FI Analysis

Can the bond market dampen the credit cycle?

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Summary

The Swedish market for corporate bonds has grown steadily in recent years, with an increasing number of participants and larger volumes on the primary market. The bond market has also created more alternatives and more diversified forms of financing for Swedish non-financial firms. This has most likely decreased the firms' financing costs. However, lending that is increasingly market-based can also have consequences for financial stability. An important part of this is whether market financing makes the credit supply more or less stable during financial crises. This analysis shows that it has not been easier to issue corporate bonds in Swedish krona during financial crises than to take a bank loan. However, it seems that the firms with access to foreign capital markets have been able to benefit from issuing bonds in foreign currency.

Previous research on the USA and the euro zone indicates that the supply of corporate credit on the capital markets is less procyclical than the supply from the banking sector. The Swedish pattern differs in this respect from countries with larger and more developed capital markets. One conceivable reason for this is that the secondary market for corporate bonds in Sweden is still characterised by limited liquidity. During crises, investors tend to prefer securities with good liquidity. This could lead to lower demand for Swedish corporate bonds during such periods.