

Sweden

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IN A NUTSHELL

- Construction figures increased further in 2017 and reached the highest numbers since the beginning of the 1990s.
- House prices grew slower in the end of 2017 and apartment prices even fell at the end of the year.
- Authorities introduced an additional amortisation requirement for loan-to-income ratios higher than 450% (gross income), which entered into force in March 2018.
- Residential mortgage lending growth levelled off in 2017 at 7.1%.
- Mortgage interest rates continued being low and stable in 2017.

MACROECONOMIC OVERVIEW

Sweden's GDP increased by 2.3% in 2017 according to Eurostat. The household consumption contributed to the total GDP growth with 1.1 pps and public consumption contributed with 0.1 pps. Gross fixed capital formation increased by 6% and added to the GDP growth with 1.5pps. The high level of residential construction is an important factor behind the increasing gross fixed capital formation. Changes in inventories added to the GDP growth by 0.1 pps. Imports increased more than exports and, therefore, net exports held back GDP growth by 0.3 pps.

Market production of goods and services increased by 2.9% in 2017. Production of goods rose by 3.8% and service-producing industries rose by 2.4%. The number of employed in the economy increased by 2.3%. The employment rate, measured as the total number of hours worked, increased by 1.2%. The unemployment rate fell to 6.7% in 2017 from 7.0% in 2016. Even though unemployment is falling due to robust growth, it is higher now than in the previous cyclical peak, according to the NIER (National Institute of Economic Research).

Inflation has increased slightly during 2017 and was 1.7% at the end of the year. The same development has been observed for the core inflation, which was 1.9% at the end of 2017.

Government debt as a percentage of GDP was 29% in 2017, down from 31% in 2016, according to the Swedish National Debt Office. The Swedish central government showed a budget surplus of SEK 61.8 bn in 2017, compared with a surplus of SEK 85.3 bn in 2016. Among other things, rising employment and high housing investment contributed to the development according to the Debt Office.

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

Housing completions have increased for four years in a row and reached around 48,200 dwellings in 2017 compared to 42,400 dwellings in 2016 (+13.6%). The figures are expected to level off as housing prices have started to decline in 2018. Housing starts have increased by 5.5% in 2017 to around 63,600 dwellings.

This is the highest figure since the beginning of the 1990s, but the pace of growth has slowed down. Similarly, building permits have continued to increase in 2017 by 7.6% to 70,000 permits. Even though the housing market has cooled down, there is a lack of housing, especially in the larger cities. However, prices are high and new amortisation rules have limited the possibilities for some demographic groups to enter the housing market.

Prices on one-family homes increased by 8.3% during 2017, which is about the same as in 2016. The Stockholm region is the part of Sweden where one-family homes are most expensive. In the autumn of 2017, the market for housing started to change and the cooling off started in Stockholm where one-family homes increased by a more moderate 5.5% in 2017. However, the trend of increasing prices seemed to continue at the end of 2017 in the Gothenburg and Malmö regions, where prices increased by 10.8% and 10.2% respectively.

The prices for tenant-owned apartments increased by around 5% in 2017 compared to around 9% in 2016. The slowdown in prices for tenant-owned apartments in 2017 is due to the apartment prices standing still in the autumn and even starting to fall at the end of 2017.

House prices started to cool off in the autumn of 2017 and falling prices have continued in 2018. One factor which has influenced the market is that amortisation rules have been introduced to curb interest-only loans. Another factor is that construction has reached relatively high levels and has created a larger supply of housing in certain segments.

MORTGAGE MARKETS

Residential mortgage lending grew by 7.1% in 2017, which is only marginally slower than in 2016. The growth rate of residential loans has been levelling off for the last two years, however at a relatively high level.

Several factors, which have been similar for a number of years, explain the increase in residential lending. The Swedish population is growing in record numbers due to high immigration and relatively high birth rates. The internal migration rate towards the south and larger cities has driven the housing markets in expanding areas. This, in combination with a long period of comparably low residential housing construction, has created a severe lack of housing and housing imbalances. Another factor is the dysfunctional rental market in the growth regions due to a general rent control, which results in many years of queuing to get a rental apartment on the first-hand market. If you move to a city in a growth region in Sweden, you normally have to buy an apartment or rent a second-hand apartment, usually at a cost far higher than rents on the first-hand market. An additional factor is historically low mortgage interest rates. In addition, the high construction figures over recent years of, above all, tenant-owned apartments, have created a demand to finance all the new apartments with mortgage loans.

The authorities have tried to restrain the development of increasing household debt with different measures. An LTV-roof of 85% on new mortgage lending has been imposed and risk weights on mortgage lending have been increased.

For several years, interest-only loans have been curbed by the banks. In June 2016, an amortisation law was imposed which means that all new mortgage loans above 50% LTV must amortise. Finansinspektionen (the Swedish Financial Supervisory Authority) added new amortisation rules in March 2018 when additional amortisations for LTIs above 450% (gross income) entered into force.

Mortgage interest rates have been relatively stable for the last three years. The variable (three-month) mortgage interest rate has varied between 1.5% and 1.6% during 2017, which is about the same level as in 2015 and 2016. The initial fixed mortgage interest rates, one to five years, have varied between 1.6% and 1.7% in 2017, which is also the same levels as previous years. Initial fixed mortgage interest rates for periods over five years were at record lows in 2017 and reached levels below 2% in the second half of 2017.

Finansinspektionen, writes an annual report on the mortgage lending market. The report is an important part of Finansinspektionen's analysis of the mortgage market and the debt situation of Swedish households. Finansinspektionen writes in the latest report that the amortisation on new mortgage loans has increased continuously since 2011. The share of households amortising and the average size of the amortisations increased markedly in 2016 as the new amortisation rules entered into force. The share of households with new loans that amortise was 79% in 2017, which is slightly higher than in 2016. The average LTV for new mortgage loans is 63% in 2017, which is lower than in 2016.

The credit losses on mortgage loans have been very low in Sweden for many years. The credit loss ratio has been very close to zero for several years, including 2017.

MORTGAGE FUNDING

Covered bonds are the most common form of funding used in the Swedish market for funding of mortgages. During 2017, the Swedish stock of covered bonds increased by 1.6% (in SEK) to EUR 219 bn. The Swedish mortgage institutions issued new covered bonds amounting to EUR 50 bn in 2017.

	SWEDEN 2016	SWEDEN 2017	EU 28 2017
Real GDP growth (%) (1)	3.2	2.3	2.4
Unemployment Rate (LSF), annual average (%) (1)	7.0	6.7	7.6
HICP inflation (%) (1)	1.1	1.9	1.7
Outstanding Residential Loans (mn EUR) (2)	387,000	402,250	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	49,451	50,797	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	164.5	167.4	73.8*
Gross residential lending, annual growth (%) (2)	-2.3	0.9	3.5
Typical mortgage rate, annual average (%) (2)	1.6	1.6	2.4**
Owner occupation rate (%) (1)	65.2	n/a	66.4*
Nominal house price growth (%) (2)	8.4	8.3	6.0

* The aggregate EU figure is from 2016.

** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

SWEDEN FACT TABLE

Entities which can issue mortgage loans:

There are no specific limitations as regards issuing mortgages. In practice 99,9% of all mortgage lending in Sweden is issued by banks and credit market institutions. New non-bank actors are entering the market, but have yet a limited stock of mortgage loans.

The market share of the mortgage issuances:

There is an approximate share of 75% for credit market institutions (mortgage credit institutions) and 25% for banks. Other actors are not measured by the authorities yet, but probably have limited market shares.

Proportion of outstanding mortgage loans of the mortgage issuances:

Approximately the same as in question 2 above.

Typical LTV ratio on residential mortgage loans:

According to Finansinspektionen the average LTV for new mortgage loans in 2017 was 63%.

Any distinction made between residential and non-residential loans:

The distinction is made based on how the loan is secured. Residential loans are secured on residential property.

Most common mortgage product(s):

Ordinary mortgage loans. Variable interest is the most common interest rate on mortgages.

Typical maturity of a mortgage:

The expected average length of a mortgage loan is 7.5 years. Contractual lengths of mortgage loans vary normally between 30 to 50 years. However, for many different reasons mortgage borrowers either terminate their mortgage permanently or terminate and get a new one before the contractual length is reached.

Most common way to fund mortgage lending:

Covered bonds.

Level of costs associated with a house purchase:

Different studies seem to indicate that the level of cost associated with a house purchase is very low in Sweden. Transaction costs in Sweden consist mainly of stamp tax (1.5%) and, if you need a loan, of a mortgage fee (2% of the new or increased mortgage). Normally you do not pay any fee to the mortgage lender.

The level (if any) of government subsidies for house purchases:

There are no direct subsidies in Sweden. However, borrowers are allowed to deduct 30% of the interest payments from their tax payments.