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■ The banks are better equipped to meet future loan losses

The Riksbank's assessment is that the major banks' resilience has improved. The financial markets have begun to function better and the recession appears to have bottomed out. Loan losses in the bank system are therefore expected to be lower than was assessed in June. At the same time, future developments are uncertain and the risks are still considerable. However, the banks have sufficient capital to meet larger losses than in the main scenario. This is the conclusion of the Riksbank in its Financial Stability Report, which is published today.

Since the previous Financial Stability Report was published in June, the functioning of the financial markets has improved both in Sweden and abroad. At the same time, the recovery of the world economy has begun and it appears that GDP growth will be somewhat stronger than many observers expected only a few months ago.

"The situation in the financial markets has improved and it has become easier for the major Swedish banks to obtain funding. At the same time, the prospects for their borrowers have improved. But future developments are uncertain. The recovery in the economy is from a very low level and parts of the financial markets are still not functioning as they were prior to the crisis. The measures taken by the authorities still have significance," says Governor Stefan Ingves.

It is still uncertain how large the losses resulting from the crisis will be. Globally, financial institutions have so far made losses of around USD 1,700 billion and injected new capital corresponding to USD 1,500 billion to cover them. According to the IMF the total losses around the world amount to around USD 3,400 billion, which means that a lot remains to be reported.

The banks can cope with increased loan losses

Credit risk is still the most prominent risk for the major Swedish banks, although this risk has declined slightly since June. In the report's main scenario, the banks' loan losses are expected to amount to a total of SEK 155 billion during the period 2009 to 2011. This means that loan losses are now expected to be lower than



■ was forecast in the June Financial Stability Report. The largest losses are still expected to come from the banks' activities in the Baltic countries. However, the banks have sufficient capital to meet losses of this magnitude. Since the previous report the banks have actively increased their capital and reduced their risk-weighted assets and are well-capitalised in an international comparison.

During autumn 2009, the Riksbank and Finansinspektionen have investigated how the Swedish banks in the Baltic countries are handling the rapidly-increasing stock of problem loans and the collateral associated with them. The banks' management follows good international practice and the banks have a realistic perception of the size of their problem loans in the Baltic countries.

Continued large risks

There are a number of risks that could lead to the banks' situation worsening in relation to developments as described in the main scenario. One such risk is if the economic recovery in the Baltic countries were to take longer and lead to larger loan losses than expected. Other risks are linked to developments in the financial markets or to a potential setback in economic activity. However, these two risks are considered to have declined somewhat since June.

All of the major Swedish banks perform better in the Riksbank's current stress test than in the one conducted in June. This is largely due to the banks' improved capital situation, at the same time as the stress test is based on a brighter main scenario. However, if the stress scenario becomes reality the banks could face increased funding difficulties. The Riksbank and other authorities are prepared to manage the problems that could arise from such a sequence of events.

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-(0)8-787 05 26 or telephone: +46-(0)8-787 00 00. The printed version of the Report will be available from 30 November.