

OPINION OF THE EUROPEAN SYSTEMIC RISK BOARD

of 10 October 2023

**on the Swedish notification of the extended application of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions
(ESRB/2023/10)**

THE GENERAL BOARD OF THE EUROPEAN SYSTEMIC RISK BOARD,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board¹, and in particular Article 3(2)(j) thereof,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012², and in particular Article 458(4) thereof,

Having regard to Decision ESRB/2015/4 of the European Systemic Risk Board of 16 December 2015 on a coordination framework for the notification of national macroprudential policy measures by relevant authorities, the issuing of opinions and recommendations by the ESRB, and repealing Decision ESRB/2014/2³,

Whereas:

- (1) On 12 September 2023, the Swedish Financial Supervisory Authority (Finansinspektionen), acting as designated authority for the purpose of Article 458 of Regulation (EU) No 575/2013 (CRR), notified the European Systemic Risk Board (ESRB) of its intention to extend the period of application of an existing stricter national measure, in accordance with Article 458(9) of that Regulation.
- (2) The stricter national measure concerns risk weights for targeting asset bubbles in the residential property sector (Article 458(2)(d)(iv) of the CRR). In particular, it consists in the application of a minimum exposure-weighted average risk weight (risk-weight floor) of 25 % on all domestic credit institutions using the internal ratings-based (IRB) approach for retail exposures in Sweden secured by immovable property.
- (3) The stricter national measure applies to all credit institutions authorised in Sweden using the IRB approach for calculating regulatory capital requirements and is aimed at addressing the systemic

¹ OJ L 331, 15.12.2010, p. 1.

² OJ L 176, 27.6.2013, p. 1.

³ OJ C 97, 12.3.2016, p. 28.

- risks that are linked to the overheated real estate market in Sweden. It complements another stricter national measure, which became applicable on 30 September 2023 for a period of up to two years and is also based on Article 458 of Regulation (EU) No 575/2013 that targets corporate exposures in Sweden secured by commercial and residential property, as described in Opinion ESRB/2023/3⁴.
- (4) The existing stricter national measure has been in force since 31 December 2018 and has been extended twice, in December 2020 and in December 2021. That existing measure was to expire on 30 December 2023. Finansinspektionen has decided to extend the period of application of the existing stricter national measure from 31 December 2023 for a period of two years. If the macroprudential or systemic risk ceases to exist earlier, Finansinspektionen will consider deactivating the measure before the end of the two-year period.
- (5) The ESRB regularly assesses real estate vulnerabilities. In relation to identified vulnerabilities in the residential real estate market in Sweden, the ESRB issued Warning ESRB/2016/11⁵ on 22 September 2016 and Recommendation ESRB/2019/9⁶ on 27 June 2019, both highlighting that house prices in Sweden remained largely overvalued and household indebtedness had increased significantly.
- (6) In its Financial Stability Report published in November 2022⁷, Sveriges Riksbank states that ‘major vulnerabilities have built up over time in the financial system’, primarily concerning ‘the banks’ exposure to the highly indebted commercial property companies, but also the high level of indebtedness among households’.
- (7) In its Opinion ESRB/2018/4⁸, the ESRB assessed the existing stricter national measure as warranted under the circumstances that existed at the time of the assessment. Subsequently, this stricter national measure was extended twice and is applicable until 31 December 2023. In its Opinions of 14 October 2020⁹ and 19 October 2021¹⁰, the ESRB assessed the respective extensions of the period of application of the stricter national measure as justified, suitable, proportionate, effective and efficient. In addition, it was the ESRB’s assessment, in relation to each extension, that the stricter national measure did not have a negative impact on the internal market that outweighed the financial stability benefits resulting in a reduction of the macroprudential or systemic risk identified.

⁴ Opinion ESRB/2023/3 of the European Systemic Risk Board of 9 June 2023 regarding the Swedish notification of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, available on the ESRB’s website at <https://www.esrb.europa.eu>.

⁵ Warning ESRB/2016/11 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Sweden (OJ C 31, 31.1.2017, p. 55).

⁶ Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Sweden (OJ C 366, 30.10.2019, p. 35).

⁷ Available on Sveriges Riksbank’s website at <https://www.riksbank.se/en-gb>.

⁸ Opinion ESRB/2018/4 of the European Systemic Risk Board of 21 June 2018 regarding Swedish notification of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, available on the ESRB’s website at <https://www.esrb.europa.eu>.

⁹ Opinion ESRB/2020/13 of the European Systemic Risk Board of 14 October 2020 regarding Swedish notification of an extension of the period of application of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, available on the ESRB’s website at www.esrb.europa.eu.

¹⁰ Opinion ESRB/2021/8 of the European Systemic Risk Board of 19 October 2021 regarding Swedish notification of an extension of the period of application of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, available on the ESRB’s website at www.esrb.europa.eu.

- (8) In line with the procedures set out in article 458 of the CRR, the Commission, taking into account the opinions provided by the ESRB and the European Banking Authority, decided not to propose implementing acts to the Council to reject the draft stricter national measure or its first or second extensions, in 2018¹¹, 2020¹² and 2021¹³.
- (9) The stricter national measure for Swedish retail exposures secured by immovable property seeks to tackle the elevated systemic risks and to increase the resilience of the financial system in relation to the systemic risks stemming from the residential real estate sector in Sweden. The extended measure will keep the risk weight floor for domestic credit institutions using the IRB approach at 25 %, and thus maintain higher capital levels in these institutions, retaining an additional loss-absorbing capacity for the credit institutions affected by this measure.
- (10) The period of application of the stricter national measure, which is to be extended by two years, has already been extended twice. The ESRB encourages Finansinspektionen to closely monitor the evolution of systemic risk and the adequacy of the calibration of the measure, especially as IRB models are currently under scrutiny. Subsequently, reassessing the measure may be warranted and the introduction of a sectoral systemic risk buffer could be considered as a potential alternative. The gradual phasing-in of the output floor might also necessitate a revision of the measure in the future. However, at this stage the extension of the measure seems to be the most adequate option, especially as Finansinspektionen will consider deactivating the measure before the end of the extension period, if macroprudential conditions change.
- (11) To assess the extended period of application of the stricter national measure notified by Finansinspektionen on 12 September 2023, the ESRB's Assessment Team referred to in Decision ESRB/2015/4 has issued an assessment note, which is annexed hereto,

HAS ADOPTED THIS OPINION:

1. The extension of the [period of application of the existing]stricter national measure in Sweden, in accordance with Article 458(2)(d)(iv) of Regulation (EU) No 575/2013 (CRR), consisting in a credit institution-specific minimum level (floor) of 25 % for the exposure-weighted average of the risk weights applied to retail exposures secured by immovable property imposed on all domestic credit institutions using the IRB approach, is, under the current circumstances, assessed as justified, suitable, proportionate, effective and efficient. In particular:

¹¹ Commission Decision of 17.7.2018 not to propose an implementing act to reject the proposed national measure notified on 24 May 2018 Sweden under Article 458(4) of Regulation (EU) No 575/2013 of the European Parliament and of the Council C (2018) 4176 final, available on the Council's website at <https://data.consilium.europa.eu/doc/document/ST-11456-2018-INIT/en/pdf>.

¹² Commission Decision of 12.11.2020 not to propose an implementing act to reject the planned extension of the period of application of the national measure notified on 16 September 2020 by Sweden under Article 458(9) in conjunction with Article 458(4) of Regulation (EU) No 575/2013 of the European Parliament and of the Council C(2020) 7723, available upon request on the Commission's website at [https://ec.europa.eu/transparency/documents-register/detail?ref=C\(2020\)7723&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=C(2020)7723&lang=en).

¹³ Commission Decision of 12.11.2021 not to propose an implementing act to reject the intended extension of the period of application of the national measure notified on 20 September 2021 by Sweden under Article 458(9) in conjunction with Article 458(4) of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

- (a) the intensity of macroprudential or systemic risk stemming from exposures to the housing market remains at a high level as was the case at the time of the latest extension of the measure in 2021, posing a continued risk to financial stability at national level;
 - (b) the macroprudential measures set out in Articles 124 and 164 of the CRR and Articles 133 and 136 of Directive 2013/36/EU of the European Parliament and of the Council¹⁴ are less suitable and effective at this point in time to address the identified risks to financial stability, in particular taking into account the relative effectiveness of those measures;
 - (c) the stricter national measure does not entail disproportionate adverse effects on the whole or parts of the financial system in other Member States or in the Union as a whole and thus does not form or create an obstacle to the functioning of the internal market;
 - (d) the issue concerns only one Member State.
2. The extension of the stricter national measure does not have a negative impact on the internal market that outweighs the financial stability benefits resulting in a reduction of the macroprudential or systemic risk identified.
 3. The attached assessment note entitled 'Assessment of the Swedish notification in accordance with Article 458 of Regulation (EU) No 575/2013 concerning the extension of a stricter national measure for retail mortgage exposures' is an integral part of this Opinion.

Done at Frankfurt am Main, 10 October 2023.

Head of the ESRB Secretariat, on behalf of the General Board of the ESRB

Francesco MAZZAFERRO



¹⁴ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).