

Financial stability

May 2021

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

Financial Stability Report, May 2021



The Swedish financial system has coped well during the pandemic, credit supply has been maintained and a financial crisis has been avoided

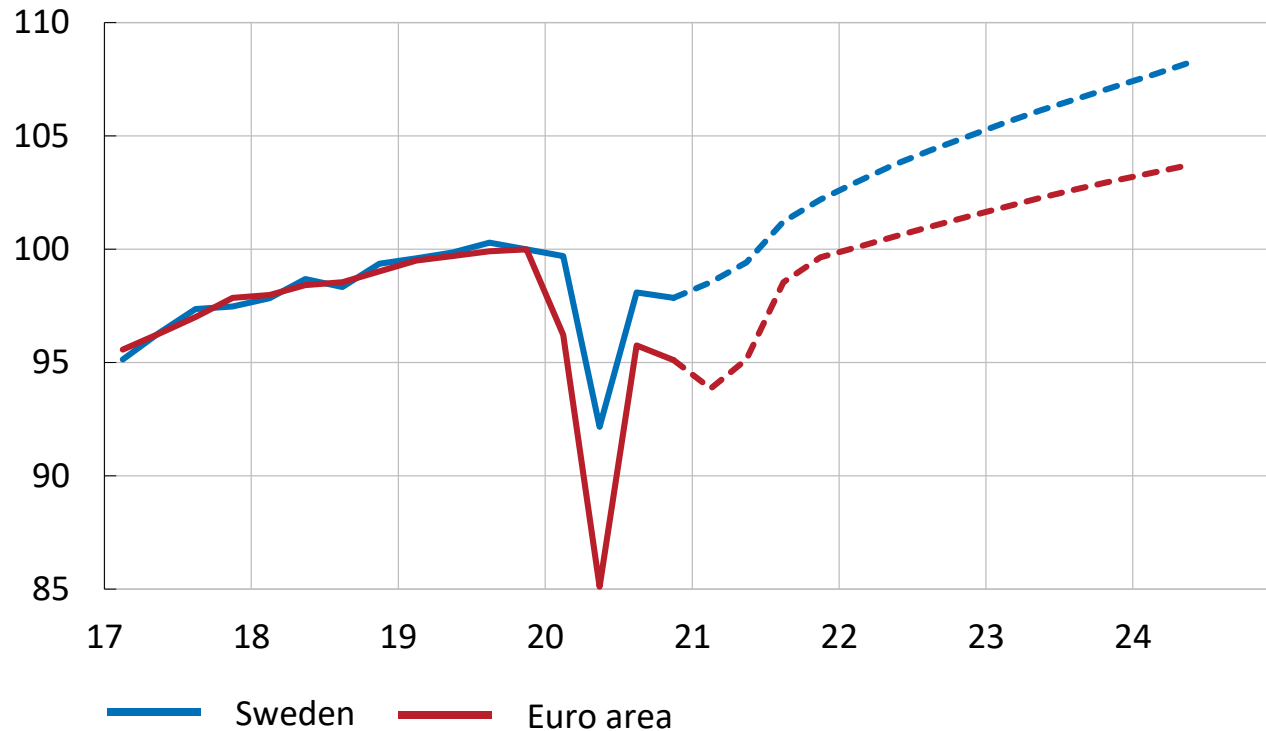


Continued elevated risks to financial stability and necessary support measures are contributing to the build-up of risks in the longer term



It is important that policy areas cooperate to both support the recovery and counteract financial imbalances

The coronavirus pandemic has left deep scars, but the global economy has shown resilience



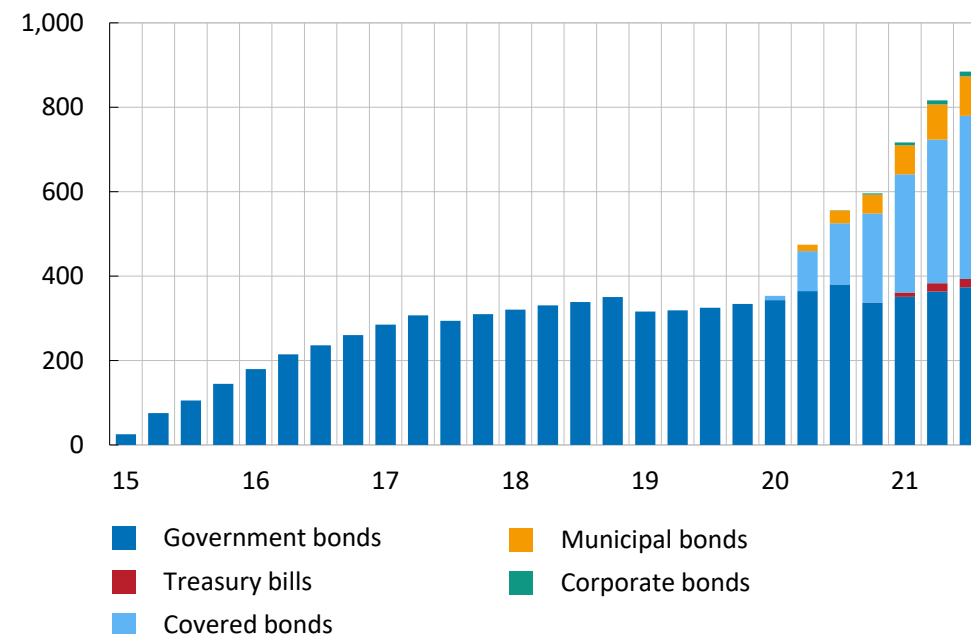
Note: Index, 2019 Q4 = 100, seasonally adjusted data. Solid line refers to outcome, broken line represents the Riksbank's forecast.

Sources: Eurostat, national sources, Statistics Sweden and the Riksbank.

Extensive support measures have mitigated the effects

- Considerable fiscal policy stimulus from governments around the world
- Lowering of buffer requirements and temporary relaxation of regulatory frameworks
- Central banks have significantly expanded their balance sheets

Large-scale asset purchases by the Riksbank during the pandemic

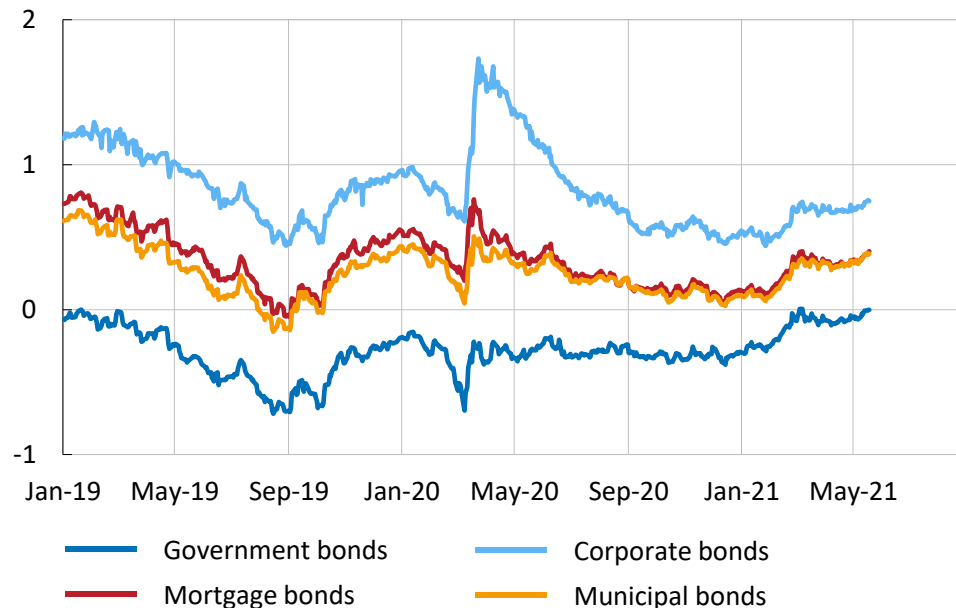


Note: Holdings of securities, excluding commercial paper, issued in Swedish kronor. Holdings after decided purchases are shown for the second and third quarters of 2021.

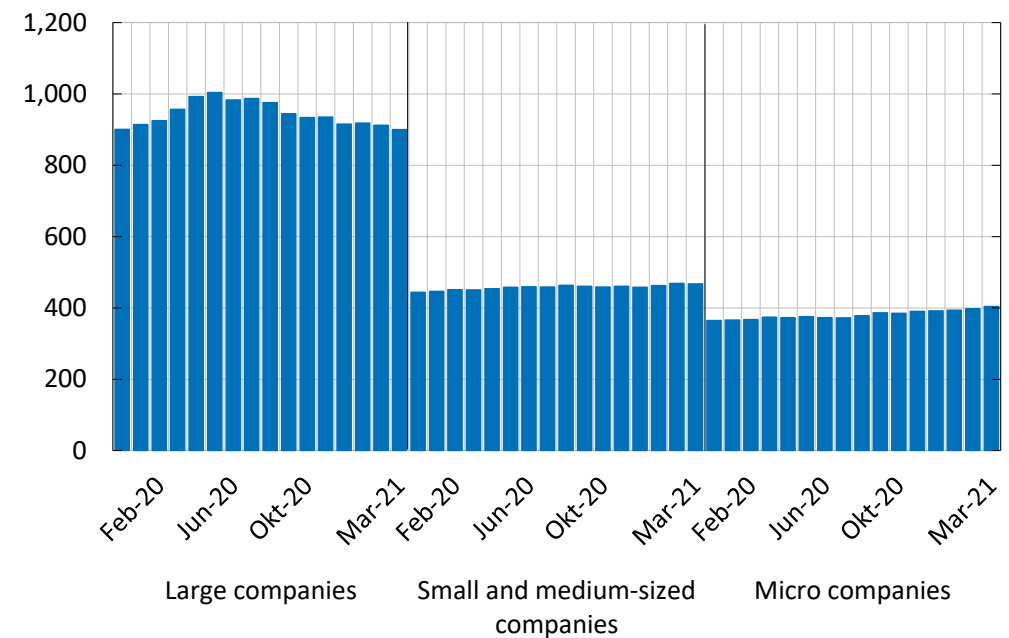
Source: The Riksbank.

The support measures have contributed to low interest rates and helped to maintain credit supply

Low interest rates in financial markets



Large companies increased their borrowing from banks at the beginning of the pandemic

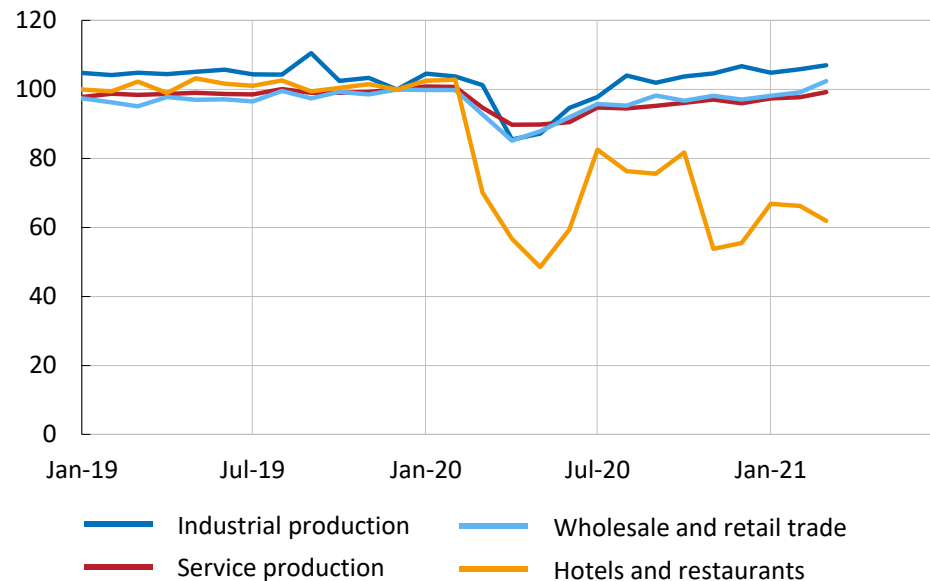


Note: Left: Per cent. Yields on Swedish bonds with 5-year maturities. Right: SEK billion. Refers to lending to non-financial companies. Borrowing by housing cooperatives is excluded. Loans in all currencies to Swedish non-financial corporations from banks and other MFIs.

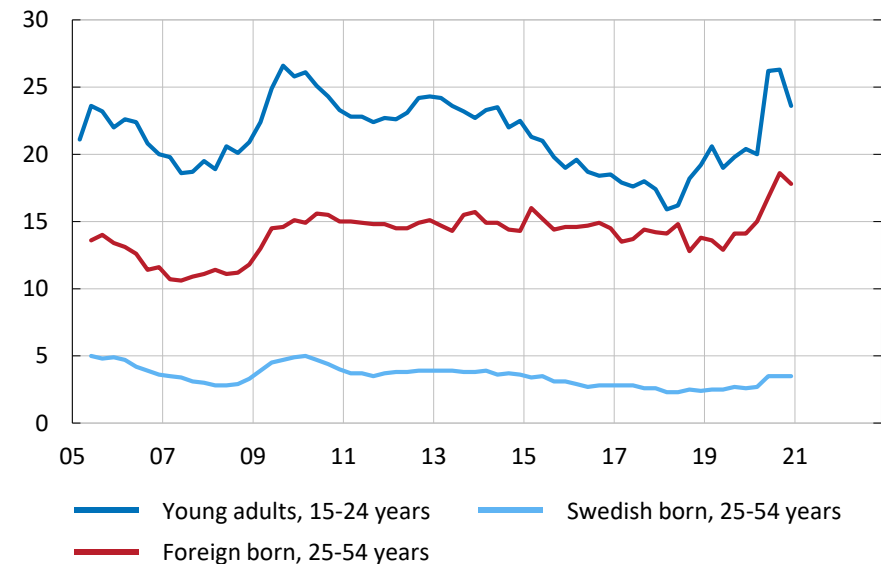
Sources: Macrobond, Refinitiv and Statistics Sweden.

The pandemic has impacted Swedish households and companies with varying severity

Hotel and restaurant sector hit hard



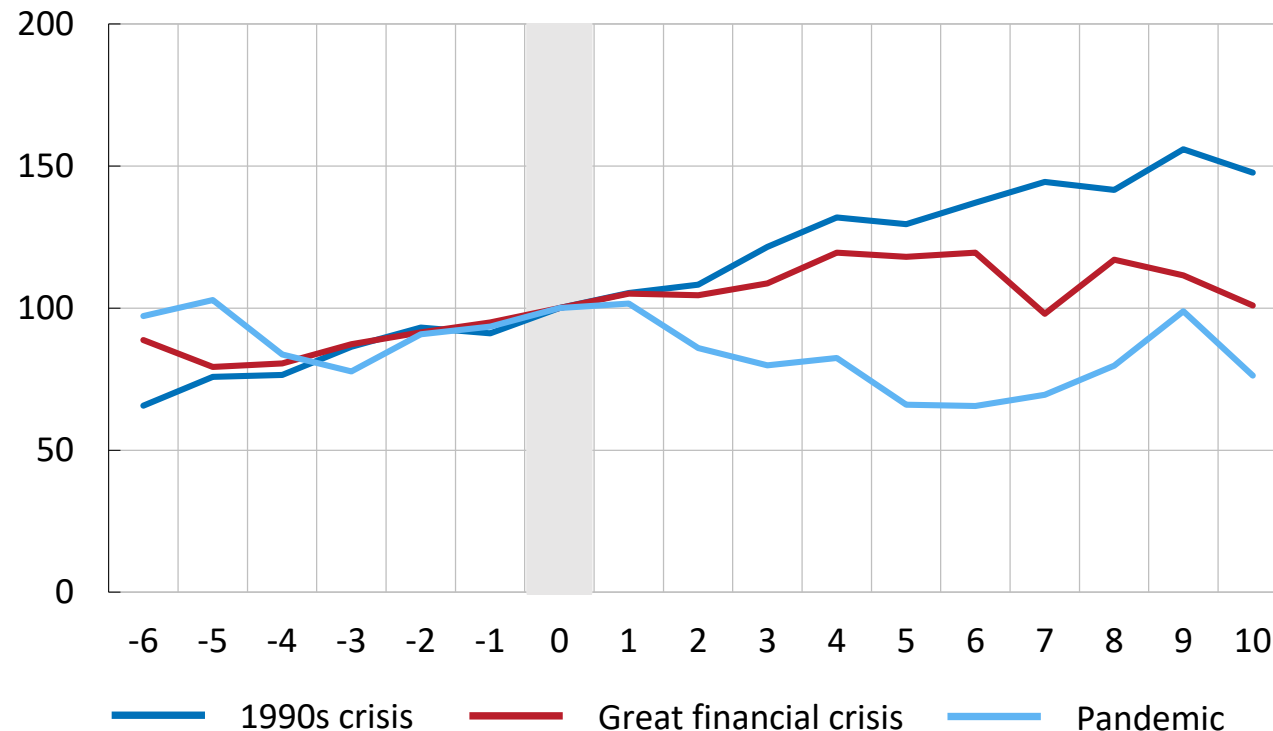
Divergent development on the labour market



Note: Production value index. Seasonally adjusted data. Index, December 2019 = 100. Right: Unemployment, percentage of the labour force, seasonally-adjusted data.

Source: Statistics Sweden.

Few bankruptcies compared with previous crises



Note: Seasonally adjusted monthly data. The indexed default rate equals 100 at the zero point where the crisis of the 1990s = 0 in October 1990, the global financial crisis = 0 in October 2008 and the pandemic = 0 in March 2020. The x-axis shows the number of months from the starting-point of each crisis.

Sources: Statistics Sweden and the Riksbank.

Uncertain future and the risk of setbacks

Unease over the continuing course and effects of the pandemic

- Risk of more bankruptcies and larger loan losses

Existing vulnerabilities differ among countries

- Weak banks and public finances in the euro area
- High private indebtedness in Sweden and Swedish banks have substantial exposures to housing and commercial property

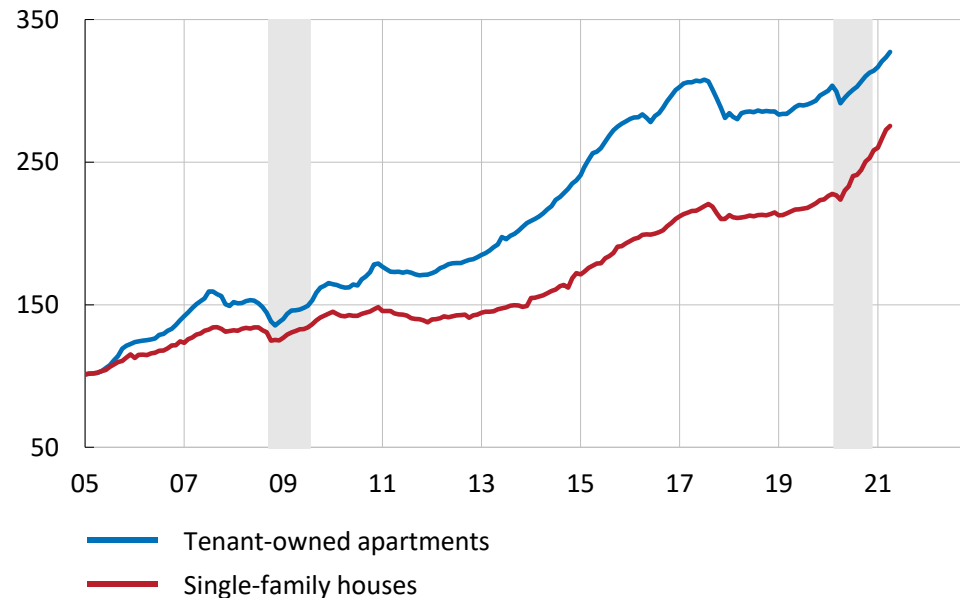
Negative side-effects of the support measures

- Higher indebtedness and rising asset prices
- Agents always expecting to be “saved” by the state



Sharply rising housing prices during the pandemic despite stable mortgage rates

Sharply rising housing prices



Mortgage rates relatively stable



Note: Left: index, January 2005 = 100, seasonally-adjusted data. Right: average mortgage rate for all loans with an interest-rate fixation period. The grey field denotes the financial crisis of 2008-2009 and the coronavirus pandemic of 2020.

Source: Valueguard, Statistics Sweden and the Riksbank.

Important for policy areas to cooperate

Overall economic policy needs to support the economic recovery

- Monetary and fiscal policy need to remain expansionary

Measures needed to counteract financial imbalances

- The Riksbank supports FI's announcement to reintroduce amortisation requirements
- The economic situation permitting, FI should announce an increase in the countercyclical capital buffer



Resilience needs to be strengthened in the financial system



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