

# PRESS RELEASE



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## Challenges to financial stability

*Inflation is high and the central banks have therefore tightened monetary policy swiftly. One important reason for the strong rise in inflation is Russia's invasion of Ukraine, which has also caused major disturbances in the energy market in Europe. Growth prospects in Sweden and abroad have deteriorated and the risks to financial stability have increased. In the Swedish financial system, the greatest risk is the banks' exposure to the highly indebted commercial property companies, although the high level of indebtedness among households is also making the system vulnerable.*

### The risks in the financial system have increased

The world economy is currently impacted by inflation rising to levels that have not been seen for decades. One of the reasons is that, during the pandemic, global supply and demand imbalances arose, which led to a sharp rise in the prices of several important commodities and inputs. Moreover, Russia's invasion of Ukraine has pushed up prices even further for food, for instance, and has created serious disruptions to the energy market in Europe. Electricity prices are now very volatile and periodically at very high levels.

The fact that inflation is high and interest rates are continuing to rise, while growth prospects are deteriorating, poses challenges for the stability of the global financial system. After many years of low inflation and very low interest rates, increasing asset prices and rising indebtedness, it is uncertain how economic agents can cope with a rapid rise in inflation and interest rates.

Over time, large vulnerabilities have been building up in the financial system in Sweden. This primarily concerns the banks' exposure to the highly indebted commercial property companies, but also the high level of indebtedness among households. The strains on many market participants in the financial system are now clear.



The economic policy framework introduced after the crisis of the 1990s and the strengthening of the financial regulations that took place following the global financial crisis of 2008-2009 have helped to ensure that the Swedish economy, in many respects, is well-placed to cope with crises. The current economic and geopolitical situation means that both Swedish and foreign authorities with financial stability responsibilities must monitor developments closely and be ready to take action if the situation requires it. The Riksbank has, for example, the possibility to provide liquidity if necessary. However, it is important that market participants realise that they cannot always count on support measures, since it is not the Riksbank's role to facilitate for individual participants who have taken excessive risks.

## **The situation underlines the importance of good resilience**

The economic development entails an increased risk for major credit losses among major Swedish banks. To be able to cope with potential losses and remain well-placed to provide credit to the economy even in times of stress, it is important that the resilience of the banking sector is high. Since the risks have now increased, the Riksbank considers that the banks should be restrictive with regard to large dividend payments and share buybacks.

Broad reforms in housing and tax policy are required to improve the functioning of the housing market and to manage the risks of household indebtedness. The absence of reforms has contributed to the need to adopt macroprudential policy measures. The measures taken by Finansinspektionen, such as the amortisation requirements and the loan-to-value limit, have contributed to households amortising more and taking out smaller loans. The Riksbank considers that these measures should be retained and that it would be inappropriate to introduce a general exemption to the amortisation requirements at the present time.

Cyber threats have increased with the deterioration of the security situation in 2022. It is therefore important rapidly to strengthen the ability to prevent, detect and manage cyber risks. The Riksbank notes that work is progressing, but the ambition and pace need to be increased.

A press conference with Governor Stefan Ingves and Olof Sandstedt, Head of the Financial Stability Department, will be held today at 11:00 am at the Riksbank, but pre-registered journalists can also participate and ask questions via Zoom. Press cards or the equivalent must be shown to attend. The press conference will be broadcast live on riksbank.se. Journalists who wish to participate and ask questions via Zoom must pre-register with the press office, either by telephone 08-787 0200 or by e-mail to [susanne.meyer@riksbank.se](mailto:susanne.meyer@riksbank.se), no later than 10.00 am on 9 November.