

2022-06-21

## D E C I S I O N

FI Ref. 22-11683

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### **Decision regarding the countercyclical buffer rate**

#### **Finansinspektionen's decision (to be announced at 8:00 AM on 22 June 2022)**

Finansinspektionen decides to raise the countercyclical buffer rate to 2 per cent. The new buffer rate enters into force on 22 June 2023.

#### **The matter**

Finansinspektionen (FI), in accordance with Chapter 7, section 1 of the Capital Buffers Act (2014:966), shall calculate a countercyclical buffer guide each quarter and change or set the countercyclical buffer rate when necessary.<sup>1</sup>

The purpose of the countercyclical capital buffer is to maintain and strengthen the banks' resilience to shocks. It is possible to lower the buffer requirement or completely remove it in the event of a financial crisis or when circumstances otherwise justify a decrease. This frees up capital, which gives the banks the possibility of upholding a larger share of their lending activities, thus alleviating a downturn in the economy.<sup>2</sup>

A countercyclical buffer rate of 0 per cent has been applied since 16 March 2020. FI decided then to lower the countercyclical buffer rate from 2.5 to 0 per cent, and the new rate went into force immediately. On 29 September 2021, FI decided to raise the countercyclical buffer rate to 1 per cent, which will be applied starting on 29 September 2022.

FI consulted with the Riksbank and the Swedish National Debt Office prior to this decision. Concerned firms and industry associations were also given the opportunity to submit their opinion about the authority's intention to raise the countercyclical capital buffer during Q2 2022.

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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> See the memorandum *Tillämpning av den kontracykliska kapitalbufferten* for a more detailed description of the tool's purpose and how FI applies it. An English translation is available at [www.fi.se](http://www.fi.se).

## **Finansinspektionen's assessment**

### ***Reasons for the current buffer rate***

Since March 2021, FI has applied a *positive neutral level* of 2 per cent for the countercyclical buffer rate, which we will strive for during normal periods. A *positive neutral level* means that increases up to this level are begun at an early stage of the economic cycle, before there are clear signs of rising systemic risks. On 29 September 2021, FI decided to initially raise the countercyclical buffer rate to 1 per cent. FI made this decision based on its assessment that the economic recovery and the banks' capital and profitability were sufficiently strong to begin to gradually raise the buffer.

### ***Previous communication on the change of the buffer rate***

In its stability report published in November 2021, FI stated its intention to decide to raise the countercyclical buffer rate to 2 per cent in 2022. In the stability report published at the end of May 2022, FI made the assessment that the buffer should be raised to 2 per cent during the same quarter since the economic recovery is continuing, credit losses are low and the banks have sufficient capacity to meet the demand for loans from non-financial corporations.

### ***State of the economy***

Sweden's nominal GDP grew by an annual rate of 9.4 per cent in Q1 2022, up from 8.1 per cent in Q4 2021. The economic development thus shows continued signs of strength in its recovery after the pandemic.<sup>3</sup> However, Russia's invasion of Ukraine has had a significant impact on the economic development in Europe, which has negatively affected the outlook for the Swedish economy. According to the most recent monetary policy report from Sveriges Riksbank, growth forecasts (in real terms) for 2022 are down from 3.9 per cent to 2.9 per cent. However, the forecast is being lowered from a high level, and economic development in 2022 is overall assessed to remain good.

### ***Development on the credit market***

Household debt is continuing to rise at a rapid rate. In Q1 2022, total household debt rose by an annual rate of 6.9 per cent. The annual growth rate for household debt has increased gradually since the outbreak of the pandemic, and it has grown significantly faster than household income during the same period. During the second half of 2021, corporate debt also began to grow at a faster rate, and in Q4 2022 it reached a growth rate of 11.3 per cent (Diagram 3, Appendix 1). Overall total debt increased by 9.0 per cent. But the high nominal GDP growth means that the credit-to-GDP gap remains low (-0.1 per cent) and that the countercyclical buffer guide thus also remains at 0 per cent (Diagrams 1 and 2, Appendix 1).

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<sup>3</sup> The high nominal growth rate also reflects rising prices.

***Banks' capital and profitability***

The aim of lowering the countercyclical capital buffer in March 2020 was to free up capital so banks could maintain the supply of credit. The capital that has been freed up has not been used to the extent that would have been the case in a more severe scenario. This is in part because credit losses have been lower than expected. The banks' own funds remain much larger than the capital requirement. Table 1 shows the difference between the requirement for CET1 capital and the actual CET1 capital for the three major banks and the Category II banks. In addition, profitability in the banking sector overall remains strong. This means that the banks have ample capacity to meet a higher countercyclical capital buffer requirement without the increase having a negative impact on the credit supply or economic growth prospects.

***Feedback from the industry and collaboration with other authorities***

On 10 June 2022, the Swedish Bankers' Association submitted its opinion regarding FI's intention to raise the countercyclical buffer rate to 2 per cent during Q2 2022. The association takes the position that FI should adopt a more prudent stance and not raise the countercyclical buffer rate, given the current situation in the world and the risks associated with rising inflation and interest rate expectations. The Swedish Bankers' Association also opposes FI's application of a positive neutral level of 2 per cent for the countercyclical buffer rate.

A consultation meeting with the Riksbank and the Swedish National Debt Office was held on 3 June 2022. During the meeting, the participants from the Riksbank supported FI's intention to raise the buffer rate to 2 per cent but also voiced the view that the decision should enter into force with a shorter implementation period. The Riksbank was of the opinion that the increase should enter into force after six months instead of the ordinary implementation period of twelve months. The Riksbank also asserted that FI should decide on additional increases to the buffer rate in the near future, based on the assessment that systemic risks have continued to increase sharply. With regard to future decisions on increases, the Riksbank also emphasised that it does not regard the limit for automatic reciprocity as a cap on the buffer rate.

The participants from the Swedish National Debt Office expressed their support for FI's assessment of the state of the economy and the intention to raise the buffer rate to 2 per cent. The Swedish National Debt Office did not have an opposing view on the rate of the increase or the implementation period.

***Overall assessment***

FI makes the assessment that the combined strength of the economic recovery and the banks' financial position and good profitability means that the buffer rate can be raised to 2 per cent without having a negative impact on the credit supply. Such an increase would secure larger buffers in the banks and make them more resilient to future shocks.

FI therefore decides to raise the countercyclical buffer rate to 2 per cent in Q2 2022. This completes the gradual increase of the buffer rate to its neutral level, a process that was begun in September 2021. According to Chapter 7, section 6, second paragraph of the Capital Buffers Act, the main rule is that a decision to raise the buffer rate should begin to apply twelve months after the decision has been announced. If special grounds exist, the same section allows for the decision to go into effect earlier. FI does not consider there to be special grounds for a shorter implementation period than twelve months. The new buffer rate therefore shall go into effect on 22 June 2023.

The continued increase in lending to households and the rapidly rising corporate debt indicate that systemic risks are rising. The assessment is also supported by the risk premiums falling back to historically low levels during the autumn of 2021. This supports continued increases to the countercyclical buffer rate above its neutral level. But rising inflation has driven up interest rates globally since last summer. And Russia's invasion of Ukraine has led to rising energy and commodity prices, which has contributed to further inflationary pressure. Overall, this means that the economic recovery has slowed and interest rate expectations have increased significantly. Risk premiums have also increased slightly.

From a forward-looking perspective, it is likely that the rising interest rates will slow risk-taking and growth in household and corporate debt. The National Institute of Economic Research's barometer indicator rose by 1.1 units in May, but it has fallen by just under 6 units since the end of the year. This is an indication of a weaker outlook for the economy. Going forward, it is therefore conceivable that households and firms will be less willing to increase their debt. However, the downturn in the barometer indicator is primarily driven by a falling confidence indicator for households, while the corporate sector's confidence indicator remains strong. The more pessimistic outlook for households is driven by rising interest expenses and the dampened development in housing prices (Diagram 6).

In case interest rates rise more sharply, a worst-case scenario might trigger systemic risks associated with the high debt of the private sector. FI therefore does not make any assessment about further increases to the buffer rate for the moment but chooses to rather wait and see how the situation develops. FI will monitor the growth of households' and non-financial corporations' debt closely.

#### ***Impact of the increase on lenders and borrowers***

Raising the countercyclical buffer rate to 2 per cent means that the banks must hold more capital. The banks already hold enough capital today to cover the higher capital requirement resulting from the increase (see Table 1).

When banks must hold more capital, this normally increases their costs since the yield requirement is higher on equity than it is on debt financing. The banks

can compensate for this cost increase by charging borrowers higher interest rates, but this is not necessarily always the case. Better capitalised banks also tend to achieve lower financing costs on the capital markets than less capitalised banks. This can compensate for some of the cost increase that comes from a higher capital requirement. The banks may also need to bear part of the increased costs since they are active on a competitive market. Overall, raising the countercyclical capital buffer is judged to have a small effect on lending rates. FI's calculations indicate that a one percentage point increase in the countercyclical buffer rate could result in an increase in lending rates to households and corporates of 0.02–0.05 percentage points.<sup>4</sup> Given current conditions, raising the countercyclical buffer rate is not judged to cause as large increases in the interest rate as previous buffer rate increases did since FI makes the assessment that the banks are able to meet the higher requirement without needing to raise additional equity.

Table 1. Impact on capital requirements of raising the countercyclical buffer rate to 2 per cent

SEK million

	<b>Current CET1 capital</b>	<b>Current CET1 capital requirement</b>	<b>CET1 capital requirement for CCyB at 1 per cent</b>	<b>CET1 capital requirement for CCyB at 2 per cent</b>
SEB	154,593,197,000	114,264,609,718	118,013,892,979	121,763,176,240
Handelsbanken	152,663,644,496	113,082,607,503	117,165,704,152	121,248,800,801
Swedbank	132,600,863,950	99,326,732,268	104,525,962,469	109,725,192,670
Länsförsäkringar Bank	17,730,164,336	9,162,228,638	10,296,609,019	11,430,989,400
Nordnet	2,619,243,752	1,923,035,385	2,028,630,917	2,134,226,450
Avanza	3,000,287,101	1,054,747,288	1,160,729,927	1,266,712,566
SBAB	18,920,089,675	13,269,665,926	14,682,723,855	16,095,781,784
Svensk Exportkredit	20,031,653,472	9,988,780,238	10,578,985,813	11,169,191,389
Klarna	16,721,115,564	4,689,468,239	4,833,907,165	4,978,346,091
Kommuninvest	9,394,794,254	1,793,951,774	1,801,987,733	1,810,023,693

Source: FI

Note: Refers to CET 1 capital at the consolidated level. Data from 31 March 2022.

## FINANSINSPEKTIONEN

Sven-Erik Österberg

<sup>4</sup> See, for example, BCBS (2019). The costs and benefits of bank capital – a review of the literature. BCBS Working Paper 37. The estimated effect in Sweden is lower than the interval in BCBS (2019) since the risk density in the Swedish banking sector in general is lower than in other EU countries.

Chair of the Board of Directors

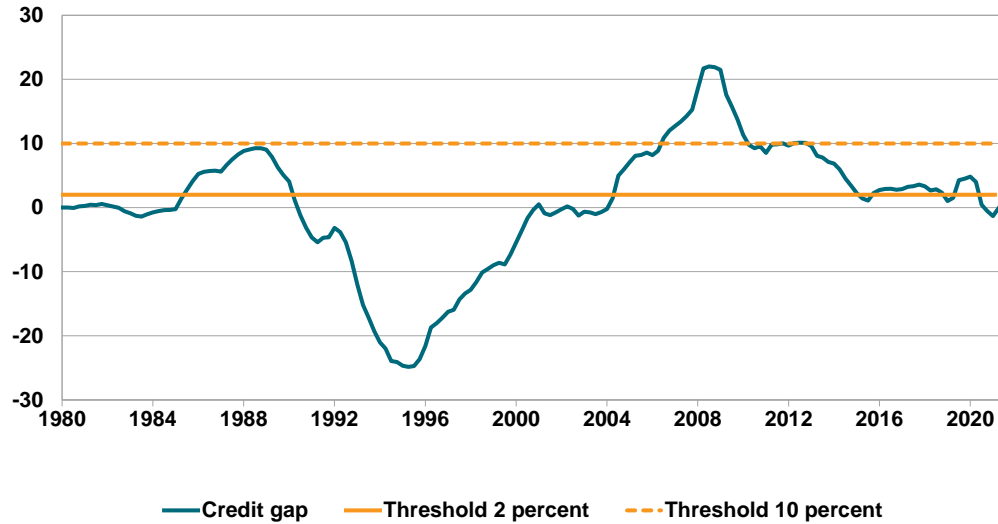
Mathias Skrutkowski  
Senior Advisor

The decision was made by the Board of Directors of Finansinspektionen (Sven-Erik Österberg, chair, Maria Bredberg Pettersson, Peter Englund, Astri Muren, Stefan Nyström, Mats Walberg, Charlotte Zackari and Erik Thedéen, director general) following a presentation by Mathias Skrutkowski. Henrik Braconier and Eric Leijonram also participated in the final proceedings.

## Appendix 1: Indicators

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

Deviation from trend in percentage points

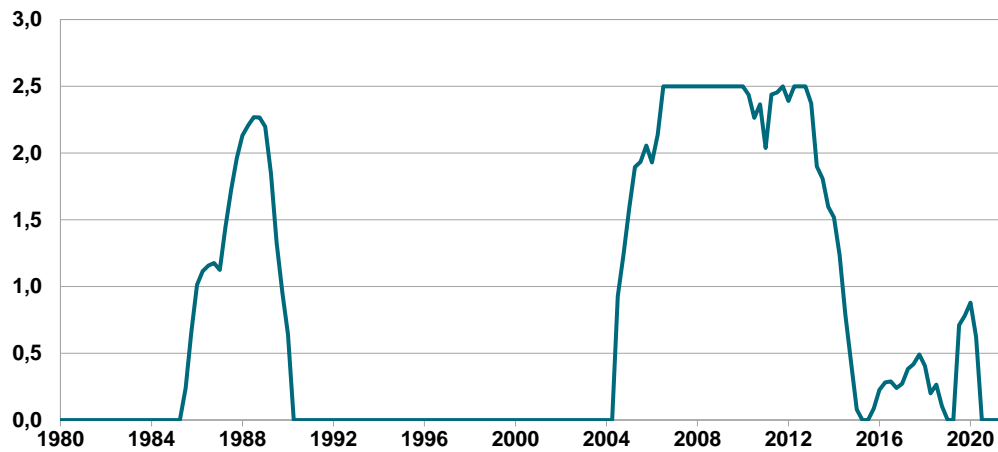


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

### 2 Buffer rate according to the standardised approach

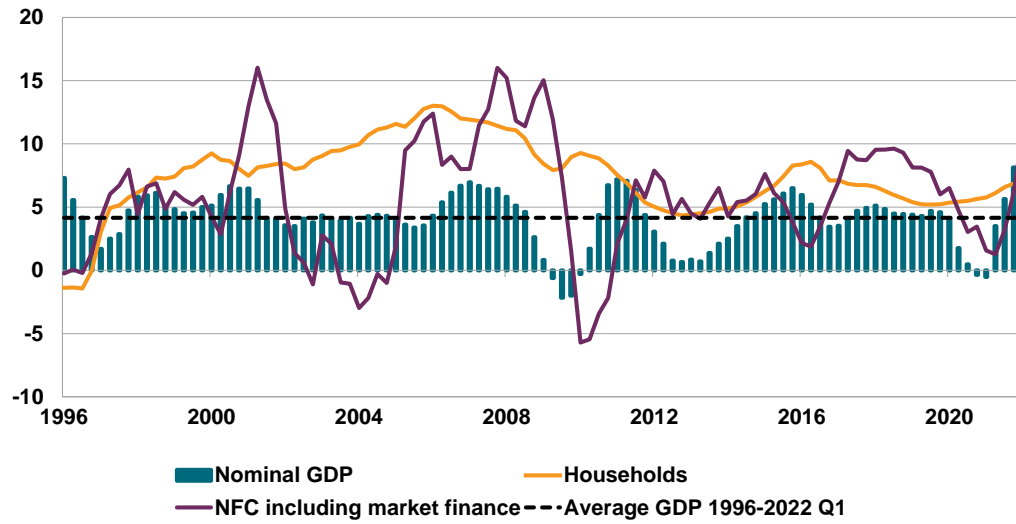
Per cent



Source: FI and Statistics Sweden.

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

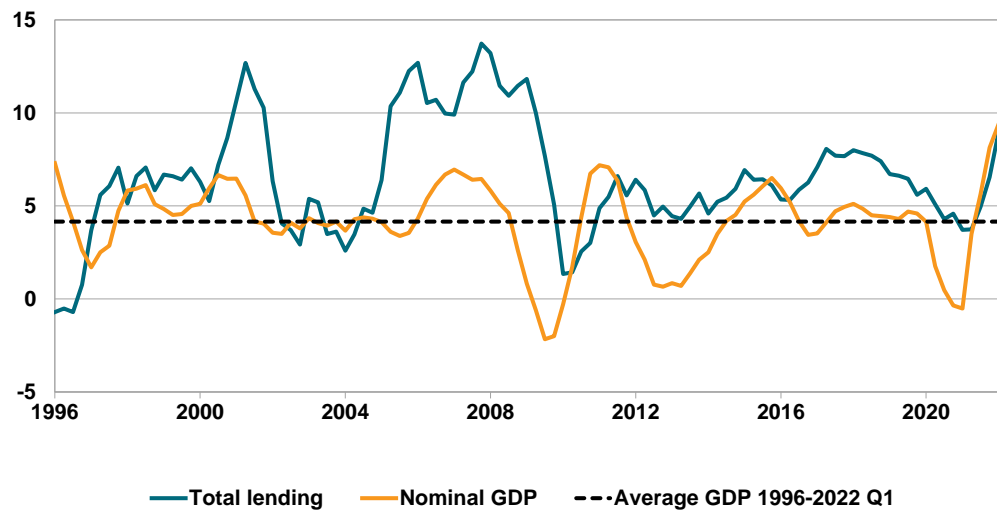
Annual change in per cent



Source: Statistics Sweden.

### 4 Total lending and nominal GDP

Annual change in per cent

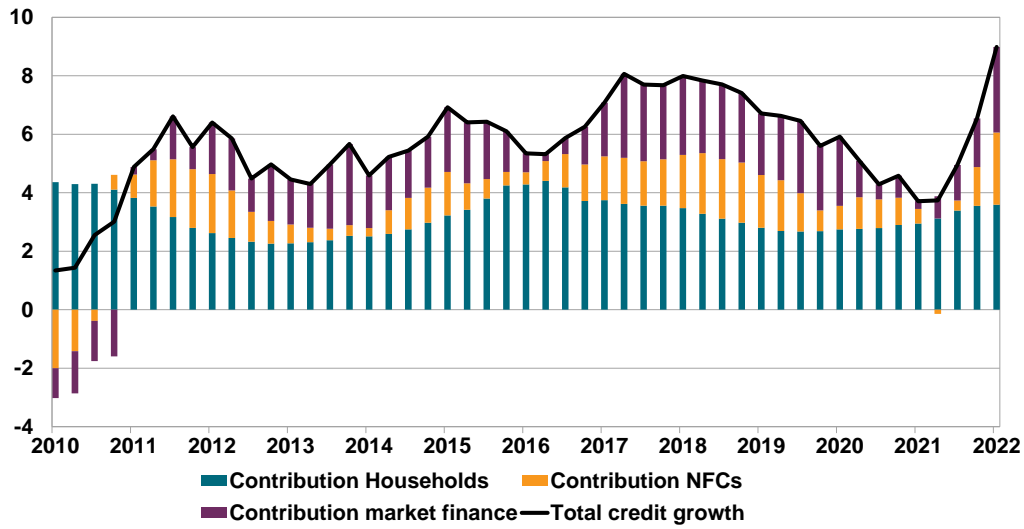


Source: Statistics Sweden.



## 5 Contribution to total lending growth

Annual change in per cent

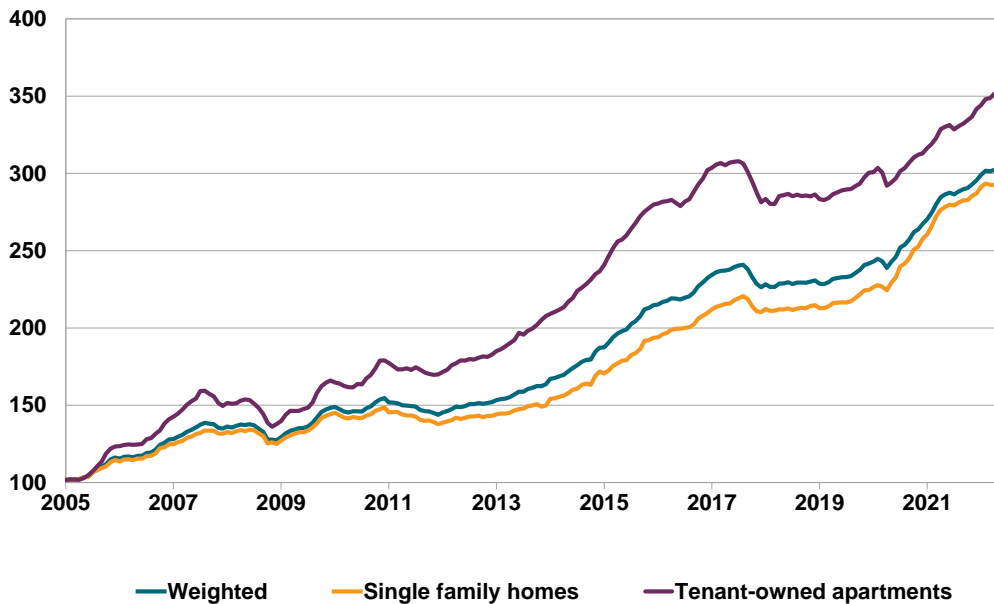


Note: Refers to total lending to households and corporates and their contribution to the annual rate of growth in per cent. Contribution of non-financial firms refers to MFI's lending to non-financial firms.

Source: FI and Statistics Sweden.

## 6 House prices in Sweden

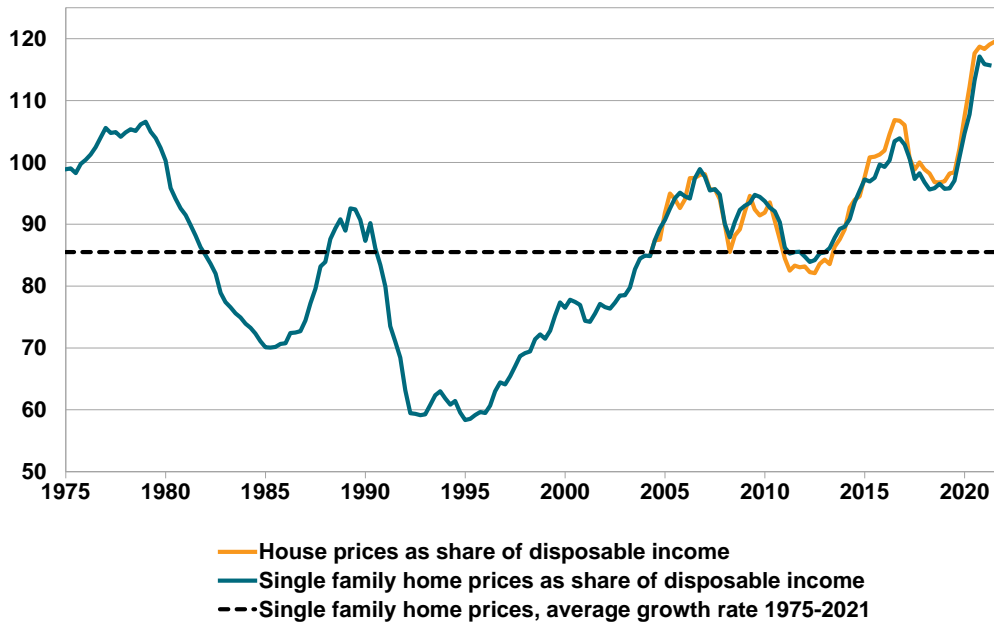
Index 100 = January 2005



Source: Valueguard.

### 7 House prices in relation to disposable income

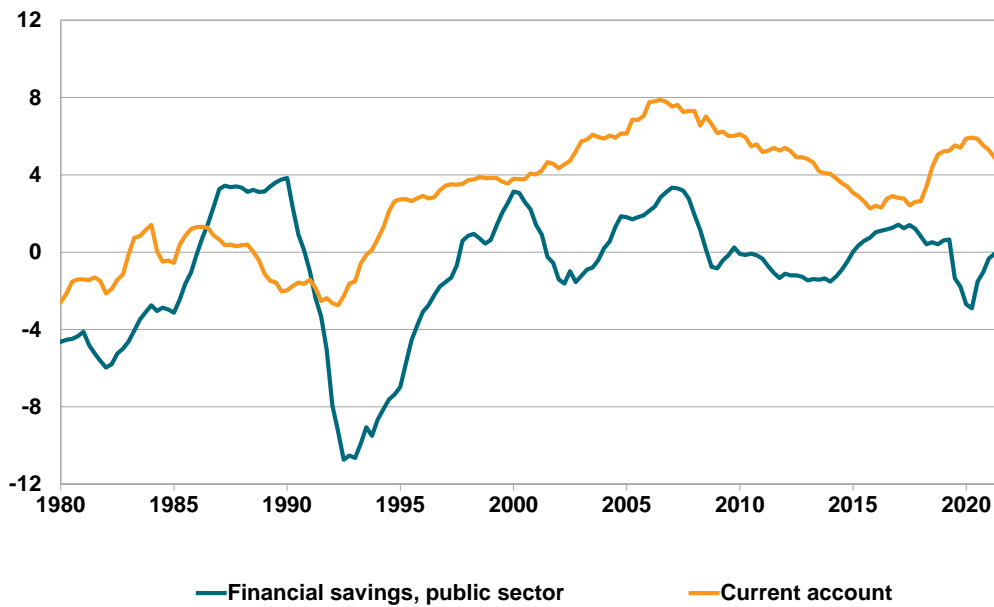
Index 100 = 1980



Source: Statistics Sweden and Valueguard.

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

Per cent of GDP



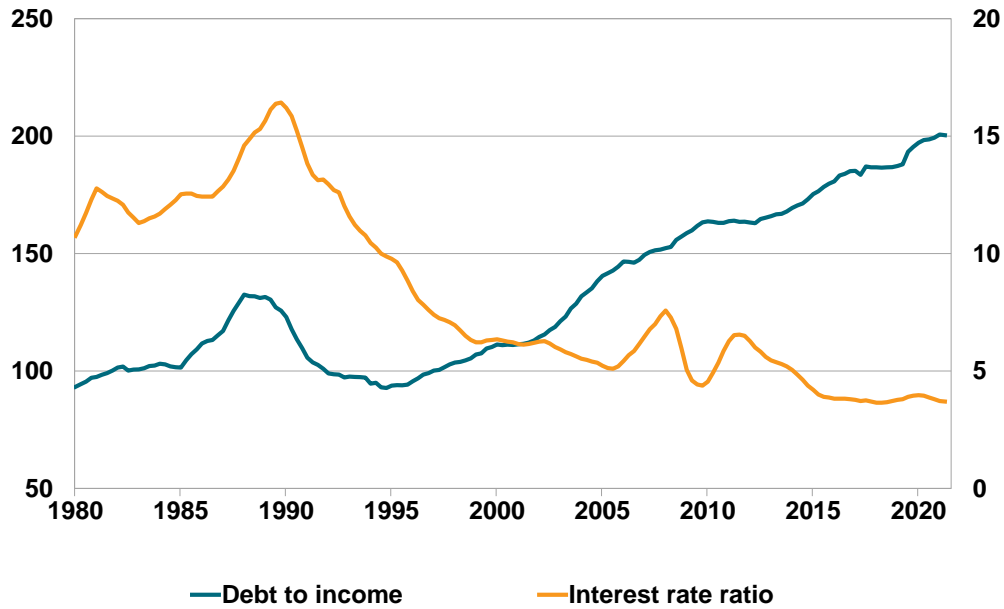
Note: The current account is estimated using the national accounts.

Source: Statistics Sweden.

Source: FI.

### 9 Household debt and interest rate payments in relation to income

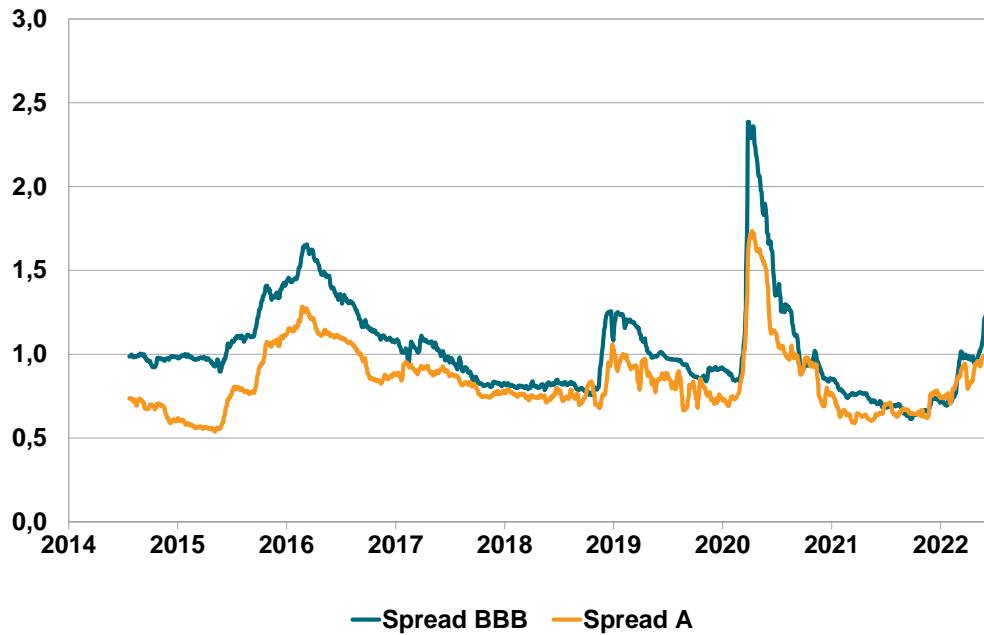
Per cent of disposable income



Source: Statistics Sweden.

### 10 Swedish risk premiums

Percentage points



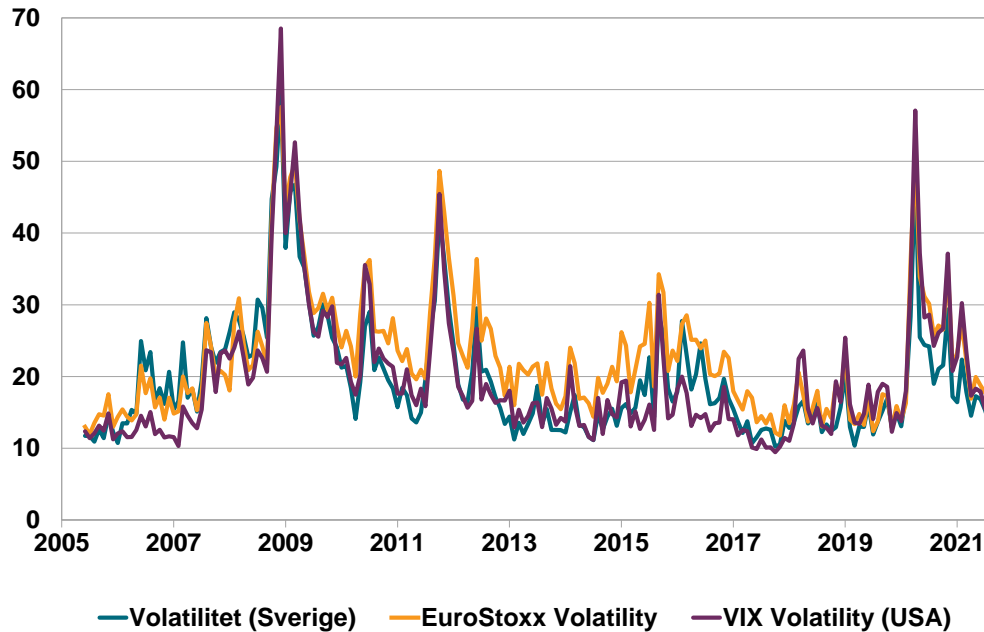
Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters

Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate. The diagram shows five trading days' moving average.

Source: Refinitiv Datastream.

## 11 Volatility index

Standard deviation



Note: Implicit volatility calculated from index option prices. For Volatility (Sweden), SIX Volatility was used up to September 2018. Starting in October 2018, an average of OS30C implicit volatility estimated for calls and puts has been used instead.

Source: Refinitiv Datastream.