



Financial Stability Report

100

June 2016

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

The financial system is more vulnerable and exposed to risks

- Global risks
- Risks in low-interest rate environment
 - High valuations
 - High indebtedness
- Banks and households more vulnerable

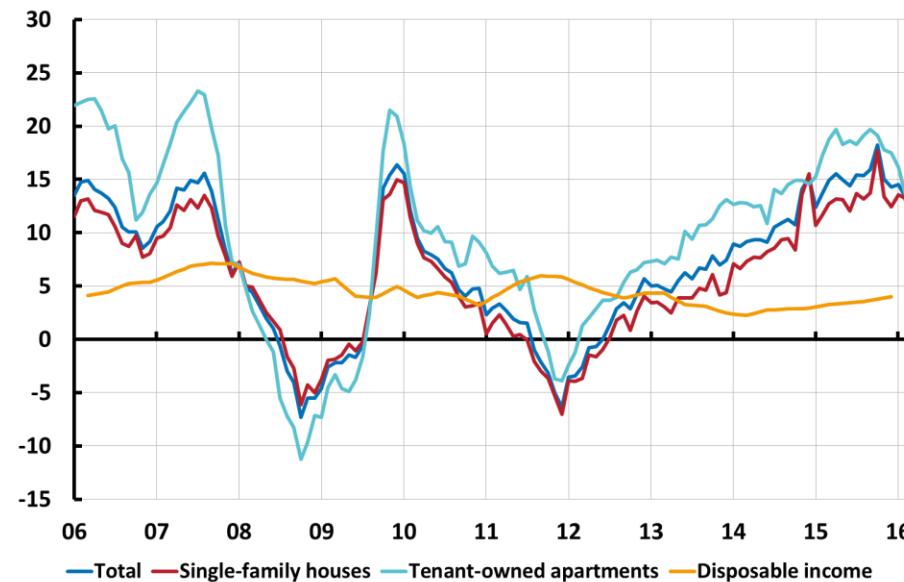


Risks linked to global developments

- Weak global growth
- Low interest-rate environment
- Financial turbulence
- Political unease

Risks of high valuations and high indebtedness in Sweden

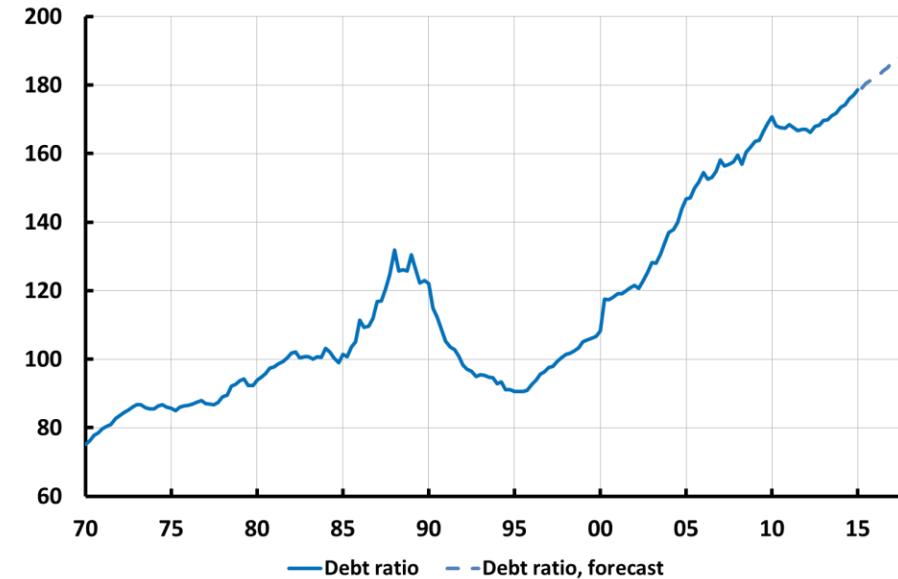
Housing prices in Sweden



Annual percentage change.

Sources: Statistics Sweden, Valueguard and the Riksbank.

Household debt-to-income ratio in Sweden



Percentage of disposable income. The broken line represents the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

Measures are needed for a better-functioning housing market

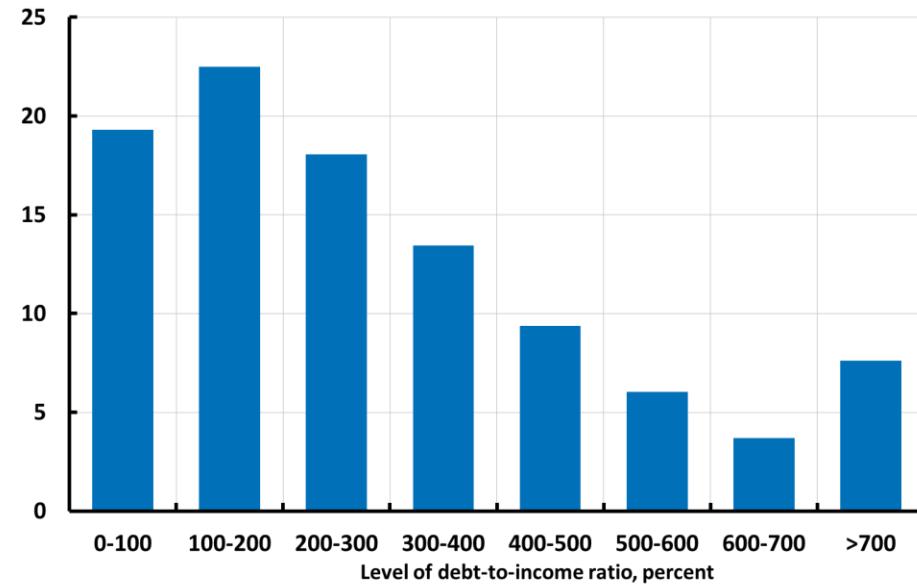
- Review of property taxation
- Continued reform of the rent-setting system
- Review of municipal regulations for construction
- Increased competition within the construction and civil engineering sector



A combination of measures is required – good with a debt-to-income limit

- Debt-to-income limit
- Loan-to-value limit
- Tax relief on interest expenditure
- Risk weights

Breakdown of households debts



Percentage of households. Breakdown of debts among Swedish households with mortgages in 2015.

Source: The Riksbank.

Finansinspektionen's mandate and tools for macroprudential policy must be clarified

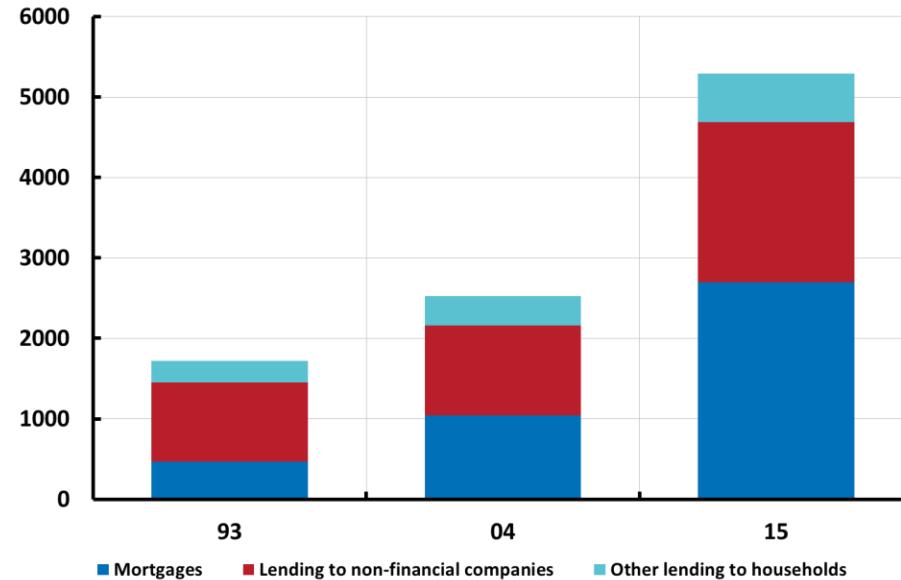
- Be given legal powers and tools
- For both financial and macroeconomic stability
- Take independent decisions



Swedish banking system vulnerable to shocks

- High mortgage lending
- Large share of market funding

Breakdown of Swedish banks' lending in Sweden



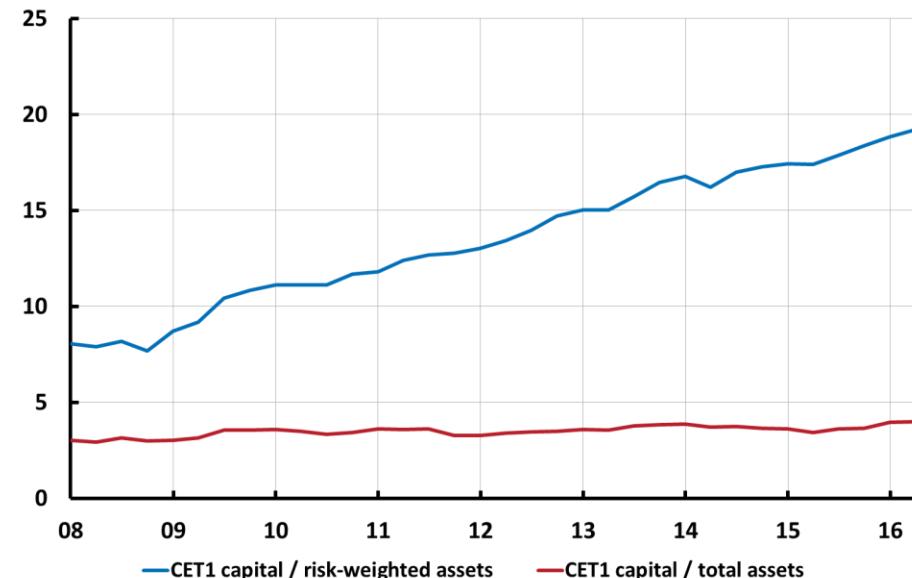
SEK billion. Including monetary financial institutions' (MFI) lending. This excludes the major banks' foreign subsidiaries. For 1993, mortgages refer to Swedish mortgage institutions' lending.

Sources: Statistics Sweden and the Riksbank.

Banks need sufficient capital

- More capital needed to increase banks' ability to manage losses
- Leverage ratio requirement important complement to risk-weighted capital requirements
- Requirement for 5 per cent from 2018

Risk-weighted capital adequacy has increased more than resilience



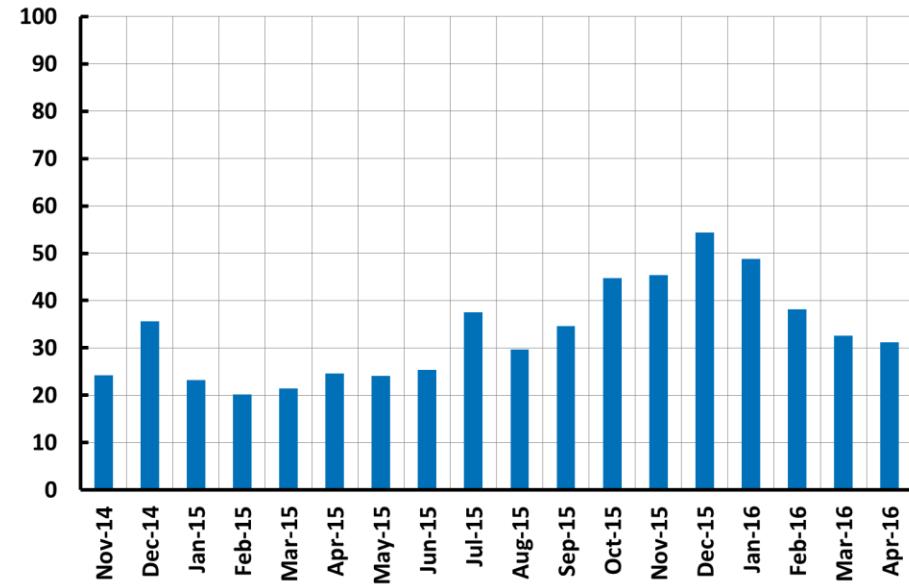
Per cent. The major banks' CET 1 capital in relation to risk-weighted and total assets.

Sources: Bank reports and the Riksbank.

Periodically, banks have too low liquidity in Swedish kronor

- Higher LCR means better self-insurance
- Greater resilience to liquidity shocks
- Requirement for at least 60 per cent

Lowest level of LCR in SEK

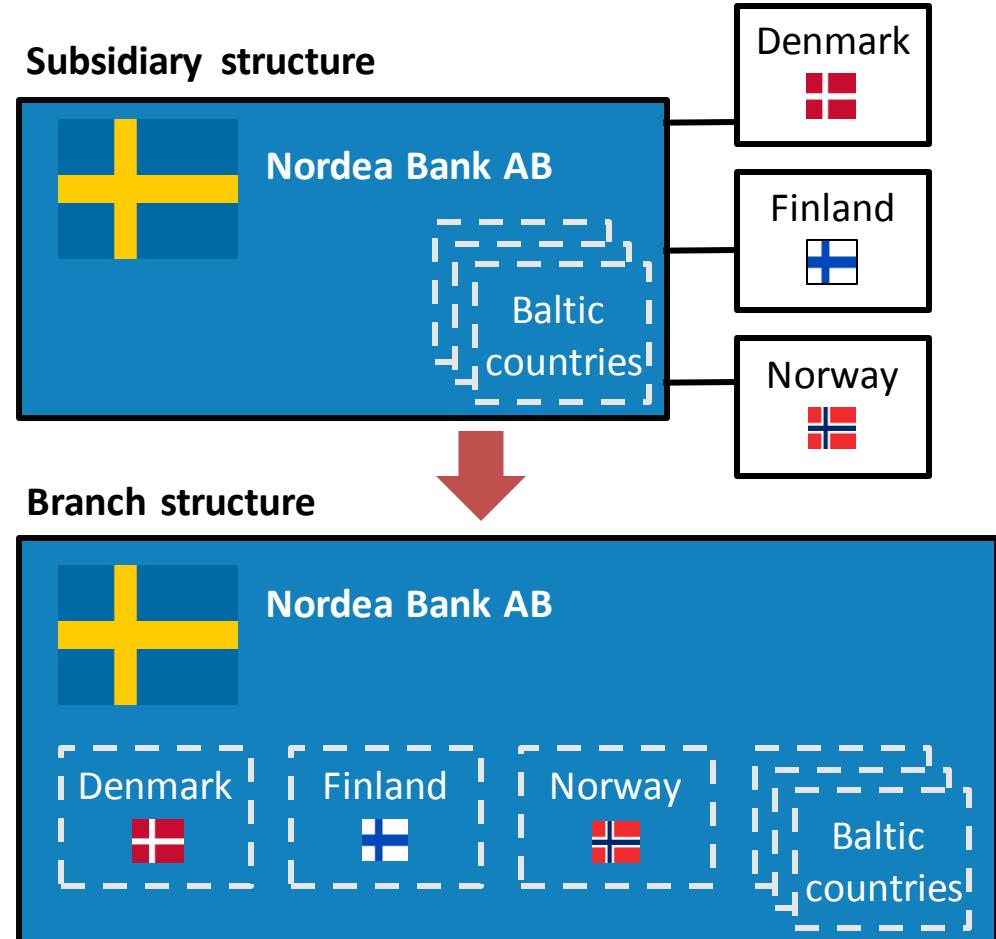


Per cent. The lowest level of LCR in SEK, major Swedish banks. The chart is based on daily data and shows the single lowest observation each month.

Source: The Riksbank.

Nordea's transformation into a branch structure – demonstrates the importance of increasing banks' resilience

- The Riksbank's commitments increase
- Focus on liquidity buffers in important currencies



The chart is a simplification of Nordea's corporate structure. Some subsidiaries not shown in the picture will continue to be run as subsidiaries.

Cyber threats in the financial system

- Financial system increasingly dependent on interlinked IT systems
- Increases vulnerability and impact of cyberattacks
- Cooperation needs to improve



The financial system is more vulnerable and exposed to risks



Manage household
indebtedness



Strengthen banks'
resilience