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■ Measures necessary for financial stability

The Swedish banks remain financially strong and have a good resilience to shocks. During the autumn the Swedish financial system has been tangibly affected by the global financial crisis and the banks' liquidity risks have increased. Swedish authorities have taken extensive measures to facilitate the banks' funding. These measures are now a necessary condition for maintaining satisfactory stability in the Swedish financial system.

The Riksbank's Financial Stability Report analyses financial stability in Sweden and the risks that could affect this stability in the coming period.

The global financial crisis has worsened over the six months since the previous Financial Stability Report was published. The Swedish financial system is also tangibly affected now by the global shortage of liquidity and lack of confidence. At the same time, economic prospects have deteriorated in Sweden and abroad during the autumn.

Good resilience...

The Riksbank's assessment is that the Swedish banks still have good resilience, which is confirmed by stress tests. The banks' profitability has declined somewhat but remains good. At the same time, loan losses are low from an historical perspective, although they have increased slightly. The losses that can be attributed to the international financial crisis have so far been moderate. In addition, the Swedish banks' borrowers have good prospects for repaying their loans, although their ability to pay will deteriorate as economic activity weakens.

...but the liquidity risks have increased

However, the banks' liquidity risks have increased, as it has become increasingly difficult for them to refinance at longer maturities. The costs of the banks' deposits and market financing have risen at the same time. In order to ease the banks' financing, the Riksbank and other authorities have taken extensive measures during the autumn.



■ "Despite the Swedish banks having good capital and resilience, the measures taken by the Riksbank and other authorities are currently a necessary condition to ensure that the stability of the Swedish financial system is satisfactory. The Riksbank is prepared to supply the liquidity necessary to safeguard financial stability," says Governor Stefan Ingves.

However, the measures taken by authorities in various countries do not appear sufficient to restore confidence in the global financial markets. This requires increased openness regarding which financial institutions have problems. In addition, certain banks need to review their capital situation. It is not until this has been done that the situation can normalise.

Risks analysis

The Riksbank also points out in the Report a number of risks that may cause difficulties for the Swedish banks in the coming period. One is if economic prospects deteriorate further, for instance, as a result of even greater effects of the financial crisis on the real economy, or of the banks further tightening their provision of credit. Poorer economic prospects can lead to the economy entering a negative spiral, with falling economic activity and a credit crunch. There is also a considerable risk that the economic downturn in the Baltic countries will be prolonged, and that loan losses in the Swedish banks with operations there may be greater than expected.

However, the stress tests carried out by the Riksbank indicate that the Swedish banks can manage substantially lower credit ratings among both their Swedish and Baltic borrowers, even if this were to occur at the same time.

Once again, the Riksbank has carried out a survey among participants in the Swedish fixed-income and foreign exchange markets, to gain an idea of their views on risk and on the functioning of the Swedish markets. The results of the survey are published in the Financial Stability Report and also in a separate publication.

A press conference with Riksbank Governor Stefan Ingves, Deputy Governor Lars Nyberg and Mattias Persson, Head of the Financial Stability Department, will be held today at 11 a.m. in the Riksbank. Entry via the bank's main entrance, Brunkebergstorg 11. Press cards must be shown. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se.

The Report can be downloaded from the Riksbank's website, or ordered via e-mail: kontorsservicecenter@riksbank.se, fax +46-8-787 0526 or telephone +46-8-787 0000. The printed version will be available a few days later.