

Swedish currency falls as Baltic devaluation looms nearer.

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The Swedish krona has fallen drastically against the euro and dollar and the answer to the frail currency is to be found in the Baltic States, economists say.

The Riksbank said on Wednesday it would borrow the equivalent of 100 billion kronor (€9.5 billion) to strengthen the foreign exchange reserves. The notification was seen by the market as a move to prepare for potential currency devaluation in Latvia and the other Baltic countries. As a result, the Swedish currency declined more than any of the 16 most-traded currencies against the dollar and the euro.

“Swedish authorities are becoming more nervous about the prospect of devalued Baltic currencies, and are preparing themselves for such an eventuality,” Flemming Nielsen, an analyst with Danske Bank, wrote in a note, Bloomberg reports.

Devaluation could have severe effects on the Swedish economy and the Swedish banks in particular. SEB and Swedbank, key players in the Baltic states' market, have lend hundreds of million of kronor to the crisis-hit states.

As recently as 2007 Latvia boasted double-digit economic growth. Today the economy is going through its deepest crisis since it broke free from the Soviet Union in 1991. It has been slammed by the sharpest recession in the entire 27-member European Union, which it joined in 2004.

Lithuania's recession-struck economy fell by a record 13.6 percent in the first quarter, official data showed on Thursday. Estonia said Monday that it had secured a 550-million-euro loan from the European Investment Bank. Last week they signed a 50-million-euro loan with Swedbank.

Fear of Baltic crisis hits Swedish krona

Written by Johan Nylander / AFP

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"It's a well known fact that there are dark clouds over the Baltics and Eastern Europe. But the Riksbank and The Swedish Financial Supervisory Authority have made the judgment that Swedish banks will cope with a Baltic devaluation" said Mats Odell, Minister of Financial Markets, according to the TT news agency.

Danske Bank said that the Swedish banks will survive even if Latvia devalues its currency. "We have previously argued that Swedish banks can withstand pretty significant loan losses and we stick to this view", the Copenhagen-based bank said.

In an interview with Swedish Radio, SEB Chief Executive Annika Falkengren says that currency devaluation in the Baltics would not lead to bigger loan losses for Swedish banks. However, devaluation would make the losses come more quickly, Reuters writes.

"In total we would have the same size of credit losses, but (if there is no devaluation) they would be a little more regular and over a longer time frame", she said. "In the case of a devaluation they would be pretty much instantaneous."



[SEK/EURO, [Google Finance](#) 28 May 2009]