

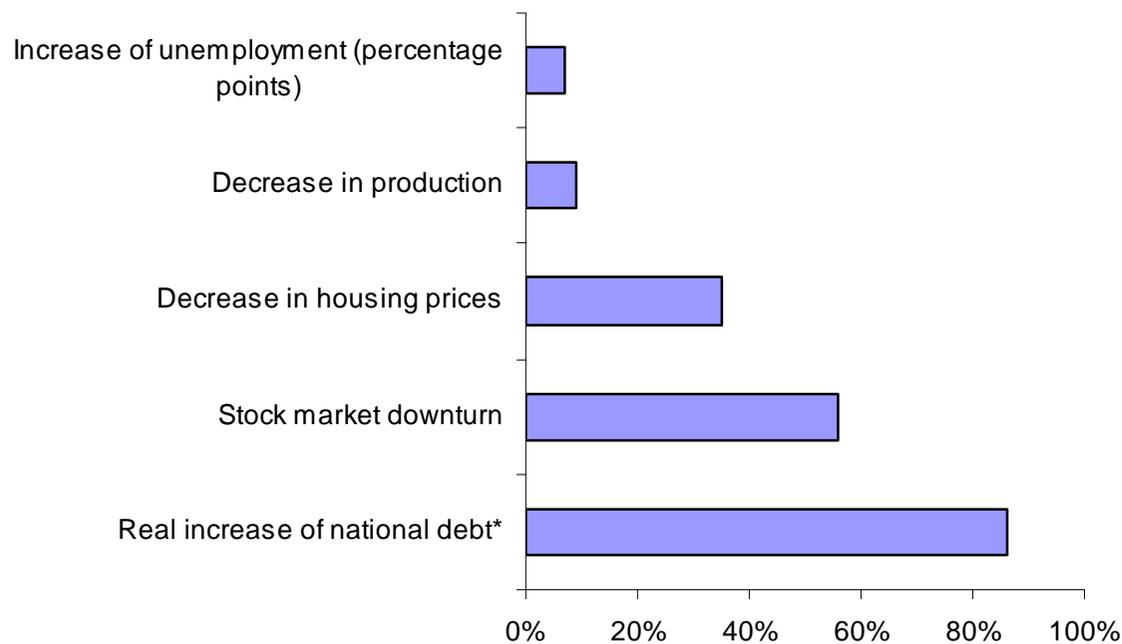
# Riksbank and ECB Conference on Bank Resolution

*14 November 2011*

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Ministry of Finance

# Public finances at risk (1)

Empirical effects of financial crises over the past one hundred years, in developed economies and emerging economies. Average. The financial crisis of 2007 and 2008 is not included.

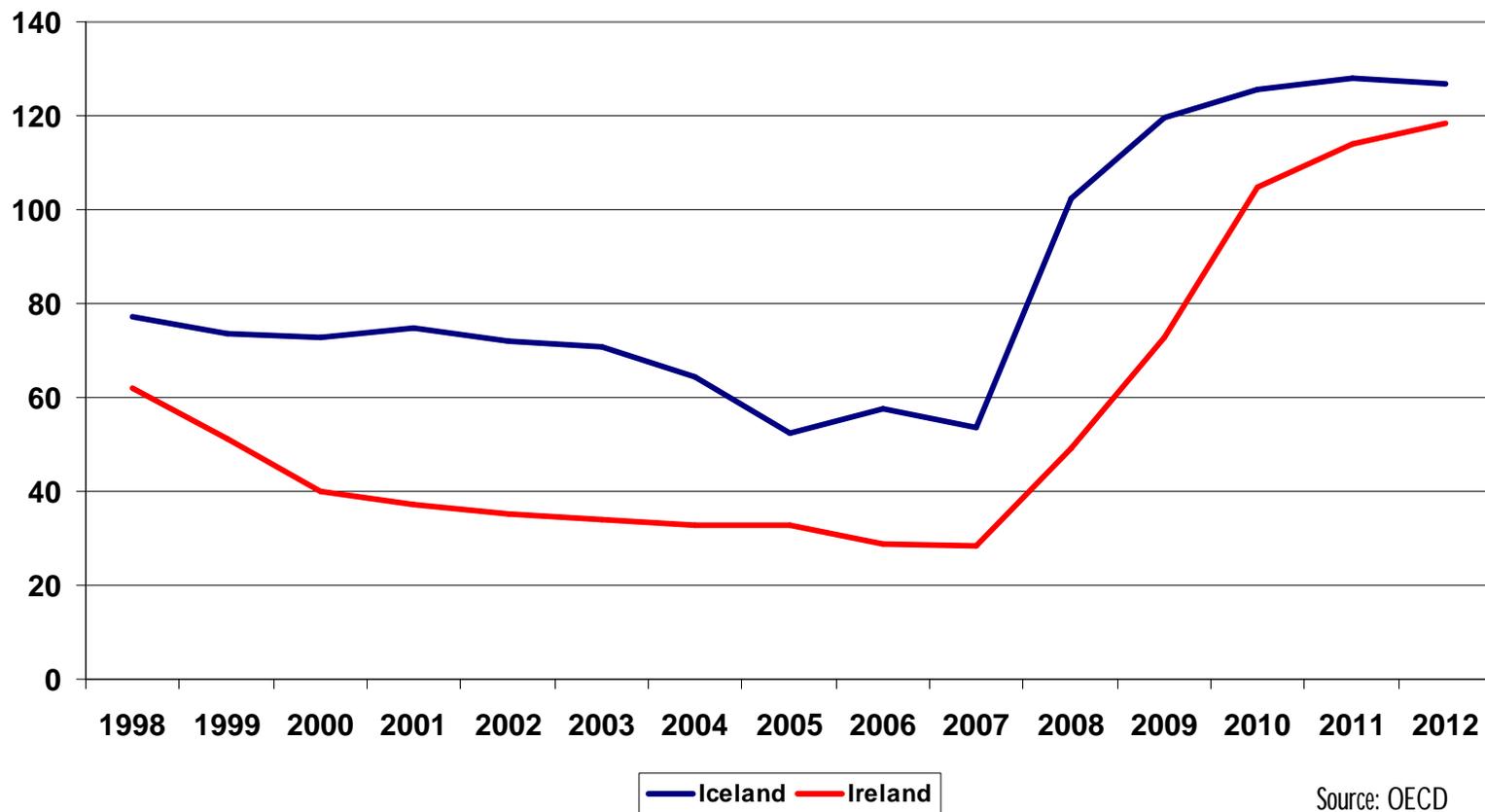


\* The statistics for the increase of national debt is based on financial crises after World War II.

Source: Reinhart & Rogoff, 2010

# Public finances at risk (2)

## The Public Sector gross debt as part of GDP



# Framework for financial stability

- Reduce risk for financial crisis
  - Robust financial system
  - Deal with imbalances as early as possible
- Crisis management
  - Can not avoid financial crisis
  - Too costly not restore stability in the financial system
  - Need mechanisms to safeguard the system
    - As low cost for tax payers as possible
    - Without incentives for excessive risk taking

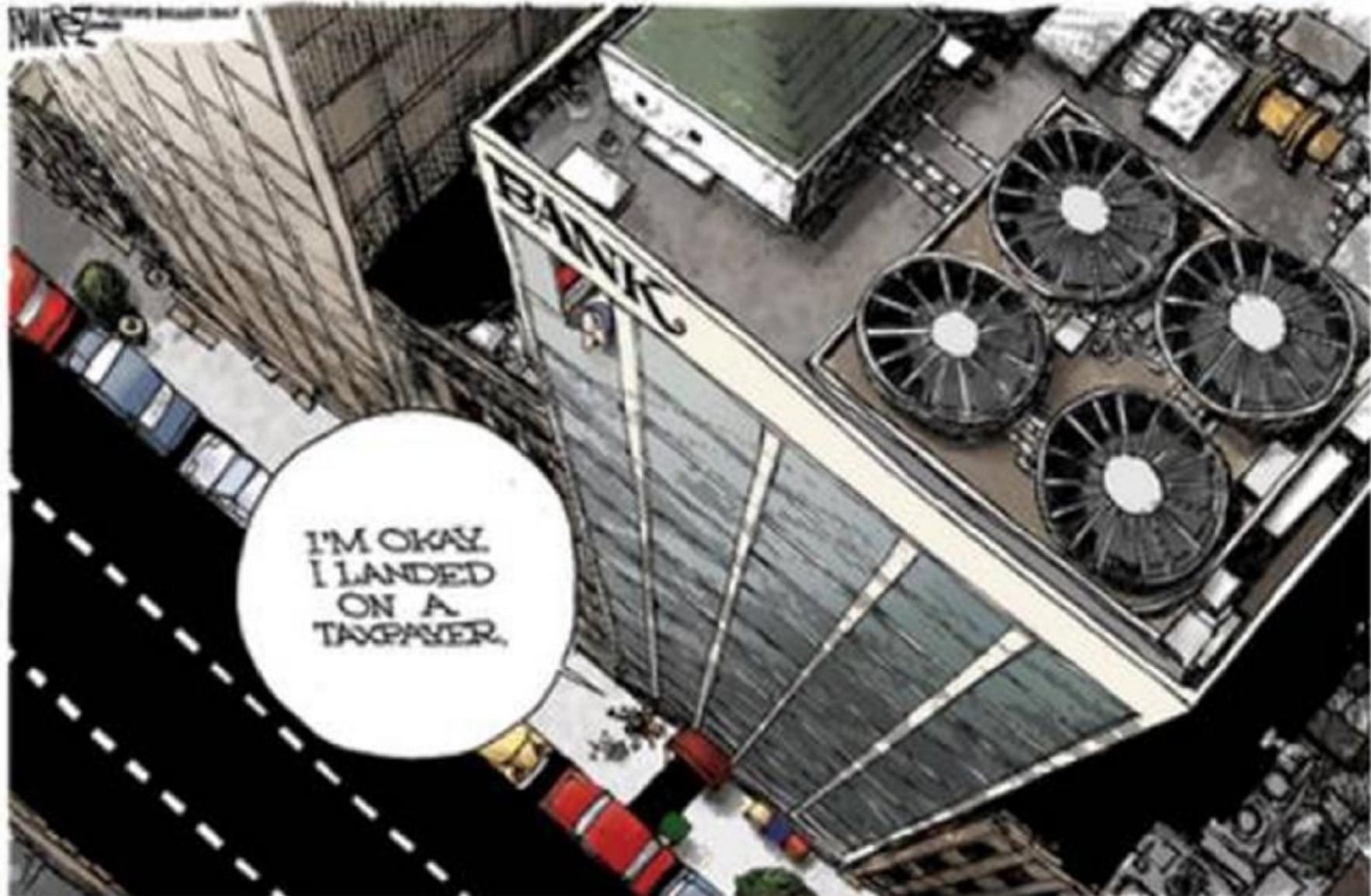


# Crisis management principles

- Transparency
- Comprehensive measures
- Safeguard tax payers money
  - Minimise long-term cost
  - Recovery of public funds
- Will not take over bad assets without ownership
- Credit institutions, in particular shareholders, should bear the losses

# The upcoming EU crisis management framework – Swedish positions

- Agrees with
  - Preparatory and preventive measures
  - Strengthen early intervention
  - Shareholders should bear the losses
  - Not all banks should be "going concern"
  - Creditors should contribute
- But cannot rely solely on untested instruments
  - Government capital injections necessary tool



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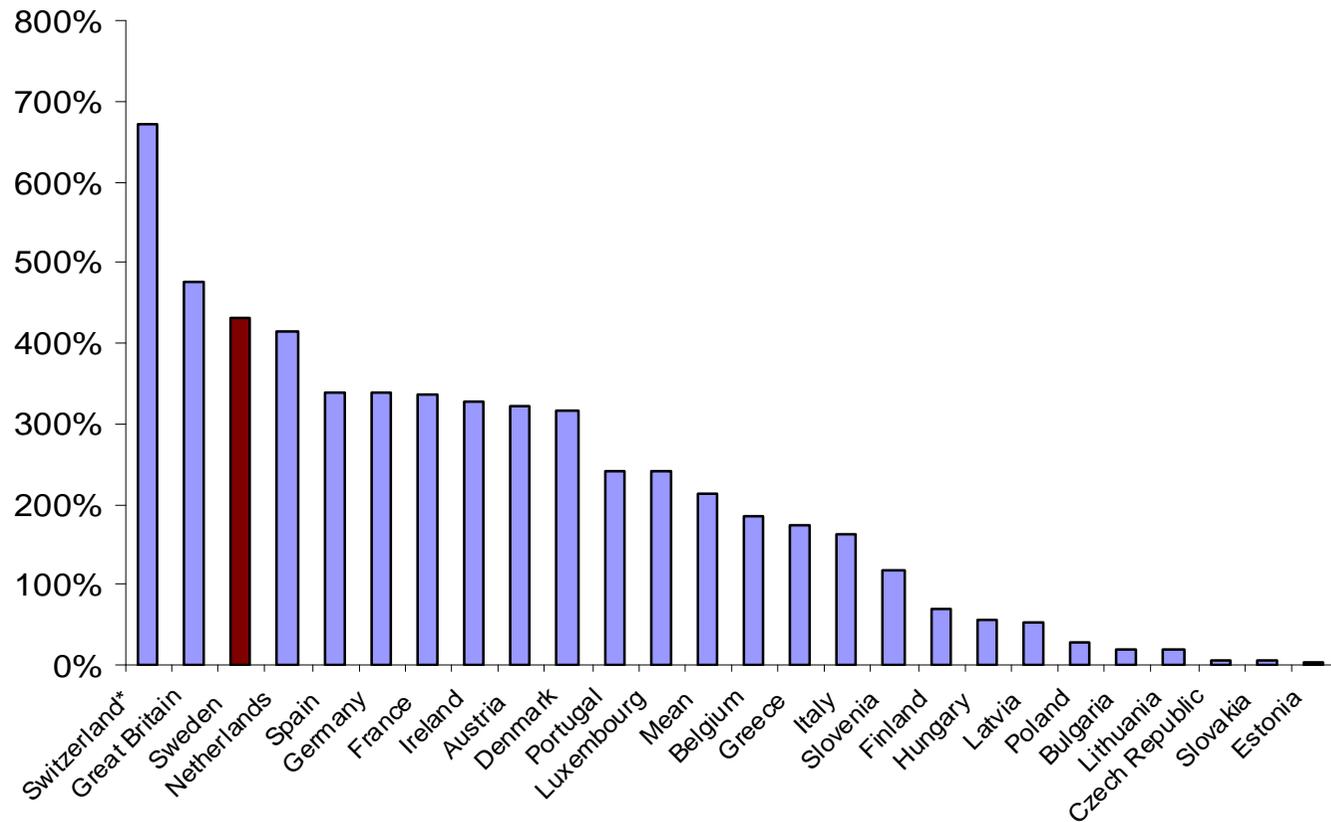
# The "Crisis-Committee"

## Review of the regulatory framework for managing financial crises

- The objective is to mitigate various types of financial crises; by means of preventive action and to resolve them effectively and efficiently, while ensuring that taxpayer's interests are protected and public confidence in the financial system is maintained.
- Also review the institutional set-up including division of responsibilities
  - Government Support to Credit Institutions Act (2008:814)
  - Bankruptcy Act (1987:672) and the provisions on liquidation of banking companies
  - Company Reorganisation Act (1996:764)

# Challenges varies across countries

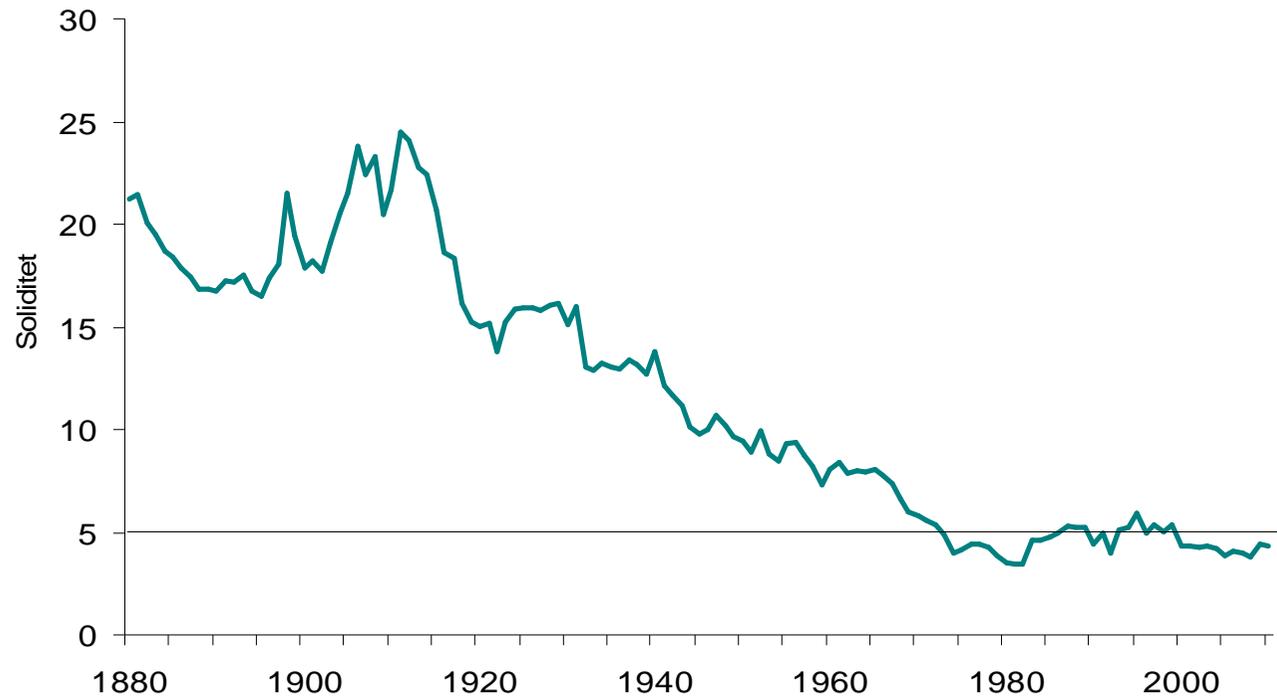
Bank assets in relation to GDP



Source: ECB, SNB, Riksbanken

# Extreme leverage

"Swedish commercial banks" solidity (capital/assets)



Source: Per Hortlund,  
Handelshögskolan i  
Stockholm

## Bank solidity compared to other businesses

Company	Solidity, Q4 2010
 ERICSSON	52 %
 H&M	75 %
 NCC	26 %
 Handelsbanken	4 %