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The Riksbank's statement in respect of collaboration 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 fourth quarter of 2024. Overall, the assessment from August 2024 remains that the current level of the countercyclical capital buffer 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 – a target of maintaining the countercyclical capital buffer 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 agrees with Finansinspektionen's target of a neutral level of 2 per cent.

Good resilience in the banking sector is essential in uncertain times

For some time, the Swedish economy has been 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. Although lending to households and companies is now showing signs of a slight increase, the trend remains weak. As a result, household and corporate debt relative to GDP and income has continued to decline somewhat, dampening 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 This applies not least to the banks' exposure to the highly indebted commercial property companies and households.

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.

Although the Riksbank's latest forecast sees a normalisation of the economic situation in the coming years, there are factors that could lead to a less favourable development.³ There are also domestic downside risks. For example, the economic recovery may take longer than expected if demand remains weak. There is also continued uncertainty linked to international developments, partly due to geopolitical turmoil in the Middle East and weak public finances in several countries. In addition, corporate bankruptcies are expected to remain at a high level in the near term, posing an elevated risk for both unemployment and the banks' loan loss provisions. In a downside scenario, such trends could lead to the materialisation of systemic risks. Although interest rates have started to fall, they will be at higher levels going forward than they were before 2022, which may continue to be challenging for some groups. Thus, the risk remains that the banks' loan losses could increase from their current low levels.

Despite the uncertainty, risk appetite is high in the financial markets. The equity markets have performed strongly after the turbulence in early August. Yield spreads for bonds have continued to narrow and are around the low levels that prevailed before the rise in inflation and interest rates. This is particularly true for property companies. It is possible that the reduction in spreads is not fully warranted by the evolution of risks in the commercial property sector. Current risk appetite is starting to allow companies to take on increasingly large loans to a greater extent, although these have mainly been used to manage loan maturities. However, the current uncertainty means that global financial conditions can change rapidly. The market turbulence observed in early August is a good illustration of this.

The major Swedish banks are considered to be in a good position to manage higher loan losses, as their profitability remains high and they have a good margin 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. Instead, the current buffer rate provides the conditions for setting the requirement to zero in a 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 August 2024 remains unchanged. Although the build-up of risk in the Swedish financial system is declining, 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

Monika Gustavsson

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 economist Ellen Kockum and senior economist Niclas Olsén Ingefeldt. Head of Department Olof Sandstedt and Acting Head of Department Stefan Laséen participated in the finalisation process.

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