

CONSULTATION RESPONSE

DATE: 08 October 2025

REFERENCE: Fi2025/01375

DNR: 2025-00895

Ministry of Finance
Financial Market Department
Banking Division

The memorandum on development of the macroprudential policy area

Summary

The memorandum *Utveckling av makrotillsynsområdet* (Development of the macroprudential policy area) contains several proposals that touch on important issues for macroprudential policy in Sweden. Below are the Riksbank's most important positions:

- It is proposed that borrower-based measures should be regulated in a new law. Such an arrangement could provide greater clarity and predictability for households and creditors and strengthen democratic legitimacy. At the same time, regulating these measures in law can pose challenges, as the costs of macroprudential measures are often visible and immediate, while the long-term benefits are more difficult to observe. There is therefore a risk that measures that are necessary from a stability perspective may be delayed, not taken or relaxed.
- The Riksbank is in favour of retaining the first amortisation requirement and the LTV limit, regardless of whether the measures are regulated by law or by public authority regulations. The Riksbank is also in favour of the proposal to raise the LTV limit, although the benefits are uncertain and the measure also entails risks.
- The Riksbank considers that the Government should propose the introduction of a loan-to-income limit – in line with what is proposed in the report *Reglering av hushållens skulder* (Regulation of household debts) (SOU 2024:71). Such a measure could counteract the acceleration in house prices and debt during good times.
- The Riksbank is in favour of the proposal that the Riksbank should be responsible for setting countercyclical buffer rates. In a crisis situation,

there is a significant interaction between the Riksbank's liquidity support measures and the countercyclical buffer requirement, both of which aim to support the provision of credit. Significant benefits could therefore be realised if the measures were decided by a single authority. The breadth of the Riksbank's analytical task would also be valuable when setting countercyclical buffer rates.

- The Riksbank would like to emphasise the importance of relevant prudential authorities having access to data. This is a necessary condition for drawing the attention of the Government and Parliament to risks to financial stability and the need for possible legislative measures.

Borrower-based macroprudential measures

The memorandum proposes that borrower-based measures should be regulated by law instead of in public authority regulations. The first amortisation requirement would be transferred to the new law, while the stricter amortisation requirement would be abolished. The LTV limit is also proposed to be transferred to the new law, but with two changes: the limit when purchasing a home is raised from 85 to 90 per cent, while the limit for home equity withdrawals is cut to 80 per cent. It is also proposed that the Government be empowered to issue regulations both to temporarily tighten (lower) the LTV limit and to temporarily exempt loans from the amortisation requirement in extraordinary circumstances that could be expected to lead to a particularly deep recession.

Regulation of borrower-based measures by law

The proposal to regulate borrower-based measures in a new law has both advantages and disadvantages. Legislation can strengthen democratic legitimacy and indicates that the measures are a structural element of the macroprudential framework, creating clear rules of the game for borrowers and lenders. The proposal is similar to the decision-making system in some of our Nordic neighbours. At the same time, regulation by law can pose challenges. The costs of macroprudential measures are often visible and immediate, while the long-term benefits are more difficult to observe. There is therefore a risk that measures that are necessary from a stability perspective will be delayed, not taken or relaxed for political reasons.¹

An additional challenge is that measures may take longer to adapt when needed, for example to limit a rapid build-up of risk or to be able to ease measures in more

¹ In this context, it is common to refer to the concept of "inaction bias", see, for example, the Committee on the Global Financial System (CGFS). (2023). "Macroprudential policies to mitigate housing market risks". CGFS Papers No. 86. Basel: Bank for International Settlements. The ESRB also emphasises that authorities can be exposed to pressure to avoid tightening in booms or to loosen measures in a bust. See recital 12 of the European Systemic Risk Board. (2011). "Recommendation of the European Systemic Risk Board (ESRB) of 22 December 2011 on the macro-prudential mandate of national authorities" (ESRB/2011/3). 2012/C 41/1.

extraordinary circumstances – such as during the COVID-19 pandemic. The proposals for the Government to be able to issue regulations on temporary tightening of the LTV limit and exemptions from amortisation requirements in extraordinary circumstances are therefore important. The Riksbank considers that the criteria proposed for assessing whether an extraordinary situation exists that is likely to lead to a particularly deep recession are well balanced.²

At the same time, the Riksbank considers that a stricter LTV limit is not necessarily the most appropriate or most effective measure to counteract a rapid build-up of risk. The Riksbank therefore believes that there may be reasons to give the government a more flexible mandate to temporarily be able to take other additional borrower-based measures without the need for a legislative amendment to manage a rapid build-up of risk. This could contribute to a more efficient and resolute macroprudential policy.

To counteract the disadvantages that may result from the measures being regulated by law rather than by public authority regulations, it is crucial that the prudential authorities have good opportunities to draw the attention of the Government and Parliament to risks to financial stability. An important context for this is the Financial Stability Council. The Riksbank has long warned of the risks of household indebtedness and pointed out that a dysfunctional housing market has contributed to rising house prices and debt going hand in hand. Against this background, the Riksbank has also emphasised that borrower-based measures safeguard household resilience and counteract the build-up of risk.³ The memorandum emphasises that both Finansinspektionen and the Riksbank shall follow up and evaluate the functioning of the credit market within the framework of their respective areas of responsibility. Finansinspektionen currently conducts extensive work on data collection, including through its in-depth analysis of mortgages.⁴ The Riksbank wishes to emphasise the importance of the authorities being given the conditions, within the framework of their tasks, to collect and analyse relevant data – not least on households.

Changes in the calibration of borrower-based measures

The Riksbank is in favour of retaining the LTV limit, regardless of whether the measures are regulated by law or by public authority regulations. The Riksbank also supports the proposal to raise it from 85 to 90 per cent for new loans. Raising

² The memorandum states that one criterion for assessing whether there is an extraordinary situation that is likely to lead to a particularly deep recession is that the National Institute of Economic Research's Economic Tendency Indicator is below 80, or that support for short-time work under Section 5 of the Act (2013:948) on support for short-time work is deemed to be relevant.

³ See, for instance, "Macroprudential measures safeguard the resilience of the household sector", in *Financial Stability Report*, November 2024, Sveriges Riksbank.

⁴ See, for example, *The Swedish Mortgage Market: Households need to have margins for an uncertain future*, 2025, Finansinspektionen.

the LTV limit has both potential advantages and disadvantages. An LTV limit fulfils an important function both at individual level – by limiting risky indebtedness – and at systemic level, where it reduces the risk of credit losses in banks and prevents lenders from gradually increasing loan-to-value ratios for competitive reasons. As the research does not provide a clear answer as to what is an optimal level, and the Swedish limit is also low compared with several neighbouring countries, an increase may be reasonable.^{5,6} A slightly higher limit may help households to retain larger liquidity buffers, reduce the incentives for households to take out expensive unsecured loans and make it easier for households with a good repayment capacity but limited equity to buy a home.

However, it is uncertain whether raising the LTV limit would lead to more home-owners. Easing borrower-based measures tends to push up housing prices, while the magnitude and persistence of the impact of higher house prices on housing supply are uncertain.⁷ If the supply of owner-occupied housing does not increase significantly, the reform risks mainly redistributing housing between different groups: some households will benefit, but others will be put at a disadvantage, and those who buy a home will need to take out larger loans and become more vulnerable to interest rate increases and price declines.⁸ To strengthen opportunities for home ownership over the long term, structural reforms that increase the supply of housing would be more appropriate.

The Riksbank supports the proposal for a special LTV limit for equity withdrawals. This measure could counteract the increased risks resulting from a higher LTV limit on the purchase of a new home, as the group of borrowers who withdraw equity is significant and has implications for financial stability. By limiting the ability of already highly leveraged households to finance consumption with mortgages, the measure helps to dampen the link between housing prices and consumption and makes households less vulnerable to falling house prices. By extension, it also strengthens financial stability over the long term. One disadvantage is that some households close to the LTV limit may take on more

⁵ Chen, X., et al. (2025), show that the optimal level of an LTV limit varies depending on the assumptions made about the ability of monetary policy to act, and whether or not it is constrained or not. See Chen, J., Finocchiaro, D., Lindé, J. and Walentin, K., (2023). “The costs of macroprudential deleveraging in a liquidity trap”. *Review of Economic Dynamics*, 51, pp. 991–1011.

⁶ In Norway, the LTV limit was recently raised from 85 to 90 per cent. In Denmark, the LTV limit is set at 95 per cent, and in Finland it is 95 per cent for first-time buyers and 90 per cent for other home buyers.

⁷ As emphasised in the report *Reglering av hushållens skulder* (Regulation of household debts) (SOU 2024:71), there are limited empirical studies in this area. Some studies suggest that supply elasticity may be higher in Sweden than in other countries, but the report says the results should be interpreted with caution.

⁸ Experience from Denmark shows that the abolition of the ban on interest-only loans did not have the intended effects. Bäckman and Lutz (2020) find that the reform did not improve the opportunities for young people to establish themselves as home-owners. See Bäckman, C. and Lutz, C. (2020). “The impact of interest-only loans on affordability”, *Regional Science and Urban Economics*, 80.

expensive unsecured loans, but despite this side effect, the advantages are expected to outweigh the disadvantages overall.

The Riksbank is in favour of the proposal for an “inertia rule” (a five-year revaluation limit), meaning that a property may only be revalued of the purpose of changing the amortisation rate or increasing borrowing capacity every five years. Such a restriction could help dampen the link between housing prices and consumption by reducing the ability of households to increase their borrowing when prices rise rapidly. The proposal can thus contribute to strengthening financial stability in the long term. However, this proposal also entails a risk that some households that are already close to the LTV limit will instead choose to finance expenditure through more expensive unsecured loans. Nonetheless, this side effect is not considered sufficiently significant to outweigh the overall benefits of the proposal.

The Riksbank supports retaining the first amortisation requirement, regardless of whether the measures are regulated by law or by public authority regulations. The proposal means that the requirement is largely formulated in the same way as at present, including the possibilities for exceptions that exist. The amortisation requirement has contributed to a healthier amortisation culture and to reducing the risks associated with household indebtedness. Maintaining this requirement is therefore important for safeguarding financial stability.

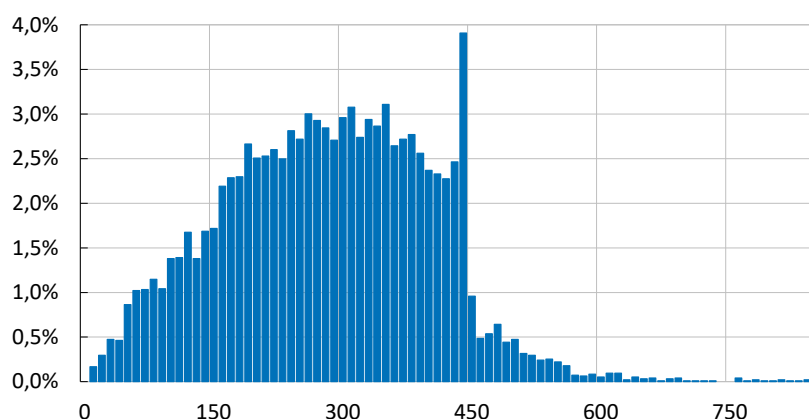
The Riksbank considers that the toolbox should be supplemented with a requirement that limits households' ability to take out large loans in relation to their income. Experience shows that house prices and debt often develop in close interaction. As emphasised in the report *Reglering av hushållens skulder* (Regulation of household debts) (SOU 2024:71), rising house prices tend to drive up the demand for loans, both for housing purchases and for consumption, which in turn amplifies the price increases. If such a process goes on for a long time, there is a risk of severe consequences once housing prices start to fall. An LTV limit that is not adjusted in line with rising house prices provides an insufficient brake on such debt and price dynamics. Household incomes, on the other hand, are more stable than housing prices, which means that income-based tools act as an automatic stabiliser and dampen developments in a scenario where housing prices and debt accelerate. They also limit households' cash flow risks, i.e. improve their ability to manage current interest payments and amortisation.⁹

⁹ A loan-to-income limit restricts the ratio of household mortgages to income, thereby reducing the risk of debt and income moving out of sync. It can also indirectly mitigate cash flow risks by reducing loan amounts. A limit on loan payments addresses cash flow risks more directly, as it is based on households' current ability to pay.

International institutions such as the BIS, the IMF and the ESRB therefore emphasise that income-based tools are important complements to an LTV limit.¹⁰

In Sweden, the income dimension has so far been dealt with through the stricter amortisation requirement. The requirement has created incentives to avoid very large loans in relation to income and has reduced households' borrowing scope in the credit assessment process. Figure 1 shows that many households choose to stay close to the limit of 450 per cent of gross income to avoid being subject to the stricter requirement. This underlines the fact that the requirement has had an effect. For those households that have taken out large loans anyway, this has meant faster amortisation and lower indebtedness over time, which may reduce their sensitivity to interest rate rises and other shocks. It can also mean lower interest expenditure over the life cycle of households. At the same time, these requirements make the debt service profile more steep and tie up household cash flows, which can make it difficult to smooth consumption and deal with temporary income shortfalls or cost shocks. These negative aspects have been mitigated to some extent by the existence of a safety valve in the regulation, whereby households could obtain exemptions for special reasons.¹¹

Diagram 1. Distribution of loan-to-income ratios among new mortgage borrowers



Note. Percentage of new home-buyers, per cent. The loan-to-income ratio refers to mortgages in relation to gross income.

Sources: Finansinspektionen and the Riksbank

The memorandum proposes that the stricter amortisation requirement should be abolished, but no measure is presented that can replace the stabilising properties of the requirement. Although the Riksbank notes that, for example, the proposal for a special limit for equity withdrawals can to some extent counteract a development where house prices and debt begin to increase sharply, there is no

¹⁰ See, for example, the Committee on the Global Financial System (CGFS). (2023). *Macprudential policies to mitigate housing market risks*. CGFS Papers No. 86. Basel: Bank for International Settlements.

¹¹ However, the special reasons do not include rising interest rates.

effective brake on an unsustainable development relative to household incomes. The Riksbank therefore considers that the toolbox should be supplemented with a requirement that limits households' debts (mortgage loans) in relation to their income. Such a requirement could usefully be designed as a loan-to-income limit in line with what was proposed in the report *Reglering av hushållens skulder* (*Regulation of household debts*) (SOU 2024:71). This would imply a loan-to-income ceiling of 550 per cent combined with a flexibility ratio of 10 per cent. The Riksbank considers that a lower level for the limit could also have been considered, to provide a more preventive effect. Even a lower limit would not, in the current circumstances, restrict lending to any great extent. In this context, it should be emphasised that a loan-to-income limit does not replace the banks' individual credit assessments.

Capital-based macroprudential measures

The memorandum proposes that the Riksbank should be responsible for setting the countercyclical buffer rate and that the Riksbank's and Finansinspektionen's collaboration regarding capital-based macroprudential policy measures should be formalised.

The Riksbank supports the proposal to assign the Riksbank responsibility for setting the countercyclical buffer rate. The Riksbank also supports the proposals that (a) the Riksbank shall give Finansinspektionen the opportunity to comment before the bank makes decisions on countercyclical buffer rates and (b) Finansinspektionen should give the Riksbank the opportunity to comment before Finansinspektionen makes decisions on other capital-based macroprudential measures.

The countercyclical buffer requirement differs from other buffer requirements

To address the systemic risks that may arise, the EU capital adequacy framework provides for a variety of capital-based macroprudential measures. Most of these measures are designed to address structural systemic risks, i.e. risks that may arise from, for example, a bank's size or its contribution to the interconnectedness of the financial system. The countercyclical buffer requirement, on the other hand, aims to address cyclical systemic risks and its level is determined primarily by overall credit market developments. This means that the buffer can be raised if cyclical systemic risks increase, and that it should be lowered in the event of, for example, a serious disruption to the Swedish financial system.

From this follows that there are two important differences in principle between the countercyclical buffer requirement and the other buffer requirements. First of all, decisions on the buffer rate should primarily be based on overall macroeconomic and financial market developments, and not on the situation of

an individual bank. Second, while all buffer requirements should be available for banks to use to absorb losses, the countercyclical buffer rate differs from other requirements in that its level should be reduced in a crisis situation to counteract a credit crunch. The countercyclical buffer rate is therefore more of a crisis management tool than the other buffer requirements.

The Riksbank considers that the function of the countercyclical buffer requirement as a crisis management tool has been strengthened as the application of the buffer requirement has changed. In Sweden as well as in several other EU countries, a positive neutral level for the buffer rate has been applied. The buffer rate will remain at a positive neutral level under normal conditions, and will not necessarily be reduced even if cyclical systemic risks were to subside. Instead, reductions will mainly be necessary in the event of more widespread disruptions that risk impairing the supply of credit. An important reason for this change in application is the experience of the COVID-19 pandemic, which showed that crises are difficult to predict and that it is important to have usable buffers that can be lowered in such a situation to help sustain credit supply. Finansinspektionen has applied such a level of 2 per cent since March 2021 and the Riksbank agrees with this application.

In light of the experiences of the countercyclical buffer rate and how its application has developed, the Riksbank agrees that there is reason to review who is responsible for determining the buffer rate. The Riksbank notes that the question of which authority should be responsible for setting the countercyclical buffer rate has already been the subject of more extensive deliberations than other capital-based macroprudential measures. The inquiry *Förstärkta kapitaltäckningsregler* (Enhanced capital adequacy regulations) (SOU 2013:65) proposed that the Riksbank should be responsible for setting countercyclical buffer rates. The proposals in the bill on *Samverkan om kontracykliska buffertvärden* (Cooperation on countercyclical buffer rates) (Bill 2023/24:65), strengthened the Riksbank's role through an obligation for Finansinspektionen to cooperate with the Riksbank prior to decisions on the buffer rate.

The Riksbank's broad expertise is valuable in setting countercyclical buffer rates

The overriding objective of the Riksbank is to maintain sustainably low and stable inflation. As part of its responsibility for monetary policy, the Riksbank analyses the economy as a whole, including financial conditions such as developments on the credit market.¹² The Riksbank shall also contribute to the stability and efficiency of the financial system. This includes continuously analysing and

¹² In the bill for the new Sveriges Riksbank Act, it is stated that "the Riksbank should, within the framework of monetary policy, take account of financial imbalances in the credit market and, if necessary, adjust the time frame within which the inflation target is to be attained". See Government Bill 2021/22:41 A new Sveriges Riksbank Act p. 86 (in Swedish).

identifying risks and vulnerabilities in the financial system, and communicating its assessments.¹³ In line with this, the Riksbank has long conducted crisis prevention work by warning of risks and vulnerabilities in the Swedish economy in various ways, for example as part of the Financial Stability Report. The Riksbank has communicated its assessment of an appropriate level for the countercyclical buffer rate on several occasions in the Financial Stability Report, and since 2024 the Riksbank has communicated its assessment quarterly in connection with Finansinspektionen's decision.

Finansinspektionen and the Riksbank have similar tasks when it comes to analysing the financial system. However, the Riksbank's responsibility for monetary policy means that the authority also has a responsibility to analyse the macroeconomy. This is important because there are synergies between the macroeconomic analysis and the analysis of cyclical systemic risks, which in turn has a bearing on the analysis that precedes decisions on countercyclical buffer rates. For example, a thorough analysis of the real economy and sectoral developments can help to shed more light on the question of whether credit market developments are sustainable and can be explained by fundamental factors. This would ultimately affect the assessment of what is an appropriate buffer rate. The Riksbank's total analytical capacity thus represents an advantage in the setting of countercyclical buffer rates, and is a natural element in the assessment prior to consultations with Finansinspektionen.

Important to consolidate responsibility for crisis management tools that support lending

An important part of the Riksbank's financial stability task is its central role in providing liquidity if needed to counteract a serious disturbance in the Swedish financial system.¹⁴ These measures are aimed, in the same way as reductions in the countercyclical capital buffer level, to strengthen the banks' capacity to supply the real economy with credit in a crisis. This means that there is an important interplay between the Riksbank's crisis management tools and the countercyclical buffer requirement, and this combination of measures was also applied in Sweden to deal with the economic uncertainty resulting from the COVID-19 pandemic.

In a crisis, decisions need to be taken quickly. Given the interaction between the Riksbank's crisis management tools and the countercyclical buffer requirement, the Riksbank assesses that significant benefits could have been achieved if one and the same authority decided on the measures. This creates better conditions for the overall policy mix to be consistent and effective. Such a system also

¹³ See Chapter 3, Section 9 of the Sveriges Riksbank Act (2022:1568).

¹⁴ See Chapter 3, Section 6 of the Sveriges Riksbank Act (2022:1568).

provides better conditions for ensuring accountability for the way a crisis has been handled.

One consequence of the Riksbank being responsible for setting countercyclical buffer rates would be that Finansinspektionen would no longer decide on all capital-based measures. Although there are links between the countercyclical buffer requirement and other requirements aimed at banks, these links are relatively limited and a split responsibility – in line with what is proposed in the memorandum – would not lead to negative effects in terms of how the capital requirements are applied. The differences between the countercyclical buffer requirement and other capital-based tools mean that different forms of analysis and expertise are required before decisions can be made, and this also suggests that the tools do not need to be handled by a single authority. The need to be able to coordinate and consider the effects of different measures to counter a serious disruption in a crisis is greater.

Central banks are usually responsible for the countercyclical buffer requirement in the EU

In the EU, countercyclical buffer rates are usually set by central banks. This reflects the fact that supervision is often part of the central bank's tasks, which means that responsibility for all capital-based tools is concentrated at the central bank. In several countries, however, responsibility is divided, and in Norway, for example, the central bank is responsible for setting countercyclical buffer rates while the Ministry of Finance mainly decides on other capital-based macroprudential measures.¹⁵ From a European perspective, it is relatively unusual for one supervisor to be responsible for all capital-based instruments. In countries where they do so, central banks often play an important role in the analysis that precedes decisions on countercyclical buffer rates, as is the case in Finland and Germany.

Enhanced cooperation can contribute to a broader decision-making basis

The extensive cooperation that already exists between the relevant authorities on financial stability issues means that the proposed changes are well placed to work well. At the same time, in light of the proposed changes, it is reasonable for the authorities to further deepen and formalise their collaboration on capital-based macroprudential measures as a whole, not least to promote a broader basis for decision-making. At the same time, it is important that the requirement for cooperation is proportionate and not too extensive. For example, it should not include decisions on the recognition (reciprocity) of measures in other countries regarding the capital-based measures for which it is proposed that

¹⁵ The decision of the Ministry of Finance is based on the advice of the central bank or the financial supervisory authority.

Finansinspektionen will continue to be responsible. Finansinspektionen takes many such decisions and it would not be appropriate to cooperate on them.

Other comments

The Riksbank supports the Governor of the Riksbank being proposed as a voting member of the ESRB's General Board. A clear role for central banks in the macroprudential framework, including voting rights, is in line with European practice and ESRB recommendations.

Finally, the Riksbank considers that it is not clear from the memorandum whether the proposals affect which macroprudential body is to be notified to the ESRB in accordance with the Board's recommendation of 22 December 2011 on the macroprudential mandate of national authorities (ESRB/2011/3).

On behalf of the Riksbank

Erik Thedéen
Governor

Karl Blom
Senior economist

The decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson, Aino Bunge and Anna Seim) following a presentation by Senior Economist Karl Blom. Head of Department Olof Sandstedt participated in the final processing of this matter.