



Summary

Ted Aranki, Carl Lönnbark and Viktor Thell*

The authors work at the Economic Analysis Office at FI.

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Commercial real estate firms are sensitive to changes in interest rate expenses and income. Following a shock, vulnerable commercial real estate firms could lead to credit losses for the banks.

In this FI Analysis, we describe the stress test we used to analyse how the commercial real estate firms' financial position, and the banks' credit risks related thereto, can be affected by a negative macroeconomic development. The method is based on detailed information about the banks' lending portfolios, which are matched with other data to obtain information about the commercial real estate firms' financial position.

We estimate the banks' credit losses by first calculating how a change in the gross domestic product (GDP) or the interest rate affects the firms' creditworthiness. We thereafter estimate how the changed creditworthiness affects the stage in which the firms' loans are classified in accordance with the accounting standard IFRS 9. Finally, we calculate how the changed creditworthiness and stage classification affect the size of the banks' provisions. The changes in the provisions then give the expected credit losses.

FI has used this method to assess the resilience of the banks to a shock on the commercial real estate market. However, this micro-based stress test method can also be applied to other parts of the banks' portfolios. A benefit of this method is that it takes into consideration the current credit risk in the banks' lending portfolios by starting with the counterparties' financial position.

