

# Sweden

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## IN A NUTSHELL

- Residential mortgage lending growth slowed to 5.0%.
- Construction decreased, with -17% less housing starts, affected by developer's rising financing and building costs.
- Single family home price increases slowed down and was negative in the fourth quarter.
- The share of new loans with variable interest rates increased to 63.7%.
- The average LTV for new mortgage loans was stable at 65%.

## MACROECONOMIC OVERVIEW

GDP increased by 2.7% in 2022 compared to 5.2% in 2021, according to Eurostat. High inflation and the consequent rise in interest rates were the main drivers of the slowdown of the economy. Households cut back on spending due to large price increases and higher mortgage costs eroding their real income. Government consumption fell in constant terms. Housing investment decreased in the second half of the year. High prices for materials, high market interest rates and lower housing prices are eroding firms' profitability, leading to fewer apartment starts and a sharp drop in new construction. Exports of both commodities and processed goods grew relatively strongly.

Although GDP growth slowed, the number of employed people continued to rise. Labour shortages are still widespread in both the business and the government sectors, and firms' employment plans remain positive despite a substantial decline from their peak last year.

Inflation increased to 12.3% at year-end compared to 3.9% in 2021. Also, core inflation, a measure of underlying inflation that aims to remove the effect of changes in the interest rates from the Consumer Price Index (CPI), increased to 10.2%.

Government debt<sup>1</sup> as a percentage of GDP decreased from 36.5% to 33.0% as general government debt decreased and GDP in current prices increased. The decrease in government debt is equivalent to EUR -18.9 bn in 2022<sup>2</sup>.

## LOOKING AHEAD

The National Institute of Economic Research<sup>3</sup> reports in their March 2023 Economy Report that high inflation and rising interest rates will erode households' real disposable income this year despite wages and many benefits in the social insurance systems rising more quickly than last year. Inflation and higher interest rates are impacting the housing market, where prices have dropped more than 10% over the past 12 months. Developers' financing and building costs have also risen sharply, and there is widespread pessimism in

the industry. Housing investment began to fall in the second half of last year, and the decline will accelerate this year.

Housing investment is forecast to fall by 18% for 2023 as a whole. The decline in housing investment is one important reason why Swedish GDP is expected to shrink this year.

## HOUSING MARKETS

Housing construction was comparably strong in the first half of 2022 but started to slow down during the second half. Preliminary, 54,300 dwellings were completed in 2022 which is an 8% increase compared to the previous year. Developers' financing and building costs have risen sharply, and there was widespread pessimism in the industry at the end of the year. It has affected the number of housing starts, which decreased by -17% to around 56,400 dwellings and building permits by -22% to around 60,000.

High inflation, high energy prices and increasing mortgage interest rates increased household housing costs. The increasing costs led to a slower rate of increase in housing prices during 2022. Prices of single-family homes increased by 4.7%, compared to an increase of 16.8% in 2021. However, in Q4 2022, their prices decreased by -3.7% on an annual basis. They are the most expensive in the Stockholm region where prices increased by 3.7% in 2022 (-5.3% on an annual basis Q4 2022). Single-family house prices in the Gothenburg and Malmö regions increased by 3.3% (-5.1 Q4 2022) and by 2.9% (-5.6 Q4 2022) respectively. In the beginning of 2023, prices continued to decrease.

The price increase for tenant-owned apartments was in general lower than for single-family homes and was largely unchanged overall during 2022. However, in Q4 prices decreased by around -10%.

The share of tenant-owned apartments among new construction of apartments has been relatively stable around 50%. However, in 2021 the share of rental apartments among new construction increased to 64%. Overall, 38% of all apartments are tenant owned and the rest are rented. For all dwellings (single family homes and apartments), the share is reversed: 61% owner occupied and 39% rental.

## MORTGAGE MARKETS

### MARKET DYNAMICS

Residential mortgage lending grew by 5.0% compared to 6.8% in 2021. The growth rate has slowed after increasing in the previous three years.

Mortgage interest rates increased during 2022 after five years of low and relatively stable rates. The variable (3-month) rate increased to 3.6% at the end

<sup>1</sup> Government consolidated Gross Debt, Maastricht definition.

<sup>2</sup> Eurostat.

of 2022 compared to 1.2% in 2021. Initial fixed rates for 1 to 5 years were 3.8% at the end of 2022 compared to 1.4% in 2021. Initial fixed rates over 5 years increased to 3.1% at the end of 2022 compared to 1.6% in 2021.

The increasing mortgage interest rate has been followed by an increasing share of variable interest rate in new lending. The share of variable interest rate in new lending was 63.7% in 2022 compared to 43.5% the previous year. The average LTV for new mortgage loans is 65% in 2022, which is more or less unchanged to the previous year.

The credit loss ratio on mortgage loans remained close to zero, due to high credit standards, the social welfare system, and house prices that have been almost continuously increasing for more than 25 years.

### NON-MARKET LED INITIATIVES

Several measures have been taken over several years to counteract high indebtedness. In 2010 Finansinspektionen (the Swedish Financial Supervisory Authority), introduced a mortgage cap, whereby home loans may not exceed 85% of the value of the home. They also introduced a risk weight floor for Swedish mortgages, for bank capital purposes of currently 25%.

A further measure was the introduction of amortisation requirements. In June 2016, Finansinspektionen's regulation on amortisation entered into force, requiring annual amortisation of at least 1-2% on mortgages with LTV of 50% and higher. Stricter amortisation requirements entered into force from March 2018 requiring additional annual amortisation of 1% on mortgages with LTI of 450% or higher. Due to the pandemic a general easing of these rules was introduced in 2020, allowing exceptions such as interest only mortgages. The amortisation exception was abolished in August 2021.

Finansinspektionen introduced additional capital requirements on commercial real estate in 2020 through Pillar II-requirements. The risk weight for the new additional capital requirements is 35% for commercial real estate and 25% for commercial residential properties<sup>4</sup>.

### ANY FURTHER IMPORTANT EVOLUTION

The growth rate in outstanding mortgage loans slowed further in March 2023 to 4.4% on an annual basis compared to 7.0% in March 2022.

Prices of one-family homes decreased in the first quarter 2023 by -8.8% on an annual basis, compared with an increase by 4.7% for the full year of 2022.

## MORTGAGE FUNDING

Covered bonds are the most common form of mortgage funding. During 2022 covered bonds outstanding increased by 1.0% (in SEK) to EUR 225 bn equivalent. Total outstanding residential mortgages were in comparison EUR 475 bn. New gross issuance was EUR 48 bn in 2022.

## GREEN FUNDING

Most Swedish mortgage institutions and banks offering mortgages, also offer different kinds of green mortgages. Green mortgages typically have a 0.1% interest rate discount if the residential property fulfils certain energy standards. During recent years some institutions have started to issue green covered bonds to fund these green mortgages.

	SWEDEN 2021	SWEDEN 2022	EU 27 2022
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	6.1	2.8	3.5
Unemployment Rate (LSF), annual average (%) (1)	8.8	7.5	6.2
HICP inflation (%) (1)	2.7	8.1	9.2
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	64.9	64.2	69.1
Gross Fixed Investment in Housing (annual change)(1)	10.3	5.1	1.5
Building Permits (2015=100) (2)	127.7	105.0	125.8
House Price Index - country (2015=100) (2)	150.3	156.8	164.6*
House Price Index - capital (2015=100) (2)	137.8	142.7	163.8*
Nominal house price growth (%) (2)	16.9	4.3	10.6*
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	490,385	474,525	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	59,876	57,490	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	184.5	174.5	71.5
Gross residential lending, annual growth (%) (2)	11.2	-6.0	-6.5
Typical mortgage rate, annual average (%) (2)	1.3	2.3	3.1

\* Please note that this value is the simple average of the available values in 2022.

#### Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2023, Statistical Tables.

<sup>4</sup> Finansinspektionen, Increased capital requirements on bank loans for commercial real estate <https://www.fi.se/en/published/press-releases/2020/increased-capital-requirements-on-bank-loans-for-commercial-real-estate/>

## SWEDEN FACT TABLE

<b>Which entities can issue mortgage loans in your country?</b>	There are no specific limitations as regards issuing mortgages. 99% of all mortgage lending in Sweden is issued by banks and credit market institutions. New non-bank actors like mortgage credit companies and AIF (Alternative Investment Funds) have entered the market since a couple of years and made up 1% of the mortgage market in 2022.
<b>What is the market share of new mortgage issuances between these entities?</b>	There is an approximate share of 70% for credit market institutions (mortgage credit institutions) and 25% for banks. Other actors like mortgage credit companies and AIF (Alternative Investment Funds) had a market share of approximately 5% of new mortgages in 2022.
<b>Which entities hold what proportion of outstanding mortgage loans in your country?</b>	Mortgage institutions have approximately 75% of outstanding mortgages and banks approximately 25%. Mortgage credit companies and AIF (Alternative Investment Funds) have 1% of outstanding mortgages.
<b>What is the typical LTV ratio on residential mortgage loans in your country?</b>	According to Finansinspektionen the average LTV for new mortgage loans in 2022 was 65%.
<b>How is the distinction made between loans for residential and non-residential purposes in your country?</b>	The distinction is made based on how the loan is secured. Residential loans are secured on residential property.
<b>What is/are the most common mortgage product(s) in your country?</b>	Ordinary mortgage loans. Variable interest is the most common interest rate on new mortgages (63.7%) in 2021.
<b>What is the typical/average maturity for a mortgage in your country?</b>	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.
<b>What is/are the most common ways to fund mortgage lending in your country?</b>	Covered bonds
<b>What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?</b>	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, borrowers do not pay any fee to the mortgage lender. Notary is not needed in Sweden, thus there is no notary fee.
<b>What is the level (if any) of government subsidies for house purchases in your country?</b>	There are no direct subsidies in Sweden. However, borrowers are allowed to deduct 30% of the interest payments from their tax payments.