

# Economic policy needs to deal with the risks of rising indebtedness

Riksdag Committee on Finance  
1 February 2022

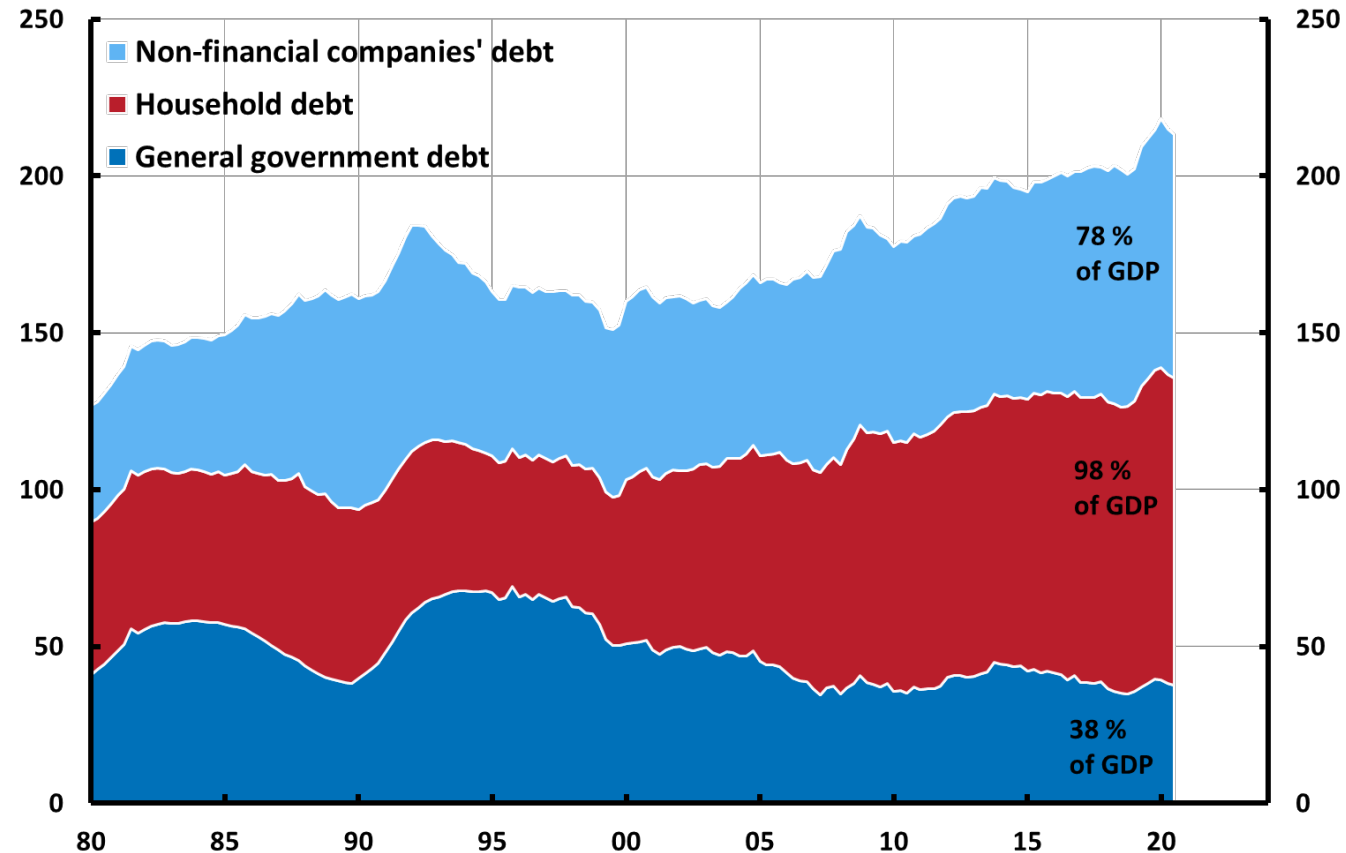
S V E R I G E S R I K S B A N K

Stefan Ingves

Governor of the Riksbank

# The growth in debts is driven by households and companies

Per cent of GDP

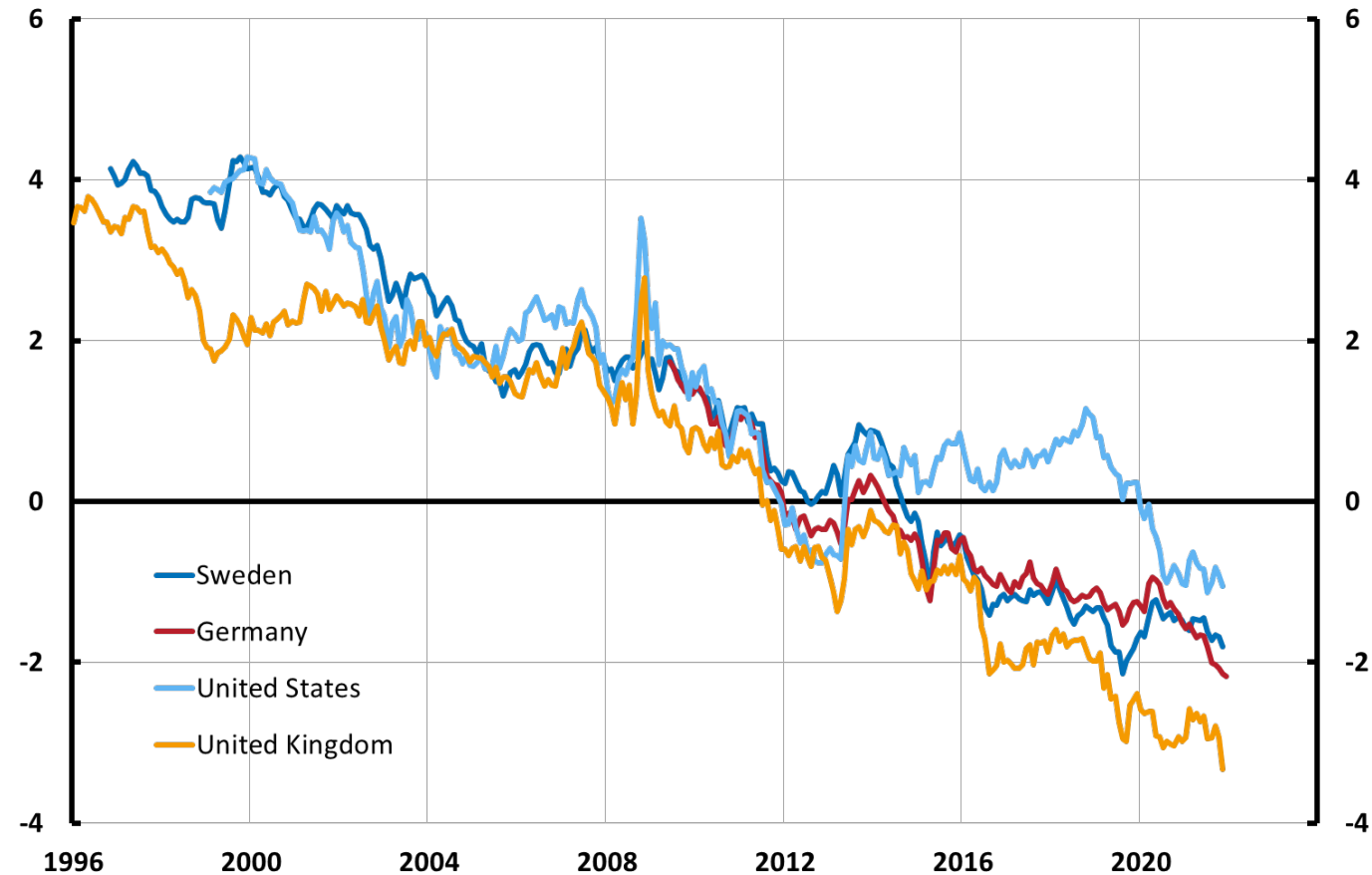


Note. Dark blue field indicates the general government's consolidated gross debt as of 1996. For 1980-1995 general government debt has been approximated on the basis of the debt instruments included in the gross debt according to older definitions. Corporate sector debt includes loans from MFIs and borrowing via securities and has been approximated between 1980-1994 on the basis of older classifications.

Sources: Statistics Sweden and the Riksbank

# The global low-interest rate environment is an important cause...

Per cent



Note. Interest rate on 10-year inflation-adjusted government bond. The interest rate consists of a fixed part and a variable part that provides compensation for inflation. Compensation is determined according to the CPI in the United States and Sweden, the HICP excluding tobacco in Germany and the RPI in the United Kingdom.

Sources: National central banks and the Riksbank

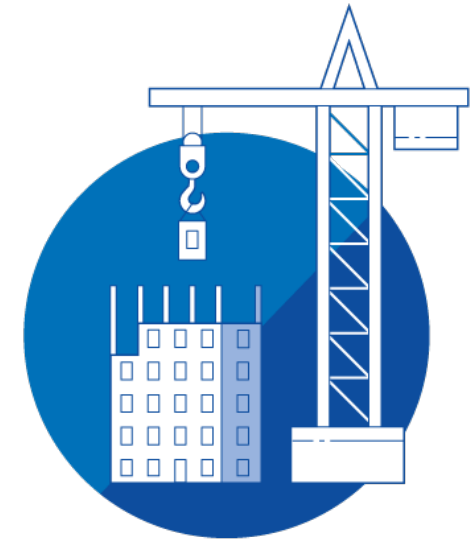
# ...but structural problems in the housing market also contribute



Tax system that incentivizes households to take on debt



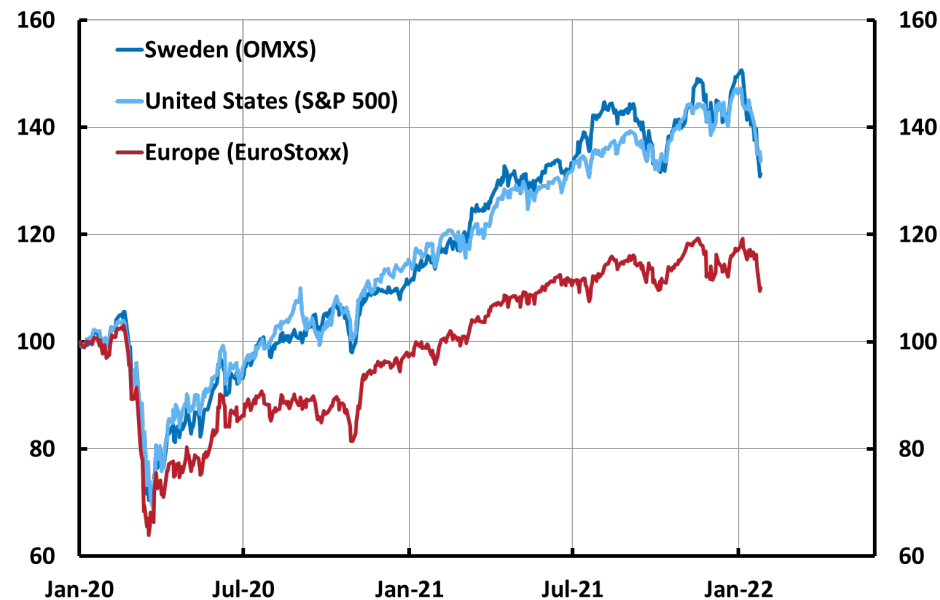
Inefficient use of the housing stock



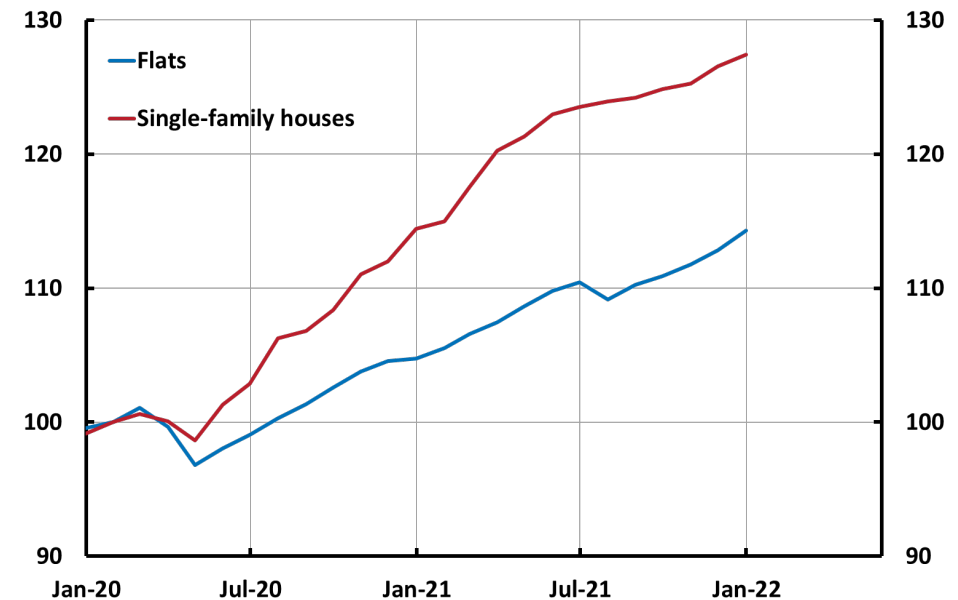
Several factors have limited residential construction

# The trend of rising asset prices has intensified during the pandemic...

Equity prices have risen sharply...



... and the same applies to housing prices

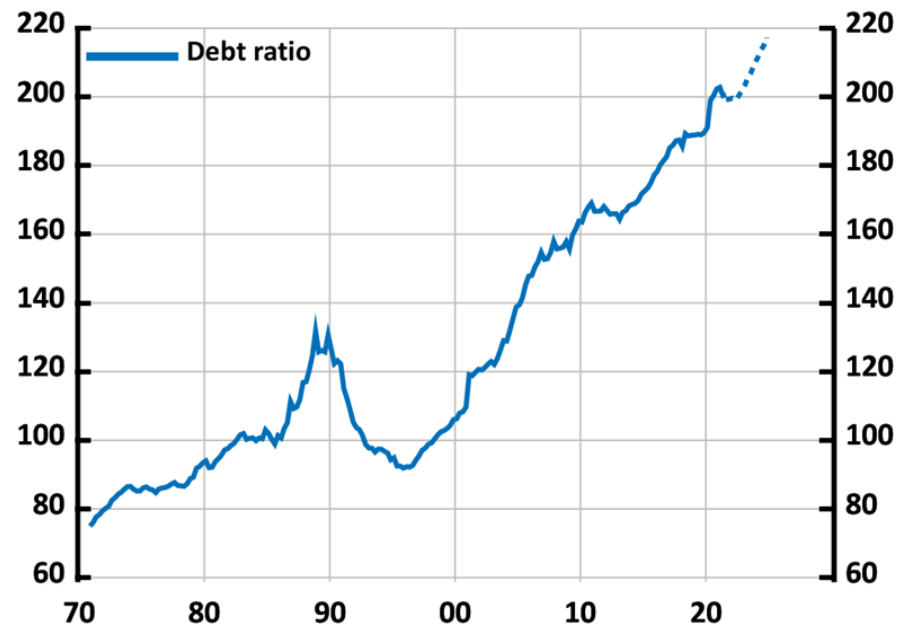


Note. Left: Index, 2 January 2020 = 100 Right: Index, January 2020 = 100. Seasonally adjusted prices.

Sources: Macrobond, Valueguard and the Riksbank

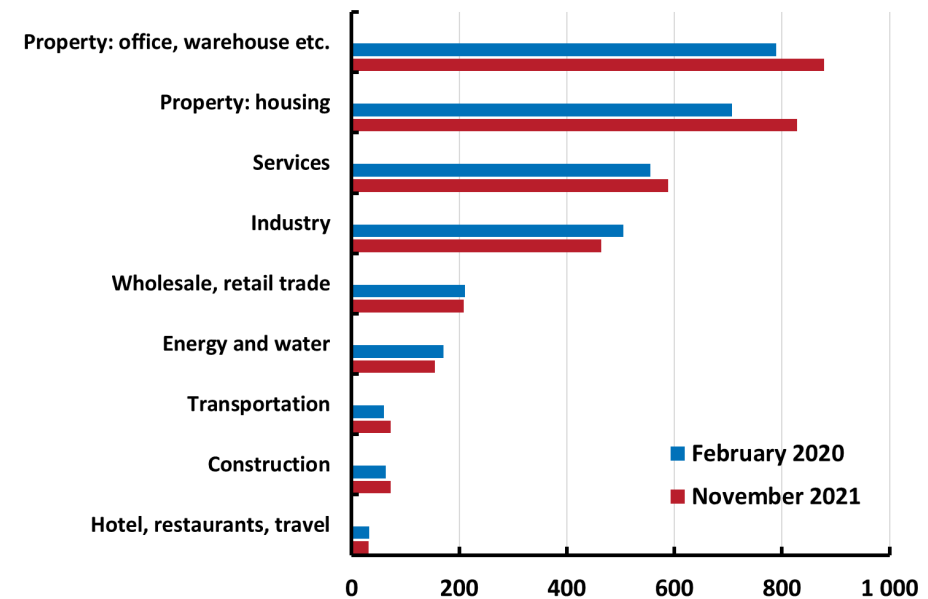
# ...which leads to an increase in vulnerabilities

Rising house prices contribute to rising debt



Note. Left: Total household debt as a share of disposable income totalled over the past four quarters (debt-to-income ratio). The dashed line represents the Riksbank's forecast. Right: SEK billion.

Borrowing in the commercial property sector has increased substantially during the pandemic



Sources: Statistics Sweden and the Riksbank



# New trends increase vulnerabilities in the commercial property market



Switching from brick-and-mortar retail to e-commerce



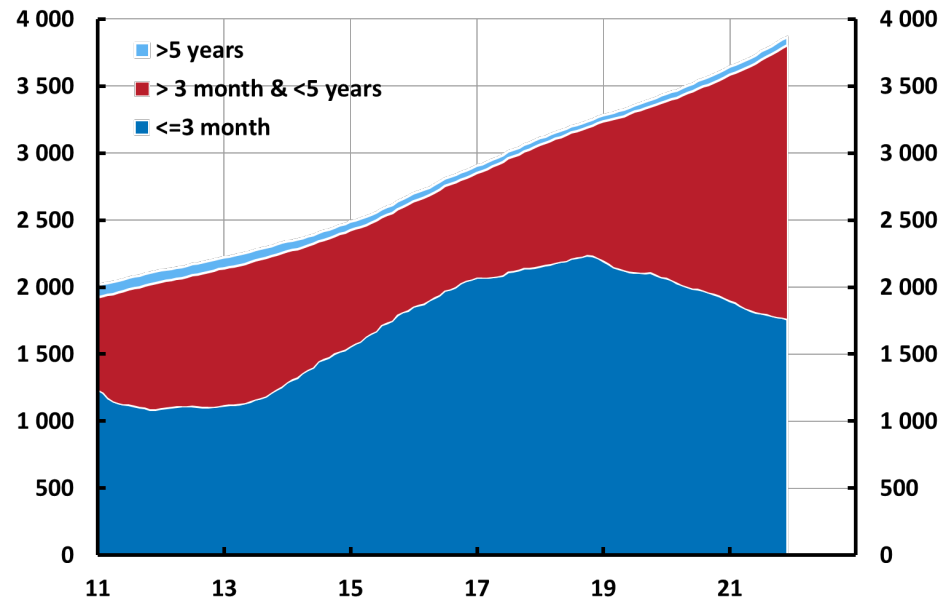
Reduced demand for office space?



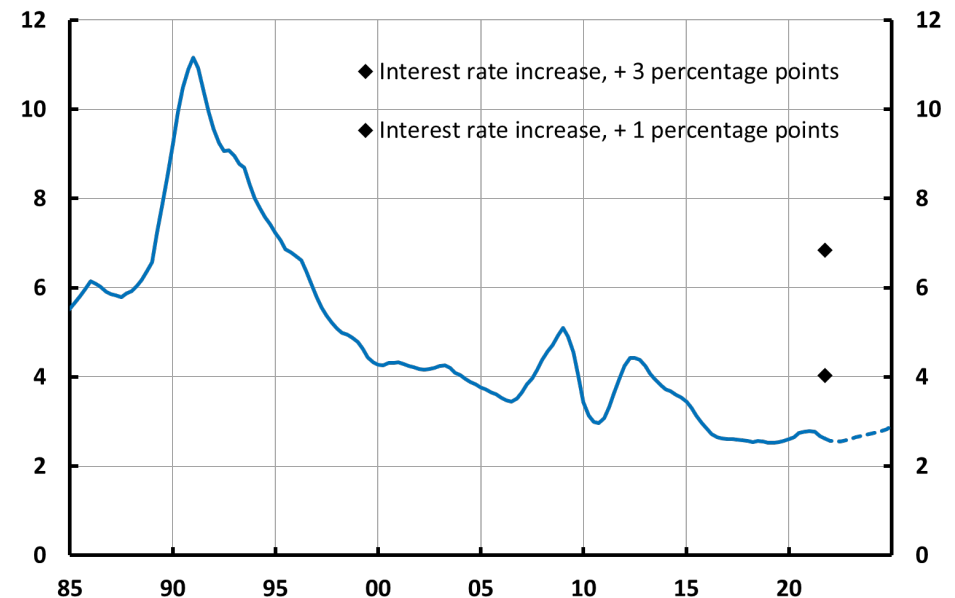
Increased cross-holding and concentration

# If interest rates rise, this would quickly lead to rising interest expenditure

Mortgage stock divided into rate fixation periods



Household interest expenditure as a percentage of disposable income



Note. Left: SEK billion. Right: The dashed line represents the Riksbank's forecast. Interest expenses have been adjusted for tax relief. The rhombuses illustrate the level of the interest-to-income ratio that has been calculated on the basis of the current debt-to-income ratio in a scenario in which the interest rate has risen by 1 and 3 percentage points respectively from the current level. The lowest rhombus represents an interest rate increase of 1 percentage point.

Source: Statistics Sweden



# Economic policy needs to focus more on counteracting the risks related to the increasing indebtedness

- Powerful measures have been necessary
  - A combination of measures was needed to keep interest rates low and support the economy and inflation
  - ...but the need for pandemic-related measures has decreased
- Growing imbalances need to be addressed
  - Reforms in housing and tax policy are needed
  - The Riksbank supports FI's decision to increase the countercyclical capital buffer
  - It is important that the banks have capacity to manage the risks of lending to property companies



# Vulnerabilities in the corporate bond market need to be addressed

- Commercial property companies have increasingly chosen to finance themselves by issuing corporate bonds...
- ...but the market for corporate bonds is vulnerable and it is urgent that this is addressed
- The Riksbank supports a Swedish benchmarking standard for corporate bonds and is now calling on the market to start issuing bonds in accordance with it

