



Financial Stability Committee
Fi 2013:09

Minutes from the meeting of the Financial Stability Council held on 5 June 2020

Summary

The Stability Council¹ discussed the stability situation.

The new rules that have been introduced since the financial crisis of 2008-2009, including amortisation requirements and higher capital and liquidity requirements, have helped to build up resilience in the financial system, thereby creating better conditions for managing the effects of the spread of the new corona virus.

In Sweden, many measures have been taken to dampen the effects of the crisis on lending, households and firms, and to reduce concerns on the financial markets. These measures are deemed to have contributed to the satisfactory functioning of the financial system at the moment. However, there is still considerable uncertainty regarding future economic developments.

At the same time, vulnerabilities remain from before the crisis that could exacerbate the situation, such as high risk exposure in the financial markets, high household indebtedness and the banks' large exposures to commercial properties, combined with commercial real estate companies' interest rate sensitivity.

¹ 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.

The authorities noted that the banks kept up lending during the spring, but that despite this, many firms experience that their access to financing has deteriorated. It is therefore important that the effects on both large and small firms are closely monitored.

There is preparedness for further measures if necessary.

The Stability Council noted that anti-money laundering efforts are continuing, both in Sweden and internationally. The Council also discussed the work on cyber security and cyber threats. The risks of cyber threats are estimated to have increased somewhat as a result of the crisis, although no significant threats have materialised.

§ 1 Stability assessment

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

The authorities discussed the development of the crisis and the measures taken around the world. They noted that at the beginning of the crisis there were problems in several markets, including the dollar market and the market for banks' bonds, the commercial paper and bond market, as well as in the government bond market. The problems in these markets led to high interest rate spreads and generally lower activity. The situation prompted measures from central banks, supervisory authorities and governments worldwide.

The authorities assessed that since the financial crisis of 2008-2009, Sweden has taken several measures that have contributed to today's improved conditions for maintaining financial stability. At the same time, it was noted that there are still vulnerabilities, such as high levels of risk-taking in the financial markets, high household indebtedness and growing indebtedness among non-financial companies. Interest sensitivity in the commercial property sector is a significant risk.

The authorities discussed the impact of the crisis on the banks in Sweden and noted that lending has increased overall, even though many firms have testified that they have less access to financing. The banks are assessed to have good prospects of maintaining lending. The annual growth rate in banks' lending to households was 5.2 per cent in April, which is the same

level as in March. The annual rate of growth in lending to companies increased from 5.3 per cent in March to 5.8 per cent in April. Interest rates for households and companies increased slightly in April.

The banks' reserved credit losses increased slightly in the first quarter of this year. Furthermore, the authorities noted that the banks' capital situation could deteriorate in the future, depending on how prolonged the recession will be and which sectors that will be affected. Another factor that may play a part is what additional measures the government may take.

Finansinspektionen and the Riksbank have conducted stress tests of the major banks. On the basis of its test, Finansinspektionen assesses that the banks can maintain lending while retaining significant safety margins down to the minimum capital requirements in the given scenario. The Riksbank's stress tests are based on two scenarios for recovery; one faster and one more prolonged. Overall, banks are more adversely affected in the scenario with a more protracted recovery than in that with a faster recovery. If the decrease in the banks' capital ratios were to correspond to the scenario with a more protracted recovery, credit supply could be adversely affected. The authorities stressed that there is considerable uncertainty about credit losses and that effective support measures can help keep losses down.

As a supervisory authority, Finansinspektionen also monitors developments in small banks and credit market companies. There are just under 100 such companies in Sweden. Some of them have chosen a higher risk level in their assets compared to larger banks and if the economy continues to weaken, they risk having problems earlier than the larger banks. Finansinspektionen is therefore following these companies extra closely during this period.

Finansinspektionen has stated that insurance companies should avoid major changes in their holdings, which is also the case. Finansinspektionen considers that the companies can handle further changes in value, but very strong share price falls would increase the risk of problems.

Should the economic situation deteriorate further, the authorities have high preparedness to handle any problems in both large and small companies. The authorities are in close dialogue and collaboration on the issue.

As a consequence of the crisis, the Swedish National Debt Office has revised the central government's net borrowing requirement upwards by

nearly SEK 400 billion for the current year. The new plan was well received by the market and the functioning of the Swedish government bond market is generally stable and sound. The Swedish National Debt Office is not dependent on oversubscription of issues and the overall flexibility of the loan plan is important, based future uncertainty. The fact that the net borrowing requirement in May was about SEK 20 billion lower than the Swedish National Debt Office's forecasts indicate the uncertainty of forecasts in this situation.

The Riksbank sees the pandemic as an example that highlights the importance of the financial system having good resilience to financial disruptions. When the economic situation permits, resilience in the financial system needs to be strengthened again. If the banks have used parts of their capital and liquidity buffers, after the crisis they will need to gradually build up sufficient capital and liquidity. It is also necessary to continue efforts to reduce the structural vulnerabilities of the financial system and high time to take measures to address the fundamental problems of the housing market and the risks of high household indebtedness.

The Chair expressed thanks for the situation assessments and noted that it was good that the markets have stabilised and that there is preparedness to act if necessary.

§ 2 Follow-up of measures taken due to the corona virus

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

Finansinspektionen removed the countercyclical capital buffer requirement in order to secure the supply of credit and thus support the economy. Data indicates that lending has not been tightened so far. The banks' lending increased, especially at the beginning of the crisis. Much indicate that many firms are now more in need of strengthening their capital than of loans, which means that they benefit more from other compensations such as lay-off compensation. However, a number of companies say they find it more difficult to obtain financing. Any increases in the countercyclical capital buffer in the future will be made successively, as systemic risks warrant it.

Regarding the amortisation requirement, Finansinspektionen has decided on a general exception since mid-April. More than 100,000 households have so far requested an exemption from amortisation.

The Riksbank gave an account of its measures, such as corporate lending programmes, dollar loans and securities purchases, as well as easing of collateral requirements when banks borrow from the Riksbank. The Riksbank's programmes have been utilised to varying degrees and have contributed to providing the system with liquidity. The Riksbank's measures constitute important insurance for the national economy and contribute to maintaining the supply of credit. Overall, the Riksbank's measures have helped to prevent a general rise in interest rates in the Swedish economy and interest rates have been kept low. According to aggregate lending statistics, access to financing for companies also appears to be increasing. But the statistics hide differences for different types of companies, such as that large companies typically find it easier to obtain loans than small and medium-sized enterprises. To follow up on this, it is important to have better access to data about lending and conditions for different types of company.

For small companies, measures such as the Riksbank's lending to companies through the banks, Almi's lending to companies (with support from the Government) and the Swedish National Debt Office's loan guarantees can be helpful. It is important that all authorities continuously adapt existing measures and, if necessary, take new measures to help ensure that as many viable Swedish companies as possible can overwinter the crisis.

The National Debt Office described its measures. Regarding guarantees to the aviation industry, a credit guarantee of SEK 1.5 billion has been issued to SAS. The guarantee programme for Swedish companies has now lent approximately SEK 1 billion, comprising 264 loans. The Swedish National Debt Office has engaged in dialogue with the lenders, confirming that many companies prefer to prioritise different forms of direct support rather than taking on more loans in the current situation. The lenders' view is that the guarantee programme is expected to be more in demand after the acute crisis phase has passed. In light of this, the Swedish National Debt Office has extended the guarantee programme for companies until 30 September. The Swedish National Debt Office has amended the requirements for eligible liabilities, called MREL requirements, which facilitated the banks' market funding and thus ultimately their lending.

The National Debt Office emphasised the importance coordinated decision-making concerning the future phase-out of measures, since one authority's decision can have repercussions in other authorities' areas. Further economic measures could be put on hold if the recovery is faster than expected. The next step will then be to begin phasing out temporary measures, but not the measures that act as protective barriers. However, there must still be high preparedness to adapt measures to the current situation, as uncertainty remains high.

The Chair of the Stability Council described some of the major measures taken by the Government in connection with the pandemic and how this support has been utilised up to the end of May. Among the measures mentioned were the possibility for companies to request deferment of tax payments, reduced social security contributions, short-term layoffs, reorientation support and support to the local government sector.

§ 3 Discussion of analyses and potential measures

Cyber security

The Stability Council discussed the work on cyber security and cyber threats in relation to financial stability.

Finansinspektionen presented information about its supervision of banks and infrastructure companies during the pandemic. The banks have made an extensive transition to a large proportion of remote work during the crisis, but despite this, maintaining operational functions has not been a significant problem. The infrastructure companies have also reported that operational management of the system has functioned satisfactorily.

Certain increase in the rate of attempted fraud has been discerned, but measures have been taken to deal with it. Reporting of IT incidents from banks and payment intermediaries shows no increase. A partial explanation could be that some updates to IT systems have been postponed. One risk that is important for financial firms to be highly prepared for is possible non-delivery of hardware due to the risk of broken global supply chains.

The Riksbank shares Finansinspektionen's picture. Cyber threats have increased during the crisis and when many people work at home departures may need to be made from normal security procedures, leading to increased

cyber risks. If the constraints associated with the pandemic continue for a long time, it will be even more important to find procedures to maintain IT security over time. The Riksbank continues to work with TIBER, which is the ECB's framework for testing banks' and infrastructure companies' resilience through simulated cyber-attacks. Furthermore, it is important that the Stability Council works together with various projects to strengthen resilience to cyber threats.

The National Debt Office has noted that vulnerability has increased in this situation. Cyber security is essential, for example when the Swedish National Debt Office carries out central government payments. A review of the central government payment model is in progress. A national framework for cyber security and a joint cyber defence with functions that build and coordinate the resilience of the financial sector are needed. The analysis of the link between cyber risks and financial stability needs to be deepened and authorities in different areas need to support prevention and crisis-planning in the financial sector.

The Chair of the Stability Council agreed with this picture, stating that it was against this background that the Government took the initiative to create the Cyber Security Centre. The work of the Stability Council on cyber security remains important.

Money laundering

Over the past year, Finansinspektionen has significantly increased its capacity in their work against anti-money laundering. The authority presented information on two important measures since the issue was discussed at the Council's meeting in December 2019. A cooperation agreement between Finansinspektionen and the Swedish Police Authority has been concluded. The aim is to enable cooperation between the two authorities, not only as before on a more general level but also operationally. They will now be able to exchange specific operational information, which makes it easier to prevent money laundering. Finansinspektionen is now investigating how far this can be applied given existing legislation.

In parallel, the banks have begun a cooperation with the police in order to collectively share information with the aim of being more effective in law enforcement. Here too, investigation is needed as to how far this can be applied given existing legislation.

Swedbank was sanctioned in March for inadequate internal control of the anti-money laundering work in its Baltic operations. Now in June a decision will be given on the corresponding investigation of SEB.

There is also an extensive discussion at European level on strengthening cooperation as regards to money laundering.

The National Debt Office highlighted that money laundering issues concern the credibility of the financial system and that consequently there are risks relating to money laundering that are linked with financial stability.

The Riksbank reported that the Nordic-Baltic constituency agrees that the IMF should conduct an evaluation of the region's cooperation on prevention of money laundering and terrorist financing. The IMF's work will be an important complement to other ongoing evaluations conducted in the area. The analysis will not only be about cooperation but will also provide a deeper analysis of financial flows within the region, and to and from so-called high-risk regions. The conclusions can be used in national risk analyses and as a basis for future reforms and measures. However, as a result of the pandemic, the constituency has postponed this decision until September. The hope is that the IMF will begin the evaluation after the meeting in September and that they will be ready by year-end 2021/22.

The Chair of the Stability Council expressed thanks for the information and pointed out the importance of continuing co-operation on this, both at national and EU level. The work at EU level is delayed as a result of changed priorities due to the spread of the corona virus. The forthcoming work is about further harmonising legislation, creating a central supervisory authority and creating a coordination function for the financial intelligence units in the EU. The Chair also presented the latest changes in money laundering legislation.

§ 4 International questions

The Ministry of Finance presented current EU negotiations. As regards the Commission's recovery plan, it is important that it is based on loans and not grants. The recovery must be sustainable and accelerate the transition to a climate-neutral and circular economy.

As part of its efforts to address the economic impact of the pandemic, the Commission has presented proposals for amendments to the capital adequacy regulations. The changes are made to support the continued supply of credit to households and viable companies. The proposals are either temporary or mean that some already adopted regulatory changes are to be applied earlier or postponed. It is hoped that the process will be rapid and that the changes can come into force and be applied already after mid-year.

The Commission has also begun work on reviewing whether the regulation of the securities market can be adjusted to support the real economy in the wake of the pandemic. The proposal is expected to come in July, with hopes of a rapid process.

The Riksbank presented information about the work of the European Systemic Risk Board, ESRB, and that since April they have been working to develop analyses and policy measures in five areas where macroprudential supervision measures in response to the effects of the corona crisis are deemed to be particularly important.

§ 5 Other stability issues

Cyber security, crisis-prevention work of the Financial Stability Council

The Stability Council Secretariat gave an account of planned work on a coming crisis exercise to rehearse the authorities' actions when a cyber-attack poses a threat to financial stability.

The Stability Council is also working on strengthened cooperation and information sharing with Swedish security authorities regarding cyber threats that can affect financial stability.

§ 6 Future work

Ahead of the next meeting of the Stability Council on 4 December 2020, the Council's members will continue to work together on the stability issues discussed at the meeting. This applies, for example, to issues related to the ongoing pandemic and follow-up of measures and experiences of crisis management. The Stability Council will also continue to work on issues relating to banks' resilience, household indebtedness, crisis exercises and cyber security