PRESS RELEASE

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CONTACT Press Office tel. +46 8 787 02 00

Stability risks have declined in the short term but there is large uncertainty abroad

Several central banks are continuing to cut their policy rates. At the same time, asset and credit markets have performed strongly and risk premiums have continued to fall. This has eased the burden on the most indebted actors in the economy and has helped to reduce stability risks in the short term. However, low pricing of risk can lead to a build-up of risk in the financial system and to unexpected events leading to large market movements. There is still uncertainty about how the global economy will develop and the geopolitical risks have increased further. Weak public finances in the United States and many other major countries also pose a risk to global financial stability.

Resilience needs to be strengthened in several actors

The funding situation of property companies has become more favourable, but their large loans still pose a structural risk to financial stability. Additionally, rising vacancies and weak rental growth continue to challenge some companies. It is therefore important that vulnerable property companies continue to strengthen their balance sheets. To strengthen confidence in the sector, it is also important that the companies increase transparency regarding their property valuations, and that rating agencies review their methodologies to make ratings more robust.

Corporate bond funds have become increasingly important for the supply of capital to companies. Many corporate bond funds lack sufficient liquidity to handle large withdrawals by their unit holders. This may lead to liquidity-driven sell-offs and periodically severely impair the functioning of the corporate bond market. This happened during the market turmoil linked to the outbreak of the coronavirus pandemic. The Riksbank then had to initiate several measures, to maintain the supply of credit to companies, among other things. It is important to strengthen resilience in the funds to avoid that the Swedish corporate bond market once again suffer major disruptions in the event of stress. Therefore, funds need to introduce liquidity management measures, for instance.

The cyber threat remains significant and is amplified by the heightened geopolitical risks. To strengthen their resilience to cyber attacks and other IT incidents, it is important that market participants promptly comply with the requirements of the DORA Regulation.

Macroprudential measures counteract the build-up of risks

The Swedish economy is in a mild recession and the economic recovery looks set to take slightly longer than expected. While most mortgagors have been well placed to service their mortgages, households have reduced their consumption as personal finances have become more strained.

The combination of amortisation requirements, the mortgage cap and banks' credit assessments has safeguarded household resilience. Without these measures, households would have been in a more difficult position. A loosening of macroprudential policy could lead to a resumption of rapid growth in both house prices and household debt, especially given that interest rates are now falling. Such a development would increase macroeconomic risks and, by extension, risks to financial stability. Improving the functioning of the housing market will primarily require fiscal and structural policy measures. Changing macroprudential policy in such a way that household indebtedness increases is not a sustainable solution.

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.