



FINANSINSPEKTIONEN

Stability in the Financial System

4 June 2020



Summary

Sweden is relatively well equipped for the prevailing crisis. The economy has been strong for several years and government finances are good. However, there are also some vulnerabilities. Risk-taking has been high for a long time, and asset prices have been pushed upward. Debt has increased for many households, even if Finansinspektionen's (FI) measures have increased their resilience. Debt has also increased among non-financial firms, and over the past few years, FI has raised the commercial real estate sector and the banks' exposure to this sector as a particular risk.

As the coronavirus spread across the world, prices were fluctuating dramatically on the financial markets. A lower willingness to take on risk combined with uncertainty about firms' creditworthiness contributed to the fall in market liquidity on the corporate bond market. This has made it more difficult for firms to raise funding. During the spring, governments, central banks, and supervisory authorities implemented significant measures to dampen the economic impact and secure financial stability. These measures helped reduce the uncertainty on the financial markets. However, the pandemic has resulted in an exceptional real economic stress, and there is a risk of more price fluctuation in the future.

The extreme price fluctuations have had an impact on Swedish insurance undertakings and occupational pension institutes, but solvency continues to be stable. The firms have also not needed to make any major changes to their holdings, which otherwise could have amplified the price fluctuations. FI makes the assessment that they are able to continue to withstand major movements within the financial markets.

The major Swedish banks entered the crisis with satisfactory capital buffers and good profitability. Therefore, they are well positioned for assisting firms and households with loans during the economic downturn. To make it easier for the banks' to continue to contribute to the credit supply, FI lowered the countercyclical buffer rate to 0 per cent on 16 March. The buffer rate can be expected to remain at this level at least until 16 March 2022. Any increases to the buffer in the future will be made gradually as needed given the systemic risks.

So far, the crisis has had a limited effect on the banks' capital, but the capital situation could deteriorate in the future. The credit quality of issued loans will be the deciding factor, which in turn is highly dependent on how deep and drawn-out the economic downturn is and the extent to which government measures can help the banks' borrowers ride out the storm. If the economic downturn persists and the financing costs increase significantly, commercial real estate firms may

experience problems. This, in turn, can impact the banks, which have large exposures to these firms. To ensure resilience to a weaker economy, banks should wait to distribute dividends until the uncertainty surrounding the impact of the crisis has subsided.



Finansinspektionen
Box 7821, 103 97 Stockholm
Besöksadress Brunnsgatan 3
Telefon +46 8 408 980 00
Fax +48 8 24 13 35
finansinspektionen@fi.se

www.fi.se