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The Riksbank's statement following cooperation with Finansinspektionen on countercyclical capital buffers

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The Riksbank's overall assessment

The Riksbank's view is that the countercyclical capital buffer should remain unchanged at its neutral level of 2 per cent for the third quarter of 2024. The current level of the countercyclical capital buffer reflects the risks in the Swedish financial system and contributes to the banks' overall resilience.

Background

Macroprudential policy is concerned with identifying and managing risks in the financial system *as a whole* to preserve financial stability. One of the macroprudential policy measures in the EU capital adequacy framework is the countercyclical capital buffer, which aims to increase banks' resilience when systemic risks build up. Unlike the other requirements of the capital adequacy framework, the responsible supervisor can change the countercyclical capital buffer requirement over time. When systemic risks increase, the buffer requirement can be raised to strengthen banks' resilience. In a crisis, where banks may suffer large losses and be forced to tighten their lending, which could exacerbate an economic downturn, the buffer requirement can be reduced, or set to zero. This increases the headroom down to the binding capital requirements, thereby freeing up capital that banks can use to both manage losses and support lending to households and companies. In this way, it can help to alleviate an economic downturn.

In Sweden, it is Finansinspektionen that decides on the countercyclical capital buffer as part of its macroprudential mandate. According to Chapter 7, Section 7a of the Capital Buffers Act [2014:966], Finansinspektionen shall consult with the Riksbank prior to the decisions. This means that the Riksbank will be given the opportunity to comment before Finansinspektionen makes a decision on the buffer rate. In this way, the Riksbank, through its responsibility and analyses of financial stability and macroeconomic developments, can broaden Finansinspektionen's decision-making basis.

The Riksbank's starting points

In assessing the level of the countercyclical capital buffer, the Riksbank takes into account the resilience of the banks, and the development of both structural and cyclical systemic

risks in the financial system.¹ Finansinspektionen applies a positive neutral level – a target of maintaining the countercyclical capital buffer at 2 per cent in normal times – which has proved useful in Sweden and other countries. Such a positive level contributes to the banks having capital that they can use if necessary, which is an important aspect of the Riksbank's assessment. Especially as future crises may unfold in a way that is not similar to previous crises, and may not necessarily be linked to previously identified systemic risks, such as during the coronavirus pandemic.

Good resilience in the banking sector is essential

The Swedish economy is currently in a mild recession, and GDP has been broadly unchanged since the end of 2021. Macroeconomic developments, with high inflation and high interest rates, have put pressure on both households and companies, not least those with large loans. As the policy rate was raised in 2022 and 2023, new lending to households and firms also fell to historically low levels. In addition, GDP, as well as household and corporate income, has increased in nominal terms. This has contributed to a reduction, albeit marginal, in the ratio of household and corporate debt to GDP and income. This has dampened the build-up of risk associated with private sector debt and real assets. However, it comes after a long period of risk build-up, and systemic risks remain high.² This applies not least to the banks' exposure to the highly indebted commercial property companies and households.

Uncertainty about international developments also remains high, partly due to geopolitical turmoil in the Middle East and weak public finances in several countries. Although the Riksbank's latest forecast sees a normalisation of the economic situation in the coming years, the uncertainty factors mentioned above may lead to a weaker economic development and also create unease on the financial markets. There are also domestic downside risks. For example, unemployment may rise more than expected if demand remains weak. Moreover, company bankruptcies are expected to remain at a higher level in the near future. In 2024, there has also been an increase in the number of small property and construction firms that have gone bankrupt, which are more likely to have loans than smaller firms in other sectors. Such trends could, in a bad scenario, lead to the materialisation of high systemic risks. Thus, the risk remains that banks' loan losses could increase from their current low levels.

In addition, risk appetite on the financial markets has generally increased during 2024. The recent turbulence in global financial markets highlights the fragility of the system, partly fuelled by prevailing risk appetite and uncertainty. Despite the turbulence, stock markets have been performing strongly for some time and yield spreads for bonds with different credit risks have narrowed. Yield spreads are now back around the low levels that prevailed before the rise in inflation and interest rates, which has made it easier for property companies in particular to issue new bonds. However, the narrowing of spreads may have been a little too large, given that risks remain high. Low pricing of credit risk was also a reason for the earlier build-up of risk that the Riksbank had long warned about.

The major Swedish banks have high profitability, low loan losses and large management buffers. The banks are in good shape and current capital requirements are not expected to limit their room for manoeuvre, which suggests that banks have the capacity to maintain the supply of credit to the real economy. Thus, the current capital requirements do not represent a constraint for the banks. The current buffer rate instead provides the conditions for setting the requirement to zero in a crisis, thereby increasing the banks' distance from

¹ The Riksbank's position in this statement is mainly based on the assessments presented in the spring Financial Stability Report and the June Monetary Policy Report, see Financial Stability Report, 2024:1 and Monetary Policy Report, June 2024, Sveriges Riksbank.

² See Financial Stability Report 2024:1 for a broader description of current risks in the financial system.



the binding capital requirements. This will allow banks to better manage losses and maintain their lending to households and businesses.

All in all, the Riksbank considers that risks in the Swedish financial system as a whole remain high. It is therefore important to maintain the resilience of the banking system. Compared with other capital requirements, the countercyclical capital buffer can be adjusted quickly and has therefore proved to be more useful in releasing capital when needed. The current buffer value of 2 per cent enables this. At the same time, there is no reason to increase the buffer further at present.

On behalf of the Executive Board:

Erik Thedéen

Anne Mattila Wass

The decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson, Aino Bunge and Anna Seim) following a presentation by senior adviser Björn Lagerwall and senior economist Niclas Olsén Ingeföldt. Head of Department Olof Sandstedt participated in the final processing of this matter.