

# Sweden

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## Macroeconomic overview

The global economic downturn hit the export oriented Swedish economy severely in 2009. Real GDP fell by 4.9% and this was the sharpest fall in at least 30 years. However, GDP growth has returned to positive territory again in 2010.

The unemployment rate rose to 8.3% in 2009 from 6.2% year-on-year. The economic downturn particularly hit the export-oriented industrial sector and the labour market, which was severely impacted by the weakened demand.

There has been moderate inflation in Sweden in 2009, resulting in a 1.9% HICP increase compared to 3.3% in 2008. The low inflation rate is mainly due to decreasing costs for mortgage loans. This follows on from very low interest rates on mortgages, particularly variable interest rates.

The Swedish Central Bank has lowered the repo rate a couple of times in the first half of 2009. In July 2009 this was lowered to the record low of 0.25%. The Central Bank has according to expectations started to raise the repo rate in July 2010 (up to 0.50%).

## Housing and mortgage markets

The economic downturn has had a negative effect on residential construction in Sweden. The demand for new one-family homes and tenant-owned apartments has decreased during 2009. The number of housing starts decreased by 22% to 16,900 in 2009. Housing completion decreased by over 28% in 2009. This trend is followed by a 16% fall in the number of building permits. The National Board of Housing expects that the building figures will record a positive growth rate again in 2010 as the demand has started to increase at the end of 2009. There are also signs of a housing shortage in the municipalities around big city areas and in larger university towns.

In 2009 the number of transactions of single-family homes fell by 9.5%. Prices of single-family homes, on the other hand, did not decrease but remained stable (they increased by a mere 0.2%) in 2009. During the first half of 2009 prices of single-family homes fell, but in the last quarter of 2009 prices started to increase again. An important factor, which prevented housing demand and house prices from falling during 2009, was the very low interest rates on mortgages.

The residential construction costs increased by 0.8% on a year-on-year basis in 2009 compared to 5.0% in 2008. The weak conditions of the residential construction market played an important role behind the slow increase in construction costs.

The demand for mortgages remained at the same level in 2009 as in 2008. The total value of outstanding loans from mortgage institutions increased by 7.8% as calculated in EUR (9.1% in SEK). There are several factors that explain this increase in mortgage lending. First, the Government introduced a new tax deduction at the end of 2008 of up to 50% on housing renovation and rebuilding. This measure has provided support to mortgage lending activity and helped the construction sector to survive during the economic downturn.

Despite the increase in outstanding mortgage loans, banks and mortgage institutions have become more restrictive in their lending criteria. Loan-to-value ratios on new loans have been lowered and interest-only loans have become less common.

As mentioned above, the Central Bank's repo rate reached its record low level in 2009. The expansionary interest rate environment has impacted the market rate and the variable interest rate on mortgage loans has gone down to only 1.45% on average at the end of 2009. The fixed interest rate on mortgage loans between 1 and 5 years was 3.2% at the end of 2009.

Loan loss ratio and the share of impaired loans were still recorded at low levels by the Swedish mortgage institutions.

The Financial Supervisory Authority will introduce in October 2010 a general guideline for credit institutions that offer mortgage loans. This general guideline implies a maximum LTV of 85% on mortgage loans.

At the end of 2008, the Swedish Government introduced a plan to stabilise the Swedish Financial Market. The plan consisted of several measures, one of which was the increase of the deposit guarantee up to SEK 500,000 (EUR 48,300). Other measures were a guarantee programme of up to SEK 1,500 billion (EUR 141.3 billion) to support banks' and mortgage institutions' medium-term financing needs, and a capital infusion programme. There has also been set up a stabilisation fund to manage potential solvency problems in any Swedish institutions. Banks and other credit institutions pay an annual fee to this fund.

## Funding

Covered bonds are the most common form of funding used in the Swedish market for funding residential mortgages. Despite the weakness of global financial markets during 2009, the Swedish institutions managed to issue covered bonds on the Swedish and global market for values of up to EUR 53 billion. The stock of outstanding covered bonds increased by 7.4% on the previous year, up to the value of EUR 134 billion.

A new mortgage bond act came into force on July the 1<sup>st</sup>, 2004, which introduced directly collateralised bonds (covered bonds), the underlying assets consisting of mortgage loans and loans to central, regional or local governments located within the EEA. By 2008 all former mortgage bonds had been converted into covered bonds.

	EU27, 2009	Sweden, 2009	Sweden, 2008
<b>GDP growth (%)</b>	-4.2	-4.9	-0.4
<b>Unemployment rate (%)</b>	8.9	8.3	6.2
<b>Inflation (%)</b>	1.0	1.9	3.3
<b>% owner occupied</b>	68.2	66.3	68.0
<b>Residential Mortgage Loans as % GDP</b>	51.9	82.0	66.7
<b>Residential Mortgage Loans per capita, EUR thousand</b>	12.37	25.50	23.85
<b>Total value of residential loans, EUR million</b>	6,125,727	236,062	218,976
<b>Annual % house price growth</b>	-6.8	0.2	2.9
<b>Typical mortgage rate (euro area), %</b>	2.71	1.43	3.60
<b>Outstanding Covered Bonds as % outstanding residential lending</b>	23.2	56.7	53.7

Source: EMF, Eurostat, ECB, Statistics Sweden

### Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Sweden= 2008