

Press Release

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Financial Stability Report 2000:2

Good profitability in the banking sector, combined with a favourable state of the economy, means that stability in the financial system is currently good. In the short term, only extreme events, such as extensive losses related to operational risks or a serious international economic disturbance, ought to comprise a threat to financial stability. This assessment is made by the Riksbank in its report Financial Stability, which is published today.

In the current situation there are a few factors that deserve particular attention when assessing stability in the banking sector:

- *A volatile stock market and slightly increasing default risks in the corporate sector.* Developments in the stock market could be an indication of weaker earnings capacity in certain areas of trade and industry. Corporate defaults are increasing slightly, but are still at a low level and they seem primarily to affect companies with a low level of borrowing from banks.
- *A continued increase in indebtedness in the household sector.* Lending to the household sector is continuing to grow strongly, but indebtedness is still significantly lower than during the banking crisis.
- *Rapidly rising property prices,* although these do not appear to be fuelled by increased borrowing secured by real estate.

Despite these risk factors, the banks and their borrowers appear on the whole to be well equipped even in the event of a deterioration of the economic situation.

Although the mergers and acquisitions by the major banks during the 1990s have increased the Swedish banking sector's sensitivity to a negative economic development in other countries, they have also significantly reduced the sensitivity to developments in Sweden in that the banks' credit portfolios and earnings have become more diversified. However, the new, untried operations could involve considerable *operational risks* for the banks.

One chapter of the report deals with the emergence of the banks' methods for measuring and managing operational risks. The management of operational risks is still relatively undeveloped, but awareness of potential risks has increased among the banks and they are currently carrying out intensive development work.

A press conference with Deputy Governor Lars Nyberg, Martin Andersson, Head of Financial Stability Department and Martin Blåvarg, Head of Division for Financial Stability Analysis will be held at 10.00 am today at the Riksbank, entrance at Brunkebergstorg 11. Press cards must be shown. The press conference will also be broadcast live on the Riksbank's web site: www.riksbank.se.

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