



Financial Stability Report 2020:1

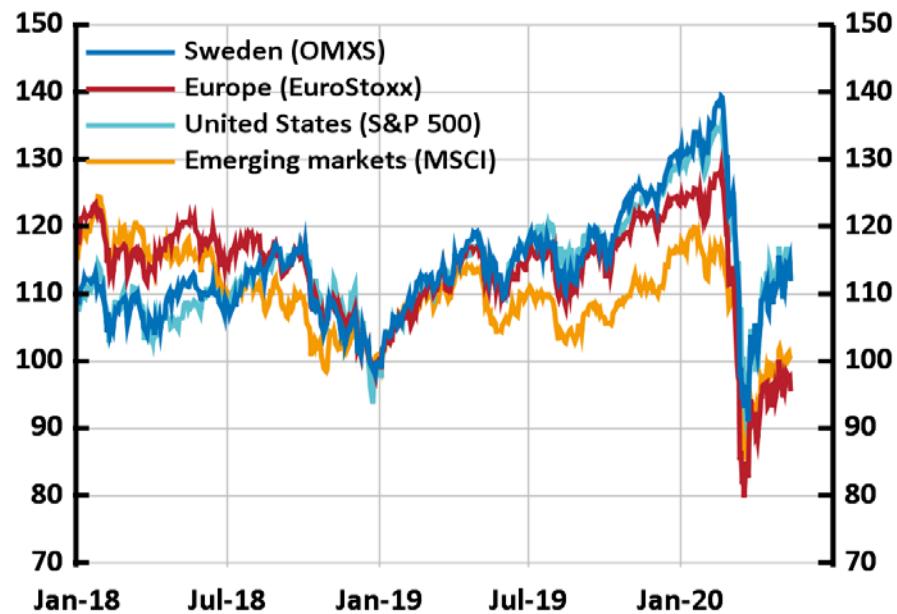
May 2020

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

The coronavirus pandemic is increasing the risks to financial stability

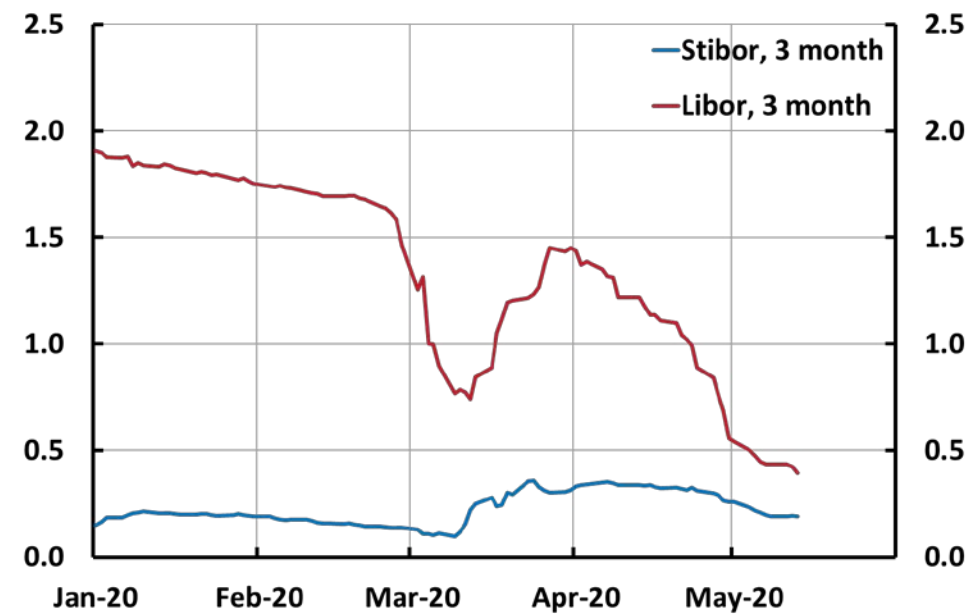
Substantial movements on global financial markets

Stock market movements in domestic currency



Index, 2 Jan 2019 = 100.

Interest rates on interbank loans



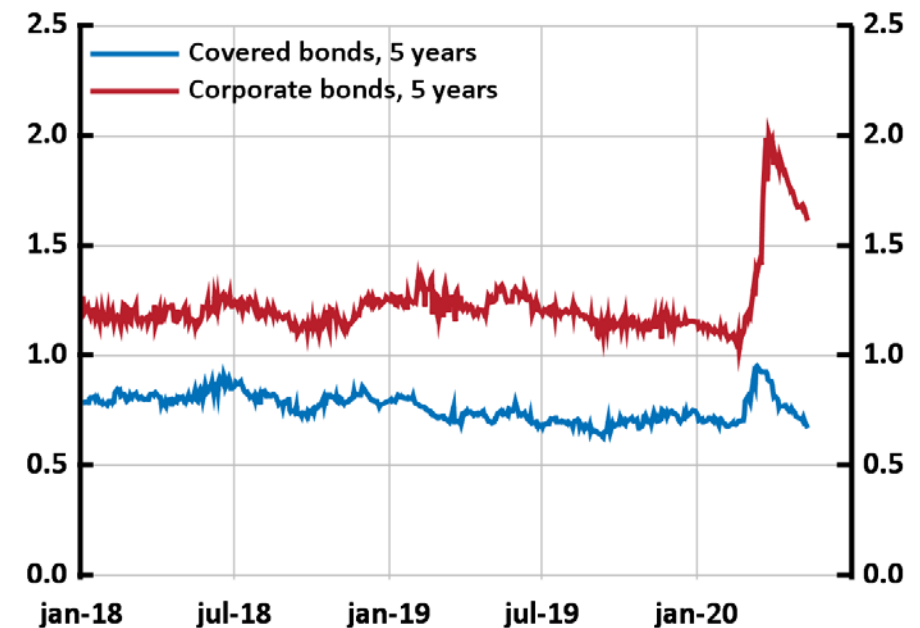
Per cent

Sources: Bloomberg, Macrobond and the Riksbank

Increased uncertainty on financial markets in Sweden

- Shortage of US dollars has affected Swedish banks, National Pension Funds and insurance firms
- More difficult and more expensive for banks and companies to obtain funding
- Powerful measures have been implemented

Yield difference between bonds and government bonds in Sweden



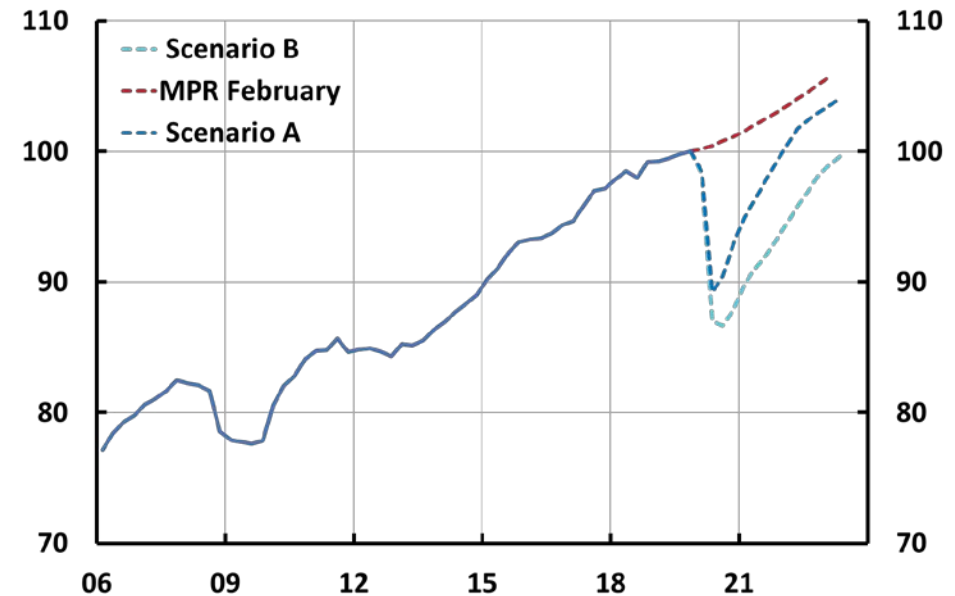
Per cent. All bonds are zero coupon rates calculated using the Nelson-Siegel method. Corporate bonds for companies with credit ratings of BBB or higher.

Sources: Macrobond, Refinitiv and the Riksbank

Substantial effects on the Swedish economy

- Companies have been hard hit and bankruptcies are expected to increase
- Unemployment is expected to rise sharply
- Major uncertainty regarding how deep and prolonged the economic decline will be

Large fall in Swedish GDP this year



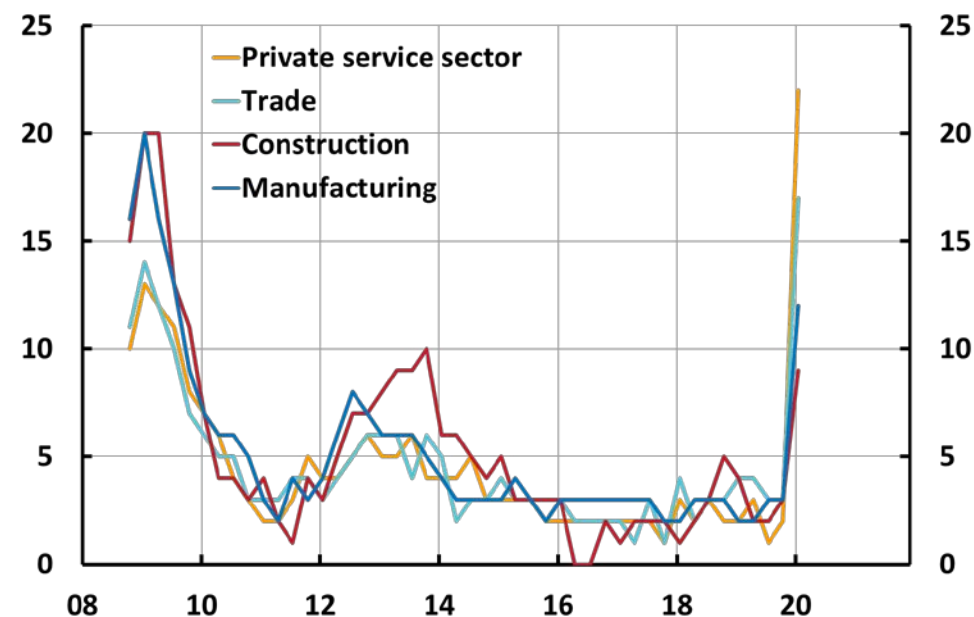
Index 2019 Q4 = 100

Sources: Statistics Sweden and the Riksbank

Companies have considerable need for financial support and loans

- Greater pressure on banks to provide loans
- Companies say that it has become more difficult to obtain bank loans
- Risk of increasing lending rates

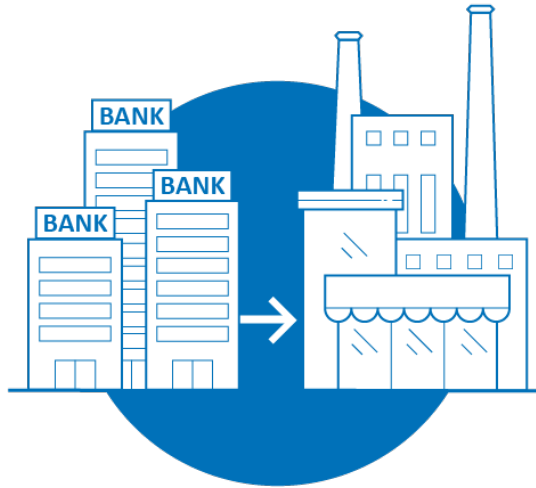
Several companies state that it is **considerably more difficult** to fund operations



The chart shows the share of companies saying it is considerably more difficult than normal to fund operations.

Source: National Institute of Economic Research

Extensive measures to hold down interest rates and facilitate credit supply



The banks can borrow from the Riksbank for onward lending to companies

500 billion

Utilised:

158 billion

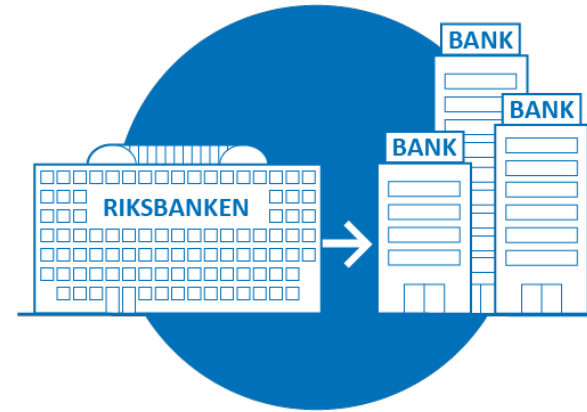


Purchases of government, mortgage, municipal bonds and commercial paper

300 billion

Utilised:

102 billion



Increased access to safe and liquid assets

Unlimited

Utilised:

26 billion



Loans in US dollars

USD 60 billion

Utilised:

2 billion

Measures planned so far in 2020

Loans

Week: 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52

Companies via banks



SEK, 3 months.



USD



Asset purchases

Government bonds



Covered bonds



Commercial paper



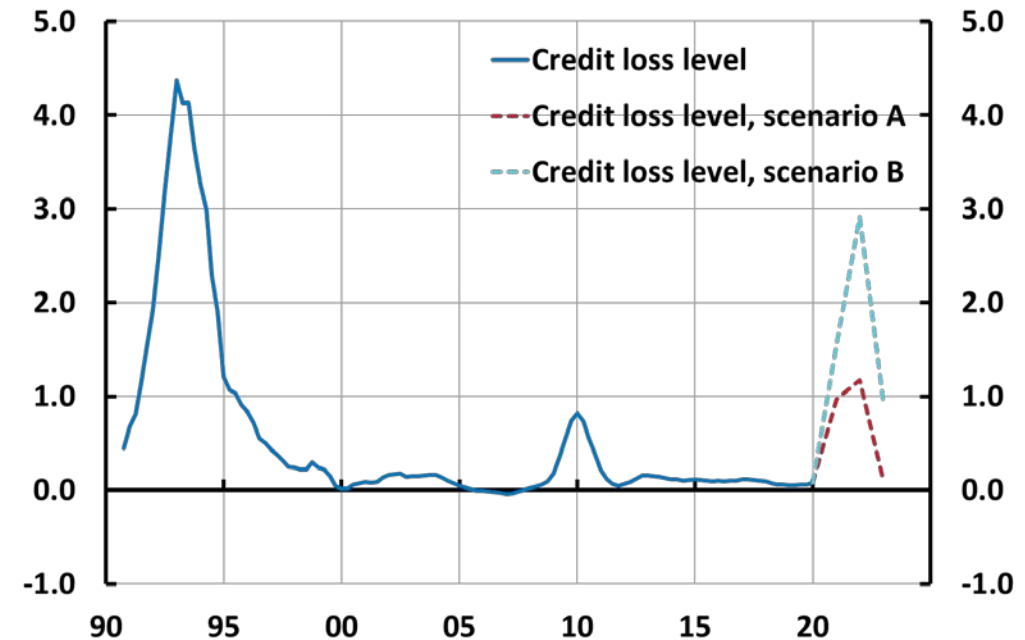
Municipal bonds



 Planned market operations

Banks' credit losses may increase if the crisis is deep and prolonged

- More bankruptcies lead to increased credit losses
- Two scenarios from the Monetary Policy Report in April
 - If the crisis is prolonged, banks may have problems with credit supply.
 - The housing market considerable bearing on the effects



Percentage of lending to the public. Handelsbanken, Nordea, SEB and Swedbank are included in the stress test.

Sources: Banks' annual reports and the Riksbank

Good conditions but more may be needed

The Swedish financial system is functioning satisfactorily for the time being – thanks to the measures introduced.

- Finansinspektionen has taken measures
- Banks have buffers that can be used
- The Riksbank has given banks good prerequisites

More extensive measures may be needed

The coronavirus pandemic is highlighting the importance of good resilience

- Established regulatory frameworks shall be retained
- Continued efforts to reduce vulnerabilities and increase resilience in the financial system.
- Banks recreate capital and liquidity buffers if these have been used
- Manage the fundamental problems on the housing market and reduce the risks of high household indebtedness



Interesting articles in the report

- The Riksbank's measures during the coronavirus pandemic
- The Riksbank's stress test of banks' capital – an update
- The interconnectedness of insurance companies, National Pension Insurance Funds and banks via the foreign exchange market
- A new reference rate – the way forward

The coronavirus pandemic is increasing the risks to financial stability