

PRESS RELEASE



DATE: 01 June 2023
No: 8
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The risks in the financial system have increased

The high inflation and higher interest rates are challenging the stability of the global financial system. Recently, various crisis-related events have arisen abroad, requiring authorities to take measures to avoid a possible financial crisis. The Swedish financial system has worked well even during times of unease, but there are several vulnerabilities that are now posing challenges. This is particularly true of the highly indebted property companies, and the banks' large exposures to the sector.

Challenges to the stability of the financial system

The rise in global inflation since 2021 has been the strongest and fastest in decades. Monetary policy has therefore been tightened rapidly. At the same time, the prices of various real and financial assets have fallen, interest-rate spreads between riskier assets and government bonds have increased and volatility has risen on several markets. Financial conditions have become significantly tighter.

Furthermore, several incidents have taken place over the past year, which have led to turbulence on the financial markets, not least this spring when major problems arose for banks in the United States and Switzerland, where the authorities needed to implement measures to avoid a potential financial crisis. This illustrates how vulnerabilities can be exposed when economic conditions change rapidly and unexpectedly, and how difficult it is to predict where problems will arise. The risks in the global financial system have increased.

Financial stability authorities must be vigilant of developments and be ready to take action under their respective mandates, should the situation require it. For example, the Riksbank can provide emergency liquidity assistance if necessary. However, it is important for market participants to realise that they cannot always count on support measures.



Property companies are under pressure from higher interest rates

The Riksbank has long noted the risks associated with the property sector in Sweden. Property companies are now under pressure from the higher interest rates, partly because their funding costs are increasing and partly because the value of their properties is falling. Several companies have large borrowing needs. The Riksbank considers it important that companies continue to strengthen their balance sheets. The banks also have an important role to play, both by maintaining the supply of credit to viable companies and within the framework of their lending, by requiring property companies to take measures to reduce their financial risks.

Household indebtedness and their short interest-rate fixation periods may entail risks for the stability of the macroeconomy, and in an unfavourable scenario, for financial stability. The Riksbank considers that structural reforms are needed to improve the functioning of the housing market and contribute to long-term sustainable debt development. Moreover, it is important to retain the amortisation requirement and mortgage cap.

Banking turmoil highlights how quickly liquidity problems can arise

The Riksbank considers that the bank turbulence in March provides reason to review the global regulatory standards for banks. Some lessons learned are that new technology and social media, as well as the design of the deposit insurance scheme, may have affected the extent and speed of the bank runs in the foreign banks.

The risk of significant withdrawals is assessed to be lower for the Swedish banks. Nevertheless, Swedish banks, like banks in general, are exposed to liquidity risks. This means that the Swedish banking system as a whole is dependent on confidence. In light of this, and given the banks' important role in the supply of credit, it is particularly important that Swedish banks safeguard their good starting position. The Riksbank considers that the major banks should endeavour to have margins in addition to the capital and liquidity requirements, for example by showing restraint with large dividends and share buybacks. This would also safeguard confidence among their financiers.

The banks need to take responsibility for Bankgirot as a matter of urgency

Bankgirot is a central part of the Swedish payment system. For some years now, the banks have given low priority to Bankgirot's operations, because they were intending to replace Bankgirot with P27. As P27 has now withdrawn its application for a clearing license, it is of the utmost importance that the banks take their responsibility for Bankgirot and ensure that the payment infrastructure functions well. The Riksbank has increased its oversight and is carefully monitoring how the banks manage Bankgirot.



A press conference with Governor Erik Thedéen 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 are required to participate. The press conference will be broadcast live at 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, no later than 10.00 am on 1 June.