

# PRESS RELEASE



DATE: 22 Nov 2017  
NO. 27  
CONTACT: Press Office, tel. + 46 8-787 02 00

SVERIGES RIKSBANK  
SE-103 37 Stockholm  
(Brunkebergstorg 11)

Tel +46 8 787 00 00  
Fax +46 8 21 05 31  
registratorn@riksbank.se  
www.riksbank.se

## A slower rate of increase of household indebtedness is needed for stability

*High and rising household indebtedness currently poses the greatest risk to the Swedish economy. It is important therefore that the proposal for a stricter amortisation requirement is put in place. It is also important to implement measures within housing and tax policies to increase the resilience of the household sector and reduce the risks. A slower rate of price increase for housing will contribute to a more stable development on the housing market and a slower rate of increase in household debt.*

### **Slowed rate of increase in housing prices is positive**

Swedish housing prices have risen sharply for a long time and are high in a historical perspective. Ever higher housing prices have contributed to a rapid rise in household borrowing in Sweden. Since the middle of the summer, however, the rise in housing prices has slowed down. In September and October, prices fell in comparison with the previous month. The Riksbank's assessment is that housing prices will continue to increase in the next few years, but at a slower rate, as the supply of housing is increasing and mortgage rates are expected to rise. A slower rate of price increase for housing is positive and the Riksbank deems that it will contribute to a more stable development on the housing market and a slower rate of increase in household debt.

### **Households are sensitive to shocks**

Swedish household debt has continued to increase more rapidly than household income. The combination of rising debt and the fact that most mortgage holders have variable-rate loans, means that households can rapidly be affected by rising interest rates and greater price falls on the housing market. It is therefore important to continue with measures to increase resilience in the household sector and reduce the risks. Housing policy measures are needed to attain a better functioning housing market. In addition, tax reforms are needed to contribute to a balanced increase in housing prices and to reduce the willingness and capacity of households to take on



debt. The Riksbank supports Finansinspektionen's proposal for a stricter amortisation requirement and considers it important that the Government takes a decision on this matter, so that the stricter amortisation requirement can be put in place. The new regulations are expected to cover only 15 per cent or fewer of those taking out new mortgages. The Riksbank's assessment is therefore that the proposal would have limited effects on the housing market and total household consumption.

### **The banking system's exposure to property makes it vulnerable**

There are also significant vulnerabilities and risks in the Swedish banking system. This is partly connected to the banks having major exposures to the property sector. This makes the banks sensitive to larger falls in housing prices, as this could affect confidence in them, making it more difficult and expensive to find funding. The major banks are also closely interconnected and have significant exposures towards each other, in part because they own each other's securities.

### **Important for the banks to have self-insurance**

The banks' limited resilience to liquidity risks are contributing to making the financial system sensitive to shocks. Some major banks have periodically very low liquidity coverage ratios (LCRs) especially in Swedish krona but also in some foreign currencies. The Riksbank considers it important that the banks have their own self-insurance by holding adequate liquidity reserves so that they can manage the liquidity risks they take in their operations. It is also important for the major Swedish banks to continue to reduce their structural liquidity risks, for example by obtaining funding with longer maturities.

### **A leverage ratio requirement of 5 per cent is appropriate**

In light of the size of the Swedish banking sector, the vulnerabilities in the banking system and the risks to which the banks are exposed, it is important that the major banks have sufficient capital. The Riksbank's assessment is that a leverage ratio requirement of 5 per cent for the major Swedish banks should be introduced, as a complement to the risk-weighted capital requirements. Calculations also indicate that a higher requirement than 5 per cent may be socioeconomically effective.

### **Large banking system even if Nordea relocates**

Nordea is planning to move its head office from Sweden to Finland. However, Nordea's operations in Sweden are not expected to change in terms of size and close interconnectedness with other banks. From a Swedish stability perspective, it is important that Nordea's move does not lead to increased financial stability risks, as a result, for example, of reduced capital and liquidity requirements for the bank.

A press conference with the Governor of the Riksbank, Stefan Ingves, and Olof Sandstedt, Head of 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](http://www.riksbank.se), where it will also be available to view afterwards.