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ESRB
European Systemic Risk Board
European System of Financial Supervision

Assessment Team on national macroprudential measures

Assessment of the Swedish notification concerning the extension of the period of application of a stricter national measure for residential property and commercial immovable property, in accordance with Article 458 of Regulation (EU) No 575/2013

Background note

Introduction

On 30 April 2025 the Swedish Financial Supervisory Authority (Finansinspektionen) notified the European Systemic Risk Board (ESRB) of its intention to extend the period of application of a stricter national measure limiting risks stemming from Swedish corporate loans. Finansinspektionen is the designated authority in charge of the application of Article 458 of the Capital Requirements Regulation (CRR)[1] in Sweden. The stricter national measure to be extended (hereafter referred to as "the proposed measure") concerns a risk weight floor of 35% for certain corporate exposures secured by commercial property and a risk weight floor of 25% for certain corporate exposures secured by residential property. It is applicable to credit institutions in Sweden using the Internal RatingsBased (IRB) approach for calculating regulatory capital requirements.[2]

Pursuant to Article 458(4) in conjunction with Article 458(9) of the CRR, the ESRB must provide the Council of the European Union, the European Commission and Sweden with an opinion within one month of receiving the notification. The opinion must be accompanied by an assessment of the proposed measure based on the points mentioned under Article 458(2) of the CRR. The procedural framework for issuing opinions under Article 458 of the CRR is clarified in Decision ESRB/2015/4.[3]

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1 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance (OJ L 176, 27.6.2013, p. 1).

2 The following types of property are not covered: (i) agricultural property, (ii) property owned directly by municipalities, states and regions, (iii) properties where more than 50% of the property is used for own business (not rental), and (iv) multi-dwelling properties where the purpose of the property is not commercial (for example, housing associations that are owned by the residents and that are not profit-making) or where the number of dwellings is less than four.

3 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/2014/2 (ESRB/2015/4), as amended by Decision ESRB/2021/7.

The ESRB's assessment focuses on the overall benefits of the proposed measure in terms of maintaining financial stability. In particular, the ESRB has assessed its rationale and merits against the following criteria.

- **Justification:** Has there been a change in the intensity of systemic risk and does this pose a threat to financial stability at the national level? Can alternative instruments provided for under the Capital Requirements Directive (CRD)[4] and the CRR adequately and appropriately address this risk, taking into account their relative effectiveness?

- **Effectiveness:** Is the measure likely to achieve its intended objective?

- **Efficiency and suitability:** Will the measure achieve its objective in a cost-efficient way, i.e. is the instrument and its calibration appropriate?

- **Proportionality and impact on the internal market:** Is there an appropriate balance between the costs resulting from the measure and the problem it aims to address, considering any potential cross-border spillover effects? Where appropriate, the ESRB may suggest amendments to the measure to mitigate potential negative spillover effects.

The ESRB's assessment draws on information provided by Finansinspektionen and its staff, and discussions held with them. The ESRB has also relied on the assessments it carried out both when the measure was adopted[5], as well as its recommendation on vulnerabilities in the commercial real estate sectors of countries in the European Economic Area[6].

Section 1: Description of and background to the proposed measure

1.1 Description of the proposed measure

The proposed stricter national measure consists of an extension of the period of application of an existing measure applied under Article 458 of the CRR, which has been in place since September 2023. **The existing measure consists of a risk-weight floor of 35% for certain corporate exposures in Sweden secured by commercial property, and a risk-weight floor of 25% for certain corporate exposures in Sweden secured by residential property.** It seeks to address the elevated systemic risk stemming from the real estate sector in Sweden and targets exposures in the corporates class secured by commercial or residential property. In this assessment,

[4] **Directive No 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).

[5] See the ESRB **Opinion** and **Background note** of 9 June 2023.

[6] **Recommendation of the European Systemic Risk Board of 1 December 2022** on vulnerabilities in the commercial real estate sector in the European Economic Area (ESRB/2022/9).

such exposures are also referred to as commercial real estate (CRE) exposures. The measure is intended to target properties the purpose of which is to generate rental income.

The measure applies to credit institutions licensed in Sweden authorised to use the IRB approach for calculating regulatory capital requirements for residential property and commercial immovable property exposures ("IRB credit institutions"). It applies to these institutions both on an individual and consolidated basis. According to the Swedish authorities, the measure raises the volume-weighted average risk weights on Swedish CRE exposures for the three largest Swedish banks from 15% to 35% for commercial property, and from 13% to 25% for residential property. The introduction of these risk weight floors has boosted capital requirements and strengthened the affected banks' loss-absorbing capacity.

The extension of the period of application of the existing measure would start from 30 September 2025 and continue for a period of two years, or until the macroprudential or systemic risk ceases to exist. Finansinspektionen will consider deactivating the measure if the risks cease to exist.

In 2023 the ESRB already recommended that the measure be reciprocated by other Member States.[7] Finansinspektionen intends to request that other Member States continue to reciprocate this measure, as their banking sectors are potentially exposed to the CRE market in Sweden. Finansinspektionen now asks that the measure be reciprocated on a consolidated, sub-consolidated and individual basis. The ESRB will examine this request in greater depth in a separate assessment and may amend the recommendation.

1.2 Background to the proposed measure

The proposed measure will complement the following set of macroprudential instruments already being used by the Swedish authorities:

- a loan-to-value (LTV) limit of 85% on new housing loans;
- an amortisation requirement whereby new borrowers with mortgages exceeding 4.5 times their annual gross income must amortise at least 1% of the debt on top of the existing amortisation requirement. New borrowers with mortgages with LTVs of between 50% and 70% must amortise at least 1% annually, while those with mortgages with LTVs exceeding 70% must amortise at least 2% per year;
- a buffer of 1% for other systemically important institutions (O-SIIs) applicable to four credit institutions, all of which use the IRB approach;
- a 3% systemic risk buffer (SyRB) applicable to a subset of three credit institutions, all of which use the IRB approach;
- a countercyclical buffer (CCyB) of 2%, the neutral level set by Finansinspektionen;

[7] See the section related to Sweden in **Recommendation of the European Systemic Risk Board of 6 July 2023** amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2023/4).

- a risk weight floor of 25% for retail exposures to obligors residing in Sweden secured by immovable property, applicable to IRB credit institutions. This measure was introduced in December 2018 and was extended in 2020, 2021 and 2023.

According to Finansinspektionen, the proposed measure aims to strengthen the resilience of the Swedish banking sector to CRE-related risks. Extending the period of application of the existing risk weight floor within the framework of Article 458 of the CRR would mean that the capital already built up would remain available to address and manage potential credit losses in the CRE sector.

Section 2: Analysis of the underlying systemic risks

In early 2023 the ESRB acknowledged the importance of the CRE sector, given its size and strong interconnections with both the financial system and the real economy.[8] In Sweden, the banking sector is significantly exposed to the CRE sector. CRE firms constitute the largest group of non-financial corporate borrowers. According to an assessment carried out by Finansinspektionen, although bank loans are still the largest source of financing for most CRE firms, borrowing through the capital markets has become more common. This means that the Swedish CRE sector is increasingly interconnected with the real economy and the financial sector, with potential shocks easily spreading to and within the financial system.

Given that CRE prices have grown rapidly over the past two decades, and levels of debt in the sector have also risen, any adverse CRE developments could have a systemic impact on the financial system and the real economy. For a long time, the Swedish economy experienced very low interest rates and high economic growth, driving up demand in the CRE market. During this period, CRE firms borrowed more to finance property acquisitions and investment projects, leading to a rapid increase in debt-to-income ratios. High levels of debt with low interest rates make CRE firms sensitive to shocks such as changes in financing conditions or a deterioration in the economic environment. When interest rates increase, refinancing in the sector becomes more difficult and more expensive. To reduce their debt in stressed market conditions, firms may sell properties, adding further downward pressure on prices. A broad-based fall in property prices would weaken the financial ratios of other CRE firms and could lead to credit institutions becoming cautious in their CRE lending. In addition, CRE market stress can have negative spillover effects on the real economy through its impact on investments, particularly in the construction sector. The recent experience of high inflation and increased interest rates was associated with a fall in real estate prices of 5-10% during 2022. Real estate prices have since stabilised and have modestly increased from 2024. Despite some deleveraging, many Swedish CRE firms remain highly indebted and vulnerable to economic shocks, with higher interest rates, limited rent increases and rising vacancies putting pressure on earnings. The current interest coverage ratios suggest that several firms remain sensitive to revenue declines.

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8 **Vulnerabilities in the EEA commercial real estate sector**, ESRB, January 2023.

According to Finansinspektionen's assessment, the Swedish CRE sector is navigating a complex environment marked by improving financial conditions, rising investment activity, increasing vacancies, and interest rates still above pre-pandemic levels. While lower interest rates offer some cyclical relief, structural shifts, such as slower population growth and the rise in online shopping and remote work, continue to weigh on the sector. Given the high indebtedness of CRE firms and banks' significant exposure to the sector, risks remain elevated. Many firms are vulnerable to shocks, and severe stress in the sector could lead to credit losses for Swedish credit institutions. An extension of the existing risk weight floor for CRE exposures would ensure that credit institutions continue to hold enough capital to sustain credit losses related to CRE lending, which is crucial for financial stability.

Section 3: Effectiveness and efficiency of the measure

3.1 How the proposed measure addresses the identified risk

The ESRB issued a European Economic Area (EEA)-wide recommendation setting out policy measures for credit institutions to adopt in the short to medium term specifically to address CRE vulnerabilities.[9] To bolster the resilience of the banking sector, authorities may use risk weight measures or capital buffers. These can be used to either address broad cyclical or structural risks or target CRE-specific risks. More specifically, risk weight measures are considered suitable in a scenario of varying or continuously declining risk weights. The proposed measure will be able to address the varying risk weights for CRE loans arising from the gradual implementation of changed internal models following the ongoing IRB reviews.

The proposed measure aims to strengthen the resilience of the financial system to the systemic risk posed by the CRE sector in Sweden. The CRE sector in Sweden is highly indebted and credit institutions' exposure to the sector is significant. Many CRE firms are vulnerable to shocks or to a deterioration in macroeconomic conditions, and problems in the sector could trigger vulnerabilities in credit institutions. The proposed measure would ensure that credit institutions continue to hold enough capital to sustain credit losses stemming from corporate exposures secured by commercial and residential property. This would make them more resilient to potential economic downturns and ensure that they can continue supplying credit to the real economy.

The proposed measure specifically targets IRB credit institutions' corporate exposures secured by CRE and residential real estate (RRE), as these exposures may give rise to systemic risk. The proposed measure would extend the period of application of the existing risk weight floors on Swedish CRE exposures for the three largest banks, which increase risk weights from 15% (volume-weighted) to at least 35% for commercial property, and from 13% to at least 25% for residential property. This would raise capital levels and provide affected credit institutions with more loss-absorbing capacity. The calibration of the 35% and 25% floors was the outcome of a

[9] **Recommendation of the European Systemic Risk Board on vulnerabilities in the commercial real estate sector in the European Economic Area** (ESRB/2022/9), December 2022.

policy decision informed by multiple assessments carried out by the Swedish authorities. The assessments included stress tests, benchmarking against other EU IRB banks, and model comparison exercises. Authorities also noted that a 25% floor already applies to retail mortgage exposures and that commercial property exposures do not present a lower risk; on average, risk levels in the CRE sector correspond to a risk weight closer to 30%. In nominal terms, the additional capital requirement corresponding to the enforcement of the proposed extension of the risk weight floors is expected to amount to SEK 18.9 billion at the consolidated level (data from Q4 2024) or to an additional capital requirement of around 3.7% for Sweden's three largest credit institutions. It is considered that this will build up resilience without unduly affecting the supply of credit to CRE firms. As CRR III is expected to slightly increase baseline risk weights (from 15% to 19% for commercial property and from 13% to 16% for residential property) this would reduce the incremental impact of the floors, leading to a lower estimated capital need of SEK 14.2 billion (or 2.8% for Sweden's three largest credit institutions). However, for some smaller IRB banks, CRR III may lower risk weights, potentially increasing their exposure to the floor. In addition to targeting specific exposures, the measure also provides for the possibility of reciprocation; this increases the effectiveness of the measure, since it is also applicable to foreign branches and direct cross-border exposures.

The ESRB considers that while the measure affects only a limited number of credit institutions[10], these have a large market share. Ensuring their resilience to risks stemming from CRE exposures is of systemic importance to Sweden.

The proposed measure also takes into account the gradual introduction of the output floor from 1 January 2025, which will be fully phased in by 2033. Over time, the output floor may contribute to higher capital levels in banks, potentially mitigating systemic risks related to Swedish CRE exposures adequately. While the impact of the output floor will vary across institutions, it is not expected to be a binding capital constraint during the proposed two-year extension of the measure. Against this background, it is Finansinspektionen's view that the output floor alone is not sufficient to address the systemic risks identified at this stage. In addition, since this Article 458 measure targets risk weights under internal models, it operates independently of the output floor rather than being added on top of it, thereby avoiding any double counting of risk.

3.2 How the measure relates to possible alternatives

a) Increasing risk weights for credit institutions applying the standardised approach to credit risk (Article 124 of the CRR)

The relevant authorities can set higher risk weights for exposures secured by mortgages for credit institutions using the standardised approach, on the basis of financial stability considerations.

[10] The three largest Swedish banks, together with the two largest foreign branches, make up the vast majority of the Swedish CRE market. Nonetheless, all IRB banks fall under the scope of the Article 458 measure.

Article 124 of the CRR would not be effective in meeting the objectives of the proposed measure as it is to be applied to banks using the standardised approach and not the IRB approach. The risk weight assigned by credit institutions using the standardised approach is considerably higher (50%) than that of IRB credit institutions, and Finansinspektionen considers that this is sufficiently high to address systemic risk. Moreover, the vast majority of Swedish CRE exposures are held by IRB credit institutions.

b) Increasing the loss given default (LGD) floor for credit institutions applying the IRB approach to credit risk (Article 164 of the CRR)

The relevant authorities can set higher LGD input floor values for exposures secured by immovable property on the basis of financial stability considerations. LGD is one of the parameters used in the risk weight function. Increasing the LGD indirectly increases the risk weights and the resulting capital requirements. However, Article 164 of the CRR is not applicable to corporate exposures and therefore cannot be used for the exposures in question.

c) Using the systemic risk buffer (Article 133 of the CRD)

Member States may introduce a SyRB to prevent and mitigate systemic or macroprudential risks not covered by the CRR or by Articles 130 and 131 of the CRD. The SyRB can be applied to all credit institutions or to a subset of credit institutions. Furthermore, the SyRB can be applied to all sectoral or subsets of sectoral domestic exposures, exposures in third countries and all, or sectoral, exposures in other Member States.

A general SyRB would impact all, or all domestic, exposures, even for a subset of credit institutions. The aim of the risk weight floor is to safeguard the sufficiency of the capitalisation of credit institutions using internal risk models against risks stemming from CRE exposures. A SyRB applicable to all, or all domestic, exposures would have sizeable side effects, impacting retail exposures. It would not achieve the desired goal of increasing resilience to corporate exposures secured by CRE as proportionally and efficiently as the proposed risk weight floor measure.

A sectoral SyRB would be less effective and efficient than the proposed measure in addressing the systemic risk identified. This is because its effects could be weakened, from a macroprudential perspective, by inappropriately low IRB risk weights for CRE exposures. The sectoral SyRB would need to be set at a relatively high level to achieve an impact equivalent to that of the existing measure. According to Finansinspektionen, to replace the current floor measure, the applicable buffer rate would vary across credit institutions and would have to be set at a very high level. Moreover, the three largest credit institutions in Sweden have varying risk weights for their CRE exposures. This variation may end up being accentuated following the ongoing review of all credit institutions’ internal models and depending on when the individual reviews are completed. It would be inappropriate to determine a sectoral SyRB until all the reviews have been finalised, since the degree of additional resilience needed might vary. This situation may change in the medium term once the ongoing internal model reviews have been completed and once the unwarranted heterogeneity in risk weights has been fully eliminated. Lastly, a single-rate sectoral SyRB would impact the IRB credit institutions with the highest risk weights more than those with the lowest risk weights. This runs counter to the purpose of the proposed measure, which is to address low risk weights.

d) Using the countercyclical capital buffer (Article 136 of the CRD)

The CCyB addresses some of the procyclicality in the financial system and is a requirement for domestic exposures. The CCyB rate is assessed on a quarterly basis by the designated authority, which follows a specific methodology based on an ESRB recommendation[11].

Finansinspektionen considers that the CCyB is not an appropriate tool for addressing sectoral systemic risk, as it would apply to all exposures in Sweden and not only to Swedish CRE exposures. The CCyB rate is applied as a percentage of the total amount of risk exposure and can therefore not be applied to specific subsets of exposures. Addressing the risk using a CCyB would lead to side effects like those mentioned above for the SyRB applicable to all, or all domestic, exposures.

Section 4: Analysis of the overall benefits of the proposed measure

4.1 Effects on financial stability, financial system resilience and economic growth

The proposed measure for Swedish corporate exposures secured by commercial or residential property constitutes a large part of Swedish banks' capital requirements for financial stability purposes. It aims to tackle the elevated systemic risks posed by the country's real estate sector, increasing financial stability, as credit institutions will be required to hold own funds proportionate to the risks in Sweden's CRE sector.

Extending the period of application of the measure is expected to strengthen the resilience of the banking sector and support broader economic stability. According to Finansinspektionen, the measure is not expected to have unintended adverse effects on the overall economy that would outweigh its benefits. Systemic risks in the Swedish CRE sector remain elevated, with continued borrowing by CRE firms and no indication of a shift in credit supply or demand since the measure was first introduced.

4.2 Effects on both domestic and cross-border lending

Finansinspektionen expects the proposed measure to have a limited impact on domestic lending given that it extends the period of application of the existing risk weight floor. This is expected to strengthen the resilience of the Swedish banking sector while also contributing to greater stability in the Swedish CRE sector, which is closely connected to the broader financial system and real economy through channels such as capital markets and direct economic activity.

Any potential spillover effects to other countries are expected to be positive. Since the proposed measure will bolster the resilience of the Swedish banking sector, Swedish credit institutions operating across borders will

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[11] Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB/2014/1) (OJ C 293, 2.9.2014, p.1).

be in a stronger position to continue lending to the real economy in those countries, strengthening financial and economic stability. The same will apply if the proposed measure is reciprocated, as it may increase the loss-absorbing capacity of foreign institutions with Swedish CRE exposures. As mentioned previously, a more detailed assessment of the reciprocation request will be conducted separately by the ESRB.

Finansinspektionen considers that the proposed measure will have a positive impact on the domestic market. The positive consequences stem directly from the financial stability benefits in terms of reducing and mitigating the macroprudential or systemic risk identified. This is increasingly important in the context of the financial interlinkages in the Nordic-Baltic region and the enhanced cross-border dimension of the Swedish financial sector.

4.3 Effects on the intragroup behaviour of credit institutions

All significant lenders in the Swedish CRE sector are consolidated in Sweden, except for the Swedish branches of two institutions. Reciprocity in the implementation of the proposed measure is therefore considered important to avoid leakages and regulatory arbitrage. In this context, Finansinspektionen has drawn attention to a Memorandum of Understanding on prudential supervision of significant branches that applies to the Nordic-Baltic macroprudential network. The competent authorities in the region acknowledge the importance of the reciprocity of macroprudential measures in general, and as a means of preventing banks from circumventing the measures by transferring operations to other countries.

Conclusions

Given its size and interconnections, the CRE sector has a considerable bearing on financial stability in Sweden. It poses significant risks for the Swedish financial sector on account of its size, cyclical sensitivity and close connection to the financial system. This sector, to which Swedish credit institutions are heavily exposed, is highly indebted. Payment problems and insolvency in CRE firms could entail sizeable credit losses for credit institutions, impacting financial stability. In addition, the CRE sector is key to many financial market participants, including investment funds, insurance undertakings, pension funds and credit institutions.

According to Finansinspektionen, the main aim of the proposed extension of the period of application of the measure is to address systemic risks stemming from vulnerabilities related to corporate exposures to the CRE sector. Setting sufficiently high risk weights should boost the resilience of credit institutions and ensure that they hold sufficient own funds to withstand the materialisation of CRE-related systemic risks. However, CRE vulnerabilities may be amplified by spillovers across countries and through interlinkages between financial institutions, as cross-border investment flows and credit exposures to other countries are much more prevalent in the CRE sector than in the RRE sector. Reciprocation of the measure is therefore key to its successful implementation.

The ESRB identified several vulnerabilities in the EEA CRE sector and issued a recommendation that set out policy measures partly aimed at increasing financial institutions' resilience to these risks, should they

materialise. The ESRB determined that risk weight measures would be suitable in a scenario of varying or continuously declining risk weights for CRE loans. To bolster the resilience of the banking sector, authorities may use risk weight measures or capital buffers either to address broad cyclical or structural risks or to target CRE-specific risks.

Overall, the ESRB considers that the proposed measure will boost the resilience of IRB credit institutions in Sweden and thus mitigate the possible materialisation of systemic risk in the CRE market. Since CRE systemic risks in Sweden are elevated, the measure aims to ensure that credit institutions hold sufficient own funds to tackle these risks, should they materialise. At the same time, the ESRB invites the Swedish authorities to monitor potential interactions with other capital measures, including the output floor, to avoid unintended overlaps. The assessment of whether the calibration of the risk weight floor remains appropriate should take a holistic perspective and should also compare loss absorption capacity created through the CCyB and SyRB against the macroprudential need. Lastly, the Swedish authorities should reassess the need for the measure once the review of banks' internal models has been completed and once the output floor becomes binding.

The ESRB is of the view that the alternative macroprudential instruments listed in Article 458 of the CRR would be less suitable or effective in addressing the risk at hand. Measures such as those listed under Articles 124 and 164 of the CRR, as well as the systemic risk buffer or the countercyclical capital buffer, are considered inappropriate or insufficiently effective since they do not provide the intended incentives or are too broad-based. They may also impact credit institutions in a disproportionate manner or be administratively burdensome to implement. Furthermore, they would not address the relevant type of risk, exposure or credit institution in a timely manner.

Lastly, the ESRB considers that the proposed extension of the period of application of the stricter national measure would not have disproportionate adverse effects on the internal markets or financial systems of other Member States. The measure would ensure a level of risk weights commensurate with the systemic risk stemming from the real estate sector in Sweden. Moreover, as the average applicable risk weight on CRE loans issued by credit institutions in other countries in the region is generally either higher or close to the proposed floors, this should not have a disproportionate adverse effect on the internal market.