

The financial stability situation

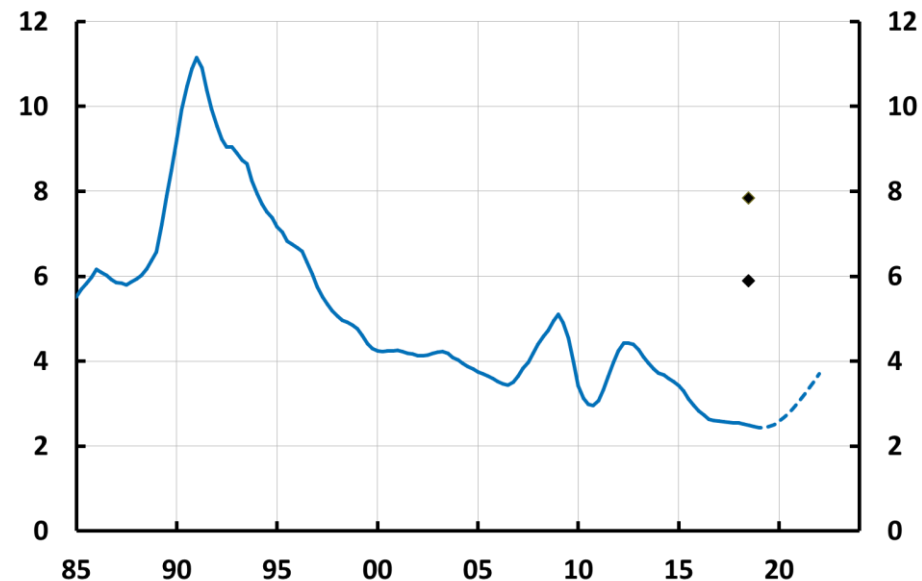
Riksdag Committee on Finance
5 February 2019

Governor of the Riksbank

Stefan Ingves

High indebtedness makes households sensitive to changes in interest rates

Households' interest expenses expected to increase



Note. Interest expenses as a percentage of annual disposable income. The rhombuses show interest expenses at more normal interest rate levels.

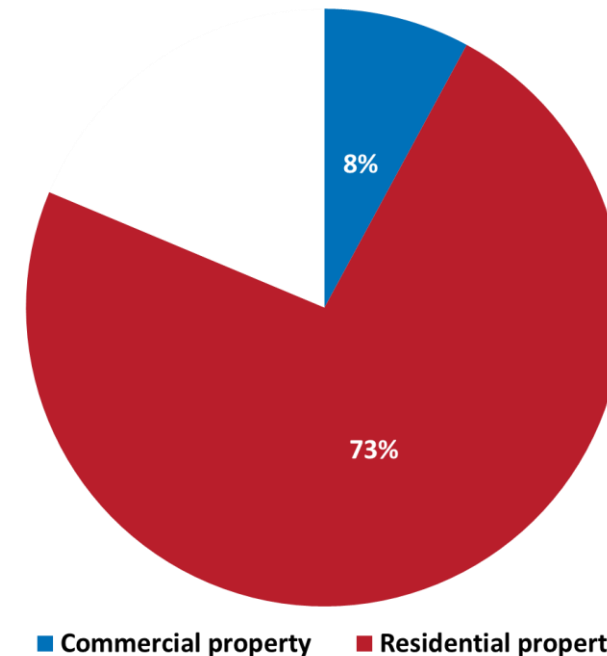
A combination of measures is required

- Structural measures on the housing market
- Review of tax rules
- Appropriate macroprudential policy

The Swedish banking system is vulnerable

- Large, concentrated and interconnected
- Increasingly exposed to property
- Dependent on foreign funding
- Banks therefore need to have sufficient capital and be able to manage short-term liquidity risks themselves

Substantial exposure to property

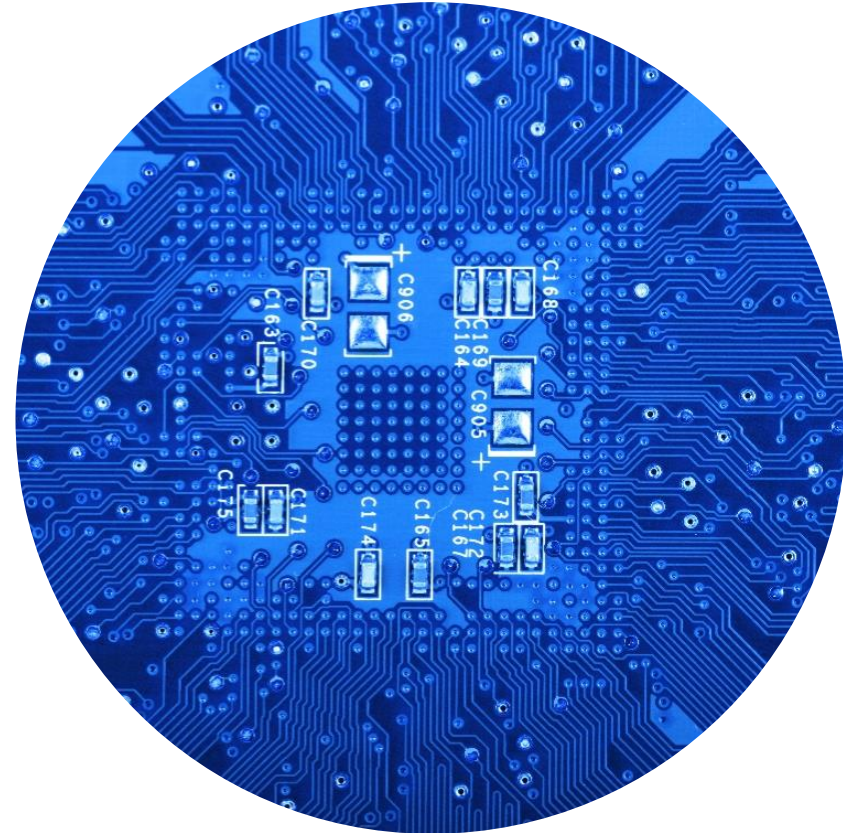


Note. The major banks' total lending to Swedish non-financial corporations and households, percentage of loans against collateral in property. Figures for September 2018.

Source: Statistics Sweden

A cyber attack may have serious consequences

- Cyber risks present new challenges
- Systems are often interconnected and dependent on each other
- The cyber threat is constantly changing



A payment system in transition

- Continued reduction in cash use
- Technological advances providing new conditions
- What is central bank money and who should be able to hold it?



Ten years after the financial crisis

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S V E R I G E S R I K S B A N K

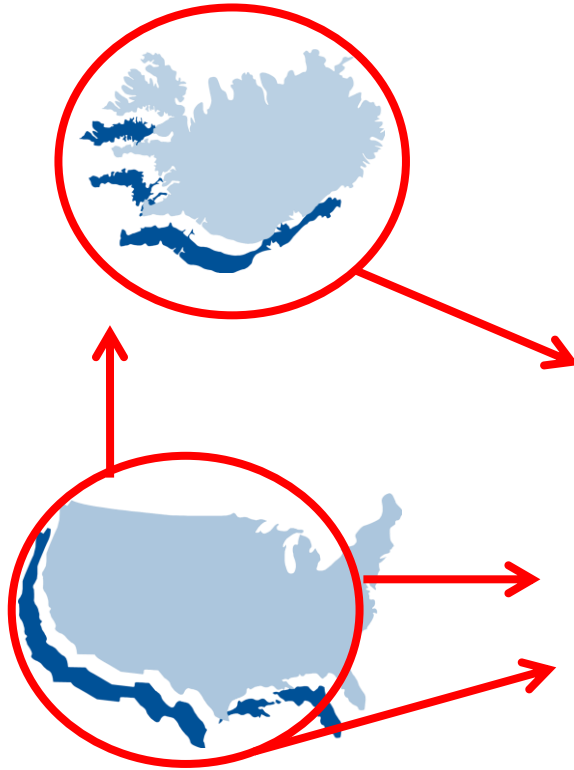


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Financial crisis gave rise to liquidity problems for Swedish banks

Icelandic meltdown



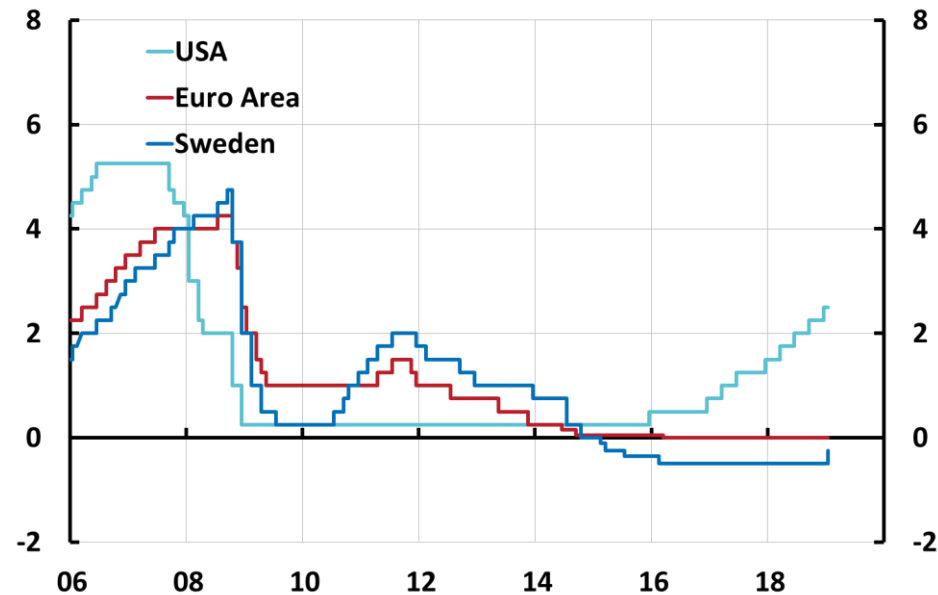
Global financial crisis

Baltic recession



The financial crisis required drastic policy measures

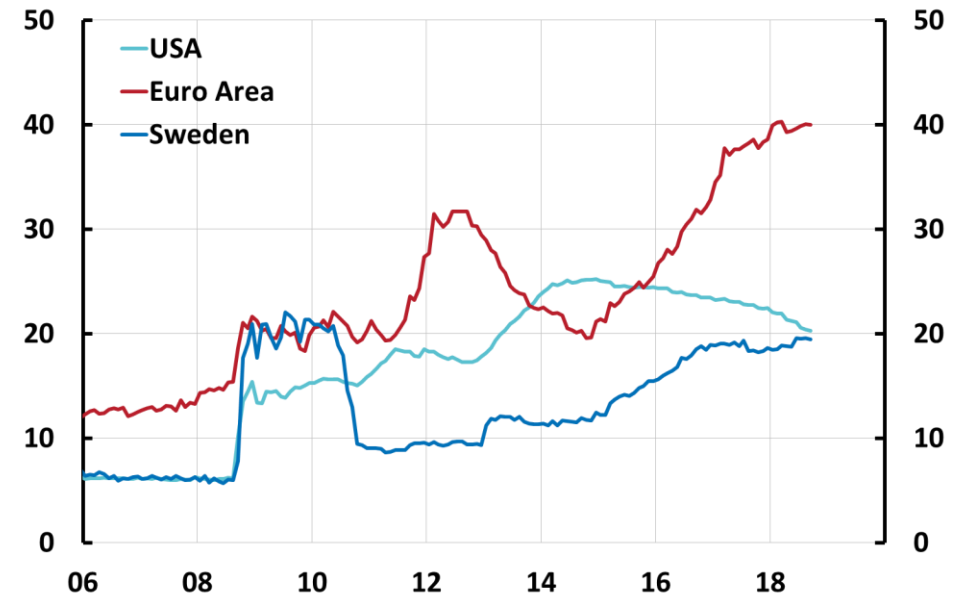
Policy rates were lowered



Note. United States: Federal Funds rate; Sweden: repo rate; Euro area: deposit rate.

Source: National central banks

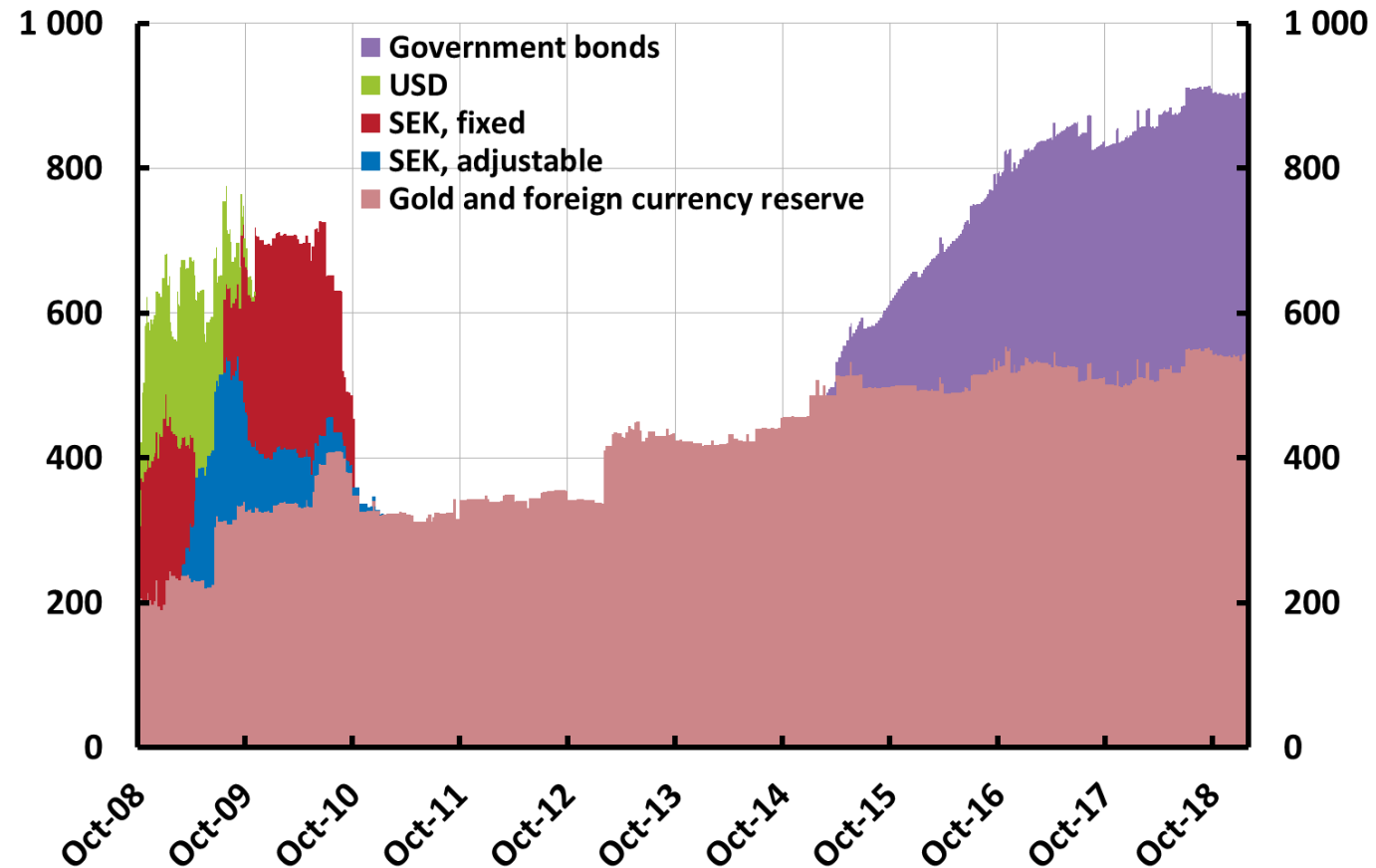
Balance sheets grew



Note. Central bank balance sheets as a percentage of GDP.

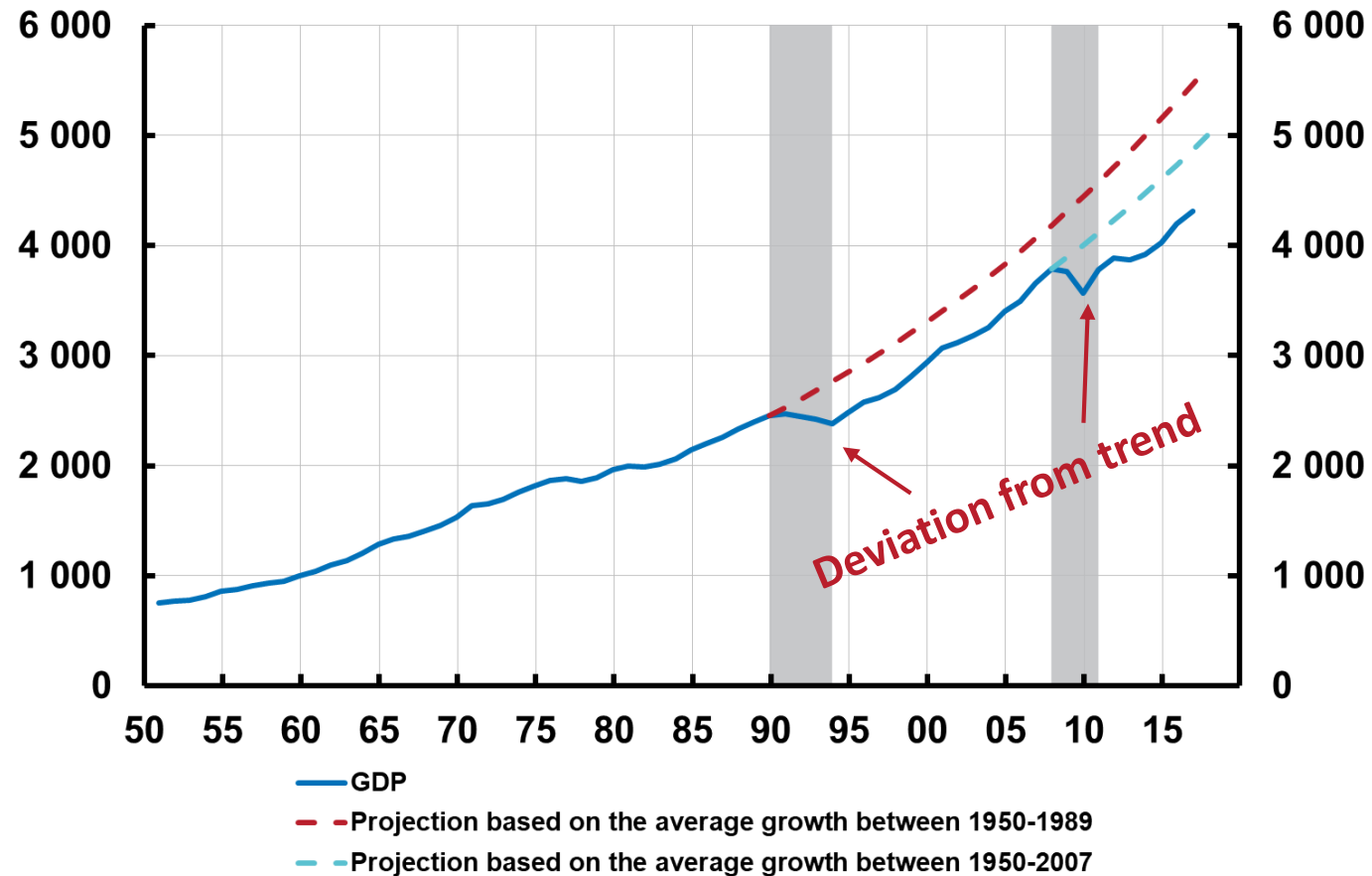
Sources: Bureau of Economic Analysis (BEA), Eurostat and national central banks

The Riksbank's balance sheet grew sharply



Note. The Riksbank's extraordinary lending, foreign exchange reserves, bond purchases and policy rate SEK billions

Financial crises are costly – robust regulatory frameworks are important



Note. SEK billion.

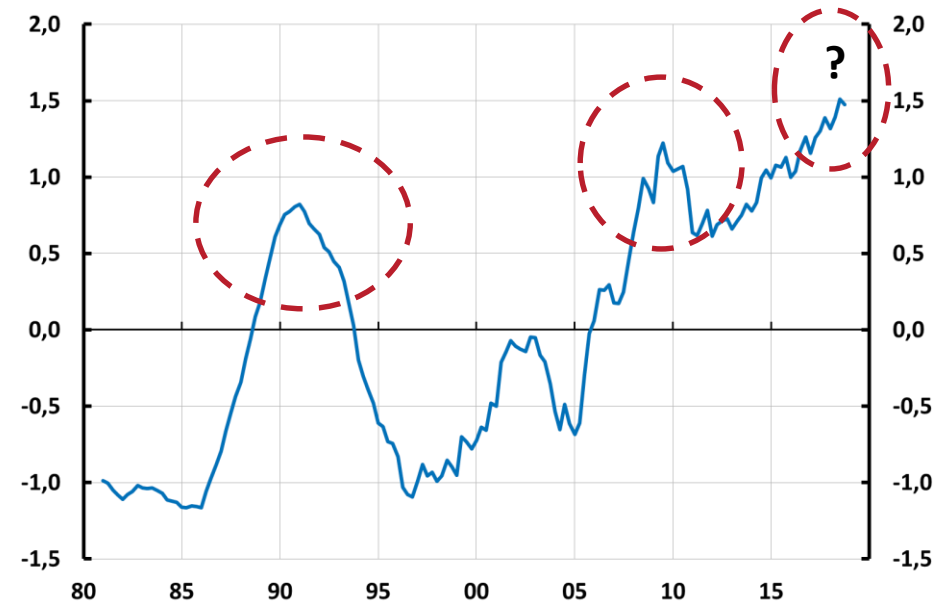
Sources: Macrobond and the Riksbank

A lot has been done

- New international institutions
- Macroprudential policy – a new policy area
- New regulatory landscape:
 - More and better capital
 - Liquidity requirements
 - Resolution framework
 - Systemically-important banks
- Always a tendency to “prepare to fight the last war”

Indications that Sweden is more vulnerable now

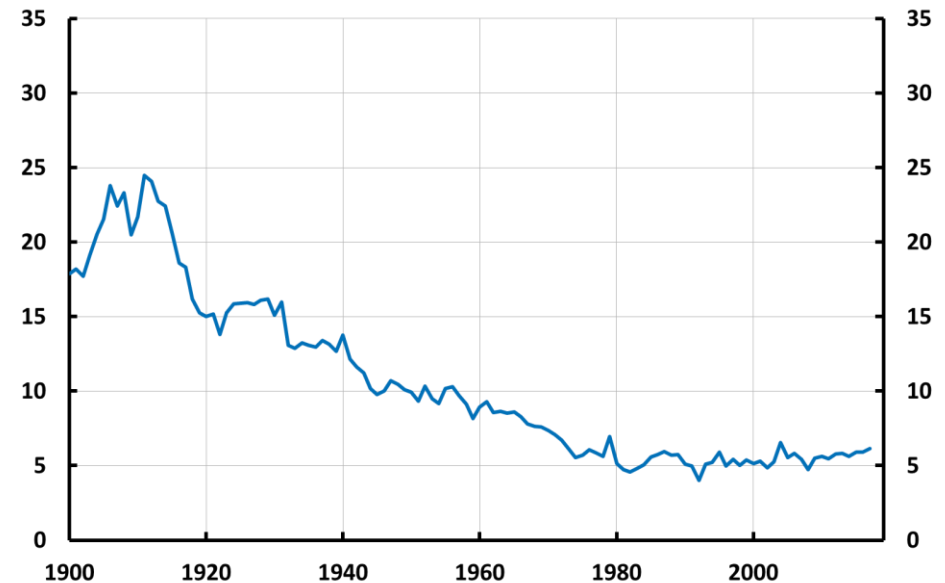
The indicator of financial fragility is at a high level



Note. Index. The indicator is based on trend deviations in three underlying variables: lending to households and companies in relation to GDP, real house prices and the relationship between non-stable and stable financing sources for the Swedish banking sector. Higher index values indicate higher financial vulnerability.

Sources: Statistics Sweden and the Riksbank

Leverage ratios are low



Note. Per cent. Equity in relation to total assets, Swedish banks.

Sources: Hortlund, Do Inflation and High Taxes Increase Bank Leverage?, SSE/EFI Working Paper Series in Economics and Finance, No 6122005, November 2005, Statistics Sweden and the Riksbank.

More needs to be done

- A combination of measures is needed to manage imbalances on the Swedish housing market
- Banks' own equity should increase and they should hold adequate liquidity reserves
- Regulatory arbitrage between countries should be avoided
- Important that the size of the foreign currency reserve is sufficient when the next financial crisis occurs
- The Riksbank has a natural role in crisis prevention – not just crisis management