



PRESS RELEASE

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■ Swedish major banks currently financially strong

At present, the major Swedish banks are financially strong, but more resilience is needed in the long run. Economic developments in the euro area constitute the largest risk to financial stability in Sweden. The major banks are highly resilient to a weaker economic climate in the short term, but there are vulnerabilities in the structure of the Swedish banking system that may have a negative impact on financial stability in the longer term. The Riksbank therefore recommends that the major banks continue to ensure they have adequate capital and liquidity, and that they improve their public liquidity reporting. The Riksbank also recommends that the framework for the Stibor reference rate should be supplemented with a requirement for independent follow-up and inspection.

At present, the major Swedish banks are financially strong

The major Swedish banks' (Handelsbanken, Nordea, SEB and Swedbank) earnings have increased and their loan losses have been small. They have also continually increased their short-term liquidity and capital in accordance with the Riksbank's recommendations and are still well-capitalised, compared with many other European banks. As a result, they have good access to market funding in both Swedish kronor and foreign currencies. The Riksbank's assessment is therefore that the major Swedish banks are financially strong at present.

Developments in the euro area constitute the largest risk to financial stability

However, it is expected that the Swedish economy will continue to be affected by weak economic development in the euro area. A long recession in the euro area accompanied by unease on the financial markets may lead to an increase in loan losses for the major Swedish banks and to a decline in their earnings. Moreover, the banks may experience greater difficulty in obtaining access to market funding. Swedish housing prices may also fall if Sweden is hit by a prolonged economic slowdown. The high level of household debt could then lead to a decline in



■ consumption, which could have a negative impact on growth, as well as macroeconomic and financial stability. Companies could then experience problems with paying their day-to-day expenses, which risks leading to increased loan losses for the banks. However, the Riksbank's stress tests show that the major Swedish banks have strong resilience to increased loan losses.

The banks need more resilience in the long run

There are vulnerabilities in the structure of the Swedish banking system that could have a negative effect on financial stability in the longer run. For example, the banking system is large in relation to the Swedish economy and strongly interlinked, which means that a financial crisis could also require government intervention and thus become costly for taxpayers. The banks therefore need more resilience in the long run. The Riksbank recommends that the major banks continue to reduce their structural liquidity risks and ensure that they have enough capital to cope with potential future losses and disruptions on the financial markets. The Riksbank also recommends that the major banks improve their public liquidity reporting by providing an account of their structural liquidity risks in accordance with the definition in the Basel III Accord.

Requirement for independent follow-up of Stibor

The Riksbank notes that the framework for the Stibor reference rate has been reformed to a large degree in accordance with the recommendation made in autumn 2012. However, there is still no clear and independent structure for following up and monitoring that the framework is observed. The Riksbank therefore recommends that the Stibor framework be supplemented with a requirement for independent follow-up and control.

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 cards or equivalent must be shown. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se, where it will also be available to view afterwards.

The Financial Stability Report can be downloaded from the Riksbank's website, or ordered via e-mail: kontorsservicecenter@riksbank.se, or telephone +46-8-787 0000. The printed version of the Report will be available from 31 May.