

PRESS RELEASE

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CONTACT: Press Office +46 (0)8 787 02 00



SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

Brighter outlook, but the risks to financial stability are still elevated

With the help of extensive support measures, the Swedish financial system has coped relatively well during the pandemic and a financial crisis has been avoided. Credit supply has been maintained and important funding markets are now working satisfactorily. However, the risks to financial stability are still elevated. It is important for economic policy to continue to support the economic recovery, while also taking longer-term vulnerabilities into account.

Extensive support measures have prevented a financial crisis

The coronavirus pandemic is continuing to restrict economic developments. However, extensive support measures have helped to mitigate the economic consequences, and enabled the financial system to cope relatively well through the pandemic.

Over the winter and spring, further major fiscal policy stimulus packages have been launched and central banks have continued with large-scale asset purchases and extensive lending programmes. At the same time, vaccinations are under way and the outlook is brighter than when the Riksbank's previous Financial Stability Report was published in November 2020.

Uncertain future and the risk of setbacks

The risks to financial stability are still elevated. Although the global economy has shown itself to be more resilient lately, we still do not know how the pandemic will develop and what effects it may have. Companies and households have been affected with varying severity during the pandemic. With time, the negative effects have become significantly more concentrated to parts of the service sector. Bankruptcies risk increasing in the period ahead, both in Sweden and abroad, particularly if the support measures are phased out quickly. Banks would then also risk major loan losses.



Sharply rising asset prices in several countries during the pandemic, together with increasing indebtedness, are also part of the risk outlook. In Sweden, for example, housing prices have risen sharply, which has probably to do with the unusual economic effects of the pandemic. The ability and willingness of many households to spend money on housing has increased during the pandemic. In addition, the increase in unemployment can be seen primarily among temporary workers, who normally have a weak position on the housing market.

There are vulnerabilities in the financial system that were already there prior to the pandemic. In the euro area, these are mainly a matter of weak banks and public finances, while in Sweden they mainly concern high household indebtedness and high levels of exposure among the major banks to residential and commercial properties. A crisis in the property market could threaten the stability of the Swedish financial system.

Economic policy needs to cooperate to support the recovery and counteract financial imbalances

The economic recovery requires monetary policy and fiscal policy to remain expansionary. At the same time, economic policy also needs to take longer-term vulnerabilities into account. The most appropriate way of combating these is via targeted structural measures, well-designed financial regulation and macroprudential policy. The Riksbank's measures are having a broad impact on the economy and are therefore not particularly appropriate for counteracting financial imbalances within individual sectors in the prevailing economic situation.

The risks of high household indebtedness and the rapid upturn in prices in the housing market make it important for Finansinspektionen (FI) to allow the temporary exemption from the amortisation requirements to expire in August as planned. If the economic recovery continues as expected, it is also desirable that FI announces that the value of the countercyclical capital buffer will be increased, not least as increases are implemented with a time-lag of twelve months.

It is also important to work on a broad front to rectify identified weaknesses and further strengthen the resilience of the financial system. This is a question of, among other things, managing global challenges such as cyber risks and climate change. It is also a question of achieving a better-functioning Swedish market for corporate bonds and limiting the risks inherent in funds with corporate bond holdings.

A digital press meeting with Governor Stefan Ingves will be held today at 11.00. The press conference will be broadcast live on riksbank.se. Preregistered journalists will be able to ask questions via Zoom. Press cards or similar are required. For registration, contact Susanne Meyer of the press office by telephone at 08-787 02 00 or by email at susanne.meyer@riksbank.se no later than 10.00 on 26 May.