

Sweden

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IN A NUTSHELL

- Residential mortgage lending increased by 6.8%.
- Construction slowed, with 6% less completions, affected by the global logistical problems and delayed deliveries.
- Single family home prices increased due to changing housing demand in the pandemic.
- The share of new loans with variable rates continued to fall, by 5 pps to 43.5%.
- The share of new loans that amortise has levelled out the last years and was 87%.

MACROECONOMIC OVERVIEW

GDP increased by 5.1% compared to a decrease of -2.2% in 2020, according to Eurostat. Strong global and domestic demand made the economy recover. Government consumption and investment grew weakly, but other domestic demand components grew strongly. Exports of services grew strongly. Exports of goods performed well but were hampered by bottlenecks and supply problems, above all in the automotive industry. Investments have also recovered during 2021. The number of apartments starts increased rapidly in the first half of 2021 due to brisk demand. Unemployment increased slightly to 8.8% from 8.3%. The labour market started to recover and firms' employment plans are historically high in most sectors.

Inflation increased to 2.7% in 2021 compared to 0.7% in 2020. Also, core inflation increased to 4.1%. The core inflation is a measure of underlying inflation and aims to remove the effect of changes in the interest rates from the Consumer Price Index.

Government debt¹ as a percentage of GDP decreased from 39.6% to 36.7% in 2021. The Swedish economy has recovered from the fall in 2020 faster than expected and central government finances have strengthened. The economic recovery resulted in higher tax income and lower expenditure for the central government. The decrease in government debt is equivalent to EUR -4.4 bn in 2021². In comparison the government debt increased by EUR 28.3 bn in 2020.

HOUSING MARKETS

Housing completions decreased over the last two years, but from comparably high numbers. 47,300 dwellings were completed in 2021 which is a 6% decrease from last year. Construction is affected by the global logistical problems and delayed deliveries. The supply of cement is another uncertain factor in Sweden. To some extent construction starts were postponed and completions were delayed.

The demand for housing was still strong in 2021; housing starts increased by 16.5% to around 63,900 dwellings and building permits by 15% to 73,000. The levels of construction activity was comparatively high.

Stricter amortisation rules introduced in 2018 to curb interest-only loans still influence the housing market. They limit the possibility for some groups to enter the housing market - especially in the larger cities, where new construction is not affordable to many individuals.

The distinctive change in demand for housing that started in 2020 after the outbreak of the pandemic, which led to increased demand for one-family homes and larger apartments, continued in 2021. Prices of single-family homes increased by 16.7% compared to 6.6% in 2020. They are most expensive in Stockholm region where prices increased by 18.6% in 2021. Single-family house prices in the Gothenburg and Malmö regions increased in 2021 by 15.7% and by 18.6% respectively. In the beginning of 2022, the prices of one-family homes have started to slow down.

The price increase for tenant-owned apartments was in general lower than for one-family homes in 2021. The prices for tenant-owned apartments increased by around 9% compared to around 4.5% in 2020.

The share of tenant-owned apartments among new construction has been relatively stable around 50%. However, in 2021 the share of rental apartment among new construction has increased to 64%. Overall, 38% of all apartments are tenant owned. For all dwellings (single family homes and apartments), the share is reversed: 62% owner occupied and 38% rental.

MORTGAGE MARKETS

MARKET DYNAMICS

Residential mortgage lending grew by 6.8% compared to 6.4% in 2020. The growth rate has increased in the last two years after having declined for four years in a row.

The demand for mortgage loans has continued and although amortisation of existing loans has increased, debt levels are relatively high. Several factors, to varying degrees, explain this: i) The population is growing due to immigration and relatively high birth rates, ii) Internal migration towards larger cities has driven housing markets in those areas. This in combination with a long period of comparably low housing construction has created a shortage of housing, iii) Dysfunctional apartment rental markets in growth regions due to rent control leaves few opportunities other than to buy an apartment. To get a rental apartment contract on the regulated rental market, often requires many years of queuing in the growth regions, iv) historically low mortgage interest rates.

Mortgage interest rates have been relatively stable for the last five years. The variable (3-month) rate was between 1.2 and 1.3% during 2021, which is

¹ Government consolidated Gross Debt, Maastricht definition.

² Eurostat.

slightly lower than the last five years. Initial fixed rates, for 1 to 5 years, have ranged from 1.3 and 1.4%, slightly lower than in previous years. Initial fixed rates over 5 years were stable around 1.5% until the end of 2021, when the interest rate increased slightly.

A general easing of the amortisation rules introduced in April 2020 after the outbreak of the pandemic, allowing exceptions such as interest only mortgages, was abolished in August 2021. If the temporary exemption from the amortisation requirements is excluded, the proportion of borrowers who amortise their mortgages (87%) in 2021 was unchanged compared to 2020³. Over a period of several years, amortisation has increased partly due to the stricter amortisation requirement (see below 4b).

The average LTV for new mortgage loans is 64.5%, which is lower than in 2020.

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

A number of measures have been taken in recent 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 have also introduced a risk weight floor for Swedish mortgages, for bank capital purposes of, currently, 25%.

A further measure is the introduction of amortisation requirements. In June 2016 the Finansinspektionen's regulation on amortisation entered into force, requiring annual amortisation of at least 1-2% on mortgages with LTV (loan to value) 50% and higher. Stricter amortisation requirements entered into force from March 2018 requiring additional annual amortisation of 1 percent on mortgages with LTI (loan to income) 450% or higher. Due to the pandemic outbreak, 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 properties⁴.

ANY FURTHER IMPORTANT EVOLUTION

The growth rate in outstanding mortgage loans increased in March 2022 to 6.9% on an annual basis compared to 6.3% in March 2021.

Prices of one-family homes increased in the first quarter 2022 by 12.9% on an annual basis, compared with an increase by 16.7% for the full year 2021. The increasing inflation and interest rates have started to affect the housing market in the first half of 2022. Many expect the housing prices to cool down considerably during the year.

MORTGAGE FUNDING

Covered bonds are the most common form of mortgage funding. During 2021 the number of covered bonds outstanding decreased by -0.2% (in SEK) to EUR 242 bn. Total outstanding residential mortgages was in comparison EUR 490 bn. New issuance was EUR 57 bn in 2021.

GREEN FUNDING

Most Swedish mortgage institutions and banks offering mortgages, also offer different kinds of green mortgages. Green mortgages typically have a 0.1 percent 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 the green mortgages.

	SWEDEN 2020	SWEDEN 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-2.2	5.1	5.4
Unemployment Rate (LSF), annual average (%) (1)	8.3	8.8	7.0
HICP inflation (%) (1)	0.7	2.7	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	64.5	64.9	70.0
Gross Fixed Investment in Housing (annual change)(1)	1.6	10.3	6.6
Building Permits (2015=100) (2)	111.0	127.7	134.0
House Price Index – country (2015=100) (2)	128.6	150.3	145.2*
House Price Index – capital (2015=100) (2)	116.2	137.8	146.1*
Nominal house price growth (%) (2)	6.7	16.9	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	468,966	490,376	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	57,562	59,876	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	192.7	183.3	62.8*
Gross residential lending, annual growth (%) (2)	11.0	11.2	12.2
Typical mortgage rate, annual average (%) (2)	1.5	1.3	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

³ Finansinspektionen, The Swedish Mortgage Market (2021), page 26. <https://www.fi.se/sv/publicerat/rapporter/bolanerapporter/den-svenska-bolanemarknaden-2022/>

⁴ 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

Which entities can issue mortgage loans in your country?	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 almost 1% of the mortgage market in 2021.
What is the market share of new mortgage issuances between these entities?	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 2021.
Which entities hold what proportion of outstanding mortgage loans in your country?	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.
What is the typical LTV ratio on residential mortgage loans in your country?	According to Finansinspektionen the average LTV for new mortgage loans in 2021 was 64.5%.
How is the distinction made between loans for residential and non-residential purposes in your country?	The distinction is made based on how the loan is secured. Residential loans are secured on residential property.
What is/are the most common mortgage product(s) in your country?	Ordinary mortgage loans. Variable interest is the most common interest rate on new mortgages (43.5%), even though the share of variable interest rate decreased in 2021.
What is the typical/average maturity for a mortgage in your country?	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.
What is/are the most common ways to fund mortgage lending in your country?	Covered bonds
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	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.
What is the level (if any) of government subsidies for house purchases in your country?	There are no direct subsidies in Sweden. However, borrowers are allowed to deduct 30% of the interest payments from their tax payments.