PRESS RELEASE

DATE 11 February 2005

NO. 10

CONTACT Tomas Lundberg, Press Officer, tel. +46-8-7870215

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

■ Nyberg: Households' growing debt burden no problem for the banks

"Households currently have on average debts amounting to 125 per cent of their annual income, which is almost as much as the figure immediately prior to the property crisis in 1992. However, interest payments are less than half what they were then; approximately 4 per cent of incomes," said Deputy Governor Lars Nyberg at a breakfast meeting in Malmö today. "The fact that households are borrowing more, in Sweden and in many other countries, is linked to the fact that inflation, and thereby interest rates, has fallen. One can say that households' growing debt burden is partly a natural consequence of the successful inflation-targeting policy pursued over the past decade", continued Mr Nyberg.

"Households also appear to have great confidence that both inflation and interest rates will remain low. They are to a greater degree taking loans with a short fixed-term interest period. However, it is reasonable to expect that interest costs will increase over the economic cycle. Every household should take into account, when calculating the risks in their borrowing, the fact that interest rates could be twice as high as they are now when it is time to renew the loans", said Mr Nyberg.

He also observed that the supply of loans offered to households has increased. "The new capital adequacy rules, Basel II, will give mortgages lower risk weighting. This makes it worthwhile for many banks to increase their mortgage lending now. Competition has increased in the mortgage market, which has pushed down interest rates and created more favourable loan terms. However, the banks appear to have increased their requirements regarding mortgage customers' ability to repay."

"Households are borrowing to a great extent to buy accommodation and this has led to rising prices in the housing market. In 2003, prices rose by 7 per cent and in 2004 they rose by 9 per cent. In some parts of the country, where developments have been particularly rapid, I believe there is scope for a price fall. At the same time, we are not seeing the speculative tendencies that exist in many other countries, where households buy several homes in order to sublet and sell the properties when prices rise further. When prices are governed by expectations of future price increases rather than by normal demand and supply conditions, there is always a substantial risk of heavy price falls if the expectations are not met. However, in Sweden we still buy housing to live in ourselves, rather than with the primary aim of selling when prices rise", said Mr Nyberg.

"When one sees that household lending has become as large as it was in the early 1990s and that housing prices have risen the way they have, there is reason to wonder whether this development might be dangerous for the stability of the banking system. However, even during the crisis at the beginning of the 1990s, it was not households that caused the banks serious problems. Instead it was lending against collateral in commercial property that provided a problem. And if we look at commercial properties, neither lending nor prices have risen in this area during the current economic upturn", continued Mr Nyberg.

"Studies made by the Riksbank show that not even significant interest rate rises or heavy price falls on housing could cause the banks to suffer extensive losses. I feel no concern that household lending and house prices will threaten the stability of the banking system. However, the situation for individual households could become difficult if their large debt burden makes them overly sensitive to changes in interest rates and house prices", concluded Mr Nyberg.