

PRESS RELEASE

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CONTACT: Press Office, tel: 08-787 02 00



SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

■ The banks' resilience is good

The major Swedish banks are currently financially strong and have good access to funding. However, the debt crisis in the euro area constitutes the largest risk to financial stability in Sweden. The major banks have good resilience to weaker economic developments in the short term, but there are several structural weaknesses in the Swedish banking system that may have a negative impact on financial stability in the longer term. The Riksbank therefore recommends the major banks to ensure that they have adequate capital and liquidity. The Riksbank also recommends reforms of the benchmark rate Stibor to deal with shortcomings in the framework for Stibor and ensure that confidence in this benchmark rate is maintained.

The major banks are financially strong

The major Swedish banks (Handelsbanken, Nordea, SEB and Swedbank) are financially strong at present. Their earnings have increased and their loan losses have been limited. The major banks are also well capitalised in comparison with many other European banks and have only minor exposures to the debt-ridden euro-area countries. These factors have contributed to a situation in which the major banks have good access to market funding in both Swedish kronor and foreign currencies.

The debt crisis in the euro area constitutes the greatest risk to stability

Despite the fact that the major Swedish banks are financially strong at present, a serious deterioration of the situation in the euro area could have a negative impact on their access to funding. The banks have increased their liquidity buffers, but their great dependence on market funding may make them vulnerable to increased unease on the financial markets. A serious deterioration of the situation in Europe could also increase the banks' loan losses. A severe decline in economic activity could contribute to a fall in housing prices in Sweden. As household debt in Sweden is currently at an historically-high level, there is a risk that this would ultimately have a negative impact on the Swedish



■ economy and the major Swedish banks. However, the Riksbank's stress tests show that the banks have good resilience to increased loan losses.

The major banks should ensure they have adequate capital and liquidity

There are several structural weaknesses in the Swedish banking system that may have a negative impact on financial stability in Sweden in the long term. For instance, the banking system is closely interlinked with international markets and is large in relation to the Swedish economy as a whole. The Riksbank therefore recommends the major banks to ensure that they have sufficient CET 1 capital and to reduce their structural liquidity risks so that they will be able to manage any future losses and market disruptions. The Riksbank also believes that the banks should improve the transparency of their public reporting. They should, for instance, be clearer in their reporting of encumbered assets.

The benchmark rate Stibor needs to be reformed

According to the empirical study that the Riksbank began in the autumn of 2011, there is nothing to indicate that the benchmark rate Stibor has been manipulated. However, the Riksbank has identified a number of shortcomings in the framework for Stibor. For example, there is no agent or body with overall responsibility for Stibor and the structure for the governance and control of the Stibor process is unclear. In addition, transparency concerning the pricing of Stibor is inadequate and it is difficult to verify how Stibor is determined. The Riksbank therefore recommends that Stibor should be reformed to deal with shortcomings in the framework and ensure that confidence in this benchmark rate is maintained.

A press conference with Riksbank Governor Stefan Ingves and Mattias Persson, Head of the Financial Stability Department, will be held today at 11 a.m. in the Riksbank. Press card or equivalent must be shown. The press conference will be broadcast live on the Riksbank's website www.riksbank.se but can also be watched afterwards on the Riksbank's website or on the Riksbank's YouTube channel, www.youtube.com/sverigesriksbank.

The Financial Stability Report and the Riksbank's report on Stibor can be downloaded from the Riksbank's website, or ordered via e-mail: kontorsservicecenter@riksbank.se, or telephone +46-(0)8-787 00 00. The printed versions of the reports will be available from 4 December.