

PRESS RELEASE

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High political uncertainty abroad increases stability risks

The sharp shifts in US trade and security policy have caused substantial market movements during the spring and entail greater uncertainty than usual. The risk of financial instability has increased. In this situation, it is of great importance to safeguard resilience, both in Sweden and globally.

Increased risks make it important to safeguard resilience

The uncertainty regarding trade and security policy has increased significantly during the year, and has made its mark on Swedish and international financial markets. This uncertainty means that the risk of sudden and unforeseen events is high. In a global and interconnected financial system, the consequences of disruptions can be significant and quickly spread. High indebtedness in many countries and sectors, as well as high valuations in some asset markets, also make the financial system vulnerable. In addition, the US economy plays an important role in the world economy. A rapid deterioration in confidence in the US dollar and US government bonds could have significant implications for financial stability.

So far, the global financial system has worked relatively well. A contributing factor is the global regulatory standards developed after the global financial crisis of 2008-2009. It is important that these are safeguarded and are not watered down.

Good starting point for Sweden, but vulnerabilities remain

Sweden's stable economic policy framework and strong public finances ensure favourable conditions for dealing with external challenges in troubled times. The major Swedish banks still have high profitability and good margins over the

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regulatory requirements for capital and liquidity. However, the Swedish financial system has long been characterised by several structural vulnerabilities. The banking system is large, concentrated and interconnected, and the major banks rely to a large degree on international capital markets. In addition, the security policy situation has increased operational risks and several banks and infrastructure companies have been subjected to denial-of-service attacks.

Property companies continue to have large loans and there is a risk that property values will fall, especially when the rental market remains weak. Corporate bond funds, which have had large inflows for a long time, have become an increasingly important source of financing for property companies. However, this funding is not always stable, something that became clear in connection with the coronavirus pandemic when unit holders made significant withdrawals from the funds. This can create major problems for the financing of property companies. It is therefore positive that new liquidity management requirements are being introduced for the funds, as it can help to reduce these risks.

To prevent household debt from once again rising in a way that is not sustainable in the long term, it is important to have well-balanced macroprudential measures, such as amortisation requirements and mortgage caps.

A press conference with the Governor of the Riksbank, Erik Thedéen, and Olof Sandstedt, Head of the Financial Stability Department, will be held today at 11.00 at the Riksbank. Press cards or the equivalent are required to participate. Advance registration is required, to press officer Susanne Meyer, susanne.meyer@riksbank.se no later than 10.00 on 28 May. The press conference will be broadcast live on riksbank.se.