

# Lessons learned from the Swedish crisis in the 1990s for new crisis

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Sources: Lars Nyberg, Deputy Governor Sveriges Riksbank (Swedish Central Bank), Lars Jonung, Professor and research advisor European Commission, Hans G. Svensson, expert on the Swedish Pension System, Ingela Grönquist, Legal Adviser, Ministry of Finance



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# 1. Lessons to learned from the Swedish banking crisis in the 1990s

## **What caused the banking crisis in Sweden in 1991-1993?**

- ✓ Mistakes in deregulation, fiscal policies, tax policies.
- ✓ Macroeconomist boom and bust
- ✓ Financial sector weaknesses – excessive lending, concentration of risks
- ✓ Weaknesses in non-banks
- ✓ Regulatory and supervisory deficiencies



# 1. Lessons to learned from the Swedish banking crisis in the 1990s

## **Global crisis in 2008 - what is similar?**

- ✓ **Underlying causes.** Bad lending, regulatory failures, policy deficiencies
- ✓ **Manifestation.** Big losses in the financial system.
- ✓ **Measures.** Liquidity and capital support. Resolution of failed insitutions.



# 1. Lessons to learned from the Swedish banking crisis in the 1990s

## **Global crisis in 2008 - what is different?**

- ✓ Not only banks, but much broader.
- ✓ Across markets
- ✓ Across borders
- ✓ Major liquidity problems. Total loss of confidence between banks.
- ✓ New non-transparent instruments.



# 1. Lessons to learned from the Swedish banking crisis in the 1990s

## **Swedish lessons:**

- ✓ Support banks: Create Bank Support Agency.
- ✓ Need of political consensus
- ✓ No favours to the bank owners.
- ✓ Strict transparency requirements
- ✓ Bad assets transfered to specially created "bad banks" at conservative values.



# 1. Lessons to learned from the Swedish banking crisis in the 1990s

## **Lessons from new and old crisis:**

- ✓ More and better capital needed
- ✓ More and better liquidity buffers needed
- ✓ Adequate financial stability analysis and instruments
- ✓ Cross-border aspects has to be solved
- ✓ Be prepared for crisis management and resolution.



# .Crisis management in Sweden in the 90

- ✓ New budget policies: strict budget discipline and budget ceiling
- ✓ New national pension system
- ✓ Independent central bank
- ✓ When EU member in 1995 – follow the growth- and stability pact.






# Crisis management in Sweden in the 90

- ✓ New income-based autonomous old age pension system, independent and self-financed.
- ✓ Notional defined contribution system.
- ✓ Political and financial stable system
- ✓ Based on individuals life income
- ✓ Two parts: incomebased pension and premium pension



# 2. Crisis management in Sweden in the 90s

- ✓ Changes in the Swedish economy have impact on pensions payed out.  
Pensions payed out is indexed to the economy.
- ✓ Gained high stable and return for pensions: income pension system on average returned 3,8 percent 2001-2008
- ✓ AP Funds serve as "buffer funds",  balance fluctuations in payments that derive from demographic changes

### 3. Prepare for new crisis!

- ✓ Need for regulation and supervision of crossborder banks
- ✓ Recovery and resolutions plans for individual banks (living wills)
- ✓ Establish effective and harmonized resolution regimes
- ✓ Coordnation between home and host authorities



# 3. Prepare for new crisis!

## How could the EU contribute?

- ✓ Europe should create better regulation and supervision and stronger rules on capital and liquidity
- ✓ Mechanisms for Macroprudential risks  
ESRB – European Systemic Risk Board
- ✓ Crisis management and resolution



### 3. A) Bank Support Authority

- ✓ Create Bank Support Agency – new EU agency
- ✓ Create "bad banks" for nationalised banks.
- ✓ Transfer bad loans to these banks
- ✓ Bank support agency calculate loan losses and the extent of non performing loanse
- ✓ Create a Bank Stability Fund



## 3 B) The Swedish Stability Fund

- ✓ The stability fund was introduced in 2009. The purpose of this fund is to finance measures needed in order to counteract the risk of serious disturbance to the financial system in Sweden.
- ✓ The Stability fund, which in 15 years is targeted to reach 2,5 per cent of GDP, will be built up with the help of fees paid by banks and other credit institutions.
- ✓ Fees paid for government guarantees issued within the Guarantee Scheme (Guarantee Fee), as well as all other fees paid for support, should also go into the stability fund. The National Debt Office is responsible for managing the fund.

## 3 B) The Swedish Stability Fund

- ✓ The fee, which amounts to 0.036 per cent per year, is levied on certain parts of the institutions' liabilities according to an approved balance sheet.
- ✓ The stability fee will be introduced in 2009 and will be paid annually.

