

PRESS RELEASE



DATE: 9 November 2023
No: 18
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Higher interest rates challenging highly indebted companies and households

Inflation has fallen but is still too high and several central banks have stated that it may be a long time before policy rates are cut. In addition, the increased geopolitical tension may affect the inflation and economic outlook going forward and lead to increased turbulence in financial markets. Higher interest rates are also squeezing Swedish property companies, to which the banks are very exposed, and highly indebted households. The Swedish financial system is functioning well overall but the risks remain elevated.

Higher interest rates and geopolitical tension increasing the risks

Many central banks have communicated that it may take time before policy rates are cut. Moreover, long market interest rates have risen since the previous stability report, particularly in the United States, and movements in the fixed income market have at times been substantial. After a long period of low interest rates and rising asset prices, it is difficult to know how the various agents will manage to adjust to higher interest rates. This is also true in the Swedish economy, where there is considerable interest-rate sensitivity in some sectors.

The geopolitical situation and its economic effects could also create problems. In addition to Russia's invasion of Ukraine, there is the conflict in the Middle East. If the situation worsens, it could lead to turbulence on the financial markets, including the Swedish ones, and in that case it would not be possible to exclude an impact on the prospects for inflation and economic activity.

Significant differences in the squeezed property sector

Higher interest rates make it more expensive for property companies to finance themselves and lead to lower property values. The situation is particularly difficult for some companies, while others are better placed to deal with the new interest-



rate environment. If interest rates rise further or remain at a higher level for a long time and economic activity slows down further, the problems may be further exacerbated. Property companies therefore need to reduce their financial risks. In addition, it is important that banks maintain credit supply to viable companies and, via their lending activities, require property companies to reduce their financial risks.

The Riksbank's calculations indicate that the banks have sufficient capital to handle a major economic downturn and significant problems in the property sector. However, it is difficult to capture confidence effects that may impact banks' ability and willingness to provide credit in such calculations. The combination of the risks arising from higher interest rates and increasing geopolitical unease means that the major Swedish banks should, for the time being, aim to have a satisfactory margin above the formal capital requirements. Banks' capital should not fall below the upper limit they themselves set for their management buffers. This can be achieved by them restricting dividends and share buybacks.

High indebtedness making households sensitive to shocks

The high indebtedness and short interest-rate fixation periods are making households sensitive to shocks. Moreover, tenant-owner associations often have their own debts that are affected by the higher interest rates, which can lead to higher monthly fees for members. In a scenario where households find it even more difficult to cope with cost increases and consumption declines sharply, banks' loan losses could increase and financial stability could be negatively affected.

The Riksbank considers that a broad review of housing policy is needed to improve the functioning of the housing market and contribute to long-term sustainable debt development. It is also important to retain the amortisation requirements and mortgage cap. They promote sound lending practices and strengthen the amortisation culture over time. However, it is positive that there is some flexibility regarding the amortisation requirements, so that mortgagors with special grounds can be exempted.

New technology may make deposits more flighty, which requires increased vigilance

The spring banking problems in the US and Switzerland showed that banks can lose their deposits much faster than previously thought and that there may be a case for reviewing global regulatory standards for banks. There is an international discussion to explore these issues further. In light of the problems that arose, the Riksbank has performed an in-depth analysis of the deposits in 24 Swedish banks. The analysis shows that the deposits vary in flightiness, and may be more flighty at some smaller banks. New technology and social media may have made it easier for banks to lose their deposits, so it is important to continue to monitor the risks with deposits going forward.



A press conference with the Governor of the Riksbank, Erik Thedéen, and Olof Sandstedt, Head of the Financial Stability Department, will be held today at 11.00 at the Riksbank. Press cards or the equivalent are required to participate. The press conference will be broadcast live on riksbank.se. If you have any questions, please contact the press office either by telephone on 08-787 02 00 or by e-mail at susanne.meyer@riksbank.se.