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## ■ The financial crisis - developments in recent months and some lessons learnt

*Since the middle of March there have been signs that the credit market tensions have eased slightly. The interbank market still has substantial problems, but some positive signs can also be noted there. These observations were made by Deputy Governor Lars Nyberg when he spoke to the EU Club in Stockholm today.*

"There are signs that the strains in the international credit markets have eased. The powerful rescue of the US investment bank Bear Stearns in mid-March appears to have been one of several causes behind the return in investors' confidence. The fact that several institutions openly reported their losses in connection with the interim reports published in April and May created a better insight into where the problems lie. Large banks have also found it easier to obtain access to both borrowed and own capital."

"It is possible to note in various ways that investors in the credit market are less nervous, for instance, in the pricing of credit insurance. It is most clearly visible in the CDS premiums, which reflect the market's assessment of credit risk among institutions and companies. They have fallen substantially since the end of March. The cost for companies to obtain funding via the capital market has also fallen somewhat recently. Investors appear slightly more risk-inclined than before and access to capital has increased. The stock markets have also recovered."

"On the interbank market, the market in which the banks borrow from one another, interest rates are still abnormally high for many durations. The TED spread, the difference between the interest rate banks charge each other on 3-month loans and the interest rate on 3-month Treasury bills, is still treble the normal rate in both the United States and Europe. But in the United States, for instance, the TED spreads have fallen significantly in recent weeks. They have also fallen slightly in Europe, particularly in the United Kingdom."

"It is still too early to draw the conclusion that the crisis is over. But there are signs that we may have put the worst of it behind us. However, there could be setbacks. The prospects for economic activity are uncertain, particularly in the United States, where the property market has not yet bottomed out. If the

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economic slowdown were to be more severe than expected, the financial system could be put to a greater test. The market also remains susceptible to rumours. It is not possible to rule out the possibility of new loan losses cropping up that could shake market confidence at least temporarily."

"Iceland has suffered a loss of confidence in the international market. Following a request from the Icelandic central bank, Sedlabanki, the central banks in Sweden, Norway and Denmark last week entered into a swap agreement. This agreement gives Sedlabanki the right to acquire euro against Icelandic kronor if such a need should arise. These agreements are aimed at creating confidence and this is how they have been perceived by the market. Sedlabanki will also strengthen its resources in other ways. At the same time the Icelandic government has announced that it intends to implement long-term structural reforms to strengthen the country's economic stability."

"In Sweden we have largely been able to observe the crisis from the sidelines. Interest rates have also risen here, primarily as a consequence of international banks increasing their demand for kronor, which they have then exchanged for dollars or euro. This demand has now declined, and the shortest interbank rates (tomorrow next) have normalised. Unlike many other countries the Swedish fixed income market functioned throughout the entire crisis without any intervention from the central bank. You can hear more about our assessment of financial stability in Sweden on 3 June, when we publish the spring Financial Stability Report."

"What lessons can be learnt from a crisis such as this? It is possible to draw some conclusions already, although the final assessment must wait until we have gained a better perspective on what has happened. For the private sector it is undoubtedly the case that increased openness regarding their balance sheets will counteract uncertainty and suspicions. It is also important that the banks hold sufficient capital to cover their risks. For the authorities, regulation and supervision of liquidity risk are currently a high priority issue that is being discussed by many countries and international organisations, including the Financial Stability Forum (FSF) and the Basel Committee. The FSF has recently published a report where the G7 countries call for faster and more transparent accounting from financial companies and stiffer requirements of credit rating agencies. It also advocates stronger organisation to manage financial crises."