



Financial stability and long-term growth from a central bank perspective

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4 November

Kerstin af Jochnick
First Deputy Governor

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**** \$2.00

DJIA 10917.51 ▼ 504.48 -4.6% NASDAQ 2579.91 ▼ 7.6% NIKKEI Closed (12,214.76) DJ STOXX 50 2746.81 ▼ 4.0% 30-YR TREAS ▲ 2 3/32, yield 3.62% OIL \$95.71 ▼ \$5.47 GOLD \$793.10 ▲ \$22.00 EURO \$1.4110 YEN 104.00

AIG, Lehman Shock Hits World Markets

Focus Moves to Fate of Giant Insurer After U.S. Allows Investment Bank to Fail; Barclays in Talks to Buy Core Lehman Unit

The convulsions in the U.S. financial system sent markets across the globe reeling, as two of Wall Street's biggest firms looked set to exit the scene and insurance titan American In-

*By Susanne Craig,
Jeffrey McCracken,
Jon Hilson and
Deborah Solomon*

ternational Group Inc. turned to the Federal Reserve and the state of New York for assistance.

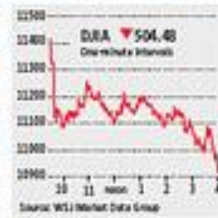
The U.S. stock market suffered its worst daily point plunge since the first day of trading after the Sept. 11, 2001, terrorist attacks. Financial markets were rattled by the rushed sale Sunday of Merrill Lynch & Co. and the bankruptcy-court filing of Lehman Brothers Holdings Inc., which scrambled Monday to sell its most prized businesses before too many employees and customers walk out the door. (Please see related article on Page C1.)

All day Monday, top Lehman officials were huddled in Manhattan at their Seventh Avenue

ing. For much of the day, the major U.S. market indexes were down 2%, which, while a good-sized decline, was smaller than many had thought would be the case. But in the final hour of trading, a wave of selling hit, driven by concerns about the fate of AIG. The Dow Jones Industrial Average ended down 504.48 points on Monday, off 4.4%, at its daily low of 10917.51, down 18% on the year. Of the Dow industrials' 30 components, all but one—Coca-Cola Co.—fell, led by a 60.8% plunge in AIG.

In Europe, London's FTSE 100 index dropped 3.9%. Several Asian markets, including Japan and China, were closed Monday due to holiday. By Tuesday, Tokyo shares were down 5.1% in early trading, and Hong Kong's Hang Seng index was down 6.1%.

Monday's action was the latest fallout in a widening financial crisis that began a year ago with the fall of American housing prices and is now reordering the U.S. financial system. Steps unveiled by the Federal Reserve to expand its emergency lend-



AIG Faces Cash Crisis As Stock Dives 61%

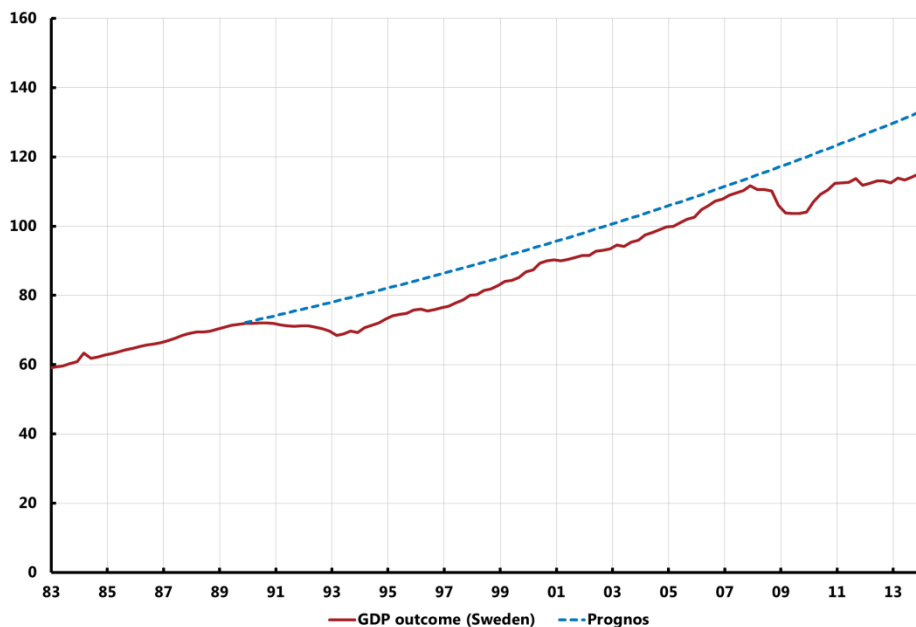
*By Matthew Karnitschnig,
Liam Pleven
and Serena Ng*

American International Group Inc. was facing a severe cash crunch last night as ratings agencies cut the firm's credit ratings, forcing the giant insurer to raise \$14.5 billion to cover its obligations.

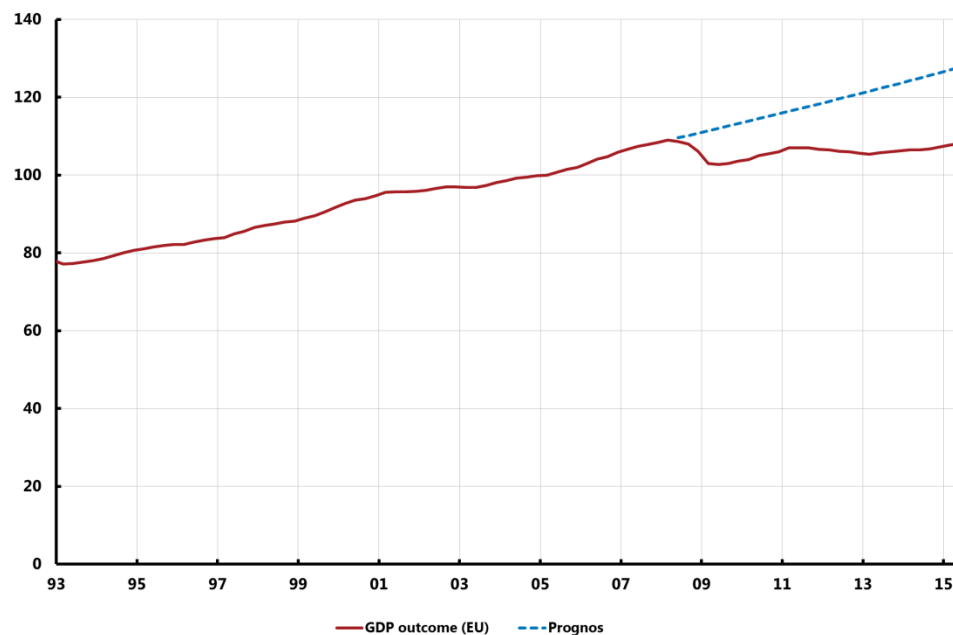
With AIG now tottering, a crisis that began with falling home prices and went on to engulf Wall Street has reached one of the world's largest insurance companies, threatening to intensify the financial storm and greatly complicate the government's efforts

Financial crises expensive for long-term growth

Sweden's GDP Outcome and forecast



EU's GDP Outcome and forecast



Financial Stability Board (FSB) acts for stable global financial markets

Global Systemically
Important Banks & Fin. Inst.
(GSIB/GSIFI)



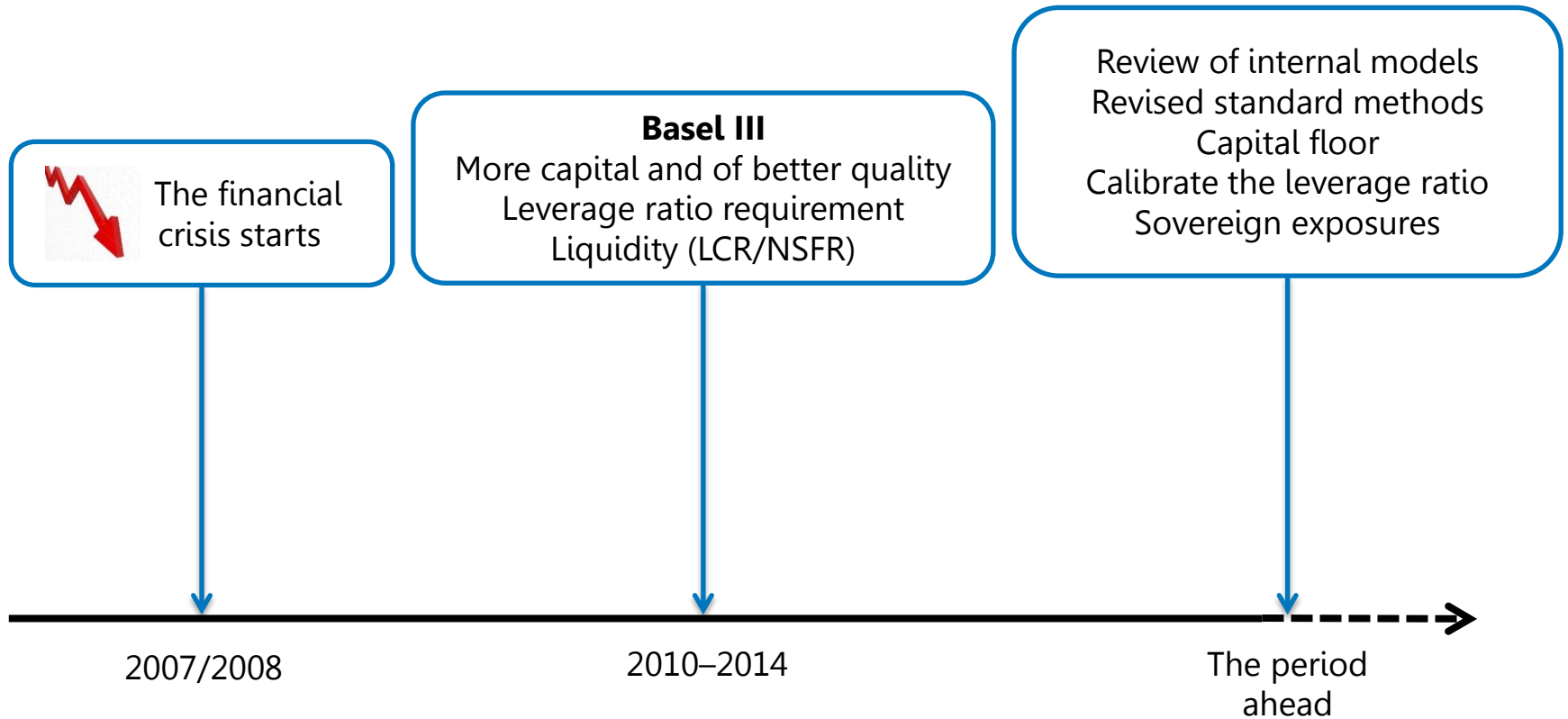
Clearing of OTC
derivatives

Recovery and resolution
plans

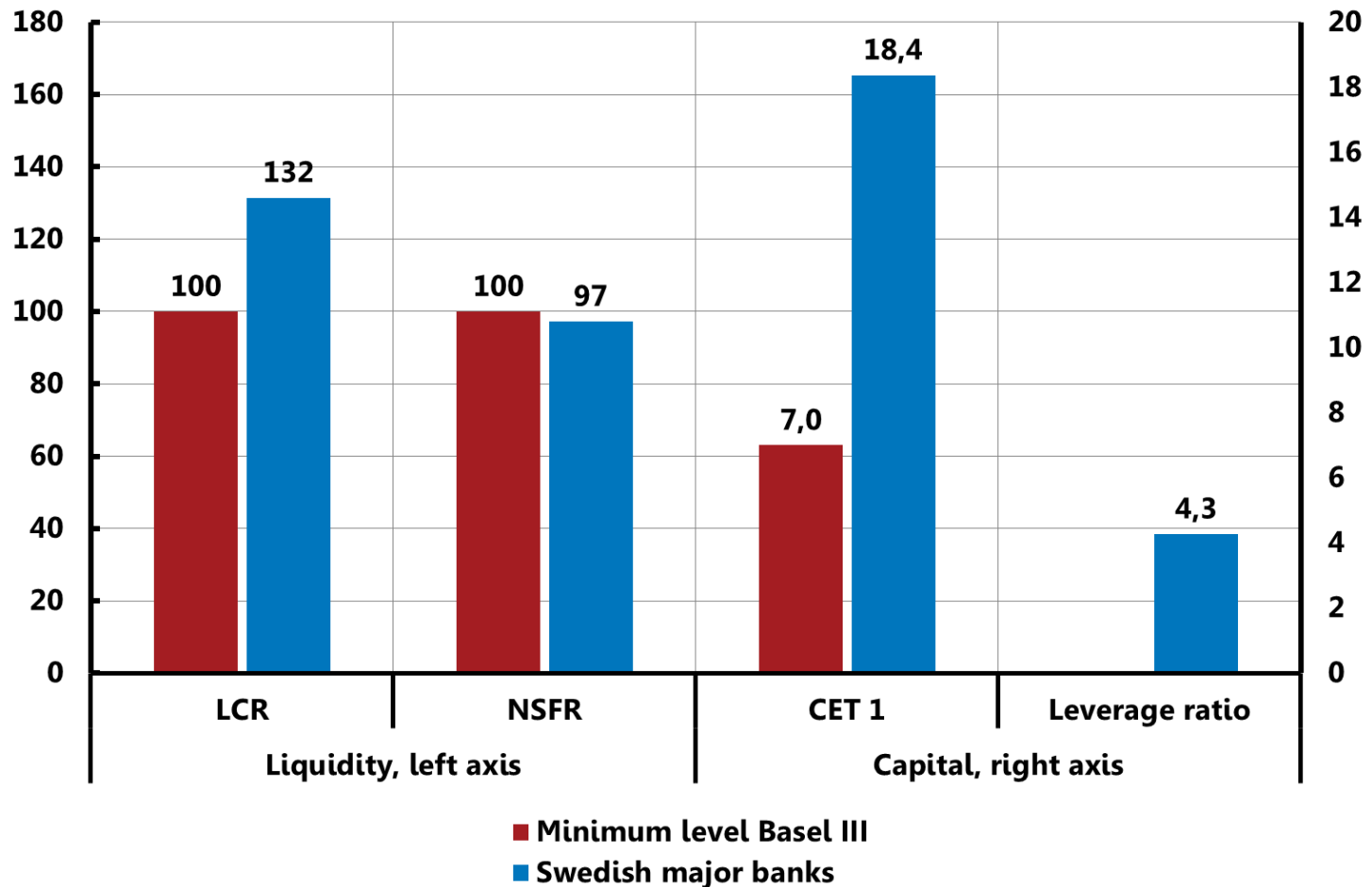
The banks' exposures to
CCPs

Total Loss
Absorbing
Capacity (TLAC)

The Basel Committee is working to finalise their reform agenda



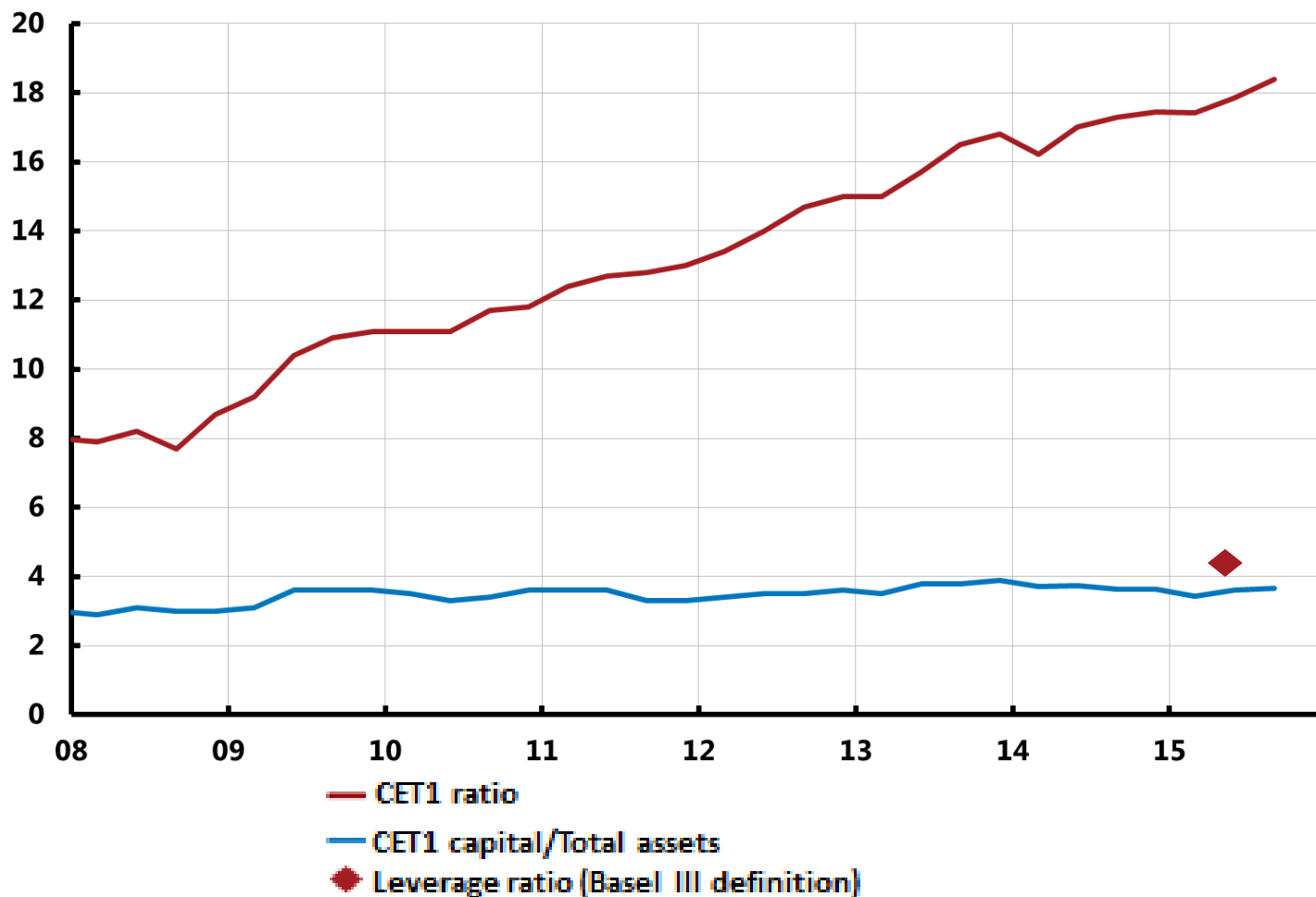
The four Basel III measures



Note. March 2015, per cent. The minimum level for the leverage ratio has not been set as yet.

Sources: Bank reports, BIS and the Riksbank

The major Swedish banks' CET 1 capital ratio has increased but the leverage ratio remains unchanged



Note. Per cent. The blue line indicates CET 1 in relation to total assets and thus differs from the Basel Committee's definition of the leverage ratio

Sources: Bank reports and the Riksbank

How can we achieve financial stability?



- Smoothly functioning regulation and supervision
 - Proactive measures to limit risks
 - Robust banks – capital and liquidity
 - Efficient infrastructure and financial companies
 - International confidence
-

Long-term challenges for the Swedish economy



The housing market



Household indebtedness



The labour market

Never look down before taking your next step; only he who keeps his eye fixed on the far horizon will find the right road.

Dag Hammarskjöld, Secretary General, UN



Thank you!