

*Finance panel at SNS:*  
**IMF on  
economic and financial policies in Sweden**



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# Plan

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- Brief summary: Conclusions and recommendations.
- Comments to selected points in the reports.
- Lessons from Denmark with relevance for Sweden.

# Conclusions

- Robust economic growth.
  - Inflation approaching target and growth coming down.
- Expansionary fiscal and monetary policy.
- Household debt increasing. Particularly for new mortgages.
- Large, complex, and externally interconnected financial sector.
- Banks robust.
- Immigration presents a labor-market challenge.

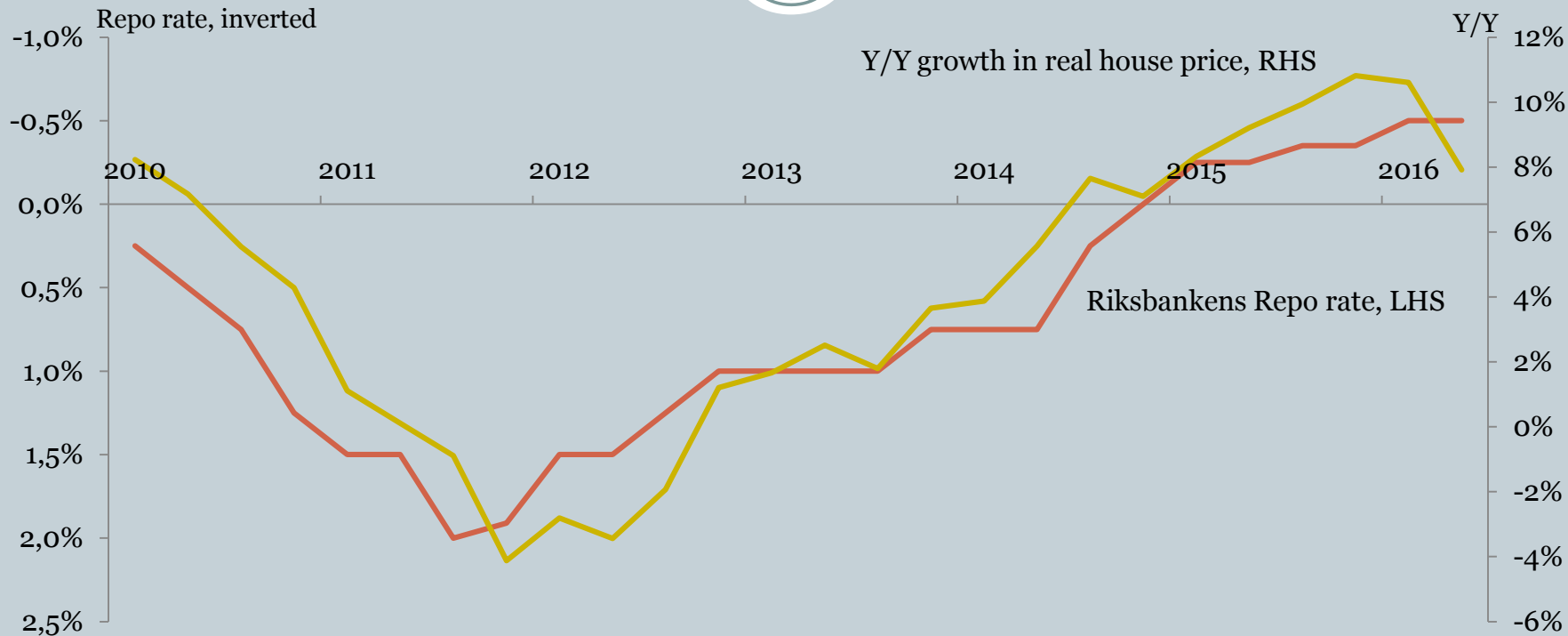
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# Recommendations

- Monetary and fiscal policy should continue to stimulate economy.
- Phase out interest rate deductibility.
- Cap on debt-to-income ratios.
- Step up supervisory activity (FI). Increase funding for FI.
- Evaluate tightening of FX liquidity requirements.
- Introduce leverage ratio.
- Clearer mandate for FI in terms of macro.prud. and Riksbanken for fin. stability.
- Integrate migrants in workforce.

# Comment #1: Tension between interest rate and house price growth

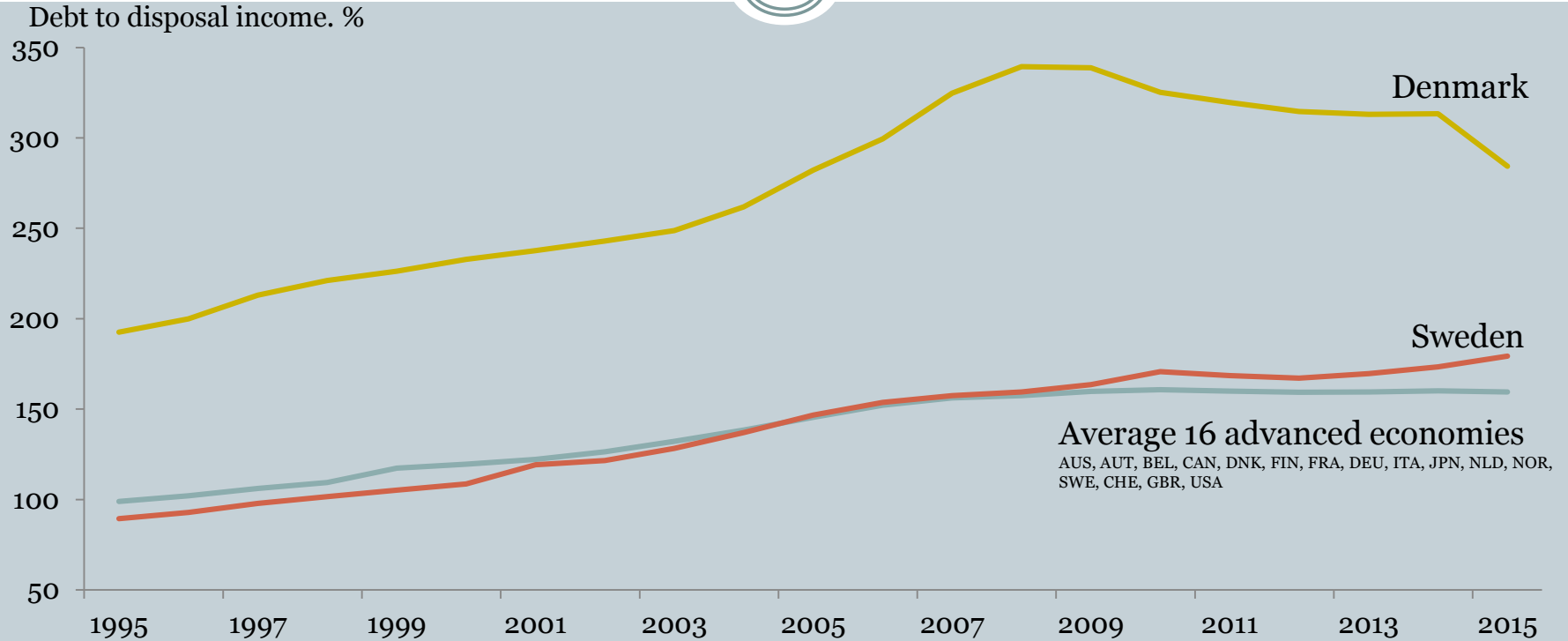
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Source: FED Dallas and own calculations

# Comment #2: Household debt not increasing exceptionally fast But DTI ratios of new borrowers often *very* high

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Source: OECD and own calculations

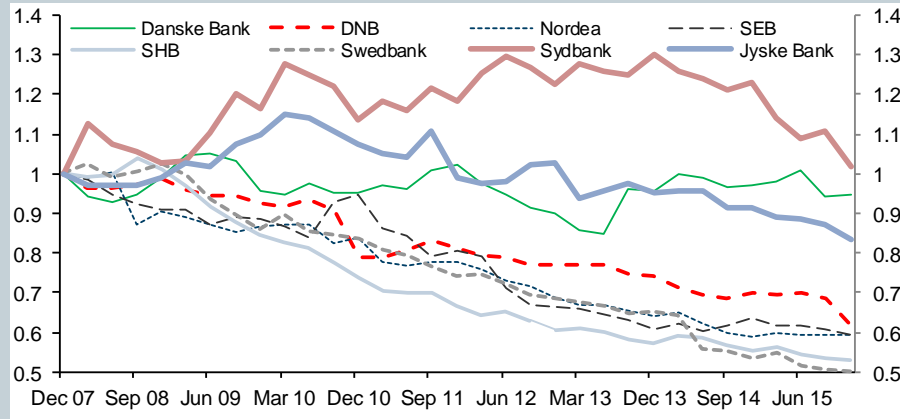
# Comment #3: 'Banks' risk-weighted capital ratios are high, but risk weights among the lowest in Europe'

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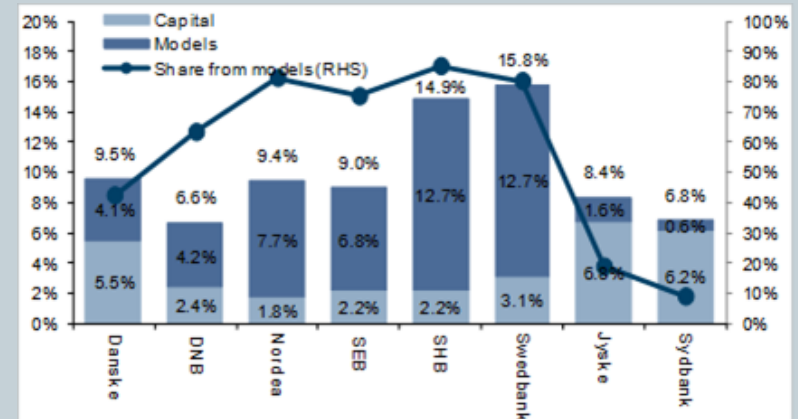
## Development in risk weights

## Risk weights and capital improvements. 2007-2014

RWA inflation (Growth in RWA minus growth in lending - accumulated)



Source: Company data and SEB



Source: Per Grønberg, SEB

# Lessons from Denmark #1: Lack of access to USD can be crucial for banks

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- Balance sheet of Danske Bank app. 2 times Danish GDP.
- Rangvid-committee concluded: *”There is no doubt that the bank had put itself in a vulnerable position, which, given the size of the bank, could shake Denmark's financial stability if risks did materialize.*
- Part of the funding in USD which was difficult to raise in autumn 2008, and foreign currency reserves of central bank not very large.

*If things had turned out differently (even worse than they did) in autumn 2008, it ...” ..... could have reduced the foreign currency reserves even further, and, in the worst case scenario, have been a threat to the fixed exchange rate policy or the government’s possibility of fulfilling its obligations.”*

## Lessons from Denmark #2: Stress tests might not capture all risks

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Conclusion in FSAP:

*“Stress tests suggest that banks and nonbanks are largely resilient to solvency shocks, but concerns persist about the ability of bank models to capture unexpected losses.”*

Conclusion in Danmarks Nationalbank Stability Report:

Summary  
Robust Financial Sector in Denmark

# Lessons from Denmark #3: House-price bubbles costly

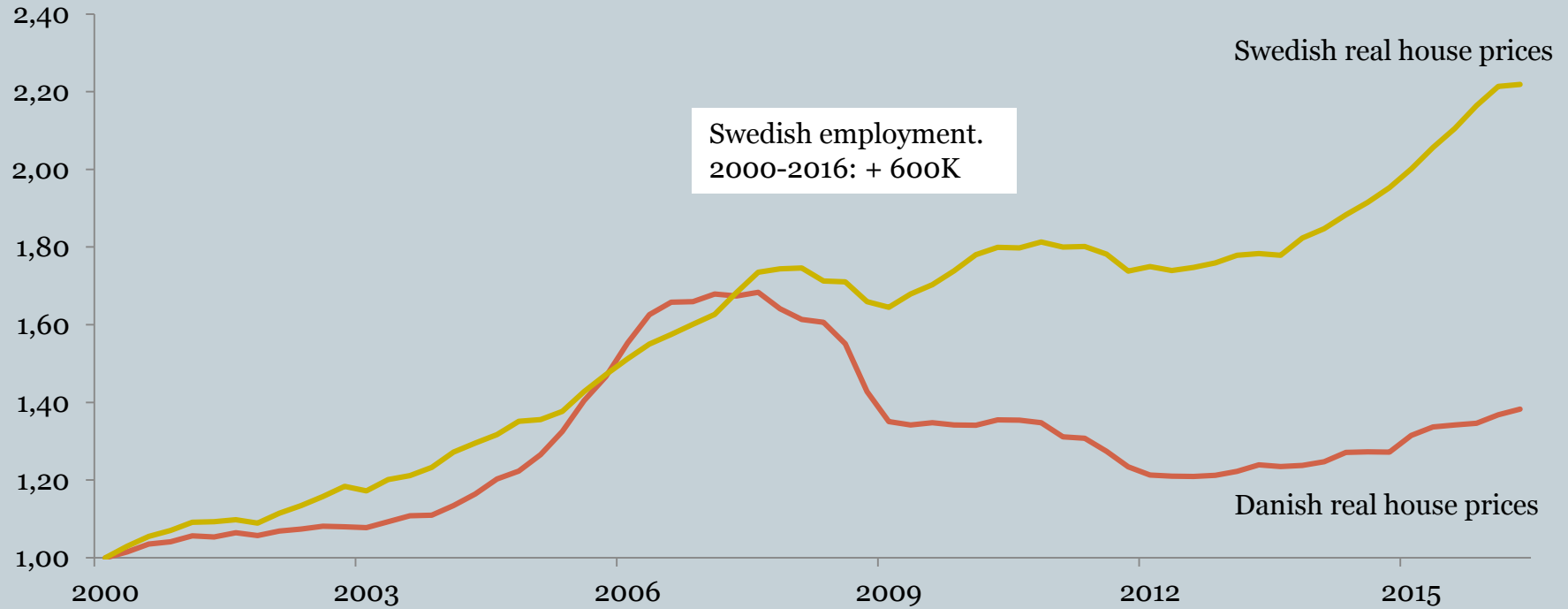
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Source: FED Dallas and own calculations

# Lessons from Denmark #3: House-price bubbles costly

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Source: FED Dallas and own calculations

# Lessons from Denmark #4: Difficult to forecast changes in house prices

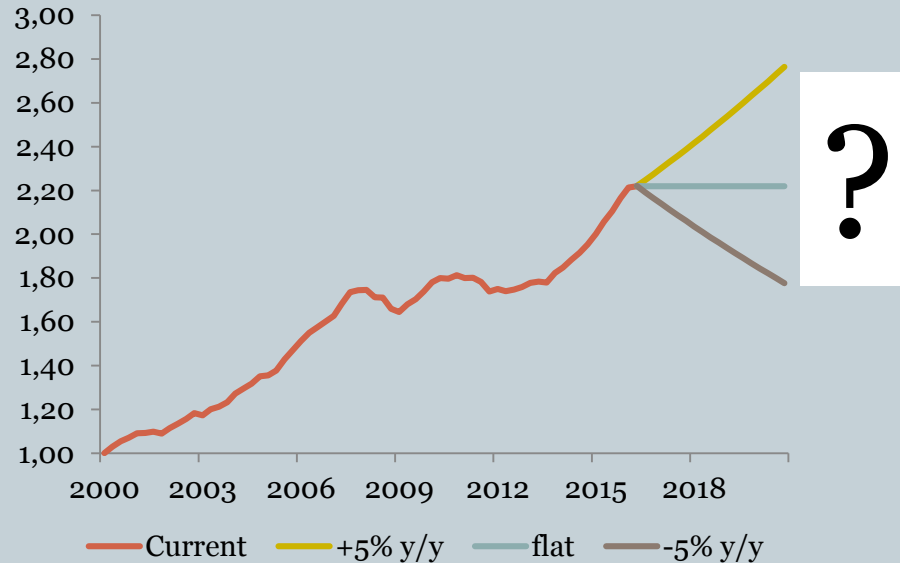
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## Danish house price forecasts



Source: Rangvid report

## Swedish house prices?

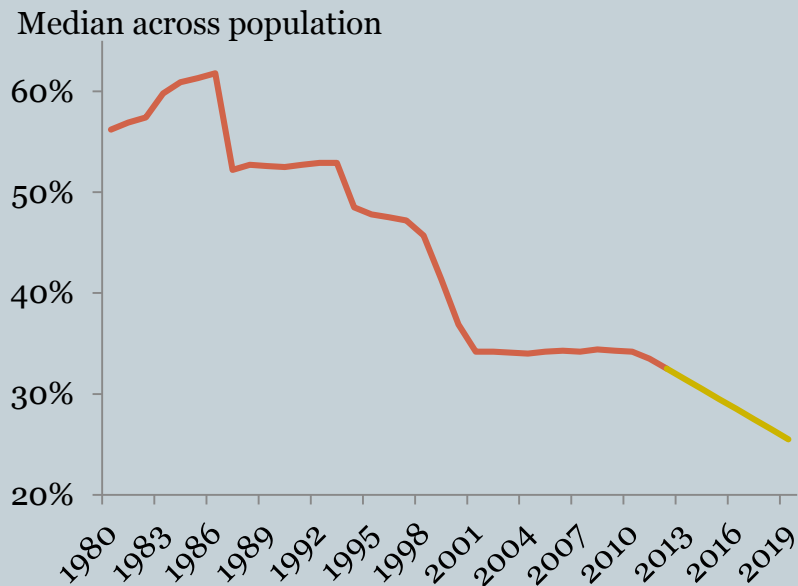


Source: FED Dallas and own calculations

# Lessons from Denmark #5: House price bubbles can arise with low deductibility

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## Historical development



Source: Statistics Denmark and own calculations

## Not a hot topic in Denmark

- Effect on house prices small.
  - Particularly when rates are low.
- Impacts young people relatively more (young people generally have higher debt).

*Focus in Denmark: Real estate taxes should follow house prices.*

## Lessons from Denmark #6: Addressing house price increases and interest rate sensitivity

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- Minimum 5% down payment (95% LTV).
- Credit assessment for an adjustable-rate mortgage should be based on disposable income after mortgage payment, where mortgage payments are based on a fixed-rate of at least 4 pct.
- Wealth should remain positive if house prices fall. If gearing is between 4 to 5, wealth should remain positive, even if house prices fall by 10 pct. If gearing is above 5, wealth should remain positive, even if house prices fall by 25 pct.

# Conclusion

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One day house prices will fall....



You have already done a lot  
(better prepared than we were):

Measure	Implementation
Maximum LTV ratio, 85 percent	October 2010
Risk-weight floor for mortgages, 15 percent	May 2013
LCR regulation, including in euro, U.S. dollar, and total	January 2014
Pillar II capital add-on 2 percent for the four largest banks	September 2014
Risk-weight floor for mortgages, 25 percent	September 2014
Systemic risk buffer 3 percent for four largest banks	January 2015
Counter-cyclical capital buffer activated at 1 percent	September 2015
Amortization requirement	June 2016
Counter-cyclical capital buffer raised to 1.5 percent	June 2016
Counter-cyclical capital buffer raised to 2.0 percent	March 2017

Seems it would make sense if  
Sweden did DTI, DSTI, DTW,...