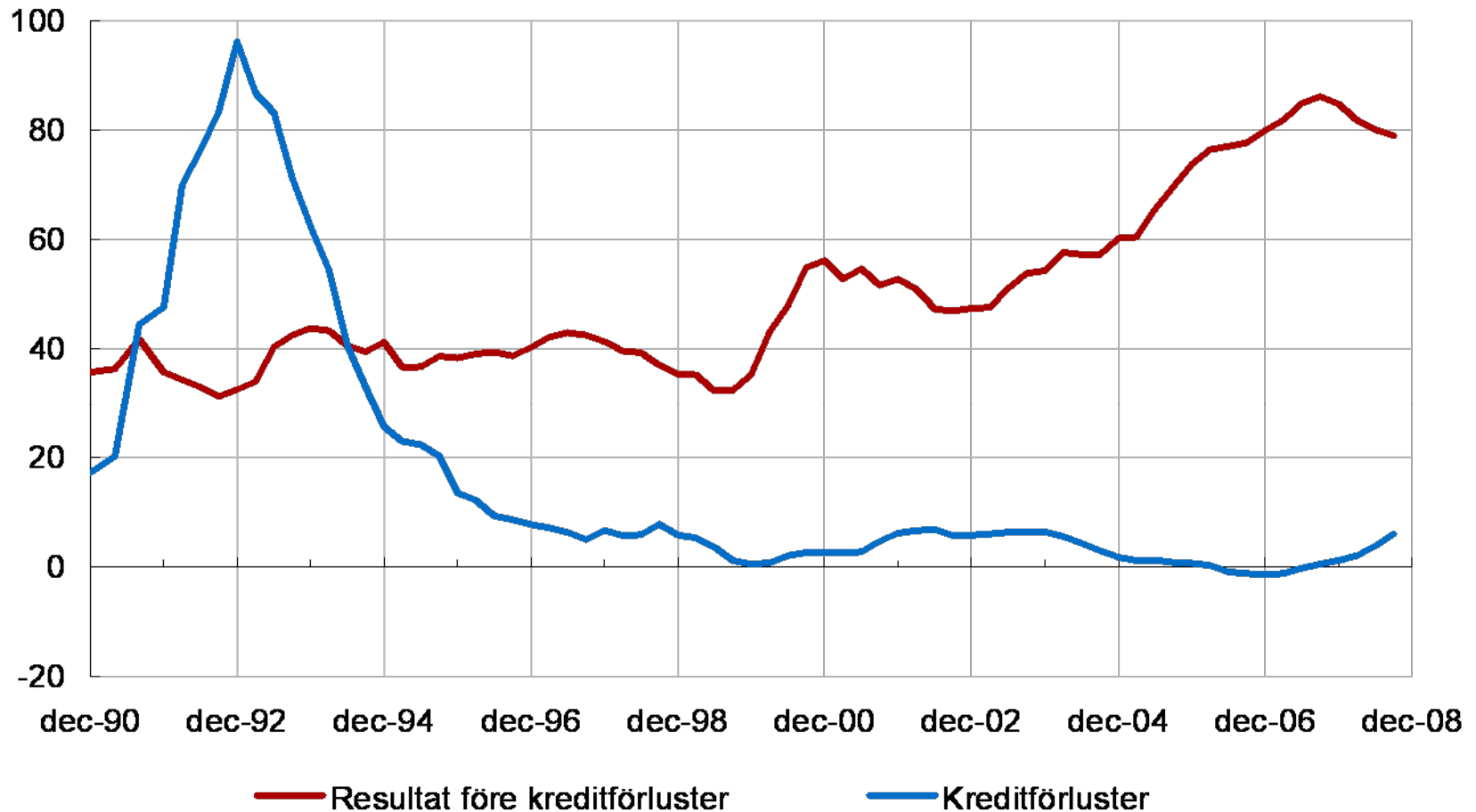


The Nordic crises

Parallels and lessons for today?

Losses then and now

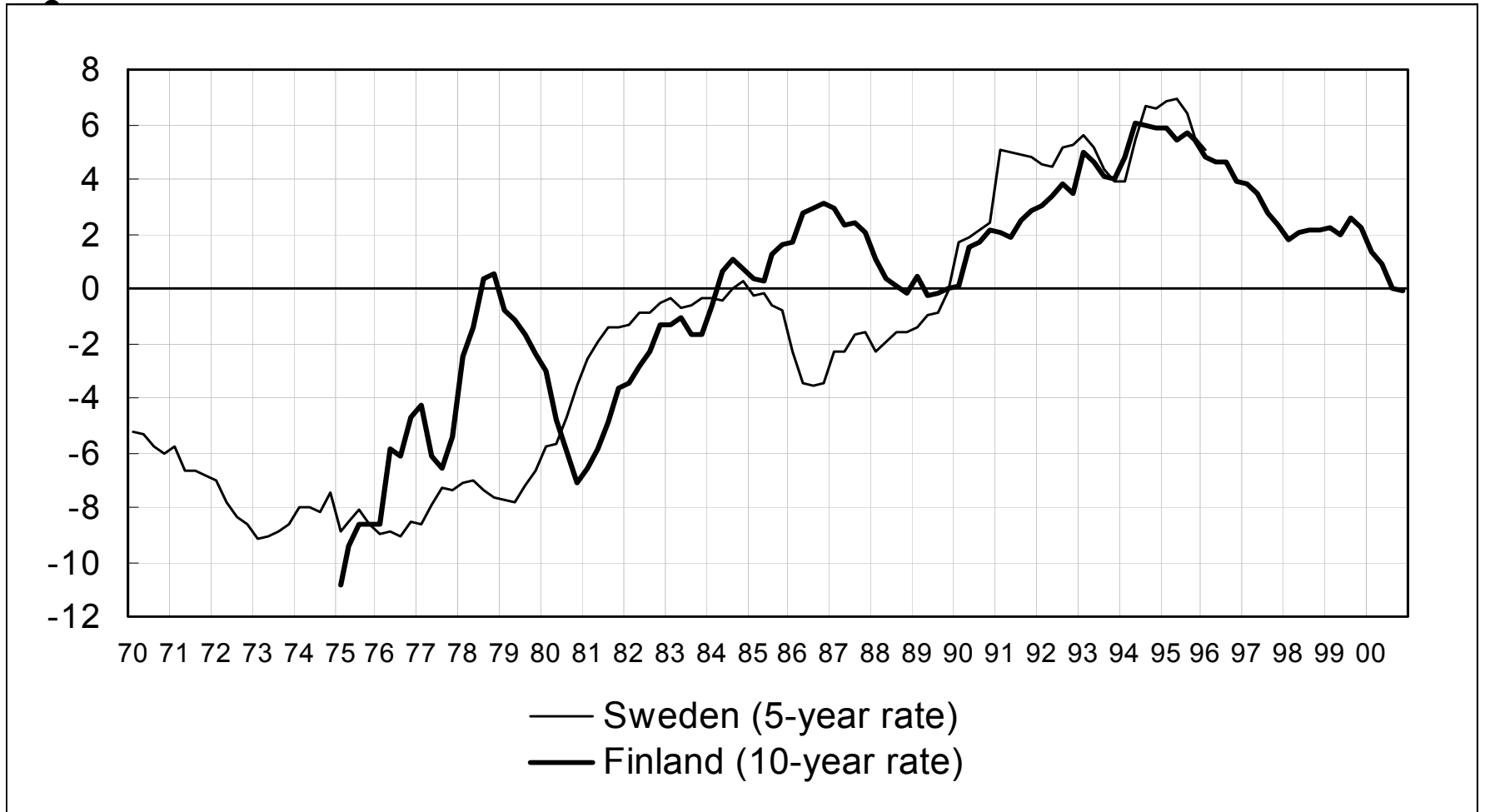
Operating profits and credit losses, major Swedish banks, billion SEK, 2008 prices



Background political factors

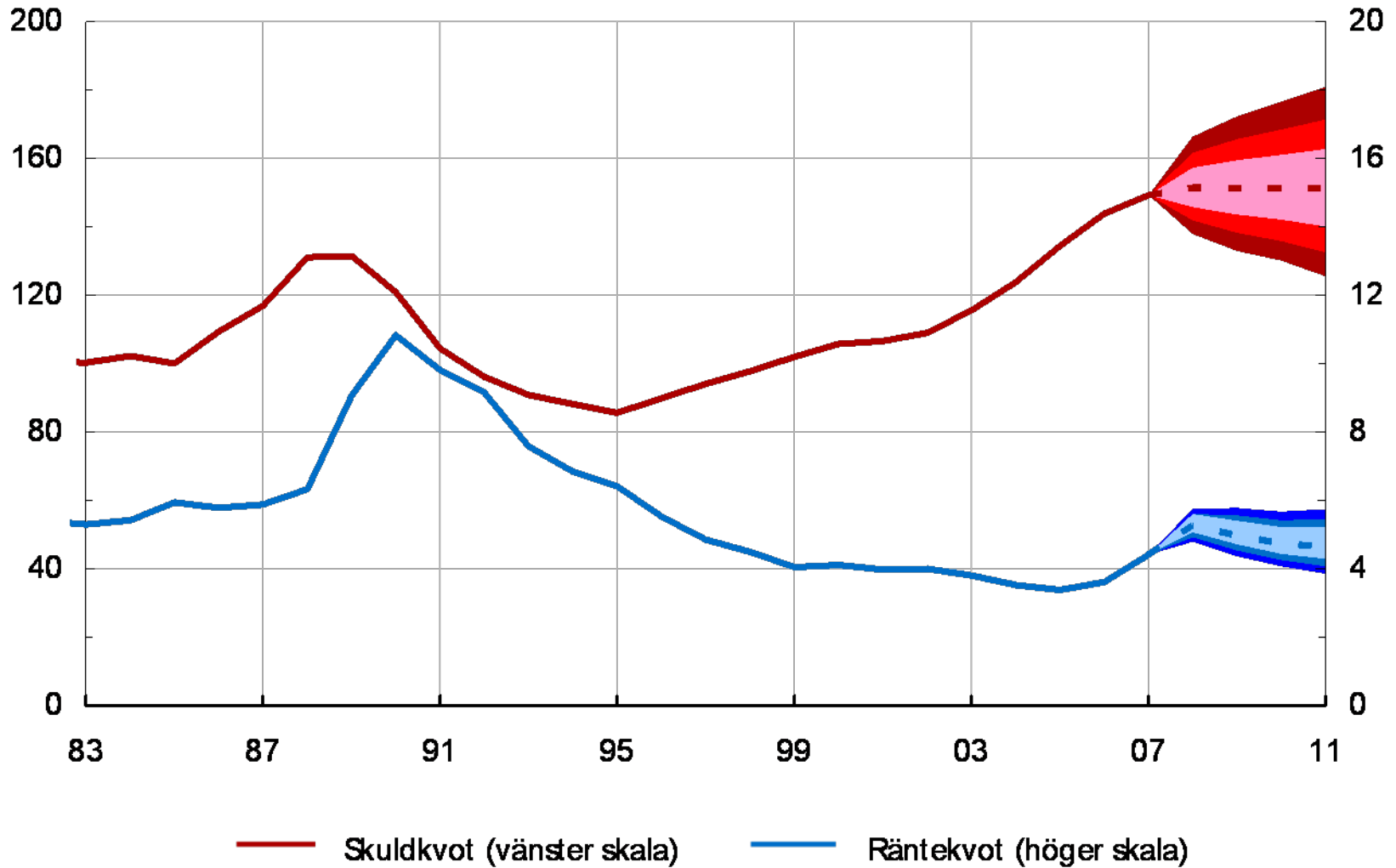
- Deregulation around 1985
 - Credit boom
 - Cultural shock to credit market
 - Competition for turf
 - Lax lending standards
 - Lending boom outside the banking sector
- Macro policy
 - Inflationary fiscal policy
 - Fixed exchange rate
- Tax policy
 - Nominal interest deductible at 50% marginal tax
 - Low property tax

After-tax real interest rates



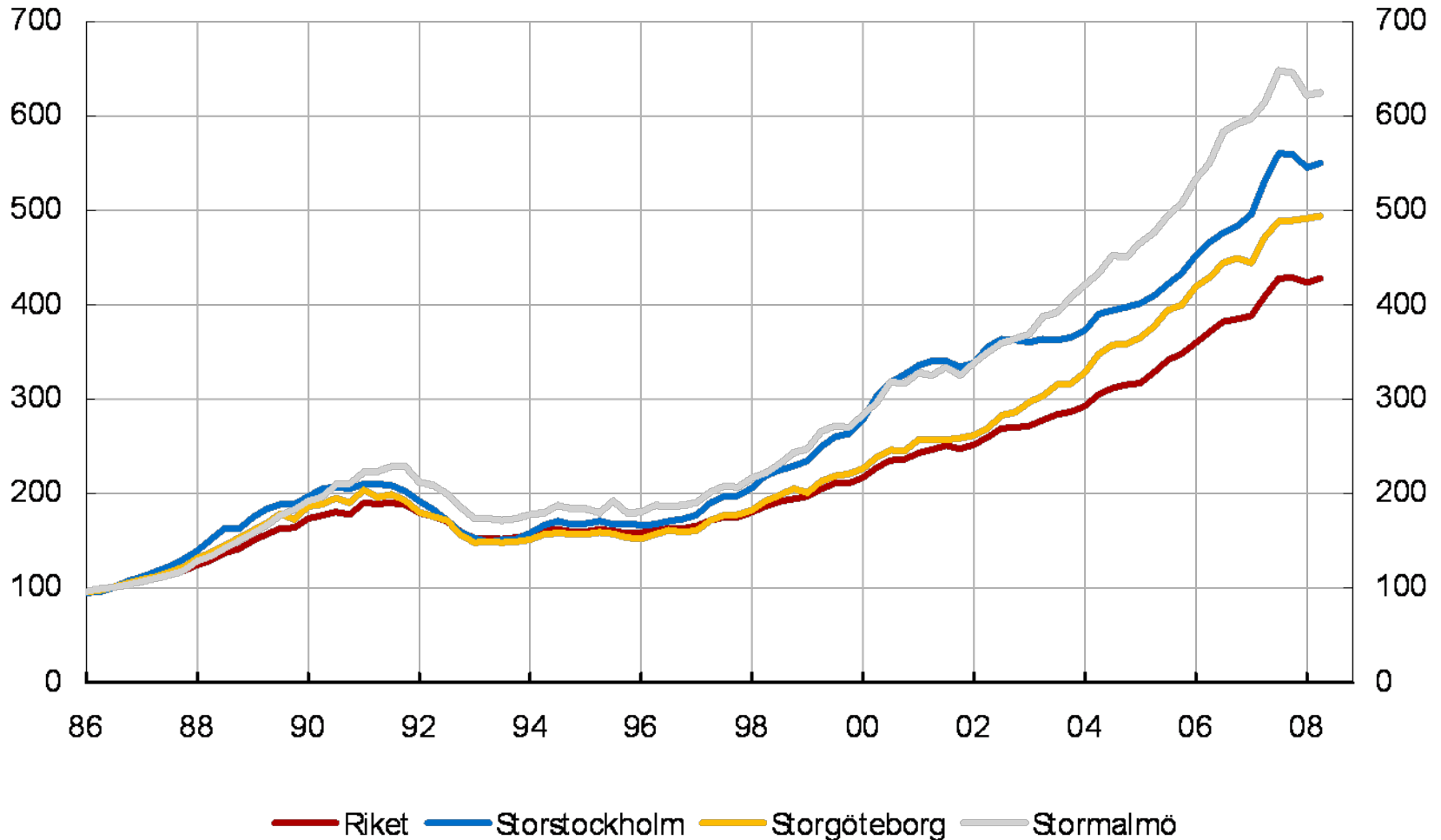
Lending Boom

Household debt and interest payments in percent of disposable income



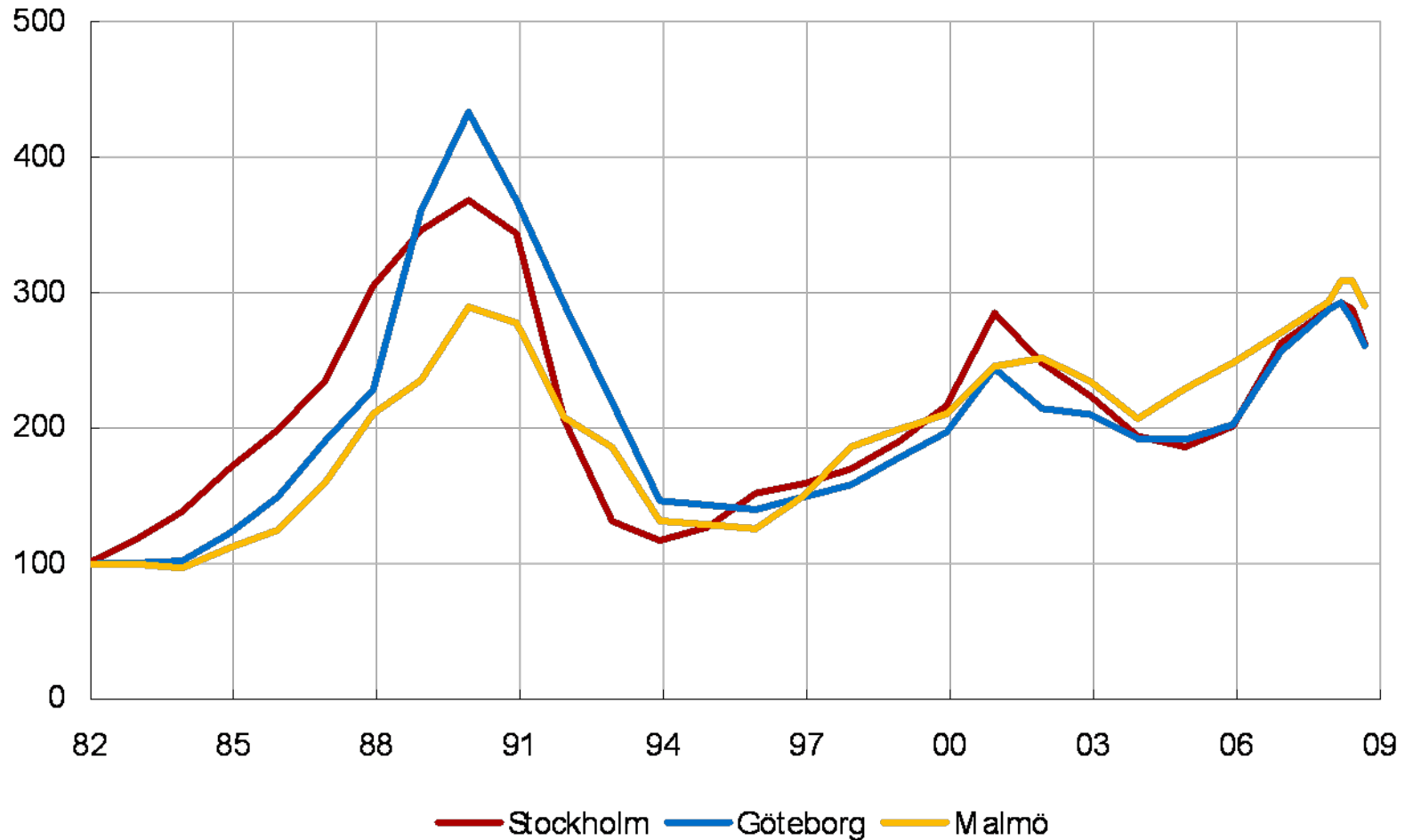
Fuelled house prices

Nominal house price indexes

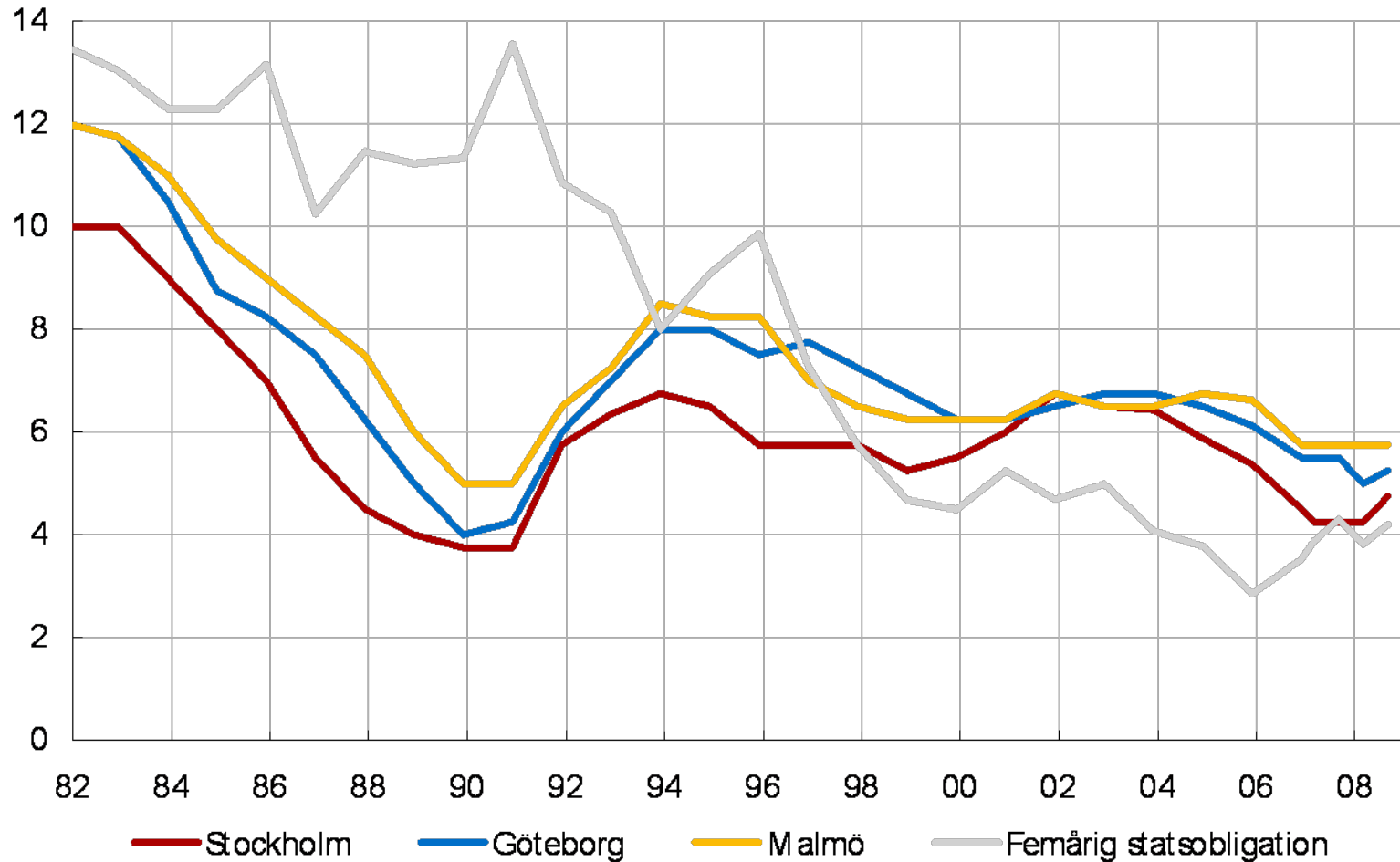


And fuelled prices of office buildings

Real price indexes for prime location office buildings



Cap rates far below interest rates



The Crisis

- Triggers
 - ERM crisis
 - Tax reform (Sweden)
 - Russian crisis (Finland)
- Propagating mechanisms
 - The demise of the finance companies
 - Liquidity disappearing from the commercial paper market
 - Commercial property
 - Fire sales
 - Foreclosures
 - Illiquidity
 - Massive credit losses
 - Housing:
 - Transaction volumes down
 - Small credit losses.

Similarities

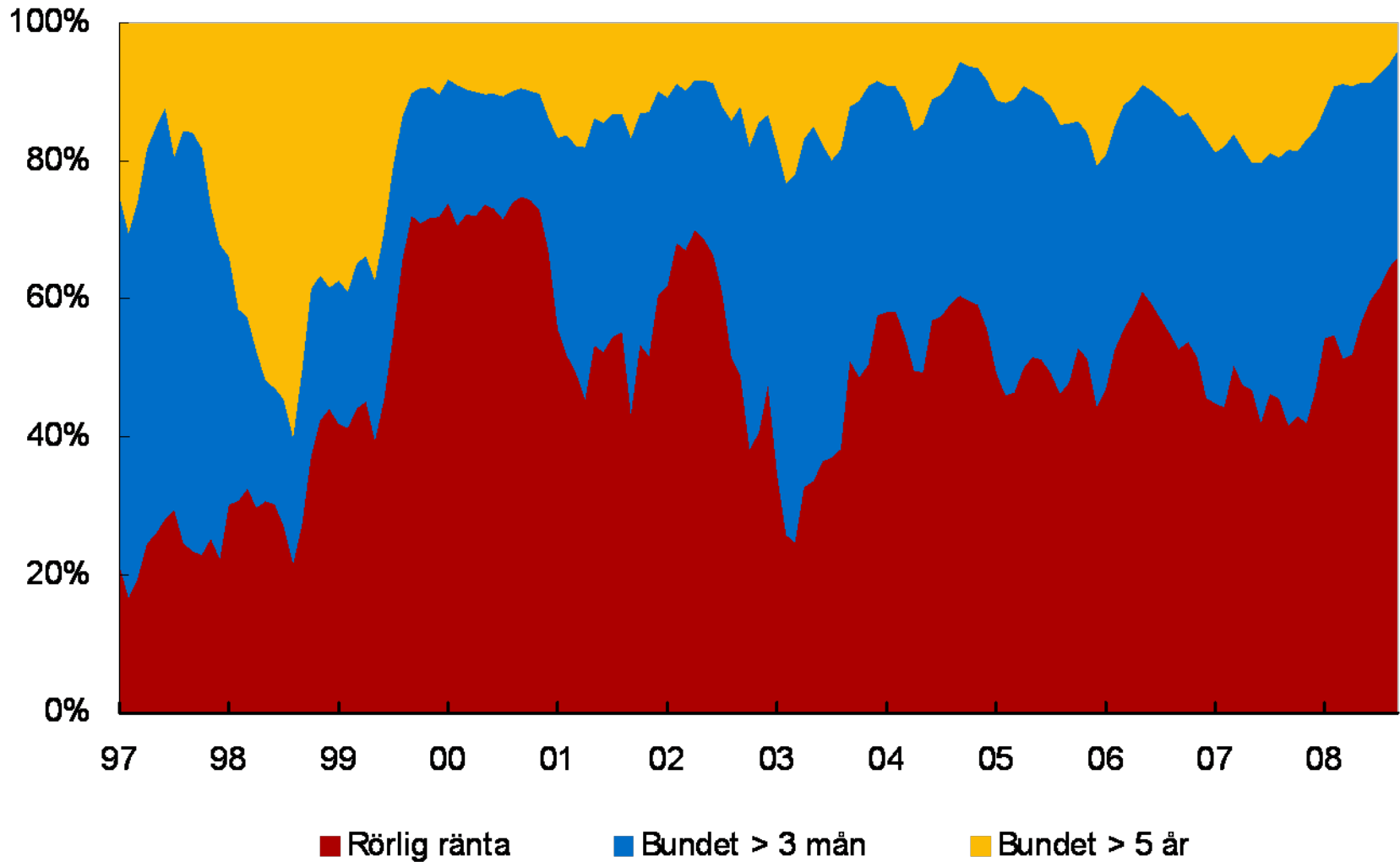
- Boom
 - Deregulation/financial innovation as trigger
 - Lending boom
 - Partly fringe actors relying on money market financing
 - Feedback to asset prices.
 - Favored status of housing.
 - Lax macro policy.
- Crisis
 - Liquidity
 - Funding markets
 - Real estate market
 - Asset price spiral

The Nordic countries 1991 vs United States 2009

- Losses occur where default is an option.
 - Sweden and Finland
 - Commercial real estate
 - United States
 - Owner-occupied housing.
- Lessons from Nordic crisis
 - Look at income rather than collateral values
 - Keep foreclosed properties out of the market.
- Neither is obviously applicable on today's crisis.

Hushållens nya lån fördelade på olika löptider

Procent



Priser på kontorslokaler

Sverige, Storbritannien, Irland, USA

Årlig procentuell förändring



Reala priser och hyror för kontorslokaler i Stockholms cityläge

Årlig procentuell förändring

