

PRESS RELEASE



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The risks to financial stability in Sweden are slightly greater than in the spring

The slowdown in the global economy has contributed to expectations of continued very low interest rates in the years ahead. In such an environment, market participants may choose to increase their risk-taking, which can cause assets to be overvalued and indebtedness to rise to unsustainable levels. In Sweden, high household indebtedness and vulnerabilities in the banking system are making the Swedish financial system sensitive to shocks. It is therefore important to increase the resilience of the financial system.

Economic slowdown and continued low interest rates

Economic activity both in Sweden and abroad has slowed and, after several years of strong activity, is heading towards a more normal economic situation. At the same time, many central banks have made monetary policy more expansionary over the year. Overall, this has contributed to expectations of very low interest rates in the coming years among market participants. In such an environment, participants may choose to increase their risk-taking in the search for yield, which can cause assets to be overvalued and indebtedness to rise to unsustainable levels.

The trade conflict between the United States and China, combined with the lack of clarity over Brexit, are contributing to making it uncertain how economic activity will develop in the period ahead. If economic development becomes significantly weaker than expected or if willingness to take risks suddenly decreases, vulnerabilities that have built up in the financial system could be exposed.

Household debt still the largest domestic risk

Household debt is historically high and has been growing sharply for many years. This is making the Swedish economy vulnerable, especially if housing prices were to fall substantially. Housing prices are currently rising at a moderate rate, but



future developments are uncertain. Experience shows that financial crises and housing price falls have previously led to deeper and more permanent consequences if they have been preceded by sharply rising debt.

The rise of household debt over a long period of time is due not only to interest rates having fallen but mainly to the housing market functioning poorly and to the tax system not being well designed from a financial stability perspective. Measures are thus needed within housing and taxation policy.

Vulnerabilities in the Swedish banking system require measures

There are also vulnerabilities in the Swedish banking system that are connected to its size, to the banks being closely interlinked with one another, and to the banks having limited capital levels and, in some respects, low resilience to liquidity risks.

The vulnerabilities in the banking system make it important that the banks have sufficient resilience. The banks need to increase their capital in relation to their total assets. In addition, the Riksbank's stress tests of the banks' liquidity show significant liquidity needs in the event of financial stress. It is therefore important that the banks continue to reduce their liquidity risks by extending the maturity period for their funding. At the same time, it is important that the banks maintain sufficient liquidity reserves, both in Swedish kronor and in foreign currencies.

Climate change and cyber threats create risk

Climate change and the transition to a less fossil-based economy may entail risks for the international financial system. It is therefore important to include such risks in the supervision of financial institutions and the oversight of financial stability. It is also important for both financial and non-financial corporations to improve their disclosure of the risks.

Cyber risks are one of the greatest threats to the international financial system and its participants. It is therefore important that public authorities, banks, financial market infrastructures and other financial market participants work to prevent cyber threats in their systems.

A 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 at the Riksbank.

Press cards or equivalent must be shown. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se, where it will also be available to view afterwards.