

Why is Financial Stability of public interest?



- Market failure – systemic risk
 - Banks are special
 - Built-in instability (illiquid loans financed by liquid deposits)
 - Serious consequences of failures
 - Payment services are special
 - Efficient payments are a pre-requisite for a market economy
 - Vulnerability due to volumes
 - Consumer protection
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Role of central banks



The Riksbank Act – "to promote a safe and efficient payment system"

Why this role?

- Extends means of payment and hub for the payment system
 - Has an important role in crisis – can act as lender of last resort
 - Links to price stability
 - Already deals with macro-economic issues
 - Well established international contacts - IMF, BIS, ECB, etc.
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Division of labour

- Financial regulation – rests with the Parliament and the Government
- Oversight – the Financial Supervisory Authority perform supervision (individual institutions and limited responsibility for the system) and the Riksbank oversees the financial system. Regulated in a MoU.
- Crisis management – the Ministry of Finance, the Riksbank (lender of last resort) and the Financial Supervisory Authority

What do we do?

- Monitor major banking groups
- Analyse market developments
- Oversight of the financial infrastructure
- Influence regulation and risk management practices
- Publish a Financial Stability Report (twice a year)
- Crisis Management

Increased international cooperation

Report on Financial Stability - Content



- Financial markets and macro-economic developments
- The bank's borrowers
 - Corporate sector
 - Households
 - Borrowers in the Nordic and Baltic countries, an the German market
- The development in the banks
 - Profitability
 - Assets
 - Liabilities and funding
- Financial infrastructure
- Articles

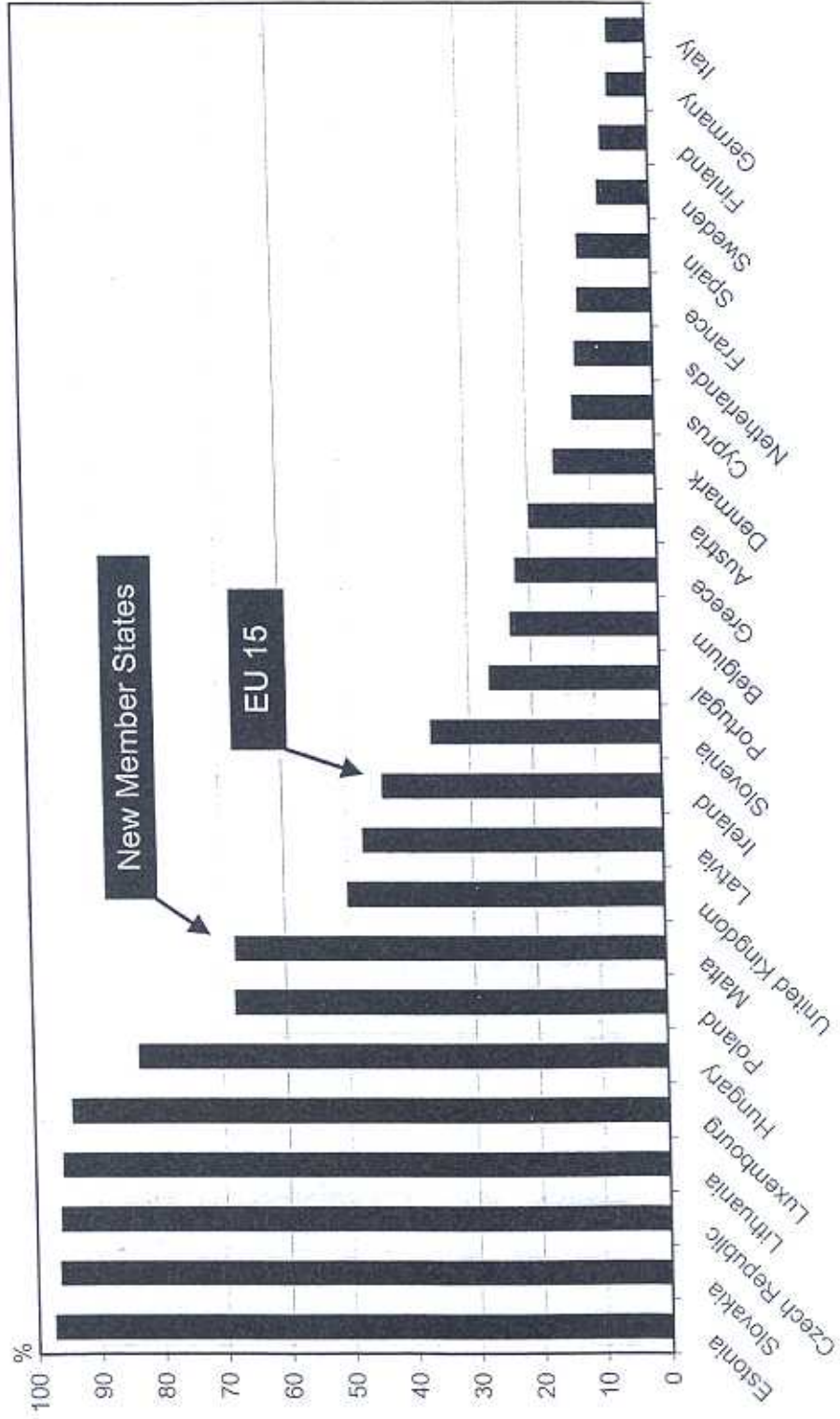
Crisis Management

- Well prepared crisis organisation and readiness to deal with crisis situations
 - Crisis manual, contact list and checklists
 - Co-operation with other authorities and countries
 - Crises exercises
- Exercises on Nordic and European level
- Preventive oversight and crisis management closely connected

Challenges from financial integration

- Banks consolidate cross border...
 - ...and so does payment and settlement systems
- How to share responsibilities between home and host authorities? Very difficult issues
 - Division of responsibilities
 - Information exchange
- The risk of too much regulation

Asset share of foreign subsidiaries and branches in the EU (end of 2003)

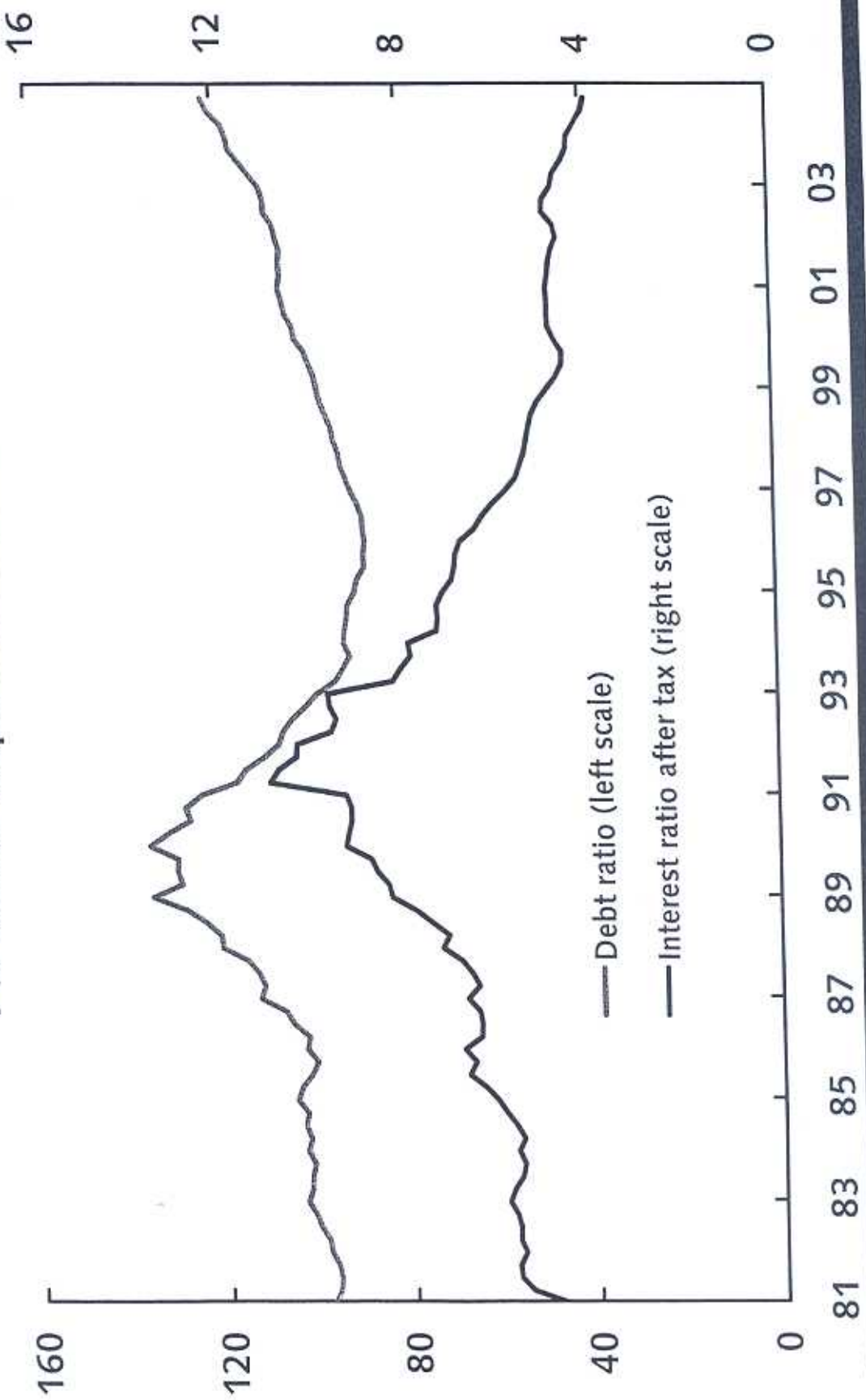


The housing market and financial stability

- Rapid growth in indebtedness and house prices, but low interest rates
 - How many households are at risk?
 - Does not constitute a systemic risk to the banking sector or the payment system
 - Risks more related to aggregate demand in the future – a tricky question for monetary policy
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Households' debt ratio and interest ratio

Per cent of disposable income



Sources: Statistics Sweden and the Riksbank

Risks and markets

- Low bond yields and low credit spreads – a good or a bad story?
- Does non-bank institutions in the financial markets, e.g. hedge funds, affect market pricing and the bank's risk taking?
- Are major markets distorted by public interventions?

Focus on the Swedish financial sector

Conclusions

- Important issues for central banks :
 - In the center of the payment system,
 - Link to price stability
 - Focus on systemic issues – easy to get involved in too many issues
 - Need for analytical capacity - moral suasion
 - International cooperation of increasing in importance
 - Need for cooperation on regulation and crisis management
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