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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.<sup>1</sup>

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>2</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 Q3 2018, total debt grew by 7.7 per cent on an annual basis. This can be compared to 8.1 per cent when FI last changed the buffer rate and 7.8 per cent the previous quarter. Even though total debt grew somewhat slower than the previous quarter, it continued to grow faster than nominal GDP and at a rate that is not sustainable in the long run. This means that total debt rose to 161.4

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<sup>1</sup> 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.

<sup>2</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.

per cent of GDP in Q3 2018, which is 4.5 percentage points higher than in the same quarter the previous year.

The slow-down in the growth rate of total debt is primarily attributable to lower growth in household debt. Household debt increased by 5.9 per cent on an annual basis in Q3 2018. This is 0.4 percentage points lower than in the previous quarter. Total debt to non-financial firms increased by 9.6 per cent on an annual basis in Q3 2018. Market funding of non-financial firms increased by 14.4 per cent on an annual basis in Q3 2018 compared to an annual rate of 14.1 per cent the previous quarter. Lending from Swedish monetary financial institutions (MFI) to Swedish non-financial firms decreased to 6.7 per cent on an annual basis compared to 6.9 per cent the previous quarter. The credit-to-GDP gap calculated in accordance with the Basel Committee's standardised approach amounted to 2.92 per cent in Q3 2018. This means that the countercyclical buffer guide is set at 0.29 per cent.<sup>3</sup>

The conditions on the financial markets continue to be expansive, but they have tightened somewhat since the previous decision. Thus, the risks in the financial system continue to be elevated. At the end of 2018, investors reassessed the valuation of various financial assets, and the pricing of risk went through a normalisation. Risk premiums increased on the bond markets in both Europe and Sweden at the same time as share prices fell globally. The general interest rate level remains low. Sveriges Riksbank raised the repo rate by 0.25 percentage points to -0.25 per cent in December 2018, and the trend both in Sweden and internationally is moving towards less expansive monetary policy and tighter financial conditions. As financial expenses rise, risk build-up linked to the debt of non-financial firms and households is expected to fall. House prices have also stood still during the autumn of 2018. This is yet another sign that the growth in lending to households could continue to decrease.

FI's forecast shows that household debt is growing at a slower rate, and it is expected to match the growth rate of average GDP at the end of 2019. It is FI's assessment that total debt will also grow at a lower rate moving forward. FI's forecast shows that the growth rate is declining and total debt will grow at about 7 per cent on an annual basis up to Q3 2019. This continues to be faster than nominal GDP and what FI considers to be sustainable in the long run.

Taken together, the indicators show that the systemic risks in the financial continue to be elevated. The indicators that FI monitors are indicating no significant changes to the aggregate risks. If anything, there has been a

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<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.

marginal decrease since the decision in 2018 by FI to raise the buffer rate to 2.5 per cent. The resilience of banks continues to be satisfactory given the previously decided changes to the capital requirements. Given the overall development on the market, Finansinspektionen has decided not to amend Finansinspektionen's regulations (FFFS 2014:33) regarding the countercyclical buffer rate.

A decision in this matter was made by Finansinspektionen's Director General Erik Thedéen following a presentation by Analyst Viktor Thell. Analyst Niclas Olsén Ingefeldt and Deputy Chief Economist Stefan Palmqvist participated in the final proceedings.

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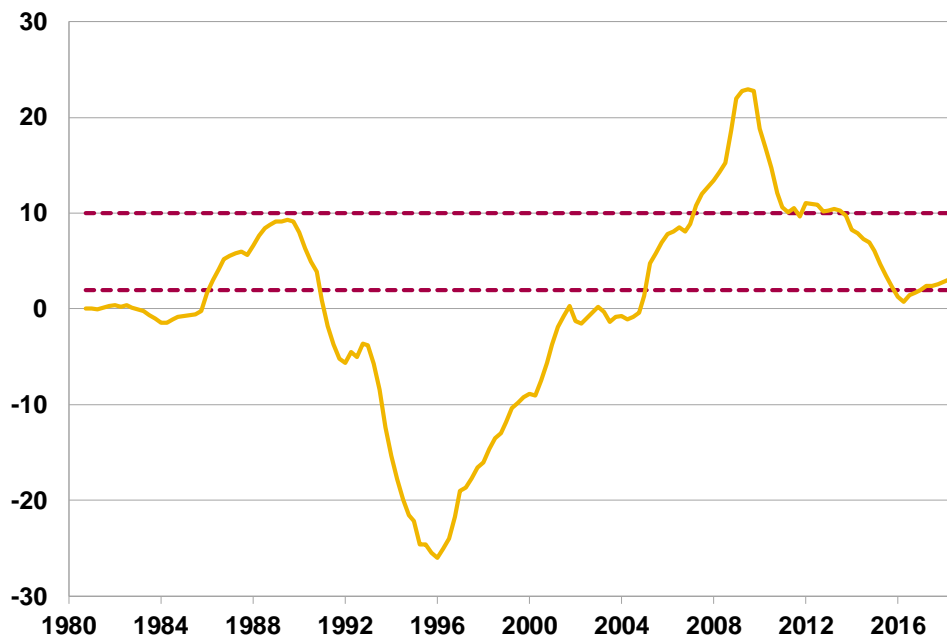
Erik Thedéen  
*Director General*

Viktor Thell  
*Analyst*

## Appendix 1: Indicators

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

Deviation from trend in percentage points

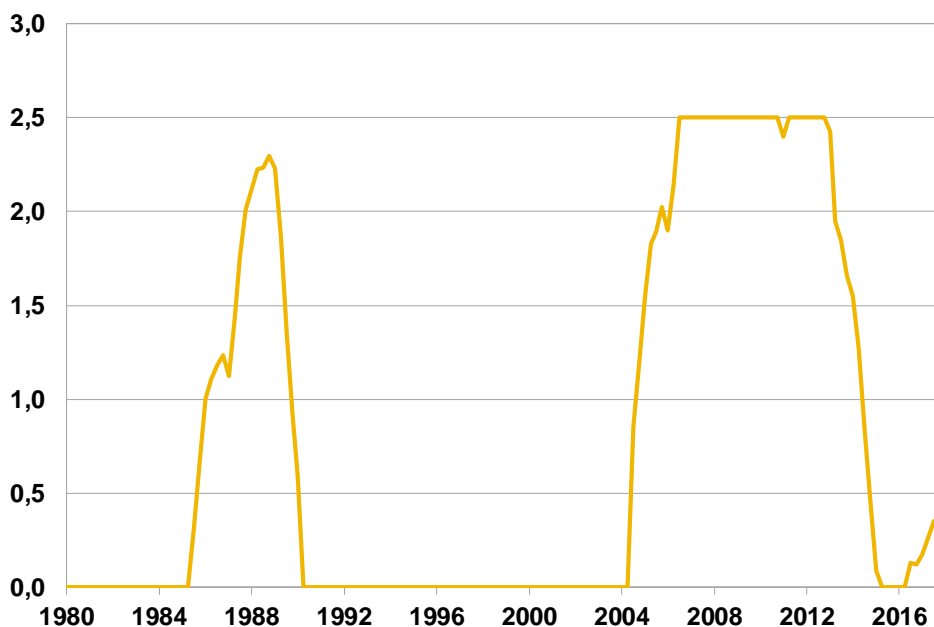


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

### 2 Buffer rate according to the standardised approach

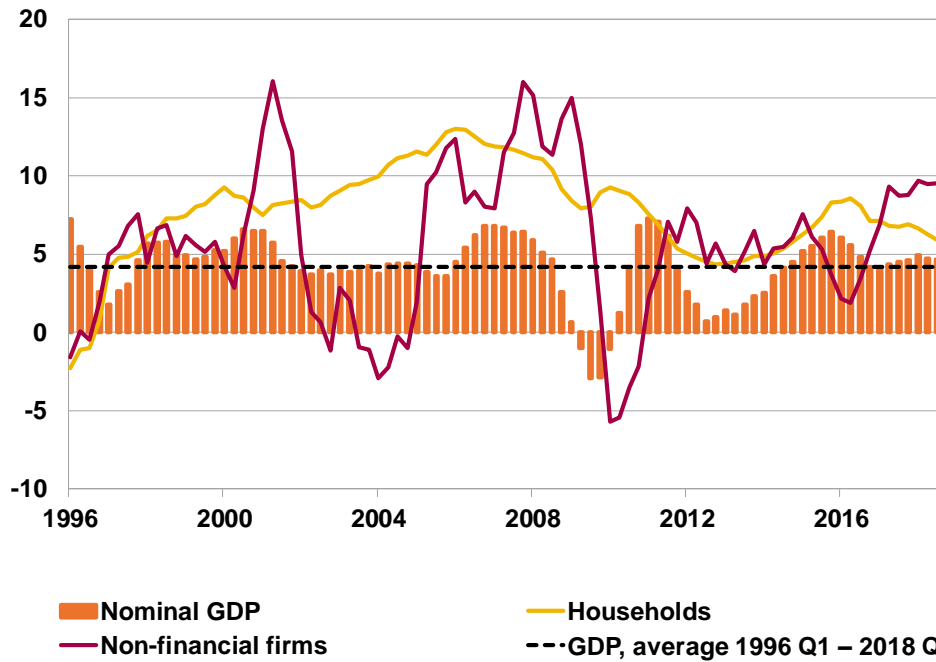
Per cent



Source: FI and Statistics Sweden.

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

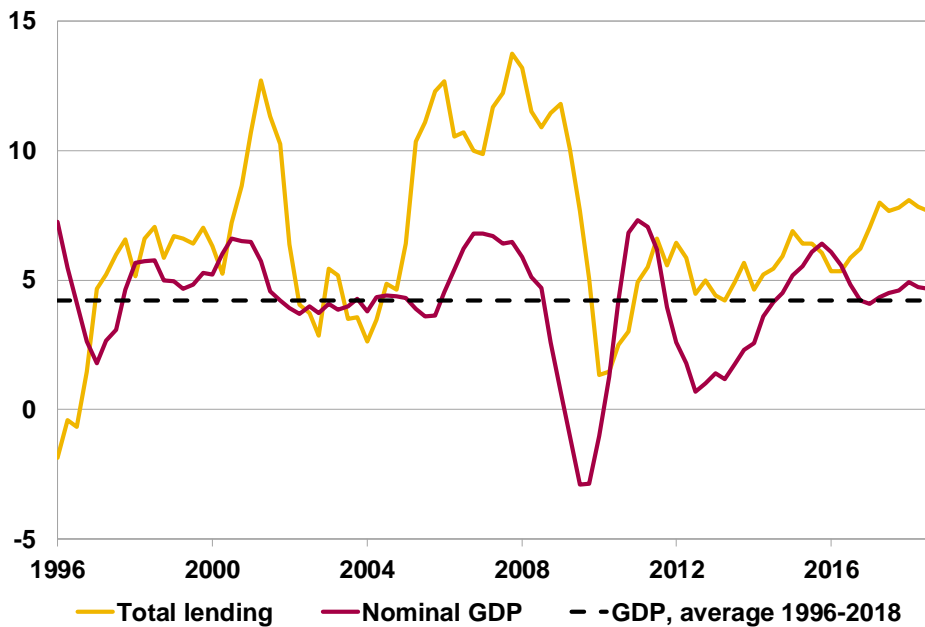
Annual change in per cent



Source: Statistics Sweden.

### 4 Total lending and nominal GDP

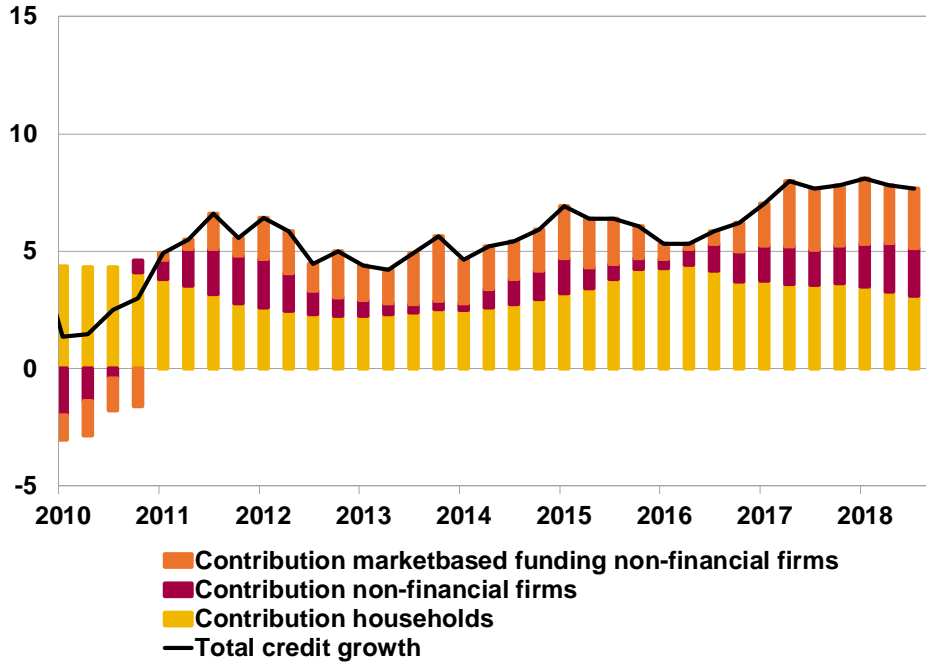
Annual change in per cent



Source: Statistics Sweden.

### 5 Contribution to change in total lending growth

Annual change in per cent

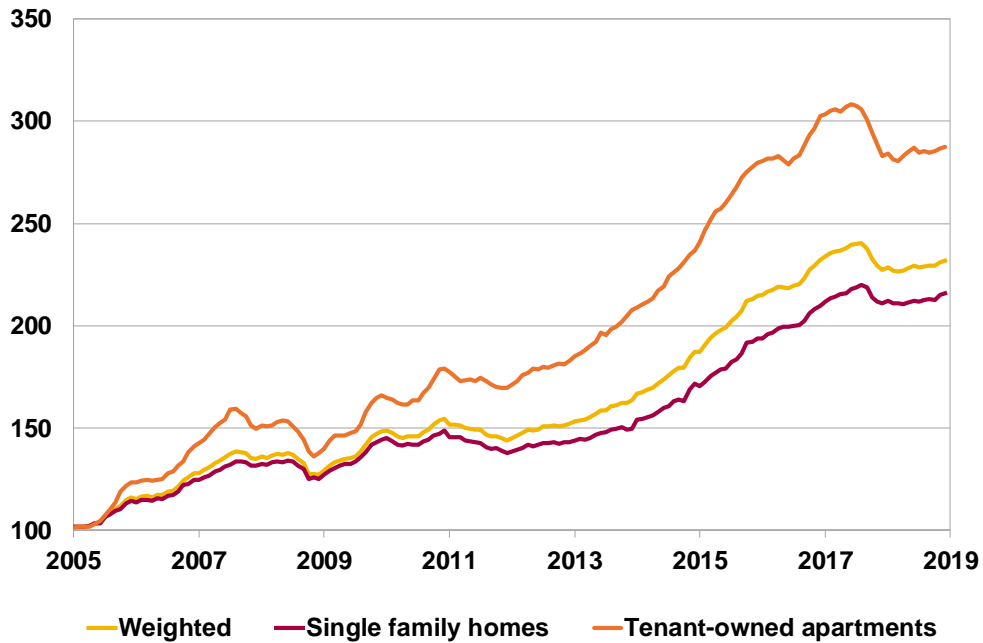


Note: Refers to total lending to households and corporates and their contribution to the annual rate of growth in per cent. Contribution of non-financial firms refers to MFI’s lending to non-financial firms.

Source: FI and Statistics Sweden.

### 6 House prices in Sweden

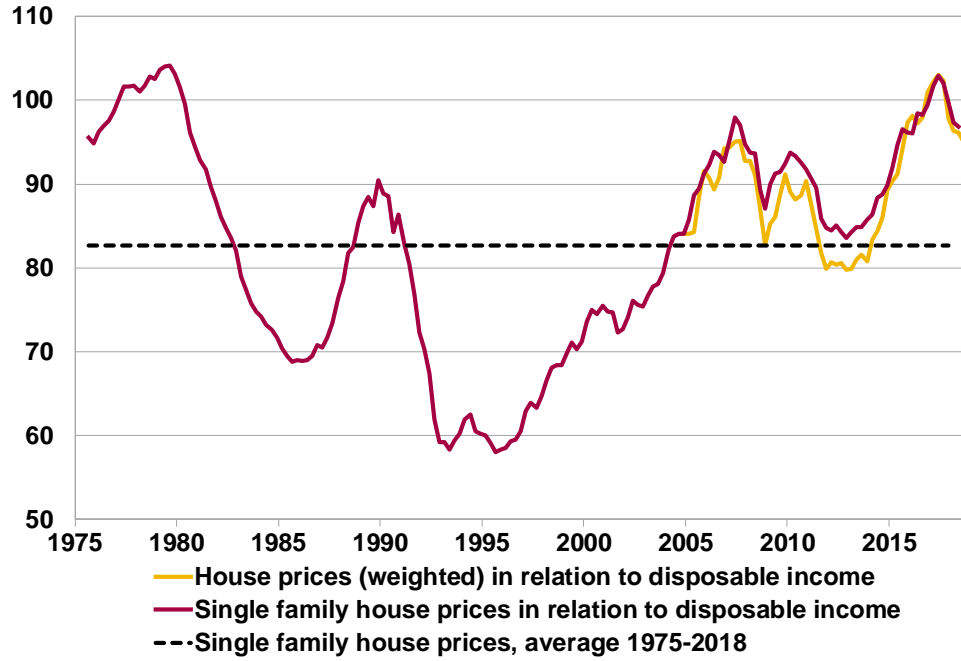
Index 100 = January 2005



Source: Valueguard.

### 7 House prices in relation to disposable income

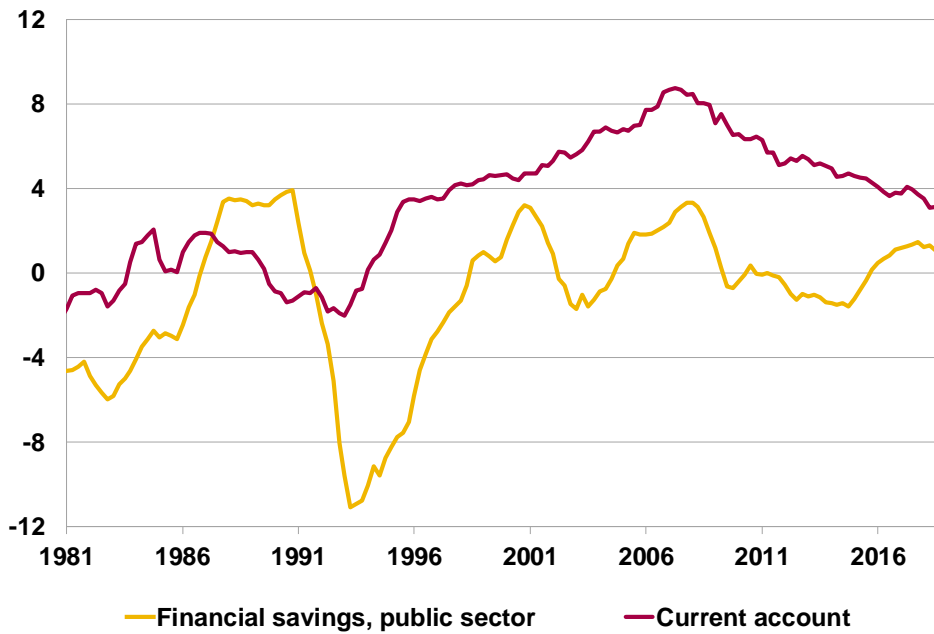
Index 100 = 1980



Source: Statistics Sweden and Valueguard.

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

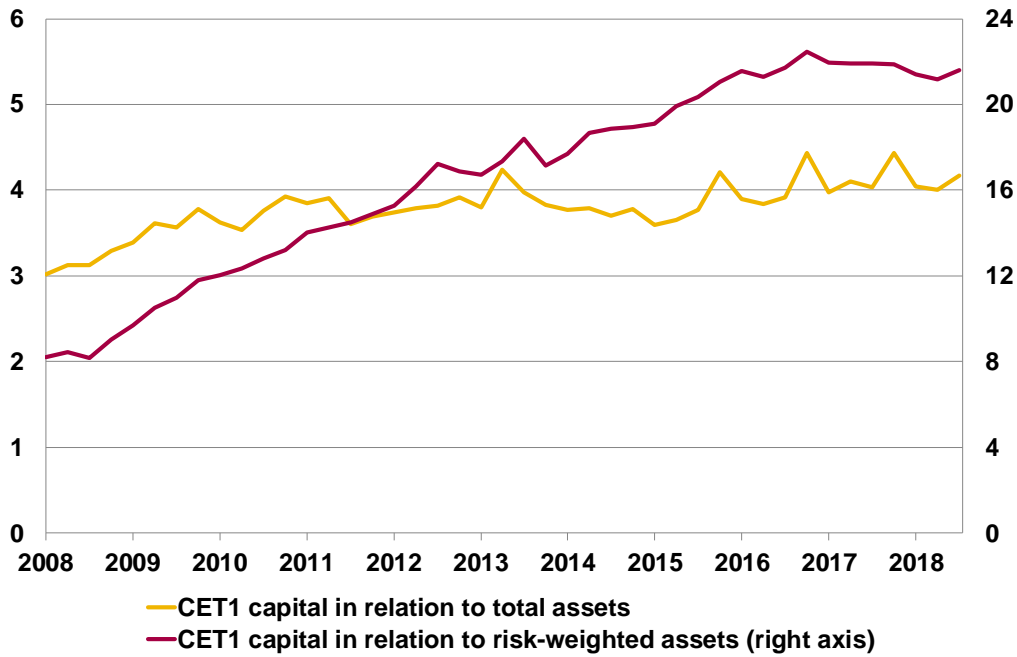
Per cent of GDP



Source: Statistics Sweden.

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

Per cent

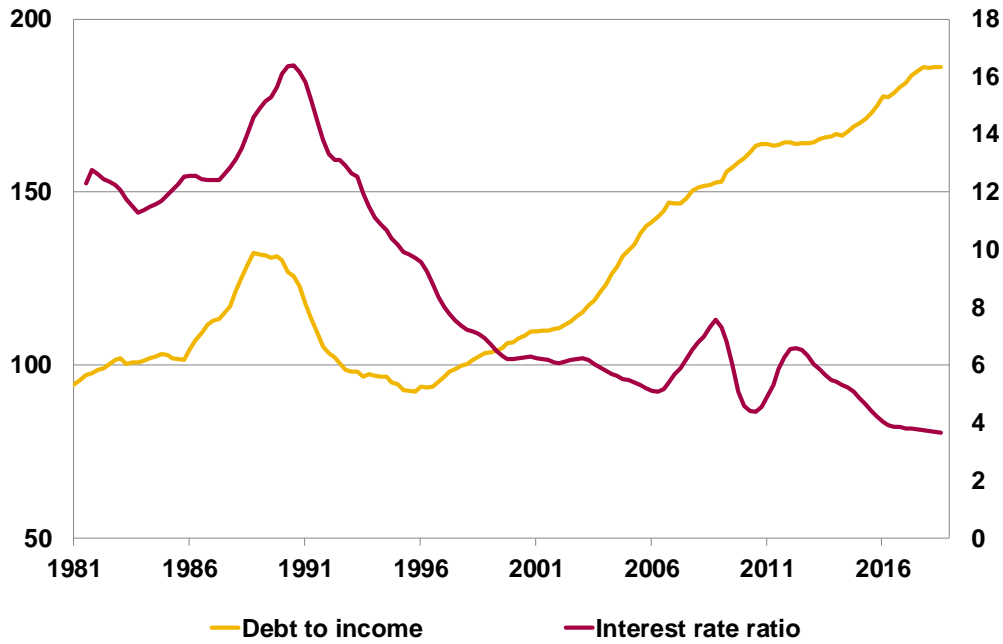


Note: The diagram shows an unweighted average for the three major Swedish banks.

Source: FI.

### 10 Households' debt and interest payments to income

Per cent of disposable income

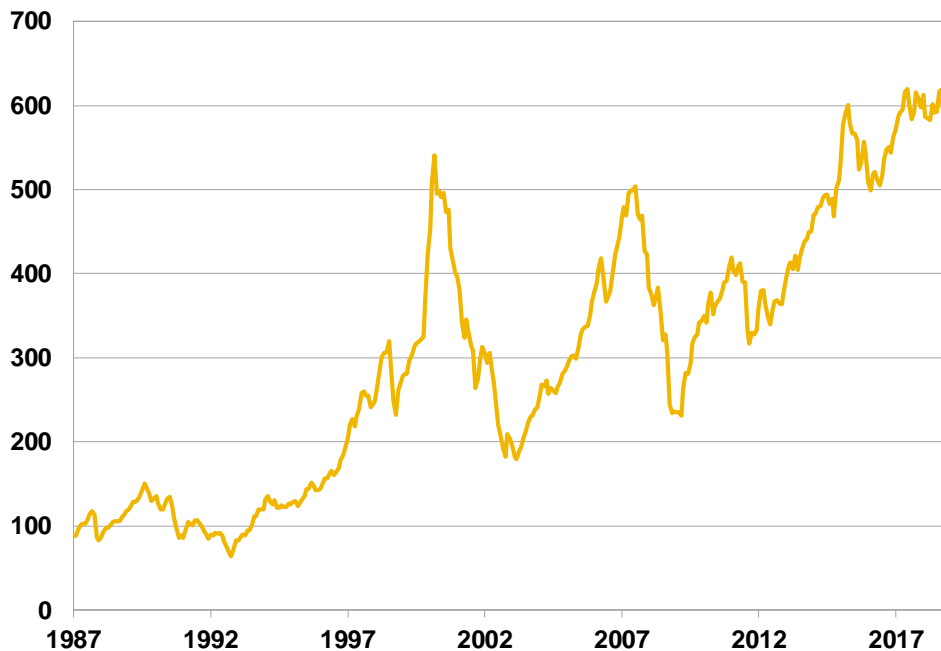


Source: Statistics Sweden.



### 11 Real share prices

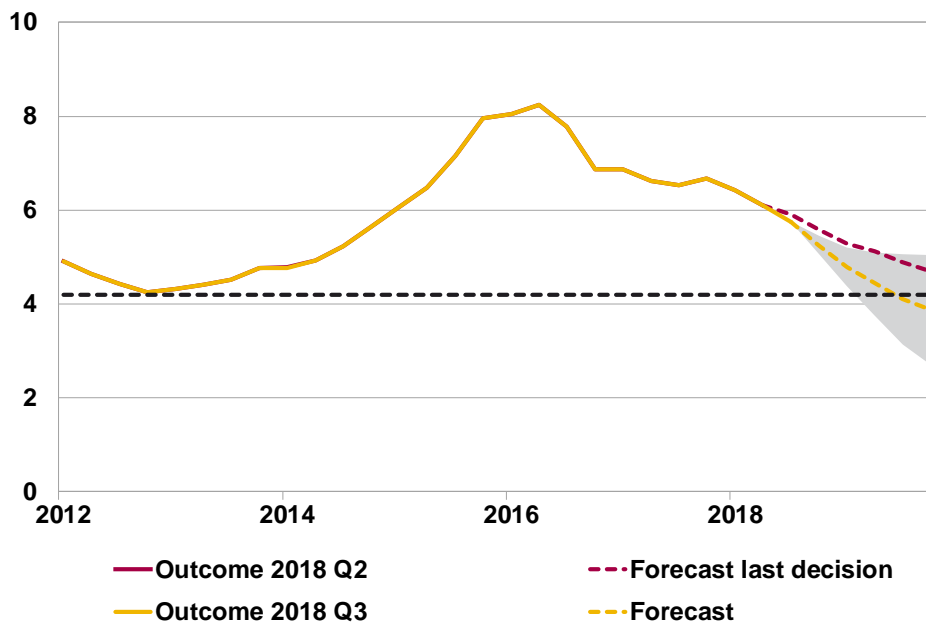
Index 100 = 1987



Source: SCB and Thomson Reuters Datastream.

### 12 Forecast for household debt

Annual change in per cent

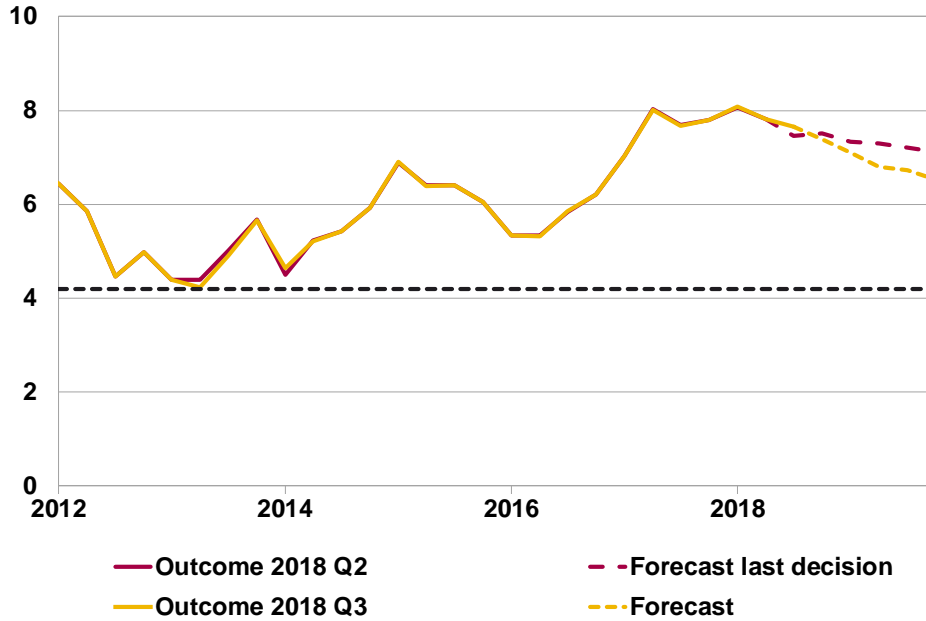


Note: The dotted black line marks the average growth in nominal GDP.

Source: FI and Statistics Sweden.

### 13 Forecast for total lending

Annual change in per cent

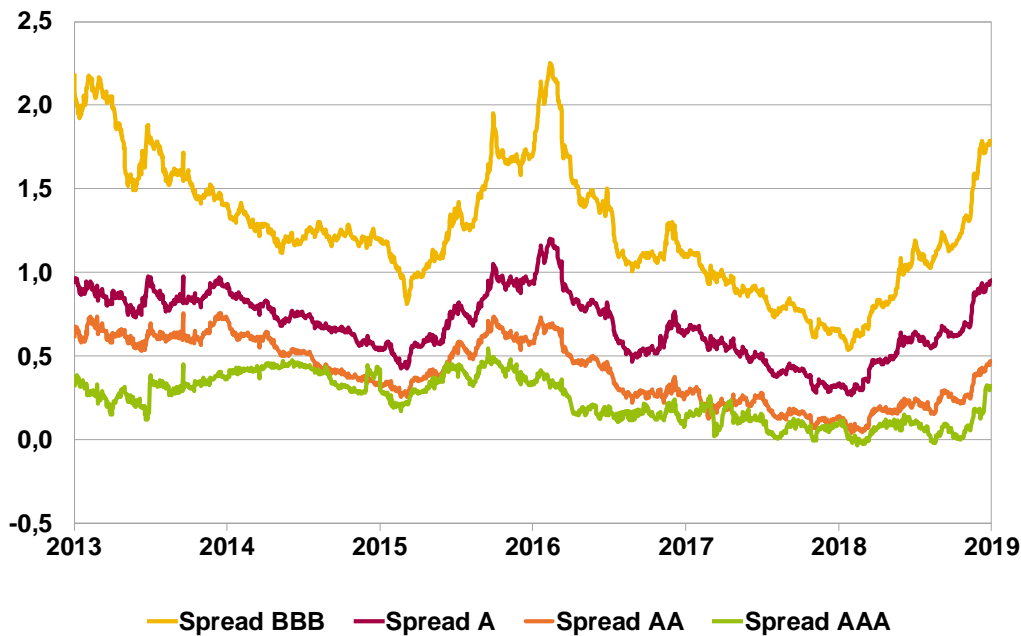


Note: The dotted black line marks the average growth in nominal GDP.

Source: FI and Statistics Sweden.

### 14 European risk premiums

Percentage points

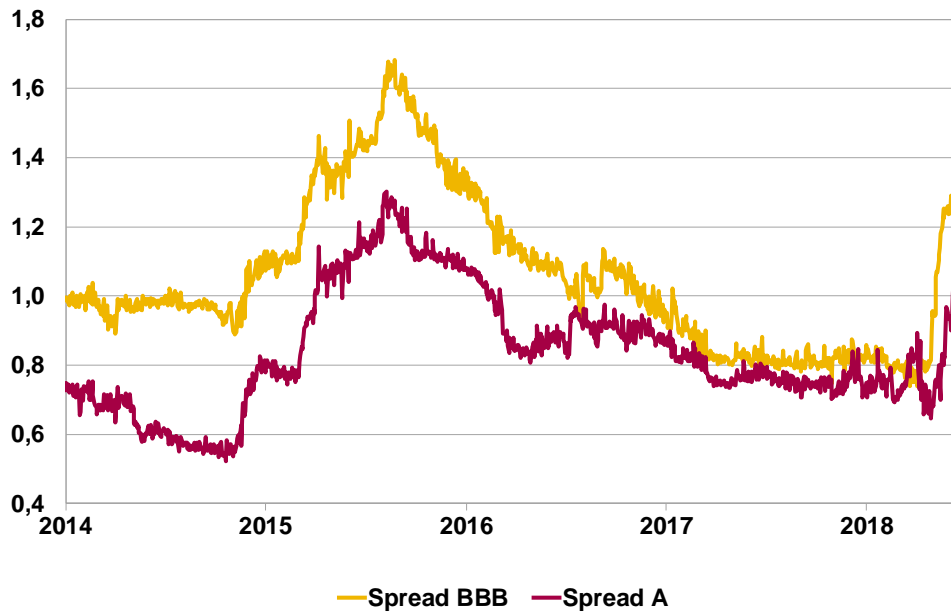


Note: Interest rate differences for corporate bonds with different credit ratings in the euro area. The difference is calculated between the return for an index of European corporate bonds (iBoxx euro corporates) with a maturity of five to seven years and a European swap rate.

Source: Thomson Reuters Datastream.

### 15 Swedish risk premiums

Percentage points

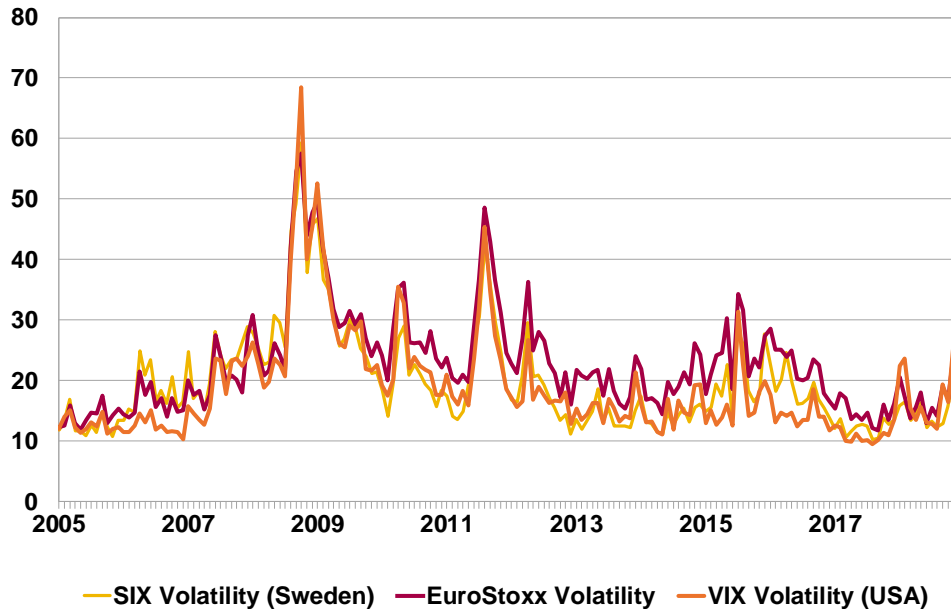


Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate.

Source: Thomson Reuters Datastream.

### 16 Volatility index

Standard deviation



Note: Implicit volatility calculated from index option prices. The last publication of SIX Volatility (Sweden) was September 2018. An average of OS30C implicit volatility estimated for calls and puts is used instead for the last three months in 2018.

Source: Thomson Reuters Datastream.