

# Swedish perspective on the crisis

**Anders Borg**  
**Minister of Finance**  
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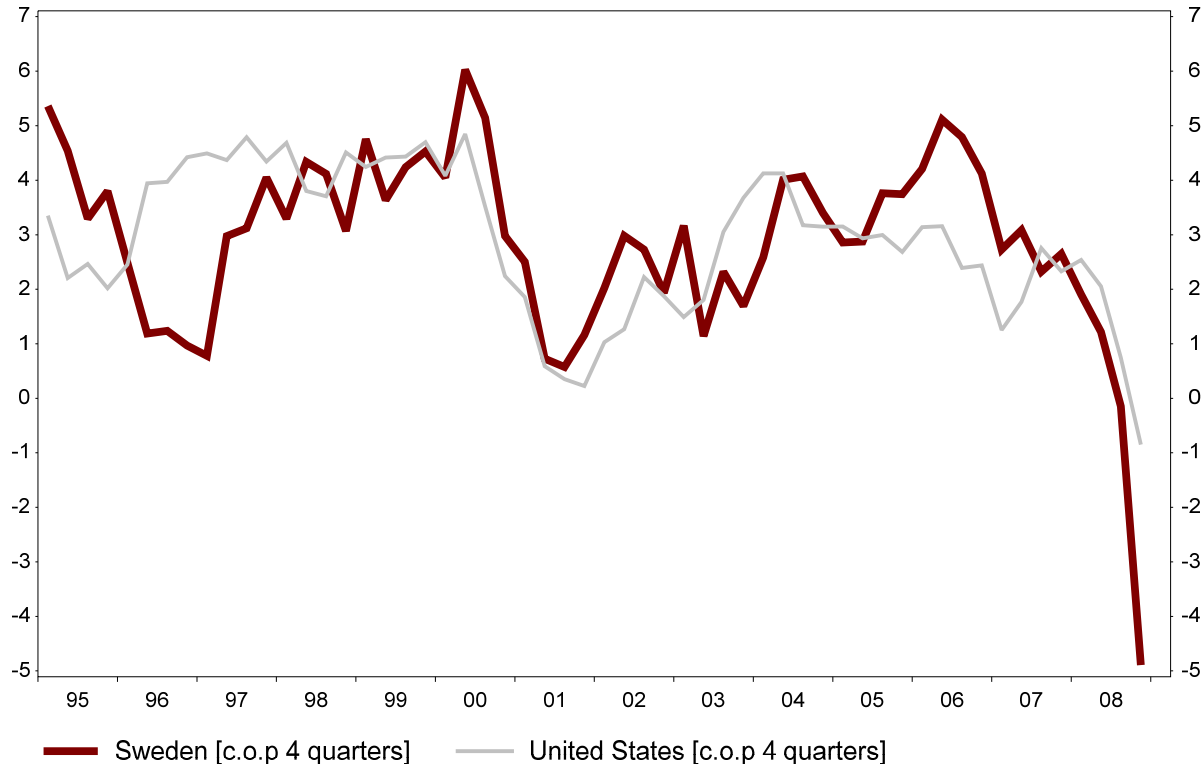
# Agenda

- **Crisis diagnostic – Sweden and the US**
  - Developments in GDP, exports, industry production, real estate markets, TED spread and general government net lending
  - Exposure of Swedish Banks in the Baltic states
- **Solutions**
  - Sweden's response to the crisis
- **Long term challenges**
  - Increasing debt rates

# Gross Domestic Product, Sweden and the US

Percent, 1995-2008

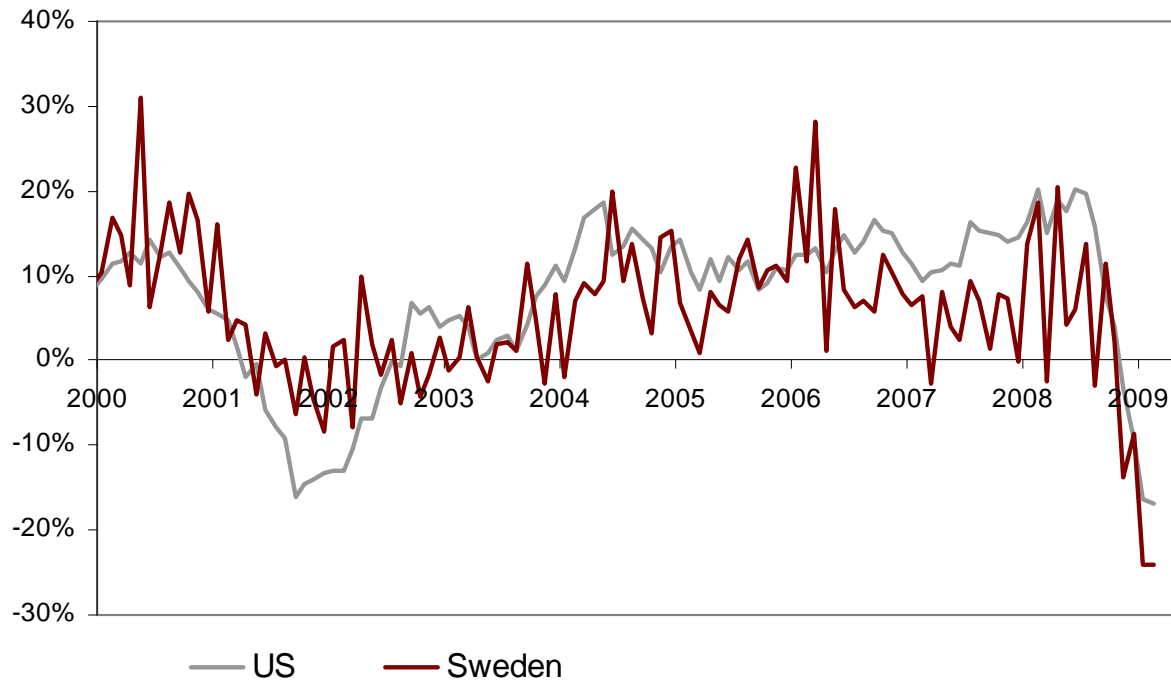
## Gross Domestic Product



Source: Reuters EcoWin

# Exports, Sweden and the US

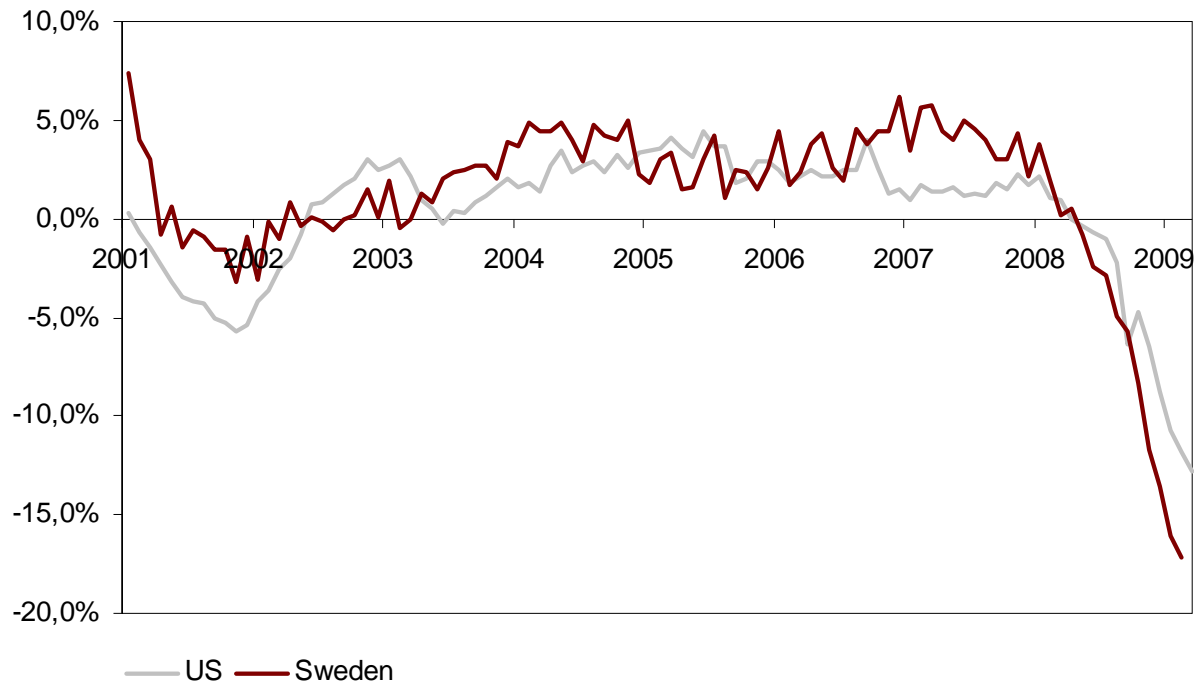
## Percent, 2000-2009



Source: Reuters EcoWin

# Production, Sweden and the US

## Percent, 2001-2009



Source: Reuters EcoWin

# The Government's aim

- **Mitigate the financial crisis**
- **Meet the economical downturn**
  - Automatic stabilizers
  - Expansionary economic policy
    - Measures should be in line with structural reform agenda
    - Temporary, targeted and timely measures
- **Uphold the sustainability of public finances, the welfare system and employment§**

# The Government's Measures

- **Secure liquidity and deposits**
  - The Riksbank guarantees liquidity
  - Increased "guarantee of deposits"
  - A state guarantee scheme
- **Solutions for insolvent banks**
  - Stability fund, authorities and legislation in place
- **Capital injections to solvent banks**
- **Extended credits to enterprises**
  - guarantees to export credit authorities
  - increased lending to enterprises
  - support for the automotive industry
  - deferment of taxes

# Framework for state support to banks based on experiences from the 1990's

- **Government Support to Credit Institutions Act gives the Government a broad mandate to take action**
- **Measures depend on status of the institution and the market:**
  - Guarantee scheme and recapitalization scheme for fundamentally sound institutions to support lending
  - National Debt Office to intervene if a financial institution should get into serious difficulties, state capital provided through preferred shares with strong voting rights
  - Possibility to take over ownership of institution with less than  $\frac{1}{4}$  of regulatory capital
- **The measures that can be taken have been designed to safeguard taxpayers' interests and secure financial stability**

# State ownership a central resolution issue

- **Brings efficiency in management and state control of restructuring**
- **Ensures confidence in state intervention and support measures**
- **Gives political advantages – safeguards taxpayers interests and public finance – the systemic stability to be saved, not individual banks**

# Exposure of Swedish banks in the Baltic states

Billion EUR and per cent

	Swedbank	SEB	Nordea	Sum
<b>Total lending</b>	123	124	266	<b>512</b>
<i>which of Baltic states</i>	21	19	8	<b>48</b>
<i>per cent</i>	16,9%	15,6%	3,2%	<b>9,4%</b>
<b>Market share in the Baltics (assets, %)</b>				
Estonia	49	21	11	<b>81</b>
Latvia	23	13	10	<b>46</b>
Lithuania	22	29	10	<b>61</b>

Source: Bank reports and associations of commercial banks in the Baltic states.  
As of Q4 2008, SEK converted by 10.50 SEK/EUR

# The Government's response to the crisis

## Sweden is contributing:

- On a multilateral basis (IMF, IFIs)
- On a bilateral basis - to governments, not directly to banks
- Ensure liquidity and financing to the Swedish banking system

# The Government's Measures

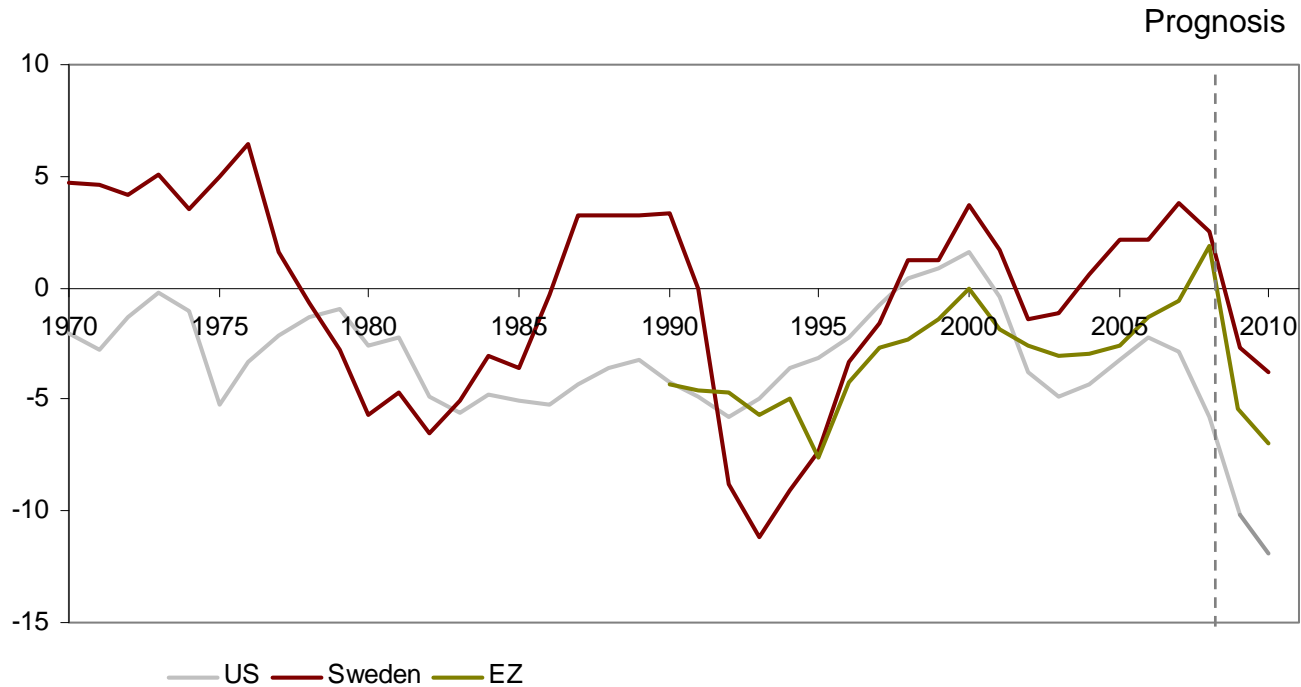
- **Reforms in budget in line with long term structural agenda and the business cycle**
  - Tax cuts (for individuals and enterprises)
  - Investments in health care, infrastructure, education and R&D
- **Temporary, targeted and timely measures**
  - Active labour market policy
  - Support to the municipalities

# During a recession the work first principle is protected through active labour market policy

- **What can labor market policy do to prevent the unemployment rate from staying at high levels?**
  - Provide security during adjustments
  - Maintain motivation for job searching
  - Encourage professional and geographic mobility

# General government net lending

Percent of GDP, 1970-2010

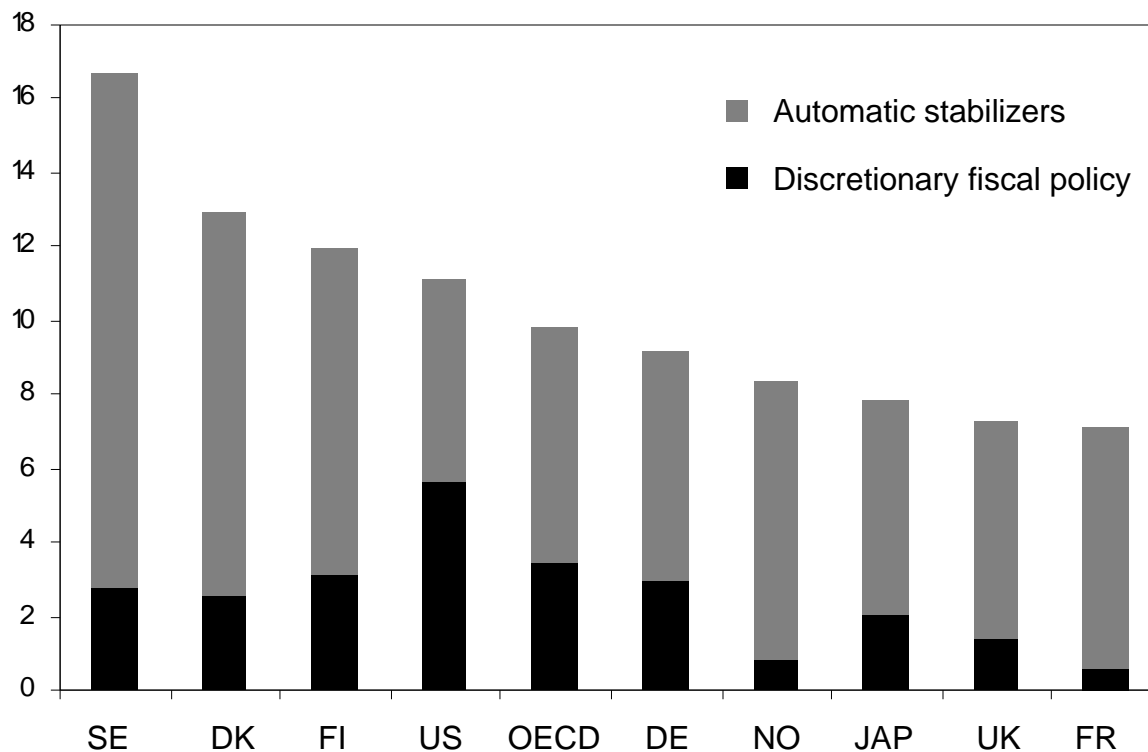


Source: OECD database, OECD interim report March 09, SCB and SE spring budget 09



# Large fiscal stimuli 2008-2010

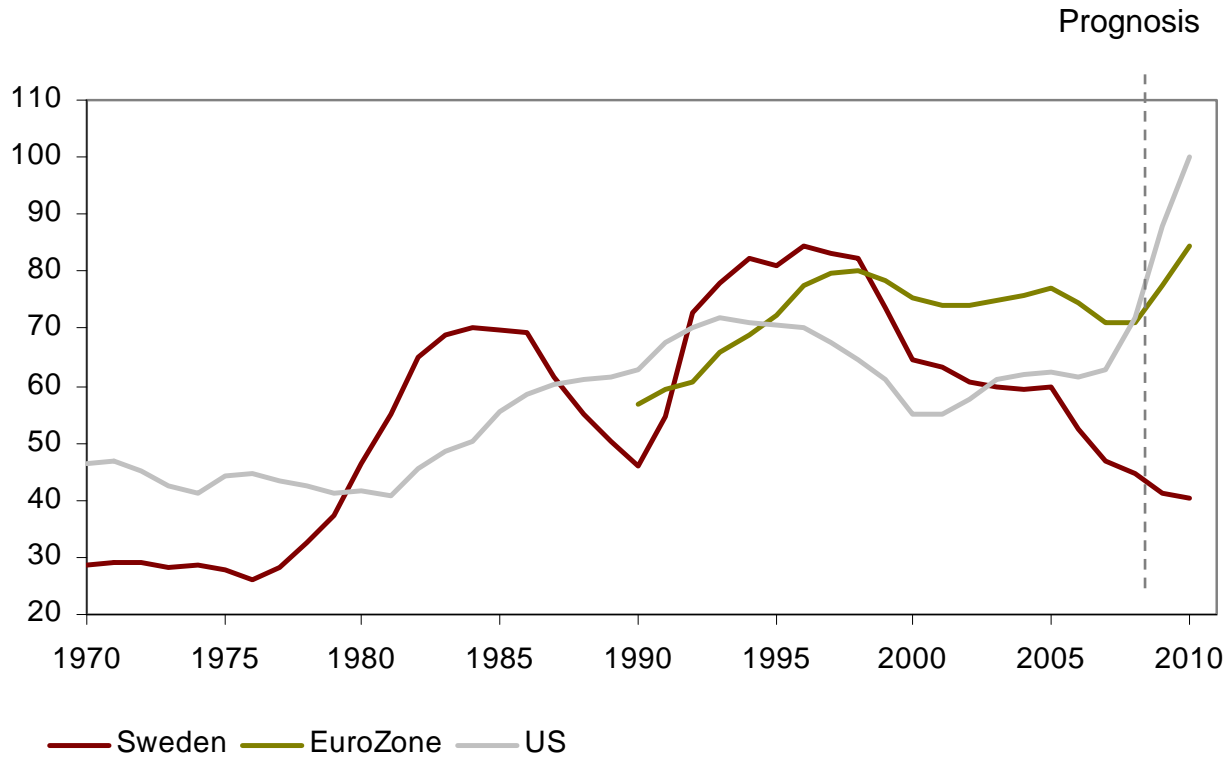
## Percent of GDP



Source: OECD

# General government gross debt

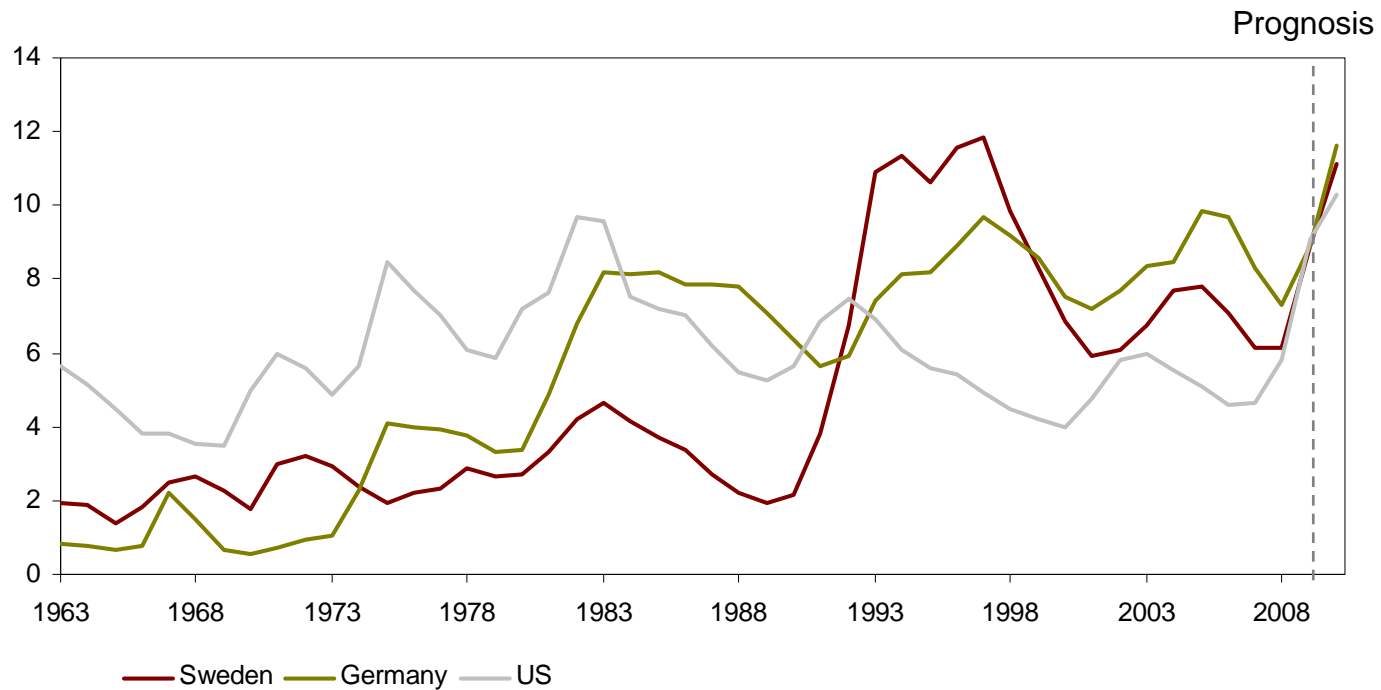
## Percent of GDP, 1970-2010



Source: OECD

# Unemployment rates, Sweden, the US, and Germany

## Percent. 1963-2010



Source: Reuters EcoWin,  
OECD interim report March 09,  
SE Spring budget 09

# Conclusions

- **Sweden: a small economy, vulnerable to external shocks**
- **In order to avoid future crisis, an efficient regulatory and financial framework is required**
- **Also important to secure sustainability in public finance in order to ensure stability**