Swedish perspective on the crisis

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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

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 ¼ 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

<table>
<thead>
<tr>
<th></th>
<th>Swedbank</th>
<th>SEB</th>
<th>Nordea</th>
<th>Sum</th>
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<tbody>
<tr>
<td><strong>Total lending</strong></td>
<td>123</td>
<td>124</td>
<td>266</td>
<td>512</td>
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<tr>
<td>of Baltic states</td>
<td>21</td>
<td>19</td>
<td>8</td>
<td>48</td>
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<td><strong>Market share in the Baltics (assets, %)</strong></td>
<td></td>
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<tr>
<td>Estonia</td>
<td>49</td>
<td>21</td>
<td>11</td>
<td>81</td>
</tr>
<tr>
<td>Latvia</td>
<td>23</td>
<td>13</td>
<td>10</td>
<td>46</td>
</tr>
<tr>
<td>Lithuania</td>
<td>22</td>
<td>29</td>
<td>10</td>
<td>61</td>
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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

Prognosis
Large fiscal stimuli 2008-2010
Percent of GDP

Source: OECD
General government gross debt
Percent of GDP, 1970-2010

Source: OECD

Prognosis

Source: OECD

Ministry of Finance Sweden
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