

Financial crises - Lessons learned

Kiev, May 27th 2016.

Stefan Ingves

Overview of presentation

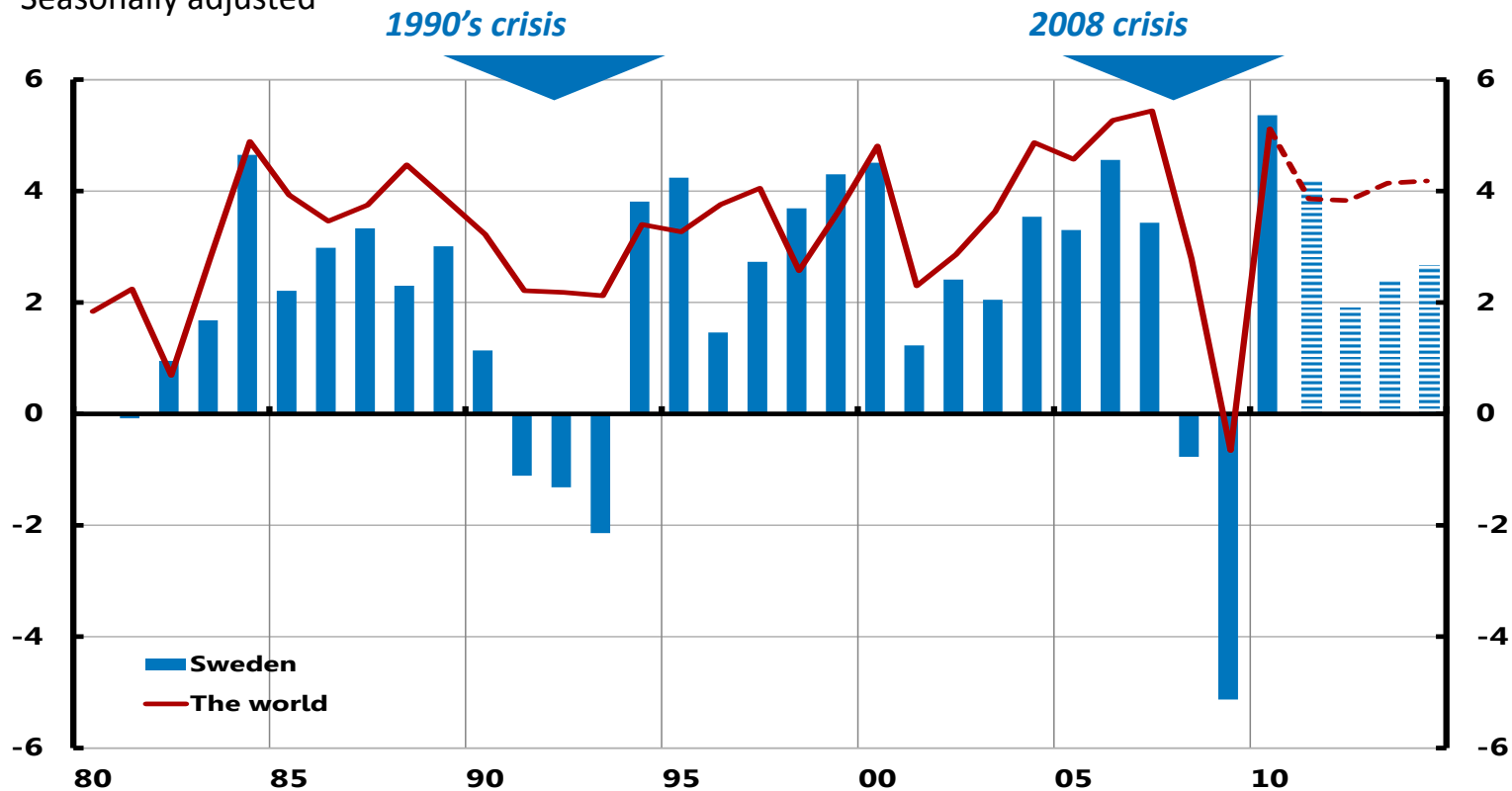
- The experience of the financial crises in Sweden in the early 1990s and 2007-
 - Drivers and vulnerabilities
 - Resolution
- Any valid lessons for Ukraine today?

Sweden saw two different crises

Annual change in GDP

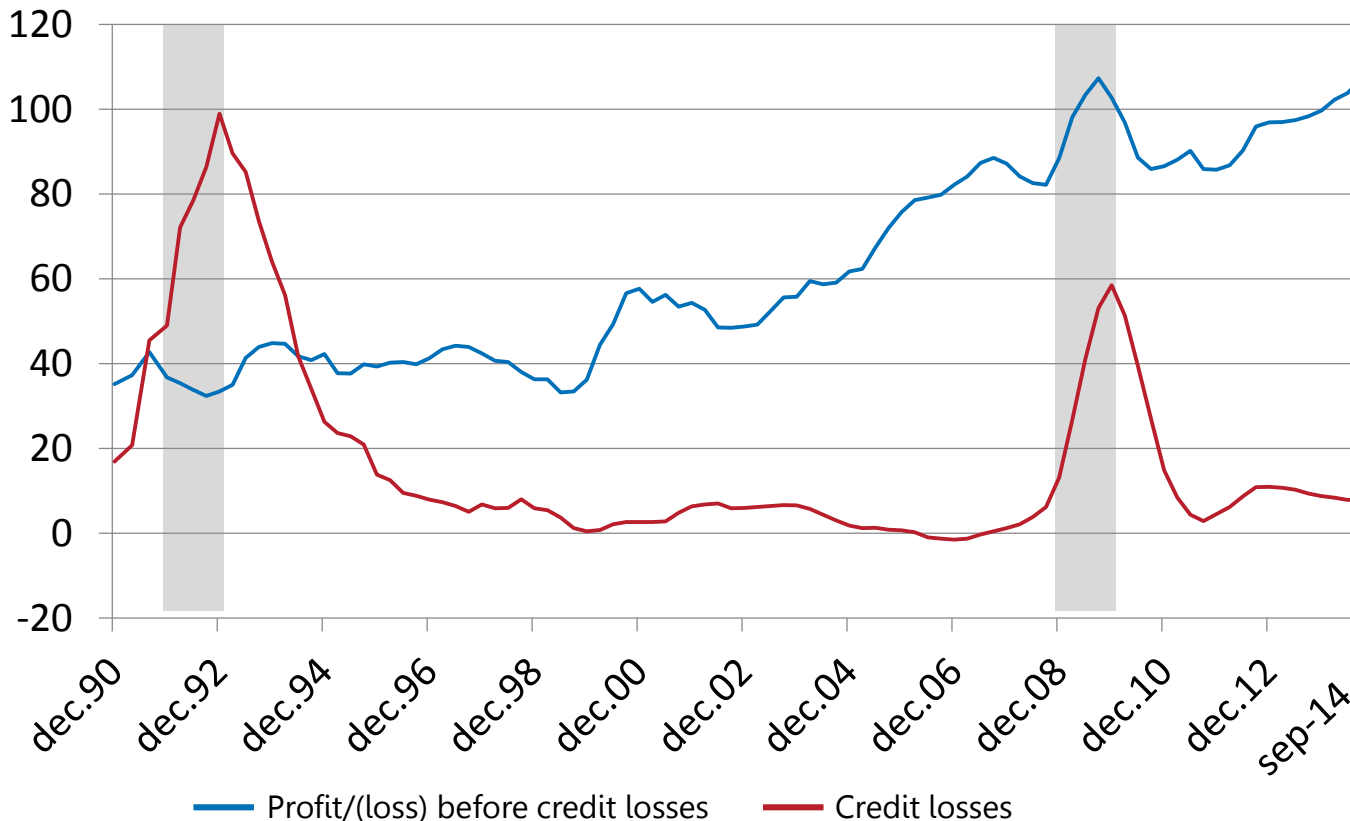
Percent

Seasonally adjusted



Solvency issues in the 1990s...

Credit losses and profit before credit losses for the major Swedish banks
Rolling four quarters, SEK bn, fixed prices as per Q3 2014



Sweden adopted strong and decisive banking crisis management measures



- Political consensus
- Enhancing confidence
- Openness
 - Clear organisation and division of labour
 - A common yardstick
 - Work out units
 - Treatment of existing owners and conditions for support
 - Goals for the structure of the banking system

MoF's press release 24 Sept 1992



SWEDISH MINISTRY OF FINANCE

September 24, 1992

Under-Secretary of State
Urban Bäckström
tel. 46-8-763 1469

Under-Secretary for Financial Markets
Mr Stefan Ingves
tel. 46-8-763 1522

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Claes Thimrén
tel. 46-8-763 1516

Press officer
Ms Cecilia Bystedt
tel. 46-8-763 1416

Statement by the
Minister for Fiscal and
Financial Affairs, Mr Bo
Lundgren

The obligations of these institutions will be honoured. The implication of this is that households, enterprises and other holders of claims can feel safe

The Government's commitment will remain as long as is necessary and will subsequently be reduced in such a way that the interests of creditors will not be jeopardized.

The general measures proposed will imply:

The obligations of these institutions will be honoured. The implication of this is that households, enterprises and other holders of claims can feel safe

MEASURES TO

In the agreement and the Social Insurance Act, the Government has strengthened the budget deficit system. It is necessary to strengthen the system.

In a Bill to Parliament this autumn, the Government will ask for authorization to take general measures intended to strengthen the payments system and secure the supply of credit. This will also improve the conditions for a rebound of the economy.

Since the autumn of 1991 the Government has taken measures to eliminate problems affecting Första Sparbanken, Nordbanken and lately Gota Bank.

The measures put forward in the Bill will create a framework to ensure the functioning of the Swedish banks and their subsidiaries. This also applies to the functioning of those credit institutions outside the banking sector which have a Government affiliation, e.g. Stadshypotek, SBAB and Landshypotek.

has been stabilized. Thus, the cost for the taxpayers will be lessened.

- that the support measures will be given such forms that possible distortions of competitive conditions are minimized.

- that the Government while giving financial support can request structural changes and rationalisations. A bank or a credit institution with Government affiliation that wishes to become eligible for the measures that will be proposed should have a business that can be expected to be profitable in a longer perspective. Otherwise a restructuring, in an orderly way, of the banking system will be accepted.

Tough political measures to deal with broader economic issues.

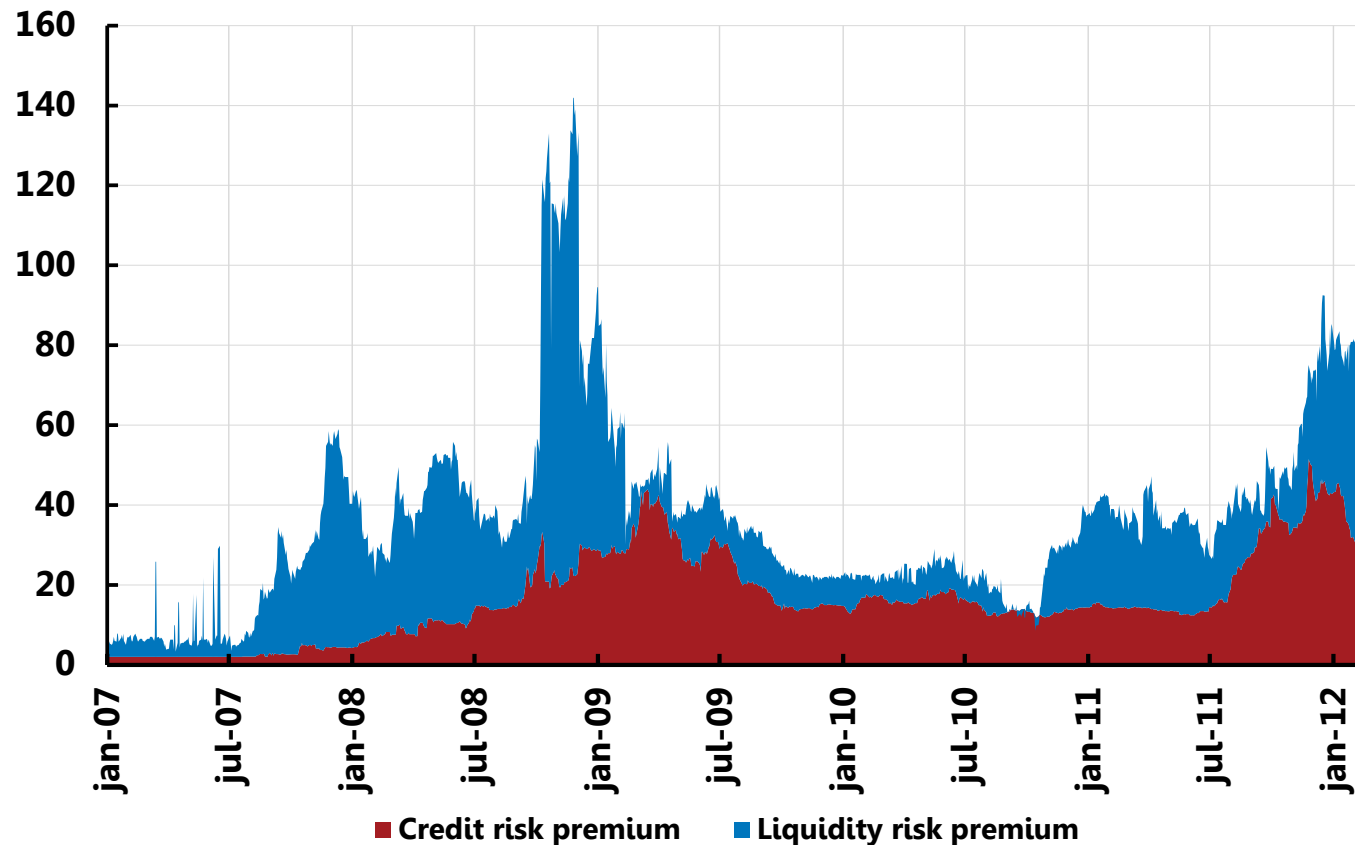
- Fiscal framework
- Monetary regime
- Structural reform



...and liquidity issues in 2008

Swedish risk premium

Basis points



Riksbank press release 6 Oct 2008



PRESS RELEASE

DATE: 6 October 2008
NO: 41
CONTACT: Press service, tel. +46-(0)8-787 0200

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■ Increased loans and longer maturity

Given the international financial crisis, the Riksbank is providing more money to the banks. The amount of loans has increased from SEK 60 billion to SEK 100 billion. This, together with the earlier actions, will ensure the stability of the bank system with SEK 354 billion in liquidity needed in the Swedish financial market.

"The Riksbank is now taking steps to ensure the stability of the Swedish banks. The international financial market in Sweden, Sweden, Swedish banks have problems. Markets for long-term credit are functioning less efficiently. If this continues, there is a risk it will have negative effects on the credit supply for banks, companies and households in Sweden. The Riksbank has therefore decided to offer further loans as a preventive measure. Together with the actions taken by the Swedish National Debt Office, liquidity of more than SEK 500 billion is being supplied in different ways. The Riksbank is prepared to provide the liquidity necessary to safeguard financial stability and ensure the smooth functioning of the financial markets in Sweden," says Governor Stefan Ingves.

The auction today is open between 09.30 and 11.00 hours CET. The same opening hours will apply on Wednesday, 8 October. The counterparties in both auctions are the monetary policy counterparties. This means that the same collateral applies as for the RIX system. The minimum interest rate in today's auction of three-month loans is the repo rate plus 0.25 percentage points. The minimum interest rate in Wednesday's auction of six-month loans is the repo rate plus 0.40 percentage points. The Riksbank is prepared to take further actions if necessary.

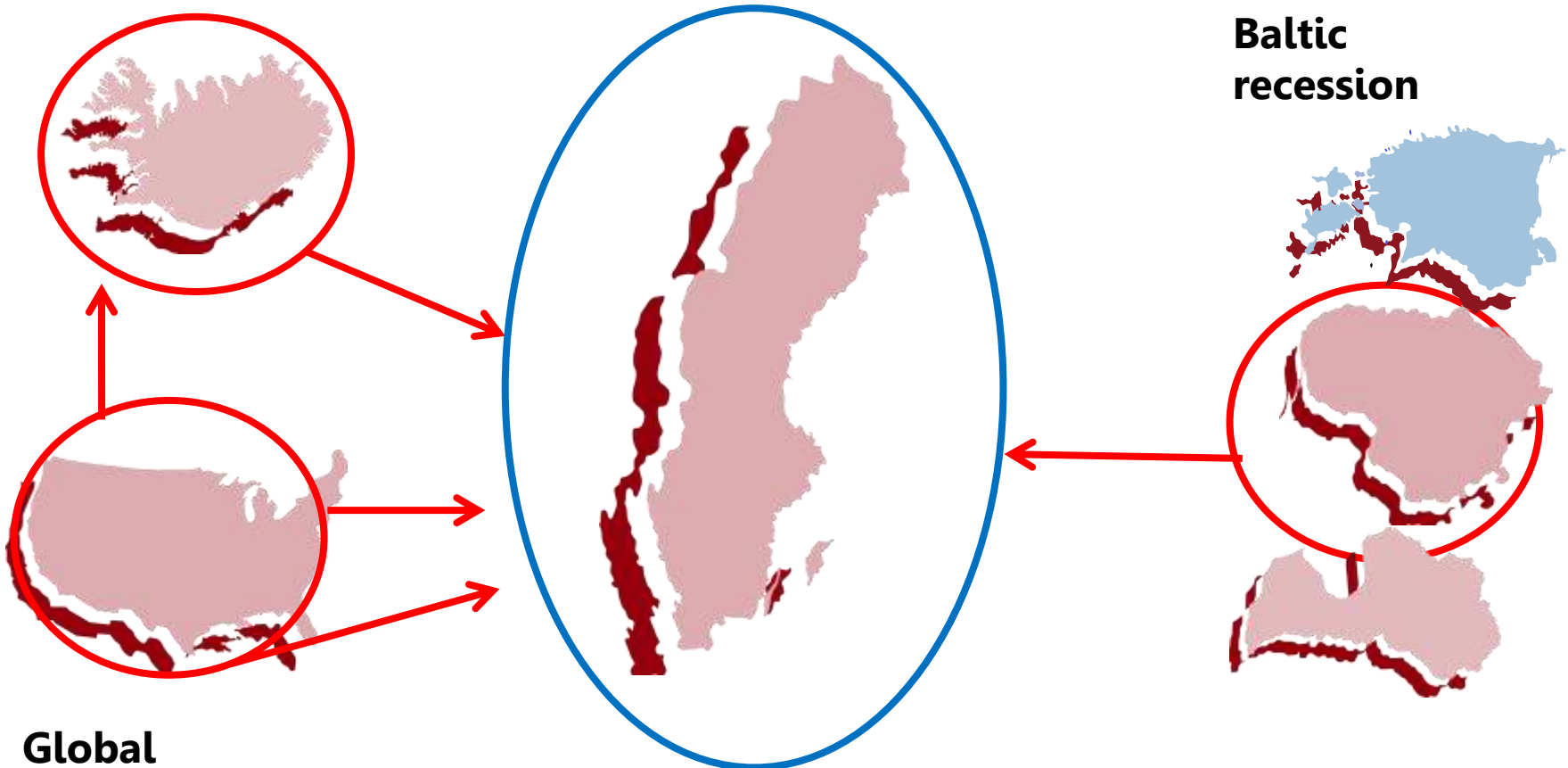
More information on the loan facility will be published later today on the Riksbank's website, www.riksbank.se.

The Riksbank is prepared to **provide the liquidity necessary** to safeguard financial stability and ensure the smooth functioning of the financial markets in Sweden

How the 2008 crisis impacted Sweden

Icelandic meltdown

Baltic
recession



Global
financial crisis

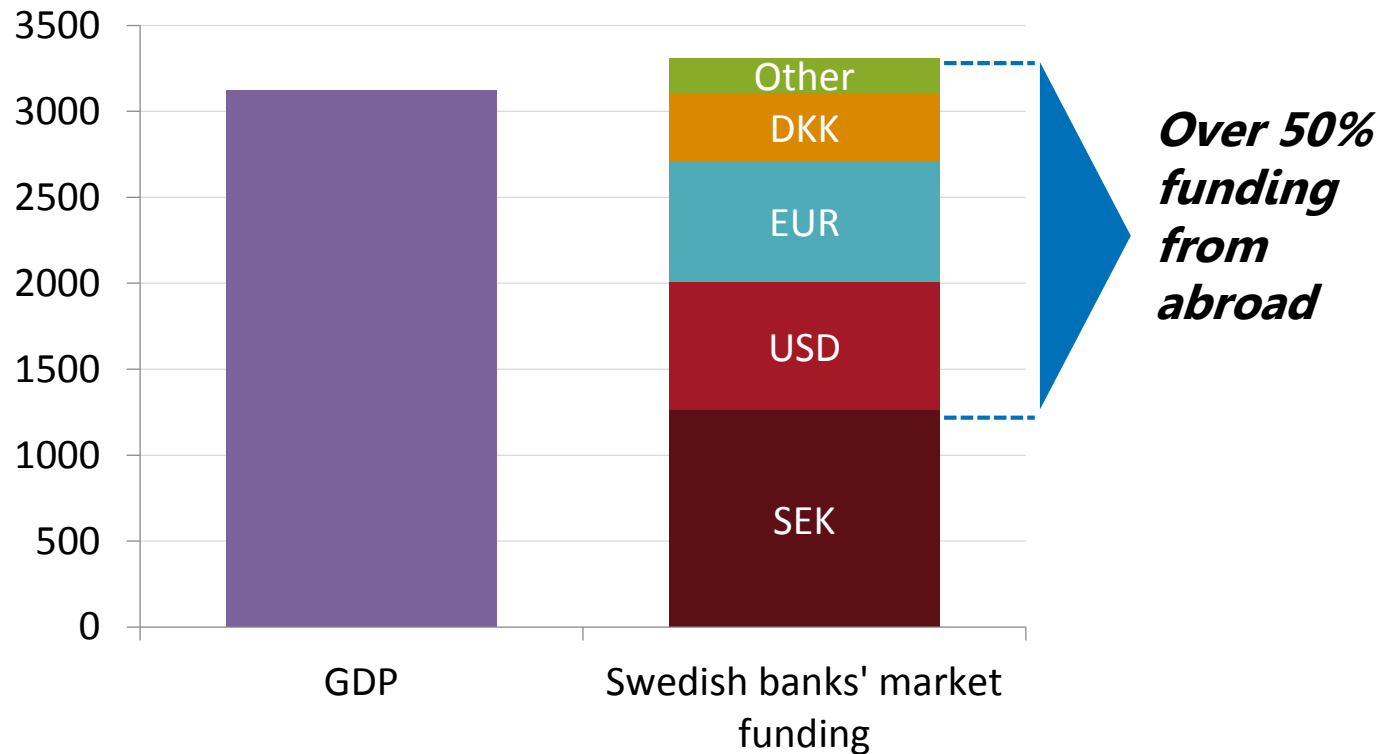
STOP CONTAGION

Why the worries about contagion?

- Vulnerabilities in the Swedish banking system
 1. Dependence on international capital markets for funding (FX funding)
 2. Exposure to the Baltic States

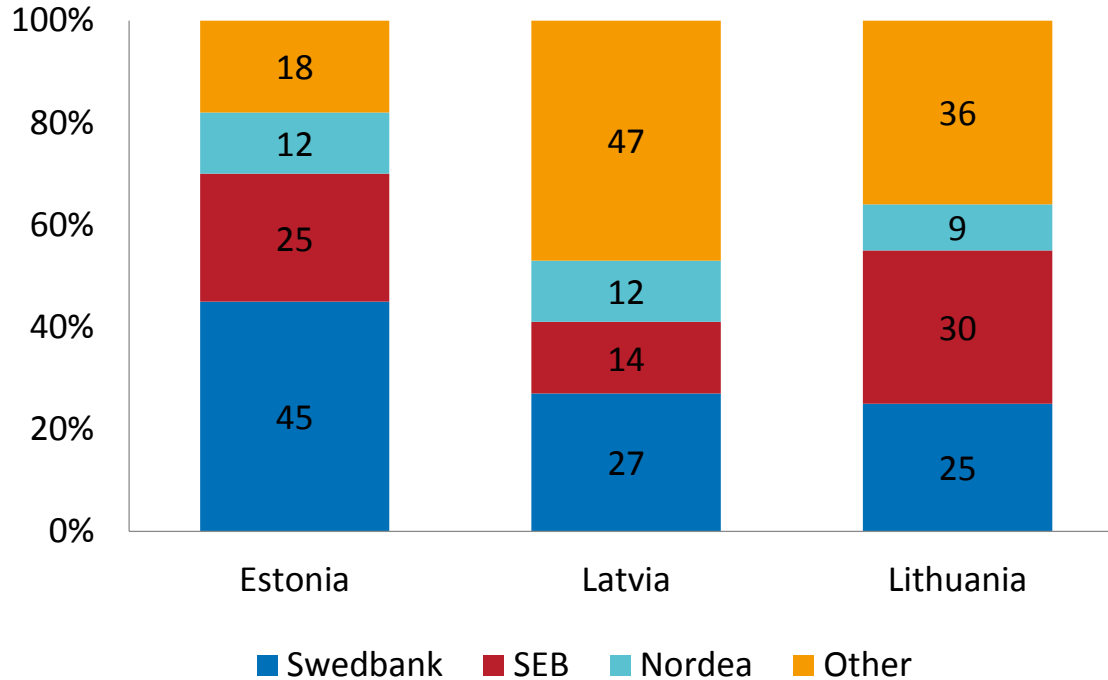
1. Prior to the crisis, Swedish banks has amassed large foreign liabilities

GDP and Swedish major banks' market funding
SEK bn, 2007



2. Swedish banks had built a strong presence in the Baltic states

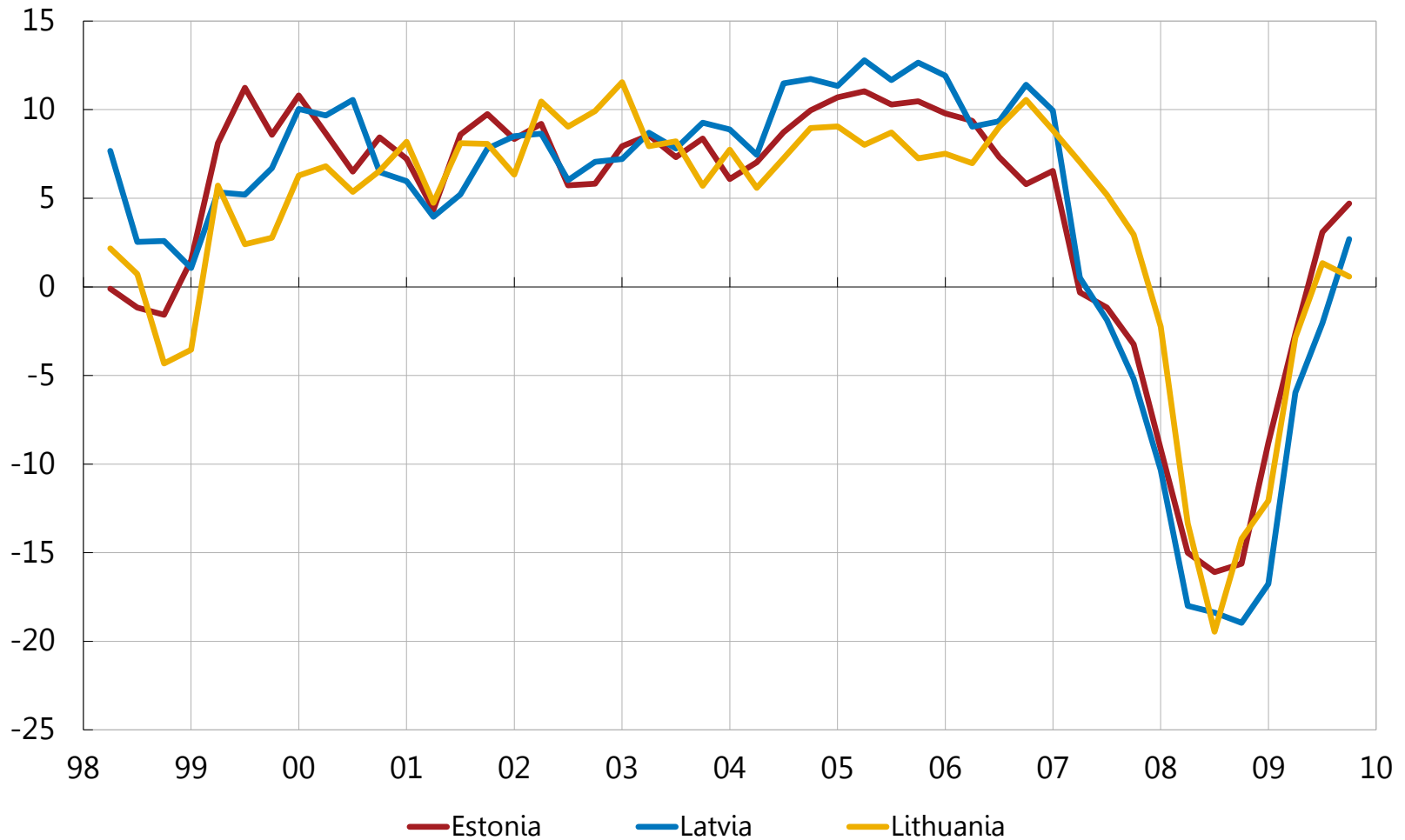
Market share of public lending by country
Percent, Sep 2008



***Over 50%
market
share in
each
country, for
Swedish
banks
combined***

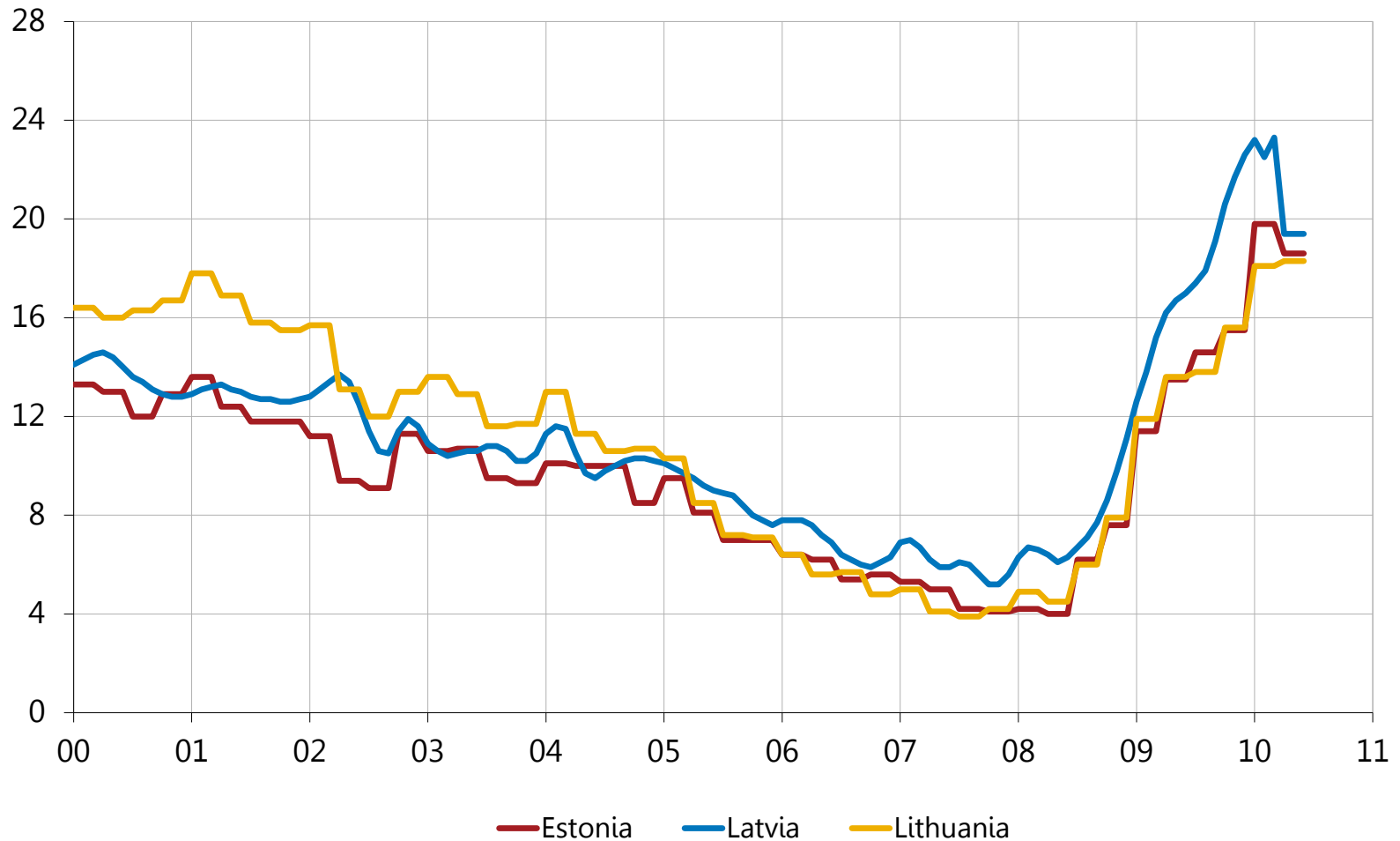
GDP

Annual percentage change



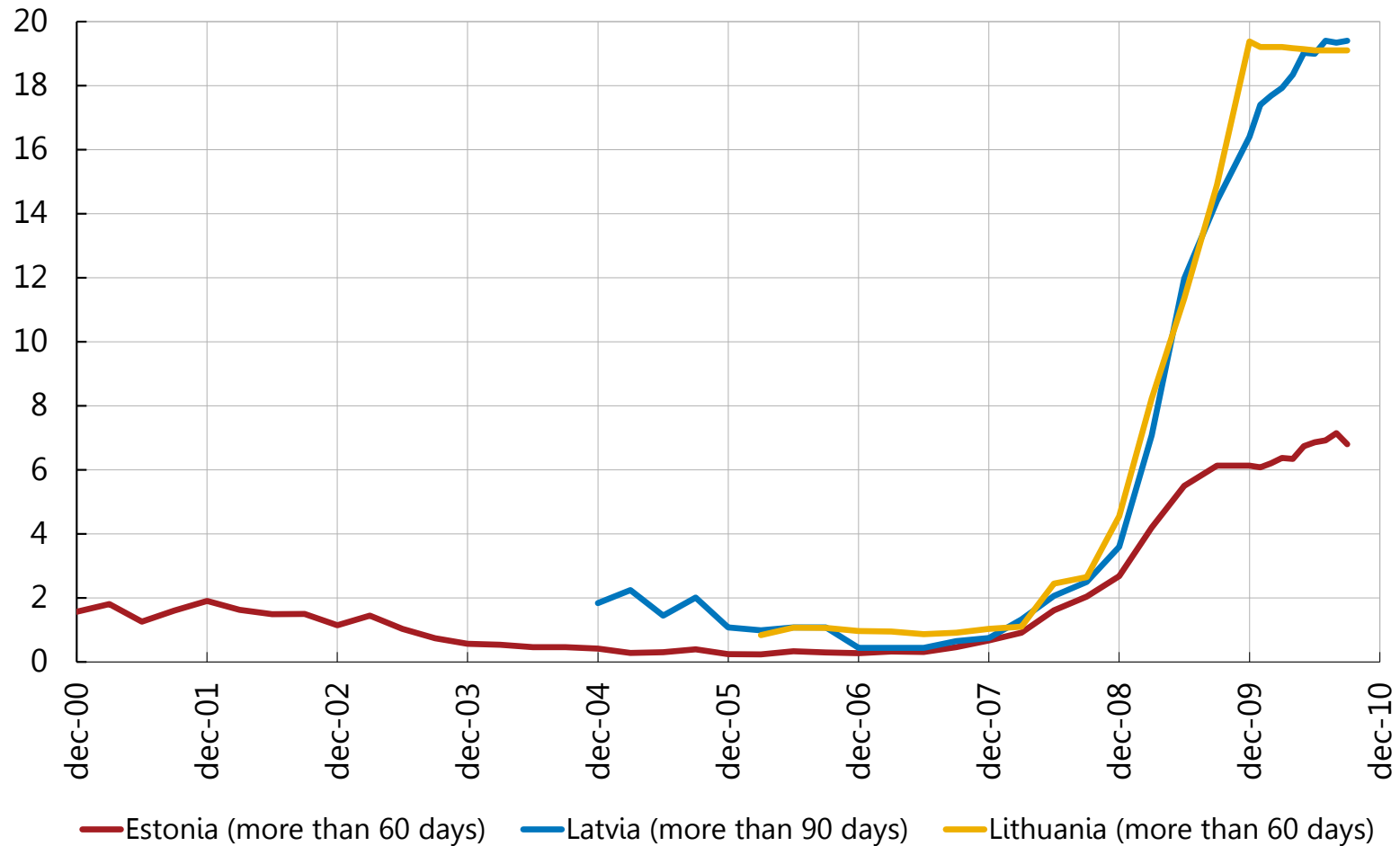
Unemployment

Per cent



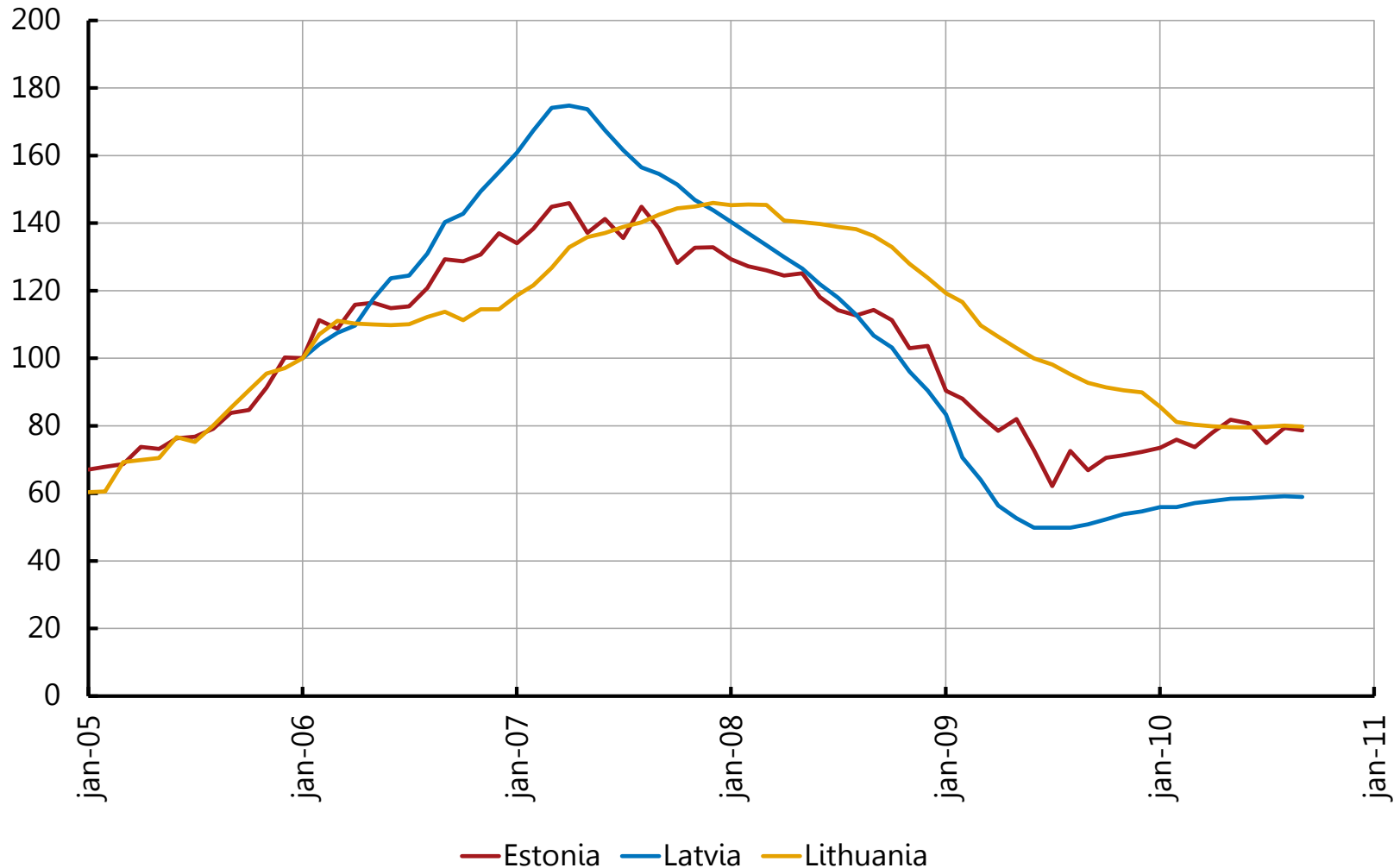
Late payments

Per cent of outstanding loans



Apartment prices

Index, January 2006 = 100



Why the worries about contagion?

- Vulnerabilities in the Swedish banking system
 1. Dependence on international capital markets for funding (FX funding)
 2. Exposure to the Baltic States
- Weaknesses in legislative framework
 - Emergency legislation from the 90s banking crisis had expired
 - No special rules for dealing with problem banks
 - Inadequate deposit insurance system

The crisis hit Sweden in Sept 2008

- Effects of the crisis and contagion:
 - Foreign demand for Swedish mortgage bonds collapses
 - Shortage of T-bills and high demand
 - 18 September: SNDO announced a temporary hold on their market commitments

“This decision was based on the distress we have seen in financial markets, especially internationally” – SNDO

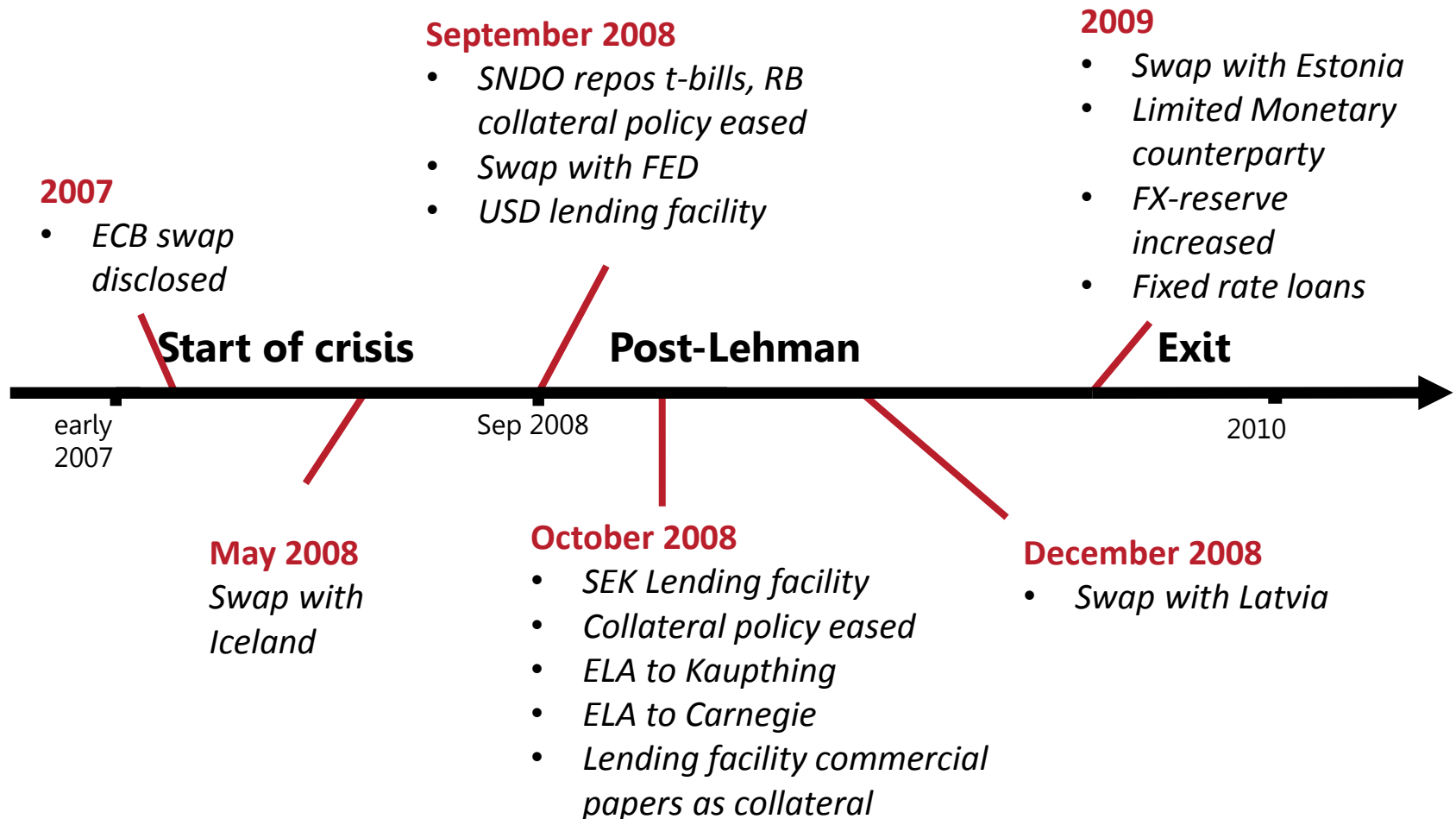
Swedish crisis management

- ✓ Swedish National Debt Office (SNDO): extra auctions of T-bills
- ✓ Ministry of Finance: The Support Act
- ✓ The Riksbank: liquidity provision

Ministry of Finance: Support Act

- Oct 2008: Introduction of the Support to Credit Institutions Act (Support Act)
 - ✓ Guarantee program
 - ✓ Capital infusion program
 - ✓ Emergency support for banks
 - ✓ Stabilization fund
 - ✓ SNDO support authority

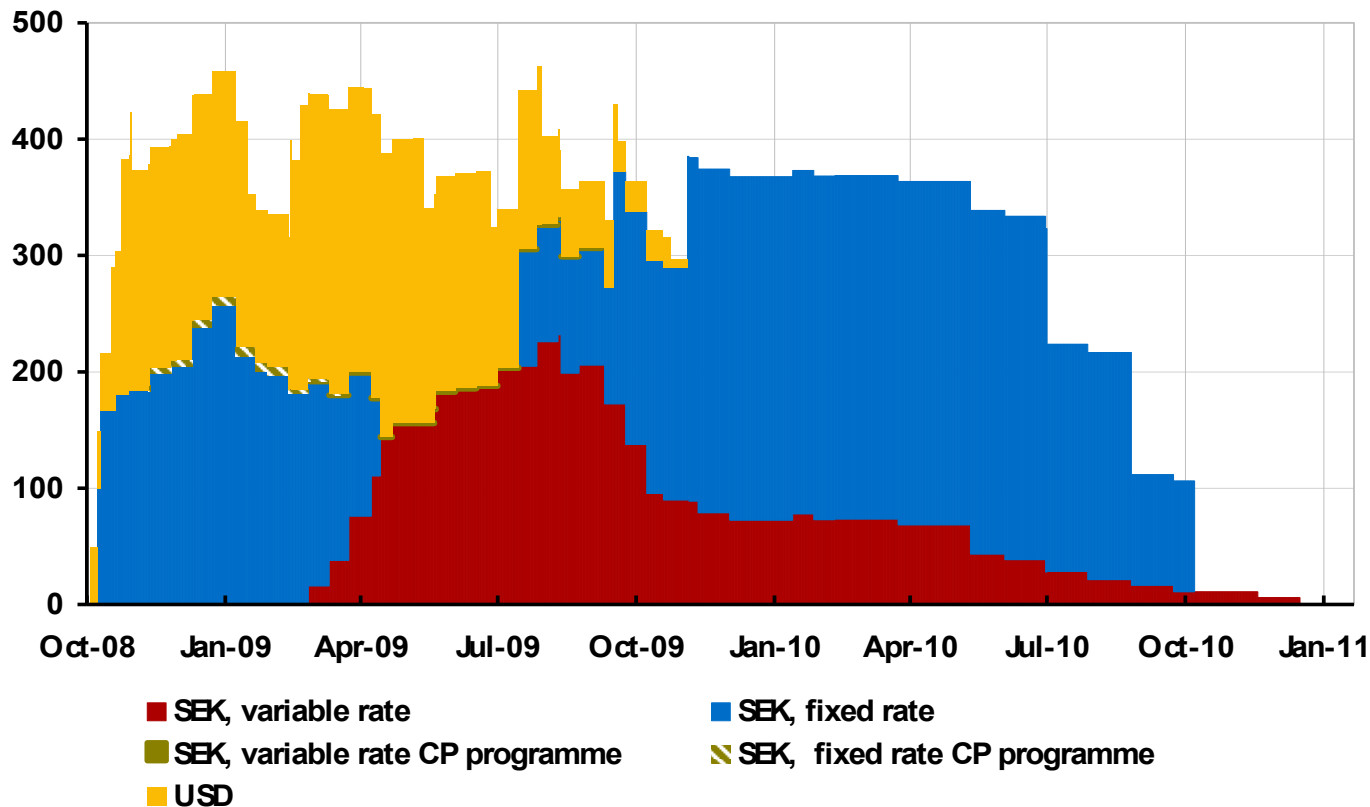
Riksbank crisis management



Successful Swedish management of the liquidity crisis



Riksbank's outstanding loans
SEK bn



There are common elements of crises

- All crises are different but they also share causes and cures
 - 1990's: Solvency problems in Swedish banks
 - 2008: International liquidity crisis

Pre crisis

Rapid and substantial credit expansion



Post crisis

Restoring and preserving confidence

Confidence is key

- Successful crisis management is all about restoring confidence
- Secure financing by presenting credible crisis package
- Short run – Go get the lemons!
- Decisive measures to address broader macroeconomic and financial framework

The best crisis management is prevention



Ø *Stronger liquidity and capital rules*

Ø *But not enough, also need:*

- Toolkit to resolve domestic as well as cross-border institutions
- Macroprudential oversight and powers

Different drivers and preconditions between the crises in Sweden and Ukraine



- Sweden
 - Expansionary economic environment
 - Policy errors (esp. Sweden in late 1980:s)
 - Rapid build-up of household debt
 - Increasing credit-to-GDP
 - Initially low NPLs and profitable banking sector
- Ukraine
 - Sluggish growth
 - Low profitability in banks
 - Opaque ownership and weak governance in banking sector
 - Political instability

But still valid lessons for Ukraine today



- Triggers and vulnerabilities may differ between the crises in Sweden and Ukraine, but general principles apply.
 - Weak supervision is costly in the long-run
 - Crisis management: swift action is necessary, things unlikely to improve by themselves.
 - Financial stability often hinges on access to foreign liquidity
 - Backstop banks' foreign liability
 - Maintaining exchange rate parity
 - Limit domestic banks' foreign exchange liabilities
 - Political stability and sustainable fiscal dynamics must complement financial sector reforms

Thank you!