

Chapter 2

Impact of the 2008 Global Financial Crisis

The 2008 global financial crisis originated in the financial markets before gradually spilling over into the real economy through confidence fallout, capital outflows, reducing consumption, and decreasing export demands. It was rooted in the interplay of weaknesses in financial markets and macroeconomic imbalances in the international economy. As a result, many international banks needed financial support to survive or to maintain normal lending activity. In the Nordic countries it was primarily Icelandic banks that had operated with high risk, thus affecting its neighboring countries as well as the United Kingdom and the Netherlands to a greater degree. No country integrated into the global economy was left unaffected by this financial crisis; Nordic countries reported in this volume are therefore no exception.

To drive Europe's recovery, on November 26, 2008, the European Commission (Europa, 2008) announced a comprehensive Recovery Plan based on two mutually reinforcing elements: first, short-term measures to boost demand, save jobs, and help restore confidence, and second, longer-term "smart investment" to yield clean, energy-efficient higher growth and sustainable prosperity. The plan calls for a timely, targeted, and temporary fiscal stimulus of around US\$256 billion (€200 billion based on 11/26/08 exchange rate) or 1.5 % of EU GDP, within both national budgets (around US\$217.6 billion or €170 billion, 1.2 % of GDP) and EU and European Investment Bank budgets (around US\$38.4 billion or €30 billion, 0.3 % of GDP).

With the early 1990s banking crisis experience and the ensuing persistent structural reforms, these Nordic countries were in a better position (except Iceland) at the onset of the 2008 global financial crisis. Yet, with relatively small economies and heavy reliance on exports, most of them are still hard-hit by this crisis. According to European Commission, Sweden's, Denmark's, and Finland's discretionary stimulus measures in 2009 and 2010 were in the range of 0.7–2.7 % of their GDP (Lindvall, 2011).

In order to present the impact of the 2008 global financial crisis, this chapter first graphically compares the overall economic development of the five countries during the time period from 2005 to 2010. Then, it elaborates on the financial crisis

impact on each country individually in the sequence of Denmark, Finland, Iceland, Norway, and Sweden.

The impact of the 2008 global financial crisis on each country can be easily observed from the following four graphs, namely, the percentage of real GDP growth per capita, total general government debt percentage of GDP, unemployment rate of labor force, and consumer price inflation.

Comparisons of the Five Economies

This section presents four graphs in order to examine these Nordic countries as a whole from 2005 to 2010. Figure 2.1 shows that the five countries had negative **real GDP growth** during the financial crisis (2008 and 2009), except Finland's 0.45 % positive growth in 2008. The sharp decline in 2009 reflects the impact of the financial crisis. The fast rebound of Denmark, Finland, and Sweden explains that these three countries had better recovery, comparing to Iceland and Norway. Among them, Norway had the least fluctuation during the crisis, very likely due to its stronger reserves from the oil revenues. Yet, in 2010 Norway's real GDP growth was still negative. For Iceland, the aftereffect of its financial breakdown needs more time to recover and its real GDP growth was also negative in 2010. Over the 6 years, the real GDP growth development pattern was somewhat similar in Denmark, Finland, and Sweden, with Sweden recovering the best after the financial crisis.

Figure 2.2 indicates the total **general government debt** percentage GDP of the five countries. The reason for reporting government debt is based on an academic research finding. After researching 800 years of financial crises, Reinhart and Rogoff (2009) commented that the overhang of public and private debt is the most important impediment to a normal recovery from recession.

Figure 2.2 indicates that Iceland had increasing government debt after 2007, due to its financial system breakdown. The other four countries largely had similar level of government debt before and after the financial crisis, with Sweden even reducing its debt a little and the other three countries increasing a little after the financial crisis. Yet, it is fair to say that Denmark, Finland, Norway, and Sweden all have sound financial systems that withstood the impact of this financial turmoil. In addition, their government debts were within the EU standard of below 60 % of GDP.

Figure 2.3 shows that all the countries had **unemployment rate** increases starting from 2009, except Norway. Iceland particularly had a drastic raise, due to its financial breakdown. Denmark started out with a much lower unemployment rate than Finland and Sweden; however, the gap narrowed after the financial crisis. Norway's unemployment rate was relatively stable over the 6 years. After the financial crisis, its 2010 rate was even lower than that of 2005, reflecting its successful measure in preserving job opportunities. The unemployment rate development patterns of Finland and Sweden are very similar and became almost

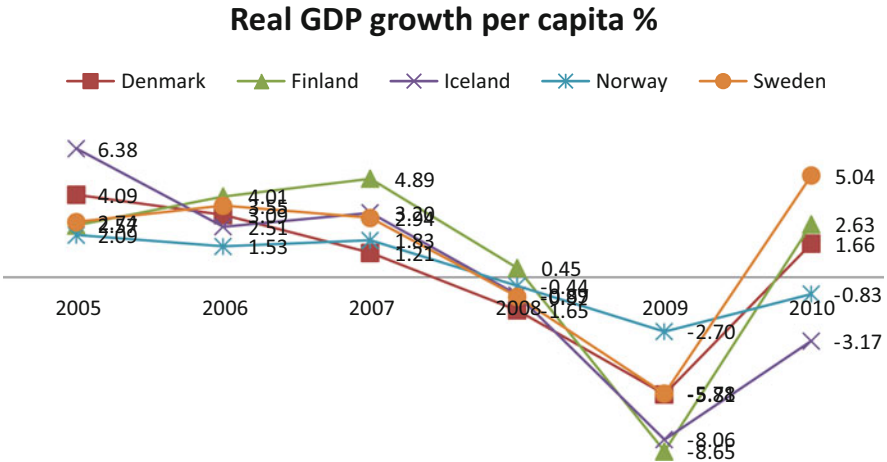


Fig. 2.1 Real GDP growth per capita of Denmark, Finland, Iceland, Norway, and Sweden from 2005 to 2010

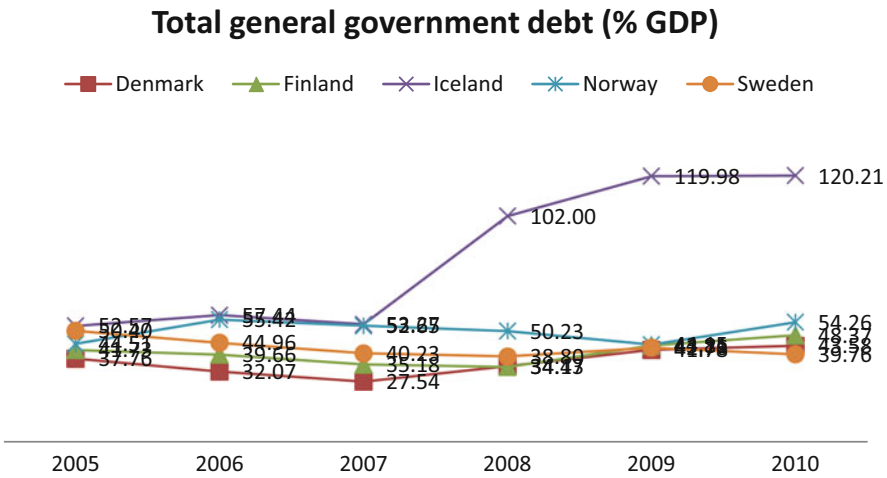


Fig. 2.2 Total general government debt (% GDP) of Denmark, Finland, Iceland, Norway, and Sweden from 2005 to 2010

identical in the last 3 years. When comparing the rate in 2005 and 2010, Finland remained the same, Norway had a reduction, and the other three countries all had an increase.

Figure 2.4 shows the **consumer price inflation** of the five countries. Iceland had a hike in inflation in 2008 and 2009, yet it reduced sharply in 2010. The development pattern of consumer price inflation (CPI) is similar for the other four countries, with gradual increase from 2005 to 2008 and then an obvious decrease in 2009, very

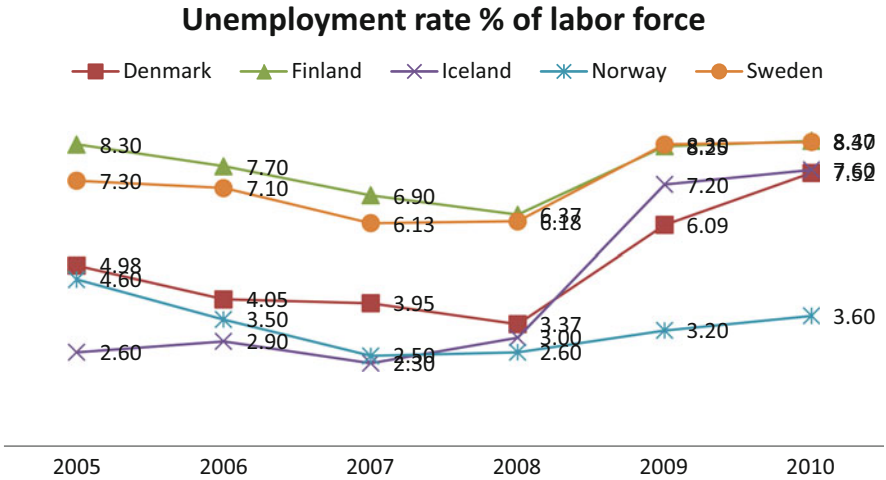


Fig. 2.3 Unemployment rate of Denmark, Finland, Iceland, Norway, and Sweden from 2005 to 2010

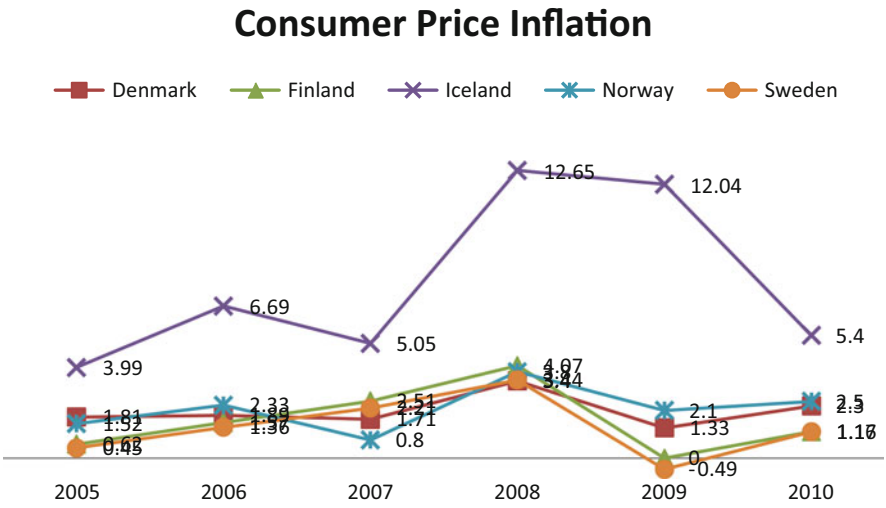


Fig. 2.4 Consumer price inflation of Denmark, Finland, Iceland, Norway, and Sweden from 2005 to 2010

likely because of the effect of the stimulus package. When comparing the CPI in 2005 and 2010, Iceland increases a little and the other four countries had a similar level at the beginning and end of the financial crisis.

In general, the above four figures for the five countries indicate that real GDP growth per capital, unemployment rate, and consumer price inflation show the impact of the 2008 global financial crisis. The total general government debt remained relatively stable, except in Iceland. Interestingly, the development patterns of Denmark, Finland, and Sweden for the presented four indicators are pretty similar. These three countries are also the countries that suffered the most during the early 1990s Nordic banking crisis. Apparently, they have learned their lesson and follow more prudent financial regulations, hence the similar financial status. Iceland unfortunately experienced a financial system breakdown and had a very different profile from the other countries. Norway has its own distinctive pattern, as it enjoys the high petroleum revenues and had more leeway during the financial crisis. In general, these four figures show that the 2008 financial crisis did exert some impact on these countries' economic development, yet it was not as serious as expected and their recovery was obvious, except Iceland.

In what follows, we briefly describe the impact of the 2008 global financial crisis on these five Nordic countries. The depth of the report depends on the English literature available for each country. For readers to gain a general picture about the efforts that each country has put in to mitigating the negative impact of the financial crisis, we have summarized the details of stimulus packages implemented by these countries in Appendix 1. Please note that the reported package is based on publicly available data and is not an exhaustive list. In addition, the reported amounts of stimulus packages were based on the exchange rate at the time of each stimulus and thus vary. Readers can also refer to Appendix 2 for the important meetings conducted by key global leaders during this financial crisis.

Denmark

Denmark is a country highly dependent on foreign trade with a modern market economy that features a high-tech agricultural sector, state-of-the-art industry with world-leading firms in pharmaceuticals, maritime shipping, and renewable energy (Central Intelligence Agency [CIA], 2011). The Danish economy did not escape the global financial and economic crisis (OECD, 2009), primarily due to mismanagement and lax credit policies resulting in an enormous deposit deficit that became impossible to finance after the interbank money market froze (Carstensen, 2011). Before the crisis, the Danish economy was already overheated through an explosion in housing prices from 2005 to 2007, with real GNP in Denmark falling dramatically (Carstensen, 2011). The deterioration in financial conditions and collapse of world trade, along with the ending of the property boom, hit Denmark hard. Danish GDP was cut by 0.9 % in 2008 and 5.2 % in 2009, although it did not fall as much as in some neighboring countries. The historically low levels of unemployment rose sharply with the recession but remain about half the level of the EU (CIA, 2011). Nevertheless, Denmark entered the recession with a strong fiscal position and a sound fiscal policy framework (CIA, 2011; OECD, 2009). In addition, large budget surpluses have reduced debt, and the government

had a positive net asset position of about 5 % of its GDP in 2008 (OECD). These favorable conditions had helped the country weather through the crisis.

The strength of the Danish system is its transparency and low origination costs. For instance, compared to the US subprime problem, Danish mortgage bonds were a liability of the mortgage bank issuing it and were supported by the capital, reserves, and income of the bank as well as by the mortgage loans that collateralize that particular bond. If the collateral happened to suffer large losses, the bond holders were protected by the entire resources of the bank (The Mortgage Professor, 2009). Therefore, its mortgage bond market continued to function during the financial crisis. Although the system experienced some stress, it was much less affected by the subprime outbreak (OECD, 2009).

To deal with the crisis, financial sector policy measures in Denmark were extensive. The measures taken by the Danish state were focused on two overall challenges: sustain financial stability to keep the financial system afloat and keep the financial crisis from causing too much turmoil in the real economy (Carstensen, 2011). A range of temporary measures were taken by the central bank to provide liquidity and credibility to the Danish financial system, such as creating temporary credit facilities, offering an expansion of the collateral base, and creating an option to obtain credit on the basis of excess capital adequacy. Among various measures, two important bailout bank packages (Bank Package I and II) were implemented (Carstensen, 2011). Bank Package I, presented on October 5, 2008, issued a 2-year state guarantee of all deposits (exclusive of covered bonds and mortgage credit bonds), with the state's support of US\$777 billion (DKK 4,200 billion) in deposits. On January 18, 2009, Bank Package II was launched to ensure normal lending activity by banks. Specifically, Danish government offered a hybrid capital totaling US\$17.8 billion (DKK 100 billion) to its banks and mortgage banks (Kredittilsynet, 2009). Thus, the liquidity measures were strengthened by prolonging the government guarantee scheme on deposits to 2013. The package also strengthened regulation and supervision and entrusted the Danish Financial Supervisory Authority (FSA) to conduct at least a yearly review of institutions' solvency needs so that their needs and risks can be made public (Kredittilsynet, 2009).

The creation of the bailout fund by the government and the Danish banking sector serves to guarantee all claims of unsecured creditors on participating banks (OECD, 2009). The regulatory resources to supervise medium- and smaller-sized institutions have also been increased. Particularly, fiscal targets are set according to a medium-term framework based on fiscal sustainability assessments. In addition to increased government investment spending, the previously decided tax cuts took effect in 2009. A major tax reform package was legislated in early 2009, aimed at raising labor supply and reducing the government financing gap in the long run but providing demand stimulus in the short run. The release of funds from the compulsory private Special Pension scheme significantly eased households' liquidity constraints (OECD, 2009).

Furthermore, on October 27, 2008, Denmark's National Bank and the European Central Bank established an equivalent swap line for 12 billion Euro (Bernstein, 2010). The swap facility was very helpful in addressing the banks' liquidity needs.

Without negative effect on the foreign exchange reserve, it supported the Danish krone indirectly by calming and sending a strong positive signal to the market. In November and December 2008, the Danish government took another step in issuing 30-year bonds; thus, Danish pension funds restructured their portfolios from foreign to domestic securities (Bernstein, 2010). These measures contributed strongly to keeping capital outflows at a manageable level during the crisis and stabilized the Danish economy.

Finland

Finland has made a remarkable transformation from a farm and forest economy to a diversified modern, open, highly industrialized, and free-market economy with vibrant information and communication technology sectors (CIA, 2011; Heritage Foundation, 2012). In the twenty-first century, the key features of its modern welfare state are a high standard of education, equality promotion, and national social security system. Finland has been one of the best performing economies within the EU over the past decade. It is also renowned as one of the innovation powerhouses in Europe (Palkamo, 2011). In recent years, trade has become more and more important with exports accounting for over one-third of its GDP.

Despite the fact that Finland was insulated from the direct effects of the recent global financial crisis due to its prudently managed financial sector, the worldwide recession and the collapse in trade hit this small and export-driven country harder than most other OECD countries (CIA, 2011; OECD, 2010; Tervanen, 2009). Real GDP declined by over 9 % from the peak in mid-2008 to the second quarter of 2009, led by declining export volumes of almost one-third. This collapse in trade can to a large extent be attributed to Finland's high dependence on information and communication technology (ICT) and capital goods exports, and its exceptional exposure to hard-hit markets such as Russia (OECD, 2010).

Finland's financial system is highly internationalized and is vulnerable to the deterioration in global financial markets. Nonresident investment owns about 80 % of the publicly traded companies, and about one-quarter of the businesses is invested by nonresidents (Lin, 2009). In addition, a majority of the large companies in Finland are multinational corporations. For instance, with deep involvement in Icelandic banks, the breakdown of Icelandic financial system affected Finland greatly. The takeover of the three largest Icelandic banks by the Icelandic government was also reflected in the Finnish branches of these banks. After Icelandic Kaupthing Bank suspended operations of its Finnish branch in October 2008, the Finnish government provided a state guarantee against the legal risks incurred by the parties taking part in the arrangement. Yet, this approach differs from the solution adopted in other EU countries, because it provides for a more rapid and convenient recovery for depositors (Tervanen, 2009).

To revive the economy, the Finnish discretionary stimulus measures were similar in size to the expansionary packages that were adopted in other Nordic

countries, amounting to 1.7 % of GDP in 2009 (IceNews, 2009). The composition of the package included 40 % of the measures represented tax cuts and the abolition of employers' national insurance contributions; approximately 20 % were categorized as construction, renovation, and civil engineering; 2 % went to labor policy and education; and 3 % went to benefit increases (Lindvall, 2011). These priorities are consistent with the agenda of the government and with the economic model that Finnish government has built after the deep recession of the early 1990s. A large portion of the taxes collected at the central level are transferred to local governments and social security funds; consequently, local governments have a lot of autonomy and play a large role in public service delivery (OECD, 2011a). Therefore, for successful implementation, the local governments need to take their share of the responsibility.

Iceland

Prior to the 2008 crisis, Iceland had achieved high growth, low unemployment, and a remarkably even distribution of income. Literacy, longevity, and social cohesion are first rate by world standards. The economy depends heavily on the fishing industry, which provides 40 % of export earnings, more than 12 % of its GDP, and employs 7 % of the workforce (CIA, 2011). In the last decade, Iceland's economy has been diversifying into manufacturing and service industries, particularly within the fields of software production, biotechnology, and tourism. In 2007, the Icelandic government had a relatively healthy balance, with sovereign debt at 28 % of its GDP and a budget surplus of 6 % of its GDP. Much of Iceland's economic growth in recent years came as the result of a boom in domestic demand following the rapid expansion of the country's financial sector after the privatization of the banking sector in the early 2000s.

The growth in the banking sector laid the basis for substantial macroeconomic imbalances. At the end of 2007, household debt measured close to 220 % of disposable income, of which 80 % was indexed to domestic price levels, while around 10 % was denominated in foreign currency (Kreditilsynet, 2009). Household borrowing was mainly channeled into the housing market and to consumption, contributing to an overheated housing market and high inflation. The corporate sector also showed a substantial debt buildup in the period. Nonfinancial firms' debt measured over 300 % of its GDP in 2007. Icelandic banks accounted for about two-thirds of these loans, which were mainly denominated in foreign currency (Kreditilsynet, 2009).

The aggressive expansion of Icelandic domestic banks in foreign markets and heavy borrowing by consumers and businesses in foreign currencies caused the buildup of considerable systemic risk for such a small economy (Economic Freedom, 2011). Worsening global financial conditions throughout 2008 resulted in a sharp depreciation of the Icelandic currency krona vis-à-vis other major currencies. As a result, Iceland's financial sector was severely affected by the global financial

turmoil. The foreign exposure of Icelandic banks, whose loans and other assets totaled more than 10 times the country's GDP, became unsustainable (CIA, 2011).

At the end of the second quarter of 2008, the Icelandic stock exchange had dropped by more than 90 %. Inflation soared to 13.9 % in the third quarter of 2008 from 3.8 % one year earlier (Carey, 2009). Since October 2008, 14 % of the workforce had experienced reductions in pay, and around 7 % had had their working hours reduced. Iceland's three largest banks collapsed in late 2008. The general government budget balance (excluding debt write-offs) plunged from near balance in 2008 to a deficit of 10 % of its GDP. Total direct fiscal cost was about 20 % of its GDP, which is higher than in any other country except Ireland (OECD, 2011b).

Since the collapse of Iceland's financial sector, government economic priorities have included stabilizing the krona, reducing Iceland's high budget deficit, containing inflation, restructuring the financial sector, and diversifying the economy (CIA, 2011). During the crisis, Iceland had been able to secure over US\$10 billion in loans from the International Monetary Fund (IMF) and other countries to stabilize its currency and financial sector, and to back government guarantees for foreign deposits in Icelandic banks (CIA). Since around US\$1,285 million (£840 million) in cash from more than 100 United Kingdom (UK) local authorities was invested in Icelandic banks (BBC, 2008), negotiation was settled that up to 4 % of Iceland's gross domestic product (GDP) will be paid to the UK from 2017 to 2023. In addition, the similarly involved Netherlands will receive up to 2 % of Iceland's GDP for the same period (Valdimarsson, 2009).

On Oct. 14, 2008, the Central Bank of Iceland drew on its swap facilities with the central banks of Denmark and Norway for around US\$273 million (€200 million) each. Iceland has swap facilities with the other Nordic countries for a total of around US\$2 billion (€1.5 billion) (Central Bank of Iceland [CBI], 2008). It was also seeking assistance from the European Central Bank (ECB) (Kennedy, 2008). The IMF-led package of US\$4.6 billion was finally agreed on November 19, 2008, with the IMF loaning US\$2.1 billion and another US\$2.5 billion of loans and currency swaps from Norway, Sweden, Finland, and Denmark. In addition, Poland offered to lend US\$200 million and the Faroe Islands offered US\$50 million, about 3 % of Faroese GDP (Brogger & Einarsdottir, 2008). The Icelandic Prime Minister's Office also reported that Russia offered US\$300 million. Later, Germany, the Netherlands, and the UK also announced a joint loan of US\$6.3 billion (€5 billion), related to the deposit insurance dispute (Dutch News, 2008; Mason, 2008).

From the above report, it is clear that the world organization, such as IMF, plays a very important role in stabilizing the world economy. Countries mentioned also offered timely assistance to help Iceland combat its financial turmoil.

Norway

The Norwegian economy features a combination of free-market activity and government intervention. Norway is highly dependent on the petroleum sector, which

increased its share to 28 % of its GDP in 2008 due to high oil prices (CIA, 2011). The value of exports accounted for 48 % of its GDP in 2008, while that of imports accounted for 28.9 % of its GDP (Norwegian Confederation of Trade Union, 2010). Being a small and open economy with free movement of capital, the negative effects of international financial troubles were rapidly reflected in the dollar-based Norwegian interbank market. When the dollar market completely dried up in the wake of the Lehman Brothers' failure, it became difficult for Norwegian banks to obtain funding (Kredittilsynet, 2009).

The turmoil spread quickly to Norway. Oslo Børs stock market dropped as much as 54 % in 2008 (Kredittilsynet, 2009). Private consumption in particular fell sharply. In the fourth quarter of 2008 and the first quarter of 2009, Norway experienced negative GDP growth, but growth picked up slightly again in the second quarter of 2009 (Halvorsen, 2009). Unemployment rose far less than in most other countries and was just above 3 %. Compared to many countries, Norway managed the 2008 financial crisis relatively well.

Yet, its government adopted the most ambitious fiscal policy measures in more than 30 years when compared with other countries (Halvorsen, 2009; Juel, 2011; Kredittilsynet, 2009). The stimulus package entails an overall budget impulse of 2.3 % of Norway's mainland (non-oil) GDP (Kredittilsynet). The use of petroleum revenues, as measured by the structural, non-oil budget deficit, was estimated to be around US\$20.8 billion (NOK 130 billion), reflecting the authorities' large financial room for maneuvering (Juel, 2011). Extensive measures to stabilize the financial markets were established, which improved Norwegian banks' access to liquidity and long-term funding, and strengthened individual banks' ability to uphold lending activity to households and businesses (Halvorsen, 2009).

On October 12, 2008, the government presented a package to give banks better access to liquidity and financing, thus to calm and provide confidence in the financial market. For example, with a limit of around US\$56 billion (NOK 350 billion), the government would give banks access to collateral that could facilitate new long-term borrowing; the banks could also exchange preferential bonds for government securities (Kredittilsynet, 2009). In addition, the Norwegian Guarantee Institute for Export Credits (GIEK) was authorized to issue new loan commitments up to a limit of around US\$12.8 billion (NOK 80 billion) for the "general guarantee arrangement" and around US\$1.04 billion (NOK 6.5 billion) for the "construction loan arrangement" for constructing ships. In the fiscal budget for 2009, the government entailed a fiscal policy stimulus of around US\$3.2 billion (NOK 20 billion), breaking down to around 16 % in tax relief and 84 % in increased public spending, distributed across local and central government authorities (Kredittilsynet, 2009). The government also gave special priority to local authorities and transport projects, allocating around US\$1.02 billion (NOK 6.4 million) and US\$0.61 billion (NOK 3.8 billion), respectively (Kredittilsynet, 2009).

Norway's financial package was presented on February 8, 2009, to assure credit supply to households and firms and to stabilize the financial market. In addition, the government established two new funds with a total capital of around US\$16 billion (NOK 100 billion). The Government Finance Fund supplied up to US\$8 billion

(NOK 50 billion) of capital to banks, which enabled banks to maintain normal lending activities. The Government Bond Fund (GBF), managed by the National Insurance Scheme Fund, was a temporary fund capped at US\$8 billion (NOK 50 billion) that invested in Norwegian bonds. Together with other investors, the GBF purchased ordinary bonds issued by Norwegian firms in both the primary and secondary markets (Kredittilsynet, 2009). Kredittilsynet (the Financial Supervisory Authority of Norway) particularly encouraged the banks to make use of the instruments offered by the Government Finance Fund to assure sound capital adequacy and a robust basis to meet households' and firms' credit needs (Kredittilsynet). However, only small fractions of the capital allocated to the two funds were used as the capital market quickly recovered and functioned better during the spring of 2009 than expected (Juel, 2011). Readers can refer to Appendix 1 for the details of the stimulus package.

In addition to the above stated stimulus package, other measures also help revive the Norwegian economy. The introduction of a "swap scheme" along with a more flexible liquidity supply to Norwegian banks gradually brought a significant improvement in the functioning of the short-term money market. Extending the duration of "swap loans" from 3 to 5 years was also important in providing security (Kredittilsynet, 2009).

Furthermore, Norway's exports mainly consist of commodities, semifinished goods and equipment for offshore oil and gas exploration, and such demands did not collapse as machinery for manufacturing, trucks, and other vehicles did. Moreover, the price collapse in the commodities markets was avoided mainly due to China's continued strong economic growth, as China was using about 50 % of the world's metal production and about 10 % of world consumption of oil (Juel, 2011).

Another contributor was Norway's relatively large public sector, which helped stabilize the economy in turbulent times for it employs one-third of the labor force in Norway. These jobs were not directly threatened by the crisis, and the continued requirement for pensions, health care, and education ensures that the supply of these services was protected from the market turmoil (Halvorsen, 2009).

In summary, Norway's high oil revenues and reserves certainly contained the total effect on the Norwegian economy and resulted in a quick turnaround. Yet, its financial solidity was the result of decadelong fiscal discipline that the government's revenue from the petroleum sector should be accumulated in a sovereign wealth fund, and only the fund's estimated real return can be used in the annual budgets (Juel, 2011). Such discipline contributed to the reserves that can be maneuvered during the bad times.

Sweden

Sweden is a small and open economy with extensive foreign trade and a financial market that is well integrated with the international markets. Aided by peace and neutrality in the twentieth century, Sweden has achieved an enviable standard of

living under a mixed system of high-tech capitalism and extensive welfare benefits. Sweden has a modern distribution system, excellent internal and external communications, and a skilled labor force (CIA, 2011). Its banking regulations and lending practices are prudent and sensible after the early 1990s banking crisis. Monetary stability is well maintained, with inflationary pressures under control.

Over time, Sweden's dependence on the outside world has increased. The proportion of its exports increased from just over 20 % in 1990 to around 40 % in 2007 (Oberg, 2009), and total trade accounted for more than 50 % of its GDP (Economic Freedom, 2011). This means that an international economic downturn and a decline in export demand would have serious consequences for the production and employment in Sweden. In addition, the market funding rather than deposits accounted for around 60 % of the banks' total balance sheets and was acquired on international markets (Oberg, 2009).

Despite strong finances and fundamentals, the Swedish economy slid into recession in the third quarter of 2008, and growth continued downward in 2009 as deteriorating global conditions reduced export demand and consumption (CIA, 2011). Beginning in the last quarter of 2008, the Swedish manufacturing industry was affected most sharply (Jochem, 2010). Yet, Sweden's prudent fiscal management in the years prior to the global economic turmoil created fiscal space for some stimulus measures, including labor market support and social security tax cuts (Economic Freedom, 2011). Aggressive interest rates cuts, unconventional policy measures, and exceptional government support to the financial system all helped contain the length and depth of the recession (Gurria, 2011).

Drawing on lessons learned in the early 1990s banking crisis, the Swedish government has actively intervened in the financial system (Jochem, 2010). A Swedish stabilization plan was adopted on October 29, 2008. Policies aimed at stabilizing the economy were mostly integrated into the budgetary process (Jochem, 2010). In general, Sweden's approach to crisis management has been a mix of spending on infrastructure and public employment on the one side and tax or fiscal policies aimed at stimulating business and private consumption on the other. Two-thirds of these measures were related to tax cuts. The corporate income tax rate was reduced from 28 % to 26.3 % (0.21 % of GDP). Additionally, the general employers' contribution rate was reduced from 32.42 % to 31.42 % (0.22 % of its GDP) (Jochem, 2010). The basic tax deduction was raised for people aged 65 or above (0.05 % of its GDP), and employers' contribution rebate for youth employees was enlarged (0.02 % of its GDP). Furthermore, the government increased spending in a variety of sectors such as infrastructure, education, and social security. The largest item was a rise in transport infrastructure spending (0.11 % of GDP) (Jochem, 2010).

The plan also covered a guarantee program of up to US\$210 billion (SEK 1,500 billion) to support banks' and building societies' medium-term financing. A stability fund of around US\$2.1 billion (SEK 15 billion) was set up in preparing for future solvency problems at Swedish financial institutions. However, banks participating in the guarantee scheme were subject to curbs on executive pay, bonus, and termination compensation payments for management in the period of the guarantee

agreement. Further, on December 5, 2008, the Swedish government presented a fiscal policy package worth around US\$1.2 billion (SEK 8.3 billion), providing an overall fiscal stimulus equivalent to 1.3 % of its GDP. A rescue package for the car industry worth around US\$3.9 billion (SEK 28 billion) was presented on December 11, 2008. At the start of 2009, a package was also offered for the recapitalization of Swedish banks, and the Riksbank (Swedish National Debt Office) provided a guarantee in respect of bank debt (Kreditillsynet, 2009). Most of the stimulus was spread over a period from 2009 until 2011 and approximately one-third of the total measures are explicitly temporary (Jochem, 2010). Readers can refer to Appendix 1 for the details of the stimulus package.

In addition to the stimulus package, the Riksbank and the US Federal Reserve set up temporary reciprocal swap facilities worth a total of US\$30 billion. A separate swap facility was established with the European Central Bank as well. Another stabilizing force is that the Swedish state employed over 28 % of the total labor force in 2005 (Jochem, 2010), which was not affected too much by the financial crisis.

Another important reason that enabled the Swedish economy to enter the global recession in a sound position was its strict rules for financial policy making. Since 1997, the Swedish government has been required to present a medium-term fiscal framework as policy projections. Sweden has also benefited from some valuable lessons learned during a similar, but local, financial crisis in the early 1990s (Freden, 2008; Jochem, 2010). Particularly, Freden (2008) mentioned one priceless asset: the Swedes trust their governments, regardless of political color, to stick to basically the same steady economic course. Since growth has been quite high for more than a decade, inflation has been kept low, and the public finances kept under control, most Swedes are confident in the future. Therefore, they did not hesitate to invest, employ, or consume once the recession bottomed out, and the crisis therefore blew over faster in Sweden than in many other countries (Freden).

In the face of the crisis, Sweden's healthy public finances and strong economic fundamentals proved a major asset. Owing to the solid public finances and a strong fiscal framework, the country has had considerable maneuvering room with which to counteract the economic downturn, and thus it weathered the 2008 global financial and economic crisis well.

National Intellectual Capital and the Financial Crisis in
Denmark, Finland, Iceland, Norway, and Sweden

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