Financial regulatory measures and lessons for the Covid-19 crisis

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Financial crises create permanent costs

Note: Billon SEK. The grey areas represent the crisis in the 1990’s, the 2008-2009 financial crisis and the Covid-19 pandemic.

Sources: National Institute of Economic Research and the Riksbank
Sweden in the 1990’s – large credit loss levels and insolvency

Note: Credit loss levels in per cent of lending to the public in Sweden.

Source: Banks’ reports.
Sweden imported liquidity stress during the global financial crisis

Note: Refers to the spread between USD Libor and Overnight Index Swap (OIS) in basis points.

Source: The Riksbank
The GFC revealed weaknesses in the global regulatory framework

Basel III in 2010

- More and better capital
- Non-risk weighted requirement
- Liquidity requirements

Finalized Basel III in 2017

- New methods for credit, market and operational risks
- Finalized leverage ratio
- Output floor
Banks’ liquidity problem – a credible resolution regime is needed

As banks have illiquid assets (where the values can vary over time) and liquid liabilities (fixed nominal deposits which can be withdrawn on demand) ...

... banks are prone to runs
The Covid-19 crisis started in the real economy

Credit loss level
Credit loss level in scenario A
Credit loss level in scenario B

Sources: Banks’ reports and the Riksbank
Thank you for listening!