



PRESS RELEASE

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Banks and households need to increase their resilience

The Swedish banking system is vulnerable due to its size, concentration and interconnectedness. The banks are also exposed to liquidity risks. It is therefore important to ensure that the major banks have adequate capital and liquidity. It is also necessary to manage the risks of the continued high and rising housing prices and increasing household indebtedness.

There are short-term liquidity risks in the banking system that, in the long run, can pose risks to financial stability. These risks, which mean that a bank may have problems paying debts falling due in the near term, should primarily be managed by the banks themselves. There is therefore a requirement that the banks should have a liquidity reserve for all currencies aggregated, as well as in euros and in dollars. As the major Swedish banks have extensive cross-border operations, primarily through their presence in the Nordic Region, the Baltic States and the United Kingdom, they are also exposed towards short-term liquidity risks in other currencies. Finansinspektionen (the Swedish financial supervisory authority) should therefore set Liquidity Coverage Ratio (LCR) requirements for all significant currencies.

The major Swedish banks are also taking significant structural liquidity risks. These arise as a result of the banks having a large proportion of mortgages with long maturities on the asset side, while having a comparatively high proportion of short-term wholesale funding on the liability side. The banks must therefore renew their funding several times during the mortgage's maturity period. The banks should therefore continue to reduce their structural liquidity risks, for example by extending the maturity of their funding.

Leverage ratio requirement to safeguard the banks' resilience

The vulnerabilities present in the banking system also make it important to ensure that the banks have enough capital. Finansinspektionen should therefore introduce a leverage ratio requirement as soon as possible as a complement to the risk-weighted capital requirements already existing. The requirement should be set at 5 per cent



from 2018 onwards. Introducing such a requirement is also supported by the International Monetary Fund (IMF).

High housing prices and high indebtedness are a risk

Housing prices have increased rapidly for a long time. During the spring, housing prices rose more slowly than previously but seem thereafter to have started to rise faster again. The growth in credit to households continues to be high and their debt is still rising faster than their income. This, in combination with the fact that more and more households are choosing adjustable interest rates on their mortgages, is making households vulnerable. Without appropriate measures to limit credit to households, the imbalances will increase, which may ultimately be very costly for the Swedish economy. The IMF and the European Commission have also pointed out the risks associated with Swedish household indebtedness.

It is therefore important to reduce the risks and increase the resilience of households as quickly as possible. Measures are particularly important in a situation in which low interest rates are contributing to continued rising housing prices and household indebtedness. A combination of different measures is needed within several different policy areas. In particular, measures to manage the causes of the increasing indebtedness are needed. Consequently, measures are needed to improve the functioning of the housing market, as is a review of taxation of housing. A potential macroprudential policy measure would be to introduce a debt-to-income limit that restricts how much a household may borrow in relation to its income.

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 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, where it will also be available to view afterwards.