

# Sweden and the banking union (SOU 2019:52)

Bruegel 29 January 2020

Fredrik Bystedt, Principal Secretary

# The Inquiry and its remit

- Prepare new legislation and deliberate upon complex policy issues (since 1922!).
- Inquiry's remit adopted December 2017.
- Comprehensive analysis of potential participation.
- Assessing pros and cons as well as risks.
- Sweden retains krona as currency: Participation on *equivalent* terms?
- Neither draft legislation nor give recommendations.

# Points of assessment

- Good supervision and effective management of failing banks
- Financial stability in Sweden;
- Swedish financial markets;
- Swedish banks' competitiveness
- Division of responsibility between national and EU-level;
- EU's economic policy cooperation and its deepening;
- Influence in the European System of Financial Supervision
- Other bilateral, multilateral or regional cooperation and
- Public finances and the EU budget.

# The Inquiry's experts

- Ewa Andersen, CEO, Ass. of Swedish Savings Banks
- Bo Becker, Professor of Finance, Stockholm School of Economics
- Erik Eldhagen, Director, Ministry of Finance
- Johan Hansing, Chief Economist, Swedish Bankers' Ass.
- Dag Hartelius, Ambassador to Hungary (prev. Ambassador to the EU)
- Mattias Hector, Senior Adviser, Riksbanken
- Pär Holmbäck, Head of Department (acting), Riksgälden (SNDO)
- Per Håkansson, Senior Adviser, Finansinspektionen (FSA)
- Lena Johansson, prev. Director-General, National Board of Trade
- Kristina Svahn Starrsjö, Justice of the Supreme Administrative Court
- Anna Widenfalk, Director, Ministry of Finance

# Commissioned reports

- Beck, T. (2019). “Better In or Better Out: Weighing Sweden’s Options Vis-à-vis the Banking Union.” Sieps 2019:2.
- Ritleng, D. (2019). “What if non-euro countries join the banking union? The ECB’s power over non-euro countries.” Sieps (forthcoming).
- Wissén, P. (2019). ”Den svenska finanssektorn i bankunionen.” Swedish House of Finance.

# Preconditions for participation

- No constitutional impediments.
- *Equal* terms in all decision-making but for the ECB governing council.
- Safeguards for participating NEAMS:
  - Object to draft decision from Supervisory Board
  - Object to GC's objection
  - Leave >3 yrs
- Other offsetting factors.
- Political judgement if condition is met.

# Supervision and resolution

- Single rulebook for EU27.
- More flexibility (e.g. P2 requirements, MREL, macro pru) outside but ongoing harmonisation of rules and methods.
- Access to larger resources and benefit from economies of scale (e.g. new methods, benchmarking).
- Less flexibility in large organisation. Less transparency.
- ‘Fresh eyes’ on risks in SE banks. Misjudgement of country-specific risks (in the transition)?
- More efficient supervision and resolution of cross-border banks.

# Safety-net issues

- Access to (much) larger resolution fund.
- Safety net could be more tightly knit outside in a systemic crisis.
- Common deposit insurance of lesser importance.
- No direct impact on the Riksbank's role/mandate but ECB will have the info.



# Implications for financial stability?

Limited consequences in normal circumstances



Uncertainty higher in a systemic crisis situation



# Swedish banks

- Limited (net) effects on larger banks' costs in the longer run. Higher costs for smaller banks.
- Better competitive conditions in the longer run ('level playing field').
- Limited effects on credit supply.
- Positive but limited consequences for Stockholm as a financial centre.

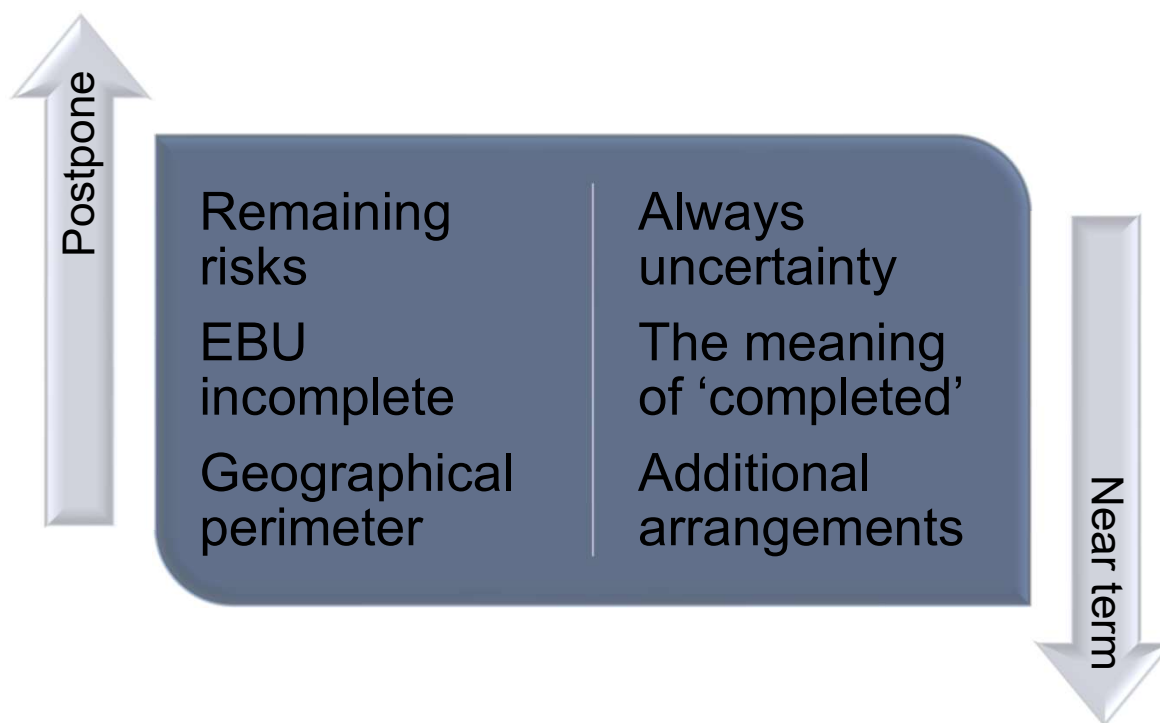
# Sweden's influence in EU policy-making

- Risk of marginalisation, notably post-Brexit.
- Participation would not increase influence significantly but a 'token of commitment'.
- Likely that arrangements can be made to increase presence when EBU is discussed (e.g. eurogroup).

# Key considerations

- Balancing of several (often uncertain) economic and political consequences.
- Economic and financial links with the euro area.
- Internal market aspects.
- Financial stability and influence in a systemic crisis.
- Sweden's influence and the risk of marginalization.
- How to tackle new vulnerabilities (e.g. cyber threats).
- Political accountability.
- Timing of political positioning.

# Timing of final decision?



# Thank you!

<https://www.government.se/legal-documents/2019/12/sweden-and-the-banking-union---summary/>