

PRESS RELEASE

DATE: 29 May 2026
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The war in the Middle East entails risks to financial stability

The war in the Middle East has caused turbulence in the financial markets, but the global financial system has functioned well. However, there is considerable uncertainty. The longer the war continues, the greater the risk that inflation and interest rates will rise at the same time as the economy weakens, which could have a negative impact on several financial markets and participants. Moreover, there are several global vulnerabilities that could reinforce one another and exacerbate such negative developments. Sweden has a favourable initial position but there are structural risks in the banking system, for example linked to the banks' international dependencies and significant exposures to the commercial property sector.

The financial system has functioned well, but uncertainty is high

Global uncertainty has been heightened for some time and has been further increased by the war in the Middle East. Despite occasional bouts of turbulence on the financial markets, the global financial system has functioned well during the spring. However, there is considerable uncertainty and the longer the war continues, the greater the risk of higher inflation and interest rates combined with weaker economic activity. In such a scenario, market sentiment could deteriorate rapidly, leading to higher risk premiums and impaired functioning of financial markets.

In addition, there are a number of global vulnerabilities that could exacerbate developments, such as high and growing public debt in several major economies, the growing non-bank sector and high asset valuations. Moreover, cyber threats are increasing in line with geopolitical turmoil and the rapid development of AI, placing higher demands on financial actors' preparedness and risk management.

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

If several of these adverse events were to occur simultaneously, they could have serious consequences for global financial stability, with spillover effects to Sweden.

Favourable initial position for the Swedish financial system but risks remain

Stress in global financial markets can rapidly affect participants in the Swedish financial system. So far, however, they have coped well with the challenges, not least because the banks have had good access to funding and liquidity in all currencies. Credit growth remains subdued, but the structural risks associated with, for instance, property companies' indebtedness persist.

Property companies still have high debt and now have even shorter interest-rate fixation periods and debt maturities. They are also challenged by a weak rental market and, in an adverse scenario, they would risk having to take measures to refinance maturing loans and improve their financial position. Longer interest-rate fixation periods and debt maturities would therefore strengthen the resilience of the property sector.

The household debt-to-income ratio has declined in recent years, but remains relatively high, while households have short interest rate fixation periods. In a scenario where inflation and interest rates rise, households risk having to reduce their consumption, which would amplify a downturn. It is important that the Government and the Riksdag (the Swedish parliament) introduce a new income-based tool, such as a debt-to-income limit, to prevent household debt from once again developing in a direction that is not sustainable in the long term.

Unchanged countercyclical buffer rate of 2 per cent

Households and companies continue to have good access to funding, while credit is growing at a moderate pace. Total household and corporate debt relative to GDP and income also declined somewhat at the end of 2025. Overall, this suggests that the build-up of cyclical systemic risks is limited, while Swedish banks have good resilience and room for manoeuvre to deal with various shocks. The Riksbank is therefore leaving the countercyclical buffer rate unchanged at its positive neutral level of 2 per cent.

A press conference with Governor 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 today. The press conference will be broadcast live on riksbank.se.