



PRESS RELEASE

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■ The financial system is working well – but the growth of debt needs to be slowed down

The financial system is assessed to be working well at present. However, vulnerabilities in the structure of the system make it sensitive to shocks. The factors that could currently result in shocks are the high level of risk-taking on the global financial markets and the high and rising indebtedness of Swedish households. The Riksbank considers that measures are needed to strengthen the banks' resilience and dampen the risks associated with indebtedness. The Riksbank therefore recommends Finansinspektionen to bring forward the introduction of a leverage ratio requirement for Swedish banks and to introduce an amortisation requirement for Swedish mortgages.

Good profitability in the major Swedish banks...

Despite relatively weak economic activity, the major Swedish banks still have good profitability and access to inexpensive funding. The debt-servicing ability of the banks' borrowers is also generally good and stress on the financial markets is low. The Swedish financial system is thus working well at present.

...but the banking system is sensitive to shocks

The Swedish banking system is large and closely interlinked. The Swedish banks also have a large proportion of wholesale funding and a small proportion of capital in relation to their assets. This makes them sensitive to shocks. One factor that at present could lead to shocks is the high level of risk-taking on the financial markets. This is because the banks' access to wholesale funding may be negatively affected if there is a rapid decline in risk taking and a consequent increase in uncertainty on the markets. Another factor that could lead to shocks, both in the financial system and in the real economy, is the high and rising level of indebtedness among Swedish households.



■ **The growth of debt needs to be slowed down**

The measures taken so far to manage the problems linked to household debt have not been adequate and the current course of development entails risks. It is therefore important that more measures are taken. The Riksbank considers that Finansinspektionen's proposal for an amortisation requirement is a step in the right direction, but believes that the measure will have only limited effects. However, the most important thing at present is that measures are implemented without delay. The Riksbank therefore considers that Finansinspektionen should introduce an amortisation requirement. Additional measures will also be required in several policy areas to reduce the risks. It will be necessary to introduce these measures gradually and over a long period of time.

The resilience of the major banks needs to be strengthened

Given the vulnerabilities that characterise the Swedish banking system, there is a need to continue strengthening the resilience of the banks. Increasing the banks' capital is an appropriate measure. This is because the Swedish banks have relatively little equity in relation to their assets, that is they have relatively low leverage ratios. As in the case of certain other countries with large banking systems, Sweden should bring forward the introduction of the leverage ratio requirement that is planned for 2018. The Riksbank therefore recommends Finansinspektionen to introduce such a requirement from 2016.

A press conference with Riksbank Governor Stefan Ingves and Martin W Johansson, Deputy Head of the Financial Stability Department, will be held today at 11 a.m. 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, where it will also be available to view afterwards.