
BANK CRISIS, THEN AND NOW

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Background

- Macro economic imbalances
- Strong growth and low interest
- High risk-taking
- Rapid “developments” in the financial markets
- “Sub prime” and credit derivatives

Most has been analyzed. Many warnings. But *no simple solutions*, strong interests involved and “ideological” beliefs.



The process

- Started in the US – sub prime. Spread via financial markets (new instruments, near-banks etc.)
- Lack of trust. Exaggerated by Lehman collapse. Liquidity problems – solvency problems
- Lower interest rates. Unconventional measures. Fiscal expansion.
- Signs of improvement. Free fall seems to stop. But severe problems with balance sheets; US consumers, banks – not least in Europe. Risk for Japanese scenario



The Swedish banking crisis - policies

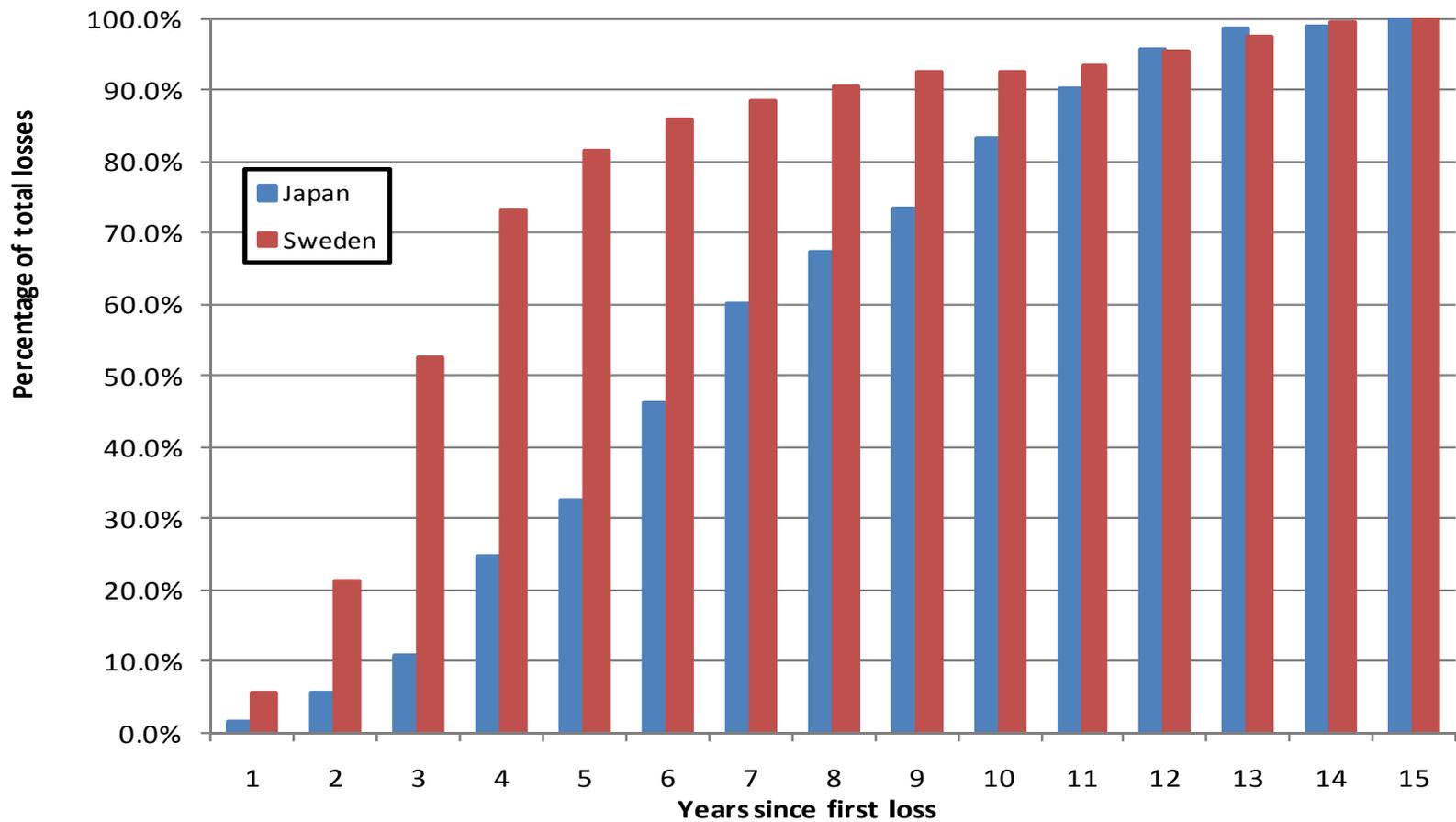
Much in common with present crisis; credit expansion, policy failures, rapid changes in financial markets, but now the crisis is global and more complicated

Four cornerstones:

1. Unlimited guarantee
2. Agency at arm's length from politics
3. Strategy to decide which banks to reconstruct and which to litigate. Strict valuation rules
4. Asset management corporations took over bad loans



Cumulative bank writedowns in Japanese and Swedish banking crises



Source: Bruegel calculations with national data

The Swedish banking crisis – main lessons

- Confidence needs to be restored rapidly
- Someone must take the losses
- Transparency is essential
- Political consensus helps – too important issue to fight about.



Policy conclusions

Short term:

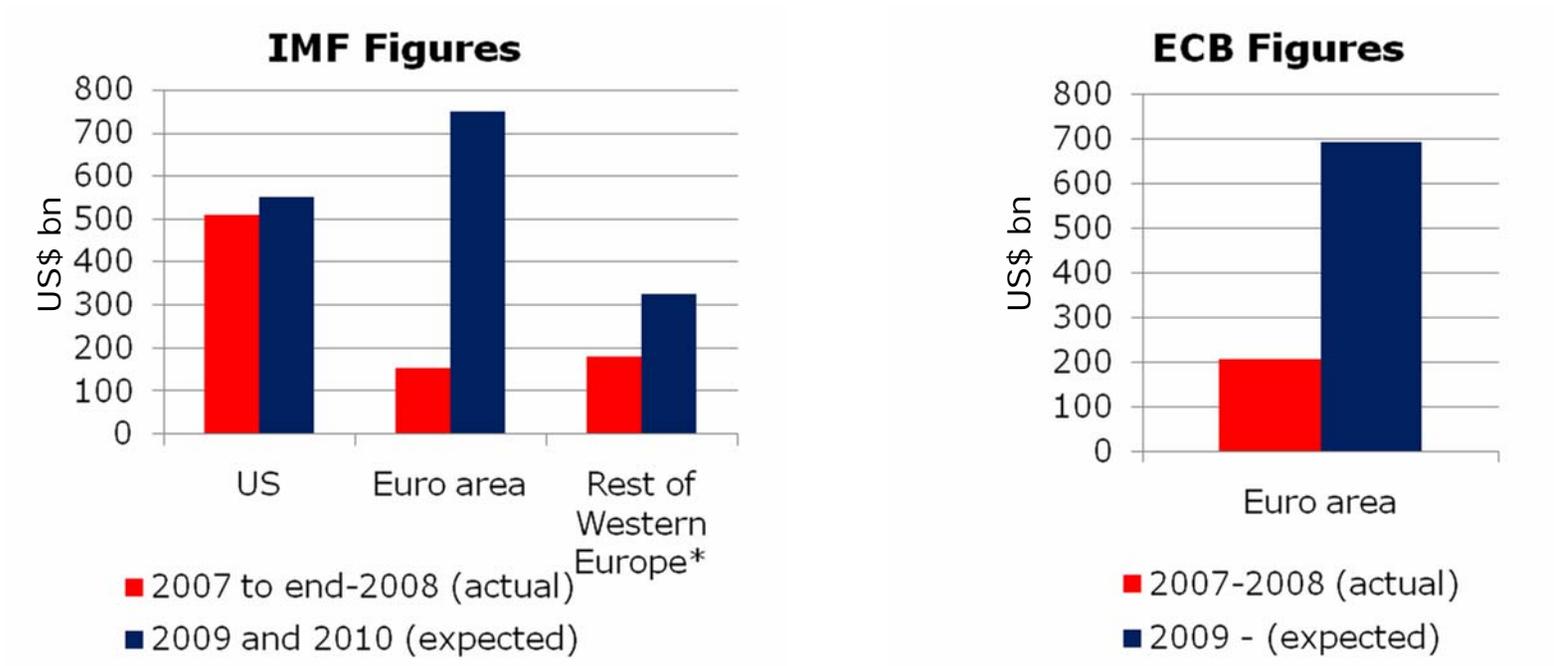
- "Clean up" the banking system
- Exit strategy essential. Fiscal turn-around

Long term:

- "Co-ordinated" global macro policy
- Keep inflation targets, but take asset prices etc. into account
- *Improve* fiscal frameworks
- Systemic focus in supervision. Increased openness. Counter cyclic capital requirements....
- Regulation and supervision on European/global level

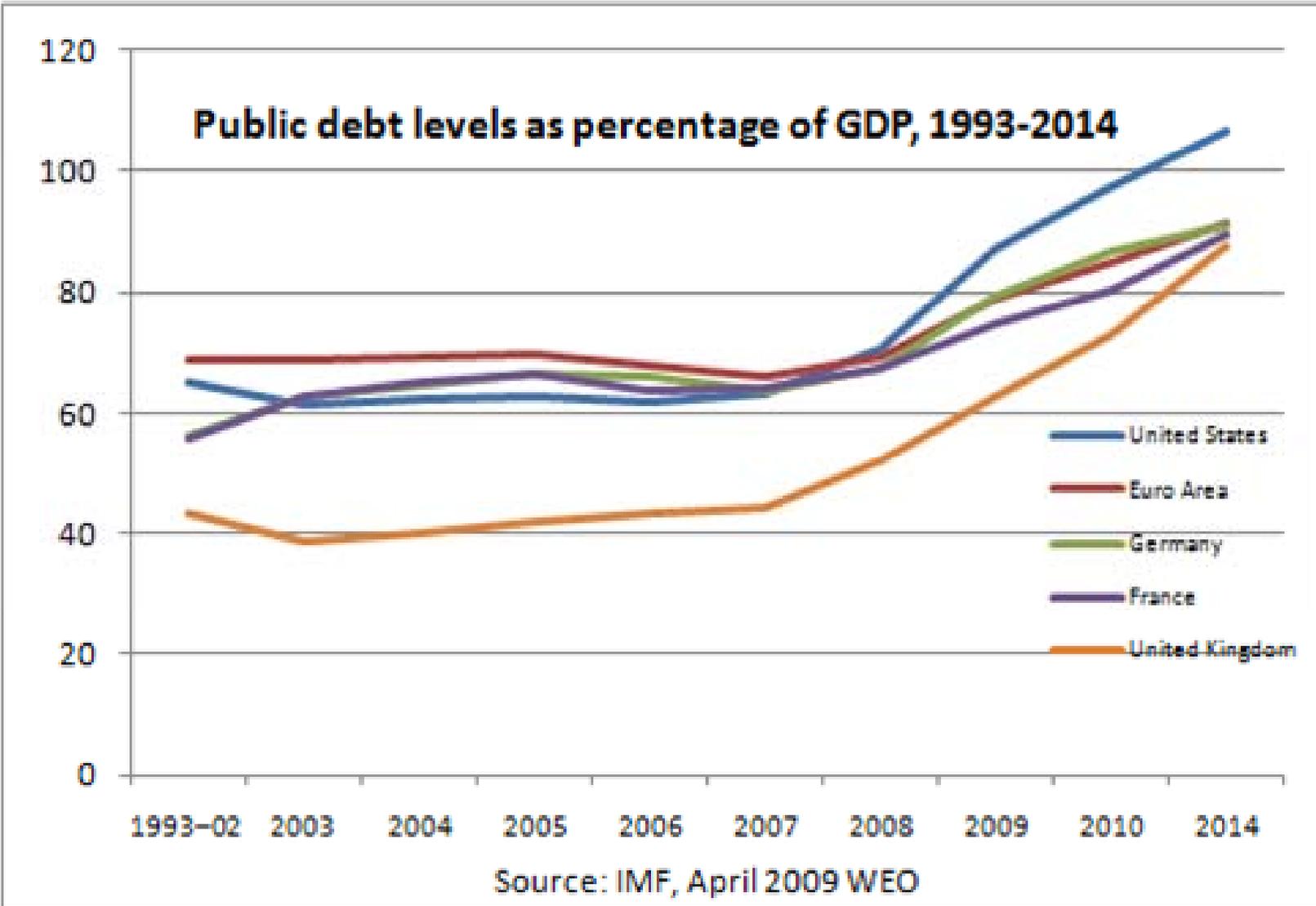


Past and future bank writedowns, IMF and ECB figures

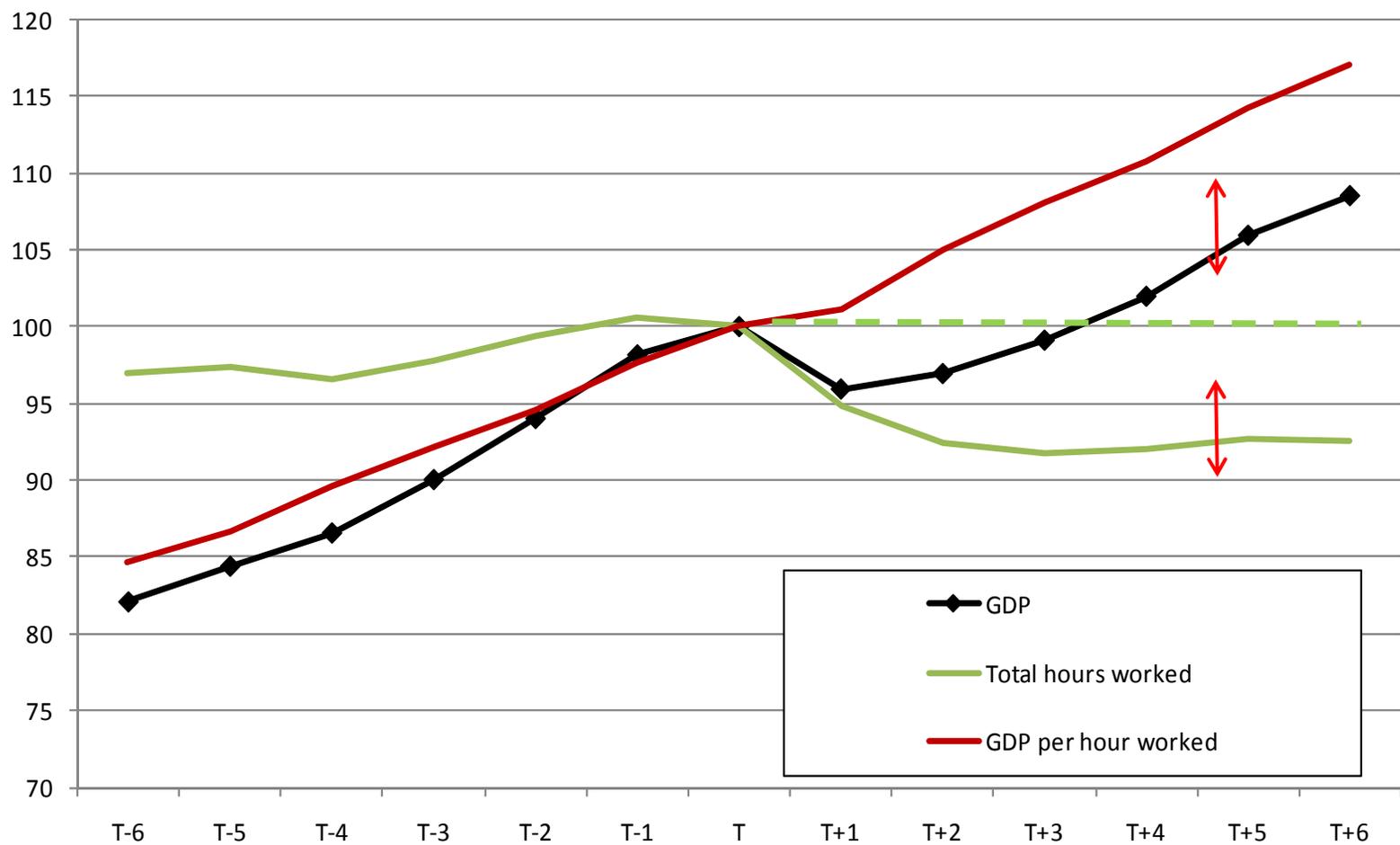


*Denmark, Sweden, UK, plus Iceland, Norway and Switzerland.

Source: IMF Global Financial Stability Report, April 2009, ECB Financial Stability Review, June 2009



Crisis profiles (Finland, Japan, Korea, Sweden)



Source: Bruegel calculations with national data