

The stability risks have declined in the near term, but there is considerable uncertainty

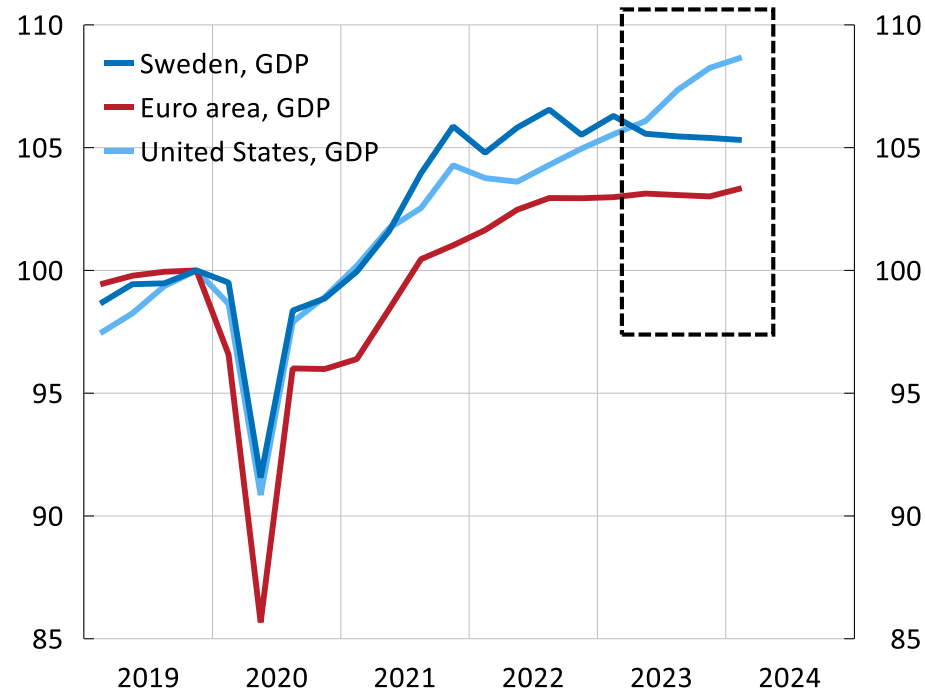
Financial Stability Report, May 2024

The stability risks have declined in the near term, but there is considerable uncertainty

- The financial system is stable and functioning well
- Lower inflation and interest rates but risk of setbacks
- The adjustment to higher interest rates is incomplete – risks for both borrowers and markets if high interest rates persist
- Greater risks for consumer credit banks, which may be systemically important as a group
- The geopolitical and security situation increases the risk of cyberattacks

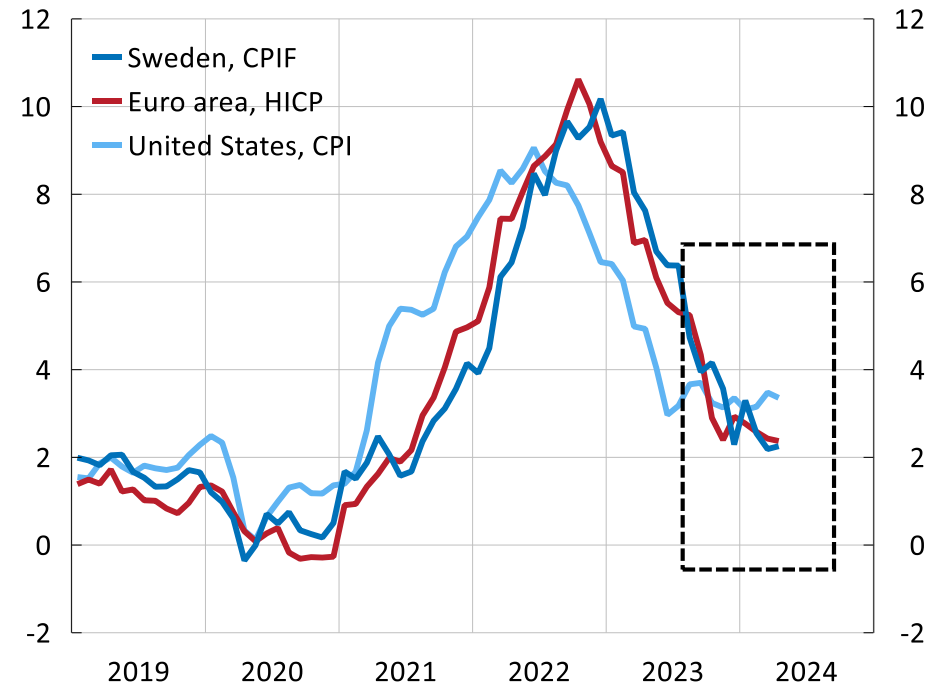
Developments in economic activity and inflation differ between regions

Stronger growth in the US, weaker growth in the euro area



Seasonally adjusted data, index 2019 Q4 = 100 (left).
Annual percentage change (right).

Inflation is falling, but more slowly in the US

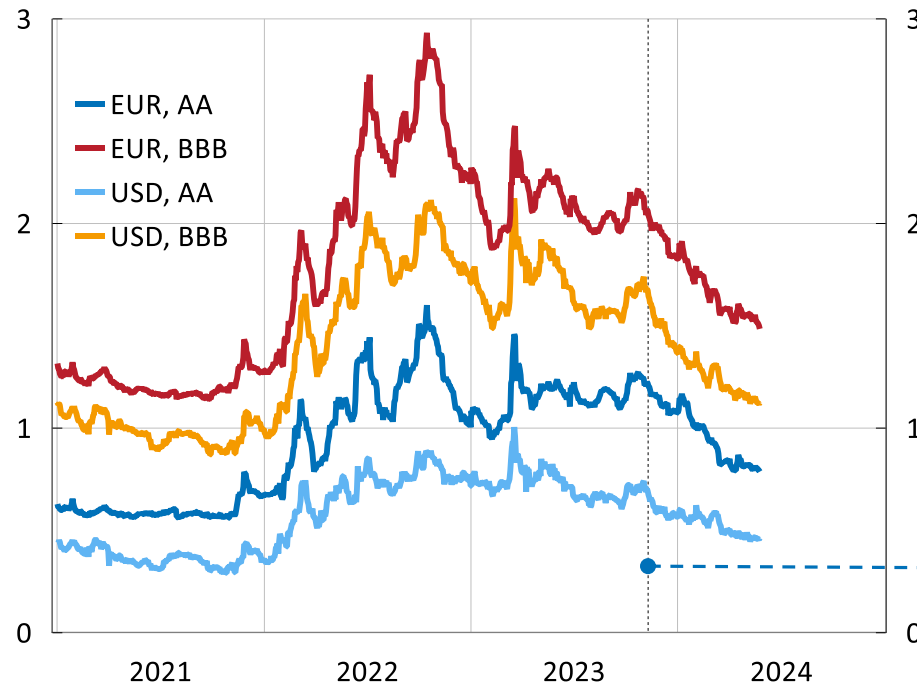


Sources: Statistics Sweden, Eurostat, US Bureau of Labor Statistics and US Bureau of Economic Analysis.



Positive expectations have contributed to increased risk-taking

Lower risk premiums on bonds with high credit ratings



- Lower risk premiums
- Higher asset values despite elevated credit risks
- Risk that expectations will not be met

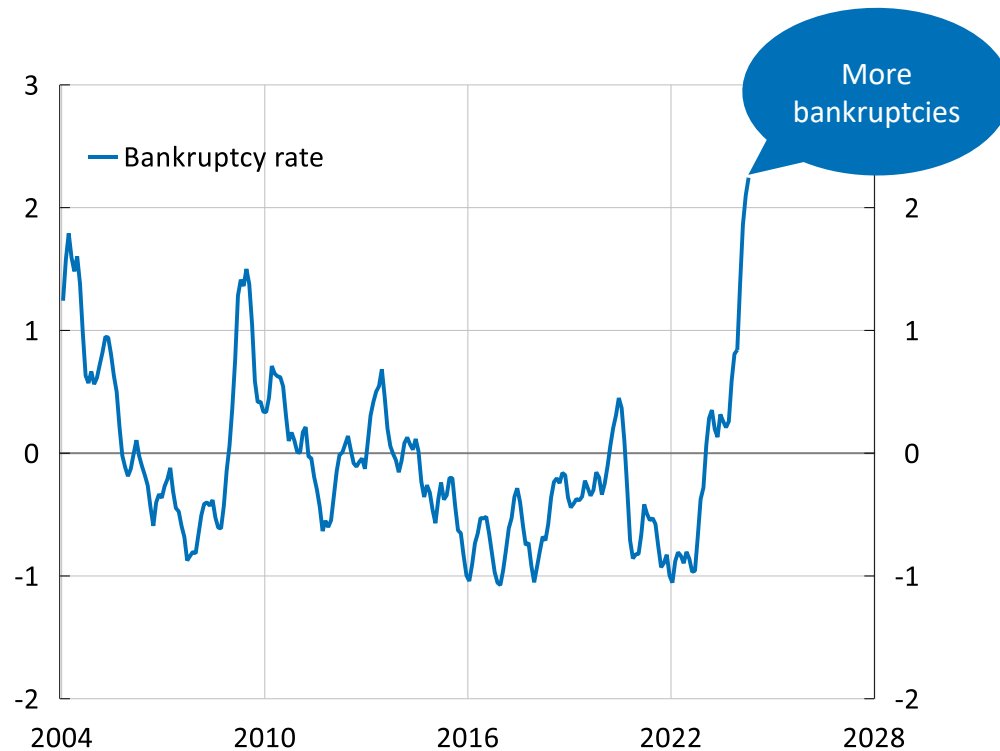
Publication of the previous Financial Stability Report

The interest rate difference between 5-year corporate bonds with high credit ratings (investment grade) and corresponding government bond yields

Sources: Macrobond, US Department of the Treasury and the Riksbank

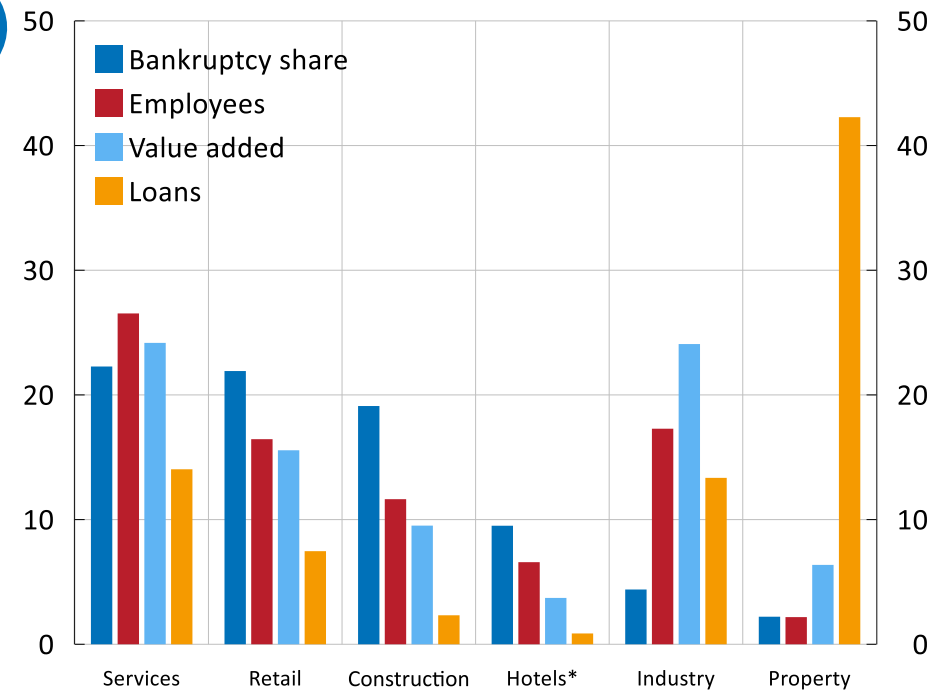
More bankruptcies but little impact on lenders so far

Bankruptcies are increasing



Normalised bankruptcy rate (left).

Most bankruptcies in household-related companies with small loans

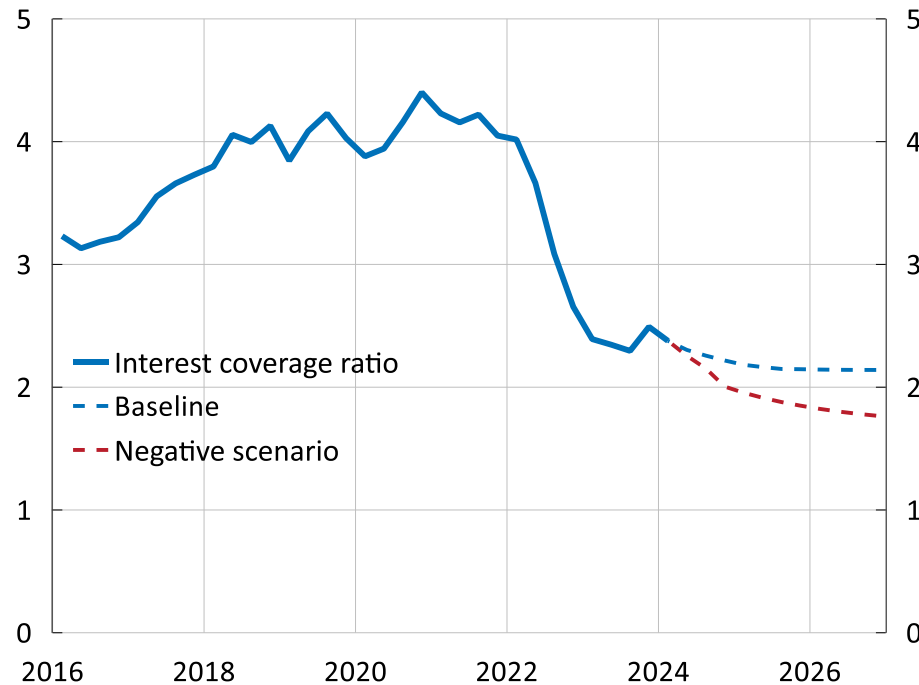


Sources: Statistics Sweden and the Riksbank (KRITA).

Share of loans in each sector, total bankruptcies of limited companies between 2022 and March 2024, number of employees and value added (right)

Adjustment to higher interest rates is incomplete

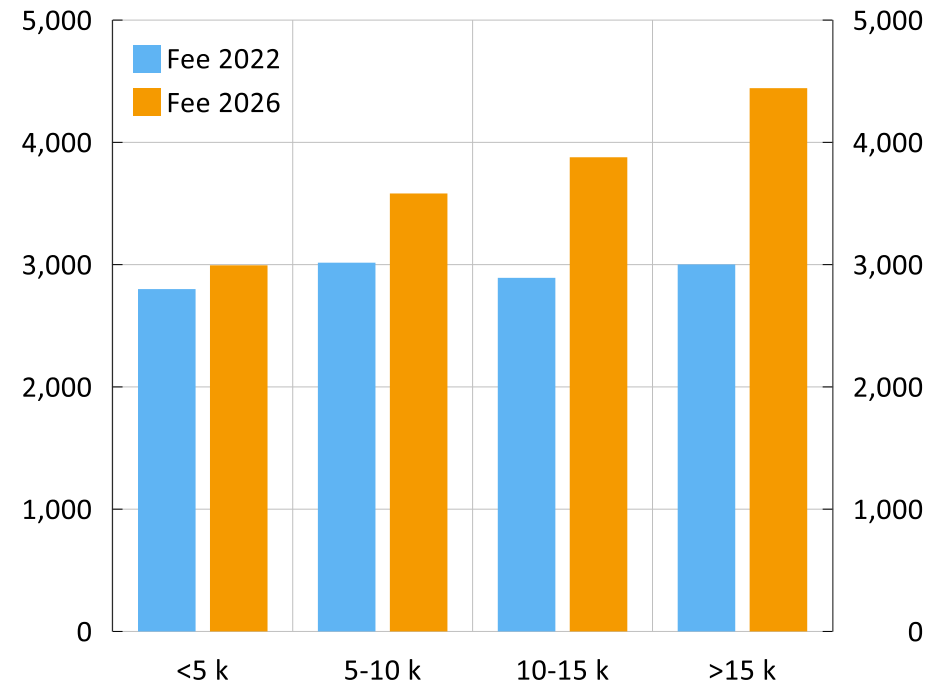
Funding costs are expected to increase, challenging highly indebted property companies



Ratio (left)

SEK (right)

Tenant-owner housing associations may need to increase fees

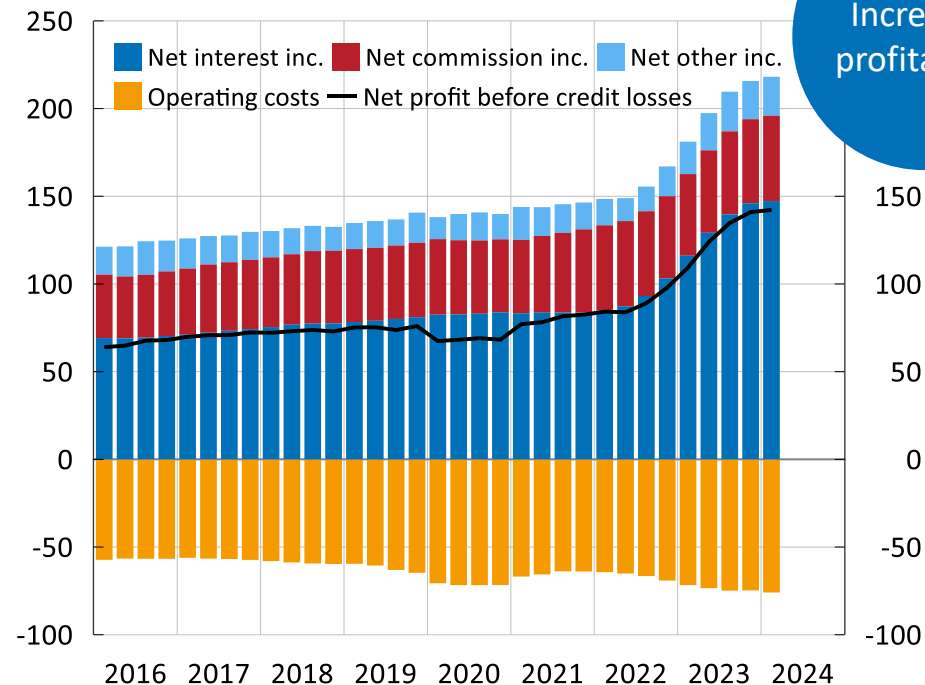


Sources: Sedis and the Riksbank.

(For assumptions used in these charts, see Figures 10 and 17 in Financial Stability Report 2024:1.)

Good resilience among the major banks

High profitability among the major banks



Quantitative tightening means adjustments

- Switch liquid assets and extend the maturity of market funding
- Large issue volumes of covered bonds may pose challenges
- Need for a larger interbank market – it is important that the banks are prepared

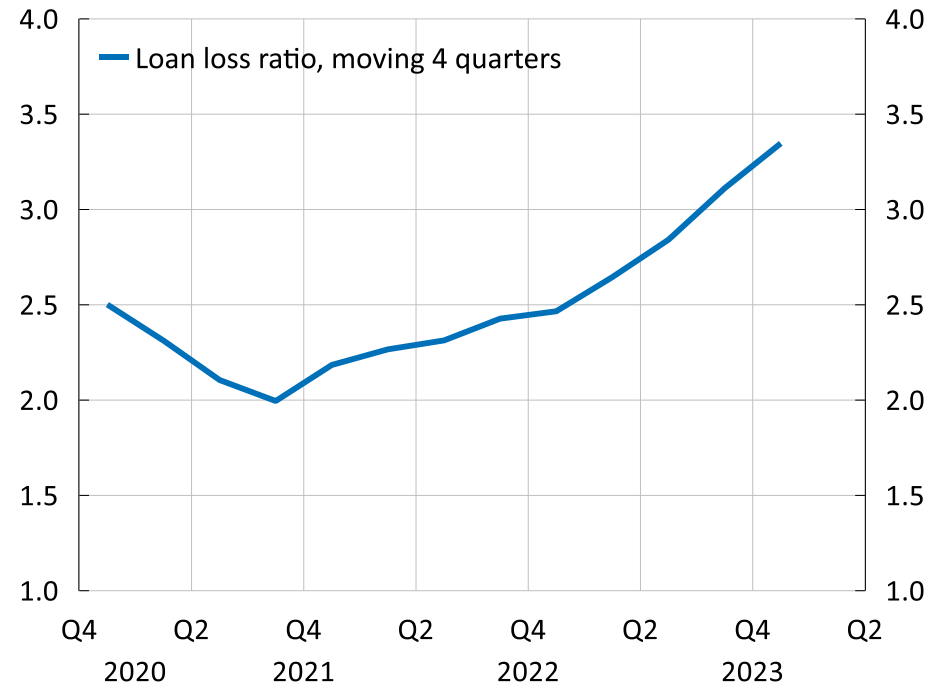
SEK billion

Source: Banks' interim reports and the Riksbank.

Data for operating profit refer to Handelsbanken, SEB and Swedbank. The chart shows data rolled over four quarters.

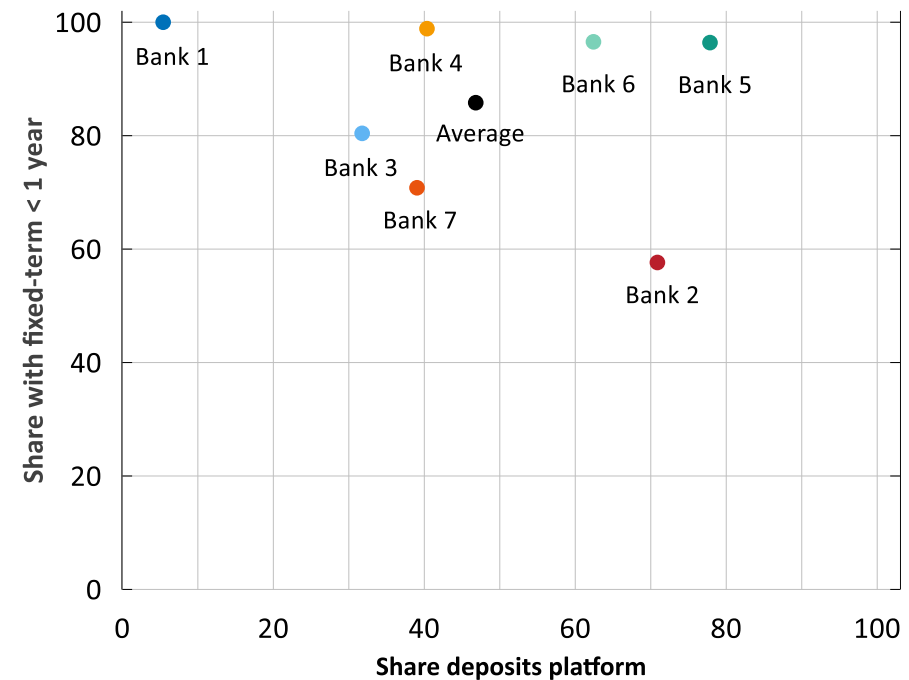
Elevated risks for consumer credit banks

Higher loan losses



Per cent

A large part of deposits comes from deposit platforms – a source of funding that can be volatile



Sources: The banks' interim reports, S&P CapIQ Global and the Riksbank.

Increasingly important to understand private equity



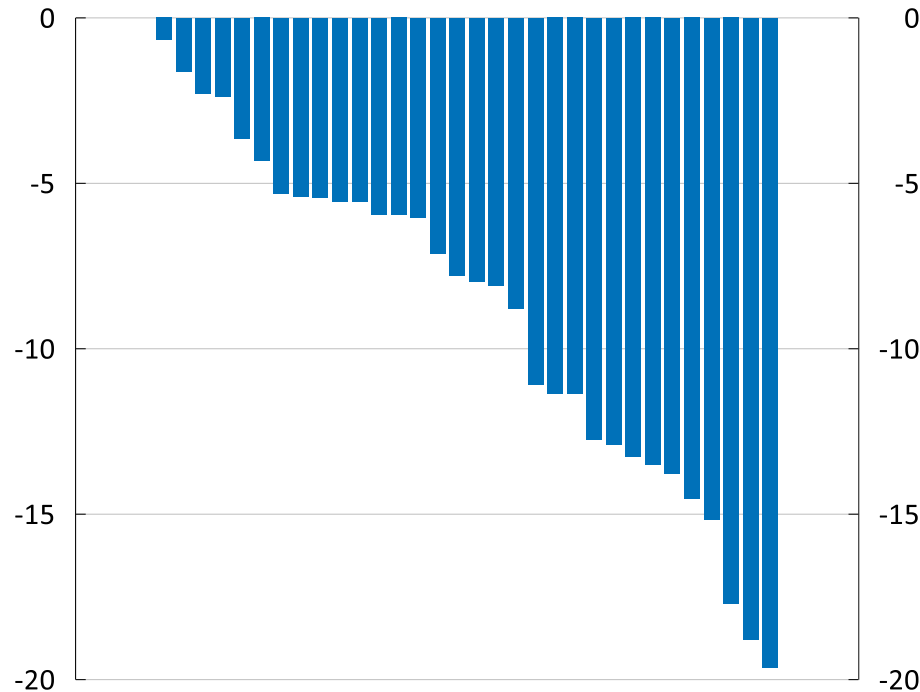
- Swedish private equity investment companies are large and have a significant international presence
- Their funding has changed
- Probably small direct stability risks but indirect effects are difficult to assess
- Growing importance of non-banks – a macroprudential framework is needed

It is important to strengthen the resilience of consumer credit banks

- Macroprudential policy has helped mortgage borrowers achieve good resilience
- Indications that credit assessments for consumer loans may be inadequate
- The report by the inquiry into over-indebtedness is welcome, particularly the proposal for a register of all loans taken by borrowers
- Increased monitoring of consumer credit banks in the future

Measures are needed to strengthen confidence in the property sector

Significant differences in write-downs of property values among property companies



- Vulnerable property companies need to continue strengthening their balance sheets
- Property valuations need to be more transparent
- Credit ratings from credit rating agencies need to be more robust

Refers to change in property value from each company's peak until end of Q4 2023.

Sources: Sedis and MSCI.

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