

PRESS RELEASE

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Risks to financial stability remain in an uncertain world

The uncertain developments abroad continue to characterise the risk outlook in Sweden. The security situation remains serious. While the ambiguity surrounding US trade policy has eased somewhat, it is unclear how permanent the current stance will be or what impact it may have. Moreover, there are vulnerabilities, not least in the form of high asset valuations and continued high and growing public debt in several major economies. In times of uncertainty, it is particularly important to safeguard global regulatory frameworks that strengthen the resilience of the financial system.

Increased risk appetite despite major uncertainties in the world economy

Despite the uncertain economic situation, the financial markets are characterised by a high appetite for risk, with high asset valuations and low risk premiums. In such an environment, unexpected events can trigger strong market movements, which quickly spread through the interconnected global financial system. The effects may also be exacerbated by non-banks having grown rapidly and gained an increasingly important role in the global financial system.

Despite occasional large market movements during the year, the global financial system has shown good resilience and financial markets have generally functioned well. A key reason for this is the regulatory framework and standards introduced after the global financial crisis. It is therefore important that the strengthened regulatory frameworks and standards are not watered down and that the banks' resilience is maintained. It is also important that the regulatory framework covers non-bank actors that are important for financial stability.

S V E R I G E S R I K S B A N K

Global disruptions affect Sweden – resilience needs to be protected

The major Swedish banks are fundamentally in a strong position – they are profitable, have low loan losses and good margins with regard to the capital and liquidity requirements. However, they are highly dependent on global developments, which makes them vulnerable to shocks. A significant part of their funding is denominated in foreign currencies, often with short maturities, which means they need to have good liquidity in the relevant currencies. The international environment underscores the importance of maintaining robust preparedness for operational risks, including cyber threats and dependencies on third-party service providers.

If interest rates and risk premiums abroad were to rise, this could also affect households and property companies, as many of them have large loans and relatively short interest-fixation periods. The proposal for more generous lending regulations in the form of reduced amortisation requirements and a higher loan-to-value limit may make households even more vulnerable to such shocks in the future. A particular risk would be the emergence of a self-reinforcing spiral between housing prices and household debt. A loan-to-income limit provides an effective brake against such dynamics and should therefore be part of the macroprudential toolkit. In turn, property companies would be more resilient if they extended their interest-fixation period and debt maturities.

Stablecoins are growing fast and can carry risks

Although the market for stablecoins is still small, it is growing rapidly. If their use continues to increase rapidly, risks may arise, for example, in the form of bank runs, increased dependence in Europe on foreign infrastructure, a lack of transparency and the financing of criminal activities. Given the cross-border nature of stablecoins, it is important that international regulatory frameworks are adapted and harmonised in line with developments.

Read more about stablecoins in the article in the Financial Stability Report and in the Staff Memo, "Stablecoins could lead to better payments, but risks remain".

A press conference with the Governor of the Riksbank, Erik Thedéen, and Olof Sandstedt, Head of the Financial Stability Department, will be held today at 11.00 at the Riksbank. Press cards or the equivalent are required to participate. Advance registration is required, to press officer Susanne Meyer, susanne.meyer@riksbank.se no later than 10.00 on 13 November. The press conference will be broadcast live on riksbank.se.