

OPINION OF THE EUROPEAN SYSTEMIC RISK BOARD

of 09 June 2023

**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
(ESRB/2023/3)**

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) Finansinspektionen, acting as designated authority for the purpose of Article 458 of Regulation (EU) No 575/2013, notified the European Systemic Risk Board (ESRB) on 12 May 2023 of its intention to implement a stricter national measure, in accordance with Article 458(2) of that Regulation.
- (2) The stricter national measure concerns risk weights for targeting asset bubbles in the residential property and commercial immovable property sector (Article 458(2)(d)(iv) of Regulation (EU) No 575/2013). In particular, it consists of the imposition of a minimum exposure-weighted average risk weight (risk-weight floor) of 35 % that is to be applied to certain corporate exposures in Sweden secured by commercial property and a minimum exposure-weighted average risk weight (risk-weight floor) of 25 % that is to be applied to certain corporate exposures in Sweden secured by residential property.
- (3) The stricter national measure should apply to all credit institutions authorised in Sweden using the

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.

internal ratings-based (IRB) approach for calculating regulatory capital requirements and is aimed at addressing the systemic risks that are linked to the overheated real estate market in Sweden. It complements an existing stricter measure also based on Article 458 of Regulation (EU) No 575/2013 that targets retail exposures in Sweden secured by mortgages on immovable property and is described in Opinion ESRB/2018/4⁴.

- (4) The stricter national measure should come into force on 30 September 2023 and be applicable for two years, or until (if earlier) the macroprudential or systemic risks cease to exist.
- (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 the fact that house prices in Sweden remained overvalued and household indebtedness had increased significantly.
- (6) Moreover, on 1 December 2022, the ESRB issued Recommendation ESRB/2022/9⁷, in which it identified several risks to financial stability posed by vulnerabilities in the commercial real estate (CRE) sector in the European Economic Area (EEA). In its Recommendation, the ESRB emphasised the vulnerability of the CRE sector in the EEA to a materialisation of cyclical risks because of the heightened inflation and the pronounced deterioration in the growth outlook. The ESRB also identified vulnerabilities related to structural changes, including the impact of climate-related economic policies and the shift towards e-commerce in the CRE sector. Furthermore, the ESRB recommended that authorities take appropriate policy actions to address these risks in the CRE sector.
- (7) In its Financial Stability Report published in November 2022⁸, 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’.
- (8) Finansinspektionen has already implemented a stricter national measure of a credit institution-specific floor of 25 % for the exposure-weighted average of the risk weights applied to the portfolio of retail exposures to obligors residing in Sweden secured by immovable property, in accordance with Article 458(2)(d)(vi) of Regulation (EU) No 575/2013. In its Opinion ESRB/2018/4, the ESRB assessed the 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

⁴ 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: 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 Recommendation of the European Systemic Risk Board of 1 December 2022 on vulnerabilities in the commercial real estate sector in the European Economic Area (OJ C 39, 1.2.2023, p. 1).

⁸ Available at <https://www.riksbank.se/en-gb/financial-stability/financial-stability-report/2022/financial-stability-report-2022/>.

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.

- (9) The proposed stricter national measure for Swedish corporate exposures secured by commercial or residential properties seeks to tackle the elevated systemic risks and to increase resilience in the financial system in relation to the systemic risks that are connected to the real estate sector in Sweden. The measure is intended to target properties that are owned to generate income through rental to tenants, and to complement the existing measure based on Article 458 of Regulation (EU) No 575/2013 that targets mortgages and that is expected to be prolonged.
- (10) The measure is expected to increase the risk-weight floors applicable to Swedish CRE exposures from the currently applicable 17% (volume-weighted) to at least 35 % for commercial properties, and from currently applicable 13% to at least 25 % for residential properties. Thus, the risk-weight floors increase the capital levels and create an added loss-absorbing capacity for the affected banks.
- (11) To assess the adoption of the stricter national measure notified by Finansinspektionen on 12 May 2023, the ESRB's Assessment Team referred to in Decision ESRB/2015/4 issued an assessment note, which is annexed hereto,

HAS ADOPTED THIS OPINION:

1. The stricter national measure pursuant to Article 458(2)(d)(iv) of Regulation (EU) No 575/2013, consisting of the imposition, on all domestic credit institutions using the IRB approach, of: (a) a credit institution-specific minimum level (floor) of 35 % for the exposure-weighted average of the risk weights applied to the portfolio of corporate exposures secured by mortgages on immovable commercial properties (properties physically located in Sweden for commercial purposes to generate a rental income), and (b) a credit institution-specific minimum level (floor) of 25 % for the exposure-weighted average of the risk weights applied to the portfolio of corporate exposures secured by mortgages on immovable residential properties (that is, apartment buildings physically located in Sweden owned for commercial purposes to generate rental income, where the number of residences in the building exceeds three), is, under the current circumstances, assessed as justified, suitable, proportionate, effective and efficient. In particular:
 - (a) the changes in the intensity of macroprudential or systemic risk are of such a nature that they pose a risk to financial stability at national level;

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.

- (b) the macroprudential measures set out in Articles 124 and 164 of Regulation (EU) No 575/2013 and Articles 133 and 136 of Directive 2013/36/EU of the European Parliament and of the Council¹¹ are less suitable and effective 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 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 a stricter national measure regarding commercial real estate exposures' is an integral part of this Opinion.

Done at Frankfurt am Main, 09 June 2023.



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

Francesco MAZZAFERRO

¹¹ 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).