Stockholm Centre for Commercial Law
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The Swedish experience

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Outline

- A few facts about Sweden
- The 1990s crisis
- The recent crisis
- Lessons

Backdrop

- Mindset of involved person and economic realities important
- State finances
- Industry structure
- 1990s crisis

Sweden

- Population 9,5 million
  density 21/square km (Portugal 115)
- GDP 3,300 billion SEK (375 billion EUR)
- GDP per capita 40 000 EUR
- Member of the EU since 1995
- Not a member of the Euro-zone

Sweden´s economy

- Central Government debt

  1084 billion SEK (123 billion EUR)

  33 per cent of GDP
- Bond yields among the lowest in the world

Economic background

- Open economy and financial system
- Dependent on foreign economies
- Financial sector dependent on foreign wholesale funding

Sweden´s financial sector

- Large compared to country size
- 4 per cent of GDP
- 85 000 employees
- Financial sector´s total assets 17,000 billion EUR
- Banks' total assets 6,600 billion EUR
- 114 banks active in Sweden

Sweden´s financial sector

- Four major commercial banks dominate the market (80 per cent of assets)
- All of them systemically important in Sweden
- Nordea – largest banking group in Northern Europe and among the 29 international SIFI:s
- Swedish banks dominate the Baltics

1990s crisis

- Influences cannot be neglected
- Homegrown in contrast to the recent one
- Fundamental differences
- Solvency crisis as opposed to liquidity crisis
- 1990s – even insolvent banks remained liquid
- Now – also solvent banks not liquid
- Now – Sweden have finances in order

1990s crisis

- Showed and shows importance of stability
- Central Government debt
  - 42.7 per cent of GDP in 1990
  - 76.6 per cent of GDP in 1995

1990s crisis package

- Blanket guarantee
- Unanimous and swift political action
- Institutional set up – separate support authority
- Transparency – total openness
- Macroeconomic policy

  Floating currency

  Austerity packages

1990s handling

- Two major banks taken over, without clear legal support (Nordbanken & Gota)
- Bad assets to Asset Management Company
- Government still owns substantial part of Nordea

1990s legal background

- During acute phase evident that ”custom made” legal regime necessary
- Act produced under considerable time pressure
- Enacted ”after the fact” – the most acute measures taken without sufficient legal support
- Act abolished after three years

Legal background

- Government Committee on banking regulation
- Broad mandate – new banking act
- Proposed Special Resolution Regime, 2000
- Immediate control over failing banks
- Mechanisms to write down share capital and inject new capital
- Creditors could suffer losses

Legal background

- Poposal stuck in Government Offices
- Work almost completed in 2008
- Abandoned when crisis hit and 1990´s model was used again
- Support Act almost identical to the 1990´s act –
- Enacted 29 october 2008

Institutional setup

- Ultimate responsibility always the state itself, through parliament and government
- The Government – important decisions
- The Riksbank – financial stability and ELA
- The Finansinspektion – supervision and financial stability
- The Debt Office – in charge of support measures according to the Support Act
- Examination Board – special body to handle disputes

Pre Support Act measures

- Debt Office bought illiquid covered mortgage bonds – financed with treasury bills
- Supported domestic mortgage lending
- Increased liquidity
- The Riksbank – various general measures to increase liqudity

Pre Support Act measures

- The Riksbank lends in US dollars – swap agreement with federal reserve (and foreign currency reserve)
- Increased deposit guarantee – from 250 000 to 500 000 SEK (56 000 EUR) (now 100 000 EUR)
- ELA to two banks, together 1,2 billion EUR

Government Stability Plan

- October 20 - plan to safeguard the stability of the financial system.

  1. Short term financing - Debt Office and Riksbank

  2. Medium-term funding - guarantee programme maximum of 1 500 billion SEK

  3. Stabilisation fund

  4. The Finansinspektion – assessing support benefits households and companies

  5. Support Act

Support Act – main features

- Terms of support decided in voluntary contract – Support Agreement
- No limitation in forms of support
- Bank guarantee programme, ordinance
- Capital injection programme, ordinance(s)
- Compulsory share purchase
- Examination board – evaluate terms and decide disputes

Support Act – principles for support

- The institution or its owners should primarily absorb losses
- Commercial terms and not distorting competition
- Structured so support retrievable
- Support only if needed

Support Agreements

- Who – credit institutions and special vehicles
- Main rule – voluntary contracts
- Examination Board can evaluate in advance
- If institute refuses to enter contract which is deemed reasonable by EB then compulsory share purchase
- Same if contract broken on material point

Bank Guarantee Programme

- State guarantee on parts of borrowing to solvent institutions
- The aim to facilitate borrowing and reduce costs
- The institutions are charged for the guarantees and the fee is risk based
- Maturities between 90 days and five years
- Two of the major banks participated, Swedbank and SEB
- Covered approx. 40 billion EUR at peak
- Swedbank 90 per cent

Capital Injection Programme

- Original ordinance, support to insolvent institutions - decided by Government, not used
- February 2009 mandate to Debt office (subject to approval) to participate in capital injections to solvent institutions
- Market transaction – same conditions as others
- Directed new issue
- Funded by Stabilisation Fund
- Participated in Nordea's issue in proportion to old holding 513 million EUR

Stabilisation fund

- Aim to finance measures in order to support financial stability
- Administrated by Debt Office
- Initially Government provided 15 billion SEK
- Aims to accumulate (together with Deposit Insurance Fund) = 2,5 per cent of GDP within 15 years (equals today 9 billion EUR)
- Based on 1990s experience of initial costs and foreign examples
- Today 4,2 billion EUR

Stabilisation fund

- Risk adjusted fees is an aim
- Current fee 0,036 per cent of liabilities and appropriations
- Deposit insurance fund, currently 3 billion EUR, initial aim to be included, ex ante funded

Compulsory Share Purchase

- General Condition – utmost importance from a public perspective
- Refusal to sign Support Agreement deemed fair
- Terms of Support Agreement not adhered to
- 25 per cent of capital base remains
- Examination Board
- Value as if no support

Lessons to be learned

- Two crises in 20 years - should have plenty of experience
- Very different nature – perhaps a general conclusion, not two crises are alike - flexibility
- Necessary with mechanism to take immediate control over failing institutes
- Legislate on the crisis
- Sound state finances

Lessons

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