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THE PROSPECT OF ADAPTING THE SWEDISH MODEL OF SAVING THE BANKING SYSTEM DURING THE CRISIS IN UKRAINE

Banking services are an integral part of today’s market. The aims of the operation is raising the income of banks and improve customer satisfaction, increase their purchasing capacity, which in turn promotes the development of national economy, especially during the crisis. But achieving this goal requires the use of scientific principles and effective management of banking services.

Swedish banking crisis was part of the great financial crisis that hit Swedish economy in 1991-1993. Its origin is connected with the financial liberalization of the mid 1980’s that led to the lending boom. Fixed crone exchange rate allowed using monetary policy to mitigate the boom by raising interest rates. Boom quickly turned to collapse, especially in the banking sector. Thereby, a Swedish model for resolving the crisis for banks was invented. It includes the following key features.

1. Political unity, which led support a fixed exchange rate policy for crone, which lasted throughout the crisis.
2. Provision of guarantees of bank deposits and liabilities.
3. Proper legal framework based on open distribution of funds.
4. Full disclosure by banks.
5. Differential policy of maintaining the banks and prevention of moral hazard.
6. The role of macroeconomic policy in the completion of the crisis. The fall of a fixed crone exchange rate after speculative attacks was an important step towards recovery. After crone was floating, it sharply devalued, creating an incentive for rapid export growth. The fall in interest rates weakened the pressure on the banking system.

Swedish model for solving the banking crisis was successful, and the Swedish banking system remained stable. It continued to operate without any threats to the banks and without any signs of the credit crisis. It still remained mainly in private ownership and became profitable soon after the crisis.

To use the Swedish experience it is necessary to compare the Swedish crisis of 1990’s and current financial crisis in Ukraine. These two crises are caused by financial crises and the same forces – weak monetary policy and lack of financial supervision.

On the other hand, there are significant differences. The Swedish crisis was a local phenomenon. As a small open economy, Sweden has been able to abandon the fixed rate and achieve a significant devaluation of its currency, which contributed to rapid recovery. This option is unlikely to be possible for individual countries today because the current crisis is global.

Moreover, in Sweden there is a substantial tradition of public confidence in national institutions. Such social capital creates the possibility to achieve fast and lasting agreements on strategic activities.

Despite some differences, the Swedish experience is instructive. Solutions must be implemented within a coherent and comprehensive strategy, which has strict legal frameworks. Support in beneficial terms of financial openness, which will ensure the solvency of the financial system. Furthermore, support should be designed so that the public perceived it as honest and fair.

The Swedish case shows that the problem of the taxpayer is to serve as a source of capital or investor of last resource for recapitalization of financial system, thereby providing a deterrent effect on the decline in the real economy.

Swedish formula can not be imported to other countries because of institutional differences. Nevertheless, its main principles can be applied outside of Sweden today, primarily in four areas. Firstly, Swedish experience shows that the threat of bankruptcy or nationalization must be real, because it forces the private sector to find appropriate solutions. Secondly, the Swedish model shows that banks, at the brink of bankruptcy, which will be nationalized, to be divided into good and bad banks, to encourage the financial system quickly earn again more precisely, the bad assets should be removed from the balance of banks. Thirdly, solution to the banking issue has helped principle of public financial commitment of the Government. Finally, political action must be swift and decisive to stop the cycles that occur during a financial crisis.

Summarizing the outcome, Swedish model should be used as a general template for countries that are faced with a financial crisis, but these countries will need to adapt the details of its implementation, taking into account their own conditions.

Kuzmova, L. The prospect of adapting the Swedish model of saving the banking system during the crisis in Ukraine [Text] / L. Kuzmova // Global Financial Crises and its national specific features: the International Scientific-Practical Conference papers (23-25 April, 2009). – Sumy: UAB NBU, 2009. – P. 40-42.