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■ Banks well-prepared but uncertainty has increased

The major banks are well-capitalised in an international comparison, and loan losses are expected to be lower in the coming period. The Riksbank therefore makes the assessment that the banks are well-equipped to meet unexpected and negative events in the period ahead. But there are still large risks, and uncertainty has recently increased. This is the conclusion of the Riksbank in its Financial Stability Report, which is published today.

Uncertainty has increased

Following a period of increasing stability, the financial markets have once again suffered considerable uncertainty as a result of the concerns regarding public finances in several countries in southern Europe.

"In Sweden the financial markets are functioning well under the circumstances and have not been affected to any large degree by the international turbulence. Swedish banks have only small exposures to the southern European countries experiencing problems with their public finances. The Swedish banks are also well-capitalised, seen from an international perspective and have since the winter been able to return to normal funding without state support," says Governor Stefan Ingves.

The banks can cope with future loan losses

The Riksbank's assessment is that the loan losses during the period 2010-2012 will be lower than was assumed in the previous Financial Stability Report published in November. The four major banks' loan losses are expected to amount to SEK 61 billion, according to the main scenario. The fact that loan losses are now expected to be lower is mainly due to the improvement in the real economy. The largest loan losses in relation to lending will continue to come from lending in the Baltic countries. However, the banks have good buffers and these losses are manageable.

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 of the Financial Stability Report. One such risk is that the fiscal consolidation in countries with public finance problems may suffer setbacks. This could lead to a wave of renewed uncertainty and to deterioration in the functioning of the markets.

"The important thing in the present situation is that the countries with problems in their public finances implement the necessary measures to correct the situation. This would contribute to greater stability in the financial markets," says Stefan Ingves.

Another risk is that the fragile recovery in the Baltic countries will come to a halt, which could lead to increased loan losses for the banks. At the same time, the prospects are brighter for the Baltic countries and the fact that Estonia now appears ready to adopt the euro contributes to stability.

In the Riksbank's main scenario the banks can manage future loan losses. However, the Riksbank has also tested the banks' resilience to a much more negative outcome than that in the main scenario. In this scenario the world economy deteriorates substantially while the financial markets are not functioning as they should. The test shows that the banks have sufficient capital to manage the loan losses that would arise in this situation, too. However, the banks might experience problems in obtaining funding.

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 3 June.