# PRESS RELEASE

DATE: 23/05/2018

NO. 11

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## High household indebtedness making the Swedish financial system vulnerable

*High and growing household indebtedness continues to pose the greatest risk to the Swedish economy. Indebtedness has been increasing for a long time and is due, in part, to a poorly functioning housing market and to the tax system not being well designed from a financial stability perspective. It is therefore important to continue with measures to reduce risks and increase resilience in the household sector, above all within these policy areas. At the same time, there are structural vulnerabilities in the Swedish banking system. Both banks' capital levels and their ability to manage liquidity risks therefore need to be strengthened. Continued economic and political uncertainty abroad makes it even more important to manage the risks and vulnerabilities in the Swedish financial system.*

### High household indebtedness – the greatest risk

The high indebtedness of households is due, in part, to a poorly functioning housing market and to the tax system not being well designed from a financial stability perspective. It is therefore important to continue with measures within these areas to reduce the risks and increase resilience in the household sector.

Indebtedness has been increasing for a long time, hand in hand with sharply rising housing prices. But since last autumn, housing prices have fallen. An increased supply and slower price growth than in recent years are expected to lead to calmer development on the housing market and a slower increase in household debt, which is a desirable outcome. At the same time, there is considerable uncertainty around the development of prices on the housing market and a greater price fall cannot be ruled out. A substantial and more lasting price fall may lead to serious consequences for both macroeconomic and financial stability.

## Vulnerable banking system requires greater resilience

There are several vulnerabilities linked to the Swedish banking system, including its size, concentration, interconnectedness, limited capital levels and low resilience to liquidity risks. The considerable exposure of banks towards the housing sector and recent developments on the housing market are amplifying these vulnerabilities. It is therefore important for banks to have sufficient capital. A leverage ratio requirement should therefore be introduced as soon as possible as a complement to the risk-weighted capital requirements. It is also important for banks to have their own self-insurance against liquidity risks. Requirements should therefore be placed on Swedish banks' liquidity coverage ratios in Swedish krona and in all significant currencies

## Economic and political uncertainty abroad poses risks

Given the risks and vulnerabilities in the Swedish financial system, continued economic and political uncertainty abroad poses even greater risks to the Swedish economy. One source of unease is the expansionary fiscal policy of the United States, which, in a bad scenario, can lead to sharply rising interest rates and large fluctuations in the US dollar. There are also several structural problems in the euro area, for instance, regarding the banking sector and weak public finances in several countries. Other risks are protectionism and the spread of possible counter-measures with regard to trade tariffs announced by the United States and China.

## A relocation of Nordea's head office can reduce the stability risks in the long term

After relocating, Nordea would continue to be active in Sweden. The Swedish banking system will therefore still be large, concentrated and interconnected. At the same time, Sweden's responsibility for Nordea as well as its control over and insight into the bank will decrease. In the long run, once the banking union is fully developed, more intensive supervision and increased risk diversification among the countries in the union may lead to lower risks also for Sweden. However, the banking union is not fully developed and a substantial part of the responsibility for managing banking problems still lies with the individual Member State. In the short term, therefore, the risks to financial stability are deemed to increase slightly. The Riksbank therefore considers it to be a precondition of a relocation that Nordea's capital and liquidity requirements are not reduced.

## Stability risks may diminish when competition on the mortgage market increases

The fact that mortgages are a profitable product has made it attractive for new players to challenge the major banks by finding alternative models for lending. This means that competition on the mortgage market is continuing to increase. This is positive for financial stability as it reduces the concentration risks, among other things. Assuming that mortgages among new players are funded over longer durations, liquidity risks may also diminish. At the same time, new players also pose new risks and challenges to financial stability. It is possible, for example, that some of these new players may start competing with less strict credit terms or create products that increase rather than decrease liquidity risks in the system.

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, where it will also be available to view afterwards.