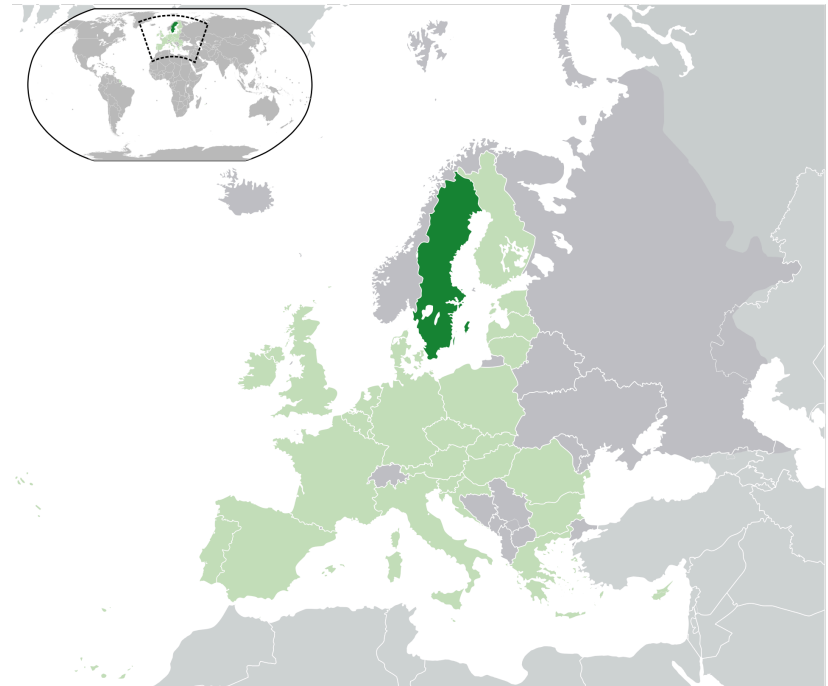


The Swedish Financial Crisis of the 1990s and the GFC

- A brief summary of the causes, effects and implications of the Swedish Financial Crisis

Sweden

- 10 million people
(1,9 % of EU)
- 450 000 km², third
largest in EU
- Constitutional
Monarchy
- GDP 570 billions USD
(3,1 % of EU)
- Net Exporter



Background

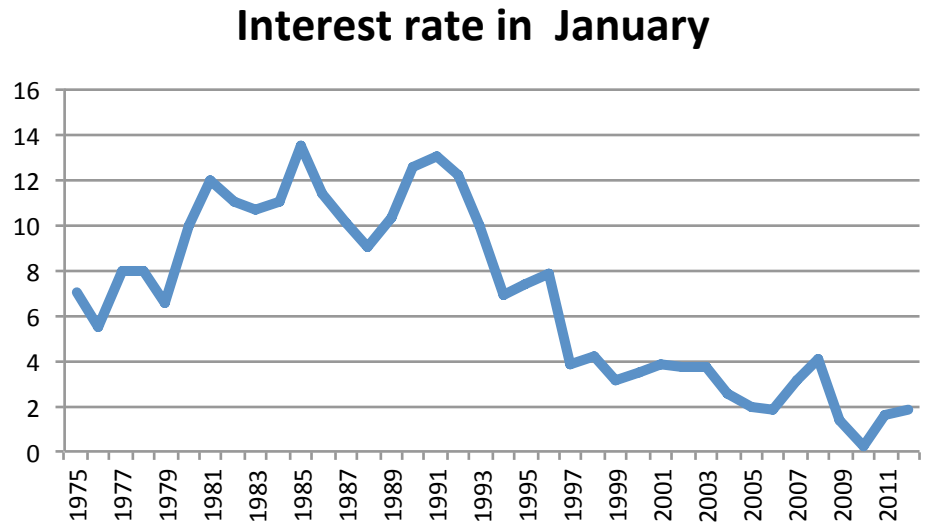
- Nordic Model
- Market regulation
- High inflation – low unemployment
- Controlled exchange rate

Causes

- Financial deregulations
- Increasing money supply
- Real estate development
- World economic climate

Crisis 1990-

- Slump in US markets
- Insecurities about Swedish real estate market
- Interest rate tax deductibility decrease
- High interest rates



Banking crisis

- Real estate prices fell by 70-80 %
- Ripple effects
- Emergency help of roughly 65 billion SEK

Currency Crisis

- Currency basket -> ERM
- September 1992
- Italy, Finland and UK
- Diverging economic development – German reunification

Repercussions for Sweden

- Black Wednesday – Bank of England broke out of ERM
- Turbulence – Riksbank increases interest rate
- 500 % for three days, settling at 50 %
- Krona is floated in November

Results

	Average US recession	The Great Recession	Sweden 1991
GDP	-1.7%	-3.7%	-4.7%
Unemployment	2.5%	5.1%	9%
Employment	-2.1%	-6.1%	-13%
Consumption	0.4%	-1.9%	-3.5%
Investment	-14.7%	-31.4%	-32.7%
Gov. Cons	1.2%	4.0%	2.9%
Exports	-1.5%	-12.6%	7.6%
Imports	-4.4%	-20.0%	-6.2%

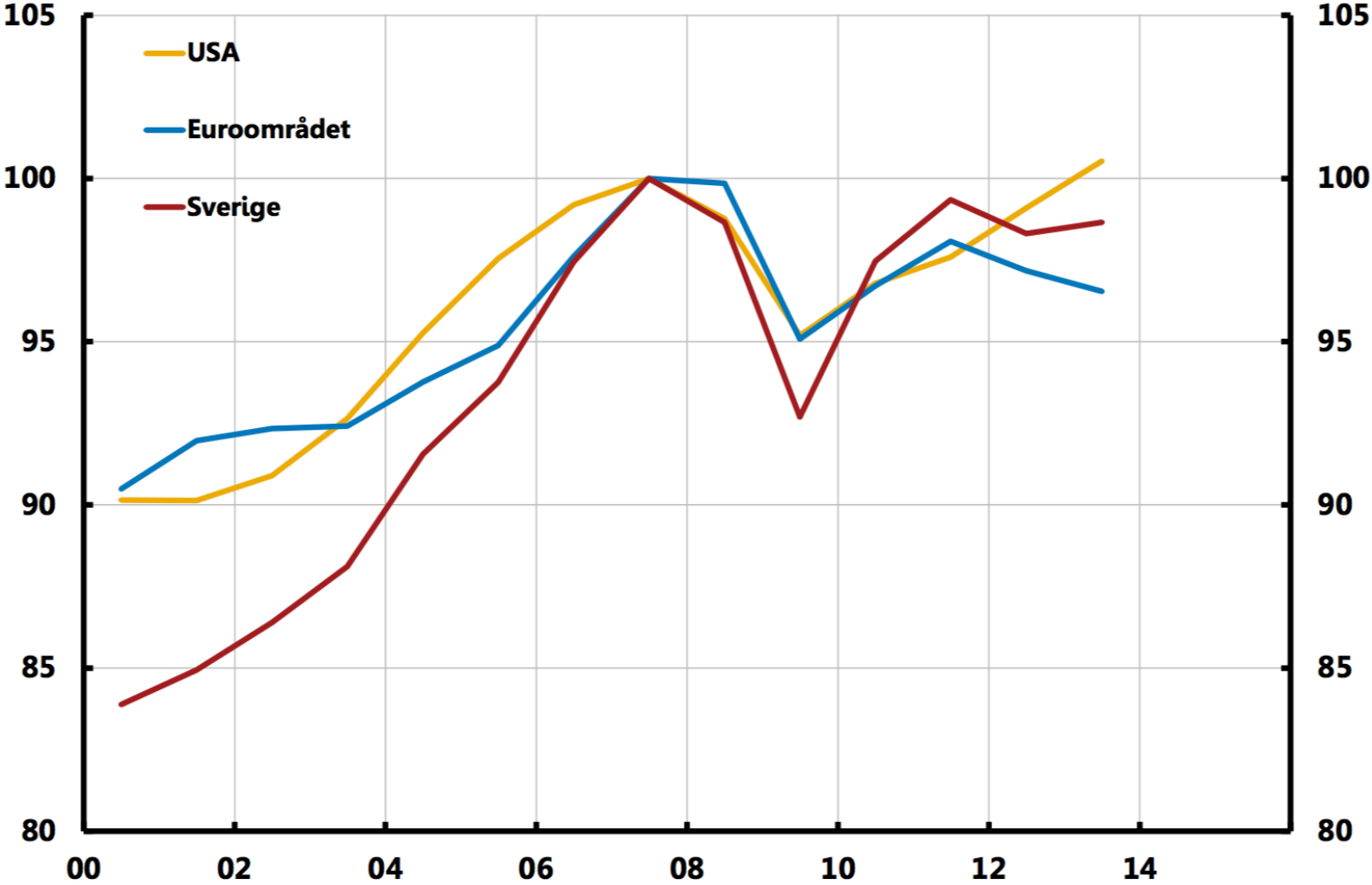
GFC in Sweden

- Banks weren't overly exposed
- Manufacturing exports decreased
 - SAAB collapsed, suppliers went under
- Commodity prices up
 - Iron, steel and paper exported
- Weaker Krona

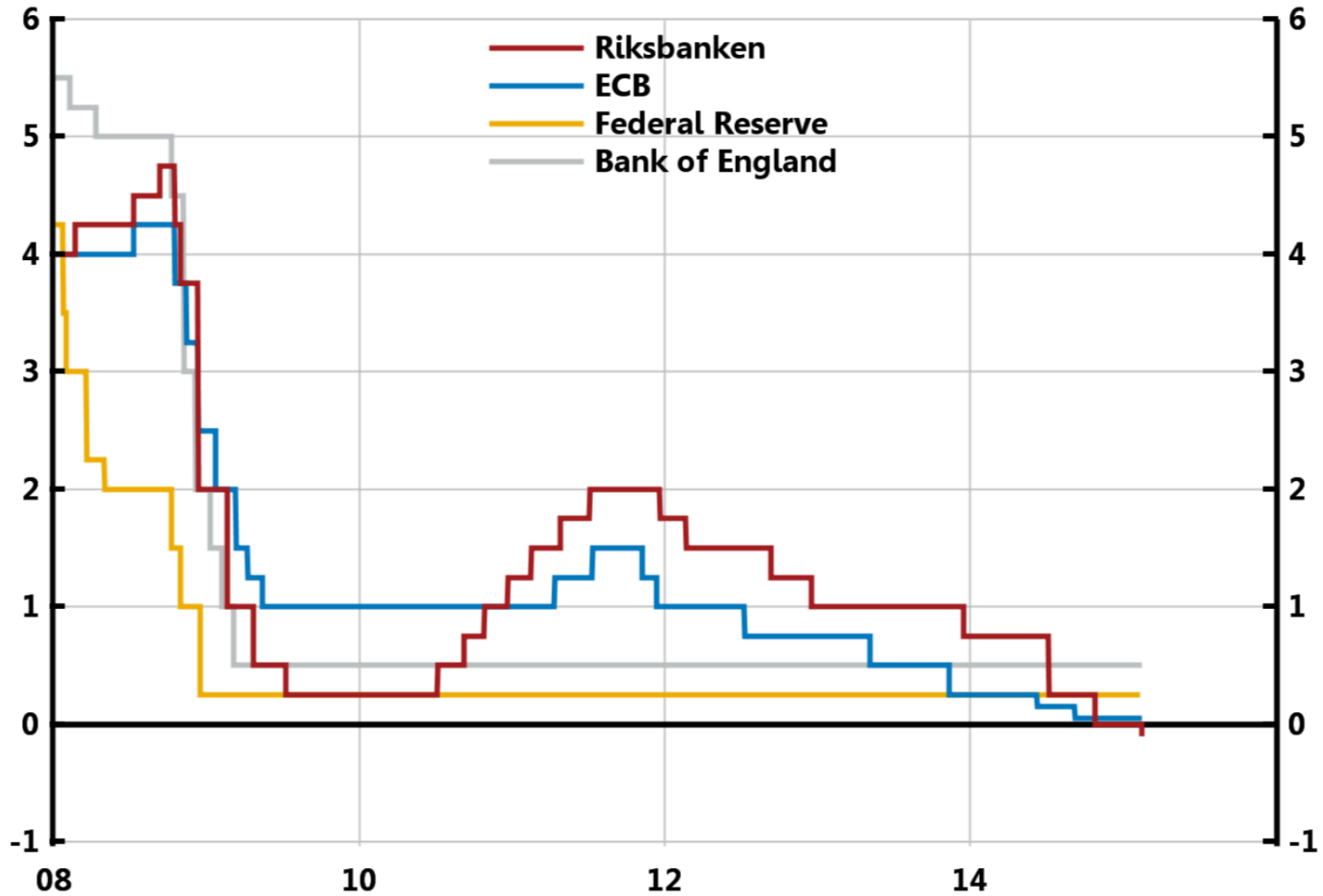
Current issues in Sweden

- Perennially high unemployment – spiked for young people
- Very low inflation, deflation
 - Strong Krona -> exports down
 - Negative interest rate
- Possible new property bubble
 - High household debts
 - Housing shortage in urban centres
- High immigration
 - Institutions under pressure – opaque responsibilities

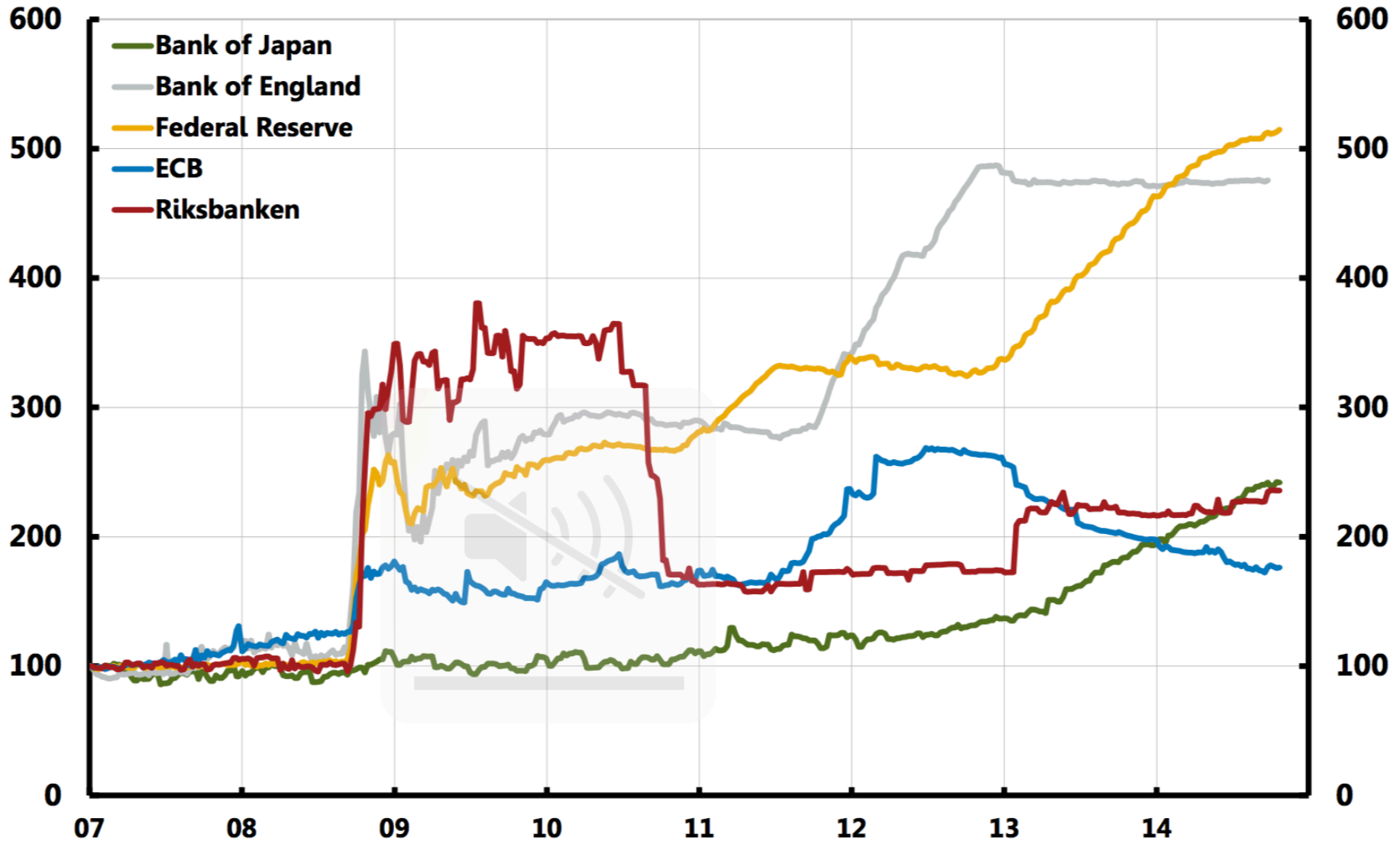
GDP per Capita (Index 2007 = 100)



Interest rates, per cent



Balance Sheets of Central Banks (Index 2007 = 100)



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Presentations in Course 407 – Macroeconomics at Stockholm School of Economics:

- Martin Flodén – member of the board of governors of the Riksbank
- David Domeij - Associate Professor at Stockholm School of Economics