

# PRESS RELEASE



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## The threats to financial stability have increased

*Inflation has risen rapidly in many countries, which is partly due to the aftermath of the pandemic in the form of disruptions in global supply chains and rising energy and commodity prices. Russia's invasion of Ukraine and lockdowns in China have contributed to a further rise in inflation. In response to this, central banks around the world have begun to conduct a less expansionary monetary policy, and interest rates have risen. It is uncertain how economic agents will manage higher interest rates. In Sweden, existing vulnerabilities have grown as a result of an increase in the debts of property companies and households. All in all, the threats to financial stability have increased.*

### Existing vulnerabilities in Sweden have continued to increase

The last few years have shown that the economic situation can change rapidly and unexpectedly, with major consequences. The Swedish economy is in some respects in a good position to cope with stress, partly because public debt is low and the export sector is relatively strong. However, already existing vulnerabilities in the Swedish economy have continued to increase.

The Swedish banks' large and increasing lending to commercial property companies poses a significant risk. Moreover, if credit conditions are tightened and economic activity is weakened, the risk of large price falls on their properties increases, which can have major consequences for both property companies and lenders.

Households' debts and housing prices have been increasing faster than disposable incomes for a long time. We are now in a situation where the economic conditions for many households are changing, in the form of higher interest expenditure and living costs, and many households may need to make major adjustments



to their private finances. If the costs are higher than expected, and housing prices are also falling sharply, this could lead to a significant reduction in household consumption, which could reduce companies' profitability and increase the banks' loan losses, thereby creating problems for financial stability.

## **Resilience needs to be strengthened**

To improve the functioning of the housing market and manage risks, broad reforms in housing and tax policy are required, but if these are not implemented to the extent necessary, the need for macroprudential policy measures will increase. The Riksbank supports Finansinspektionen's ambition to continue to increase the counter-cyclical buffer value in the near term to strengthen the resilience of the banking sector. It is also important to strengthen the resilience of the financial system in general, for example by addressing the shortcomings in the Swedish market for corporate bonds and by increasing the use of fully transaction-based reference rates.

Cyber threats abroad and in Sweden are one of the biggest threats to financial stability, and they have increased as a result of Russia's invasion of Ukraine. It is important to continue strengthening the ability to prevent, detect and manage cyber threats against Sweden. This presupposes that Sweden increases coordination both between authorities and between authorities and the private sector.

The need to rapidly reduce the use of fossil fuels has become even clearer during the spring. On one hand, it has been shown that global warming is occurring more rapidly than previously estimated and, on the other, the Russian invasion of Ukraine has highlighted the risks of dependence on fossil fuels from Russia. It has therefore become even more important for the financial sector to contribute to the climate transition, for financial actors to incorporate climate-related risks in their risk analyses and for banks to report their exposures to climate risks.

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 24 May.