THE CASE OF THE NORDIC-BALTIC REGION:

Macroprudential policy and crisis management

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S V E R I G E S R I K S B A N K

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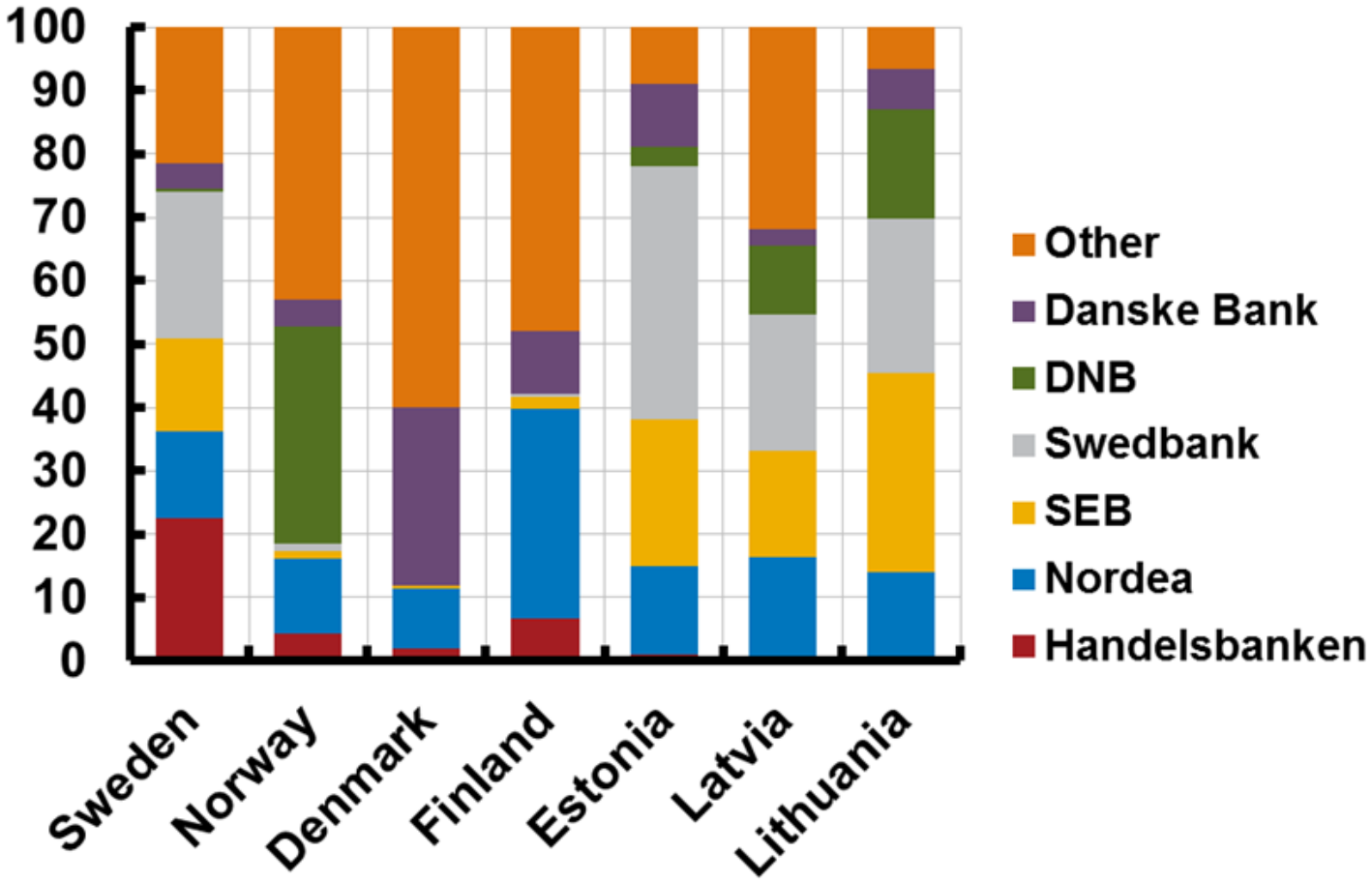
The Nordic Baltic Region

The financial system at a glance

- Concentration: Market dominated by 6 large banks (SEB, Swedbank, Handelsbanken, Nordea, DNB and Danske Bank)
- Conglomeration: banks important in traditional intermediation and in pension and asset management
- Cross-border linkages: increasingly through branches
- Capital market integration: E.g. common ownership of stock exchanges

Bank integration

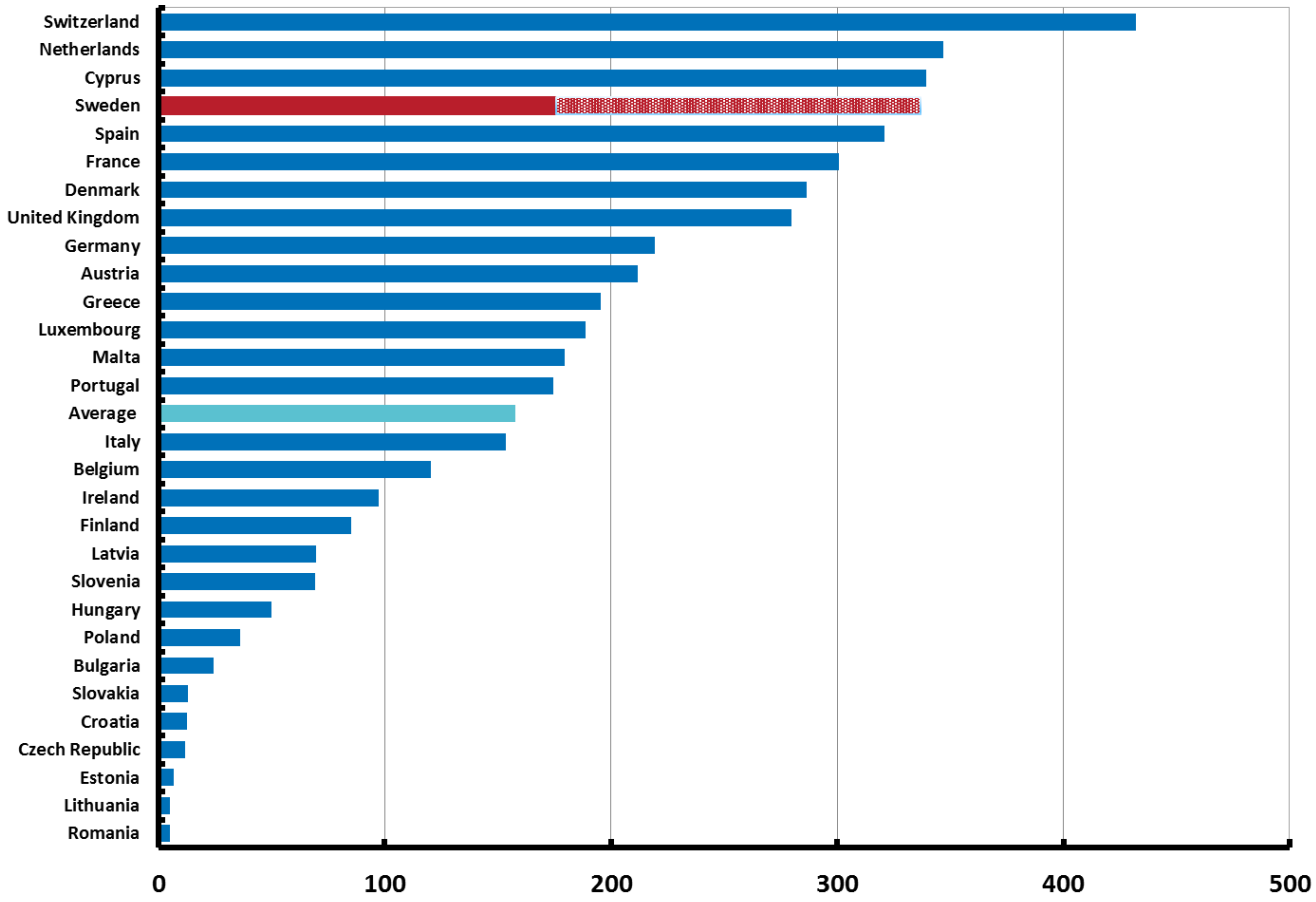
share of lending to the public



Sources: Statistics Sweden, Norges Bank, Statistics Norway, Statistics Finland, Association of Latvian Commercial Banks, Association of Lithuanian banks, Estonian Financial Supervision Authority, Bank reports, The Riksbank

A large banking system

Percentage of GDP



Note. Banking assets includes all of the assets of the national banking groups that is both foreign and domestic assets. The banks' insurance operations are, however, excluded. The shadowed part of the red bar shows the four major banks' assets in foreign subsidiaries and branches abroad in relation to Sweden's GDP. Data from 2015

Sources: ECB, Swiss Bankers' Association, Swiss Statistics, bank reports and the Riksbank

Why cooperate?

- ”Nordic tradition”
- Geographic proximity
- Integrated financial systems

Not as homogenous as you might think

- Finland and the Baltic states euro zone members (and hence also members of Single Supervisory Mechanism, SSM)
- Denmark implements a fixed exchange rate policy
- Sweden, Iceland and Norway have floating exchange rates (inflation targeters)
- Large differences in GDP per capita between the Baltic states and the others
- Designated authority for macroprudential policy differs across countries

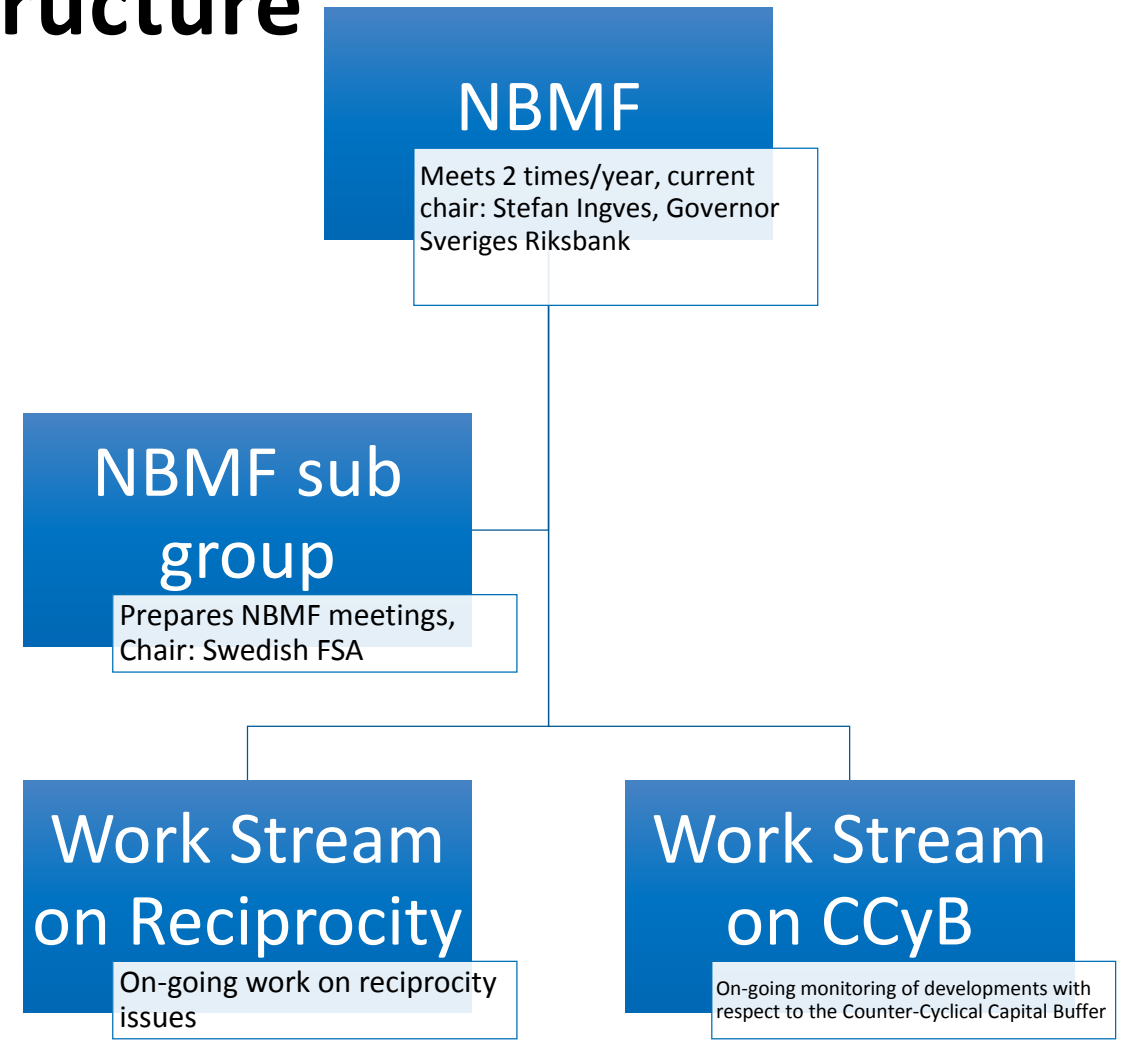
Increased cooperation in the macroprudential area

- ESRB (European Systemic Risk Board) has promoted the need for greater cooperation on financial stability issues

ESRB
European Systemic Risk Board
European System of Financial Supervision

- Nordic-Baltic Macroprudential Forum (2011)

NBMF - structure

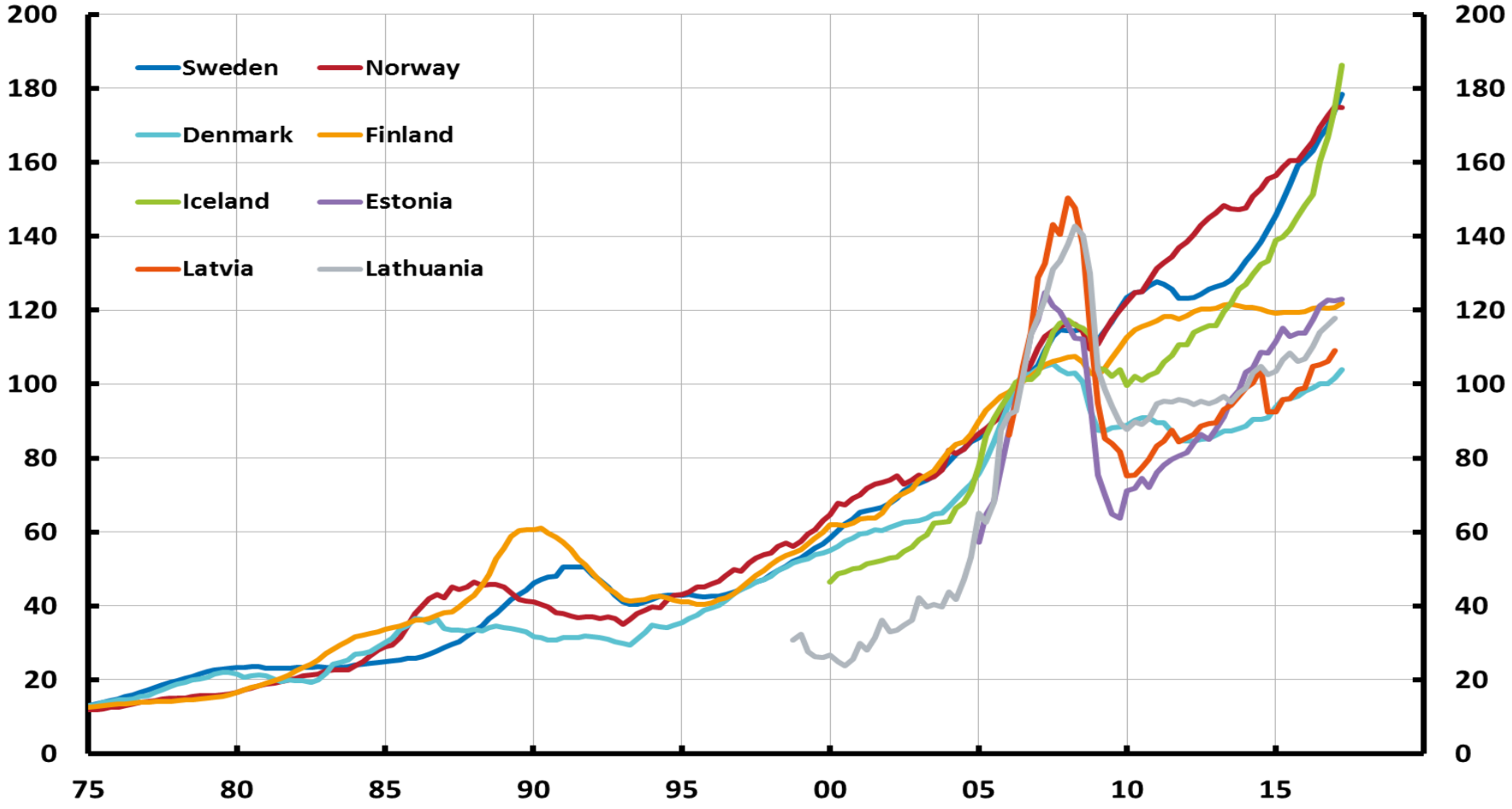


Institutional set-up for macro-prudential policy

	Denmark	Estonia	Finland	Iceland	Latvia	Lithuania	Norway	Sweden
Central Bank		X				X		
Supervisory Authority			X		X			X
Government	X						X	
Council	X			X				X

Residential real estate price developments in the Nordic-Baltic region

Index= 2006



Note: current prices

Source: Dallas Fed and BIS

Implementation of macroprudential measures

	Capital-based						*Liquidity-based*		*Residential real estate*		
	Counter cyclical capital buffer	Systemic Risk Buffer	Sector-Specific risk weights	O-SII Buffer	Leverage Ratio	Pillar 2	LCR	NSFR	LTV	Amortization requirements	DSTI
Denmark	x	x		x			x		x		
Estonia	x	x		x			x		x	x	x
Finland	x	x	x	x			x		x		
Iceland	x	x		x			x	x	x		
Latvia	x			x			x		x		
Lithuania	x			x			x		x	x	
Norway	x	x	x	x	x		x		x	x	x
Sweden	x	x	x	x		x	x		x	x	

Reciprocity increasingly important

- In the European regulation, some measures require mandatory reciprocity, for example the counter-cyclical capital buffer
- Other measure, such as the systemic risk buffer and pillar 2 measures, do not require mandatory reciprocity
- Recommendation in ESRB on voluntary reciprocity

Financially integrated region requires cooperative solutions on crisis management

- Early 2000:
  - MoU:s (legally non-binding) e.g. information-sharing
  - Nordic-Baltic Workshops
- 2007: Crisis management exercise
  - Major regional exercise involving the failure of a hypothetical cross-border bank
- 2010:
  - Nordic-Baltic Stability Group - MoU (Ministries of Finance, Central Banks and Supervisors)
- 2017:
  - Revised MoU
  - New regional crisis simulation exercise planned for 2019

Current structural challenges

- Nordea: move to Finland
  - Supervision will move from Sweden to SSM (Single Supervisory Mechanism)
  - Capital and liquidity requirement will be set by SSM
  - Resolution – Single Resolution Board (SRB)
  - Reciprocation of macroprudential policy will be more important for Sweden
  - Size of the banking sector in Sweden will decrease from around 400 percent of GDP to around 290 percent of GDP
  - Important that capital requirements are not lowered