



PRESS RELEASE

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■ The financial system is working well – but risks require further measures

The Riksbank's assessment is that the Swedish financial system is working well at present. However, vulnerabilities in the financial system mean that shocks in Sweden and abroad may have a negative impact on financial stability. The indebtedness of the Swedish households is currently the greatest domestic risk. In order to increase the resilience of the banks and to reduce the risks associated with indebtedness, the Riksbank therefore recommends that the countercyclical buffer be activated as soon as possible and set at 2.5 per cent, that a liquidity buffer requirement in Swedish kronor be introduced and that sound minimum levels be introduced in the discretionary income calculations used in the banks' credit assessments.

High profitability in the major Swedish banks

The Swedish financial system is working well at present. A period of calm on the financial markets and brighter economic prospects in both Sweden and abroad are contributing to this. The profitability of the Swedish banks is high, which has enabled them to increase their CET 1 capital ratios. In addition, the banks now have large liquidity buffers in foreign currencies, which makes them highly resilient to short-term liquidity stress in these currencies.

Structural vulnerabilities increase sensitivity to shocks

The Swedish financial system is vulnerable in several ways. The Swedish banks are closely interlinked, have a large proportion of market funding and a small proportion of equity capital in relation to their total assets. This means that the financial system may be negatively affected by shocks in Sweden or abroad. Given this, the long period with low interest rates, uncertainty about developments in Europe and the high level of household indebtedness in Sweden pose the main risks to financial stability.

Household indebtedness the greatest domestic risk

Household indebtedness in Sweden continues to increase from an already high level. This poses risks to the stability of the financial system and of the real economy. The Riksbank therefore considers that measures are needed to



■ increase resilience in the financial system and reduce the risks associated with household indebtedness. A number of measures have already been taken, but more are needed. The Riksbank therefore recommends as a first step that sound minimum levels be introduced for the standard values in the banks' discretionary income calculations.

If it proves to be the case that the rate of increase in housing prices and household debt continues to accelerate, it will become even more urgent to consider additional measures to slow down the build-up of risk.

The resilience of the major banks needs to be strengthened

Several measures have also been taken to manage the particular structural vulnerabilities in the Swedish financial system. However, the Riksbank's assessment is that here too additional measures are required to increase the resilience of the banks. The Riksbank therefore recommends that the countercyclical capital buffer be activated as soon as possible and that it be initially set at 2.5 per cent. This would increase resilience in the financial system.

The banks have low liquidity coverage ratios (LCR) in Swedish kronor. To reduce liquidity risks and thus the vulnerability of the financial system, the Riksbank also recommends the introduction of an LCR requirement in Swedish kronor of 60 per cent.

A press conference with the Governor of the Riksbank, Stefan Ingves, and Kasper Roszbach, Head of the Financial Stability Department, will be held today at 14:00 in the Riksbank. Press cards or equivalent must be shown. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se, where it will also be available to view afterwards.