Economic Commentary

Corporate bankruptcies and loan losses in Swedish banks

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NO. 11 2025, 22 December

SVERIGES RIKSBANK

Loan losses, bankruptcies and companies

This Economic Commentary studies Swedish companies that have gone bankrupt and whether such bankruptcy has created a loan loss for a Swedish bank.[1]

Companies going bankrupt when their business activities are no longer profitable is a natural part of a market economy. If the company then has liabilities to a bank that are greater than the company's assets, the bank may recognise a loan loss. If these losses become too large or affect confidence in the bank, this could eventually affect the stability of the entire financial system.

Swedish banks have had very low loan losses in recent years, and their own credit risk assessments indicate that this will continue. But this could change if, for example, a sector with large bank loans suffers a shock that causes several bankruptcies.

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Swedish companies need funding to make investments and run their operations. The way a company funds its operations differs depending on the size of the company and the industry in which it operates.[3] Many companies fund themselves with bank loans. When banks grant loans, there is always a risk that borrowers will not be able to repay the loans, so banks often take various kinds of collateral as security for the loans. However, if a company goes bankrupt and any collateral is not sufficient to repay the loans, the bank instead incurs a loan loss.[4]

In a dynamic market economy, individual companies go bankrupt at regular intervals. Although bankruptcy can be painful for the individual entrepreneur and employees, it is not necessarily negative for the economy. Closing down less efficient companies

[1] Economic Commentaries are brief analyses of issues with relevance for the Riksbank. They may be written by individual members of the Executive Board or by Riksbank staff. Staff commentaries are approved by the relevant head of department, while Executive Board members are themselves responsible for the content of the commentaries they write.

[2] The authors would like to thank David Forsman and Annika Svensson for helpful comments.

[3] For a broader review of corporate borrowing, see *The Swedish Financial Market 2024*, Sveriges Riksbank.

[4] Banks are required to assess the likelihood that a loan will result in a loan loss and to set aside capital in advance for expected loan losses. See Frykström and Li (2018) for a description of how banks handle loan losses in their accounts. Realised loan losses may arise if borrowers are unable to repay their loans and the loans are unsecured or if the fair value of the collateral securing the loans is lower than the carrying amount.

frees up labour and capital that can be used in more efficient companies. In the long run, this leads to increased growth, although there may be short-term costs.[5]

On the other hand, if a bankruptcy results in an individual bank incurring large loan losses or raises concerns that loan losses could cause problems for the bank, this could negatively affect confidence in the bank. This could result in the bank's customers withdrawing their money or in it becoming more expensive for the bank to borrow on the market. Ultimately, this could affect financial stability as a whole.

In this Economic Commentary, we first outline the types of companies that went bankrupt and had bank loans in the period 2019 to 2023. We then focus on the loan losses that have arisen in Swedish banks over the same period and the types of company that caused them.[6] We look at realised loan losses, which, in contrast to expected loan losses, are the actual loss incurred when the borrower is unable to repay the debt.[7]

Linking information from the Riksbank's credit database KRITA on Swedish credit institutions' loans to companies together with detailed information on Swedish companies from the Serrano Database allows us to study companies that have gone bankrupt, identify which of these have caused loan losses and compare them with other companies.[8] This provides a comprehensive picture of Swedish companies and their loans from Swedish banks. [9] However, we lack information on Swedish companies' foreign loans.

Bankruptcies are most common in micro enterprises.

Between 2000 and 2023, the number of bankruptcies in Sweden has remained roughly the same: around 5,800 per year. During the coronavirus pandemic, they increased to almost 8,000 in 2023. This is the highest number of bankruptcies recorded since the early 2000s (see Chart 1).

[5] The process is often referred to as creative destruction precisely because the destruction of old structures eventually leads to the creative growth of new companies and organisations (Aghion & Howitt, 1992). The alternative – that no companies ever go out of business – is rarely positive and can lead to so-called zombie companies, which survive but do not create any innovation or growth (Adalet McGowan et al., 2018).

[6] The period analysed is relatively short and includes the coronavirus pandemic when companies received different types of support. The results should therefore be interpreted with some caution with regard to conclusions about future loan losses.

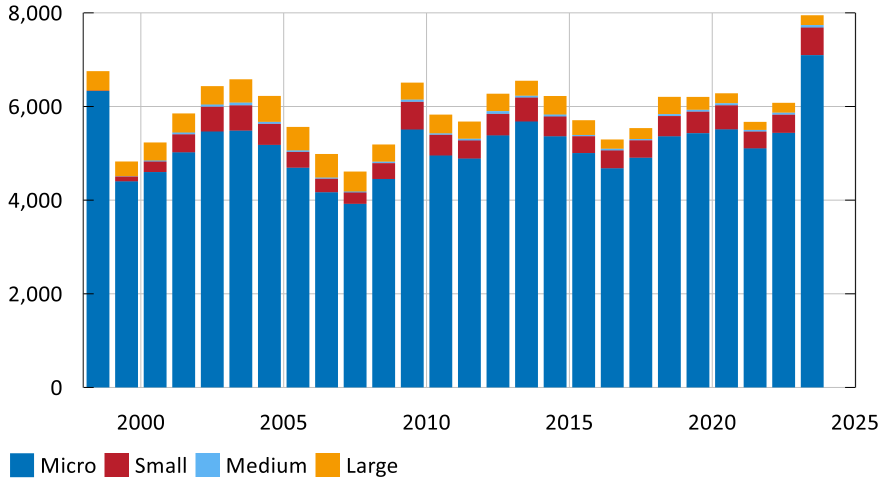
[7] Banks can also incur credit losses in the case of composition with creditors or debt restructuring, in which the counterparty has its debts written off and avoids bankruptcy. The bank may then agree to waive part of the debt.

[8] The Riksbank's credit database KRITA contains microdata on Swedish credit institutions' loans to companies. The Serrano Database is provided by Dun & Bradstreet.

[9] It is not possible to make a corresponding analysis of household income and loans as the Riksbank lacks data for this.

Chart 1. Bankruptcies by company size

Number



Note. Micro enterprises have fewer than 10 employees, small enterprises have between 11 and 49 employees, medium-sized enterprises have between 40 and 249 employees and large companies have 250 employees or more.

Source: Serrano Database.

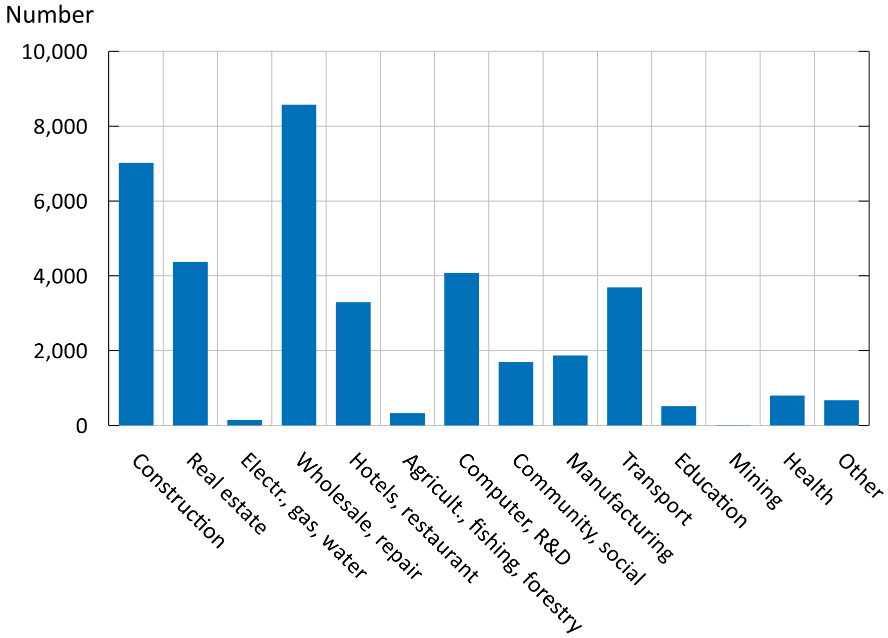
Bankruptcies occur throughout the country but metropolitan areas are hardest hit in absolute terms.[10] Most bankruptcies have occurred in so-called micro or small enterprises with no or few employees (see Chart 1), while large companies account for few bankruptcies.

Bankruptcies have occurred in all sectors but are more common in some (see Chart 2).[11] In Chart 2, it can be seen that a relatively large proportion of bankruptcies occur in the construction and wholesale and retail trade sectors, but also in real estate and financial and insurance activities as well as professional, scientific and technical activities.

[10] See Financial Stability Report 2020:2.

[11] The sectors are defined according to Statistics Sweden's Standard Industrial Classification (SNI).

Chart 2. Bankruptcies by sector



Note. Refers to the number of bankruptcies over the period 2019–2023.

Source: Serrano Database.

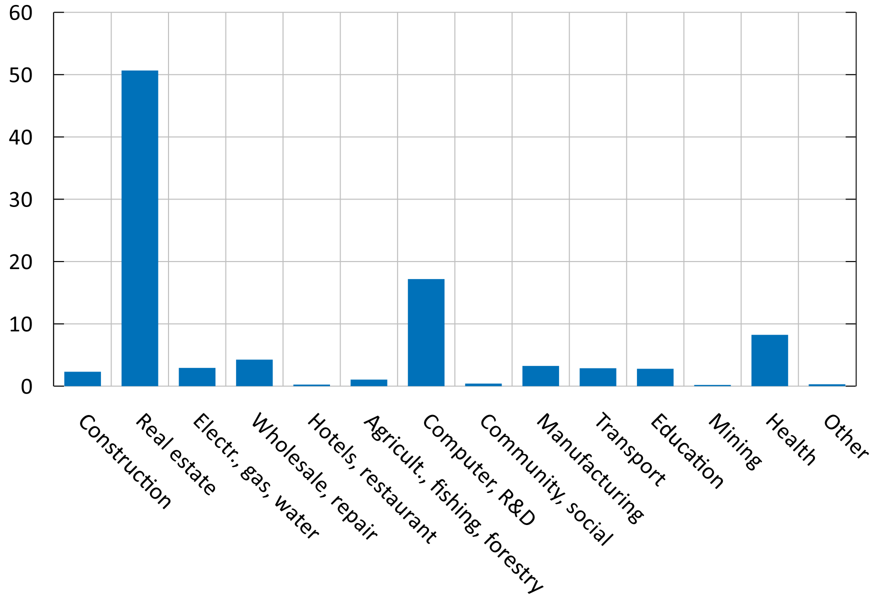
The property sector has a significant share of all bank loans

While bankruptcies are broadly distributed across several sectors, Swedish banks mainly lend to companies in the real estate sector (see Chart 3).[12] This means that Swedish bank lending is highly concentrated in a single sector. For example, construction and the wholesale and retail trade, which have the highest levels of insolvency, account for only a small share of bank lending.

[12] This is in line with recent research showing that the richer a country is, the greater the share of bank lending goes to property rather than manufacturing companies (Dai et al., 2025).

Chart 3. Swedish banks' lending to different sectors

Per cent



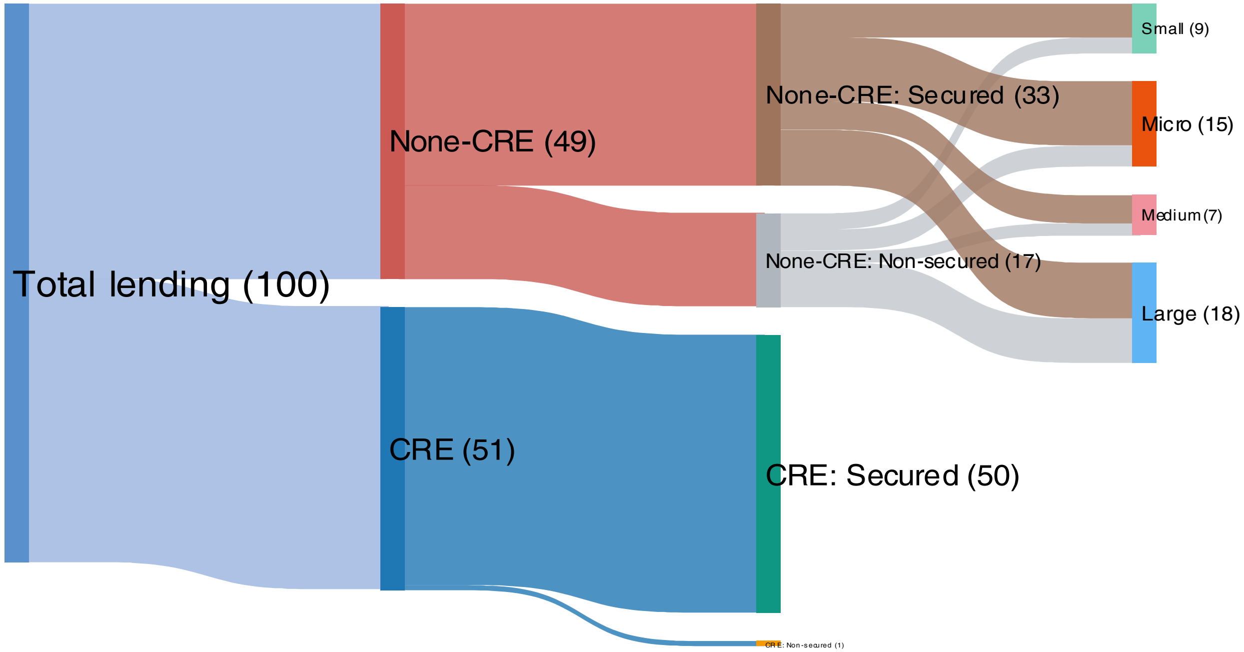
Note. Refers to the share of total corporate lending from Swedish credit institutions between 2019 and 2023.

Sources: Serrano database and the Riksbank (KRITA).

The majority of all lending, 83 per cent, is against collateral but this varies by sector and company size. Loans to property companies are almost always secured by collateral, compared to only a third of loans to companies in other sectors. Around 17 per cent of all corporate lending is unsecured. The prevalence of unsecured loans is similar for both large and small companies (see Chart 4). This means that the bank is more likely to make a loan loss if the company goes bankrupt because there is nothing that the bank can take over and sell, such as property or machinery, to recover the debt. The proceeds from the sale are used to cover the debt and any transaction costs, thereby reducing the likelihood of a loan loss.

Chart 4. Breakdown of loans by sector and underlying collateral

Per cent



Note. CRE refers to commercial real estate companies. In the first step, lending is divided into loans to the property sector and loans to other sectors. The second step looks at the proportion of loans that are collateralised or not (pledged). The third step shows lending by the size of the company based on the number of employees (except for the property sector).

Sources: Serrano database and the Riksbank (KRITA).

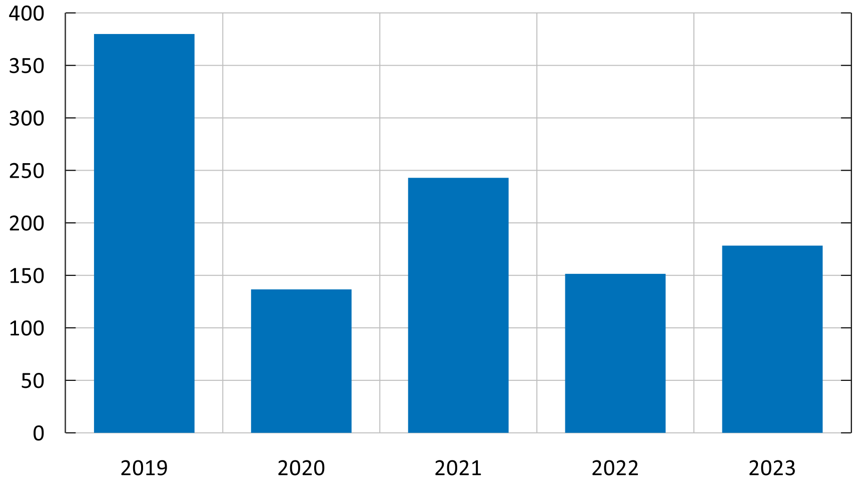
Swedish bankruptcies and loan losses

Just over half of the companies that went bankrupt during the period studied had bank loans, and the loans were relatively small. At the time of bankruptcy, the median loan was SEK 3,500 and the average loan was SEK 650,000. The large difference between the mean and the median value is due to the fact that a small number of companies had large loans while the absolute majority had small ones. The smaller loans consisted mainly of overdraft facilities. The median value of the longer-term loans was SEK 180,000.

Only a small proportion of these insolvencies resulted in loan losses for the banks, which incurred relatively small loan losses over the period (see Chart 1 in the Appendix). Between 2019 and 2023, total loan losses for Swedish banks were around SEK 1.1 billion (see Chart 5).

Chart 5. Loan losses per year

SEK million



Note. Refers to data from Swedish credit institutions.

Source: The Riksbank (KRITA).

Most of the companies that went bankrupt had few employees and were classified as micro enterprises.[13] Micro enterprises also caused the most loan losses. Both bankruptcies and loan losses were less frequent among larger companies (see Chart 6). On the other hand, large companies have much larger bank loans, which can therefore entail larger loan losses for the banks in the event of bankruptcy. Loan losses are high-

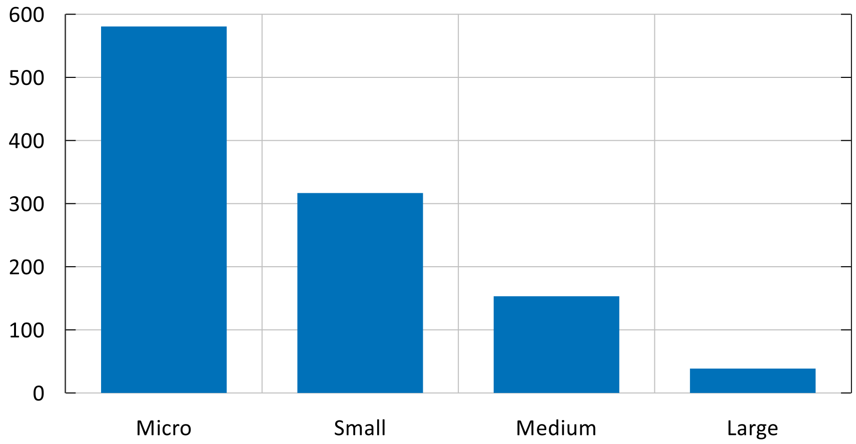
[13] On average, the companies that go bankrupt and cause loan losses have 11 employees. The median company has two employees and is classified as a micro enterprise. For those that go bankrupt but do not cause loan losses, the corresponding figures are 2.4 and zero.

est for companies in the property sector, closely followed by companies in the wholesale and retail trade, repair, communication, and transportation (see Chart 7). This can be explained by the fact that most of the banks' corporate lending is to property companies, which means that the sum of loan losses from that sector is high.

Both companies that fail without causing a loan loss and companies that fail and create loan losses are estimated to have a higher probability of default on their loans and higher interest rates on their bank loans (see Chart 2 and Chart 3 in the Appendix). These two factors overlap to a large extent for both groups, which may indicate that Swedish banks are restricting lending to companies that are deemed too risky, rather than offering them loans at higher interest rates.

Chart 6. Loan losses by size group

SEK million

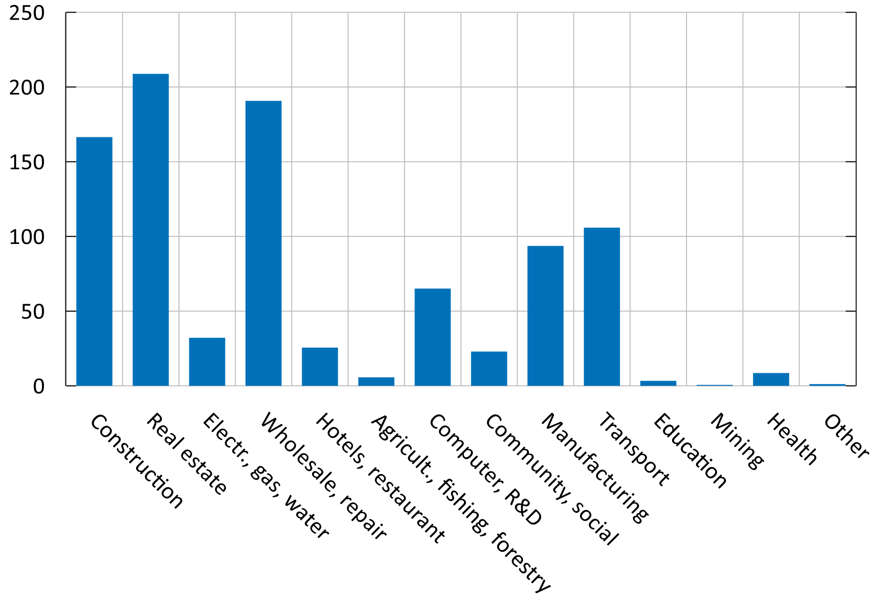


Note. The figure refers to realised loan losses from Swedish credit institutions over the period 2019 to 2023.

Source: The Riksbank (KRITA).

Chart 7. Bankruptcies by sector

SEK million



Note. The figure refers to realised loan losses from Swedish credit institutions over the period 2019 to 2023.

Sources: Serrano database and the Riksbank (KRITA).

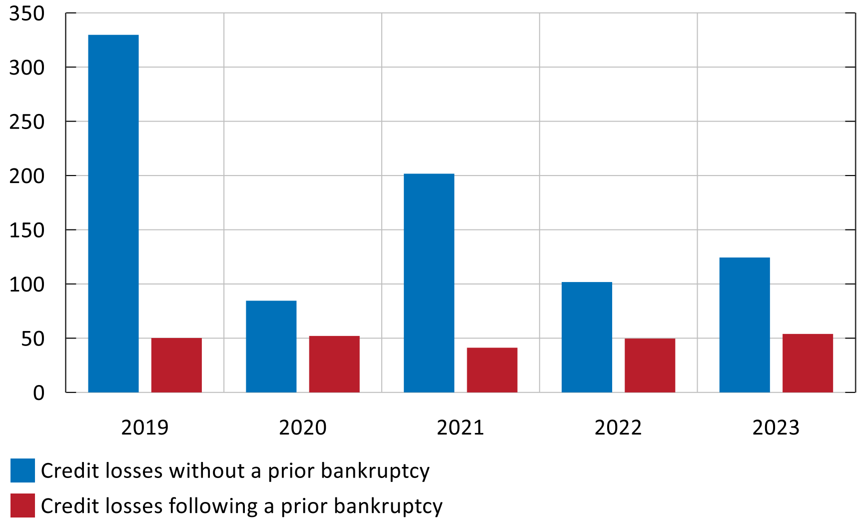
Not all bankruptcies lead to loan losses

When we compare the companies that have caused loan losses for Swedish banks with those that have not[14], we can see that loan losses usually occur when the company goes bankrupt, but not always. Chart 8 shows the loan losses incurred with bankruptcy and without bankruptcy. The occurrence of loan losses without bankruptcy can have several causes. For example, the bank may have voluntarily written off parts of a loan to increase the company's chances of survival, the bank may have written off the loan before the bankruptcy was finalised, and the bank and the company may have completed the process without a formal legal bankruptcy.

[14] Companies linked to the financial and public sectors are excluded.

Chart 8. Loan losses via or without bankruptcy

SEK million



Note. The figure refers to realised loan losses from Swedish credit institutions over the period 2019 to 2023.

Sources: Serrano database and the Riksbank (KRITA).

There are several explanations for the low loan losses

Swedish banks' loan losses are low and the typical loan loss amounts to a few thousand kronor. The loan losses that do arise come mainly from companies in the construction, wholesale and retail trade and commercial property sectors. Loan losses exceeding ten million kronor are extremely rare.

These results are not unexpected, as the companies that cause loan losses often have small loans. However, the period under analysis is relatively short and caution should be exercised in using the results to assess future developments.

In Sweden, the banks' loan losses are also low compared to other European countries. Swedish banks' loan losses as a share of their total lending (the loan loss level) stands at 0.06 per cent, which is significantly lower than the EU average of 0.49 per cent (see Chart 4 in the Appendix).[15] There may be several explanations for this difference. For example, the major Swedish banks have a larger share of mortgages in their loan portfolios and it is unusual for Swedish households to go into personal bankruptcy. In addition, banks often hold collateral, such as property, when lending to companies. At the same time, it is not uncommon for companies in the property sector to have also borrowed money by issuing bonds.[16]

[15] Data are for Q4 2024 (European Banking Authority).

[16] If a property company goes bankrupt and has both loans in a bank and issued bonds, it is the bondholders who lose their money first. The banks then have an advantage over the bondholders in the bankruptcy proceedings.

In euro area countries, 47 per cent of all corporate loans are unsecured and only 25 per cent of all corporate loans are secured by property (Cusano et al., 2025). This is significantly less than in Sweden, where a total of 83 per cent of all business loans are secured. The introduction of IFRS 9 reduced lending to small and medium-sized enterprises (SMEs), which in turn reduced loan losses for banks, as these companies account for a larger share of all loan losses (Ertan 2025). But this does not explain the low Swedish loan losses, as IFRS 9 is a common regulation for all EU countries.

It would be valuable to investigate more closely why Swedish loan losses are so low. It may indicate strict controls of the creditworthiness of the companies to which the Swedish banks lend, that they primarily lend to sectors with low expected risk, or that they have good collateral for the loans they issue. The fact that Swedish banks have a large share of their lending in the property sector could, however, pose a risk if that sector were to be hit by a major shock.

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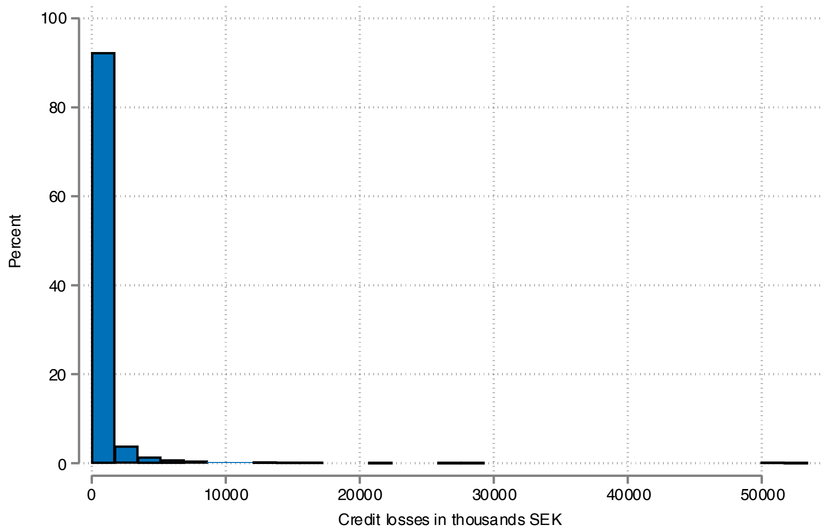
APPENDIX

Chart 1. Distribution of loan losses

Per cent

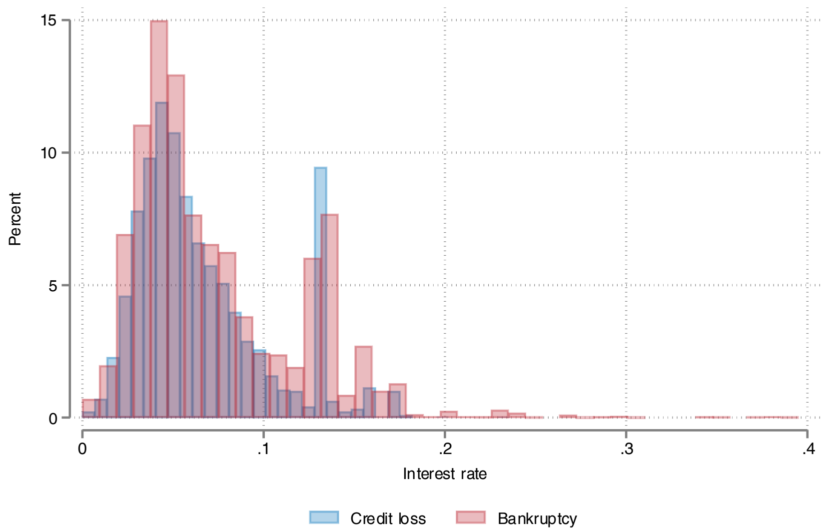


Note. The figure refers to realised loan losses from Swedish credit institutions over the period 2019 to 2023.

Source: The Riksbank (KRITA).

Chart 2. Breakdown of interest rate by group

Per cent

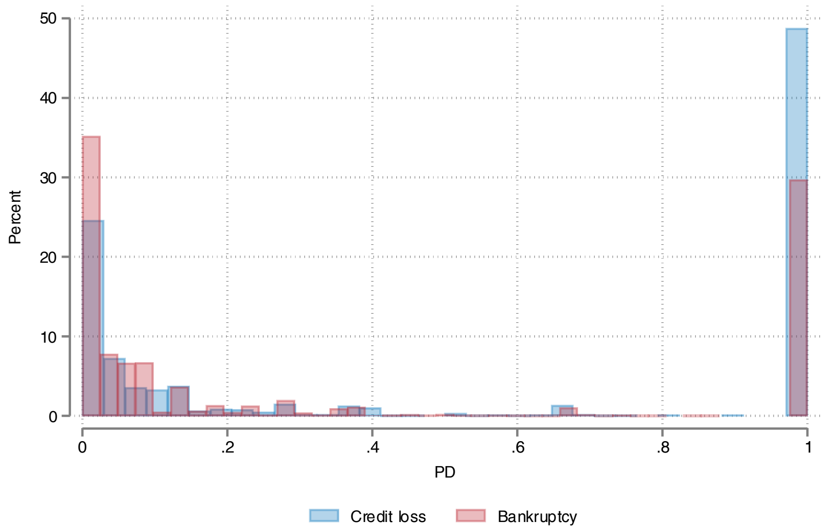


Note. The blue bars refer to the loan loss companies, i.e. the companies that go bankrupt and cause a loan loss for a Swedish bank. The pink bars refer to bankrupt companies, i.e. companies that go bankrupt but do not incur a loan loss.

Sources: Serrano Database and KRITA.

Chart 3. Breakdown of PD by group

Per cent

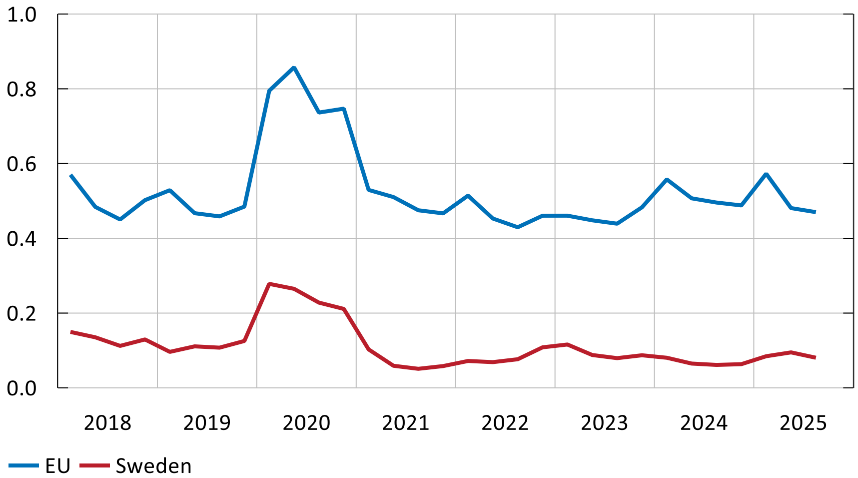


Note. The blue bars refer to the loan loss companies, i.e. the companies that go bankrupt and cause a loan loss for a Swedish bank. The pink bars refer to bankrupt companies, i.e. companies that go bankrupt but do not incur a loan loss.

Sources: Serrano Database and KRITA.

Chart 4. Loan loss level for Swedish and EU banks

Per cent



Note. The loan loss level is a measure that expresses net loan losses as a percentage of average total loans.

Source: European Banking Authority (EBA)

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