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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.

### Background

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 countercyclical capital buffer for Sweden was activated on 8 September 2014. The buffer rate was set at 1 per cent and went into effect on 13 September 2015.<sup>1</sup> On 22 June 2015, FI decided to raise the countercyclical buffer rate to 1.5 per cent. This rate was applied as of 27 June 2016.<sup>2</sup> On 14 March 2016, FI passed a new decision to raise the countercyclical buffer rate from 1.5 per cent to 2 per cent. This rate was applied as of 19 March 2017.<sup>3</sup>

### Finansinspektionen's assessment

The purpose of the countercyclical capital buffer is to maintain the banks' resilience. It shall ensure that the banking system as a whole has sufficient capital to sustain the flow of credit to households and corporations following shocks to the financial system that could cause a credit crunch. 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

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<sup>1</sup> FI (2014), *Föreskrifter om kontracykliskt buffertvärde*. Published on www.fi.se on 10 September 2014, FI Ref. 14-7010. An English translation is available on the website.

<sup>2</sup> FI (2015), *Ändring av föreskrifter om kontracykliskt buffertvärde*. Published on www.fi.se on 23 June 2015, FI Ref. 15-7062. An English translation is available on the website.

<sup>3</sup> 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.

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 29 January 2018 not to change the countercyclical buffer rate. This meant that the buffer rate of 2 per cent, which had applied since 19 March 2017, would continue to apply. The countercyclical buffer guide, which is calculated using the credit-to-GDP gap, had a value of 0 per cent.

In Q4 2017, total debt grew by 6.9 per cent on an annual basis, which can be compared to 7.4 per cent in the previous quarter. The slow-down is due to lower growth in firms' market funding. Market funding increased to 10.5 per cent on an annual basis in Q4 2017 compared to 15.5 per cent at an annual rate in Q3. Lending from Swedish monetary financial institutions (MFI) to Swedish households and non-financial firms increased by 6.9 per cent and 5.3 per cent, respectively, on an annual basis. This is a marginal increase compared to the previous quarter. Nominal GDP in the fourth quarter rose at the same time by 4.7 per cent. This means that total debt rose to 152 per cent of GDP in Q4 2017.

FI's forecast for total debt was revised slightly since the previous decision. Total debt is expected to increase at a slightly lower rate, approximately 7 per cent on an annual basis, up to 2019. This is still higher than GDP growth. According to FI's forecasts, household debt, MFI's lending to corporates and the firms' market financing will increase at a slightly lower rate than in the forecasts from the previous decision. MFI's lending to corporates is expected on average to increase by 5.8 per cent on an annual basis up to 2019, while household debt on average is expected to increase by 6.3 per cent on an annual basis during the same period.

Several indicators are pointing to unchanged systemic risks since the previous decision. At the same time, the housing market has cooled since the autumn of 2017. On average, house prices decreased by 4.5 per cent on an annual basis in March 2018. Since August 2017, house prices have decreased on average by approximately 7 per cent. After the recent slow-down in house prices, the risk of a large fall in house prices is still elevated. 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 in the future. The stricter amortisation requirement, which entered into force on 1 March 2018, is also expected to slightly restrain the growth of household debt.

The credit-to-GDP gap calculated in accordance with the Basel Committee's standardised approach amounted to 0.53 per cent in Q4 2017. This means that the countercyclical buffer guide has been set at 0 per cent.<sup>4</sup>

Given the overall development, FI has decided not to change the countercyclical buffer rate of 2 per cent.

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

## FINANSINSPEKTIONEN

Erik Thedéen  
*Director General*

Niclas Olsén Ingefældt  
*Junior Analyst*

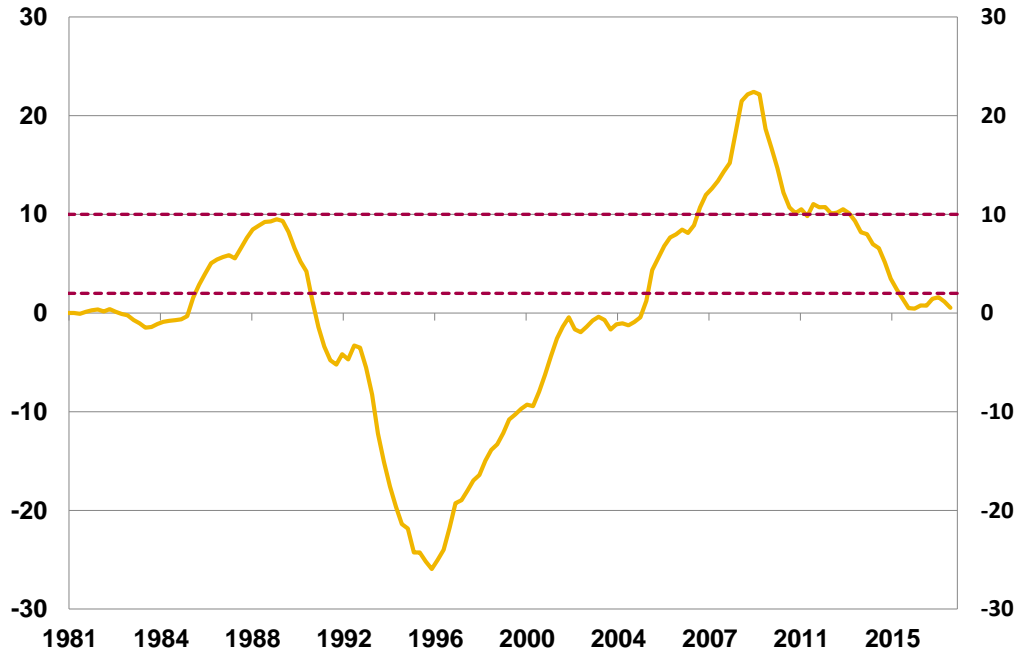
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<sup>4</sup> According to the Basel Committee's standardised approach, a credit-to-GDP gap that is lower than 2 per cent should result in a buffer guide of 0 per cent. It should be noted that the buffer guide is most suitable as an indicator of any increases in the buffer rate - not decreases.

## Appendix 1: Indicators

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

Deviation from trend in percentage points

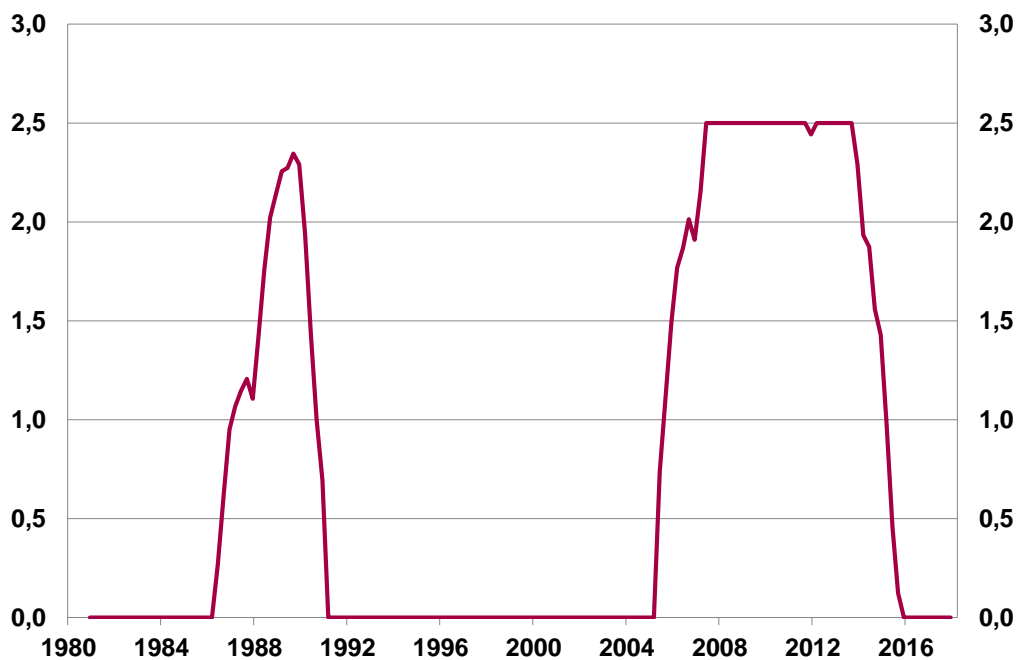


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and SCB.

### 2 Buffer level according to the standardised approach

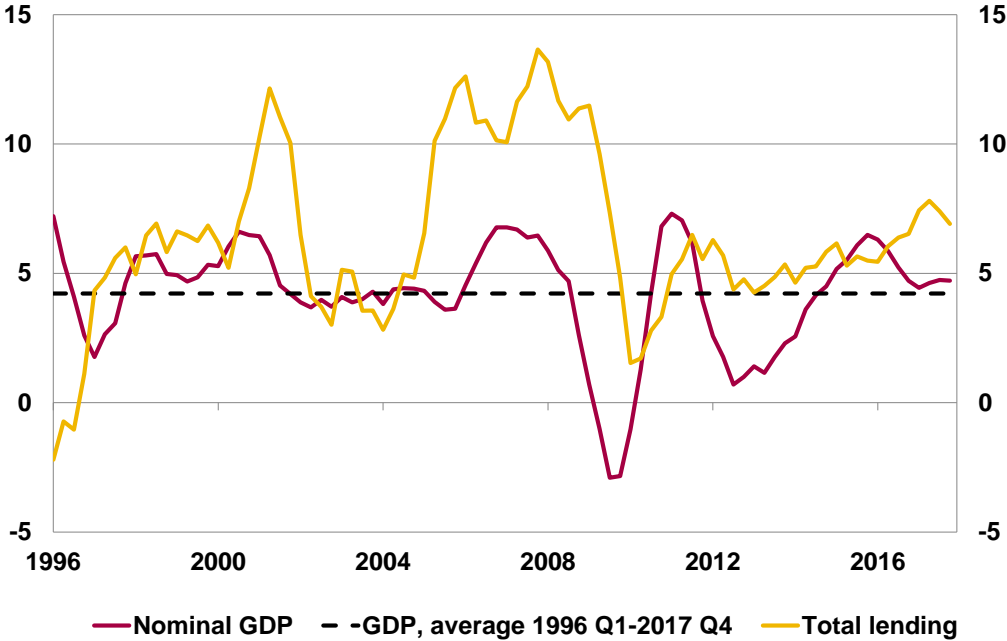
Per cent



Source: FI and SCB.

### 3 Total lending and nominal GDP

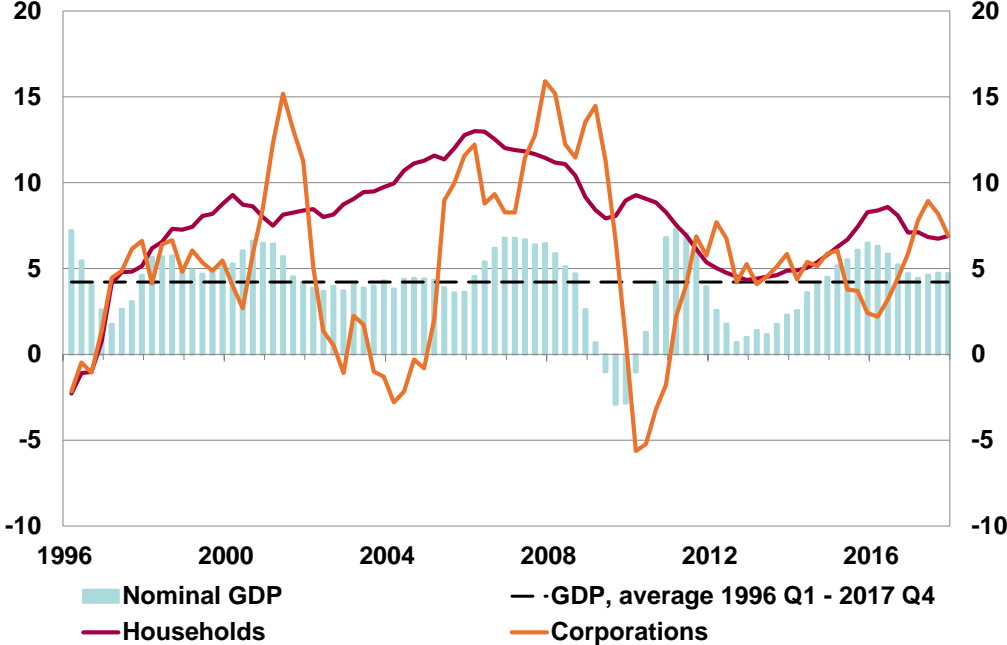
Annual change in per cent



Source: Statistics Sweden.

### 4 Lending to households and firms and nominal GDP

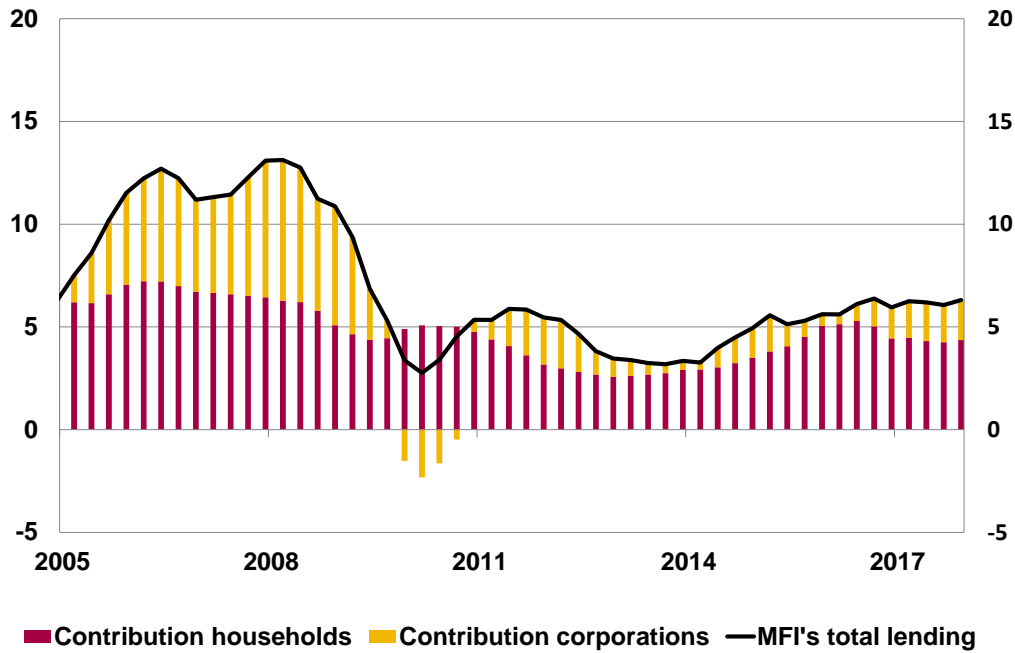
Annual change in per cent



Source: Statistics Sweden.

### 5 MFI's total lending to households and corporates

Annual change in per cent

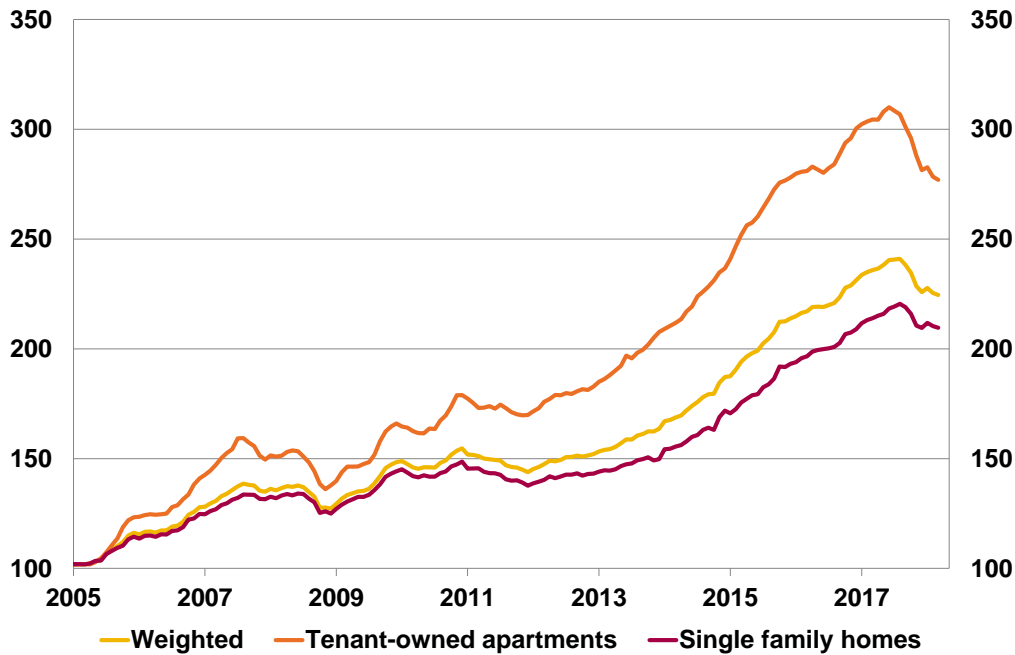


Source: Statistics Sweden.

Note: Refers to Swedish MFI's total lending to households and corporates (excluding market financing) and their contributions to the total annual growth in per cent.

### 5 House prices in Sweden

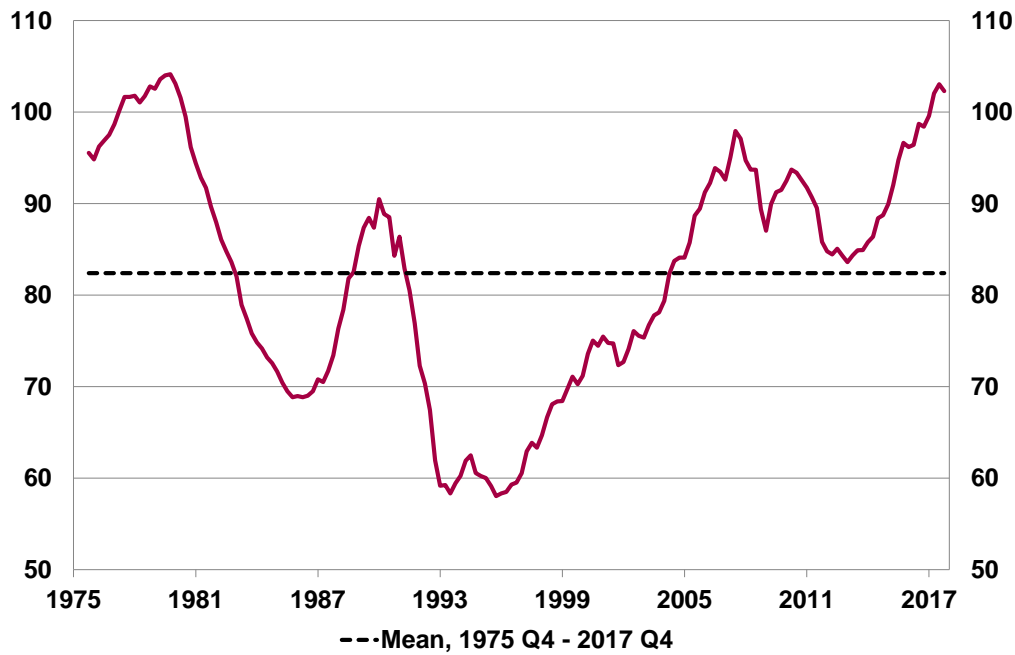
Index 100 = January 2005



Source: Valueguard.

### 6 House prices in relation to disposable income

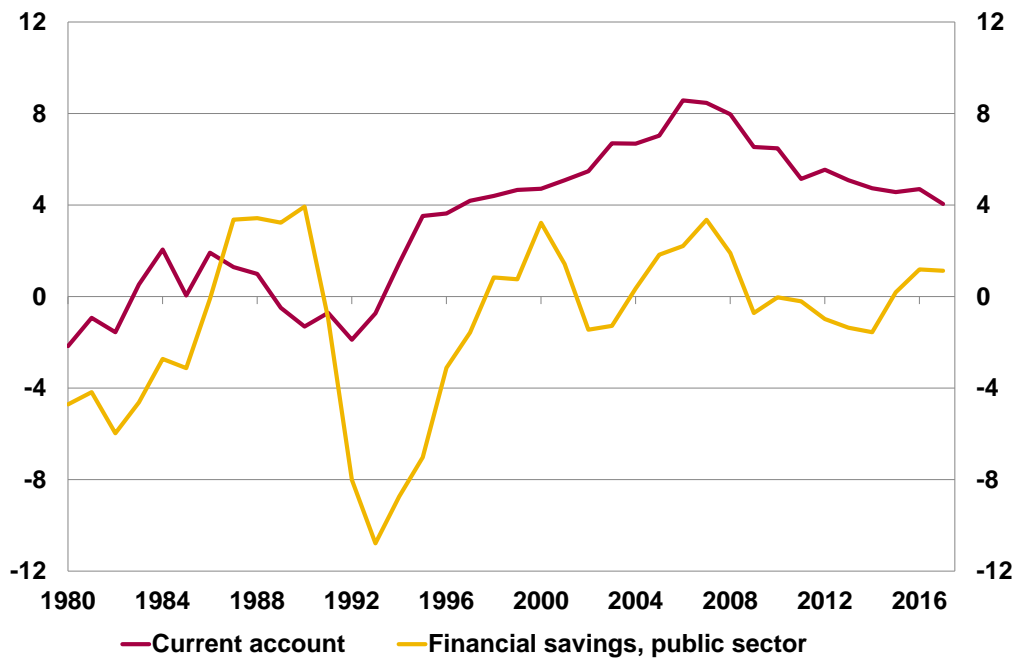
Index 100 = 1980



Source: Statistics Sweden.

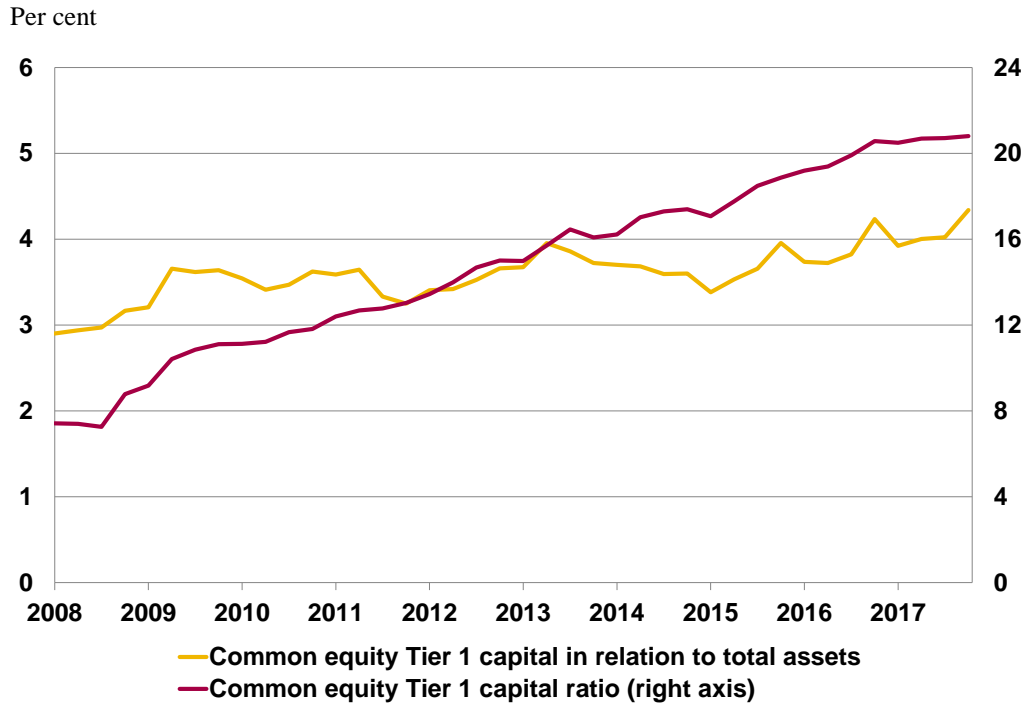
### 7 Current account and financial savings in the public sector

Share of GDP



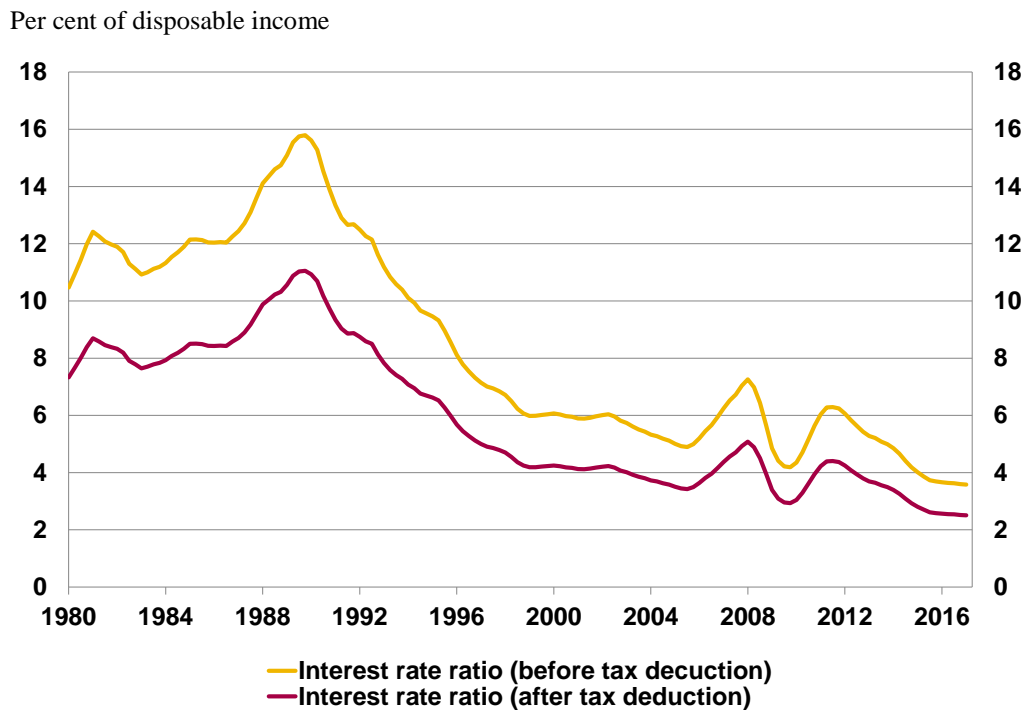
Source: Statistics Sweden.

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



Source: FI.

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

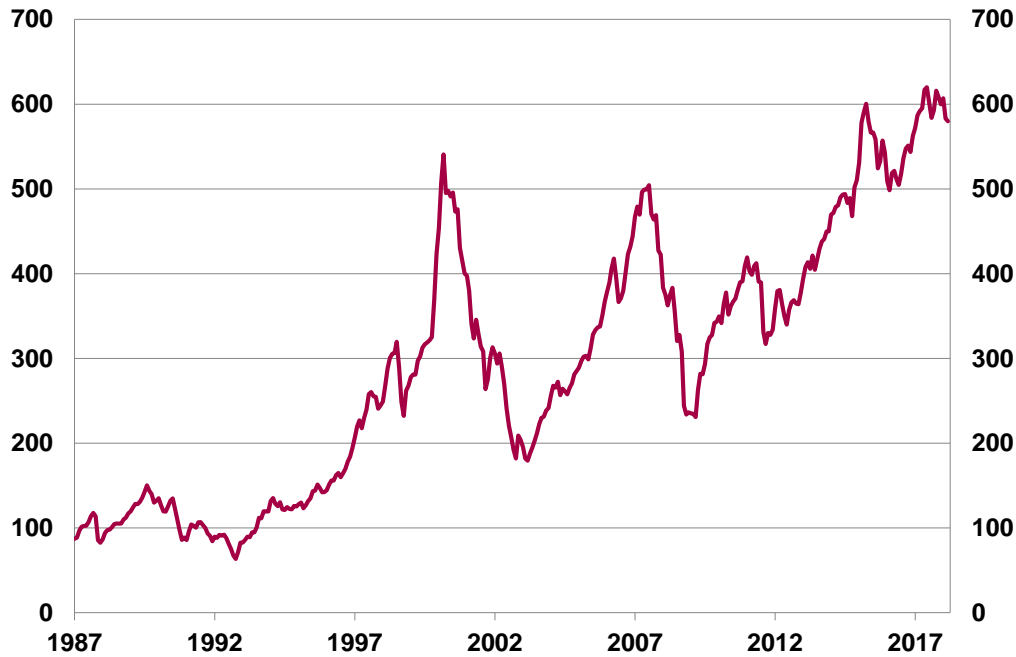


Source: Statistics Sweden.



### 10 Real share prices

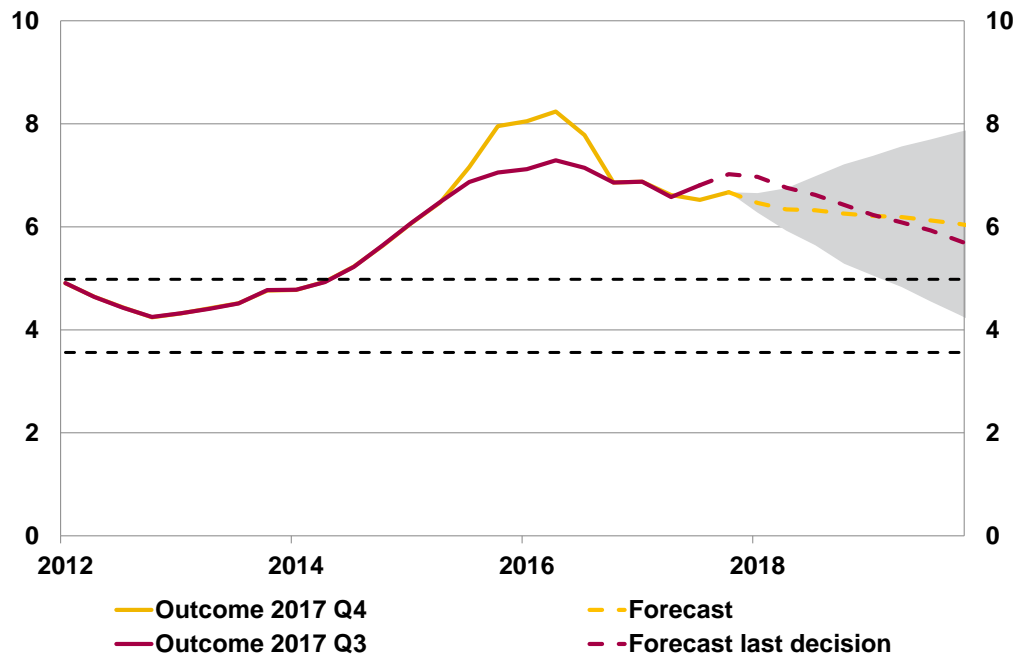
Index 100 = 1987



Source: SCB and Thomson Reuters Datastream.

### 11 Households' nominal debt

Annual change in per cent

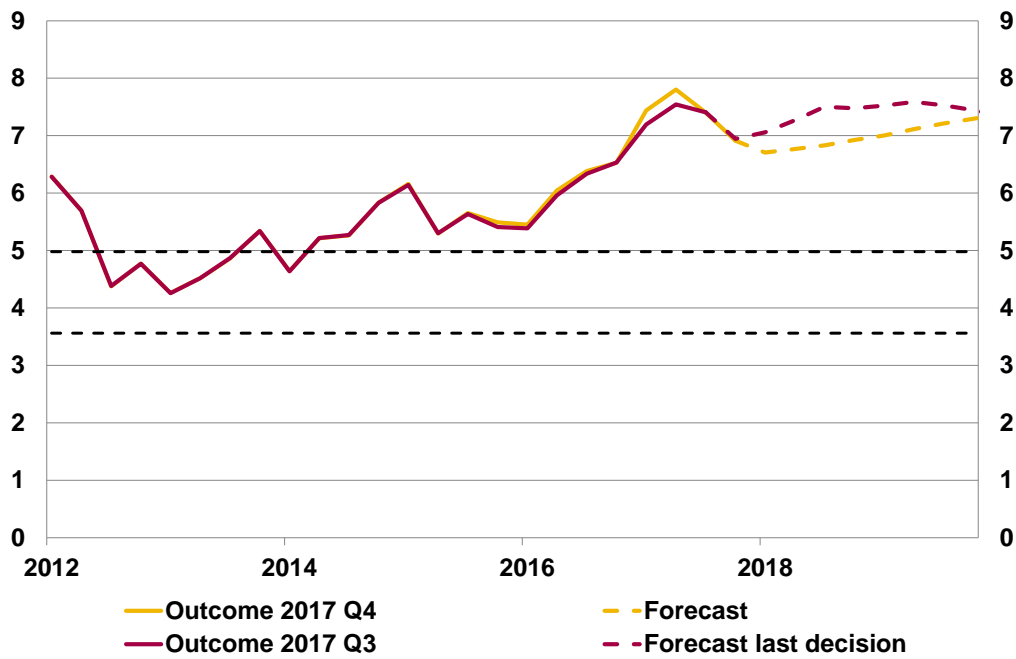


Note: The area between the black, dashed lines marks a 95-per cent probability interval for growth of nominal GDP in a normal state. January refers to the forecast from the decision regarding countercyclical rates from January 2018.

Source: FI and SCB.

## 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. January refers to the forecast from the decision regarding countercyclical rates from January 2018.

Source: FI and SCB.