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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 retail mortgage exposures, 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 retail mortgage 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 risk weights targeting asset bubbles and their potential spillover effects in the residential real estate (RRE) sector. The measure enables Finansinspektionen to continue to apply the current risk-weight floor of 25% to Swedish retail mortgage loans, for credit institutions in Sweden using the Internal Ratings-Based (IRB) approach for calculating regulatory capital requirements.

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 national measure based on the points mentioned in Article 458(2) of the CRR. The procedural framework for the provision of opinions under Article 458 of the CRR is clarified in Decision ESRB/2015/4[2].

The ESRB's assessment focuses on the net benefits of the national measure for maintaining financial stability. In particular, the ESRB has assessed the rationale and merit of the measure 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? Could alternative instruments provided for in the Capital Requirements Directive

[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] **Decision 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**.

(CRD)[3] and in 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, taking into account 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 extensively on information provided by Finansinspektionen and its staff, and discussions held with them. The ESRB has also relied on the assessments it carried out when the measure was adopted and when previous extensions took place, as well as its assessments of medium-term vulnerabilities in the RRE sectors of countries in the European Economic Area.[4]

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 31 December 2018. The existing measure consists of a risk-weight floor of 25% for Swedish retail mortgage loans, applied to credit institutions using the IRB approach. It targets domestically authorised credit institutions[5], or a subset of those institutions, and falls under Article 458(2)(d)(iv) of the CRR. The measure is intended to continue mitigating the changes in intensity of systemic risk and applies to risk weights targeting asset bubbles in the RRE sector. The proposed measure is an extension scheduled to enter into force on 31 December 2025 and will apply for a period of two years or until the macroprudential or systemic risk ceases to exist.

The scope of the proposed measure, in terms of exposures covered and banks concerned, remains unchanged. The measure applies to retail exposures[6] to Swedish obligors collateralised by immovable property (referred to in this assessment as "Swedish mortgage loans"). The exposure class consists largely of mortgages granted to private individuals but can also include certain exposures (loans collateralised by real estate) to small businesses. In addition, it may include some exposures collateralised by real estate other than residential property and some exposures collateralised by real estate located outside Sweden, although neither of these exposures are in

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3 **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).

4 **Vulnerabilities in the residential real estate sectors of the EEA countries**, ESRB, February 2022. **Follow-up report on the vulnerabilities in the residential real estate sectors of the EEA countries,** ESRB, February 2024.

5 For the purposes of this assessment, the term "bank" has the same meaning as "credit institution" as defined in Article 4 of the CRR.

6 Article 147(2)(d) of the CRR.

its intended scope, given the need to apply the measure in a practical and simple manner using COREP (common reporting) templates.

The measure applies to credit institutions that are authorised to use the IRB approach ("IRB credit institutions") and have issued Swedish mortgage loans. This includes subsidiaries based in Sweden of foreign credit institutions. Reciprocation of the existing measure covers branches of foreign credit institutions and the direct cross-border exposures of foreign banks. Credit institutions using the standardised approach to calculate the capital requirement for credit risk are not affected. The requirement applies both on an individual and a consolidated basis.

The 25% floor continues to apply to the exposure-weighted average risk weight for the portfolio of Swedish mortgage loans mentioned above. The exposure-weighted average risk weight is calculated by dividing the portfolio's risk-weighted exposure (as calculated in accordance with Article 154 of the CRR) by its exposure at default (EAD).

The ESRB has already recommended that the measure be reciprocated by other Member States.[7] Finansinspektionen has emphasised that reciprocity is still relevant, if leakages and regulatory arbitrage are to be avoided, and is asking other Member States to continue to reciprocate the measure. Finansinspektionen is now also asking for the measure to 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 its recommendation accordingly.

1.2 Background to the proposed measure

Finansinspektionen has been applying the measure under Article 458 of the CRR since 31 December 2018. Previously, a risk-weight floor for Swedish mortgage loans within the Pillar 2 framework had been applied since May 2013, first at 15% and then, since 2014, at 25%. The floor was introduced as part of the supervisory capital assessment under Pillar 2 to cover risks that are not fully captured by regulatory capital requirements. Since the transformation of the measure into a risk-weight floor under Article 458 of the CRR at the end of 2018, the measure was extended in 2020, 2021 and 2023. The ESRB was of the view that the measure and its extensions were justified, proportionate, effective and efficient, both when the risk-weight floor under Article 458 of the CRR was introduced and on the three occasions it was extended.[8]

Finansinspektionen has indicated that its primary motivation for continuing to apply a stricter national measure was that Sweden is experiencing a significant and prolonged build-up of systemic risk related to Swedish mortgages and RRE. The large and concentrated Swedish banking sector is highly exposed to the RRE market and is also vulnerable to funding risks related to this market through the issuance of covered bonds backed by residential mortgage pools. Over the past 25 years, cyclical vulnerabilities, reflected in high house prices as well as in high levels of household indebtedness, have exacerbated and intensified the systemic risks already identified. These risks remain elevated, despite the fall seen in house prices in 2022 and a slowdown in household credit growth. Credit provision could be affected if risks from the RRE market were to materialise and spill over to banks. According to Finansinspektionen, the IRB approach followed by banks is unlikely to fully capture the current credit loss risk

7 See **Recommendation ESRB/2019/1** and **Recommendation ESRB/2023/4.**

8 See **Opinion ESRB/2018/4** and **Background note** of 21 June 2018 , **Opinion ESRB/2020/13** and **Background note** of 14 October 2020, **Opinion ESRB/2021/8** and **Background note** of 19 October 2021, and **Opinion ESRB/2023/10** and **Background note** of 10 October 2023.

associated with Swedish mortgages in a severe downturn, which could lead to severe spillover effects for the Swedish and regional economies.

In addition, credit risk models of Swedish mortgage exposures often generate risk weights that might be considered relatively low in general terms. Credit losses realised on Swedish mortgage loans have been very low for a long time. Finansinspektionen therefore believes that IRB models – whose parameters are based on historical observations – do not fully reflect the systemic risk related to increased house prices and household indebtedness. It has concerns about unjustified variability in modelled risk weights between banks. According to data provided by Finansinspektionen, the average risk weight for all IRB banks was 6.1% as of the fourth quarter of 2024.

Section 2: Analysis of the underlying systemic risks

The ESRB issued a warning in 2016[9] and a recommendation in 2019[10] on medium-term vulnerabilities in Sweden's RRE sector. In both the warning and the recommendation, the ESRB identified increasing residential property prices (which had led to overvaluation in the market) as well as high indebtedness – particularly among some groups of households – as the main medium-term vulnerabilities in Sweden's RRE sector.

In its assessment published in February 2022[11] and in the follow-up published in February 2024[12] the ESRB was of the view that vulnerabilities were still high in Sweden's RRE market. Key vulnerabilities included high household indebtedness, house price overvaluation, high house price growth, high mortgage lending growth, a large proportion of non-amortising mortgages in the stock of existing mortgages and a high degree of interconnectedness with the Nordic banking system.

Although there has been a decrease in both house prices and household debt as a share of GDP since 2022, vulnerabilities still persist. Since 2022, house prices in Sweden have stabilised and overvaluation has declined in the RRE market. However, vulnerabilities remain high as household indebtedness is still among the highest in the EU.

2.1 Vulnerabilities in the residential property sector

RRE prices have increased substantially over the past two decades and remain high, despite the levelling off which started in 2022. The rise in house prices was supported by the low interest rate environment, strong economic growth, rising real wages and a limited supply of housing. At the beginning of 2023 prices started to pick up again. Although prices have stabilised and increased modestly during 2024, they remain more than two and a half times 2005 levels. Limited housing supply, reflecting low levels of new home building over a long period time, has contributed to elevated house prices. Several international bodies have come to the conclusion that residential properties in Sweden

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

10 Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Sweden (ESRB/2019/9) (OJ C 366, 30.10.2019, p. 35).

11 Vulnerabilities in the residential real estate sectors of the EEA countries, ESRB, February 2022.

12 Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries, ESRB, February 2024.

may be substantially overvalued. For example, in 2022 the European Commission pointed out that the price/income ratio is still about 40% above the historical average.[13] The ESRB's econometric valuation model also indicated that homes in Sweden were overvalued by around 51%, the most in Europe.[14] Given the performance of house prices 2022, their degree of overvaluation has lessened somewhat since the publication of the aforementioned assessments. In 2024, the ESRB concluded that measures of overvaluation were "now in neutral territory", although this was before the recent uptick in prices. In 2025, even though the housing market has levelled off in Sweden, risks remain high as the correction in RRE markets has been too short lived to bring down the level of accumulated risks significantly. Finansinspektionen also believes that there is still an elevated risk of a substantial price correction in the housing market.

2.2 Vulnerabilities in the household sector

Household debt has been increasing much faster than both household disposable income and GDP for a long time. Household debt increased by an average of 7.2% in annual terms over the period 1997-2024. By contrast, average disposable income only increased by 3.8% in the same period. Household debt slowed over the second half of 2023 and has only increased by 0.7% since the end of that period. Mortgages are the primary driver behind the trend in household debt, showing an annual growth rate of 1.7% in March 2025. Households' aggregate debt-to-income (DTI) ratio was almost 177% of disposable income in December 2024, up from under 100% in 1997. The new interest rate environment and the current stabilisation of house prices might lead to a corresponding stabilisation in the aggregate DTI ratio, in part reflecting the stricter amortisation requirement introduced by Finansinspektionen in 2018. Nonetheless, the ratio is high from a historical perspective.

While the introduction of borrower-based measures (BBMs) has strengthened household resilience and, according to Finansinspektionen, some Swedish households are still relatively highly leveraged in relation to the value of their home. Approximately 74% of new mortgages taken out in 2024 were at a loan-to-value (LTV) ratio of 50% or more, while about 46% of new mortgages were loans with an LTV ratio of 70% or more. Across the stock of Swedish mortgages, the LTV ratio was about 53% (volume-weighted) in the third quarter of 2022. Until Finansinspektionen introduced the amortisation requirement in 2016, incentives to amortise had long been weak, leaving many households highly indebted for a long time after they had purchased a new home.

As of December 2024, 74% of the total household mortgage stock has a variable interest rate. Combined with a high DTI ratio, this makes Swedish households sensitive to rising interest rates. The increases in interest rates since 2022 and the more challenging macroeconomic environment of the last few years have been accompanied by falls in real consumption and house prices. The Riksbank cut its policy rates during the period 2024-25 but assessed that even though the monetary policy transmission mechanism is functioning well, it will take some time to see the full effects of the cuts on the economy. In addition, it is not clear what exactly the effects of the cuts will be.

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[13] **In-depth review for Sweden 2022**, *Commission Staff Working Document*, European Commission, May 2022.

[14] **Vulnerabilities in the residential real estate sectors of the EEA countries**, ESRB, February 2022.

2.3 Vulnerabilities in the banking sector

Swedish banks are increasingly exposed to the residential property sector. The banking sector supplies almost all mortgage loans in Sweden and developments in the housing market have a considerable effect on household finances.

A severe downturn in the Swedish RRE market could cause banks to suffer credit losses, reducing their capital. In the event of a severe downturn in the Swedish economy or turbulence in the financial system, a negative dynamic could arise between the RRE market, the macroeconomic situation and the behaviour of banks in Sweden. A deterioration in banks' capital positions or reduced capital requirements could lead to diminished market confidence and have negative consequences for households, banks and the entire Swedish economy. If banks were to respond by generally restricting the supply of credit to the economy – including to creditworthy households and businesses – in an attempt to improve their financial position, this would further exacerbate the economic downturn. It should also be noted that there could be cross-border impacts as Swedish banks are also heavily interlinked with other countries in the Nordic and Baltic region, with significant market shares in some countries.

Banks' funding structures could represent a vulnerability on the liquidity side, in view of their high degree of interconnectedness and their exposure to the RRE market via covered bonds. The large and concentrated Swedish banking sector is highly exposed to the RRE market and is also vulnerable to funding risks related to this market through the issuance of covered bonds backed by residential mortgage pools. Banks' financial positions and their ability to supply credit to the economy could also be affected if investors became reluctant to fund banks' covered bonds – a key source of funding for banks.

Section 3: Effectiveness and efficiency of the measure

3.1 How the proposed measure addresses the identified risk

The objective of the proposed measure is to increase and strengthen resilience in the Swedish banking sector to the prolonged and elevated systemic risk linked to Swedish mortgages and RRE. The aim of the proposed measure is to continue to ensure that banks are fully resilient and can withstand a potentially severe downturn in the housing market without restricting the supply of credit. This can be achieved by imposing a sufficiently high capital requirement for RRE exposures. The elevated vulnerabilities at the macro level and the resulting systemic risks are, however, not reflected in the modelled risk weights for mortgage exposures. It is unlikely that the IRB approach followed by banks can fully capture the current credit loss risk of Swedish mortgages in a severe downturn, which could lead to severe spillover effects for the Swedish and regional economies. There is therefore a need to target the systemic risks associated with high household indebtedness and high house prices by having a sufficiently strong bank capital position for mortgage exposures.

The measure is part of a wider set of initiatives that have been introduced over several years to address concerns about developments in the Swedish RRE sector. Finansinspektionen has also implemented a number of BBMs with the objective of increasing households' resilience. These include an LTV limit of 85% on mortgages and an amortisation requirement. This obliges new borrowers whose mortgages have LTVs of between 50% and 70% to amortise at least 1% of their mortgage annually, while those with LTVs above 70% must amortise at least 2% annually. A stricter amortisation requirement was introduced later, according to which households borrowing more than 4.5 times their annual income before tax must amortise an additional 1% of their mortgage per year. These measures have been deemed necessary and appropriate to strengthen the resilience of households and, if possible, curb household indebtedness. In addition, a 2% countercyclical capital buffer and a 3% systemic risk buffer are also in place, applicable to the three largest institutions.

The risk-weight floor measure calibrated at 25%, which is kept unchanged in the proposed extension of the period of application of the measure, was assessed by the ESRB in February 2022 and again in February 2024. In both instances, it was deemed appropriate for addressing the vulnerabilities related to the overvaluation of house prices, the stock of loans and household indebtedness. Sweden's policy mix was deemed to be appropriate and partly sufficient, with proposals suggesting it should be complemented with BBMs, such as DTI limits, aimed at limiting the borrowing of overindebted households. There were further proposals to improve timeliness with regard to the availability of data on lending standards and to continue with policy actions beyond the macroprudential remit to address structural vulnerabilities related to the housing market.

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 addressing systemic risks related to Swedish mortgage exposures. While the impact of the output floor will vary across institutions, it is not expected to be the 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 and is not added to it, avoiding any risk of double counting.

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.

Article 124 of the CRR would not be effective in meeting the objectives of the proposed measure. About 90% of Swedish mortgage market exposures are held by credit institutions applying the IRB approach. In addition, IRB risk weights are relatively low, while risk weights of banks applying the standardised approach are considered to be sufficient.

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, on the basis of financial stability considerations, set higher LGD input floor values for exposures secured by immovable property. LGD is one of the parameters used in the risk-weight function and increasing the LGD indirectly raises the risk weight and the resulting capital requirements.

Increasing the LGD floor for mortgages would serve to widen the differences in risk weights between IRB banks and would result in a disproportionate increase in risk weights for banks with the highest initial probability of default. The use of Article 164 of the CRR would make it more complex to determine capital requirements and could reduce the transparency of IRB risk weights for market participants.

Consequently, it is Finansinspektionen's assessment that a measure under Article 164 of the CRR would not adequately and effectively address the identified systemic risks.

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

Member States may introduce a systemic risk buffer (SyRB) to address systemic or macroprudential risks not covered by either the CRR or Articles 130 and 131 of the CRD. This would mean a risk of disruption which could have serious negative consequences for the financial system and the real economy in a specific Member State. In Sweden, a SyRB of 3% already applies to all exposures of the three largest banks, addressing the risks associated with a large, similar, and concentrated banking system. The systemic risk covered by this SyRB differs from the risks covered by the risk-weight measure.

The CRD provides for the application of a sectoral SyRB, which may be designed in a such a way that it targets exposures in the RRE market. However, a sectoral SyRB would be less suitable and effective than the proposed measure. Banks' internal models are currently under review, with concerns about unjustified variations between modelled risk weights. The sectoral SyRB would not act as a floor, but rather as a multiplier in relation to nominal capital requirements, impacting IRB banks with the highest risk weights most heavily and IRB banks with the lowest risk weights least heavily. According to Finansinspektionen, calibrating a sectoral SyRB on a bank-by-bank basis would be a very complex process while the IRB model review is still ongoing. The buffer required to generate the equivalent capital impact would also be extremely large and, therefore, challenging from both a communication and a reciprocity perspective.

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

The countercyclical capital buffer (CCyB) addresses some of the procyclicality in the financial system. Finansinspektionen has applied a CCyB rate of 2% in Sweden since 22 June 2023.

It would be neither effective nor appropriate to increase the CCyB further to address the systemic risks linked to Swedish mortgages and the RRE sector. The CCyB rate is applied to all Swedish credit exposures, not just mortgage exposures. Using the CCyB to specifically target the systemic risks linked to the Swedish mortgage and housing markets would penalise other exposures not targeted by the measure. Moreover, it would primarily penalise those banks with the lowest share of relevant exposures in mortgage loans. In addition, a very high buffer rate would need to be applied to achieve a capital requirement corresponding to a risk-weight floor of 25%.

Section 4: Analysis of the net benefits of the measure

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

The proposed extension of the period of application of the measure is expected to maintain the resilience of the affected banks, although further developments regarding vulnerabilities in the RRE sector in Sweden need to be monitored closely. Assuming the measure is fully reciprocated by Member States that have credit institutions with material exposures to the Swedish RRE market, the capital requirements for the IRB credit institutions should remain broadly the same in terms of nominal amount. In view of the combination of elevated vulnerabilities but a possibly turning cycle in the Swedish RRE sector, further developments need to be monitored closely and the policy stance may need to be adjusted again.

The measure is an important part of capital requirements in Sweden. However, since the proposed extension of the period of application of the measure does not change existing capital requirements, its impact on banks' funding costs, loan margins and economic growth may be expected to be limited. The measure increases the implied risk weights on Swedish mortgage exposures from 6.1% on average (exposure-weighted) to 25%. Thus, the risk-weight floor has increased the capital levels required in the affected banks. According to Finansinspektionen data, at the end of the fourth quarter of 2024 the additional capital requirement in nominal terms stemming from the 25% risk-weight floor for Swedish mortgages was SEK 115 billion at the consolidated level, or about 21% of the total capital requirement for the largest Swedish banks. The extension of the period of application of the measure, however, implies keeping the current capital requirements unchanged. Consequently, the impact of the measure on banks' funding costs, loan margins and economic growth may be expected to be limited, as long as the calibration is not materially adjusted. Based on banks' estimates, CRR III[15] would imply a slightly lower average risk weight on Swedish IRB mortgage exposures, resulting in a slightly higher additional capital requirement – around SEK 119 billion, or 21% of the total capital requirement for the largest Swedish banks.

Overall, the ESRB has concluded that the proposed measure would not entail disproportionate adverse effects on the internal market or other national financial systems. The measure should further maintain the resilience of Swedish banks to shocks in the Swedish RRE market, thereby reducing the number of potential channels for contagion from Sweden to other Member States. As the 25% risk-weight floor has already been in place since 2014 in one form or another, it should not entail any disproportionate adverse effects on the internal market or other national financial systems. Members of the ESRB General Board did not raise any material concerns under the procedure laid down in Article 4 of Decision ESRB/2015/4 with regard to negative externalities of the measure such as adverse cross-border spillover effects.

4.2 Effects on both domestic and cross-border lending

[15] Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor (Text with EEA relevance) (OJ L, 2024/1623, 19.6.2024)

The ESRB does not expect the proposed measure to materially affect domestic and cross-border lending, given that the current measure under Article 458 of the CRR has had no material impact in the past.

The measure seems not to have restricted households' access to mortgages since the average growth rate of mortgages has remained positive since the introduction of the risk-weight floor. Mortgages are the primary driver of the trend for household debt, with an annual growth rate of 1.7% in March 2025.

The market share of non-banks is still negligible, but new entrants could complicate macroprudential policy in the future. There is negligible direct investment in mortgages by Swedish insurers and pension funds. However, Finansinspektionen has noted that insurers and pension funds are showing interest in indirect investment through mortgage funds, in addition to their investment in covered bonds. While new players such as investment funds have entered the market in recent years, their market share remains low. These new players fall outside the scope of existing macroprudential instruments. For example, they may be subject to lower capital requirements than Swedish banks on the basis of the risk-weight floor. The Swedish authorities should therefore continue monitoring developments, closely assess the effectiveness of macroprudential policy measures and, if necessary, update their macroprudential toolkit.

The measure intends to ensure a level playing field for all banks operating in the Swedish mortgage market. Through reciprocity, the macroprudential risks identified in the mortgage and housing markets can be addressed for all relevant lenders in the Swedish market, contributing to a level playing field. The two largest subsidiaries of foreign banks operating in Sweden together account for about 14% of Swedish mortgage lending and fall within the scope of the measure. Both banks also operate in the Swedish mortgage market to a limited extent through their Swedish branches, currently accounting for less than 1% of Swedish mortgage lending. Branches' exposures are covered through reciprocity of the measure, subject to an institution-specific materiality threshold of SEK 5 billion.

4.3 Effects on intragroup behaviour of credit institutions

Given that credit institutions already meet the higher capital requirement, it is unlikely that the proposed measure will cause a significant shift in operations within their group structures. Moreover, no significant changes in the intragroup behaviour of relevant credit institutions have been observed since the introduction of the measure.

Finansinspektionen has also asked the ESRB to continue to recommend that other Member States with material exposures reciprocate the measure. Finansinspektionen has emphasised that reciprocity remains relevant as these countries' banking sectors could be exposed, either directly or indirectly through their branches, to risk related to the real estate market in Sweden.

The development of cross-border mortgage lending and lending through branches should, therefore, be monitored.

Conclusions

The main purpose of the proposed measure is to continue strengthening the resilience of the Swedish banking sector by addressing the risk of asset bubbles in the residential property sector in Sweden and their potential spillover effects.

The backdrop to the current assessment is that vulnerabilities in the Swedish RRE market remain high, despite the recent levelling off in the market. Risks remain high as the ongoing correction in RRE markets has been too short lived to bring down the level of accumulated risks significantly. Both house prices and household indebtedness remain historically high.

The ESRB notes that the calibration of the measure has not changed since the 25% risk-weight floor was first introduced in 2014. Despite the changes in the vulnerabilities related to the housing market and mortgages, and the additional measures that have been implemented to target these risks since the original measure was introduced, it is Finansinspektionen's assessment that the risk-weight floor of 25% is still adequate.

The ESRB is of the view that the alternative macroprudential instruments listed in Article 458 of the CRR, which must be considered before any stricter national measure can be implemented, would not be adequate to address the risk at hand. Measures such as those listed in Articles 124 and 164 of the CRR, as well as the SyRB and the CCyB, are considered to be less adequate as they do not provide the intended incentives, are too broad-based and do not address the same risk, exposures or credit institutions to the same extent. The ESRB also found that the extension of the period of application of the measure would not have any disproportionate adverse effects on the internal market or other national financial systems.

The ESRB is therefore of the view that the extension of the period of application of the measure is justified, proportionate, effective and efficient for the purpose mentioned above.

In addition, the ESRB would like to emphasise that the measure's effectiveness will depend on the extent to which it continues to be reciprocated by other Member States with credit institutions active in the Swedish residential mortgage market. In this respect, the ESRB's recommendation to reciprocate the existing measure[16] continues to apply to the measure following its extension.

The ESRB therefore supports Finansinspektionen's intention to extend the period of application of its stricter national measure. At the same time, the ESRB reiterates that there is a need for continued monitoring by the Swedish authorities to ensure the effectiveness of the measure and to avoid unwanted consequences. The ESRB also supports Finansinspektionen's intention to conduct a more thorough assessment, reviewing the need for and the calibration of the measure on the basis of residual systemic risk once the ongoing IRB review has been completed, including its potential substitution with a sectoral SyRB. In addition, the ESRB encourages Finansinspektionen to carry out a comprehensive assessment of the existing macroprudential policy mix and implement any changes that may become

[16] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2) (OJ C 97, 12.3.2016, p. 9).

necessary due to the introduction of the output floor in the future. This would avoid overlaps and maintain the effectiveness and appropriateness of the measures.