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In-Depth Review 2025

Sweden

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European Commission
Directorate-General for Economic and Financial Affairs

In-Depth Review 2025

Sweden

EUROPEAN ECONOMY

Institutional Paper 316

This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Sweden for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2025 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or excessive imbalances in Sweden. That Communication will be published in June 2025.

European Commission

Sweden

In-Depth Review 2025

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1. INTRODUCTION

This in-depth review (IDR) analyses the evolution of Sweden's vulnerabilities related to the real estate market, high private debt and possibly newly emerging risks. This year's IDR, which follows the 2025 Alert Mechanism Report (AMR) published in December 2024, assesses the persistence or unwinding of the vulnerabilities identified last year, potential emerging risks, and relevant policy progress and policy options that could be considered for the future[1].

The vulnerabilities in Sweden are analysed against a backdrop of subdued but resuming GDP growth. Sweden's economy returned to growth in 2024 with GDP rising by 0.3% after a contraction in 2023 of 0.3%. Economic growth is expected to strengthen in 2025 and to remain strong going forward as falling inflation and easing financial conditions are set to increase real income and spur domestic demand. In full-year terms, the Commission's Autumn 2024 Economic Forecast projects real GDP growth to be 1.8% in 2025 and 2.6% in 2026[2]. Headline HICP inflation declined to 1.9% in 2024, down from 5.9% in 2023 and it is expected to reach 1.5% in 2025 and 1.8% in 2026. Core inflation slightly more than halved to 3.2% in 2024 and is forecast at 1.8% and 1.4% in 2025 and 2026 respectively[3]. In a context of weak economic activity, the labour market contracted in 2024 with unemployment rising to 8.5% in 2024 from 7.7% in 2023. In line with the expected upturn in the economy in 2025, employment growth is set to gain traction as well. Wage settlements are expected to remain moderate in the wake of falling inflation and increased unemployment. Looking ahead, risks to the outlook are to the downside, mirroring uncertainty over the resilience of the labour market and the extent to which domestic demand recovers. As a result, the pace of adjustment of Sweden's private debt ratios could slow.

(1) European Commission (2024), Alert Mechanism Report 2025, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, COM(2024) 702 final; and European Commission (2024), Alert Mechanism Report 2025, Staff Working Document, SWD(2024) 700 final.

(2) All forecast data used in the IDR come from the Commission Autumn 2024 Forecast (European Economy, Institutional Paper 296), unless stated otherwise, in order to ensure the coherence of the various figures and calculations. The cut-off date for the data for the preparation of this IDR was 24 March 2025. Actual outturn data that have become available after the Autumn Forecast, and before the cut-off date for the IDR, are mentioned.

(3) Input-output analysis indicates that over the period 2020-2024, foreign demand contributed 0.6 pps. to Sweden's cumulated GDP growth of ca. 5.4%; conversely, due to its limited size, the Swedish domestic demand had little impact on the EU growth. Over that same period, imported value-added inflation accounted for 1.9 pps. of the 20.4% cumulated inflation. See European Commission Institutional Paper 2025 (forthcoming) – "Economic spillovers and financial linkages in the EU".

2. ASSESSMENT OF MACROECONOMIC IMBALANCES

In recent years, Sweden has been marked by vulnerabilities related to its real estate market and high levels of both household and corporate debt. The corporate and household debt-to-GDP ratios remain high despite decreasing in 2023, predominantly on account of high inflation, and further declining in 2024. Despite this decline, household debt in Sweden as a percentage of GDP remains among the highest in the EU. In addition, non-financial corporate debt remains high and is interlinked with the property market due to the outsized role played by commercial real estate (CRE) companies in total outstanding corporate debt. Increasing house prices have gone hand-in-glove with higher household indebtedness. House prices remain overvalued based on valuation models and started to rise again in 2024 after declining in 2023.

2.1. HOUSING MARKETS

Assessment of gravity, evolution and prospects of vulnerabilities

Valuation indicators suggest that house prices remain high relative to fundamentals despite falls in prices in 2023 and 2024. Nominal house prices began to fall at end 2022 on the back of increased interest rates and continued to decline in 2023 (-5.3%) and are forecast to have declined 6.8% in 2024 (Graph 2.1.a). Nevertheless, house prices are still estimated to be approximately 17% overvalued according to the Commission methodology in 2024. Overvalued house price levels coupled with high household debt pose risks of a disorderly correction. In Q3 2024, nominal house price growth turned positive rising 0.3% year on year. A moderation in house prices seems unlikely as supply constraints remain, incomes are growing and borrowing costs have started to reduce since mid-2024. On the upside, the recent decreases in house prices has improved affordability, with the number of years of income needed to buy an apartment of 100 square metres reducing from 8.3 years in 2021 to an estimated 7.4 years in 2023.

Increased construction of new homes in urban areas will be needed over the next decade to keep up with demographic factors, albeit at a lower pace than previously estimated. The Swedish National Board of Housing, Building and Planning considers an annual construction need of 52 330 homes compared with the latest forecast of just under 40 000 completed homes in 2024 and 33 000 homes forecast for completion in 2025. However, updated demographic projections suggest a markedly lower pace of population growth than previously expected, mitigating the impact of supply constraints as a key driver of rising house prices. Still, housing needs are unevenly distributed across the country. A large part of the estimated construction need is concentrated in urban areas which have the largest mismatches of supply and demand.

The exposure of the financial sector to the real estate sector is relatively high, leaving it vulnerable to changes in economic and financing conditions. The Swedish banking sector is well-capitalised, highly profitable and has low levels of non-performing loans. Banks have benefitted from high growth in deposits that helped ensure low funding costs. However, with interest rates now declining after a period of subdued economic activity, interest rate margins, which had been high in recent years, may narrow again. Although the banking sector is highly capitalised and profitable in an EU context, a disorderly correction of property prices would negatively affect the financial sector given the large exposure to household mortgages and commercial real estate companies. In such a case, there could also be negative spill-overs to neighbouring countries given systemic financial interlinkages.

Assessment of MIP relevant policies

Untargeted fiscal incentives favouring home ownership distort the housing market. In Sweden, the property tax system creates strong incentives for home ownership. Recurrent property taxes are decoupled from house prices. Sweden has a cap on property taxes so that a rise in the value of property will not increase taxes for home owners. In addition, Sweden offers significant tax subsidies for mortgage interest payments, as mortgage interest deductibility is among the most generous in the EU. There is no ceiling to the total amount of deduction and there are no additional conditions for a mortgage loan to qualify for tax deductions. On the other hand, changes in rules on capital gains tax ceilings and deferrals on owner-occupied homes in the past few years intend to enhance homeowner mobility, thereby facilitating people who wish to change jobs and downsize in order to make better use of the existing housing stock.

The rental market is fragmented between rentals with rent well below market levels and rentals for which rents are more aligned with market rates. The market is characterised by the negotiated rent regulation through the bruksvärdessystem (utility value rent system)(4). Affordable rentals with a notional high market value, but with rents kept down under the bruksvärdessystem, can have long waiting lists, particularly in centrally located urban areas, making them inaccessible to new renters. Recent indications of cooling demand for higher-priced apartments in metropolitan areas that are covered by presumption rents(5) suggest that more households may be unable or unwilling to enter this segment, especially considering the alternatives in the sales market. However, not all households are in a position to get the large mortgages required to buy a home. Those that buy a home can benefit from the generous mortgage interest deductibility tax relief available, which is not available to renters.

An appropriate mix of macroprudential measures is needed to mitigate negative effects and support long-term stability. Such measures have the potential to partially counteract the build-up of unnecessary risks although they cannot be expected to fully counter the impact of the main drivers of underlying vulnerabilities. Although some macroprudential measures, such as the amortisation requirement and the mortgage cap, have been implemented to address concerns related to mortgage debt growth, the impact was limited. A committee tasked with reviewing the impact of borrower-based macroprudential measures in Sweden reported in November 2024 and made recommendations to ease the existing rules(6).

2.2. PRIVATE DEBT

Assessment of gravity, evolution and prospects of vulnerabilities

Sweden's household debt ratio is among the highest in the EU despite some recent falls. Household debt remains high, despite falling since peaking in 2020. Debt as a share of GDP

(4) The utility value rent system, known as bruksvärdessystem in Swedish, is a method used to regulate rents in Sweden. It aims to ensure that rents are fair and reflect the utility value of the apartment reflecting size, location and amenities, rather than market demand.

(5) Presumption rents in Sweden are a method of setting rents for newly constructed apartments. Unlike the utility value rent system, presumption rents are based on the actual costs of producing the apartment.

(6) https://www.regeringen.se/contentassets/828d8d257c4249ee96877a5ea018d690/reglering-av-hushallens-skulder-sou-202471_.pdf.

declined to 83% in 2024 from 85% in 2023 and 94% in 2020. This remains above the fundamental (73% of GDP) and prudential (53% of GDP) benchmarks (Graph 2.1.c). High headline inflation supported the decline in the household to GDP ratio since its peak in 2020. Household debt growth mirrors developments in house prices as the dominant share of household debt has been used for the purchase of housing. The rapid increase in interest rates, in a context where variable interest rates and mortgages with very long durations prevail, has put pressure on household balance sheets and reduced repayment capacity (see below). Net interest payments by households rose from 2.4% in 2021 to 3.7% in 2023, but the increase in interest payments was larger than that and may accrue to other households than those who benefit from the increase in interest receipts. The increase in interest rates also triggered a fall in consumption contributing to the recession in 2023, and affected property prices. Net credit flows remained muted in 2023 and 2024 as a result of the high borrowing costs; but if they return to usual levels going forward, the household debt ratio is likely to start increasing again (see Box 2.1).

Household debt statistics underestimate the financial vulnerability of households that own homes through tenant-owner associations, as the association's debt is not reflected in individual household debt figures. Tenant-owner associations own more than 1.1 million apartments in Sweden. The debts of these tenant-owner associations and the servicing of such debts are borne by the associations' members. The association finances interest and amortisation payments through monthly fees of its members. Any increase in interest rates will lead to increased fees for the members in addition to servicing their own mortgage costs. The rapid monetary easing which has seen the central bank policy rate reduced to 2.25% at the beginning of 2025 from 4.0% in 2024 should bring some relief to households as the interest burden has started to fall.

The recent higher interest rate environment underscores some of the vulnerabilities of high debt, which are exacerbated by the specificities of the mortgage market in Sweden. Despite interest rates falling in 2024, the rapid increase in 2022 and 2023 has had knock-on effects on households (Graph 2.1.b). Mortgages account for the lion's share of total household borrowing (approximately 80%). The prevalence of long mortgage maturities, short interest fixation periods, and limited mortgage amortisation requirements increases the sensitivity of households' borrowing capacity to changes in interest rates. Thus far, mortgage borrowers have remained resilient with non-performing loans remaining relatively low. However, other types of debt, such as unsecured loans and unpaid bills, are on an upward trend indicating payment problems for some households[7]. In addition, in Sweden lenders can offer mortgagors, whose financial circumstances have deteriorated significantly, an exemption from amortising their mortgage. The number of borrowers that were granted an exemption in 2023 more than doubled compared to in 2022, from just under 15,000 to more than 33,000[8].

The highly leveraged commercial real estate market warrants close attention, even as immediate liquidity constraints and interest costs appear to have peaked. The commercial real estate (CRE) market, which has faced challenges linked to the financing situation of CRE firms active in the market and the ability of these firms to pay higher interest costs, has remained relatively resilient. Banks covered the financing needs of CRE firms when capital market finance dried up around the interest rate peak. CRE firms' total debt has remained relatively unchanged since mid-2022, while CRE firms represent approximately 40 per cent of the total debt among Swedish NFCs[9]. In the course of 2024, capital market access has improved markedly, while lower interest rates have lessened the pressure on CRE firms. Nevertheless, headwinds could still come

(7) Sveriges Riksbank (2024), *Financial Stability Report 2024:2.*

(8) Finansinspektionen (2024), *The Swedish Mortgage Market Report,* 7 March 2024.

(9) Finansinspektionen (2024), *Stability in the Financial System Report*, 20 November 2024.

from significant refinancing needs in 2025 and 2026 and operational risks from a slower-than-expected cyclical upturn.

Levels of corporate debt remain among the highest in the EU. In 2024, the corporate debt-to-GDP ratio declined to 114% from 117% in 2023, down from a peak of 121% in 2022 (Graph 2.1.c). This decrease was driven by a fall in debt securities relative to nominal GDP, and reductions in FDI debt-to-GDP. Furthermore, in 2024 corporate credit flows turned negative i.e. new issued credit was lower than credit amortisations (Graph 2.1.f). Despite some reduction in the level of corporate debt, the level remains considerably higher than the fundamental (66% of GDP) and prudential (65% of GDP) benchmarks. Borrowing costs have started to descend but remain high. Bankruptcies picked up markedly during 2023 and stayed high in 2024, while new business registrations fell. Overall financial vulnerabilities increased mostly due to a deterioration in the debt service capacity amid weak economic activity (Graph 2.1.b). Commission projections suggest that if interest rates moderate further going forward and net credit flows to NFCs return to their pre-pandemic levels, corporate debt is likely to start increasing again (see Box 2.1).

Assessment of MIP relevant policies

Limited steps have been taken to address the policy bias favouring debt-financed housing acquisition. From 1 January 2025 tenant-owner associations are required to submit their annual reports to the Swedish Companies Registration Office. This new requirement will increase transparency in the associations' finances. Regulatory changes related to the reform of building permits have been announced, which should simplify construction for homeowners wishing to expand their homes. Changes to macroprudential policies are being considered in the context of a committee report on macroprudential policies presented to the government in November 2024. The committee proposed a number of recommendations such as increasing the loan-to-value limit for housing loans from 85 to 90%; abolishing the 2% amortisation requirement for loans with a loan-to-value above 70% and instead imposing a general amortisation requirement of 1% for all loans with a loan-to-value exceeding 50%, and introducing an loan-to-income limit of 550% of gross income, however with a flexibility margin for banks to deviate from these rules for up to 10% of all housing loans. The Swedish government aims to return to these issues in 2025.

Any loosening of macroprudential policy ahead of reforms to tackle existing market dysfunctioning could lead to higher house prices while simultaneously increasing household debt, particularly at a time of falling interest rates. Such a development may exacerbate macroeconomic vulnerabilities in Sweden, rather than alleviate associated concerns. There is a clear risk of higher indebtedness and higher inequality in the housing market in tandem with higher house prices if macroprudential measures are eased (see Annex – Considerations for changes to borrower-based measures). Changes to macroprudential policy should avoid exacerbating vulnerabilities by adding to incentives or easing the impediments to raising the level of already high household debt.

Improving the functioning of the housing market requires both fiscal and structural policy measures. No policy action has been taken to reform the tax system, which continues to promote debt-financed housing acquisition through the significant tax deductibility of mortgage interest payments and to favour homeownership. In addition, there are no reforms aimed at amending recurrent property taxation by increasing the cap and by adjusting the reference value more frequently. There have been no concrete policy steps to liberalise tight rental market regulations. Reforms to bring the rents of the older stock of rental housing closer to market rents would likely be an effective policy measure to address the vulnerabilities.

High levels of household debt are intrinsically linked to the housing market. Measures that increase housing supply in line with demand over the coming years could go a long way in assuaging these vulnerabilities. Despite numerous government inquiries, policy action has been limited. The earlier-identified need for a database with individual wealth data [10] still persists. Establishing a database with microdata would help in understanding at a granular level the impact of policies related to and the distribution of exposure to macroeconomic vulnerabilities among the population, as well as improve the understanding of how the macro-economy responds to interest rate and balance sheet shocks.

Table A: **Main policies increasing or reducing risks of imbalances considered in this IDR**

Vulnerability	Policies	Implementation status
Housing markets	*A proposal for new building permit rules.* The new rules provide more flexible rules for building home extensions without requiring permits.	The proposed law changes are scheduled to come into force on 1 October 2025
Private debt	*A requirement for tenant-owner associations to submit their annual reports to the Swedish Companies Registration Office*. The purpose of this new requirement is to increase transparency in the associations' finances.	In force since 1 January 2025
	A new model for calculating interest differential compensation for early payment of fixed housing loans. The new model will reduce costs for consumers who wish to repay their fixed rate loans early and aims to act as an incentive for house buyers to take up loans with longer fixation periods.	The law change is due to come into force on 1 July 2025.

Note: This table lists the main measures that may increase or reduce the risks of macroeconomic imbalances. The measures are described more at length and reviewed in the text of this IDR.

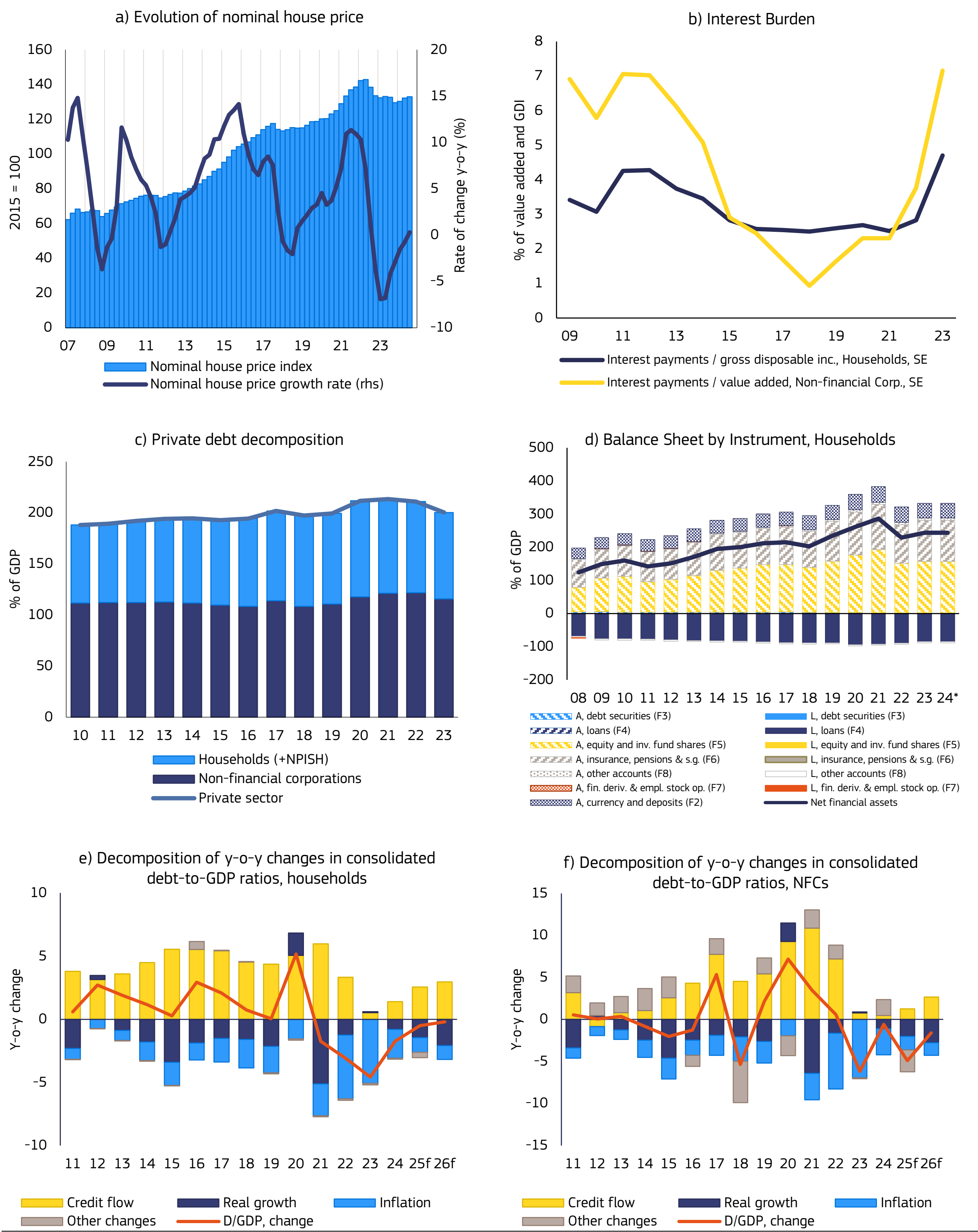
CONCLUSIONS

Sweden continues facing vulnerabilities relating to its housing market and high levels of private debt. Despite some moderation in household and corporate debt levels and a fall in house prices, the identified vulnerabilities persist and may worsen should a re-surge in debt-financed housing acquisition and house price overvaluation materialise on account of macroprudential measures being eased. Tightened financial conditions has also led to a slump in housing construction. Private sector debt to GDP remains among the highest in the EU. The weak economic environment has put additional pressure on households and business expenditure. Households are still reeling from the sudden and rapid increase in interest rates and so cut back on consumption, while the corporate sector experienced reduced profitability, and cut back on investment, which helped reduce borrowings.

Policy progress has been limited. Despite numerous government inquiries, policy action has been limited and policy settings continue to favour debt-financed house acquisition while supply shortages linger. Taxation continues to incentivise debt-financed house acquisition through the significant tax deductibility of mortgage interest payments favouring homeownership. Measures that increase housing supply going forward would help moderate excessive house price growth, but are no substitute for reforms addressing the main drivers of household debt. The rental market has not yet been reformed. In the absence of firmer action, the identified vulnerabilities will persist.

[10] European Commission (2023), *In-Depth Review 2023 Sweden*, SWD(2023) 644 final, May 2023.

Graph 2.1: **Selected graphs, Sweden**



Source: Eurostat, European Commission forecasts and calculations.

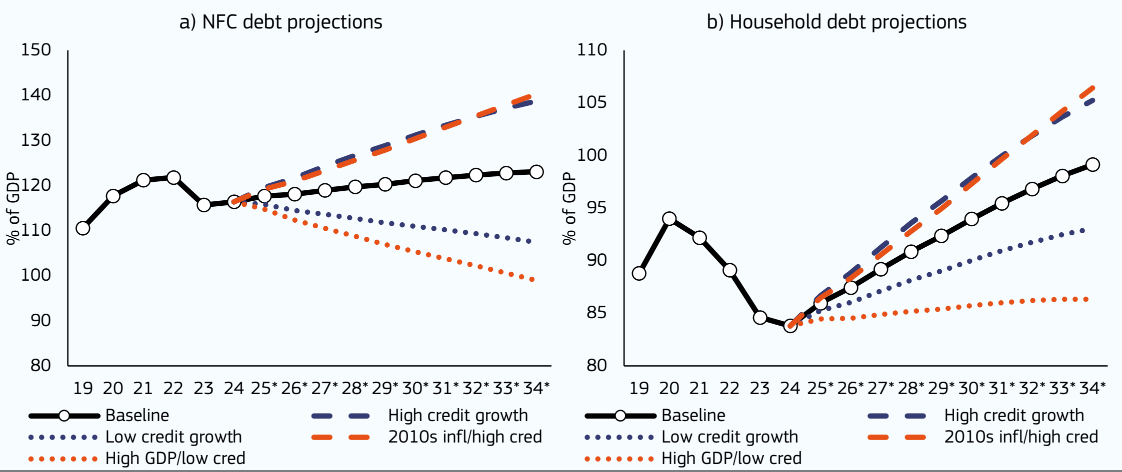
Box 2.1: **Medium-term household and non-financial corporate debt projections**

This Box summarises household and non-financial corporate debt-to-GDP projections for Sweden over the next decade, based on scenario analysis to take into account different underlying assumptions.

The corporate debt-to-GDP ratio is projected to increase over the next decade under the baseline scenario. The baseline scenario takes the 2024 nowcast as a starting point and foresees an average real GDP growth of 1.9% per year, average annual inflation rate of 1.8%, and annual corporate credit flows of 5% of GDP (above the debt-stabilising[1] NFC credit-to-GDP of 4.1%). In the baseline scenario, the NFC debt-to-GDP ratio is projected to increase by about 7 pps reaching 122% by 2034 (Graph 1.a). Under an adverse scenario of high corporate credit flows over the entire projection horizon, this ratio would increase by close to 25 pps to 140% of GDP.

After several years of deleveraging, the household debt-to-GDP ratio is projected to start increasing again to about 100% in 2034. The baseline scenario takes the 2024 nowcast of 83% as a starting point and foresees an average real GDP growth rate of 1.9%, an average inflation rate of 1.8% and credit flows of 4.8% of GDP (solidly above the debt-stabilising credit-to-GDP ratio of 2.9%) for years 2025 until 2034. As a result, the household debt-to-GDP ratio would increase by about 16 pps and reach 98% by 2034 (Graph 1.b). Under an adverse scenario of credit flows being higher for the entire period under consideration, the household debt-to-GDP ratio would increase by 22 pps to reach 105% by 2034.

Graph 1: **Private debt projections based on scenario analysis for Sweden**



Both for the NFC and HH debt projections, the baseline refers to the country-specific median annual credit flow to GDP ratio over 2015-24. The high/low credit scenario assumes a higher/lower credit flow to GDP ratio, with the difference to the baseline calculated as half the intertercile range of the annual credit flow to GDP ratios over 2015-24. The high GDP growth scenario reflects a permanent 1 pp increase in GDP growth relative to the baseline scenario. The low inflation scenario reflects an inflation rate that is set to the country-specific average inflation rate observed over the 2010s.
Source: Eurostat, and European Commission forecasts and calculations.

(1) The debt stabilising credit-to-GDP ratio refers to the credit ratio between 2025 and 2034 that would stabilise the debt to GDP ratio at its 2024 level.

Table 2.1: **Key economic and financial indicators, Sweden**

	average 2017-2019	average 2020-2022	2023	2024 +	forecast 2025	2026
Output and Prices						
Real GDP (1 year % change)	2.1	1.7	-0.1	1.0	1.8	2.6
Real GDP per capita (1 year % change)	0.9	0.9	-1.1	0.9	1.6	2.5
GDP deflator (1 year % change)	2.4	3.4	6.0	2.8	1.4	1.3
Harmonised index of consumer prices (1 year % change)	1.9	3.8	5.9	2.0	1.5	1.8
Core inflation (HICP excluding energy, food, alcohol and tobacco) (1 year % change)	1.2	2.7	6.6	3.2	1.8	1.4
External position						
Current account balance, balance of payments (% GDP, 3y average)	**2.5**	**5.4**	**6.1**	**6.2**	**6.9**	**6.8**
Current account balance, balance of payments (% of GDP)	3.2	5.7	7.0	6.9	6.7	6.9
of which: trade balance (% GDP)	2.8	3.8	4.3			
of which: income balance (% GDP)	0.4	1.9	2.6			
Current account norm (% of GDP) (1)	0.1	0.4	0.2	0.2	0.2	0.4
Current account req. to reach fund. NIIP (% of GDP) (2)	-0.1	-0.4	-0.9	-1.0		
Net international investment position (% of GDP)	**7.1**	**20.7**	**36.1**	**53.4**	**58.4**	**62.9**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)	-11.7	-7.0	-7.0			
Net lending-borrowing (% of GDP)	3.3	6.0	6.5			
Competitiveness						
Nominal unit labour cost index per hour worked (3y % change)	**6.9**	**6.3**	**11.1**	**14.9**	**12.3**	**6.5**
Nominal unit labour cost index per hour worked (1 year % change)	2.5	2.4	6.8	3.3	1.9	1.2
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**-5.9**	**-1.4**	**-7.5**	**-9.7**	**-5.5**	**2.4**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)	-2.8	-0.4	-3.4	0.5	2.3	0.3
Export performance against advanced economies (3y % change)	**-3.0**	**4.4**	**-2.9**	**-6.4**	**-0.8**	**-0.9**
Export performance against advanced economies (1 year % change)	-0.4	-0.2	2.0	0.2	-0.8	-0.3
Core inflation differential vis-à-vis the euro area (pps.)	0.2	0.6	1.6	0.4	-0.7	-0.7
Corporations						
Non-financial corporate (NFCs) debt, consolidated (% of GDP) (3)	**110.9**	**120.1**	**117.0***	**115.0***		
NFCs debt fundamental benchmark (% of GDP) (4)	54.6	60.2	64.2	66.0		
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	6.8	6.9	1.0	0.4		
Households and housing market						
Household debt, consolidated (% of GDP) (3)	**88.5**	**91.8**	**84.5***	**82.8***		
Household debt fundamental benchmark (% of GDP) (4)	61.5	67.6	71.3	73.1		
Household debt, consolidated (% of Households' GDI)	126.4	133.0	124.4	121.2		
Household credit flow, consolidated (% debt stock t-1)	**5.7**	**5.5**	**0.6**	**1.7**		
Household gross saving rate (&)	15.8	16.7	16.3			
House price index, nominal (1 year % change)	**2.7**	**5.9**	**-5.3**	**1.0**		
House prices over/undervaluation gap (5)	24.5	30.0	20.4	17.5		
Standardized price-to-income ratio	120.1	125.8	113.0			
Building permits (m2 per 1000 inh)	712.4	749.1	329.5			
Government						
General government gross debt (% of GDP)	**39.1**	**36.8**	**31.5**	**32.8**	**32.7**	**31.7**
General government balance (% of GDP)	0.8	-0.8	-0.8	-1.5	-1.4	-0.3
Banking sector						
Return on equity of banks (%)	11.3	9.4	13.1			
Tier-1 capital ratio banking sector (% risk-weighted assets)	20.4	20.4	20.4			
Gross non-performing loans, domestic and foreign entities (% gross loans)	1.1	0.9	1.0	1.0		
Cost of borrowing for households for house purchase (%)	1.5	1.8	4.3	4.2		
Cost of borrowing for NFCs (%)	1.1	1.8	5.1	4.8		
Labour market						
Unemployment rate (% labour force Y15-74)	**6.7**	**8.3**	**7.7**	**8.4**	**8.3**	**7.7**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**0.9**	**0.2**	**1.9**	**1.2**	**0.6**	**0.0**

+ If actual data were unavailable at the cut-off date, forecast or nowcast data are presented instead; * Denotes values above prudential thresholds;

(1) Current accounts in line with fundamentals (current account norms): derived from reduced form regressions capturing the main determinant of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See Coutinho, Turrini and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission.

(2) Current account required to reach the prudential level of the NIIP over 10 years: calculations make use of Commission's T+10 projections. See Coutinho, Turrini and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission.

(3) Prudential threshold for non-financial corporate and household debt-to-GDP ratio: corresponds to the level above which banking crises become more likely. It is derived from regressions minimising the probability of missed crises and that of false alerts. See Bricongne et al. (2020), "Is Private Debt Excessive?", Open Economies Review, 31:471-512.

(4) Fundamentals-based benchmarks for non-financial corporate and household debt-to-GDP ratios: assesses private debt from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. See Bricongne et al. (2020), "Is Private Debt Excessive?", Open Economies Review, 31:471-512.

(5) House prices over/undervaluation gap: is the simple average of the price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables: total population, real housing stock, real disposable income per capita, real long-term interest rate and price deflator of final consumption expenditure. Based on Philiponnet, N., Turrini, A. (2017), "Assessing House Price Developments in the EU", European Economy - Discussion Papers 2015 - 048, DG ECFIN, European Commission.

Source: Eurostat and ECB; European Commission for forecast figures (Autumn Forecast 2024).

Sweden has addressed part of the previous country-specific recommendations related to limiting growth in household debt. Recommendations targeted both the macroprudential framework and the level of borrowing by households. By February 2019, Sweden had fully implemented the recommendation to provide the financial supervisor with the legal mandate to "implement measures to safeguard financial stability in a timely manner". Furthermore, the authorities had also introduced measures to "increase the pace of mortgage amortisations" (CSR 2014 2.3 and CSR 2013 2.2) and to "constrain lending at excessive debt-to-income levels" (CSR 2017 1.2). The implemented recommendations have had an impact on borrowing with studies(11) concluding that there has been a noticeable impact from these measures on the borrowing behaviour of households and on house prices.

A government commissioned inquiry proposes to relax the existing borrower-based measures while introducing a cap on the loan-to-income ratio(12). A government committee was set up in 2023 to analyse the impact of macroprudential measures already in place in Sweden. This committee reported its findings in November 2024 and recommended several tweaks to the existing policy to improve housing affordability and support financial stability. The proposals included raising the maximum loan-to-value (LTV) ratio from 85% to 90%, loosen the amortisation requirement to 1% for mortgages with a LTV ratio of 50% or more, and the introduction of a loan-to-income (LTI) cap. It should be noted that the ESRB in February 2024 concluded that the residential real estate market in Sweden was subject to high risks and the macroprudential policy mix was appropriate but only partially sufficient to mitigate the (13).

Sponsorships of first-time home buyers will strengthen the effect of loosening the loan-to-value cap. A significant share of first time-buyers (Starters Loan Inquiry: 40% in Stockholm) receive support from parents or other sponsors when buying their first home. The loan-to-value cap has limited the leverage of these funding sources. A cap of 85% implies a 15:85-leverage ratio. Raising the cap, as is proposed, would increase the maximum leverage from 5.7 to 9. This will put those with sponsors at an additional advantage over those without sponsors. If the size of the sponsorship depends on accumulated housing wealth of the sponsor then this risks stimulating overconsumption of housing. One scenario concerns off-spring leaving the parental home, who can buy a new dwelling with the sponsorship of parents taking a new mortgage on the same parental home. Thereby the total size of the living space occupied by the parents and child increases by more than if both were to enter the housing market independently. This welfare loss receives a tax subsidy through the mortgage-interest deductibility that benefit both parent and off-spring.

The introduction of a cap on loan-to-income can help increase equal chances for first-time home buyers. A loan-to-income cap provides no opportunities for leveraging support and, thus, promotes equality of chances among first-time buyers.

(11) Wilhelmsson M (2022), What is the impact of macroprudential regulations on the Swedish housing market? Journal of Housing Economics, Volume 57, 2022, 101840, ISSN 1051-1377, https://doi.org/10.1016/j.jhe.2022.101840.

(12) https://www.regeringen.se/contentassets/828d8d257c4249ee96877a5ea018d690/reglering-av-hushallens-skulder-sou-202471_.pdf.

(13) ESRB (2024), *Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries*, February 2024.

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