PRESS RELEASE

DATE 2 June 2009
NO. 58
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■ Swedish banks can manage increased loan losses

The Riksbank's assessment is that the major banks' loan losses will increase over the coming years, in the wake of the very weak economic activity. In the Riksbank's main scenario, it is assumed that the major Swedish banks' loan losses in 2009 and 2010 will total SEK 170 billion. The banks have sufficient capital to meet larger losses than this, and are well-capitalised in an international comparison. This is concluded by the Riksbank in its Financial Stability Report, which is published today.

The measures taken by the authorities are still an important condition for the financial system in Sweden to remain stable. At the same time, the measures have contributed to a decline in the banks' liquidity risk since November. There are also signs that the situation in the financial markets has improved somewhat.

Since the previous Financial Stability Report was published in November, economic activity in the world has deteriorated substantially. The forecasts for growth have been gradually revised down. The poorer economic activity has a negative effect on the outlook for the banks' borrowers and credit risk has taken over as the most immediate risk for the banks.

The banks have sufficient capital to manage increased loan losses

In the Riksbank's main scenario, it is assumed that the banks' loan losses in 2009 and 2010 will total SEK 170 billion. Just under 40 per cent of these losses are expected to stem from the bank groups' operations in the Baltic countries and the rest of eastern Europe. It is primarily in the corporate sector, both in Sweden and in other countries where the Swedish banks have operations, that is contributing to the increase in loan losses.

"Our assessment is that loan losses will increase over the coming years. However, the banks have sufficient capital to meet losses of this size and are well-capitalised in an international comparison," says Governor Stefan Ingves.

Great uncertainty

The main scenario is very uncertain, and there are a number of risks that if realised could lead to the situation for the major Swedish banks deteriorating more than in the main scenario, which would result in larger loan losses. One such risk is that the recession and the recovery in economic activity will be more protracted than most economic analysts are expecting. Another risk is that the serious economic situation in the Baltic countries will continue to worsen. Both of these risks have increased compared with last November. However, there are signs that parts of the financial markets have recently begun to function better and this risk is therefore assessed as remaining unchanged in relation to the previous Report.

The Riksbank has carried out a stress test to examine the banks' resilience to a much worse scenario than the main scenario described in the Report. Even under the very difficult conditions assumed in this stress test the Swedish banks manage to meet the statutory capital adequacy requirement of four per cent.

If the stress test scenario were to become reality, however, it could lead to the banks experiencing greater funding difficulties and credit ratings could come under pressure. Under such circumstances the banks would probably need to take measures to strengthen their capital.

The Riksbank and other authorities are always prepared to act to safeguard the stability of the financial system in Sweden.

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. 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 05 26 or telephone +46-8-787 00 00.

The printed version of the Report will be available from 5 June.