REPORT

Stability in the Financial System

15 May 2025

Summarized stability assessment

The geopolitical and economic uncertainty is very high. The USA has introduced significant trade barriers against the rest of the world. This could lead to problems in global production chains and result in higher producer and consumer prices. It could also lead to households and businesses around the world becoming more cautious with their consumption and investments. For Sweden, which is a small, open economy, this could dampen the economic recovery going forward. International forecasters have revised their GDP forecast downwards and their inflation forecast upwards for the USA as a consequence of the USA trade policies. How this geopolitical uncertainty impacts financial conditions as well as inflation and economic development will impact how central banks conduct their monetary policy going forward. This, in turn, will impact the outlook for Swedish financial stability.

The high geopolitical uncertainty means the probability of negative shocks now is higher than it was last autumn. A shock could arise in the form of sharply increasing financing costs which could create problems for highly indebted sectors. At the same time, the Swedish banks and insurance corporations are well-capitalised, which creates resilience to many negative scenarios. Swedish financial markets showed resilience by emerging relatively well from the market uncertainty at the beginning of April. Overall, FI makes the assessment that the Swedish financial system is stable as a whole, but there continue to be some underlying vulnerabilities. Since the last stability report, the outlook have improved slightly, in particular for highly indebted households and businesses, while vulnerabilities associated with investment risks have increased.

Economic uncertainty decreases risk-taking

The elevated uncertainty has led to a decrease in risk-taking on financial markets. During the spring, the market fluctuated sharply in conjunction with the US government's launch of significant trade barriers against other countries. Global stock indices dropped, volatility increased, and risk premiums rose. There have also been large flows of funds from the USA to Sweden and the rest of Europe. Global stock markets are relatively highly valued and the cyclically adjusted P/E ratio[1] for the USA is at historically high levels. This means there is a risk of strong price corrections if the outlook for corporate profits are reassessed. Given the continued relatively high valuation on many stock markets and the continued uncertainty in international trade policy, there is a clear risk of more periods of financial stress.

[1] Cyclically Adjusted Price/Earnings ratio (CAPE) is a stock valuation metric that measures the stock exchange's current market price with its average inflation-adjusted profits from the past 10 years.

Many large developed economies have high sovereign debt and use a large portion of their budget to make interest rate payments. This makes them vulnerable to sharply rising government bond yields. Because government bonds play a central role in the financial system, stress on these markets could entail contagion effects for the rest of the financial system. In March, Germany laid the groundwork for borrowing more in the future to finance defence- and infrastructure-related investments. This caused interest rates throughout the entire European government bond market to rise. Furthermore, the US government bond market showed signs of vulnerability when interest rates increased following the market turbulence at the beginning of April (see the chapter Macrofinancial situation). Countries with less sustainable public finances could find themselves under pressure if the higher interest rates lead the market to reassess these countries' sovereign debt position. But Sweden is at a good starting point with strong public finances that builds resilience to financial stress on the government bond market.

Dampened debt development

Swedish households are pessimistic about the economic development going forward. Household consumption is restrictive, and they use a large portion of their disposable income for both financial savings and interest payments. On the housing market, price development has been weakly positive the last twelve months. That has contributed to a dampened debt growth among households during 2024 and 2025. Our assessment is that households are acting cautiously and are gradually reducing their risks. But many households continue to have small economic margins following the last years adverse inflation and interest rate developments.

Non-financial corporations are holding back on investments, and their debt has decreased. For commercial real estate firms, the weak economic development has also meant lower rent growth and decreased demand for premises. Commercial real estate firms' indebtedness is gradually decreasing. The interest coverage ratio is just over 2, but a number of firms have an interest coverage ratio of almost 1.5. This means that a number of commercial real estate firms are still vulnerable and should continue to work on strengthening their financial position.

The asset quality of the major Swedish banks is considered to have improved, and these banks have made significant reversals in their credit loss provisions. However, we cannot rule out that the high geopolitical uncertainty could delay the economic recovery or even deepen the economic downturn. Such a course of events could apply renewed pressure to the cash flows of households and non-financial corporations and lead to a deteriorated financial position through lower asset prices. This could lead to more bankruptcies and higher unemployment, which would impair the asset quality of the banks. However, the major Swedish banks have significant capital buffers and high profitability, which makes them resilient to such a scenario.

FI makes the assessment that significant cyclical systemic risks are not building up in the Swedish economy right now. FI therefore intends to leave the countercyclical capital buffer rate unchanged at 2 per cent for Q2 2025 (see In-depth Review – FI intends to leave the countercyclical capital buffer rate unchanged in the second quarter).

Slightly better liquidity in central fixed-income markets, and banks continue to have good access to funding

Liquidity on the market for government and covered bonds has improved slightly since last fall. Improved liquidity makes the markets less vulnerable to shocks and dampens contagion effects that could spread to other parts of the financial system.

The financing situation for commercial real estate firms has improved, and issue volumes have increased the last twelve months. The liquidity of the major Swedish banks continues to be stable. However, a sharply reduced risk appetite due to the elevated uncertainty could have an adverse impact on the financing situation for both commercial real estate firms and the major Swedish banks. However, the major Swedish banks meet the liquidity requirements placed on them by a good margin and thus have high resilience.

Life insurance undertakings and occupational pension undertakings own a high percentage of risky assets. This makes them sensitive to large drops in prices on the stock market. However, these firms have good solvency and a long-term investment horizon, which counteracts procyclical behaviour that could amplify a negative course of events. The elevated uncertainty increases the liquidity risks for Swedish investment funds. If risk appetite declines, some investment funds could experience problems meeting redemption requests.

High concentration and interconnection in the financial system

The major Swedish banks are closely interconnected, both to one another and to other parts of the financial system. They also have high exposure to the commercial real estate sector. Life insurance undertakings and occupational pension undertakings own a large share of the banks' liabilities and thus have both indirect and direct exposures to the commercial real estate sector. This creates structural vulnerabilities in the financial system. There are also exposures among banks, investment funds and insurance undertakings to regions and sectors that are particularly sensitive to higher trade barriers. If a shock arises due to the high geopolitical uncertainty, there is a risk that contagion effects will spread to the rest of the financial system.

The deteriorated state of geopolitical security increases the risk of cyberattacks on financial corporations. The interconnection of systems and dependencies between financial corporations mean that such a shock could have widespread contagion effects. This continues to place high demands on the financial corporations' digital operational resilience. Through the financial corporations' incident reporting under the EU regulation on digital operational resilience[2] (DORA or the DORA regulation), FI will soon gain a better overview of operational vulnerabilities in the financial sector.

[2] Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011.