

Financial stability and risks in the wake of the coronavirus pandemic

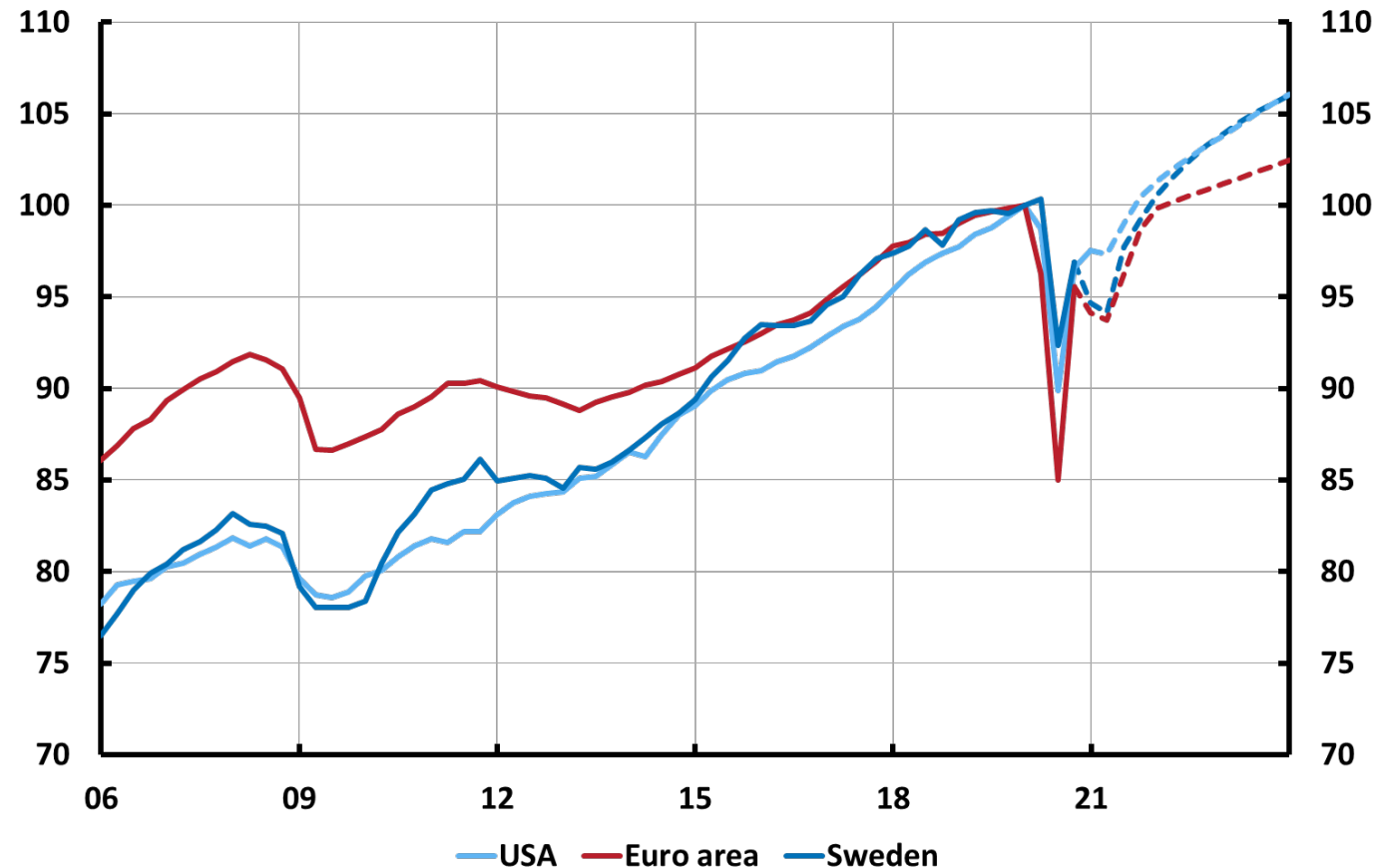
Riksdag Committee on Finance
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S V E R I G E S R I K S B A N K

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Governor of the Riksbank

The coronavirus pandemic continues to leave deep scars and the way back is long and fraught with uncertainty



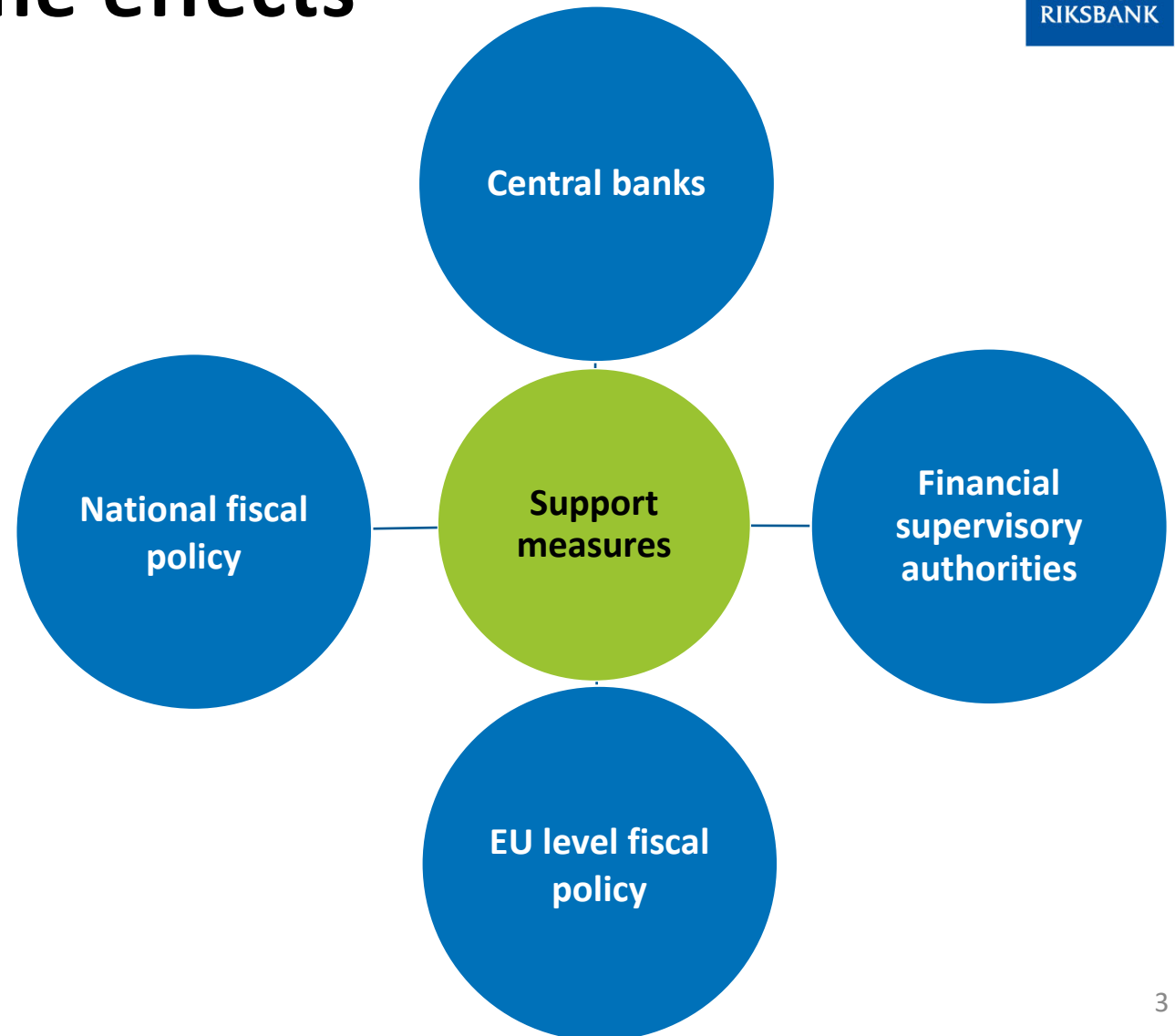
Index, 2019 Q4 = 100. The chart shows GDP developments in Sweden and abroad. The broken lines represent the Riksbank's forecasts from the Monetary Policy Report in November. Refers to seasonally adjusted data.

Sources: Eurostat, Statistics Sweden, the US Bureau of Economic Analysis and the Riksbank

Unprecedented support measures around the world have mitigated the effects

- Considerable fiscal policy stimulation from governments around the world
- Central banks have significantly expanded their balance sheets
- Lowering of buffer requirements and temporary easing of regulatory frameworks

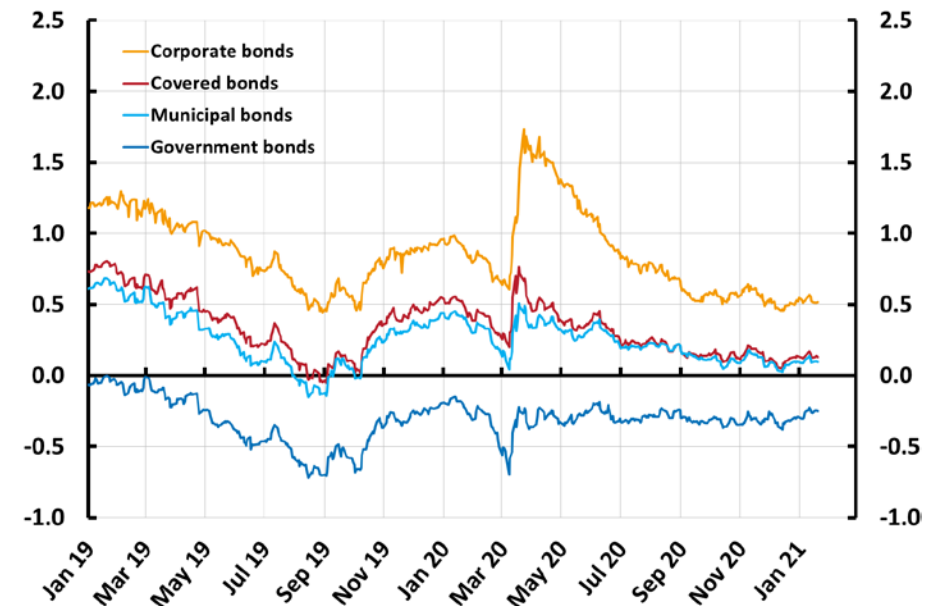
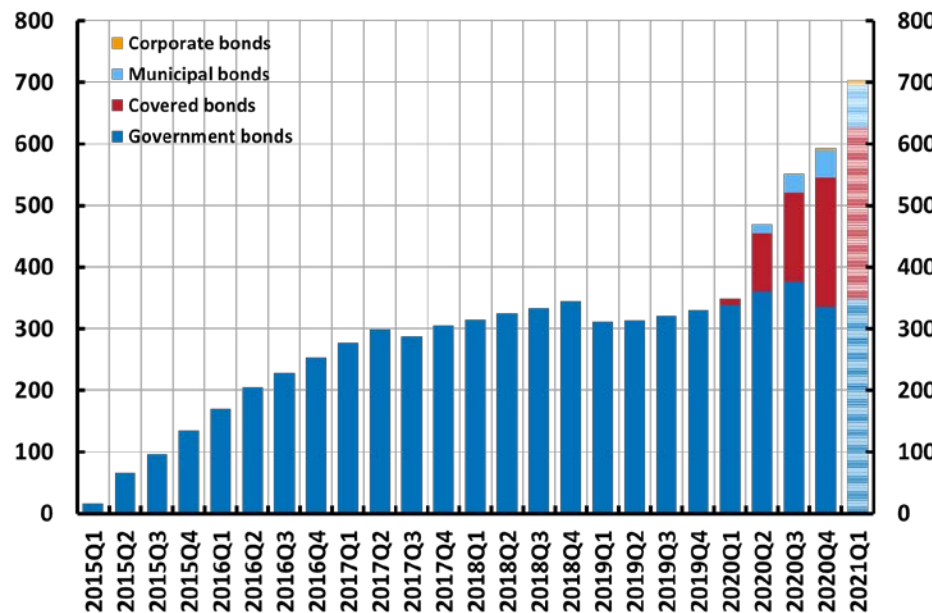
...but parts of the corporate sector have been hit hard by the crisis and underlying problems in, for instance, the European banking sector may become exposed when the crisis measures are withdrawn



The conditions for conducting monetary policy have changed

The Riksbank has, for instance, made extensive purchases of interest bearing securities...

...which has contributed to interest rates falling and remaining low during the crisis



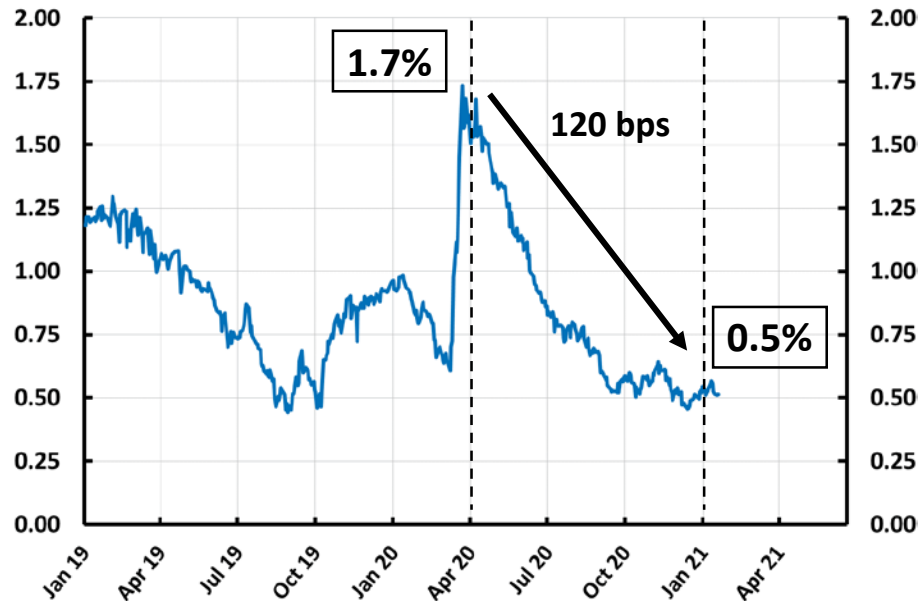
Holdings up to the first quarter of 2021 refer to decided purchases of government securities, municipal bonds and covered bonds. Refers to nominal amounts expressed as billions. For corporate bonds, the purchase decision covers the whole period up to 30 June 2021, without division into quarters. A forecast is shown for the first quarter of 2021.

Sources: Macrobond and the Riksbank

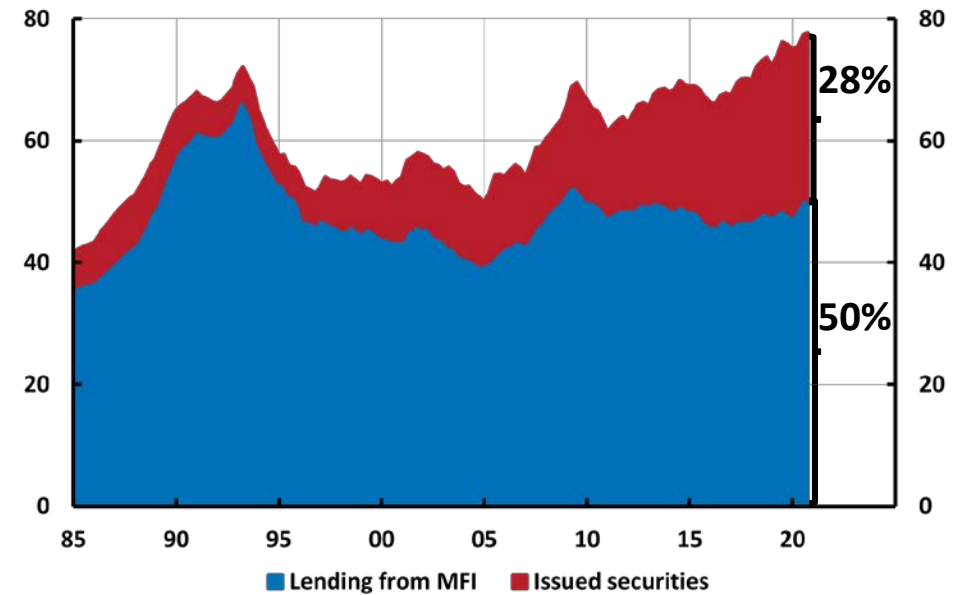
Right-hand chart shows yields on Swedish bonds with 5-year maturities.

The conditions for conducting monetary policy have changed

Central bank measures contributed to interest rates on corporate bonds coming down



Market based financing has become an increasingly important source for corporate funding



Refers to yield on corporate bonds on the secondary market. The chart on the right refers to per cent of GDP. The percentages in the chart refer to lending from MFIs and issued securities as a share of GDP in 2020 Q3. Refers to loans in both Swedish kronor and foreign currency. Securities borrowing 1980-1984 is based on the older classifications in the Financial Accounts.

Sources: Macrobond and Statistics Sweden

Vaccine contributes to improved future prospects, but the way ahead is fraught with risks

- **Risks in the short term**
 - Positive that vaccination has begun, but the rapid spread of infection and restrictions are continuing to slow down the economic recovery
 - There could be many more bankruptcies
 - If the support measures are withdrawn too quickly
- **Risks in the longer term**
 - Higher indebtedness for states and companies
 - Agents always expect to be “saved”
 - Negative real interest rates and low rates for longer
 - Climate-related risks



Important that different policy areas cooperate to help the recovery

Support measures still needed

- The Riksbank's measures effective in keeping interest rates low
- Fiscal policy more effective support for adversely affected sectors
- Extensive economic policy support required for a long time



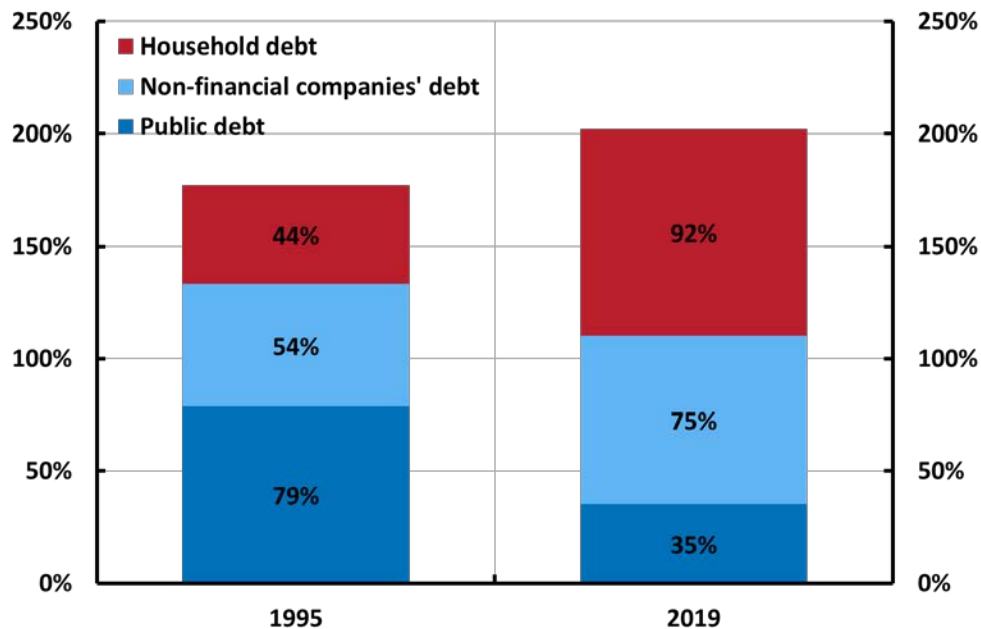
The banks need to supply credit to companies and households

- Capital and liquidity buffers should be used if necessary

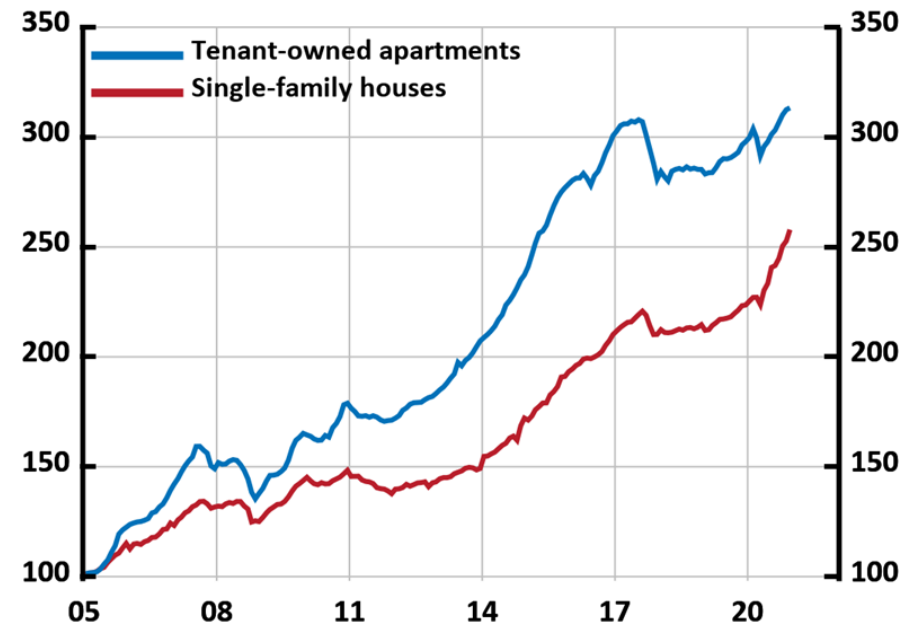


More measures needed to reduce the risks linked to household indebtedness

Over the past 25 years, households in Sweden have increased their debt while public indebtedness has declined



Following a period of subdued price growth, housing prices have increased substantially during the pandemic



Per cent of GDP. The percentages in the chart refer to debts for the respective sectors as a share of GDP in 1995 and 2019. Housing prices refer to an index where January 2005 = 100. Seasonally adjusted prices.

Sources: Statistics Sweden and Valueguard

The pandemic highlights the importance of good resilience in the financial system



When the economic situation permits, **resilience** should be strengthened again. Banks' **buffers** should be built up again if they are used. Established **regulatory frameworks** should be retained and not undermined.



Shortcomings on the **corporate bond market** need to be addressed.



Measures are required to reduce the **risks linked to household indebtedness**. The exception in the **amortisation requirement** must remain temporary.



Climate-related risks need to remain an important part of the supervision of financial institutions and be integrated into the monitoring of financial stability analysis.