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## **Countercyclical buffer rate**

### **Decision by Finansinspektionen**

Finansinspektionen has decided not to amend Finansinspektionen'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 guide and a countercyclical buffer rate each quarter.

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 counteractive measures. This releases capital, which gives the banks space to maintain large parts of their lending activities and thus alleviate a downturn in the economy.

FI decided on 18 September 2018 to raise the countercyclical buffer rate.<sup>1</sup> As a result, the buffer rate of 2 per cent, which has applied since 19 March 2017, will be raised to 2.5 per cent. The buffer rate of 2.5 per cent will be applied as of 19 September 2019.

### **Finansinspektionen's assessment**

In Q2 2018, total debt grew by 7.8 per cent on an annual basis, which can be compared to 8.1 per cent in the previous quarter. The slow-down is due to lower growth in household debt and the market funding of firms. Household debt increased by 6.3 per cent annually in Q2 2018. This is 0.3 percentage points lower than in the previous quarter. Market funding increased by 14.0 per cent on an annual basis in Q2 2018 compared to an annual rate of 16.4 per cent Q1. However, lending from Swedish monetary financial institutions (MFI) to

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<sup>1</sup> FI (2018), *Ändring av föreskrifter om kontracykliskt buffertvärde*. Published on [www.fi.se](http://www.fi.se) on 18 September 2018, FI Ref. 18-11833. An English translation is available on the website.

Swedish non-financial firms accelerated to 6.9 per cent at an annual rate compared to 6 per cent in the previous quarter. This means that the contribution of lending to corporates to the total growth in lending is continuing to increase. Since Q2 2016, the contribution of total lending to non-financial firms increased from 0.9 percentage points to 4.5 percentage points. At the same time, the contribution from households decreased from 4.4 percentage points to 3.3 percentage points. Even though total debt is increasing somewhat slower than in the previous quarter, lending is continuing to grow faster than nominal GDP. This means that total debt rose to 161 per cent of GDP in Q2 2018, which is 5 percentage points higher than in the same quarter the previous year.

FI's forecast indicates that total debt will increase somewhat slower in the future, but somewhat faster than in the previous decision. Debt is expected to grow by more than 7 per cent on an annual basis up to Q2 2019. This continues to be faster than nominal GDP and faster than what FI considers to be sustainable in the long run. The credit-to-GDP gap calculated in accordance with the Basel Committee's standardised approach amounted to 3.31 per cent in Q2 2018.<sup>2</sup> This means that the countercyclical buffer guide is set at 0.41 per cent.<sup>3</sup>

Indicators linked to credit terms on international and Swedish markets are showing that the risks in the financial market continue to be elevated. The general interest rate is low, and low risk premiums can contribute to high risk-taking among investors. Real estate prices are high. House prices have more or less remained the same in 2018 after they dropped in the autumn of 2017. At the same time, prices of commercial real estate continued to rise in 2018.

As a whole, the indicators are showing that the systemic risks continue to be high, supported by signs of high risk-taking, rapidly growing debt and high asset prices. The indicators FI takes into consideration are showing that the risks have not changed since the previous decision in September 2018 when FI raised the capital buffer to 2.5 per cent. Due to this increase, the banks' collective resilience will be better able to deal with today's high systemic risks. Given the overall development on the market, Finansinspektionen has decided not to amend Finansinspektionen's regulations (FFFS 2014:33) regarding the countercyclical buffer rate.

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<sup>2</sup> SCB has revised GDP for the years 1993–2018. See SCB (2018), "*National Accounts, Detailed Annual Calculations 2016*". Due to the revision, the credit-to-GDP gap on average is 0.39 percentage points higher between Q1 2015 and Q1 2018.

<sup>3</sup> It should be noted that the buffer guide is most suitable as an indicator of any increases in the buffer rate – not decreases.

A decision in this matter was made by Finansinspektionen's Director General Erik Thedéen following a presentation by Analyst Viktor Thell. Chief Economist Henrik Braconier and Analysts Niclas Olsén Ingefärdt and Susanna Hellström participated in the final proceedings.

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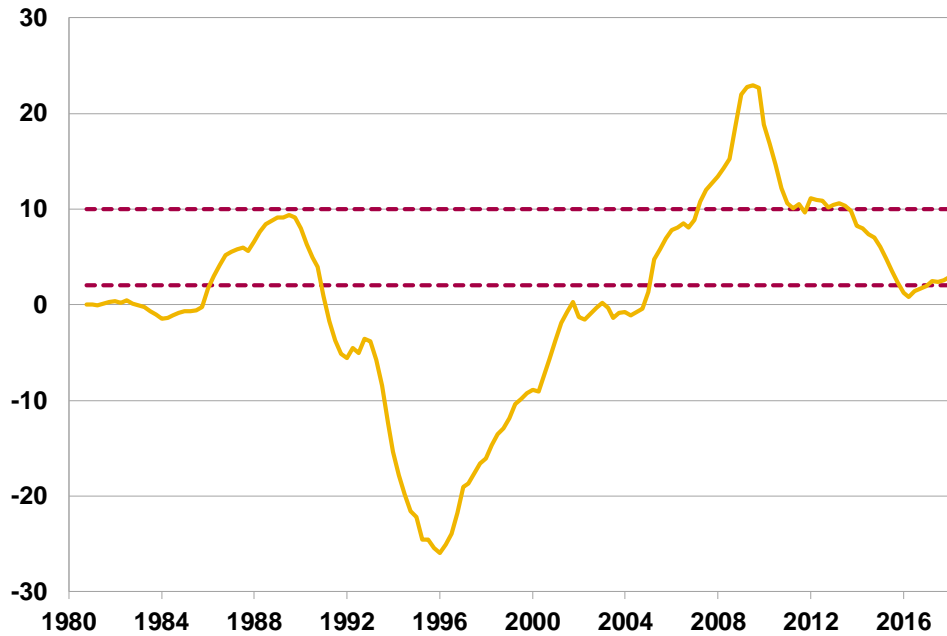
Erik Thedéen  
*Director General*

Viktor Thell  
*Analyst*

## Appendix 1: Indicators

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

Deviation from trend in percentage points

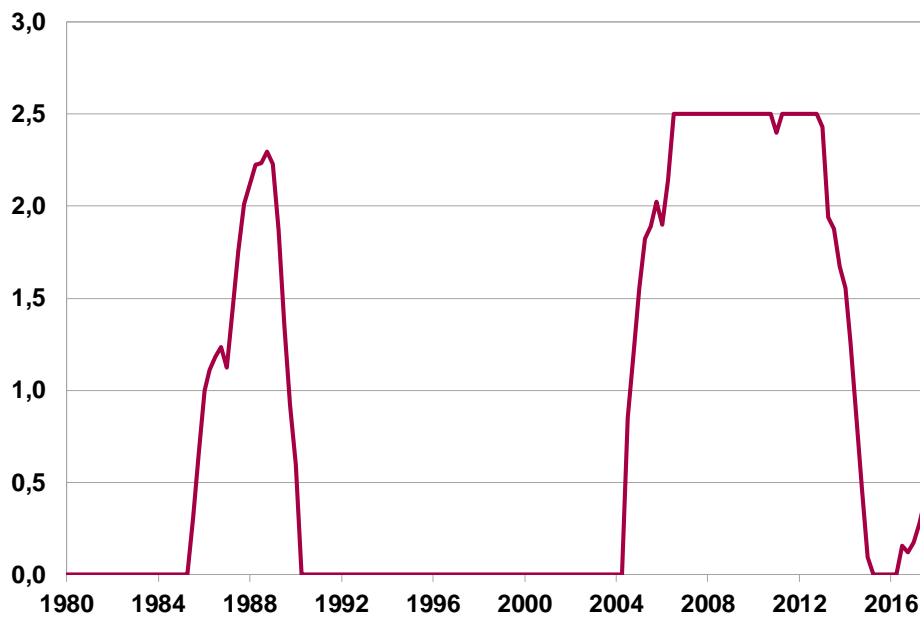


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

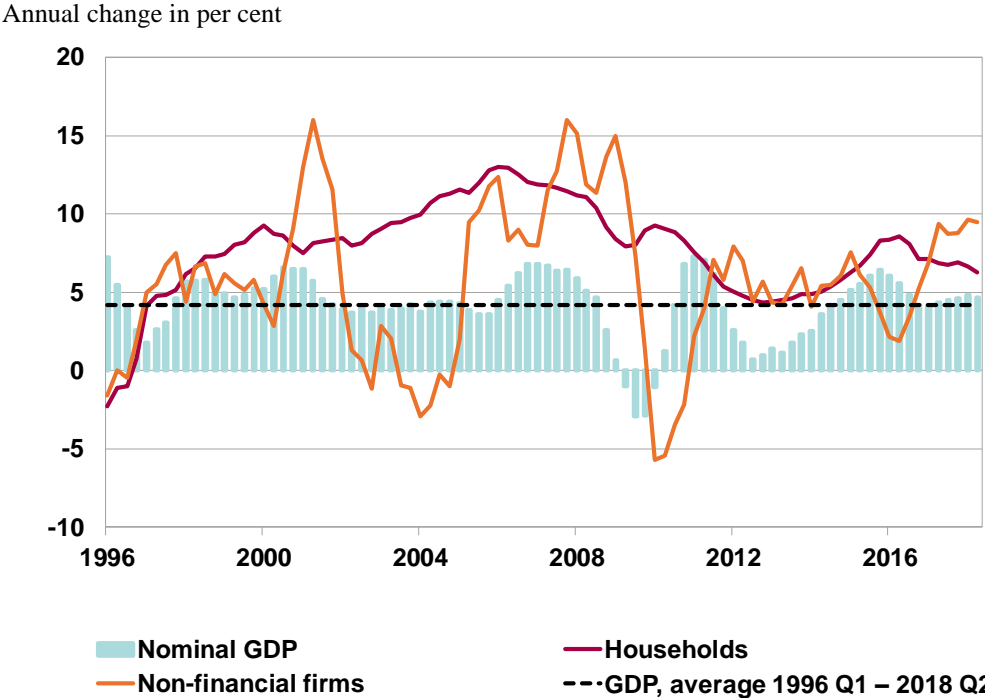
### 2 Buffer level according to the standardised approach

Per cent



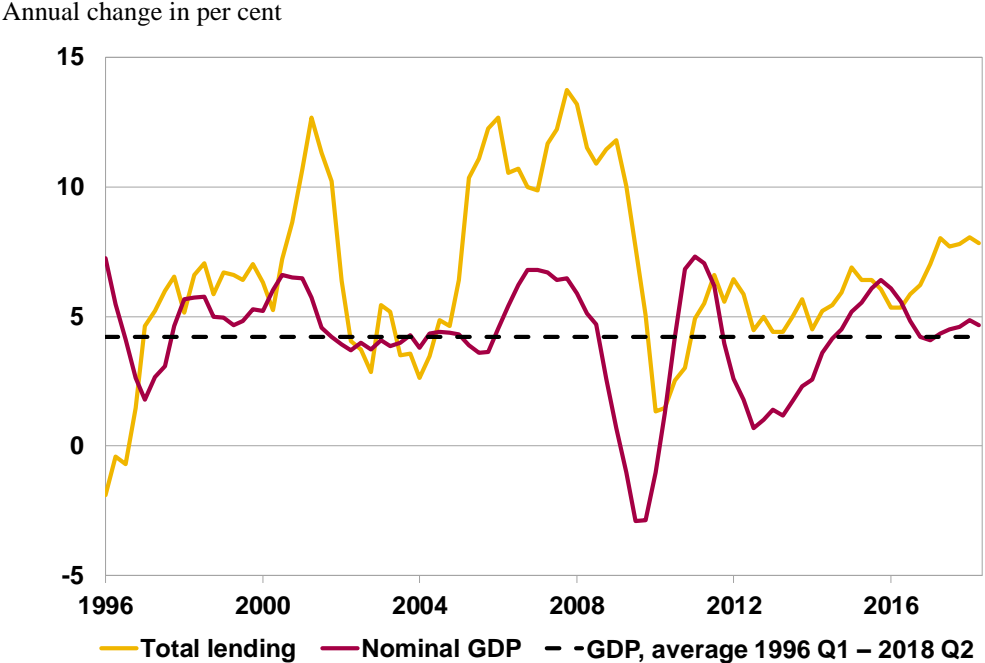
Source: FI and Statistics Sweden.

### 3 Lending to households and corporates and nominal GDP



Source: Statistics Sweden.

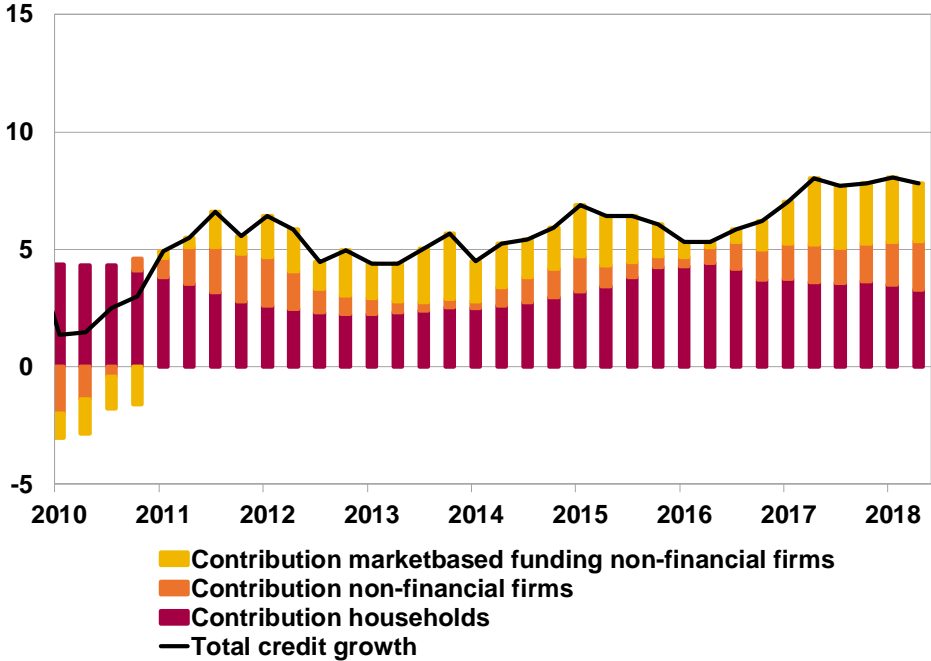
### 4 Total lending and nominal GDP



Source: Statistics Sweden.

### 5 Contribution to change in total lending growth

Annual change in per cent

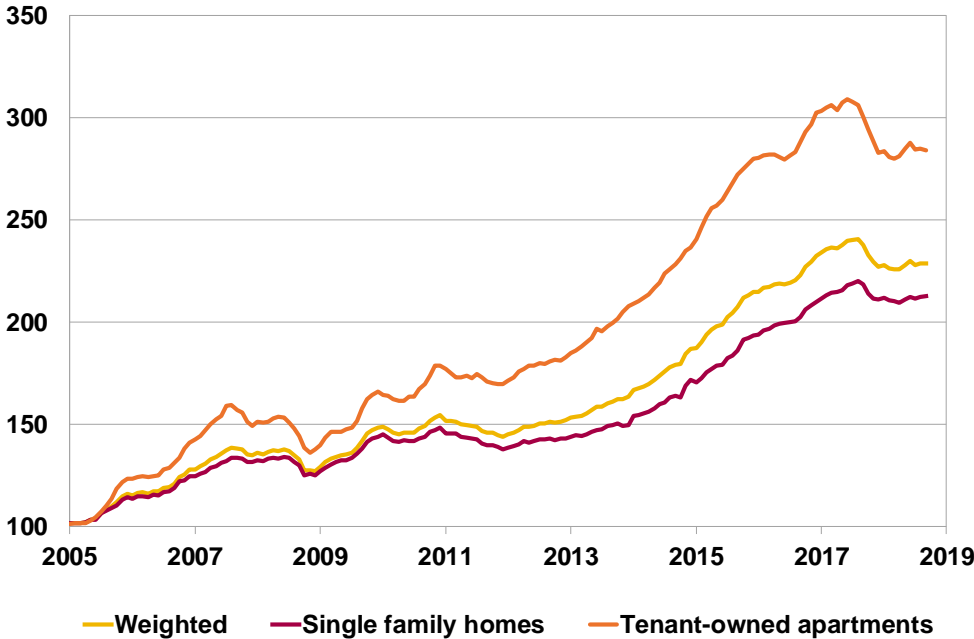


Source: FI and Statistics Sweden.

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.

### 6 House prices in Sweden

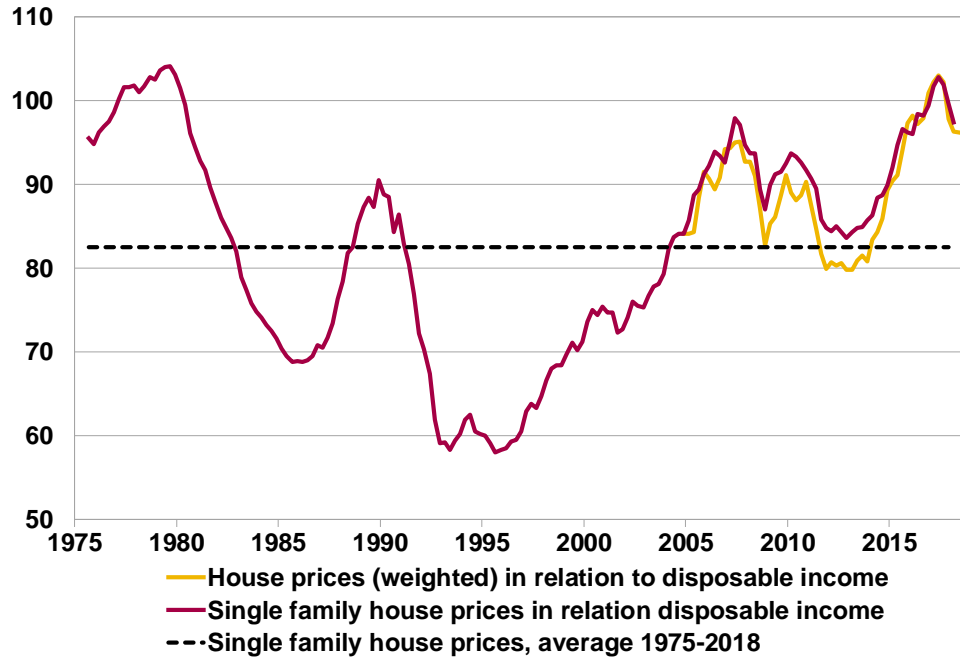
Index 100 = January 2005



Source: Valueguard.

### 7 House prices in relation to disposable income

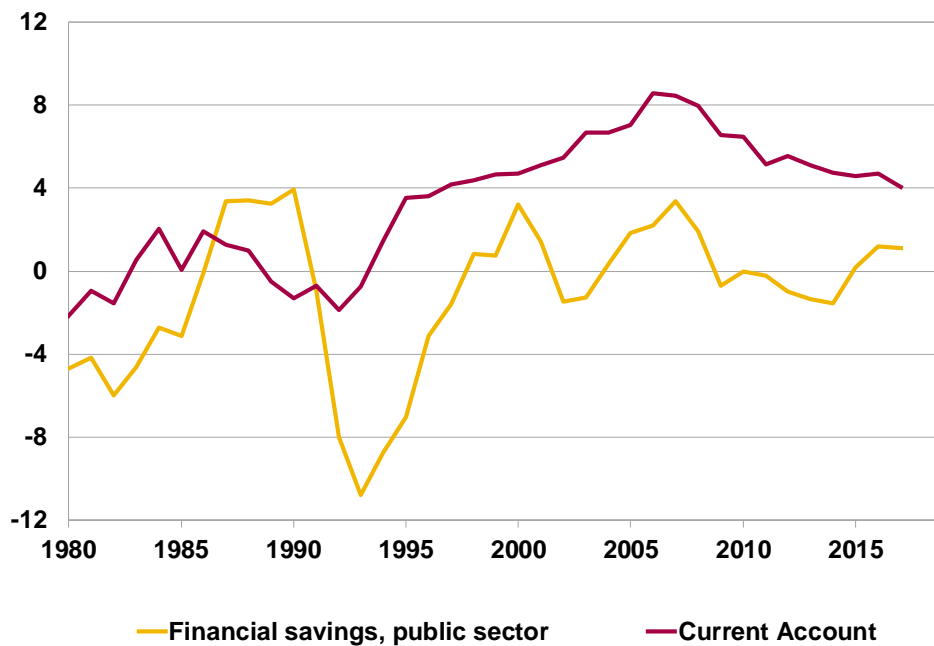
Index 100 = 1980



Source: Statistics Sweden and Valueguard.

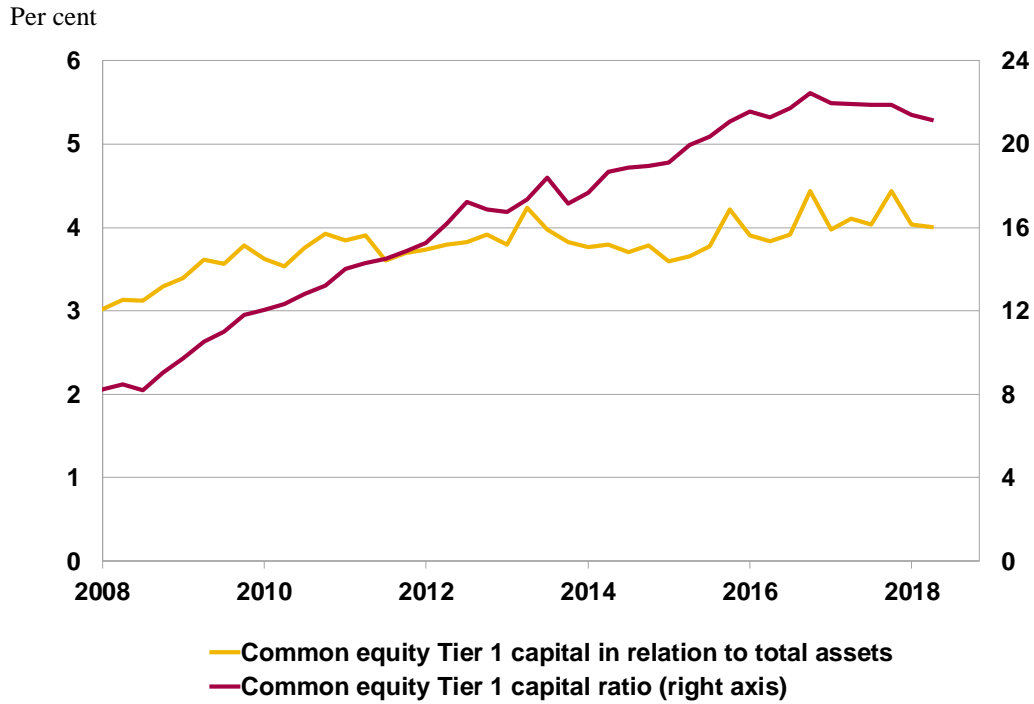
### 8 Current account and financial savings in the public sector

Share of GDP



Source: Statistics Sweden.

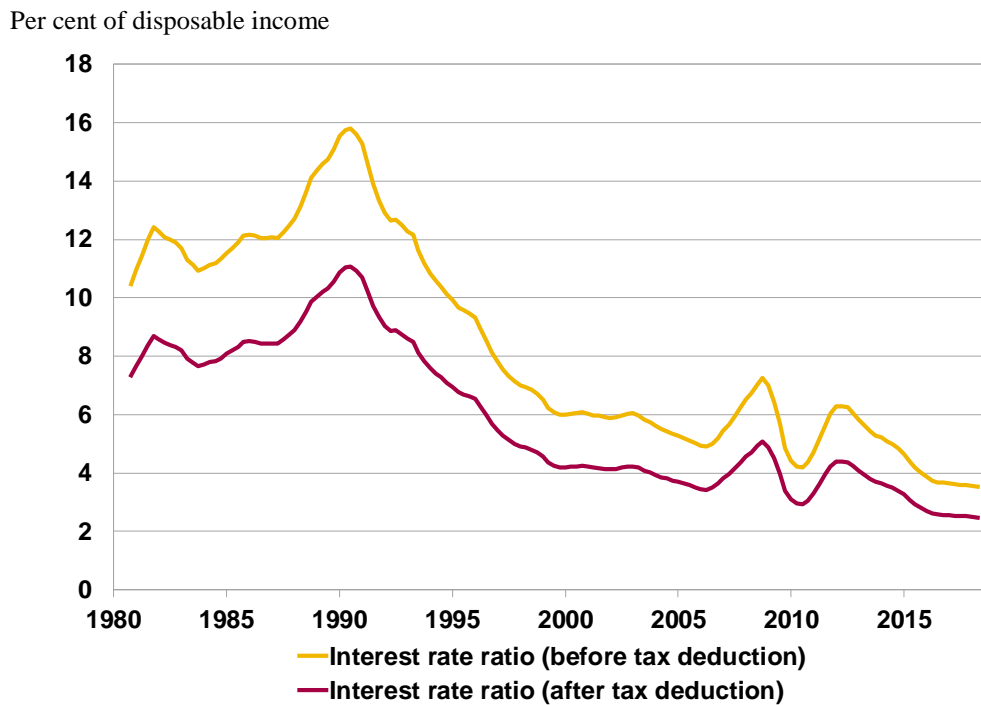
### 9 CET 1 capital in relation to total assets and the CET 1 capital ratio



Note: The diagram shows an unweighted average for the three major Swedish banks.

Source: FI.

### 10 Households' interest-to-income ratio

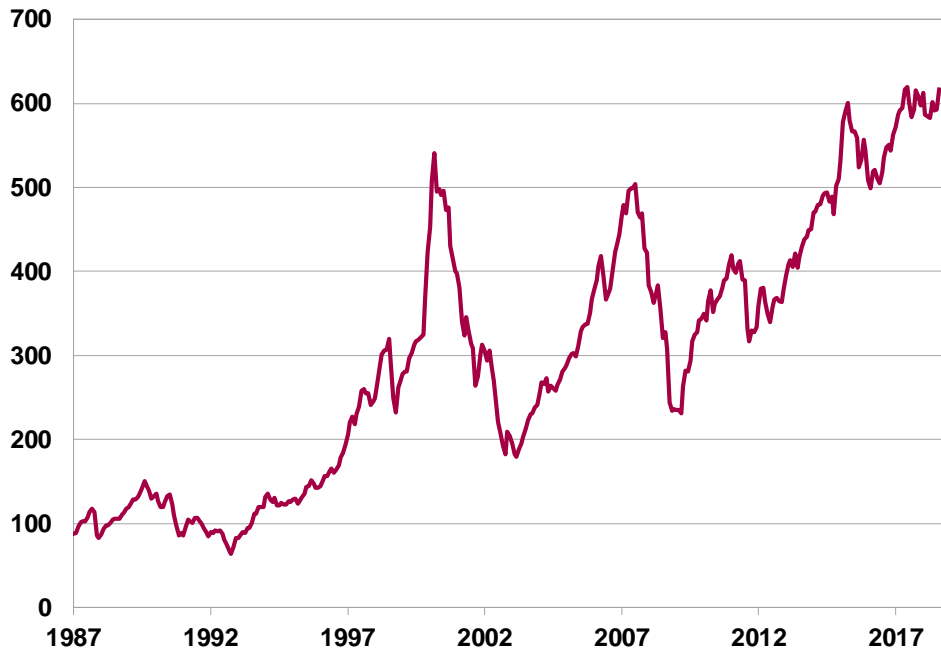


Source: Statistics Sweden.



### 11 Real share prices

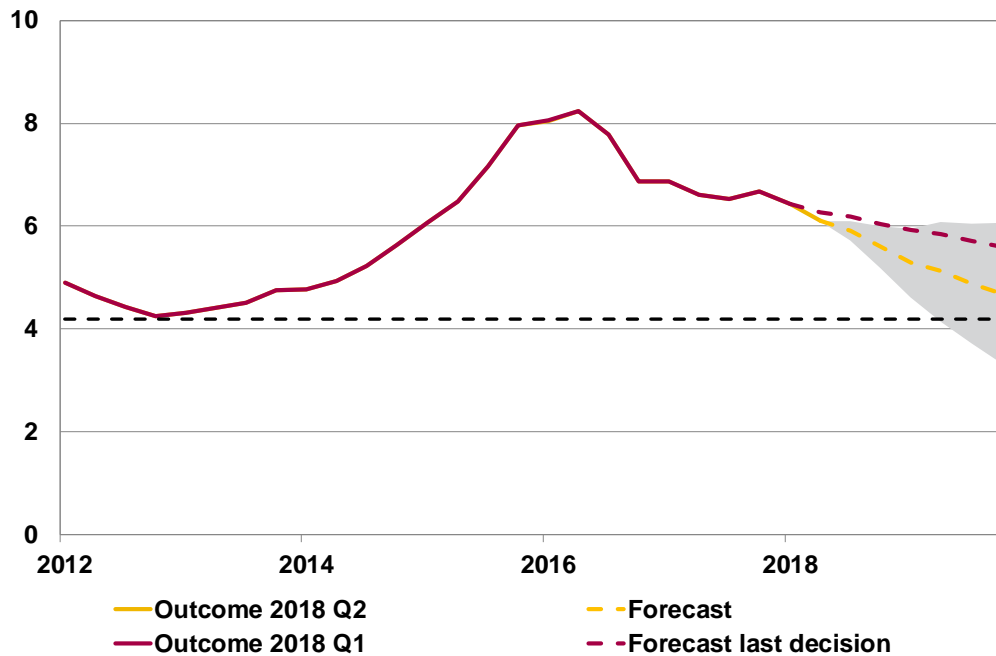
Index 100 = 1987



Source: SCB and Thomson Reuters Datastream.

### 12 Households' nominal debt

Annual change in per cent

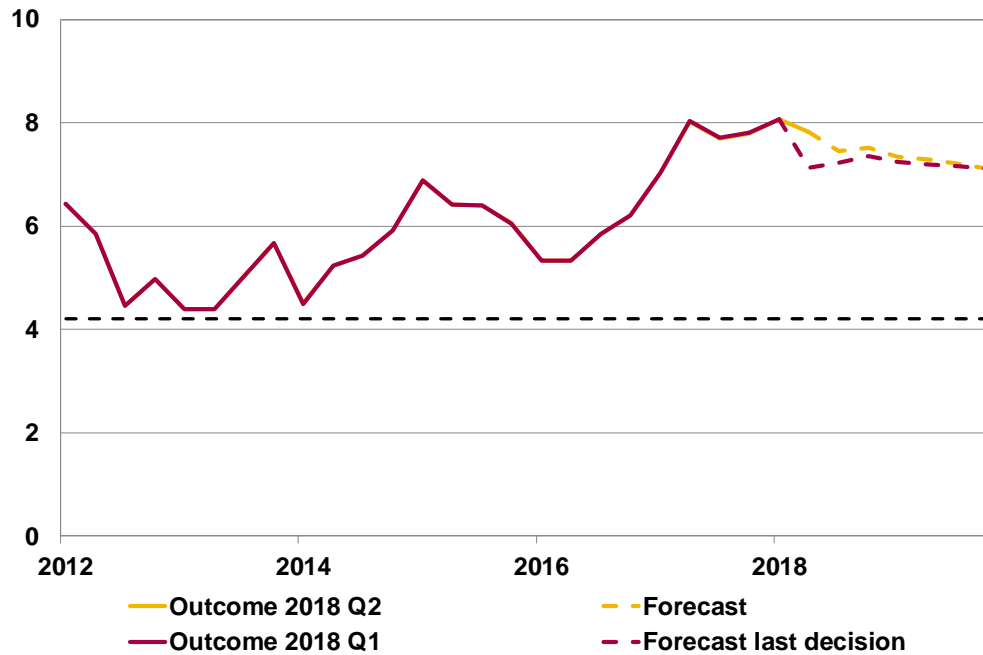


Note: The dotted black line marks the average growth in nominal GDP.

Source: FI and Statistics Sweden.

### 13 Total debt

Annual change in per cent

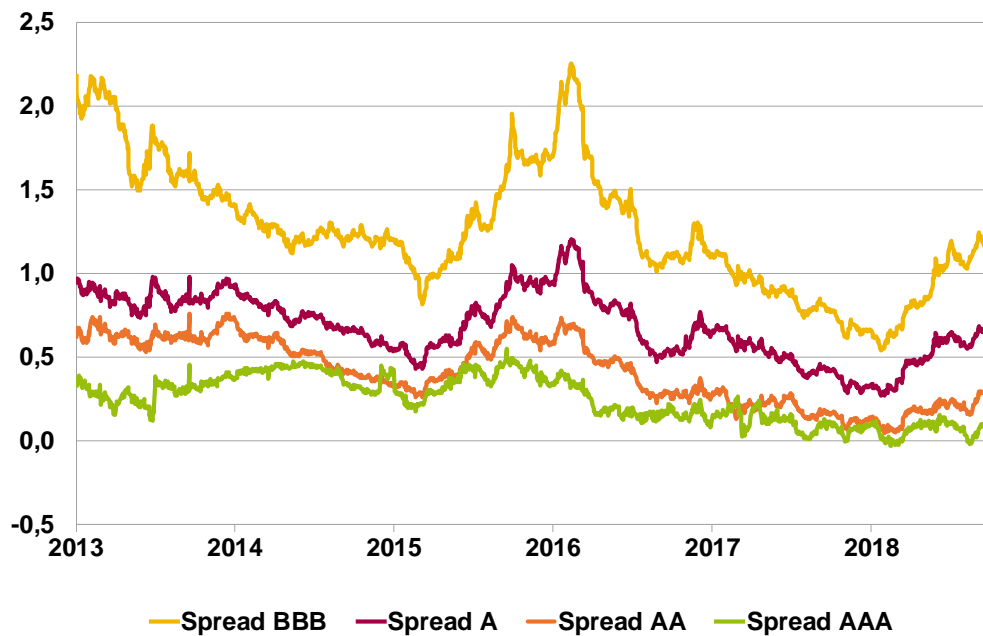


Note: The dotted black line marks the average growth in nominal GDP.

Source: FI and Statistics Sweden.

### 14 European risk premiums

Percentage points



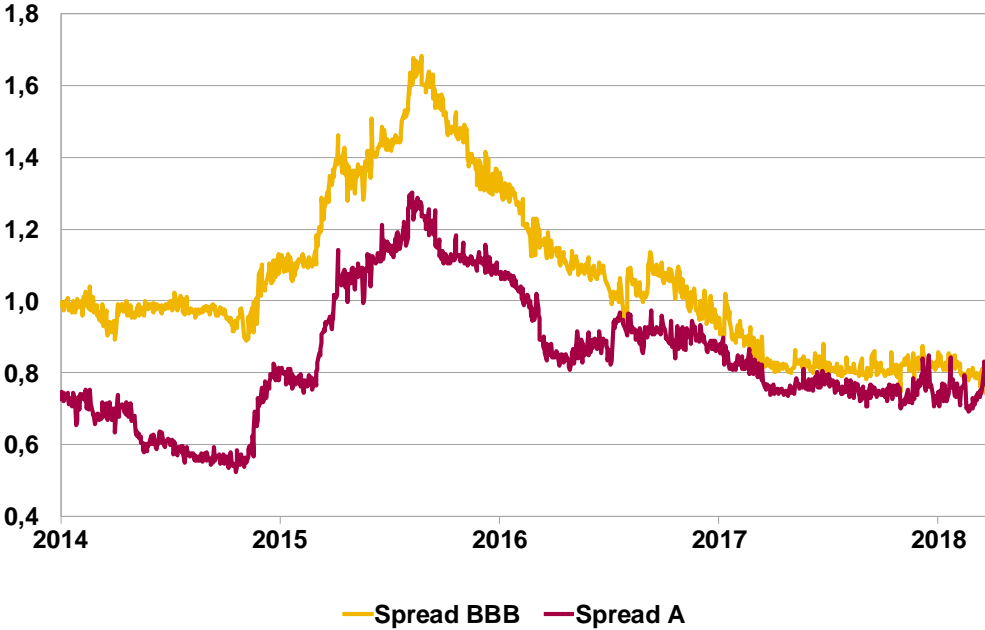
Note: Interest rate differences for corporate bonds with different credit ratings in the euro area. The difference is calculated between the return for an index of European corporate bonds (iBoxx euro corporates) with a maturity of five to seven years and a European swap rate.

Source: Thomson Reuters Datastream.



### 15 Swedish risk premiums

Percentage points

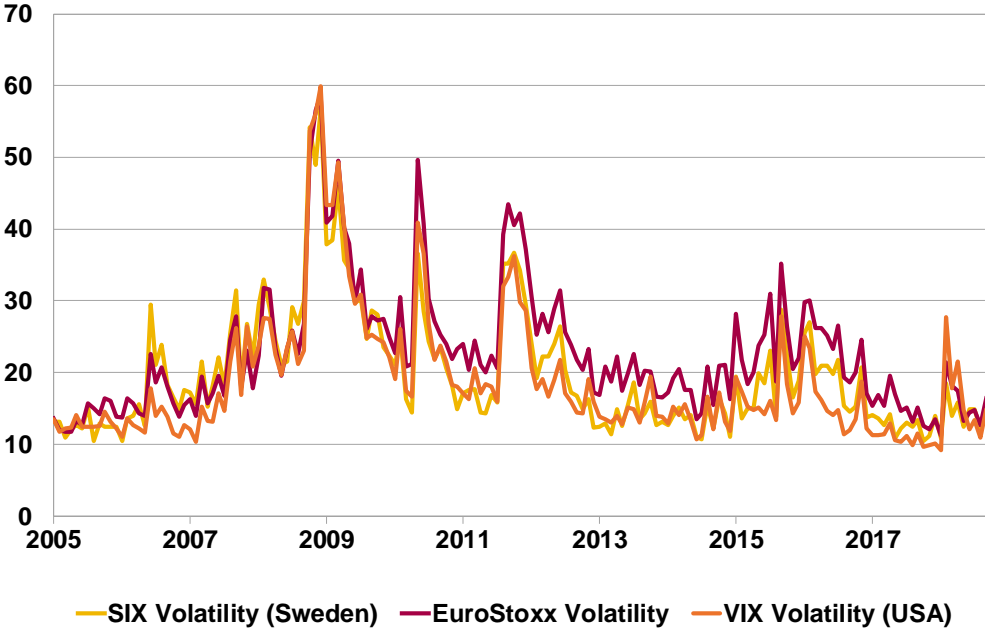


Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate.

Source: Thomson Reuters Datastream.

### 16 Volatility index

Standard deviation



Note: Implicit volatility calculated from index option prices.

Source: Thomson Reuters Datastream.