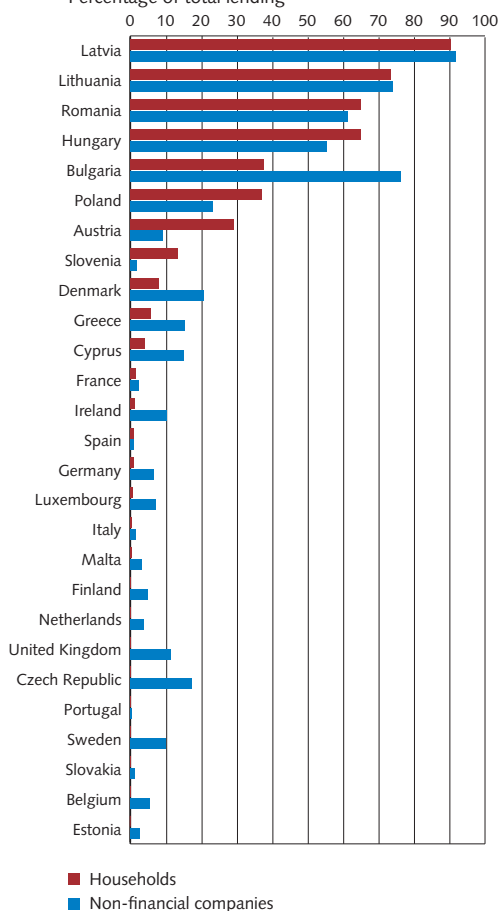


Chart B3:1. Lending in foreign currency to households and non-financial companies
Percentage of total lending



Source: European Systemic Risk Board (ESRB)

The European Systemic Risk Board's recommendations on lending in foreign currencies

At the beginning of October the newly-established body for macro-prudential oversight, the European Systemic Risk Board (ESRB) issued recommendations regarding lending in foreign currencies. This is the first time the ESRB has issued public recommendations and they are in this case directed at the national supervisory authorities in the EU member states, the European Banking Authority (EBA) and the EU member states. The purpose of the recommendations is to alleviate the risk arising from lending in foreign currencies. On the basis of the experiences in the Baltic countries in 2008-2009, but also the experiences of the Swedish financial crisis at the beginning of the 1990s, the Riksbank welcomes the ESRB's recommendations.

Lending in foreign currencies varies between the EU member states (see Chart B3:1). It is mainly in some of the central and eastern European countries that a significant portion of households and companies have large loans in foreign currencies at the same time as their income and earnings are in their national currency. This means that these borrowers are exposed to a risk that the domestic currency could depreciate against the currency the loan has been taken in (currency risk). In this situation the loan burden becomes greater, at the same time as incomes remain unchanged, which increases the probability that the borrower will default on the loan. The banks are also negatively affected if the loans are converted to the domestic currency as a result of political decisions.⁶⁶ A large percentage of lending in foreign currencies may thus comprise a threat to the financial stability of the countries concerned, which could also spread to other countries within the EU, as a result of the European banking system being so closely intertwined.

The ESRB's recommendations apply primarily to new loans in foreign currencies. They state that the authorities concerned should ensure, for instance, that the borrowers are informed of the risks entailed in borrowing in foreign currencies, that these loans are only granted to customers who can manage large fluctuations in the exchange rate, that the banks hold sufficient capital to be able to manage the risks entailed in lending in foreign currencies, and that the banks have adequate risk management for the liquidity and funding risks that arise from these loans. The authorities concerned shall report to the ESRB during 2012 on what measures they have taken to follow the recommendations, or alternatively, explain why this has not been done.

Lending in foreign currencies is extremely limited in Sweden, but does occur in a couple of the countries in which the Swedish banks have operations (see Chapters 2 and 3). The recommendations should reasonably lead to the risks of lending in foreign currencies in these countries being better reflected in the banks' internal pricing and in the interest rate paid by the customers.

⁶⁶ This has happened in Hungary, for instance, in the wake of the financial crisis in 2008.