



**Financial Stability Committee**  
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## Minutes from the meeting of the Financial Stability Council held on 4 December 2020

### Summary

The Stability Council<sup>1</sup> held its second ordinary meeting of the year and discussed the stability situation.

The outbreak of the COVID-19 disease continues to have a major impact on the global economy. Vigorous measures by governments, central banks and other authorities around the world have dampened the economic decline and stabilised developments in the financial markets. In Sweden, the measures have been essential to maintaining lending to firms and households.

Although there is now more uncertainty about the economic development as a result of the recent increasing spread of infection, the uncertainty is lower than it was during the spring. This is partly due to the fact that the vaccine development sets a limit on how long the pandemic can last. The Council noted that the economic cost of vaccination is small relative to the cost of a prolonged crisis.

Stability risks remain elevated and renewed turbulence in the financial markets may lead to an increasing number of firms in difficulties and a tightening of lending. If the crisis becomes more severe or more protracted, there is preparedness for further measures. The authorities agreed that the measures taken so far have been necessary to reduce the risks of financial

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<sup>1</sup> Present: *Ministry of Finance*: Per Bolund, Chair, Ulf Holm, Anna Jegnell; *Finansinspektionen*: Erik Thedéen, Karin Lundberg, Henrik Braconier; *National Debt Office*: Hans Lindblad, Karolina Holmberg, Mårten Bjellerup; *Riksbank*: Stefan Ingves, Cecilia Skingsley, Olof Sandstedt; and *Financial Stability Council Secretariat*: Niclas Alsén.

instability in the short term, but also noted that these measures could increase stability risks in the longer term, for example through excessive risk-taking and increased indebtedness.

The Stability Council discussed anti-money laundering work, where there is rapid development and increased cooperation between authorities and countries. The Council also discussed the work on cyber security and cyber threats that pose an increasing stability risk.

## **§ 1 Stability assessment**

The authorities (the Riksbank, Finansinspektionen and the National Debt Office) presented their stability assessments.

The outbreak of the COVID-19 disease continues to have a major impact on the global economy. Vigorous measures from the public sector, both in Sweden and the rest of the world, have helped to stabilise the economy and so far to avoid a financial crisis.

Up to now, the measures have enabled the Swedish financial system to cope with the effects of the pandemic relatively well and the situation in many financial markets has improved. Thanks to the buffers built up in the banks over the past decade and the support measures taken by the authorities, the economy was successfully supported and lending to firms and households was maintained. During the initial phase of the pandemic it was primarily lending to large companies that increased, but in late summer and autumn lending to smaller companies also increased.

This autumn's increased spread of infection has led to more uncertainty about economic development, even though it is less now than in the spring. This is partly because the vaccine development sets a limit on how long the pandemic can be expected to last. However, the risks to financial stability in Sweden remain elevated. Renewed turbulence can lead to more and more companies getting into difficulties and a tightening of lending. If the crisis becomes more severe and protracted, further support measures may therefore be needed.

The authorities agreed that the measures taken so far have been necessary to reduce the risks of financial instability in the short term, but also noted that these measures could increase stability risks in the longer term, for example through excessive risk taking and increased indebtedness. Stimulation measures

are still needed, but they should be implemented where they are most needed and create least risk in the long term. At the same time, several well-known stability risks remain. In the euro area, there are, among other things, weak banks and weak public finances that pose stability risks. In Sweden, examples of such risks are household indebtedness and the banks' exposures to commercial properties.

Despite the weak development in the labour market, households' resilience has generally been good. On the housing market, prices have risen sharply, which the Riksbank pointed out is partly linked to structural problems. The price increase is also linked to the measures taken and probably also to behavioural changes as a result of the crisis. The Swedish National Debt Office mentioned that the housing market price development over time reflects movements in fundamental factors in the form of interest rates and household disposable income. The Swedish National Debt Office also pointed out that if the coming decade has rising interest rates and a historically moderate increase in income, it is reasonable to expect a clearly lower rate of increase in house prices.

The authorities consider that the commercial property sector poses a stability risk, among other things due to the sector's high interest rate sensitivity and the banks' large exposures to the sector. Banks therefore need to hold more capital to compensate for the risk in these exposures. The increase in the banks' capital requirements of approximately SEK 5 billion per major bank that is now being implemented by Finansinspektionen is therefore reasonable and will not have a significant impact on financing costs in the sector. The risks in the real property sector have recently increased due to the effects of the pandemic. Finansinspektionen discussed the possibility that demand for properties may decrease when more people work from home and shop more online. This can lead to increased vacancies, subdued rents for office properties, and possibly rising financing costs as a result of increased risk in the sector. This will have a negative effect on property companies.

The authorities also discussed that the crisis has exposed vulnerabilities in some financial markets in Sweden, such as the market for corporate bonds. Finansinspektionen believes that Sweden stands out as one of the poorer markets in Europe concerning corporate bonds and that this is partly due to very low transparency. Measures are required for a more stable market, both

from the industry and in terms of changing regulatory frameworks Measures may also be needed for corporate bond funds, where problems also arose.

The Swedish National Debt Office mentioned that the government bond market continues to be characterised by central banks' asset purchases. Liquidity in the secondary market in Sweden is still deemed to be strained, partly because of the Riksbank's extensive purchases. Demand continues to be high in the primary market. Even though the issuance of government bonds more than doubled in early summer, they are still oversubscribed several times over and interest rates are low. There is surplus liquidity in the financial system as a whole, which has contributed both to high demand for safe assets and to interest rates on the money market falling below the repo rate.

The Chair expressed thanks for the situation assessments and noted that the sharply increased spread of infection and tougher restrictions both in Europe and in Sweden, continue to have a negative impact on the economy, but that the rapid vaccine development is positive.

## **§ 2 Follow-up of measures taken due to the outbreak of COVID-19.**

The authorities presented information on the effects of measures they have taken.

The Chair presented that the Government will extend several of the measures introduced in response to the outbreak of COVID-19, such as short-term lay-offs, periods of grace for tax payments, transition support and re-orientation support for sole traders in order to support Swedish jobs and businesses during the crisis. The EU has also decided on significant support measures, including the EUR 540 billion support package covering the new EIB's Guarantee Fund and SURE, the temporary support to reduce the risk of unemployment. The fact that the measures now being implemented in the long term can pose stability risks will face decision-makers with a difficult choice when there is a return to a normal situation in the future.

The Swedish National Debt Office emphasised that it is important that the Stability Council begins to analyse the effects the measures may have in the longer term. The stability measures taken at the beginning of the crisis have worked well, but there is a risk of imbalances building up. The guarantee programme for Swedish companies has worked as intended, but so far it has

been used to a limited extent. However, the institutions feel that it plays an important role and there have been no requests to change the terms. Economically sustainable companies should be able to survive a temporary crisis. A general observation is that this spring several forecasts showed a short but deep crisis followed by clear recovery and diminishing measures to limit infection. Now, the outlook is rather a more protracted period of continued infection-limiting measures, high uncertainty and lower growth. This means that it is not certain that the measures taken are correctly designed for the new situation. The balance between general and targeted measures may need to be reconsidered.

The Swedish National Debt Office noted that vaccines have been mentioned as a far limit to the crisis and this is a crucial factor. The cost of vaccines is small in relation to the cost of a prolonged crisis. The costs of delaying vaccination can be significant. The pandemic and its effects impact the economy and public finances, which means costs of billions of kronor each month before a vaccine is in place. For this reason, there is cause for concern if vaccination of the Swedish population takes time, as there will be considerable financial costs if there is a delay. It is important that all Swedish authorities, not just the Stability Council, have an understanding of this aspect. Thus, the first priority should be rapid vaccination

The Riksbank noted that there is consensus on the situation and what Sweden needs to deal with. The Riksbank's measures will total SEK 1,800 billion if all the facilities offered are utilised, and are aimed at reducing the general interest rate level.

The measures include offering banks loans up to a total of SEK 500 billion for onward lending to Swedish non-financial companies and the Riksbank undertaking to purchase securities up to SEK 700 billion until the end of 2021 (in addition to planned purchases before the pandemic). The recent decision to increase the amount from SEK 500 to 700 billion is justified by the increased spread of infection during the autumn and the postponed prospects of recovery and growth in the Swedish economy.

The Riksbank noted that bankruptcies in both Sweden and Europe admittedly have been low overall, but that there usually is a time lag between major falls in GDP and when bankruptcies emerge. The lockdowns in some countries may in themselves have caused delays in bankruptcy proceedings so that the reported bankruptcy statistics do not yet give a fair picture. This also means that it may

take time before the weak development in the corporate sector is reflected in increasing non-performing exposures at banks. Looking ahead, it is also important to consider risks related to whether support measures are withdrawn too early and whether the temporary relaxing of the regulations could permanently dilute regulations that have taken a long time to agree on.

Extensive and rapid vaccination will ease the situation greatly and is also of great importance to the economy. Decisions on vaccination should primarily concern organisational capacity and not financial limitations. The Riksbank noted that in the absence of vaccination, the pandemic must be managed by means of restrictions and other measures that represent a very high social cost. This can be seen in that the cost to the Swedish economy as a result of the pandemic, in the form of loss of GDP, is at present roughly in the range of SEK 15-40 billion per month.

Finansinspektionen shares the assessments of the Swedish National Debt Office and the Riksbank to a great extent. The fact that the economic crisis is not deeper is due to strong support measures taken and, to a certain extent, anticipation that vaccinations will lead to rapid normalisation. Simple calculations indicate that there are major costs associated with a delay in vaccination. Therefore, a decision should be taken that the entire population must be vaccinated as soon as possible, for example before the end of August, and an assessment made on what is required for this. The costs of rapid vaccination must be set against the cost saved in the long term, which is significant.

The measures taken by Finansinspektionen last spring have supported lending and the economy. As the crisis is not over, the measures need to remain in place. At the same time, it is important to consider how the authorities can satisfactorily discontinue these measures.

The temporary relief in the amortisation requirement is utilised by approximately 195,000 households, which can be compared to the approximately 600,000 households covered by amortisation requirements. The relief can be seen as a buffer that creates security for the households. The requirement will be restored in August 2021, which has been communicated. If there is a new exceptional situation in the spring, this will have to be discussed again. The countercyclical capital buffer was lowered last spring from 2.5 per cent to zero. The buffer requirement has previously been raised due to large credit expansion. One experience from the crisis is

that large buffers have made Swedish banks more resilient, which has benefited the Swedish economy. It is therefore important that the buffers are rebuilt after the crisis. At the earliest, a decision to start raising the countercyclical buffer may be taken in April 2021 and thus be applied from April 2022. This is conditional on uncertainty having been dampened.

The Chair expressed thanks for the assessments and in particular for feedback on the need for rapid vaccination.

### § 3 Discussion of analyses and potential measures

#### Cyber security

The Stability Council discussed its work on cyber security and the link to financial stability.

Finansinspektionen presented the current risk picture in the banking sector. The banks have seen a changed pattern of intrusion attempts during the outbreak of COVID-19. There are many different types of attacks, attempts at disruption of operational reliability and fraud attempts against both employees and customers. The banks have mainly withstood well, despite an increased risk level in some aspects.

The banks' operational reliability has been maintained and operational interruptions have not increased. The banks have updated their continuity plans to take into account longer periods of remote work.

Cyber risks are increasing in general and it is important to discuss what the different roles of the authorities should be in future. Against the background of increased risks, Finansinspektionen has initiated strategy work to define the authority's future role in the area. A more prominent role would require increased resources in terms of both staff and system support. Examples of difficult issues regarding supervision include the fact that many services used by the financial sector are provided by third-party suppliers, who are not under the supervision of Finansinspektionen, and that the sector is dependent on energy, telecoms, financial infrastructure and other adjacent sectors. This is difficult to tackle in the form of supervision of individual companies. The European Commission has presented a proposal for a regulation to strengthen digital operational resilience (cyber security), which is positive.

The Swedish National Debt Office sees cyber threats as one of the greatest stability risks and as something we need to adjust to systematically, in line with how we currently understand, analyse and deal with other stability risks. The authorities that safeguard stability need to take a greater responsibility – individually within the framework of our remits but also jointly as a sector. The reason is that it is not a question of whether we will be affected but rather of when. An attack risks spreading rapidly and can lead to a systemic crisis.

Countering cyber threats is also important for the Swedish National Debt Office in its role of being responsible for the central government payment model. It is very important to ensure continuity in the payment market and the payment system in all situations, i.e. the entire threat scale. Cyber security and secure electronic identification are important requirements to enable payments. It should also be possible to execute payments in large volumes offline, in case of longer interruptions in electricity supply and telecom networks.

In all this, the roles, responsibilities and requirements of private actors to deliver under heightened alert must be made clear, initiatives are needed to review these issues. There is a need for structures to work within and it should be established what a reasonable level of resilience is. Further information flows are needed between the Swedish authorities working on the issues, for example regarding the threat picture. The cyber question is not a separate IT issue, but rather a stability issue and cyber defence is needed for all important sectors of society. National cyber defence needs to support the financial sector, with regard to both authorities and functions and this is urgent.

The Riksbank pointed out that the pandemic makes the financial sector extra vulnerable, among other things as an effect of working from home. The Riksbank works internationally on cyber issues in various working groups, such as BIS<sup>2</sup> and ESRB<sup>3</sup>, and within Sweden in FSPOS<sup>4</sup>. The Riksbank has also adopted the TIBER-EU<sup>5</sup> framework and made a national adaptation in the form of TIBER-SE to test institutions for cyber risks. It is relevant that

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<sup>2</sup> Bank for International Settlements

<sup>3</sup> European Systemic Risk Board

<sup>4</sup> Financial Sector Private-Public Cooperation Group

<sup>5</sup> TIBER-EU is a framework for cyber security tests developed by the European Central Bank (ECB).



the Stability Council continues to work with cyber security, for example in the form of cooperation with authorities outside the Stability Council and by arranging a crisis exercise on this theme.

The Chair noted that the growing cyber threat poses major challenges that not only concern the financial market but also a number of other important sectors of society. There are also links between these sectors that can lead to systemic risks. Consequently, it is important to take a holistic approach to the cyber security issue. As part of this work, the Government will make a decision to set up a national cyber security centre.

### Money laundering

Finansinspektionen reported on the supervision situation and on increased national and international cooperation. Finansinspektionen has strengthened supervision and increased resources after receiving extra funds from the Government. Reports and decisions that drew attention during the year refer to Swedbank and SEB. The number of ongoing investigations is clearly higher than in previous years. Money laundering is a priority issue and Finansinspektionen will further strengthen its resources regarding legal support.

At national level Finansinspektionen cooperates with several other authorities. There is increased operational cooperation with the Swedish Police Authority, which includes information about procedures and intelligence information about individual companies.

Internationally, the previously shared responsibility between the supervisory authorities EBA<sup>6</sup>, EIOPA<sup>7</sup> and ESMA<sup>8</sup> has been changed so that EBA now has sole responsibility. There is a newly established money laundering committee and the EBA issues many new guidelines. One example is college guidelines, which means that there must be special money laundering colleges. Finansinspektionen is among the first to set up such colleges, which are now available for the three major banks. There is also a Nordic-Baltic group at authority level that shares information and methodology. The International Monetary Fund, the IMF, will conduct an analysis in the Nordic-Baltic region, which is to be coordinated by the Riksbank and in

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<sup>6</sup> European Banking Authority

<sup>7</sup> European Insurance and Occupational Pensions Authority

<sup>8</sup> European Securities and Markets Authority

which Finansinspektionen will actively participate. The focus is on co-operation between supervisory authorities in the Nordic and Baltic countries.

The Riksbank gave an update on the analysis of money laundering risks in the region that the Nordic-Baltic IMF constituency has asked the IMF to implement. The IMF will analyse financial flows in the region, risks to financial stability, and the authorities' cooperation to combat money laundering and terrorist financing.

The National Debt Office welcomes the intensified efforts. Money laundering problems risk affecting confidence in the banking sector and thus pose a stability risk. It is also important for the reputation of authorities that banks involved in the central government payment model are not used for money laundering. The Swedish National Debt Office works to encourage authorities to use more than one bank for their payments.

The Chair mentioned that the ongoing investigation into strengthened measures against money laundering and terrorist financing has been extended until May 2021. The ECOFIN Council has adopted conclusions on the upcoming reforms in the money laundering regulations and the European Commission is expected to present one or more proposals in line with these in the first quarter of 2021. These include harmonising the regulatory framework, ensuring that an existing or new authority is responsible for certain supervision at EU level, and establishing a coordination and support function for financial intelligence services in the EU.

#### **§ 4 International questions**

The Ministry of Finance gave an update on the measures taken at EU level in response to the outbreak of COVID-19, both fiscal measures and measures in the financial market area, and then gave an account of other current EU issues. During the autumn, the Commission presented a package of measures for digitalisation of the financial sector, including a proposed regulation to strengthen digital operational resilience (cyber security). In the first half of 2021, a proposal for the completion of Basel 3 is expected. During the summer, the Regulation on an EU-wide taxonomy for environmentally sustainable investments entered into force. In November, the Commission presented a draft delegated act supplementing the Regulation, which is now subject to public consultation.

The Chair mentioned that the taxonomy is an important part of the work on a sustainable financial market and that the Government intends to submit comments to the Commission.

The Ministry of Finance presented information on the status of the Brexit negotiations. Essentially there is one issue that has been identified as particularly important regarding financial stability, namely the clearing of derivative transactions. The Commission has issued a decision on equivalence for UK clearing counterparts up to and including June 2022.

The Riksbank mentioned that the question of dividends in European banks is being discussed in several European institutions, not least since previous recommendations and guidelines issued by, for example, the ESRB and SSM<sup>9</sup> expire within the next few months.

## § 5 Other stability issues

### Scenario exercise small banks

The Stability Council Secretariat reported on a crisis exercise carried out in the autumn. The theme of the exercise was crisis management of small banks. As in previous crisis exercises, issues that the authorities will continue to work on were identified, which is one of the purposes of these exercises.

### Preparations for a cyber crisis exercise

The Stability Council Secretariat outlined the work on a crisis exercise to practice cyber threats to financial stability. The exercise will be carried out next year.

### Commercial property

Finansinspektionen presented information on the cooperation within the Stability Council concerning commercial properties. The aim is to collaborate on information sharing but also to work with a forward-looking approach.

## § 6 Future work

Ahead of the next meeting of the Stability Council on 4 June 2021, and continuing during the year, the Council's members will work together on the

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<sup>9</sup> Single Supervisory Mechanism

stability issues discussed at the meeting. These include issues related to the ongoing pandemic and cyber security. The Stability Council will also continue to work on issues relating to banks' resilience, household indebtedness, and long-term risks resulting from measures to tackle the effects of the pandemic.