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The Riksbank's statement following consultation 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 first quarter of 2025. Overall, the assessment from October 2024 remains that the current level of the countercyclical capital buffer adequately reflects the risks in the Swedish financial system and contributes to the banks' overall resilience.

The Riksbank's starting points

In Sweden, Finansinspektionen decides on the countercyclical capital buffer within the framework of its macroprudential responsibility but, as of July 2024, it shall consult with the Riksbank prior to the decisions.¹ 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. Finansinspektionen applies a positive neutral level, which means that the countercyclical capital buffer should be maintained at 2 per cent in normal times. Such a positive level contributes to the banks having capital that they can use if necessary. The Riksbank shares Finansinspektionen's assessment of what is an appropriate neutral level.

Good resilience in the banking sector is essential in uncertain times

There are signs of a rebound in economic activity, although it remains weak. Some households and businesses remain under pressure. Although growth in lending to households has started to pick up, it is still modest. At the same time, bank lending to businesses is continuing to decline. This contributes to household and corporate debt relative to GDP and income continuing to decline, which dampens the build-up of risks 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

Although the Riksbank's latest forecast foresaw higher growth this year, there are factors that could lead to a less favourable development.³ The uncertainty is especially high

¹ See Chapter 7, Section 7 a of the Capital Buffers Act (2014:966).

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

³ See *Monetary Policy Report*, September 2024, Sveriges Riksbank.

regarding developments abroad, for instance with regard to economic policy in the United States and Europe and the geopolitical tensions. There are also risks related to the recovery of the Swedish economy, for example, domestic demand may be lower than expected. In addition, corporate bankruptcies remain at a high level, posing a risk to both increased loan loss provisions in the banks and a decline in employment. In a downside scenario, such trends could lead to the materialisation of systemic risks. Although interest rates have fallen, they are still at higher levels than prior to 2022, which may continue to be a challenge for some groups. Thus, the risk remains that the banks' loan losses could increase from their current low levels. This is particularly true for banks' exposure to the highly indebted commercial property companies, which represent a significant credit risk.

Despite the uncertainty, risk appetite is high in the financial markets. Equity markets are generally highly valued, but performance is mixed, with Europe underperforming the United States. Although longer-term market rates have risen recently, yield spreads between different types of bonds and government bonds have remained relatively unchanged at low levels. This is also true for bonds issued by Swedish companies and especially for property companies. It is possible that the reduction in spreads in Swedish corporate bonds is not fully warranted by the evolution of risks in the commercial property sector. In the current environment of high risk appetite and lower policy rates, as well as an economy in a recovery phase, there is a greater likelihood that risks will start to rise again. At the same time, long-term market rates have risen and the prevailing global uncertainty means that financial conditions can change rapidly.

The major Swedish banks are generally resilient, thanks to high profitability, substantial capital buffers and good margins down to the capital requirements. Current capital requirements are therefore 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. The current buffer rate instead provides the conditions for setting the requirement to zero in a serious disruption or crisis, thereby increasing the banks' distance from 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's overall assessment from October 2024 remains unchanged. Although the build-up of risk in the Swedish financial system has declined somewhat in recent years, systemic risks remain high. The current buffer level of 2 per cent reflects the risks and preserves the resilience of the banking system.

On behalf of the Executive Board:

Erik Thedéen
Governor

Monika Gustavsson
Meeting secretary

The decision has been taken by the Executive Board (the Governor Erik Thedéen, the First Deputy Governor Anna Breman and the Deputy Governors Per Jansson, Aino Bunge and Anna Seim) following a presentation by the senior economist Ellen Kockum and the senior economist Niclas Olsén Ingefældt. The Head of Department Olof Sandstedt and the Head of Division Hanna Armelius participated in the finalisation process.