

PRESS RELEASE



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Housing prices and household indebtedness – the foremost risk

Households' high and rising indebtedness form a serious threat to financial and macroeconomic stability. Further measures need to be introduced to increase the resilience of the household sector and reduce risks. There are also vulnerabilities in the Swedish banking system and its resilience therefore needs to be reinforced. This applies to both the banks' ability to manage liquidity risks and their capital ratios. At the same time, it is necessary that the Riksbank has a sufficiently large foreign currency reserve if liquidity requirements should arise in foreign currency that the banks themselves are unable to manage.

Household indebtedness and housing prices are still rising, and indebtedness is also expected to rise in the period ahead. This entails major risks for the Swedish economy. It is therefore important to continue with measures to increase resilience in the household sector and reduce the risks. Both measures to achieve a better balance between supply and demand on the housing market and tax reforms to reduce the willingness or ability of households to take on debt are required. Further macroprudential policy measures also need to be taken.

Swedish banking system vulnerable

The vulnerabilities in the Swedish banking system are linked to its size, concentration and interlinkage, as well as the banks' large percentage of wholesale funding and their substantial exposures to the housing sector. The banks' limited capital and resilience to liquidity risks are making the financial system more sensitive to shocks.

Important for the banks to have self-insurance

Liquidity risks arise partly as a result of Sweden having a large, cross-border banking sector with significant commitments in foreign currency. It is essential



that the banks insure themselves by holding sufficient liquidity reserves to have a good capacity to manage these risks themselves. The Riksbank is therefore of the opinion that Finansinspektionen should set Liquidity Coverage Ratios (LCR) requirements for Swedish banks in the banks' significant currencies. At the same time, it is necessary that the Riksbank has a sufficiently large foreign currency reserve if liquidity requirements should arise in foreign currency that the banks themselves are unable to manage.

A higher leverage ratio requirement than 5 per cent may be appropriate

The vulnerabilities in the banking system mean at the same time that it is important that the major banks have sufficient capital. The Riksbank therefore considers that Finansinspektionen should introduce a leverage ratio requirement of 5 per cent for the major Swedish banks as from January 2018, as a complement to the risk-weighted capital requirements. The Riksbank's new calculations also indicate that a higher requirement than 5 per cent may be socio-economically profitable. It may therefore prove appropriate to further increase the requirement in the period ahead.

A press conference with the Governor of the Riksbank, Stefan Ingves, and Kerstin Hallsten, senior adviser at the Financial Stability Department, will be held today at 11.00 at the Riksbank.

Press cards or equivalent must be shown. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se, where it will also be available to view afterwards.