

# High inflation and rising interest rates - challenges to financial stability

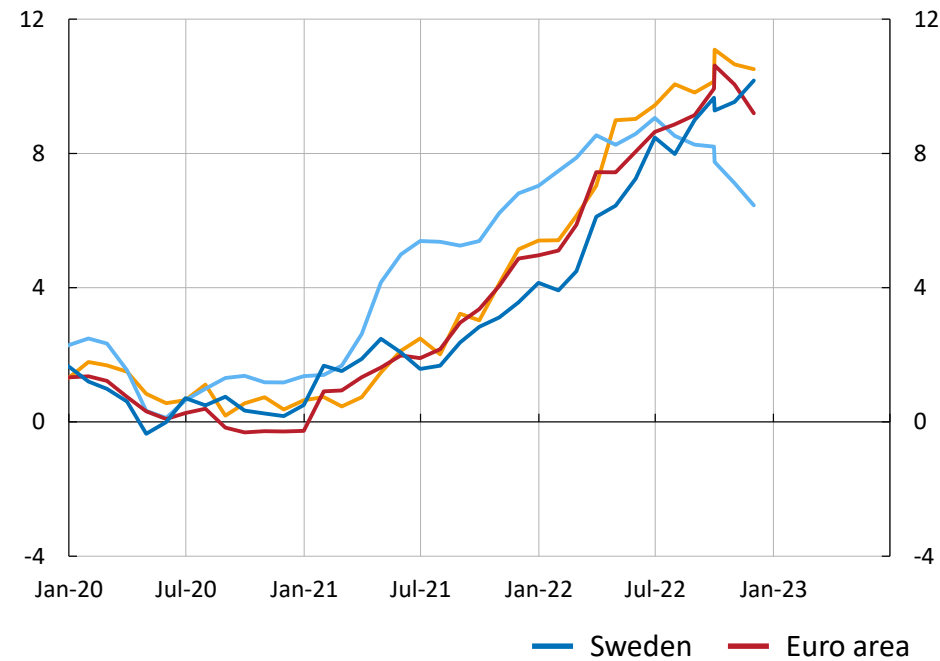
Committee on Finance, 31 January  
2023

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

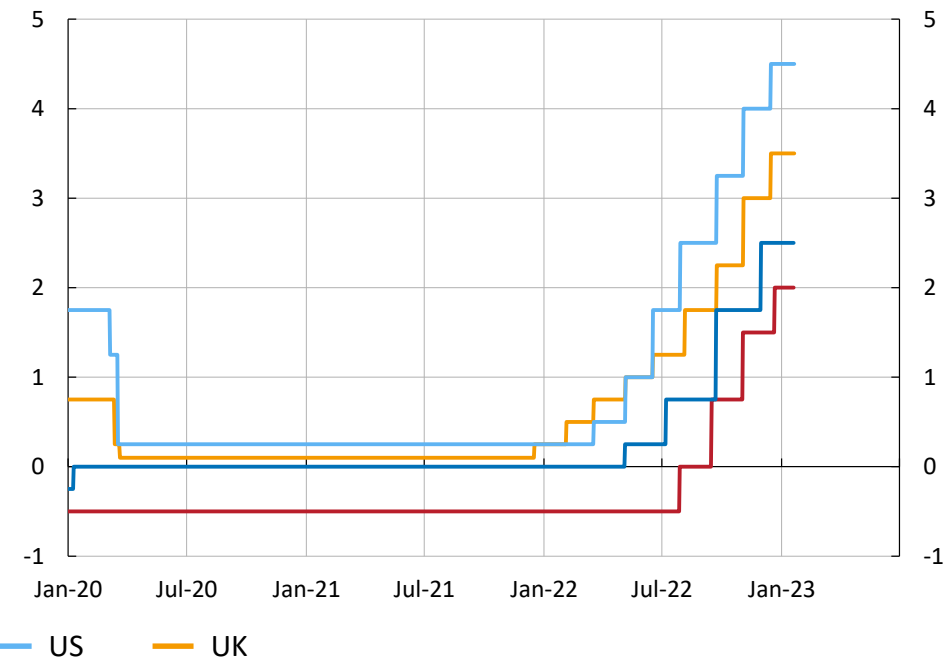
Erik Thedéen  
Governor of the Riksbank

# Monetary policy is being tightened to manage high inflation

## High inflation worldwide



## Central banks raising policy rates



Note. Left: Annual percentage change. Inflation refers to the CPIF for Sweden, the CPI for the United States and the United Kingdom and the HICP for the euro area.

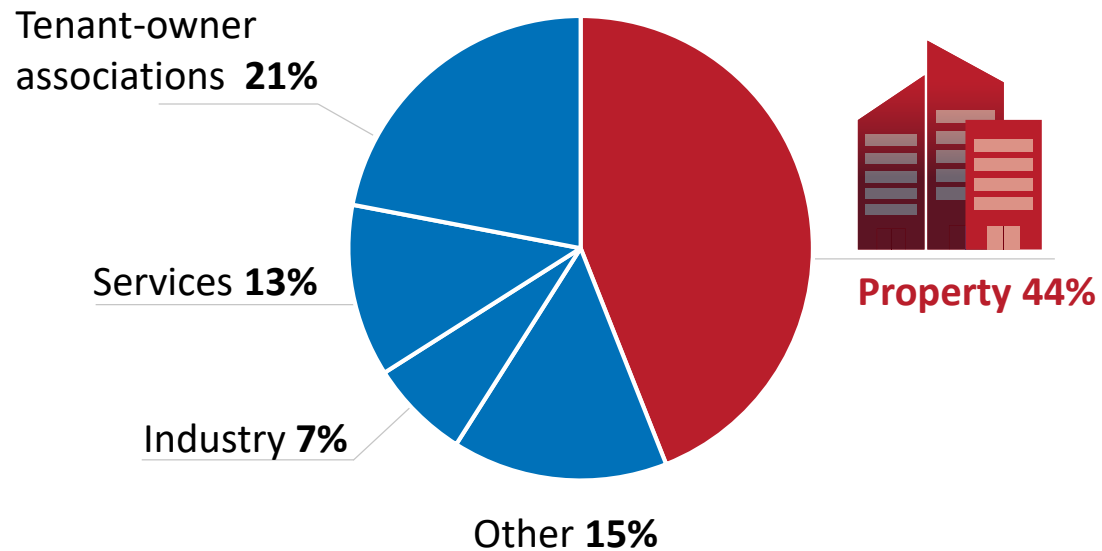
Source: Macrobond

# Rapidly changing conditions create risks

- Several challenges to financial stability
  - Uncertain how economic agents can manage the rapid rise in inflation and interest rates
  - Substantial fluctuations in energy prices
  - Cyber threat has increased
- Significant vulnerabilities have been built up in the Swedish financial system



# Problems in the property sector can affect financial stability



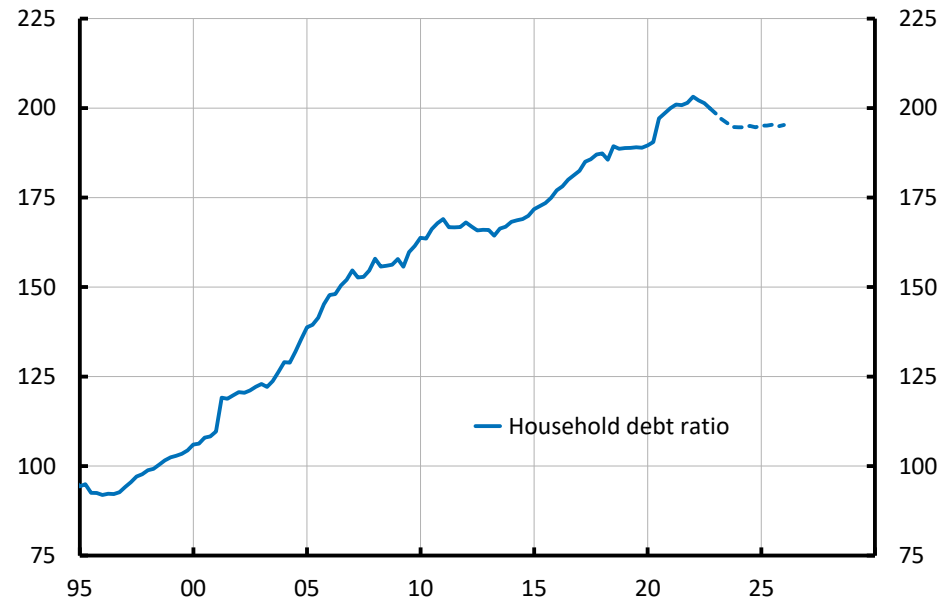
- The banks have large exposures to property companies
- The property sector has become increasingly linked to the whole financial system
- Falling property values a factor of uncertainty

Note. Refers to different sectors' shares of total lending from monetary financial institutions to non-financial companies in November 2022.

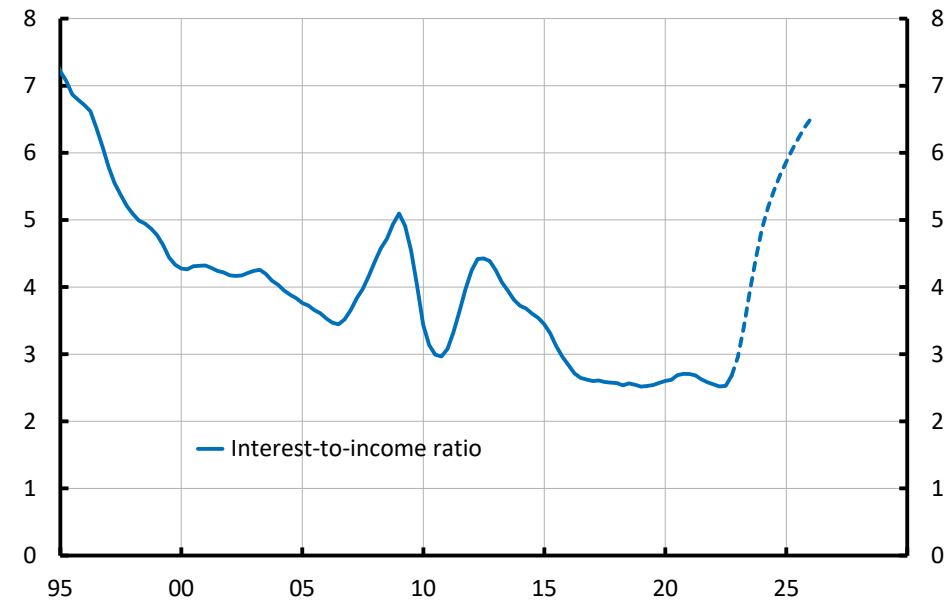
Source: The Riksbank (KRITA)

# Households under pressure from rising expenditure

Household debt is high...



... causing significant rise in interest expenditure

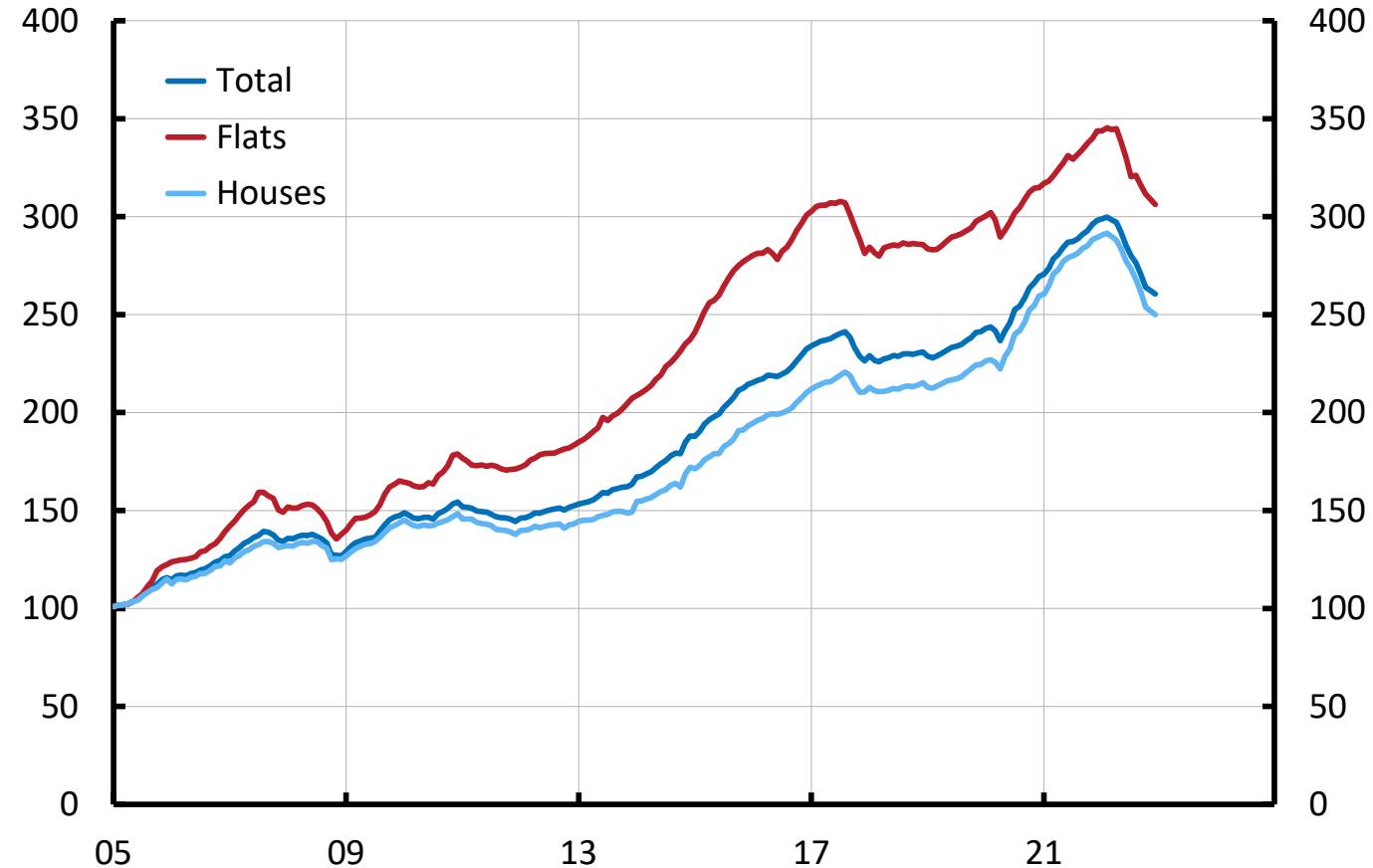


Note. Left: Debt-to-income ratio refers to total household debt as a share of annual disposable household income. Broken line represents the Riksbank's forecast. Right: Interest-to-income ratio refers to households' interest expenditure as a share of annual disposable household income. The calculations are based on everyone being able to use the 30 per cent interest deduction. Broken line represents the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

# Housing prices still higher than before the pandemic

Index, 2005 = 100



Note. Refers to seasonally adjusted prices.

Source: Valueguard

# Macroprudential measures need to be safeguarded

- Housing and tax policy measures are needed to manage the risks of household indebtedness
- Amortisation requirements and the LTV cap contribute to resilience
- It is important to address the lack of statistics on households' assets and liabilities



# Resilience needs to be strengthened in several areas

- Risks linked to financial agents other than banks
  - Corporate bond market
  - Electricity derivatives
  - UK pension funds
  - Money market funds
- Cyber risks have increased
- Rapidly changing conditions increase the risk of unforeseen events

