

NCR sees increased risks in the Swedish banking sector

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Today Nordic Credit Rating (NCR) lowered its assessment of the Swedish banking sector to 'bbb+' from 'a-' due to the economic effects of the COVID-19 pandemic. This assessment can affect up to 20% of an overall issuer credit rating on a financial institution. We have revised down our scores and expectations for output growth, unemployment and the international cycle as shown below. We have considered the impact of Sweden's government support for individuals, banks and corporations in our overall assessment.

We note that many companies have elected to furlough employees using a government-supported programme which reduces costs for employers and maintains at least 92.5% of employees' wages. However, there was a significant rise in unemployment and bankruptcy filings during the last weeks of March and we believe there will be long-term challenges for many sectors given varying degrees of economic shut down for Sweden's neighbours and global trading partners.

NCR views the outlook for the domestic operating environment as negative given the abrupt reduction in activity and the uncertain prospects and timeline of an economic recovery. Initially, the government's efforts to counter the severe macroeconomic disruption could be effective, however, we believe that maintaining stability, especially in terms of bank earnings and credit losses, will become increasingly difficult the longer economic activity remains subdued.

Sweden – scoring of national indicators, previous score in parentheses

SUBFACTOR	SCORE	RATIONALE
Sovereign strength	aa	Major credit rating agency average: AAA, minimum: AAA. We give extra weight to sovereign strength given the support initiatives for individuals and businesses taken during March 2020.
Output growth	bb (a)	We expect an abrupt decline in economic growth due to measures taken to contain the spread of COVID-19 in Sweden and among its trade partners with uncertain impacts on supply chains and export demand.
Credit growth	bbb	Credit growth has grown at twice the rate of GDP since the outbreak of the pandemic. Despite uncertainty in demand from private individuals, there has likely been a material increase in corporate lending as a result of the crisis.
Housing prices	bbb	The housing market is expected to weaken due to uncertainty, but long-term, fundamental need for housing remains high.
Unemployment	bb (a)	Despite a high share of short-term furloughs, unemployment increased significantly in the second half of March and is expected to rise.
Available stable funding	a	Available stable funding in the form of deposits and domestic covered bonds falls short of monetary financial institution private-sector loans. Long-term senior financing is available from the market and via the central bank's liquidity support measures.
International cycle	b (bb)	International growth prospects are weak given global shutdowns and expected contractions in most economies on the back of COVID-19 responses.

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