

Press Release

MAY 6TH 1999, NO. 33

Bank stability good, though with some tendencies to increased vulnerability

In the present economic situation the risk of the banks being hit by extensive lending losses is small. In certain areas, however, there is some accumulation of risks that, in the event of an economic downturn, could lead to more substantial bank lending losses. This assessment is presented in the *Financial Stability Report* the Riksbank is publishing today. The Riksbank monitors financial system stability continuously and compiles the *Report* (formerly published as Financial Market Report) twice a year.

The risks are to be found mainly in the property sector. With rising real estate prices, high debt ratios render property companies vulnerable to a poorer economic development, in particular to rising interest rates.

Household sector indebtedness has risen but with declining interest rates, debt expenditure is still lower than before. In view of this and as households normally account for a smaller proportion of lending losses than other borrowers, the increased indebtedness does not seem to be a substantial problem for the banks.

One problem in the Swedish bank sector is the large contagion risk associated with the considerable mutual exposures of the major banks.

In the *Report* the Riksbank considers a variety of factors—such as stronger competition, narrower margins and rising costs—that may depress future bank profitability. If the banks are not able to cope with the increased competitive pressure, they may be liable to take more risks in order to improve results. In this context there is reason to note the banks' comparatively high required return on equity.

In view of the Riksbank's responsibility for payment system stability, the *Report* accounts for the risks of the Year 2000 transition occasioning systemic problems in the financial sector. The supply of notes is good and the Riksbank considers that an increased withdrawal of cash should not pose any sizeable threat. As a result of testing and contingency plans, the basic functions of the payment system and the central financial enterprises are prepared for the transition.

A press conference, attended by Deputy Governor Lars Nyberg and the head of the Financial System Division, Martin Andersson, is to be held today at 10 a.m. at the Riksbank. Admission by press card at no. 7 Malmskillnadsgatan.

Copies of the *Report* can be ordered on the Internet (www.riksbank.se), by e-mail (info@riksbank.se), fax (+46 8 787 0526) or phone (+46 8 787 0100) or collected at no. 7 Malmskillnadsgatan or no. 11 Brunkebergstorg.

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