

Higher interest rates challenging highly indebted companies and households

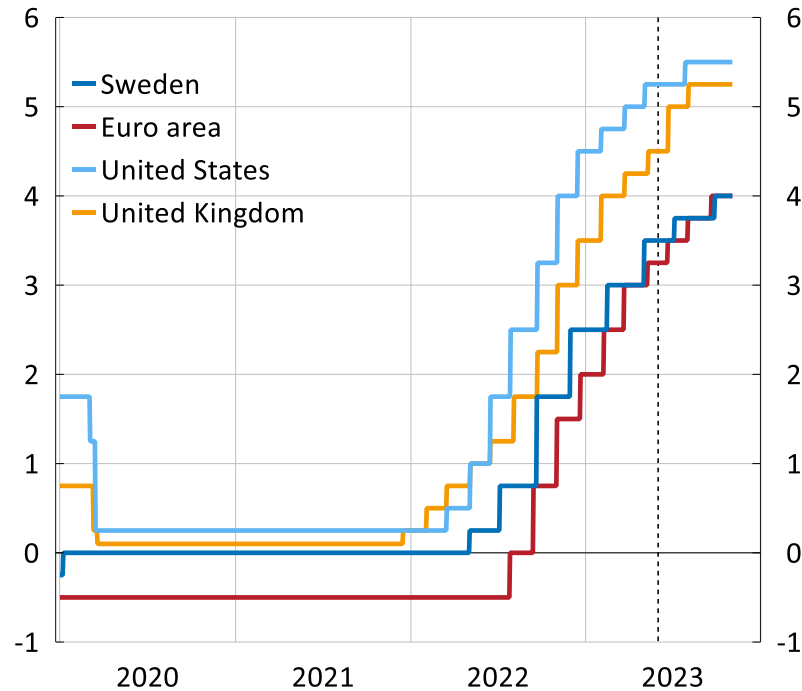
Financial stability November 2023

The Swedish financial system is working well but risks are elevated

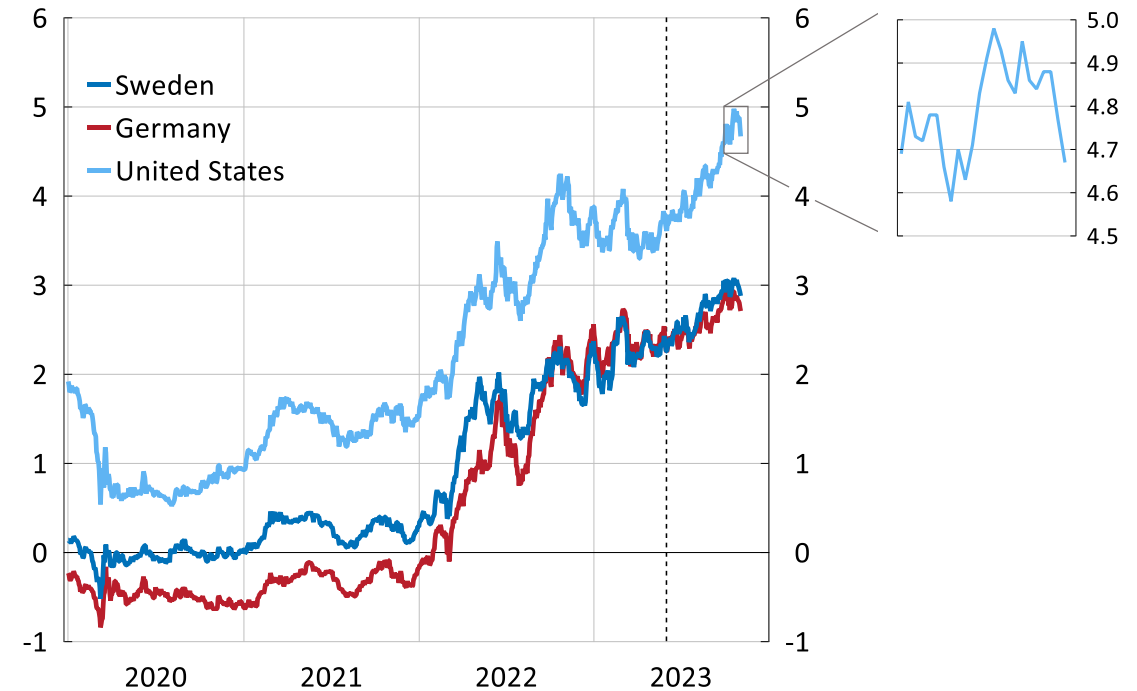
- Continued high inflation and higher interest rates
- Geopolitical tension
- Higher interest rates squeezing property companies hard - but there are differences
- High indebtedness and short interest-rate fixation periods making households sensitive

Long market rates have risen globally

Policy rates



10-year government bond yields

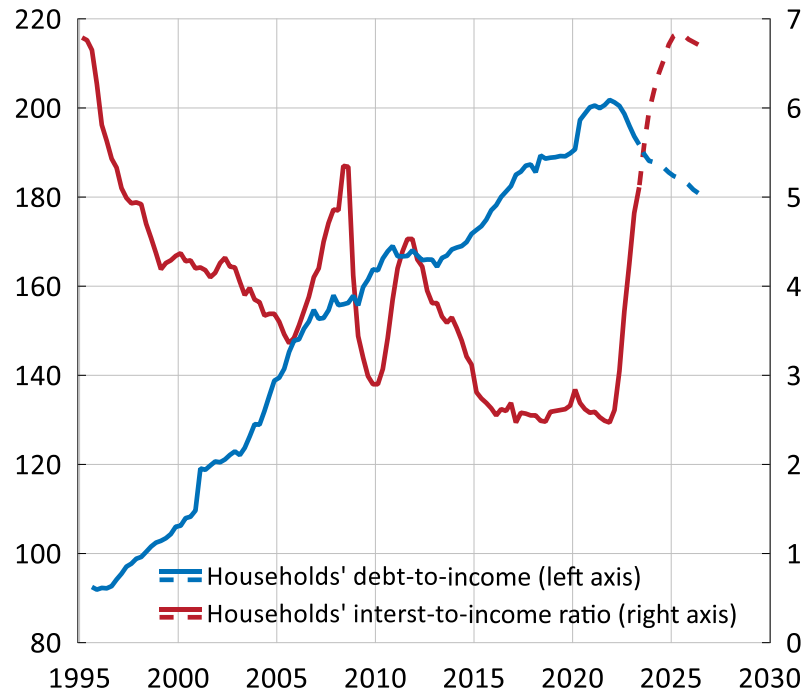


Note. Per cent. The chart on the left refers to the ECB's deposit rate for the euro area. The chart on the right refers to benchmark interest rates. The dashed line marks the date of publication of the last report.

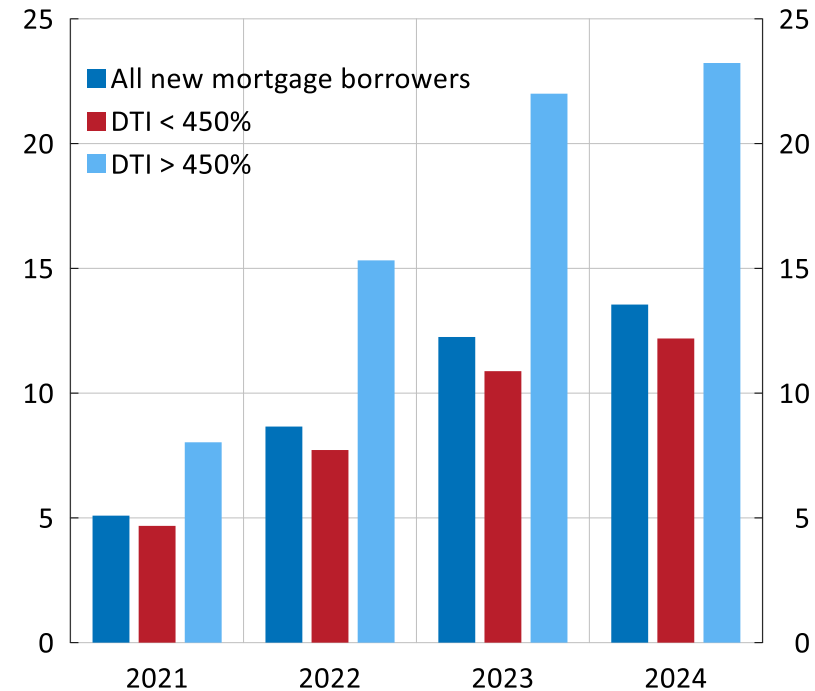
Sources: Bank of England, ECB, Federal Reserve, Macrobond and the Riksbank.

High indebtedness and short interest-rate fixation periods making households sensitive to interest rates

High indebtedness leads to rapidly rising interest expenses



For some groups, the interest-to-income ratio is rising sharply

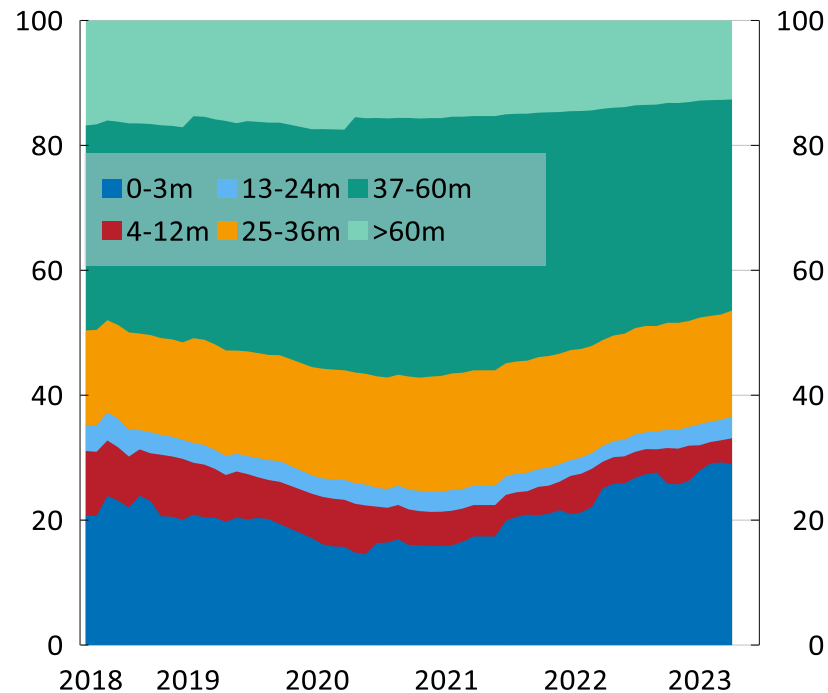


Note. Both the interest-to-income ratio and the debt-to-income ratio refer to per cent of disposable income. The calculations of the interest-to-income ratio are based on all households being able to use the 30 per cent tax relief on interest payments.

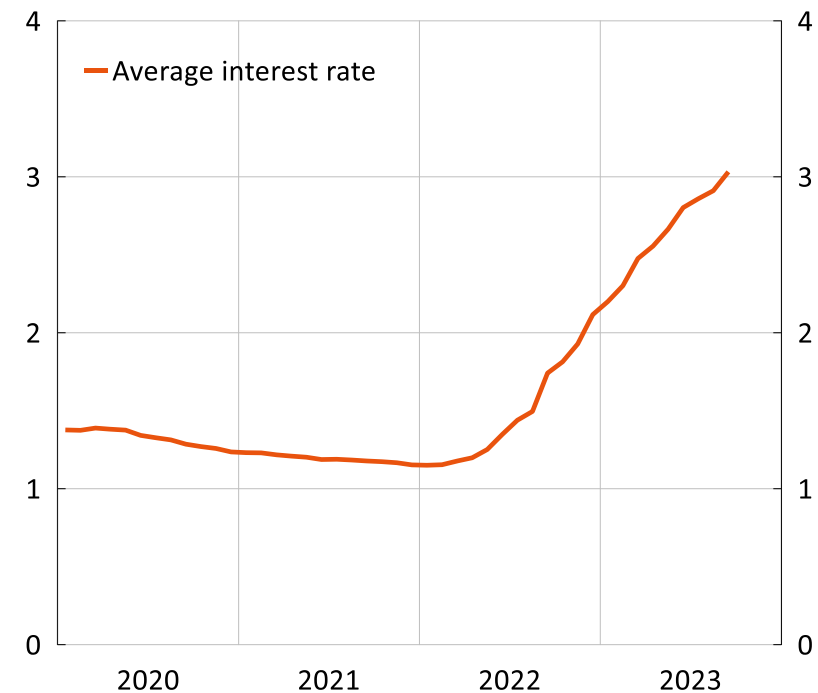
Sources: Finansinspektionen, Statistics Sweden and the Riksbank

Tenant-owner housing associations also hit by the higher interest rates

Interest-rate fixation periods among tenant-owner housing associations



Interest rates on tenant-owner housing association loans are increasing

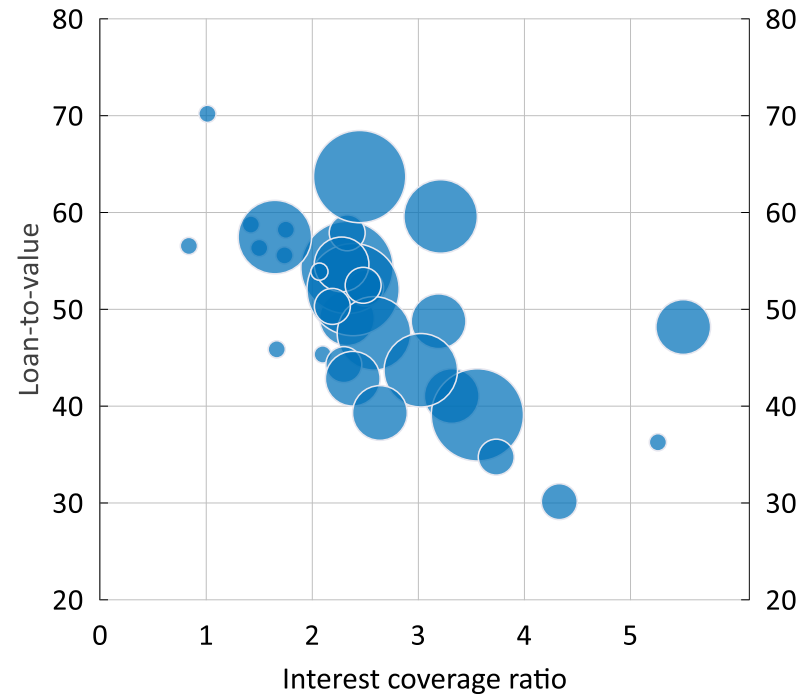


Note. The chart on the left refers to the share of contractual loan volume, where "m" stands for month. The figures in the chart have been corrected for reporting discrepancies in 2020-2021 using linear interpolation. In the chart on the right, the average interest rate is volume-weighted based on the size of the loans.

Source: The Riksbank (KRITA).

Property companies squeezed by higher interest rates, but there are differences

Significant differences between companies

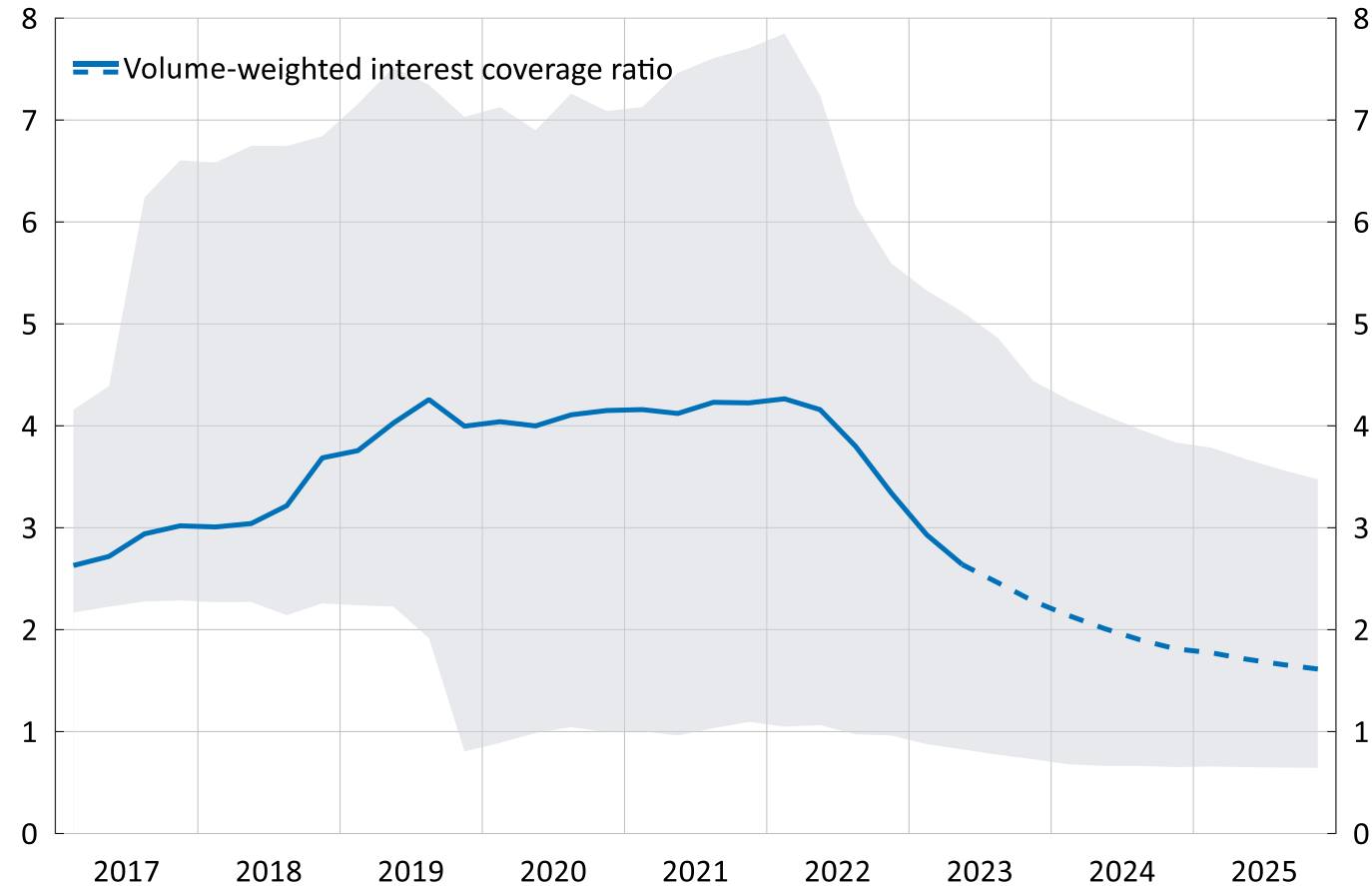


- Higher interest rates increase the funding costs of property companies and decrease the value of property
- Differences between companies' capital structure, earning capacity and ownership structure
 - For some companies, the situation is difficult
 - Other companies are better placed

Note. The leverage ratio is the ratio between total interest-bearing liabilities and total assets and the interest coverage ratio is the ratio of operating income to interest expenditure. The chart shows a sample of major listed property companies as of the second quarter of 2023. The size of the bubbles refers to the size of the companies' total interest-bearing liabilities.

Sources: Sedis and the Riksbank

Interest coverage ratio gradually weakening - important for property companies to reduce their risks

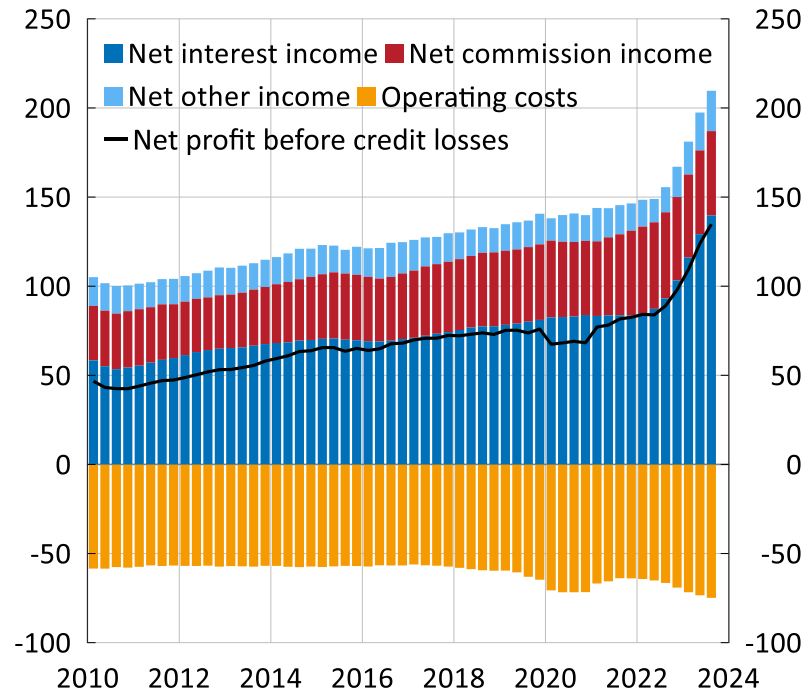


Note. Ratio. The dashed blue line refers to how the interest coverage ratio may develop according to the Riksbank's calculations. Refers to a sample of listed property companies. The grey area shows the interval between the lowest value and the 95th percentile.

Sources: Sedis and the Riksbank.

Banks' high profitability being driven by interest rates on their assets increasing faster than interest rates on their liabilities

Banks' results, income and expenditure



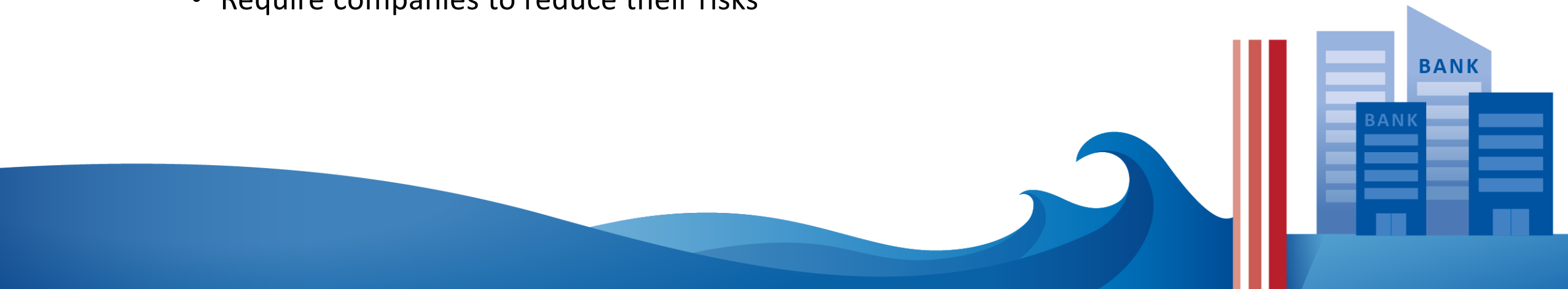
- Short interest-rate fixation periods among households and companies contributing to higher lending rates being passed on rapidly
- Banks have been slower to raise interest rates on customer deposits
- Increased competition may contribute to higher deposit rates going forward

Note. SEK billion. Data refer to Handelsbanken, SEB and Swedbank. Quarterly data in which the final observation refers to Q3 2023. Refers to rolling four quarters.

Sources: The banks' quarterly reports and Finansinspektionen

The major banks are well placed to cope with a weaker economic situation

- Projections indicate that banks can cope with significant problems in the property sector
- Given the risk picture, banks should ensure that there are good margins down to the capital requirements.
 - Achieved through restraint on dividends and share buy-backs.
- Maintaining credit supply to viable property companies
- Require companies to reduce their risks



Macroprudential measures must be safeguarded

- Housing policy measures are needed to address the risks of household indebtedness in the longer term
- Amortisation requirements, mortgage caps and strict discretionary income calculations boost resistance
 - Positive with a safety-valve for amortisation requirements
- It is important to address the lack of statistics on households' assets and liabilities

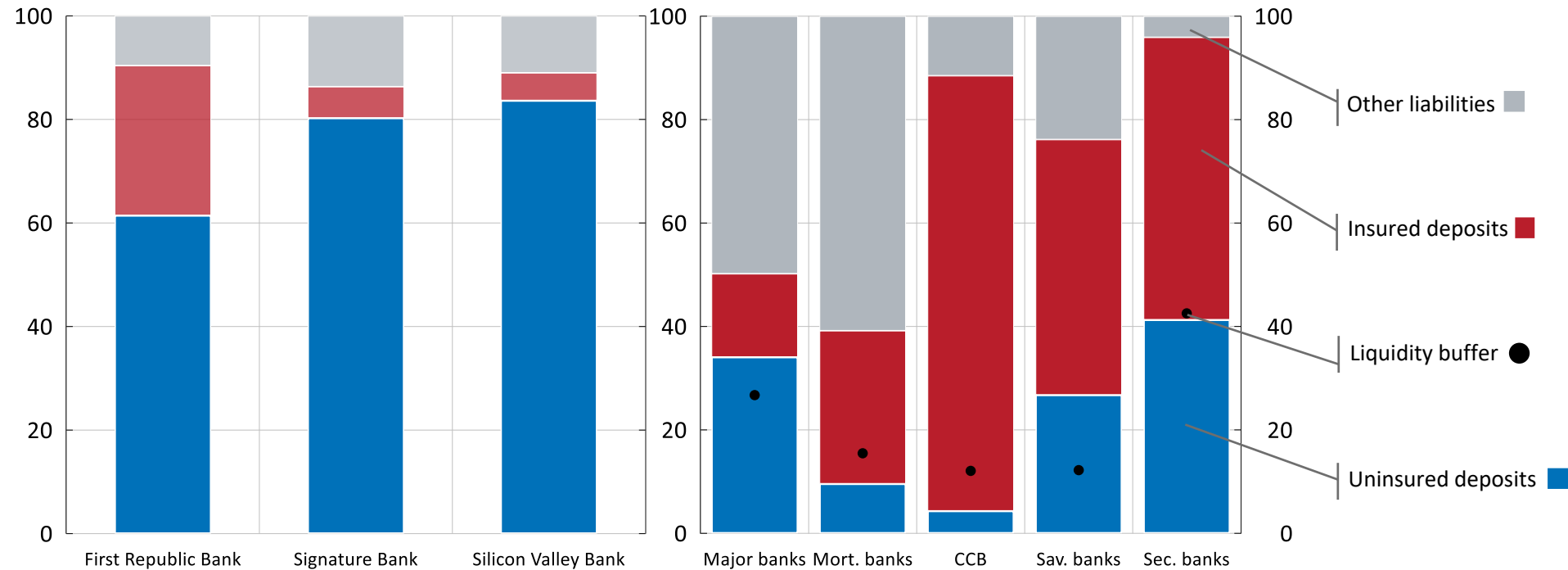
Risks with deposits in focus

- New technology and social media contributed to historically fast and large bank runs in the US
- Global regulations need to be evaluated in light of the banking problems this spring
- The Riksbank has conducted an in-depth analysis of deposits in Swedish banks



Large differences in the significance and composition of deposits

Liabilities broken down by deposits and other liabilities

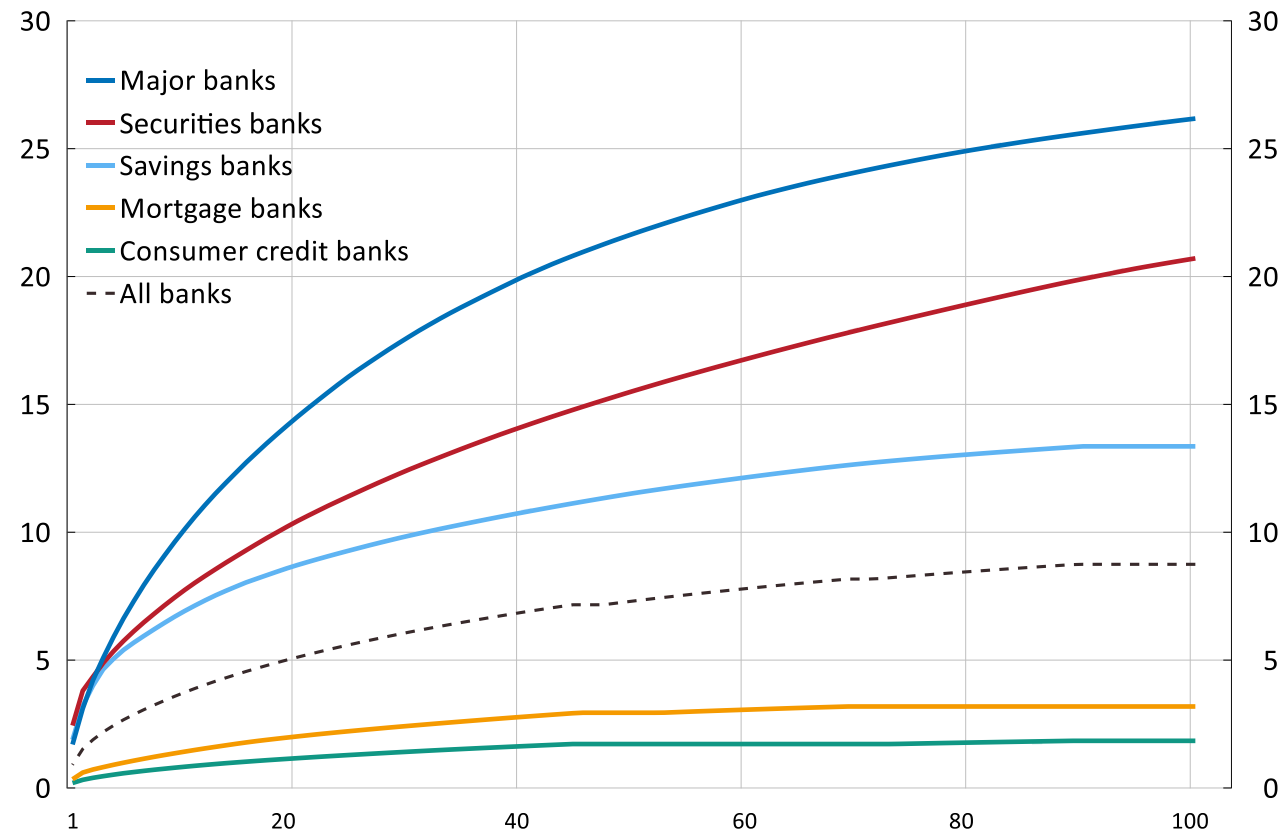


Note. Percentage of total liabilities. Mort. Banks: Mortgage banks, CCB: Consumer credit bank, St. bank: Security trading bank.

Sources: Data reported by banks to the Riksbank, the Federal Deposit Insurance Corporation and the Federal Reserve.

Higher concentration from individual depositors at some banks

The 100 largest depositors' share of bank deposits



Note. Per cent. Cumulative share of total deposits, average by bank type. On the horizontal axis, depositors are ranked from 1 to 100, with the largest depositor being ranked 1. Far left: the average share of the largest depositor for a given type of bank. Far right: the average share of the 100 largest depositors for a given type of bank.

Sources: Banks' data reported to the Riksbank

Some banks had increased outflows in connection with the outbreak of the coronavirus pandemic

- The Riksbank has also analysed deposits in connection with the outbreak of the coronavirus pandemic, Russia's invasion of Ukraine and the banking turmoil this spring.
- Substantial differences between the banks
 - The major banks did not have clearly abnormal outflows at any of these events.
 - Some of the other banks saw increased outflows, especially during the coronavirus pandemic.
- Indicates that deposits may be more flighty in some smaller banks
- However, it is not possible to know how depositors would react in a future crisis.

Important to continue monitoring the risks

- Swedish banks' uninsured deposits are significantly lower than those of US banks.
- Banks with a higher share of uninsured deposits have larger buffers
- Higher concentration from individual depositors at some banks
- Deposits may be more flighty at some smaller banks
- New technologies and social media may contribute to increased flightiness, important to monitor risks going forward



The Swedish financial system is working well but risks are elevated

- Geopolitical tension may contribute to higher risk premiums
- Higher interest rates hitting property companies hard - but there are differences
- High indebtedness and short interest-rate fixation periods making households sensitive
- The banks should ensure that there are good margins down to the capital requirements
- New technology may make deposits more volatile, important to monitor risks going forward

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