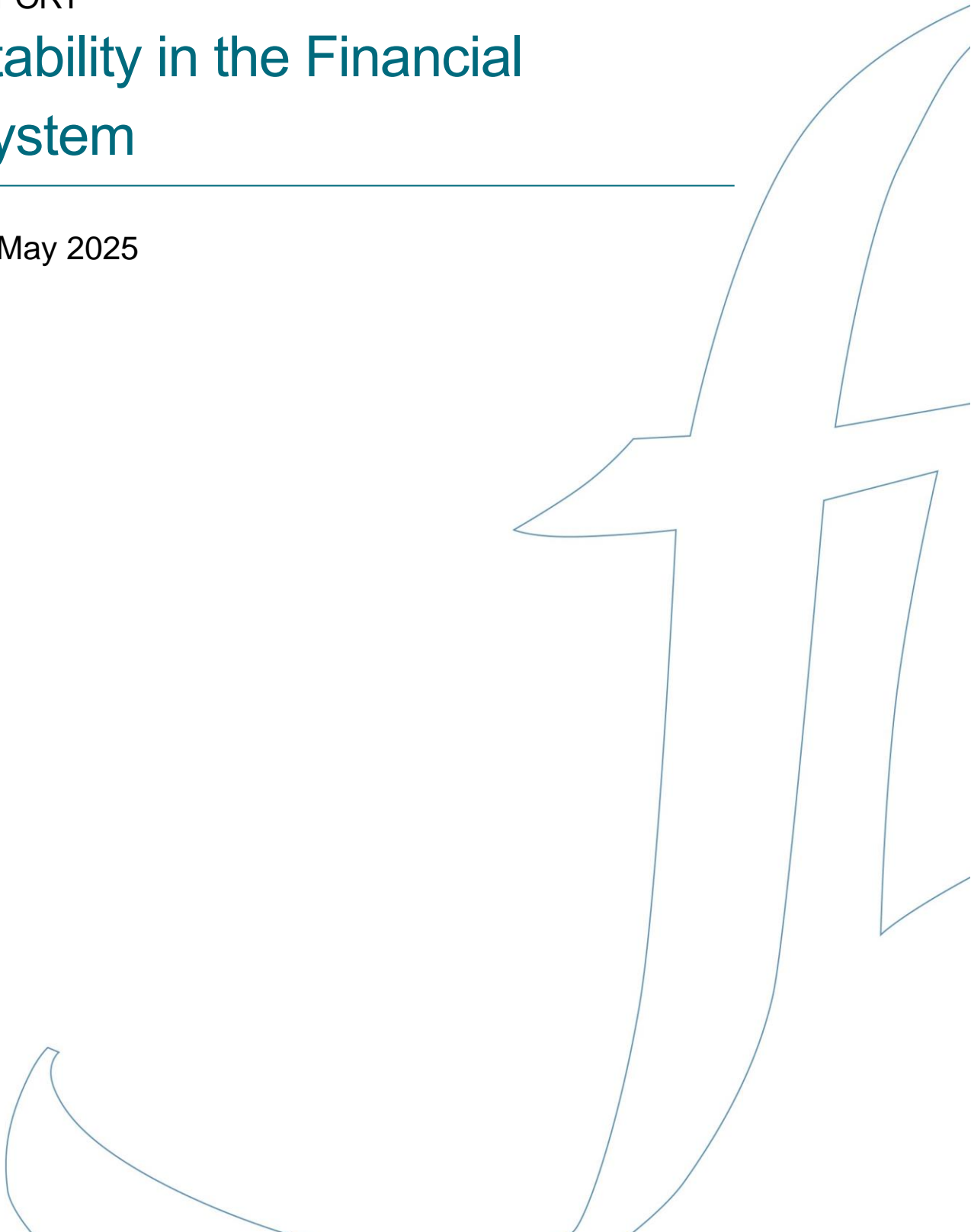




REPORT

Stability in the Financial System

15 May 2025



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Finansinspektionen
Box 7821, 103 97 Stockholm, Sweden
Street address:
Sveavägen 44
111 34 Stockholm Sweden
Telephone +46 8 408 980 00
finansinspektionen@fi.se
www.fi.se

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 growth 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 has 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 ratio¹ 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 valuing measure that measures the equity markets current price with its average inflation-adjusted profits from the last 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 nonfinancial 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 Indepth 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 scenario. 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 resilience² (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.

Macrofinancial situation

The geopolitical and economic uncertainty is very high. The USA has introduced significant trade barriers against the rest of the world. The uncertainty could have a negative impact on the Swedish economy. This uncertainty has led to increased volatility and decreased risk-taking on financial markets. Investors are seeking safe and liquid assets to a greater extent, which could impair the liquidity of riskier asset classes.

	Level of vulnerability	Development
Risk-taking in financial markets	Yellow	↘
Lack of market liquidity	Orange	→

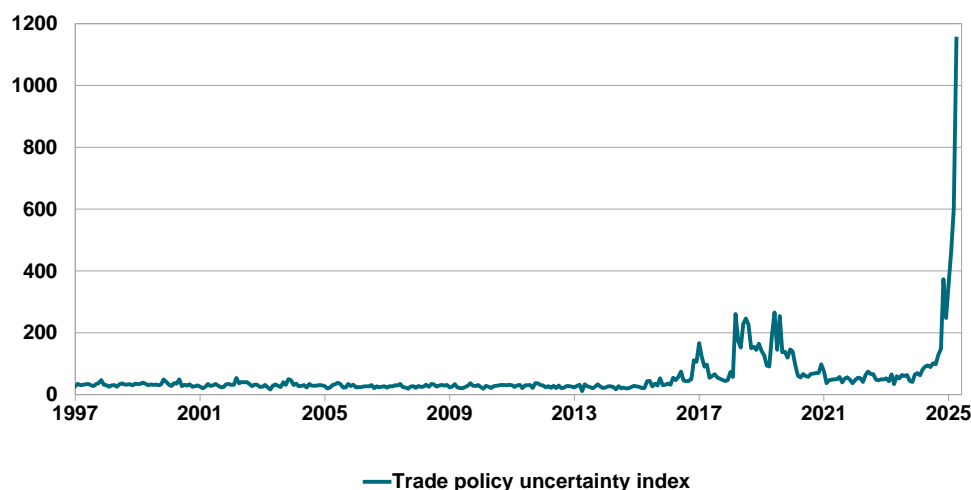
The colors indicate the current level of vulnerability. Green represents low vulnerability. Yellow, orange and red indicate differing degrees of elevated vulnerability. The arrows show how FI assesses that the vulnerability develops. An upward-pointing arrow means that the vulnerability is increasing and a downward-pointing arrow that it is shrinking. The assessment of vulnerabilities are based on a combination of quantitative measurements and expert assessments.

Lower global growth following new trade barriers

The trade policy uncertainty index has reached its highest level ever (see diagram 1). Announcements and eventual implementation of various trade barriers could lead to problems in global production chains. This could result in higher producer and consumer prices and thus higher inflation. 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.

1. Uncertainty is high

Index



Source: Trade Policy Uncertainty Index.

Note: Index based on measurement of news articles that mention trade policy uncertainty.

How this geopolitical uncertainty impacts financial conditions such as inflation and economic growth will impact in turn how central banks conduct their monetary policy going forward. Inflation in the USA has been above the target in recent months, and employment is low. But due to the current trade policy in the USA, forecasters such as the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) have adjusted their USA GDP forecasts downward and their USA inflation forecasts upward. Market analysts see some risk of stagflation in the US economy going forward. Such a scenario presents a difficult balance for the US central bank (Federal Reserve) since there is a risk that cuts to the interest rate could fuel inflation even though they may be necessary to support growth in the economy. Market analysts expect the Federal Reserve to lower the policy rate this year. In the euro zone, inflation has stabilised just above the target, while economic growth in Germany is particularly weak. Market analysts expect additional interest rate cuts from the European Central Bank (ECB) this year.

Economic downturn in Swedish economy

The National Institute of Economic Research (NIER) makes the assessment that Sweden will continue to be in an economic downturn until the end of 2026. The economic downturn is expected to bottom out mid-2025. The elevated uncertainty is holding back household consumption and corporate investments. A partial explanation for the weak economic development is that Swedish exports are weak due to the weak economic development primarily in the euro zone. According to Business Sweden's export manager index, Swedish export managers are pessimistic about the export market both now and in the future.

Inflation in Sweden has stabilised just above the inflation target. In the Riksbank's most recent business survey, a majority of the companies say they will only be impacted to a small extent by US trade barriers. However, the companies that make the assessment that they will be greatly affected are expecting that they will need to raise their prices. NIER's barometer indicator also indicates that companies will need to raise their sales prices in the near future. In the most recent forecasts from both the Riksbank and NIER, the policy rate will remain unchanged in 2025, while the futures market are pricing in some probability for interest rate deductions this year.

Large fluctuations on financial markets

The considerable geopolitical uncertainty has led to decreased risk appetite on the financial markets. The long-term interest rates in the USA and Europe increased during the autumn and the beginning of 2025. This occurred in parallel with rising real interest rates driven by increased maturity premiums and, in some jurisdictions, uncertainty about the fiscal policy outlooks and announced defence

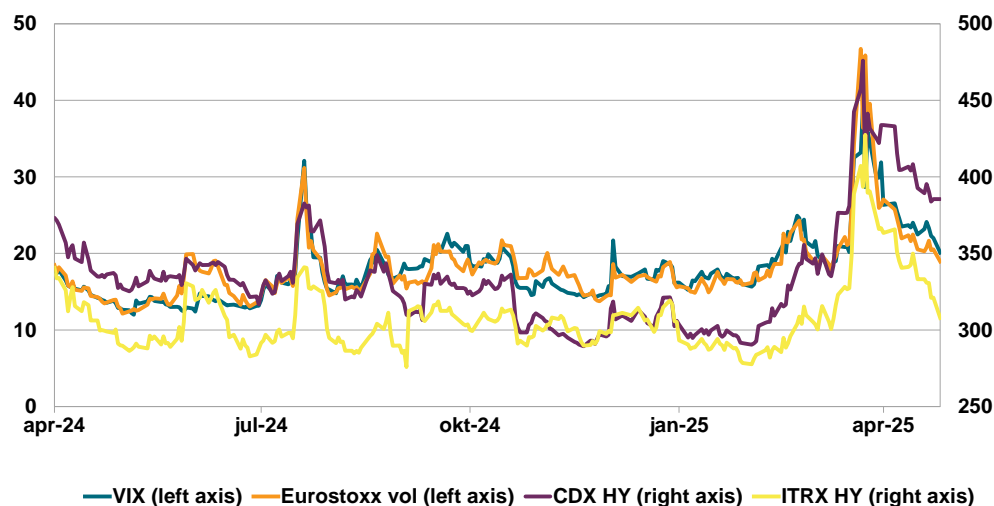
investments. The upswing in interest rates was interrupted during the first quarter, and the downturn in long-term interest rates in both USA and Europe accelerated as investors moved capital from the equity market and the fixed-income market following the US Government's decision to raise tariffs. Interest rates in Europe continued to decrease after the tariffs announcement, while interest rates increased sharply in the USA. The US dollar weakened against most currencies in 2025.

The tariffs announcement also caused stock markets around the world to dive and resulted in investors fleeing to safer assets. The stock markets started 2025 with upward trends until mid-February, after which they have fallen, even if there was some recovery in April and May. The allocation of funds assets to US shares decreased sharply between February and March this year. It was the largest monthly decline recorded according to Bank of America's monthly survey of global fund managers. During the same period, the inflow into European equity funds increased. In Sweden, the broad index OMXSPI is down to approximately the same levels as after the fall in August 2024. The drop in the stock market in Stockholm occurred in parallel with high trading activity, though, and the monthly turnover increased by just under 30 per cent during the first quarter of the year compared to fourth quarter of last year.

The decrease in risk appetite is also visible in the price trends for other asset classes. For example, the price of oil and the interest rate on Swedish and German treasury bonds has dropped while the price of gold has increased. Credit spreads on US and European corporate bonds have increased, as has volatility on the bond and equity markets.

2. Rising volatility and credit spreads

Index (left axis) and index (right axis)



Source: Refinitiv.

Note: VIX and Eurostoxx vol show implicit volatility in options on S&P 500 and Eurostoxx 50. CDX HY and ITRX HY show spreads for CDS indices that contain US and European companies with credit ratings under investment grade.

The Swedish krona continued to strengthen considerably in 2025, in part due to better growth forecasts for Sweden than for many comparable countries and a parallel increase in focus on strong public finances. Furthermore, the development on the stock markets most likely created the currency flows that strengthened the Swedish krona.³ A stronger krona makes imports less expensive and has a dampening effect on domestic inflation. However, an escalated trade conflict could impact exports adversely, which could decrease demand in SEK and weaken the exchange rate.

Despite the increase in uncertainty and volatility on the global financial markets at the start of 2025, the markets have functioned well. However, this could change if confidence in the US economic policy weakens and the protectionist tendencies are strengthened. Continued trade conflicts and rising inflation increase the risk of negative side-effects on Swedish exports, growth and employment and, in a worst-case scenario, potentially on financial stability. In the event of stagflation, with declining demand and rising interest rates, the default risk increases. This decreases demand for more risky assets such as shares and corporate bonds, which in the long run could impair the access of Swedish firms to financing.

³ Source: Monetary Policy Report Mar 2025, the Riksbank.

Large movements on the government bond market, but Sweden continues to have strong public finances

In parallel to the economic uncertainty, the war continues in Ukraine. Both the EU and its Member States have now launched major defence investments, primarily financed through increased borrowing. In March, Germany made it possible to increase borrowing in the future to finance defence- and infrastructure-related investments. As a result, European government bond rates increased sharply. Market analysts interpreted the rising German government bond rates to be an expectation of higher growth and larger borrowing volumes going forward. However, if the market were to doubt the repayment capacity of some other European countries, we could see turbulence on the European government bond market, resulting in higher bond yields and higher volatility on other markets. Countries such as the UK, France, Italy and Spain all have public debt that exceeds nominal GDP and therefore are vulnerable to sharply increasing interest rates.

The US government bond yields usually decrease when risk appetite decreases. However, as global stock markets dropped at the beginning of April, US government bond yields rose. One explanation is that highly leveraged actors such as hedge funds wanted to reduce their positions and obtain cash, therefore selling US government bonds (dash for cash). When highly leveraged actors settle their position on the US government bond market, there is a risk that this will lead to large interest rate upswings and volatility. Given the market's central role, the uncertainty could spread to the rest of the global financial system. Such a course of events did not occur at the beginning of April, but the event highlights the vulnerability that exists on the US government bond market. Given how central this market is for the global financial system, stress on that market could have a negative impact on the financial system even in Sweden.

In Sweden, the liquidity on both the government bond and the covered bond markets has improved somewhat since the autumn. Improved liquidity means the markets are less vulnerable to shocks and dampens contagion effects that could spread to other parts of the financial system. The public finances in Sweden are still very strong and are not expected to be significantly impaired by higher defence spending. High confidence in Sweden's public finances creates resilience on the government bond market.

Households

At the start of 2025, households became more pessimistic about the economy. They are restrictive in their consumption and are prioritising saving. Debt growth is low but has once again begun to increase.

	Level of vulnerability	Development
Excessive debt growth	<div></div>	↗
Weak cash flow	<div></div>	↘
Weak financial position	<div></div>	→

The colors indicate the current level of vulnerability. Green represents low vulnerability. Yellow, orange and red indicate differing degrees of elevated vulnerability. The arrows show how FI assesses that the vulnerability develops. An upward-pointing arrow means that the vulnerability is increasing and a downward-pointing arrow that it is shrinking. The assessment of vulnerabilities are based on a combination of quantitative measurements and expert assessments.

Households are more pessimistic

Households’ attitude about their own economic situation improved during 2024, but weakened again at the start of 2025 and is now noticeably weaker than normal.⁴ This could be due to the turbulent global situation, greater uncertainty about interest rate development, and that more households believe prices will go up.⁵

In 2024, increased optimism, lower interest rates, and rising housing prices led to household debt starting to grow faster again. This trend continued at the beginning of 2025.⁶ However, the growth rate continues to be at a low level. FI therefore still makes the judgement that vulnerabilities linked to the growth of household debt are also at a low level, but if the growth rate were to continue to rise, the situation could change. If interest rate were to fall and housing prices increase faster, household demand for loans would increase.

Households continue to be cautious with their finances and are careful about making purchases. They are also cautious about purchasing durable goods. Purchases of consumables are also dampened. The combination of rising prices, high debt, and short fixed-interest periods has meant that many households have had smaller margins in their personal finances for the past few years. The most probable development going forward is that cash flows will improve slightly. The interest-to-income ratio, households’ interest expenses in relation to their disposable income, has decreased in the past few quarters, but it is still

⁴ Source: NIER’s confidence indicator for households.

⁵ Source: NIER Economic Tendency Survey. When asked in October 2024 “At what rate will prices go up in the next 12 months”, 25 per cent of households answered “higher” or “unchanged”. In April 2025, this figure was 51 per cent.

⁶ Source: Statistics Sweden. Refers to lending to households from MFIs. In March 2025, the annual growth rate for household debt was 2.1 per cent compared to 0.6 per cent at the end of 2023.

significantly higher than it was in 2022. Household real disposable income is expected to increase in the next few years.⁷

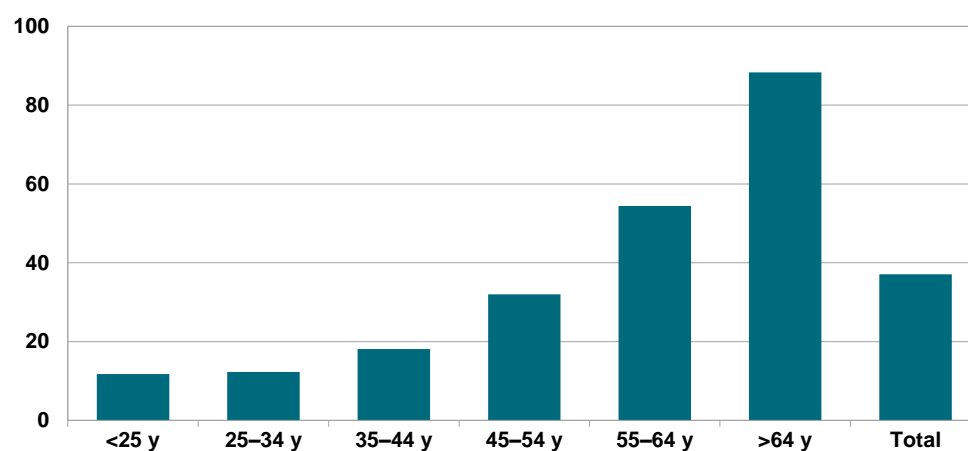
Instead of consuming, households are saving more, at least at the aggregate level. Households' financial savings ratio was just over 4 per cent during the fourth quarter of 2024. This is high savings historically and almost in line with the savings ratio during the pandemic, when households lived with restrictions that impacted their consumption. Savings are helping to strengthen households' financial position.

A strong financial position makes households resilient to cost increases or loss of income. Overall, households' financial assets are larger than their debt, but the distribution of assets and debt is uneven. For example, young mortgagors have significantly lower financial savings in relation to their debt than older mortgagors have (see diagram 3). This means that there are likely many households with limited financial savings available to meet unexpected events that impact their economic situation negatively. If asset prices fall, the financial position of households with a high share of risky assets deteriorates. They can then recover their wealth by reducing their consumption, which could have a negative impact on the economic development.

⁷ Source: NIER. NIER forecasts (March 2025) that it will increase 3.5 per cent in 2025 and 1.9 per cent in 2026.

3. Financial savings in relation to debt differs between age groups

Per cent






Source: FI.

Note: Shows financial savings as a share of debt for different age groups at aggregate level. Refers only to individuals with mortgages in a major bank. The calculation only uses the debts and assets that the individual has in their mortgage bank. This entails a slight underestimation of primarily savings, and thus also a slight underestimation of households' financial position. Data at year-end 2023.

Non-financial corporations

The global uncertainty is contributing to the slow-down in corporate investments and, together with the weak economy, could have a negative impact on earnings. Corporate debt development continues to be dampened, and indebtedness ratios are decreasing. The financing situation has improved, but there is a risk of set-backs.

	Level of vulnerability	Development
High debt growth		→
High indebtedness		↘
Financing difficulties		→

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CRE firms' indebtedness is gradually decreasing

Firms' expectations about the future clearly fell at the beginning of 2025, particularly expected export sales.⁸ Due to weak demand and high uncertainty related to international trade, firms are restrictive with their investments. This also means there is a risk that corporate earnings could be negatively impacted, which could amplify the financial stress on highly leveraged firms. As a result of the weak economy, the growth rate for banks' lending to Swedish firms is low but has begun to increase slightly.

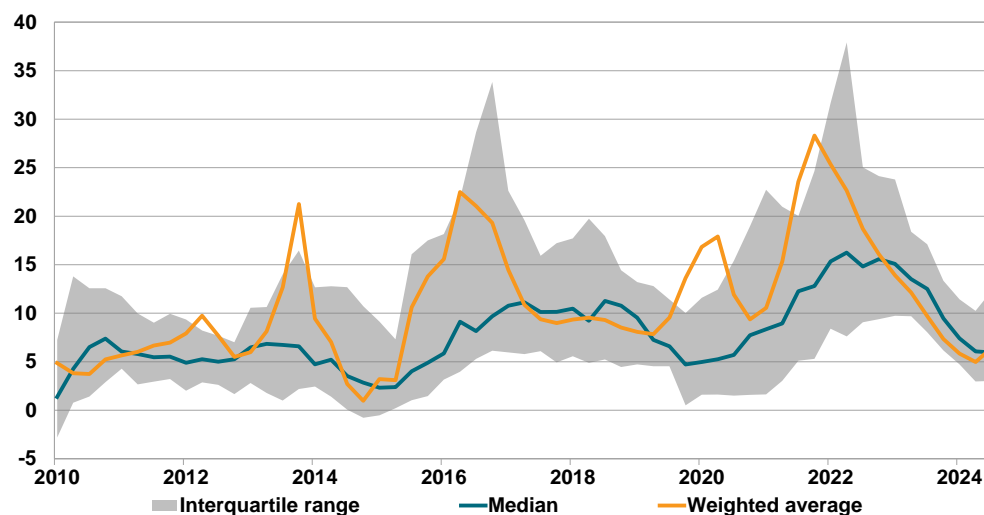
For CRE firms, the slow-down in rent growth has continued since the low inflation dampens rent increases⁹ (see diagram 4). The weak economy also contributes to decreased demand for commercial premises. Vacancies have increased the most for the office segment and are at very high levels outside of central locations. Right now this is one of the largest challenges for the CRE sector.

⁸ According to the subindex for the forward-looking questions in Business Sweden's Export Manager Index.

⁹ In part through agreed index adjustments that follow the CPI.

4. Growth rate in CRE firms' earnings slows

Per cent



Source: Sedis and FI.

Note: Annual change in per cent in rental income for CRE firms.

Since interest rates began to increase during the second quarter of 2022, total interest-bearing liabilities among the largest listed and private CRE firms have increased more slowly than their rental income (see diagram A1 in the appendix). CRE firms' net liabilities in relation to their operating profit have gradually decreased to the lowest level since the end of 2018. CRE firms' loan-to-value ratios have turned downward as property values stabilised. Overall, the indebtedness of CRE firms is decreasing.

On the other hand, many firms are still being valued at a significant discount in relation to their long-term net worth. This could be an indication that the financial markets are taking a more pessimistic view of the CRE firms' expected growth, risk and interest rate development. The interest-coverage ratio stabilised just above 2, but many firms have an interest coverage ratio of almost 1.5. This implies that some firms continue to be vulnerable and should work on strengthening their financial position.

Financing of CRE firms has improved, but risk for set-backs

The interest rate on new bank loans for corporates has decreased by more than 160 basis points since its peak in 2023. At the same time, a smaller share of firms than last year have stated that they are finding it difficult or very difficult to raise

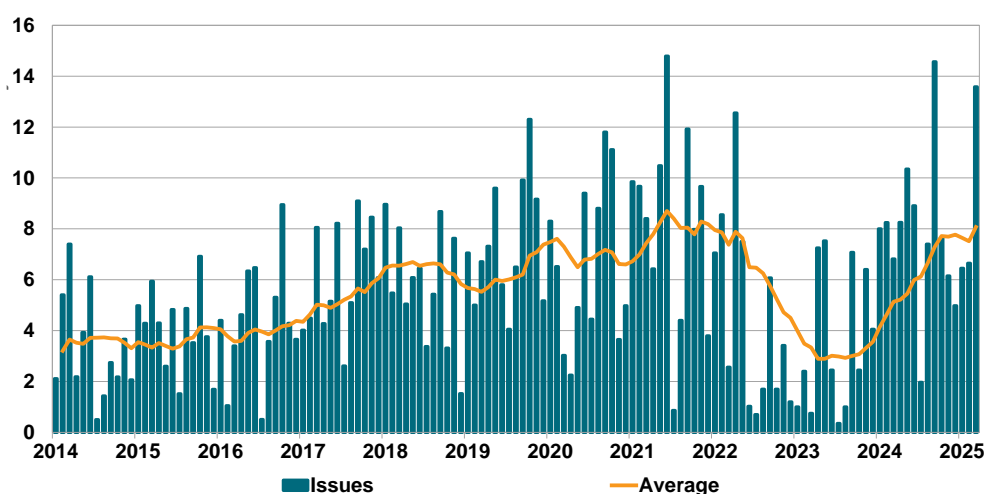
financing.¹⁰ The market turbulence during the spring, however, contributed to increased credit spreads for corporate bonds.

CRE firms' average interest rates have largely remained the same in recent months. Their average monthly issue volume of bonds has clearly increased over the past twelve months (see diagram 5). That firms have good access to market financing decreases their refinancing risks since it gives them access to more financing channels. This also means that the exposures to the CRE sector are distributed across more actors than just Swedish banks.

However, market financing can be more sensitive to altered conditions and thus less stable as a source of financing. Increased market volatility can create risk for the firms' future financing in the event that market rates and risk premiums rise significantly. Reduced risk appetite among investors on the market for corporate bonds could make access to capital more difficult.

5. Market financing has recovered for CRE firms

SEK billion







Source: Statistics Sweden.

Note: Refers to new issues and tap issues of bonds in SEK for CRE firms. The yellow line shows 12-month rolling average.

¹⁰ According to questions about firms' credit and financing conditions in NIER's Economic Tendency Survey.

Stability in the banking sector

The major Swedish banks have high resilience and are still very profitable. Even though there are significant credit risks in the lending portfolios since before, asset quality is stable and access to liquidity is good.

	Level of vulnerability	Development
High concentration and interconnection		→
Weak solvency and profitability		→
Deficiency in asset quality and credit risk		↘
Difficulties with access to financing and liquidity		→

The colors indicate the current level of vulnerability. Green represents low vulnerability. Yellow, orange and red indicate differing degrees of elevated vulnerability. The arrows show how FI assesses that the vulnerability develops. An upward-pointing arrow means that the vulnerability is increasing and a downward-pointing arrow that it is shrinking. The assessment of vulnerabilities are based on a combination of quantitative measurements and expert assessments.

Major Swedish banks have high resilience facing an uncertain future

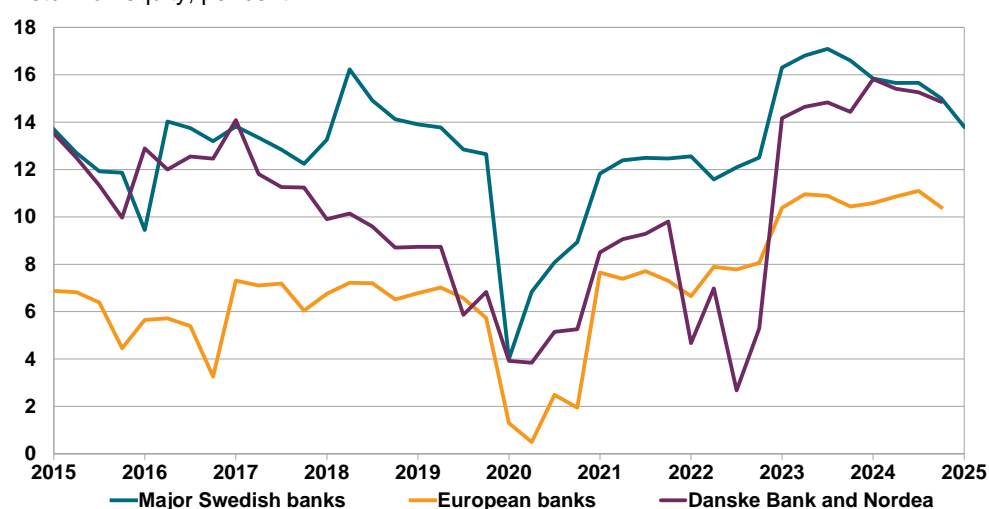
The Swedish banking sector is largely concentrated to five major banks: Svenska Handelsbanken, SEB and Swedbank, as well as Nordea's and Danske Bank's Swedish branches and mortgage companies.¹¹ These major banks are closely interconnected, both to one another and to other parts of the financial sector. This creates structural vulnerabilities in the financial system, and the stability report thus focuses primarily on these systemically important banks.

The profitability of the major Swedish banks continues to be at a high level although somewhat under the record-setting levels from 2023. The major banks also have substantial capital buffers, which makes them well-equipped for any future difficulties. This is valuable in the current market, with high uncertainty about the future economic development and given that the risks of a negative development are significant.

¹¹ For these five major banks, the figures refer to the consolidated situation unless otherwise specified. Together they represent around 75 per cent of deposits and lending to Swedish households and corporates and just under 70 per cent of domestic payments.

6. Profitability decreases but is still at a high level

Return on equity, per cent



Source: FI and European Banking Authority (EBA).

Note: Return on equity is calculated using the EBA's method, the net income is extrapolated at an annual rate, and equity is calculated as an average of the current quarter and the fourth quarter of the previous year. The ratios refer to weighted averages that have been weighted against equity. *European banks* refers to approximately 160 large European banks. The series for European and Nordic banks are reported in EUR and not adjusted for exchange rate fluctuations.

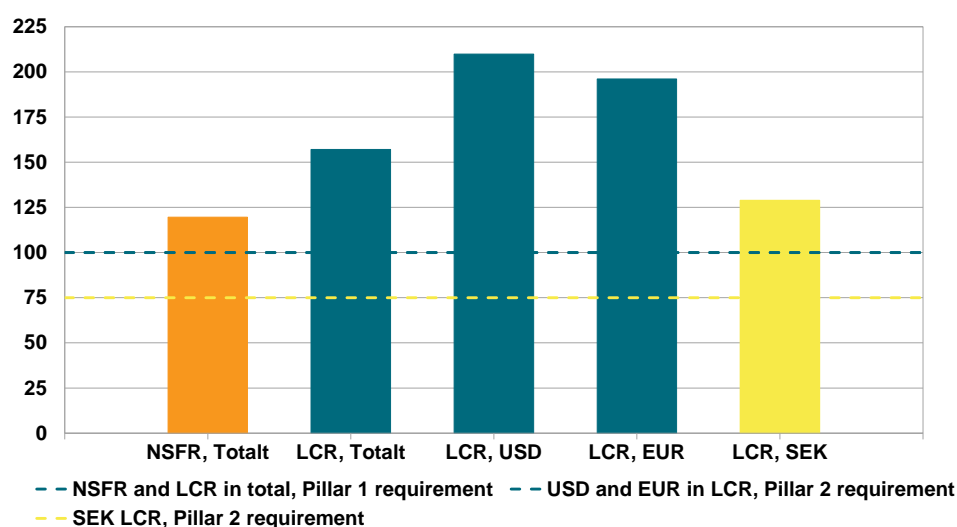
Asset quality has improved slightly from a longer term perspective, and the major banks made significant reversals during the period to previous expert-assessed provisions, primarily in the commercial real estate sector. The reversals indicate a stable development in the level of credit risk, with expected credit risks, first in conjunction with the COVID-19 pandemic and later during the period of high interest rates, not generally materialising. FI therefore makes the assessment that the asset quality is currently at a more normal level. However, there is considerable uncertainty, primarily related to trade policy. If Swedish export companies experience lower revenue due to increased barriers to trade, this in turn could have an impact on Swedish banks. It could impact the banks in part because they may have loans directly with the companies, but also through loans to other firms that are impacted indirectly, such as suppliers. However, the major Swedish banks have relatively limited exposures to the USA as well as to the sectors that can be expected to be hardest hit by elevated trade barriers. But the geopolitical uncertainty could lead to weaker Swedish economic development, with more bankruptcies and higher unemployment. This would impair the banks' asset quality. Since various proposals about tariffs and other trade barriers that could impact the economic forecasts are changing quickly, it is important for both FI and the banks to carefully monitor global events.

The banks instead tend to have large exposures to households and CRE firms, which have a high percentage of collateral for their loans. In order to ensure that the banks also will continue to have sufficient resilience to problems in these sectors, FI has decided to extend the risk weight floor that is applied to them¹².

The major Swedish banks' financing consists of market funding, in the form of covered and uncovered bonds, and deposits from the public. The major Swedish banks continue to have good liquidity and are well in excess of the requirements on the liquidity coverage ratio (LCR) for total currency and individual currencies as well as the requirement on the net stable funding ratio (NSFR) (see diagram 7).¹³ There are some signs of increased uncertainty on the USD market, but major Swedish banks have significant liquidity reserves in USD. However, if the geopolitical conflicts were to escalate, this could rapidly increase the uncertainty on the financial markets, which could drive up the banks' funding costs and thus impact their borrowing capacity. FI will therefore continue to monitor the liquidity situation on an ongoing basis.

7. Major Swedish banks meet liquidity requirement by large margin

Per cent



Source: FI.

Note: Only major Swedish banks. Unweighted average. Data for Q1 2025.

¹² <https://www.fi.se/sv/publicerat/nyheter/2024/fi-avser-att-forlanga-riskviktsgolven-for-bolan-och-kommersiella-fastigheter/>

¹³ LCR – Ratio between the high-quality assets held by the bank and the total outflow during a 30-day stress test scenario. NSFR – Ratio between available stable financing and the need for stable financing during a one-year period.

In-depth Review – FI intends to leave the countercyclical buffer rate unchanged in Q2

The countercyclical buffer rate has been at 2 per cent since June 2022. This corresponds to the positive neutral level that FI applies to the countercyclical buffer rate during periods in which FI assesses that cyclical systemic risks are neither accruing nor elevated. FI intends to leave the countercyclical buffer rate unchanged in Q2 2025.

Sweden continues to be in an economic downturn. The elevated uncertainty leads to households and non-financial corporations having a more pessimistic view on the future. The growth rate for banks' lending to households and non-financial corporations is low but has begun to increase slightly (see diagram F1). In Q4 2024, GDP grew more than lending to households and corporates. Therefore, the credit-to-GDP gap shrunk slightly, and the buffer guide remains at 0 per cent (see diagrams A2 and A3 in the diagram appendix).

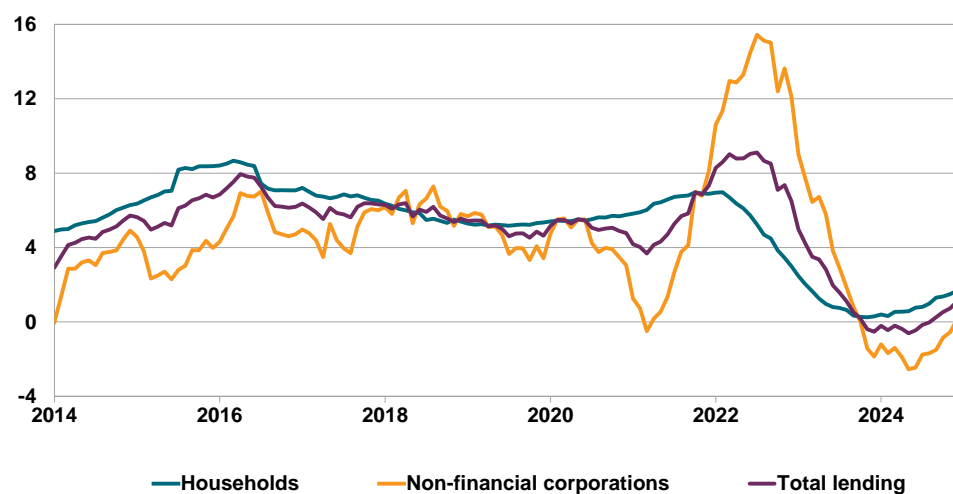
The systemic risk indicator (d-SRI) describes the overall risk build-up.¹⁴ Low credit growth and weak development in assets prices have led to a decrease in d-SRI in recent quarters. This strengthens the view that cyclical systemic risks are currently not accruing (see diagram F2).

It is important that the banking sector can provide households and corporates with loans. A deterioration in real economic development or impaired access to market financing could mean that households and firms will turn to the banking sector for financing to an even larger extent. FI makes the assessment that the current low growth rate in lending is primarily due to lower demand from borrowers rather than a limited supply of credit from the banking sector. If FI were to make the assessment that the supply of credit from the banking sector is limited, we could lower the buffer rate to free up room for the banks to issue more loans. However, the banks have good profitability and large management buffers (see diagram 6 and diagram A4 in the diagram appendix). This implies that they have good capacity to maintain the supply of credit. FI thus intends to leave the countercyclical buffer rate unchanged in Q2 2025.

¹⁴ For more information, see Sandström, C. (2023) "d-SRI: En systemriskindikator för Sverige", FI Analysis 43, FI Ref. 23-34670, Finansinspektionen. An English version is available at www.fi.se.

F1. Total lending has begun to increase

Per cent

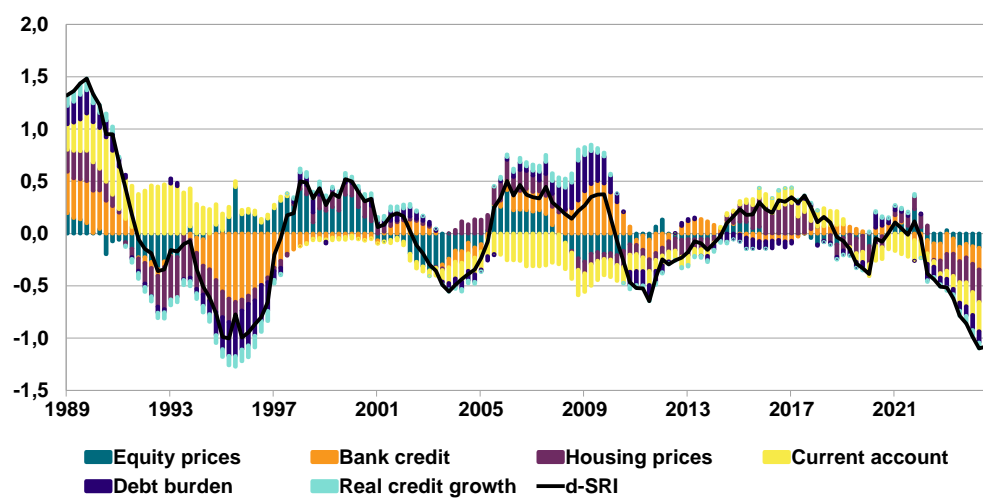


Source: Statistics Sweden.

Note: Total lending from monetary financial institutions at annual growth rate.

F2. The systemic risk indicator d-SRI shows low risk accumulation

Normalised value







Source: FI.

Note: Normalised value means subtracting the median from the observation and dividing by the standard deviation.

Stability in the insurance and fund sector

Life insurance undertakings and occupational pension undertakings are major investors and thus are impacted rapidly by fluctuations on the financial markets, for example by the downturns on the stock market that occurred in conjunction with the uncertainty related to trade policy. Solvency continues to be good, but it is important for firms to have capital buffers to resist sharp downturns. On the fund market, liquidity risk has increased due to the uncertain global events.

	Level of vulnerability	Development
Investment risk in the insurance sector		↗
Weak solvency in the insurance sector		↗
Insurance sectors interconnection with other sectors		→
Liquidity risk on the fund market		↗

The colors indicate the current level of vulnerability. Green represents low vulnerability. Yellow, orange and red indicate differing degrees of elevated vulnerability. The arrows show how FI assesses that the vulnerability develops. An upward-pointing arrow means that the vulnerability is increasing and a downward-pointing arrow that it is shrinking. The assessment of vulnerabilities are based on a combination of quantitative measurements and expert assessments.

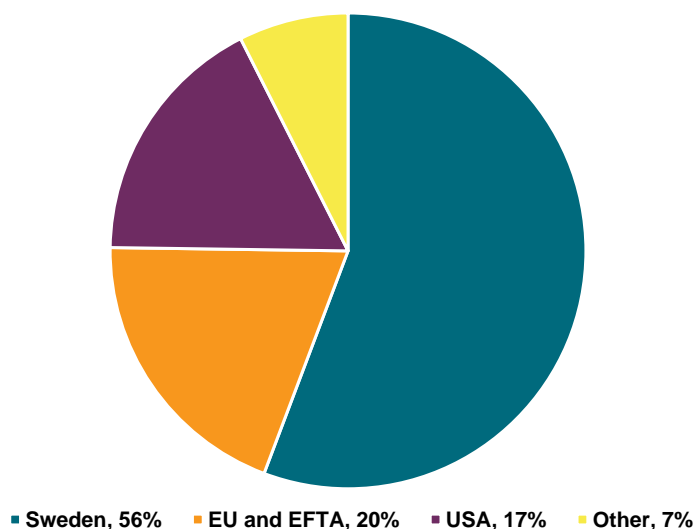
Risks are increasing in the insurance sector

Approximately two-thirds of the holdings of life insurance undertakings and occupational pension undertakings are in riskier assets, of which shares are the largest group¹⁵ Their proportion increased while interest rates were low, but since rates began to increase their proportion has been relatively stable and is now the same as it was in the autumn of 2024 (see diagram A6 in the diagram appendix). The firms have investment exposures to several geographic regions (see diagram 8). The uncertain geopolitical situation, manifested by high volatility on the financial markets, leads to higher risk in the investment portfolios. Assets' value is fluctuating sharply at the same time as the development in interest rates is impacting the estimated value of the pension liability.

¹⁵ These assets include shares, unlisted shares and other financial investments, properties, as well as commercial real estate and wholly owned CRE companies.

8. Geographic distribution of investment assets

Per cent



Source: FI.

Note: Geographic distribution of life insurance undertakings' and occupational pension undertakings' investments as per 31 December 2024, excluding unit-linked and deposit insurance.

Despite the turbulence on the financial markets, the financial position continued to be good (see diagram A7 in the diagram appendix). However, this could be negatively impacted by future developments. A particularly poor scenario for life insurance undertakings and occupational pension undertaking would be if weak economic growth dampens profit forecasts and applies downward pressure on share prices at the same time as interest rates go down. Lower market rates on longer maturities increase the estimated present value of the pension liability. Even if the value of interest-bearing investments is going up, when combined with large holdings of shares that experience a drop in value, this could lead to smaller capital buffers. In a worst-case scenario, life insurance undertakings and occupational pension undertakings may be forced to make major changes to their holdings. This means that they can realise losses and have impaired solvency. Due to the size of the sector, reallocations could also lead to amplification of the negative price movements, which could impact financial stability. The management of pensions has a long investment horizon and requires large capital buffers. Even if the risk of weaker solvency has increased slightly in recent years, FI continues to make the assessment that the sector has sufficient resilience to avoid such behaviour.

Life insurance undertakings and occupational pension undertakings are interconnected with other sectors, primarily the banking sector, through different types of holdings. Bank exposures are largely the same as in the autumn of 2024. They consist primarily of covered bonds issued by Swedish banks with high creditworthiness but also shares and corporate bonds. Through their exposure to the

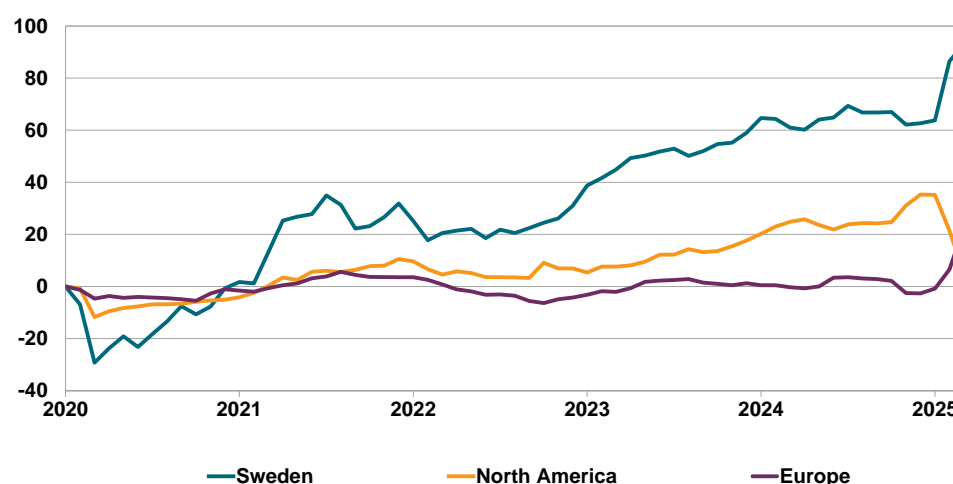
banking sector, life insurance undertakings and occupational pension undertakings are also indirectly exposed to the CRE sector, which they also have direct exposures to in their portfolios. Vulnerabilities in the CRE sector could thus spread to the insurance sector through both these exposures.

Increased liquidity risks on the Swedish fund market

Since February 2025, Swedish savers have made significant reallocations by selling equity funds with a US focus and buying European and Swedish equity funds (see diagram 9). Such large flows are unusual and were last seen during the onset of the pandemic at the beginning of 2020. The elevated uncertainty and volatility of the global financial markets increases the liquidity risks for Swedish funds. The fund category corporate bond funds is particularly vulnerable to liquidity risks since the Swedish corporate bond market is small and has low liquidity.

9. Significant net flow in to Sweden and out from North America

SEK billion



Source: Swedish Investment Fund Association.

Note: Accumulated net flows from January 2020 for Sweden-based funds with investment policy targeting Sweden, North America and Europe, respectively. Data includes Swedish savers' direct deposits, insurance policies, and pension deposits. Data through March 2025.

It is important that fund managers can maintain to trade and value their funds even during periods of large market movements. Uncertainty in valuations combined with large outflows from investors could lead to fund managers having to delay sales of assets and redemptions of fund units. It is therefore important that fund managers ensure the matching of the funds' assets and liabilities and have processes that to the greatest extent possible ensure continuous trading even under stressed market conditions.

FI has warned in previous stability reports that the procurement of the new fund marketplace for premium pensions could lead to increased liquidity risks in Swedish funds and on the Swedish stock market. Later this year the Swedish Fund Selection Agency (Fondtorgsnämnden) will present the funds that have won the procurement in the category Swedish equity funds. The transfer of capital resulting from the procurement of Swedish equity funds means that these risks could be realised.

Operational stability risks

The uncertain geopolitical situation means that the demands on firms' operational resilience continue to be high. Through firms' incident reporting, FI will gain a better overview in the long term of the operational vulnerabilities in the financial sector.

Geopolitical situation places high demands on firms' resilience

The geopolitical uncertainty continues to be high and place high demands on firms in the financial sector to have a good capacity to protect their operations. Different types of incidents – such as cyber attacks, data breaches, drone fly-bys, and cable disruptions in the Baltic Sea – typically occur sporadically. This makes them difficult to predict, and when incidents occur they can often cause extensive disruptions or have a major impact on society. Resilience to operational disruptions, in other words the capacity to ensure good security and recovery in the operation's network and information systems, is therefore key for reducing the risk of disruptions to critical financial services.

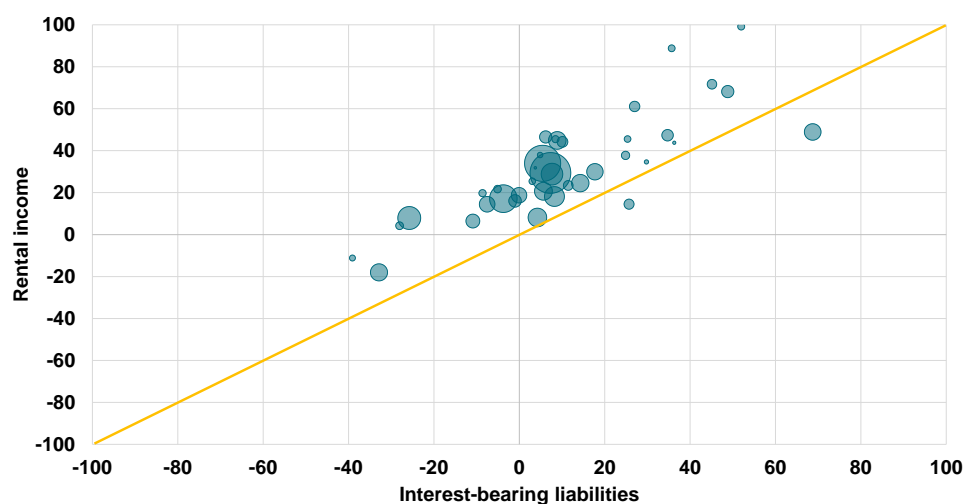
The interconnectedness of systems and interdependencies that exist between different actors in the financial sector is a vulnerability that FI has previously identified. Because of this interconnectedness, operational disruptions at individual actors could have an impact on the stability of the financial system more generally. The DORA Regulation went into effect in January 2025. The regulation increases the requirements on firms to identify and manage their vulnerabilities. A central part of DORA is also that the firms must report incidents related to information and communication technology (ICT) to national supervisory authorities. It is currently too early for FI to draw any conclusions based on the incident reporting. In due time, however, this reporting will give FI a better overview of the situation and create better conditions than we have today to compare and analyse digital operational resilience.

DORA will introduce special rules that apply to the management of ICT-related third-party risks that could arise during outsourcing. The new rules require financial corporations to prepare a register of all outsourcing, which must be shared with concerned supervisory authorities. Based on this register, the European supervisory authorities will identify so-called critical third-party suppliers, which will then fall under the European supervisory authorities supervision. FI currently makes the assessment that the risks in outsourcing ICT services have not changed compared to previous assessments. However, the reporting will give us a better overview of both outsourcing and subsequent concentration risks. We will thus be able to more easily identify risks and establish clearer demands in our supervision.

Appendix of diagrams

A1. Debt for most firms has increased at a lower rate than rental income

Change in per cent, interest-bearing liabilities and rental income

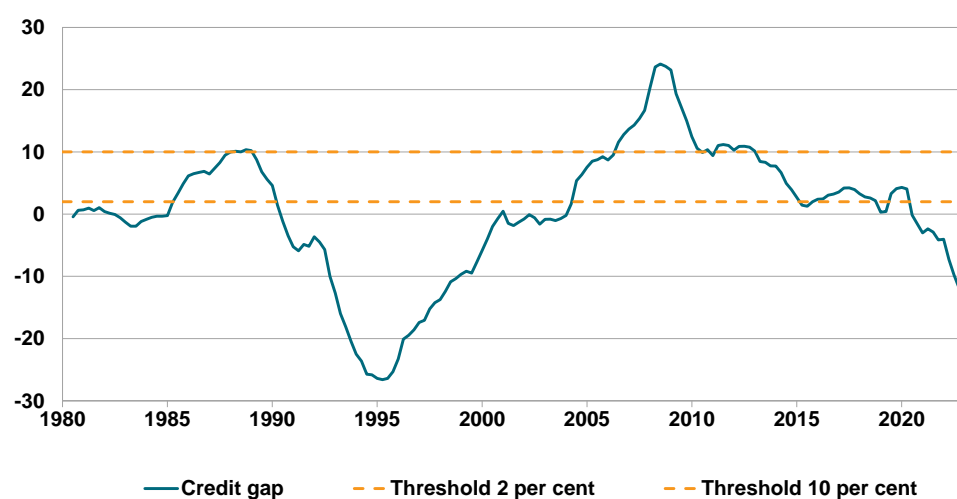


Source: Sedis and FI.

Note: Change in per cent between Q2 2022 and Q1 2025. The size of the bubble represents the relative size of interest-bearing liabilities. The yellow line shows where the firms' rental income and interest-bearing liabilities have grown at the same rate.

A2. Credit-to-GDP gap dropped in Q4 2024

Deviation from trend, pts

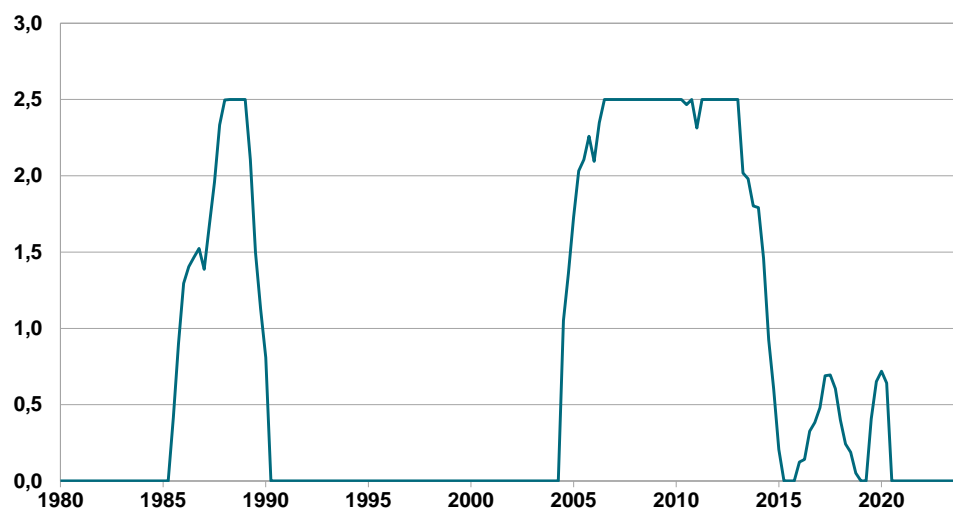


Source: FI and SCB.

Note: Credit-to-GDP gap according to the standardised approach. The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

A3. Buffer guide remains at 0 per cent

Per cent

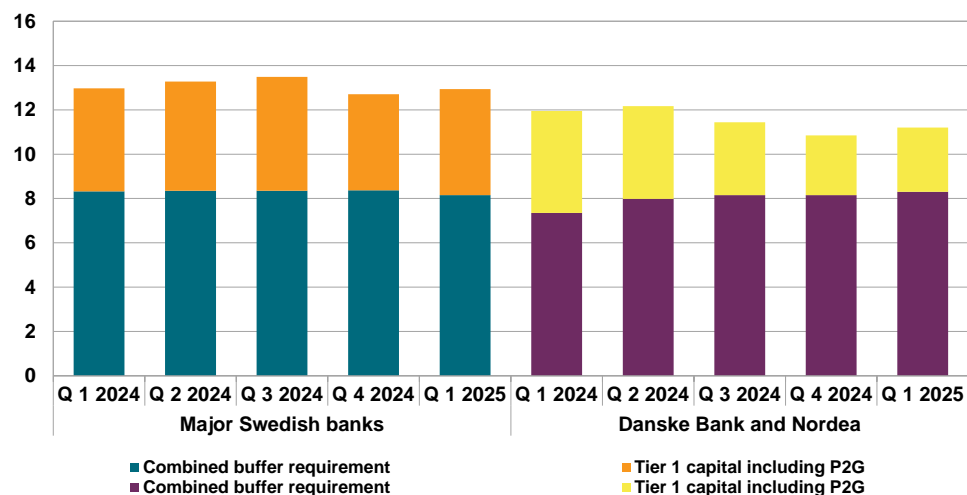


Source: FI and SCB.

Note: Buffer guide according to the standardised approach.

A4. The major banks continue to have large capital buffers

Percentage of risk-weighted assets

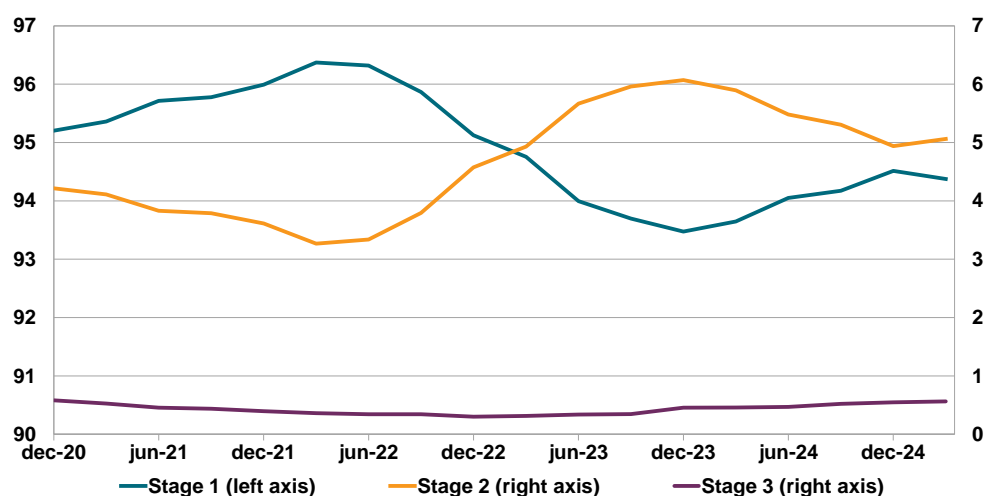


Source: FI and the banks' public reports.

Note: CET 1 capital requirements as a share of risk-weighted assets. Refers to buffers at the consolidated level. In this illustration, the CET 1 headroom includes the so-called Pillar 2 guidance, which is 0.5 per cent for the major Swedish banks. Unweighted average.

A5. Slightly improved asset quality on aggregate level

Per cent

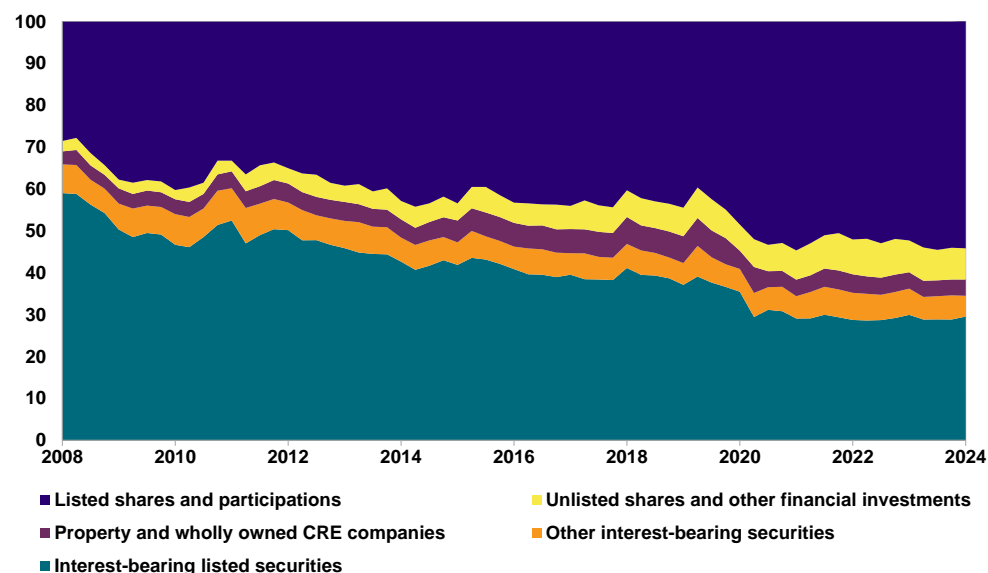


Source: FI.

Note: Refers to the major Swedish banks and Nordea's and Danske Bank's Swedish branches. The breakdown into stages is based on the accounting standard IFRS 9, where Stage 1 entails no significant increase in credit risk. Stage 2 shows the percentage of loans where there has been a significant increase in credit risk since the loan was first issued. Stage 3 entails loans in distress. Stages 2 and 3 are shown on the right axis.

A6. Distribution between asset classes has stabilised

Per cent

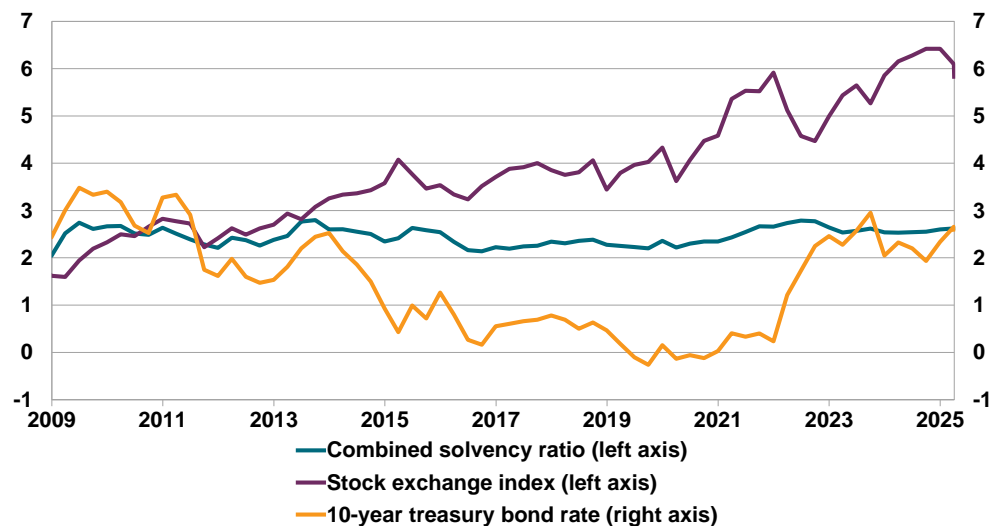


Source: Statistics Sweden.

Note: Riskier asset classes include shares, unlisted shares and other financial investments, properties and wholly owned CRE companies. Interest-bearing, and in this context less risky, assets include listed interest-bearing securities and other interest-bearing securities. The diagram refers to life insurance undertakings and occupational pension undertakings (excluding unit-link and deposit insurance) up to and including 31 December 2024.

A7. Solvency continues to be good

Ratio (left axis) and per cent (right axis)



Source: FI, Nasdaq OMX and Sveriges Riksbank.

Note: The traffic-light ratio for life insurance undertakings and occupational pension funds is shown through 31 December 2021. Since 31 March 2022, the diagram shows solvency in accordance with the new occupational pension regulation. The series is a mix of two measurements that we have chosen to call a combined solvency ratio. Solvency data has been collected through 31 March 2025.