



PRESS RELEASE

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■ Swedish banks' resilience has improved

Swedish banks' earnings have improved and loan losses have declined. The banks have good access to market funding and are well-capitalised in an international comparison. The Riksbank therefore assesses that the Swedish banks' resilience to a poorer economic outcome is good. But the banks' dependence on market funding means that their situation may deteriorate if the unease on the financial markets increases. The Riksbank's earlier recommendations that the banks should retain or increase their capital ratios, reduce their dependence on short-term funding and improve their public liquidity reporting therefore still stand. These are the conclusions of the Riksbank's Financial Stability Report, which is published today.

The Swedish banks are financially strong...

The situation for the Swedish banks has improved over the past six months. Strong economic growth in Sweden and a recovery in the Baltic countries have contributed to the banks' loan losses continuing to decline at the same time as their earnings and profitability have improved. The Riksbank has therefore revised down the forecast for the banks' loan losses during the period 2011-2013. Compared with recent years, losses are expected to be very low and amount to around SEK 18 billion. At the same time, the Swedish banks have good access to market funding both in Swedish krona and foreign currencies and they are well-capitalised in an international comparison.

...but there is considerable uncertainty abroad

It is still uncertain what consequences the fiscal problems in several countries may have for the global economy and for the financial markets. The Swedish banks have small direct exposures to the fiscally-weak countries, but at the same time they are dependent on short-term market funding in foreign currencies. If one of these countries is forced to renegotiate its national debt, this could mean that the unease on the financial markets increases and that market



■ functioning deteriorates. This in turn could affect the Swedish banks' access to market funding.

The Riksbank's stress tests show that the Swedish banks' resilience has improved and that they have good ability to manage a poorer economic outcome and higher loan losses. However they take larger liquidity risks than many European banks.

The Riksbank's recommendations to the banks

In the previous Financial Stability Report published in December 2010 the Riksbank made a number of recommendations to the Swedish banks. The follow-up shows that the banks have to some extent acted in line with these recommendations. But the Riksbank considers that the recommendations still essentially apply.

The Riksbank therefore directs in its report the following recommendations to the Swedish banks:

- The banks should retain or increase their capital ratios. They should therefore refrain from using buyback programmes or paying out dividends in such a way that their core Tier 1 capital ratio declines.
- The banks should reduce their financing and liquidity risks by limiting their dependence on short-term funding.
- The banks should improve the clarity of their public liquidity reporting.

The Riksbank considers at the same time that there is reason to introduce higher capital adequacy requirements in Sweden than those stipulated in the coming Basel III regulations. Experiences from the financial crisis show that a bank crisis can have major consequences for society. The Riksbank assesses that higher capital adequacy requirements would reduce the systemic risk in the financial system and increase confidence in the banks. In the Riksbank's opinion, the positive macro economic effects that ensue from a more resilient banking system outweigh the disadvantages that slightly more expensive bank services might entail.

"There are circumstances in the Swedish banking system that entail risks that are not entirely covered by the Basel III regulations. The Swedish banks should therefore be subjected to higher capital adequacy requirements than those stipulated in Basel III," says Governor Stefan Ingves.

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 Financial Stability Report can be downloaded from the Riksbank's website, or ordered via e-mail: kontorsservicecenter@riksbank.se, or telephone +46-(0)8-787 00 00. The printed version of the Report will be available from 1 June.