

# PRESS RELEASE



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## High household indebtedness greatest risk in the Swedish economy

*High and growing household indebtedness continues to pose the greatest risk in the Swedish economy. To come to grips with the problems associated with household indebtedness, it is, above all, important that measures are taken within housing and tax policy. At the same time, there are structural vulnerabilities and risks linked to the banking system in Sweden. It is therefore important that the banks have sufficient capital and insure themselves against liquidity risks in different currencies. As the risks linked to international developments are assessed to be greater now than in the spring, it is even more important to manage the risks and vulnerabilities in the Swedish financial system.*

### High household indebtedness forms the greatest risk

Swedish household debt has been increasing for a long time and households are currently highly indebted, in both a historical and an international perspective. It is the Riksbank's assessment that the high and growing household indebtedness continues to pose the greatest risk in the Swedish economy. It is therefore important to introduce measures within housing policy and tax policy that reduce risks and increase resilience in the household sector. It is important that all mortgages are subject to thorough credit assessment and that macroprudential policy is designed appropriately.

### Problems on the housing market could spread

This indebtedness has gone hand-in-hand with strongly rising housing prices. After a fall that began in autumn last year, housing prices have stabilised somewhat recently and indebtedness is now increasing at a slower pace. Swedish household debt is expected to continue increasing at a faster pace than their incomes in the coming years. The fact that housing prices have been slowing down since autumn 2017 from high levels has created uncertainty on the housing market. This has led households to be cautious about buying homes, which has led to fewer sales and production starts,



particularly for small housing developers. If the uncertainty on the housing market persists, or if housing prices fall further, there is a risk that more actors on the housing market will encounter problems. In an unfavourable scenario, this could involve problems spreading to the rest of the economy and to the financial system.

### **Vulnerabilities in the banking system require measures**

There are several vulnerabilities and risks linked to the banking system in Sweden, including its size, concentration, interconnectedness, limited capital levels and in some respects low resilience to liquidity risks. The banks' high exposure to the housing and property markets, for which the banks largely obtain funding on the international capital markets, also contributes towards increasing the vulnerabilities. Given these vulnerabilities, it is important that the banks have enough capital and liquidity. The Riksbank therefore considers that the banks' capital in relation to total assets should increase and that a leverage ratio requirement of 5 per cent should be introduced as soon as possible. It is also important for banks to insure themselves against liquidity risks in different currencies. Finansinspektionen should therefore set Liquidity Coverage Ratio (LCR) requirements for all significant currencies, including the Swedish krona. The Riksbank also considers it important that foreign supervisory authorities ensure that foreign banks with substantial operations in Sweden are subject to equally high requirements for liquidity and capital as the Swedish banks.

### **Rising risks abroad may affect Sweden's financial stability**

Developments on the international financial markets may, therefore, entail significant risks to financial stability and, ultimately, also to the economy. Risks linked to international developments are deemed to be higher than they were in the spring. Among other things, the trade conflict between the United States and China has intensified. In Italy, the government has signalled extensive unfunded reforms, which could be difficult to implement given the EU's fiscal policy regulations, which has led to yields on Italian government bonds rising substantially. There is also uncertainty concerning the economic and financial effects of the United Kingdom's withdrawal from the EU, particularly if the United Kingdom should leave the EU without a withdrawal agreement.

A press conference with the First Deputy Governor of the Riksbank, Kerstin af Jochnick, and Olof Sandstedt, Head of the Financial Stability Department, will be held today at 11.00 at the Riksbank.

Press cards or equivalent must be shown. The press conference will be broadcast live on the Riksbank's website, [www.riksbank.se](http://www.riksbank.se), where it will also be available to view afterwards.