

PRESS RELEASE



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Strong recovery, but the vulnerabilities in the financial system are growing

The economic recovery in Sweden and abroad has been strong but some slowdown in growth is expected going forward. The Swedish financial system is working well, credit supply has been maintained and important financial markets are functioning satisfactorily. In addition to the uncertainty associated with the pandemic as such, the problems of supply chains and rapidly rising energy prices may continue to disrupt economic activity. There is also uncertainty about future interest rates and possible effects on asset prices that could lead to increased market turbulence. In addition, household debt has continued to increase. Overall, the risks that may threaten financial stability remain elevated.

Some slowdown in growth is expected going forward

As more and more people have been vaccinated and restrictions have been eased, the economy has recovered strongly in Sweden and abroad during the first half of the year. For this reason, some support measures have also been withdrawn. In many countries, companies have recovered well and there have been fewer bankruptcies than expected. The labour market has also recovered, but there are still fewer employed than before the crisis in hard-hit industries.

Both in Sweden and abroad, growth in the economy is now expected to gradually return to more normal levels. Uncertainty about the economic consequences of the pandemic has declined at pace with the recovery, but there are still risks associated with the development of the pandemic. In addition, the problems in supply chains, rapidly rising energy prices and increased geopolitical risks may still disrupt economic activity going forward.

The outlook of investors has also become less optimistic as inflation has risen and there is uncertainty about future interest rates and possible effects on asset prices. The Riksbank assesses that the risk of falling asset prices and subsequent market turbulence has increased.



The vulnerabilities have been exacerbated

The pandemic has exacerbated the vulnerabilities that have characterised the Swedish economy for a long time. Household debt continues to increase more rapidly than both income and GDP. Higher debt makes households increasingly sensitive to cyclical fluctuations and shocks to their personal finances. Resolving the fundamental problems in the housing market and the high household indebtedness will require broad reforms in housing and tax policy.

In addition to mortgages, the banks also lend extensively to commercial property companies, which are in turn responsible for a significant part of the outstanding volume of corporate bonds in Swedish kronor. Property companies, which are often highly leveraged, have continued to increase their indebtedness during the pandemic, making them more sensitive to changing economic conditions.

The Riksbank considers that the high and increasing indebtedness and the extensive lending to commercial property companies make the Swedish economy vulnerable, and that financial stability, in an unfavourable scenario, may be affected.

Resilience needs to be strengthened

During the pandemic, certain regulations have been eased and the Riksbank considers that it is now important to phase out the temporary relaxations as planned, in both Sweden and the rest of the EU. In addition, EU Member States should implement internationally agreed standards, such as Basel III, in a full, timely and consistent way.

The Riksbank has also been pointing out shortcomings in the Swedish market for corporate bonds for a long time. The work now being conducted by both authorities and the private sector to increase transparency, improve liquidity and increase the standardisation of issues is therefore positive. It is also important that participants in the securities market themselves comply with the rules on transparency that they have developed.

In addition, it is of significance that market participants use the fully transaction-based reference rate SWESTR in financial contracts so that the Swedish markets keep pace with developments in the rest of the world.

A digital 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. The press conference will be broadcast live on riksbank.se. Preregistered journalists will be able to ask questions via Zoom. Press cards or similar are required. For registration, contact Susanne Meyer of the press office by telephone at 08-787 02 00 or by email to susanne.meyer@riksbank.se no later than 10.00 on 10 November.