

# Press release

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## Lars Nyberg: Lending to households increases substantially

"Lending to the household sector is increasing significantly faster than the economy as a whole. Households have positive expectations about the future, which is satisfying. To the extent that borrowed money is used for investments in stocks and property, where prices have risen rapidly during the last six months, this is somewhat worrisome. Experience shows that highly leveraged assets cause problems when asset prices fall, both for households and banks.

Deputy Governor Lars Nyberg stated this on Wednesday in a speech at Handelsbanken in Linköping. Furthermore he said:

"The Swedish economy is currently experiencing a strong upturn, with the highest growth seen in many years. Households' consumption is increasing due to increasing income, wealth and employment. The favourable future expectations have also caused the households to borrow more. Households' have increased their borrowing between 5 and 10 percent during the recent years. Particularly lending from finance companies has grown substantially and reached the same level as in the end of the 1980s. Total lending has grown at a rate which is much greater than the growth rate of the economy as a whole. Such a development is not sustainable in the long run."

"The development on the stock market and increasing expectations that a new economic era is approaching, in which it will be possible for the economy to grow steadily at a high rate without major downturns, could cause overoptimistic expectations about the future. There is a risk that households borrow without a sufficient financial buffer. Experience has shown that the interest rates on the loans might rise and alter the original calculations made by the households when they borrowed funds. Today's high property prices could fall and thereby lower the value of the collateral used by most of the households. It is important that banks as well as borrowers take into account the risks inherent to such a development. "

"Although, the building up of risks in the household sector should be discussed, it is important to emphasise the difference between today's situation and the developments in the late 1980s. The ratio households' debts relative to income is

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still considerably lower than during the banking crisis, furthermore interest expenses account for a less important share of households' expenses. The households' use of stocks as collateral is also at a low level. This means that a fall in stock prices would not cause any major risks to the banks' lending. However, there is still reason to question whether or not recent developments are reasonable and the future consequences they may have for consumers and banks", said Lars Nyberg.