

The Banking Union and the European Financial System

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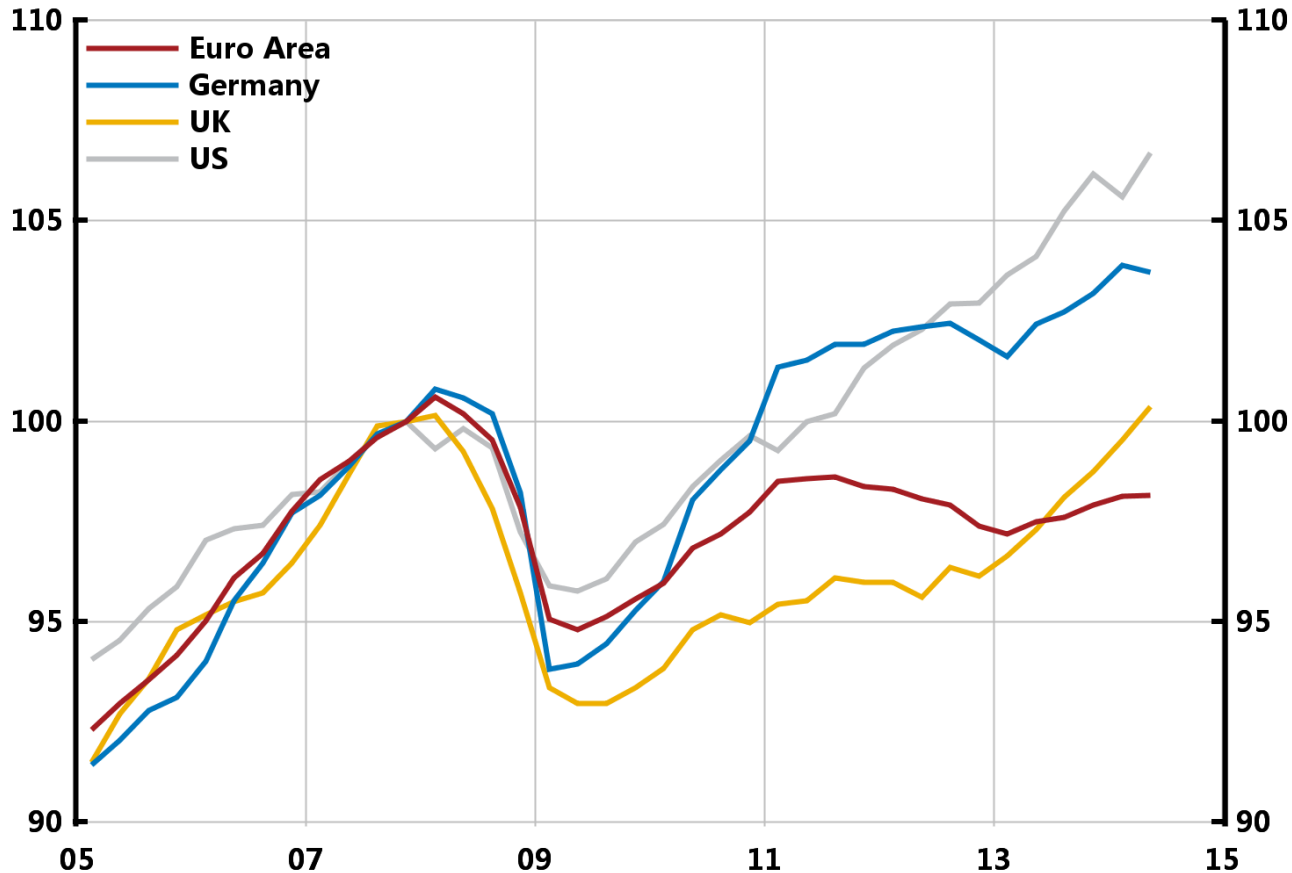
A Swedish Perspective

State Secretary Karolina Ekholm

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No clear recovery in the euro area

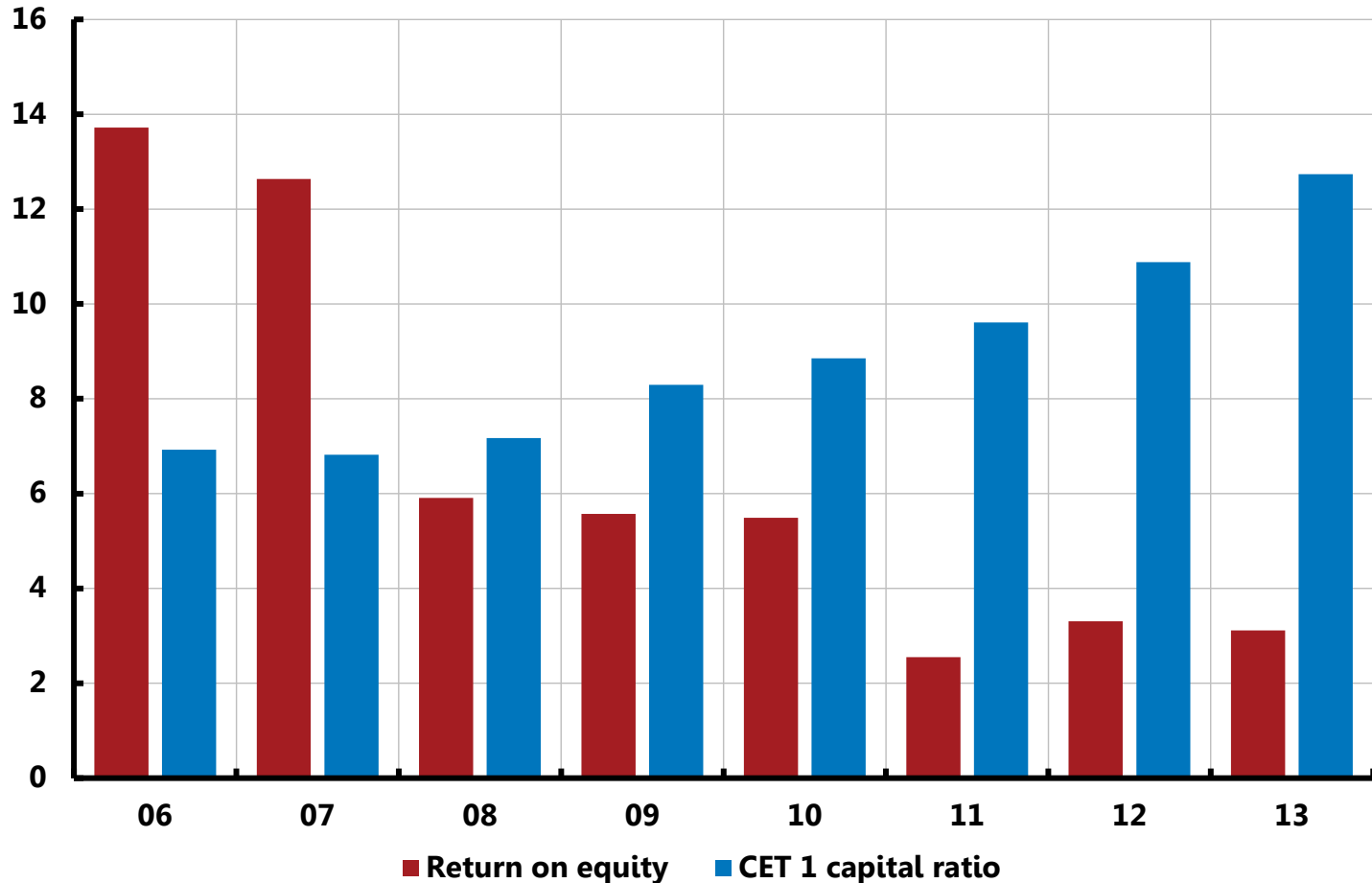
GDP, index, 2007 Q4 = 100



Sources: Bureau of economic analysis, Eurostat and Office for National Statistics

Weaknesses in European banking sector dampening factor

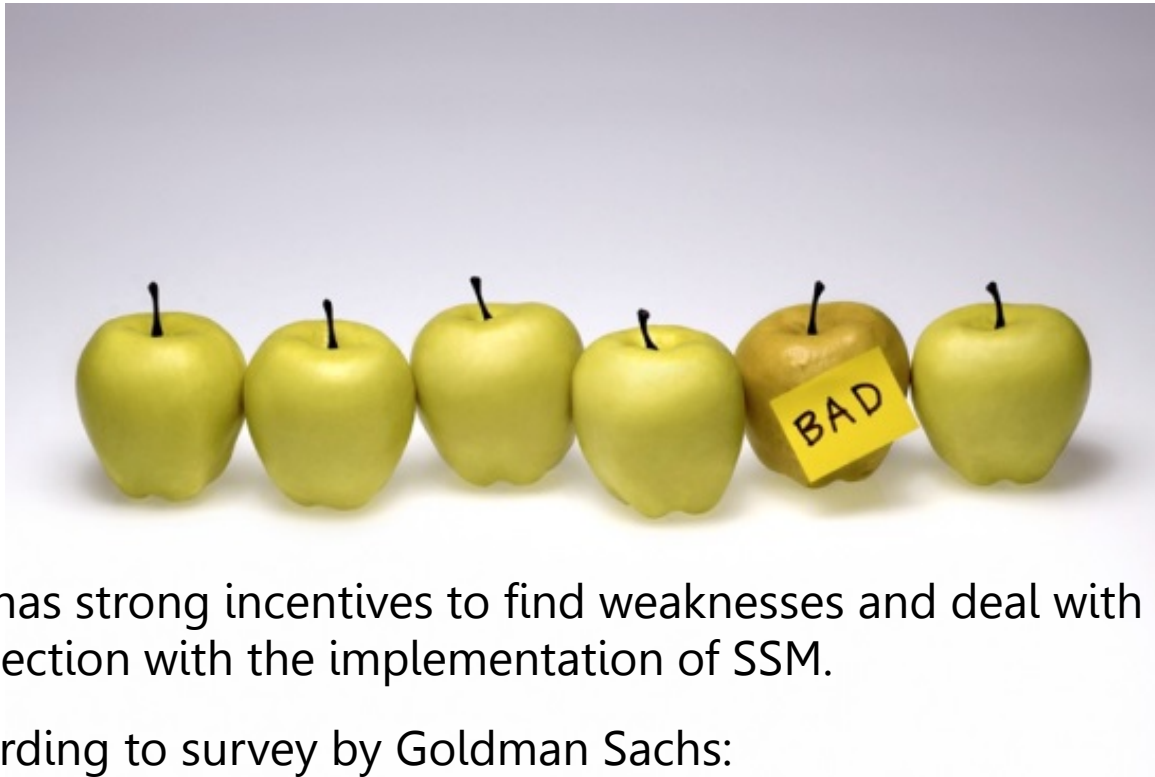
Per cent



Note. Median values based on 108 banks in the euro area that fall under the ECB's supervision, based on the criteria of total assets

Sources: SNL Financial and the Riksbank

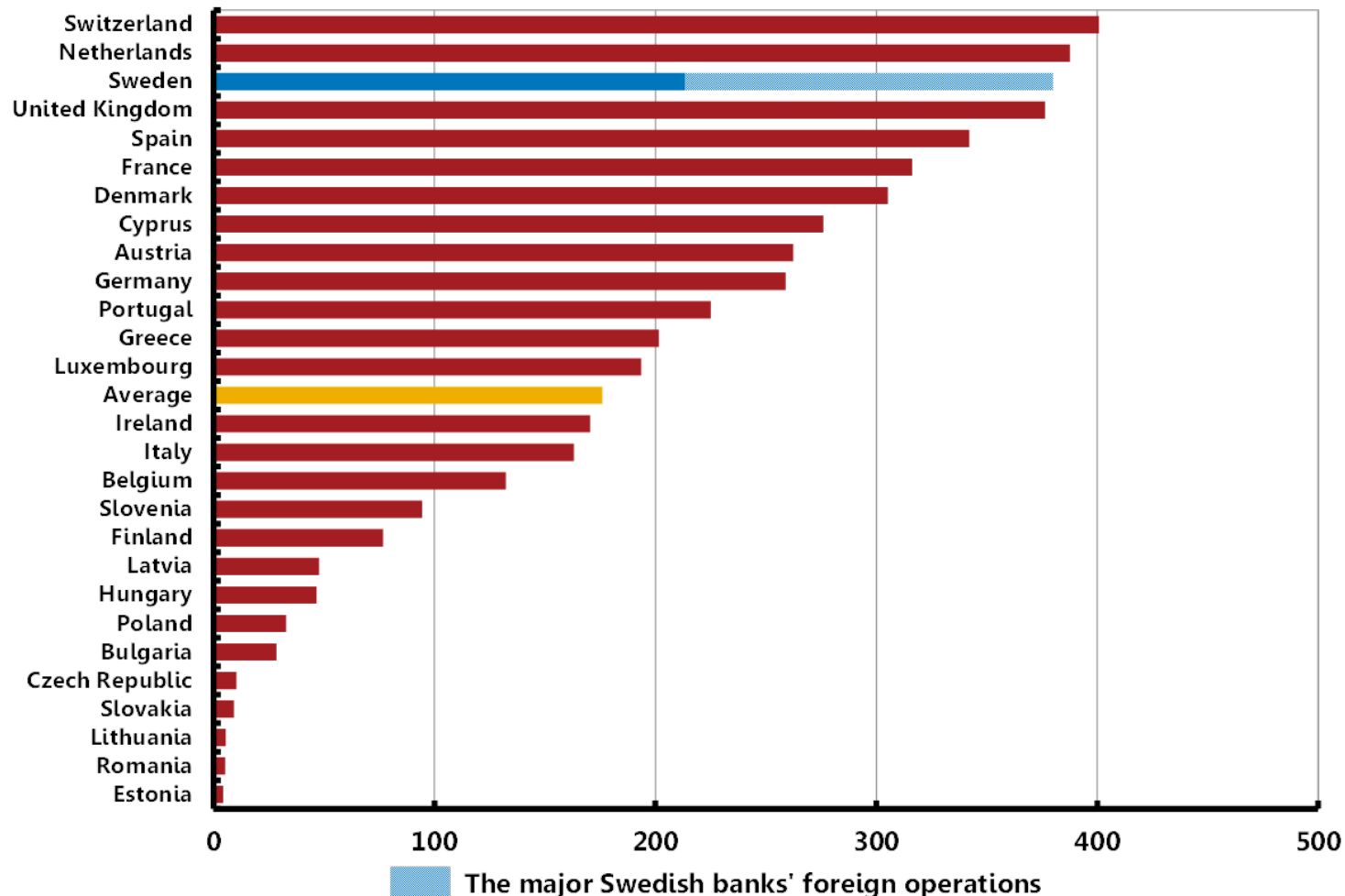
AQR/stress tests opportunity to restore confidence



- ECB has strong incentives to find weaknesses and deal with them in connection with the implementation of SSM.
- According to survey by Goldman Sachs:
 - 89 per cent view test as credible
 - 9 banks expected to fail on average
 - 50 bn euro in average expected capital short fall

Sweden: potentially large benefits from participating in banking union

National banks' and banking groups' assets in relation to GDP, December 2013, per cent



Note. Switzerland as per december 2012.

Sources: ECB, the European Commission, the Swiss National Bank and the Riksbank

But political obstacles to membership

Formally no proper influence over SSM decisions...

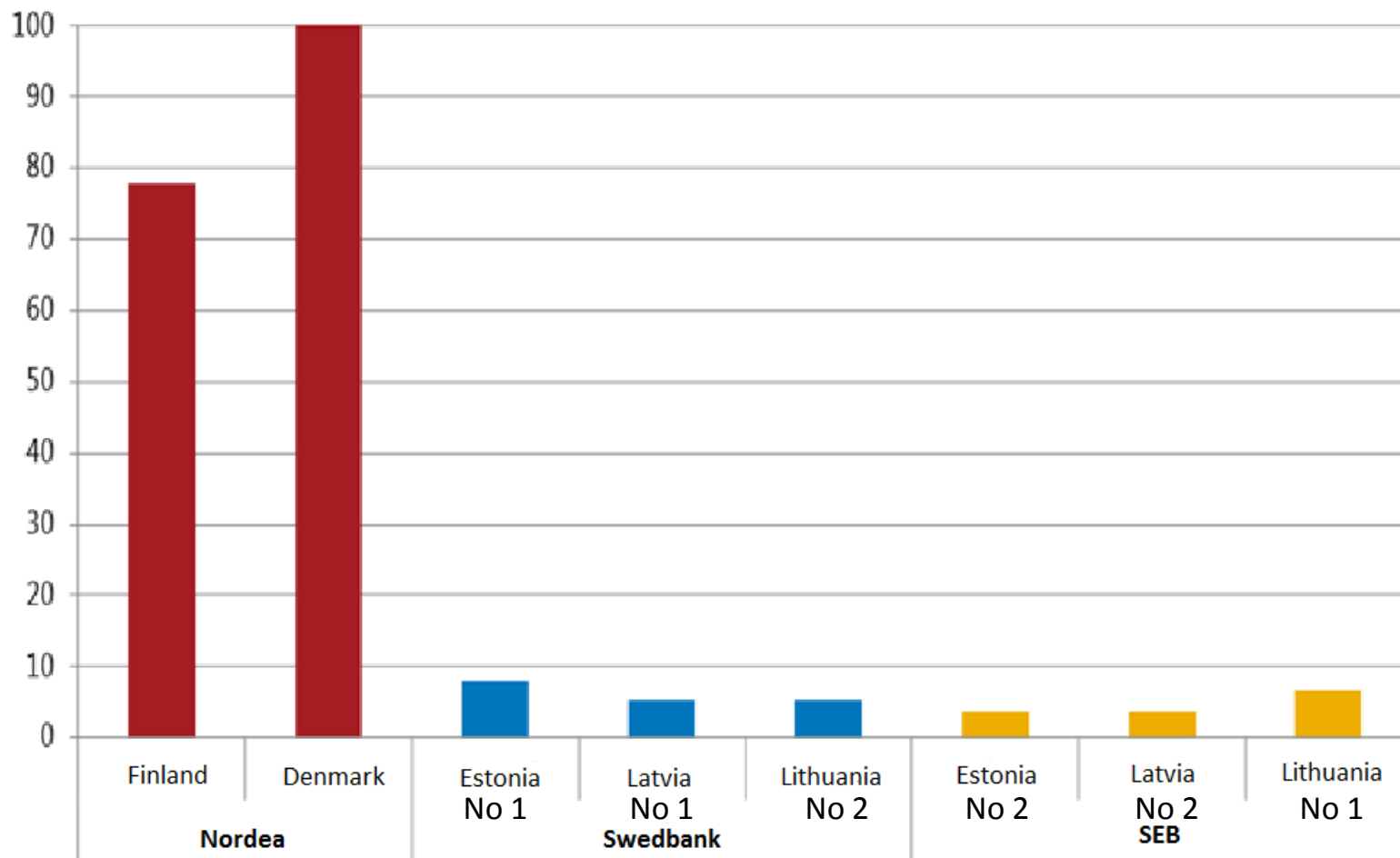


...and poor insurance protection from joint resolution fund.



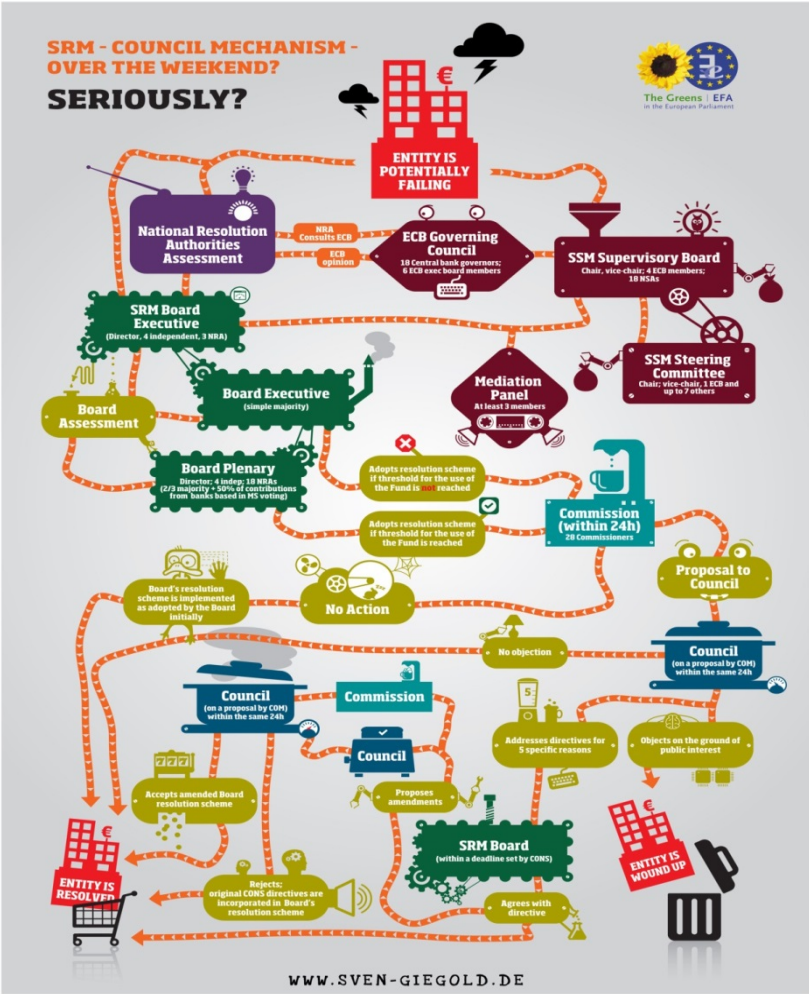
Swedish banks will nevertheless fall under SSM via foreign subsidiaries

Balance sheet (bn €)

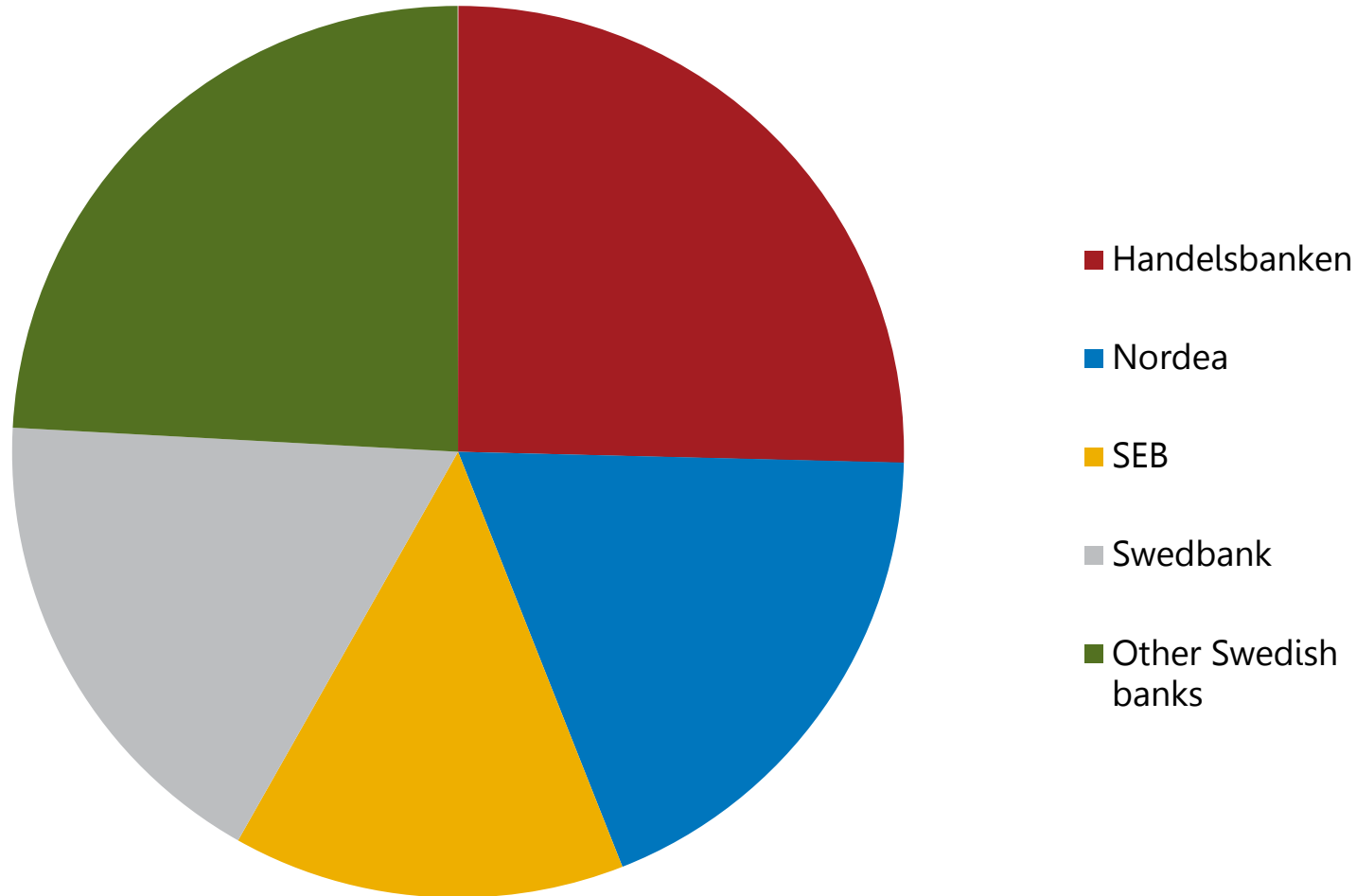


Sources: Bank reports 2012 & the Riksbank

Complicated procedure for bank resolution...



...and fear that bail-in involves large contagion risks in the Swedish case



Note: Swedish banks' total lending to the general public amounted to SEK 9000 billion at the end of the second quarter 2014. Data only covers banks' business in Sweden

Source: Statistics Sweden, financial markets statistics

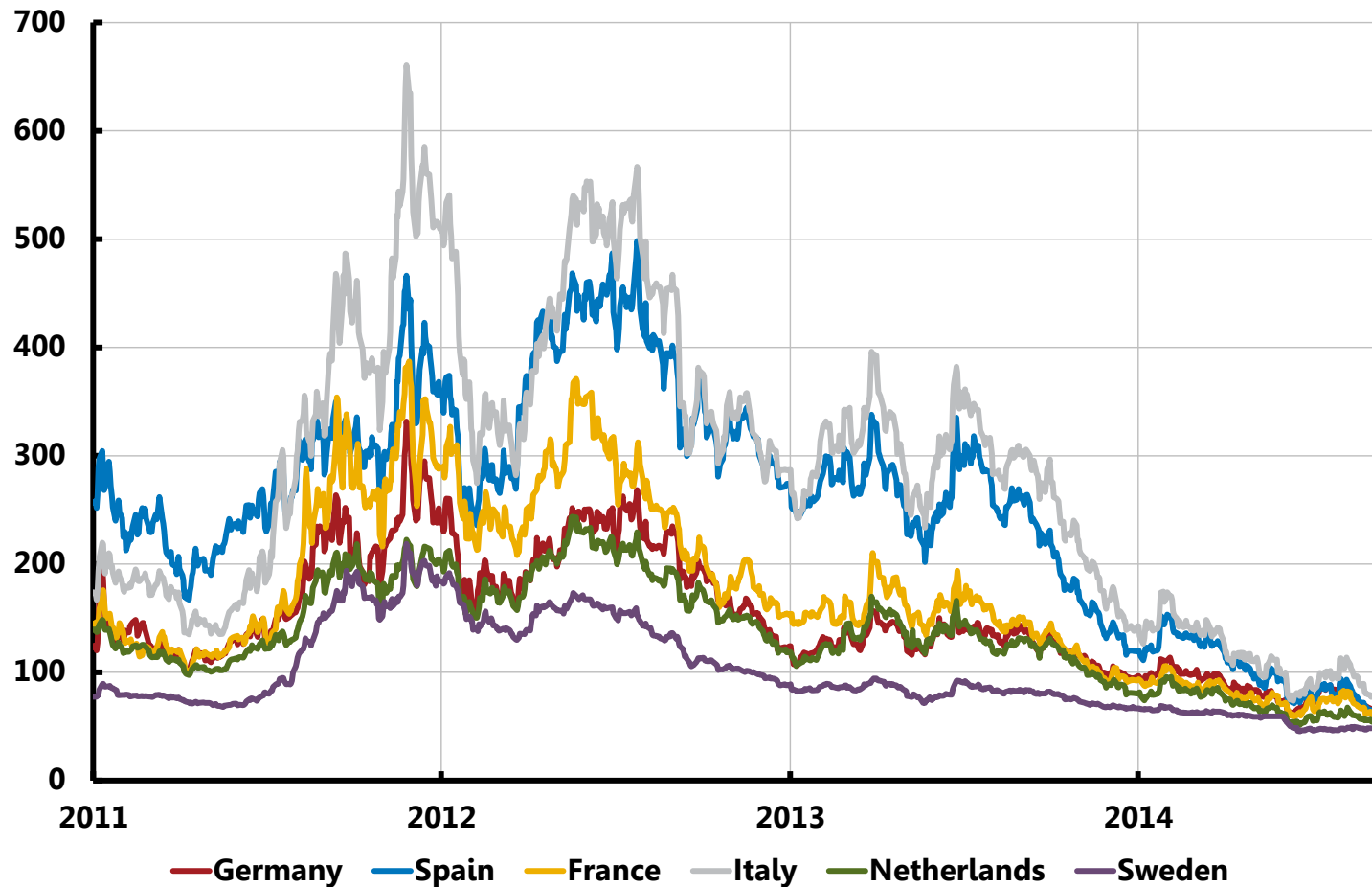
In short...

- Strong banks are needed for economic recovery in Europe...
- ...and a credible AQR is a precondition for regained confidence.
- Although the benefits from participating in a banking union in principle are high...
- ...Sweden will likely stay outside for the time being...
- ...but will still be affected.
- Bail-in can be a challenge (and resolution will be...).

Extra

Indicative cost for unsecured bank funding

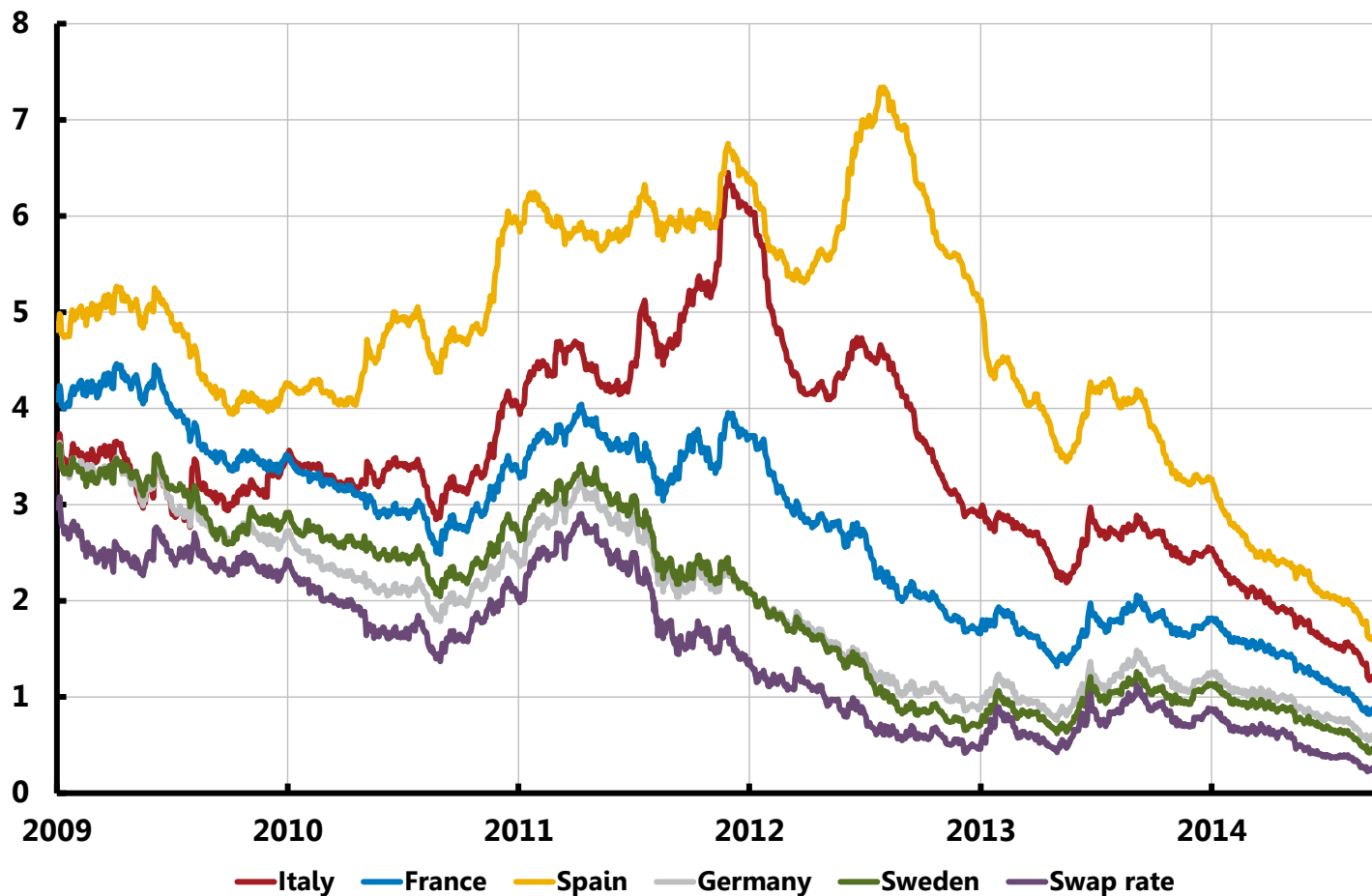
CDS-premia, basis points



Sources: Bloomberg and the Riksbank

Indicative cost for secured bank funding

Yield, percentage points



Sources: Barclays and Bloomberg