

# The economy, interest rates and properties – where are we heading?

Fastighetsvärlden, 2 June 2016

First Deputy  
Governor

Kerstin af Jochnick

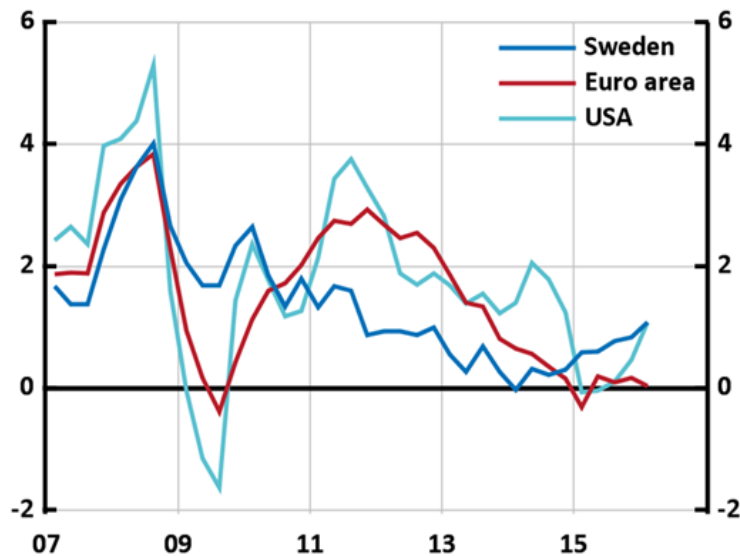
# The inflation target is worth defending

- A common anchor for price-setting and wage formation
- Contributes to stable economic development
- A cornerstone of economic policy



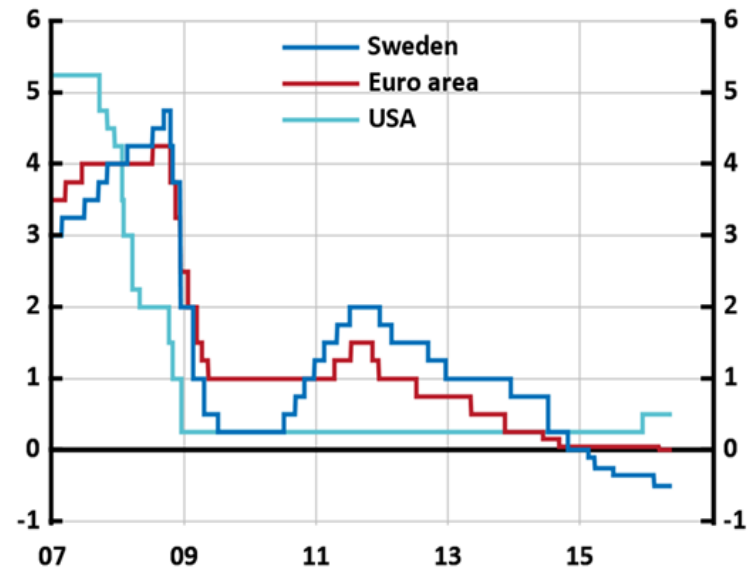
# Sweden is highly dependent on events abroad

## Low inflation



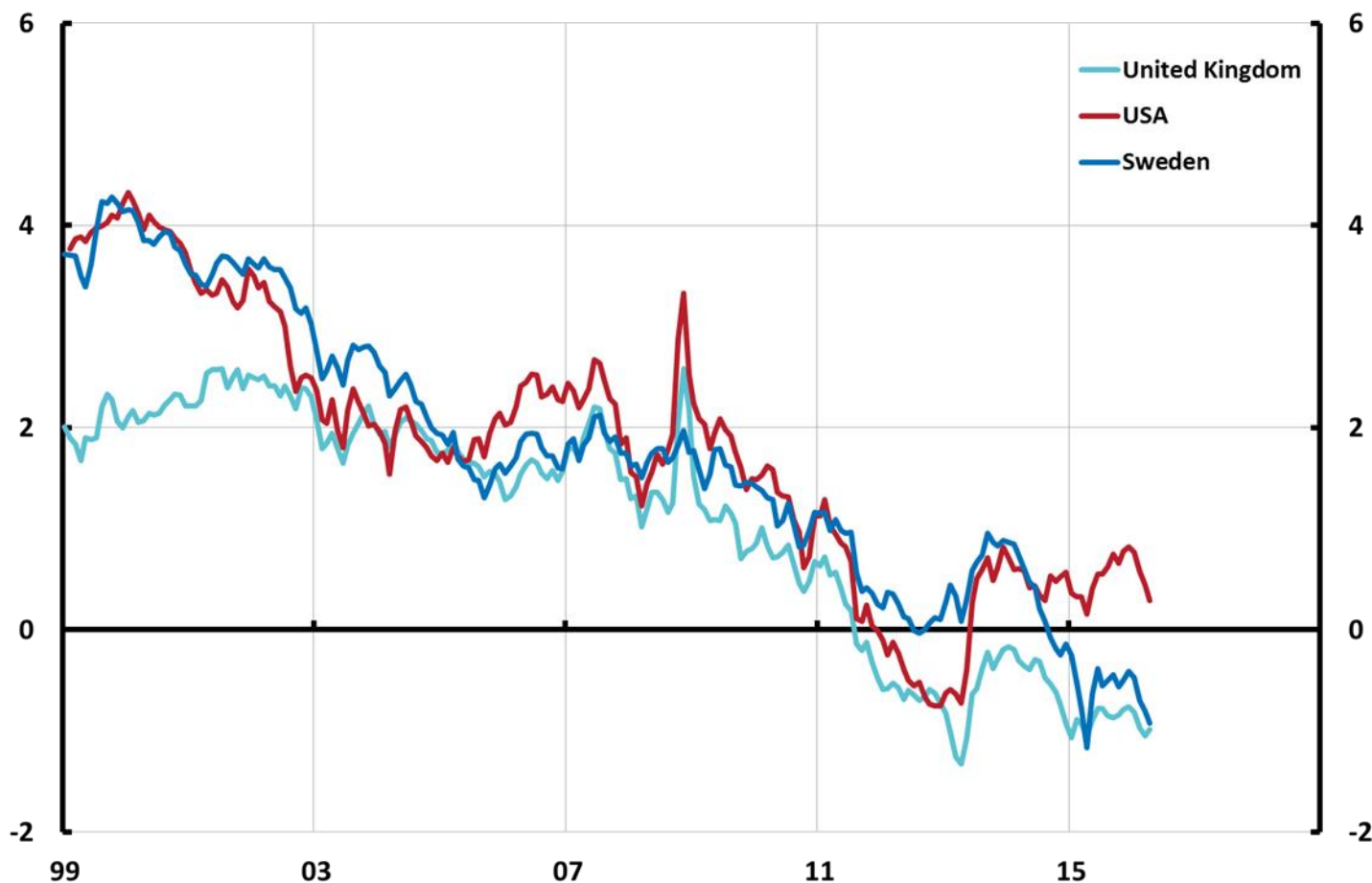
Note. Annual percentage change and per cent. Inflation given as the CPI for the US and the HICP for others.

## Low policy rates



Sources: Bureau of Labor Statistics , ECB, Eurostat, Federal Reserve, Statistics Sweden and the Riksbank

# Global interest rates have fallen for several decades

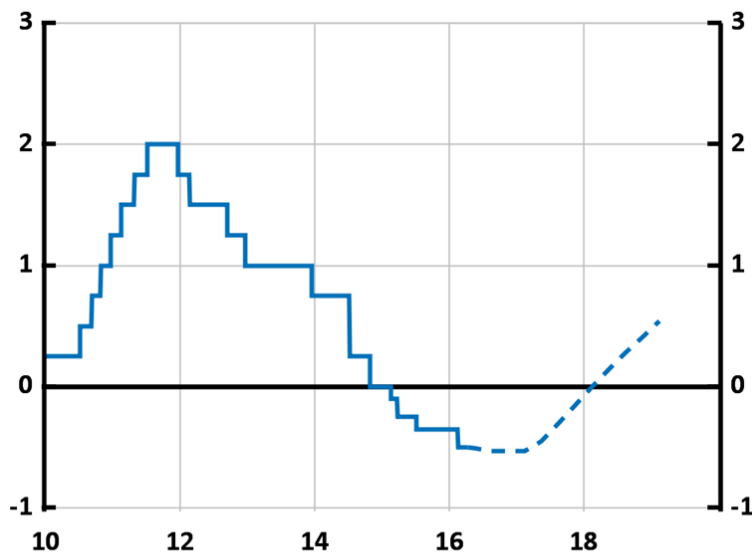


Note. 10-year yield on real government bonds.

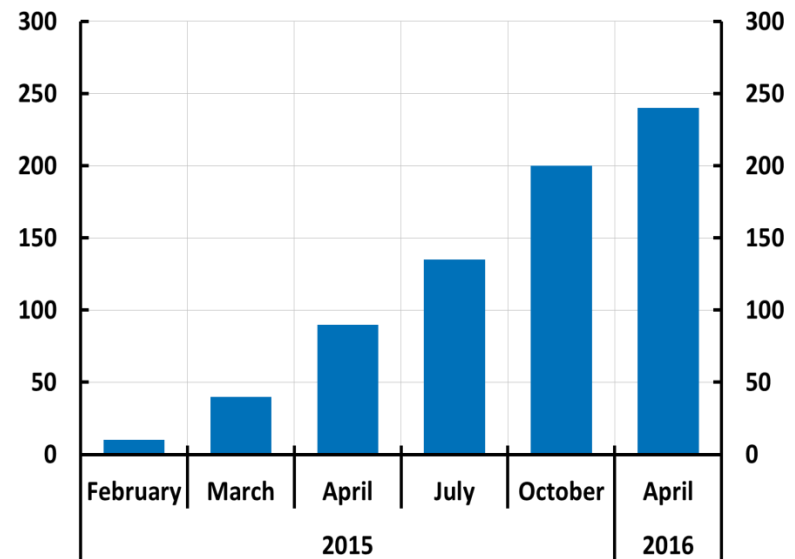
Sources: Bank of England, Federal Reserve,  
Thomson Reuters and the Riksbank

# To safeguard the inflation target

**Repo rate held at  
-0.50 per cent**



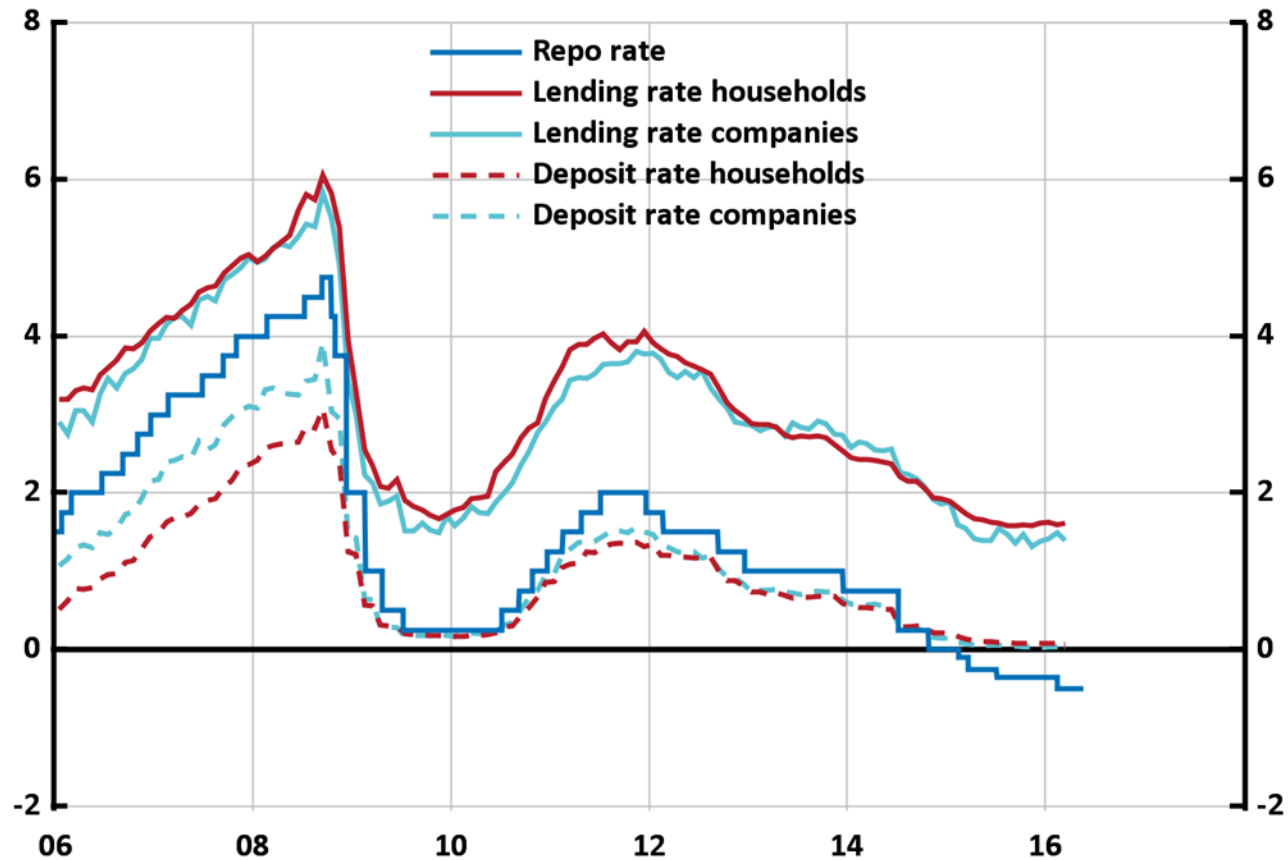
**Extensive government  
bond purchases**



Note. Per cent and SEK billion.

Source: The Riksbank

# Monetary policy has had the expected impact



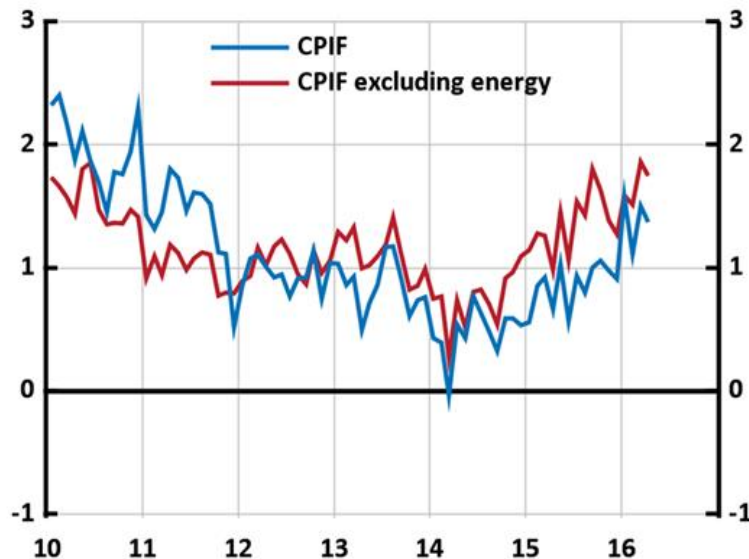
Note. Per cent. MFIs' average deposit and lending rates for companies and households.

Sources: Statistics Sweden and the Riksbank



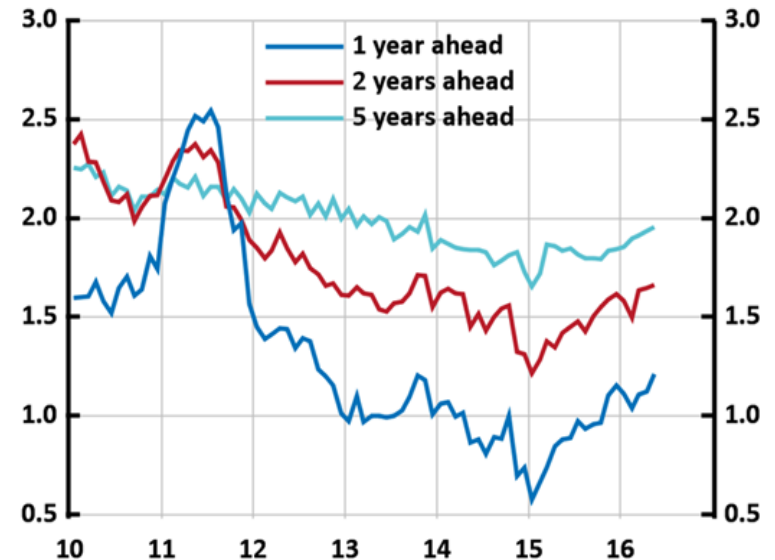
# Well on the way

## Inflation has risen



Note. Annual percentage change. Inflation expectations are according to money market participants.

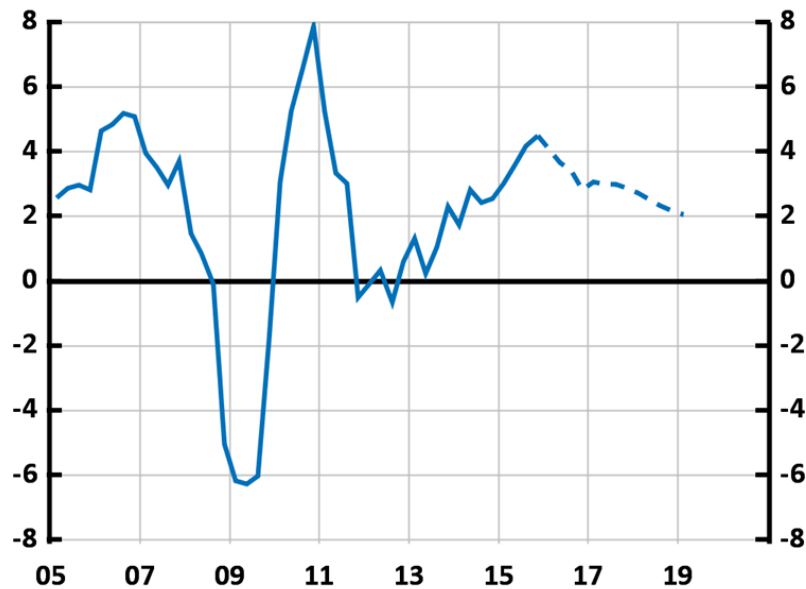
## Inflation expectations have picked up



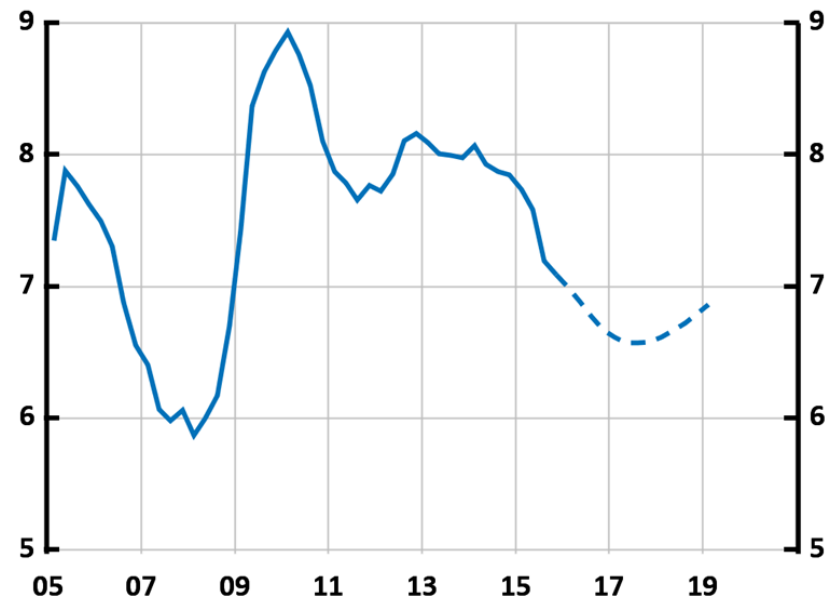
Sources: Statistics Sweden and TNS SIFO Prospera

# Strong economic activity

## Good GDP growth



## Falling unemployment



Note. Annual percentage change and percentage of labour force, 15–74 years. Calendar-adjusted and seasonally-adjusted data.

Sources: Statistics Sweden and the Riksbank

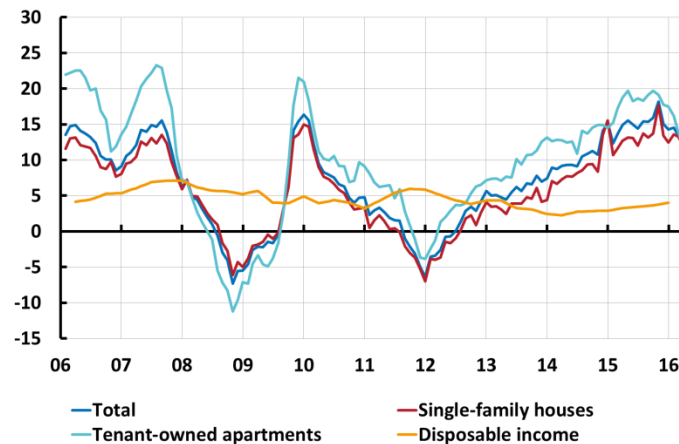


# Global developments are a potential threat to financial stability

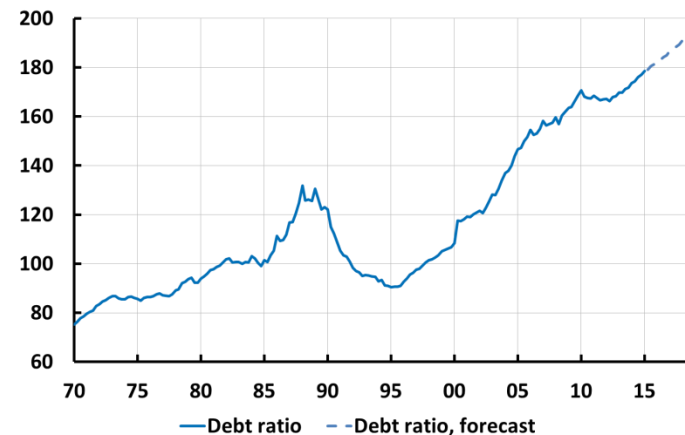
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- Weak global economic growth
  - Low interest-rate environment
  - Financial turbulence
  - Political unease

# Risks of high valuations and high indebtedness in Sweden

## Housing prices in Sweden



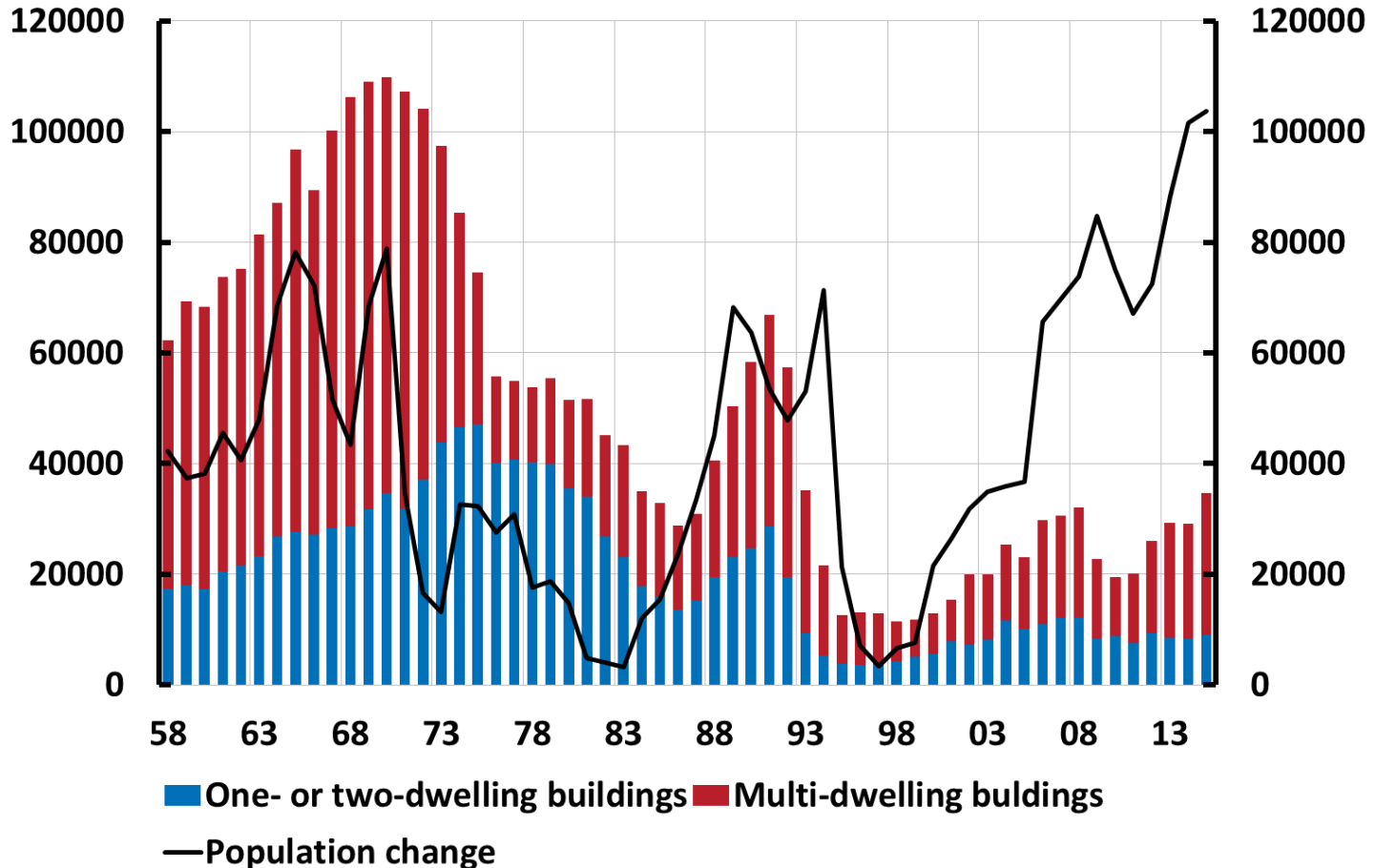
## Household debt-to-income ratio in Sweden



Note. Left graph: annual percentage change. Right graph: percentage of disposable income. The broken line represents the Riksbank's forecast.

Sources: Statistics Sweden, Valueguard and the Riksbank

# The shortage of housing is increasing in Sweden

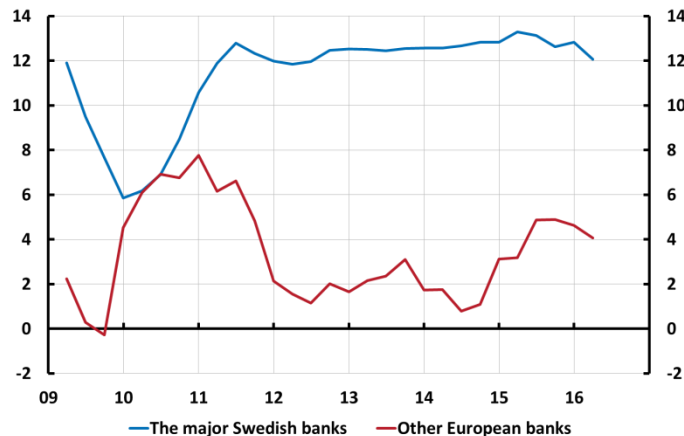


Note. The bars display the number of new dwellings per housing type. Population change is defined as the difference between the population at the beginning and at the end of the year.

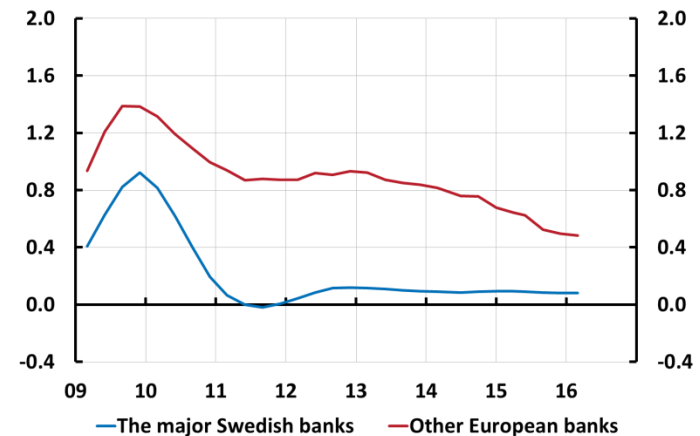
Source: Statistics Sweden

# The Swedish financial system is functioning well...

## High profitability



## Low credit losses

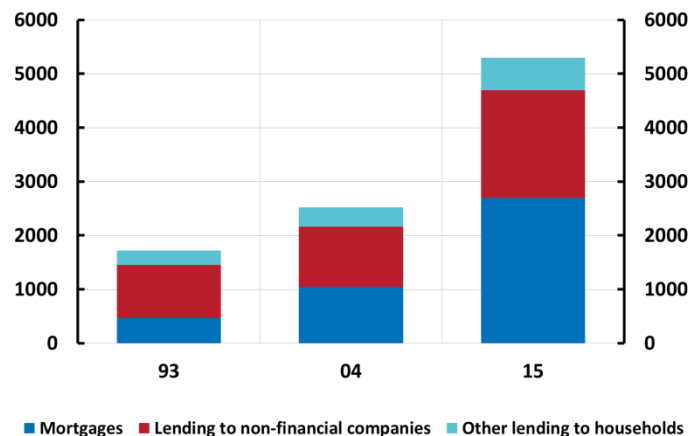


Note. Left graph: banks' return on equity as an un-weighted average. Adjusted for one off costs for the Swedish banks. The red line represents a sample of European banks. Rolling four quarters, per cent. Right graph: loan losses in relation to lending to the public. Rolling four quarters, per cent.

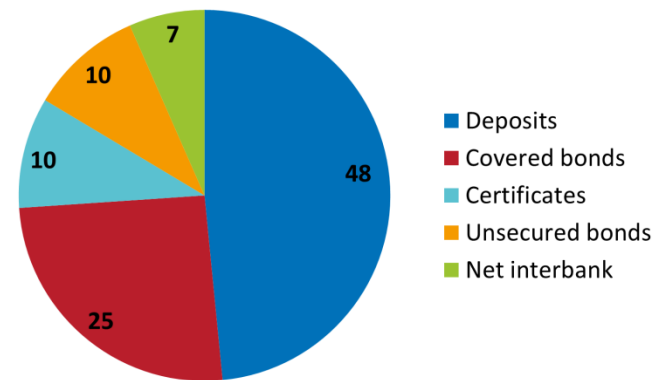
Sources: SNL Financial, SME Direkt and the Riksbank

# ... but the financial system is vulnerable to shocks

## Exposed to the housing market



## Banks have a large proportion of wholesale funding



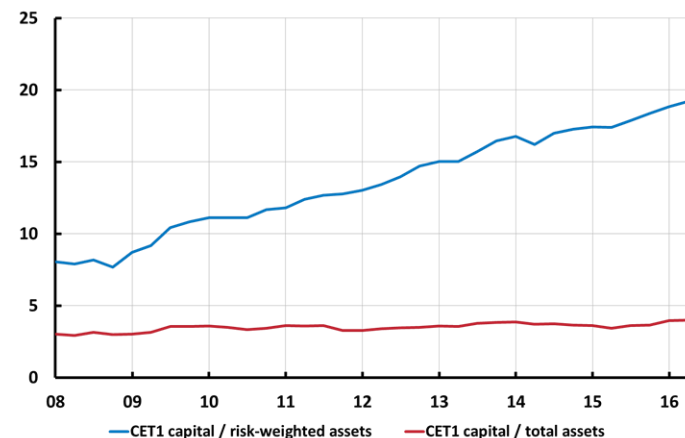
Note. Left graph: breakdown of the major banks' lending in Sweden. Including monetary financial institutions' (MFI) lending. This does not exclude the major banks' foreign subsidiaries. For 1993, mortgages refer to Swedish mortgage institutions' lending. SEK, billion. Right graph: the major Swedish banks' funding. Per cent, March 2016.

Sources: Bank reports, Statistics Sweden and the Riksbank

# Banks need sufficient capital

**Risk-weighted capital adequacy has increased more than resilience**

- More capital needed to increase banks' ability to manage losses
- Leverage ratio requirement important complement to risk-weighted capital requirements
- Requirement for 5 per cent from 2018



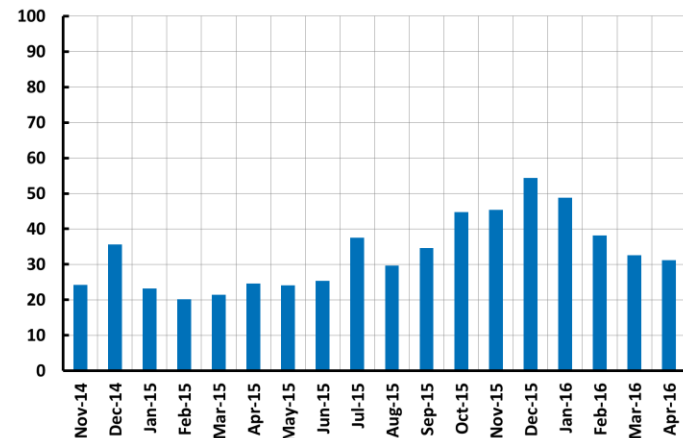
Note. Per cent. The major banks' CET 1 capital in relation to risk-weighted and total assets.

Sources: Bank reports and the Riksbank

# Periodically, banks have too low liquidity in Swedish kronor

## Lowest level of LCR in SEK

- Higher LCR means better self-insurance
- Greater resilience to liquidity shocks
- Requirement for at least 60 per cent



Note. Per cent. The lowest level of LCR in SEK, major Swedish banks. The chart is based on daily data and shows the single lowest observation each month.

Source: The Riksbank



# Finansinspektionen's mandate and tools for macroprudential policy must be clarified

- Be given legal powers and tools
- For both financial and macroeconomic stability
- Take independent decisions



# Further measures are needed to reduce risks linked to household indebtedness



**Housing  
market**

Rent-setting system

Property taxation

Housing construction

**Lending**

Loan-to-value limit

Debt-to-income limit

Tax relief on interest expenditure

Risk weights