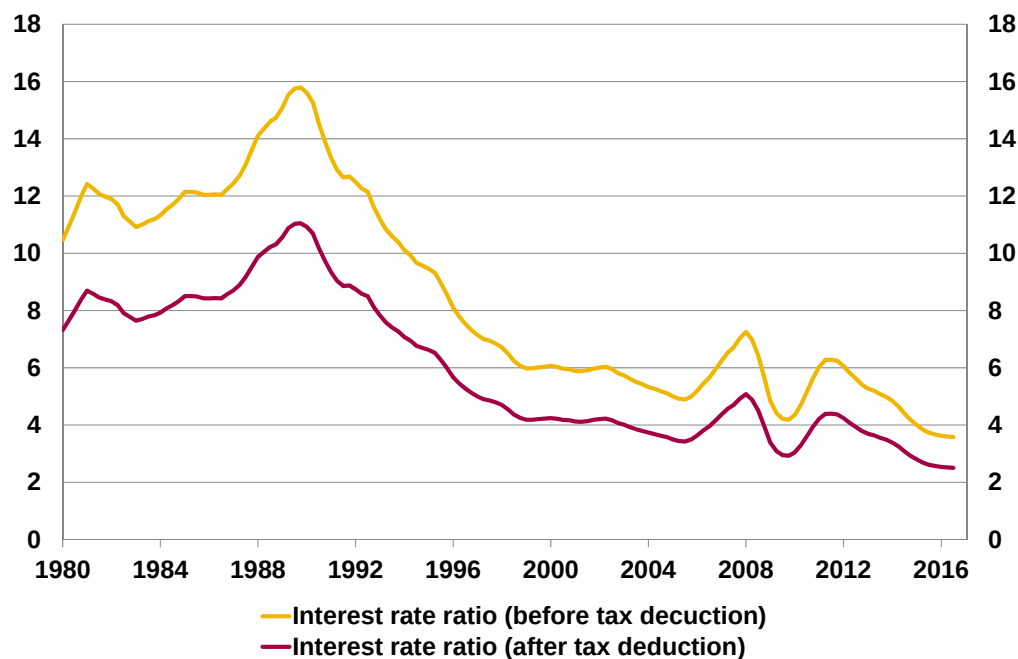
8 CET 1 capital in relation to total assets and the CET 1 capital ratio (per cent)



Source: FI.

9 Households' interest-to-income ratio

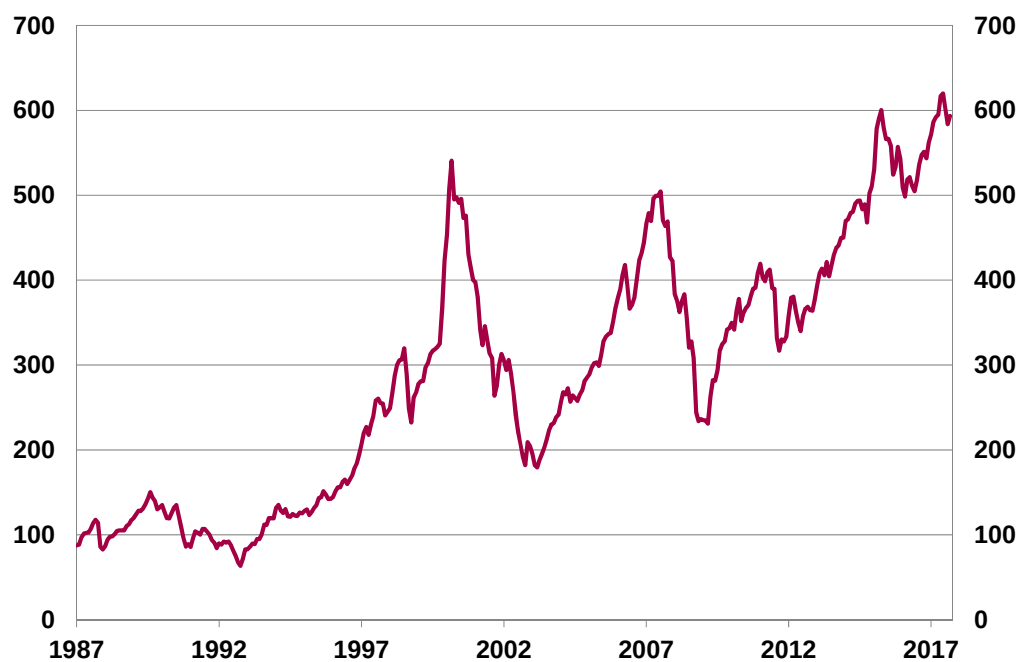
Per cent of disposable income



Source: Statistics Sweden.

10 Real share prices

Index 100 = 1987

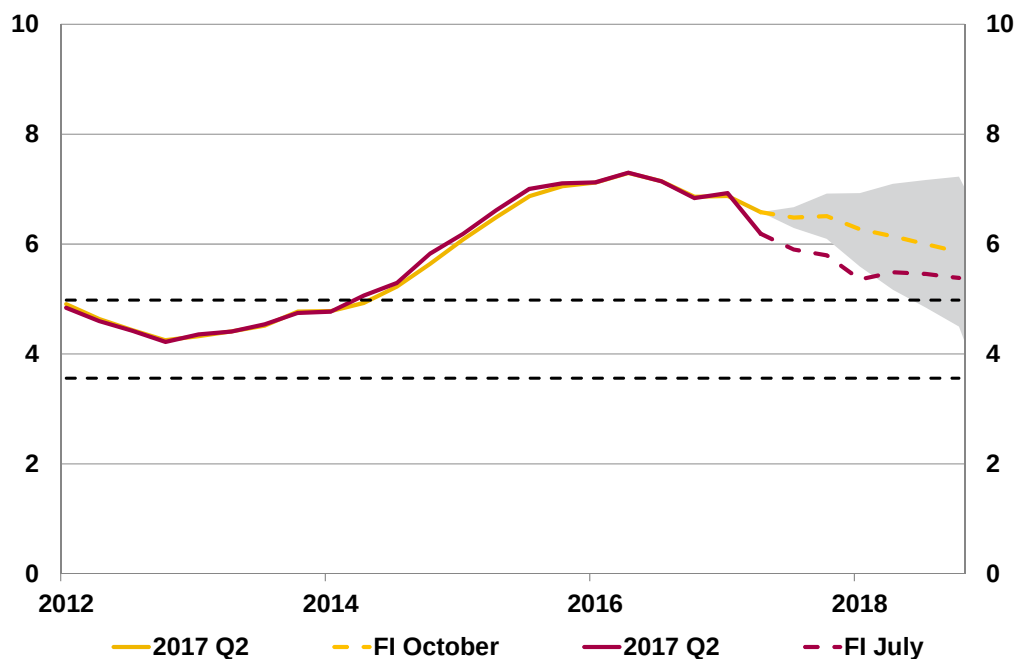


Note: Real share prices have been calculated by dividing OMX by KPIF.

Source: Statistics Sweden and Thomson Reuters Datastream.

11 Households' nominal debt

Annual change in per cent

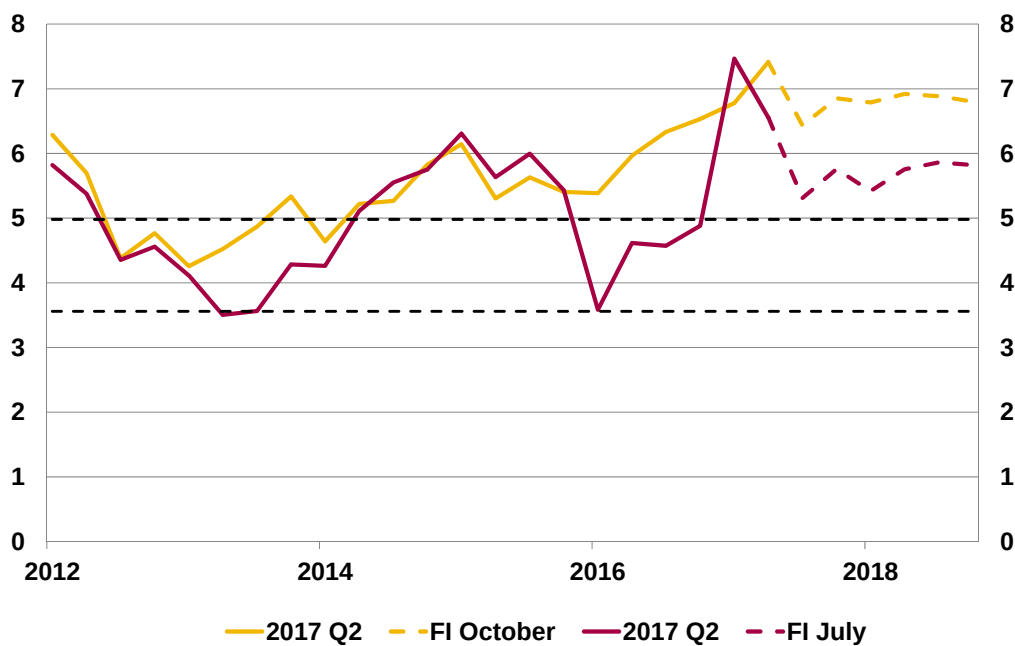


Note: The grey area shows the 68-per cent probability interval for the current prognosis. The area between the black, dashed lines marks a 95-per cent probability interval for growth of nominal GDP in a normal state. July refers to the forecast from the decision regarding countercyclical rates from July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

Source: FI and Statistics Sweden.