

PRESS RELEASE



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Corona pandemic increasing risks to financial stability

The corona pandemic has had serious consequences for the global economy. Around the world, powerful measures have been implemented to mitigate the effects on the real economy and reduce turbulence on financial markets. In Sweden, too, the Government, authorities and the Riksbank have together taken powerful measures. The Riksbank's assessment is that the Swedish financial system is functioning satisfactorily for the time being. But if the crisis becomes prolonged, the risks to financial stability will increase. Without further economic policy measures, credit losses in the banking sector then risk increasing to such an extent that banks may have problems maintaining credit supply. The Riksbank is ready to contribute by providing the necessary liquidity.

The coronavirus pandemic has caused an economic crisis

The coronavirus pandemic has completely changed the real economic prospects both abroad and in Sweden. Many Swedish companies have seen a sharp decline in their revenues and are therefore having difficulty paying their expenses. This is affecting both economic growth and unemployment, and there is a risk of the crisis spreading to the banking sector in the form of credit losses.

As in other countries, the crisis has led to the functionality of financial markets in Sweden deteriorating. Uncertainty with regard to how the real economy might cope with the crisis resulted initially in substantial movements and impaired liquidity on financial markets. This made it more difficult for companies and banks to fund their operations.

The Riksbank has taken several powerful measures in a short time to help secure credit supply in the economy. This has been necessary to counteract the decline in the Swedish economy and safeguard price stability. Thanks to the measures introduced by governments, authorities and central banks in Sweden and abroad, financial markets are now functioning better.

Risk of increased credit losses if the crisis is prolonged

However, it is difficult to say to what extent the measures will be sufficient to mitigate the real economic effects. If the economy returns to a more normal state relatively soon, the



consequences for the financial system will probably be limited. If the crisis is prolonged, however, the risks to financial stability will intensify. Credit losses in the banking sector then risk increasing to such an extent that banks may have problems maintaining credit supply. In such a situation, further public-sector measures may be necessary. The Riksbank is ready to contribute by providing the necessary liquidity.

The crisis highlights the importance of good resilience

The Riksbank supports Finansinspektionen's decision in the prevailing exceptional circumstances to relax some requirements, including reducing the countercyclical capital buffer requirement to zero per cent and giving banks the option of granting all mortgage borrowers exceptions from the amortisation requirement. In a very difficult and special situation, this reinforces household liquidity and banks' capacity to supply credit. It is important that banks do what they can to supply sufficient credit to companies and households. The capital and liquidity buffers banks have built up during good times can now be used if necessary.

The coronavirus pandemic shows how quickly and unexpectedly the economic situation can change, and how important it is for the financial system to have good resilience to shocks. Earlier experiences also indicate that in the long run, only well-capitalised banks have the capacity to supply the credit the economy needs. It is therefore important that the established regulations governing banks' capital and liquidity are now retained.

When the economic situation permits, the resilience of the financial system will need to be reinforced again. If banks have used parts of their capital and liquidity buffers, they will need to gradually build up sufficient capital and liquidity when the crisis is over. It is also necessary to continue the work on reducing the structural vulnerabilities in the financial system and it is high time to take measures to remedy the fundamental problems in the housing market and to reduce the risks linked to the high level of household indebtedness.

A press conference with the Governor of the Riksbank, Stefan Ingves, and Olof Sandstedt, Head of the Financial Stability Department, will be held today at 11.00 at the Riksbank. Press cards must be shown. The press conference will be broadcast live on riksbank.se.

Owing to the coronavirus, the following applies to visitors to the Riksbank: You must be in good health and been free of symptoms for at least two days. We are following the guidelines on keeping a distance and therefore have fewer seats in the conference room and request that no more than two people from each editorial office attend. Media representatives who are unable to attend in person, are welcome to ring in and take part by telephone. In this case, please contact the press office on +46 (0)8-787 0200.