



# PRESS RELEASE

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## Banks and households increasingly vulnerable

*Housing prices and household indebtedness are continuing to rise, making households and banks more vulnerable. Measures are therefore needed to reduce the risks linked to households' increased indebtedness and to strengthen the resilience of Swedish banks. If this does not happen, the imbalances will increase, which can ultimately become very costly for the national economy.*

“Historically, sharp falls in asset prices combined with extensive private indebtedness have contributed to deep and long-term recessions”, Stefan Ingves points out.

Swedish housing is highly valued in a historical perspective, thereby elevating the probability of a price fall. Combined with ever-higher household debts and the fact that an increasing proportion of loans are at a variable interest rate, this is making households more vulnerable. The banks' vulnerabilities are due to both substantial exposures to the housing sector and the fact that the Swedish banking system is large, concentrated and interconnected. Furthermore, the major Swedish banks have a high proportion of wholesale funding, much of which is in foreign currency. The consequences for the Swedish economy in the event of a serious shock affecting the Swedish banking system could be severe.

### Measures to counteract household debt are urgent

A combination of measures in different policy areas is required to reduce the risks linked to household indebtedness. Measures are needed to address the underlying causes of the indebtedness, for instance, targeting the housing market to attain a better balance between supply and demand. Taxation reforms are also needed to reduce households' willingness and ability to take on debt. It is also important to have macroprudential policy measures, for instance, a debt-to-income limit, that is a limit regarding the size of debts in relation to disposable income. A debt-to-income limit could be an effective tool in limiting risks linked to household indebtedness and it is important that FI now receives the decision-making powers needed to conduct an effective macroprudential policy.



## **Banks must have resilience**

In light of the vulnerabilities present in the banking system, it is important for banks to have good resilience. It is essential to ensure that the major banks have sufficient capital by introducing a leverage ratio requirement as a complement to the risk-weighted capital requirements. This is because there are shortcomings in the risk-weighted capital requirements which can lead to the banks holding too little capital. Moreover, there is reason to consider a further tightening of the risk-weighted capital requirement. It is also important for the banks to hold sufficient liquidity in order to manage all their liquidity risks.

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 hrs 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](http://www.riksbank.se), where it will also be available to view afterwards.