SECTOR COMMENT

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Swedish government initiatives support disrupted credit markets

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Nordic Credit Rating (NCR) believes the refinancing risk of Swedish companies has been put in the spotlight as a key driver of corporate default risk following a dysfunctional credit market where issuance activity is limited. Some of this refinancing risk has been reduced following recent government initiatives targeted at the export sector.

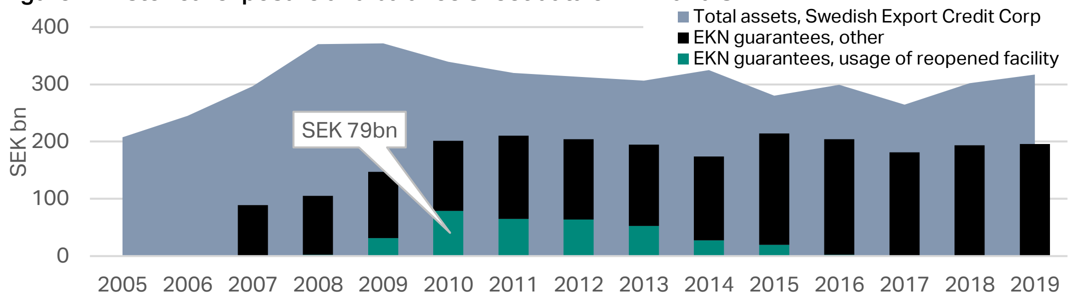
Reduced capital requirements for banks, moving the credit risk of corporate exposures from banks to the government's balance sheet through a reopened guarantee facility from the Swedish Export Credits Guarantee Board (EKN), along with an increased and widened liquidity facility for a similarly named government-owned lender, the Swedish Export Credit Corporation (SEK), is likely to support the credit market, in our view. NCR estimates that SEK 111bn of Swedish corporate bonds will mature through the remainder of 2020, adding to domestic corporate bank debt that needs to be rolled over. *See Nordic bond maturities face uncertain market conditions, 12 Mar. 2020.*

Over the past week, several Swedish fund managers were forced to suspend their fixed income funds from trading, although most of them have since been reopened. We see this as a further sign of a credit market in dismay. To prop up the market, the central bank announced on 19 Mar. 2020, that it would buy corporate bonds and certificates as part of a SEK 300bn quantitative easing programme. Details of these planned purchases have yet to be disclosed but issuers and investors alike are eagerly awaiting further information from the central bank.

Going forward, corporations might be required to take on additional debt to cover weakening cash flows as Sweden's largest trade partners – Norway, Germany and the US – shut down their economies. Rolling over existing and newly accumulated debt in a situation where demand is weak, places corporate refinancing in the spotlight as a key driver of corporate default risk.

We believe the government's initiatives will mitigate some of the refinancing risk. Debt issued by investment grade issuers is likely to be purchased to some extent by the central bank. The EKN guarantee facility is likely to be utilised by the major Nordic banks to finance mid- to large-sized export companies seeking to roll over maturing debt and pre-fund their upcoming maturities to avoid uncertainty. Figure 1 shows that growth in EKN's issued guarantees over the period 2009-2010 is driven by the guarantee facility that has now been reopened, indicating its relevance when the credit market is dysfunctional. Should the banks be reluctant to extend further loans, we believe that SEK will act as a lender of last resort to the export industry, as was the case during the last financial crisis, when its balance sheet expanded by nearly SEK 100bn to nearly SEK 400bn during 2008-2009 (see Figure 1).

Figure 1: Historical exposure and balance sheet data of EKN and SEK



Source: Capital IQ, EKN.

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