

## Swedish banking sector outlook to stable from negative

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Nordic Credit Rating (NCR) said today that it had revised its outlook on the Swedish banking sector to stable from negative, while affirming its 'bbb+' assessment of the industry.

In our last review of the sector earlier this year, we revised our assessment score down by one notch to its current level (see [NCR sees increased risk in the Swedish banking sector](#), published 3 Apr. 2020), mainly to reflect the initial impact of COVID-19 on the sector.

The stable outlook reflects our expectations of a flatter U-shaped recovery rather than the sharp V- or, in the worst case, W-shaped rebound that we anticipated previously. In our view, countries and markets are better prepared for any renewed upsurge in COVID-19, while localised outbreaks should prove easier to manage than national shutdowns. Better understanding of the virus has led to improved treatments, and we note that the Swedish government's finances remain in good shape thanks to higher tax income and lower support payments than we previously anticipated.

Swedish banks outperformed our earlier expectations in the first half. An initial fall in income due to capital market tightening is mostly corrected and the Swedish central bank's decision to maintain policy rates has preserved banks' earnings improvements from the December 2019 rate increase. Banks have reported higher credit losses based on economic projections, increasing reserves against future actual losses. Commercial property prices remain stable thus far and housing prices have rebounded after an initial decline, which supports banks' performance given the high share of property lending in Sweden. Financial Supervisory Authority restrictions on dividends have further improved banks' buffers and a sharp increase in customer deposits has supported liquidity.

Given our downward revision of Swedish banks' operating environment in April, NCR now believes that the remaining risk factors are more likely to affect individual institutions or banks than the wider banking sector and are better reflected in the outlooks and ratings on individual banks. Remaining concerns include external problems affecting supply chains, long-term shutdowns or low production levels (under which furloughs could become layoffs), increasing corporate default, and the longer-term impact of changing market dynamics on commercial property prices.

A national banking sector assessment is a component of NCR's issuer ratings on financial institutions operating in that country. Depending on the nature of the rated entity's exposure and geographic profile, the score can affect up to 20% of the overall credit rating on an issuer.

**Sweden – scoring of national indicators (previous score in parentheses)**

SUBFACTOR	SCORE	RATIONALE
Sovereign strength	aa	Major credit rating agency average: AAA, minimum: AAA.
Output growth	bb	We expect negative economic growth in 2020 due to COVID-19, but note that a rebound is already underway and expect positive growth in 2021.
Credit growth	bbb	Credit growth has been running at more than twice GDP growth, and continues to rise at about 5% per year despite COVID-19.
Housing prices	a	COVID-19 had a short-term negative effect in April and May, followed by moderate growth in recent months.
Unemployment	bb	Unemployment is higher than in neighbouring Nordic countries in large part due to high levels of unemployment among recent immigrants. Long-term unemployment is the lowest in the EU.
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, but access to other forms of long-term senior financing remains strong.
International cycle	bb (b)	Global growth prospects are weakening, though supported by significant monetary stimulus. We expect a rebound in 2021. Asset prices are at or near their peak levels in our view.

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