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## **Consultation response to the memorandum on further tools for macroprudential policy**

18 April 2017

*The Riksbank welcomes the Ministry of Finance's proposal regarding further tools for macroprudential policy. It is important that the Government and the Riksdag (the Swedish parliament) clarify as a matter of urgency the mandate for Finansinspektionen (the Swedish financial supervisory authority) to take macroprudential policy measures.*

*The current regulation of macroprudential policy does not comprise sufficient grounds for counteracting financial imbalances. This has obstructed the introduction of necessary measures to counteract the risks linked to household indebtedness. The Riksbank is therefore positive to a regulation that makes it possible to introduce necessary tools in this field.*

*It is proposed in the memorandum that Finansinspektionen's regulations regarding the application of tools shall be subject to the Government's consent. The Riksbank considers that there are better ways of meeting the Government's need for control while at the same time safeguarding the necessary scope for flexibility and for Finansinspektionen to be able to take rapid action. This can be done by the Government authorising Finansinspektionen to use macroprudential policy tools and to formulate them within an established framework. Finansinspektionen will then decide on measures within this framework.*

### **The Riksbank welcomes the possibility for Finansinspektionen to decide on further macroprudential policy tools**

The Riksbank welcomes the proposal to give Finansinspektionen greater scope to make decisions on macroprudential policy measures. It is observed in the memorandum that there is no legal basis for macroprudential policy tools that involves a requirement for lenders to avoid contributing to financial imbalances in the credit market. This means that under the current regulations, Finansinspektionen cannot use further tools for macroprudential policy to counteract negative effects on the Swedish economy from an excessive growth in credit or from high indebtedness. Given this, it is proposed that a requirement that credit institutions should not contribute to financial imbalances on the credit market is introduced into the Banking and Financing Business Act (2004:297). This would be supplemented with an opportunity for the Government, or the authority appointed by the Government, to notify regulations regarding which measures a credit institution should take to meet the requirement.

In 2013, the Government gave Finansinspektionen the responsibility to take measures to counteract financial imbalances for the purpose of stabilising the credit market, taking into account the effect of the measures on the development of the economy.

The Riksbank has on several occasions called for greater clarity regarding Finansinspektionen's possibility to take measures to counteract financial imbalances in the credit markets, for instance, in the Financial Stability Report and in several consultation responses.<sup>1</sup> The International Monetary Fund (IMF) also recommends that the mandate for macroprudential policy should be clarified in law and that Finansinspektionen should receive tools for the efficient management of systemic risks.

The legislative amendment now being proposed aims to give Finansinspektionen the possibility to propose concrete tools to counteract risks linked to household indebtedness and a clearer and shorter process when implementing macroprudential policy measures. The Riksbank welcomes this broadening of Finansinspektionen's possibility to implement macroprudential policy measures.

The proposal also covers the act on businesses in the mortgage credit market. It is thereby suggested that other credit granters than those governed by the Banking and Financing Business Act should be covered. The Riksbank is positive to this. It is important that the risks of regulatory arbitrage and distorted competition are limited as far as possible.

### **The Riksbank proposes that the Government sets the framework for the individual tools, while Finansinspektionen decides on their application**

The memorandum proposes a requirement that Finansinspektionen must obtain the approval of the Government before adopting regulations aimed at preventing financial imbalances in the credit market. This requirement is justified by such regulations needing to be well-balanced, both with regard to their formulation and the time of their introduction, as they can have considerable potential impact on the Swedish economy and public sector finances, as well as the finances of the individual.

At the same time, this is a field that has proved to be marked by difficulties in taking measures in time, as the costs in the short term are clear, while the gains in the long term are more difficult to estimate (for instance, avoiding a crisis). The Riksbank therefore considers it very important to have a clear allocation of responsibility between the Government and Finansinspektionen. Otherwise, there is a greater risk that decisions will be delayed or not be made at all.

The Riksbank considers that the structure chosen should take into account both the Government's opportunity for control and the need to be able to act quickly. An appropriate way of attaining this balance is for the Government to decide on which macroprudential policy tools will be delegated to Finansinspektionen and within what framework Finansinspektionen may apply them. Finansinspektionen will then decide on measures within this framework.

Such a system is in line with the European Systemic Risk Board's (ESRB) recommendation<sup>2</sup> that the macroprudential authority shall be operationally independent from political bodies.

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<sup>1</sup> See, for instance, "Proposal on new regulations on amortisation requirements for new mortgages", Sveriges Riksbank, February 2016.

<sup>2</sup> See the Recommendation of the European Systemic Risk Board (ESRB) of 22 December 2011 on the macroprudential mandate of national authorities (ESRB/2011/3). European Systemic Risk Board.

This recommends that Member States nominate a macroprudential body which should be given clear targets and control over appropriate instruments. The Riksbank has put forward these arguments previously, in connection with the proposed system being proposed to apply to the amortisation requirement. Goodfriend and King also emphasise in their review of the Riksbank's monetary policy the importance of a clear allocation of responsibility and delegation of the instruments to be used.<sup>3</sup>

### **The financial markets are constantly changing**

Macroprudential policy is a relatively new policy area, which is still under development. This means that one will gradually need to develop a toolbox with various types of tool to be used to reduce different types of systemic risk. At present it is household indebtedness that is in focus and this area is covered by the proposed regulation. However, going forward there may be reasons to regulate further institutions and businesses than those covered by the proposed regulation. There is international work going on within the ESRB to analyse systemic risk in a broader perspective.<sup>4</sup> This work can ultimately make increased demands on Finansinspektionen to act in a situation where systemic risks are beginning to build up.

On behalf of the Executive Board:

Stefan Ingves

Kerstin Haglund

The following took part in the decision: Stefan Ingves (chair), Kerstin af Jochnick, Per Jansson, Martin Flodén, Henry Ohlsson and Cecilia Skingsley.

Reports were presented by Magnus Georgsson and Sofia Possne.

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<sup>3</sup> See Review of the Riksbank's Monetary Policy 2010-2015, Goodfriend and King, Riksdag print, Stockholm 2016.

<sup>4</sup> See Macroprudential policy beyond banking: an ESRB strategy paper, July 2016, European Systemic Risk Board.